

UK Economic Outlook

March 2019

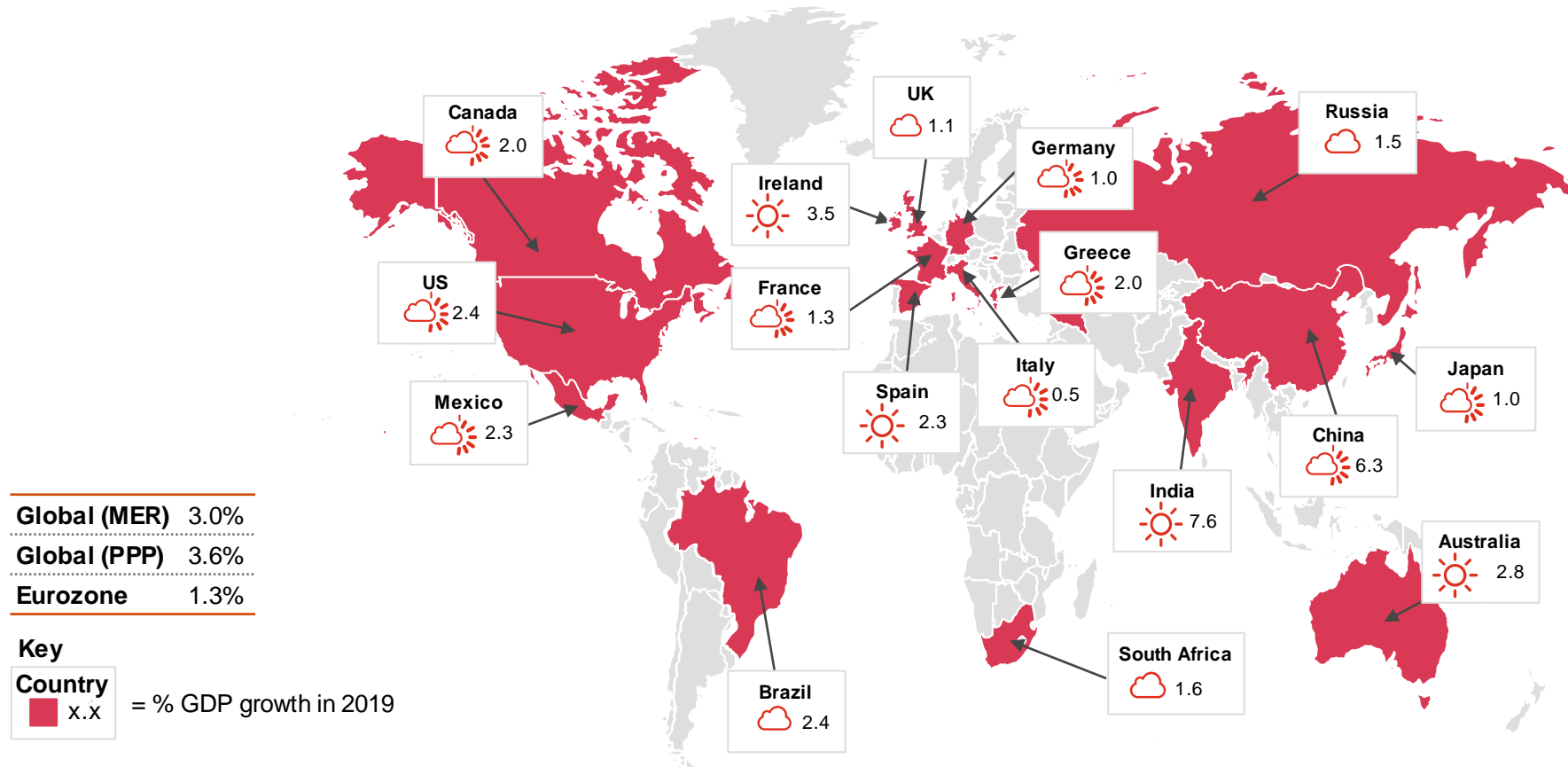


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Global growth outlook

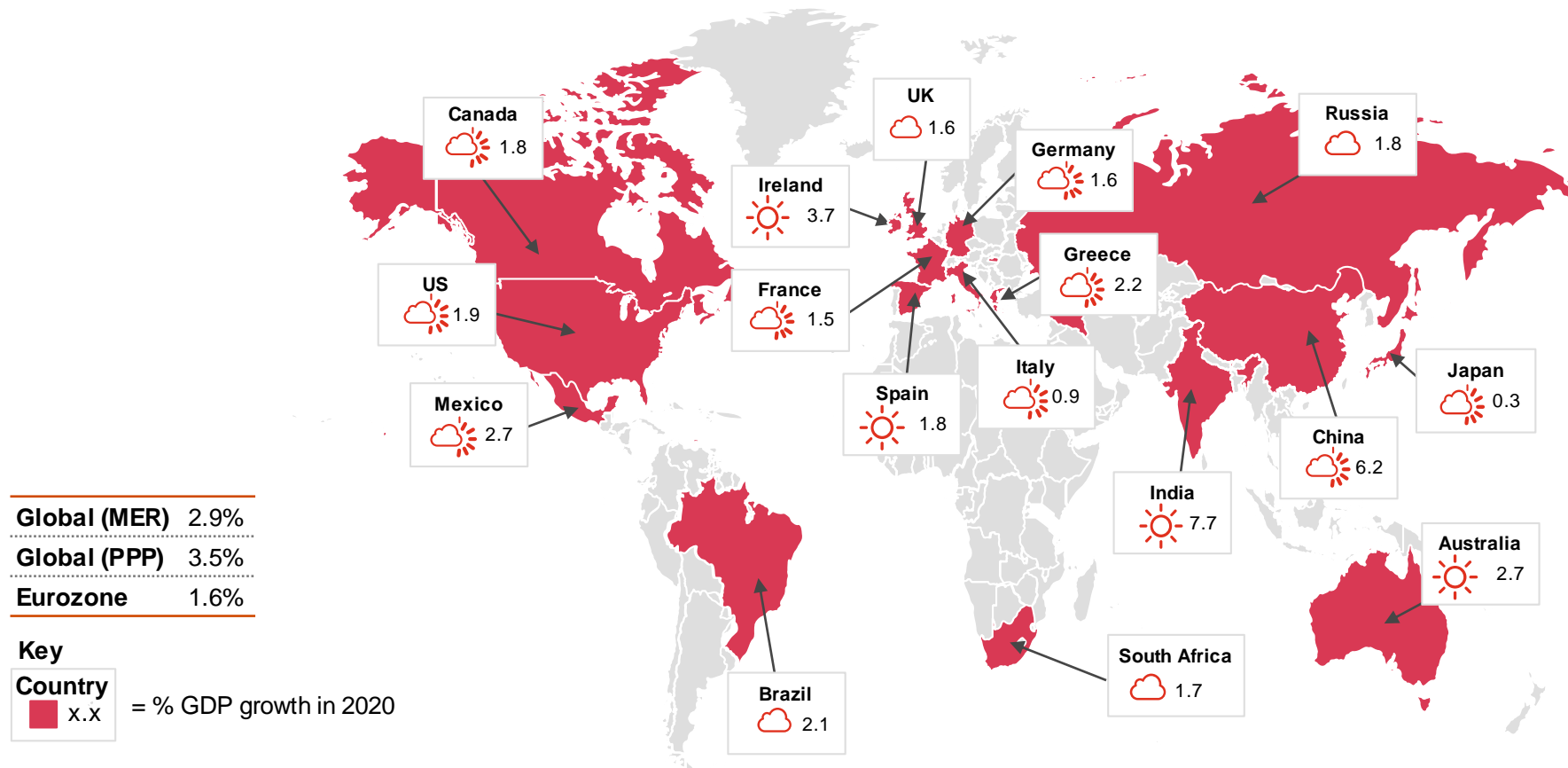
We expect 2019 to be a less impressive year for the global economy than 2018, with slower growth in the US, China and Europe



Weather icons based on comparisons of projected GDP growth rates with potential GDP growth rates

Source: PwC main scenario

In 2020, growth could pick up slightly in the Eurozone, but may continue to slow in the US and China

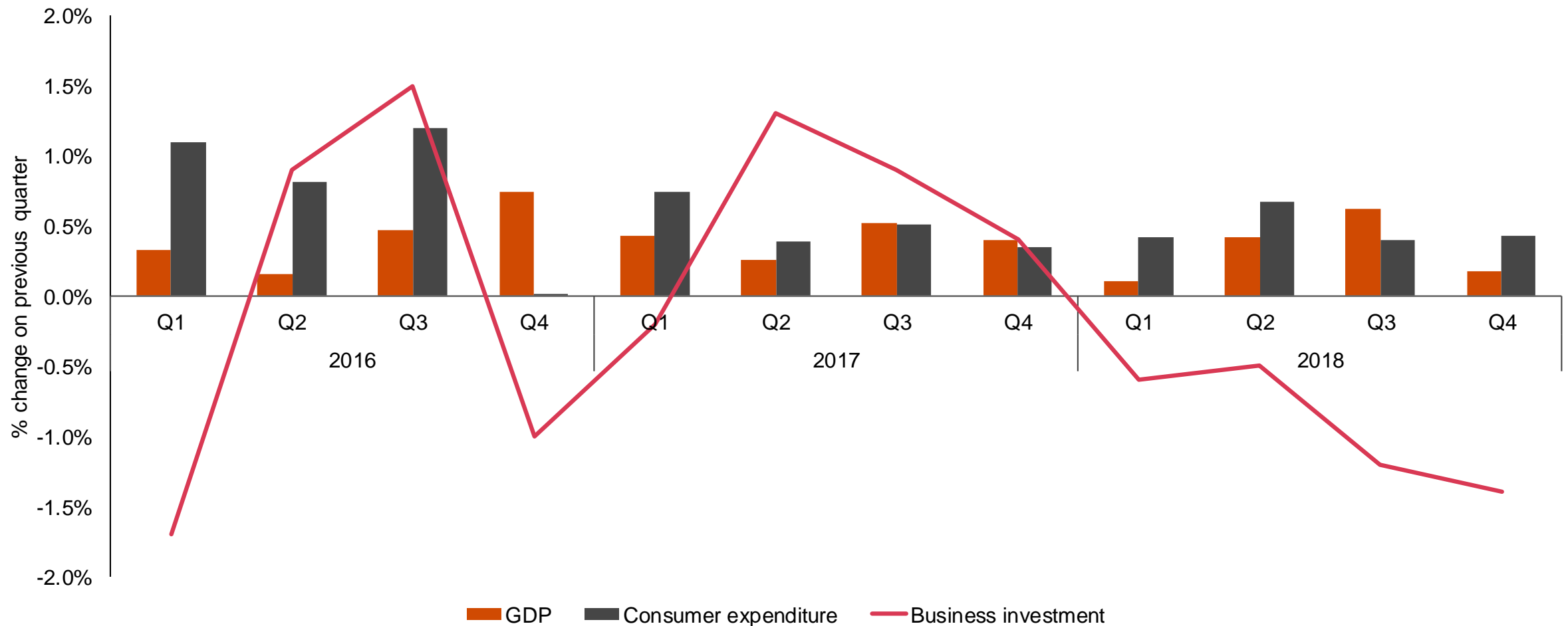


Weather icons based on comparisons of projected GDP growth rates with potential GDP growth rates

