

COMMERCIAL BANKING

ECONOMIC OUTLOOK

Growing Concerns – Are they Justified?

Glasgow

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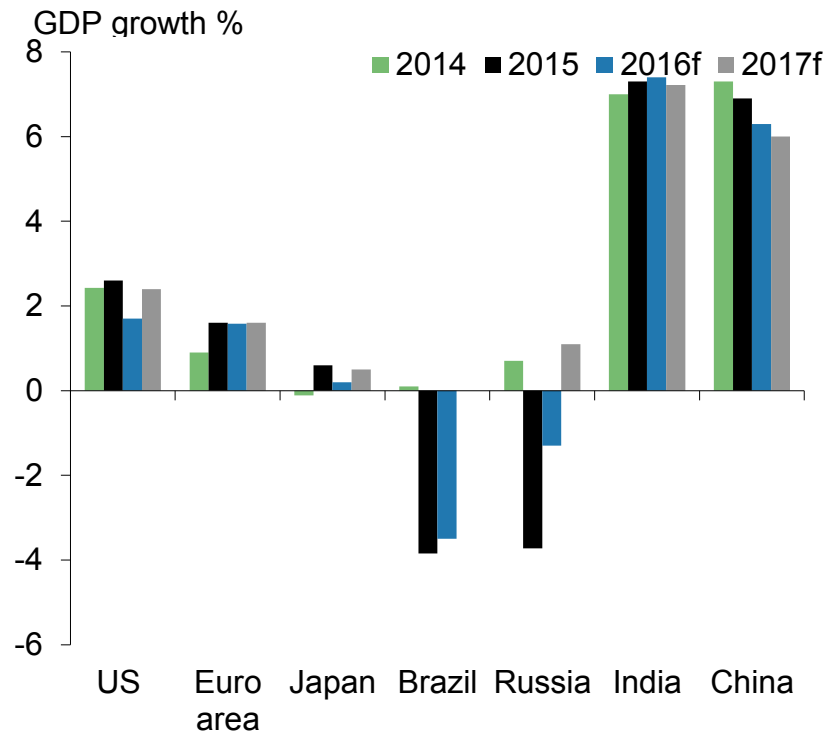
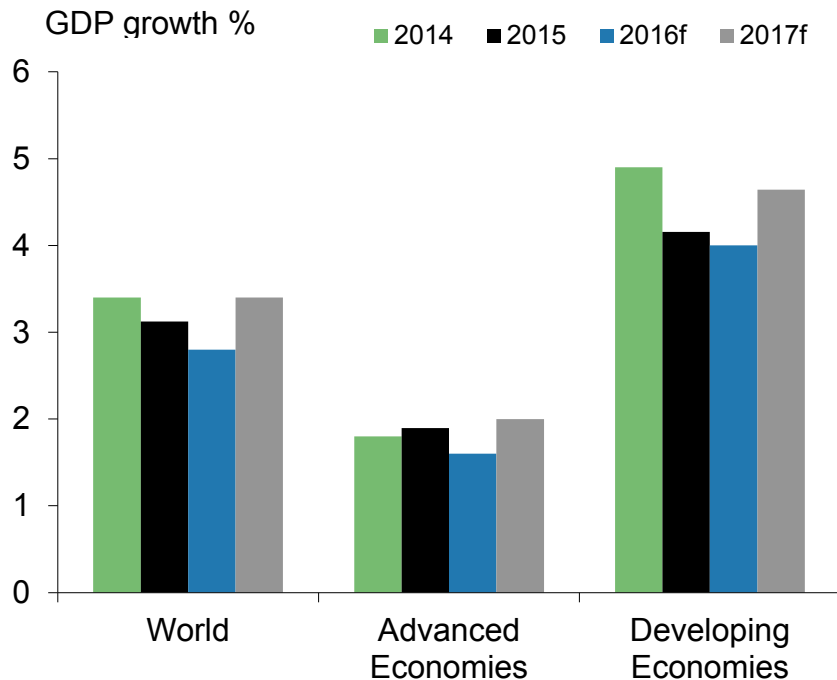


