AHEAD OF THE CURVE

How to be Economically Intelligent!

HBAA FORUM

JULY 2015

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SALES REVENUE

subtract

ALL PAID INVOICES

=

PROFIT AFTER TAX AND INTEREST + WAGES AND SALARIES

This is Nominal Gross Domestic Product (GDP)

65-90% produced by businesses employing fewer than 200 people in most countries.

Worth £39Bn

70% take place in London

28% of overseas visitors are for business

73% from Europe

Remarkably stable proportion over past 5 years

SHORT RUN ECONOMIC ACTIVITY

is driven by the flow of spending

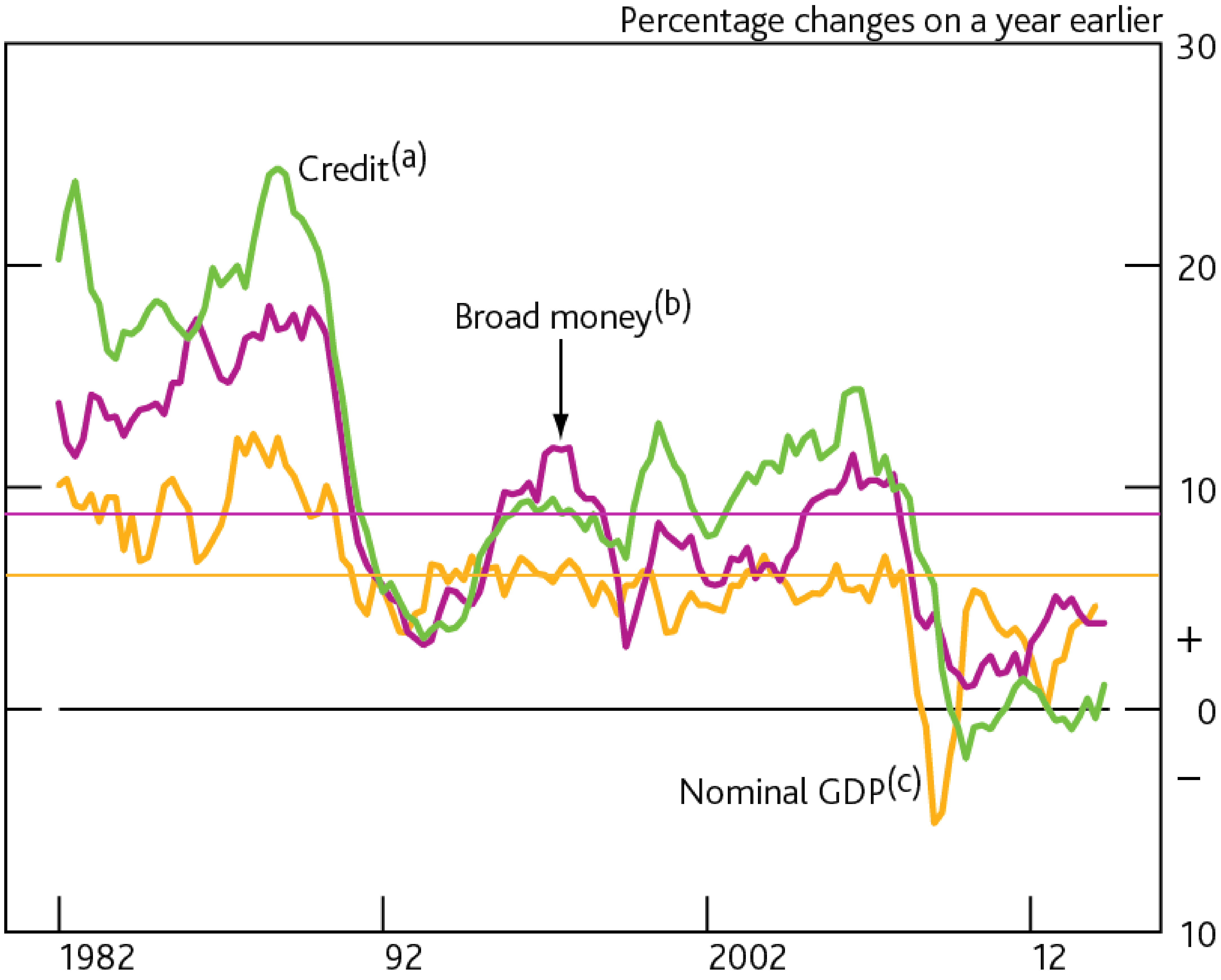
MONEY multiplied by VELOCITY = NOMINAL GDP

95% manufactured by commercial banks

Determined by interest rates, the media, the weather, house prices but above all CONFIDENCE

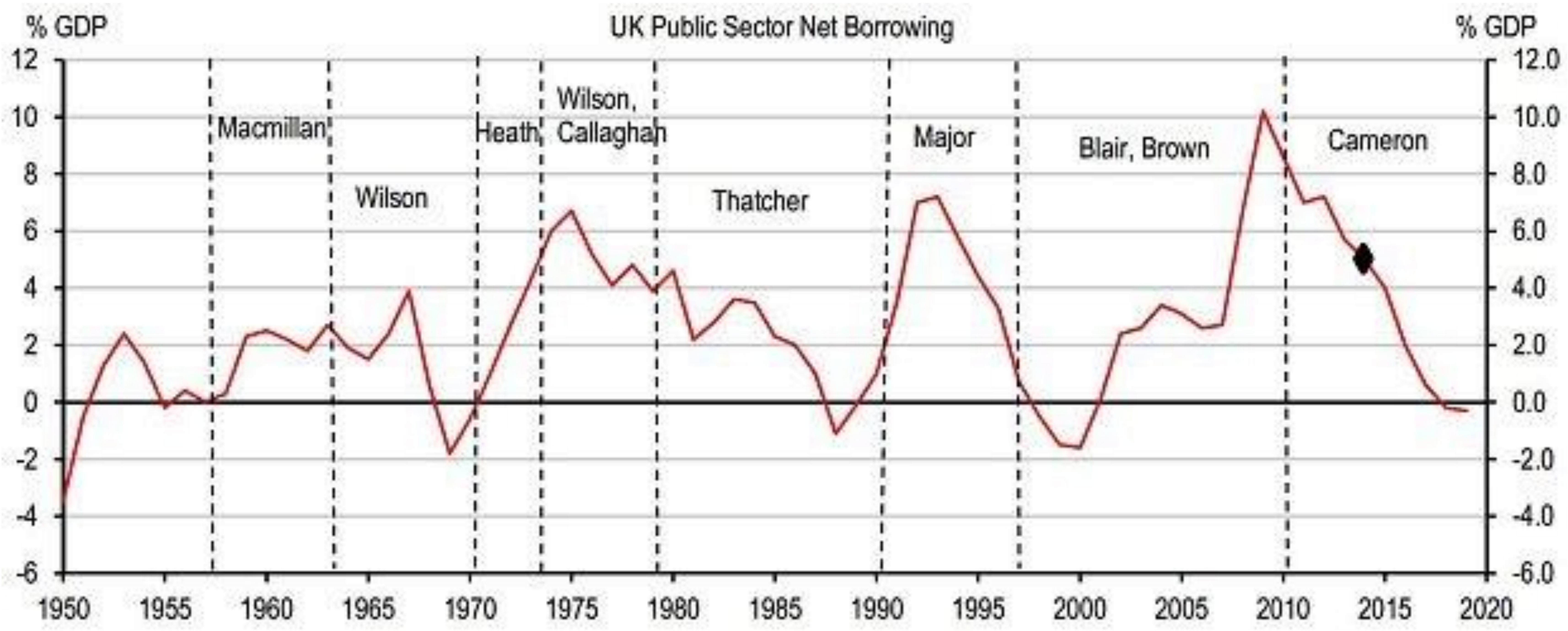
Banks manufacture money when they make a loan(bank credit)and can destroy money when a loan is paid down.

