

COUNTRY

Economic Market Snapshot

Quarter | 2016

Overview

Q4 2015 GDP growth has been revised up to 0.6%, while there have also been upward revisions to growth in previous quarters, mainly due to a stronger than expected performance in the services sector. Full year growth for 2015 is now estimated to have been 2.3%. Downside risks remain, however, with concerns rising over global economic and financial uncertainty and the possibility of Brexit.

Stronger consumer spending in the short term

Household consumption increased by 2.8% in 2015, which is the strongest annual performance since 2007. Inflation is forecast to remain low at around 0.5% in 2016, due to low prices, the recent gas price cuts and weak core inflationary pressures. This, combined with low interest rates and an improving labour market will underpin further improvements in purchasing power and spending this year. Medium term prospects for spending are more subdued, however, due to government plans to reduce welfare spending by around £12bn by 2019, which is expected to more than offset the boost from the introduction of the national living wage.

Subdued outlook for investment and exports

Greater uncertainty, both at home and abroad, has weighed on business sentiment and recent surveys indicate that firms' are keeping investment plans on hold as they consider the implications of Brexit. Business investment fell by 2.0% in Q4 2015, while the forward looking services PMI indicator for Q1 was at its weakest level for 3 years. The business surveys also suggest that exporters are continuing to struggle, despite the sterling's recent depreciation.

No change in interest rates in 2016

The UK's economic fundamentals are strong and healthy labour market conditions should help sustain growth, but uncertainty regarding the EU referendum in June continues to cloud the short term outlook for the economy. The government plans to tighten fiscal policy significantly over the next 3 years, which will impact on sentiment and growth, particularly if monetary policy is tightened too aggressively. Consequently, market expectations for the timing of an interest rate hike have become increasingly dovish since the start of the year, with the first rise now expected in late 2018.

MARKET INDICATORS

Market Outlook

GDP:	Marginally slower growth in 2016; still one of the strongest performers in the EU in the medium term.	▼
Inflation:	Modestly increasing, but low energy prices will partially offset demand side price pressures.	▼
Interest rate:	Now expected to remain on hold until 2018, unless there is evidence of sustained growth in wages.	►
Employment:	Employment growth may stabilise in the short term, as firms hold off on expansion plans in H1 2016.	►

Economic Summary

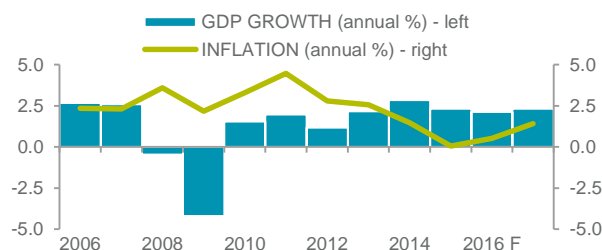
ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	2.2	2.9	2.3	2.1	2.3
Consumer Spending	1.9	2.6	2.8	2.5	2.1
Industrial Production	-0.8	1.3	1.0	-0.1	1.2
Investment	2.6	7.3	4.1	3.4	5.6
Unemployment rate (ILO%)	7.6	6.2	5.4	5.1	5.0
Inflation	2.6	1.5	0.1	0.5	1.4
EUR/GBP (average)	1.18	1.24	1.38	1.28	1.35
USD/GBP (average)	1.56	1.65	1.53	1.39	1.43
Interest Rates: 3-month (%)	0.5	0.5	0.6	0.6	1.0
Interest Rates: 10-year (%)	3.1	1.8	2.0	2.1	2.6

NOTE: ^Eannual % growth rate unless otherwise indicated. ^F estimate ^F forecast
Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	65.2 million (2015)
GDP	US\$ 2,850.2 billion (2015)
Public Sector Balance	-4.4% of GDP (2015)
Public Sector Debt	89.2% of GDP (2015)
Current Account Balance	-5.2% of GDP (2015)
Parliament	A Conservative majority government
Head of State	Queen Elizabeth II
Prime Minister	David Cameron
Election Dates	May 2020

Economic Activity



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