

# **Brexit and the outlook for the UK economy**

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Building Societies Association Conference

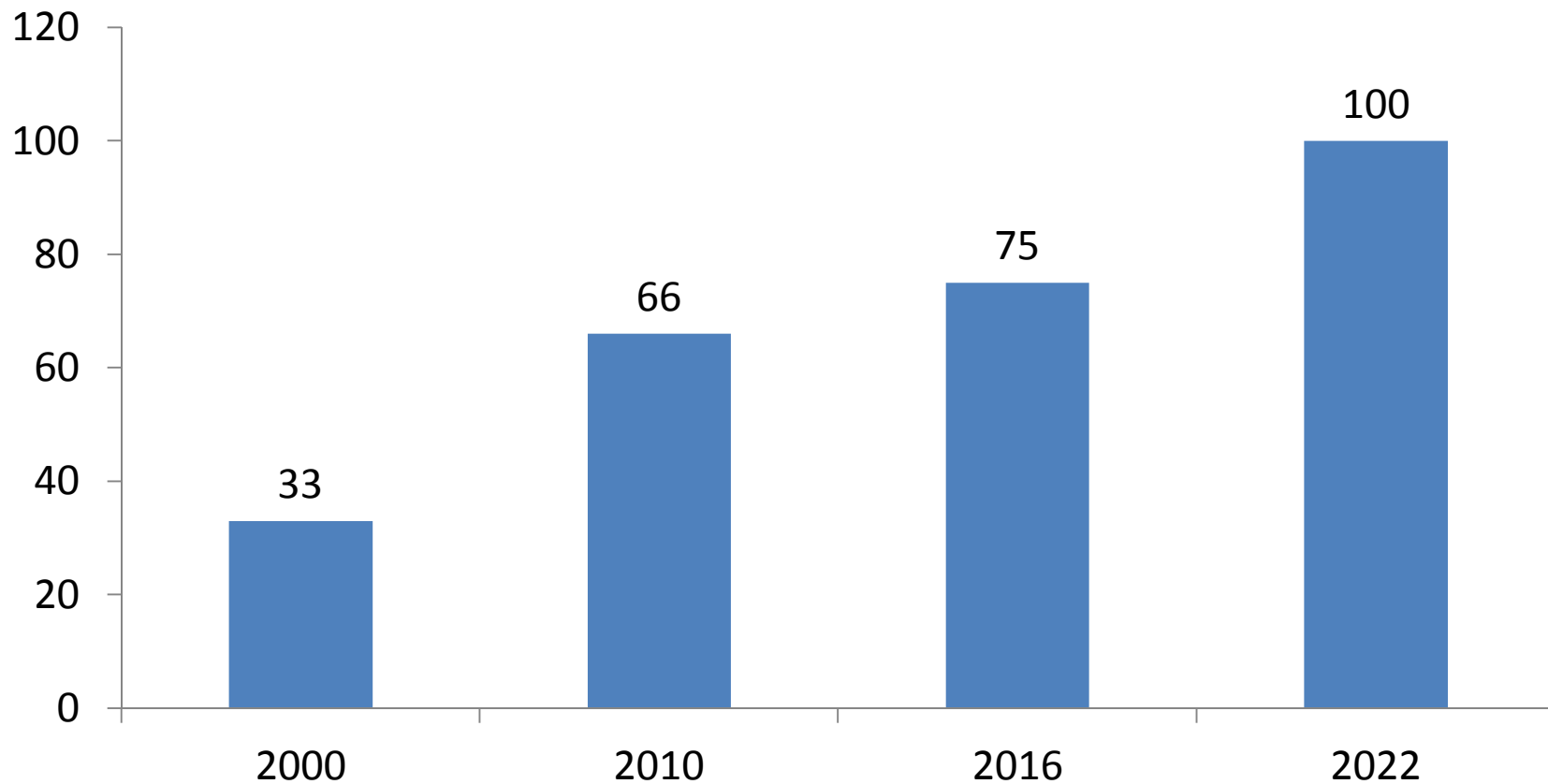
*London, Wednesday 3<sup>rd</sup> May 2017*

# Outline

- Global and UK recovery – the story so far
- What does Brexit really mean?
- Outlook for UK and global economy
- Implications for Building Societies

