Prospects for the economy
Brexit dependent

The UK economy has been expanding at a moderate pace recently, though the latest data show some loss of momentum at the end of 2018 and the start of this year amid heightened Brexit drama. The outlook is also Brexit dependent. Parliament’s rejection of the draft Withdrawal Agreement means a no deal exit on March 29th 2019 is now the default position. That said, things are still very much up in the air and the Government and the EU are currently in negotiations on a way forward. While the range of possible outcomes is wide, we assume that current trading arrangements continue to apply over our forecast horizon. On this basis, GDP growth of 1.4% is projected for this year (revised down from 1.6% previously) and 1.6% for 2020. Rising employment and wages, alongside lower inflation, will underpin gains in consumer spending; with business investment firming as uncertainty abates somewhat. The still ongoing - albeit softening - global expansion should support exports, though there are downside risks with the IMF highlighting trade tensions in particular. The Bank of England has been in wait and see mode since last August but we expect it to gradually raise interest rates over the next couple of years. This should benefit sterling, which has gained some ground since the start of 2019. If it is a ‘no deal’ Brexit however, the pound is likely to weaken significantly, with a recession also probable, and the path for policy rates less clear.
**Economic Overview**

**Recent Developments**

- **GDP**: 1.3% YoY Q4 2018
- **£** slightly firmer @ c.88p
- Wage growth picking up
- Inflation 1.8% YoY January 2019

**Draft Withdrawal Agreement**
- Citizens’ rights
- Financial settlement
- Transition period
- Backstop

**Brexit**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2016</td>
<td>Referendum on EU membership</td>
</tr>
<tr>
<td>March 2017</td>
<td>Article 50 triggered</td>
</tr>
<tr>
<td>June 2017</td>
<td>Withdrawal negotiations begin</td>
</tr>
<tr>
<td>December 2017</td>
<td>Progress on Phase 1 issues</td>
</tr>
<tr>
<td>March 2018</td>
<td>Transition agreed in principle</td>
</tr>
<tr>
<td>July 2018</td>
<td>White Paper on future relationship</td>
</tr>
<tr>
<td>November 2018</td>
<td>Draft Withdrawal Agreement concluded</td>
</tr>
<tr>
<td>January 2019</td>
<td>Parliament votes against deal</td>
</tr>
<tr>
<td>February 2019</td>
<td>Government and EU re-open negotiations</td>
</tr>
</tbody>
</table>

**Outlook**

- Jobs and wage gains plus lower inflation underpin consumer spending
- Investment picks up as Brexit uncertainty abates
- Rise in exports amidst ongoing global growth
- BoE gradually raises interest rates

**Outlook**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>Consumer Spending</th>
<th>Investment</th>
<th>Exports</th>
<th>Employment</th>
<th>Unemployment Rate</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.4%</td>
<td>1.7%</td>
<td>0.0%</td>
<td>0.2%</td>
<td>1.1%</td>
<td>4.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2019f</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.2%</td>
<td>2.2%</td>
<td>0.6%</td>
<td>4.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2020f</td>
<td>1.6%</td>
<td>1.6%</td>
<td>2.0%</td>
<td>2.2%</td>
<td>0.6%</td>
<td>4.1%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Note: Current UK-EU trading arrangements are assumed to apply over the forecast horizon. 2018 employment and unemployment numbers are estimates.

Sources: Bank of Ireland, ONS, Bloomberg, HM Government, EU Council
Consumer

Spending holding up

Consumer spending held up reasonably well in 2018, increasing by 1.7% on an annual basis, with growth broad based across goods and services categories.

Continuing job gains

Employment rose by 1.0% year-on-year in the three months to last November and the unemployment rate is down to a multi-decade low of 4.0%.

Incomes growing

The tight labour market is feeding through to earnings growth, which has been running well ahead of inflation lately, boosting household incomes.

Credit growth easing

Consumer credit is increasing, but at a more moderate pace as lending standards have tightened and the Bank of England has nudged up interest rates.

