LETTINGS LIVE 2016

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The Prospects for the UK post the Referendum

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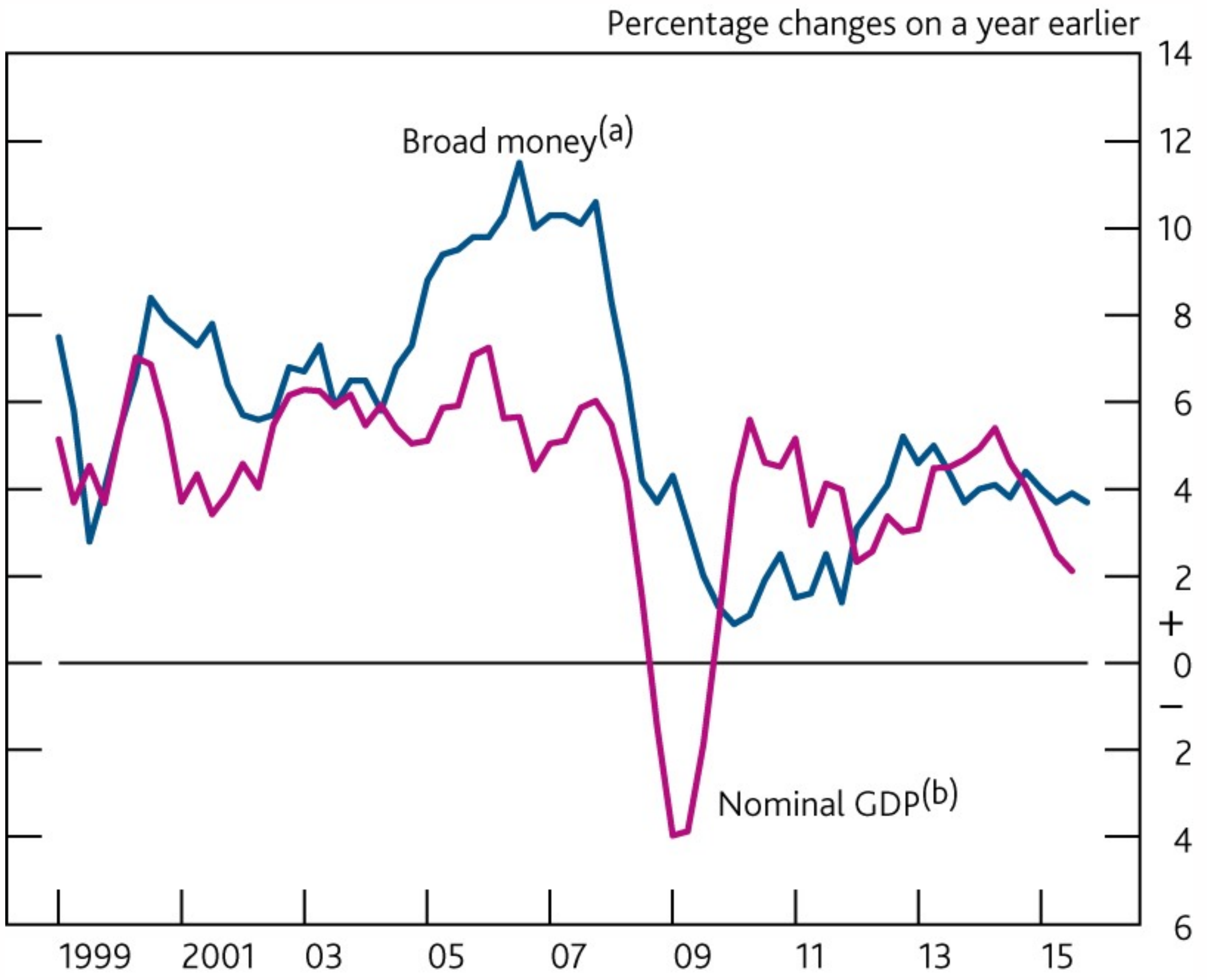
SHORT RUN ECONOMIC ACTIVITY

is driven by the flow of spending

MONEY	multiplied by	VELOCITY	equals	NORMAL GDP
95% manufactured by commercial banks M4		Determined by interest rates, the media, the weather and house prices		

Banks manufacture money when they make a loan (bank credit) and can destroy money when a loan is paid down

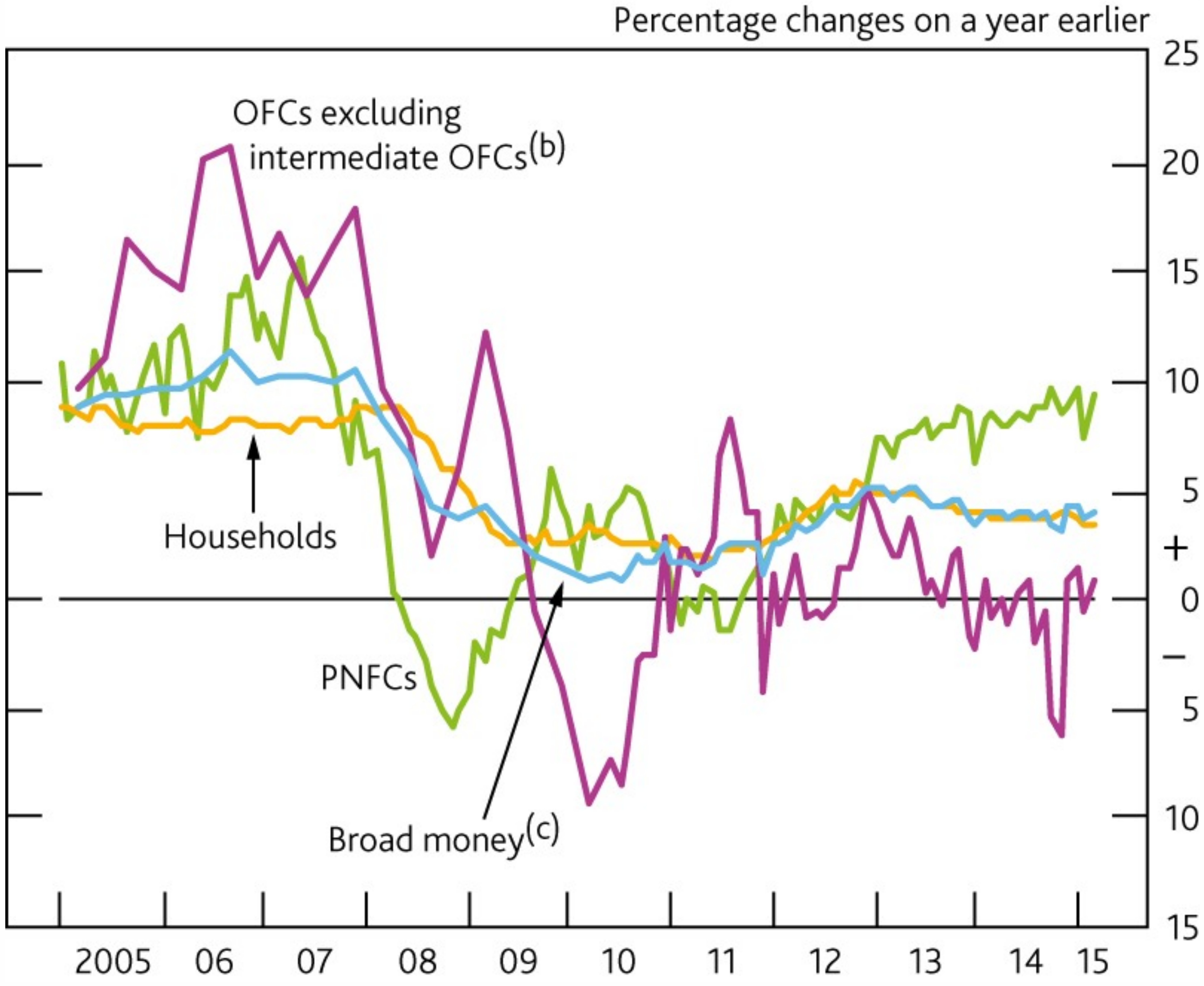
Broad money growth consistent with 2.5% growth in GDP and 1.5% inflation



(a) M4 excluding intermediate other financial corporations (OFCs). Intermediate OFCs are: mortgage and housing credit corporations; non-bank credit grantors; bank holding companies; securitisation special purpose vehicles; other activities auxiliary to financial intermediation; and 'other financial intermediaries' belonging to the same financial group.
(b) At current market prices. The latest observation is 2015 Q3.

