National Institute of Economic and Social Research

Press Release

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Prospects for the UK economy

Embargoed until 00.01 Wednesday 30 October

- The economic outlook is clouded by significant economic and political uncertainty and depends critically on the United Kingdom's trading relationships after Brexit. Domestic economic weakness is further amplified by slowing global demand.
- We would not expect economic activity to be boosted by the approval of the government's proposed Brexit deal. We estimate that, in the long run, the economy would be 3½ per cent smaller with the deal compared to continued EU membership.
- On the assumption that chronic uncertainty persists but the terms of EU trade remain unchanged, we forecast economic growth of under 1½ per cent in 2019 and 2020, though the forecast is subject to significant uncertainty.
- Favourable financing conditions, including an expected cut in Bank Rate, and looser fiscal policy will support economic growth while uncertainty continues to hold back investment and productivity growth. Household consumption growth is underpinned by rising real wages.

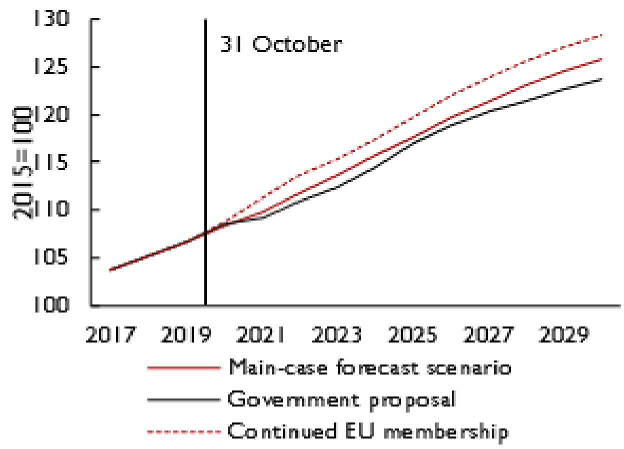
The economy is estimated to be 2½ per cent smaller now than it would otherwise have been as a result of the 2016 Brexit vote.

In our main-case forecast scenario, economic conditions are set to continue roughly as they are, with output close to capacity but underlying growth remaining weak and well under its historic trend. Real wage growth is supporting consumer spending, but weak productivity growth means that the current pace of expansion may not be sustainable. Rising domestic cost pressures are offset to some extent by slower import price growth and CPI inflation is forecast to remain close to target. In line with our previous forecasts, fiscal policy is being loosened. This, together with an expected cut in Bank Rate next year, is supporting economic growth in the near term.

Risks to growth continue to be weighted to the downside, although not as much as in our previous forecast given the reduced likelihood of a no-deal Brexit. We now judge that there is a 15 per cent probability of output growth of less than zero per cent in 2020, also reflecting the risk of a more severe global slowdown.

This Review provides an assessment of the government's new proposed free trade agreement with the European Union (pp. F34–7). Compared to our main-case forecast, uncertainty would be lifted but customs and regulatory barriers would hinder goods and services trade with the continent, leaving all regions of the United Kingdom worse off than they would be if the UK stayed in the EU

GDP impact of Brexit



Source: NIESR, NiGEM simulation.

Summary of the forecast

Per cent

	Real GDP	CPI(a)	ILO unemployment	Bank Rate	External current balance	PSNB(b)
	annual growth	Q4/Q4	Q4	end-year	% of GDP	
2018	1.4	2.2	4.0	0.75	–4.3	1.9
2019	1.4	1.8	4.0	0.75	–3.9	2.8
2020	1.4	2.0	4.0	0.50	–2.8	3.0

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

ENDS

Notes for editors:

The full forecast for the UK economy will be published in the National Institute Economic Review no. 250 on Wednesday 30 October. Details of NIESR's previous UK economic forecast can be found here.

For a full copy of the UK economic forecast or to arrange interviews, please contact the NIESR Press Office: Paola Buonadonna on 020 7654 1923 / p.buonadonna@niesr.ac.uk

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