

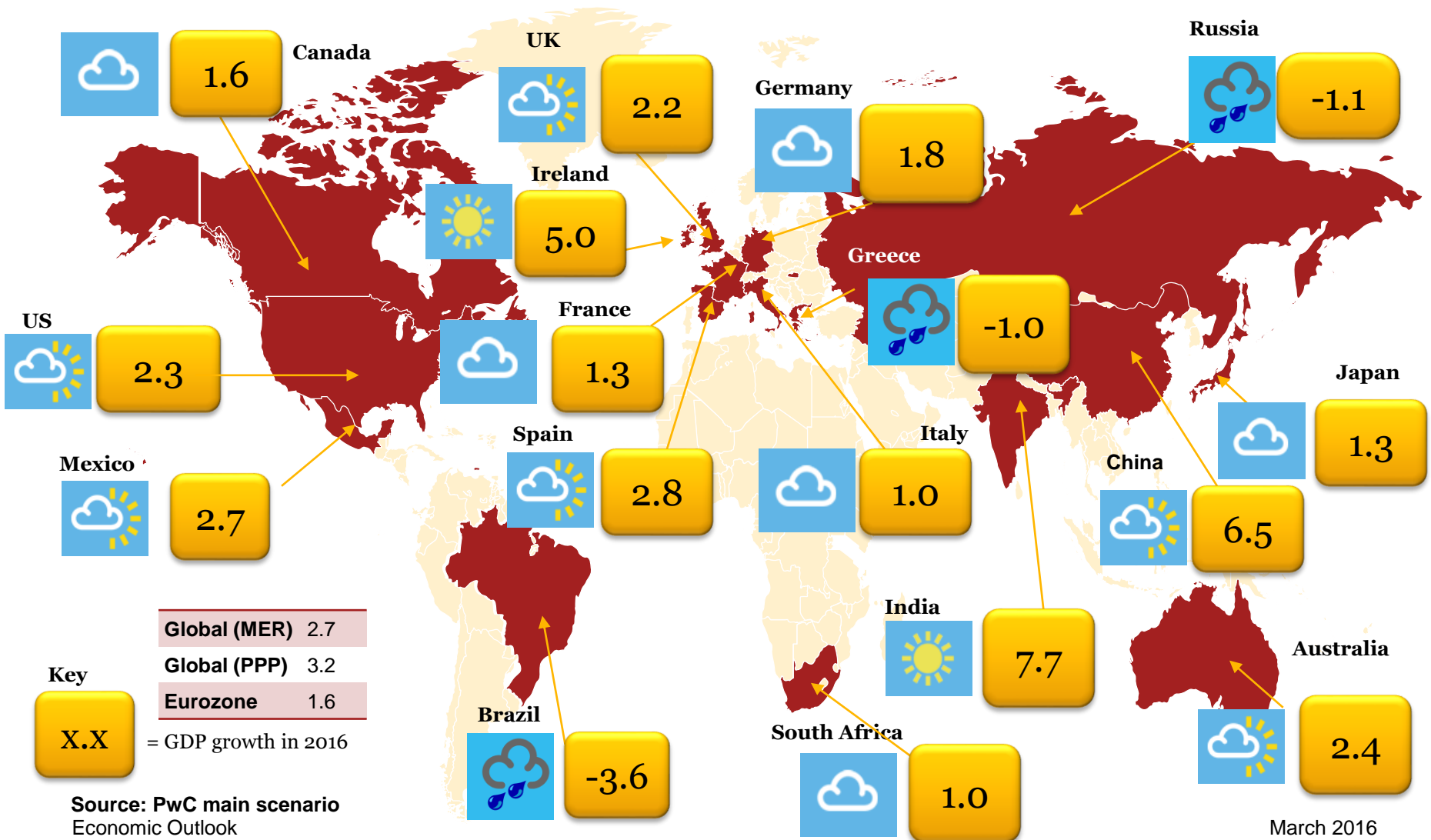
UK Economic Outlook

March 2016

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Global growth outlook for 2016 remains mixed

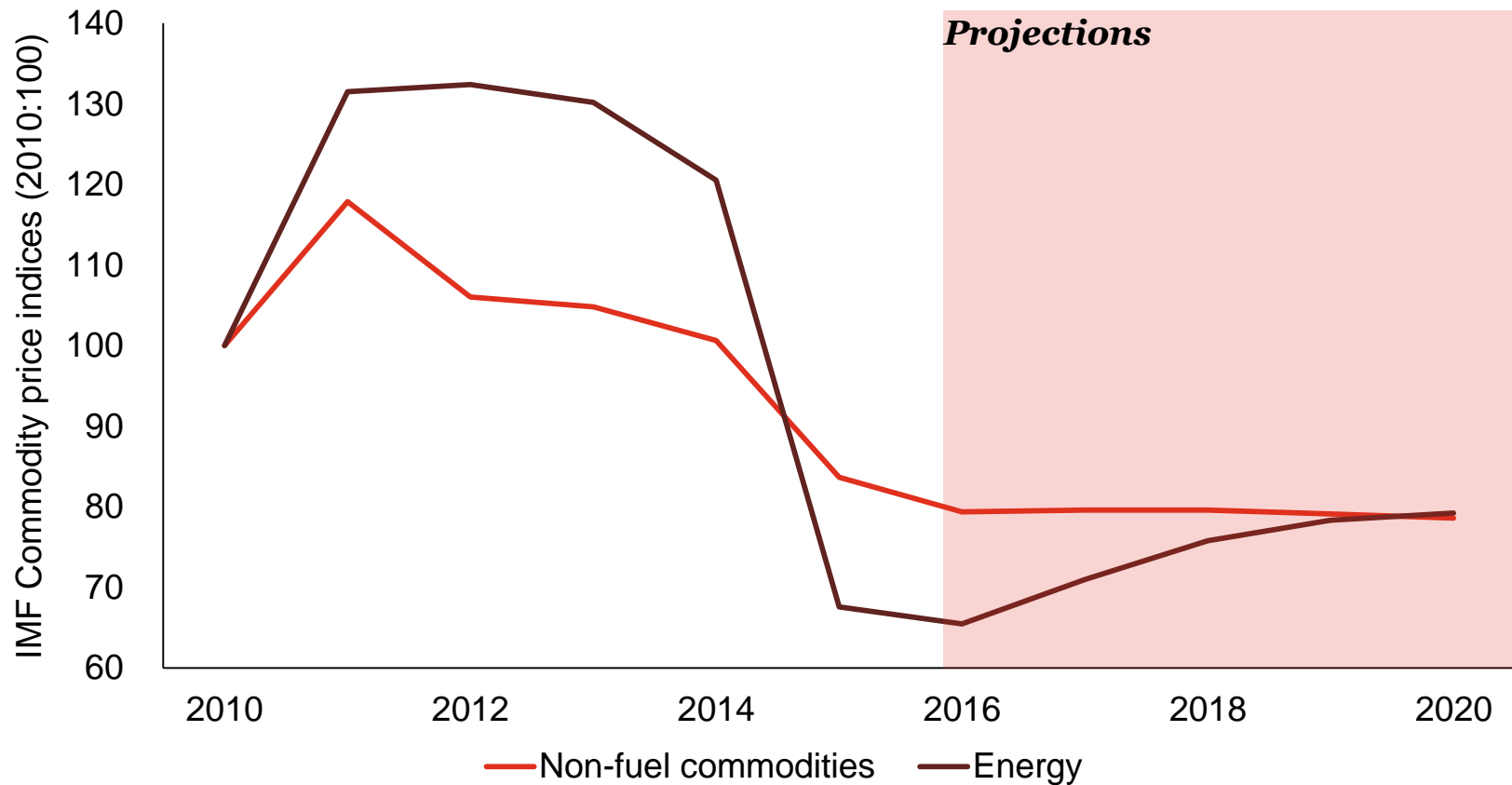


Global (MER)	2.7
Global (PPP)	3.2
Eurozone	1.6

Key
X.X = GDP growth in 2016

Source: PwC main scenario
 Economic Outlook
 PwC

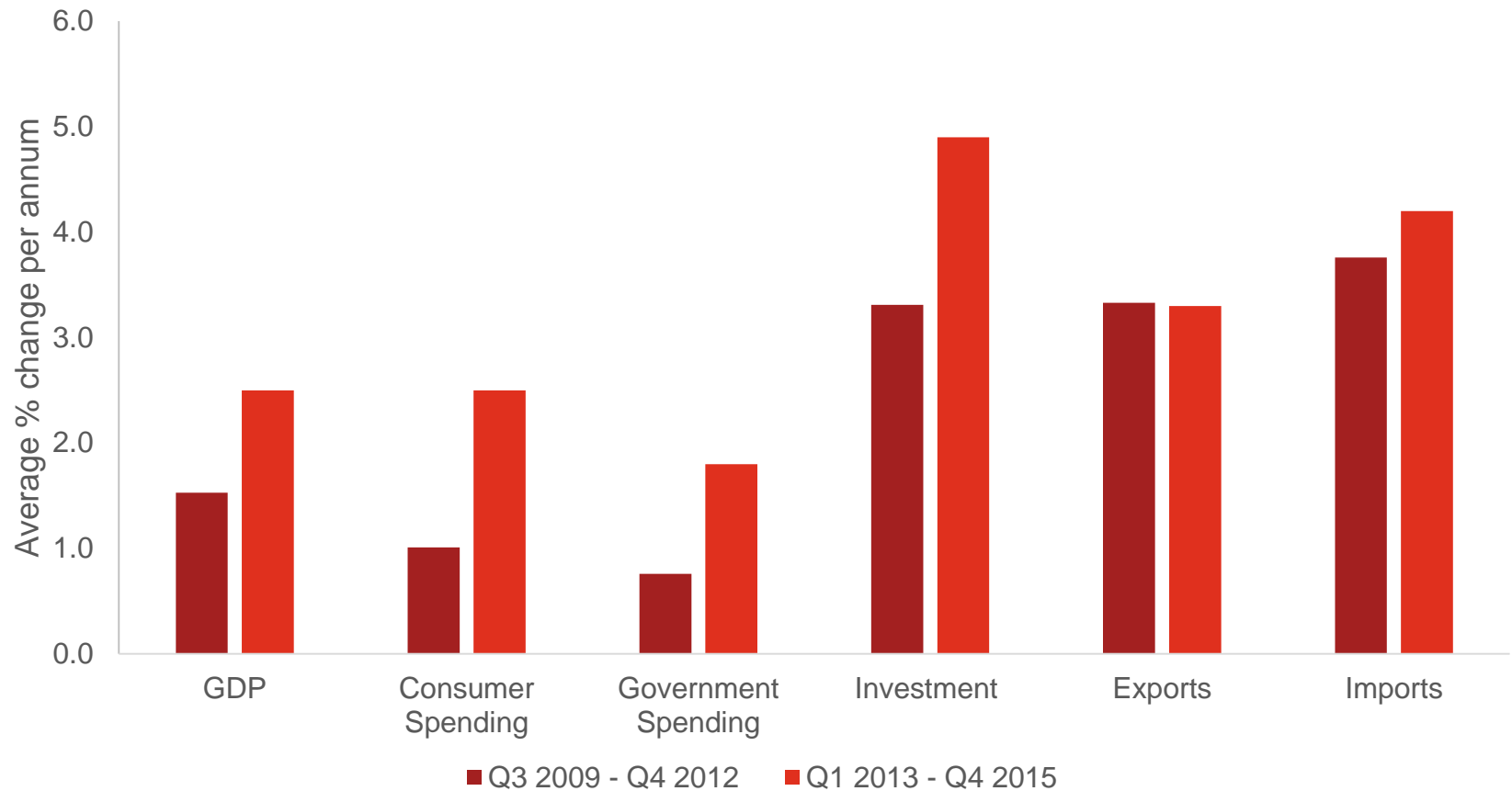
Oil prices are expected to remain 'lower for longer', like other commodity prices