Sentiment subdued

Consumer confidence has softened recently amid heightened Brexit uncertainty and increasing concerns about the economic outlook.

Steady gains in store

Softer conditions in the first half of this year are expected to give way to more robust consumer spending in the second half, with a further uptick in 2020.
Business

Investment weakens

Business investment fell by 0.9% year-on-year in 2018. Financing conditions have tightened a little but remain broadly supportive, whereas Brexit uncertainty is weighing and has prompted some stock building recently.

Intensions pulled back

Investment intentions dipped in the second half of last year, with firms citing Brexit as the largest headwind for capital spending.

Exports underperform

At 0.2%, the annual growth in exports was subdued in 2018 reflecting softer activity in some trading partners and a fading of the past exchange rate boost.

Global expansion continuing

The IMF is more cautious about the global outlook, highlighting risks like trade tensions, tighter financial conditions and a "no deal" Brexit. It still sees solid GDP growth of 3.5% in 2019 though.

Housing investment moderating

Private investment in dwellings increased by 7.6% year-on-year in 2018, with the Help to Buy scheme providing support. However leading indicators suggest there may be a slowdown coming.

Modest growth ahead

With some of the Brexit fog lifting, investment is forecast to firm this year and next. A pick up in export growth is also on the cards.
Inflation eases

With oil prices lower and the impact of sterling’s past depreciation waning, the annual rate of consumer price inflation declined to 1.8% in January 2019.

BOE to wait and see

The Bank of England has kept interest rates on hold at 0.75% since August last year and says the path ahead will depend on Brexit developments.

Sterling slightly firmer

The pound weakened to over 90p against the euro late last year but has since strengthened to around 88p as the market thinks the chances of a ‘no deal’ Brexit have receded.

Brexit deal defeated

After Parliament roundly rejected the draft Withdrawal Agreement with the EU in early 2019, the Government and Brussels are seeking a way forward.

Northern Ireland

Moderate expansion

The Composite Economic Index picked up through 2018, with the unemployment rate resuming its downward trajectory as the year progressed.

Consumer confidence edges up

Consumer confidence picked up a little in Q4, but remains lower than in the first half of 2018, with Brexit uncertainty and concerns over the absence of a functioning Executive weighing.
### Forecasts

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019 (f)</th>
<th>2020 (f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Consumption</td>
<td>1.7%</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Government Consumption</td>
<td>0.2%</td>
<td>1.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Investment</td>
<td>0.0%</td>
<td>1.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Exports</td>
<td>0.2%</td>
<td>2.2%</td>
<td>2.2%</td>
</tr>
<tr>
<td>Imports</td>
<td>0.8%</td>
<td>2.0%</td>
<td>2.3%</td>
</tr>
<tr>
<td>GDP</td>
<td>1.4%</td>
<td>1.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Employment</td>
<td>1.1%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Unemployment Rate (Average)</td>
<td>4.1%</td>
<td>4.1%</td>
<td>4.1%</td>
</tr>
<tr>
<td>CPI</td>
<td>2.5%</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports and GDP are in constant prices. 
Current UK-EU trading arrangements are assumed to apply over the forecast horizon.

### Upcoming Events

**March**
- 13<sup>th</sup> Spring Statement published
- Labour Market Data Nov-Jan
- Inflation Feb
- 21<sup>st</sup> BOE Meeting
- 21<sup>st</sup> - 22<sup>nd</sup> European Council Meeting
- 10<sup>th</sup> Stated exit from the EU

**April**
- 16<sup>th</sup> Labour Market Data Dec-Feb
- Inflation Mar
- 29<sup>th</sup> GDP Feb

**May**
- 1<sup>st</sup> Labour Market Data Q1
- 14<sup>th</sup> Inflation Apr
- 22<sup>nd</sup> European Parliament Elections
- UK Local Elections, BOE Meeting & Inflation Report

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