

2 – UK economic prospects¹

Key points

- In our main scenario, we project UK growth to slow from 1.8% in 2016 to 1.5% in 2017 and 1.4% in 2018.
- Europe and the world economy are strengthening, but UK will find it difficult to benefit due to the drag on domestic demand from higher inflation and Brexit-related uncertainty.
- A key factor behind the slowdown is slower consumer spending growth as real incomes have been squeezed by higher inflation and further rises in borrowing become hard to sustain.
- Wage growth continues to be slow despite the lowest unemployment rate since 1975. This reflects low productivity growth and lack of worker bargaining power.
- We also project investment growth to remain sluggish for the rest of this year and into 2018 as Brexit-related uncertainty remains a drag on business confidence in the UK.
- We expect growth to become more balanced across the UK regions in 2017-18, with London no longer growing ahead of the UK average. We project all regions to grow by around 1-2% in 2018.
- The Bank of England voted to increase interest rates by 0.25% in November, but future rate hikes are likely to be limited and gradual.
- Public borrowing in the current financial year looks set to be lower than projected by the OBR in March, but is likely to be somewhat higher in the medium term due to lower projected productivity growth. The Chancellor should still have some room for extra spending on priorities like housing, health and public sector pay, but any giveaways may need to be largely offset by takebacks.

Introduction

In this section of the report we describe recent developments in the UK economy and review future prospects. The discussion covers:

Section 2.1	Recent developments in the UK economy
Section 2.2	Economic growth prospects: national, sectoral and regional
Section 2.3	Outlook for inflation and real earnings growth
Section 2.4	Monetary and fiscal policy options
Section 2.5	Summary and conclusions.

¹ This section was written by John Hawksworth and Saloni Goel

2.1 – Recent developments in the UK economy

The UK economy remained resilient in the second half of 2016 despite the Brexit vote, but has not shared the benefits from stronger growth in the global economy in 2017. UK growth slowed to around 1.5% in the year to the third quarter of 2017 as inflation bit into consumer spending power and Brexit-related uncertainty dampened commercial investment. Nonetheless the UK economy has continued to register steady but modest growth, although with considerable variations by industry sector (see Figure 2.1).

Manufacturing sector output is still below pre-crisis peak levels, but has generally been on a rising trend since 2015. Most recently, manufacturing output bounced back strongly in Q3 2017 after a decline in the previous quarter. Higher demand for UK goods exports because of a weak pound and strong global demand could help to explain this recent upward trend.

The construction sector has been volatile over time, but had generally been growing relatively strongly in 2014-16 before dipping again over the past two quarters. Commercial construction activity has been particularly weak this year, perhaps reflecting the impact of Brexit-related uncertainty. But public infrastructure investment has been stronger, following a boost to spending on this in the 2016 Autumn Statement.

The dominant influence on UK growth comes from the services sector, however, which now accounts for almost 80% of UK GDP (compared to just 10% for manufacturing and 6% for construction). Services sector output has shown relatively steady growth ever since the recession bottomed out in mid-2009, but has moderated more recently as Figure 2.2 shows.

Figure 2.1 – Sectoral output and GDP trends



Source: ONS

Figure 2.2 – Trends in GDP, consumer spending and the services sector



Source: ONS

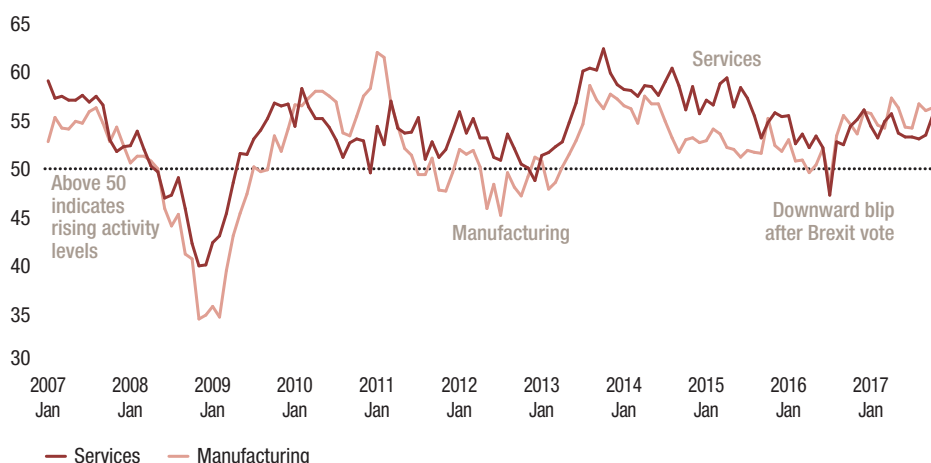
Figure 2.2 also shows the influence of slower consumer spending growth on overall GDP growth in recent quarters (although we do not have official consumer spending growth estimates yet for Q3 2017). This reflects the dampening effect of higher inflation on real household spending power.

