



The UK economic outlook

October 2019



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ECONOMICS

Issuer of report: HSBC Bank plc

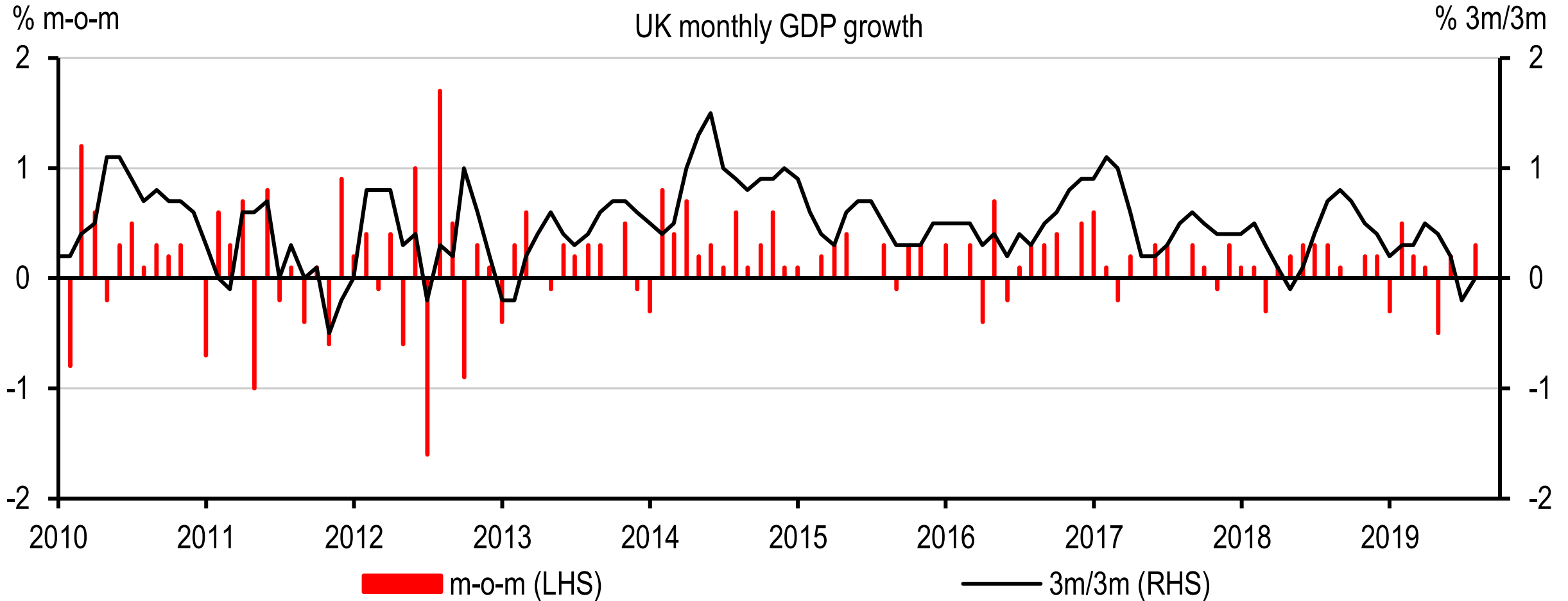
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The outlook for the UK

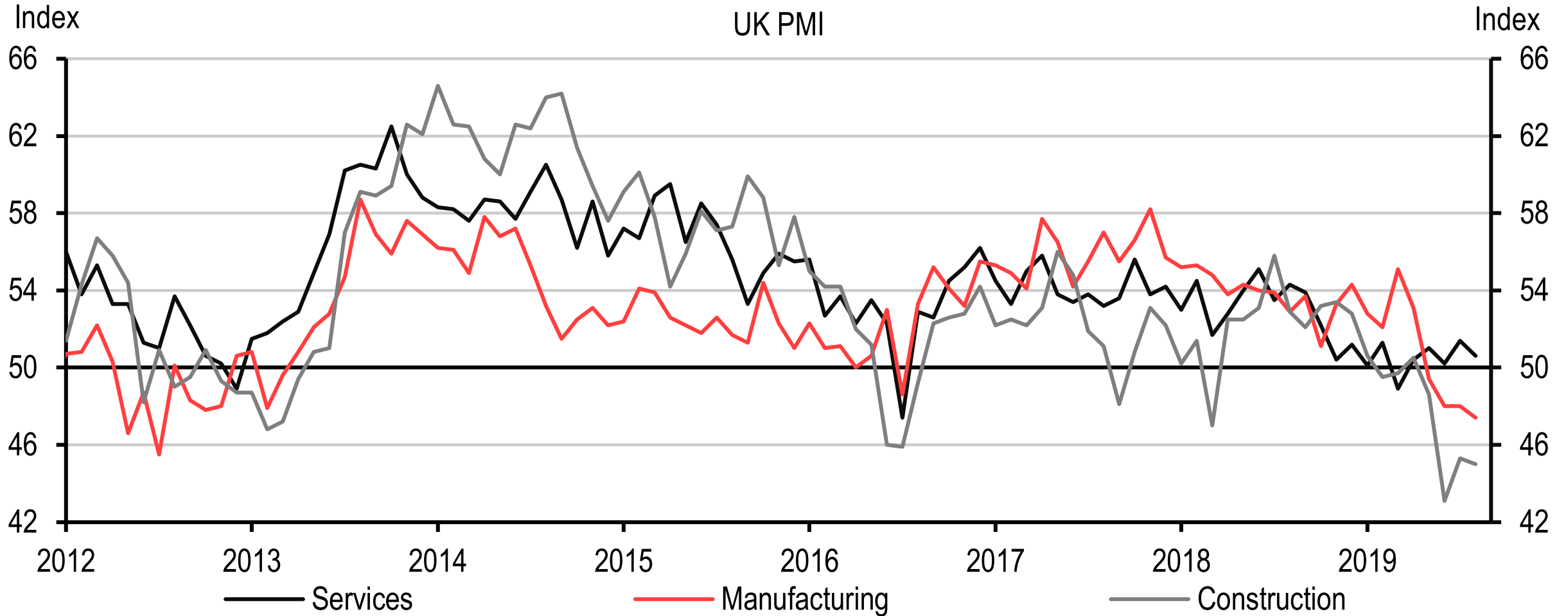
- We expect sluggish growth, and low interest rates, to persist
- But a 'no deal' Brexit or a global slump might lead to a UK recession (and policy stimulus)
- In the long run, low growth, low inflation and low interest rates could be the norm

How's the economy doing?

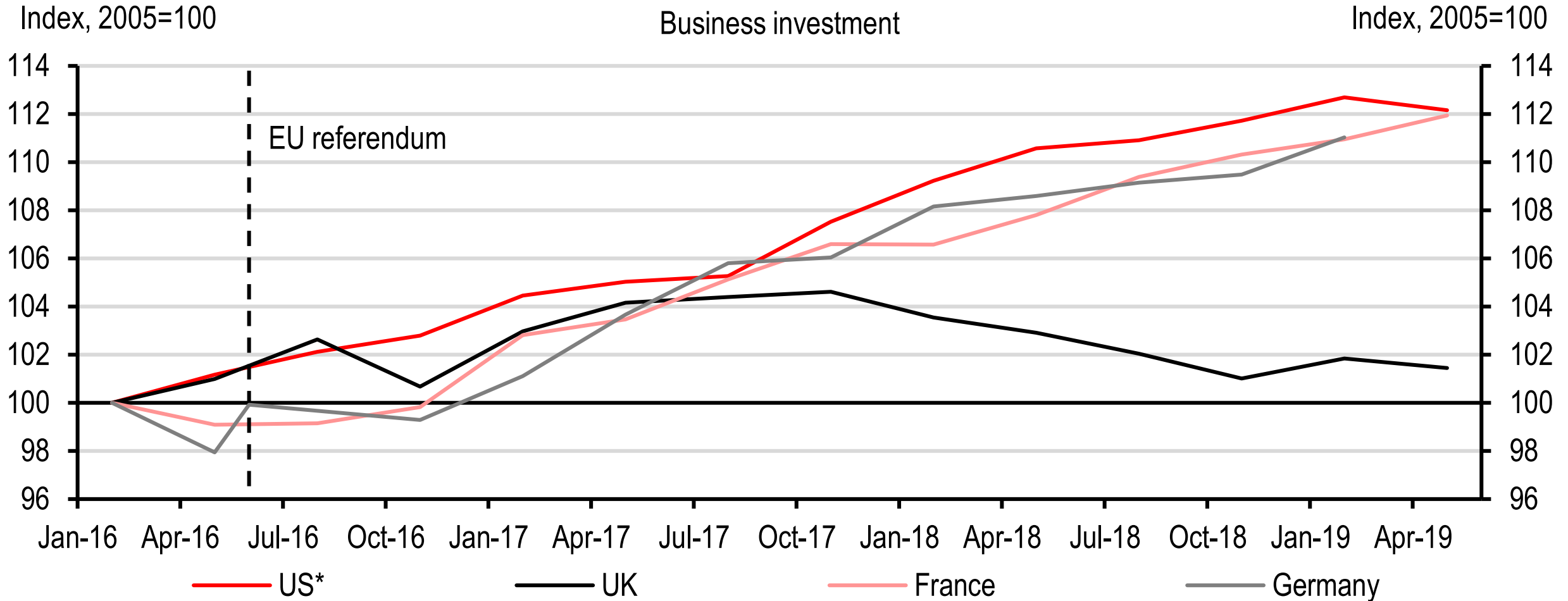
UK GDP fell by 0.2% q-o-q in Q2 but a Q3 rebound is in prospect