LLOYDS BANK

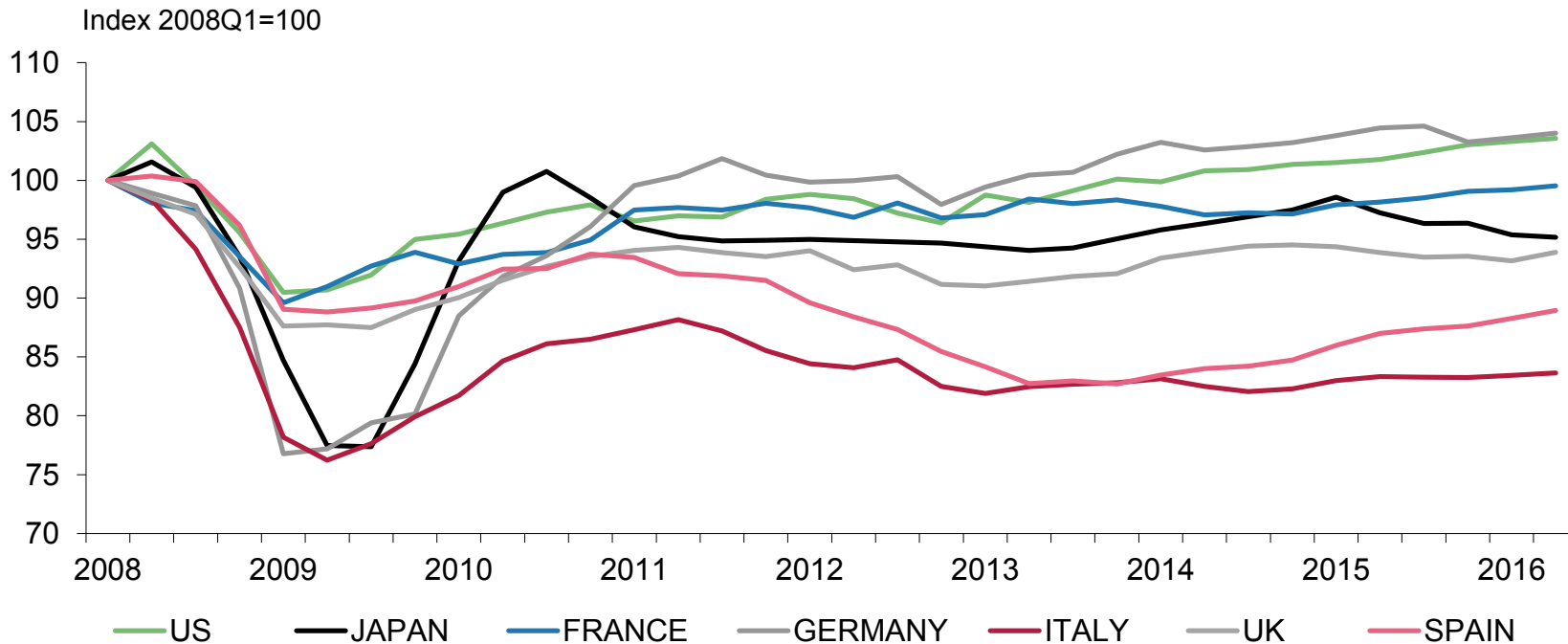


- International background
- Quick recap of reaction to recent developments
- Where do we go from here?
- Implications for manufacturing

