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Brexit and the UK/global economic outlook

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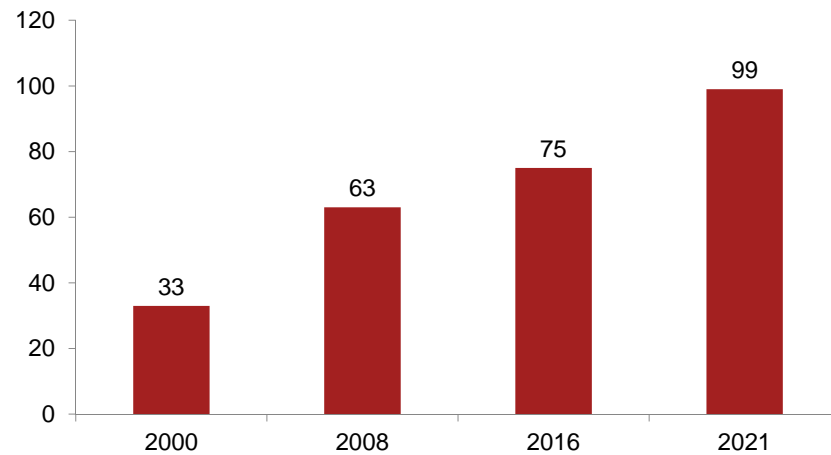
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Outline

- Key trends in the post-crisis global economy
- Brexit – causes and consequences
- Economic outlook for 2017 and beyond
- Business and investment implications

The world economy in the 21st century

World GDP, US \$ trillion (current prices)



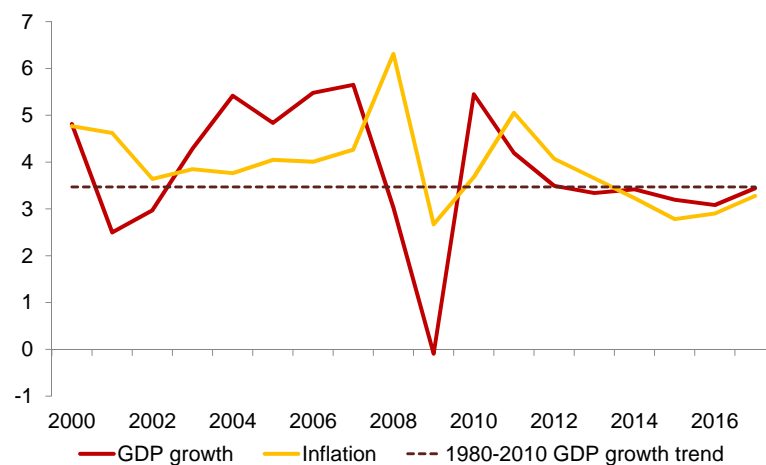
Source: IMF World Economic Outlook, October 2016

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Global growth close to long-run trend

% per annum change in world real GDP and consumer prices



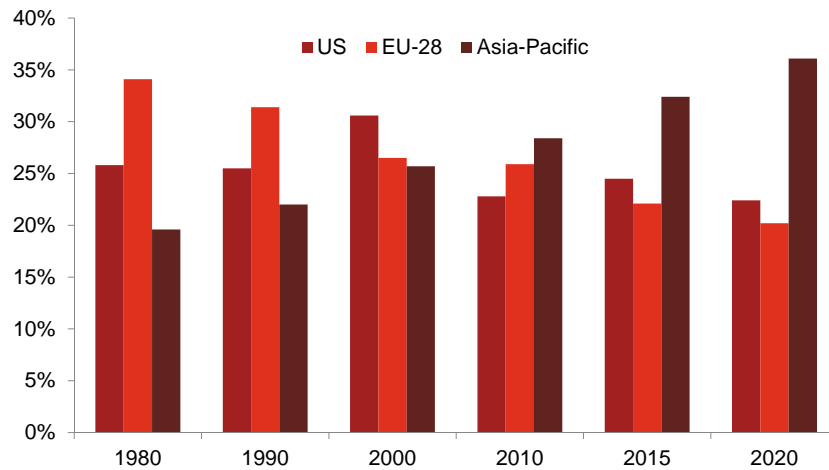
Source: IMF World Economic Outlook, October 2016

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Asia-Pacific now the dominant region

