

UK Economic Outlook

July 2019

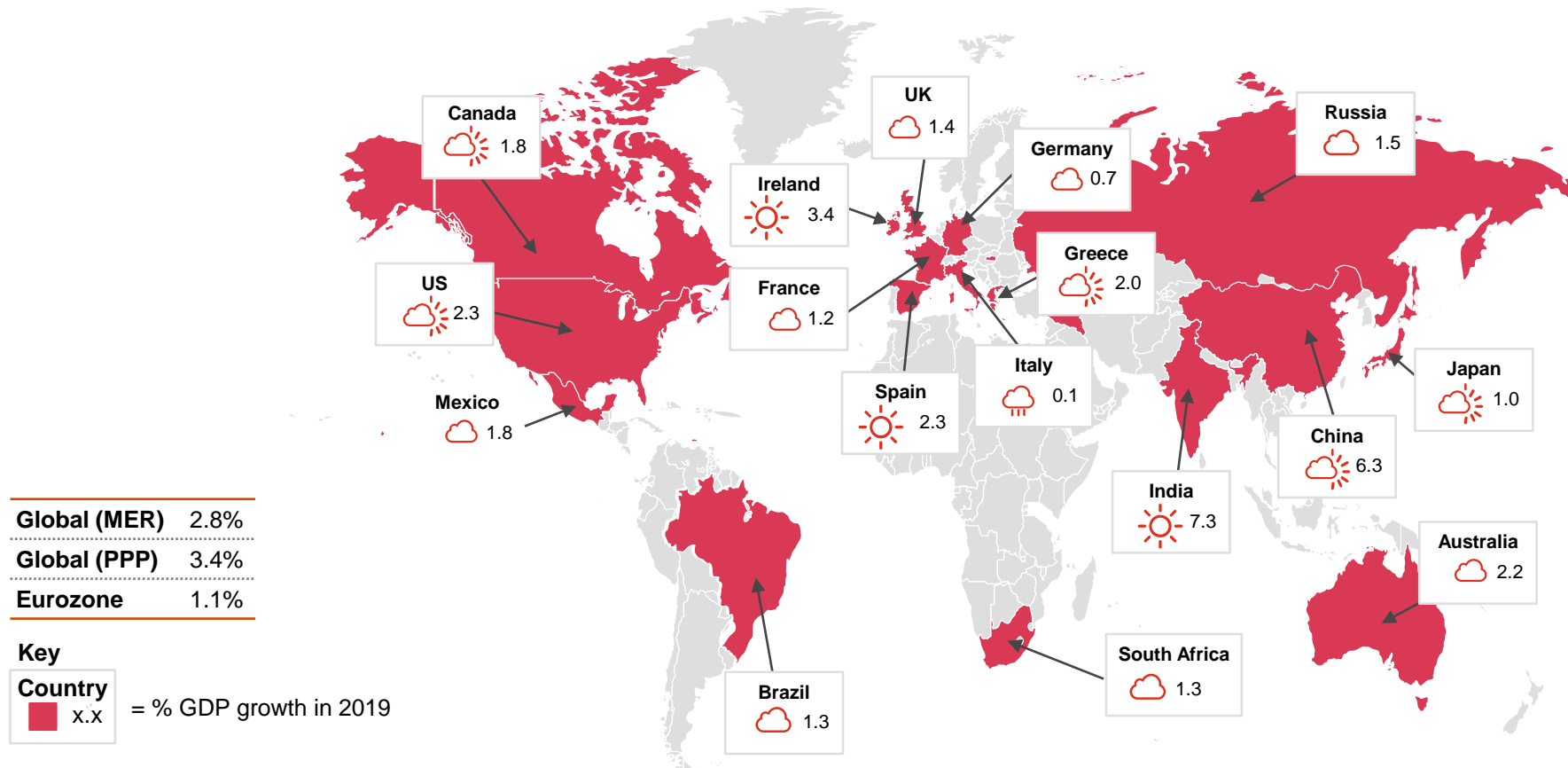


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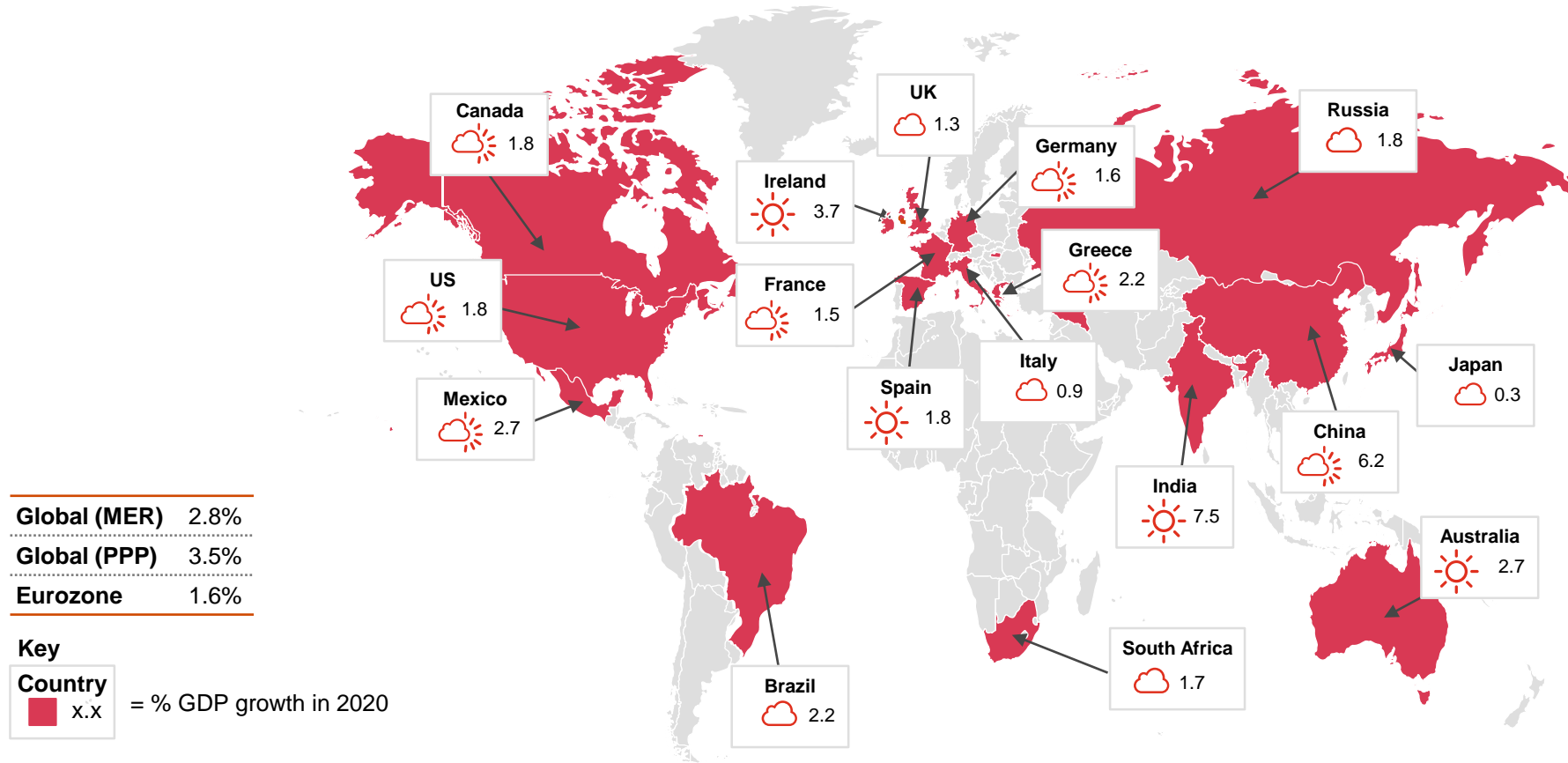
Global growth outlook

