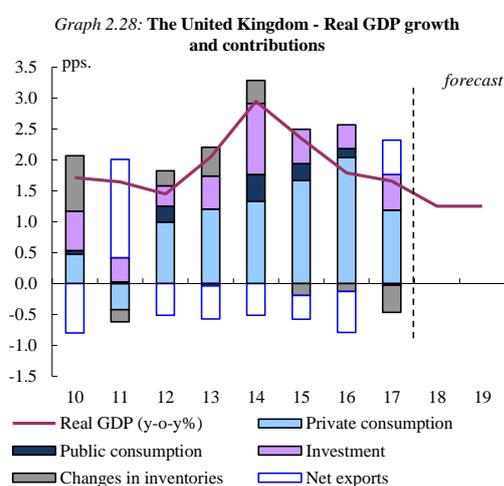


## 2.28. THE UNITED KINGDOM

Economic growth in the UK slowed significantly at the start of 2018: GDP growth was 0.2% (q-o-q) in 2018-Q1 down from 0.4% in 2017-Q4. This slowdown was in part due to severe weather disruption in March. High frequency indicators suggest that the output lost in 2018-Q1 will not be recovered in 2018-Q2, which is consistent with surveys indicating that firms in the construction and manufacturing sectors are facing capacity constraints and are therefore unable to make up for lost output.

For 2018 as a whole, private consumption growth is expected to remain subdued despite support from generally easing inflation, reflecting low consumer confidence and an anticipated stabilisation in the household saving rate. Business investment growth is projected to remain weak while uncertainty over the UK's future trading relationship with the EU remains. Net trade is expected to moderate in 2018, in line with the unwinding of the boost from sterling's 2016 depreciation and moderating export market growth. Reflecting this outlook, modest GDP growth of 1.3% in 2018 is forecast. Risks to the 2018 forecast are tilted to the downside. Domestically, downside risks relate to the possibility that the household saving rate rises faster than anticipated leading to lower consumption growth. While on the external side, as an open economy, the UK is particularly exposed to an escalation in trade protectionist measures that could further inhibit export growth.



Given the ongoing negotiation over the terms of the UK's withdrawal from the EU, projections for 2019 continue to be based on a purely technical assumption of status quo in terms of trading relations between the EU27 and the UK. This is for forecasting purposes only and has no bearing on the talks underway in the context of the Article 50 process. Under this assumption, GDP growth is projected to remain weak at 1.2% in 2019. The boost from lower consumer price inflation on private consumption is expected to be offset by a rise in the household saving rate. Business investment is projected to remain subdued following a period of prolonged uncertainty. Export growth is expected to remain modest, broadly in line with growth in export markets. However, as the purely technical assumption implies a relatively benign scenario, the risks to the 2019 baseline forecast are large and predominantly to the downside.

Consumer price inflation is expected to remain elevated in 2018 at 2.6% but to slow over the course of the year. The impact of the recent rise in oil prices should partly offset the unwinding of the pass through sterling's earlier depreciation on consumer prices. Inflation is projected to ease to 2.0% in 2019.