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

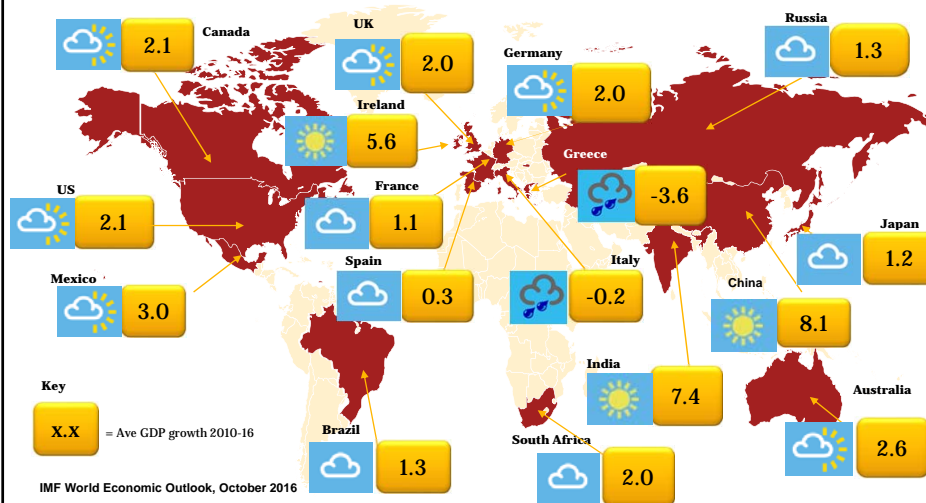


Source: IMF World Economic Outlook, October 2016

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Pattern of global recovery so far: 2010-16

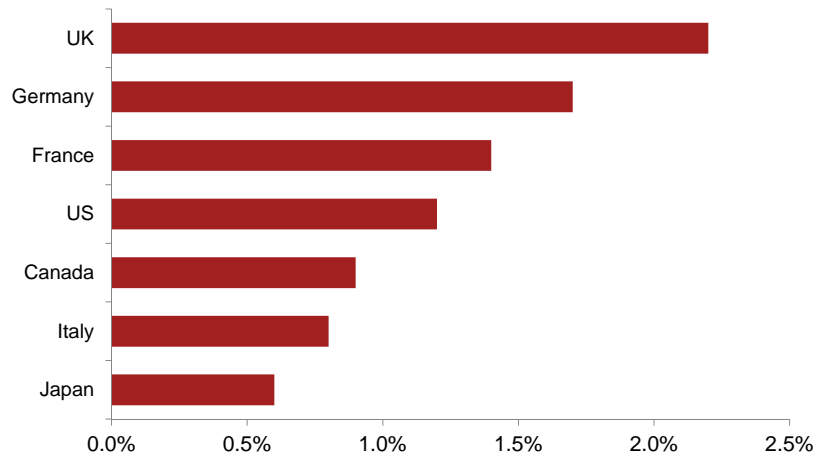


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UK currently leading G7 growth league

% annual GDP growth, year to 2016 Q2



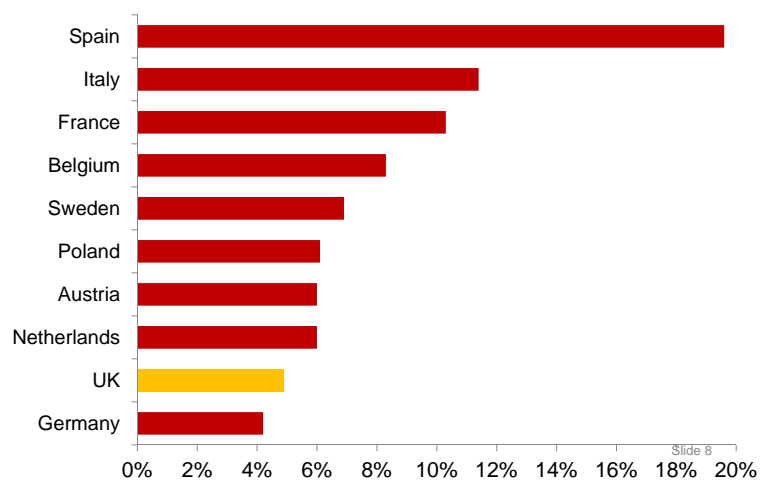
Source: OECD Quarterly National Accounts

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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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So why did the UK public vote for Brexit?