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

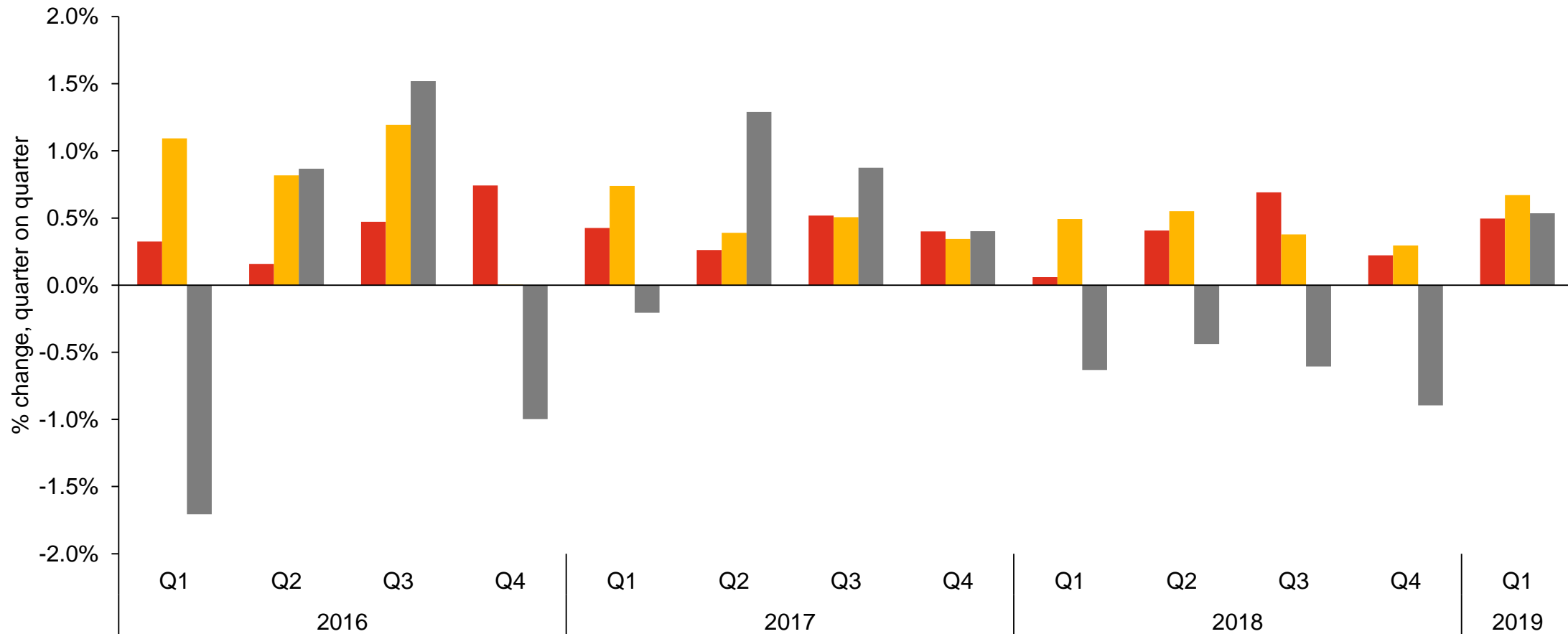
In 2020, growth could pick up slightly in the Eurozone, but may continue to slow in the US and China



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

UK economic trends and prospects

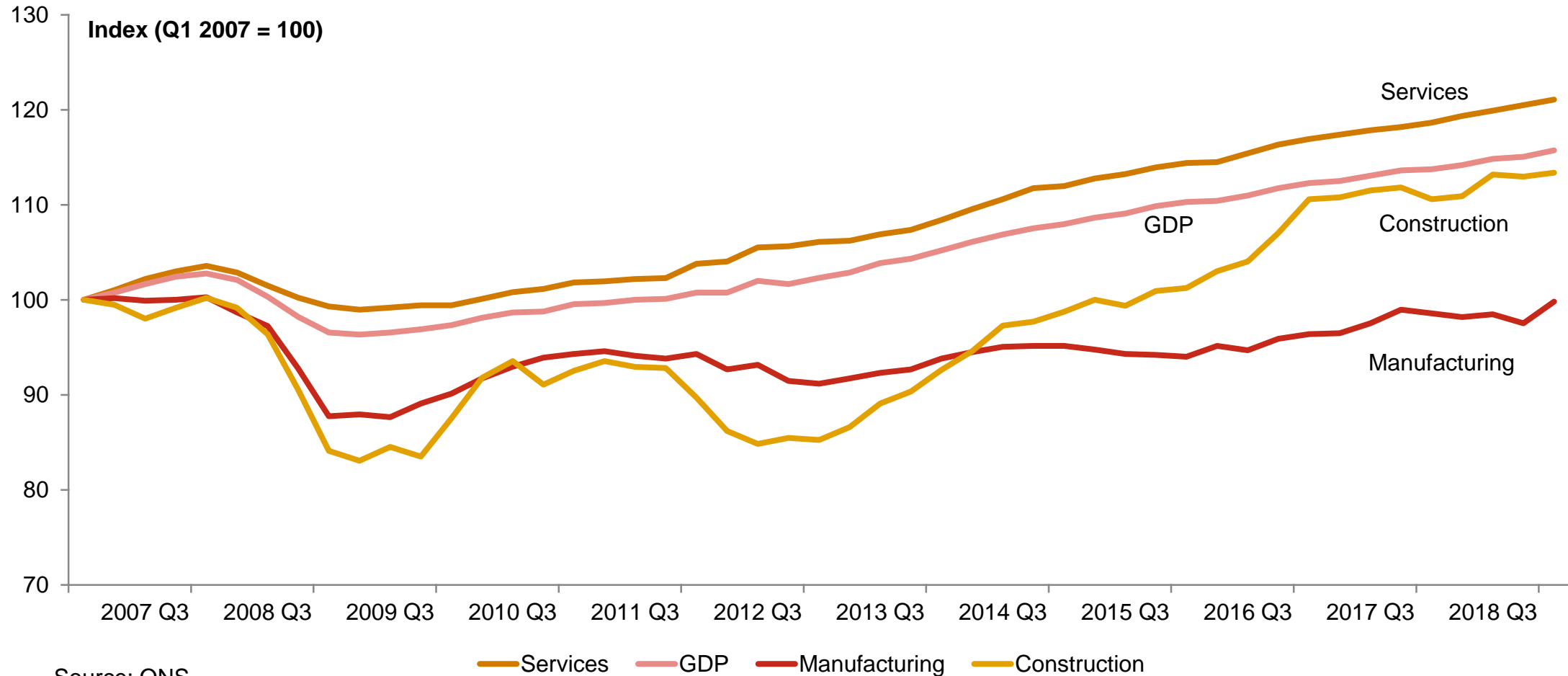
UK GDP growth picked up in Q1 2019 due to stockpiling ahead of the original Brexit deadline, but has slowed again since then



Source: ONS

■ GDP ■ Consumer expenditure ■ Business investment

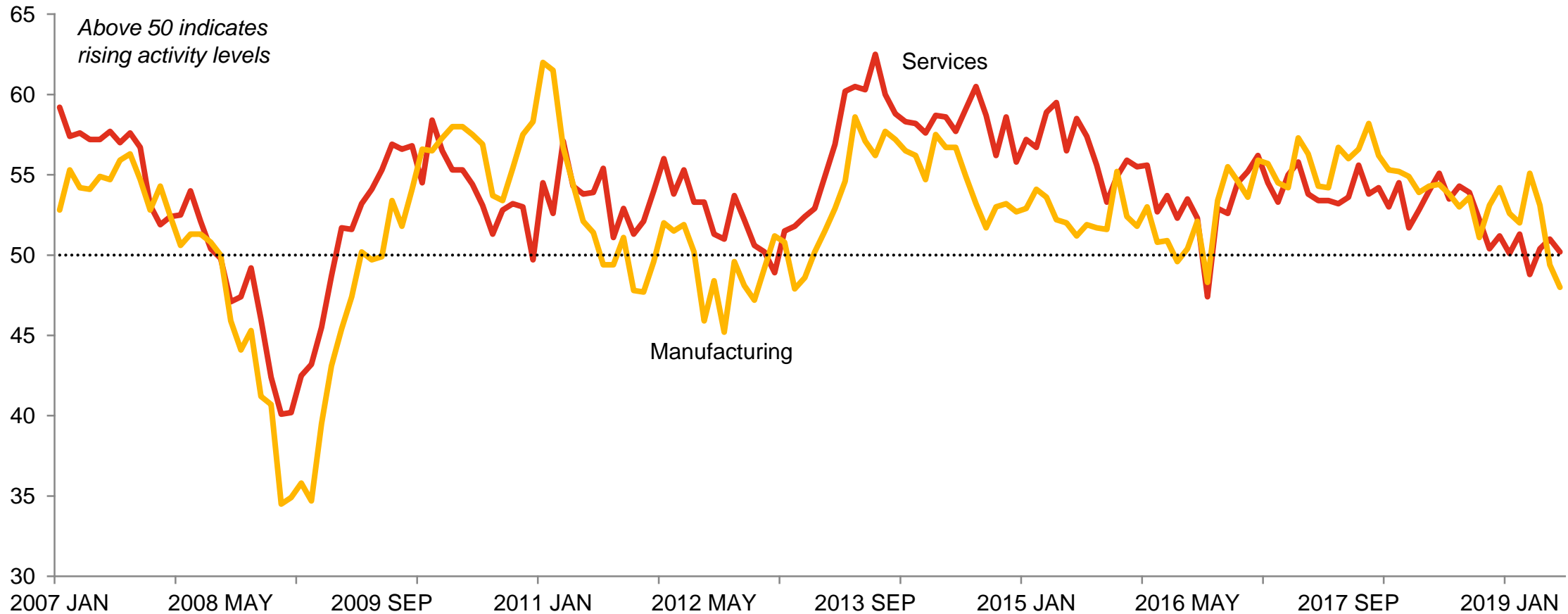
The services sector has grown steadily since the financial crisis. Manufacturing more subdued, while construction has been volatile



Source: ONS

The services PMI has gradually slowed since 2013, while a stronger manufacturing performance in 2017 has gone into reverse recently

