

## Appendix 1

### Economics update

**UK.** UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were the strongest growth rates of any G7 country. However, the 2015 growth rate finally came in at a disappointing 1.8%, though it still remained one of the leading rates among the G7 countries. Growth was +0.4% in quarter 1 and +0.6% in quarter 2, (first estimate), but forward looking indicators point to a sharp slowdown in the second half of 2016 as a result of the Brexit vote. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme and uncertainty created by the Brexit referendum. However, since the peak in November 2015, sterling has fallen in value, especially after the referendum result, which will help to make British goods and services much more competitive and will increase the value of overseas earnings by multinational companies based in the UK. In addition, the Chancellor has announced that the target of achieving a budget surplus in 2020 will have to be eased in order to help the economy recover from the expected slowing of growth during the second half of 2016. He has also said he will do 'whatever is needed' to stimulate growth which could mean fiscal policy action e.g. cutting taxes, increasing investment allowances for businesses etc and / or increasing government expenditure on infrastructure, housing etc.

The Bank of England August Inflation Report included a sharp reduction in forecasts for growth for 2017 @ +0.8% and for 2018 @ 1.8%, though 2016 was kept at 2.0%. While this does not indicate the economy could go into recession in the second half of 2016, growth is expected to be minimal during that period

The August Bank of England Inflation Report forecast also included a sharp upward revision to the forecasts for inflation rising up above the MPC's 2% target in 2018 to about 2.3% due to the recent fall in the value of sterling etc. However, the MPC is likely to look through that and take a longer term view in order to give time for economic growth to recover

The American economy had a patchy 2015 – quarter 1 0.6% (annualised), 3.9% quarter 2, 2.0% quarter 3 and 1.4% in quarter 4, leaving growth in 2015 as a whole at 2.4%. Quarter 1 of 2016 came in at a weak 0.8% (annualised) and quarter 2 at 1.2% (first estimate). While these overall figures were disappointing, they were depressed by a significant run down in inventories which masked an underlying strength in consumer demand; forward indicators are therefore pointing towards a pickup in growth for the rest of 2016. The Fed embarked on its long anticipated first increase in rates at its December meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, caused a re-emergence of caution over the timing and pace of further increases. However, in recent weeks, increases in non-farm payroll figures have again boosted confidence that the economy is on a strong upward trend and have renewed expectations of at least one increase in the Fed. rate in 2016.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016. In response to a continuation of weak growth, at the ECB's December meeting, this programme was extended to March 2017 but was not increased in terms of the amount of monthly purchases. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. This programme of monetary easing has had a limited positive effect in helping a recovery in consumer and business confidence and an initial start to some improvement in economic growth. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but disappointed in quarter 2 with a reversal to only 0.3% (1.6% y/y). The ECB is also struggling to get inflation up from near zero towards its target of 2%.

Japan is still bogged down in anaemic growth and making little progress on fundamental reform of the economy while Chinese economic growth has been weakening and medium term risks have been increasing.