

UK ECONOMICS CHART BOOK

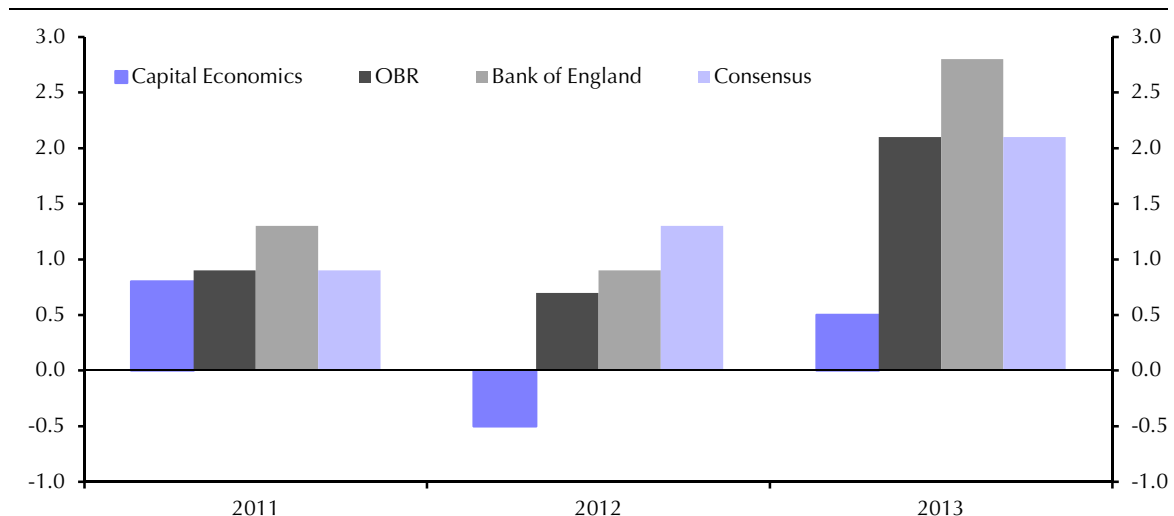
Dec. 2011



Renewed credit crunch looms

- The rise in banks' funding costs already appears to be feeding through into higher borrowing rates for firms and households. Developments across the Channel suggest that a break-up of the euro-zone is likely to occur sooner rather than later. And the Chancellor stuck to - and in fact beefed up - his austerity plans in his Autumn Statement. Accordingly, we have revised down our forecasts for GDP growth and now expect a contraction in 2012 as a whole of 0.5% (our previous forecast was zero growth) and growth of just 0.5% in 2013 (down from 1.5%). The OBR and Bank of England also recently revised down their forecasts, but they still look optimistic to us. (See Chart.)
- **Output and industrial indicators** continue to suggest that the economy is on the brink of returning to recession. (Page 2.)
- **Household indicators** suggest that spending is holding up a bit better than we had feared. (Page 3.)
- **External indicators** suggest that the slowdown in the euro-zone is taking its toll on exports. (Page 4.)
- **Labour market indicators** reveal that employment is still falling sharply. (Page 5.)
- **Inflation indicators** suggest that October's drop in inflation may mark the start of a long downward trend. (Pages 6 & 7.)
- **Monetary indicators** have shown that broad money and lending growth has reached new lows. (Page 8.)
- **Financial indicators** show that the euro-zone crisis has remained at the forefront of investors' minds. (Page 9.)

CHART OF THE MONTH: FORECASTS FOR GDP GROWTH (% Y/Y)

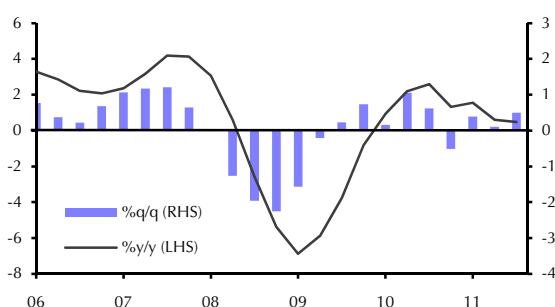


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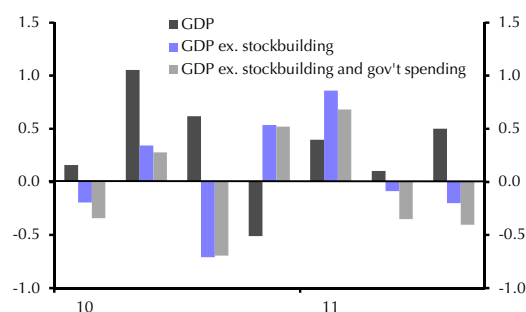
Output and Industrial Indicators

- There are continued signs that the UK's recovery has relapsed. Although quarterly GDP growth was left at a reasonable 0.5% in Q3, the expansion was not based on sustainable foundations. Without a strong contribution from stockbuilding, GDP would have contracted. (Charts 1 & 2.)
- The other main support came from a 0.9% rise in government spending. But this will not last. In fact, the Chancellor beefed up his austerity plans in his Autumn Statement on 29th November. (Chart 3.) Consumer spending was flat in Q3 and investment dropped. (Chart 4.)
- The manufacturing sector already appears to have returned to recession. Manufacturing output has returned to a slight downward trend. (Chart 5.) And both the CBI and CIPS industrial surveys point to output falling by around 1% or so per quarter. (Chart 6.)

