

The UK Economy : Crunch Time?

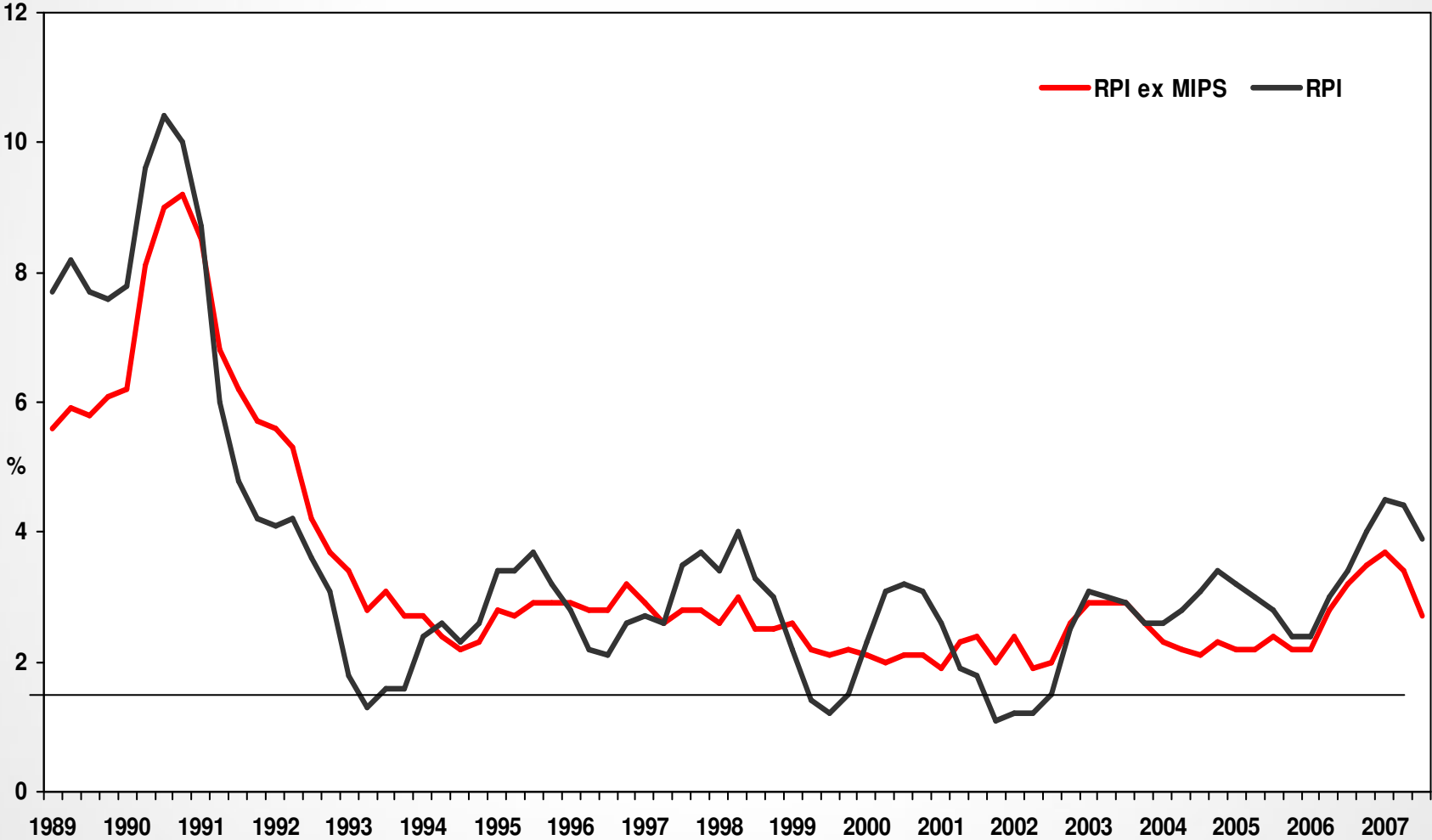
Dennis Turner

HSBC Bank plc

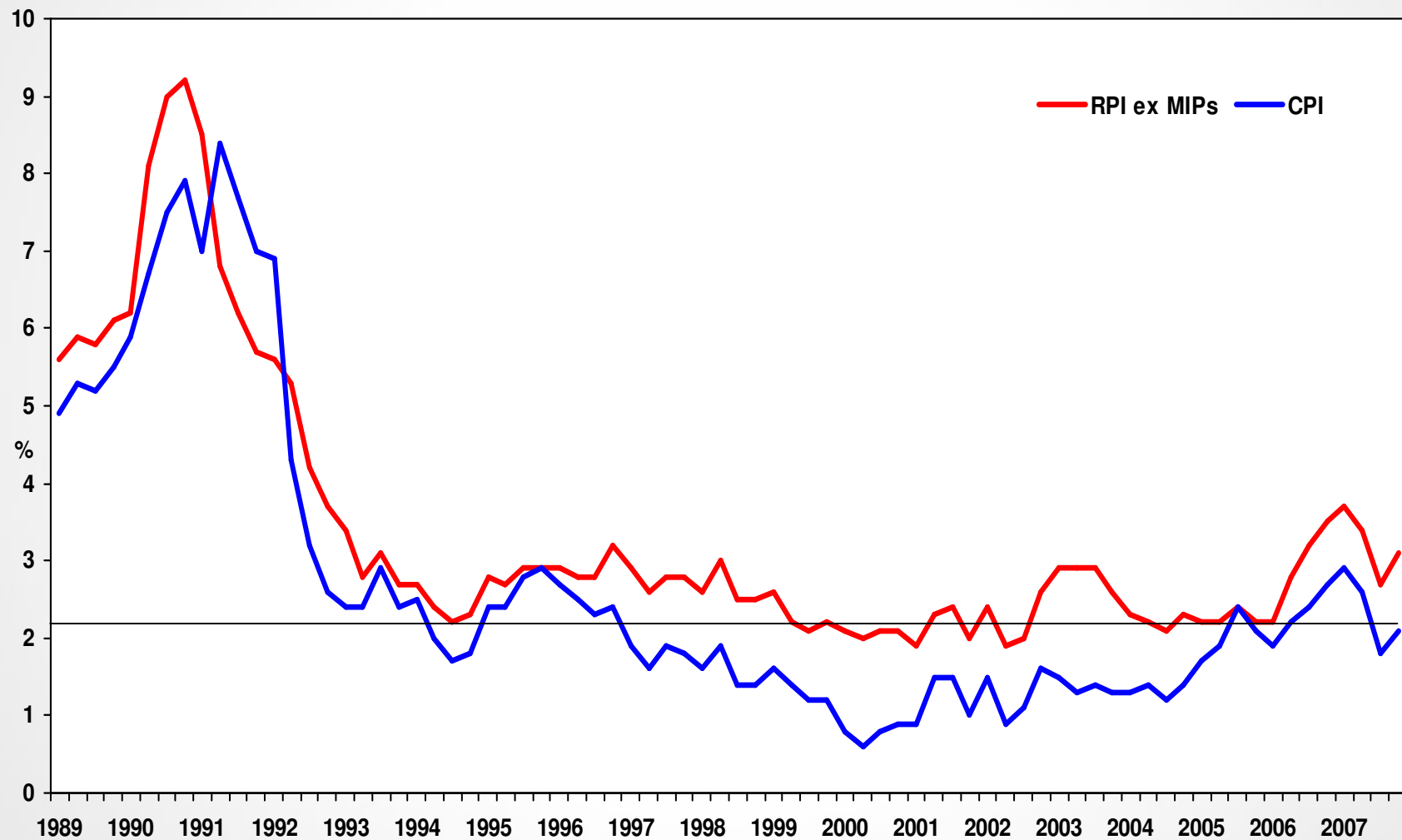
March 2008

SOUND FUNDAMENTALS

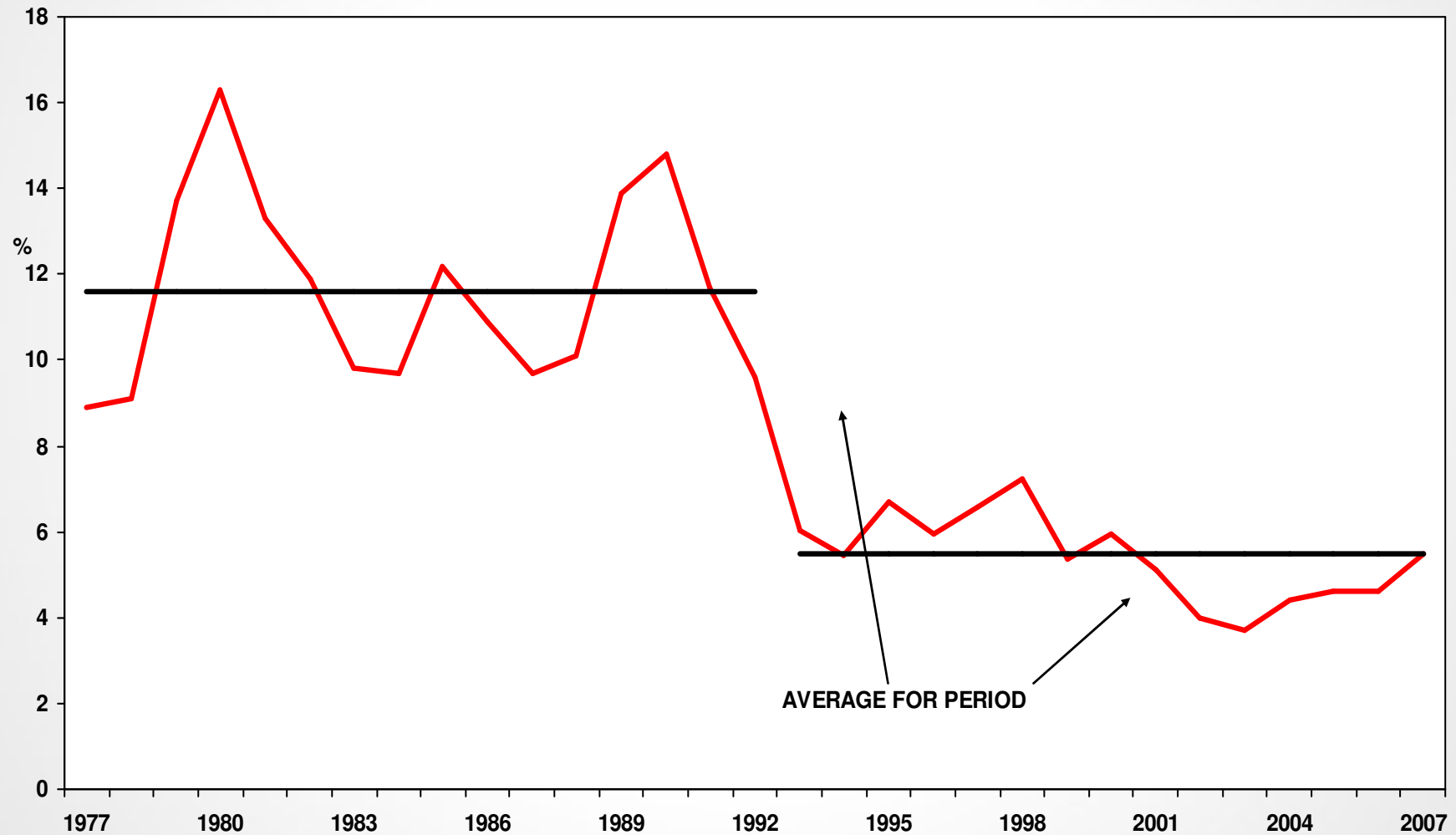
Sustained low inflation



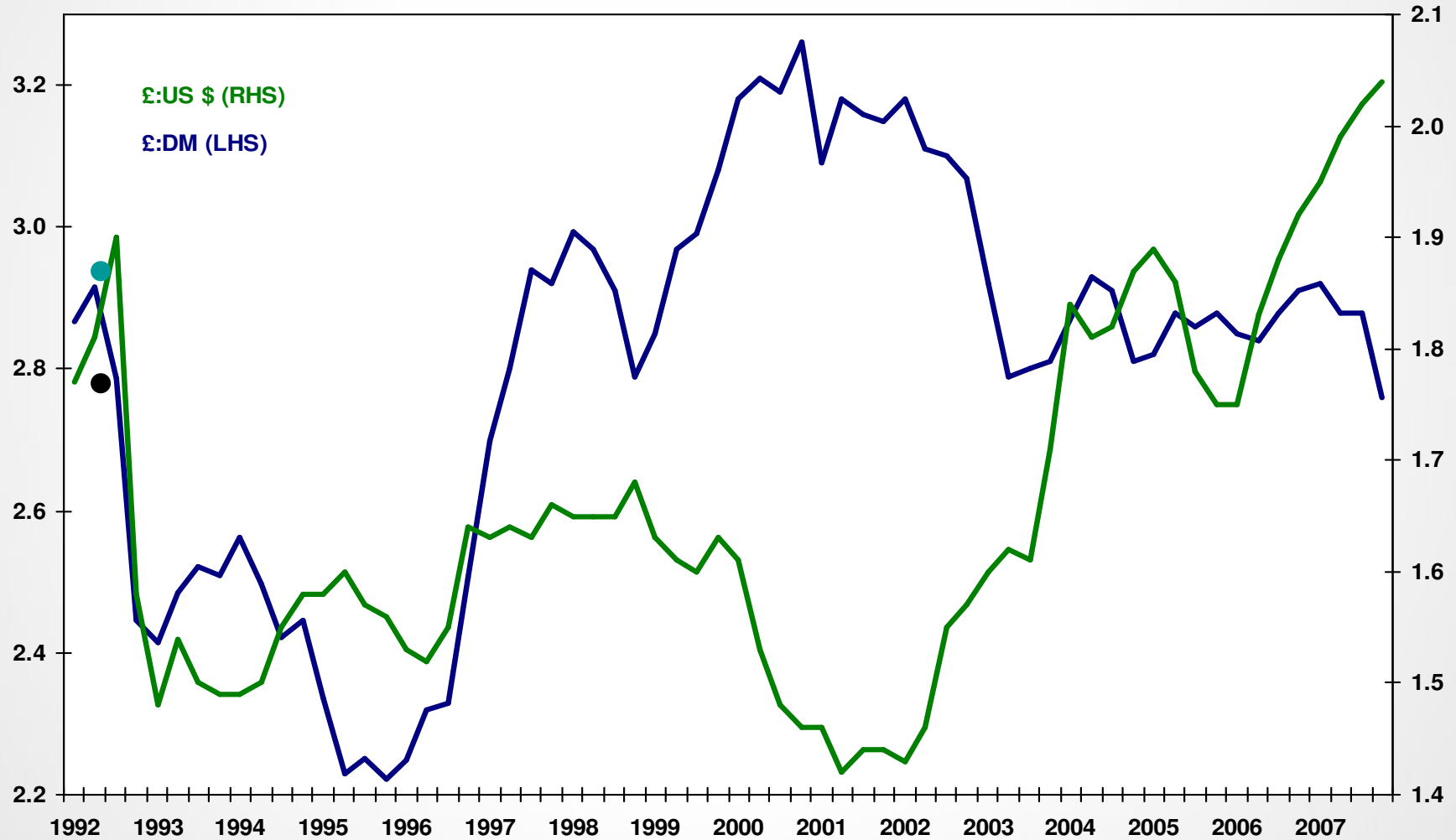
Sustained low inflation



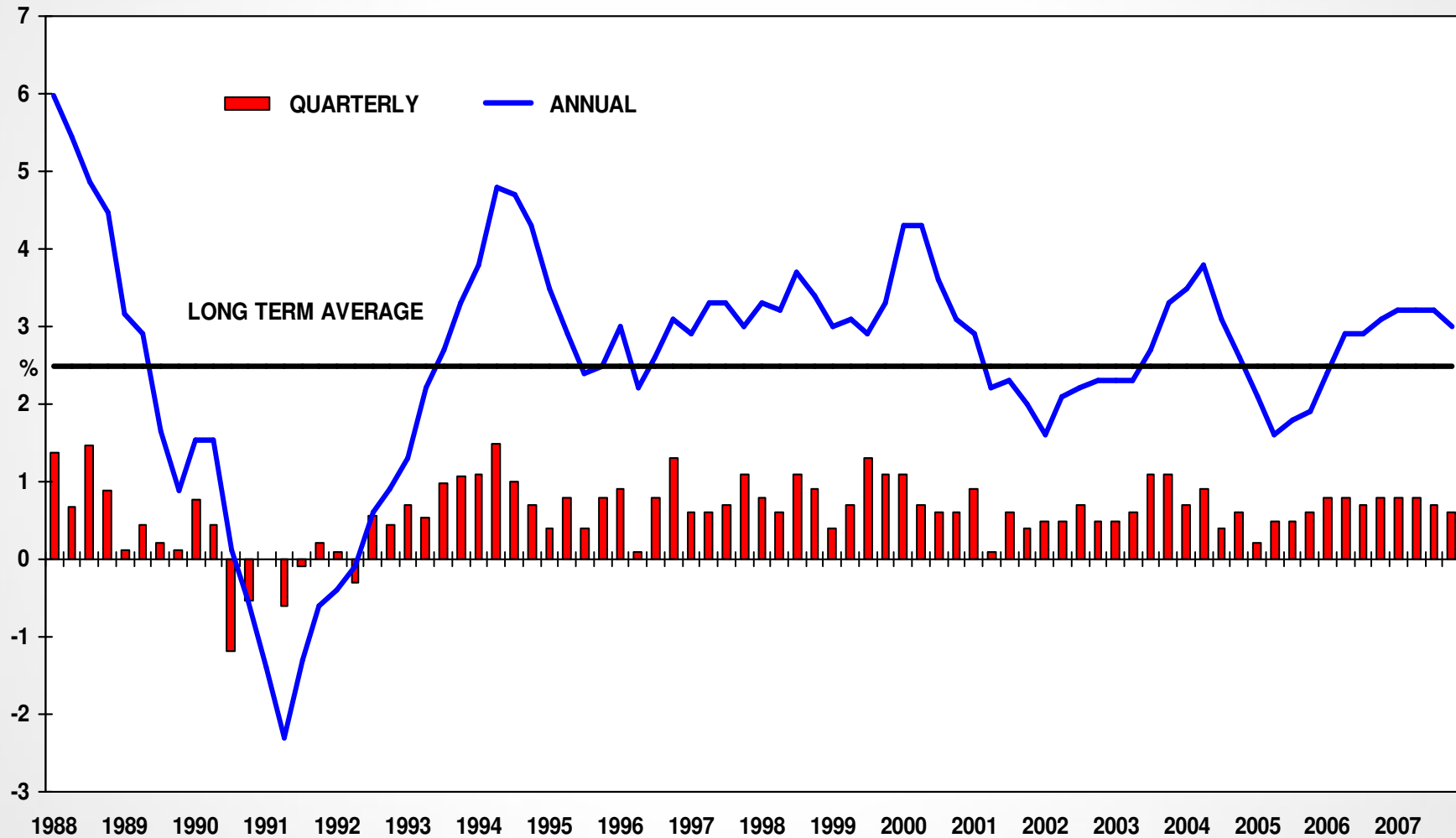
Historically low interest rates



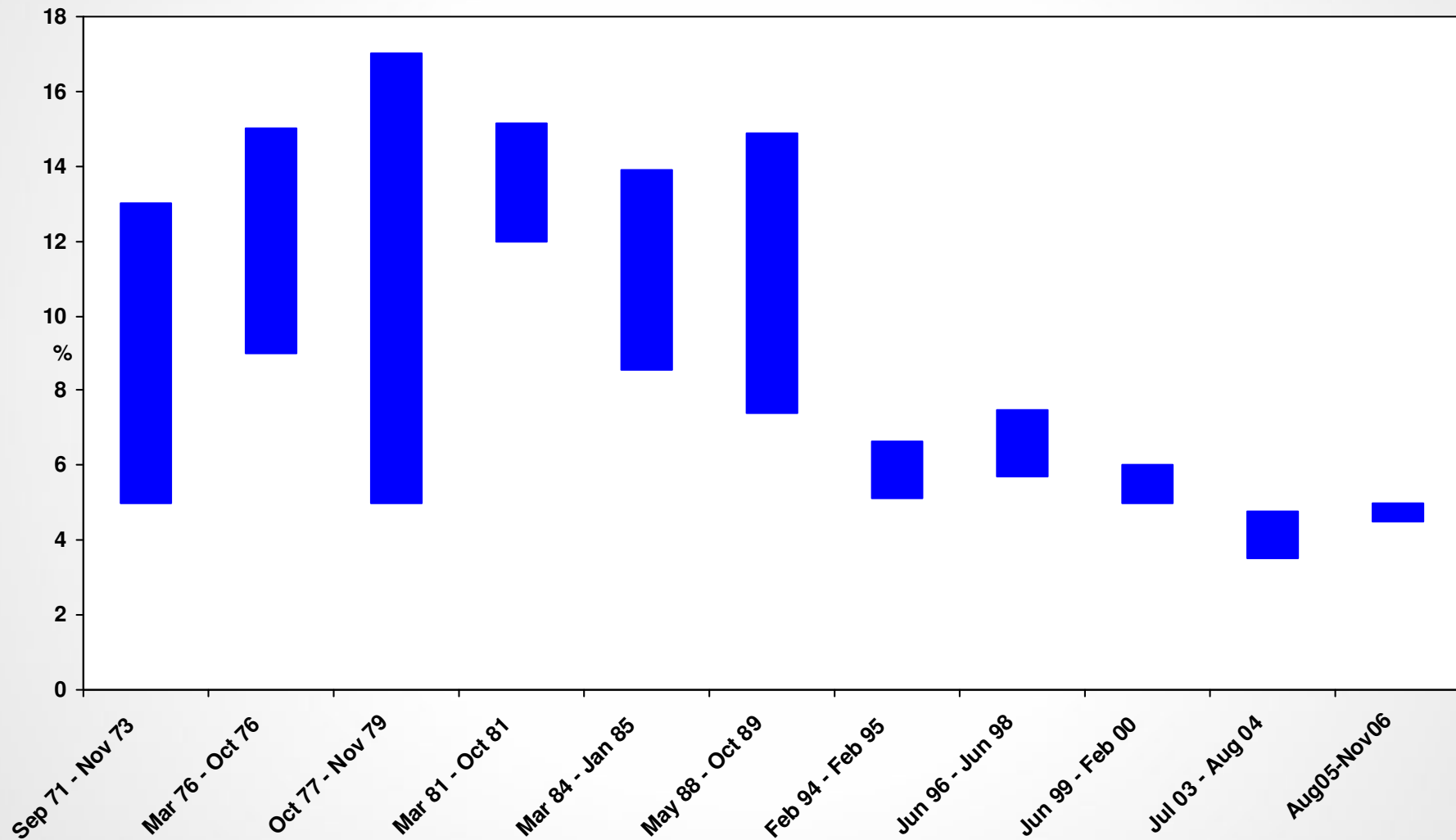
