



Economic outlook

Dennis Tatarkov
22 November 2018





Global economy

Global forecasts

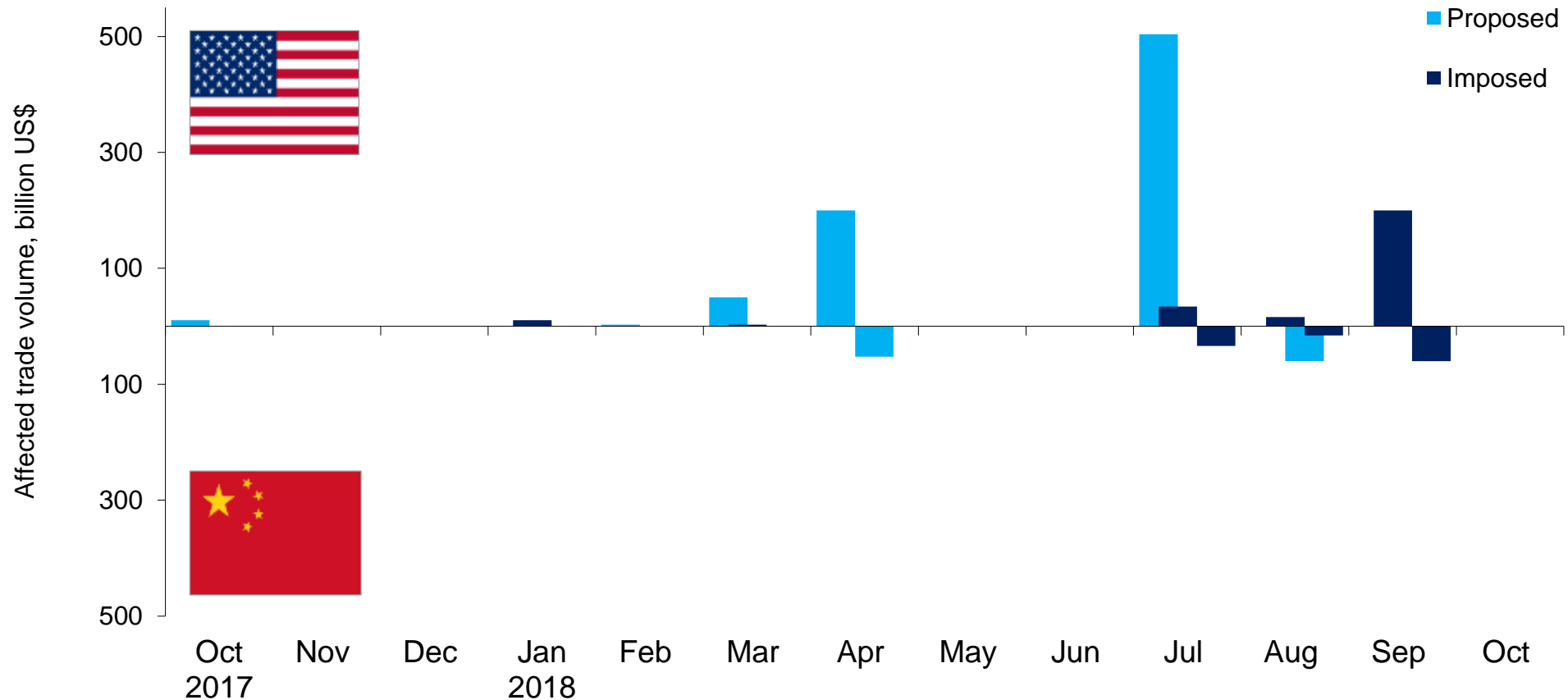
GDP growth, %			
	2017	2018	2019
US	2.2	2.9	2.6
Eurozone	2.5	2.0	1.8
Germany	2.2	1.9	1.7
France	2.3	1.6	1.6
Italy	1.6	1.1	1.0
Japan	1.7	1.1	1.2
China	6.9	6.6	6.3
World	3.7	3.7	3.7

Inflation, %			
	2017	2018	2019
US	2.1	2.5	2.3
Eurozone	1.5	1.7	1.7
Germany	1.8	1.9	1.9
France	1.0	2.0	1.6
Italy	1.2	1.3	1.4
Japan	0.5	0.9	1.1
China	1.6	2.1	2.3
World	3.2	3.8	3.8

Source: Consensus Economics, IMF World Economic Outlook

US-China trade tensions to ease?

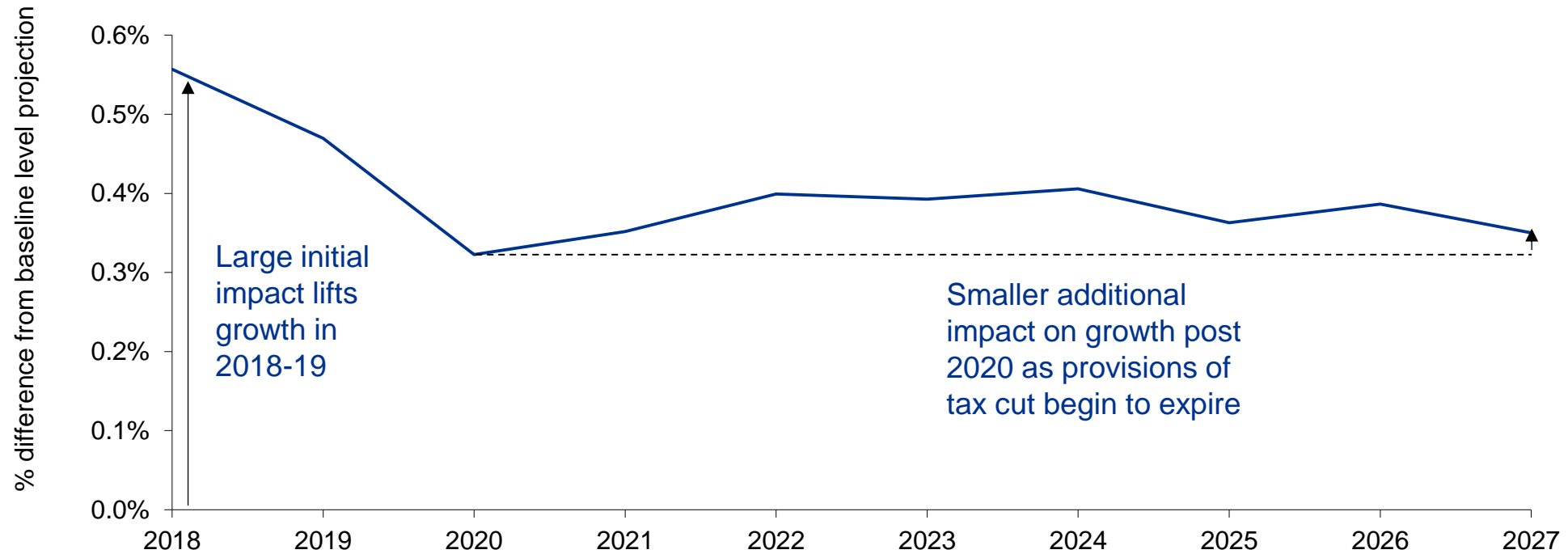
Trade measures taken by US and China



Source: Peterson Institute for International Economics, 2018

US fiscal policy boost wanes in medium term

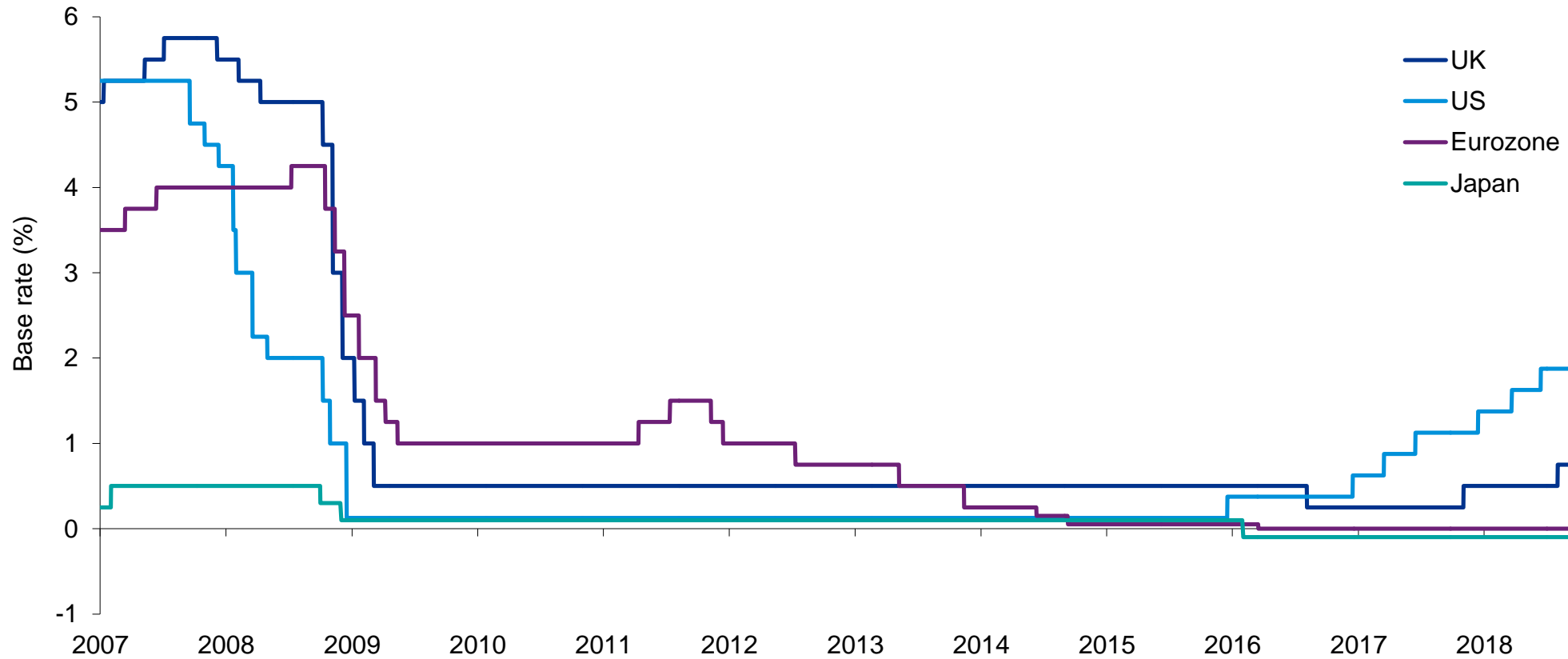
Impact on US GDP of tax policy (fiscal years)



