



State of the economy update

Douglas McWilliams, Deputy Chairman Cebr

January 2019

Objectives

- Provide an update on the global economic outlook
- Present forecasts for the UK economy
- Q&A

Global Outlook

UK Outlook

Impact of Brexit

Inequality and politics

Implications

World trade growth has slowed down

Chart 2 – FTK growth vs. new export orders



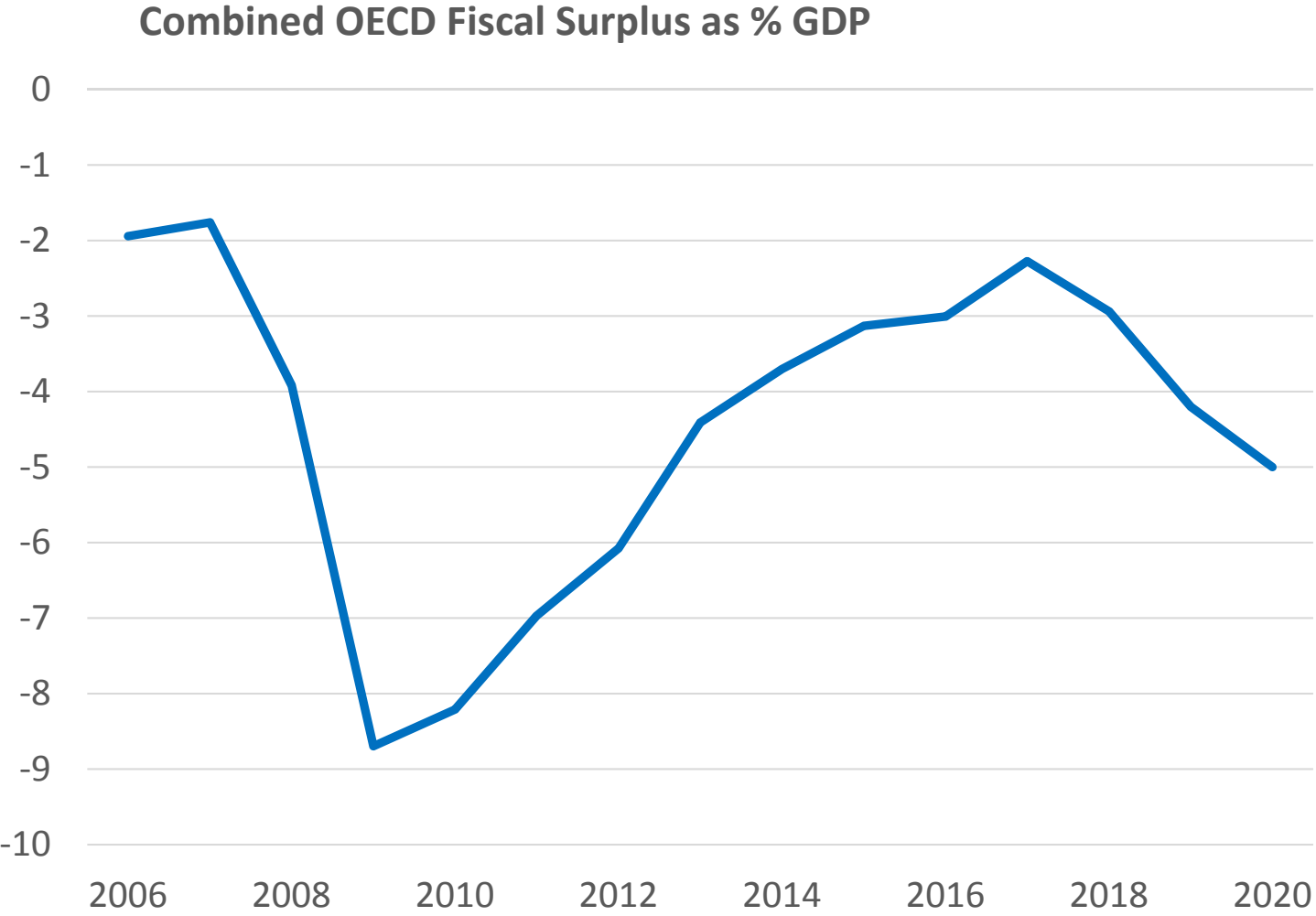
Central forecast sees world growth gradually slowing, but possibility of recession looms

