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# David Smith



**THE SUNDAY TIMES**

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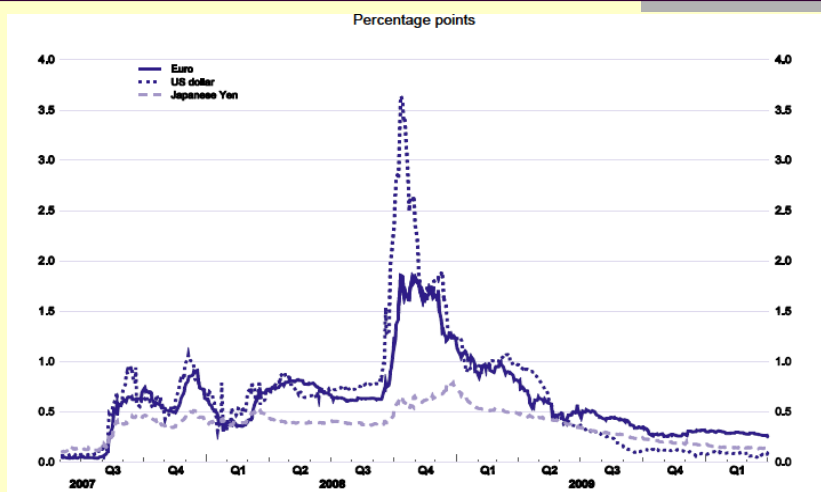
## Prospects in an age of instability

The economic and  
financial outlook

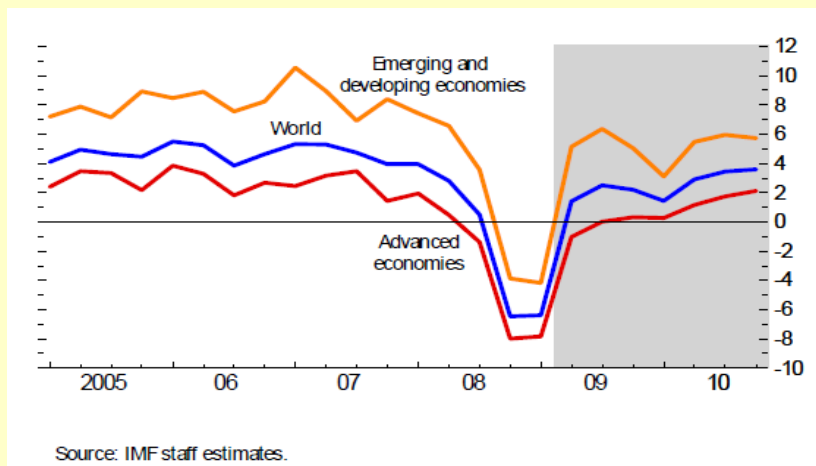
## More than two years after the biggest financial storm in a century