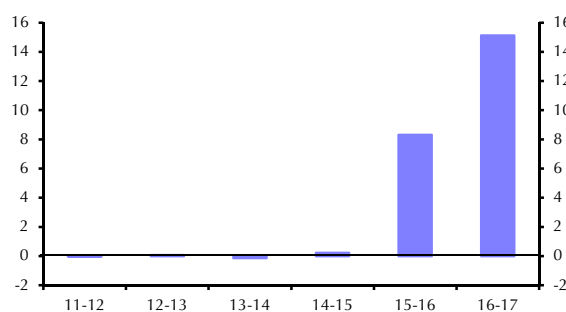
1. Real GDP



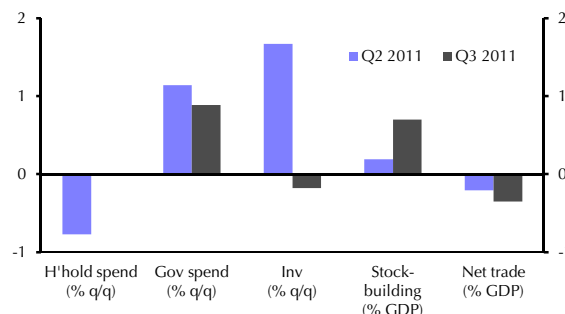
2. Output Breakdown of Real GDP (% q/q)



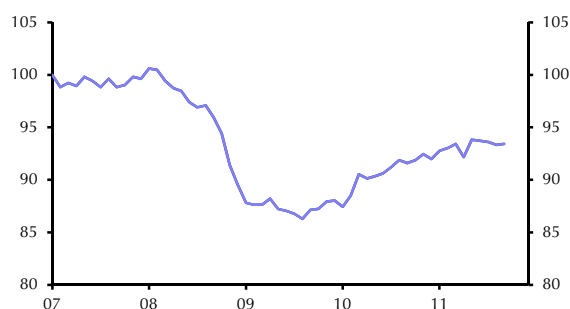
3. Key Autumn Statement Measures (£bn, Cost (-)/Yield (+))



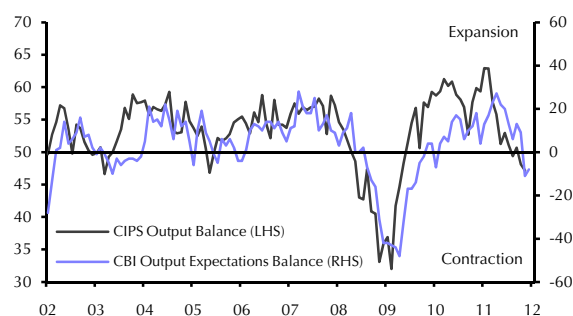
4. Expenditure Breakdown of GDP (% q/q)



5. Manufacturing Output (Jan. 2007 = 100)



6. Survey Measures of Manufacturing Output Growth

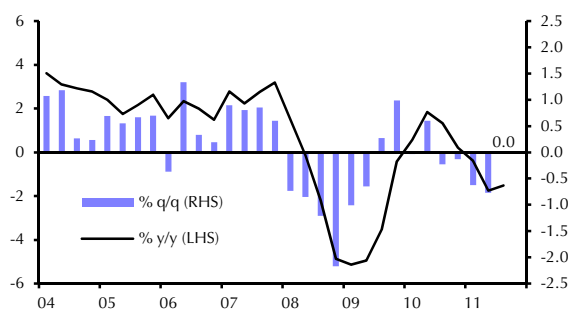


Sources – Thomson Datastream, CIPS/Markit

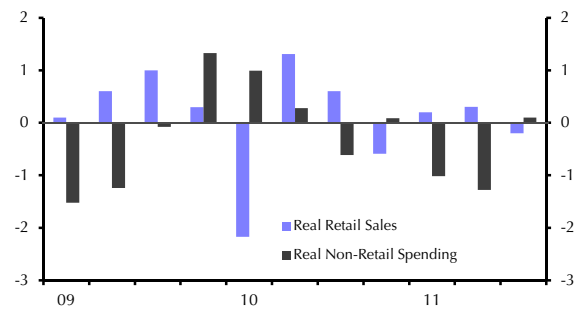
Household Indicators

- The latest news on consumers has been a little less downbeat than we had feared. The expenditure breakdown of GDP revealed that household spending held steady in Q3. (Chart 1.) A 0.2% quarterly fall in real retail sales was offset by a 0.1% rise in real spending off the high street. (Chart 2.)
- The 0.6% m/m rise in the official measure of retail sales volumes in October, following September's 0.5% m/m rise, was also encouraging. However, surveys paint a weaker picture. (Chart 3.) And the low level of consumer confidence points to renewed falls in overall spending. (Chart 4.)
- Conditions in the housing market also seem to have improved moderately. The number of mortgages approved for new house purchase rose from 51,200 to 52,700 in October. (Chart 5.) And house prices rose by 0.4% m/m in November, according to the Nationwide. (Chart 6.)

