

COMMERCIAL BANKING

Economic Update

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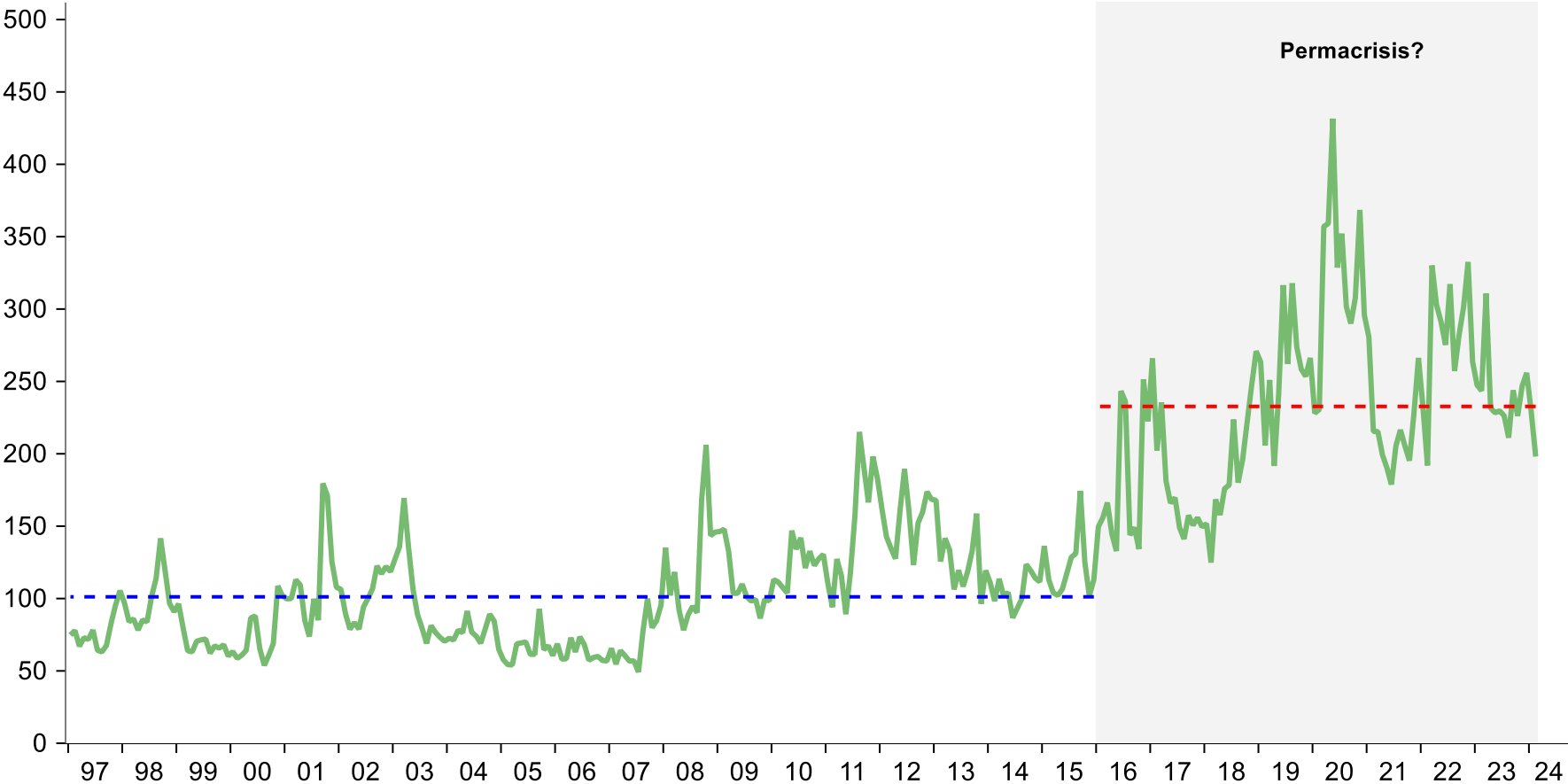
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ELEVATED GLOBAL UNCERTAINTY

Successive shocks have raised perception of overall global uncertainty level.