Source: Tax Policy Center, Nov 2017

The FED has taken the lead in normalising policy rates

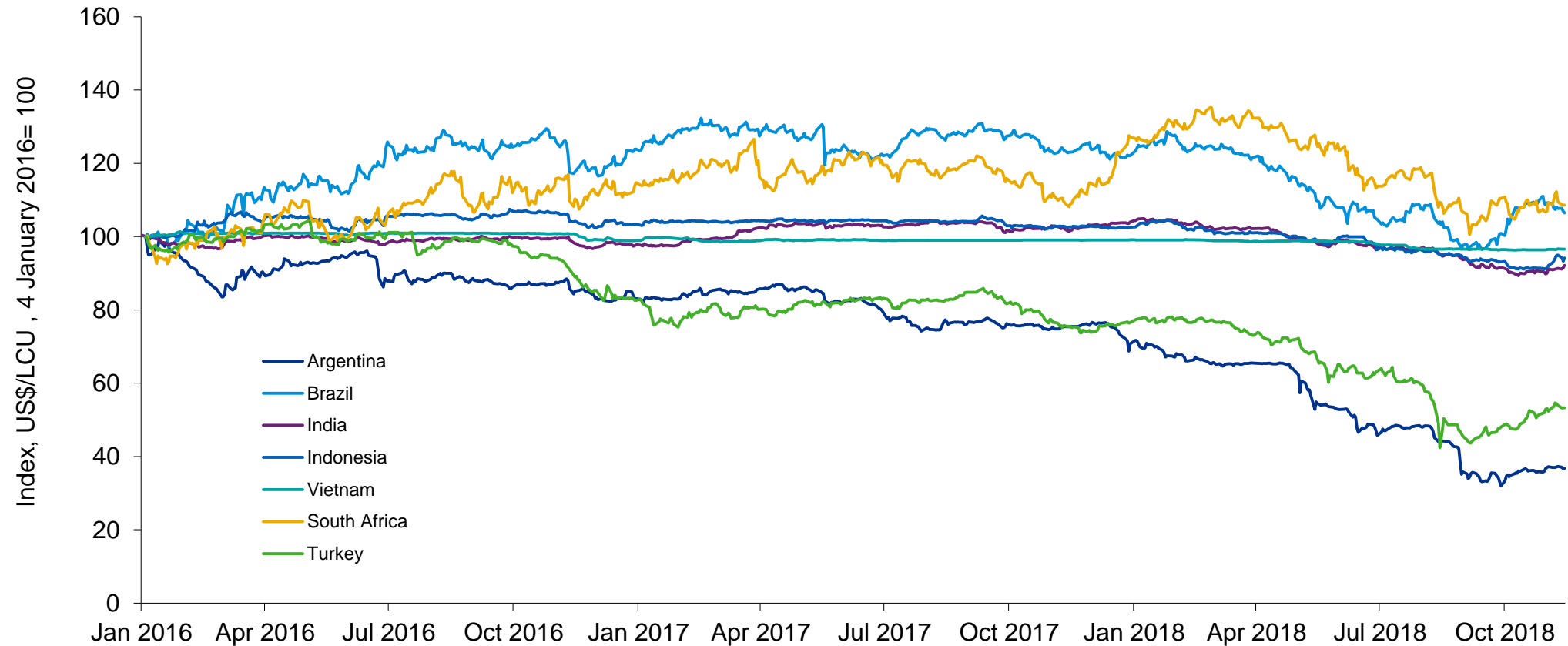
Monetary policy rates of major advanced economies



Source: Bank of England; Federal Reserve; European Central Bank; Bank of Japan

Downwards pressure on the value of emerging market currencies

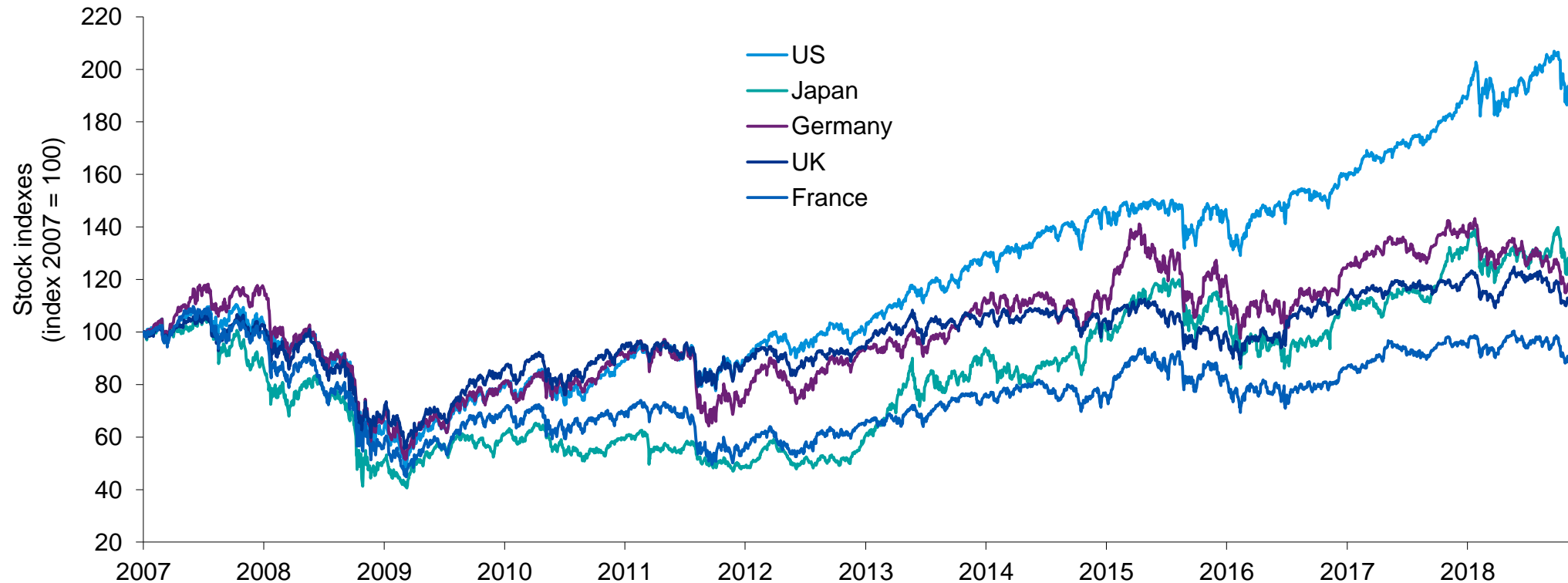
Index of emerging markets exchange rates



Source: BCRA, BCB, RBI, BI, VcB, SARB, CBRT via Haver

Equity indices show signs of weakening across major economies

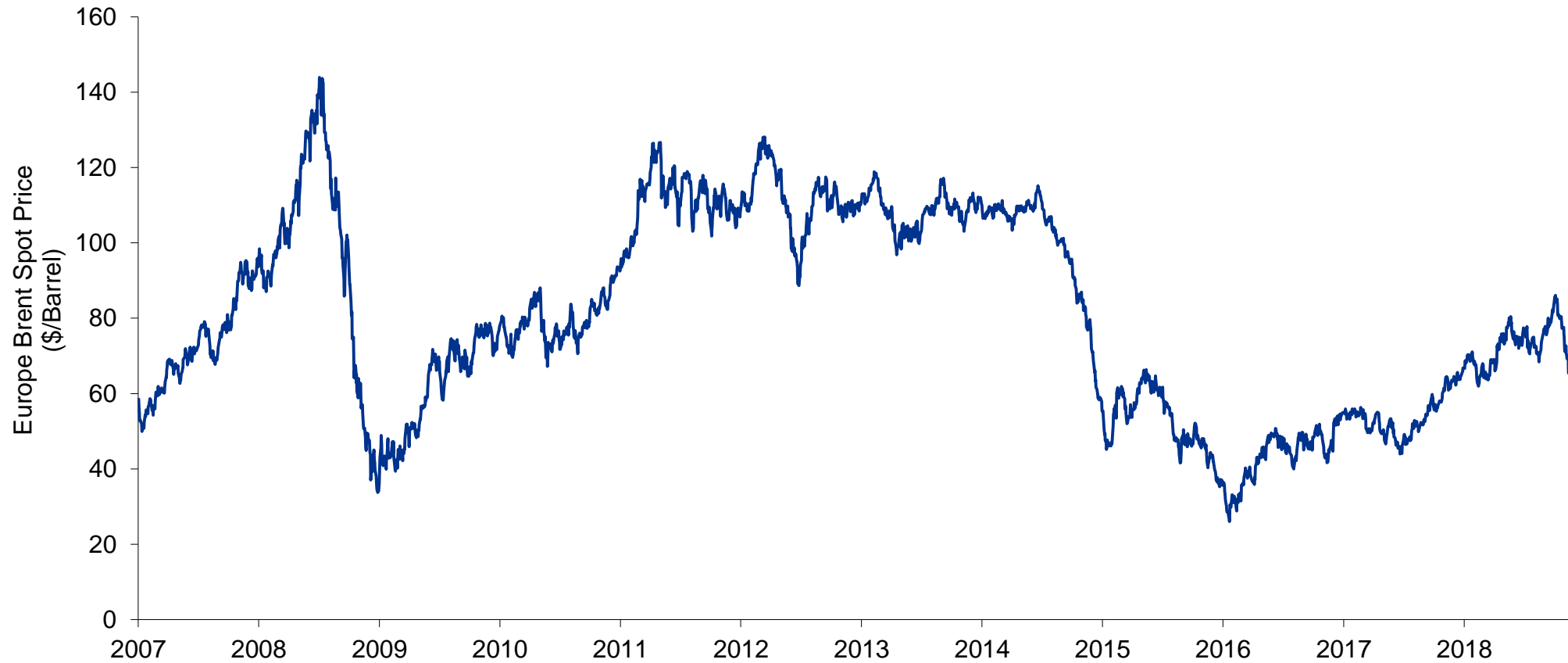
Equity indices of major advanced economies



