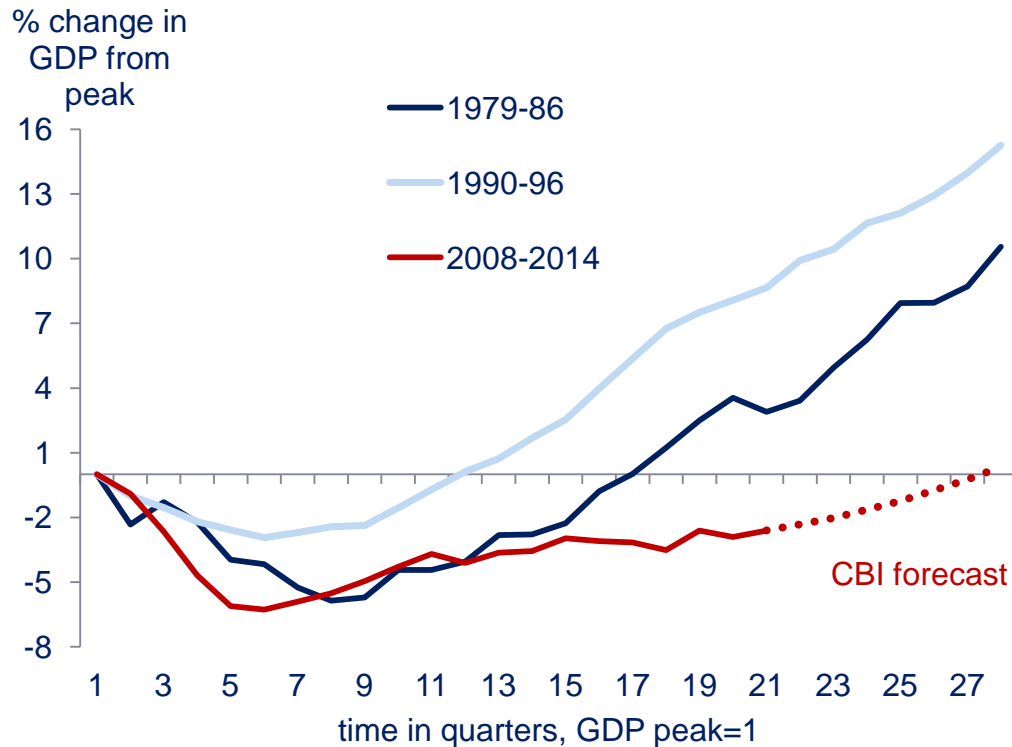


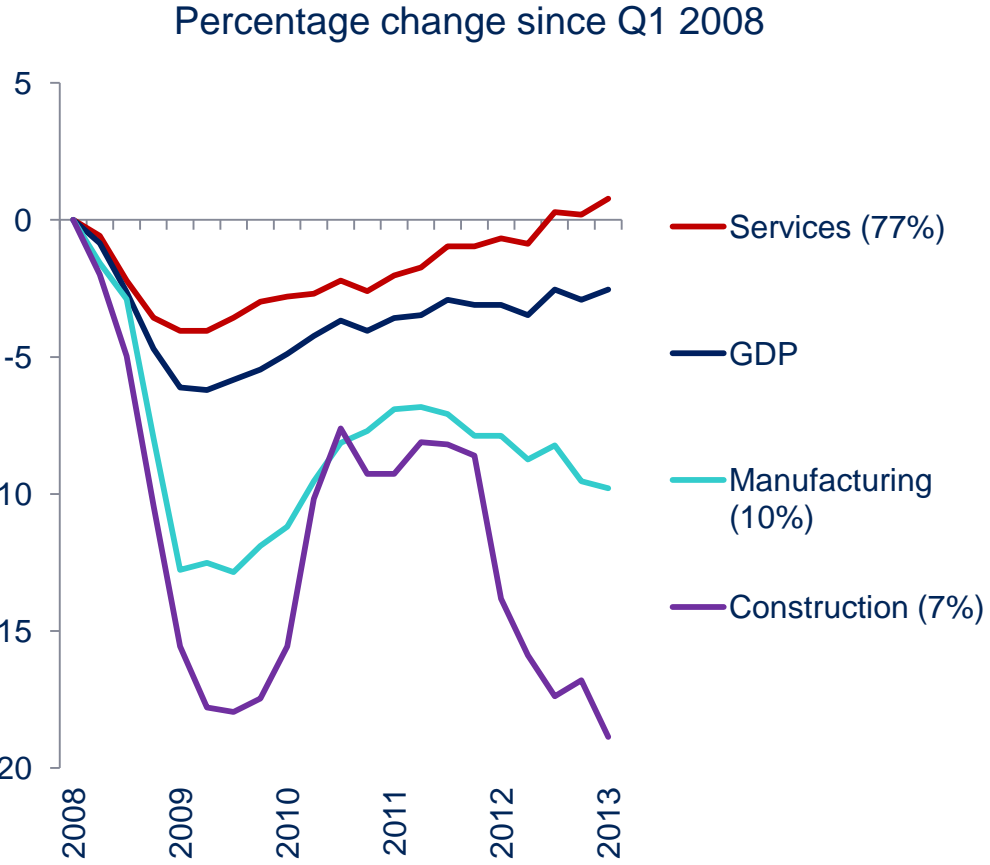
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UK recessions and recoveries



