

Brexit: Taking the pulse of the UK economy

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United Kingdom: Eurozone growth surprises on the upside meanwhile the UK economy is struggling to keep up

Eurozone GDP growth forecast for 2017 has been revised upwards by +0.2pp to +2.1% thanks to stronger trade and investment growth

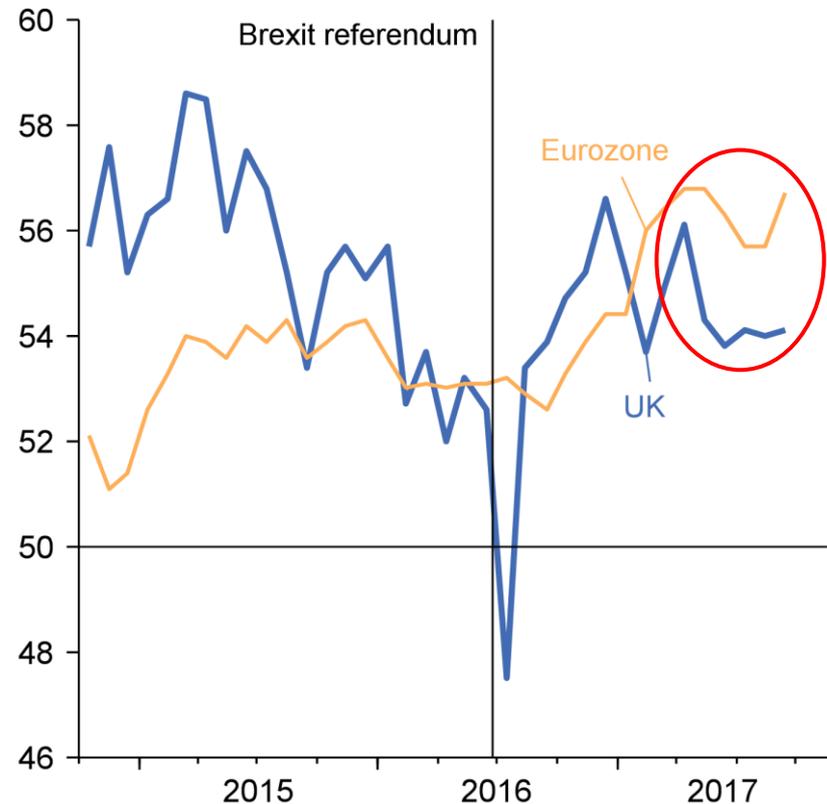
UK falling behind: Brexit-induced slowdown is becoming increasingly more pronounced

GDP growth, %

	2016	2017	2018
Global GDP	2.6	3.0	3.0
World trade	2.0	4.2	3.8
United States	1.5	2.0	2.2
Brazil	-3.6	0.8	2.0
Eurozone	1.8	2.1	1.8
Germany	1.8	2.2	2.0
France	1.1	1.7	1.7
Italy	1.0	1.4	1.1
Spain	3.2	3.0	2.3
United Kingdom	1.8	1.4	1.0
Central and Eastern Europe	1.6	3.2	2.7
Russia	-0.2	1.5	1.9
Turkey	2.9	5.2	3.5
Asia	5.0	5.0	4.8
China	6.7	6.7	6.3
Japan	1.0	1.5	0.9
India	7.1	6.5	7.3
Middle East	4.5	2.1	2.6
Saudi Arabia	1.7	0.5	2.0
Africa	1.2	3.3	3.1
South Africa	0.3	0.6	1.2

