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Economic update and the implications of Brexit

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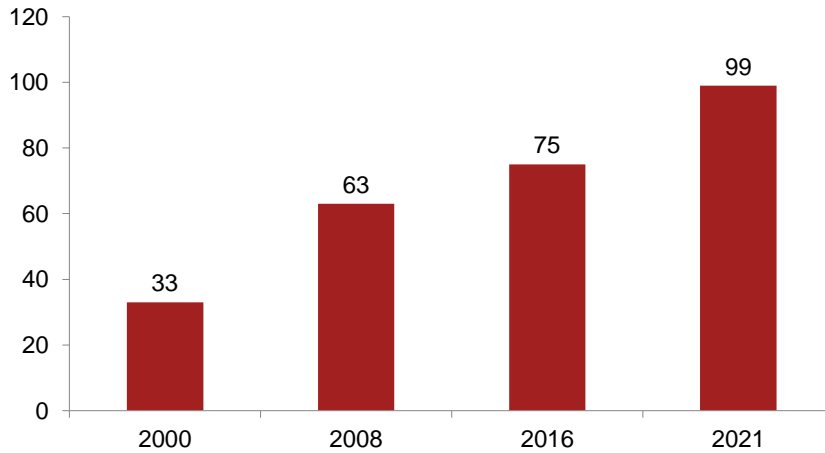
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Outline

- Understanding the post-crisis global economy
- Brexit and Trump – causes and consequences
- Economic outlook for 2017 and beyond
- Implications for business and investment

The world economy in the 21st century

World GDP, US \$ trillion (current prices)



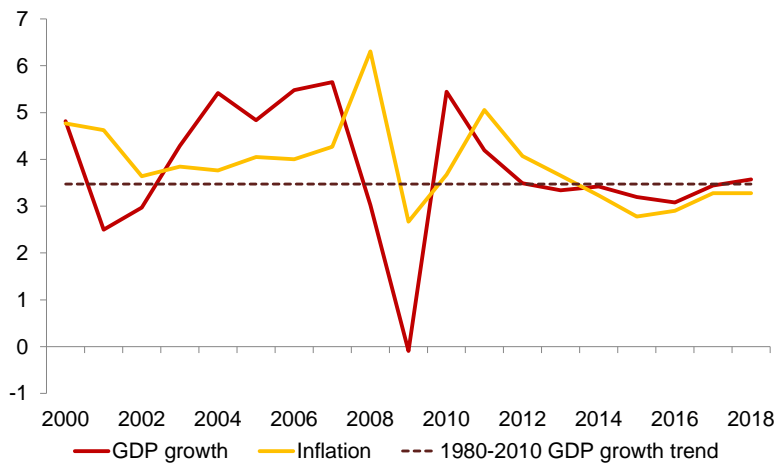
Source: IMF World Economic Outlook, October 2016

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Global growth close to long-run trend

% per annum change in world real GDP and consumer prices

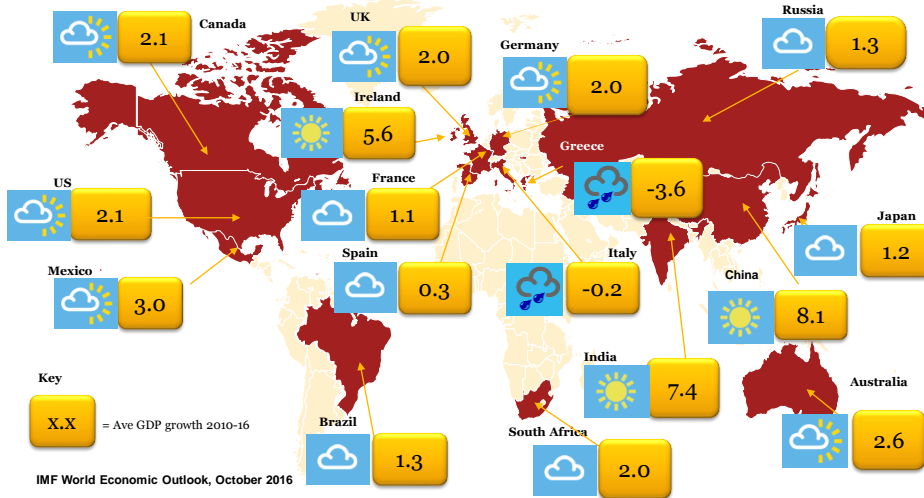


Source: IMF World Economic Outlook, October 2016

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Pattern of global recovery so far: 2010-16

