

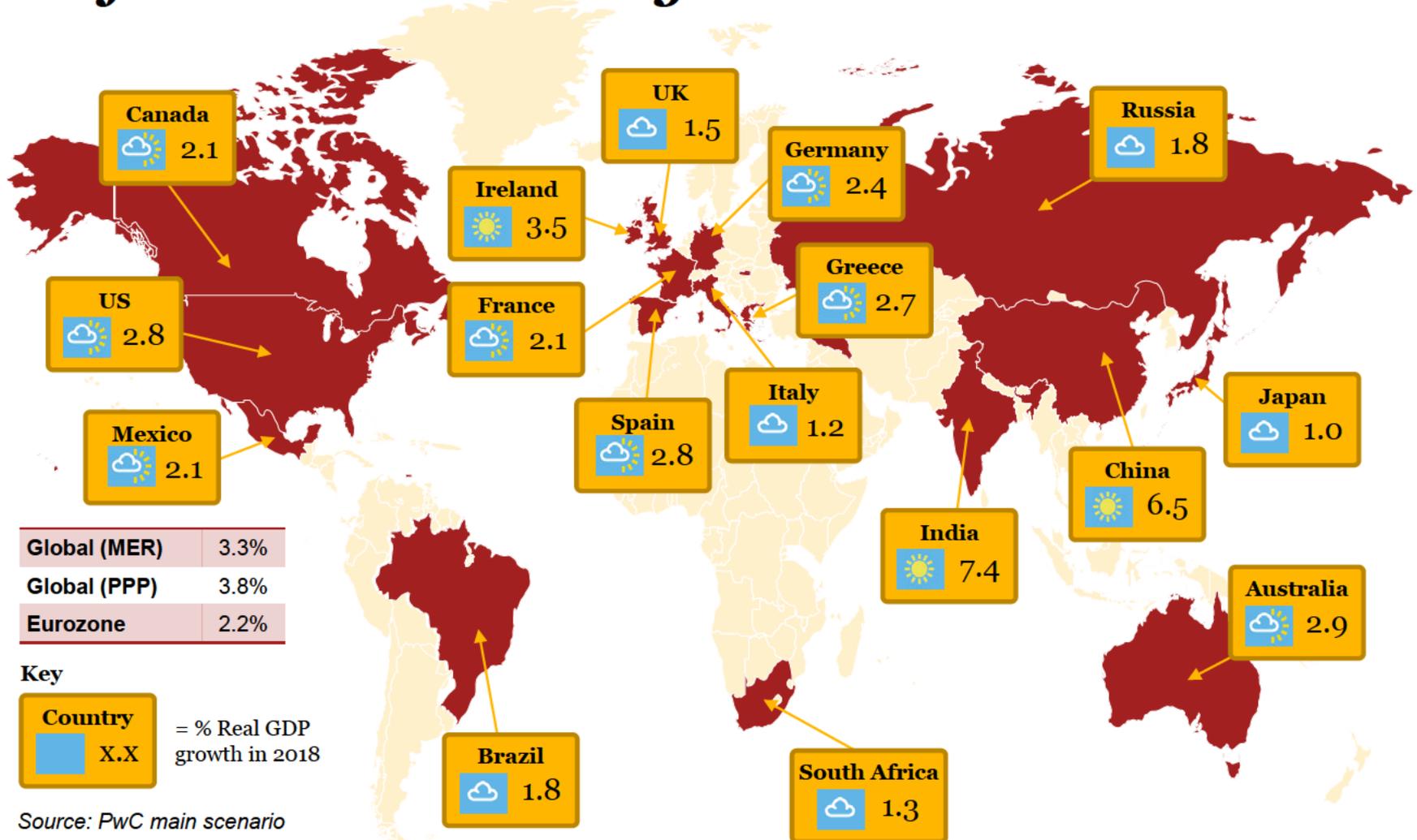
UK Economic Outlook

March 2018

Contents

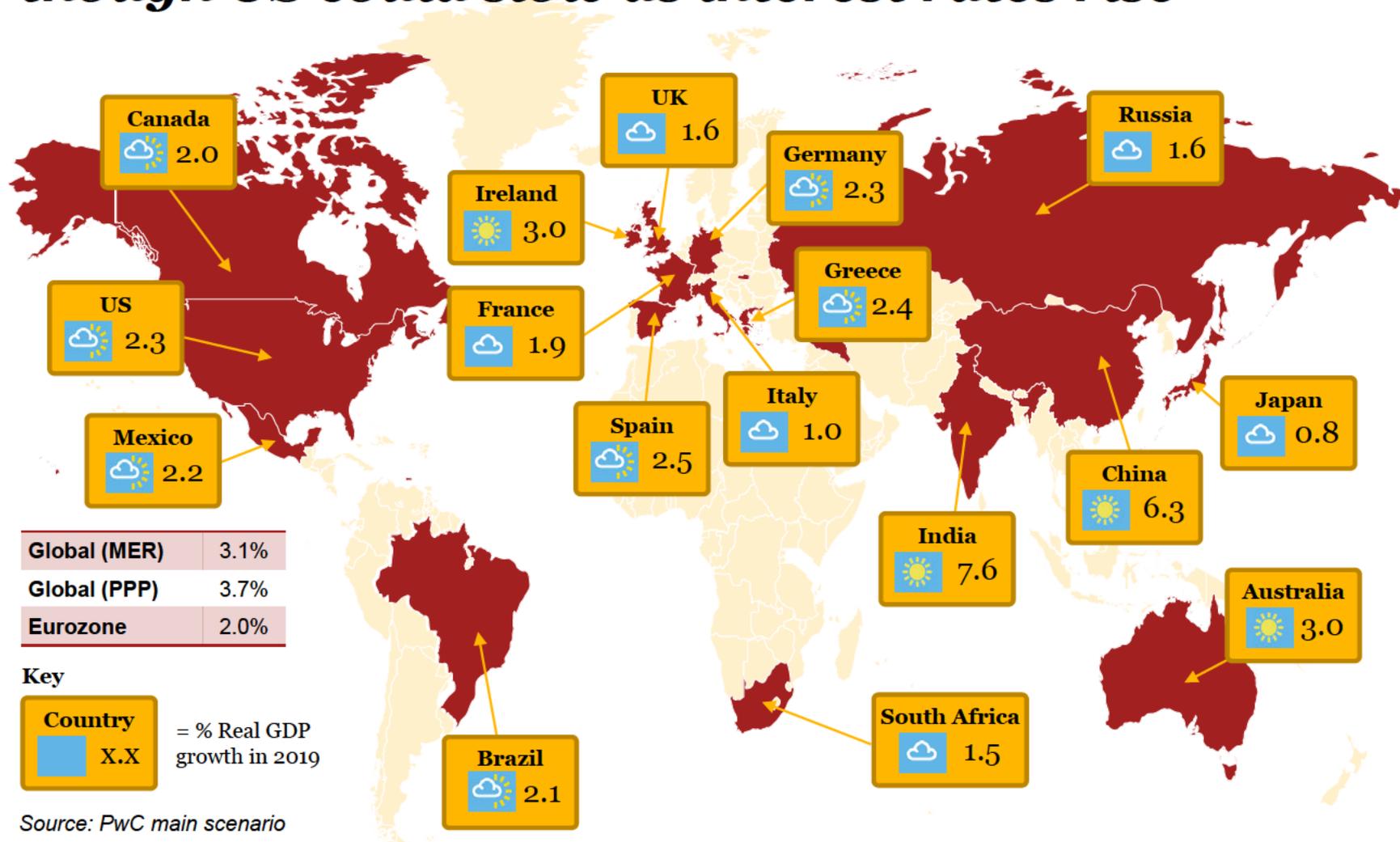
- 1** Global outlook
- 2** UK economic prospects
- 3** The outlook for consumer spending and the impact of automation
- 4** Regional growth trends and prospects

Global growth will continue to strengthen in all major economies through 2018



Source: PwC main scenario
 UK Economic Outlook
 PwC

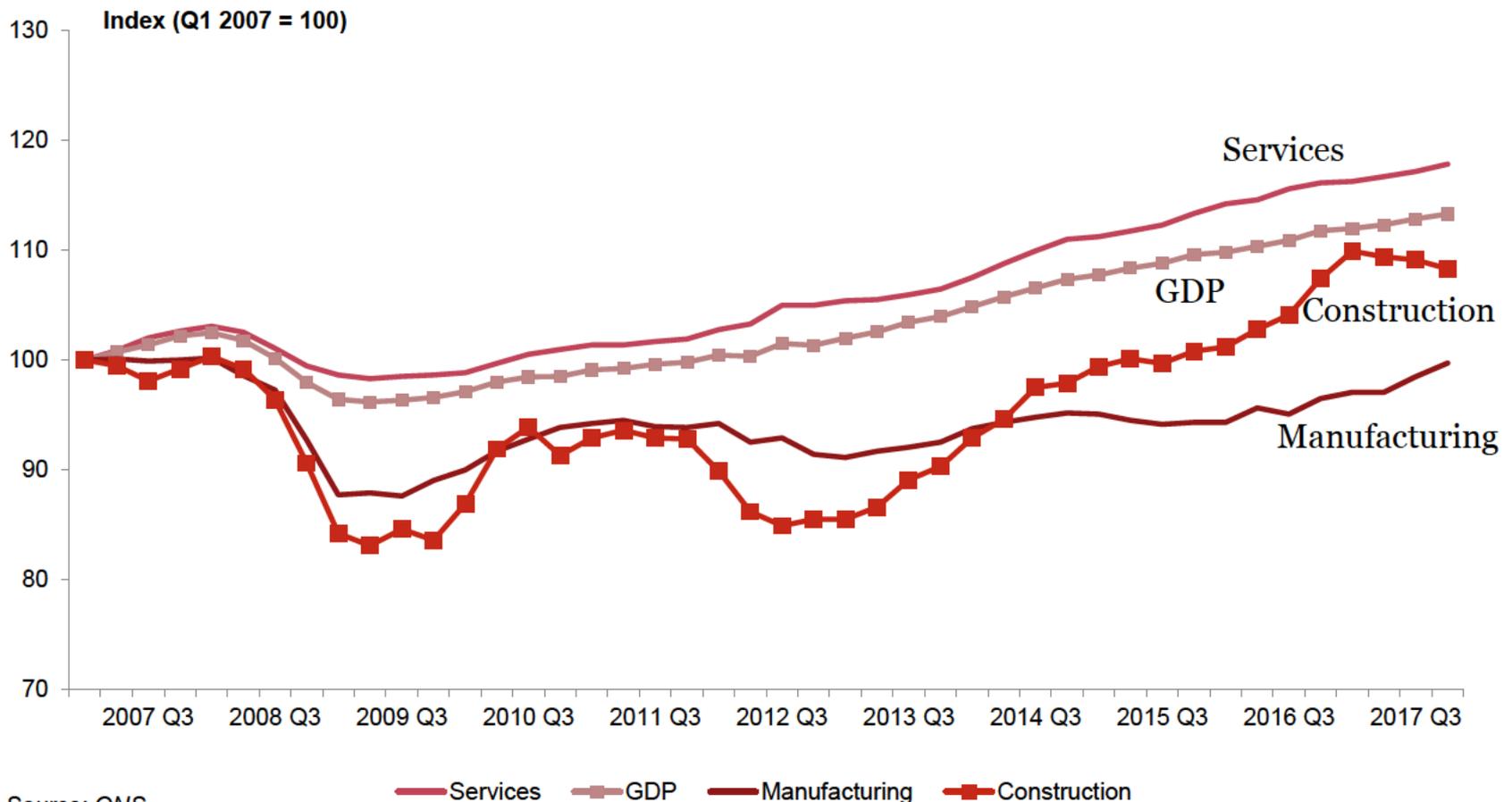
Global growth should also remain strong in 2019, though US could slow as interest rates rise



