

The economic and property outlook by **Roger Bootle**

Accelerating success.

1. Agenda

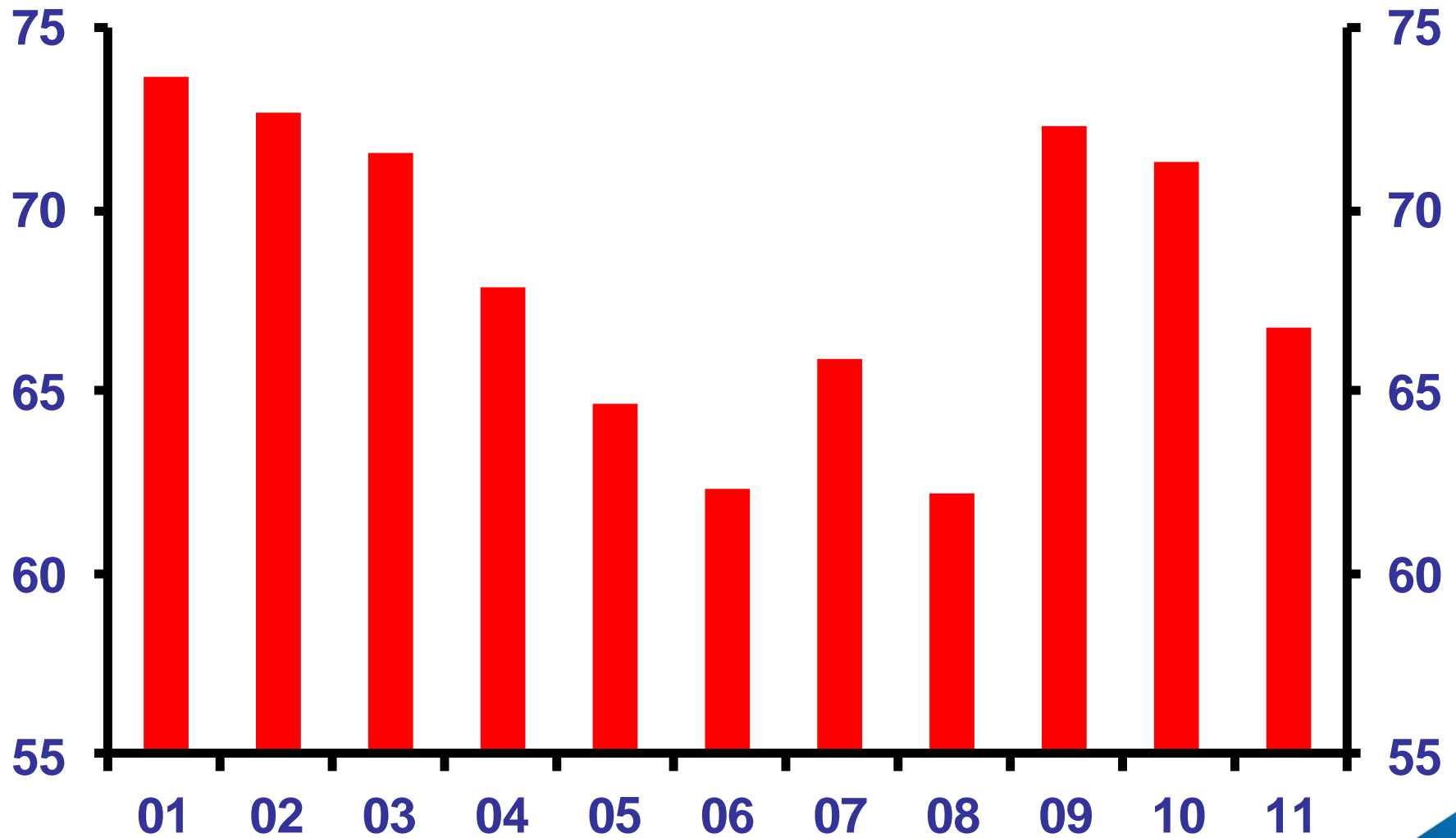
- **A slowdown in China?**
- **The United States faces the cliff.**
- **Will the Euro survive?**
- **How can the UK recover?**
- **The outlook for financial markets.**
- **The prospects for property.**

2. Capital Economics China Activity Proxy and Official GDP (1994 – 2012)



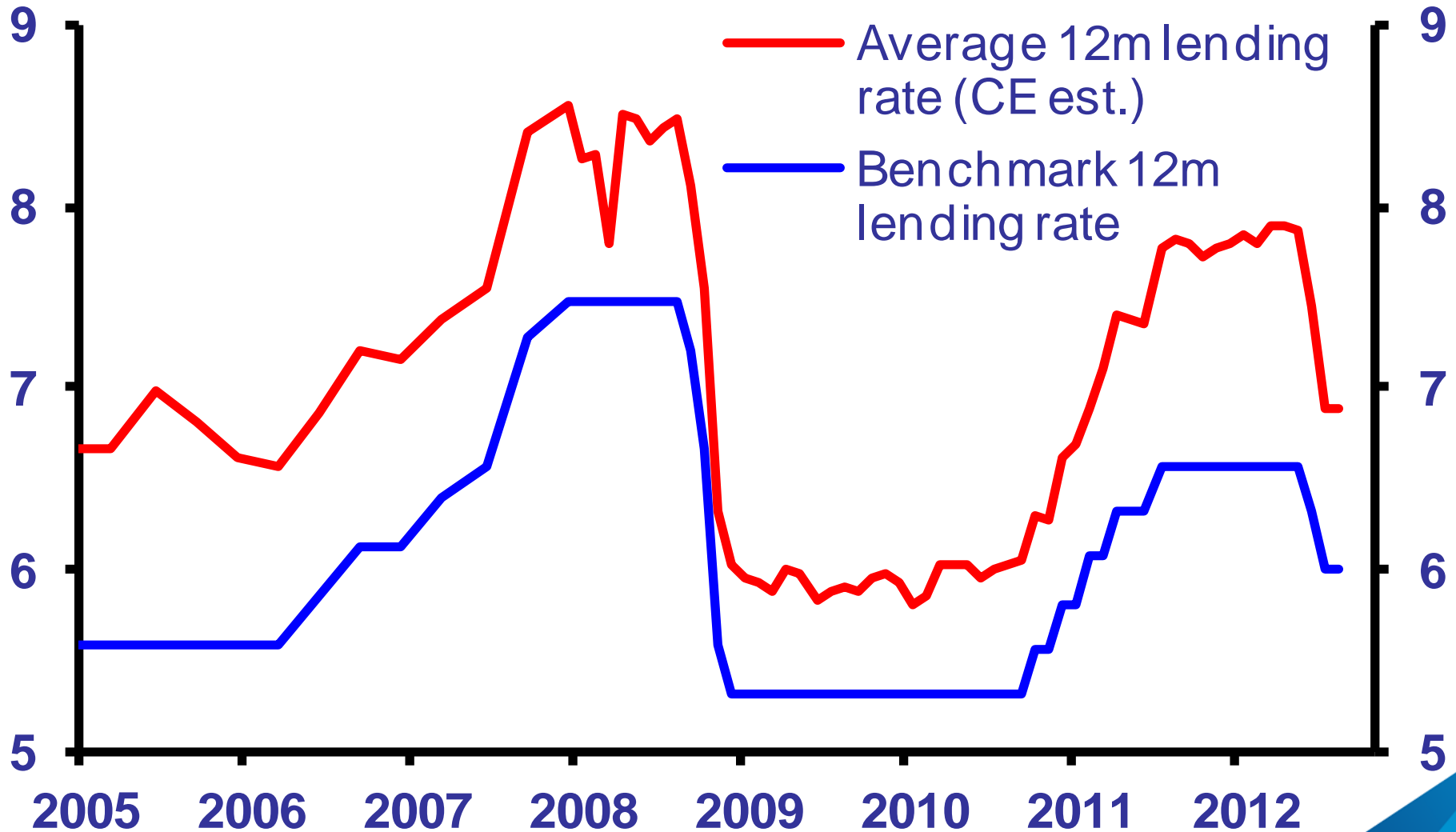
Sources: CEIC, Thomson Datastream, Capital Economics

3. China Gross Government Debt (% of GDP) (2001 – 2011)



Source: Capital Economics

4. Chinese Interest Rates (2005 – 2012) (Latest = August)



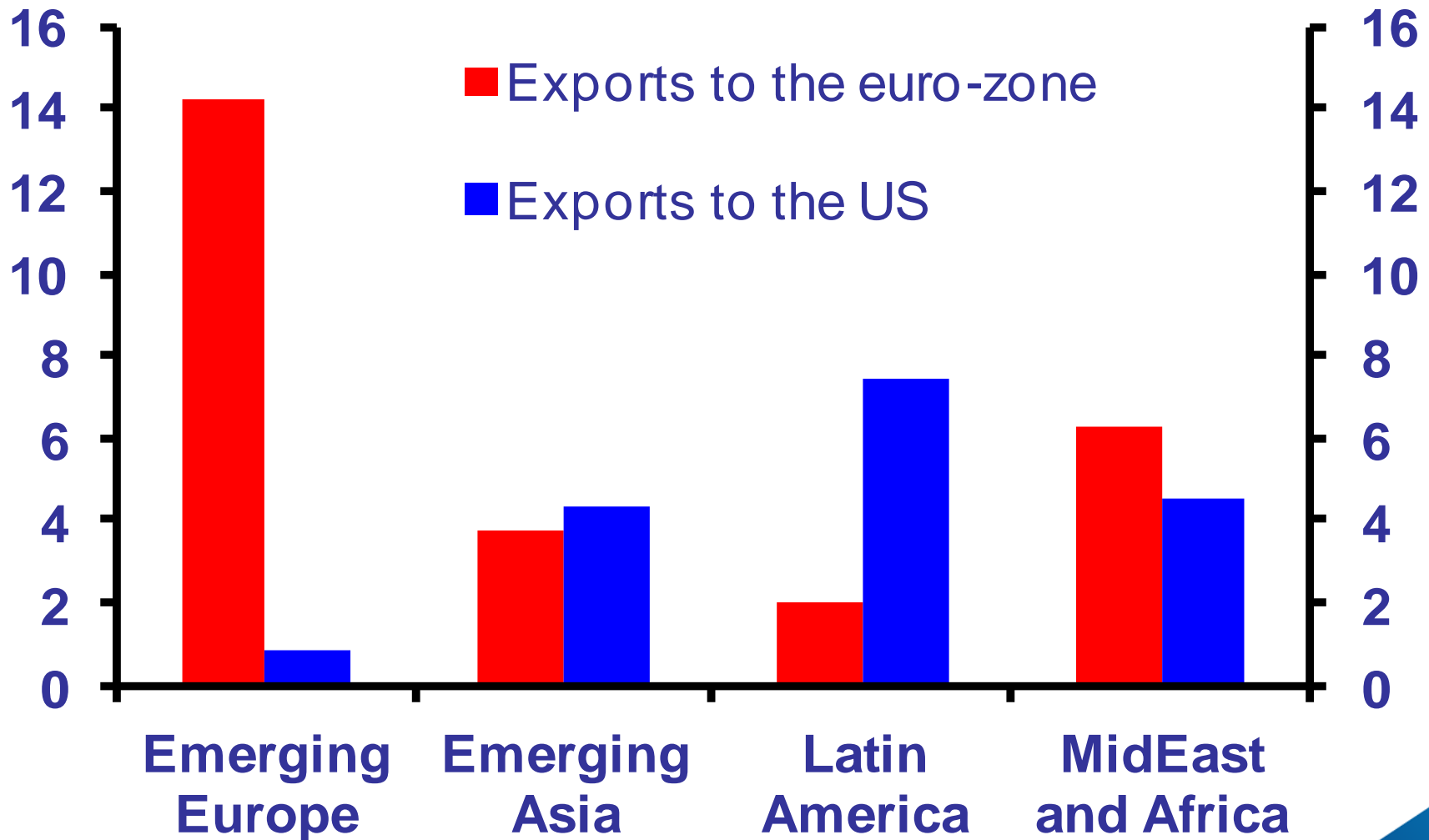
Sources: Thomson Datastream, Capital Economics

5. Chinese GDP (2005 – 2014) (Latest = Q2)



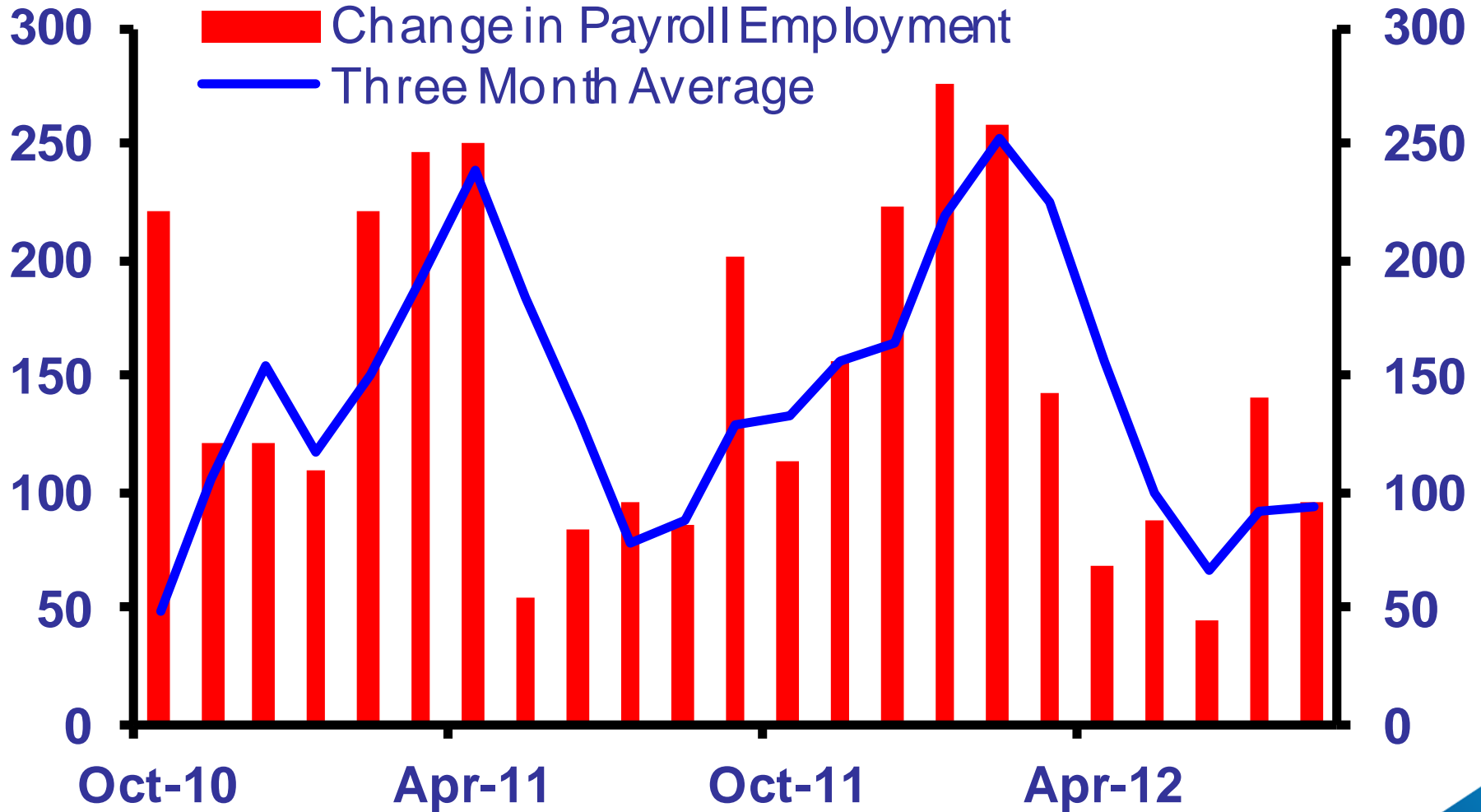
Sources: CEIC, Thomson Datastream, Capital Economics

