



# **2019 outlook for the UK economy**

## **Presentation to SPE**

**Andrew Goodwin**  
**Associate Director**

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## Brexit uncertainties suggest a need for 2 forecasts

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### **Orderly departure from the EU (60%)**

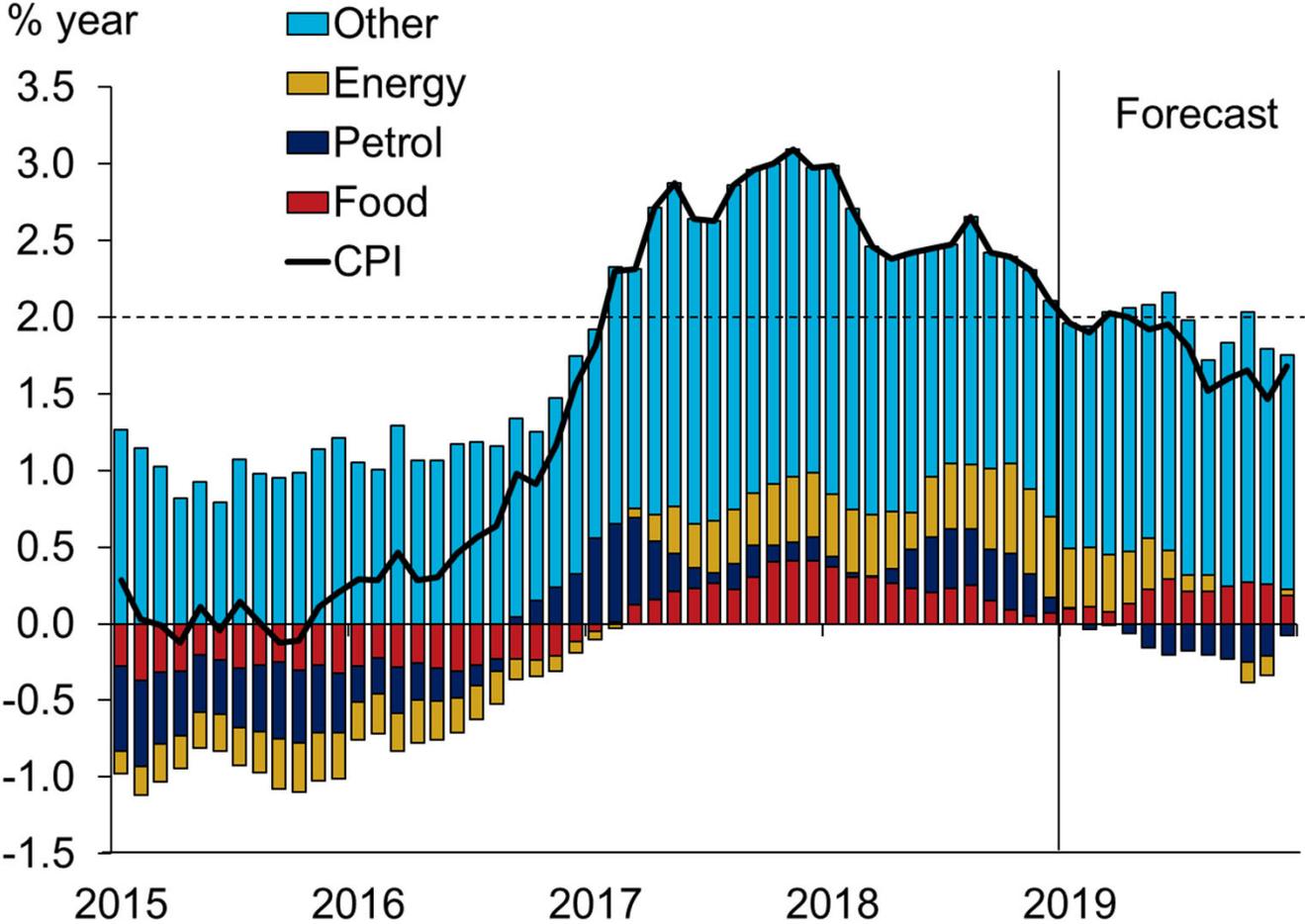
- Sterling appreciates to \$1.39 by end-2019
- Stronger household spending power and looser fiscal policy drives faster growth...
- ...despite weaker global backdrop

### **“No deal” Brexit (35%)**

- 10% depreciation of sterling on trade-weighted basis
- Additional trade frictions
- Looser fiscal and monetary policy
- UK flirts with recession in mid-2019