Purchasing Managers' Indices of business activity

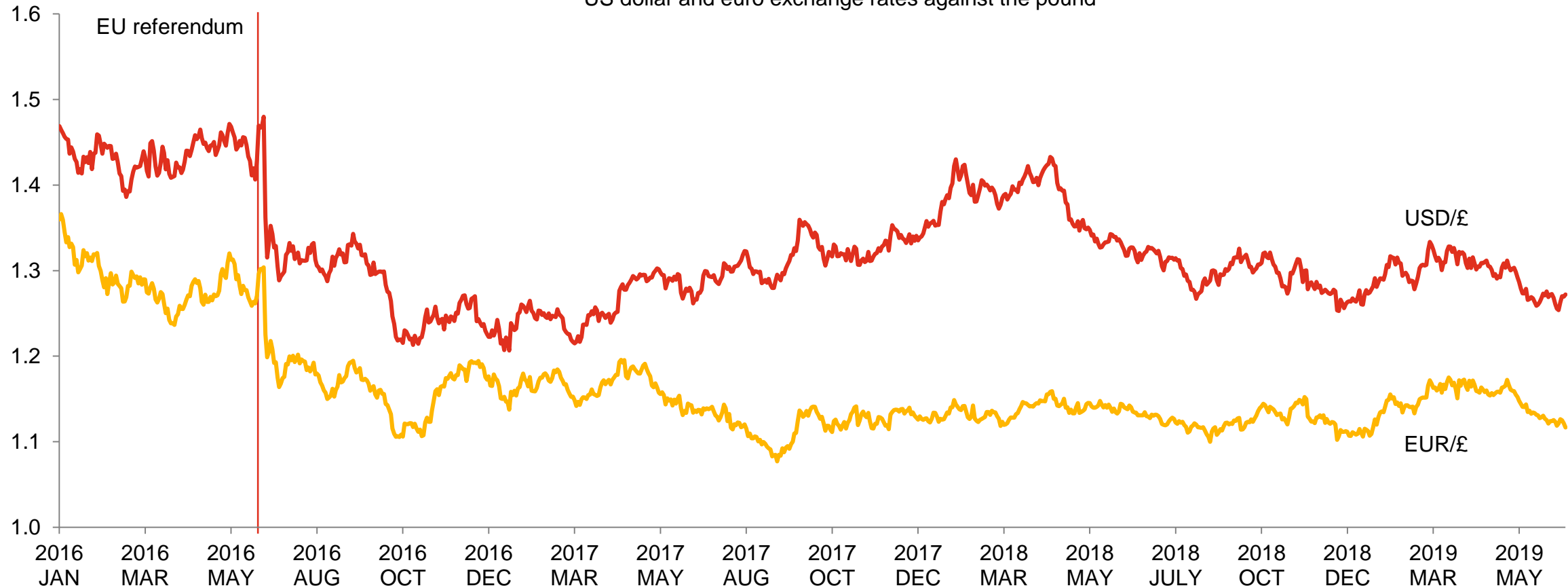


Source: Markit/CIPS

— Services — Manufacturing

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

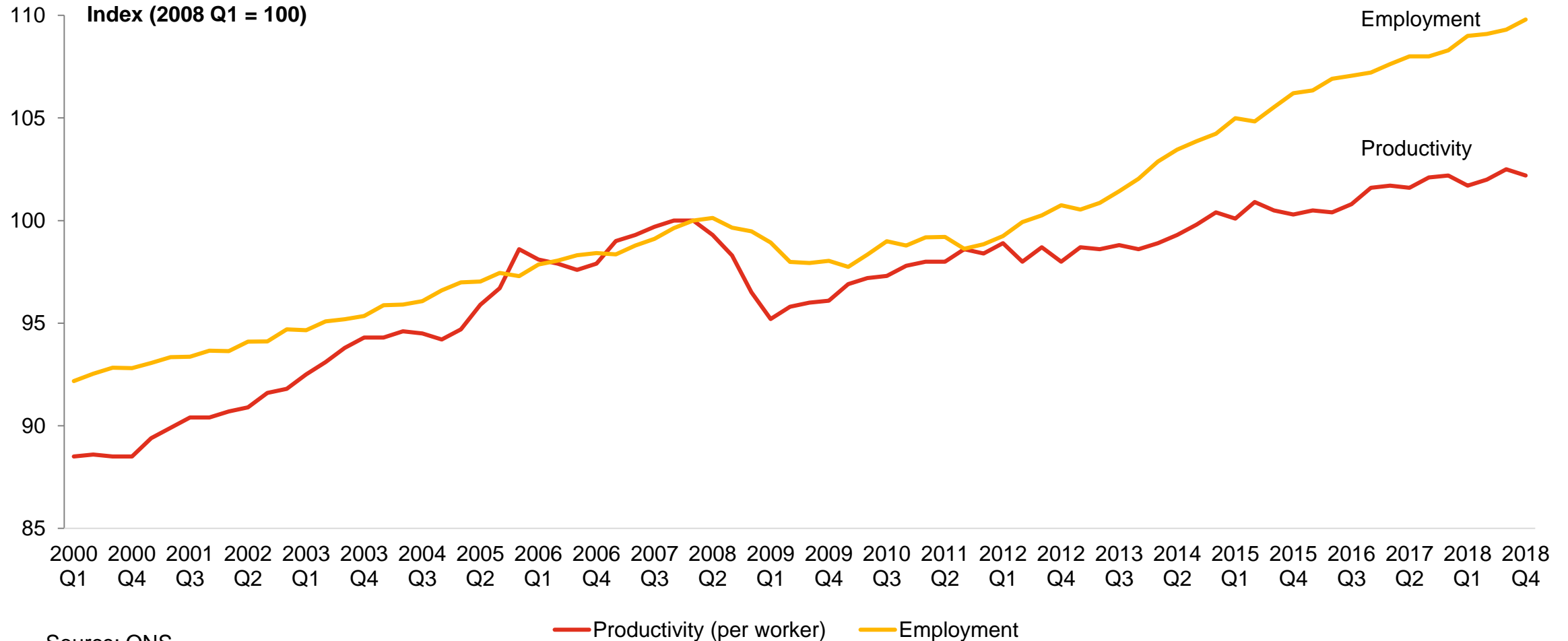
US dollar and euro exchange rates against the pound