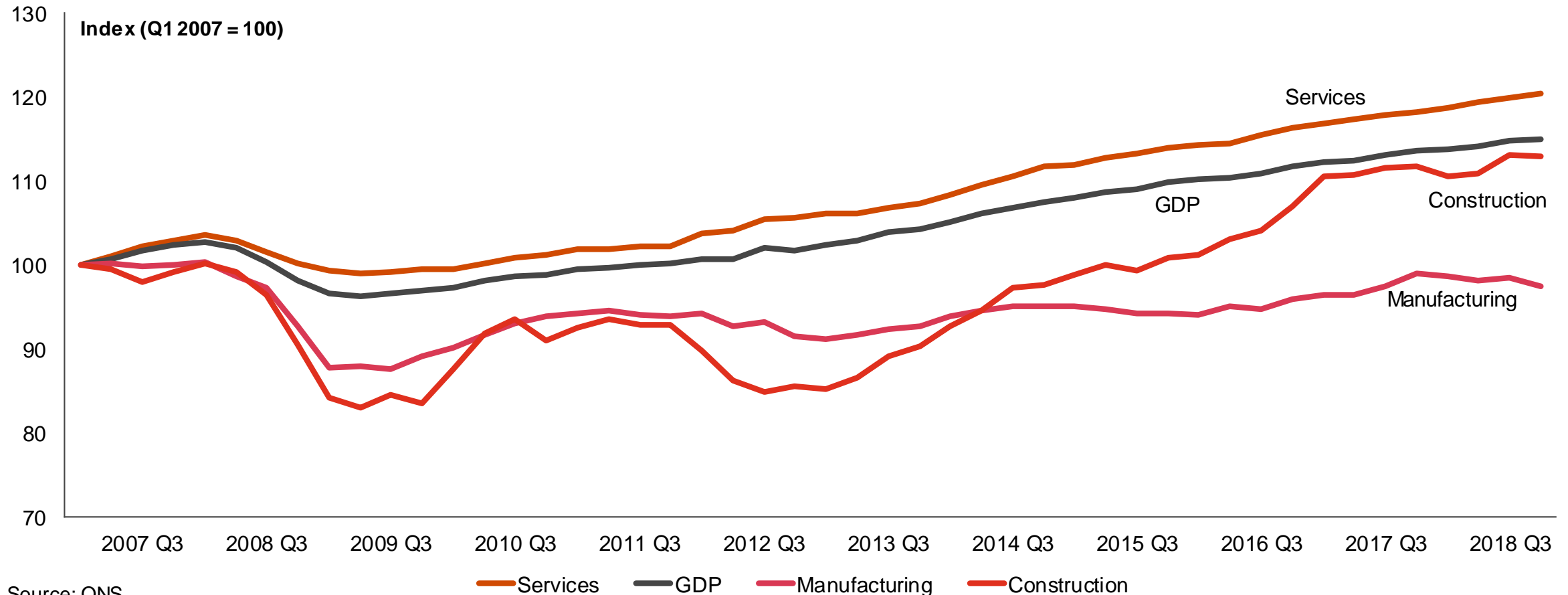
Source: PwC main scenario

UK economic trends and prospects

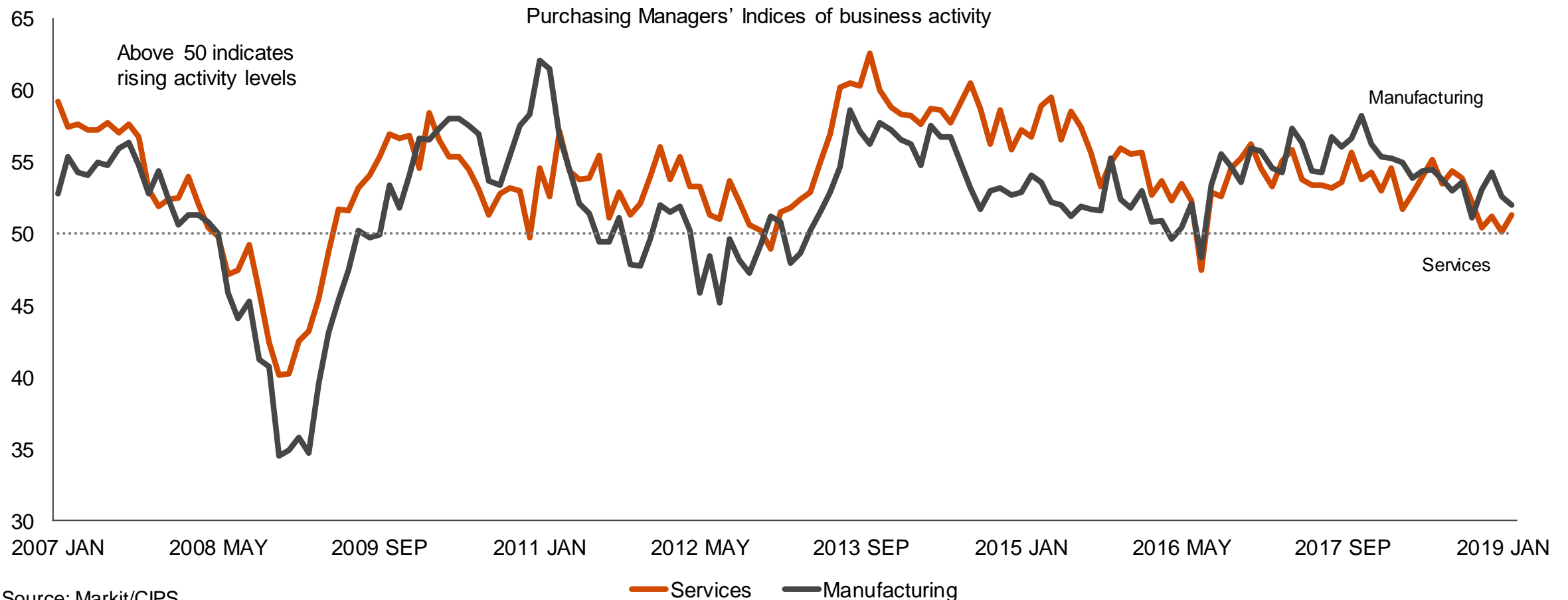
Following a strong summer, UK economic growth slowed at the end of 2018 as Brexit-related uncertainty dampened investment



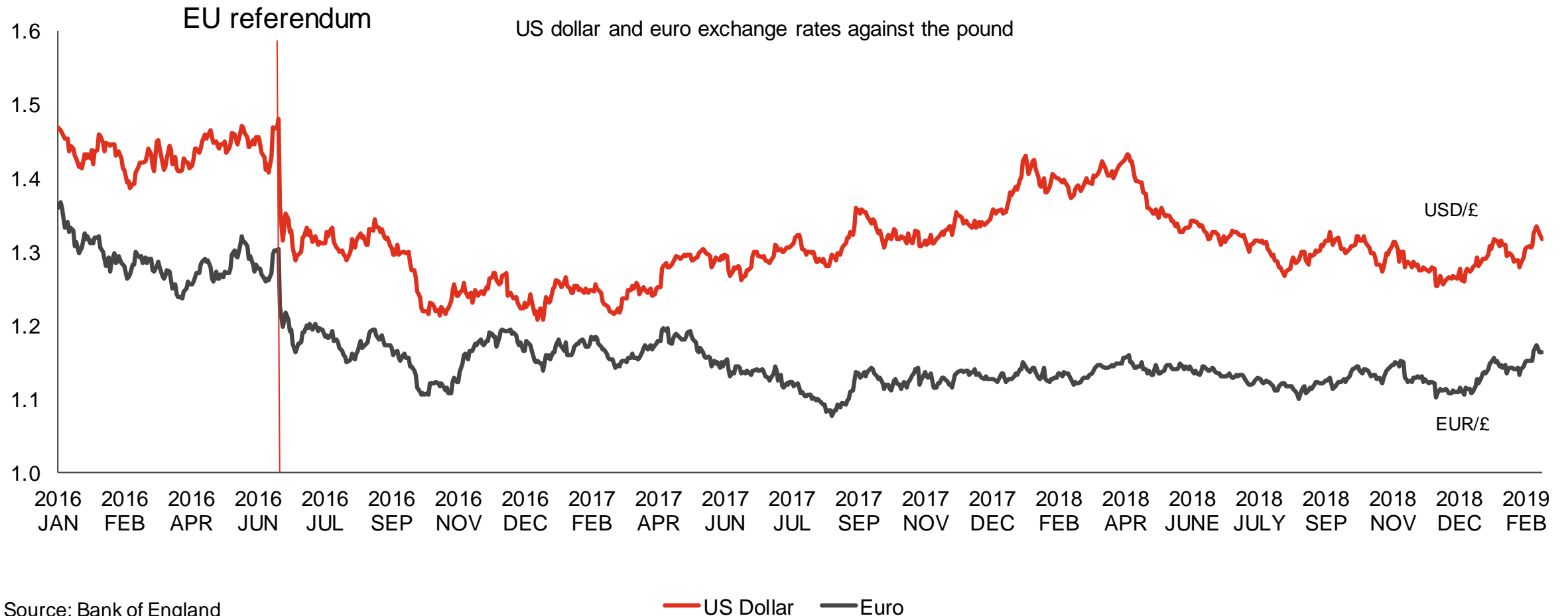
The services sector has grown steadily ever since the financial crisis. Manufacturing has generally been weaker, while construction has been volatile