6. Exports (% of GDP) (2011)



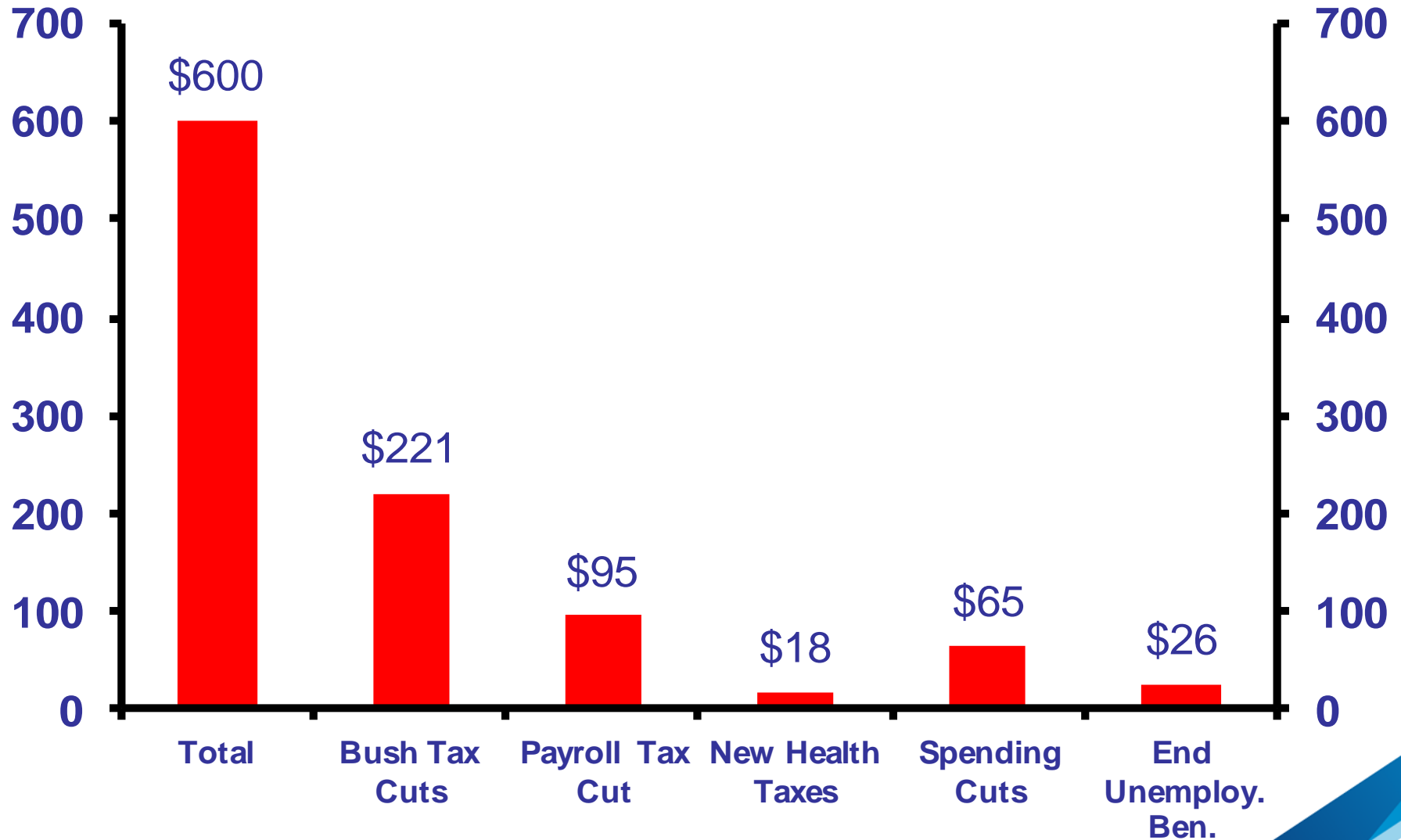
Sources: Thomson Datastream, Capital Economics

7. Change in U.S. Non-Farm Payroll Employment (000s) (Latest = August)



Source: Thomson Datastream


8. The “Fiscal Cliff” (\$bn)



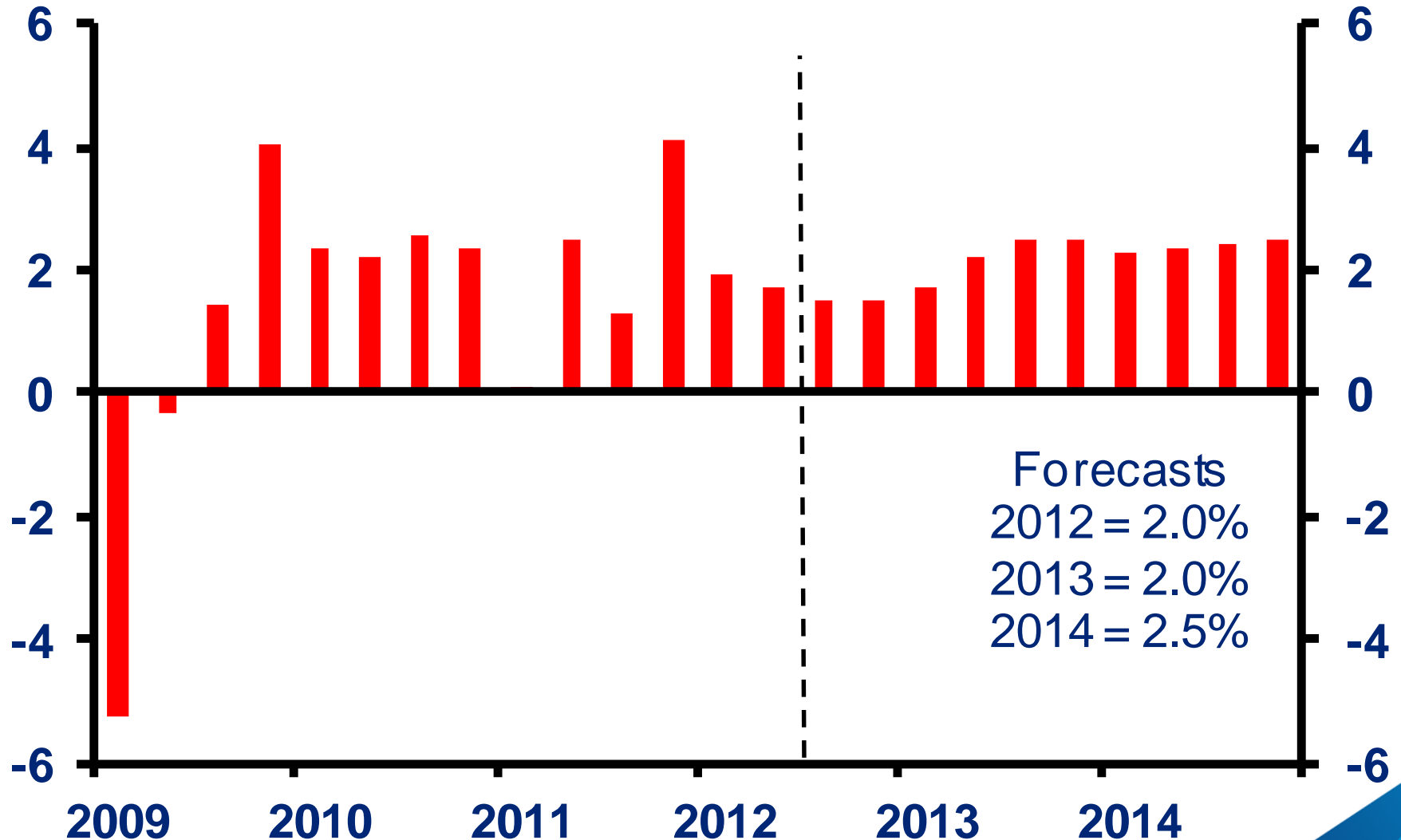
Source: Congressional Budget Office

9. Fiscal Cliff Summary



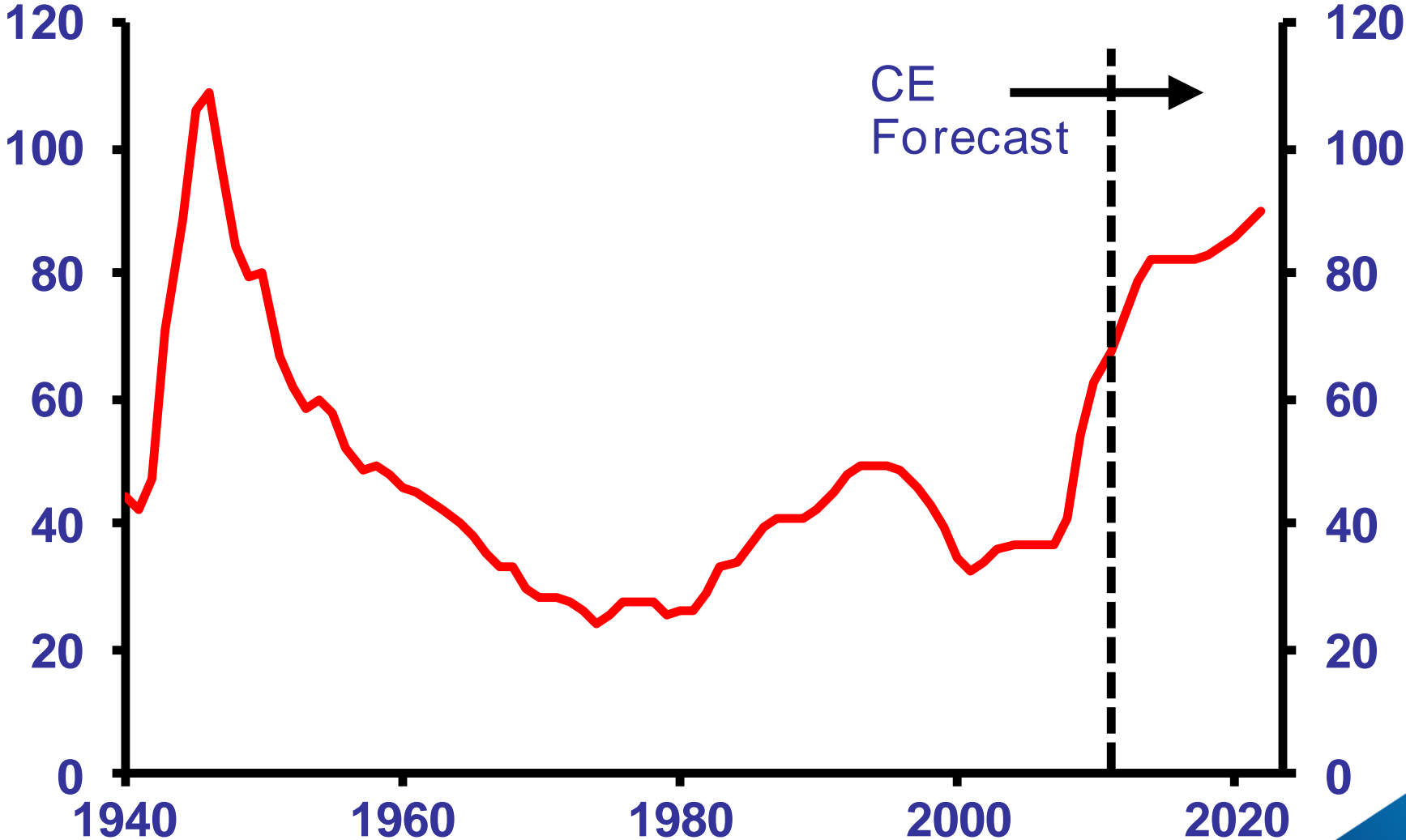
- **Most likely scenario is that the “cliff” is averted.**
 - **Fear of cliff contributes to weak growth this year.**
 - **GDP unlikely to grow by more than 2% in 2013.**
 - **Risks to growth lie on downside.**
 - **Medium-term fiscal plan is needed.**
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10. US GDP (% q/q Annualised) (2009 – 2014) (Latest = Q2)



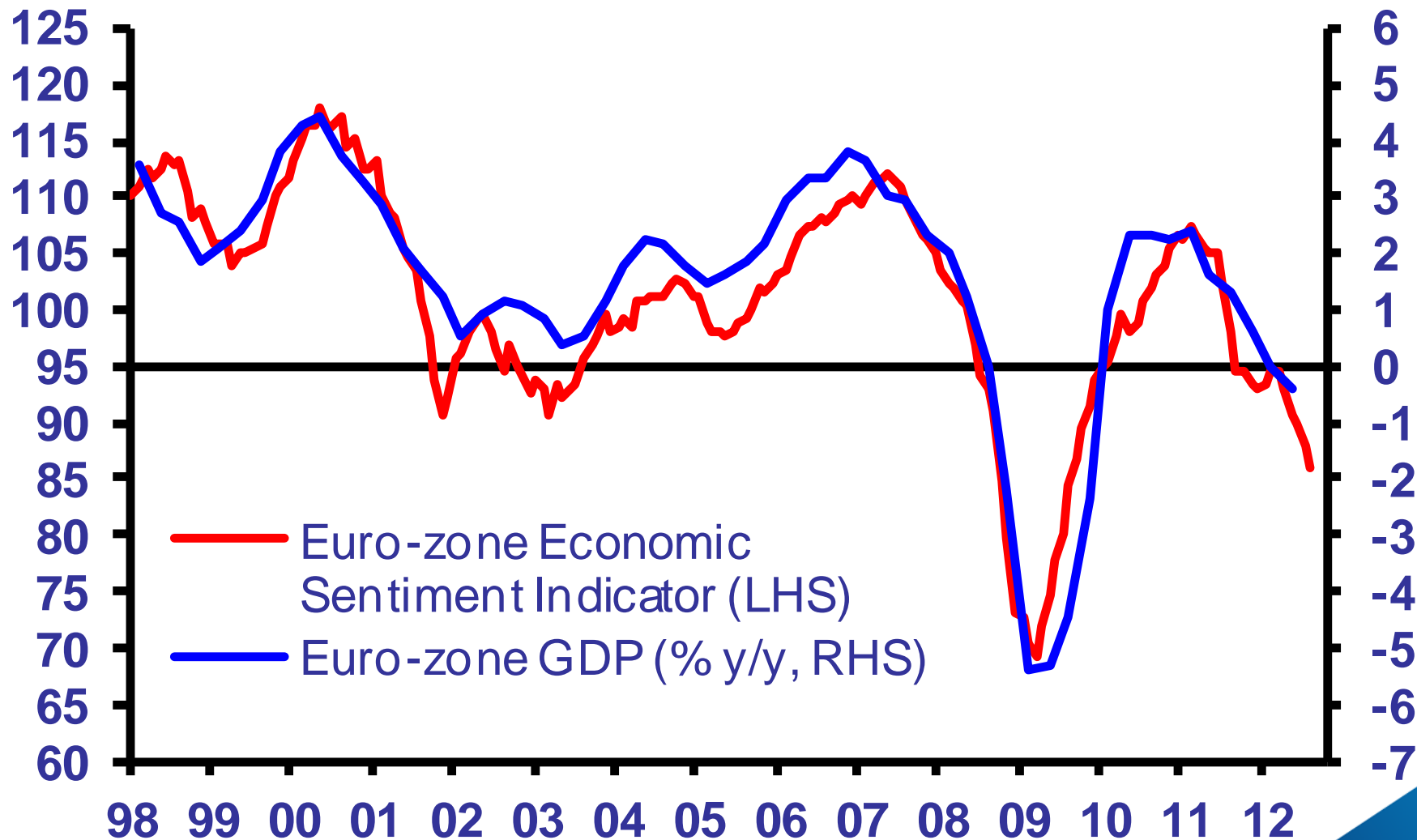
Sources: Thomson Datastream, Capital Economics

