

The Global Outlook and Risks: Moderate global growth, Brexit risks, housing valuations

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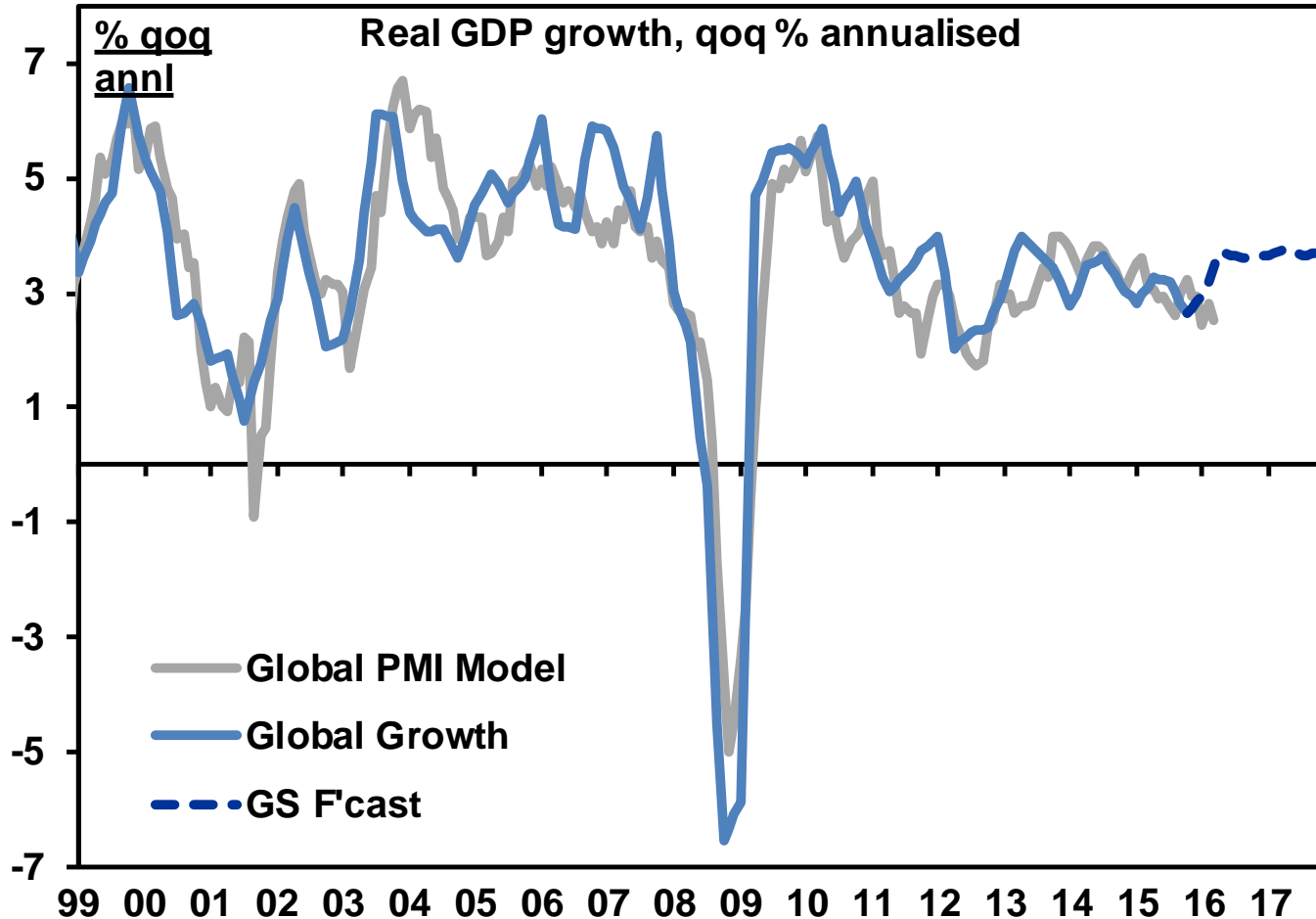
Goldman Sachs International

May 2016

Three key points

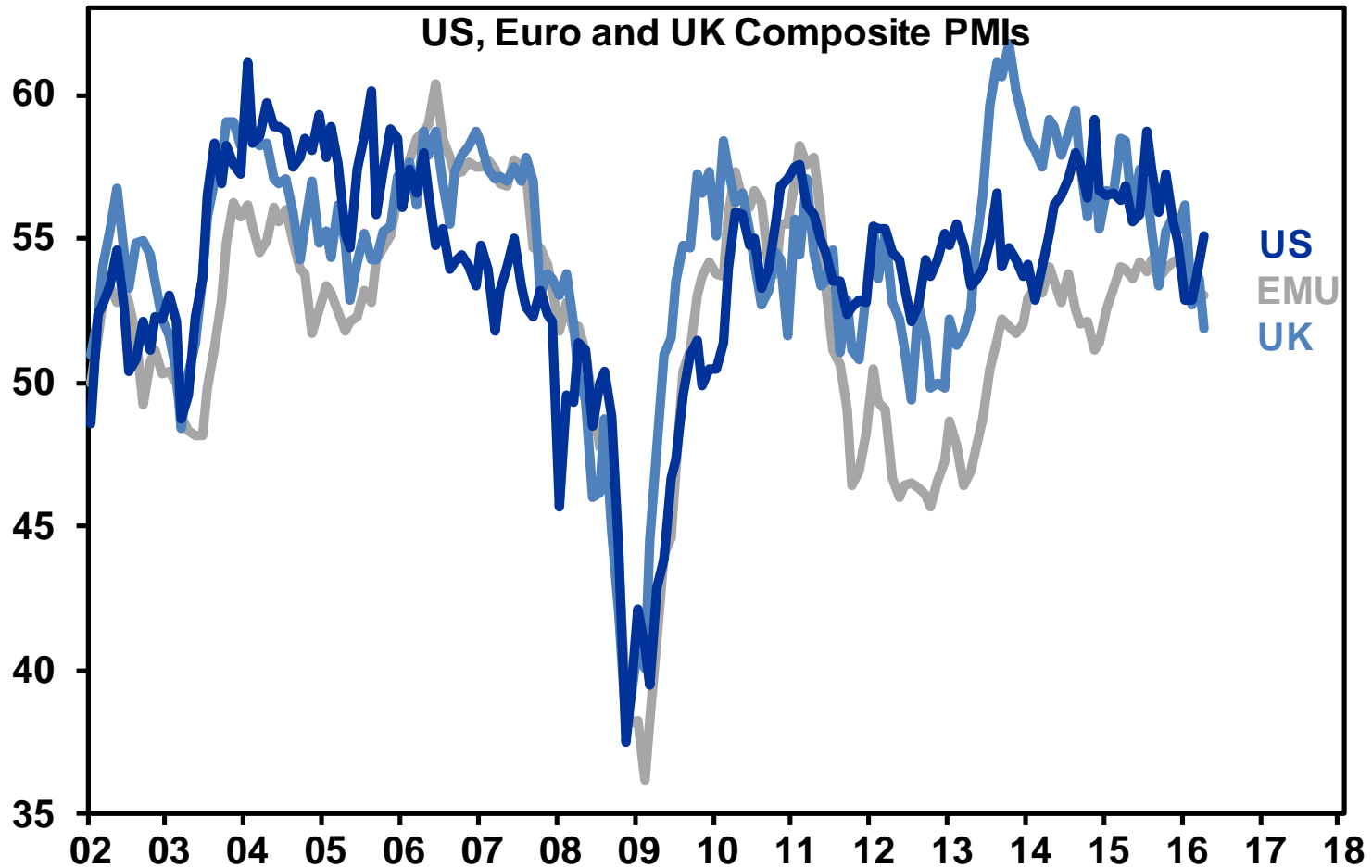
- 1. Global growth has been broadly stable at a 3-3½% pace since 2011. This is slower than the pre-crisis average (4-4½%), but given the large swings at a regional/country level, the stability of global growth is striking. We expect growth to remain in a 3-3½% range, partly supported by lower oil prices.**
- 2. The UK's economic and financial landscape is dominated by concerns over the EU referendum on June 23. In the absence of Brexit, the UK's underlying growth prospects look relatively healthy. However, in the event of vote to leave, our analysis implies that the economic implications are likely to be negative.**
- 3. House building in the UK has picked up significantly in the past couple of years, but it remains below the rate of household formation growth. Reflecting the chronic shortage of housing, house prices/earnings *and* rents/earnings are both well above their respective long-term averages. Factoring in the low cost of borrowing, it's cheaper to buy than to rent.**