Global Economic Policy Uncertainty



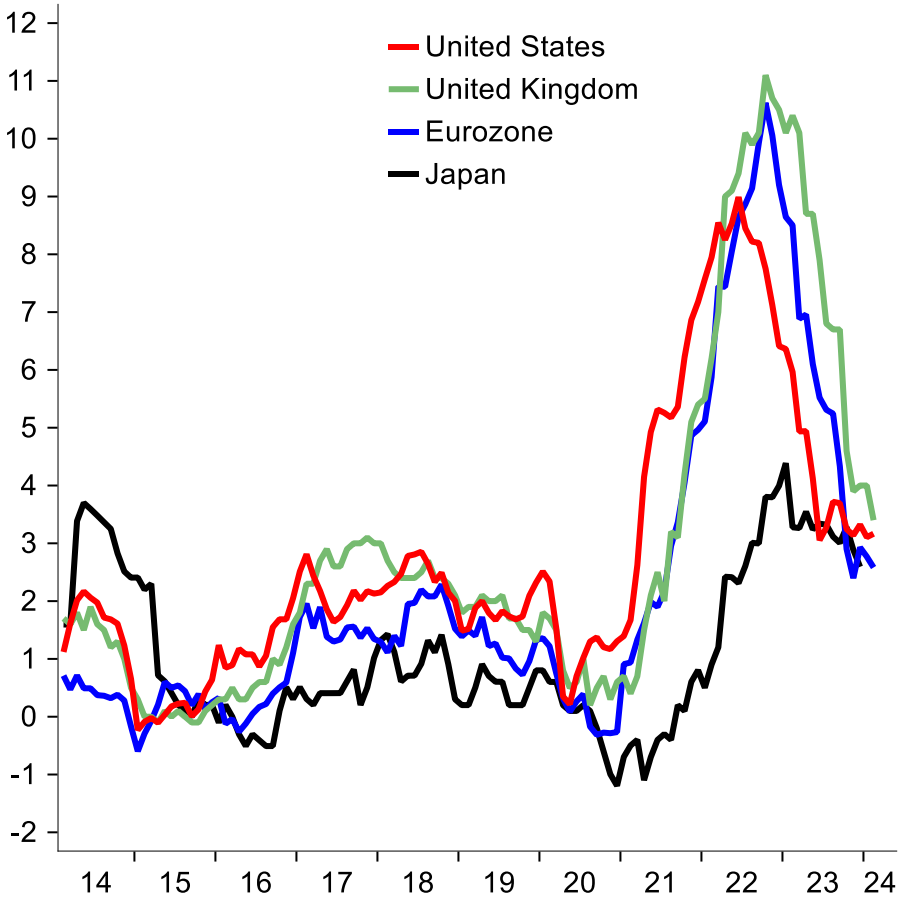
Source: Bloomberg, Lloyds Bank CIB

INFLATION ON THE WAY DOWN

Lower energy prices and improved supply chains ease price pressures

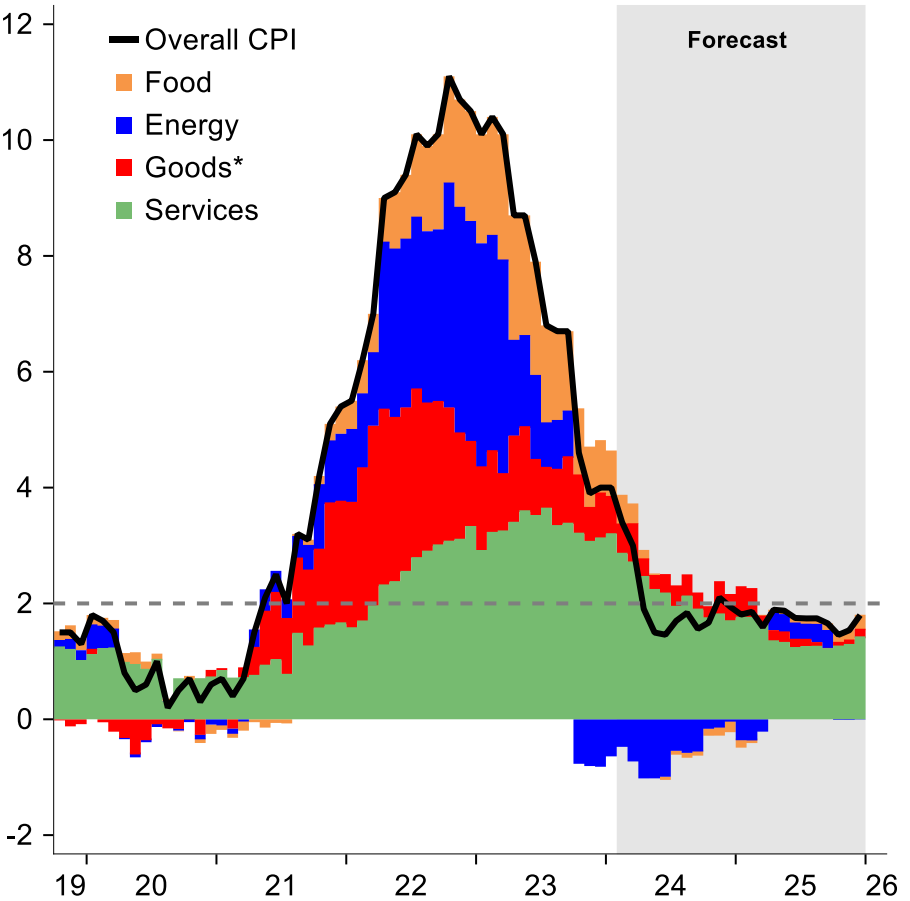


Consumer Price Inflation, Y/Y % Change



Source: Macrobond, Lloyds Bank Analytics

UK CPI Contributions to change y/y, %

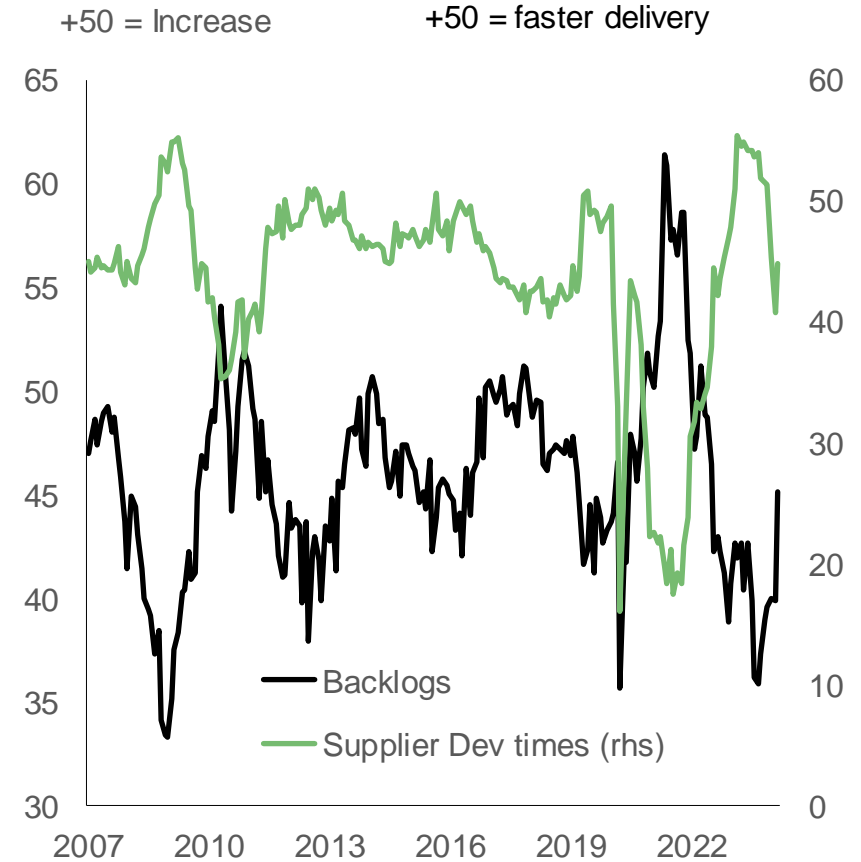
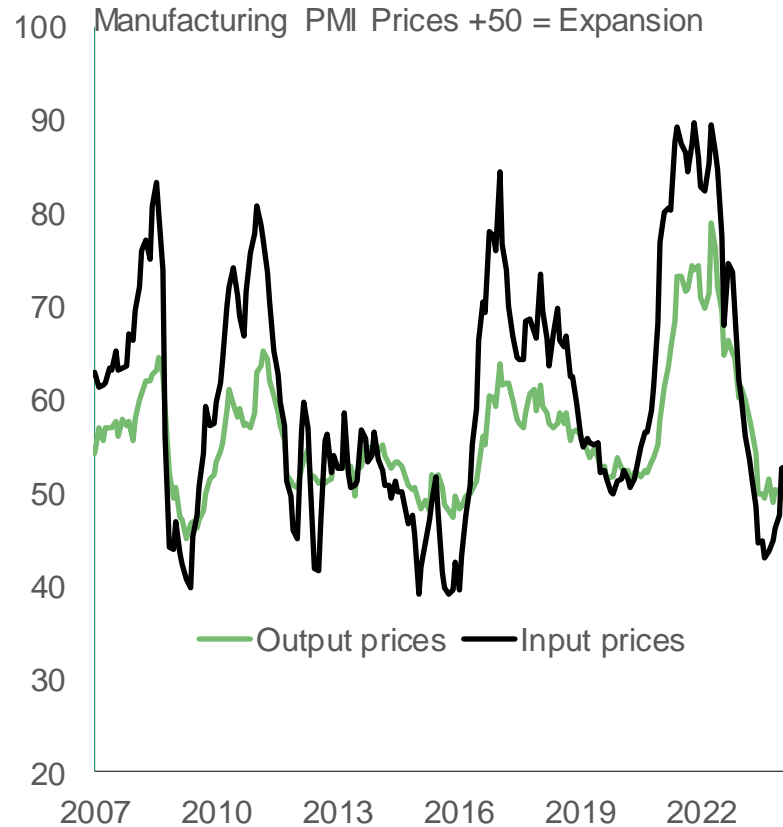


*excluding food and energy

Source: ONS, Lloyds Bank CIB

MANUFACTURING INFLATION EASING

Disinflation has taken hold in manufacturing as supply constraints have eased but process may now be bottoming out.

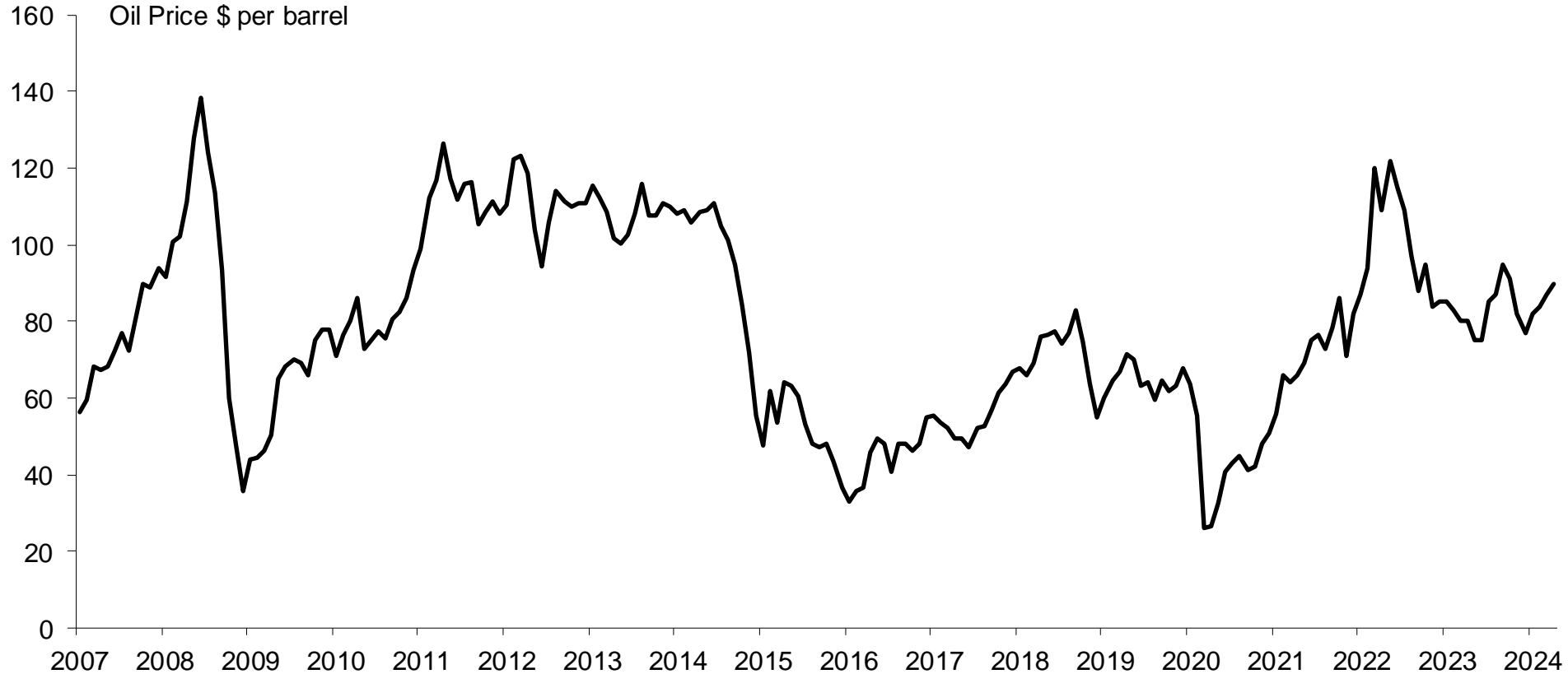


Source: Macrobond, Lloyds Bank Analytics

OIL PRICES ARE RISING AGAIN



Oil prices are up by about 20% since the start of 2024. Points to some upside risk to near term inflation forecasts.



