

# JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



## Stop Blaming Our Financial Industry And Start Feting Our Financial Industry

### Just how important is the Financial Services Industry to the UK?

Banker and City bashing has become a rather boring (if fashionable) sport of late and frankly, whilst it may satisfy some personal angst from those who have felt damaged and disadvantaged, in reality it does little to address the real underlying issues. However more worryingly, such continuous and repetitive aggression may in fact just be increasing the potential damage, let alone any recovery, to an industry which is a vital (an often over used term, but not in this instance) component to the economic success and strength of the UK. Perhaps it is therefore opportune to take a look at the true value of this industry to our economy and to try and obtain some clearer perspective of its contribution and importance.

I think there are four keys areas we should consider to clearly see that value and the importance of the sector:

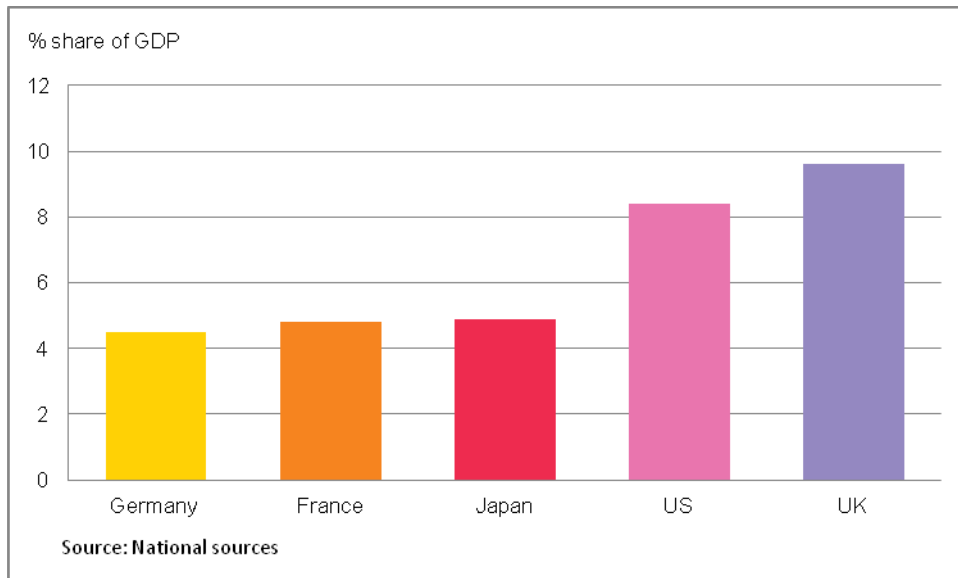
#### ■ Financial services as a proportion of GDP

From the most recent figures (ONS 2011) it would seem that the financial services sector accounted for 9.6% of our GDP, up from 9.4% in the previous year. If added to the professional services (accounting and legal) which are so closely related, it creates a combined figure of 14.5% (about £352bn). To put that into context, the Government's annual VAT income is just under £100bn.

Again some further perspective. This combined figure puts it ahead of 'Wholesale and Retail' trade which accounts for 11.3% and Manufacturing which stands at 10.8% (which has risen from its nadir of 9.5% a few years back).



It is interesting to compare this with other nations as well. In the US, financial services accounts for just 8.4% and for Japan, Germany and France it is less than 5%. Possibly of greater importance to the UK is the proportion of this industry to our net exports. The fact is that in the rest of those countries' financial services have barely any contribution to their net exports, whereas for the UK it is 3.9%.

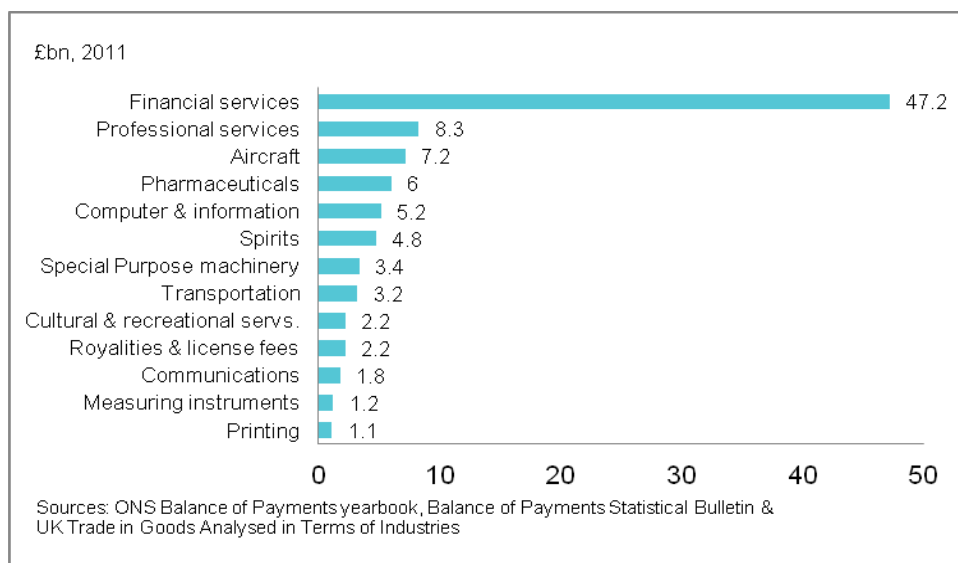


■ **Financial services as an employer**

In terms of employment, out of a working population of approximately 30 million, 2.06 million are involved in the combined sector - so that is roughly 7.3% of the workforce. Drilling down to a regional picture then, not unsurprisingly, London and the South East have larger numbers, but that would be to miss the importance of the sector to other key areas of the UK. In Scotland for example it makes up over 13% of the economy, with an employment number of 148,600. Of course in the South East of England the employment number is higher at 243,500 but only 9.4% of the economy. London dominates with 663,600 employees, but more importantly it makes up an astonishing 28.3% of the Greater City's GDP.

