

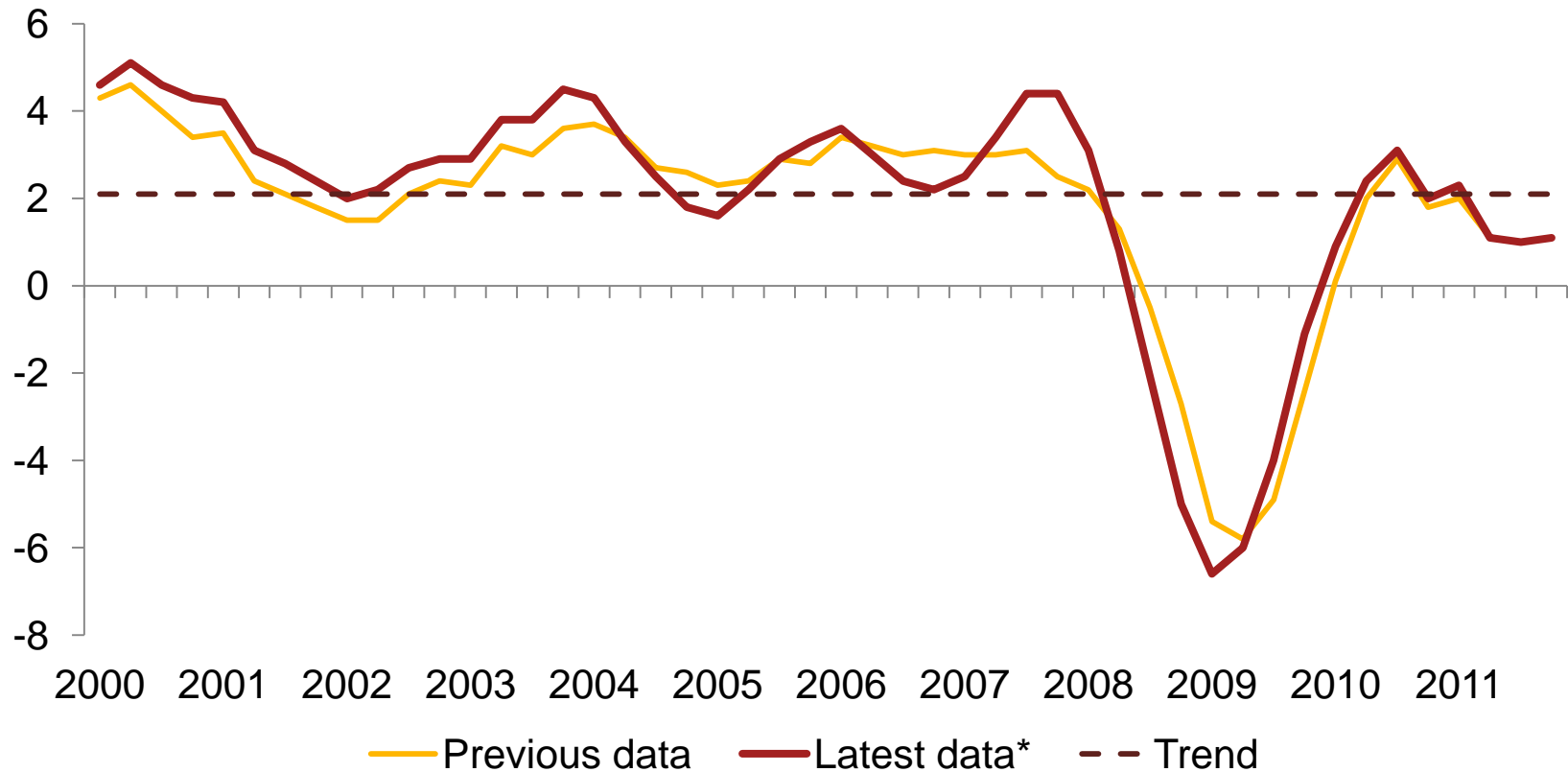
What is the “New Normal” for the economy?

Andrew Sentance, Senior Economic Adviser

*Euromoney Financing Solutions
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UK economic growth has disappointed

