

UK Outlook

February 2019

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  to
1.8%
 YoY January 2019

Brexit

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

Draft Withdrawal Agreement

Citizens' rights

Financial settlement

Transition period


Backstop

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

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2018	1.4%	1.7%	0.0%	0.2%	1.1%	4.1%	2.5%
2019f	1.4%	1.4%	1.2%	2.2%	0.6%	4.1%	1.8%
2020f	1.6%	1.6%	2.0%	2.2%	0.6%	4.1%	2.0%

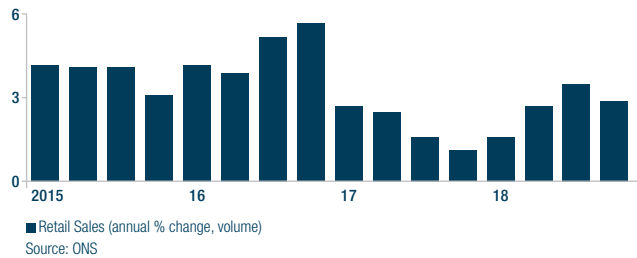
Note: Current UK-EU trading arrangements are assumed to apply over the forecast horizon, 2018 employment and unemployment numbers are estimates

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

Consumer

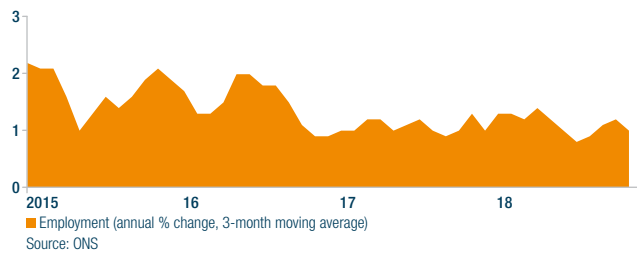
Spending holding up

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.



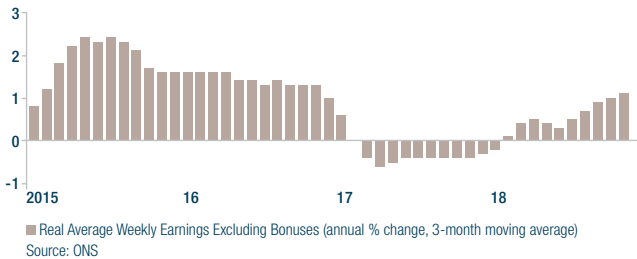
Continuing job gains

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%.



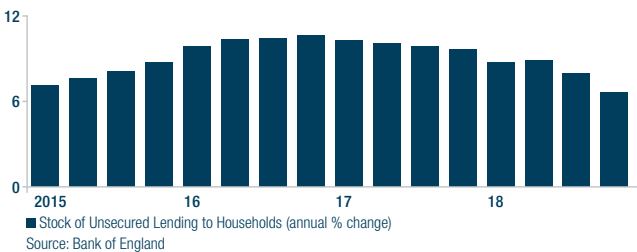
Incomes growing

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



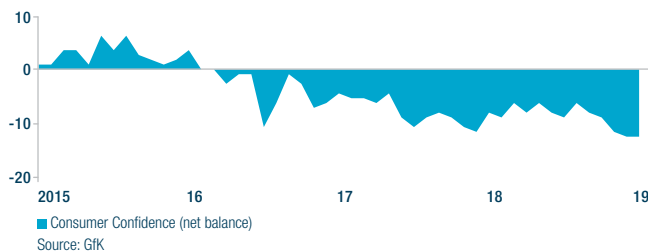
Credit growth easing

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

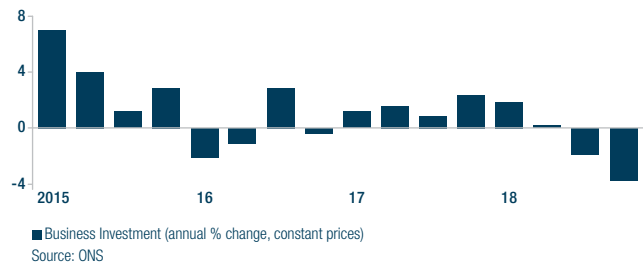
Softer conditions in the first half of this year are expected to give way to more robust consumer spending in the second half, with a further uptick in 2020.