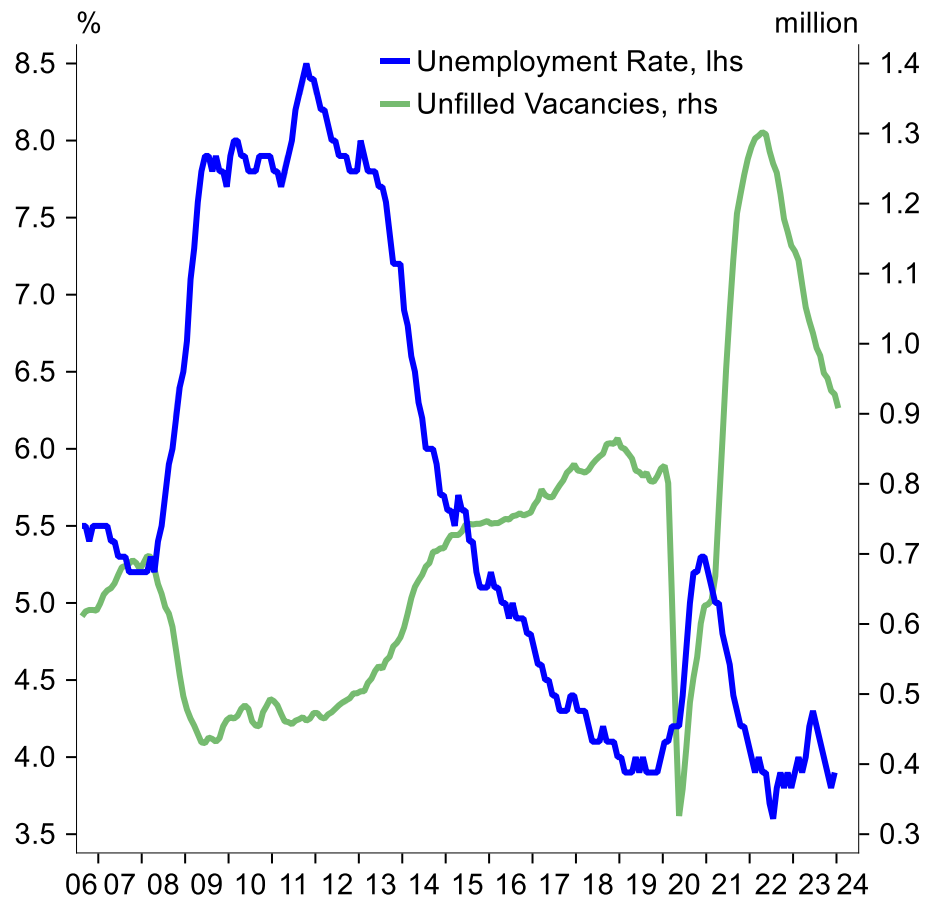
Source: Bloomberg, Lloyds Bank Analytics

THE LABOUR MARKET IS THE NUMBER ONE UPSIDE RISK

Vacancies are now falling but unemployment rate still low. Growing signs that wage inflation is slowing but still too high for the BoE to be comfortable.

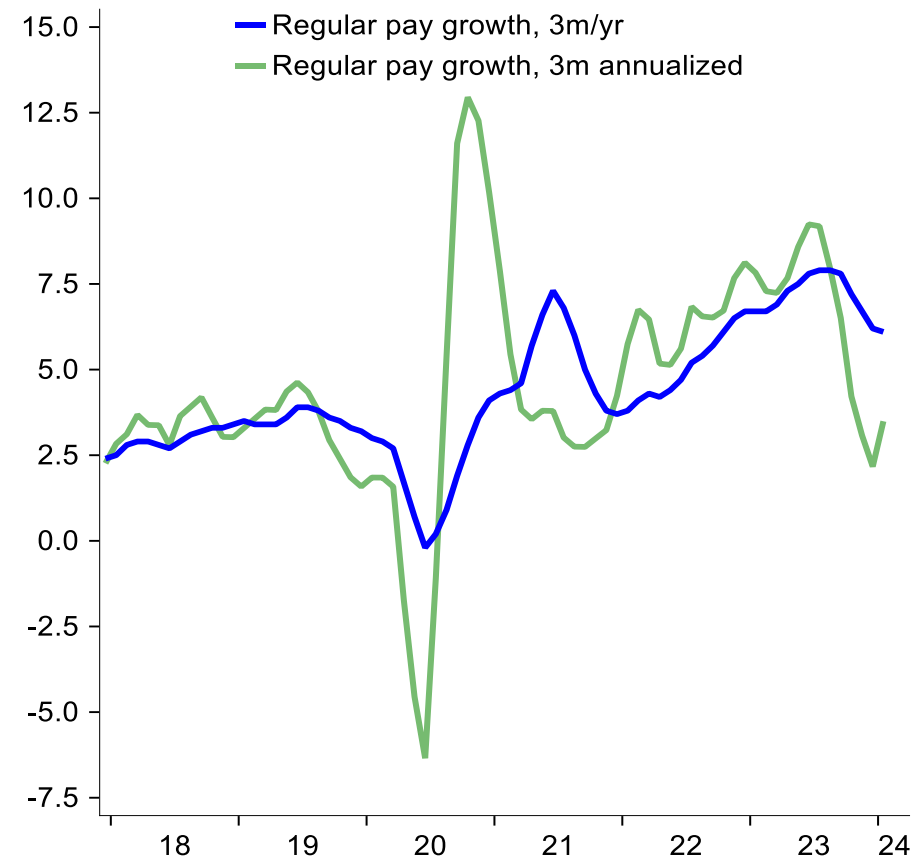


Unemployment Rate & Unfilled Vacancies



Source: ONS, Lloyds Bank Analytics

UK Nominal Wage Growth Momentum, regular pay, %



Source: ONS, Lloyds Bank CIB

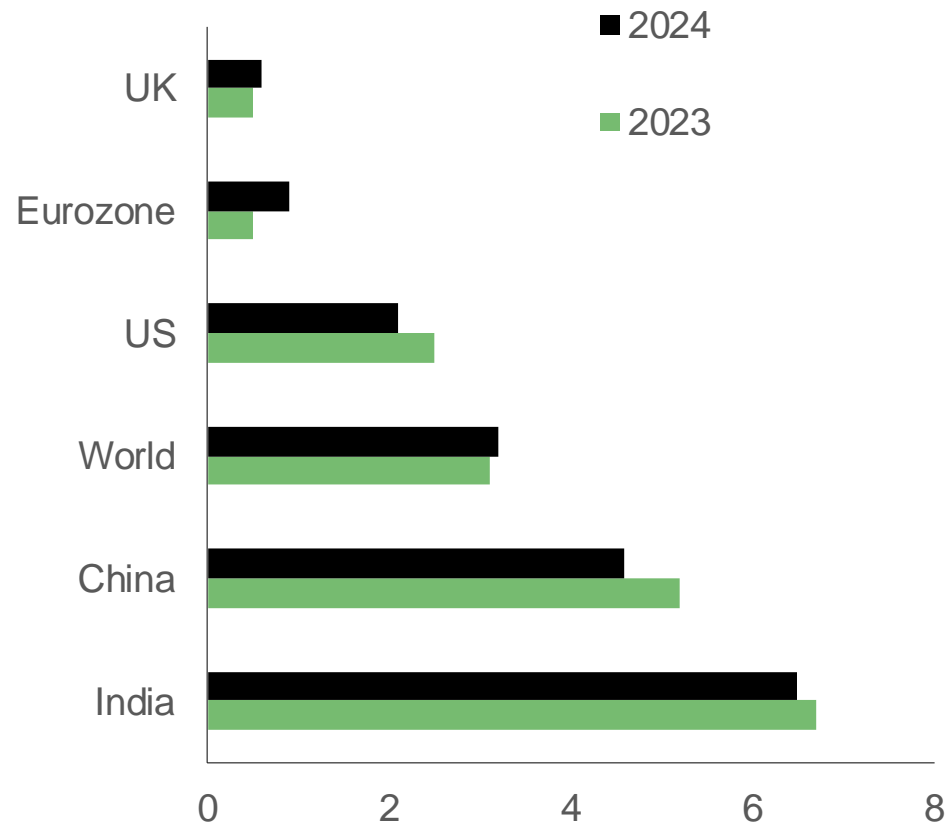
Source: ONS, LloydsBankAnalysis

GLOBAL GROWTH SLUGGISH

Consensus is that 2024 will be another year of sluggish growth. Mixed picture with US considerably stronger than Europe.



