The economic outlook and the risks of a sterling crisis

Simon Hayes
Chief UK Economist
Barclays Capital

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A Series of Unfortunate Events

“If you are interested in stories with happy endings, you would be better off reading some other book. In this book, not only is there no happy ending, there is no happy beginning and very few happy things happen in the middle.”

*The Bad Beginning*, by Lemony Snicket and Brett Helquist
‘Lost output’ greater in the UK than in other G7 economies

Source: Datastream, Barclays Economics Research
If we look at 2009 growth/inflation outturns relative to consensus forecasts for the G7...

Source: Consensus Economics, Barclays Economics Research
... downside news on growth meant downside news on inflation...
... except for the UK

Source: Consensus Economics, Barclays Economics Research
## Barclays ‘central case’ growth scenario, % y/y

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<tr>
<td>Consumption</td>
<td>-3.2</td>
<td>1.1</td>
<td>2.1</td>
<td>1.3</td>
<td>1.9</td>
<td>1.7</td>
<td>1.8</td>
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<td>2.1</td>
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<td>Government</td>
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<td>0.3</td>
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<td>Exports</td>
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<td>GDP</td>
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<td>2.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.7</td>
<td>1.8</td>
</tr>
</tbody>
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Source: Barclays Economics Research
Weak pay growth means weak household demand

Source: Haver Analytics, Barclays Economics Research
‘Mortgageless recovery’ unlikely to be sustained

Source: Haver Analytics, Barclays Economics Research
Sharp drop in lending to firms, record fall in investment

Source: Haver Analytics, Barclays Economics Research
Credit constraints are binding tightly for SMEs

Balance of respondents reporting constrained access to credit

Source: CBI, Barclays Economics Research
Government consumption is set to become a significant drag on demand

Source: Haver Analytics, Barclays Economics Research
## Barclays GDP scenarios, % y/y

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<td>1.7</td>
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</tbody>
</table>

Source: Barclays Economics Research
The economic outlook and the risks of a sterling crisis
The sterling crisis 2008-09?

- Versus the US dollar
- Trade-weighted index

1967 devaluation
IMF loan
ERM exit

Source: Haver Analytics, Barclays Economics Research
Primary budget balance (% GDP)

Outturns
PBR 09 projections

Source: Haver Analytics, Barclays Economics Research
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