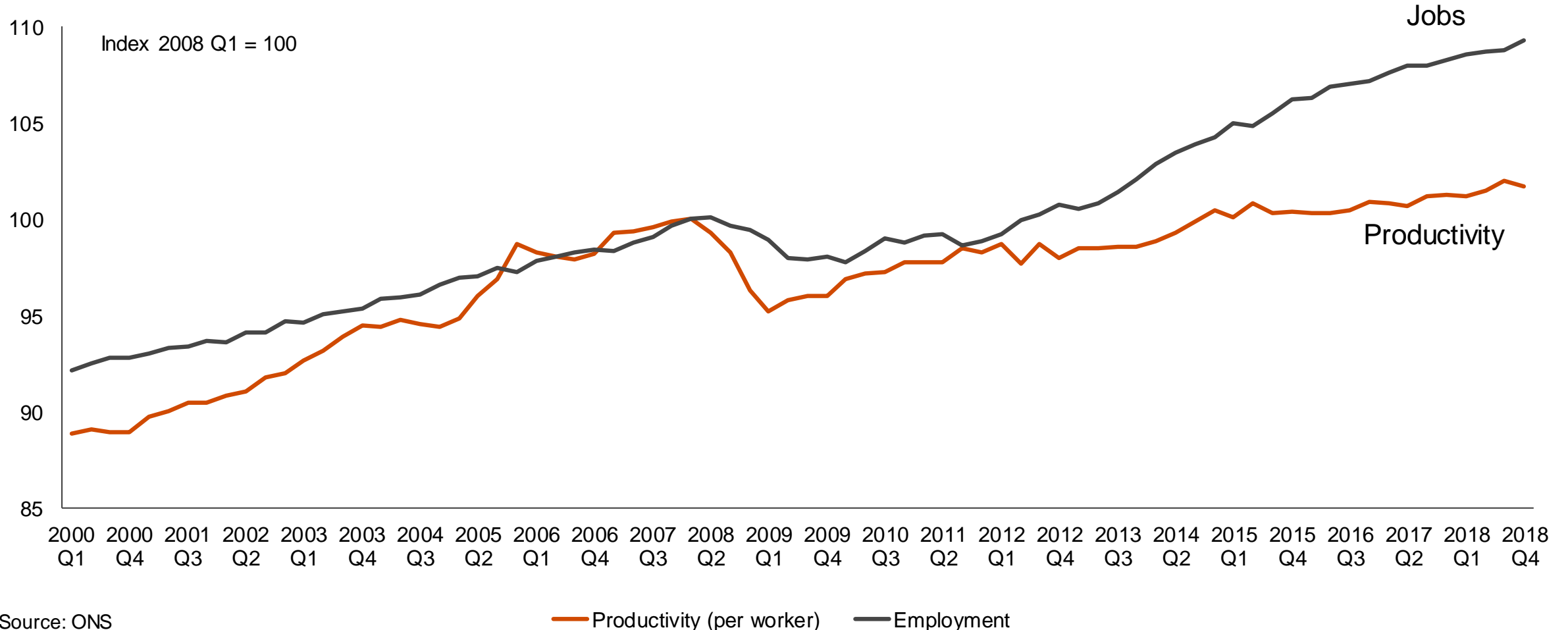
The services PMI has slowed markedly relative to 2014-15, while a stronger manufacturing performance in 2017 has petered out



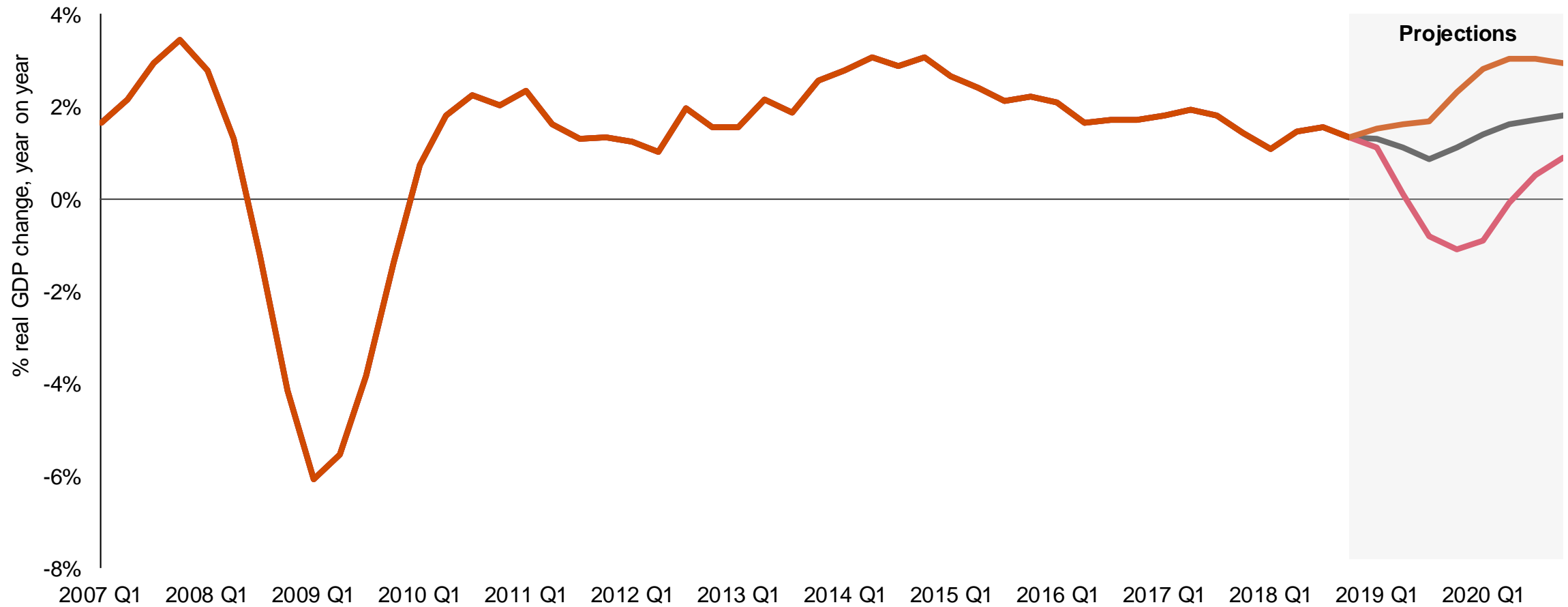
Sterling has fallen back against the dollar since mid-2018 and has been relatively weak against the euro ever since the EU referendum



The economy has created a record number of jobs in recent years, but productivity growth has remained weak ever since the crisis



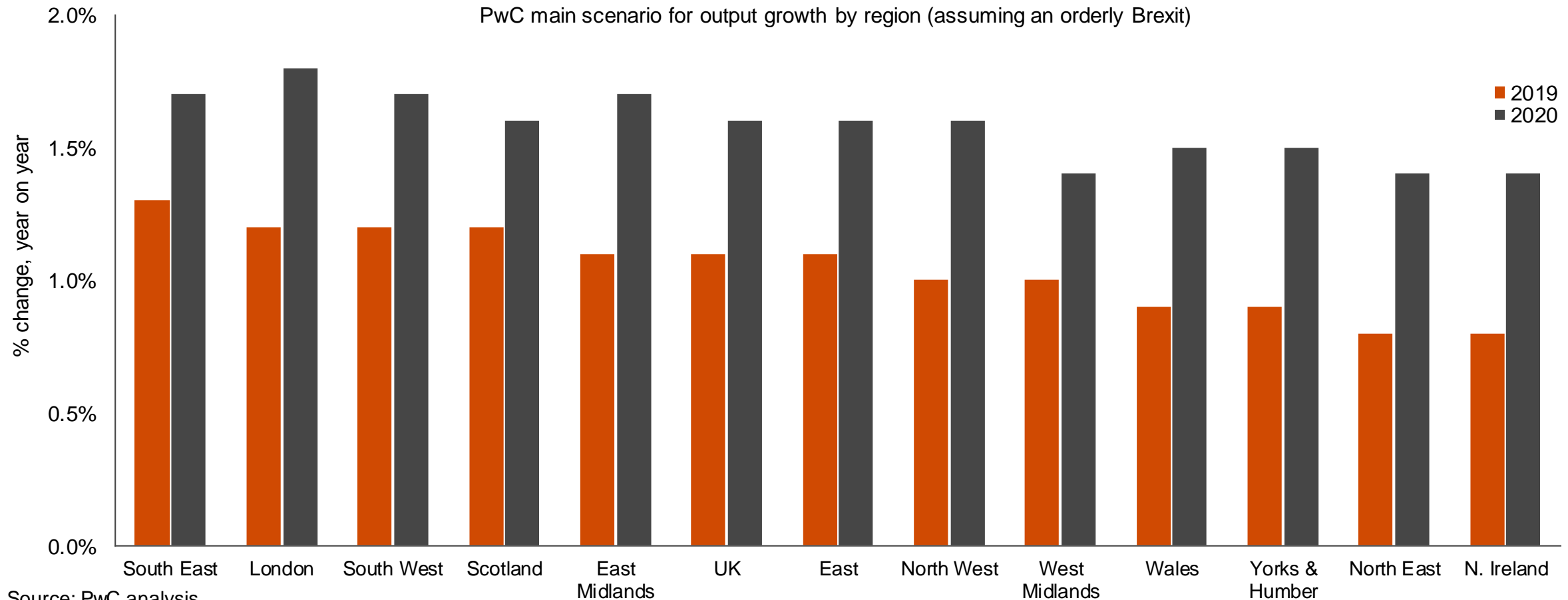
In our main scenario, UK growth could pick up to 1.6% in 2020 assuming an orderly Brexit, but risks are weighted to the downside