IMF Forecast %Ch



Source: Macrobond, LloydsBankAnalysis

IMF WEO Updates - Growth Forecast

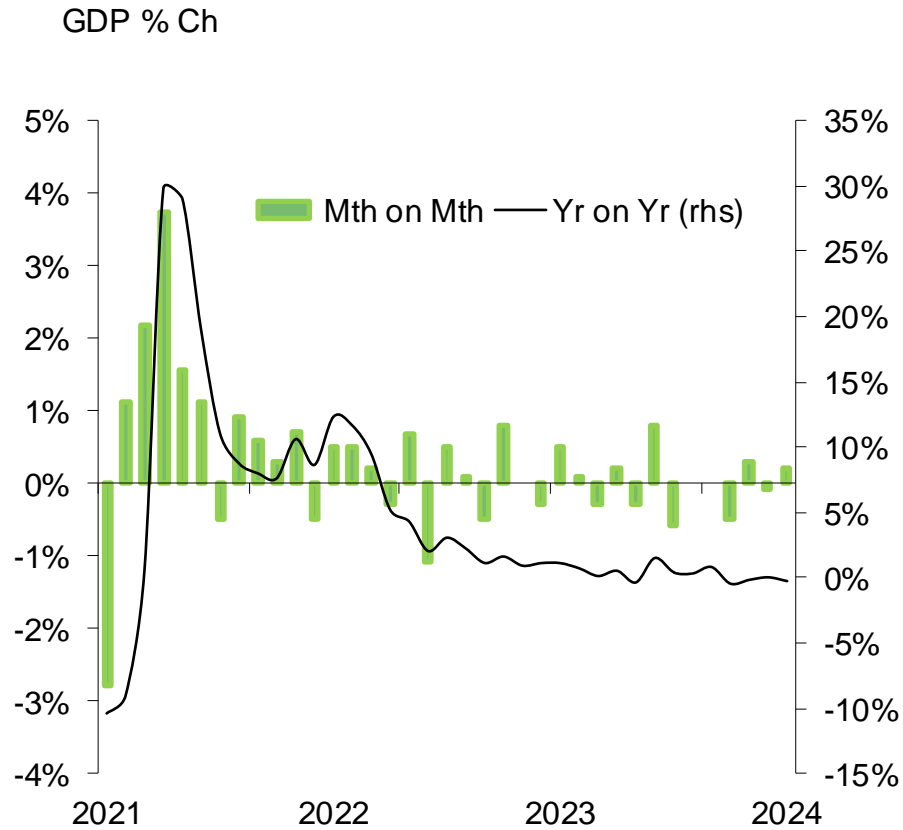
Region	2023	2024	2025
World	3.1	3.1	3.2
World - Advanced	1.6	1.5	1.8
World - Emerging & Developing	4.1	4.1	4.2
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Latin America & the Caribbean	2.5	1.9	2.5
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Middle East & Central Asia	2.0	2.9	4.2
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Saudi Arabia	-1.1	2.7	5.5
World Trade Volume Y/Y	0.4	3.3	3.6

Source: IMF, Lloyds Bank Analytics

UK ECONOMY CLOSE TO STAGNANT

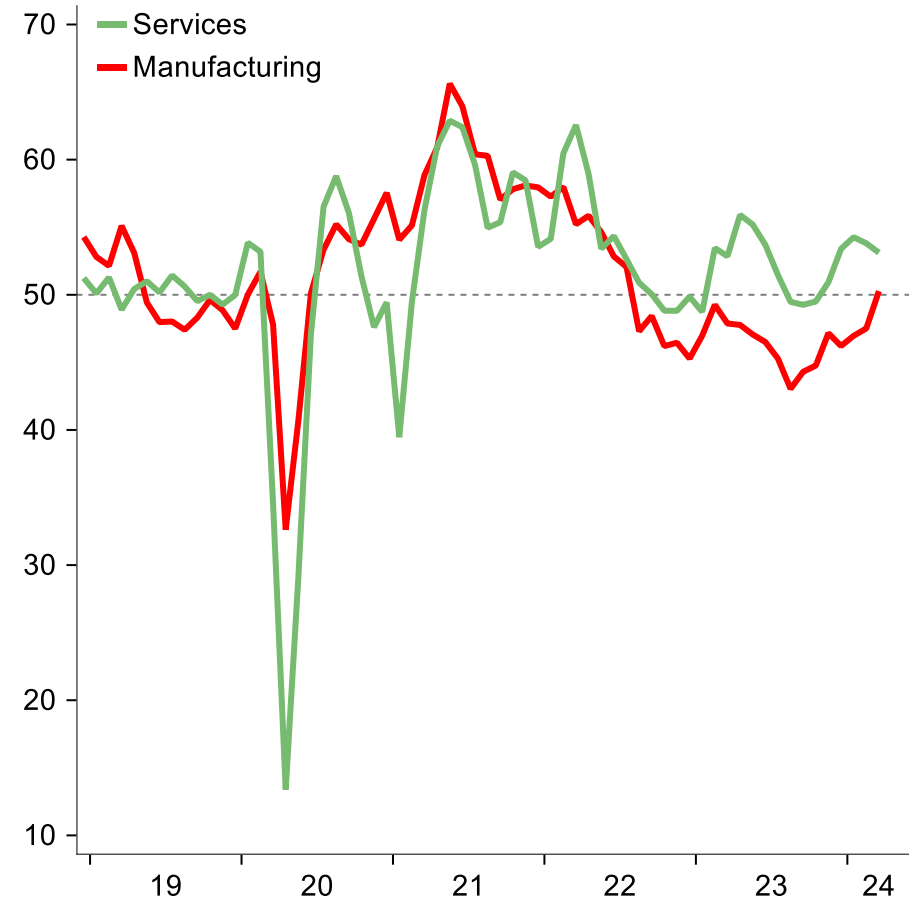


UK GDP fell in late 2023 but year was still stronger than expected. Signs of a rebound in early 2024 with services stronger than manufacturing but some improvement in the latter.



Source: Macrobond, LloydsBank Analysis

UK PMI Output indices, 50 = no change



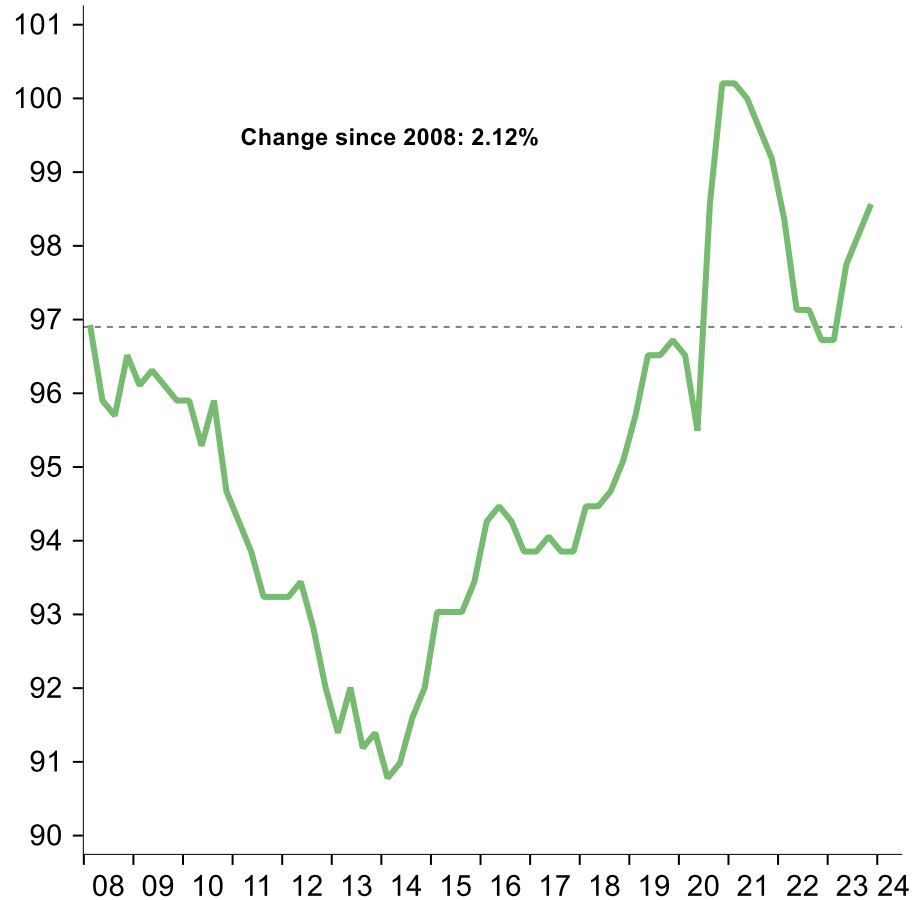
Source: Lloyds Bank Analytics

PRESSURES ON CONSUMER SET TO EASE?