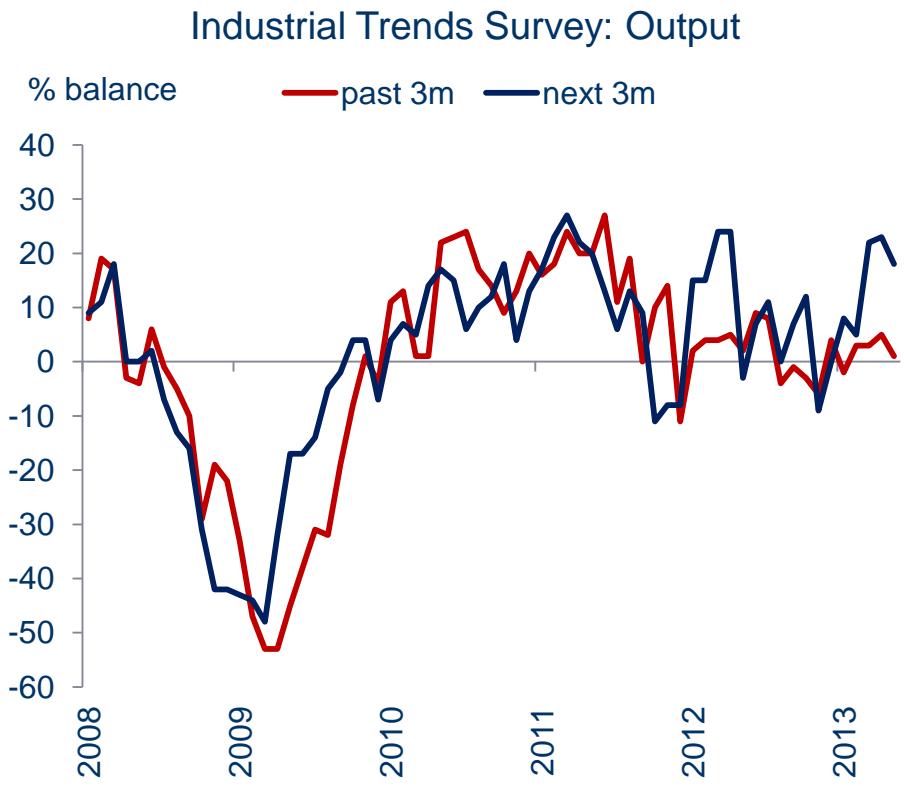
- Economy currently around 2½% smaller than five years ago
- Fiscal consolidation
- Weak demand in export markets
- Squeeze on household incomes
- Legacies of crisis
- Heightened uncertainty
- Growth was flattish in 2012 (+0.3%)
 - Stronger domestic growth (+1.4%)
 - Large drag from net trade (-0.9 % points)

