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## **RECOVERY SHIFTING TO A LOWER GEAR**

...BUT PRICE PRESSURES WILL FORCE RATE HIKES NEXT YEAR

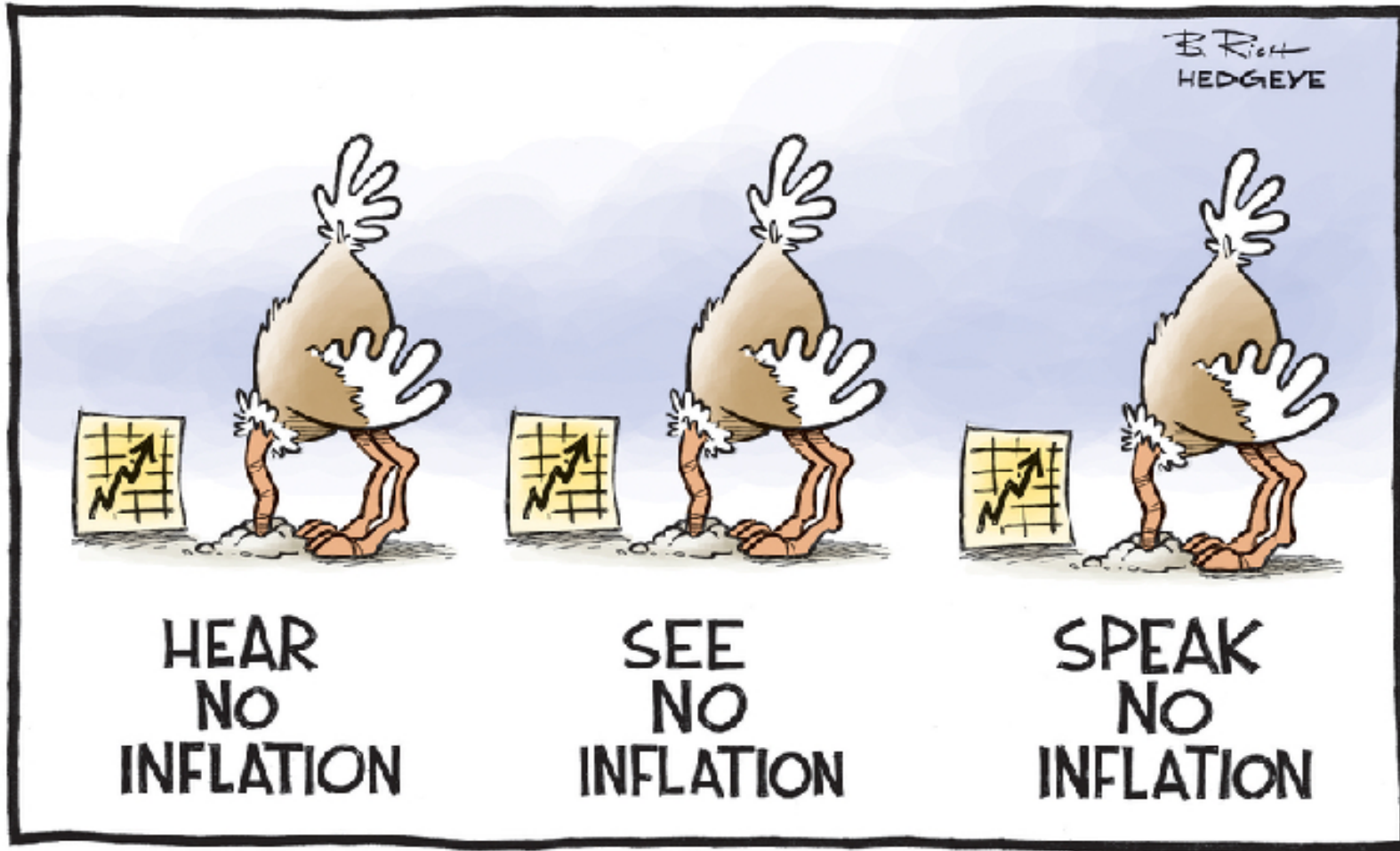
### **U.K. ECONOMIC CHARTBOOK, NOVEMBER 2015**

DATA AS AT NOVEMBER 16TH | SAMUEL TOMBS, CHIEF U.K. ECONOMIST

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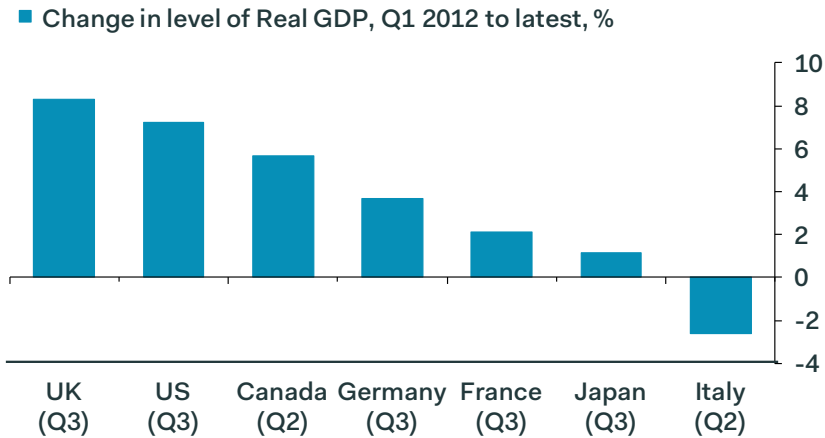