Source: Bank of England

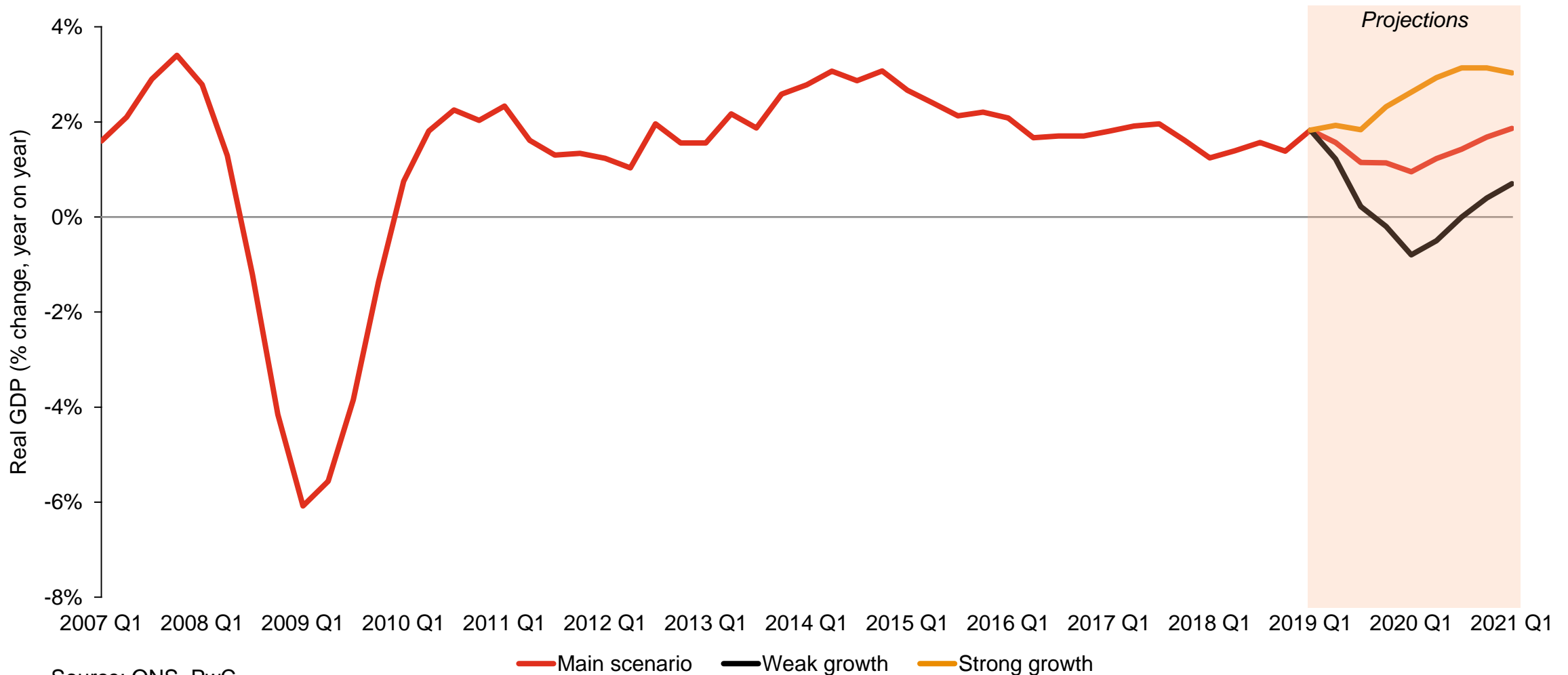
— US Dollar — Euro

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



Source: ONS

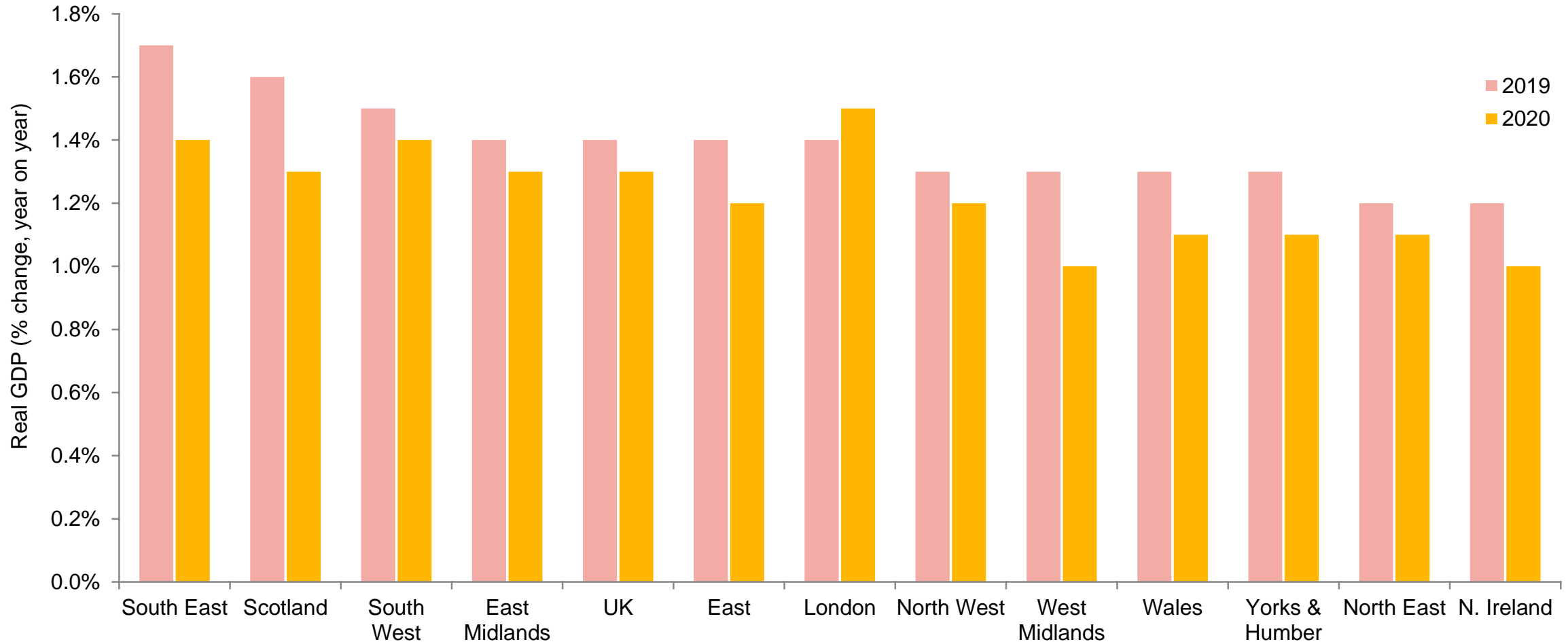
In our main scenario, UK growth is projected to average 1.3-1.4% assuming an orderly Brexit, but risks are weighted to the downside



Source: ONS, PwC

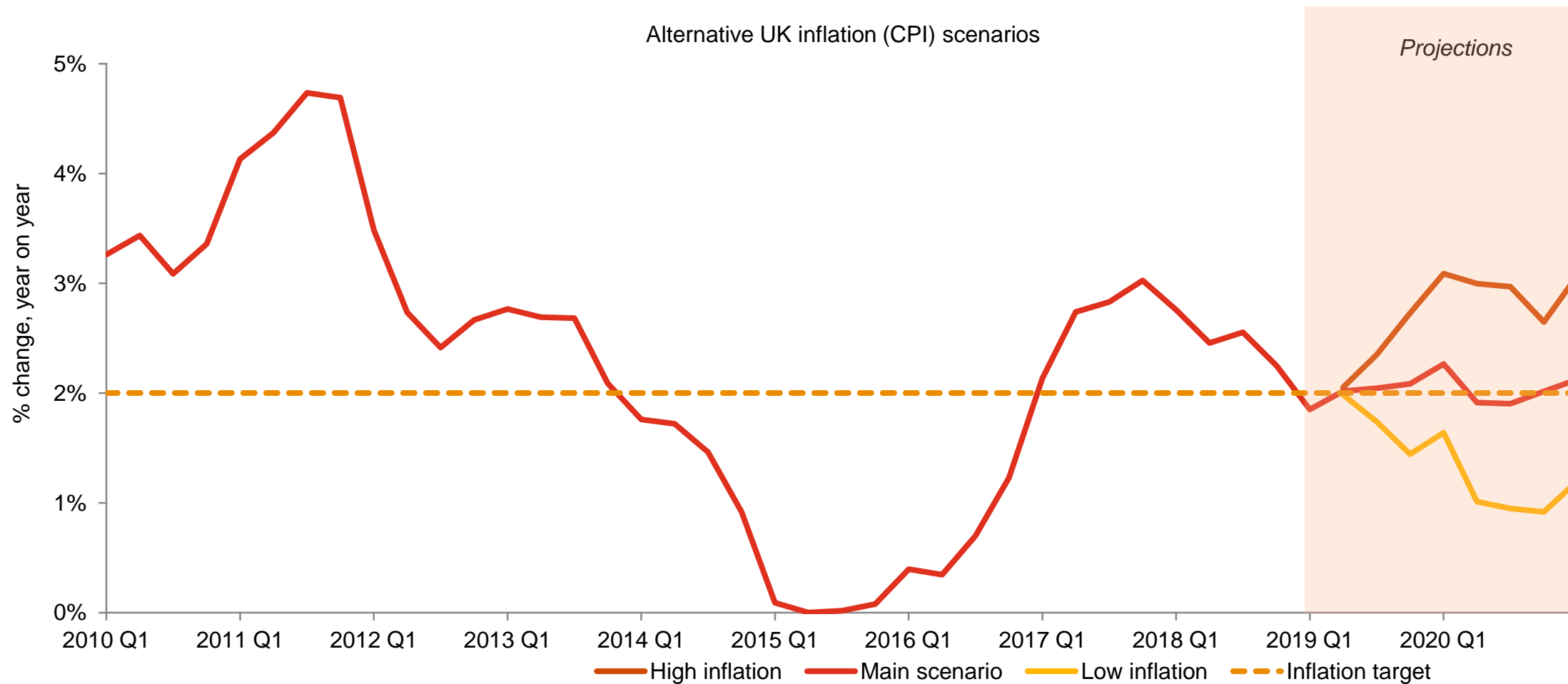
— Main scenario — Weak growth — Strong growth

Growth projected to be similar across most UK regions in 2019-20, with London no longer as dominant as in previous periods



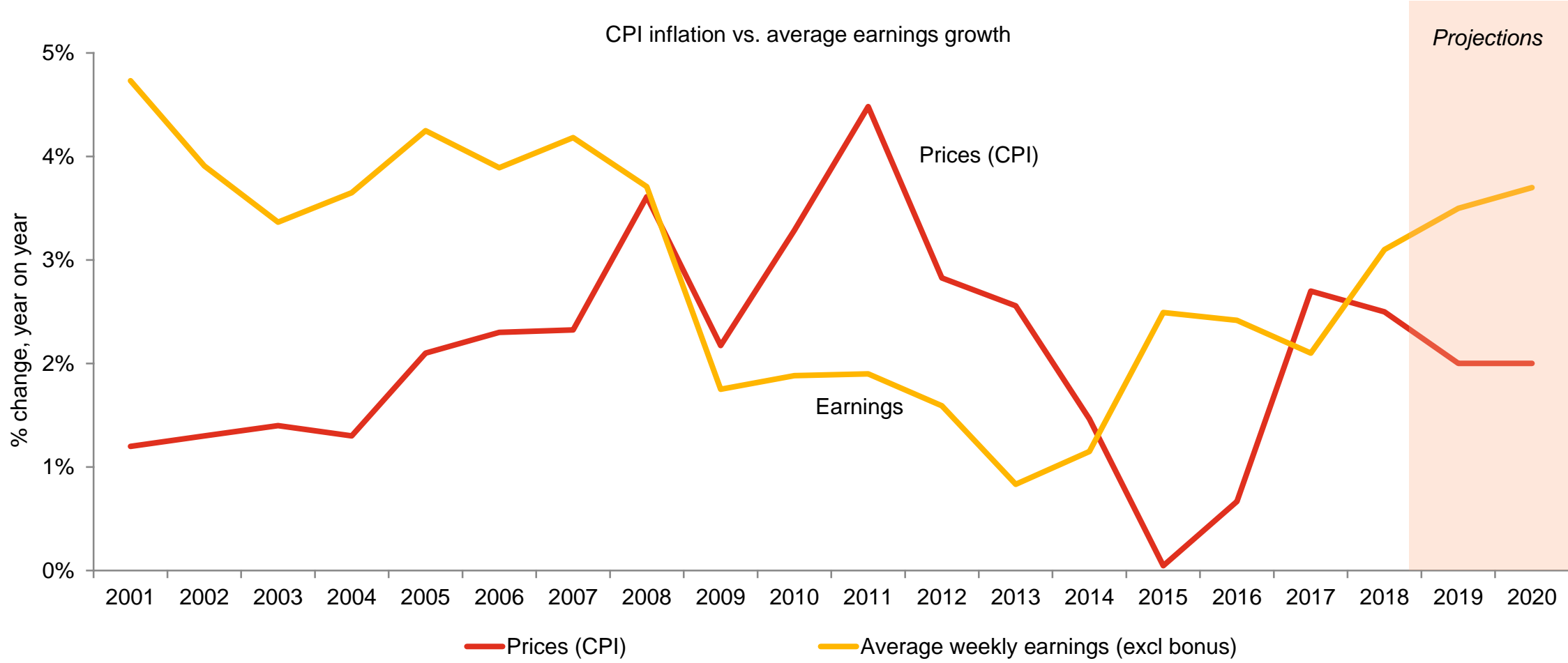
Source: PwC

In our main scenario, inflation remains close to its 2% target, but much depends on the exchange rate and commodity prices



Source: ONS, PwC

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



Source: ONS, PwC

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 that a 'no deal' Brexit is avoided, our main scenario is for UK GDP growth to remain modest at around 1.3%-1.4% on average in 2019-20.