11. U.S. Federal Net Debt (As a % of GDP) (1940 – 2022) (Latest = 2011)



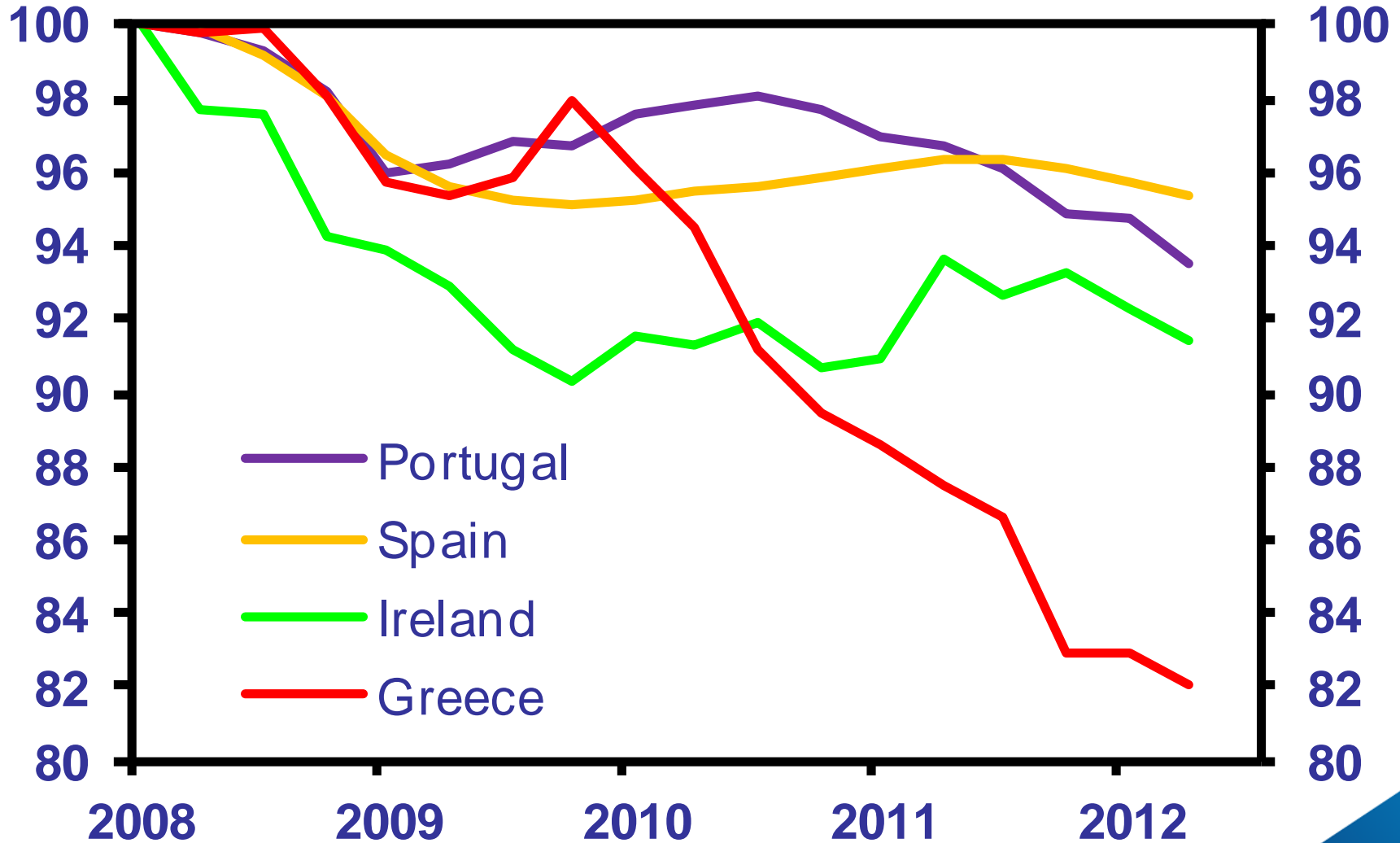
Source: Congressional Budget Office

12. Euro-zone Economic Sentiment Indicator & GDP Growth (1998 – 2012)



Source: Thomson Datastream

13. GDP (Q1 2008 = 100) (Latest = Q2 2012)



Source: Thomson Datastream


14. The Draghi Game-Changer?



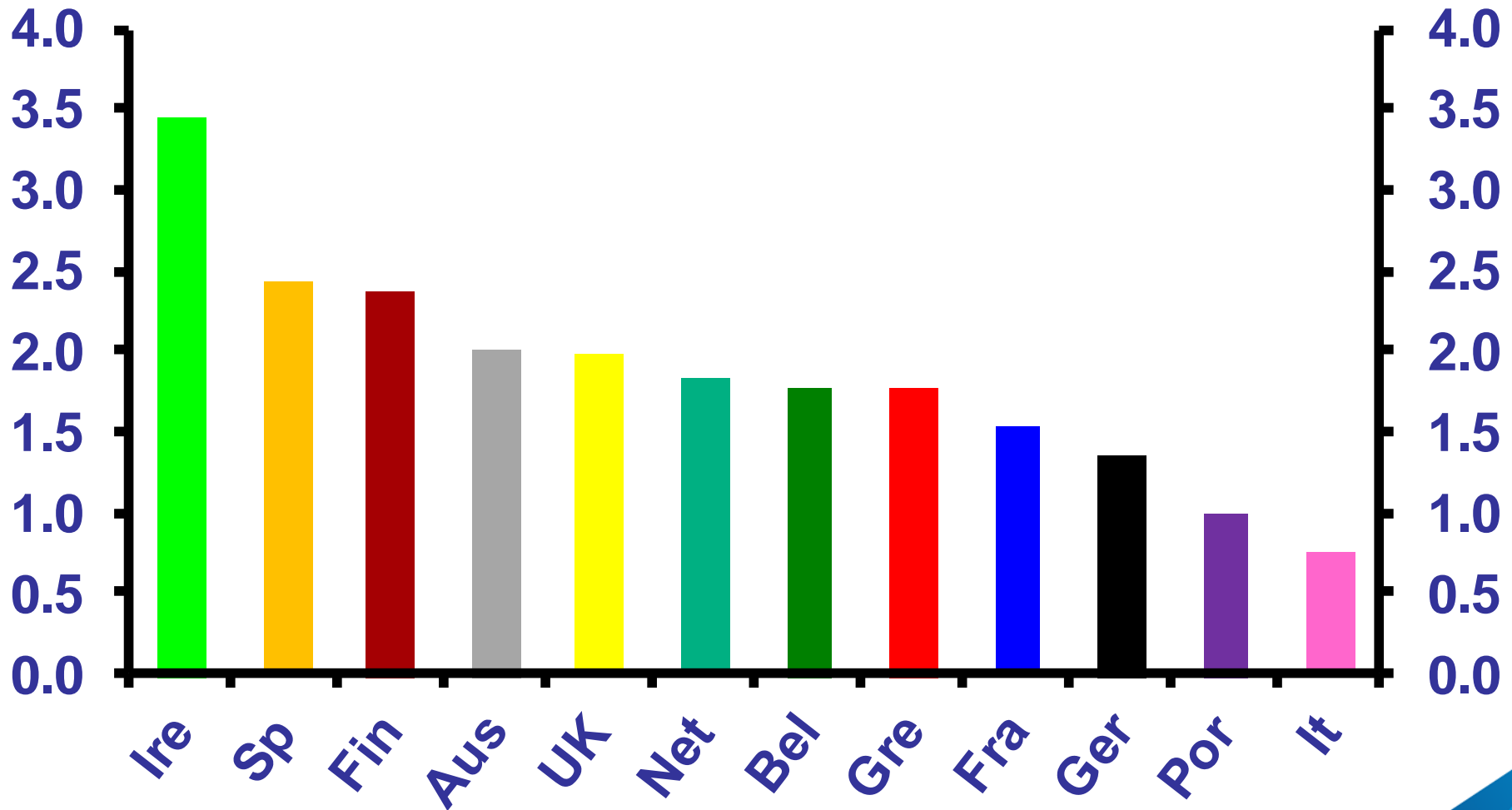
- **The latest of many attempts!**
- **Only deals with break-up risk in peripheral bond yields.**
- **Peripheral countries have first to seek assistance from EFSF/ESM.**
- **That will only come with stiff conditions. Spain and Italy may find this difficult to accept.**

15. The Deeper Politics



- **Greece is as good as out.**
 - **Euro-scepticism is rising in Germany, Holland, Austria and Finland.**
 - **Resentment against Germany in southern Europe.**
 - **Don't count out the Bundesbank just yet.**
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- A decorative graphic in the bottom right corner consisting of overlapping diagonal shapes in shades of blue.

16. Average GDP Growth (1999-2011) (% y/y)



Source: Thomson Datastream

17. A Bridge to Nowhere?




18. The future of the euro



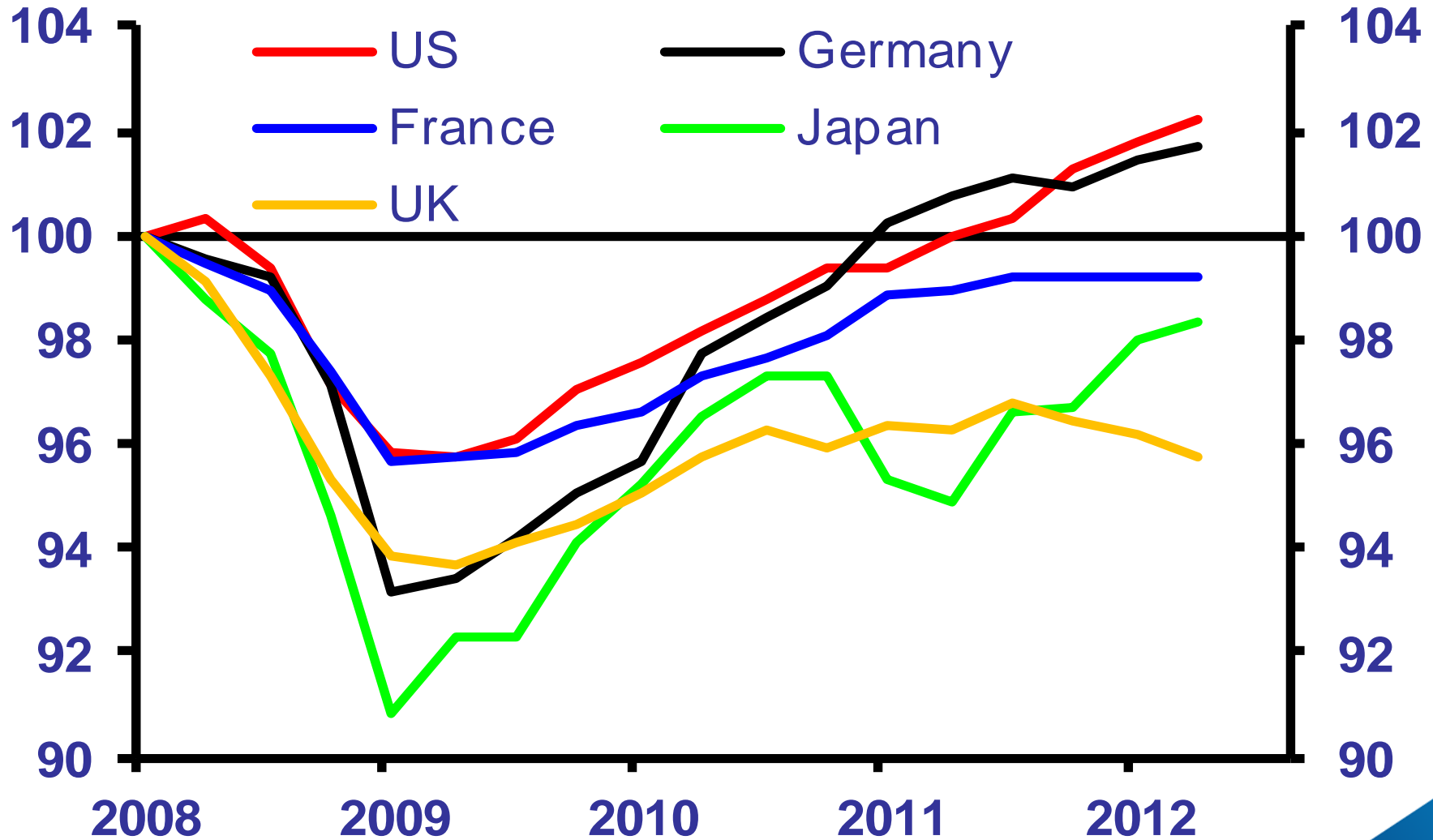
- **Badly conceived from the start.**
- **Requires fiscal and political union.**
- **This cannot work for the current membership.**
- **The euro should split into two - north and south.**
- **More likely, Greece will leave, later followed by other countries.**

