

Global Economic Outlook

Redington Teach-In

8 December 2015

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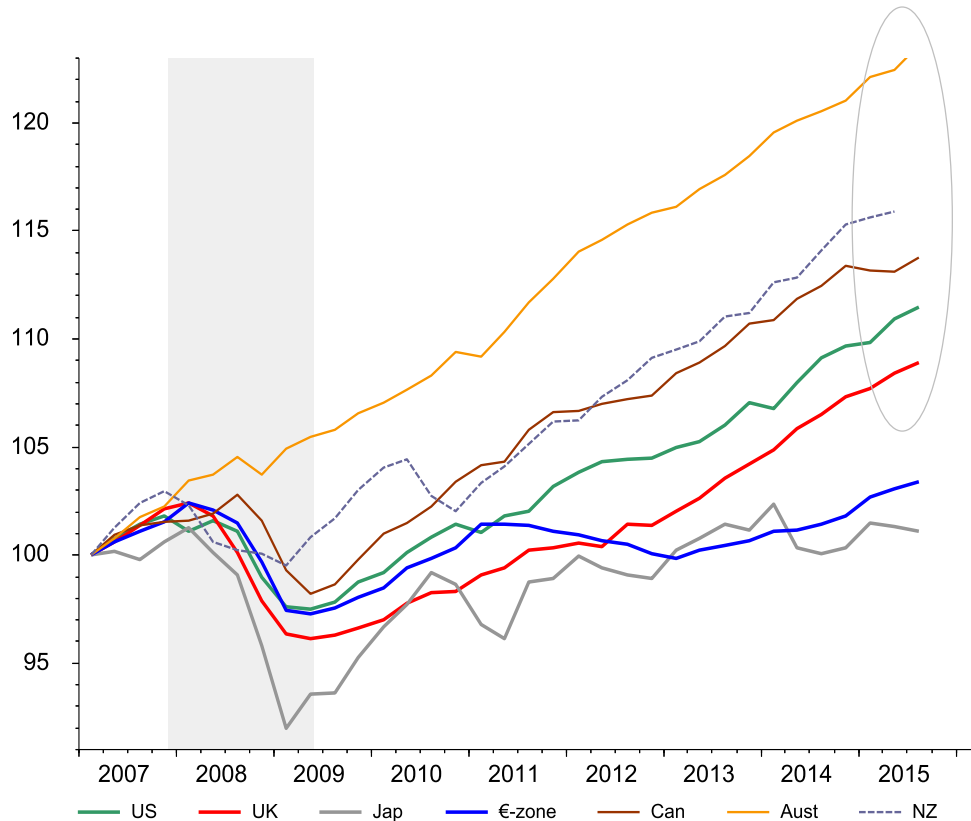


For professional investors only

Seven years on, and there's a two-speed recovery...

Advanced economies' two-speed recovery

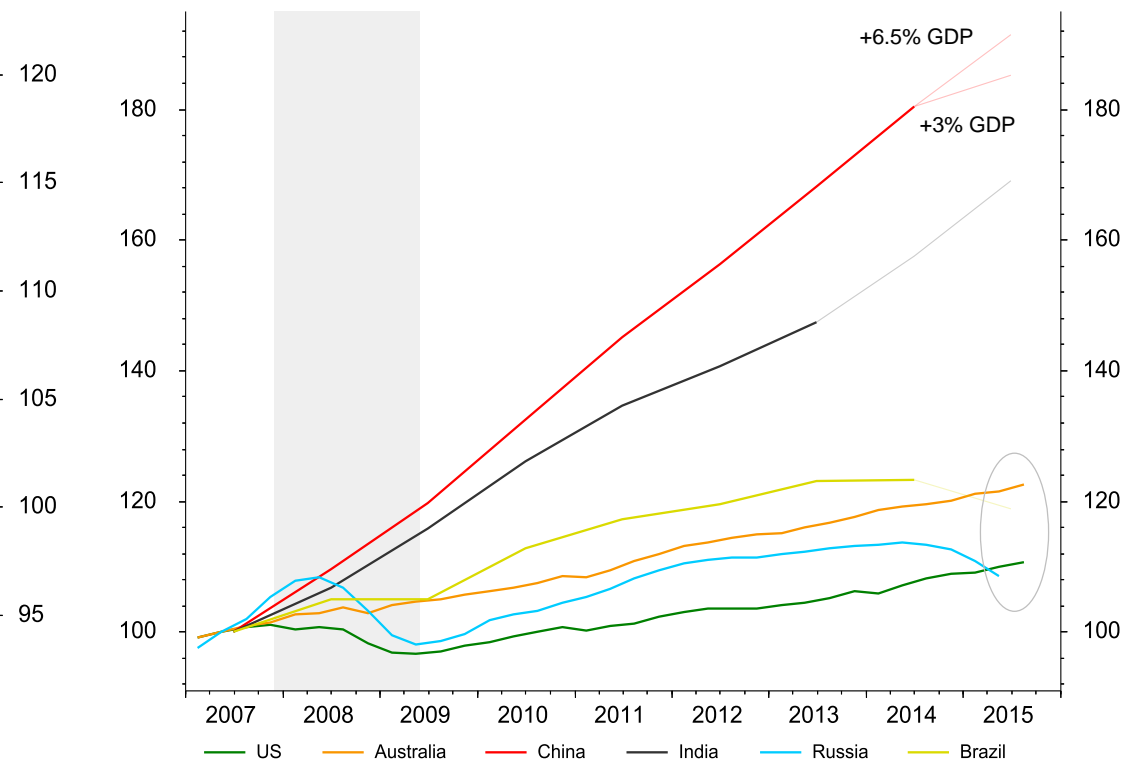
Real GDP re-based to Q1 2007 (=100). Grey denotes US recession



