UK: eight questions for 2018

- **Take a deep breath, here we go again:** For yet another year, the major overriding theme for the UK economy will be Brexit – the UK's exit from the EU. While we can take some comfort after the economy held up well last year, and UK and EU leaders made good strides in the negotiations, the risks from Brexit and the possibility that the UK could vote in a far-left government are profound. Rarely has the UK's economic and political outlook seemed so uncertain.
- **The odd one out:** Growth in the US and the Eurozone, the UK's major trading partners, is set to accelerate over the medium-term to well above the averages of recent years. Meanwhile, the uncertainty from Brexit is likely to prevent the UK from fully enjoying the tailwind from the synchronised global upswing – Chart 1.
- In this report, we answer eight key economic and political questions for the year ahead. If nothing else, 2018 is shaping up to be another fascinating year.
  - Can the UK's economic fortunes turn around in 2018?
  - Is there light at the end of the tunnel for consumers?
  - Where is investment heading?
  - Will the Bank of England (BoE) hike interest rates again?
  - Is sterling undervalued?
  - Apart from Brexit what other economic risks are there?
  - What are the risks from far-left Jeremy Corbyn?
  - What is the most likely outcome in the Brexit negotiations?
- For our latest global outlook, which details our major calls for the next two years, please see Global outlook 2018: coping with the boom.

Chart 1: The odd one out – Berenberg real GDP forecasts (2018-19) versus seven-year average (%)

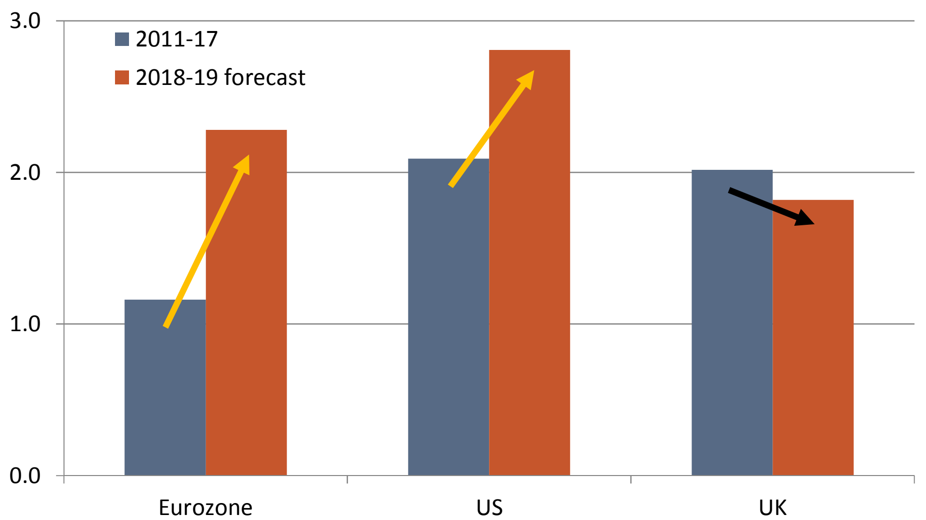

Chart shows average annual real GDP growth in %. Source: Eurostat, Bureau of Economic Analysis, Office of National Statistics, Berenberg calculations and forecasts.

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Can the UK's economic fortunes turn around in 2018?

Possibly: if falling Brexit uncertainty translates into stronger domestic demand.

Last year the UK missed out on the global upswing due to Brexit uncertainty

Relative to the market's very depressed growth expectations for 2017 following the Brexit vote in 2016, the UK did much better than expected last year. That is, however, not to say that Brexit did not hurt. The UK missed out on the global upswing as Brexit uncertainty weighed on economic activity. Annual real GDP growth was probably around 1.8% in 2017, a notch below the 2% average for the post-Lehman upswing. UK growth remained subdued in 2017 as growth in the US and the Eurozone, the UK's major trading partners, accelerated to well above the average of recent years. This is highly unusual. As a medium-sized open economy, the UK's normal growth trends broadly follow the ups and downs of its major trading partners. But, then again, Brexit is highly unusual.

Without Brexit, UK growth would be around 0.7ppt higher in 2018

As Chart 2 shows, the UK enjoyed top-of-the-league growth during the post-Lehman upswing until the Brexit vote. While c2% growth this year would not be bad, it would probably be around 2.5% without Brexit. We expect real GDP growth to remain stable at 1.8% in 2018, a little above the potential growth rate the UK can manage outside of the EU. As in 2017, the UK looks set to stay close to the bottom of the G7 growth league as the other major advanced countries grow well above their own potential rates again.

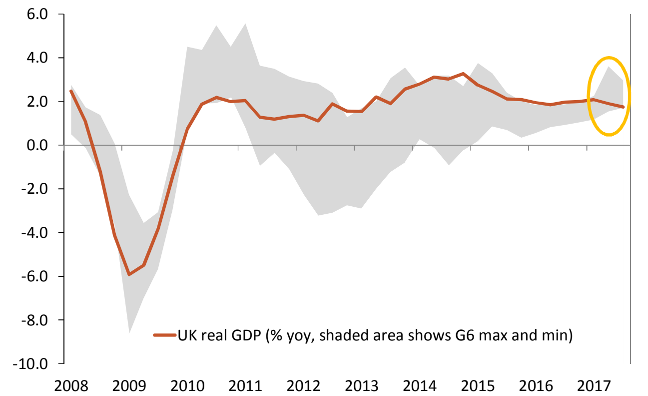
The cyclical components of the economy should remain healthy again in 2018

Healthy global dynamics tend to show up in production, investment and exports. As Chart 3 shows, the sharp rebound in exports last year – boosted by the weak sterling – helped offset a slowdown in consumption growth. The cyclical components of the economy should remain healthy again in 2018. We look for investment growth to accelerate to 3.3% from 3.1% last year, and industrial production growth to advance to 2.9% from 2.1% over the same period. Meanwhile, annual real consumption growth will remain stable at 1.4% as households rely less on savings and credit to support demand as real wages begin to increase again following the sterling-related fall in 2017.