Source: PwC main scenario
UK Economic Outlook
PwC

UK economic prospects

The services sector has driven the UK recovery from the financial crisis, while manufacturing and construction have been weaker on average and more volatile



GDP growth moderated in 2017 due primarily to slower growth in consumer spending and services sector output



Source: ONS (consumer spending data not yet available for Q4 2017)

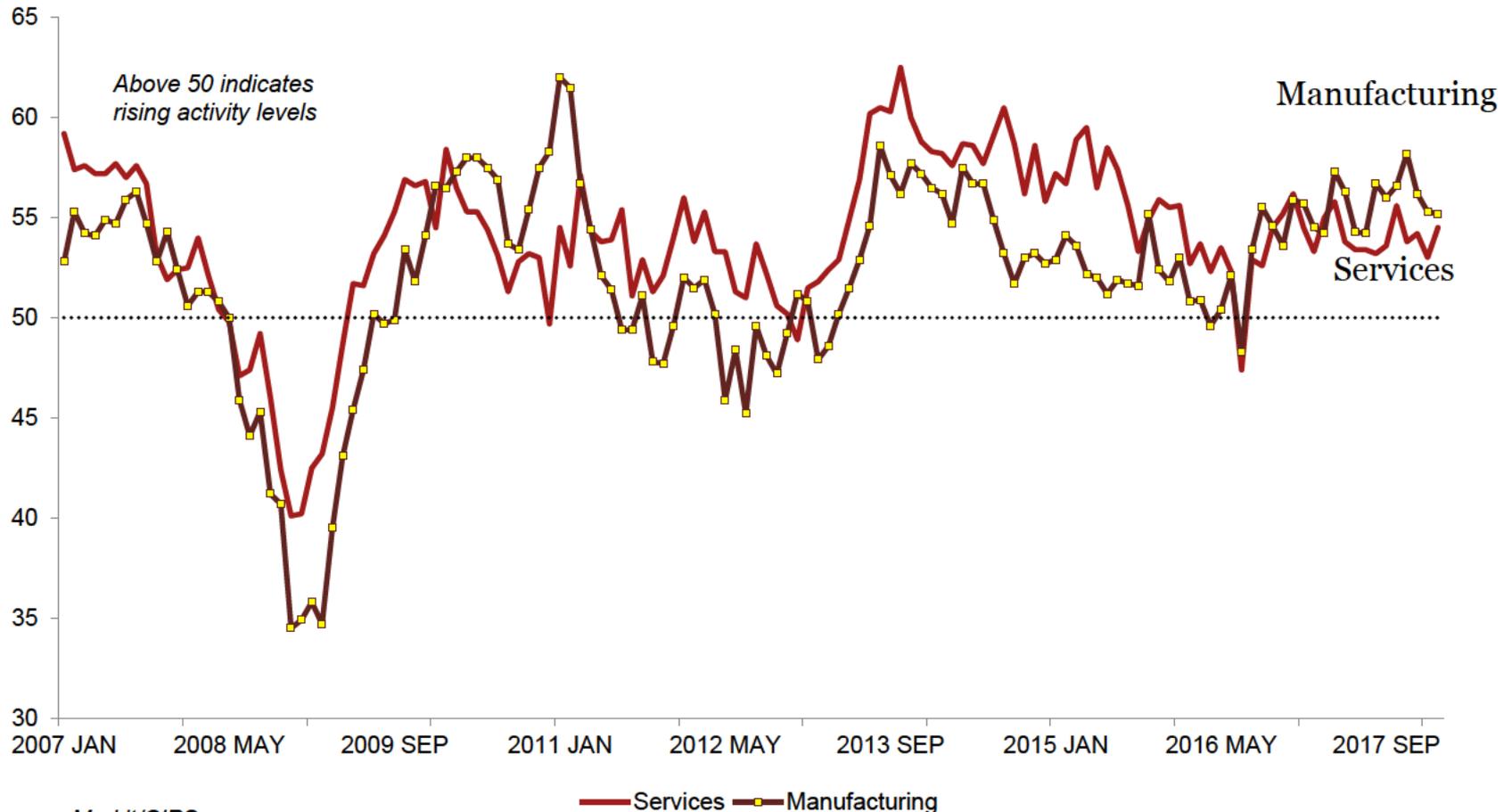
UK Economic Outlook

PwC

March 2018

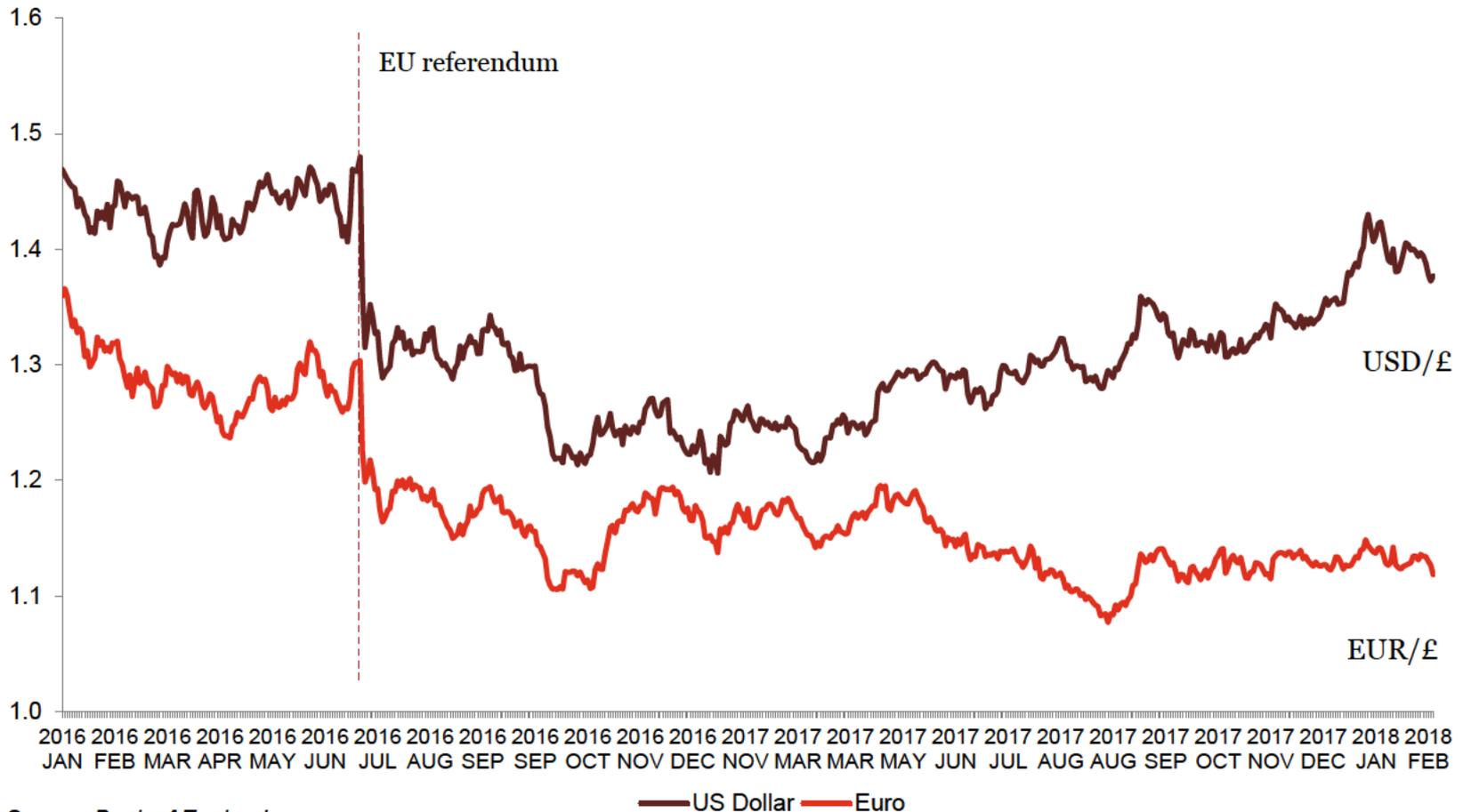
7

Manufacturing PMI shows relatively strong growth recently, but services PMI has moderated from levels seen in 2014-15



Source: Markit/CIPS
UK Economic Outlook
PwC

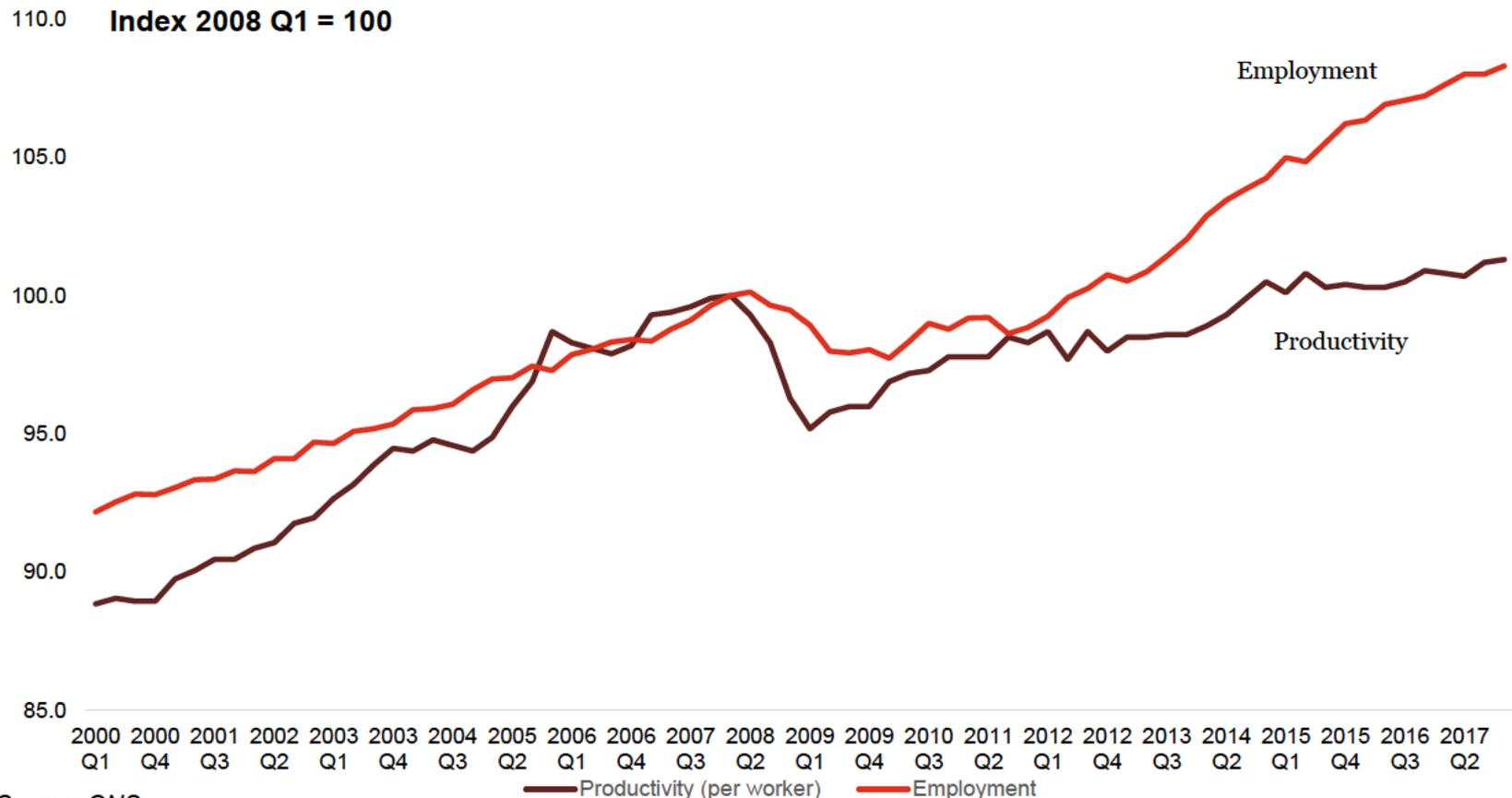
Sterling has recovered some ground against the US dollar, but remains weak versus the euro



