

UK Outlook

February 2020
Economic Update



Bank of
Ireland

Out of the EU but economy not out of the woods

Persistent Brexit uncertainty contributed to subdued business investment and greater caution amongst consumers in 2019, with UK GDP growth slowing during the year. More positively though, the worst case outcome of a 'no deal' exit was avoided, and the decisive general election result paved the way for the UK to leave the European Union on 31st January 2020 on the basis of Prime Minister Johnson's revised Withdrawal Agreement. However this only marks the end of the beginning and the task of negotiating a new relationship is just commencing. Moreover, as the government appears to have ruled out an extension of the transition period beyond this December, we assume it will only be possible to conclude a very limited trade deal - mainly covering goods - in the short timeframe available. Our latest forecasts, which envisage GDP growth of 1.3% in 2020 (broadly unchanged from our July projection) and 1.4% in 2021, are consistent with the pace of activity picking up over the course of this year on foot of some reduction in uncertainty, easier monetary and fiscal policy, and a more favourable external environment, but moderating into 2021 as the new trading arrangements begin to kick in. There are both upside and downside risks to this outlook. An extension of the transition period would provide support for the economy, whereas growth would be weaker if uncertainty remains elevated and/or the negotiations between Downing Street and Brussels fail with trade moving to WTO rules next year.

Recent Developments

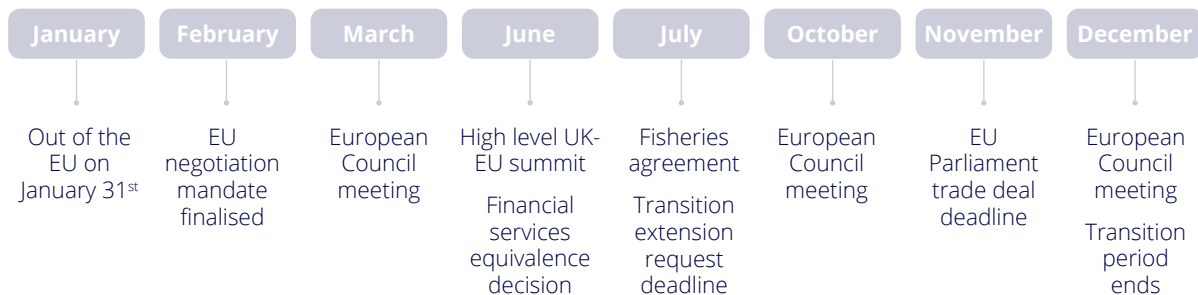
GDP
1.1%
 YoY Q4 2019

Unemployment rate
@ 3.8%
 October-December 2019

Inflation
1.3%
 YoY December 2019

£ strengthens
 to **83p**

Brexit



Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2019	1.4%	1.3%	0.4%	3.7%	1.1%	3.8%	1.8%
2020f	1.3%	1.4%	1.2%	1.5%	0.6%	3.8%	1.5%
2021f	1.4%	1.6%	1.7%	0.2%	0.5%	3.9%	2.0%



Reduced uncertainty spurs consumer spending and investment



New UK-EU trading relationship weighs on exports in 2021



Monetary and fiscal easing also lend support

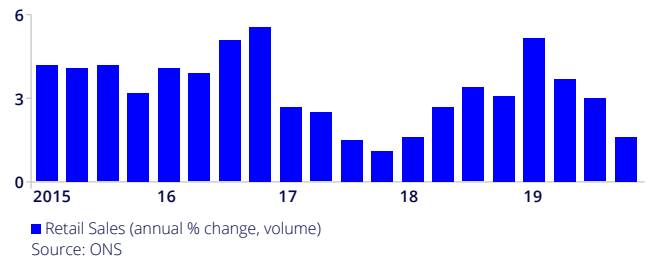


Further job and wage gains

Consumer

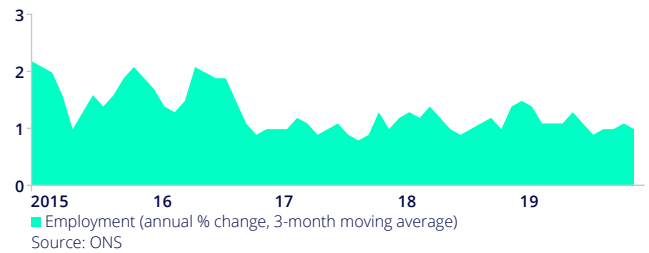
Spending softens

The uncertainty around Brexit took a toll on households in 2019. Consumer spending rose by 1.3% year-on-year, which was the weakest outturn since 2011.