% per annum change in non-oil GDP

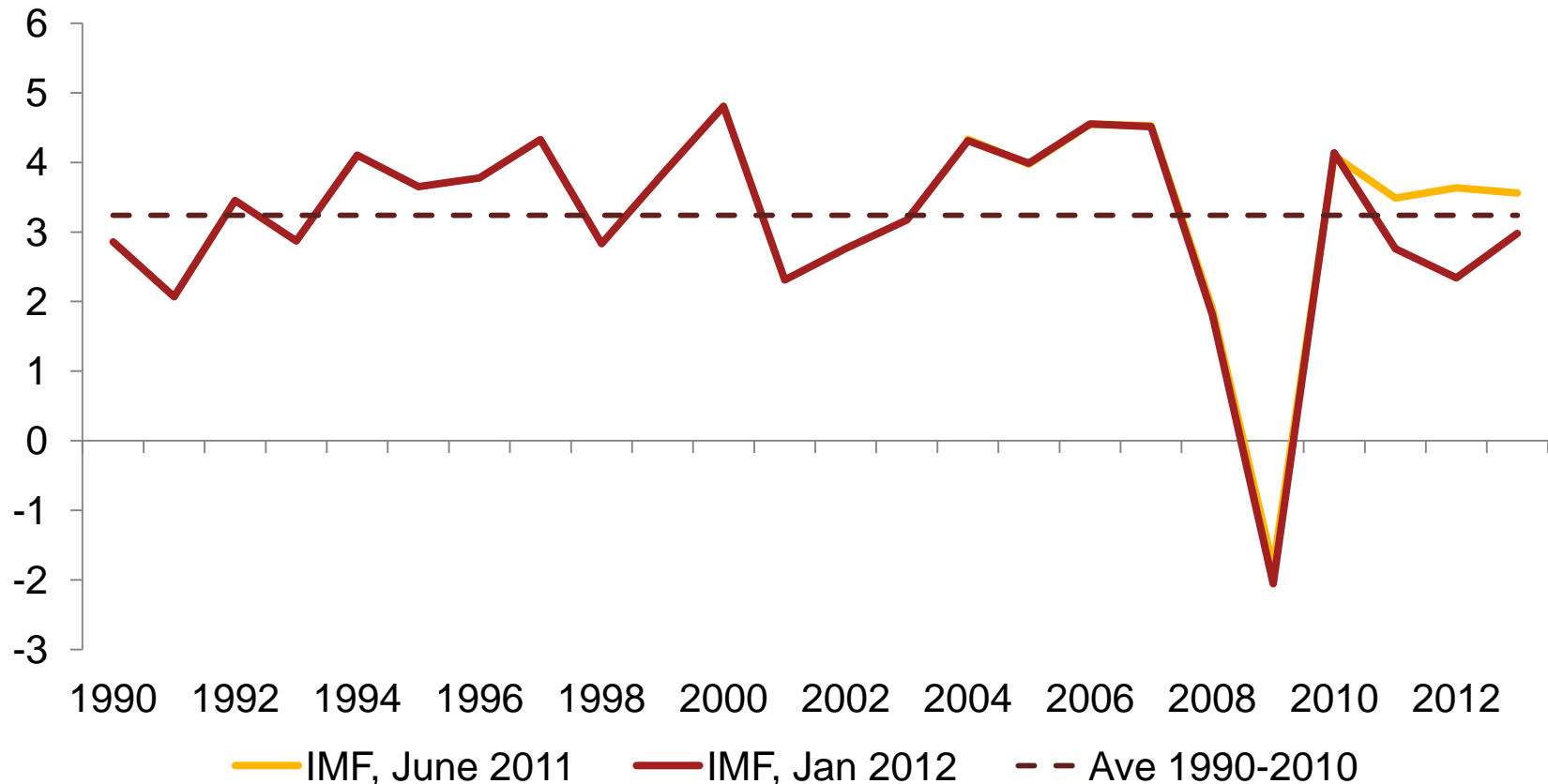


Note: Average non-oil GDP growth since 2009H1 = 1.7%

Source: ONS

World economic growth below trend