Stronger and more stable sterling



Sustained GDP growth

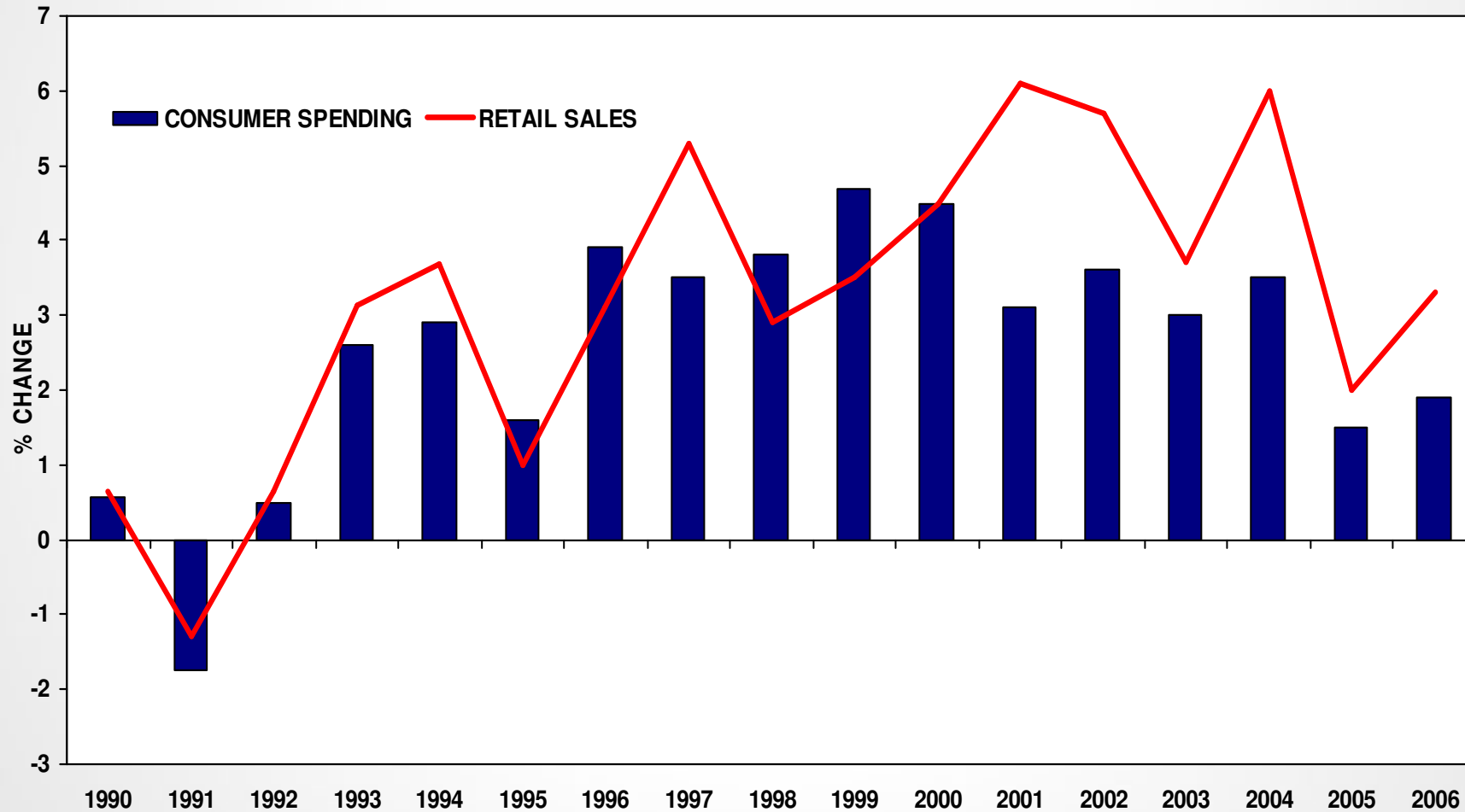


Leading to interest rate stability

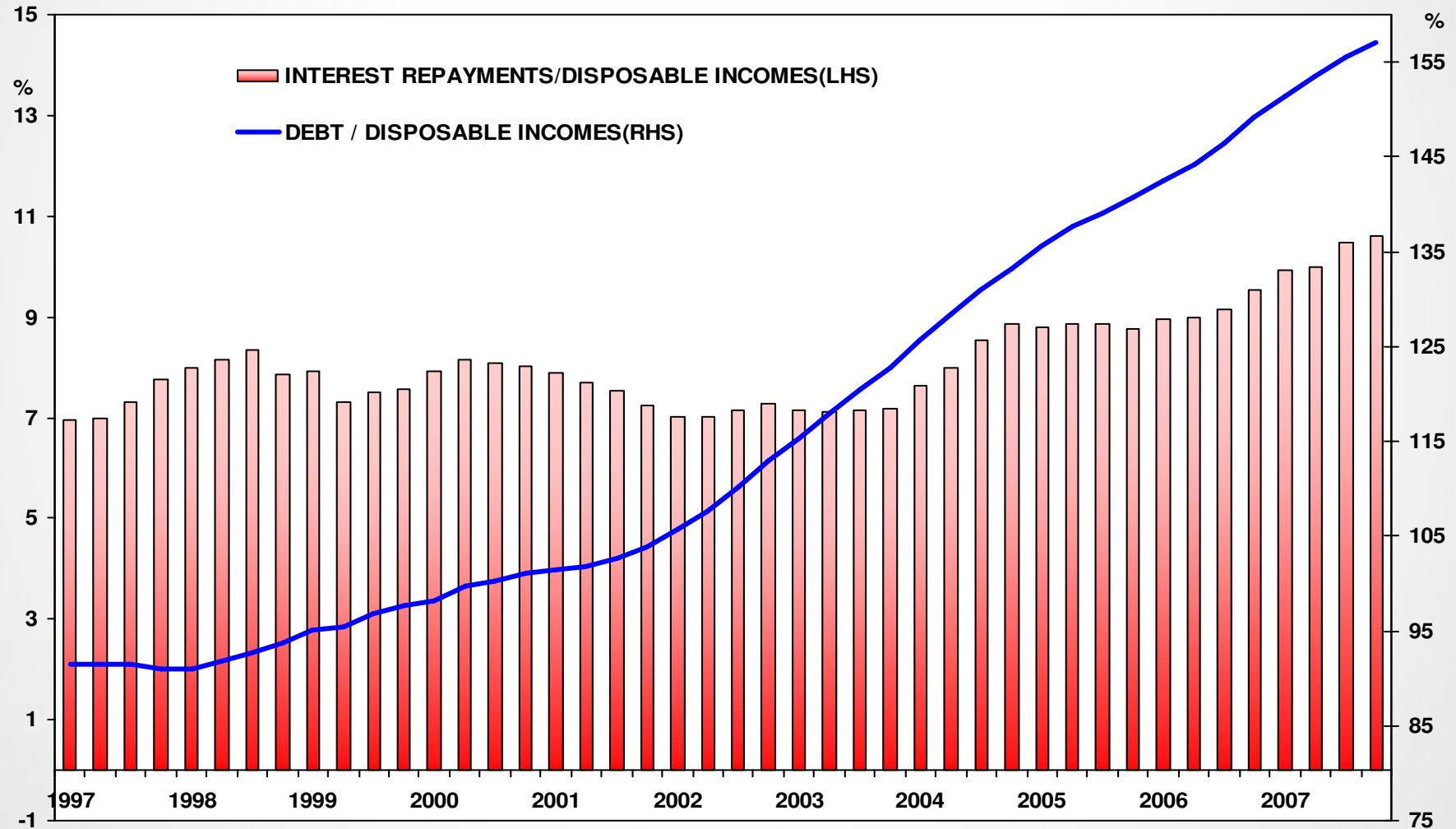


THE WRONG SORT OF GROWTH

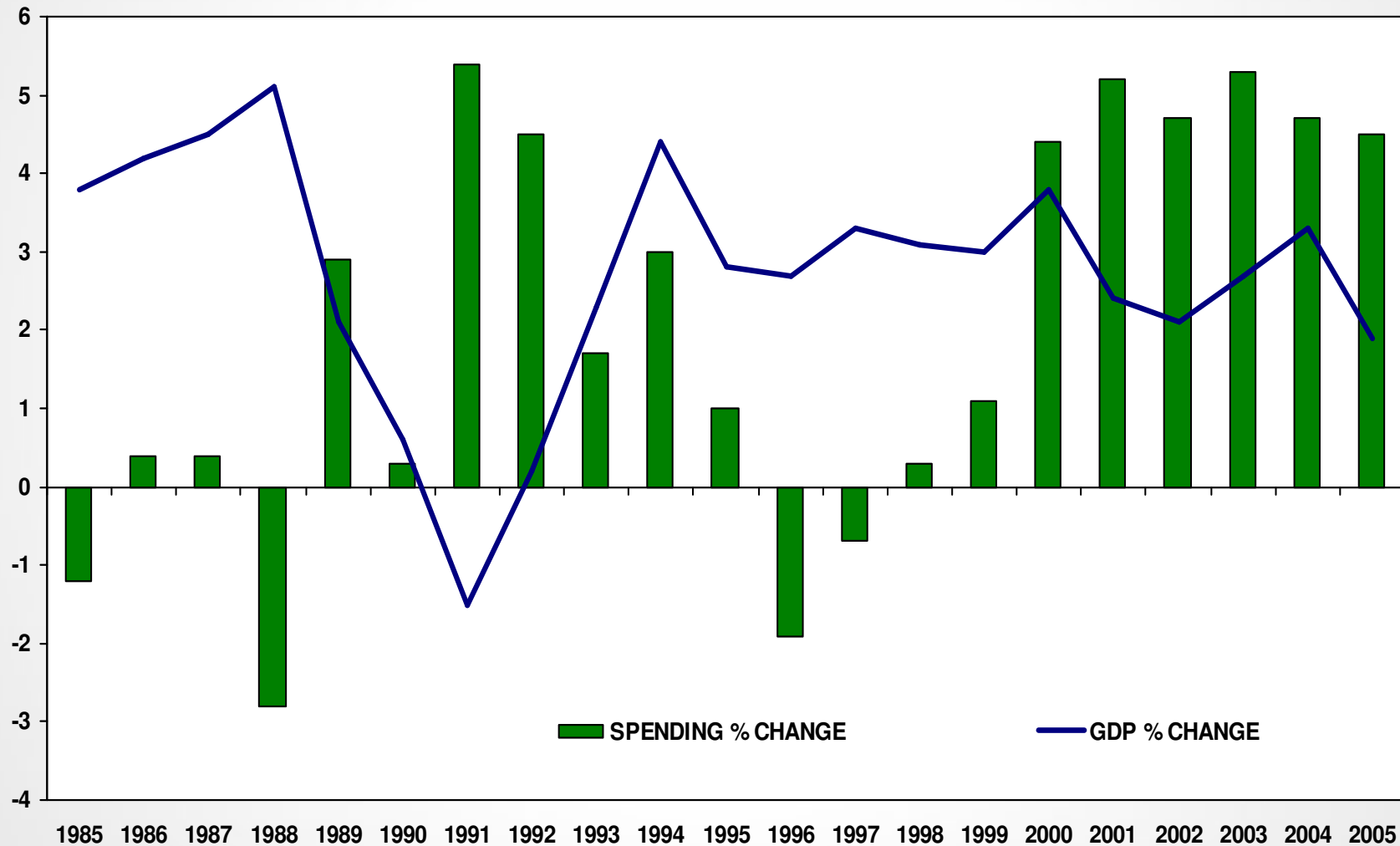
Consumers the driving force



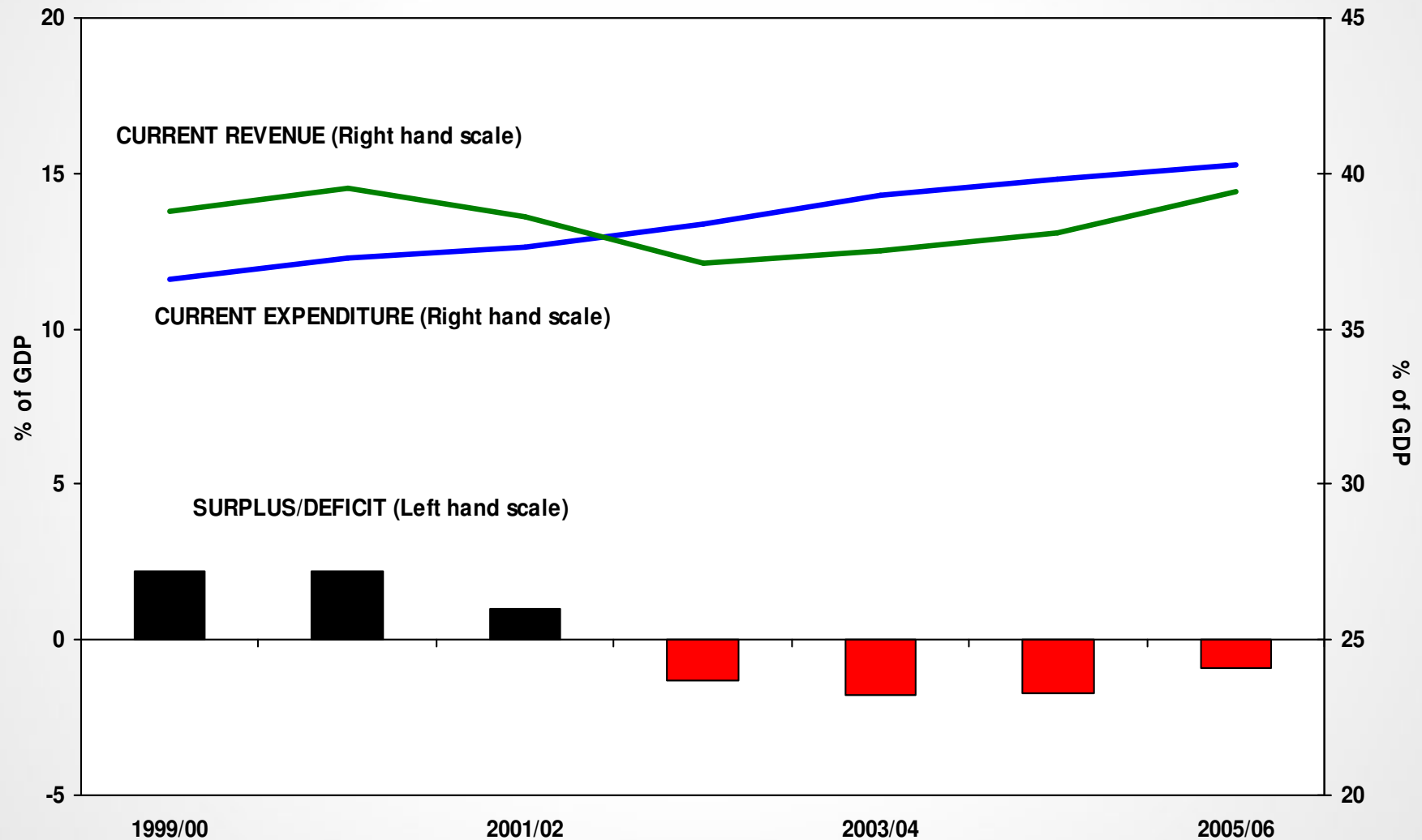
But underpinned by borrowing



The public sector is making a comeback