World GDP growth



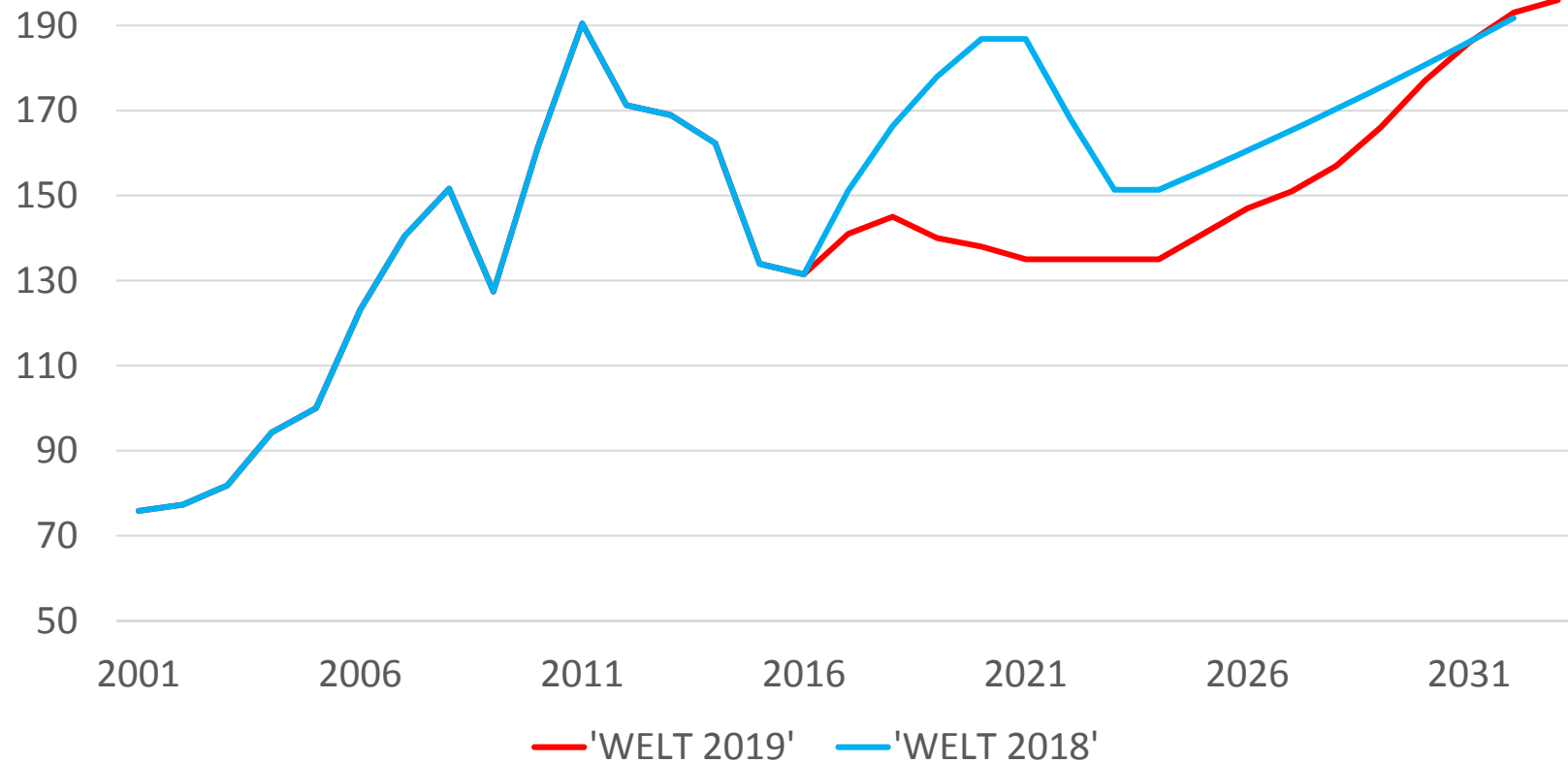
Source: Cebr analysis

But this will provoke both fiscal and monetary policy action.....