Source: Thomson Reuters Datastream, based on national data

China slows, but from a very high base

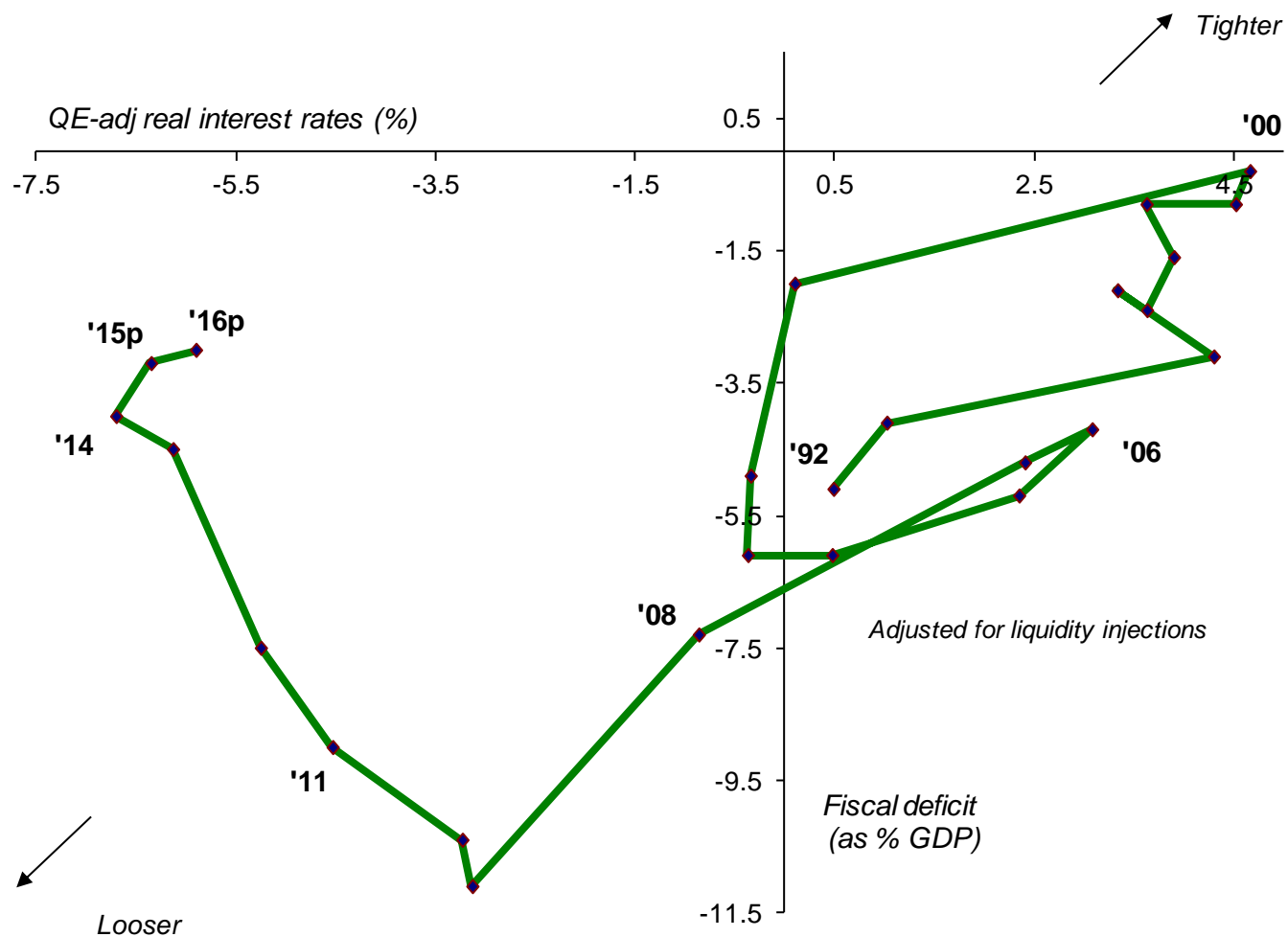
Real GDP re-based to Q1 2007 (=100). Grey denotes US recession



Source: Thomson Reuters Datastream, & Hermes projections (faint lines)

This is how the US's macro stance is shifting, adjusted for QE

Using QE-adjusted 3m money rates, core PCE, & cyclically adjusted fiscal balance as % GDP

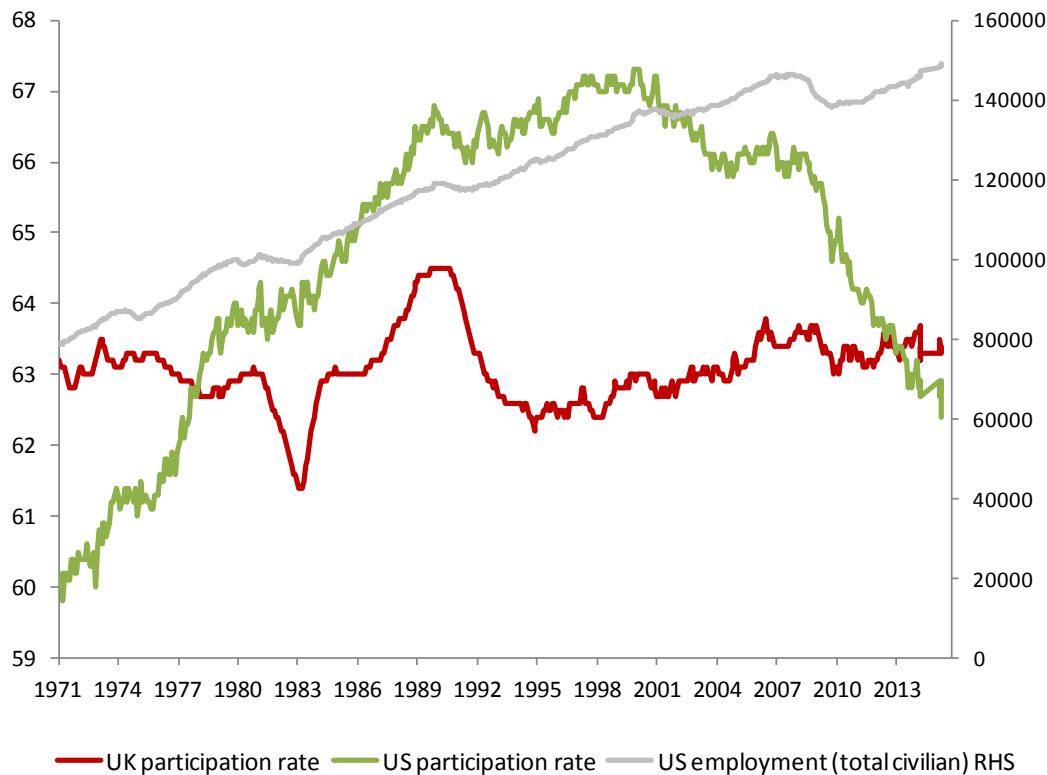


Source: Hermes Investment Management's 'Policy Looseness Analysis', based on OECD, & Bloomberg data

Chances of wage inflation are better in the US

US labour participation falls as UK's rises...