Source: Financial Times; New York Times; Deutsche Bourse

Oil exporters could benefit from higher prices

Crude oil price



Source: Energy Information Administration



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

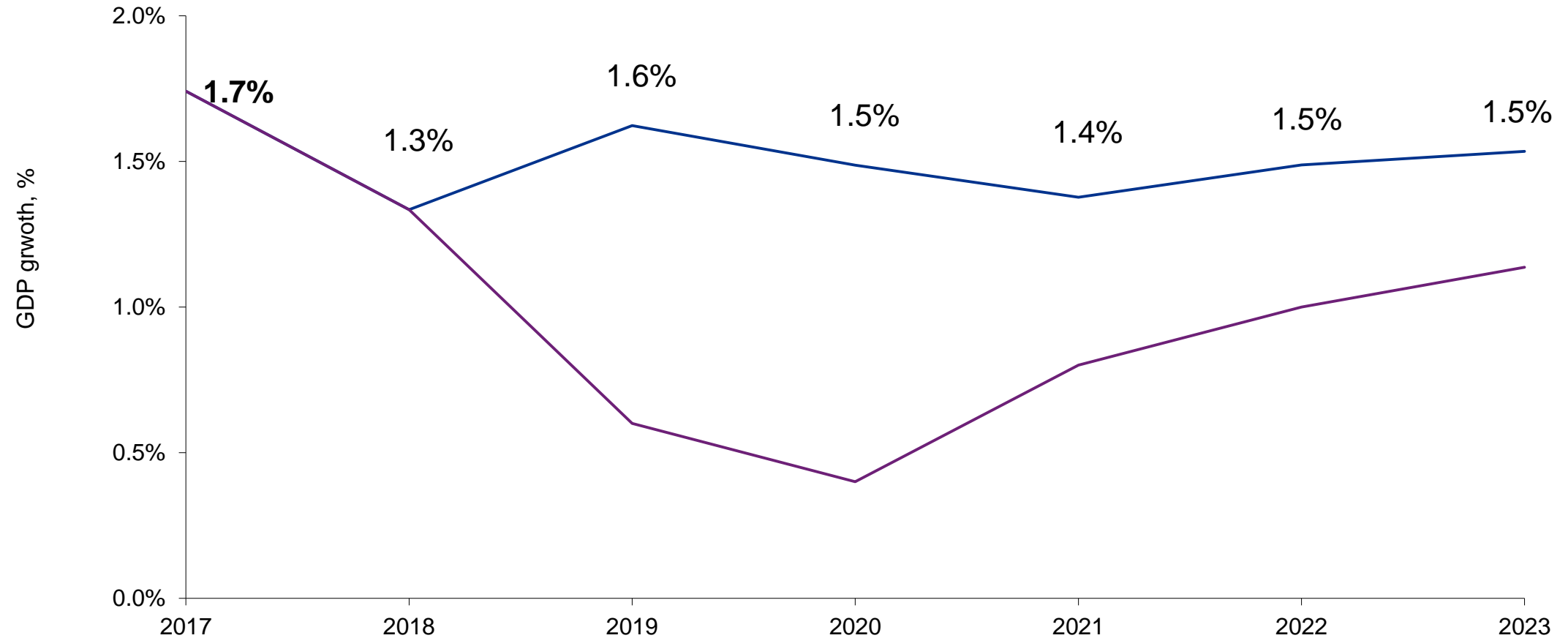


UK outlook



Forecasts are highly uncertain

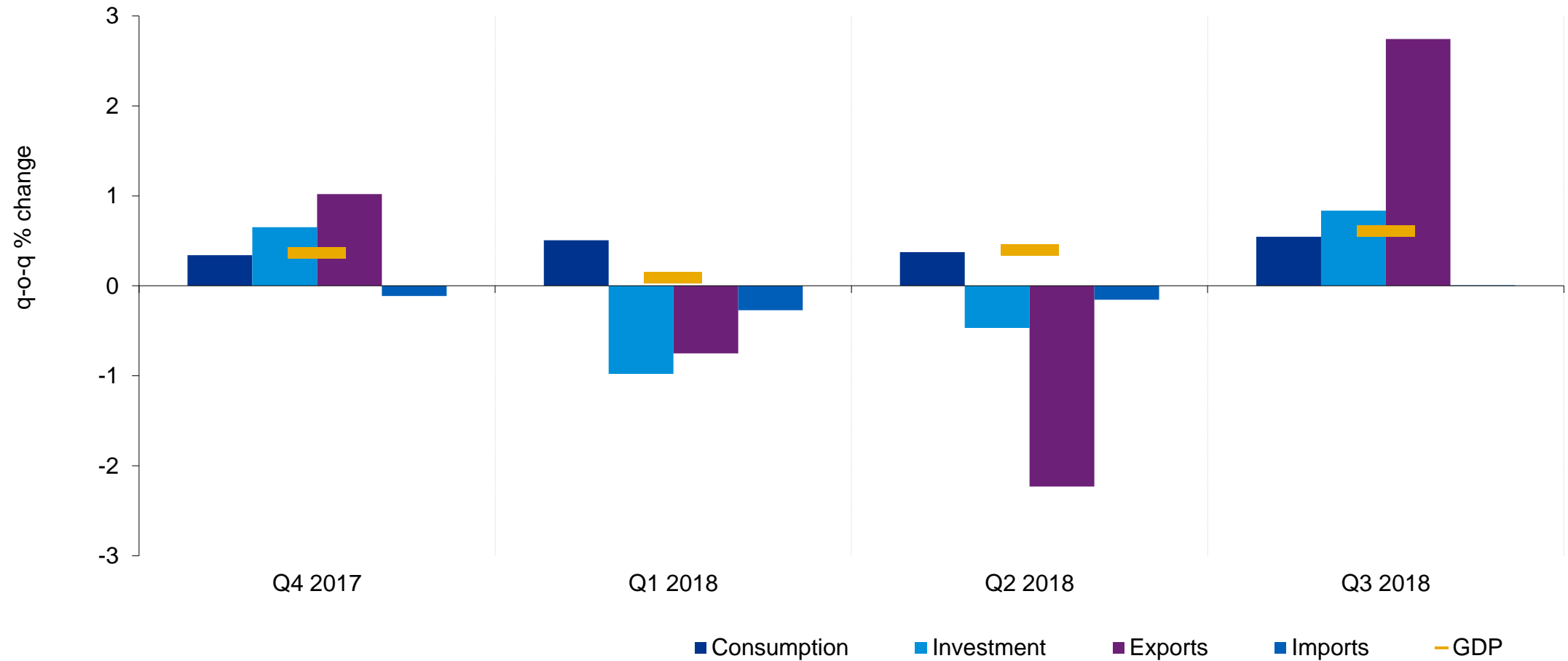
Real GDP growth



Source: ONS and KPMG Macroeconomics forecast

No consistent boost from exports

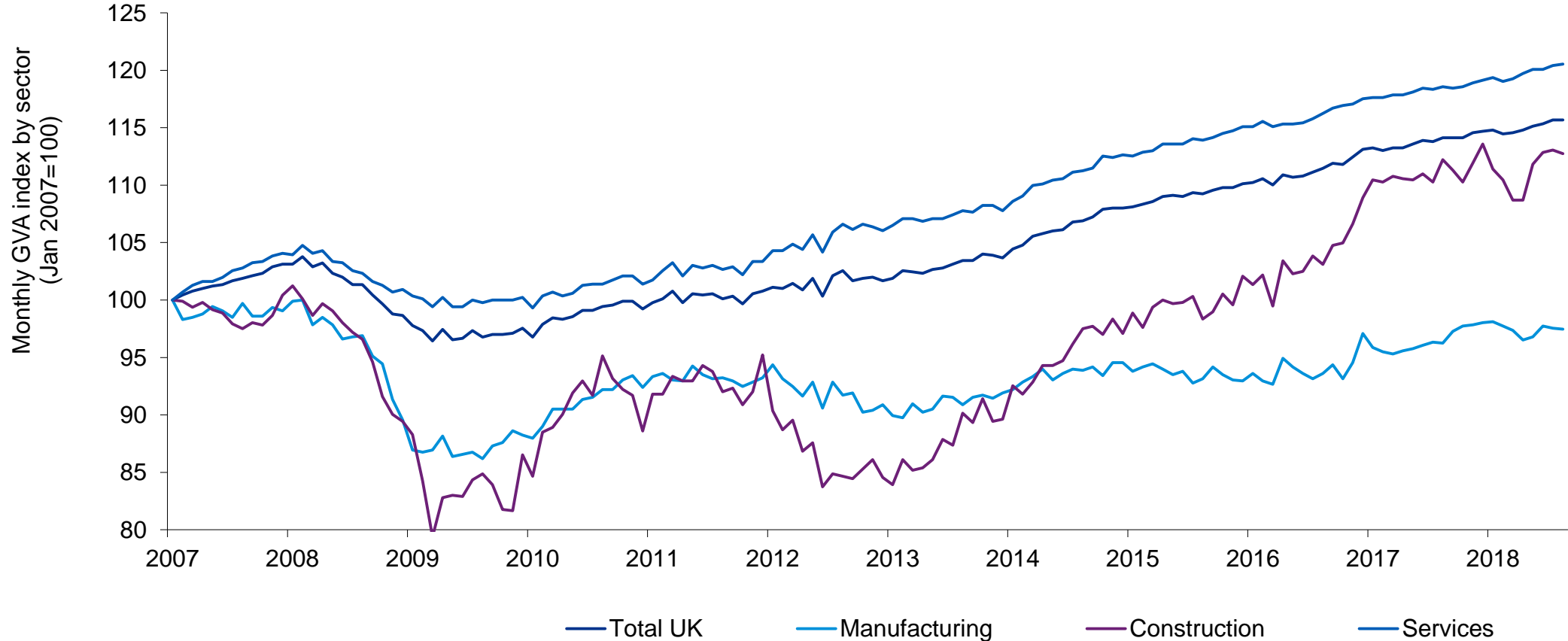
GDP growth rate by expenditure



Source: ONS

Performance in manufacturing and construction has been mixed

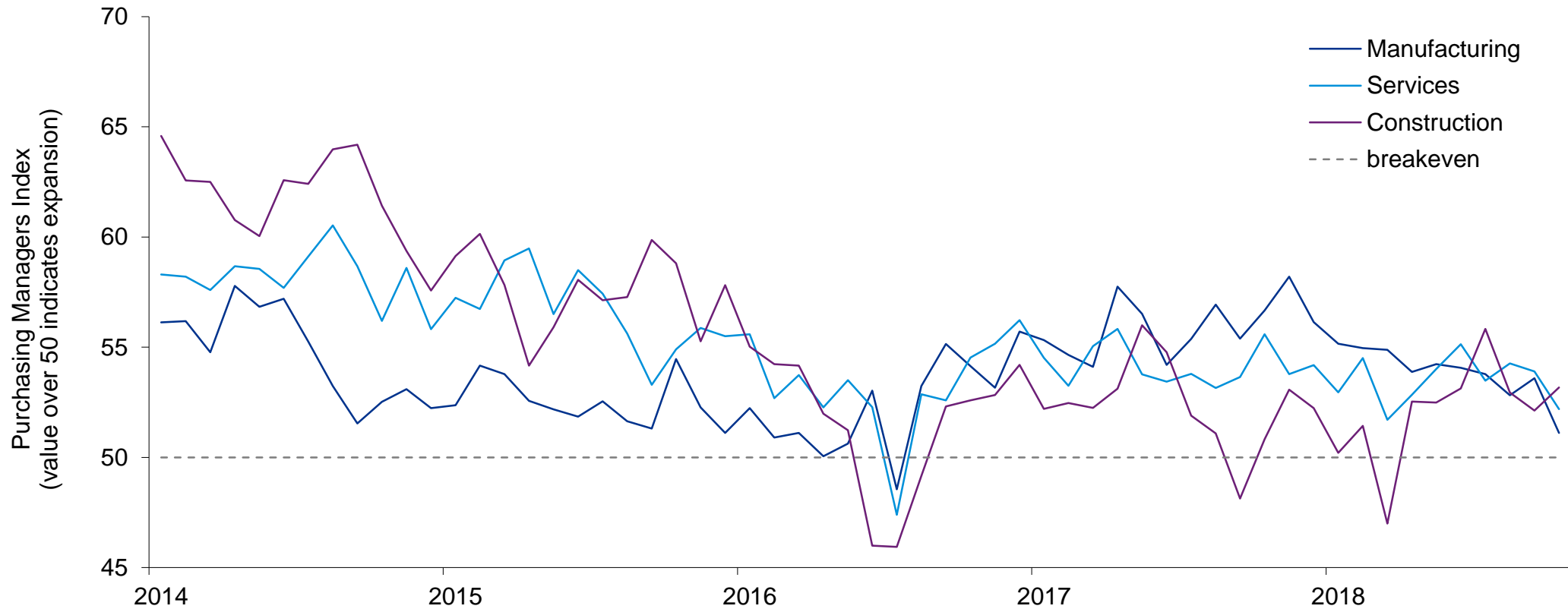
Real GVA by broad sector



Source: ONS

PMI indices point to declining short-term prospects for manufacturing, construction and services

