



Economics Weekly

2 November 2009

Asian economies lead economic recovery

It is clear from figures released for Q3 2009 that the Asian economies are leading the global economic recovery. This is despite the fact that last week, the US released data which showed that the economy expanded by an annualised 3.5% in Q3, ending the longest period of recession since the 1930s. Forecasts for 2010 (IMF data in table 1) show that the Asian economies will expand by 5.8% after a rise of 2.8% this year. In the context of the worst global downturn since the 1930s depression, this has to be seen as a very impressive performance. Contrast this with the contraction of 3.4% in the advanced economies this year and an expected rise of just 1.3% in 2010. Growth in the world economy as a whole is also expected to outperform that of the advanced economies, rising by 3.1% in 2010 after falling by 1.1% this year. We look at some of the factors behind these trends in this Weekly.

Table 1: Global forecasts raised

| | Forecast | | |
|--------------------|----------|---------|---------|
| | 2008 | 2009(e) | 2010(f) |
| World | 3.0 | -1.1 | 3.1 |
| Asia | 5.1 | 2.8 | 5.8 |
| Emerging economies | 6.0 | 1.7 | 5.1 |
| Advanced economies | 0.6 | -3.4 | 1.3 |

Source: IMF

Asian economies are leading the global economic recovery...

Figures for growth in the Asian economies which have reported for Q3 2009 so far have been very strong, see chart a. Annual Chinese gdp growth in Q3 was 8.9%, which translates into a 20.8% annualised rate. Singapore expanded by an annualised 14.9% in Q3 and South Korea by 11.6%. A rise of 3.5% in the US on an annualised basis and a fall of 1.6% in the UK in Q3 (albeit based on initial data that could be revised) show the large gap in the growth performance of the Asian and developed countries. This recent performance by the Asian economies, however, is a long way from the experience of Q4 2008, see chart b, when a sharp fall in output occurred virtually everywhere (except for China that bucked the trend).

On the surface, the main explanation for the apparently faster recovery in Asia seems to be fairly straightforward: a rebound in global trade appears to be favouring the Asian economies more than any other part of the world, see chart d. Further, the end of the credit crisis that had caused trade finance to collapse in late 2008 and in early 2009 is now working to promote the current trade recovery even more. To some extent, the argument that we are witnessing a sharp rebound in global trade from the equally sharp contraction and not an underlying acceleration in the level of world trade is shown by the Baltic dry index. It does not suggest that the underlying volume of goods being shipped has moved up by as much as the percentage rise in global trade volumes would suggest, see chart c.

...as world trade rebounds in their favour

But it is clear that the correlation of the rise in Asian countries' industrial production with the rise in their volume of world trade is too close to ignore, see chart d. It is this link that explains why forecasts for gdp growth next year, see chart e, show the recovery being led by the Asian emerging market economies. Another way of putting this would be that the developed countries most

Client support

Research Team

Trevor Williams

+44 (0)20 7158 1748

trevor.williams@lloydstsb.co.uk

Adam Chester

+44 (0)20 7158 1740

adam.chester@lloydstsb.co.uk

Jeavon Lolay

+44 (0)20 7158 1742

jeavon.lolay@lloydstsb.co.uk

Hann-Ju Ho

+44 (0)20 7158 1745

hann-ju.ho@lloydstsb.co.uk

Mark Miller

+44 (0)20 7158 1742

mark.miller2@lloydstsb.co.uk

Paul Rodriguez

+44 (0)20 7158 1744

paul.rodriguez@lloydstsb.co.uk

Kenneth Broux

+44 (0)20 7158 1750

kenneth.broux@lloydstsb.co.uk

Naeem Wahid

+44 (0)20 7158 1741

naeem.wahid@lloydstsb.co.uk

Altaz Dagher

+44 (0)20 7158 1747

altaz.dagher@lloydstsb.co.uk

Customer sales

Andrew Willett

+44 (0)20 7158 1616

andrew.willett@lloydstsb.co.uk

Kathryn Ball

+44 (0)20 7158 1672

kathryn.ball@lloydstsb.co.uk

Credit Distribution

Ton Roeten

+44 (0)20 7050 6047

ton.roeten@lloydstsb.co.uk

Commercial sales

Matt Lawrence

+44 (0)20 7158 1661

matthew.lawrence@lloydsbanking.com

Wealth product sales

Andrew Evans

+44 (0)20 7158 1691

andrew.evans@lloydstsb.co.uk

Chart a: Asian economies are recovering fast...

