

COMMERCIAL BANKING

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# ECONOMIC OUTLOOK

*RECOVERY TO CONTINUE*

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Senior Economist

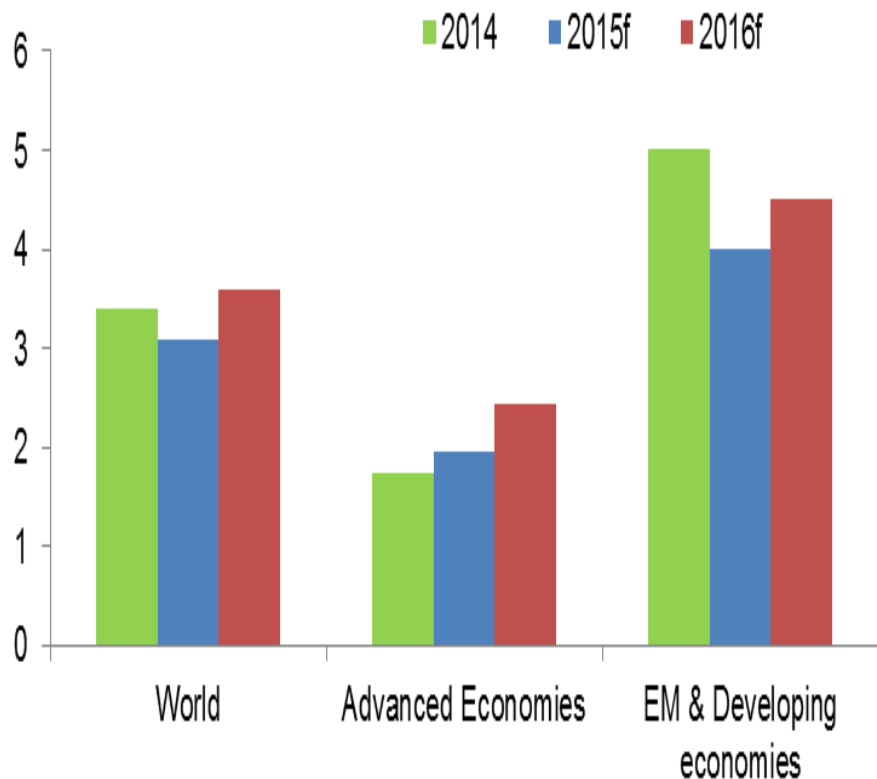
19 November 2015