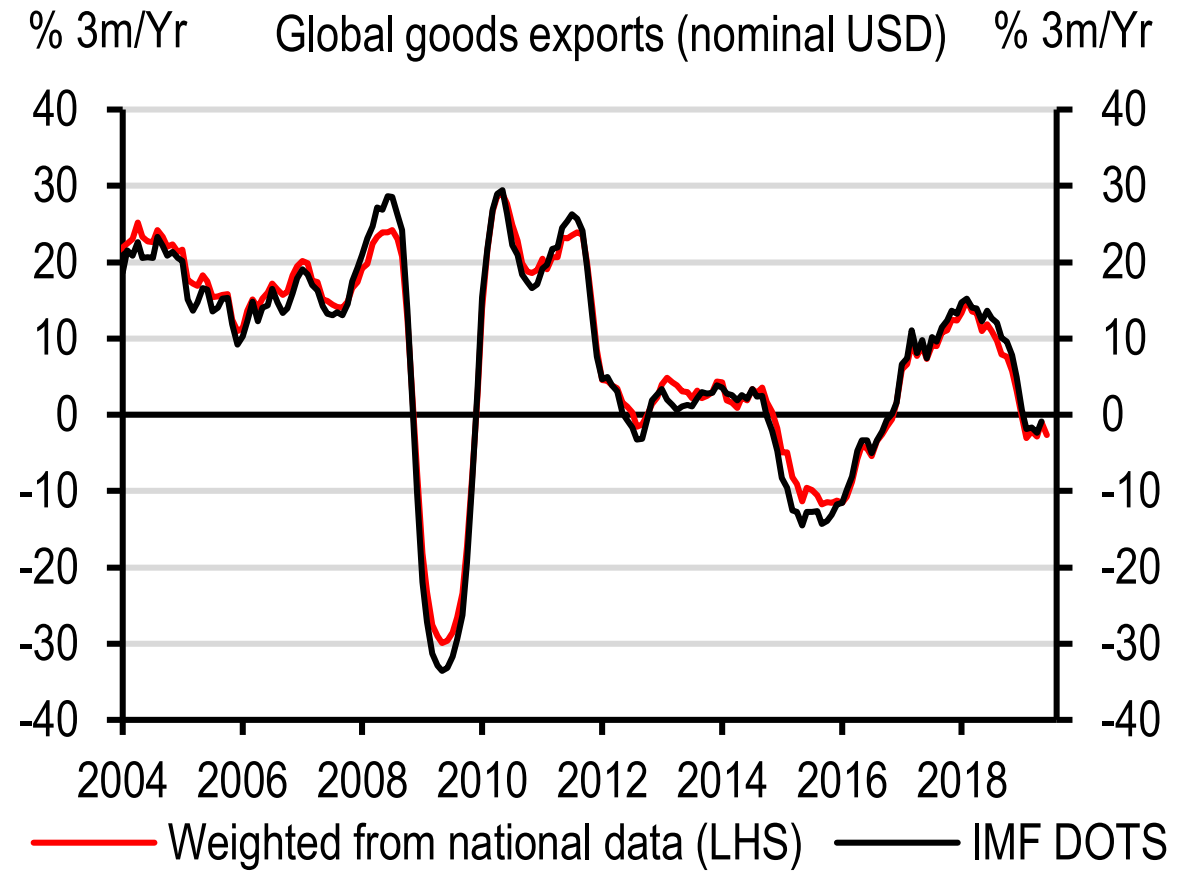
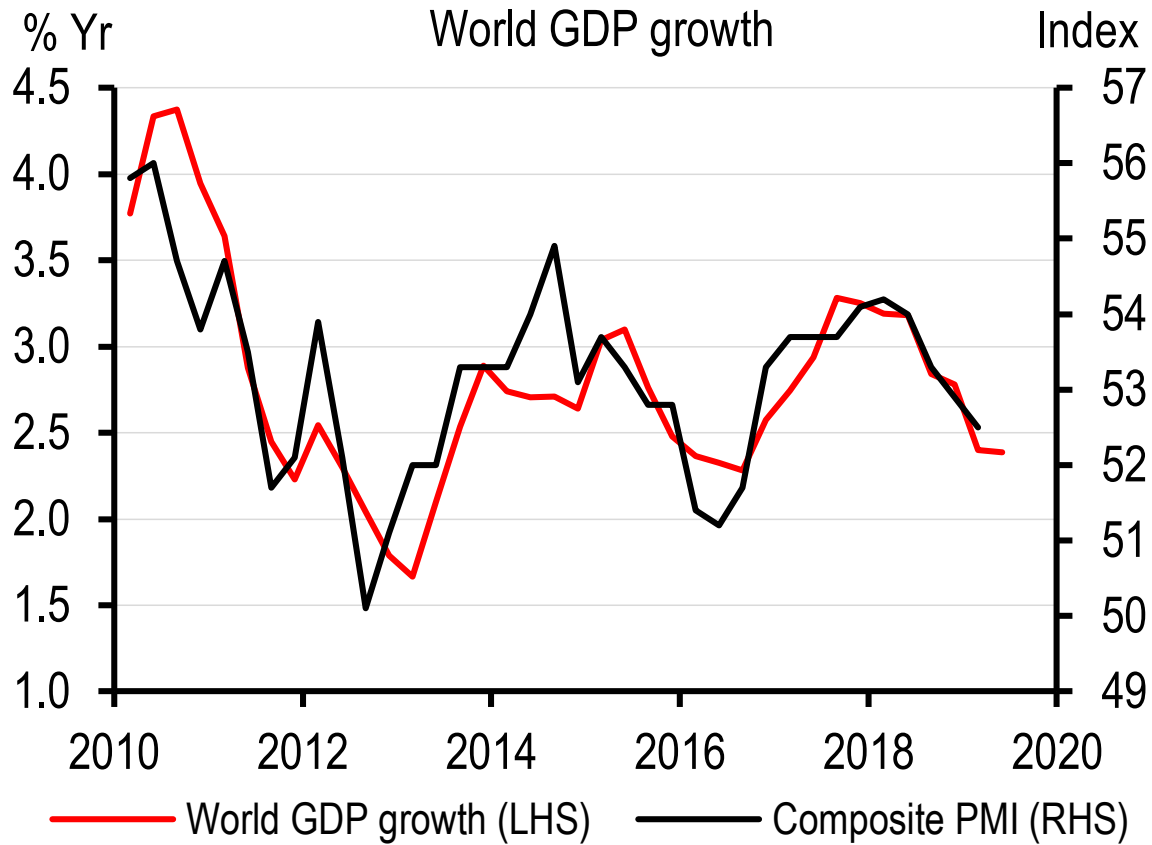
The PMIs remain very soft



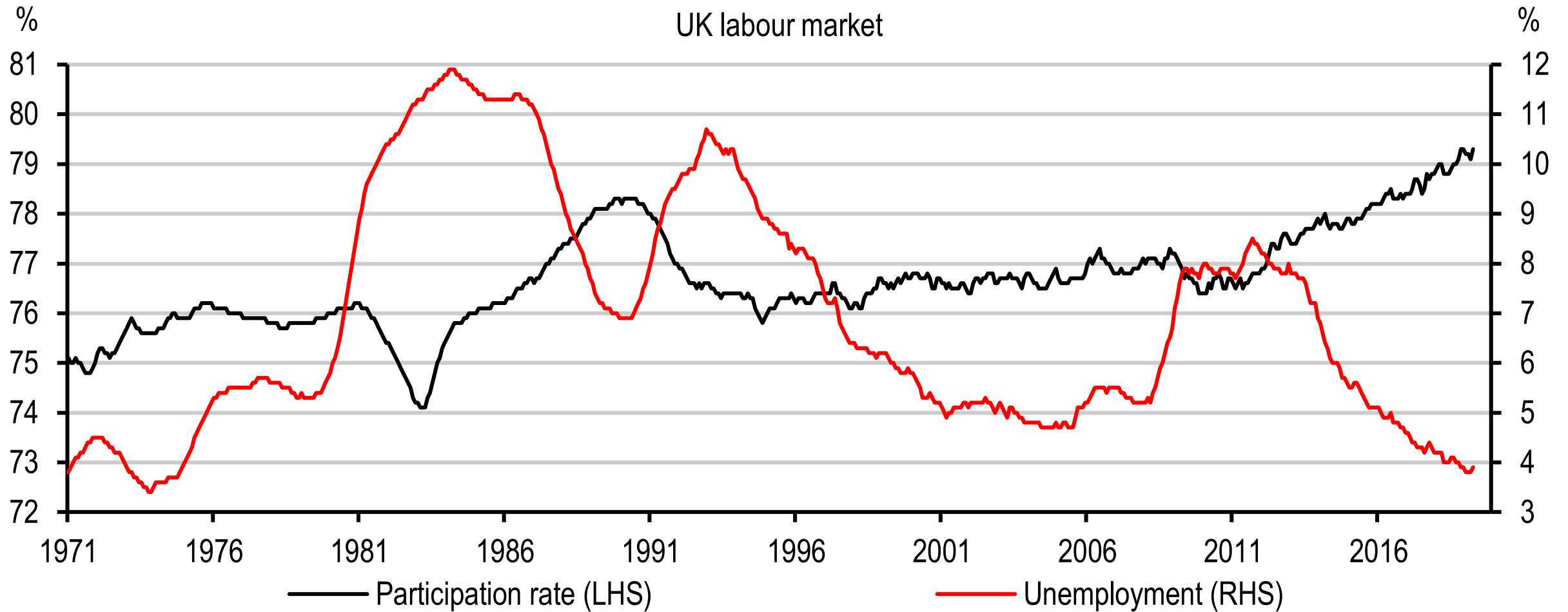
Political uncertainty has weighed on business investment



