

The UK: We are not alone

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UK growth – a work in progress

	2011(A)	2012(F)	2013(F)	2014(F)
	% change on previous year			
Consumers' expenditure	-1.1	1.0	0.8	1.2
Government consumption	0.1	2.6	-0.6	-1.2
Fixed investment	-1.4	1.4	2.2	4.1
GDP	0.8	0.2	0.7	1.4
	see row for measure			
Unemployment rate (%)	8.1	7.9	8.0	8.4
CPI (%y/y)	4.5	2.8	2.8	2.7
Policy rate (%)	0.5	0.5	0.5	0.5

Already the initial outturn for 2012 has been revised. It makes more sense, based on corporate profits and employment, that growth occurred in 2012, rather than a contraction.

Inflation should be more subdued in 2013 and interest rates will not be moved this year or next.

Source:RBS

Lower inflation and no moves in interest rates should support a recovery in net disposable income.

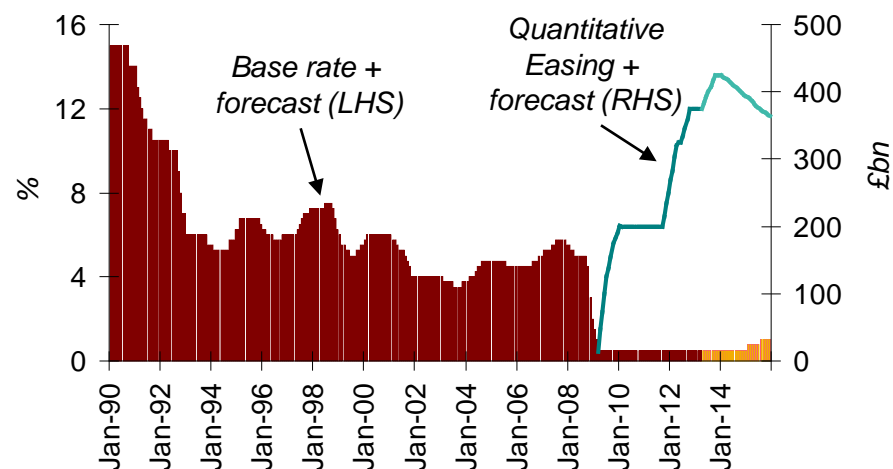
Monetary policy

Mark Carney is soon to join the Bank of England as Governor. Will he change the strategy?

The outlook for monetary policy: send for international rescue



- *Mark Carney's appointment is widely seen as increasing the chances of more QE. However, unlike the 'consensual' nature of BoC policy making, the MPC take a simple vote, which may affect the new Governor's ability to influence policy.*



- *The Bank of England may consider further QE, but widening the pool of assets it is prepared to buy.*
- *A rate cut is not out of the question, but looks highly unlikely.*
- *Further loosening of the funding for lending scheme (FLS) may be sanctioned also.*

The global outlook

	GDP			
	2011 (A)	2012 (F)	2013 (F)	2014 (F)
US	2.0	1.7	2.4	2.8
Euroland	1.4	-0.5	-0.1	0.9
UK	0.8	0.2	0.7	1.4
India	7.0	4.8	5.8	6.7
China	9.2	7.8	8.4	8.8
Japan	-0.7	2.3	1.3	1.7