Meanwhile the slowdown will lead to cheaper commodity prices which will be counter inflationary

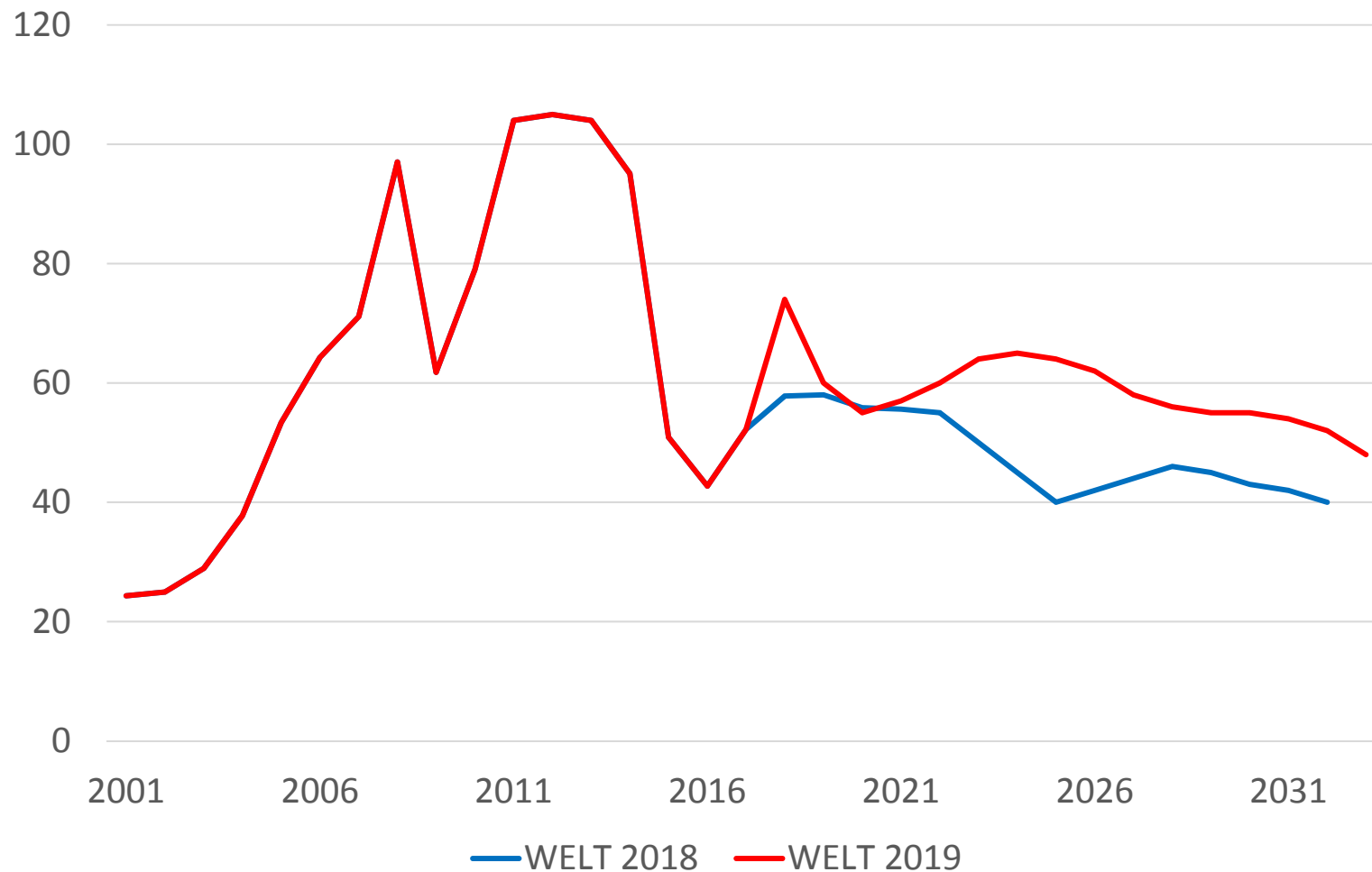
World non energy commodity prices IMF Index



IMF Index 2005 = 100

And should hold down oil prices....