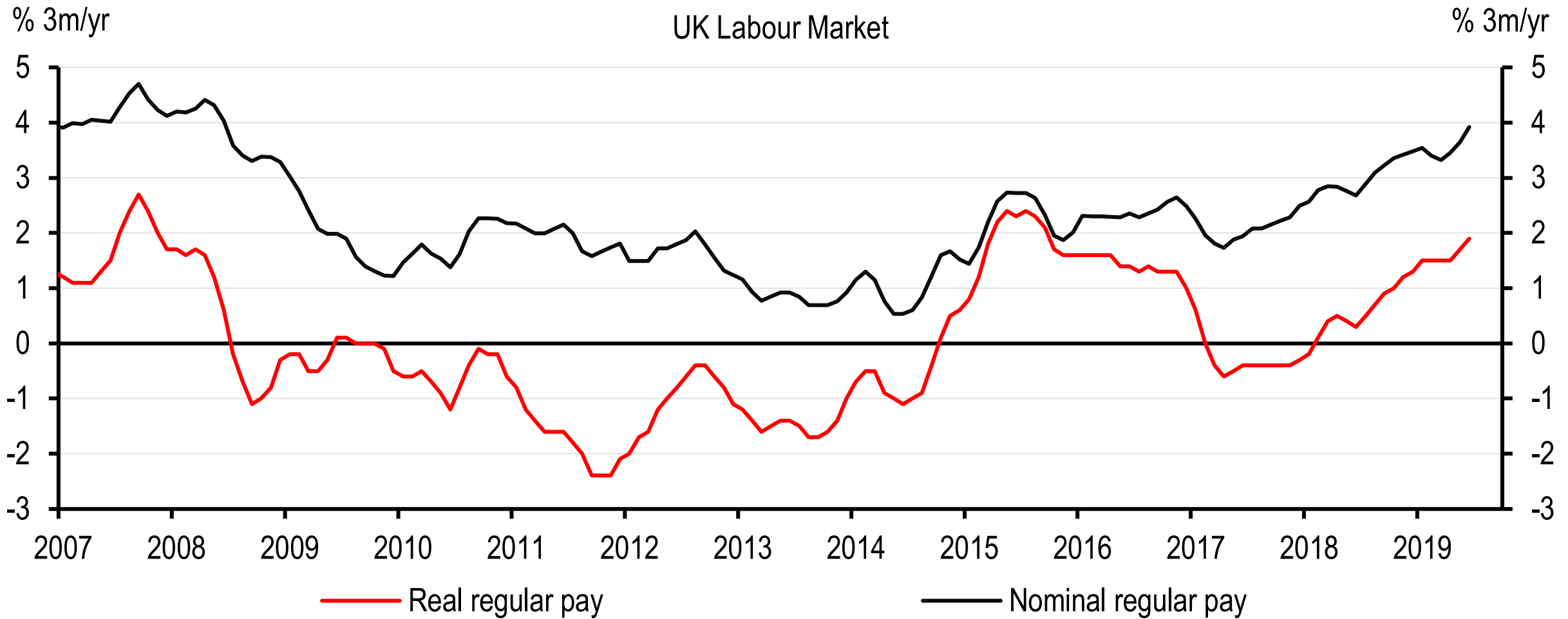
Global growth has cooled and world trade has too



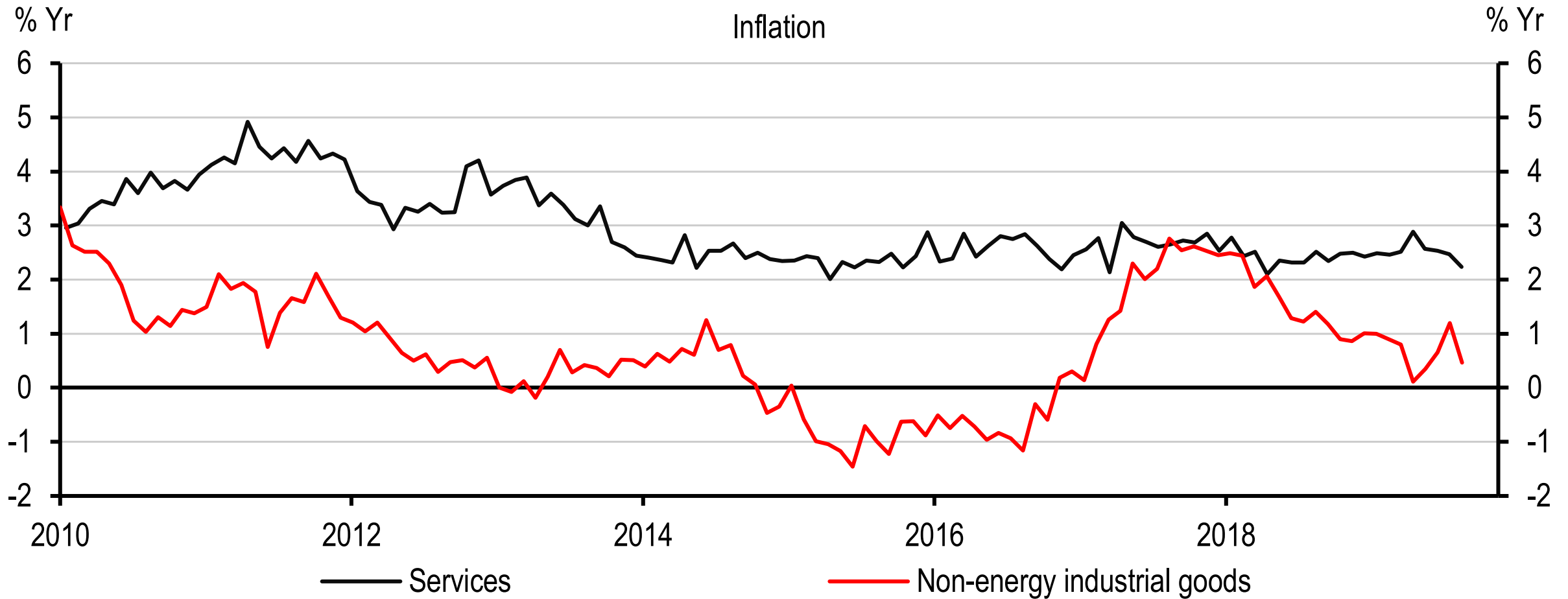
The good news: employment is strong...



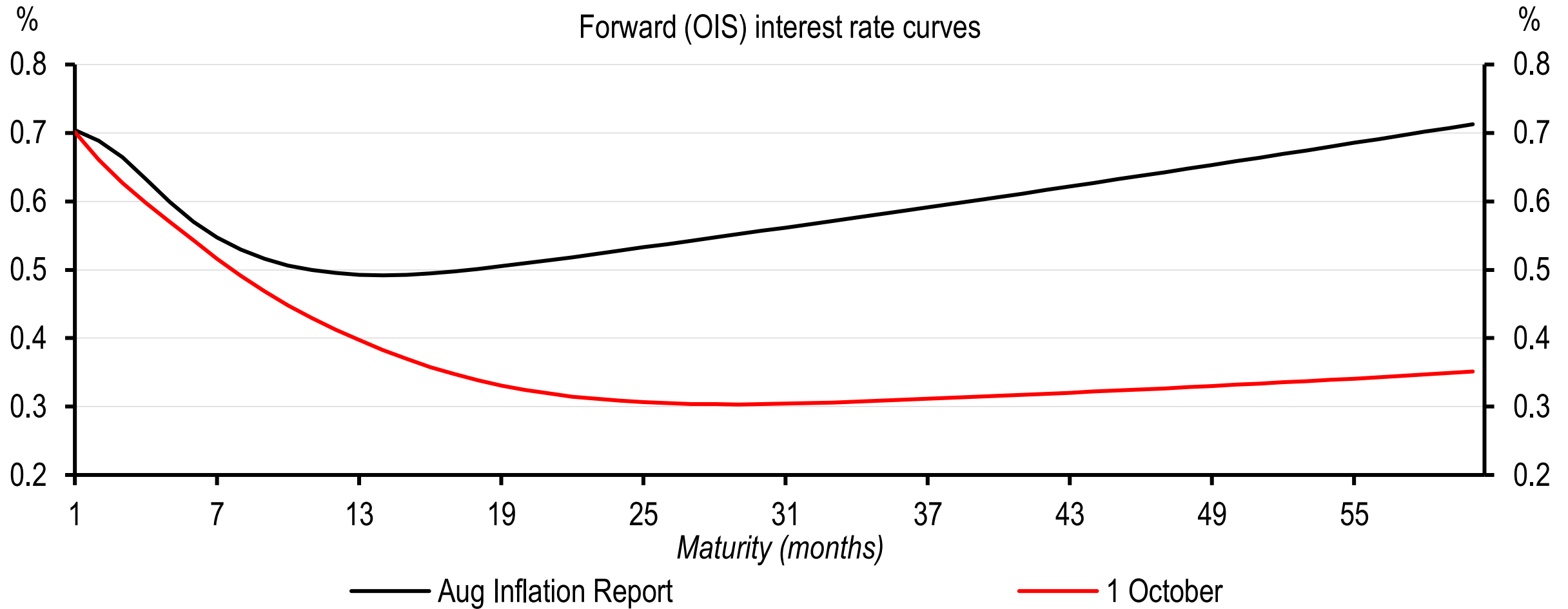
...and pay growth had picked up...



