HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

05th December, 2011

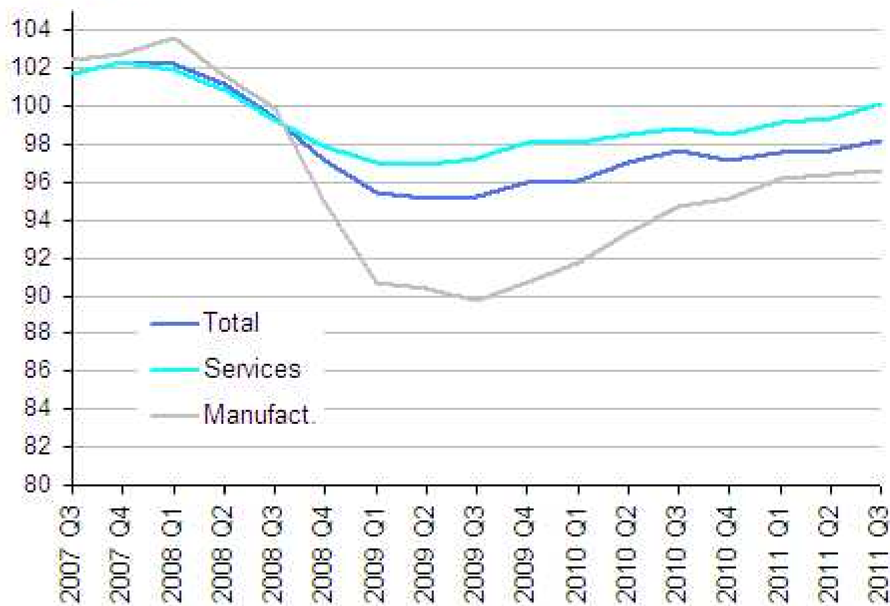
Economic & Commercial Report on the United Kingdom
for the week ending 03.12.2011

UK Economy

GDP Growth

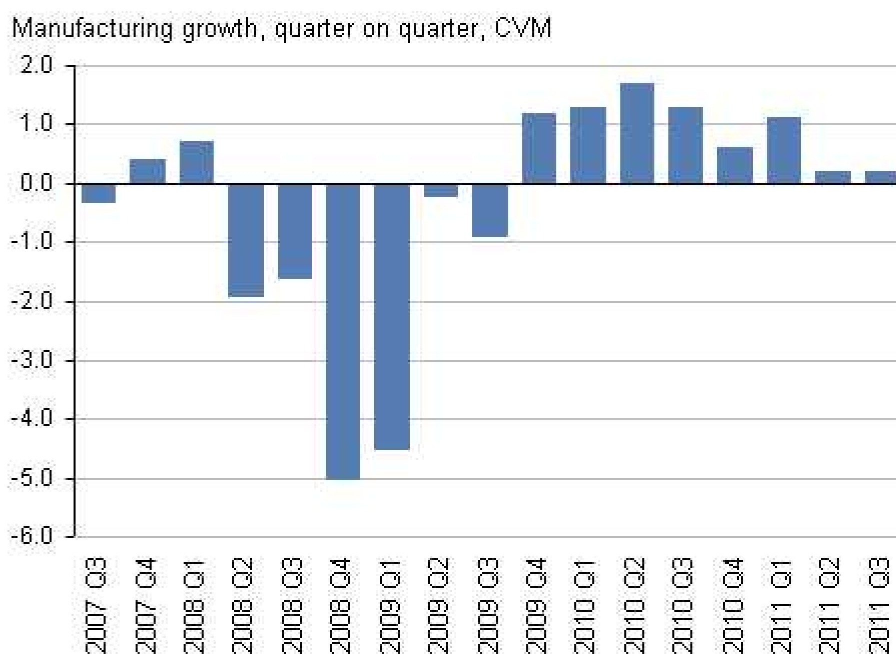
GDP analysis by output categories, chained volume measures

- UK gross domestic product (GDP) in volume terms increased by 0.5 per cent in the third quarter of 2011.
- Output of the production industries rose by 0.4 per cent, within which manufacturing rose by 0.2 per cent.
- Output of the service industries increased by 0.6 per cent, while output of the construction industries decreased by 0.2 per cent.
- Household final consumption expenditure was unchanged in volume terms in the latest quarter. In current price terms, compensation of employees increased by 1.2 per cent in 2011 quarter three.