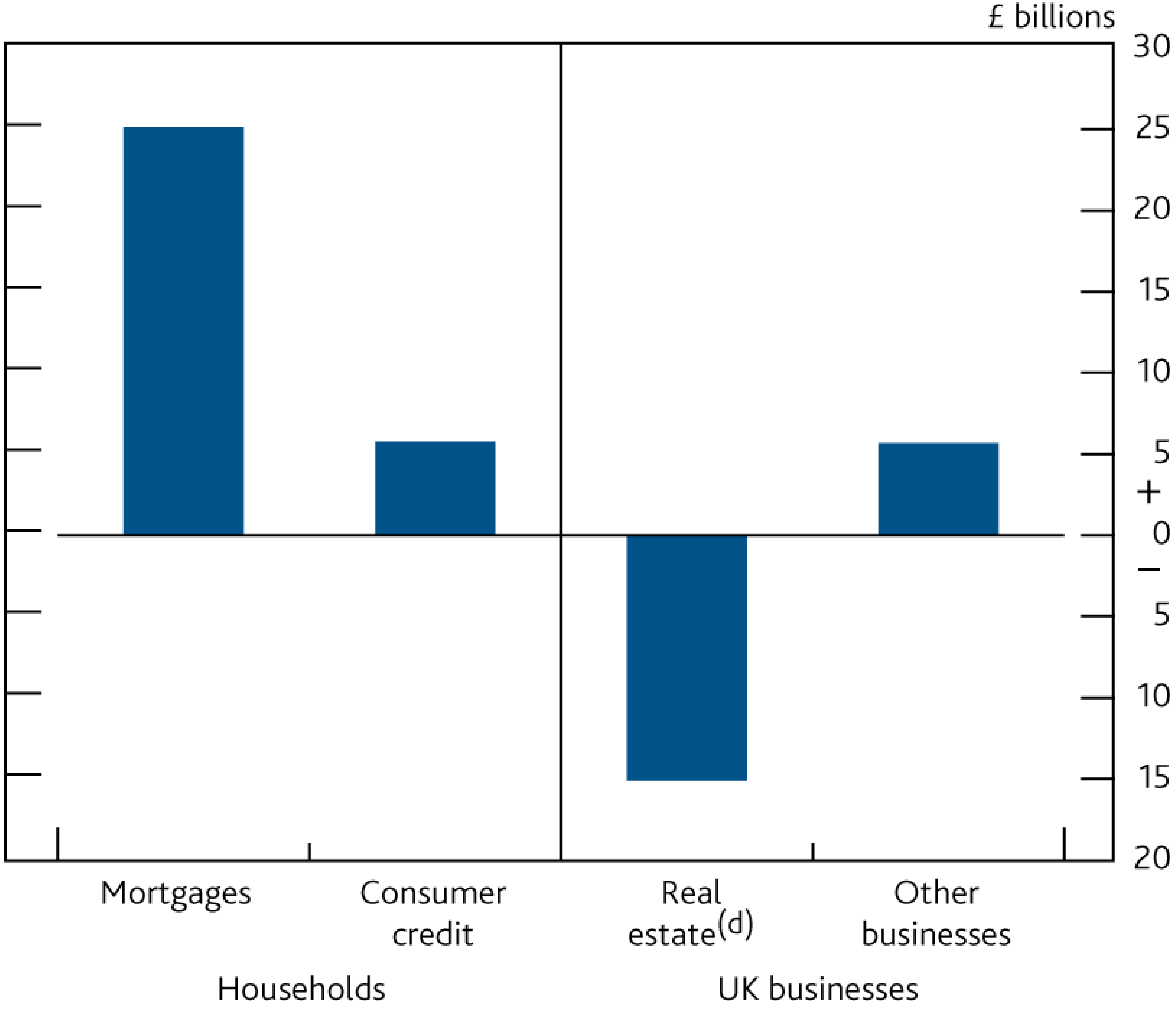
Nominal GDP and broad money (sterling bank deposits) growing in line but not credit (bank lending). This is the effect of QE and higher Velocity.



