

Barry Naisbitt
Economic Analysis

The Economic World

ALMA Conference, 29th January 2010

United Kingdom



- **Some Features of the Recession**
- **Financial Crises and Recovery**
- **Uncertain Prospects**

Trade and Output

- Major economies were in recession during early 2008
- The collapse in economic activity in late 2008 and world trade was dramatic

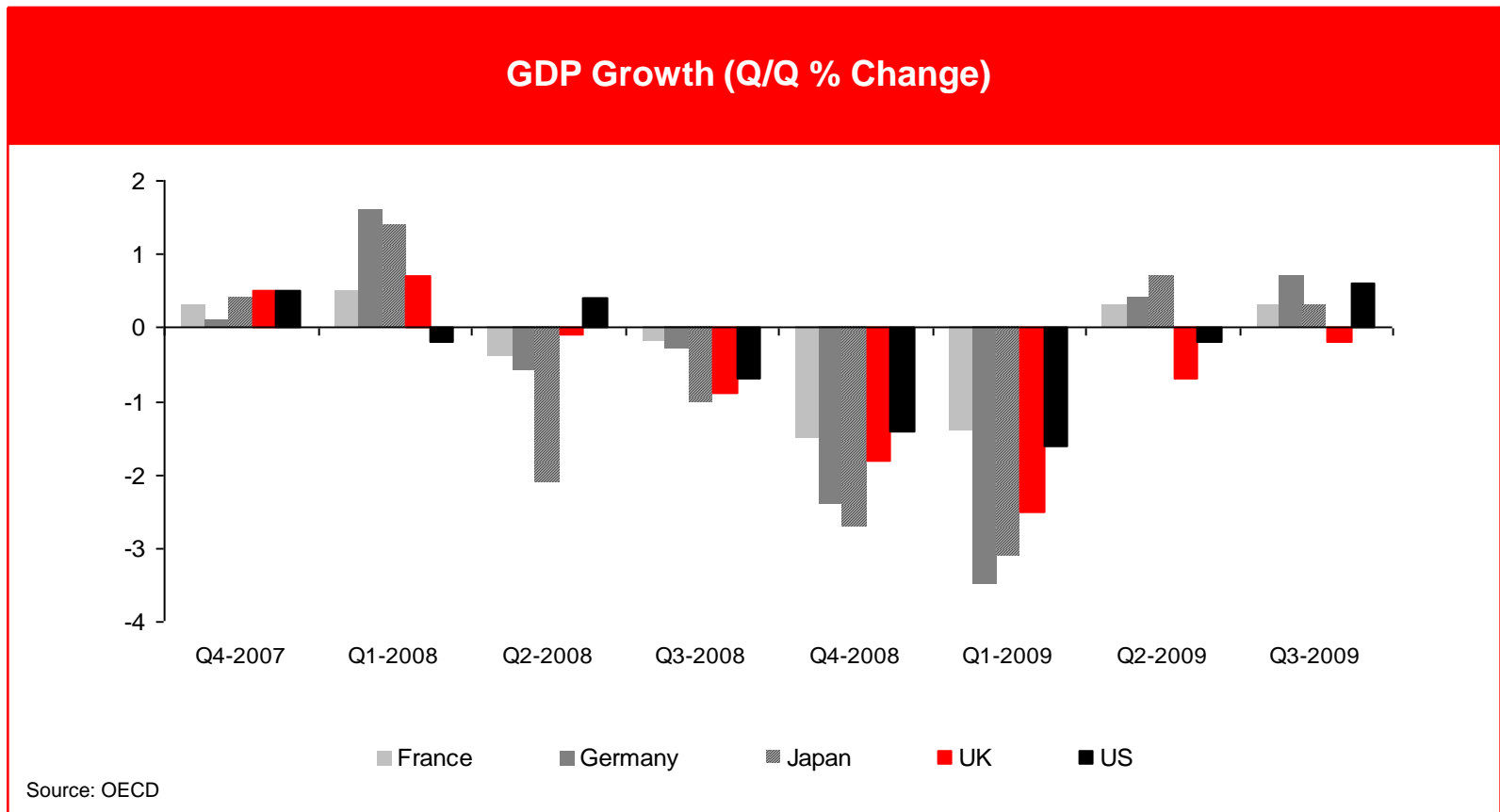
Figure 2. Selected High-Frequency Indicators
(Annualized percent change of 3-month moving average over previous 3-month moving average unless otherwise noted)



Source: IMF Source – IMF World Economic Outlook Update, January 2010

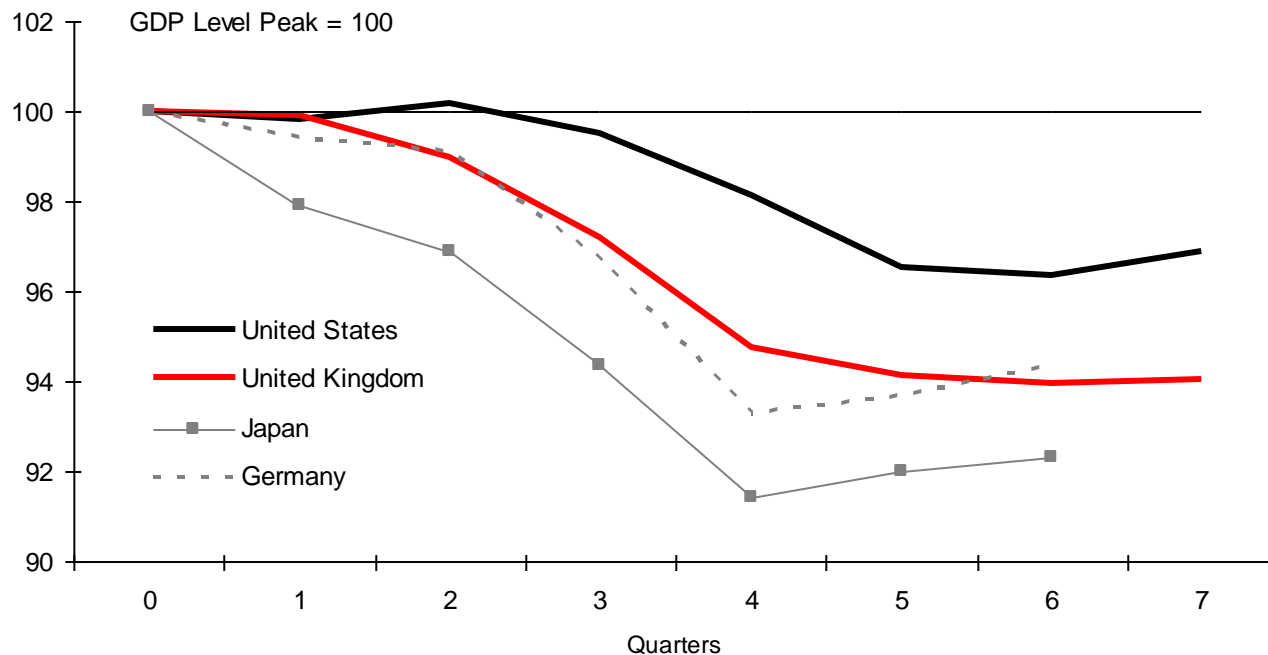
Major Economies Moving Back to Growth

- The major economies have moved back to growth
- UK GDP grew by 0.1% in 2009 Q4



- UK has been in recession longer but Japan and Germany have seen deeper falls in GDP
- GDP data is, of course, subject to revisions

Comparison of the Falls in GDP in the Recession



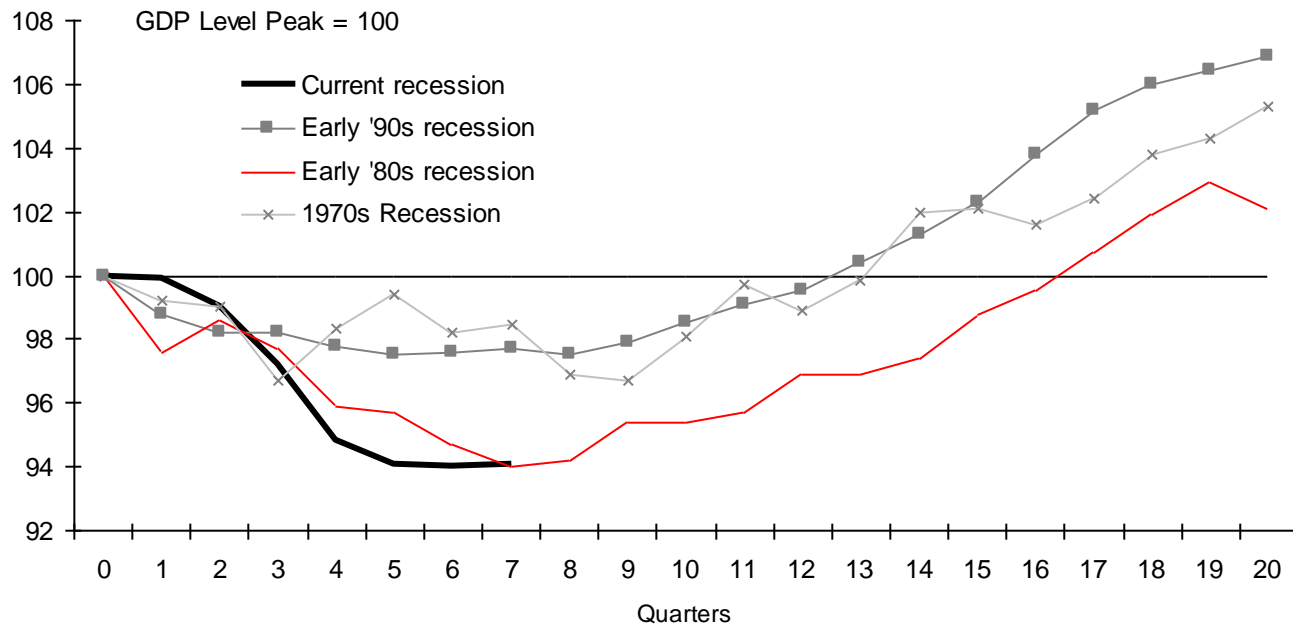
Source – ONS

Note: US recession estimated to start in 2008 Q1, other economies in 2008 Q2

Depth of UK Recession

- The recession looks similar to the early '80s
- But it was about twice as deep as the early '90s

