

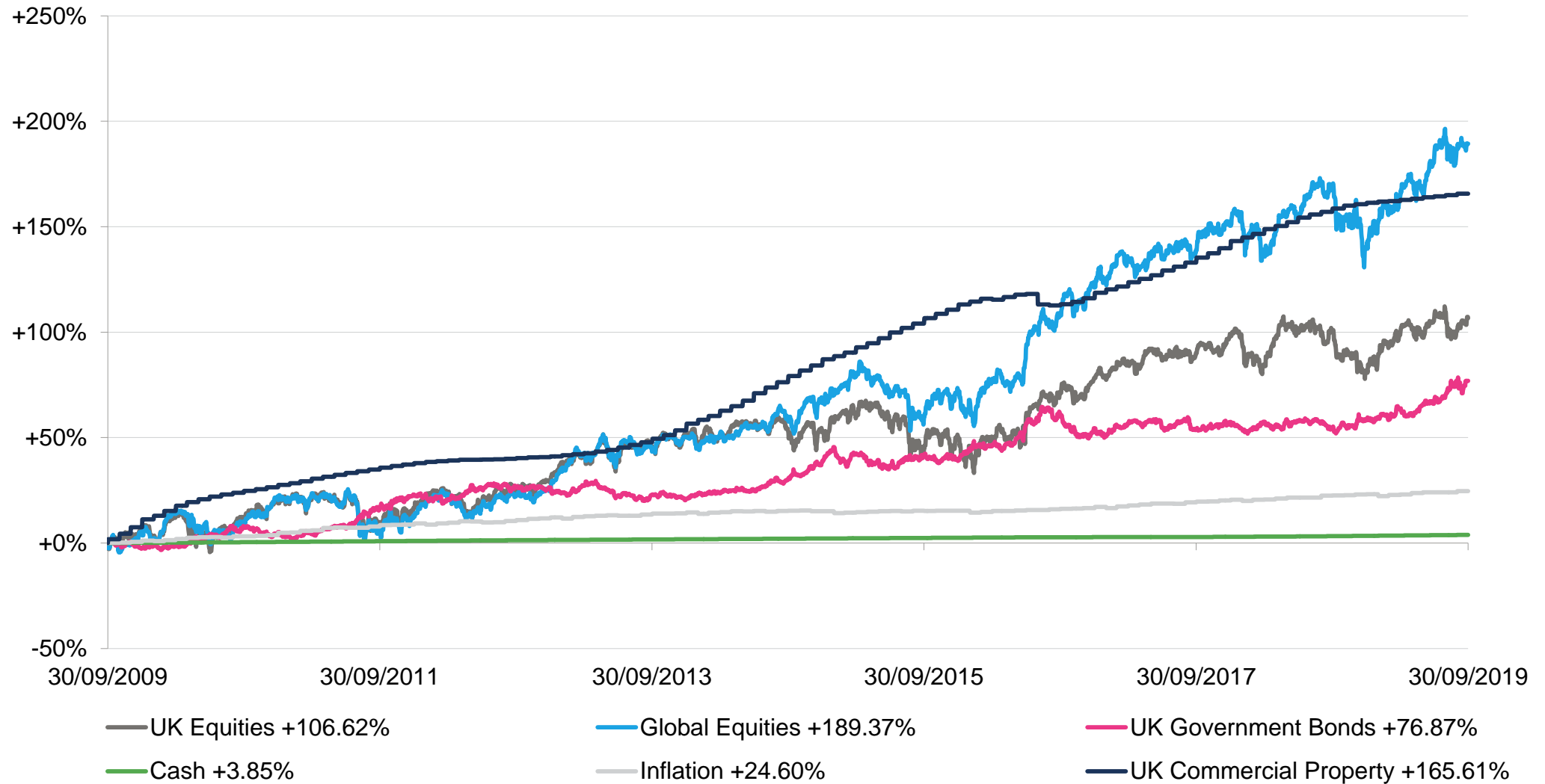
ECONOMIC REVIEW & BREXIT UPDATE

John Kelly

5 November 2019

CCLA

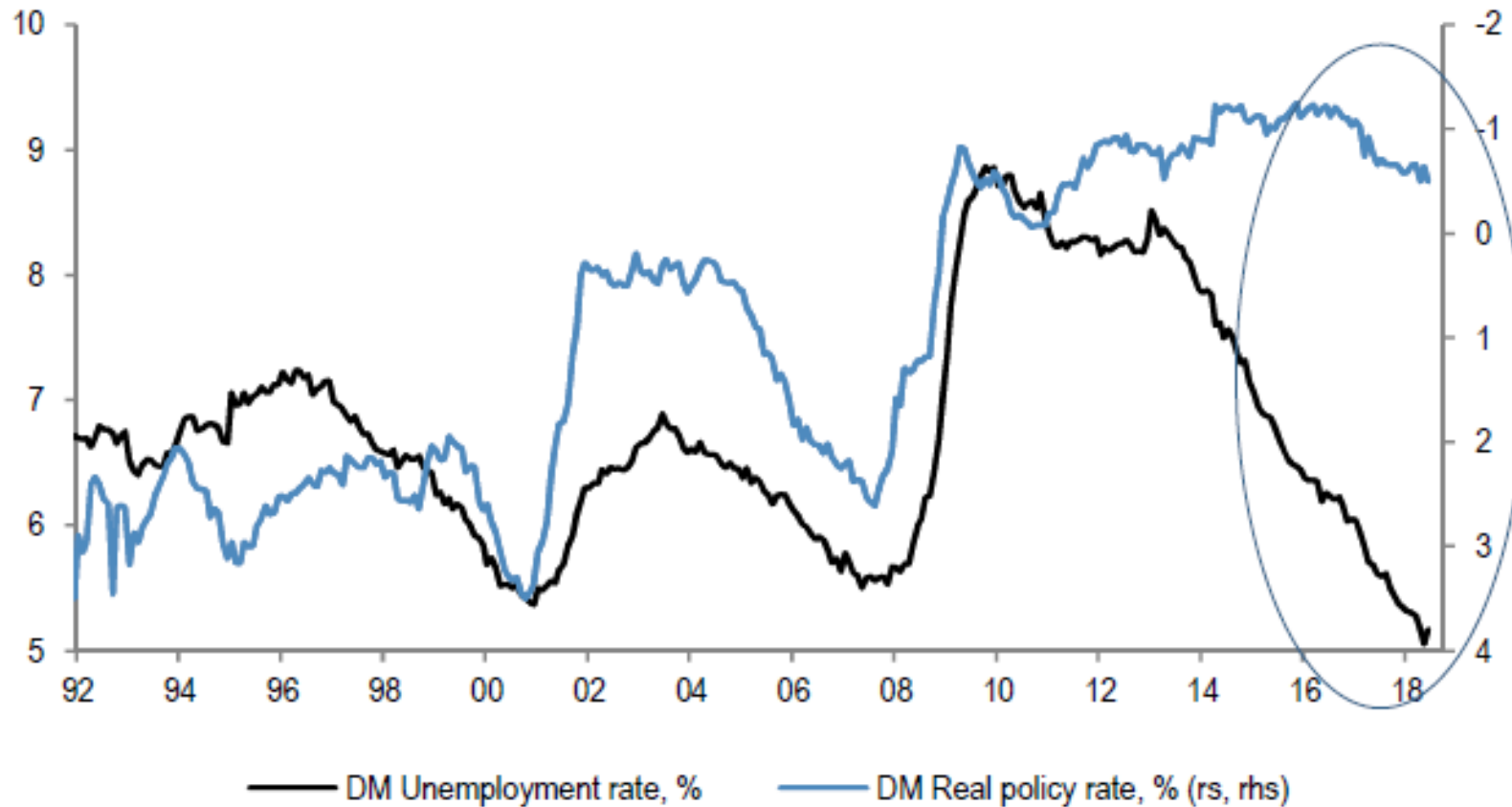
- Global environment
- Trends in the UK
- Brexit arithmetic
- First a question...



