2016: solid year with Brexit having little impact…

**UK: Forecasts for 2016 GDP growth**

% year

![Graph showing forecasts for 2016 GDP growth with a shaded area indicating the range of estimates in the consensus.](image_url)

Shaded area denotes range of estimates in the consensus

Source: Oxford Economics, HMT survey of independent forecasts
…but growth almost entirely reliant on consumers
The impact of a weaker £ will be a key issue

UK: Exchange rates

Sterling changes:

<table>
<thead>
<tr>
<th>Currency</th>
<th>Since 1st July 2015</th>
<th>Since EU referendum</th>
</tr>
</thead>
<tbody>
<tr>
<td>$/£</td>
<td>-20%</td>
<td>-15%</td>
</tr>
<tr>
<td>€/£</td>
<td>-18%</td>
<td>-11%</td>
</tr>
<tr>
<td>£EER</td>
<td>-17%</td>
<td>-12%</td>
</tr>
</tbody>
</table>

Source: Haver Analytics
Household spending power will be squeezed…

UK: Earnings & inflation

% year

Average earnings

CPI inflation

Forecast


Source: Oxford Economics
...slowing spending growth through 2017-18

UK: Consumer spending and income

% year

Real disposable income

Consumer spending

Source: Oxford Economics
Corporate sector is in good financial shape…

**UK: PNFC profits to GDP ratio**

% of GDP

![Graph of UK PNFC profits to GDP ratio from 2006 to 2016 with data points indicating a trend over time.]

*Source: Haver Analytics*

**UK: PNFC deposits to GDP ratio**

% of GDP

![Graph of UK PNFC deposits to GDP ratio from 2006 to 2016 with data points indicating an upward trend over time.]

*Source: Haver Analytics*
...but investment intentions remain soft

**UK: Investment intentions***

<table>
<thead>
<tr>
<th>BCC, % balance</th>
<th>BoE agents, % balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>4</td>
</tr>
</tbody>
</table>

*weighted average of manufacturing and services balances

Source: Haver Analytics
Austerity will remain a major drag

UK: OBR estimates of fiscal tightening

% of GDP

Source: Oxford Economics calculations using OBR forecasts
Could exports could fill the void?

UK: Manufacturing export orders
BoE, % balance
BoE Agents Survey (LHS)
CBI, % balance
CBI ITS (RHS)

Source: Haver Analytics

UK: Non-oil goods export & import volumes
% 3-months on 3-months, yr ago
- Exports
- Imports

Source: Haver Analytics
Global economy should be more supportive

World: GDP forecasts

<table>
<thead>
<tr>
<th>Region</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.6</td>
<td>2.3</td>
<td>2.5</td>
</tr>
<tr>
<td>Eurozone</td>
<td>1.7</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>China</td>
<td>6.7</td>
<td>6.3</td>
<td>5.9</td>
</tr>
<tr>
<td>World</td>
<td>2.2</td>
<td>2.6</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
Growth to become slower, but more balanced

UK: Contributions to GDP growth

- Consumer spending
- Investment
- Govt. consumption
- Other (inc inventories)
- Net trade

Source: Oxford Economics
We remain more optimistic than the consensus

UK: Forecasts for 2017 GDP growth

Shaded area denotes range of estimates in the consensus

Source: Oxford Economics, HMT survey of independent forecasts
Growth to remain subdued over medium-term

UK: Contributions to potential output growth

% per year

2.7

0.7

0.6

1.0

1.6

0.3

0.5

0.5

1.5

0.4

0.6

0.5

Source: Oxford Economics
Brexit impact to be felt over longer-term

UK: Impact of Brexit on levels of real GDP and GDP per capita in 2030

% difference from baseline

Key

Policy direction:
LIB – liberal;
POP – populist.

Trade agreement:
EEA – membership of European Economic Area;
CUS – part of EU customs union;
FTA – UK–EU free trade agreement;
MFN – trade with EU according to WTO Most Favoured Nation rules;
BIL – bilateral accords

Baseline assumption: Article 50 triggered in March. UK leaves EU in early-2019. 3-year transitional arrangement similar to status quo leading ultimately to a free-trade agreement.

Source: Oxford Economics