Sector divergence



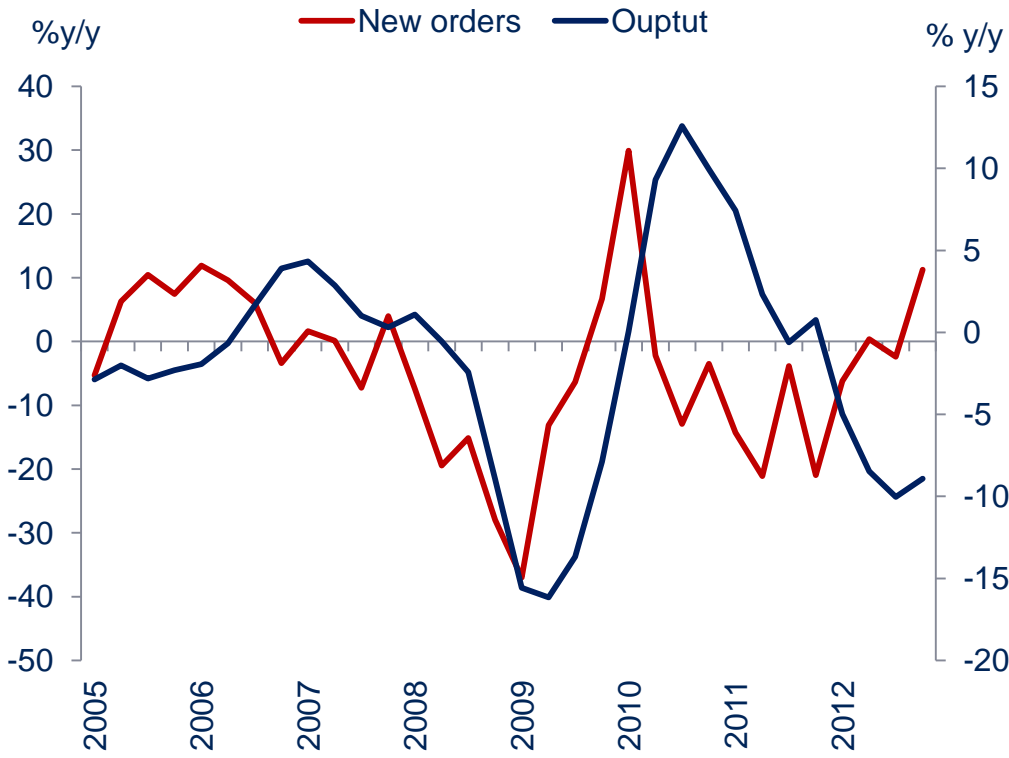
- Marked divergence in sector performance
- Compared to Q1 2008:
 - Services output higher by around 1%
 - Manufacturing lower by 10%
 - Construction lower by almost 20%
- 2012 sector growth:
 - Services.....+1.2%
 - Manufacturing....-1.5%
 - Construction.....-8.1%
- Services accounted entirely for Q1 2013 GDP growth