Source: Office for National Statistics published on 24 November 2011

Manufacturing growth, quarter on quarter growth, CVM



Source: Office for National Statistics published on 24 November 2011

Electricity, gas, steam & air conditioning supply increased by 2.4 per cent in 2011 quarter three compared with a 1.7 per cent fall in 2011 quarter two.
Sewerage & waste management decreased by 1.2 per cent in the third quarter of 2011 compared with a decrease of 2.7 per cent in the second quarter of 2011.
Construction output is estimated to have decreased by 0.2 per cent in 2011 quarter three. This compares with an increase of 1.1 per cent in 2011 quarter two.
Services output increased by 0.6 per cent in the third quarter of 2011 compared with an increase of 0.2 per cent in the second quarter of 2011.

Inflation: No change since last week

Bilateral Merchandise Trade

(In £ million)

Year	UK Exports to India	% change	UK Imports from India	% change	Total	% change	India's Balance of Trade
2005	2798	+25.25	2781	+21.60	5579	+23.40	-17
2006	2693	-3.75	3121	+12.23	5814	+4.21	+428
2007	2968	+10.21	3809	+22.04	6777	+16.56	+841
2008	4135	+39.32	4490	+17.88	8625	+27.27	+355
2009	2941	-28.88	4558	+1.51	7499	-13.06	+1617
2010	4071	+38.42	5781	+26.83	9852	+31.38	1710
Jan-Sep 2011	4014		4538		8552		

(Source: Office for National Statistics and Overseas Trade Statistics, HM Customs & Excise)

Trade/Investment Enquiries

During the week ending 3rd December, 2011 the following enquiries from India were received by the Economic & Commerce Wing of the High Commission apart from some enquiries over phone about procedures and regulations to do business within India:

From India

Broad Items- Importers of India	Number of Queries
Garments/Textiles / fabrics	5
Chemicals	1
Herbal Products	1
Automobile spareparts	1
Natural Stone and handicrafts	3
Candles	2

MEDIA REPORTS

Tax relief for start-up investors
FT: 29 November 2011

Private investors are to be offered an unprecedented level of tax relief to back start-up businesses, under new measures that will make the Enterprise Investment Scheme more attractive for some than a pension. From April next year, any investor will be able to put up to £100,000 into a new "Seed EIS" and receive upfront income tax relief of 50 per cent – regardless of the income tax rate they normally pay. In addition, any gains realised from investments in 2012-13 will be made exempt from capital gains tax if they are reinvested in an SEIS in the same tax year. In effect, private investors will see any investment they make in an SEIS doubled by the government. At present, 50 per cent upfront tax relief is only available on pension contributions made by high earners with a taxable income in excess of £150,000 – and contributions with that level of relief are limited to £50,000 a year. Those investors who continue to make contributions to a company pension may also find themselves backing new projects, as schemes are being encouraged to allocate £20bn of employees savings to infrastructure investments.

The chancellor announced that the government had signed a memorandum of understanding with two groups of UK pension funds to support additional investment in UK infrastructure, and was now working with the Association of British Insurers to set up an Insurers' Infrastructure Investment Forum, targeting inflows into building programmes. Murray Rowden, managing director of infrastructure at Turner & Townsend, the programme management consultancy, said: "From the pension funds' perspective, the right projects can be very appealing – as they provide a long-term, steady income stream and low risk. But the smaller projects will provide a tougher challenge, as investors in these will often want to see quicker returns in return for higher risk." Savers will have to wait longer for their state pensions, though: the planned rise in the state pension age from 66 to 67 will occur 10 years ahead of schedule under plans confirmed by the chancellor. The retirement age is currently set to rise from 66 to 67 between 2034 and 2036 but Mr Osborne confirmed that this increase would now take place between April 2026 and April 2028 "in response to changes in demography". However, he said that the move would not affect anyone who is currently within 14 years of receiving their state pension.

Britain braced for ‘debt storm’
FT: 30 November, 2011

Britain faces another five years of austerity after George Osborne mapped out a bleak course of stalling growth, public sector pay restraint, painful cuts and rising borrowing stretching into the next parliament. Admitting that even this dark outlook could be optimistic if the eurozone crisis deepened, the chancellor warned that political failure in Europe could result in "a much worse outcome" for Britain. Mr Osborne, who portrayed himself as a resolute commander as Britain sailed into "a debt storm", confirmed that the economy was expected to grow by less than 1 per cent this year and next and that he had no chance of eliminating the current structural deficit - as hoped - before the 2015 election. Among his "tough choices", the chancellor took £lbn a year out of planned child tax credit increases and about £280m from working tax credits - both paid to "squeezed middle" households as well as more than £1bn over three years from overseas aid. But these measures paled in comparison with £15bn a year spending cuts he pencilled in after the next general election, just to meet his borrowing targets. According to Treasury figures, the total austerity package now stands at £147bn a year by 2016-17, up from £126bn in the March Budget with the grind of cuts intensifying after 2015. The independent Office for Budget Responsibility said Mr Osborne's new austerity measures meant he would still meet his fiscal mandate, but that he would only succeed in eliminating the structural deficit in 2016-17, two years later than pre deficit in his spring Budget.