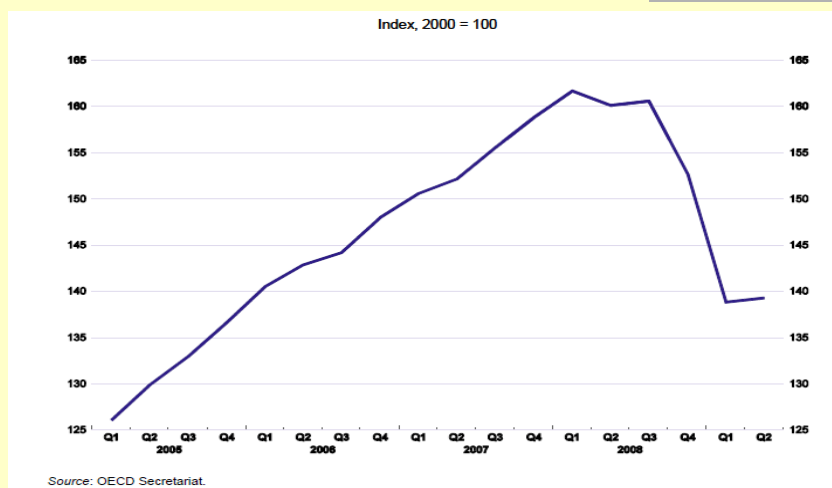
## Time heals – a long time since 2008



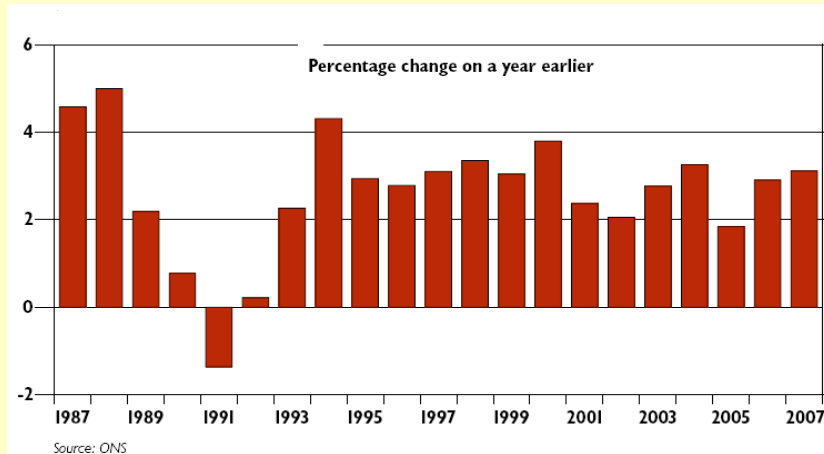
## But the worst post-1945 world recession



