

# UK Outlook

July 2019

## Uncertainty dampening the economic outlook

Three years on from the referendum on EU membership and uncertainty - the constant hanging over the UK economy - may not yet have peaked. March 29th has come and gone and **Article 50** has been **extended** to October 31st but it remains unclear how and when Brexit will happen. Attempts to break the impasse in Westminster ended in failure, with Prime Minister May's resignation kick-starting a Tory leadership race that has seen Boris Johnson confirmed as her successor. While this has added to fears of a 'no deal' exit, in our latest projections we assume that current UK-EU trading arrangements continue to apply over the forecast horizon, consistent with a further extension of Article 50 or a transition period. Amid ongoing **domestic uncertainty** and increased **international trade tensions**, activity has slowed recently (following a stockpiling-related boost in the first quarter). And with little respite in store in the near-term, we have revised down our forecast for **GDP** growth in **2019** to **1.2%** (from 1.4%). We have also lowered **2020** a notch, although growth is expected to tick up to **1.4%** as business investment firms after a subdued performance this year and stronger global demand supports exports. Reflecting the softer prospects for the economy, we see the Bank of England keeping interest rates on hold through the end of next year. However, in the event of a **'no deal' Brexit**, a **recession** is probable and sterling is likely to weaken materially. This would leave policymakers facing the dilemma of whether to cut rates in response to weaker activity or hike in response to higher inflation.



# Economic Overview

## Recent Developments

GDP  
 **1.8%**  
 YoY Q1 2019

Unemployment rate  
 to **3.8%**  
 March-May 2019

Inflation  
 @ **2.0%**  
 YoY June 2019

£ weakens  
 to **90p**



**June**  
 Referendum  
 on EU  
 membership

## Brexit



**March**  
 Article **50** triggered

**June**  
 Withdrawal negotiations begin

**December**  
 Progress on Phase 1 issues



**March**  
 Transition agreed in principle

**July**  
 White Paper on future relationship

**November**  
 Draft Withdrawal Agreement concluded



**January**  
 Parliament votes against deal

**April**  
 Leave date extended to October **31st**

**July**  
 Johnson succeeds May as PM

## Outlook



Employment and rising wages support consumer spending



Uncertainty keeping a lid on investment



Export growth but global trade tensions



Future path of BoE rates Brexit dependent

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2018	1.4%	1.7%	0.2%	0.1%	1.2%	4.1%	2.5%
2019f	1.2%	1.5%	0.5%	1.8%	0.9%	3.8%	1.8%
2020f	1.4%	1.6%	1.8%	2.0%	0.6%	3.8%	1.8%

Note: Current UK-EU trading arrangements assumed to apply over the forecast horizon consistent with a further extension of Article 50 or a transition period

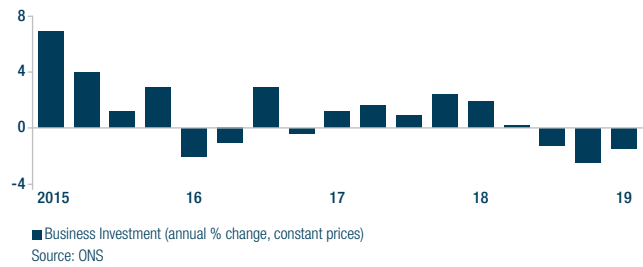
Source: Bank of Ireland, ONS, Bloomberg, HM Government, EU Council



# Business

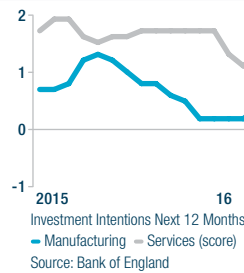
## Business investment weak

Business investment fell 1.5% year-on-year in Q1 2019, but stock building was robust ahead of the original March 29th Brexit departure date.



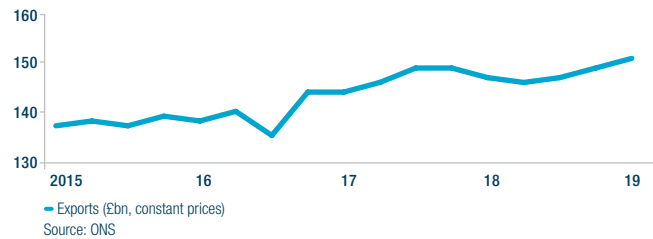
## Intentions heading south

Firms in the manufacturing and services sectors pared back their investment intentions further in the first half of this year amid ongoing uncertainty.