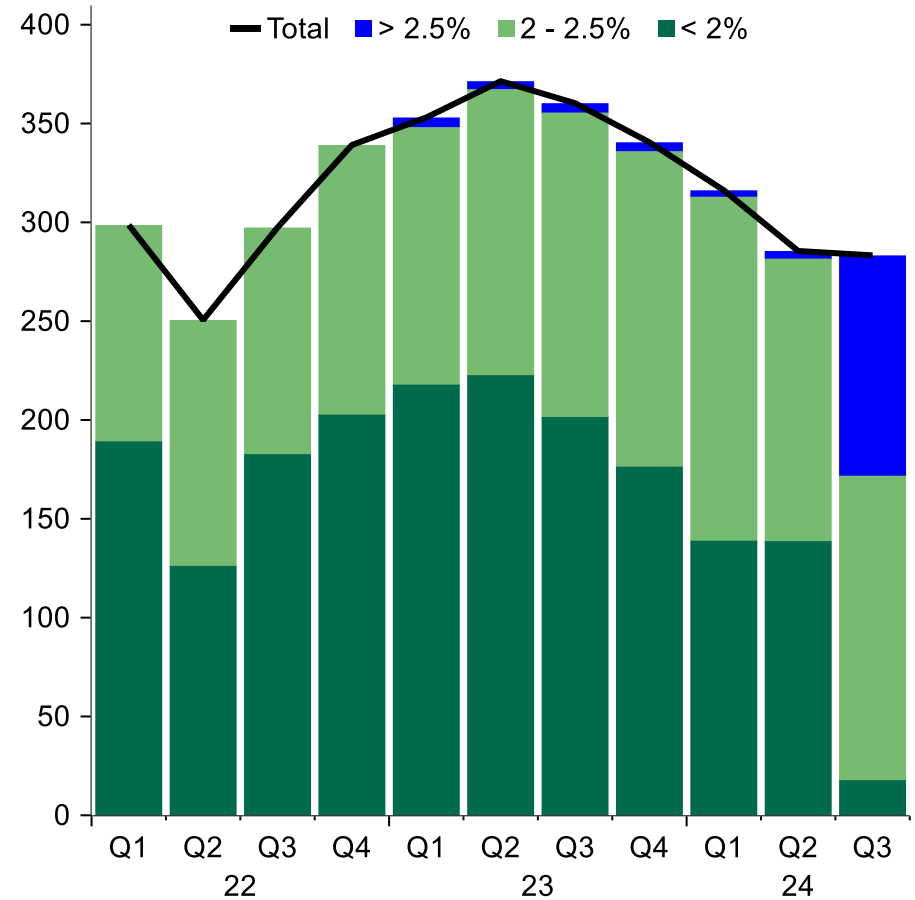
UK consumer picture uncertain due to conflicting forces. One positive is that real income growth has turned but mortgage rate impact still a concern.

Real Pay Growth, rebased = June 2021, pre CPI surge



Source: ONS, Lloyds Bank Analytics

Number of fixed rate mortgages due for renewal, 000s

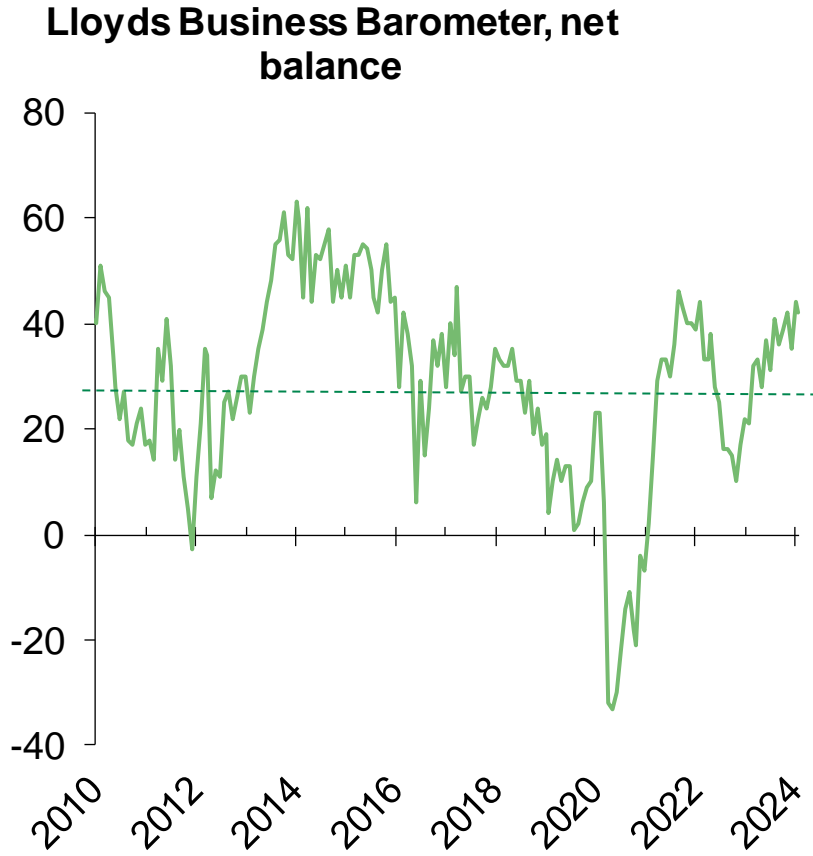


Source: ONS, Lloyds Bank CIB

CONFIDENCE IN ECONOMY RISING



UK business and consumer confidence levels have been rising despite ongoing headwinds. Key reason why the economy may be “soft landing”.



Source: Lloyds Bank, BVA BDRC



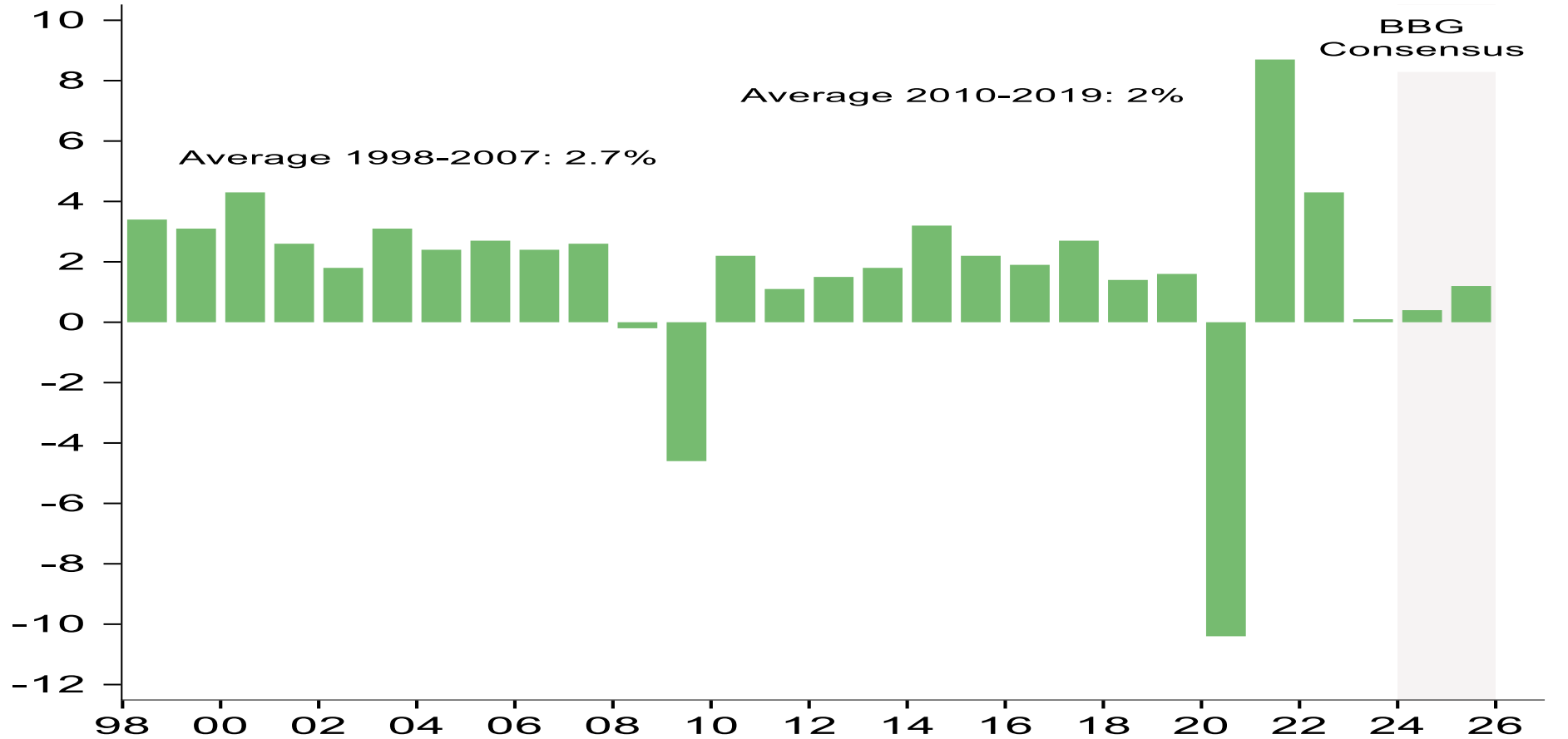
Source: GfK, Lloyds Bank CIB

BETTER TIMES AHEAD?



A technical recession in late 2023 but a more serious downturn may have been avoided. Nevertheless, UK's growth prospects remain subdued.

