Hammonds

Chartered Accountants and Business Advisers

Economic update

If there is one topic that continues to dominate the airwaves and the thoughts of many it is the economy – what will happen this year? What impact will result from the woes of other countries? Here we take a look at some of the factors that continue to impact our marketplace.

Looking back

2011 was the year the UK economic recovery ground to a halt. Economists forecasting for the year had underestimated the damage suffered by the credit crunch, and troubles mounted in the Eurozone, which meant a series of continuously downgraded or reconfigured forecasts.

Inflation crept up throughout the first three quarters of the year, constricting household's already squeezed budgets, their spending, and their ability to pay down debts.

Meanwhile, businesses struggled to survive, as cashflow continued to cause problems, and banks restricted their lending to businesses further. Those that have survived displayed a level of ingenuity, flexibility and grit that will stand them in good stead for the year to come.

November saw the Chancellor's Autumn Statement measures announced, and while it was the draft clauses of the Finance Bill that revealed tax changes, the Chancellor did reveal a series of initiatives, predominantly designed to ease the pressure on businesses.

2011 was also the year of the Eurozone sovereign debt crisis, and as we step into 2012 policy makers continue to grapple with the consequences and solutions, as credit rating downgrades increase the interest paid on sovereign debt.

Looking forward

Unfortunately we can't wave goodbye to the conditions we face in 2012, and the likelihood is that the situation is going to get worse before it gets better. The next twelve months will be important for everyone, and while we can't predict what will happen in the Eurozone, we can at least put some damage limitation measures in place.

Forecasts for the following metrics will undoubtedly change as 2012 progresses, but here are some key economic indicators, how they are faring now, and common predictions over the next few months.

Read on to find out how we can help you to prepare for the coming months.

Key metrics

Jobs and unemployment

The most recent Office for National Statistics (ONS) unemployment figures showed that UK unemployment increased to 2.68 million in the three months to November 2011, the highest level since 1994, and a total of 8.4 per cent of the population.

Youth unemployment has been the most worrying statistic though, as it hit 1.04 million, and the highest since records began in 1992.

Common predictions are that the number of unemployed people will continue to rise throughout 2012, particularly as private sector job cuts kick in. In fact, the Chartered Institute of Personnel Development (CIPD) predicts that unemployment will peak at 2.85 million in 2013, before falling back again.

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Gross Domestic Product (GDP)

Forecasts for UK GDP, which refers to the market value of all final goods and service produced within a country in a given period, were continuously downgraded throughout 2011. And while forecasters seem to have recognised that they were over-ambitious with their predictions, those for 2012 are still being accused of being over-generous.

In November the Office for Budget Responsibility (OBR) forecast 0.7 per cent growth in GDP in 2012, which was viewed as low compared to outside forecasts of 1.2 per cent. But more recent forecasts claim that any growth at all over the next 12 months would be an achievement.

Inflation

Inflation began to fall back in October 2011, and has been falling ever since. The Consumer Price Index (CPI) now stands at 4.2 per cent, and this falling streak is expected to continue, and act as a platform for consumer confidence and recovery.

January saw the UK's leading energy providers reduce their gas and electricity prices, which will also contribute to this. This is promising, and the Bank of England expects a sharp fall in inflation during 2012, particularly after factory gate prices dropped by 0.2 per cent between November and December in 2011.

Interest rates and Quantitative Easing

The Bank of England's Monetary Policy Committee (MPC) reduced the base interest rate to a record low of 0.5 per cent back in March 2009. It has stayed there ever since, despite various speculation, and some forecasters claim the rate will remain that low until 2016.

The fact that inflation is falling back means that the MPC is under less pressure to push rates up, and while savers are losing out, the threat is that pushing the rate up could push home owners into trouble and result in more repossessions.

Meanwhile, the Bank's quantitative easing (QE) scheme, first introduced in March 2009, has since increased to £275 billion, the last instalment of which was introduced in October 2011. Some economists are expecting to see a further boost as early as February, a move that has been favoured by business groups.

Exports

Exports are expected to play an important role in our economic recovery. Recent statistics from the Office for National Statistics (ONS) show that the UK's trade deficit fell between October and November, meaning exports to non-EU countries fell and imports from non-EU countries rose.

But on a positive note the Government is recognising this, with new initiatives to help medium-sized businesses to export into new markets. Business groups are calling for a national export drive this year, and economists claim that exporters must look to new markets in order to give the UK economy the export boost that it needs.

Protecting your business

While the overall outlook for the next 12 months is, for most, subdued, there are always ways that you can mitigate any potential negative impact or even turn the situation into a positive one. The likelihood is that if your business survived the last few years, you are in a good position to take advantage of the opportunities that arise at times like these.

Damage limitation

As the economy remains at a standstill, there are measures that you can take to limit any damage caused to you and your business. Suggestions include:

Cashflow

Keeping on top of your debtors is vital, particularly as many businesses are struggling to keep afloat. But it is also important to remember that this works both ways, and that your creditors will need to be paid on time too.

Keeping plans up to date

You should review and revisit your business plans frequently at times like these. Circumstances can change suddenly, and you may find that what was appropriate at the start of the year is no longer relevant six months later.

Flexibility

It is also important to remain as flexible as possible; you never know when you may have to suddenly change tack and being agile means that you may be able to take advantage of any sudden opportunities that arise.

Contact us to find out how we can help you to mitigate damage done to you and your business.

Business opportunities

Marketing exposure

Opportunities could be as simple as making the most of the fact that your business has survived your competitors by shouting about it through your marketing channels. In particular, making the most of the cost effective, and successful marketing approaches that the internet offers, including social media and blogs.

Learn lessons

You can learn lessons from those that have been less successful during the current economic climate. Observe what went wrong for them and ensure that you do not make the same mistakes.

Buying new businesses

The downturn could provide you with the perfect opportunity to expand through the acquisition of a business. You have obviously led a successful business through hard times, and there is no reason why you could not do the same for a new business.

We can help you to identify and grasp any opportunities that could help you to prosper over the coming months. Please contact us to find out how.