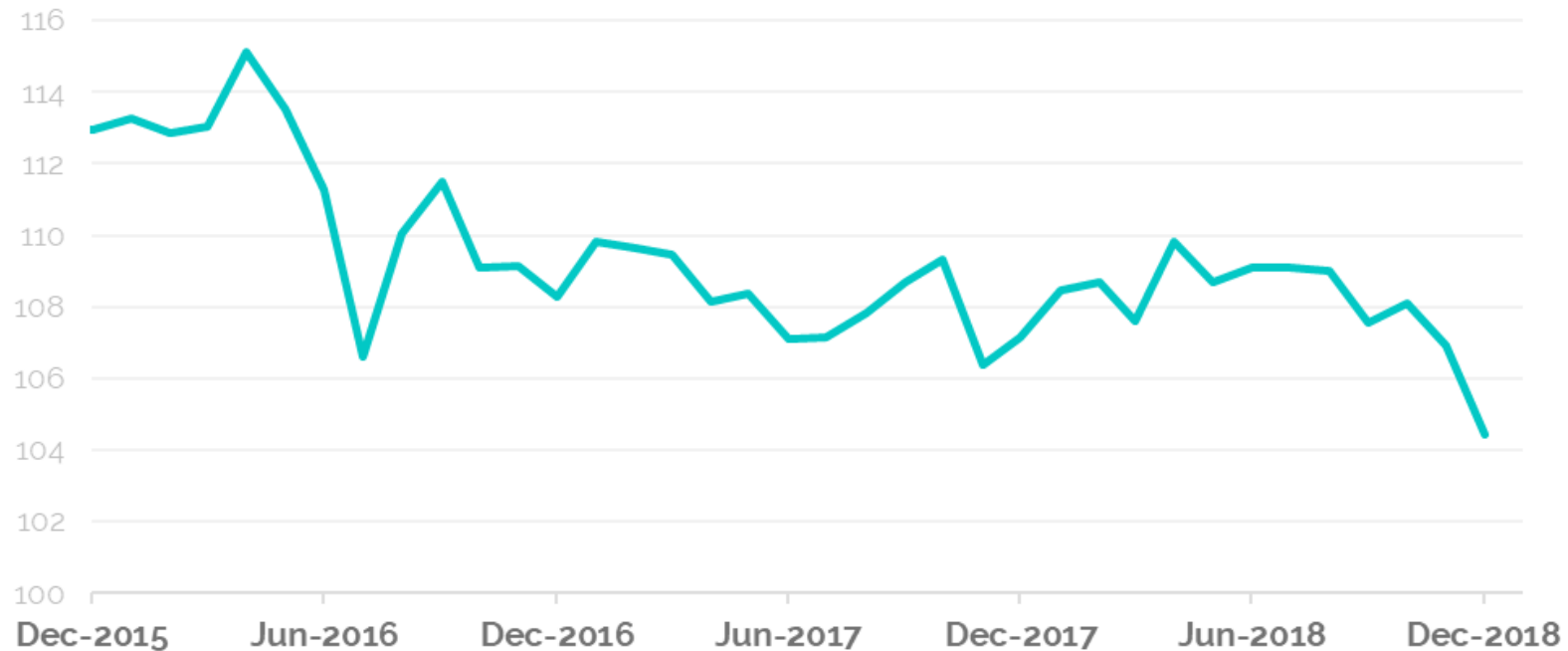
Average of Brent Crude, WTI and Dubai Fateh Oil prices (dollars per barrel)



UK consumer confidence has weakened significantly....

YouGov/Cebr Consumer Confidence Index

Axis value is 100. A score of <100 represents a negative score; a score of 100 represents a neutral score; a score of >100 represents a positive score