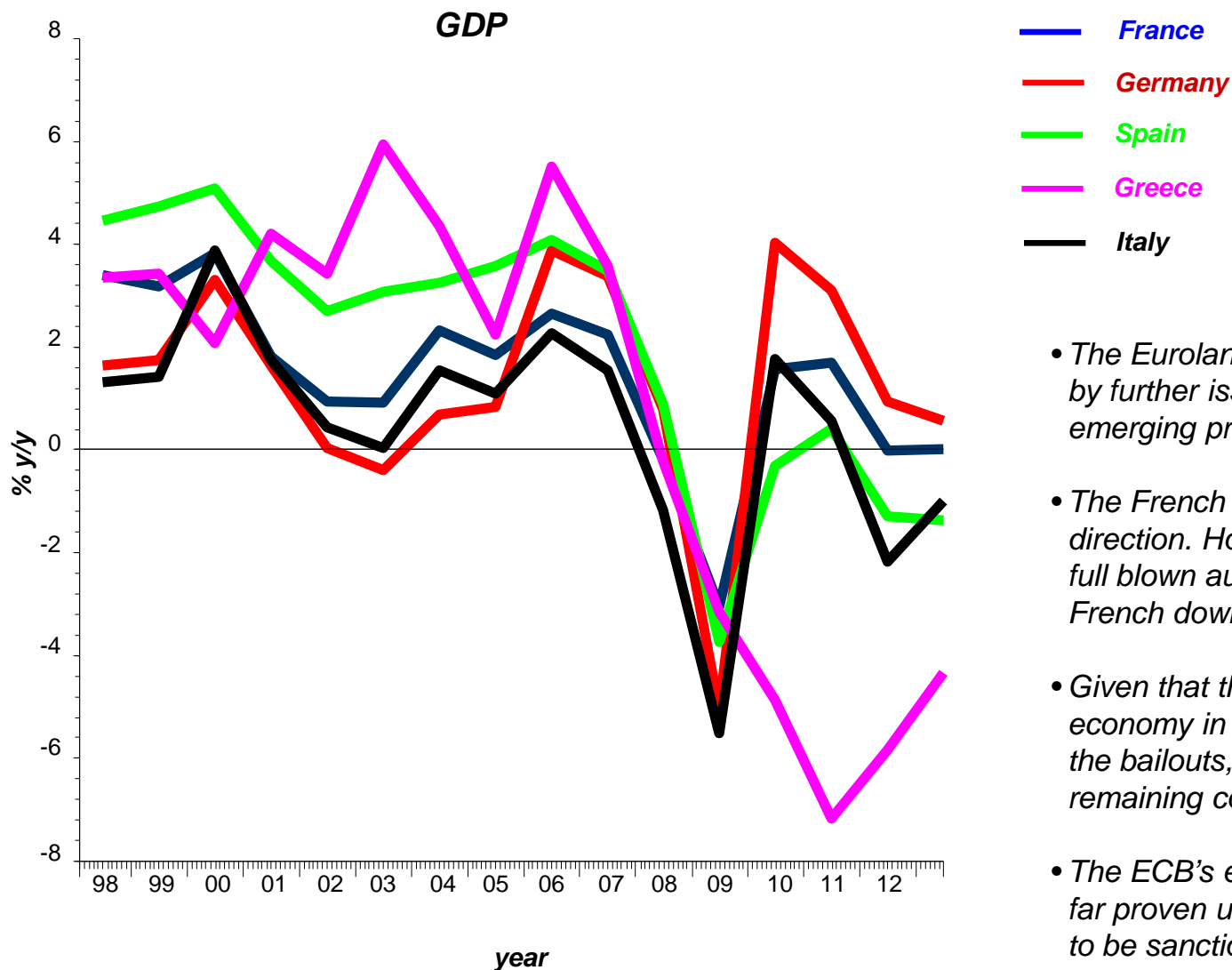
- 2013 should see an improvement in the US, Far East, UK, Eastern Europe and Middle Eastern growth.

	Policy Rate (%) - end period			
	2011 (A)	2012 (A)	2013 (F)	2014 (F)
US	0.1	0.1	0.1	0.1
Euroland	1.0	0.8	0.5	0.5
UK	0.5	0.5	0.5	0.5
India	5.3	7.8	7.3	7.8
China	5.8	6.0	5.8	6.7
Japan	0.1	0.1	0.1	0.1

- *Faster growth is liable to come as investment picks up, employment rises and consumption improves.*
- *Recent headlines about possible Middle Eastern investment in the UK suggests that the risk appetite may be returning.*

Tables source: RBS

Euroland – More problems looming for the periphery (and the core?)