3

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

4

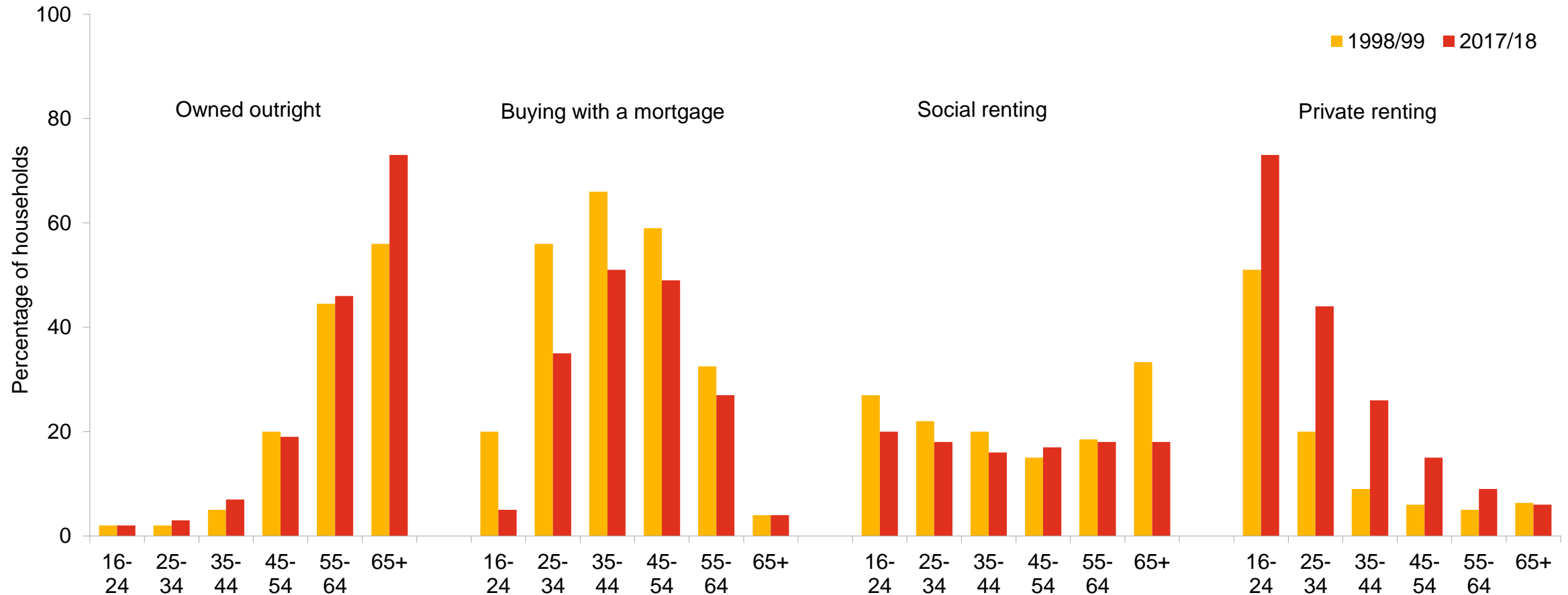
In our main scenario we assume a single quarter-point interest rate rise at some point in 2020 assuming an orderly Brexit. But rates could be cut again if there is a no deal Brexit.

5

There are particularly large uncertainties around UK economic projections at present. A disorderly Brexit could see the economy shrink, despite some offset from likely mitigating actions, and businesses should prepare accordingly.

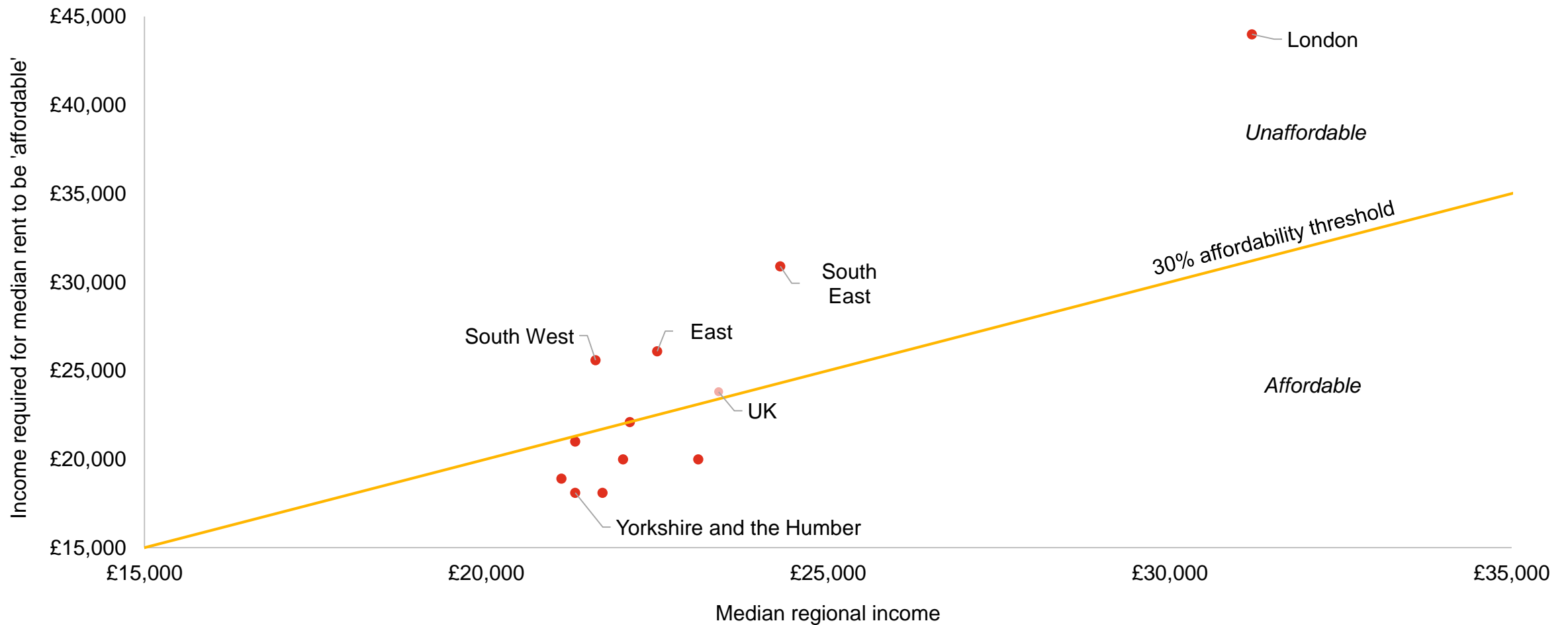
UK housing market outlook: assessing the affordability of renting

Compared to the late 1990s, 25-34 year olds are more than twice as likely to rent privately, opening up an age gap in home ownership



Source: PwC analysis of ONS data

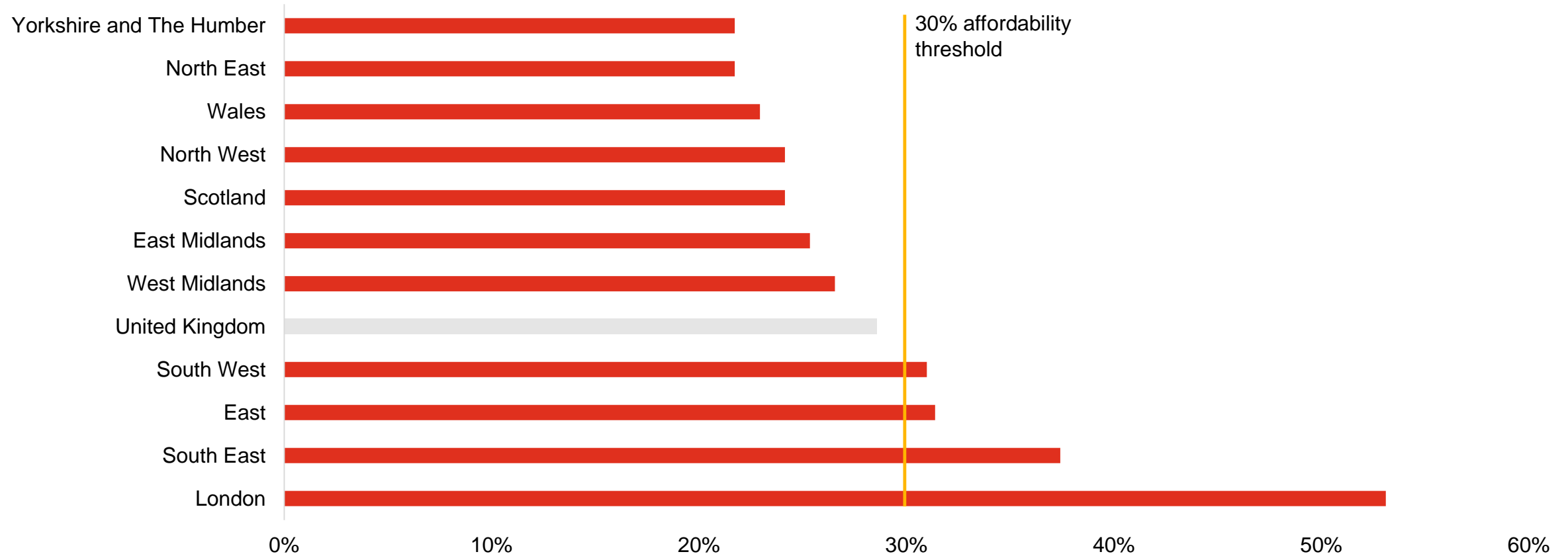
Rent represents a major share of income, and is unaffordable in much of the South of England using a 30% benchmark