**THE MPC'S CURRENT STANCE...**

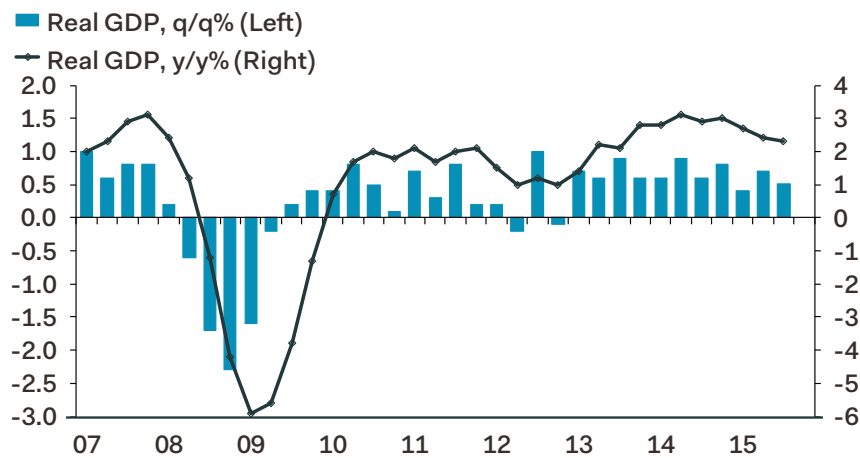




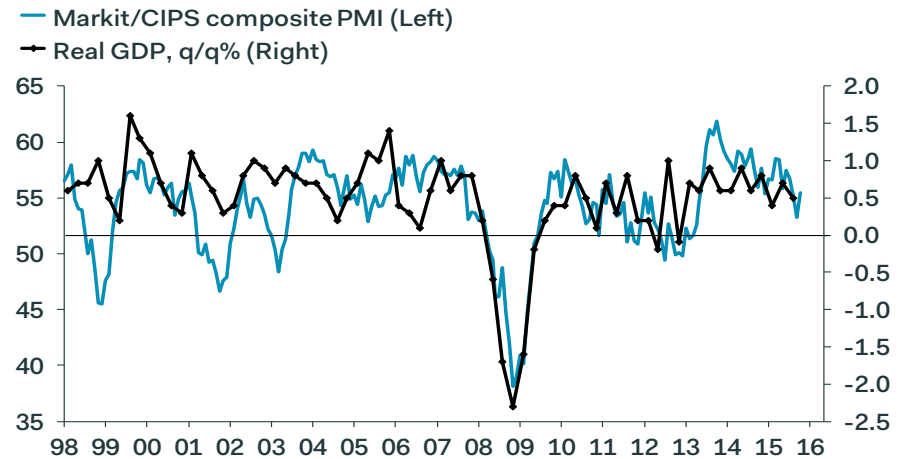
**1. THE U.K. HAS BEEN THE FASTEST GROWING G7 ECONOMY SINCE 2012**



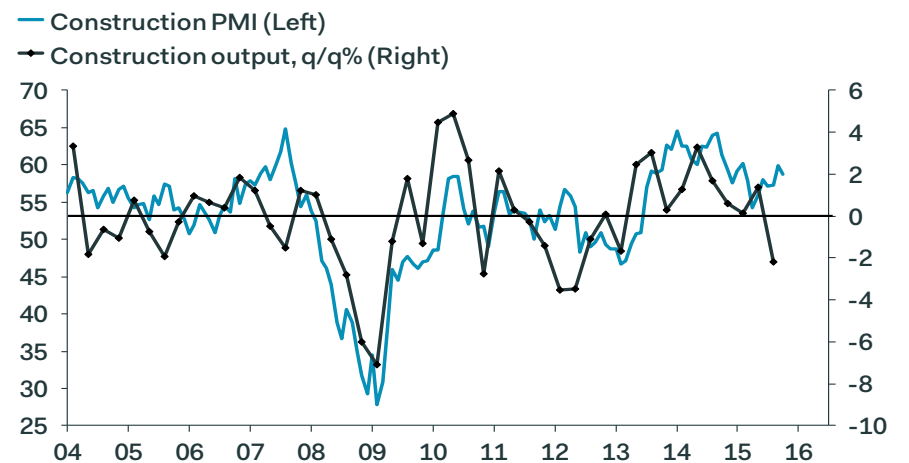
**2. BUT THIS GROWTH SPURT HAS BEGUN TO FADE**



**3. OCTOBER'S PMIS POINT TO GROWTH HOLDING AT 0.5% Q/Q% IN Q4...**



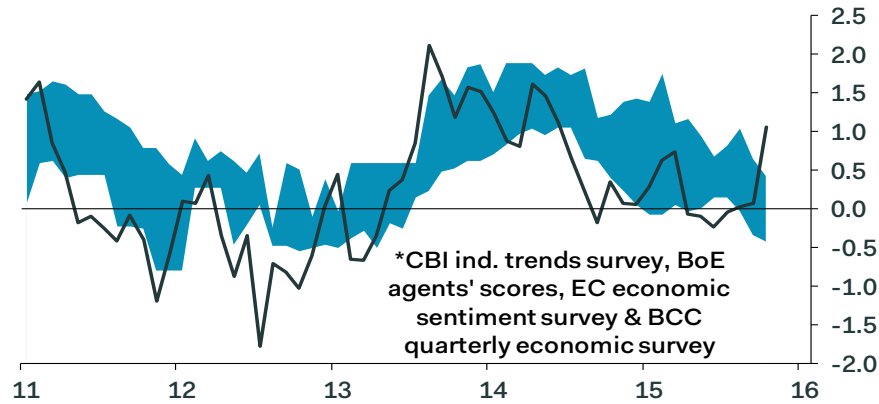
**4. ...AND A STRONG BOUNCEBACK IN CONSTRUCTION AFTER A WEAK Q3**





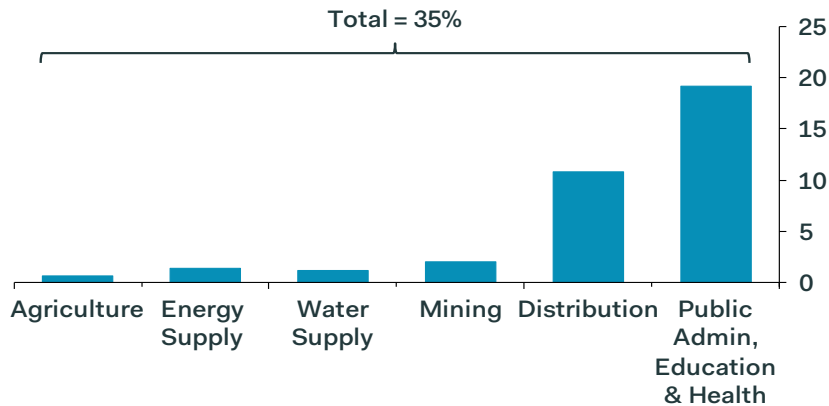
**5. BUT THE MANUFACTURING PMI LOOKS MISLEADINGLY STRONG**

■ Standard dev. of output/orders bal. from 1998-2014 ave., survey range\*  
— Standard dev. of Markit/CIPS output balance from 1998-2014 average



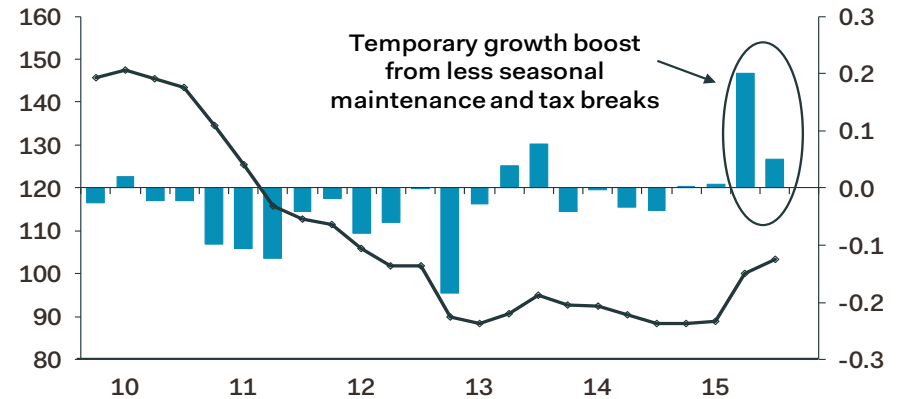
**6. THE PMIS ALSO EXCLUDE SECTORS WHICH WILL STRUGGLE IN Q4**

■ Parts of economy excluded by PMIs, % of GDP



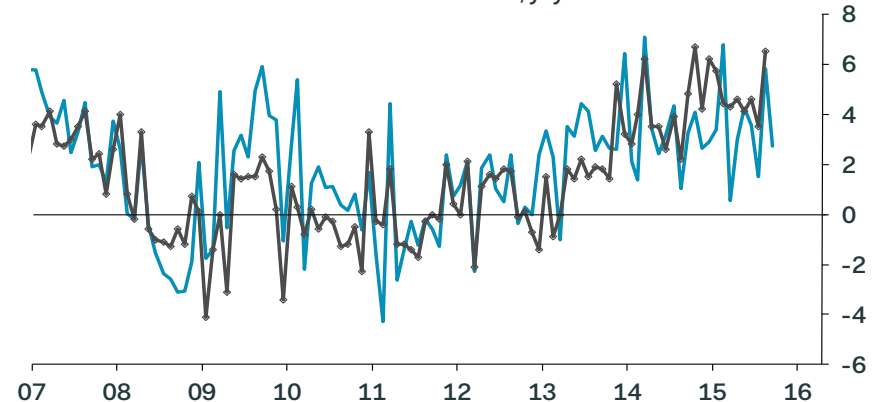
**7. THE BOOST TO GROWTH FROM OIL PRODUCTION WON'T LAST**

■ Oil and gas extraction output, 2012 = 100 (Left)  
— Contribution to q/q% GDP growth (Right)



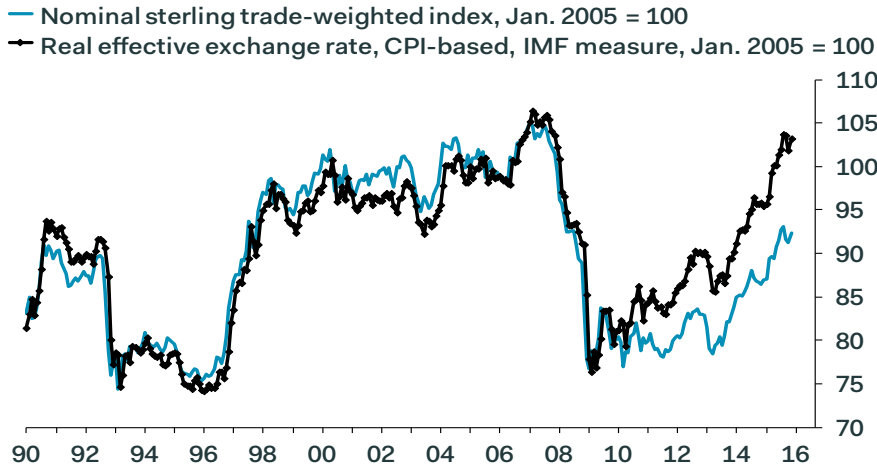
**8. AND SEPTEMBER'S RETAIL SURGE LARGELY REVERSED IN OCTOBER**

— BRC total sales values, adjusted by shop price index, y/y%  
— Official measure of retail sales volumes, y/y%