# Inflation is set to slow further through the year...

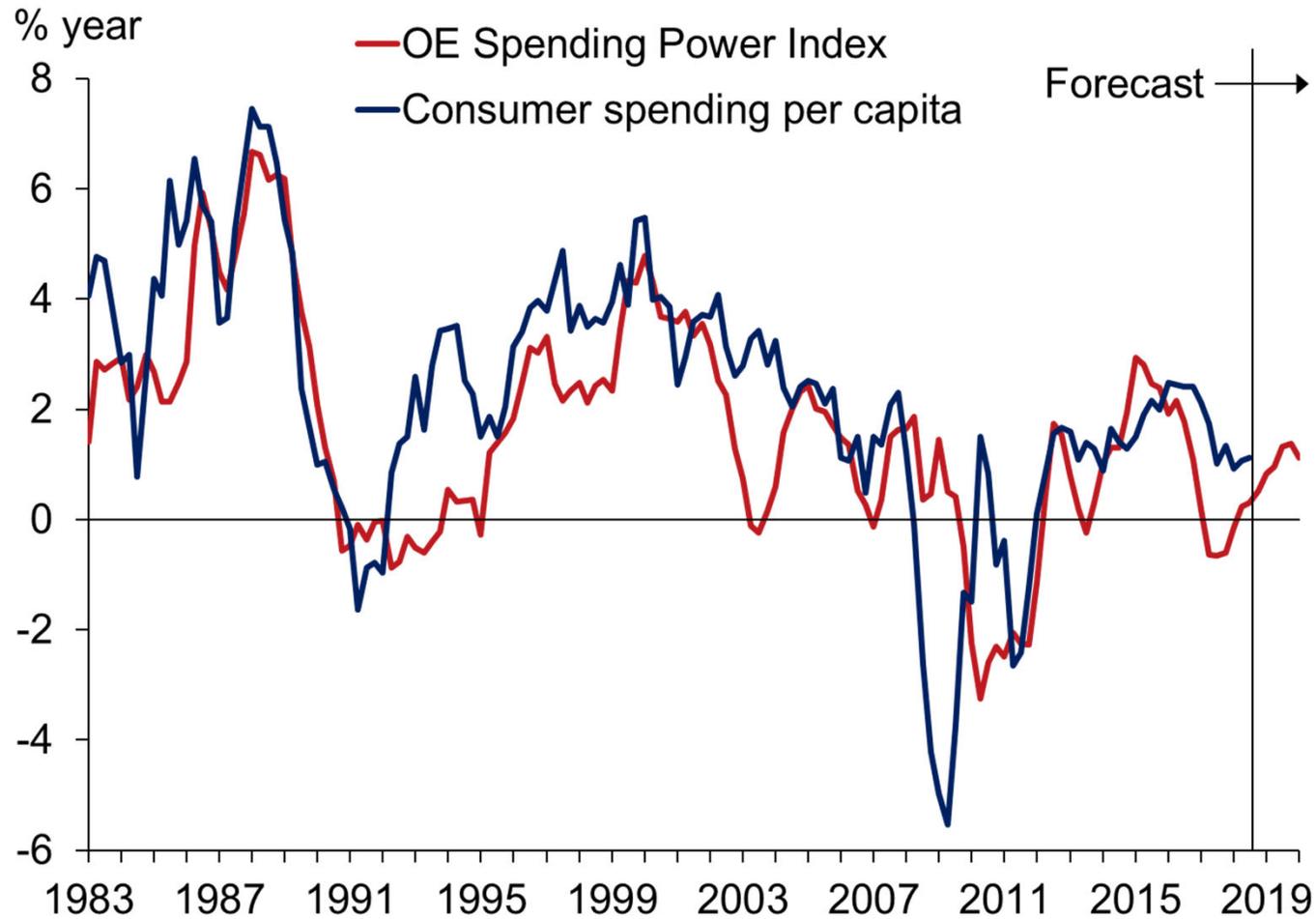
## UK: Contributions to CPI inflation



Source : Oxford Economics

## ...helping spending power to steadily improve

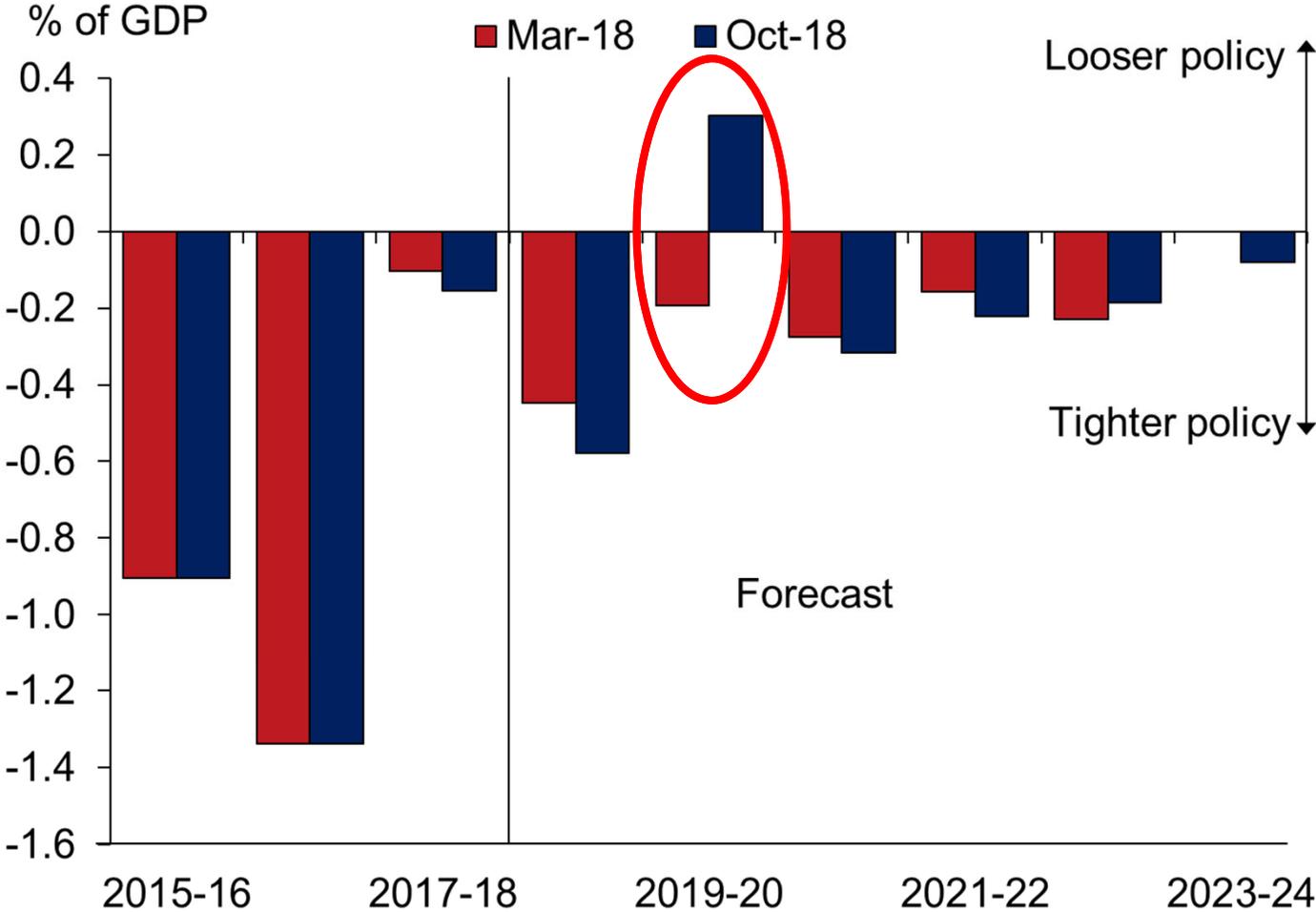
### UK: Consumption & OE Spending Power Index