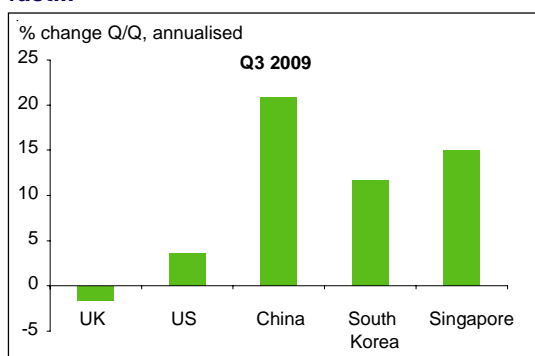
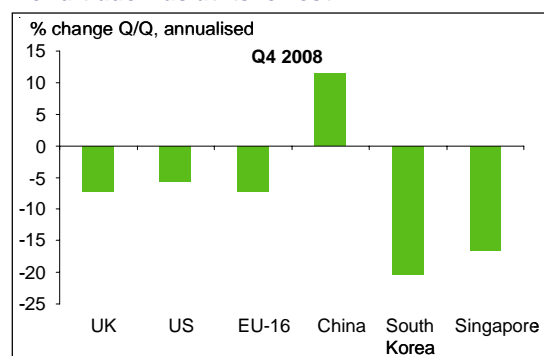


Chart b: ...after a sharp decline in Q4 2008 when world trade was at its lowest



2009/10 calendar of central bank meetings

| |
|---|
| European ECB (1.00%) |
| 5 November, 3 December, 14 February, 4 March |
| US FOMC (0-0.25%) |
| 4 November, 16 December, 27 January, 16 March |
| UK MPC (0.50%) |
| 5 November, 10 December, 7 January, 4 February, 4 March |

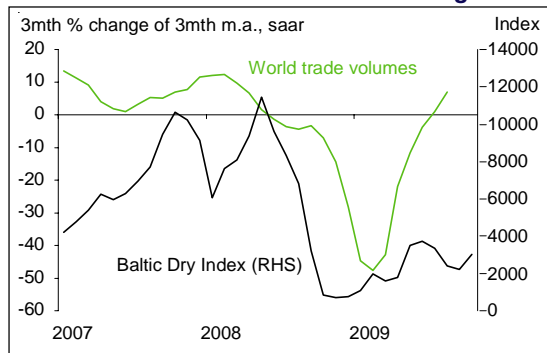
Rolling calendar of UK data releases and events

| |
|-------------------------------|
| Manufacturing PMI (2/11) |
| Services PMI (4/11) |
| Industrial production (5/11) |
| NIESR GDP (5/11) |
| Producer prices (6/11) |
| Trade balance (10/11) |
| Official house prices (10/11) |

Rolling calendar of US data releases and events

| |
|------------------------------|
| Manufacturing ISM (2/11) |
| Factory orders (3/11) |
| ADP employment (4/11) |
| ISM services (4/11) |
| Non-farm productivity (5/11) |
| Non-farm payrolls (6/11) |
| Average earnings (6/11) |

Chart c: World trade volumes are rising fast



encumbered by the financial crisis are recovering slower and at the weakest pace. Whatever the reason, the developed countries are lagging the global economic upturn that is now underway. But this response would be to overlook some other important trends that have been underway for many years that are also playing out more clearly in this global economic crisis.

There are many reasons why this is the case...

One is that China now has a cluster of countries that trade with it that are perhaps as dependent on its growth rate as they used to be on the US. Since it did not undergo recession, these economies are less affected by the global

economic downturn than those economies that are still dependant on the US, which did undergo a severe recession. One needs only think about the large emerging commodity exporters and how the demand for their goods is being driven as much by Chinese demand for resources to fuel its growth as by US demand. Yet this explanation is to simplify the significance of China's position in the world economy, as it could be argued that developed countries like Germany and Japan are equally now dependant on Chinese demand. Rather, it appears that China is now part of the global matrix that makes the global economy tick and has acted as an important counterweight to a slowdown in another major part of the world economy, absorbing some of the shock from the recession.

