

INVESTMENT SOLUTIONS & PRODUCTS

Global Macroeconomic Analysis

May 2017

Camera di Commercio Cantone Ticino

# UK economy at a tipping point

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# Brexit – when headlines (and forecasts) go wrong

Thanks to Brexit, a new global financial crash is looming

More vulnerable economies risk slipping back into recession and deflation hand

Voices

*When will the British economy fall into recession following the Brexit vote?*

The issue is really whether this slowdown will be serious enough to dip the economy below the waterline for two quarters, or whether it will remain just above it

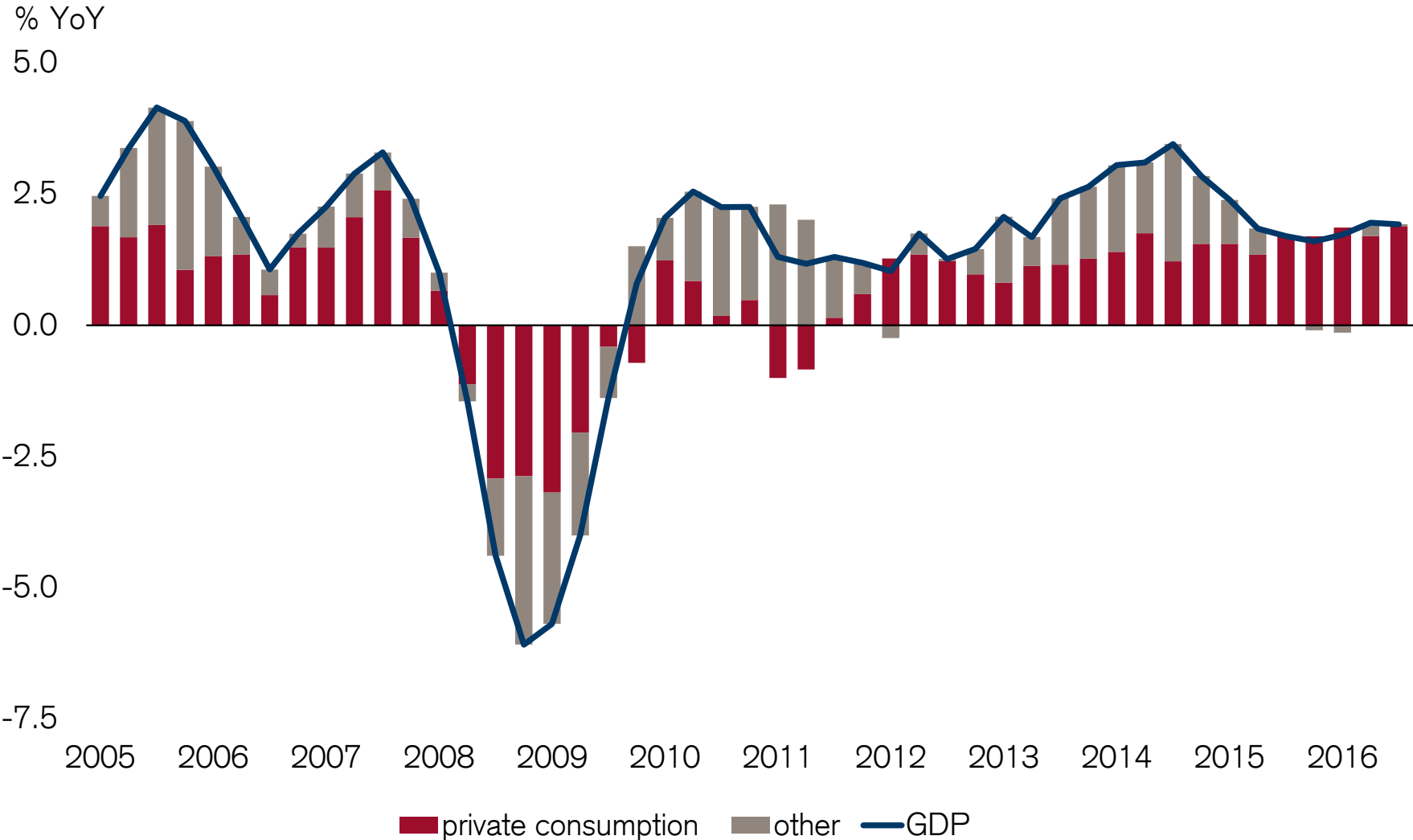
Brexit raises risk of global recession as financial markets plunge worldwide

PHOTO GALLERY

HART  
SCHAFFNER  
MAYR

Source: Online editions of South China Morning Post, Independent, Chicago Tribune