UK Annual GDP growth rate, %



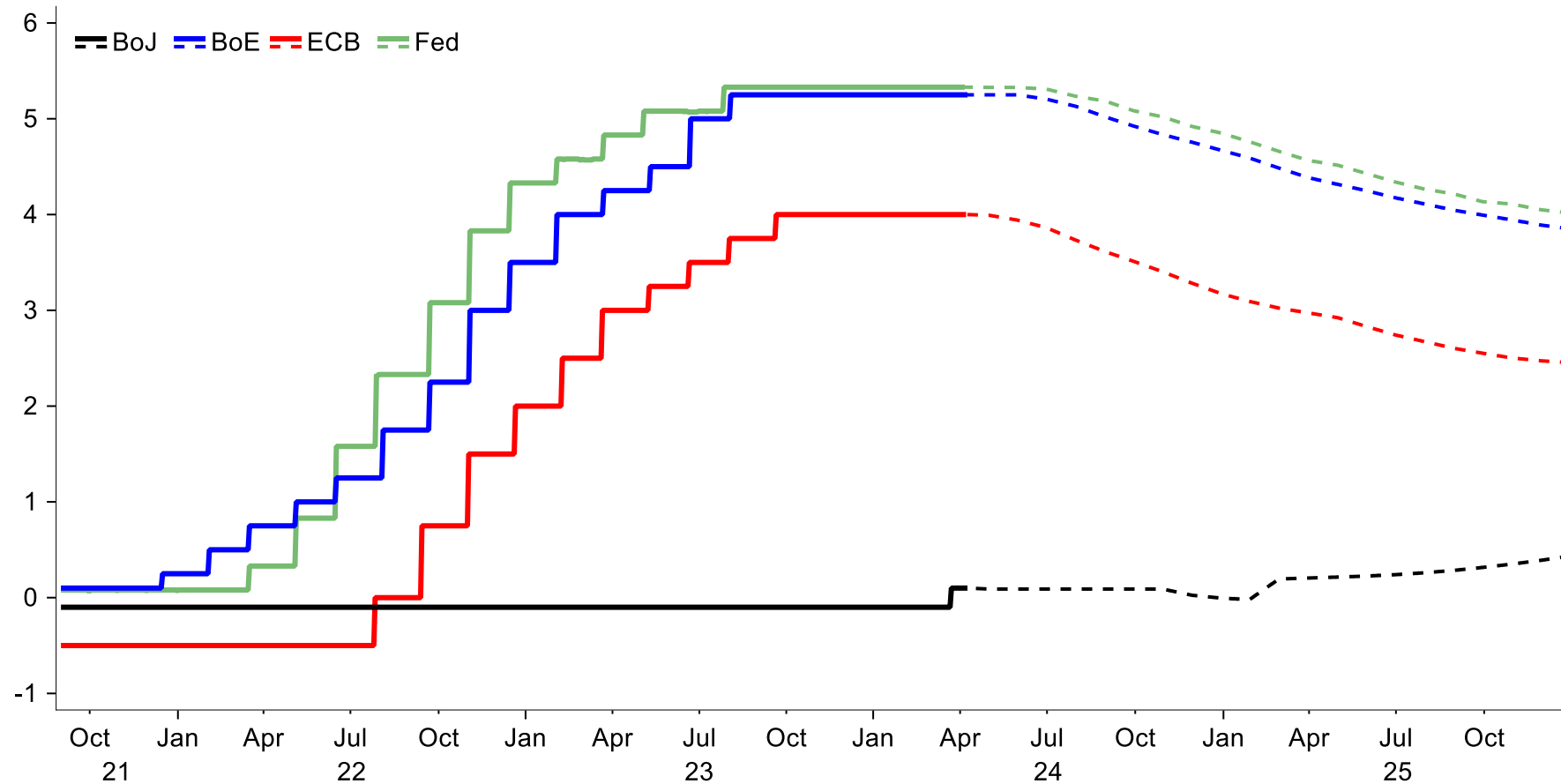
Source: Bloomberg, Lloyds Bank CIB

TOP OF THE INTEREST RATE MOUNTAIN?



Interest rates have almost certainly peaked but extent and speed of declines are uncertain.

Central banks' policy rates and market-implied projections (%)

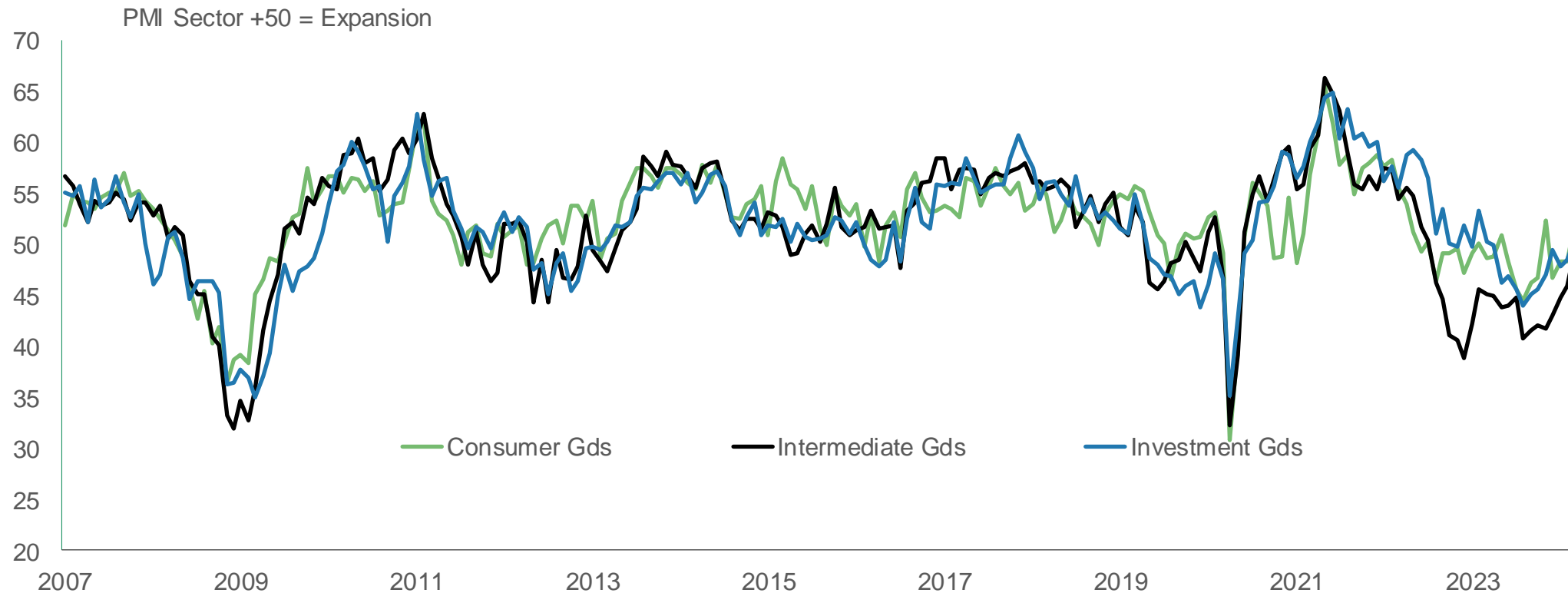


Source: Lloyds Bank Analytics

MANUFACTURING BY SECTOR



Most parts of manufacturing have been under pressure over last few years. Now some signs of a widespread rebound in activity.

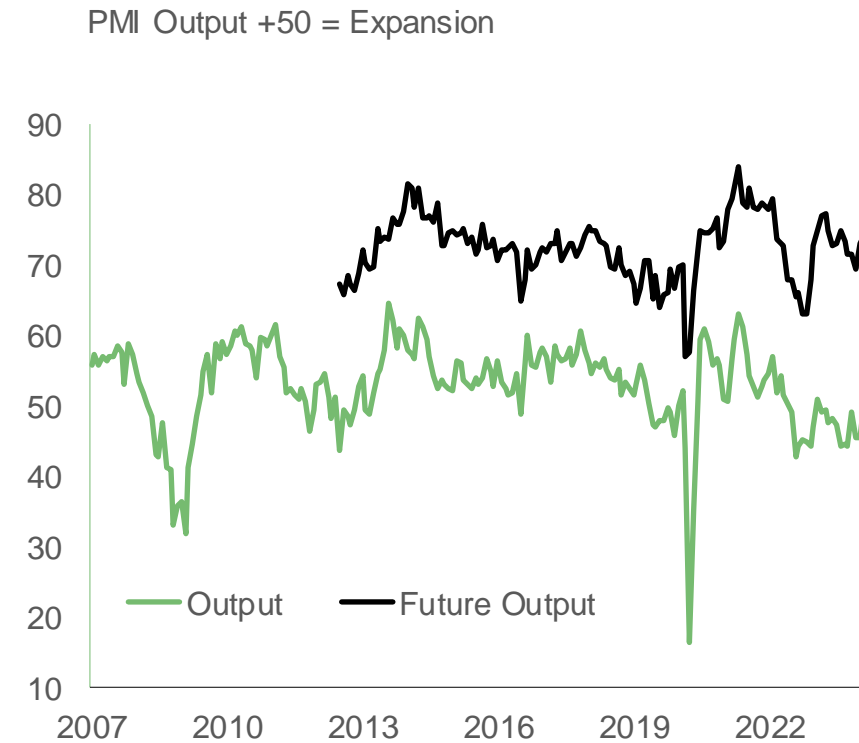


Source: Macrobond, Lloyds Bank Analytics

REBOUND TO GATHER PACE?



