

**Last week's series of votes saw the Withdrawal Agreement defeated for a second time, a no deal exit voted down and an instruction to seek a delay to the Article 50 deadline of 29th March passed. The length of the delay is still unclear. If the Withdrawal Agreement passes this week it could be for a couple of months, if not a much longer deadline is possible.**



**Clouded in uncertainty.** That is how the Chancellor summed up the latest official economic forecasts, which were unveiled as part of a low-key Spring Statement last Wednesday. In response to the recent slowdown in economic activity, the Office for Budget Responsibility cut its forecast for GDP growth in 2019 from 1.6% to 1.2%. Brexit-related uncertainty is expected to remain a drag on business investment through 2019, whilst slower global growth is likely to weigh on net trade. Despite the near-term downgrade, the OBR forecast slightly stronger growth in future years - leaving the economy overall a little

larger by 2023 than forecast in the autumn.

**Spring in his steps.** The health of the public finances continues to improve though largely due to stronger than expected growth in income tax receipts (up 5% this year). FY18/19 public sector borrowing is forecast to be just £23 billion (1.1% of GDP). Cumulative borrowing over the next five years was revised down by one-fifth to £119 billion, less than the government borrowed in 2009 alone. The government looks on track to meet its fiscal targets by a comfortable margin, giving the Chancellor around £27 billion of headroom in 2020-21. Mr Hammond, however, stuck to his fiscal plans, deferring decisions on public spending increases or tax cuts until the autumn. By then a Brexit deal will hopefully be agreed.

**Bounce back.** UK GDP shot up a thumping 0.5% in January, more than reversing the 0.4% fall registered for December last year. A very welcome rebound and a good start to what could be a pretty volatile first quarter. The service sector was doing all of the growing, driven mainly by good growth in IT & communications and the wholesale & retail sectors (potential stockpiling alert). As strong as this New Year growth spurt was, it doesn't change the longer term picture of subdued growth. The rolling 3 month growth rate is 0.2%, unchanged from Q4, so won't endanger the OBR's latest forecasts. Moreover it is questionable how much these new monthly figures really teach us about the performance of the economy. If the whipsaw nature of the monthly figures largely offset each other, then the noise risks blocking out the signal of weak but stable expansion.

**Pity the past.** The UK's production industry proves you can't hide your past. Total production actually had a decent month in January, up by 0.6% m/m. And manufactures should especially welcome their 0.8% m/m rise, as it also marked a decisive end to a torrid second half of 2018, when they endured six consecutive monthly declines. But this is a global story, rather than a narrowly domestic or even a Brexit one. Still, multiple monthly declines means the sector has plenty of catching up to do. And on the more usual quarterly basis, production output fell by 1%, dragging down overall GDP.

**Laboured.** Business activity picked up across most UK regions in February, according to

the NatWest Regional PMI, but conditions remain uninspiring. Wales, the East Midlands and the North West posted the fastest rates of growth, while London, Scotland and the North East once again posted decreases in business activity. Weak demand is increasingly evident in the labour markets across the UK. Nine out of the twelve UK regions reported job losses last month - the most since September 2012. Just one region - the North West - witnessed a meaningful rise in staffing levels. Meanwhile, its neighbour, the North East, reported the fastest rate of decline in employment since August 2009.

**Awaiting liftoff.** China's industrial production rose 5.3%/y/y across January and February. A rather robust pace on the one hand (particularly compared to the UK) but on the other it was effectively the weakest pace since the series began in 1995. Fixed investment data were similarly soft. China's slowdown has yet to be arrested. Look to Q2 for more concrete evidence that stimulus efforts are gaining traction. At least for now retail sales are holding up better, growing 8.2%/y/y across January and February. Here perhaps stimulus efforts, in the shape of income tax cuts, are helping.

**A lot or a little?** In 2017 UK spending on research and development (R&D) increased by 2.8% in real terms, exceeding the 2.0% average since 1990. Since 2012 R&D spending as a share of GDP steadily increased from 1.58% to 1.69%, but this is a lot lower than the EU average of 2.07% of GDP. The UK Government's Industrial Strategy includes a target to leapfrog the EU average and raise R&D spending to 2.4% of GDP by 2027. That's a real terms increase of £1.5bn a year on top of however much the economy grows by, every year, for the next decade. Not an easy task.

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