Source: PwC analysis of ONS data for 2017/18

In London, “generation rent” spend over half of their income (53%) on private rent

Median rent as a proportion of median income for 22-29 year olds



Source: PwC analysis of ONS data for 2018

Many key public service jobs do not offer the wages necessary for rents to be affordable, particularly in London and the South East

Median rent as a proportion of median income

	Police officers	Secondary school teachers	Social workers	Fire service officers	Primary & nursery teachers	Nurses & midwives	Prison service officers
Wales	15%	15%	18%	N/A	16%	19%	N/A
North East	14%	15%	20%	18%	18%	18%	19%
Scotland	15%	17%	17%	20%	18%	22%	15%
Yorkshire and The Humber	14%	18%	19%	17%	17%	19%	24%
North West	15%	17%	18%	19%	19%	21%	25%
West Midlands	17%	18%	20%	20%	22%	25%	24%
East Midlands	17%	18%	21%	N/A	24%	23%	26%
South West	19%	21%	28%	25%	27%	29%	N/A
East	20%	22%	26%	26%	26%	32%	30%
South East	23%	27%	30%	27%	33%	34%	33%
London	29%	33%	34%	36%	40%	39%	45%

Source: PwC analysis of ONS data for 2018. Note that comparable data are not available for Northern Ireland.

A lack of affordable housing has contributed to a sharp rise in shared living in London



Source: PwC analysis of ONS data

*A benefit unit is defined as a single adult or a married and cohabiting couple and any dependent children

Summary: UK housing market outlook and policy implications

1

Compared to the late 1990s, 25-34 year olds are more than twice as likely to rent privately, while the proportion of households aged 65+ owning their homes outright has risen significantly.

2

For housing to be considered affordable, it conventionally must cost less than 30% of gross income. London, the South East, the South West and the East of England were unaffordable on this basis in 2018.

3

Members of “generation rent” in London had to spend over half (53%) of their income on private rent in 2018, while those in Yorkshire spent just 22%.

4

Many key public service jobs do not offer sufficient wages for affordable renting. This has implications for social mobility and productivity growth, and can lead to shortages of key workers in high cost areas.

5

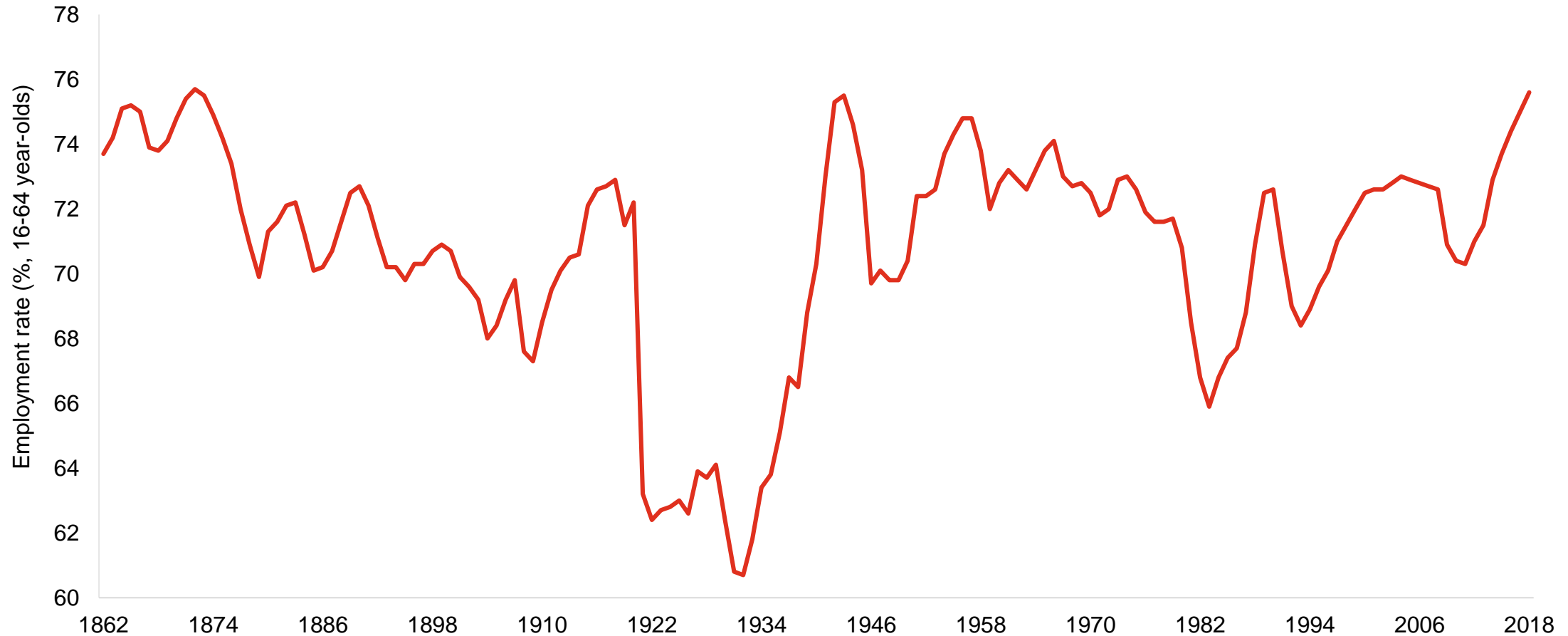
A lack of affordable housing seems to be pushing many people into living in shared or lower quality accommodation. This may hold down rents per person, suggesting that standard affordability measures may understate the scale of the problem.

Implications for government policy and business

The government needs to press on with efforts to increase the supply of genuinely affordable housing to both buy and rent. Employers can also take action, for example by moving to more affordable areas and/or increasing wages in high cost areas.

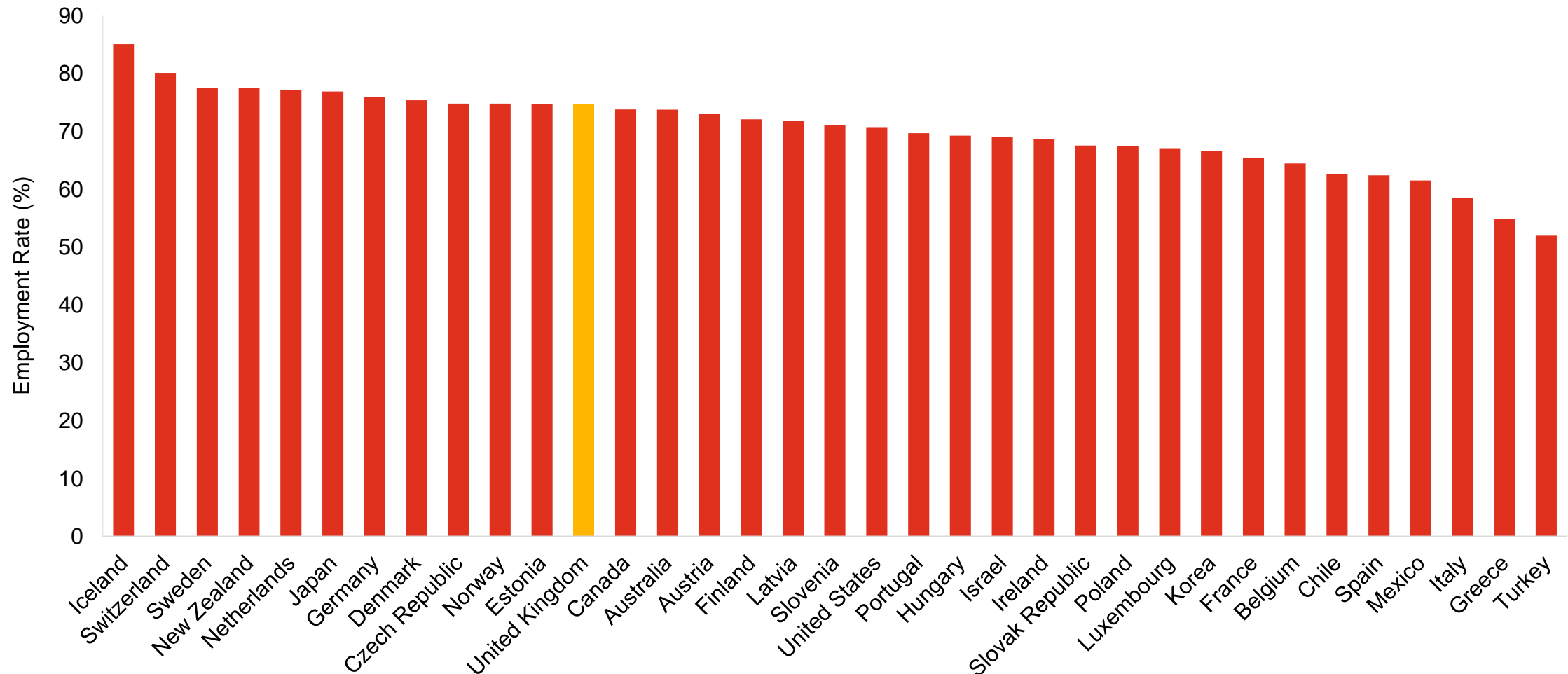
How does UK labour market performance compare to other OECD countries?