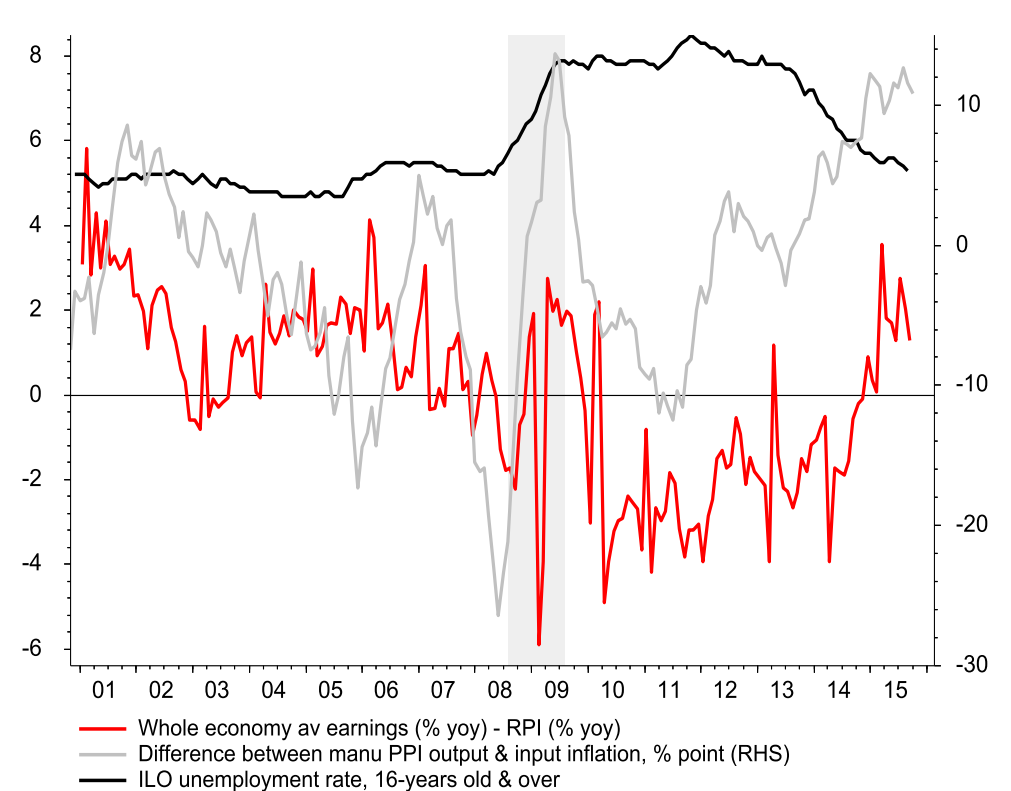
UK & US participation rates (labour force as % of working age population)



Source: Thomson Reuters Datastream, based on BLS, & ONS data

...Deferring UK wage growth

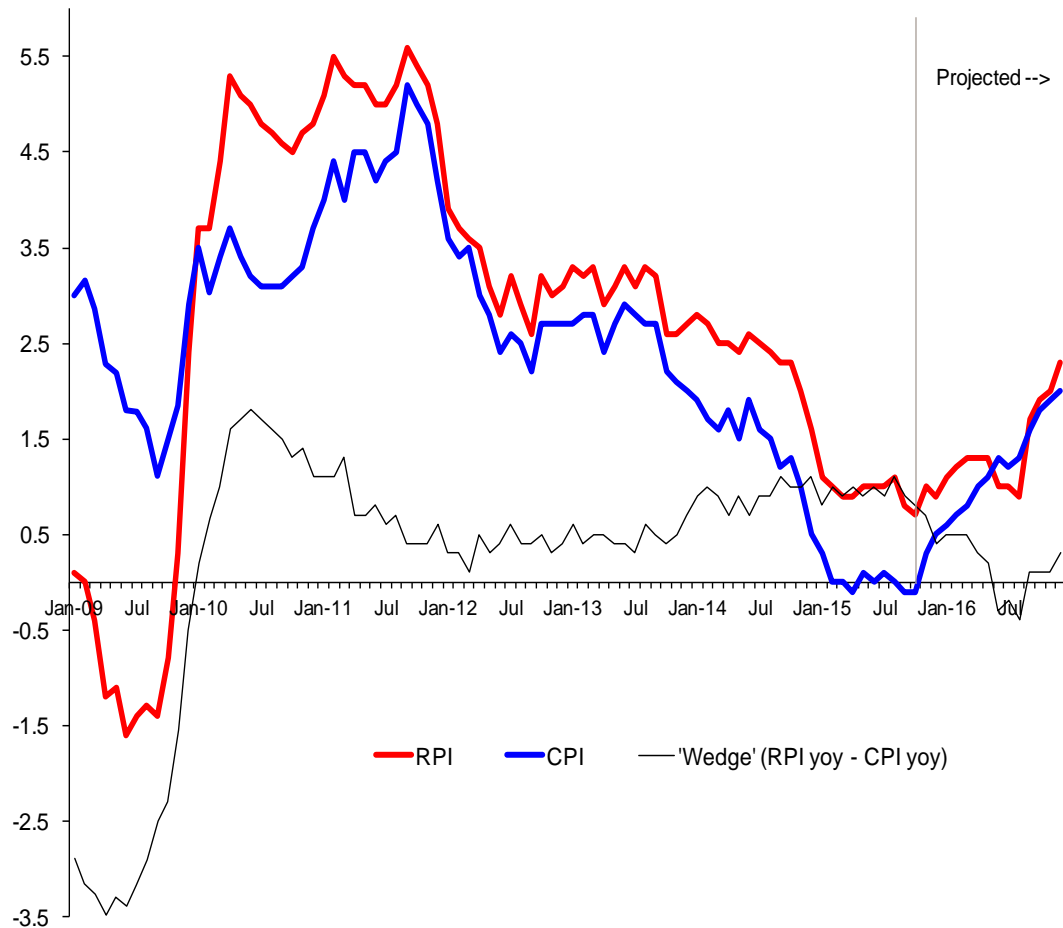
UK unemployment rate (%), vs profit-margins proxy, & real earnings growth



Source: Thomson Reuters Datastream, based on ONS data

UK - our RPI & CPI projections to end 2016...