19. Market Consequences



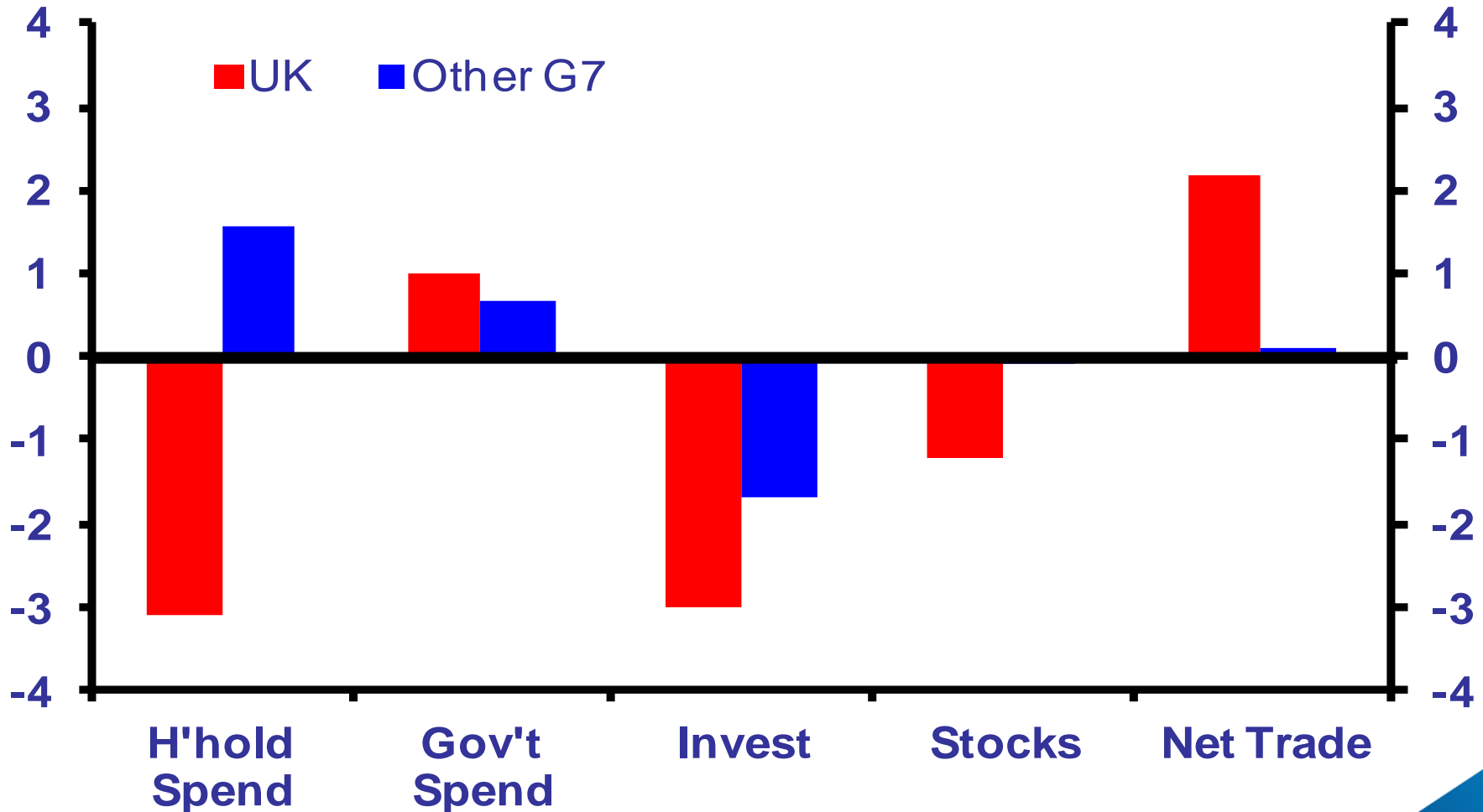
- **Greek euro exit is in the market.**
 - **Afterwards a period of optimism.**
 - **The subsequent crisis would seriously hit confidence.**
 - **But unlike with the Lehman crisis, there is an upside – the resumption of growth in Europe.**
 - **The break-up of the euro is part of the solution, not the problem.**
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20. GDP (Q1 2008 = 100) (Latest = Q2 2012)