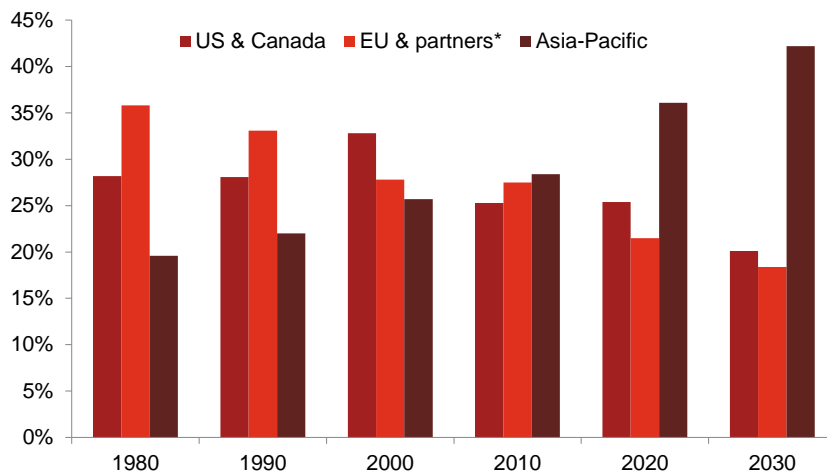


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Asia-Pacific is becoming the dominant region

Percentage share of world GDP, current market prices & exchange rates



* Current EU-28 (includes UK after Brexit) plus Norway, Switzerland and Iceland

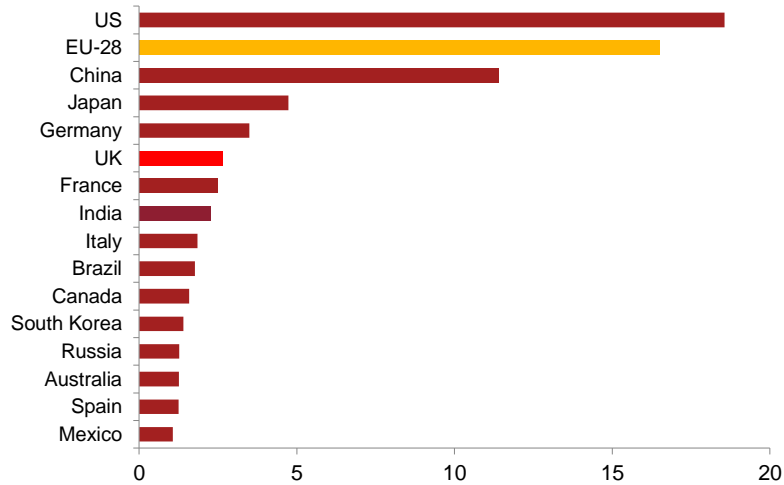
Source: IMF World Economic Outlook and PwC World in 2050 Report