Global growth has been broadly stable at a 3-3½% pace since 2011



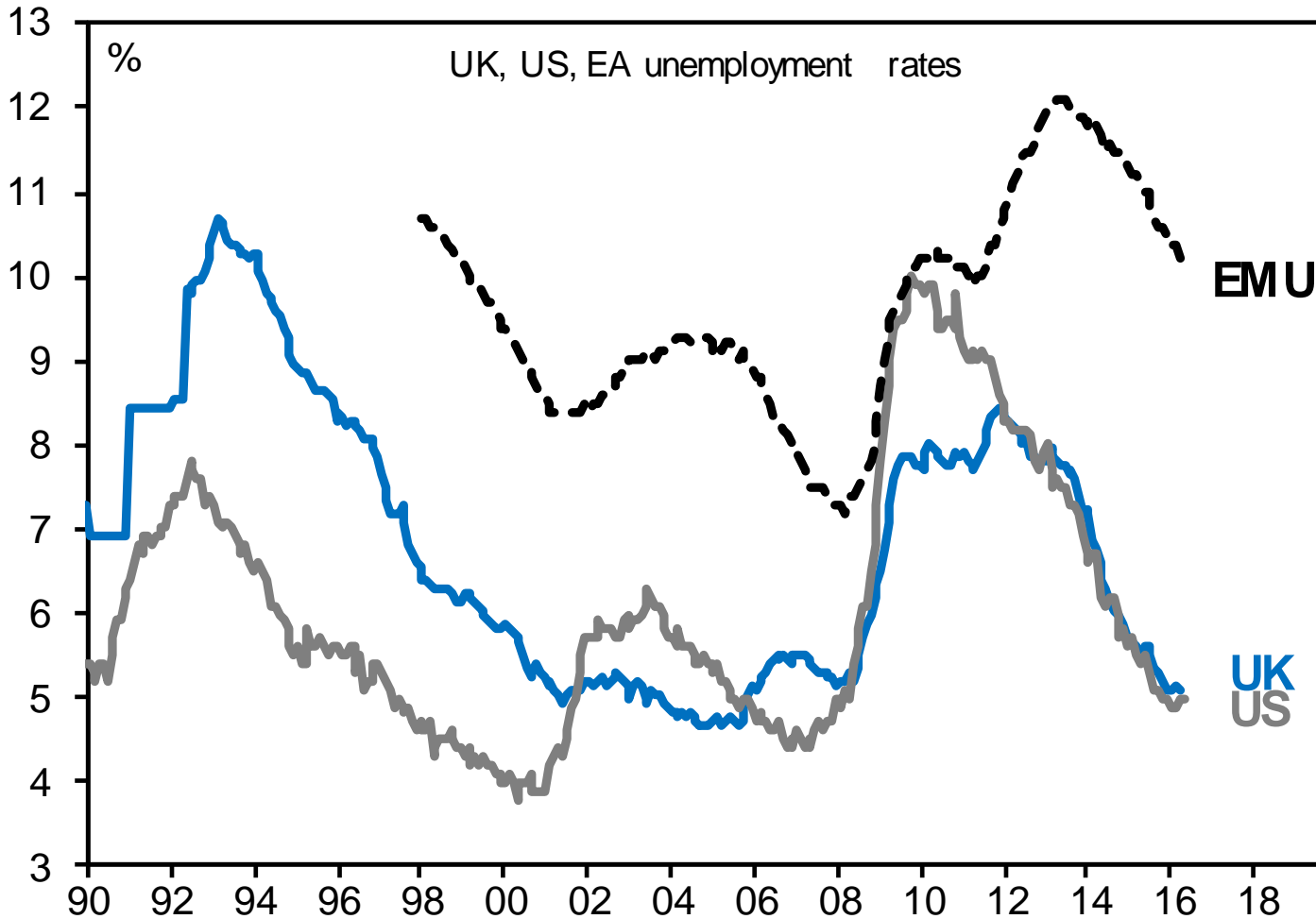
Source: Goldman Sachs Global Investment Research