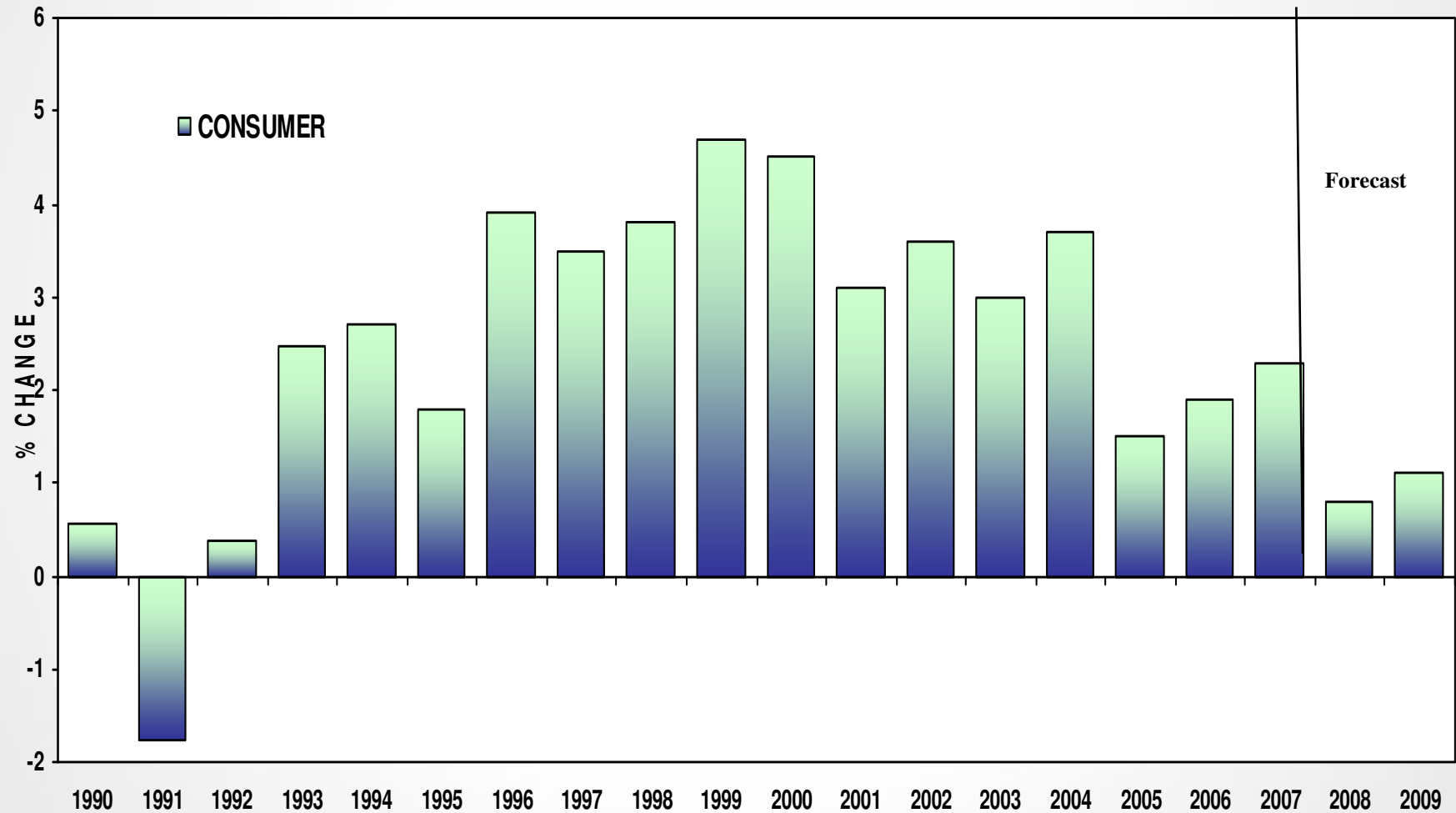
But government finances getting weaker



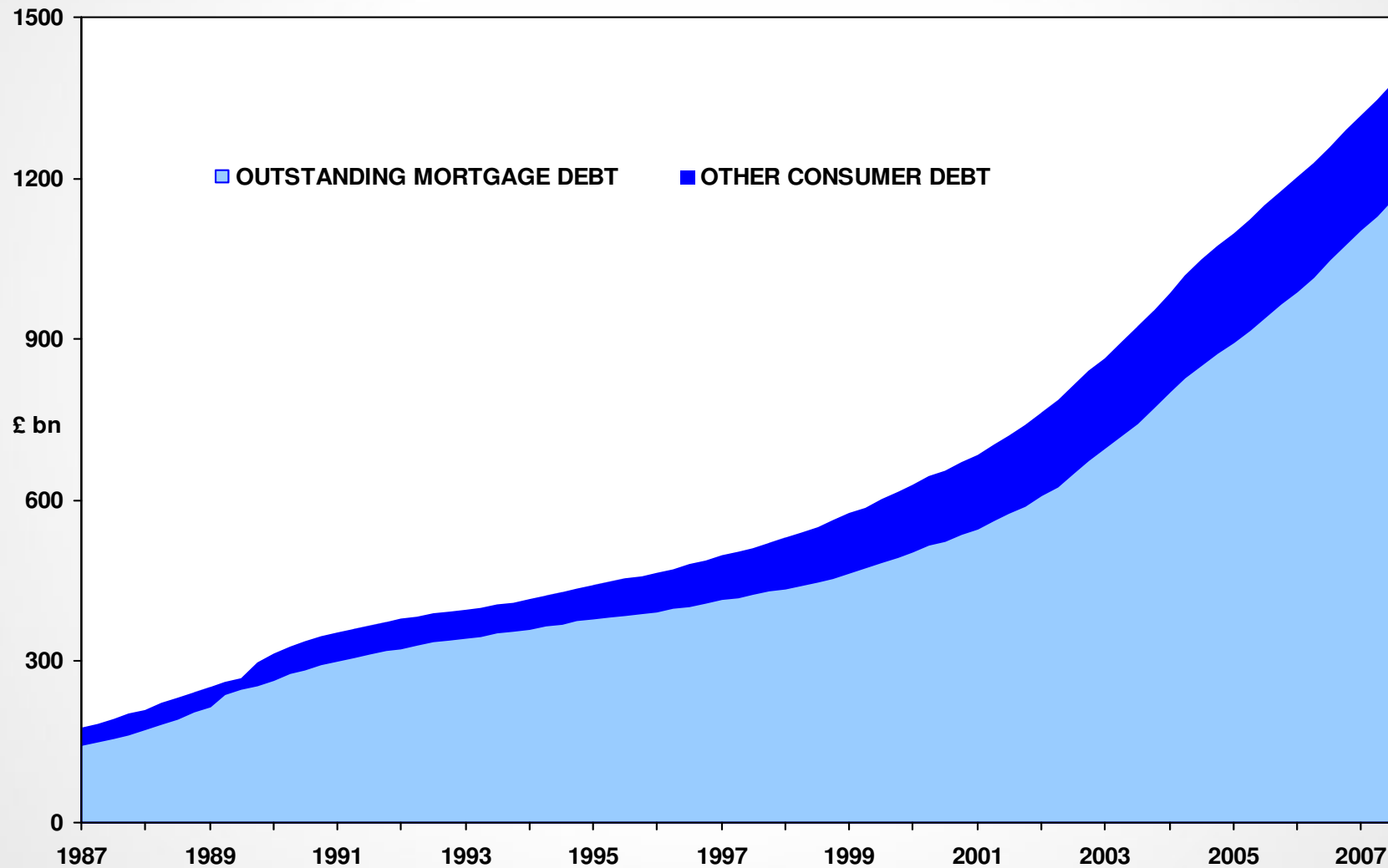
WHICH WAY FROM HERE?

Consumers under pressure

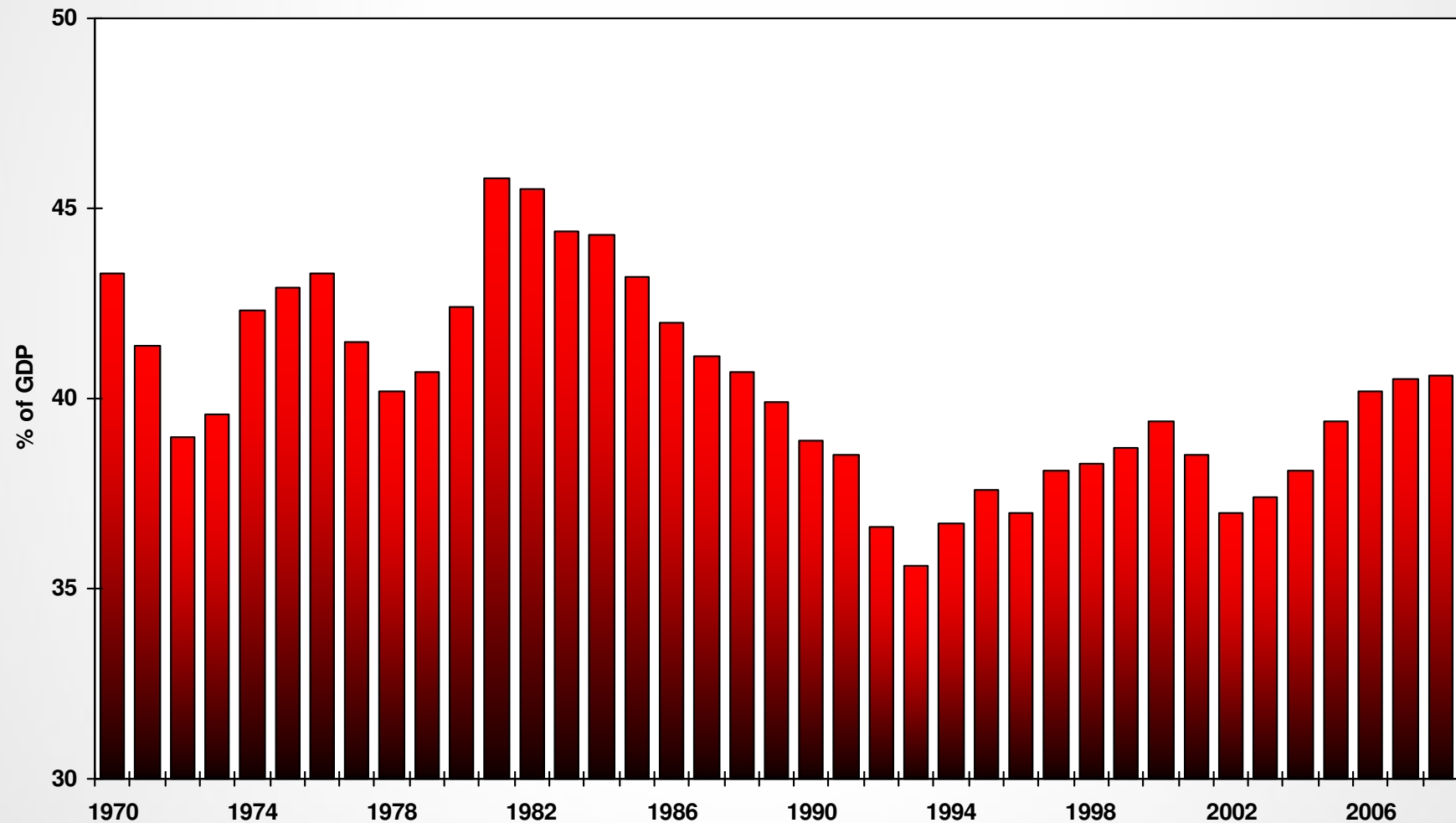
A spending squeeze underway, because....



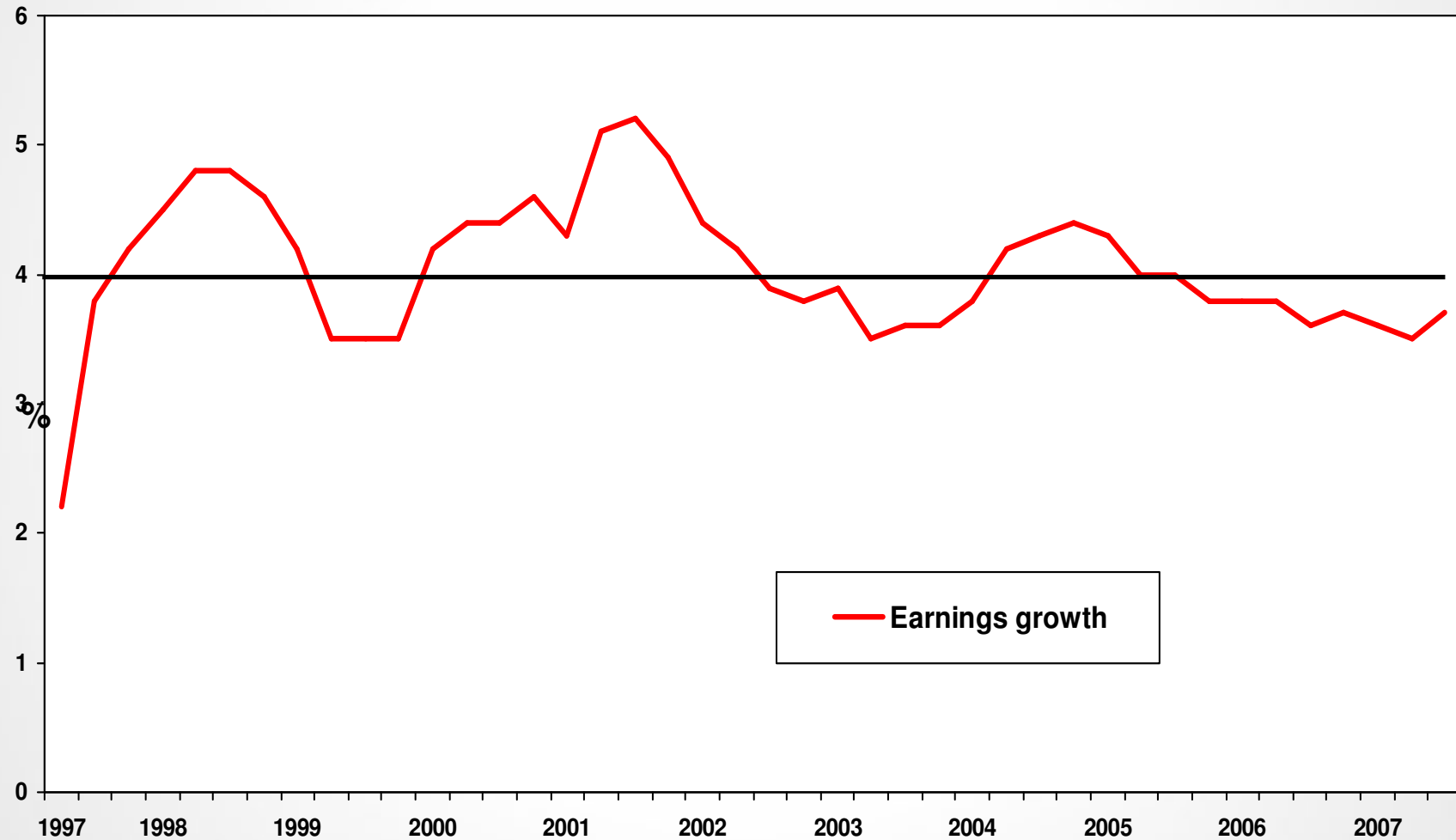
Record levels of personal debt,



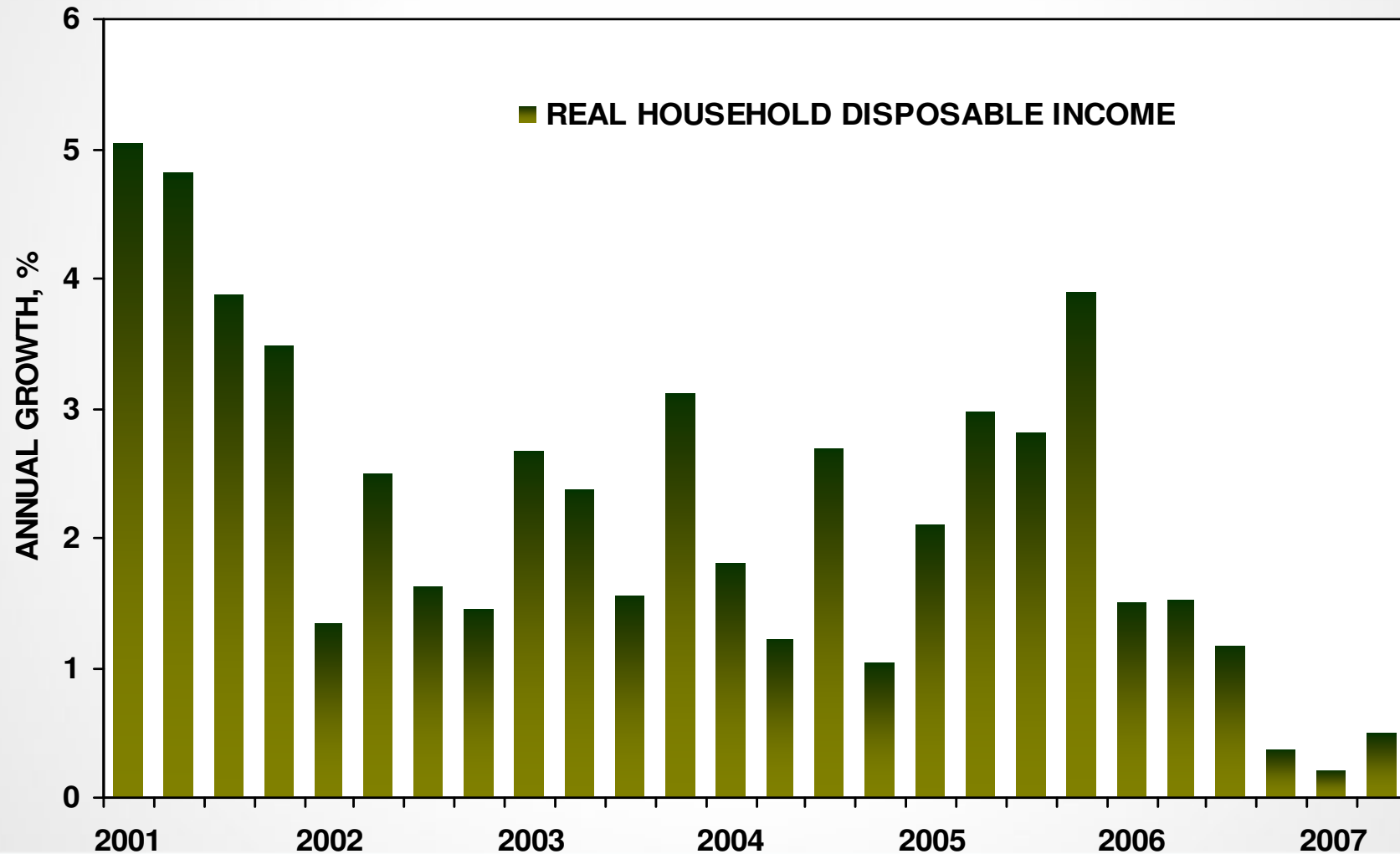
The tax burden is rising



and subdued earnings growth.