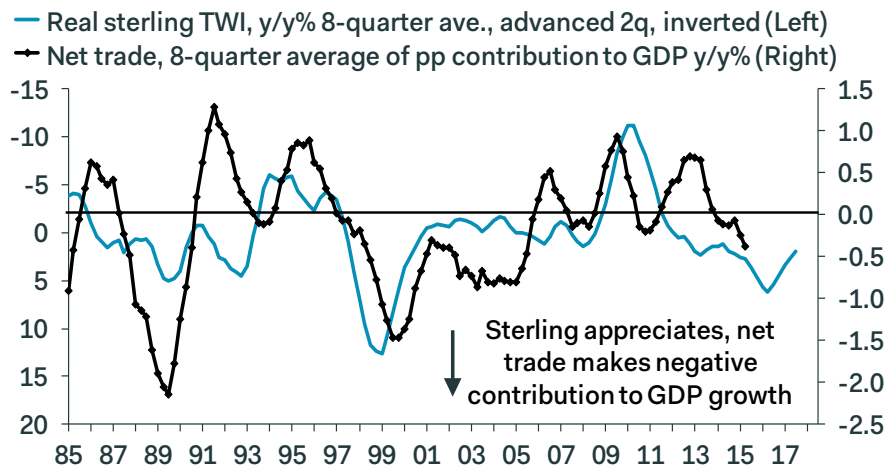




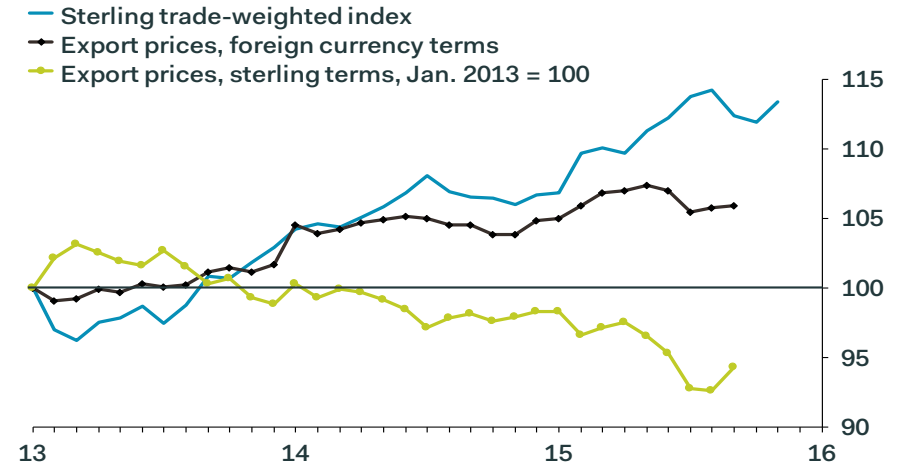
**9. EXPORTERS WILL STRUGGLE WITH STERLING'S STRENGTH**



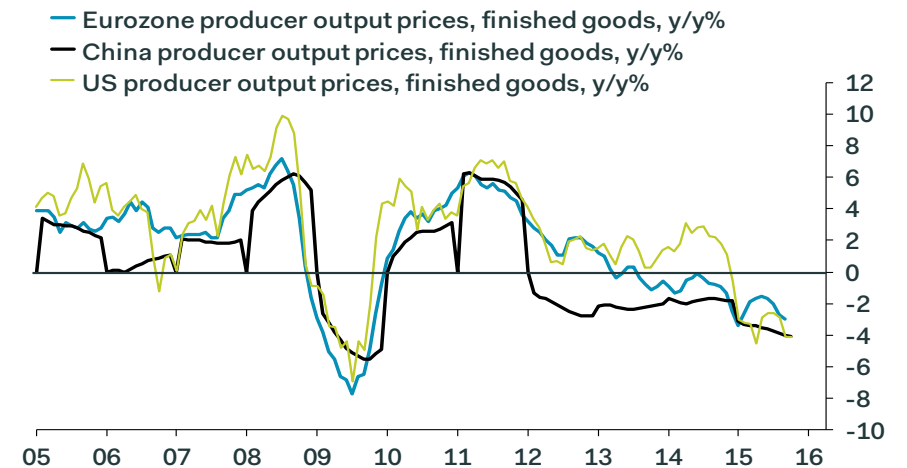
**10. NET TRADE LOOKS SET TO KNOCK 1PP OFF GDP GROWTH IN EARLY 2016**



**11. EXPORTERS HAVE CUT £-PRICES, BUT ARE STILL UNCOMPETITIVE...**



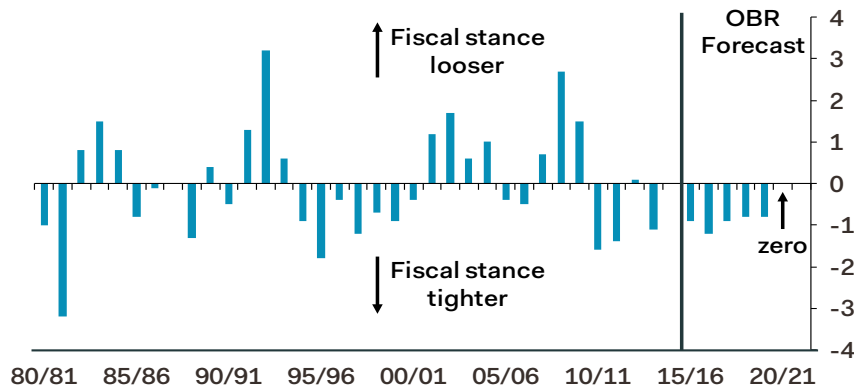
**12. ...AS OVERSEAS PRODUCERS HAVE LOWERED THEIR PRICES TOO**





**13. THE INTENSIFYING FISCAL SQUEEZE WILL HURT GROWTH TOO**

■ Fiscal stance (change in cyclically-adjusted budget deficit as a % of GDP)

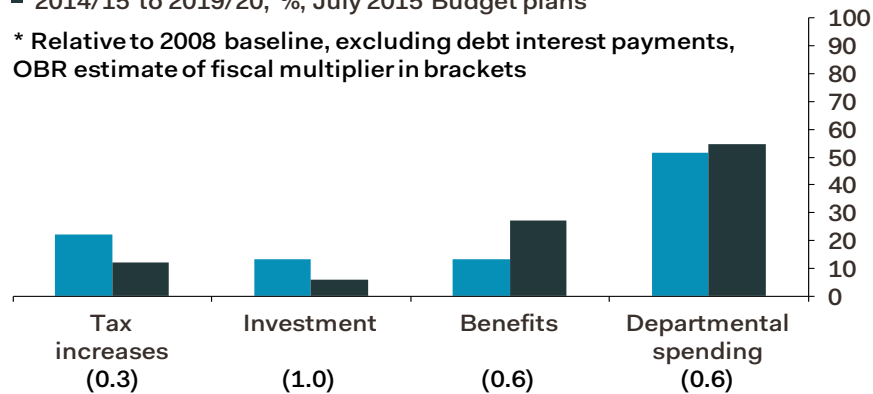


**14. THE SQUEEZE IS FOCUSED ON AREAS WITH HIGH MULTIPLIERS**

■ Composition of fiscal consolidation\*, 2010/11 to 2014/15, %

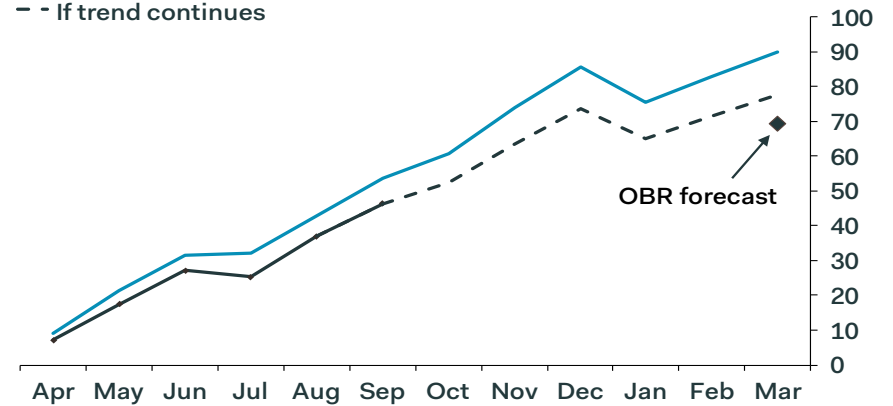
■ 2014/15 to 2019/20, %, July 2015 Budget plans

