



Keynote address: How FDs can navigate through turbulent times

Trevor Williams, Lloyds Bank, Wholesale Banking & Markets



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ECONOMIC OUTLOOK

GROWTH IN UNCERTAIN TIMES

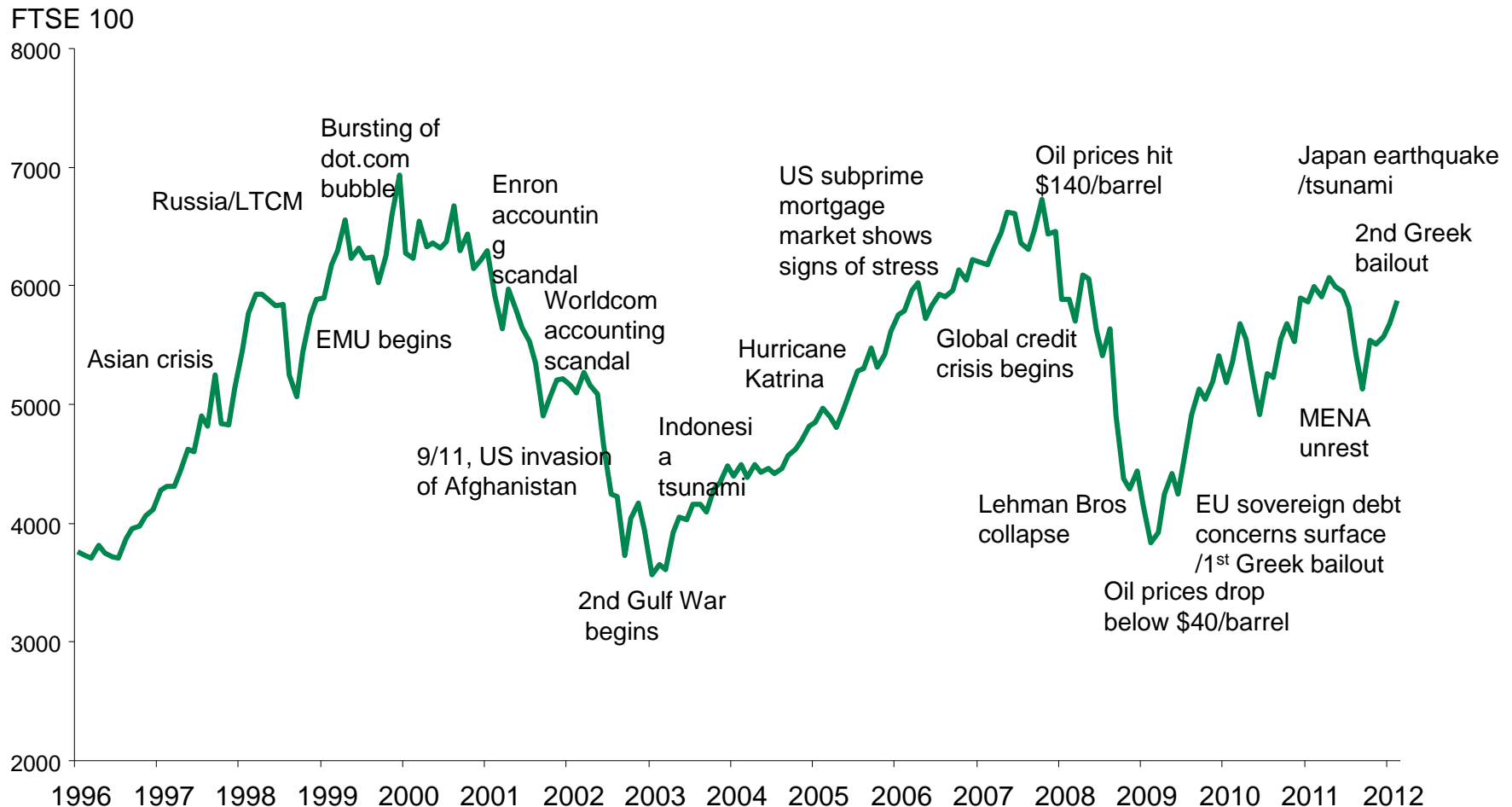
PRESENTED BY

TREVOR WILLIAMS
CHIEF ECONOMIST, LLOYDS BANK WBM

MAY 2012

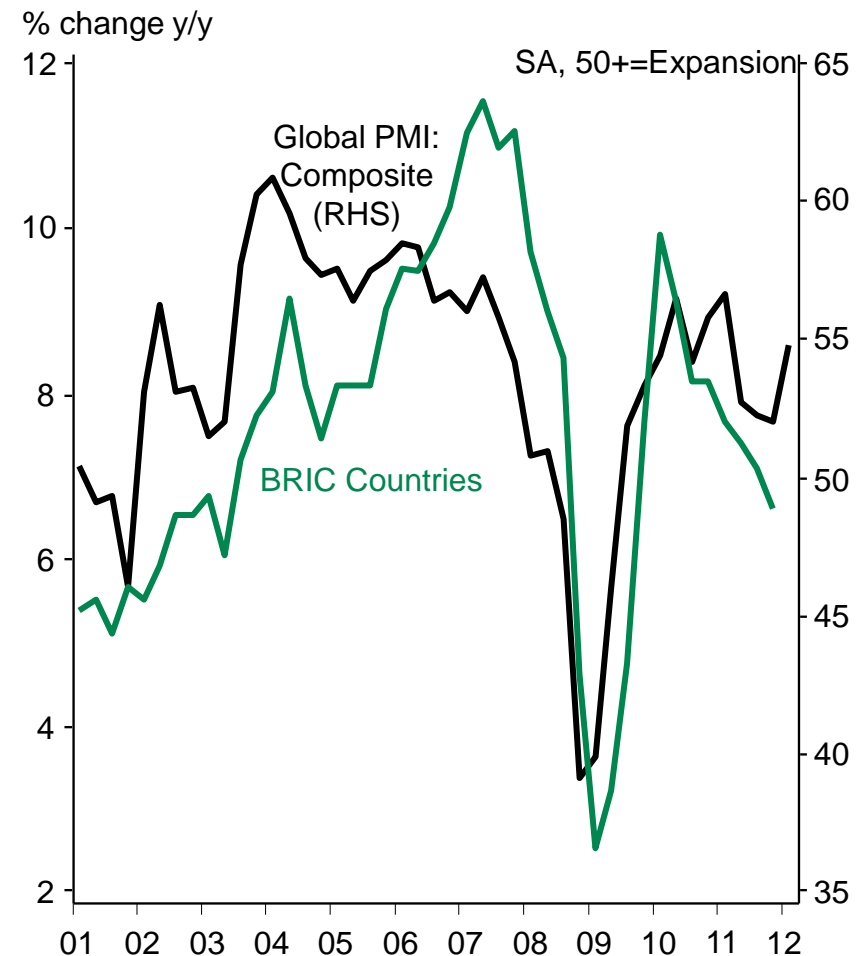
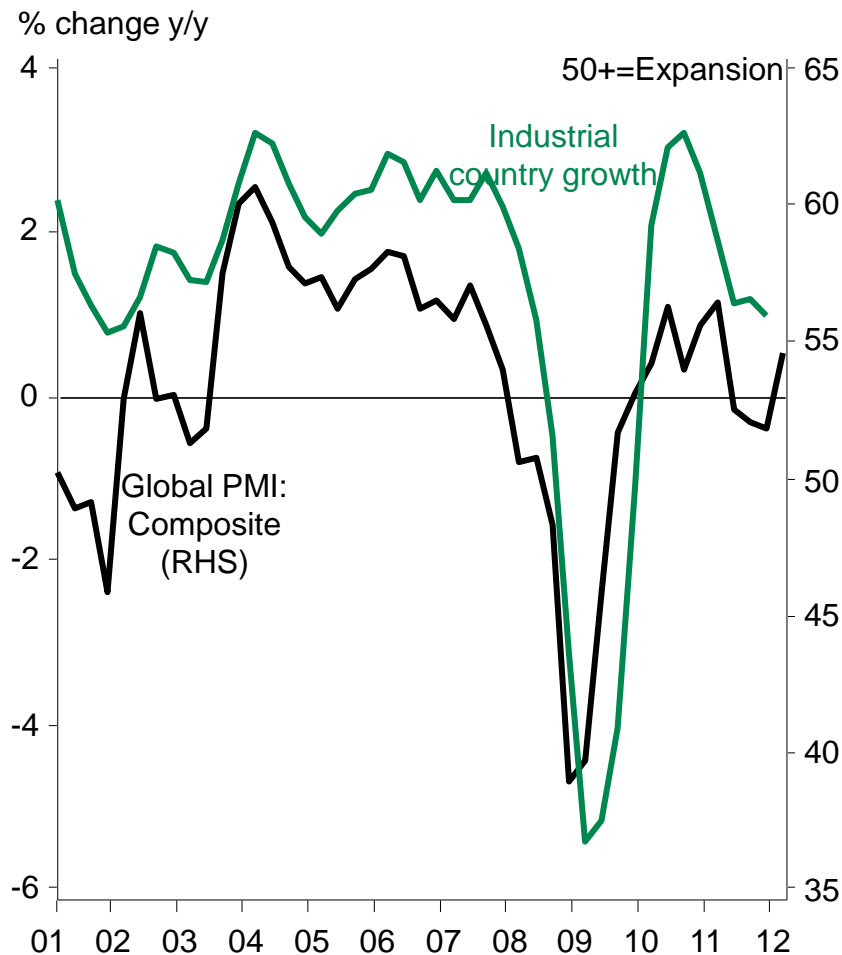