Less Brexit uncertainty in 2018 provides some upside risk to the growth outlook

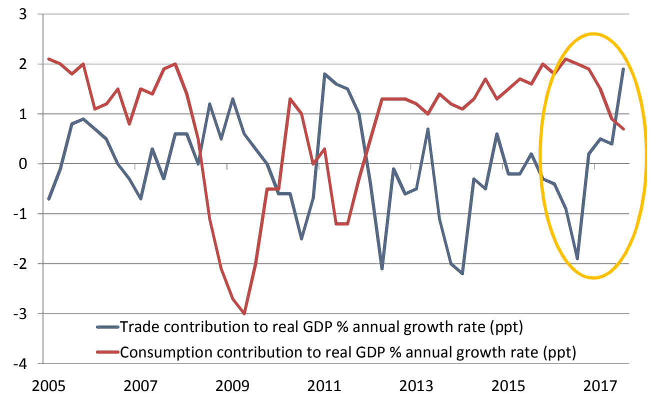
For most of last year, no major aspect of the UK-EU divorce, or future relationship, had been settled. But as the UK and the EU managed to settle the first stage of the Brexit negotiations in late 2017 – the divorce – uncertainty about the future has receded modestly. In 2018, UK firms, households and markets will probably be less worried about the risk that the UK could crash out of the EU in March 2019 without an agreed framework for future trade with the EU. They are, therefore, likely to be less risk averse than before. As uncertainty was the major factor weighing on economic activity in 2017, less uncertainty this year should offer some upside risk to our 2018 growth outlook.

Chart 2: UK real GDP was bottom of the G7 table last year



Quarterly data. Source: ONS, Bureau of Economic Analysis, Statistics Canada, Eurostat, Cabinet Office of Japan, Berenberg calculations

Chart 3: The UK enjoyed a little rebalancing in 2017



Quarterly data. Source: ONS, Berenberg calculations. Data shows percentage point contribution to annual % change in real GDP.

Is there light at the end of the tunnel for consumers?

Yes, by the middle of 2018, real wages should begin to pick up again after falling in 2017.

The risks to consumption from rising inflation are exaggerated

The risks to consumption from rising inflation are exaggerated. Despite the media excitement and some predictions that households would reduce their spending as inflation rose to nearly 3% late last year thanks to the Brexit vote, which is temporarily squeezing real wages, the reality is far more sanguine. The drop in trade-weighted sterling after the Brexit vote pushed up import prices sharply last year, and added around 100bp to the headline inflation rate. This effect is currently peaking and will fade over the course of 2018 as long as sterling remains, as expected, at current levels or higher.

As inflation has risen above wage growth, households have opened up their wallets more

Even though inflation (currently 3.1% yoy) is outpacing wage growth (2.5% yoy) – Chart 4 – causing real incomes to decline temporarily, households have not, so far, reduced their spending in real terms. Real household consumption expanded by 1.4% in 2017. As inflation has risen above wage growth, households have opened up their wallets more to meet their growing real demand for goods and services. Nominal retail sales growth rose to a post-Lehman high last year – Chart 5. We expect another year of 1.4% real consumption growth in 2018 (the five-year average is 2.1%).

Consistent with historical trends, households are smoothing their consumption

Remember, wage growth is only one of the key components that determine consumption over the economic cycle. Continued healthy job gains add to aggregate household demand and partly offset falling real wages. Meanwhile, household balance sheets have strengthened in the post-Lehman period. Household net wealth is currently at a record high. Households can afford to temporarily save less and borrow a little more until real wages begin to grow again. Consistent with historical trends, households are smoothing their real consumption amid the normal ups and downs in their real incomes.

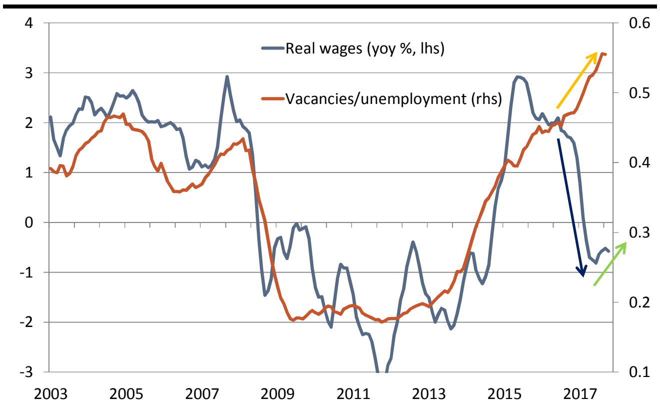
According to vacancy data, labour demand is currently at close to a record high

Households should have a better time of it in 2018. Typically, real wage growth tracks the degree of tightness in the labour market. The shock Brexit vote temporarily forced a gap in this relationship. But as the initial concerns of a collapse in short-term demand after the UK voted to leave the EU have not materialised in a serious way, labour demand has continued to tighten relative to supply. According to vacancy data, labour demand is currently at close to a record high – please see Chart 4 again.