GLOBAL ECONOMY STILL APPEARS IN REASONABLE SHAPE DESPITE VARIOUS CONCERNS



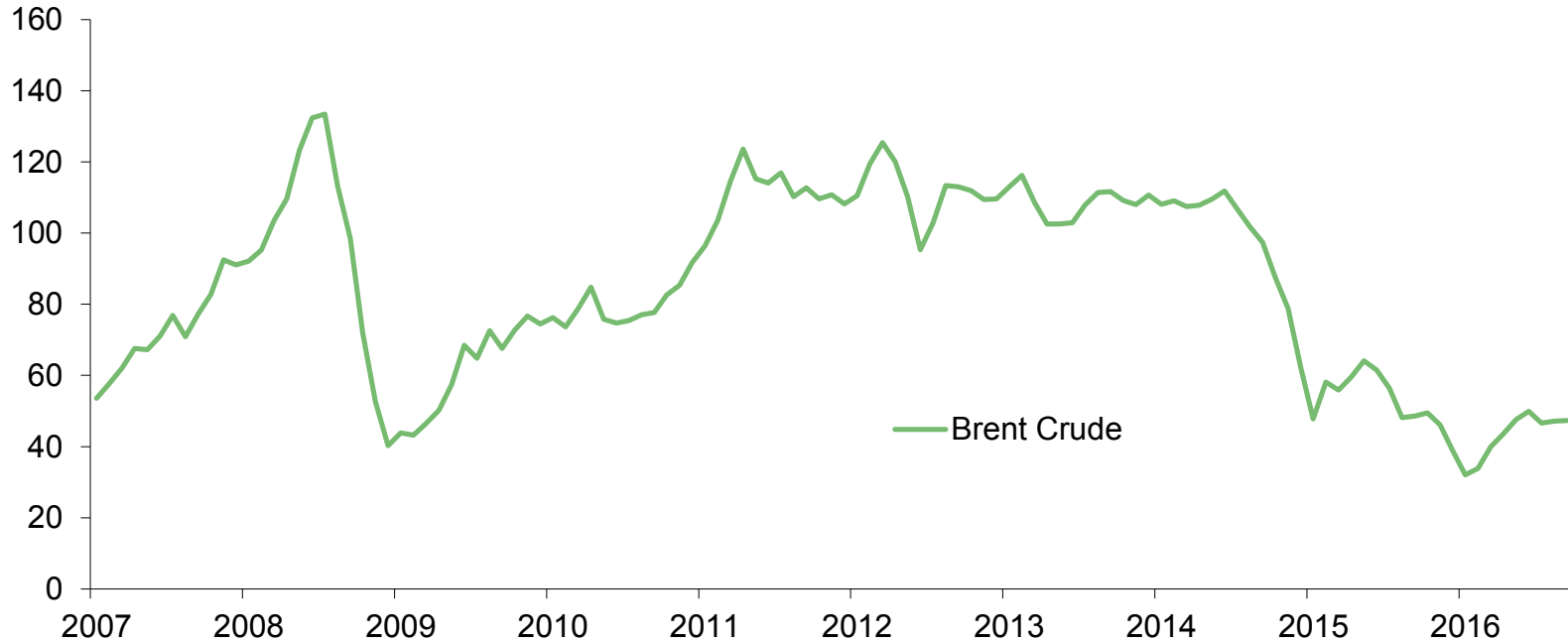
BUT LAST YEAR HAS BEEN A TOUGH ONE FOR MANUFACTURING EVERYWHERE



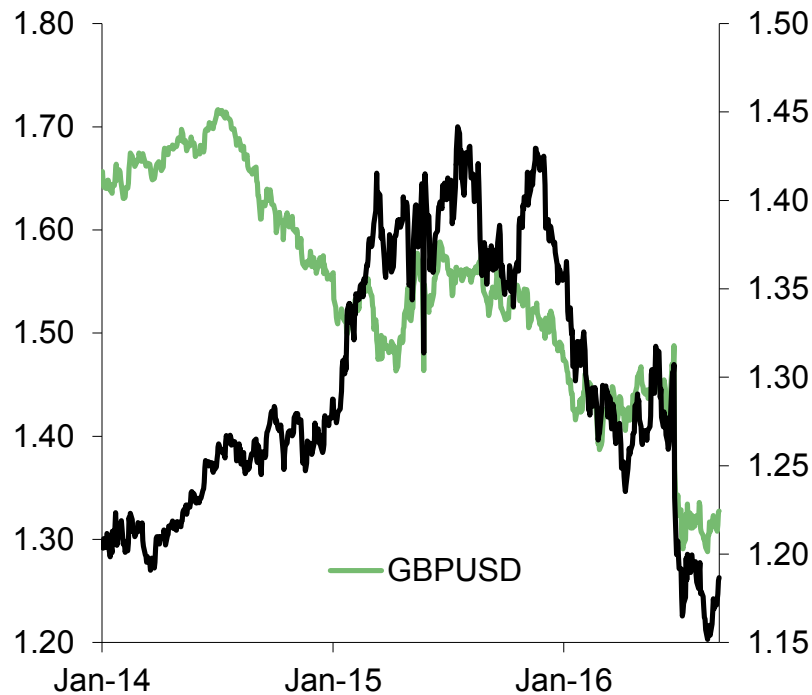
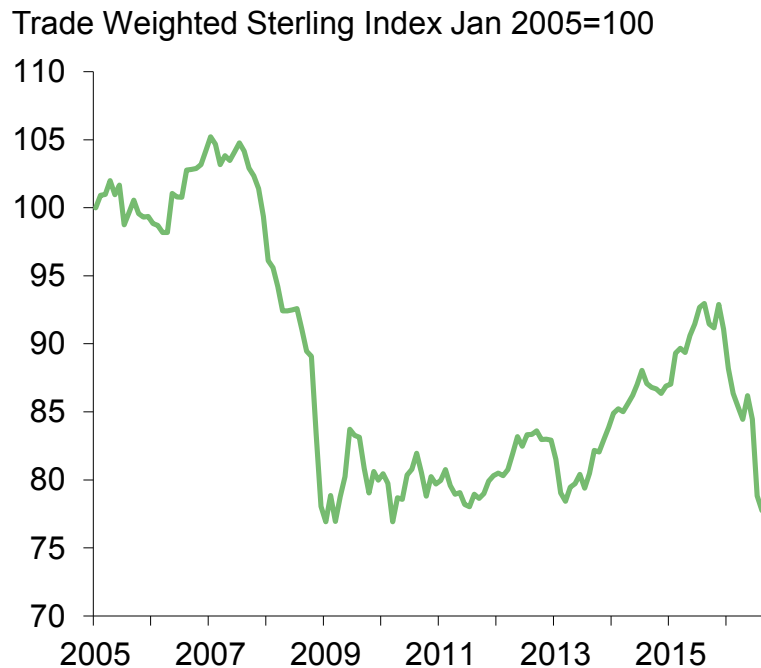
LOW OIL PRICE HAS HAD A MIXED IMPACT