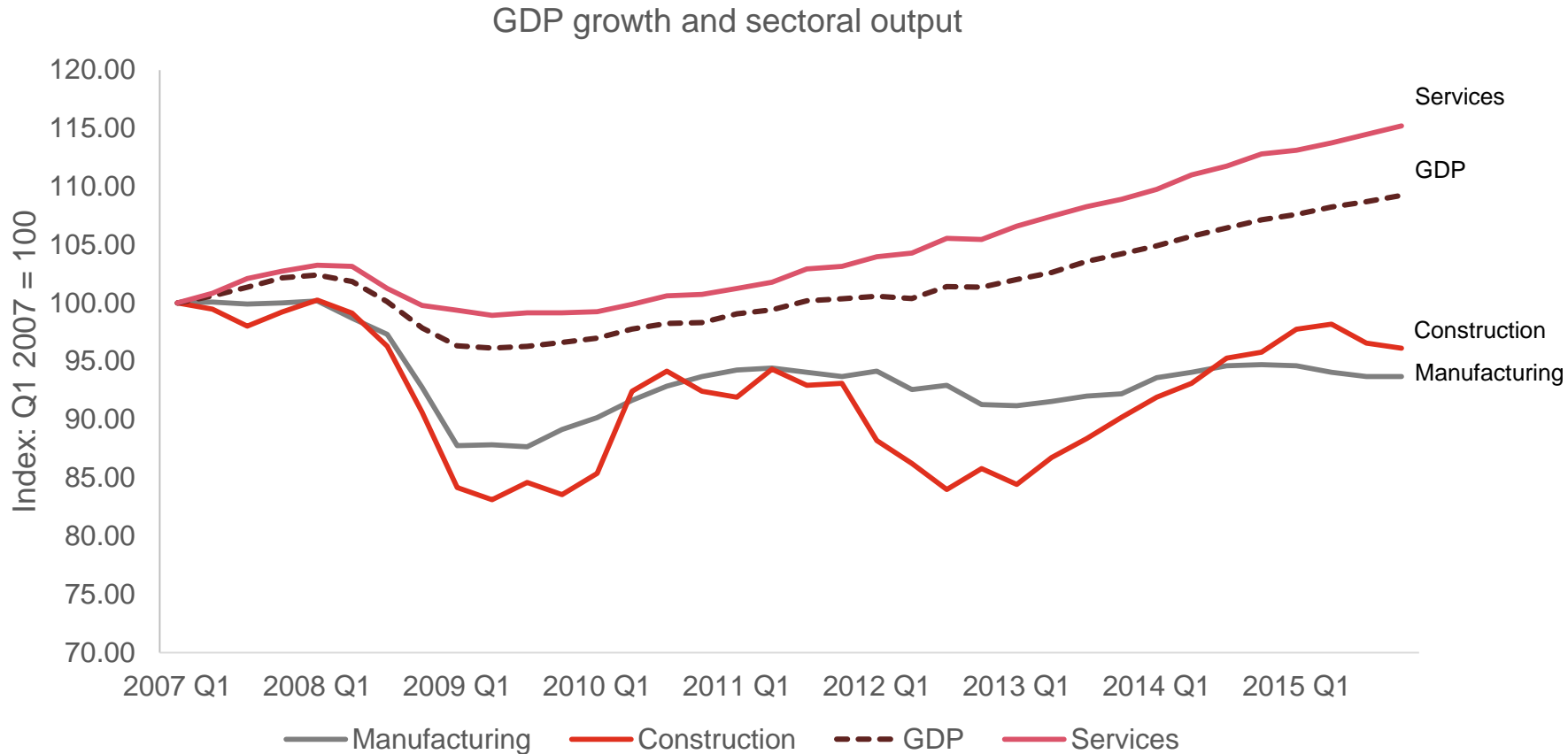
Source: PwC analysis, IMF

UK economic trends and prospects

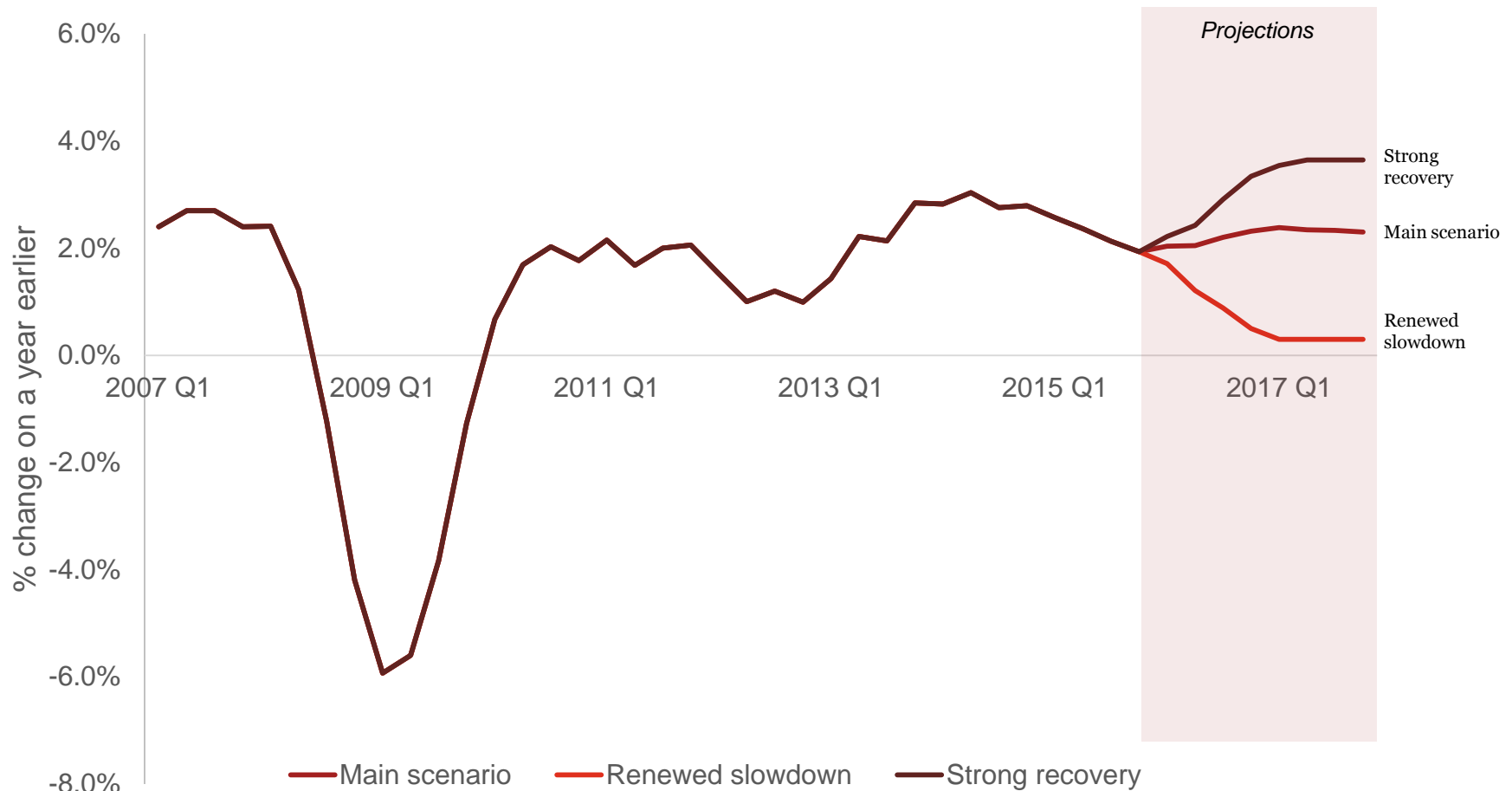
UK growth has picked up since early 2013, with stronger growth in both consumer spending and investment than earlier in the recovery



Services continues to lead the recovery, with construction volatile and manufacturing growth stalling recently

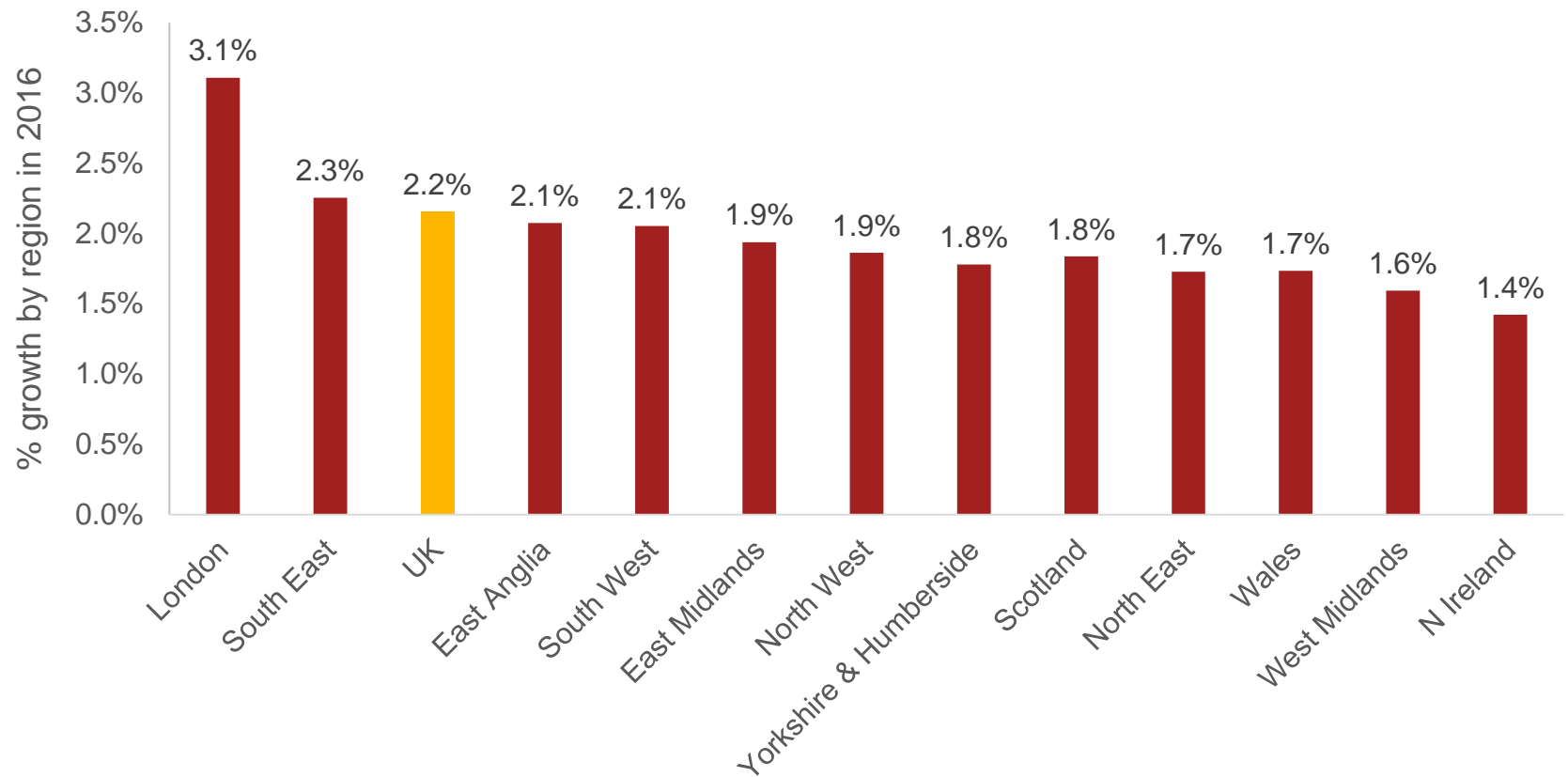


Our main scenario is for UK growth to average just over 2% in 2016-17, but risks are weighted to the downside given global uncertainties and the EU referendum



London likely to remain the fastest growing UK region in 2016, with Northern Ireland lagging behind somewhat ...