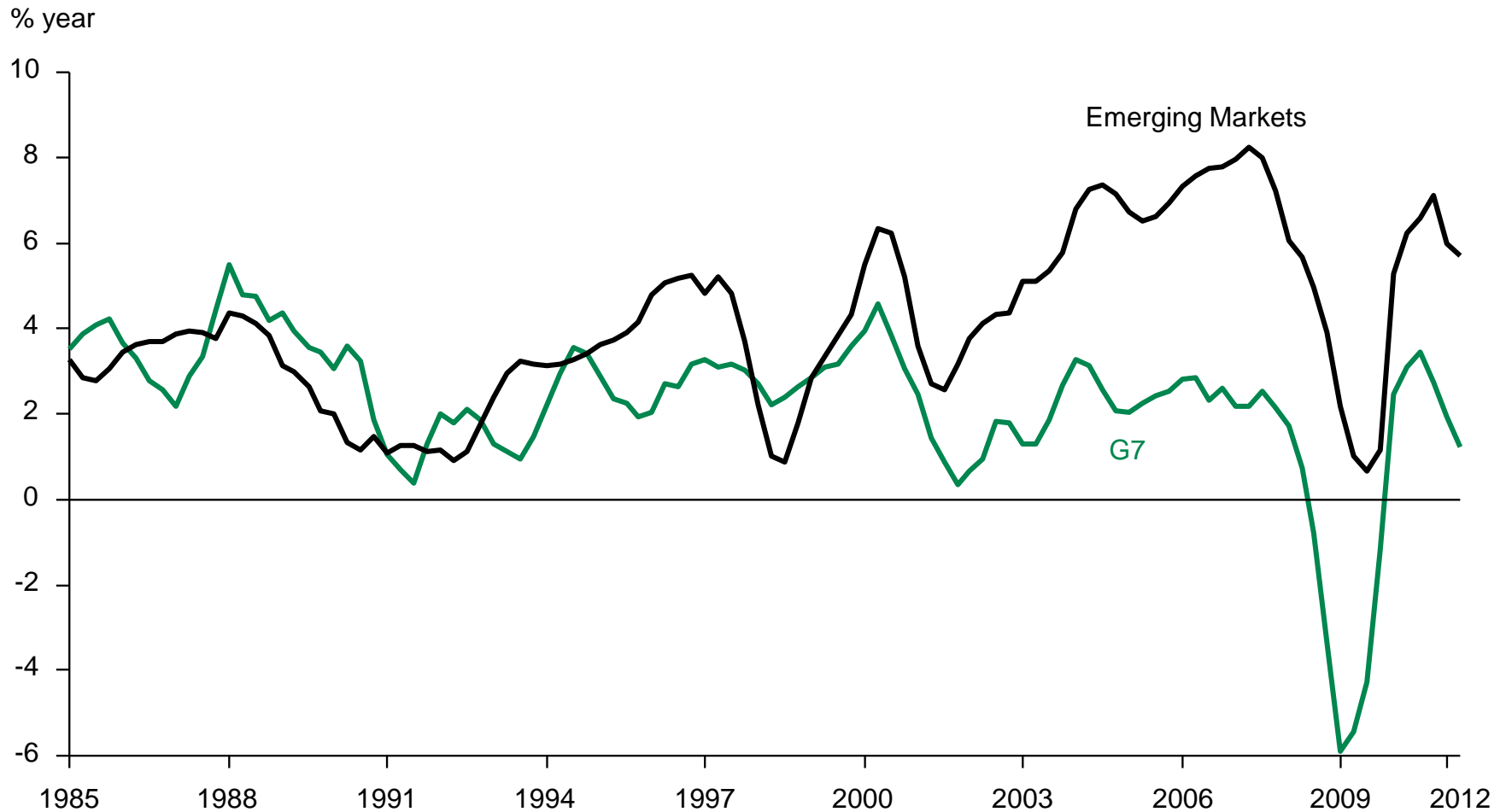
FAR FROM BEING ABNORMAL, SHOCKS ARE THE 'NORM'

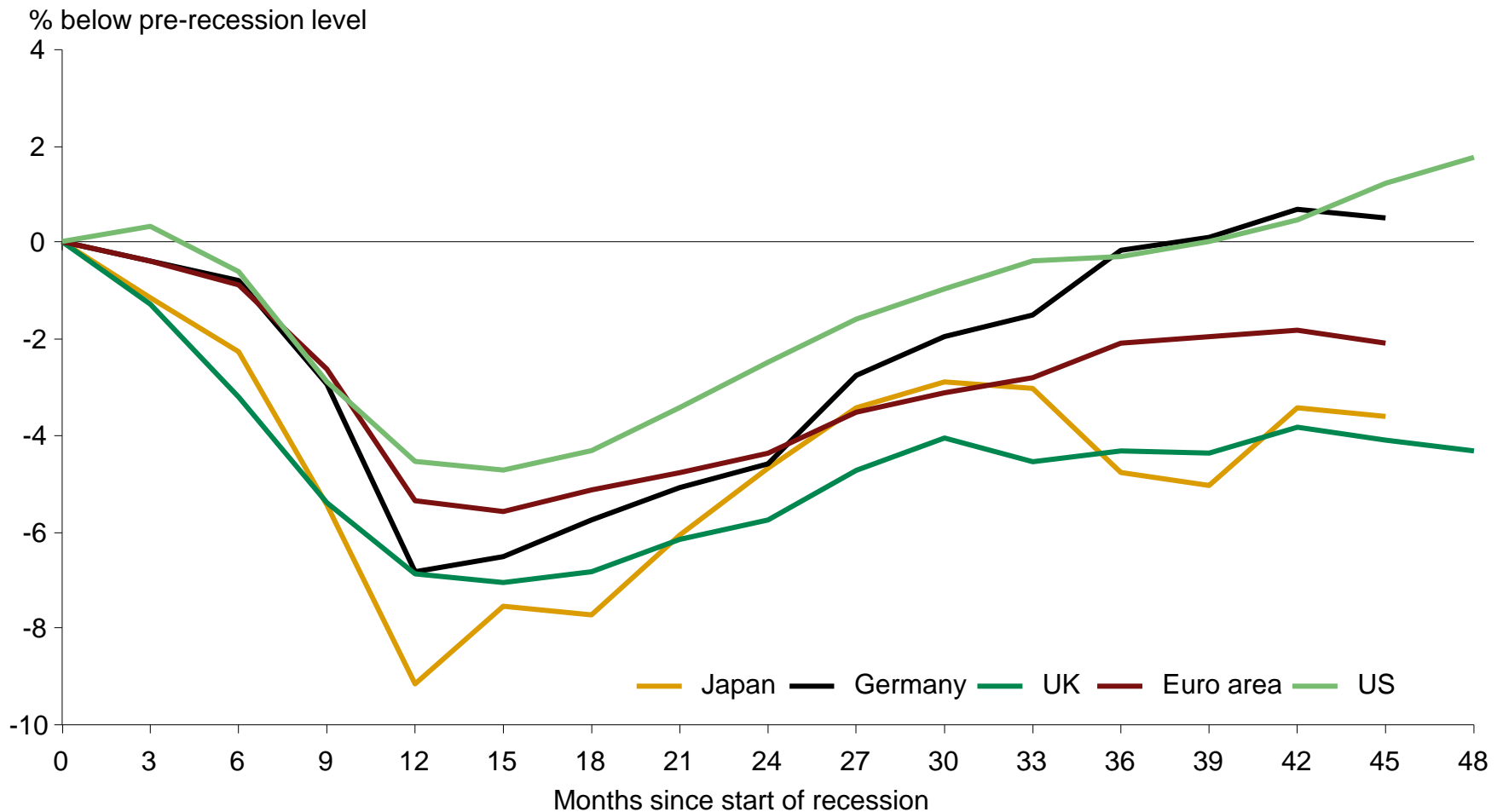


GLOBAL GROWTH IS POSITIVE, DESPITE SLOWDOWN

BUT EMERGING COUNTRIES OUTPACE DEVELOPED ONES







FOUR KEY SHORT TERM RISKS

- European debt crisis – lingering effect of global financial crisis
- Ongoing fiscal restraint
- Tighter credit conditions
- Higher oil and commodity prices?

FIVE LONGER-TERM ISSUES

- Growth of developing Asia
- Ageing populations
- Growing income/wealth inequality
- Growth shift from developed to developing countries
- Heightened geopolitical tensions?

GLOBAL RISKS: THE EUROPEAN CHALLENGE

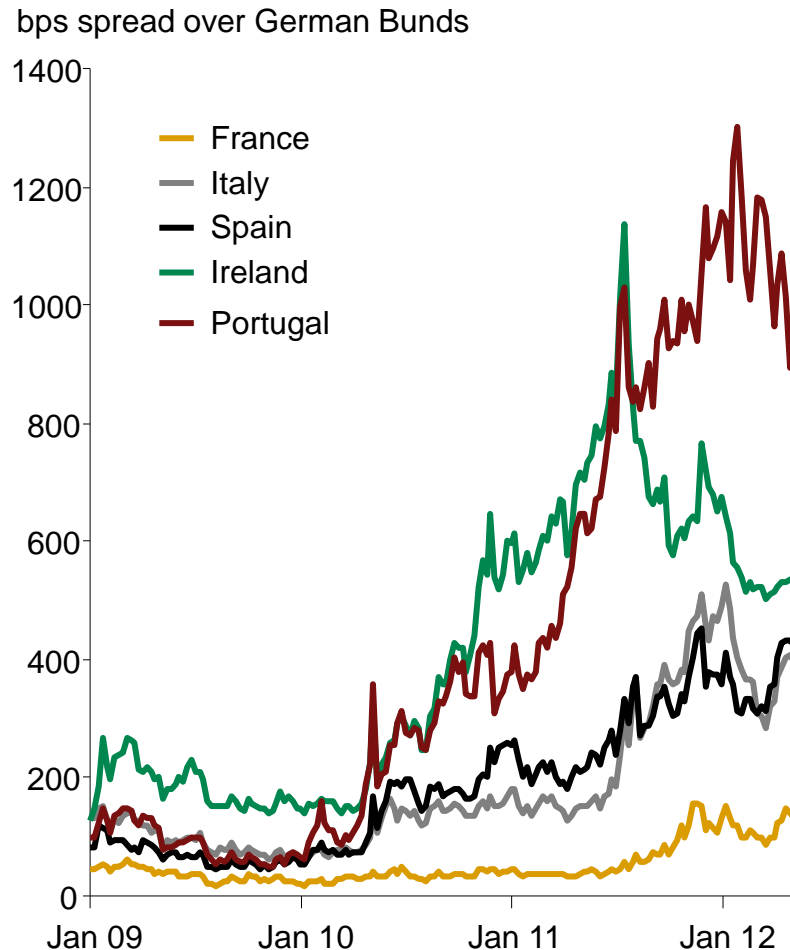
GROWTH PROSPECTS FOR EUROPEAN COUNTRIES ARE PARTICULARLY POOR...