- Anti-globalisation backlash since the financial crisis
- Immigration concerns
- Lack of a positive EU agenda since 1990s
- EU a scapegoat – not supported by UK politicians
- Bad management of referendum campaign

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Economic consequences of UK leaving EU

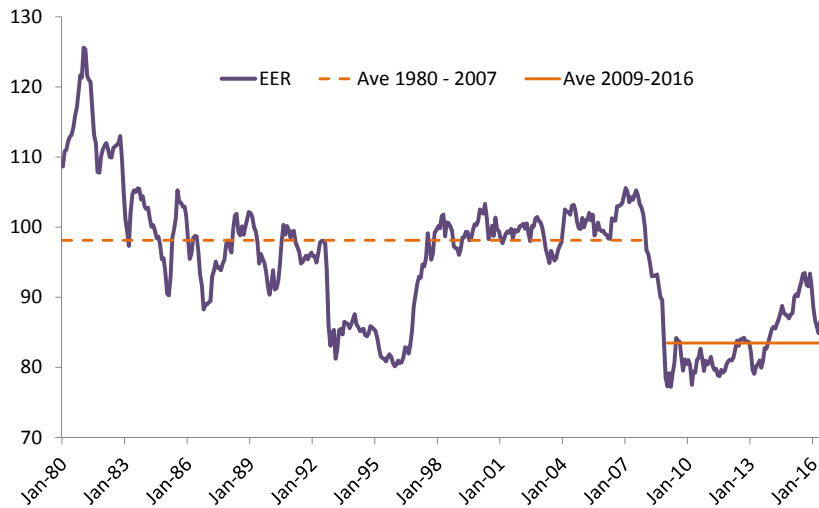
- Uncertainty associated with an economic shock (negative, short-term)
- Disruption to trade and investment (negative, medium/long-term)
- Restricted migration from EU (mixed)
- More regulatory freedom (positive, long-term)
- Lower fiscal contributions (positive, but small)

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Sterling – a long term view

UK effective exchange rate, Jan 2005=100



What has happened so far?

- Pound has fallen – to c.\$1.20-1.25 and around €1.10
- Political turbulence – new PM; new gov't formed; opposition in turmoil; policy uncertainty
- Increased business uncertainty. Confidence indicators weakened in July but have since bounced back
- Mixed economic indicators – consistent with slower growth but not recession; inflation picking up
- No clarity on exit process until plan is developed, Article 50 is triggered and negotiations begin
- Despite general air of uncertainty, businesses continuing to operate as normal, pending more policy clarity

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How might uncertainty be resolved?

- UK political situation stabilises (Now-End 2016)
- Post-Brexit negotiating plan agreed (Early 2017?)
- UK exit negotiations (2017-19?)
- Implementation of EU exit agreement (2020/21?)
- But many other uncertainties may emerge along the way:
 - ✓ *Negotiating stance of other EU members*
 - ✓ *Possible General Election or second Referendum?*
 - ✓ *Further political turmoil/instability in UK & EU*
 - ✓ *Scottish/Irish independence issues*

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Post-Brexit scenarios

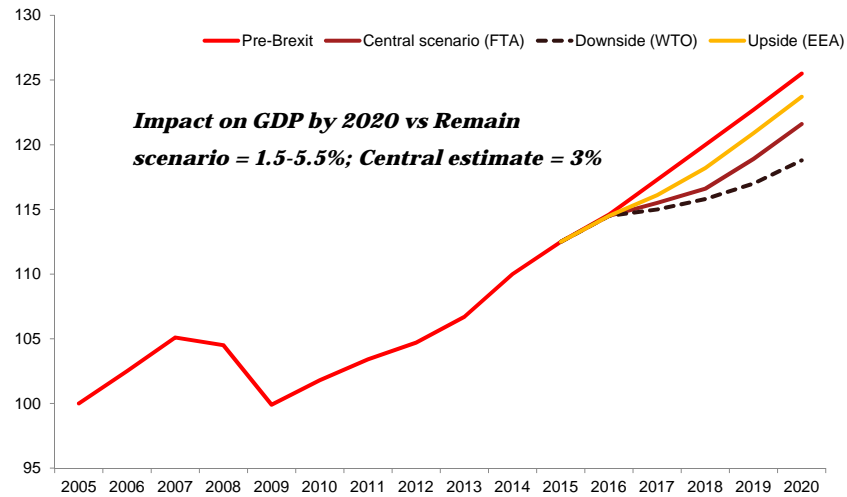
- *Baseline scenario:* UK takes 3-5 years to establish new trading relationship with EU and other major trading nations (FTA scenario)
- *Optimistic scenario.* UK remains in European Economic Area (EEA) and hence keeps closely integrated with European trading partners. Minimises business disruption and uncertainty
- *Downside scenario:* High degree of political and economic uncertainty creates a recession, and UK has to fall back on WTO rules for trade with EU partners and other countries