% per annum change in GDP in G-13 economies*



* EU, US and 11 other economies accounting for 85% of world GDP

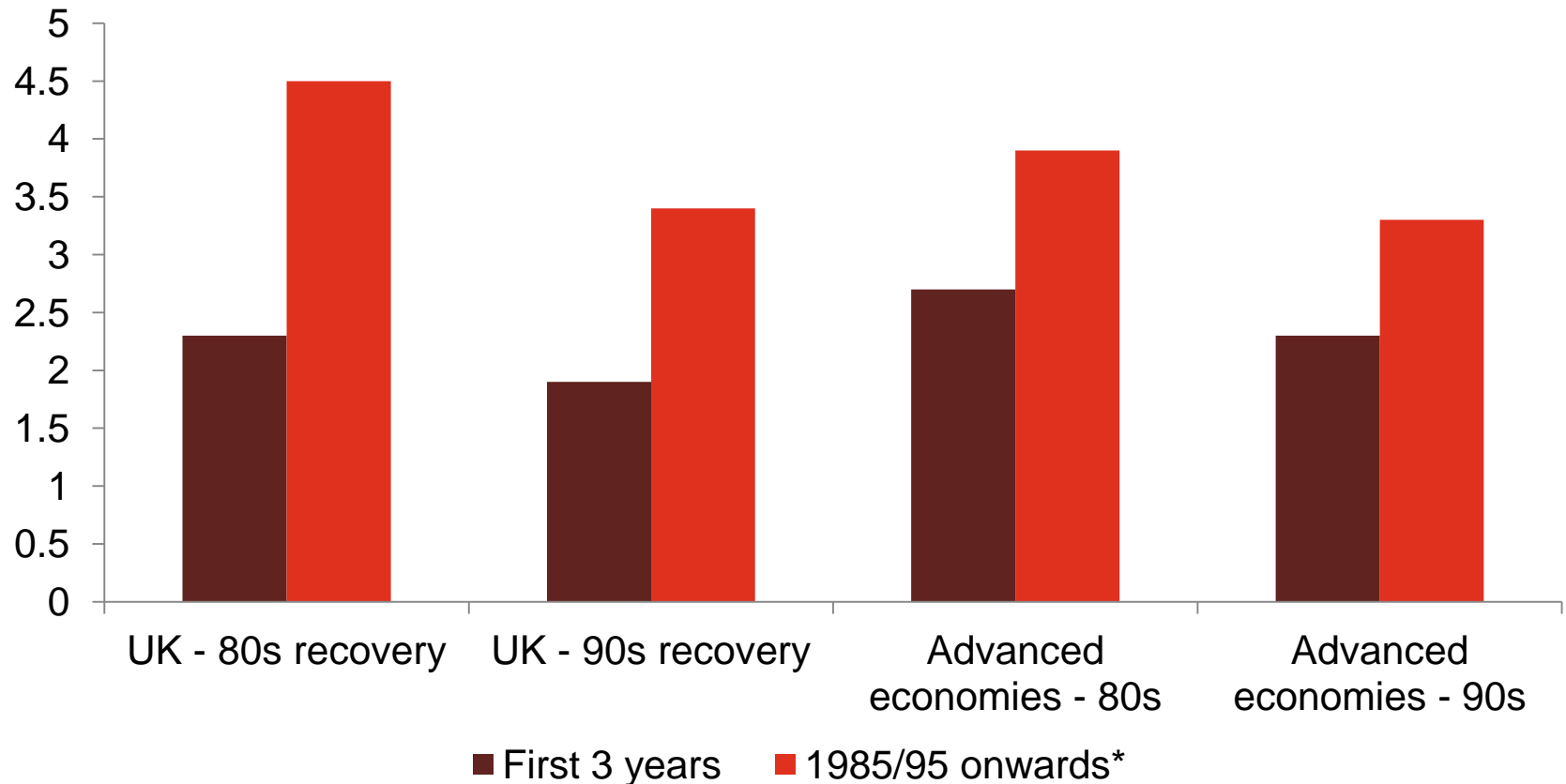
Source: IMF World Economic Outlook Updates