Prior to 2017, consumer spending was a key driver of GDP growth, but this was achieved in part by running up ever higher debts. We explore this further in our latest Precious Plastic report², which highlighted that, in 2017, unsecured debt per household in UK reached an all-time high of around £11,000. This does not look sustainable in the longer term, particularly as interest rates start to edge up. The Bank of England also warned earlier this year that consumer credit growth has become uncomfortably high and suggested that some banks may need to tighten their lending standards.

While official data are more comprehensive, business surveys can provide a more timely indication of short term economic trends. In particular, it is worth keeping an eye on the Markit/CIPS purchasing managers' indices (PMIs) for services and manufacturing, as shown in Figure 2.3. Despite some volatility, the manufacturing PMI has been reasonably strong in recent months. The services PMI had weakened over the summer months, but bounced back in October.

A key factor underpinning recent trends has been the sustained weakness of the pound since the Brexit vote, as shown in Figure 2.4. Sterling has been a little stronger against the dollar in recent months, but correspondingly weaker against the euro (reflecting the relatively robust economic recovery in the euro area this year). A weak currency makes exports relatively cheaper to overseas customers, promoting the sale of British goods and services while also improving tourist inflows. But depreciation also raises the prices of imports and this has pushed inflation up to 3%, so squeezing consumer spending power.

Figure 2.3 – Purchasing Managers' Indices of business activity



Source: Markit/CIPS

Figure 2.4 – US dollar and euro exchange rates against the pound



Source: Bank of England

² <https://www.pwc.co.uk/industries/financial-services/insights/precious-plastic.html>

Figure 2.5 – Trends in productivity and employment



Source: ONS

UK creates record numbers of jobs, but productivity growth remains stubbornly low

In the previous edition of UK Economic Outlook in July, we discussed how the recent combination of low wage growth and low unemployment indicated a flattening of the traditional Phillips Curve (which describes the historical negative relationship between wage inflation and unemployment). In this edition, we consider why productivity growth – the ultimate driver of real wage growth – has been so low since the financial crisis. High level trends are outlined below, with further discussion in the special article in Section 4 by our senior economic adviser, and former MPC member, Andrew Sentance.

As shown in Figure 2.5, both UK employment and labour productivity (defined here as average output per worker) were on a steady upward trend before the financial crisis but fell back sharply during the crisis years. Many possible explanations have been put forward for recent weak productivity growth, including measurement error (in particular, not capturing the full benefit of digital innovations like smart phones). Soon after the recession, some put it down to labour hoarding by firms or credit constraints by banks, but both these explanations are less convincing now after eight years of recovery since mid-2009. Reduced competition in some sectors might be a possible explanation, but against that some other sectors have seen their markets disrupted by technology-savvy new entrants, which would usually be associated with increased innovation and productivity growth.

The most convincing explanation from our perspective is that business investment, while picking up since the recession, has not done so to the extent seen in most past recovery cycles. Many businesses have been reluctant to invest in new labour-saving automation technologies that are relatively risky when compared to the alternative of using more low cost labour, including migrant workers from the EU and beyond (as we discuss further in Section 3 of this report). Uncertainty around Brexit has been a further dampener on business investment over the past year, which has been broadly flat at a time when global economic conditions and very low interest rates might normally have been expected to lead to much stronger UK business investment growth.

Looking 10-15 years ahead, emerging technologies like robotics and artificial intelligence could hold the potential for faster productivity growth³, albeit at the cost of some existing job losses as we have argued in past reports⁴. But, at least for the next few years, productivity growth may remain relatively subdued, which also has implications for the public finances as we discuss in Section 2.4 below.

