IT'S THE ECONOMY, STUPID

At the ACT's latest Question Time event, the debate centred on whether the UK's growth can be sustained during 2014. Juliet Tewungwa reports

The ACT's popular Question Time event in December 2013 tackled the thorny issue of whether the UK economy is genuinely recovering. In an animated discussion chaired by ACT chief executive Colin Tyler, the panel and audience were polled for their views. About half thought a recovery is under way while the other half was more sceptical.

Crisis of confidence

Lloyds chief economist Trevor Williams argued that there are signs of recovery, but these are primarily driven by consumer spending rather than rebalancing. Net exports, consumer indebtedness and the housing market were all detracting from a full recovery, he suggested, adding that the recovery would only be sustainable if corporates started to invest more of their capital and there was a drive for greater productivity. He said that corporates can contribute to stronger growth, but they must feel confident if they are to do so.

Malcolm Cooper, global tax and treasury director at utility company National Grid, and Graeme Middleton, European group treasurer at motor giant Honda, both agreed that confidence is a major factor in a sustainable recovery. Cooper said that National Grid had delayed an £8bn investment programme to renew and replace infrastructure, while Middleton said that the European car market continued to struggle. While demand for cars was up 10% in the UK, he said, it was still down in Europe.

The panel debated figures from the Office for National Statistics (ONS) that support the contention that corporates are sitting on large amounts of money. According to the ONS, corporates were sitting on at least £500bn at the start of 2013. The panel agreed that companies not spending could only be attributed to a lack of confidence in the recovery.

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Foreign investment

The panel and audience were asked if China should be invited to invest in the UK. Once again, the audience vote was split 50:50. Williams explained that the UK must increase its energy capacity since new technologies are energy-dependent. Old plants need to be retired and the UK requires at least £200bn over the next 20 years to build new plants. The money has to come from somewhere, he said.

Ian King, business & City editor of *The Times*, pointed out that the UK is one of the most open markets in the world and this openness is a trump card. He argued that there was a risk of economies becoming balkanised and barriers being put up. Foreign direct investment (FDI) is needed and should be welcomed, King said. He added: "The UK has overtaken Germany in terms of FDI, so we should not be picky – either we are open for investment or we aren't."

Forward guidance

On the subject of the Bank of England's (BoE's) policy of 'forward guidance', the panel concluded that at present, policy rates have no influence on market rates. Rates would need to rise to have any influence. Asked whether governor Mark Carney's decision to introduce forward guidance was politically motivated, the panel concluded that he is still relatively young and being the governor of the BoE is not the pinnacle of his career. Therefore, he is very serious about the recovery and won't want to fail. Carney appears not to trust the ONS data that showed that business investment went into reverse despite corporates having a cash surplus even though the evidence would seem to support the ONS. M&As are usually a prerequisite to reinvestment and they are not happening; neither is capital investment taking place and production is not booming.

Williams added that if confidence increased, the economic recovery would be sustainable since companies would start to partake in the economic recovery. There were signs that companies are starting to invest, but not on a large enough scale. The panel also touched on quantitative easing, agreeing that it shouldn't be reversed for at least a couple of years and that it needed to be done in an orderly fashion.

Bank reform

The panel agreed that corporates needed to understand the implications of the Banking Reform Act and bank restructuring, including ring-fencing. Middleton said that corporates should constantly question their banking relationships and stay informed about bank structures and how the upcoming changes will affect these structures.

Cooper added that the Financial Stability Board was not providing enough information about changes to the global banking system. Williams said there was nothing wrong with ring-fencing as long as appropriate controls are used. If the rules and controls are too onerous, this will reduce the benefit they bring to the economy. Corporates need to know their banks more than they know their customers, the panel concluded, but they are not sufficiently informed at the moment.

Final words

In conclusion, the panel members were asked if they had any keywords for 2014. Middleton said "Europe", "the UK", "the US" and "Japan". Cooper said "electricity market reform", which he felt was at least 18 months too late. Williams observed that "resilience" was key; he expected to see more economic shocks, but thought the UK would survive them. He said there needed to be more inward investment and more trade, especially free trade, which was better than less trade.

King said that if the Labour Party got into power in 2015, the UK would have its most left-wing government since 1945. He feared it may be hostile to business and could rattle confidence. He said that Ed Balls seems to understand that businesses need to make a profit, but he was nervous of what a government led by Ed Miliband might do.

Lloyds hosted networking drinks after the Question Time event.

Juliet Tewungwa is regional membership executive at the ACT

EUROPEAN UNION: IS IT BETTER TO BE IN OR OUT?

The UK's membership of the EU continues to be a major talking point in the media and it was the focus of lively debate at the ACT's Question Time event in December. King argued that the UK would be worse off if it left the EU. The City is the single biggest beneficiary of EU membership and leaving would be disastrous for the City, he said. He added that it would probably be a bad thing for the economy in general since trading would be affected. He pointed out that the EU is trying to cut down its bureaucracy and regulation, although some is inevitably needed in a single market.

"It wouldn't be wise to turn our back on a market that has the largest disposable income in the world, larger even than the US," said King. "In addition, [German chancellor] Angela Merkel is as keen as [UK prime minister] David Cameron to roll back EU regulations, so it would be good for the UK to get involved and change things, and make the case for the EU we want instead of alienating our partners."

Middleton agreed that if we left it would be detrimental to the UK since the EU would probably take business to other markets. So being inside but being a dissenting voice was good, he concluded.

Williams said that while the UK could make good multilateral and bilateral deals outside the EU as it is a trading nation, it was probably wiser to remain in the EU.

The implications of another possible eurozone crisis were also discussed. The panel agreed that the lack of competitiveness, high debt, bad debt and sovereign debt that had caused the last crisis had not been resolved, so it would not be surprising if there were still challenges ahead. They observed that Spain had undertaken some great reforms, while countries such as Italy had not. Furthermore, they thought that ongoing stress tests and the Asset Quality Review had important roles to play. A convincing number of banks appeared to be coming through the Asset Quality Review, but the panel agreed that the European Central Bank shouldn't be too extreme or produce a whitewash with regard to the review.