...but inflation remains contained



Our forecast is for Bank Rate to remain on hold, but the market expects cuts



Downside risk: a 'no deal' Brexit

In the UK, it's all about politics



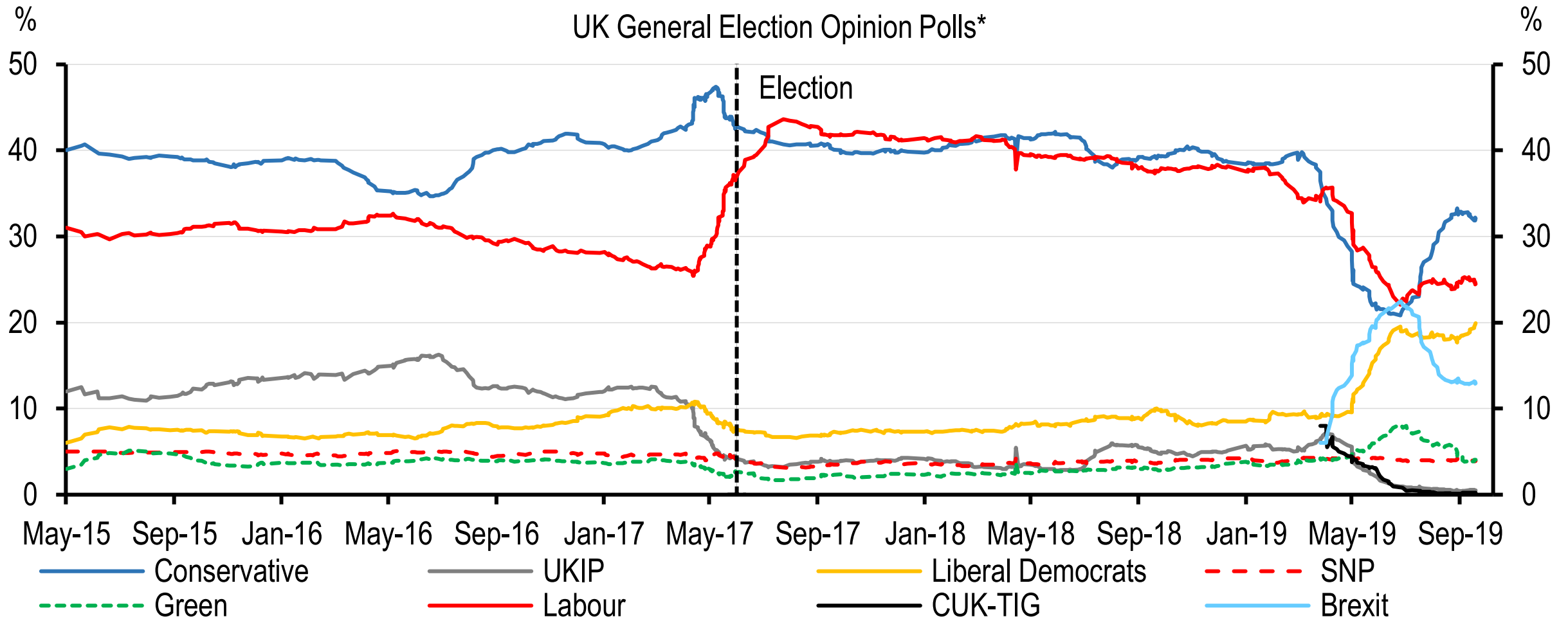
Source: Wikimedia Commons

<u>Probability (%) of...</u>	%
No deal Brexit in 2019	16
UK to leave the EU on or before the 31 st Oct	29
Vote of no confidence in 2019	68
UK general election in 2019	70

