

Richard McCreery's Business Blog

Is the Pound in your pocket worth more than the euro in your wallet?



NEW! Business Blog from RivieraLife.tv's new Business Editor Richard McCreery
RLTV 12 Mar 10 Riviera based Independent Investment Adviser, Richard McCreery, has joined the expanding RivieraLife.tv team as Business Editor. In addition to a planned series of video interviews with locally based business leaders, Richard will publish a weekly Finance Blog every Friday with informed comment on topical financial matters relevant to residents and businesses on the Cote d'Azur. Check out Richard's first posting: "Is the pound in your pocket worth more than the euro in your wallet?"

Euro battered, but not as much as the Pound

Riviera residents who have an income or assets abroad have been watching the money markets closely over the past few weeks. Worries about Greece's financial woes have caused the Euro to weaken against most other currencies. However, worries about the UK economy seem to run even deeper. Since the end of January the Euro has weakened by around 5% against the Australian Dollar and the Swedish Krone, and since the start of December last year the Euro has lost 10% against the American Dollar. In spite of the Euro's general weakness, it is not as unloved as the Pound and has managed to strengthen by 5.5% against Sterling since the end of January.

If you are planning on buying a new car in the UK and shipping it over to France, or buying a UK property, then this is a good opportunity to save some money. However, if you are one of the many people living in France on a UK pension or Sterling-denominated investments then you recently saw your income lose real purchasing power, whereas the Swedes and Americans amongst us who depend on an income from their home country will be quite happy with a weaker Euro as they now have more disposable income.

Worries about the weakness of the Euro (some have talked about a break-up if stresses become too much) are unlikely to disappear soon. Whilst Greece is trying to come up with a plan to solve its problems, and Ireland has already adopted cost-cutting austerity measures, there is still a lot of potential financial pain to come in Spain, Italy and Portugal. The Eurozone is strong if it stands together but there is a certain amount of reluctance by the taxpayers of the wealthier countries to bale out the weaker countries, especially now that there are doubts about Greek and Italian accounting methods used to achieve Euro entry in the first place.

The Scandinavians, Americans and Australians might be able to enjoy their extra wealth for a little while longer but there is no respite on the horizon for the Brits. The OECD forecast last year that Britain would have the worst fiscal deficit in the industrialized world at 14% of GDP (higher than Iceland or Ireland) and that means the government needs to make big spending cuts. However, the prospect of a possible hung parliament and a lack of strong political will to make necessary changes suggest that the UK government will struggle to significantly bring down the deficit in the near term and that, and fears about a downgrade of the UK's credit rating, is likely to weigh on the Pound for some time. If you are one of the fortunate Riviera residents who earn their living in Euros then a shopping trip to the UK is looking more and more appealing.

Richard McCreery 12th March 2010 email: richard@rivieralife.tv