\* Relative to 2008 baseline, excluding debt interest payments, OBR estimate of fiscal multiplier in brackets



**15. MORE CUTS POSSIBLE IF BORROWING CONTINUES TO OVERSHOOT...**

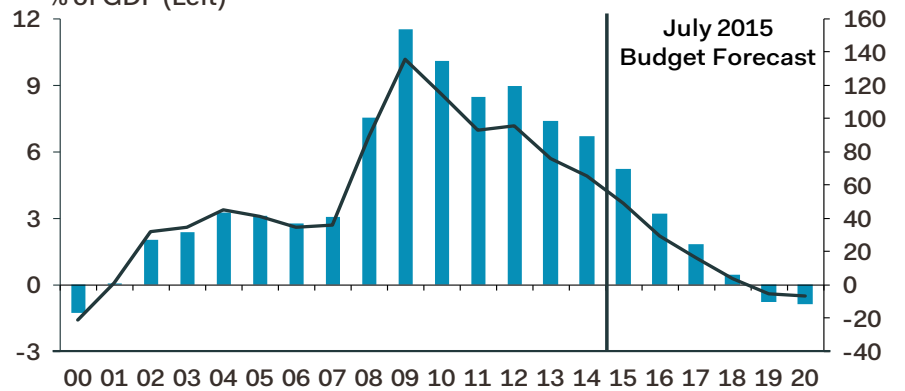
— Cumulative PSNB ex public sector banks, £bn, 2014/15  
— Cumulative PSNB ex public sector banks, £bn, 2015/16  
- - If trend continues



**16. ...LITTLE WIGGLE ROOM IN PLANS FOR SURPLUS IN 19/20**

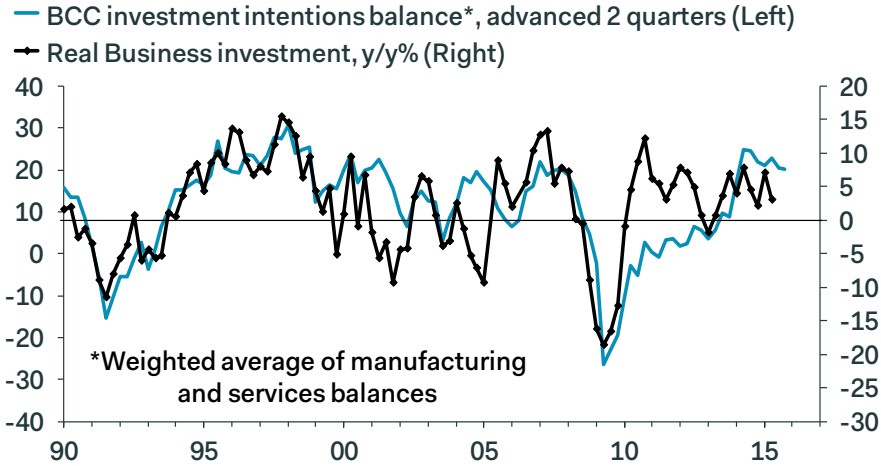
■ Public sector net borrowing, £B (Right)

— % of GDP (Left)