The UK has achieved rapid jobs growth since 2012, with employment rates now at record high levels of over 75%



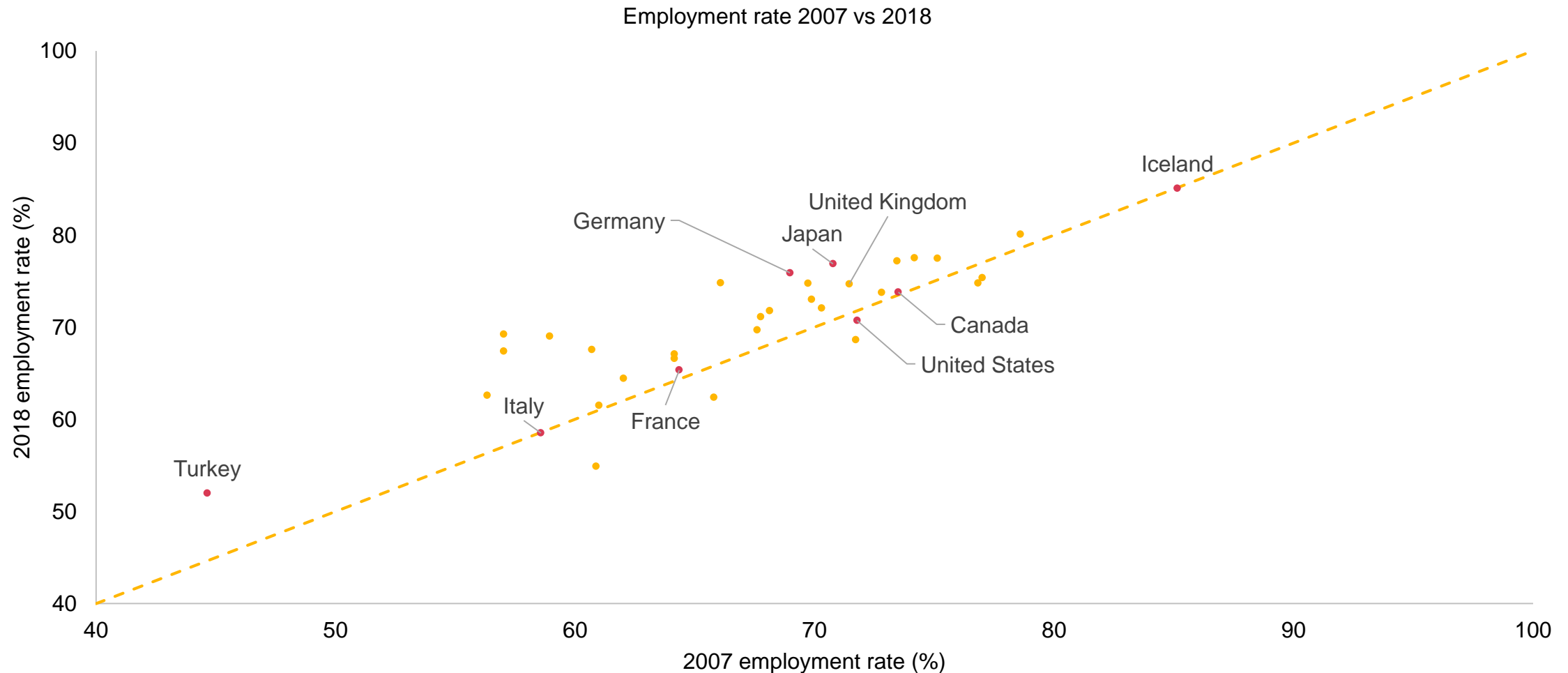
Source: ONS, Bank of England

However, when compared to the rest of the OECD, the UK's performance is less impressive, ranking 13th out of 35 countries



Source: OECD

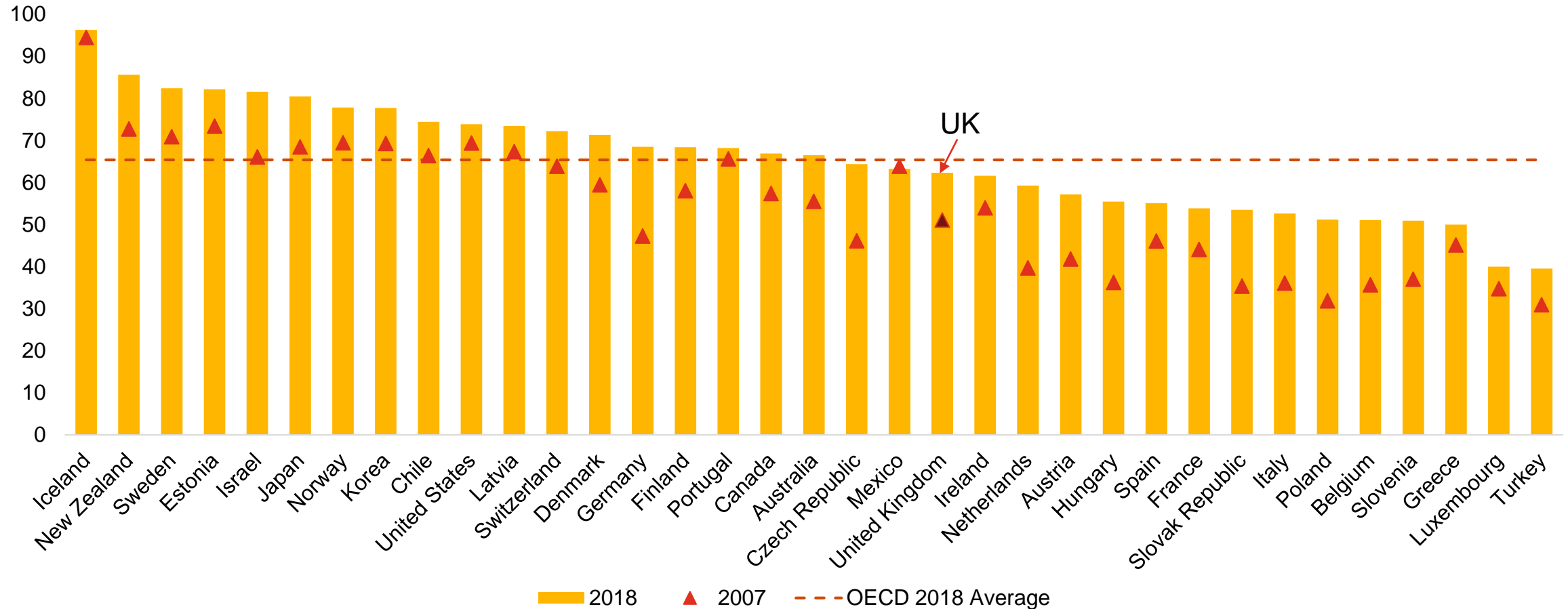
Most OECD countries have higher employment rates than pre-crisis, with Germany and Japan overtaking the UK since 2007



Source: PwC analysis of OECD data

On our Golden Age Index, which looks at labour market conditions for those aged 55+, the UK is still slightly below the OECD average despite improvements since 2007