Source: ONS, PwC scenarios

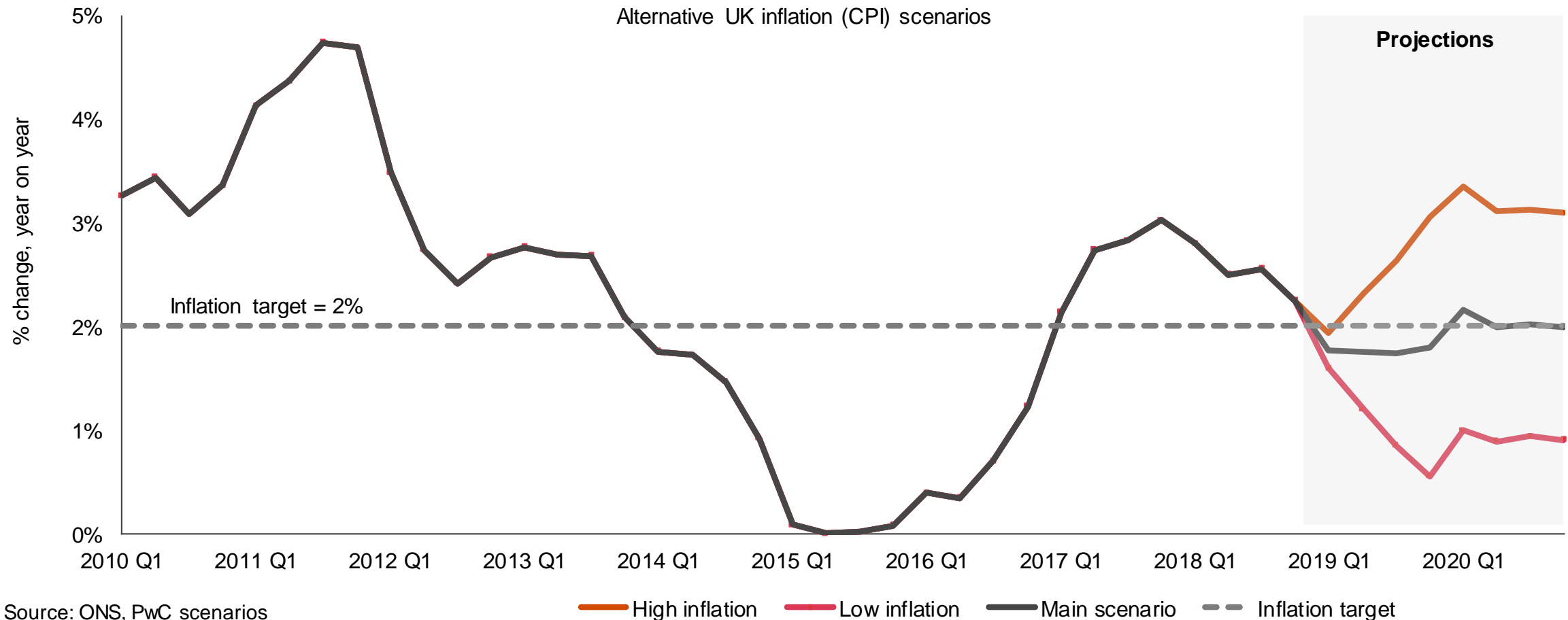
— Main scenario — Weak growth — Strong growth

Growth projected to be similar across most UK regions in 2019-20, but Northern Ireland and the North East may lag behind

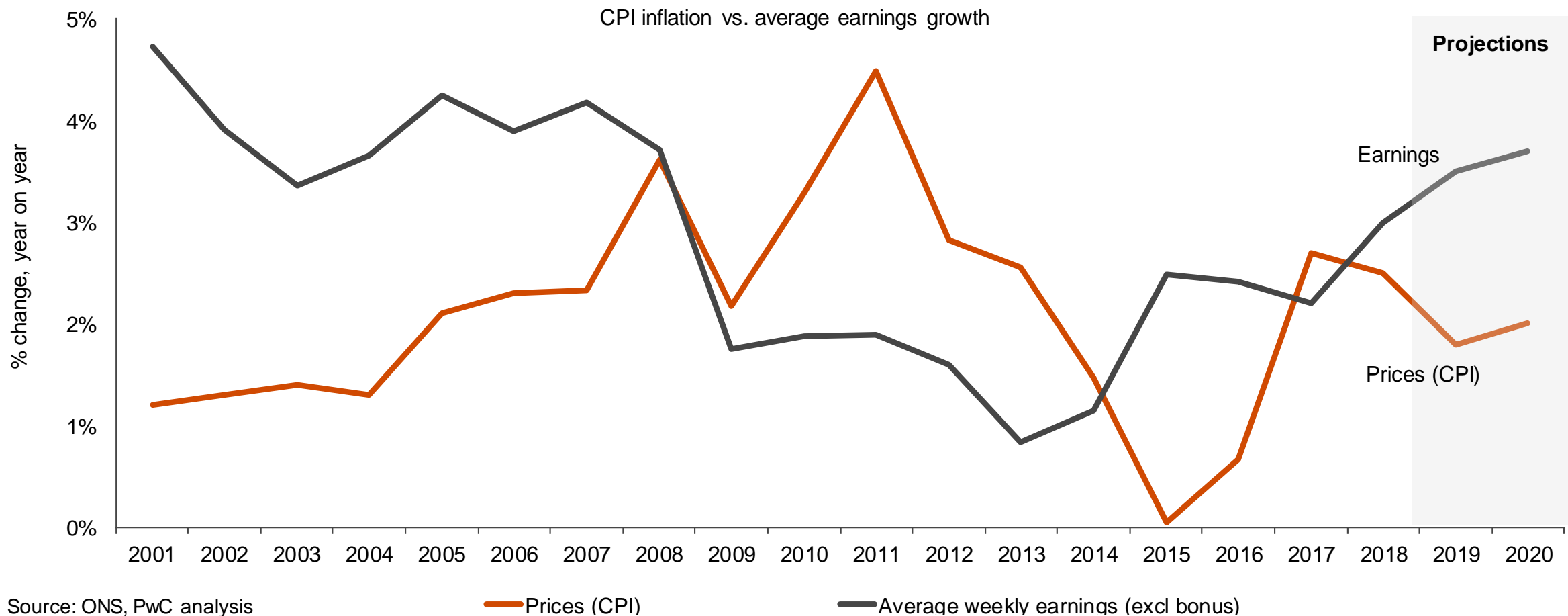


Source: PwC analysis

In our main scenario, UK inflation remains close to its 2% target rate in 2019-20 – but considerable uncertainty around this depending on how exchange rates and commodity prices evolve



Average earnings are now growing significantly faster than prices and we expect this to continue in 2019-20 in our main scenario



Summary: UK economic prospects and policy implications

1

UK economic growth has slowed as Brexit-related uncertainty has led to a decline in business investment. But consumer spending has held up better so far.

2

Assuming an orderly Brexit, our main scenario is for UK GDP growth to remain modest at around 1.1% in 2019 but then pick up to around 1.6% in 2020 as investment revives.

3

Most industry sectors are projected to see relatively slow growth in 2019, though this is highly dependent on how the Brexit negotiations evolve. Manufacturing and other export-intensive sectors also face downside risks from any further deceleration in global growth in 2019-20.

4

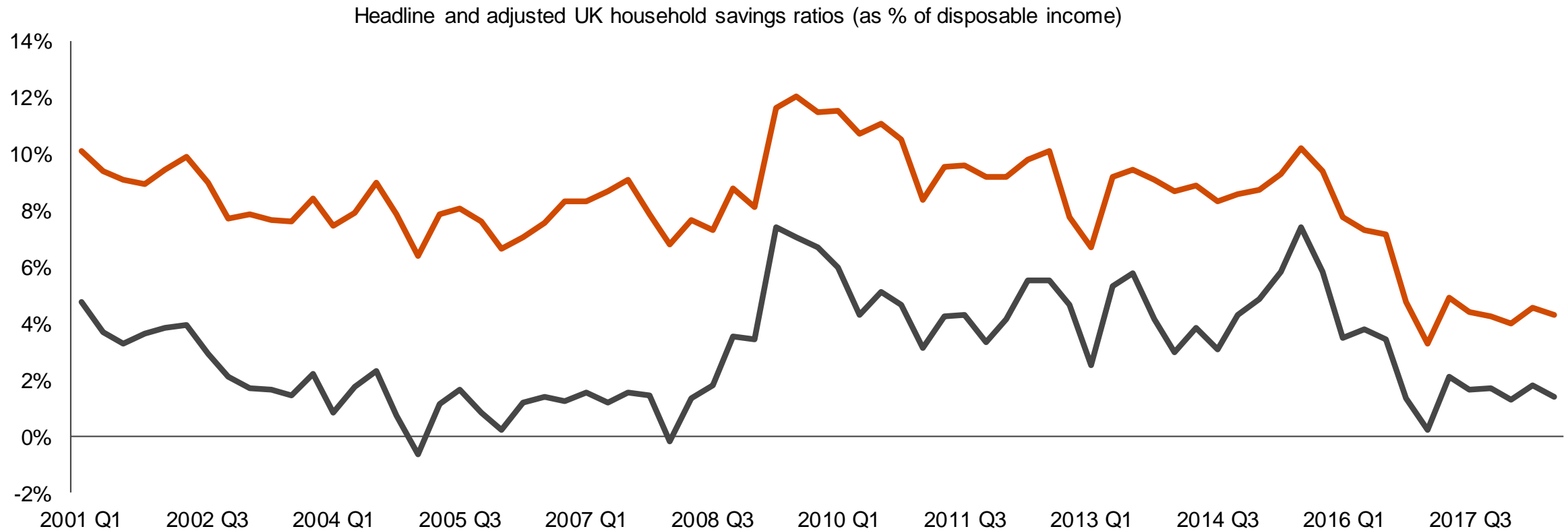
In our main scenario we assume a single quarter-point interest rate rise later in 2019 and one further such increase in 2020, but only if there is an orderly Brexit.

5

There are particularly large uncertainties around economic projections at present. A disorderly 'no deal' Brexit could push growth into negative territory, despite some offset from likely mitigating actions.