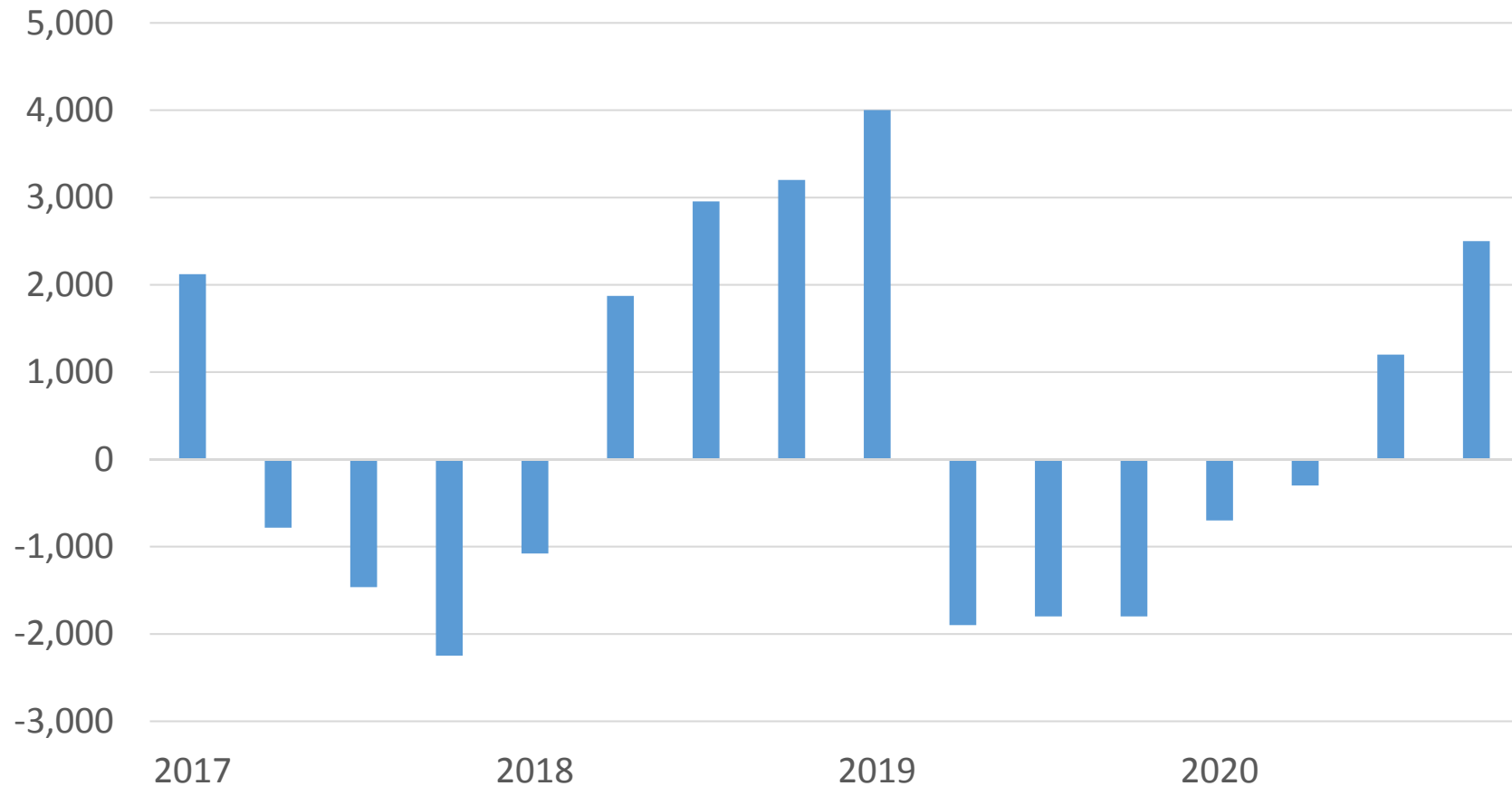


YouGov | yougov.com

Source: YouGov/Cebr Household Economic Activity Data, December 2018

