

A recovery we can believe in?

Stephen Boyle, RBS Group

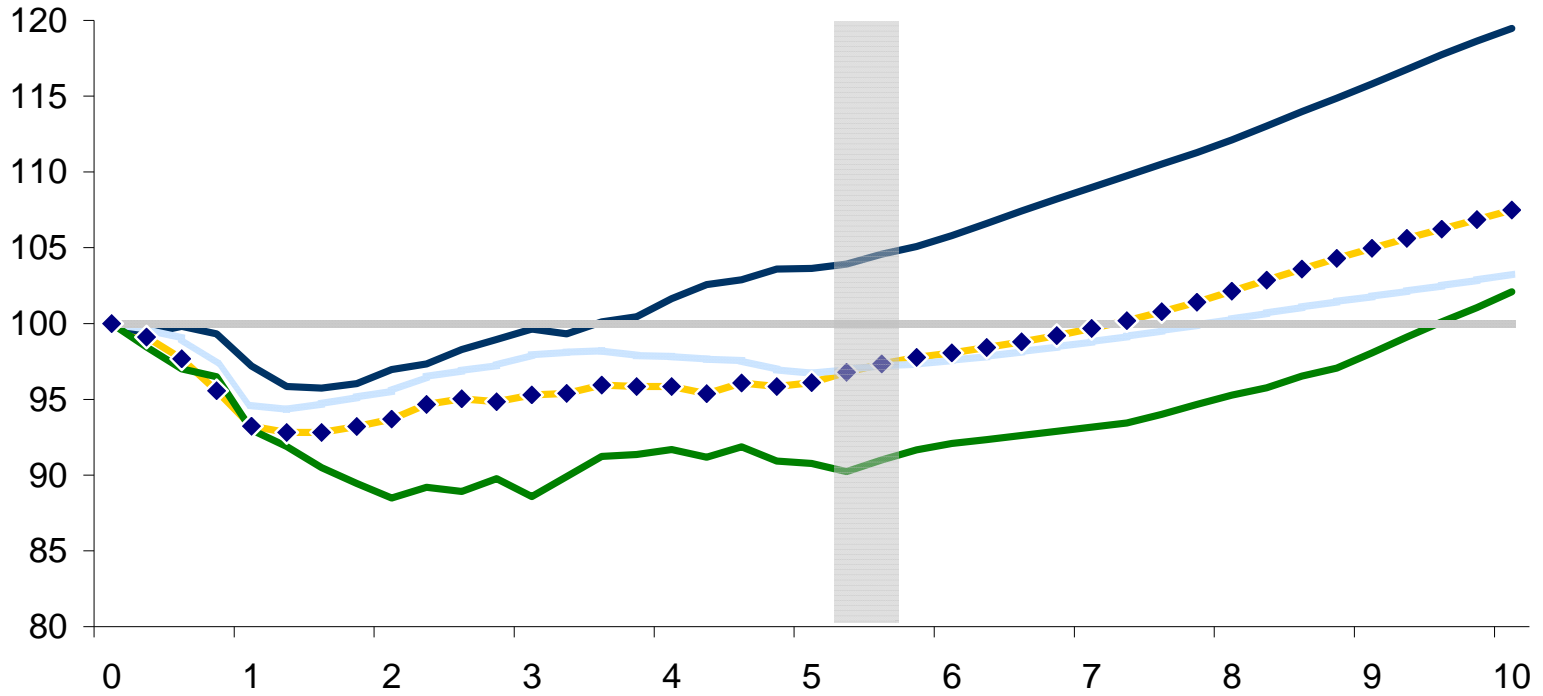
September 2013

What to expect

1. A recovery in developed economies is underway, led by financial markets
2. There is some anxiety over its quality and longevity
3. Those anxieties go beyond the business cycle and include long-lasting structural issues