Source: Bloomberg as at 30 September 2019

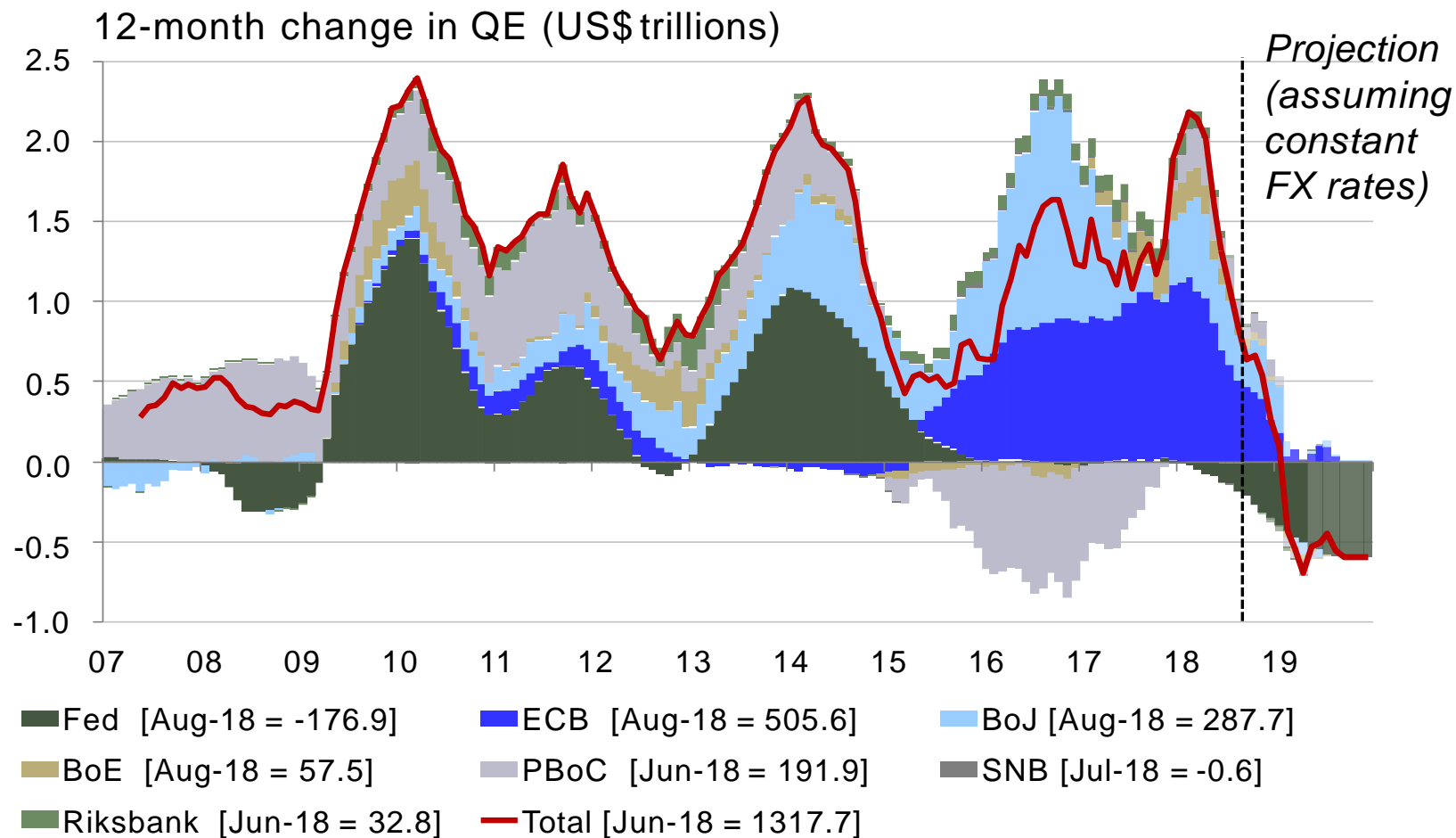
- Longest growth phase in modern times
- Supported by extraordinary monetary policies
 - Ultra low rates, quantitative easing