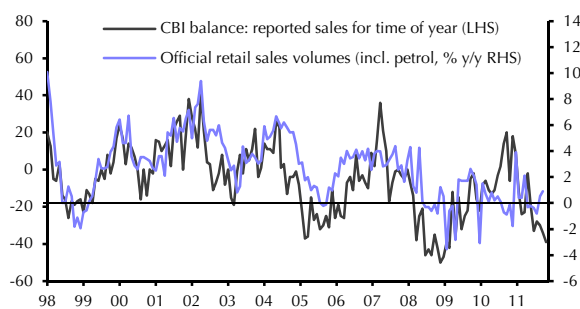
1. Real Household Spending



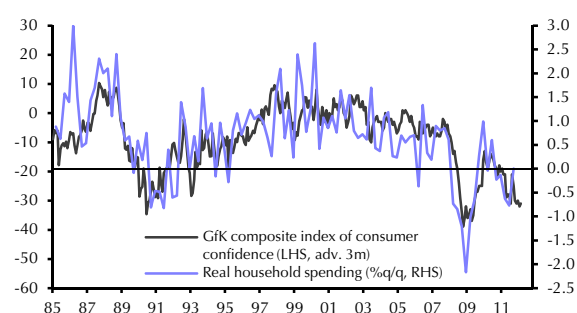
2. Retail & Non-retail Spending (% q/q)



3. Measures of Retail Sales Volumes



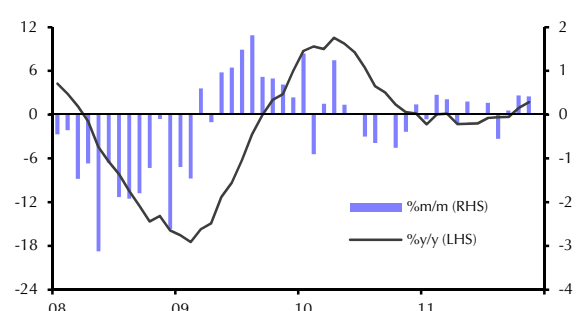
4. Consumer Confidence & Household Spending



5. Mortgage Approvals for New House Purchase (000s)



6. Nationwide House Prices

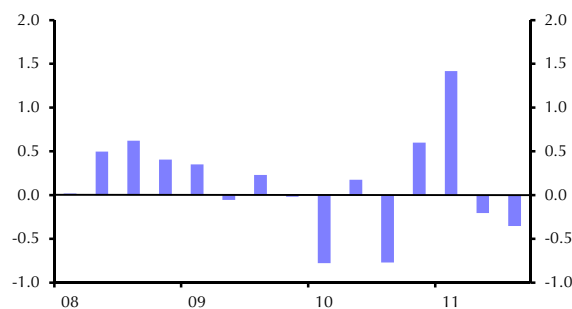


Sources – Thomson Datastream, Bank of England, GfK/NOP

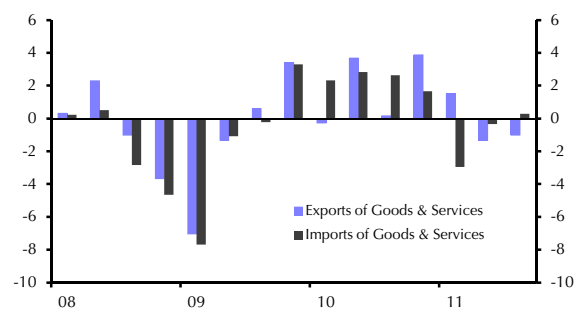
External Indicators

- The escalating euro-zone crisis continues to cloud the outlook for the UK's external sector. Net trade made a negative contribution to quarterly GDP growth in Q3 of 0.4%. (Chart 1.) Export volumes dropped by 1%, while imports rose a touch. (Chart 2.)
- The trend in the monthly trade data also appears to have deteriorated. The overall trade deficit widened from £2.7bn to £3.9bn between August and September. The goods deficit of £9.8bn was the biggest on record. (Chart 3.) Exported goods volumes have continued to fall, as have export orders. (Charts 4 & 5.)
- The slowdown in the euro-zone is probably playing a large part in this. Although values of goods exported to the euro-zone were up by 17% y/y in September, volumes were up by a smaller 5%. (Chart 6.) And they fell on the month. We expect euro-zone GDP to fall by 1% next year and 2.5% in 2013.