UK business survey data have dropped below US and Euro area



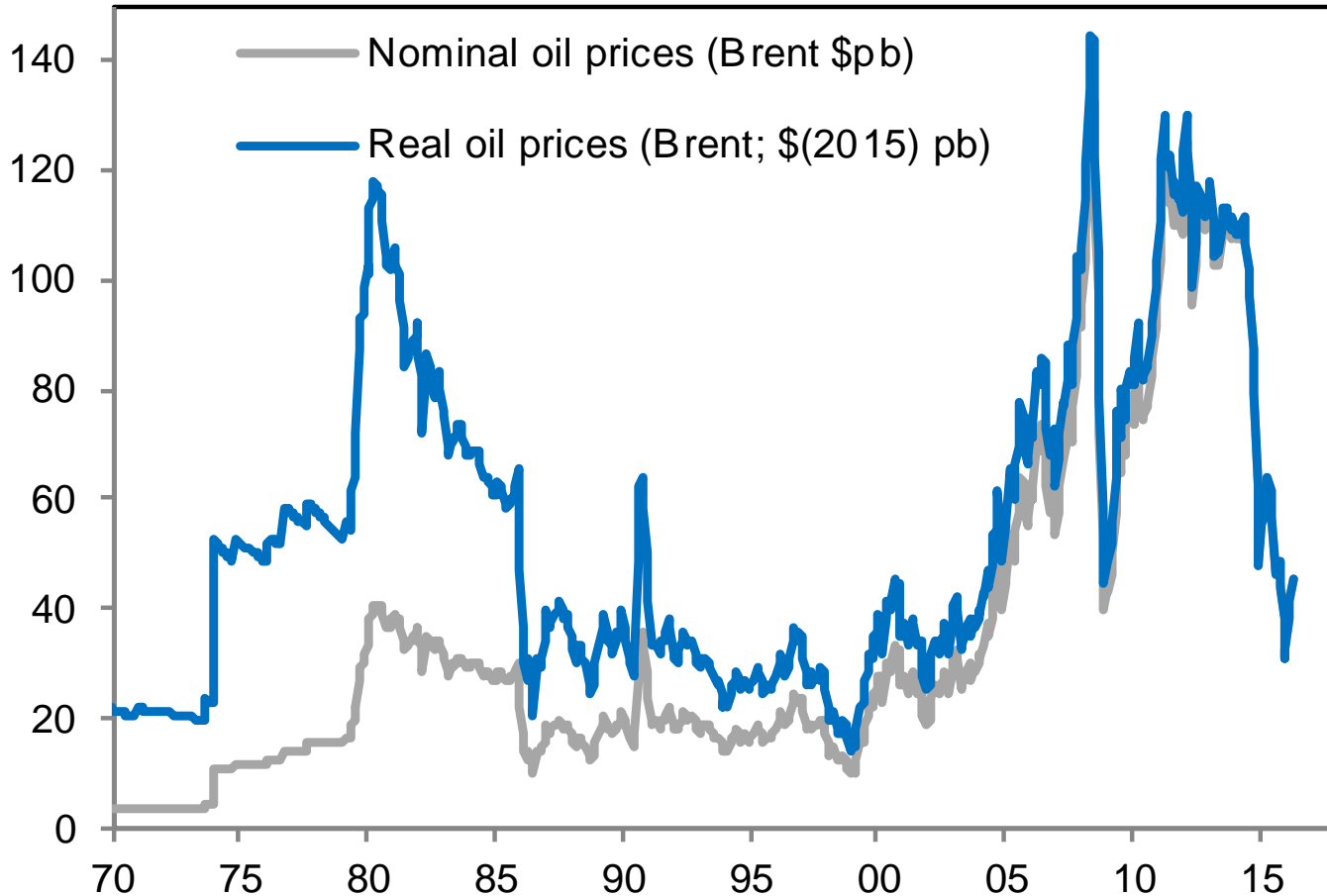
Source: Markit, Haver Analytics

UK and US labour markets stronger than Euro area, but EA unemployment is falling



Source: ONS, BLS and Eurostat

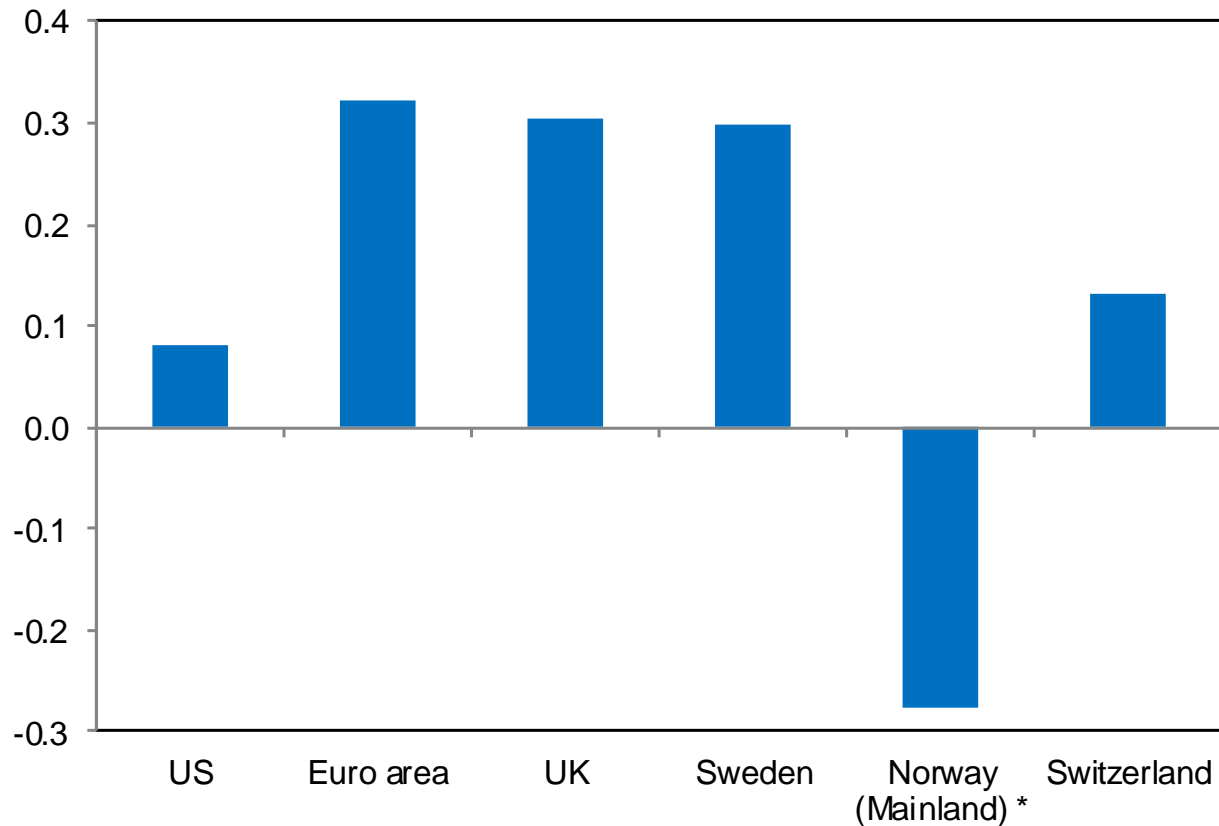
Large fall in oil prices which, in contrast with 2008/09, is mostly supply-driven



