UFI WEBINAR

April 9 2020

Economic Update

The economy is the process of creating added value

THE DEFINITION OF VALUE ADDED

SALES REVENUE

subtract

ALL PAID INVOICES

=

PROFIT AFTER TAX AND INTEREST + **WAGES AND SALARIES**

This is Nominal Gross Domestic Product (GDP)

67% produced by companies employing less than 250 people
Big companies only employ 10% of UK workforce

THE DEFINITION OF VALUE ADDED

SALES REVENUE

Data obtained from VAT and expenditure survey

subtract

ALL PAID INVOICES

=

Data obtained from PAYE and tax returns

PROFIT AFTER TAX AND INTEREST

+

WAGES AND SALARIES

This is Nominal Gross Domestic Product (GDP)

67% produced by companies employing less than 250 people
Big companies only employ 10% of UK workforce

Measuring GDP over the next 6 months

The Expenditure method will show a decline of circa 15%

BUT

The income method will show a decline of circa 5%

The consequence will depend on media reportage:
either there is going to be a global depression worse than 1930
OR a short sharp V six month collapse

SHORT RUN ECONOMIC ACTIVITY

is driven by the flow of spending

MONEY X **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.

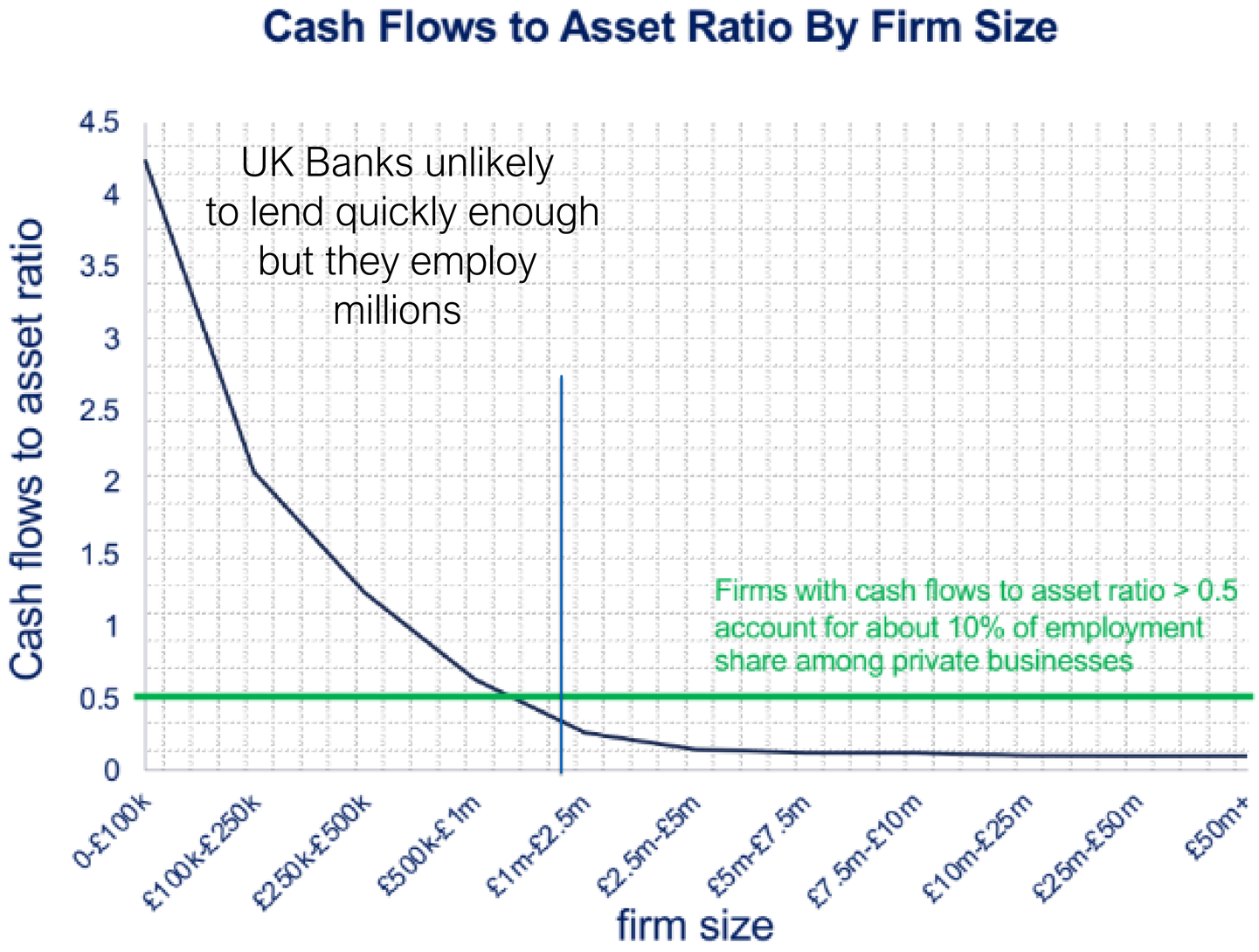
Most countries are using their central bank to create enough money to finance fiscal expansion without and increase in interest rates

It is expected that up to $7 trillion of new money will be created over the next 18 months

Most of this money will be used to keep businesses liquid whilst still paying employees