# The world economy is expanding

*World GDP, US \$ trillion (current prices)*



*Source: IMF*

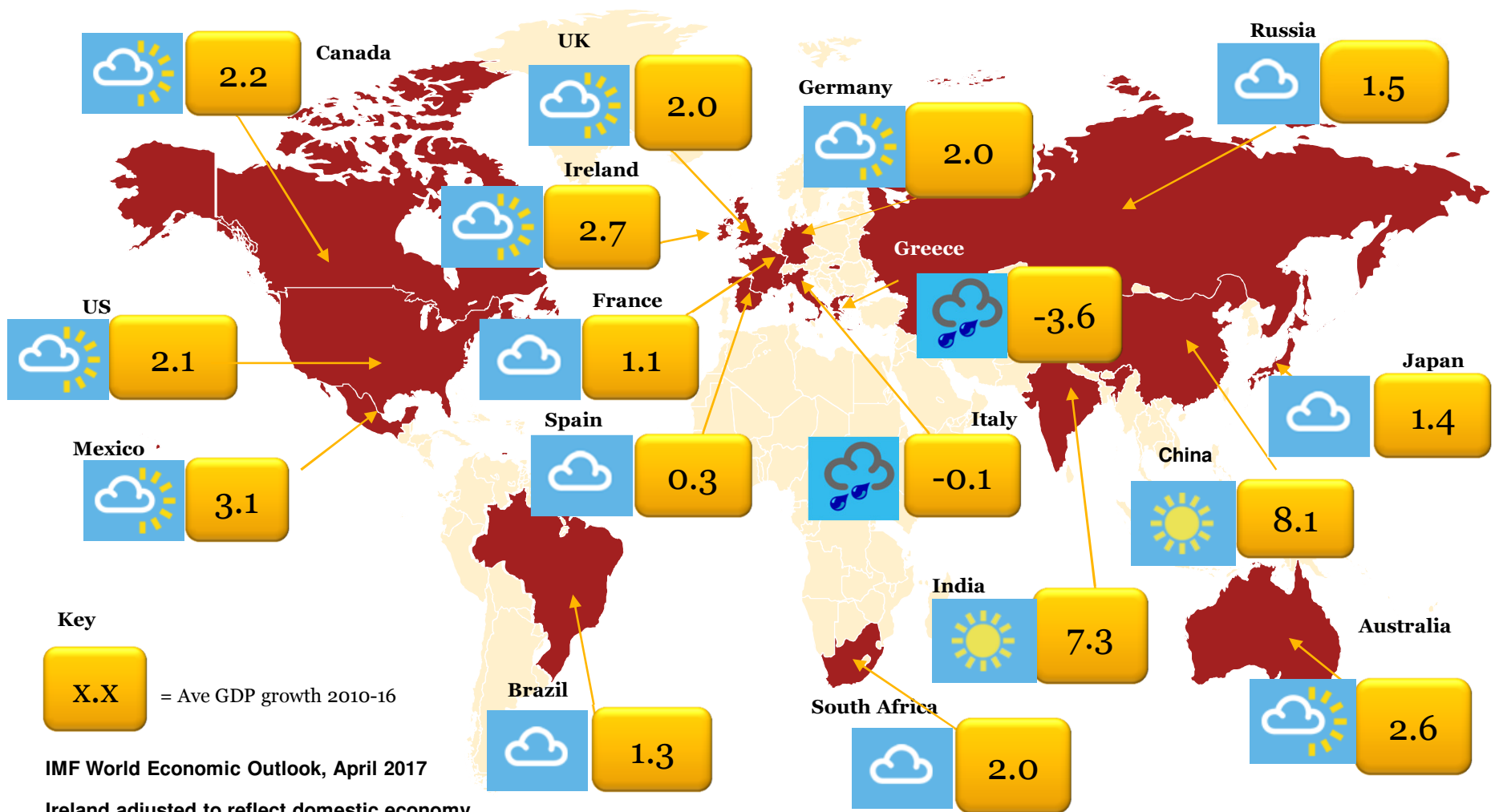
# Global growth close to long-run trend

*% per annum change in world GDP and consumer prices*



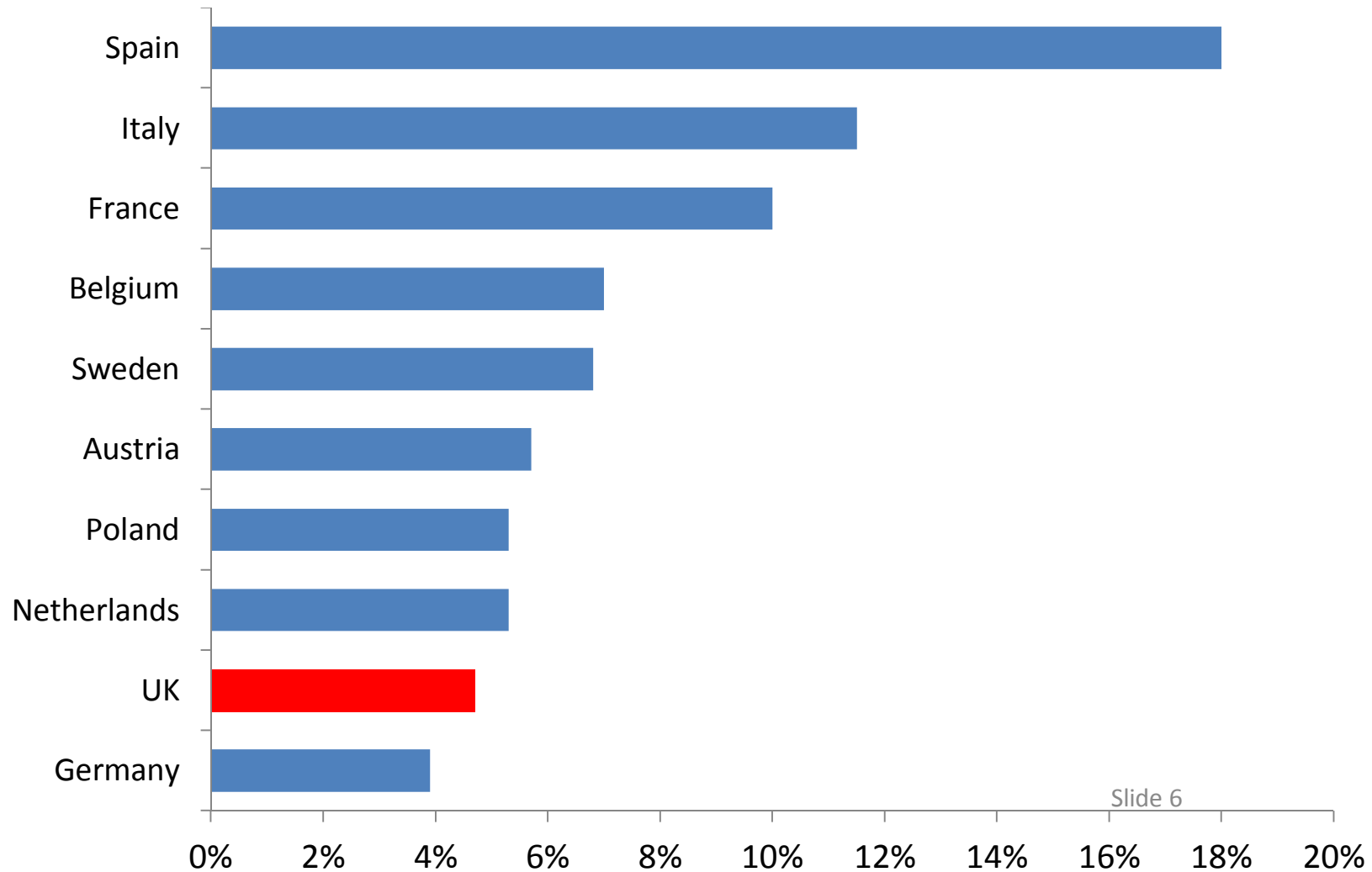
Source: IMF World Economic Outlook, April 2017