Source: Goldman Sachs Global Investment Research

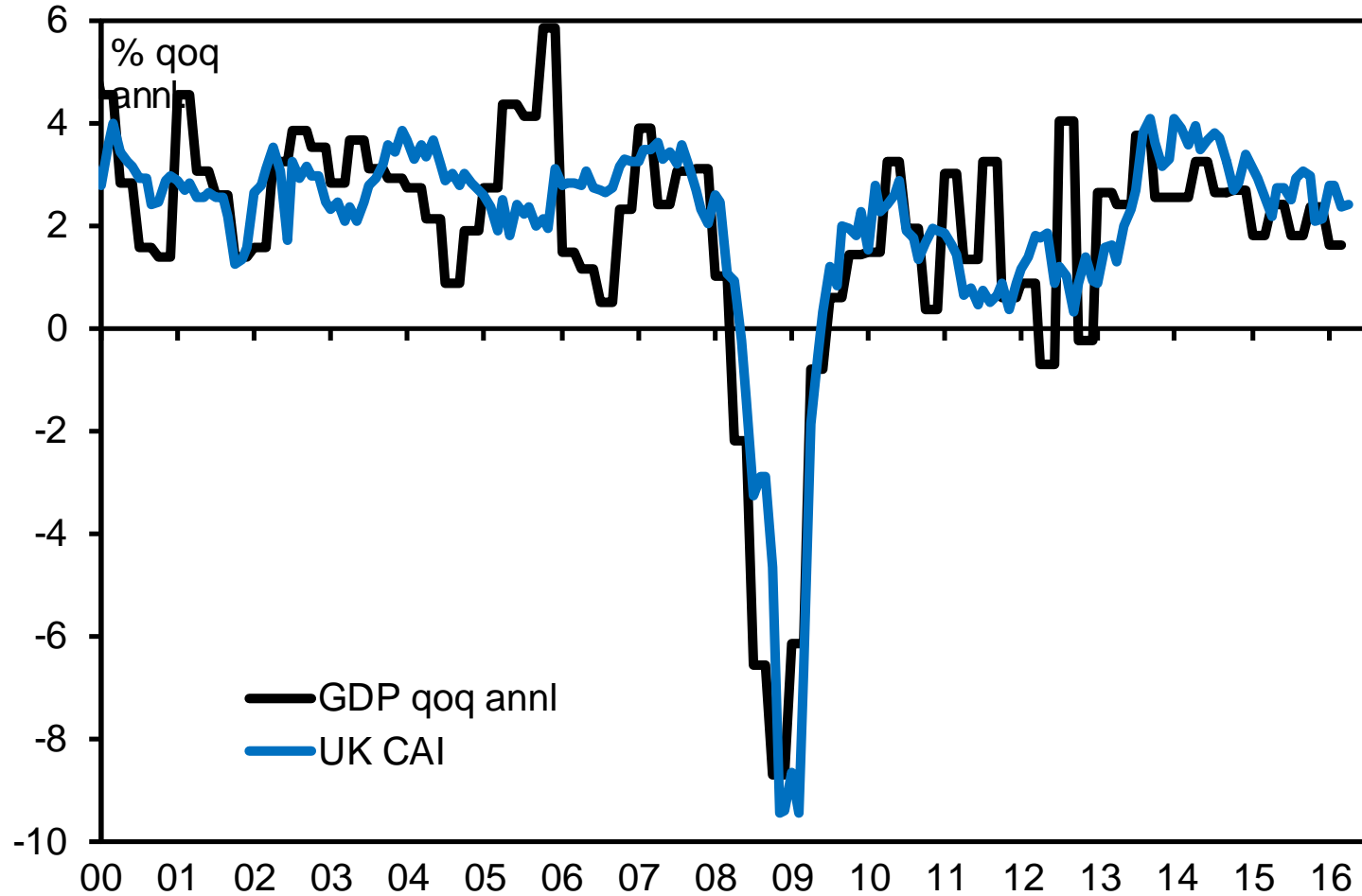
Impact of oil price moves on European output larger than in US

Impact of 10% drop in (local currency) oil prices on level of real GDP



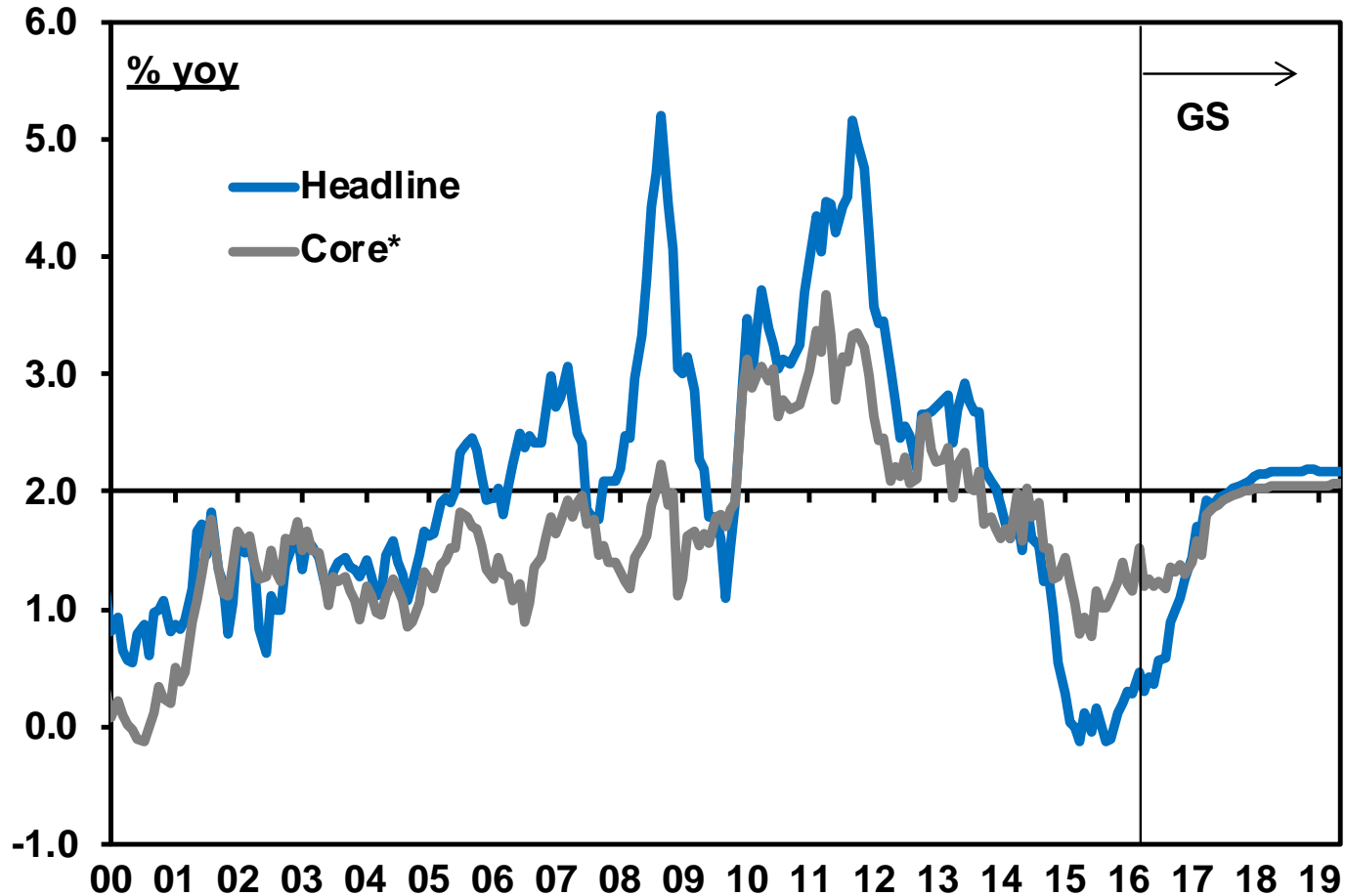
Source: Goldman Sachs Global Investment Research

