Viewpoint

One-click report : United Kingdom

September 30th 2022

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One-click report : United Kingdom

Briefing sheet

United Kingdom | Summary | Briefing sheet

September 14th 2022

Political and economic outlook

- The UK economy is the fifth largest in the world. Services make up more than 40% of total exports and 80% of GDP. Having left the EU single market and customs union, the UK is seeking to rebalance trading relations towards markets outside the EU.
- On September 6th Liz Truss became prime minister, succeeding Boris Johnson. Her leadership election provided her with a weak mandate, with the support of only 57% of party members. The Conservative Party is likely to remain divided and demoralised going into the next election. A hung parliament is the most likely outcome.
- Ms Truss is pursing a fiscally expansionary agenda, which includes freezing household energy prices for two years with the government covering the costs, reversing a national income tax rise implemented in April and cancelling a planned corporation tax rise. This is likely to provoke greater monetary tightening and higher borrowing costs.
- GDP surpassed its pre-pandemic level in the first quarter of 2022, but the near-term outlook has deteriorated. Growth contracted in the second quarter of 2022 as higher energy costs eroded consumer and industrial confidence and spending power. This will persist into 2023, when EIU expects real GDP to contract.

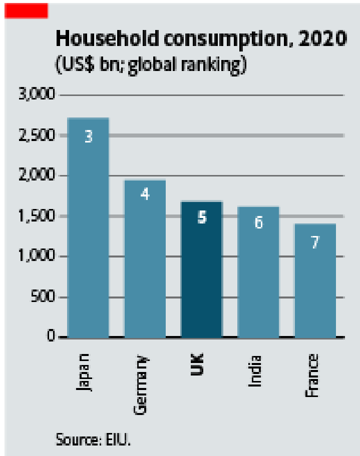
- The trade agreement reached between the UK and the EU in December 2020 has created notable non-tariff barriers, causing serious dissatisfaction in Northern Ireland and making relations with the EU difficult.
- The UK is one of eight European countries with a public debt/GDP ratio above 100%. Borrowing costs are likely to rise amid fiscal expansion and rising interest rates, but the UK benefits from the ability to borrow in its own currency and long average debt maturity.
- Volatile energy costs and supply are risks to the UK over the 2022/23 winter as the cut-off of Russian natural gas supply raises the cost of gas across Europe, and a reduction of French nuclear power production threatens a major source of UK electricity imports.

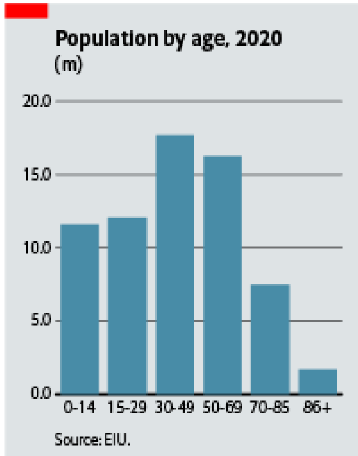
Key indicators

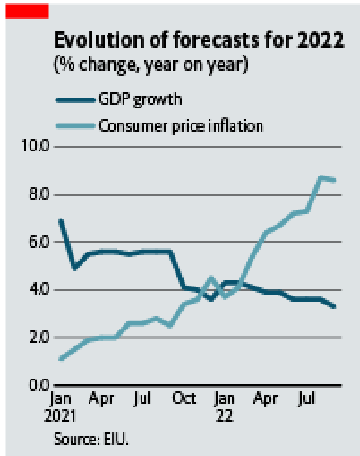
	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real GDP growth (%)	7.4	3.3	-0.8	1.4	1.5	1.6
Consumer price inflation (av; %)	2.5	8.6	8.0	3.0	2.0	1.9
Government balance (% of GDP)	-8.2	-6.8	-9.5	-8.3	-5.9	-4.4
Current-account balance (% of GDP)	-2.6	-5.2	-5.0	-3.8	-3.0	-3.1
Short-term interest rate (av; %)	0.1	2.1	2.8	3.1	3.4	3.7
Unemployment rate (%)	4.5	4.1	4.3	4.3	4.2	4.0
Exchange rate £:US$ (av)	0.73	0.80	0.82	0.78	0.73	0.70

[a] Actual. [b] EIU forecasts.

Market opportunities







Key changes since August 11th

- Ms Truss won the Conservative Party leadership on September 5th and took office as prime minister the following day. We expect her to pursue similar policies to her predecessor, with the exception of looser fiscal policy. We do not expect an early election.
- On September 8th Queen Elizabeth II, the monarch and head of state, died after 70 years on the throne. She is succeeded by her son, King Charles III, but her death will have a significant effect on the UK's soft power and consumer confidence.
- On September 8th Ms Truss announced a cap on household energy costs for two years. This will lower inflation marginally (offset by looser fiscal policy) and worsen the public finances significantly, with the fiscal deficit reaching 9.5% of GDP in 2023.
- GDP contracted by 0.1% in the second quarter, below our forecast of 0.2% growth. We now expect GDP to contract until the second quarter of 2023 and have revised our full-year forecasts for 2022 and 2023 from 3.6% and -0.6% to 3.3% and -0.8% respectively.