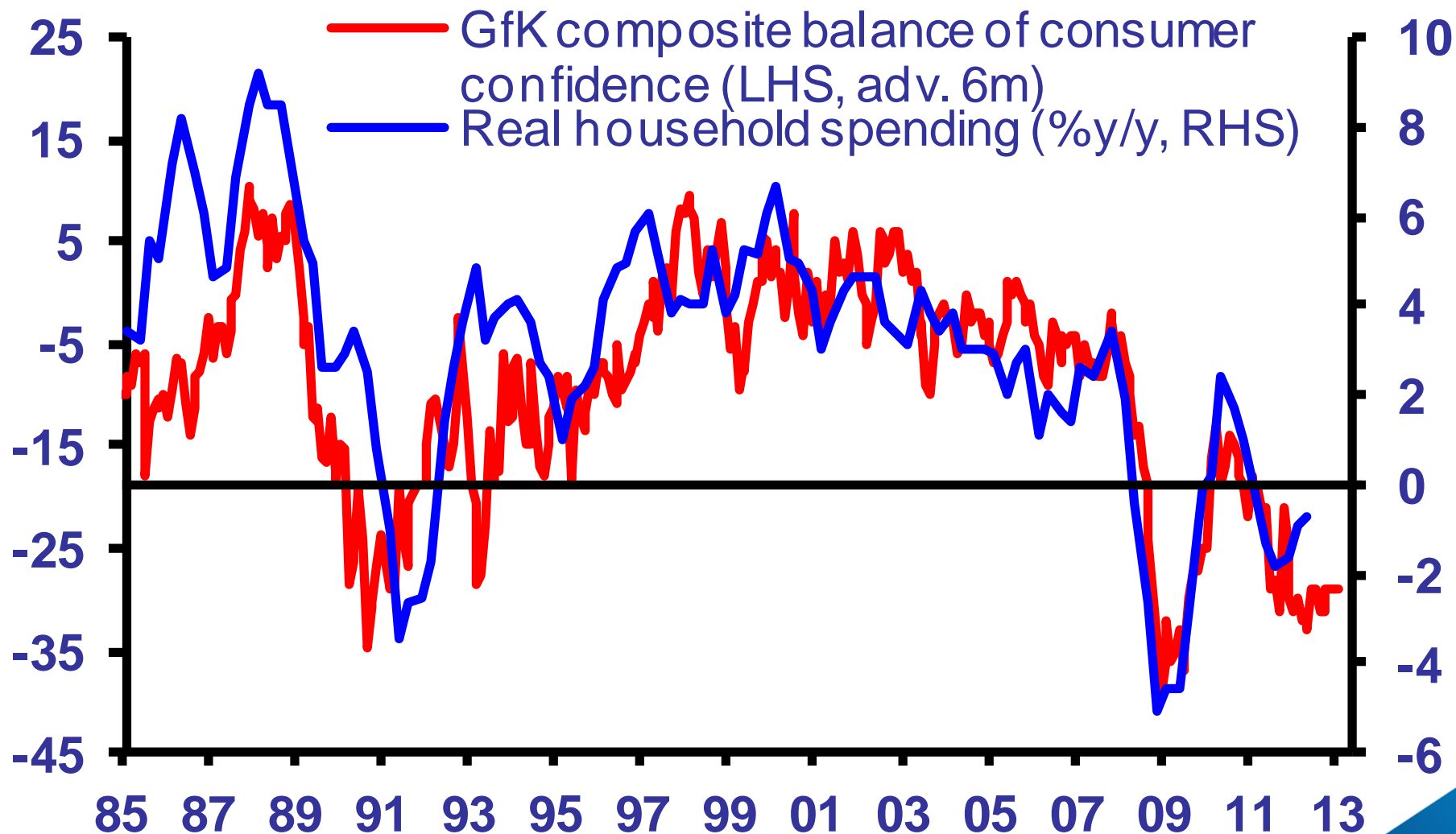
Source: Thomson Datastream

21. Contributions to Change in Real GDP (By Expenditure Component, %, Q1 2008 – Q1 2012)



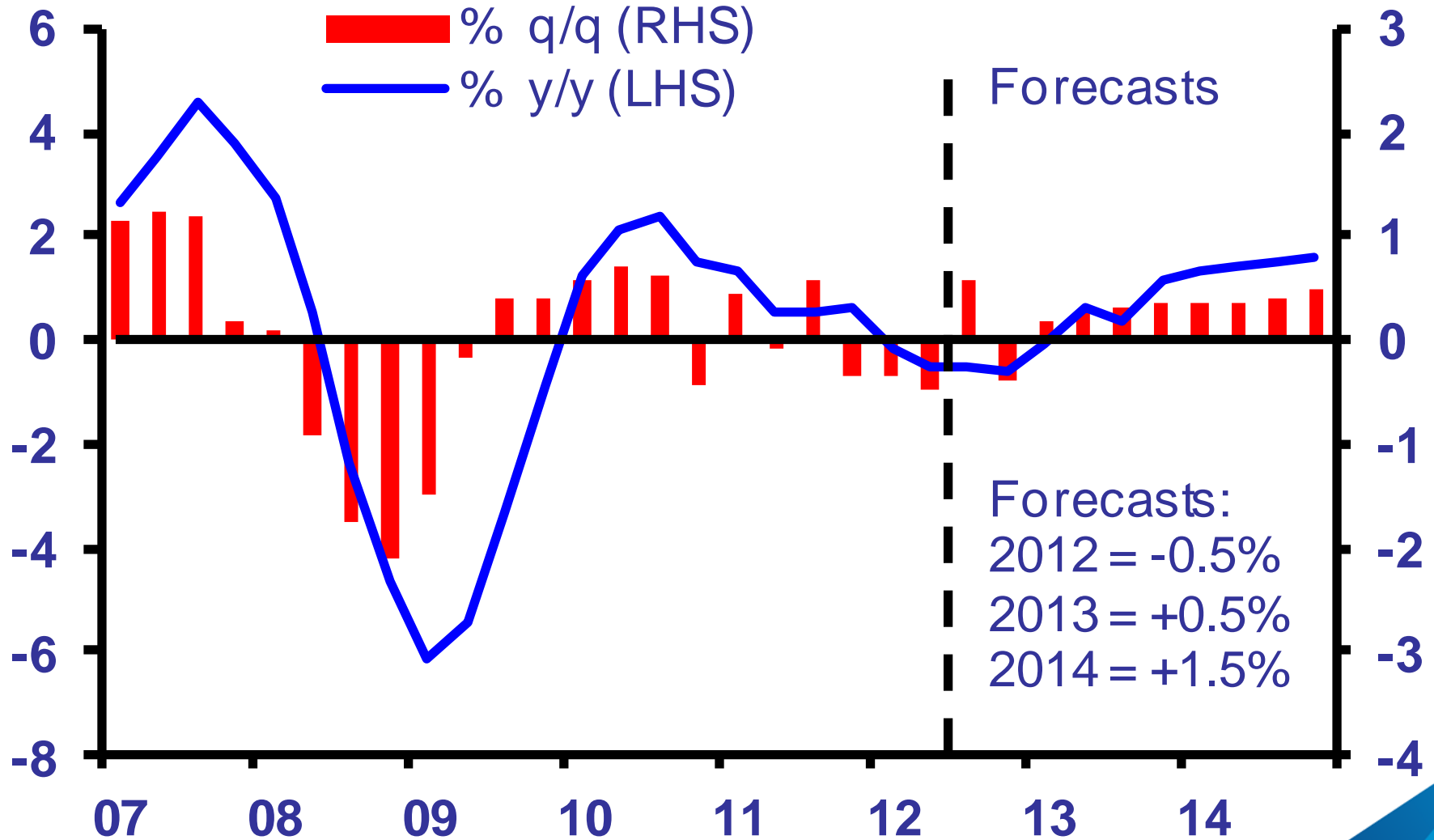
Source: Thomson Datastream

22. UK Consumer Confidence and Household Spending(1985 – 2012) (Latest = August)



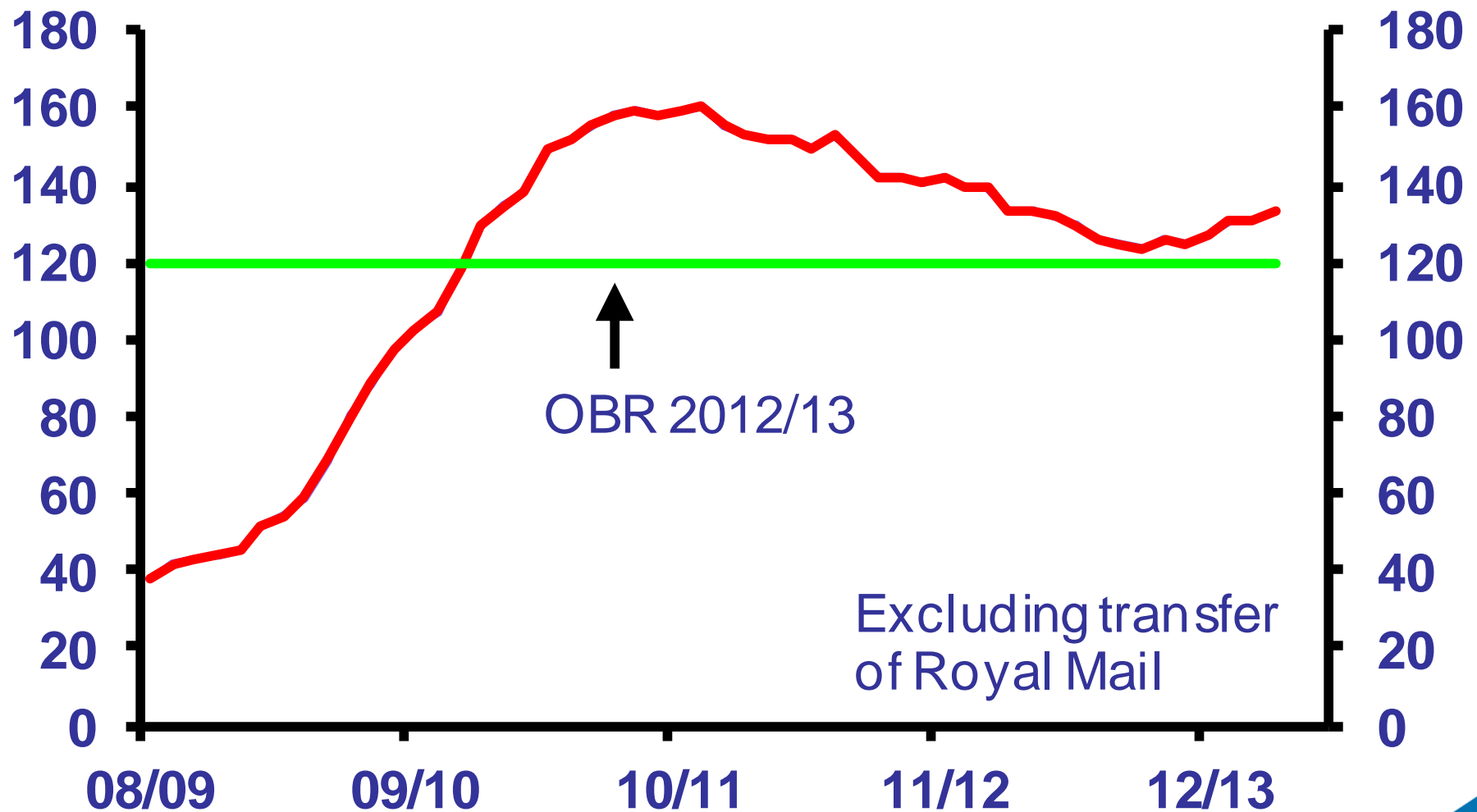
Source: Thomson Datastream

23. UK GDP (2007 – 2014) (Latest = Q2)



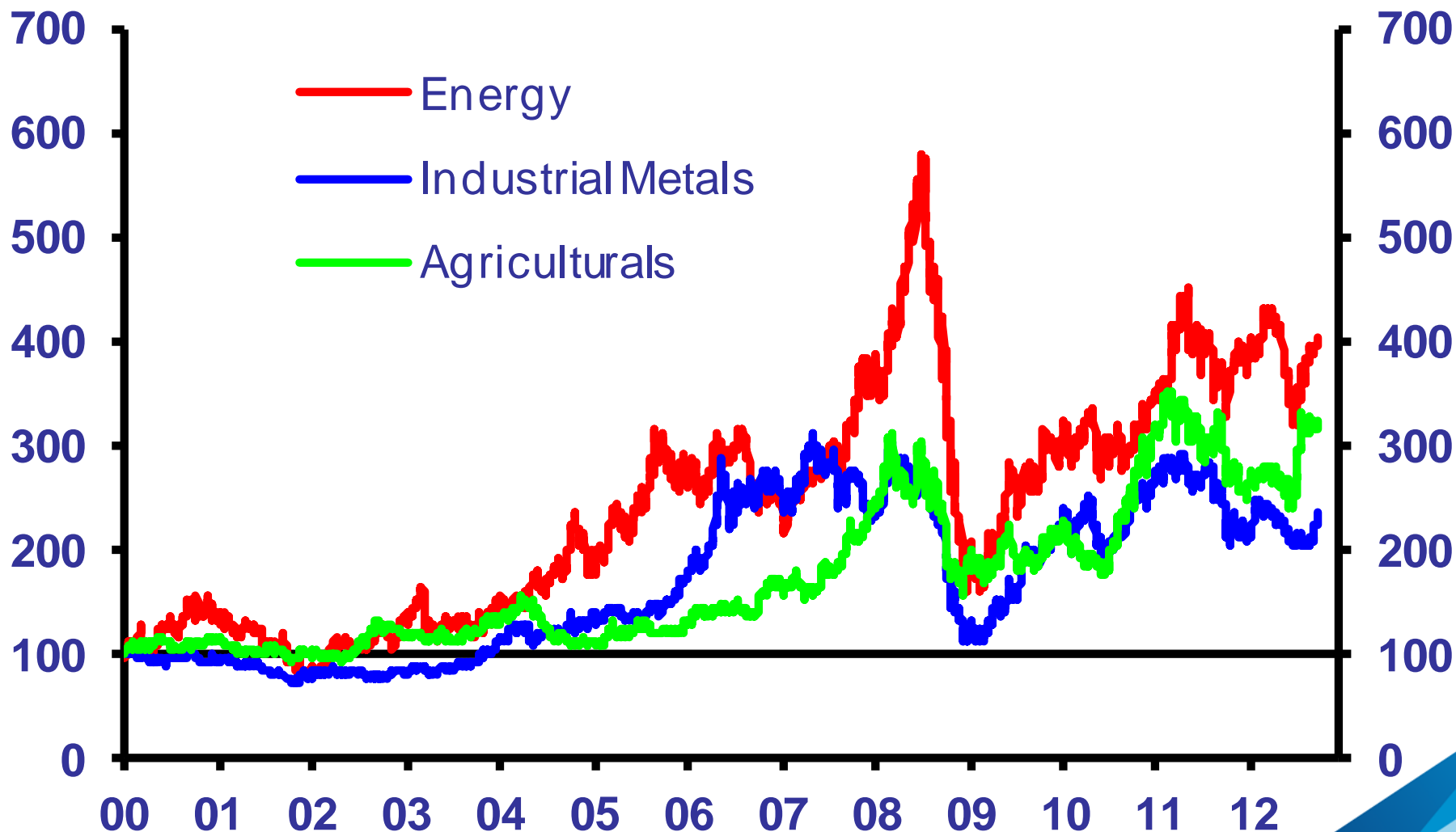
Sources: Thomson Datastream, Capital Economics