At last there's some momentum

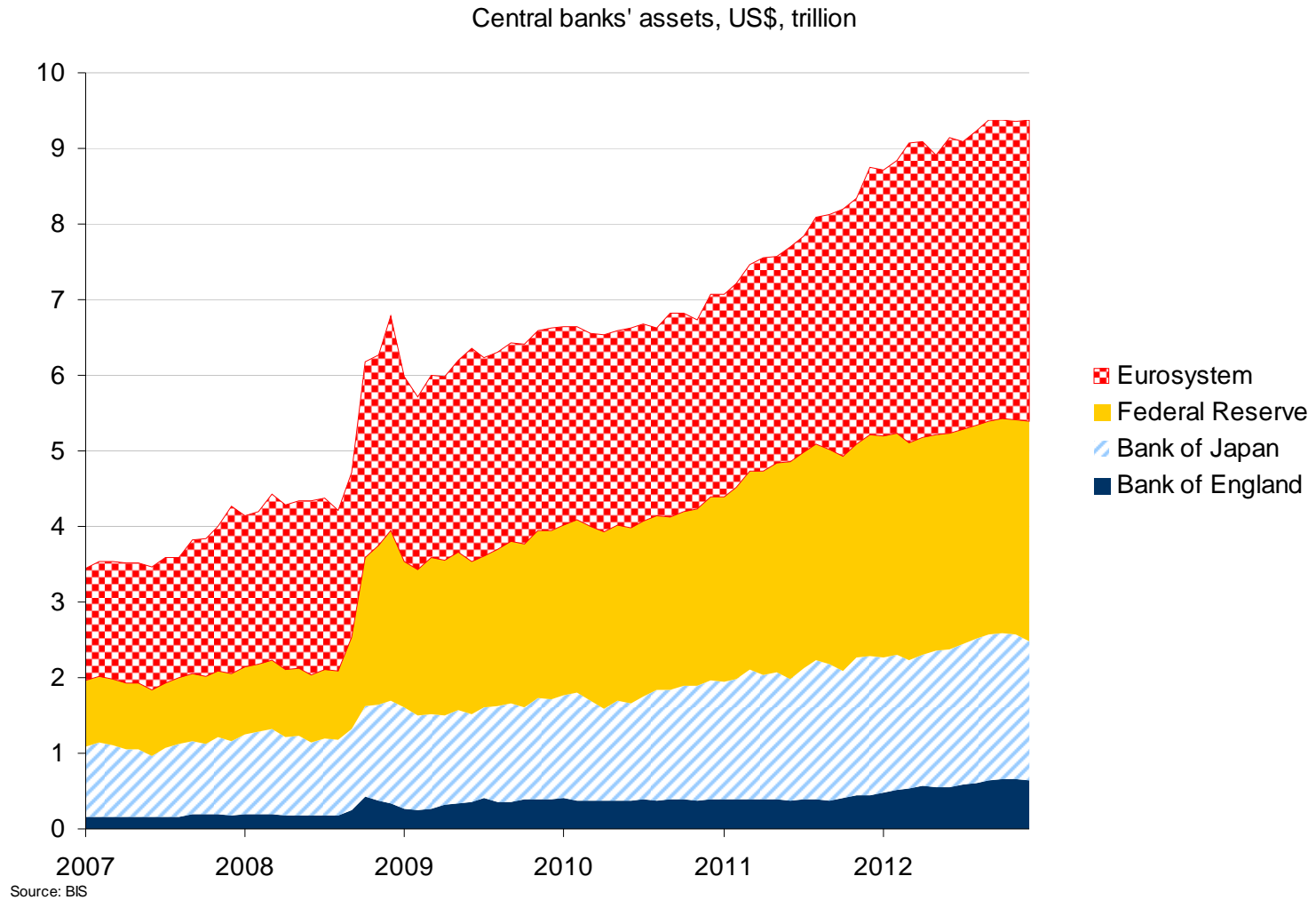
Real GDP, pre-crisis peak = 100



Source: Oxford Economics

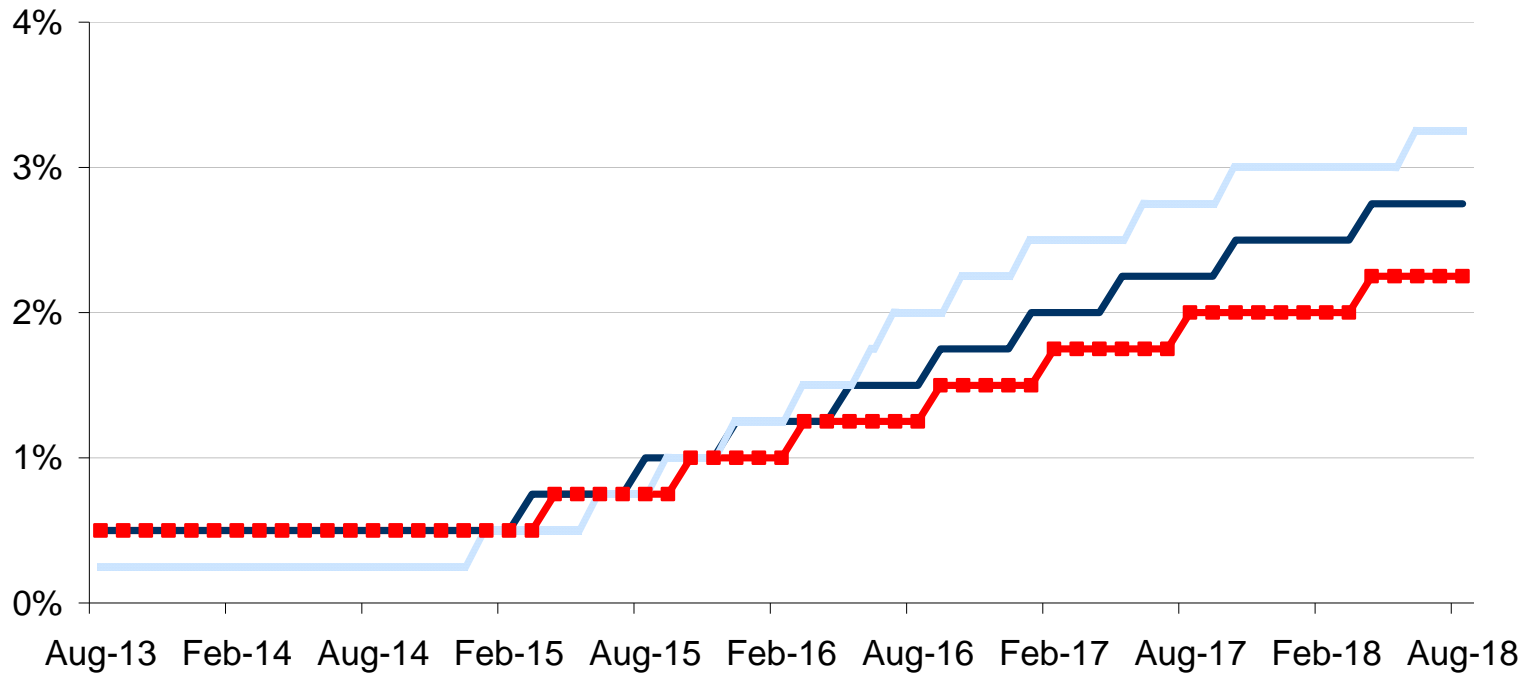
—◆— UK — US — EZ — Ireland — Pre-crisis peak

It's much more been a financial markets and asset prices recovery, fuelled by aggressive monetary policy