UK GDP and *Current Activity Indicator*: Growth has slowed



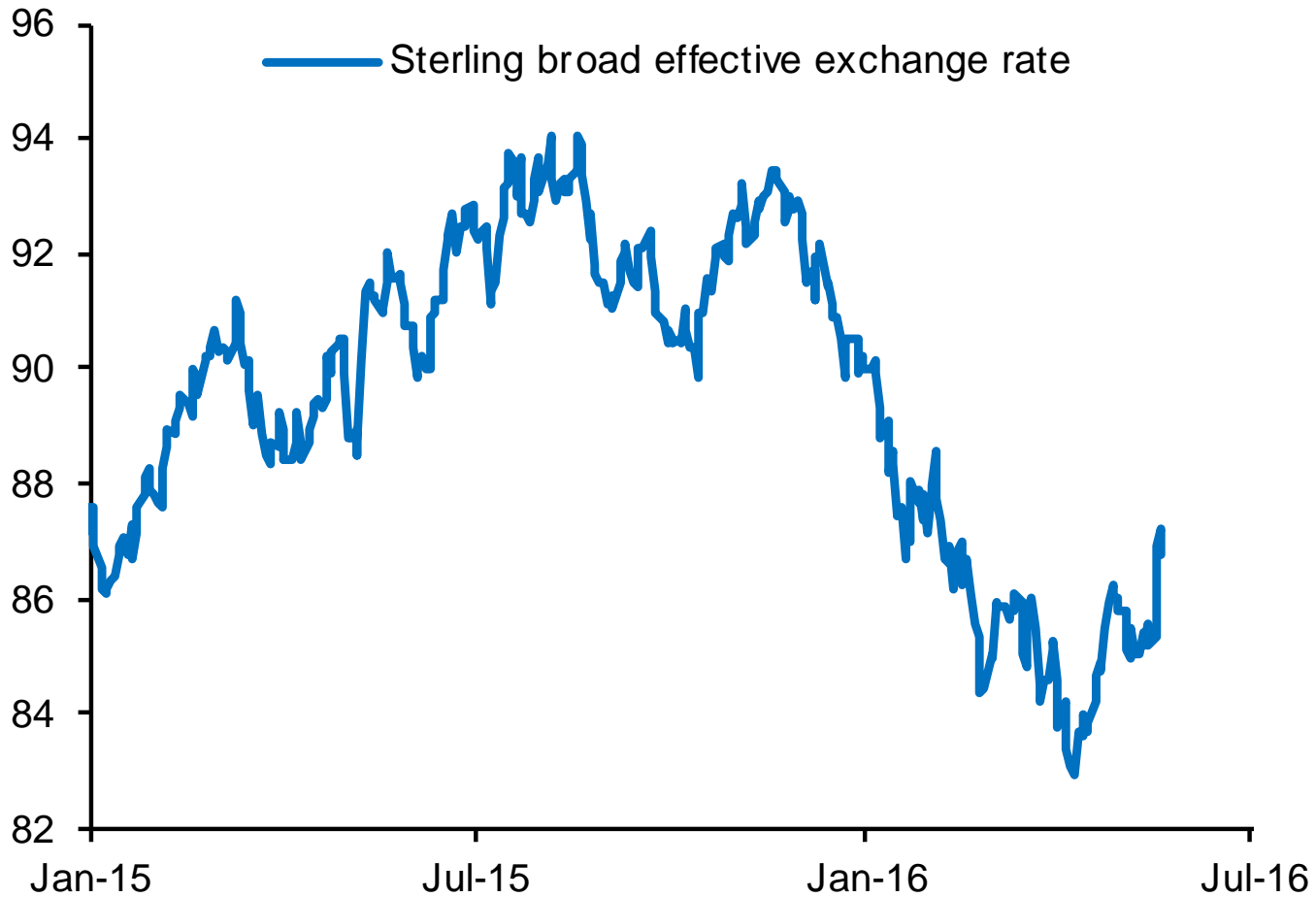
Source: Goldman Sachs Global Investment Research

UK inflation dragged sharply lower by weak energy prices



Source: ONS, Goldman Sachs Global Investment Research; *ex ex-energy, food, alc. & tob