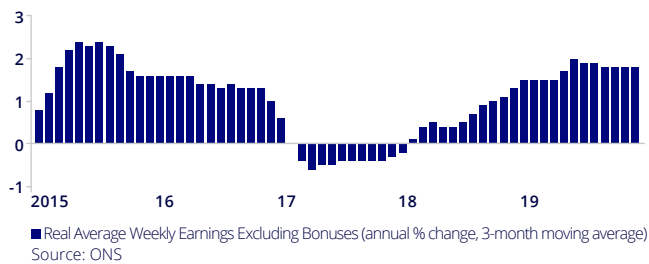
Labour market resilient

Employment rose by 1.1% year-on-year last year, while the unemployment rate continued to decline, reaching a multi-decade low of 3.8%.



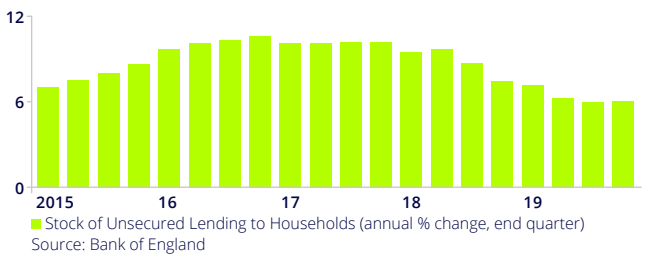
Earnings on the rise

Weekly earnings (excluding bonuses) growth is running well ahead of the rate of inflation, leading to healthy gains in household incomes.



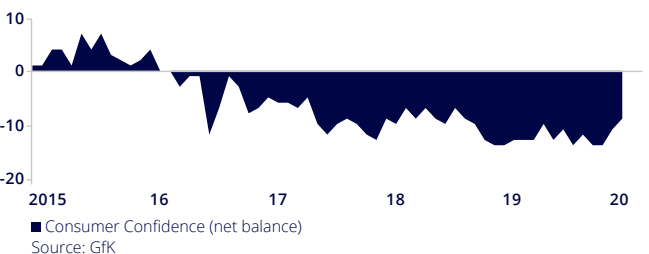
Credit growth easing

The slowing trend in consumer credit growth - which commenced in 2018 and continued last year - reflects tighter lending conditions and Brexit uncertainty.



Confidence on the rebound

While still relatively subdued, consumer sentiment has edged up lately, with developments on the Brexit front helping to lift households' spirits.



Brighter outlook

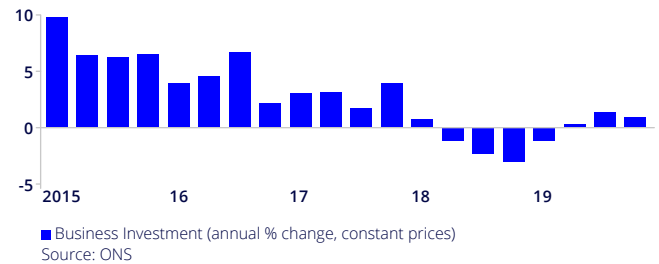
Reduced uncertainty, along with fiscal support and a likely cut in interest rates, should see consumer spending growth firm over the forecast horizon.



Business

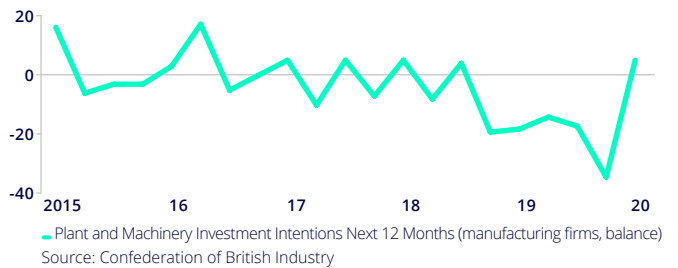
Business investment stabilising

Business investment remained subdued in 2019, though it did post a small increase of 0.3% on an annual basis after a sizeable decline the previous year.