Outlook for consumer spending and online retail sales

UK household savings ratios have been falling since the global financial crisis as spending growth has outpaced growth in incomes



Source: PwC analysis of ONS data

— Headline savings ratio (with net equity) — Adjusted savings ratio (without net equity)

We expect slower household spending growth in 2019, although a rise in income growth will cause the savings ratio to rise. Spending growth could pick up from 2020 assuming an orderly Brexit

Main scenario projections of growth in real household expenditure and disposable income (% per year)

	2017	2018e	2019p	2020p	Average 2021-30p
Real household expenditure	2.1%	1.9%	1.4%	1.7%	1.8%
Real household disposable income	0.5%	1.7%	1.8%	2.0%	
Adjusted savings ratio (% disposable income)	1.4%	1.3%	1.7%	2.0%	

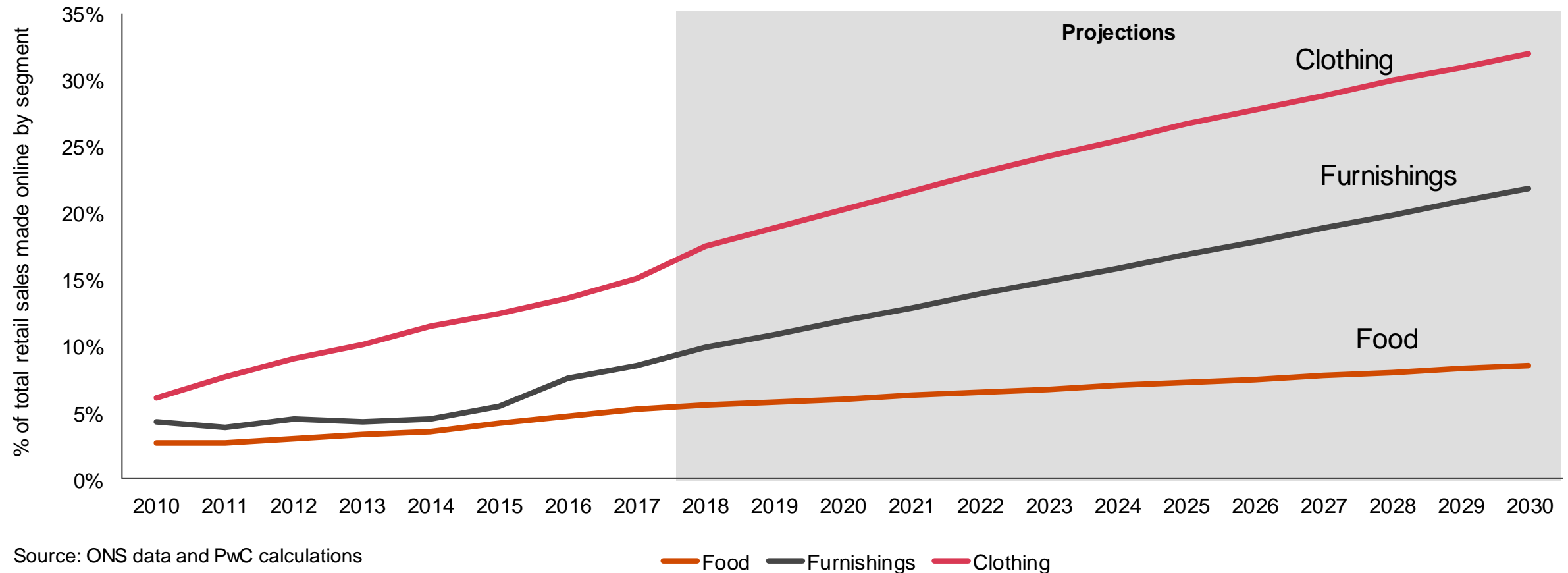
Source: PwC analysis based on ONS data for 2017-2018 Q3

Continued growth in house prices could mean that housing and utilities account for over 30% of household budgets by 2030

1985 rank		% Share	2018 rank		% Share	2030 rank		% Share
1	Housing & utilities	27.5%	1	Housing & utilities	26.6%	1	Housing & utilities	30.5%
2	Transport	12.4%	2	Transport	13.3%	2	Miscellaneous services	14.4%
3	Food	12.0%	3	Miscellaneous services	13.0%	3	Transport	11.9%
4	Miscellaneous services	9.3%	4	Recreation and culture	9.8%	4	Recreation and culture	10.0%
5	Hotels and restaurants	8.7%	5	Hotels and restaurants	9.1%	5	Hotels and restaurants	9.1%
6	Recreation and culture	7.8%	6	Food	8.2%	6	Food	5.9%
7	Clothing and footwear	5.9%	7	Clothing and footwear	5.5%	7	Furnishing	5.3%
8	Alcohol and tobacco	5.4%	8	Furnishing	5.5%	8	Clothing and footwear	4.2%
9	Furnishing	5.2%	9	Alcohol and tobacco	3.4%	9	Alcohol and tobacco	2.8%
10	Health	3.5%	10	Health	2.0%	10	Health	2.1%
11	Communication	1.6%	11	Communication	1.9%	11	Communication	1.9%
12	Education	0.8%	12	Education	1.8%	12	Education	1.8%

Source: ONS for historical data, PwC main scenario projections for 2030

The online share of spending on food, furnishings and clothing is expected to continue to increase steadily to 2030



Source: ONS data and PwC calculations

Note: Figures from 2019 onwards are PwC projections

Summary: Outlook for consumer spending and online retail sales

1

Since 2013 household spending has outpaced consumer price inflation, helped by continued low interest rates, strong employment growth and a willingness of households to borrow more. Growth in consumer spending has slowed since 2016 due to a weaker pound and rising inflation.

4

The proportion of sales conducted online doubled in each of the food, furnishing and clothing categories between 2010 and 2018.

2

Assuming an orderly Brexit, we project that real consumer spending will slow from around 1.9% in 2018 to 1.4% in 2019, before returning to its trend growth of around 1.8% on average in the 2020s.

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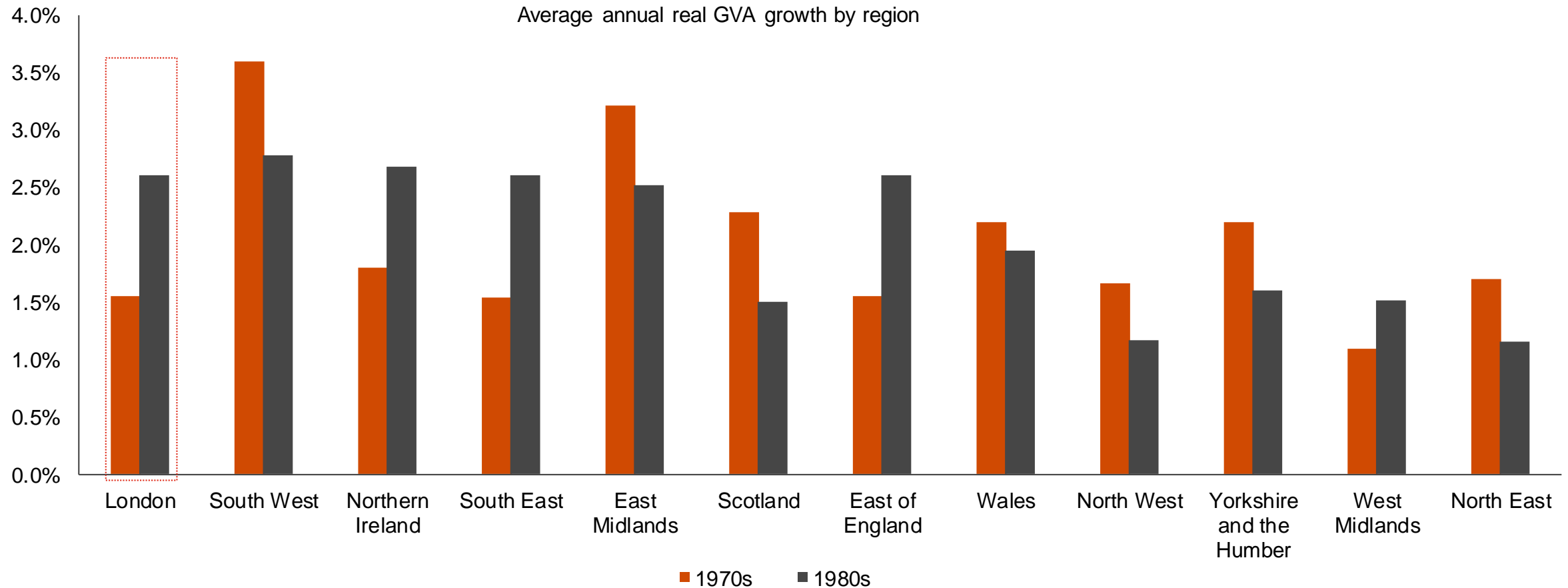
Online share of retail spending could rise between 2018 and 2030 from 5% to 8% for food, from 10% to 22% for furnishings, and from 18% to 32% for clothing.

3

We expect that housing and utilities will absorb a larger share of household spending, rising above 30% by 2030. Financial services and personal care could account for a greater proportion of spending by 2030, while food, clothing and transport see their shares decline.