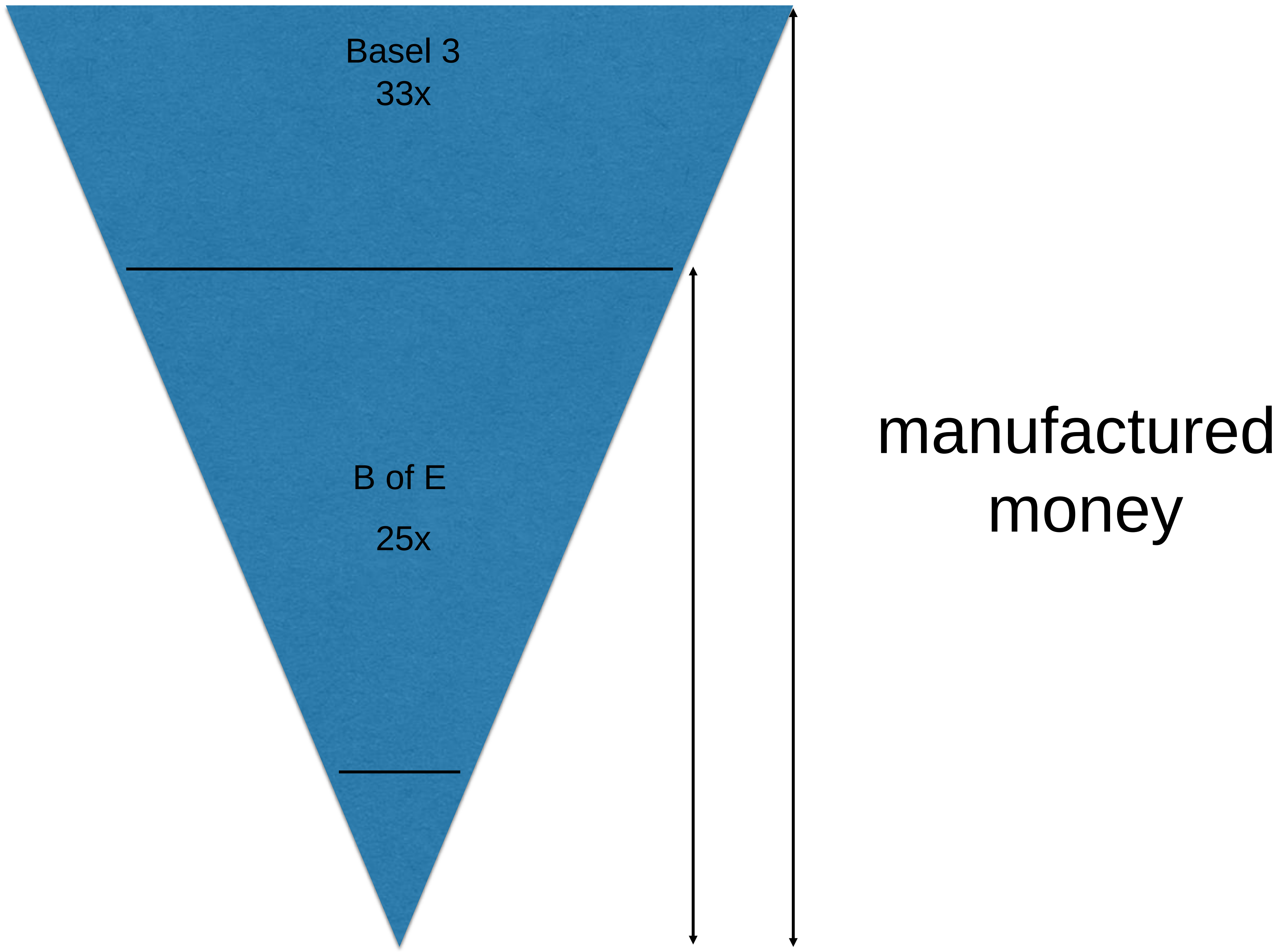
Austerity not caused by Government

Between 2010 and 2015 UK banks destroyed £350Bn

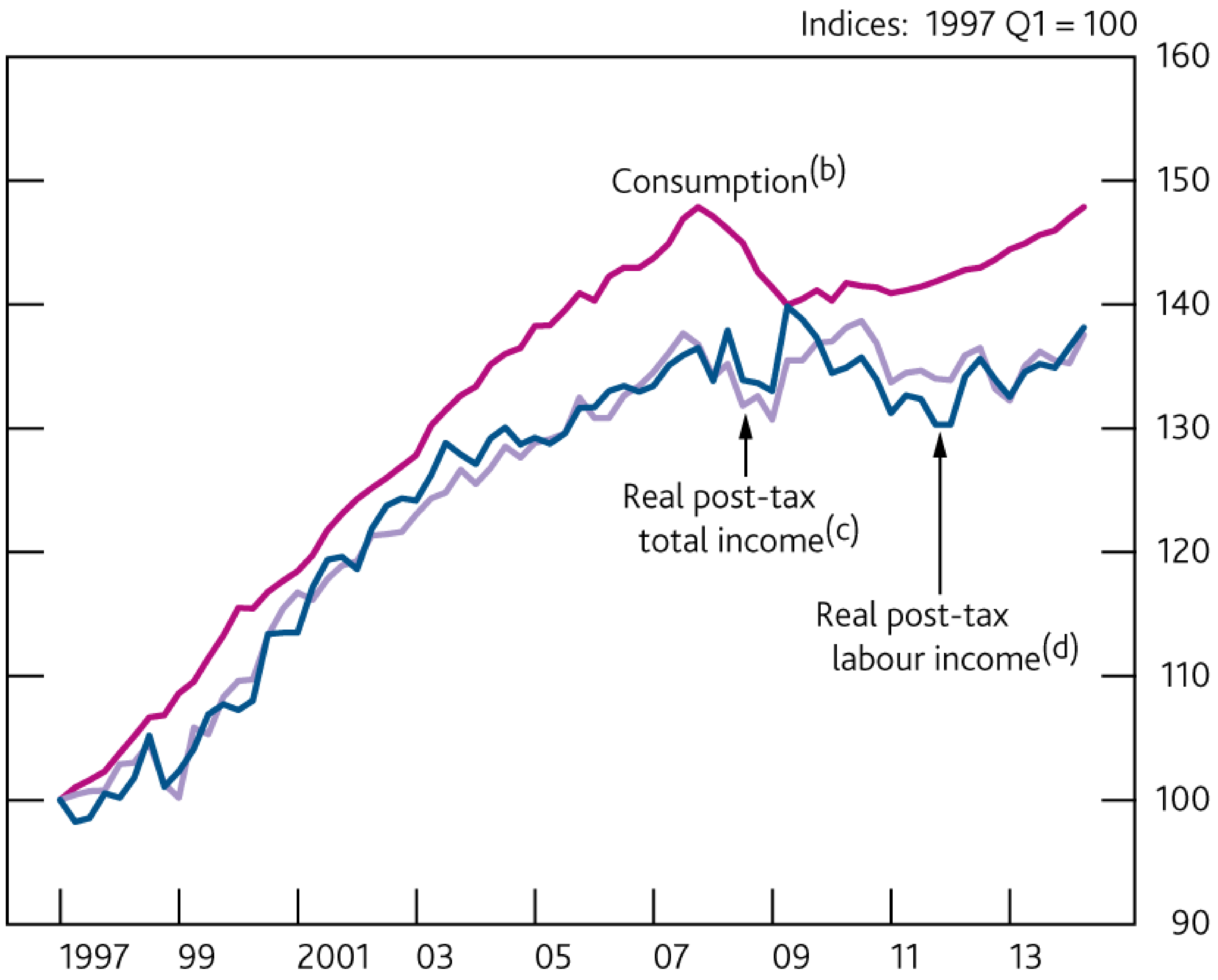



£ billions
30
25
20
15
10
5
+
0
–
5
10
15
20
Mortgages
Consumer credit
Real estate(d)
Other businesses
Households
UK businesses

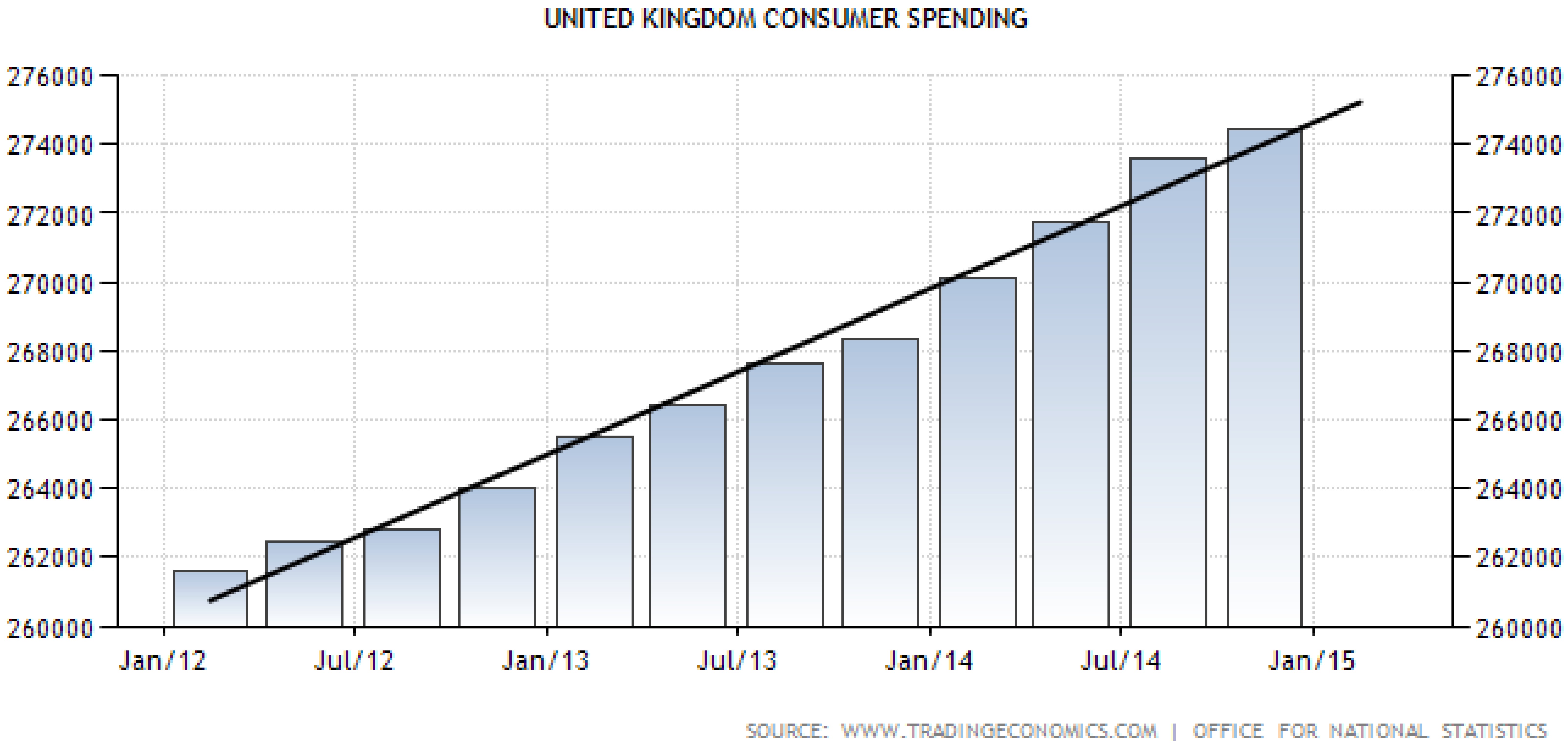
The B of E will require 4.05% ratio by 2019: this will reduce leverage from 33x today to 25x