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The world economy in 2016

£trn at current prices and market exchange rates



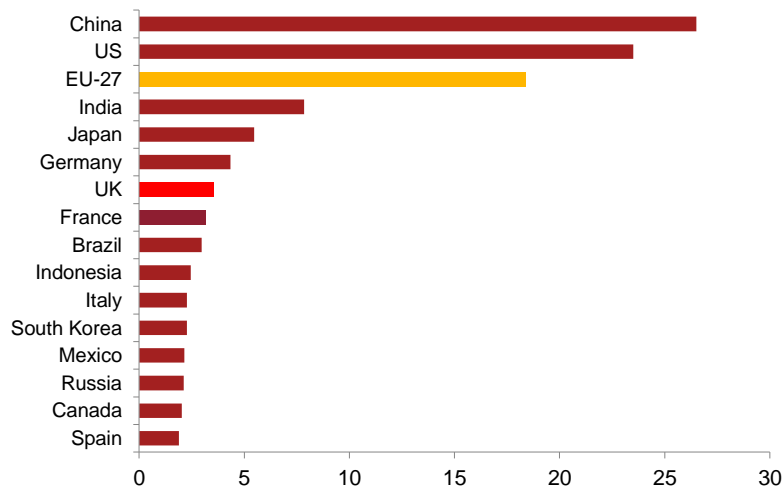
Source: IMF World Economic Outlook, October 2016

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Post-Brexit world economy in 2030

£trn at 2016 prices and market exchange rates

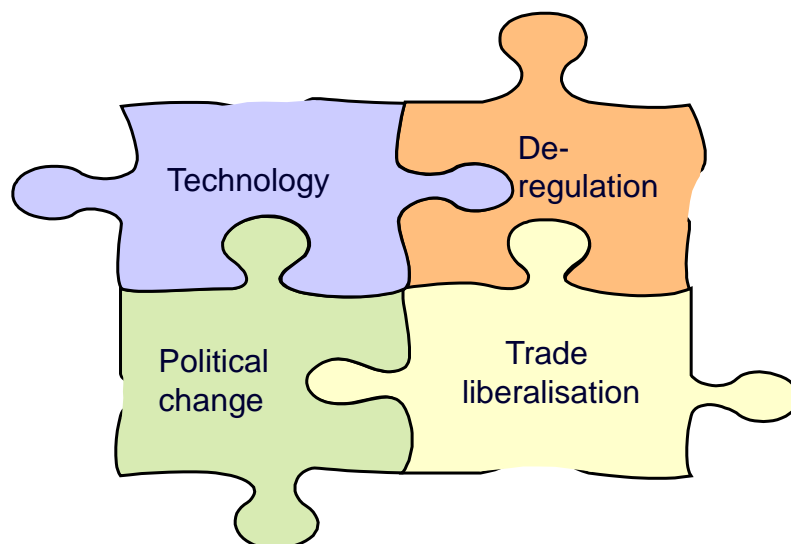


Source: PwC World in 2050 Report, February 2017

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Forces underpinning globalisation since 1990s

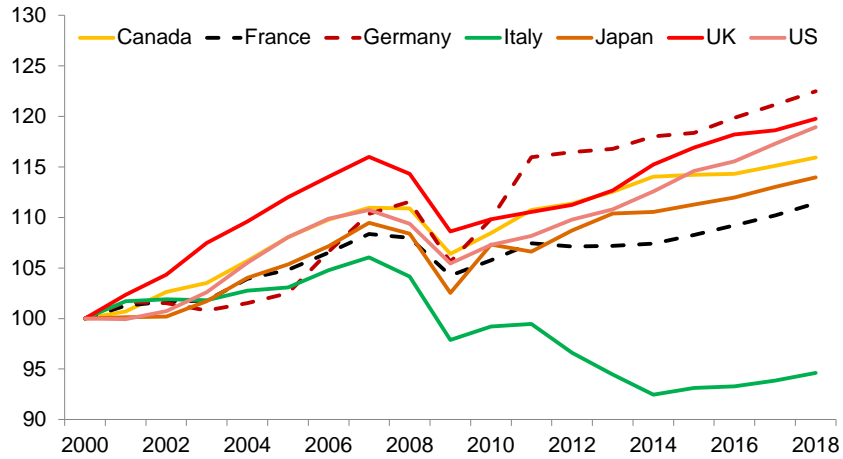


Four phases of the globalisation era

- 1993-2007. Global economic boom, supported by falling prices of manufactured goods (the “China effect”), easy money and strong confidence
- 2008-2015. Global financial crisis and its aftermath – weak productivity growth and real wage squeeze
- 2016- early 2020s. Political fall-out. Brexit, Trump and anti-globalisation backlash
- Mid-2020s onwards. Alternative scenarios: (1) Adjustment and acceptance - a new more stable economic order; (2) Continued global political and economic conflict and volatility

