

## North East Shadow MPC Divided On Interest Rates

The North East Shadow Monetary Policy Committee (MPC) has returned a mixed verdict on whether to maintain the current rate of interest, ahead of the Bank of England's own MPC announcement on Thursday. Two of the ten members are now calling for a rise in interest rates.

A collaboration between the North East Chamber of Commerce, Hartlepool-based Arlington Financial and The Northern Echo, the North East Shadow MPC looks at the region's economy and gives experts from a variety of sectors the opportunity to argue their case for a shift, or hold, in the rate.

Jon Sturrock, managing director of Hartlepool-based Arlington Financial, led the calls for interest rates to be held at their current level "for the foreseeable future." He said: "Obviously we have got inflationary pressure, but I think this is temporary and the recovery is far too fragile to put up interest rates at the moment.

"We also have the Budget coming up and what George Osborne has already intimated is that it will be a Budget for entrepreneurial businesses and this is critical. It has got to be about job creation and incentivising businesses to grow and recruit. That is absolutely crucial."

Mark Stephenson, policy advisor at the North East Chamber of Commerce agreed interest rates should be held. He said: "We feel that at this point, businesses do not need the added pressure a rate rise would bring in terms of debt. A rise would also dampen demand at a time when the economic recovery is still very fragile."

He added: "Although we recognise there are a number of pressures including inflation and the situation in the Middle East, it is not the time yet to react to these with a rate rise. Inflation is increasing, however, this is not an alarming trend; it is under control and the expectation is it will calm down over the next few months."

David Bowles, Chairman of Entrust, however, proposed a rise, saying: "My instinct is that the interest rate should go up by a quarter of one per cent. It is time the rate started to rise."

He described the state of trade in engineering and service as very different. "The engineering sector is doing well, driven by exports, however, in the service sector

people are struggling. Businesses which are not innovating and changing the way they do business are having a tough time.”

In terms of policy he had a number of requests for the government. “I would like to see the export drive maintained and increased. It has been happening but it is crucial this continues. We also need more pressure on banks to lend to businesses that have a future. I think the banks are playing fast and loose; they are not lending despite what they say and are increasing the conditions for lending significantly.”

Graham Robb, Senior Partner at Recognition Marketing and PR agreed saying: “Now is the time when an interest rate increase is about right. A very small increase of a quarter of a per cent would be a signal to show the determination to fight inflation and a small rise now will prevent large rises later.”

Of different mind was David Coates, Managing Director of Newsquest North East. Calling for the maintenance of the rate at the current level, he described the state of trade in his sector saying: “We continue to see revenue erosion particularly in employment and retail categories. Our customers are still hesitant to increase investments in advertising, both online and in print, because they tell us the market is so fragile.

“We want to see the local government continued to be encouraged to create a business friendly environment, particularly for small and medium sized enterprises, through taxation relief. We would also like to see local councils reducing car parking charges to help encourage shoppers to shop locally.”

Nigel Mills, managing director of the Mills Group of convenience stores, also said the MPC should hold the base rate at this time. He said: “If public expenditure is being cut and there is a fragile economy, interest rates are the last stimulus left, taking this away would be counter productive.”

He also said: “The situation at the moment is very challenging and we would like to see a freeze on the minimum wage and the scrapping of the minimum wage for those aged under 21.”

Michael O’Connell, Director of EOS UK Ltd voted for a hold saying: “Although there is a lot of talk regarding inflation and the need to control it, the rate should be kept low at 0.5 per cent. My view is that if rates are increased the green shoots of recovery we are seeing currently will disappear completely and we will go back two years.”

He continued: “Although things are busy in our sector, margins are tight. The order book is holding but we are having to work three times harder than usual to maintain it.”

He would like to see an increase in public spending in some areas. “I appreciate money does have to be saved but it has been very drastic with an almost ‘slash and burn’ approach. I would like to see a little easing in the next 12 months,

particularly on fuel. We travel a great deal and transport a lot of materials so a reduction in fuel costs would be very welcome.”

Ian Brown, agriculture and rural community specialist, agreed with a hold. He said: “There is still not a lot of confidence out there; people are not spending if they can avoid it and the best thing is to keep things as they are for now.”

“Our restaurant is doing okay but most of that is to do with location. We are working hard to get the business we are getting and it is certainly not a time to take anything for granted.”

He added: “It is a strange time for renewable energy. In spite of rising oil prices and government assistance, there is a real reluctance to spend money on renewables. It will be a good business in the future but it is currently suffering from people being nervous to spend on large ticket items.”

Ian called again for clarity from the government saying: “It is all well and good announcing the big picture, but it is the details that decide whether people spend money. We need the government to be explicit about what they are looking for, for example in terms of renewable energy.”

Kevin Rowan, Regional Secretary of the TUC said: “The economy is still pretty fragile. The inflationary pressures, according to the Bank of England, are all external; fuel prices, energy prices generally etc. They expect those to subside towards the end of next year. There is no substantive case for an increase in interest rates at the moment and in order to keep the economy slowly, gradually recovering, we need to keep things at this level.” He voted for a hold.

Keith Proudfoot, ICAEW, voted for a hold. He said: “I follow the Mervyn King line more than that of Andrew Sentance. Commercial lending is currently at a realistic rate and I am not sure that raising rates would do anything but put the economy in jeopardy. Raising rates would mean companies and individual consumers have less money to spend which depresses demand and then prices and does no good all round.”

“The state of trade among accountants is that things are a struggle. Clients are facing cash flow pressures, however we are seeing some activity amongst business start-ups, which is good news for the region as a whole. I am very pleased to hear of the SSI and Hitachi deals going through. Good news gives a ‘feel-good’ boost to the nebulous concept of confidence and a tangible spin off to the supply chain.”

“There is a lot of realism in this region and the feeling we are doing the best we can with the cards we have been dealt. I believe that it is going to be a tough year but region will come out of it alright.”