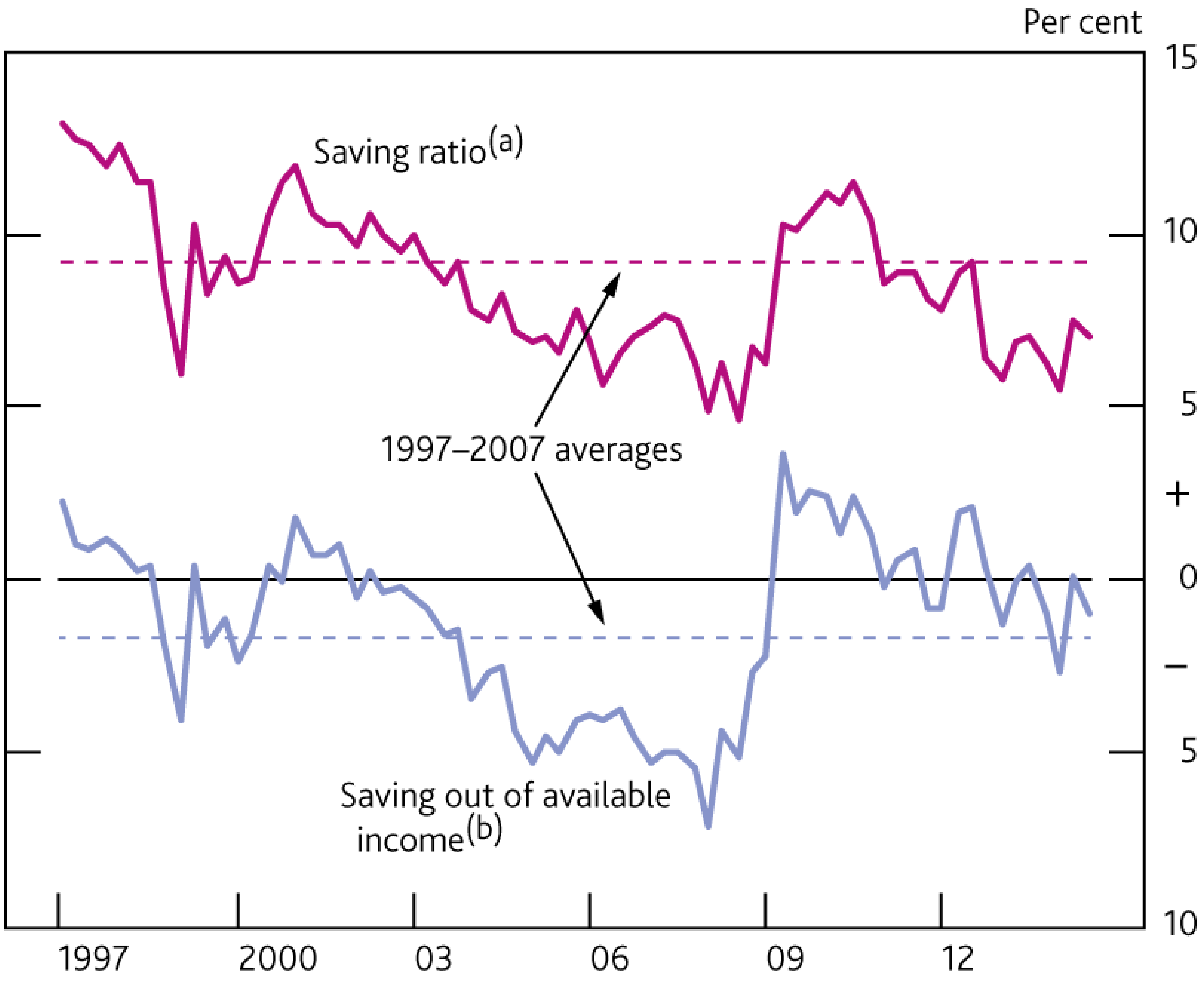
Household consumption rising steadily thanks to 22Bn payout by banks for mis-selling and the growth in unsecured lending (up 10%)



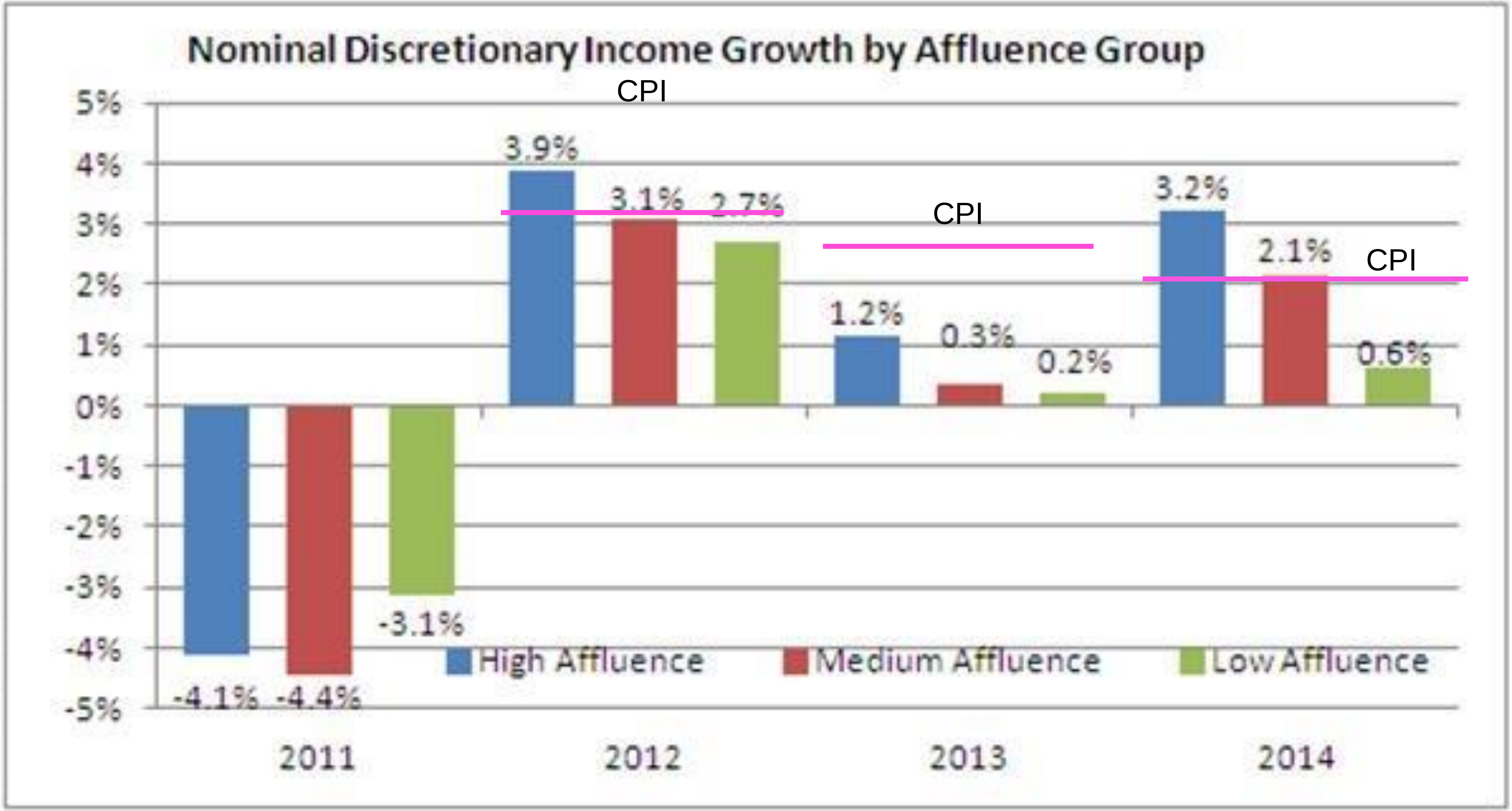
UK consumer spending has been above last 3 years trend for past 12 months. It will continue.



