



Welcome to Business

Swindon Chamber of Commerce

Business Leaders' Forum

Friday 22nd October 2010

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Christina Howell, Head of External

Swindon Business Leaders Forum

22nd October 2010



BANK OF ENGLAND

The outlook for the UK Economy and Inflation

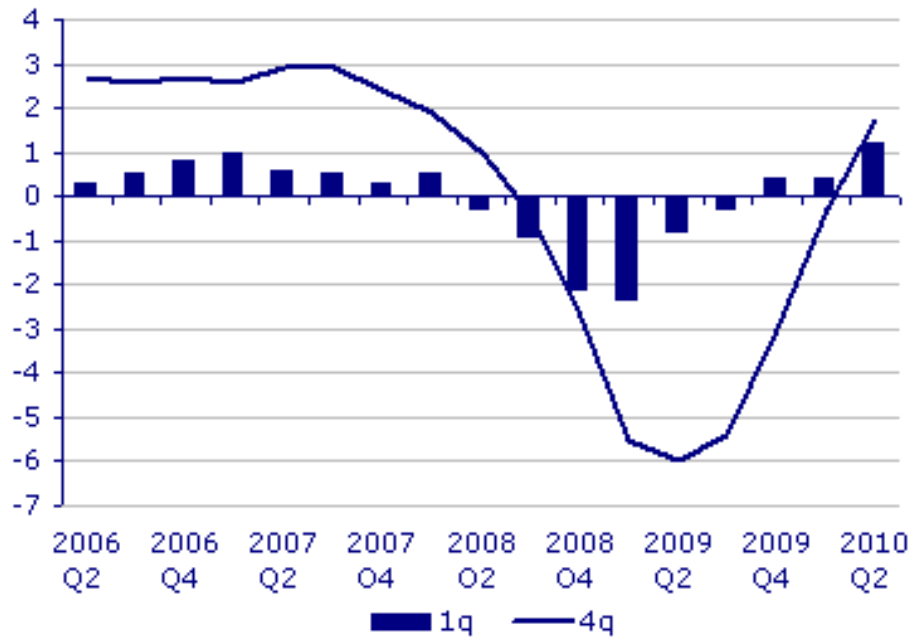
Geoff Harding, Bank of England Deputy Agent
for the South West

South West Agency

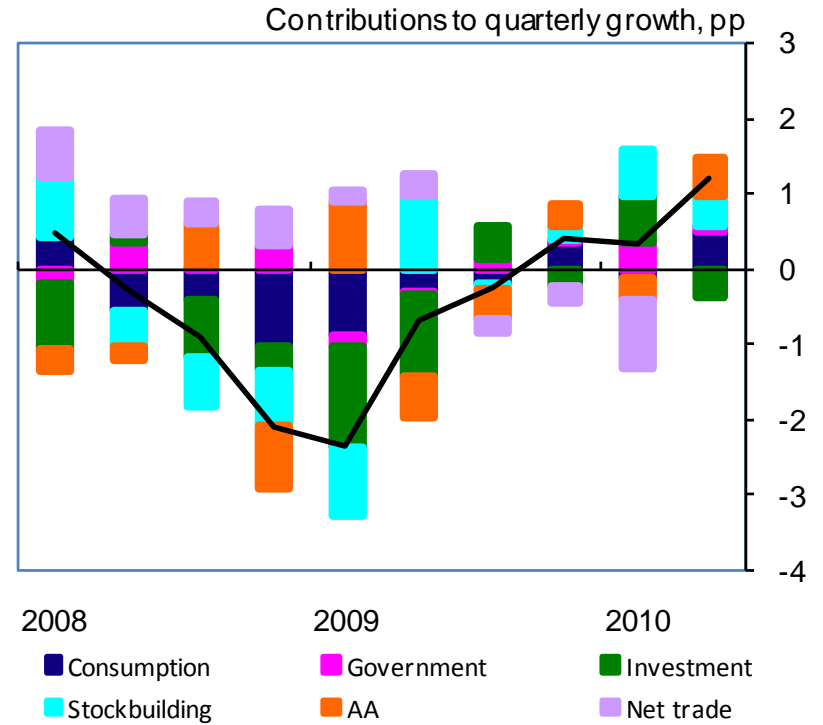
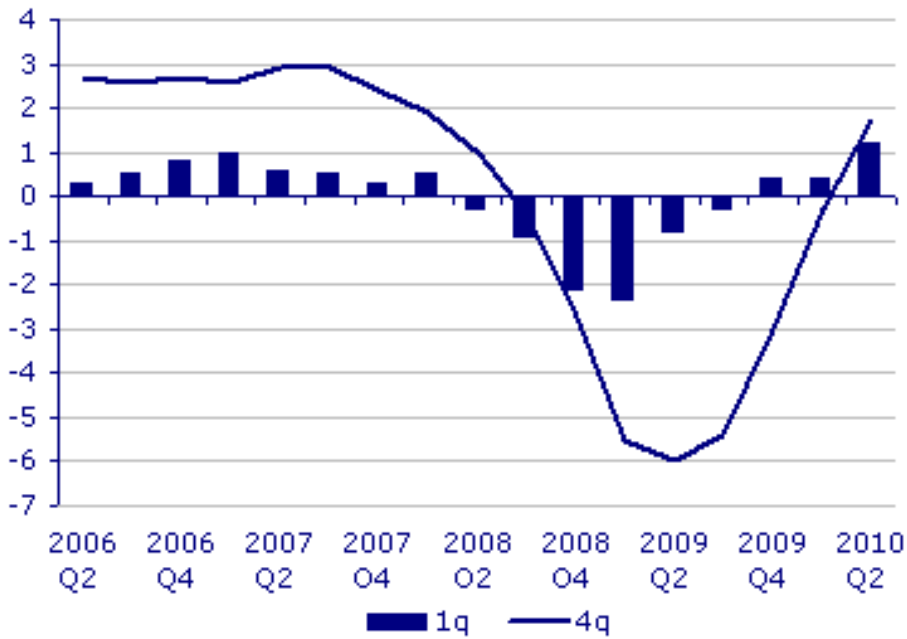


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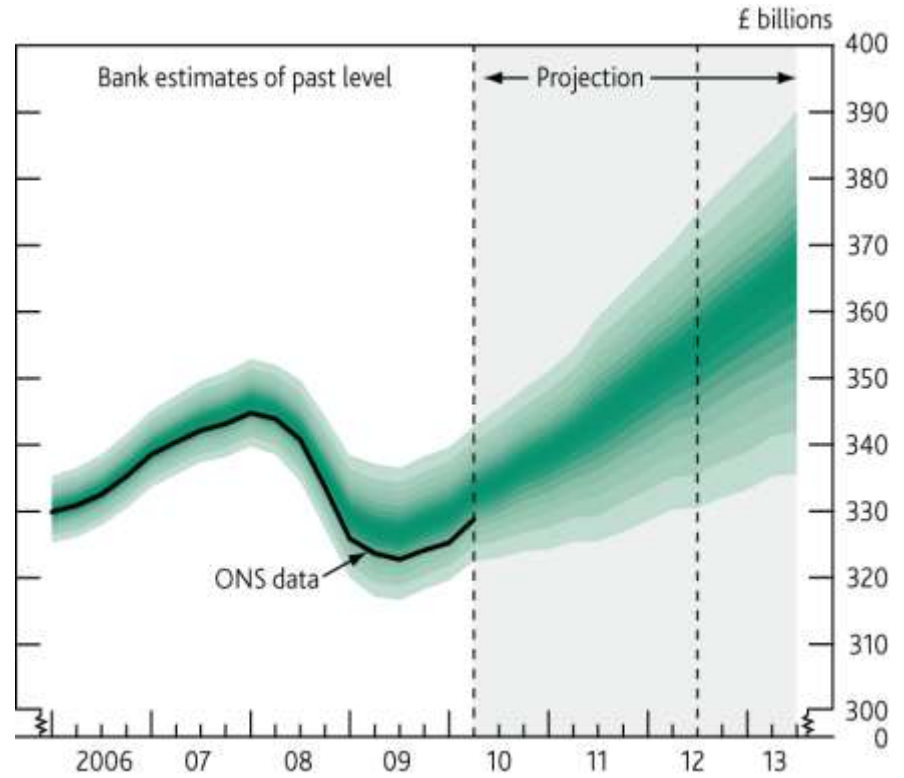
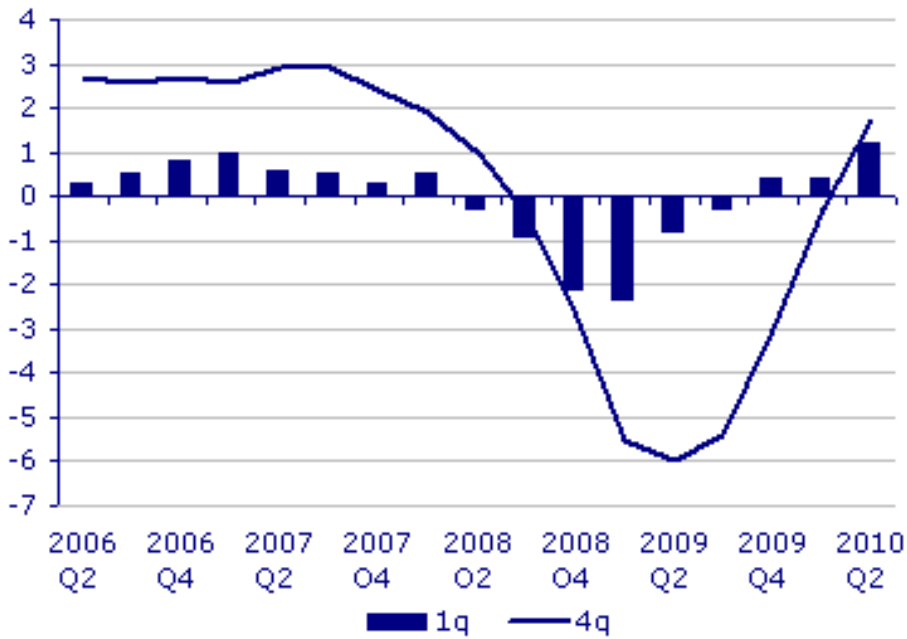
Rate of growth (to Q2)