11 out of 17 euro zone economies are either in recession or experienced one quarter where GDP has dropped in the last year – IMF has revised down its Eurozone GDP forecast to -0.3% for 2012

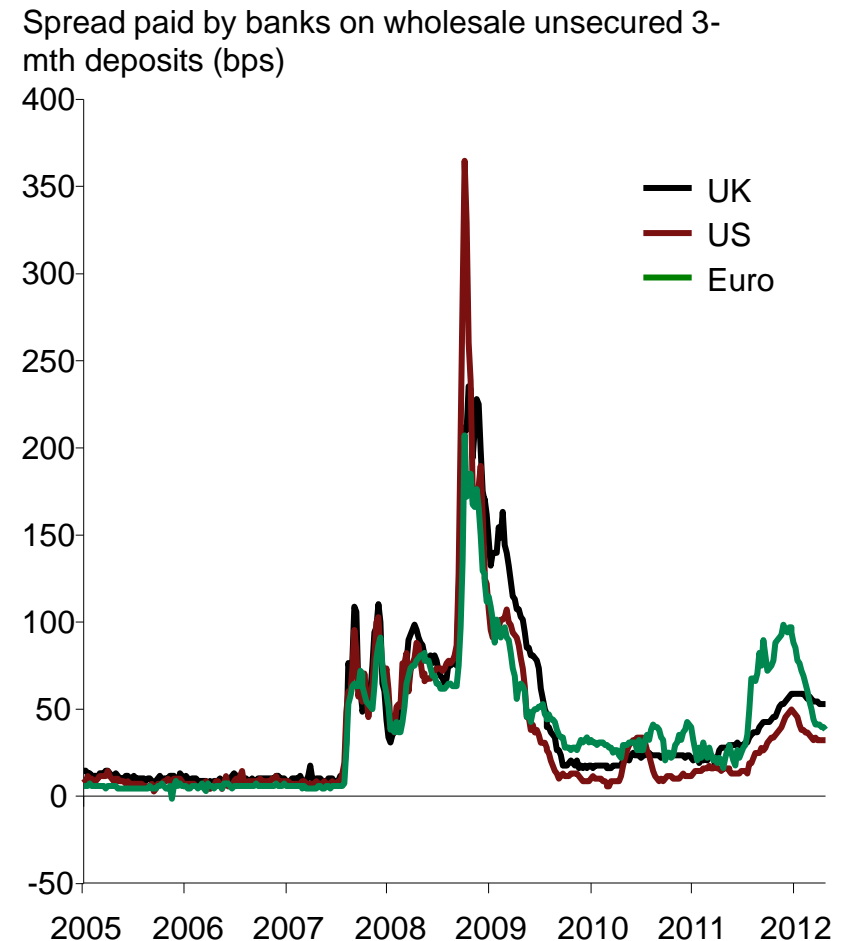
Real GDP growth, %



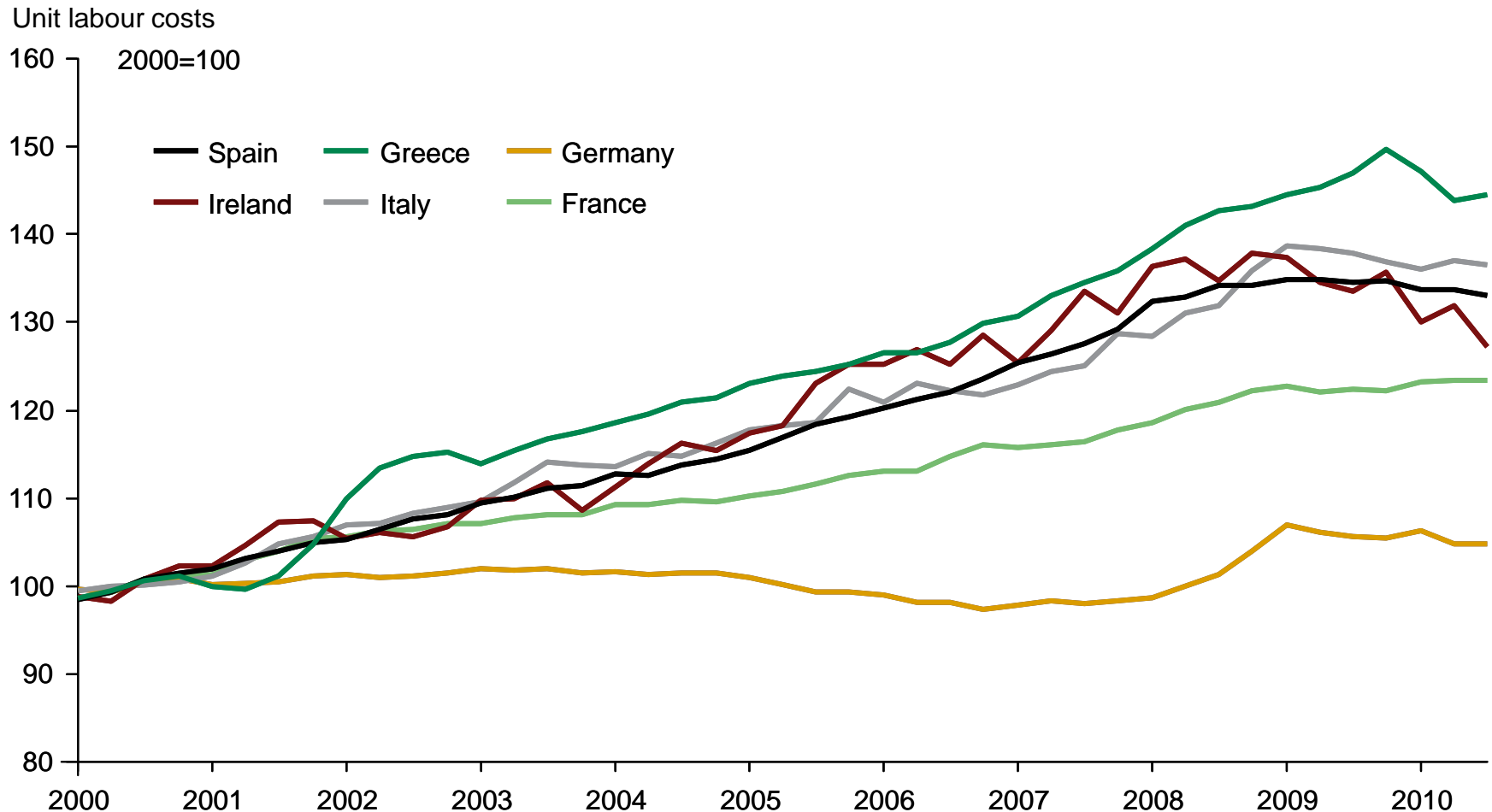
EURO AREA PERIPHERAL BOND SPREADS REMAIN ELEVATED



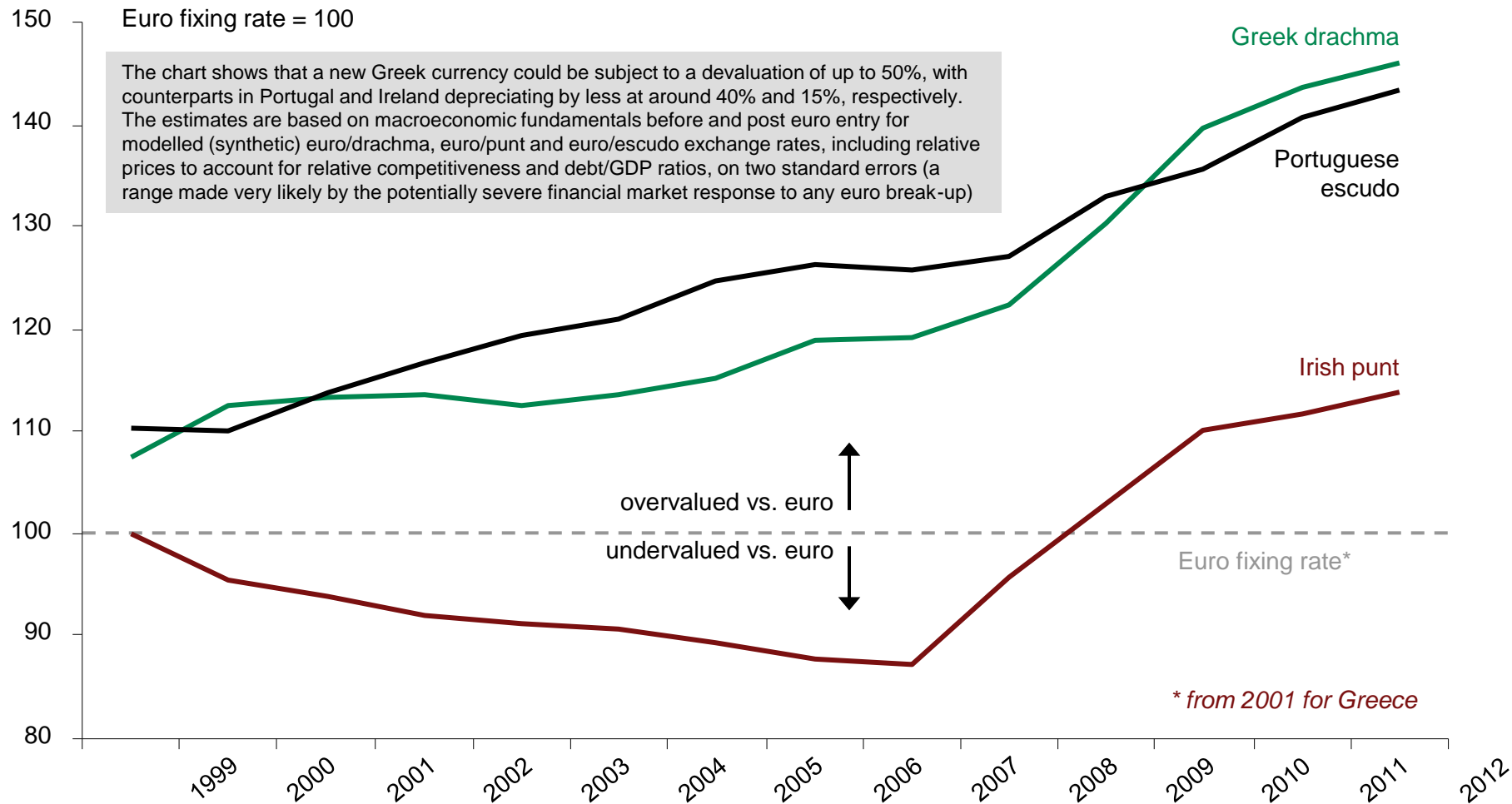
WHOLESALE FUNDING COSTS HAVE EASED, BUT STILL HIGH



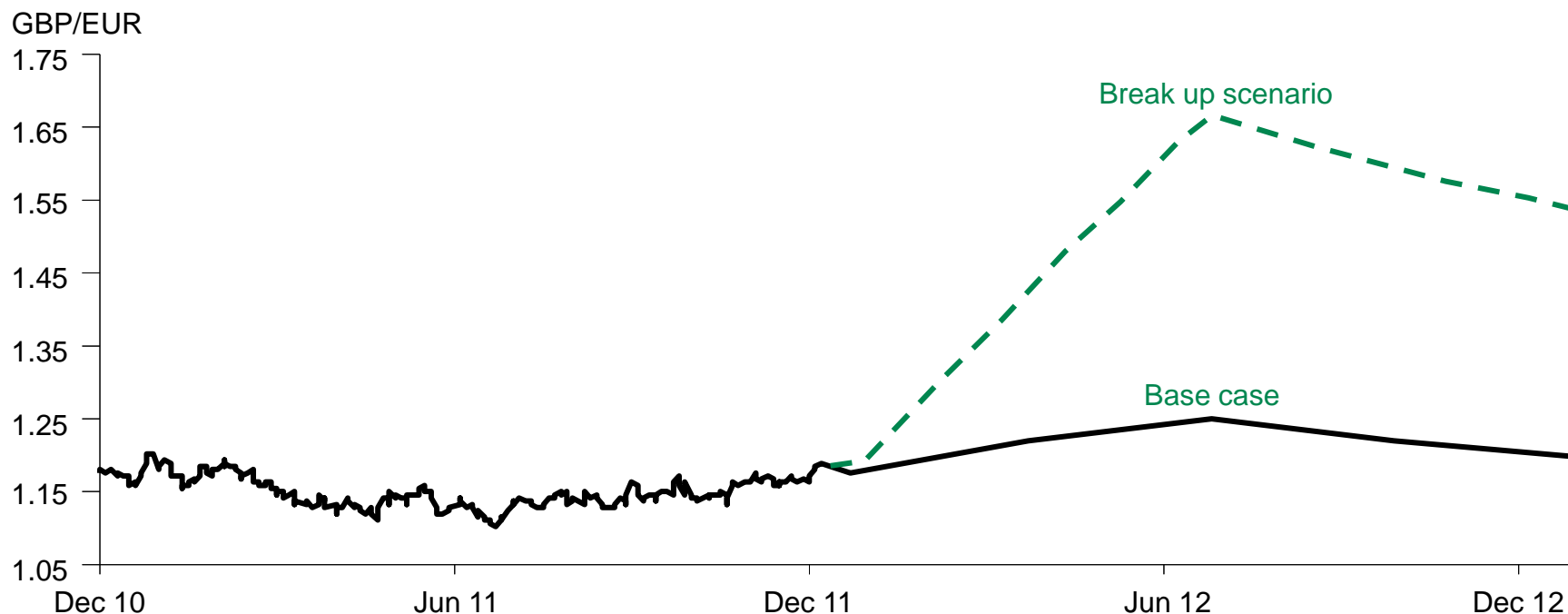
AT THE HEART OF THE PROBLEM LIES LACK OF COMPETITIVENESS



TO RESTORE IT, SOME COUNTRIES MAY HAVE TO LEAVE

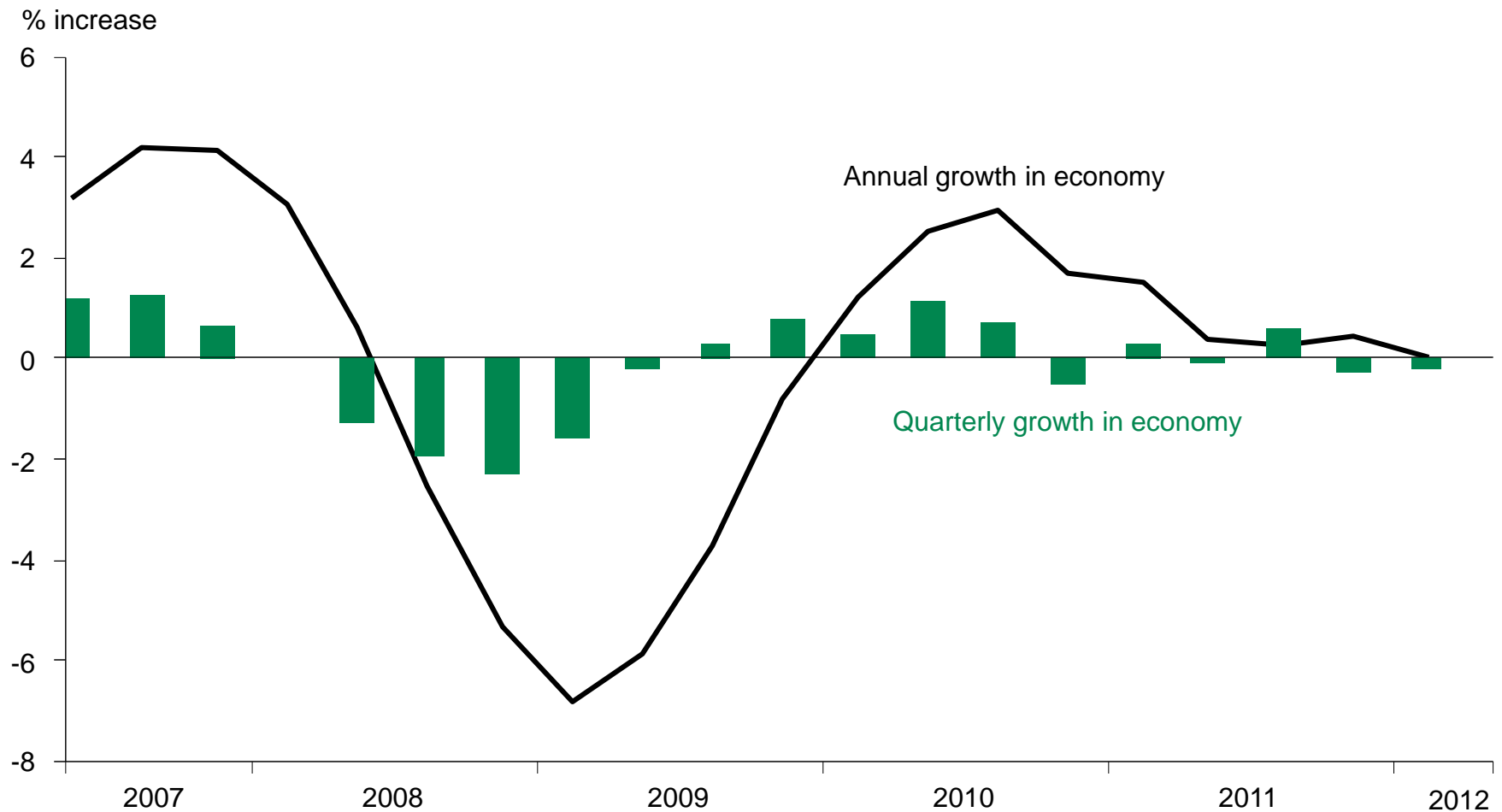


BREAKUP SCENARIO COULD SEE GBP/EUR TEST HIGHS