The month ahead

- September 22nd—Bank of England (BoE, the central bank) policy rate decision: The energy price cap will lower inflationary pressures, and we expect the BoE to raise rates by 50 basis points to 2.25%. The central bank has generally waited to see the impact of policy interventions to act, but is likely to accelerate rate rises from November.
- September 22nd—Fiscal event: Following from Ms Truss's energy price cap announcements, the government will deliver an emergency fiscal event to provide more relief to households. We expect this to include announcements

reversing the 2.5% national insurance rise in April 2022 and cancelling a planned corporation tax increase.

- October 19th—Inflation (September): Inflation fell from 10.1% to 9.9% in August, due largely to falling oil prices, despite rising costs of food and consumer goods. We expect further consumer goods inflation in September to push inflation back above 10%.

Major risks to our forecast

Scenarios, Q3 2022	Probability	Impact	Intensity
High energy prices push the UK electricity market into a crisis	Very high	High	20
Supply-chain disruptions persist throughout 2023, damaging economic activity	Very high	High	20
The impact of Russian gas cut-offs deepens the UK recession	Very high	High	20
The UK is struck by another major cyber-attack	Very high	Moderate	15
A large budget deficit forces the government to backtrack on investment in infrastructure	High	Moderate	12

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.

Forecast summary

United Kingdom | Economy | Forecast | Forecast summary

September 14th 2022

Forecast summary

(% unless otherwise indicated)

	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real GDP (% change)	7.4	3.3	-0.8	1.4	1.5	1.6
Industrial production (% change)	5.1	1.4	-4.0	2.2	1.6	1.6
Unemployment rate (av; EU/OECD harmonised measure)	4.5	4.1	4.3	4.3	4.2	4.0
Consumer price inflation (av; CPIH measure)	2.5	8.6	8.0	3.0	2.0	1.9
3-month £-LIBOR rate (av)	0.1	2.1	2.8	3.1	3.4	3.7
Bank of England base rate (end-period)	0.25	3.50	4.00	4.00	4.50	5.00
Government budget balance (% of GDP)[c]	-8.2	-6.8	-9.5	-8.3	-5.9	-4.4
Exports of goods fob (US$ bn)	442.3	488.7	494.8	557.4	622.0	656.4
Imports of goods fob (US$ bn)	-656.8	-796.3	-840.5	-810.5	-888.3	-942.1
Current-account balance (US$ bn)	-82.5	-163.6	-158.5	-137.8	-122.8	-135.1
Current-account balance (% of GDP)	-2.6	-5.2	-5.0	-3.8	-3.0	-3.1
Exchange rate US$:£ (av)	1.38	1.24	1.21	1.29	1.38	1.42
Exchange rate ¥:£ (av)	151.1	162.0	159.6	159.8	163.7	167.2

Exchange rate €:£ (av)	1.16	1.17	1.10	1.10	1.14	1.15

[a] Actual. [b] EIU forecasts. [c] General government.

Political stability

United Kingdom | Politics | Forecast | Political stability

September 14th 2022

Liz Truss became Prime Minister on September 6th, after winning the leadership contest for the governing Conservative Party the previous day. Government policy is unlikely to change significantly in most areas, with the main point of divergence being fiscal policy, where she has pledged to reverse several revenue-raising initiatives enacted by the outgoing chancellor of the exchequer and her rival for leader, Rishi Sunak.

Ms Truss's mandate within the Conservative Party is weak, having won the votes of only 57% of the 140,000 party members who selected her and one-third of Conservative members of parliament who backed her candidacy. Ms Truss's cabinet is mainly comprised of loyalists who also favour a smaller state and low taxes, but many senior Conservatives with other views have moved to the backbenches, where they are likely to oppose her initiatives more vocally. The Conservative Party is therefore likely to remain divided and demoralised for the remainder of the parliament, despite its large majority, limiting the scope for ambitious forward-looking legislation.

There are medium-term risks to the union of England, Northern Ireland, Scotland and Wales, but the dissolution of the UK is not EIU's core forecast for 2022-26. Pro-independence parties, led by the Scottish National Party (SNP), hold a majority in the Scottish parliament, and have introduced legislation in Scotland to hold a referendum on independence in 2023 unsanctioned by the UK parliament. The government has dismissed the possibility of granting a binding second referendum during this parliamentary term. Even if it were forced to grant one by court order, the poll would take several years to organise. Opinion polling on Scottish independence has generally shown a consistent —if narrow—lead for remaining in the union, except during a period in 2020 when the devolved government's pandemic-related public health powers were abnormally relevant to voters. We do not expect Scotland to achieve independence in 2022-26, but the issue may return to prominence if the SNP becomes the swing party in a hung parliament after the next election.