Source: Bank of England
UK Economic Outlook
PwC

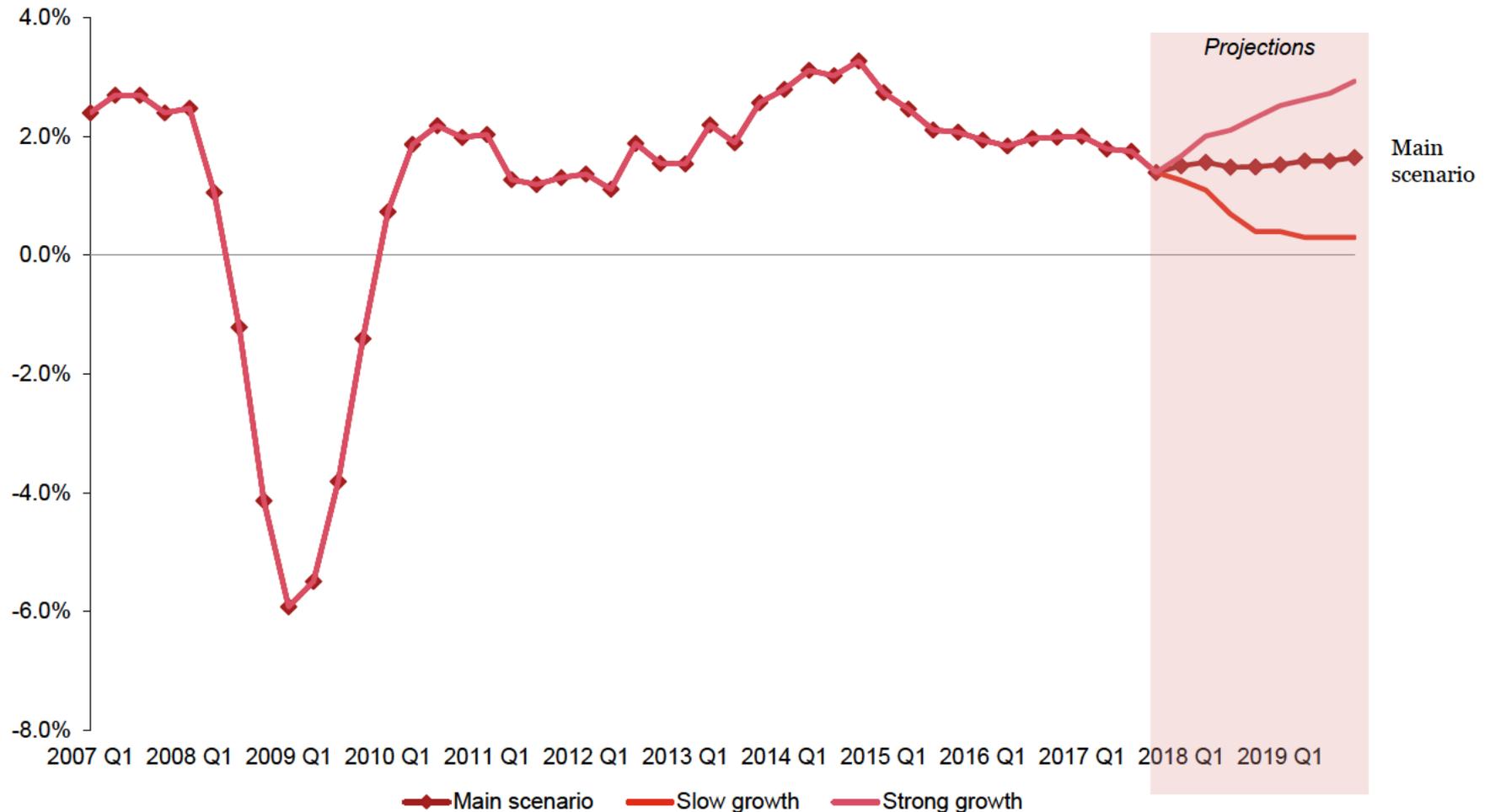
March 2018
9

UK has created a record number of jobs in recent years, but productivity growth has been subdued over the past decade, depressing real wage growth



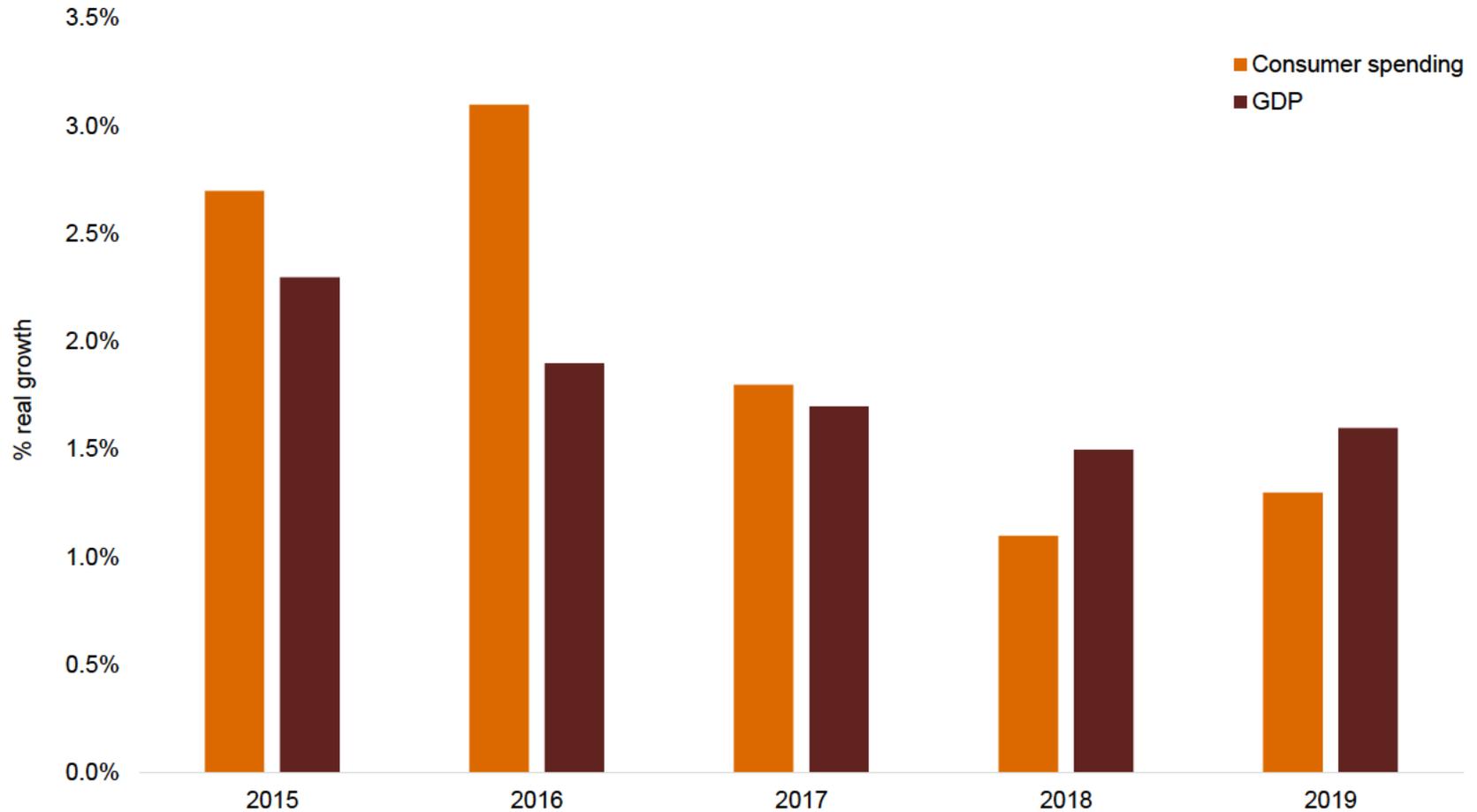
Source: ONS
UK Economic Outlook
PwC

UK growth to remain modest in 2018-19 with considerable Brexit-related uncertainty around our main scenario



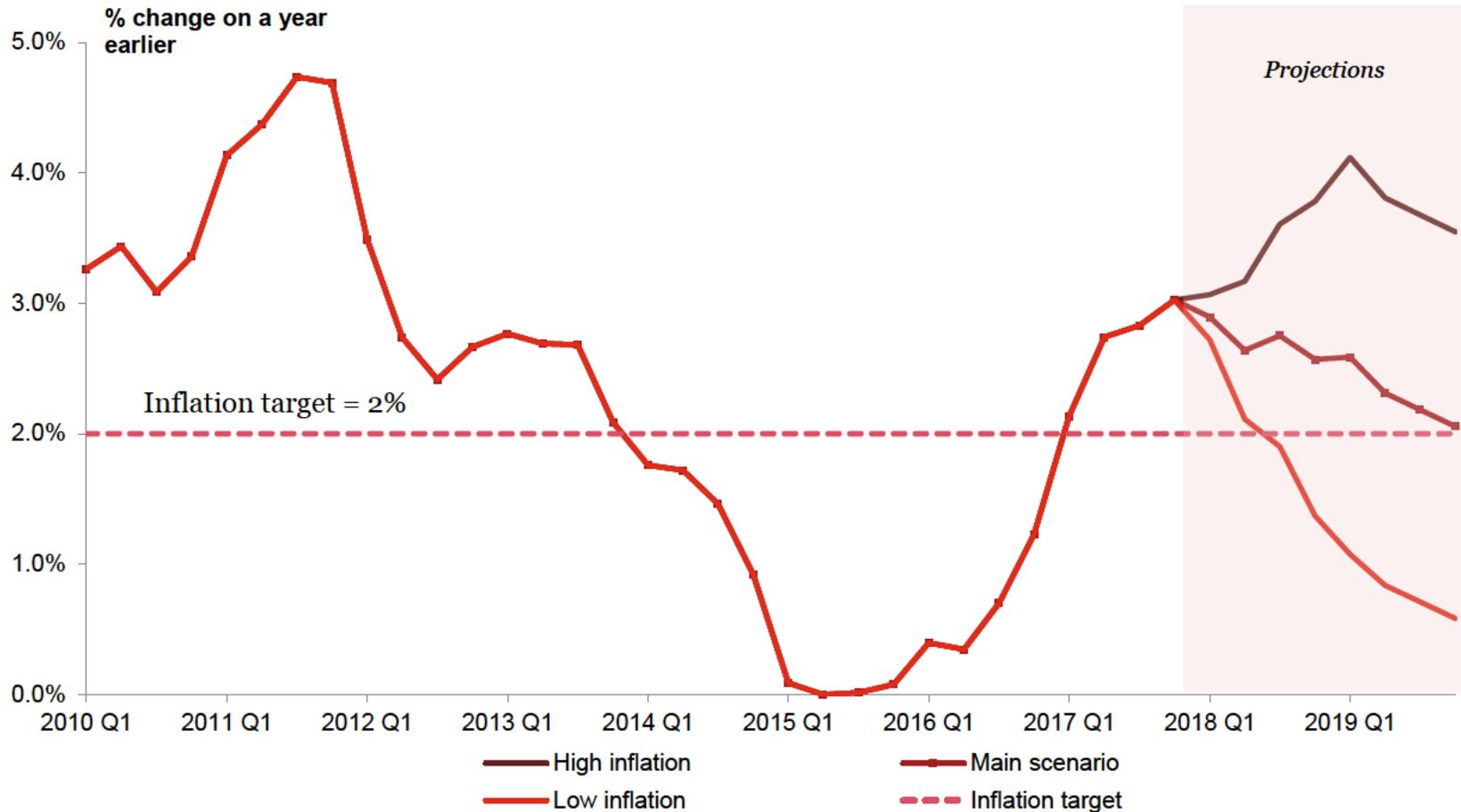
Source: ONS, PwC scenarios
UK Economic Outlook
PwC

