



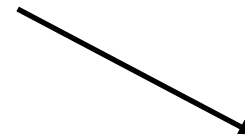
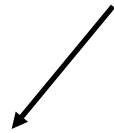
Making sense of where we are

Networking event March 2017

Roger Martin-Fagg
Behavioural economist

#WitAndWisdom

Mainstream v Behavioural Economists



Economic man

System 2

Rational

20%

Daniel Kahneman, Thinking fast,
Thinking slow, 2011

Economic man

System 1

Instinctive

80%

80% of the time humans make choices
based on System 1

ANCHORING

we use the first bit of information to make subsequent judgements

RULE OF THUMB

a rough and ready workable approach based on little or no information

CONFIRMATION BIAS

we seek out information which confirms our beliefs.

Social media creates
herds of unthinking
like-minded people
thanks to



Political choice is the consequence of system 1 thinking



WE'RE OUT

■ After 43 years UK freed from shackles of EU
■ PM in crisis as voters reject Project Fear
■ Leave surge sends pound to a 31-year low

A HUGE revolt by Middle East and Labour working-class heartlands as Leave scored an astonishing success. The pound plummeted wildly before rebounding to a 31-year low as traders reacted to the shock news. In Japan 1975 to connect to the Brussels club. The rejection of Project Fear came despite a month of doom-mongering by the Prime Minister and raised questions about whether he can survive. What the polls showed immediately called for him to consider his position. When the polls showed the voters of Britain quit to vote against the Remain campaign, Nigel Farage declared "independence day" and the pound fell to a 31-year low. The BBC and ITV declared Leave had won - reversing the decision in South Port Talbot and Mersey Tynes.

By James Slack, Daniel Martin and Jason Groves



Brexit
Trump
French
President April
Dutch elections
in March



The definition of value added

**SALES
REVENUE**

subtract

**ALL PAID
INVOICES**

equals

**PROFIT AFTER
TAX & INTEREST**

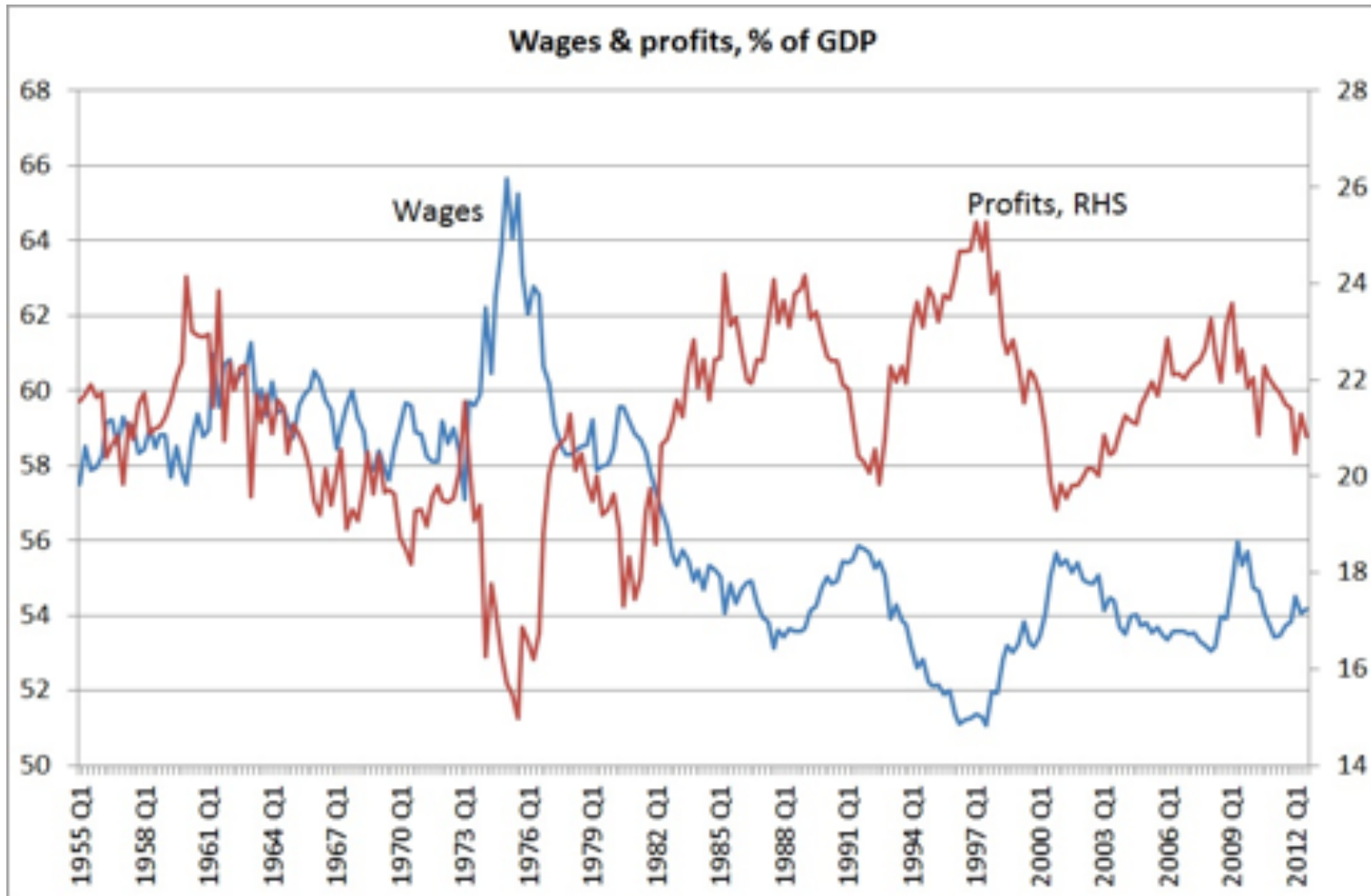
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**WAGES AND
SALARIES**