* Weights in global GDP at market price, 2016

Composite PMIs

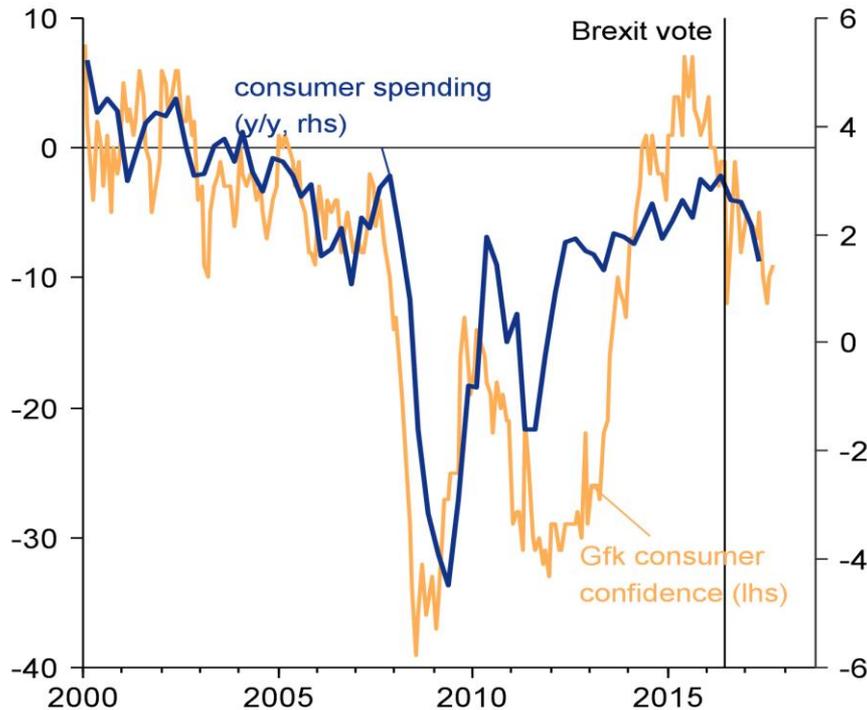


Squeezed living standards: UK consumers face double-whammy blow of high inflation and sluggish wage growth

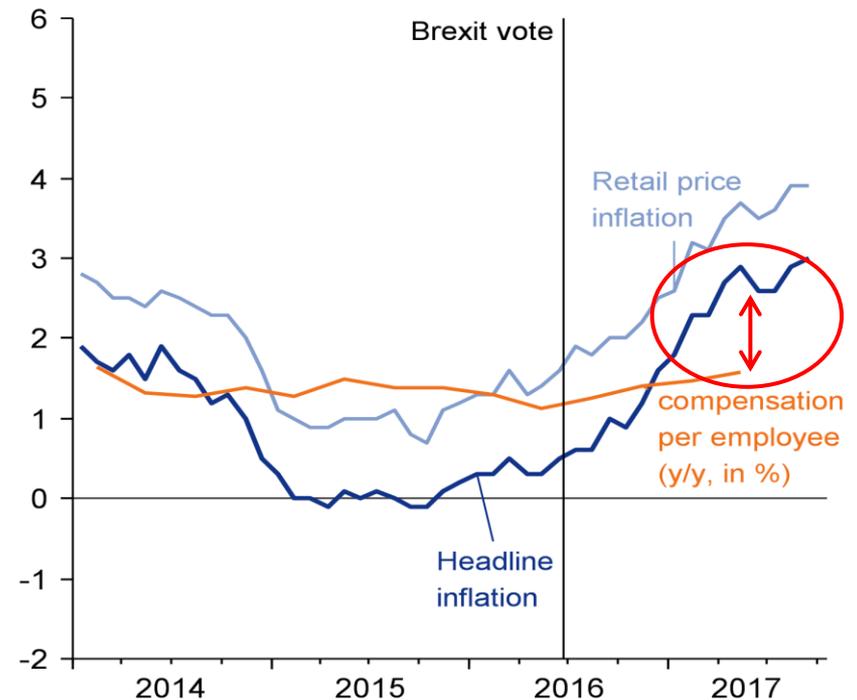
The Brexit-decision has clouded the outlook for private consumption, declining consumer confidence suggests more pain ahead