## *Pattern of global recovery so far: 2010-16*



# UK unemployment among lowest in EU

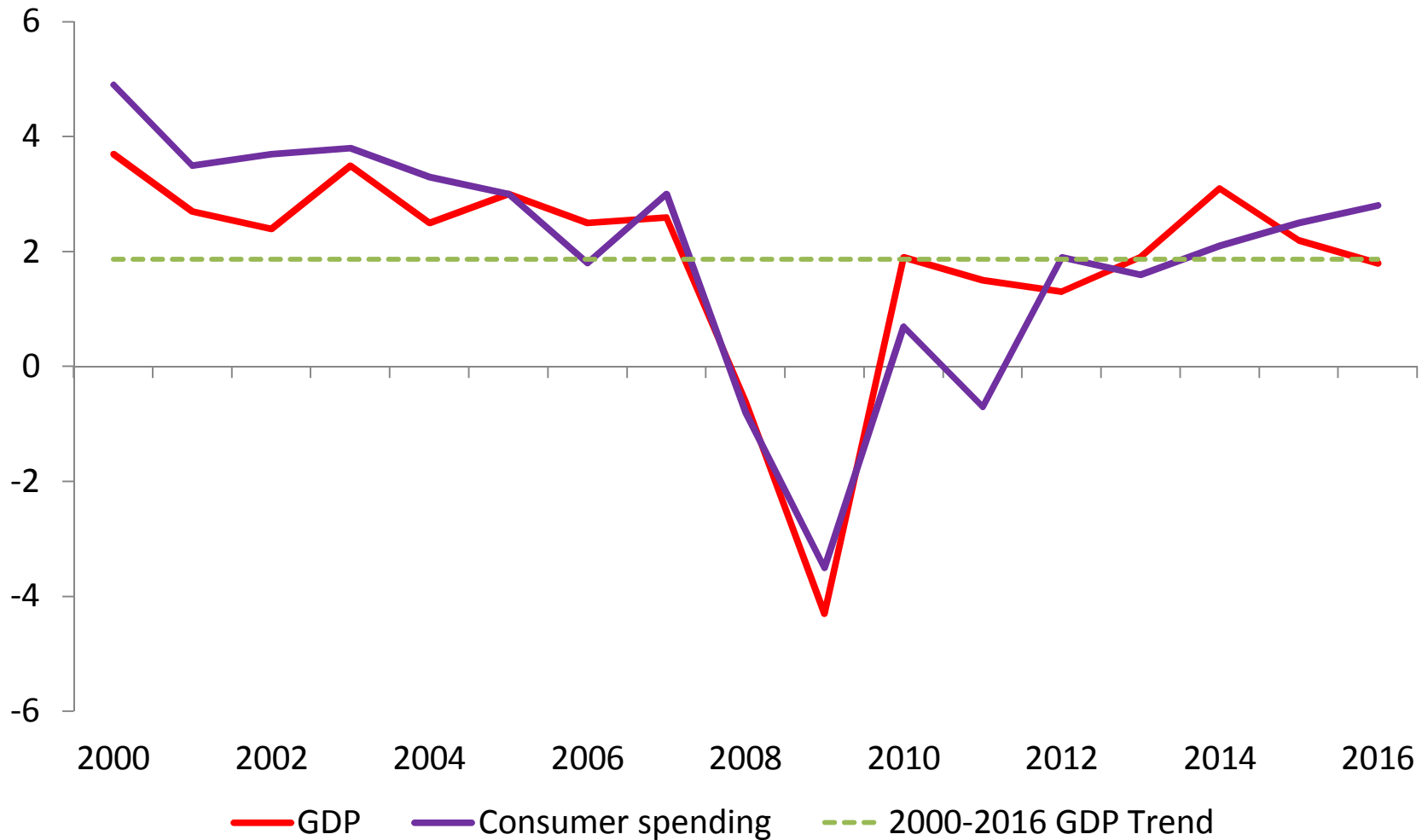
*Unemployment rate in 10 largest EU economies, % of workforce*



Source: Eurostat

# Consumers supported growth in mid-2010s

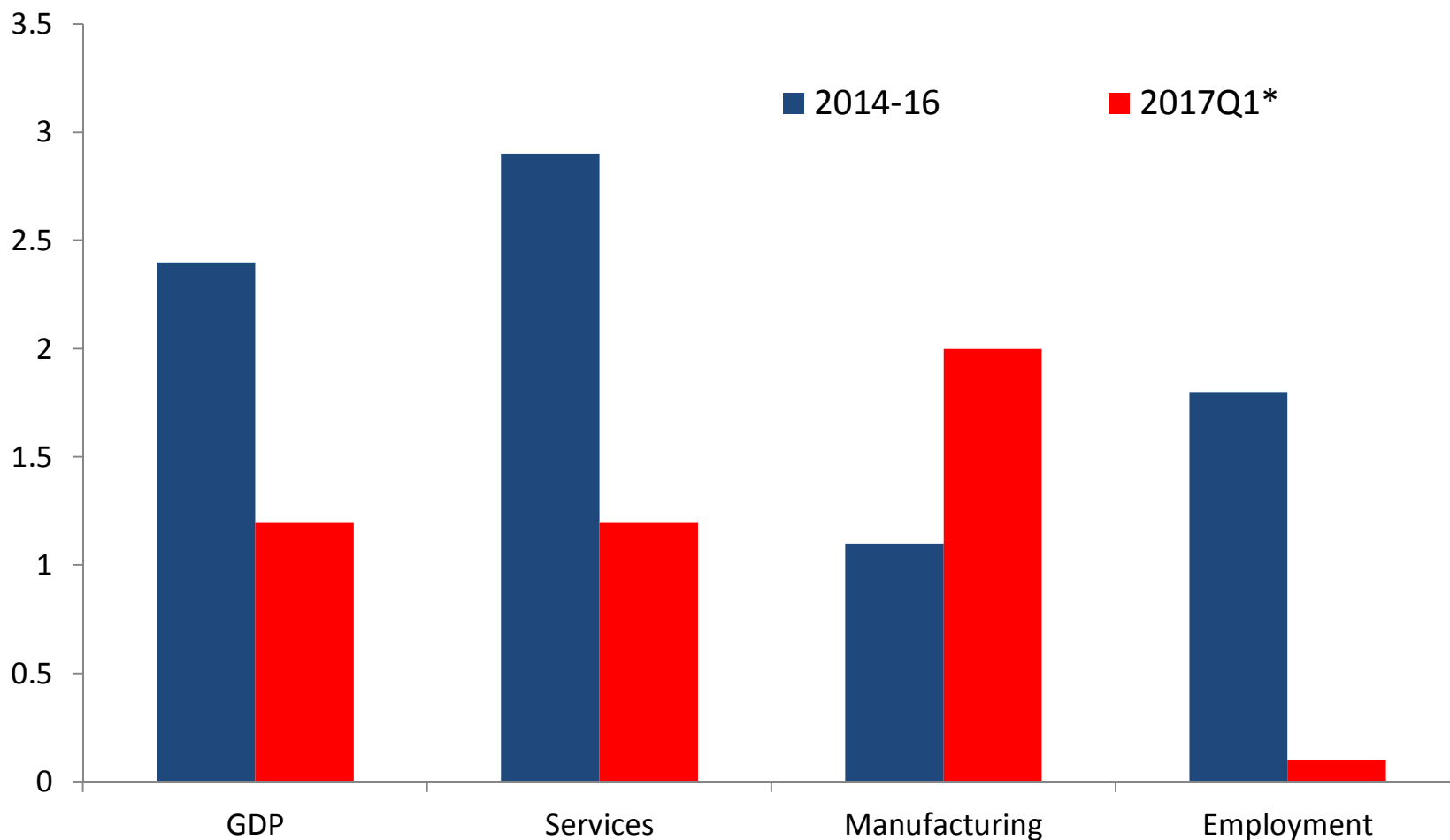
*% per annum change in UK GDP and consumer spending*