We expect real wage growth to turn positive by Q2 2018

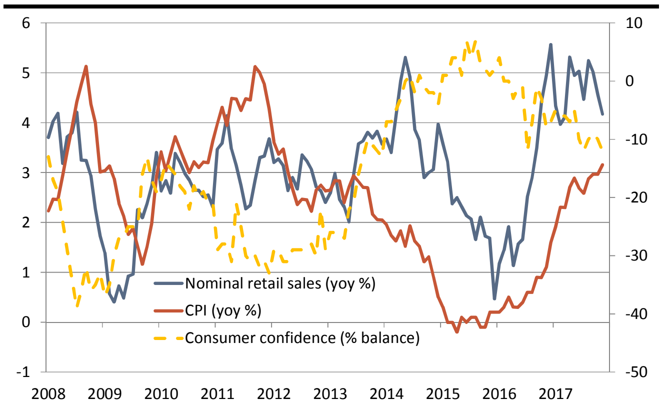
When vacancies rise, it signals that firms want to increase their workforces. And, implicitly, that firms are willing to raise their wage bills. When labour is scarce, firms typically offer higher pay to the candidates they most prefer based on their skills and experience, thereby pushing up total wage growth. We expect real wage growth to turn positive by Q2 2018 before rising towards 1% per year by 2019.

Chart 4: UK's tight labour market points to wage rebound



Monthly data. Real wages = average weekly earnings adjusted by headline CPI. Source: Source: ONS, Berenberg calculations

Chart 5: UK inflation, consumer confidence and spending



Monthly data. Source: GfK, ONS, Berenberg calculations.

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Where is investment heading?

Investment is likely to pick up in 2018 – but it remains weighed down by Brexit uncertainty.

The UK is more or less utilising all of its available means production

Amid the post-Lehman caution, companies have relied on the UK's flexible labour markets to cheaply expand their workforces to raise productive capacities while shying away from big risky investments in illiquid capital. But this process is coming to a natural end. The UK is approaching full employment in the labour market. Meanwhile, measures of capacity utilisation are rising above long-term averages. IMF estimates of the UK output gap suggest the UK is more or less utilising all of its available means of production. With stable demand growth at home and rising demand growth abroad, UK firms need to raise their productive capacities through higher investment in order to meet the growing demand. If they do not, they risk losing market share.

Brexit risks raise the uncertainty on capital investments

Despite the need for investment, the returns on such investments are more uncertain than normal. While the costs of capital remain ultra-low thanks to the expansionary policies of the BoE, Brexit uncertainty clouds the long-run economic outlook. Since no one really knows how much damage Brexit will do to the UK's long-run growth potential, returns on capital investment are highly uncertain. While real gross fixed capital formation (the broadest measure of investment) expanded by an okay 3.1% in 2017 (compared to 1.8% in 2016 and a post-Lehman average of 3.4%) the diminishing slack and rising global demand should have prompted a sharper uptick – Chart 6.

We expect real investment growth to pick up a little to 3.3% in 2018

As long as Brexit uncertainty hangs over the UK, firms will probably remain reluctant to do much more than what is absolutely necessary to just meet the rising demand. We expect real investment growth to pick up a little to 3.3% in 2018, with risks skewed to the upside alongside the upside risks to the global economic outlook. Without Brexit, firms' confidence would be riding high on the back of the synchronised global upswing.

Productivity gains have slowed sharply since the financial crisis

In normal times, firms would be adding new production lines, buying new plants and transforming their means of production, which would help to alleviate some of the UK's productivity woes. UK productivity gains – the major determinant of long-run economic growth – have slowed sharply since the financial crisis – Chart 7.

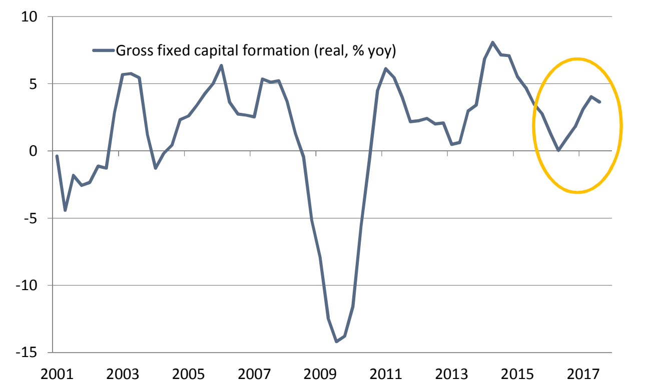
UK workers in Q2 2017 were only about c1.5% more productive than in Q1 2008

Underlying productivity growth probably decelerated well before the post-Lehman recession. Until the crash, this was masked by the credit-fuelled boom in demand and output. At any rate, the slowdown, dubbed the "productivity puzzle", is dramatic. Average annual growth in output per worker has fallen from 1.8% before 2008 to 0.7% thereafter. Due to the sharp fall in output per worker in 2009 and slow recovery, UK workers in Q2 2017 were only about c1.5% more productive than in Q1 2008.

Brexit will probably worsen the UK's productivity problems

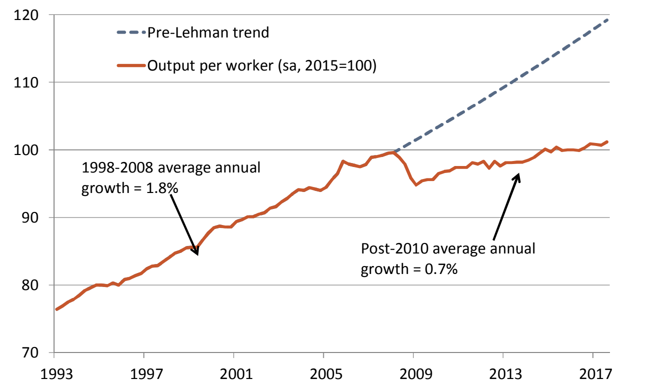
Leaving the EU could hurt UK productivity in two ways. 1) In the near-term, uncertainty lowers companies' willingness to invest. This should, however, prove temporary. Uncertainty should lessen over time as the UK and the EU agree their new terms of trade. 2) In the long run, Brexit could damage the UK's trade and investment relationship with its biggest market, the EU, which will weigh on the recovery in productivity.