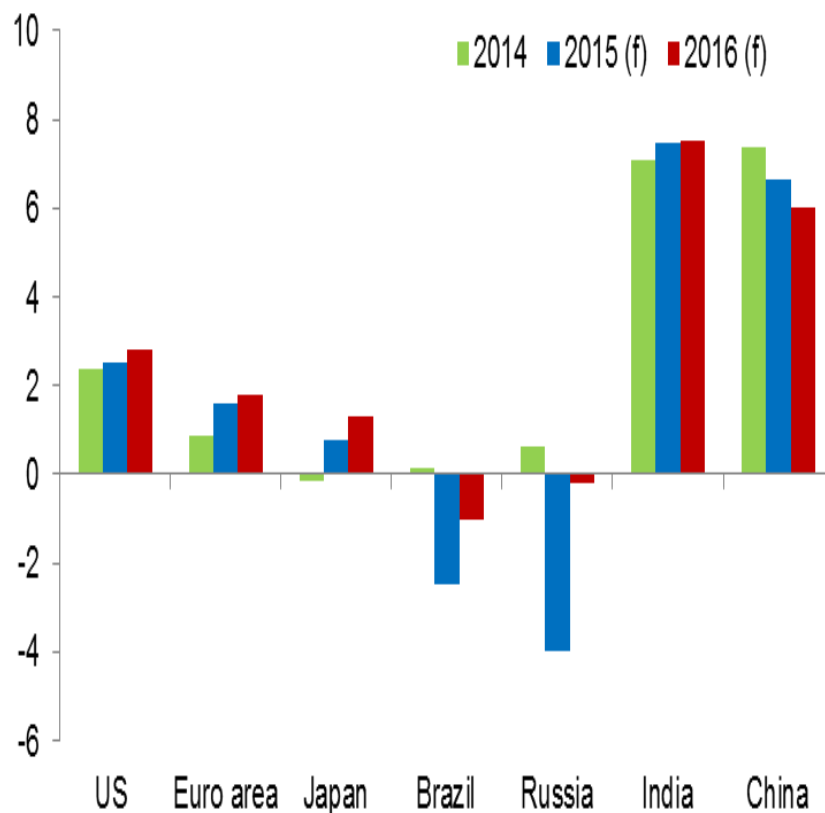
# GLOBAL ECONOMY APPEARS IN REASONABLE SHAPE DESPITE GROWING CONCERNS



GDP growth, %



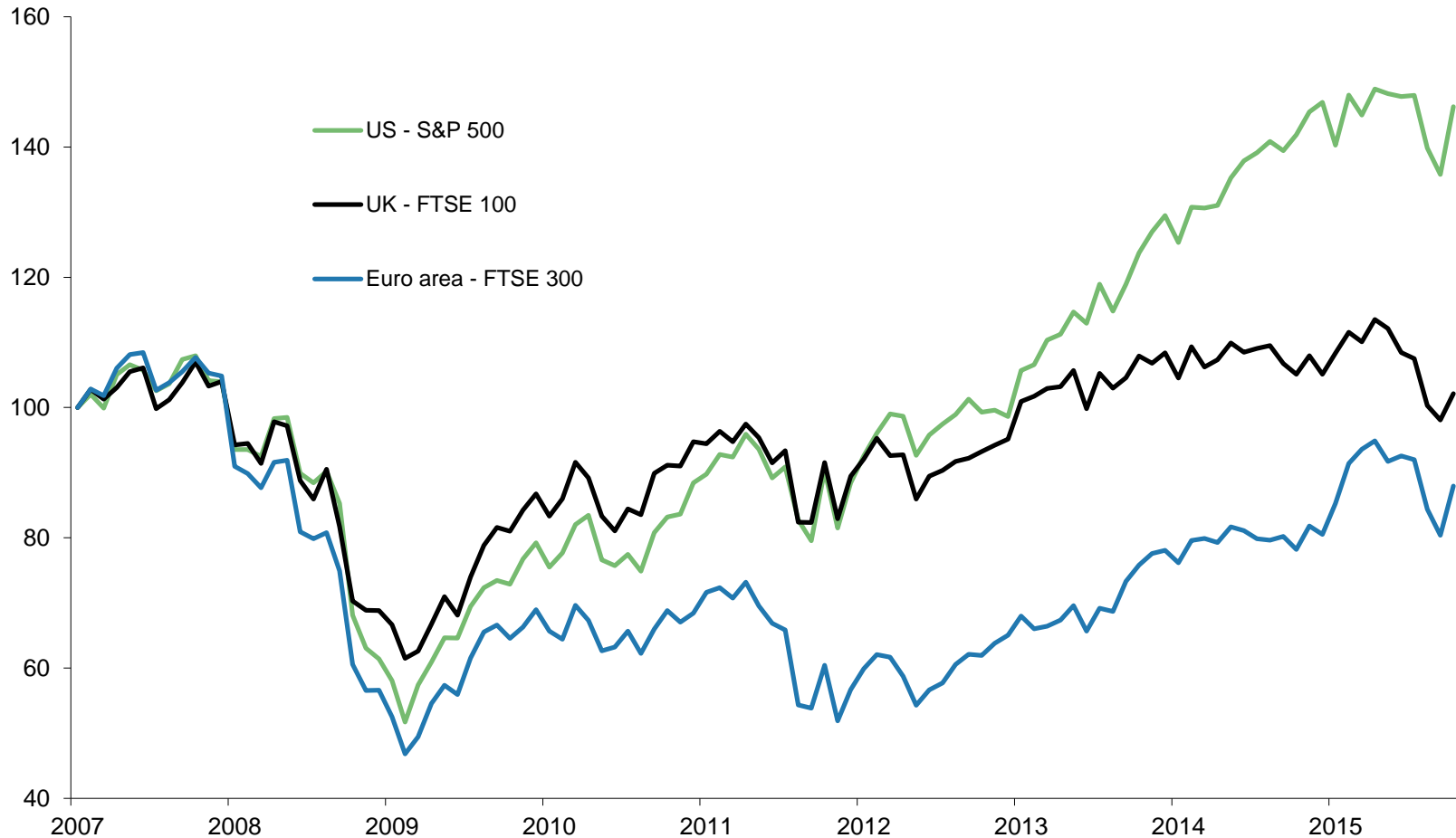
GDP growth, %



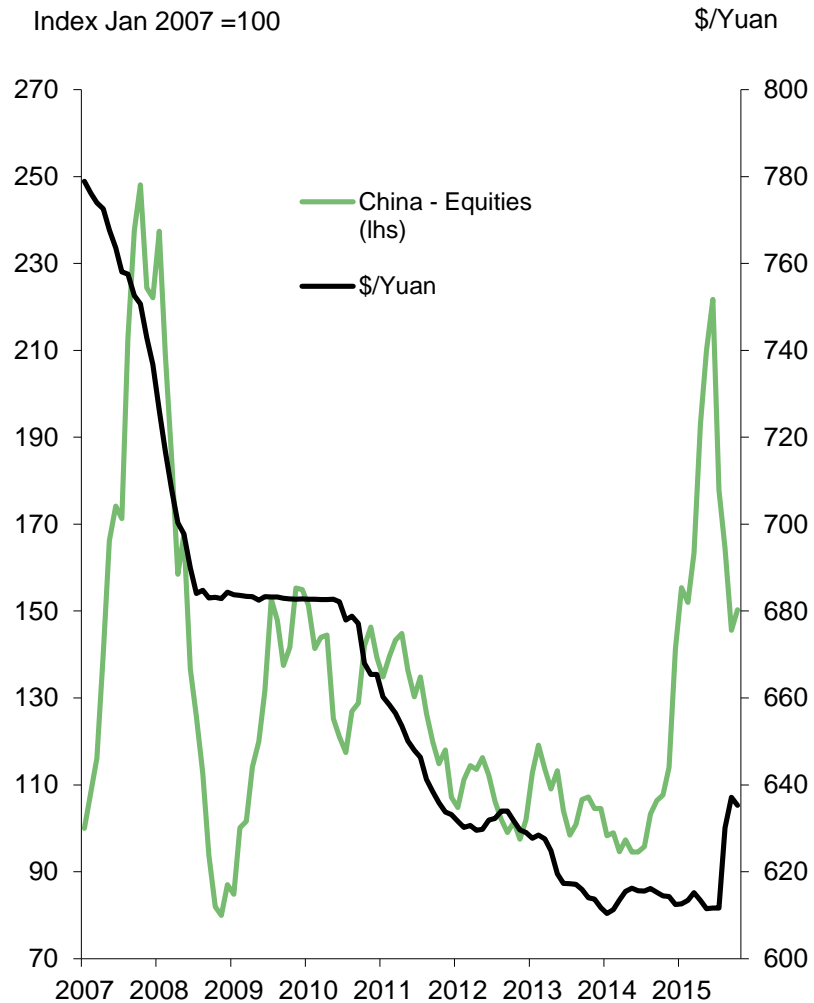
# GLOBAL EQUITIES HAVE BEEN VOLATILE IN RECENT WEEKS



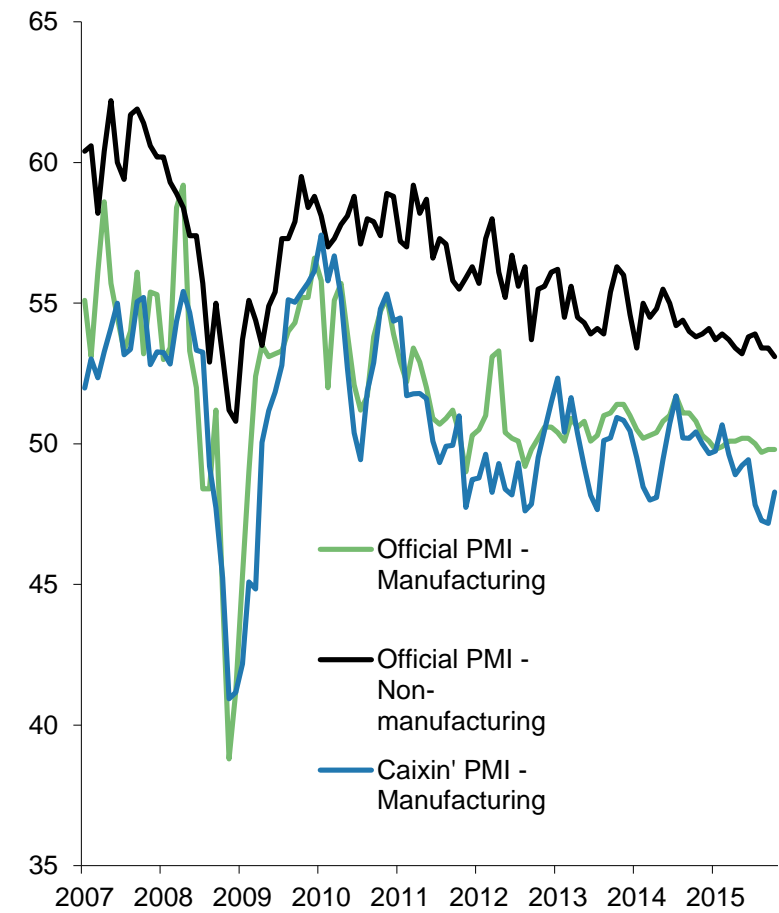