Source: Office for National Statistics

# ... but the times they are a changing

*% per annum annualised increase in key UK economic indicators*



Source: Office for National Statistics

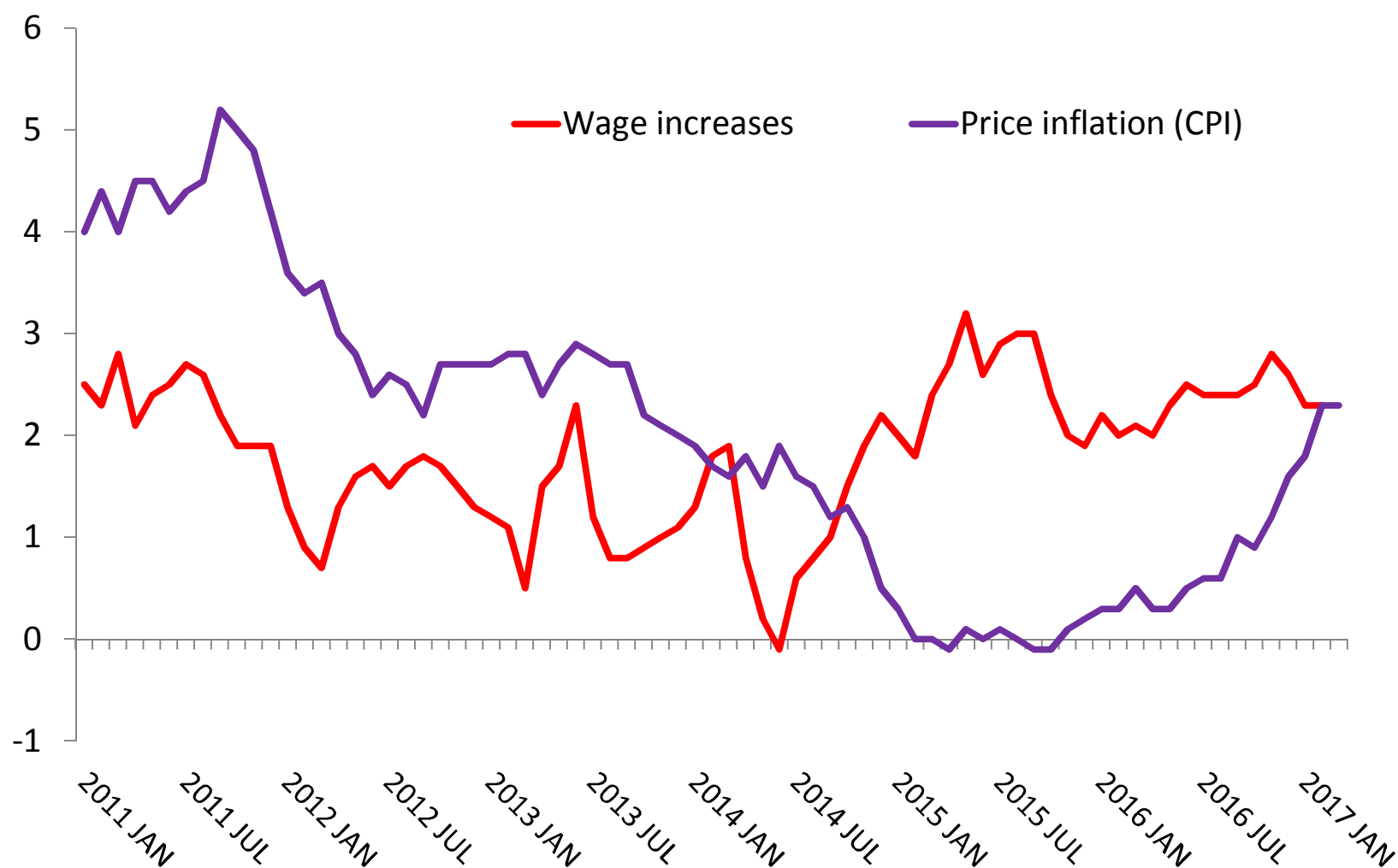
\* Based on most recent 6-months for employment

Slide 8



# Inflation has caught up with wage growth

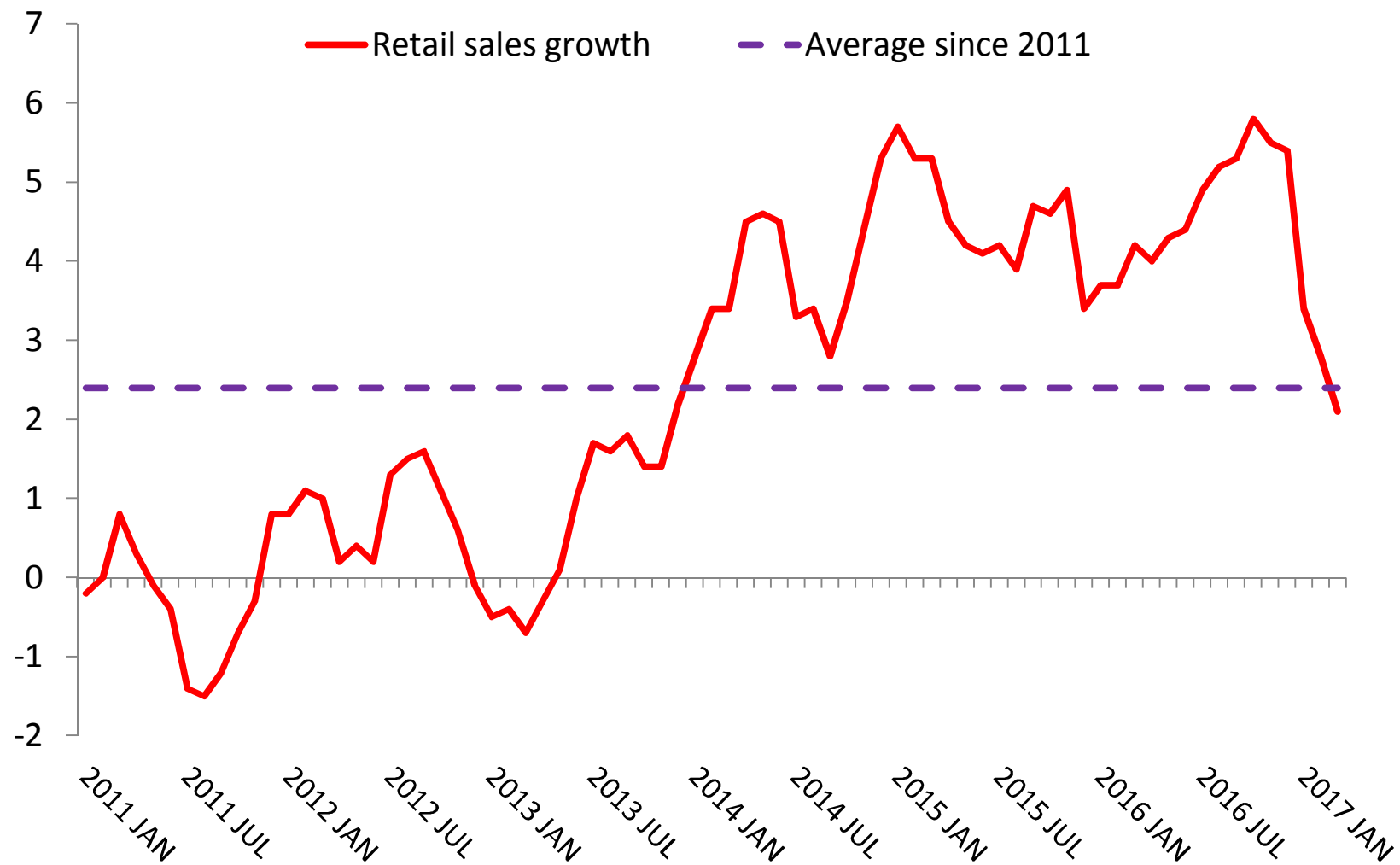
*% annual increase in average wages and consumer prices (CPI)*



