

UNITED KINGDOM

Economic growth is projected to remain modest at 1.4% in 2018 and 1.3% in 2019, owing to high uncertainties about the outcome of Brexit negotiations. There is little slack in the economy following years of strong growth, and unemployment is projected to remain below 5%. Inflation is projected to fall gradually to slightly above the 2% target of the central bank by the end of 2019.

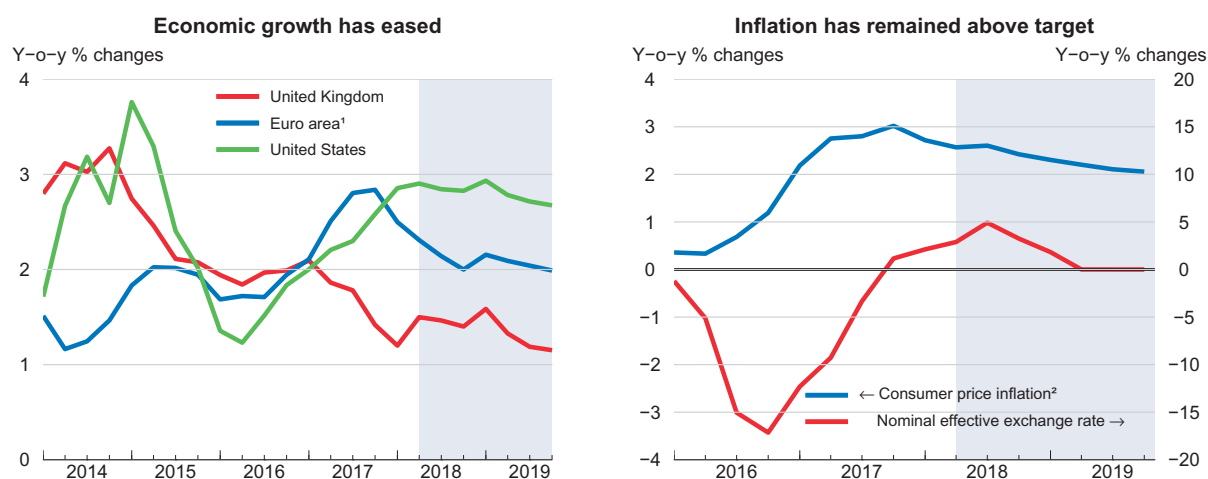
With inflation above target but still large uncertainties, monetary policy is projected to normalise at a very gradual pace. Additional fiscal consolidation is planned for this year and next. While this is appropriate given the economic outlook, the authorities should stand ready to further increase productivity-enhancing measures on investment if growth weakens significantly ahead of Brexit. Greater spending on education and training of low-skilled workers would increase productivity and enhance inclusiveness. From an economic point, Brexit negotiations should aim at preserving open trade with the European Union and high access for financial services to EU markets.

Economic growth remains constrained by Brexit-related uncertainties

The pace of domestic activity has been moderate, despite stronger export growth on the back of faster world trade growth. The current account deficit has narrowed somewhat, as the sterling depreciation automatically increased the sterling value of income earned on UK's foreign currency assets.

Inflation has fallen in recent months, but has remained persistently above target since February 2017. This reflects the lingering effects of sterling's past depreciation and rising global commodity prices, which have been passed into retail sales prices. Wages have lately grown at a slower pace than productivity. The main explanation of weak domestic demand is elevated inflation that has continued to damp real household income growth and consumer spending. Despite high profitability and limited spare capacity, business

United Kingdom



1. Covers 16 countries that are both euro area and OECD members.

2. Harmonised measure.

Source: OECD Economic Outlook 103 database.

United Kingdom: **Demand, output and prices**

	2014	2015	2016	2017	2018	2019
	Current prices GBP billion	Percentage changes, volume (2015 prices)				
GDP at market prices	1 837.1	2.3	1.9	1.8	1.4	1.3
Private consumption	1 200.5	2.6	2.9	1.7	1.1	0.7
Government consumption	359.0	0.6	0.8	0.1	1.4	1.0
Gross fixed capital formation	301.0	2.8	1.8	4.0	2.8	0.7
Final domestic demand	1 860.5	2.2	2.4	1.8	1.4	0.7
Stockbuilding ¹	13.4	0.2	-0.2	-0.4	0.0	0.0
Total domestic demand	1 873.9	2.4	2.2	1.4	1.4	0.8
Exports of goods and services	518.9	5.0	2.3	5.7	1.4	3.3
Imports of goods and services	555.8	5.1	4.8	3.2	1.0	1.5
Net exports ¹	- 36.8	-0.1	-0.8	0.6	0.1	0.5
<i>Memorandum items</i>						
GDP deflator	—	0.5	2.0	2.0	1.7	1.8
Harmonised index of consumer prices	—	0.1	0.6	2.7	2.6	2.2
Harmonised index of core inflation ²	—	1.1	1.2	2.3	2.2	2.1
Unemployment rate (% of labour force)	—	5.4	4.9	4.4	4.5	4.6
Household saving ratio, gross (% of disposable income)	—	9.2	7.1	5.1	5.3	5.3
General government financial balance (% of GDP)	—	-4.3	-3.3	-1.8	-1.4	-1.3
General government gross debt (% of GDP)	—	112.3	121.1	118.0	116.8	115.5
General government debt, Maastricht definition (% of GDP)	—	88.2	88.2	87.7	87.7	87.5
Current account balance (% of GDP)	—	-5.2	-5.8	-4.1	-3.1	-2.5