PwC main scenario for output growth by region in 2016



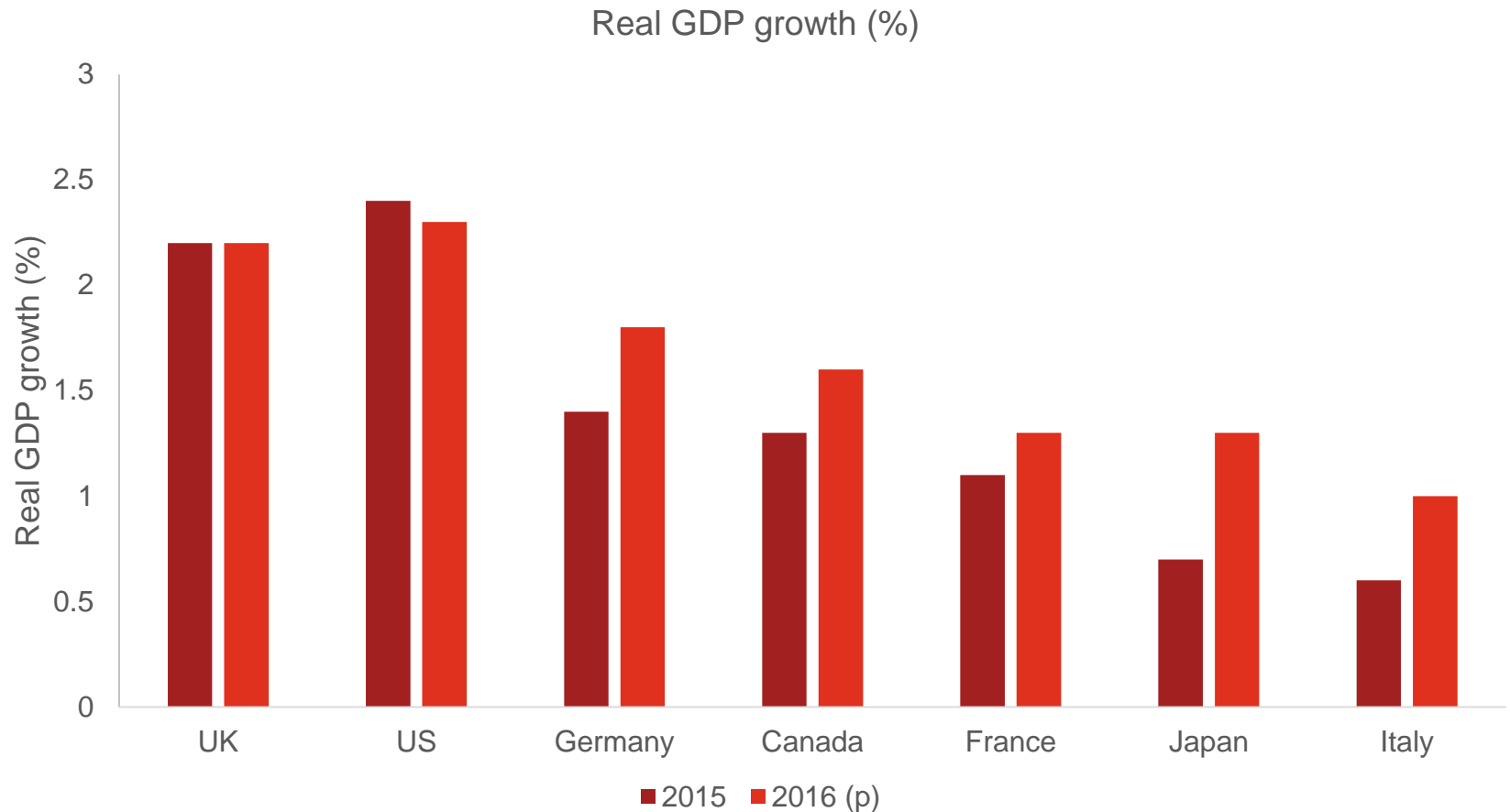
... but regions have varying strengths and weaknesses when we consider a broader range of economic indicators

PwC Regional Economic Dashboard – March 2016

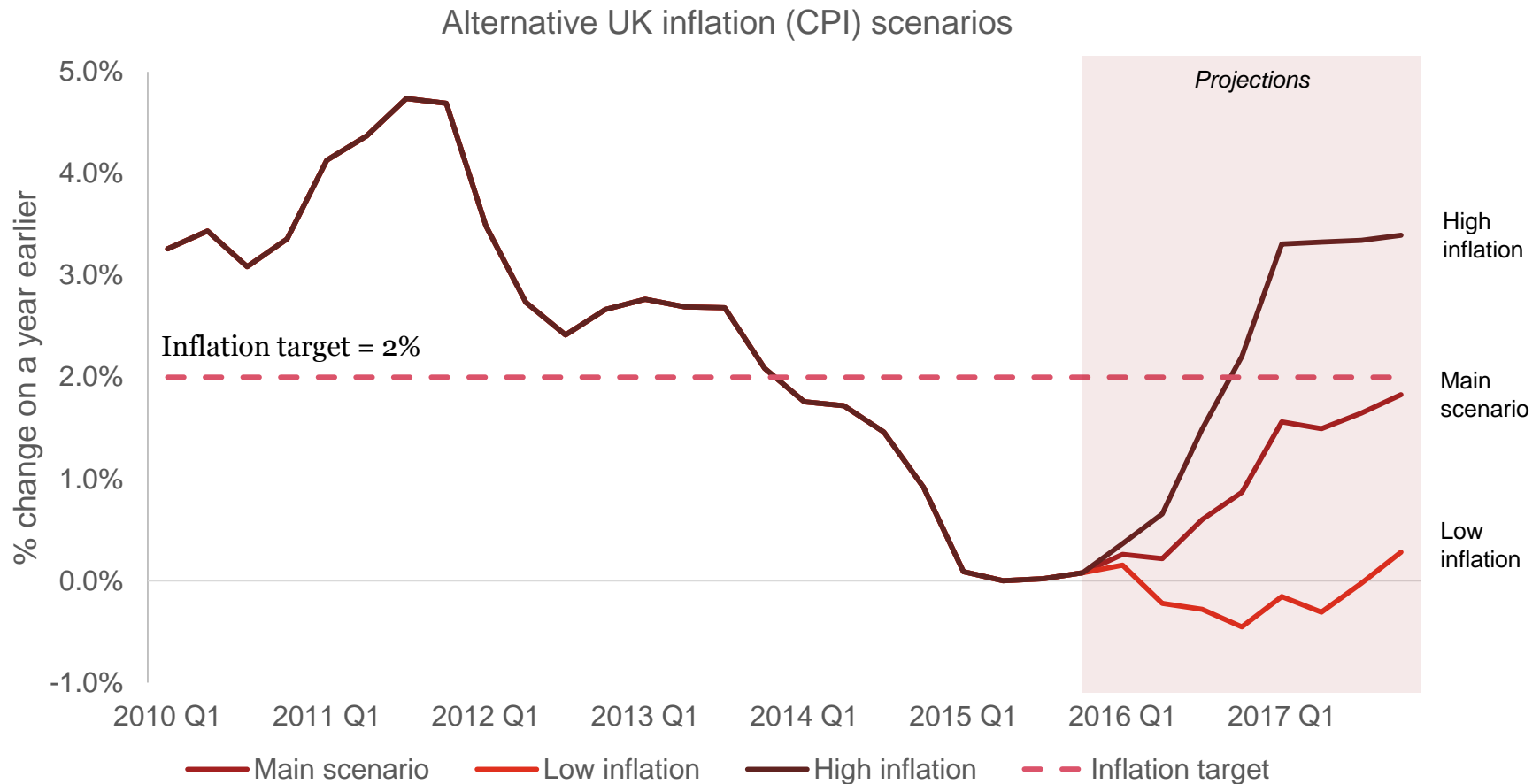
	North East	North West	Yorkshire & Humberside	East Midlands	West Midlands	East	London	Rest of South East	South West	Wales	Scotland	Northern Ireland
Indicators of performance outcomes												
GVA per head 2014	Red	Amber	Amber	Amber	Amber	Amber	Green	Green	Amber	Red	Green	Red
GVA growth 2014	Amber	Amber	Amber	Amber	Red	Green	Green	Amber	Amber	Red	Green	Red
Employment growth 2 years to Sept.-Nov. 2015	Green	Green	Red	Amber	Red	Amber	Amber	Amber	Green	Red	Amber	Amber
Indicators of drivers of performance												
Number of businesses, growth rate in 2014	Green	Amber	Amber	Green	Amber	Amber	Green	Amber	Red	Red	Amber	Red
Total R&D as % of GVA, 2013	Red	Amber	Red	Green	Amber	Green	Red	Green	Amber	Amber	Amber	Amber
% of labour force with no qualifications 2013*	Amber	Red	Amber	Amber	Red	Amber	Green	Green	Green	Amber	Amber	Red
Public spending per head in 2014-15*	Amber	Amber	Amber	Green	Amber	Green	Amber	Green	Amber	Red	Red	Red

Key: Green = top 3 UK regions; Amber = ranked 4th-9th; Red = bottom 3 UK regions. *Lowest level for these indicators ranked highest. Source: PwC analysis of ONS and HM Treasury data

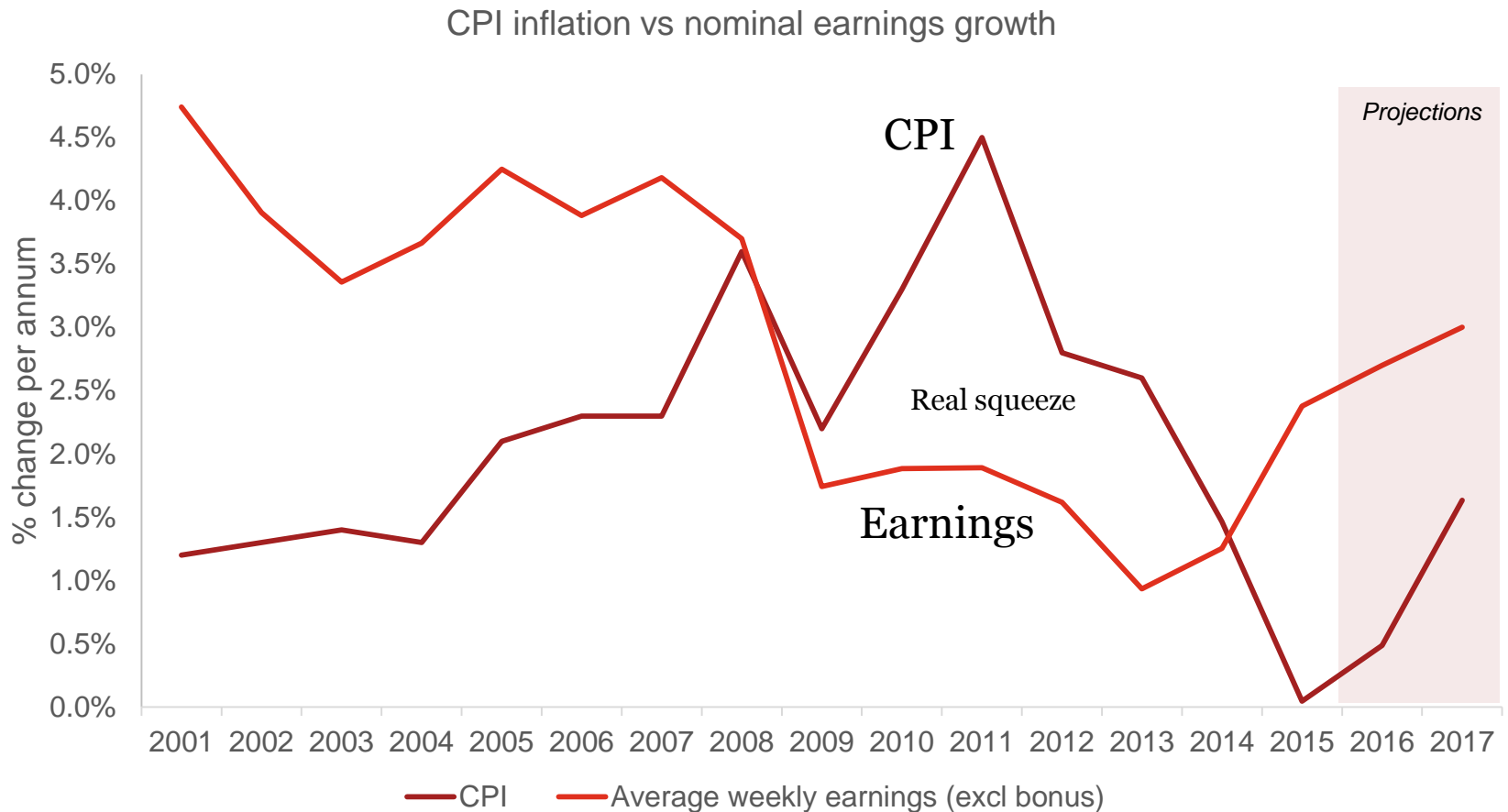
The UK is projected to remain one of the fastest growing G7 economies in 2016, with only the US slightly ahead