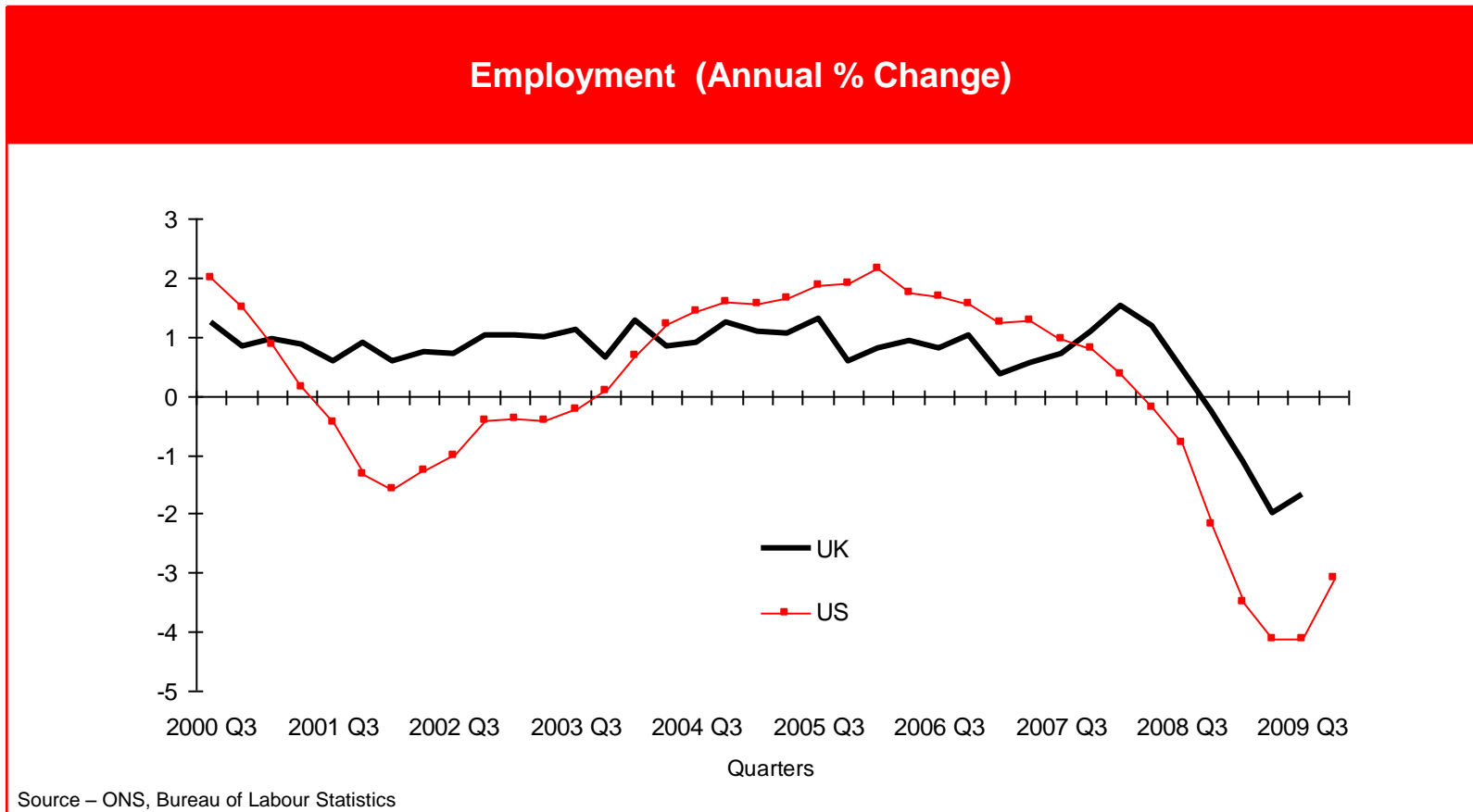
The Fall in UK GDP Compared with Previous Recessions



Source – ONS

Employment

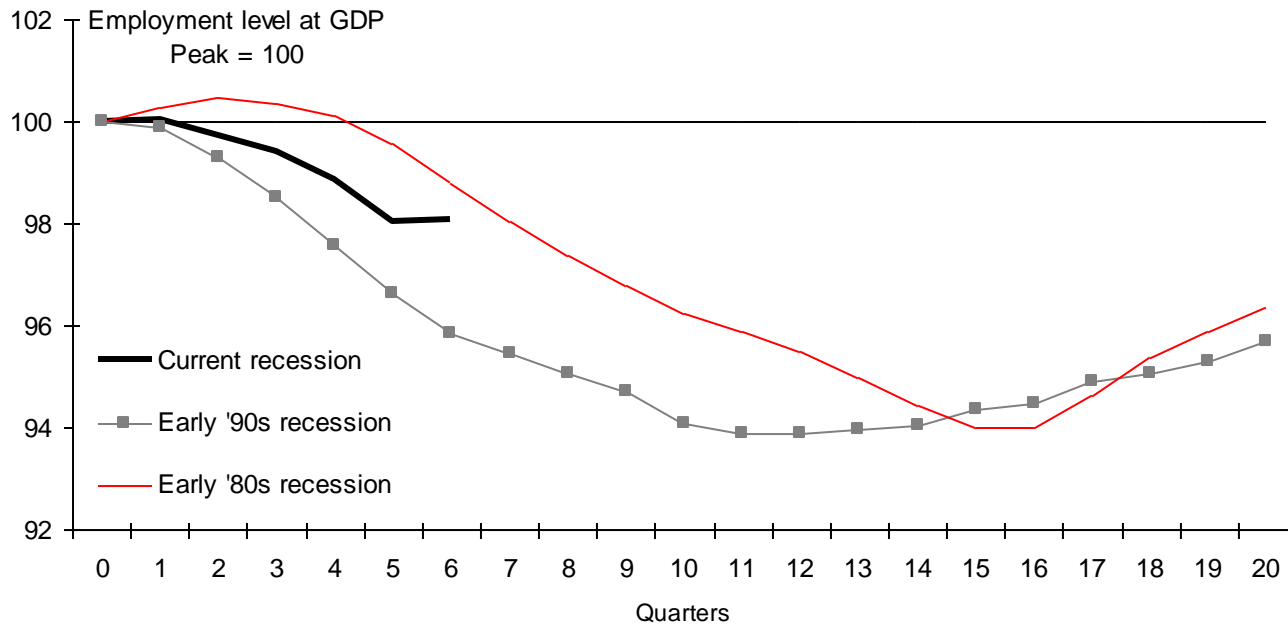
- The UK has seen a deeper fall in GDP than the USA
- But it has seen a smaller fall in employment



Employment

- Employment has fallen by about 2% to date
- In the '90s and '80s it fell by around 6%

The Fall in UK Employment Compared with Previous Recessions

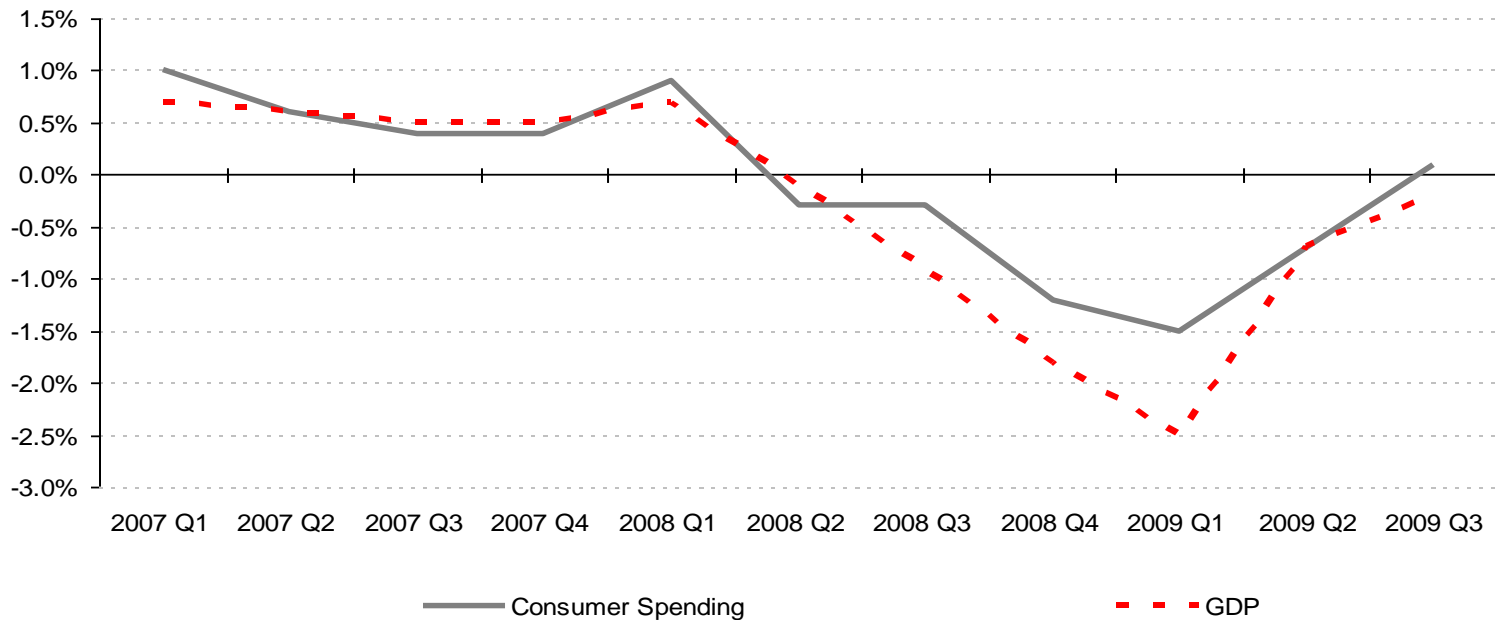


Source – ONS

Consumer Spending

- Consumer spending has not fallen as much as GDP
- Consumer spending rose in 2009 Q3

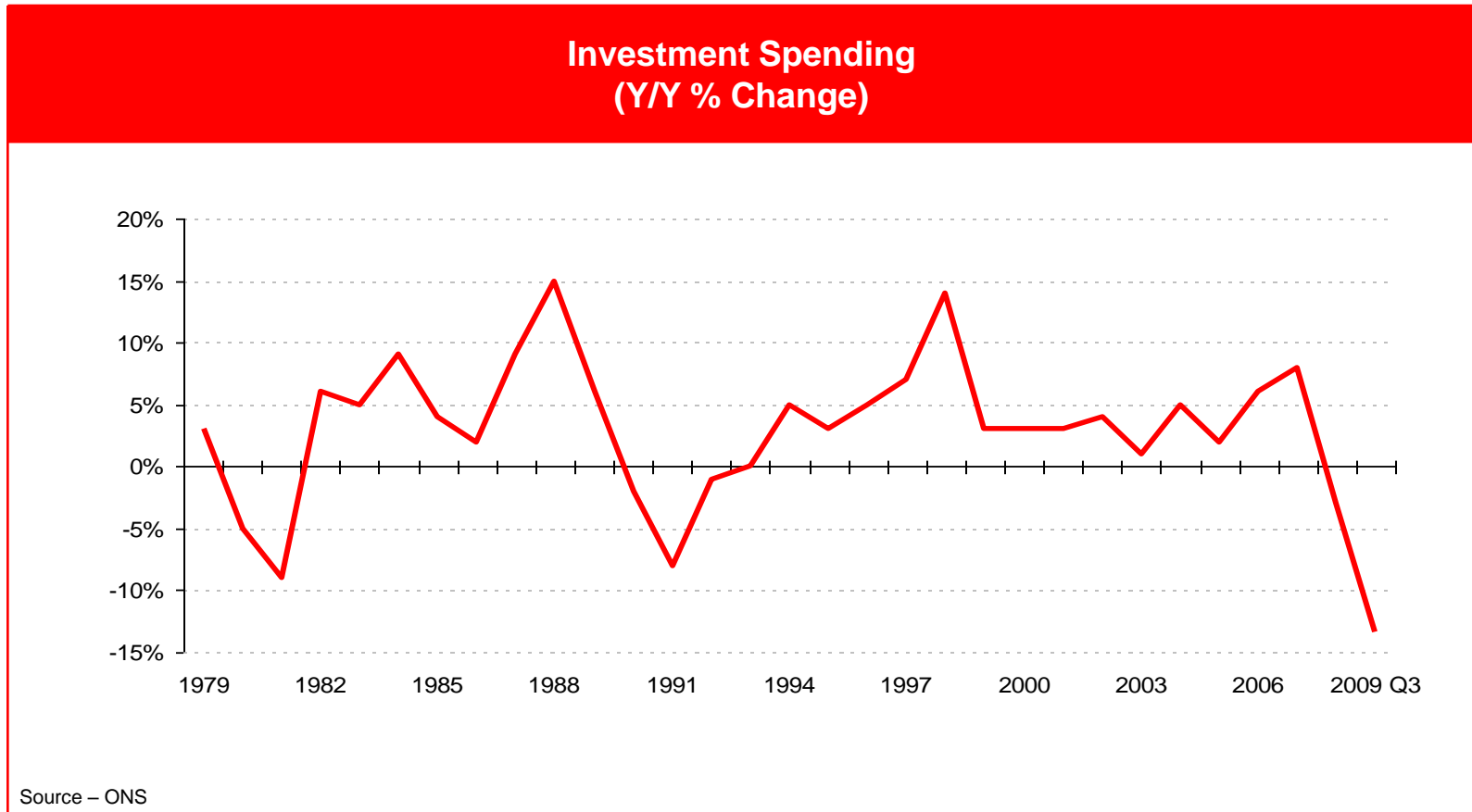
**Consumer Spending Growth & GDP Growth
(Q/Q% Change, sa)**



