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HSBC CHIEF ECONOMIST SOUNDS OPTIMISTIC NOTE AT OREGA BUSINESS CENTRE LAUNCH



Dennis Turner, the chief economist for HSBC Bank, predicted a slow thaw in the recession and urged a return to industrial investment and exports when he gave the keynote talk at the launch of a new Orega business centre in Colmore Plaza, central Birmingham, last night.

Addressing the 60-strong audience at the new Colmore Plaza Executive offices, Dennis sought to answer the question: “The UK recession: how long, how deep?” He argued that, until the recession bit last year, British businesses had ‘had it so good for so long’ with sustained low inflation and GDP, low interest rates and a strong and stable sterling.

But he maintains that this was the ‘wrong sort of growth’ as the consumer boom driving it was underpinned by very high levels of borrowing, which could not be sustained. £1.5 trillion was borrowed last year which Dennis says equates to each person in the UK owing an average of 19 months’ pay. At the same time, public sector spending made a comeback but corresponded with weakening government finances, investment and net trade, leading to a very unbalanced economy.

With consumers under pressure and the investment outlook sluggish, growth has invariably been weakening but Dennis believes there is now room for optimism. The recession will be deep but short, he says, with growth set to return in 2010, albeit at relatively low figures. Although net government debt is set to soar to record post-1945 levels next year, at £175bn, interest rates have fallen to historic lows and the debt is affordable.

“No-one can question the response by government since the recession started,” he argues. “The authorities pulled all the levers to deal with it very decisively and very quickly, including a dramatic loosening of fiscal and monetary policy, and the medicine now appears to be working.”

Major concerns remain over issues such as credit supply, the debt overhang in the personal sector and turmoil in the financial markets. But Dennis says a key positive indicator is that the margin of LIBOR over the UK bank rate fell to 20 basis points in July this year (from a high of 190bp last winter) which, combined with the government's 'nuclear strategy' to push more money through the banking system, has led to a gradual easing of the credit crunch, particularly in relation to business lending.

Dennis notes further 'straws in the wind' in recent months such as the end of destocking and a return to stock building, an upturn in house prices and Purchasing Manager Index surveys showing that businesses are moving from contraction to expansion. "Industry now believes recovery is here," he says. "But there is still a long journey ahead before it's business as usual and it is likely to be 2011 before we reach more normal levels – 2% inflation, 4% interest rates and 2.5% growth."

Looking ahead to the post-recession agenda, Dennis says: "We need to return to industrial investment and exports, and the policymakers need to consider what will attract major manufacturers to set up in the UK – this is what matters most in the global economy. The government must adopt a business-friendly strategy that stimulates manufacturing and exports if we are to remain competitive on the world stage."

News of a softening recession brought some comfort to the business people gathered to celebrate the launch of Colmore Plaza Executive, as were Dennis' comments that quality serviced office providers like Orega had brought high levels of flexibility in turbulent markets, as well as providing an increasingly popular form of outsourcing. The new 20,000 sq ft business centre has opened on the mezzanine level and on part of the ground floor of the landmark Colmore Plaza. Privately-owned Orega was selected to operate the business centre on behalf of The Carlyle Group, the owner of Colmore Plaza, and provides space and office services for over 250 workstations.

Tenants at the business centre include MA Energy, a new utility company which has doubled its number of workstations since August; global recruitment consultancies AndersElite and R3 Consulting; Cardiff-based Gambit Corporate Finance, which has opened a new Birmingham office; and Truro-based training company Lime.