# Remarkable resilience of UK economy post-referendum...



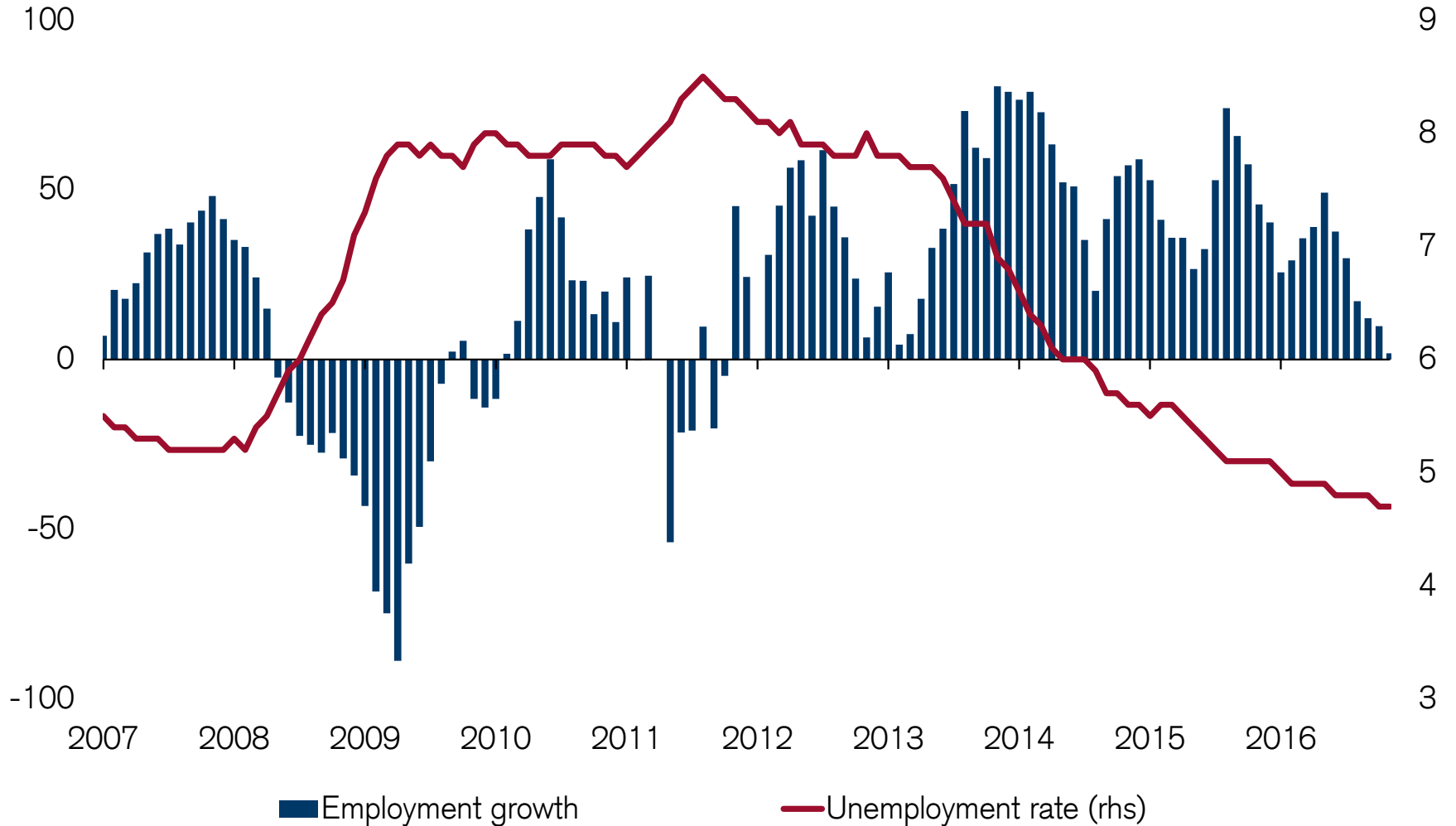
Last data point: Q4/2016

Source: Datastream, Credit Suisse / IDC

# ... with unemployment remaining very low

Average monthly growth (6mma), 1'000 persons

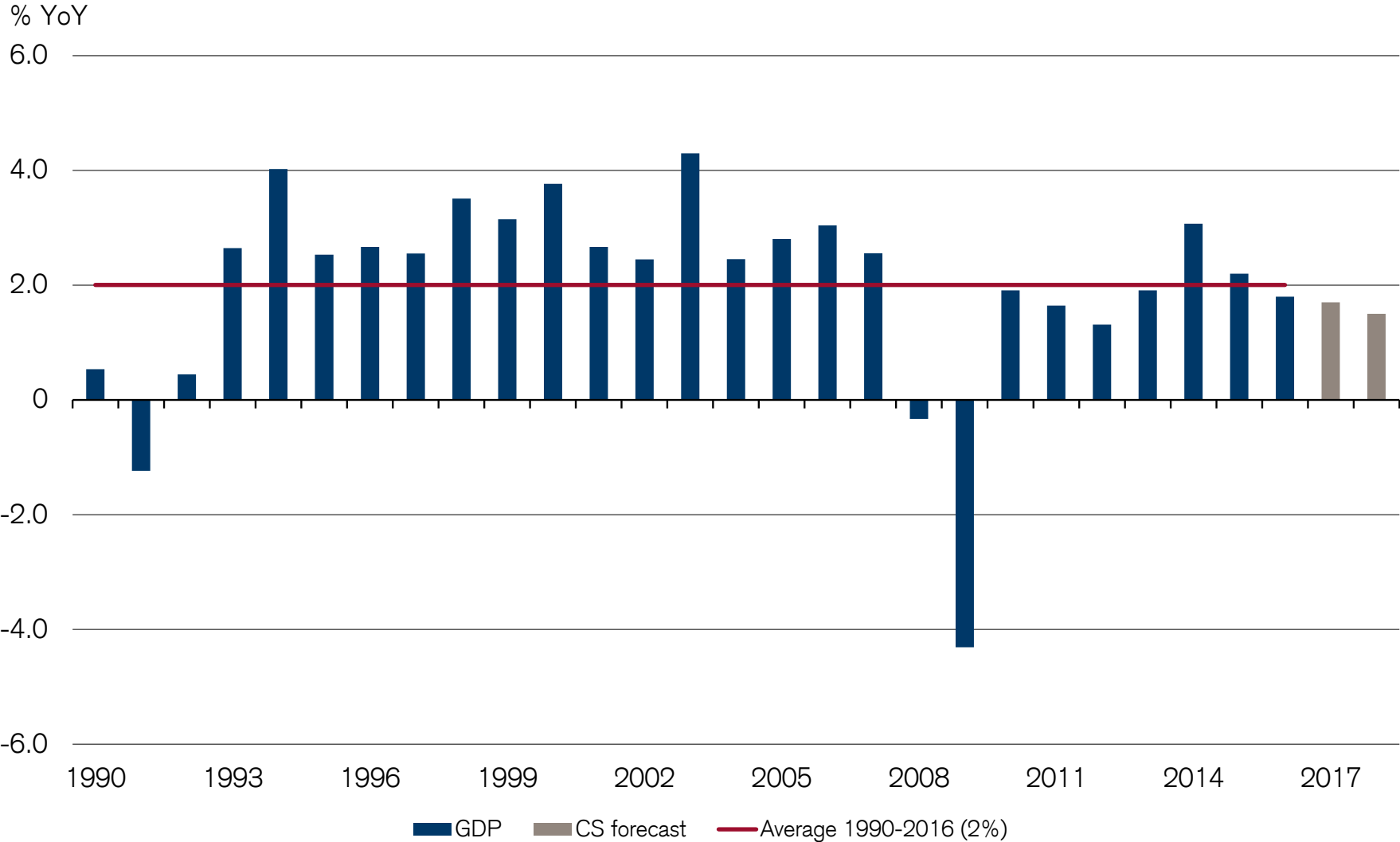
% (3mma)



Last data point: 06.04.2017

Source: Datastream, Credit Suisse / IDC

# However, we still expect growth to slow



Last data point: Q4/2016

Source: Datastream, Credit Suisse / IDC

# Concern 1: Weaker GBP has spurred inflation

GBP trade weighted exchange rate (01.01.2008 = 100)