PwC

Slide 3

... though a slow start to recovery is not unusual

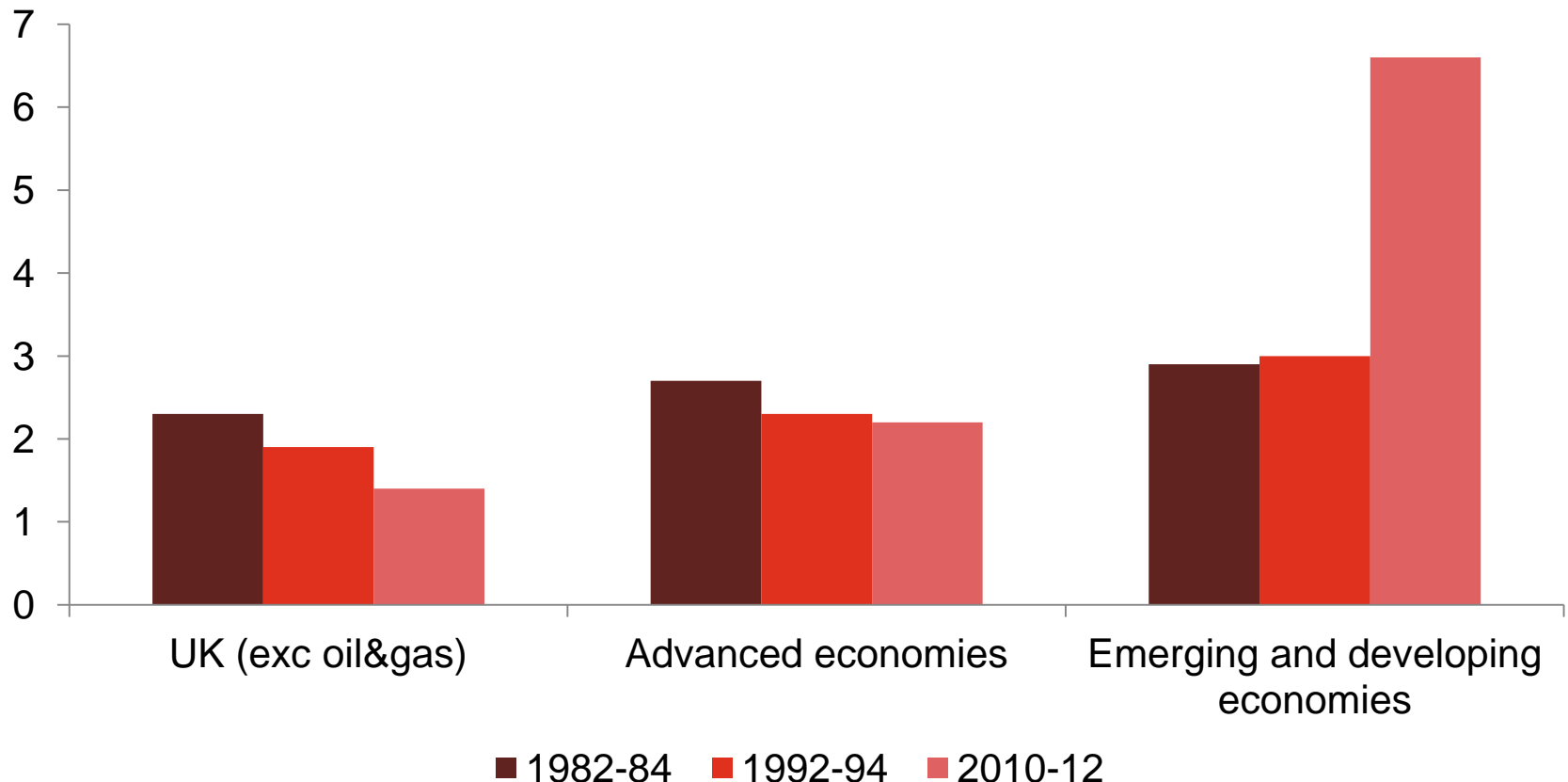
average % per annum change in GDP



* 1985-88 and 1995-2000 average growth rates

Source: ONS and IMF. UK figures show non-oil GDP growth

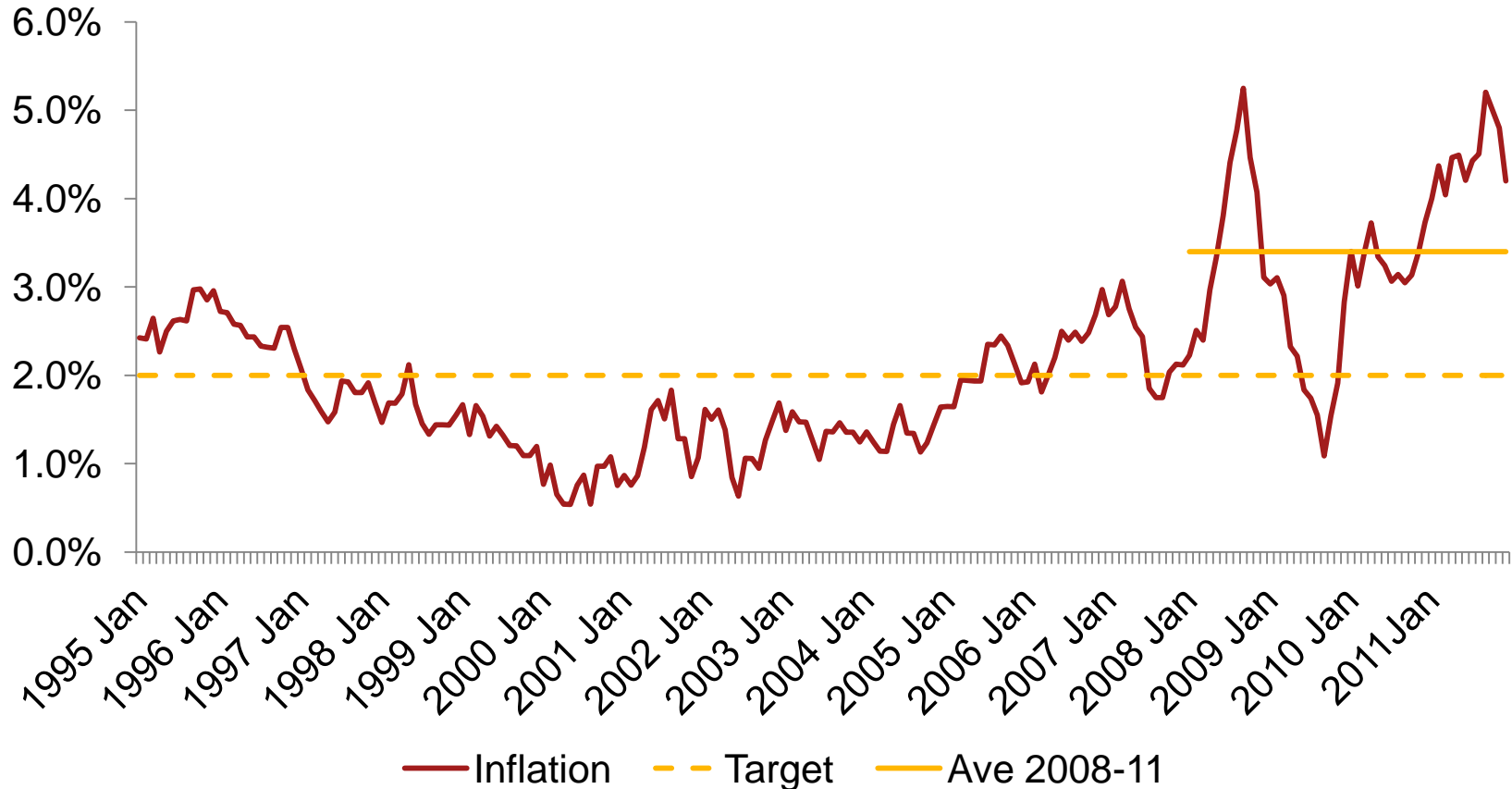
... and emerging market growth has been strong
average % per annum change in GDP over first three years of recovery