The household saving ratio has fallen

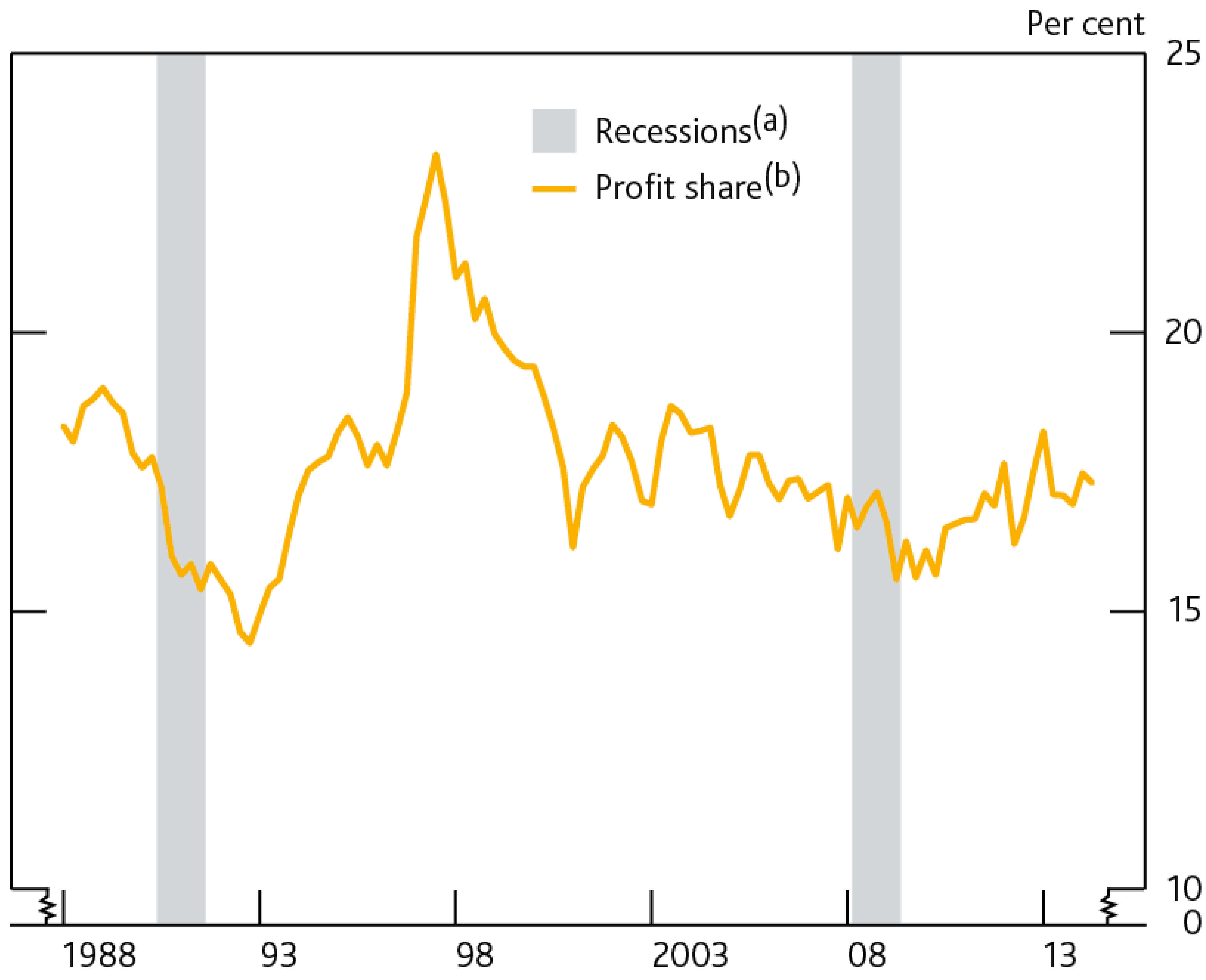


(a) Percentage of household post-tax income.
(b) Percentage of household post-tax income excluding income flowing into employment-related pension schemes.