Index Jan 2007 = 100



# IN PART DUE TO CONCERNS ABOUT CHINA



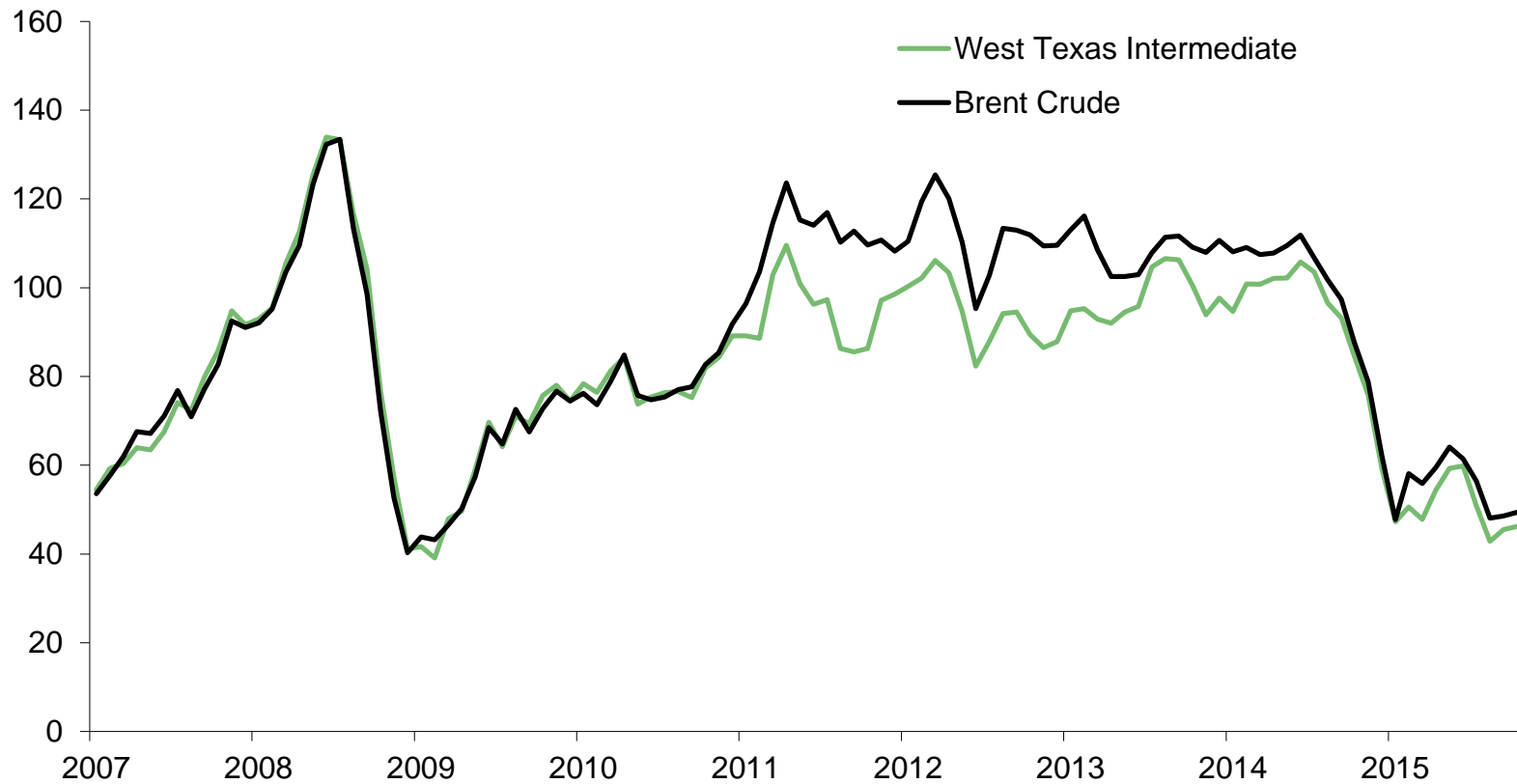
50> expansion



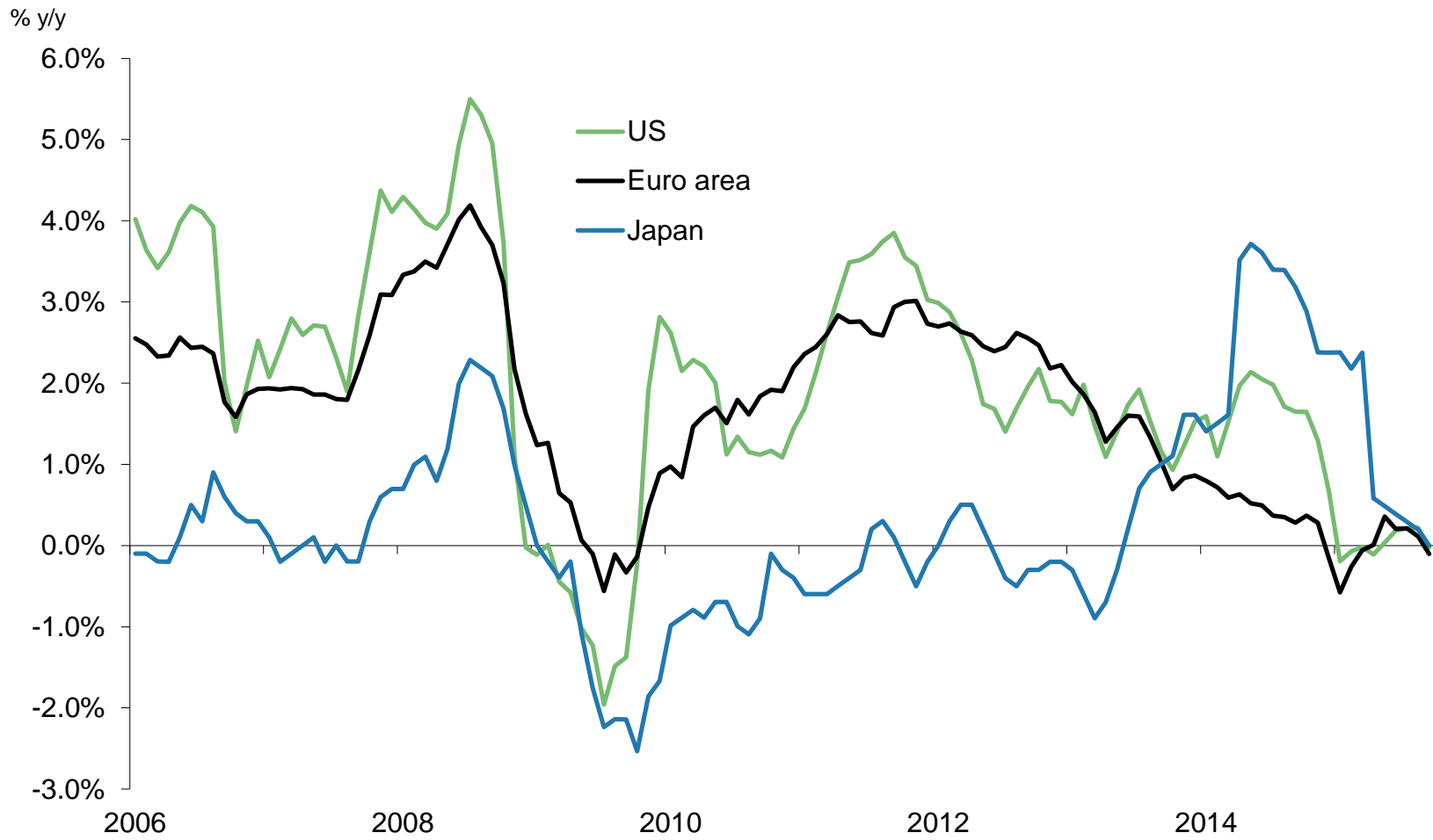
# OIL PRICE BACK CLOSE TO 2015 LOW



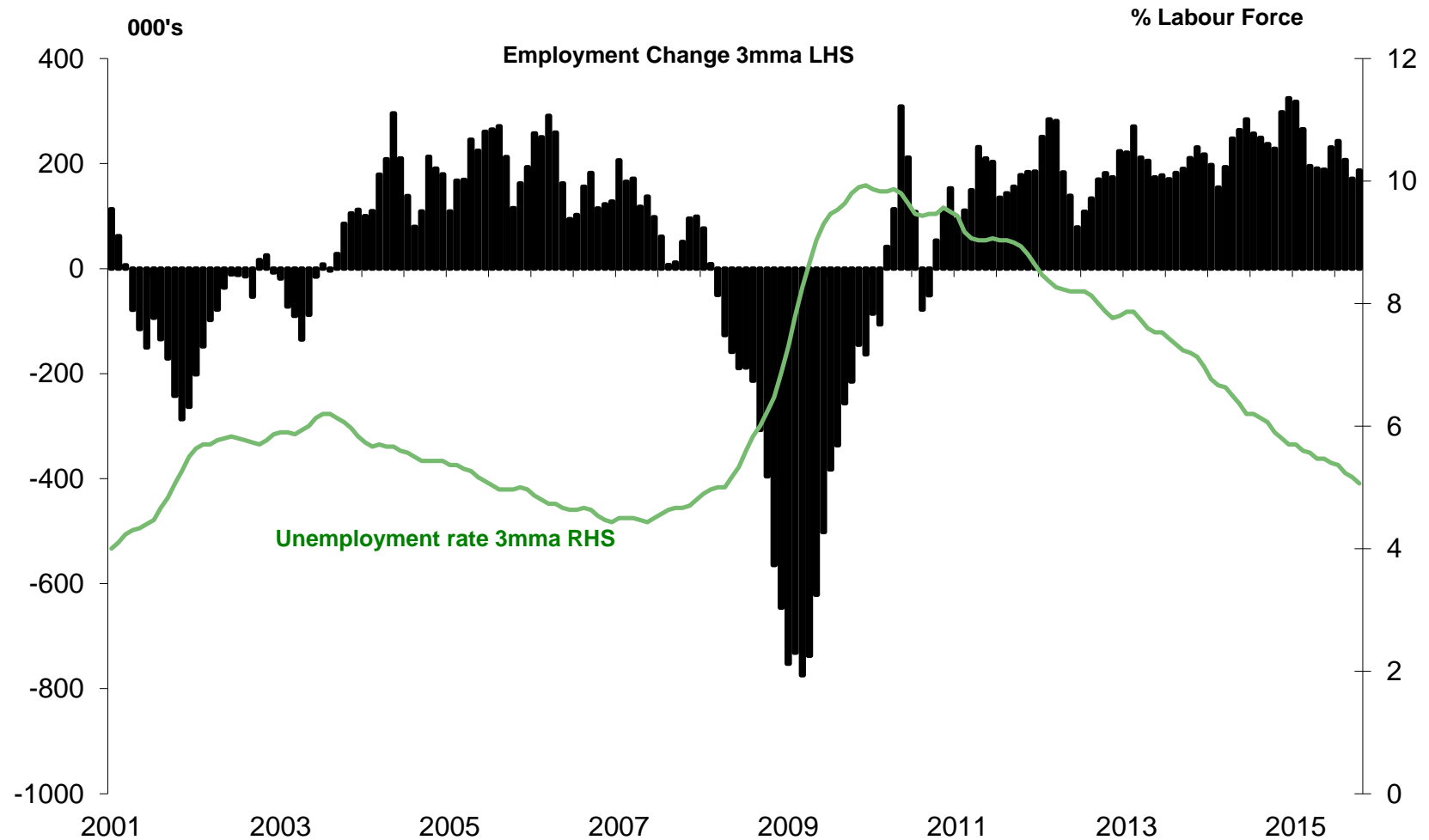
