HIGH COMMISSION OF INDIA
London
(Economic & Commerce Wing)

Economic & Commercial Report on the United Kingdom for June 2013

Economy

GDP

- UK gross domestic product (GDP) in volume terms was estimated to have increased by 0.3% between Q4 2012 and Q1 2013, unrevised from the previous publication. In current prices GDP was estimated to have increased by 0.9% for the same period.

- The households' saving ratio was estimated to be 4.2% in Q1 2013, the weakest since Q1 2009 when it was 3.4%.

- Estimates in this bulletin are consistent with ONS' annual national accounts publication – Blue Book, to be published on 31 July 2013. The last base year and reference year for the chained volume estimates have both moved on from 2009 to 2010. All time periods are open for revision in this release.

- The peak to trough fall of the economic downturn in 2008/09 is now estimated to be 7.2%.

- In Q1 2013, GDP was estimated to have been 3.9% lower than the pre-financial crisis peak in Q1 2008. Previously GDP was estimated to have been 2.6% lower for the same period.

- GDP growth between Q4 2011 and Q1 2012 has been revised from a fall of 0.1% to flat, thereby removing the phenomenon of two consecutive quarters of negative growth.

- As a result of revisions in this Blue Book consistent publication, the average quarterly revision to GDP is now +0.11 percentage points, a little lower than the previous average revision.

- Real household disposable income increased by 1.4% between 2011 and 2012. This is the highest growth since 2009 when it rose by 1.6%.

- ONS has produced an article, published simultaneously with this release, giving more detail on these earlier revisions, 'Impact of changes in the national accounts and economic commentary for Q1 2013'.

(Published by Office for National Statistics (ONS) on 27th June 2013)

Inflation

- The Consumer Prices Index (CPI) grew by 2.7% in the year to May 2013, up from 2.4% in April.
- The largest upward contributions to the change in the rate came from transport (notably air transport and motor fuels) and clothing.
- The largest downward contribution came from food.
- The inflation rate has returned to the levels seen between October 2012 and March 2013 after the slowing in the rate to 2.4% in April.
- CPIH, the new measure of consumer price inflation including owner occupiers' housing costs, grew by 2.5% in the year to May 2013, up from 2.2% in April.
- The slower growth in CPIH than CPI is due principally to owner occupiers' housing costs increasing more slowly than overall inflation for other consumer goods and services in the year to May.
- The format of the bulletin changed with the publication of February data. Please see the 'Guide to Data' section of the bulletin for further information on where to find all ONS consumer price statistics including CPI, CPIH, RPI and RPIJ. If you have any comments on the new format, please email cpi@ons.gsi.gov.uk.

(Published by Office for National Statistics (ONS) on 18th June 2013)

Monthly External Trade Review (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
2011	5677	+40.04	6114	+4.83	11791	+19.33	+397
2012	4665	-17.82	6210	+1.57	10875	-7.76	+1545
2013 Jan - April	1663	+2.09	2050	+10.87	3713	+6.76	+387

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

During the month of June 2013 the following enquiries from UK and 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

Food Products	03
Fruit & Vegetables	04
Handicrafts	01
Hand Tools	01
Garments	01
Oil Seeds	02
Seafood	01
Spices	02
Confectionery	01
Scaffolding and Automotive Components	01
Cereals & pulses	02
Herbal Products	02

From UK

Broad Items	Number of Queries
Nil	

Tenders from India

Organisation	Numbers of Tenders
India Security Press - Nashik	01
ONGC-Baroda	01
Footwear Design & Development institute-Noida	01

Media Reports

UK manufacturing grows at fastest rate since March 2012

The Guardian: 03/6/13

Rise in new orders and output drives hopes of strengthening economic recovery

Britain's manufacturers enjoyed a stronger than expected rebound in business last month, fuelling hopes that the sector will boost overall economic growth this quarter.