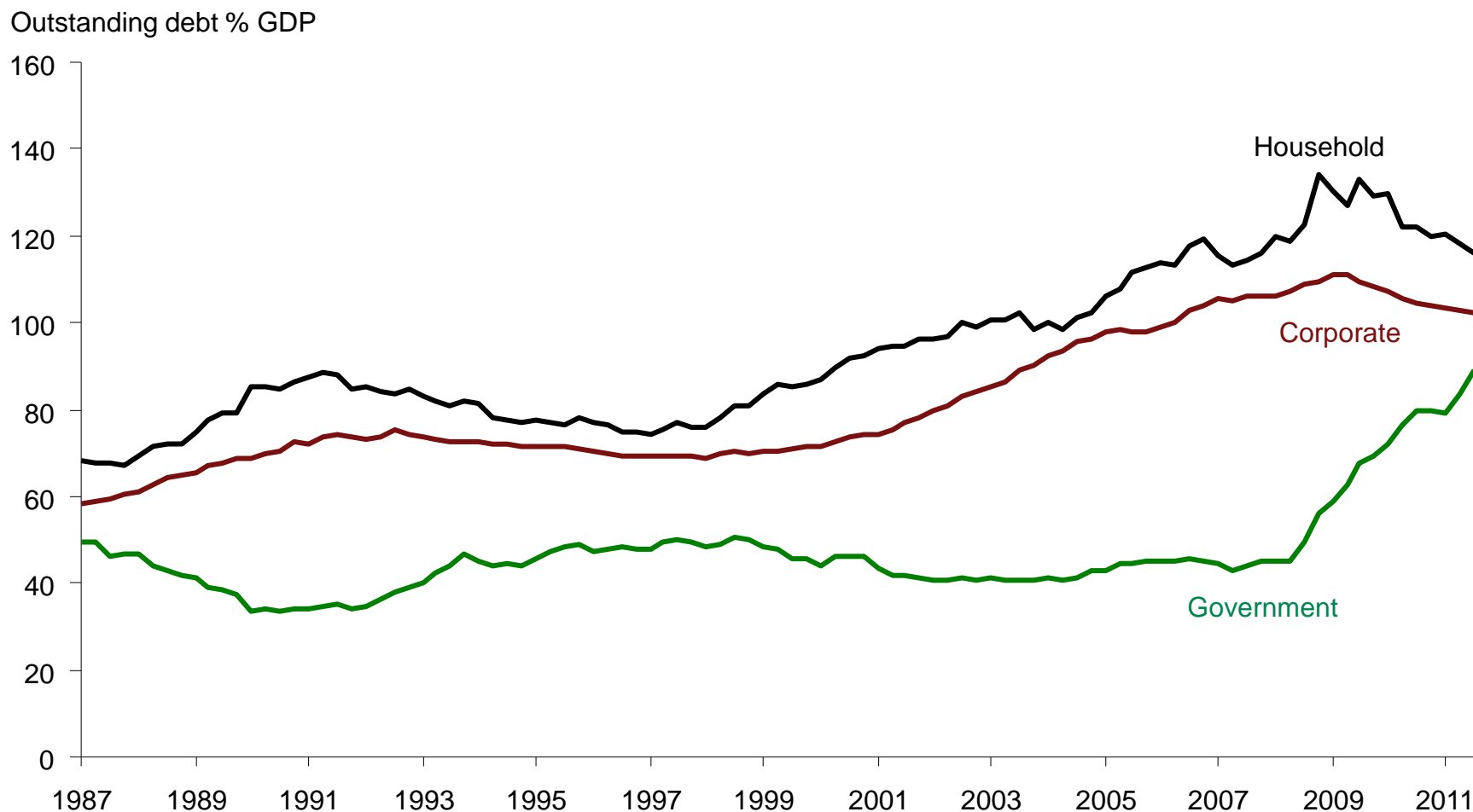


- The chart above compares the latest base case forecast with the break-up scenario of the euro, where one or more members orderly exit the single currency in the coming six months, and the implications of this for GBP/EUR
- In an orderly break-up scenario, GBP/EUR could risk to 1.67 at end Q2 2012 before easing to 1.54 at end 2012, compared to Lloyds' base case forecast, which assumes no break-up of the euro, predicts GBP/EUR at 1.25 at end Q2 2012 and 1.20 at end 2012. However if the break-up of the euro was more fractious and disorderly, the actual trading levels to be even more pronounced than these estimates suggest