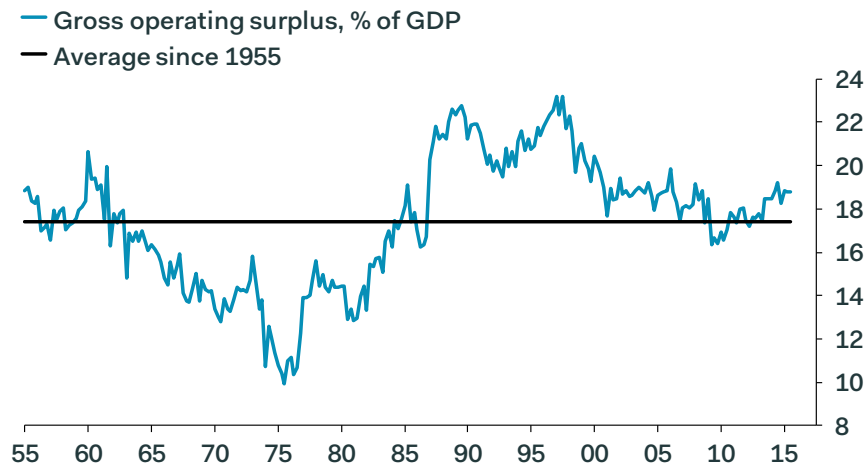




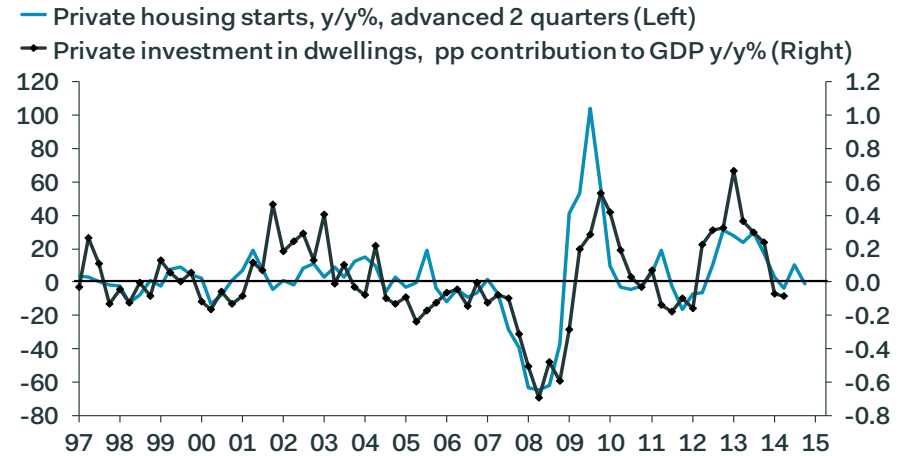
**17. AT LEAST INVESTMENT SHOULD KEEP PUNCHING ABOVE ITS WEIGHT**



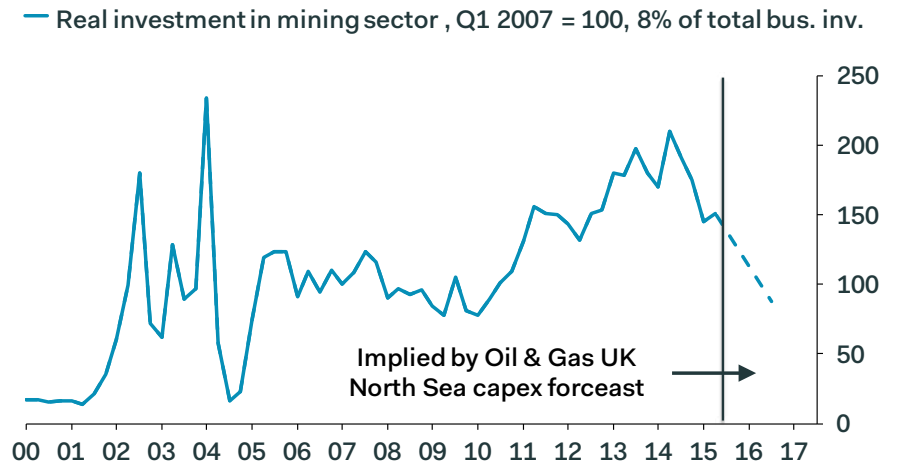
**18. ROBUST PROFIT MARGINS ARE INCENTIVISING INVESTMENT**



**19. BUT HOUSEBUILDING WON'T BOOST GDP GROWTH MUCH**

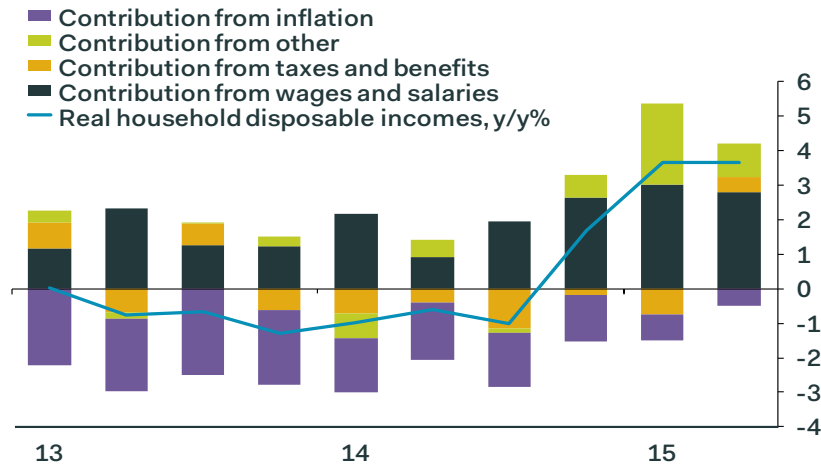


**20. AND OFFSHORE CAPEX WILL PLUNGE AND THE EU POLL POSES RISKS**

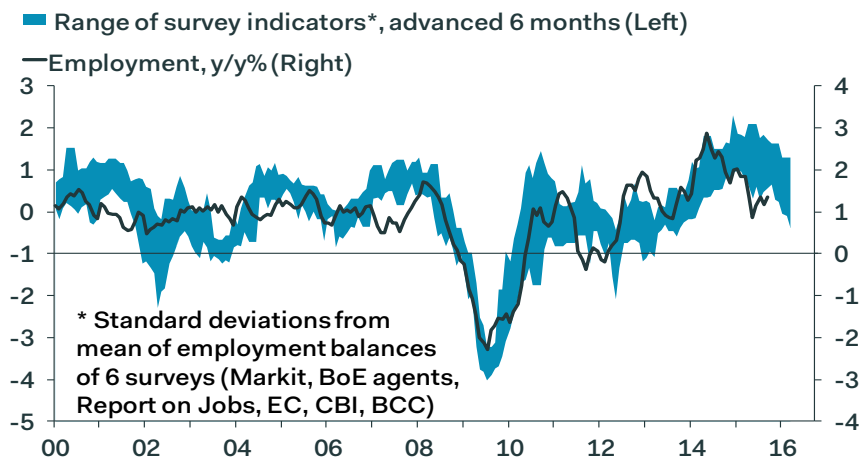




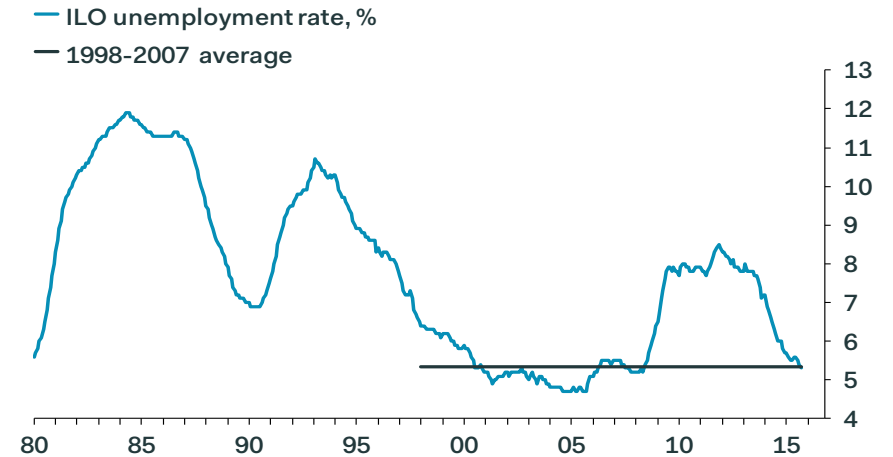
**21. STRONG GROWTH IN JOBS AND REAL WAGES ARE BOOSTING INCOMES**



**22. FIRMS' APPETITE FOR NEW HIRES REMAINS STRONG**



**23. BUT THERE'S NOW LITTLE SLACK LEFT IN THE LABOUR MARKET**



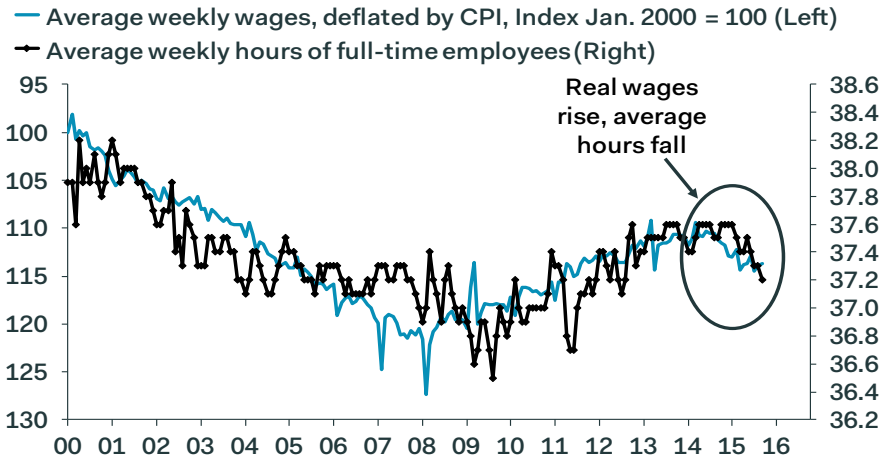
**24. MANY PART-TIME WORKERS WANT TO WORK MORE HOURS...**