Source : Oxford Economics

# Looser fiscal policy will offer support in 2019

## UK: OBR estimates of fiscal tightening

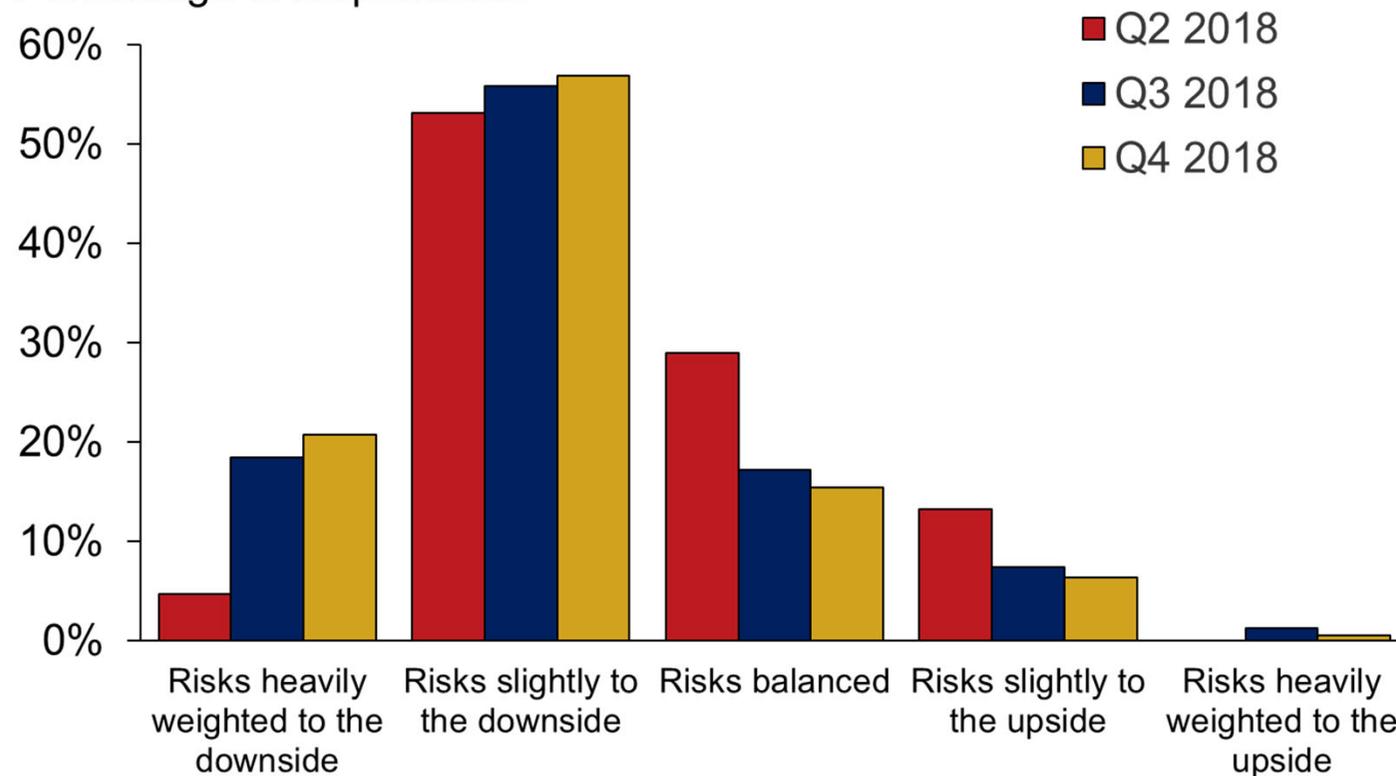


Source : Oxford Economics calculations using OBR forecasts

## Our clients have become quite pessimistic...

**Looking ahead to the next two years, how do you view the risks to our baseline forecast for global growth?