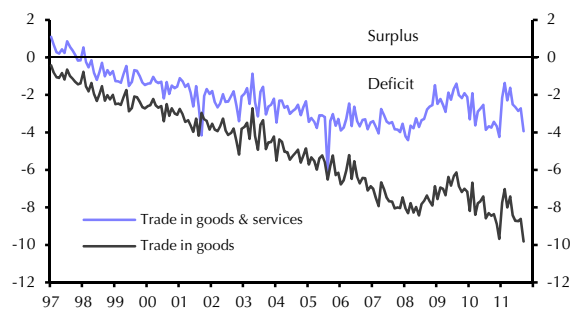
1. Net Trade Contrib. To Quarterly GDP Growth (% Points)



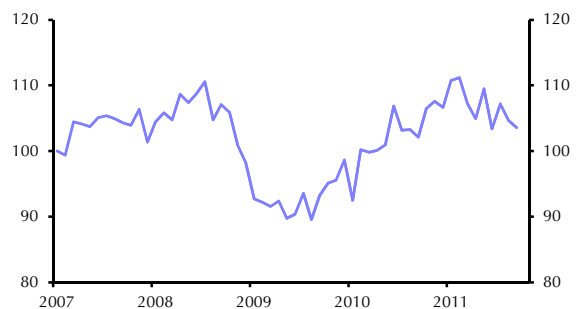
2. Export Volumes (% q/q)



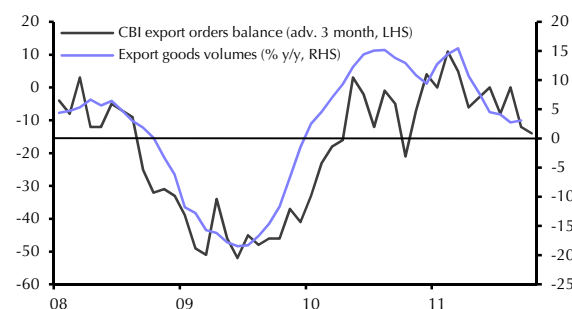
3. Trade Balances (£bn)



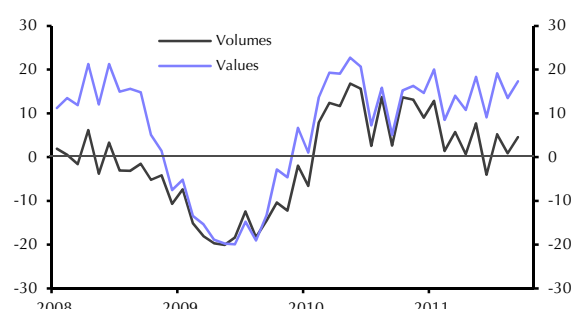
4. Exported Goods Volumes (Jan. 2007 = 100)



5. CBI Export Orders Balance & Export Volumes



6. Exported Goods to the EU (% y/y)

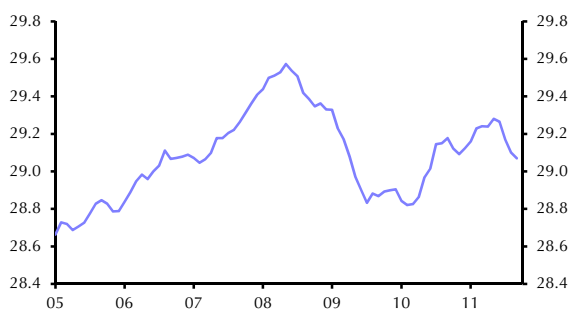


Sources – Thomson Datastream, CBI

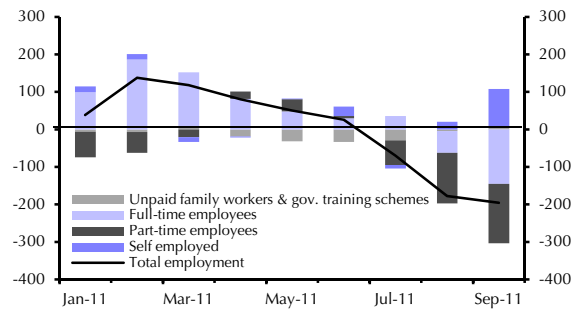
Labour Market Indicators

- The labour market downturn is continuing to gather pace. Employment fell by 196,000 in the three months to September. It has now reversed almost half of its increase since 2010. (Chart 1.) An even bigger fall in employees was partly offset by a rise in self-employment. (Chart 2.)
- The workforce contracted again, pointing to a “discouraged worker” effect. And many of those losing their jobs do not appear to be signing on. The number of people claiming unemployment benefit rose by only 5,300 in October. (Chart 3.) Youth unemployment surpassed 1m for the first time. (Chart 4.)
- Measures of employment intentions have continued to fall. (Chart 5.) Meanwhile, the annual rate of average earnings growth fell from 2.3% to 1.9% in September. Excluding bonuses, growth was 1.8%. (Chart 6.) Measures of pay settlements also dipped.