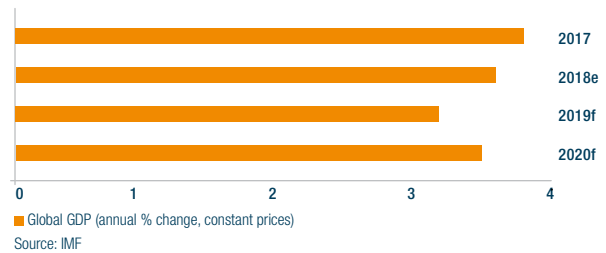
## Exports growing

Exports rose by 3% year-on-year in Q1. High frequency indicators suggest some softness ahead, although the recent weakening of the pound may provide support.



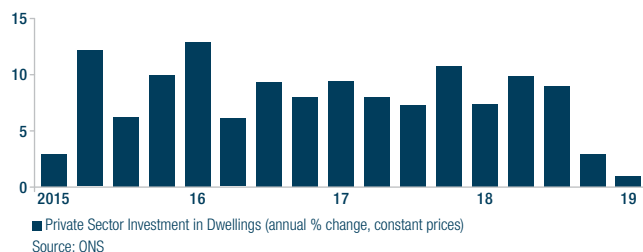
## Global economy cools

The IMF expects global growth to ease to 3.2% in 2019 before picking up to 3.5% next year, but highlights risks around trade tensions and Brexit.



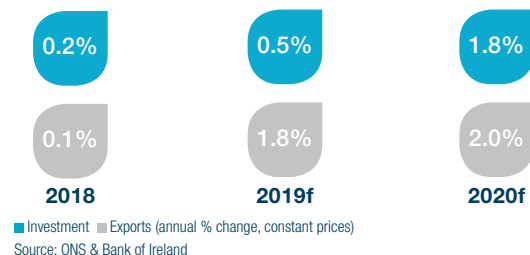
## Housing softer

House price growth has stalled lately, with private sector investment in dwellings also softening albeit still up 0.9% year-on-year in Q1.



## Headwinds abound

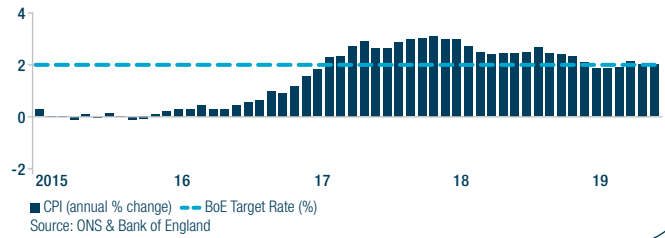
Brexit uncertainty is expected to keep a lid on investment over the forecast horizon, while moderate export growth is on the cards.



# Policy & Markets

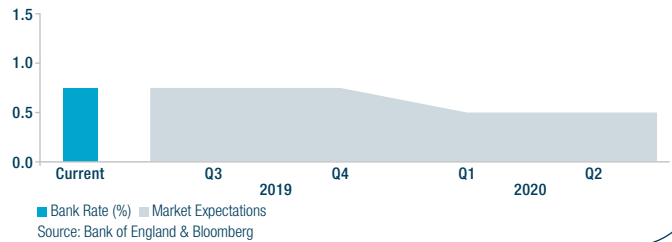
## Inflation easing

The annual rate of consumer price inflation was on target at 2.0% in June 2019, while the underlying rate was a touch softer at 1.8%.



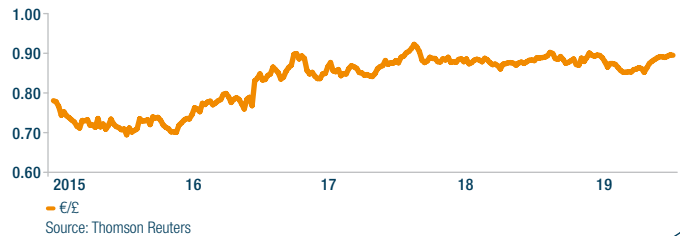
## BOE still Brexit dependent

The Bank of England has kept interest rates on hold since last August but the future path remains dependent on Brexit developments.



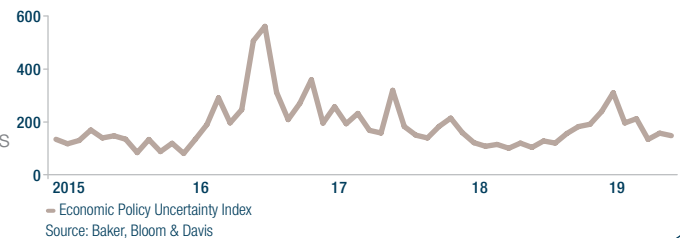
## Sterling slides

The pound has reversed the gains it made in the first quarter of the year, with the heightened risk of a 'no deal' Brexit sending it to around 90p against the euro.