\$ per barrel



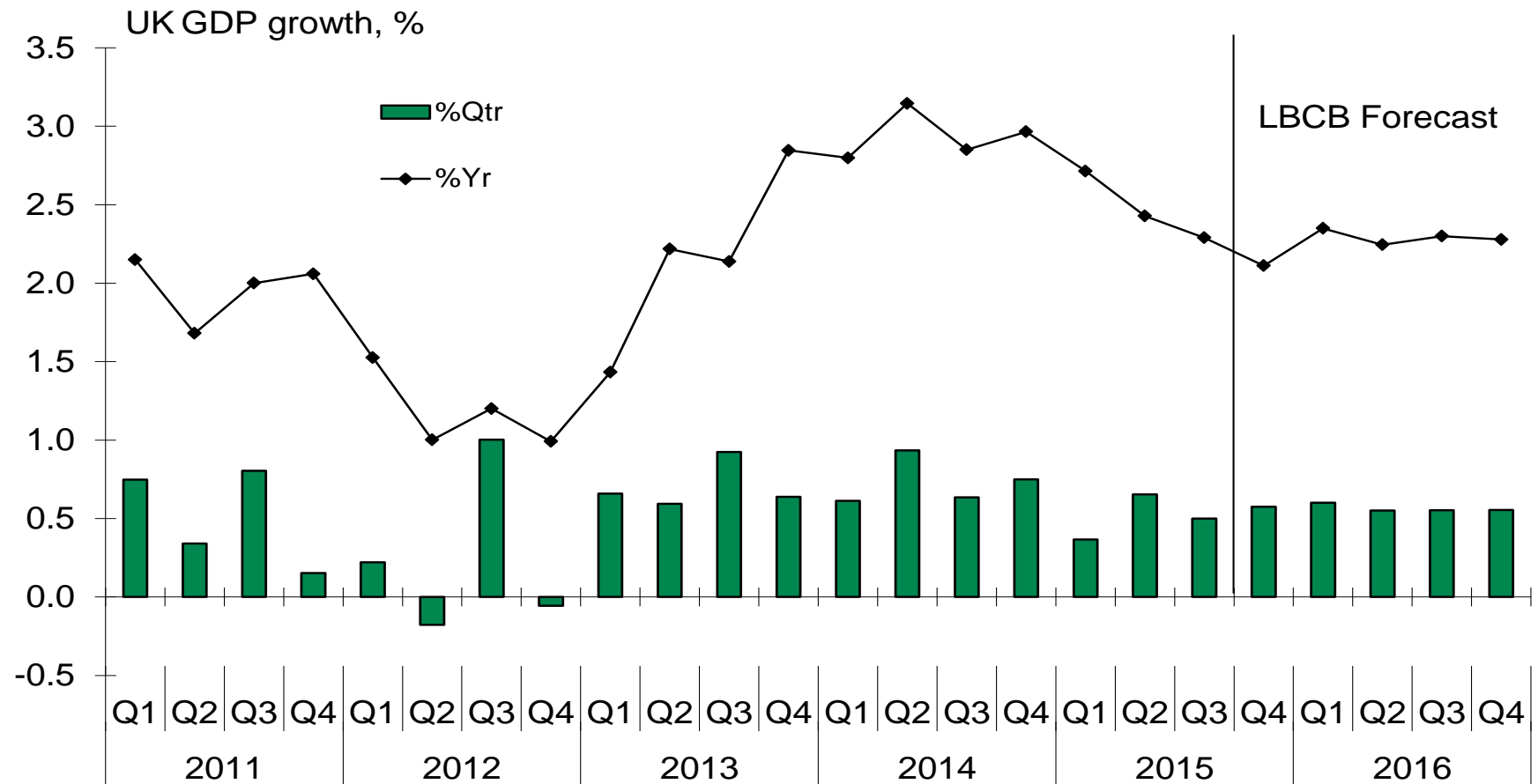
# INFLATION VERY LOW FOR NOW



# US LABOUR MARKET POINTS TO INTEREST RATE RISE



# UK ECONOMY HOLDING UP WELL

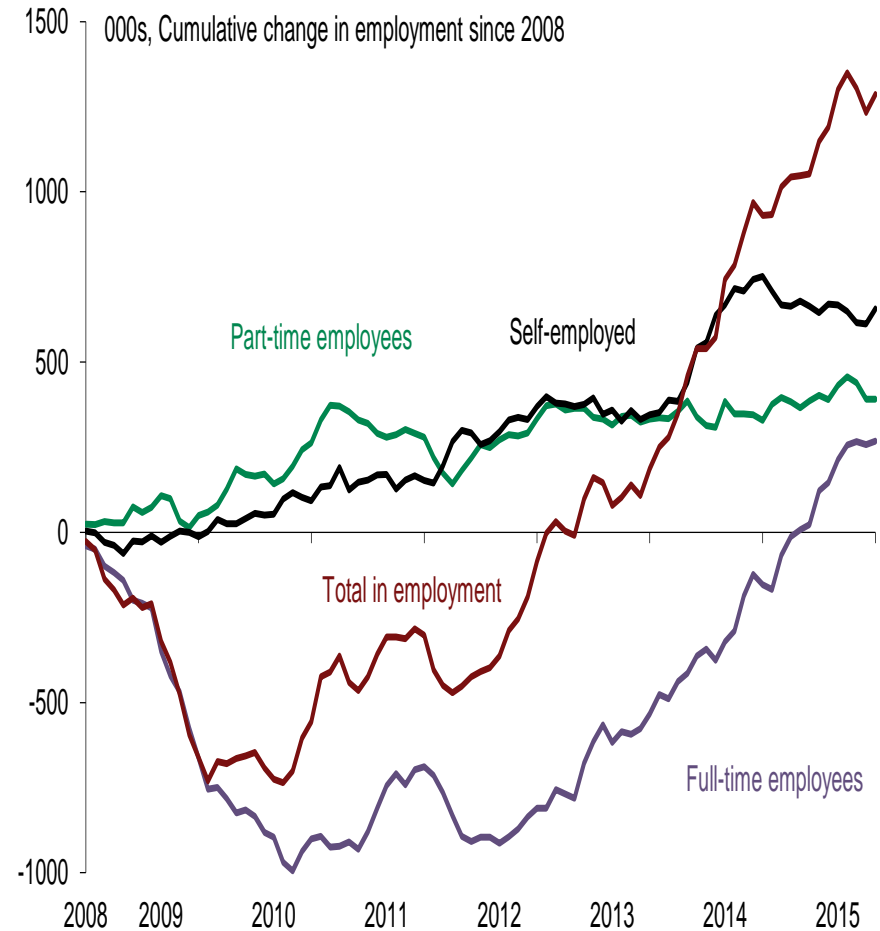
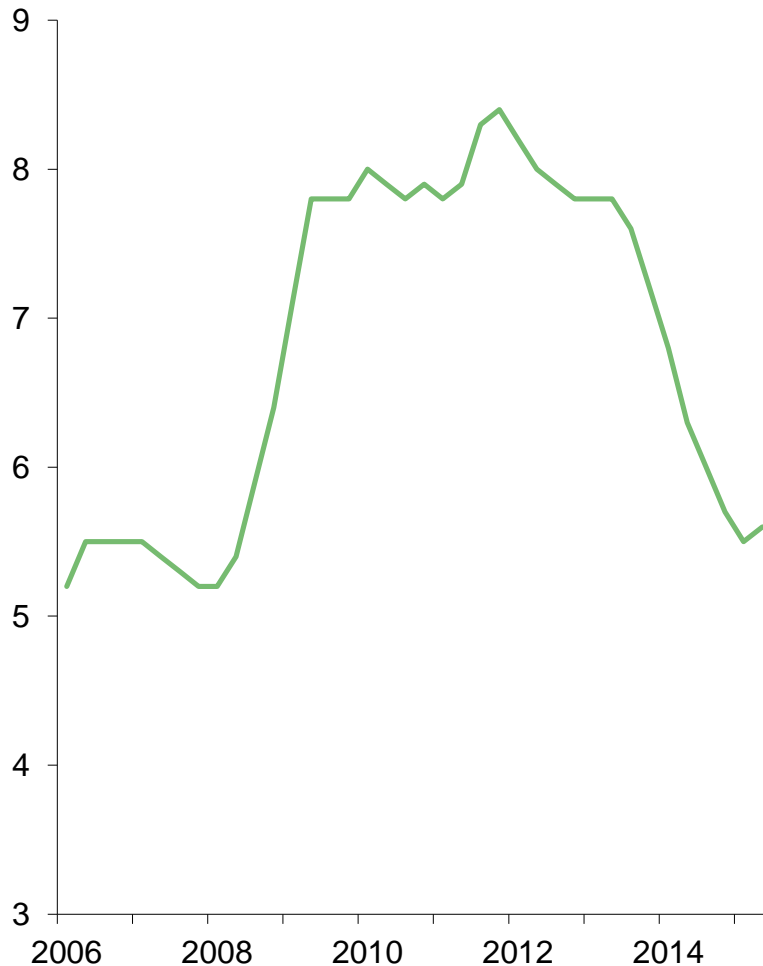