- *The Euroland markets should be worried, not by further issues in the periphery, but by emerging problems in the core.*
- *The French economy is heading in the wrong direction. Hollande's policies are in tatters, and full blown austerity is now likely to prolong the French downturn.*
- *Given that the French are the second largest economy in Euroland, and a major financier of the bailouts, this does not bode well for the remaining countries.*
- *The ECB's efforts to rekindle growth have so far proven unsuccessful, and more may have to be sanctioned to turn activity positive.*

The US – has the failed sequester upset the outlook?

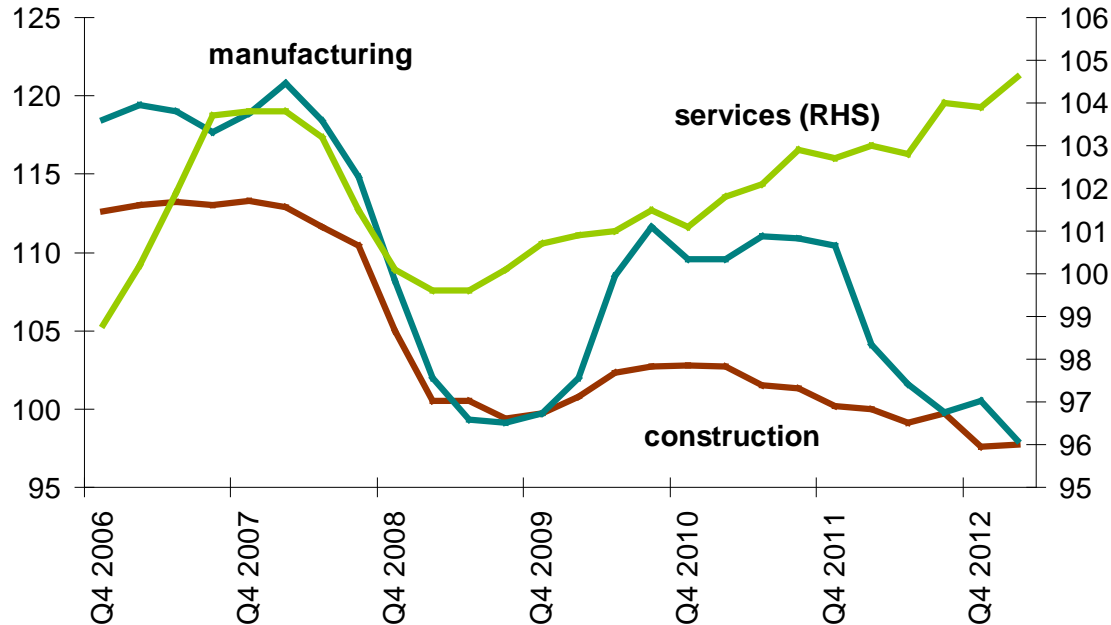
	2012	2013	2014
	% q/q change annualised		
Consumers' expenditure	1.8	2.6	2.1
Government consumption	-1.8	-1.8	0.2
Business fixed investment	5.5	5.1	7.3
GDP	1.7	2.4	2.8
	see row for measure		
Unemployment rate (%)	8.1	7.5	6.9
CPI (%y/y)	1.9	1.7	2.0
Policy rate (%)	0.1	0.1	0.1

- *The failed US sequester in February prompted the US government to enforce the automatic spending cuts onto the public sector.*
- *Already, the signs are that the spending cuts are affecting the speed at which border security is cleared at some airports around the US, and there is anecdotal of problems with customs and ports for goods shipments.*
- *Some suggest that growth could be undermined by as much as 0.75 percentage points because of the government spending cuts.*

