

Spring Statement

Views on the Spring Statement

Tough Decisions Amidst Uncertainty

A recent YouGov survey found that only 16 per cent of voters thought the government was handling the economy well and only 11 per cent had a positive view of the Chancellor's performance. Will today's Spring Statement (or "Emergency Budget", depending on which side of the house you sit), improve things?

Probably not, not least because as we expected, there were no major changes to tax rates and the Chancellor kept her "self-imposed" fiscal rules in place: day-to-day costs to be met by tax revenues and debt to decline as a share of the global economy by the end of the five year period. I say "self-imposed" because the reality is if you do not impose them yourself, the market will, as it takes fright at the lack of financial responsibility, imposes a higher interest rate and eventually says "no more".

So, what did the statement do?

Well, it reminded us that the country's economic challenges are not improving any time soon. The growth estimate for this year was cut in half, from a reasonable-but-not-very-exciting 2% to a miserly 1%. Inflation, which the OBR said back in October would be around 2.6% this year, is now expected to hit 3.2%. Yes, today's figure for February came in marginally below forecast at 2.8%, but the key services inflation component remains uncomfortably elevated at 5%.

Growth down, inflation up. Not the best message to give when you have a great deal of debt, which the UK does.

Higher inflation means interest rates remain high, which leads to higher debt payments than expected. This can create a hole in your finances, which in the case of the UK, is now a £14bn one. In other words, the £10bn or so of fiscal headroom the government had back in October is now a £4bn deficit.

Today's statement was about plugging that hole by spending less and boosting growth. On the spending cuts side, welfare reforms are mostly welcome and will save about £5bn over the period, although they will also inevitably affect some of the poorest members of society. Reductions in day-to-day government spending are less contentious and will save a further £3.5bn. As for growth initiatives, an increase of £6.4bn in defence spending by 2027 to reflect the new world order will be funded in part by cuts to the overseas aid budget. The more surprising announcement was the view that relaxing the UK's planning rules and "Getting Britain Building Again" would boost tax receipts and allow a further reduction in borrowing of £3.4bn by 2030. NIMBY's face a tough time ahead.

As for the markets, we will wait and see. But there was nothing to change the overall pessimistic view that despite attractive valuations and signs of change at the margin, such as regulatory reform at the FCA, there is no reason to "Buy the UK" just yet. Investors have been selling out of the region consistently for more than three years and nothing in today's statement will alter that. At least not in the near term.

DISCLAIMER

Published and distributed by **Bentley Reid & Co (UK) Limited**

29 Queen Anne's Gate, London SW1H 9BU, England
Tel +44 (0) 20 7222 8081, Fax +44 (0) 20 7227 8440, Email info@bentleyreid.com

Authorized and regulated by the Financial Conduct Authority (FRN 572096), registered office 29 Queen Anne's Gate, London SW1H 9BU. Registered Number 07602886

The content of this communication is for information purposes only. Bentley Reid believes that, at the time of publication, the views expressed and opinions given are correct but cannot guarantee this and viewers intending to take action based upon the content of this communication should first consult with the professional who advises them on their financial affairs. Neither the publisher nor any of its subsidiaries or connected parties accepts responsibility for any direct or indirect loss suffered by a recipient as a result of any action or inaction, in reliance upon the content of this communication.