Source – ONS

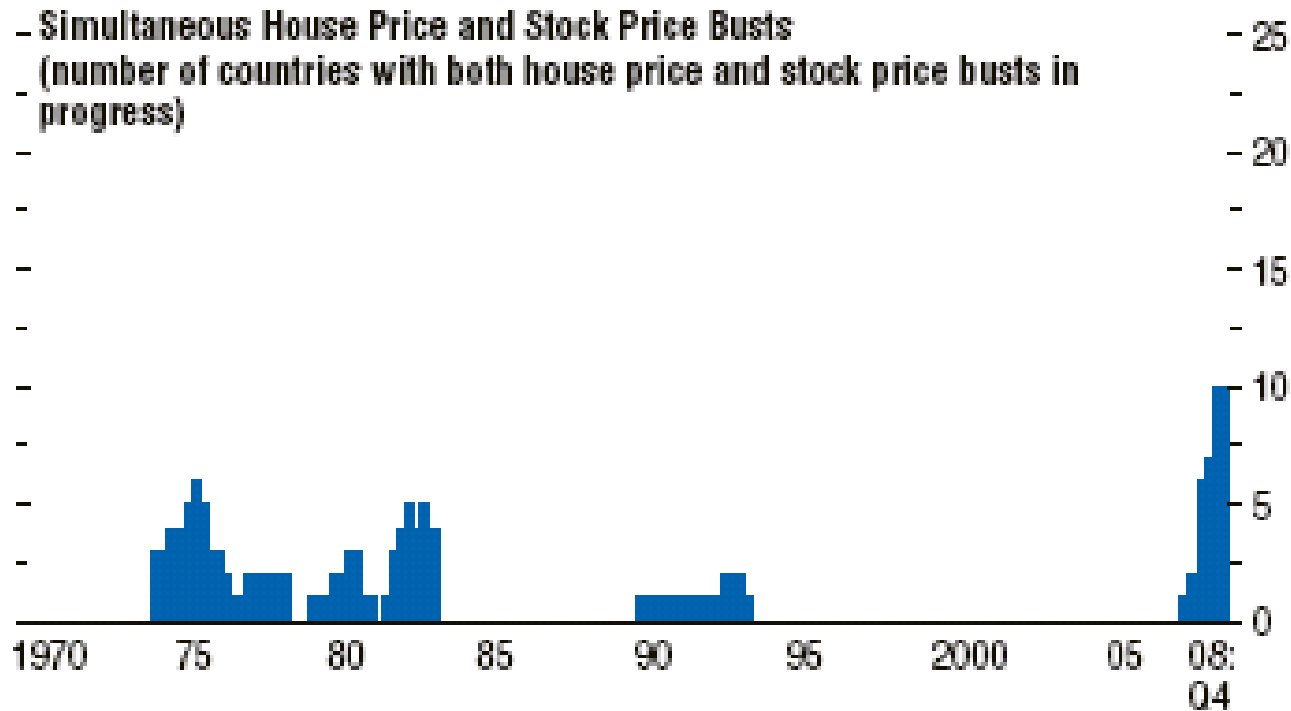
Investment Spending

- In Q3 the volume of fixed investment was 13% down on a year earlier



- Some Features of the Recession
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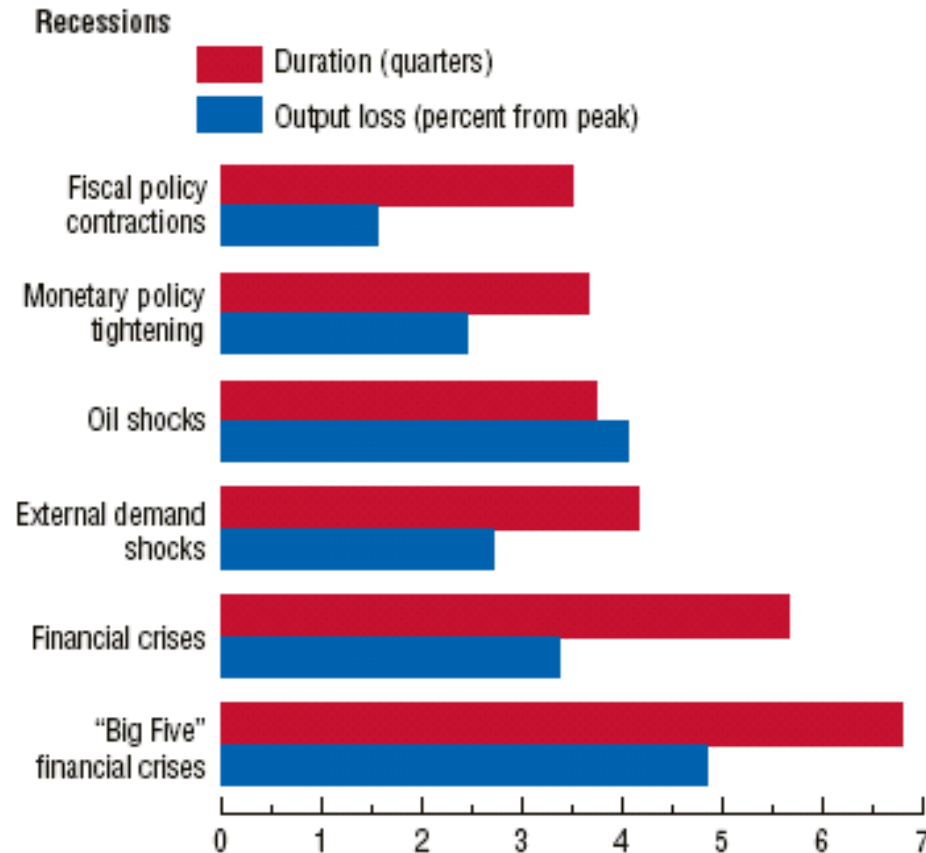
- A high number of countries have seen both house price and equity price falls



Source: IMF staff calculations.

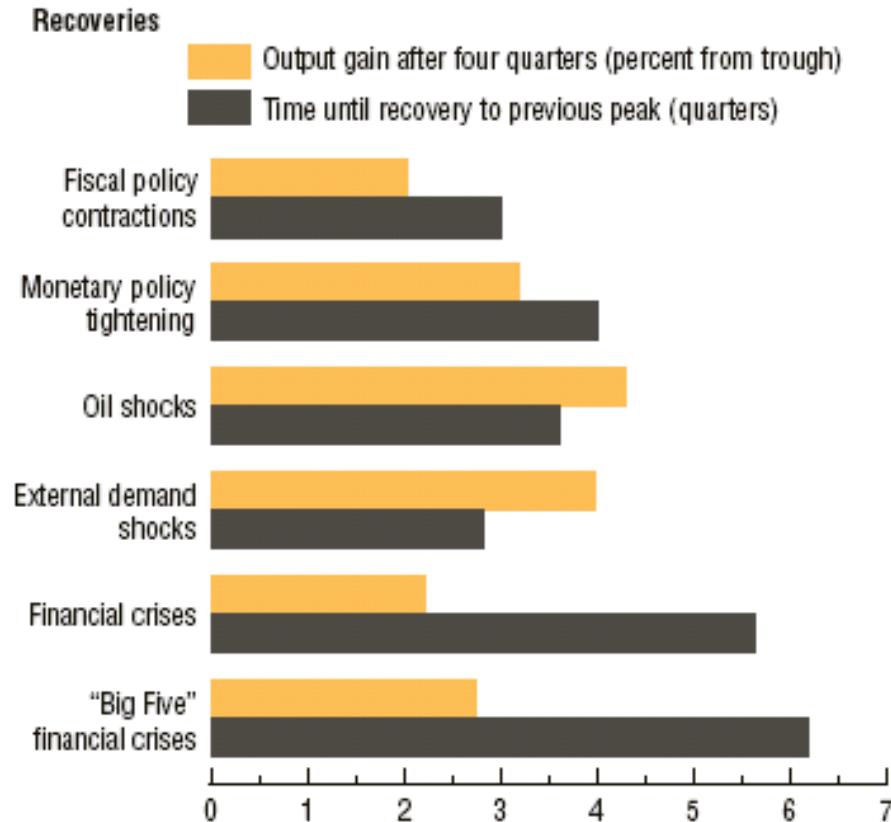
Financial Crises and Recession

- Recessions associated with financial crises tend to last longer and have a larger output loss