Business

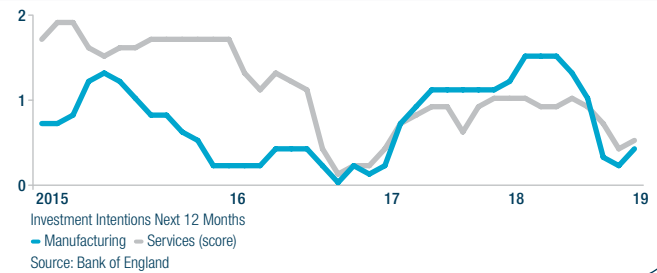
Investment weakens

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.



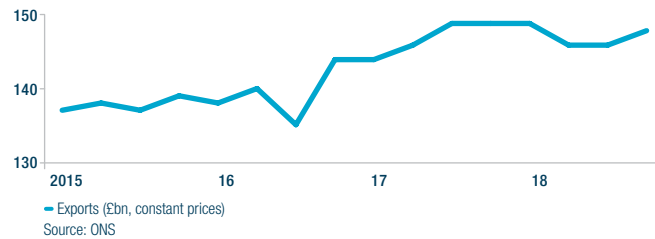
Intentions pulled back

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



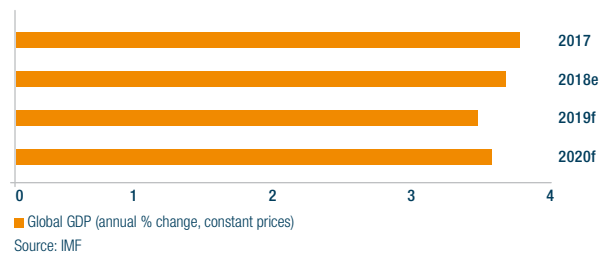
Exports underperform

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.



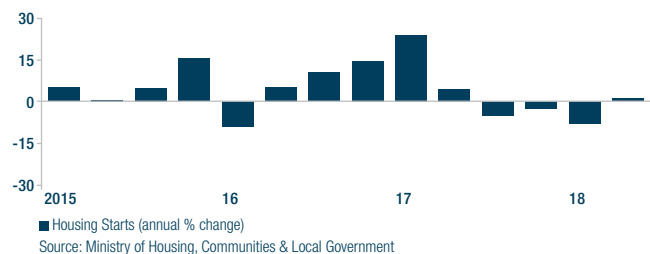
Global expansion continuing

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.



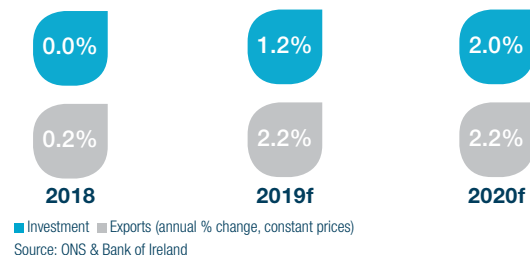
Housing investment moderating

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

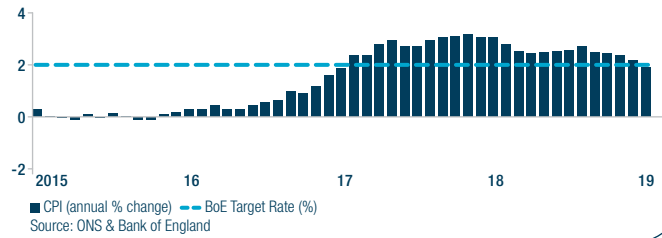
With some of the Brexit fog lifting, investment is forecast to firm this year and next. A pick up in export growth is also on the cards.



Policy & Markets

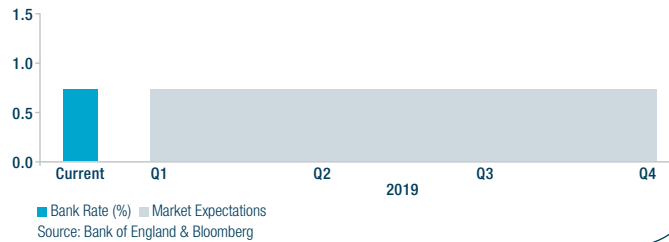
Inflation eases

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.



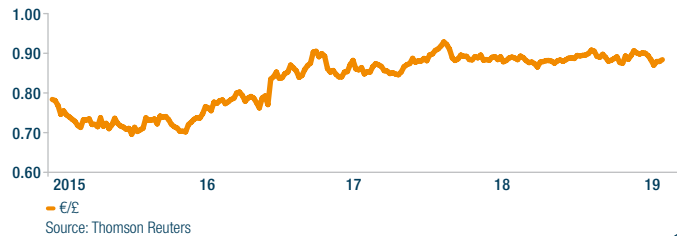
BOE to wait and see

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.