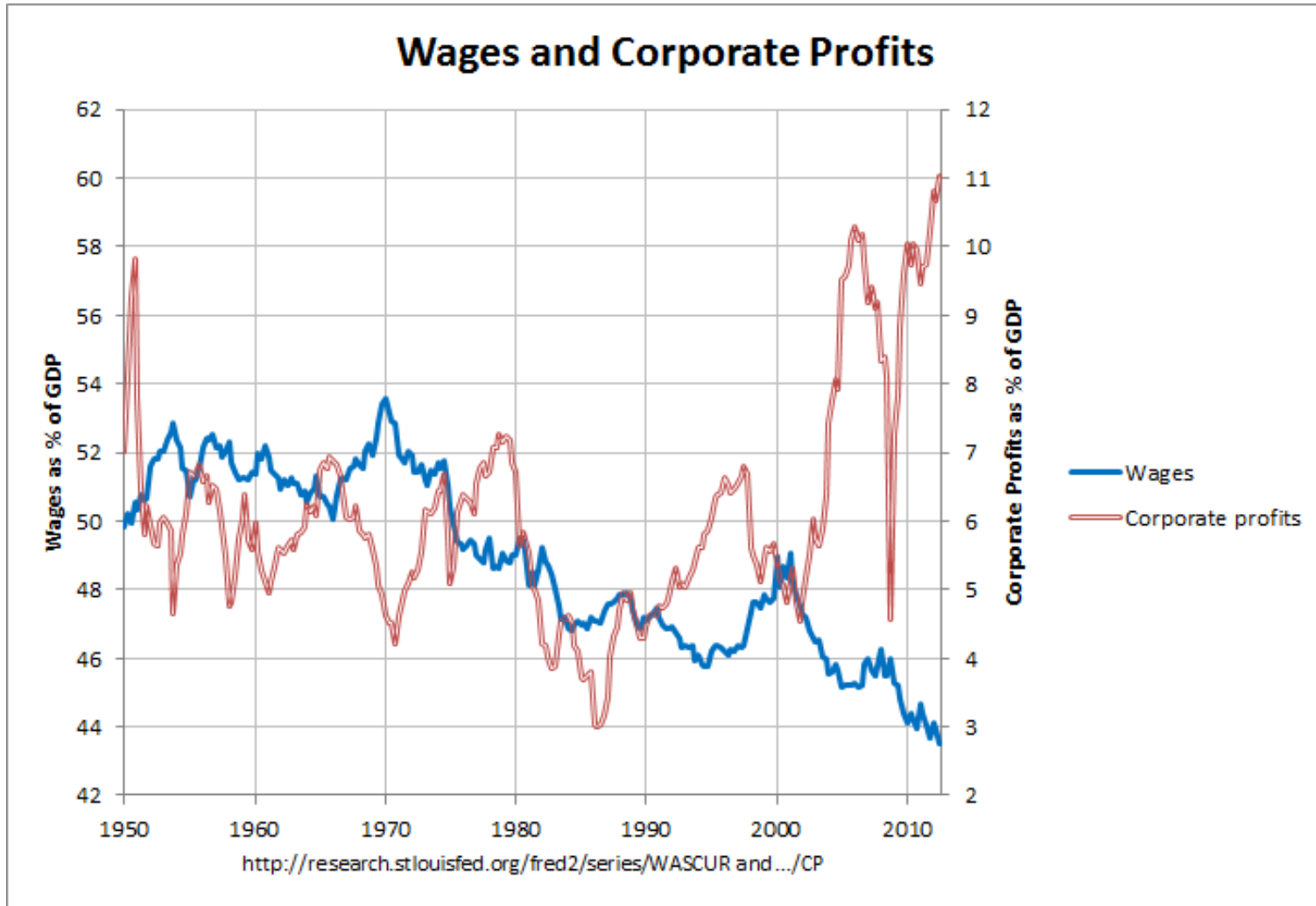
This is Nominal Gross Domestic Product (GDP)