Source – IMF World Economic Outlook, April 2009

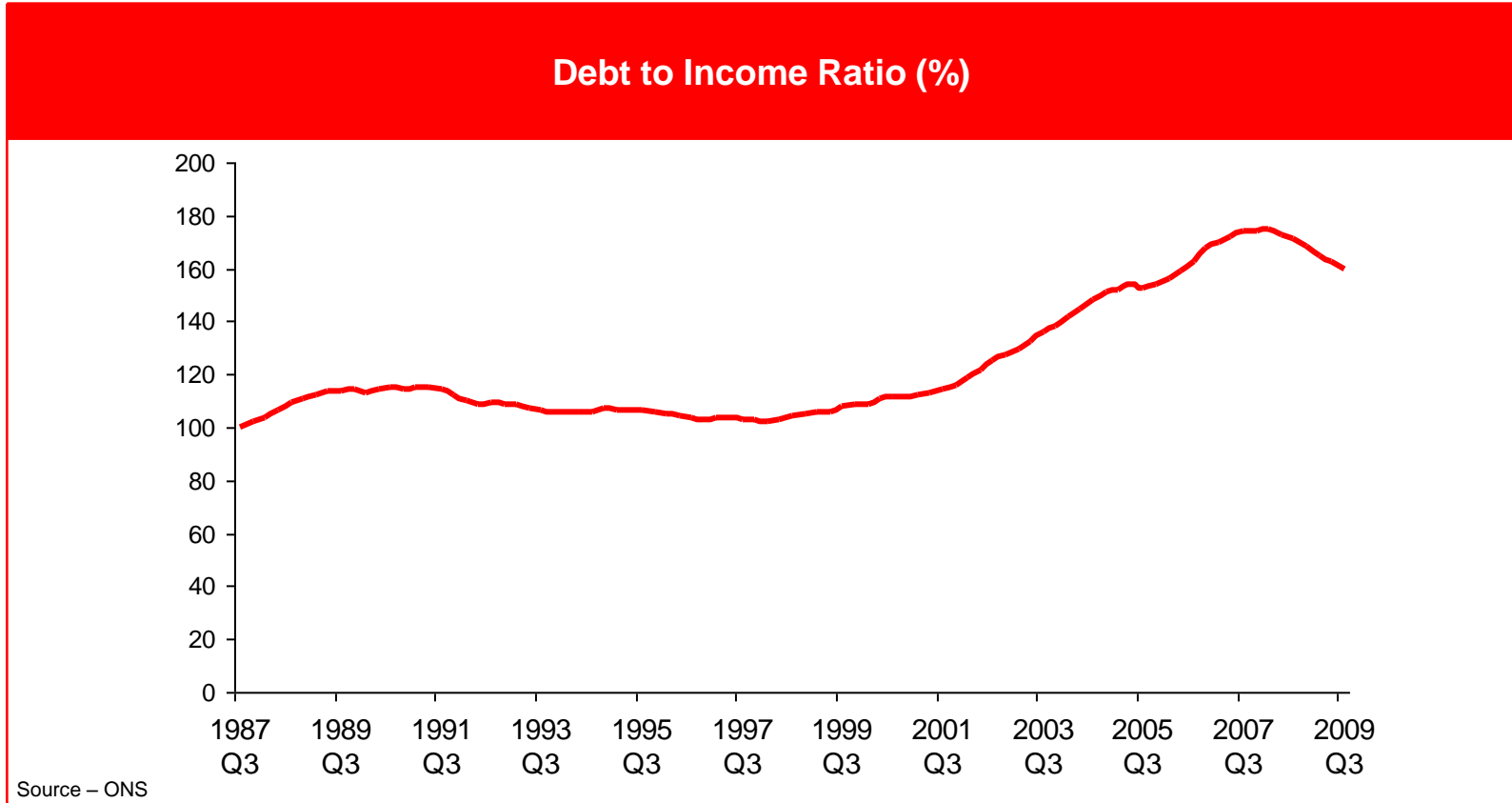
- Recoveries after financial crisis recessions tend to take longer to regain the previous output peak
- They also tend to be slower in the first year



Source – IMF World Economic Outlook, April 2009

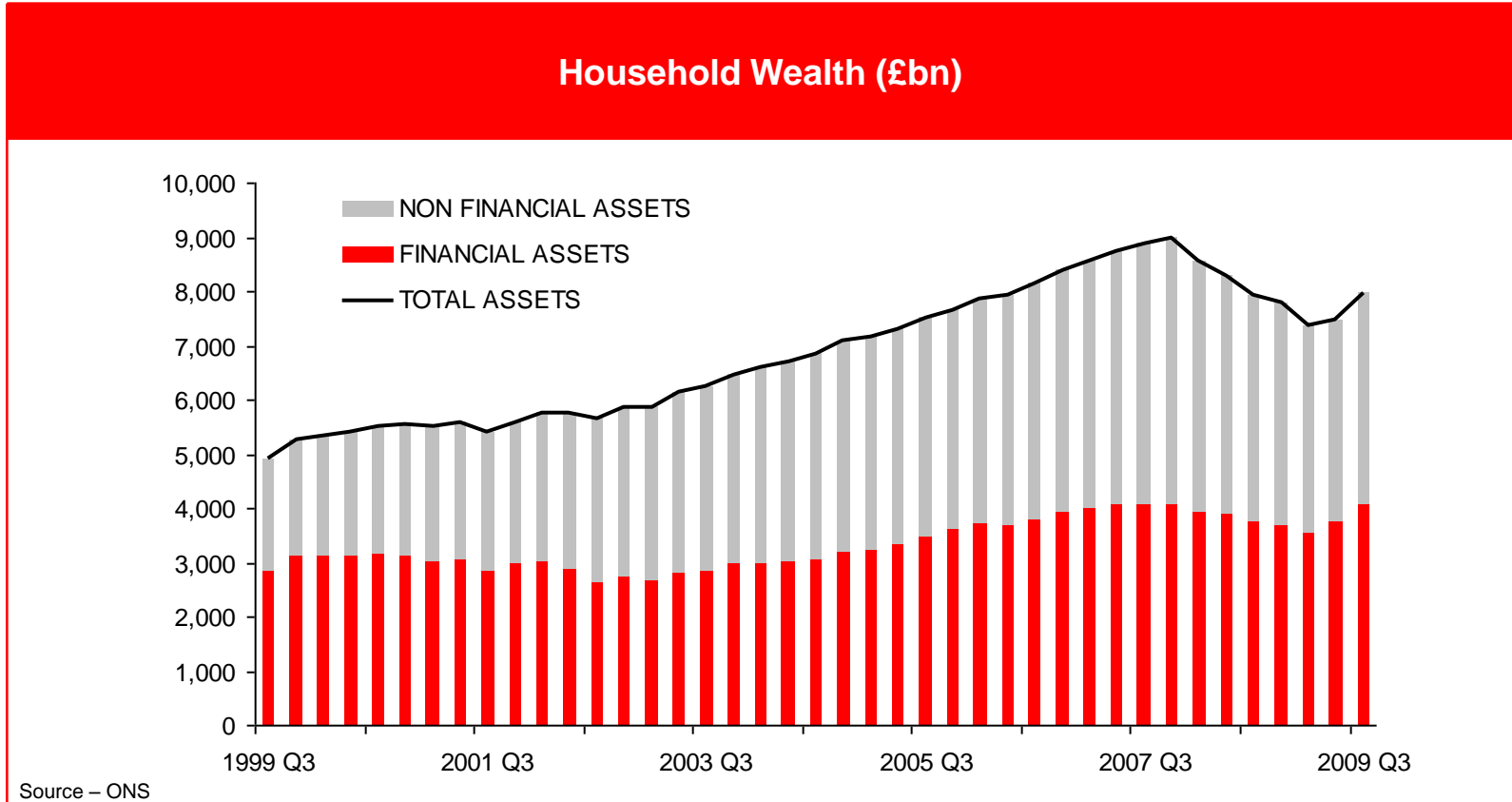
Household Debt

- Household debt more than doubled between end '99 and end '08
- As a share of income it peaked in 2008 Q1.



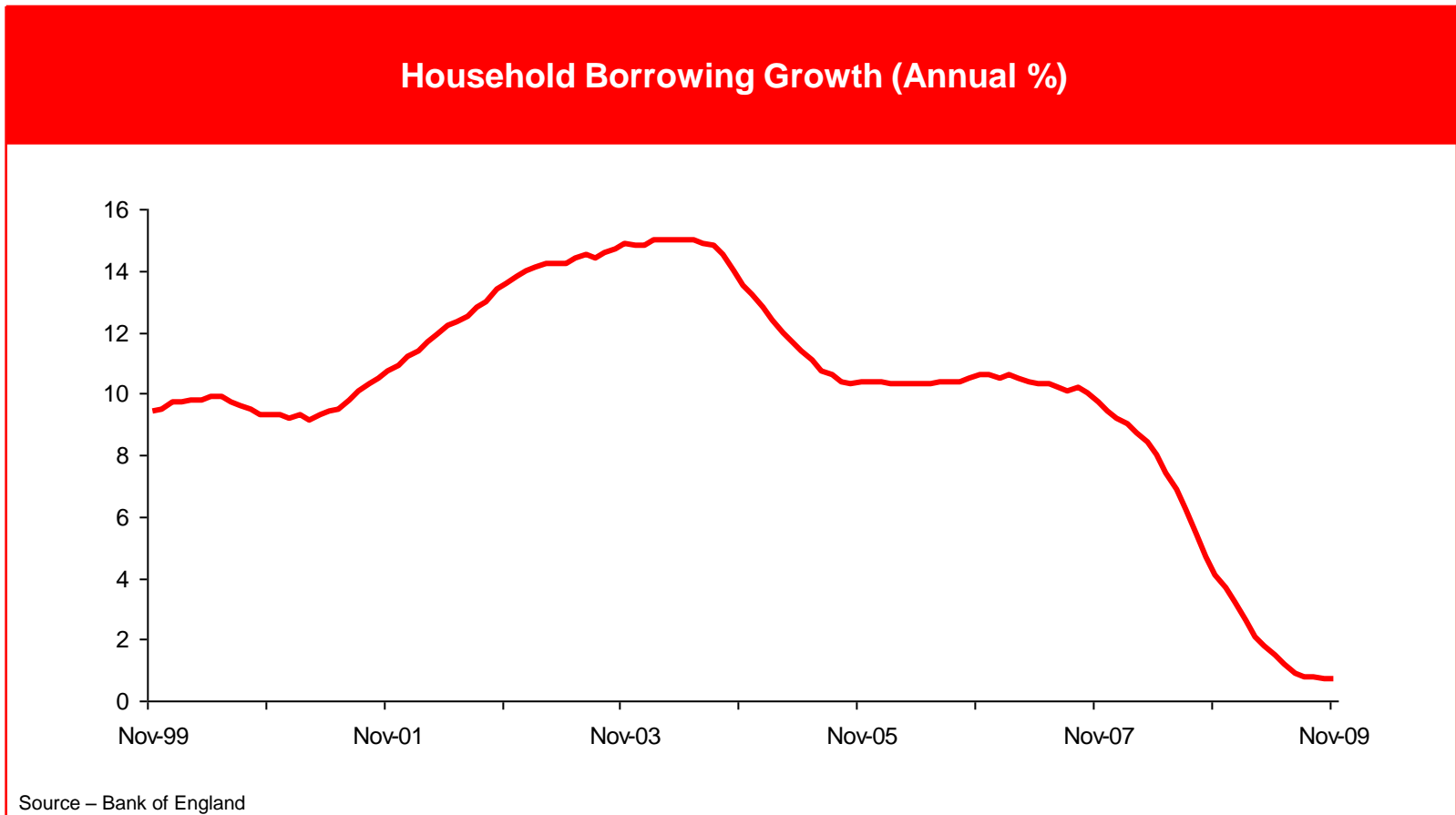
Household Wealth

- Falling equity and house prices from late 2007 led to a loss in wealth
- About £1.4 trillion of wealth was lost by early 2009

