Issue 4

CEO Europe Discussion Files

A sticky wicket?

Some facts about the global economic climate

from our iCEO Colin Thompson

Not a reference to the England cricket team's difficulties on the subcontinent but a term economists use when inflation is resistant to change. Should we then be overly alarmed to see inflation stuck at 2.7% for three months straight in the UK? Perhaps not, but against this backdrop it is little surprise that retail sales were weak over Christmas and the high street is struggling. Conditions for US households are more benign and there is increasing evidence that the housing market has finally turned a corner in the world's largest economy. The pretender to this crown, China, is also showing signs of improvement. Dampening the New Year cheer in the global economy is the news that the previously resilient Germany seems to have succumbed to the downturn in the Eurozone. How are the US going to repay their debt of $16 trillion and increasing daily?

UK retail sales fell over Christmas. December can be a make-or-break month for retailers, so the "official" data last week were keenly anticipated. In the end, they were disappointing but not catastrophic. The value of sales fell 0.1%m/m, pulling the y/y growth rate down to just 0.7%. If we strip out price increases and focus on volumes (i.e. the quantity of stuff we bought, rather than the amount we spent), the y/y growth rate was just 0.3%. With the exception of 2010, when the "Big Freeze" hit, that represents the weakest December since 1998. When you put it like that, the disappointing news that we will be losing some well-known retailers from the high street does not look so surprising. Also, what about the big drop in net profit for these retailers that will impact on the UK Government revenues!

UK inflation unchanged but the squeeze on households continues. Consumer prices rose 2.7%y/y in December, the same rate as in November and October. The pressure on inflation is being caused by utility prices (gas prices rose 5.2%y/y) and food prices (up 3.9%y/y) and with more price rises on the way throughout 2013/14 and beyond. There was some respite on the petrol forecourt, however, where pump prices fell very slightly. Inflation therefore remains higher than income growth, with average weekly earnings rising just 1.8% over the year to October. Against that backdrop, 2013 will be another difficult year for retailers.

Inflation less of a headwind **across the Atlantic**. Conversely, US CPI inflation edged down to 1.7%y/y in December, whilst the core measure that excludes

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food and energy was stable at 1.9%. Inflation averaged 2.1% last year, comfortably below 3.2% in 2011 and the 10yr average of 2.5%. Risks that poor harvest yields and tensions in the Middle East would push commodity prices higher failed to materialise (they will rise in 2013/14). This will have been a relief for households who seem to have been more exuberant over Christmas. Retail sales were up 4.7%y/y in volume terms in December – a stark contrast with the UK. The net profit, is there any?

A busy end to 2012 for America's bricklayers. New housing starts were up 12%m/m in December to an annualised 954,000 - the highest level since June 2008. For the year as a whole the increase was even more striking: a total of 871,000 houses were started, 28% more than in 2011. Along with a declining supply of repossessed homes, modest support from rising employment and steadily rising prices, it looks as if the US housing market finally turned a corner last year. More unemployment on its way!

Germany dragged into the mire. There was evidence that economic weakness in the Eurozone periphery is spreading to the core, as German GDP contracted (0.5%q/q) at the end of 2012. For the year as a whole Germany grew by just 0.7%, down from 3% in 2011, partly due to a slowdown in export growth. Things may get worse before they get better. Germany's central bank cut its GDP growth projections to just 0.4% in 2013. Certainly this is an economy that is highly sensitive to the health of its trading partners. Ominously, almost 40% of German exports head to neighbouring countries in the Eurozone.

Eurozone inflation steady. Inflation was unchanged at 2.2%y/y in December. The ECB sees inflation dropping below its 2% target during the course of 2013, given weak economic activity and high unemployment. This will take some pressure off consumers' disposable income but will be far from sufficient to achieve a recovery in the Eurozone. Indeed it is likely that conversations will again remain firmly centered on the Eurozone crisis at the Davos meeting in Switzerland this week. The Eurozone is still in deep trouble!

China re-accelerates, but the true test still to come. China's economy grew 7.9%y/y in Q4, bringing an end to the growth slowdown that had lasted almost two years. China has achieved this by spending more on infrastructure – the government's favourite tool for stimulating growth. The true test of China's new leadership will be rebalancing the economy towards consumer spending. So far, it has merely talked-the-talk on reform. In this context there is some good news. Disposable income growth is running at almost 13%y/y for city dwellers, well above average.

The **USA** has still major issues across many sectors. Plus, borrowing are $16 trillion and growing daily! When will it end?

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See here the `Global Risks 2013 Report - Risk Cases and Resilience` -

China Export Growth Collapses as World Recovery Slows - click on the connection below for comprehensive information.

http://www.bloomberg.com/news/2012-08-10/china-july-exports-rise-1-vs-economists-estimate-for-8-.html

What do you think about this?

Why do politicians/bankers/lenders ignore history? And yet history repeats itself several times because these people do not read! People need to read `*The Rise and Fall of the Roman Empire*` and then perhaps they will learn how to avoid repeating history.

*** The Credit Crunch of AD 33 Repeats itself time and time again!**

What with the Bank of England pushing £375+ billion and the USA Federal Reserve $1+ trillion into their countries respective banking systems, readers may be interested to learn of the following from `Banking & Business in the Roman World`;

In AD 33 the lack of cash continued to become increasingly serious (where have we read this before many times?). To remedy the situation, through the intermediary of `ad hoc` financial offices directed by Senators, the Emperor himself offered interest-free loans amounting to an overall sum of 100,000,000 sesterces from his personal fortune for the duration of three years. The borrowers were required to offer security in the form of real estate or buildings. In this way they were not forced to divest themselves of their patrimony in order to pay off their debts. Fides, that is to say confidence, returned, and the situation was retrieved for a short time.*

We live in a global trading environment of which there are so many players chasing very few opportunities that it is driving down prices globally and still people do not wish to buy!

Plus, the banks globally are still stashing cash at the highest levels ever recorded, why? We all know why, don`t we! Will we see a run on the banks soon?

The Euro currency will continue to suffer in the hands of Greece, Portugal, Spain, Italy and Ireland followed by France who are `all` in `deep` financial difficulty as first stated here in January 2008. Who will leave the euro currency first? Then who will follow? What future as the Euro?

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What are your plans for your future to be successful?

Please share with us your views on our Linkedin Group "International Management on Demand".

About the Author: Colin is a former successful Managing Director and former Group Chairman of the Academy for Chief Executive, Non-Executive Director and Mentor - RFU Leadership Academy, helping companies raise their `bottom-line` and `increase cashflow`. Author of several publications, research reports, guides, business and educational models on CD-ROM/Software/PDF and over 400 articles published on business and educational subjects worldwide. Plus, International Speaker/Visiting University Professor.

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