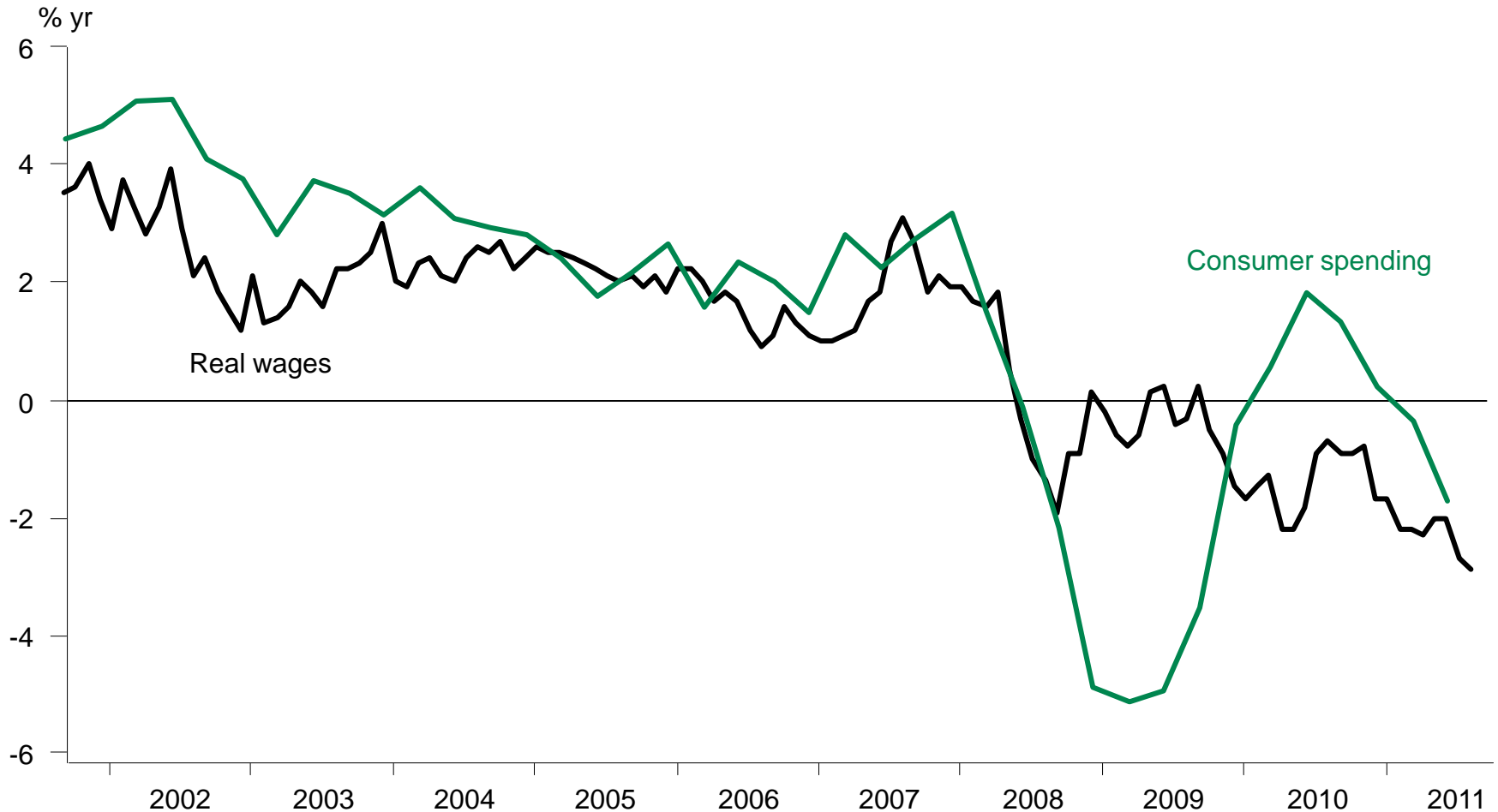
UK PROSPECTS



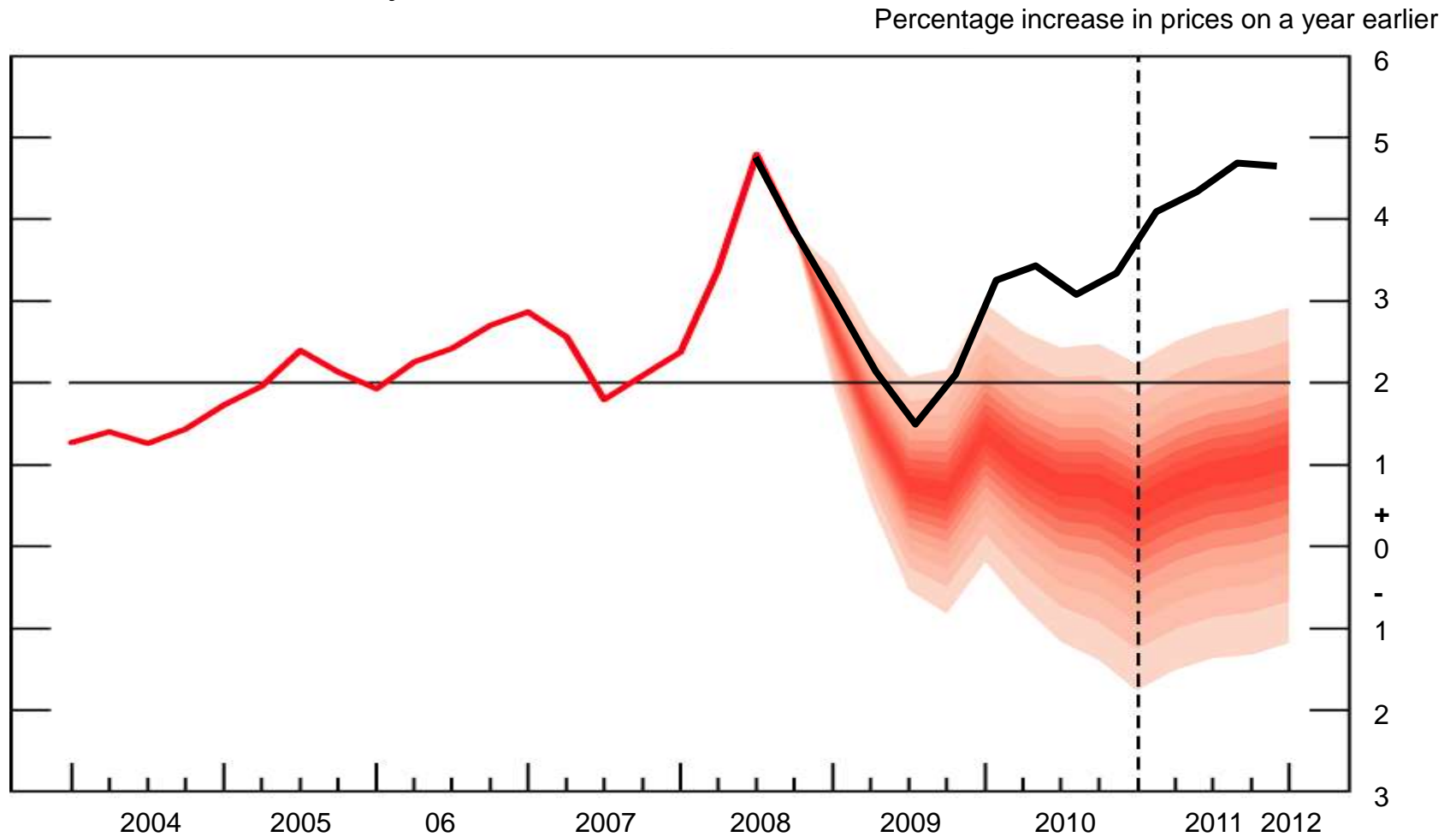
BALANCE SHEET DELEVERAGING HAS SLOWED PACE OF THE RECOVERY



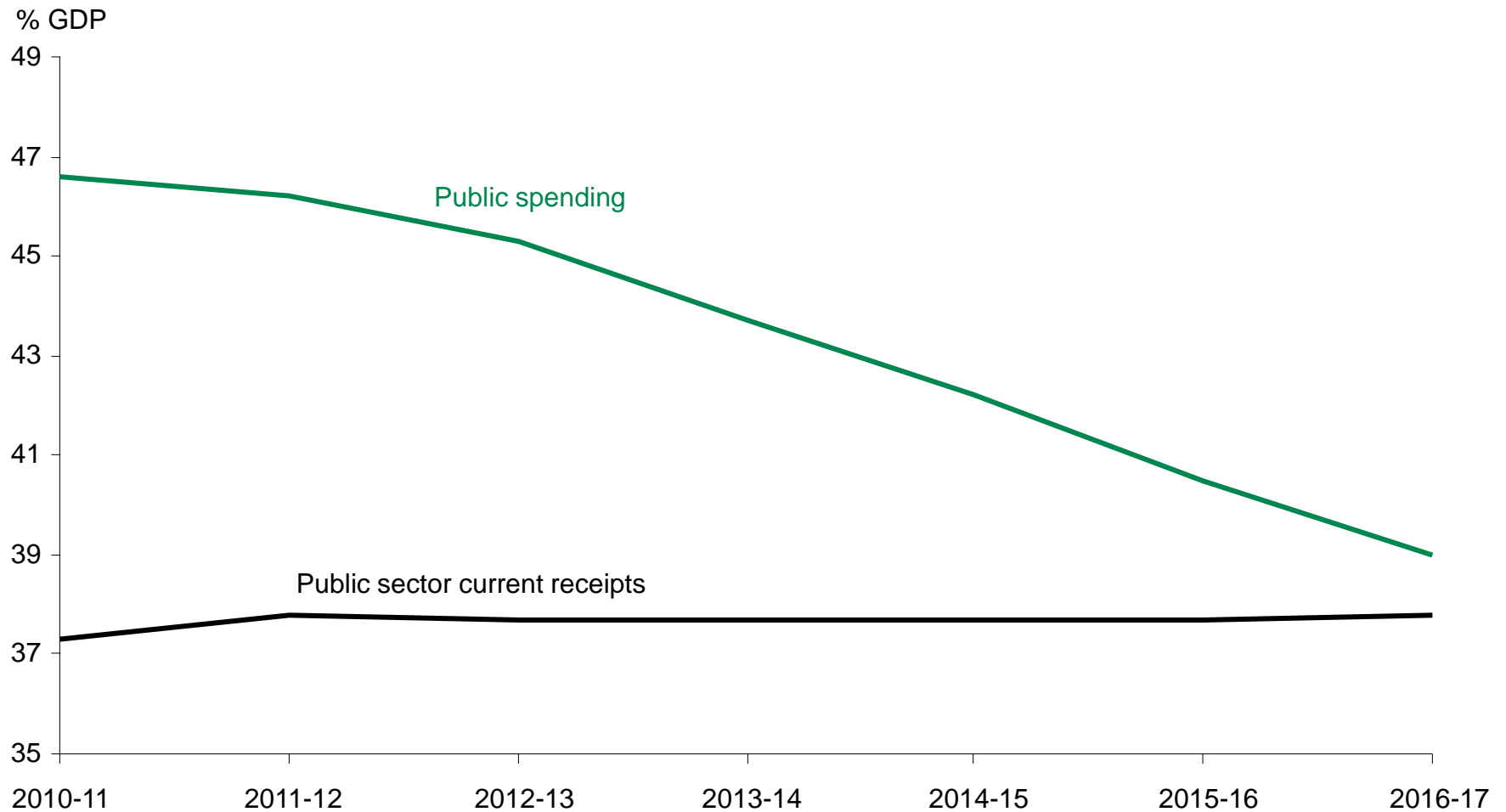
CONSUMERS ARE UNDER PRESSURE FROM INFLATION...