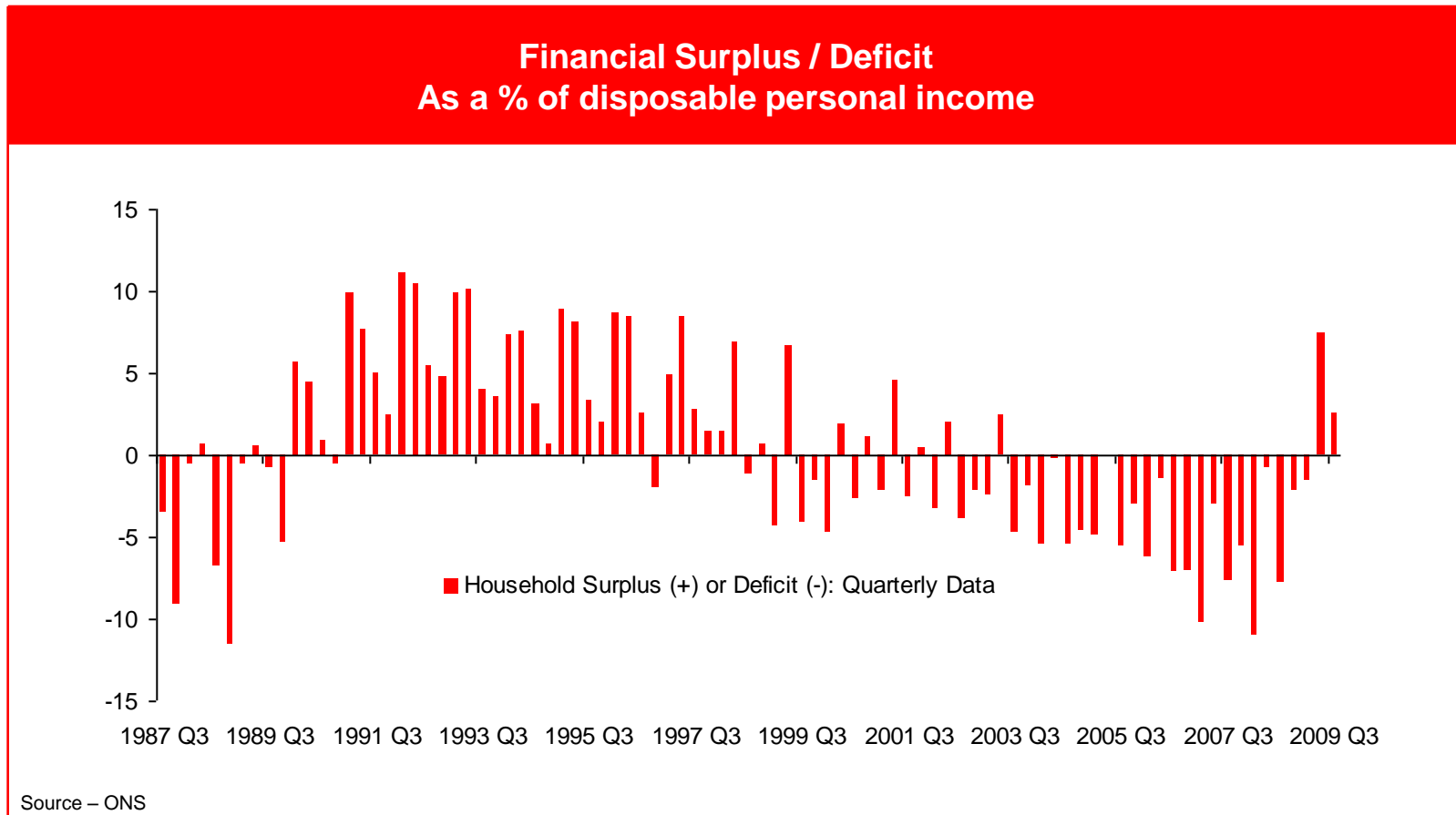


Household Sector Borrowing

- Household borrowing growth has fallen to below 1%



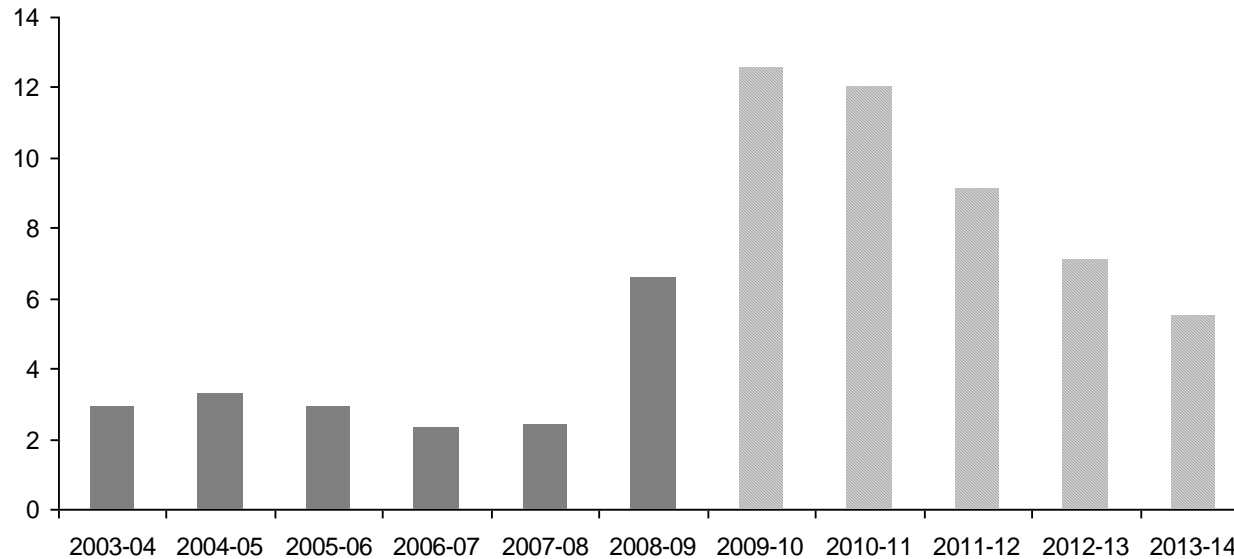
- 2009 Q2 saw the first household sector financial surplus since 2003
- Housing equity withdrawal has reversed and the saving ratio has risen



Public Sector Borrowing

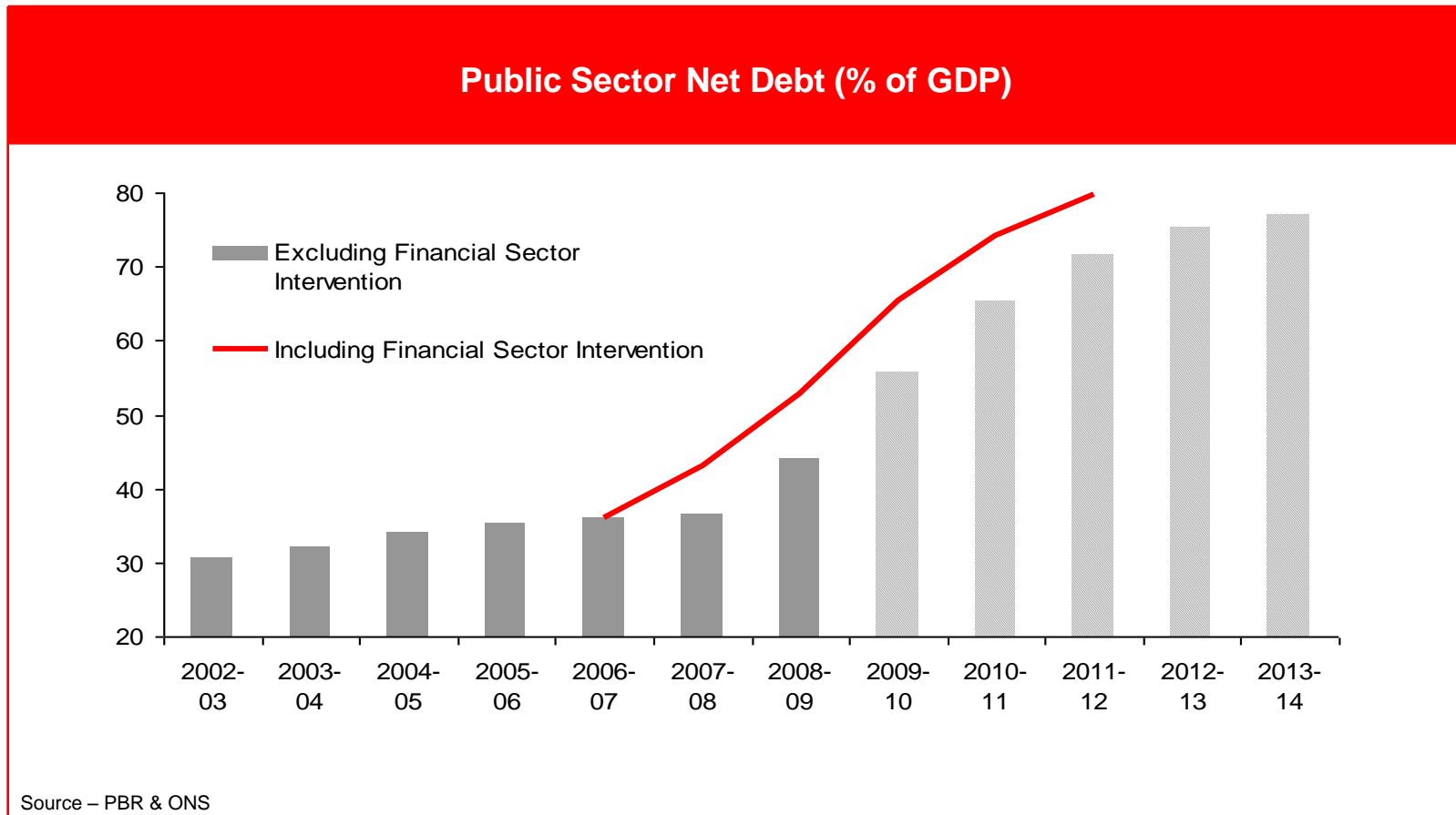
- Public sector borrowing was 2.4% of GDP in 2007-8
- It is projected to be 12.6% in 2009-10

Public Sector Borrowing (% of GDP)



Source – PBR & ONS

- The debt / GDP ratio is forecast to rise until 2014-15
- Adding in some of the financial interventions increases the size of debt

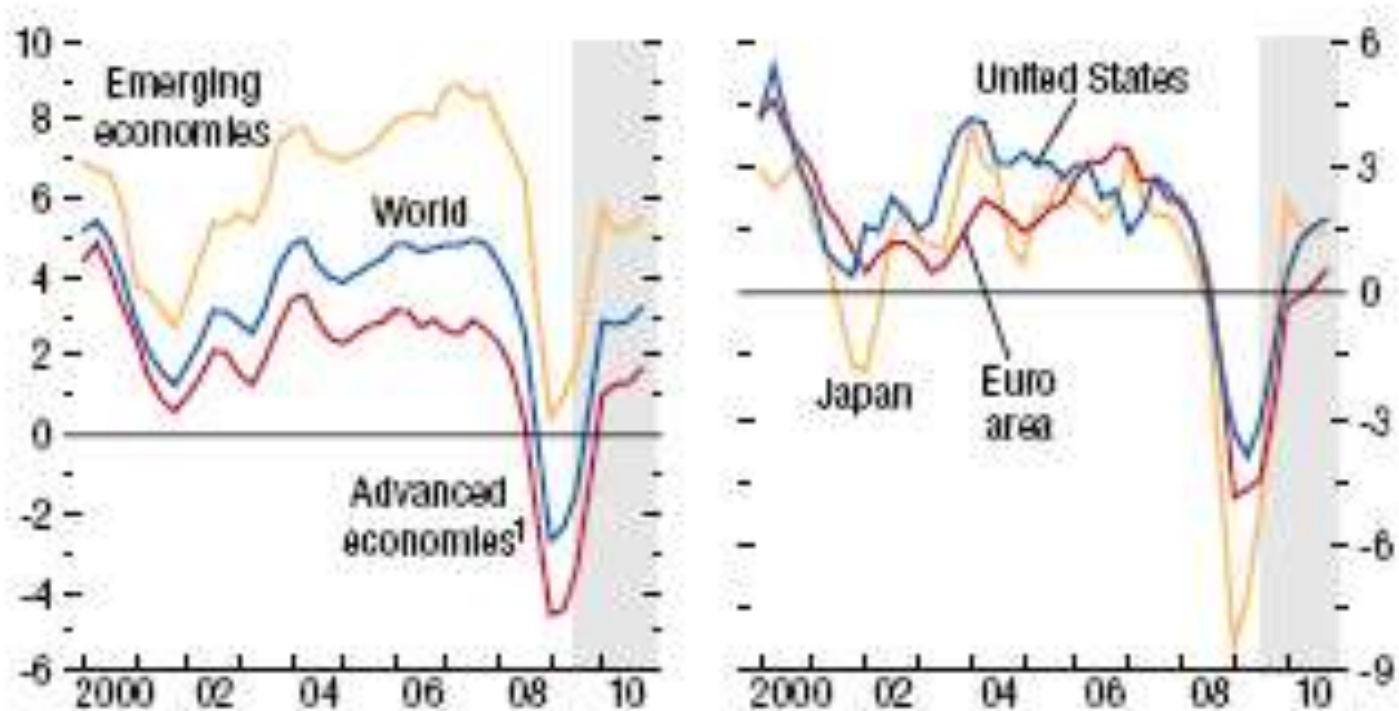


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Recession and Recovery

- Expectation is for faster growth in the emerging economies to continue

Figure 1.9. Global Outlook
(Real GDP; percent change from a year earlier)