Consumer spending boosted UK GDP growth in 2015-16, but we expect it to be a drag on growth in 2018-19



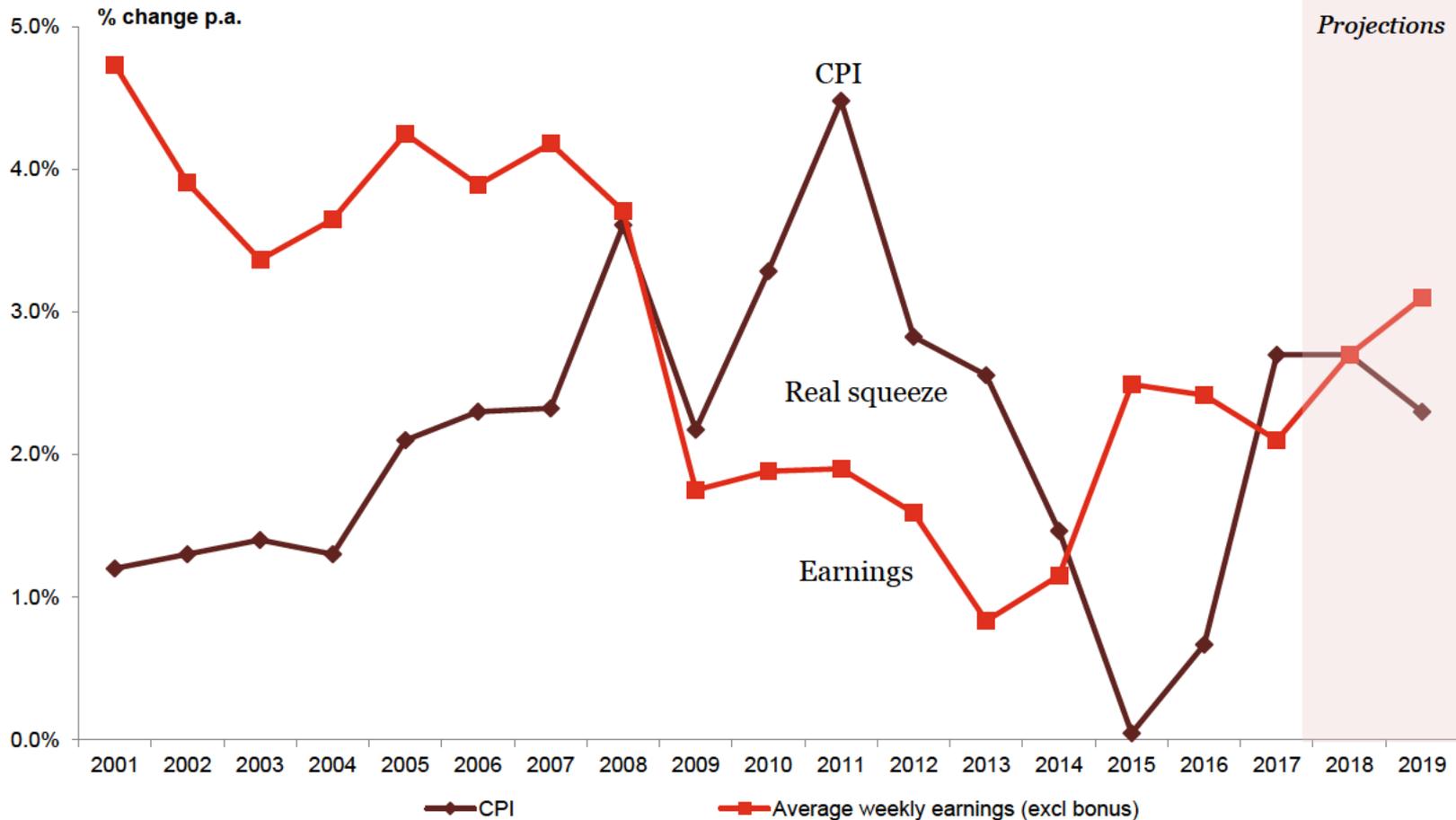
Source: ONS for 2015-17, PwC main scenario for 2018-19

In our main scenario we expect UK inflation to return close to the target rate of 2% by the end of 2019



Source: ONS, PwC analysis
UK Economic Outlook
PwC

Real earnings projected to return to positive territory in 2019, but jobs growth is likely to ease over this period



Summary: UK economic prospects and policy implications

1

In our main scenario, we project UK growth to continue at moderate rates of around 1.5% in 2018 and 1.6% in 2019

2

Europe and the world economy have strengthened, but the UK will lag behind in 2018-19 due to the drag on domestic demand from higher inflation and Brexit-related uncertainty

3

A key factor behind the UK slowdown is subdued consumer spending growth as real incomes have been squeezed by higher inflation and further rises in borrowing became hard to sustain

4

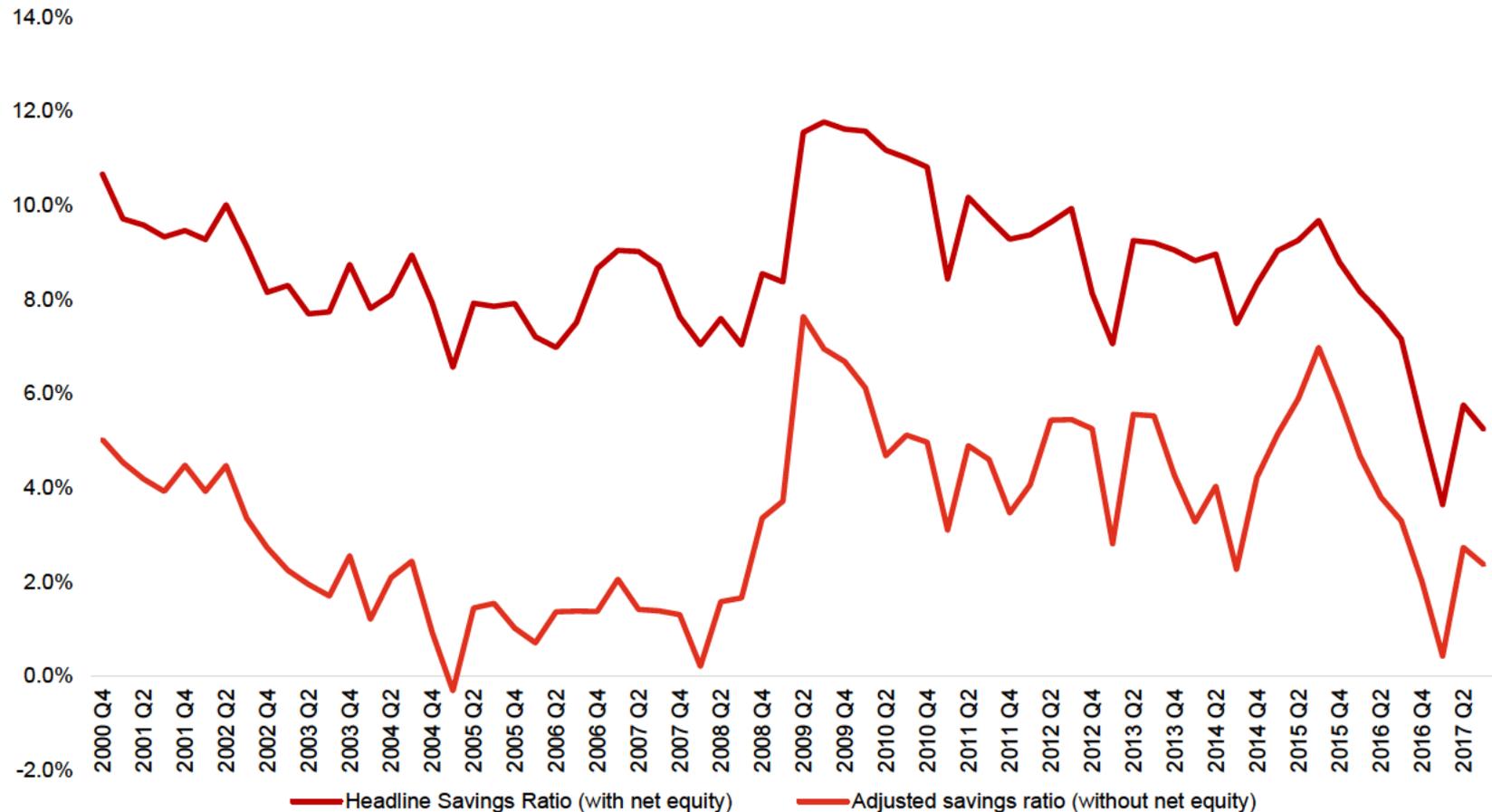
Real wage growth should return to modestly positive territory in 2019, but the boost to growth will be offset by slower expected jobs growth in that year

5

The Bank of England is expected to continue with gradual interest rates rises over the next two years, but the Chancellor may ease fiscal policy slightly in his Autumn Budget

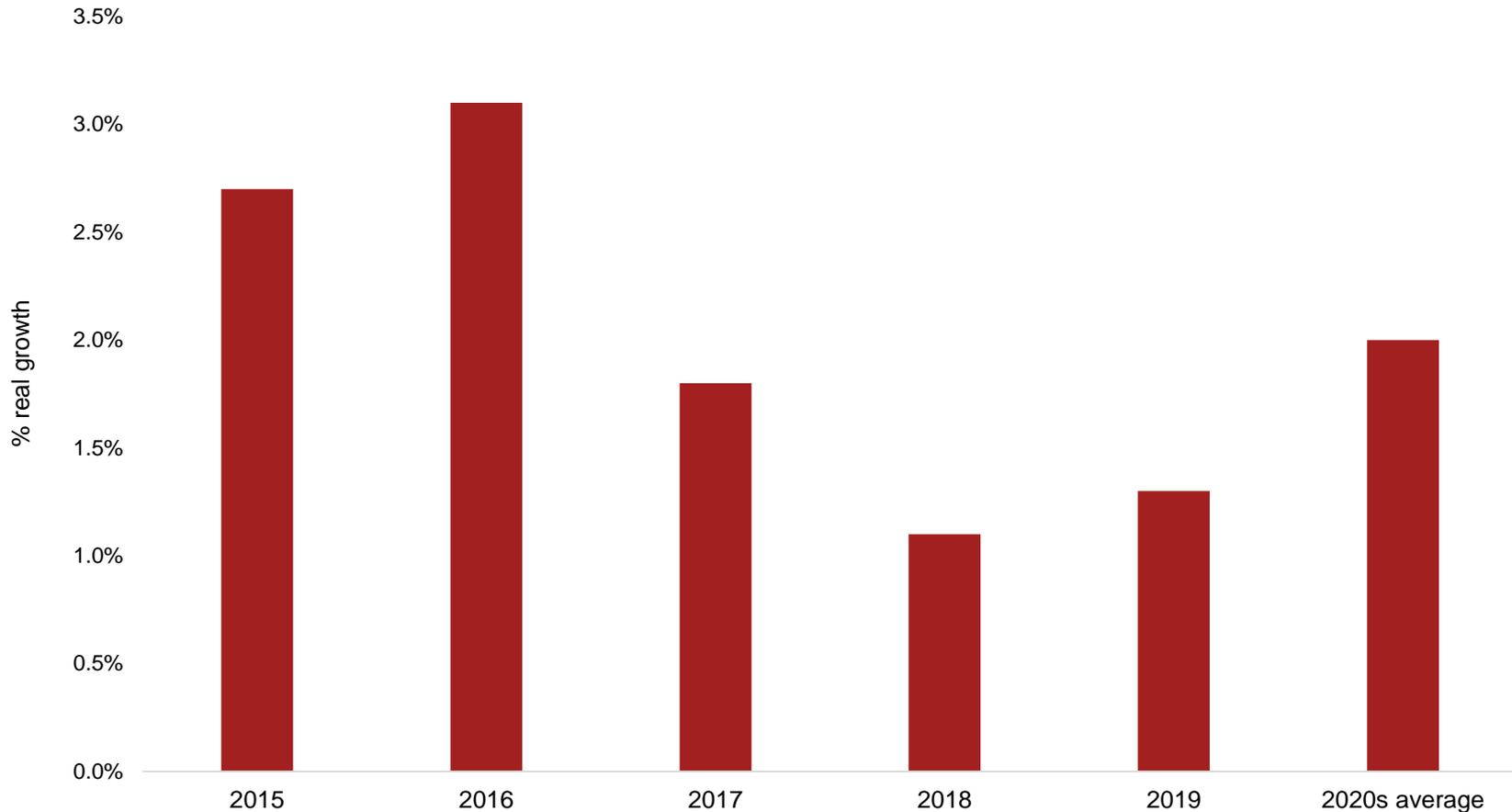
*The outlook for consumer spending
and the impact of automation*