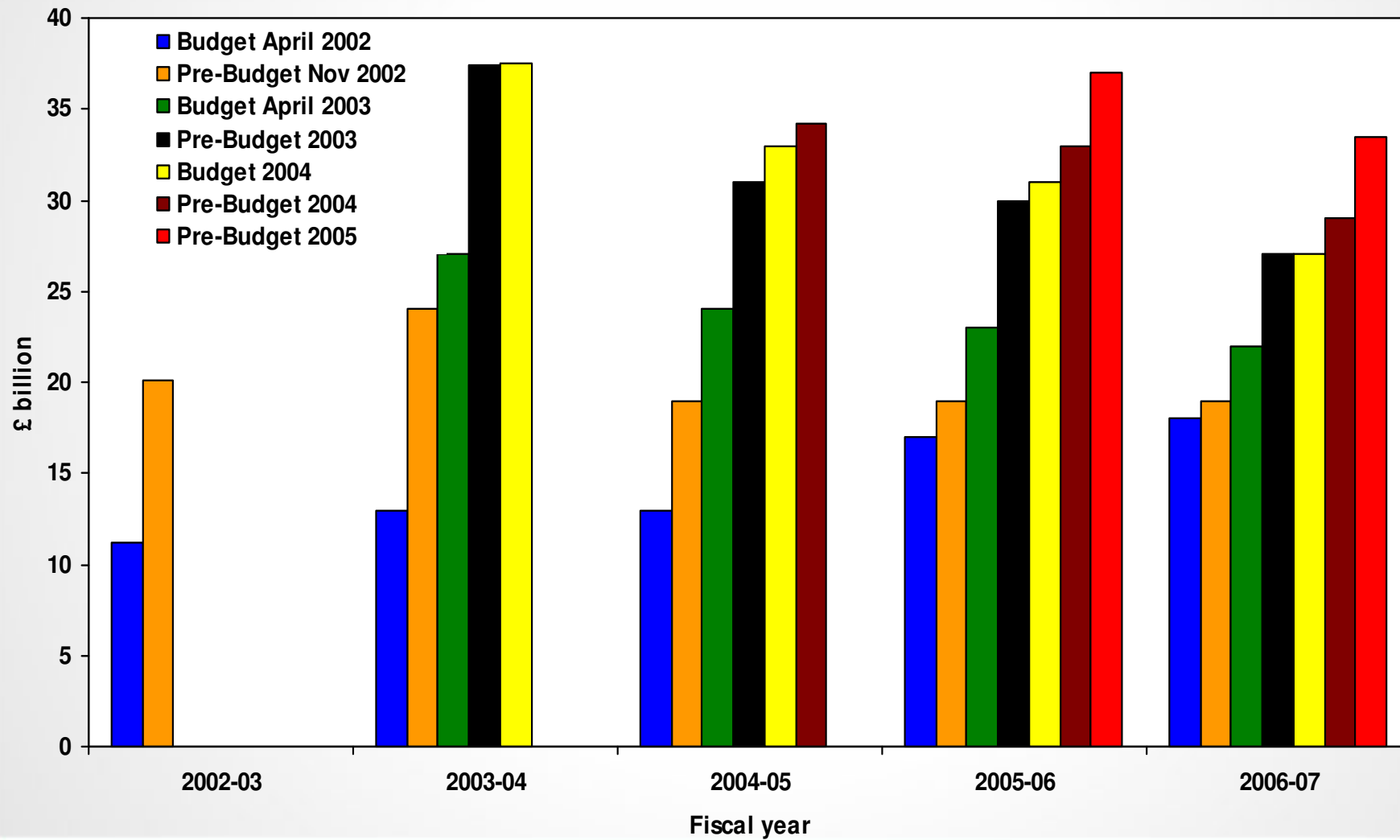


So disposable income growth stalls

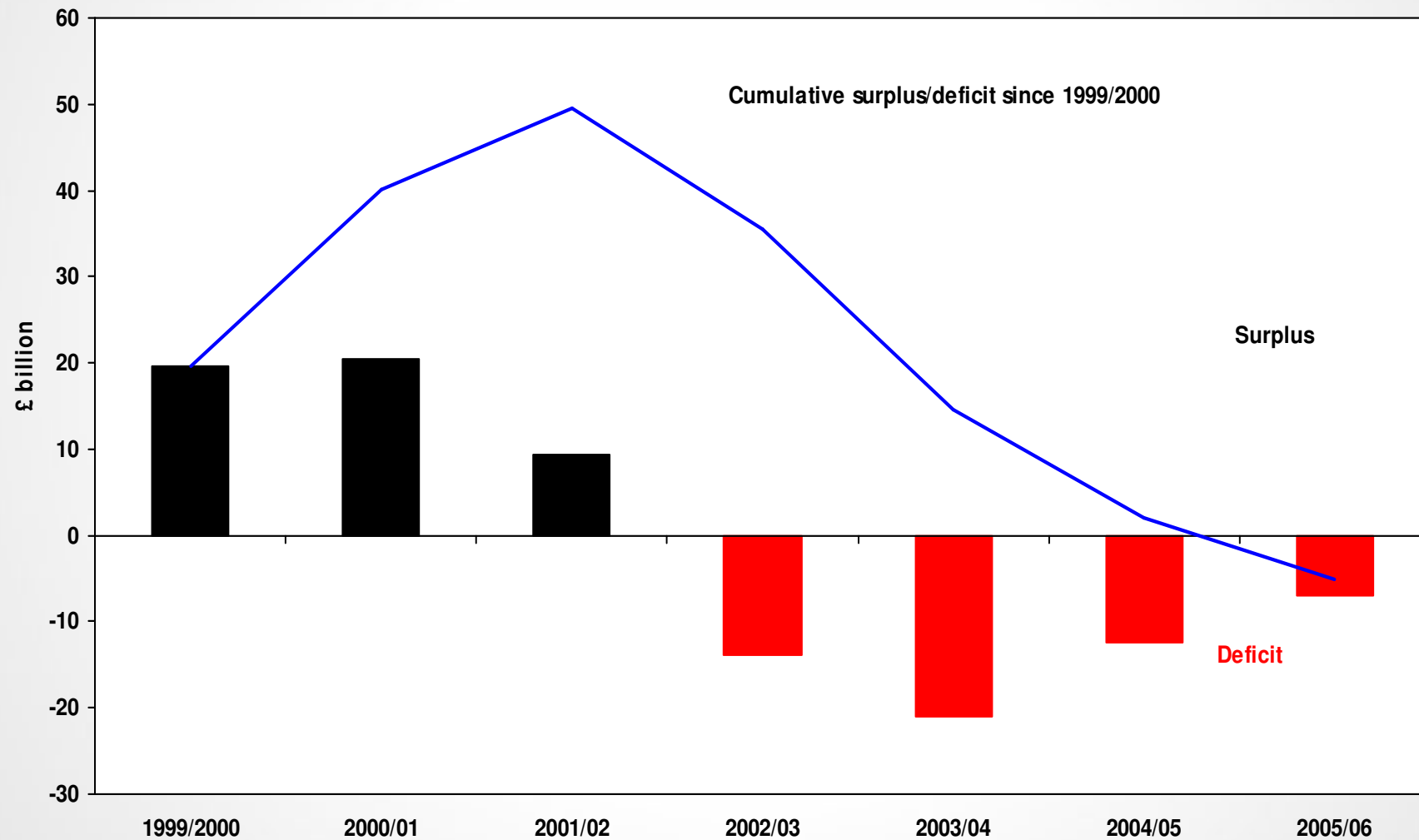


Public finances stretched

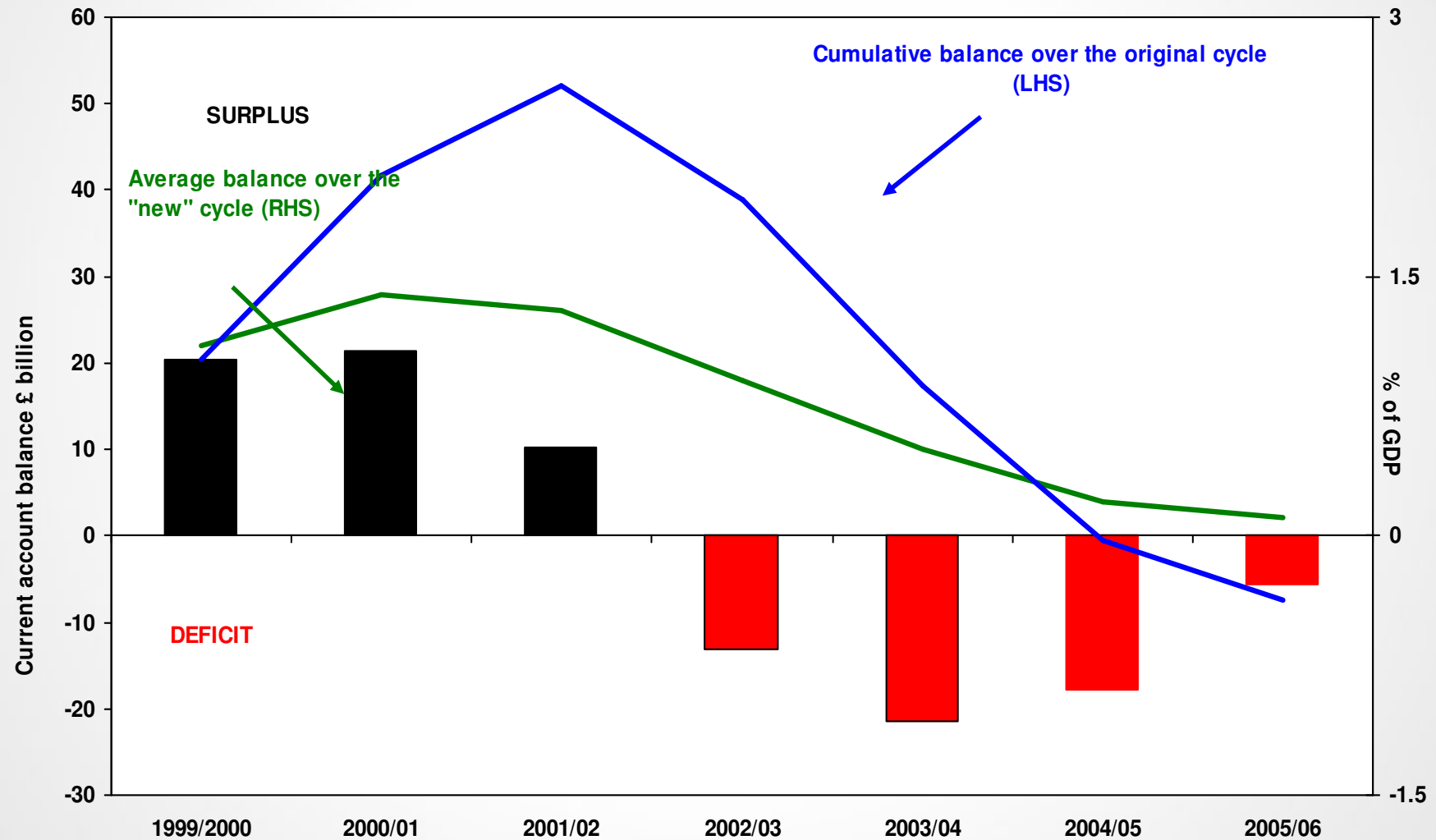
Because the deficit is growing



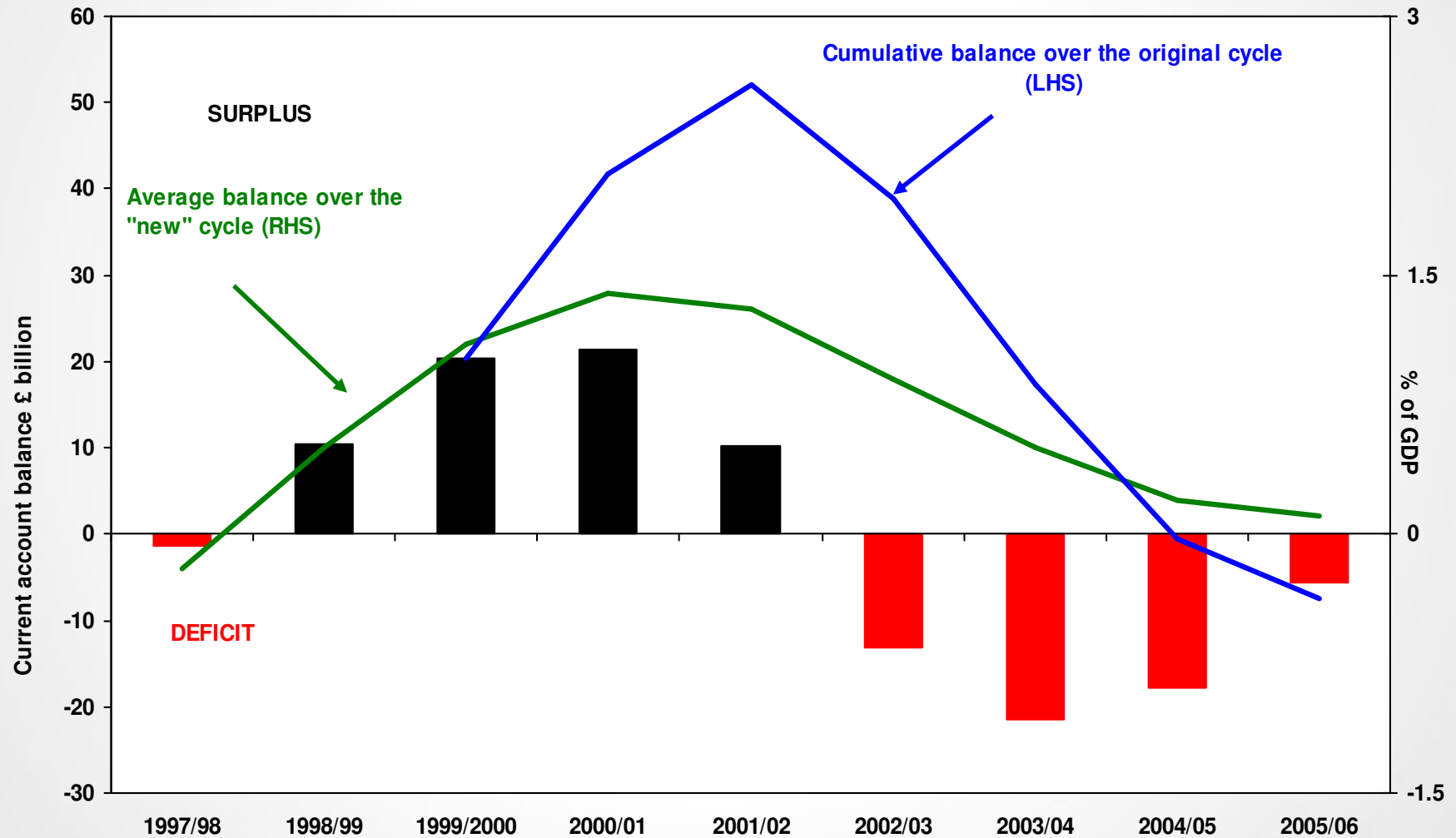
Breaching the Golden Rule?



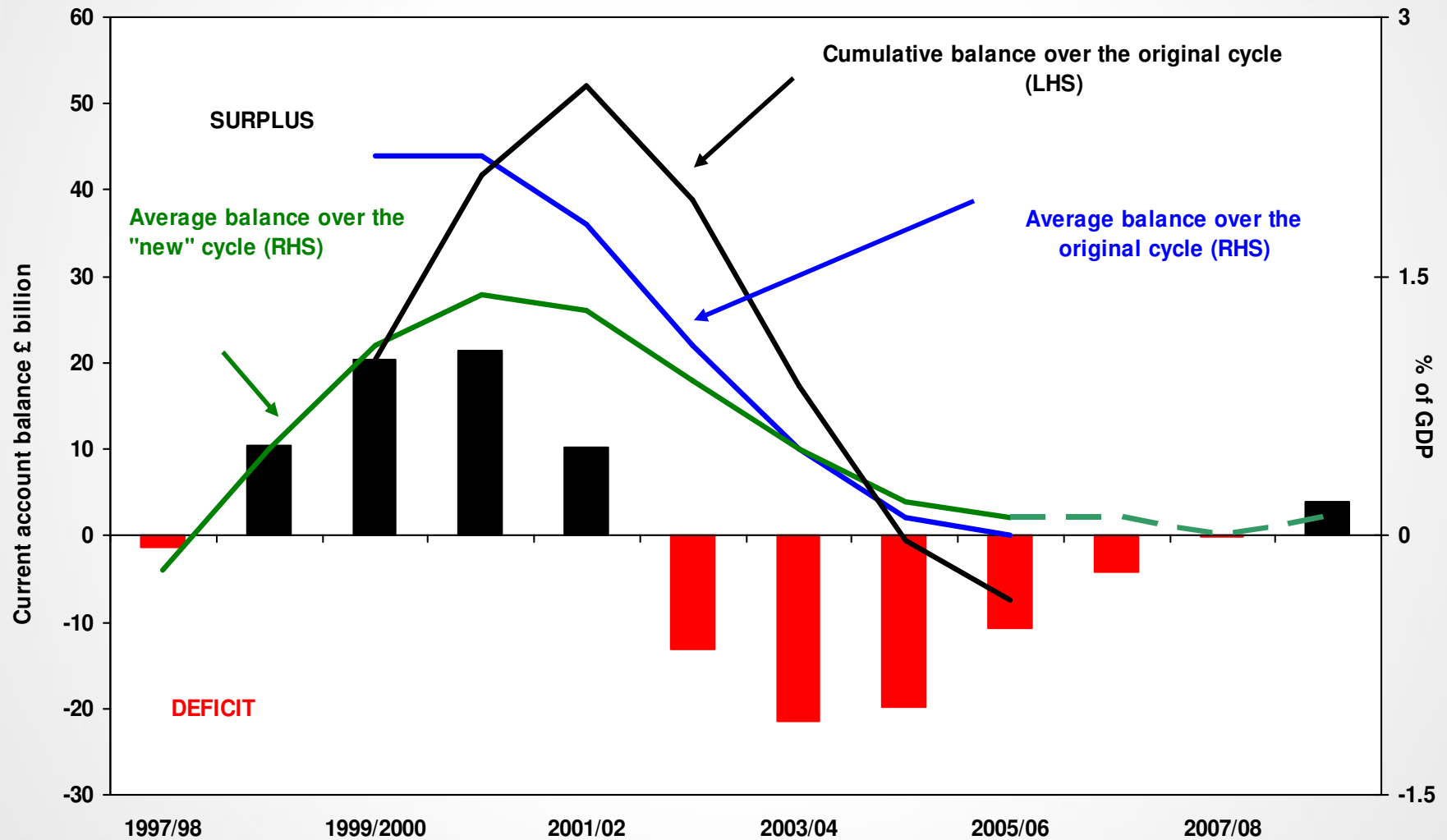
Not with a little massaging



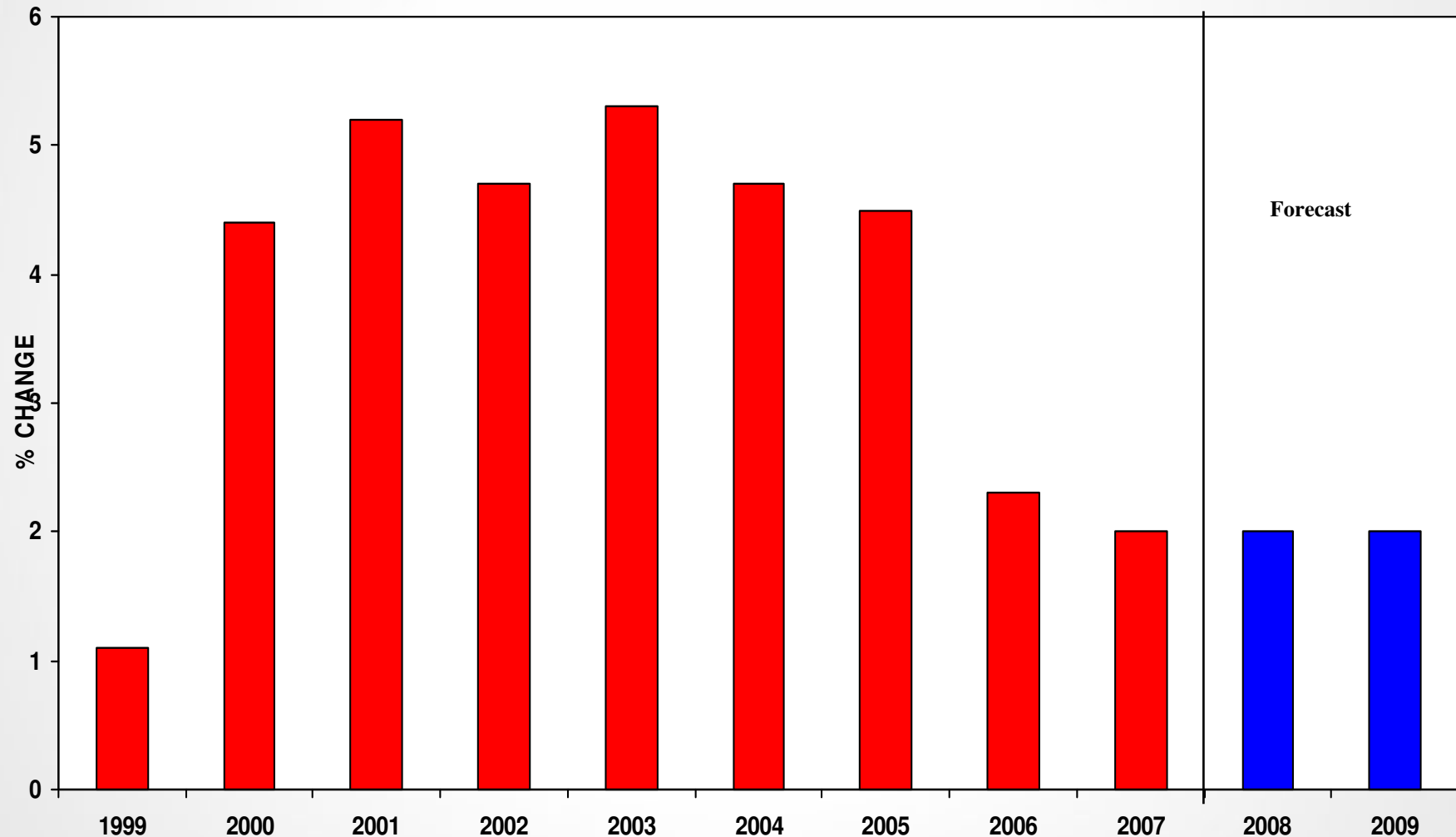
Backdating the cycle helps...



...and so does extending it.

