

UNITED KINGDOM

The economy is projected to slow in 2017 and 2018, owing to uncertainty about the outcome of the Brexit negotiations. This projection assumes that the United Kingdom's external trade will operate on a most favoured nation basis from April 2019. The uncertainty, and the assumed outcome, is projected to undermine spending, in particular investment. Policies have supported private confidence and consumption, but household spending is projected to ease as the combination of a weakening labour market and higher inflation reduces real wage growth. The current account deficit has narrowed and exports should support growth, stimulated by improved competitiveness.

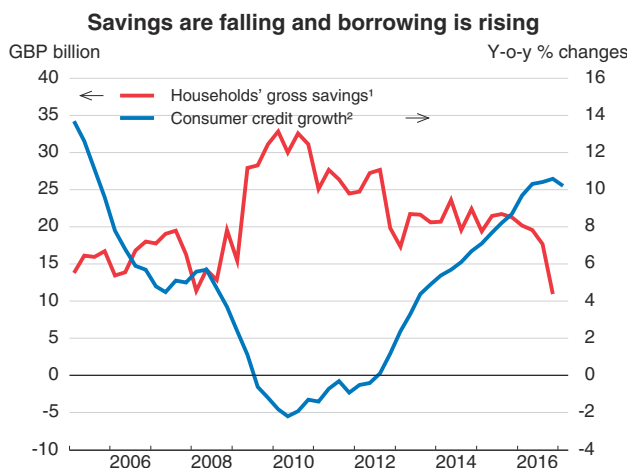
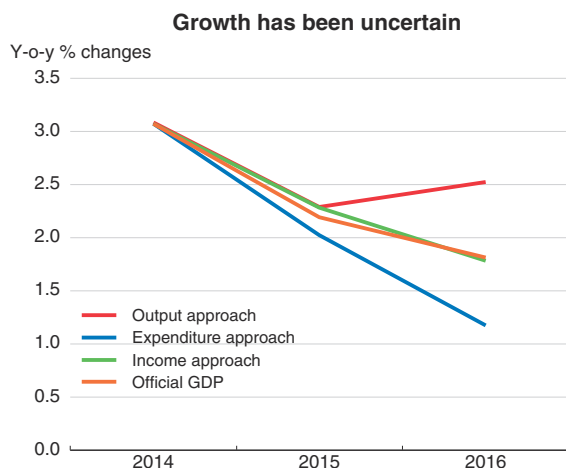
Inflation has exceeded the target of 2% reflecting the recent exchange rate depreciation. The Bank of England is projected to look through this transitory effect and maintain its supportive policy stance. The budget deficit is projected to remain broadly unchanged this year, but fiscal consolidation is planned for 2018 despite a weaker growth outlook. Instead, further fiscal initiatives to increase public investment should be considered to support demand in the near term and boost supply in the longer term.

The United Kingdom faces a long-standing decline in its export market share. Its less affluent regions, which mainly export manufacturing and agricultural products, are exposed to the risk of global protectionism, which could lower incomes and raise inequality. Enhancing regional and urban transport links would increase firms' access to the best technologies and lower export costs, improving their ability to tap new markets and suppliers. Relaxing regulations to lift housing supply, promoting educational attainment and fostering lifelong learning would boost regional labour mobility and improve job prospects for displaced workers.

Economic activity has weakened

Growth fell to 1.8% in 2016, but there is more uncertainty about this estimate than usual given the divergence between different approaches to measuring GDP. Private


United Kingdom



1. Households also include non-profit institutions serving households.

2. Consumer credit refers to total (excluding the Student Loans Company) sterling net consumer credit lending to individuals.

Source: Office for National Statistics; and Bank of England.