Incomes are being maintained whilst expenditure contracts due to lock down

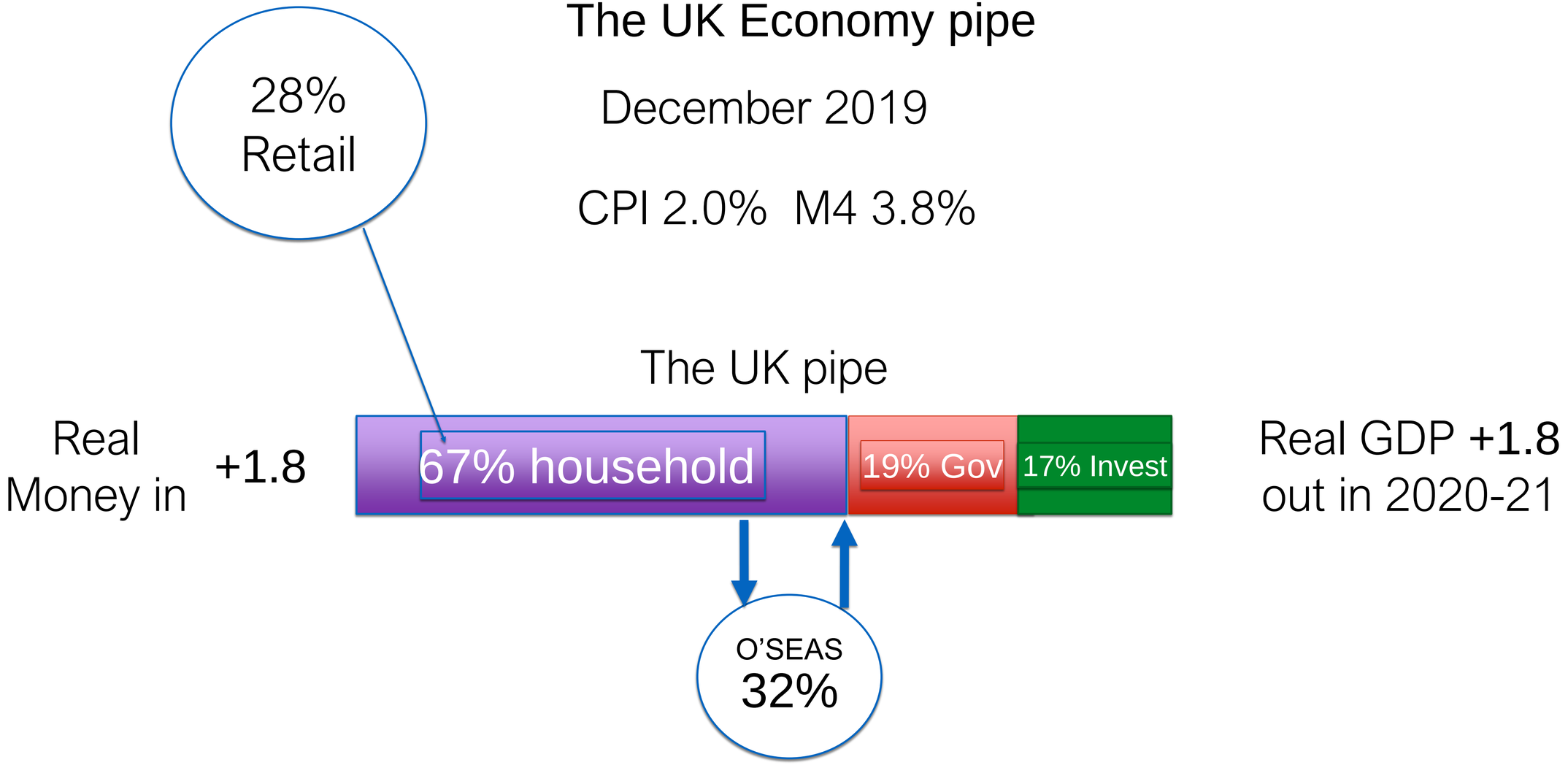
Many small businesses rely on cash flows