Brexit has inflamed tensions in Northern Ireland, which remains within a regulatory union with the EU for most goods to avoid border checks on the island of Ireland. This requires checks between Northern Ireland and the rest of the UK for goods deemed to be "at risk" of passing into the EU. The arrangement has been difficult to implement and is disliked by unionist politicians in Northern Ireland for, in effect, creating a border between Northern Ireland and the rest of the UK. Following elections in May, the largest unionist party, the Democratic Unionist Party (DUP), has refused to join the power-sharing executive unless the Northern Ireland protocol is changed radically. Constitutionally, this has prevented an executive from being formed. To appease the DUP, the government has introduced legislation to allow the UK to override parts of the protocol. Overriding the protocol would risk provoking a trade war with the EU and at the very least would further sour relations. It would also meet opposition in parliament, and such legislation would be highly unlikely to be passed by the House of Lords (the upper chamber).

The death of the long-serving head of state, Queen Elizabeth II, on September 8th after 70 years on the throne may exacerbate tensions within the constituent nations of the UK. As a largely ceremonial position, the immediate impact is low, with her son, King Charles III, having taken over upon her death. However, the queen has acted as a potent unifying symbol in the constituent countries. Her death may also reinvigorate republican movements in the UK, although an abolition of the monarchy remains highly unlikely during our forecast period.

Election watch

United Kingdom | Politics | Forecast | Election watch

September 14th 2022

The most likely date for the next general election is May 2nd 2024. Parliament must be dissolved within five years of the previous election (December 12th 2019) with an election to follow within 25 days, making the latest possible date January 24th 2025. However, elections are usually held in the spring or summer, usually in May to coincide with local elections, and winter elections are rare. The prime minister has the authority to decide the date of the election unilaterally, and despite her lack of a personal mandate, Ms Truss is unlikely to call an election before 2024, owing to the Conservatives' poor polling and deteriorating economic conditions. There is a risk that if economic conditions remain depressed, Ms Truss may delay the election for as long as possible, until autumn 2024, although an election in December in the lead-up to the Christmas period would be highly unpopular and will probably be avoided.

Despite Labour's poll lead, the party remains unpopular in many of its former working-class seats, which swung to the Conservatives in the 2019 election, with its vote disproportionately concentrated in metropolitan seats. However, in by-elections, supporters of Labour and the centre-left Liberal Democrats are increasingly voting tactically against the Conservatives, with voters in affluent suburban and rural constituencies supporting the Liberal Democrats and metropolitan constituencies favouring Labour. This dynamic, combined with the dominance of the SNP in Scottish seats, means that it will be difficult for any one party to achieve an overall majority in the next election. This makes a hung parliament the most likely outcome.

International relations

United Kingdom | Politics | Forecast | International relations

September 14th 2022

Following Russia's invasion of Ukraine on February 24th, all European countries have adopted severe sanctions against Russia, preventing the Central Bank of Russia from accessing international reserves, cutting Russian banks off from the SWIFT international bank messaging system and severely curtailing most non-energy trade with Russia. The UK also passed legislation providing greater scrutiny of foreign ownership of UK assets.

Serious tensions remain between the EU and the UK related to the UK's departure from the bloc. The EU-UK Trade and Co-operation Agreement came into force in May 2021, allowing zero-tariff, zero-quota trade between the UK and the EU. However, leaving the single market and customs union has created a variety of non-tariff trade barriers in the form of border checks and product certifications. The Northern Ireland protocol is by far the main source of UK-EU friction. The government is seeking changes to the protocol to reduce trade blockages and political tensions in Northern Ireland, and has introduced legislation that would allow it to override parts of the protocol unilaterally. The EU has offered limited concessions on the implementation of the protocol, but has said that it will launch infringement proceedings against the UK if the UK reneges on the protocol. The new UK government and the EU have agreed to extend a series of grace periods that waive border checks, effective September 15th, heading off an immediate crisis. A UK-EU trade war is not our baseline forecast, especially given the war in Ukraine, but it remains a risk.