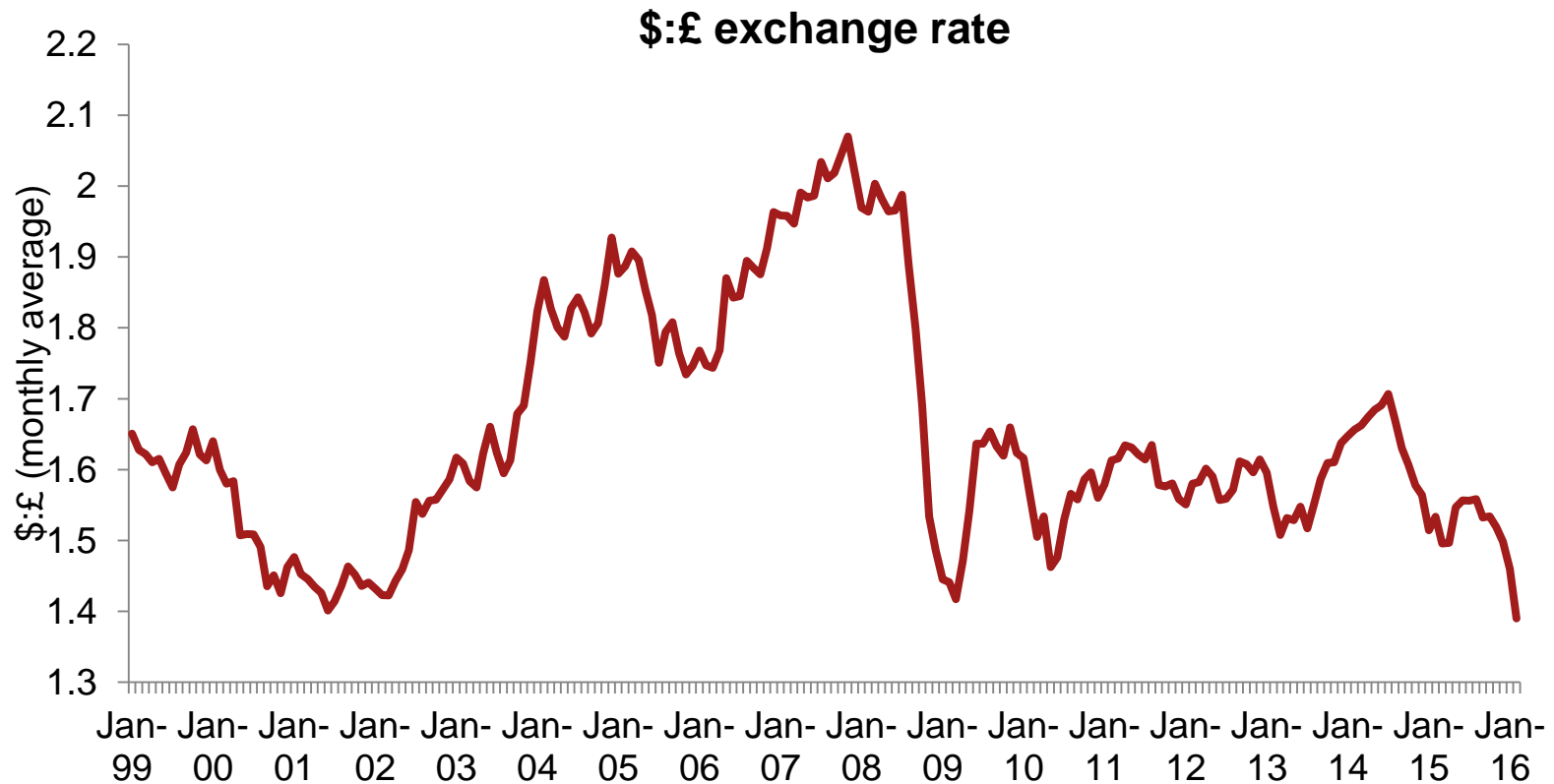
In our main scenario we expect inflation to remain low in 2016 before rising back towards target by the end of 2017



With persistent low inflation and a gradual pick up in wage growth, real earnings should continue to grow in 2016-17



Delayed UK interest rate rises and uncertainties around the EU referendum help to explain recent sterling weakness



Source: Office for National Statistics

*Jan 2016 is month to date

Summary: Outlook for the economy

1 Global economic picture is mixed, with slower growth in most major emerging markets (except India) but gradual recoveries in US and most of the Eurozone

2 Lower for longer oil prices should help boost household spending in the UK and other European economies by keeping inflation down. This could also delay the need for UK interest rate rises for some time.

3 UK growth should remain just above 2% on average in 2016-17, but risks are weighted to the downside. However, consumer spending should remain relatively strong due to continued growth in jobs and real earnings in 2016-17.

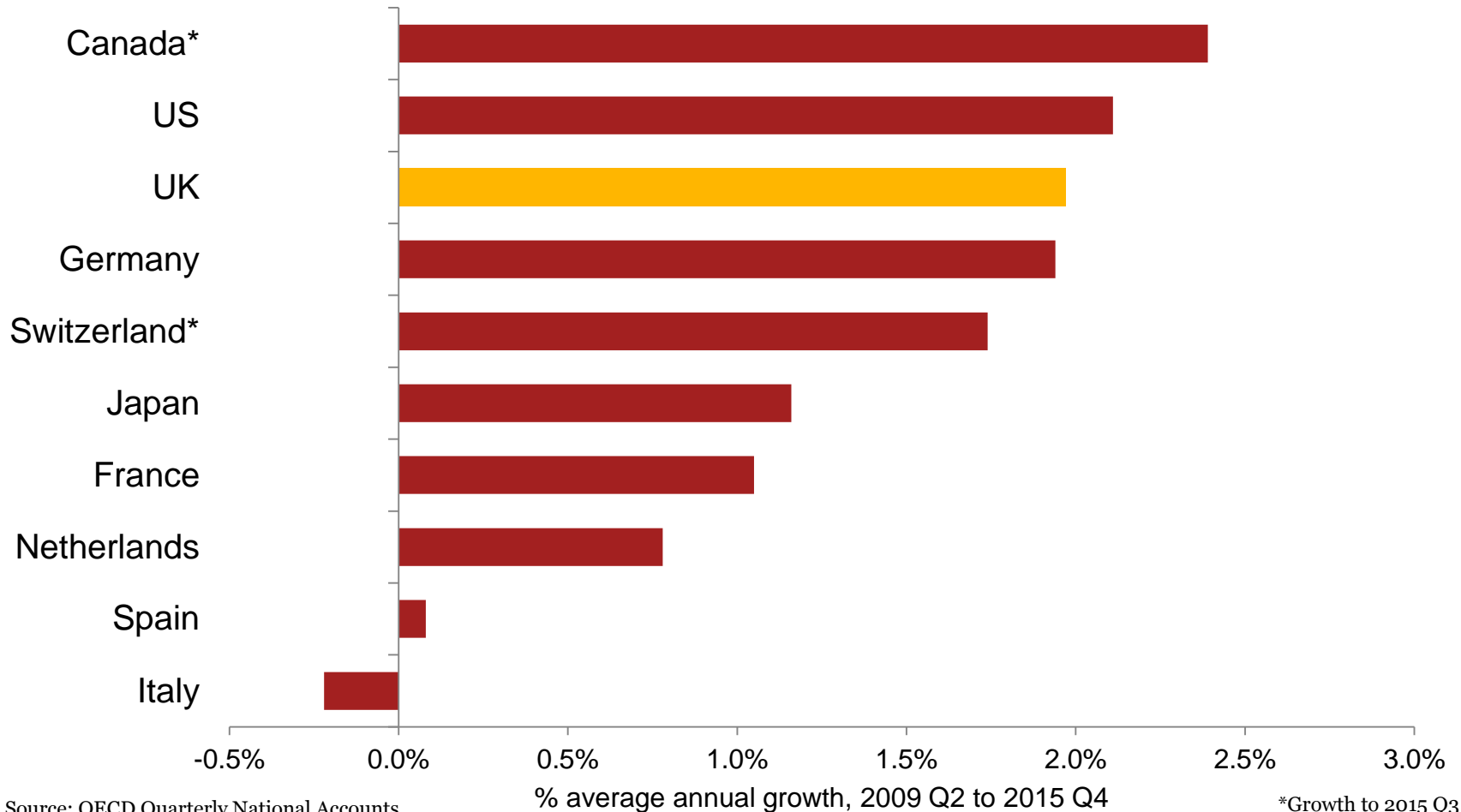
4 Services sector continues to lead the recovery, but has slowed somewhat. Manufacturing and construction have been weaker. London may grow at around 3% in 2016, but Northern Ireland could lag behind.

How balanced has the UK recovery been?

PwC's Senior Economic Adviser, Andrew Sentance, argues the UK recovery to date has been relatively well balanced

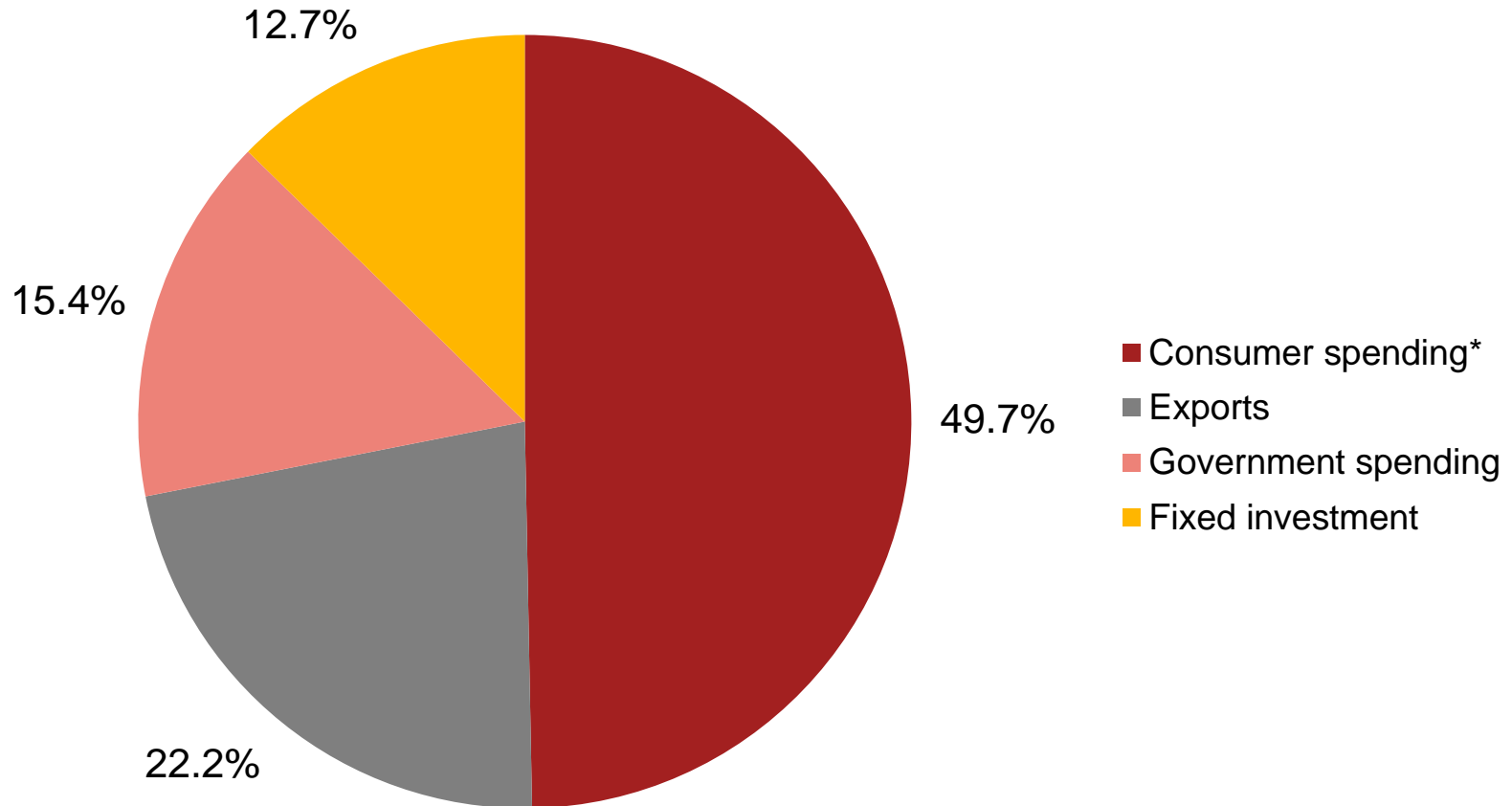
- Some commentators have expressed concerns about imbalances in the UK recovery but is this backed up by the facts?
- Andrew Sentance argues that the UK recovery since mid-2009 has been slower than some past recoveries, but not bad compared to other G7 economies and better balanced than some have suggested.
- This uses an analytical framework that focuses on trends in Total Final Expenditure (TFE), which is defined as:
 - $TFE = C + I + X + G + \text{Stockbuilding}$
 - C = Consumer spending
 - I = Capital investment
 - X = Exports
 - G = Government spending on goods and services
 - $GDP = TFE - \text{Imports}$