DM unemployment rate and real policy interest rate

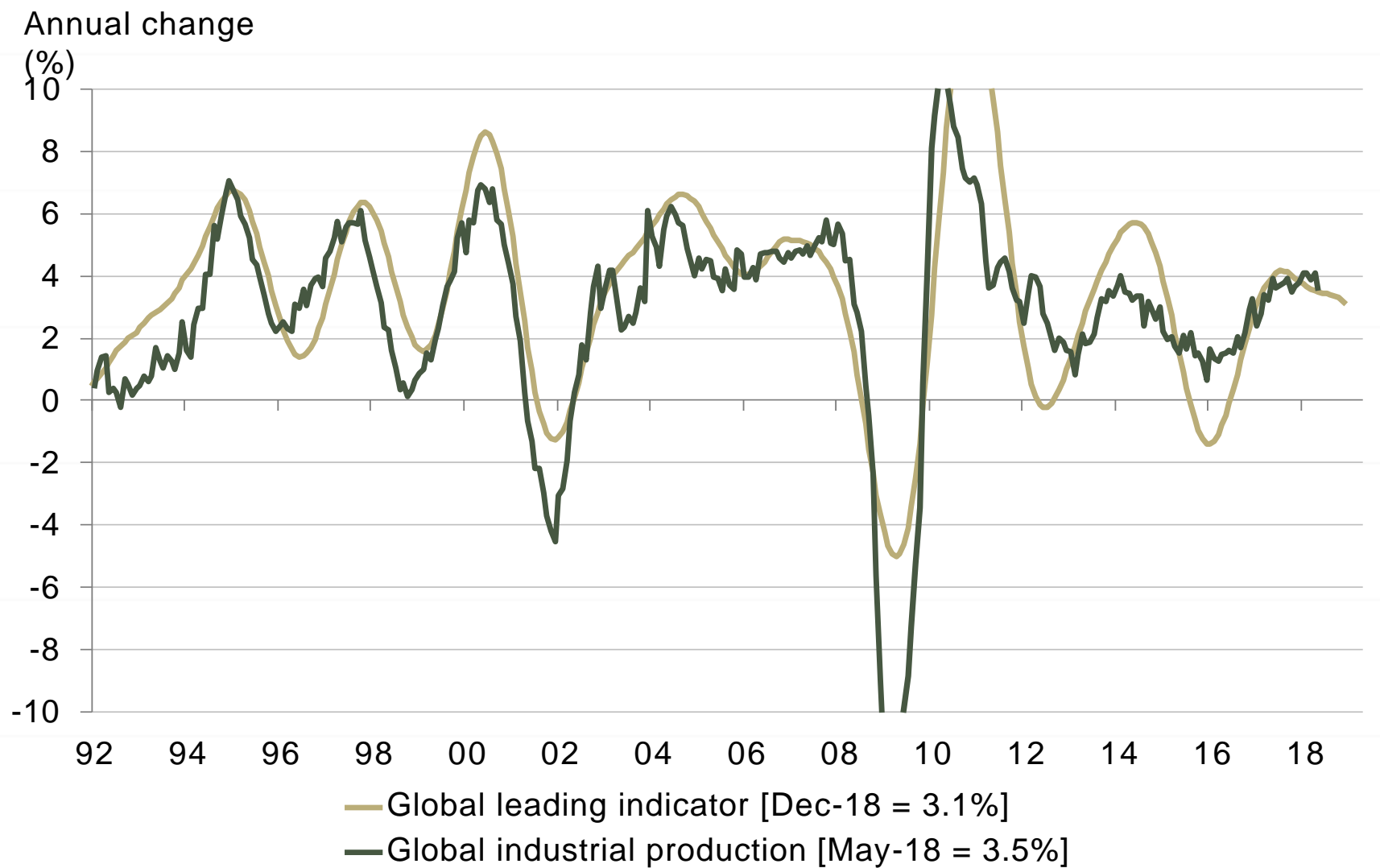


Source: J.P. Morgan

Easing has been a common feature of the period



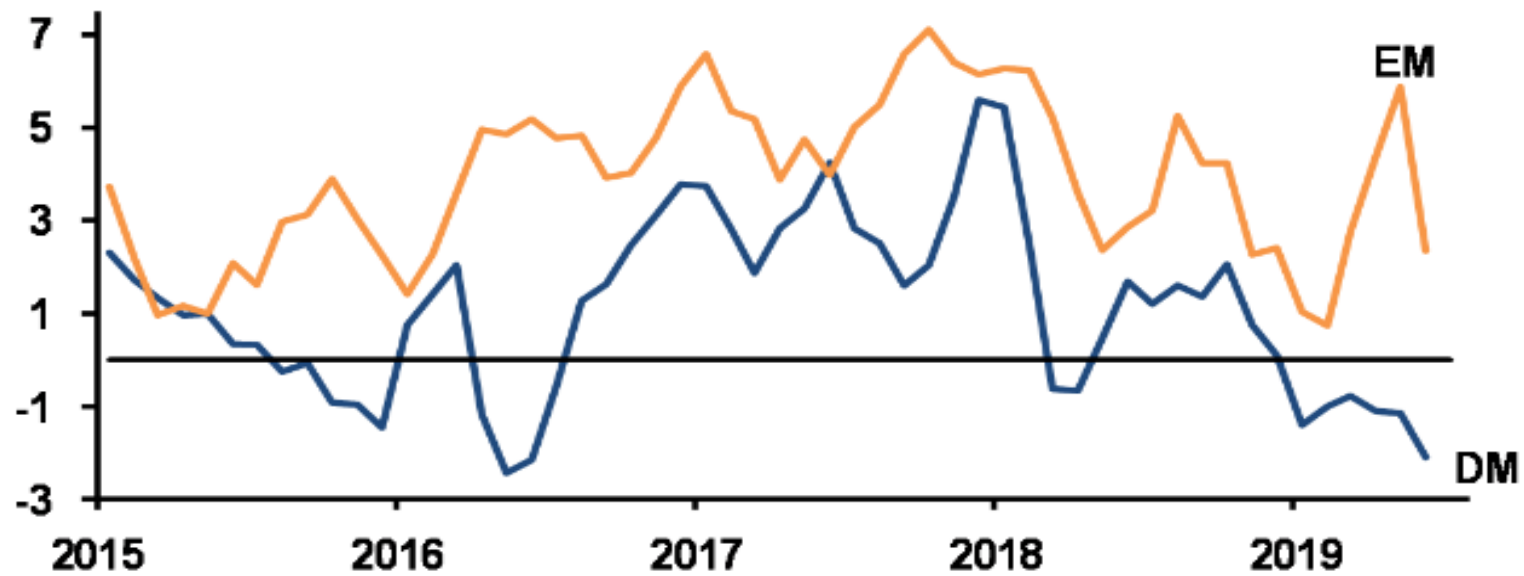
Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

Manufacturing output

%3m3m, saar



Source: JP Morgan

- Central banks to the rescue? A new march to lower borrowing costs
 - Fed three cuts made, more to come
 - ECB further into negative territory, more to come ?
 - BoJ autumn review
 - BoE ?

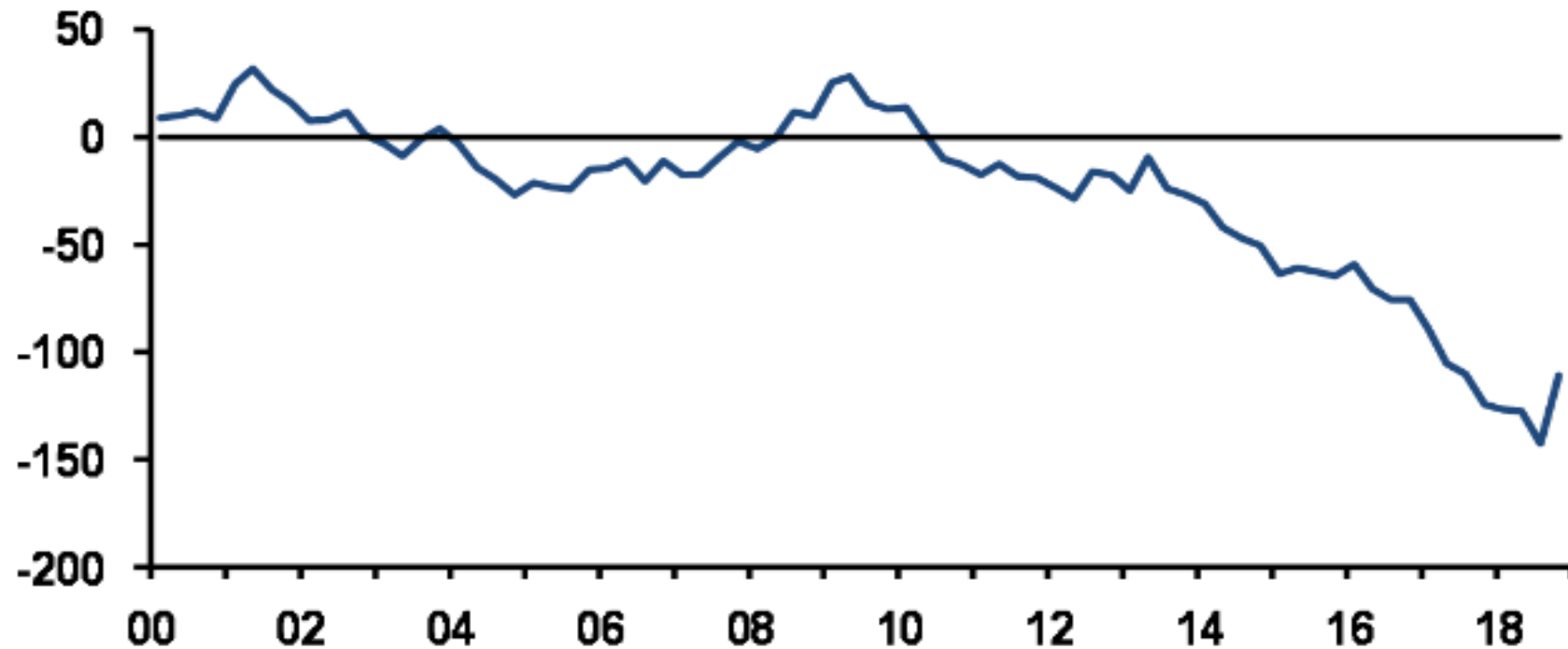
- Finding the ELB?

- Banks
- Pension Funds
- Savers
- And the problem associated with excess debt
- Riksbank changes tack