Purchasing Managers' Indices



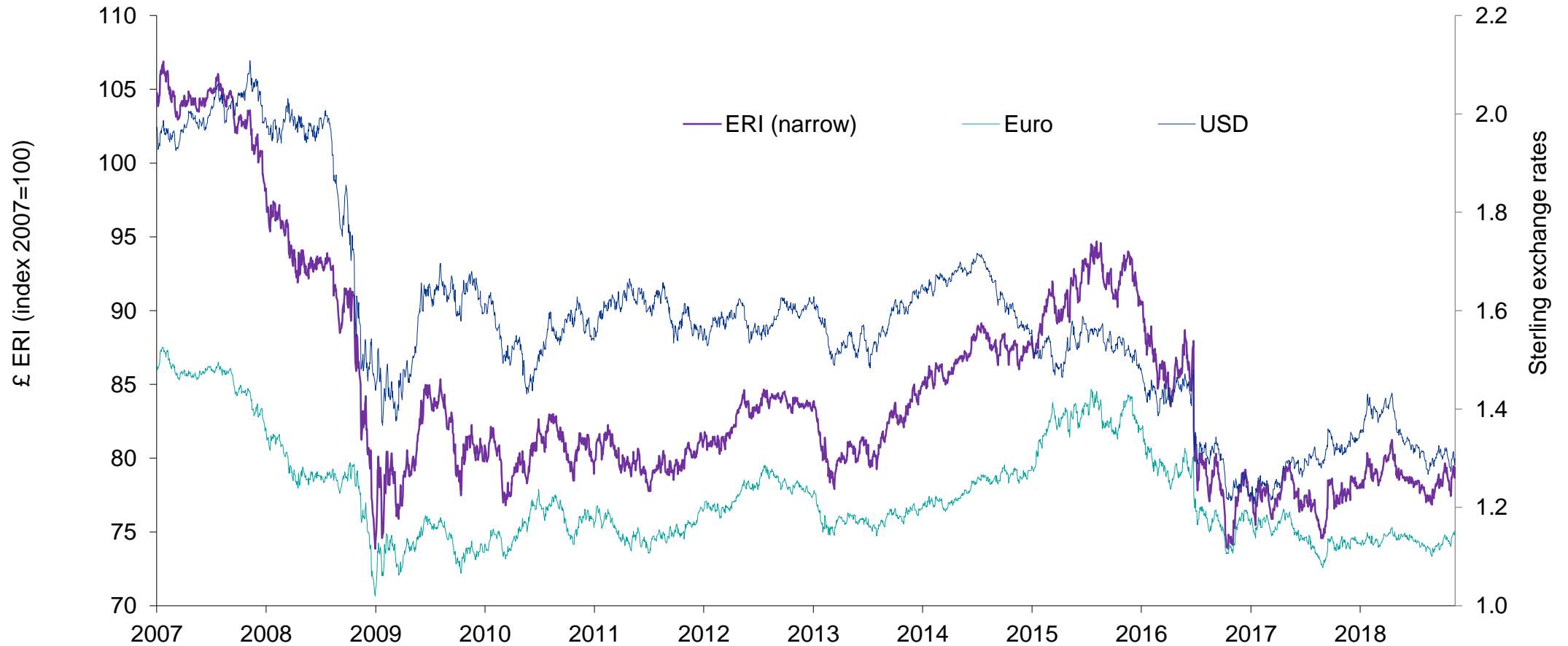
Source: CIPS/IHS Markit



© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Sterling has lost ground gained against US\$