Manufacturing: pick up expected in 2013



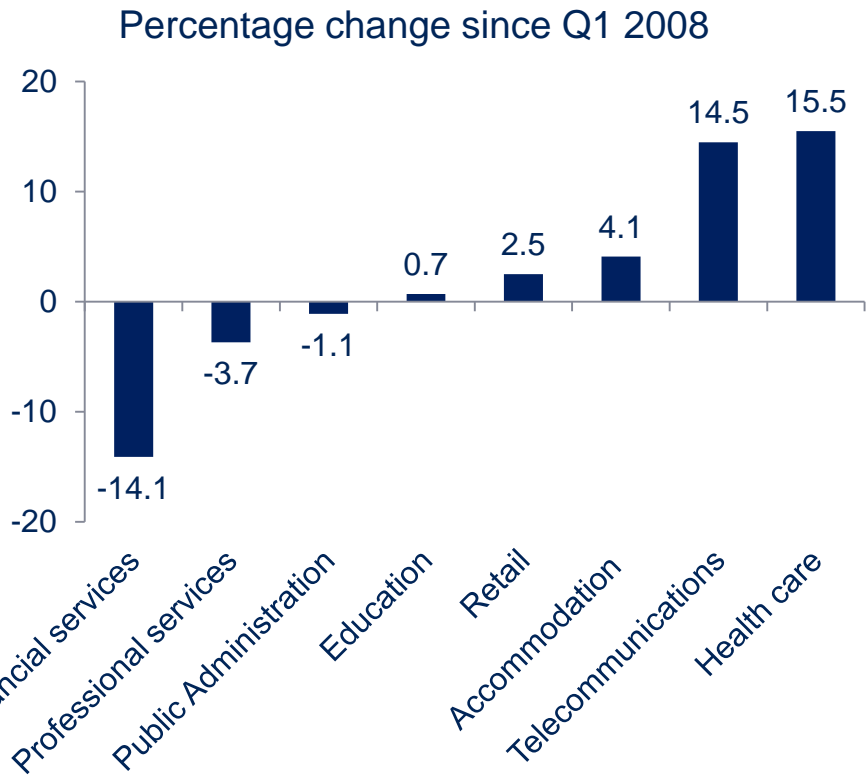
- In 2012, manufacturing suffered as a result of the euro area recession
- Though domestic conditions were also muted
- April's Industrial Trends Survey:
 - Optimism rose for first time in 12m
 - Output expectations above average
 - New export orders have stabilised, expectations strongest in 12m
- Investment outlook fragile:
 - Finance constraints
 - Increasingly, labour constraints
 - Uncertainty about demand

Construction: an end to gruelling conditions?



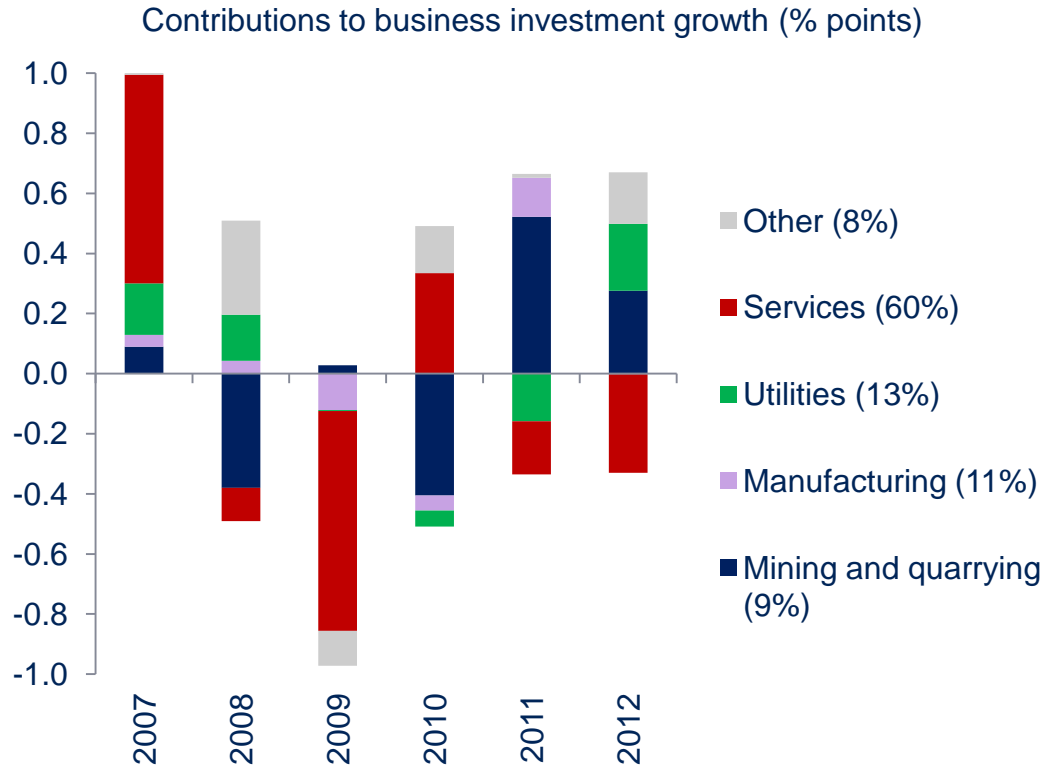
- Construction output has fallen in 5 of the last 6 quarters
- Collapse in demand from both the public and private sectors
- But outlook looks better:
 - Orders have picked up
 - Period of sharp cuts to public capital spending has ended
 - Budget measures