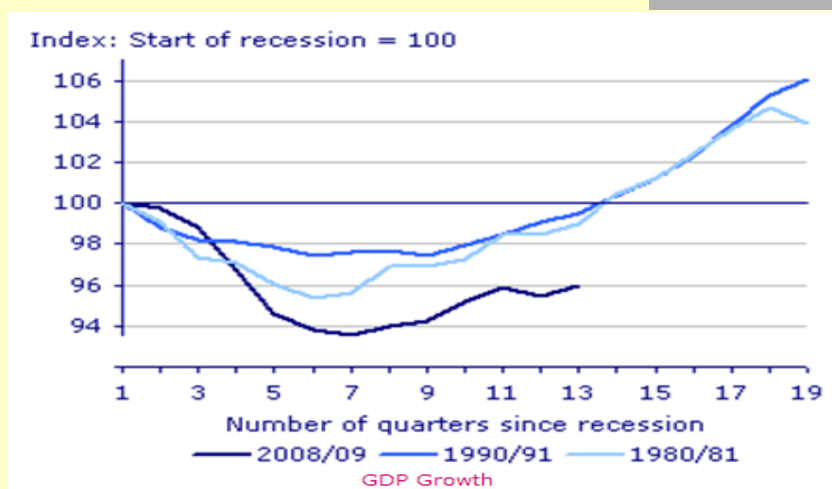
## .... And a world trade collapse



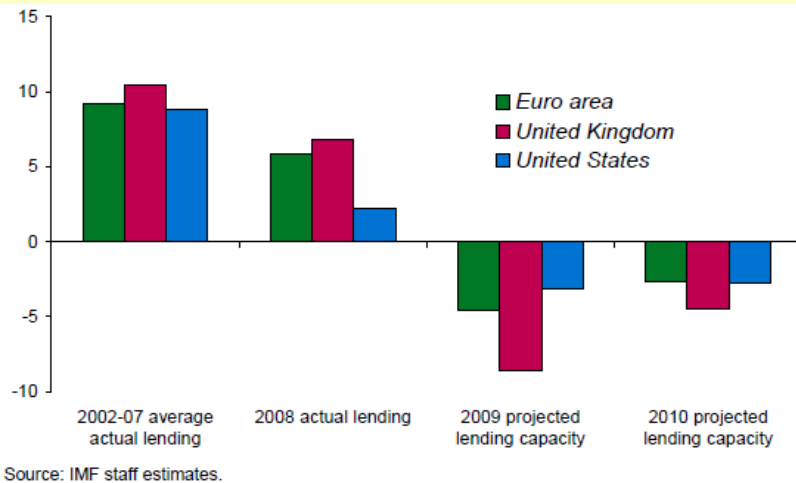
## After the long UK upturn



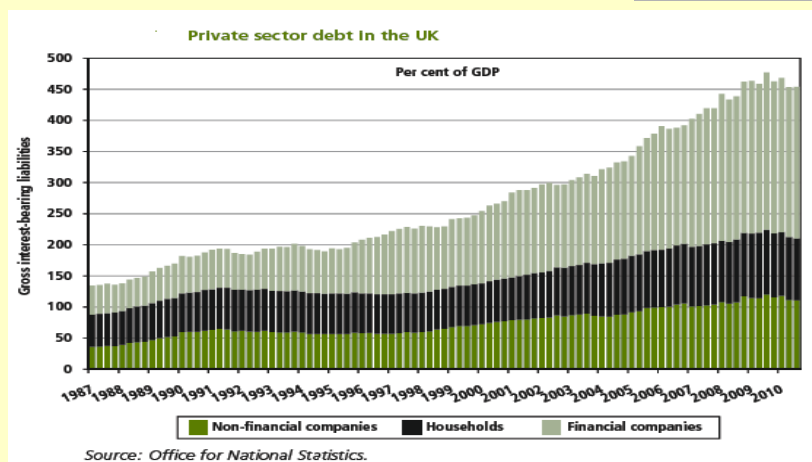
## The worst post-war recession



## Leaving a weakened banking sector



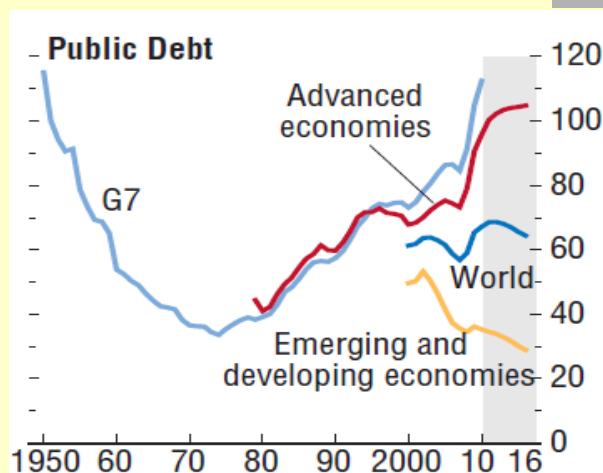
## Record private sector debt



## And a nasty fiscal hangover



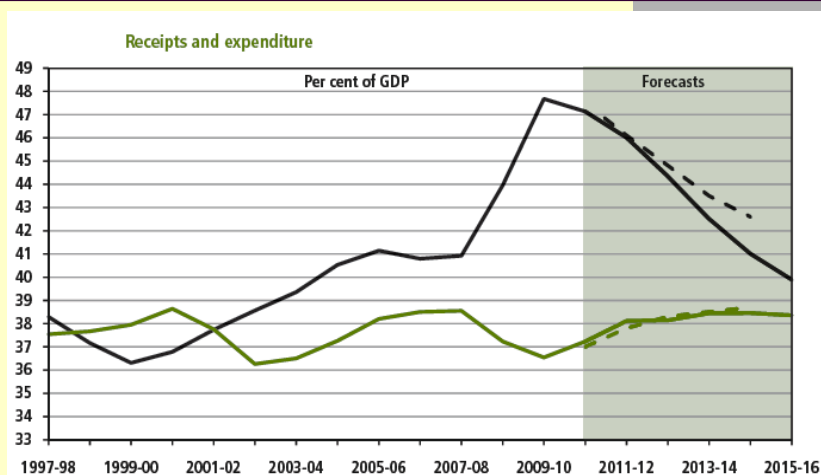
## As in most advanced economies



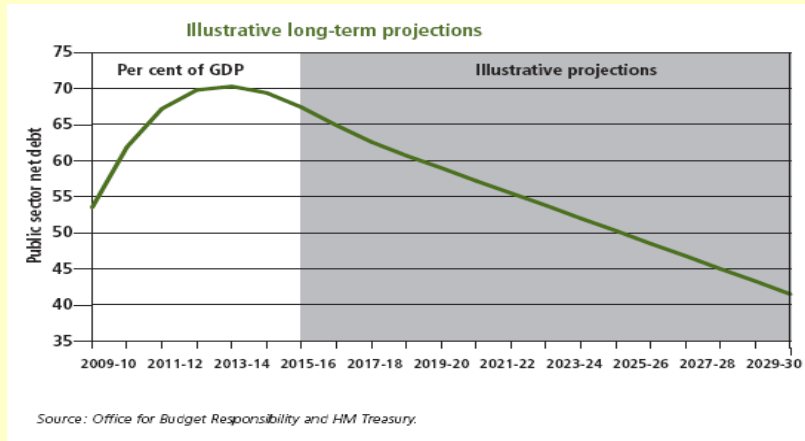
## The biggest UK fiscal tightening in decades