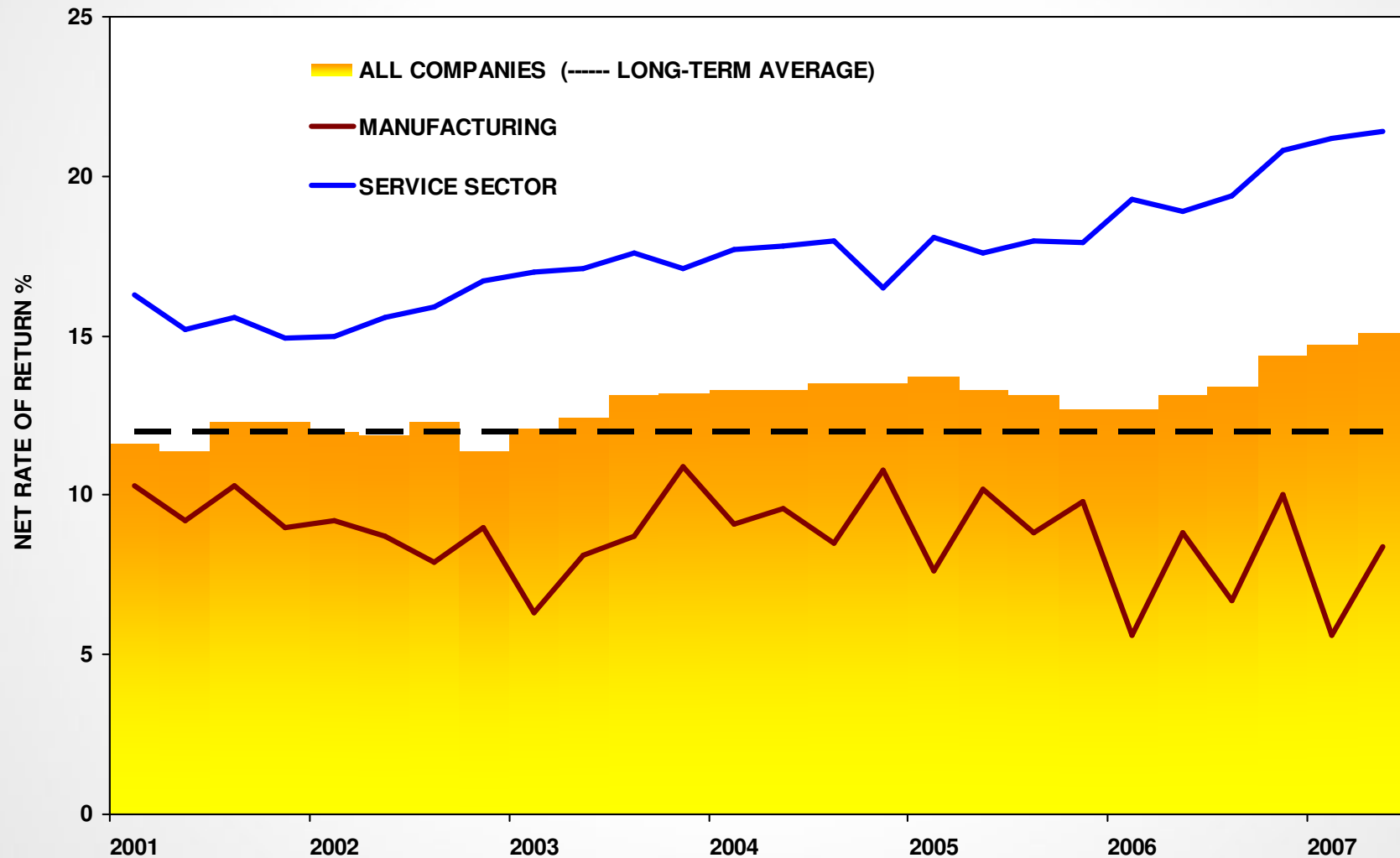


But government spending can't fill the gap

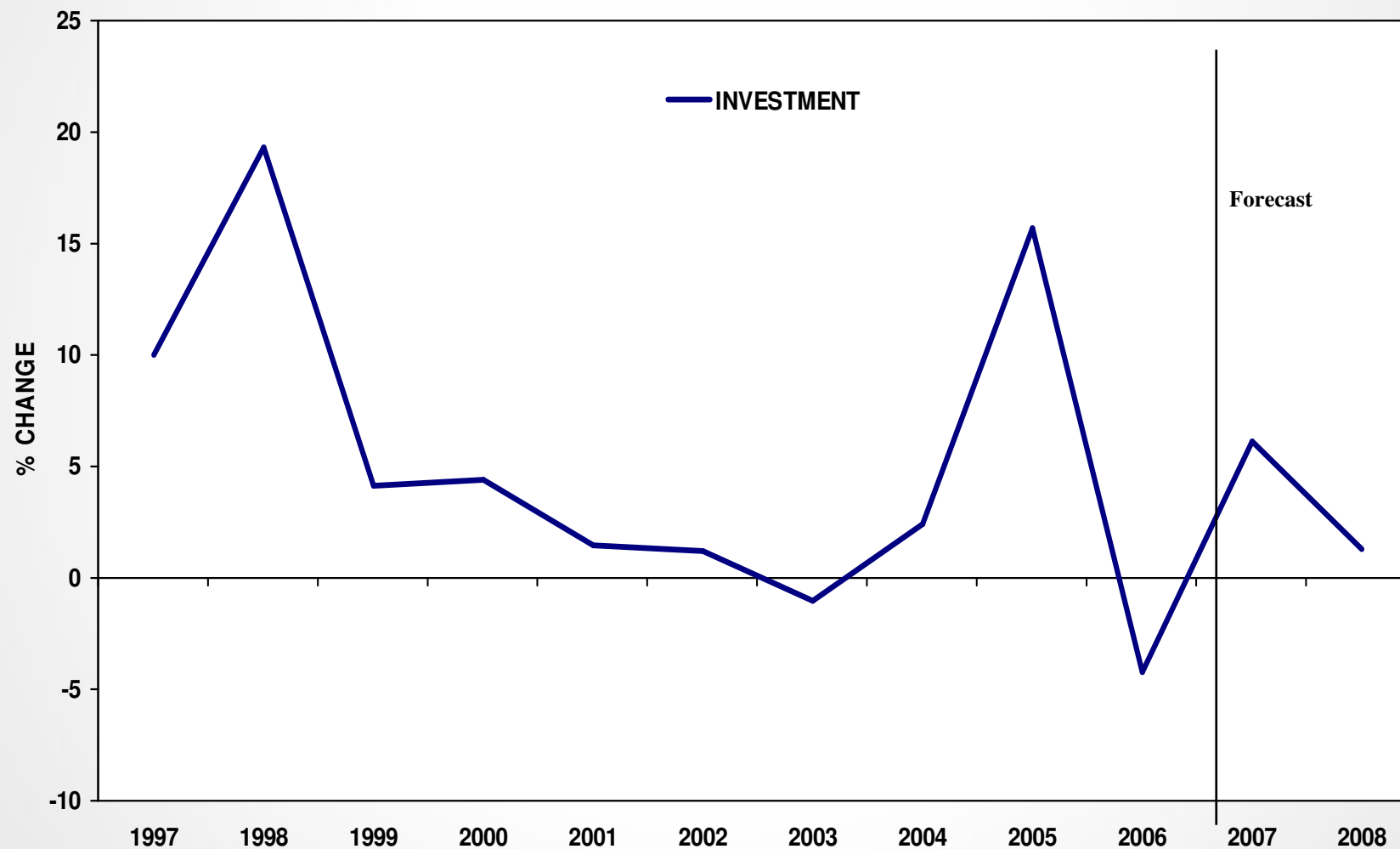


An investment-led recovery?

Robust corporate profitability

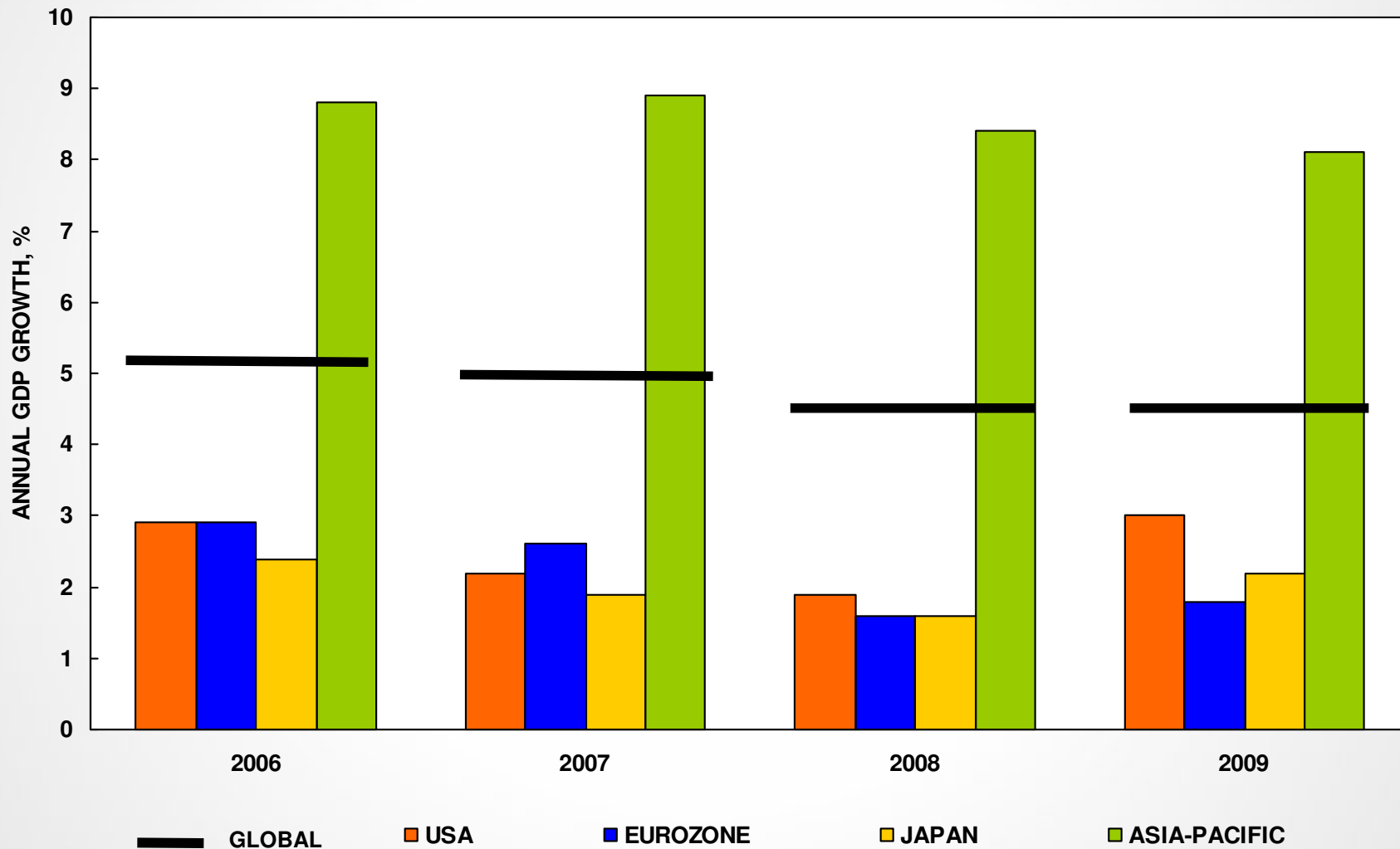


But sluggish investment outlook

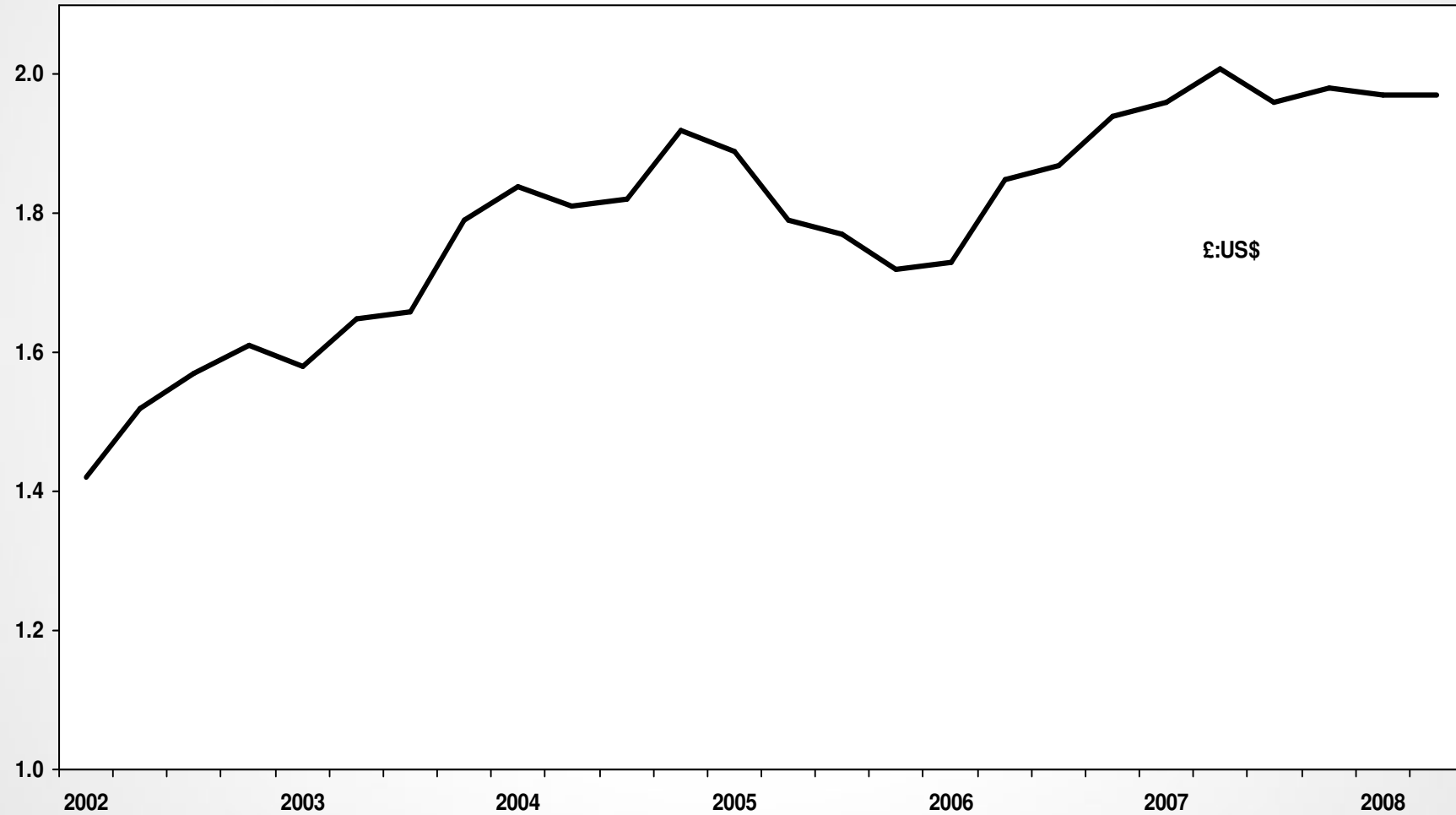


What about the world economy?

