Sea Change

Mark Carney
Governor, Bank of England
2 July 2019
Expected paths of policy rates have shifted sharply downwards

United States

Dotted lines: 1 year forward rates
Solid lines: 3 year forward rates
Investors now see a trade war as the top risk

- Trade war
- Monetary policy impotence
- US politics
- China slowdown
- A credit event
- Market structure
- Equity market bubble
- European elections
- Brexit

Percentage of respondents

June 2019
March 2019

June 2019: 56%
March 2019: 19%

June 2019: 14%
March 2019: 24%

June 2019: 10%
March 2019: 10%

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June 2019: 10%
March 2019: 10%

June 2019: 5%
March 2019: 10%

June 2019: 10%
March 2019: 10%
Global economic policy uncertainty reached record highs
Corporate earnings expectations sharply lower

Expected growth in earnings per share in 2019
(Indices: 02 Jul 2018 = 100)
Global business confidence down

Differences from averages since 1999
(number of standard deviations)

G7 swathe

Median
Households still optimistic about their own prospects

Differences from averages since 1985 (number of standard deviations)

General economic situation expectations

Personal financial situation expectations
Direct effects of tariff increases thus far small

<table>
<thead>
<tr>
<th>Measures taken in previous years</th>
<th>US</th>
<th>China</th>
<th>Euro area</th>
<th>UK</th>
<th>World (PPP-weighted)</th>
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<td>Measures taken in previous years</td>
<td>-0.4</td>
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<td>Additional US-China tariffs implemented in May and June 2019</td>
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Additional tariffs threatened would have a greater effect

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Growing evidence of a trade-led global slowdown
UK business investment underperformed previous recoveries…

Indices: peak in GDP = 100
...and recent international performance

Percentage changes on a year earlier (%)

Range across the G7 excluding the UK

G7 excluding the UK

UK
A significant trade-induced shock to business confidence could lower US GDP by 1½%

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<td>Severe shock to business confidence in the US and China</td>
<td>-1.8</td>
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<td>-0.7</td>
<td>-0.7</td>
<td>-0.9</td>
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Market measures of long-term inflation expectations drifting down in US and euro area

The UK series has been adjusted higher to account for the fall in inflation swap rates that took place on 17 January following publication of the House of Lords Economic Affairs Committee Inquiry into the use of RPI.
A significant trade-induced shock to business confidence could lower US GDP by 1½%
Perceived probability of No Deal Brexit up again

- 7 Labour MPs resign
- 3 Tory MPs resign
- Meaningful Vote 2
- PM requests extension of Art. 50
- Withdrawal Agreement voted down
- Further extension of Art. 50 requested
- EC confirm flexible extension
- Cross-party talks collapse
- Theresa May announces resignation


Per cent
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