THE UK ECONOMY
Forecast summary

The decisive result of the general election has reduced political uncertainty, but elevated economic uncertainty is likely to persist until the details of the UK's future trade relationship with the EU are settled.

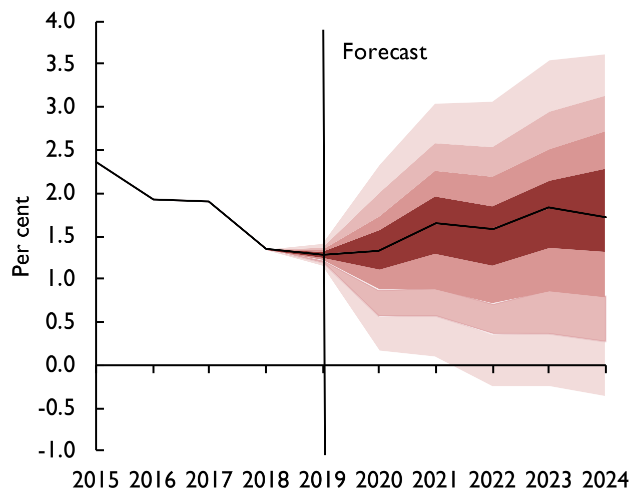
The March Budget is expected to be focused on 'levelling up' income levels across the United Kingdom. But additional public investment of up to around £20 billion per year is unlikely to have more than a modest impact on productivity and is not expected to offset the negative effect of Brexit.

Our central forecast is for economic growth of around 1½ per cent per annum.The Chancellor's aim of raising UK economic growth to around 2¾ per cent a year is unlikely to be attained in the current global economic context (one-in-five chance).

Investment and productivity growth are forecast to pick up only gradually. In the short term, economic conditions are therefore set to continue roughly as they have been with slow growth and output close to capacity. GDP is expected to grow by around 1½ per cent in 2020 and 2021, unchanged from 2019. Risks to our forecast are now more evenly distributed around the main case as illustrated by the fan chart.

The labour market remains tight and the slight softening observed since early 2019 is not expected to gain pace. The unemployment rate remains at 3.8 per cent and the number of vacancies has stabilised with levels remaining historically high. Nominal wage growth has been robust and is expected to stabilise at an annual rate of 3–4 per cent this year. With little productivity growth, this means that unit labour costs are growing at an annual rate of more than 3 per cent. We forecast average consumer price inflation to remain a little below the Bank of England's 2 per cent target in 2020. Since our last forecast, the sterling effective exchange rate has appreciated by nearly 5 per cent, which further offsets domestic inflationary pressures through lower import prices.

GDP growth fan chart



Source: NIESR forecast and judgement. For notes see page F13.

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	
2019	1.3	1.5	3.8	0.75	–4.1	2.2
2020	1.3	2.1	3.8	0.50	–3.2	2.3
2021	1.6	2.1	4.1	0.50	–3.4	2.8

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

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THE WORLD ECONOMY
Forecast summary

Global economic growth slowed again last year as increases in tariffs and uncertainty about future tariff impositions and their implications for production activity continued to have negative effects on industrial production, especially in the advanced economies, and global trade.

With a weaker global economic outlook and continued low inflation, several central banks loosened monetary policy last year and these actions should provide some tailwinds to support global growth this year and into next.

Despite the stalling activity in global industrial production and trade, the pace of service sector activity has remained robust.

Our forecasts for global GDP growth this year of 3 per cent, effectively the same as last year, and 3¼ per cent next year are unchanged on three months ago. We expect only a very gradual pick-up in activity as the year progresses, with headwinds to growth and fragility remaining a feature of the global economy.

After two years during which global economic growth has slowed from a cyclical peak in 2017 to its slowest rate since 2009, we expect that the growth slowdown will halt this year. We project global GDP growth of 3 per cent this year and 3¼ per cent next, with these forecasts unchanged from those of three months ago.

Some of the headwinds that have acted to reduce the pace of global economic growth – tariffs imposed by the US and the retaliations to these, the uncertainty created by the re-emergence of tariffs, falling industrial production in the advanced economies, recessions in Argentina and Turkey, and slowing growth in China and India – appear to be weakening. At the same time, monetary policy loosening in a number of major economies, facilitated by continued low inflation, should provide a new tailwind for global growth.

We continue to expect the improvement in global economic prospects to be gradual, not dramatic. With some early economic indicators showing positive movements in recent months, 2020 is expected to be a year in which more positive news on economic growth may gradually start to emerge. We continue to consider that it is more likely that next year will see an increase in the pace of growth than this year. Service sector activity has continued to grow relatively steadily.

On consumer price inflation, with the notable exceptions of Argentina and Turkey, the overall picture is one of relative stability and, in several economies, below target inflation despite a decade-long economic expansion. Although, particularly in the advanced economies, labour markets have tightened with generally faster wage increases, inflation has remained subdued. We expect the wider low inflation picture to hold.

In recent weeks news flows on bush fires in Australia, military tensions between the US and Iran, and the potential effects of the coronavirus have acted as reminders of the uncertainties in the global environment. At the same time, the signing of the Phase One agreement between the US and China on 15 January might lead to some of the uncertainties about a deeper trade war being reduced, although it is evident that there remains a considerable agenda for further discussion. Despite possible downside risks, we expect the decade-long expansion in global activity to continue.

Summary of the forecast — Percentage change, year–on–year

	World economy			Real GDP growth in major economies				
	Real GDP[(a)]	Consumer prices[(b)]	World trade[(c)]	US	China	Japan	Euro Area	BRICS+[(d)]
2019	3.0	2.1	2.6	2.3	6.1	1.1	1.2	4.5
2020	3.1	2.4	2.7	2.0	5.9	0.4	1.1	4.9
2021	3.3	2.3	3.5	2.0	5.7	0.5	1.5	5.0

(a) Based on global PPP shares. (b) OECD countries, private consumption deflator. (c) Volume of total world trade. (d) Includes Brazil, Russia, India, China, Indonesia, Mexico, South Africa, Turkey