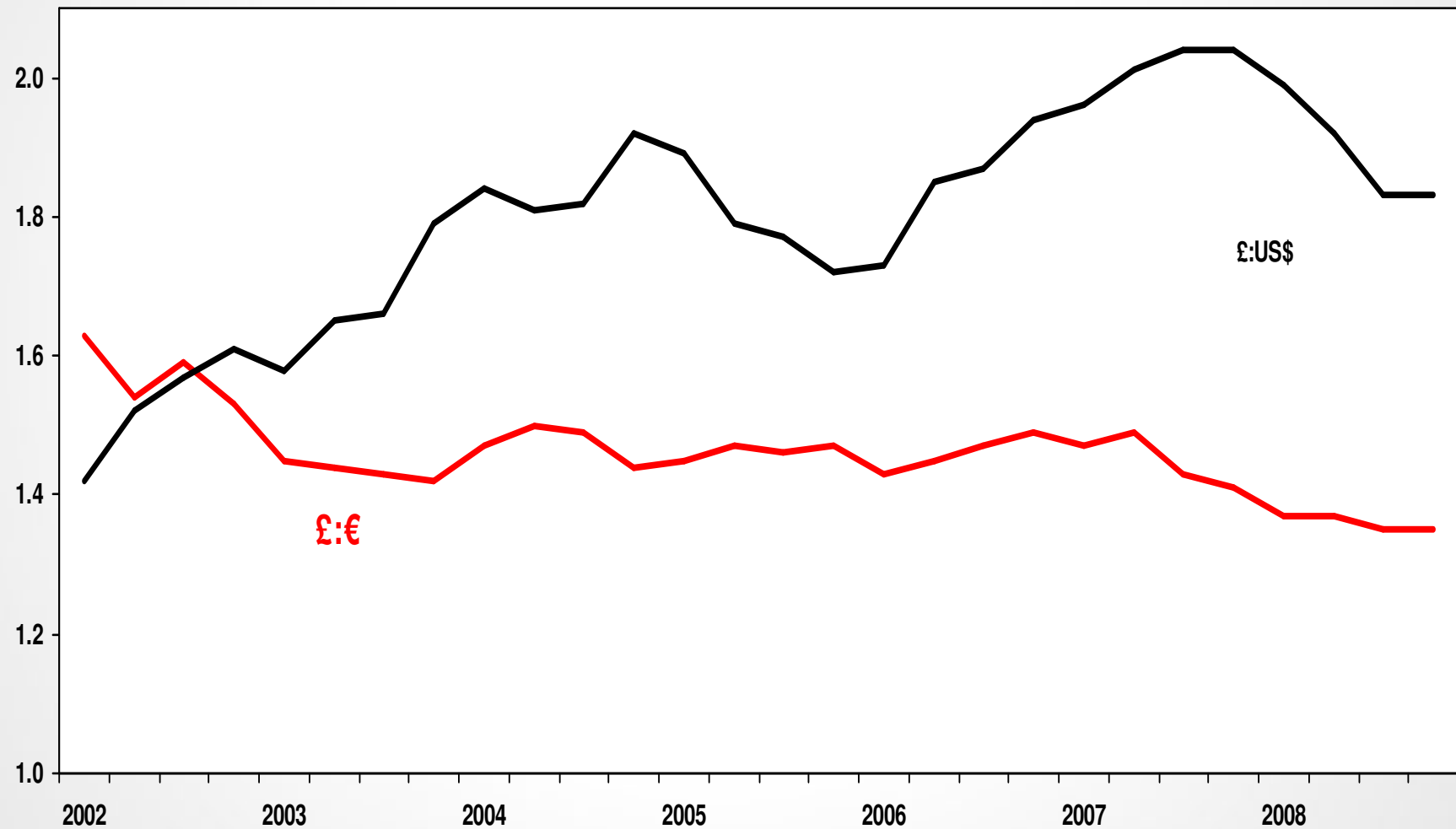
Global growth still robust



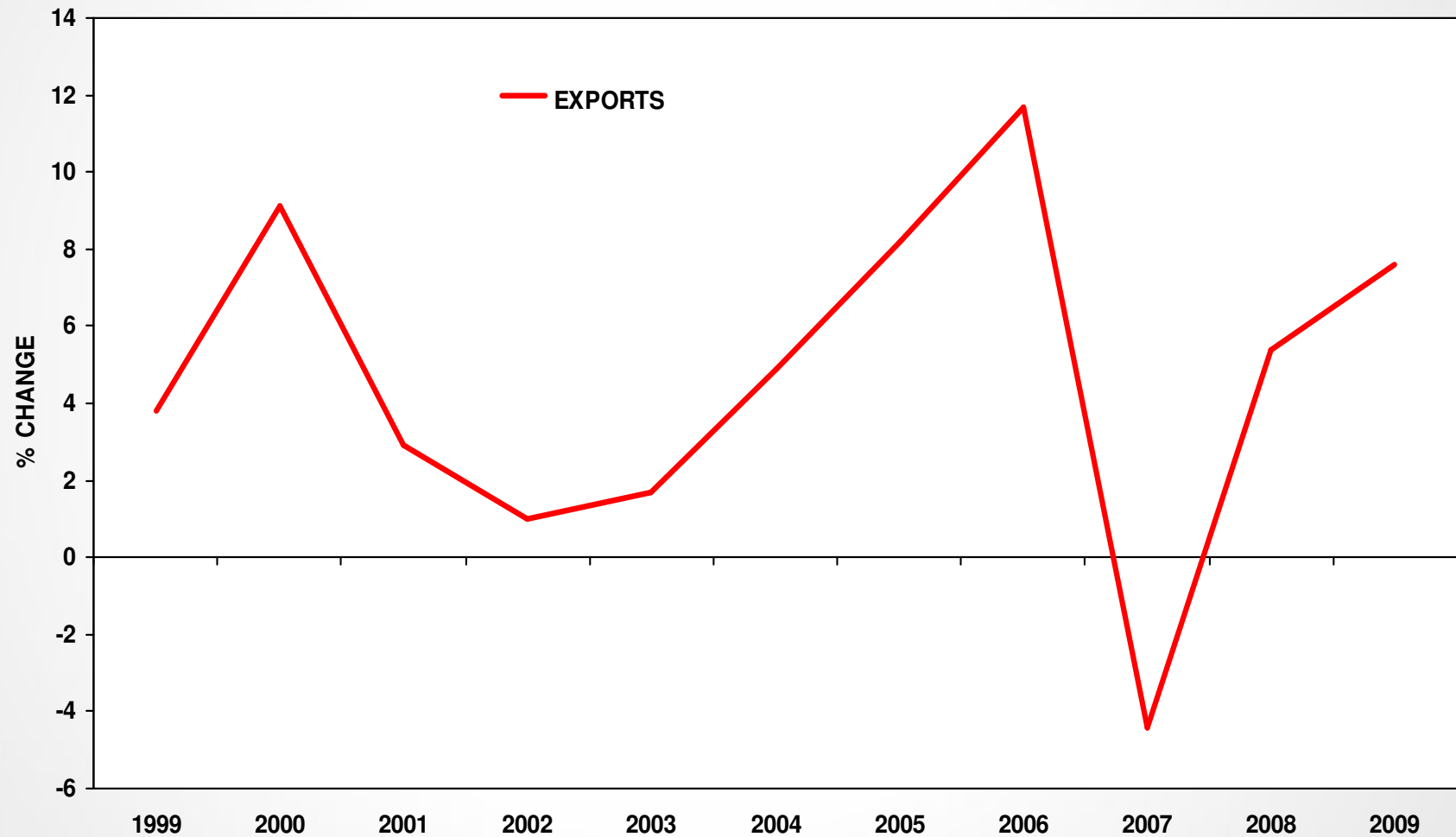
But dollar weakening hurts



and euro strengthening doesn't help

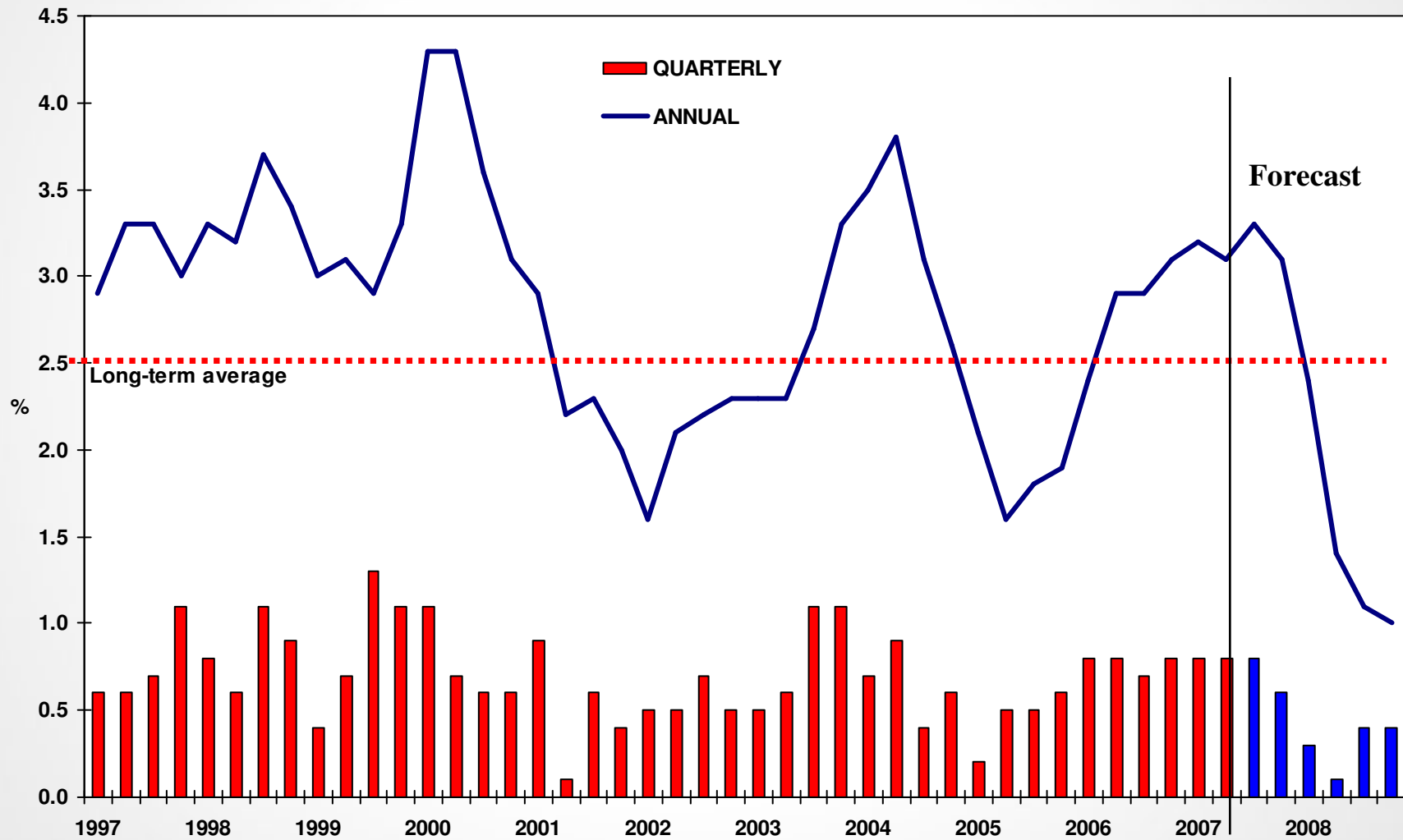


So exports will not fill the gap



GROWTH IS LIKELY TO WEAKEN

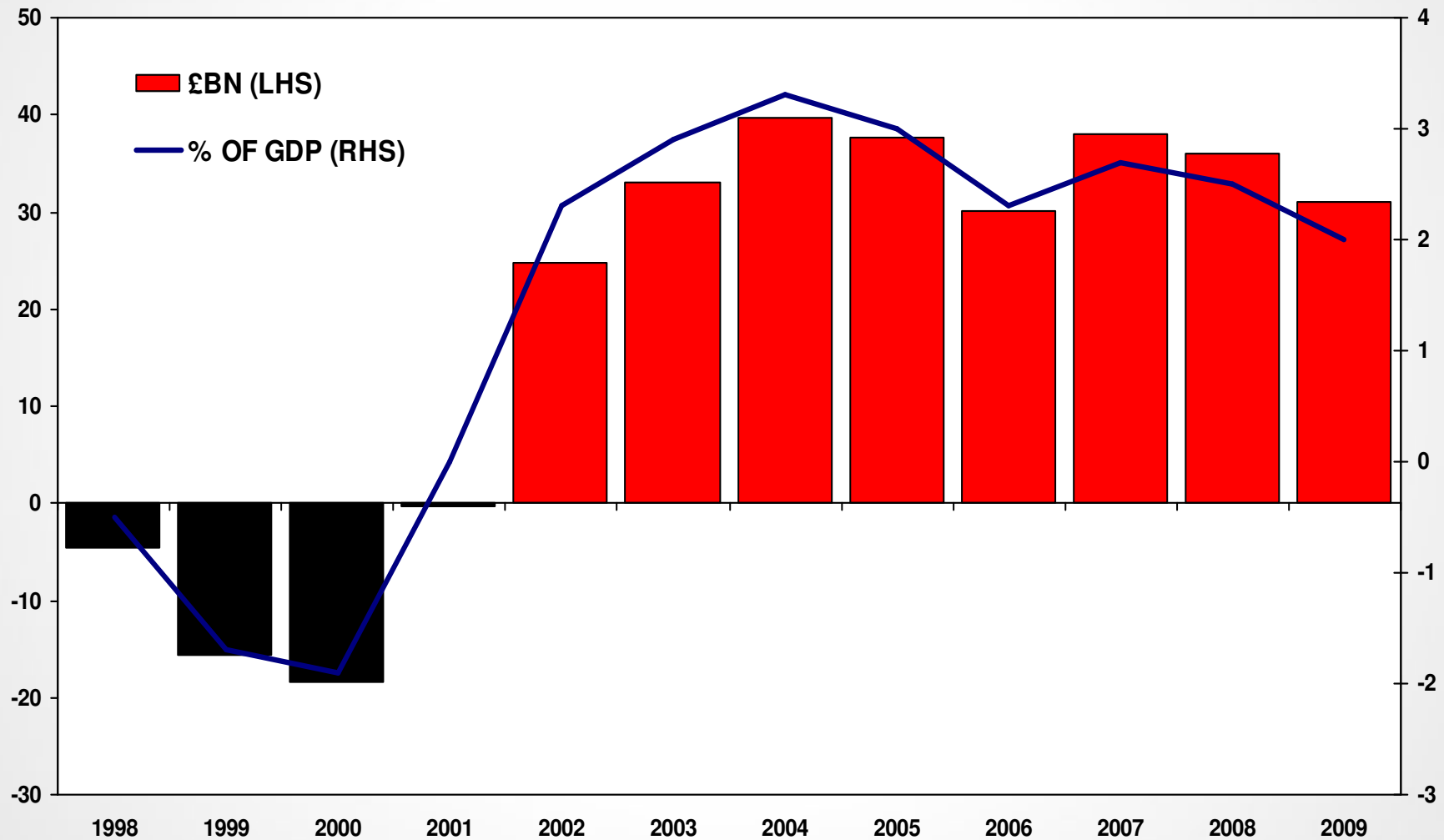
Growth to dip below trend



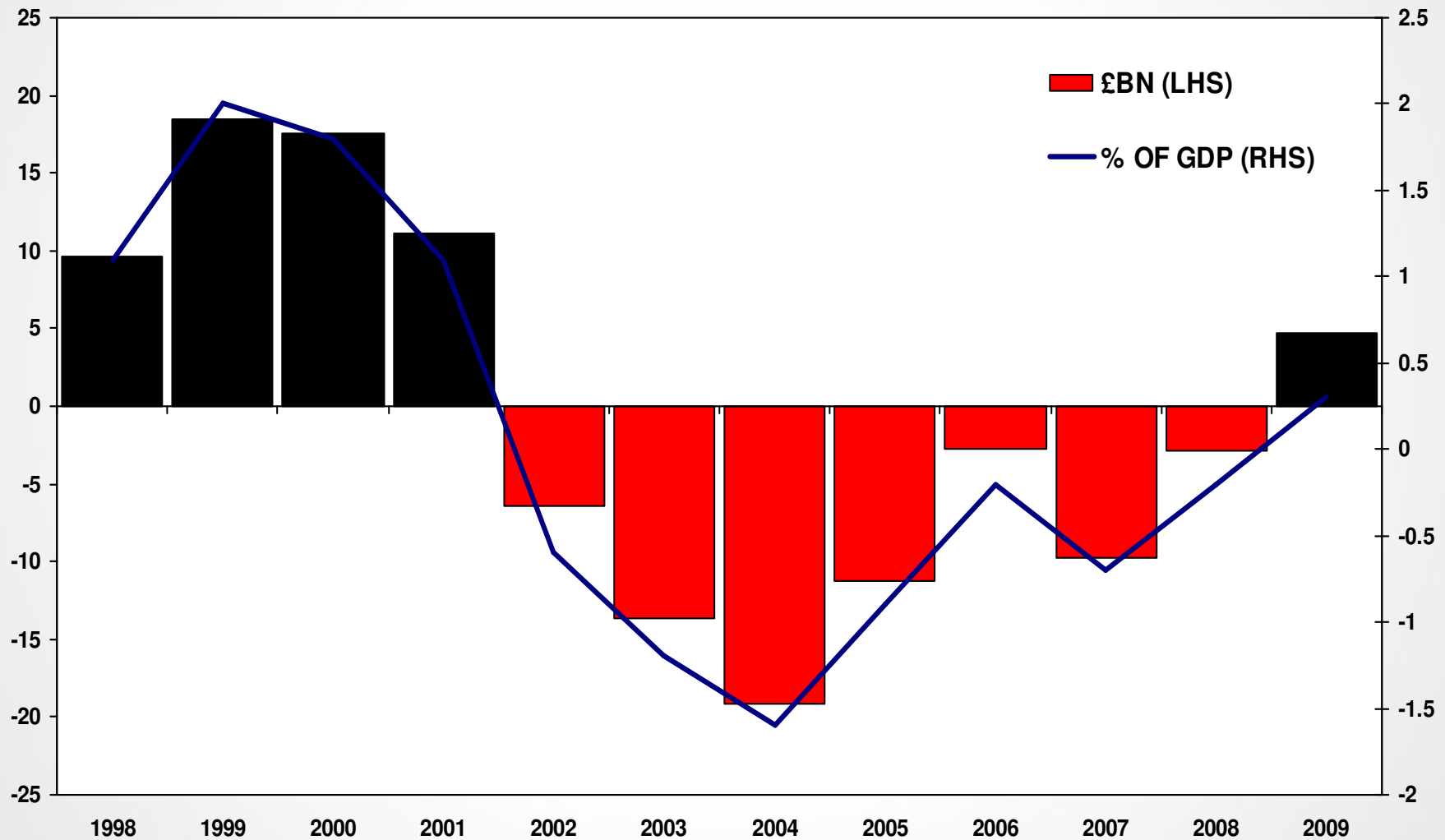
A STIMULUS IS NEEDED