³ See, for example, our report on the potential impact of AI on the UK economy here, which suggests gains of up to 10% of GDP by 2030: <https://www.pwc.co.uk/services/economics-policy/insights/the-impact-of-artificial-intelligence-on-the-uk-economy.html>

⁴ See, for example, this article on whether robots will steal our jobs from our March 2017 UK Economic Outlook: <https://www.pwc.co.uk/economic-services/ukeyo/pwcukeyo-section-4-automation-march-2017-v2.pdf>

2.2 – Economic growth prospects after Brexit: national, sectoral and regional

Our main scenario is for real GDP growth of 1.5% in 2017 and 1.4% in 2018, somewhat below estimated longer term trend growth of around 2%. Further details of this main scenario projection are set out in Table 2.1.

As in our July report, we expect UK growth to remain moderate in 2017-18, but we think it is unlikely that the economy will fall into recession unless there are major new adverse shocks. We assume here that the Brexit negotiations will proceed reasonably smoothly, and therefore that the UK will avoid an extreme ‘hard Brexit’ where it falls out of the EU in 2019 without any trade deal or transitional arrangement, so reverting immediately to WTO rules. But clearly this is a key downside risk.

The projected deceleration in growth as compared to 2016 is driven primarily by slower consumer spending growth due to the squeeze on real household incomes from higher inflation. So far consumers have increased borrowing to keep spending growth going at a reasonable pace but, as mentioned earlier, there are limits to how much further this can go.

Table 2.1 - Main scenario projections for UK growth and inflation

% real annual growth unless otherwise stated	2016	2017	2018
GDP	1.8	1.5	1.4
Consumer spending	2.9	1.6	1.1
Government consumption	1.1	0.6	0.7
Fixed investment	1.3	2.2	1.0
Domestic demand	2.1	0.8	1.1
Net exports (% of GDP)	-0.9	0.6	0.3
CPI inflation (%: annual average)	0.7	2.7	2.7

Sources: ONS for 2016, PwC main scenario for 2017-18

Total fixed investment growth has been reasonable this year at an estimated 2.2%, buoyed by increased public sector infrastructure investment, but is expected to slow in 2018 as Brexit-related uncertainty drags on private investment. Overall, UK domestic demand growth is expected to average only around 1% per annum in 2017-18, down from 2.1% in 2016.

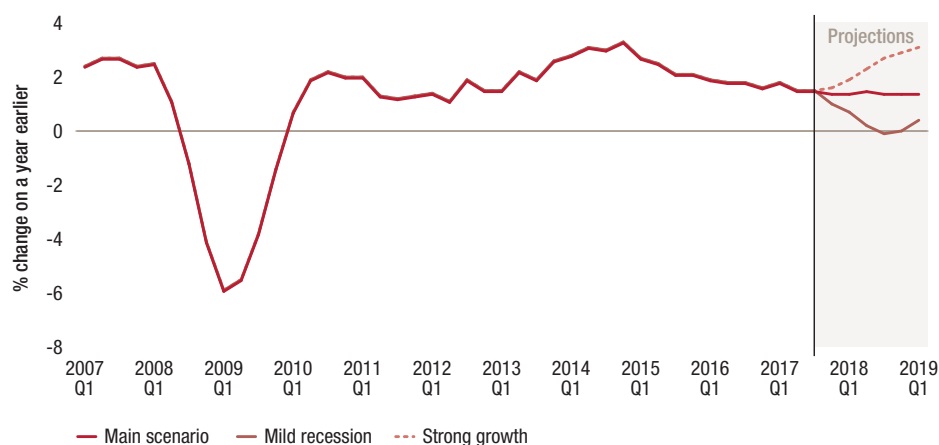
Weaker domestic demand growth is expected to be offset to a degree by a positive contribution from net exports in 2017-18, reversing the strongly negative contribution in 2016. This reflects a boost to exports from the recovery in growth in the Eurozone in particular, as well as the relatively competitive level of the pound. However, since net exports are contingent on trade negotiations with the EU, there is considerable uncertainty over whether these positive effects can be sustained beyond the short term.

Alternative growth scenarios – businesses need to make contingency plans

To reflect the uncertainties associated with any such projections, particularly in light of Brexit, we have also considered two alternative UK growth scenarios, as shown in Figure 2.6.