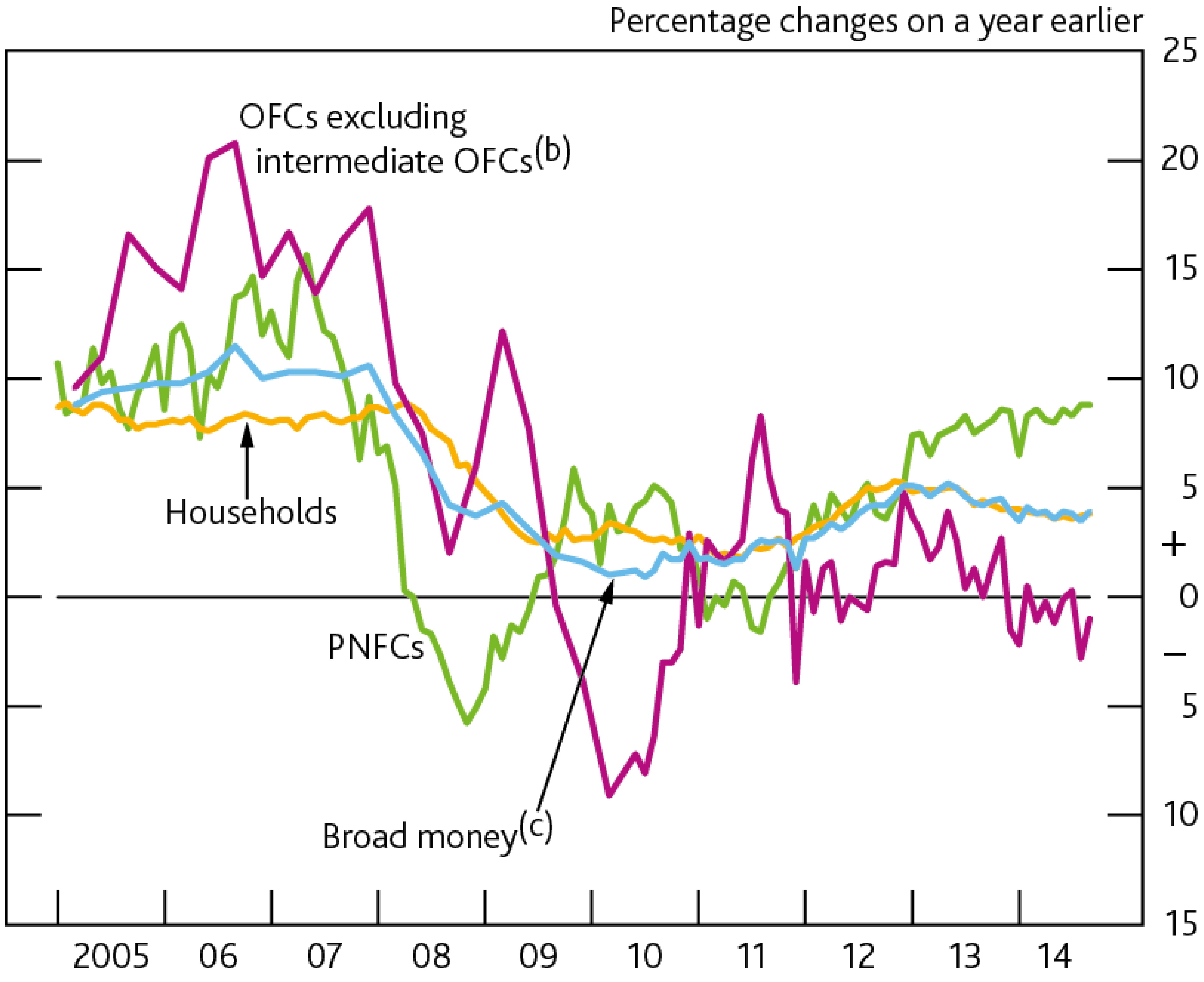


Source: Experian

Companies' gross margins have been broadly unchanged over the past year

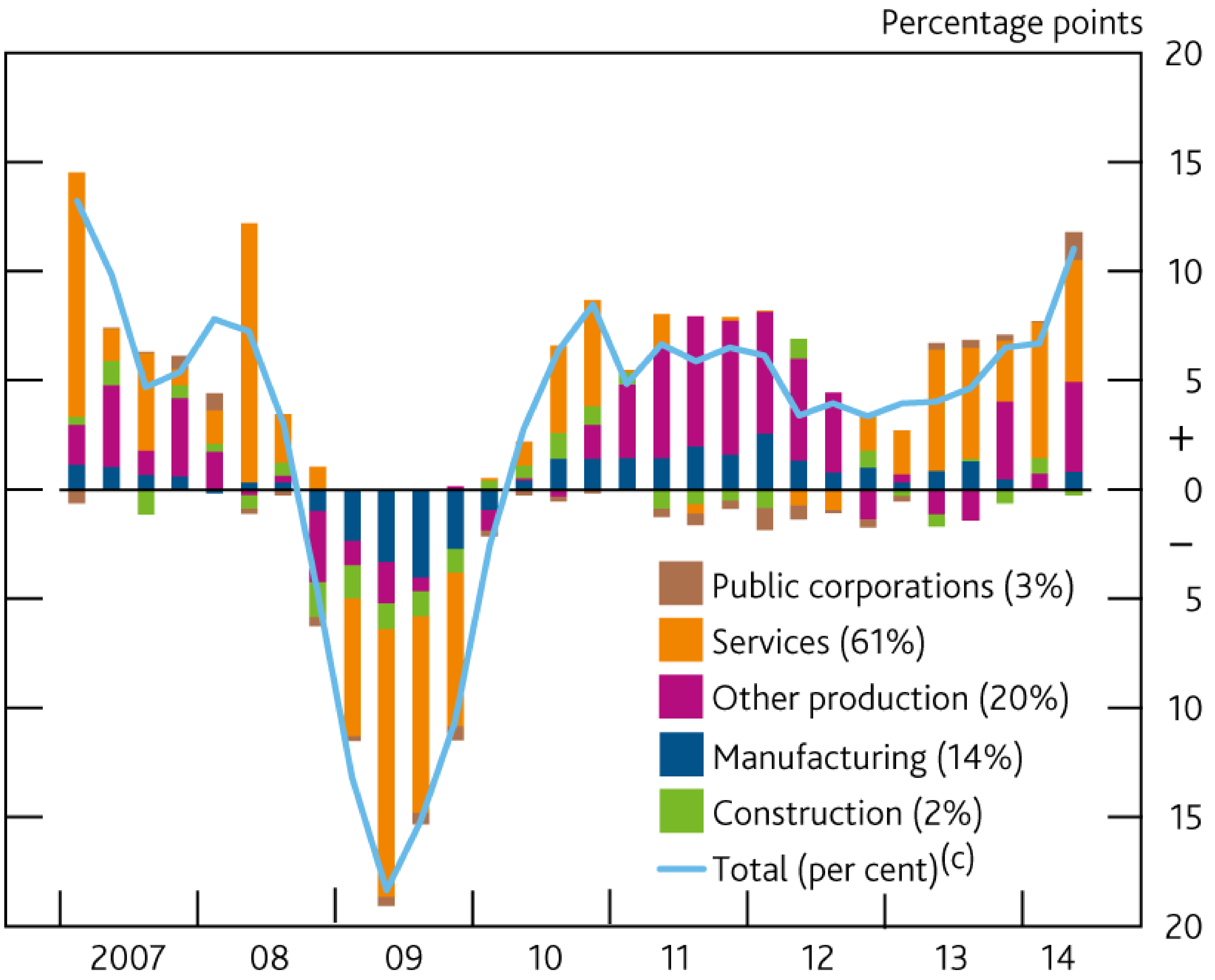


The cash position of private non-financial companies is improving

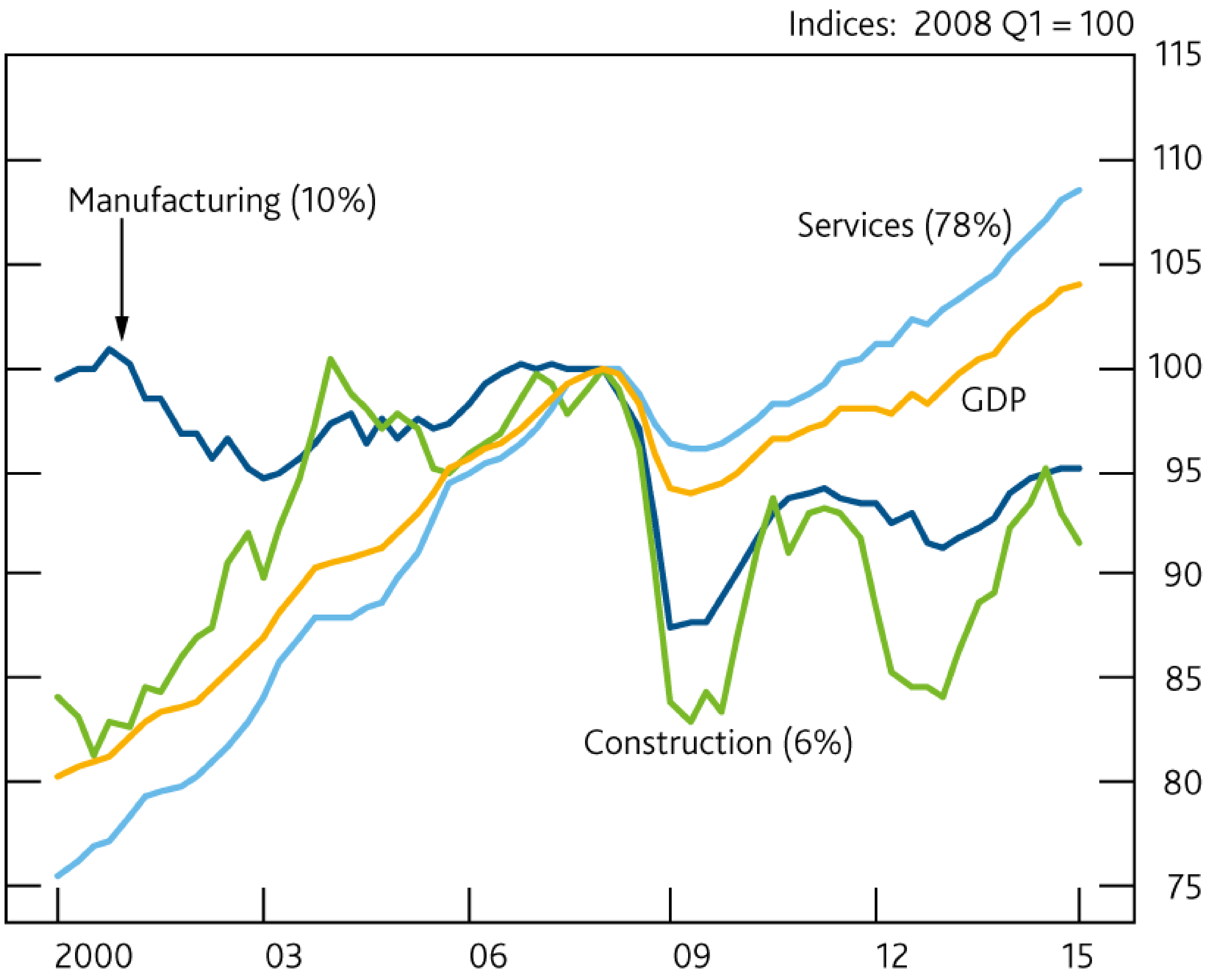


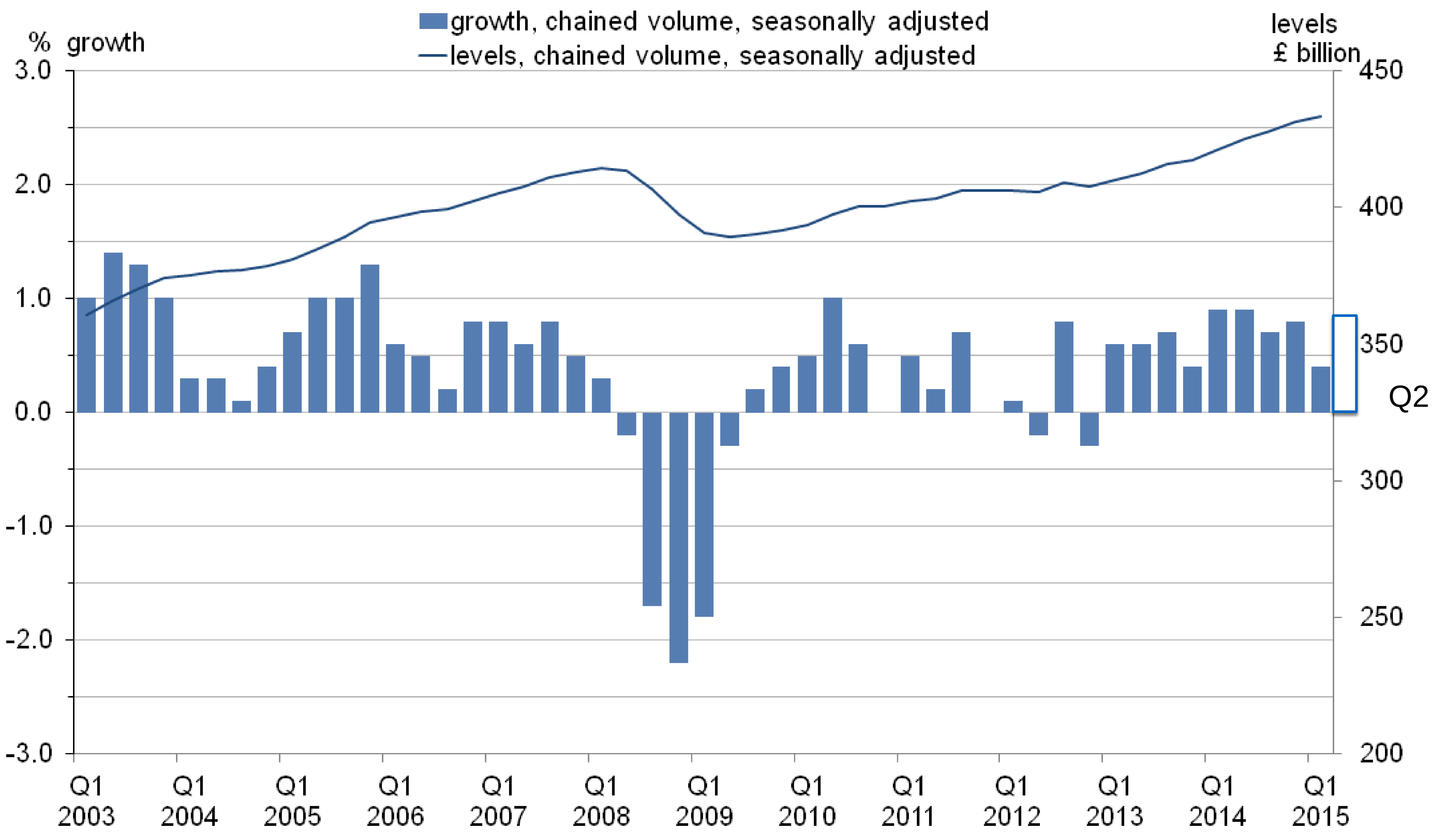
(a) Monthly data unless otherwise specified.
(b) Quarterly data. Intermediate other financial corporations (OFCs) are: mortgage and housing credit corporations; non-bank credit grantors; bank holding companies; securitisation