Assumes: constant \$42 p/b Brent oil price; £/\$ 1.52; & 2x 25bp rate hikes in 2016. % yoy, except *

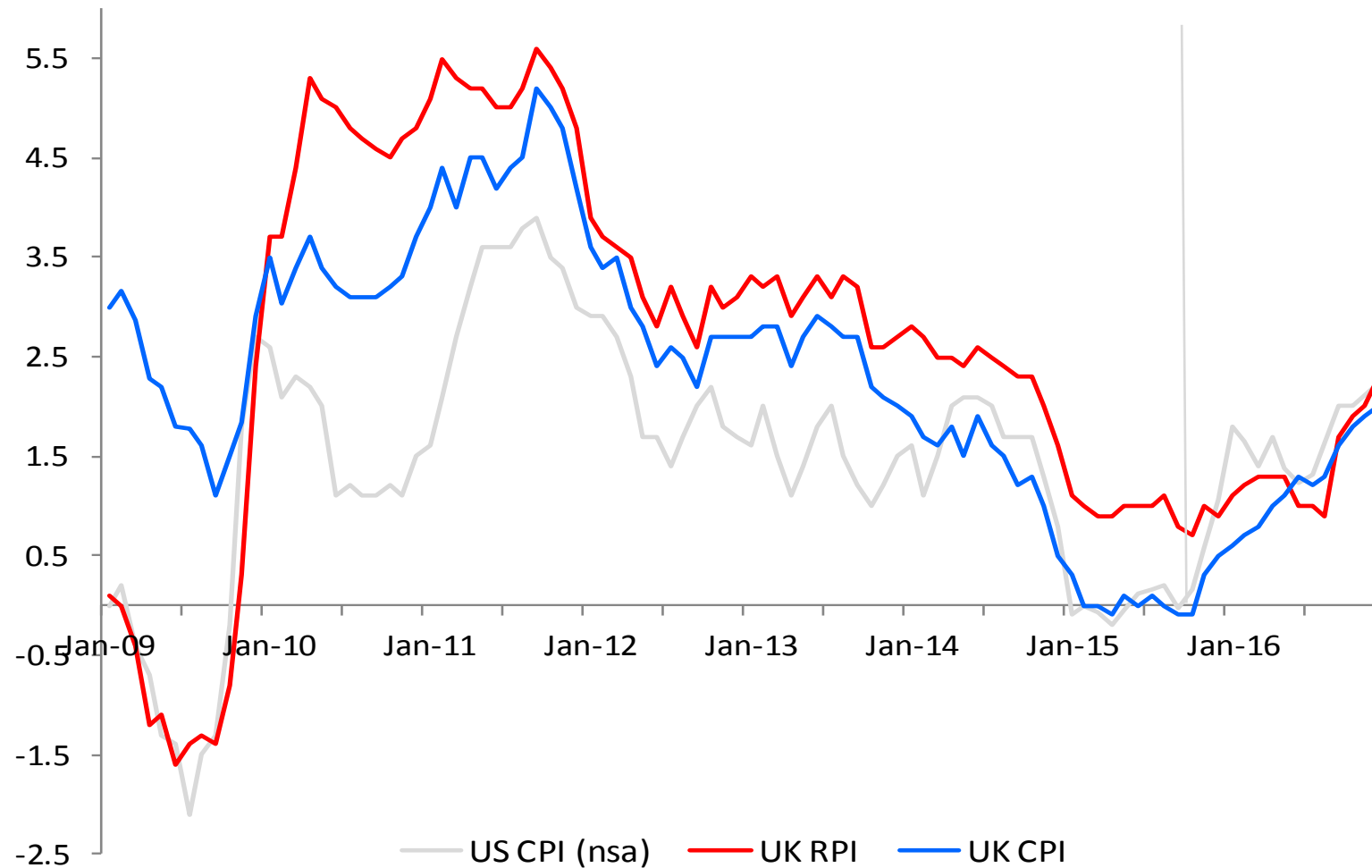


Source: Hermes simulation, based on ONS data

	RPI	CPI	'Wedge' (RPI yoy - CPI yoy)	
	%mom*			
	1.6	0.5	1.1	(PRICE FREEZE FROM 6 POWER SUPPLIERS)
Jan-15	-0.8	1.1	0.8	(INC RAIL = PREV JULY RPI +0%; E.ON -3.5%mom)
	0.5	1.0	1.0	
	0.2	0.9	0.9	(B. GAS -5%mom)
Apr	0.4	0.9	1.0	(=0% CNCIL TAX, +3% WAT RATE; +4% ALC/TOB (+1.0%mom hse prices)
	0.2	1.0	0.9	
	0.2	1.0	1.0	
Jul	-0.1	1.0	0.9	
	0.5	1.1	1.1	
	-0.1	0.8	0.9	(B. GAS -5% GAS)
Oct	0.0	0.7	0.8	(INC TUITION FEES)
	0.0	1.0	0.7	
	0.1	0.9	0.4	(+0.5%mom hse prices)
Jan-16	-0.7	1.1	0.5	(INC RAIL = PREV JULY RPI +0%)
	0.7	1.2	0.5	
	0.2	1.3	0.5	
Apr	0.4	1.3	0.3	(=0% CNCIL TAX, +3% WAT RATE; +4% ALC/TOB)
	0.2	1.3	0.2	
	-0.1	1.0	-0.3	
Jul	-0.2	1.0	-0.2	
	0.4	0.9	-0.4	+25bp BANK RATE HIKE
	0.7	1.7	0.1	(5% TELEPHONE CHARGES, SEPT/OCT)
Oct	0.2	1.9	0.1	(INC TUITION FEES)
	0.2	2.0	0.1	+25bp BANK RATE HIKE
	0.5	2.3	0.3	(6 POWER SUPPLIERS RECOUP 1/2x2013 PRICE RISE, NOV/DEC '15)
AVG 2014:	2.4	1.5	0.9	
AVG 2015p:	1.0	0.1	0.9	
AVG 2016p:	1.4	1.3	0.1	