- Coalition's £40.2 billion of spending cuts and tax hikes by 2014-15, on top of Labour's £73 billion plans.
- Split will be 77%-23% - roughly £81 billion of spending cuts but also tax rises including 20% VAT, 1% on employee NI contributions, 50% top tax rate.
- Others things being equal, a 19% real reduction in non ring-fenced departmental spending.

## No alternative to closing the gap



## Debt dynamics required early action

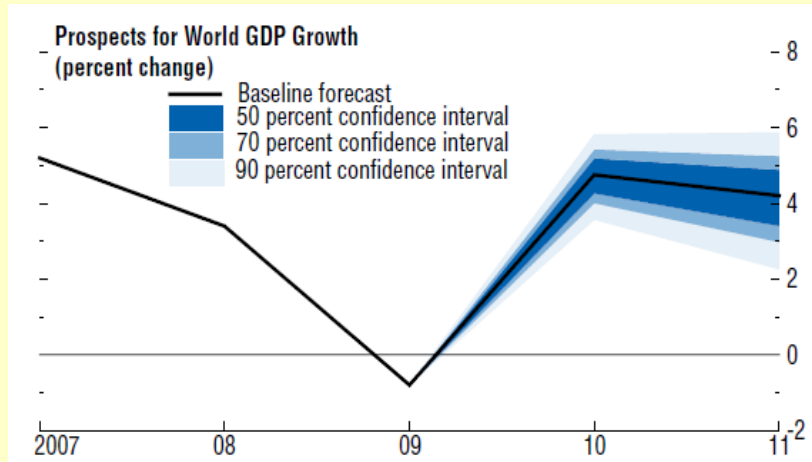


## Plenty of global green shoots

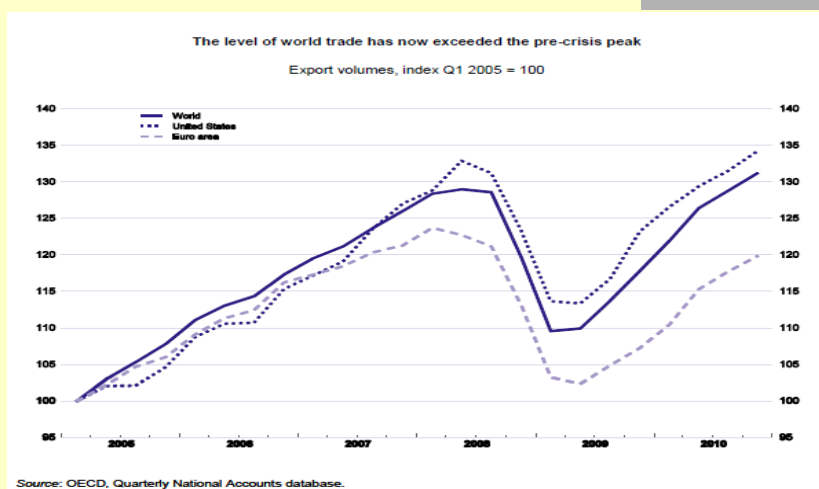




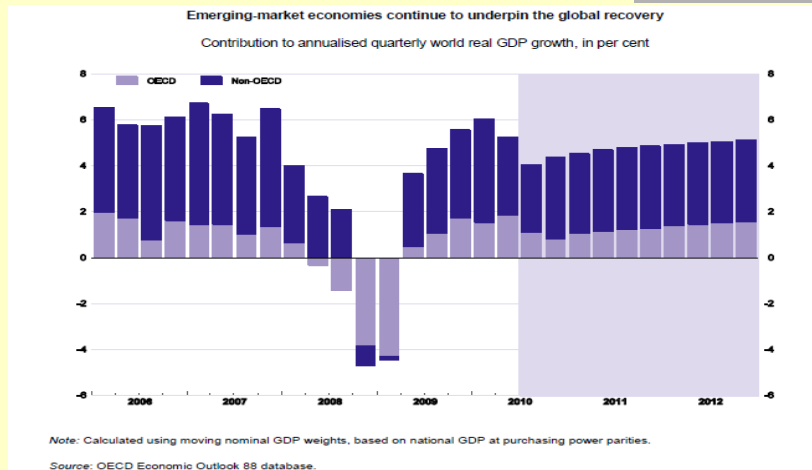
# The world is recovering



# Trade upturn is expected to last



## Though the strongest growth is elsewhere



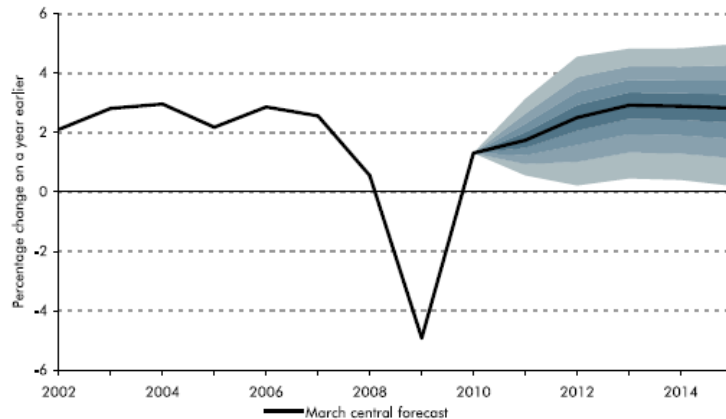