Source: ONS and IMF. 2011 and 2012 based on latest IMF, OECD and PwC forecasts

High and volatile inflation

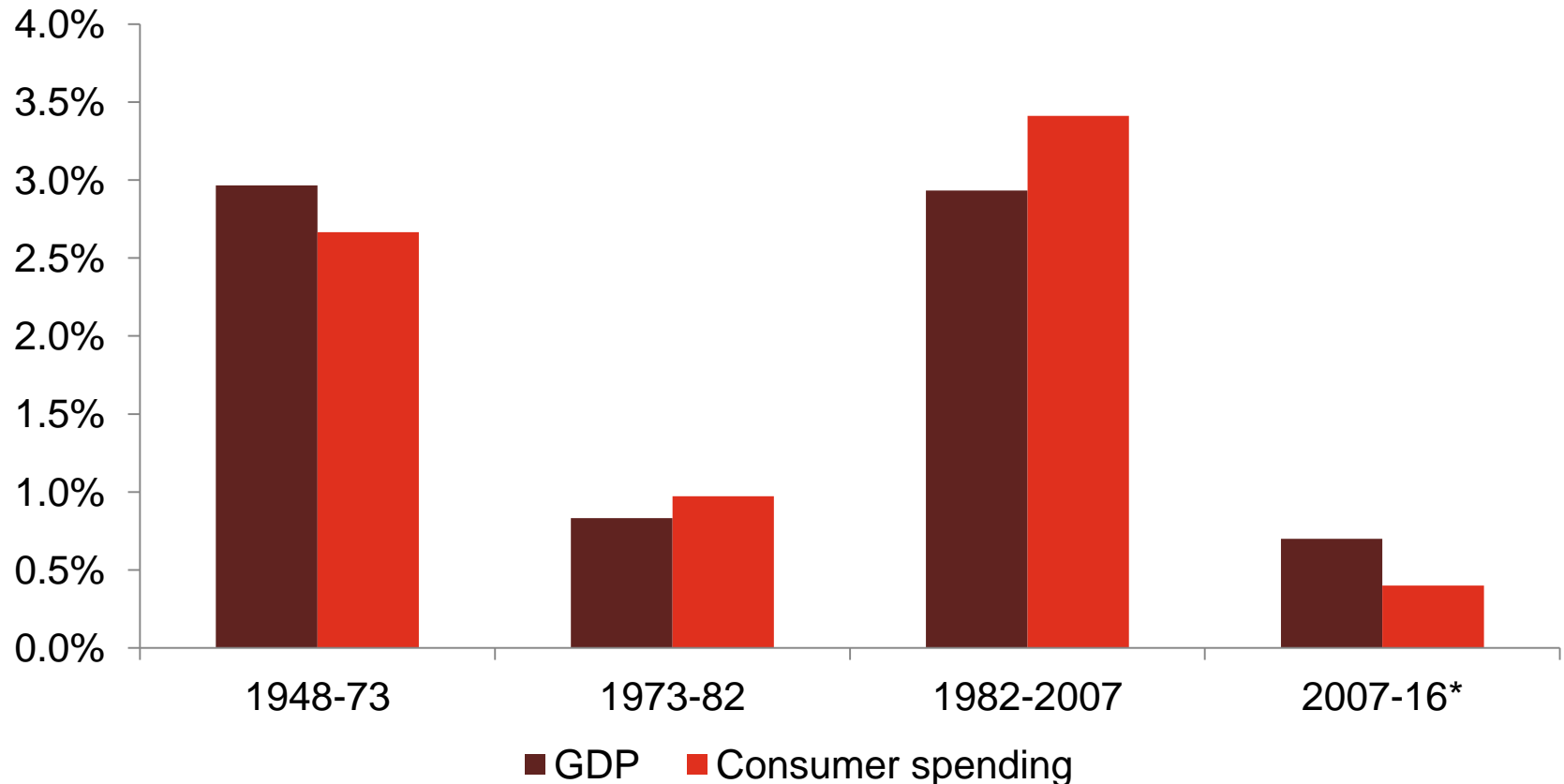
% per annum increase in consumer prices index



Source: Office for National Statistics

Long expansions and their aftermath

average % per annum change in UK GDP and consumer spending



* Based on current consensus forecasts for 2011/12, and assuming trend (2.1%) growth from 2013

Source: ONS and PwC calculations

Forces shaping the “old normal”, 1982-2007

- Financial deregulation and liberalisation, broadening access to debt for consumers and businesses
- Relatively low energy and commodity prices (1985-2005), reinforced by “China effect” on manufactured prices
- “New era” of globalisation, as China, India, former Soviet bloc and others embrace the market economy
- Confidence in ability of policy-makers to support growth and of independent central banks to control inflation
- Rapid innovation and technological advance in IT and communications
- US the dominant economic power