- Our **‘strong growth’ scenario** projects that the economy will rebound to around 2.5% on average in 2018. This is a relatively optimistic scenario, which assumes that good early progress is made in UK-EU negotiations next year and that there are strong favourable trends in the global economy, pushing world growth higher in 2018 and boosting UK exports.
- Our **‘mild recession scenario’**, by contrast, would see average UK growth drop to close to zero in 2018 as the global outlook worsens and there is little or no progress in negotiations with the EU over the next year, suggesting that the UK may have to fall back on WTO rules with a consequent imposition of tariffs on trade with the EU. The associated uncertainty would be likely to reduce investment, jobs and growth. Even in this downside case, however, we do not expect a deep recession of the kind seen in 2008-9, barring some very major new adverse shocks.

Figure 2.6 – Alternative UK GDP growth scenarios



Sources: ONS, PwC scenarios

We do not believe that either of these two alternative scenarios is the most likely outcome, but they are certainly possible. At present, risks to growth appear to be weighted somewhat to the downside given the political and economic uncertainties around Brexit. Businesses would therefore be well advised to make appropriate contingency plans for such less favourable outcomes, but without losing sight of the more positive possibilities for the UK economy should these downside risks not materialise.

At present, risks to growth appear to be weighted somewhat to the downside given the political and economic uncertainties around Brexit.

More generally, companies should consider making detailed contingency plans for the potential impact of Brexit

on all aspects of their businesses, covering the kind of questions listed in Table 2.2.

Table 2.2: Key issues and questions for businesses preparing for Brexit

Issues	Implications	Questions
Trade	The EU is the UK's largest export partner, accounting for around 44% of total UK exports – leaving the EU is likely to make trade with EU more difficult, but the extent of this will depend on the type of deal, if any, agreed with the EU27.	<ul style="list-style-type: none"> How much do you rely on EU countries for revenue growth? Have you reviewed your supply chain to identify the potential impact of tariffs and additional customs procedures on your procurement and logistics? Have you identified which third party contracts would require renegotiation in different Brexit scenarios (EEA/FTA/WTO)?
Tax	The UK would gain more control over VAT and some other taxes. But Brexit could also open the door to new tax initiatives within the EU that the UK might currently have sought to block.	<ul style="list-style-type: none"> Have you thought about the impact of potential changes to the UK and EU tax regimes after Brexit? Have you upgraded your systems to deal with a significant volume of tax changes?
Regulation	The UK is subject to EU regulation. Brexit could mean less red tape in some areas. But it could also mean that UK businesses need to adapt to a different set of regulations, which could be costly.	<ul style="list-style-type: none"> Have you quantified the potential regulatory impact of Brexit to keep your stakeholders up-to-date? How flexible is your IT infrastructure to deal with potential changes to Data Protection laws? Is your compliance function ready to deal with any new reporting requirements arising from Brexit?
Sectoral effects	The UK is the leading European financial services hub, which is a sector that could be significantly affected by Brexit. Other sectors which rely on the EU single market could also feel a strong impact.	<ul style="list-style-type: none"> Have you briefed potential investors on the impact of Brexit for your sector and organisation? How up-to-date are your contingency plans in place to deal with Brexit? Are you aware of the impact of potential volatility in financial markets on your capital raising plans?
Foreign direct investment (FDI)	FDI from the EU makes up around 45% of the total stock of FDI in the UK. Brexit could put some of this inbound investment at risk.	<ul style="list-style-type: none"> How much do you rely on FDI for growth? How does Brexit affect your location decisions? How are your competitors responding to the risk of Brexit? Are they relocating any key functions?
Labour market	The UK may change its migration policies. Currently EU citizens can live and work in the UK without restrictions. Businesses will need to adjust to any change in this regime. We discuss possible economic impacts of EU migration changes after Brexit in Section 3.	<ul style="list-style-type: none"> How reliant is your value chain on EU labour? Have you communicated with your UK-based employees who are nationals of other EU countries? What advice should you give them on registering for UK residency? Have you considered the additional cost of hiring EU labour after Brexit? Could changes in access to EU labour increase the case for automation?
Uncertainty	Uncertainty has increased since the referendum and this seems likely to continue through the Brexit negotiation period.	<ul style="list-style-type: none"> How well prepared are you to manage future volatility in the Sterling exchange rate as Brexit negotiations proceed? Have you communicated your approach to Brexit to your key stakeholders, customers and suppliers? Is your organisation ready for a worst-case scenario where there is a prolonged period of uncertainty and/or a 'hard Brexit'?