## Accelerating the global shift

- 2007: China was expected to overtake Japan's GDP in 2015, America in the mid-2030s.
- 2010: China has already overtaken Japan; will overtake America in the 2020s.
- Global crisis and its aftermath has accelerated the shift by 5-10 years.
- China, India and America will be the world's big three: only one is lagging.

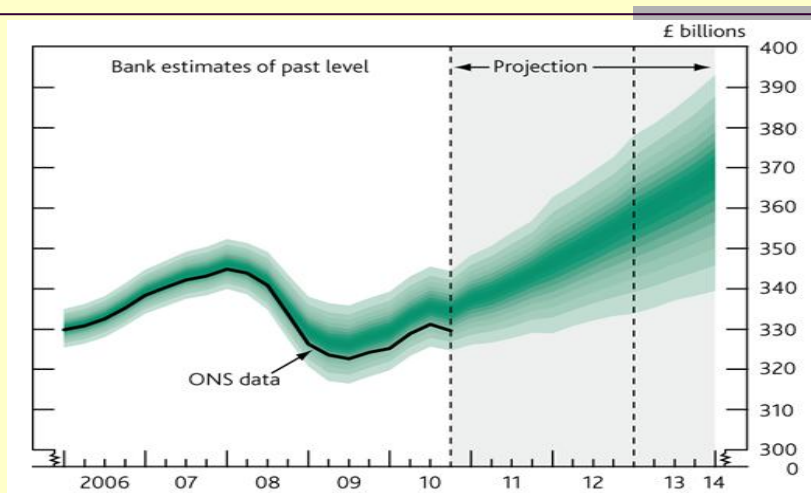
## Shares believe in global recovery



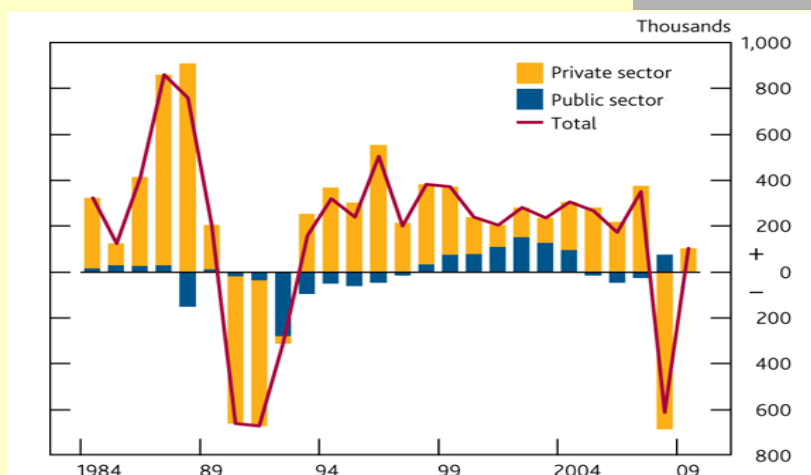
## Britain is recovering too



## But it takes time to get back



## Firms are good at creating jobs



## Economies change

- Only two members of the FT 30 index at its inception in 1935 are still in the index today: GKN and Tate & Lyle.