The 1970s experience – a salutary lesson

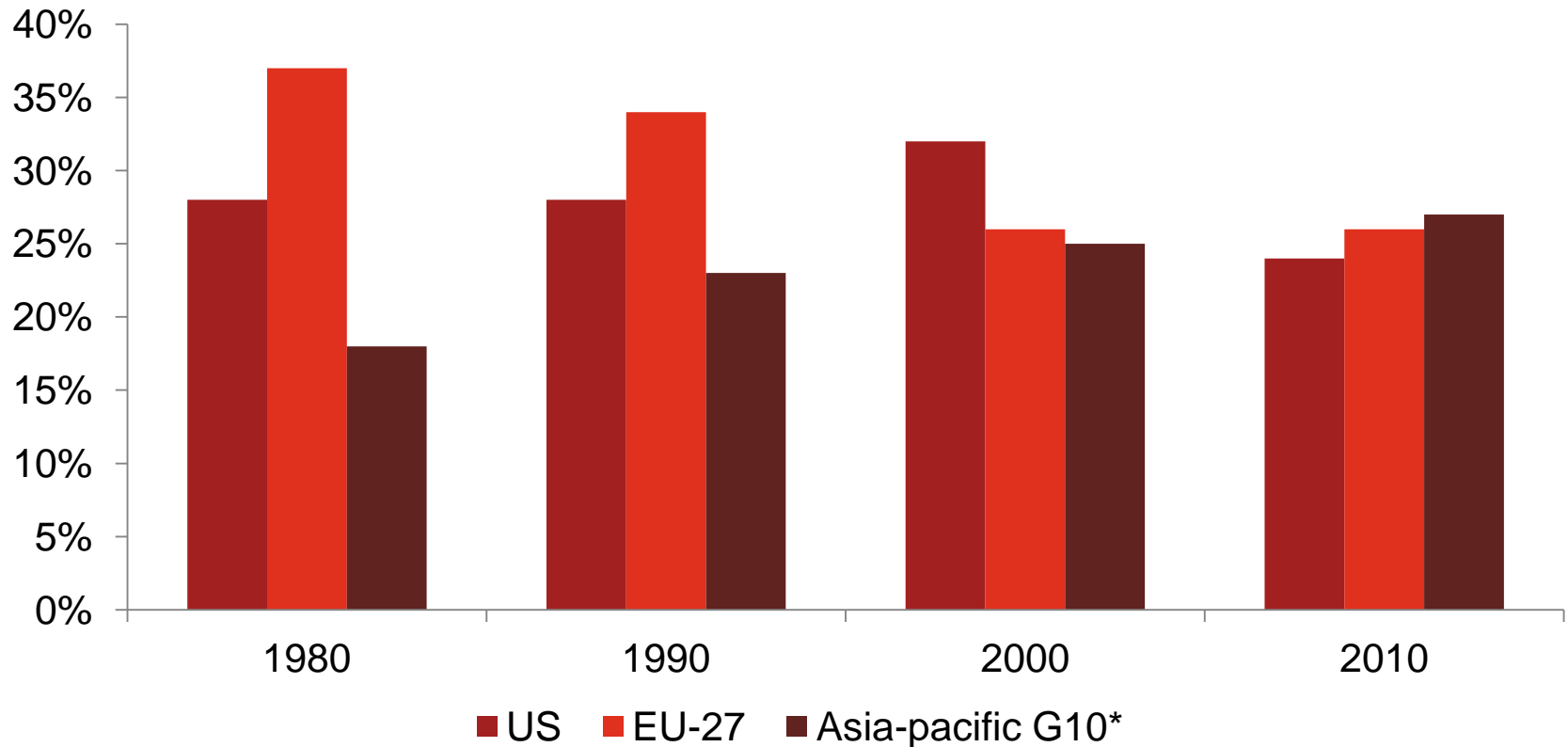
- 25-year long expansion came to an end in the early 1970s
- The international financial system was seriously disrupted with the end of the Bretton Woods system
- Energy and commodity prices were high and volatile
- UK growth 1973-82 averaged less than 1% pa (our “lost decade”?), inflation was high and economic/financial conditions were volatile
- Other western economies saw a growth slowdown over this period, with rising unemployment and high inflation
- 50s/60s full employment policy consensus undermined; lack of confidence and policy errors compounded volatility

Forces shaping the “new normal”

- The legacy of the financial crisis
- Structural adjustment in western economies following the long expansion which ended in 2007
- The rise of Asia and other emerging market economies, and associated pressure on supplies of energy and other natural resources
- Breakdown of pre-2007 “policy paradigm” and lack of confidence in policy responses

The rise of Asia

Percentage share of world GDP, current market prices & exchange rates



* Includes Australia, China, India, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan Province of China and Thailand.