Last data point: 20.03.2017

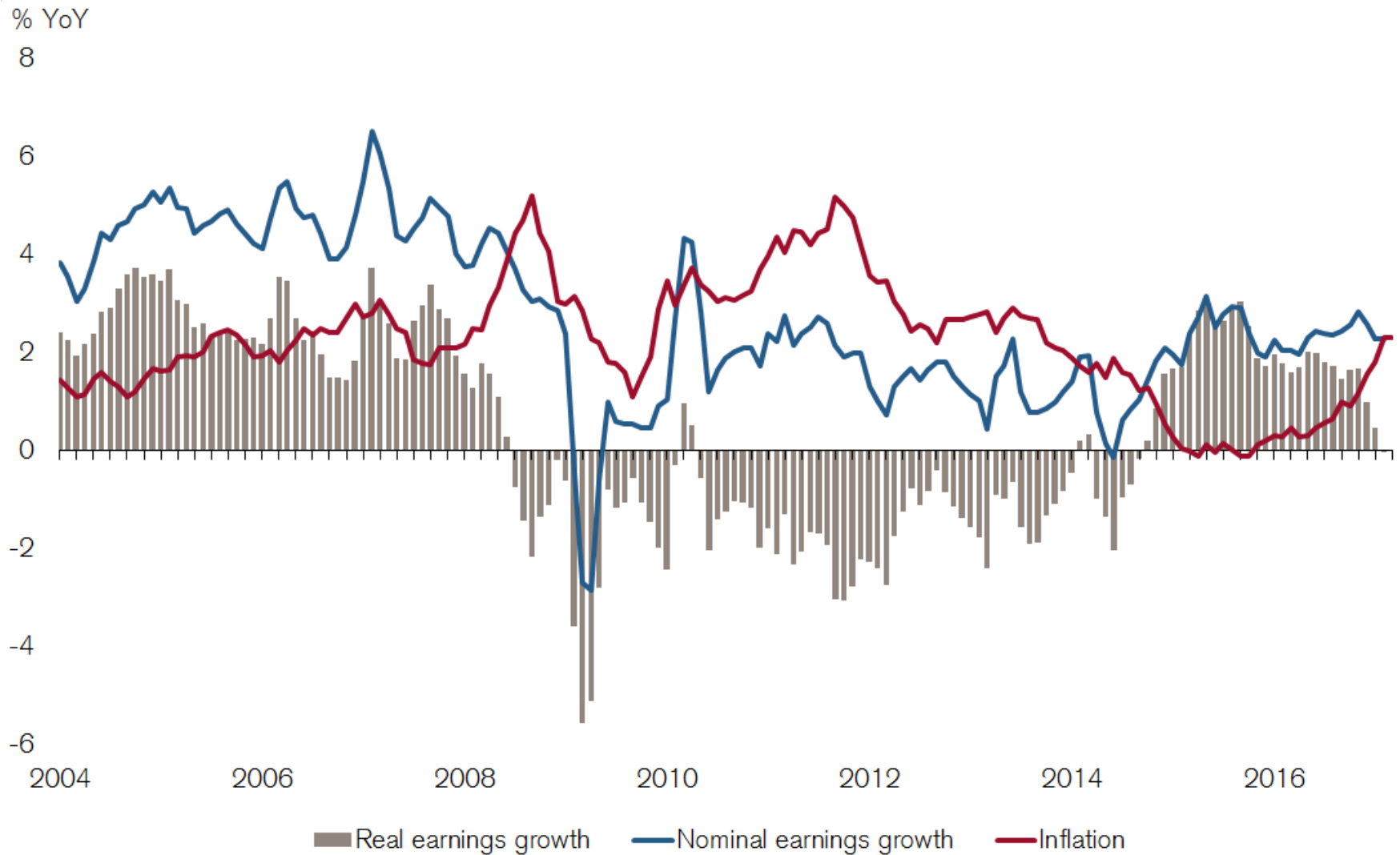
Source: Bloomberg, Credit Suisse / IDC

# Less Toblerone for the same price



Source: AP

# Inflation is squeezing real incomes