Services: divergences within the sector



- Particular weakness within financial services
- Retail growth has been only modest
- Some sectors more recession-proof e.g. healthcare
- CBI service sector survey:
 - Business volume expectations above average:
 - Especially for business & professional firms
 - But more muted within consumer-facing firms
- CBI financial services survey:
 - Rise in optimism, business volumes, profitability
- CBI retail survey:
 - Retail conditions subdued

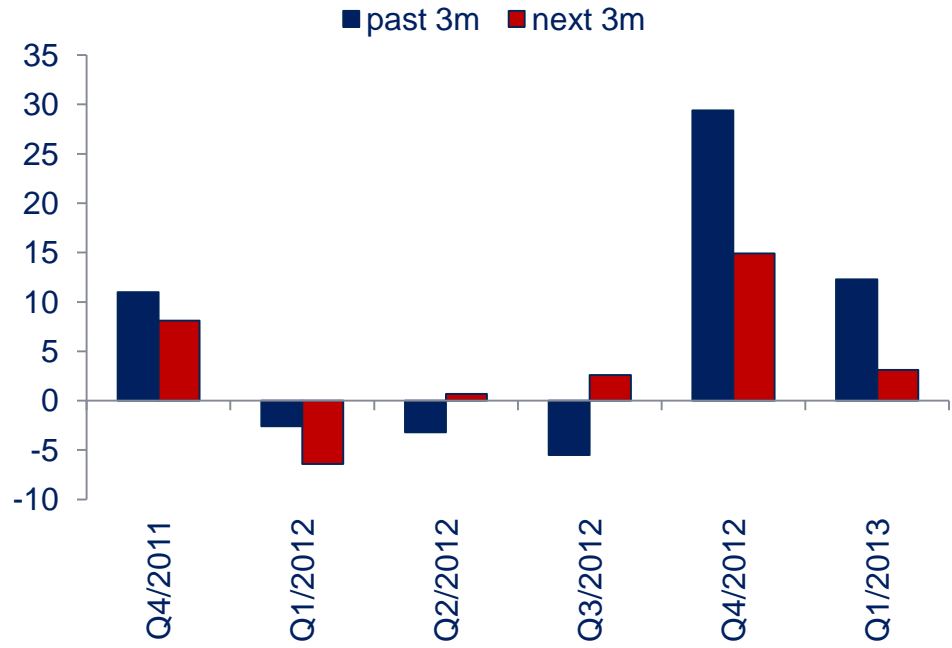
Businesses investment expected to remain slow



- To date, business investment has been slow, but not unusually so.
- 5% growth in 2012: driven by utilities and extraction, offsetting fall in services
- Services investment weak:
 - Output growth modest
 - Ample spare capacity
 - Replacement motive
- Corporate balance sheets are robust, but uncertainty is high
- Finance constraints

