



FEATURE ARTICLE

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What's In A Number?

The question on many lips at present is whether the economic stimulus packages being implemented around the world are actually working - reviving economies and creating jobs?

Opinions are divided, the World Bank President, Robert Zoellick, has said that it is not clear where the demand to fuel an economic recovery will come from. At the same time Mr Darling is optimistic of growth resuming in the UK by the end of this year and if we look at the biggest economy in the world then President Obama is also optimistic, pledging that 600,000 jobs will be created or saved this summer with accelerated spending of some of the US\$787billion economic stimulus that Congress approved earlier this year.

In my opinion there is no doubt that the various economic stimulus packages that have been implemented around the world together with record low interest rates were required in order to prevent a 1930's style depression, rather than a recession. But when considering the problems currently faced and the level of stimulus that has been injected into various economies I thought it might be interesting to consider what this really means.

To this end I thought I would start by looking at the US economy, why, well as the old adage goes "When America sneezes the rest of the world catches a cold" and therefore by implication America must recover for the rest of the world to recover. Also because the US dollar is the accepted reserve currency of the world (for the time being at least!).

Now when considering the US economy figures are not just in billions (as they are when referring to the UK economy) but the most common number used is now a trillion, which in America is defined as a million millions. The problem I have with numbers such as this is that it they are numbers so far beyond my everyday conceptual grasp that they actually convey practically nothing.



America's budget deficit for example, (the amount by which what the government spends exceeds what it receives) is currently estimated at US\$1.8 trillion, and its national debt (the total of those deficits accumulating from year to year) is estimated at \$11 trillion.

But what do these figures actually mean?

If it helps to view them as figures then here is America's annual budget deficit as it stands now:

US\$1,800,000,000,000.

And the national debt is:

US\$11,000,000,000,000.

Does that help? No, I rather thought it wouldn't.

You might get more of a feel for the scale of these numbers when you consider that on Sixth Avenue in New York there is a digital national debt counter. Unfortunately this ran out of space when the number crossed the \$10tn mark on September 30th 2008. They were only able to keep track by replacing the dollar sign at the front with an extra number.

And yet the trillion is only one of a number of numbers which have made their way into the headlines since the start of this world recession. Let's look at something smaller. Take Mr Obama's stimulus package for example, which as I have already discussed ended up at \$787bn (or just over three-quarters of a trillion if you prefer).

To try and help you visualise the scale of this number then it might help if I explain that this is the equivalent of spending over US\$1m a day, every day, starting from the birth of Christ to the present day!

Of course, you might say, that is America and in the UK we don't have such massive problems. Well we might not be talking in trillions over here but we are certainly talking billions.

One measure of the public sector fiscal position is public sector net borrowing. This takes account of capital investment. In May 2009, there was net borrowing of £19.9 billion, which compares with borrowing of £12.2 billion in May 2008 and the cumulative figure has already reached £30 billion in the first two months of the financial year. Indeed the Budget forecast for 2009/10 is net borrowing of £175 billion. At the end of December 2008, UK public sector net debt was £697.5 billion (or 47% of National GDP). However, public sector net debt, expressed as a percentage of gross domestic product (GDP), was 54.7 per cent at the end of May 2009, compared with 43.6 per cent at end of May 2008. Net debt was £774.8 billion at the end of May 2009, compared with £629.0 billion a year earlier.

Now when considering all of these billions like me you may become a little confused but if I explain that a million seconds is 11 days and a billion seconds is around 32 years does that help? Of course we would also need to appreciate that a trillion seconds is 32,000 years!

So why are all of these billions and trillions important for you?



Well recently the rating agency Standard and Poors warned that the soaring UK public debt levels had led it to put Britain's credit rating on notice that it could be downgraded. It did not change the UK's triple-A rating, but said it was at risk without a credible plan to put its debts on a "secure downward trajectory" by the next government.

Well implementing a "secure downward trajectory" is, in fact, no mystery. It will involve some combination of tax increases and spending cuts. And it won't be tax increases on somebody else, or a crackdown on waste, fraud and abuse. In my opinion it is almost certain that everybody's taxes will probably go up, and some government spending that you may favour is likely to go down.

Looking longer term it is also likely, in my opinion, that with the current spare capacity in various economies, deflation will continue in the short term, but the unprecedented levels of stimuli, higher taxes and exchange rate depreciation will inevitably see higher levels of inflation in the long term.

With all of this on the horizon the benefits of sound financial planning utilising all of your tax benefits, such as ISA allowances, together with an appropriate asset allocation populated by professional fund managers, has never been more important.

I guess the obvious question is who wants to be a billionaire? – well I do!

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