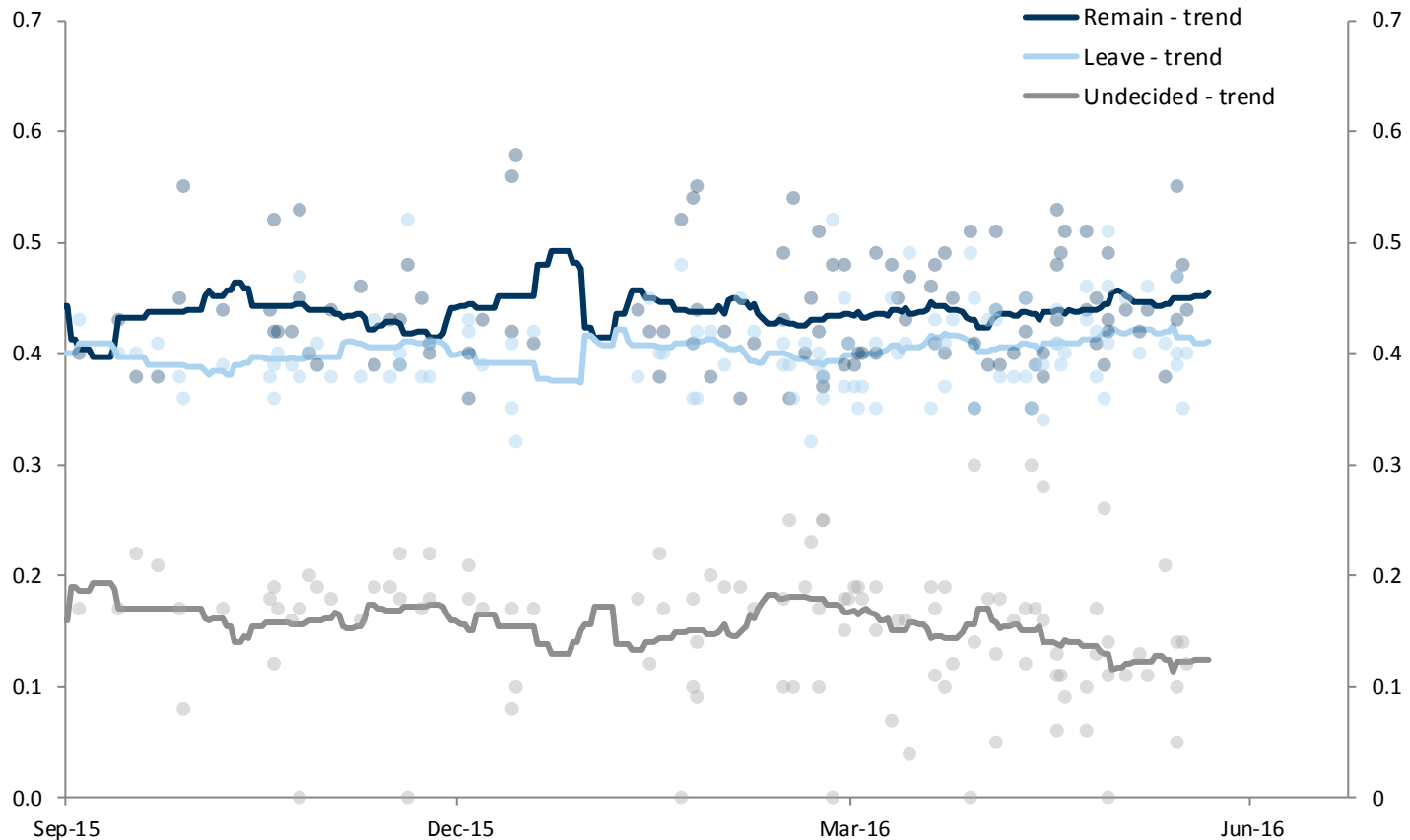
Sterling weakened this year in response to Brexit uncertainty



Source: Goldman Sachs Global Investment Research

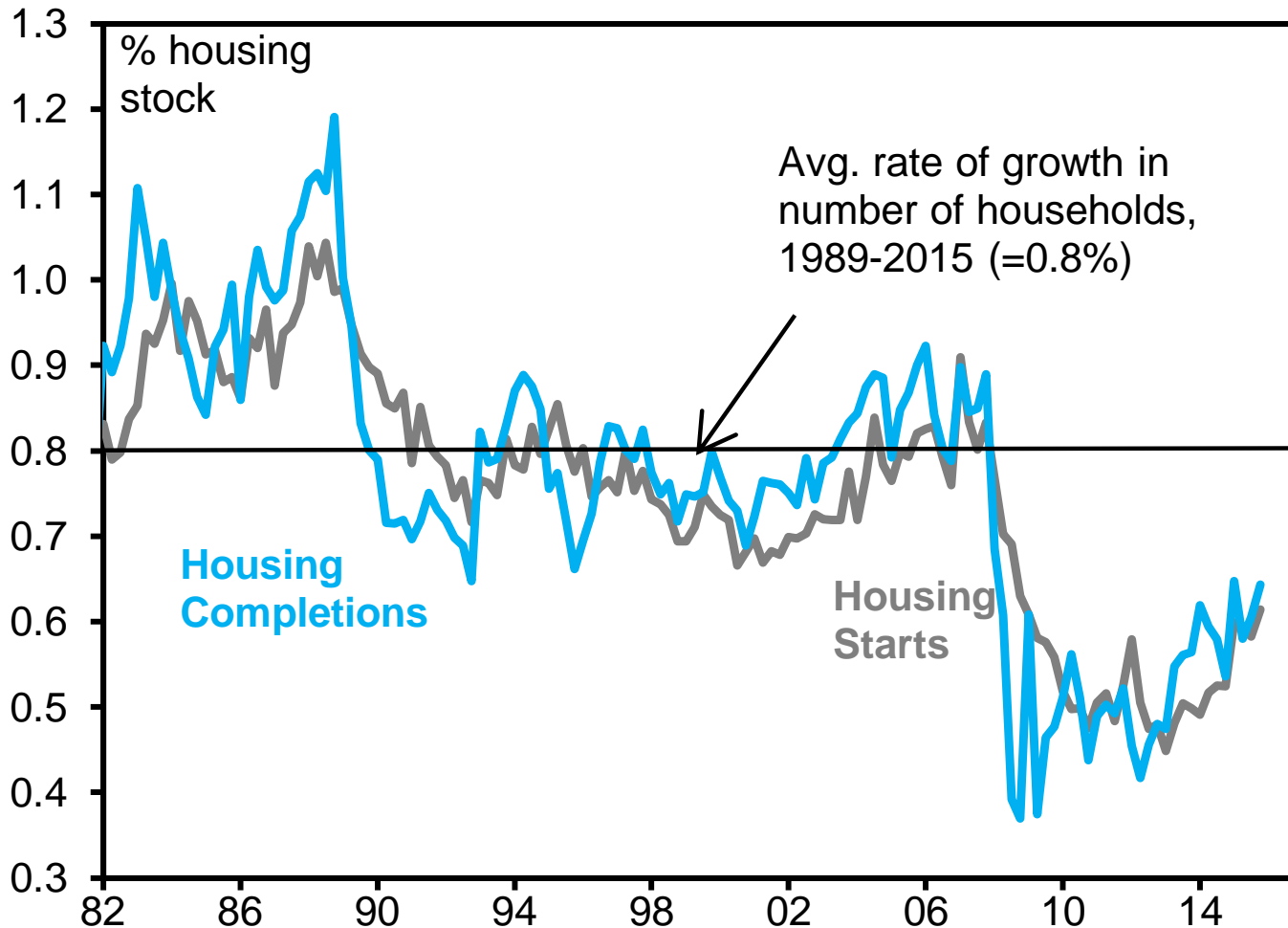
Poll of polls has consistently pointed to a small majority in favour of 'Remain'

Should the United Kingdom remain a member of the European Union or leave the European Union?