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Economic scenarios for UK post-Brexit

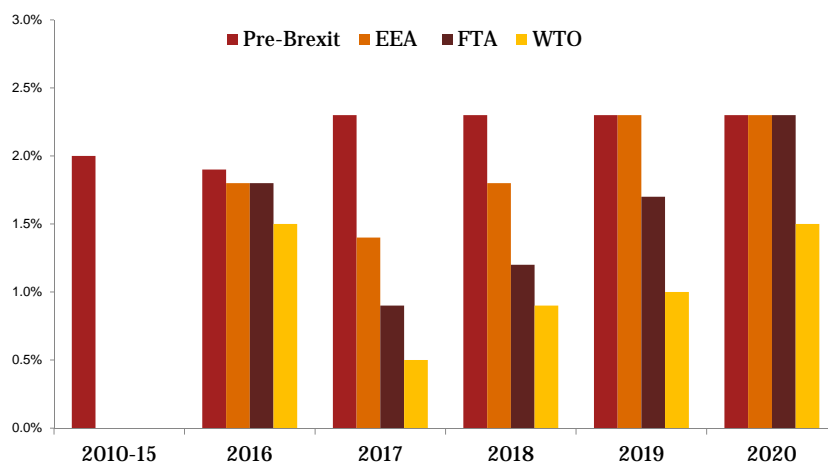
Index of GDP, 2005 = 100



Sources: ONS and PwC Post-Brexit Scenarios, updated for most recent data
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UK GDP growth, 2016-2020

% per annum change in GDP



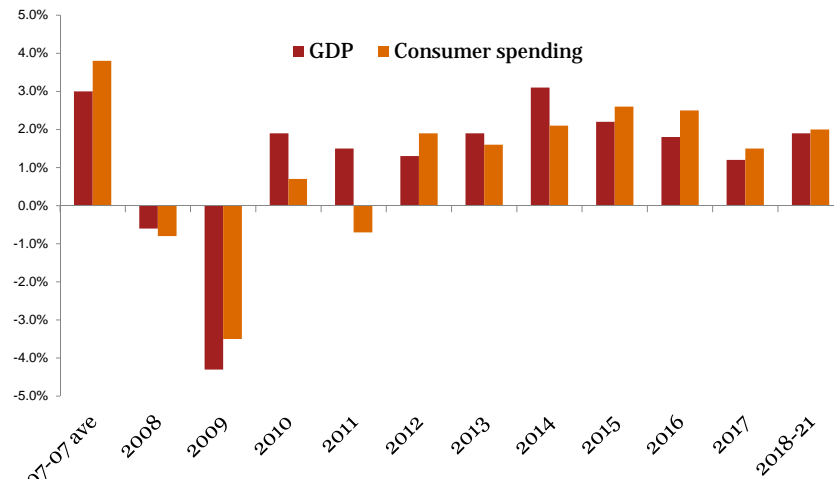
Source: ONS and PwC forecasts

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UK consumer spending relatively resilient