'Brexflation': UK now has the highest inflation rate among major EU countries but wage growth fails to keep up

Consumer spending (y/y, %, rhs) & consumer confidence (lhs)



Headline inflation, retail price inflation, core inflation & compensation per employee (y/y, in %)



Investment still holding up: Signs of softening but investors maintain 'wait-and-see' attitude for now

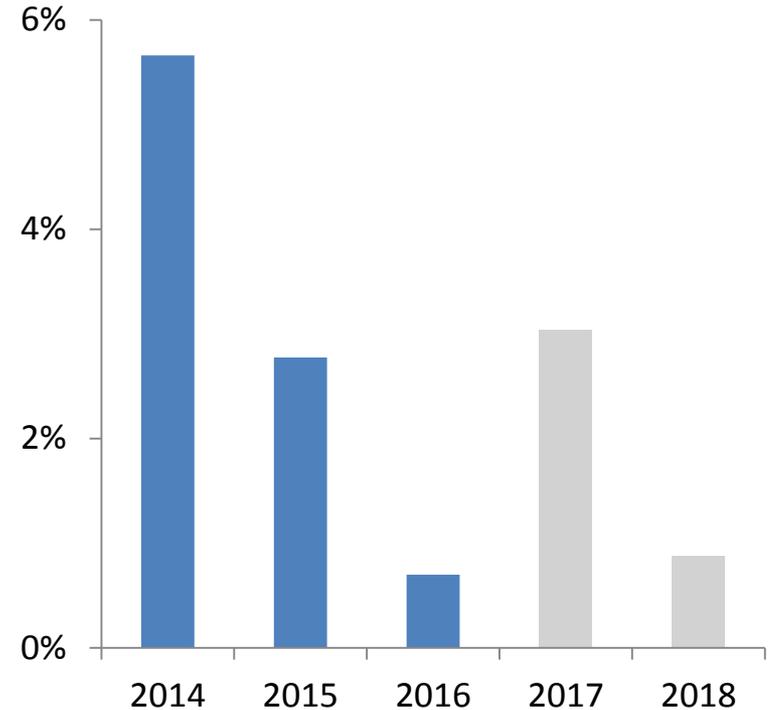
Firms' investment intentions picked up again in Q1 2017 despite Brexit-related uncertainty

Business investment (y/y, lhs) & investment intentions (manufacturing and services, rhs)



Cut-back in investment will become more pronounced in 2018 in line with slowing domestic demand