The UK Economy pipe

December 2019

CPI 2.0% M4 3.8%



The UK Economy pipe

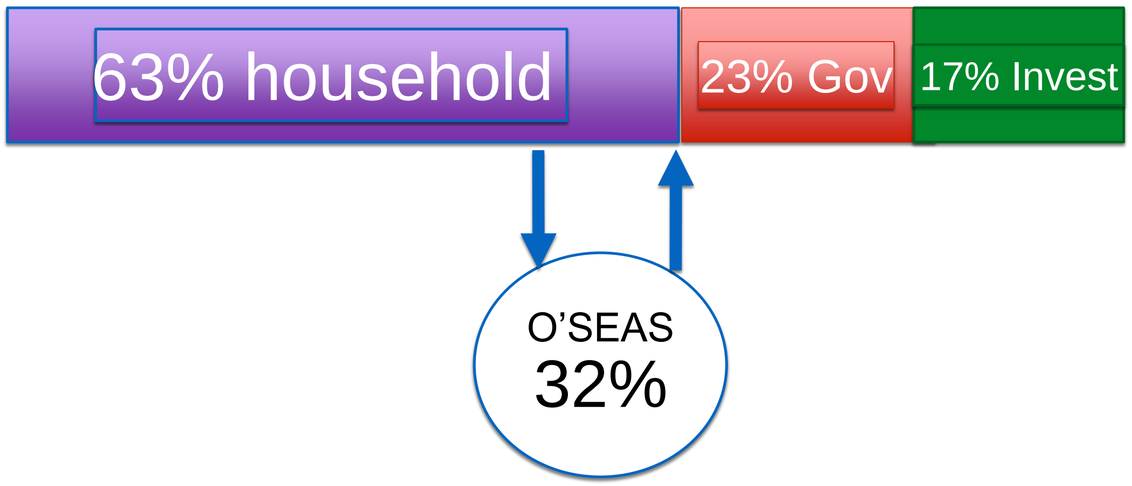
April-July 2020

CPI 2.0% M4 +6%

The UK pipe

Real
Money in

+4



Real GDP +2
out in 2021-22
inflation 2%

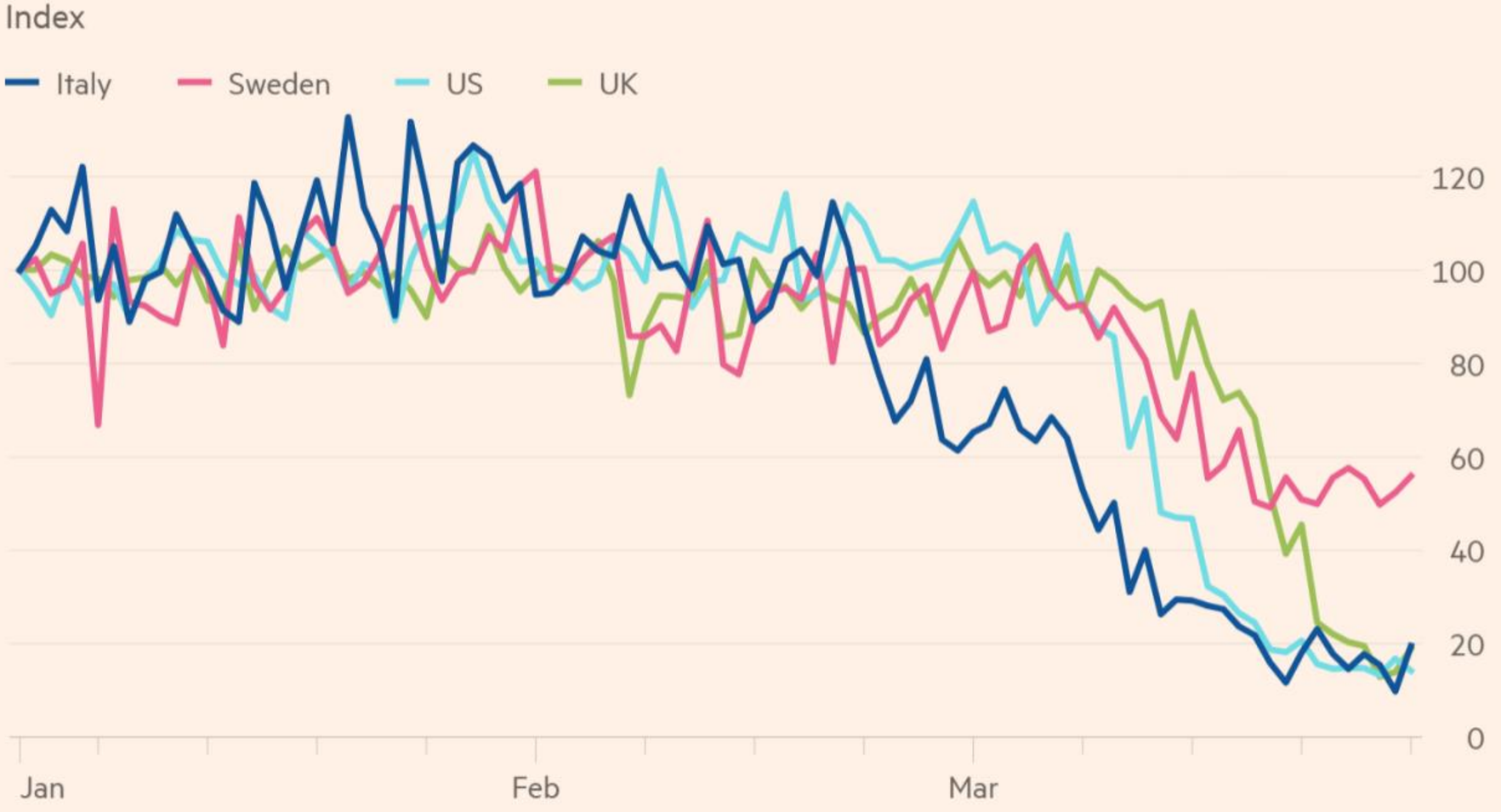
The key is how fast new money moves through the pipe

There is plenty of money in country pipes and a lot more will be flooding through over the next year

The problem is the velocity of money has collapsed: individual firms delaying payments to conserve cash and households isolating