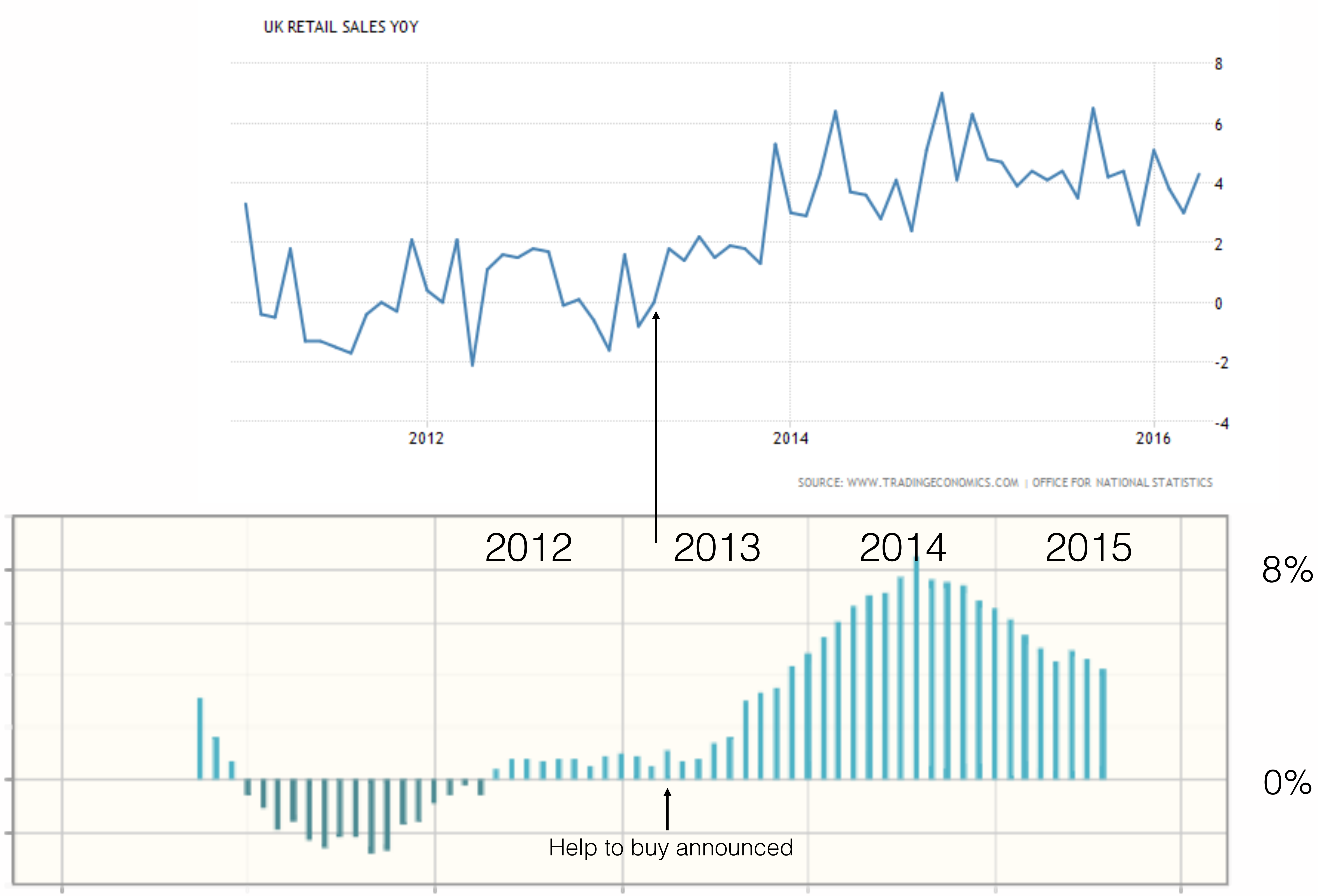
Broad money growth has been stable

Sectoral broad money(a)



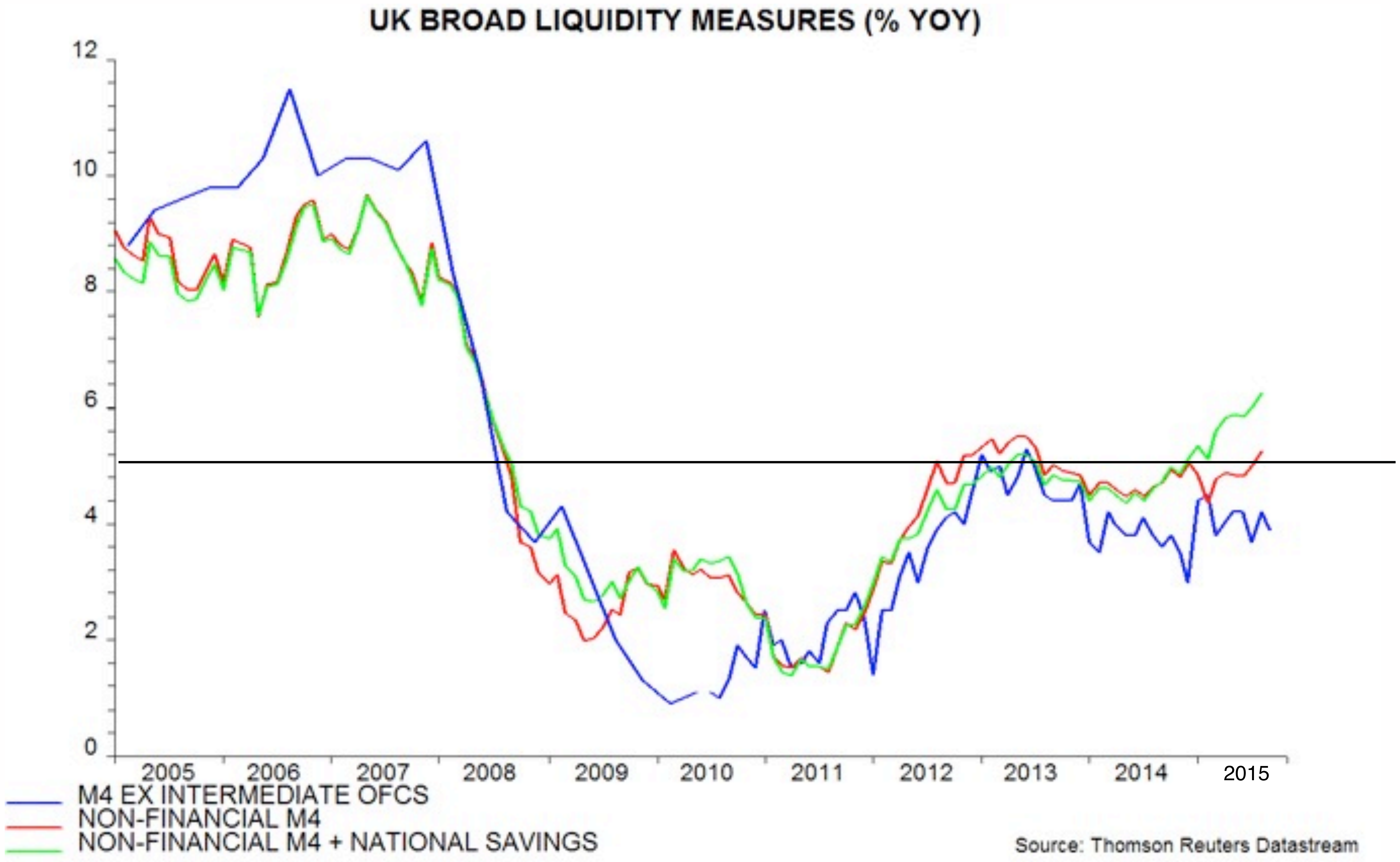
(a) Monthly data unless otherwise specified.
(b) Quarterly data prior to June 2010 and monthly thereafter. Intermediate other financial corporations (OFCs) are: mortgage and housing credit corporations; non-bank credit grantors; bank holding companies; securitisation special purpose vehicles; other activities auxiliary to financial intermediation; and 'other financial intermediaries' belonging to the same financial group.
(c) Quarterly data prior to June 2010 and monthly thereafter. M4 excluding intermediate OFCs.