Oil Price \$ per barrel



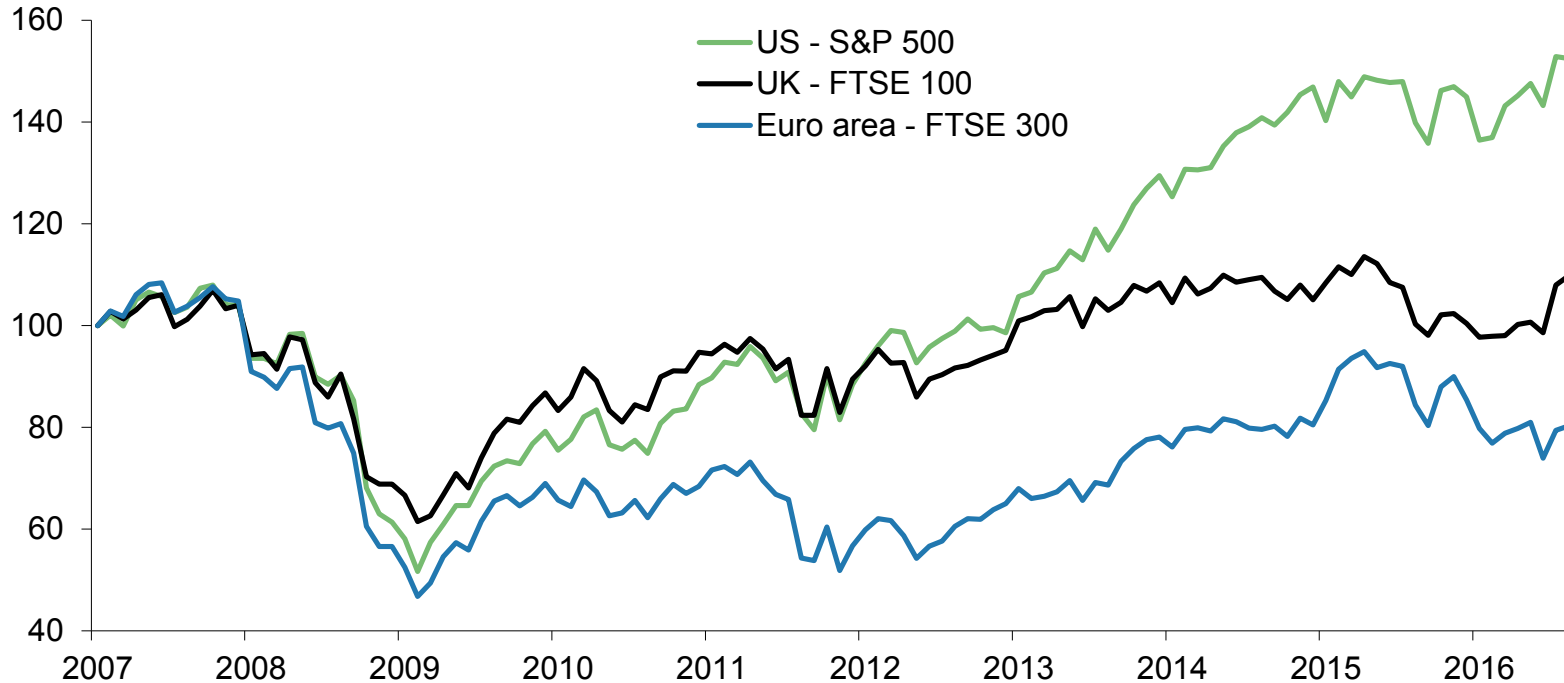
STERLING HAS FALLEN SHARPLY SINCE THE START OF THE YEAR



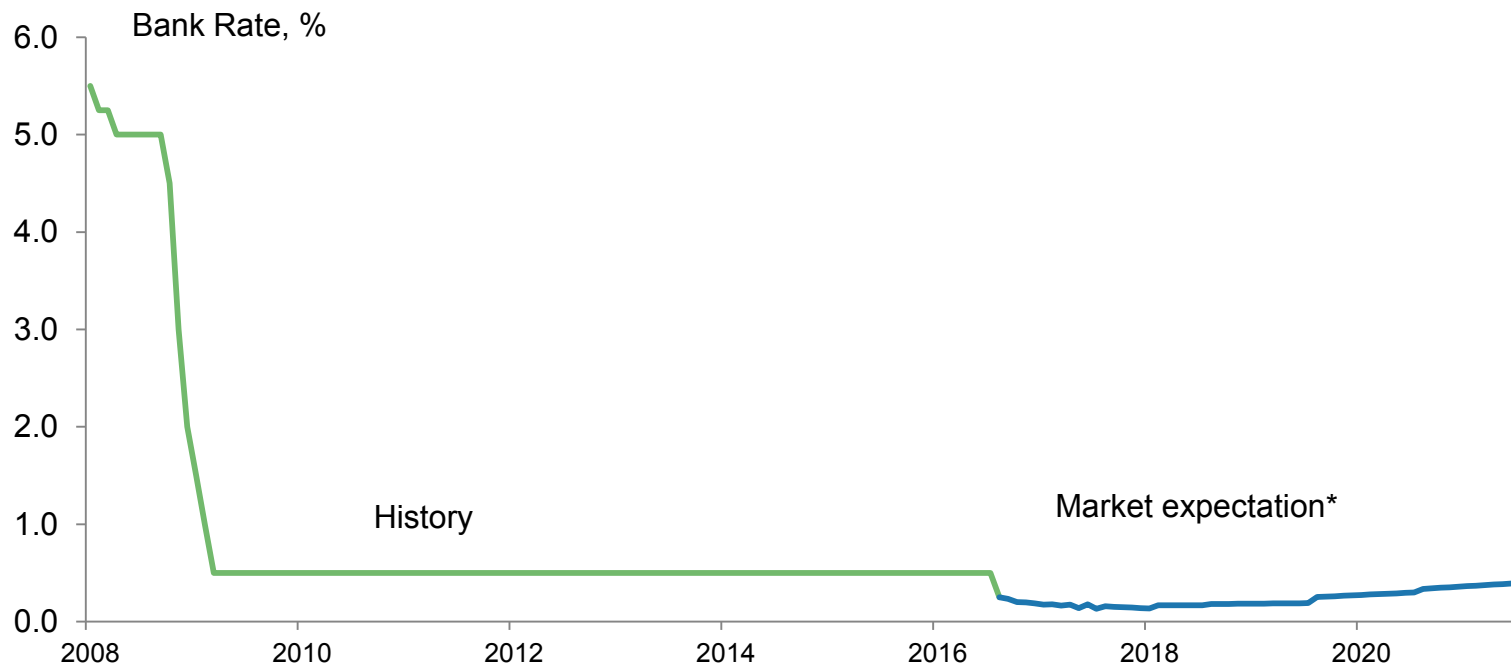
BUT MANY STOCK MARKETS ARE AT OR CLOSE TO ALL TIME HIGHS



Index Jan 2007 = 100



BANK OF ENGLAND INTRODUCED FURTHER STIMULUS IN REACTION TO THE UNCERTAINTY