The UK household savings ratio has been in general decline since mid-2010, allowing consumer spending to grow faster than real disposable incomes



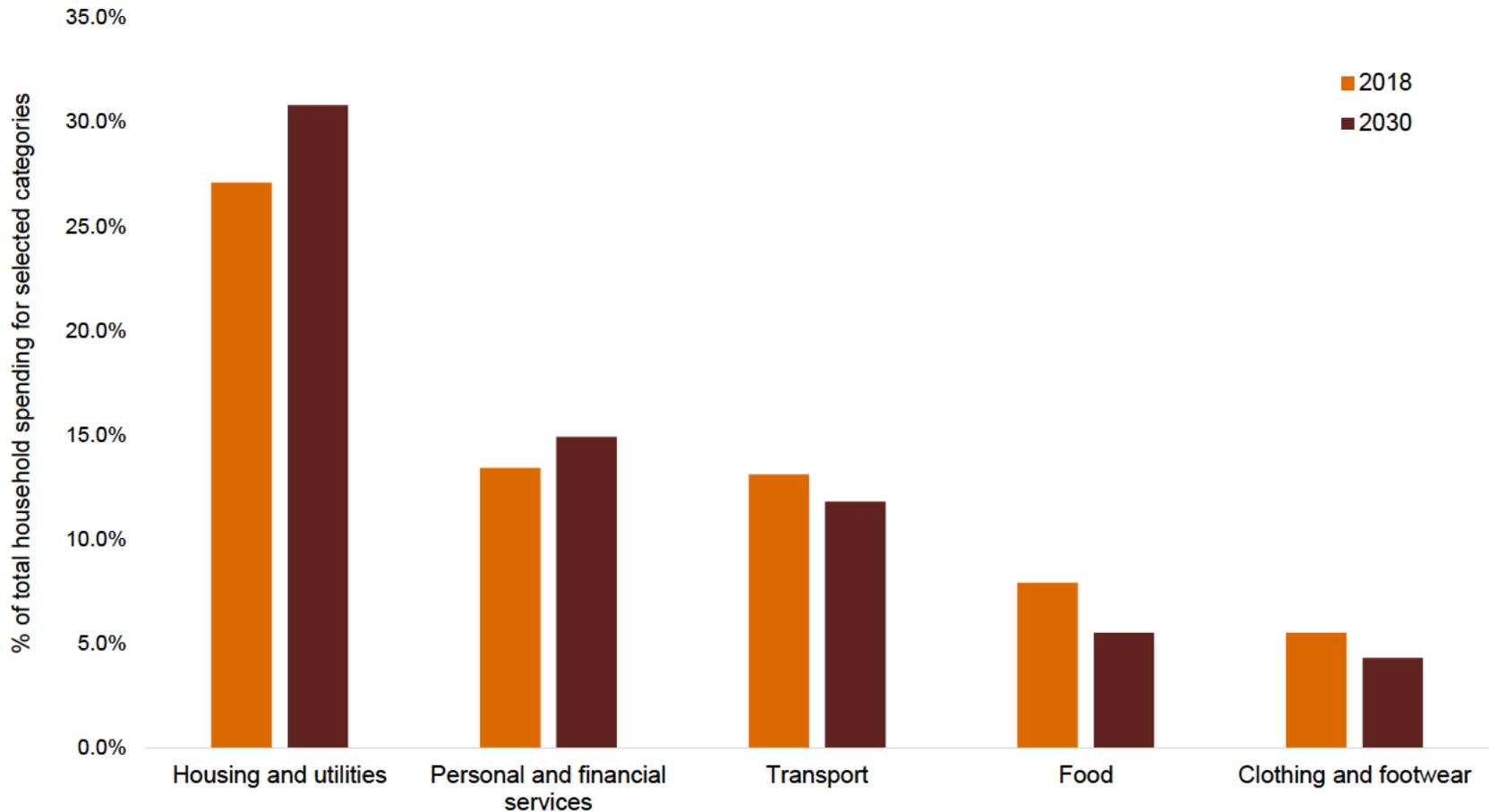
Source: ONS, PwC Analysis
UK Economic Outlook
PwC

Consumer spending growth projected to be sluggish in 2018-19, but could recover to around 2% trend in the longer term



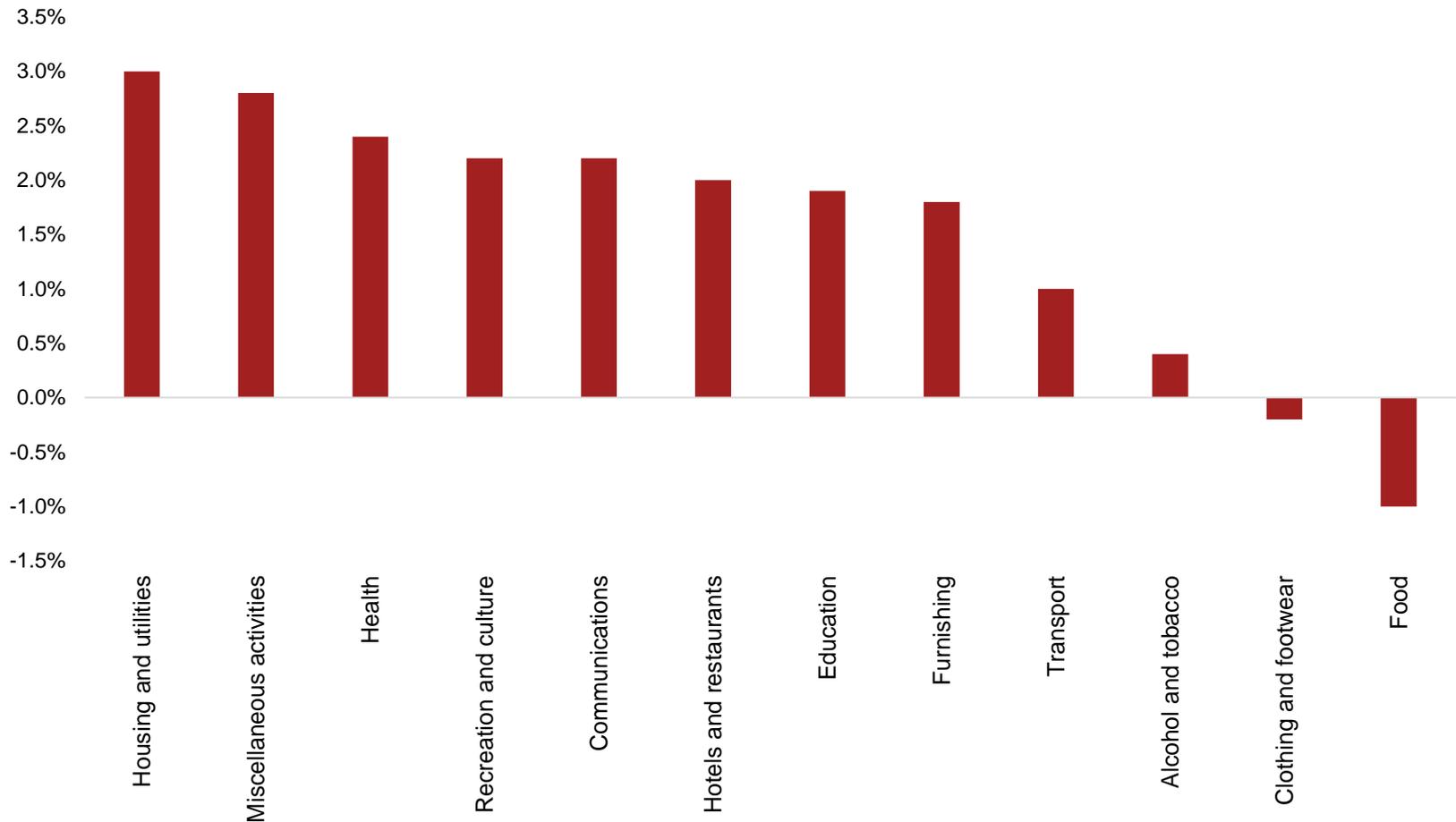
Source: ONS for 2015-17, PwC main scenario for 2018 and beyond

By 2030, we expect over 30% of consumer spending to be on housing and utilities



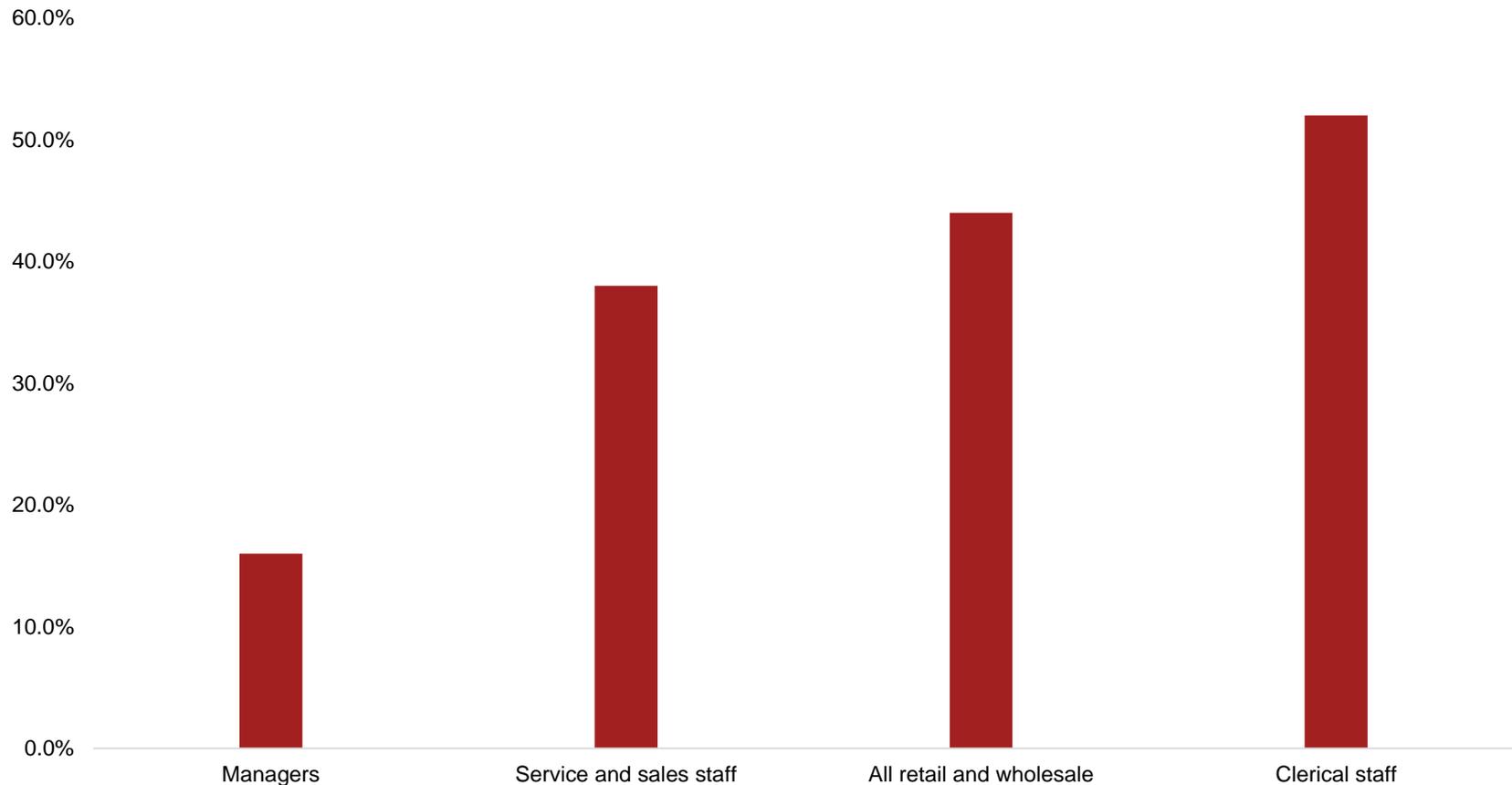
Source: PwC main scenario projections

We expect the spending shares of more basic categories, like food, alcohol and tobacco, to see the slowest real growth to 2030