The risks to the US

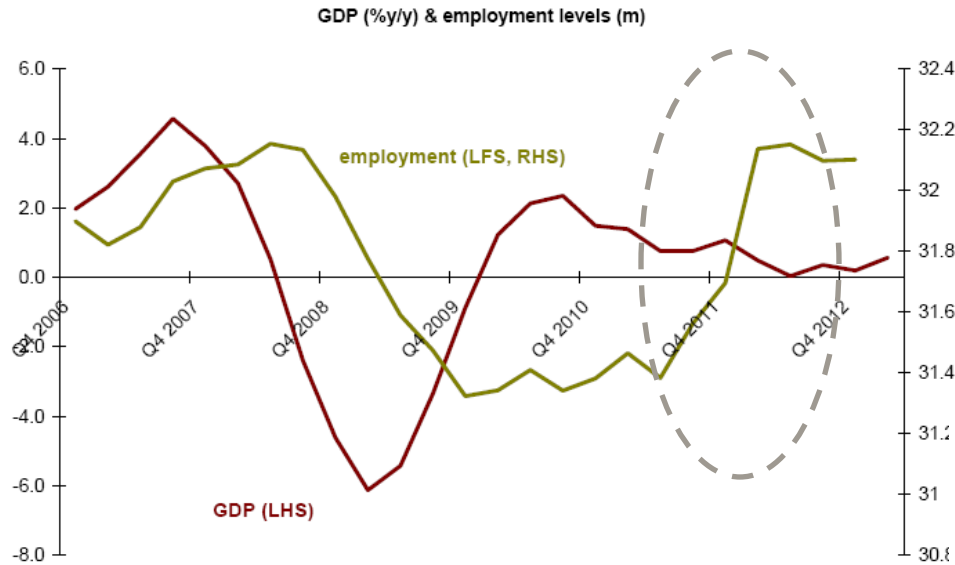
- *Further fiscal issues (e.g. debt ceiling) may still manifest themselves and cause significant further damage to the US economy.*
- *Some members of the Fed are arguing for a reduction in the pace of monetary loosening. In combination with fiscal austerity this could further undermine the US recovery. We do not believe the Fed, under Ben Bernanke's stewardship, will reduce the pace of asset purchases.*

Back in the UK – the divergence between services and manufacturing



- *Services have re-attained their pre crisis output level (Q1 '13 = 104.6, Q1 '08 = 103.8)*
- *Industrial production in contrast is still approximately 13.8% below it's pre crisis peak (Q1 '13 = 97.7, Q4 '07 = 113.3)*
- *The construction sector is almost 18.9% below its pre crisis level (Q1 '13 = 98, Q1 '08 = 120.8)*

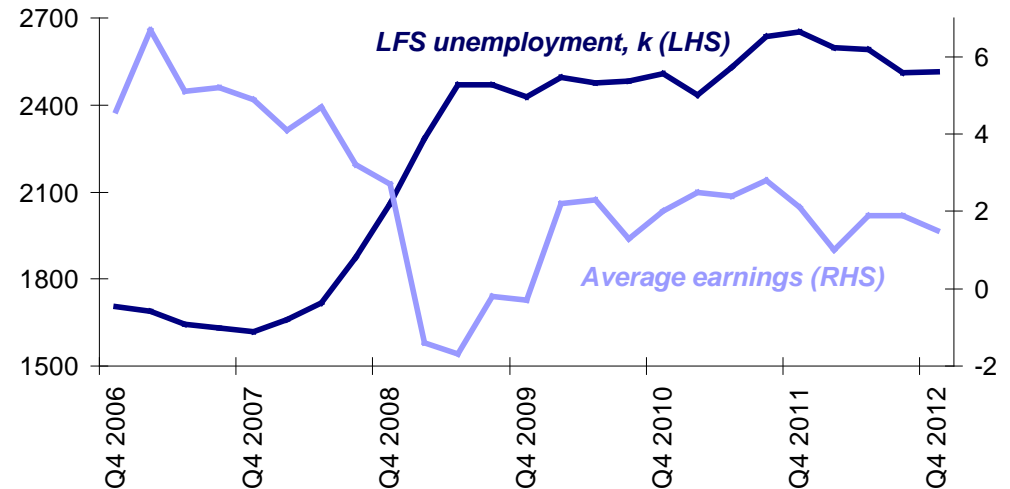
Back in the UK – the quandary of the labour market



- GDP has broadly stagnated since the middle of 2011, but employment, in the private particularly, has continued to rise sharply.
- This is counter-intuitive, since the labour market is usually last to improve.
- It begs the question of which data release is more believable?