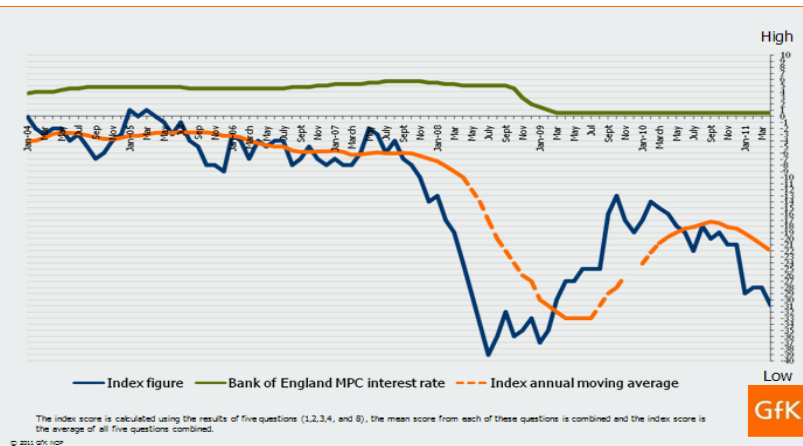


## Which sectors will succeed?

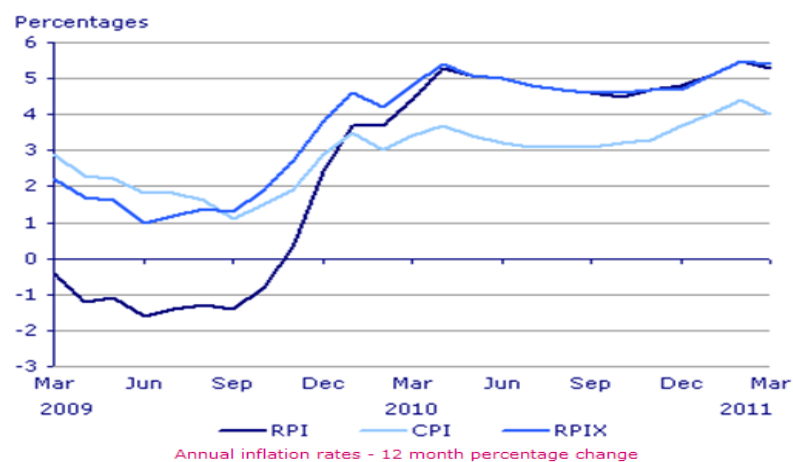
- Sectors/businesses dependent on the public sector will be vulnerable to the cuts, though there will be opportunities for efficiency savings and productivity improvements, perhaps particularly in IT.
- Sectors and firms which are outward-looking, and tapped in to the changing global economy, should do well.
- Sectors that we are barely aware of now.