Source: IMF World Economic Outlook

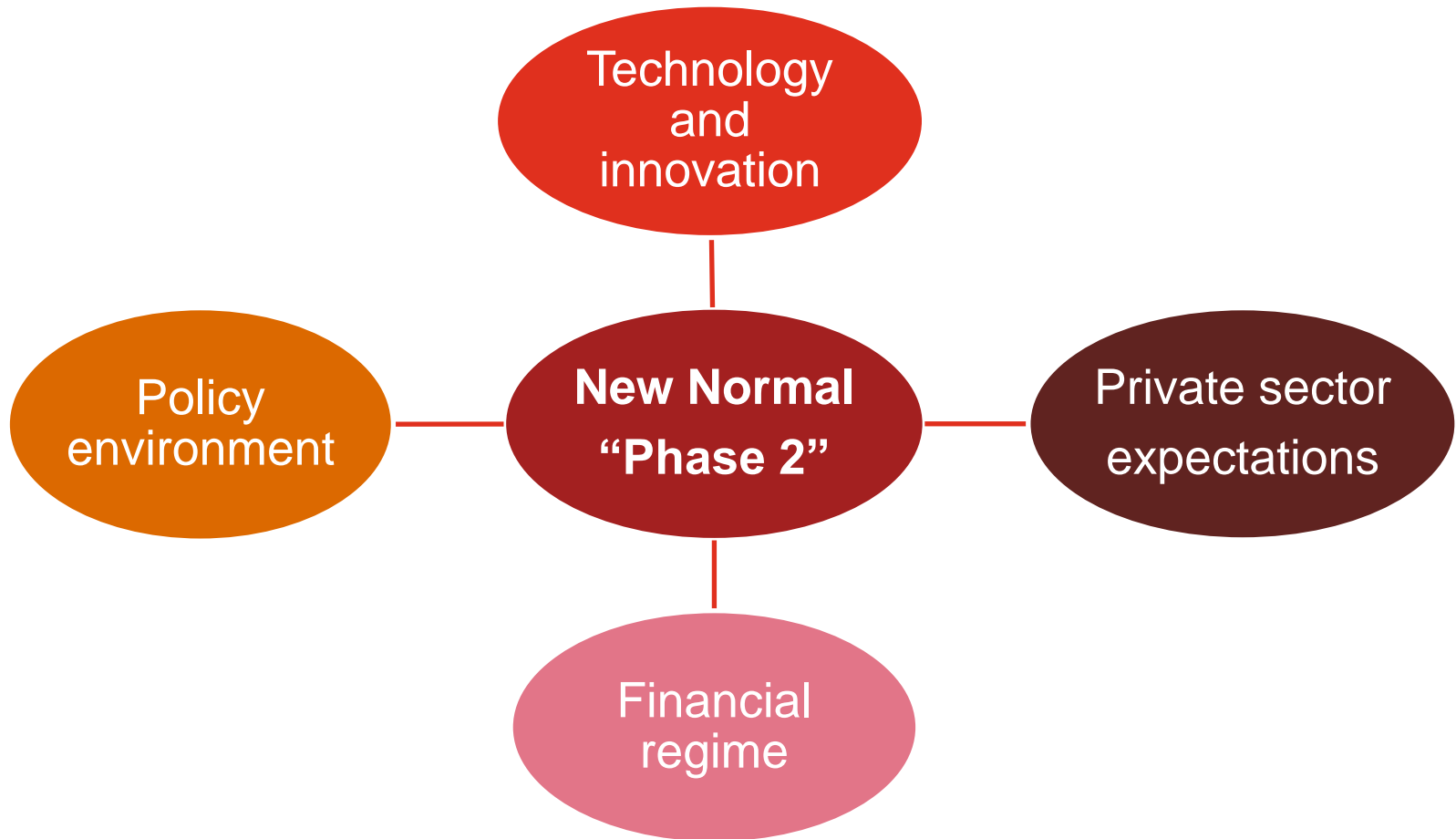
Two phases of the “new normal”

- **Phase 1:** Continuation (through mid-2010s) of current pattern of disappointing growth in western economies, accompanied by financial volatility and high and fluctuating energy and commodity prices
- **Phase 2:** A clearer and more sustained growth dynamic emerges, perhaps starting in the second half of this decade. However, this will be based on a different set of technological, regulatory, geopolitical and financial drivers from the forces driving the long expansion which ended in 2007
- Businesses and policy-makers need strategies to manage and survive through Phase 1, while building potential opportunities for Phase 2.