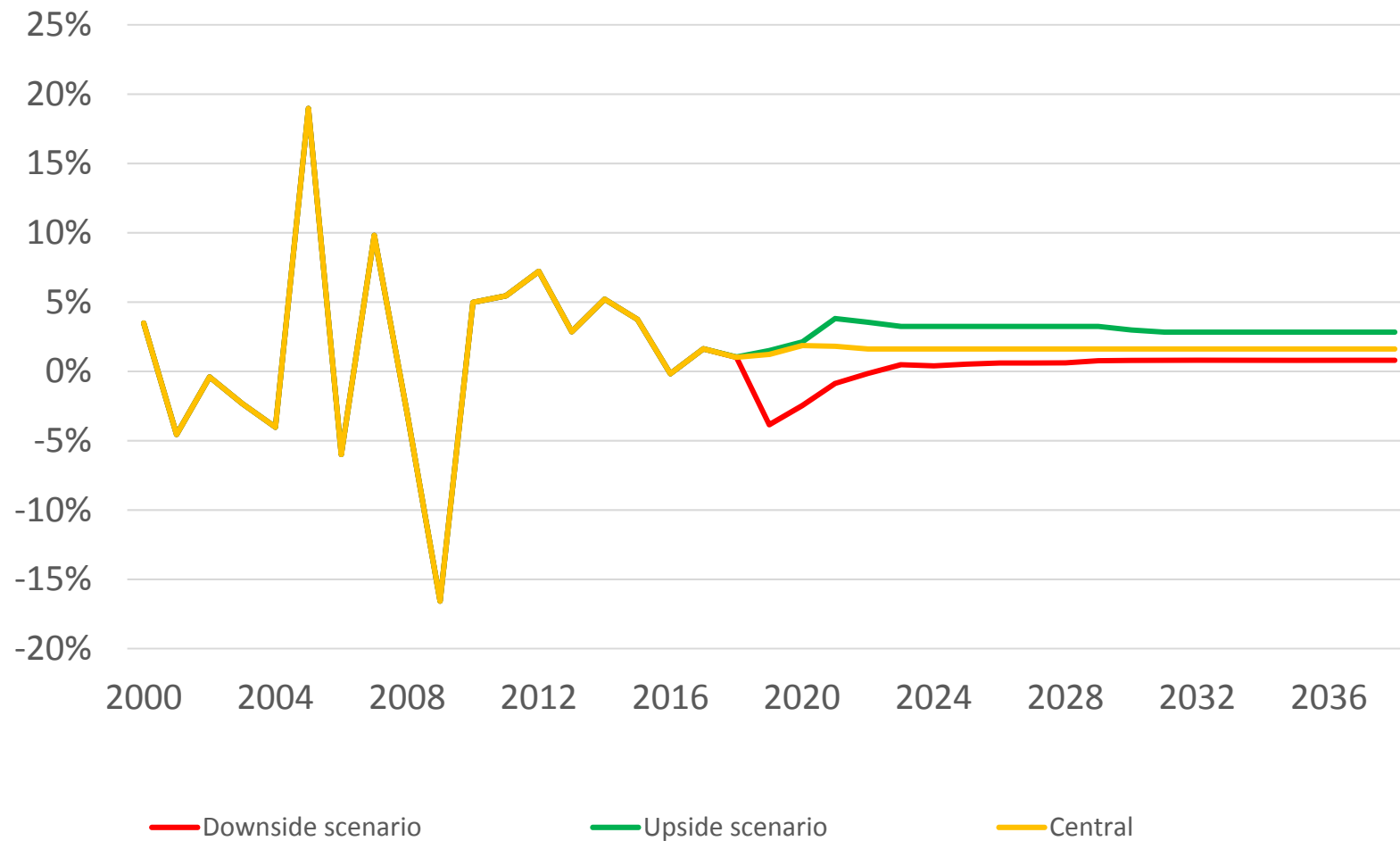
Brexit has already started to distort the inventory cycle and will affect GDP