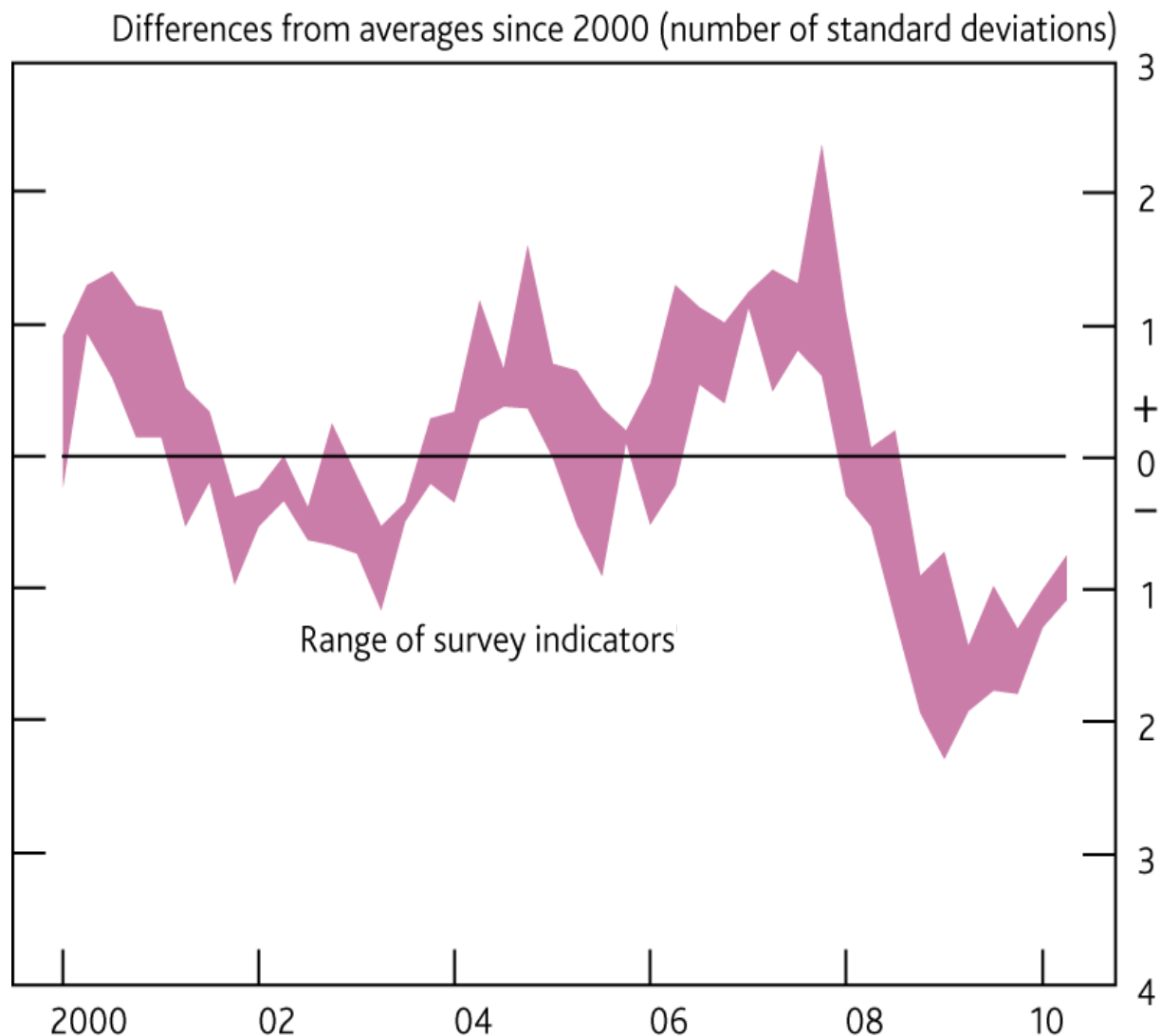
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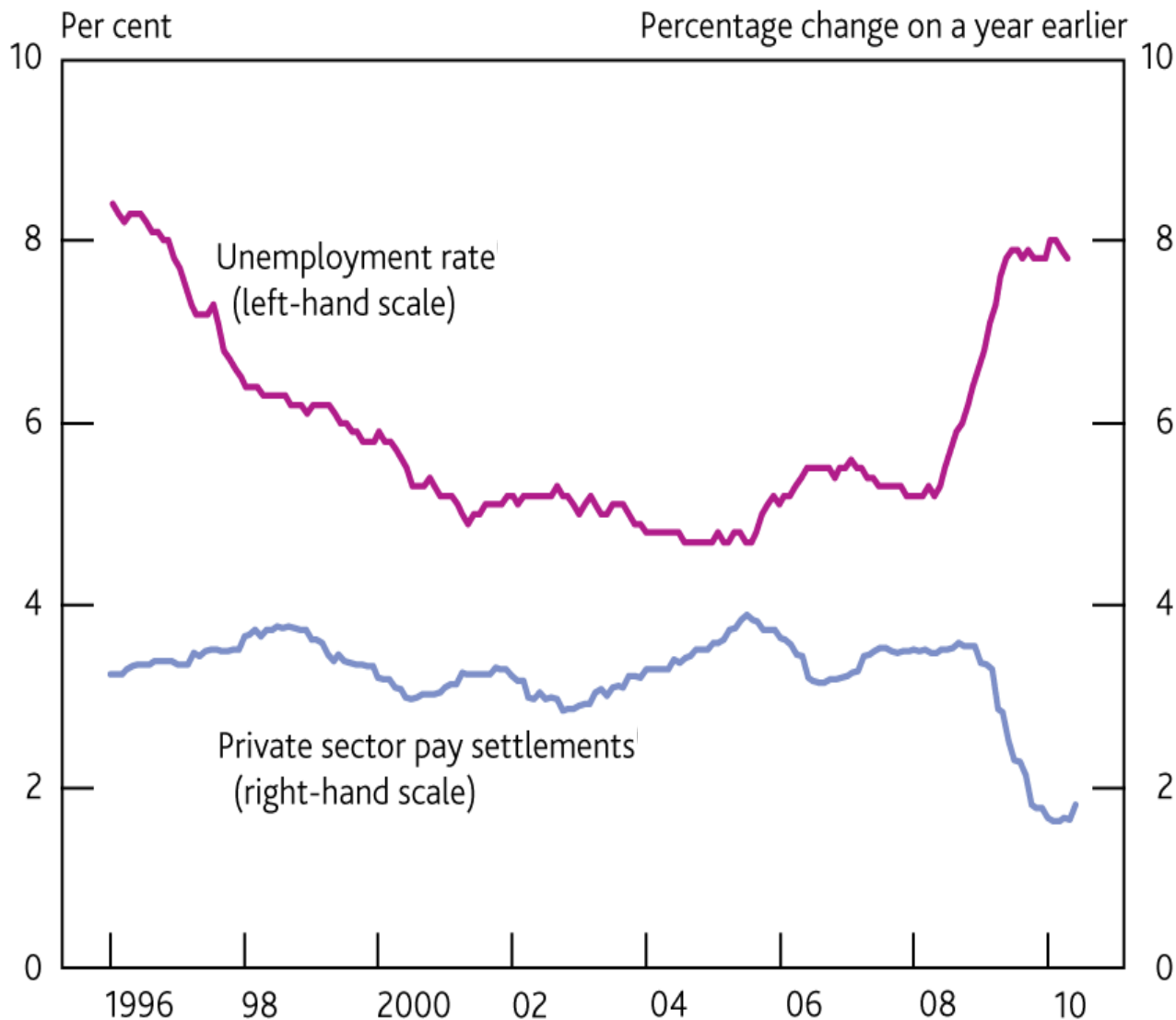
Rate of growth.....Size of economy



Survey measures of capacity utilisation – Margin of spare capacity significant, but may be shrinking gradually



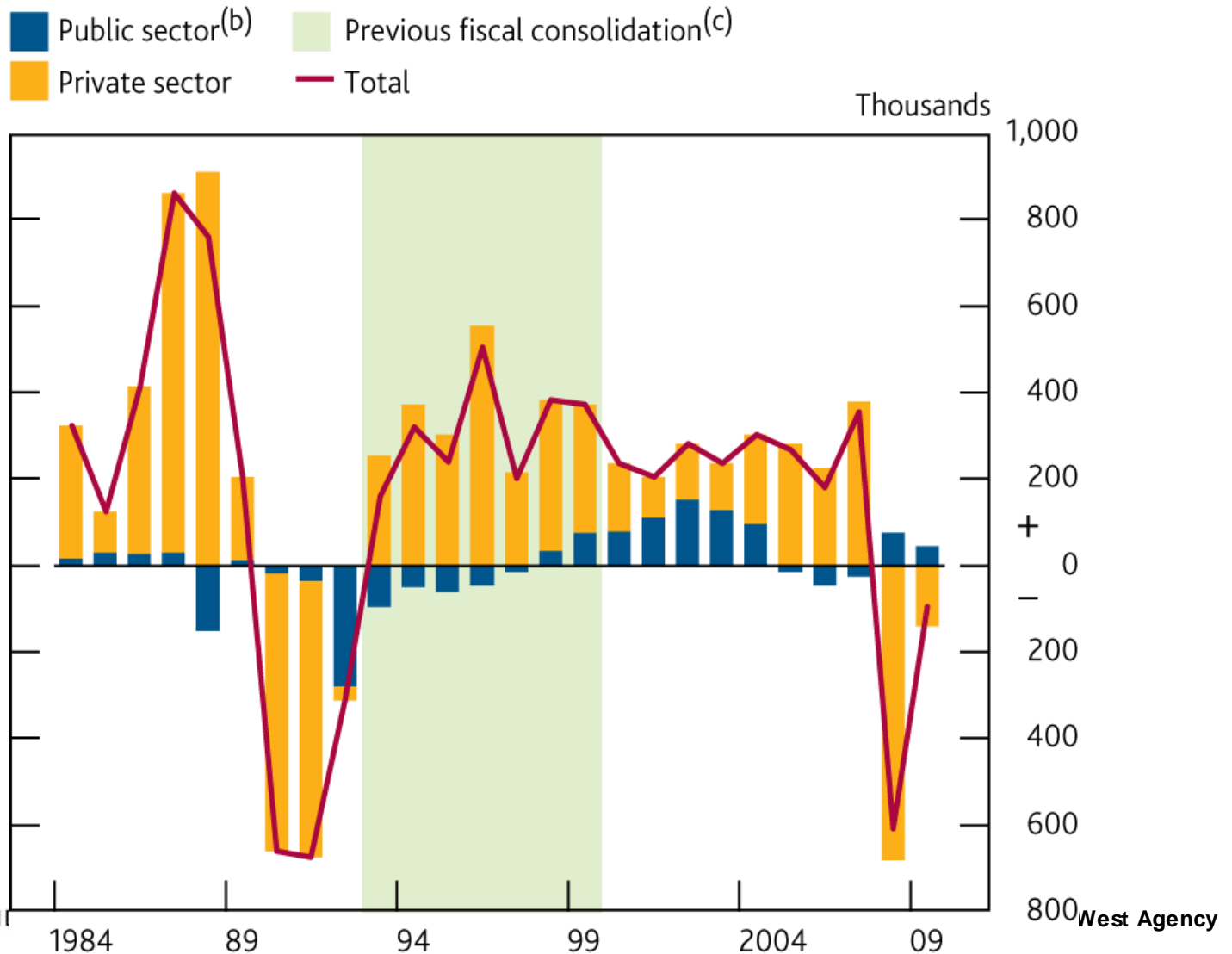
Unemployment rate and private sector pay settlements – unemployment plateaued; pay inflation still subdued