The perceived value of a house drives retail sales

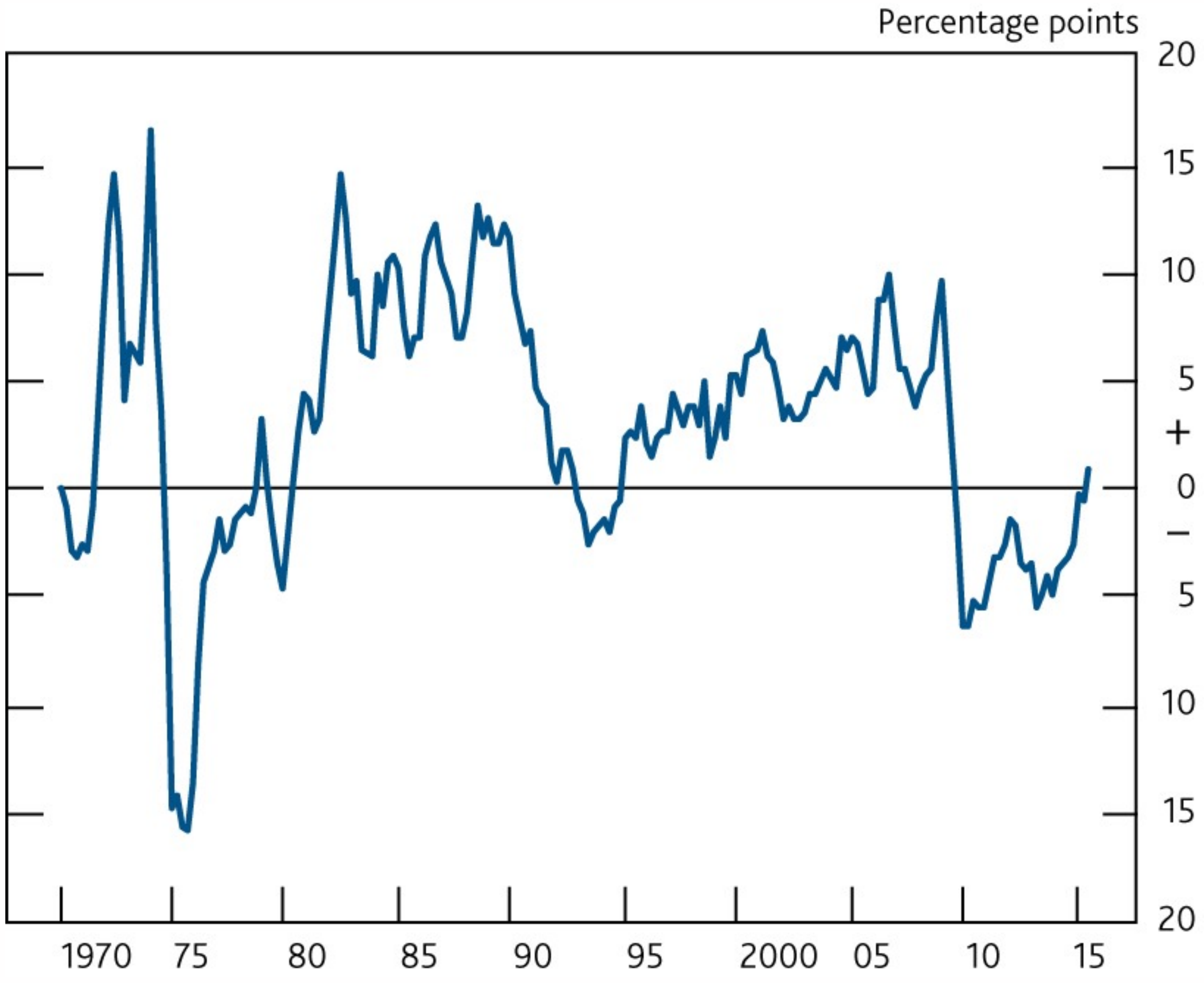


monthly house price % change
Source: land registry

Excess liquidity creates a booming economy



Private sector credit growth is not excessive

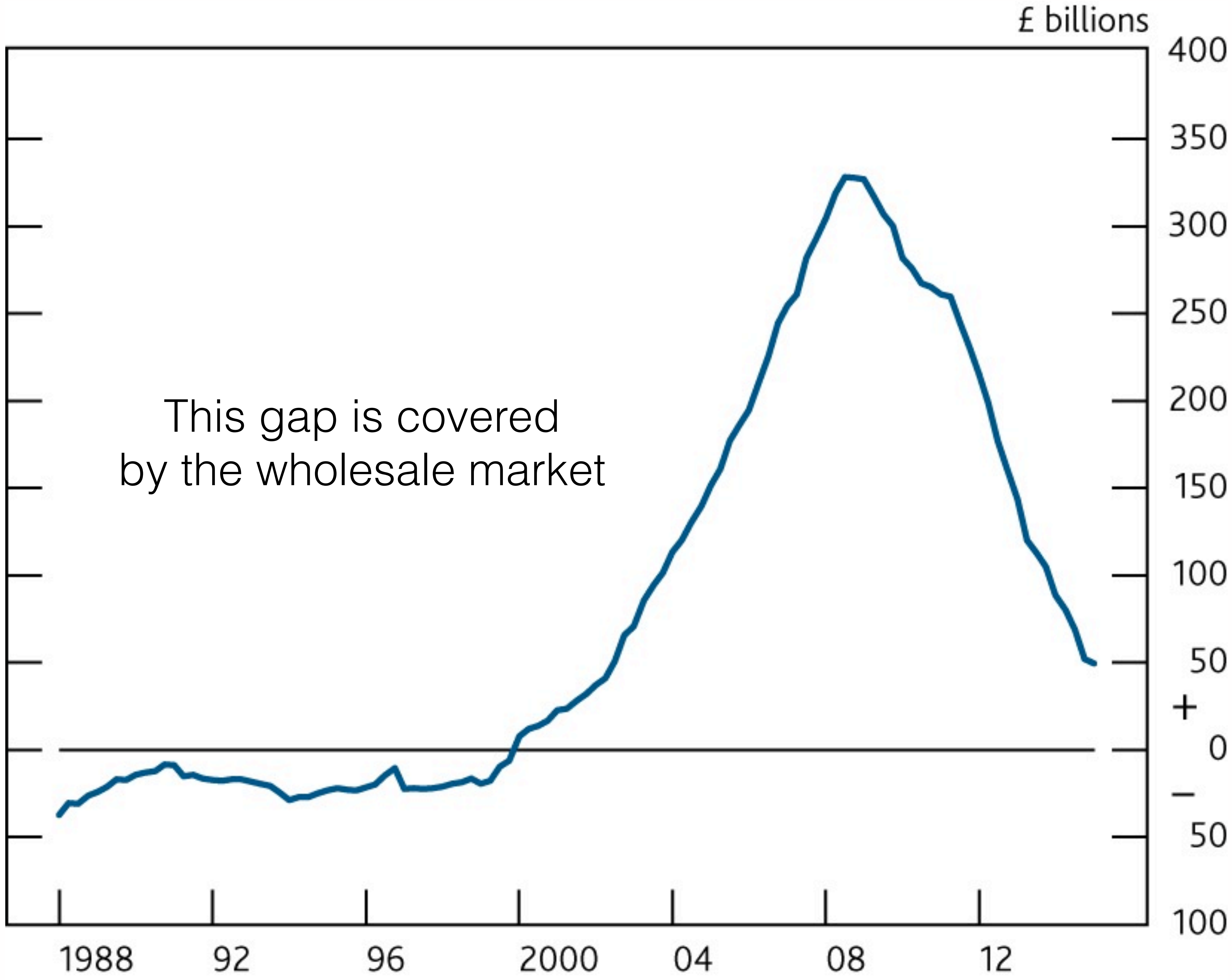


Private sector credit growth relative to GDP growth(a)

a) Four-quarter credit growth minus four-quarter GDP growth. Credit growth measured as M4 and M4 lending (excluding the effects of securitisations) prior to 1998 Q4, and equivalent measures excluding the deposits of, and borrowing by, intermediate other financial corporations thereafter. GDP is at current market prices.

Banks' funding has become more deposit-based as required by Basel 3

Customer funding gap(a)



(a) Calculated as the difference between bank lending to households and private non-financial corporations and deposits received from them.

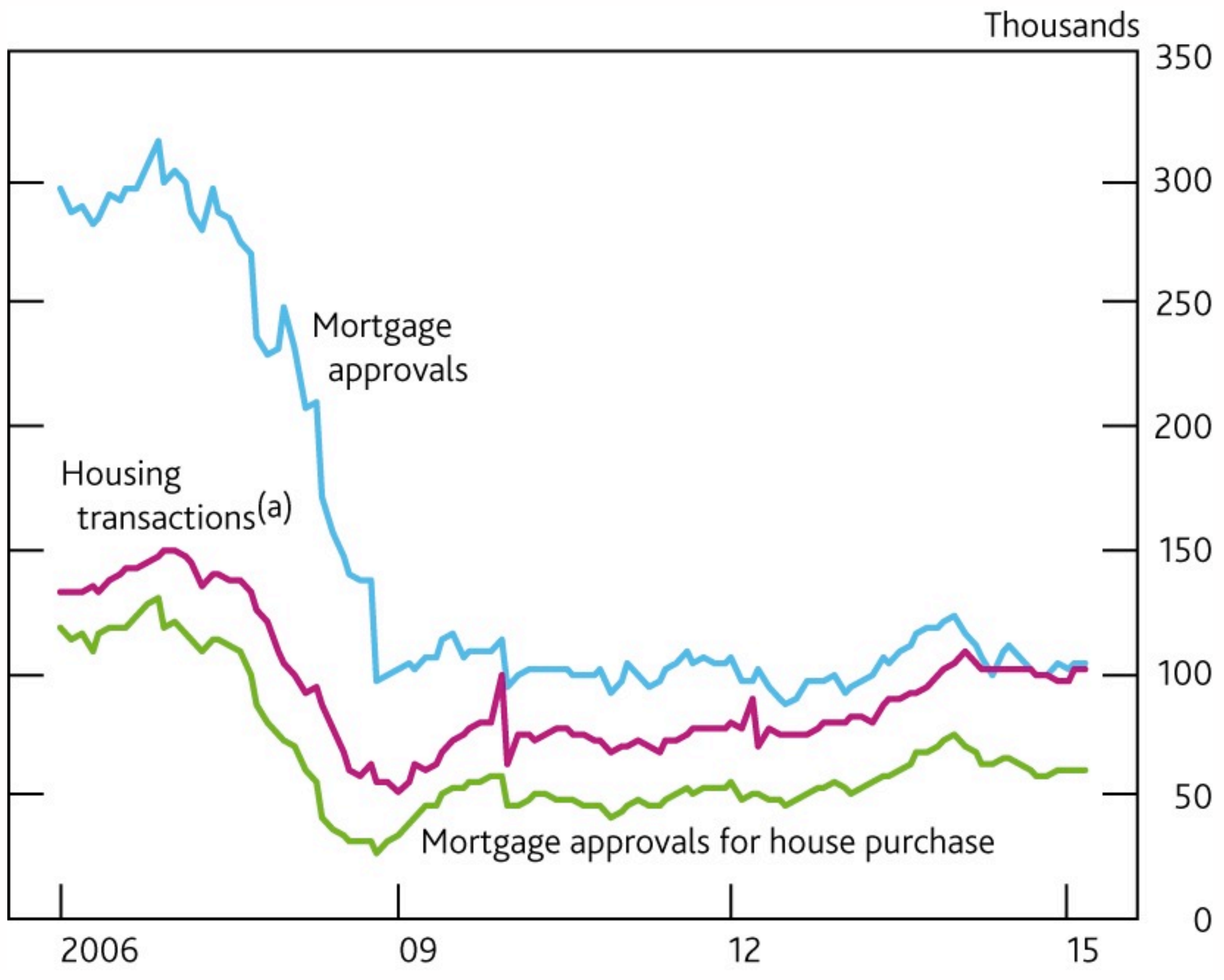
At last the UK banking system is fixed and stable

This has been aided by the steady increase in asset values

At last small speculative builders will be able to get financing as will growing SME’s

Housing market activity has been broadly stable but the surge before April 1 and subsequent drop is not shown.

Mortgage approvals and housing transactions

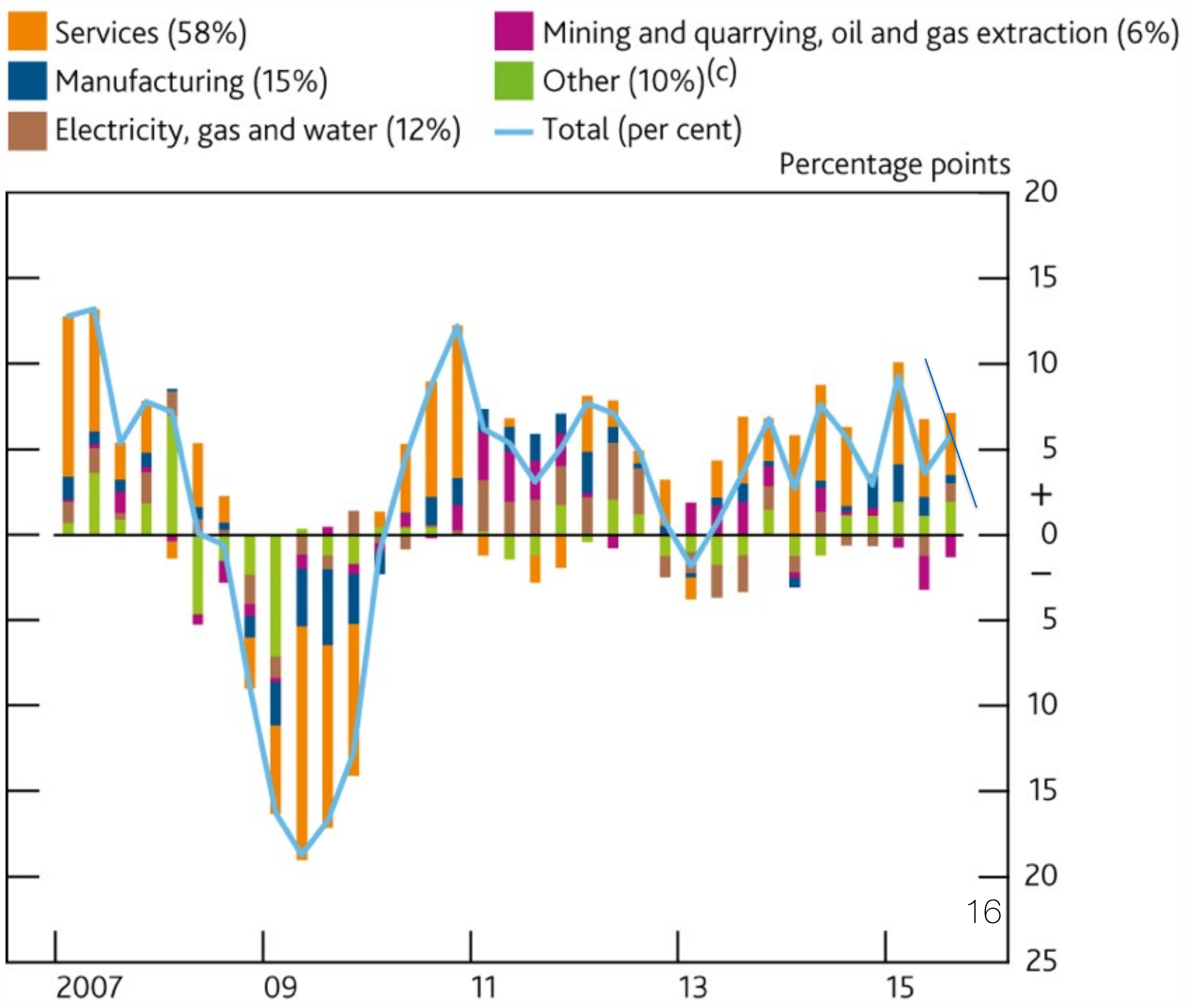


Sources: Bank of England and HM Revenue and Customs.