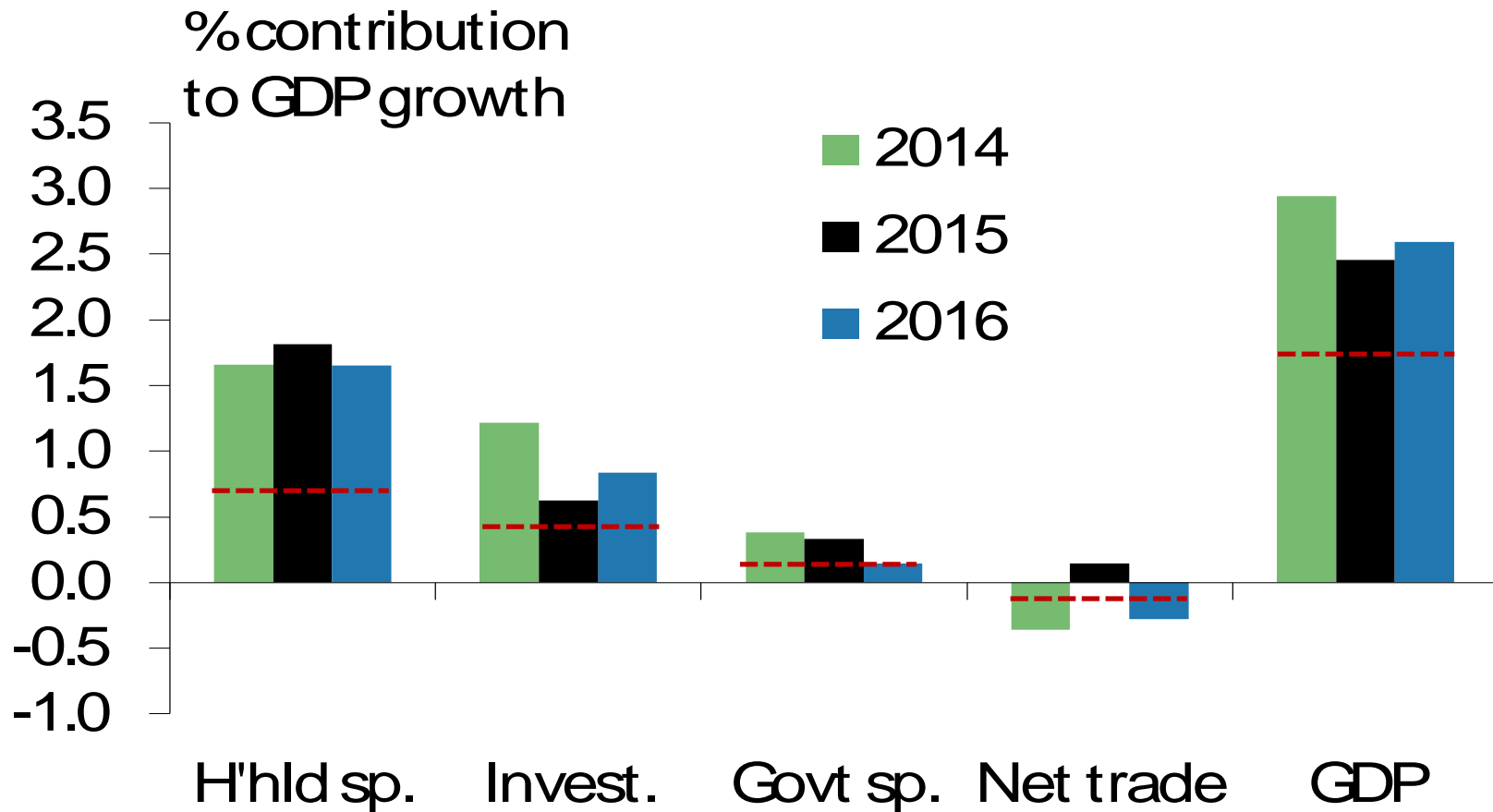
# LABOUR MARKET LOOKING STRONGER



Unemployment rate %



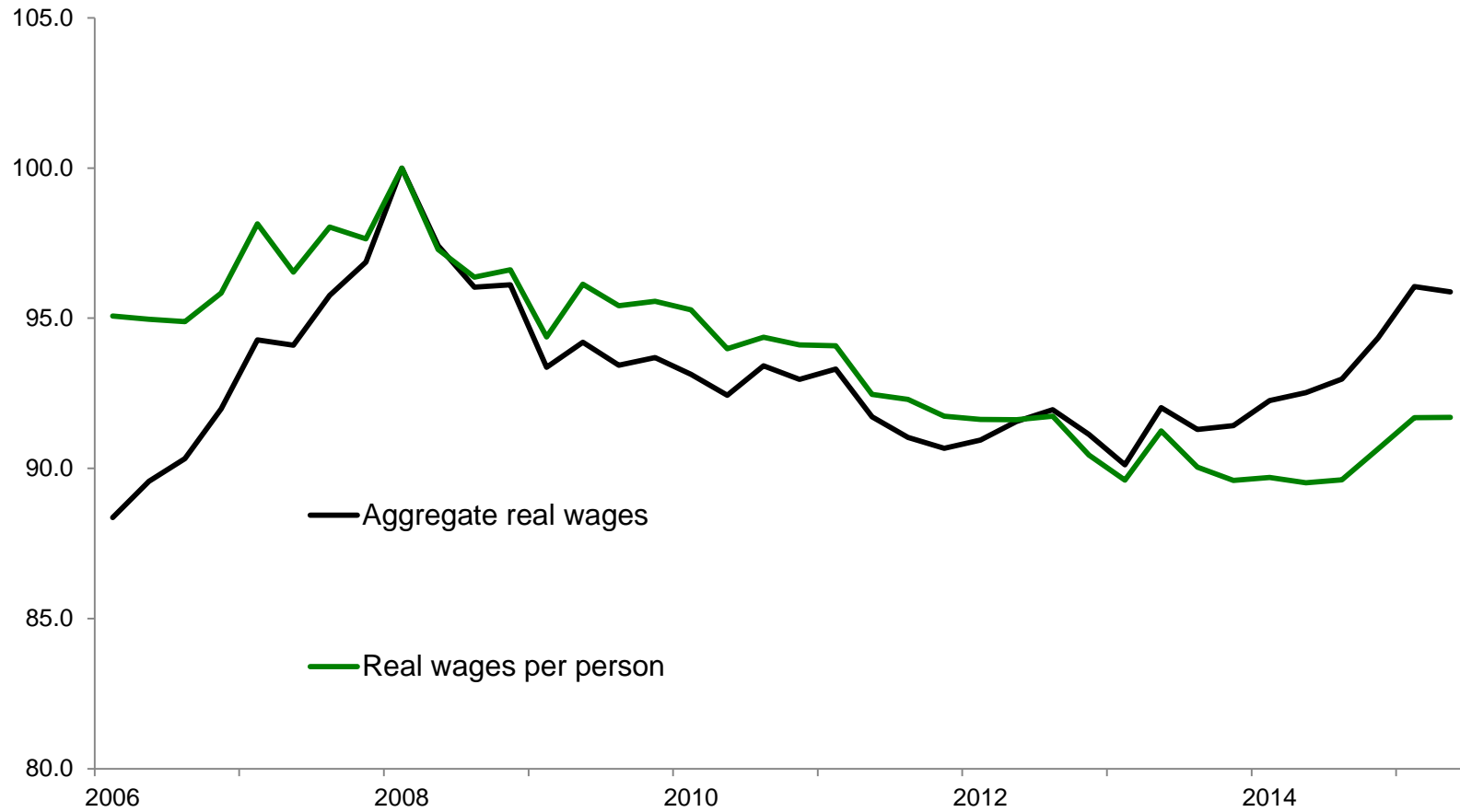
# ANOTHER CONSUMER-LED RECOVERY



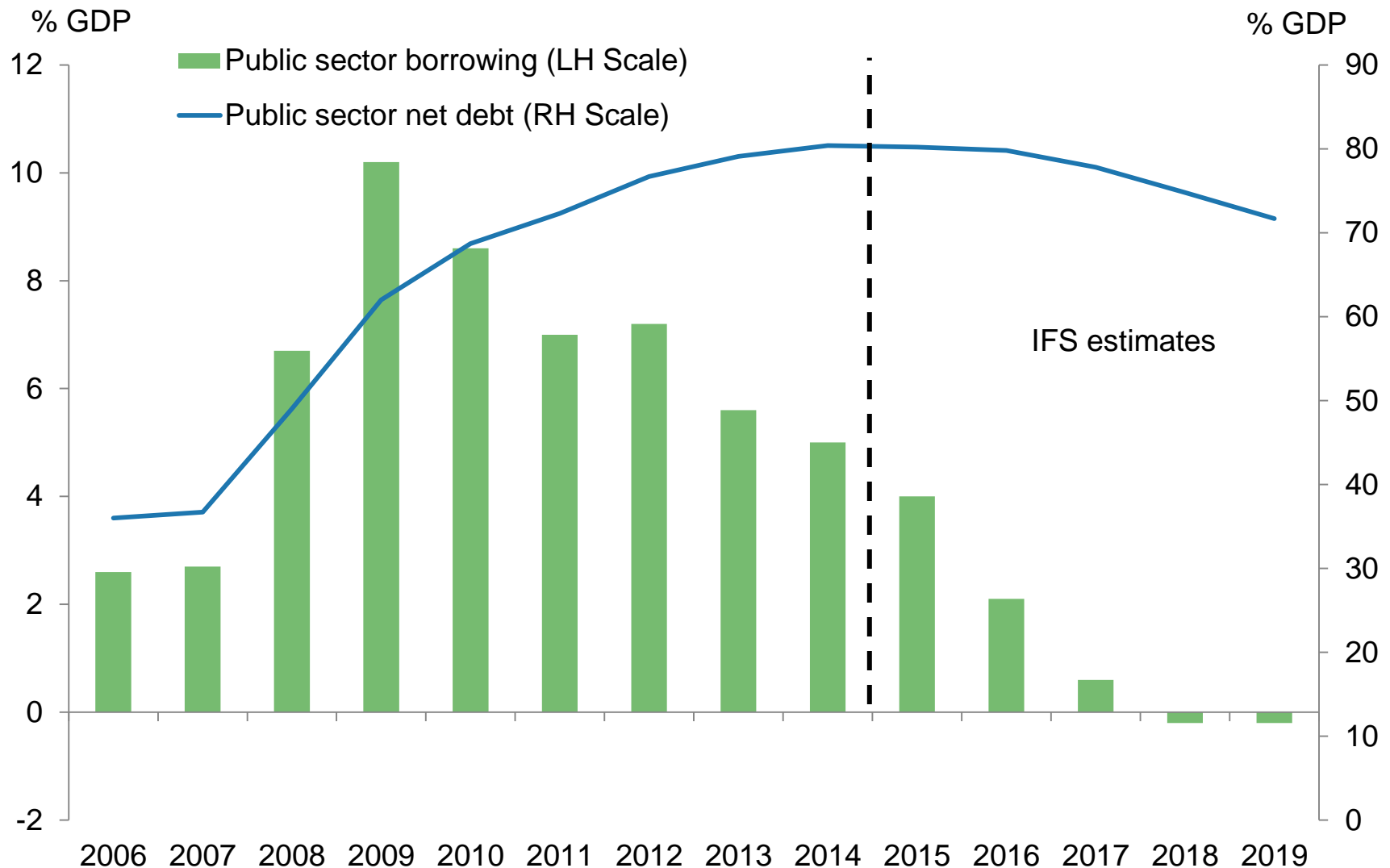