The chancellor insisted his package was fiscally neutral before 2015 and was a sign that he could stick to his Plan A for deficit reduction while still releasing money from cuts and savings to fund growth initiatives. These included a youth jobs fund, infrastructure investment and a housing package. "We will do whatever it takes Britain from this debt storm, while doing all we can to build the foundations for future growth," he told a sombre House of Commons. Contingency plans for an economic meltdown in the eurozone were being intensified, he said. The OBR forecasts compounded the gloom, as it more than halved growth forecasts to just 0.9 per cent for this year, 0.7 per cent for 2012, before predicting a recovery to 2.1 per cent in 2013 and 2.7 per cent in the final year before the general election. The forecasters blamed eurozone uncertainty and high commodity inflation for the growth shortfall, but also confirmed that the financial crash had inflicted permanent damage on the economy and had left a borrowing “black hole” that had to be filled.

Ed Balls, shadow chancellor, said the collapse in growth was evidence that Mr Osborne's austerity plan had failed and that it had contributed to a "£158bn borrowing bombshell", the cumulative extra borrowing he will clock up by 2016 compared with last November's forecasts. Mr Osborne included some modest pieces of good news, including a delay in introducing January's 3p fuel duty increase, help towards nursery education and a credit easing scheme to help small businesses.

Investors react to start-up tax break
FT: 30 November 2011

Britain’s savers are being urged to back start-up businesses and infrastructure projects through an “astonishing” increase in tax relief on venture-capital investments, and the channelling of pension contributions into building works. Under a new seed enterprise investment scheme, private investors will be able to put up to £100,000 into fledgling companies from April and receive upfront income tax relief of 50 per cent – regardless of the rate they normally pay. In addition, any gains realised from other investments in the tax year 2012-13 will be exempted from capital gains tax if reinvested in a SEIS in the same year. It will cost a UK saver only 50p for every £1 invested. But if that investment is made from a taxable gain, the total level of relief reaches 78 per cent: 50 per cent income tax relief plus the 28 per cent CGT avoided on the gain. It is to be paid for by freezing the annual CGT exemption for all other investors at £10,600 in 2012-13. Blick Rothenberg, an accountancy firm, described the measure as “astonishing” as it will make backing venture capital more tax-efficient than saving in a pension. “Although there is a £100k cap, private investors will welcome the £50k income tax reduction and may look to invest in a scheme as an alternative to traditional pensions for one year only,” said partner Toby Ryland.

Pensions offer 50 per cent tax relief only to those whose taxable income exceeds £150,000 and it is limited to maximum contributions of £50,000 a year. Existing enterprise investment schemes allow investors to put in more – up to £500,000 a year in small unquoted companies with no more than 250 employees and £15m in gross assets – but relief is capped at 30 per cent. Patrick Reeve, managing partner at Albion Ventures, a venture capital group, said the Treasury has rewarded "the risk of investing in very small start-ups with a substantial tax break. This will be hugely attractive to private investors." However, some venture capitalists warned that smaller savers could be encouraged to take on too much risk. Enterprise Private Equity anticipated that only companies with fewer than 25 employees would be eligible – but Piers Denne, director at Future Capital Partners, suggested that they would still attract small savers who previously used individual savings accounts.

The big squeeze: warning over incomes as Britain goes on strike
Guardian: 01 December, 2011

High inflation, cuts and the longest period of wage stagnation on record will see the spending power of the average British family plummet over the next five years, a leading thinktank warned on Wednesday. An Institute for Fiscal Studies analysis predicted that average incomes, adjusted for inflation, will fall by 3% this year and further in 2012. The director of the IFS, Paul Johnson, said: "In the period 2009-10 to 2012-13, real median household incomes will drop by a whopping 7.4% – a record matched only by the falls seen between 1974 and 1977. "As up to 2 million public sector workers walked out in protest against changes to their pensions, and signs emerged of a potentially damaging rift within the Liberal Democrats in the wake of George Osborne's autumn statement, the thinktank warned that families with children will be worse off in 2016 than they were 14 years earlier as they cope with more than a decade of austerity.