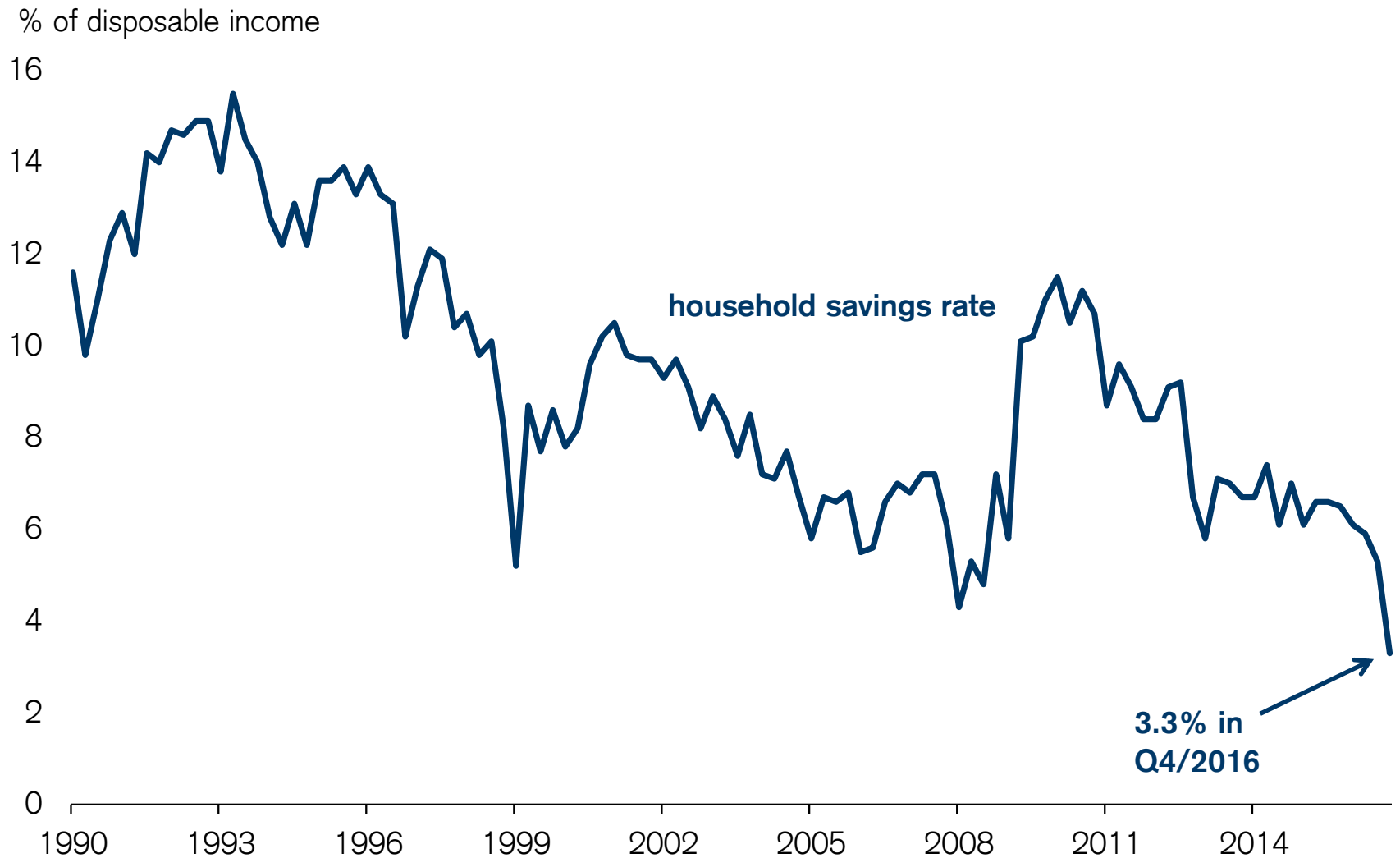


Last data point: 15.03.2017

Source: Datastream, Credit Suisse / IDC



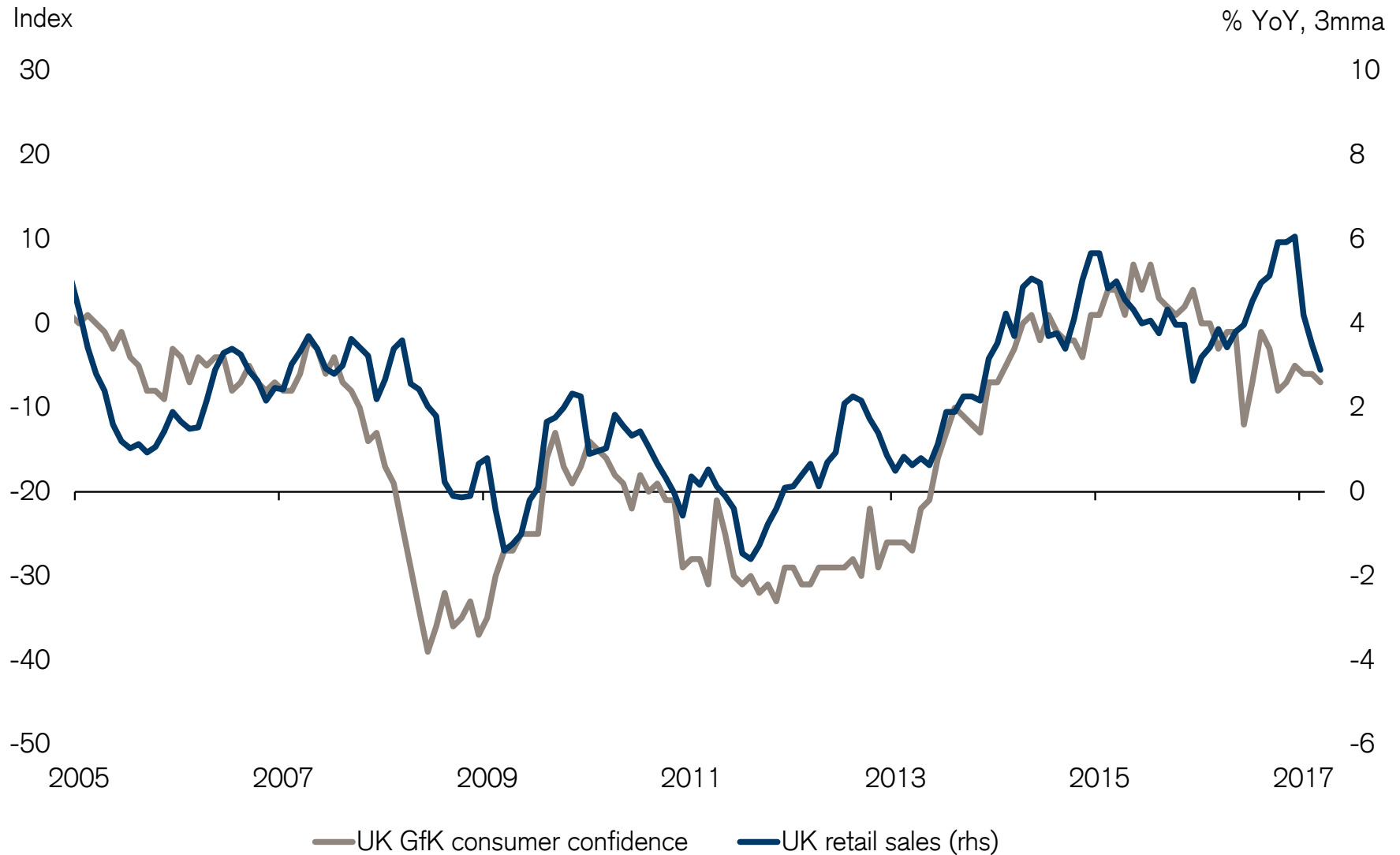
# Dramatic drop in the savings rate a warning sign