Quarterly change in UK Inventories £m CVM SA



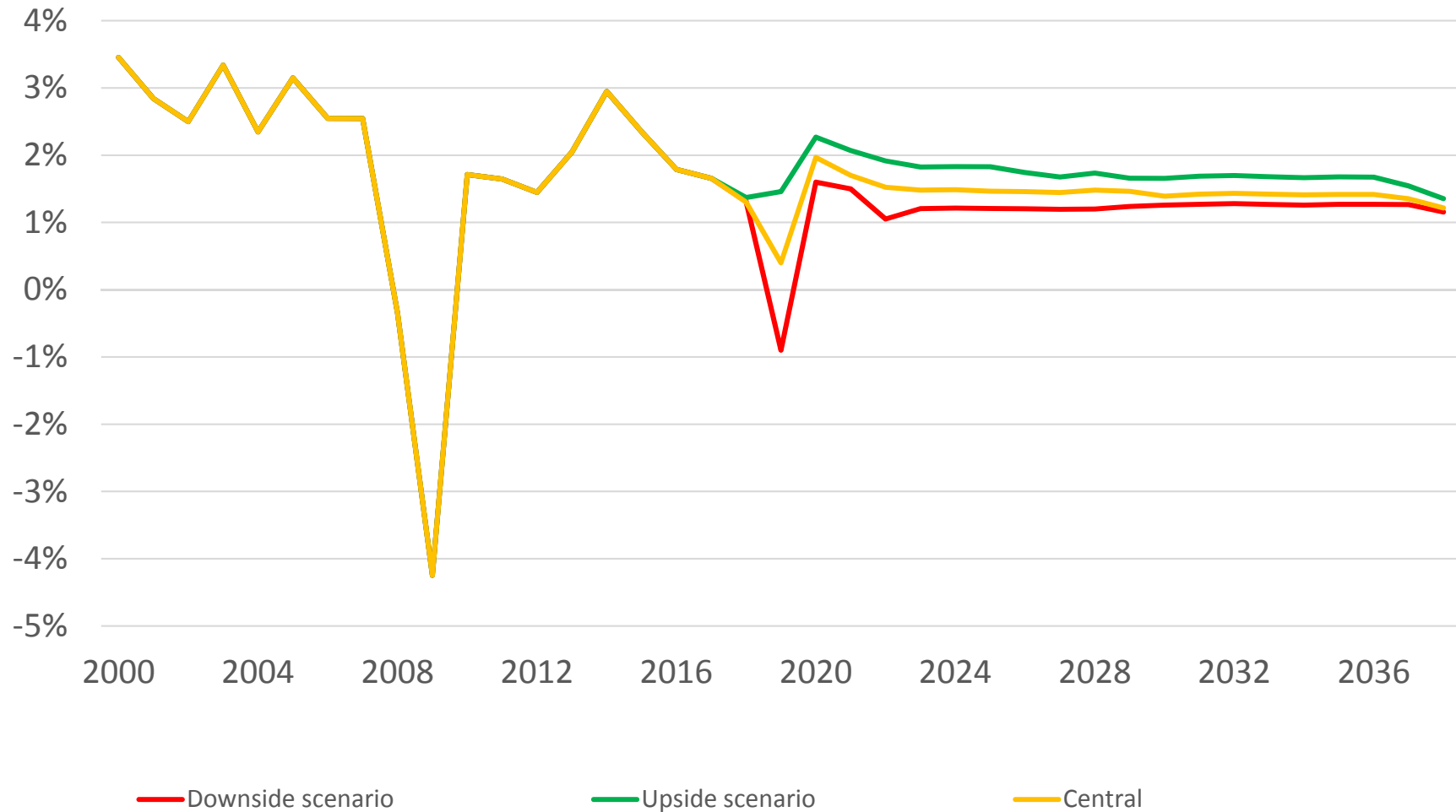
Leading indicators show businesses reluctant to invest

Real business investment - % change



UK faces a recession should the global picture and Brexit take a turn for the worse

GDP year-on-year growth, %



Brexit – what are the chances of possible outcomes?

Charles Grant's (Centre for European Reform) allocation of probabilities:

2nd ref	35%
	(50-50 chance of remain winning)
Softer Brexit deal	35%
General election	20%
No deal	10%