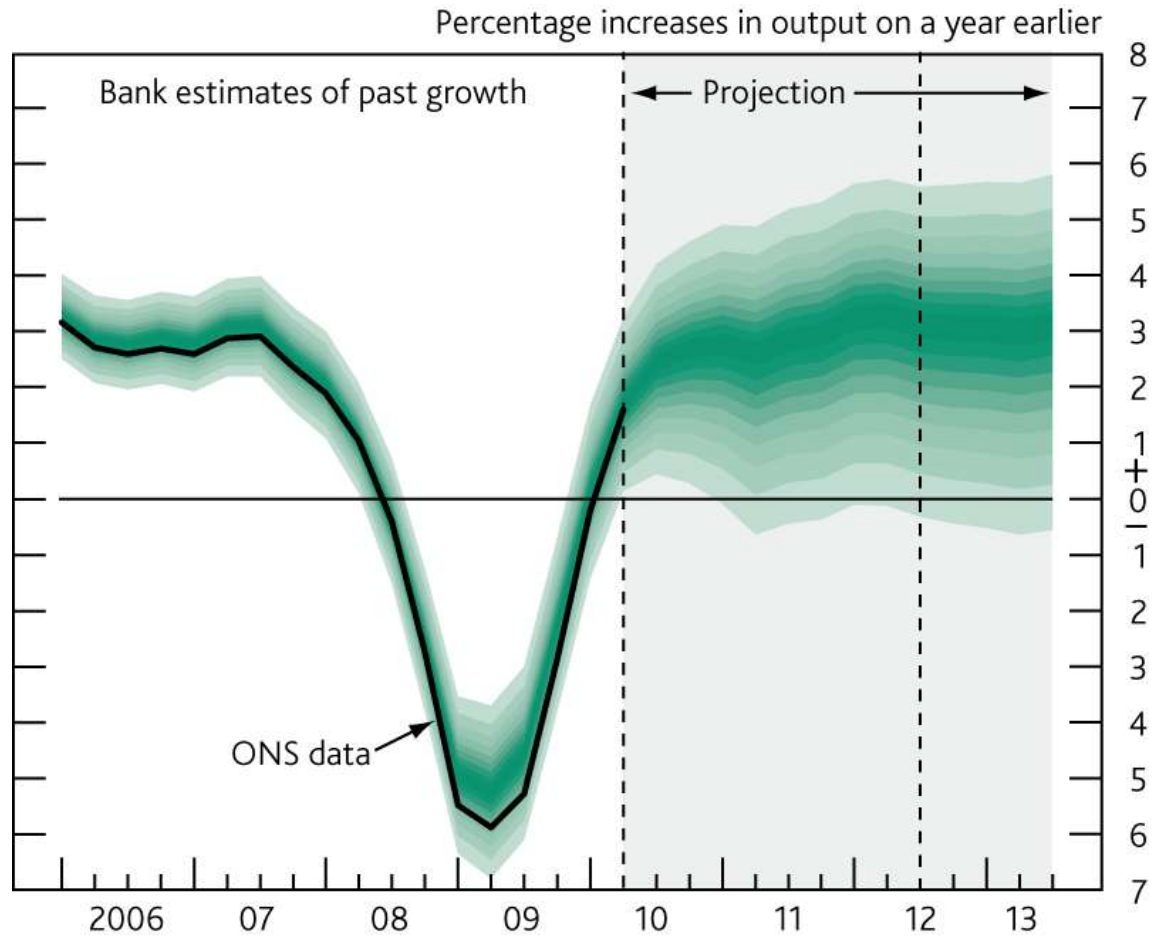
- “To achieve a rebalancing we need to sell more to, and buy less from, economies overseas. To close the gap between exports and imports, more than half a million jobs will probably need to be created in businesses producing to sell overseas – compensating for fewer employment opportunities serving UK consumers or the public sector.”



Annual changes in employment – In the early 90s recovery, private employment rose rapidly



August projection: GDP recovery likely to continue but the outlook was a little weaker than in May



Projection based on market interest rate expectations and £200 billion asset purchases



August 2010 projection for GDP

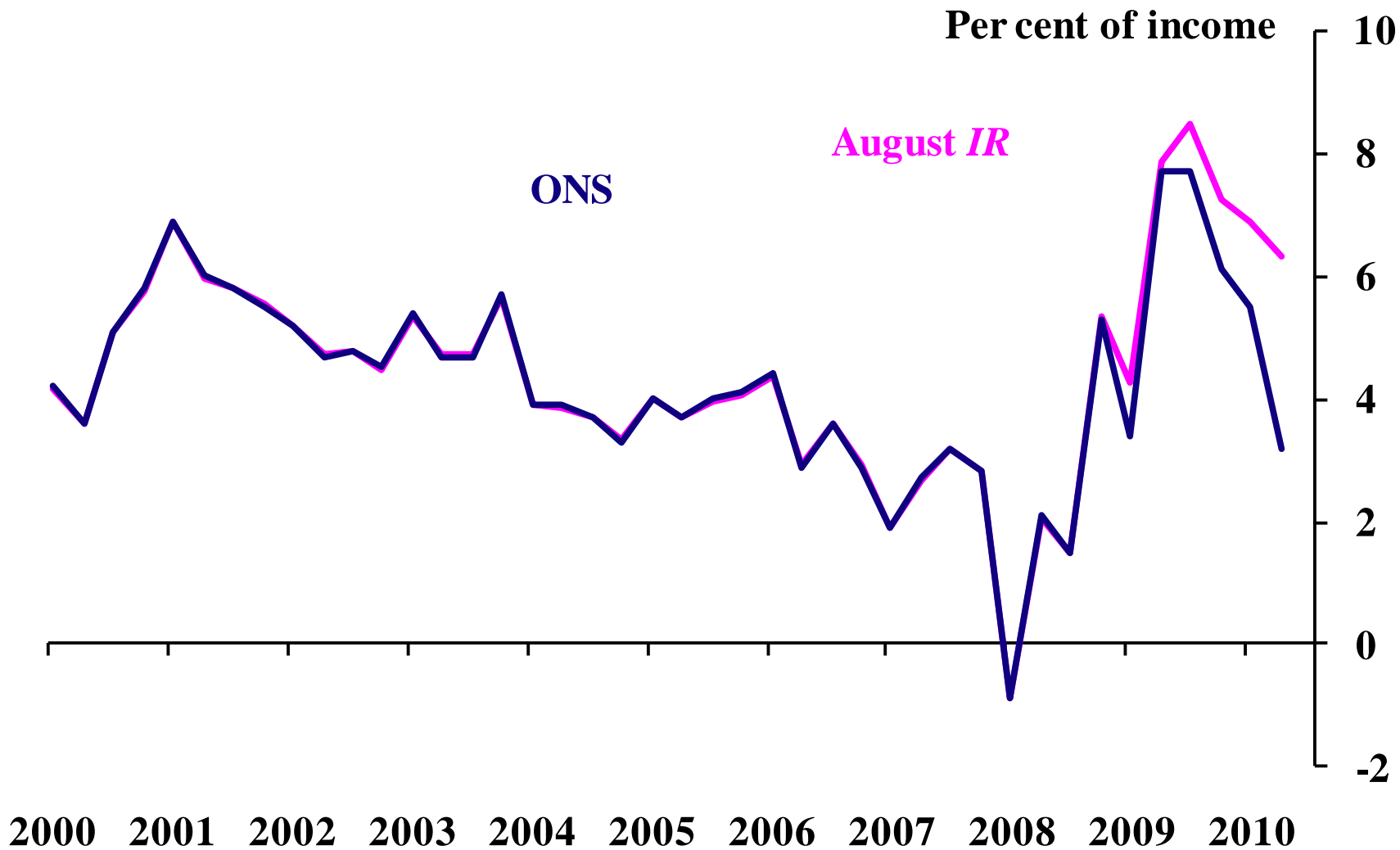
- Continuing stimulus from monetary policy
- Further expansion in world demand
- Past depreciation of sterling

- offset by
 - Continuing fiscal consolidation – though a reduced chance of a sharp rise in long term interest rates
 - Persistence of tight credit conditions

- Key uncertainties included:
 - Private sector saving, vigour of world recovery, degree of rebalancing prompted by £ depreciation