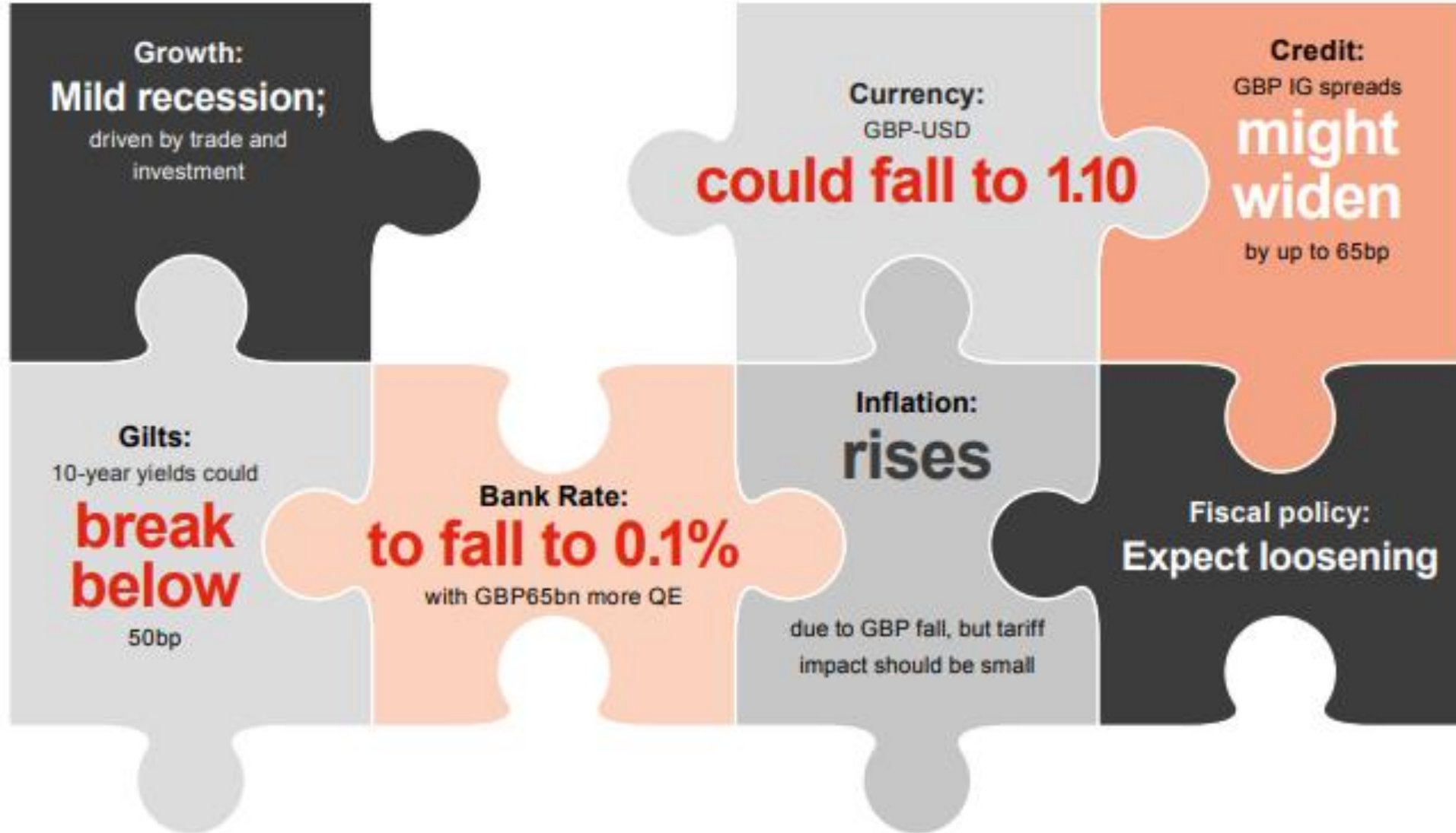
Probabilities correct as of 30/09/2019

Source: BBC, Betfair exchange

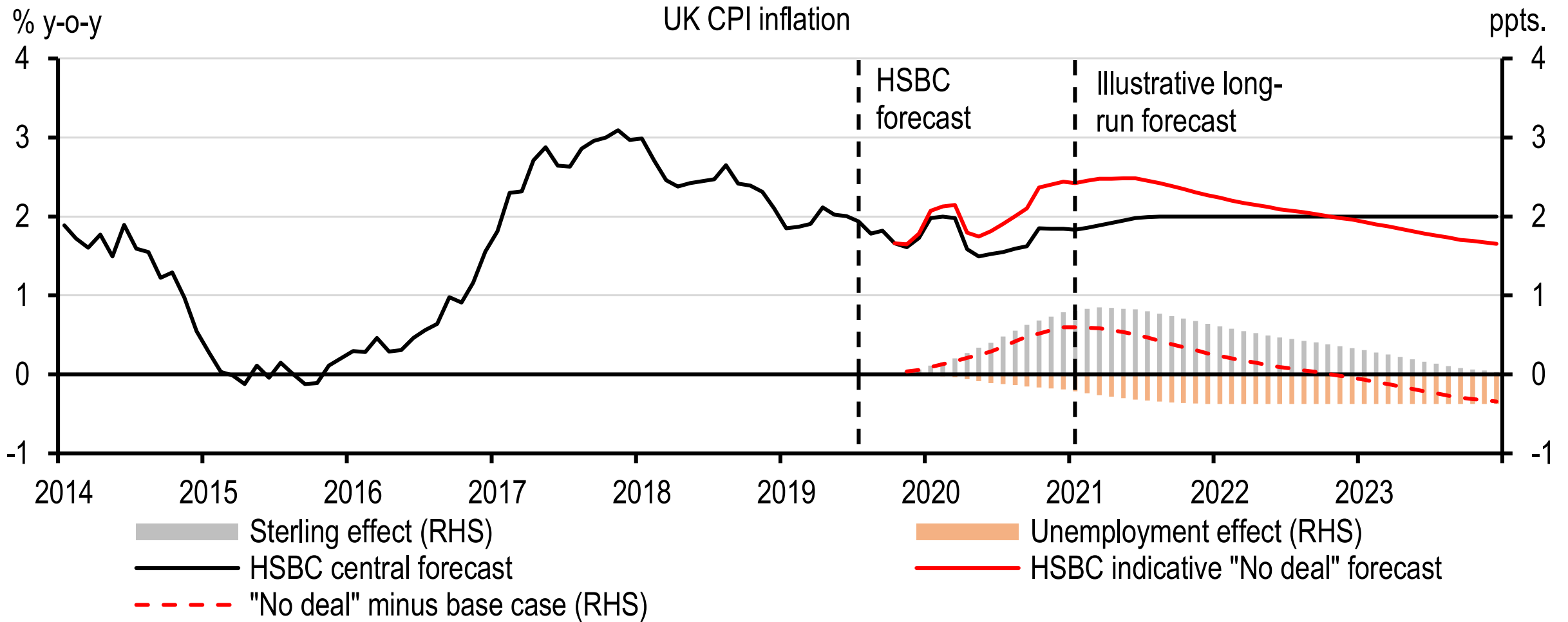
The outcome of an election would be difficult to predict



What if it's 'no deal'?



Inflation would likely go higher due to a fall in sterling



The BoE would act in a 'no deal' scenario in our view



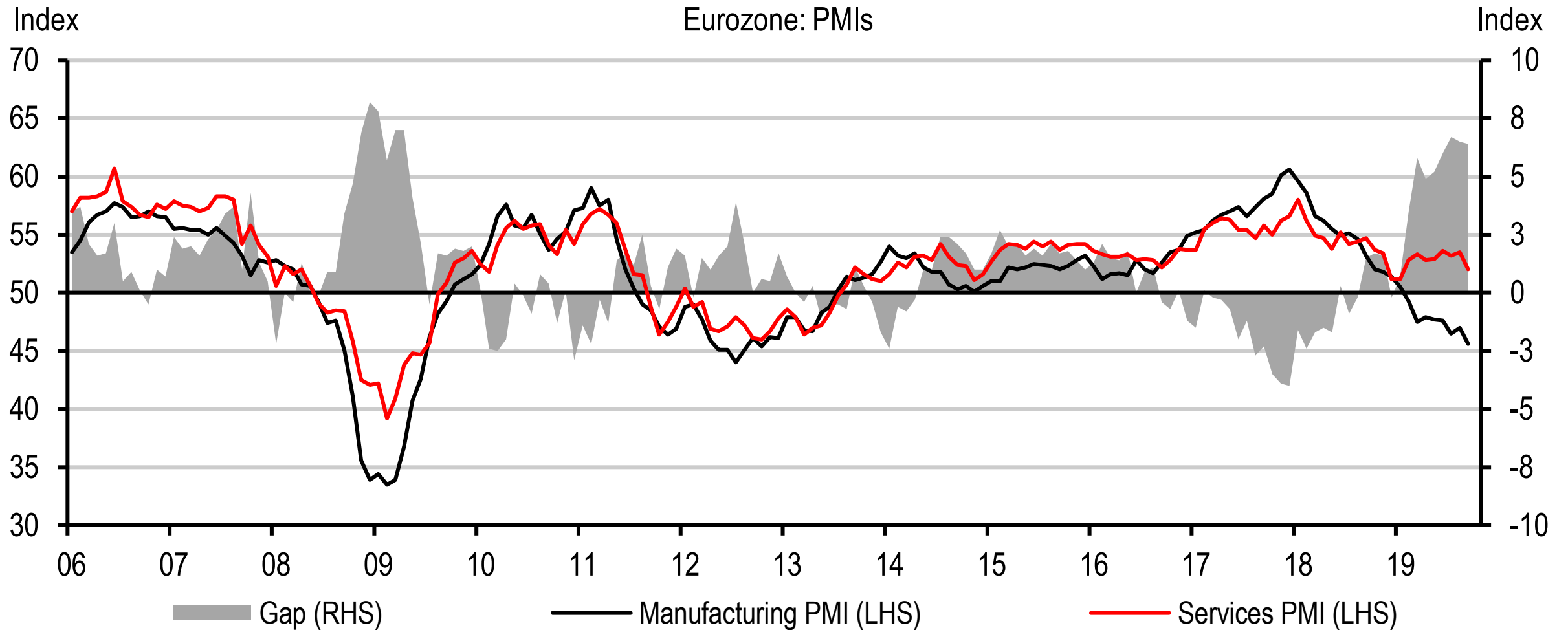
Source: Wikimedia Commons

- 7 November
 - 25bps rate cut to 0.5%
 - GBP65bn of QE
 - GBP15bn of corporate bond purchases
 - An increase in the scope of the Term Funding Scheme of cheap loans for banks
- 19 December
 - 25bps rate cut to 0.25%
- 30 January (Mark Carney's last meeting)
 - 15bps rate cut to 0.1%

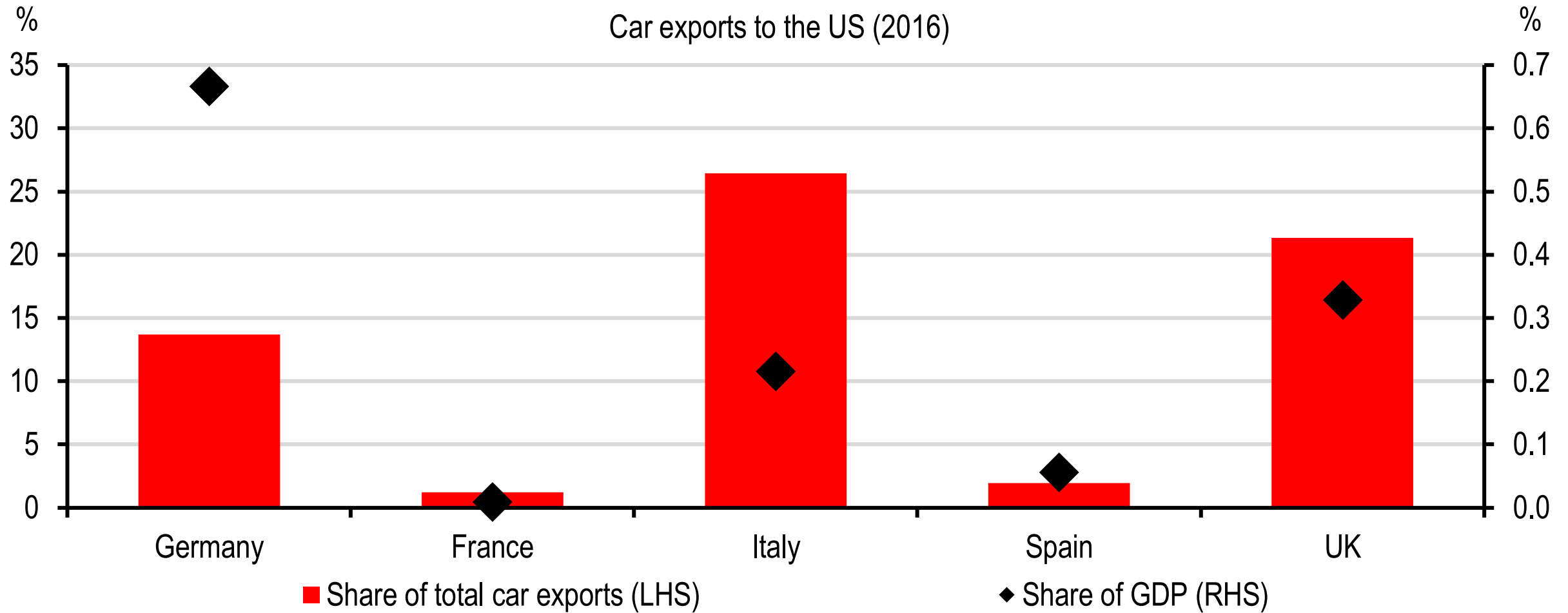
Source: HSBC

Downside risk: a global downturn

Europe's manufacturing weakness could drag the broader economy down...