24. Public Sector Net Borrowing (12 Month Rolling Average, £bn, 2008/09 – 2012/13, Latest = July)



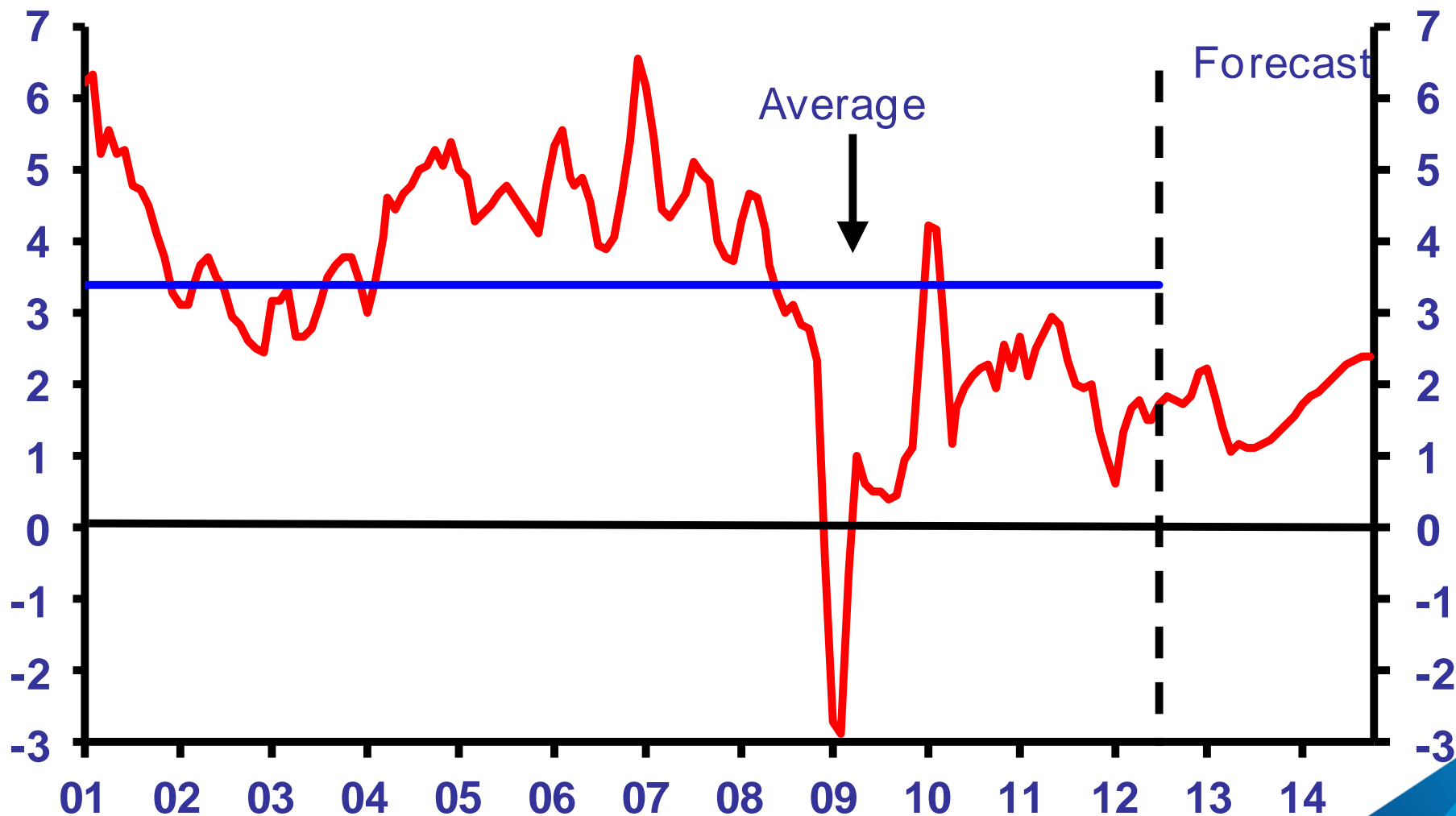
Source: Thomson Datastream

25. Commodity Prices (Jan. 2000 = 100) (2000 – 2012) (Latest = 14th Sep.)



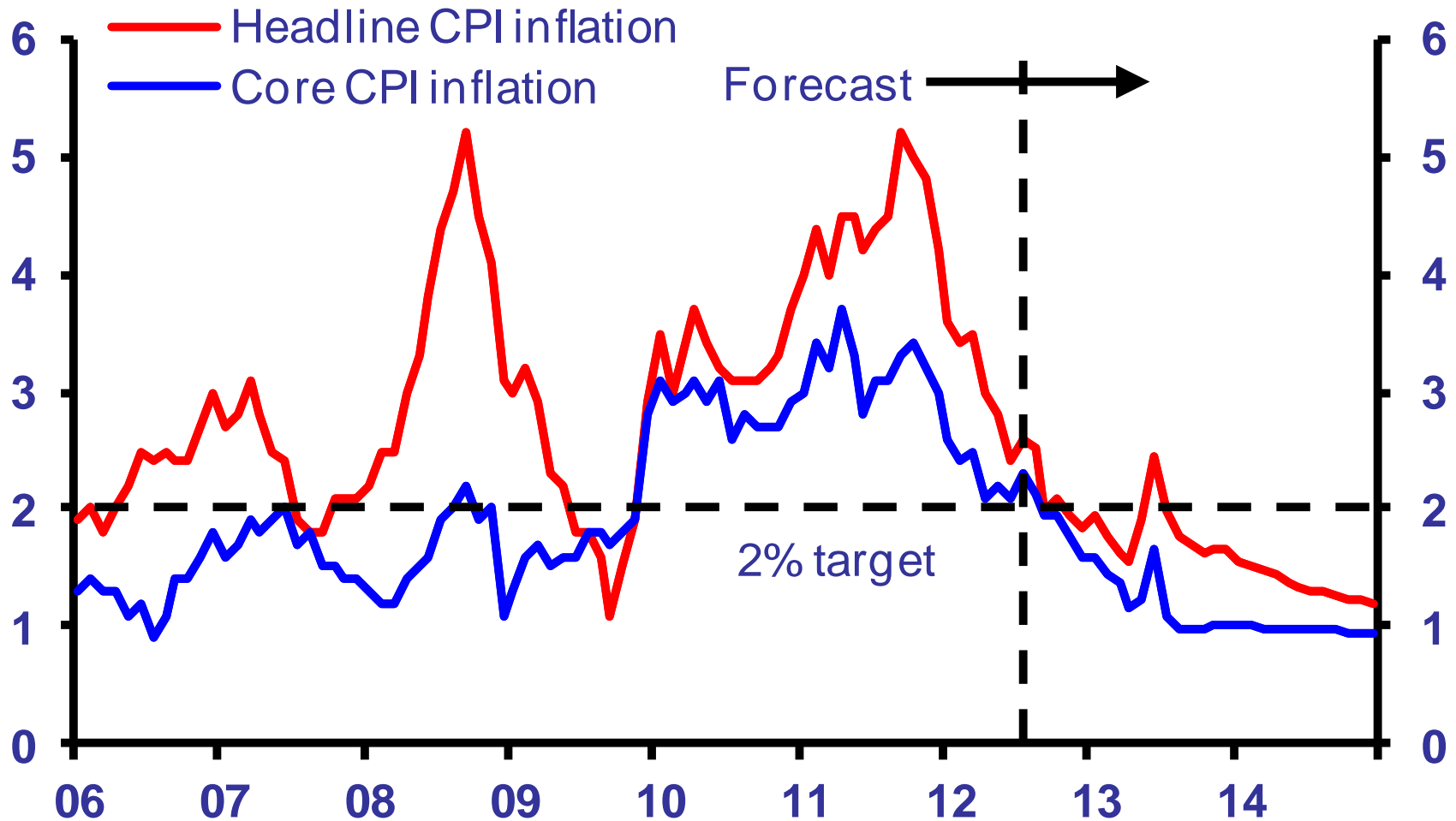
Source: Thomson Datastream

26. UK Average Earnings (2001-2014) (% y/y) (Latest = July)



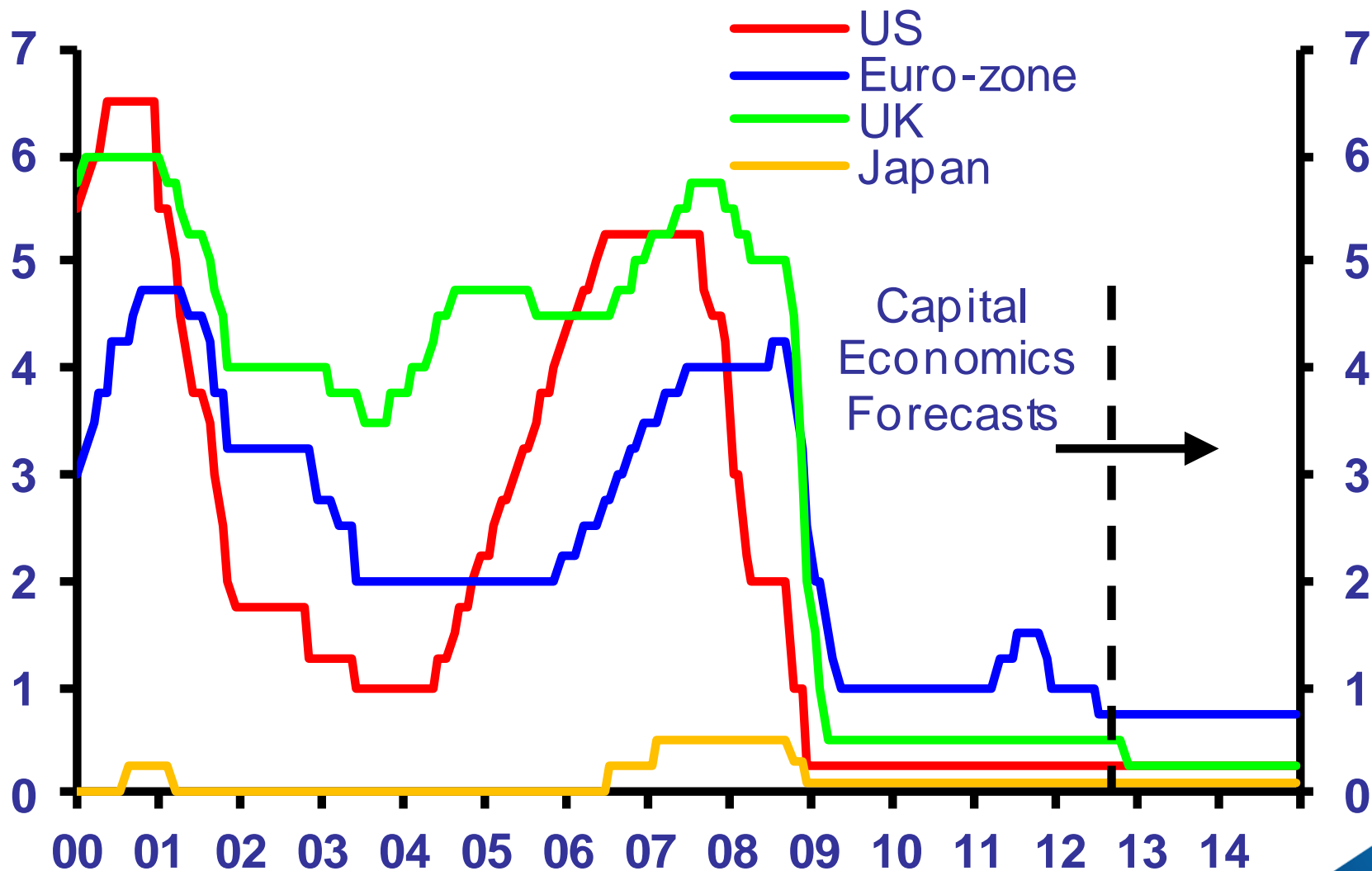
Source: Thomson Datastream

27. UK Consumer Price Inflation (%) (2006 – 2014) (Latest = July)



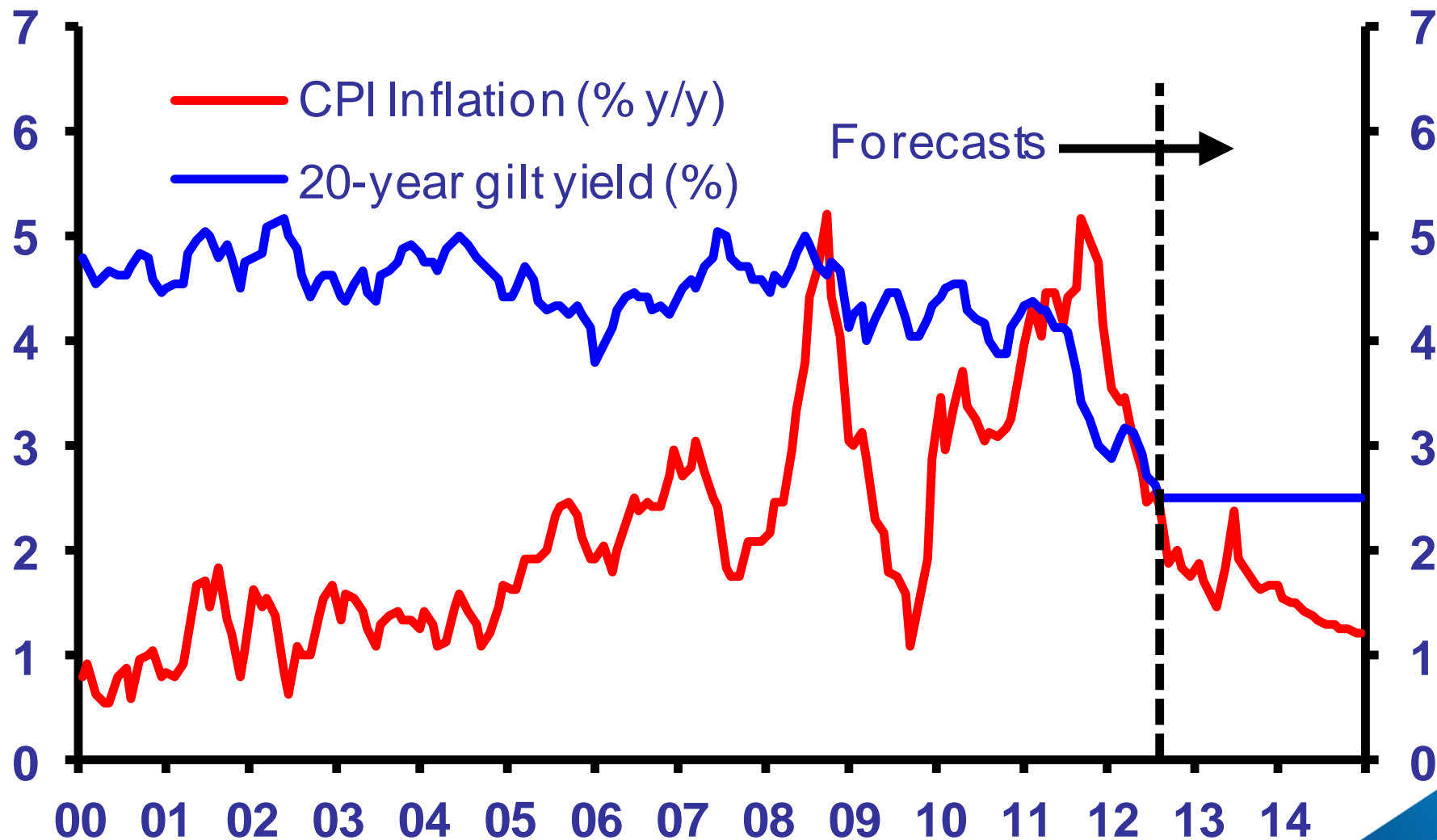
Sources: Thomson Datastream, Capital Economics

28. Capital Economics Rate Expectations (%) (2000 – 2014)



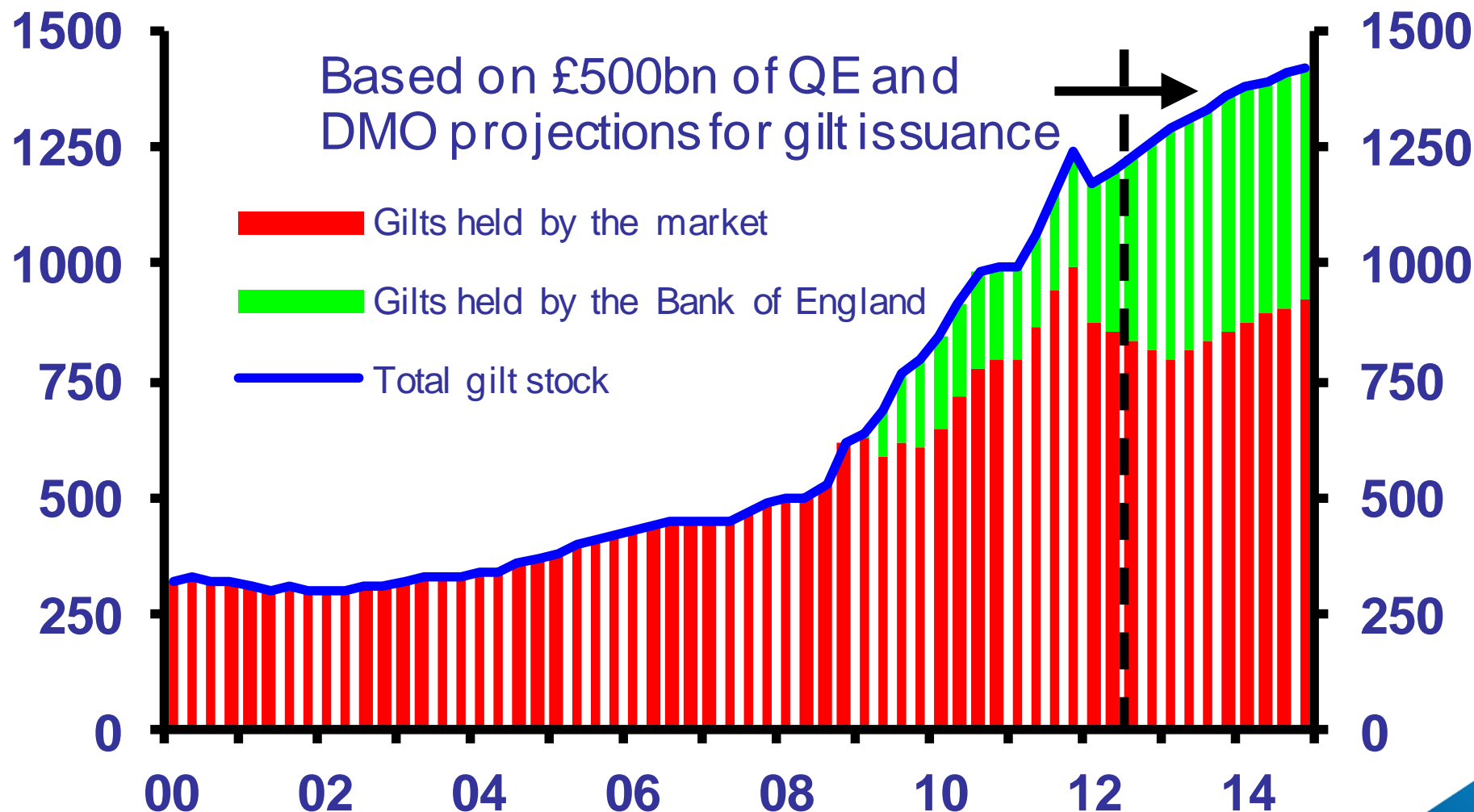
Sources: Thomson Datastream, Capital Economics

29. UK 20 Year Gilt Yields & CPI Inflation (2000 – 2014)



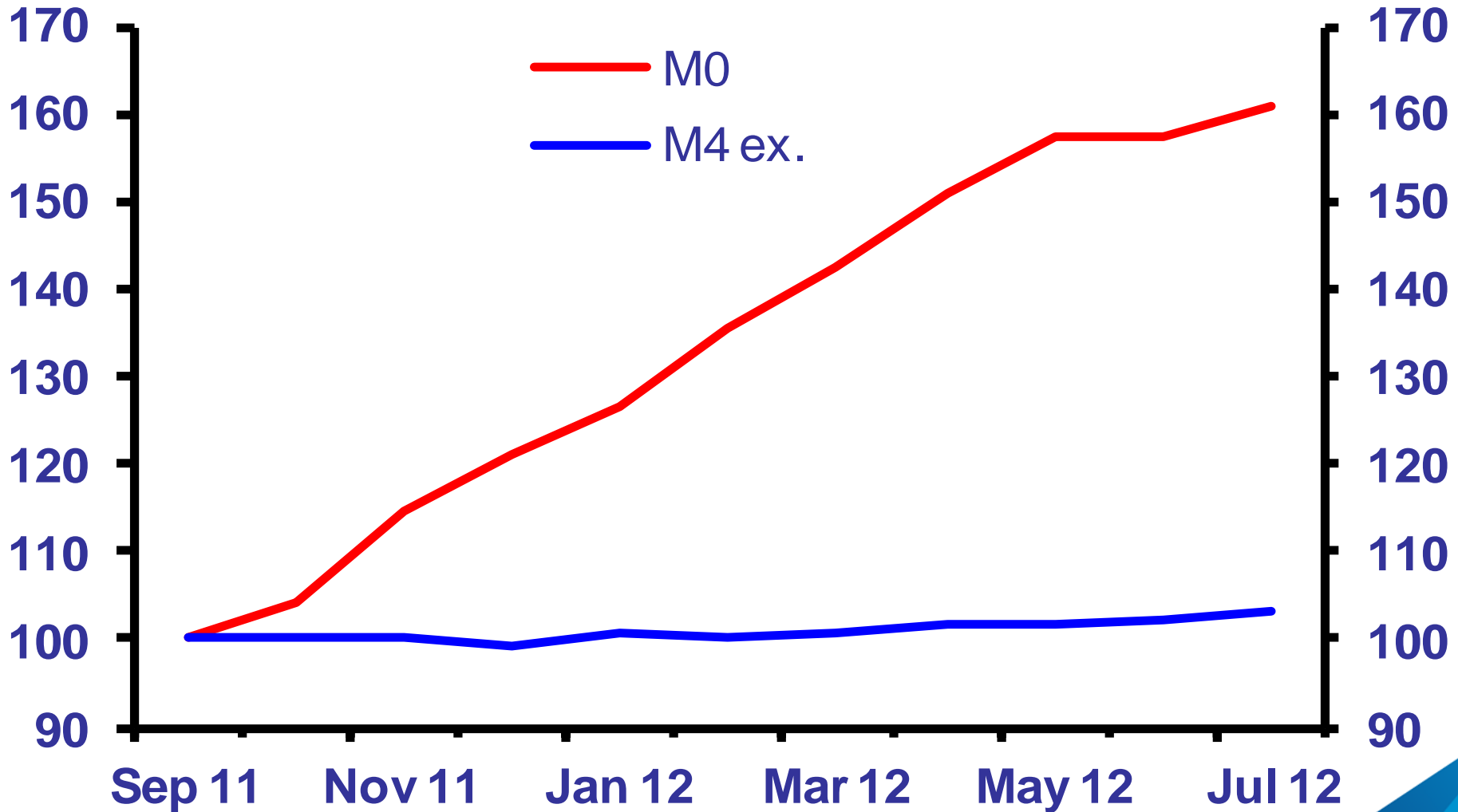
Sources: Thomson Datastream, Bloomberg, CE

30. Outstanding Stock of Gilts (£bn) (2000 – 2014)



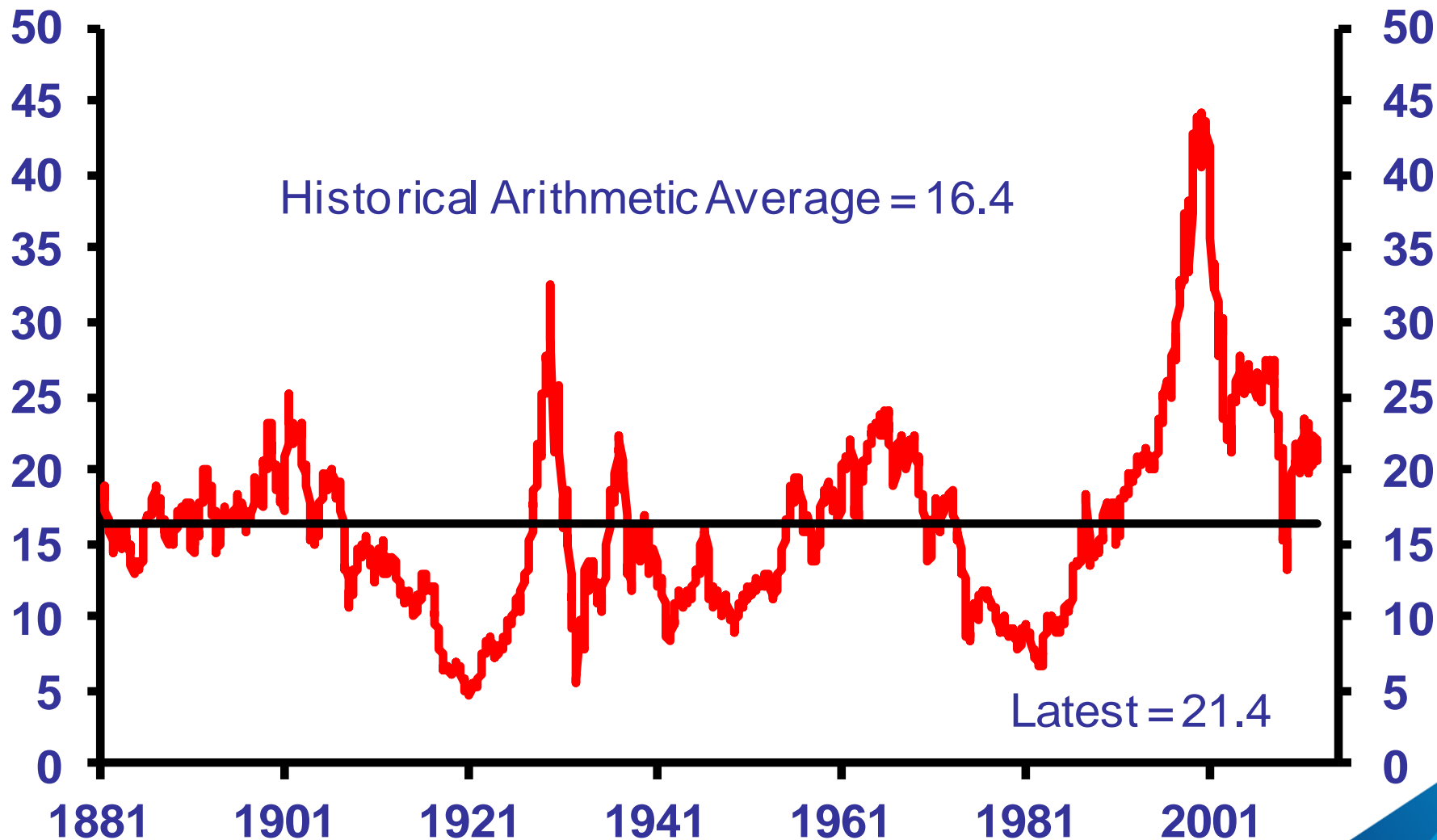
Sources: Bank of England, Capital Economics