# CONSUMER FUNDAMENTALS LOOK STRONG



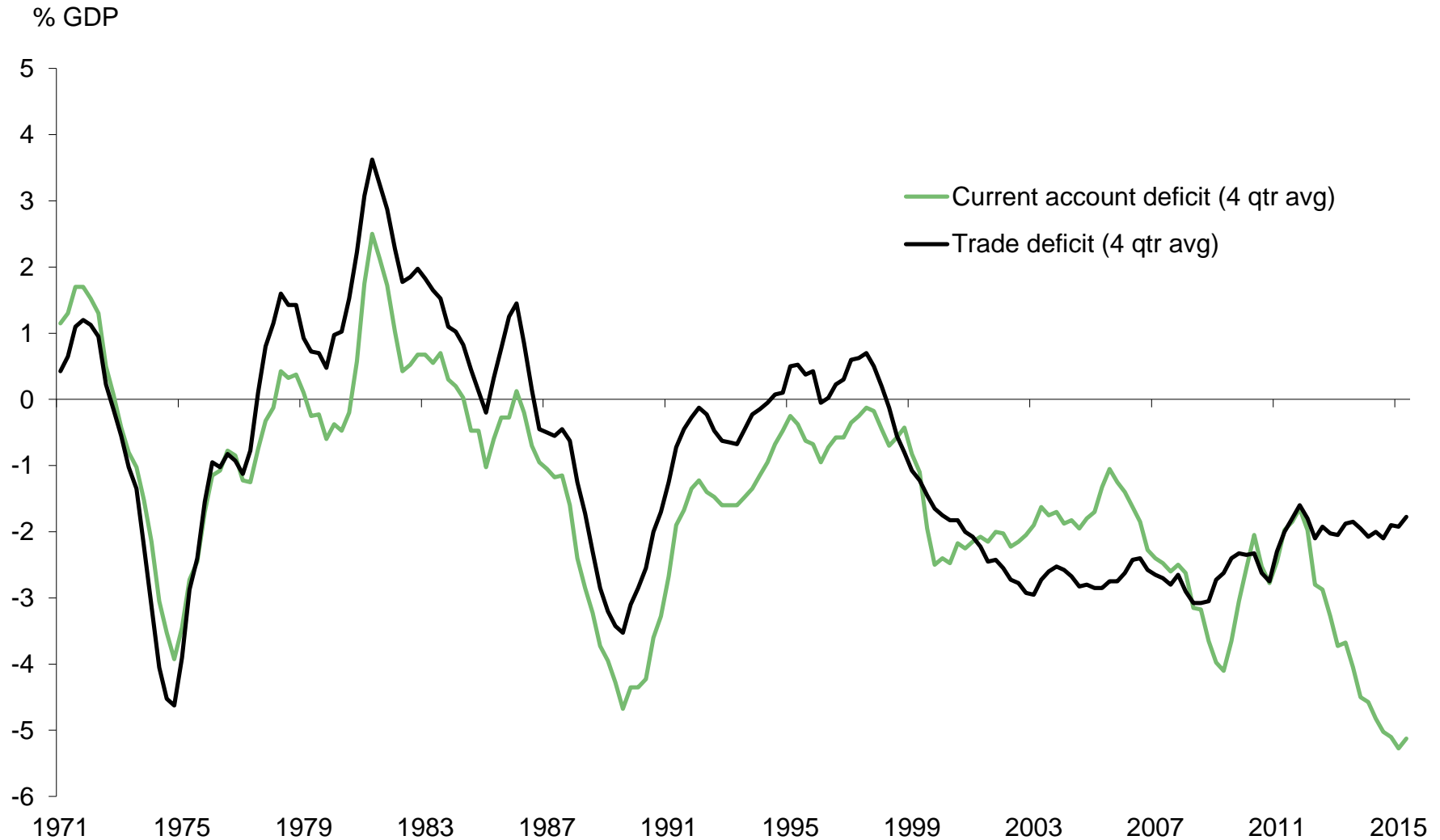
Index 2009Q3=100



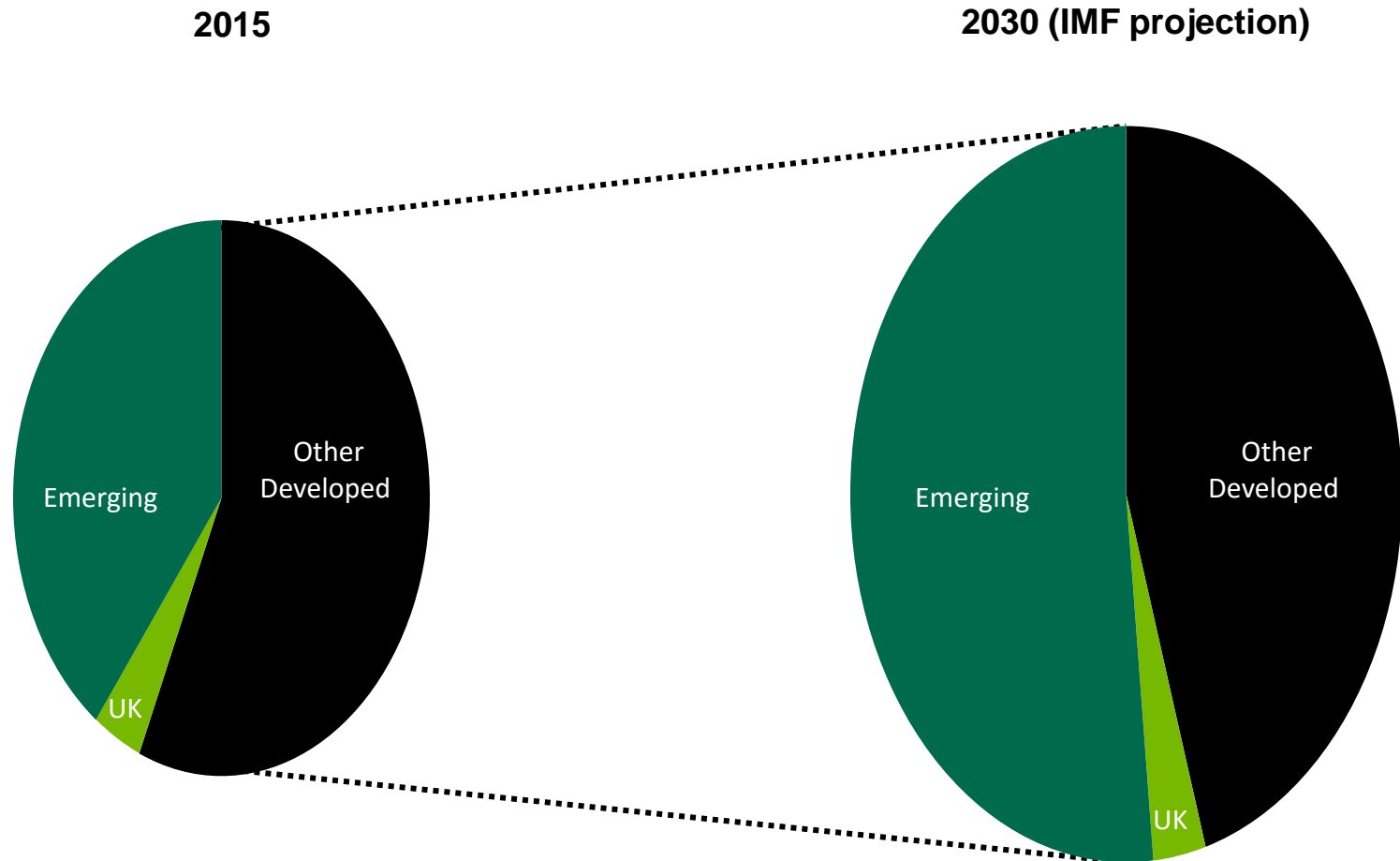
# FISCAL TIGHTENING TO REMAIN A KEY HEADWIND