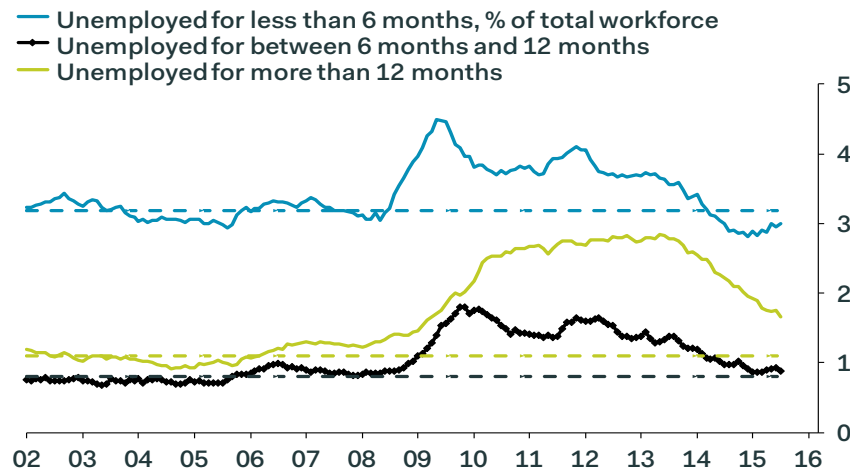




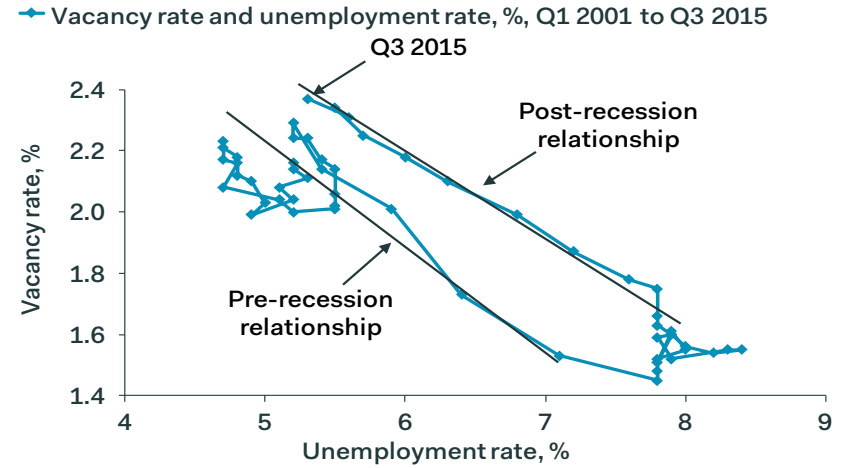
**25. ... BUT FULL-TIME WORKERS ARE REDUCING THEIR LABOUR SUPPLY**



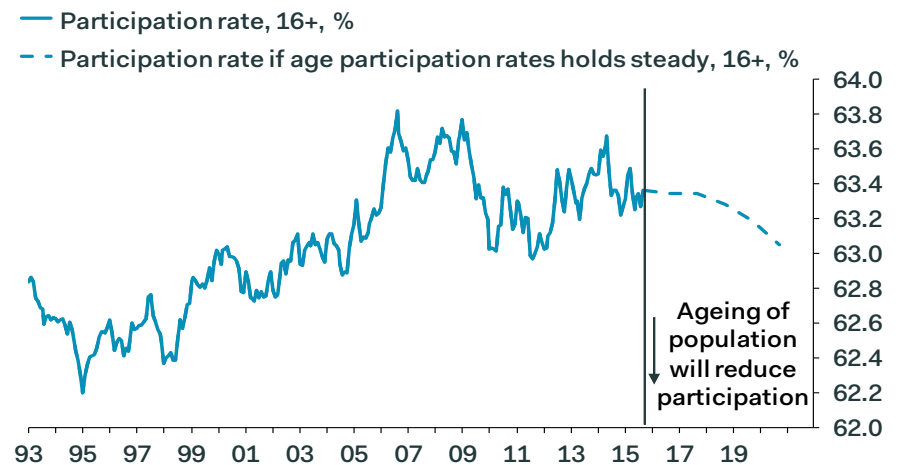
**26. A HIGH SHARE OF THE UNEMPLOYED HAVE BEEN IDLE FOR A LONG TIME**



**27. ...AND THEIR SKILLS AREN'T MATCHING EMPLOYERS' NEEDS**



**28. PARTICIPATION WON'T DEFY DEMOGRAPHICS FOR MUCH LONGER**

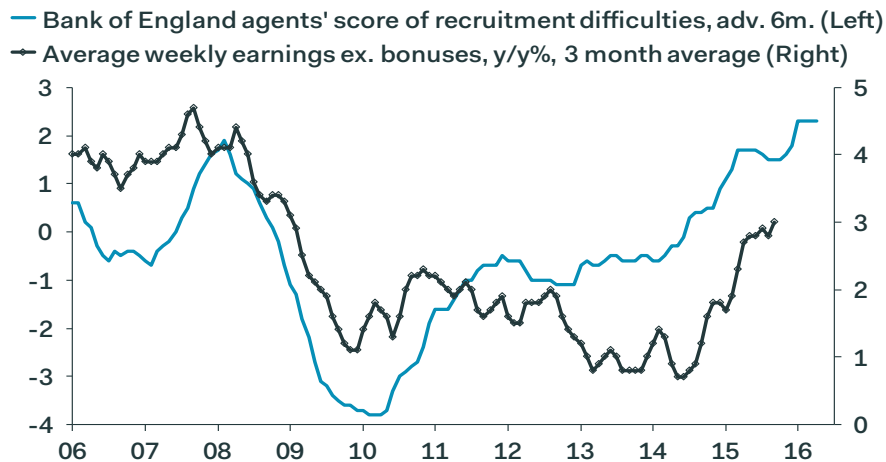




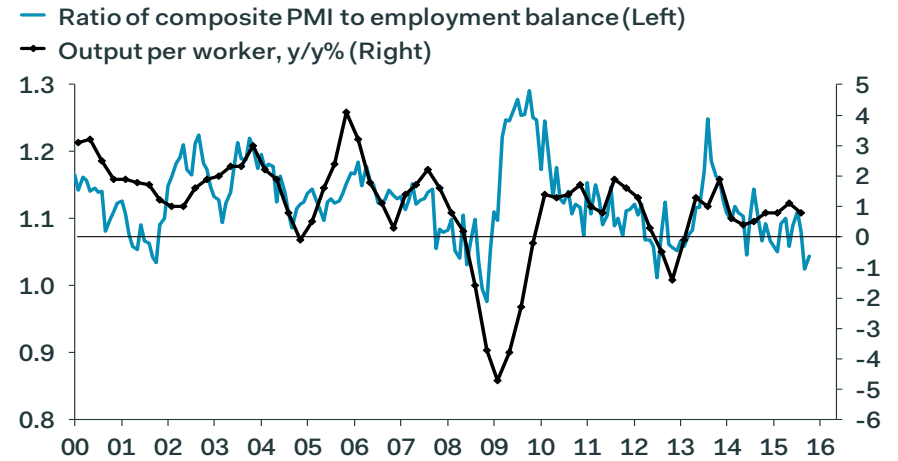