Household savings rate

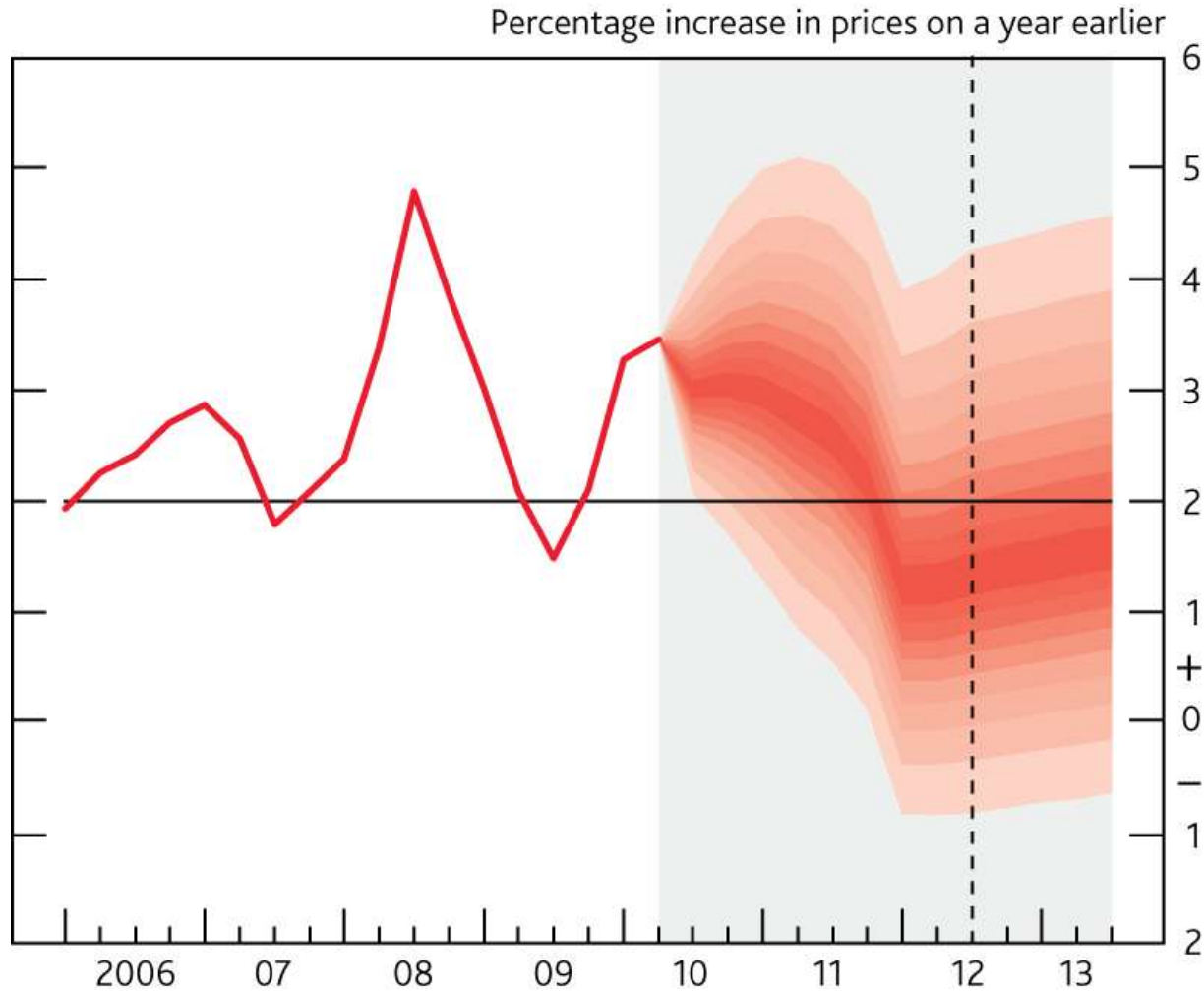


The most recent MPC vote: 1-7-1

- Key inflation rate risks:
 - Upside - inflation expectations drift up
 - Downside - insufficient growth in private demand, leaving persistent spare capacity
- Majority view:
 - As the impact of temporary factors dissipates, the persistence of weak underlying price pressures is likely to cause CPI inflation to fall back towards the target.
 - The balance of risks had not altered sufficiently to warrant a change in policy.



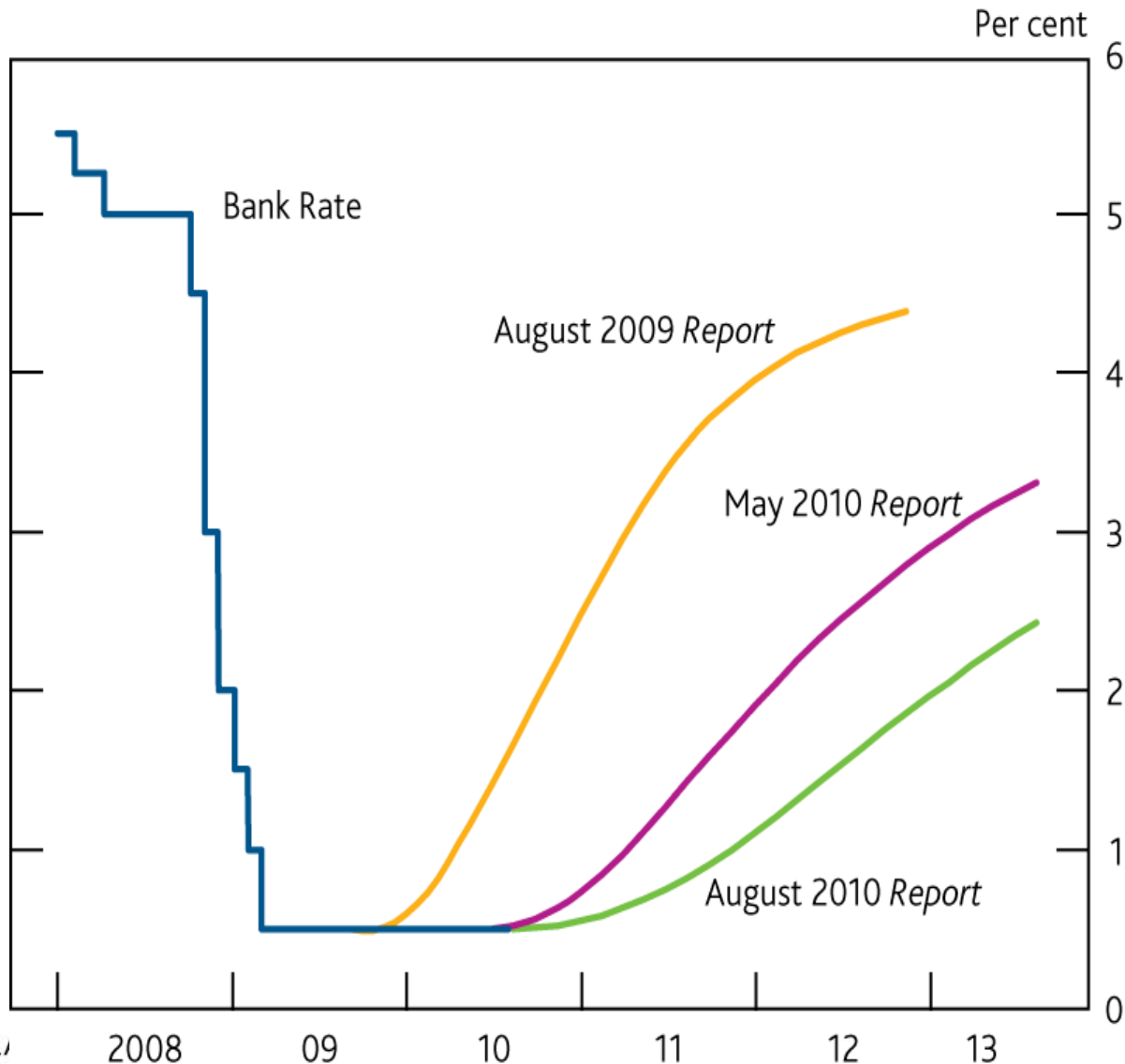
August projection: CPI Inflation remains above target for longer, reflecting next year's VAT increase



Projection based on market interest rate expectations and £200 billion asset purchases



Bank Rate and forward market interest rates – markets expected policy to tighten only slowly and QE to remain in place



Per cent

6

5

4

3

2

1

0

Bank Rate

August 2009 Report

May 2010 Report

August 2010 Report

2008

09

10

11

12

13

South West Agency

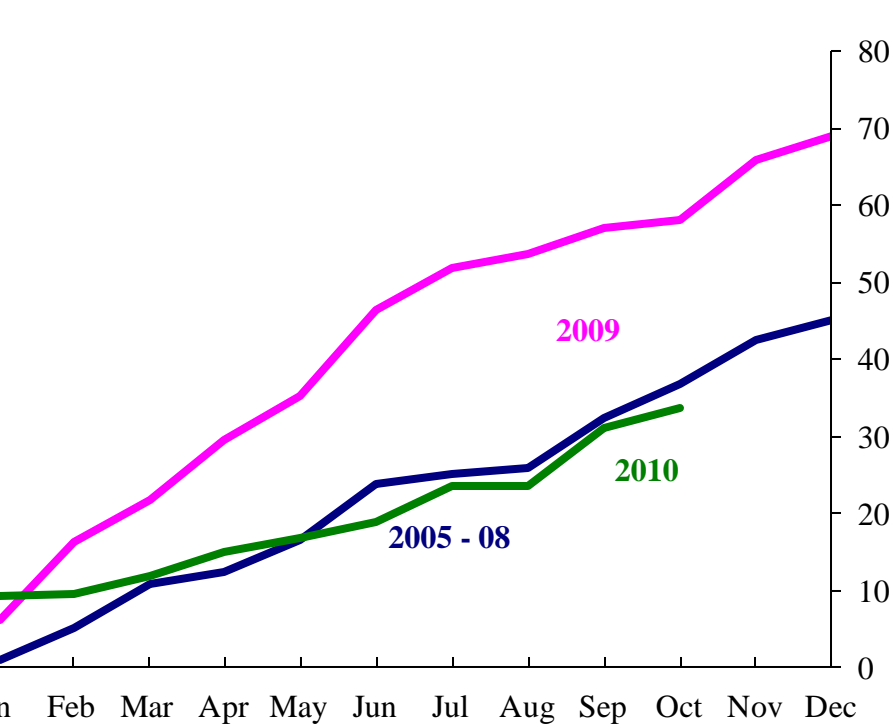


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Conditioning path for Bank Rate implied by forward market interest rates