**

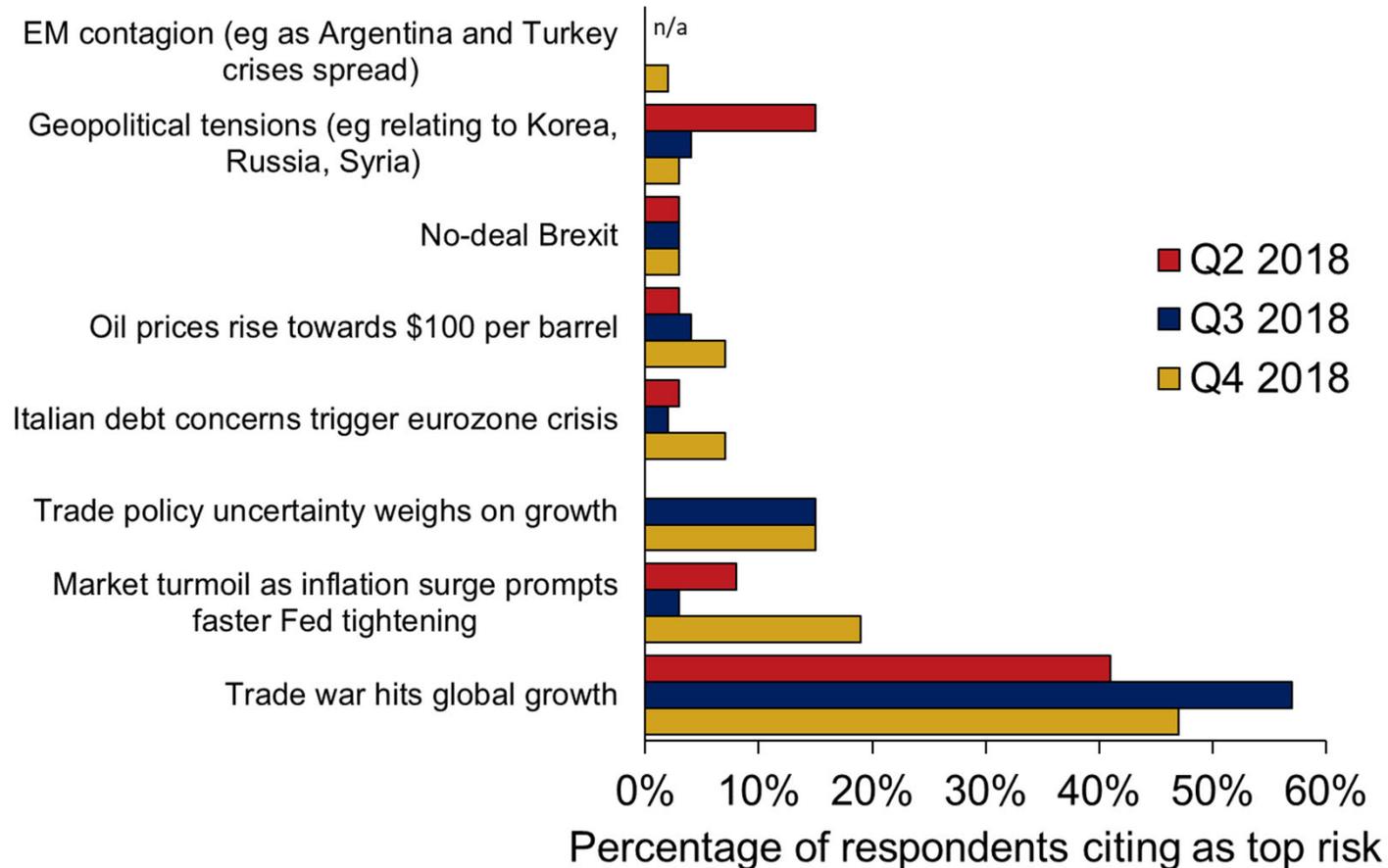
Percentage of respondents



Source : *Oxford Economics Global Risk Survey*

## ...with a trade war the #1 concern

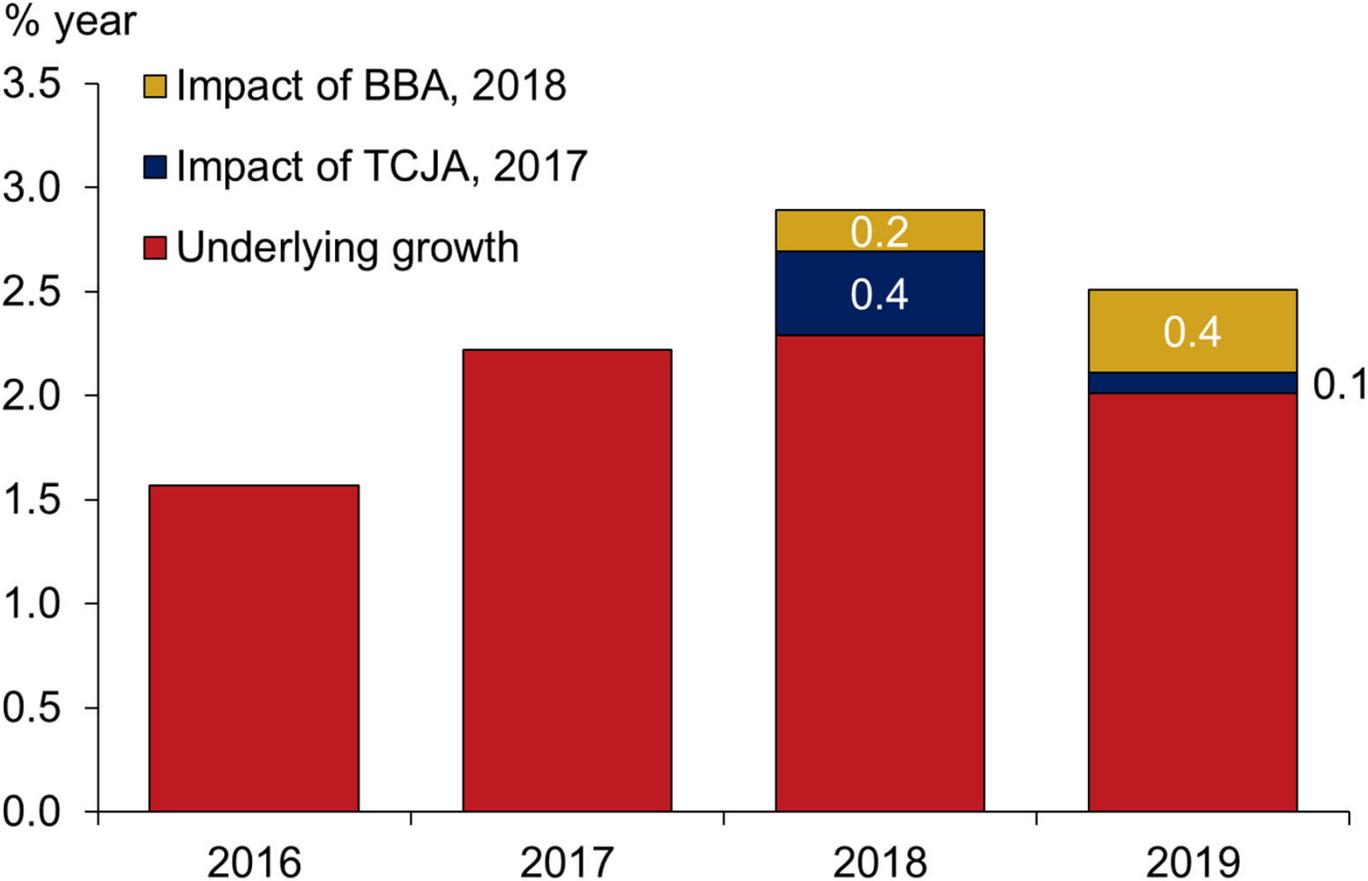
### What do you see as the top 3 downside global economic risks over the next two years?