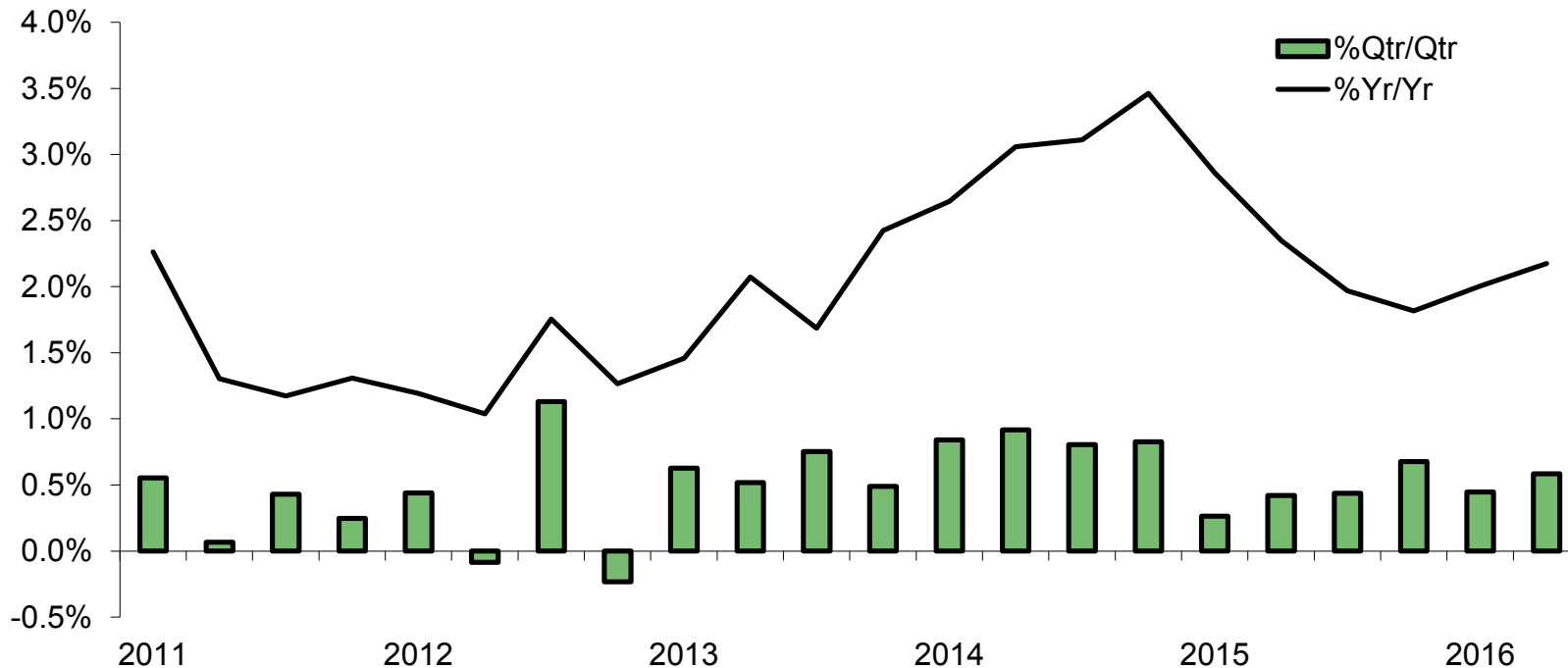
* Derived from money market futures prices

Source: Bloomberg, LBCB

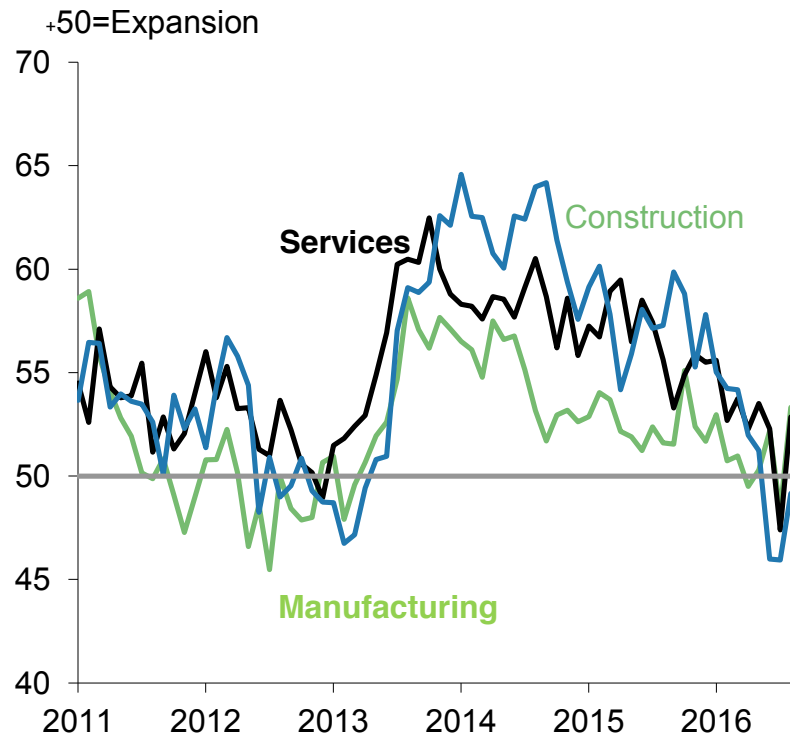
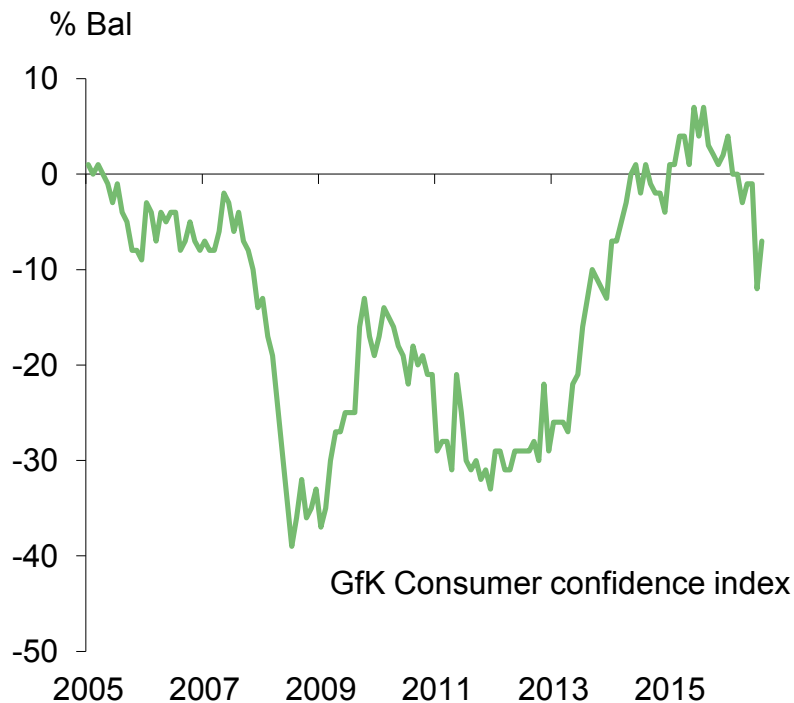
UK ECONOMY LOOKED IN REASONABLE SHAPE PRIOR TO THE REFERENDUM