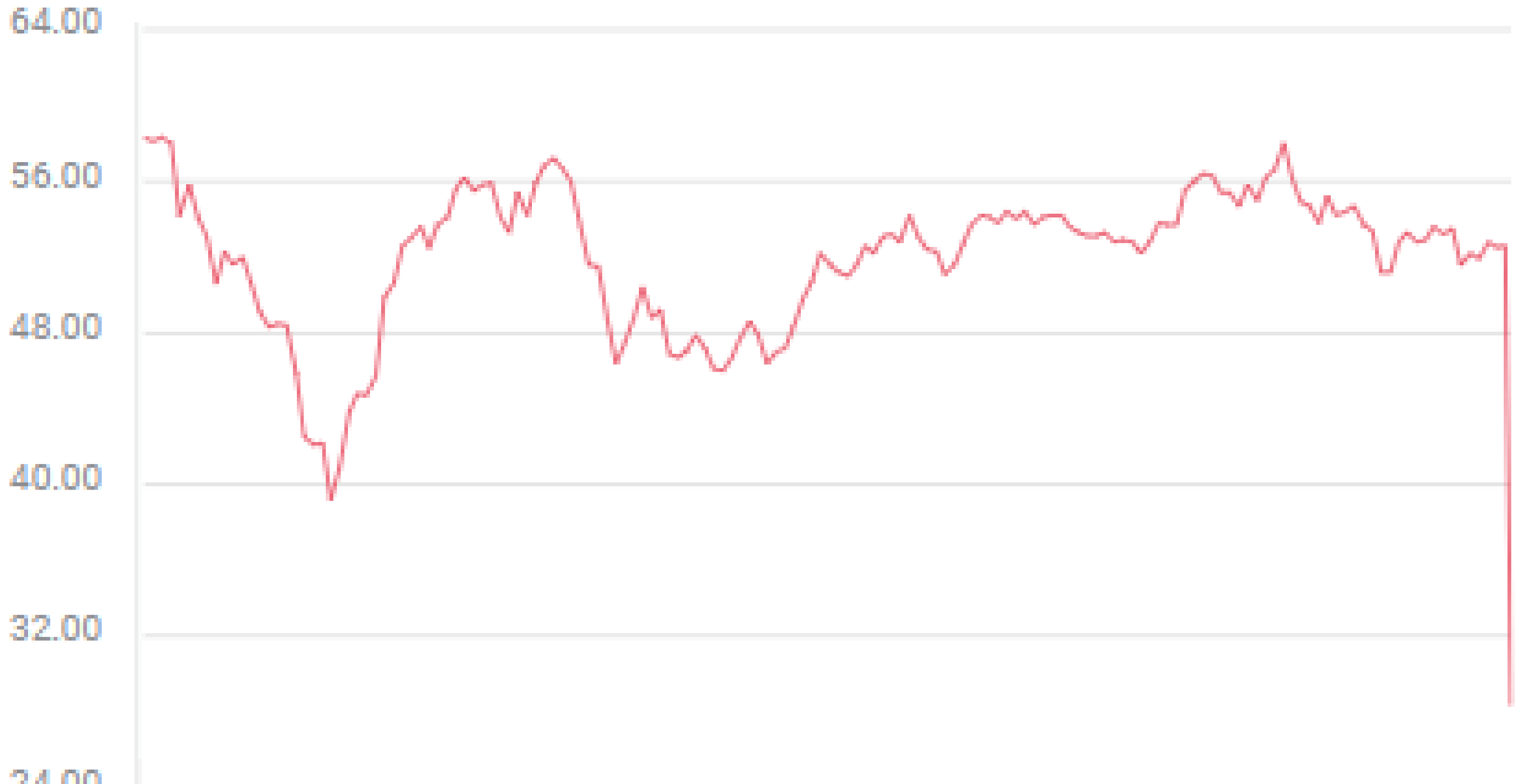
Until people are allowed out to shop and socialise velocity will remain depressed

Retail footfall indices dive as governments tighten restrictions



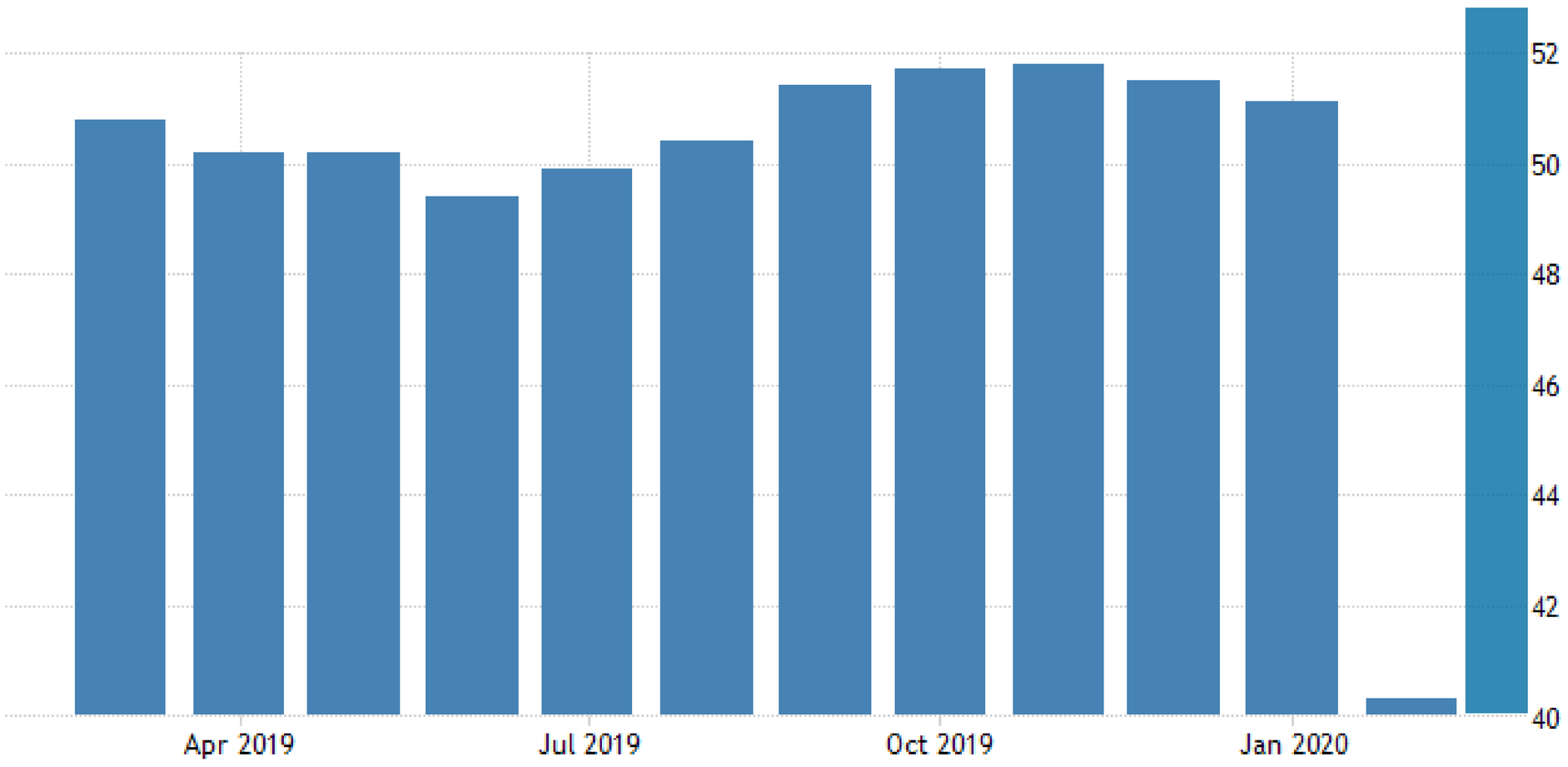
Index reflects changes year on year
Source: Springboard