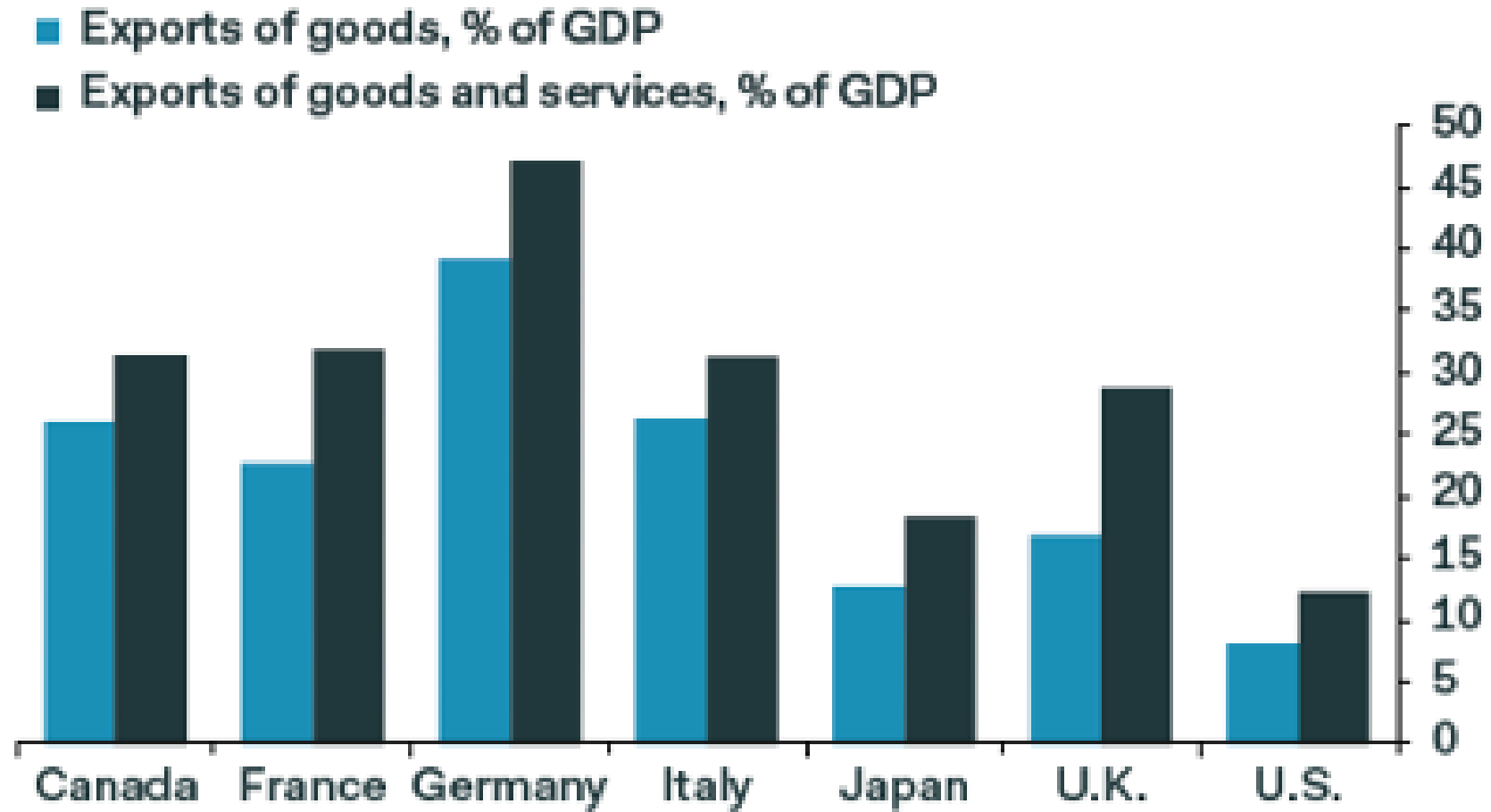
- Rise in jobless – from current lows
- Geopolitics
- Oil – Saudi attack
- Trade – the biggest concern