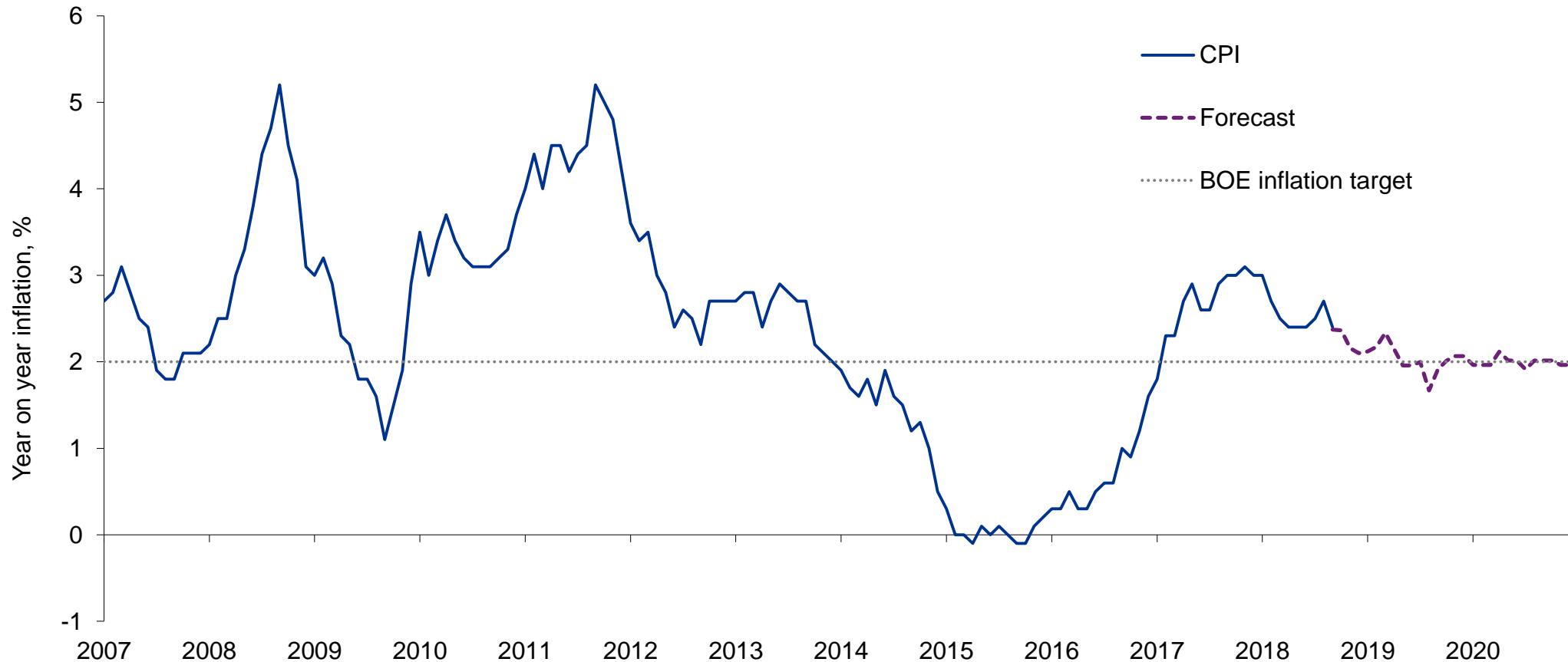
GBP exchange rate



Source: Bank of England

Inflation moving back to target

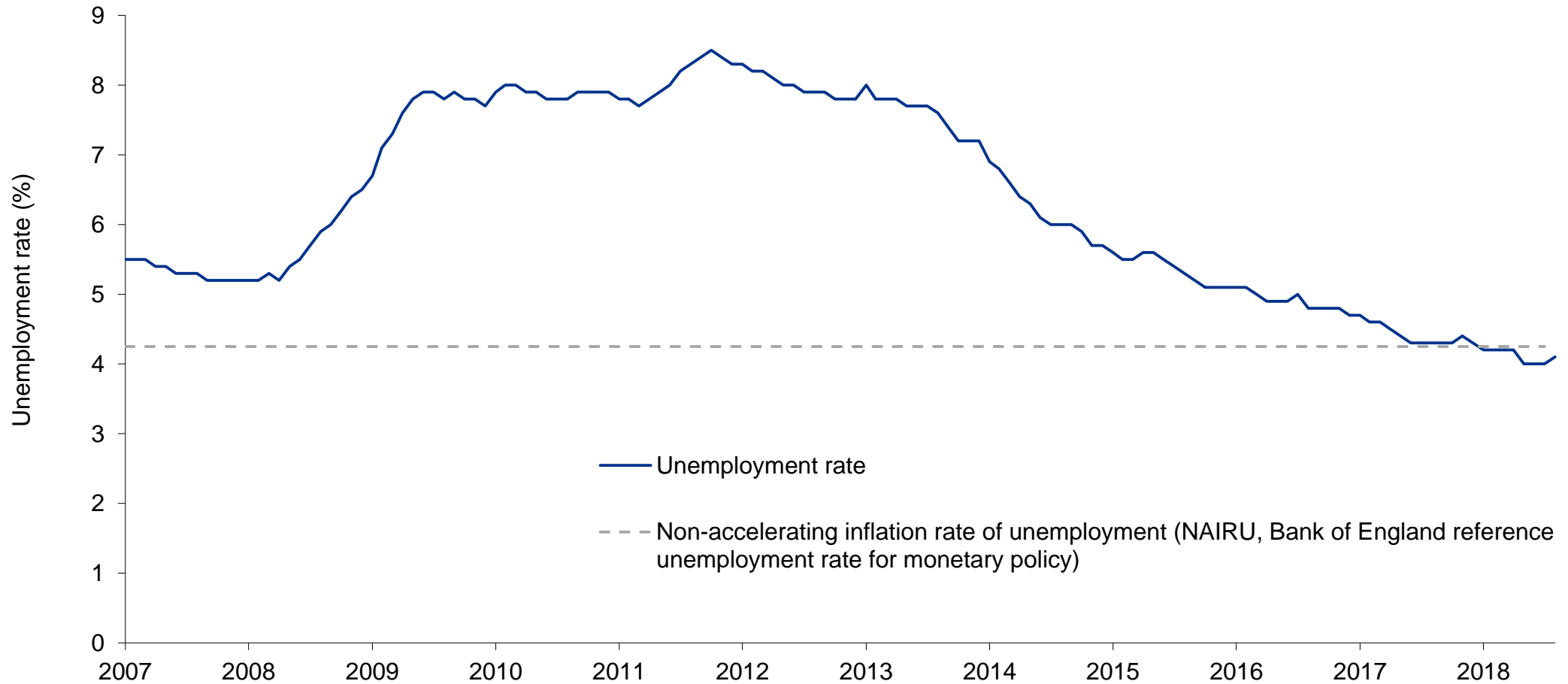
UK CPI inflation and forecast



Source: ONS and KPMG Macroeconomics forecast

Unemployment is below Bank of England's equilibrium rate

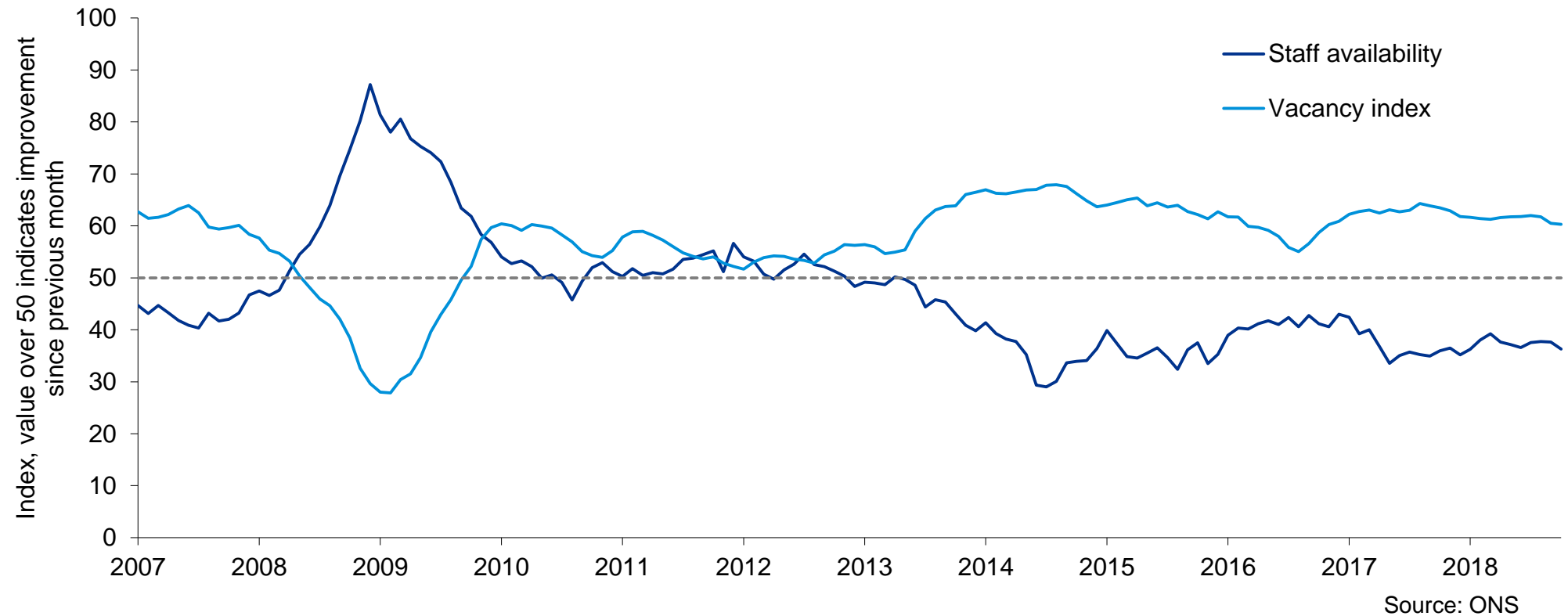
Unemployment rate



Source: ONS

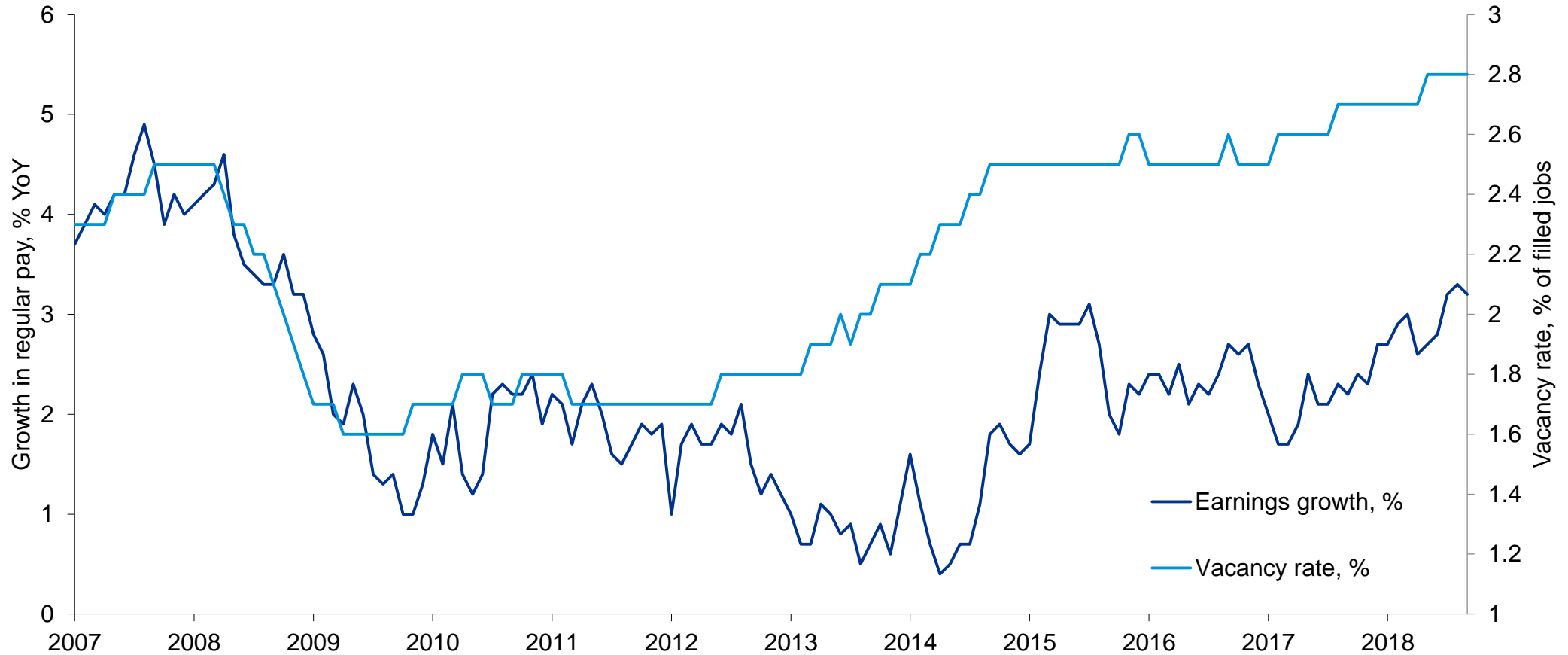
Labour market tightness due to increasing shortage of workers