The Eurozone Services PMI crashes to 28 in March

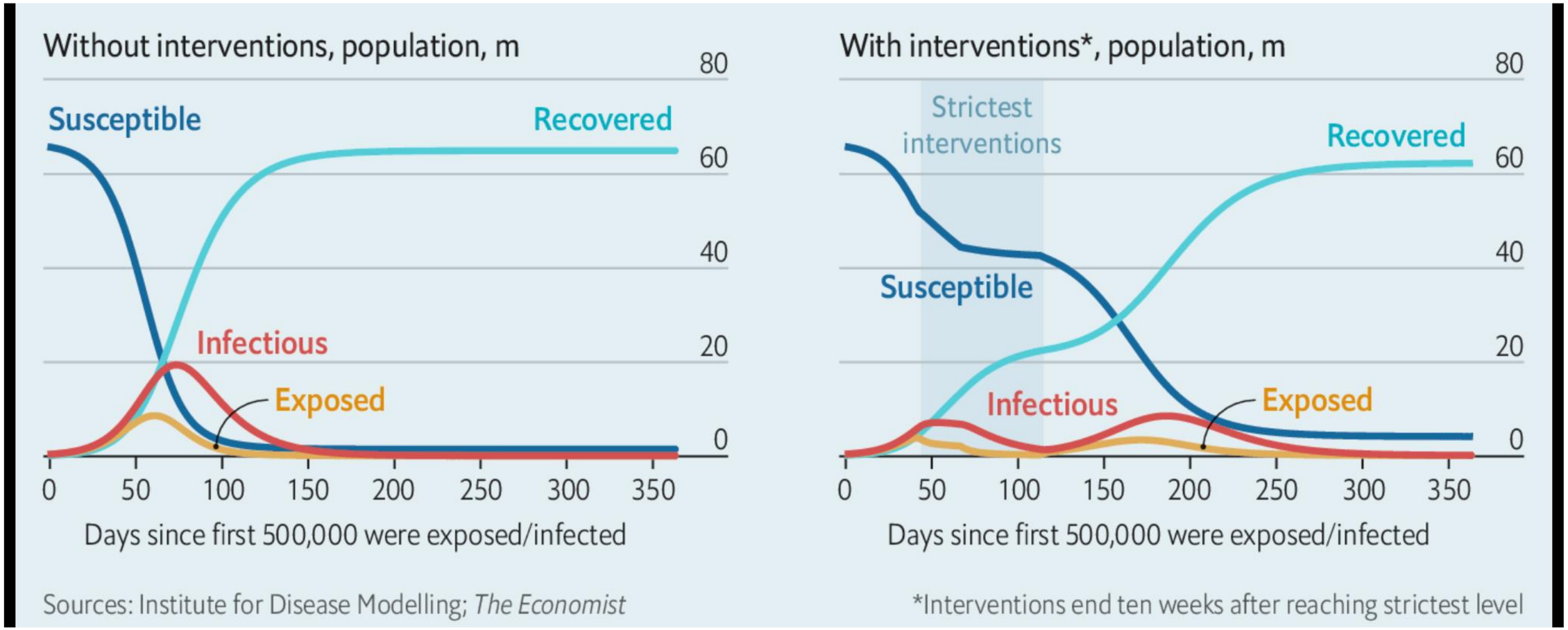


The USA services PMI dropped to 38 in March

China manufacturing PMI rebounds in March



Assuming the NHS can manage the peak over the next three weeks
Self isolation can be cancelled by the end of May
Then second peak around mid September
All over by year end