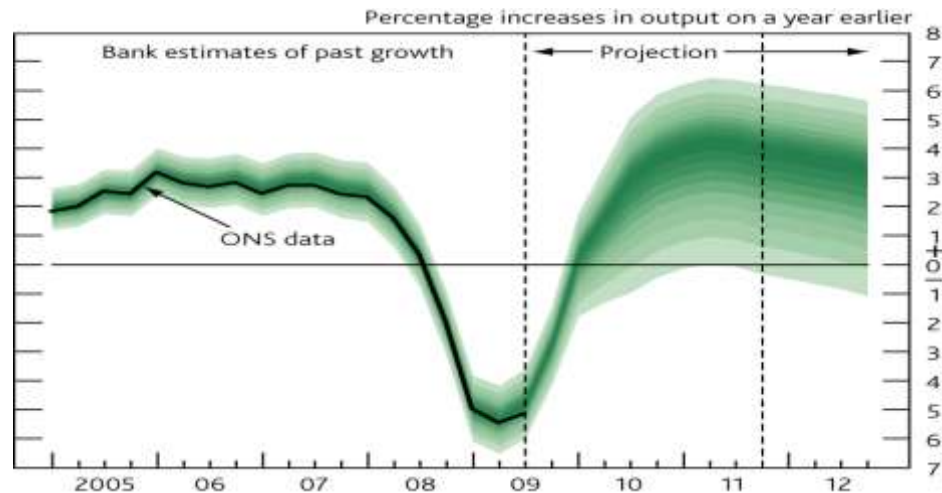
Source – IMF World Economic Outlook, October 2009

- The Bank of England's forecast shows a quite rapid turnaround in growth rates
- It also signals the uncertainty about the outlook

GDP growth projections Based on market interest rates (annual %)

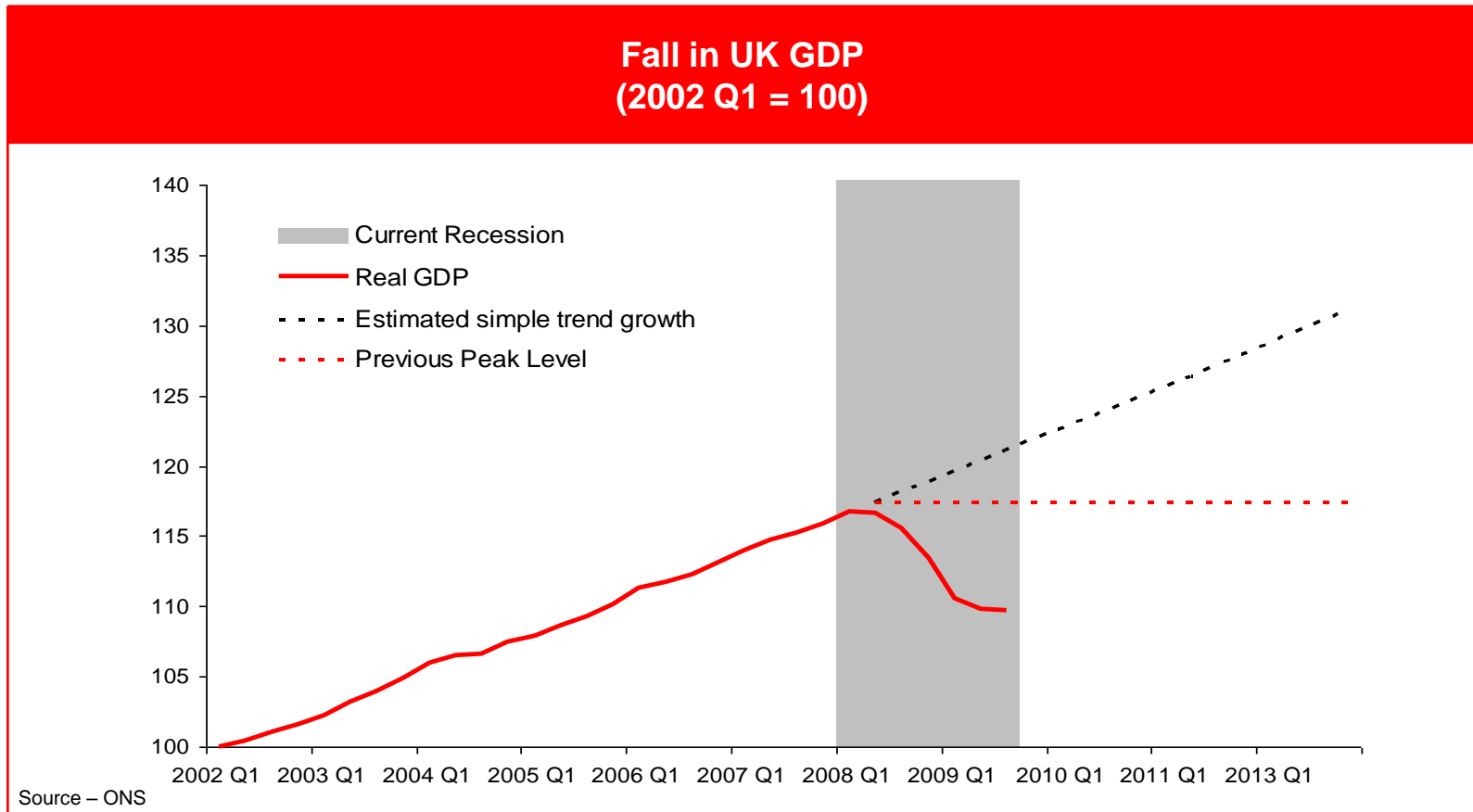
November GDP Growth (%)

GDP projection based on market interest rate expectations and £200bn asset purchases



Source – Bank of England

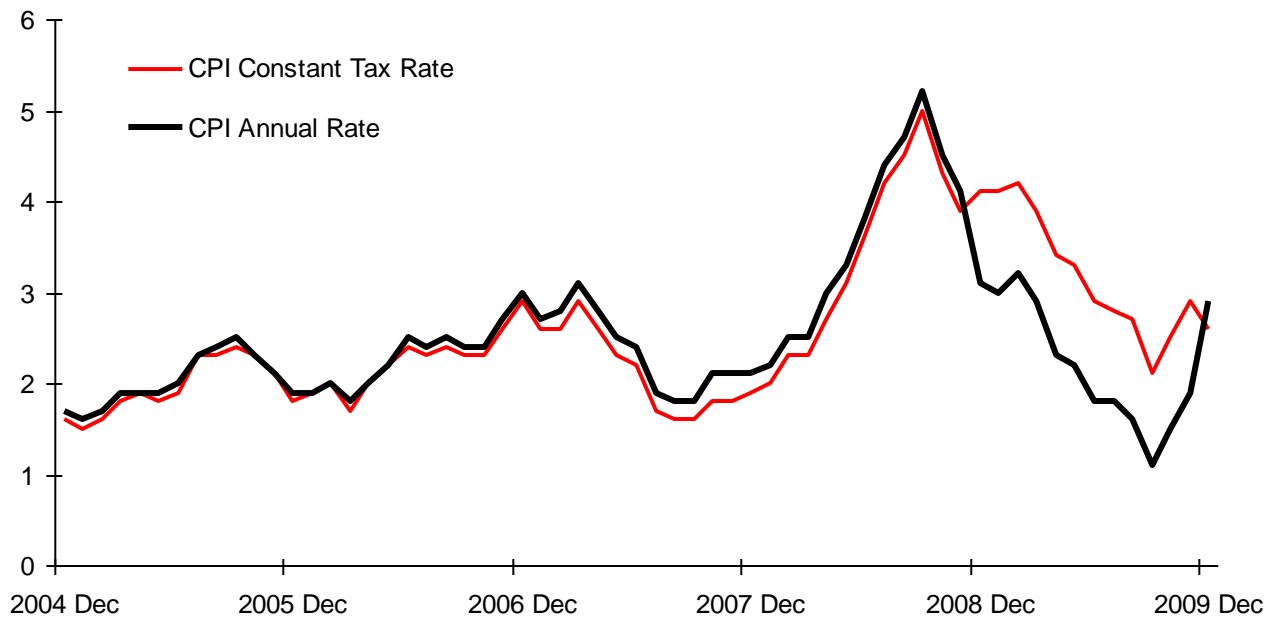
- A key issue is not the rate of growth but the level of activity.
- How long will it take to regain the previous peak output level?



Note: Peak to trough dates: Current recession: Peak 2008 Q1. Simple trend growth calculated from 1960 Q1 to 2008 Q1.