Manufacturing activity grew at its fastest for more than a year as new orders and output both picked up pace, according to the closely watched Markit/CIPS UK manufacturing PMI survey. Sister surveys in the eurozone showed the manufacturing picture there brightened markedly too, although the sector remained in decline.

The UK report's headline activity index rose to 51.3 in May from an upwardly revised 50.2 in April. That was well ahead of the 50 mark that separates growth from contraction and easily beat forecasts for 50.2 in a Reuters poll of economists. It was the highest reading since March 2012.

Rob Dobson, senior economist at survey compilers Markit, said that a "brightening" domestic market boosted the sector.

"Output is also likely to be raised further in the coming months, as firms refill warehouses after stronger than expected demand has led to a sharp depletion in finished-goods stocks. The tentative return to job creation in the sector in May also suggests that manufacturers are becoming more confident in the outlook," he added.

Economists said the report suggested manufacturing's recession was drawing to a close in the UK. "Today's survey is a tentatively encouraging sign that the manufacturing sector may start to play a part in the overall economic recovery," said Samuel Tombs at Capital Economics.

The survey signalled that the growth in manufacturing, which accounts for around a tenth of the UK economy, was broad-based with a pick-up for consumer, intermediate and investment goods sectors. Factories linked higher output to "improved new order inflows, successful new product launches and efforts to clear backlogs of work", the report added.

Domestic demand was the main driver behind the third consecutive monthly rise for new orders. For exporters, there was higher demand from Germany, France, east Asia and North America, where many UK companies have been seeking out new business as their traditional European trading partners continue to struggle.

The PMI reports from the eurozone underlined continuing economic challenges there, with the headline reading for the eurozone at 48.3 in May, the 22nd month below 50. Still, that was up from 46.7 in April and the highest since February 2012.

Economists highlighted signs of some stabilisation in the sector but said overall the currency bloc's downturn would drag on.

"Although the euro area manufacturing economy continued to contract in May, it is reassuring to see the rate of decline ease to such a marked extent," said Chris Williamson, chief economist at Markit.

"The surveys still suggest that GDP is likely to have fallen 0.2% in the second quarter, extending the region's recession into a seventh successive quarter."

George Osborne to offset further spending cuts with capital investment

The Guardian: 23/6/13

George Osborne agreed the final details of spending cuts worth £11.5bn for 2015-16 on Sunday, ahead of an announcement this week that will also see the Treasury unveiling a multi-billion, six-year infrastructure investment programme.

Vince Cable, the business secretary, was the last cabinet minister involved in the spending review to settle, although defence, education, local government, health and international aid also kept negotiations with the Treasury going until very recently.

At one stage Osborne said that ministers who refused to cut their budgets for would be summoned before the "star chamber" for a grilling on why they could not find savings. In the event the "star chamber" was never convened for this purpose, although Treasury sources insisted that the threat of a summons did help to concentrate minds.

Osborne will announce details of the 2015-16 spending review cuts in a statement to the Commons on Wednesday.

In a move which suggests that the chancellor wants to prevent Labour being seen as the party most committed to capital spending, the Treasury will this week combine the spending review with the announcement of a series of infrastructure investment projects running from 2015-16 to 2020-21.

Given that the total sum allocated in the budget for capital spending in 2015-16 alone is £50bn, the headline sums involved could be huge. Danny Alexander, the chief secretary to the Treasury, will announce the details in the Commons on Thursday.

The infrastructure investment programme will be funded from within the Treasury's long-term spending envelope and it will include spending on road, rail and high-speed internet. The projects are expected to include upgrading the A14, a new Mersey Gateway bridge in the north-west and the first tranche of work on the HS2 high-speed railway.

Alexander agreed the final details of the spending review with his Lib Dem colleague Cable on Sunday morning. At around the same time, Osborne and his Labour opposite number, Ed Balls, were both raising the prospect of further spending cuts after 2015-16 in interviews on the Andrew Marr show.

Osborne told the programme that on Saturday he reached a settlement with the Ministry of Defence that would protect frontline service personnel but lead to the loss of civilian jobs. Several hundred posts are expected to go, with the rest of the estimated £1.5bn savings achieved through cuts to civilian allowances, efficiency measures and contracts with suppliers being renegotiated.