Source : Oxford Economics Global Risk Survey

# But US fiscal policy will remain supportive in 2019

## US: Impact of fiscal policy on GDP growth

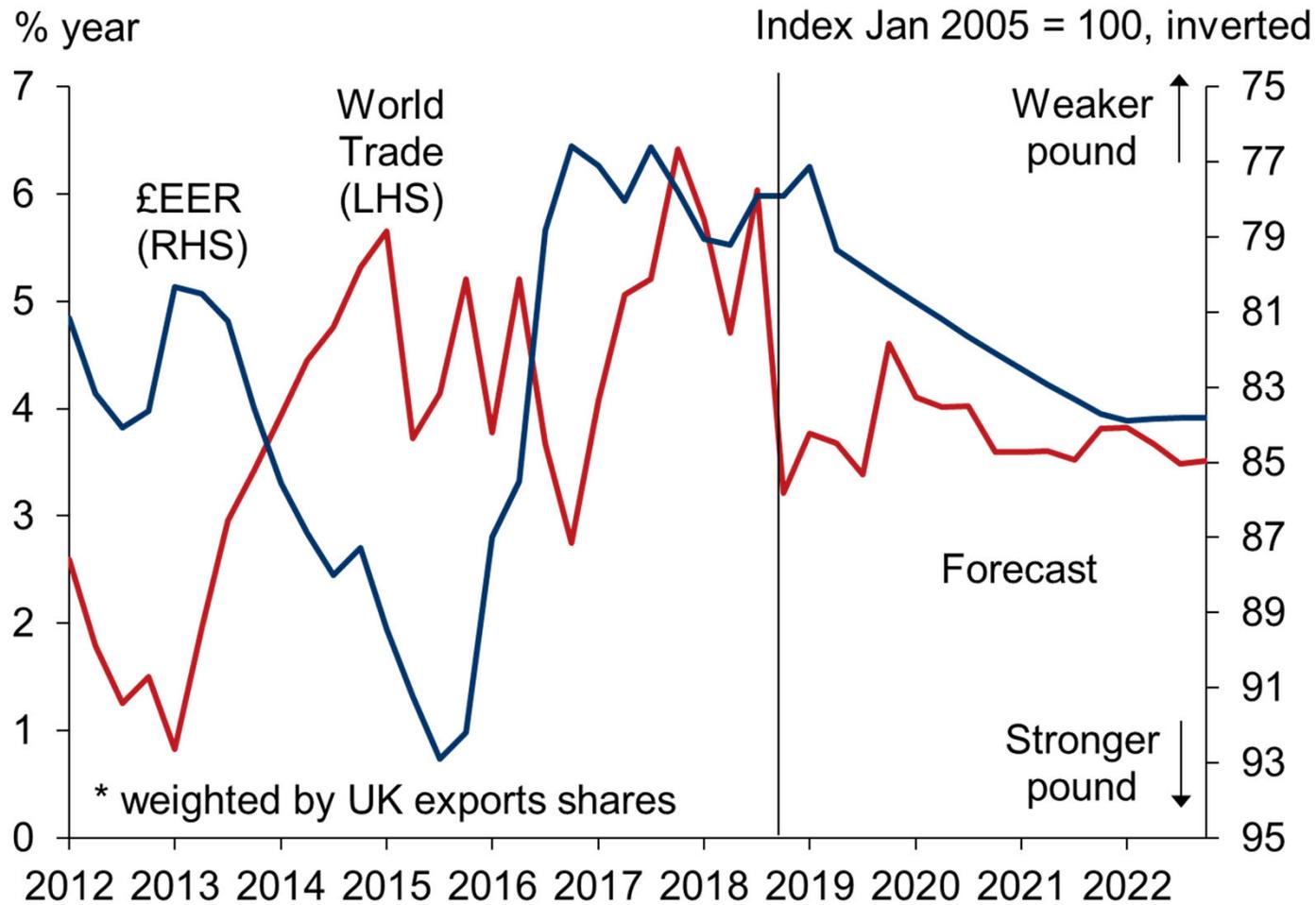


BBA, 2018 = Bipartisan Budget Act; TCJA, 2017 = Tax Cuts & Jobs Act