Last data point: 15.11.2016

Source: Datastream, Credit Suisse / IDC

# Consumer confidence hit, consumption to follow?



Last data point: 31.03.2017

Source: Bloomberg, Credit Suisse / IDC

# Fading wealth effects from the housing market

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### UK house prices in first quarterly fall since 2012

8 May 2017 Business 757

f t w e Share

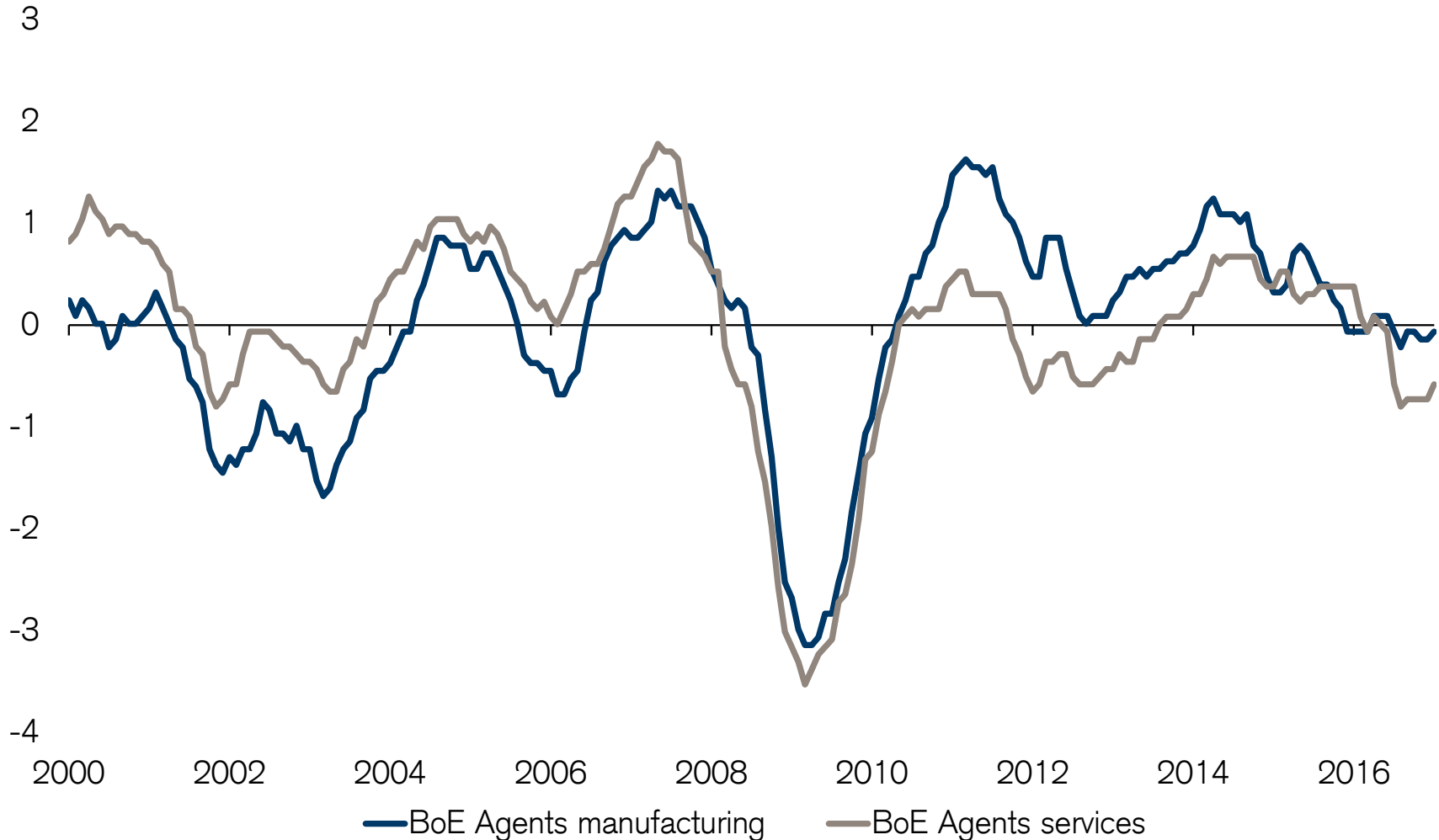


- Rightmove: 2.2% YoY
- Nationwide: 2.6% YoY

Source: BBC, Bloomberg

# Concern 2: investment – companies now more cautious

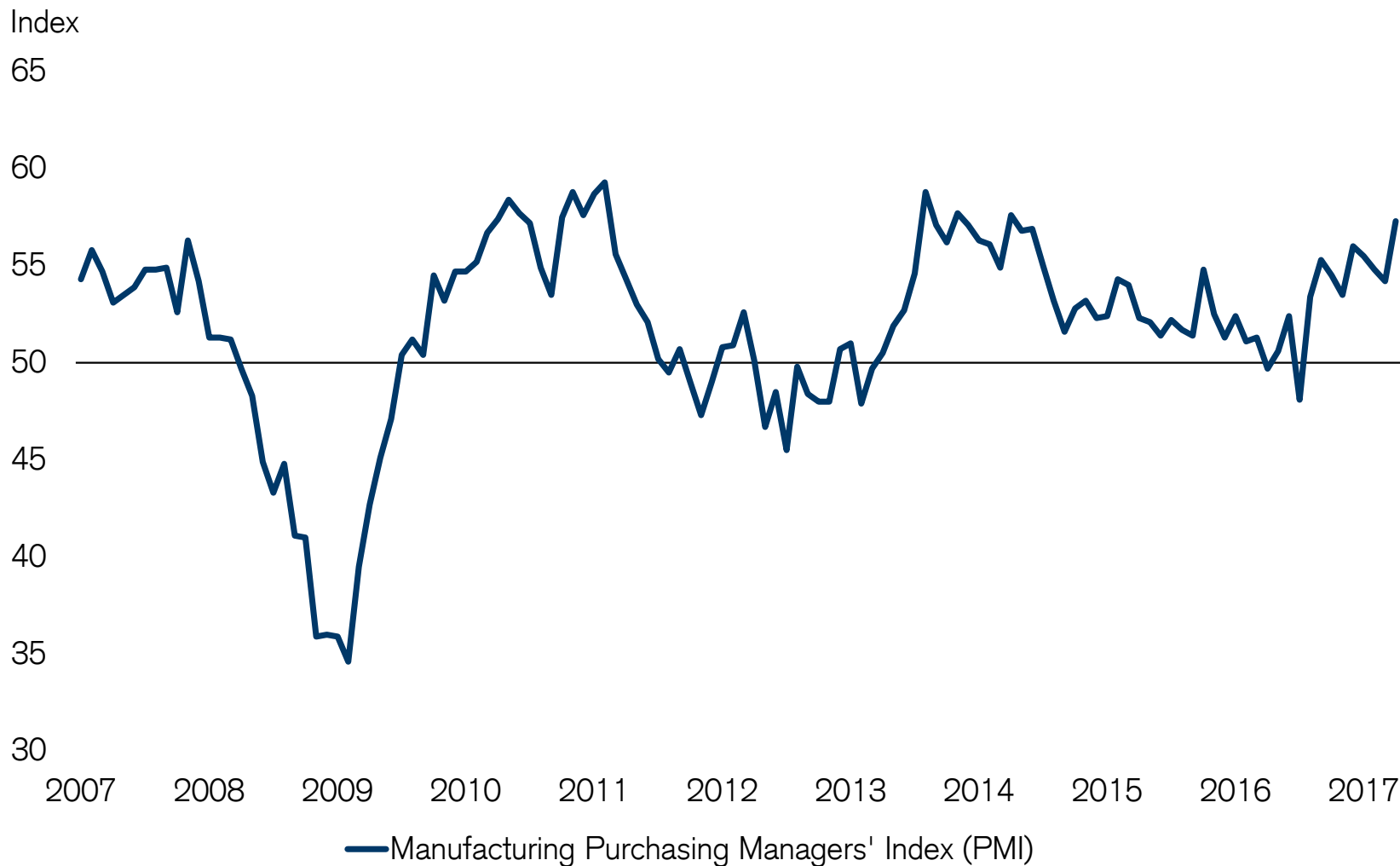
Investment intentions, standardized index