GDP per capita since 2000

GDP per head of population in G7 economies, 2000=100

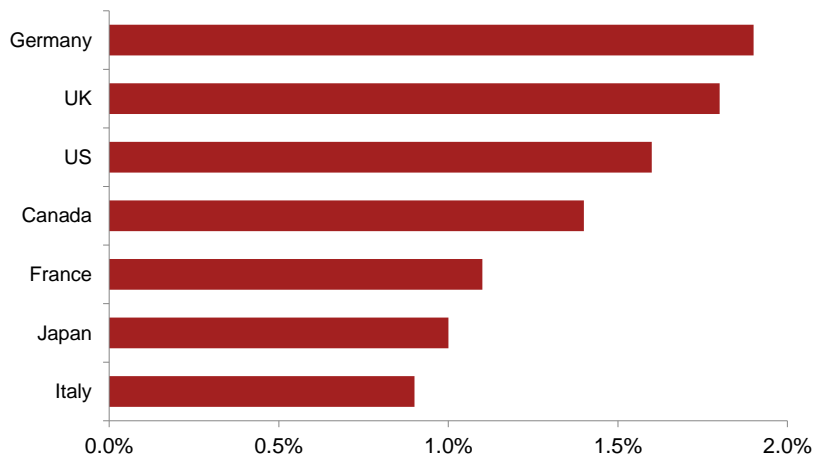


Source: IMF World Economic Outlook, October 2016
The new normal
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UK still close to top of G7 growth league

% annual GDP growth, 2016



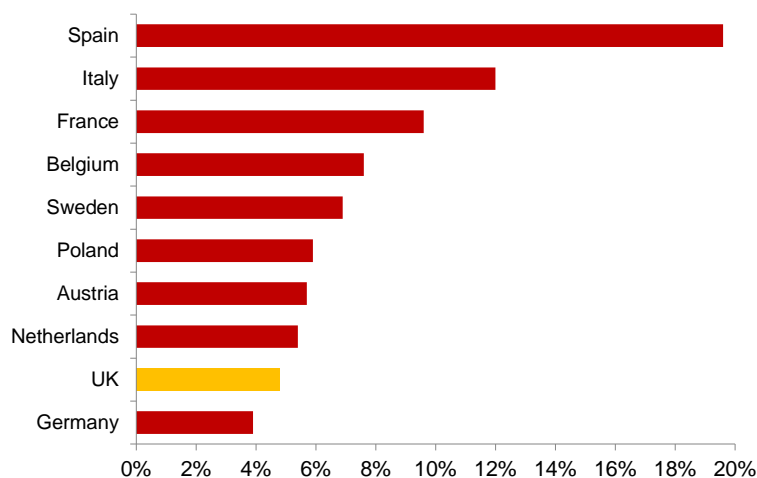
Source: Eurostat and national statistical agencies

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UK unemployment among lowest in EU

Unemployment rate in 10 largest EU economies, % of workforce



Source: Eurostat
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Economic consequences of UK leaving EU