...especially if US auto tariffs kick in

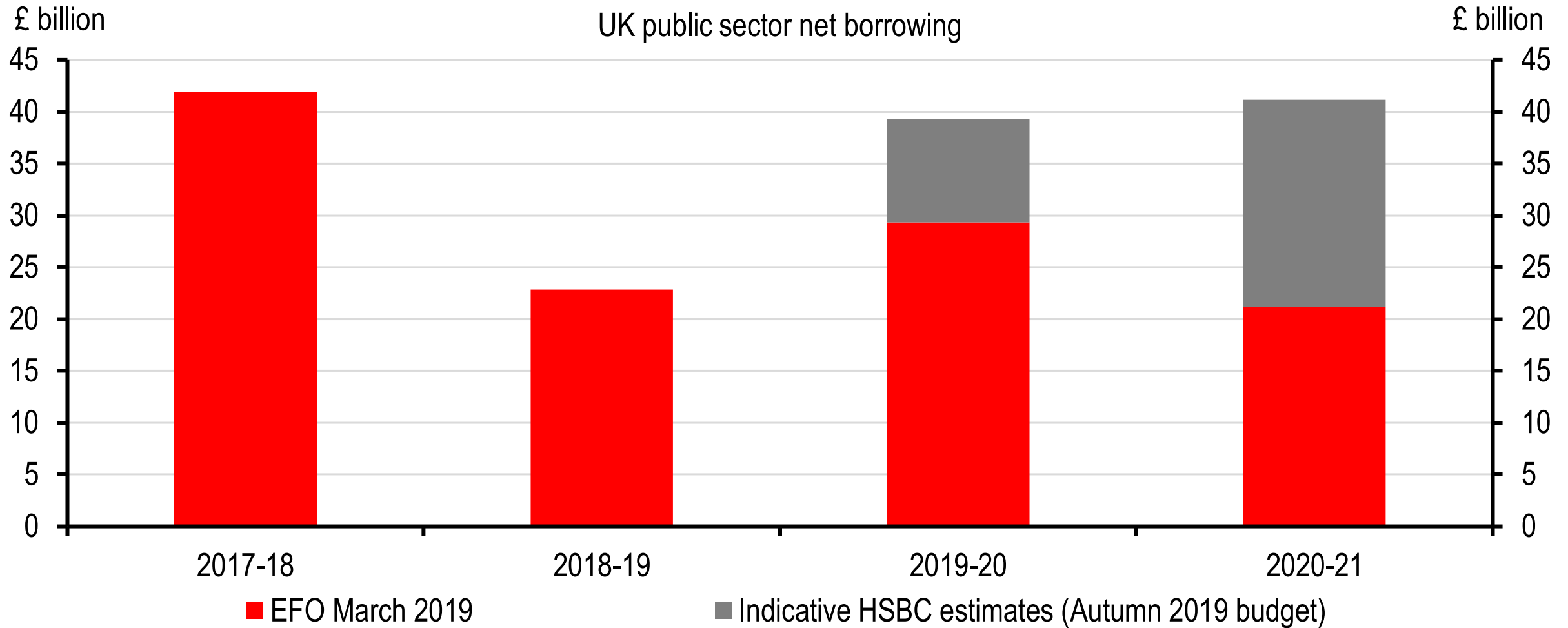


Upside risk: a fiscal expansion

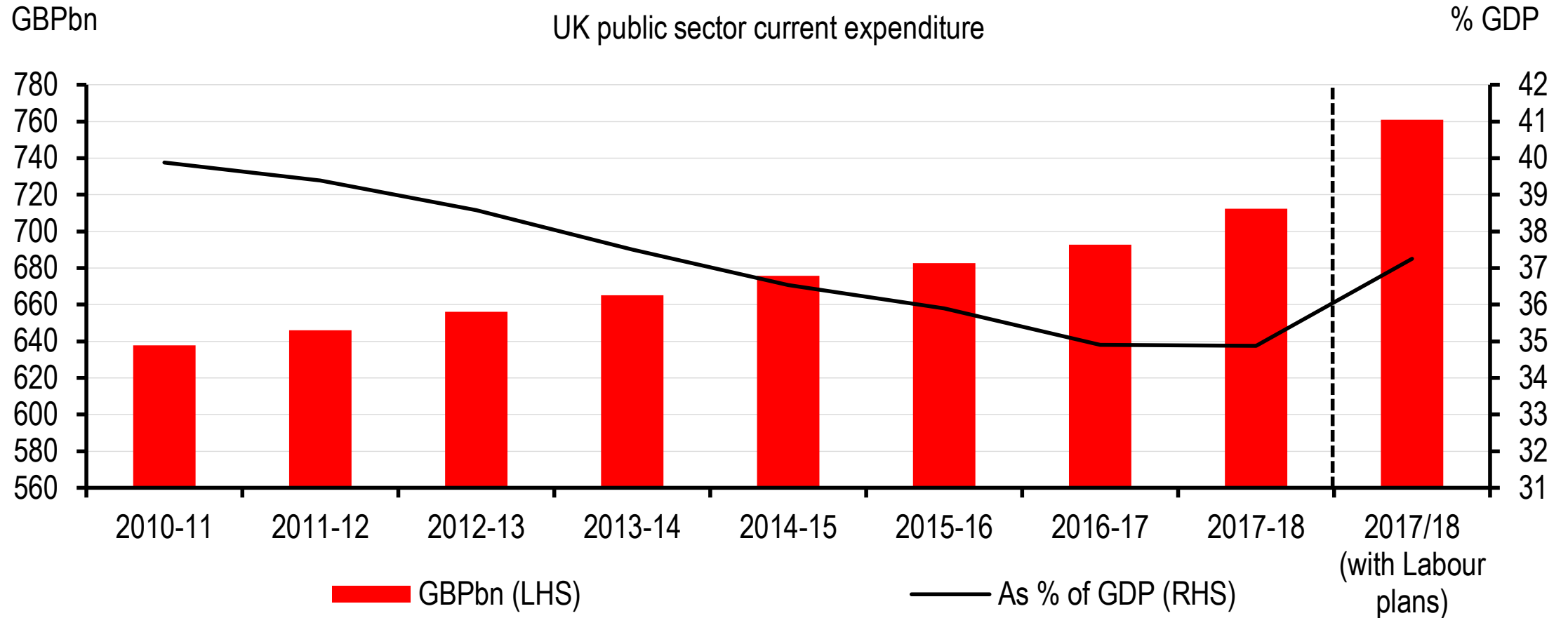
A Brexit Budget?

Category	Policy	Estimated cost (GBPbn)
Tax		
Income tax	Raise higher rate threshold from GBP50,000 to GBP80,000	9.6
National Insurance Contributions	Increase starting point to GBP12,500	11.0
Stamp duty	<i>Ideas reportedly being considered include raising the threshold to GBP500,000, lowering the top rate from 12% to 7% and charging the seller, not the buyer</i>	?
Spending		
School funding	Raise spending per pupil to GBP4,000 for primary schools and GBP5,000 for secondary schools	4.6
Regional Development	Infrastructure for deprived towns	3.6
NHS	New hospital upgrade programme	1.8
Police	An additional 20,000 officers	1.1
Brexit	Additional funding for 'no deal' Brexit preparations	1.0
Broadband	Nationwide full-fibre broadband by 2025	?
Social care	<i>"Fix the social care crisis once and for all"</i>	?
Indirect costs		
Free ports	Reduce tariffs to zero for goods entering and staying in special zones	?
Living wage	Raise national living wage	?
Transport	<i>Review HS2/3</i>	?