"There will not be a reduction in our military capability," Osborne said. "We're not going to reduce the number of soldiers, sailors, airmen, and in fact we're actually going to be able to spend some money on things like cyber [security], which is the new frontier in defence."

The Labour party has already announced that it will accept the coalition's overall day-to-day spending plans for 2015-16, although it reserves the right to change how current spending is allocated, and to increase capital spending. But yesterday Balls went further, saying he expected to make cuts beyond 2015-16.

"Do I think after 2015-16, the next Labour government will be making very difficult decisions which will involve some cuts? Yes," the shadow chancellor said.

Some in Labour are strongly opposed to this. In a letter in today's Guardian, Peter Hain, the former cabinet minister, Neal Lawson, chair of the pressure group Compass, and other signatories say that continuing austerity measures beyond the next election would be "politically and economically disastrous".

Balls has already announced that Labour would cut winter fuel payments for wealthy pensioners after the general election, saving £100m a year. The government is committed to keeping winter fuel payments for all pensioners until 2015 and until now, senior Conservatives have said very little about whether or not they would renew that pledge.

But Osborne suggested that a rethink was now under way, stressing that benefits for pensioners had to be "sustainable".

"On pensioner benefits, including the winter fuel allowance, we made a very clear promise about this parliament, and we believe in keeping our promises to the British people," Osborne said.

George Osborne needs to give Neets a chance – for the economy's sake

The Guardian: 23/6/13

'This is the stage where people either make it in life or don't make it in life. They go to college or do gang culture." Daniel Clarke thinks back to the summer he left school in East London with one GCSE. A bright student, with six older siblings – "all very successful" in his words – the teenager was overwhelmed with family members pushing him to pay attention.

He did anything but. "I didn't really take school life seriously. There were a lot of distractions." And so he left secondary school without the grades to go on to A-levels and no qualifications to tout to potential employers.

What happened next is a lesson in labour market mechanics that any government would do well to consider.

For one facing near-record youth unemployment it should be essential reading. And that is precisely where George Osborne finds himself as he prepares to announce on Wednesday how the coalition will squeeze out another £11.5bn in cuts. At one in five, the unemployment rate for 16-24-year-olds is more than double the rate in the working population of all ages. More than a million young people in Britain are Neets – not in education, employment or training. Clarke did not become one of them, but is now in a senior role at a major accountancy firm in the City and responsible for 350 clients.

That is thanks largely to four things: work experience, careers advice, vocational training and employers who gave a young person a chance. All four are now woefully lacking in the UK.

Realising that the summer he left school was a make or break moment, the 16-year-old signed up for a vocational course at sixth-form college. It was there that a charity, Career Academies UK, put him on a new path. It had launched one of its "academies" in the college, one of 180 schemes now running in the UK, predominantly in areas of social need.

As well as college studies, students undertake extra assignments designed to give them the "employability" skills that so many companies complain are lacking among young people. They practise interviews, build a CV, learn to search for jobs and, most crucially, do a six-week paid internship. For Clarke it was with oil traders at Citigroup in one of the Canary Wharf skyscrapers that had dominated the skyline and yet felt so out of reach growing up in nearby Walthamstow.
The internship changed everything. "I was an 18 year-old in a suit and going to work every day with people that earn £2.5m a year. I realised 'Wow. I am here. I'm not on the outside. I have my own pass, I have my own meetings'. I felt this is something I can do, be part of." The experience inspired him to go on to get a first-class degree – "my mum is lost for words" – followed by a job with a recruitment firm and now his role in the City.

Clarke's story is one of a bridge between school and work that was already wobbly when the coalition came to power and is now crumbling. Take away charities like Career Academies UK and for many teenagers very little is left in the way of advice or opportunities.