Total investment, 4Q/4Q

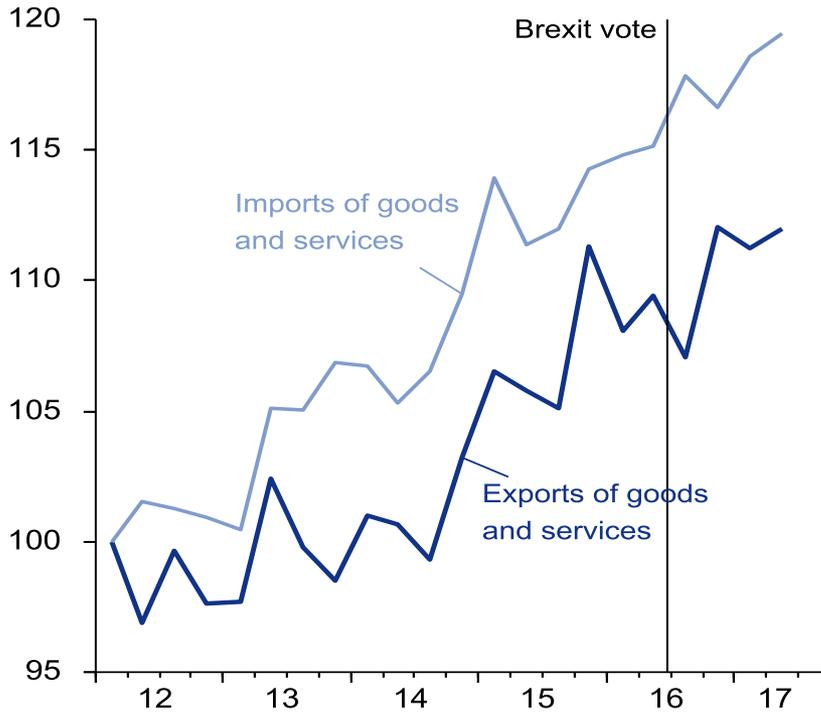


No sign of an export boom yet: Sterling depreciation has failed to trigger stronger demand for UK exports

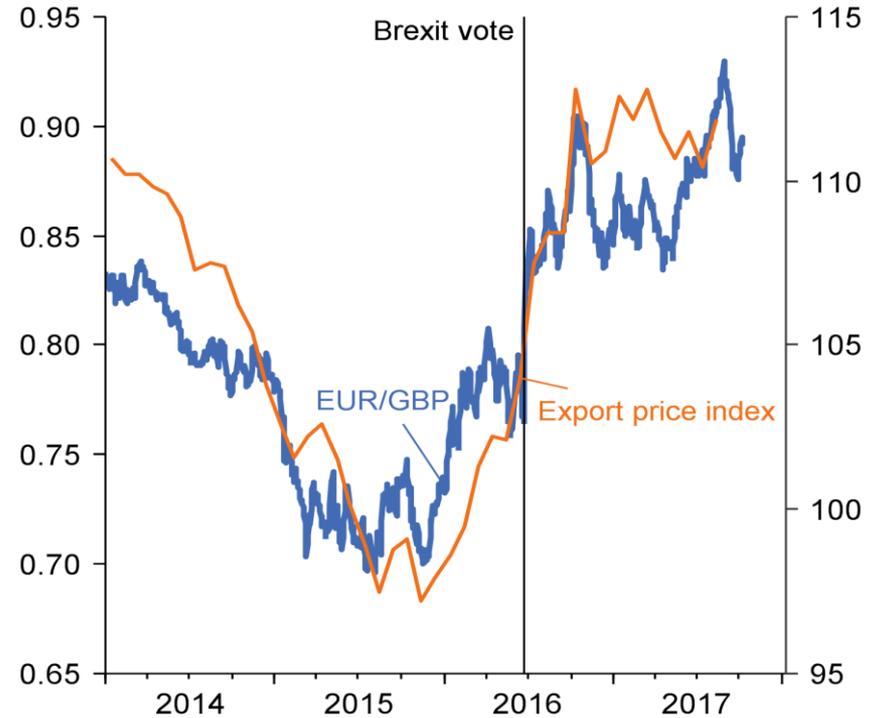
Sterling's depreciation following Brexit-vote has so far failed to incite a strong surge in UK exports

Exporters responded to Sterling's depreciation by raising export prices putting profit before volume

Exports of goods and services & imports of goods and services (Index: Q1 2012 = 100)