KPMG/REC UK report on jobs



Earnings growth is starting to pick up

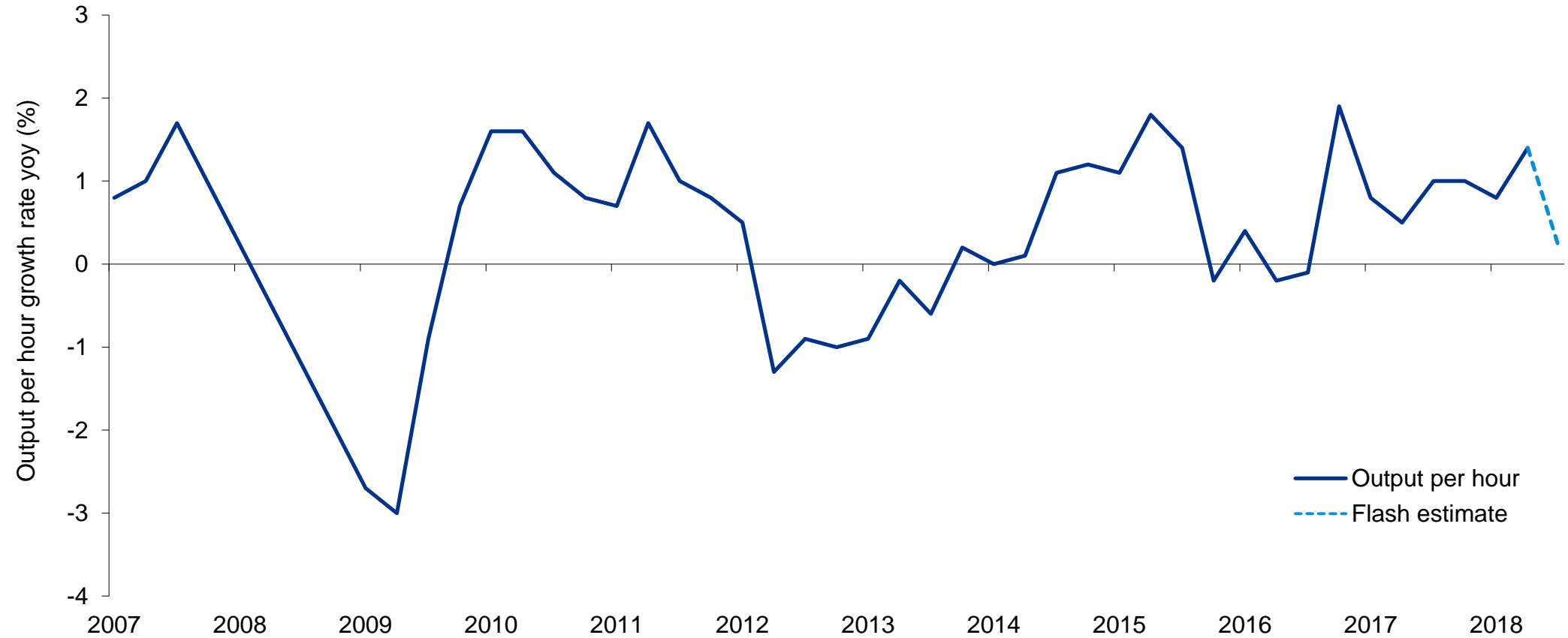
Vacancy rate and growth in earnings



Source: ONS

Poor productivity growth limiting further growth

Growth in output per hour



Source: ONS

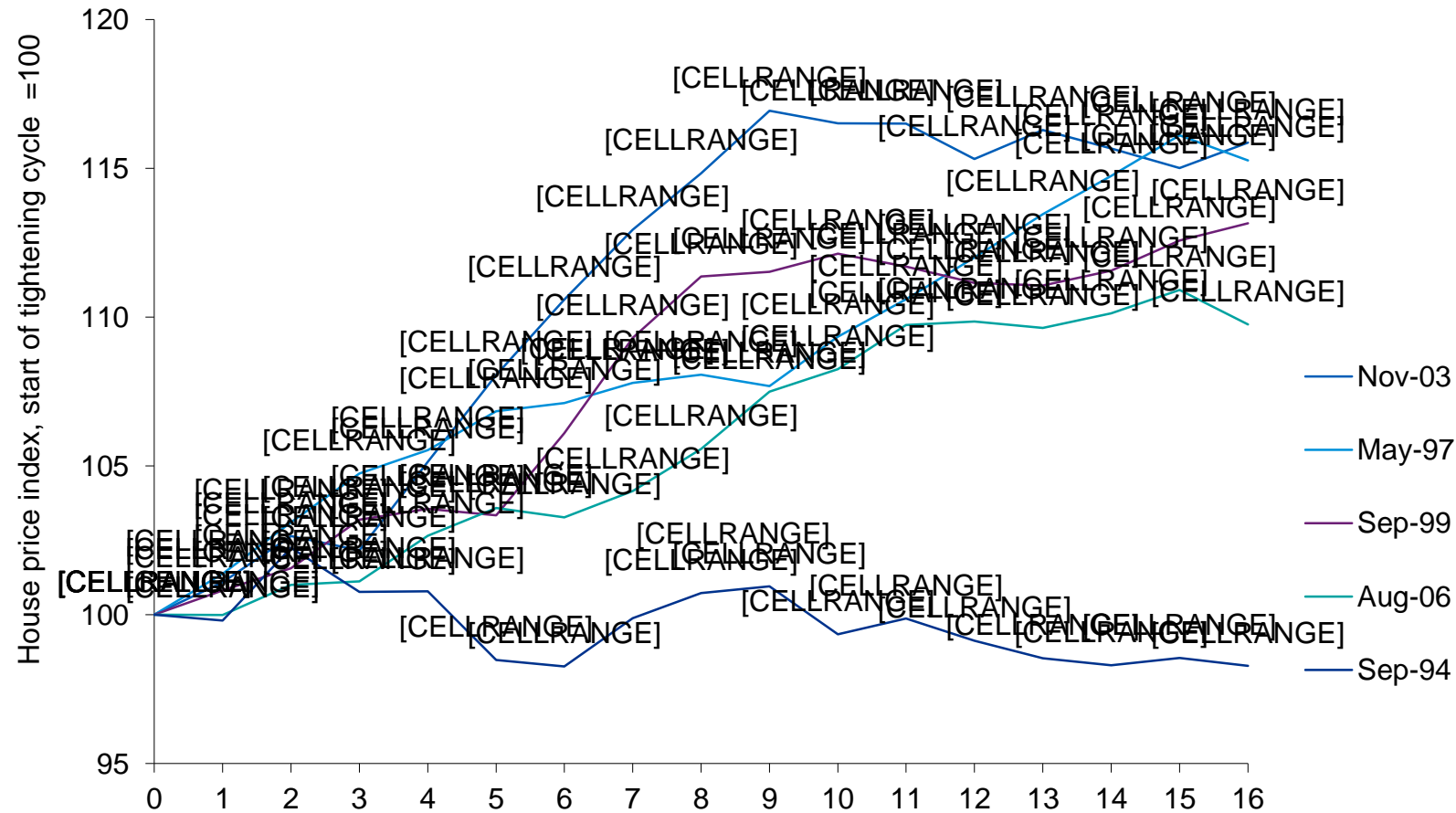
Regional house price forecasts

	2017	2018	2019	2020	2021	2022	2023
London	1.6%	-0.3%	-0.7%	-0.2%	0.4%	0.5%	1.1%
North East	2.6%	1.1%	3.2%	3.3%	3.0%	2.1%	2.0%
South East	4.3%	1.8%	0.6%	0.5%	0.7%	0.7%	1.3%
East of England	5.2%	2.1%	0.4%	0.1%	0.4%	0.5%	1.1%
South West	5.8%	2.2%	1.9%	1.6%	1.4%	1.1%	1.4%
North West	5.8%	2.3%	2.6%	2.3%	2.0%	1.5%	1.6%
Wales	5.1%	2.8%	2.8%	2.5%	2.1%	1.5%	1.6%
Yorkshire and The Humber	4.2%	3.2%	2.7%	2.3%	2.1%	1.5%	1.6%
Northern Ireland	3.6%	3.6%	2.3%	1.9%	1.8%	1.3%	1.5%
East Midlands	6.3%	3.8%	2.2%	1.4%	1.2%	0.9%	1.3%
West Midlands	6.0%	4.2%	2.1%	1.2%	0.9%	0.7%	1.1%
Scotland	4.5%	4.9%	3.6%	2.7%	2.2%	1.4%	1.5%
UK average	4.5%	2.6%	2.0%	1.6%	1.5%	1.2%	1.4%

Source: ONS/Land Registry historical data, KPMG Macroeconomics forecasts

Role of interest rates in housing market likely to be minor

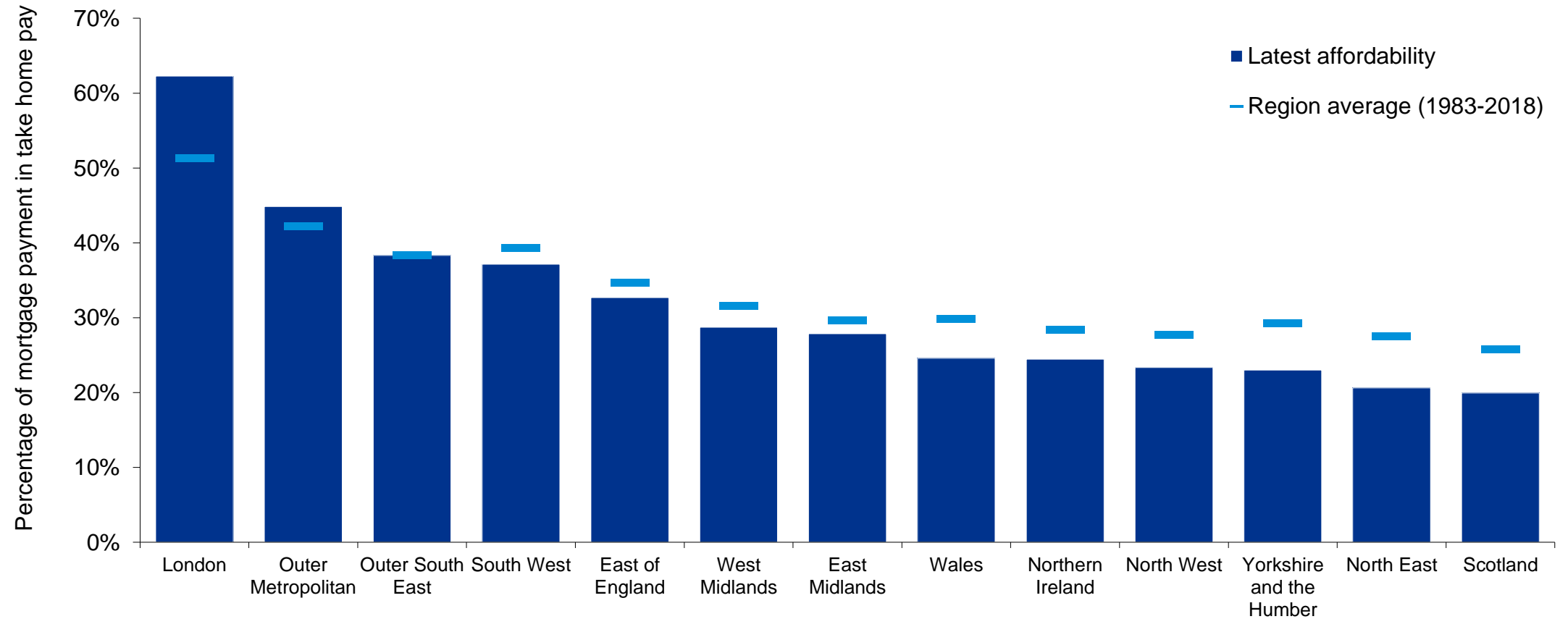
House price responses in previous tightening cycles



Source: ONS, Bank of England

Mortgage financing burden is under control

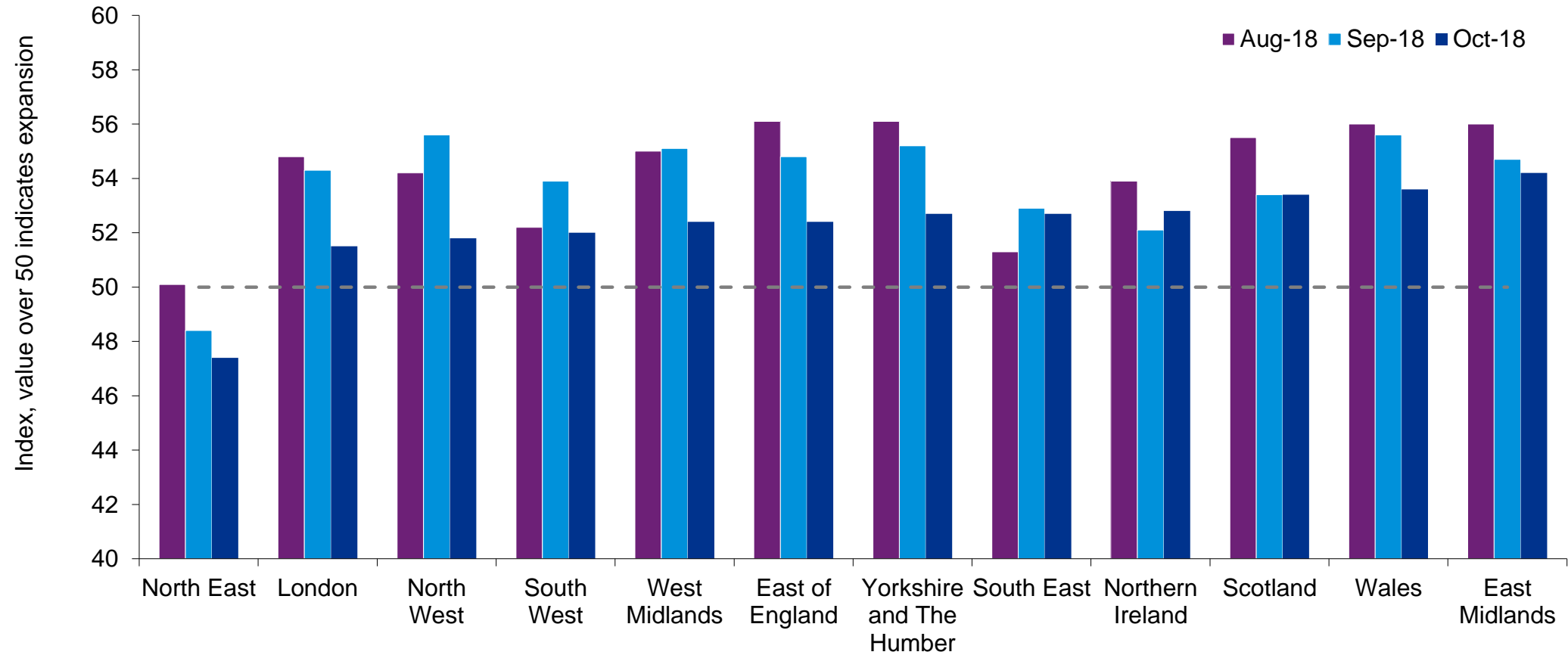
Mortgage payment as percentage of take home pay



Source: ONS

Broad based slowdown in short term

Regional PMI surveys



Source: IHS Markit/NatWest



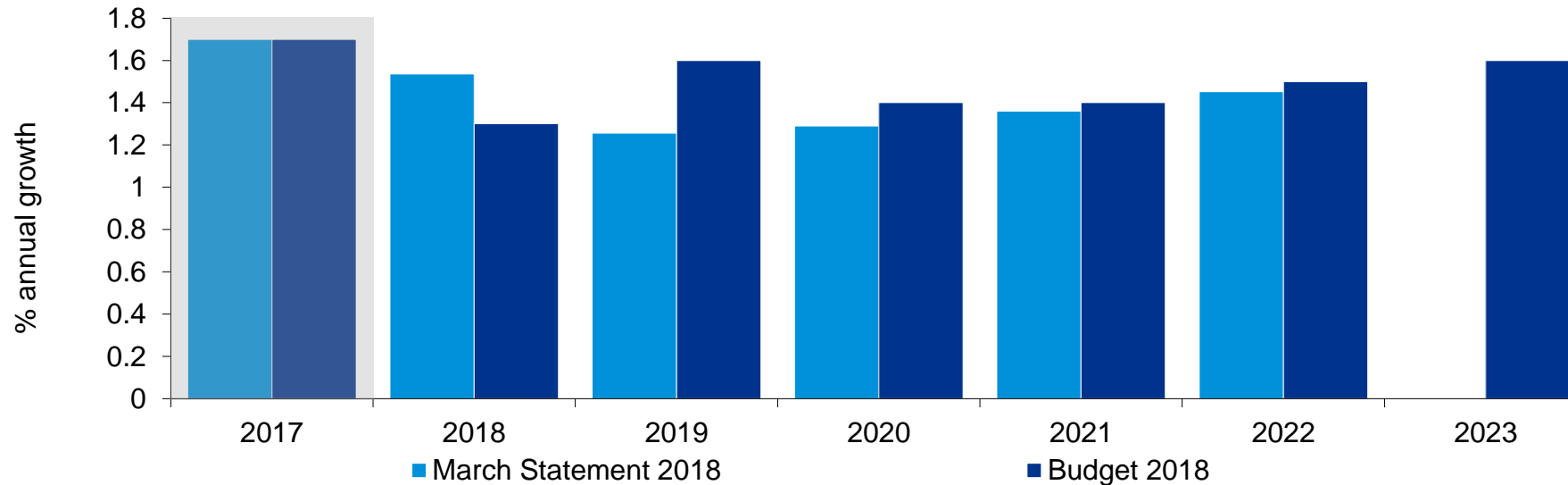
Budget 2018

OBR's significant upward revision to growth

GDP growth projections (%)							
% annual change	2017	2018	2019	2020	2021	2022	2023
Budget 2017	1.5	1.4	1.3	1.3	1.5	1.6	
March Statement 2018	1.7	1.5	1.3	1.3	1.4	1.5	
Budget 2018	1.7	1.3	1.6	1.4	1.4	1.5	1.6