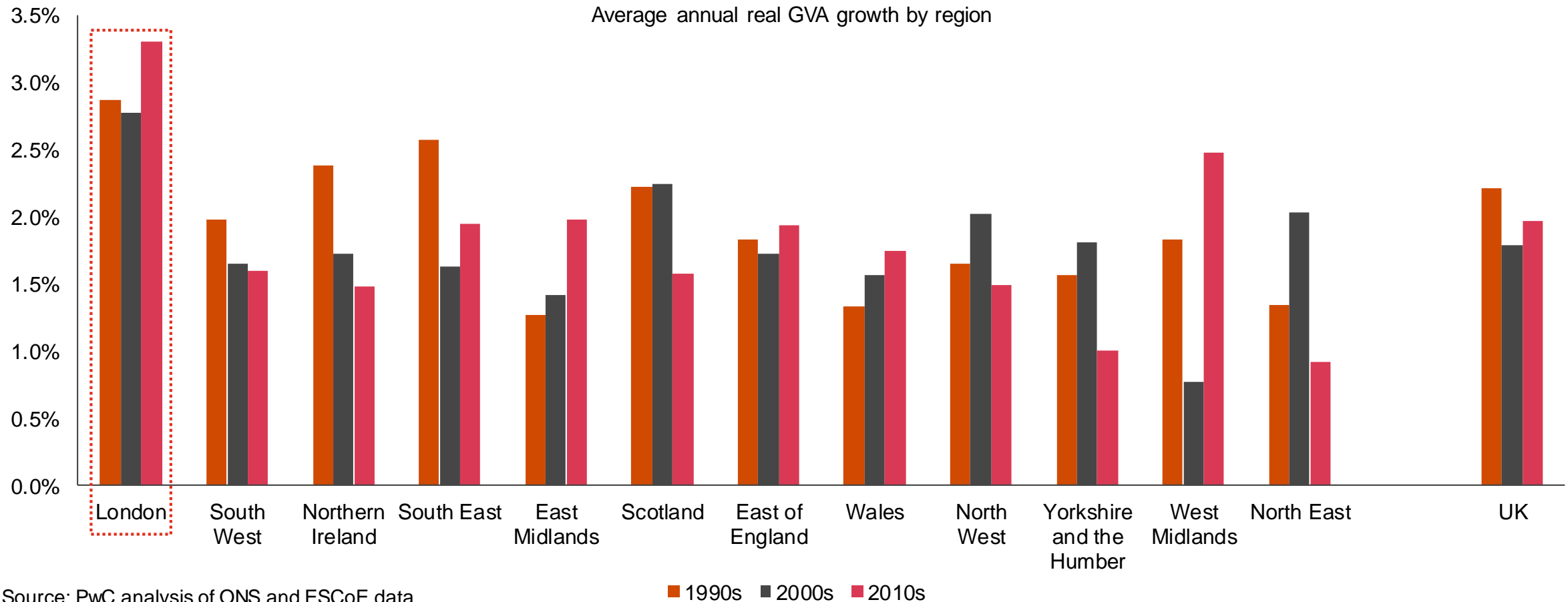
Regional growth trends and prospects

London was among the slowest growing UK regions in the 1970s as its population fell (and did not stand out from the pack in 1980s)

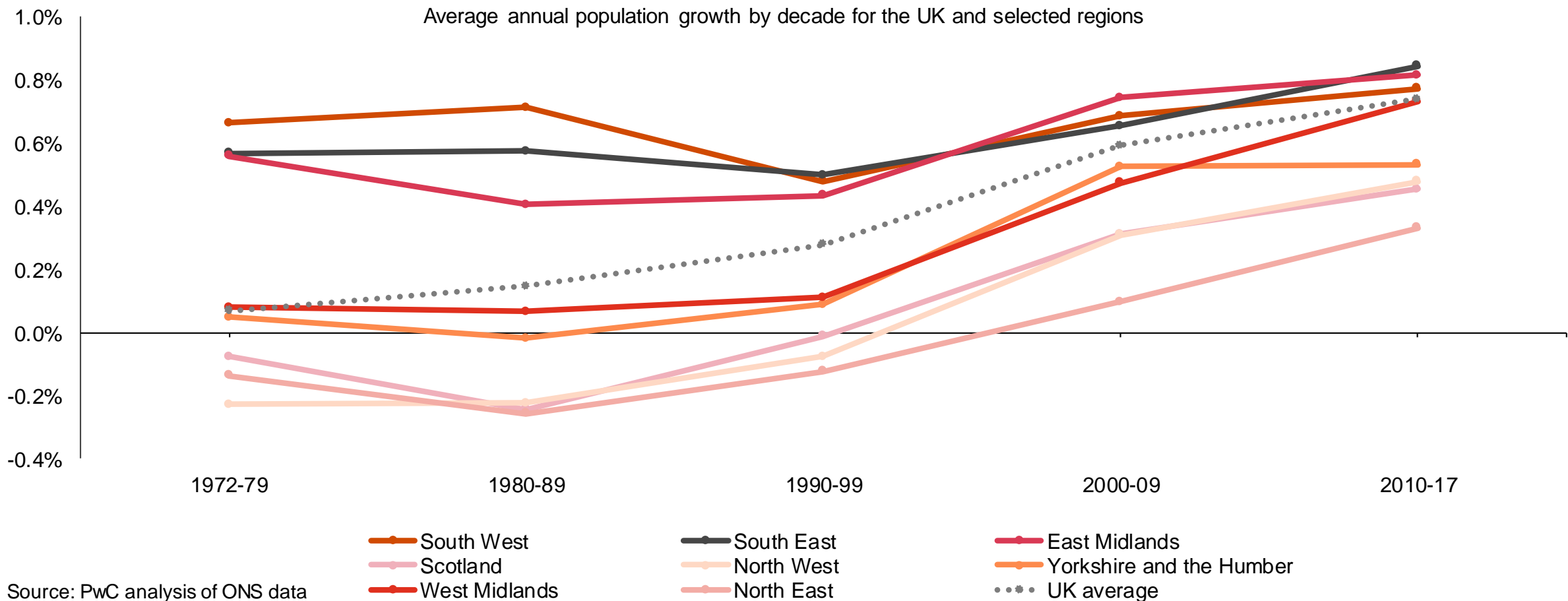


Source: PwC analysis of ONS and ESCoE data

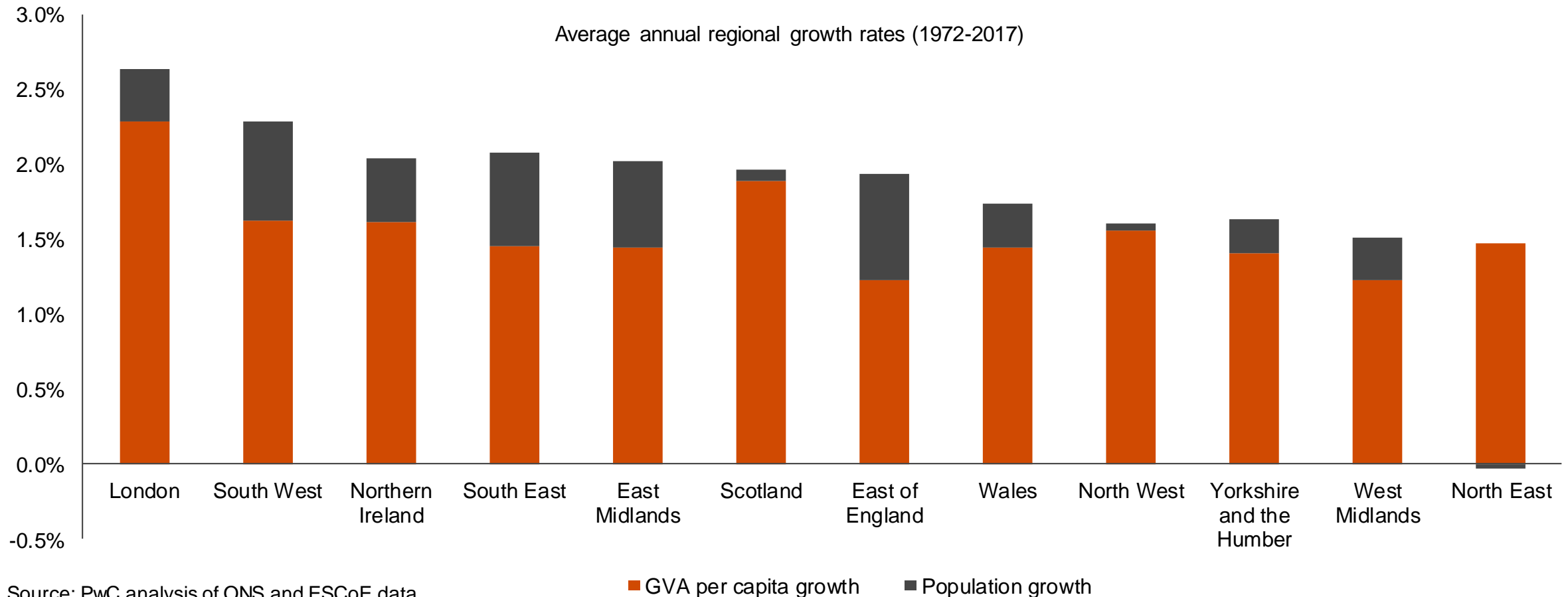
Since the 1990s, London has been by far the fastest growing region in the UK – but no consistent growth ranking for other regions



Although some regions experienced population decline in the 1970s and 1980s, all regions have seen growth since 2000



Population growth has made a more substantial contribution to economic growth in the South and East than Scotland and the North



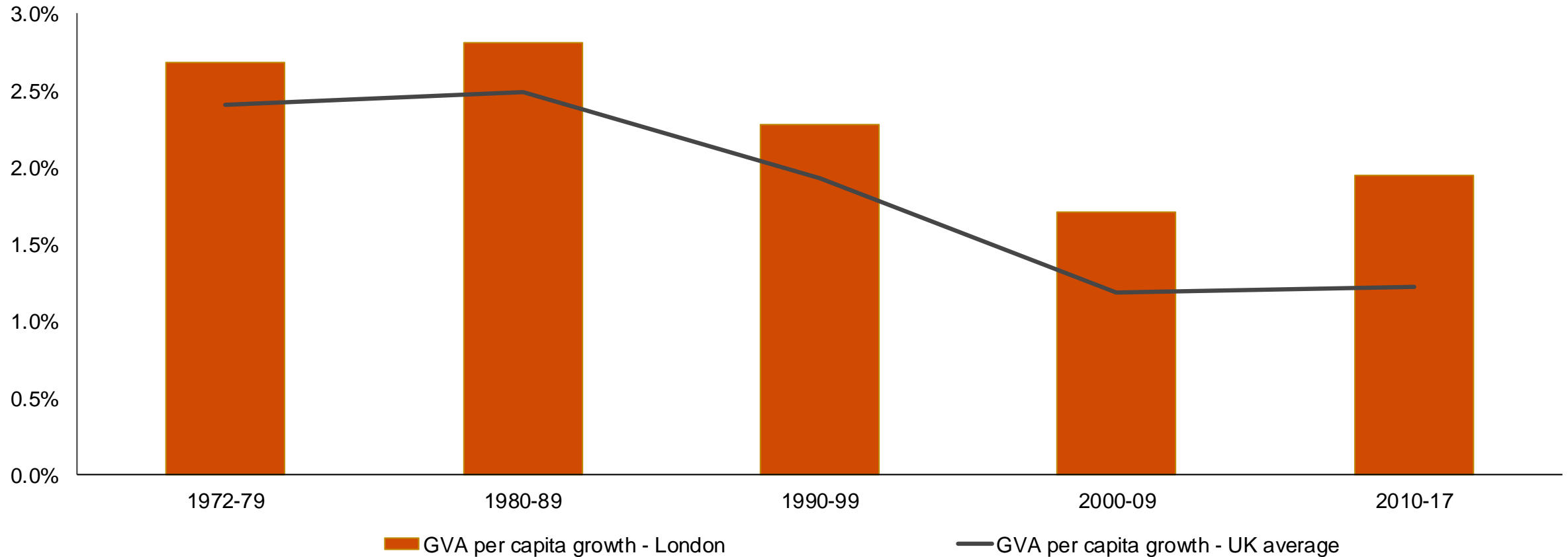
Growth in London's GVA per capita has slowed over time, but this has been more than offset by rising population growth