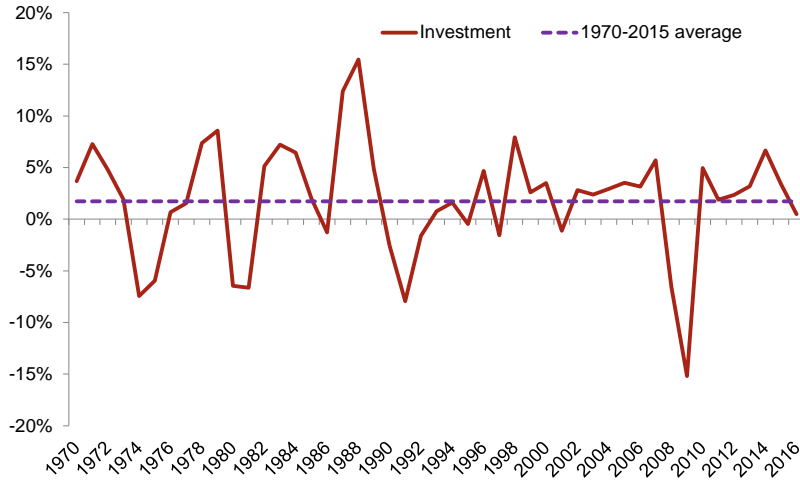
- Uncertainty associated with an economic shock (negative, short-term)
- Disruption to trade and investment (negative, medium/long-term)
- Restricted migration from EU (mixed)
- More regulatory freedom (positive, long-term)
- Lower fiscal contributions (positive, but small)

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UK investment slows with Brexit uncertainty

% p.a. change in UK real fixed capital spending

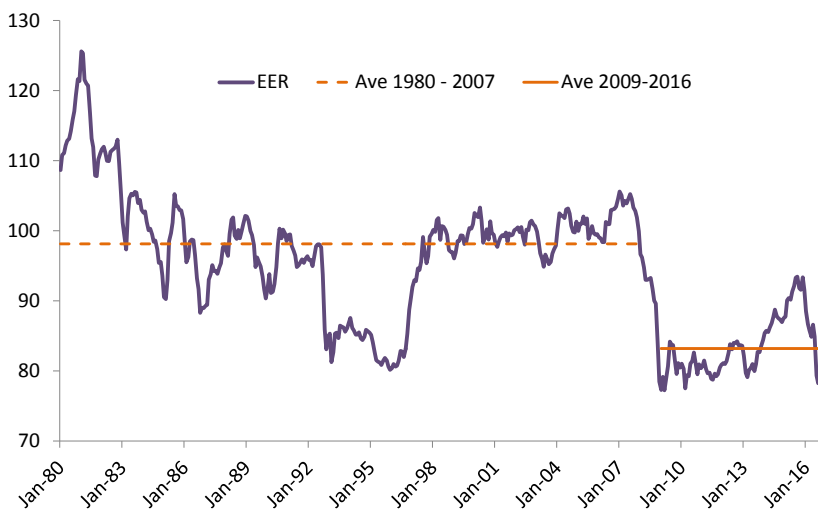


Source: Office for National Statistics
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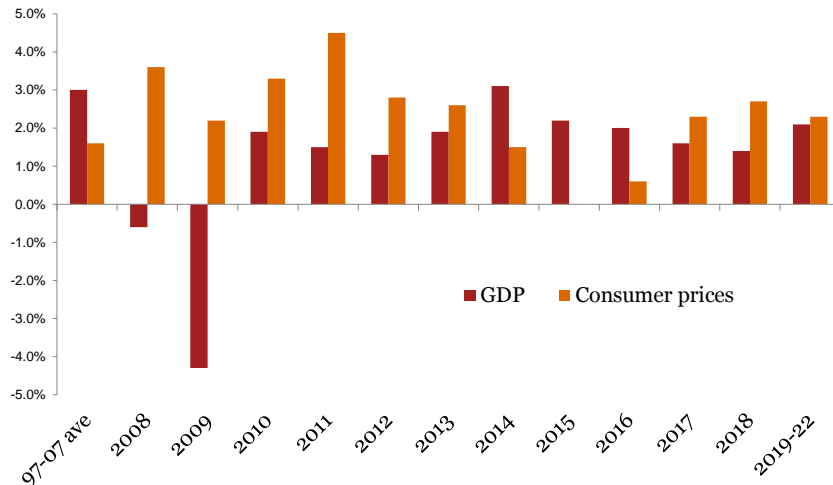
Sterling – a long term view

UK effective exchange rate, Jan 2005=100



Source: Bank of England

Higher inflation to reinforce squeeze on growth
 % per annum change in GDP and consumer prices