Exiting extraordinary monetary policy will be tricky

Market expectations of central banks' policy rates



Source: RBS

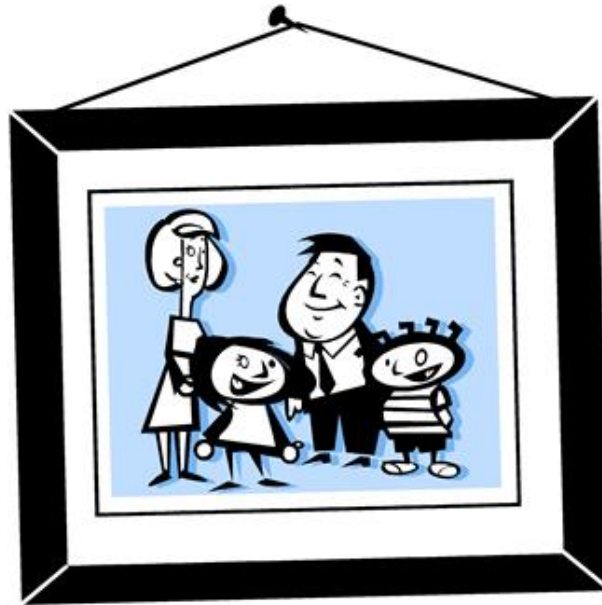
—■— ECB Refi Rate — UK Bank Rate — Fed Funds Rate

Meet Jane and Scott

Earn £31,000
per year

Pay £4,600 in
income taxes

What's
going on
and why?