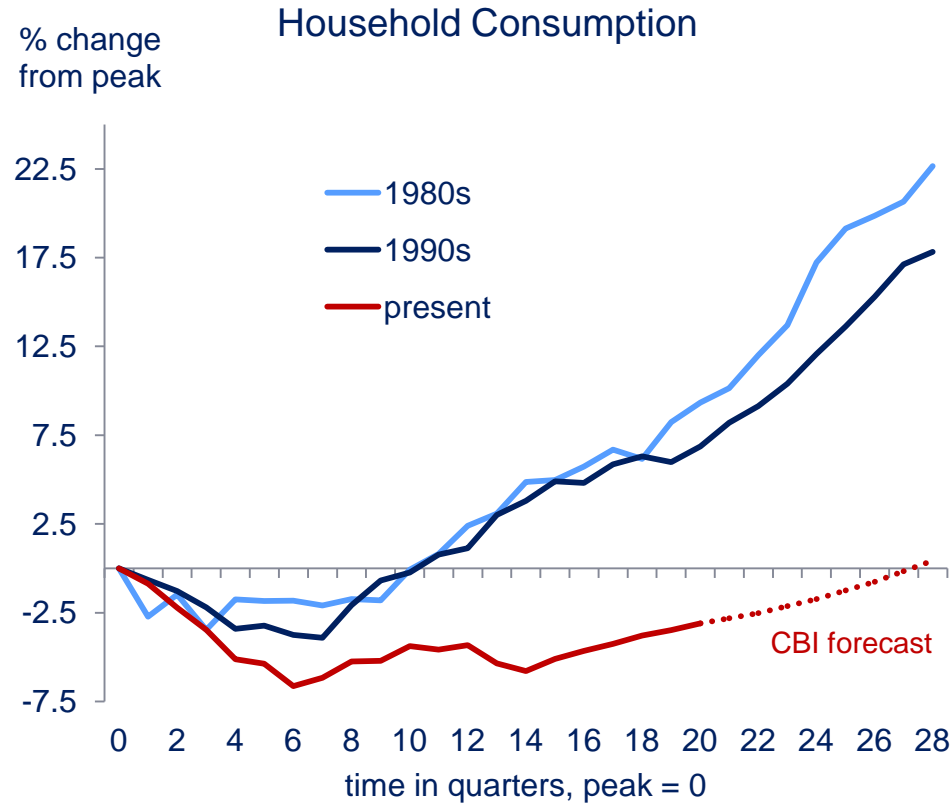
Funding for Lending Scheme: positive influence to build

Corporate credit availability (% balance)



- Lower bank funding costs
- Households:
 - Mortgage rates have fallen
 - Credit availability has improved
 - Demand has strengthened
- Corporates:
 - Availability has picked up,
 - Cost of finance has fallen
 - But demand remains weak
- Recent extension
 - Until early 2015
 - Widens participation
 - Incentivises lending to SMEs