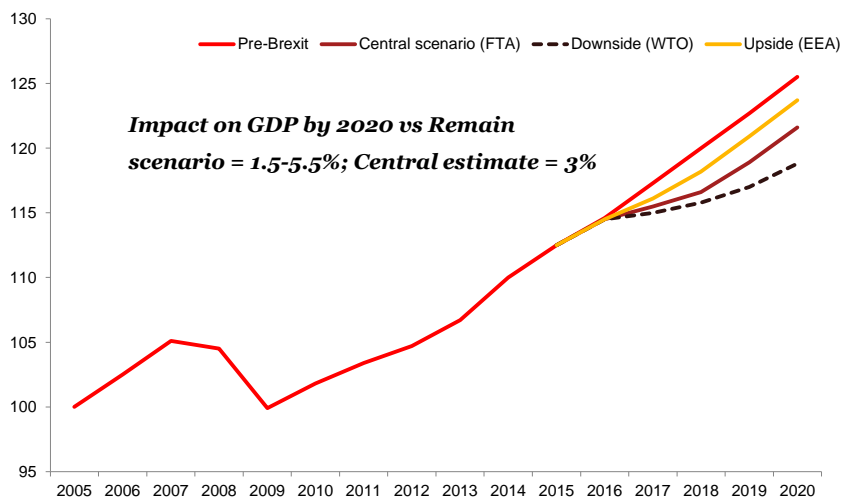


Source: ONS and PwC forecasts

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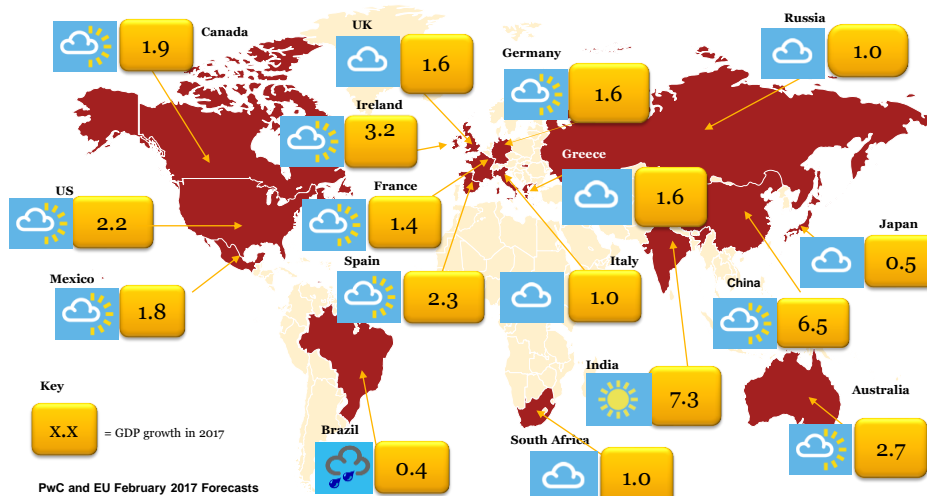
Economic scenarios for UK post-Brexit
 Index of GDP, 2005 = 100



Sources: ONS and PwC Post-Brexit Scenarios, updated for most recent data

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Outlook for global economy in 2017



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Key implications for business and investment

- Global growth to continue – in line with “new normal” trend but with divergences driven by economic fundamentals
- Short-term growth prospects improving – Asia, North America and Europe all growing quite well in 2017
- But long-term risks increasing. US election result, Brexit and potential “globalisation backlash” add to global political and economic uncertainty and risk of protectionism increasing
- Brexit means slower growth and higher inflation in the UK in short-term; longer-term implications still uncertain
- US and UK interest rates likely to rise slowly to “new normal” level of 2-3% by early 2020s, with Eurozone lagging behind
- In all these areas, a range of scenarios should be considered possible – especially for the medium/long-term outlook

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More information and links

PwC UK Economic Outlook and Global Economy Watch:

<http://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook/ukeo-nov2015-economic-prospects.html> and

<http://www.pwc.com/gx/en/issues/economy/global-economy-watch.html>

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