



## *Brexit already taking a toll on UK economy*

While the Irish economy has continued to perform very strongly over the past couple of years, despite all the uncertainty surrounding Brexit, the same cannot be said of the UK economy. The ESRI, in its latest quarterly update, puts the underlying growth rate of the Irish economy at between 4.5 and 5% for 2018, much the same as in the previous two years. Employment has continued to grow by around 3%.

Contrast this with the UK, where growth in GDP and employment has slowed appreciably in the past two years. It is estimated that the UK economy grew by just 1.3% last year and 1.7% in 2017. Ahead of the Brexit vote, the UK economy had been growing at close to 2.5%. Meanwhile, employment growth has slowed from near 2% to around 1%.

Two Brexit related factors in particular have caused the UK economy to slow. First, the spike in inflation as a result of the sharp fall in sterling following the vote for Brexit, saw a marked slowdown in consumer spending as real household incomes declined. Second, the uncertainty around Brexit has led to a weakening in business investment and construction activity.

The UK economy finished 2018 on a soft footing. The Bank of England estimates that the economy may have grown by just 0.2% in the final quarter of last year and says growth may remain at this level in the first quarter of 2019. Indeed, survey evidence suggests that whatever growth occurs in the opening months of 2019 may be largely driven by stock building as firms hoard supplies in case of a disruption to trade after the UK's planned exit from the EU on March 29<sup>th</sup>.

The outlook for the UK economy over the next couple of years will be shaped by how Brexit unfolds. The Bank of England estimates that the economy could grow at a steady rate of 1.7% over the next three years if there is a "relatively smooth" Brexit that does not cause much disruption. The IMF is somewhat more cautious and forecasts growth of around 1.5% over the next couple of years.

On the other hand, a hard Brexit would have quite negative consequences for the UK economy. The Bank of England has warned that in a particularly disorderly hard Brexit scenario, with severe impacts on trade and spill over effects into UK financial markets, the economy may fall into recession. GDP could be as much as 8% lower compared to a smooth Brexit or, indeed, a no Brexit scenario.

Not surprisingly, the Bank of England is keeping UK monetary policy on hold until there is some clarity on Brexit. If there is a soft Brexit, or Brexit is deferred, then it is likely to hike rates given rising inflationary pressures in the economy.

However, if a no-deal hard Brexit materialises, it is likely that the Bank would cut rates to help the economy cope with the negative economic impact, despite some signals from it to the contrary.



The outlook for sterling appears equally binary. It can be expected to rally in the event of a soft or delayed Brexit, but fall sharply in the event of a no-deal hard Brexit. The outlook for the UK economy and currency has seldom been so unclear.

Oliver Mangan  
Chief Economist  
AIB

\*\*\*\*\*

R:mrk-com/Mlt View/Mkt View2019/.doc

AIB Customer Treasury Services  
DUBLIN / CORK  
fxcentre.aib.ie

Customer Treasury Services NI  
BELFAST  
firsttrustbank.co.uk/fxcentre

Customer Treasury Services GB  
LONDON  
aibgb.co.uk/fxcentre

Customer Treasury Services US  
NEW YORK  
fxcentre.aib.ie

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trademarks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.