Implications for economic climate: Phase 1

- Prolonged period of disappointing GDP and consumer spending growth in western economies, lasting into mid-2010s
- Asia and some other emerging markets continue to perform strongly and are main engine of global growth
- Periodic bursts of inflation, driven by energy and commodity price movements, adding to growth volatility
- High prices for energy and other natural resources
- Policy-makers struggle to address medium term policy challenges
- Continuing financial market volatility

Forces shaping long expansions



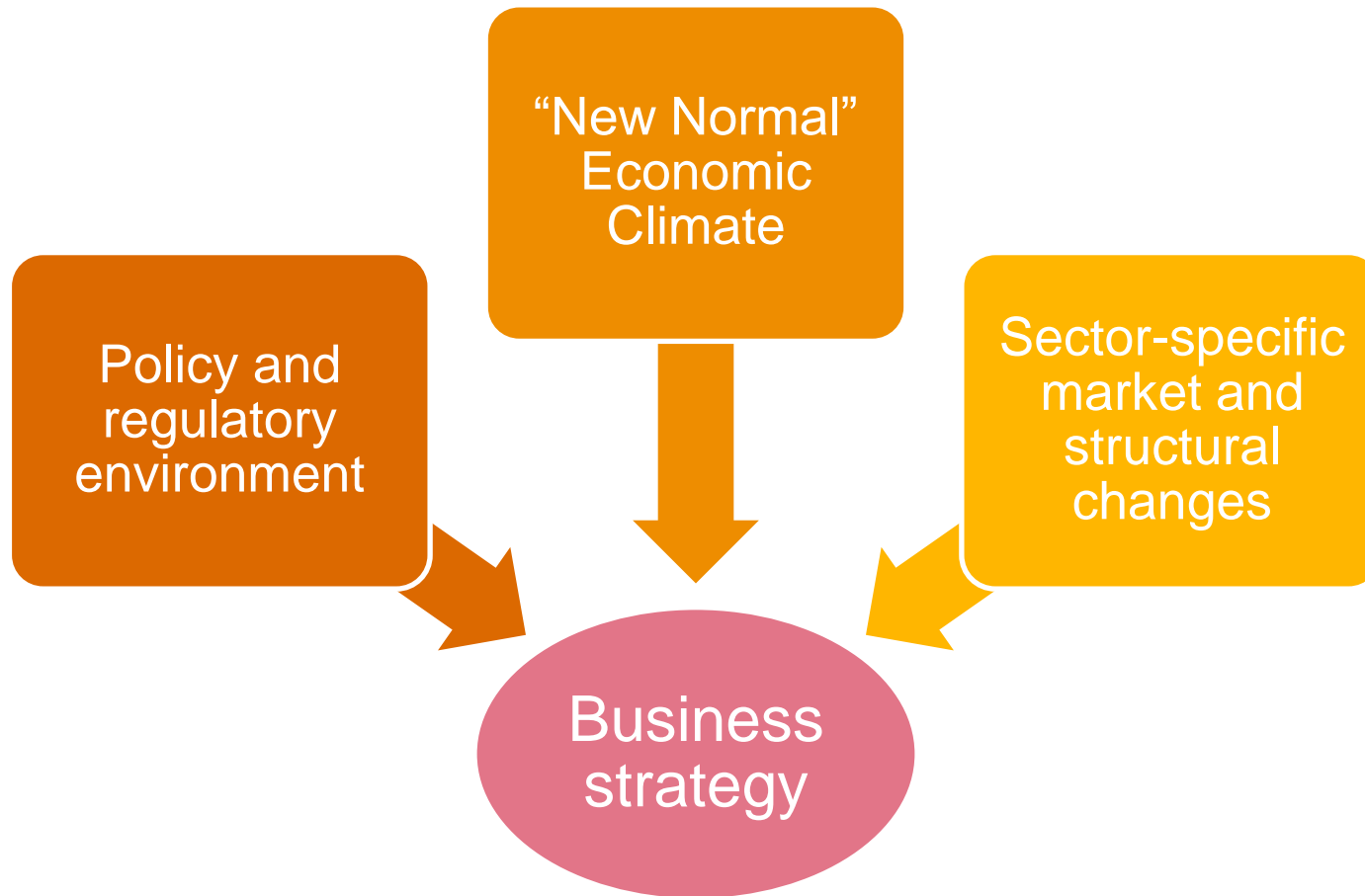
A possible scenario for “New Normal” Phase 2

- Asia-Pacific region the leading and dominant force in the global economy
- Re-regulated financial sector and return to more managed exchange rates
- Development of new international institutions and frameworks to manage global volatility and address major challenges (eg climate change)
- Technology and innovation to support energy and resource efficiency and transition to low carbon economy
- Continued development of IT/communications technologies to drive business efficiency and consumer spending

How should businesses respond?

- ***Option 1: Gradual reversion to past trends.*** Treat the post-crisis world as a variant of the previous era, with modifications but a limited degree of structural change.
- ***Option 2: Wait and see.*** Keep key decisions on hold until the “new normal” is clearer. However, this strategy risks a prolonged period of paralysis, uncertainty and drift, losing ground to bolder, braver competitors who are quicker to adapt and seize new opportunities.
- ***Option 3. Adjust to the “new normal” and position for future opportunities.*** The strategies which enable businesses to do this will require understanding both the forces shaping the broader economic climate, and industry-specific structural and regulatory changes

Adjusting business strategy to the “new normal”



Thank you for listening.

To discuss further the themes in this presentation and their business implications, please contact Andrew Sentance:

andrew.w.sentance@uk.pwc.com

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