Capital goods trade balance, US

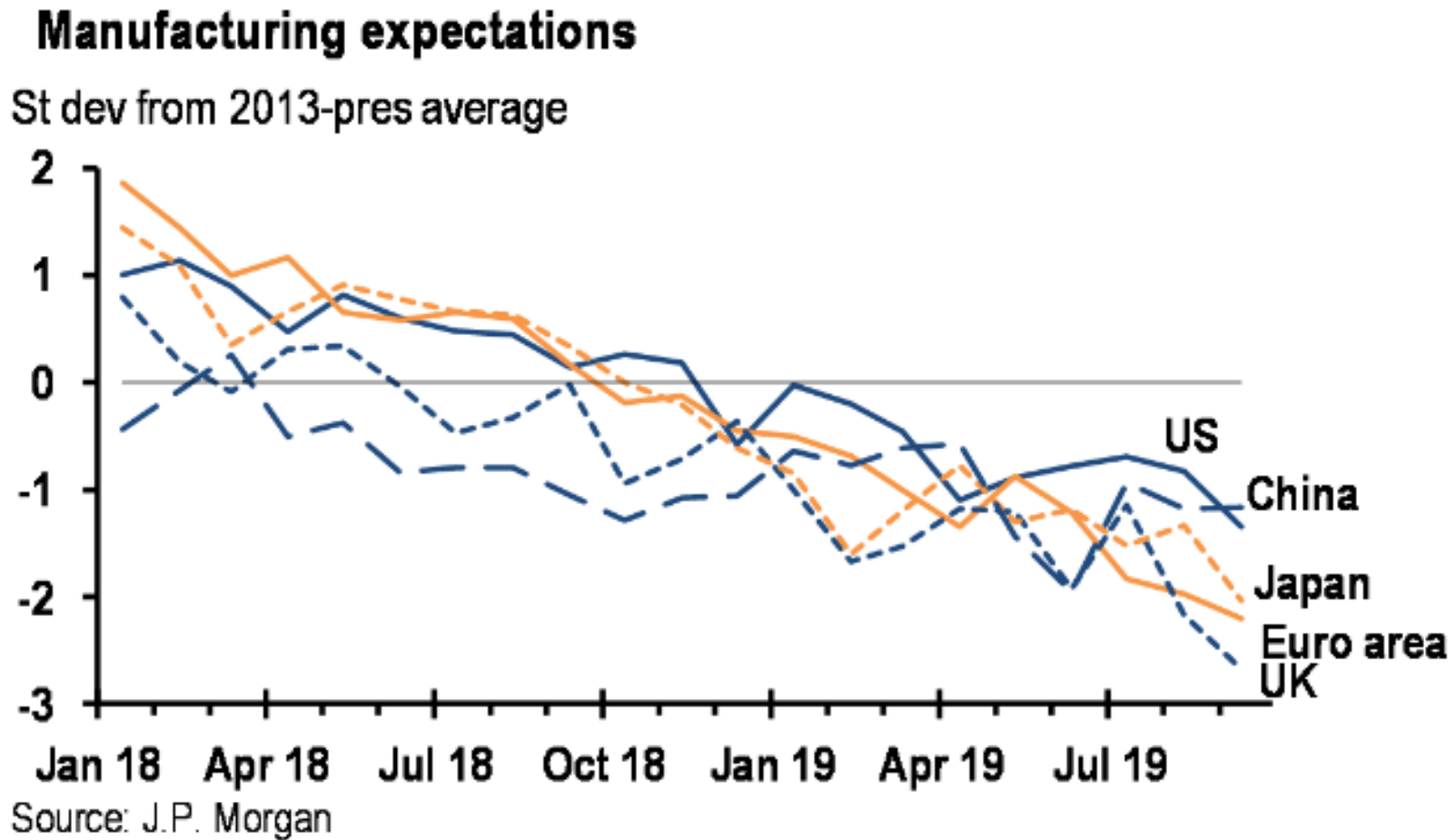
bn USD, saar



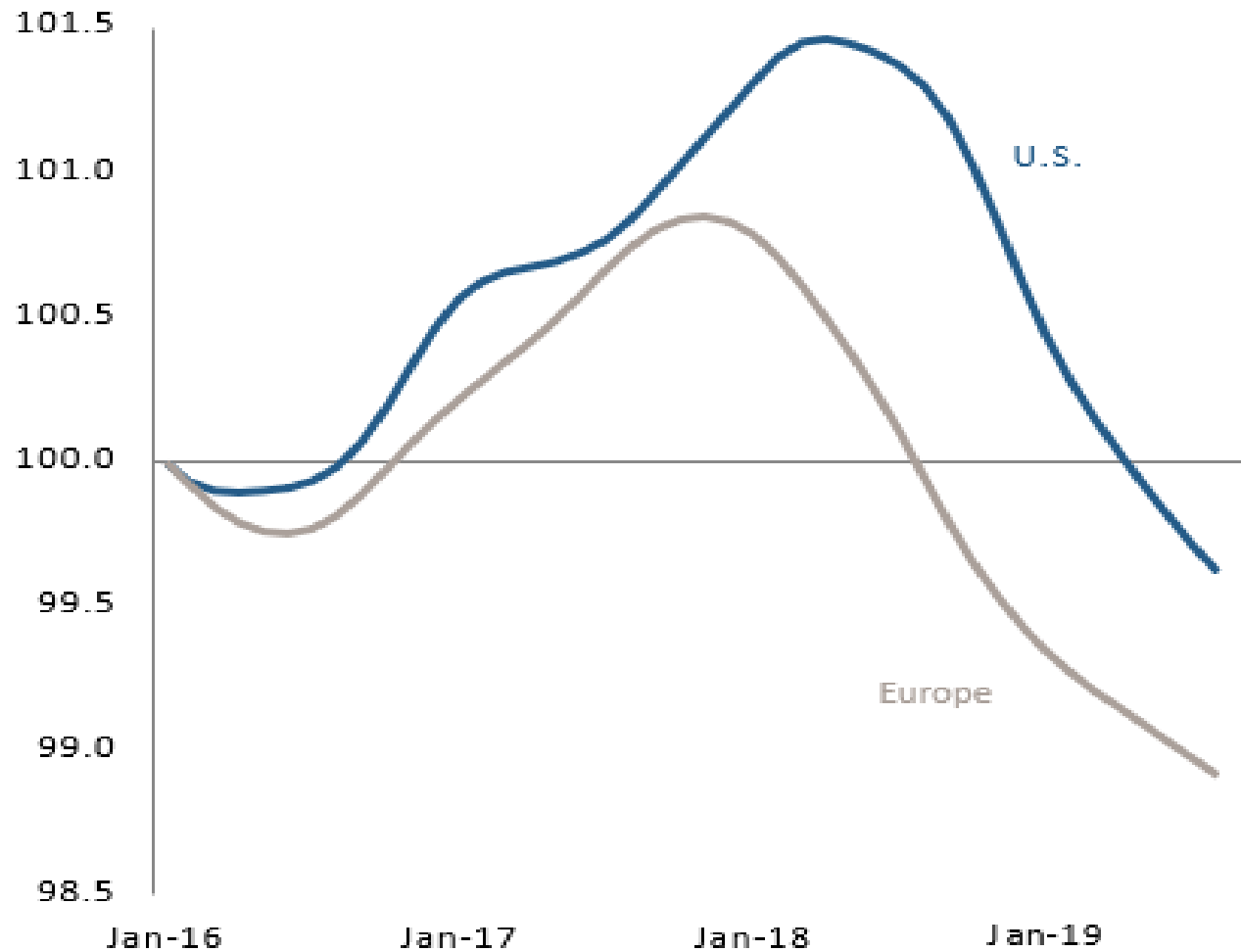
- Trade = 25% global GDP
- US at centre of global financial system
- China at centre of global supply chains
- Trade dispute or geopolitical struggle?
- Highest casualties elsewhere than main protagonists



Source: xxxxx



Leading Economic Indicators

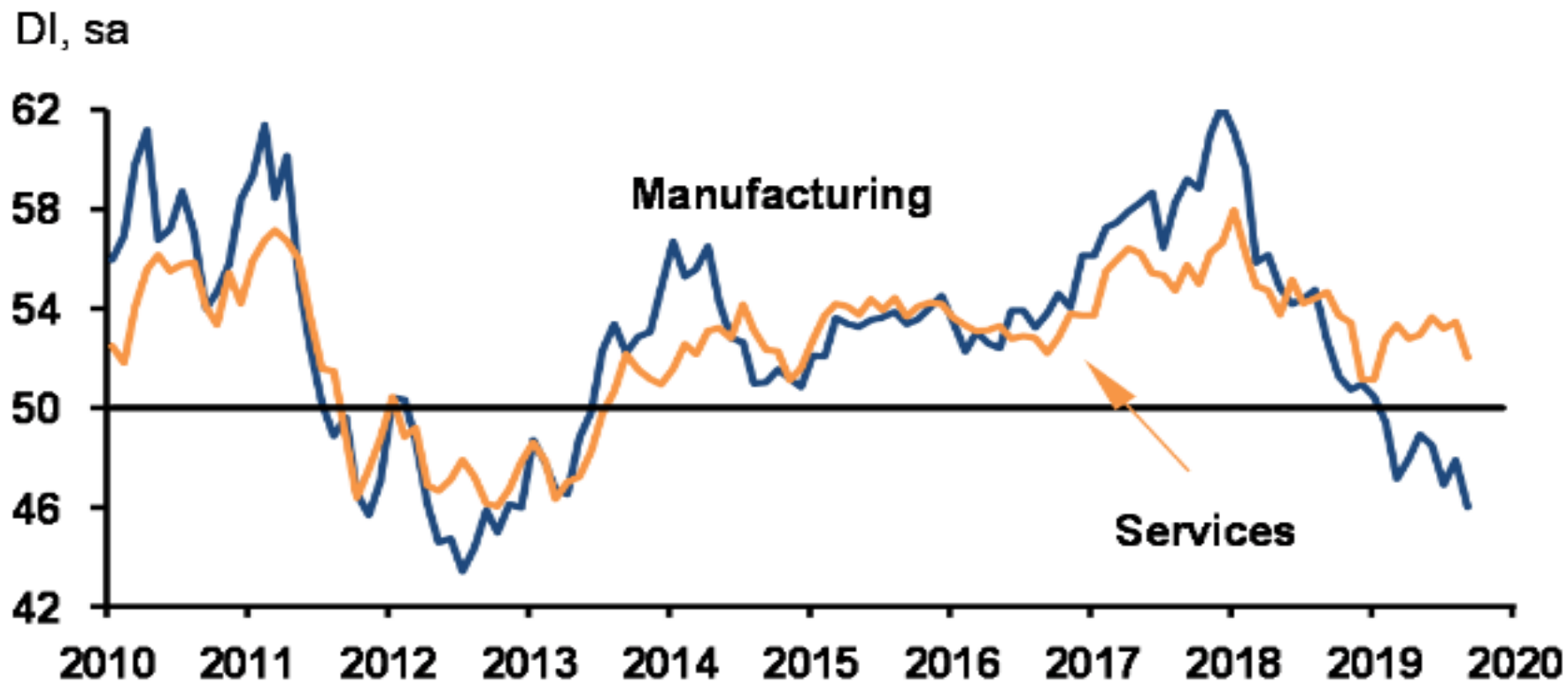


Note: Indexed to 100 on Jan 2016

Source: OECD, The BLOOMBERG PROFESSIONAL™ service, Credit Suisse

- EU a lagging participant in the upturn
 - Slow to adjust policies – lack of consensus
 - Unemployment down but patchy
 - Change of leadership at the ECB
 - Back on the gas !