Source: PwC

5 For more material on the potential impact of Brexit on your business, please see our EU Referendum hub here: <http://www.pwc.co.uk/the-eu-referendum.html>

Output growth projected to moderate in most sectors in 2018

The sector dashboard in Table 2.3 shows latest ONS estimates of growth rates for 2016 along with our projected growth rates for 2017 and 2018 for five of the largest sectors within the UK economy. The table also includes a summary of the key trends and issues affecting each sector.

The most marked downward trend in growth is in the distribution, hotels and restaurants sector, which recorded output growth of around 5% in 2016, but could slow to less than 2% growth in 2018 as real consumer spending power is squeezed.

Manufacturing has seen some revival this year due to stronger exports, but may see growth moderate again in 2018 as earlier competitiveness gains from a weak pound fade. Construction was strong going into 2017, which boosts projected average growth this year, but this disguises declining output for the past two quarters. Even if this decline bottoms out, average growth seems likely to be modest in 2018.

Business services and finance growth should remain relatively strong at 1.8% next year, although there are downside risks if Brexit negotiations go less smoothly than we assume in our main

scenario. UK financial services companies could be particularly badly affected by any loss of access to EU markets, notably through the possible loss of ‘passporting’ rights for UK-based firms⁶.

Table 2.3: UK sector dashboard

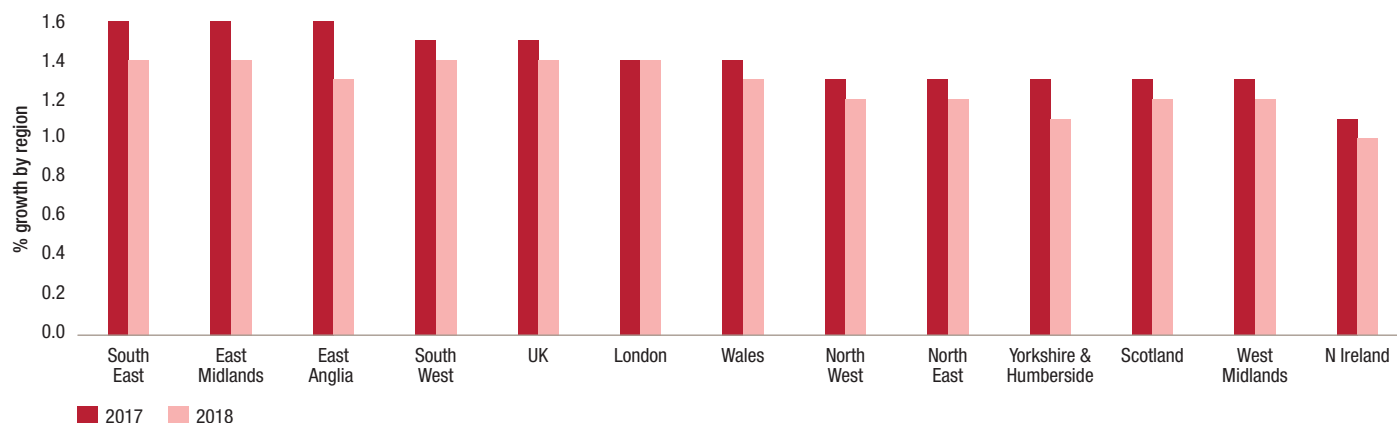
Sector and GVA share	Growth			Key issues/trends
	2016	2017	2018	
Manufacturing (10%)	0.7%	2.1%	1.3%	Manufacturing PMI has been relatively robust in recent months. Exporters have gained from a weaker pound and a stronger Eurozone recovery.
Construction (6%)	2.4%	3.6%	0.5%	Construction PMI has weakened significantly in recent months. The construction sector saw relatively strong growth in the first quarter of 2017, but has declined since then. The government has boosted infrastructure investment to try to offset weakness in commercial construction due to Brexit.
Distribution, hotels & restaurants (14%)	5.1%	2.3%	1.8%	A weaker pound has boosted tourism, both from overseas and domestically, leading to increased expenditure in the hospitality sector. But its broader effect has been to push up import prices and inflation, slowing down real spending growth this year and probably also next year.
Business services and finance (31%)	2.4%	1.5%	1.8%	The financial sector remains particularly concerned about the possible implications of Brexit, especially if a “hard Brexit” occurs with the loss of EU passporting rights. Some banks are preparing to relocate certain functions and thousands of staff overseas, though we have not seen large moves yet. The Bank of England has increased the counter-cyclical capital buffer to constrain consumer debt levels, which may impact lending by retail banks.
Government and other services (23%)	1.5%	1.0%	1.1%	Public services may continue to face real-term cuts for the next few years, though the Budget may see some modest easing of austerity.
Total GDP	1.8%	1.5%	1.4%	

Sources: ONS for 2016 estimates, PwC for 2017 and 2018 main scenario projections and key issues.