(a) Number of residential property transactions for values of £40,000 or above.

The uncertainty over Brexit has caused a collapse in investment spending in the first quarter of 2016

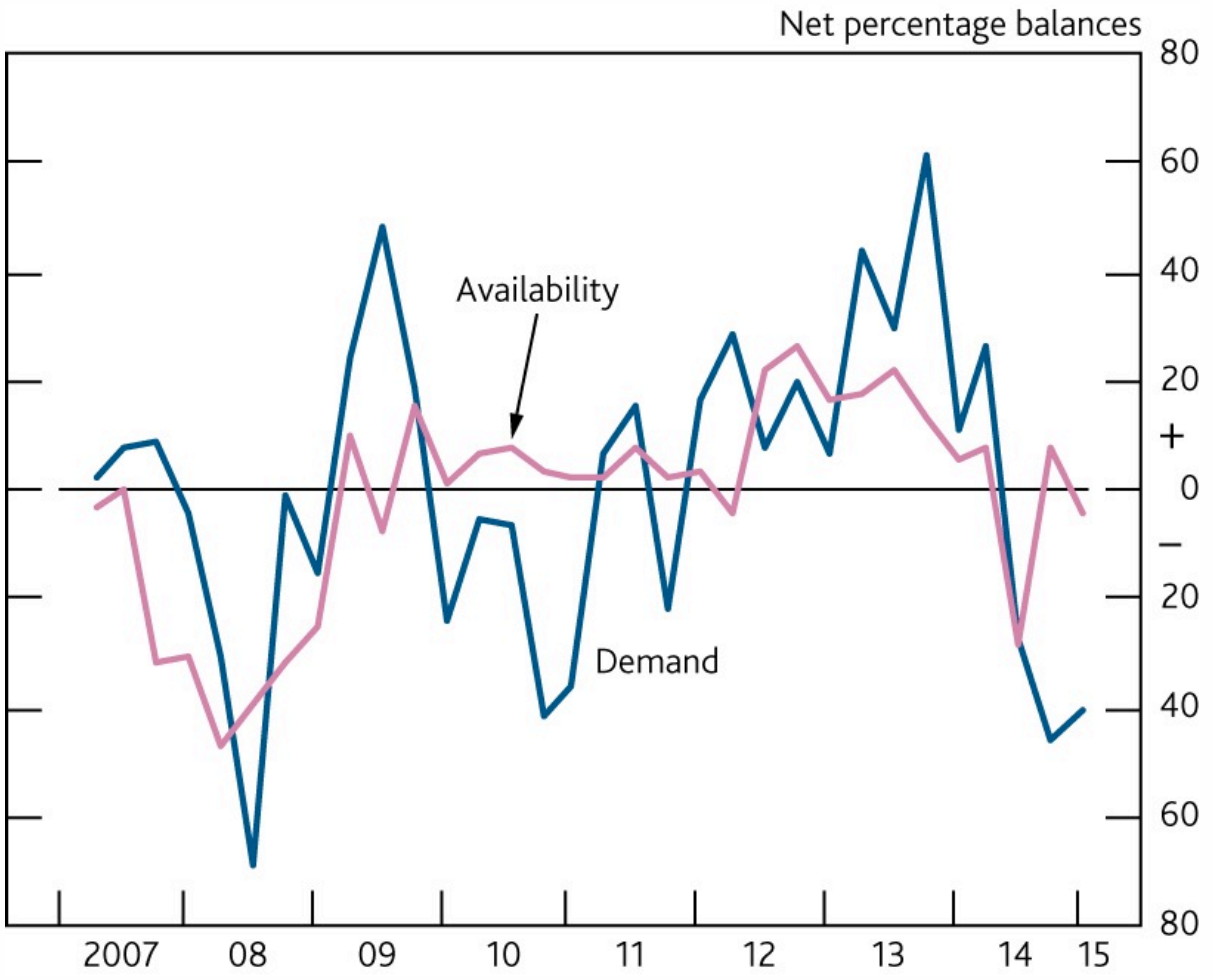
Contribution to four-quarter business investment growth[a][b]



(a) Chained-volume measures. Contributions prior to 2012 are indicative estimates.
(b) Figures in parentheses are shares in total nominal business investment in 2012.
(c) Total business investment, less contributions from the mining and quarrying, oil and gas extraction, utilities, manufacturing and service sectors.

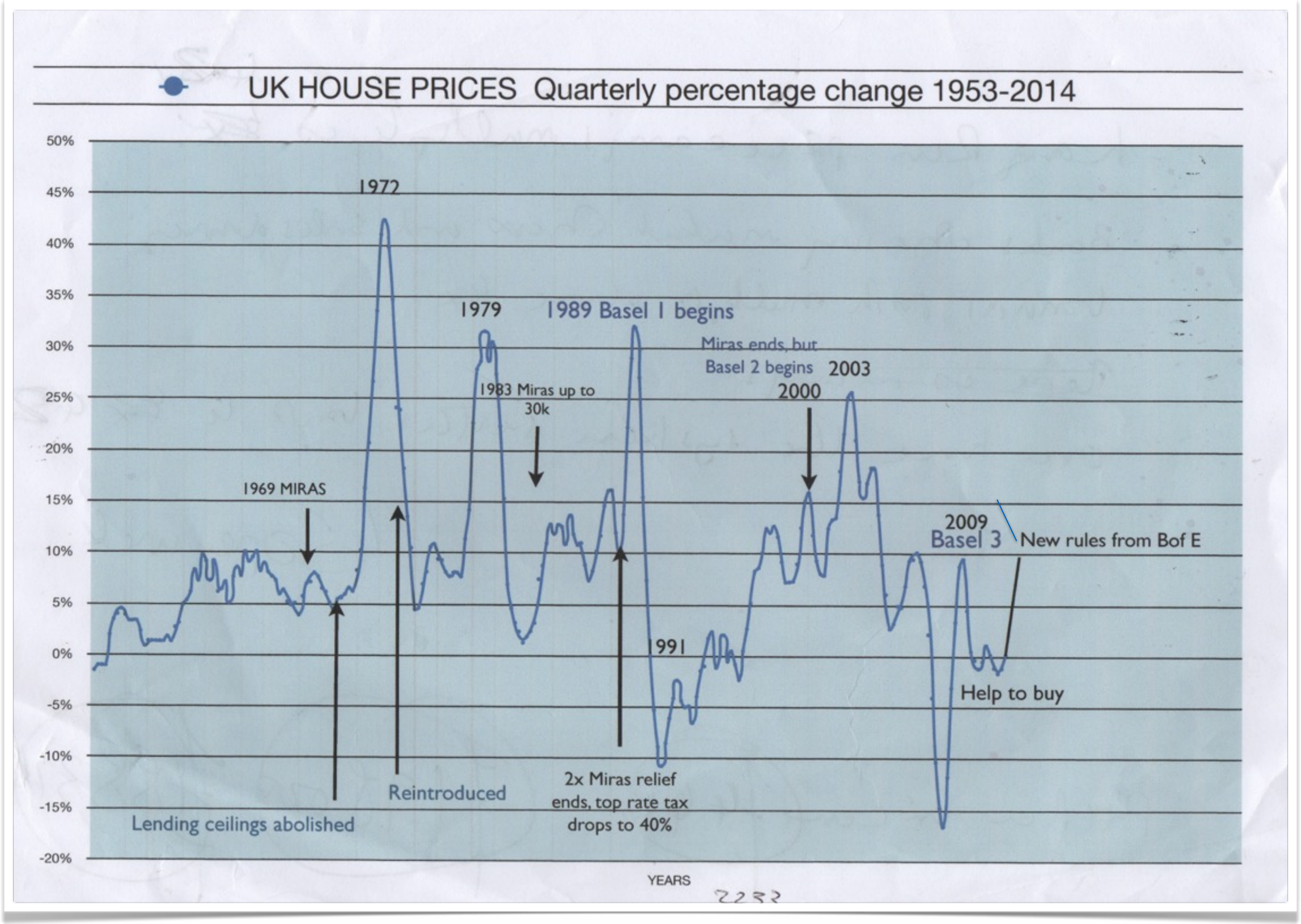
Banks report a fall in demand for mortgages since mid-2014

Credit Conditions Survey: household secured credit demand and availability[a]