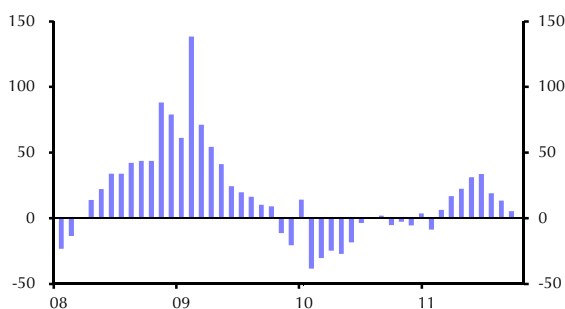
1. LFS Employment (3m/3m, 000s)



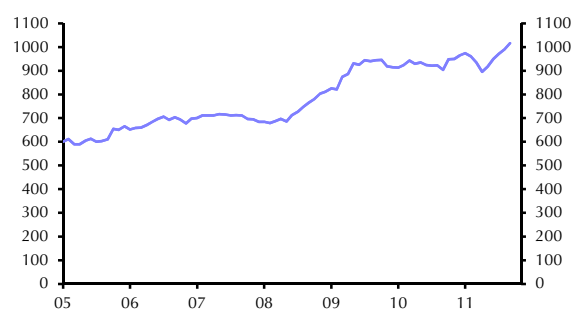
2. Employment (000s, 3m/3m)



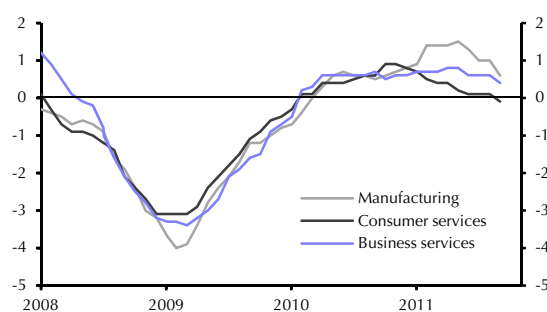
3. Claimant Count (m/m, 000s)



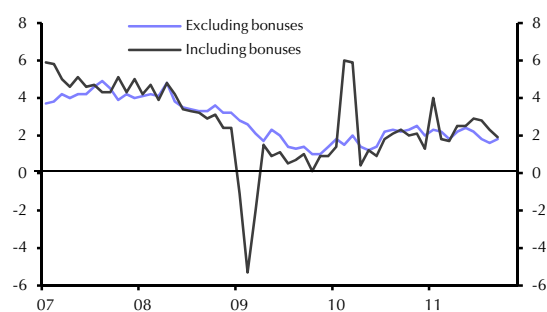
4. Youth Unemployment (000s)



5. Bank of England's Agents' Scores of Employment Intentions



6. Average Earnings (% y/y)

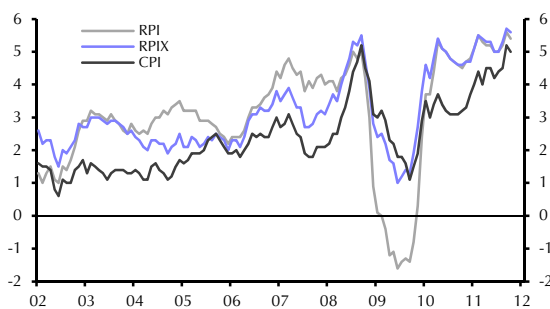


Sources – Thomson Datastream, IDS, XperTHR, Bank of England

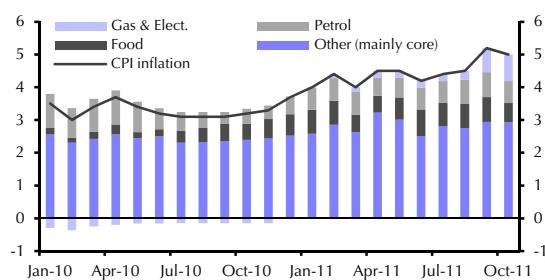
Inflation Indicators

- October's drop in inflation may well mark the start of a long downward trend. CPI inflation fell from 5.2% to 5.0%, while RPI fell from 5.6% to 5.4%. (Chart 1.) These falls largely reflected a drop in petrol and food inflation. (Chart 2.)
- Indeed, food CPI inflation fell sharply from 6.4% to 5.0%, aided by a chunky 0.9% monthly drop in prices. (Chart 3.) Supermarket competition has intensified. As Chart 4 shows, food retailers are failing to pass on fully the rise in their costs.
- The fall in overall inflation would have been bigger had core inflation not risen from 3.3% to 3.4%. (Chart 5.) But this mainly reflected a rebound in clothing inflation after September's fall. Recent sharp falls in cotton prices suggest that clothing inflation will fall sharply in the coming months. (Chart 6.)

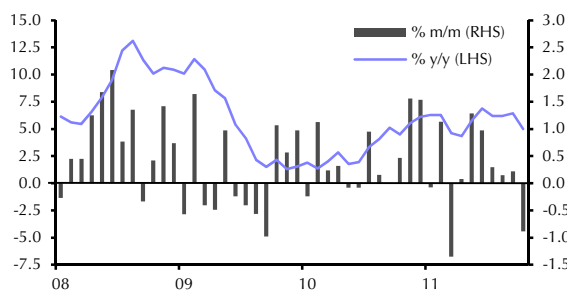
1. UK Inflation (%)



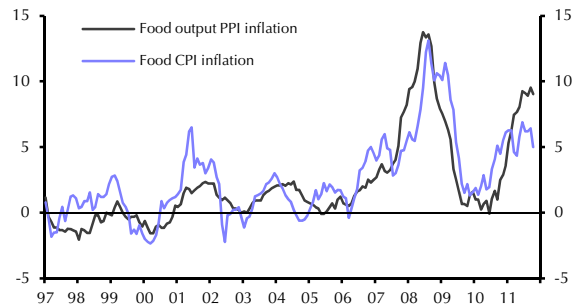
2. CPI Inflation (%)