UK economic growth since the financial crisis has been disappointing relative to past recoveries but not in relation to other G7 economies

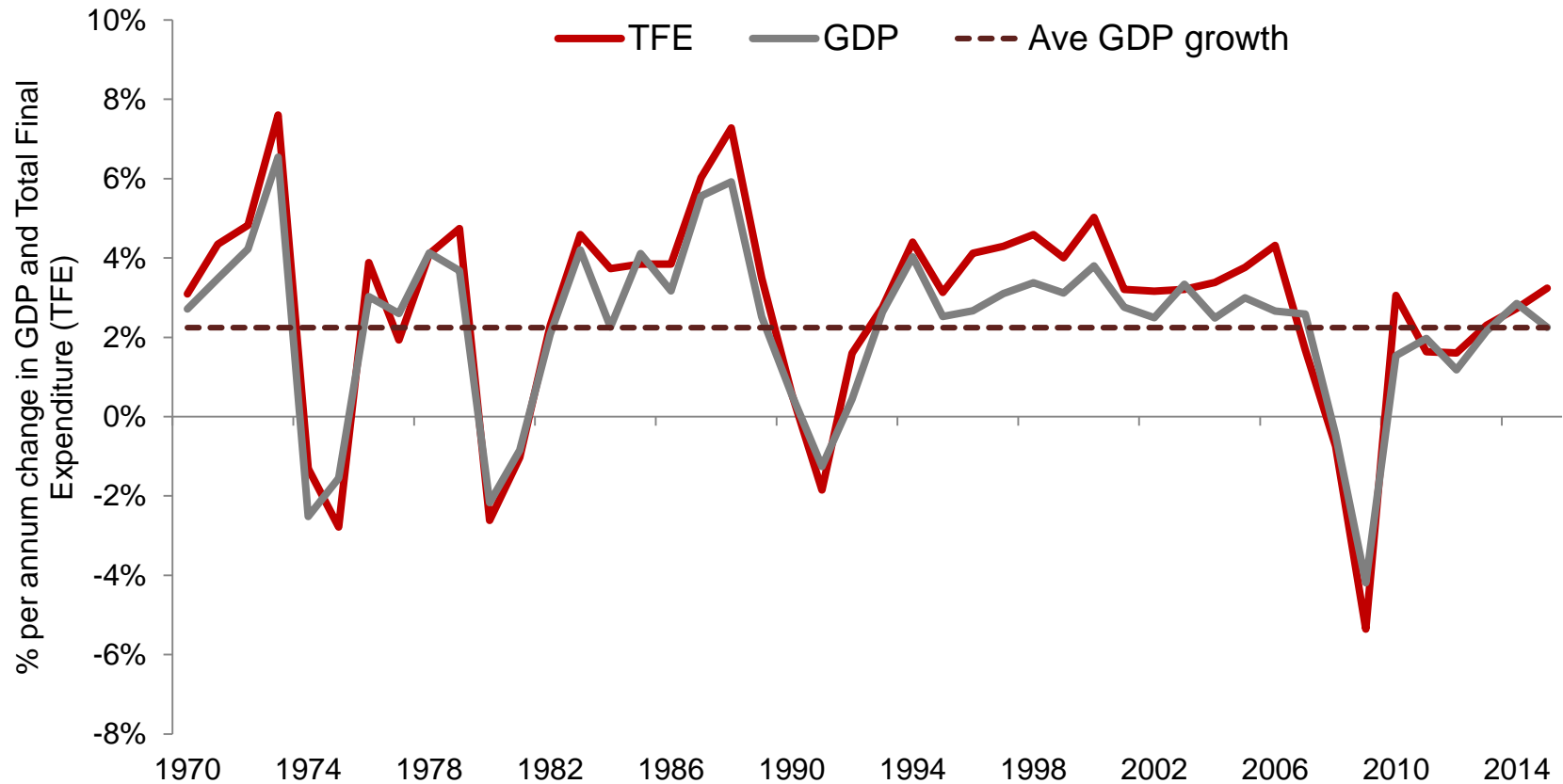


Consumer spending has accounted for around half of total final expenditure in the last 10 years

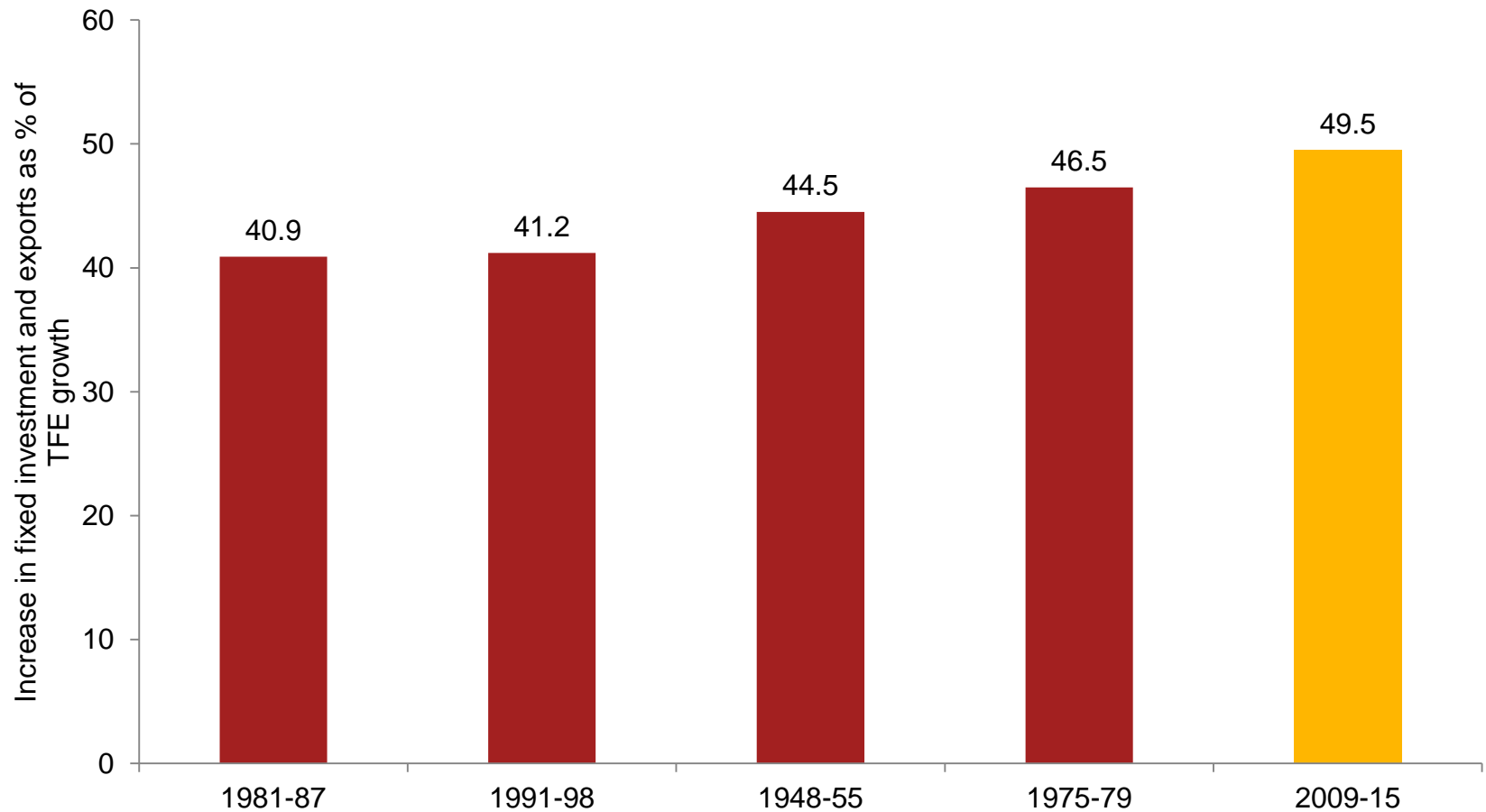
% of Total Final Expenditure in real terms, 2005-2015



GDP and TFE have moved closely together in the UK since 1970



The recent UK recovery (2009 – 2015) has been driven by investment and exports to a greater degree than in the past



Summary: the balance of the UK recovery

1

UK economic growth since the financial crisis has been disappointing relative to past recoveries, but not in relation to other G7 economies over this period.

2

A key reason for relatively weak UK growth up to 2012 was sluggish consumer spending, particularly in the early phases of the recovery when consumers were hit by a “perfect storm” of VAT rises, high food and energy prices, and tough bank lending restrictions. However, consumer spending growth has picked up since early 2013.

3

The export contribution to UK growth has been broadly in line with historical trends and previous recoveries of a similar duration.

4

Business investment has also made a significant contribution to overall UK growth since mid-2009, although it did weaken towards the end of 2015.

5

Looking ahead, the key risk is that this relatively well balanced recovery does not last, particularly against a background of continued extremely low interest rates.