Per cent	2010		2011				2012				2013		
	Q3 ^(b)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
August	0.5	0.5	0.6	0.7	0.8	1.0	1.2	1.4	1.6	1.9	2.1	2.2	2.4
May	0.5	0.6	0.8	1.1	1.4	1.7	2.0	2.3	2.6	2.8	3.0	3.2	

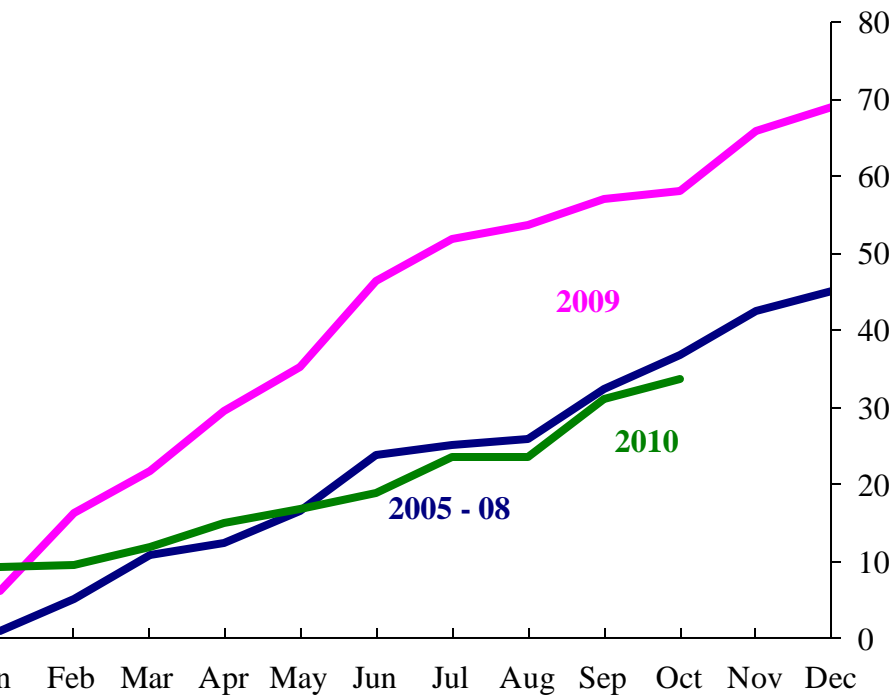




Business finance

Cumulative bond issuance

Stock of small business loans



Glass half full or glass half empty?

International comparisons

	GDP – annual rate	GDP – QOQ Q2	ERI	Inflation rate
US	3%	0.4%	80.2 = -9.7	1.1%
EU/€ area	1.9%	1%	96.8 = -0.5	1.8%
Japan	2.4%	2.4%	172.4 = +48.7	-0.9%
UK	1.7%	1.2%	79.2 = -24.5	3.1%



“After a financial crisis the hangover lasts for a while”

- The SOBER decade to come:
- Savings
- Orderly budgets
- Equitable rebalancing



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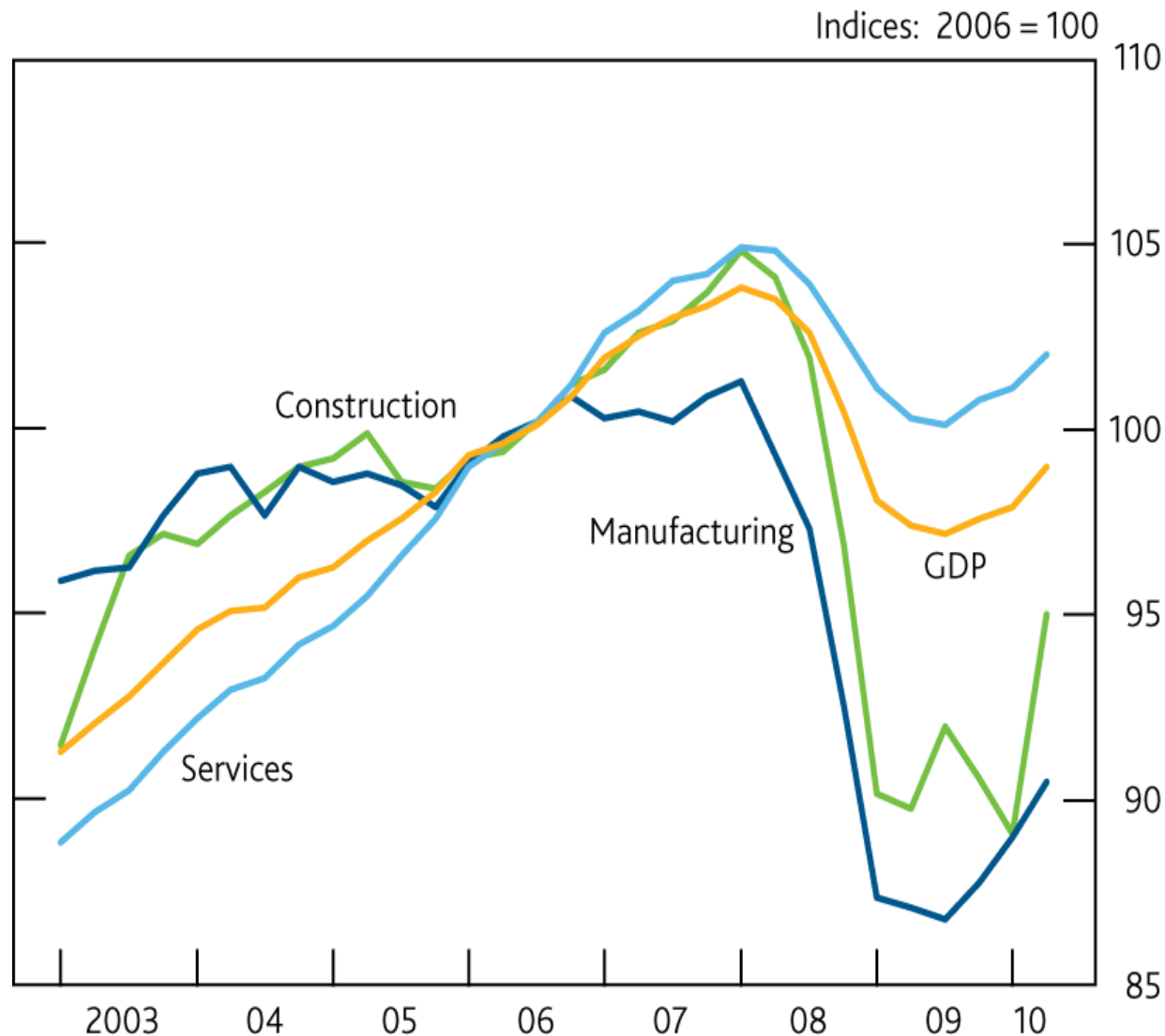
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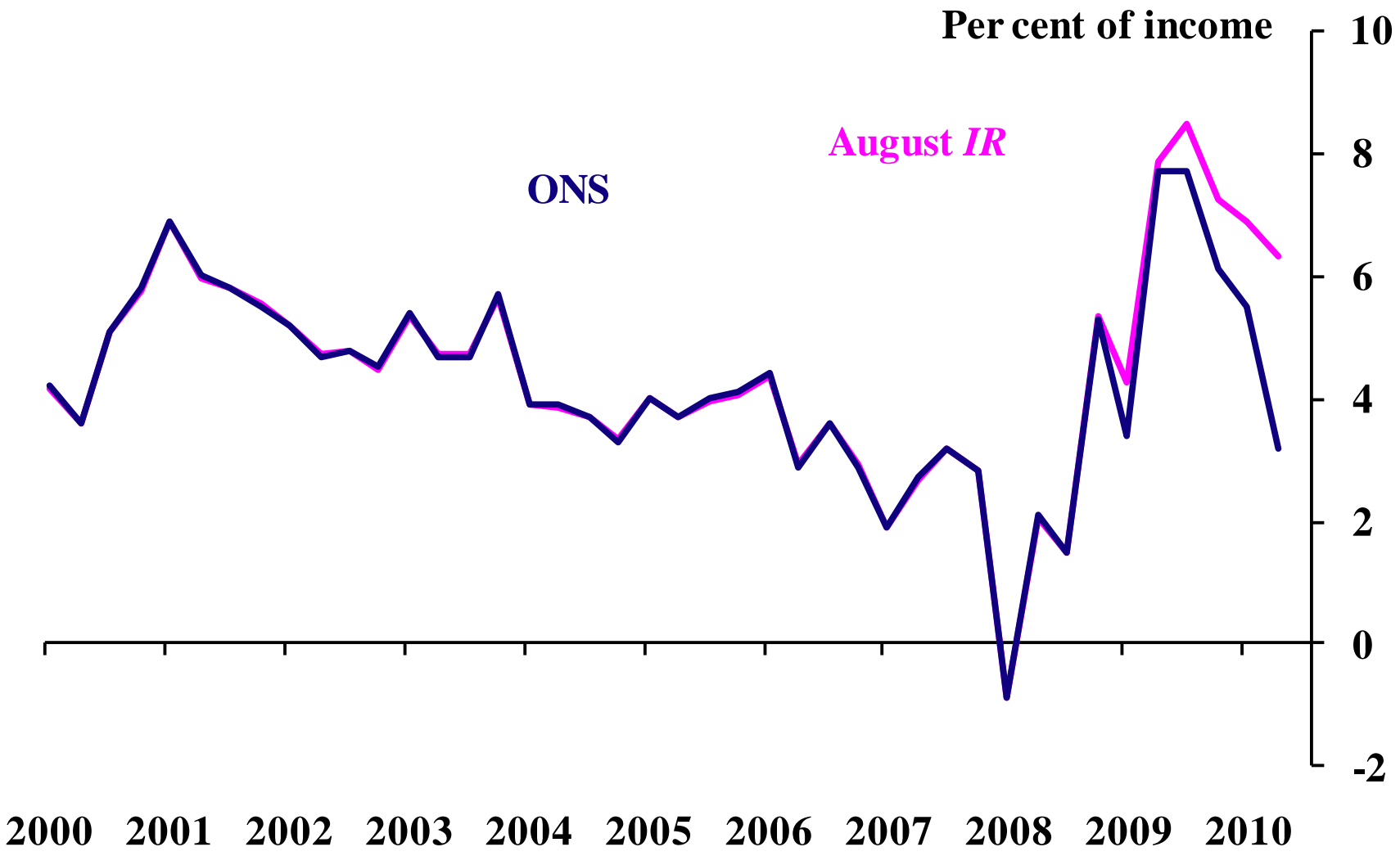