...still suggesting 'V-shaped' headline inflation prospects

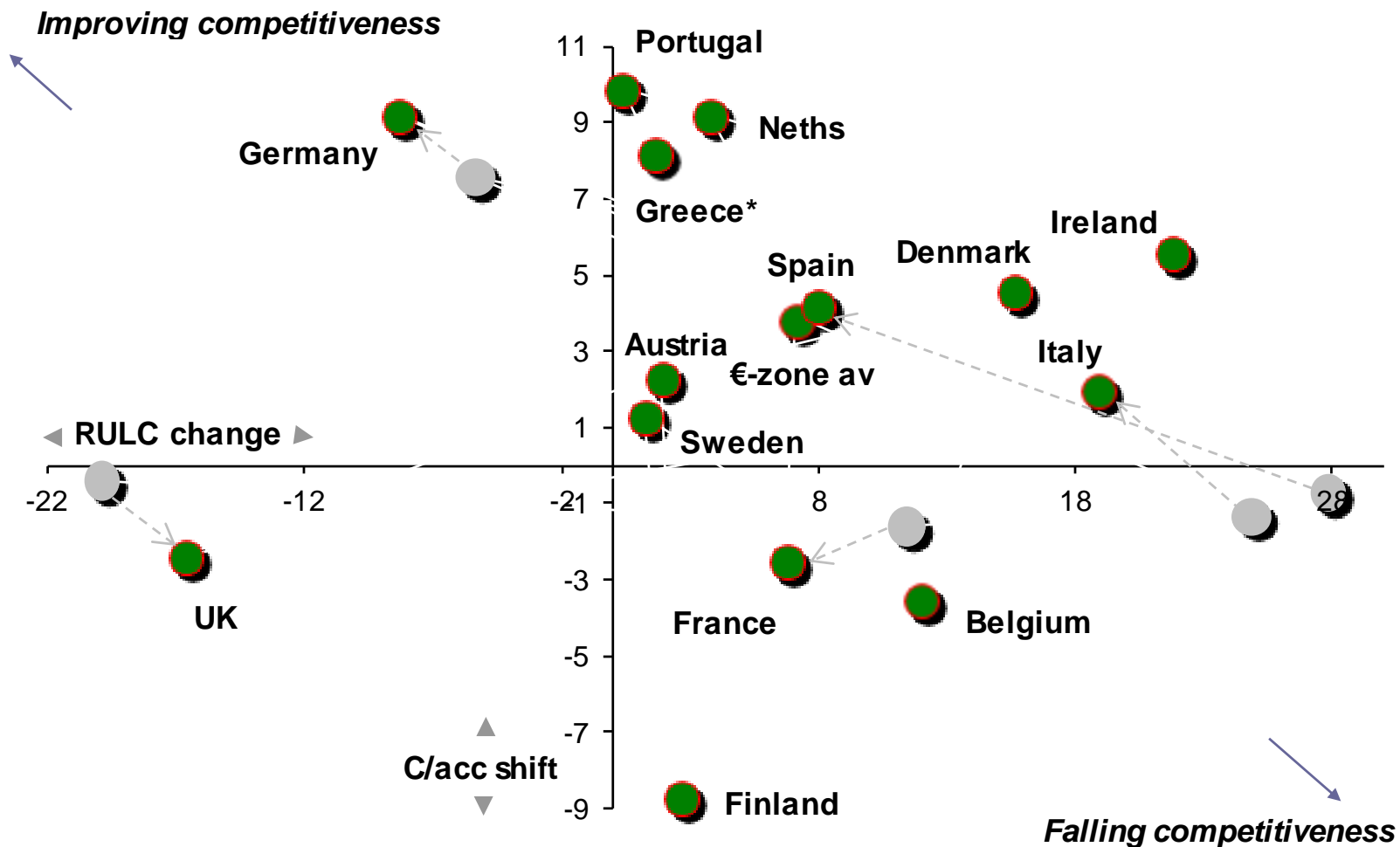
US & UK CPI/RPI inflation (%yoy) projections, based on current WTI/Brent crude oil prices