Source: PwC main scenario projections

Up to 44% of jobs in retail and wholesale trade could be impacted by automation by the mid-2030s, with clerical jobs the most at risk, but automation should also reduce prices for consumers



Source: PwC analysis of OECD PIAAC data

Summary: The outlook for consumer spending and the impact of automation

1

Consumer spending slowed during 2017 as higher inflation squeezed real spending power, following a number of years of relatively strong growth

2

Looking ahead, we expect real household income growth to pick up gradually in real terms from about 0.8% per annum in 2018 to 1.4% per annum by 2020, while the household savings ratio continues to decline.

3

As a result, in our main scenario we expect real consumer spending growth to rise gradually from an estimated 1.1% per annum in 2018 to 1.7% in 2020.

4

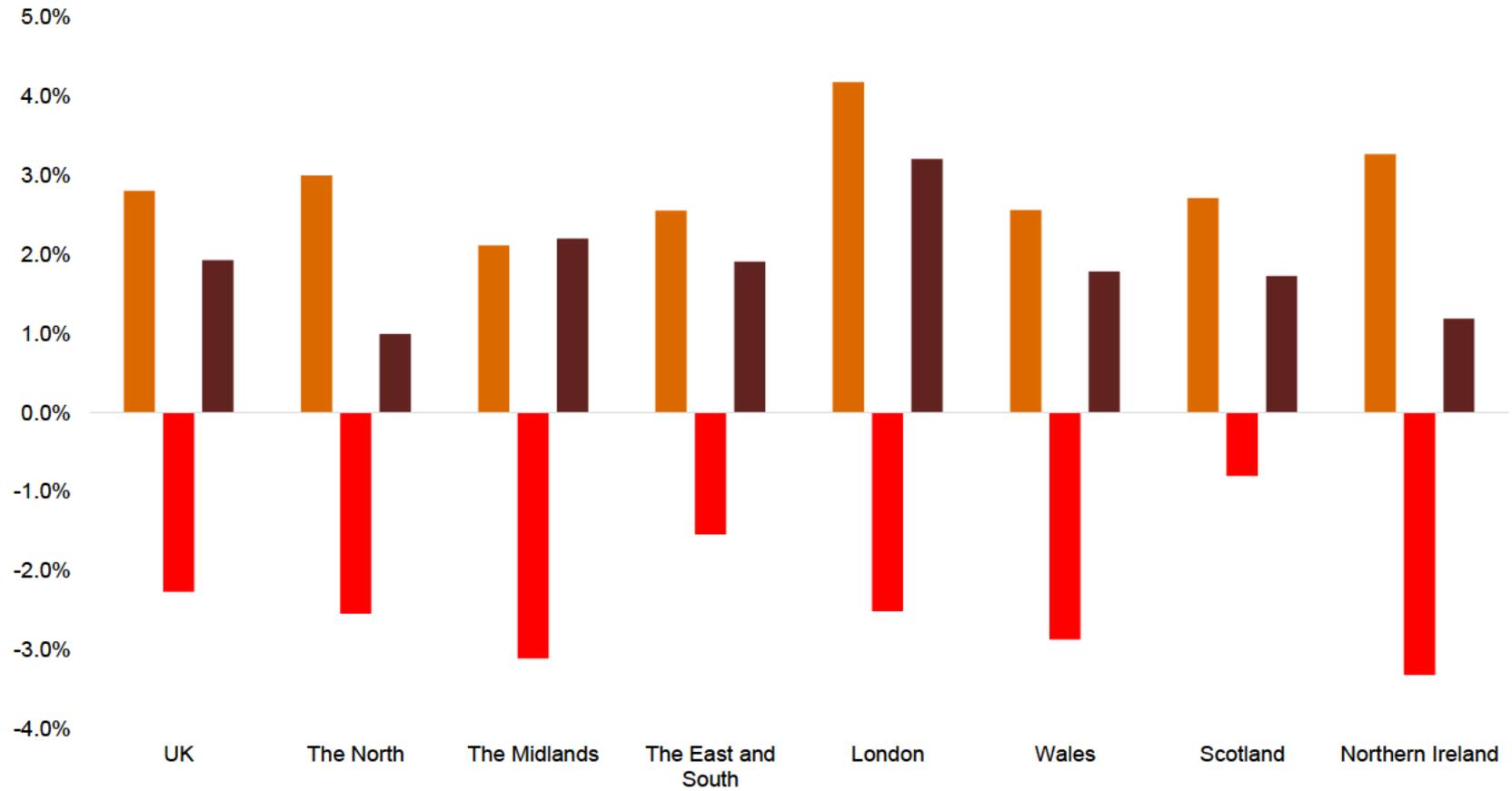
We project spend on housing and utilities will be over 30% of consumer's budgets by 2030, up from 27% in 2017. We forecast spending on financial services, personal care, recreation and culture to increase relatively rapidly over time, while the share of total spending on food, clothing, alcohol and tobacco, and transport will tend to decline in the long run.

5

Automation could have a major impact on retail jobs in the long run, but will also bring benefits to consumers in lower prices. This will allow consumers to increase their real spending levels, potentially creating new jobs across the economy.

Regional growth trends and prospects

London led the way on real GVA growth both before and after the global financial crisis

