Is foreign money evil or not?

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Every few weeks I rant and rave about how the government can't count. Endless examples of failed statistics gathering cross the news. But pundits don't join the dots to their conclusion – generalised meaninglessness.

It's impossible to have an informed opinion of immigration, trade, economics or government policy. The more informed you are, the more likely you're wrong. Because the figures are consistently proven wrong.

Last month, the US and Britain both reported trade surpluses with each other. That'd make for interesting trade negotiations.

The latest "revision" is a real whopper though: "Half a trillion pounds has gone missing. This is equivalent to 25pc of GDP," Mark Capleton from Bank of America told The Telegraph.

Oops.

It's all to do with foreign direct investment (FDI), one of the more confusing economic statistics. Mostly because journalists use terminology interchangeably to improve editorial . The meaning of the words gets lost.

The basic idea of the latest shemozzle is that the ONS failed to count international financial flows properly:

> *The Office for National Statistics (ONS) said these revisions to the "Blue Book" stem from the discovery that Britons own fewer foreign shares than previously thought, and foreigners own more British assets.*

Because ownership is difficult to determine…

The real concern is that the previous surplus has become a deficit. Foreigners own more of British assets than Britons own foreign assets, the opposite of previous figures. They were out by a cool half a trillion. And the flows are worsening, with foreigners investing less and less in the UK.

Notice the contradiction? It's bad if foreigners own more of Britain than we own of foreign assets, but it's also bad if foreigners are investing less in the UK.

You can't have it both ways. More foreigners investing in the UK would worsen the net asset position because they're buying more British assets. Either foreigners and their money is evil or it isn't. Pick one.

The Telegraph also reports we no longer have any reserves of net foreign assets. If your reserves are a statistical calculation on a net basis, then you can't call them "reserves".

But there's more, and this one really is utterly ridiculous:

> *Company profits are lower than imagined. What was thought to be ownership of foreign debt securities by UK corporates have turned out to be loans to over-leveraged UK citizens.*

The statistics agency can't count corporate profits and it can't distinguish between foreign debt securities and local loans!?

Did the newspaper just describe official government economic statistics as "imagined"?

I'll leave my fury over the pathetic failure of the government to count to one side. And I won't mention John James Cowperthwaite who engineered Hong Kong's boom by preventing government officials from gathering economic statistics. Without them, they couldn't come up with crackpot policies.

Instead, let's discuss the consequences of the change in numbers. What do they mean?

Investing in Britain

The UK economy imports capital. And foreigners own a lot of our assets. That means they think we're a great place to invest, which is good news, not bad. It creates jobs. It creates trade ties. It creates inter-reliance. It finances us.

It is completely wrong to say Britain is overly reliant on the "kindness of strangers" as Bank of England governor Mark Carney put it. "It's not from the benevolence of the bond buyer and factory builder that we expect our current account deficit to be funded, but from their regard to their own interest," to paraphrase Adam Smith. And by interest he meant profit.

With interest rates near 0, Carney is precisely the person who determines that the returns are near levels you can call "benevolence". But compared to Europe's negative real returns, Britain is generating plenty for its investors.

And it's obvious why. The UK is an excellent place to invest. At least comparatively. If you take a look around the world, it's not a surprise Brits are hesitant to buy foreign assets. (They usually move to the country they invest in thanks to the UK weather.)

It's terribly hypocritical to go and quote ONS statistics given the above, but for what it's worth, the fall in the pound is having some enormous benefits. The Telegraph explained last week:

> *Tourists cashed in on the weak pound during the three months to June to spend an extra £700m while visiting the UK, making it the best performance on record for the quarter.*
>
> *Overseas residents made nearly 11m trips to the UK from April to June this year, an increase of 9pc from the same period in 2016, and they brought their wallets with them. Spending rose £6.5bn, a 12pc increase on the same period last year, according to figures from the Office of National Statistics (ONS).*

For some reason, tourists spending money in the UK is good, but if they invest it's bad, but if they invest less it's bad too…

The fall in investment in the UK is a valid concern. As is currency volatility. London house prices falling while the rest of the UK rises is a nice example of this. Again, whether that's a good or a bad thing is another question.

Ironically enough, it's the hedge funds keeping the pound up. They've gone from heavily shorting the currency to heavily long. But they move fast and many will be getting a big fright from today's lines.

In the end the updated figures only marginally increase the risk of trouble in the UK economy. The fact that we have a huge amount of foreign investors is great news.

We have far bigger things to worry about.

Until next time,

Nick Hubble
Capital %26 Conflict

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