Chart 6: UK investment has sagged since 2016



Quarterly data. Source: ONS, Berenberg calculations. Data is in real terms. Annual change calculated based on a rolling four quarter average gross fixed capital formation data series.

Chart 7: UK productivity is still not much higher than in 2008



Quarterly data. Source: Office for National Statistics, Berenberg calculations

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Will the BoE hike interest rates again?

Yes, as inflation risks will continue to dominate downside risks to growth from Brexit

The UK economy seems ready for a continued modest tightening of monetary policy

On the one hand, the BoE is concerned that the short-term risks to demand from Brexit uncertainty could suddenly begin to manifest more seriously. On the other hand, as growth has held up better than the BoE had initially expected since the Brexit vote, while underlying inflationary pressures have risen, the data indicates that the UK economy seems ready for a continued modest tightening of monetary policy.

The BoE became increasingly data dependant in 2017

While the BoE had initially responded to the risks to demand from the Brexit vote by easing its policy in August 2016, it became increasingly data dependent over the course of 2017, eventually hiking its main policy rate by 25bp in November – the first hike in a decade.

The labour market is above the BoE's estimate of full employment

In 2018, we expect the BoE to follow the chorus of central banks, including the Fed and the ECB, that are gradually exiting their accommodative post-Lehman policies in response to rising domestic and global equilibrium interest rates. The labour market is above the BoE's estimate of full employment. The BoE expects the unemployment rate to remain below its estimate of full employment (4.5% unemployment) throughout its forecast. Meanwhile the economy is set to grow at close to the BoE's estimate of potential rate over the medium-term.

We look for two hikes in the Bank Rate in 2018

We look for two hikes in the Bank Rate in 2018, one in Q2 and one in Q4, followed by one in Q3 2019. Even with a modest continued tightening in which the Bank Rate increased to 1.25% by the end of 2019, UK monetary policy would remain highly accommodative.

Borrowing costs in the economy will increase by less than the Bank Rate will rise

In our base case, which seems consistent with the BoE's guidance for "gradual" and "limited" rate hikes, the real policy rate would remain negative and the bank's balance sheet large by historical standards. We also note that that the costs of business and consumer credit and mortgages are set by market forces, not directly by the BoE. The rise in borrowing costs in the real economy is, therefore, likely to be less than any eventual increases in the Bank Rate.

The path of rate hikes depends on how fast wage growth accelerates

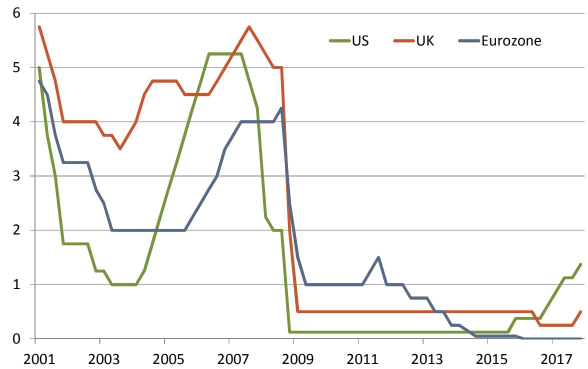
The risks to the outlook for a gradual monetary tightening depend on the outlook for wage growth. Continued tight labour market conditions point to rising nominal wage growth toward 3% by late 2018 from current rates of around 2.3-5%. We expect the BoE to tighten by more (or less) than our base case if wage growth surprises to the upside (or downside).

The BoE is unlikely to begin its balance sheet unwind until well beyond 2020

Unlike the Fed, which has already started to shrink its balance sheet, the BoE is not yet ready to begin to unwind its bond portfolio until after Brexit in March 2019, and realistically, probably not until the early 2020s. Several MPC (Monetary Policy Committee) members have signalled that the BoE wants to return to using its Bank Rate as the primary policy tool again. That means getting the Bank Rate to a sufficiently high level – so that it can be cut by enough to offset a future downturn – before the BoE begins to reduce the size of its balance sheet. As the BoE usually cuts the Bank Rate by around 300bp during a downturn, given the expected slow pace of tightening, an eventual balance sheet unwind still seems very far away.

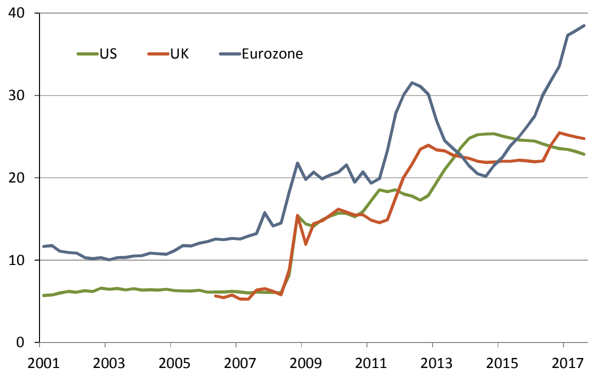
For a detailed analysis on global inflation trend please see Notes on the inflation puzzle, 6 October 2017.

Chart 8: Central bank main policy rates (%)



Quarterly data. US Fed Target Rate, ECB main refi rate, BoE Bank Rate. Source: US Fed, ECB, BoE.

Chart 9: Central bank balance sheets as a % of GDP



Quarterly data. Source: Federal Reserve Board, ECB, BoE.