Figure 3: Euro area services and manufacturing PMI output



Source: Markit, J.P. Morgan

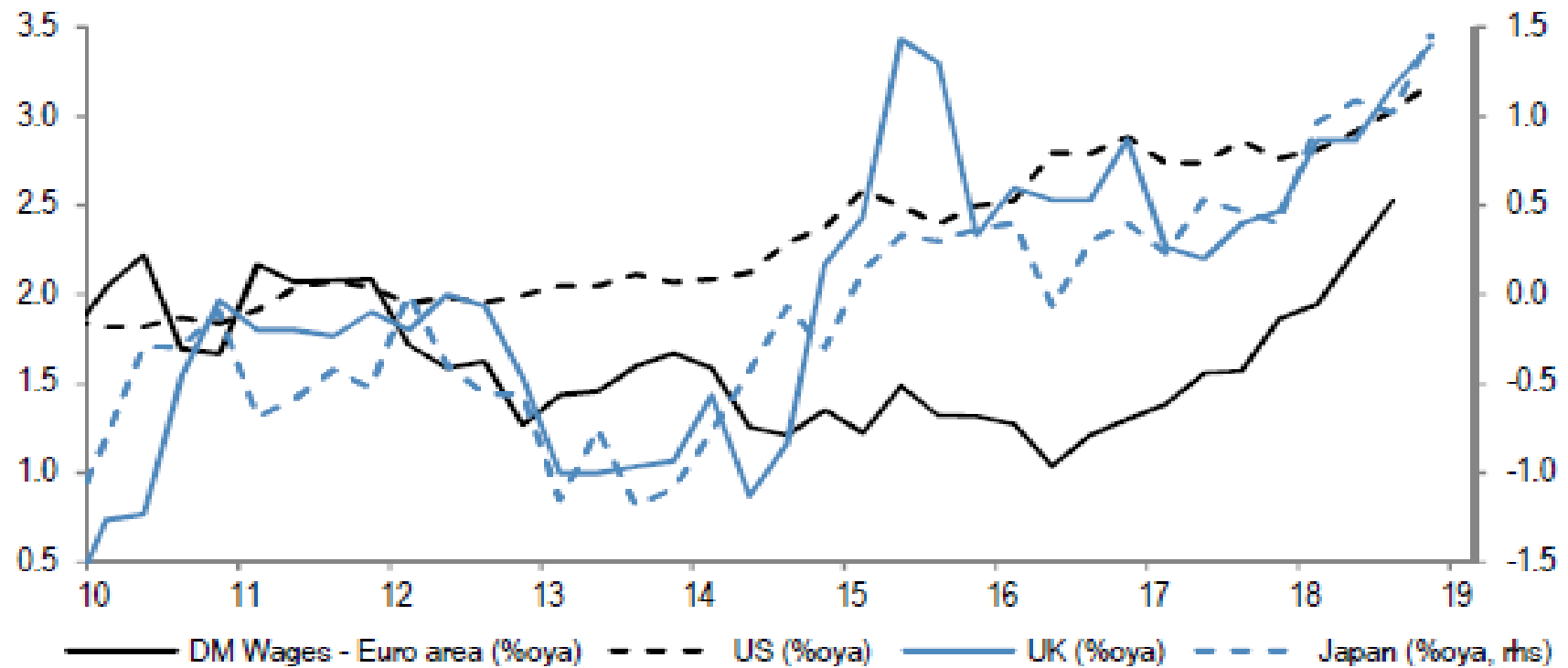
- Will rising wages and new looser monetary policies be sufficient to offset the effects of a maturing trend and geopolitical threats?
- It's important because 'Brexit' against a back cloth of growth, is very different from Brexit in a global recession.

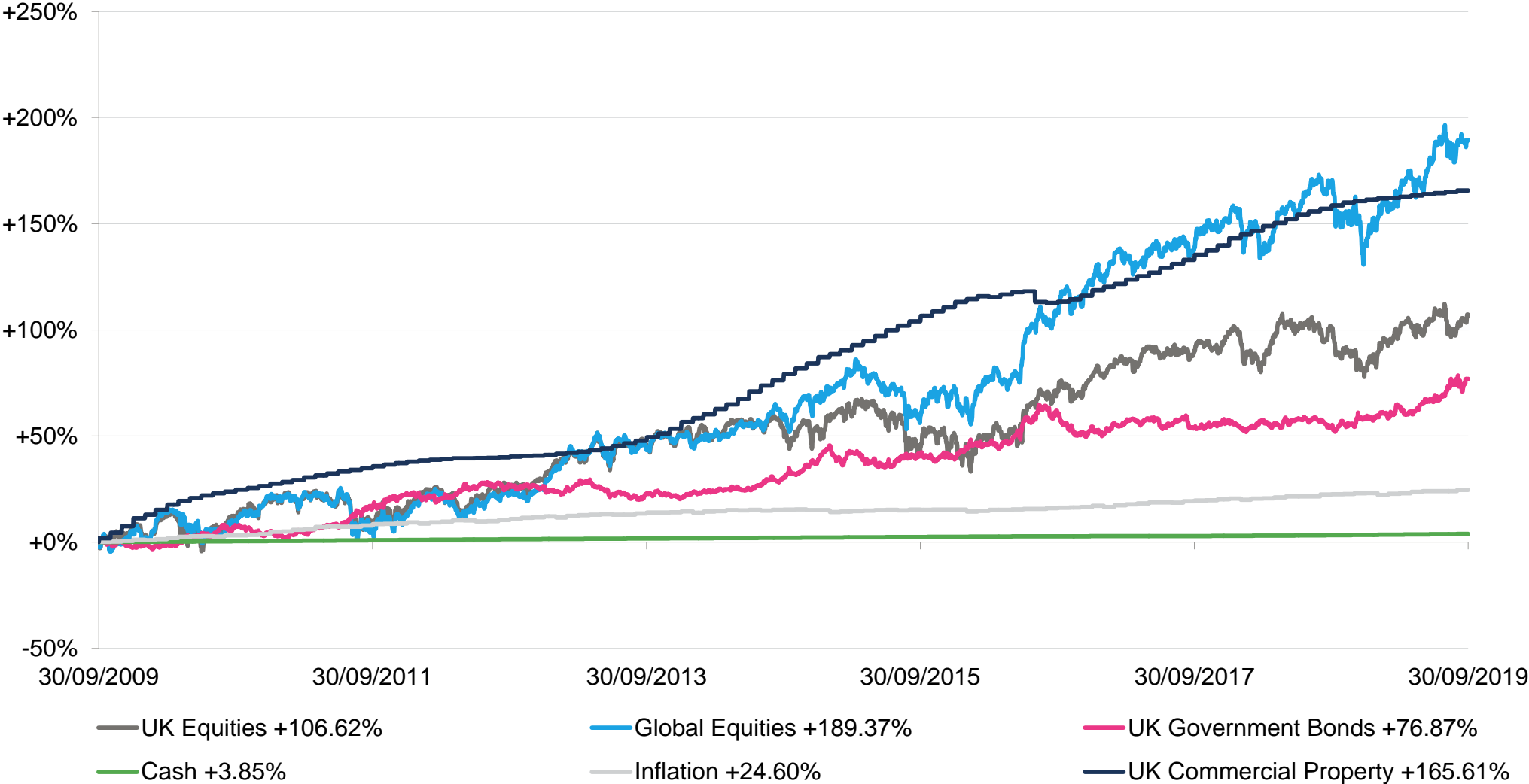
- Growth to continue but at modest, sub-trend rate

Geopolitical pressures ease

- Inflation stays low
- Borrowing costs fall
- Wage growth continues
- China tax cuts
- Fiscal expenditure

