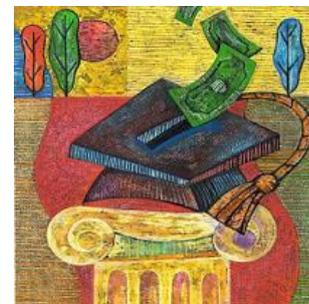


Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

It is not intended that individual investment decisions should be taken based on this information; my colleagues and I are always ready to discuss your individual requirements. I hope you will find this review to be of interest.

Should you require any additional information about your investments, pension planning or family / business protection, please do not hesitate to contact us using the details at the foot of the next page.



It is difficult to write a review of December without also looking back over the year and this has been a particularly momentous one.

Not so much for the (long awaited) announcement of 'the' royal wedding - which may have a positive economic impact in late April - but more because of the historic result of a general election which led to the first coalition government in the UK for a very long time.



We need to maintain our resolve

The immediate upshot of this was the emergency Budget and following spending review that aim to change the way government is financed. At least, looking at all the stories about monumental waste that are continually hitting the headlines, we hope so. According to a report in The Times (21/12/10), in addition to the tens of billions of pounds wasted in Ministry of Defence procurement, an investigation headed by a City veteran found that infrastructure projects have historically come in far in excess of their European counterparts and that £30 billion could be saved on construction projects over the next decade. £3 billion a year may not sound much, but with other savings, it all adds up.

News that unemployment has risen above 2.5 million is disappointing, but should be put into the context that there are still more people in jobs than previously and that the heights feared at the start of the recession were never reached. The current UK unemployment rate is 7.9%, which puts us just behind France, the US and Italy - but much less than half that of Spain.

For 2011, we need to watch out for external events that could derail the recovery; whether spending cuts will be enough (and not reduce the tax take); and that the banking sector remains robust enough to avoid another credit crunch.

Public sector debt

We now know that government borrowing soared to a record high during November, reaching an unprecedented £23 billion as slightly higher tax revenues failed to offset a leap in spending. Interest payments on the national debt rose by 50% compared with November 2009 to hit a record £150 million every day.

Tax receipts in November were £1 billion higher than in November 2009, but spending rose by £5 billion year-on-year. Local government borrowing for the month also rose to £2.9 billion from £900 million the previous year.

The Office for Budget Responsibility had predicted that borrowing in the year to April 2011 would be £148.5 billion; the running total is now £104.4 billion, which suggests a revised total of £155 billion for 2010-11.



Debt is still increasing ...

Public sector debt, including financial sector interventions, now represents 65.2% of Gross Domestic Product (GDP), the highest since records began (excluding the bailout, the figure is 58% of GDP).

Personal debt

Towards the end of 2010, individuals in the UK owed more than £1,452 billion, an annualized growth rate of 0.8%, according to Credit Action (December 2010). Put another way, households on average owe £8,556 in addition to their mortgage. If you only count households that actually have some form of 'unsecured' borrowing, the figure is £17,825 each.



... so is personal borrowing

In the broader context, this puts us third to only the Netherlands and Ireland, of the leading European states in terms of the percentage of GDP (economic output) that household debt represents, at some 170.6%.

Markets (Data compiled by the Insurance Marketing Department Ltd.)

The FTSE100 ended 2010 with an impressive 6.72% growth throughout December to end the year 9% higher at 5,899.94 (having broken the 6,000 barrier towards the end of the month). Actually, the FTSE usually increases during December - it has certainly done so during each of the past eight years (although this is the largest monthly rise). It has also grown during each of the past eight years overall, except

for 2008, when it fell by almost a third.

The FTSE250 gained **8.97%** in December to end the year some 24% higher than at the start of 2010. The Dow Jones gained **5.19%** during the month to end the year 11% up, while the Eurostoxx50 rose by **5.35%**, reducing its deficit over the year to just -5.85%, whilst even the Nikkei225 managed a 'miserly' **2.41%** to end the year just -3% down, overall.



Stockmarkets ended the year on a positive note.