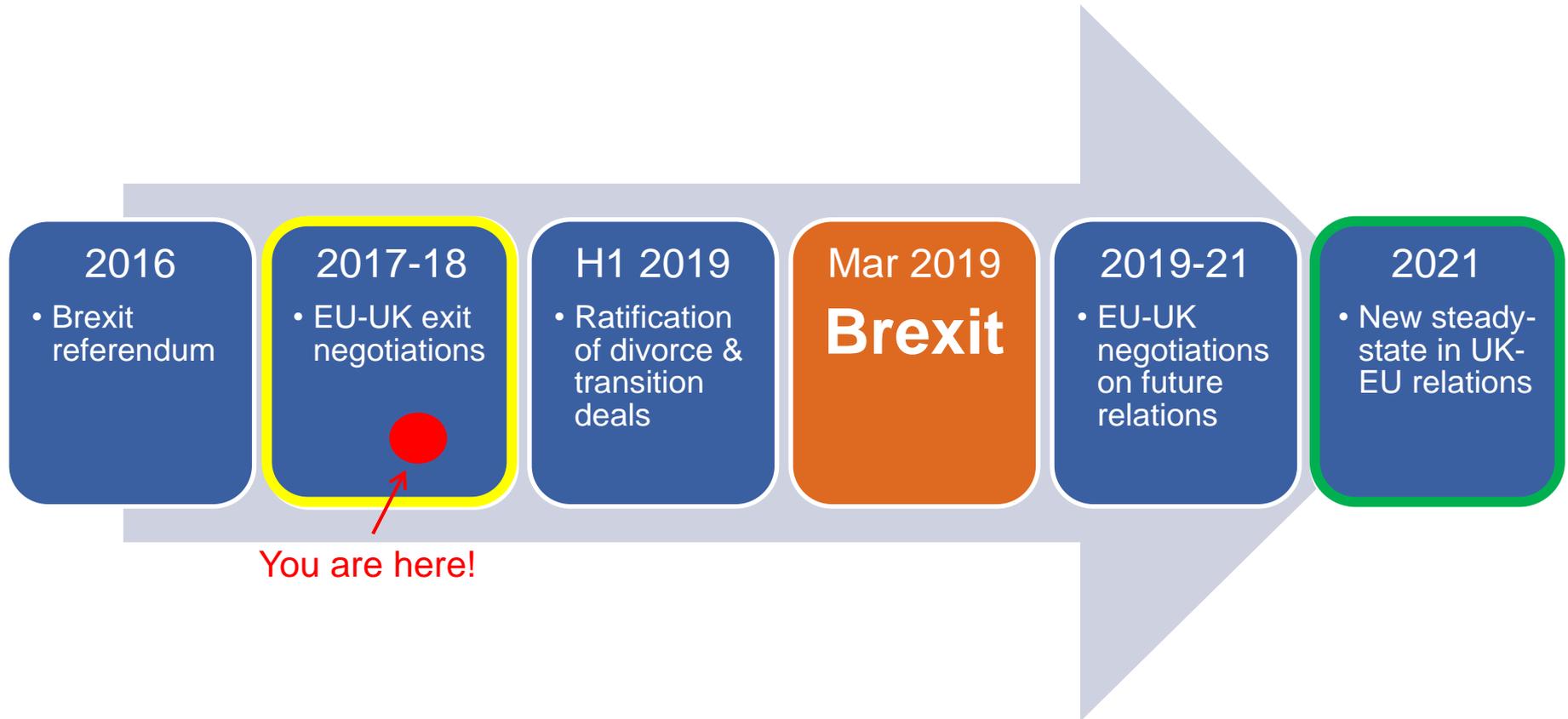
GBP/EUR (lhs) & export prices index (2013 = 100, rhs)



Breaking up is hard to do – Road to Brexit:

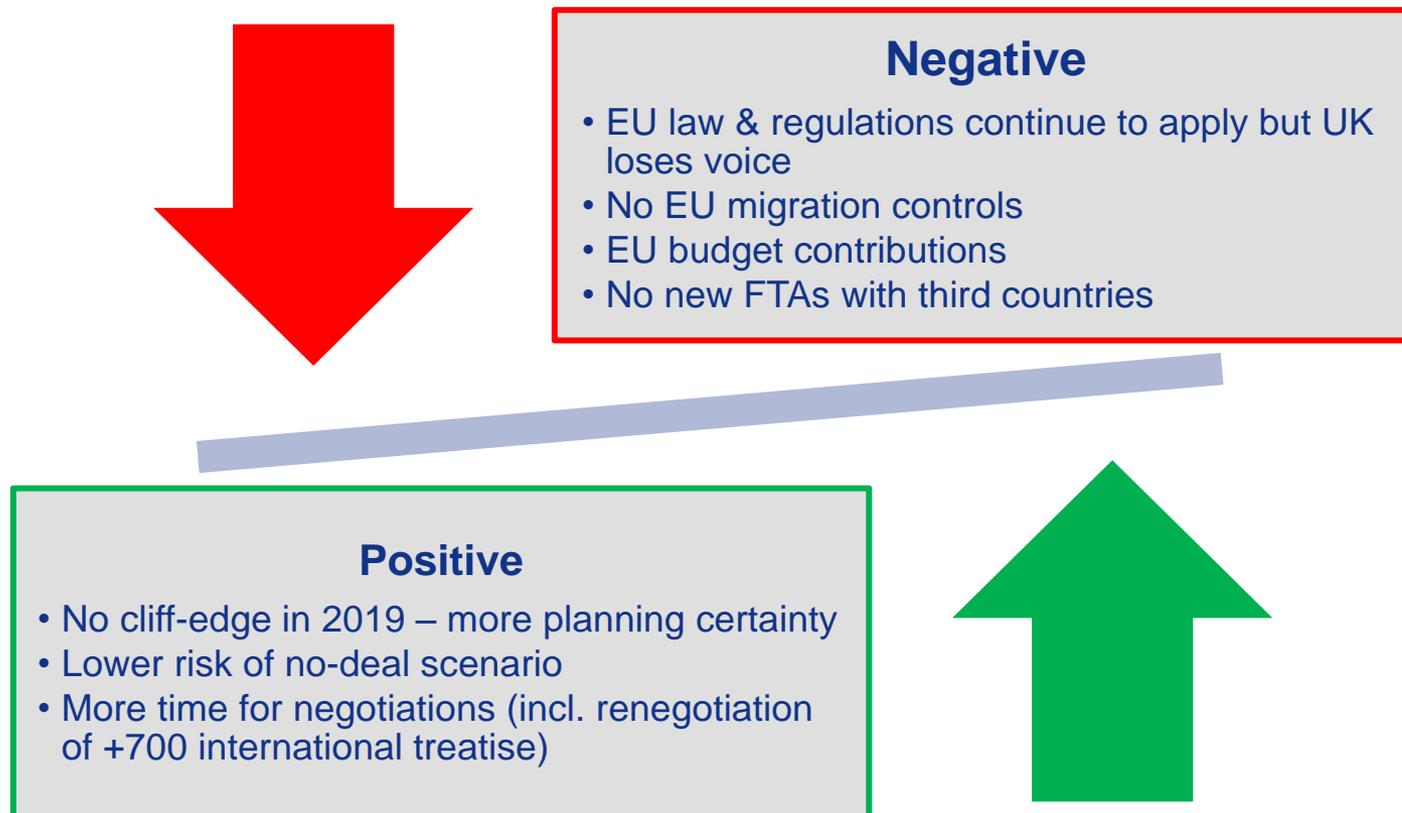
Limited progress so far, most challenging hurdles still lie ahead

„Brexit means Brexit“ – But what does it actually mean? Divorce & transition deal, agreement on future UK-EU relations, renegotiation of +700 international treaties...



Brexit transition deal (1): Politically a tough sell as UK goes from “rule-maker” to “rule-taker”...

Brexit only in name: A transition deal would likely see the UK retain most benefits & responsibilities of EU membership EXCEPT voice in law making



Brexit transition deal (2): ...but transition deal limits negative economic impact of Brexit