Source : Oxford Economics

# The export environment will steadily weaken

## UK: World trade\* and the sterling EER



Sources: Haver Analytics, Oxford Economics

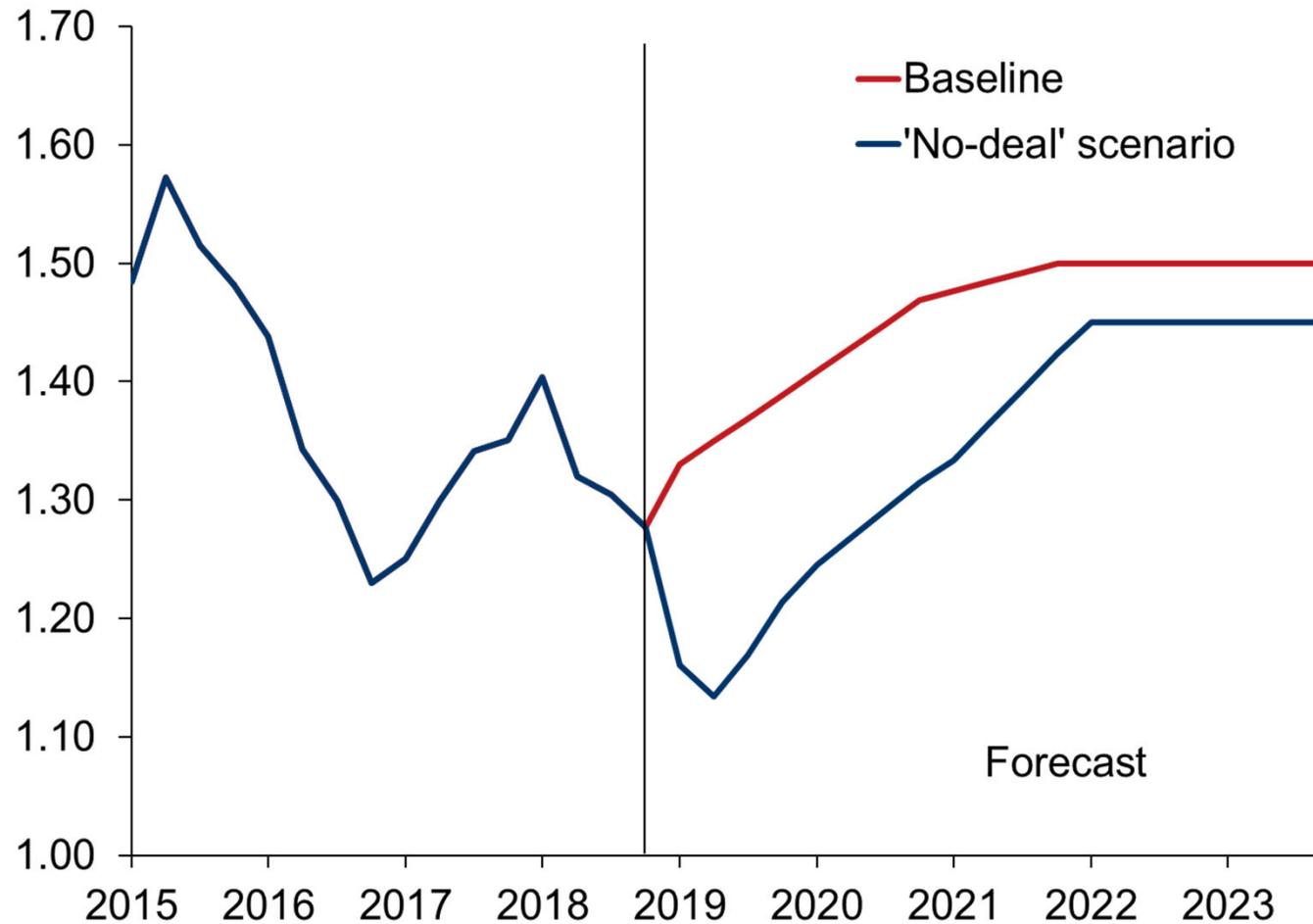
## What would a 'no-deal' Brexit look like?