Firstly, compulsory work experience has been removed, depriving many young people of that vital first insight into the world of work. Employers, manufacturers especially, have complained too that the move will diminish their opportunities to work with schools and to introduce themselves as potential career choices for schoolchildren.

Secondly, responsibility for careers guidance has been taken from local authorities and handed to schools. The change was lambasted by the Commons education select committee which said there was evidence of a "worrying deterioration" in the overall standard of careers advice.

In the committee's words: "Independent careers advice and guidance has never been as important as it is now … Young people deserve better than the service they are likely to receive under the current arrangements."

One of the biggest risks in leaving careers advice to schools is that teachers will lack knowledge of options beyond more education. It will entrench an already damaging British bias towards the university route and shrink awareness of vocational options – all while another arm of government, the Department for Business Innovation and Skills (BIS), is pouring money into apprenticeships.

For those young people unwilling to risk the huge costs of a degree only to join the one in five new graduates out of work, the lack of alternative advice is frustrating. Pupils complain that "careers fairs" in schools are made up almost entirely of university stands. They also need to hear about employers looking for school-leavers and more specifically, those offering apprenticeships.

Apprenticeships have been an important policy for the coalition and the numbers have almost doubled since this government came to power.

The gains have raised Britain to a level more akin to Germany and Austria, which have youth unemployment rates at 7.5% and 8%, respectively. But scratch beneath the surface and the message for young people and the economy is less rosy. There were 520,600 apprenticeship starts in the academic year 2011/12, up 86% from 2009/10. But the increase was driven largely by a surge in people aged 25 and over, with 44% of new apprentices now over 25, up from 18% in 2009/10.

Furthermore, more than half the increase was made up of apprenticeships in business administration and retail. Less than 10% were in manufacturing and engineering – so much for manning Osborne's "march of the makers".

If this government is as serious as it says it is about apprenticeships in particular and social mobility in general, it needs to get young people into the sectors it champions as future drivers of growth. For their part, employers must wake up to the costs of not employing and training young people.

Research by the Chartered Institute of Personnel and Development suggests 56% of employers intend to recruit a young person this year. And yet, other studies suggest boosting the UK's skills base, such as training up young people, would go a long way to addressing the problem of falling productivity. Even before they are trained, young people bring a freshness to any workforce. Contrast this with your own colleagues: This summer's school-leavers were born in a year that brought the world Dolly the cloned sheep, the term weblog was coined and the first social networks were being founded. For them, modern technology is second nature.

Shutting that generation out is economically reckless. Taking away their independent careers advice is socially reckless. Abandoning them to cross the path from school into a torrid labour market alone is unforgivable.

Clarke won't even contemplate what might have been. "Where would I be now? It's a scary thought, I don't really like to think about that … Some of my good friends are in prison."

UK regulators leave banking at risk of another crash

The Guardian: 26/6/13

The devil is always in the details. And the greatest devils of our economic age lurk in the details of how officials regard the capital – the equity funding – of our largest banks. Government officials have identified far too closely with the distorted, self-interested worldview of global banking executives. The result is great peril for the rest of us.

In this surreal world, the United Kingdom takes on disproportionate influence, because London is still a top financial centre – and because the biggest banks in the United States and Europe have proved very effective at playing off American and British regulators against one another. Opinion leaders around the world look to the British for a clever and nuanced approach to financial-sector policy. Unfortunately, they currently look in vain.

To understand the precise problem, you must dip into the latest details of the Prudential Regulatory Authority's "capital shortfall exercise" with eight major UK banks. I won't pretend that the PRA's work is easy reading for a layperson; but anyone who spends a little time with the documents will first laugh and then cry.

With great fanfare (and generally favourable press coverage), the PRA announced that some banks do not have enough loss-absorbing capital – relative to target levels of equity that are ludicrously low. The Bank of England's financial policy committee (FPC) said that the target should be 7% of risk-weighted assets under Basel III definitions. And, in the PRA's presentation, this amounts to a leverage ratio of around 3% for most of these banks (again using Basel III definitions), though a couple of banks will need an additional adjustment to reach that level.