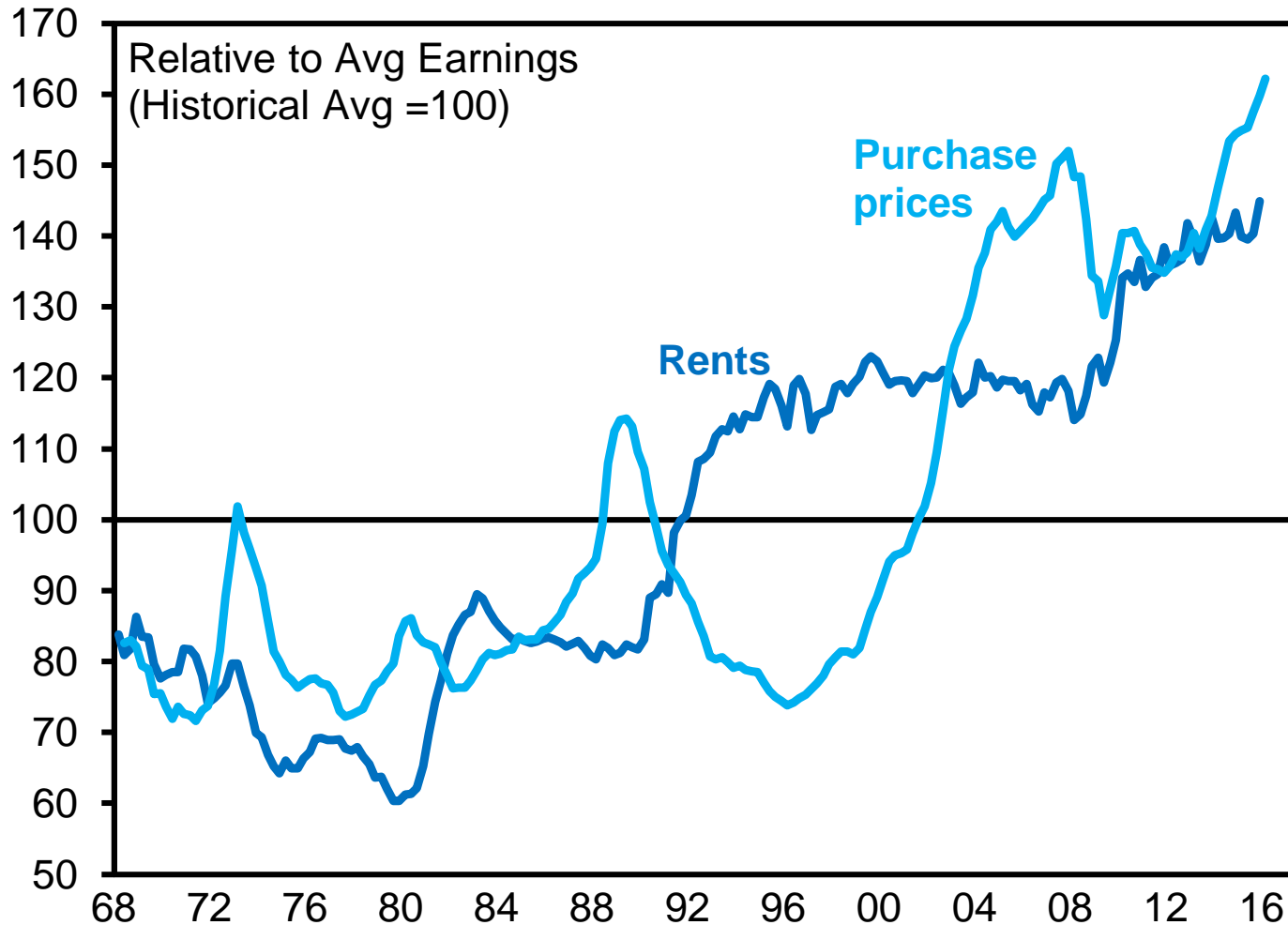
Source: YouGov, ICM, Mori, ComRes, TNS, Populus, Opinium, Goldman Sachs Global Investment Research

UK house building has picked up but remains lower than household formation growth