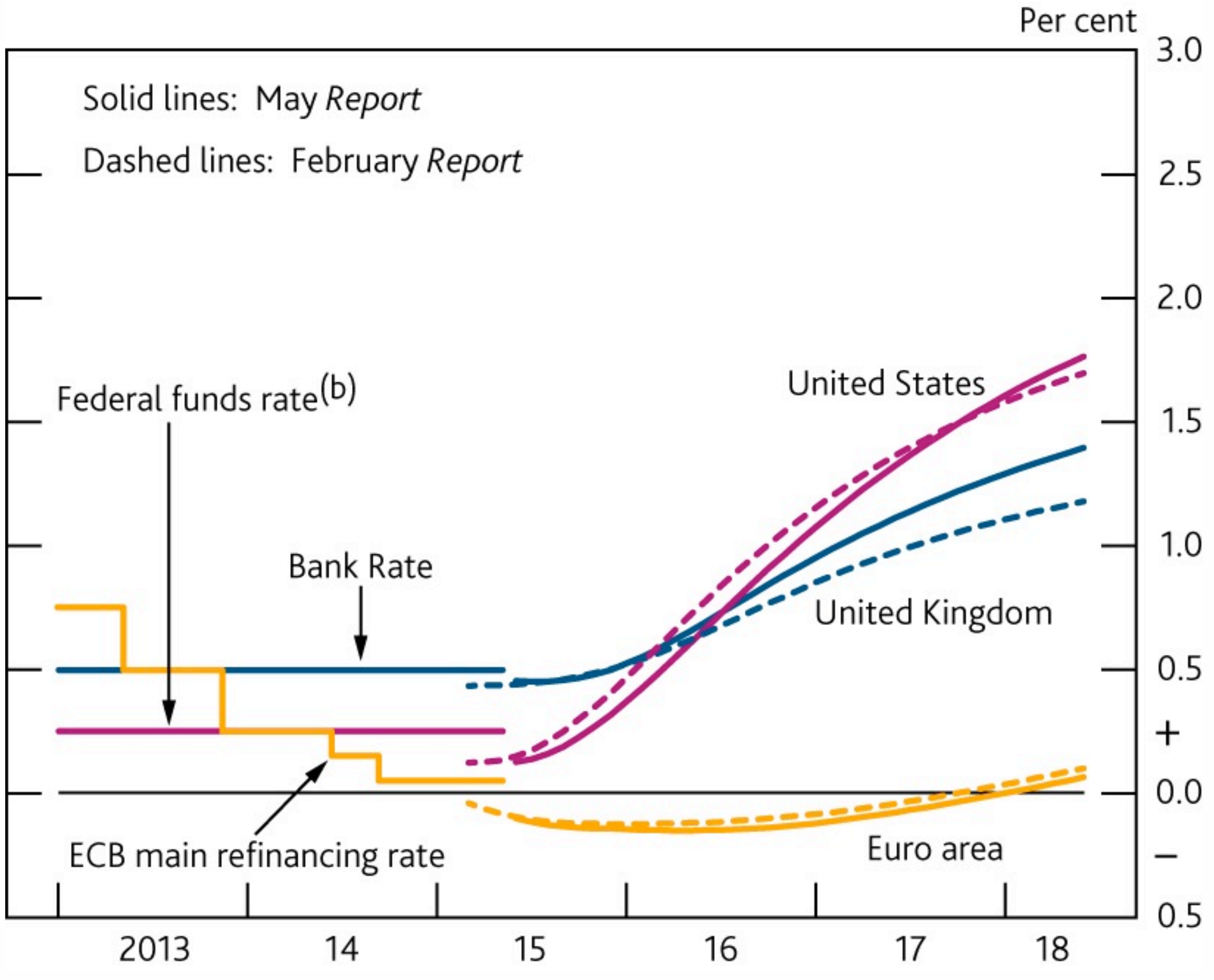
(a) Weighted response of lenders. A positive (negative) balance indicates that more (less) household secured credit was available or demanded to finance a house purchase over the previous three months.

Since 1973 UK house prices have been primarily driven by credit availability



Market prices imply low official interest rates over the next few years (assuming we vote remain)

International forward interest rates[a]

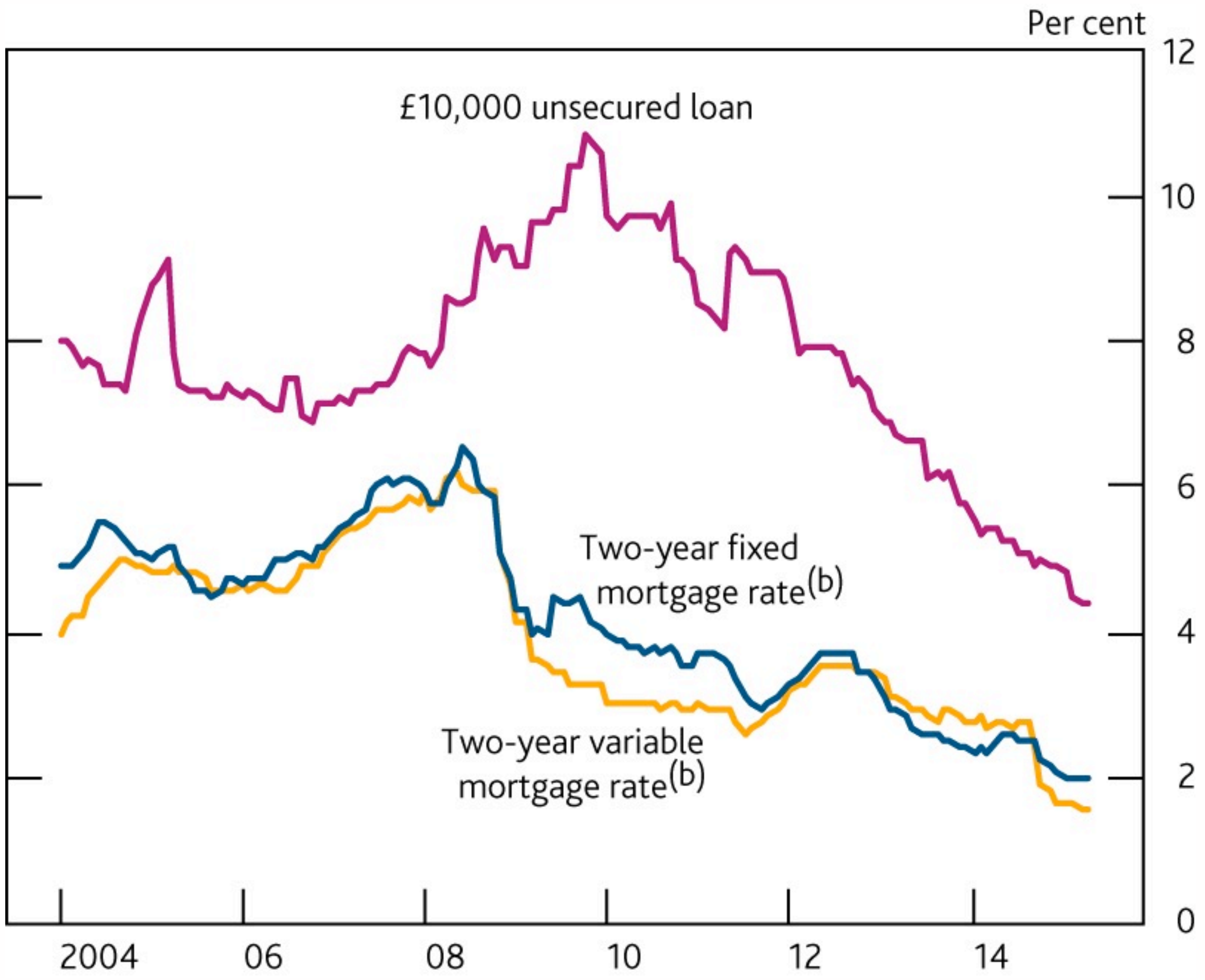


Sources: Bank of England, Bloomberg, European Central Bank (ECB) and Federal Reserve.

(a) The February 2015 and May 2015 curves are estimated using instantaneous forward overnight index swap rates in the fifteen working days to 4 February and 7 May respectively.
(b) Upper bound of the target range of 0% to 0.25%.

Household interest rates are at low levels

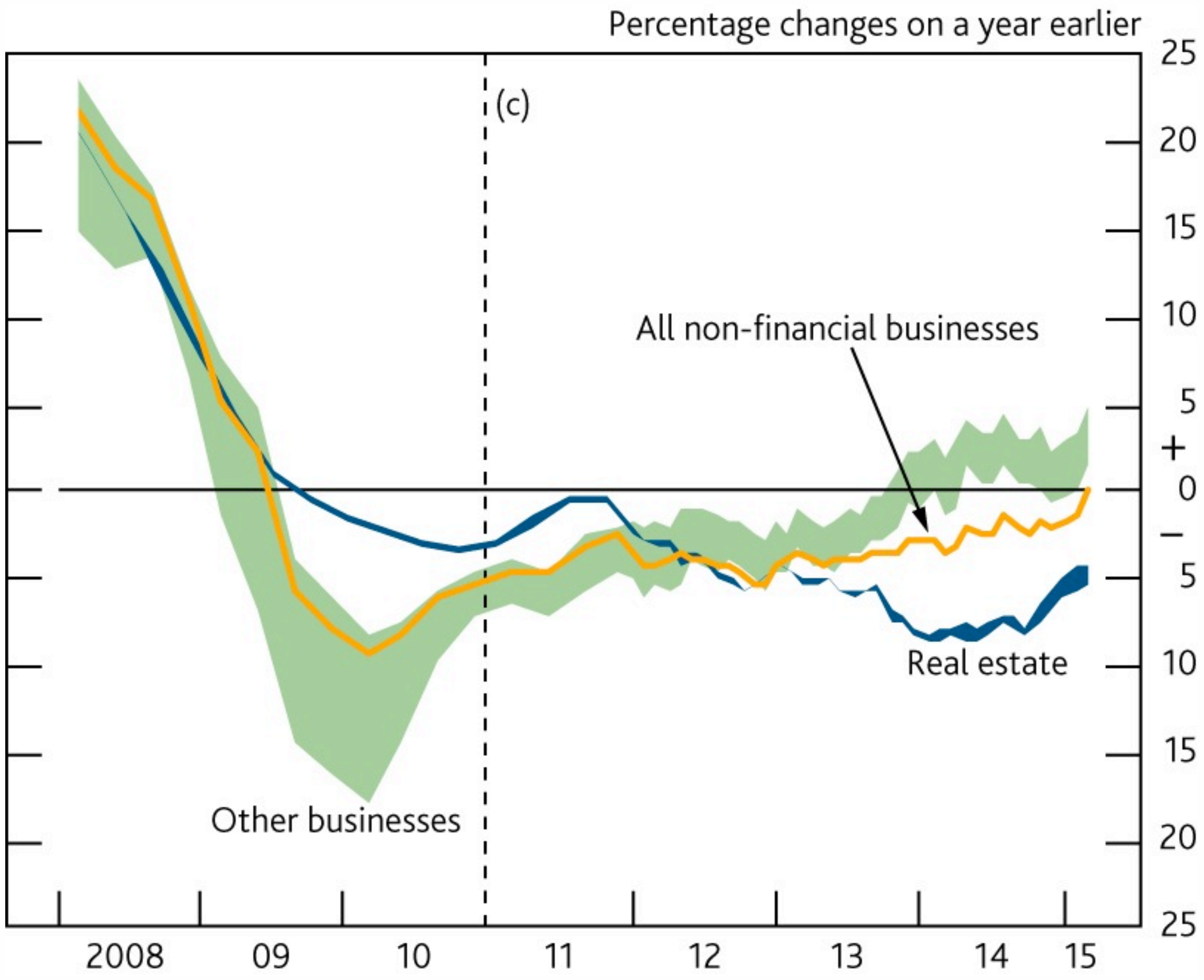
Average quoted household interest rates(a)



(a) Sterling-only end-month average quoted rates. The Bank's quoted rates series are weighted averages of rates from a sample of banks and building societies with products meeting the specific criteria (see www.bankofengland.co.uk/statistics/Pages/iadb/notesiadb/household_int.aspx). Data are non seasonally adjusted.
(b) On mortgages with a loan to value ratio of 75%.