Intentions improve

Some lifting of the Brexit fog and a post-election bounce in firms' investment intentions bode well for a further improvement in capital spending in the period ahead.



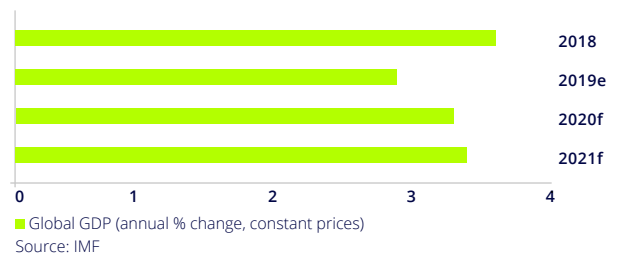
Exports up

Notwithstanding softer trading partner activity – particularly in the Euro area – exports held up well in 2019 rising by 3.7% year-on-year.



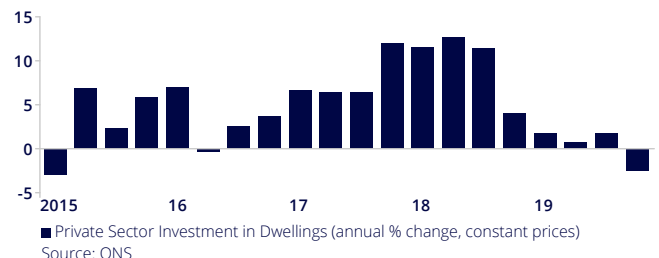
Stronger global growth

The IMF expects a pick up in global growth in 2020-21 but highlights downside risks including geo-political and trade tensions, with the coronavirus now an added concern.



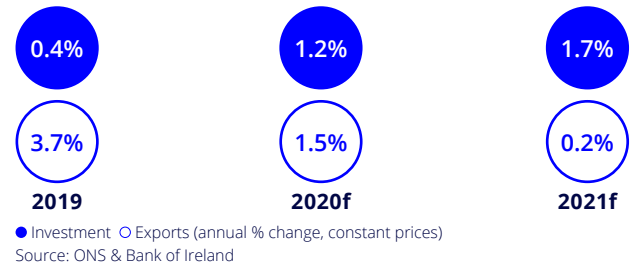
Mixed housing picture

While private sector investment in dwellings eased during last year and housing starts suggest some weakness this year, house prices and new buyer enquiries have risen recently.



Varying prospects

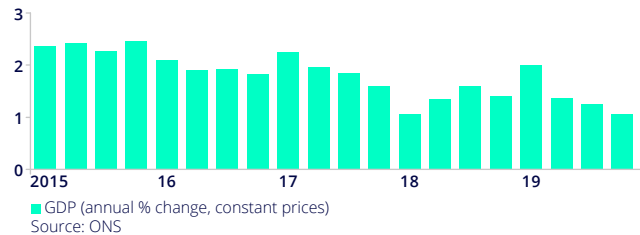
Investment growth is expected to tick up over the forecast horizon whereas export growth is likely to slow as the new trading regime with the EU takes effect.



Overall Activity

Moderate growth

GDP rose by 1.4% in 2019, with the annual rate of growth slowing over the course of the year reflecting the unsettled environment domestically and externally.



Set to continue

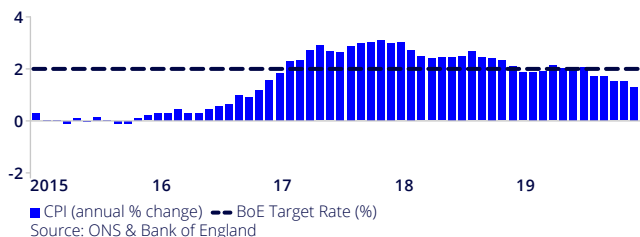
The pace of activity is expected to pick up during this year on foot of reduced uncertainty, easier monetary and fiscal policy and stronger global growth, but to moderate into 2021 as the new relationship with the EU kicks in.



Policy & Markets

Inflation below target

Annual consumer price inflation dipped to 1.3% in December 2019. It is likely to remain subdued this year whereas more red tape in trade with the EU will add to costs in 2021.