Source: PwC analysis of ONS and ESCoE data

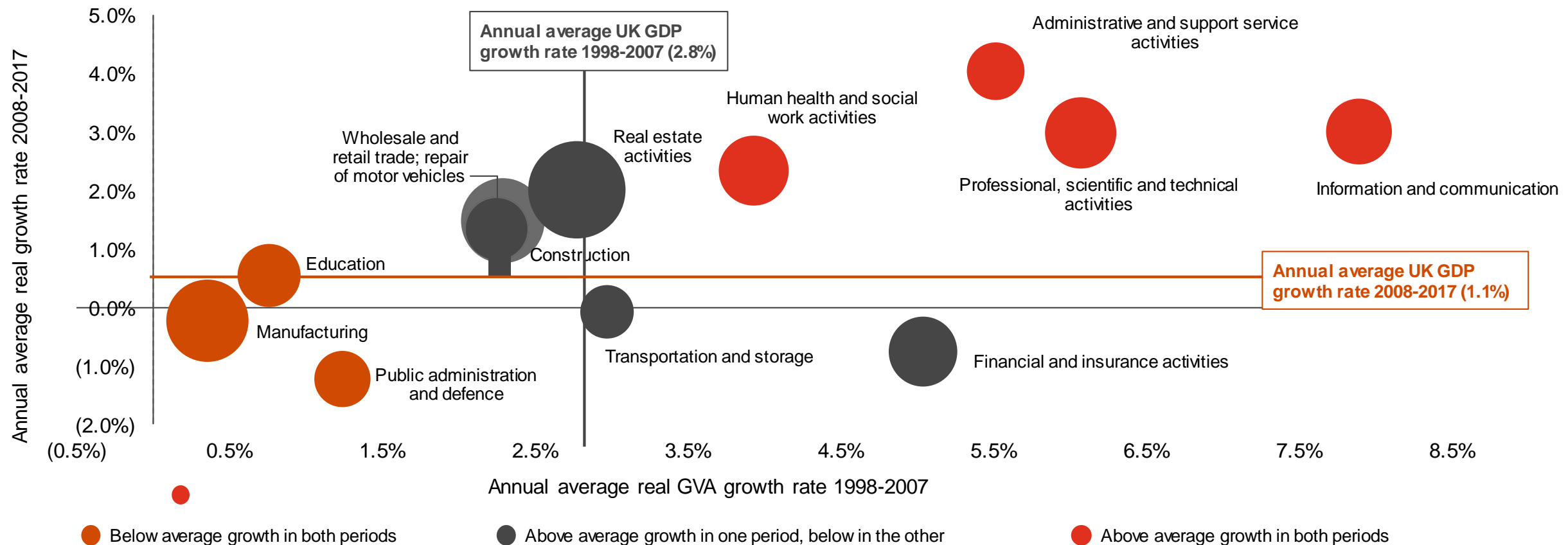
GVA per capita in London has consistently grown at a faster rate than the UK average – but both have slowed markedly since 1980s

Annual average real GVA per capita growth in London and the UK



Source: PwC analysis of ONS and ESCoE data

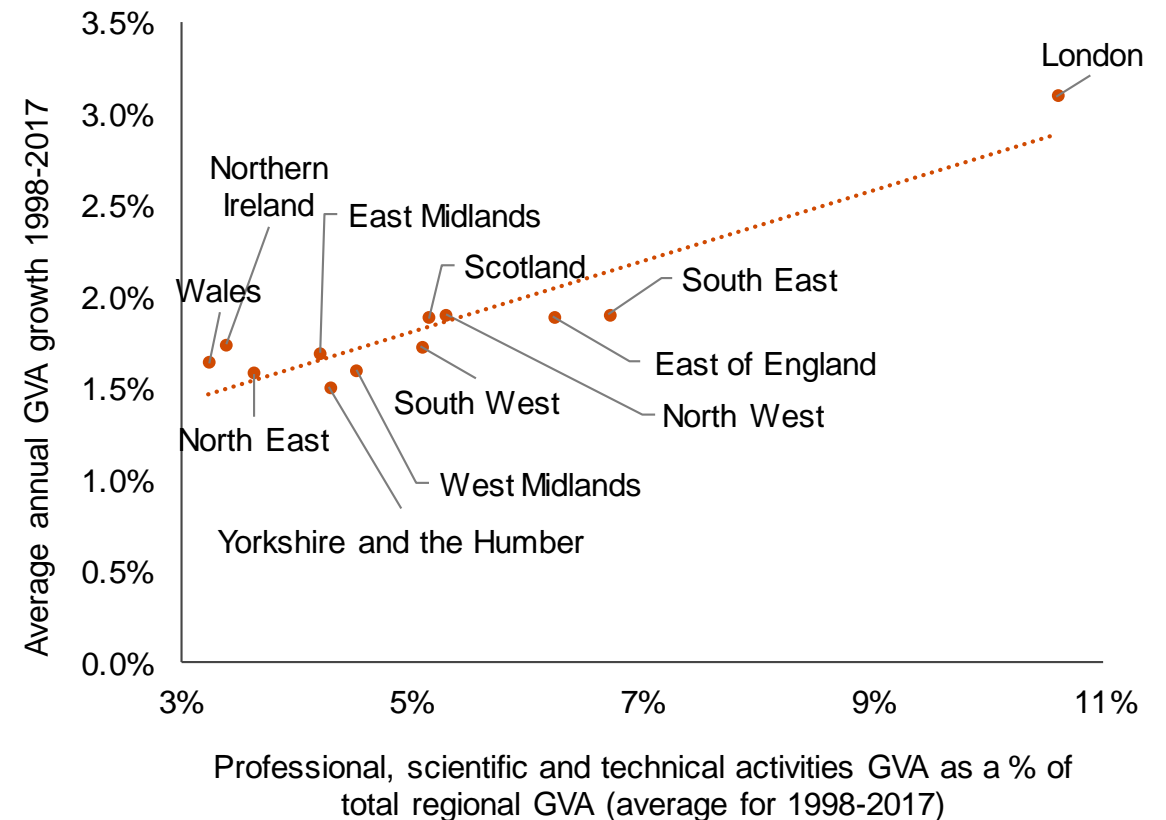
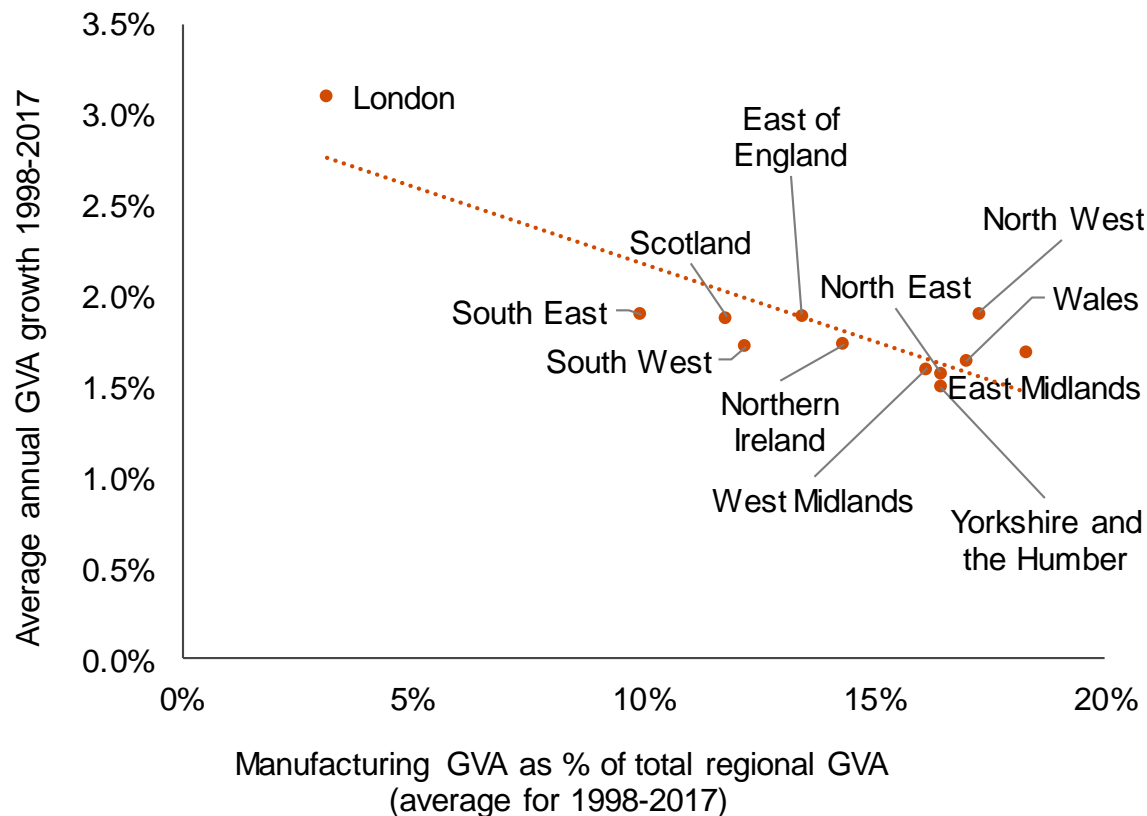
GVA growth in information and communications and professional services has outpaced the national average since 1998



Note: Size of bubbles indicates relative sectoral GVA in 2017. Mid-point of the bubbles indicates average real GVA growth rates in the two periods shown on the axes.