Worryingly for consumers, oil prices have again risen by **6.58%**, to end the year almost 20% higher than they started, at US\$93.09 per barrel for Brent Crude 1-month futures.

Fears that Britain could overshoot its deficit targets next year sent sterling tumbling to a three-month low of \$1.54 before regaining a little ground to end at \$1.56. A weak pound is good for exporters.

Interest rates and inflation

According to the CBI, base rate could hit 2.75% by the end of the year as the Bank of England fights to contain inflation; this could push mortgage rates up to 7%. It believes that inflation will be forced up by energy prices and the 20% VAT rate, although CPI should return to its 2% target by the end of 2011, before creeping up again.



Families are facing higher prices

Some commentators suggest that inflation is the biggest threat we face; for example, the £14.5 billion Wellcome Trust has disinvested in bonds in anticipation of higher inflation, although it admits that it was never a keen investor in this area.

What is most worrying is that many families may feel worse off because of rising food, fuel and clothing costs and start pressing for pay rises. This could quickly feed through to faster 'cost-push' inflation.

According to the National Audit Office, the guarantees given to the banks during the credit crunch are unlikely to cost the taxpayer anything over the longer term - at one time this was estimated to be likely to cost us anything from £20 billion to £50 billion. While we are currently paying £5 billion a year in interest to finance the shares we bought in the banks, the overall level

Interest rates round the world		
UK	0.50%	No change for 21 months
USA	0.25%	No change for 24 months
Europe	1.00%	No change for 19 months
Japan	0.10%	No change for 24 months

of support currently provided to them has fallen from £955 billion to £512 billion.

Growth

Looking at the increase in government debt triggered by the global crisis, data from the Organisation for Economic Cooperation and Development suggests that (except for Iceland and Ireland) we were hardest hit of all the major economies in terms of the percentage of GDP by which governments had to increase their borrowing. Our debt increased by 26.45% of GDP whilst in Germany the figure was just 11.18%. Even in France the increase was only 17.28% of GDP.



Growth needs to be nurtured

The CBI believes we will avoid double dip recession but that, broadly in line with revised Office for Budget Responsibility forecasts, growth will be 2% in 2011 and 2.4% in 2012. According to the CBI, this is below what would normally be seen during the third year after a recession.

Meanwhile, the Office for National Statistics has downgraded GDP growth for the third quarter of 2010 to 0.7% (from 0.8%), for the second quarter to 1.1% (from 1.2%), and for the first quarter to 0.3% (from 0.4%).

According to the Bank of England Agents' Report for December, capacity usage within manufacturing has continued to rise throughout 2010 with it approaching "zero", its nominal position, by the end of the year. This means that overcapacity, which the Bank of England had expected to suppress inflation, is no longer a factor.

Gold

Whatever you may think about gold as an asset - and its almost gravity defying growth over recent years - some economists are predicting further rises, even to as much as US\$2,000 an ounce by 2012. Allowing for inflation, this would be almost as high as its peak in the 1980s. It ended the year at US\$1,420.78 per troy ounce, just less than 30% higher than at the start of the year.



All that glitters is not gold, according to The Merchant of Venice

It is, perhaps, a 'natural' home for those who wish to avoid over-reliance on bond and equity markets, but it is not income generating and can carry additional costs, depending on whether it is held directly (VAT, storage and insurance) or via a collective investment fund (management and dealing expenses). As part of a diverse asset allocation strategy, it may have its place, but it is difficult to foresee what will be its longer term future as interest rates and share markets recover.

Issued by: Plan Money Ltd.

Bentley House, Forge Lane, Great Bentley, Colchester, Essex. CO7 8GD

Telephone: 01206 257501 - Fax: 0870 738 6500

Email: info@plan-money.co.uk - Website: www.plan-money.co.uk

It is important always to seek independent financial advice before making any decision regarding your finances.

If you would like any assistance, please contact us.

NOTHING CONTAINED IN THE ARTICLES SHOULD BE CONSIDERED AS GIVING INDIVIDUAL FINANCIAL ADVICE.