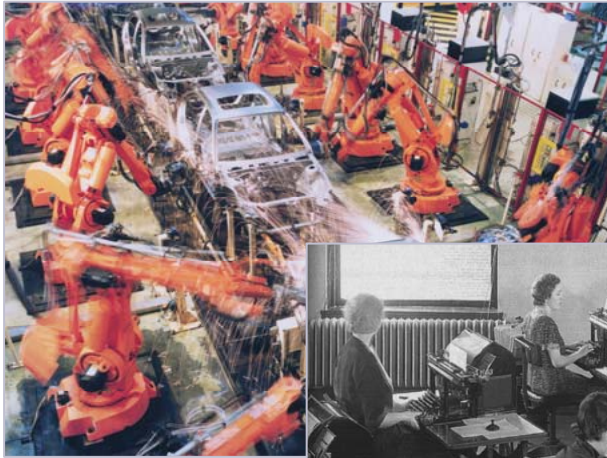


Receive
£5,000 in child
benefits

'Real' income is the
same as in 2003

95% of income goes
on essentials

Changes in demand



Prompted by changes in technology

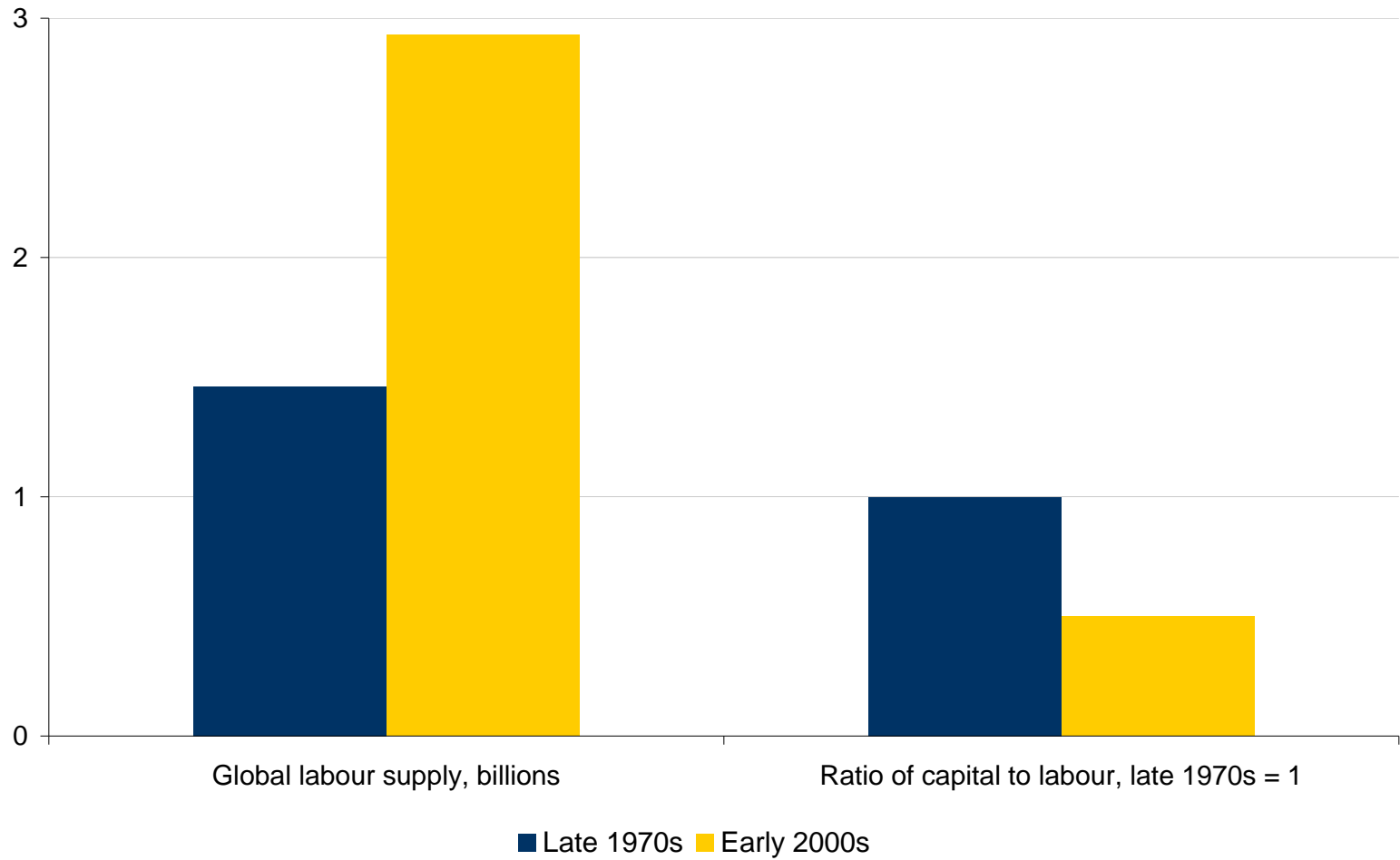
Prompted by changes in demand for services