...but at the heart of it lies better economic management by emerging markets as a group

A final point would also be that to concentrate just on China is to make another mistake. There has been significant progress made in a host of emerging market economies, from Asia to Africa, to Latin America and Eastern Europe. It does appear that corporate governance has improved; fiscal policies are better, foreign official reserves are higher and the collective response of these governments to the economic shock was better than in previous cycles, including the Great Depression of the 1930s. This is good news for the future of the world economy. One immediate conclusion though is that this means that the emerging economies will be amongst the first to reverse the massive loosening of fiscal and monetary policy that has occurred since the crisis took hold. Financial markets are better prepared to deal with that as well.

Chart d: Rising world trade boosts Asian recovery

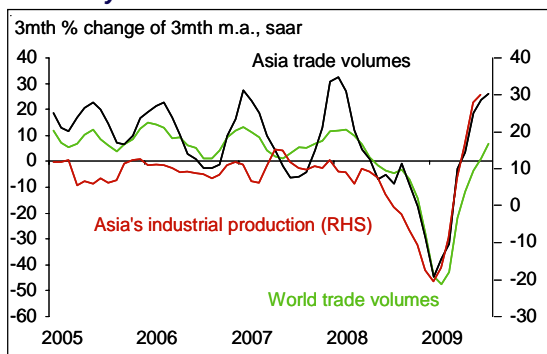
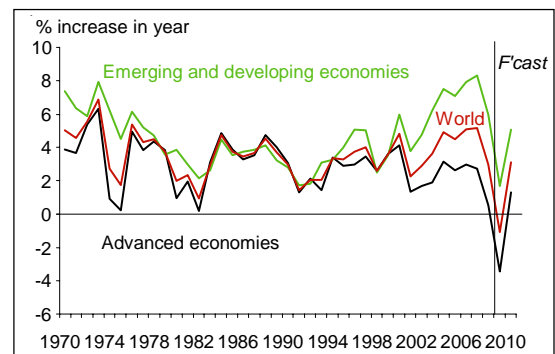


Chart e: Advanced economies to grow slower than world



Trevor Williams, Chief Economist, Corporate Markets

*** All charts are sourced to Lloyds TSB Corporate Markets Economic Research, Bloomberg, IMF and Datastream**

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Weekly economic data preview

2 November 2009

Markets to digest a 'hat-trick' of central bank meetings this week...

Three major central banks meet to discuss monetary policy this week. Arguably of most interest to us will be the Bank of England's decision on whether or not to extend its programme of asset purchases in the light of recent disappointing Q3 GDP data. In the US, attention will be focused on the FOMC's policy statement, where we expect the Fed to repeat that the interest rates are likely to remain at low levels for an extended period. October non-farm payrolls data are also published this week, following September's disappointing outturn. Finally, the ECB looks set to leave its key refinancing rate on hold, with markets becoming more focused on possible 'exit strategies' for unconventional, rather than conventional, monetary policies.

- The Bank of England's Monetary Policy Committee (MPC) announces its policy decision this week. We look for Bank Rate to remain on hold at 0.5%. Perhaps the key economic data release since October's MPC meeting has been the preliminary estimate of Q3 UK GDP, which registered a 0.4% quarter-on-quarter contraction, against expectations of modest growth. Activity was some 5.2% lower than in Q3 last year, compared with a 4.8% annual decline envisaged by the Bank in its August Inflation Report. So an extension of its asset purchase programme (i.e. quantitative easing, or QE) seems, at the very least, likely to appear on the Bank's agenda this month. For choice, we look for an increase of £25-£50bn on top of the existing £175bn total of asset purchases. Interestingly, October's MPC minutes showed that the Bank attributed at least some of the upswing in 'riskier' assets to the impact of its QE policy to date. This being so, we acknowledge that an extension in the asset purchase programme could drive markets even higher and cause concern at the Bank. Beyond this, we get important economic data in the form of October's PMI surveys. For manufacturing, we look for a reading of 49.8 compared with 49.5 in September, while in services our forecast stands at 54.7 versus a previous outturn 55.3. Thursday sees the release of September's industrial production data, where we envisage an outturn of +0.7% m/m. The recent preliminary Q3 GDP data, pointed to an increase of around 0.6% m/m, but any significant shortfall in industrial production would, in isolation, hint at a downward revision to GDP. The next estimate of GDP is published on 25 November.
- In the US, continuing economic uncertainty makes it likely that the Fed will maintain the target range for the federal funds rate at 0.0%-0.25%. And despite the recent return to growth in Q3, we think it may be too soon for the Fed to abandon its language that exceptionally low levels of the federal funds rate are likely for an "extended period". Indeed, the recently-released September FOMC minutes noted that while the economic outlook had improved, "the level of economic activity was likely to be quite weak and resource utilization low". Needless to say, rising unemployment poses a serious threat to the nascent US recovery. This week sees October's non-farm payrolls report, where we see employment falling by 200,000 after September's disappointing decline of 263,000. As in Europe, this week features the latest round of purchasing managers' surveys, with October's US ISM manufacturing report expected to register an improvement to 53.0 from 52.6, based partly on last week's firm Chicago PMI data. We expect the non-manufacturing survey, due on Wednesday, to register 51.5 from 50.9 previously.
- The ECB also announces its monetary policy decision this week, where we envisage an unchanged refinancing rate of 1.0% and a policy stance that remains 'appropriate'. Given the dataflow over the past month, we think it is unlikely that Jean-Claude Trichet will have changed his view that the euro-zone recovery will proceed at a 'gradual' pace going forward. Furthermore, he seems poised to reiterate his support for a strong US dollar policy, with markets watching closely for any more references that the ECB might 'co-operate as appropriate' with the US authorities on currency movements. Perhaps most importantly, it will be interesting to see whether Mr. Trichet elaborates on Council Member Axel Weber's recent comments that the ECB may not offer one-year Long-Term Refinancing Operations next year. In terms of regular economic data, the final readings for October's euro-zone PMI surveys are scheduled for release this week, along with retail sales data (see calendar).