- The unemployment rate has fallen well short of expectations, in spite of a rise last month.
- At this juncture, economists expected a further 500k to be without a job.
- Average earnings growth remains suppressed, which could be a partial explanation behind this phenomenon.

LFS unemployment & average earnings growth (%/y)



RBS FX forecasts

	2013			2014	
	Q2	Q3	Q4	Q1	Q2
GBP/USD	1.46	1.49	1.49	1.51	1.55
EUR/USD	1.23	1.21	1.19	1.21	1.22
GBP/EUR	1.19	1.23	1.25	1.25	1.27
GBP/JPY	146	157	164	169	175
GBP/PLN	4.88	5.12	5.25	5.31	5.27
GBP/BRL	2.78	2.99	2.98	3.10	3.07
GBP/CNY	9.00	9.20	9.10	9.20	9.35
GBP/INR	79.1	79.9	79.4	80.2	79.5

GBP/USD could test the \$1.46 area again in the short term. Longer term though, closing growth differentials should support a GBP revival.

GBP/EUR has a far stronger motive for a push higher. The UK's problems have most likely reached their peak, Euroland's are growing by the day.

forecasts are end period

Source: RBS

The new Japanese government are taking a far more aggressive tack on the yen, and achieving some success..

Watch for some strengthening in emerging currencies against the majors.

LOOKOUT FOR THE MINTs

Where will the growth likely be in FM?

Investment is likely to remain key to the UK revival, whether it is in financial services from overseas (Middle East and Far East), which will require facilities in central London, as well as back office facilities in a choice of locations.

Growth in manufacturing and logistics businesses can also be expected, offering opportunities around the country for new facilities to be constructed and managed.

IT services will also continue to thrive in such facilities, as firms strive to have the latest high speed connections, 4G wireless technology etc.

The recovery of personal balances sheets and a continued shift away from the high streets means that out of town shopping will continue to grow and thrive. Over the coming years, we expect the expansion of current facilities and ground breaking for new facilities to meet rising demand.

Where growth is less likely to be seen, at least until 2015/16 at the earliest is in the public sector, where austerity remains paramount. HOWEVER, outsourcing of non-core services in the public sector can be expected to continue as government attempts to rebalance the spending vs receipts equation.

Summary

- **The UK outlook is one of steady improvement.** Signs are that the UK has endured the worst of the recession, but any sharp improvement is unlikely because of ongoing austerity and rebalancing of personal and corporate balance sheets.
- **The incoming BoE Governor, Mark Carney, may look to alter course on monetary policy.** More QE, a more generous FLS programme, a long signalling process on interest rates, or a new target to be measured against are all likely to be considered.
- **Was 2012 as bad as suggested? With the exception of Euroland the answer is no.** Both the UK and US were able to print positive outturns, Japan grew more strongly and emerging economies recouped momentum in the latter stages of the year.
- **2013 should show signs of building momentum in the UK and US,** but Euroland is expected to underperform once again. Slower growth in Japan may also be seen, although BoJ actions may offer a better H2 than H1.
- **Euroland's problems (fiscal and growth related) remain,** but the global economy continues to recover nonetheless.
- **US growth is yet to be upset by spending cuts, but it is a waiting game, which could upset the USD.**
- **Services growth may have re-attained pre crisis highs,** but both manufacturing and construction are well short of their pre crisis peaks. The jobs growth in the labour market is also puzzling given the lags that usually exist in employment. More action is likely to be needed based on this evidence.
- **RBS forecasts suggest short term USD strength to give way to longer term weakness.** EUR looks the ugliest of USD, GBP and EUR, but the JPY trounces this because of the BoJ's money base expansion.

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