**29. WAGES HAVE PICKED UP IN RESPONSE TO THE DECLINE IN SLACK**



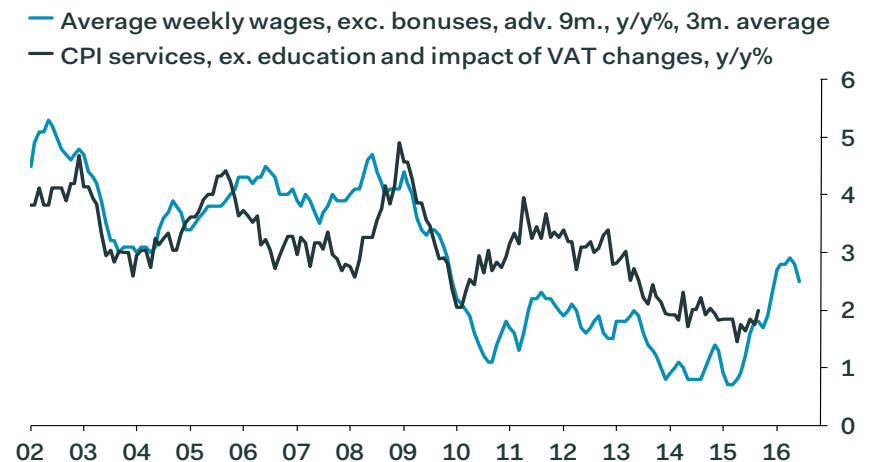
**30. AND WILL ACCELERATE AS COMPETITION FOR LABOUR INTENSIFIES**



**31. WAGES AREN'T BEING SUPPORTED BY A PRODUCTIVITY REVIVAL**

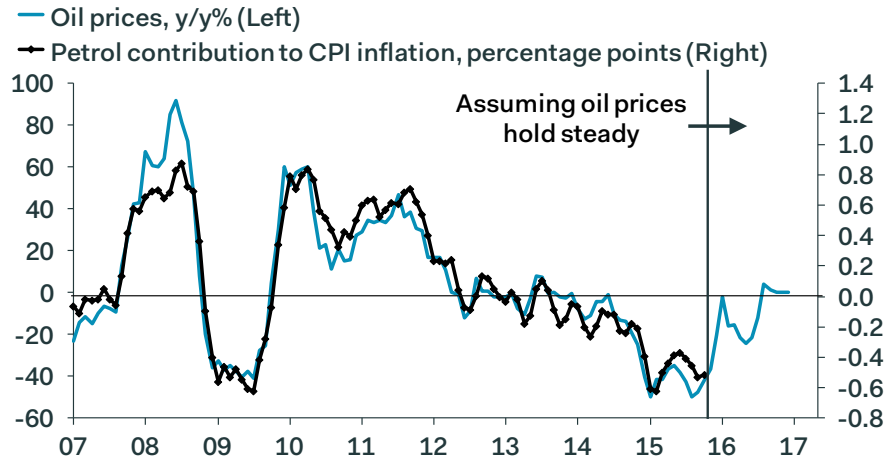


**32. INFLATION THEREFORE LOOKS SET TO PICK UP SHARPLY NEXT YEAR**

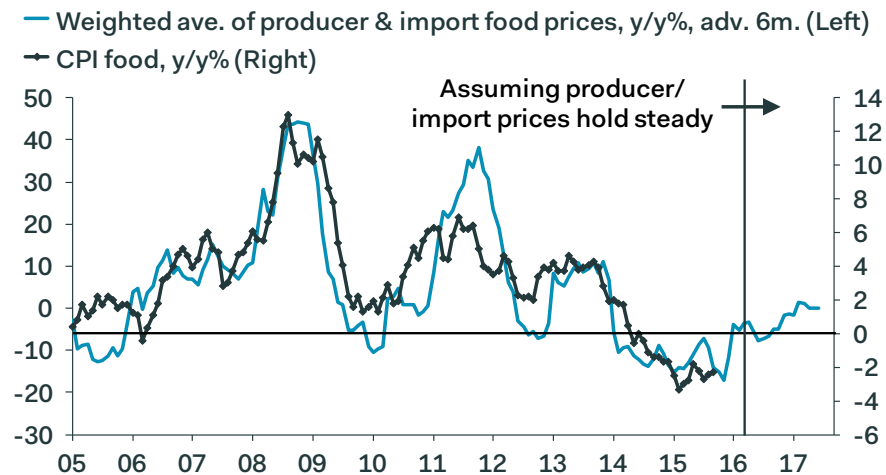




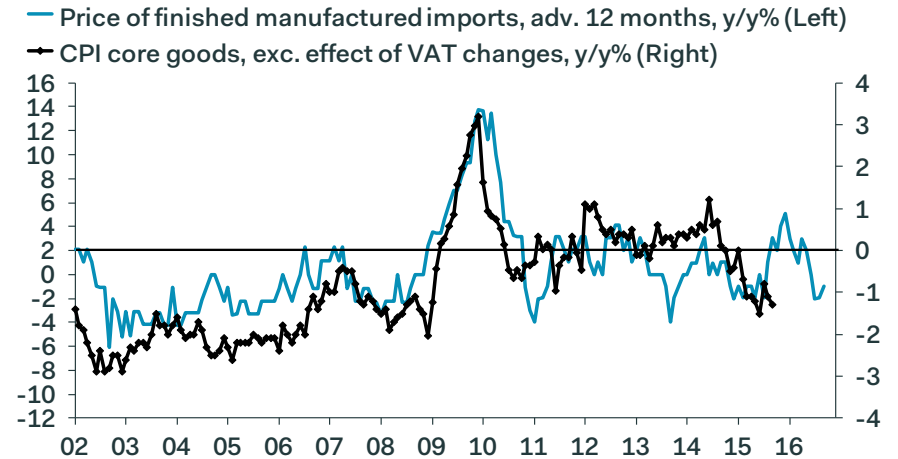
**33. THE DRAG ON INFLATION FROM LOWER OIL PRICES WILL EASE**



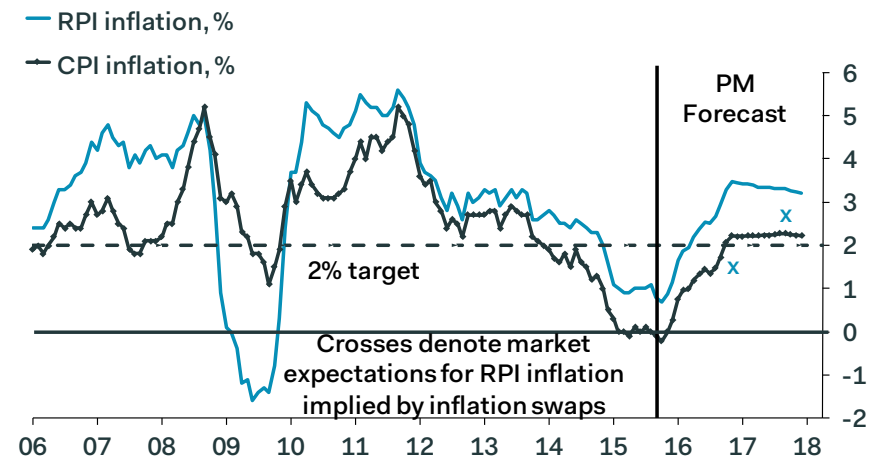
**34. FOOD PRICES WILL STOP FALLING SOON**