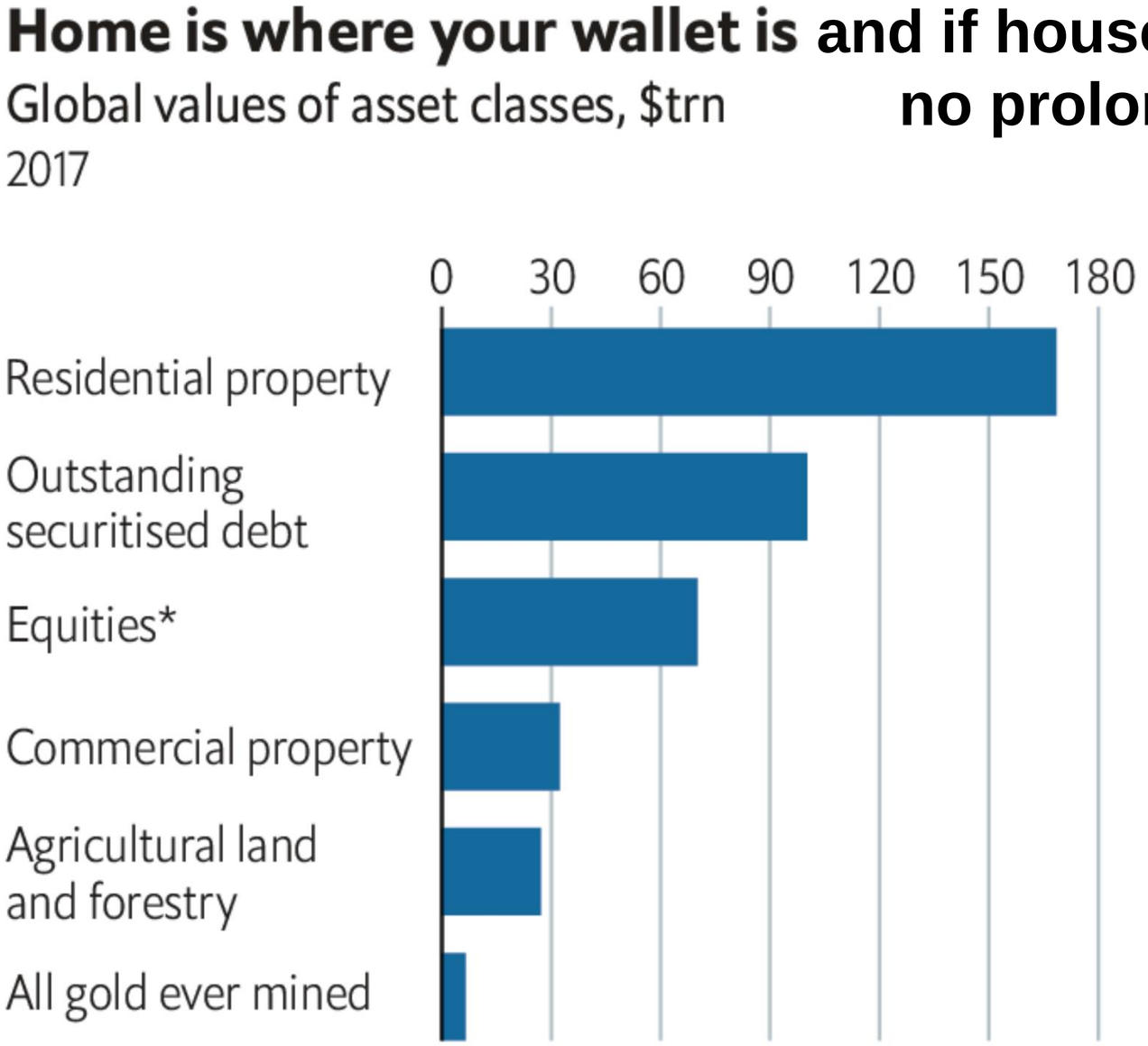


Equity values have dropped between 30 and 40%

BUT

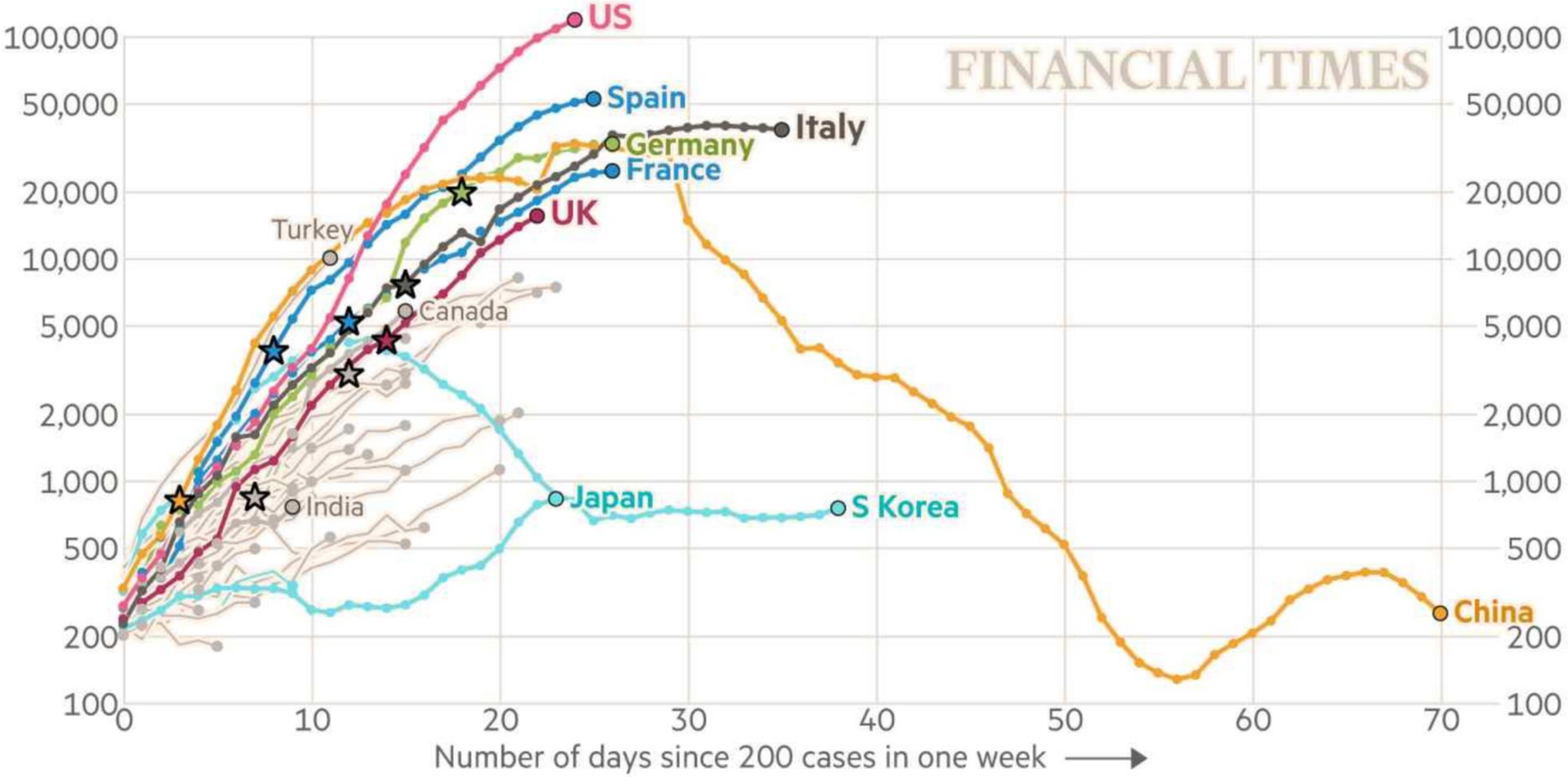
and if house prices are stable

no prolonged recession



Italy has turned the corner, with numbers of new cases now in decline, following in China's footsteps