Borrowing could rise by GBP20-30bn relative to March expectations

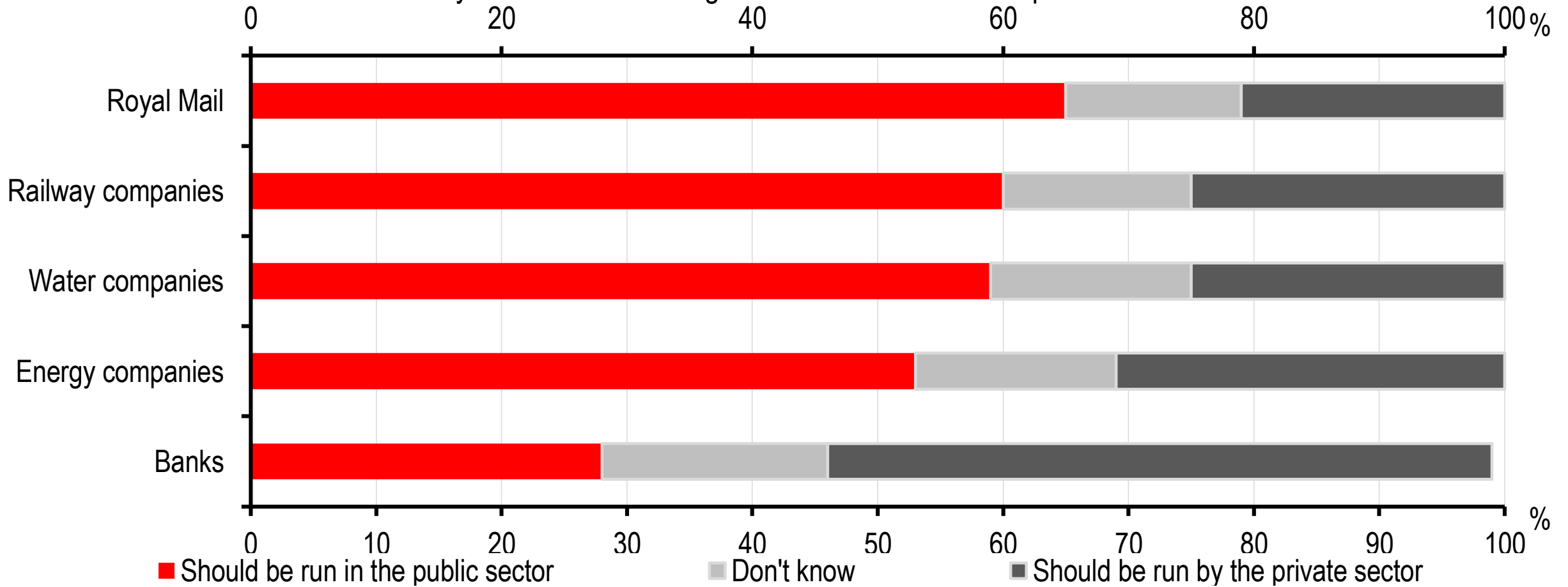


Labour would increase current spending... but that's just the start



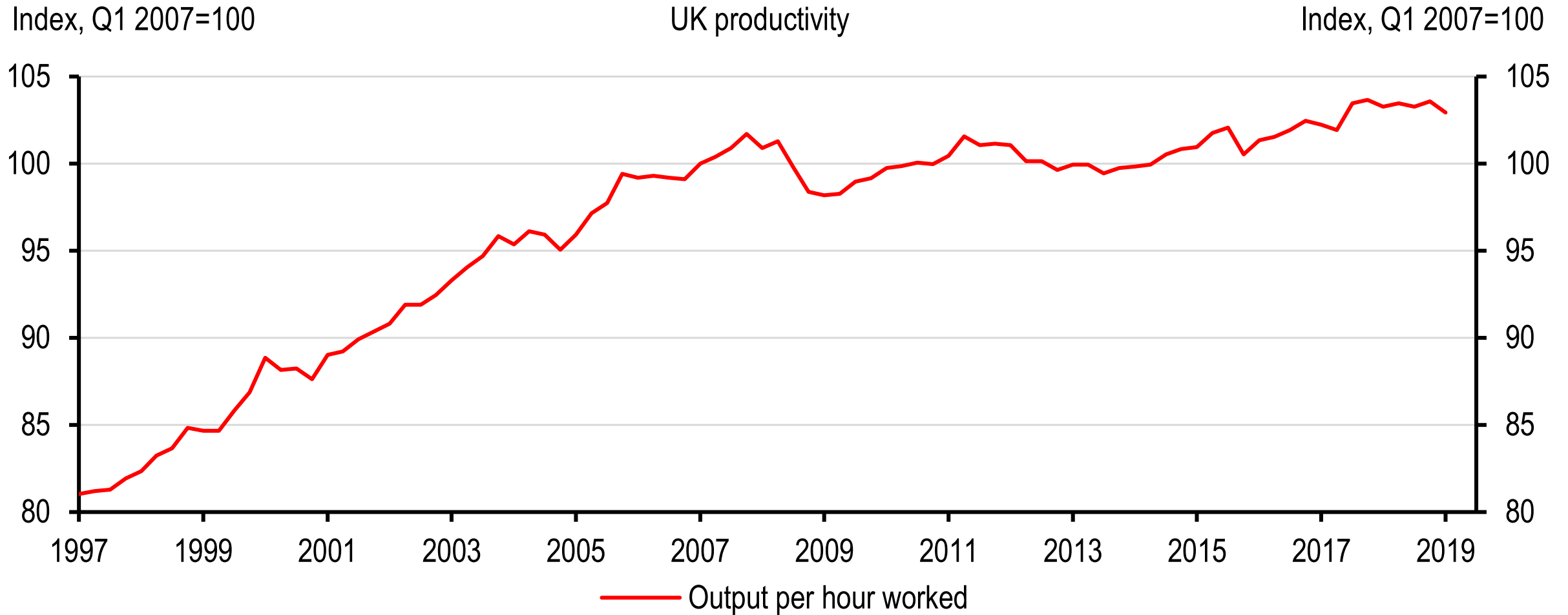
Nationalisation is popular

Do you think the following should be nationalised or privatised?



The longer run

Productivity has been persistently weak



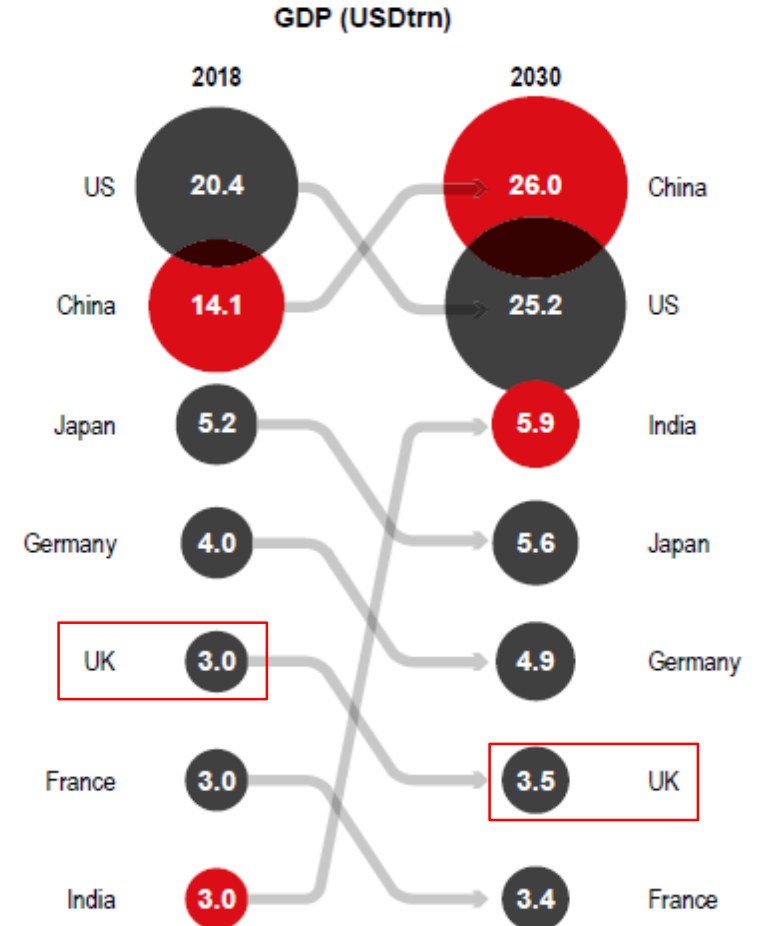
We see long-run UK GDP growth of 1.5%

HSBC long-term growth model projections for real GDP growth

Country	Trend growth pace (to 2030)	2018-2023	2023-2028	2028-2033
US	1.8	1.8	1.6	2.0
Mainland China	5.2	5.3	5.4	4.7
UK	1.5	1.6	1.5	1.4
Germany	1.3	1.7	1.1	0.9

Source: HSBC Research ("The World in 2030 - Our long-term projections for 75 countries" - September 2018).