% per annum change in GDP and consumer spending

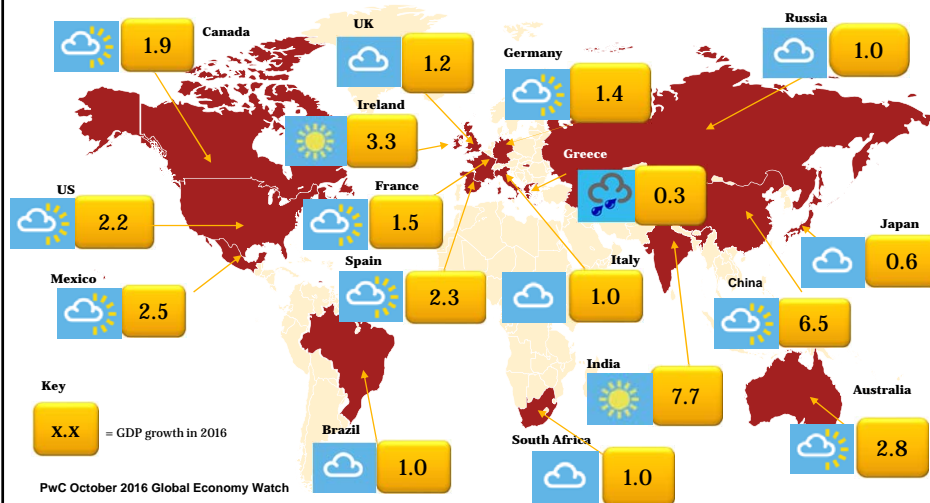


Source: ONS and PwC forecasts – updated from July 2016 Economic Outlook

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Outlook for global economy in 2017



Key

X.X = GDP growth in 2016

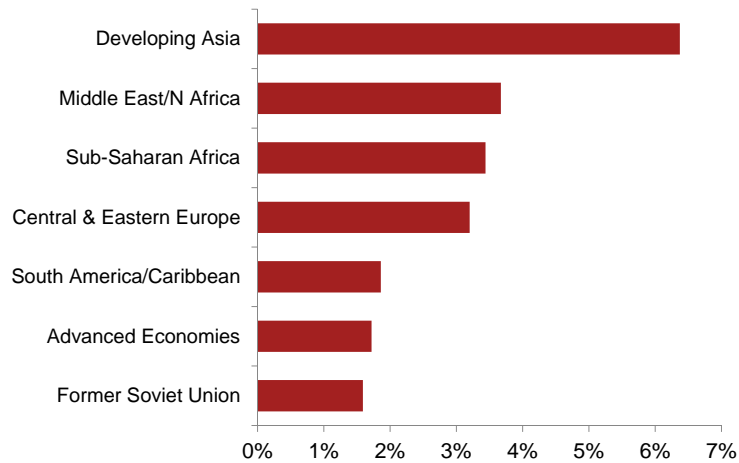
PwC October 2016 Global Economy Watch

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Medium term regional growth prospects

% average growth, 2016-21, latest IMF forecasts



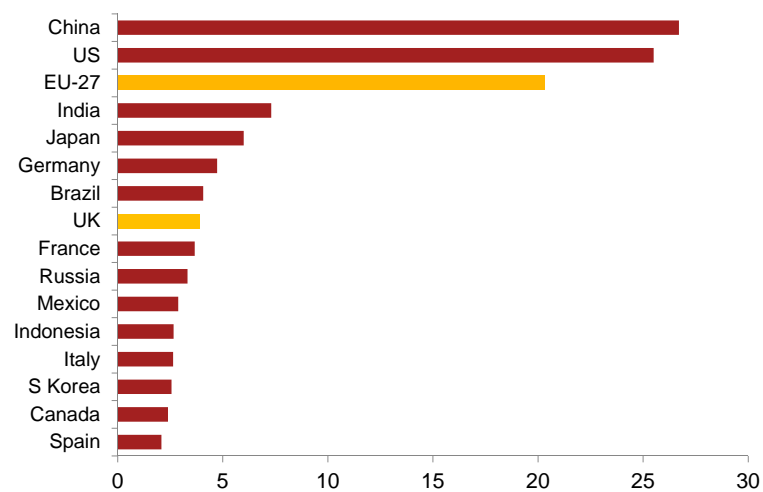
Source: IMF World Economic Outlook

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Post-Brexit world economy in 2030

£tn at 2014 prices and market exchange rates



Source: PwC World in 2050 Report, February 2015

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Key business and investment implications

- “New normal” growth set to continue across global economy with economic centre of gravity continuing to shift to Asia/Pacific region
- Brexit means slower growth and higher inflation in the UK but does not change global outlook
- Despite weaker short-term growth, UK economy retains many underlying strengths
- Decline in £ unlikely to change outlook for UK economy – previous devaluations not successful
- Interest rates likely to rise very slowly, so no early respite for pension funds and long-term savers
- Investment opportunities in low interest, slower growth world lie in understanding and exploiting economic and business change driven by technology and structural shifts

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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>

Blogs: http://pwc.blogs.com/economics_in_business/ and

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