31. Different Measures of Money Supply (Sep 2011 = 100) (Latest = July)



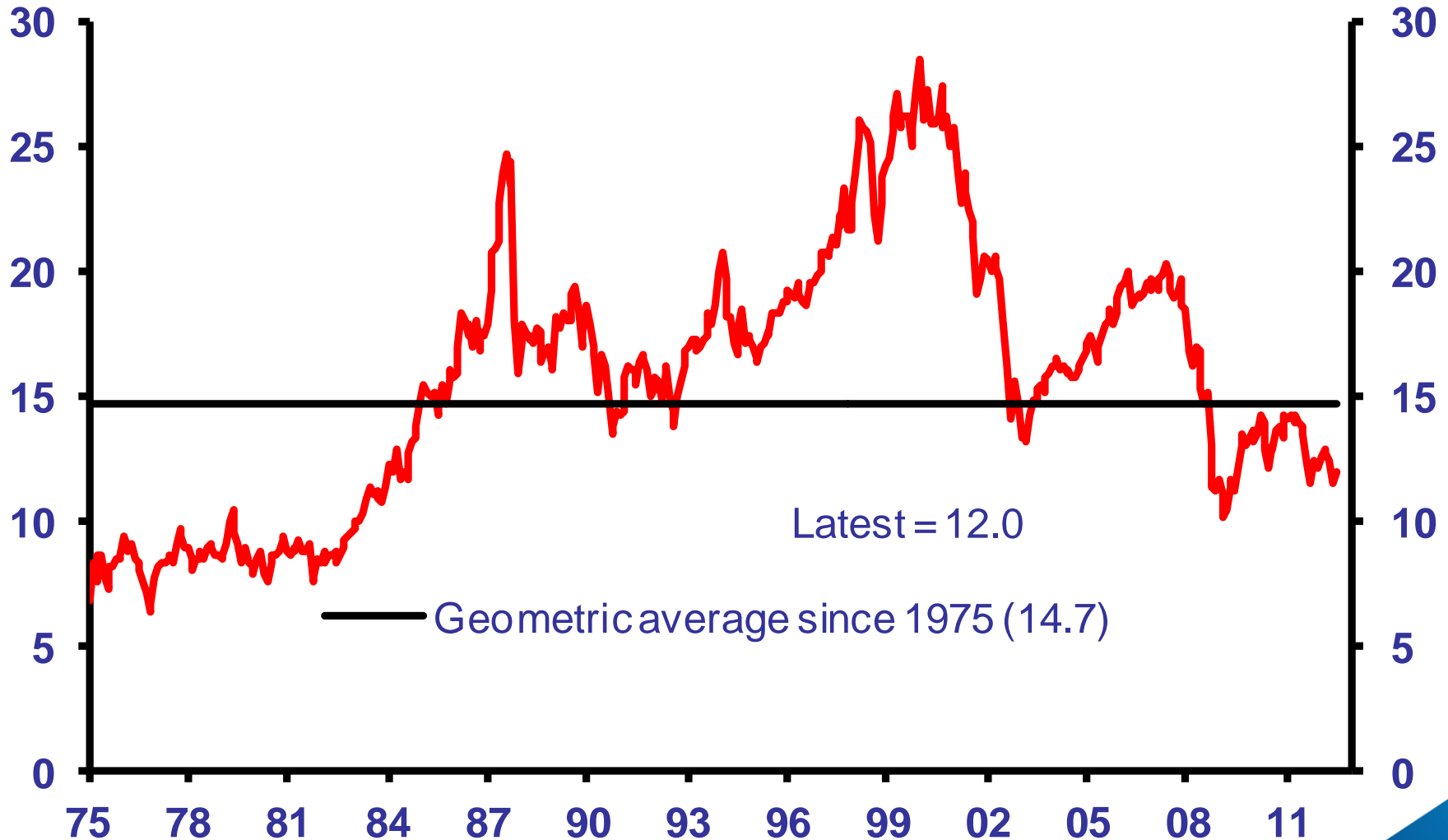
Source: Thomson Datastream

32. US PE Ratio (Earnings 10 Year Average) (1881 – 2012) (Latest = August)



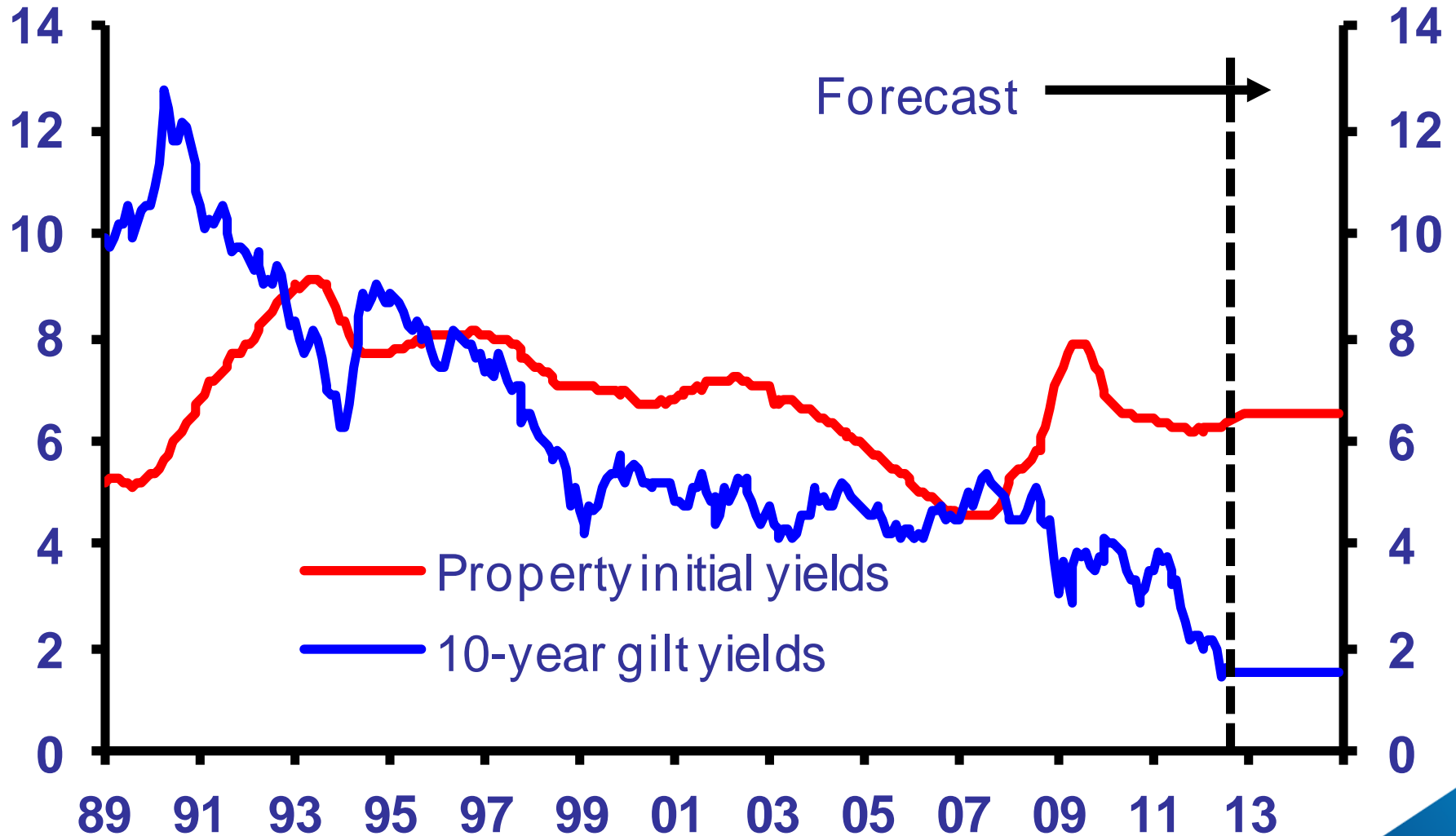
Sources: Shiller, Capital Economics

33. UK PE Ratio (Earnings 10 Year Average) (Datastream All Share) (1975 – 2012) (Latest = August)



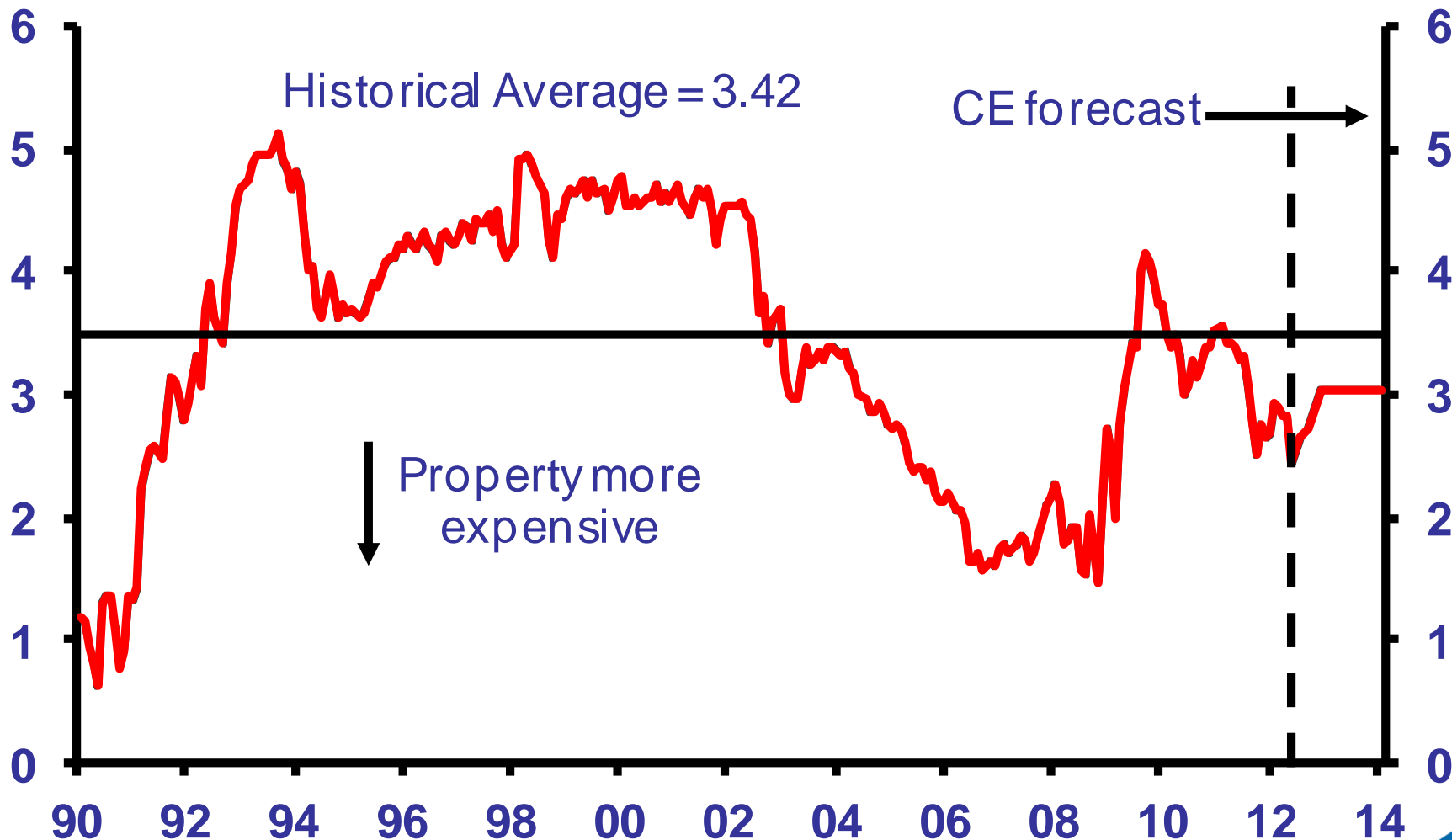
Source: Thomson Datastream

34. UK All-Property Yields and UK 10-Year Gilt Yields (%) (1989-2014) (Latest = July)



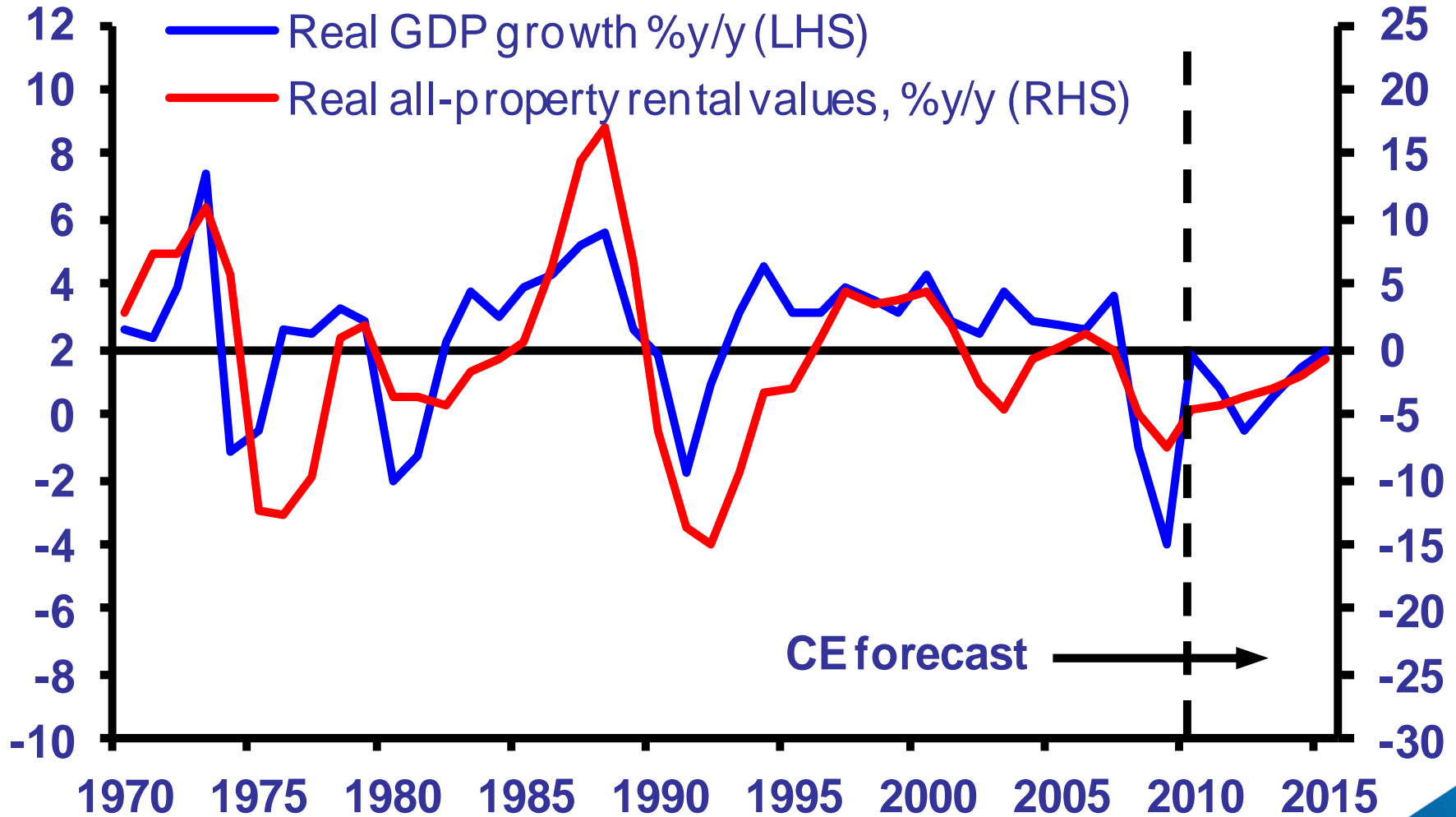
Sources: IPD, Thomson Datastream, Capital Economics

35. UK All-Property Initial Yields Less FTSE All-Share Dividend Yield (%) (1990- 2014)



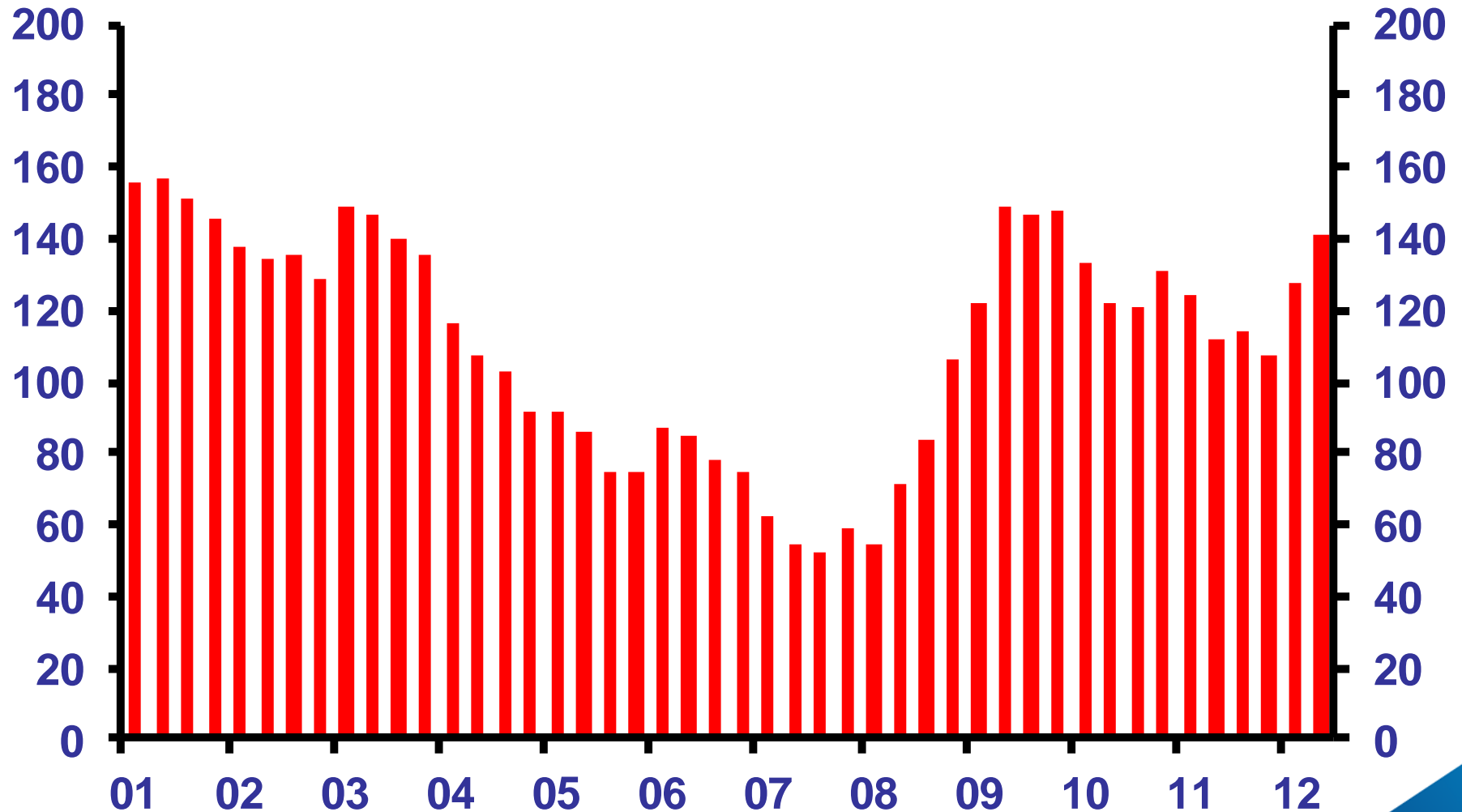
Sources: IPD, Thomson Datastream, Capital Economics

36. Real All-Property Rental Values and Real GDP (% y/y) (1970 - 2015)



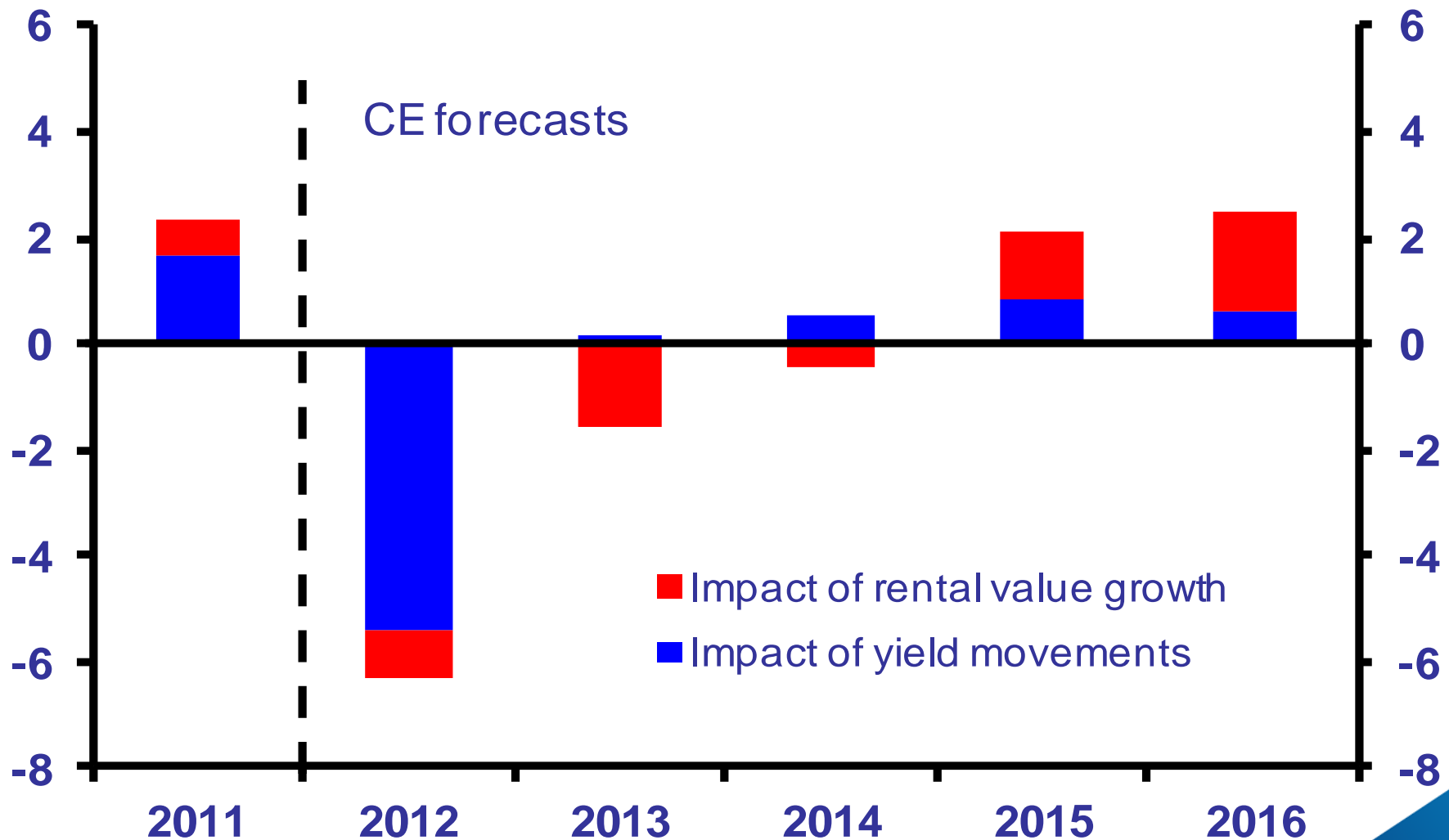
Sources: IPD, Capital Economics