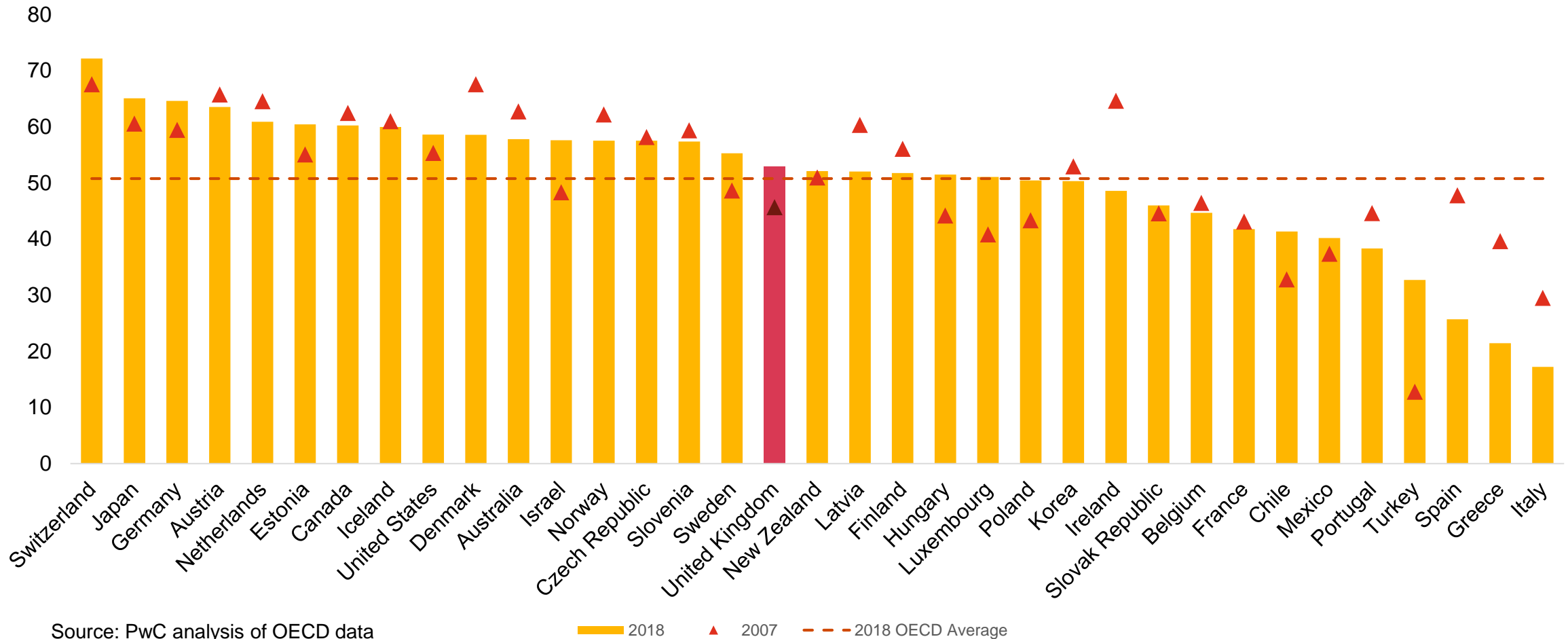
2018 Golden Age Index scores



Source: PwC analysis of OECD data

On our Youth Employment Index, which looks at employment and training for those under 25, the UK ranks 17th out of 35 countries despite recent improvements

2018 Youth Employment Index scores

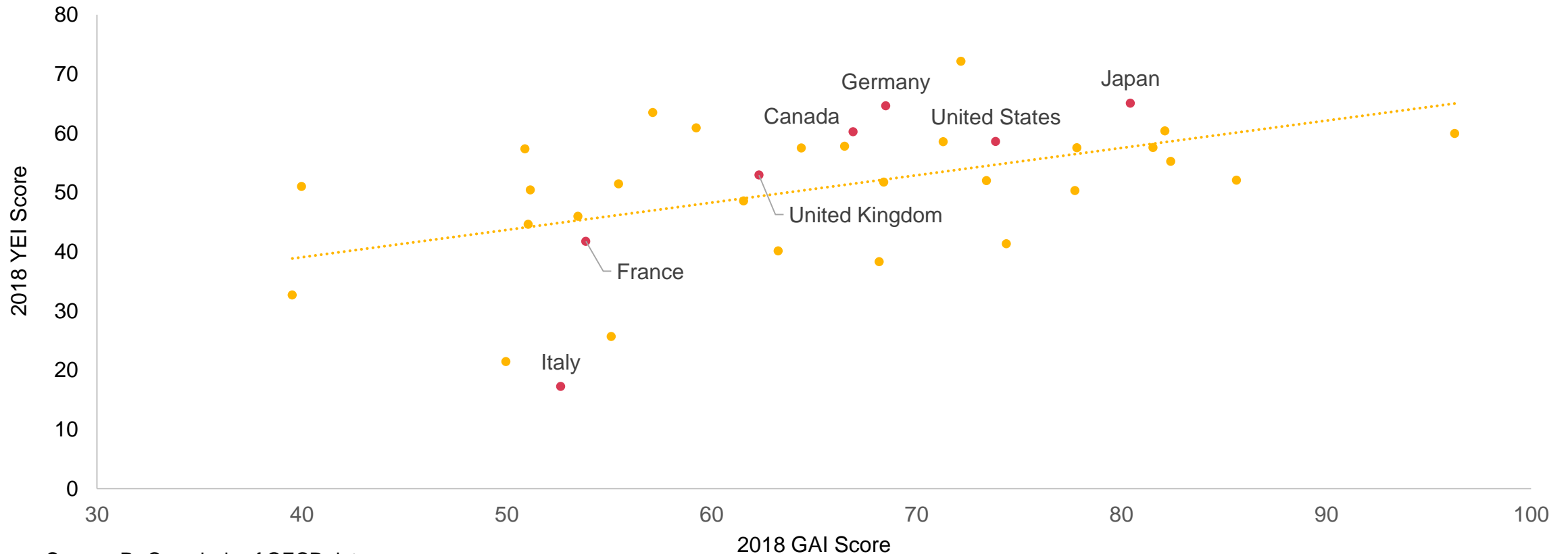


Source: PwC analysis of OECD data

2018 2007 2018 OECD Average

There is a statistically significant positive correlation between YEI and GAI scores, dispelling the myth that encouraging older workers to remain in the workforce crowds out younger workers

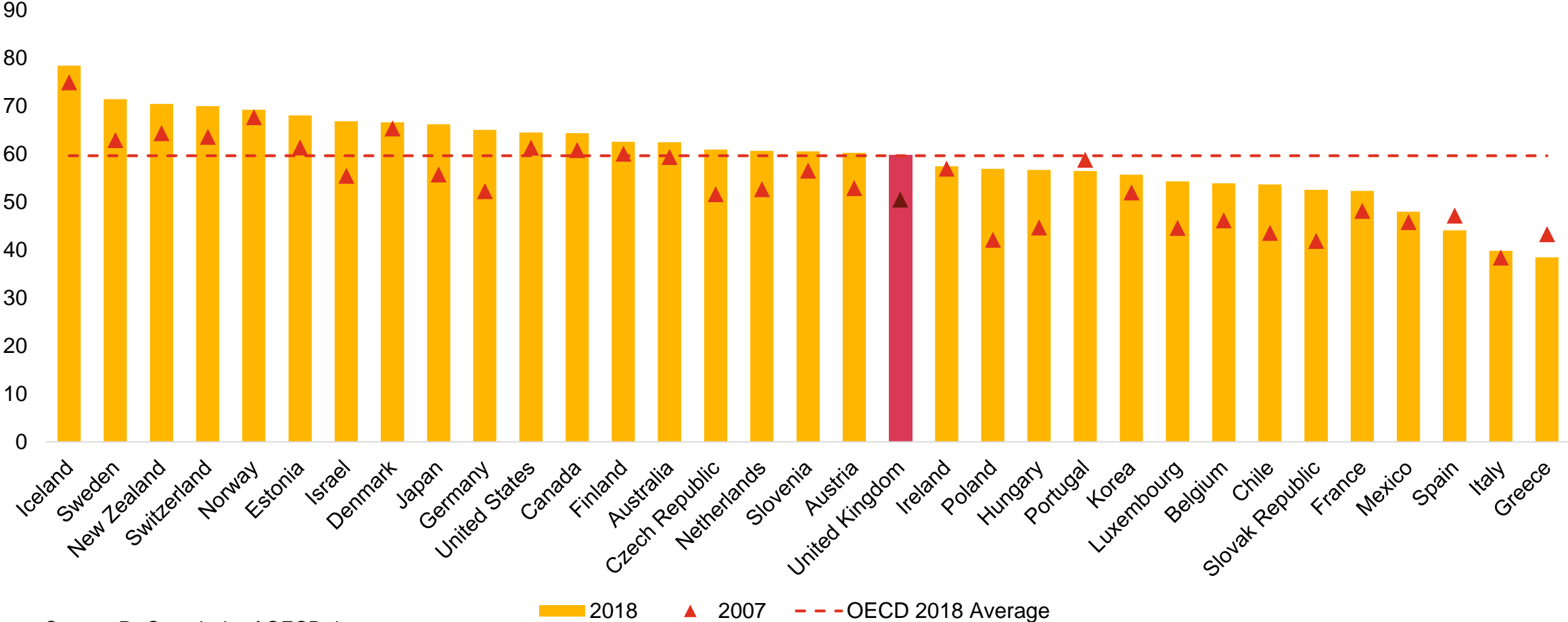
PwC Youth Employment Index (YEI) vs Golden Age Index (GAI) Comparison



Source: PwC analysis of OECD data

On our Labour Market Performance Index, which combines GAI, YEI and Women In Work index scores, the UK is around OECD average

2018 Labour Market Performance Index Scores



Source: PwC analysis of OECD data

Summary: UK labour market comparison and policy implications

1

The UK's employment rate is at a record high of over 75%, but it still ranks only towards the middle of the OECD range, coming 13th out of 35 countries.

2

The UK has improved its scores on both PwC's Youth Employment Index and our Golden Age Index since 2007, but is only performing at around the OECD average level on these indices, as other countries have also improved.

3

On a new composite PwC Labour Market Performance Index, combining results from our Youth Employment, Golden Age and Women in Work indices, the UK is also close to the OECD average, as most countries have improved since 2007, just as the UK has done. Iceland and Sweden are the two top performers on this combined index across the OECD.

4

The potential GDP boost for the UK from improving labour market performance to match that of Sweden for women, younger and older workers could be around 12% of GDP (around £250bn at 2018 values)

5

Realising these potential gains will require action to overcome age and gender discrimination, boost vocational training, help with retraining older workers to adapt to new technologies and further improve childcare provision.

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