Loan growth picked up in Q1

Growth in the stock of lending to the UK real estate sector and other businesses, banks are still reducing their commercial property book



(a) Lending by UK monetary financial institutions. Rates of growth in the stock of lending. Non seasonally adjusted. For details on the series included in the swathes see tab 'Chart 1.1 appendix' at www.bankofengland.co.uk/publications/Documents/other/monetary/lendingtoukbusinessesandindividualsoctober2014.xls.
(b) Data are quarterly until 2012 and monthly thereafter.
(c) From 2011, data are on the SIC 2007 basis. Changes in SIC codes have led to some components moving between industries, which may affect growth rates in 2011.

In 2008 house price to income ratio was
6.2, an all time high

Today it is 6.1

To return to the long run average of 4.2 prices will have to fall
by 35% or incomes rise significantly

If there was insufficient housing supply, rents would be rising
as fast as house prices.
Since 2006 house prices have grown 2.3% faster a year than rents.
Rents have grown in line with nominal GDP

Since 2005 the number of households has risen by 7%

The number living in each household is unchanged at 2.4
the same as the EU

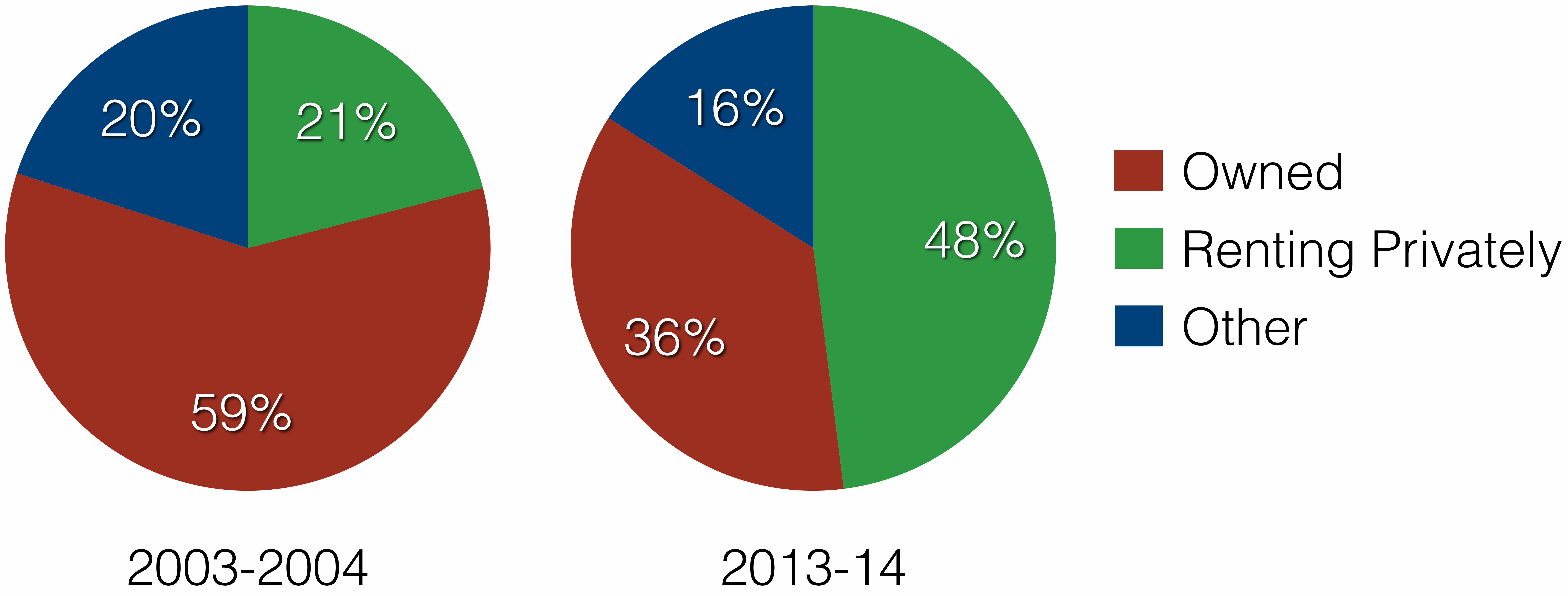
If there was a genuine shortage, it would show up in rents and density