In plain English, a supposedly well-capitalised bank in the UK can have 97 cents of debt per one dollar of assets (and just three cents of equity). Such a low loss-absorption capacity would get you run out of town in the US, where regulators are weighing a 5-6% leverage ratio (twice as much equity on a non-risk-weighted basis), and some responsible officials are still pushing for 10% or higher.

So much for the laughs. The tragedy in the PRA's exercise is British officials' apparent belief that they are carrying out real reform, rather than setting the stage for serious trouble. To be fair, some of what the PRA did makes sense – including adjusting risk weights and taking into consideration losses from "future conduct costs" (translation: penalties for breaking the law will be substantial). And the treatment of investments by banks in insurance companies is sensible relative to the alternatives.

But the potential for more tears for taxpayers – still reeling from the cost of rescuing the Royal Bank of Scotland (RBS) – looms large. The invitation to banks to game the risk-weighting system further is stated plainly: "In line with the FPC recommendation, the PRA has accepted restructuring actions which, by reducing risk-weighted assets, will credibly deliver improvements in capital adequacy." In other words, the banks can change how they calculate risk – for example, by tweaking their own models – in ways that will make them look better as far as regulators are concerned.

The British authorities believe that they are building a resilient global financial centre that is capable of assuming big risks and withstanding large shocks – either home-grown or transmitted from abroad (that is, from the eurozone). But even HSBC, the best capitalised of the lot, has a leverage ratio of only 4.6%, while Barclays' ratio is under 3%. In a deeply unstable world, these are paper-thin cushions against losses.

The margin for macroeconomic, prudential, and operating error is similarly small. The British – and the rest of us – have made many such errors in the last decade. At risk is everyone who has a job in the UK, as well as all financial institutions that have significant operations there – including a huge proportion of all global banks.

The idea that the British set any kind of standard for bank conduct was exploded by last year's Libor scandal, while the fiasco at RBS destroyed the notion that UK officials know how to handle a failing bank. And now the PRA has confirmed that the British authorities do not even have a firm grip on the basics of regulating capital – that is, determining how much equity is safe for large complex global financial institutions.

British officials – and those elsewhere – should take a day off and read Anat Admati and Martin Hellwig's book, The Bankers' New Clothes: What's Wrong with Banking and What to Do About It, an inspired "how to" guide for thinking about why we need more equity in our financial system. Then they should come back to work and do their job properly, by phasing in much higher capital requirements in a responsible manner.

• Simon Johnson is a professor at MIT's Sloan School of Management and the co-author of White House Burning: The Founding Fathers, Our National Debt, And Why It Matters To You.

Economic Events

Global India Business Meeting, Belfast

Shri Anand Sharma, Union Minister for Commerce and Industry visited UK on 23-25 June, 2013 to review bilateral trade and investment and to take part in investment promotion events. He met Dr. Vince Cable, Secretary of State for Business, Innovation and Skills, Mr. Oliver Letwin, Minister for Government policy in Cabinet office, Mr. Gregory Barker, Minister in charge for business engagement with India and First/Deputy First Minister of Northern Ireland. In his meetings with both Dr Vince Cable and Mr Oliver Letwin , Shri Sharma expressed serious concerns over the news reports referring to a proposal to categorize India as high risk country entailing cash bonds from visa applicants. Dr Vince Cable informed the Indian Minister that he had discussed the issue with the British Home Secretary who had assured that there was proposal mooted for a pilot which has not been considered by the British Government. Shri Sharma suggested that given the strategic India–UK partnership a formal clarification to this effect would be in order to dispel any apprehension and avoid confusion. Shri Sharma, alongwith UK Minister Gregory Barker, addressed a gathering of 200 British and Indian CEOs in Belfast and explained the steps taken by the Indian government to further improve the investment attractiveness of the business environment. He and Lord Green, UK minister for Trade and Investment also addressed a meeting of British businesses about the long term growth prospects of Indian economy and the bilateral business relations.