special purpose vehicles; and other activities auxiliary to financial intermediation. Sterling deposits arising from transactions between banks or building societies and other financial intermediaries belonging to the same financial group are also excluded, quarterly prior to June 2010 and monthly thereafter.
(c) M4 excluding intermediate OFCs, quarterly prior to June 2010 and monthly thereafter.

Significant upturn in business investment growth[a][b]

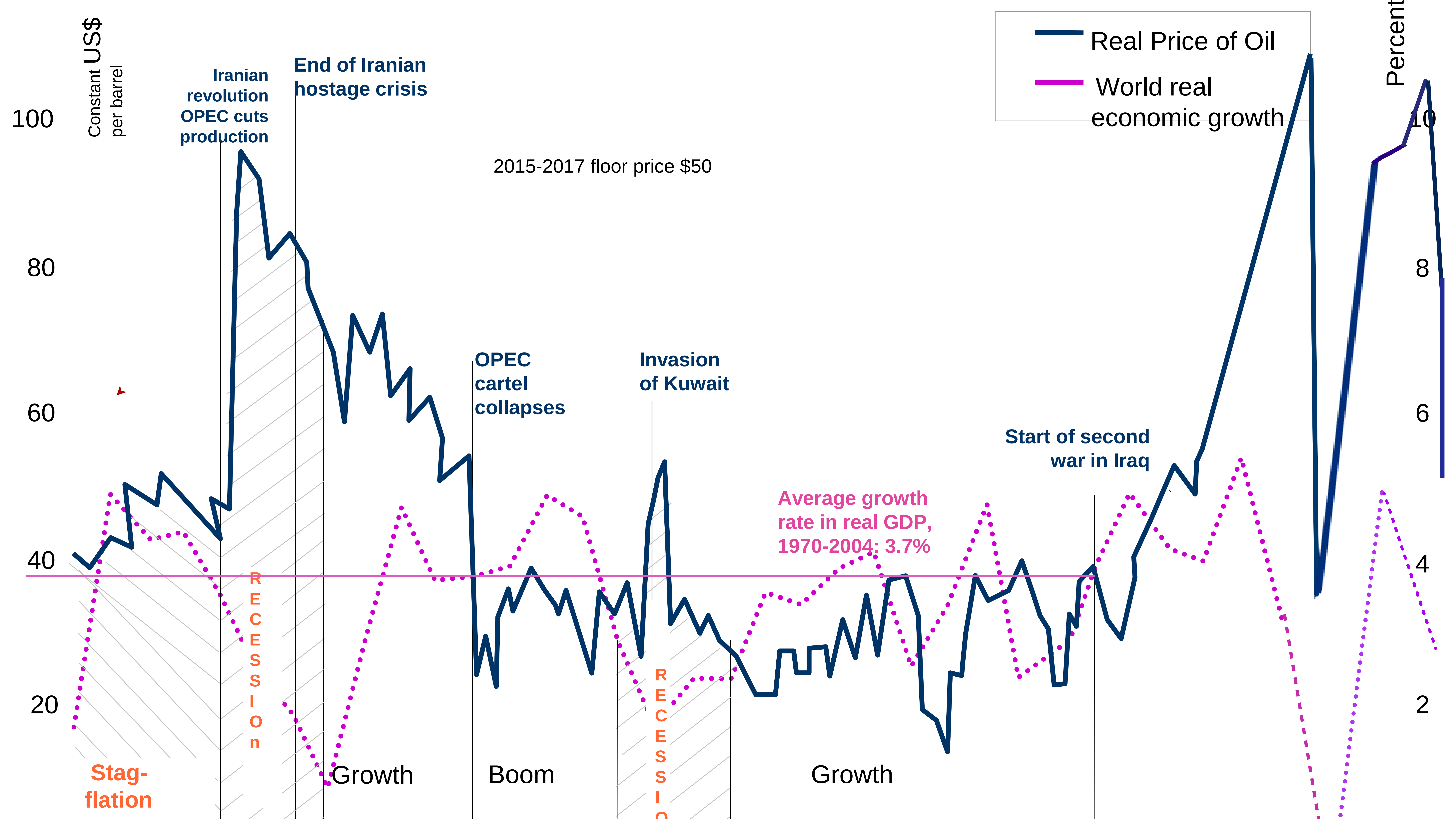


GDP and sectoral output[a]