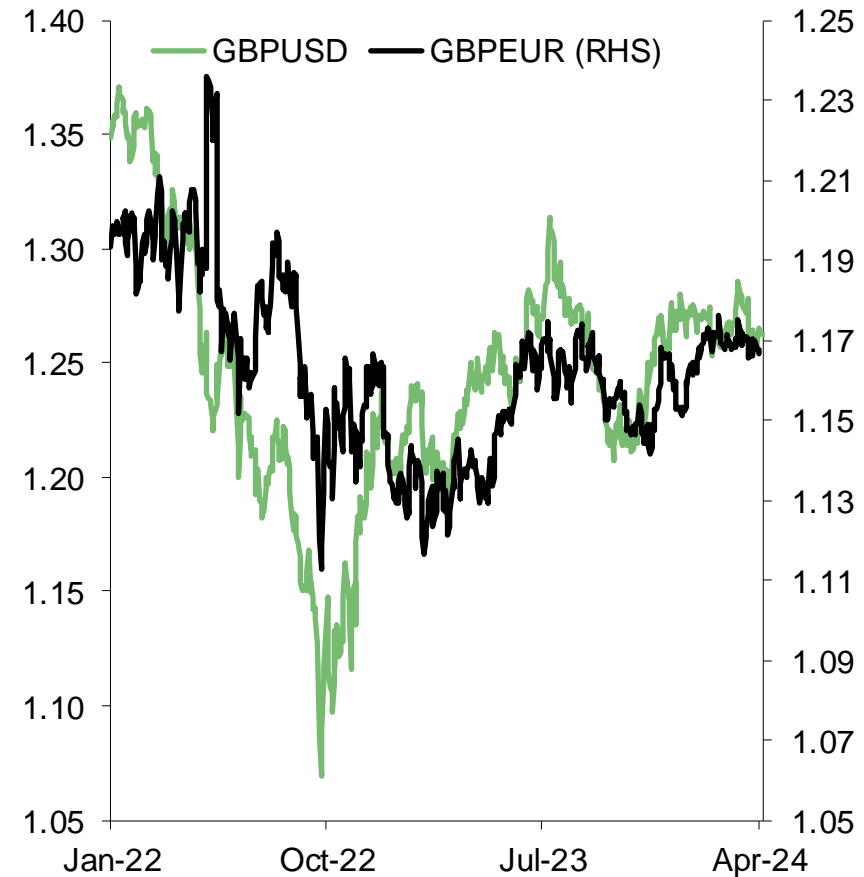
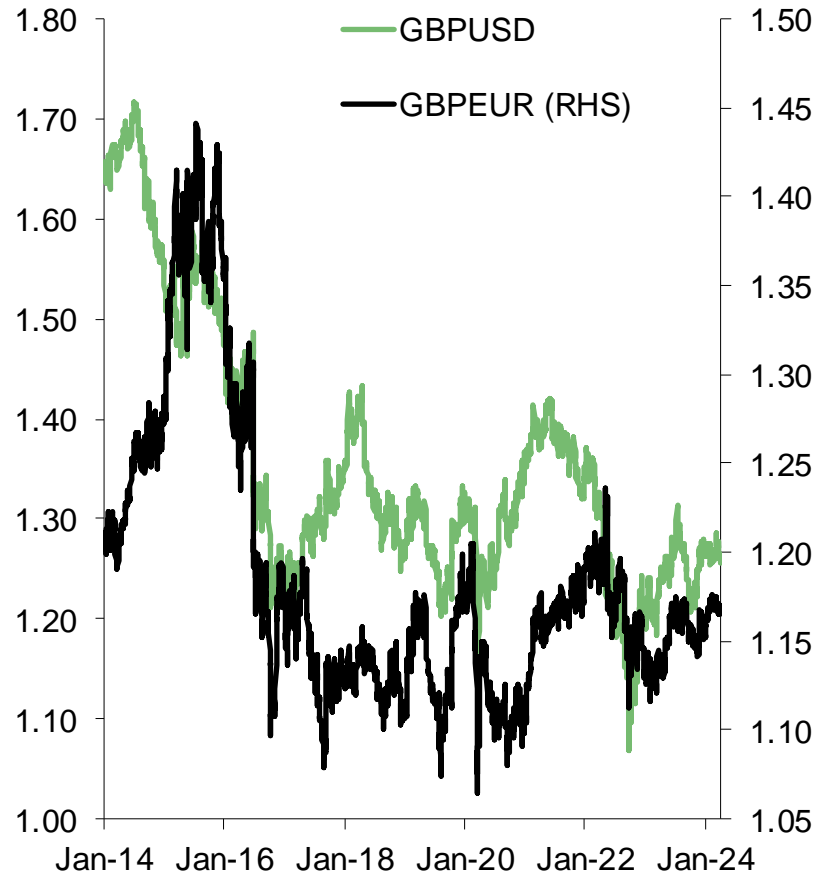
Orders looks like they are levelling off and businesses more positive about the future. But export outlook still looks uncertain.



Source: Macrobond, Lloyds Bank Analytics

STERLING BOOSTING COMPETITIVENESS?

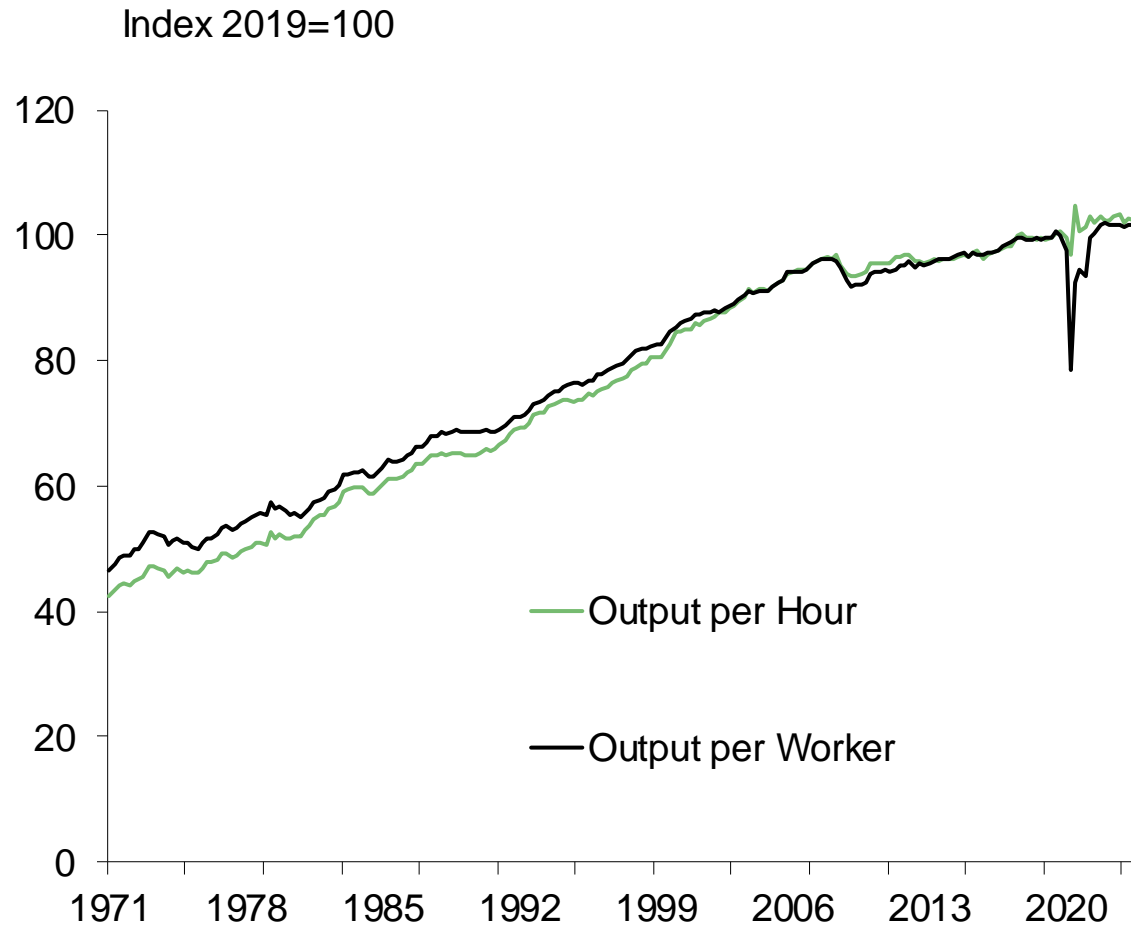
Sterling has been more stable against the euro than the US dollar. Probably won't break out of recent trading ranges this year.



Source: Bloomberg, LloydsBankAnalysis

PRODUCTIVITY A KEY ISSUE

Productivity growth has slowed sharply since 2008 leads to many problems. This is a key constraint on the economy's ability to grow.