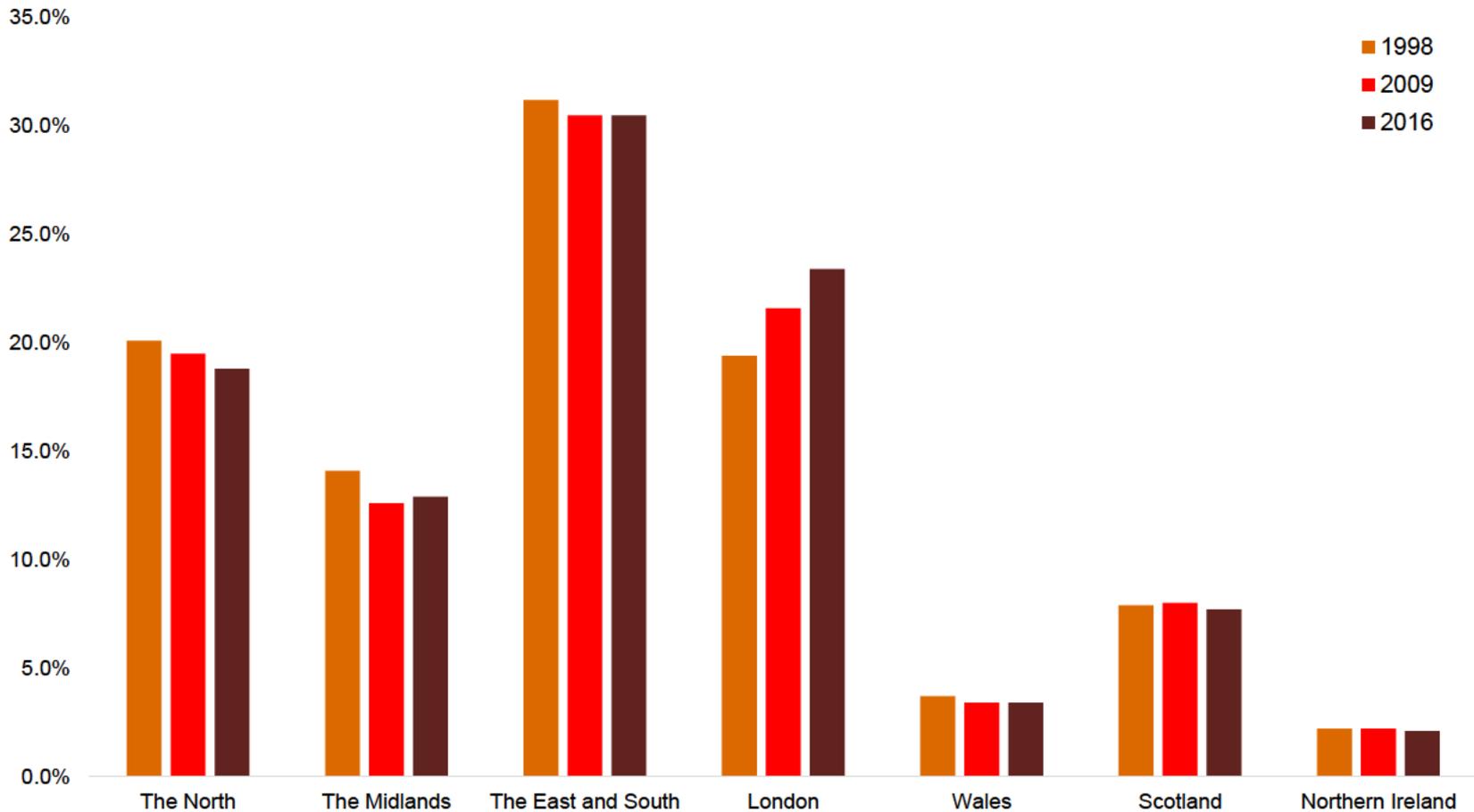


Source: PwC analysis of ONS data
UK Economic Outlook
PwC

■ 1998 - 2007 ■ 2008 - 2009 ■ 2010 - 2016

March 2018
24

London is the only region to have increased its share of total UK GVA since 1998



Source: PwC analysis of ONS data

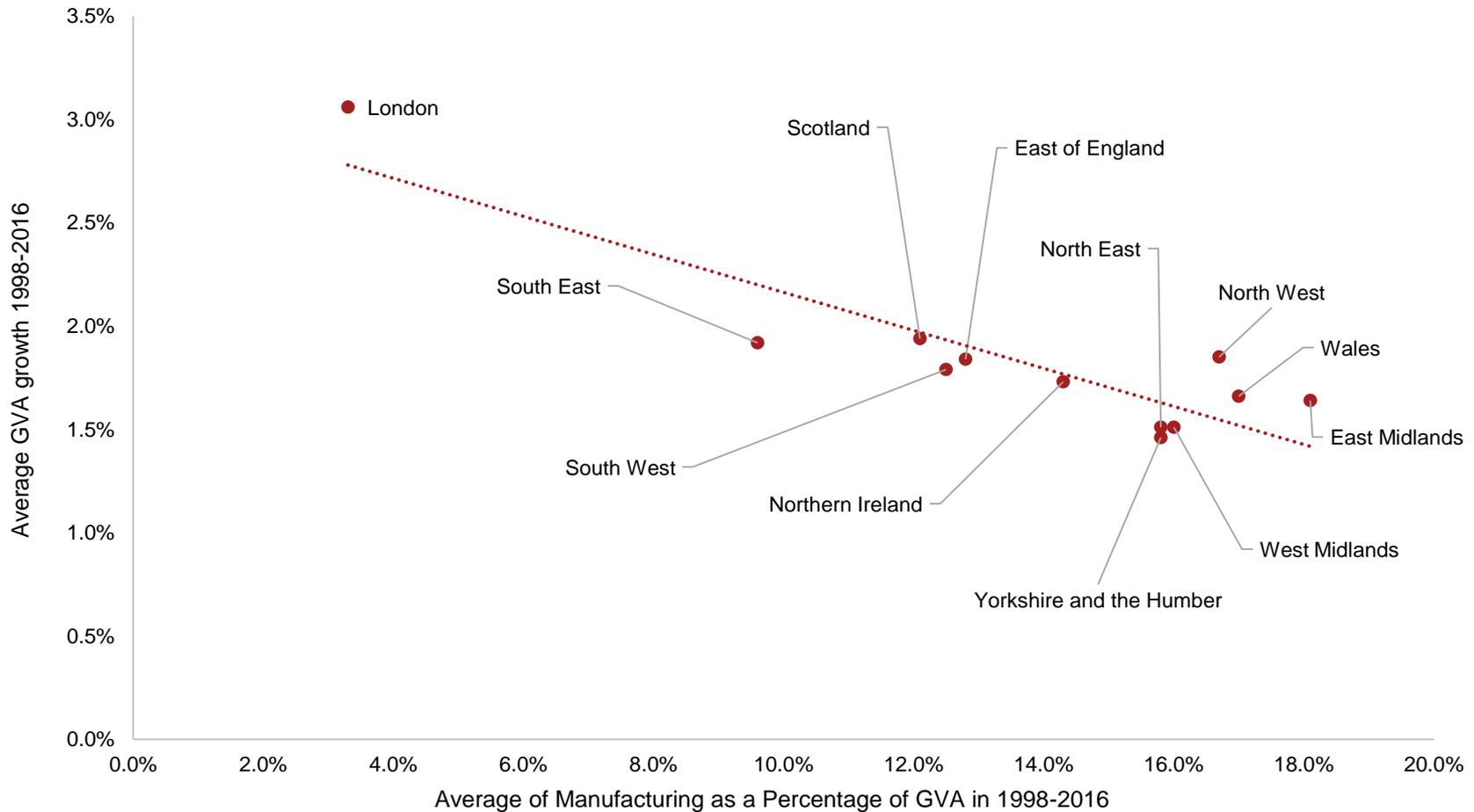
UK Economic Outlook

PwC

March 2018

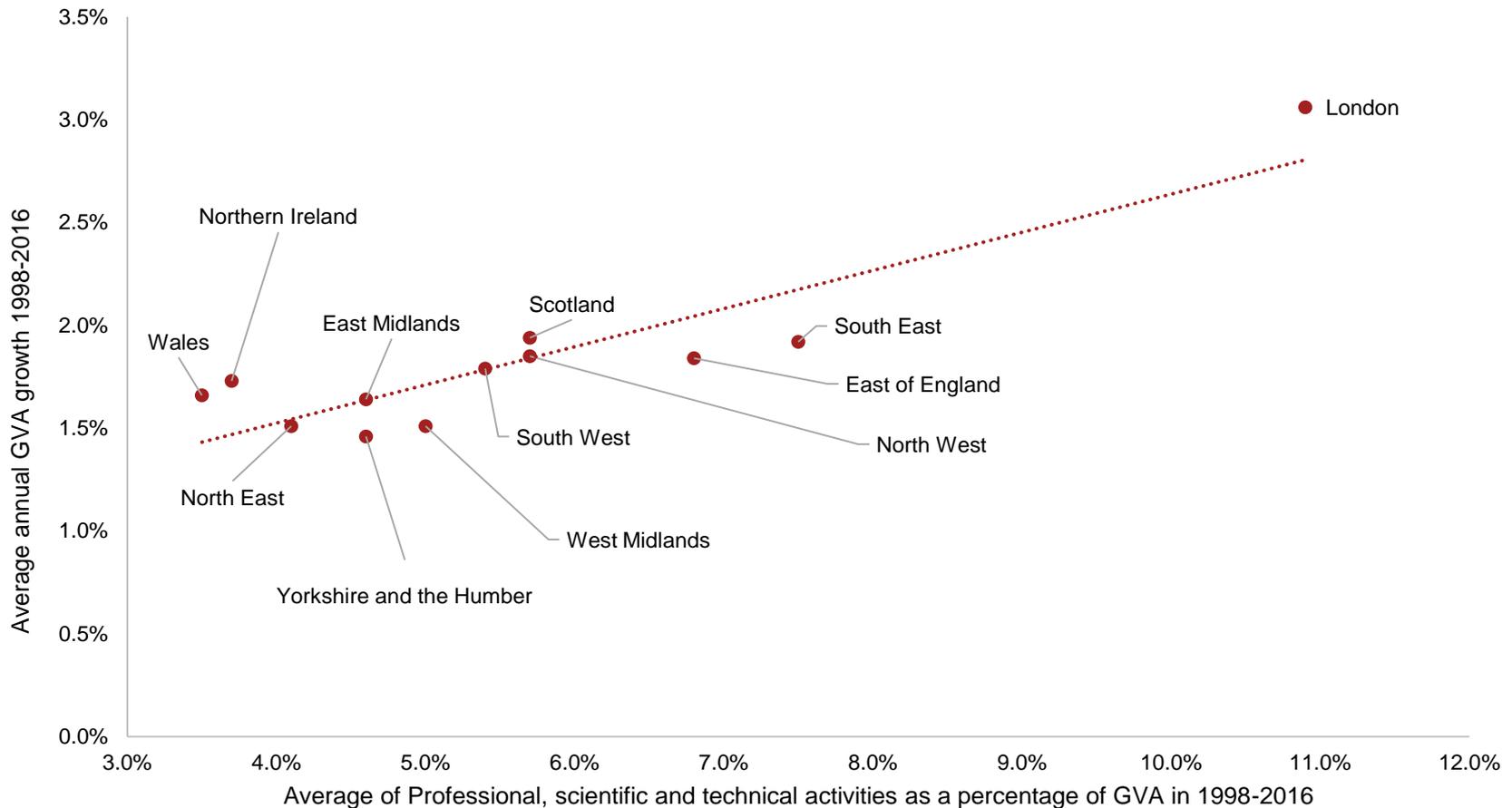
25

Regions with a greater focus on manufacturing have shown lower relative growth on average over the past 20 years



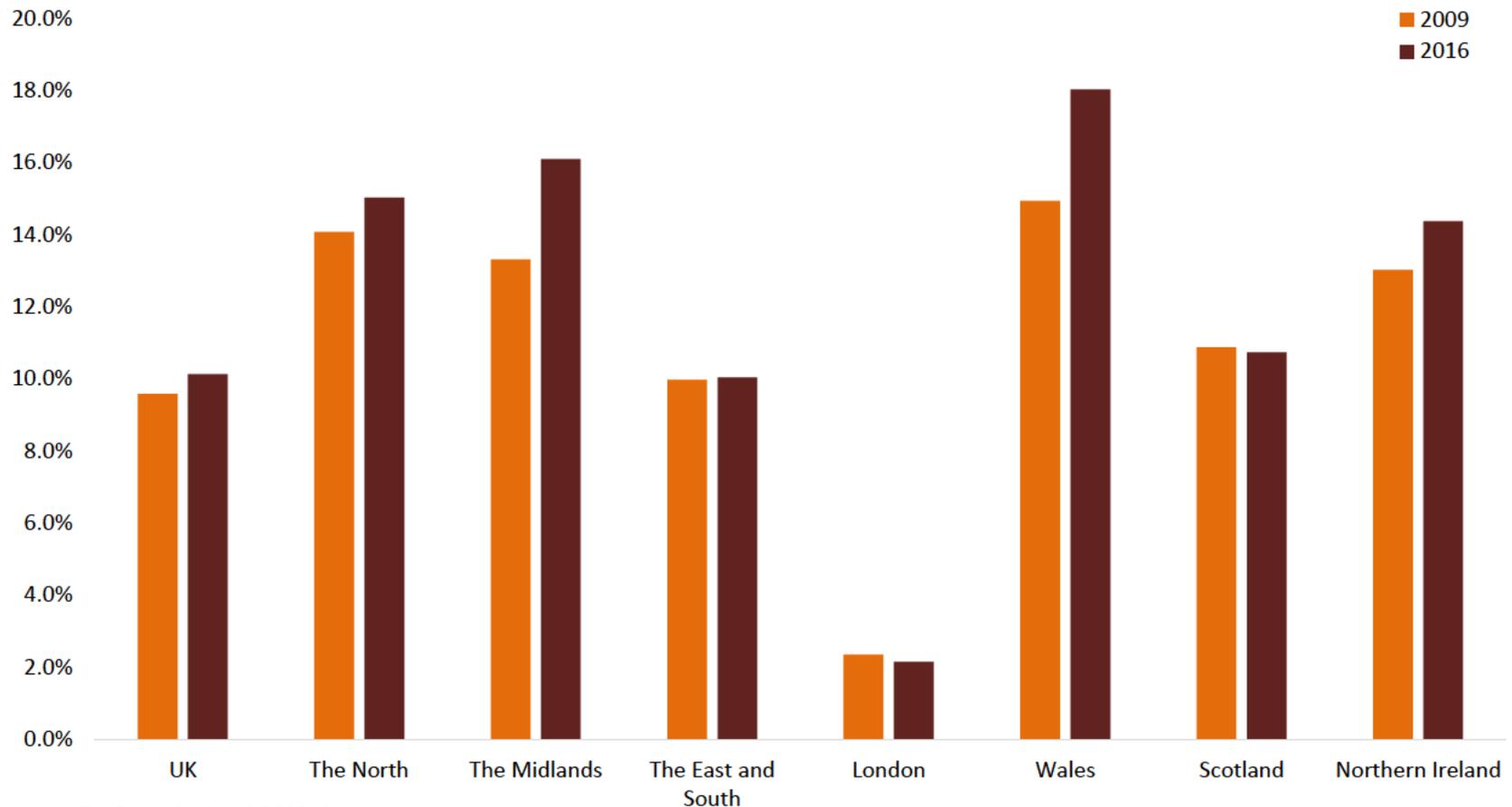
Source: PwC analysis of ONS data
UK Economic Outlook
PwC

Whilst other sectors, like professional, technical and scientific services have shown a positive correlation with relative regional GVA growth