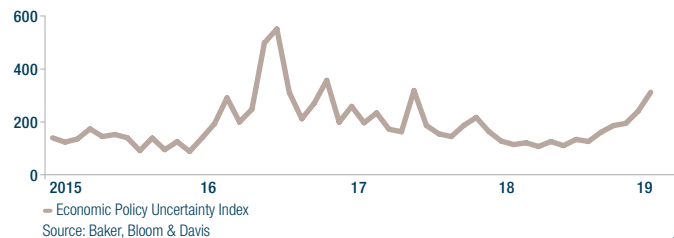
Sterling slightly firmer

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

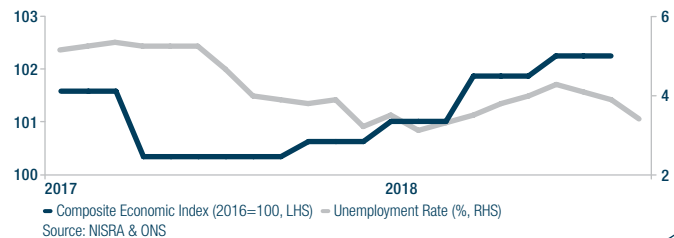
After Parliament roundly rejected the draft Withdrawal Agreement with the EU in early 2019, the Government and Brussels are seeking a way forward.



Northern Ireland

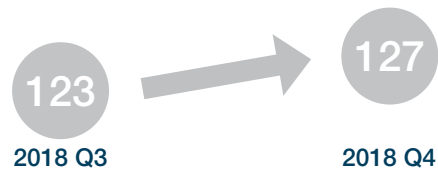
Moderate expansion

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.



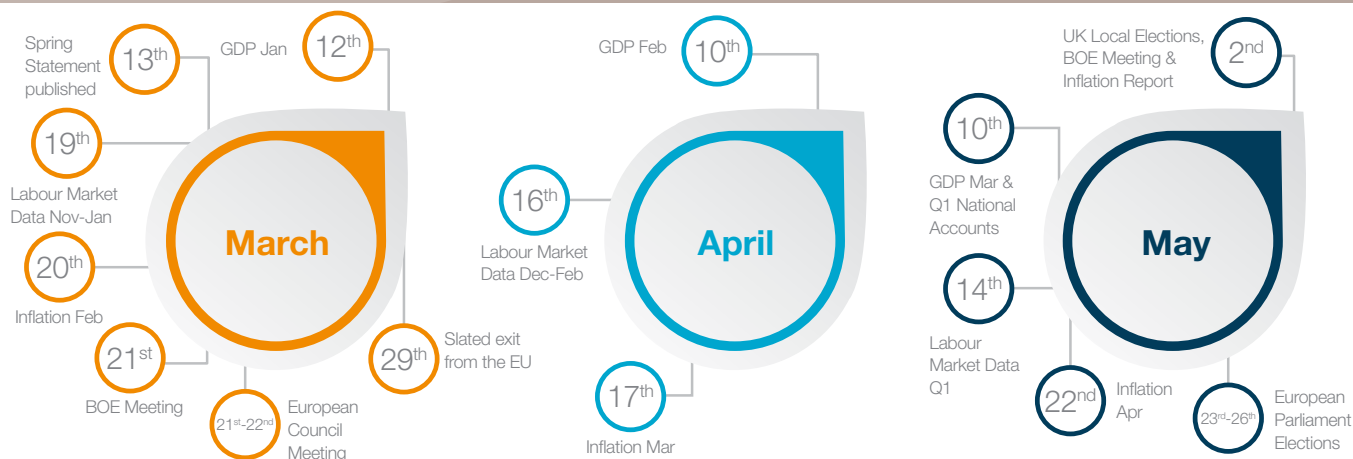
Source: Danske Bank

Forecasts

	2018	2019 (f)	2020 (f)
Personal Consumption	1.7%	1.4%	1.6%
Government Consumption	0.2%	1.5%	1.5%
Investment	0.0%	1.2%	2.0%
Exports	0.2%	2.2%	2.2%
Imports	0.8%	2.0%	2.3%
GDP	1.4%	1.4%	1.6%
Employment	1.1% (e)	0.6%	0.6%
Unemployment Rate (Average)	4.1% (e)	4.1%	4.1%
CPI	2.5%	1.8%	2.0%

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



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