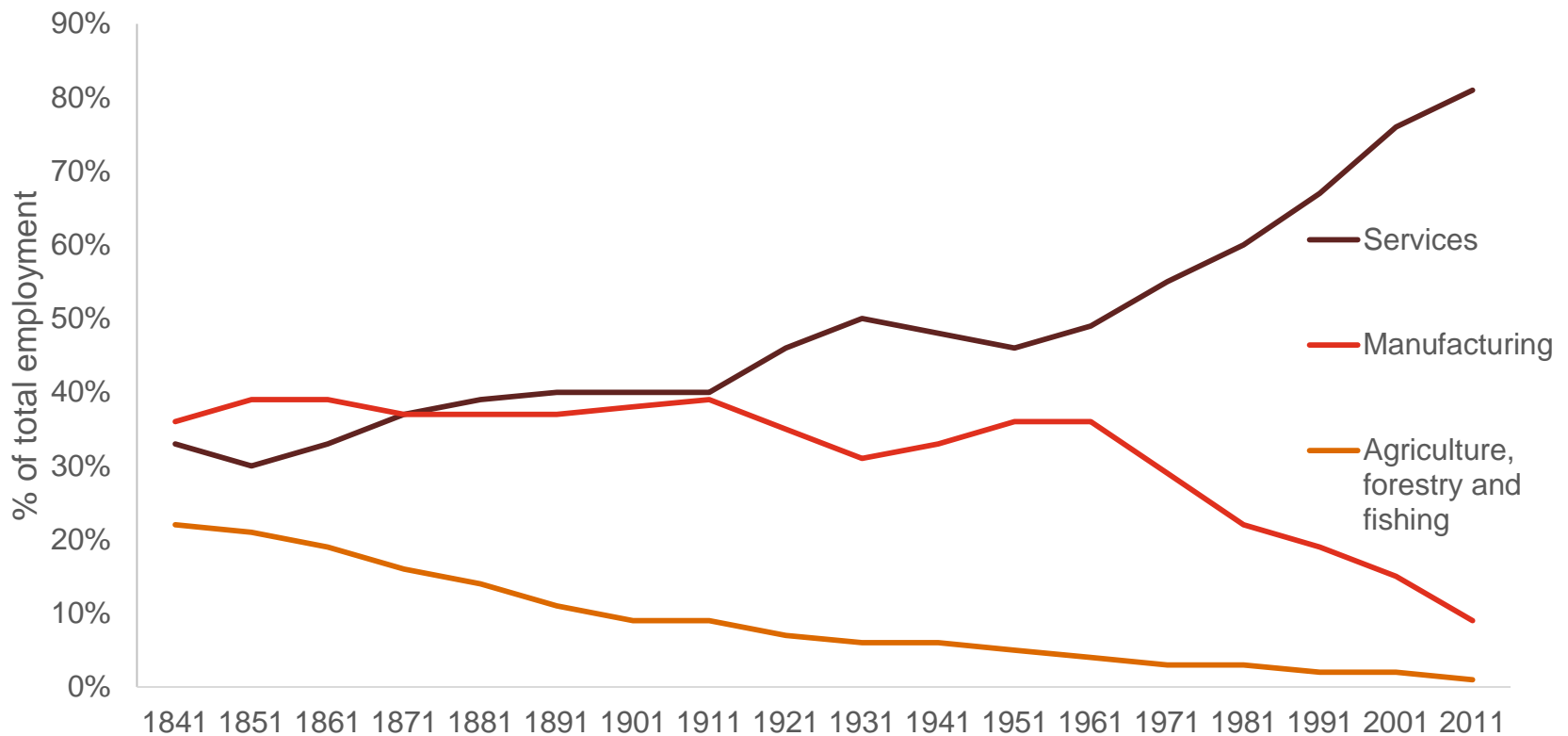
Which industries will drive future jobs growth in the UK?

We have projected UK jobs growth by industry sector to 2025, taking into account past long-term trends

- We began by looking at very long-term shifts in the structure of UK employment across manufacturing, services and agriculture since the mid-19th century.
- We then analysed more detailed ONS data on the industrial breakdown of UK jobs since 1978, with a particular focus on the period 1997-2015 as this broadly encompasses a full economic cycle.
- We also looked at the relationship between jobs growth and productivity growth across sectors.
- Historical trends in sectoral employment growth were then used as a starting point for projecting forward jobs growth by sector to 2025, but allowing for potential changes in these historical trends where appropriate.

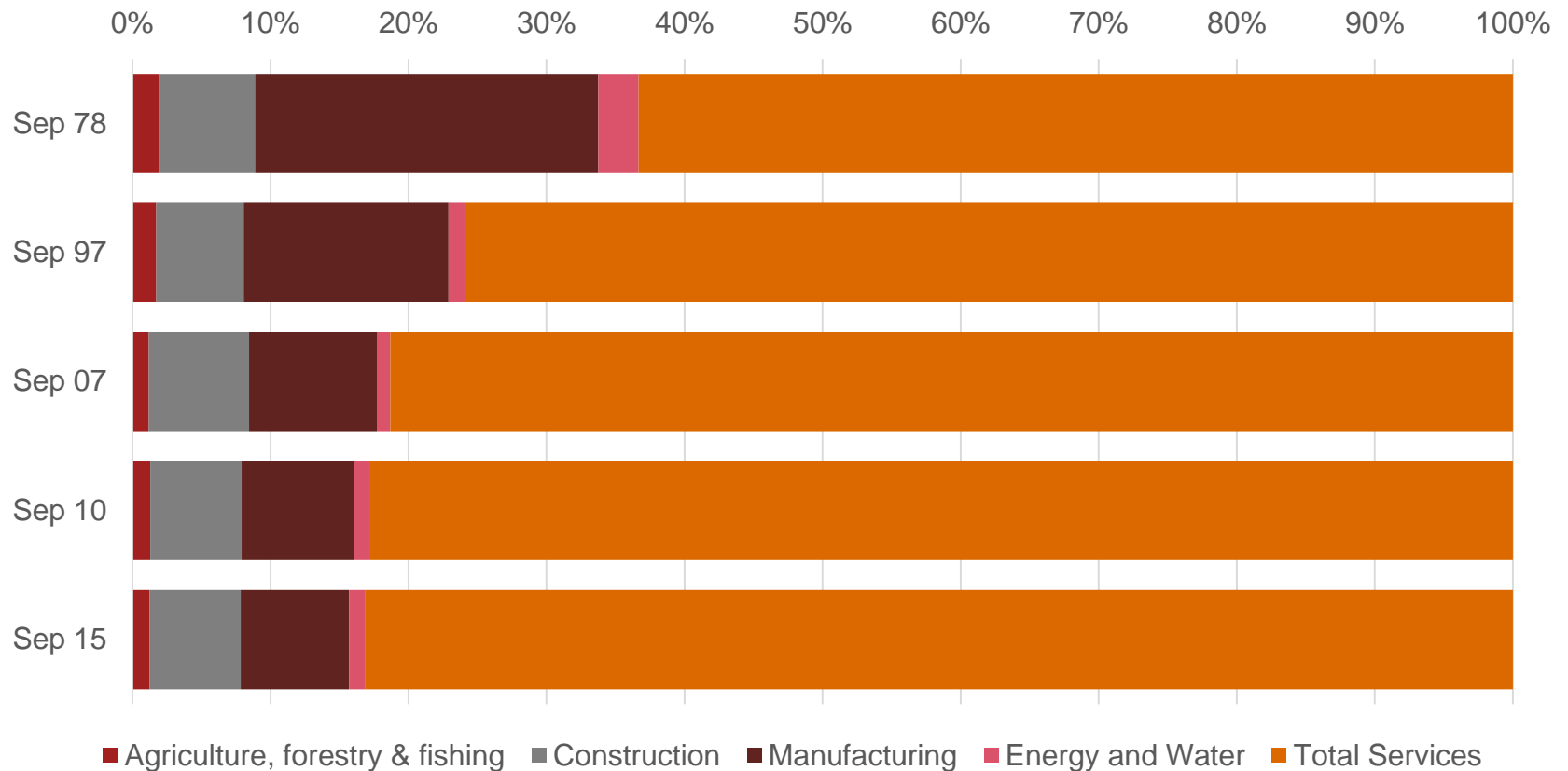
Services has become the dominant employer in the UK, while the share of jobs in manufacturing has fallen steadily since 1960, following earlier declines in agriculture

UK employment shares by industry since 1841



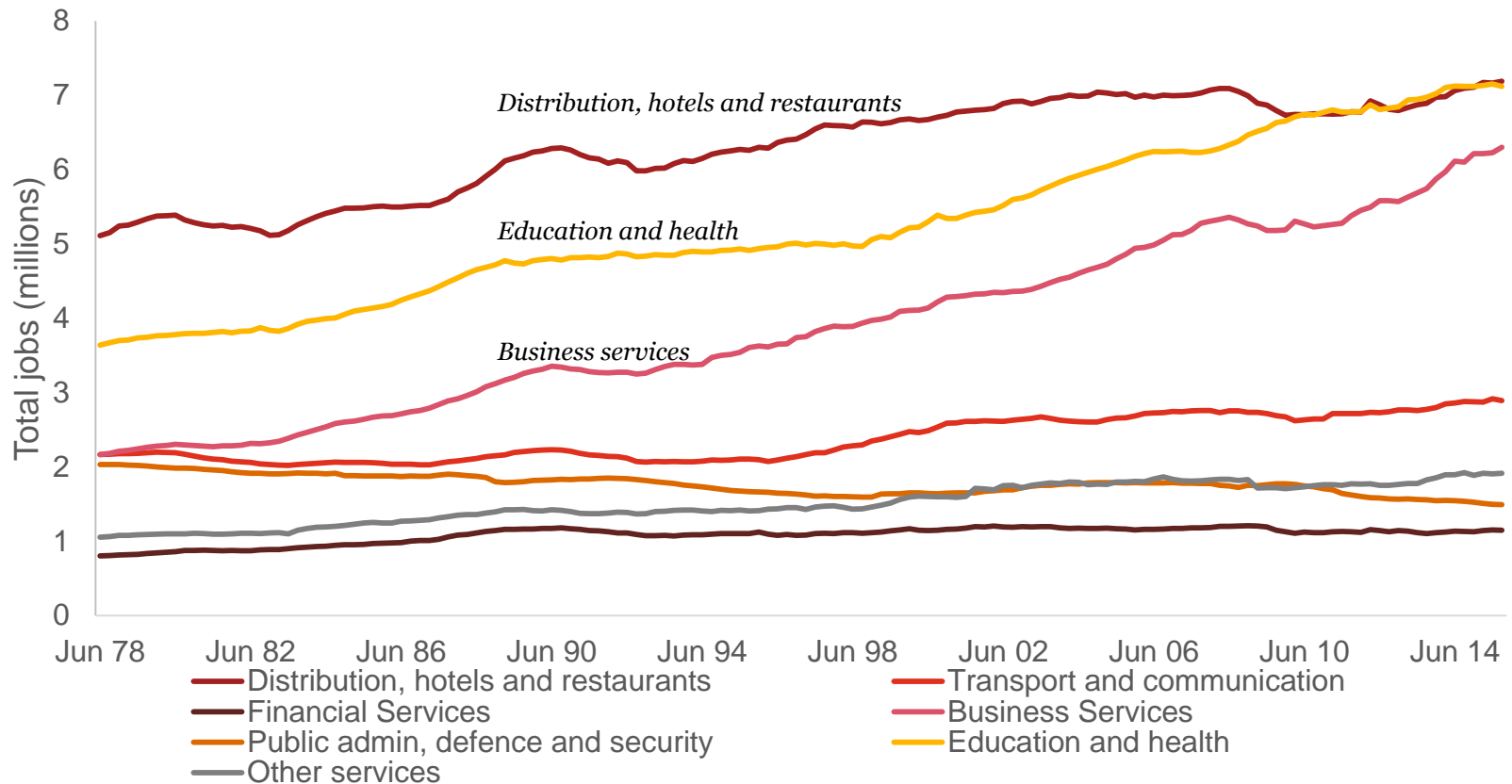
Over 80% of the UK's working population is now employed in the services sector, up from around 63% in 1978