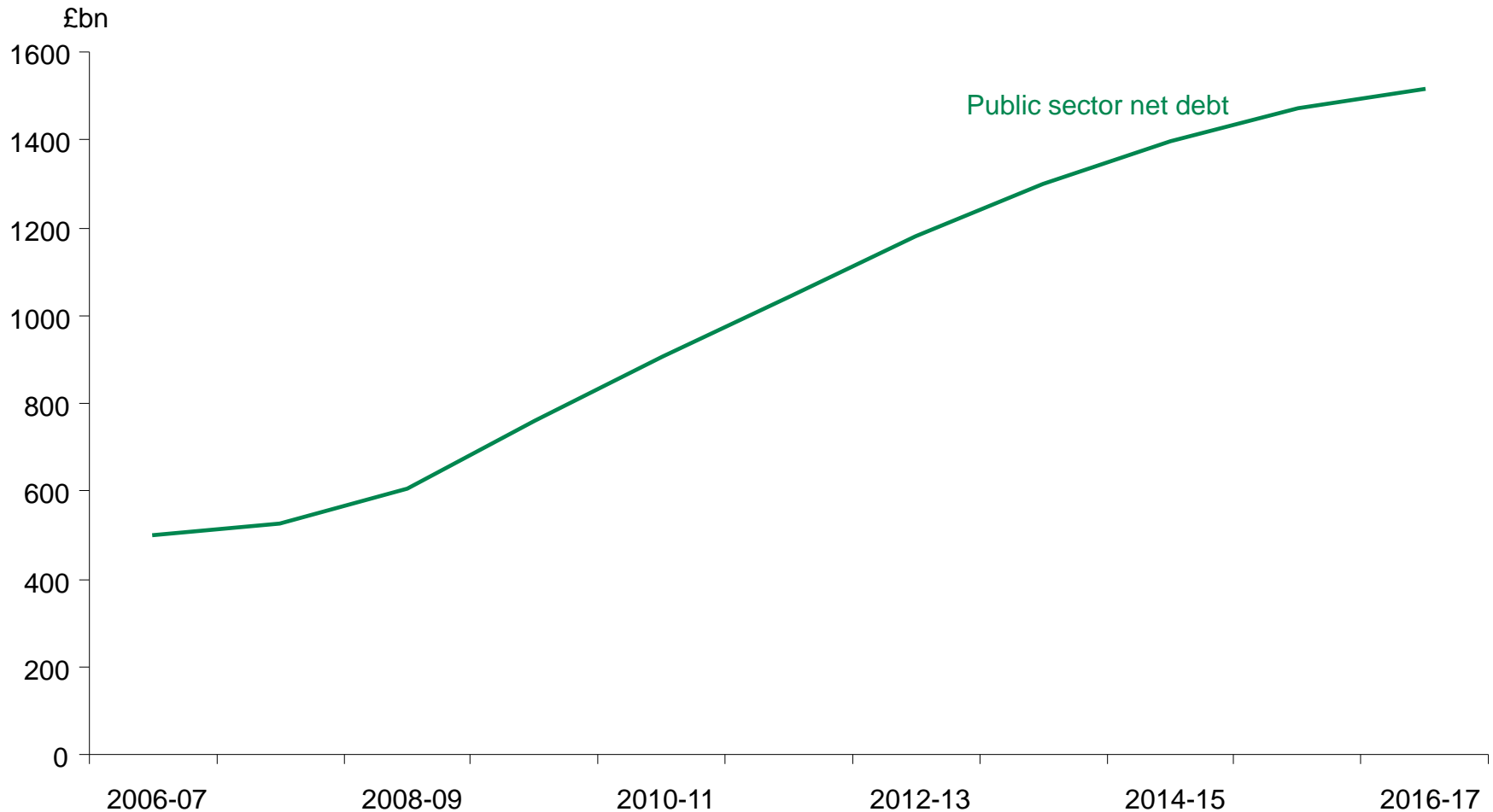
BoE CPI Inflation Projection*



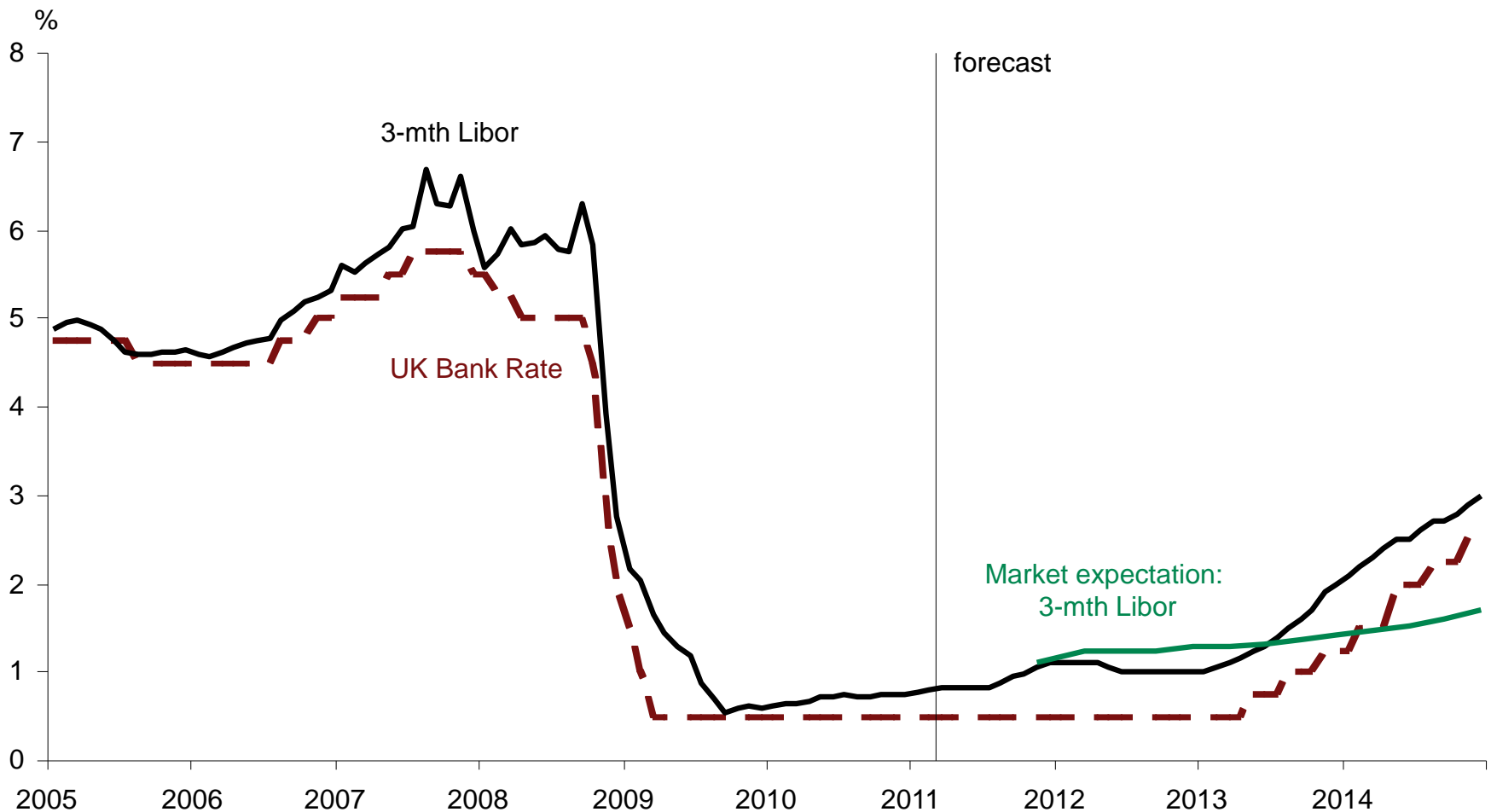
MOST OF THE PUBLIC SPENDING CUTS HAVE YET TO OCCUR



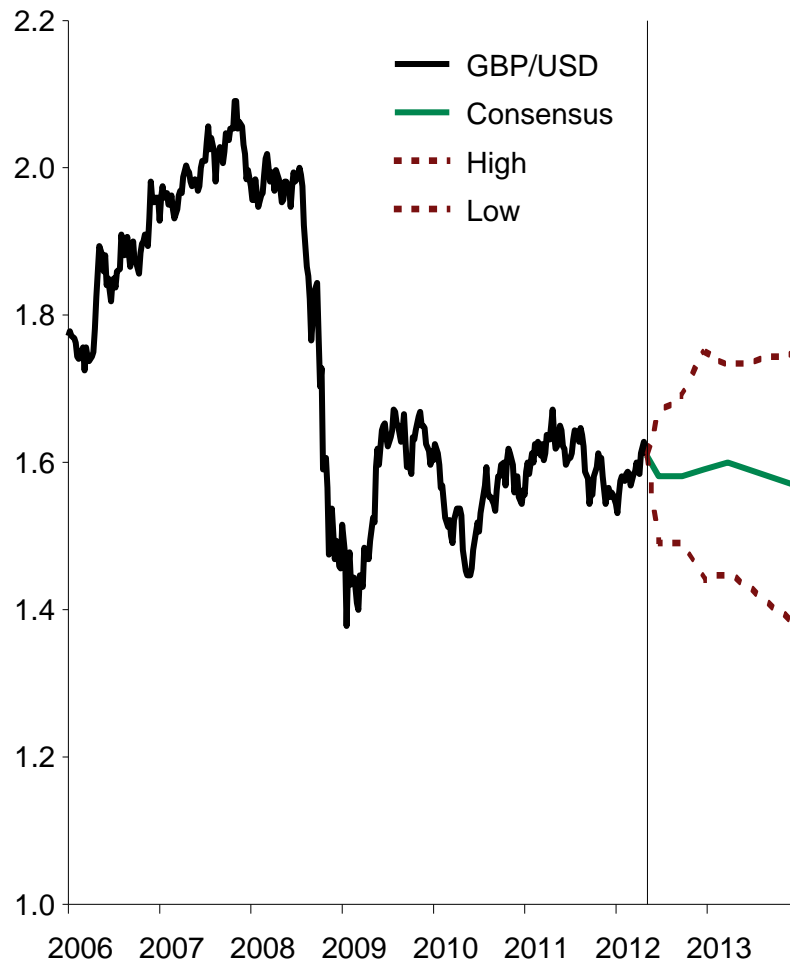
...NET PUBLIC SECTOR DEBT WILL GROW TO OVER £1.4 TRILLION...



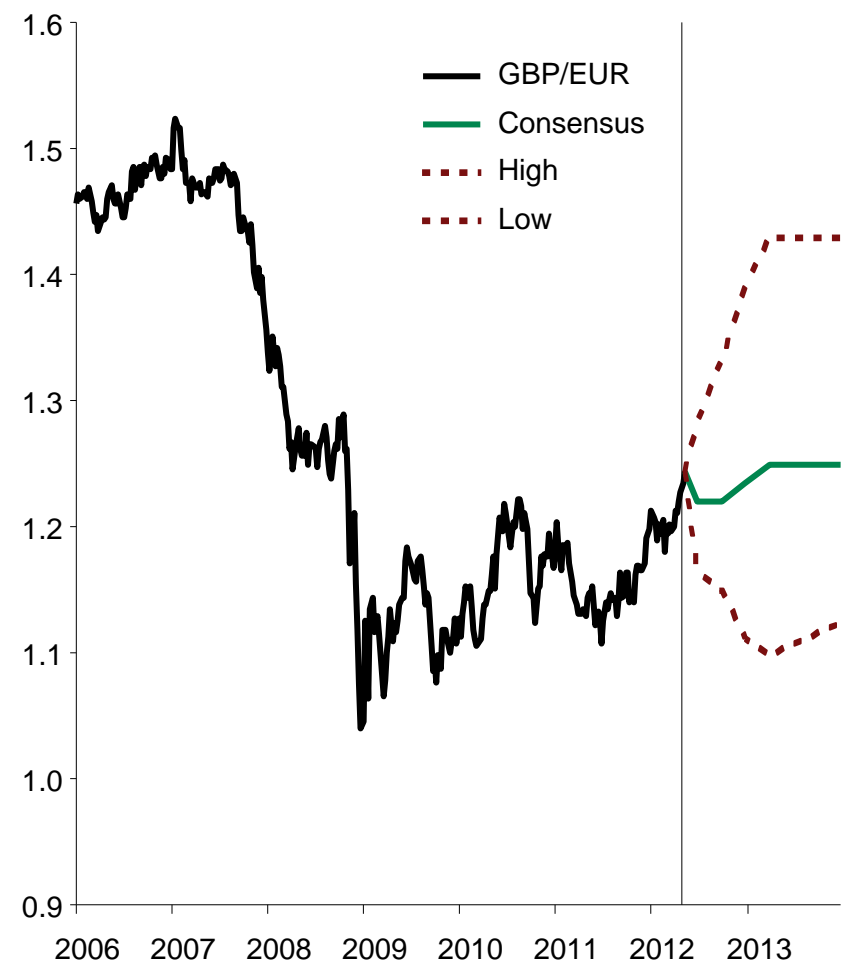
UK INTEREST RATES ON HOLD FOR EXTENDED PERIOD