Mark Miller, Global Economist

Chart 1: The pace of decline in US non-farm payrolls has eased, but rising joblessness still threatens recovery...

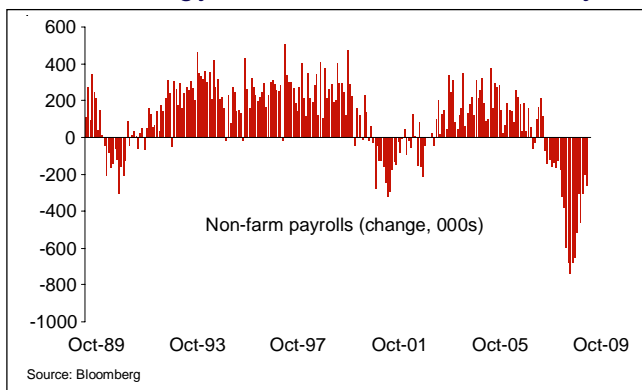
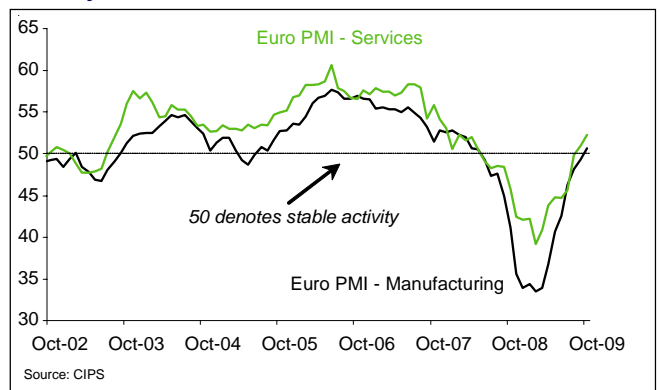


Chart 2: Euro-zone PMI surveys have been improving recently...