Is sterling undervalued?

Yes – as long as the UK avoids a no-deal hard Brexit as it leaves the EU.

Historically, sterling has moved in line with the UK's economic performance

By and large, exchange rates reflect the health of economies. As economic fundamentals improve in a country, its exchange rate usually appreciates, and vice versa. Historically, sterling has moved in line with the UK's economic performance. As Chart 10 shows, sterling was strong on a real trade-weighted basis during the pre-Lehman upswing, before declining with the economy during the financial crisis. Although this gap widened after 2009 – partly due to the BoE's easing monetary policy keeping sterling undervalued – the pound had appreciated until 2016 as the economy recovered.

When the UK voted for Brexit sterling took a big leg down

In early 2016, as the Brexit polls began to narrow, markets began to seriously price in the prospect of the UK leaving the EU. Sterling depreciated in the run up to the Brexit vote, despite the continued economic expansion. When the UK voted for Brexit on 23 June 2016, sterling took another big leg down. Comparing the November 2015 peak to the October 2016 low, sterling dropped by c22% because of the Brexit vote.

Sterling is currently 13% below its long-term real trade-weighted average

Despite continued resilient growth, the hard Brexit risk has weighed on the pound, which remains at the low levels seen during the financial crisis versus its major pairs, the euro and the dollar – Chart 11. Sterling is currently 13% below its long-term real trade-weighted average.

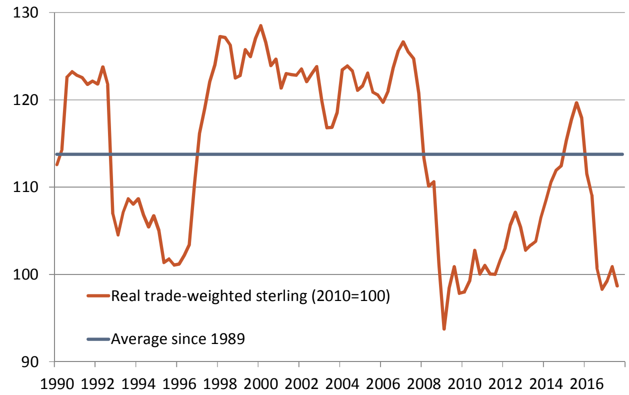
Currently, sterling embodies a range of potential outcomes for Brexit

What is the outlook? Currently, sterling embodies a range of potential outcomes for Brexit. That includes the risk of a hard Brexit, which could reduce UK trend growth to below 1.5% from its pre-Brexit rate of more than 2.0%. As long as there is a risk of a hard Brexit – we see a 20% chance – markets will remain reluctant to act on the continued resilient short-run economic data. After all, who knows what the economy will look like in 18 months' time if the UK crashes out of the EU without a trade deal?

In the long run sterling is probably undervalued by between 5% and 10%

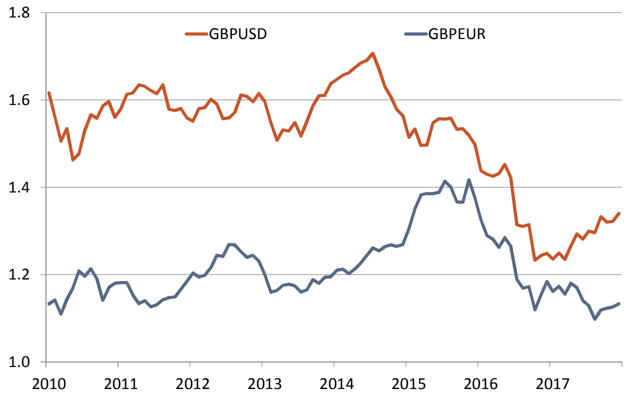
If the UK avoids a hard Brexit, we expect GBPUSD to rise to 1.43 by the end of 2019 from its current rate of 1.35 and GBPEUR to rise to 1.16 from its current rate of 1.13. In the long run, with potential growth of between 1.5% and 7% (our Brexit base case) sterling is probably undervalued on real trade-weighted basis by between 5% and 10%.

Chart 10: Sterling at its lowest since 2009



Quarterly data. Data shows sterling real trade-weighted sterling: consumer price basis (2010=100). Source: IMF, Berenberg calculations.

Chart 11: Sterling versus the euro and the dollar



Monthly data. Data are in nominal terms. Source: BoE.

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Apart from Brexit what other economic risks are there?

We see risks in four areas: the housing market, fiscal policy, the BoE and the global economy.

A downturn in the housing market: The London housing market started to correct in 2017 after a sustained surge in prices since 2012. Since the Lehman-recession, the London property market has served as a safe haven for foreign capital. But because of the large influence of foreign demand, which does not affect the broader national market much, London exhibits its own unique dynamics. The slowdown in the dominant London market is the main reason why the growth rate in national house prices has slowed – Chart 12.

The London housing market can exhibit its own cyclical dynamics

It is hard to imagine a scenario where a nationwide fall in house prices did not trigger a sharp contraction in aggregate household spending. Household spending exhibits strong wealth effects as house prices fluctuate. Historically, national house prices and aggregate household consumption have tracked closely at a ratio of around four to one – a 10% yoy rise in house prices would normally imply around 2.5% yoy growth in consumption.

Household spending exhibits strong wealth effects as house prices fluctuate

Unlike in previous upswings, the rest of the UK has not matched the upswing in London. Without the upswing, the national market is thus less vulnerable to a downturn. House prices outside London are still well below their pre-Lehman peak. Meanwhile, London prices are c30% higher in real terms. For now, risks in the housing market do not pose a significant threat to our outlook for continued modest economic growth. However, Brexit uncertainty could make the regional UK market more vulnerable to deterioration in the London market spreading elsewhere, so we watch this risk carefully.