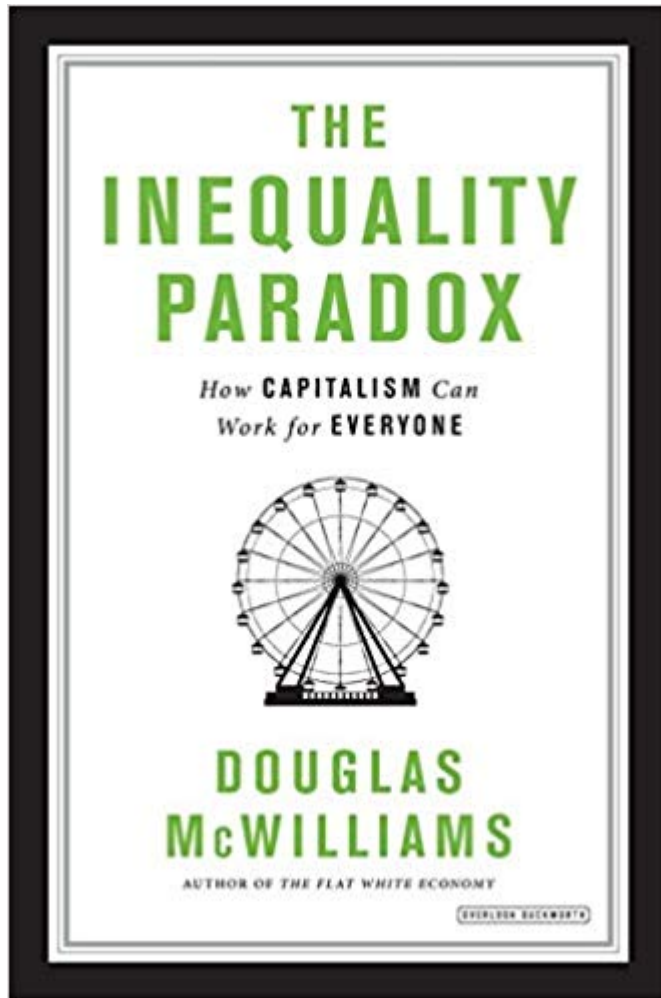
Implications of different Brexit outcomes

Remain – would still leave Brexit in play unless remain won a second referendum by a seriously large majority so would inhibit investment and keep pound weak. But initial effect would be relief

No deal – highly disruptive and could make 2019 an ‘awful’ year but longer term will depend on efforts made to make the UK internationally attractive and competitive

Withdrawal agreement type deal (with adjustments) would probably do more for international confidence than Remain and might provide both a boost to investment and the £

BUT EU has structural issues which need to be dealt with AND the UK needs to address the excessively partisan politics that have emerged AND Corbyn is still an issue...



**PUBLISHED
IN NEW YORK
20 NOVEMBER 2018**

In this accessible and thought-provoking book, leading UK economist Douglas McWilliams challenges the claims of Thomas Piketty's bestselling *Capital*, arguing that economic inequality is driven not by a conspiracy of the rich, but by changes in technology and globalisation. Paradoxically, they are increasing inequality even as they reduce worldwide poverty. How can these seemingly contradictory conditions exist in parallel? What ultimately drives the global distribution of wealth? Drawing on the latest research, McWilliams investigates why wealth persistently remains in the hands of the one percent, and provides a comprehensive thesis as to why no economic system has yet superseded capitalism despite the challenges of ever more uneven income distribution. He warns of the coming wave of technological transformation - the 'fourth industrial revolution' - which is set to create a scarcity of unskilled jobs and explains what governments can do to prepare for this. The *Inequality Paradox* is written for the general reader but professional economists/policymakers will discover a fresh and authoritative new voice entering the global discussion. It is essential reading for understanding the global economy and indispensable in preparing for the imminent economic challenges of our rapidly shifting world.

Conclusions

- The global economy has slowed down. We think a recession can be avoided this time round but only because of aggressive fiscal action and an end to monetary tightening. In the short term growth will be sluggish
- The UK economy would have faced a cyclical slowdown having reached full employment and with consumer credit cards maxed out. But Brexit has imposed a further curve on to this cycle on this by weakening the UK's international attractiveness, the £ and the flow of skilled migrants
- Different forms of Brexit will have different effects. But the inventory distortion is now largely predetermined.
- Until it is clear that a stable Brexit position is arranged, certain types of investors will be chary of investing in the UK
- Globalisation and technology have widened the gaps between those who do well and those who don't. This has contributed to the toxicity of politics and could yet bring in a Corbyn government.



State of the economy update – any follow-up questions please contact:

Doug McWilliams, Deputy Chairman, dmcwilliams@cebr.com

Direct line: 020 7324 2860

© Centre for economics and business research ltd

Unit 1 4 Bath Street London EC1V 9DX

T 020 7324 2850 E advice@cebr.com cebr.com

Cebr