Source: Hermes Investment Management projections, based on BLS, & ONS data

But, euro-zone is still a monetary union bereft of economic union

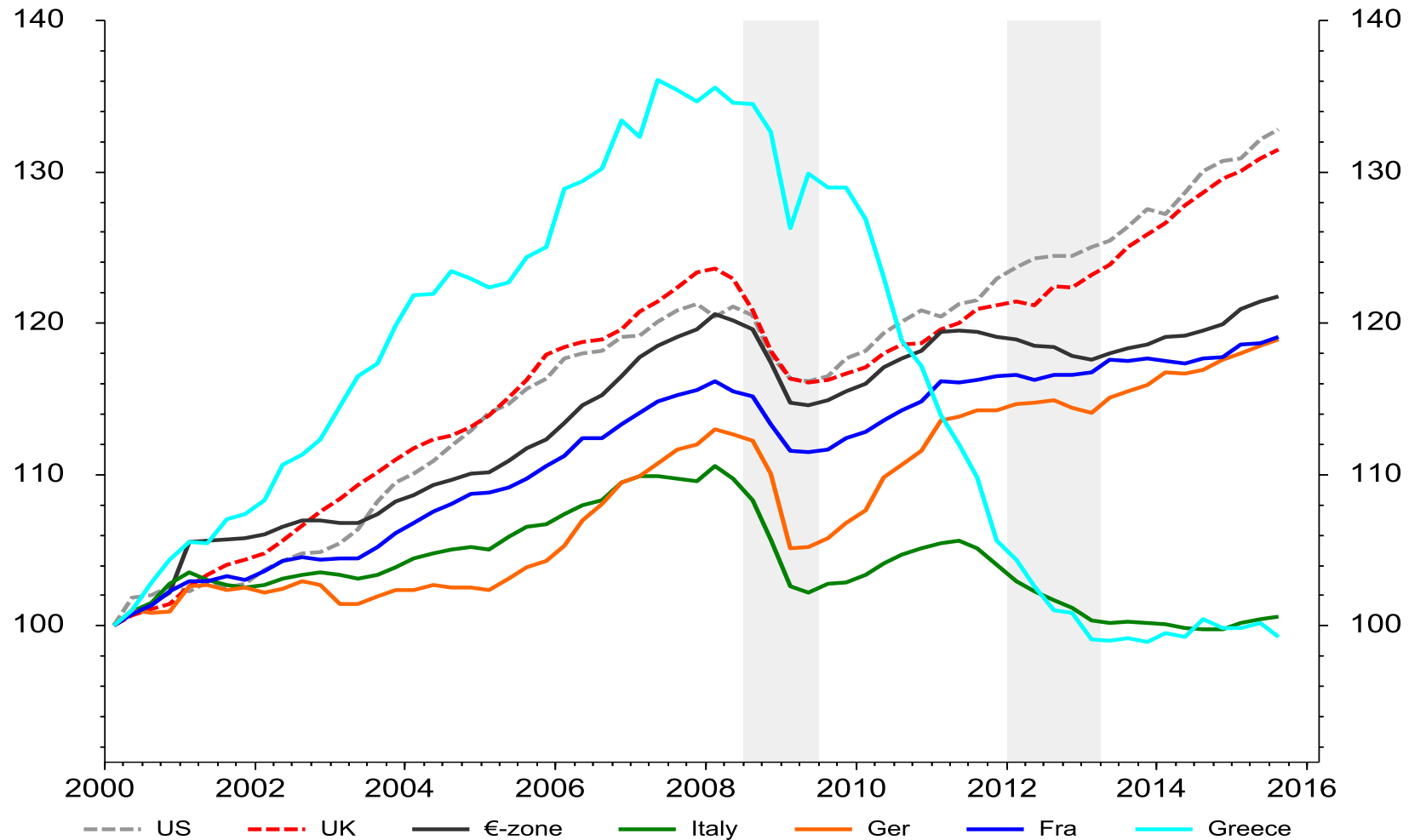
Change since 2000 in a country's relative unit labour costs (RULC), vs c/acc shift as % GDP. Grey denotes shift since 2010 austerity



Source: Hermes Investment Management, based on national sources & OECD. (*NB: Greece's from 2001 when it joined the euro)