Last data point: Jan 2017

Source: Datastream, Credit Suisse / IDC

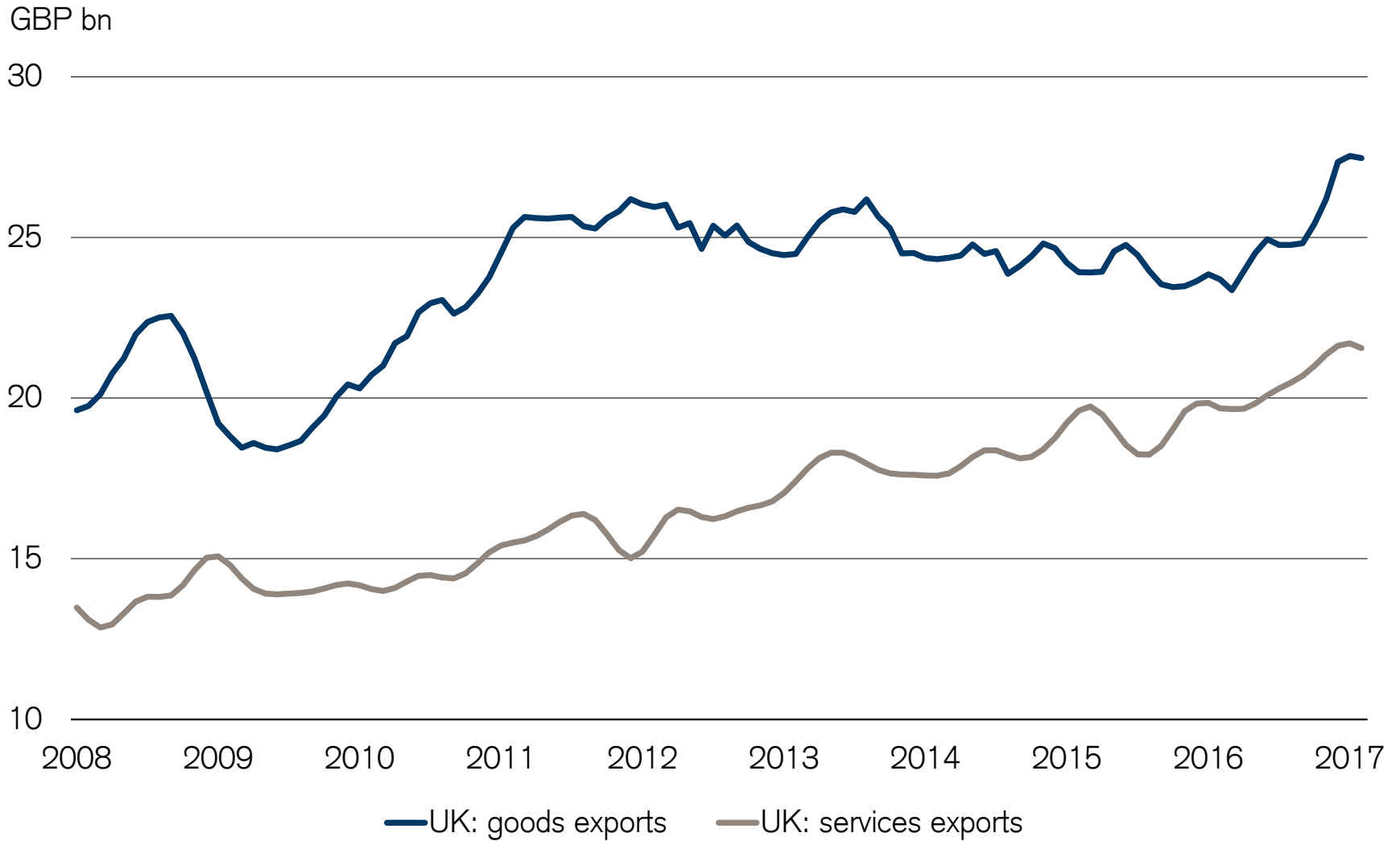
# Positives: Sentiment holding up well in manufacturing...



Last data point: April 2017

Source: Bloomberg, Credit Suisse / IDC

# ... and weak GBP a boon for exports sector



Last data point: Feb 2017

Source: Datastream, Credit Suisse / IDC

# Brexit: the ideal timeline



- **Mar 29, 2017:** Article 50 officially triggered, 2 year negotiations begin
  - **May-Oct 2017:** Great repeal bill. UK translates EU law into British law
  - **Dec 2017:** “Divorce principles” agreement between UK and EU, trade talks can start
  - **Oct 2018:** end of negotiations, enough time remains for ratification
  - **Oct 2018–Mar 2019:** EU council, national governments and UK House of Parliament vote on the deal. Possible extension of article 50 negotiations if all 27 EU members agree.
  - **Apr 2019:** UK departure from EU completed.
- Many hurdles along the way. This ideal timeline requires a lot of goodwill from the EU, which is already put into question.

Source: Credit Suisse. Pictures: itv.com

# Conclusion: uncertainty abounds

- Base case: **moderate slowdown** of the economy due to weaker consumption and investment
- Exports sector: **concerns mainly for services exporters**, less for manufacturers
- **Temporary higher inflation**, but continued monetary policy support
- Very **complicated negotiation process ahead**, questionable if trade deal will stand ready in April 2019, “hard Brexit” becoming more and more likely

Source: Credit Suisse



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