Leading UK economist says: "The worst may be over"

David Miles, the chief UK economist at Morgan Stanley, believes that there may be some reasons for optimism in the UK.

In an interview with the *Western Mail*, Mr Miles — who is due to join the Bank of England's Monetary Policy Committee (MPC) in the summer — said that the worst of the recession may be over. "I'm less pessimistic than many about where the economy may be going," said Mr Miles. "The 4.5% cut in interest rates since October is now beginning to have an impact on the cost of outstanding mortgages, and people who already had a mortgage are beginning to notice that their rate is moving down." His comments echo Spencer Dale, the Bank of England's chief economist, who said earlier this month: "A substantial amount of the total contraction we are going to see has come through."

Mr Miles said: "Economic history teaches us that a combination of tax cuts, running large fiscal deficits, substantial cuts in interest rates and more quantitative easing is likely, with a certain time lag, to have a substantial impact on demand in the economy; the worst may well be behind us. That's not a confident prediction but a judgement about what may be the case".

He added: "I think part of the strategy of quantitative easing is to improve the availability and reduce the cost of debt to the corporate sector. Again, it is early days, but the early signs are that it's having an impact; and the hope is that this will have an impact on the cost of corporate debt, as the money flows through the system, making it easier for banks to lend. The initial signs are mildly encouraging."

Mr Miles's comments about the UK economy came two days after President Obama said he

could detect "bright signs of economic progress" on a dark horizon for the USA, while warning that there was "much more work to be done" before America was safe from the storm that has thrown millions out of jobs and homes. "Times are still tough," he said, "but from where we stand, for the very first time, we are beginning to see glimmers of hope."

Mr Miles is due to replace the MPC's 'arch-dove' at the Bank of England — David Blanchflower, who was the first on the MPC to spot the seriousness of the credit crunch, and for a long time the only one to advocate cutting interest rates in response. Mr Blanchflower is stepping down in June after serving a three-year term.

A new 'bull market'

Meanwhile, one of the UK's best-known hedge fund managers has said that the modest recovery staged by world stock markets in recent weeks may mark the beginning of a new 'bull market' for equities. Crispin Odey, the founder of Odey Asset Management, said that he had already bought heavily into banking stocks because he believed they were good value, but he now also expected that there would be a recovery across a range of stock market sectors.

"In a little over a month, much has changed: stock markets have shot up, led by the financials and the base material sectors," Mr Odey wrote in the latest edition of the monthly bulletin sent to clients of his hedge fund firm. "Opinion is divided over whether this is a 'bear market' rally or the beginning of a new 'bull market'. I think it has the chance to be the latter." Mr Odey added: "As the story moves from the balance sheet to the earnings potential for the likes of Barclays, a 'bull market' will also extend from its narrow base to encompass other industries." Mr Odey's investment strategy is widely followed; his European hedge fund was one of the industry's top performers last year, netting investors a return of almost 11%, compared to a 19% loss for the average fund.

"Betting on a sustained recovery"

Mr Odey said that, while he was now betting on a sustained recovery, he expected stock markets to remain volatile. However, he warned that there was a danger that people would miss out on the gains. "It does look like a 'bull market' that many investors may fail to enjoy."

The FTSE has risen around 14% since touching six-year lows at the end of March, amid hopes that the banking sector is at last putting the credit crisis behind it and that interventionist economic policies could pave the way for a recovery.

Scottish manufacturing's resilience brings hope

Manufacturers in Scotland are expecting a 'modest' rise in export activity, according to the Scottish Chambers of Commerce (SCC). Publishing its latest quarterly economic survey last Thursday, the SCC admitted that business confidence had been "battered" over the past year, with further pain to come, but said that the manufacturing sector "has the resilience to lead the economy from recession next year, amid fresh signs that the current downturn may be nearing a floor". The report, produced in conjunction with the Fraser of Allander Institute, also highlighted "some positive indications" in the economy.

Almost 300 firms were polled for the first-quarter survey, which was published just days after the Royal Bank of Scotland's Purchasing Managers' Index (PMI) for March suggested that the private-sector economy may be "beyond the worst" of the recession.

Although SCC chief executive Liz Cameron admitted that the survey figures proffered "few signs of improvement in the short term," she added: "In the midst of the current recession, we are all looking for signs of light at the end of the tunnel, and a closer examination of the figures does reveal that, in some sectors, the rate of decline is easing, with a small number of businesses performing well against a challenging background."

However, Ms Cameron said that many businesses were finding it difficult to invest in staff training amid budgetary pressures, and she warned of the dangers that this would present as the economy recovers.

"With business cash flow and margins becoming tighter and the nature of the labour market changing, training can often be a difficult area for both the private and public sectors to focus resources," she said. "However, skills shortages have only reduced in scale temporarily, and we must redouble efforts to establish the skills that our economy will need to prosper, if we are to avoid a skills crisis in two or three years' time."

Asked to comment on the survey, Peter Hughes — chief executive of the industry support body Scottish Engineering — said that, while it was premature to detect signs of an upturn, there were some sectors which were still doing good business.