50-90% produced by businesses employing fewer than 200 people in most countries. Circa 57% in UK.

Since 1982 in the UK the share of wages in added has fallen by 4 percentage points



Share of wages fell 5 percentage points in the USA



Short run economic activity

Is driven by the flow of spending

$$\text{MONEY} \times \text{VELOCITY} = \text{NOMINAL GDP}$$

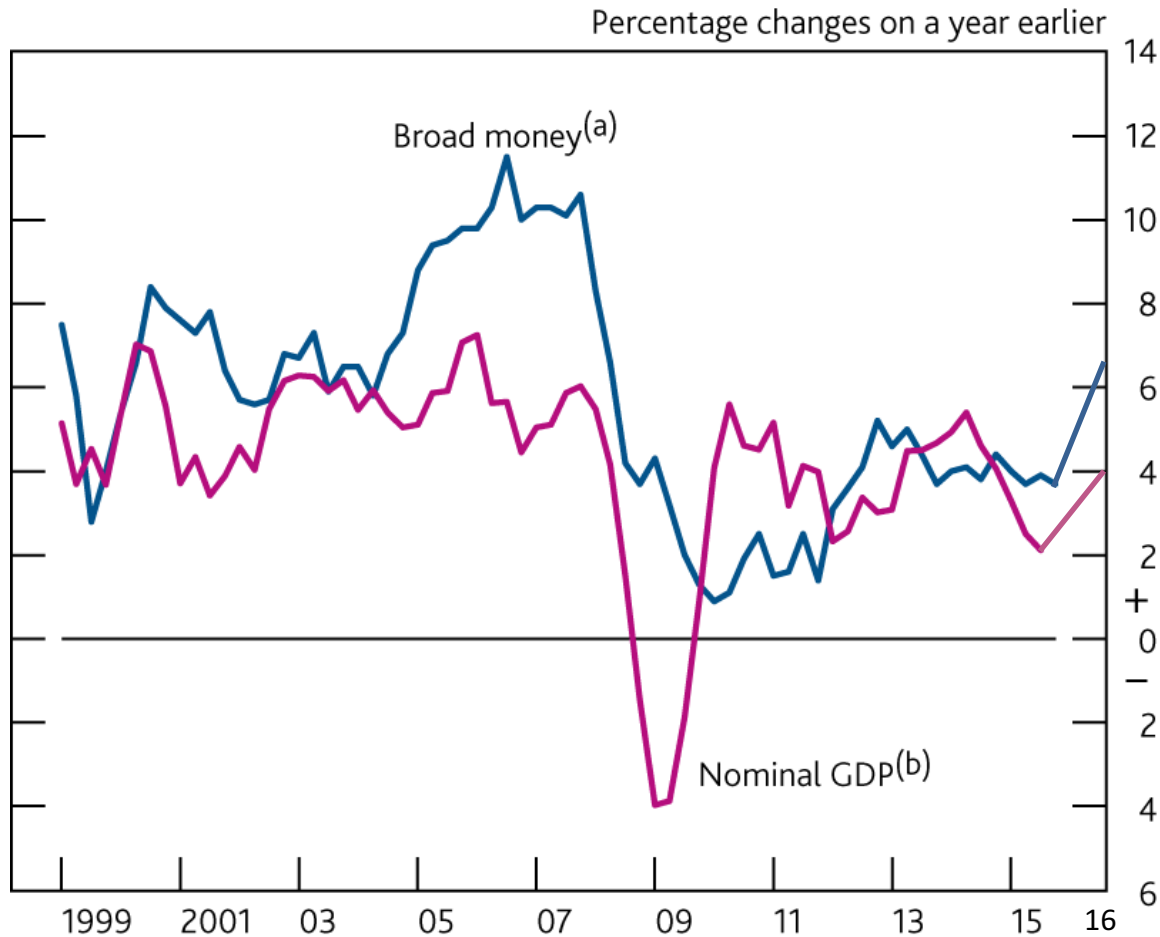
95% manufactured
by commercial banks

Determined by interest
rates, the media, the
weather, house prices but
above all CONFIDENCE

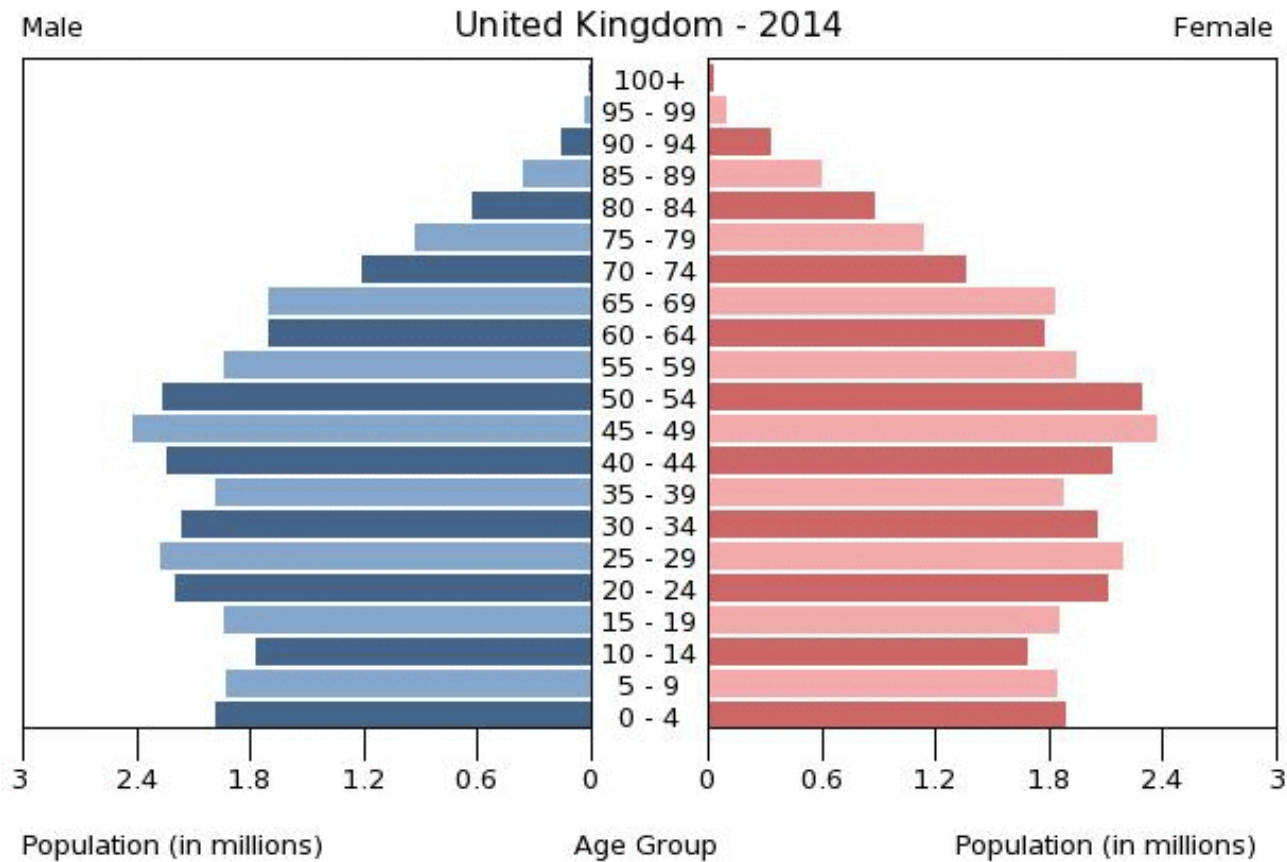


Banks manufacture money when they
make a loan(bank credit) and can destroy
money when a loan is paid down.