DM wages

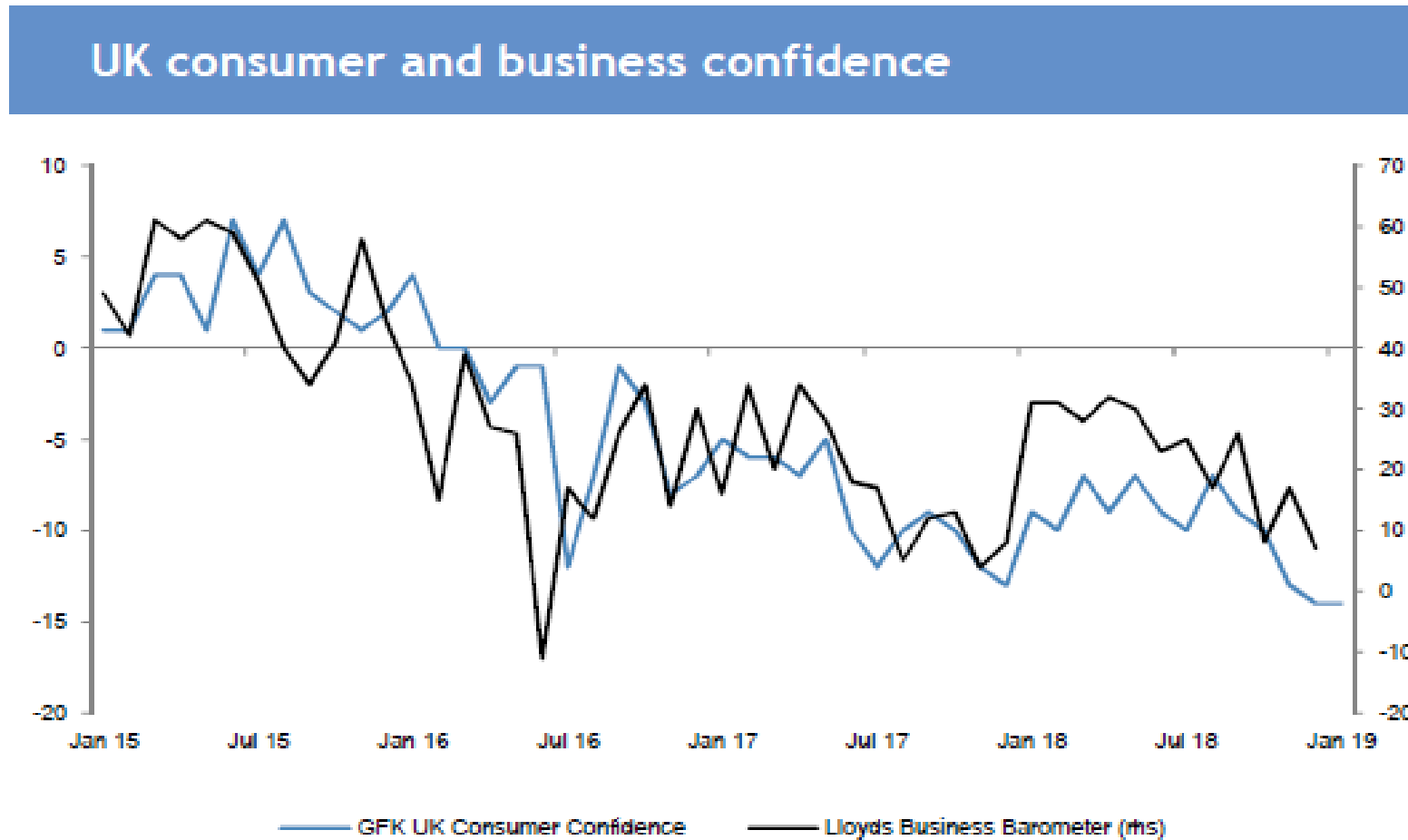




Source: Bloomberg as at 30 September 2019

- Estimated economic/trend growth 1.25% - 1.50%
 - Current rate below but not substantially
- End of austerity, spending again on the agenda (all agendas)
- Endowment benefit from mortgages