## New Prime Minister

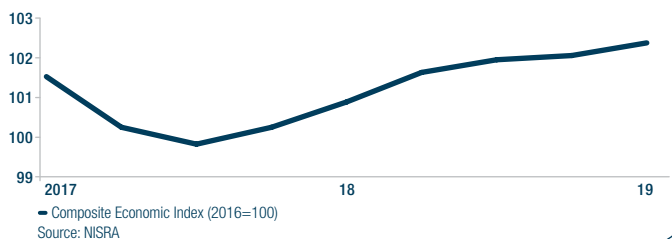
The Tory leadership contest has seen Boris Johnson emerge as the successor to Theresa May. As the October 31st deadline looms, Brexit will be the key challenge for the new PM.



# Northern Ireland

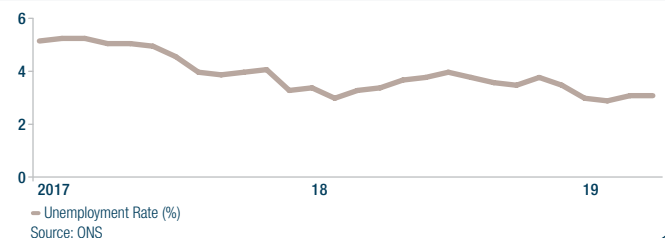
## Modest growth

Amid Brexit uncertainty and the continuing unsettled political backdrop, output growth has been relatively soft recently.



## Labour market doing well

Employment expanded by 2.5% year-on-year over the March to May period, with the unemployment rate below the UK average at 3.1%.

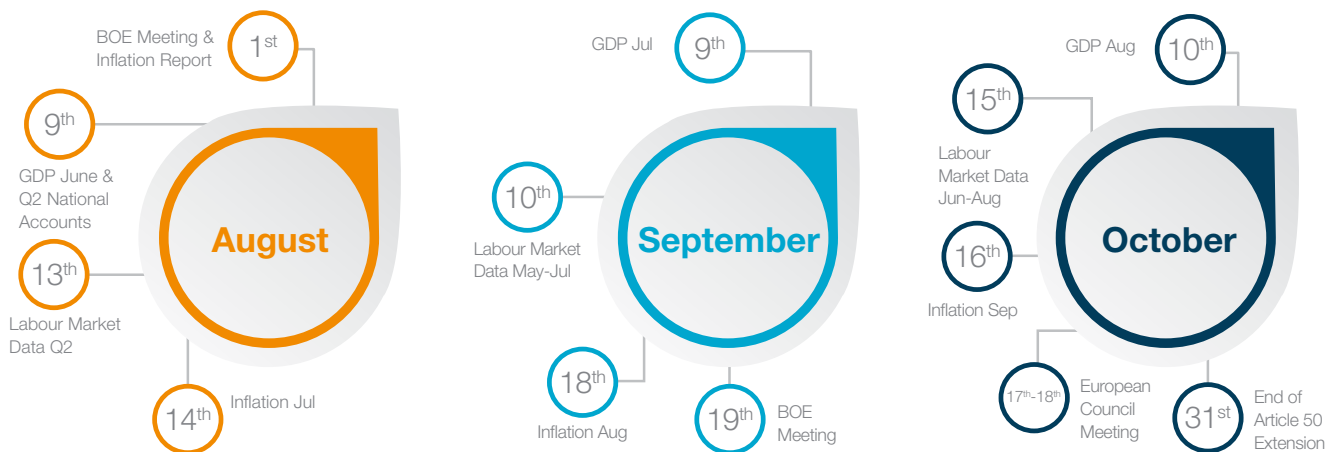


# Forecasts

	2018	2019 (f)	2020 (f)
Personal Consumption	1.7%	1.5%	1.6%
Government Consumption	0.4%	1.5%	1.5%
Investment	0.2%	0.5%	1.8%
Exports	0.1%	1.8%	2.0%
Imports	0.7%	5.0%	0.5%
GDP	1.4%	1.2%	1.4%
Employment	1.2%	0.9%	0.6%
Unemployment Rate (Average)	4.1%	3.8%	3.8%
CPI	2.5%	1.8%	1.8%

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 consistent with a further extension of Article 50 or a transition period

## Upcoming Events



## Contact Us

economics@boi.com

### Alan Bridle

UK Economist & Market Analyst  
+44 28 9043 3519

### Dr. Loretta O'Sullivan

Group Chief Economist  
+353 (0) 766 244 267

### Michael Crowley

Senior Economist  
+353 (0) 766 244 268

### Conn Creedon

Senior Economist  
+353 (0) 766 235 134

### Mark Leech

Media Relations Manager  
+353 (0) 766 234 773

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