GBP/EUR



GBP/USD



POSITIVES:

- Real interest rates are negative/ at historic lows
- Bank of England is undertaking Quantitative Easing
- Banks have gone a long way to improving their balance sheets
- Risk appetite is recovering
- World growth outlook is improving

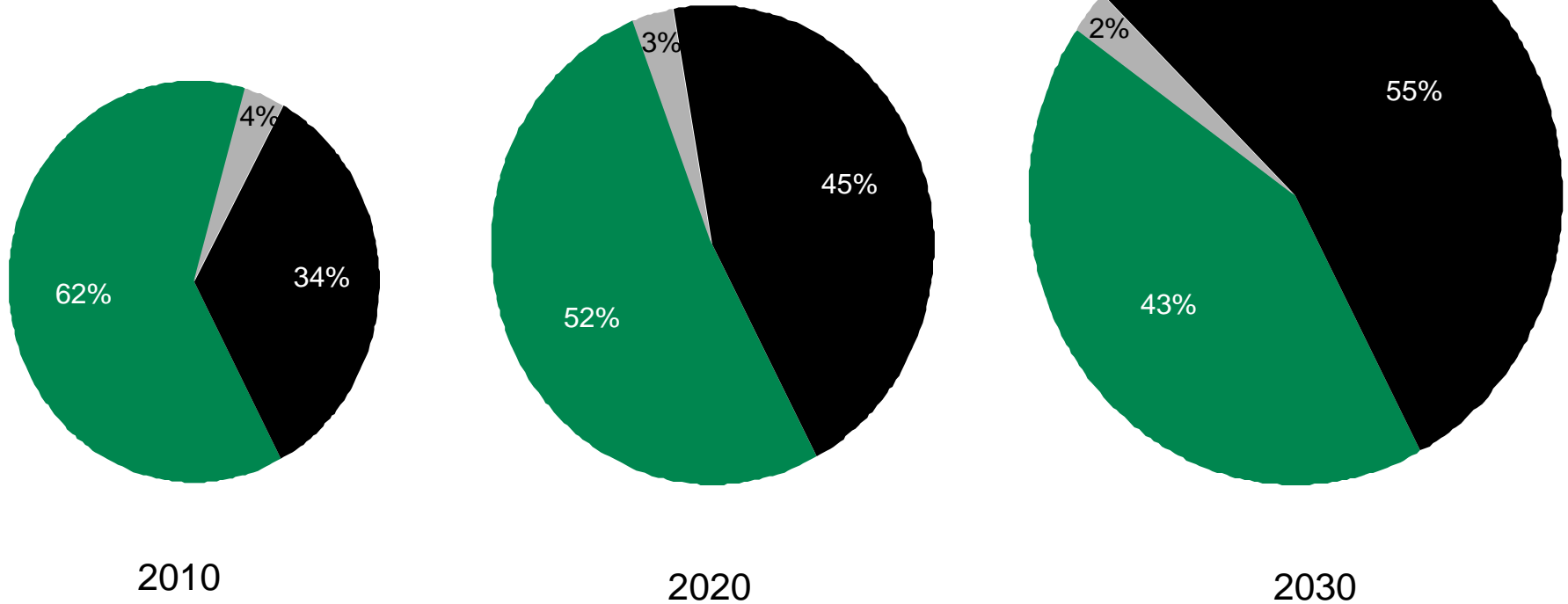
NEGATIVES:

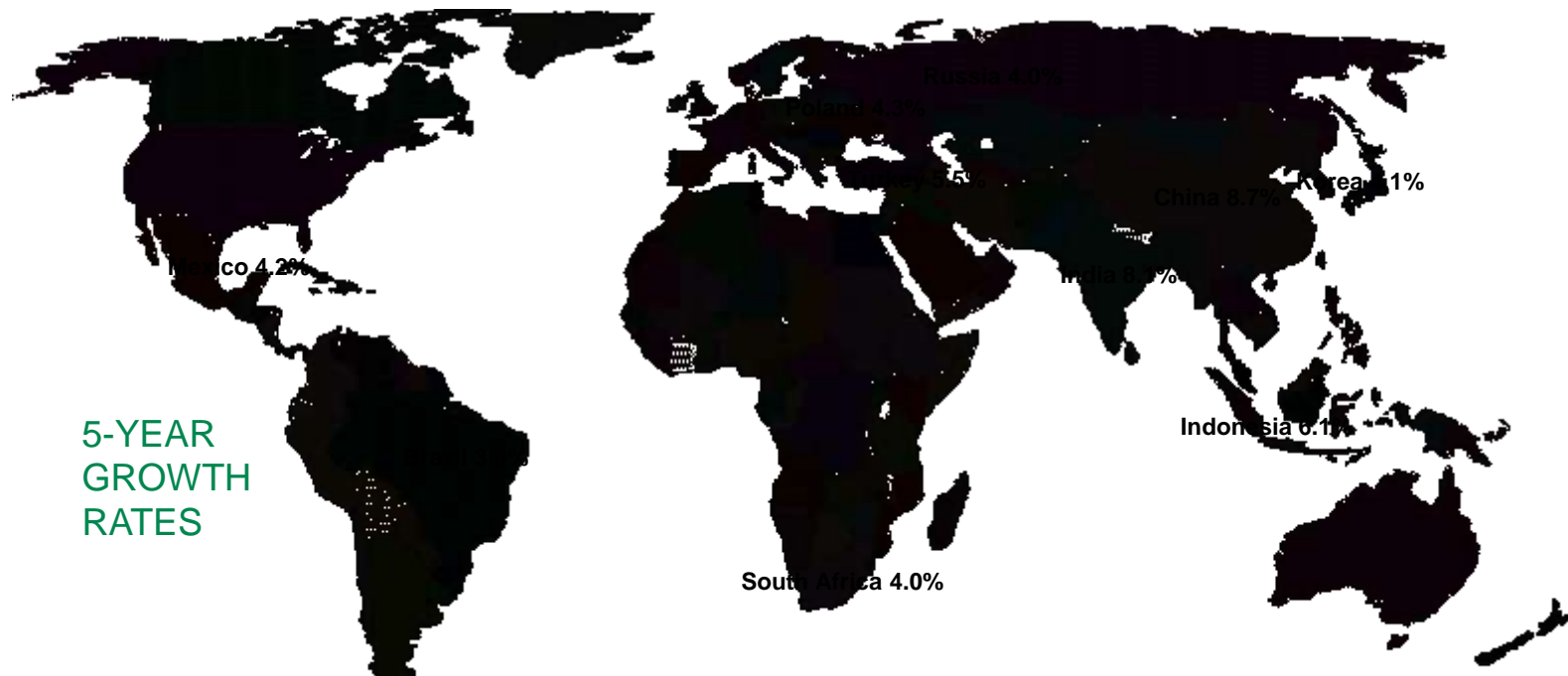
- A highly-indebted household sector seeking to pay down debt
- Labour market remains fragile
- Real household disposable incomes are falling
- Businesses sitting on ample cash, but reluctant to spend it
- Public spending cuts only just starting to bite
- Uncertainty over prospects for Euro area

GLOBAL ECONOMY UNDERGOING CHANGE

WORLD ECONOMY TO DOUBLE IN 20 YEARS

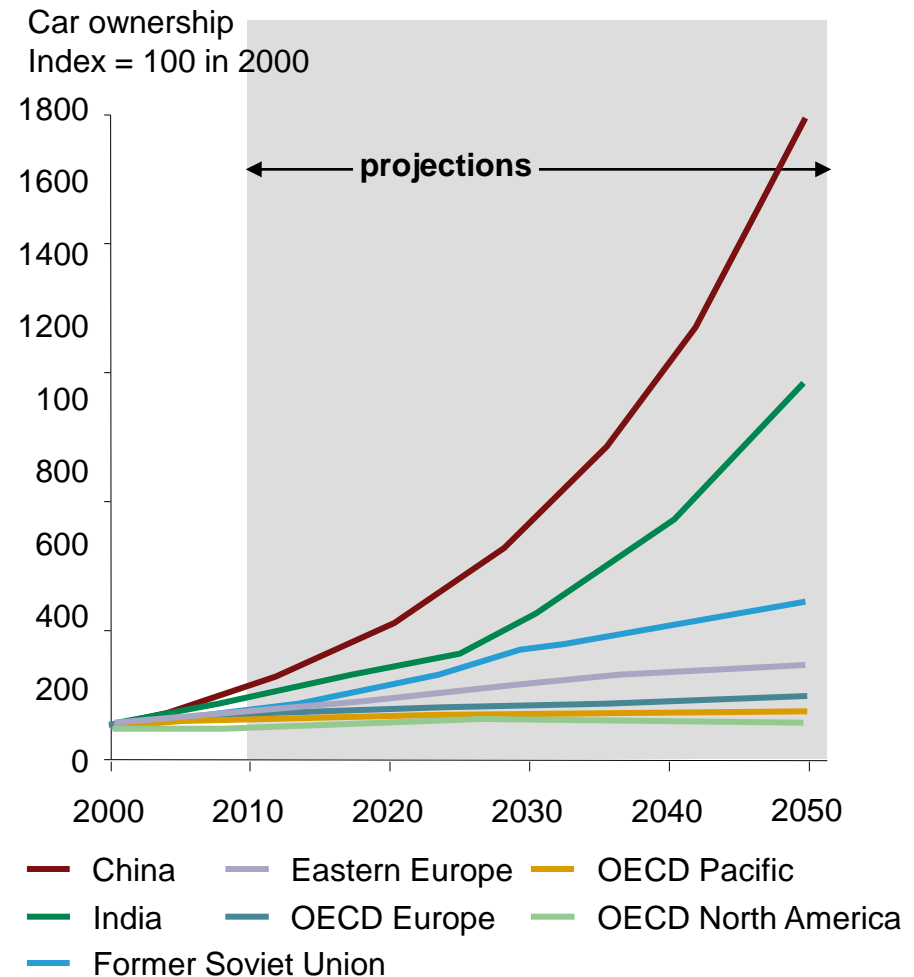
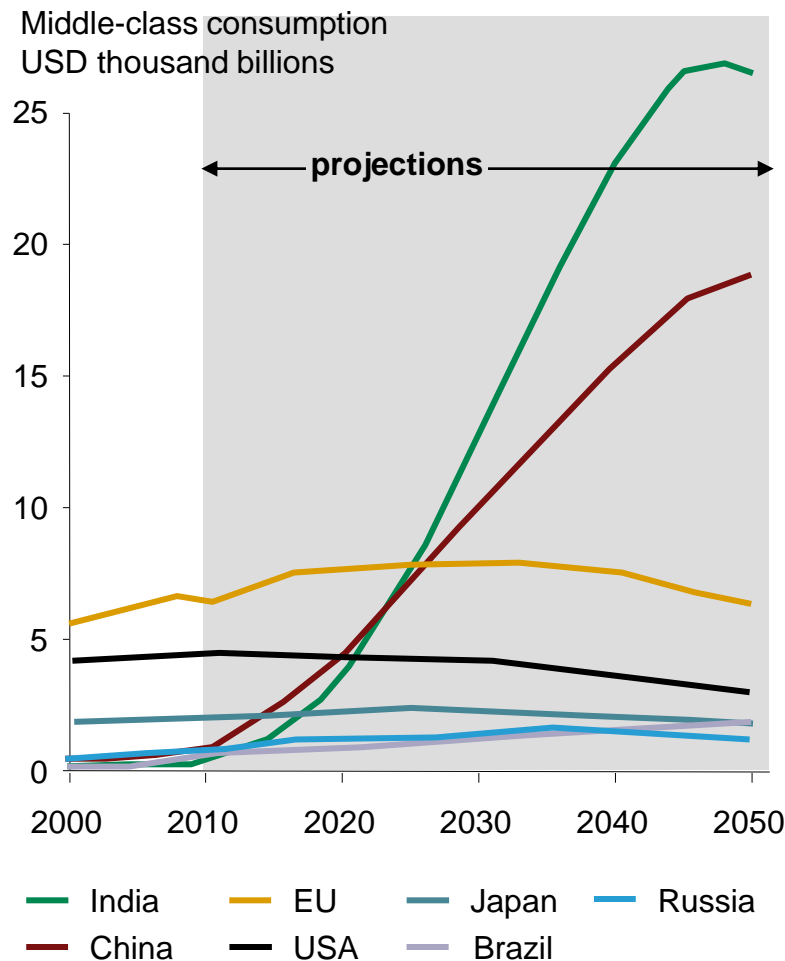
- Advanced economies
- UK
- Developing & emerging economies





REGIONS, GDP % INCREASE IN YEAR	2006-2010	2011-2015
BRICS	8.6	7.7
Middle East	5.6	4.7
Emerging Asia	4.6	5.7
Africa	4.5	5.0
Eastern Europe	3.7	4.1
Latin America	4.0	4.5
Euro zone	0.8	1.3
G7	0.6	2.0
Global	3.3	4.1

...AND GLOBAL MIDDLE CLASS CONSUMPTION SET TO RISE SHARPLY



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