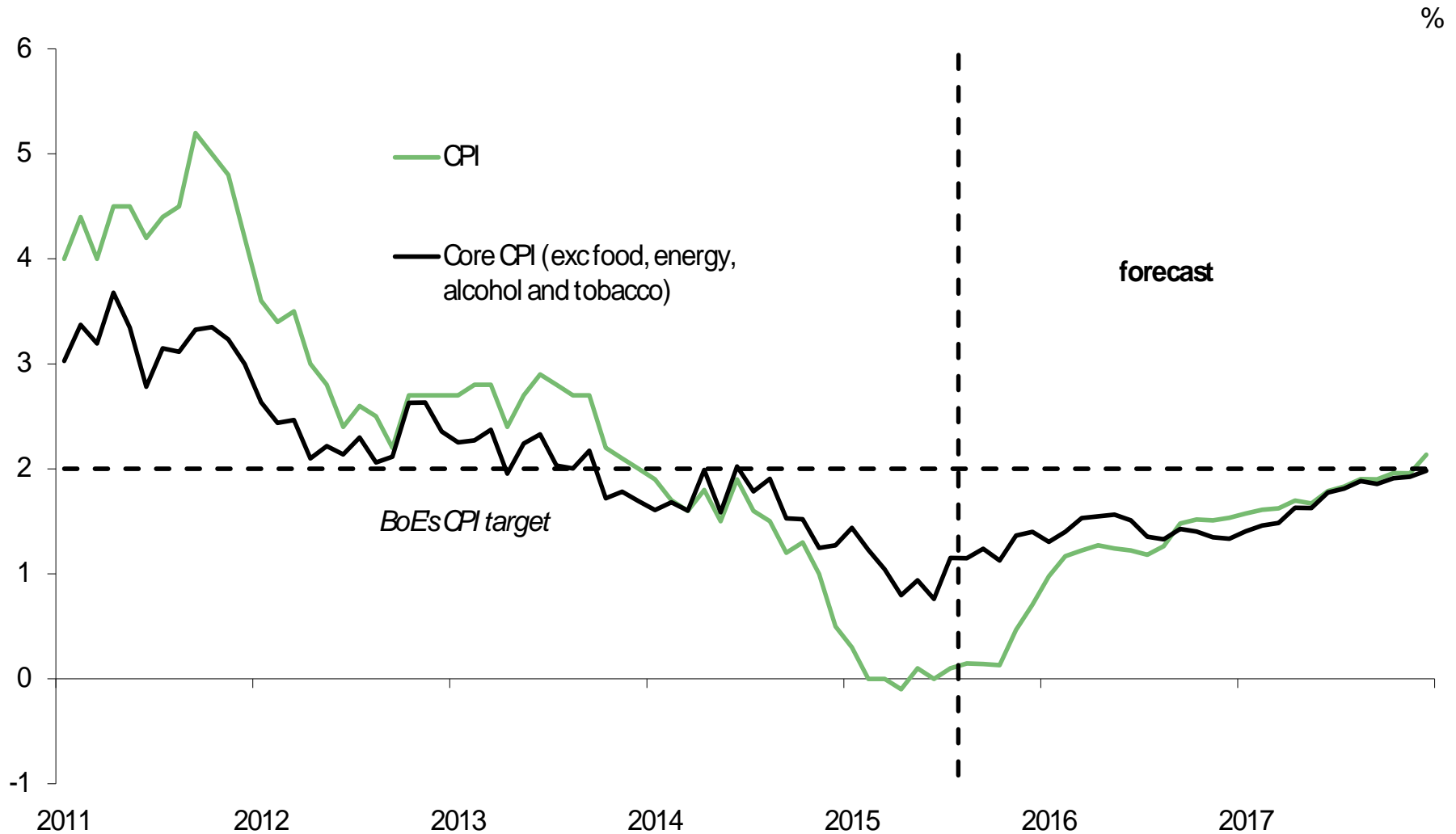
# TRADE IS THE OTHER DRAG ON UK GROWTH



## BUT SHOULD STILL BE A PLUS LONGER TERM



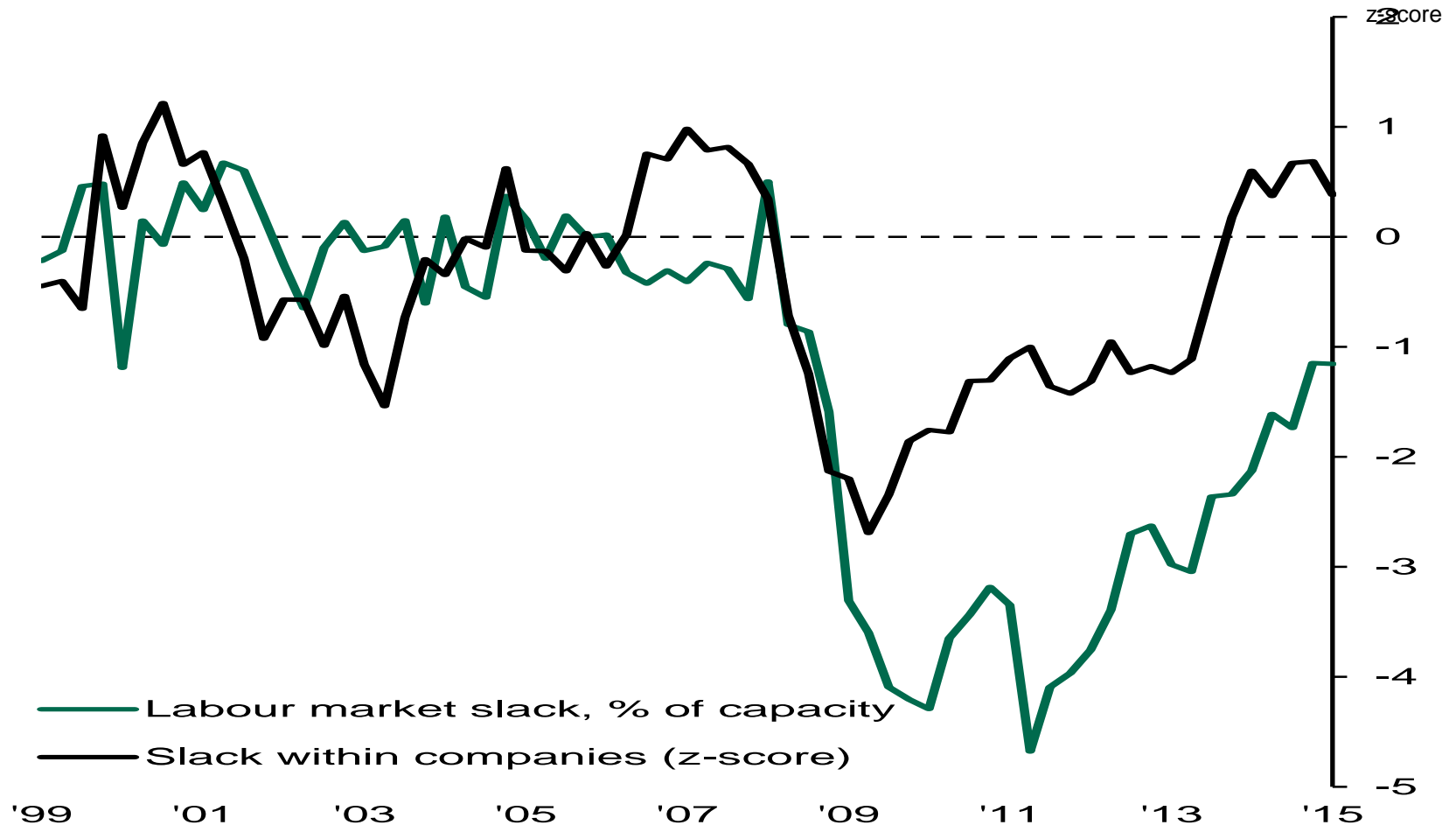
# INFLATION TO PICK UP GRADUALLY FROM HERE