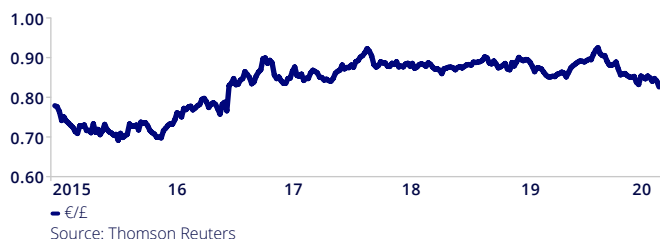
Rate cut on the cards

While the Bank of England left interest rates on hold in January, moderate growth and below target inflation should see it ease policy this year.



Sterling recovers

Sterling has strengthened in recent months as the risk of a 'no deal' Brexit receded. The fortunes of the currency will now depend on the how the negotiations with the EU evolve.



Fiscal easing ahead

As the economy goes through a period of adjustment, the Johnson government is expected to adopt a looser fiscal policy stance including increased investment in the regions.



Forecasts

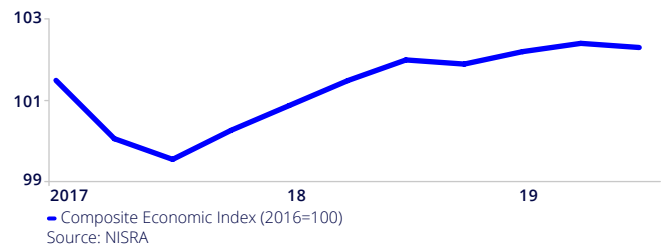
	2019	2020 (f)	2021 (f)
Personal Consumption	1.3%	1.4%	1.6%
Government Consumption	3.6%	2.5%	2.5%
Investment	0.4%	1.2%	1.7%
Exports	3.7%	1.5%	0.2%
Imports	3.6%	2.2%	1.5%
GDP	1.4%	1.3%	1.4%
Employment	1.1%	0.6%	0.5%
Unemployment Rate (Average)	3.8%	3.8%	3.9%
CPI	1.8%	1.5%	2.0%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports and GDP are in constant prices

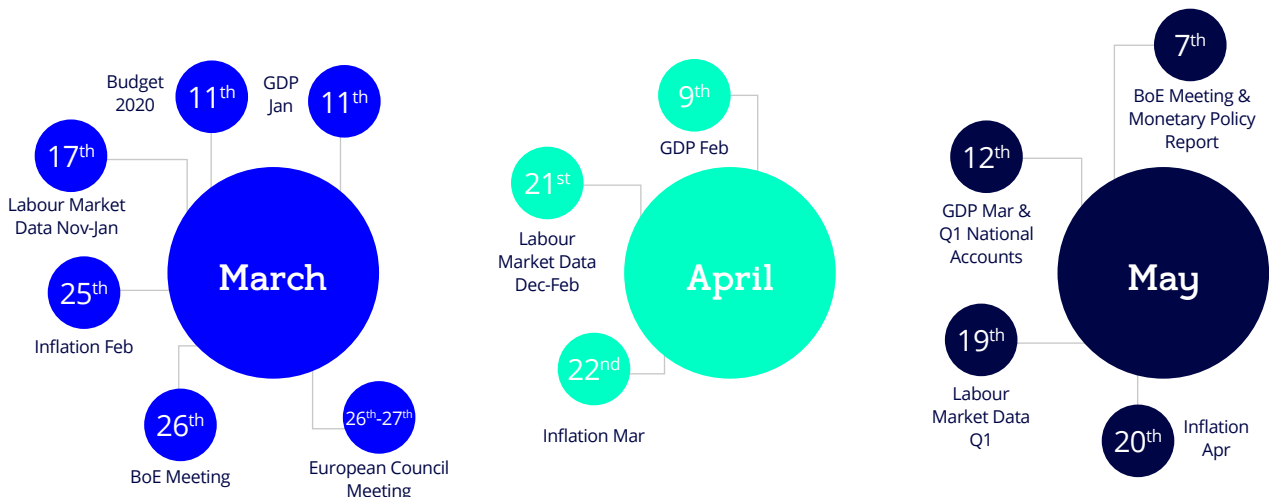
Northern Ireland

Positive developments

Economic activity has flatlined of late though the labour market has held up well. Looking ahead, reduced Brexit uncertainty, the restoration of Stormont and increased public spending should provide support.



Upcoming Events



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