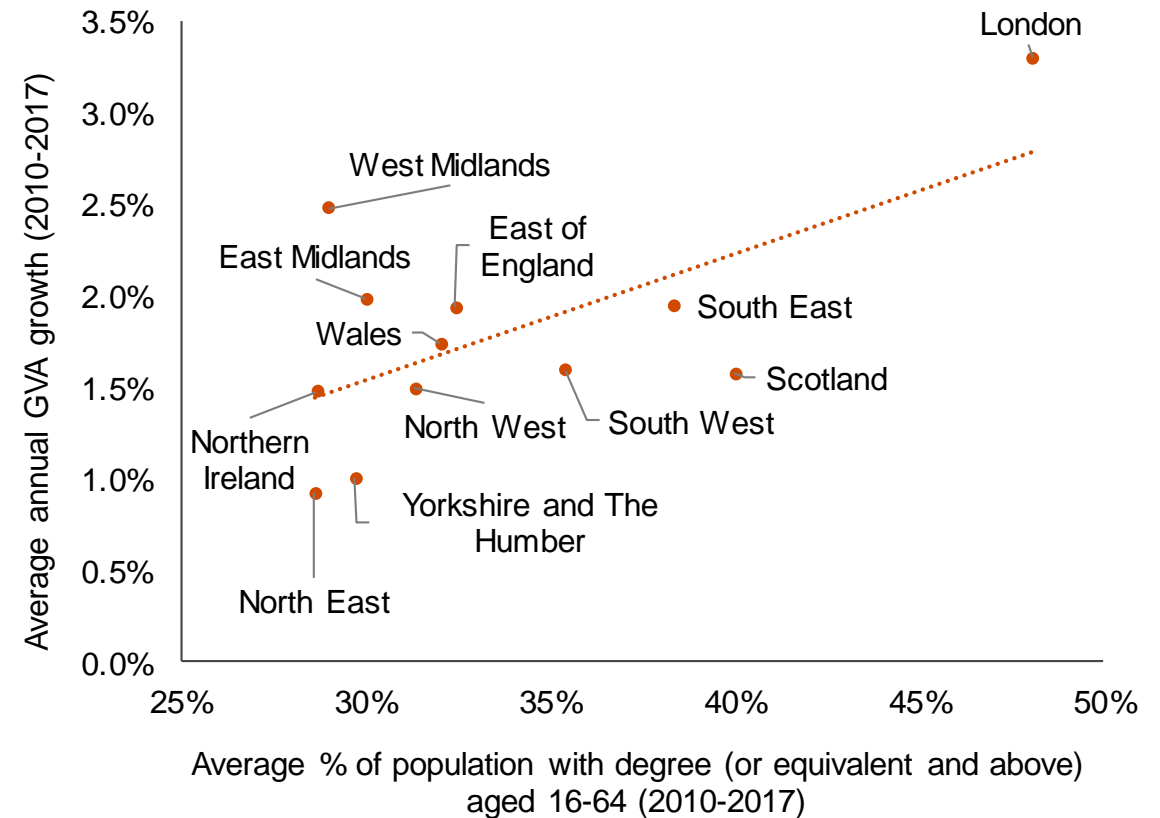
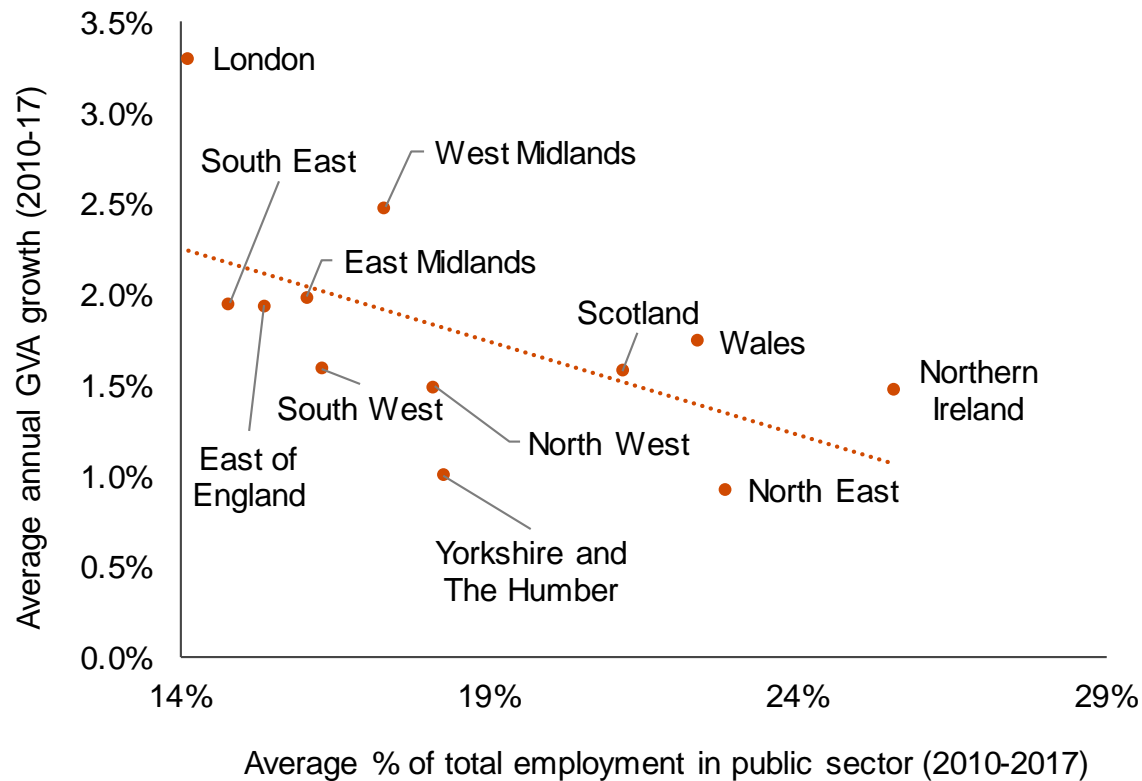
Source: PwC analysis of ONS data

Share of manufacturing output negatively correlated with regional GVA growth, while the share of professional services shows a strong positive correlation with regional growth



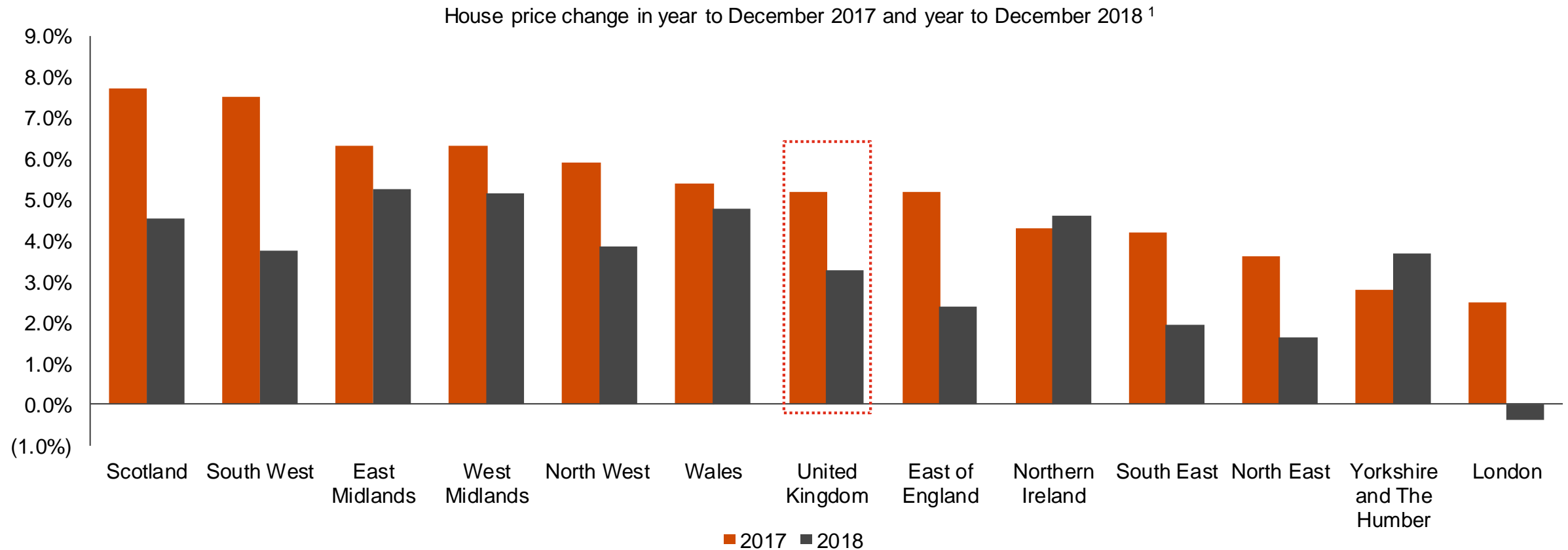
Source: PwC analysis of ONS data

Regions with high public sector employment have seen slower GVA growth since 2010, while regional growth is positively correlated with higher education levels



Source: PwC analysis of ONS data

Reversing earlier trends, London has seen the weakest house price growth of all UK regions over the past two years



¹ Except for Northern Ireland where data are for the year to Q4 2017/2018 as monthly data are not available

Source: ONS house price index based on Land Registry data

London's employment rate has also risen by less than the UK average over the past year (with Wales seeing the largest rise)



Source: ONS data

Summary: Regional growth trends and prospects

1

London had relatively slower GVA growth in the 1970s and early 1980s as people moved out of the capital. This began to reverse with the financial deregulation of the mid-1980s, which boosted London's population and GVA growth to well above the UK average. At the same time, a sharp decline in manufacturing activity hit traditional industrial regions in the North, West Midlands and Wales

3

There are signs from the latest housing and labour market data that London's relative performance may have been weaker in 2018. We expect this to continue in 2019-20, with London growing at only a slightly faster rate than the UK average in those years.

2

Since the 1990s, London's growth has been much faster than any other region. But relative growth rankings of regions outside the capital have varied across decades without a clear, consistent pattern. All regions have seen a boost to total output growth from increased immigration since the early 2000s, but real output per capita growth has fallen relative to earlier decades.

4

All regions continue to be affected by uncertainties relating to the future UK-EU relationship after Brexit. But they could see some boost to growth later this year and into 2020 if the downside risks associated with a disorderly Brexit can be avoided.

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