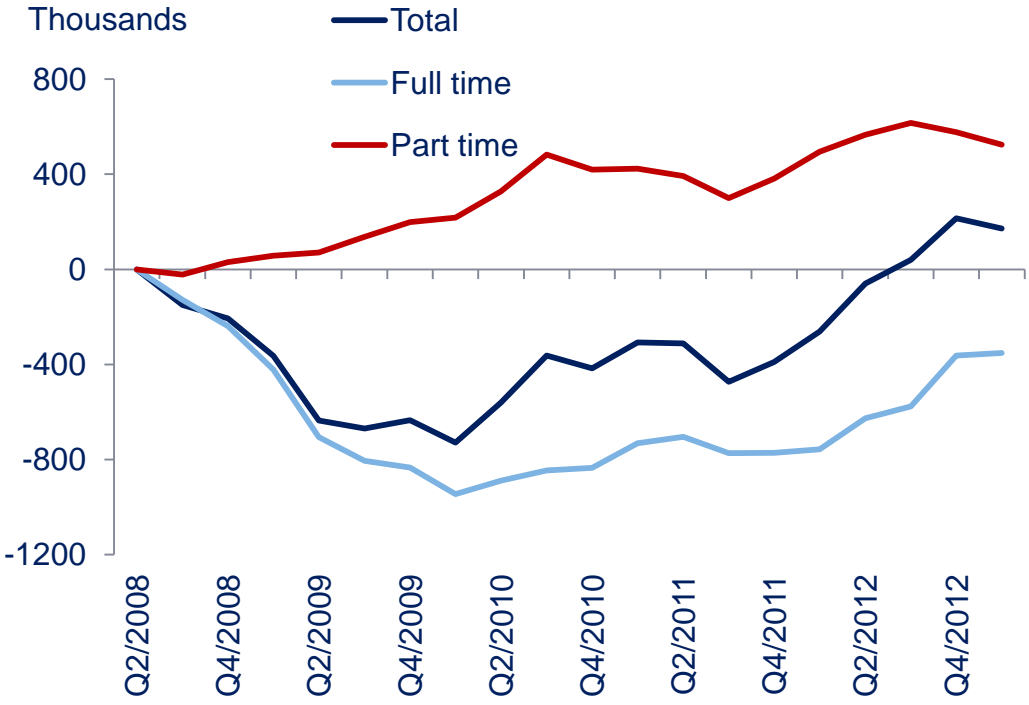
Household spending: muted growth



- Modest growth in 2012 (1.2%)
 - Strength of labour market
 - Real disposable incomes rose 2%
- Positives for 2013:
 - Rise in personal allowance
 - Improving credit conditions
 - Scope for savings ratio to edge down
- Negatives for 2013:
 - Consumer confidence low
 - Weak wage growth
 - Slowing labour market

Labour market: resilience is waning

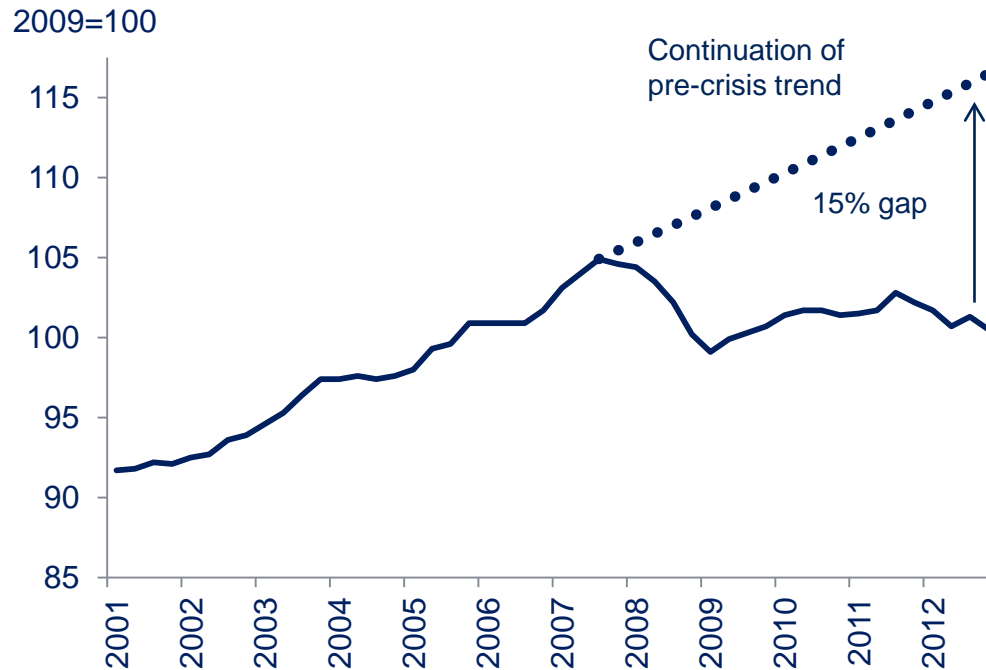
Employment - change since Q2 2008



- Resilience of labour market
 - Total employment above pre-recession peak
 - Driven by part time employment
- More recently:
 - Conditions have slowed
 - Employment has fallen
 - Scope for employees to move from part-time to full time status