Source: Office for National Statistics

# ... causing a sharp consumer slowdown

*% annual change in volume of retail sales, 3-month moving average*



Source: Office for National Statistics

# ... as a weak pound has squeezed consumers

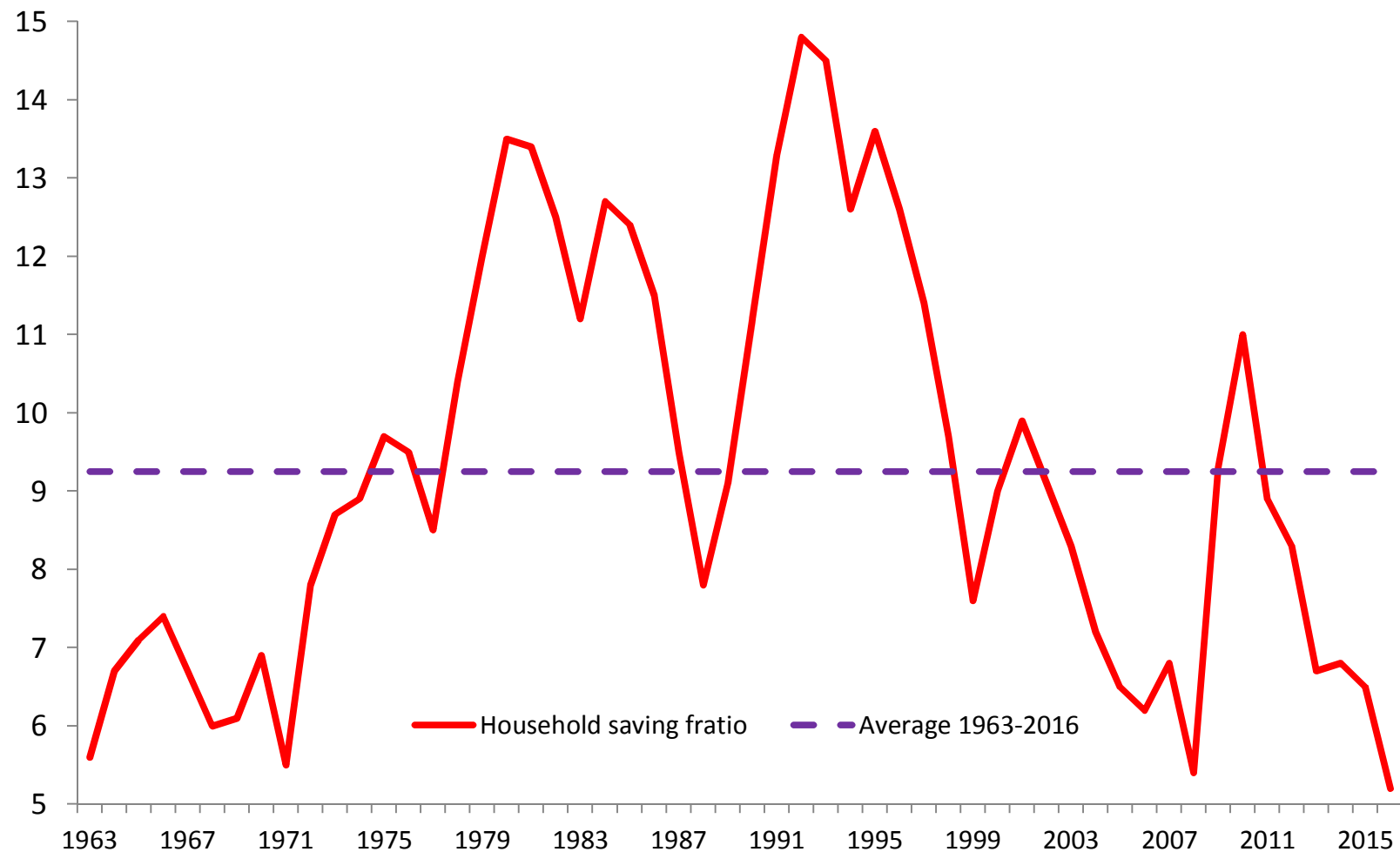
*UK effective exchange rate, Jan 2005=100*



Source: Bank of England

# UK household saving rate – low and falling

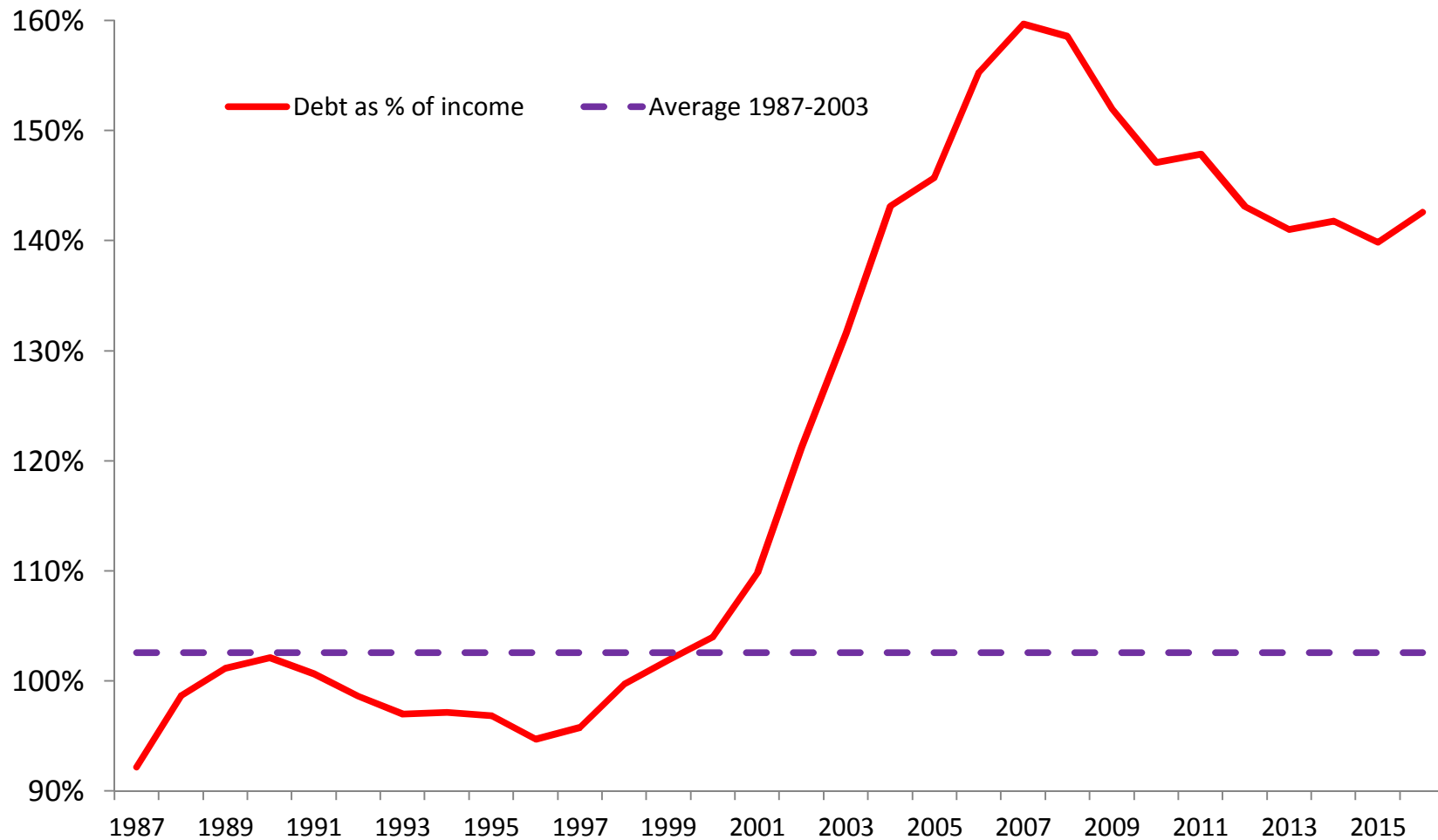
*% of household disposable income available after deducting consumer spending*