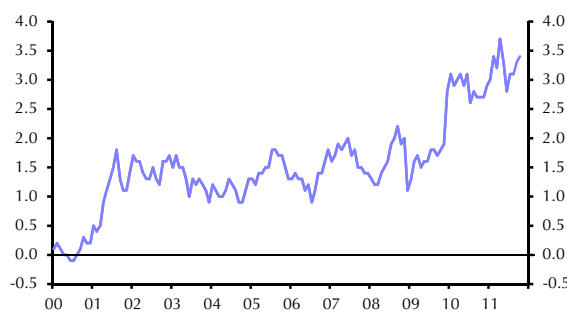
3. Food CPI Inflation



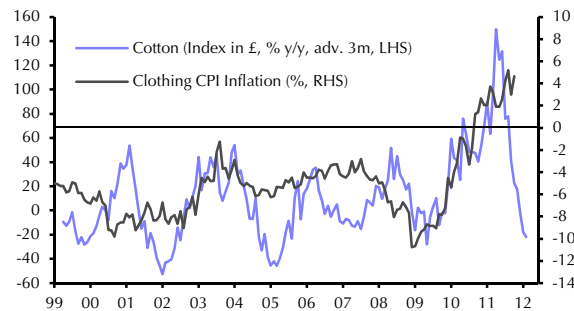
4. Food CPI & Output PPI Inflation (%)



5. Core CPI Inflation (%)



6. Clothing CPI Inflation & Cotton Prices



Sources – Thomson Datastream

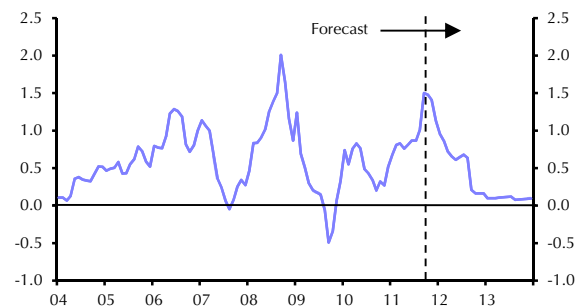
Inflation Indicators (continued)

- CPI inflation looks set to fall sharply over the next year or so. For a start, the last of the utility price hikes were introduced in early November, while oil prices have remained stable at around \$110pb. (Chart 7.) Energy's contribution to inflation should therefore fall sharply in the coming months. (Chart 8.)
- Meanwhile, the weakness of imported goods price inflation over the last year suggests that core goods inflation should fall sharply when VAT effects cease to support the annual rate from January 2012. (Chart 9.) Surveys also suggest that producer output price inflation will fall back soon. (Chart 10.)
- Measures of households' inflation expectations for the year ahead have fallen over the last month. (Chart 11.) All in all, then, we continue to think that inflation will fall sharply next year. We have also revised down our inflation forecast for 2013, reflecting our weaker GDP forecasts. (Chart 12.)

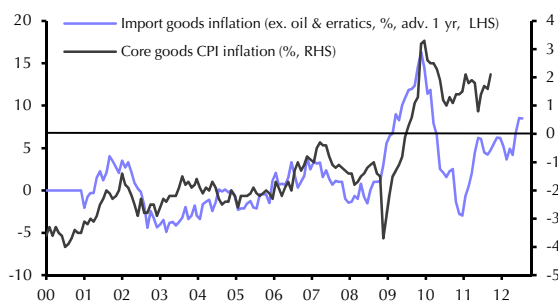
7. Oil Prices (\$pb)



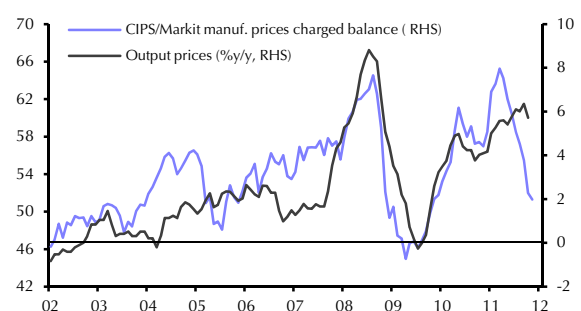
8. Contrib. of Energy to CPI Inflation (% Points)



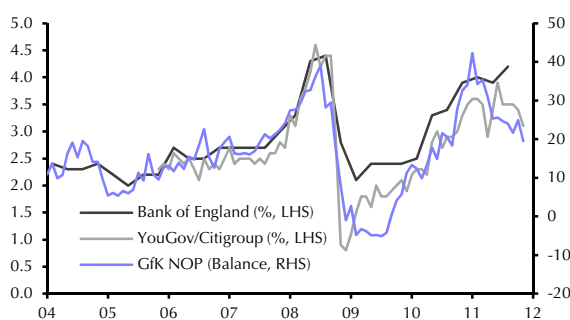
9. Import Goods Inflation & Core Goods Inflation