...and Greece (& Italy's) GDP is no higher with the euro

Real GDP re-based to Q1 2000 (=100). Grey denotes euro-zone recession

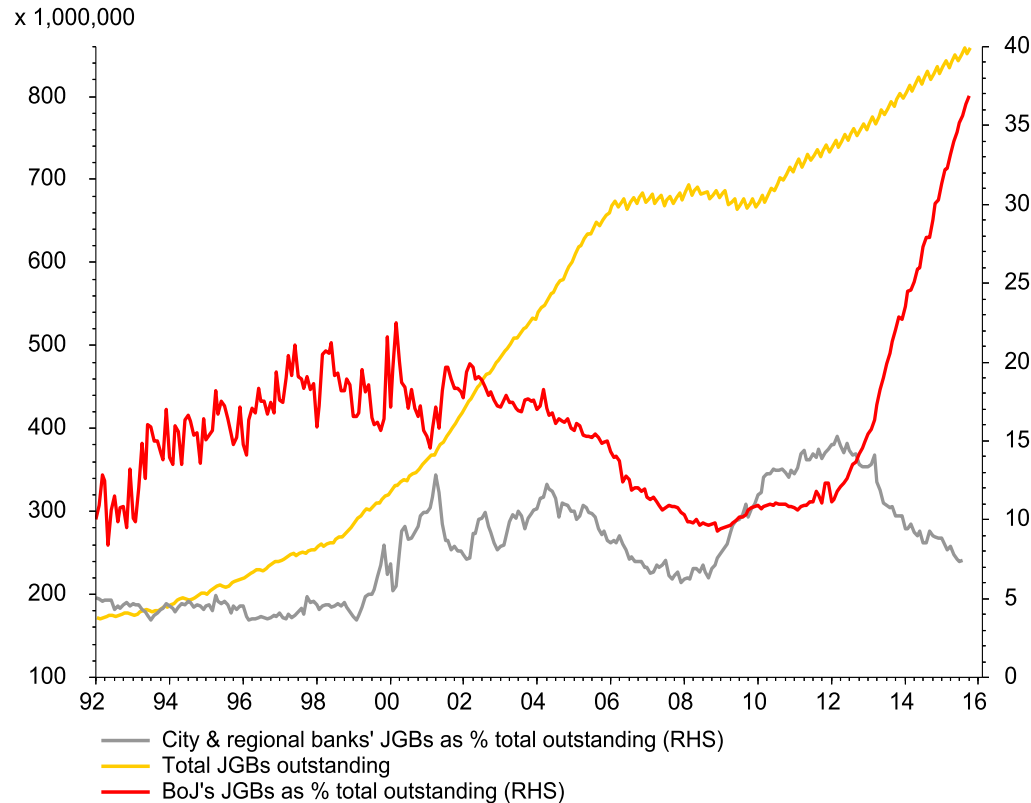


Source: Thomson Reuters Datastream, based on national data

Japan will need even more aggressive monetary easing

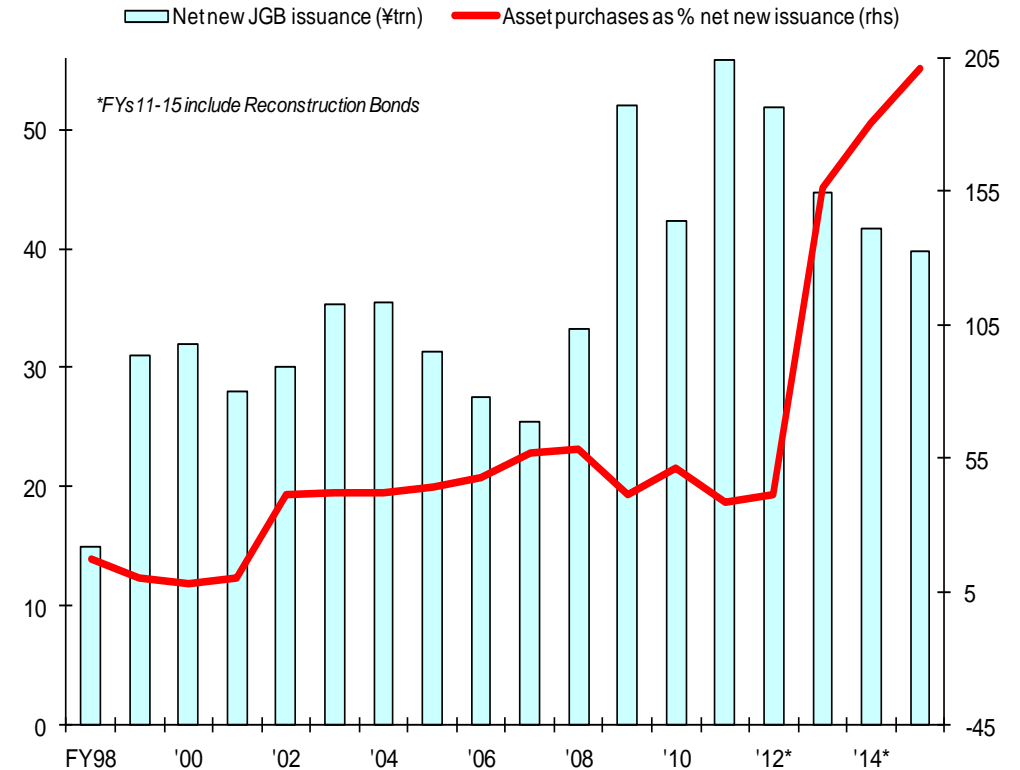
JGBs outstanding, banks' & BoJ

JGBs outstanding in ¥ m on LH Scale, & % shares on RH Scale



Source: Thomson Reuters Datastream, based on BoJ

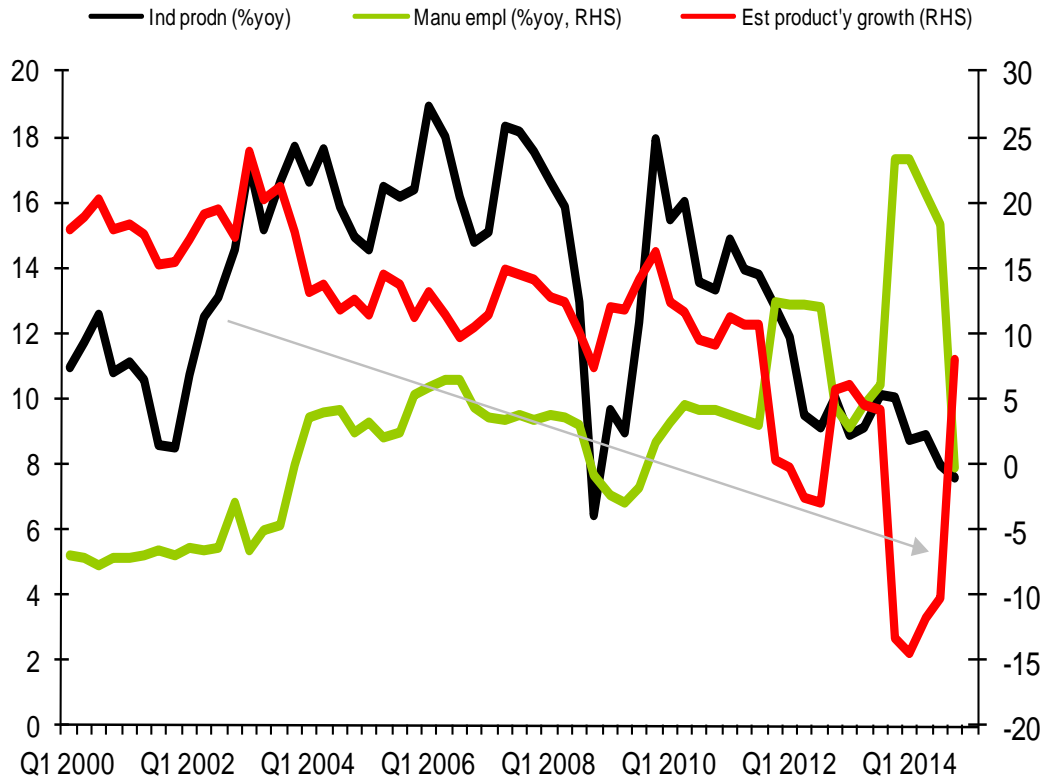
BoJ has to mop up even more JGBs



Source: Hermes Investment Management, based on MoF, & BoJ

China – increasing temptation to loosen policy

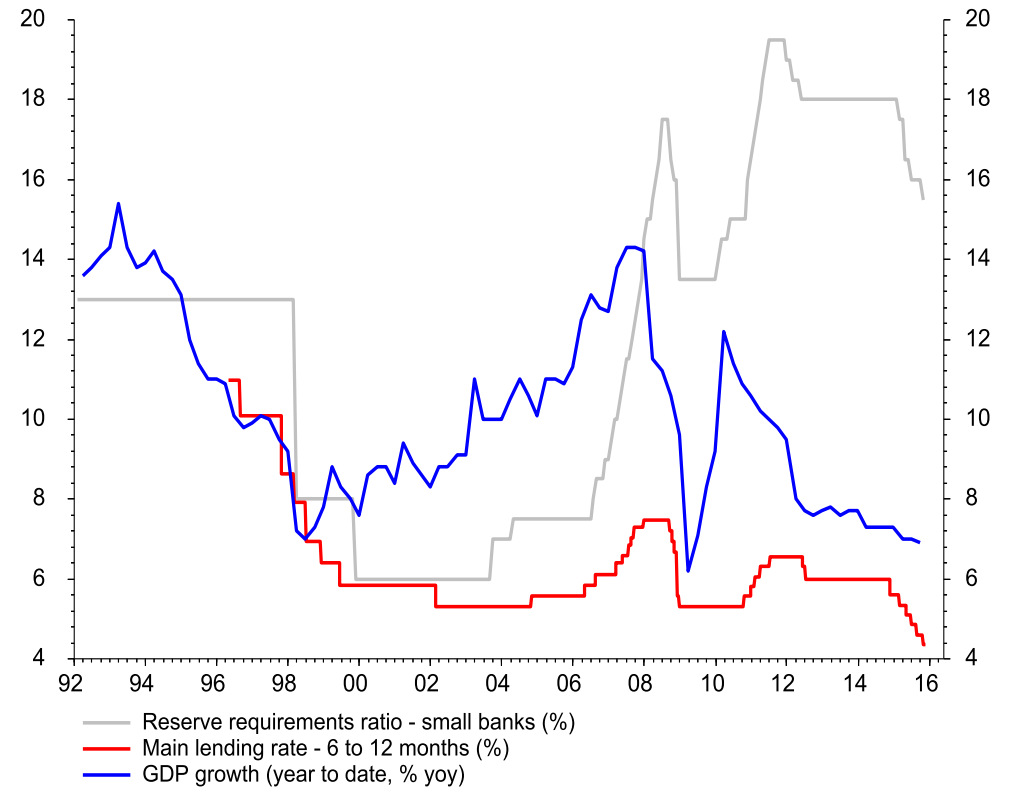
China's collapsing productivity



Source: National Bureau of Statistics, & Ministry of Human Resources & Social Security

Plenty of scope for monetary loosening

China's key lending rate & RRR (both %), vs GDP growth (%yoy)



Source: Thomson Reuters Datastream, based on NBS, & PBoC data

Reminds us the legacy is debt build-up

Gross & net, as a % GDP. **'98 data; **'00 data

	Moody's local ccy	1997		2015p	
		Gross	Net	Gross	Net
US	Aaa	62	44	111	87
Japan	A1	102	34	229	132
Euro-zone	n/a	81	51	111	74
UK	Aa1	55	33	103	83
Greece	Caa3	96	70	188	146
Italy	Baa2	129	101	160	132
Iceland	Baa2	47*	17*	82	24
Ireland	Baa1	61*	41*	115	80
Latvia	A3	53**	n/a	75	n/a
OECD av		72	41	115	72

Source: OECD, Thomson Reuters Datastream, OBR (UK), & Moody's Investor Services

The 'L.I.C.E.' period?...

Forecast summary published in our 'Looking into 2016', Economic outlook quarterly

US	% yoy unless stated	'10	'11	'12	'13	'14	'15e	'16p	JAPAN	% yoy unless stated	'10	'11	'12	'13	'14	'15e	'16p
Real GDP		2.5	1.6	2.2	1.5	2.4	2.4	2.6	Real GDP		4.8	-0.4	1.8	1.6	-0.1	0.8	1.3
Personal consumption		2.0	2.3	1.5	1.7	2.7	3.0	2.8	Private consumption		2.8	0.3	2.3	2.1	-1.3	-0.6	1.5
Business investment		2.5	7.7	9.0	3.0	6.2	3.6	5.2	Business investment		0.7	4.1	3.6	0.6	3.6	1.5	3.0