Brexit could mean that the deterioration in the London could market spread

A persistent fiscal deficit leaves the economy vulnerable to shocks – Chart 13. A sound fiscal position is an asset that can be drawn upon in times of need. If the UK suddenly and unexpectedly entered recession, the weakness of the public balance sheet would mean that, as unemployment increased, the deficit would rise to an unsustainable level, as it did during the financial crisis. This automatic surge in the deficit would limit the government's ability to commit additional discretionary spending to enable a quick recovery.

A persistent fiscal deficit leaves the UK economy vulnerable to shocks

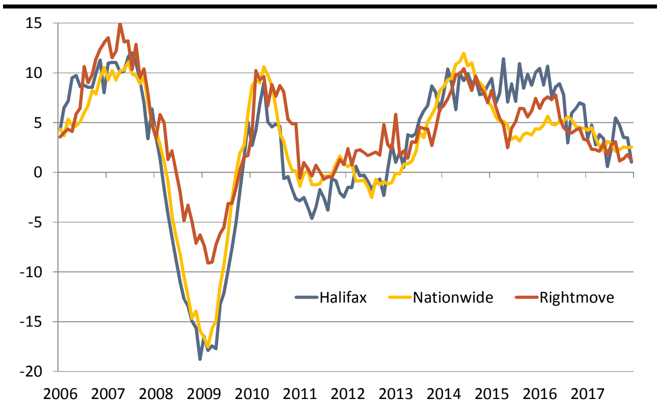
The BoE could fall behind the curve: If upside risks to the growth outlook materialise and the BoE tightens too gradually, demand could overheat relative to the subdued (Brexit related) rate of supply growth. The backdrop of accelerating global demand adds to this risk. Eventually, the need to correct credit-fuelled excesses in household spending or fight a surge in inflation via a sharp increase in the BoE Bank Rate could cause a recession.

If the BoE tightens too gradually demand could overheat

The global cycle comes to an early end: Most importantly, could the upside surprise on real GDP growth in 2017 for advanced countries herald an unexpectedly strong surge in inflation in 2018? After years of ultra-low inflation, we detect no evidence yet of critical excesses in investment or production, or that wage and price inflation may accelerate excessively in major parts of the advanced world. However, these are the future risks to watch at the upswing shifts gradually from mid to late-cycle.

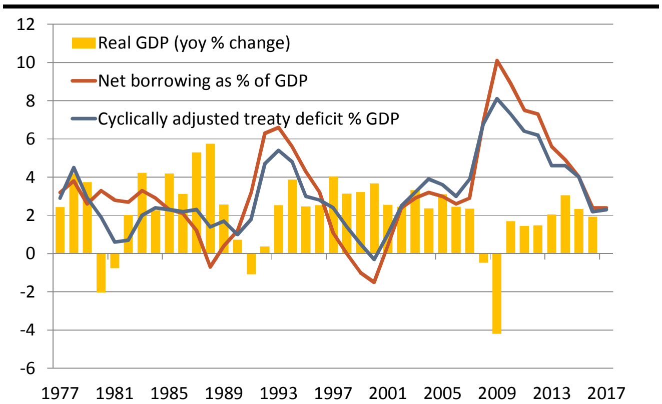
We do not yet see major signs of excess in the global economy

Chart 12: House prices growth is slowing



Monthly data. Data are in nominal terms. Source: Halifax, Nationwide, Rightmove, Berenberg.

Chart 13: Fiscal position leaves the UK vulnerable to shocks



Annual data. Deficit data correspond to UK fiscal year and are Maastricht treaty definitions. Source: ONS, OBR, Berenberg calculations.

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What are the risks from far-left Jeremy Corbyn?

We see a 15% chance that Jeremy Corbyn becomes Prime Minister before 2022.

The leading Conservative Party is badly divided on the issue of Brexit and the public's confidence in its ability to make a success of Brexit has dwindled since Prime Minister Theresa May lost her party's slim majority in snap elections in June 2017. After last year's disappointing party conference and capitulation to the EU on the Brexit divorce terms, markets have wondered if May could resign, leading to early elections.

Markets wonder if May could resign, thereby prompting early elections

That the Brexiteers and moderates within the Conservative Party have not yet agreed on a strategy for negotiating post-Brexit trade with the EU, and that the Northern Irish Democratic Unionist Party – with which the Conservatives are in a flimsy confidence-and-supply coalition – needs to back any strategy, leaves open the risk that the government could fall apart in 2018. But now that there has been some progress in the talks this risk is a bit lower than before.

Building a consensus on Brexit will be tough for the UK's divided government

Labour is marginally ahead, according to the latest opinion polls – Chart 14. But the likely reality is that a more centrist Labour leader would be much further ahead given the Conservatives' record. In a way, the risk that far-left Jeremy Corbyn could end up in Number 10 is the glue that binds the opposing factions of government together. If the UK avoids a hard Brexit and a major economic slump, the Conservatives will probably edge ahead again in the polls. We see only a 15% chance that Corbyn could become Prime Minister before the next scheduled general election in 2022 (down from 20% in October 2017).