There are 600,000 empty houses in England

The average age of a help to buy first time buyer is 31

Source: Fathom Consulting

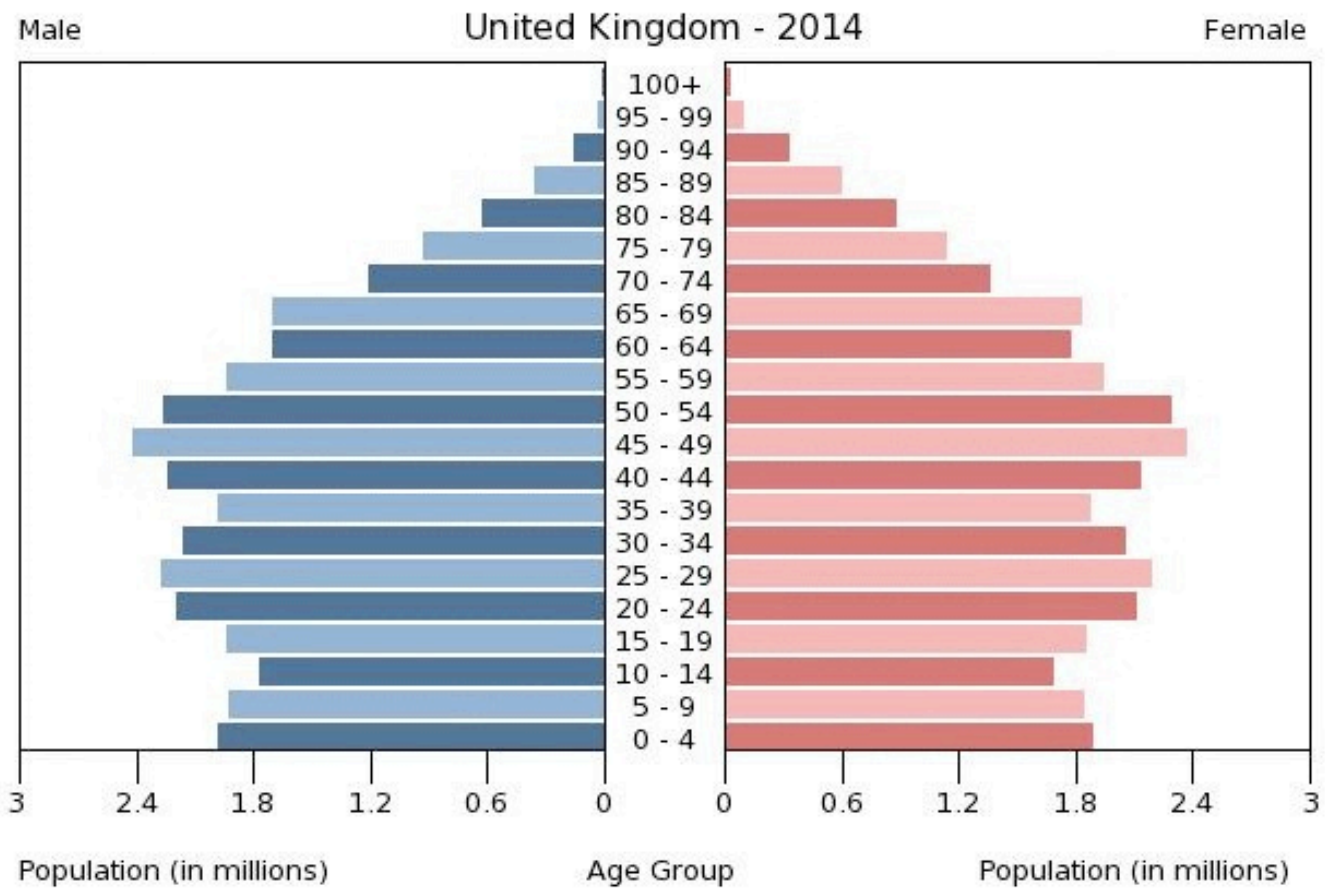
25-34 year-olds in England



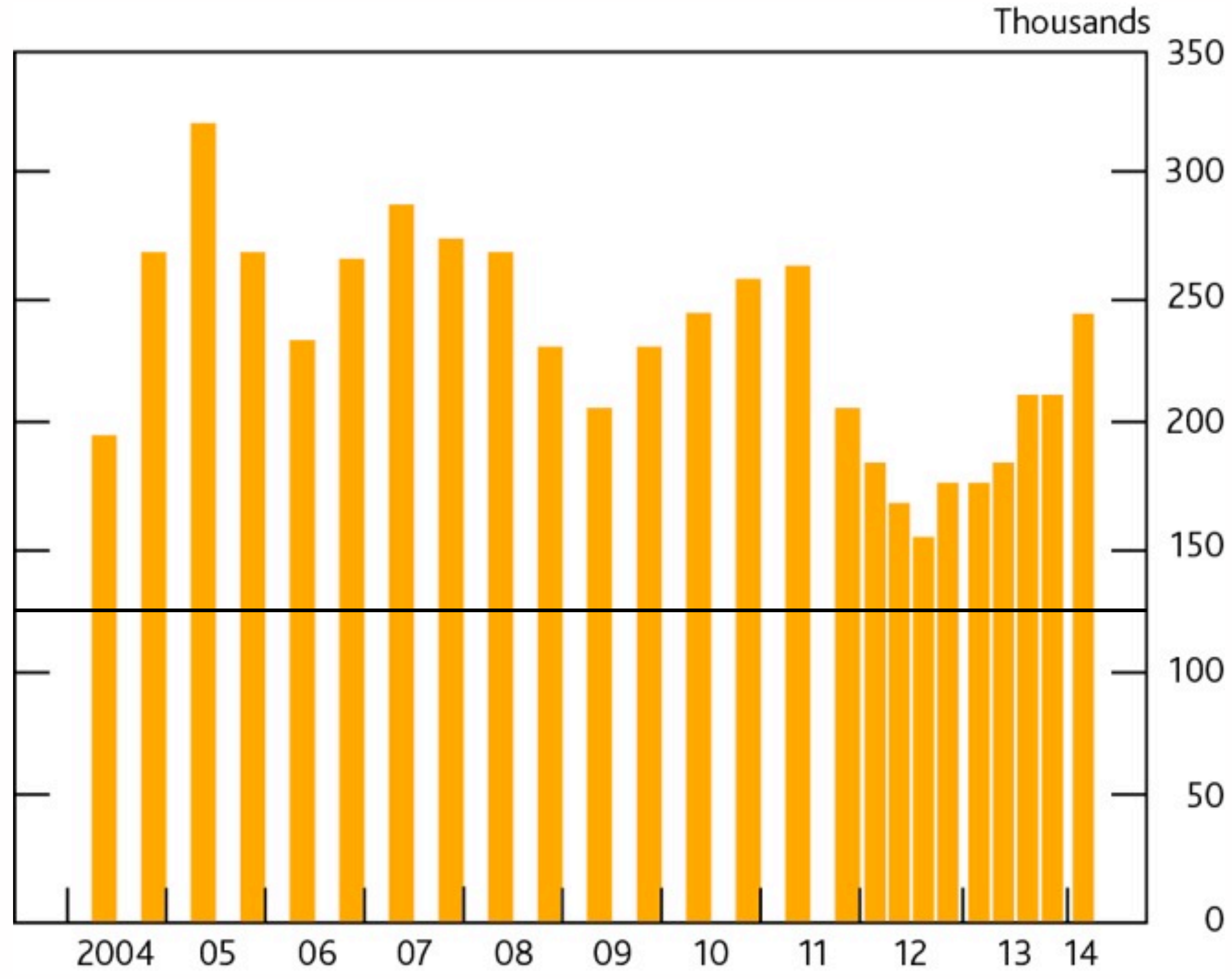
This group spend 14% of their income on dining out and experiences!

Source: English Housing Survey

Big bulge of oldies over next 20 years: we need young workers



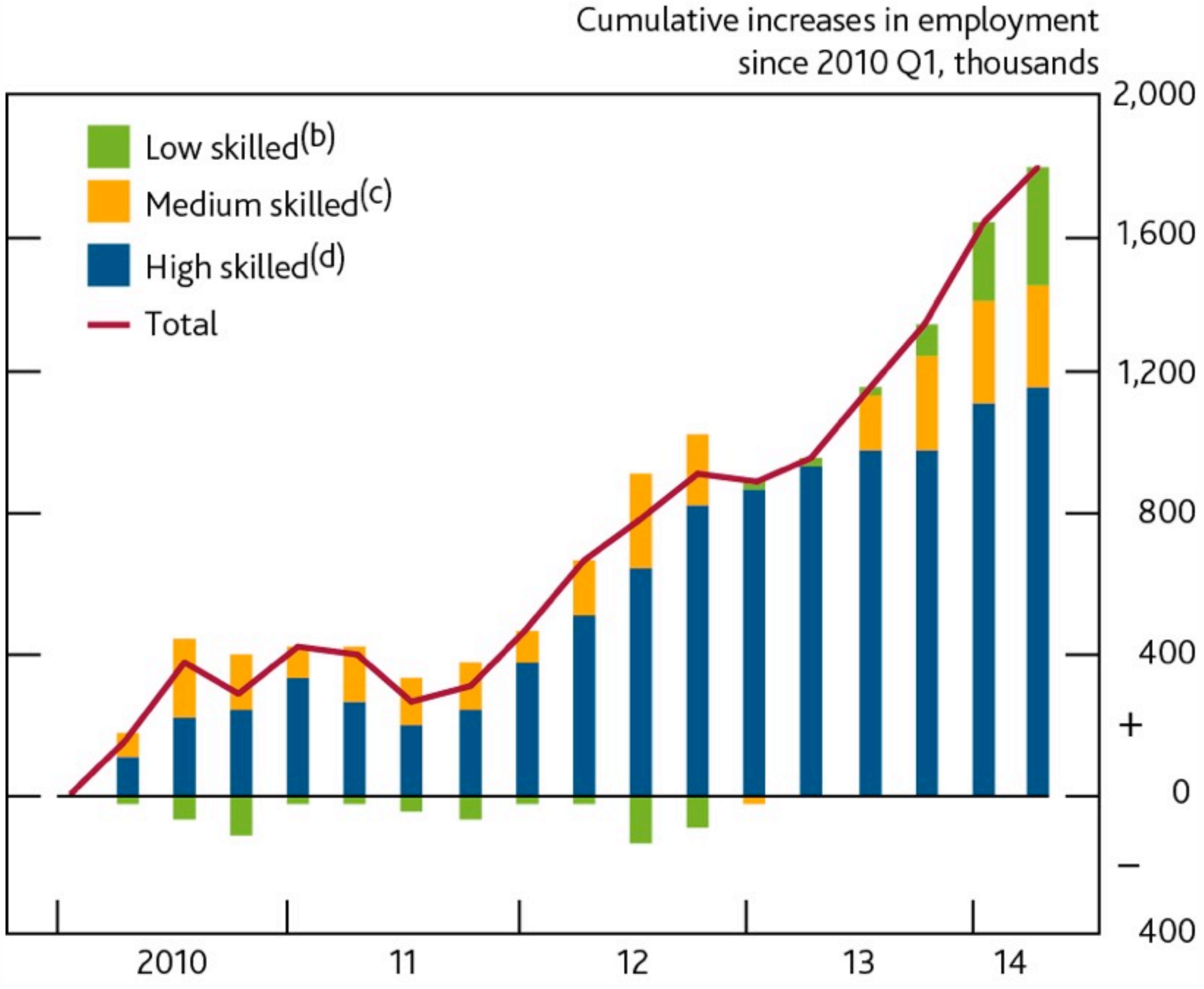
Net migration has supported labour supply: we need 130,000 pa to compensate for ageing population



Source: Bank of England

Source: ONS International Passenger Survey.
(a) Rolling four-quarter data. Data are half-yearly up to December 2011, and quarterly thereafter.

Recent employment growth has been more concentrated among the lower skilled, low wage employees

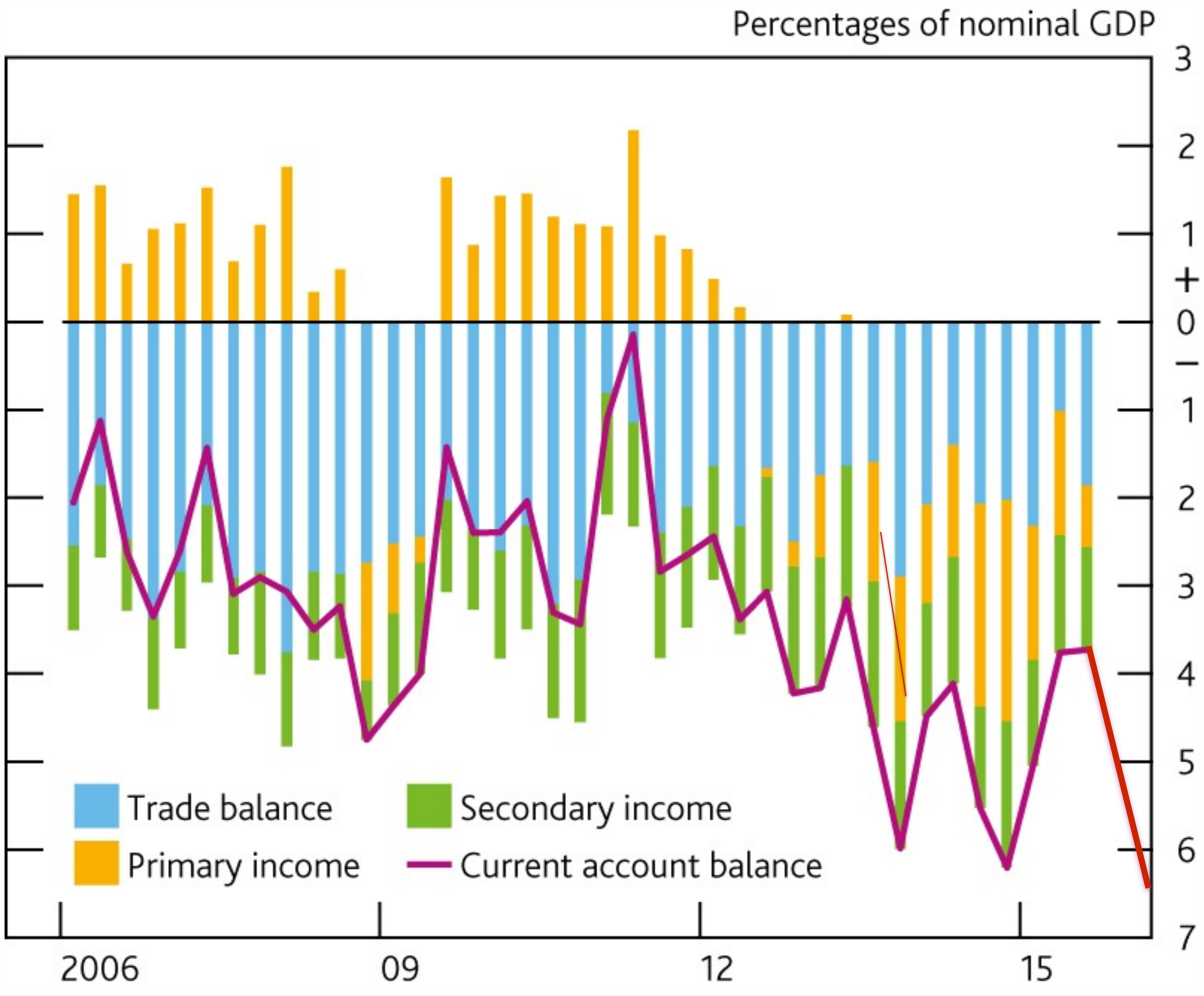


Source: Bank of England

Sources: Labour Force Survey and Bank calculations.