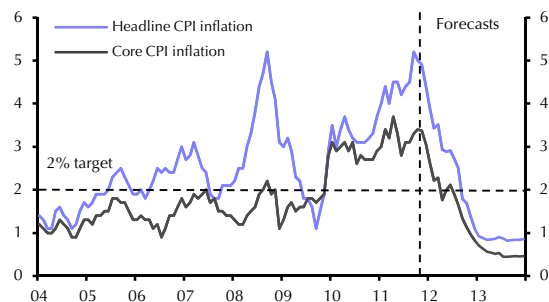
10. Measures of Manufacturers' Output Prices



11. Households' Inflation Expectations (Year Ahead)



12. Capital Economics Inflation Forecast (%)

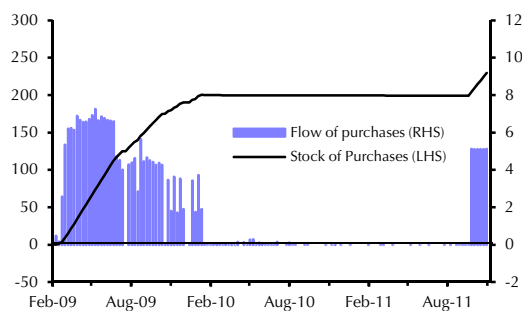


Sources – Thomson Datastream, Bloomberg, Capital Economics

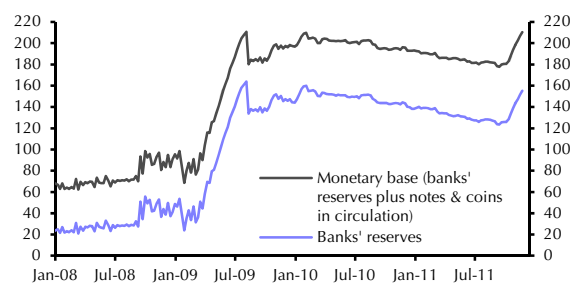
Monetary Indicators

- Annual growth of broad money and lending hit new record lows in October. The MPC's renewed asset purchases are pushing up the narrow money supply. (Charts 1 & 2.) However, the annual growth rate of total M4 fell from -1.6% to -2.7%. (Chart 3.) And annual growth of M4 lending was -4.5%. (Chart 4.)
- Growth in the MPC's preferred (narrower) measures of the broad money supply was stronger. The three month annualised growth rate was 5% in October. But a similar acceleration in this measure at the end of last year soon fizzled out. (Chart 5.)
- Lending to private non-financial firms (PNFCs) has continued to fall. (Chart 6.) The Government's credit easing measures may help. However, banks are currently struggling to raise wholesale funds. So rather than boosting lending to SMEs, the scheme may just prevent it from falling more sharply.

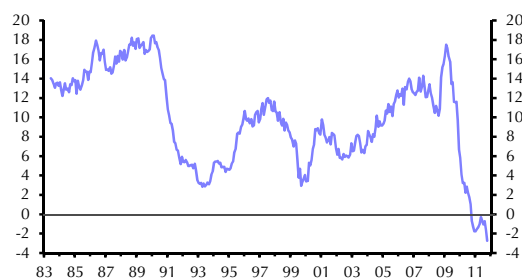
1. Asset Purchases (£bn)



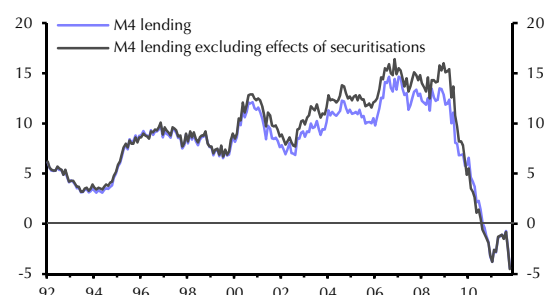
2. Monetary Base & Banks' Reserves (£bn)



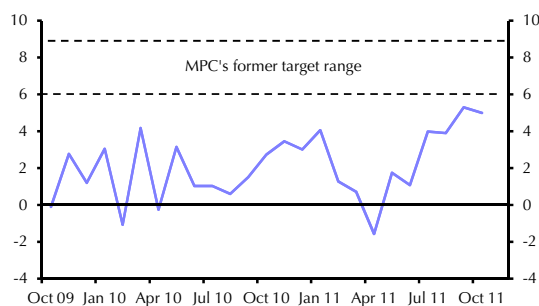
3. M4 (% y/y)



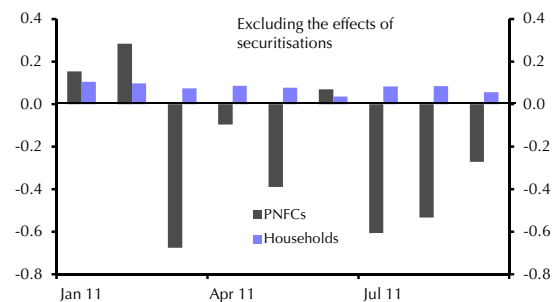
4. M4 Lending (% y/y)