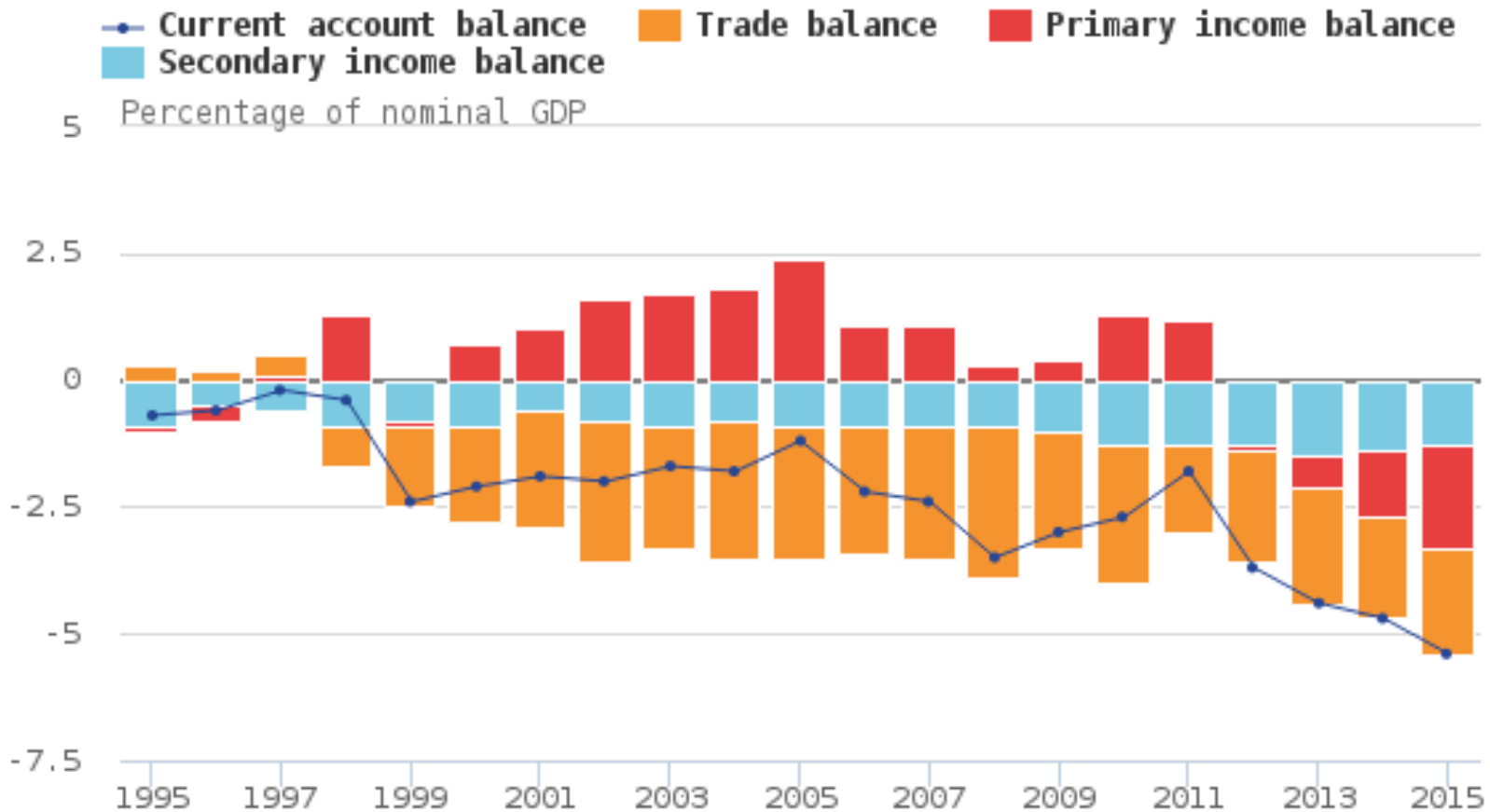
UK broad money growth consistent with 2.4% growth in GDP and 3% inflation end 2017



The UK: big bulge of oldies over next 20 years. We need more young workers



The UK current account



The situation at the beginning of 2017

30% of our GDP is spent on imports

Consumers are having a final fling (most of the growth in unsecured lending is car purchase)



