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**What will this year bring?**

15-Jan-2014 - Stephen Archer, business analyst and director of Spring Partnerships, gives his thoughts.

In January 1914 there was no hint of the first global conflict that would commence just eight months later. Such is unpredictability. Yes, the seeds were there but even the best informed could not make a credible prediction of the events starting in August 1914.

Are we in for any major economic or political shocks? The answer must be maybe.

There will be some significant economic realignment and challenges to latter day paradigms such as the ‘un-stopability’ of the BRICS and in particular China. For more on China see my last blog, but the scope of slowing will extend to the other BRICS. Cheap debt is diminishing in supply and this will continue to put some brakes on the BRI trio. South Africa is likely to see more impact from social unrest amongst workers in particular. The terms of employment are widely unpopular in South Africa and Zuma has become even more unpopular since Mandela passed away.

The Eurozone crisis may have left the front pages but the issues remain largely the same with no sign of a Banking Union to further underpin it. The reality seems to be that the PIGS (we can leave out Ireland now) are just going to have to live under extreme austerity and suffer the medium to long-term economic consequences. Greece’s precipitous GDP decline may slow but it remains in huge debt. Spain now has to eat into its pensions to rein in the deficit and debt cliff. Italy remains the conundrum. It has the potential to be an industrial power to rival Germany in GDP per capita but whether the political or economic structural landscape will permit this to happen is another very uncertain question. Germany remains the bell-wether of Europe and as such has slowed to an unfortunate degree.

The European elections in May will see minority and polar parties take many seats in protest at the events of recent years. So the political landscape in the Eurozone may serve to hinder recovery and structural progress. Markets are showing that they are pragmatic and forgiving as they pursue Eurozone debt and drive its cost down but the electorates may be less forgiving given that they are still hurting economically.

I am unconvinced that the US and UK economies will grow at the high rates that some predict. 3% would be high for both but this is good. The suggestion that interest rates will be raised in these two economies is also I think premature. There is still spare supply side capacity so inflation is not a high risk.

Even a rate rise of 0.25% would send a negative shock though the consumer economy at a time when confidence appears have returned – the truth is that the confidence is fragile and we need to maintain a clear perspective on the fact that for years now we have had record low interest rates in the western economies combined with low inflation.

Raising these interest rates needs very great care and significant justification. Mark Carney’s threshold of 7% UK unemployed is too arbitrary to be credible in my view.Though I have offered some strong words of caution, I believe that 2014 will be a good year. Any year of recovery is a good year and recovery will be even more widespread this year.

Let’s just hope that we can get to August with no big surprises…