Breakdown of UK jobs by industry sector since 1978

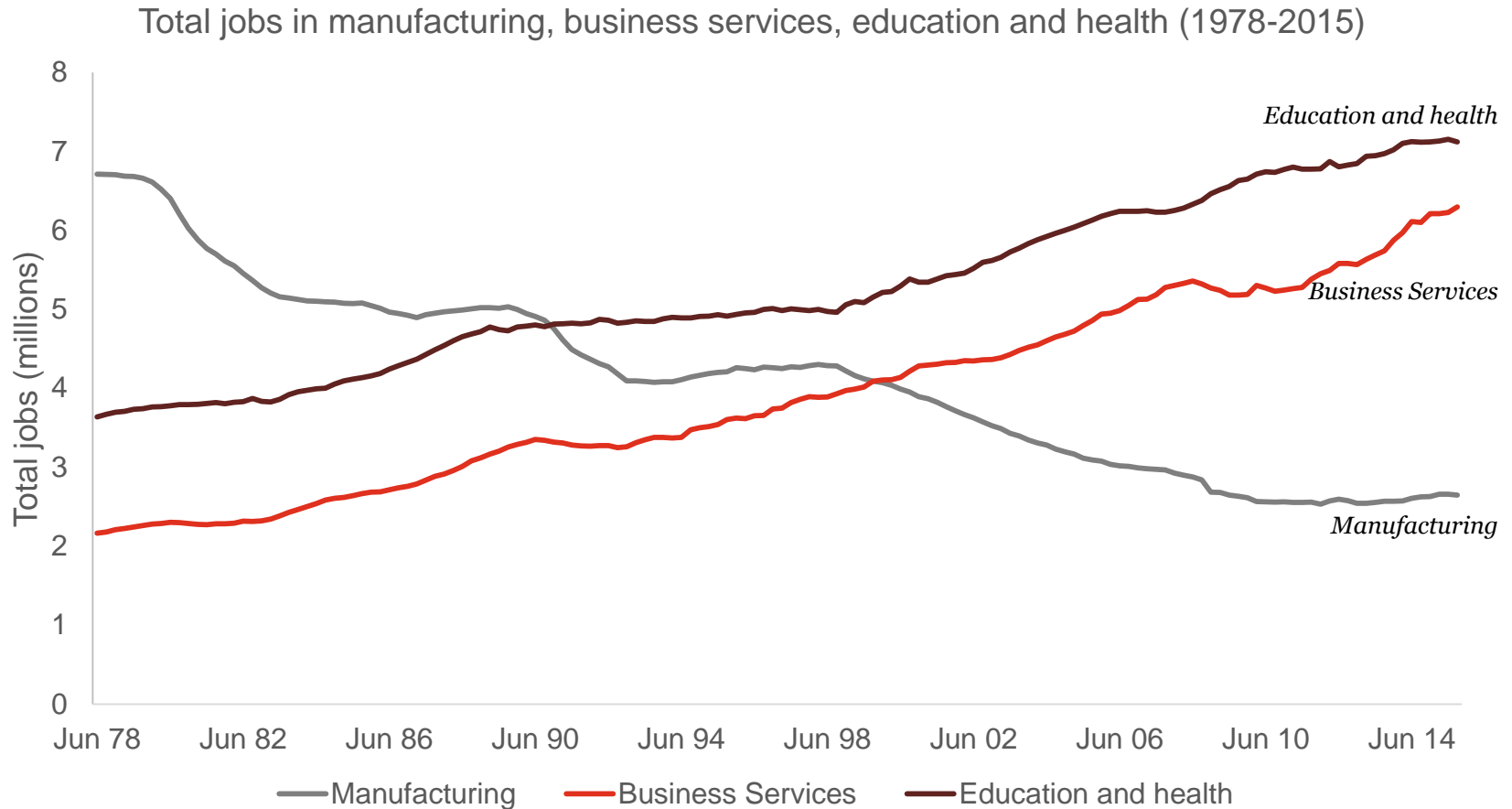


Growth in services since 1978 has been most rapid in business services, education and health

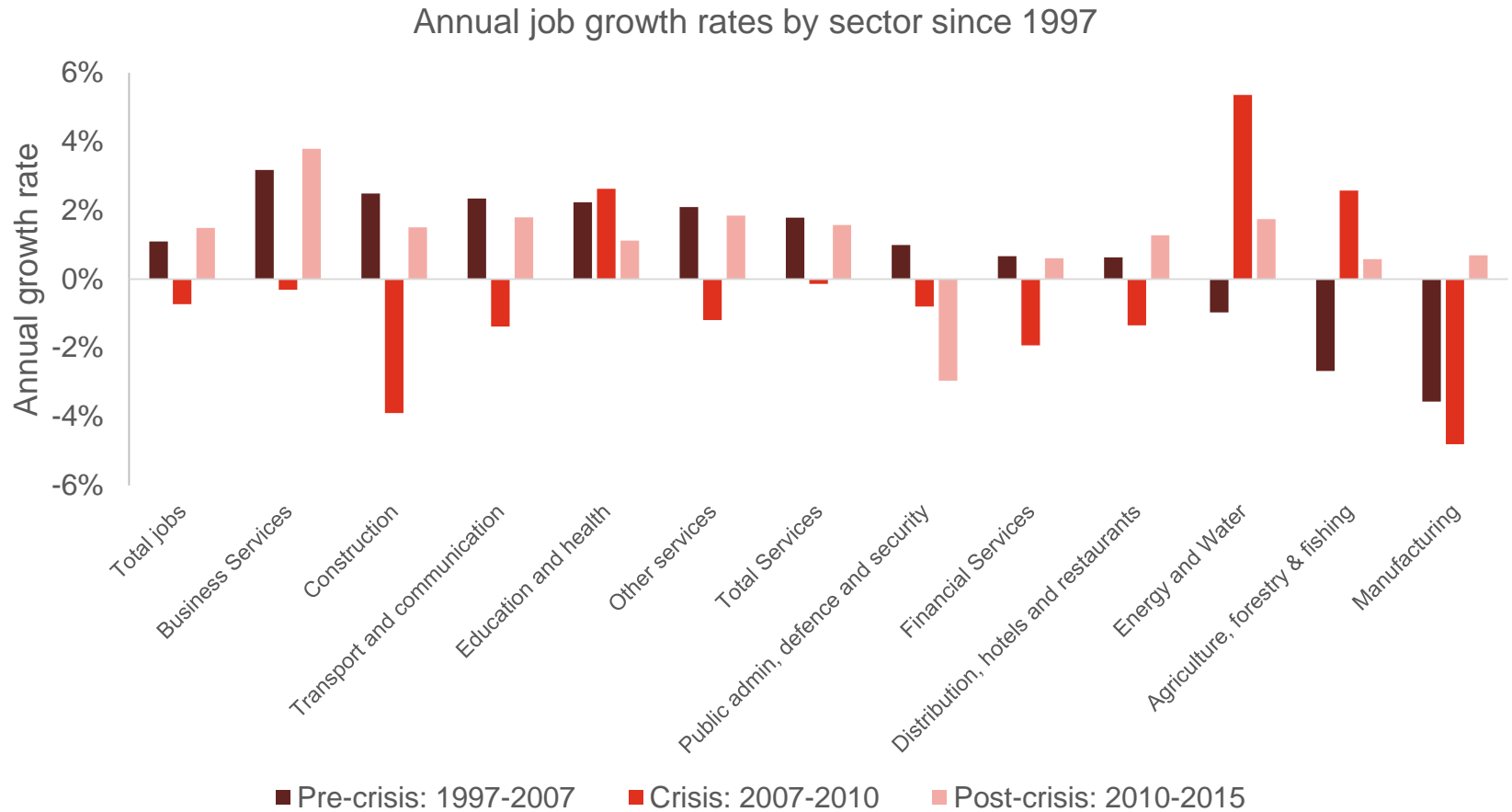
Jobs trends in the services sector (1978-2015)



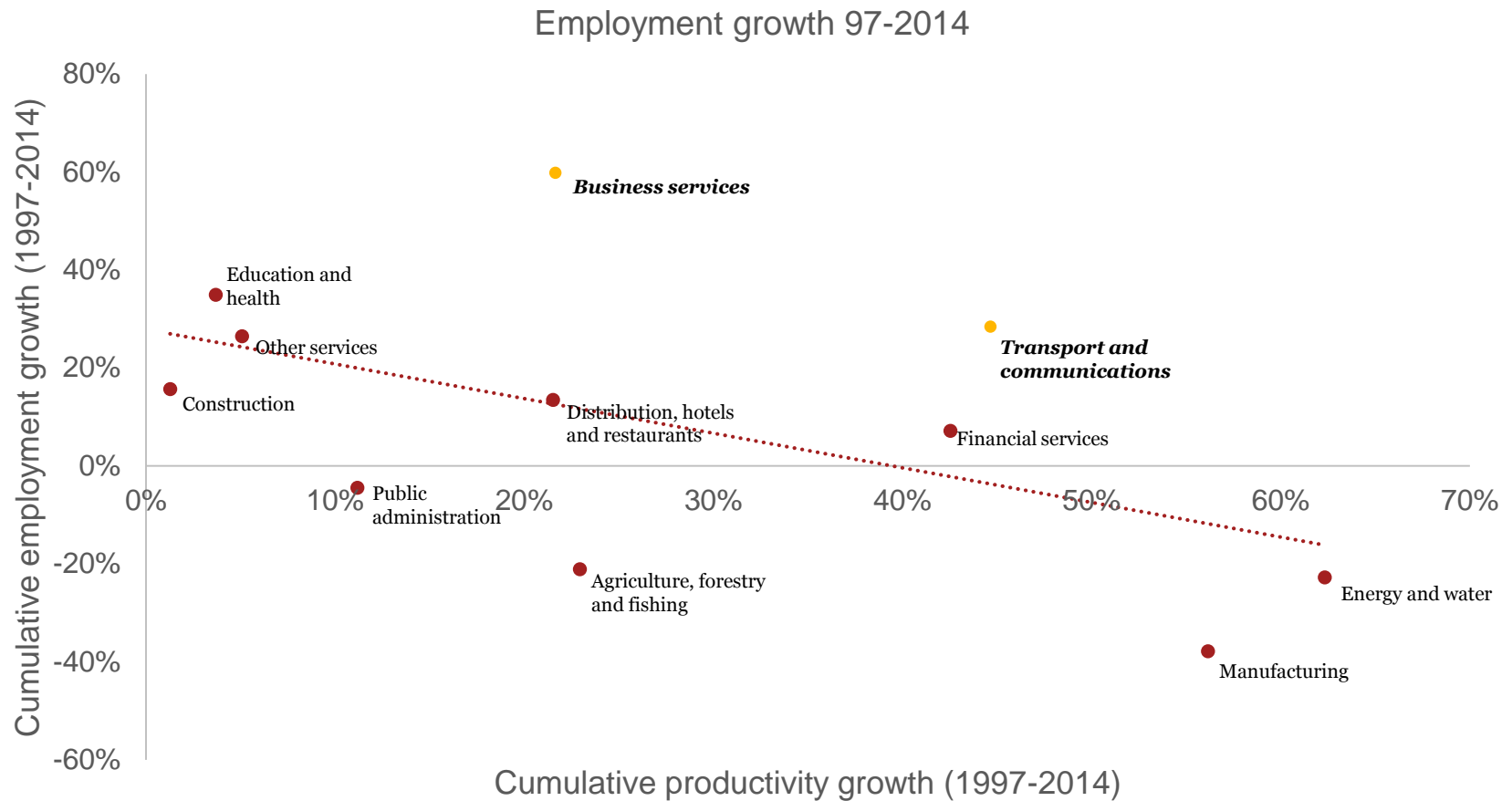
Manufacturing has experienced big declines in total employment and was overtaken by health and education in 1991 and business services in 2000



Construction and manufacturing were the hardest hit in the 2008-9 recession, while business services has experienced the strongest jobs growth since the recession