**35. AND THE DRAG FROM LOWER IMPORT PRICES IS SET TO FADE**

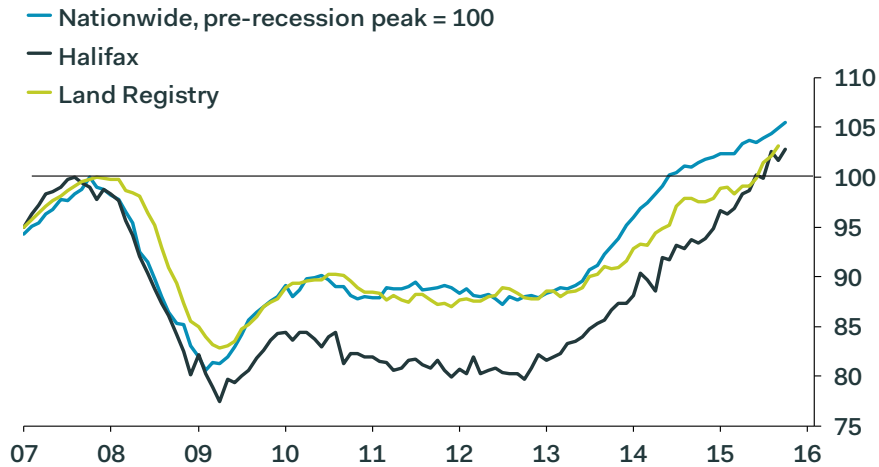


**36. SO CPI INFLATION SHOULD BE BACK TO TARGET IN LATE 2016**

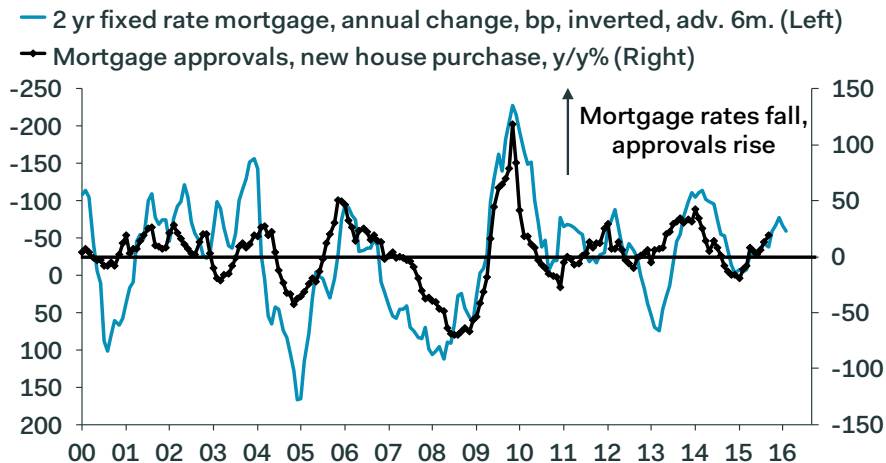




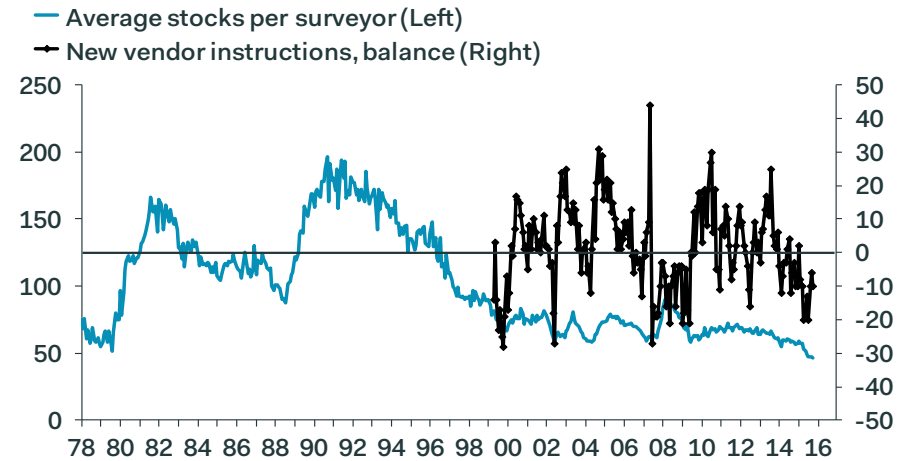
**37. MACROPRU MEASURES ARE NOT RESTRAINING HOUSE PRICES**



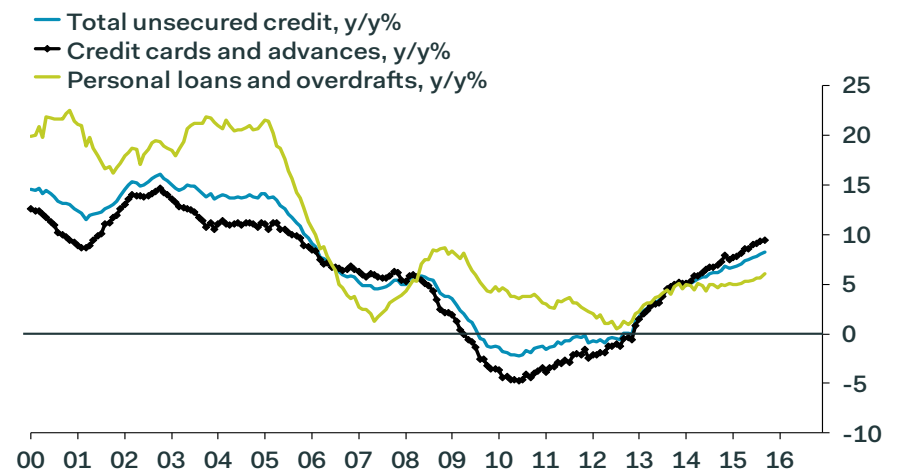
**38. VERY LOW MORTGAGE RATES ARE FOSTERING A RECOVERY IN DEMAND**



**39. WHILE SUPPLY CONDITIONS REMAIN EXTREMELY TIGHT**

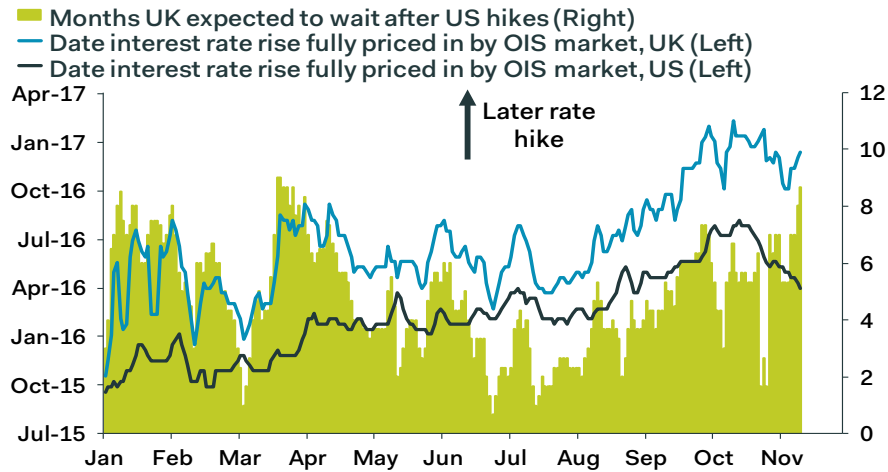


**40. THE MPC MAY NEED TO ACT TO DAMPEN SURGE IN UNSECURED CREDIT**

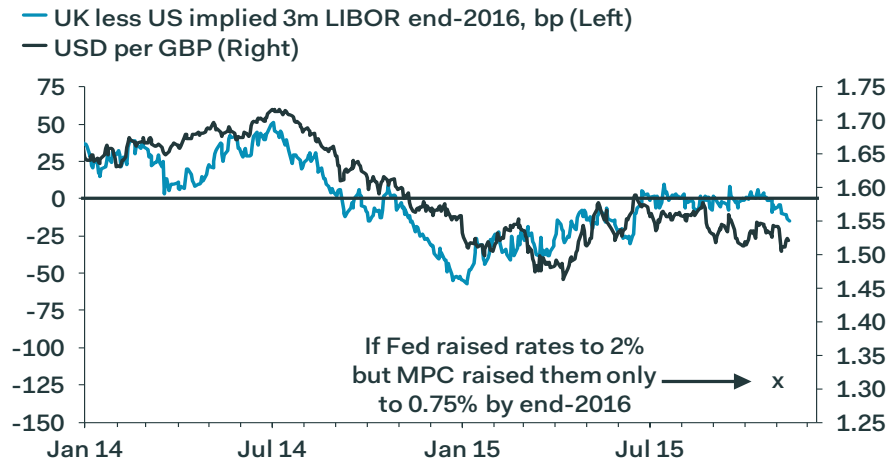




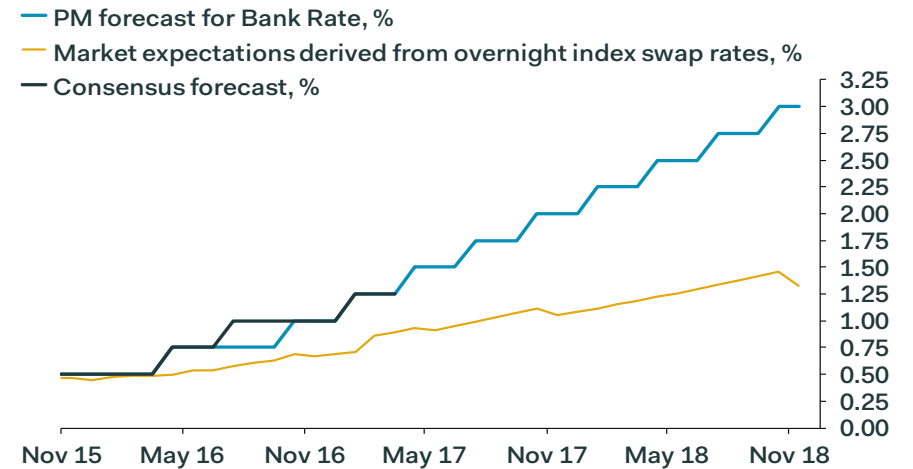
**41. THE MPC CAN'T WAIT BEHIND THE FED AS LONG AS MARKETS THINK**



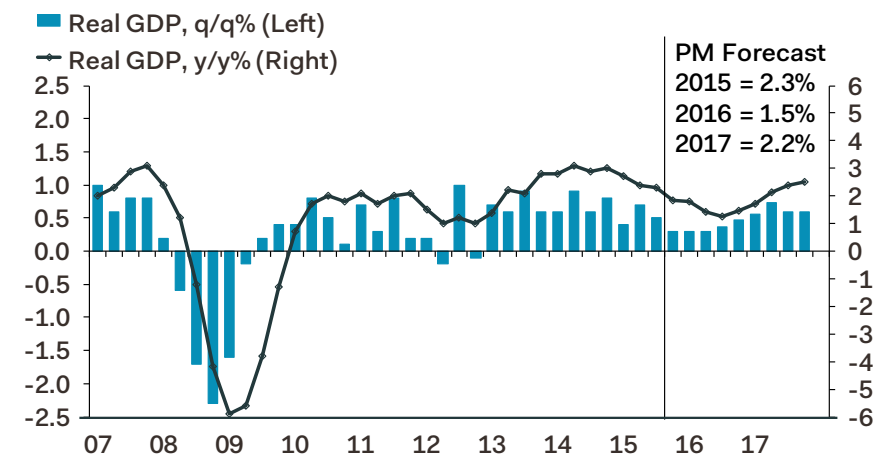
**42. INACTION WOULD CAUSE STERLING TO WEAKEN SHARPLY**



**43. SO THE MPC WILL HAVE TO HIKE NEXT YEAR, STARTING IN Q2**



**44. TIGHTER FISCAL & MONETARY POLICY + A TRADE HIT = SLOWDOWN**





Economic Activity (year-over-year, %)	2013	2014	2015	2016	2017
Household spending	1.9	2.7	2.7	1.7	2.2
Fixed investment	2.6	7.5	3.5	3.0	3.5
Government spending	0.5	1.9	1.8	0.5	0.3
Inventories, cont. to GDP growth	0.7	0.2	-0.9	0.1	0.1
Domestic demand	2.6	3.2	2.1	1.7	2.1
Exports	1.2	1.8	3.0	0.3	2.0
Imports	2.8	2.8	2.0	1.0	2.0
GDP	2.2	2.9	2.3	1.5	2.2

#### Labor Market, Costs and Prices (year-over-year)

Output per worker	1.0	0.7	0.9	0.8	1.5
Employment	1.2	2.3	1.4	0.7	0.7
Unemployment rate	7.6	6.2	5.4	5.3	5.3
Average weekly wages	1.2	1.3	2.5	3.2	3.5
Unit wage costs	0.0	0.1	1.6	2.5	2.0
CPI	2.6	1.5	0.0	1.5	2.2
Core CPI	2.1	1.6	1.0	1.8	2.1
RPI	3.1	2.4	1.0	2.6	3.3
House prices, Nationwide measure	3.2	9.8	4.5	8.0	4.0

#### Other

Current account, % GDP	-4.5	-5.3	-4.5	-4.5	-4.0
Budget deficit, £B, FY	98.5	89.2	72.0	55.0	40.0
Budget deficit, % GDP, FY	5.7	4.9	3.8	2.8	1.9
Bank Rate, December	0.50	0.50	0.50	1.00	2.00
Asset Purchase Facility, £B, December	375	375	375	375	375
10-year gilt yields, Q4 average	3.02	1.76	2.00	2.80	3.50
30-year gilt yields, Q4 average	3.67	2.51	2.60	3.30	4.00
\$ per £, Q4 average	1.66	1.56	1.50	1.42	1.40
€ per £, Q4 average	1.20	1.29	1.39	1.42	1.40
FTSE 100	6749	6566	6400	6600	7000