

# North East shadow MPC continued 'HOLD' verdict

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The North East Shadow Monetary Policy Committee (MPC) has delivered a unanimous verdict to maintain the current rate of interest, ahead of the Bank of England's own MPC announcement on Thursday.

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. He said: "While we are still experiencing inflationary pressures, it is still too soon to put the rates up. There are a lot of temporary factors affecting the economy and it is too fragile to be put at risk with a rate rise."

He continued: "The state of trade is not bad, for the most part it is holding up reasonably well, but again this is fragile. People are still worried about the strength of the recovery and we could easily tip back the other way."

Andrew Sugden, policy director at the North East Chamber of Commerce agreed interest rates should be held. He said: "The rate should not be changed due to the enduring uncertainty in the economy. Although inflation is a worry I believe it is international rather than UK based."

Graham Robb, Senior Partner and owner of Recognition PR, said: "I think the rate should be kept as it is. Recent indicators suggest the economy is not motoring ahead as well as had been hoped."

David Coates, Managing Director of Newsquest North East, was also concerned. He said: "No, the base rate should not be raised. Manufacturing activity hit a 20 month low in April and the double Bank Holidays will have compounded the situation in May. There are now real fears that we are heading into a double dip and we could be back in recession if we're not careful."

He continued: "I didn't think it was possible but it is; the state of trade is getting worse. Recruitment, Property and Motors markets all took a step down in April and May."

"I would like to see the Government take steps to ensure that the banks make credit more readily available to house buyers and small businesses."

Michael O'Connell, Director of EOS UK Ltd, also voted for a hold. He said: "The rate needs to be kept the same because the economy is still in the doldrums. While I understand inflation is increasing, we have to temper that against the general economy, which, in the North East of England is pretty flat at the moment."

On the state of trade he said: "Not many companies are doing well, particularly in construction. Public spending cuts have hit very hard and construction companies are not winning much at all."

"It appears that manufacturing and supply outside of the North East is picking up, specifically from and in the South East and London. There are more enquiries and order books are increasing but this is not repeated in the North."

"I would like some of the spending cuts to be reviewed, particularly construction schemes, such as spending on hospitals and the Building Schools for the Future programme, to give some work in the North East and throughout the country."

Ian Brown, agriculture and rural community specialist, was of the same mind. He said: "There is increasing pressure on interest rates, but they should be held for now. The state of trade is generally static."

He continued: "Tourism is alright at the moment and the Bank Holidays have helped my sectors. The café restaurant at Baltic is steady away. For the renewable energy sector, there is still a shortage of being able to borrow money. We are a long way from a sudden increase in economic activity which is holding people back from buying big ticket items."

"We need more clarity about business support as we enter this period of change with the advent of LEPs etc. A one stop shop for business help and support would be useful."

Catriona Lingwood, Chief Executive of Constructing Excellence in the North East, said: "The rate has to stay the same at the moment because things have not improved since last month. Increasing the rate would cause problems."

She added: "Our region has taken things really hard. There is a huge, huge North-South divide which is getting worse. Things are picking up elsewhere in the country but not here. The state of trade is still dire."

David Bowles, Chairman of Entrust, agreed with maintenance of the rate. He said: "Interest rates must be held because I, like many other people, see that things are still very fragile. It is not a good time to put interest rates up. There is a strong case for putting them up and they will have to go up soon but at the moment we need to encourage as much growth as we can. Growth is at the heart of it and to get growth interest rates must be held."

He added: "The state of trade is quite good currently. The defence sector shows some buoyant companies and exports are good. However, they are struggling to raise capital. There is a very mixed pattern in the service sector. Most companies are needing to cut costs so few can claim to be growing."

On public policy he said: "Somehow or other we need to free up the lending position. Banks are saying they are putting lots of money at risk to lend to SMEs in schemes such as Merlin. However the thresholds that are expected by companies and the interest rates are so high that it is putting people off. Therefore it is not easy to raise capital. Government needs to speak to the banks again."

Kevin Rowan, Regional Secretary of the TUC, said to hold the rate at the moment. "Recovery is still pretty fragile. All the things that are causing inflation to be high are generally temporary and there is no wage pressure at the moment."

He added: "The state of trade is pretty patchy and not very strong. While the private sector is bumping along with some companies doing well, the public sector is looking very dodgy. I would like public policy to concentrate on creating employment more than anything else."

Keith Robinson, Evolution LLP, agreed with a hold. He said: 'Businesses are keeping costs down and managing what they have since bank funding is still extremely difficult to obtain.'

He wanted to see the government "Encouraging and requiring banks to lend more, not just make funds 'available to lend' which is the current definition. I have heard of examples of companies being pressured to take further loans when a unused overdraft is already in place. This enables the bank to say it has made money 'available to lend' but it has not assisted a company in need. How realistic and reliable are the figures being published if this is how banks are behaving?"

Jim Willens, Newcastle Building Society, said: "I would like to hold the rate. I think there is still a degree of fragility in the economy and would like to see the recovery further progress before an interest rate rise, which has the potential to make these things more difficult.

"The average individual would be hit particularly hard because wage inflation is still running at low levels and inflation itself is running at high levels. Disposable income would be damaged by an interest rate rise."

He added: "In terms of the state of trade, the savings market remains competitive and we are certainly seeing good levels of inflow in savings. This is true for the sector in general where we saw good figures in April. The housing market/mortgage market however, is still seeing relatively subdued activity. Although there has been a slight increase, it has been very slight in the last few months and is still some way off recovery."

He called for caution and no change to the status quo in public policy. "At this stage the progress that is happening in the economy needs time to work its way through before any changes are made. I would like to see things continue in the current trend."

Keith Proudfoot, ICAEW, also wanted to hold the rate. "I have real concerns about dipping back into recession. I don't like to use the phrase double dip but there are some warning signs at the moment which I am really concerned about."

He added: "Accountants are generally quite happy; there is a lot of work for them, but they are finding they are getting squeezed on price. There is not the only situation where clients and customers are wanting more but for less."

He would like to see the government ensuring that an audit is not just a red tape exercise, but provides benefits. "Companies do not want people other than those completing audits to be giving advice, The auditors should be giving the advice. The government is going down the wrong route considering separating the roles of business advisors and auditors."