| Date | United Kingdom | United States | EU-16 |
|-------|--|---|---|
| Mon 2 | Halifax house prices (sa) (2-6) (Oct) Sep +1.6% 3m/Y-O-Y -7.4% Oct (f'cast) +0.6% Range +0.4%:+1.1% Manufacturing PMI Sep 49.5 Oct (f'cast) 49.8 Median 50.0 Range 49.0:51.0 | ISM manufacturing index (15:00) Sep 52.6 Oct (f'cast) 53.0 Median 53.0 Range 52.0:54.0 Construction spending (15:00) Aug +0.8% Sep (f'cast) -0.4% Median -0.2% Range -1.0%:+0.5% | French manufacturing PMI (08:50) (final) Oct (prel) 55.3 Oct (f'cast) 55.3 Median 55.3 Range 54.5:55.5 German manufacturing PMI (08:55)(final) Oct (prel) 51.5 Oct (f'cast) 51.1 Median 51.1 Range 51.0:51.5 EU-16 manufacturing PMI (09:00) (final) Oct (prel) 50.7 Oct (f'cast) 50.7 Median 50.7 Range 50.5:50.9 |
| Tue 3 | Construction PMI Sep 46.7 Oct (f'cast) 47.0 Median 47.2 Range 46.5:48.0 | Factory orders (15:00) Aug -0.8% Sep (f'cast) +1.0% Median +0.8% Range -0.5%:+1.5% | |
| Wed 4 | Services PMI Sep 55.3 Oct (f'cast) 54.7 Median 55.5 Range 52.5:56.5 | ADP employment change (13:15) Sep -254K Oct (f'cast) -200K Median -190K Range -245K:-165K ISM Services index (15:00) Sep 50.9 Oct (f'cast) 52.0 Median 51.6 Range 49.2:53.9 FOMC interest rate decision (19:15) Current: 0-0.25% Forecast: 0-0.25% | French services PMI (08:50) (final) Oct (prel) 57.8 Oct (f'cast) 57.8 Median 57.8 Range 57.0:58.0 German services PMI (09:00) (final) Oct (prel) 50.9 Oct (f'cast) 50.9 Median 50.9 Range 50.9:51.2 EU-16 services PMI (09:00) (final) Oct (prel) 52.3 Oct (f'cast) 52.3 Median 52.3 Range 52.2:53.0 EU-16 producer prices (10:00) Aug +0.4% Y-O-Y -7.5% Sep (f'cast) -0.6% Y-O-Y -7.9% Median -0.4% Range -0.5%:-0.2% |
| Thu 5 | NIESR GDP estimate (00:01) (Oct) Sep zero Industrial production (sa) Aug -2.5% Y-O-Y -11.2% Sep (f'cast) +0.7% Y-O-Y -10.8% Median +1.2% Range +0.3%:+2.7% Manufacturing output (sa) Aug -1.9% Y-O-Y -11.3% Sep (f'cast) +0.5% Y-O-Y -10.1% Median +1.0% Range +0.4%:+2.1% BoE MPC interest rate decision (12:00) Current: 0.50% Forecast: 0.50% | Non-farm productivity (13:30) (prel) Q2 +6.6% Q3 (f'cast) +6.0% Median +6.2% Range +3.8%:+8.5% Unit labour costs (13:30) (prel) Q2 -5.9% Q3 (f'cast) -3.5% Median -4.0% Range -6.3%:-1.9% Initial claims (w/e 31/10) (13:30) Previous 530k Forecast 525k Median 520k Range 510k:530k | EU-16 retail sales (10:00) Aug -0.2% Y-O-Y -2.6% Sep (f'cast) +0.3% Y-O-Y -2.0% Median +0.2% Range -0.3%:+1.2% ECB interest rate decision (12:45) Current: 1.00% Forecast: 1.00% |
| Fri 6 | Producer input prices (nsa, prov) Sep -0.5% Y-O-Y -6.5% Oct (f'cast) +1.5% Y-O-Y -1.3% Median +1.5% Range -0.1%:+2.4% Producer output prices (nsa, prov) Sep +0.5% Y-O-Y +0.4% Oct (f'cast) +0.3% Y-O-Y +1.8% Median +0.3% Range zero:+0.6% Producer prices core (nsa, prov) Sep +0.5% Y-O-Y +1.4% Oct (f'cast) +0.1% Y-O-Y +1.4% Median +0.2% Range +0.2%:+0.4% | Non-farm payrolls (13:30) Sep -263k Oct (f'cast) -200k Median -175k Range -250k:-55k Unemployment rate (13:30) Aug 9.8% Sep (f'cast) 9.9% Median 9.9% Range 9.8%:10.1% Average earnings (sa) (13:30) Aug +0.1% Y-O-Y +2.5% Sep (f'cast) +0.1% Y-O-Y +2.2% Median +0.1% Range zero:+0.3% Average weekly hours (sa) (13:30) (Sep) Aug 33.0 Sep (f'cast) 33.0 Median 33.1 Range 33.0:33.1 Wholesale inventories (15:00) Aug -1.3% Sep (f'cast) -1.0% Median -1.0% Range -1.5%:-0.6% Consumer Credit (20:00) Aug -\$12.0bn Sep (f'cast) -\$10.0bn Median -\$10.0bn Range-\$21.0bn:-\$6.0bn | French trade balance (07:45) Aug -€3.4bn Sep (f'cast) -€3.3bn Median -€3.0bn Range -€3.5bn:-€2.5bn German factory orders (11:00) Aug +1.4% Y-O-Y -20.4% Sep (f'cast) +0.8% Y-O-Y -13.9% Median +1.0% Range -0.5%:+2.5% |
| Mon 9 | | | German trade balance (07:00)(sa) (Sep) Aug +€8.1bn German current account (07:00) (Sep) Aug +€4.6bn German industrial output (11:00) (Sep) Aug +1.7% Y-O-Y -16.8% |