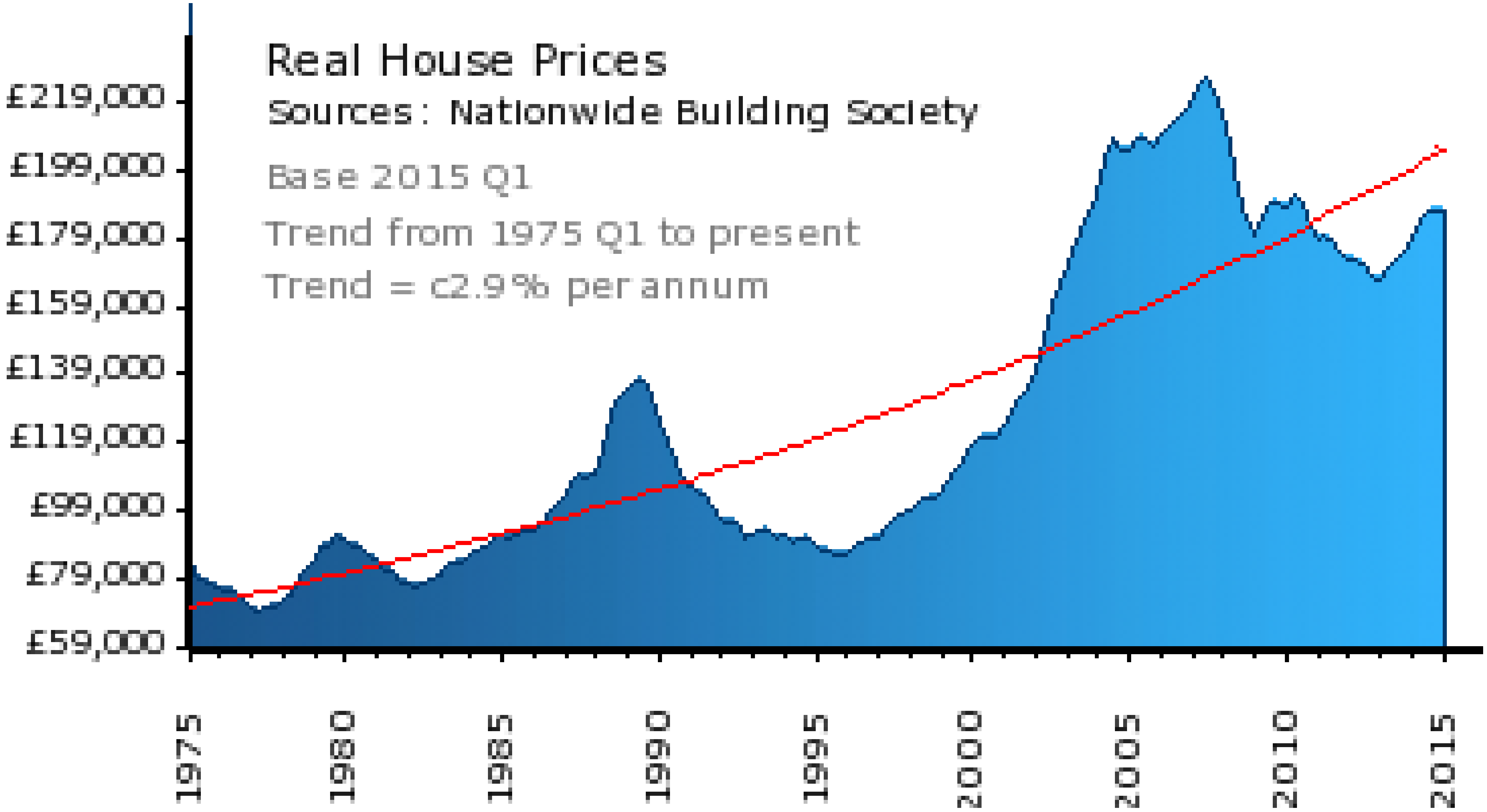


growth, chained volume, seasonally adjusted
levels, chained volume, seasonally adjusted
% growth
levels £ billion
3.0
2.0
1.0
0.0
-1.0
-2.0
-3.0
450
400
350
300
250
200
Q2
Q1 2003
Q1 2004
Q1 2005
Q1 2006
Q1 2007
Q1 2008
Q1 2009
Q1 2010
Q1 2011
Q1 2012
Q1 2013
Q1 2014
Q1 2015

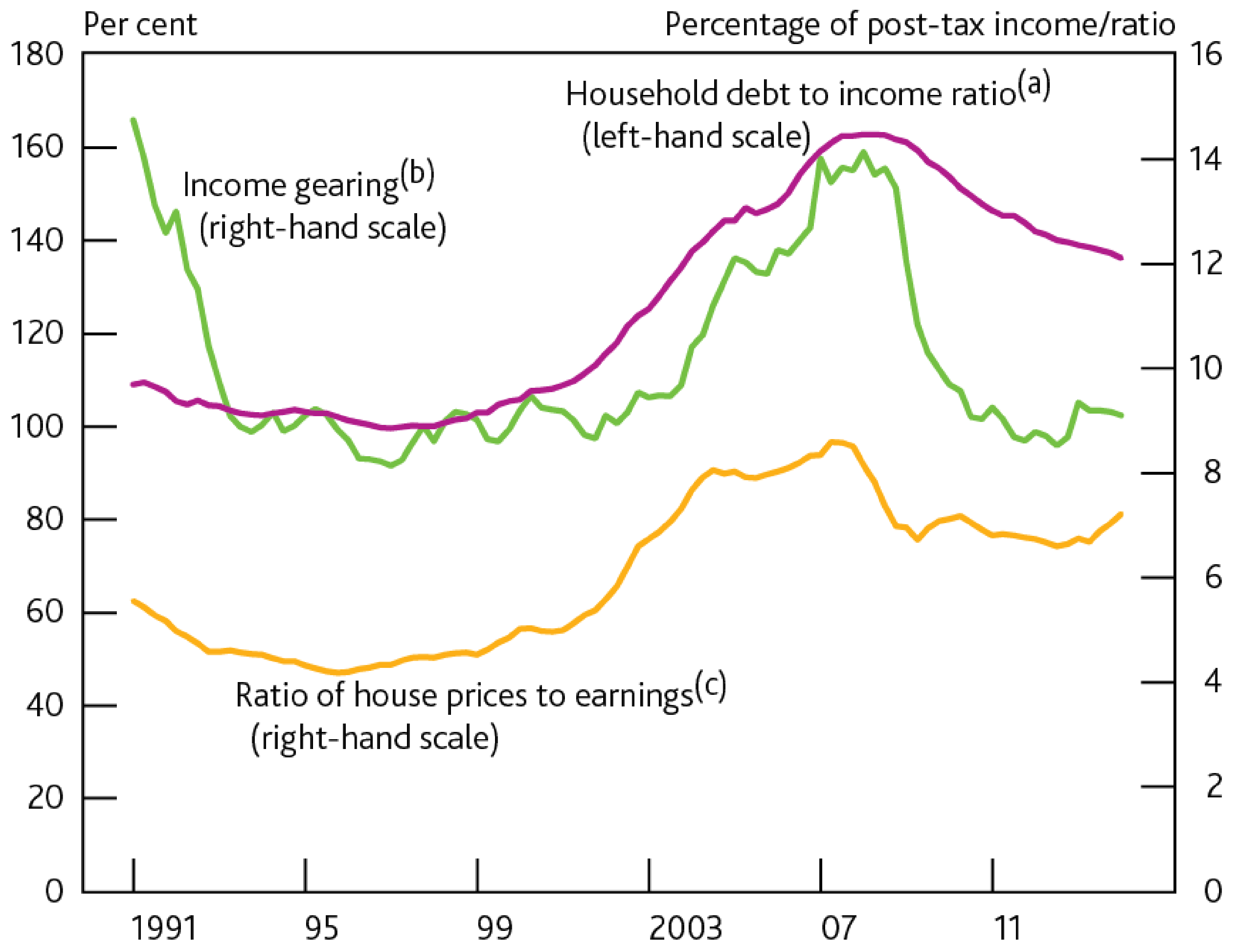


Real Price of Oil
World real economic growth
Constant US$ per barrel
Percent
100
80
60
40
20
10
8
6
4
2
Iranian revolution OPEC cuts production
End of Iranian hostage crisis
2015-2017 floor price $50
OPEC cartel collapses
Invasion of Kuwait
Start of second war in Iraq
Average growth rate in real GDP, 1970-2004: 3.7%
RECESSIOn
RECESSIO
Stag-flation
Growth
Boom
Growth

UK real house price growth



Indicators suggest housing remains more affordable than in the run-up to the crisis



The B of E want to maintain this level

The driver of interest rates is the rate of wage growth: there will be no increase until wages (as distinct from earnings) are growing above 3%

No change in interest rates until mid 2016 then gradual increases to a max of 2.75% by 2020

House prices up 3-5% per annum, no boom

Wages will grow 3%

All UK businesses with a distinctive and compelling offer will enjoy significant growth

GDP will grow 2.5-2.8%

5 years of steady, low inflation growth until 2020 when the next slowdown will begin!

An increase in US interest rates (will slow global growth)

Oil back to $100 (unlikely)

Chinese military aggression in South China Sea following poor economic growth

ISIL (risk unknown)

The UK decides to leave the EU

It will increase net taxes by £ 6.5Bn per year by 2020

It will limit public sector wage rises to 1%pa

It will require employers of those aged over 25 to pay the living wage: worth £4bn

Changes is welfare payments amount to £12Bn, this will mostly impact on the working poor

The overall impact will be to reduce real GDP by 0.1% each year

The Budget has been designed to reduce the Government deficit, whilst maintaining pension increases each year

Your primary residence is now free of all taxes up to £1million value

The hospitality industry is one of the low payers:
the living wage will require increases in efficiency
through innovation, until then margins will be lower

The reduction in corporation tax will allow successful operators to keep more of their profit (and the increase in tax on dividends should prompt greater profit retention to finance investment)

Despite all this, 5 very good years of growth is in prospect

ENJOY!