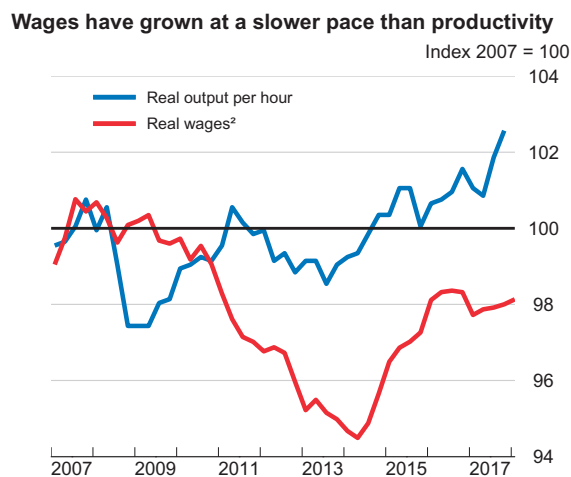
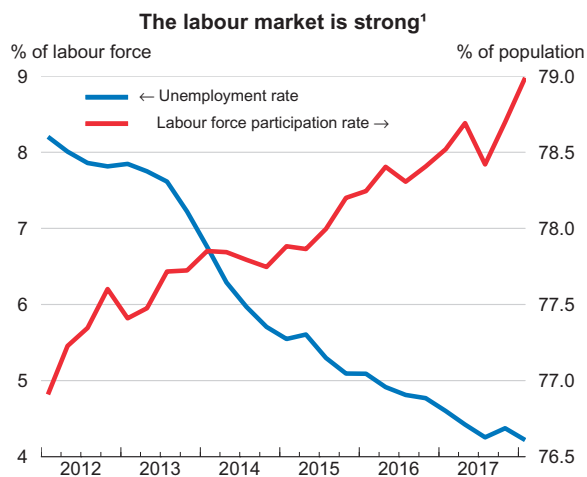
1. Contributions to changes in real GDP, actual amount in the first column.

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

Source: OECD Economic Outlook 103 database.

StatLink  <http://dx.doi.org/10.1787/888933731567>


United Kingdom



1. Data for the unemployment rate refer to the population aged 16 and over. Data for the labour force participation rate refer to the population aged between 16 and 64.

2. Real average weekly earnings excluding bonuses. Earnings have been deflated by the consumer prices index including owner occupiers' housing costs.

Source: Office for National Statistics.

StatLink  <http://dx.doi.org/10.1787/888933730674>

investment growth has been held back by Brexit-induced economic and political uncertainty. Housing transactions, mortgage approvals and house prices have slowed slightly.

Despite weaker growth, the unemployment rate, at 4.2%, is at its lowest level since 1975 and labour force participation has increased. Survey measures of recruitment difficulties are above their past averages, which may be explained by the steep fall in immigration from EU countries and long standing labour-market trends such as skill shortages. Wages have picked up, even though less than could be expected given the tight labour market.

A gradual normalisation of monetary policy is warranted, with fiscal policy providing needed flexibility

The Monetary Policy Committee increased interest rates for the first time in a decade in late 2017 as inflation was running well above the target. With inflation still above target and wage pressures emerging, the Bank of England is projected to continue to raise its policy interest rate and start shrinking its balance sheet, but only very gradually, as significant uncertainties remain. Clear communication is essential to prevent financial turbulence.

The structural budget deficit is expected to decline to around 2.3% of GDP this year and further consolidation of just over 0.5% of GDP is planned over 2018 and 2019 (based on changes in the underlying primary balance). Fiscal targets are expected to be met with large margins. After a peak during this fiscal year, the public debt-to-GDP ratio is projected to edge down gradually over 2018 and 2019. The authorities should keep identifying productivity-enhancing fiscal initiatives on investment that could be implemented swiftly, such as spending on repair and maintenance, should growth weaken significantly ahead of Brexit. Priority should also be given to greater spending on education and lifelong learning, as adults have lower literacy and numeracy skills than the OECD average and the percentage of young people with weak basic skills is particularly high. This could boost productivity, wages and job quality.

Growth is projected to stabilise at a weak rate

Economic activity is set to grow at less than 1½ per cent in 2018-19, as the March 2018 agreement on the transition period only partially dissipates the uncertainty about the final outcome of Brexit negotiations. A tighter monetary stance and the unwinding of last year's sterling depreciation are expected to help bring inflation closer to target, despite higher growth in pay settlements this year. The unemployment rate is anticipated to edge up gradually, in the context of projected slow economic growth. The major risk for the economy is the uncertainty surrounding Brexit. If high uncertainty persists, the drag on capital expenditure could intensify as businesses delay plans further. By contrast, deferred plans may be brought forward if businesses gain clarity about future trading arrangements, pushing up investment growth in the short run. In addition, prospects of maintaining the closest possible economic relationship with the European Union would lead to stronger-than-expected economic growth.