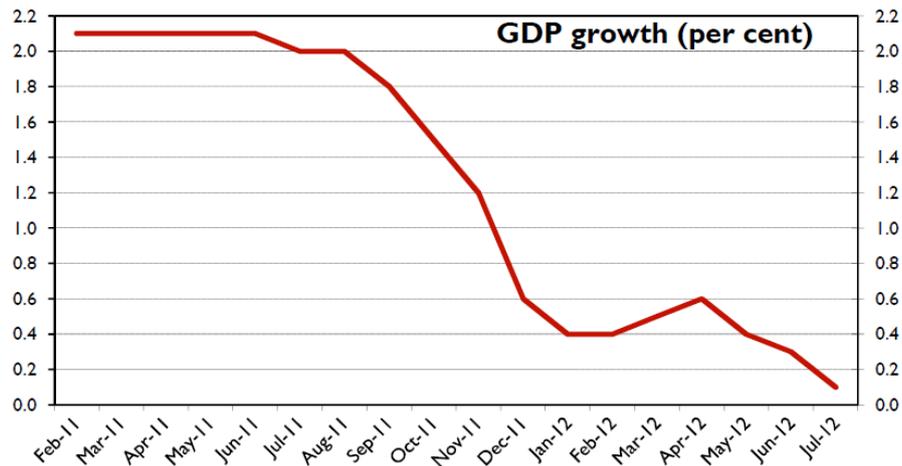


Recession Watch: August 2012

A round up of sentiment measures on the state of the nation's finances and consumer opinion.

Forecaster sentiment

Average independent forecasts for 2012; GDP growth



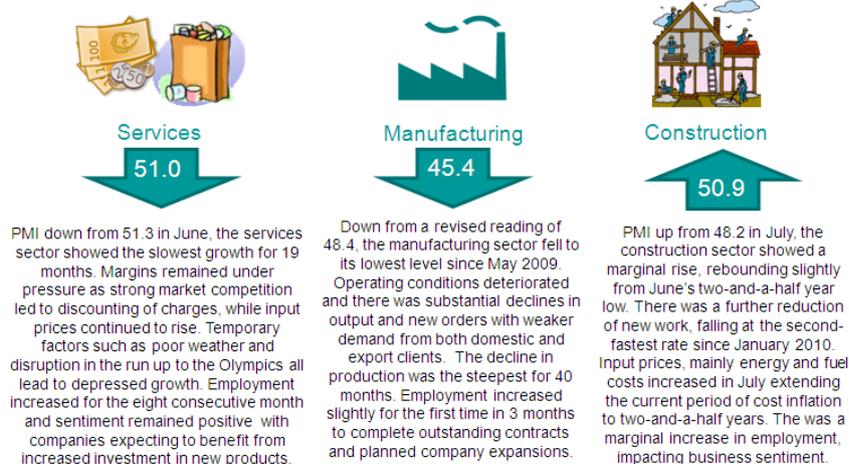
Source: HM Treasury review of independent forecasts. The chart shows 2012 GDP forecasts as a function of when the forecast was made.

The Treasury's July summary of new independent economic forecasts saw 2012 GDP projections decrease this month by 0.2% to 0.1%. Real household disposable income (RHDI) remained stable with a median of -0.2%, for the fourth month running this measure has been negative. Q4 unemployment forecasts remained at 1.7m.

2013 GDP is forecast to be 1.6%, and RHDI 1.2%.

Business sentiment and retail performance

July PMI (Purchasing Manager Index) surveys

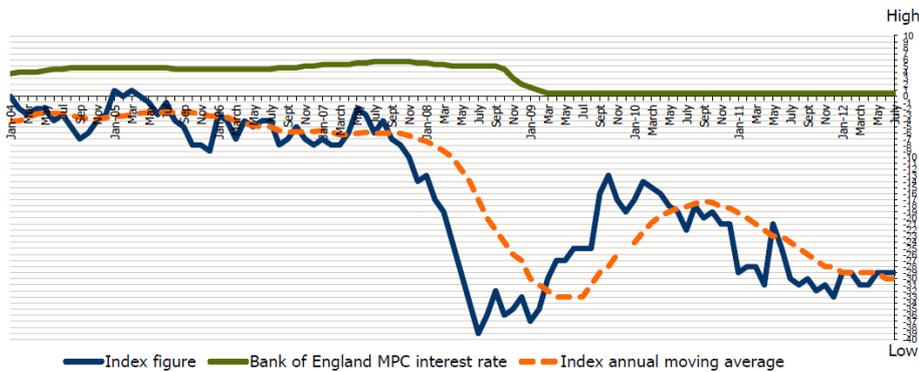


CIPS/Markit. Index above 50 indicates expansion, below 50 contraction.

The Chartered Institute of Purchasing & Supply (CIPS) monthly Purchasing Manager Index surveys indicate levels of economic activity across Services, Manufacturing and Construction sectors. Only the construction sector saw an increase in July, with manufacturing remaining in contraction for the third consecutive month.

Consumer confidence

Consumer Confidence Barometer – July 2012



The index score is calculated using the results of five questions (1,2,3,4, and 8), the mean score from each of these questions is combined and the index score is the average of all five questions combined.

© GfK 2012 | Consumer Confidence Barometer | 31 July 2012

Measure	↑↔↘	July 2012	June 2012	July 2011
Overall Index Score	↔	-29	-29	-30
Personal Financial situation over last 12 months	↔	-23	-23	-25
Personal Financial situation over next 12 months	↑1	-8	-9	-12
General Economic situation over last 12 months	↓1	-59	-58	-57
General Economic situation over next 12 months	↑1	-30	-31	-27
Climate for major purchases	↑2	-26	-28	-31

The GfK NOP Consumer Confidence Index remained stable in July at -29, meaning consumer confidence has remained unchanged for the third month in a row. The major purchases measure has increased by two points to -26; five points lower than this time last year. Confidence in both the general and personal financial situation over the next 12 months have increased by one point. However, consumers are less confident about the financial situation over the last 12 months.

There is further cause for concern coming from the latest IPA Bellwether report showing that marketing budgets were revised down in Q2 due to pressure to cut costs. Business confidence also weakened with financial prospects regarding both the industries and their own company deteriorating.

The latest quarterly Bank of England inflation report this week shows the bank forecasting zero per cent growth this year, down from its previous forecast of 0.8%. Medium-term growth forecasts were also cut to 2% in 2014 from its previous estimate of 2.6%. The reporting of this – mostly overshadowed by the Olympics – has been downbeat. “Zero growth” is an easy headline but, because it relates to a year we’re halfway through with the first two quarters negative, essentially means growth is at least penciled in by the Bank for H2. There are high risks to the downside – a c30% chance of no growth in Q3 and Q4, but that still leads to modest hope: probably some growth from here on. Let’s hope so.

9th August 2012