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- **Additional trade frictions:**
  - Tariffs imposed on UK-EU trade and trade with other countries with whom EU has FTAs
  - Non-tariff barriers erected
- **Initial sharp drop in asset prices:**
  - Sterling 10% lower on a trade-weighted basis by Q2 2019; euro also weaker

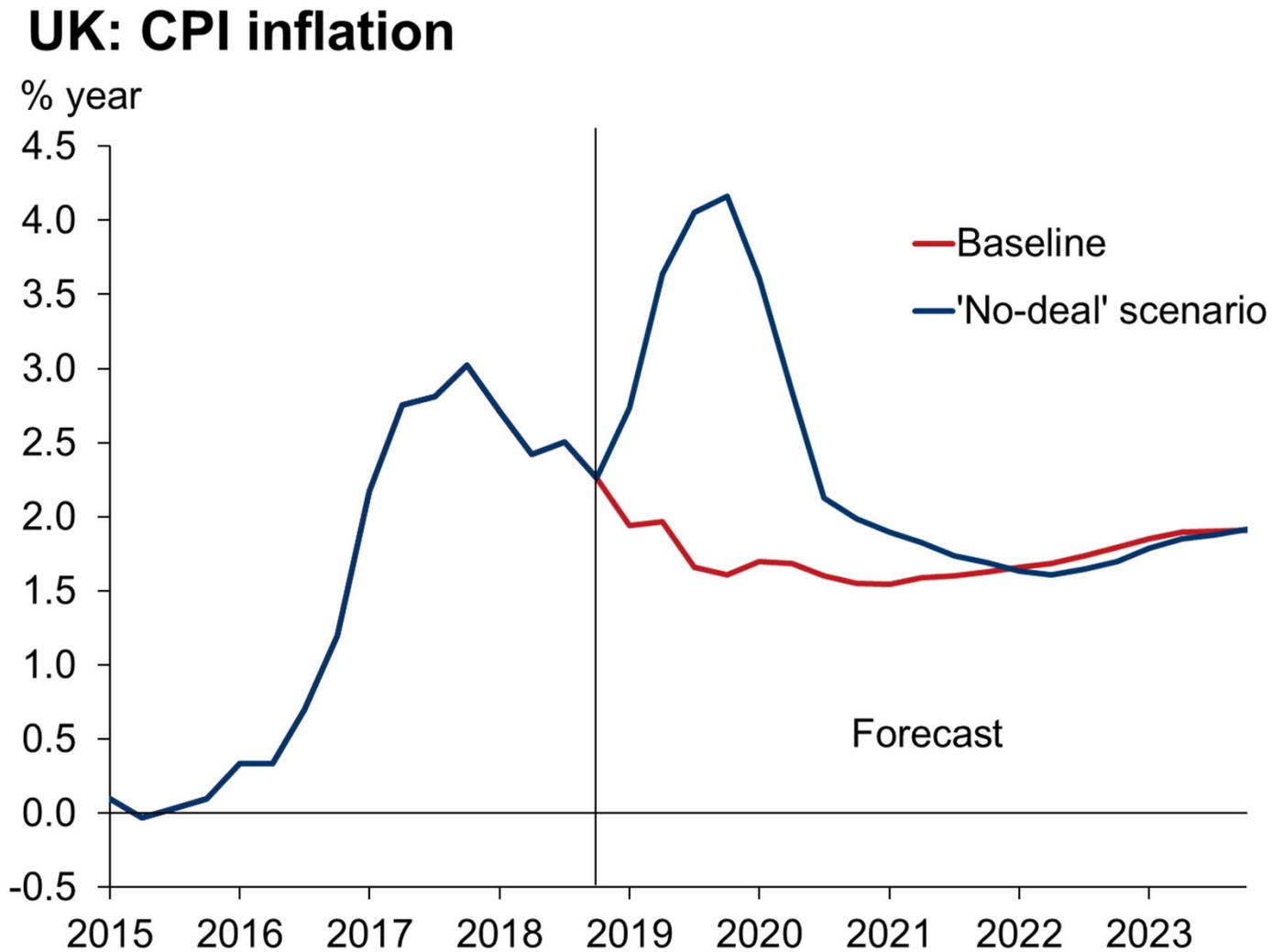
# 'No-deal' would see sterling depreciate by 10%...