***But no room for manoeuvre
with fiscal policy***

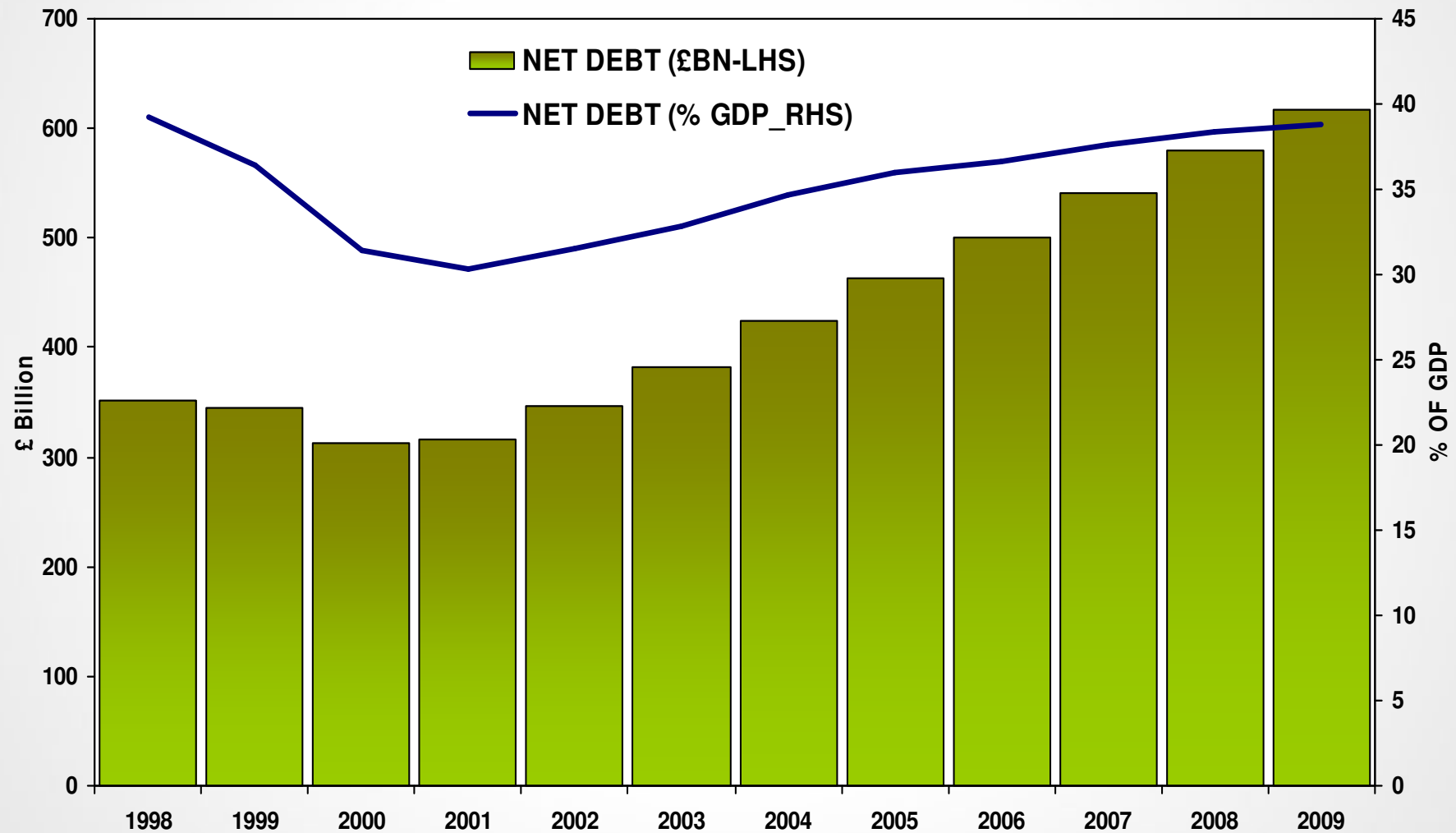
Public sector net borrowing



Golden Rule : Current surplus

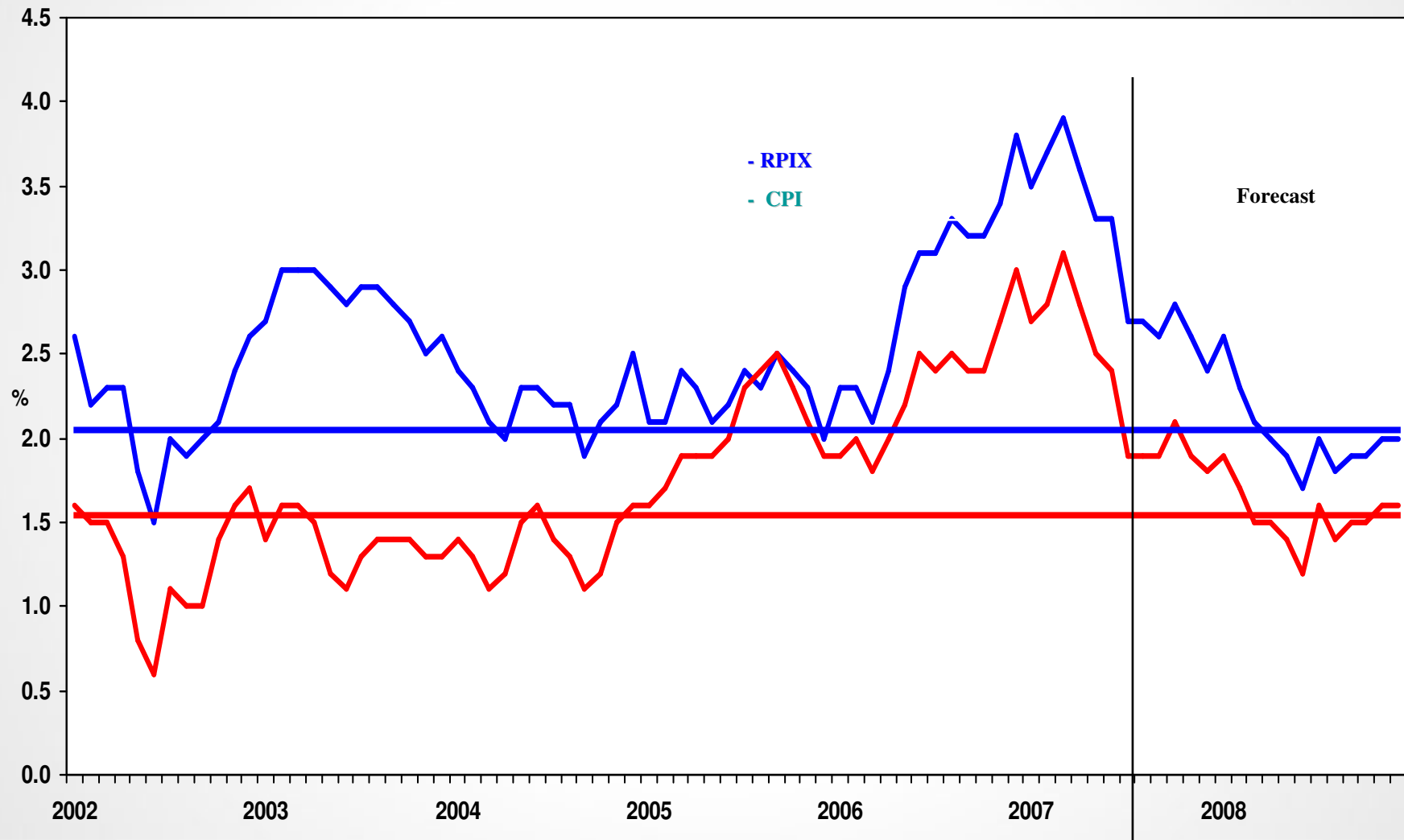


Sustainable Investment Rule

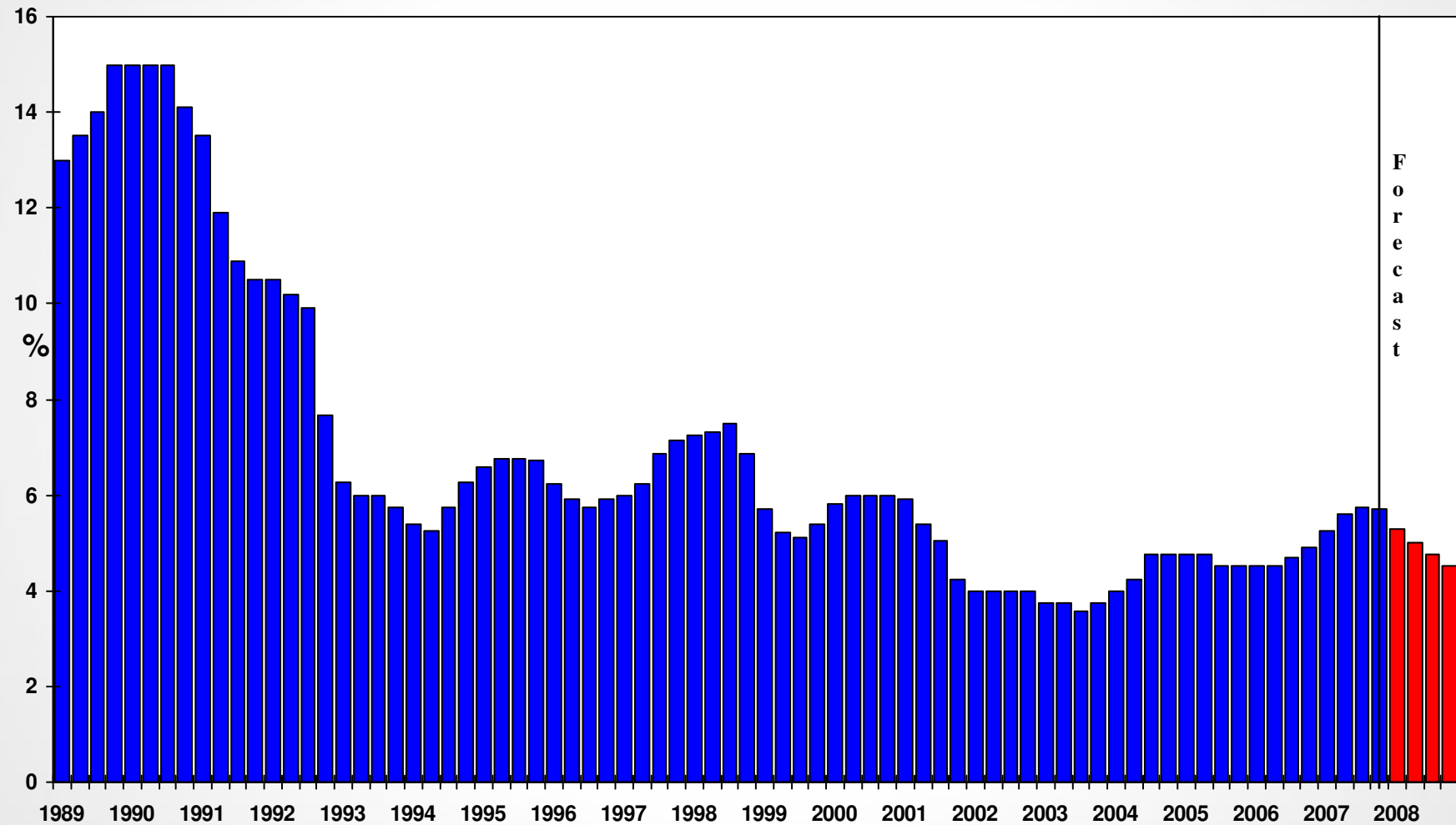


So, it has to be interest rates

Price pressures like to ease

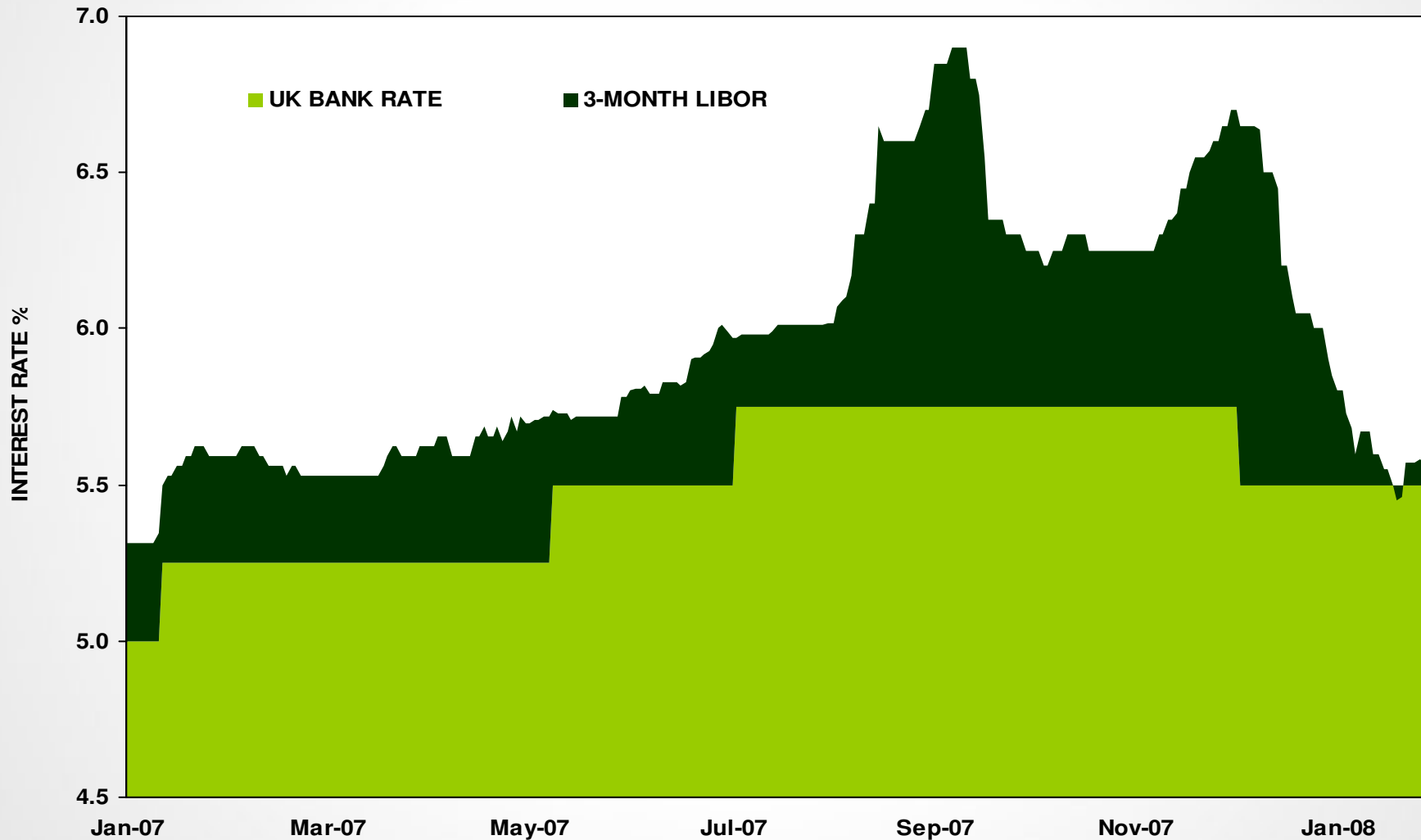


...creating room for interest rate cuts

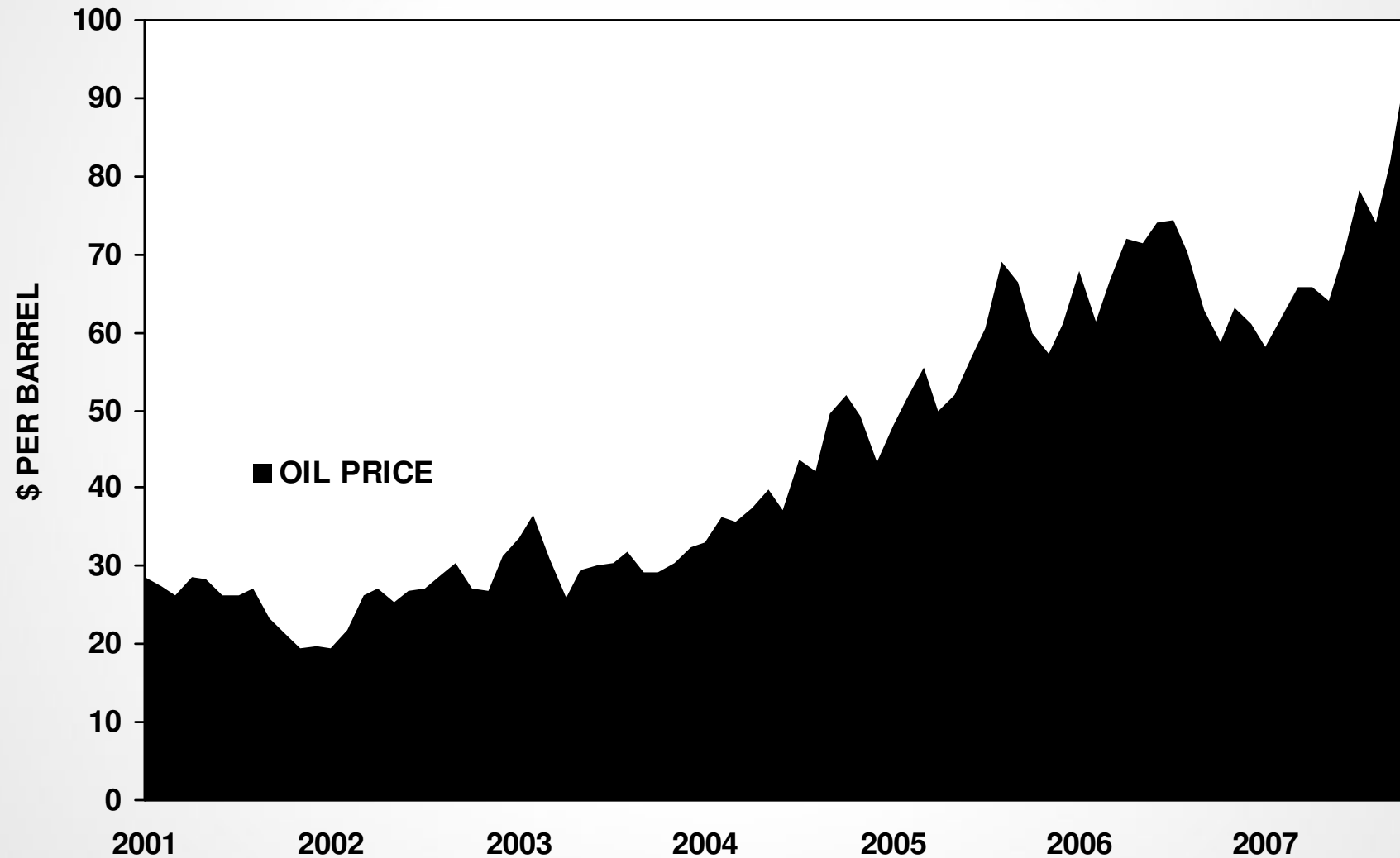


BUT.....