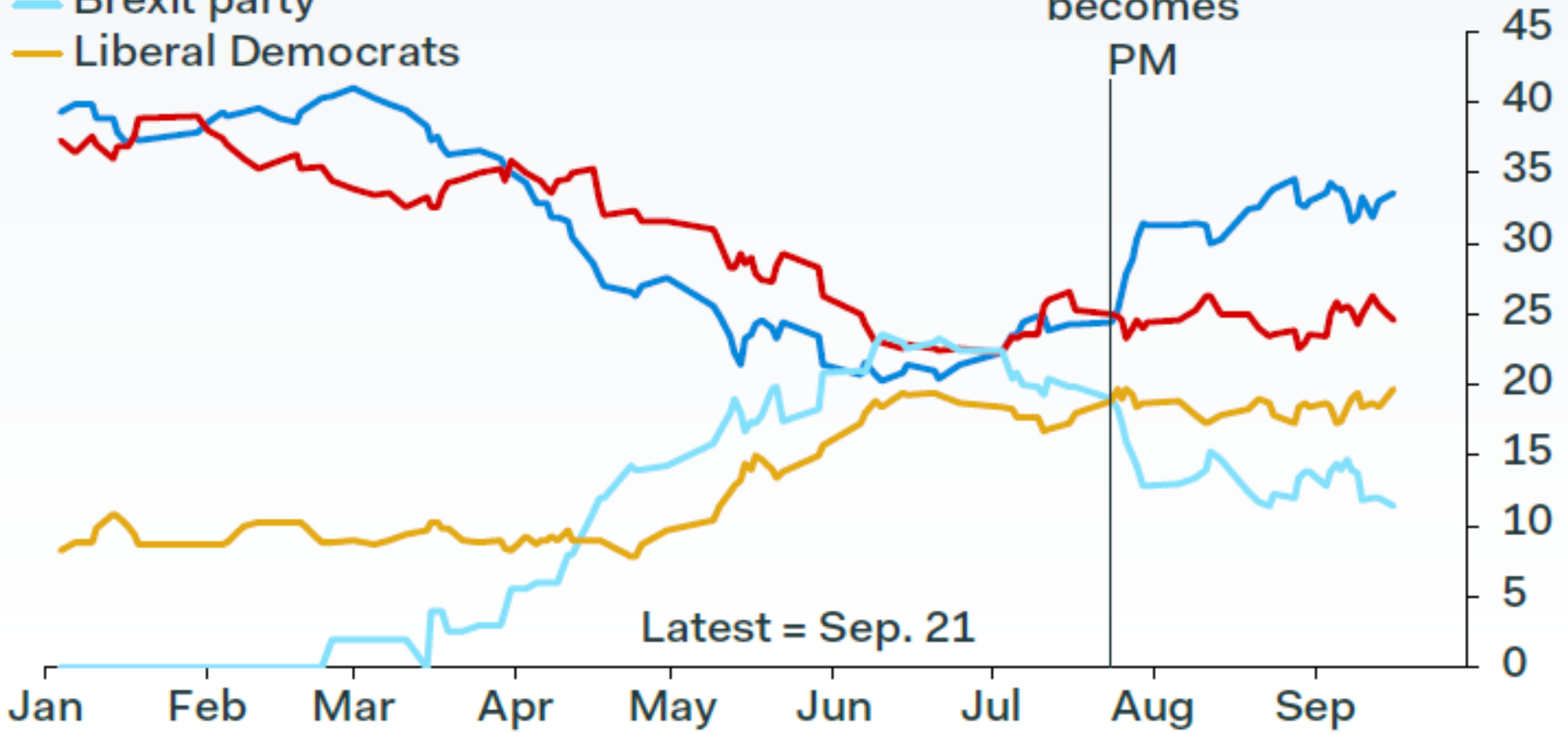
- Fading confidence



Source: Bloomberg

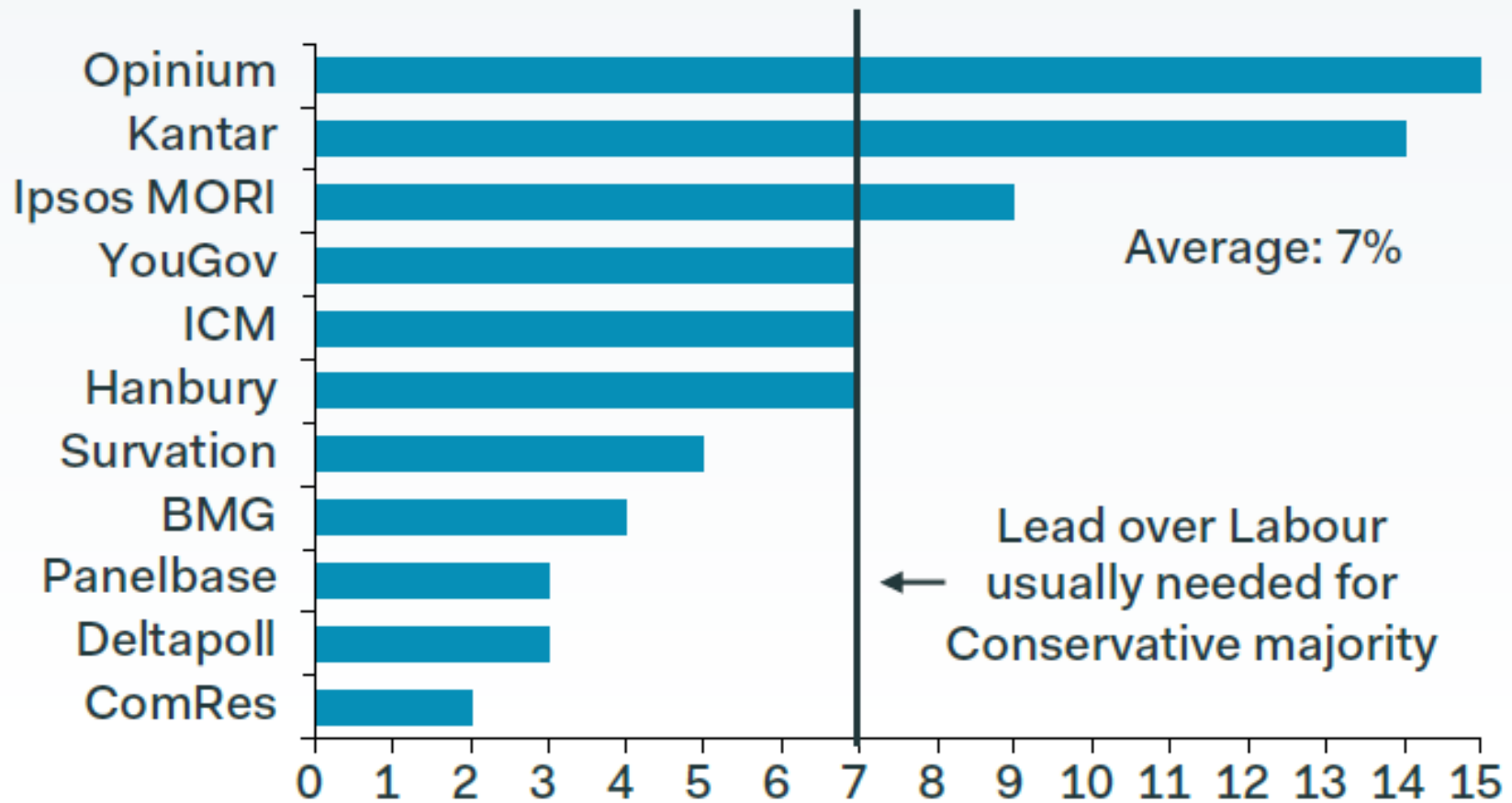
THE TORIES HAVE HELD ON TO THEIR POLL LEAD...

- General election voting intention, ave., of last five polls, Conservatives
- Labour
- Brexit party
- Liberal Democrats



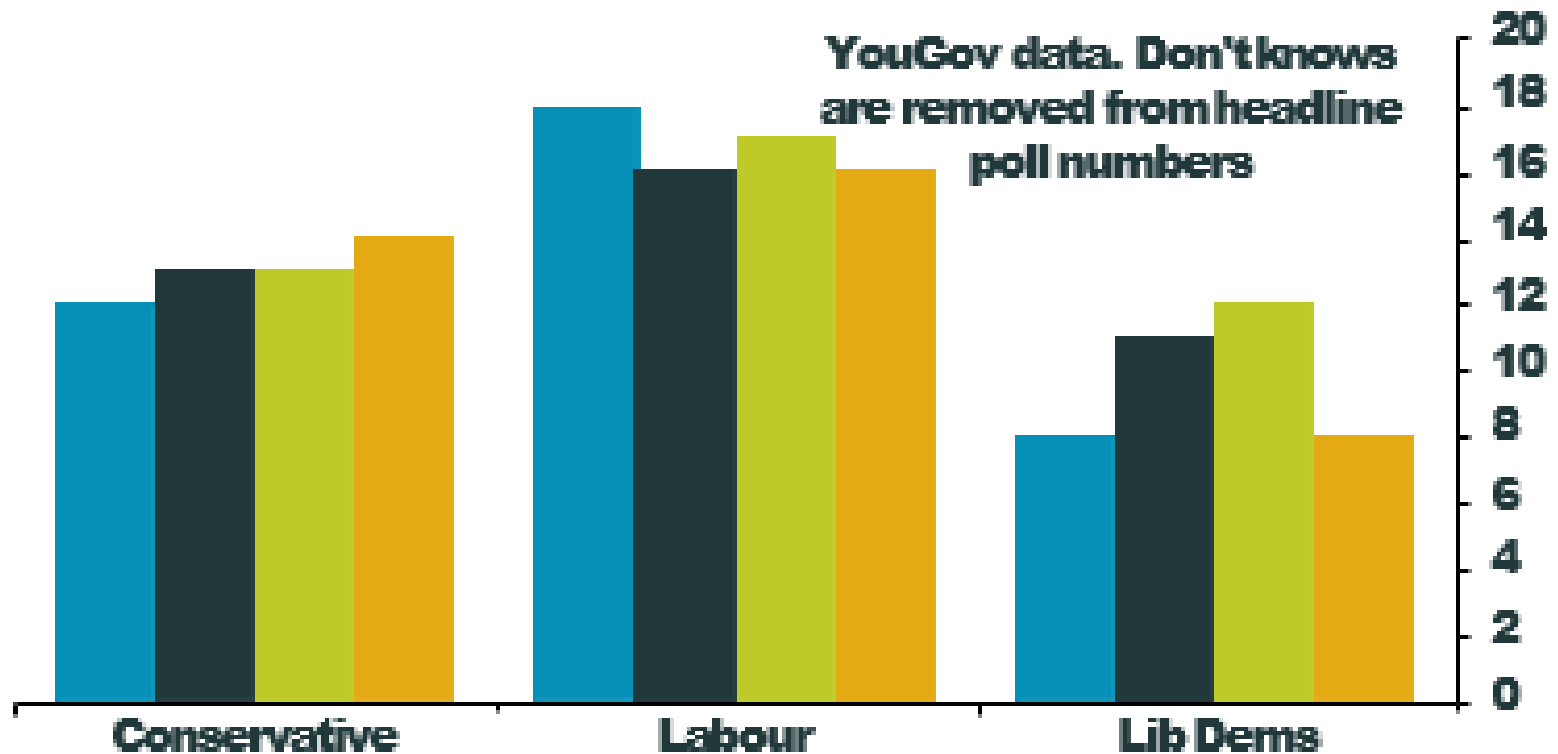
...THOUGH THE SIZE VARIES SUBSTANTIALLY BY POLLSTER

■ Conservative lead over Labour by pollster, latest poll in September



% of voters for each party in 2017 that do not know how they will vote now

■ September 18 ■ September 20 ■ September 25 ■ September 27



- Same underlying economic model
- But estimates are directional and ‘ball-park’
- Three Scenarios
 - a) No ‘Brexit’
 - b) A Deal
 - c) No Deal
- Both b) and c) reflect mid-range estimates

	2019	2020	2021
GDP	1.0	1.8	1.8
Inflation	2.0	1.5	1.5
Interest Rates	0.75	1.00	1.50

- Activity rebounds, some recovery, consumer spend bounces.
- In investment, a stronger currency pushes inflation lower.
- The BoE starts to normalise rates

	2019	2020	2021
GDP	1.0	1.6	1.6
Inflation	2.0	2.0	2.0
Interest Rates	0.75	0.75	1.25

- Some recovery in investment. Consumer remains resilient
- Inflation little changed, interest rates rise but slowly

	2019	2020	2021
GDP	0.9	0.2	1.5
Inflation	2.0	2.8	2.5
Interest Rates	0.75	0.50	0.75

- A real risk of recession, avoided here by Government action – spending, tax cuts.
- Inflation pushed higher by Sterling weakness.
- Bank use monetary policy to support activity

- Beyond exit to relationship
 - Leave means leave...?
- Expected early move to a Free Trade Agreement
 - But tariffs are not the only friction – good will needed!
- Until EU relationship settled other deals hard to finalise
- Issues within the Union?

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