■ **Financial services impact on Trade**

Much is made of the UK's trade deficit and how it seems stubbornly wide, yet when you look at the key constituents, you find actually there are some fascinating variations. Basically our trade in goods runs at a large deficit and has consistently outplayed the financial services sector. For 2011, the trade in goods was a negative figure of £100.2bn; whereas the trade surpluses in financial and professional services were positive figures at £47.2bn and £8.3bn.



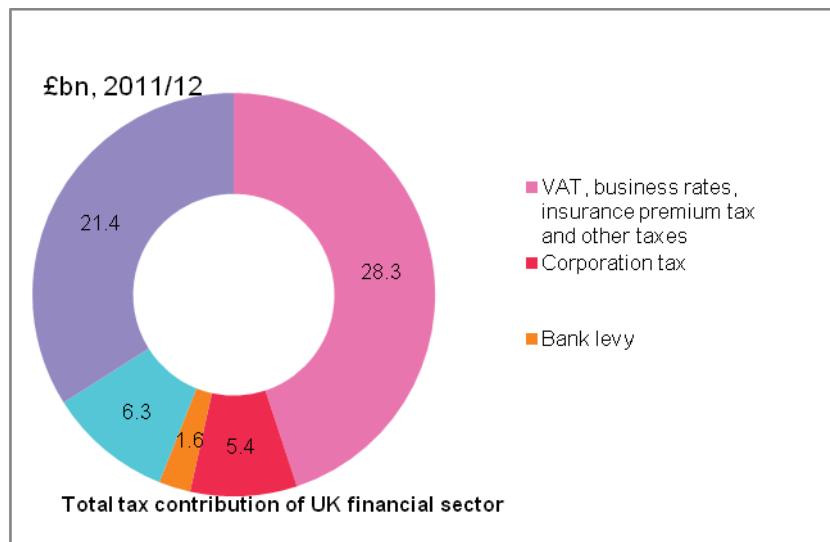
This combined financial and professional services figure, although down on the peak in 2008, is nonetheless still very valuable. It is interesting then to delve deeper into these figures. Surprisingly, the banks' trade earnings as a proportion increased in 2011 quite significantly as did the stockbrokers and securities dealers, although the fund managers and insurance numbers fell back. To this we can also see some encouraging growth in management consultancy and legal services over the decade. Although we often mock the ubiquitous management consultants and lawyers, they are in fact a very valuable trade export for the UK. Management consultancy rose from under £1bn to over £4bn and legal from under £1bn to over £3bn.

These are often ignored figures but just underline how important the financial and professional services are to our overall trade position. Put it another way – the combined financial and professional trade surplus of over £55bn would cover nearly half of our national deficit!

■ **Tax contribution of the sector**

How often do we hear that the financial services sector has been bailed out and doesn't seem to pay its own way? Well of course let's be clear, yes some of the banks and the broader banking industry did have huge levels of support; but don't let's tar the industry with such a vague and besmirching brush.

In fact the tax contribution of the financial services sector has been relatively stable at around 11-13% of GDP. In monetary terms this translates to an average of around £60bn each year, which is considerably more than the Corporation tax take of around £44bn. In 2011 this could be broken down into just under half coming from National Insurance (employer and employee) and income tax.



So I think it is high time that the populist politicians and nay-sayers started to consider the subject more objectively and to realise that this one of the fundamental pillars of our economy. More to the point it is one of our key areas of expertise both domestically and internationally.

Now we should focus on how we can help build and develop this area and ensure that it returns to its position of market leader but also re-establish it with a leading global reputation.

So stop bashing and start building – start rebuilding a better, stronger banking and more responsible financial industry. We need it and can't do without it!

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**And finally...** for those of a nervous disposition please read no further. When reading through my less familiar papers I came across this intriguing headline - "Penis Snatching on the Rise - Africa's Genital-Stealing Crime Wave Hits the Countryside All part of an illicit and lucrative trade in organs."

Strange reports are emanating from the heart of Africa, which might have a negative impact on the potential for tourism. It seems that rather than the often enthusiastic greeting provided to strangers, many weren't shaking hands any more. This was being reported from Tiringoulou, a small town of about 2,000 people in one of the remotest corners of the Central African Republic. Apparently, the day before, a traveller passing through town on a Sudanese merchant truck had, with a simple handshake, removed two men's penises.

Seemingly the stranger had stopped to buy a cup of tea at the market. After handing over his money, he clasped the tea vendor's hand. The tea seller felt an electric tingling course through his body and immediately sensed that his penis had shrunk to a size smaller than a baby's. His yells quickly drew a crowd. Somehow in the fray a second man fell victim as well.

Reports of genital theft have spread like an epidemic across West and Central Africa over the past two decades, in tandem with what appears to be a general resurgence of witchcraft on the continent. Anthropologists have explained this rise as a response to an increasingly mystifying and capricious global economy – that I would agree with but it's not the first thing that comes to mind when worrying about the GDP figures!

Penis snatching apparently was a means of supplying an illicit and lucrative trade in organs. Cameroonians and Nigerians – people from places 'where they have multi-storey buildings' – were seen as particularly well versed in the business. "You see how advanced Cameroon is?" someone said. "It's because they are so strong in commerce of all kinds, including genitals and scalps." The stolen organs are sold to occult healers for use in ceremonies, or else they are quickly fenced back to previous victims for a price. But apparently the real money is to be made in Europe. One man who had spent some time living in Cameroon said he had heard of a woman there who was nabbed by airport security whilst trying to smuggle several penises to Europe inside a baguette!

Right that's it. That is the last time I buy a stuffed French loaf.

Have a good week.

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