The crisis in financial markets is a risk

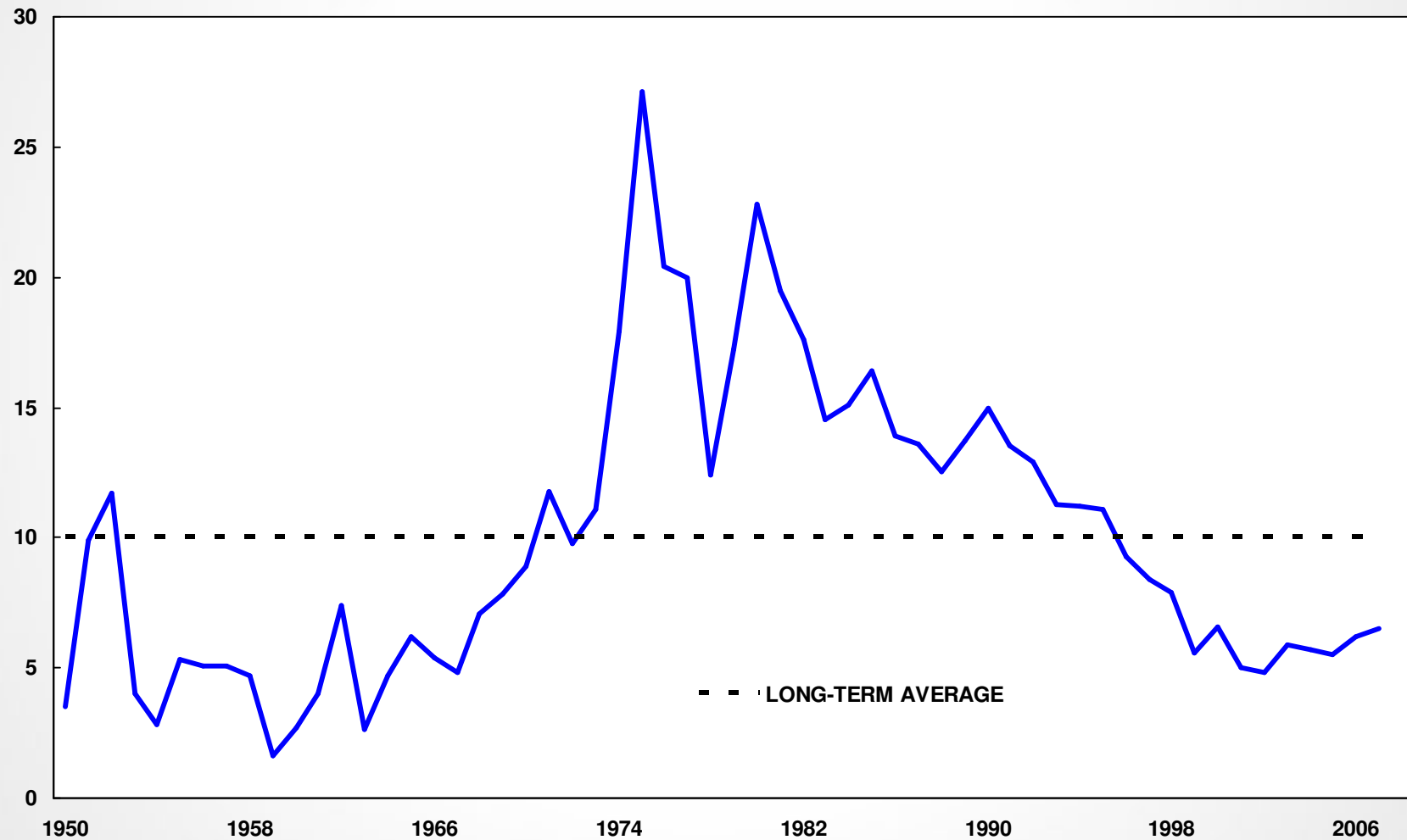


And so are rising oil prices



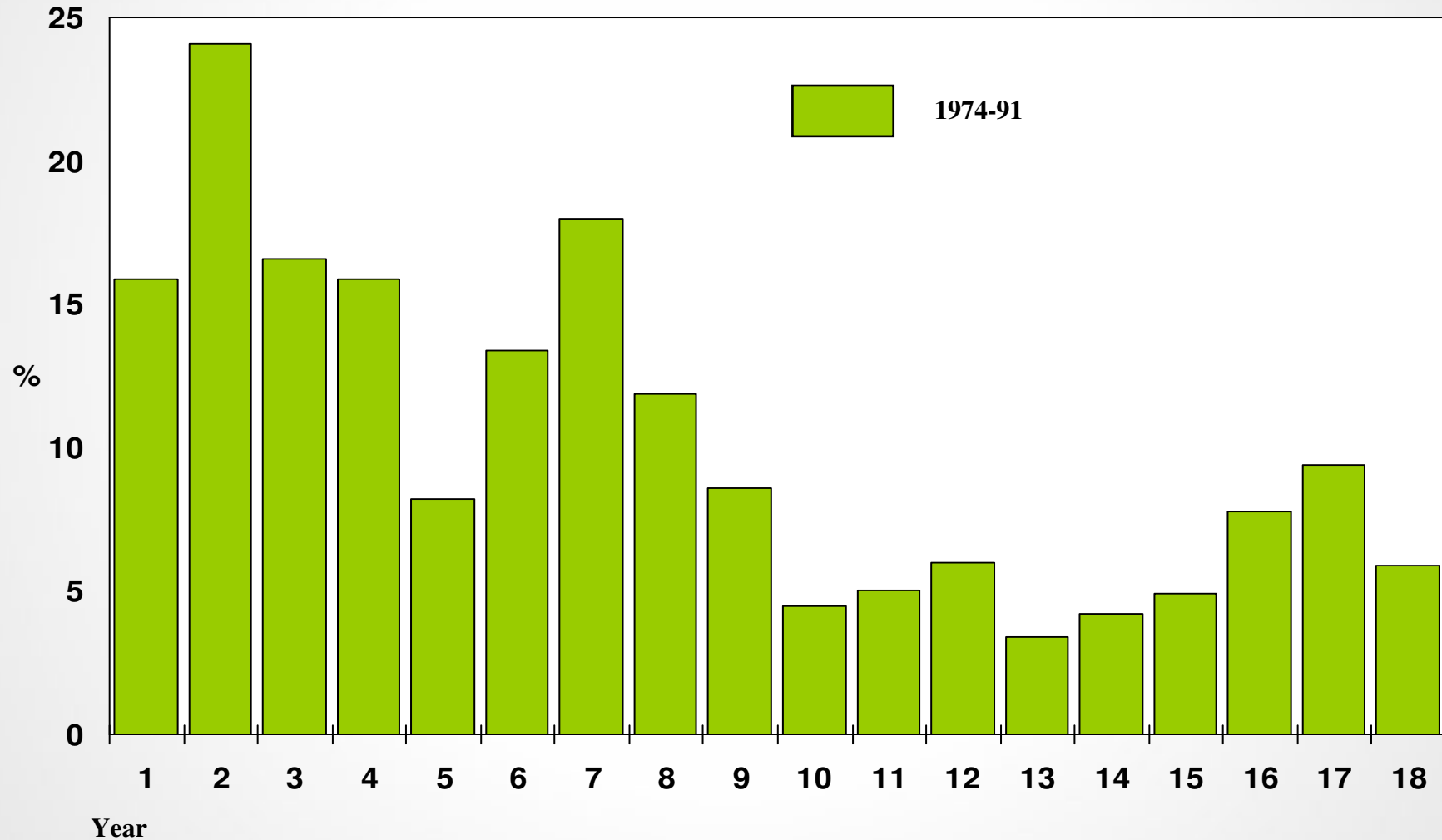
STILL A SOUND ECONOMY

The 'Misery Index' still well below average

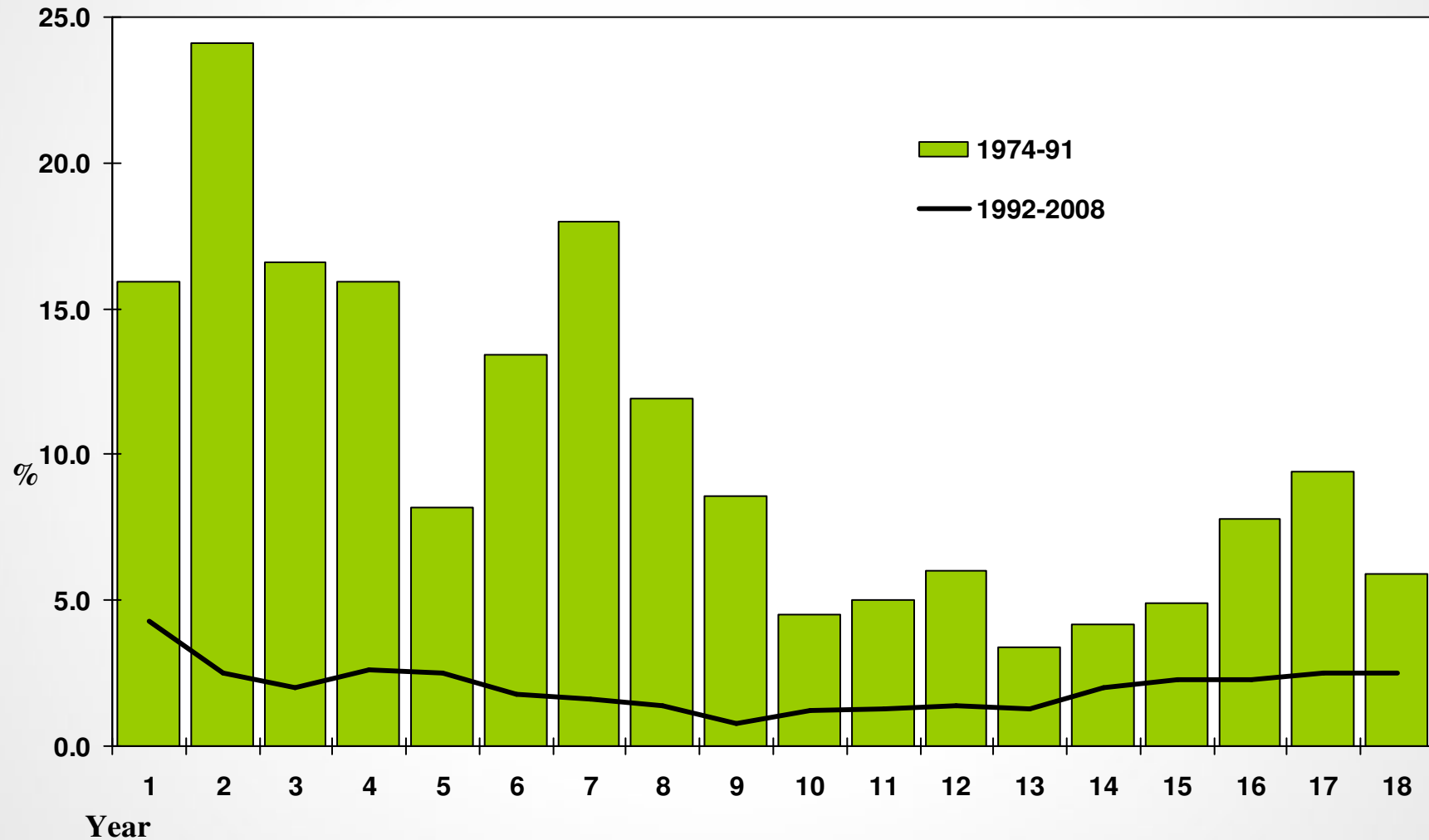


***REMEMBER WHERE WE'VE COME
FROM***

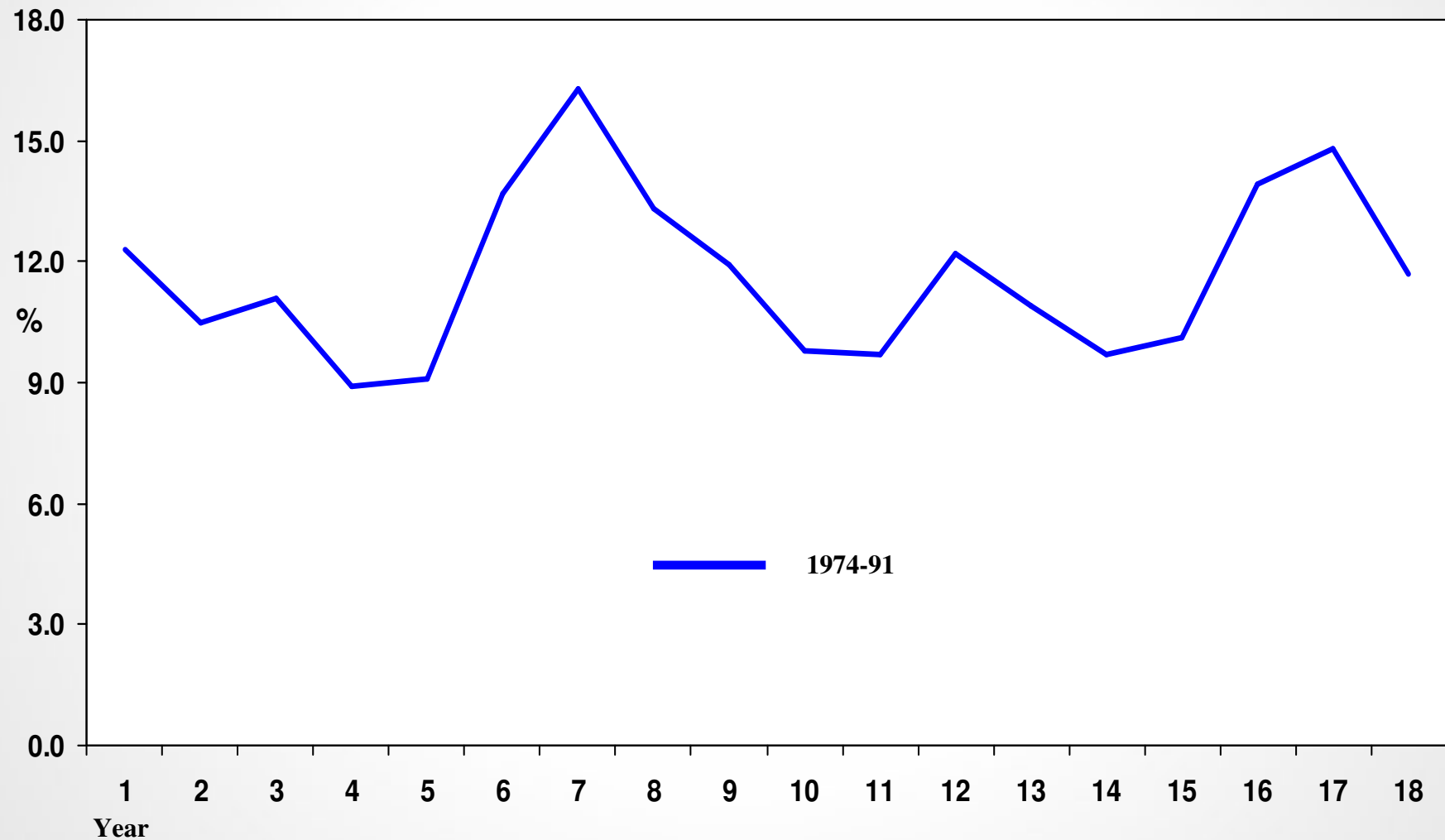
Long-run UK inflation, 1974-91



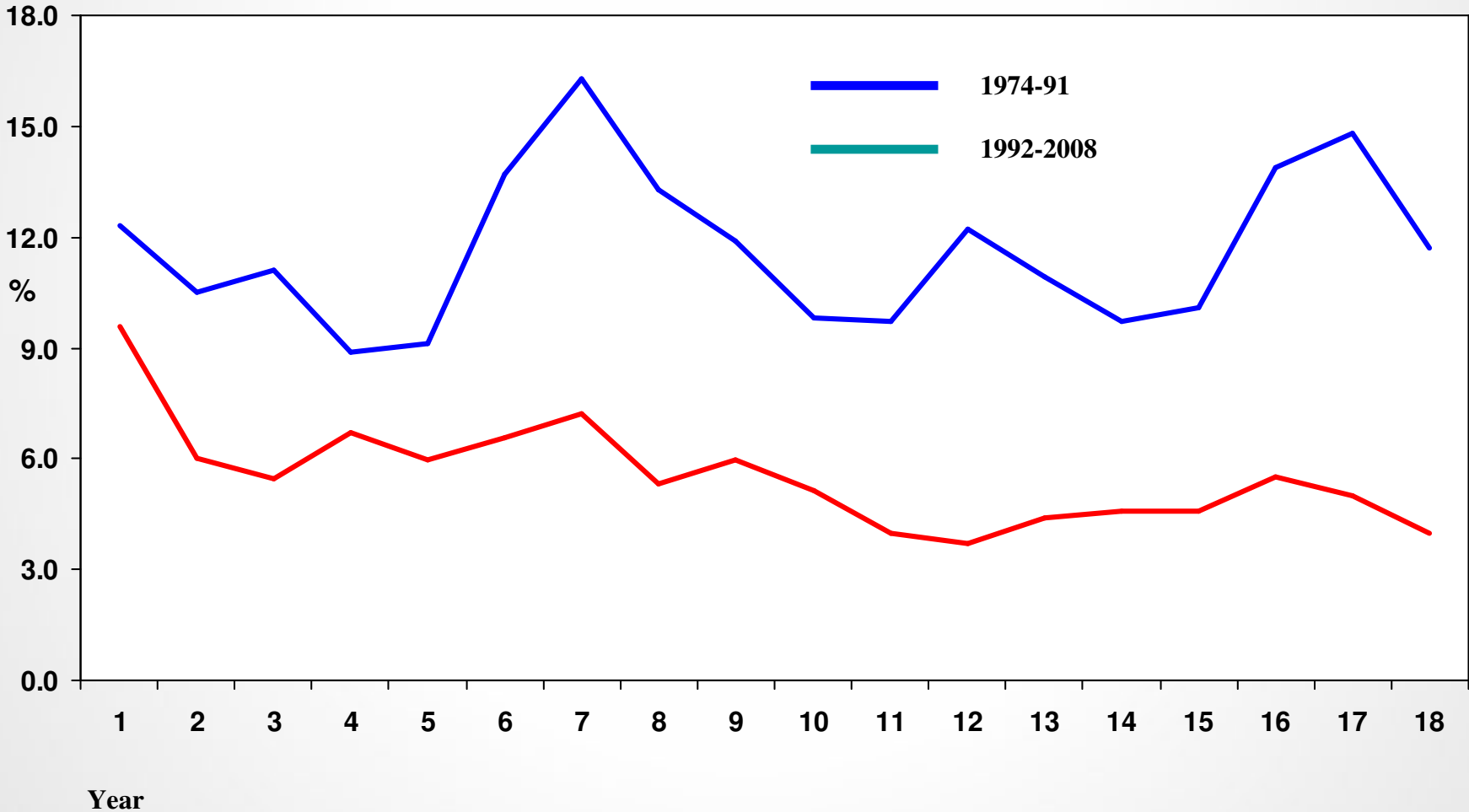
Long-run UK inflation, 1974-2008



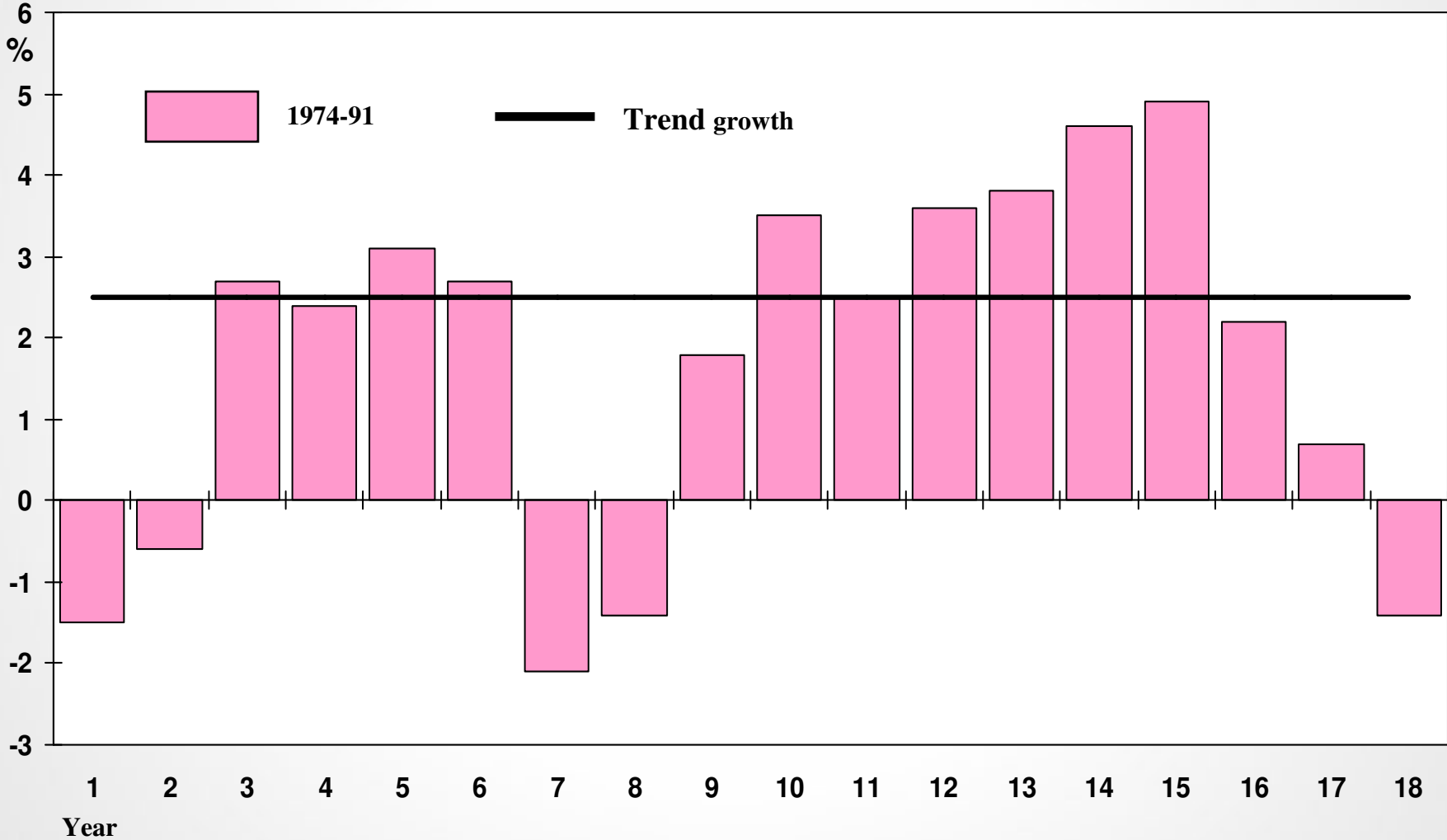
Long-term interest rates, 1974-91



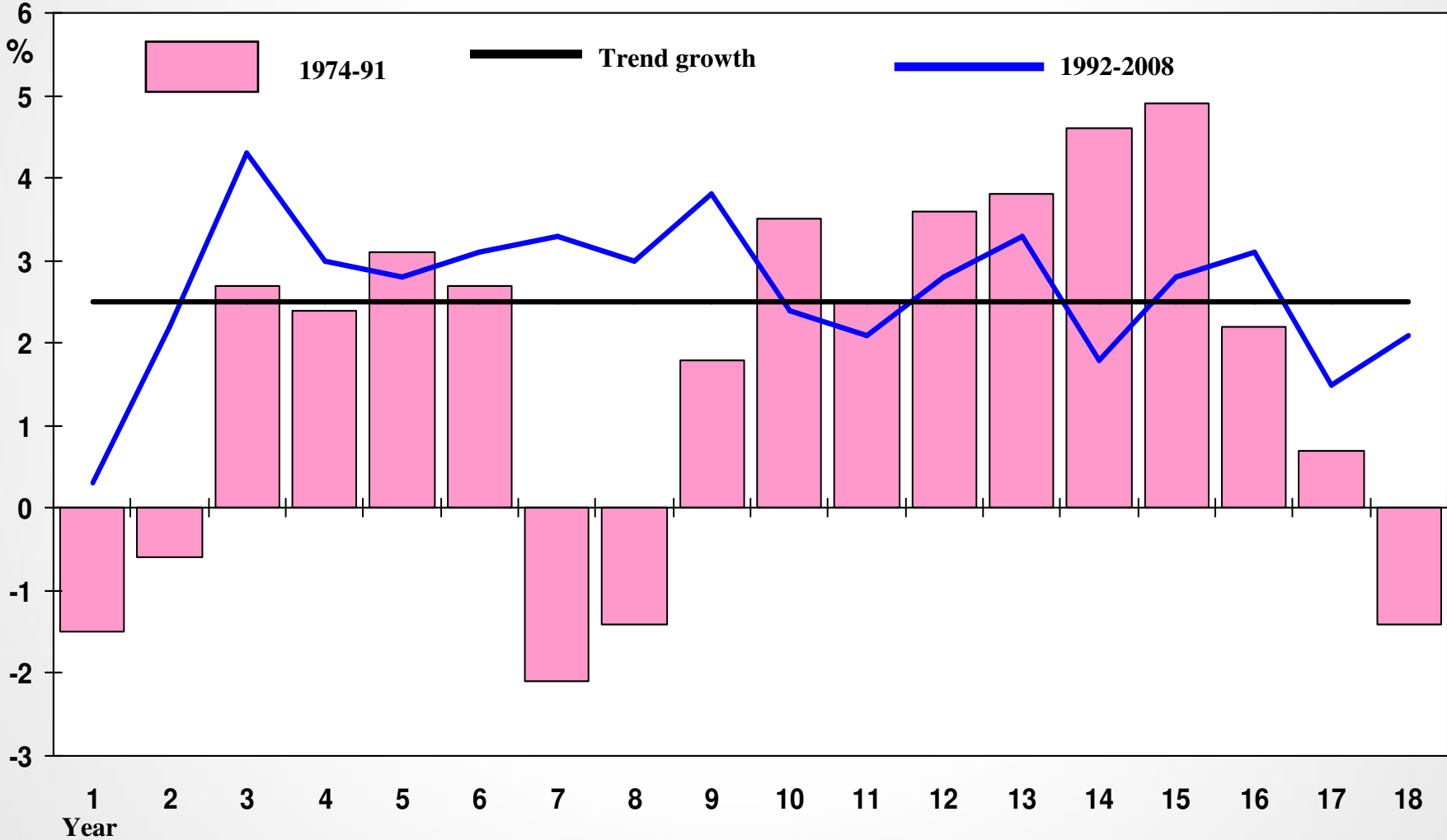
Long-term interest rates,, 1974-2008



Long-term GDP growth, 1974-91



Long-term GDP growth, 1974-2008



KEY MEDIUM-TERM ISSUES

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1. Unwinding debt

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2. Controlling the public sector

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1. Unwinding debt

2. Controlling the public sector

3. Maintaining low inflation

SARS THE BIG RISK

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THANK YOU