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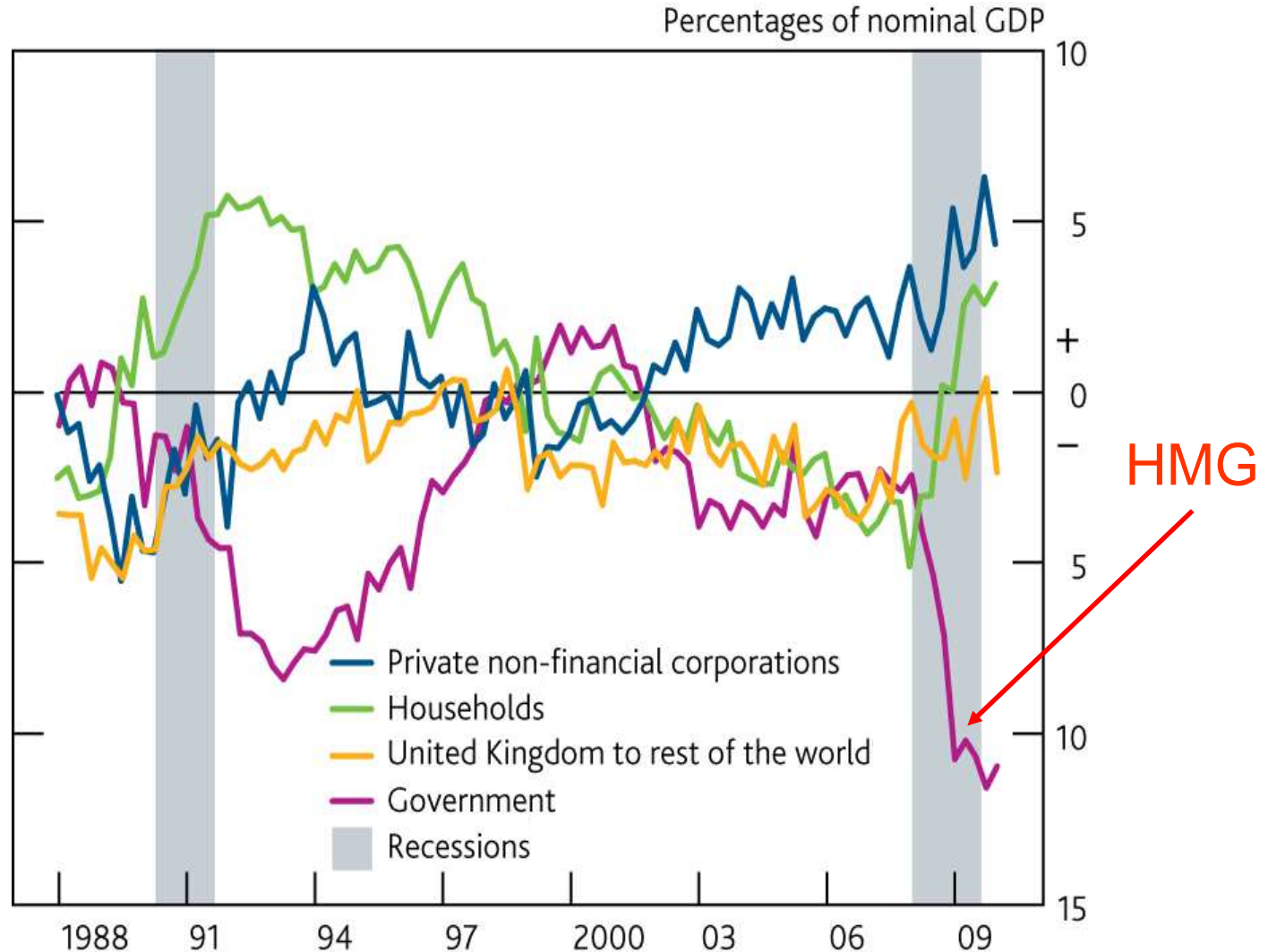
UK sectoral output – sharp pick-up in Q2; but H1 average in line with trend



Household savings rate

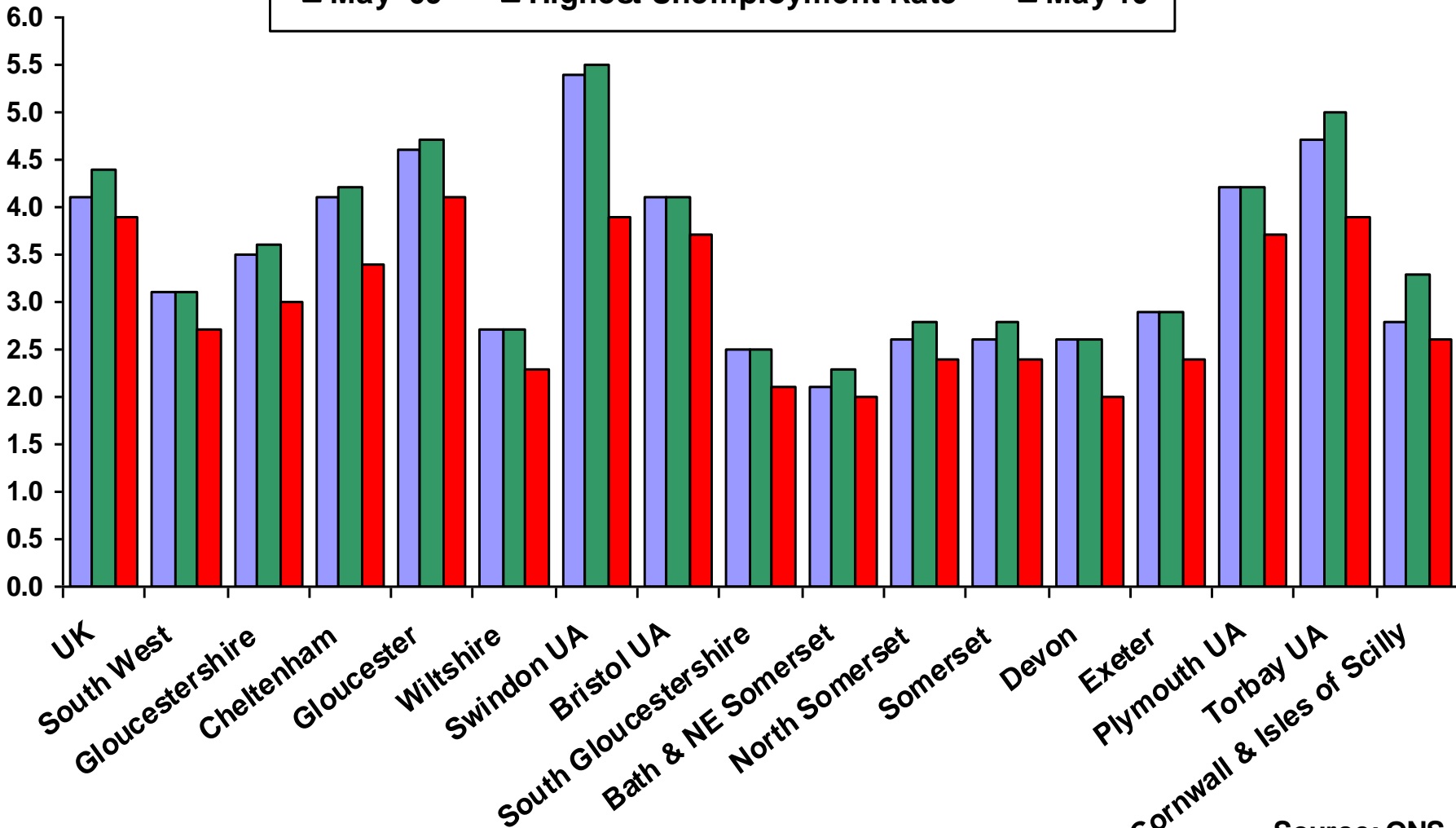


Financial balances by sector – firms' & household balances have improved as debt is repaid; but government's has weakened