(a) Uses the Standard Occupational Classification (SOC) 2000. Seasonally adjusted by Bank staff.
(b) Includes elementary occupations, plant machine operatives, sales and customer services.
(c) Change in total employment less changes in employment in high and low-skilled occupations.
(d) Includes managers, professional and associate professional and technical occupations.

The current account deficit has deteriorated significantly this year. This requires financing



The Economy is driven by systemic feedback:
a small change is always magnified by the system

We know that the perceived value of property is the single most important driver of consumer confidence

When the Government announce help to buy in April 2013 retail sales took off

If we leave the EU

It is probable long term investment inflows will fall away.
To encourage short term financing sterling will have to fall

Every 10% fall adds 1% to inflation within a year

By the end of 2017 UK inflation could be over 3%

UK interest rates will have to rise

We can expect interest rates at 3-4% by end 2017

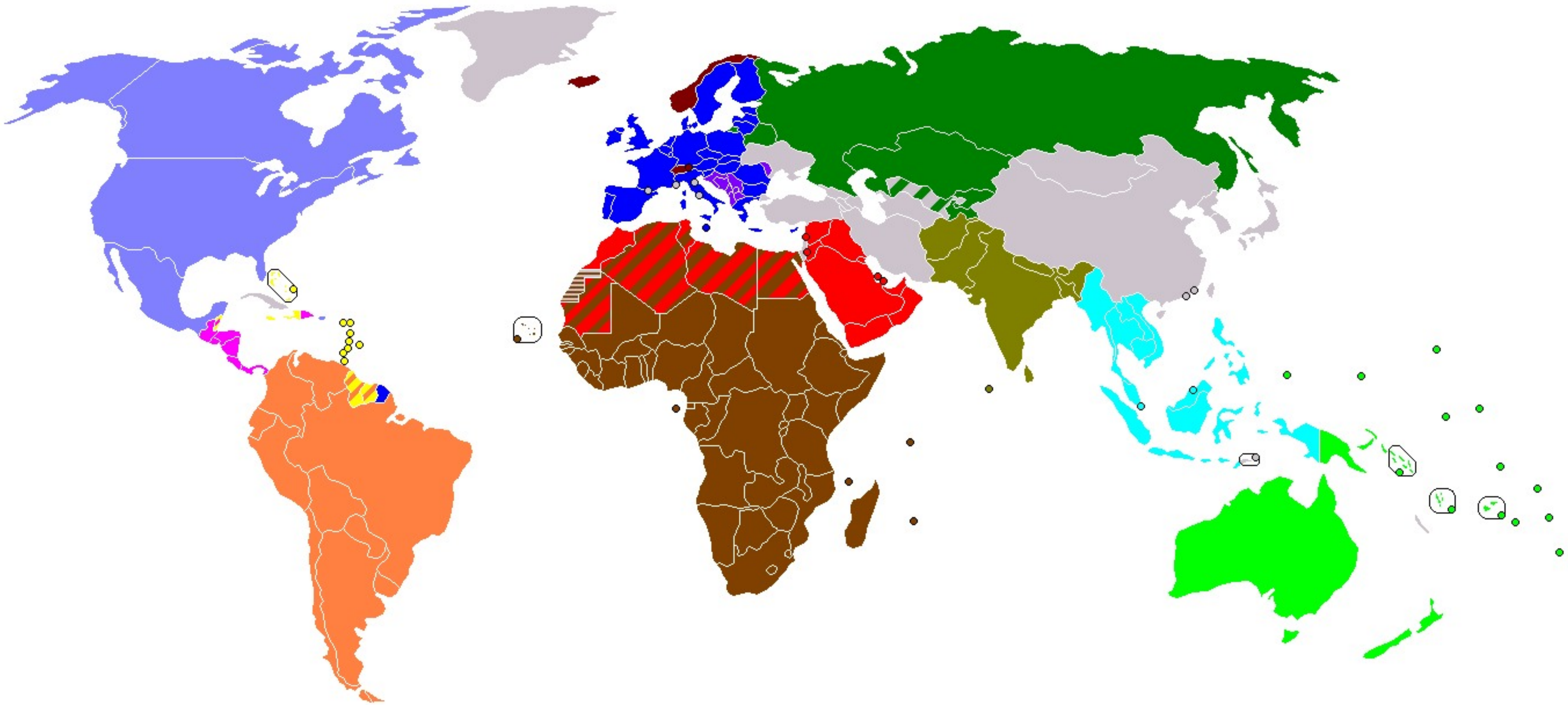
This will end the speculative demand for housing and prices will fall.
No one knows by how much

If we leave we can do our own trade deals as members of the World Trade Organisation

The WTO is only ten years old. For most of this time it has been settling trade disputes between countries

Norway and Switzerland have access to the EU markets but they must abide by the free movement of labour: Norway has 11 EU workers per 1000, Switzerland has 7 the UK has 3

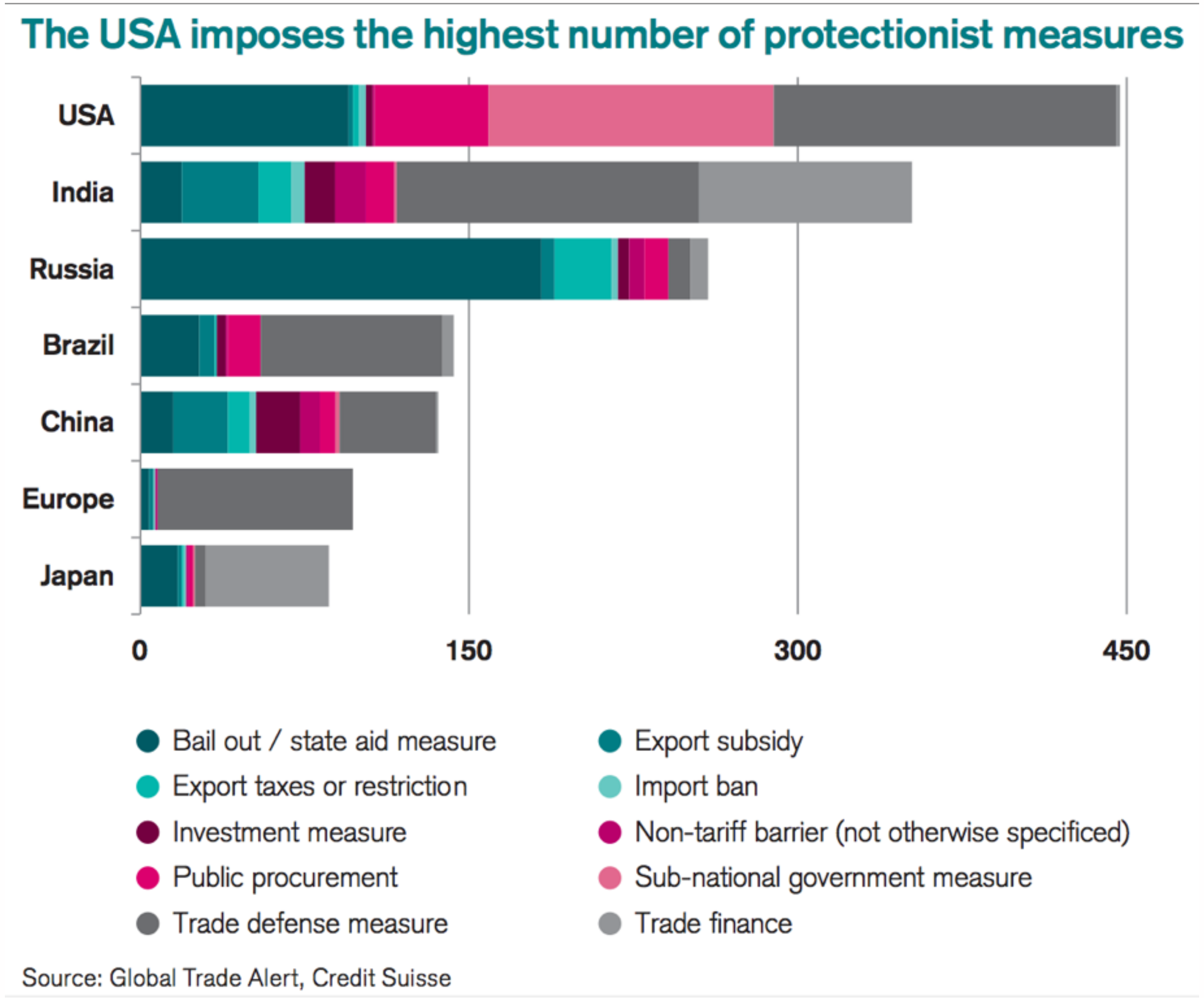
World Trading Blocs



Greenland, China, Japan, Ukraine,Turkey, Iran and Iraq are not members of trading blocs.

All other countries have existing arrangements

The EU is one of the least protectionist regions



If we vote to leave

It is probable that we will have a three year period of low or no growth due to higher than expected interest rates and falling house prices

Net migration will fall significantly as employment prospects deteriorate (and the EU recovery gains momentum)

The Government will be forced to raise taxes or demand further cuts

There will be a new Prime Minister

If we take net immigration down below 130,000 per annum
the retirement age will have to go to 70 asap

Imported inflation due to a weak currency will cause
interest rates to rise above expectations i.e. 4%

The EU is likely to play hard ball so as to discourage other would be leavers

UK Farmers will experience 20% price falls as the external tariff disappears
and lose a chunk of exports to the EU
(this will cause agricultural land prices to crash)

The Government will save about 7-10Bn pounds
this is equivalent to 2p on the basic rate of tax

It is likely that this will be swallowed up
with emergency support to Farmers!

If we vote to stay

There will a surge in spending in the Autumn and
a strong period of growth at circa average 2.75% per annum

The housing market will show stable price growth
at circa 6% per annum

The Government's budget position will improve steadily
and allow a relaxation of cuts in 2018

The EU will begin to reinvent itself, become less intrusive
in member states affairs and push ahead
to create a single market for services to the advantage of the UK

The likely path of UK Real GDP if we vote to leave