New confirmed cases of coronavirus in the past week,
by number of days since 200 new cases in one week



FT graphic: John Burn-Murdoch / @jburnmurdoch

Source: FT analysis of Johns Hopkins University CSSE; Worldometers; FT research. Data updated March 31, 10:00 GMT

The next six months

AS SOON AS THE ISOLATION REQUIREMENT IS LIFTED THE ECONOMY WILL TAKE OFF

The data suggests this could be as soon as May

Survey data indicates the majority of UK businesses have at best another 2 months cash so it will be just in time

A Different Model from Boston Consulting group

Summary | Estimated timings of country lockdown

As of March

	Currently in full lock-down?	1 Potential lockdown start date	2 Peak new cases date	3 Short potential lockdown end date	4 Long potential lockdown end date
USA	✗	W1 April (latest states)	W1 May	W2 June (earliest states)	W3 July (earliest states)
UK	✓	March 24th	W3 May	W3 June	W4 July
Brazil	✗	W4 March	W3 May	W1 July	W2 August
France	✓	March 17th	W3 May	W2 June	W4 July
Russia	✗	W4 March	W1 May	W4 June	W4 July
India	✓	March 24th	W3 June	W4 June	W2 September
Argentina	✓	March 20th	W4 May	W4 June	W4 August
China (Hubei)	✓	January 23rd	February 13th	March 25th	April 8th
Germany	✗	W4 March	W1 May	W2 June	W1 July
Australia	✗	W1 April	W2 May	W4 June	W4 July
Canada	✗	W4 March	W1 May	W4 June	W3 July
Spain	✓	March 14th	W4 April	W1 June	W3 July
Mexico	✗	W1 April	W3 April	W1 July	W3 July
Poland	✓	March 24th	W4 April	W3 June	W1 July
Belgium	✓	March 17th	W3 May	W2 June	W4 July
Norway	✓	March 12th	W4 March	W1 June	W3 June
South Africa	✓	March 26th	W1 June	W4 June	W4 August
Italy	✓	March 10th	W3 April	W2 June	W1 July
Sweden	✗	W4 March	W4 March	W1 June	W3 June
Colombia	✓	March 24th	W1 May	W4 June	W4 July

Factors influencing lockdown duration

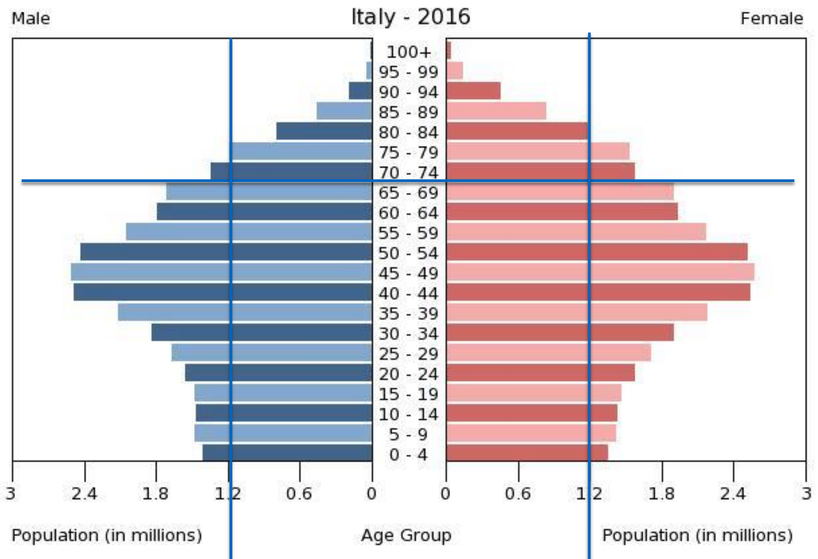
	In-patient beds per 100k pop.	Respiratory diseases per 100k pop.	Ability to manage epidemic
USA	↓	→	↑
UK	↓	↓	→
Brazil	↓	→	↓
France	↑	↑	→
Russia	↑	↑	↓
India	↓	↑	↓
Argentina	↓	↓	↓
China (Hubei)	↑	→	↑
Germany	↑	→	↑
Australia	→	↑	↑
Canada	↓	↑	↑
Spain	→	↓	→
Mexico	↓	↑	↓
Poland	↑	↑	→
Belgium	↑	↓	↑
Norway	→	↑	↑
South Africa	↓	↓	→
Italy	→	→	→
Sweden	↓	↓	→
Colombia	↓	→	↓

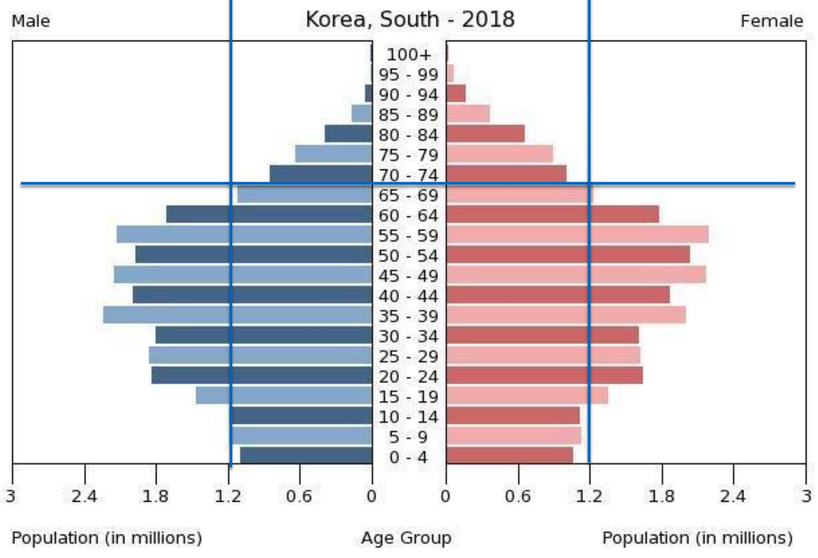
Potential | Actual

↑ Good → Medium ↓ Poor

Source: John Hopkins University (Coronavirus Resource Center), Euromonitor, BCG Analysis