Source: Office of Budget Responsibility

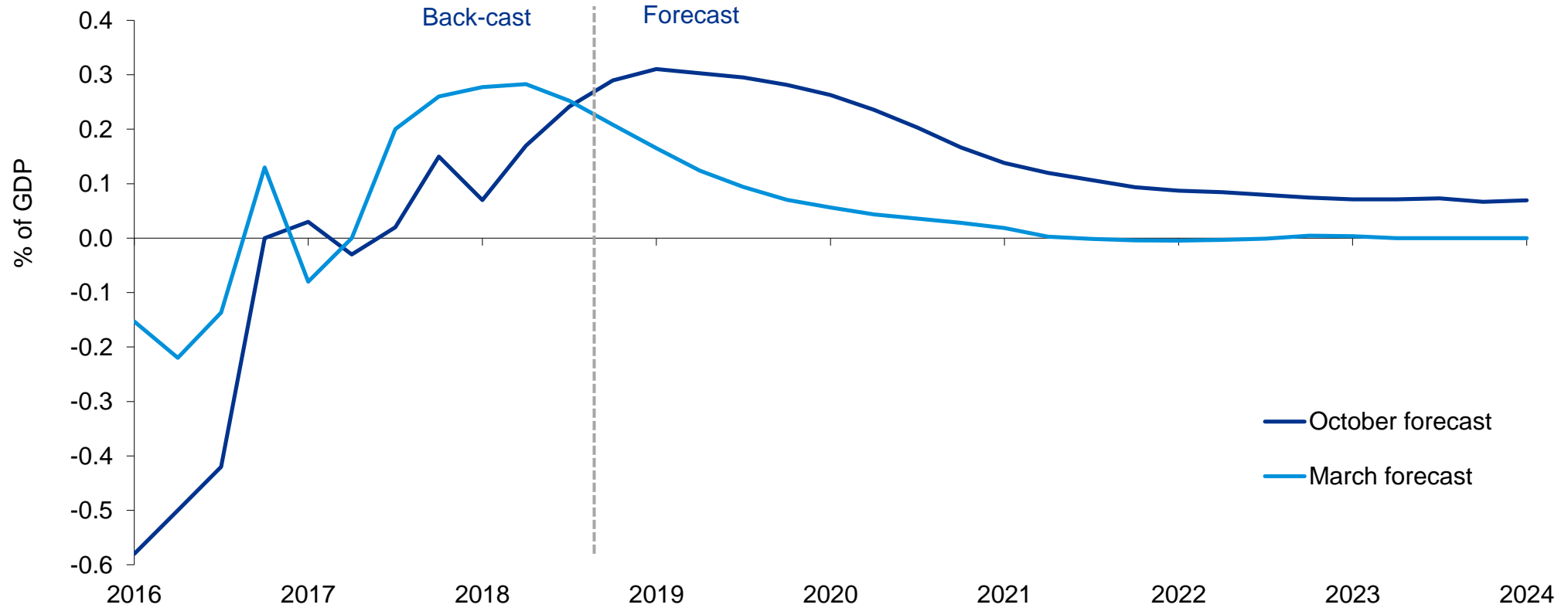
GDP growth for 2017-23



Source: Office of Budget Responsibility

OBR now expect a positive output gap for the next 5 years

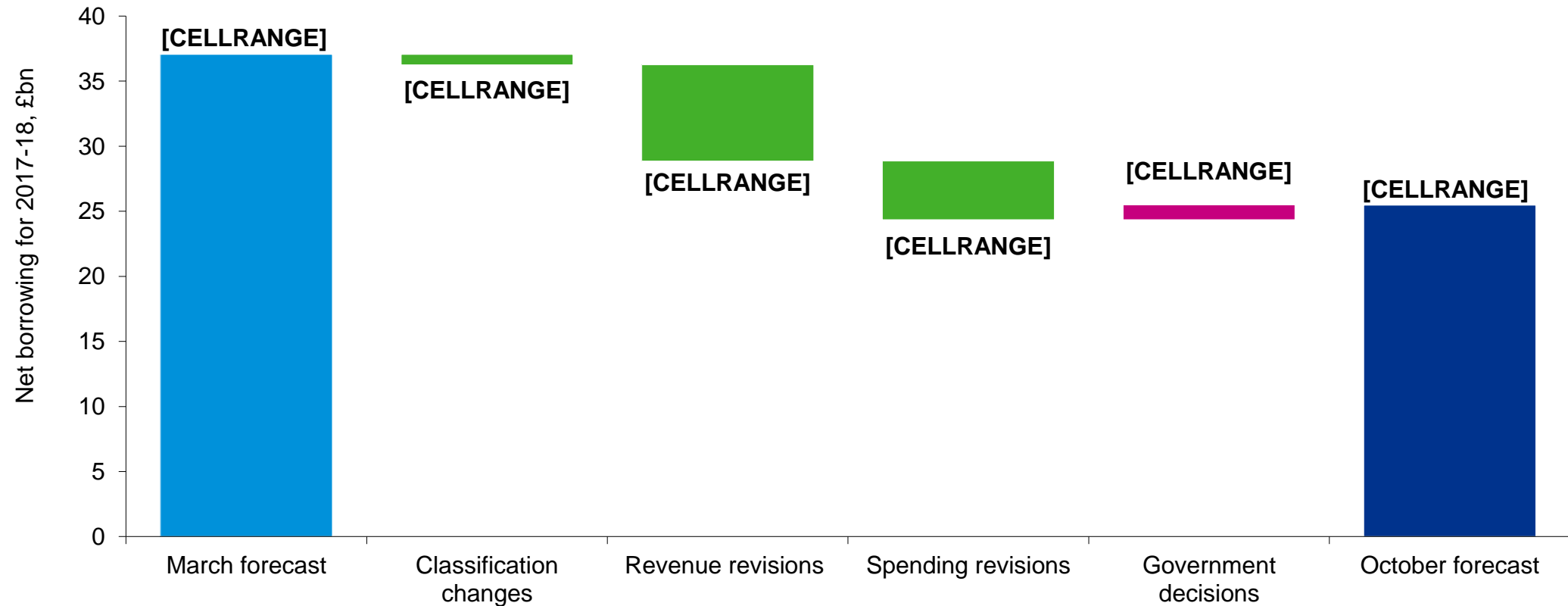
Output gap forecasts



Source: Office of Budget Responsibility

Despite slower growth in 2018, public finances are positive

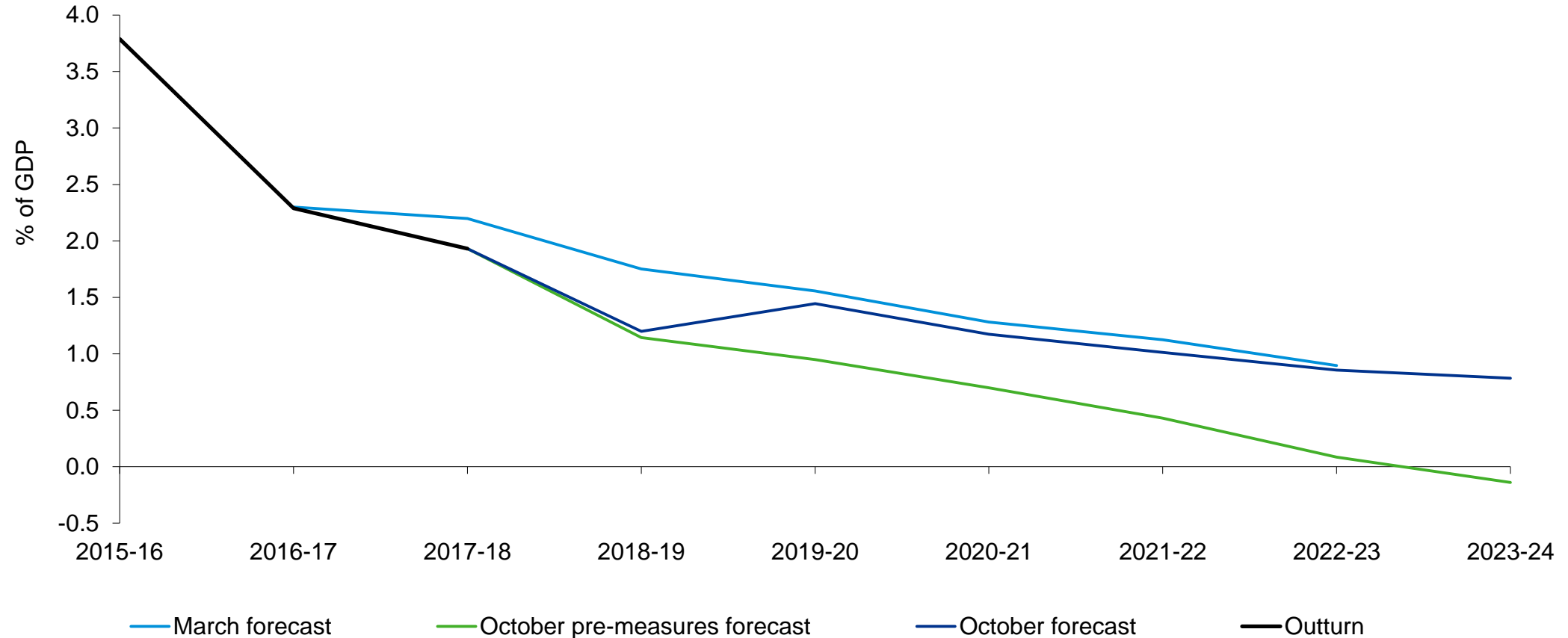
Changes to 2018-19 net borrowing forecast