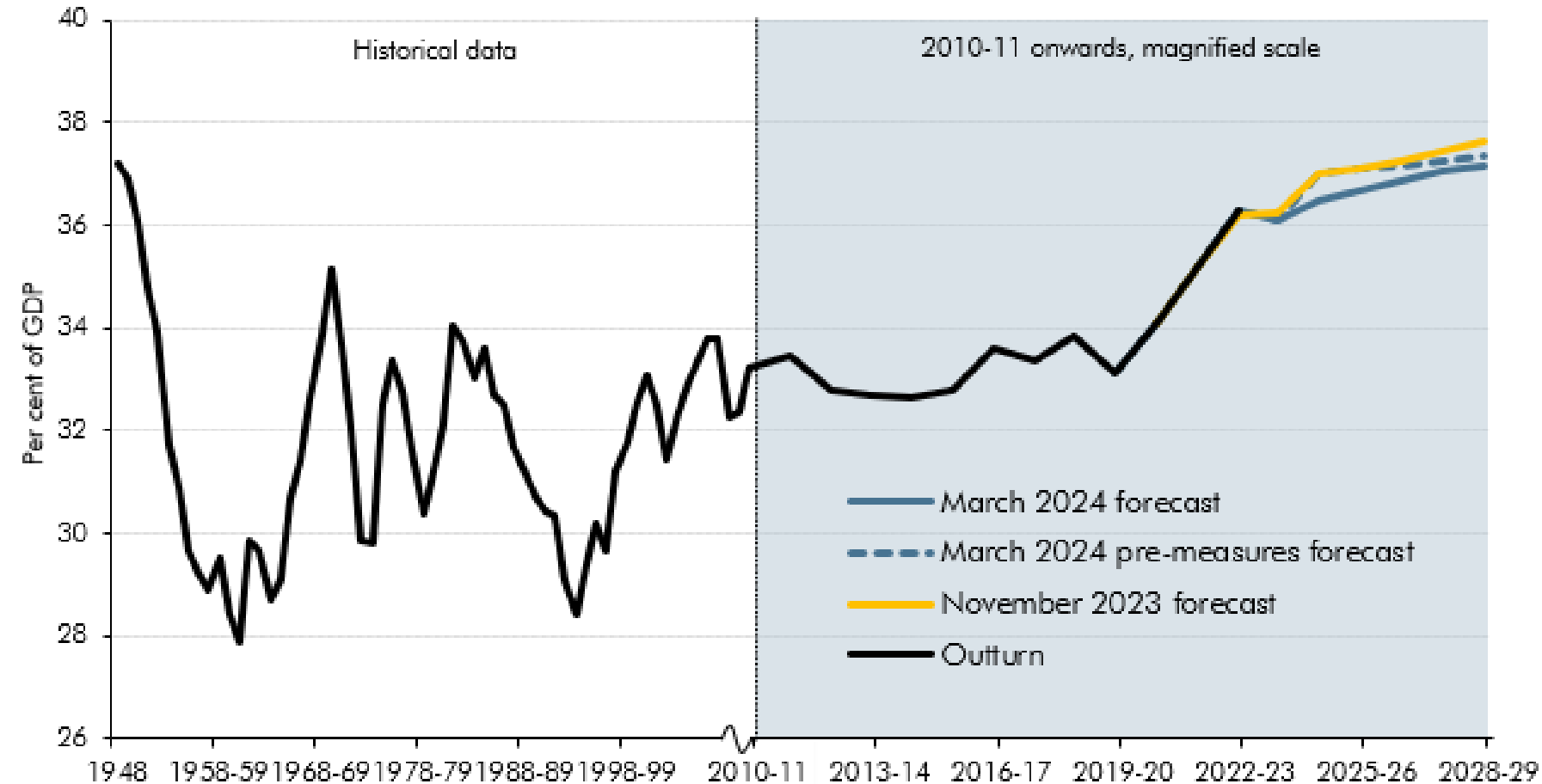
Average % Change

	Output per Hour	Output per Worker
From 1972	1.7%	1.5%
1972 to 2007	2.2%	2.0%
From 2008	0.4%	0.5%
1972 to 1979	2.2%	2.1%
1980 to 2007	2.2%	1.9%
2008 to 2019	0.3%	0.3%

Source: Macrobond, LloydsBankAnalysis

TAX BURDEN CONTINUES TO RISE

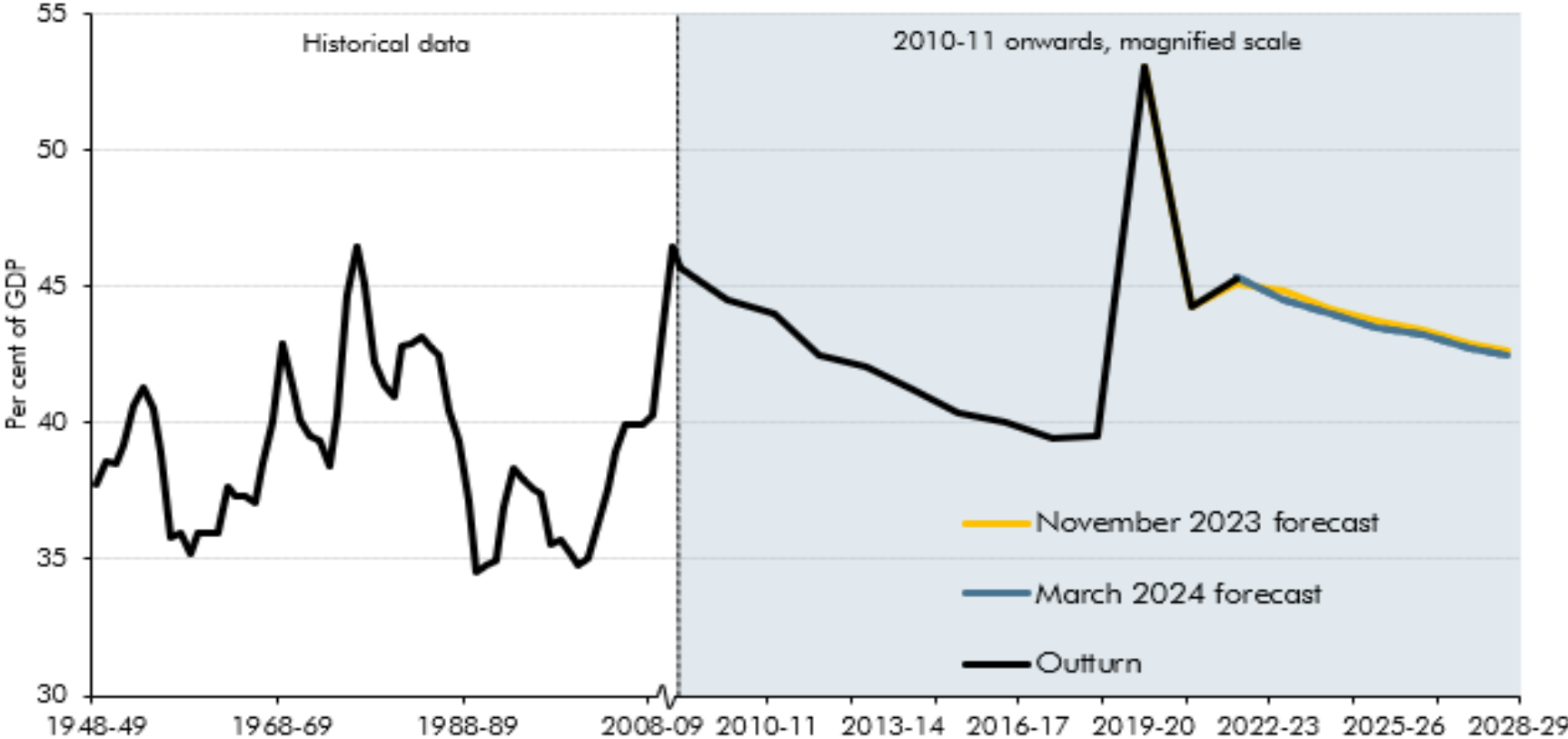
At a multi-year high and set to rise further.



Source: ONS, OBR

SPENDING FALLING BUT STILL HIGH

Spending falling as percentage of GDP but still very high.



Source: Bank of England, ONS, OBR



- GLOBAL & UK ECONOMIC GROWTH NOT AS WEAK AS EXPECTED LAST YEAR EVEN WITH THE TECHNICAL RECESSION AT YEAR END
- RISKS FOR 2024 ACTIVITY NOW LOOK TO BE MIXED. SOME INDICATIONS GROWTH IS PICKING UP BUT STILL PLENTY TO WORRY ABOUT
- MANUFACTURING SECTOR HAS UNDERPERFORMED SINCE COVID BUT NOW MORE GROUNDS FOR OPTIMISM
- INFLATION CLEARLY HEADING DOWN AND SEEMS SET TO FALL FURTHER NEAR TERM
- INFLATION PRESSURES IN MANUFACTURING EASED PARTICULARLY SHARPLY BUT MAY NOW BE BOTTOMING OUT AND OIL PRICE IS AN UPSIDE RISK
- PRESSURES FROM A TIGHT LABOUR MARKET ALSO A KEY ISSUE IN THE UK. SOME SIGNS THESE ARE EASING LEAVING ROOM FOR INTEREST RATE CUTS.
- INTEREST RATES HAVE PEAKED. CENTRAL BANKS WILL BE CAUTIOUS ABOUT CUTTING THEM BUT EXPECT SOME REDUCTIONS IN 2024.



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