NB: UK data released at 9.30 a.m., unless otherwise stated. Market medians are as of preceding Friday. Release times of US data are stated in brackets after the description of the indicator. Events are listed in the events column on the next page.

2 - 9 November 2009

| Date | Japan | Other Countries | Main events |
|-------|---|--|--|
| Mon 2 | | | <ul style="list-style-type: none"> • ECB member Noyer speaks in Paris (15:30) • US Fed member Tarullo speaks in Washington (20:15) |
| Tue 3 | Monetary base (23:50) Sep Y-O-Y +4.5% Oct (f'cast) Y-O-Y +4.0% Median +4.5% Range +2.7%:+4.5% | Australia interest rate decision (03:30) Current: 3.25% Forecast: 3.50% | <ul style="list-style-type: none"> • RBA interest rate decision (rates expected to rise by 25bps to 3.5%) (03:30) • European Commission release economic forecasts (10:15) • UK DMO to auction £4.75bn of 2.75% gilts due 2015 (10:30) • ECB members Mersch and Weber speak in Luxembourg (14:00) • ECB member Weber speak in Luxembourg (17:00) • ECB members Constancio speaks in Lisbon (19:00) |
| Wed 4 | | Australia retail sales (00:30) Aug +0.9% Sep (f'cast) +0.4% Median +0.5% Range -0.5%:+1.5% | <ul style="list-style-type: none"> • UK DMO to auction £2bn of 4.5% gilts due 2034 (10:30) • US FOMC interest rate decision (interest rates expected to stay on hold at between 0.0-0.25% (19:15)) • BoJ publishes minutes from its Oct 13-14 monetary policy meeting (23:50) |
| Thu 5 | | Australia trade balance (00:30) Aug -\$1.52bn Sep (f'cast) -\$2.50bn Median -\$2.15bn Range -\$3.0bn:-\$1.0bn Canada building permits (13:30) Aug +7.2% Sep (f'cast) +3.5% Median +1.5% Range -1.2%:+5.0% Canada Ivey PMI (15:00) Sep 61.7 Oct (f'cast) 57.5 Median 59.0 Range 56.0:63.5 | <ul style="list-style-type: none"> • France to sell €8bn of bonds (10:00) • Bank of England interest rate decision (interest rates expected to remain on hold at 0.5%) (12:00) • ECB interest rate decision (interest rates expected to remain on hold at 1.0%) (12:45), followed by press conference (13:30) • G20 finance ministers and central bankers meet in Scotland (till 7th) |
| Fri 6 | Leading index (prel) (05:00) Jul 83.2% Aug (f'cast) 86.2% Median 86.2% Range 80.0%:86.6% Coincident index (prel) (05:00) Jul 91.2% Aug (f'cast) 92.5% Median 92.5% Range 92.2%:94.4% | Canada unemployment rate (12:00) Sep 8.4% Oct (f'cast) 8.4% Median 8.5% Range 8.3%:8.6% Canada employment change (12:00) Sep +30.6k Oct (f'cast) +20.0k Median +10.0k Range -10.0k:+45.0k | <ul style="list-style-type: none"> • RBA releases its Quarterly Monetary Statement (00:30) • ECB member Gonzalez-Paramo speaks in London (04:30) • US Fed members Evans (14:45) and Duke (16:30) speak in Chicago |
| Mon 9 | Current account (total) (23:50) (Sep) Aug +Y1171.2bn Trade balance (BoP) (23:50) (Sep) Aug +Y303.7bn | Canada housing starts (13:15) (Oct) Sep 149.3k | <ul style="list-style-type: none"> • Euro area finance ministers hold meeting in Brussels (16:00) • US Treasury to sell 3yr notes (amount tbc) (18:00) |