# AMOUNT OF SPARE CAPACITY IS A KEY ISSUE



Measures of slack



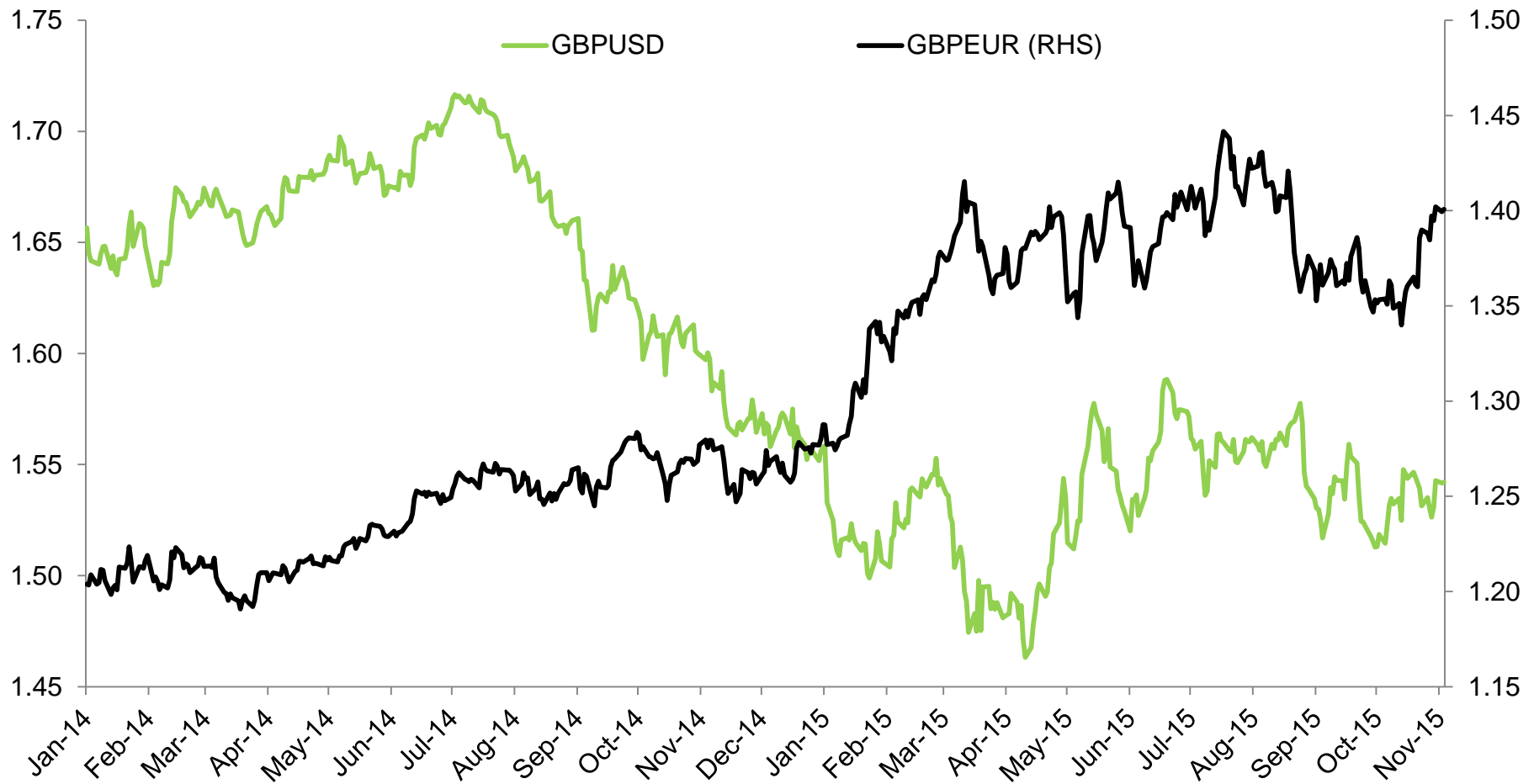


# MARKETS MISPRICING LONGER-TERM INTEREST RATE RISK?



*\* Based on rates quoted in the Overnight Index Swap Market*

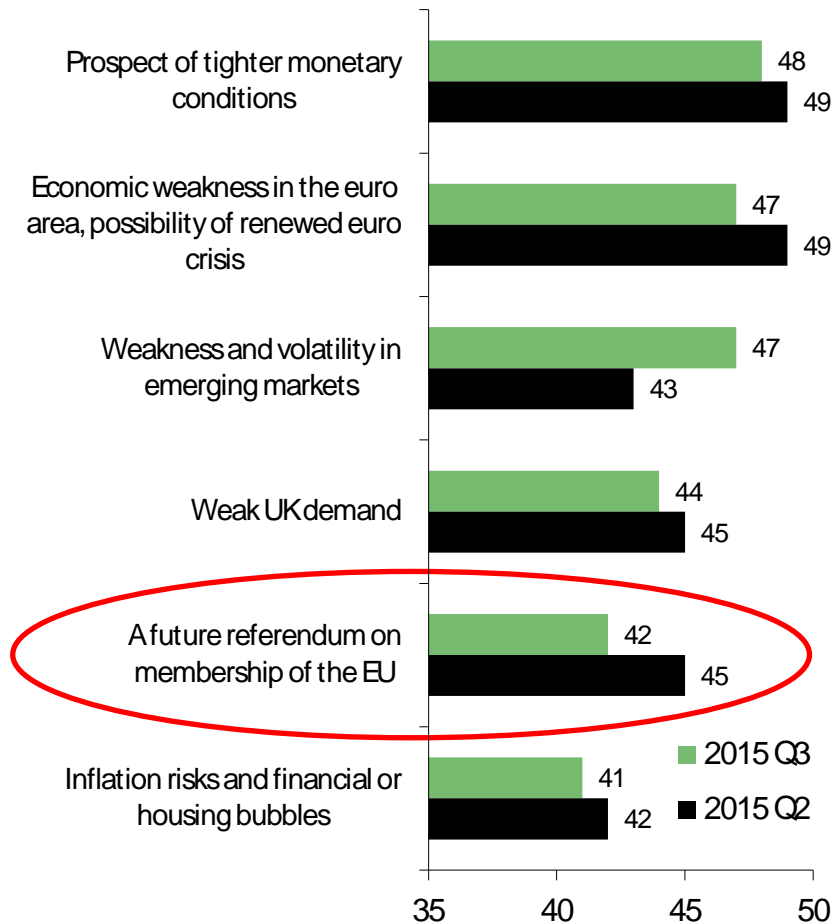
# STERLING HAS BEEN CAUGHT BETWEEN STRONG DOLLAR & WEAK EURO



# BREXIT NOT YET AT FRONT OF MIND

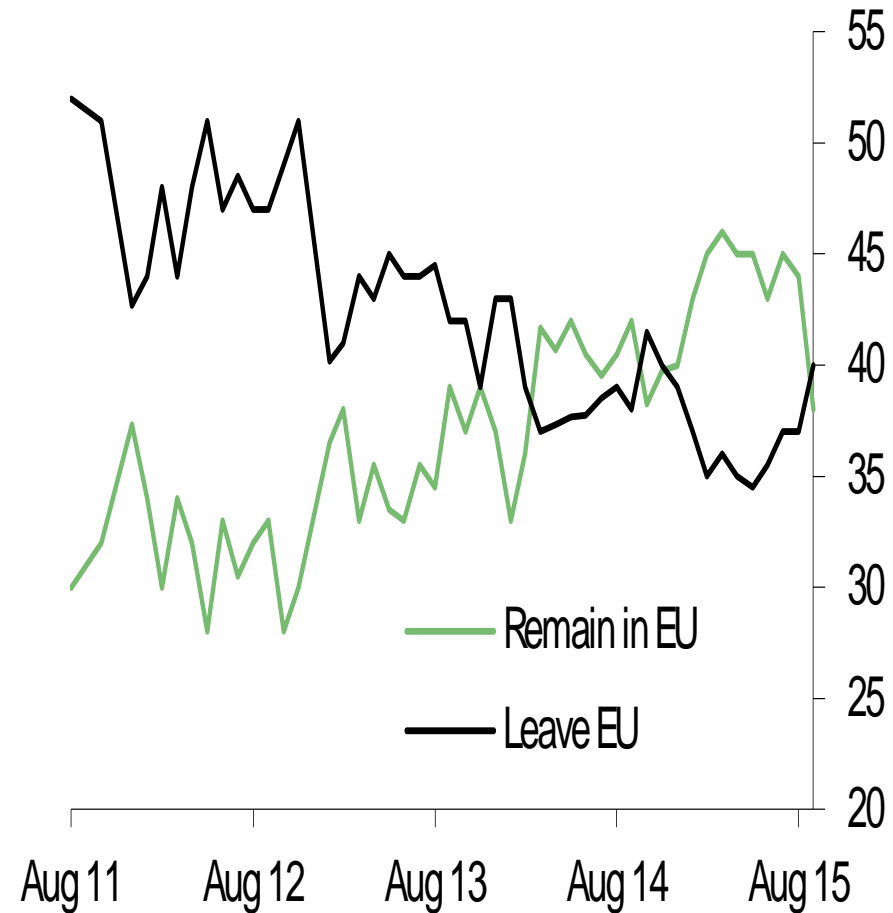


## Key business risks (100 = highest possible risk)



Source: 2015 Q2 Deloitte CFO survey

## EU exit referendum polling (%)



Source: YouGov, LBCB calculations

# SUMMARY

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- UK economic growth continues at a close to trend pace – international factors and ongoing fiscal austerity are downside risks.
- While the sharp drop in oil prices has hit North Sea oil investment this should be overshadowed by the boost to real incomes.
- CPI inflation has probably now bottomed, recent decline in the oil price may delay the rebound but still expected to gradually move back to target.
- Given the current weakness of inflation, the MPC is in no hurry to raise rates, but if these risks subside, its rhetoric is likely to change quickly.
- The MPC has stressed that the pace of any tightening will be gradual, but the longer rates are left on hold, the greater the risk they may have to rise more sharply.

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