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Investment Solutions – Market Commentary – September 2017

Has Britain Stopped Saving?

Figures released from the Office for National Statistics suggest that Britons have started to spend more and save less.

In the first quarter of 2017, according to the data, the average savings ratio which had hovered in the 6-8 per cent range for most of the last five years had fallen for the sixth successive quarter and had slumped to a record low of just 1.7 per cent.

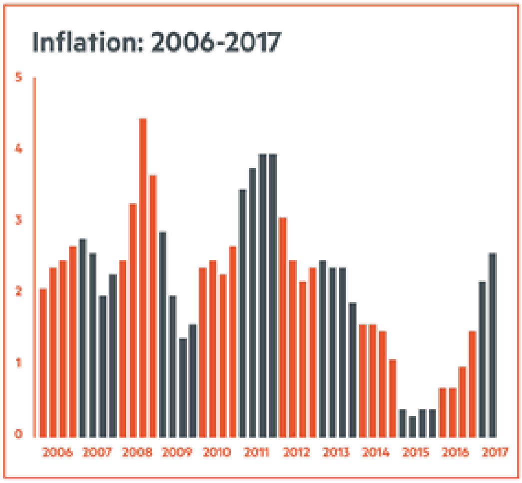
Moreover, back in the late 1980s, the average savings rate was just less than 16 per cent – suggesting that we are, as a nation, putting less money away each year.

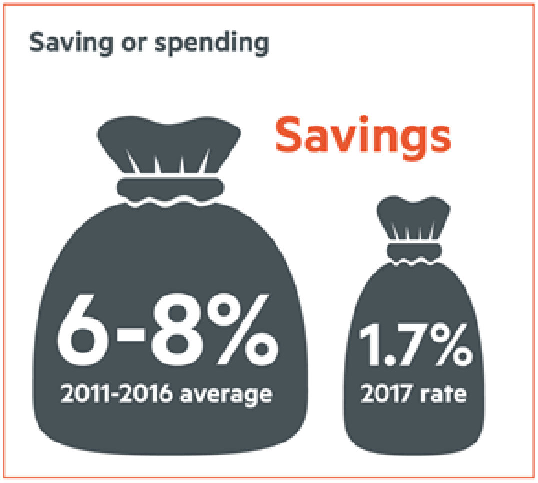
Add to this the fact bank base rates are stubbornly low at 0.25 per cent, keeping rates on cash savings low, and GDP growth in the UK is persistently poor (0.3 per cent currently), it is not surprising that investors may lack confidence when it comes to saving.

Moreover, with concerns that inflation has been on the rise in 2017 although it has stalled somewhat over the past couple of months and is currently at 2.6 per cent, the ONS figures may indeed tell a story of investor gloom.

But the former pensions minister, Sir Steve Webb, believes these figures are obscuring the real message, which is that people are putting more into their pensions and thinking long-term, rather than splashing the cash at the tills.

He does not believe the ONS figures are “proof of some sort of debt-fuelled consumer spending binge”. Instead, the figure for savings includes a crucial element, which is known as the ‘change in pension entitlement’.





ONS figures suggest there is a savings gap and a spending glut.

Sir Steve comments: “In brief, if the amount of money in your pension goes up, you are saving more.”

“To see how important this figure is, we can look at Q4 2016. The total amount of savings in the economy in Q4 is recorded as £11bn. Of this, the contribution of the change in pension entitlements is £10.9bn.”

“We find the fall in this pensions number is more to do with things like companies spending less filling deficits in their DB pensions, low interest rates / rates of return on pensions and older people using ‘pension freedoms’ to move money out of pension assets and into other forms of savings, than it is anything to do with short-term consumer spending trends.”

“It also transpires the ONS draws a line between a local government worker saving for a pension (which counts as saving) and a teacher saving for a pension (which doesn’t count).”

“But in each case a consumer (and their employer) is sacrificing current consumption for future consumption, which feels like saving in each case. As a result, total saving is (in my view) understated, and the trend in saving may also be mis-stated.”

How about Gold?

At the time of writing, with North Korean missile launches, a weaker USD and lower US Yields – have driven gold break out above its physiological and technical barrier of USD 1,300oz.

We have advocated gold as an insurance asset to guard against flair-ups in geopolitics or equity market volatility. This approach has proven its worth, as gold prices have risen 10% since the July low. Disappointing global inflation data and a weak USD have also supported gold prices. Despite the US labour market being above full employment, wage growth in the US has so far been modest. The consequences of muted US inflation have been range-bound US real interest rates and a circumspect federal reserve.

Higher gold prices are possible in the short-term, unless one is within the ‘doom and gloom’ camp, we would recommend that clients hold no more than 5% of their assets within precious metal.