

Lies, damned lies and year-on-year comparisons

By Tom Stevenson, 6 January 2009

This week's retail sales reports show the need to treat statistics with great caution – and why the Bank will likely sit on its hands this week.

The stock market can be a tough task-master. Marks & Spencer announced its first quarterly rise in underlying sales for two years this morning and watched its shares fall by nearly 5%. Shares in Next also fell after announcing impressive sales figures this week.

That might seem odd but it makes good sense when you look more closely. Investors took fright for a couple of reasons. First because they remembered what the world felt like this time last year in the thick of the financial crisis – a year-on-year comparison that was anything other than positive would have been disastrous given the depressed starting point.



**"Events since the December meeting have marginally increased the case for a pause in the ongoing easy money policy."
Tom Stevenson**

Second, they didn't like the sound of comments from Next's Simon Wolfson and M&S's Sir Stuart Rose about current trading. Both were candid about the prospects for further improvements in the hangover year that 2010 is threatening to become.

Simon Wolfson said "We are not looking at disaster. Talk of some great double dip is overdone. But at the same time, it would be very difficult for the consumer economy to recover robustly and at the same time for the government deficit to be meaningfully reduced".

He means that likely tax rises, possible interest rate increases and still high and possibly rising unemployment do not add up to a healthy backdrop for a sustainable consumer recovery once the comparisons turn less favourable.

It is not all gloom and doom. John Lewis said its sales in the five weeks to January 2 were its best ever and its Waitrose supermarket arm also posted a very healthy increase in sales. But even Andy Street, its managing director, was forced to predict a "long slow recovery".

This is the context in which the Bank of England's monetary policy committee meets this week to determine interest rates for the next month. It seems extremely unlikely that they will do other than leave both base rates and the quantitative easing budget unchanged.

Events since the December meeting have marginally increased the case for a pause in the ongoing easy money policy. The latest economic data suggest that the economy may well have finally begun to grow again in the fourth quarter of 2009. The first tentative signs are emerging that banks are willing to lend again and the labour

market has been surprisingly resilient.

Pressure for at least a modest tightening will also come over the next few months from a likely spike in headline inflation thanks to the very low oil price a year ago.

But again this is an example of the capacity for statistics to disguise the real picture. Most economists believe that any rise in inflation will be short-lived as last year's oil price rise begins to make comparisons look progressively less worrying. Thanks to considerable excess capacity and the absence of wage pressures, the core rate of inflation looks like remaining low for some time.

Because of this, interest rate policy is likely to remain easy for the foreseeable future. Indeed some economists think that interest rates could remain on hold in the UK until 2011, with any rises then being further limited by the need for monetary policy to offset tighter tax policy as a new Government strives to get to grips with Britain's big budget deficit.

What does this mean for investors? As ever, there is both a cloud and a silver lining. Interest rates staying lower for longer is typically good news for both equity and bond markets. But the reason for the continued monetary easing – a slow and sluggish recovery – will continue to weigh on sentiment.

Note the value of an investment and the income from it can go down as well as up, so you may get less than you invested. The ideas and conclusions in this column are the author's own and do not necessarily reflect the views of Fidelity's portfolio managers. They are for general interest only and should not be taken as investment advice or as an invitation to purchase or sell any specific security. Past performance is not a guide to what may happen in the future. Investments in small and emerging markets can be more volatile than more established markets. For funds that invest in overseas markets, changes in currency exchange rates may affect the value of your investment.