StatLink  <http://dx.doi.org/10.1787/888933503795>

United Kingdom: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment	2.4	1.7	1.4	0.7	-0.2
Unemployment rate ¹	6.2	5.4	4.9	4.8	5.3
Compensation per employee ²	0.7	1.2	2.8	2.5	1.5
Unit labour cost	-0.7	1.0	1.9	2.0	1.5
Household disposable income	2.9	4.1	2.8	3.0	2.5
GDP deflator	1.6	0.6	1.7	2.2	1.9
Harmonised index of consumer prices ³	1.5	0.1	0.6	2.8	2.7
Core harmonised index of consumer prices ⁴	1.6	1.1	1.2	2.3	2.7
Private consumption deflator	1.7	0.3	1.1	2.6	2.6


1. As a percentage of labour force.

2. In the total economy.

3. The HICP is known as the Consumer Price Index in the United Kingdom.

4. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

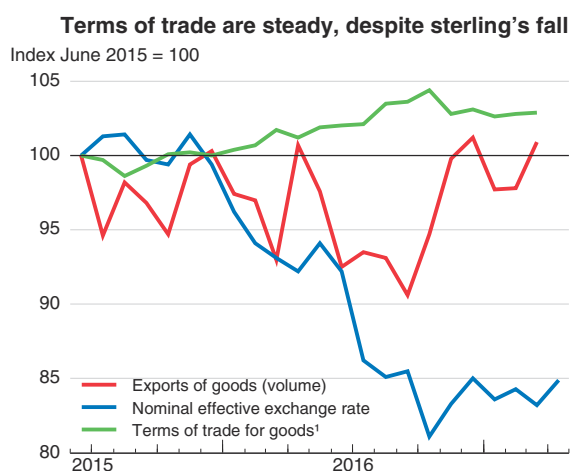
Source: OECD Economic Outlook 101 database.

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consumption has been the main driver of growth, supported by robust increases in total hours worked, improvements in real wage growth until recently, and increases in the minimum wage. Households have also reduced their gross savings and borrowed to sustain consumption, resulting in a significant reduction of the saving ratio. However, retail sales have been volatile more recently and banks expect to tighten the availability of consumer credit. Higher uncertainty is undermining businesses investment, although corporate risk appetite has bounced back somewhat from a low level.

Despite the depreciation of the exchange rate, exports have been volatile and export market shares have not risen. Yet, both the sterling value of foreign assets held by UK

United Kingdom




1. Export price index as a percentage of the import price index.

2. Data refer to goods and services in volumes.

3. Ratio between export volumes and the country's export market.

Source: Office for National Statistics; Thomson Reuters; and OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933503776>

United Kingdom: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, gross ¹	6.8	6.5	5.2	3.1	2.2
General government financial balance ²	-5.6	-4.3	-3.3	-3.1	-2.4
General government gross debt ²	113.4	112.7	123.2	122.9	122.6
General government debt, Maastricht definition ²	88.1	89.0	89.3	88.7	88.1
Current account balance ²	-4.7	-4.3	-4.4	-3.9	-3.8
Short-term interest rate ³	0.5	0.6	0.5	0.3	0.3
Long-term interest rate ⁴	2.6	1.9	1.3	1.0	0.8

1. As a percentage of disposable income (gross saving).

2. As a percentage of GDP.

3. 3-month interbank rate.

4. 10-year government bonds.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505486>

investors and the value of earnings derived from these assets have increased. As a result, the net international investment position has moved into a surplus and the current account deficit has narrowed.

The labour market has remained tight, with the unemployment rate edging down to 4.6% and hours worked per employee rising, but vibrant employment growth has slowed somewhat. Nominal wage growth has been easing, despite low unemployment and high job vacancies. The minimum wage was increased further in April 2017, by around 4% for

United Kingdom: **Demand and output**

	2015	2016	2017	2018	Fourth quarter		
					2016	2017	2018
	Current prices GBP billion	Percentage changes from previous year, volume (2013 prices)					
GDP at market prices	1 872.7	1.8	1.6	1.0	1.9	1.1	0.9
Private consumption	1 214.7	2.8	2.0	1.1	2.9	1.4	1.0
Government consumption	362.8	0.8	1.4	1.1	0.4	2.1	0.7
Gross fixed investment	317.1	0.5	1.2	-1.8	1.0	0.2	-2.0
Public ¹	49.3	2.6	3.8	1.2	7.2	1.0	1.4
Residential	87.6	3.7	3.4	-1.1	1.5	2.6	-1.5
Non-residential	180.2	-1.5	-0.6	-3.0	-0.9	-1.2	-3.3
Final domestic demand	1 894.6	2.0	1.8	0.7	2.1	1.4	0.4
Stockbuilding ²	7.9	-0.5	0.3	0.0			
Total domestic demand	1 902.5	1.5	2.1	0.6	1.6	2.4	0.4
Exports of goods and services	517.4	1.8	1.9	2.6	0.6	0.1	2.8
Imports of goods and services	547.2	2.8	3.8	1.3	2.0	3.9	1.2
Net exports ²	- 29.8	-0.3	-0.6	0.4			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Including nationalised industries and public corporations.

2. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 101 database.


StatLink  <http://dx.doi.org/10.1787/888933505505>

United Kingdom: **External indicators**

	2014	2015	2016	2017	2018
	USD billion				
Goods and services exports	842.7	790.6	739.9	762	814
Goods and services imports	902.4	836.1	790.3	829	885
Foreign balance	- 59.6	- 45.5	- 50.3	- 67	- 71
Invisibles, net	- 80.0	- 76.9	- 65.3	- 33	- 31
Current account balance	- 139.7	- 122.4	- 115.7	- 100	- 103
	Percentage changes				
Goods and services export volumes	1.5	6.1	1.8	1.9	2.6
Goods and services import volumes	2.5	5.5	2.8	3.8	1.3
Export performance ¹	- 3.4	0.2	- 1.8	- 3.1	- 1.5
Terms of trade	1.5	0.7	0.0	- 0.1	- 1.2

1. Ratio between export volume and export market of total goods and services.

Source: OECD Economic Outlook 101 database.

StatLink  <http://dx.doi.org/10.1787/888933505524>

workers above the age of 25. The pace of further increases should continue to be adjusted depending on labour market conditions and productivity developments to avoid pricing low-skilled workers out of employment.

The macroeconomic policy stance needs to remain expansionary

The budget deficit fell to 2.5% of GDP at end-2016 and fiscal policy is broadly neutral in 2017. Consolidation is planned from 2018, and the mandate to reduce the structural deficit to 2% of GDP by 2021 should be reached earlier than planned. Moreover, reduced debt-service costs due to very low interest rates, the transfer of interest payments collected by the Bank of England under its quantitative easing programme and the longest maturity of public debt in the OECD (above 15 years) create substantial fiscal space. Fiscal policy should therefore be used to offset growth headwinds created by uncertainties surrounding the future withdrawal of the United Kingdom from the European Union.

The Bank of England has continued its welcome support of the economy by maintaining a large monetary stimulus. Inflation has recently risen above the 2% target, but this reflects temporary factors, and monetary support will continue to be needed as the economy is projected to slow as Brexit uncertainties take hold. Consumer lending has been vibrant, prompting regulatory authorities to review the quality of lending standards for consumer loans and the rules underpinning them. Should consumer lending growth remain high, the authorities could consider taking further targeted regulatory steps, such as phasing out consumer loans from the Term Funding Scheme, similar to the exclusion of household loans from the Funding for Lending Scheme in 2014.

The UK economy has been increasingly exposed to international trade and competition. This raises productivity and incomes, but also has downsides as sectors adjust and workers are displaced. Dealing with these downsides requires stronger policies to ease adjustment. Higher investment in transport infrastructure, in particular in less productive regions, would improve connectivity and the diffusion of knowledge. Higher housing supply would improve the matching of skills to jobs in the labour market and ease the reallocation of resources towards sectors with stronger comparative advantage.

Supporting higher educational attainment and addressing teacher shortages in less productive regions would raise skill levels of younger people, increasing their adaptability and their chances of finding and holding good jobs.

Growth is projected to slow

GDP growth is set to weaken slightly to 1.6% in 2017 and then more significantly to 1% in 2018. This projection critically assumes that “most favoured nation” treatment will govern UK trade after the United Kingdom leaves the European Union in 2019. Private consumption growth is projected to slow, as higher inflation holds back real earnings, but a weaker growth outlook should mitigate the extent of price pressures in the economy. Also, households are expected to continue to support their consumption by further reducing their saving rate. Business investment is projected to contract amid the large uncertainty and because of lower corporate margins. Weaker growth could push the unemployment rate above 5%.

The major risk for the economy is the uncertainty surrounding the exit process from the European Union. Higher uncertainty could hamper domestic and foreign investment more than projected, but swift progress in negotiations and an outcome that retains strong trade linkages with the European Union would lead to better outcomes than projected. Export growth could be weaker if export prices rise more than projected, reducing competitiveness gains from the past exchange rate depreciation.