Source: Office for National Statistics

# UK household debt is edging up again

*Household financial liabilities as % of disposable income*



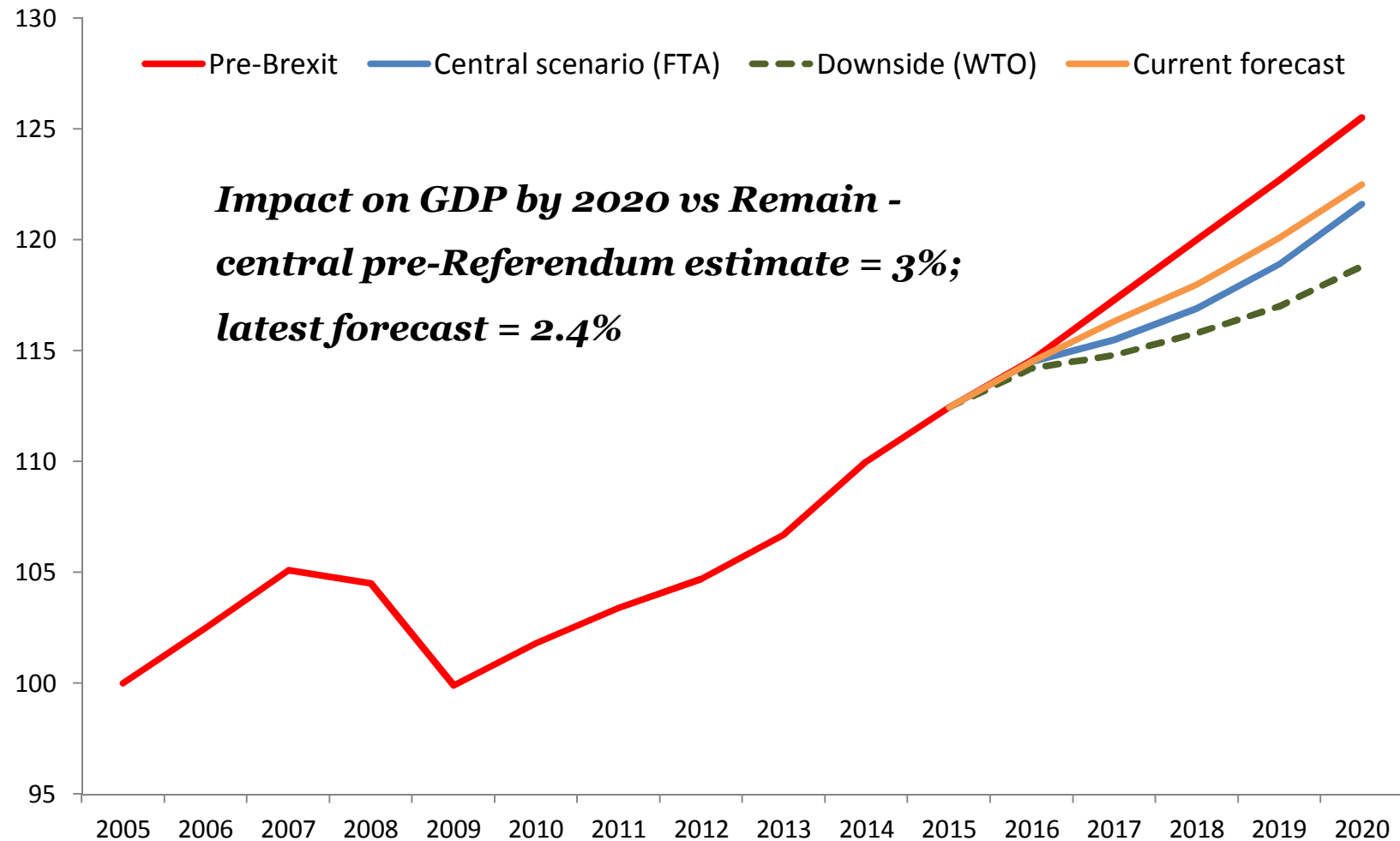
Source: Office for National Statistics

# Economic consequences of UK leaving EU

- Economic shock creating investment uncertainty and squeezing consumer spending (short-term)
- Impact on trade and investment flows – possible disruption vs new opportunities (long-term)
- Negative impact on migration from EU (short-term and long-term)
- More regulatory freedom (long-term)
- Lower fiscal contributions (long-term)

# Economic scenarios for UK post-Brexit

*Index of GDP, 2005 = 100*



Sources: ONS and PwC Post-Brexit Scenarios, updated for most recent data

# **“Brexit means Brexit” strategy**

- Theresa May: key priority is to control immigration
- EU regulation to be absorbed into UK law and then repealed or amended in 2020s
- Single Market access – but not on current basis
- New UK-EU trade agreement likely to be based on ensuring market access for key industries which have already invested heavily in UK (eg cars, financial sector)
- Implies a more protectionist/interventionist approach to UK business and industry than we have seen since 1970s
- UK will seek to strike trade deals with non-EU countries but these will take a long time to deliver
- Government will aim to offset trade/investment downside with other policies (eg Industrial Strategy, tax and spending)