We see a 15% chance that Corbyn could become Prime Minister before 2022

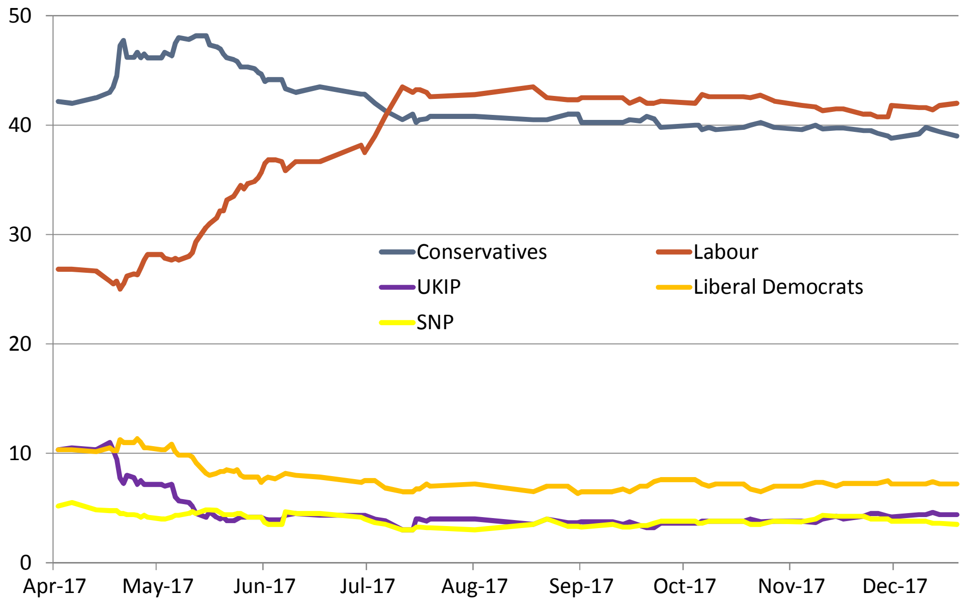
Labour's policy on Brexit is unclear. Labour leader Corbyn comes from the far-left fringes of British politics that have traditionally viewed the EU as some sort of capitalist conspiracy. But since his party base holds more-favourable views towards Europe than the Conservatives do, Labour would probably seek to soften Brexit in the end or even reverse it through a second referendum (5% chance).

Labour's policy on Brexit is unclear

On the economy, Corbyn will likely follow a misguided policy of expanding the state via increased public ownership in key industries alongside higher taxation and public spending. By inhibiting the private sector's capacity to create wealth, such policies would further weaken the UK's long-term productivity outlook. The run risks to growth could exceed the potential upside coming from the more-limited negative impact of Brexit.

Corbyn's economic policies would worsen the outlook for productivity growth

Chart 14: Labour are a notch ahead in the polls



UK opinion polls. Source: National polls. Three-poll moving average. 8 June 2017 election results: Conservatives (42.4%), Labour (40.0%) LD (7.3%), SNP (3.1%) and UKIP (1.8%). SNP: Some data points include voting intentions for Plaid Cymru.

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What is the most likely outcome in the Brexit negotiations?

A semi-soft Brexit that reduces UK long-run potential growth to 1.5-7%.

The following is a summary of our detailed analysis on the potential long-term impact of Brexit in different scenarios, as set out in Brexit scenarios: now for the hard part, 15 December 2017.

Transition talks will begin in 2018

After the UK and the EU broadly settled the terms of divorce in December 2017, negotiators will undertake talks for a transition period and future UK-EU trade during 2018. These must be completed by October 2018 to give the EU27 six months to ratify any deal.

Any hope of a trade deal rests on finding an answer to the Irish border question

Any hope of a future trade deal rests on finding an answer to the critical Irish border question. The UK's aim to leave the customs union seems to contradict the need to preserve the status quo in Ireland. But as part of the mutually agreed divorce, the UK has pledged to prioritise the status quo in Ireland over leaving the single market and the customs union. While this provides the grounds for a potentially (very) soft Brexit, it also crosses key red lines of the Brexiteers. This contradiction will come to a head in the UK debate before the UK and the EU can settle on a framework deal for future trade.

The potential outcomes can be grouped into four Brexit scenarios – see Table 1 for more details and the likely impacts on the UK's long run economic growth:

30% change of a soft Brexit

Soft Brexit (30% chance): As two-thirds of the members of the UK parliament are pro-EU, such a deal would probably obtain a majority backing in parliament. If faced with a choice between no more than a basic free trade arrangement covering only goods and a comprehensive "Norway-minus" deal, the UK could go for the latter.

45% chance of a semi-soft Brexit

Semi-soft Brexit (45%): This is the most likely scenario. The UK stays close enough to EU rules for many goods and some services to avoid a hard border in Ireland. UK remainers could support a deal that keeps the UK partly aligned with the EU, while the Brexiteers could back such an agreement as it would offer the UK some room to pursue its non-EU ambitions. The UK and the EU could probably find a solution to the Irish question – possibly a bespoke customs arrangement.

20% chance of a hard Brexit

No deal – hard Brexit (20%): With so many interests – and careers – at stake, the risk that talks could fail at any point remains a serious one.

5% chance of no Brexit

No Brexit (only 5% probability): The only possible route to a reversal of Brexit would be through fresh elections that ended up with either Labour or some Labour-led coalition with the pro-EU Liberal Democrats and Scottish National Party, going for a second referendum that reversed the result of the first.

