

THE UK ECONOMY

Forecast summary

Economic growth has stalled and there is around a one-in-four chance that the economy is already in a technical recession.

The outlook beyond October, when the United Kingdom is due to leave the European Union, is very murky indeed with the possibility of a severe downturn in the event of a disorderly no-deal Brexit.

On the assumption that a no-deal Brexit is avoided, the economy is forecast to grow at around 1 per cent in 2019 and 2020 as uncertainty continues to hold back investment and productivity growth remains weak.

On the assumption of an orderly no-deal Brexit, the economy is forecast to stagnate, before starting to grow again in 2021.

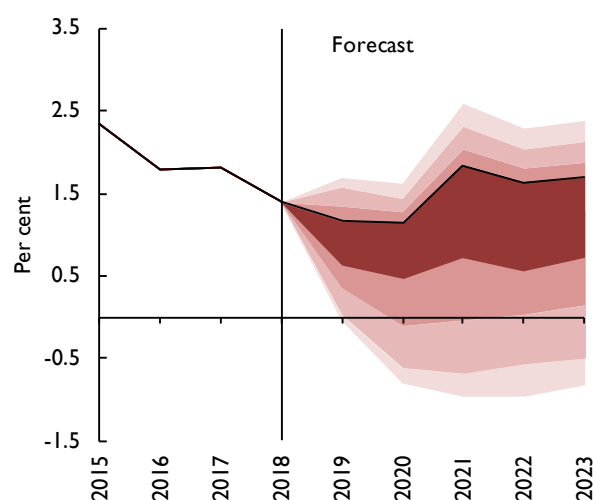
Some loosening of the public purse appears inevitable and we expect public sector borrowing to rise above 2 per cent of GDP, with the possibility of substantial over-runs of the government's fiscal objectives in the event of a no-deal Brexit.

In our main-case forecast scenario, economic conditions are set to continue roughly as they are, with high levels of employment and capacity utilisation but slow growth as businesses refrain from investment in view of continuing high uncertainty about future trading relations. CPI inflation would continue to be close to target.

In an alternative orderly no-deal scenario, we would expect GDP growth to fall to zero in 2020 and CPI inflation to rise above 4 per cent in response to a lower exchange rate and accommodative monetary policy. Fiscal policy measures may be required to help smooth the adjustment to a no-deal Brexit though, as shown in Box C, they would be unlikely to have a large macroeconomic effect.

We see the risks to growth to be heavily weighted to the downside in view of the high probability of a no-deal Brexit and the risk that this could be disorderly. Given the slow underlying growth rate of the UK economy, the fragility of the global economy, and the significant risk of an abrupt downward shift at the end of this year, we judge that there is around a 30 per cent chance of output growth of less than zero per cent in 2020.

GDP growth fan chart (per cent per annum)



Source: NIESR forecast and judgement.

Note: The fan chart is intended to represent the uncertainty around the main-case forecast scenario shown by the black line. The main-case forecast scenario for GDP growth lies above the median of the forecast distribution. There is a 10 per cent chance that GDP growth in any particular year will lie in any given shaded segment in the chart. There is a 20 per cent chance that GDP growth will lie outside the shaded area of the fan.

Summary of the forecast (main-case forecast scenario, orderly no-deal variant in brackets)

Per cent

	Real GDP annual growth	CPI ^(a) Q4/Q4	ILO unemployment Q4	Bank Rate end-year	External current balance % of GDP	PSNB ^(b)
2018	1.4	2.2	4.0	0.75	-3.9	1.2
2019	1.2 (1.0)	2.0 (3.1)	4.1 (4.2)	0.75 (0.25)	-4.8 (-5.1)	2.2 (2.1)
2020	1.1 (0.0)	2.0 (4.1)	4.1 (4.3)	1.00 (1.75)	-2.7 (-3.7)	2.6 (2.7)

Notes: Calendar years unless otherwise stated. (a) Consumer price index. (b) Public sector net borrowing, financial years.