37. The Yield Spread Between Prime and Non-Prime Property



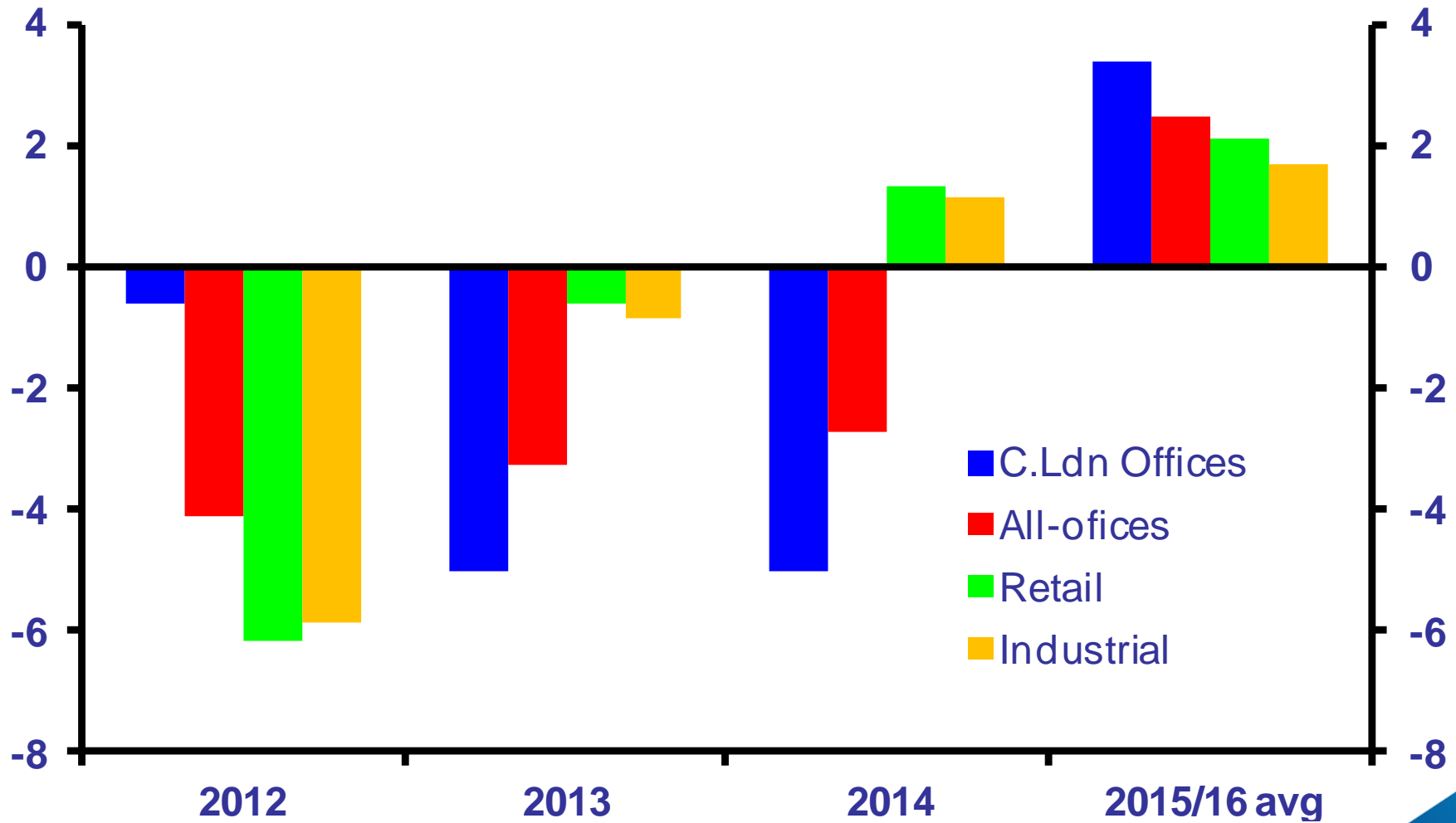
Sources: IPD, Capital Economics

38. Contribution of Rents and Yield Impact to Capital Value Growth (%y/y) (2011-2016)



Sources: IPD, Capital Economics

39. Capital Value Growth Forecasts By Main Sector (%/y) (2012-2016)



Source: Capital Economics

40. Conclusions



- **Chinese authorities would accept a slowdown to 7.5 – 8%. But any more would be countered by policy.**
- **The US, euro-zone and UK will continue with austerity and face a long slog back to prosperity.**
- **Inflation will fall sharply.**
- **Interest rates will remain at near-zero for years.**
- **The euro will not survive in its present form.**
- **Gilt yields at this level – or lower – for several years.**
- **Outside the US, equities fair value.**
- **Property faces a difficult couple of years before recovering.**

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