The UK purchasing power has dropped by 20%

Every 10% fall in sterling adds 1% to core inflation within 18 months

The Government is going for hard Brexit

Real wages decline end 2017

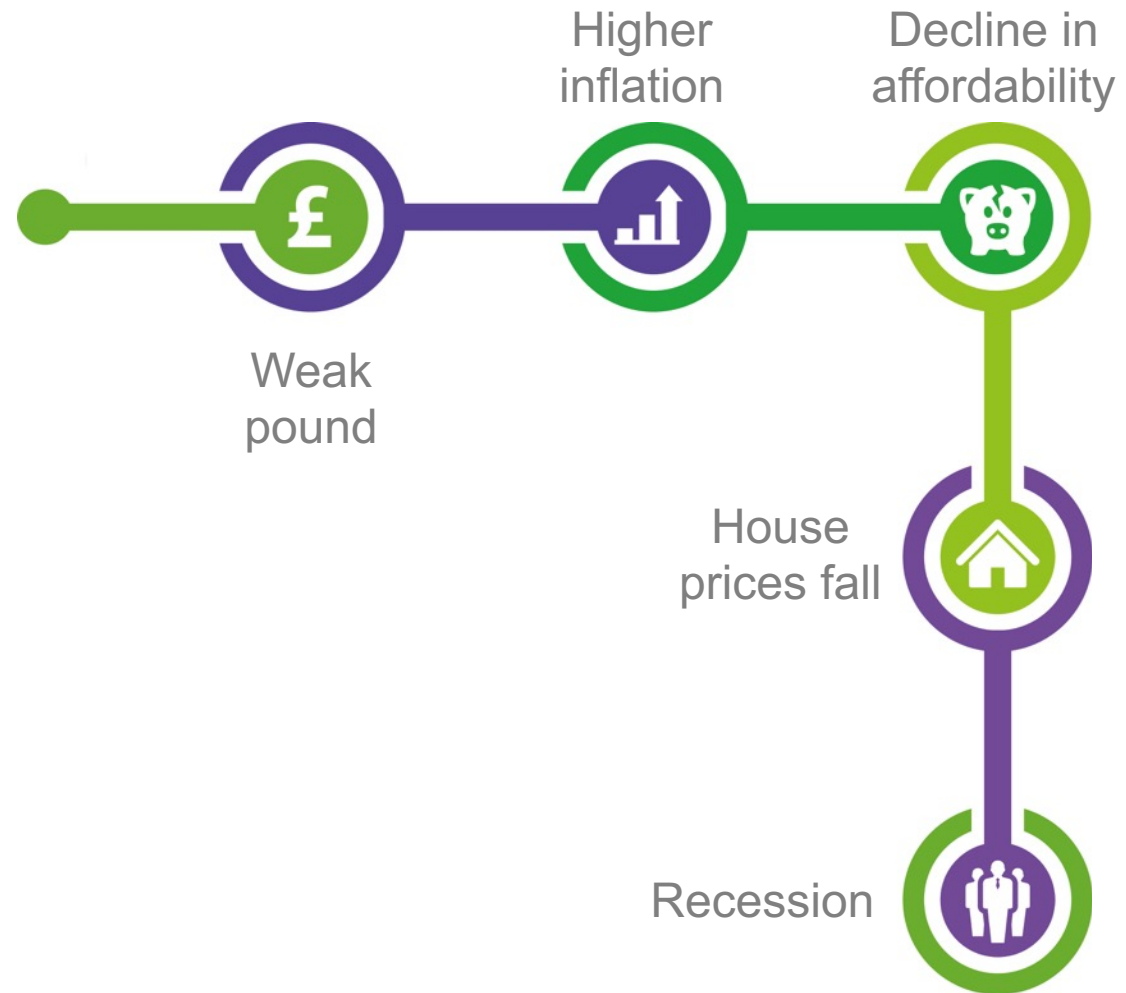
UK real terms wage growth



Office for National Statistics (ONS)

Implications of reduced EU investment

Since 1985 our balance of payments deficit has been financed by stable long term inward investment, 50% from EU companies
If this investment falls away the following will happen from 2019



Current conditions

- Economy is performing well because the EU, USA, China, India, Japan are expanding, real growth +2.3%
- But expect a slow down beginning mid-2018
- Recession or no recession will depend on the value of sterling
- Weaker sterling=less growth
- Long run interest rates up 1% by 2018, the mortgage rate will follow
- No battle plan survives contact with the EU

The single biggest constraint on your business
will be labour supply



Which parts of your business can you automate whilst still maintaining a distinctive and compelling culture?





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bartlettmitchell.co.uk/news/networking-2017