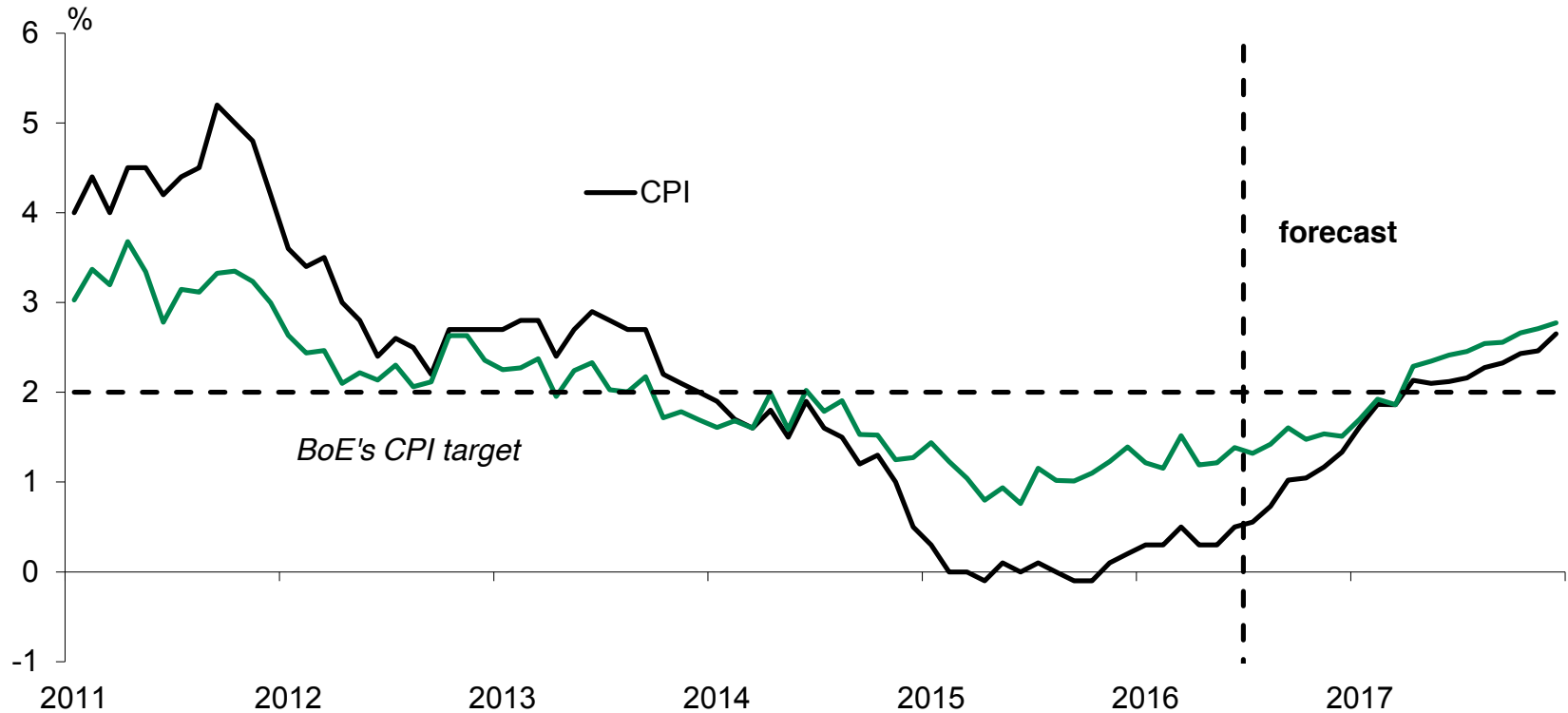
UK GDP growth %



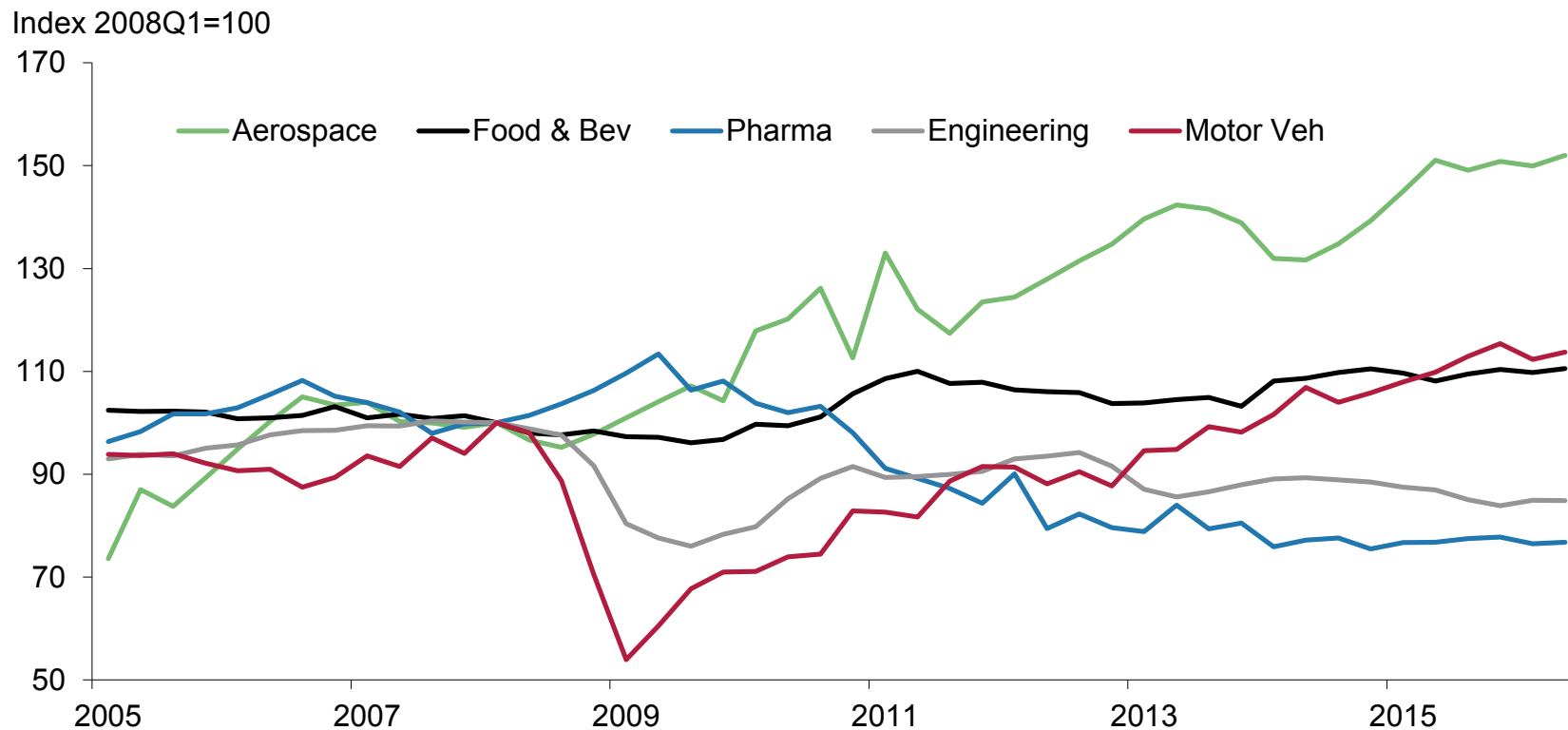
LATEST INDICATIONS ARE THAT THE IMMEDIATE ECONOMIC IMPACT OF THE EU VOTE HAS BEEN MODEST