%

Unemployment: JSA Claimants in the South West



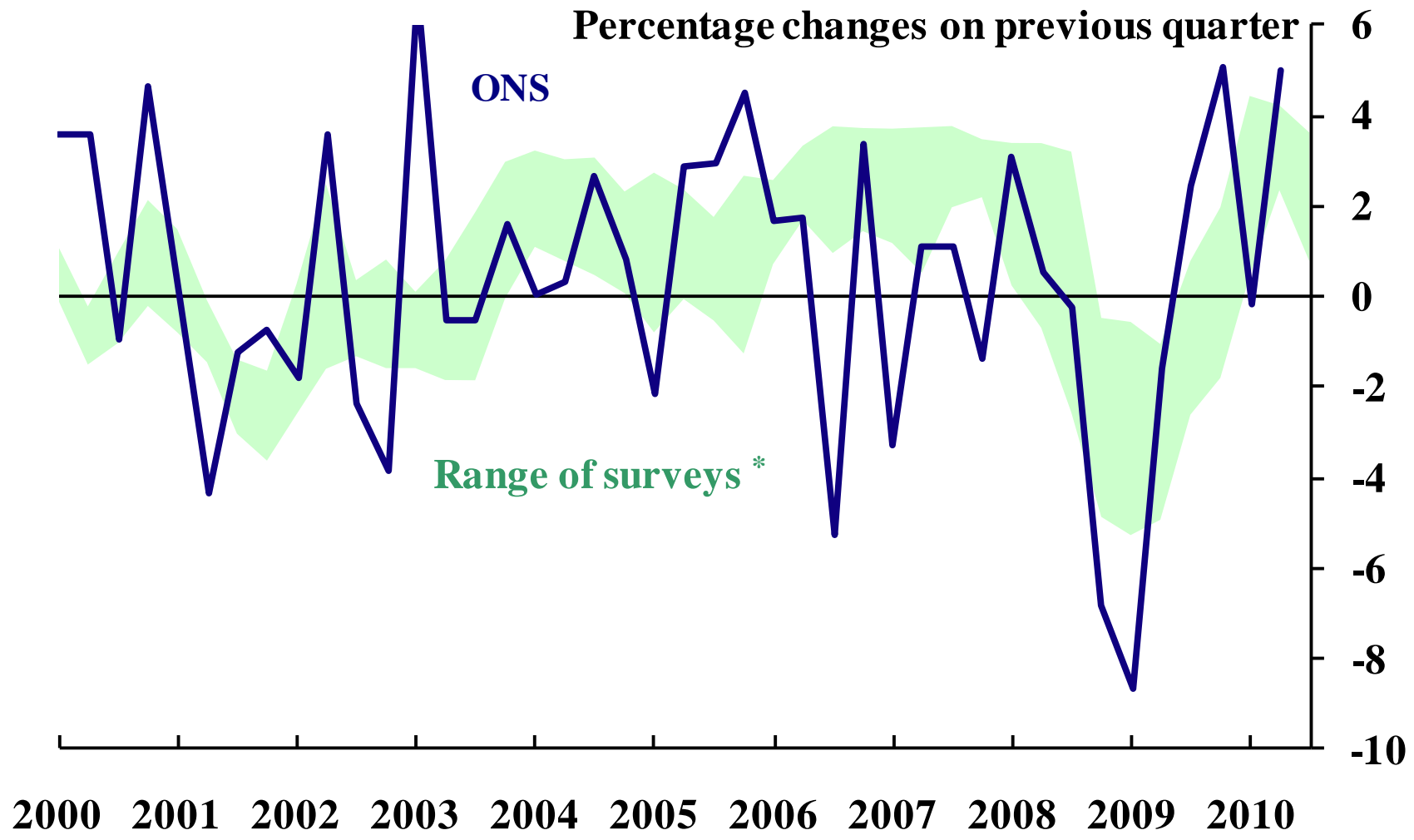
Source: ONS

Financial Regulation

- Micro prudential regulation to be a subsidiary of BoE
- Prudential Regulation Authority assumes full duties in 2012
- “Macro-prudential” regulation also under BoE
- Consumer Protection and Markets Authority separate from BoE
- Decision-making by a new BoE Committee, chaired by the Governor – the Financial Policy Committee
- Structure of UK banks to be reviewed by Banking Commission
- Basel III has agreed a significant strengthening of capital adequacy standards, with a liquidity standard to be introduced



Surveys of goods exports



The Spending Review: What does it mean for UK business?

Steve Hughes, Economic Adviser

22 October 2010



The Deficit Reduction Debate....

THE COALITION VIEW

Our approach will:

- reduce the UK's vulnerability to a further economic shock;
- underpin private sector confidence;
- keep debt and debt interest payments lower; and,
- avoids debts to be paid for by future generations.

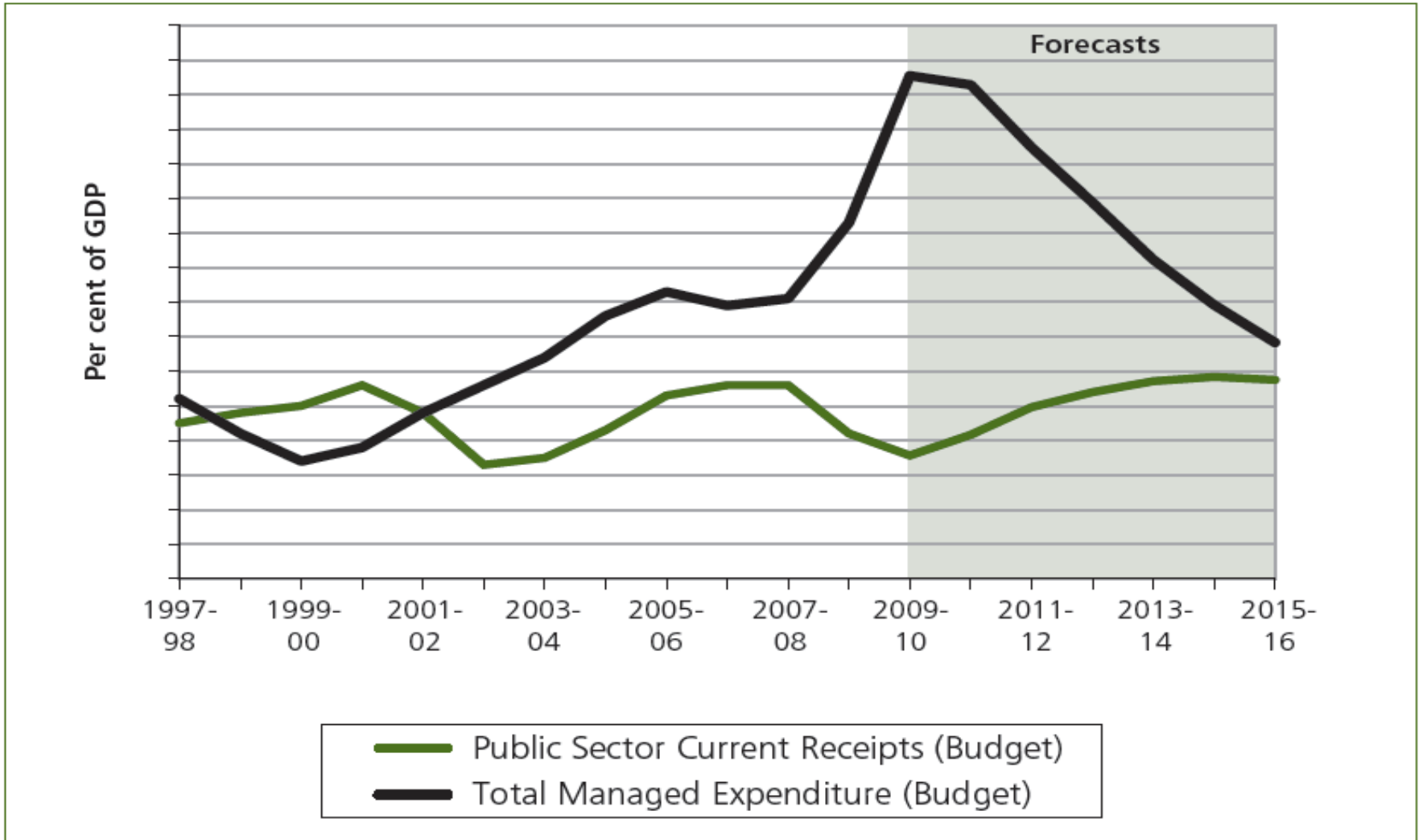
THE LABOUR PARTY VIEW

The Coalition's approach will:

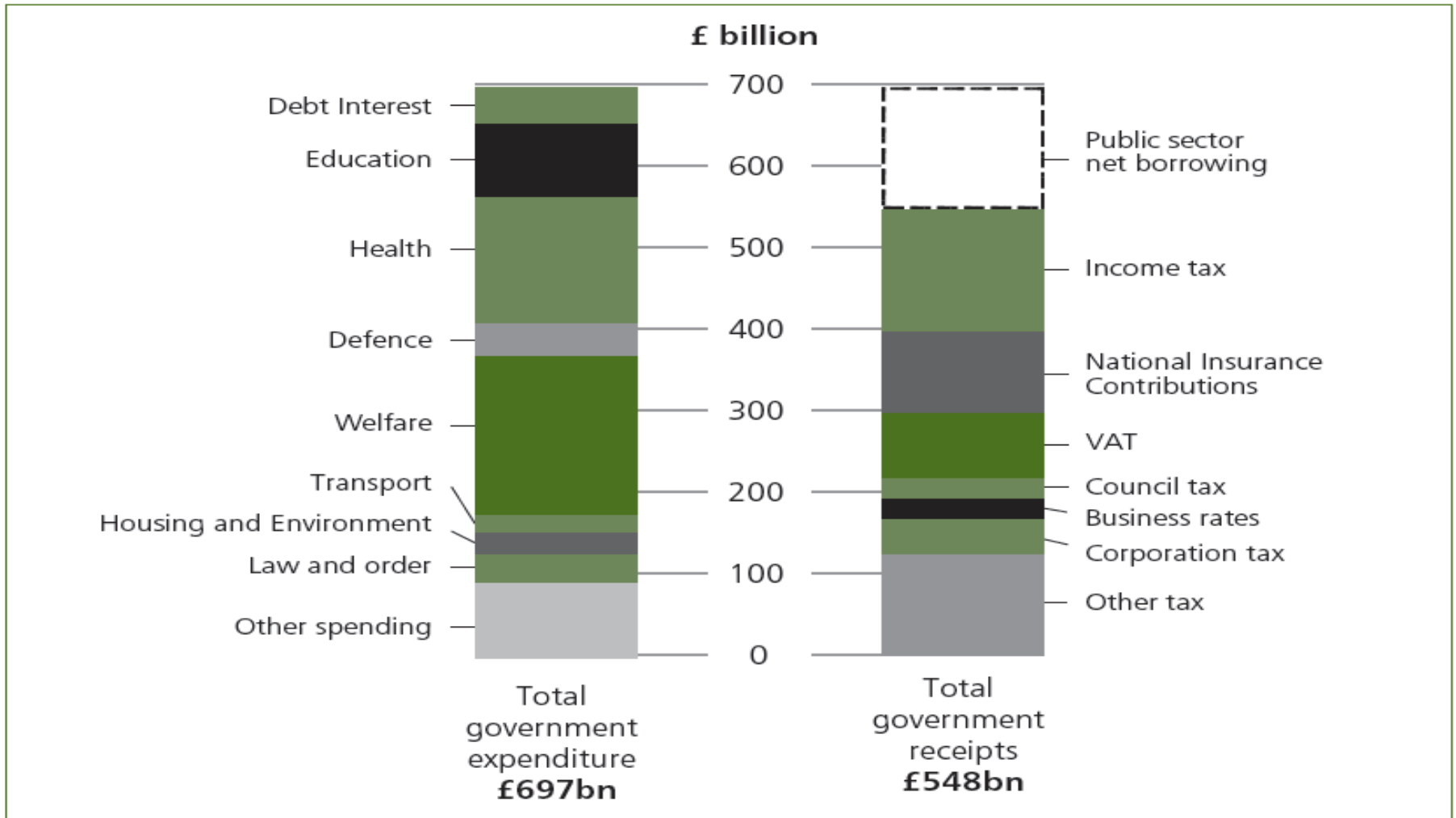
- increase the size of the dole queue and mean less tax;
- reduce confidence, growth and jobs; and,
- fails to recognise what is happening in the global economy.