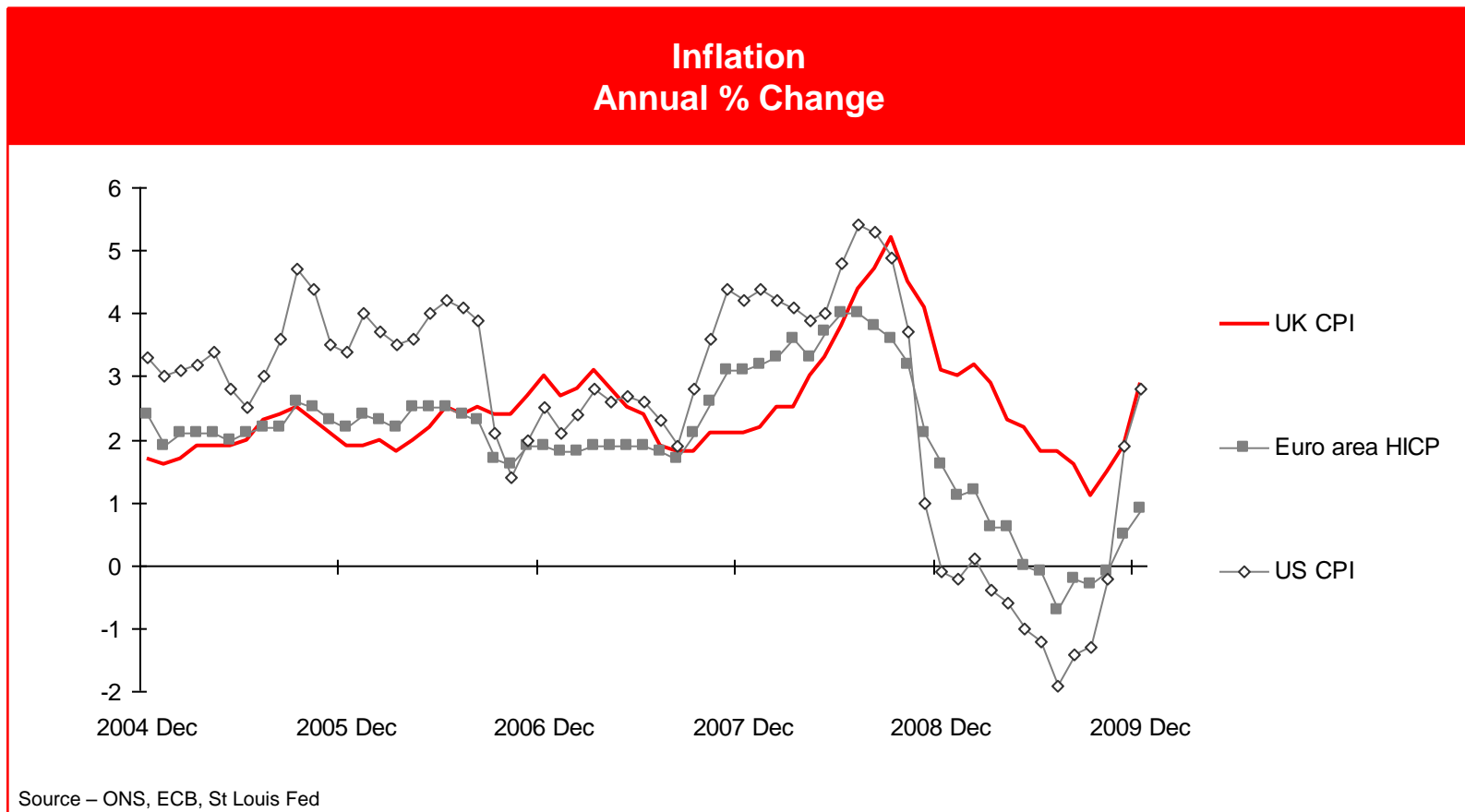
- CPI inflation peaked at 5.2% in September 2008
- CPI low was 1.1% in September 2009
- At constant tax rates (and duties) the trough was 2.1%

Annual CPI and CPI Inflation at Constant Tax Rates (%)

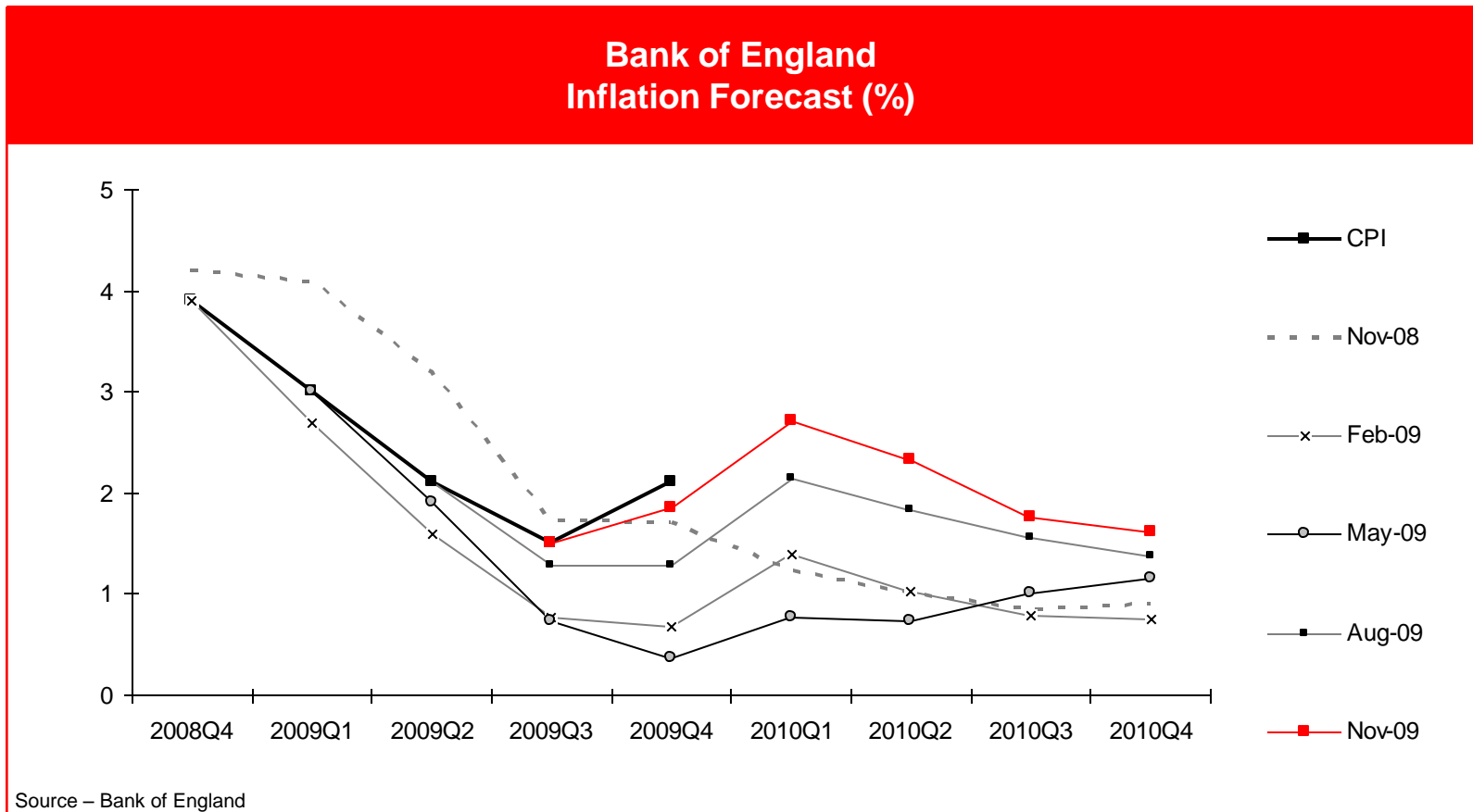


Source – ONS

- Eurozone inflation fell to -0.7% in July 2009 (peak at 4% in July '08)
- US inflation (CPI) fell to -1.9% in July 2009 (peak at 5.4% in July '08)



- In 2009 CPI inflation was higher than the Bank of England's central expectation
- It was, though, within the Bank's fan chart range



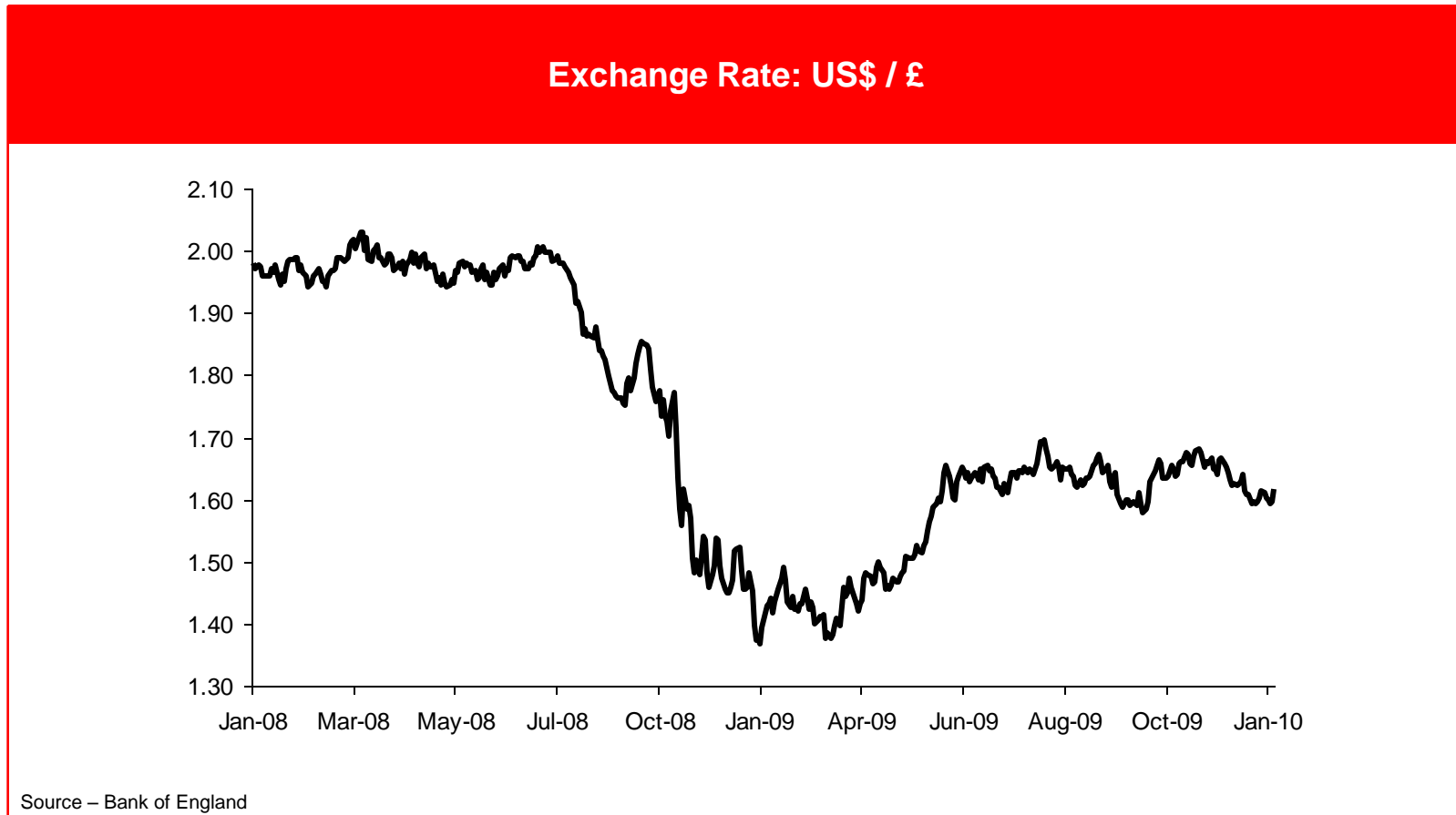
- At c. \$75 pb oil prices are down on the c.\$140 pb peak in mid 2008
- But they are almost double the level in late 2008

Europe Brent Spot Price (Dollars per Barrel)