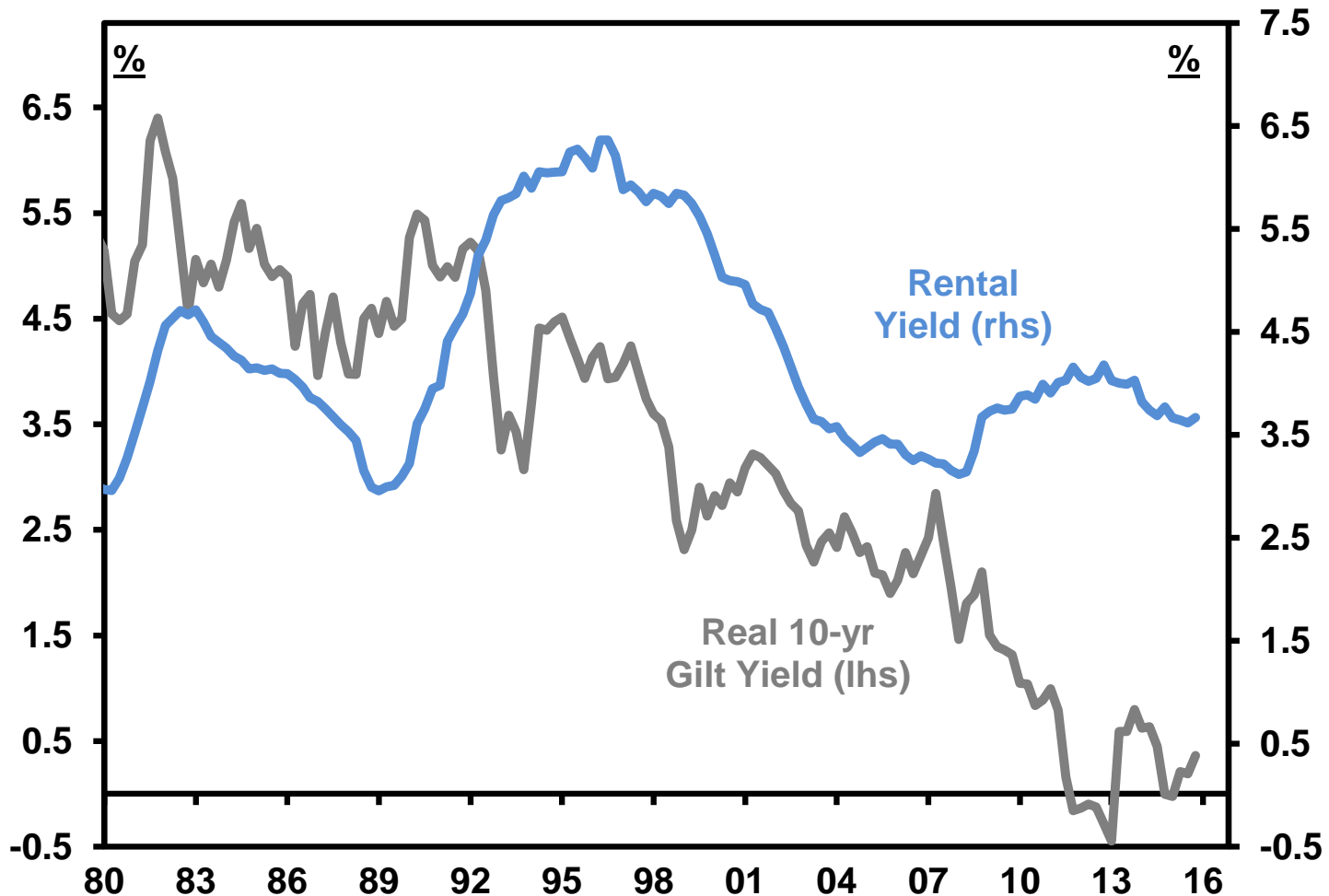
Source: Goldman Sachs Global Investment Research

House prices/average earnings significantly above average, but so are rents/earnings



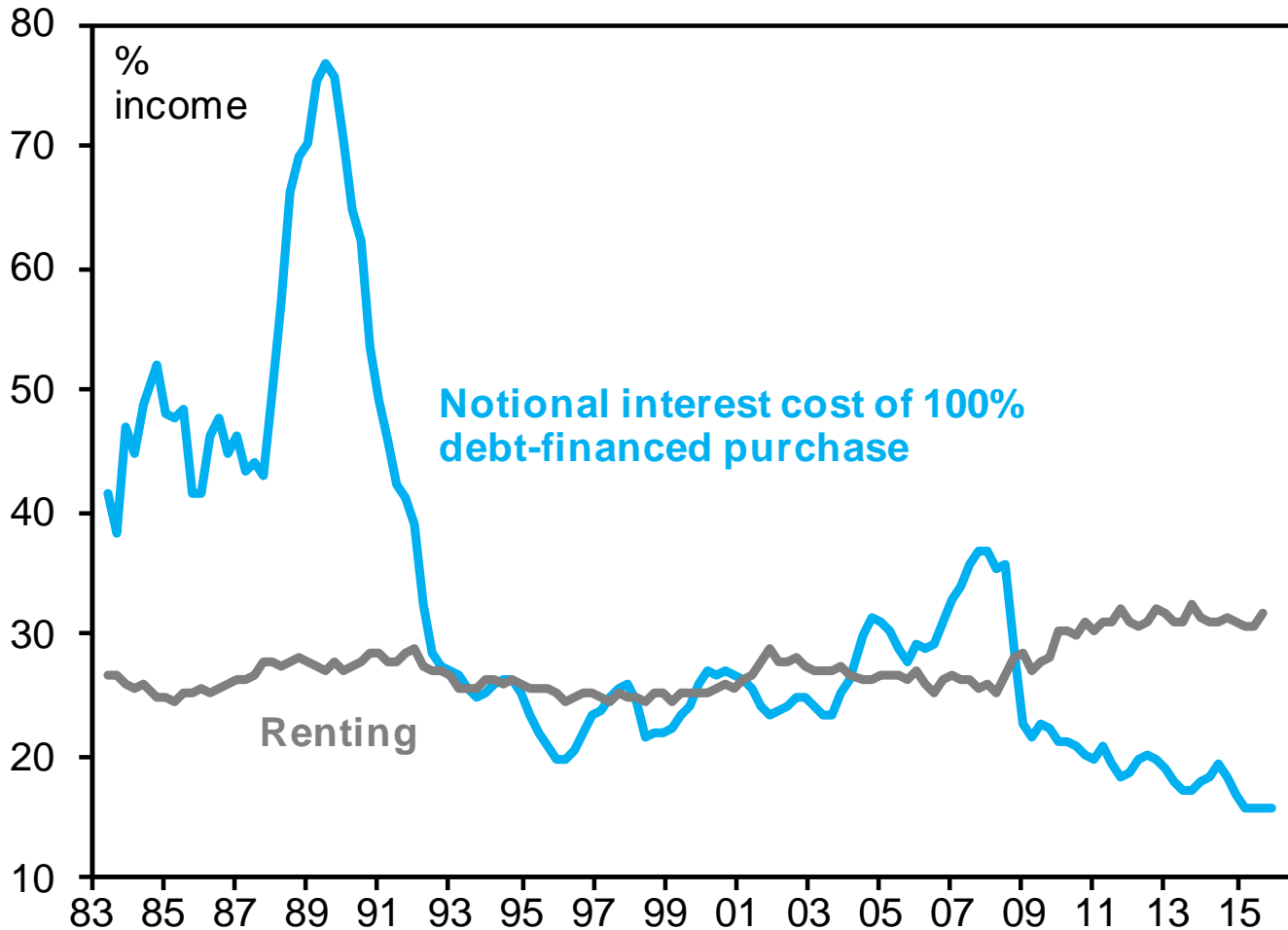
Source: Goldman Sachs Global Investment Research

Rental yields are slightly below average, but borrowing costs are significantly below



Source: Goldman Sachs Global Investment Research, ONS, Bank of England

It's much cheaper to buy than to rent



Source: Goldman Sachs Global Investment Research

Three key points - RECAP

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