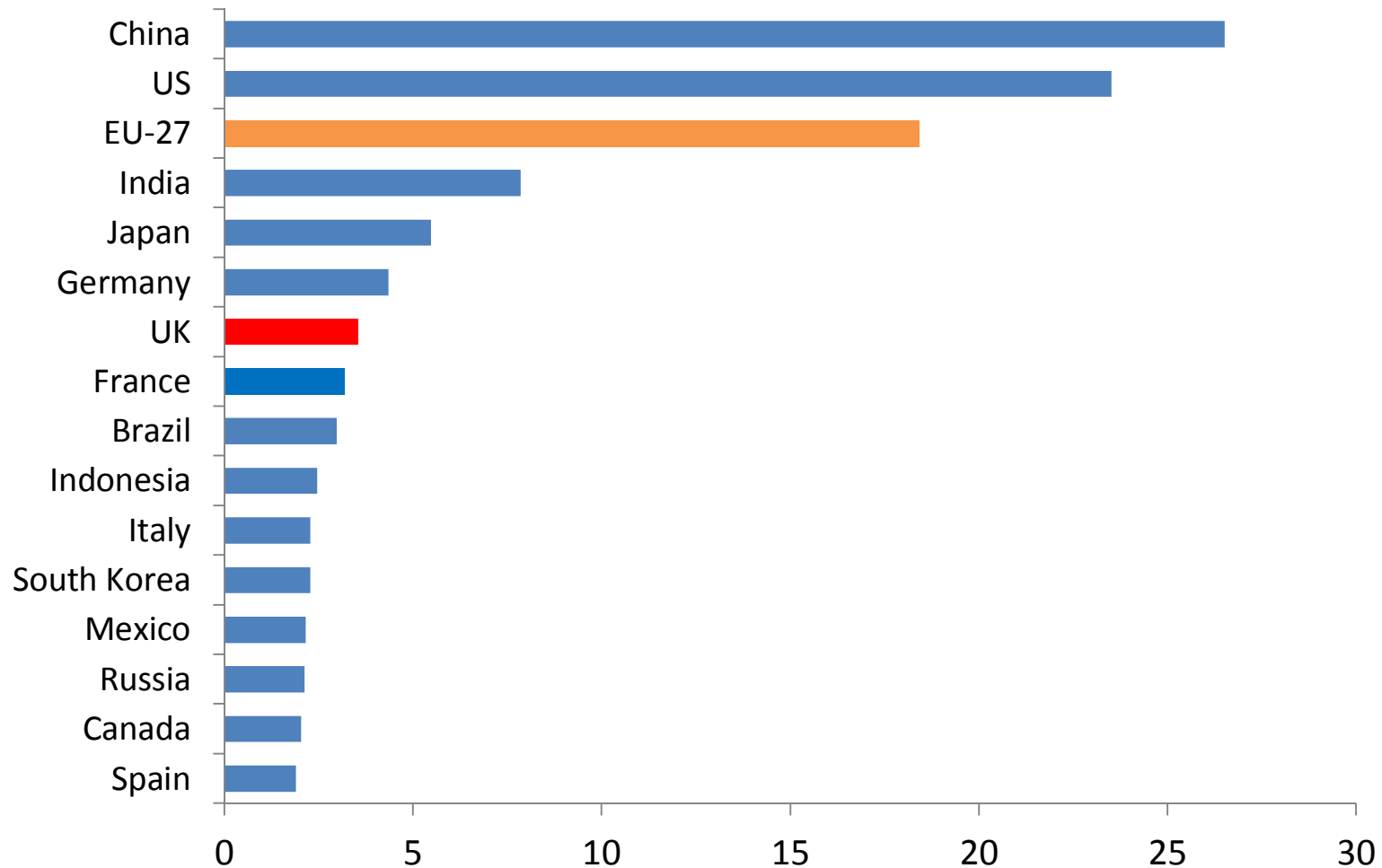


# Article 50 negotiation – key issues

- **Payment** of exit contribution to EU budget to cover future liabilities (£20-60bn)
- **People** issues: rights of UK/EU citizens and future regime for immigration between UK and EU
- **Trade** in goods and services and access to UK and EU markets for key sectors – especially manufacturing and financial services
- **Transition** or implementation period

