Comment w/c 9th July

Falling Savings Ratio indicates turbulence ahead

"Do not save what is left after spending; instead spend what is left after saving."

Warren Buffett

The news from the **Office for National Statistics** , that the savings ratio has reached its lowest level for over 50 years, should raise some real concerns about the domestic UK economy. While there has been some recovery in earnings, inflation is still chipping away at disposable income.

We've now had the benefit of our two year devaluation boost, following the Brexit referendum, and we need to start earning our way into the brave new world of global trade.

Let's first look at Capital Economics' central forecasts for the UK economy: bear in mind that these are based on a sensible outcome for our trading relationship with the European Union post Brexit: at least there's a coherent proposal on the table following the Cabinet 'accord' at Chequers last Friday, notwithstanding the resignations of David Davis and Steve Baker. So they do not encompass either BRINO (Brexit In Name Only) or 'No Deal' (Unilateral Declaration of Free Trade - see last week's commentary), but of course both remain possible. I suspect, however, that the Cabinet accord leaves little room for EU push-back as Mr Barnier will be in little doubt how the £39bn will be used in the event of a 'No Deal'.

The first thing to notice is that interest rates are expected to rise to 1% by the end of 2018, and further in 2019. This is not just a reaction to higher domestic inflation, but also a recognition that the Bank of England can't ignore rising rates in the United States.

No doubt reflecting this, and that £Sterling has fallen very considerably over the past two years, exchange rates are expected to remain quite stable. However Capital Economics see some weakness in equity markets in 2019: bear in mind, however, that this forecast was made before they had the benefit of reviewing **The Share Centre's good news on dividend cover** .

So the falling savings ratio is unlikely to be reversed in the short term and, whatever views there are about the extra £20 billion pa for the National Health Service and how it will be funded, economic conditions are likely to remain relatively austere.

So it was interesting to see a **chart published by the Economic Research Council** last week, contrasting the returns from Cash ISAs and Stocks & Shares ISAs, and showing investment in each by gender. They show how rare it is for Cash ISAs to outperform market investments, and that an investor with a Cash ISA for the past 18 years would have received returns four times lower than in Stocks & Shares ISAs, despite the dotcom and 2007/8 recessions.

Notwithstanding this, Cash ISAs consistently attract a higher number of subscribers: but that situation might possibly change with the dip in the savings ratio.

Whether investing or struggling with the cost of living, these are turbulent times. With economic stability facing so many challenges, from trade protection to Brexit, it's just as well that our morale is being lifted by our team doing so well in the World Cup.

Gavin Oldham

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