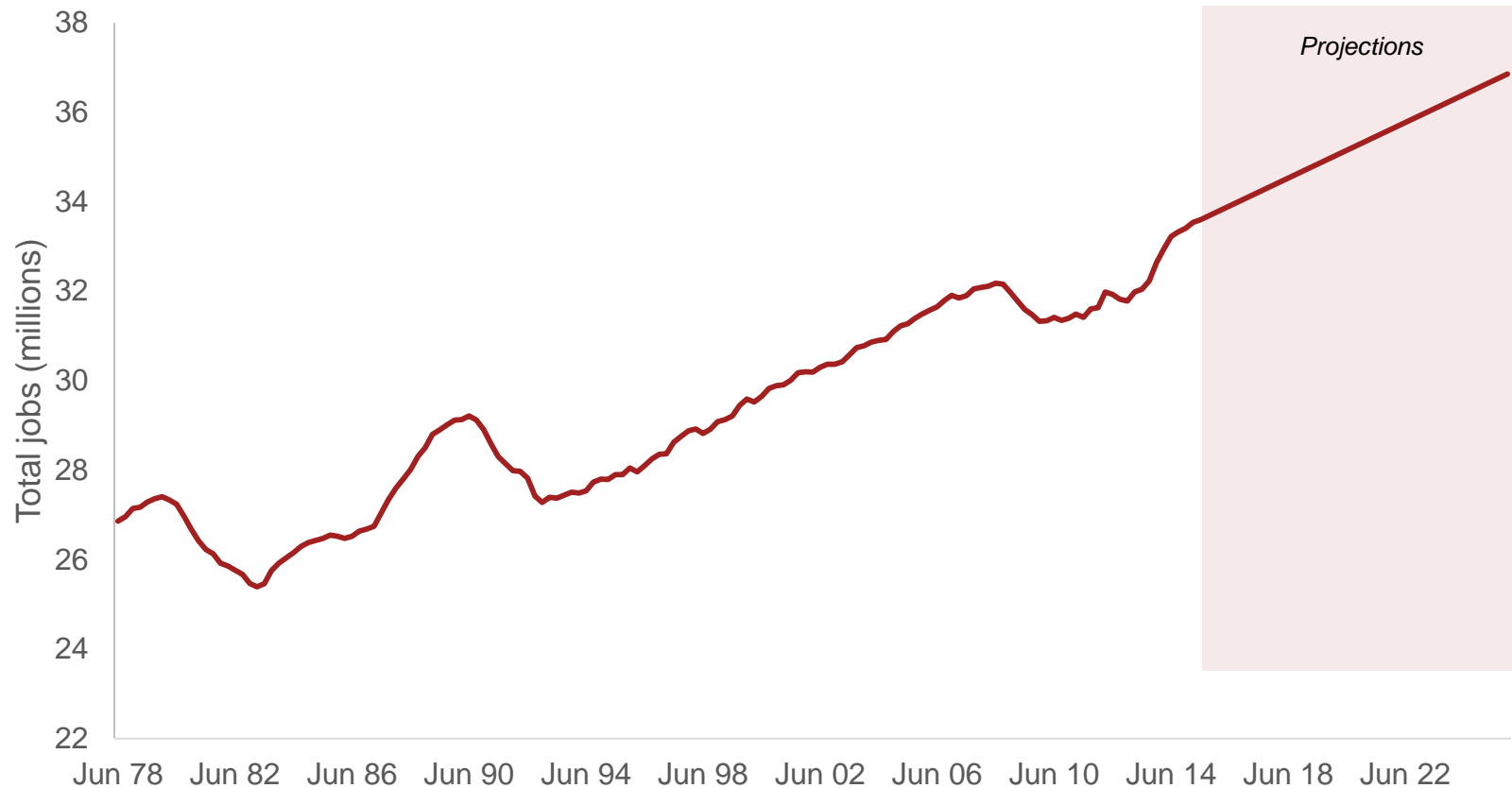


Business services, transport and communications have performed relatively well in terms of both employment growth and increases in productivity



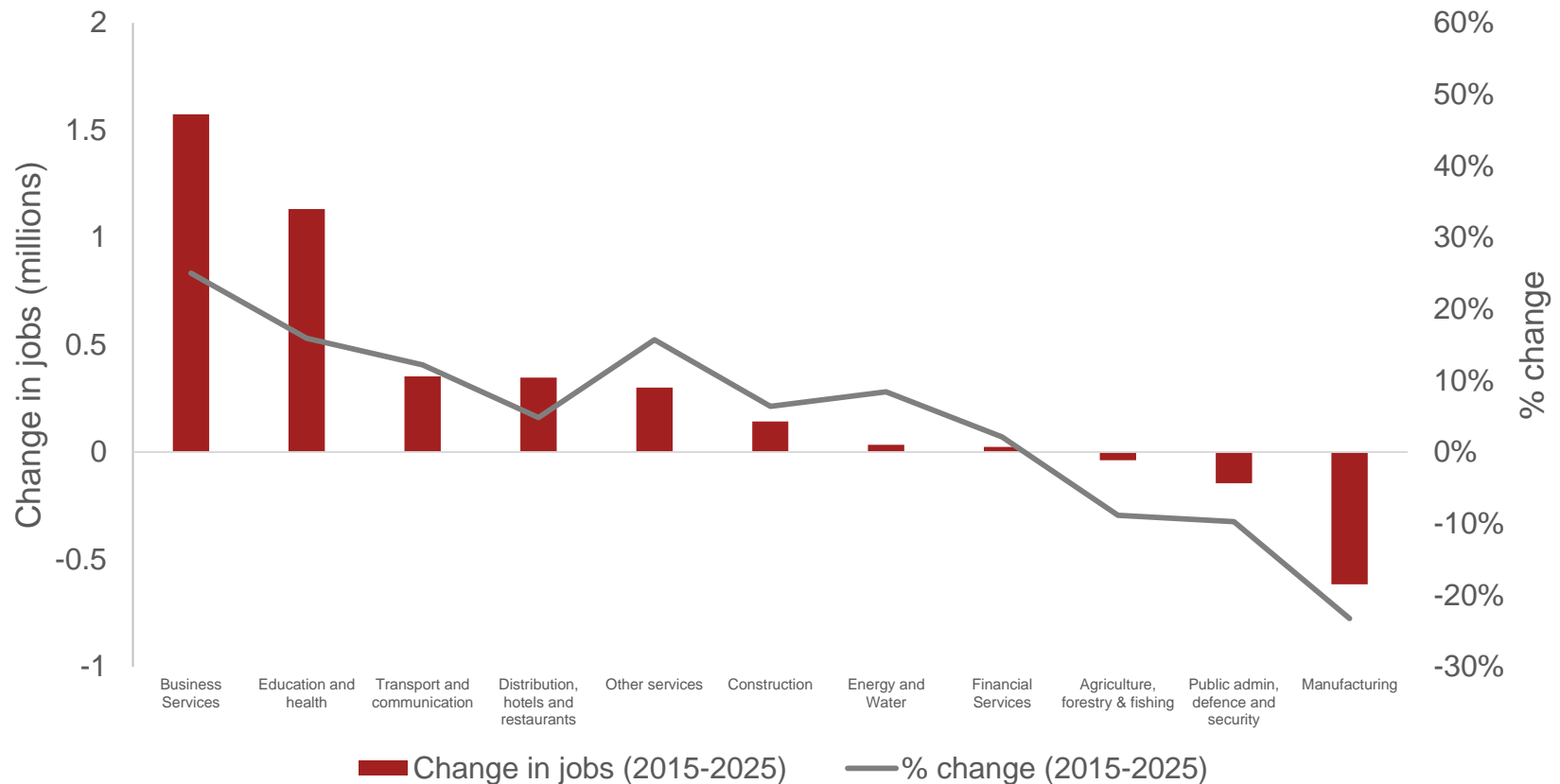
More than 3 million new jobs could be created by 2025, taking the total number of jobs to around 37 million

Projected trend growth in total UK jobs to 2025



Over the next decade over 2.5 million new jobs could be created in business services, health and education; but around 600,000 jobs could be lost in manufacturing

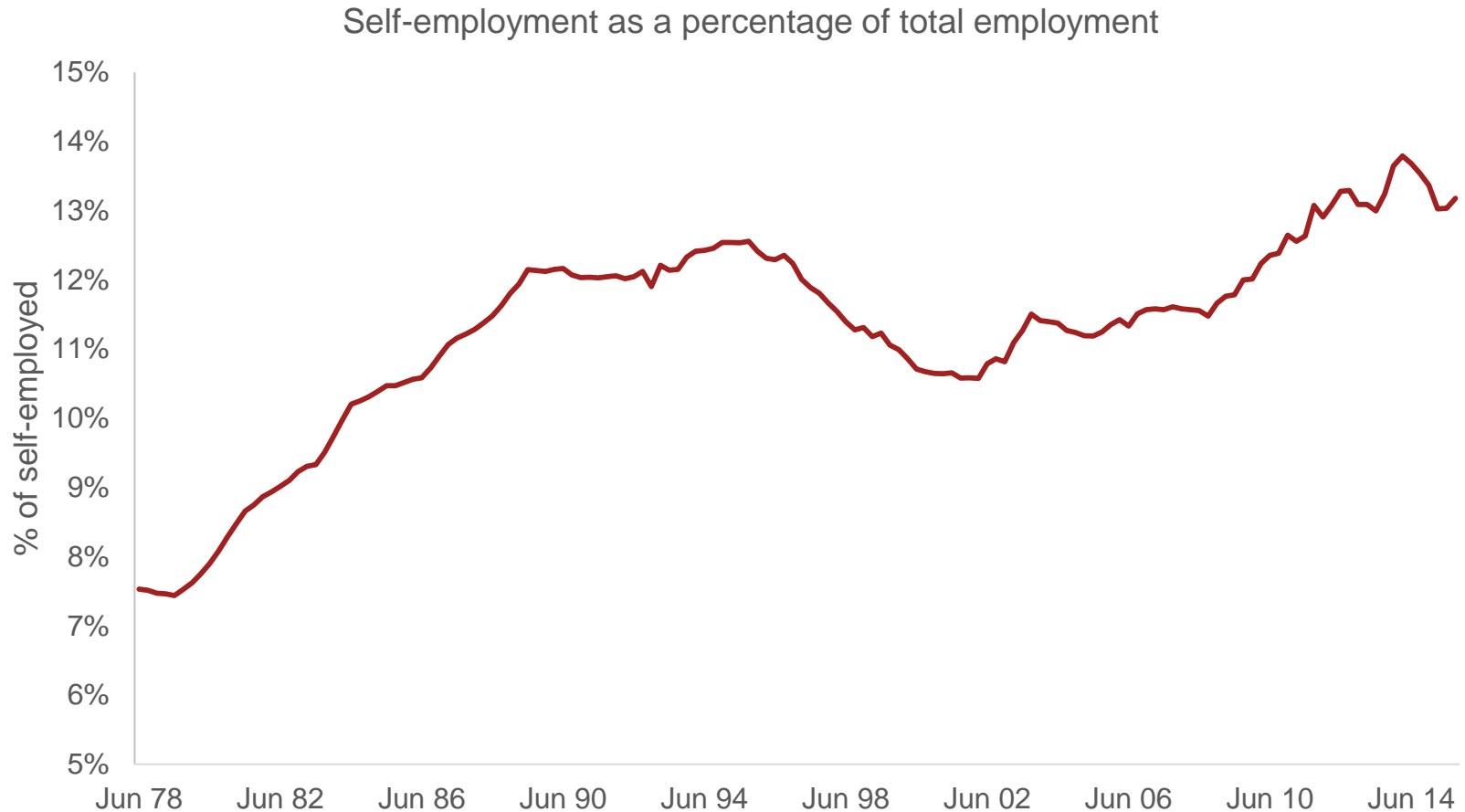
Change in jobs over the next decade by UK industry sector (2015 – 2025)



Average annual UK jobs growth to 2025 could be similar to its 1997-2015 trend rate, but there may be differences in some industry sectors (as highlighted in table below)

<i>Industry</i>	Number of jobs (millions)			Growth rates (per annum)	
	1997	2015	2025 (projected)	1997-2015	2015-2025 (projected)
Agriculture, forestry & fishing	0.5	0.4	0.4	-0.9%	-0.9%
Construction	1.8	2.2	2.4	1.1%	0.6%
Manufacturing	4.3	2.6	2.0	-2.6%	-2.6%
Energy and water	0.3	0.4	0.4	0.8%	0.8%
Distribution, hotels and restaurants	6.6	7.2	7.5	0.5%	0.5%
Transport and communication	2.2	2.9	3.2	1.6%	1.2%
Financial services	1.1	1.1	1.2	0.2%	0.2%
Business services	3.9	6.3	7.9	2.8%	2.3%
Public administration, defence and security	1.6	1.5	1.3	-0.4%	-1.0%
Education and health	5.0	7.1	8.3	2.0%	1.5%
Other services	1.5	1.9	2.2	1.5%	1.5%
Total services	21.8	28.0	31.6	1.4%	1.2%
Total Jobs	28.8	33.7	36.9	0.9%	0.9%

Self-employment has risen as a share of total employment (and might increase further to around 20% by 2025)



Summary: UK jobs growth over the next decade

1

The UK could add around 3 million extra jobs over the next decade, with the total number of jobs reaching around 37 million by 2025.

2

Business services could create over 1.5 million jobs by 2025, while health and education could add around 1 million jobs over this period.

3

Around 600,000 jobs could be lost in manufacturing by 2025 as new automated technologies continue to boost productivity and overseas competition remains fierce, but this should be heavily outweighed by strong growth in service sector jobs.

4

This jobs growth will rely, however, on continued increases in average retirement ages and inflows of workers from overseas to meet increasing demand for labour.

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