Industrial production		5.6	3.0	2.8	1.9	3.7	2.0	2.5	Industrial production		15.6	-2.6	0.2	-0.6	2.1	-0.5	1.8
Consumer prices (nsa)		1.6	3.2	2.1	1.5	1.6	0.2	1.7	Consumer prices		-0.7	-0.3	0.0	0.4	2.7	0.8	1.1
Unemployment rate (%)		9.6	8.9	8.1	7.4	6.2	5.3	4.8	Unemployment rate (%)		5.1	4.6	4.3	4.0	3.6	3.4	3.3
Current account (% GDP)		-3.0	-3.0	-2.8	-2.3	-2.3	-2.5	-2.6	Current account (% GDP)		4.0	2.2	1.0	0.8	0.5	2.8	2.3
Fed budget balance (% GDP)		-8.4	-7.9	-6.5	-3.3	-2.8	-2.6	-2.7	Gen budget balance (% GDP)		-7.2	-7.9	-7.9	-7.8	-7.1	-6.5	-6.4
Funds target (yr-end, %)		0.25	0.25	0.25	0.25	0.25	0.50	1.25	BoJ target rate (yr-end, %)		0.10	0.10	0.10	0.10	0.10	0.10	0.10
EURO	% yoy unless stated	'10	'11	'12	'13	'14	'15e	'16p	UK	% yoy unless stated	'10	'11	'12	'13	'14	'15e	'16p
Real GDP		2.0	1.7	-0.8	-0.3	0.9	1.5	1.6	Real GDP		1.5	2.0	1.2	2.2	2.9	2.5	2.4
Private consumption		0.8	0.0	-1.2	-0.6	0.9	1.7	1.6	Household consumption		0.1	-0.1	2.0	1.9	2.7	3.0	2.5
Fixed investment		-0.6	1.8	-3.4	-2.6	1.3	1.4	2.3	Fixed investment		6.2	2.0	1.5	2.6	7.5	5.0	5.5
Industrial production		7.3	3.5	-2.3	-0.7	0.8	1.6	2.2	Manufacturing production		4.7	1.8	-1.3	-0.7	3.2	0.5	1.5
Consumer prices (HICP)		1.6	2.7	2.5	1.3	0.4	0.1	1.2	Retail prices index		4.6	5.2	3.2	3.1	2.4	1.0	1.4
Unemployment rate (%)		10.1	10.2	11.4	12.0	11.6	11.0	10.8	Consumer prices		3.3	4.5	2.8	2.6	1.5	0.1	1.3
Current account (% GDP)		0.3	0.2	1.3	2.0	2.4	2.5	2.4	Unemp, ILO rate (3m av, %)		7.9	8.1	8.0	7.6	6.2	5.4	5.2
Gen budget balance (% GDP)		-6.2	-4.1	-3.7	-3.0	-2.6	-2.3	-2.0	Current account (% GDP)		-2.8	-1.7	-3.3	-4.5	-5.1	-4.6	-4.6
ECB refi' rate (yr-end, %)		1.00	1.00	0.75	0.25	0.05	0.05	0.05	Gen budget balance (% GDP)		-10.1	-7.9	-5.1	-5.6	-5.2	-3.9	-2.5
									BoE Bank rate (yr-end, %)		0.50	0.50	0.50	0.50	0.50	0.50	1.00

Source: National data, Hermes Investment Management, OECD, & Consensus Economics

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