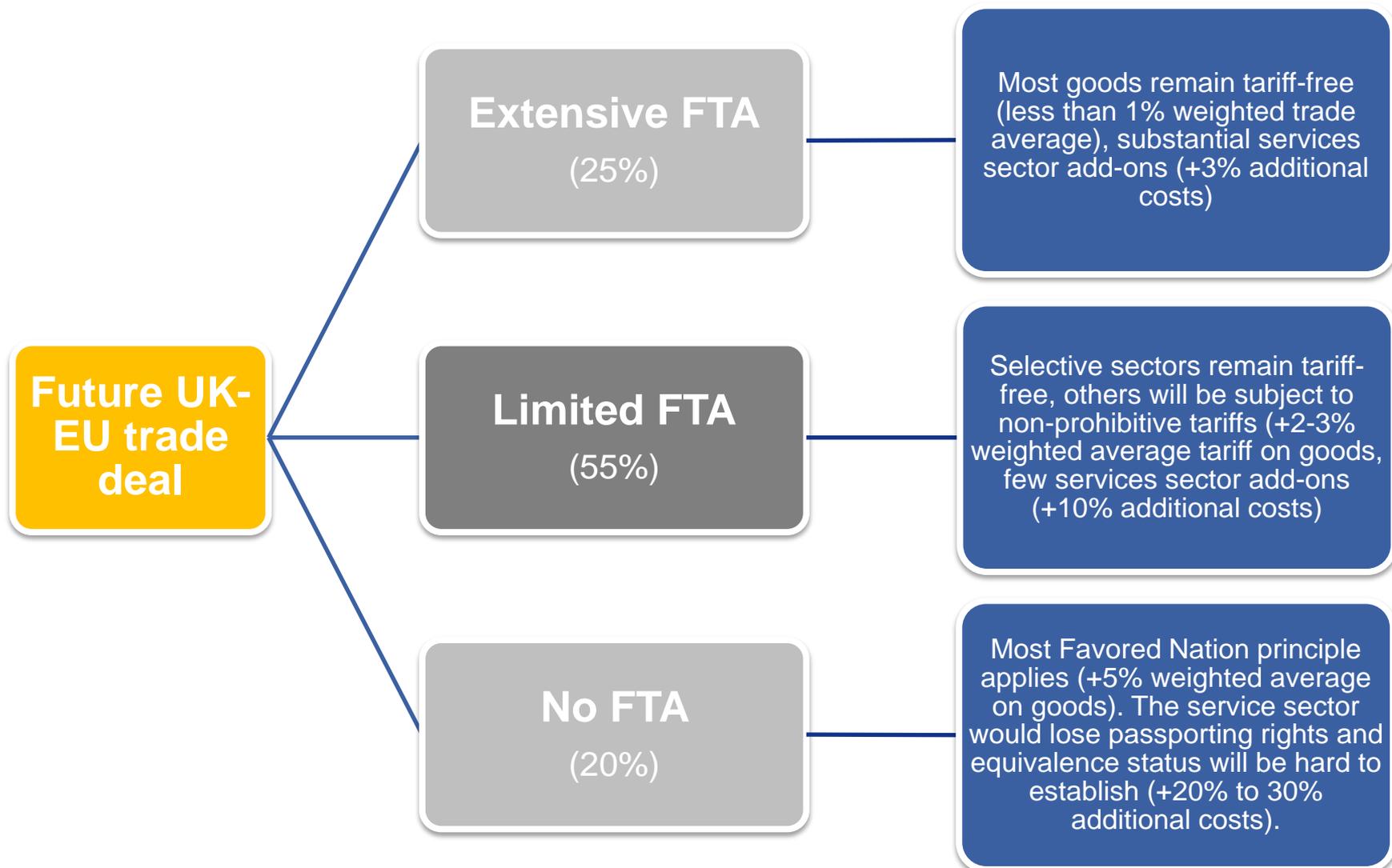
“Taking back control” has to wait, but a transition deal minimizes Brexit-related economic disruption by avoiding a cliff-edge scenario in 2019

	2017	2018	2019	
Annual change, real terms	Brexit talks with EU	Brexit talks with EU	Transition deal	No transition deal
GDP	1.4%	1.0%	0.9%	-1.2%
Private consumption	1.7%	1.0%	1.2%	-1.0%
Corporate investment	-0.4%	-2.3%	-2.3%	-8%
Exports	2.8%	2.2%	-1.6%	-6.0%