Source – US Energy Information Administration

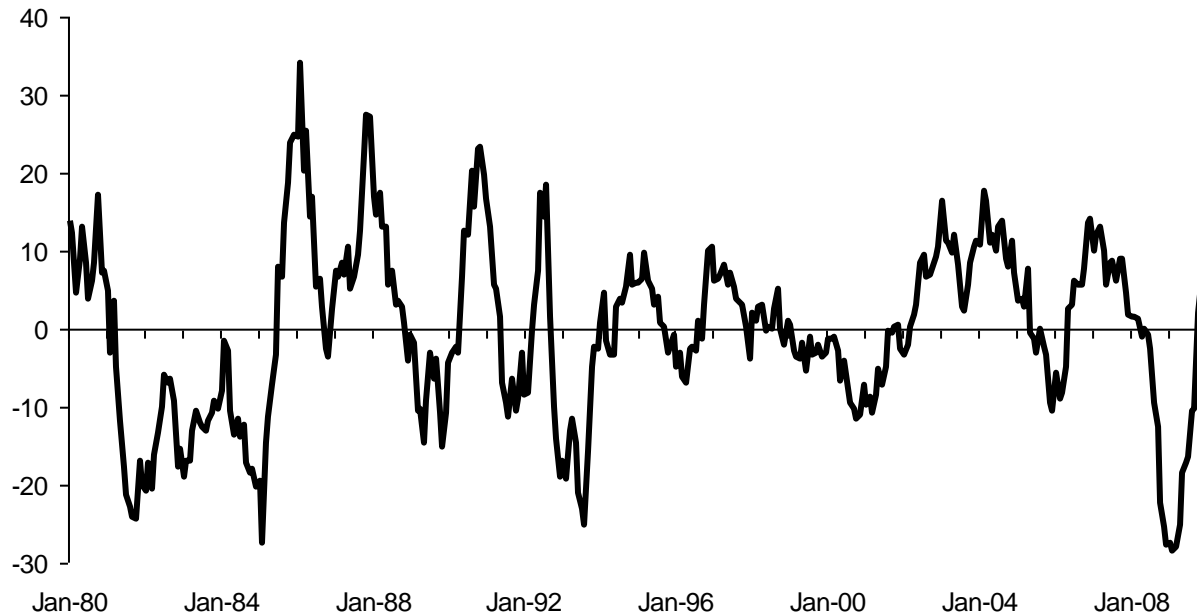
- Sterling fell by around 28% against the US\$ between July 2008 and January 2009
- This has played a part in restricting the fall in inflation in the UK



Exchange Rate

- The depreciation against US\$ has been substantial
- The annual drop was on a par with those in 1981, 1985 and 1993

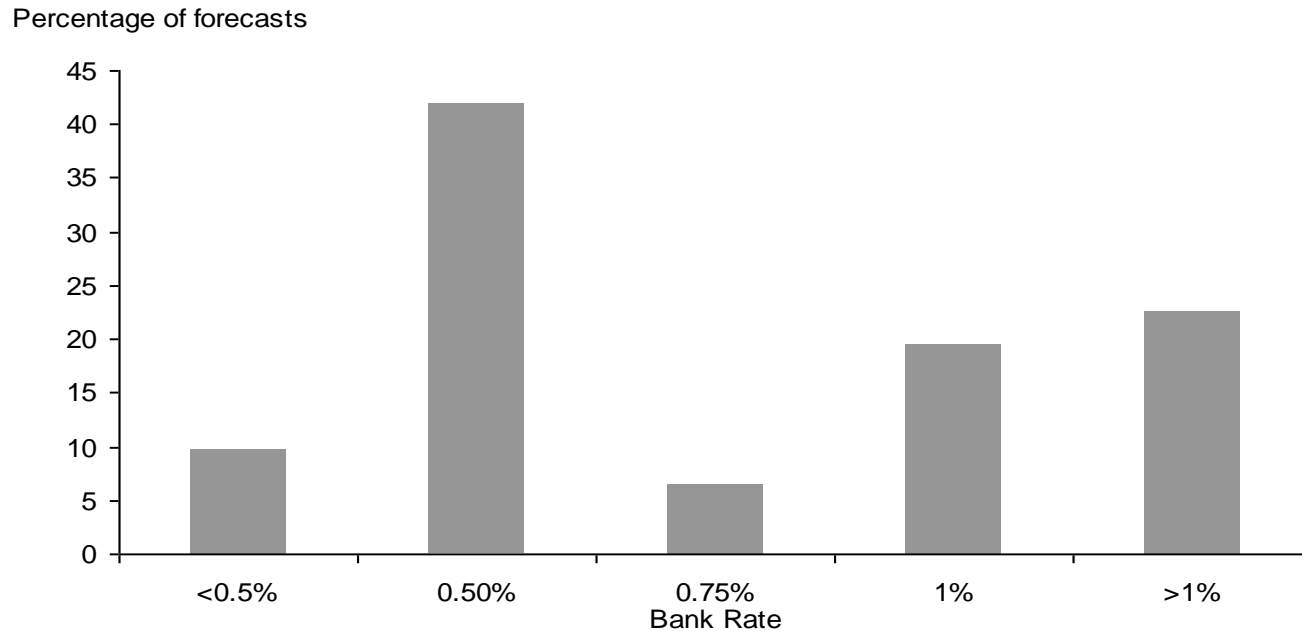
**Annual % Change in US\$ / £ Exchange Rate
(End month data)**



Source – Bank of England

- Economists had quite a strong consensus view on rates a year ago

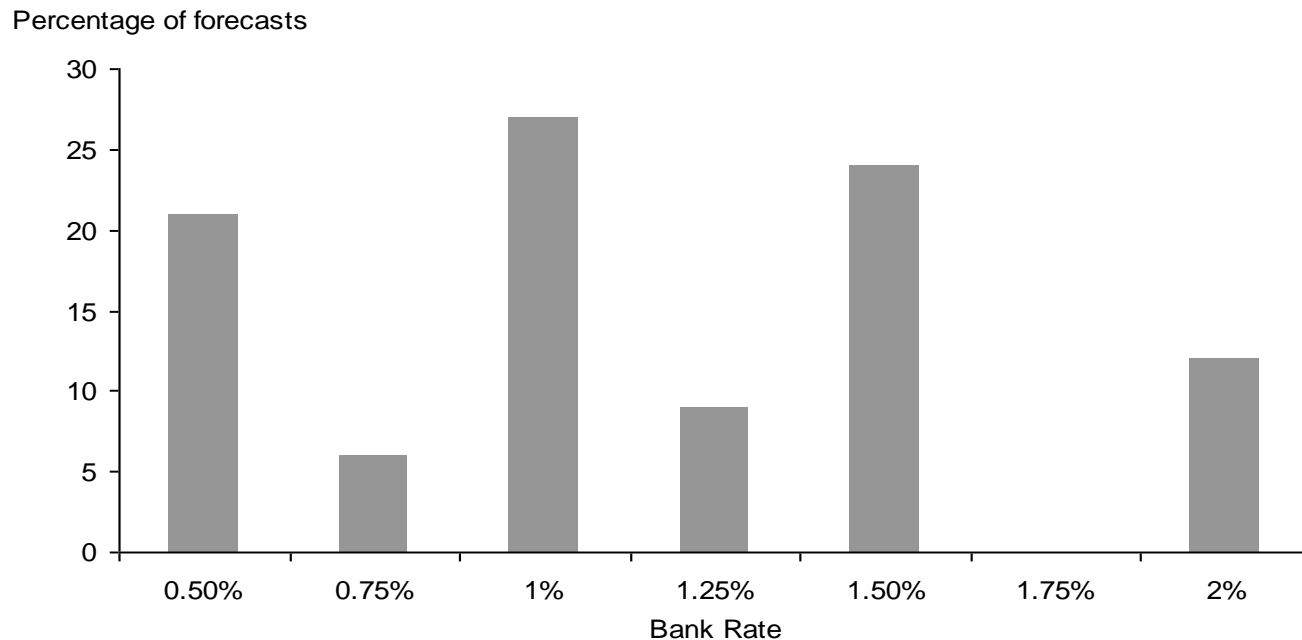
Forecasts for Bank Rate in 2009 Q4 (at January 2009)



Source – HM Treasury Compendium of Forecasts, January 2009

- Economists currently appear divided on their expectation for rates at end year
- This reflects considerable uncertainty about economic prospects

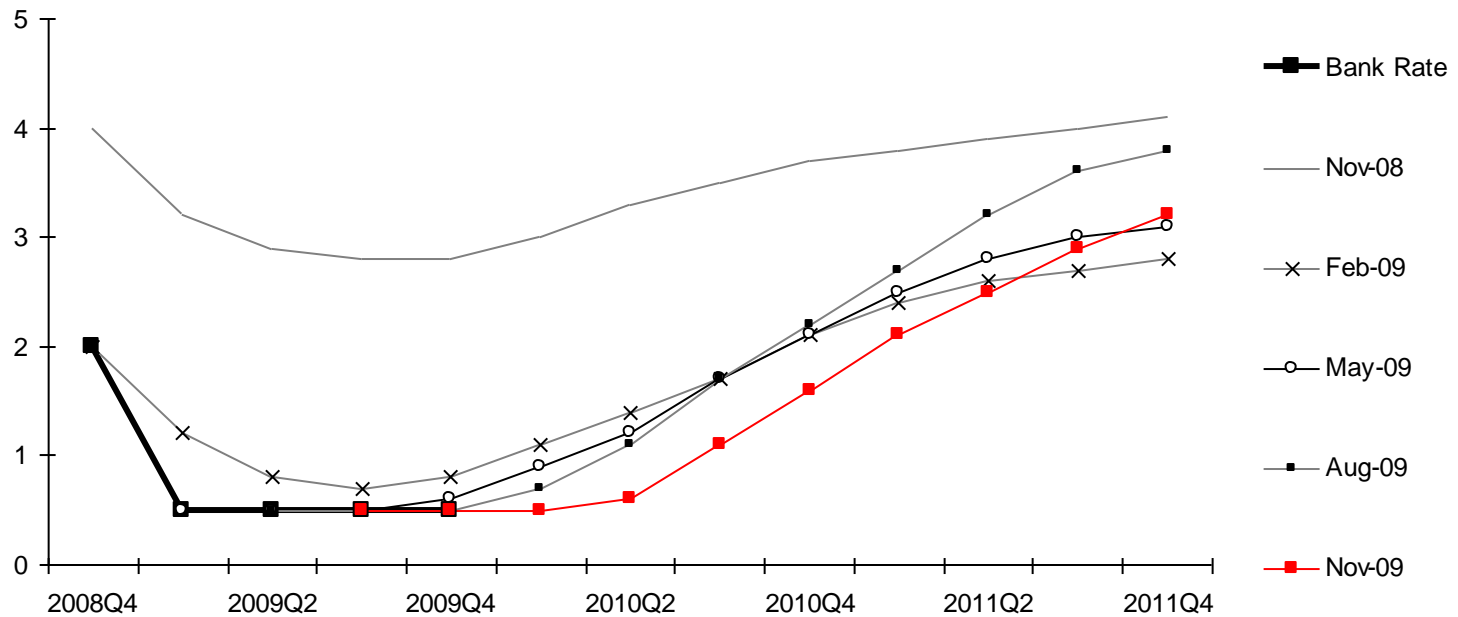
Forecasts for Bank Rate in 2010 Q4 (at January 2010)



Source – HM Treasury Compendium of Forecasts, January 2010

- Inflation Reports show rising implied market rates over next two years
- November '08 implied profile shows the extent of policy change since then

Market Implied Interest Rates (%)



Source – Bank of England Inflation Reports