Changes in demand make the job market resemble an hourglass

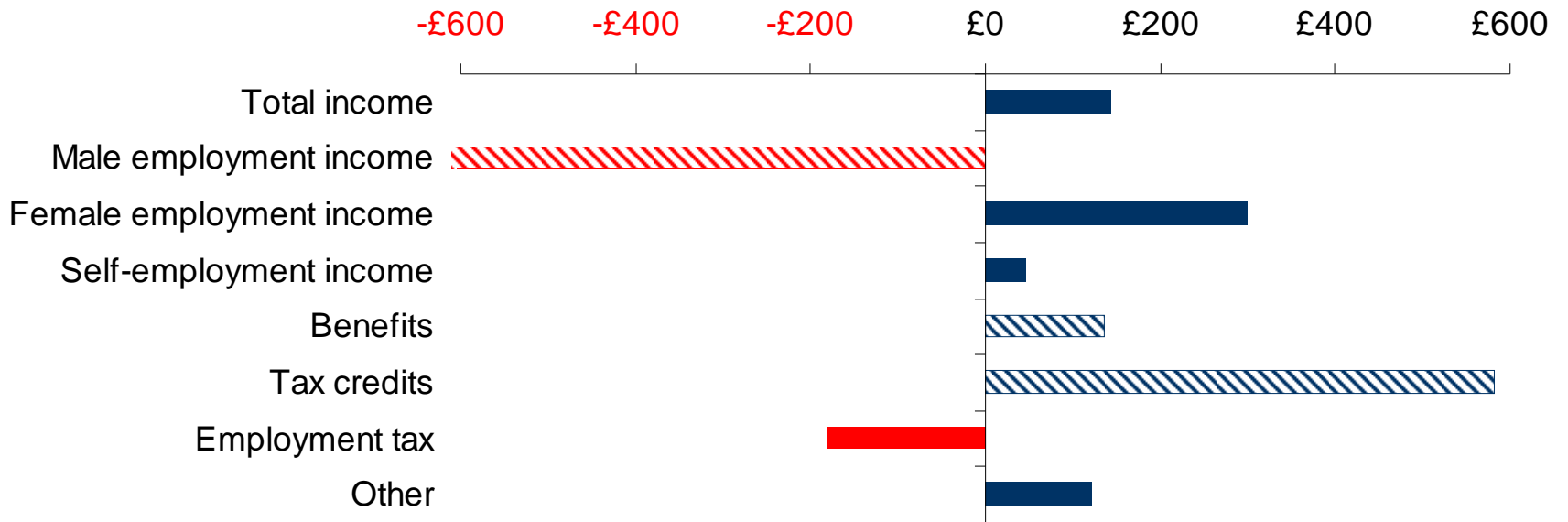


Changes in supply



Tax credits, benefits (and borrowing) allowed Jane and Scott to keep consuming

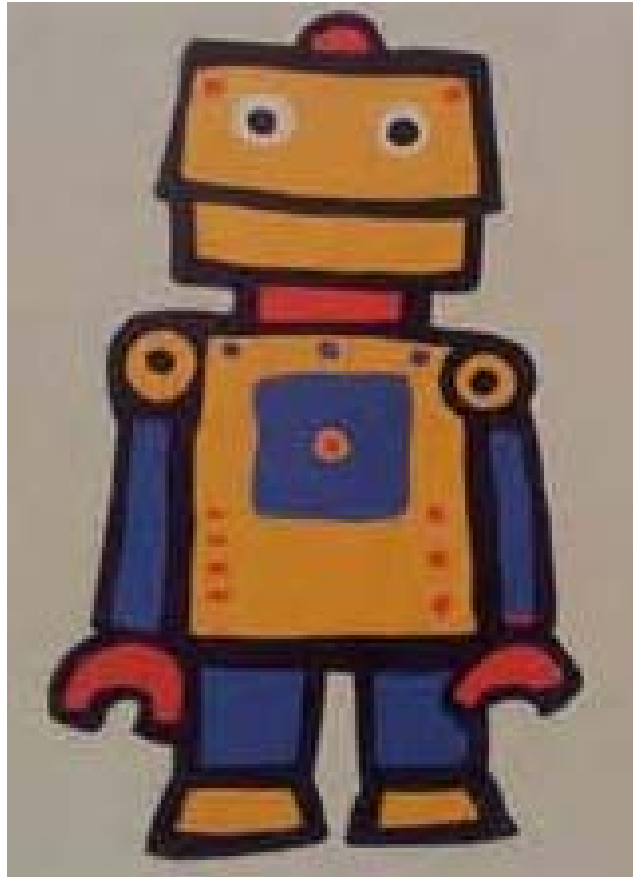
Change in annual net equivalent income of low-to-middle income households, 2002/03 to 2008/09



Option 1 – cut the cost of living



Option 2 – invest in people ... but will it be enough?



Option 2 – invest in people ... but will it be enough?



A word from our lawyers

This material is published by The Royal Bank of Scotland plc (“RBS”), for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by RBS and RBS makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the RBS Group’s Group Economics Department, as of this date and are subject to change without notice. The classification of this document is PUBLIC. The Royal Bank of Scotland plc. Registered in Scotland No. 90312. Registered Office: 36 St Andrew Square, Edinburgh EH2 2YB. The Royal Bank of Scotland plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. © Copyright 2013 The Royal Bank of Scotland Group plc. All rights reserved