What the Coalition are trying to do?



Where are we now?



So, how will this impact on
business?



The important areas.....

BIS – scrapping of Train To Gain, but retention of Enterprise Finance Guarantee.

Transport – Real growth in transport capital spending over the CSR period will be -11%. This is less of a cut than many other departments, but it's still a cut.

Local Government – Central government funding to councils to decrease by 26% over the next four years.



The South East.....

The following capital projects will go ahead in the South East:

- £37m upgrade of Pirbright Laboratory, Guildford which researches diseases such as foot and mouth.
- £69 million to support phase 3 of the Diamond Synchrotron project in Oxfordshire to support research into life, physical and environmental science.
- a £248 million refurbishment and new build for Epsom and St Helier University Hospitals.



.....and the South West

The following capital projects will go ahead in the South West:

- Yeovil - £32 million support for Augusta Westland civil rotorcraft design & manufacture.
- M4/M5 – to relieve congestion and improve journey time reliability by hard shoulder running and variable speed limits north of Bristol.
- Weymouth 2012 package – delivering an integrated transport package in time for the Olympics.
- Poole Bridge construction.



But not just direct impacts.....

The following are just a few of the areas that will impact on consumer demand:

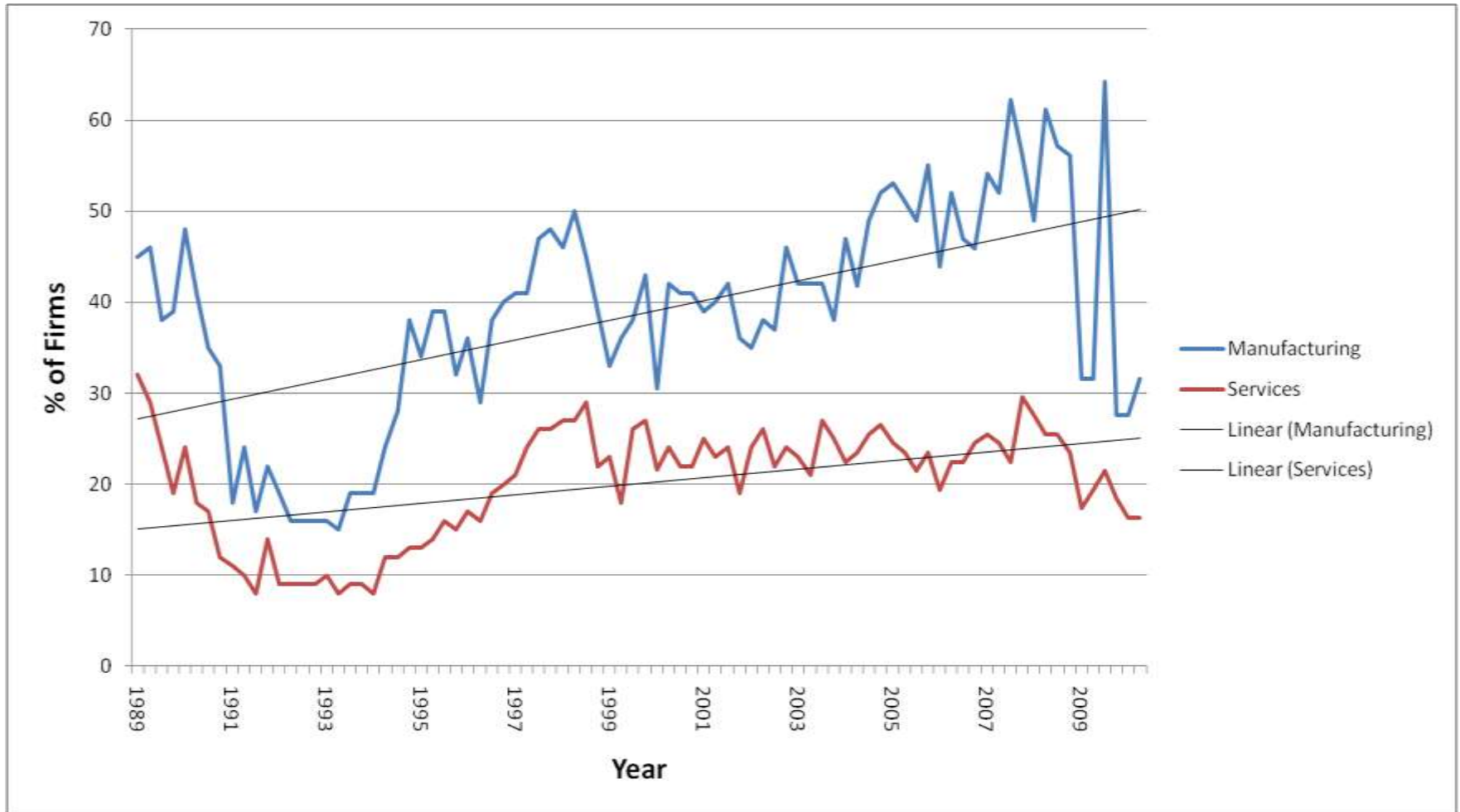
- £7bn cut in welfare benefits overall.
- Defence Cuts.
- The loss of 490,000 public sector jobs across UK.



Can the private sector pick up the slack?

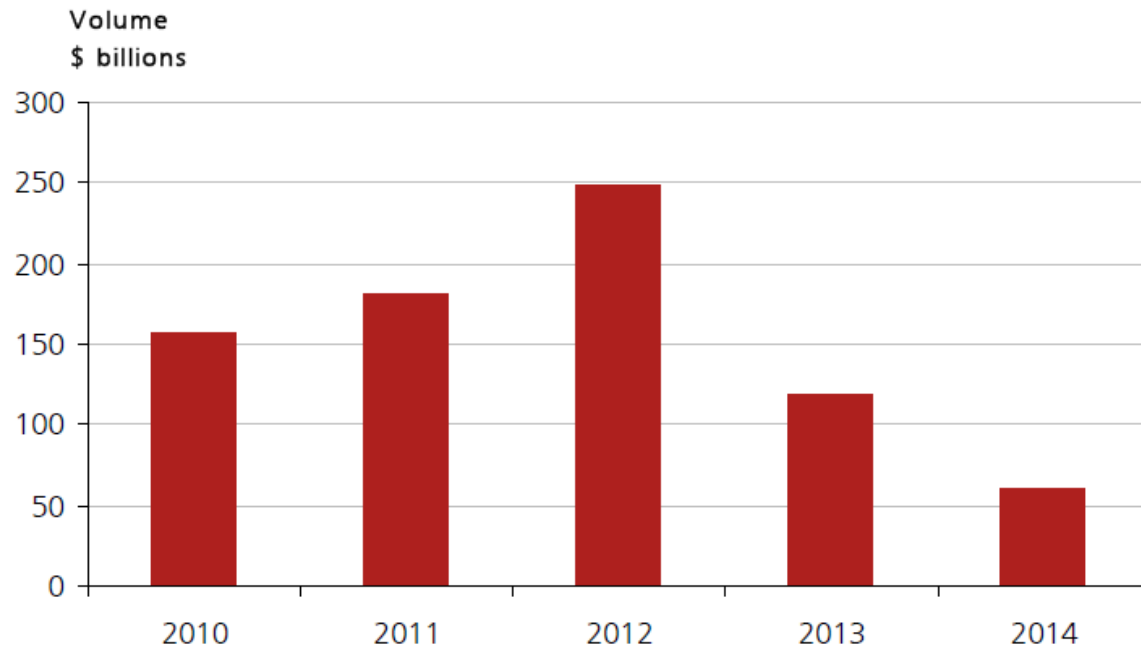


The skills issue



The refinancing issue

Chart 2.1: EMEA maturing investment-grade loan volumes



Source: Thomson Reuters LPC / DealScan



Where are we heading next?

BCC Quarterly Forecast – published 30th August 2010

Headline indicator	Forecast
GDP growth	1.7% 2010 (up from 1.3%) 2.2% 2011 (up from 2.0%) 1.8% 2012 – impact of cuts
Unemployment	To peak at 2.65m – but later, in 2012 'Underemployment' at record high
Deficit and Debt	Deficit likely to fall marginally faster Net debt peak at 70% GDP next 5yrs
Inflation and Interest Rates	CPI inflation above 2% through 2011 Bank Rate to hit 1.75% by end-2011



Conclusion

- We are now out of the worst recession since the Second World War – business in a period of relative stability.
- Difficulties lie ahead, but there are some grounds for optimism.
- The Coalition Government has made a good start, but it needs to be held to account on its pro-business, pro-growth stance.
- The economy faces challenges, but the right decisions made now will make all the difference.



Questions / Comments?

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Environment

Hazel Lobo

Senior Partner, 3rdi

**All aboard the Green Express –
a whistle stop guide to the 5
environmental regulations every
business should be aware of**



Swindon Chamber of Commerce

Ian Piper

Interim Chief Executive,

Forward Swindon

Forward Swindon Ltd –

Localism in Action

Swindon Chamber of Commerce

Cllr Garry Perkins

Deputy Leader,

Swindon Borough Council

The Outlook for Swindon

Swindon Chamber of Commerce Business Leaders' Forum

Questions?