# Recovery won't be consumer-led

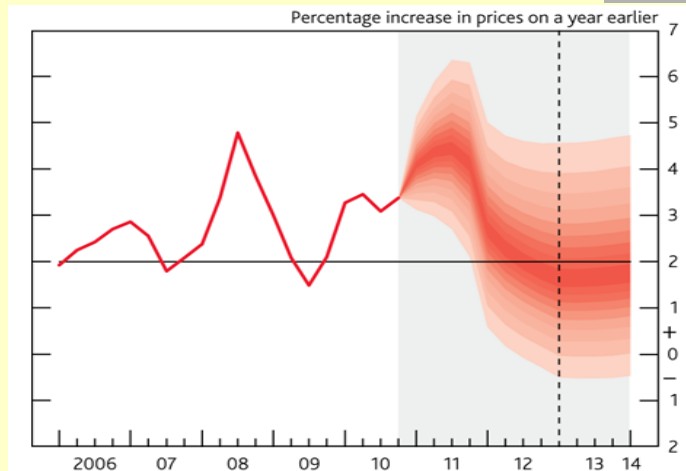
Consumer Confidence Barometer



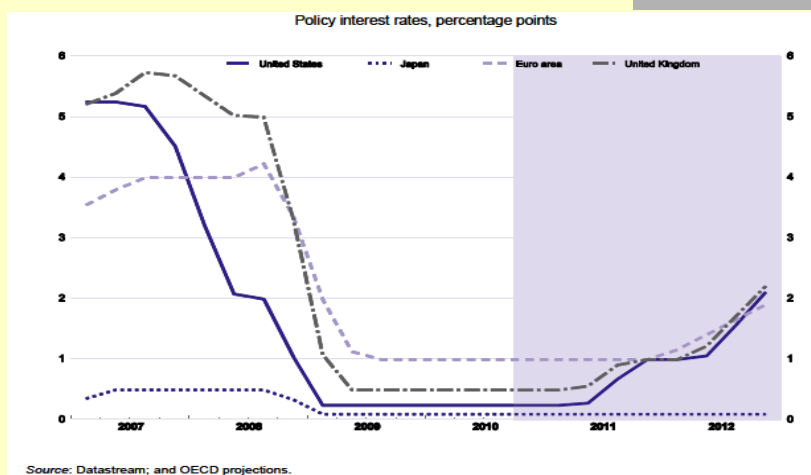
# With inflation well above target



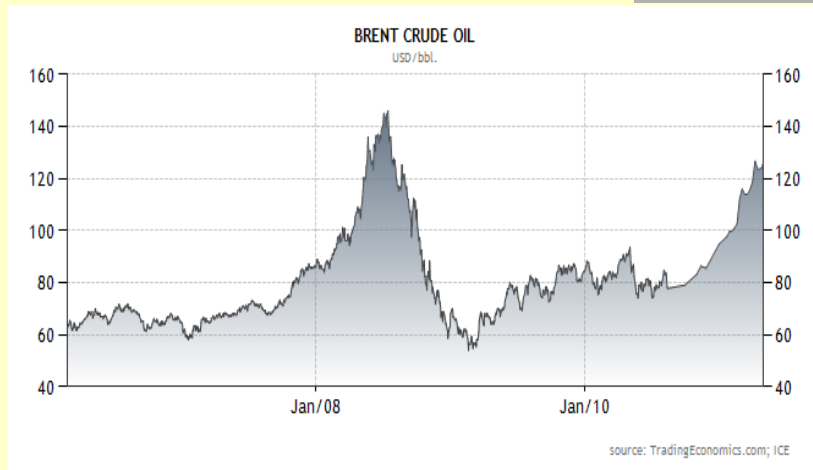
# Will it come down?



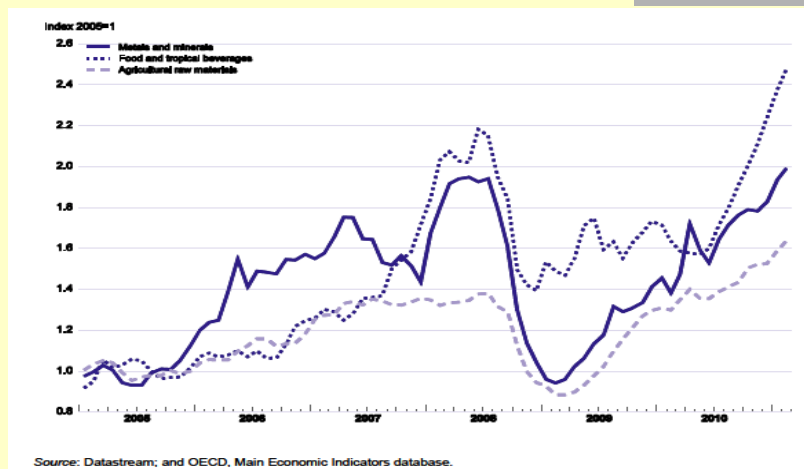
# Either way, softly-softly on rate hikes



# Many global challenges



# Global inflationary pressures





## And terrible natural disasters



## Eurozone sovereign debt dangers



# Conclusions

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- Global economy recovering strongly from the biggest shock in decades – depression averted. Markets believe in the world upturn.
- The balance of global growth has shifted fundamentally in favour of emerging economies, though all the major advanced economies are also recovering.
- Central banks will seek to keep interest rates low to offset the effects of tax hikes and spending cuts.
- Debt 'hangover' and de-leveraging are the biggest challenges, alongside inflationary pressures.