

# Economic Update

Spring 2009

*The Trigon Economic Update is intended to provide a background to the recent developments in the investment markets and the Government actions to restore confidence in the markets and the Economy.*

*It is not intended that individual decisions should be taken based on the information supplied; we are happy to discuss your individual requirement as required.*



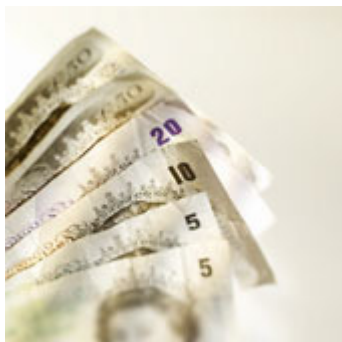
## 2009 Budget

Chancellor Alistair Darling's Budget was full of lots of headline-grabbing measures - but many of them will apply to few people.

The top rate of tax will rise to 50% for the 350,000 people with income over £150,000 - from April 2010.

At the same time, those with income over £100,000 will lose all personal allowances - which will cost around 700,000 people something like £220 pm. People earning between £100,000 and £113,000 will have a marginal tax rate of 61%.

Tax deductions for pension contributions for those earning over £150,000 will be limited to basic rate - from April 2011, with some rules to stop early additional contributions.



These measures are expected to raise £7 billion over five years.

Business reliefs are modest. The £50,000 loss relief rule will be extended for a second year - allowing loss-making businesses to recover tax paid in the three previous years.

However, the refund for a company is only £10,000 - so not a huge help. No further help for empty properties, though.

There's an increase in Capital allowances for expenditure in the year to April 2010. However, the NPV is very small, so it won't encourage much extra investment.



The much heralded scrappage scheme will offer £2,000 to those who buy a new car; however, much of this money will end

up financing cars manufactured overseas.

There are important new powers in relation to tax evasion and tax reporting. There will be a defaulters list, so that those who deliberately evade tax of £25,000 will be named.

Finance directors will need to take personal responsibility for company tax filings. The Foreign Profits measures will come in this year.

The dividend exemption will apply from 1 July 2009 but the tax-raising interest restrictions will apply only from accounting periods starting on or after 1 January 2010 - a welcome delay.

## UK Economy 2009

The fast-deteriorating global economy and the tightening grip of the credit crunch will shrink the UK economy by 3.3% in 2009, pushing the country deeper into recession, according to the latest forecast from the influential Confederation of British Industry.

The CBI's most recent economic forecast, is even more grim than its November prediction of a 1.7% contraction, and even more dire than the forecast last month by the International Monetary Fund that the UK economy would shrink by 2.9% this year.

The declining global economy seriously hampers the ability of any nation to trade its way out of recession - and the apparent advantages of a weak currency remain of little consequence in a world where demand has fallen off a cliff.



The IMF recently predicted that by the end of the year, global economic growth will have reached its lowest point since the Great Depression, which began in 1929 and did not subside until well into the Second World War.

Meanwhile, the CBI's quarterly study shows six consecutive falls in UK output, with the economy contracting throughout this year.

The cumulative fall in UK output, the survey noted, is forecast to be 4.5% - significantly higher than during the early 1990s recession, but still below that of the early 1980s.

In a solitary glimmer of hope, the CBI said it anticipates a "muted recovery in output growth" over the course of 2010 as the "various stimulus measures take effect and credit flows are repaired".

However, with the staggering increase in borrowing, the figure is expected to reach 79%

of GDP in 2013-2014 at £1.4 trillion with borrowing over the next two years totalling £348 this will take a significant toll on public finances.

The CBI's chief economic adviser, said: "Given the rapid contraction in global economic activity and the continuing credit squeeze, we believe the UK will be mired in a deep recession for the whole of 2009, lasting six quarters in total and accompanied by a significant rise in unemployment."

The CBI revised its joblessness forecast upwards to a peak of just above three million in 2010.

Average earnings growth is expected to drop in the first three quarters of this year to a low of 1.1%, as people become increasingly prepared to accept pay freezes and cuts. Wages are only predicted to return to the current level of growth - 2.5% - in the last quarter of 2010.

Businesses, which have been battered by the credit crunch and the increasingly savage recession, have already made painful cutbacks on staff and costs. The CBI said it anticipated firms will scale back investment, with a 9.2% drop in 2009 and a 1.7% fall in 2010.

The CBI adviser added "Faced with continued uncertainty about access to credit, firms will continue to take drastic action to protect their businesses.

At the same time, consumers worried about losing their jobs are forecast to slash spending as they try and build up their savings."



The CBI also said it did not expect the Bank of England to cut interest rates much further than the already historic low of 0.5%. Base rate has been held again in May.

# Rules for Saving in a Recession

During a recession, it is very tempting to get out of the stock market and head for the safety of cash.

However, this strategy can be risky. Stock markets are volatile so, just as they can fall quickly,

they can also recover quickly, with no warning. If equities are the right asset class for you, moving out when you have already suffered a loss could mean missing out when they begin to recover.



Moreover, inflation can seriously impact the purchasing power of cash over time. You can be assured that you will not lose the capital value of money when invested in cash but it should not be considered entirely "risk-free" as you can lose its purchasing power.

Just because an investment has worked well for a friend does not mean it is right for you. The most important aspect of building an effective portfolio is to understand your own circumstances and act accordingly.

Perhaps most importantly, the value of investments can go down, as well as up, as we all know and the chances you might get back less than you invested can be quite high.

What is acceptable risk for one person can be quite different to that of another - as can the period of time over which our goals are focused. By all means be open to new ideas - but always make sure you make your own decision.

As announced in the Chancellor's budget the annual limit for ISA contributions will rise this October to £10,200 per year for those aged over 50, and for everybody from April 2010, so now could be the time to start investing.

However, in the world of investment, timing is everything. But, despite claims to the contrary,

no one can predict what the market will do and when.

This makes it difficult to decide, not only when to invest, but also when to pull out. So, by saving regularly, investors can benefit from what is known as 'pound cost averaging'.

Compared with putting a large lump sum in the market at a single price - which may or may not be the top of the market - regular saving mitigates the risk by putting in smaller sums at a variety of prices.

In a rising market, regular savings would underperform the growth of a single lump sum as the later investments would miss out on the early growth.

However, in a volatile or falling market, the opposite is true. Later investments buy in at lower or alternating prices and therefore gain more when the market finally rises.



Regular saving can also be a deceptively easy way to build up a lump sum.

Putting aside £50 or £100 a month can be achieved with a minimum of sacrifice – and will quickly grow as the months pass without you even noticing what is going on.

It can also be a convenient way to dip your toe into equities.

With only smaller amounts going in each month, the short-term ups and downs of markets will have less impact on your portfolio overall.

If you require advice on your portfolio please do not hesitate to contact us.

## Quick Guide to Rates

<b>Current Bank Rates:</b>	<b>0.5%</b> Next due: 4 June 2009
<b>Current Inflation:</b>	<b>2.9%</b> Next due: 19 May 2009
<b>Inflation Target:</b>	<b>2.00%</b>
<b>Latest Inflation Report:</b>	<b>Feb '09</b> Next due: 13 May 2009

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