## UK: \$/£ exchange rate (end of period)



Source : Oxford Economics

## ...pushing inflation towards 4%



Source : Oxford Economics

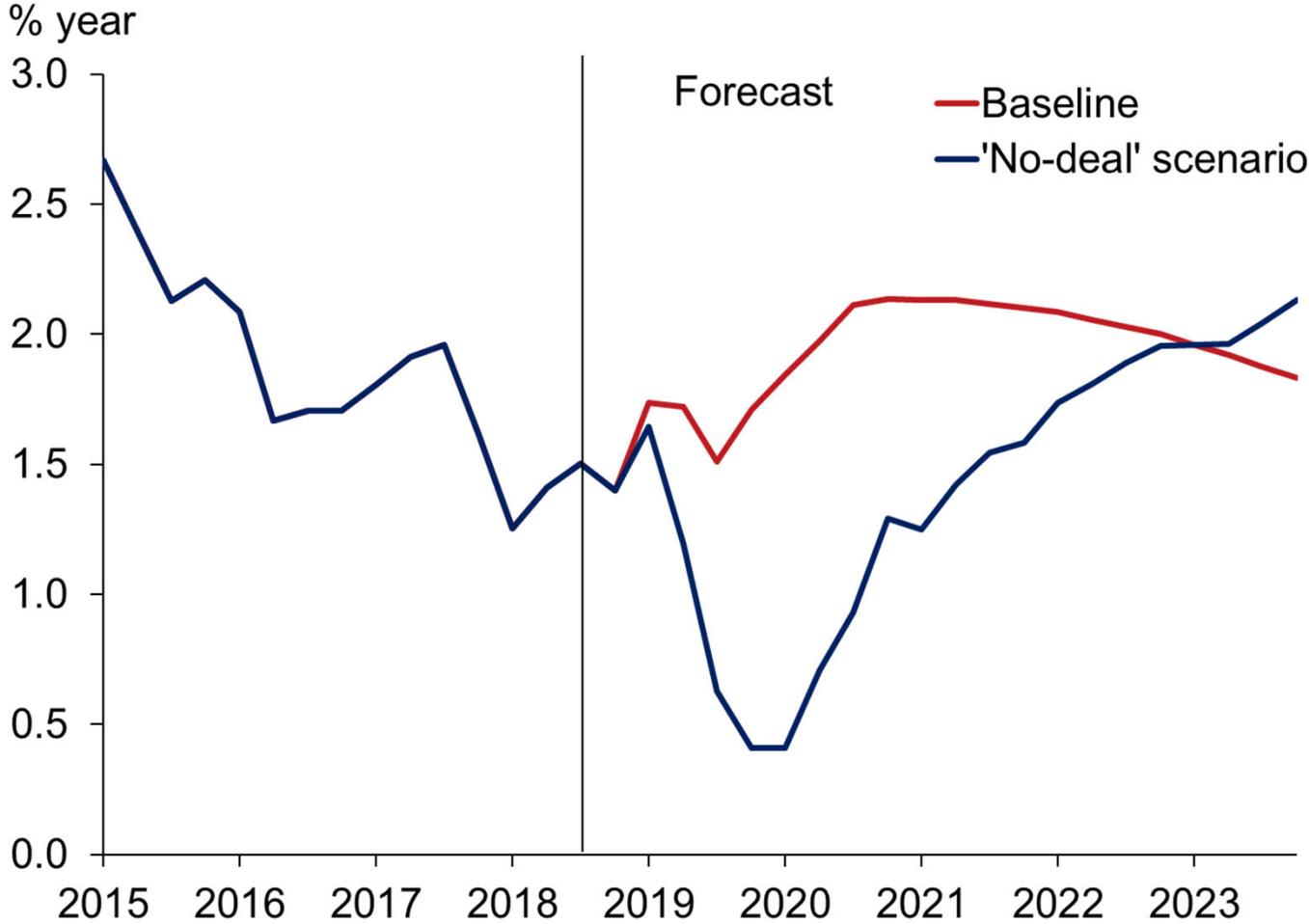
## What would a 'no-deal' Brexit look like?

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  - Tariffs imposed on UK-EU trade and trade with other countries with whom EU has FTAs
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- **Initial sharp drop in asset prices:**
  - Sterling 10% lower on a trade-weighted basis by Q2 2019; euro also weaker
  - Equity prices lower
- **Looser monetary policy:** Bank Rate cut to 0.25%
- **Looser fiscal policy:** EU 'divorce bill' recycled into higher government spending and higher borrowing tolerated in the short-term

# 'No-deal' would see the UK flirt with recession

## UK: GDP growth



Source : Oxford Economics

# Oxford Economics' UK forecast

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<b>Oxford Economics UK forecast for 2019</b>		
<b>(Annual percentage changes unless specified)</b>		
	<b>Baseline</b>	<b>'No-deal' Brexit</b>
<b>GDP growth</b>	1.7	1.0
<b>CPI inflation</b>	1.8	3.7
<b>ILO unemployment rate (Q4)</b>	4.0	4.3
<b>\$/£ exchange Rate (EOP)</b>	1.39	1.21
<b>€/£ exchange Rate (EOP)</b>	1.16	1.03
<b>Bank Rate (EOP)</b>	1.00	0.25

*Source: Oxford Economics*