THE UK ECONOMY
Forecast summary

The UK's future relationship with the European Union (EU) remains undecided. Brexit-related uncertainty has led to investment plans being deferred and increased stockbuilding.

Under our main-case forecast, based on a 'soft' Brexit and continuing uncertainty, GDP growth continues at around 1½ per cent in 2019 and 2020, broadly in line with potential output growth, and the unemployment rate stays at around 4 per cent.

CPI inflation is forecast to remain around 2 per cent per annum as faster unit labour cost growth is offset by slower import price inflation. With inflation stable at target, and only limited evidence of domestic inflationary pressure, Bank Rate remains at 0.75 per cent throughout this year before being raised to 1 per cent in the second half of 2020.

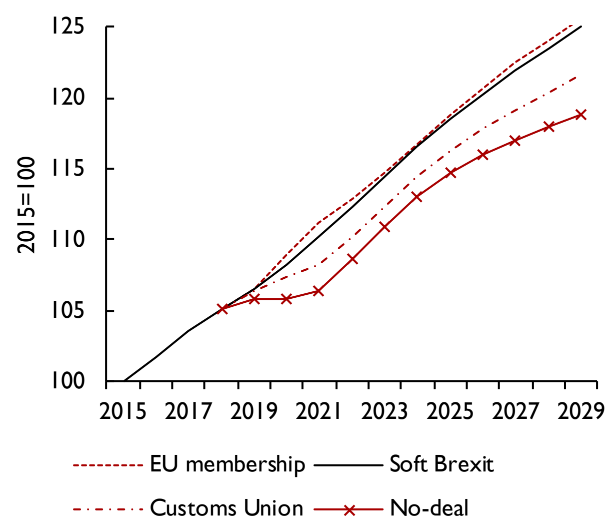
We expect public spending to rise more quickly than currently planned. That, together with the forthcoming reclassification of student loans in the public finances, is likely to mean that the government's medium-term fiscal objectives will not be met.

The current account deficit is forecast to fall from 4.2 per cent of GDP in 2019 to around 3 per cent in 2020, as domestic saving picks up relative to investment.

Our main-case forecast is broadly for a continuation of current economic conditions. There appears to be little spare capacity domestically, but Brexit-related uncertainty is expected to keep a lid on demand growth.

The figure shows our assessment of the economic outlook under different Brexit scenarios (see Box A starting on page F6 for further details). The near-term outlook is consistent with a range of alternative Brexit outcomes, provided a transition period guarantees frictionless access to the EU single market and customs union. Beyond that, the outlook depends on the extent of trade barriers between the UK and EU. GDP would be broadly the same under continued EU membership as in our main forecast based on a 'soft' Brexit, though the costs of the uncertainty already incurred would not be recouped. GDP in the long term would be 3.1 per cent lower than under continued EU membership in a Customs Union scenario, and 5.4 per cent lower in an 'orderly' no-deal scenario.

The impact of different Brexit scenarios on real GDP



Source: NIESR, NiGEM simulation.

Summary of the forecast (based on a soft Brexit scenario) *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	–3.9	1.3
2019	1.4	1.8	4.1	0.75	–4.2	1.7
2020	1.6	1.9	4.1	1.00	–3.1	2.1

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

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