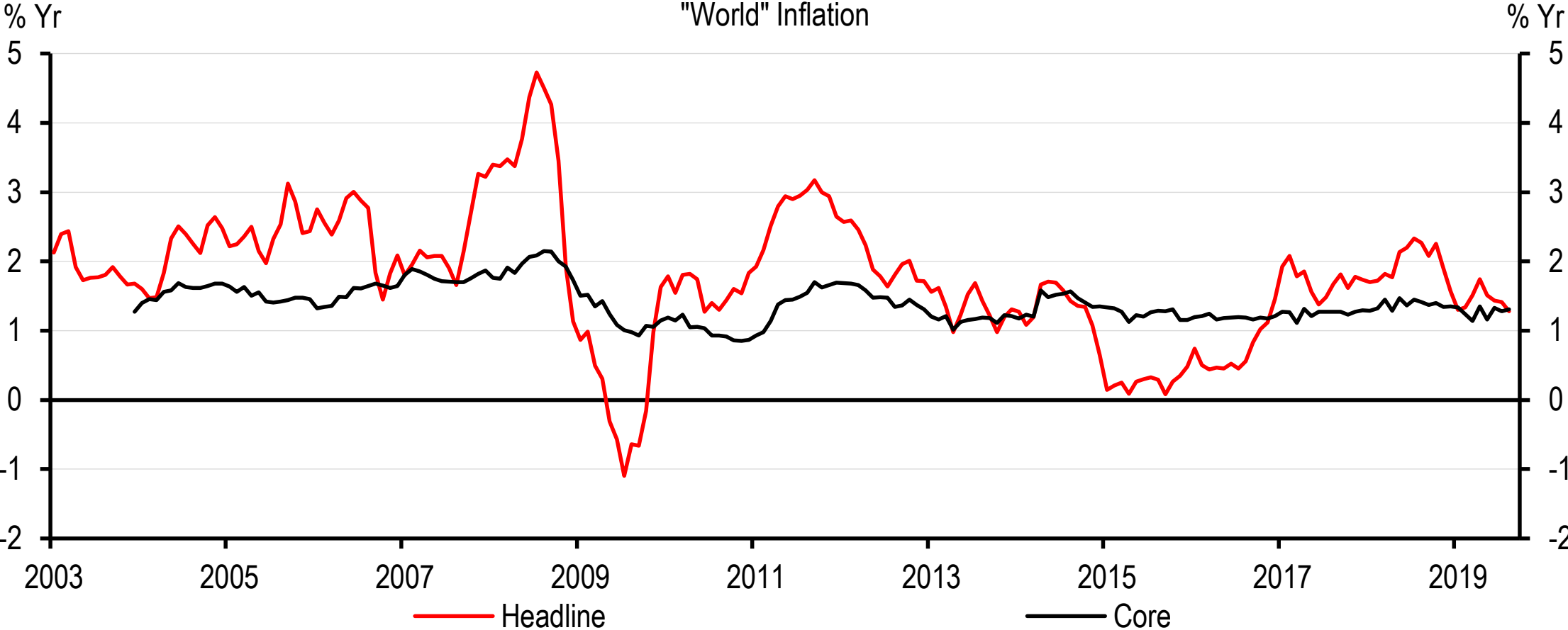
2030: Long-term global GDP rankings



Source: HSBC Research ("The World in 2030 - Our long-term projections for 75 countries" - September 2018).

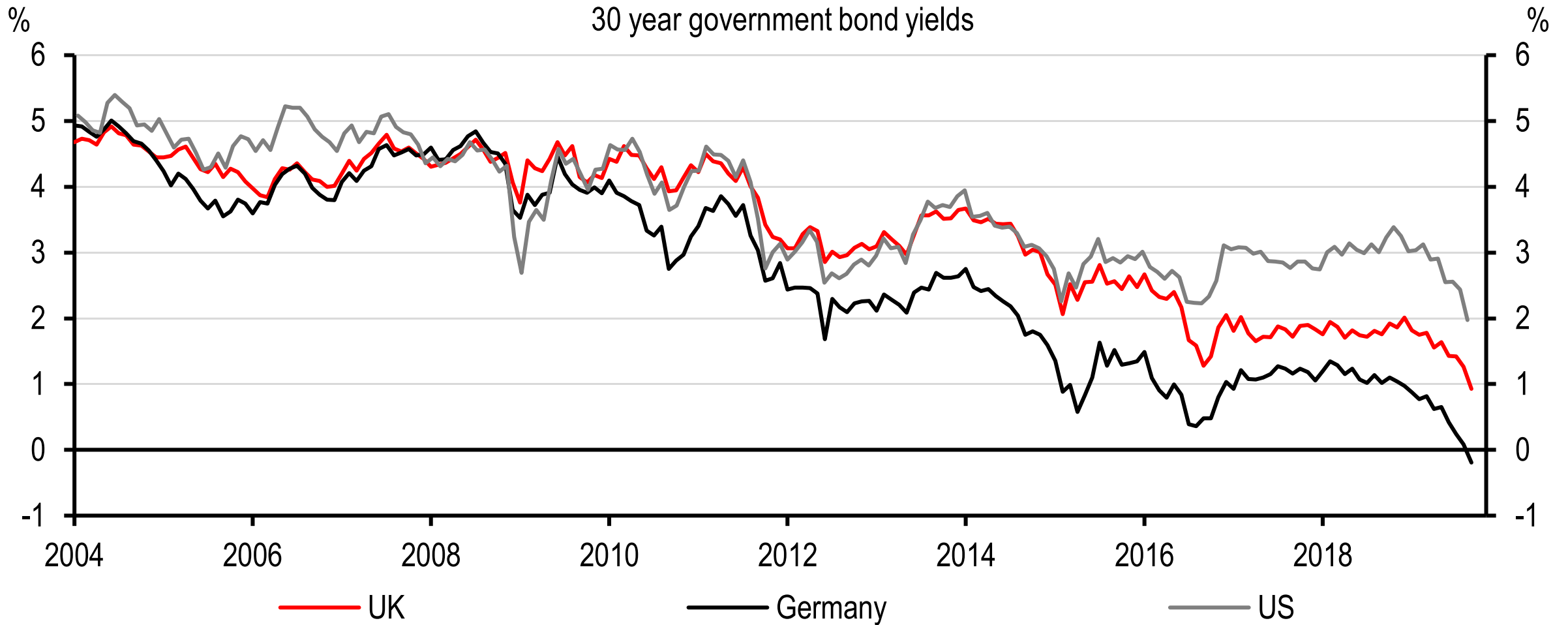
Note: GDP figures in constant 2018 USD terms

Global inflation might remain subdued

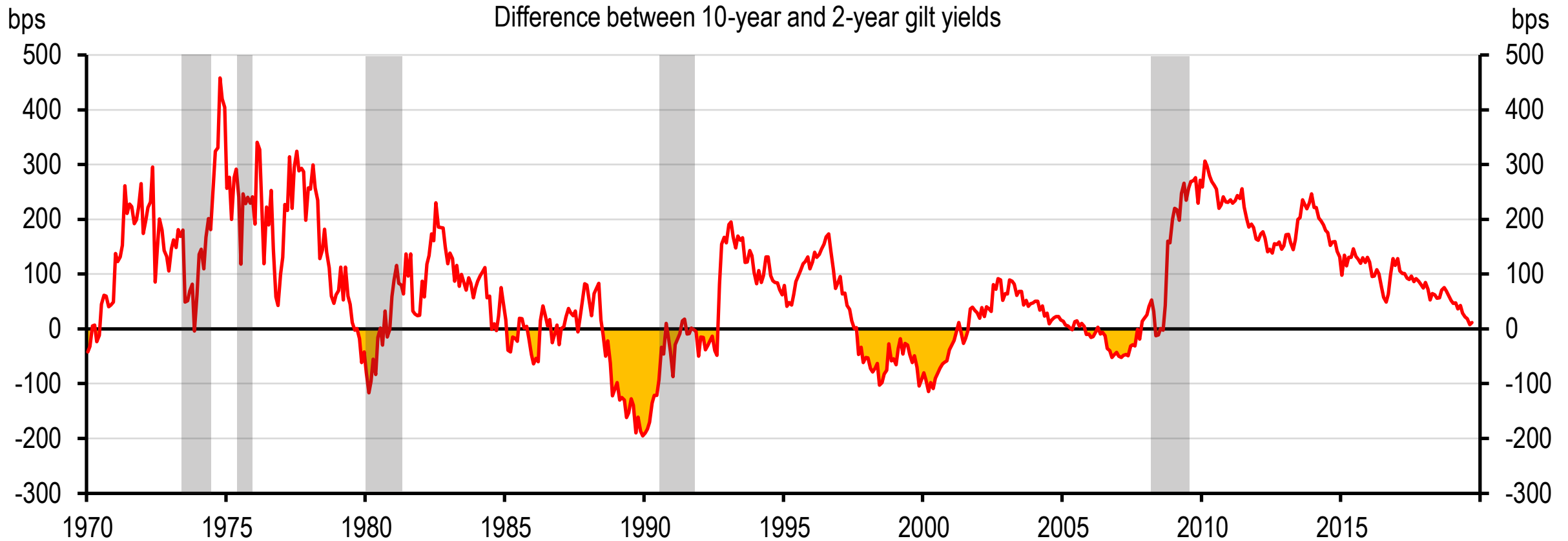


Source: Refinitiv Datastream. Note: Includes US, UK, Sweden, Norway, Eurozone, Switzerland, Japan, Canada, Korea, Thailand, Hungary, Chile and Poland based on data availability and timeliness of releases.

Global real interest rates might stay low for (much) longer...



...and the yield curve might be prone to further inversions



The outlook for the UK

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