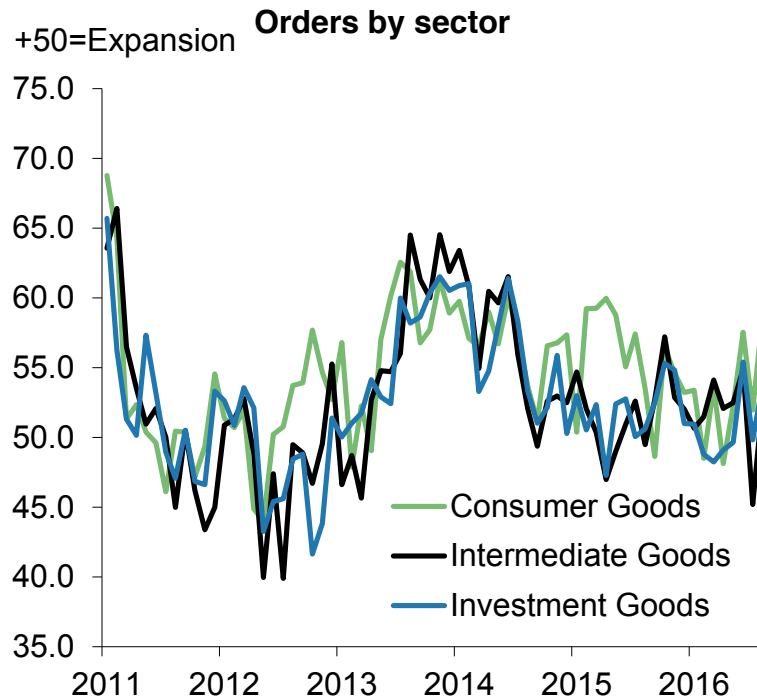
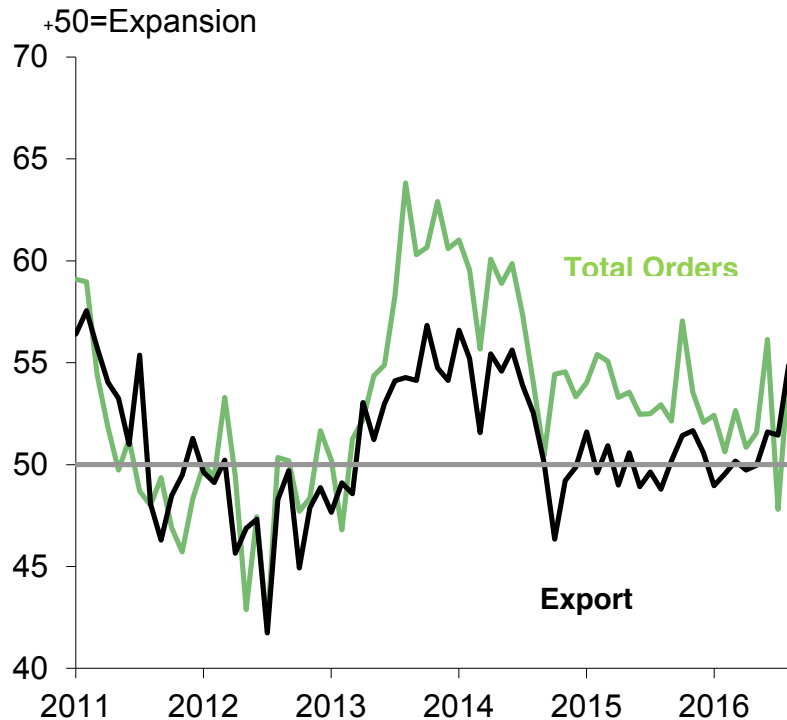
INFLATION RISKS NOW TILTED TO THE UPSIDE



UK MANUFACTURING SECTORS HAVE HAD A VARIED RECENT EXPERIENCE



SOME POSITIVE SIGNS CAN BE SEEN IN RECENT WEEKS



BUT NEGOTIATIONS ON LEAVING THE EU ARE YET TO START



Article 50 triggered

OPTION 1:

Start formal talks to remain in single market

Norway model

- Full access to single market
- No tariffs
- Cannot negotiate non-EU trade agreements
- Full legislative compliance require
- Free movement of people
- No CAP
- Reduced EU contribution (83% of full rate)

Bilateral trade agreements with non-EEA nations (Swiss model)

- No guarantee of full access; restrictions on services
- Central premise - no tariffs
- Can negotiate Non-EU trade agreements
- Legislative compliance not clear, but spirit of level playing field likely
- Free movement of people uncertain, but likely
- No CAP
- Reduced EU contribution (52% of full rate)
- FTA on goods, but not services
- Partial tariffs
- Can negotiate bilateral trade agreements
- Reg. compliance required to access EU
- Border controls
- No CAP
- No EU contribution

South Africa model

OPTION 2:

Start formal talks to leave single market

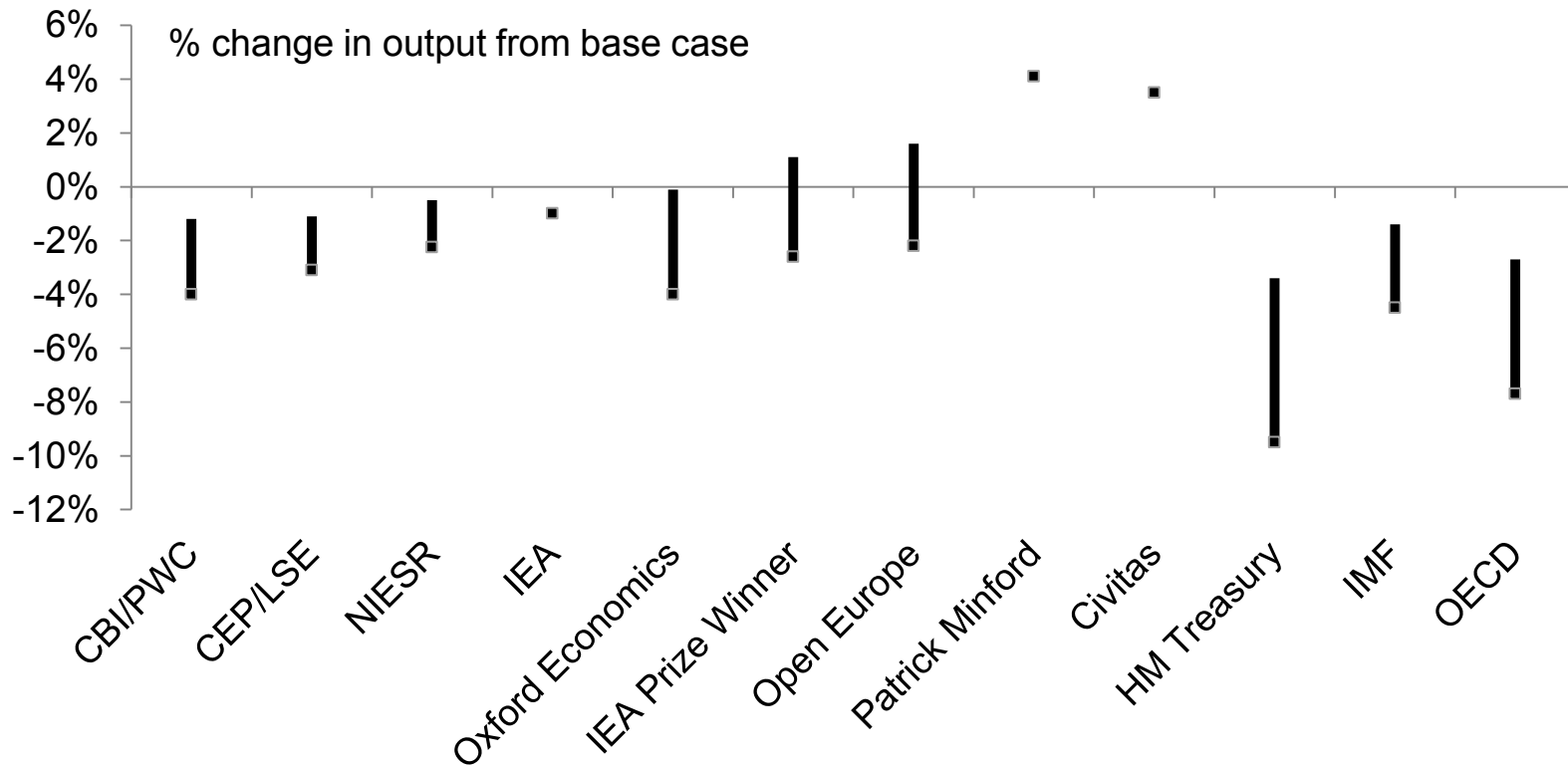
Customs Union i.e. Turkey

- Common external EU tariffs
- Cannot negotiate non-EU trade agreements
- Regulations must be consistent with EU norms
- Border controls
- No CAP
- No EU contribution

WTO: Most favoured nation status (e.g. US, Australia)

- EU's Common External Tariff and substantial non-tariff barriers
- Can negotiate non-EU trade agreements
- No legislative requirement – full independence
- Border controls
- No CAP
- No EU contribution

SELECTED ESTIMATES OF THE MEDIUM TERM IMPACT OF BREXIT ON UK GDP GROWTH



SUMMARY



- World economy in reasonable shape – key risks include China’s economic growth, outlook for US rates & Eurozone uncertainty
- Just before the EU referendum UK economy has its strongest quarterly economic growth for sometime
- Short term risks to economic growth from the referendum vote have been overdone, while inflation seems set to rise
- Recent events could lead to some rebalancing in the UK economy and in particular could help manufacturing
- Still a lot of uncertainty about the medium term. Parameters of negotiations for leaving the EU yet to be set
- Bank of England’s immediate reaction was to ease policy but may now hold off. Fiscal policy likely to be less of a drag than previously thought

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