These are five of the largest sectors but they do not cover the whole economy - their GVA shares only sum to around 85% rather than 100%

⁶ The potential impact of Brexit on financial services was considered in detail in our April 2016 report for TheCityUK, which can be accessed here: <http://www.pwc.co.uk/industries/financial-services/insights/leaving-the-EU-implications-for-the-UK-financial-services-sector.html>

Figure 2.7 – PwC main scenario for output growth by region in 2017 and 2018



Source: PwC analysis

Regional prospects: all parts of the UK likely to see some moderation in growth in 2017-18 with London no longer leading the pack

In contrast to previous years where London has generally had one of the strongest growth rates of any UK region, our latest projections suggest London's growth rate may fall to close to the UK average in 2017-18 (see Figure 2.7). This is partly due to the greater exposure of some London activities (e.g. the City) to adverse effects from Brexit-related uncertainty, as well as growing constraints on the capital in terms of housing affordability and transport capacity⁷.

Most other regions are projected to expand at around the UK average of 1.4% in 2018, although Northern Ireland is predicted to lag behind somewhat with growth of around 1% next year.

It is important to note that, since regional output data are published on a less timely basis than national data, the margins of error around these regional output projections are even larger than for national growth projections. Therefore, they can only be taken as illustrative of broad directional trends.

2.3 – Outlook for inflation and real earnings growth

As mentioned earlier, consumer price inflation (CPI⁸) picked up from just 0.7% on average in 2016 to 3% in the year to September due in large part to the feedthrough from a weaker pound into import prices. The rise in global oil prices from their low point in early 2016 to around \$60 a barrel at the time of writing has also played a part here.

Over the next few months, we expect CPI inflation to rise a little further, peaking at over 3% around the turn of this year in our main scenario (see Figure 2.8), but moderating slightly over the course of 2018 as earlier effects from the weak pound fade. Annual average rates of inflation in our main scenario would be around 2.7% both this year and next, but this would disguise a general upward trend during 2017 giving way to a projected gradual decline during 2018.

⁷ For more on local economic trends see our latest Good Growth for Cities report: <https://www.pwc.co.uk/industries/government-public-sector/good-growth.html>

⁸ The ONS switched to CPIH as its main inflation indicator in March 2017, despite some continuing methodological concerns about the reliability of the way that CPIH captures owner occupied housing costs through estimates of equivalent market rents rather than actual outlays on mortgage payments. For the moment, we have stuck to CPI as our key inflation indicator, but we may consider switching to CPIH in the future if this becomes more widely used (in particular if it becomes the MPC's target measure of inflation). In the long run, however, we would not expect significant differences between average inflation on these two measures (based on long-term historical averages).

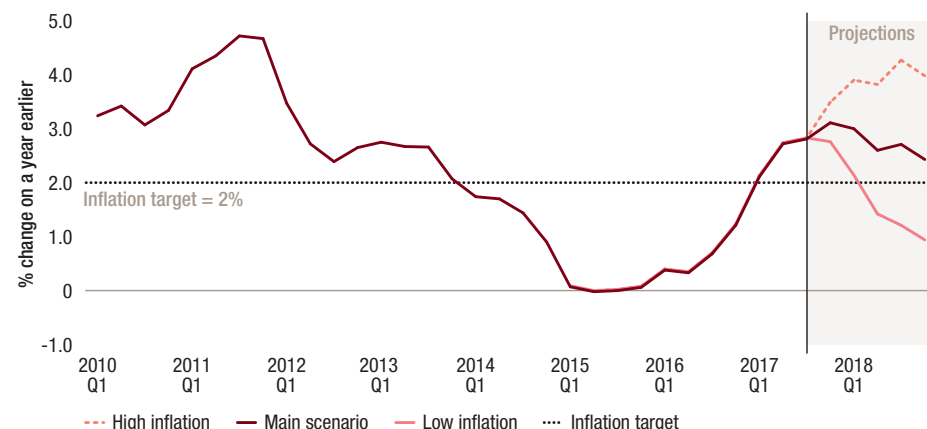
Alternative inflation scenarios

There is always considerable uncertainty over inflation projections as they are particularly sensitive to movements in exchange rates and global commodity prices, both of which are very hard to predict with any confidence. As such, we also present two alternative scenarios for UK inflation in Figure 2.8:

- In our **‘high inflation’ scenario** we project UK inflation to rise to around 4% on average in 2018 as a result of further falls in the pound and a possible pick-up in global commodity prices if other economies grow more strongly and/or oil supply is constrained by producers. Wage growth could also pick up faster than expected in this case.
- In our **‘low inflation’ scenario**, by contrast, the UK and global economies weaken by more than expected in our main scenario leading global commodity prices to fall back sharply over the next year. In this case, UK inflation could fall back to below the Bank of England’s 2% target rate during the course of 2018.

As with our GDP growth scenarios, neither of these two alternative variants is as likely as our main scenario. But given recent volatility and uncertainty, businesses should plan for a broad range of outcomes.

Figure 2.8 – Alternative UK inflation (CPI) scenarios



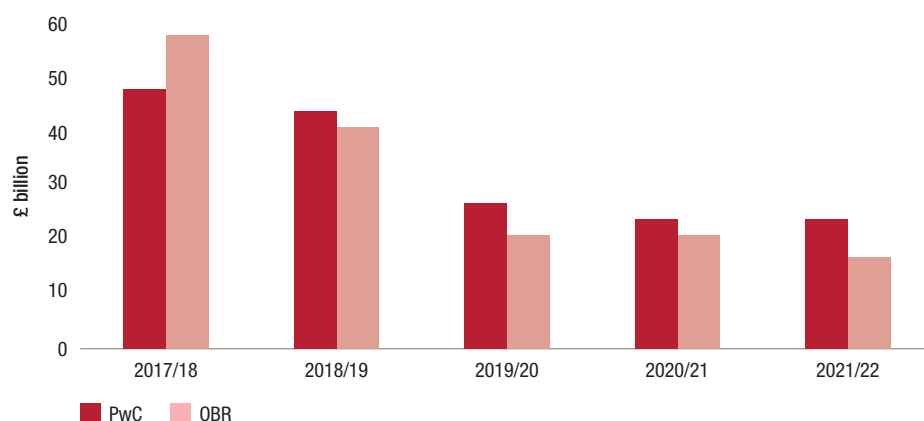
Sources: ONS, PwC scenarios

Figure 2.9 – CPI inflation vs average earnings growth



Sources: ONS, PwC analysis

Figure 2.10 – PwC and OBR public borrowing projections



Sources: OBR (March 2017), PwC main scenario assuming no fiscal policy changes

2.4 – Monetary and fiscal policy options

The Monetary Policy Committee (MPC) voted by a majority of 7-2 at its meeting in November to increase interest rates by 0.25%, the first such increase in a decade. This was to be expected after earlier signals in the September MPC minutes that the majority of the committee were now minded to raise rates at some point over the next few months.

However, the latest MPC minutes suggest that any future rises will be limited and gradual, and will depend on how the data evolve. For 2018, this would suggest only one further quarter point rate rises based on the Bank's latest forecast for UK growth and inflation (which is similar to our own main scenario). So we have not yet seen any dramatic shift in monetary policy that would have a major impact on UK prospects in the short term. The road to normalisation, which may now mean base rates ending up at around 2-2.5% as opposed to the 5% pre-crisis norm, could be long and bumpy.

Real earnings squeeze projected to persist into 2018

As Figure 2.9 shows, real earnings growth was squeezed from 2009-14 but then regained some ground in 2015-16 as low global commodity prices pushed down UK inflation to close to zero. But the real earnings squeeze has resumed this year as wage inflation has failed to pick up in response to higher consumer price inflation.

We expect negative real earnings growth to continue in 2018 (see Figure 2.9), although the squeeze should ease over the course of the year based on our main scenario projections. It is difficult for earnings to pick up unless productivity picks up, which there has not been much sign of so far during this recovery cycle as we discussed in Section 2.1 above.