Bridge to where? Domestic political debate on future EU-UK trade relations still work-in-progress

		EU	Norway model / EEA	Swiss option	Canada-EU CETA	WTO	UK wishlist
Freedoms	Goods	✓	✓	✓	✓	✗	✓
	Services	✓	✓	✓	✓	✗	✓
	People	✓	✓	✓	✗	✗	✗
	Capital	✓	✓	✓	✗	✗	✓
Duties	Payments to EU	✓	✓	✓	✗	✗	✗
	Subject to EU rules & regulations	✓	✓	✓	✗	✗	✗
Rights	Influence over EU regulations	✓	✗	✗	✗	✗	✗
	Ability to independently agree FTAs	✗	✓	✓	✓	✓	✓

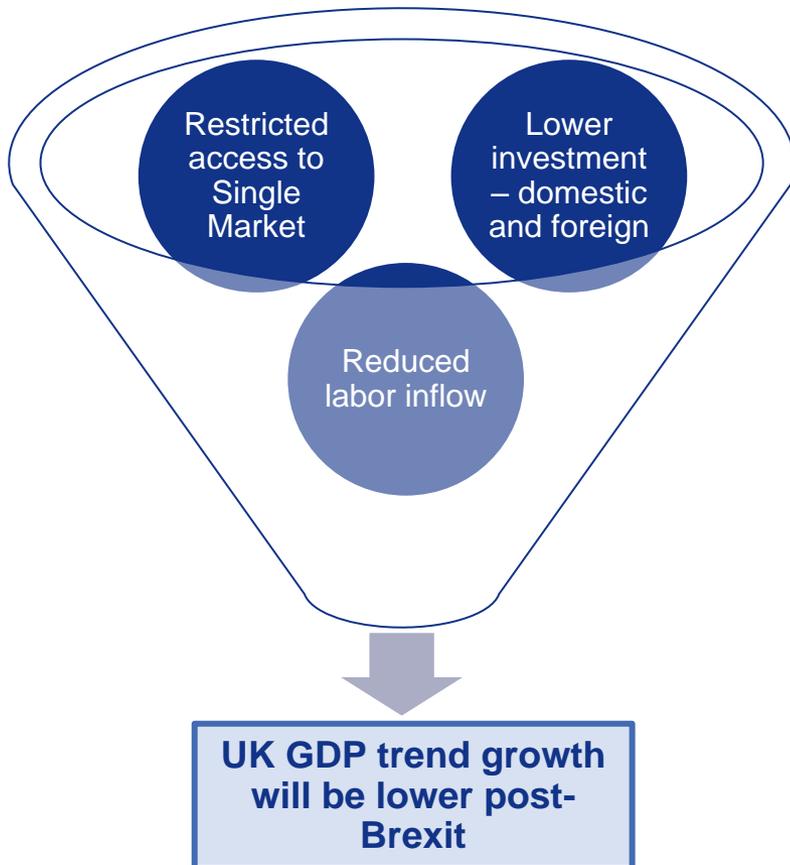
Key Brexit scenarios: What type of trade agreement with the EU looks realistic?



The long view: With restricted access to the EU Single Market the UK economy will be clearly worse off

Supply shock ahead: The UK economy will see its growth potential significantly reduced after exiting the EU

In our base scenario UK GDP growth averages around 1.3% after exiting the EU, less than half the pre-Brexit average



		Long-term forecasts, annual average		
Annual change, real terms	AVG 2000-07	Extensive FTA	Limited FTA	No FTA
GDP	2.9%	1.9%	1.3%	0.8%
Private consumption	3.3%	3.0%	2.0%	1.2%
Investment	1.6%	1.5%	1.0%	0.3%
Exports	5.1%	2.5%	1.5%	0.5%

Thank you for your attention!

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