Appendix 1

Market Overview – October 2011 to March 2012
(courtesy of Sector)

Quarter Ended 31st December 2011
Activity indicators suggested that the economic recovery ground to a halt in the third quarter. Surveys indicated a poor performance in high street sales reflecting the pressures on households' finances with spending weaker than usual in December. Conditions in the labour market also continued to deteriorate, albeit at a slower pace than in the previous quarter. Despite this moderating trend, employment surveys have continued to point to further job losses ahead.

The housing market has continued to recover, albeit slowly. The number of mortgage approvals for new house purchase rose during the quarter with house prices rising marginally higher over the period.

The latest trade data tentatively suggested that net trade was on course to make a positive contribution to UK growth during the quarter with some survey measures pointing to a pick-up in demand for exports. Surveys suggested a quarterly rise in the volume of manufactured goods exports of around 2%.

Despite much weaker than expected growth, the latest public finance figures showed that borrowing would come in comfortably below the total for 2011. Spending growth has slowed, while growth in tax receipts held up reasonably well. Inflation fell in the third quarter with CPI inflation falling from its recent peak of 5.2% in September to 4.2% in December. Inflation remained on track to fall further.

The Monetary Policy Committee (MPC) restarted quantitative easing (QE) in October 2011 and announced £75bn of additional gilt purchases would be completed by February 2012. The MPC also looked primed to sanction further purchases. The November Inflation Report forecast projected CPI inflation to be well below the 2% target in two years time horizon.

In the euro-zone, policymakers made little progress to deal with the region's debt crisis. The economic data in the euro-zone also continued to weaken – a recession in the euro-zone remains a key risk to the outlook for the UK economy.

Quarter Ended 31st March 2012
The pick-up in business surveys at the start of 2012 suggested the economy managed to avoid relapsing into a technical recession in the first quarter of the year. The weighted output balance of the surveys rose to a level consistent with a quarterly expansion of approximately 0.5%. However there were tentative signs later in the quarter that the recovery might have started to lose momentum. The business surveys fell in February 2012, as did the official measure of consumer spending.

Employment continued to increase. However employment failed to rise fast enough to keep pace with the increase in those losing their jobs. Accordingly, unemployment rose further. Pay growth remained very weak – given the high rates of inflation, real pay continued to fall sharply.

House prices remained volatile. The Halifax measure rose and the Nationwide measure fell in January 2012 – and vice versa in the following month. Mortgage approvals fell in February 2012 despite the approaching end of the stamp duty holiday for first-time buyers. Banks' funding costs eased a little at the start of the quarter although they remained elevated. Banks have begun to pass these costs onto borrowers by raising their borrowing rates on certain types of mortgages.

The UK trade data continued to hold up surprisingly well given the crisis in the UK's main export market, the Eurozone.

The latest public finance figures suggested that, contrary to previous indications, public sector borrowing in 2011/12 was unlikely to undershoot the forecasts made by the Office for Budget Responsibility (OBR) in November 2011. All borrowing forecasts were lowered by a cumulative £11bn over the total forecast period but the UK Government was still only expected to meet its fiscal mandate with a small amount of headroom.

In March 2012 the Chancellor delivered a broadly fiscally-neutral Budget. Elsewhere, inflation fell further during the quarter. CPI inflation fell from 4.2% in December to 3.4% in February. February's Bank of England Inflation Report suggested that the inflation target would be met on the current policy stance.

Sentiment towards the Eurozone improved following the European Central Bank's second long-term refinancing operation in February 2012 and the conclusion of a second bailout package for Greece. This followed an agreement by the Greek Government to another major austerity package and agreement by private holders of Greek debt to a substantial cut in the value of their holdings.

In the UK the MPC announced another £50bn of quantitative easing (QE) in February 2012 having completed the previous £75bn of purchases. But the consensus view was that the MPC is unlikely to undertake further purchases once the current ones are finished in May.