Table 2.4 - Comparison of PwC and previous OBR public finance projections

	2017/18	2018/19	2019/20	2020/21	2021/22
Real GDP growth (%)					
OBR (March 2017)	1.8	1.6	1.8	1.9	2.0
PwC main scenario	1.5	1.4	1.6	1.7	1.8
Public sector net borrowing (£ billion)					
OBR (March 2017)	58	41	21	21	17
PwC main scenario	48	44	27	24	24
Cyclically-adjusted budget deficit (% of GDP)					
OBR (March 2017)	2.9	1.9	0.9	0.9	0.7
PwC main scenario	2.4	2.1	1.3	1.1	1.0
Public sector net debt (% of GDP)					
OBR (March 2017)	88.8	88.5	86.9	83.0	79.8
PwC main scenario	87.6	87.6	86.4	82.9	80.1

Source: OBR Economic and Fiscal Outlook (March 2017), latest PwC main scenario assuming no tax and spending policy changes

The Chancellor faces some tough choices in the Budget

Since the election in June, the Chancellor has come under significant political pressure to further ease austerity, over and above what he announced in his 2016 Autumn Statement (which was primarily focused on higher infrastructure spending). Public borrowing does look set to come in lower than expected this year, perhaps by as much as £10 billion, but much of this is due to a temporary spending undershoot and, in future years, slower productivity growth may lead to lower tax revenues than the OBR forecast in March.

Our main scenario projection is therefore for a somewhat higher budget deficit of around £24 billion in 2021/22, assuming no new fiscal policy changes, as compared to the OBR's March 2017 forecast of a £17 billion deficit in 2021/22 (see Figure 2.10).

Our fiscal projections, as set out in more detail in Table 2.4, suggest a cyclically adjusted budget deficit of just over 1% of GDP in 2020/21, which would still meet with some margin of comfort the Chancellor's medium term target of getting the structural deficit below 2% of GDP in that year.

If the OBR projections are similar to those in Table 2.4, this would still give the Chancellor some potential scope for selective easing of austerity in his Budget. However, he may want to retain most of this 'wiggle room' for future years given the uncertainties around how the Brexit process will play out and what its economic impact will be.

Nonetheless, we would still expect the Chancellor to find some room for additional spending on priorities like housing⁹, health and social care, policing and some selective further relaxation of public sector pay caps. Any such giveaways are, however, likely to be largely offset by 'takebacks' through net tax rises (e.g. further anti-avoidance measures) or spending cuts in lower priority areas.

The Chancellor should be able to afford some such net giveaways while still meeting his medium term targets to get the structural budget deficit below 2% of GDP by 2020 and have the public debt to GDP ratio falling by 2021/22 (albeit still uncomfortably high at around 80% of GDP). His longer term target of eliminating the deficit entirely by the mid-2020s looks much more challenging, particularly given likely rises in age-related spending on health and pensions over this period. But that is a problem for the next Parliament, not for the present Budget.

⁹ It is worth noting here that the extra £10 billion announced for the 'Help to Buy' scheme at the Conservative Party conference is counted as a 'below the line' financial transaction in the national accounts, and so does not add to annual public sector net borrowing, although it does add to the stock of government debt until the associated loans are repaid. However, if the government allows local authorities to build more social housing, this will add directly to the annual budget deficit.

2.5 – Summary and conclusions

UK economic growth has slowed this year to around 1.5% as inflation has squeezed consumers and Brexit-related uncertainty has dampened business investment growth. There has been some offset from a stronger global economy, but not enough to keep UK growth from falling below its long term trend rate of around 2%.

In our main scenario, we expect this period of modest, sub-trend growth to continue in 2018, with GDP growth down to around 1.4% and real consumer spending growth to just over 1%.

The impact of slower growth will be felt across most major industry sectors, although manufacturing exports are receiving a short-term boost from the depreciation of the pound and recent stronger Eurozone growth.

London is projected to see a particular moderation in growth in 2017-18 due to increasing uncertainties over Brexit, bringing it back into line with the average of other UK regions.

After the interest rate rise by the MPC in November, it seems likely that further rate rises will be limited and gradual, with perhaps just one more increase during 2018.

The Chancellor may ease up on austerity a little in his Budget by allocating more money to priority areas like health and housing. But he remains constrained by fiscal circumstances and the need to keep some ammunition in reserve to deal with any future Brexit-related economic turbulence, so any giveaways in the Budget on 22 November may be largely offset by takebacks.

It is important to note that there are considerable uncertainties around any such projections at present. So organisations should stress test their business and investment plans against alternative economic scenarios and also review the potential wider implications of Brexit for all aspects of their operations.

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