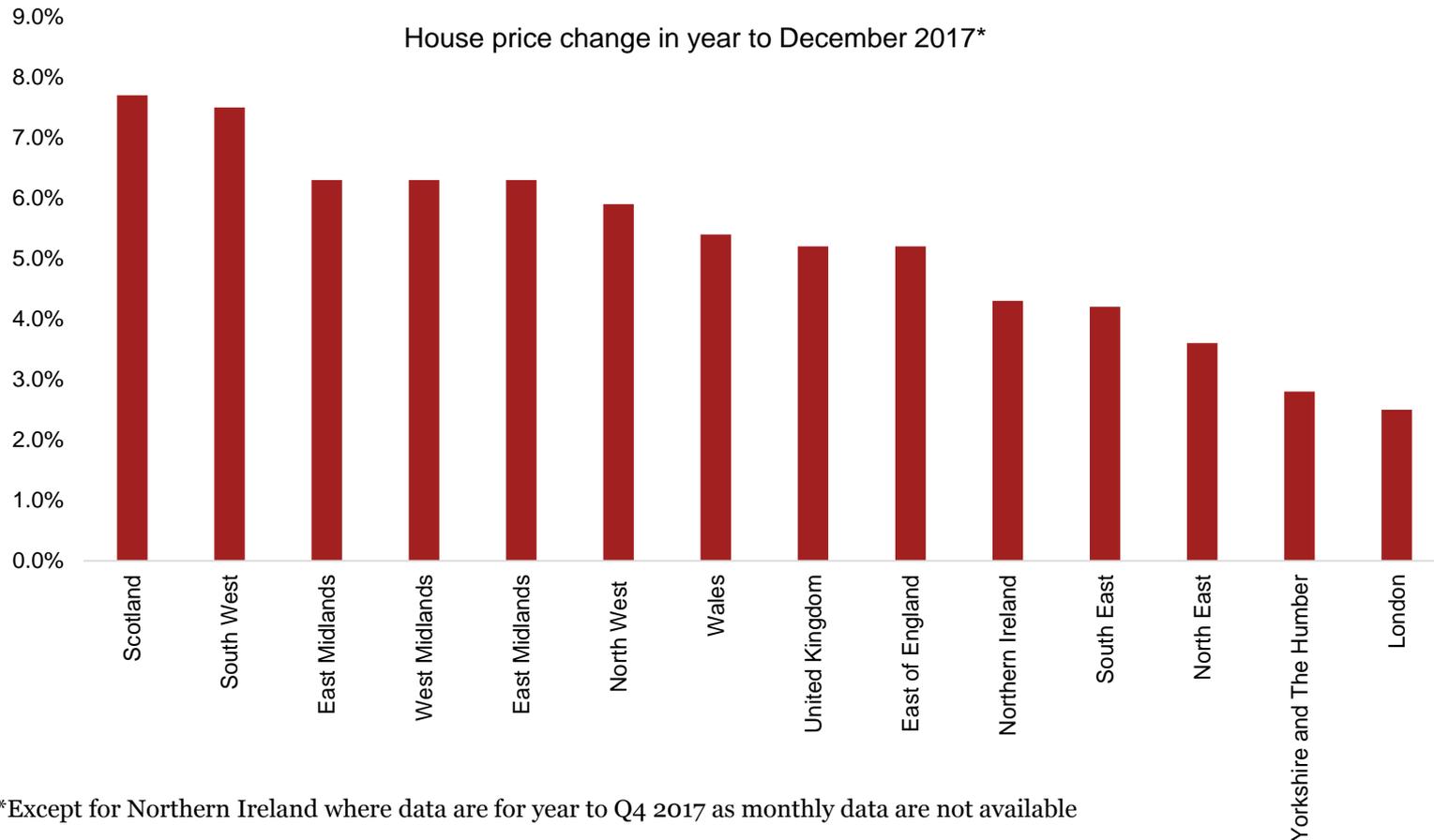


Source: PwC analysis of ONS data

However, since 2009, a revival in manufacturing has helped to drive recovery in areas that have a relatively strong industrial base, such as Wales and the Midlands



Recently, there have been signs that other regions are starting to catch up with London, notably for house prices



*Except for Northern Ireland where data are for year to Q4 2017 as monthly data are not available

Source: ONS house price index based on Land Registry data

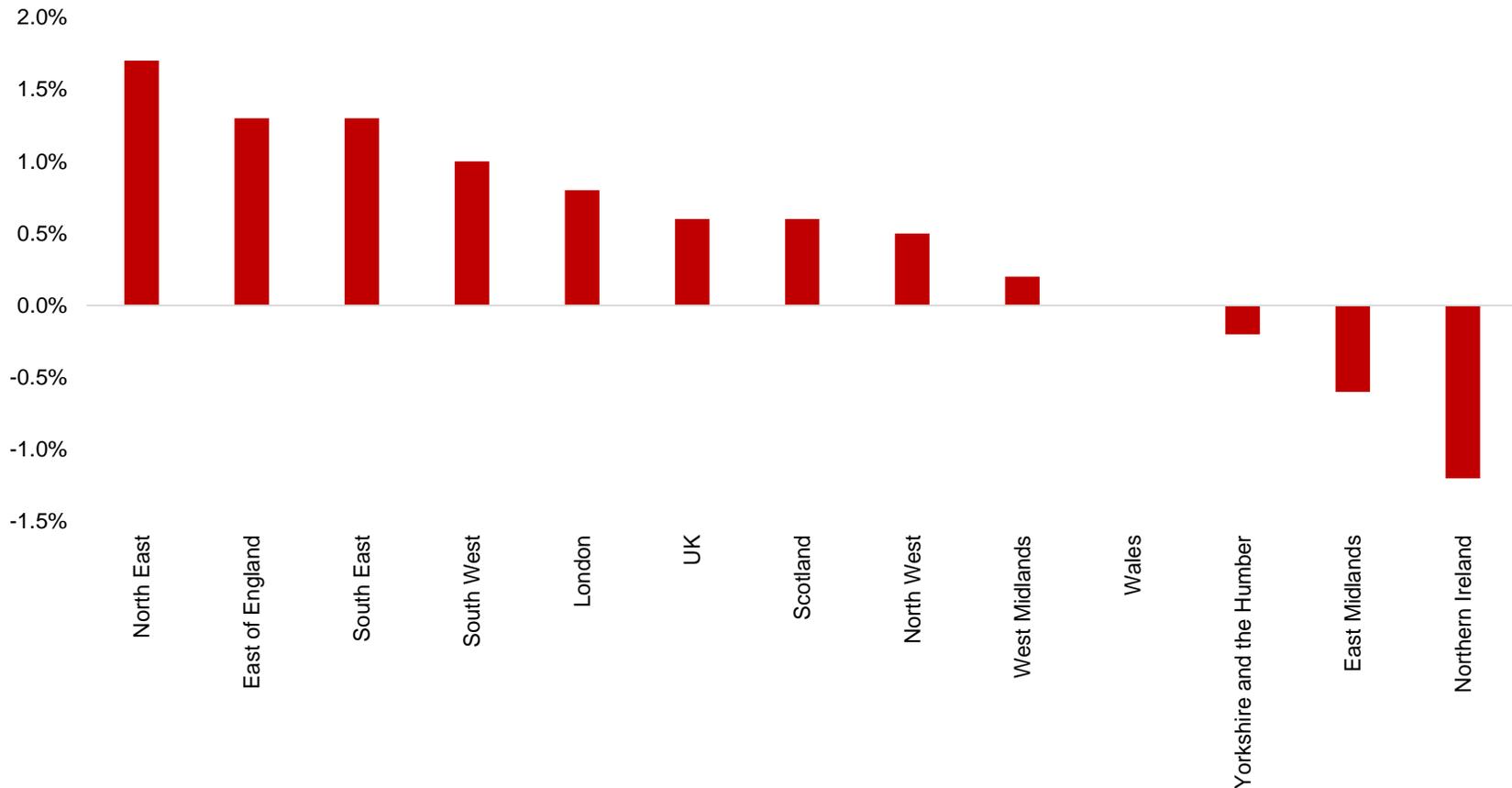
UK Economic Outlook

PwC

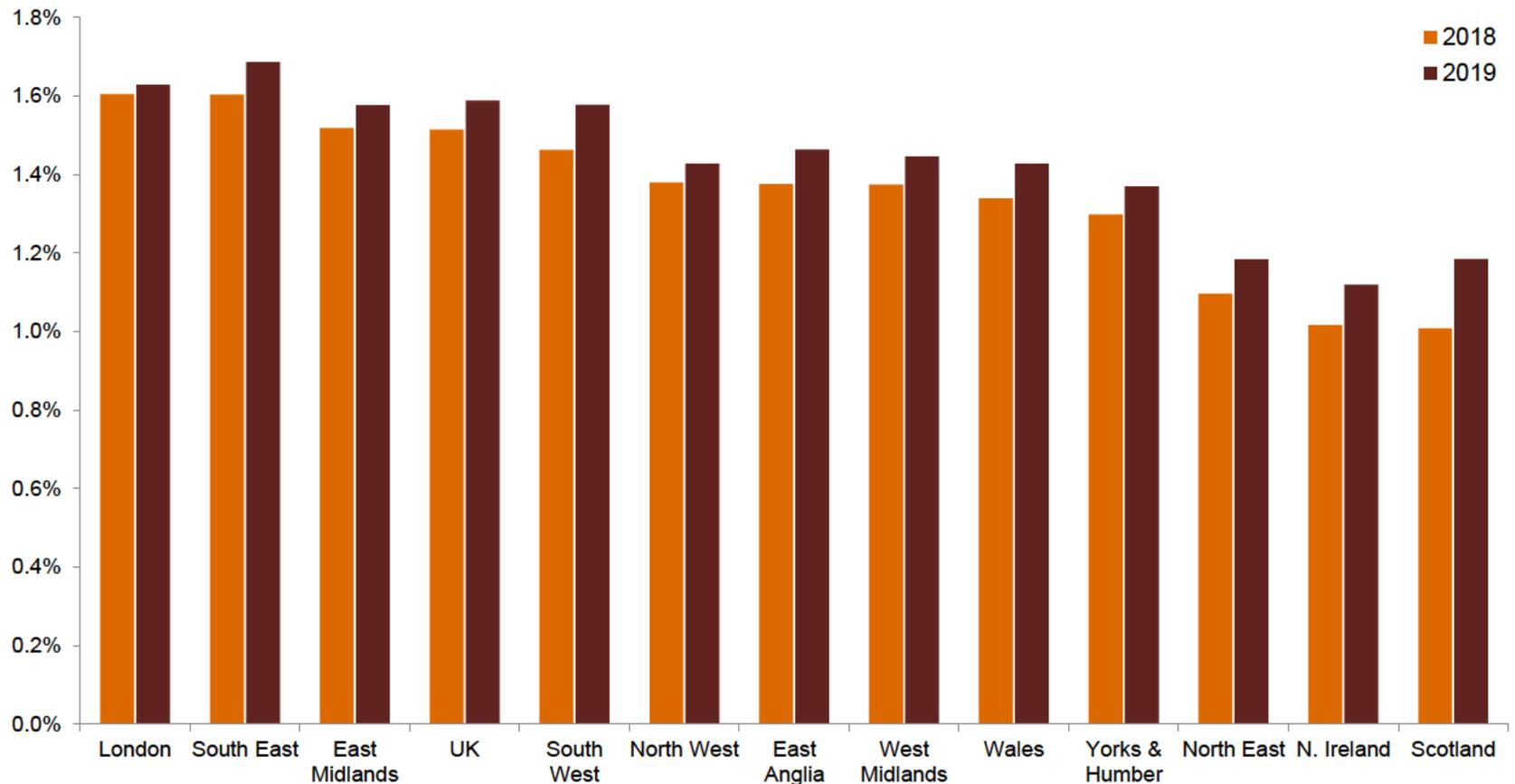
March 2018

29

The rise in London's employment rate over the past year has also been close to the UK average, whilst the North East has witnessed the largest increase over this period



We project all parts of the UK to see moderate growth in 2018-19, with London no longer clearly leading the pack



Summary: Regional growth trends and prospects

1

London has consistently outperformed other UK regions for most of the past two decades in terms of economic growth, both before and after the global financial crisis

2

Outside London, there is less of a clear North-South divide in historical regional growth patterns. Some Northern regions and Northern Ireland did better than some Southern regions in the decade before the financial crisis, though they have performed less well since the crisis

3

The Midlands struggled before the crisis but has performed relatively better since 2010 when compared to other regions except London

4

As manufacturing has bounced back recently on the back of a stronger global economy, this has helped parts of the UK with stronger industrial bases in the North and Midlands

5

More recently, there have been signs that London's relative regional performance has been less strong and we expect this to continue in 2018-19, with London growing at close to the UK average rate

Contacts for more information about this report

John Hawksworth (Chief Economist) – john.c.hawksworth@pwc.com

Barret Kupelian (Senior Economist) – barret.g.kupelian@pwc.com

George Mason (Economist) – george.mason@pwc.com

For more information on our Economics services, or to access the full report, please see our website at:

<http://www.pwc.co.uk/economics>

<http://www.pwc.co.uk/ukeo>

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2018 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.