

Global economic outlook and the UK economy

- A.10.1. The medium term outlook for the UK economy is dominated by the negotiations to leave the European Union. The long-term position of the UK economy will be largely dependent on the agreements the Government is able to secure with the EU and other countries.
- A.10.2. The global environment is also riddled with uncertainty, with repercussions for financial market volatility and long-term interest rates. Donald Trump's victory in the US general election and Brexit are symptomatic of the popular disaffection with globalisation trends. The potential rise in protectionism could dampen global growth prospects and therefore inflation. Financial market volatility will remain the norm for some time.
- A.10.3. However, following significant global fiscal and monetary stimulus, the short-term outlook for the global economy is somewhat brighter than earlier in the year. US fiscal stimulus is also a possibility following Trump's victory.
- A.10.4. Recent data present a more positive picture for the post-Referendum UK economy than predicted due to continued strong household spending.
- A.10.5. Over the medium term, economic and political uncertainty will likely dampen investment intentions and tighten credit availability, prompting lower activity levels and potentially a rise in unemployment.
- A.10.6. The currency-led rise in CPI inflation (currently 1.6% December 2016) will continue, breaching the target in 2017, which will act to slow real growth in household spending due to a sharp decline in real wage growth.
- A.10.7. The depreciation in Sterling will, however, assist the economy to rebalance away from spending. The negative contribution from net trade to GDP growth is likely to diminish, largely due to weaker domestic demand. Export volumes will increase marginally.
- A.10.8. Given the pressure on household spending and business investment, the rise in inflation is highly unlikely to prompt monetary tightening by the Bank of England, with policymakers looking through import led CPI spikes to the negative effects of Brexit on economic activity and, ultimately, inflation.
- A.10.9. Bank of England policymakers have, however, highlighted that excessive levels of inflation will not be tolerated for sustained periods. Given this view and the current inflation outlook, further monetary loosening looks less likely.
- A.10.10. Globally, the outlook is uncertain and risks remain weighted to the downside. The UK domestic outlook is uncertain, but likely to be weaker in the short term than previously expected.
- A.10.11. The likely path for the Bank Rate is weighted to the downside. The Arlingclose central case is for Bank Rate to remain at 0.25%, but there is a 25% possibility of a drop to close to zero, with a very small chance of a reduction below zero.

A.10.12. Gilt yields have risen since the US presidential election, but remain at low levels. The Arlingclose central case is for yields to decline when the government triggers Article 50.