Table 1: Possible scenarios for UK post-Brexit economic relations with the EU

	EU member/No Brexit	Soft Brexit	Semi-soft Brexit	Hard Brexit
Probability	***(5%)***	***(30%)***	***(45%)***	***(20%)***
Free trade within the area	Yes	Yes on almost most goods and many non- financial services	Yes for most goods but very few services	No
Financial passporting within EU	Yes	No – but with some potential for equivalence agreements	No	No
Customs union with EU (no border checks)	Yes	No	No	No
Free to set external trade policy	No	Yes in all markets not covered by the customs union	Yes in all markets not covered by the customs union	Yes
Covered by EU external trade agreements	Yes	No	No	No
Free movement of people	Yes	Yes with few exceptions	Some restrictions on EU citizens entering the UK labour market	No
Votes on EU laws/regulations	Yes	No	No	No
Under ECJ jurisdiction[1]	Yes	Yes indirectly	Yes indirectly	No
Contribution to EU budget	Yes	Yes	Some	No
Long-term trend growth (%, pa)	>2.0%	1.7-1.9%	1.5-1.7%	<1.5%

[1] *As the ECJ adjudicates on all Single Market issues, countries in customs union or agreements with the EU as well as EEA countries are indirectly under the jurisdiction of the European Court of Justice (ECJ). Source Berenberg*

UK forecast summary

		2016	2017	2018	2019	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
GDP	% y/y	**1.9**	**1.8**	**1.8**	**1.9**	2.1	1.9	1.7	1.5	1.6	1.8	1.8	1.8	1.8	1.8	1.9	2.0
	% q/q					0.3	0.3	0.4	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.5
	%q/q ann.					1.2	1.2	1.6	1.9	1.9	1.7	1.8	1.8	1.7	2.0	2.1	2.1
Private Consumption	% y/y	**2.9**	**1.4**	**1.4**	**1.9**	2.3	1.4	1.0	0.9	1.2	1.4	1.4	1.7	1.8	1.9	2.0	2.0
	% q/q					0.1	0.2	0.4	0.2	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Government Consumption	% y/y	**0.8**	**0.3**	**0.5**	**0.5**	-0.1	0.6	0.3	0.4	0.4	0.2	0.7	0.7	0.7	0.6	0.4	0.2
	% q/q					0.1	0.4	-0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.0	0.0
Investment	% y/y	**1.8**	**3.1**	**3.3**	**4.0**	4.3	3.3	2.4	2.4	2.9	2.9	3.6	3.9	3.6	3.9	4.1	4.5
	% q/q					0.5	1.0	0.3	0.6	1.0	1.0	1.0	0.8	0.8	1.2	1.2	1.2
Final Domestic Demand [1]	% y/y	**2.4**	**1.5**	**1.6**	**2.0**	2.1	1.5	1.1	1.1	1.3	1.5	1.7	1.9	1.9	2.0	2.0	2.1
	% q/q					0.2	0.3	0.3	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Net Exports [1]	% y/y	**-0.8**	**0.7**	**-0.1**	**-0.2**	0.5	0.4	1.9	0.2	0.3	-0.2	-0.2	-0.3	-0.2	-0.2	-0.2	-0.3
	% q/q					-0.2	0.4	0.0	0.0	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1
Stockbuilding [1]	% y/y	**-0.2**	**-0.3**	**0.2**	**0.1**	-0.5	-0.2	-0.6	-0.1	-0.1	0.4	0.3	0.2	0.1	0.1	0.1	0.1
	% q/q					0.1	-0.5	0.1	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Current Account Balance	GBP bn	**-113.6**	**-92.0**	**-81.8**	**-72.6**	-21.6	-25.8	-22.8	-21.8	-21.3	-20.7	-20.2	-19.6	-19.0	-18.4	-17.9	-17.3
	% of GDP	**-5.8**	**-4.5**	**-3.8**	**-3.3**	-4.3	-5.1	-4.5	-4.3	-4.1	-3.9	-3.8	-3.7	-3.5	-3.3	-3.2	-3.1
Industrial Production [2]	% y/y	**1.3**	**2.1**	**2.9**	**2.0**	2.8	0.6	2.4	2.7	2.8	3.5	2.8	2.4	2.4	2.1	1.8	1.5
	% q/q					0.4	-0.1	1.3	1.0	0.6	0.6	0.6	0.6	0.6	0.3	0.3	0.3
Unemployment Rate [2]	%	**4.9**	**4.4**	**4.3**	**4.3**	4.6	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
CPI [2]	% y/y	**0.6**	**2.7**	**2.8**	**2.4**	2.2	2.8	2.8	3.1	3.0	2.8	2.7	2.6	2.6	2.5	2.4	2.3
General Govt. Balance [3]	% of GDP	**-3.0**	**-2.7**	**-2.5**	**-2.3**												
General Govt Debt [3]	% of GDP	**89.3**	**89.1**	**87.7**	**86.4**												
BoE Bank Rate [4]		**0.50**	**0.50**	**1.00**	**1.25**	0.25	0.25	0.25	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.25	1.25

[1] Contribution to GDP growth [2] Period averages [3] Maastricht basis [4] End period

Berenberg compared to consensus

GDP (% y/y)	2018	2019
Berenberg	1.8	1.9
Bloomberg consensus	1.4	1.4
Difference	*0.4*	*0.5*
Bank of England	1.6	1.7
OBR	1.4	1.3

Unemployment (%)	2018	2019
Berenberg	4.3	4.3
Bloomberg consensus	4.5	4.6
Difference	*-0.2*	*-0.3*
Bank of England	4.2	4.2
OBR	4.3	4.4

CPI (% y/y)	2018	2019
Berenberg	2.8	2.4
Bloomberg consensus	2.5	2.1
Difference	*0.3*	*0.3*
Bank of England	2.4	2.2
OBR	2.4	1.9

Source: Bloomberg consensus taken on 9 January 2018, Bank of England, Office of Budget Responsibility, Berenberg. Numbers may not add up due to rounding. The shading illustrates whether Berenberg forecasts are stronger (green) or weaker (red) than consensus

For a full set of detailed global forecasts, please see: Forecasts at a glance – firm growth, no exuberance yet

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