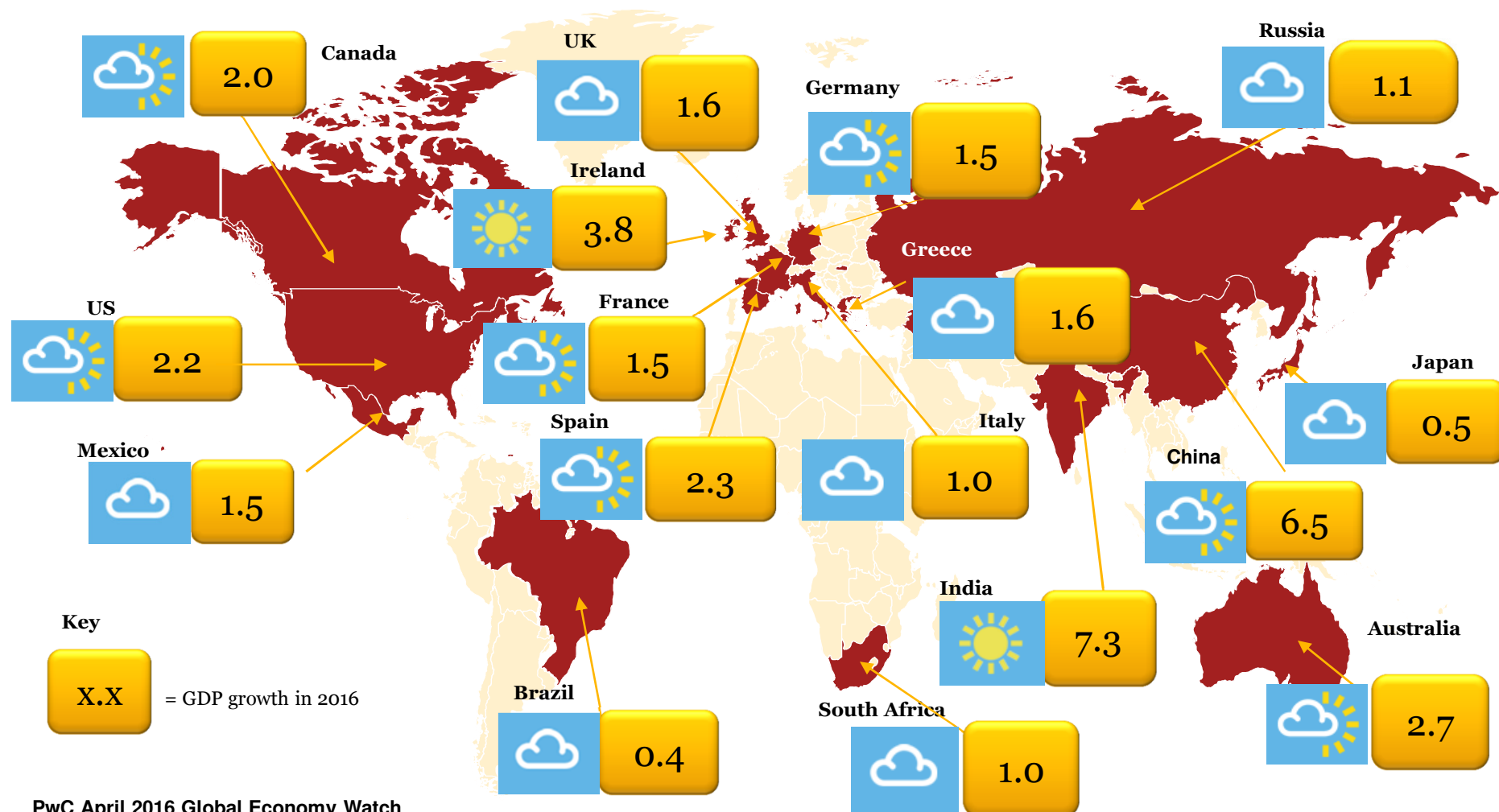
# Post-Brexit world economy in 2030

*£trn at 2016 prices and market exchange rates*



Source: PwC World in 2050 Report, February 2017

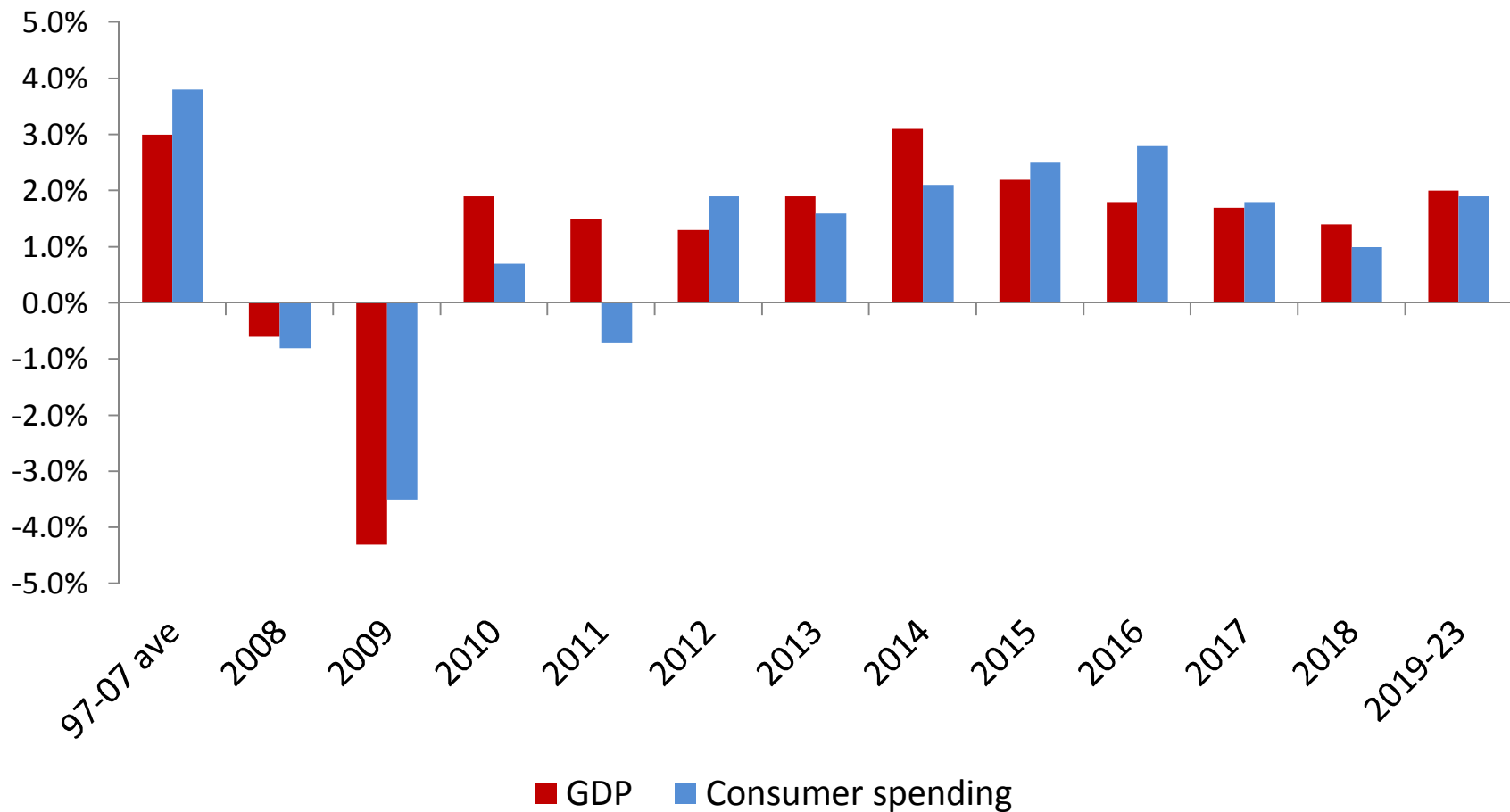
# Outlook for global economy in 2017



PwC April 2016 Global Economy Watch

# UK economic outlook

*% per annum growth*



*Source: Office for National Statistics, HM Treasury Consensus and PwC Forecasts*

# Prospects for UK interest rates

- US interest rates now on a gradually rising trajectory
- Global economy set fair for reasonably healthy growth in 2017 and 2018, on current forecasts
- Despite projected slowdown in UK growth, unemployment rate expected to remain around 5pc, close to “full employment”
- Inflation rising – to around 3pc or higher later this year
- Household saving rate is falling, debt ratio is rising and house price inflation continues to outpace wage growth
- In the absence of a major shock to the world economy, UK rates should follow US policy of gradual rises
- 2-3 percent UK Bank Rate remains a reasonable expectation for early 2020s – ie lower than pre-crisis interest rate level

# Implications for Building Societies

- *Period of slower UK growth and economic volatility in prospect – with higher inflation and weak £*
- *Central scenario is this period of weaker growth and higher inflation lasts 1-2 years followed by a return to 2% growth and inflation - a good performance in the “new normal”*
- *Risk of a less satisfactory outcome remains, however, if Brexit discussions with EU do not go well. This could prolong disappointing growth into early 2020s.*
- *Financial services is a key sector potentially affected by Brexit but a mass exodus from UK is most unlikely. UK gov't will seek to protect other sectors heavily invested in UK – eg car industry*
- *Despite reluctance of MPC, UK interest rates should follow US in process of gradual rises – reaching c.2-3pc in early 2020s*