Productivity puzzle

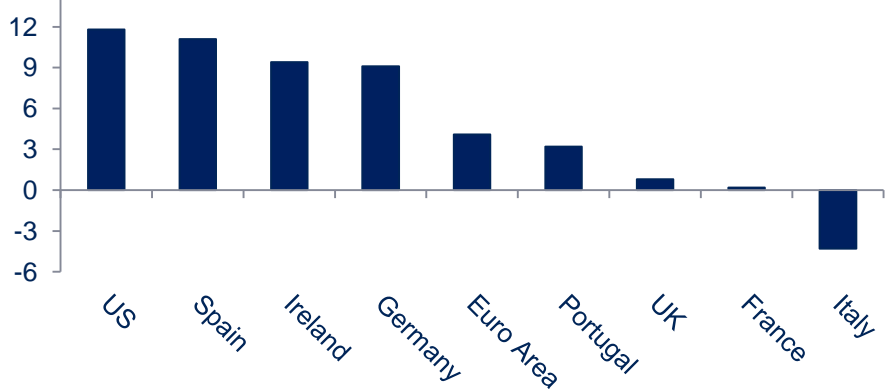
Productivity: output per worker



- Productivity puzzle:
 - Strong employment growth and weak output growth
- Possible explanations:
 - Measurement error
 - Pre-crisis trend unsustainable?
 - Oil and gas
 - Financial services
 - Cyclical factors:
 - Weak demand
 - Labour hoarding
 - Structural factors:
 - Impact of financial crisis:
 - Credit constraints
 - Weakness of business investment
 - Lending to new or dynamic companies
 - Labour relatively cheap
 - Company liquidations have remained low

Exports

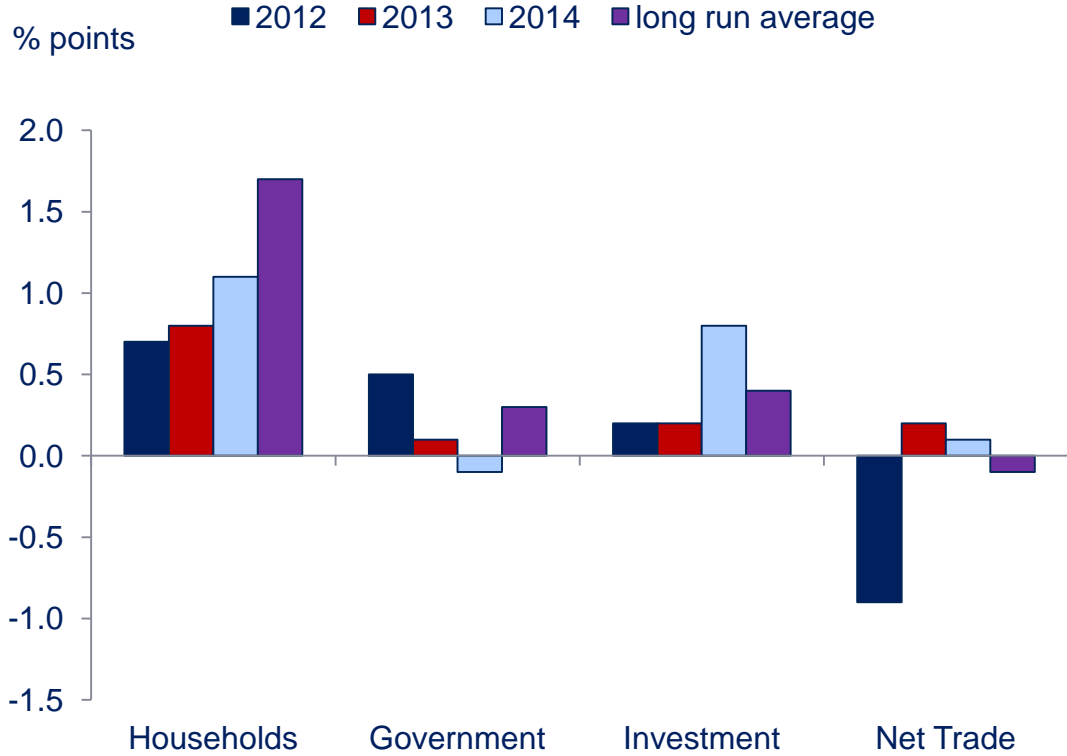
Export volumes of goods and services in Q4 2012
(% change since Q1 2008)



- Export performance has been poor
- Little boost to volumes from lower sterling
- Weak demand and unfavourable composition of UK exports
- But some evidence of rebalancing away from EU markets
- Export optimism has improved

Drivers of growth in 2013-14

Contributions to annual GDP growth



- Latest CBI forecast
 - 2013: 1.0%
 - 2014: 2.0%
- 2013:
 - Subdued domestic growth
 - But an improvement in net trade contribution
- 2014:
 - Pace expected to remain modest,
 - Though drivers of growth should broaden somewhat

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