The IFS's warning and the strikes came as the world's major central banks announced joint emergency measures to stop the international financial system from freezing up, and pushing the global economy into another recession. The measures included cutting emergency interest rates on dollar loans to cash-strapped European banks. A Downing Street spokesman said the emergency measures were necessary because the markets were under extreme strain. "We are experiencing a credit crunch and that central bank action is about trying to mitigate the effects of that credit crunch," the spokesman said. Not since the Callaghan government of the mid-70s have families come near to suffering a similar loss of income as the one now predicted to hit Britain over the next five years, the IFS said. Lower income groups, it confirmed, will bear the brunt of the government's latest cuts, outlined by George Osborne on Tuesday. The chancellor's autumn statement signalled that the deteriorating economic outlook meant that there would be two more years of austerity than originally planned in his March budget. Anti-poverty campaigners said the IFS figures showed that the coalition had shifted the burden of paying for the deficit on to the most vulnerable. Alison Garnham, chief executive of the charity Child Poverty Action Group, said: "The IFS analysis confirms that the chancellor's new tax and benefit measures are a takeaway from low-income families with children to those at the middle and top. It is particularly perverse to reduce incomes of the lowest-paid working families by reducing tax credits when this is the group the government claims it wants to help through improved work incentives." The IFS analysis showed the unemployed and pensioners living on state benefits would do better than working families after benefits were linked to the 5.2% rise in inflation. Johnson said: "Failure to index some elements of tax credits, and the reversal of decisions to increase child tax credits in real terms, will leave some poorer families worse off and will lead to an increase in measured child poverty. "The IFS based its estimates for the squeeze on incomes on forecasts from the Office for Budget Responsibility, the independent watchdog that oversees Treasury spending plans and which published its own outlook for the economy alongside Osborne's statement. It blamed a repeat oil price shock for most of the cuts in real incomes suffered by UK households. High energy prices were the largest single element fuelling an inflationary spiral that left many families worse off.

UK manufacturing fall stokes recession fears
Telegraph: 01 December, 2011

Manufacturing output fell at the fastest pace since the height of the financial crisis in April 2009, and jobs were cut at the sharpest rate in two years according to the Markit/CIPS PMI survey. Rob Dobson, senior economist at Markit, said UK manufacturing had "run out of steam", hit by a double whammy of falling demand in both domestic and foreign markets. The headline index - which combines output and orders - fell to 47.6 from 47.8 in October, where anything below 50 indicates contracting activity. “The lack of new work is forcing manufacturers to rely on previously-placed orders to avoid sharper cutbacks in output and employment. This cannot go on indefinitely, and job losses will inevitably mount if order books continue to weaken," said Mr Dobson. The report pointed out that Thailand's worst flooding in 50 years put extra pressures on UK manufacturers, as supply-chain lead times lengthened.

Economists warned the grim start to the fourth quarter for manufacturing boded ill for the economy's performance overall between October and December. Economic growth of 0.5pc in the third quarter was boosted by stock building and industry, both of which looked more likely to act as a drag on growth in the fourth quarter after the PMI data. "This intensifies fears that the overall economy will contract in the fourth quarter," said Howard Archer, chief UK economist at IHS Global Insight. He said the PMI reinforced "mounting concern that the private sector will in fact haemorrhage jobs over the coming months rather than compensate for increasing job losses in the public sector. ”The gloom was exacerbated by equivalent PMI figures from the eurozone, which showed a fourth successive and deeper contraction in manufacturing activity in the region in November.

Pensions to fund infrastructure projects
FT: 02 December 2011

Millions of pension investors could see their funds invested in the infrastructure projects of the future, under a proposal being mapped out between the government and the pension industry. In his autumn statement, the chancellor said The Treasury had signed a Memorandum of Understanding with the National Association of Pension Funds (NAPF), whose 1,200 public and private scheme members have £800bn in assets, and the Pension Protection Fund (PPF), which has assets of more than £6bn, to help set up a new platform to promote investment in infrastructure. “They need a simpler financial vehicle that helps them to get on board with bricks and mortar,” said Joanne Segars, chief executive of the NAPF. “The UK desperately needs to update its infrastructure, and pension funds are looking for inflation-linked, long-term investments. This could be win-win”.
Some analysts said infrastructure investment could benefit pension savers. “At the moment, these huge pools of long-term assets are being encouraged to pile into gilts,” noted Dr Ros Altmann, director-general of Saga, the over-50s financial services provider. “But gilt yields are at record low levels and do not offer sufficient returns even to keep up with inflation, let alone to keep up with rising pension liabilities. Therefore, pension funds urgently need new ways of earning good income.”

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