5. M4 Excluding Intermediate OFCs (% 3m. ann)



6. M4 Lending (% m/m)

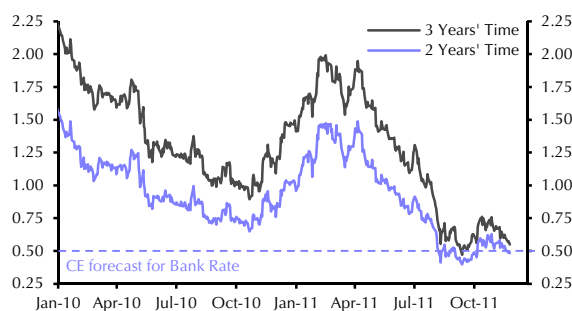


Sources – Thomson Datastream, Bank of England

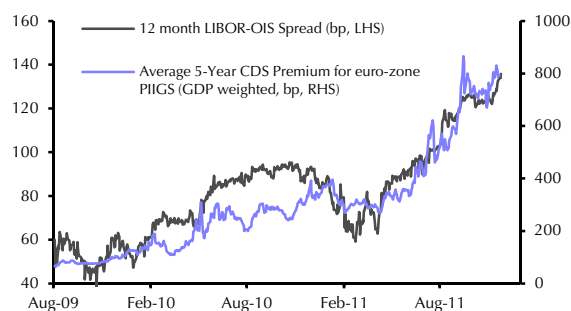
Financial Indicators

- The euro-zone crisis has remained at the forefront of investors' minds. Markets still expect official interest rates to remain on hold for a prolonged period, influenced no doubt by the Bank of England's dovish *Inflation Report* which emphasised the risks to growth from abroad. (Chart 1.)
- Interbank lending spreads have widened, reflecting greater credit risk. (Chart 2.) Meanwhile, gilt yields have fallen further, partly reflecting safe-haven demand. (Chart 3.) Equity markets, however, remained more upbeat and ended November unchanged on the levels at the start of the month. (Chart 4.)
- Meanwhile, sterling has strengthened against the euro as the outlook for economic growth deteriorated at a faster pace in the euro-zone than in the UK. (Chart 5.) But a global retreat to safe-havens has supported a rise in the dollar against the pound. (Chart 6.)

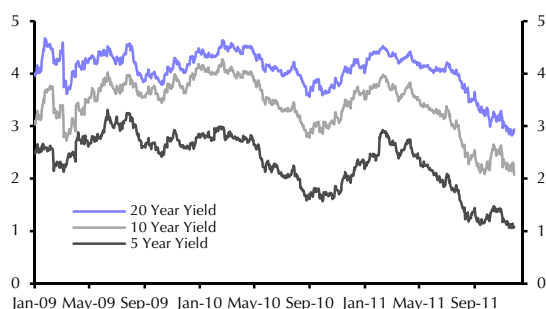
1. Expected Level of Overnight Interest Rates in 2 and 3 Years' Time (%)



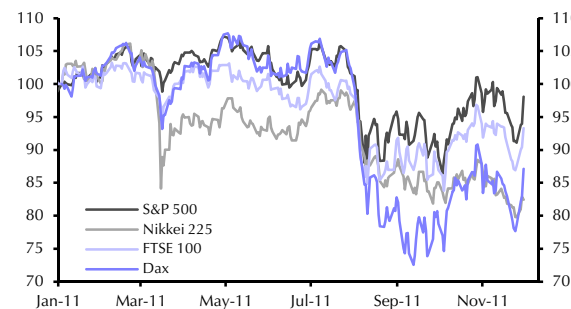
2. LIBOR-OIS Spread & Average 10-Year CDS Premium of the 'PIGS' (Portugal, Ireland, Greece & Spain)



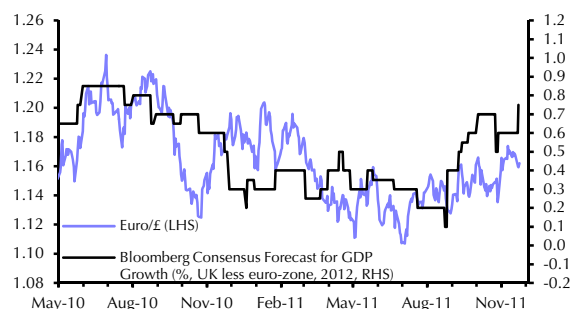
3. 10-Year Government Bond Yields (%)



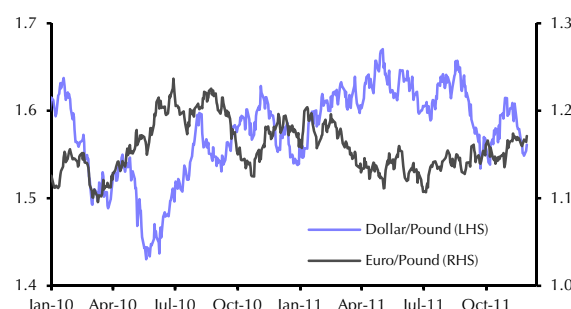
4. Equity Indices (1st Jan 2011 = 100)



5. GDP Growth Forecasts & Nominal €/\$ Rate



6. Sterling Exchange Rates



Sources – Thomson Datastream, Bloomberg