Why Italy had more deaths than S Korea





Exchange Rates

All the major economies are using their central bank to finance the massive fiscal stimulus:

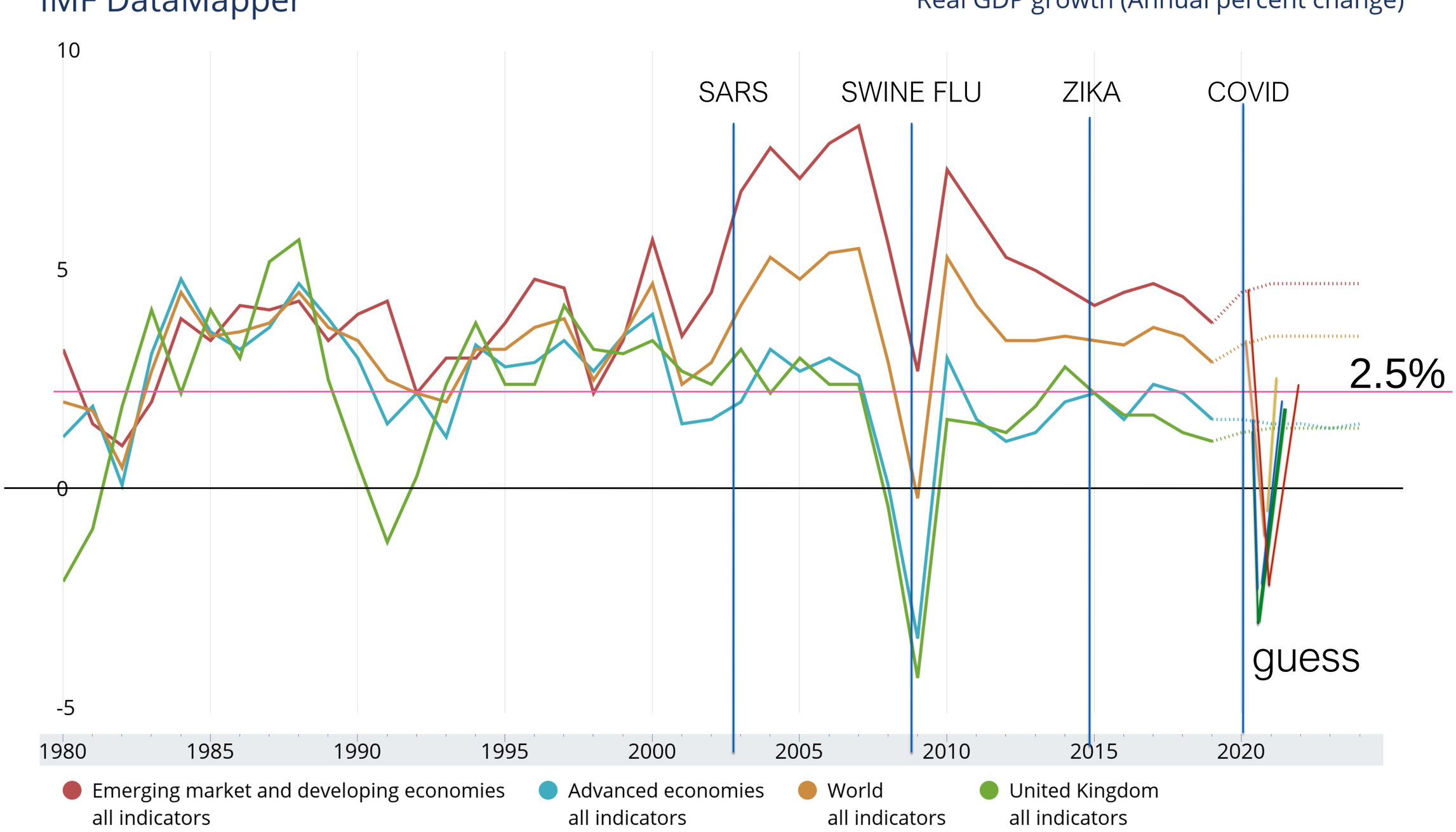
USA $2 trillion

EU $ 0.8 trillion

UK $245Bn

The consequence is relative interest rates will not deviate much from current levels unless an individual country experiences an unexpected political upheaval

Therefore current rates in general will be maintained



There is not a great shortage of income
but there is little opportunity to spend it except online
and for food

Pent up demand is growing

Get ready for the surge

CONCLUSION

I would suggest you try and look beyond the next six months

Because the fundamentals of the global system are all set for 2-2.5% real growth next year

Advanced country budgets are the most expansionary since WW2
The fiscal accelerator pedal is flat on the floor

In 9 months time your issues will be staff,premises,supply chain and inflation

You will have to manage higher than expected sales whilst automating your processes and new ways of working

It is unlikely that international travel return until companies and individuals are sure countries are virus free

2021 at the earliest

But intra country travel will return as soon restrictions are lifted

More use will be made of online meeting software but the human need to be with others in person will remain