Source: Office of Budget Responsibility

In every year that follows, the windfall has been spent

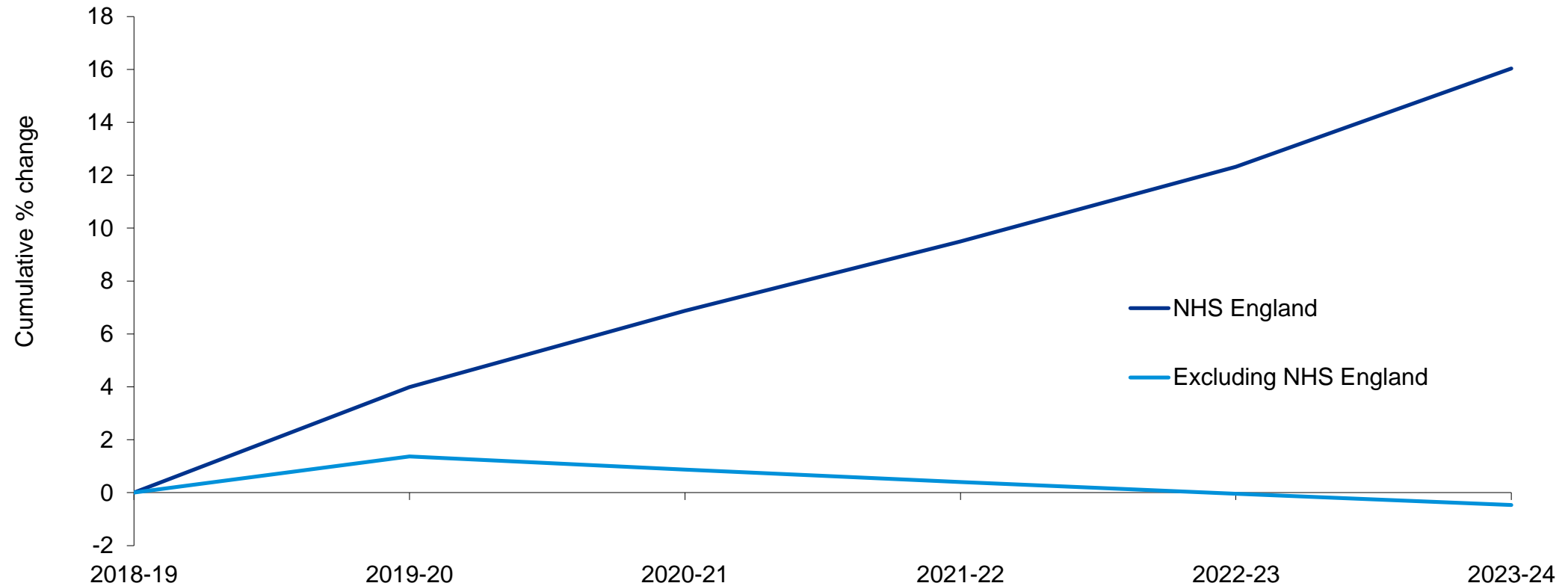
Public sector net borrowing



Source: Office of Budget Responsibility

Not much increase in spending outside of the NHS

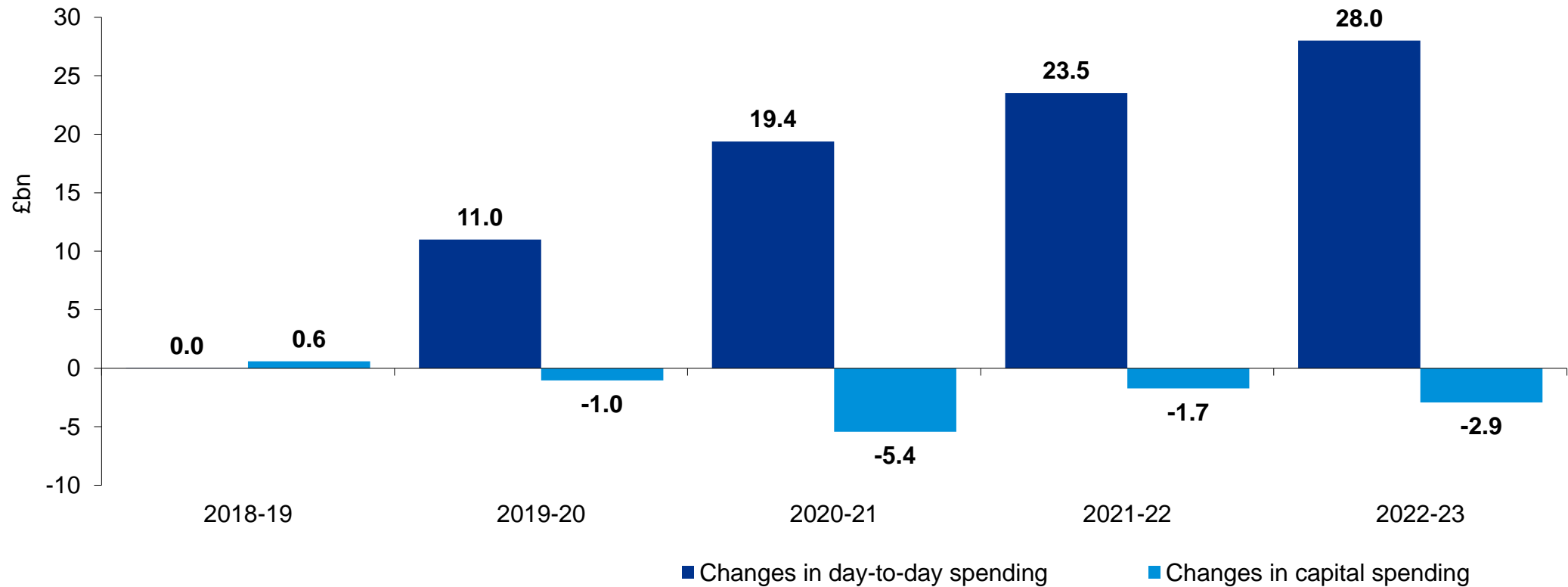
Cumulative change in real RDEL per capita from 2018-19



Source: Office of Budget Responsibility

Some of the increase has come at the cost of capital spend

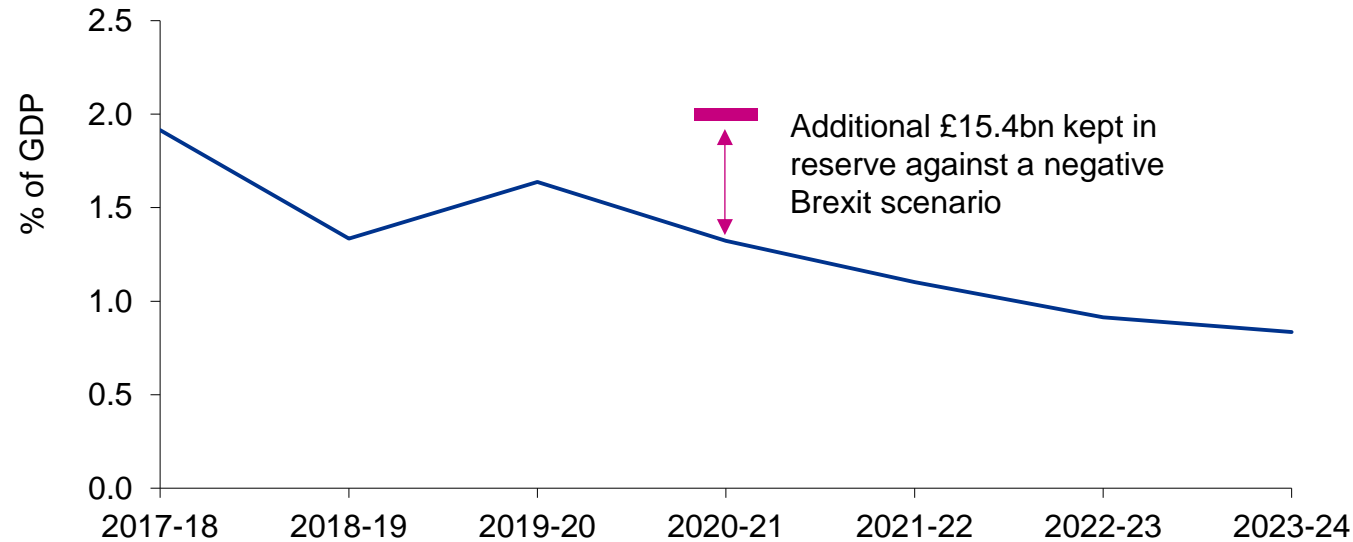
Changes in departments' capital and day-to-day spending since March



Source: Office of Budget Responsibility

The Brexit (double) dividend

Cyclically adjusted public sector net borrowing



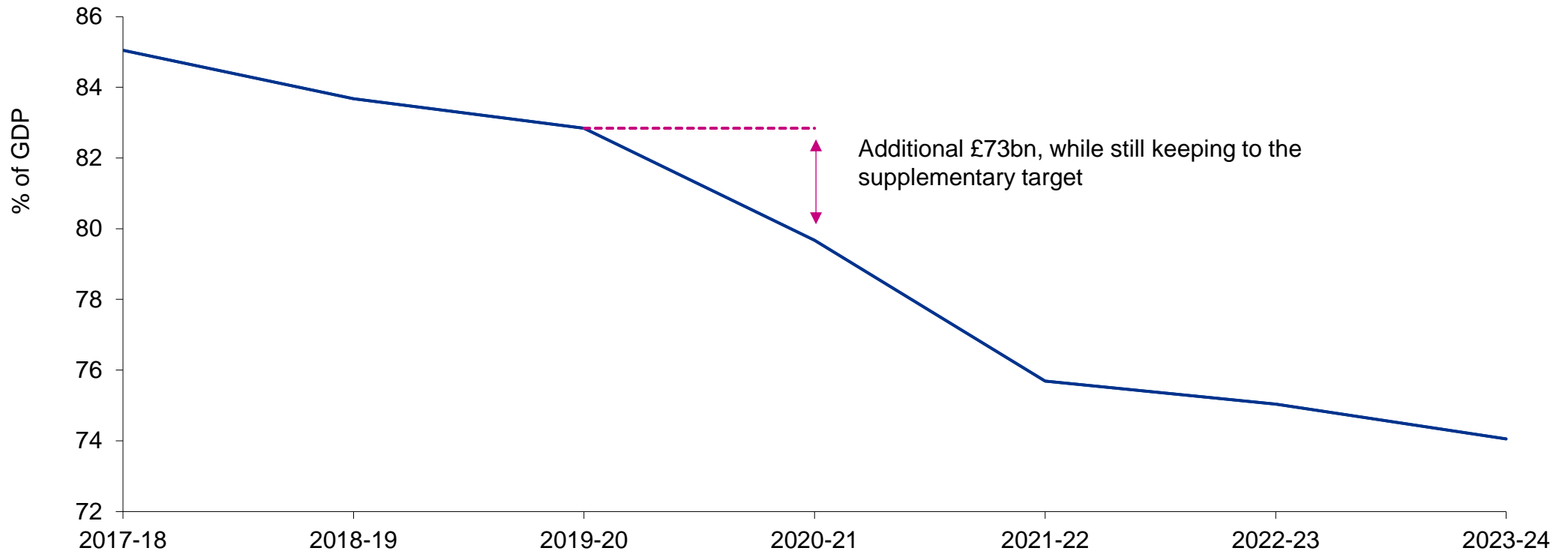
Source: Office of Budget Responsibility

1. Current spending plans have maintained a similar margin against meeting the Fiscal mandate of keeping the level of cyclically adjusted public sector borrowing below 2%
2. A favourable Brexit outcome in 6 months could lead to faster economic growth, than currently forecast. This would lift revenues further, giving The Chancellor more spending room.

Note: neither of these “dividends” matches the more conventional definition of funds that would no longer be used for the EU budget contribution.

Abandoning the fiscal mandate creates more fiscal room, while keeping to the debt target

Public sector net debt



Source: Office of Budget Responsibility



Thank you



kpmg.com/uk



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ('KPMG International'), a Swiss entity. All rights reserved. CREATE: CRT092919

The KPMG name and logo are registered trademarks or trademarks of KPMG International.