Policy trends

United Kingdom | Economy | Forecast | Policy trends

September 14th 2022

For decades the UK has faced substantial economic challenges, including low public investment, wide regional disparities, high housing costs and, since 2008, chronically low productivity growth. The Conservatives' 2019 election manifesto under Boris Johnson promised greater public and private investment (including in green energy and infrastructure); additional current spending on the National Health Service, education and the police; addressing the issue of long-term social care; and efforts to "level up" deprived regions outside London and the south-east. However, the covid-19 pandemic and the subsequent cost-of-living crisis moved the government on to a crisis-management footing for most of this parliament, cutting back the scale of most of these initiatives. Insofar as the government has been able to increase investment in its priorities, the potential positive impact of these proposals has been blunted by the combination of supply-chain disruption, higher global commodity prices due to Russia's invasion of Ukraine and post-Brexit trade barriers, and it is unclear to what degree the Truss government will continue to prioritise these aims.

Policymaking in 2022 has instead been dominated by soaring inflation, slowing growth and aggravated cost-of-living concerns. The government has introduced extraordinary measures to increase support to households, including capping the price of household energy at £2,500 (US$2,858) for the average household—an initiative that is estimated to cost upwards of £160bn (US$183bn; equivalent to 15% of total government expenditure in 2021) over two years—and more support likely in the coming months. However, with only two years until the next election, the government is likely to focus on shorter-term stimulus rather than longer-term investment projects.

Fiscal policy

United Kingdom | Economy | Forecast | Fiscal policy outlook

September 14th 2022

The pandemic triggered a massive expansion of fiscal support for workers and businesses. This has since been wound down, while elevated inflation has increased the government's nominal tax take. We forecast that this will have prompted a contraction of the fiscal deficit from 8.2% of GDP in 2021 to 6.8% of GDP in 2022, but we expect the deficit to increase again from 2023, to 9.5% of GDP. This is due to Ms Truss's plan to freeze household energy bills at £2,500 for a typical household, with the government covering the difference. This intervention is uncosted, but is estimated at up to £160bn over two years, with the bulk of the intervention occurring in 2023, owing to higher wholesale energy costs in that year.

We expect that Ms Truss will implement more expansive fiscal policy elsewhere, reversing a 2.5% rise in national insurance contributions implemented in April 2022 and cancelling a corporation tax increase scheduled for April 2023. However, these proposals have attracted new scrutiny by capital markets. As an advanced economy that borrows exclusively in its own currency, with an exceptionally long bond maturity, the UK has significant scope to borrow. However, borrowing costs can rise significantly, and market appetite for UK debt could diminish to an extent that Ms Truss will have to scale back plans for future expansion, either as a result of rising debt service costs or a failed gilt auction. We also expect that Ms Truss will have to articulate a plan for medium-term fiscal consolidation.

We forecast that public debt as a share of GDP will rise for the remainder of the parliament as the government attempts to head off the energy crisis and boost the economy ahead of the 2024 election. The fiscal deficit will narrow slowly from 2024 as energy prices decline and growth returns, but meaningful fiscal consolidation will be delayed until the next parliament. We therefore expect the debt/GDP ratio to stabilise in 2025 and 2026, at about 110% of GDP.

Monetary policy

United Kingdom | Economy | Forecast | Monetary policy outlook

September 14th 2022

On August 4th the Bank of England (BoE, the central bank) raised its key interest rate by 50 basis points to 1.75% in the first rate increase of this magnitude since independence. The new government's fiscal policy will reduce inflationary pressure through capping household energy costs, but increase it through tax cuts elsewhere (which will lift demand). On balance, we believe that the impact will be expansionary, requiring faster tightening by the BoE to compensate. The BoE has generally taken a "wait-and-see" approach regarding policy interventions, and so is likely to continue raising rates by 50 basis points at its next meeting on September 22nd (delayed by a week owing to the death of the queen). However, we expect the BoE to follow the lead of central banks in the US and the EU and raise rates by 75 basis points at the following meeting in November. Subsequently, we expect the BoE to slow its tightening cycle significantly as the economy moves deeper into recession, with the policy rate likely to reach 4% in the second quarter of 2023 and remain at that level for the rest of the year.

Global forecast data

United Kingdom | Economy | Forecast | International assumptions

September 14th 2022

	2021	2022	2023	2024	2025	2026
Economic growth (%)						
US GDP	5.7	1.7	1.2	1.7	2.0	2.1
OECD GDP	5.2	2.4	1.0	1.8	1.9	2.0
EU27 GDP	5.3	2.8	0.3	1.7	1.9	1.9
World GDP	5.7	2.8	2.1	2.6	2.8	2.7
World trade	10.9	3.9	3.3	3.7	3.6	3.6
Inflation indicators (% unless otherwise indicated)						
US CPI	4.7	8.1	3.8	1.6	2.1	2.1
OECD CPI	3.6	8.7	4.9	2.6	2.4	2.2
EU27 CPI	2.8	8.4	5.0	2.4	2.0	1.9
Manufactures (measured in US$)	5.8	2.0	4.3	3.9	3.2	1.8
Oil (Brent; US$/b)	70.4	102.0	91.7	85.9	78.3	69.1
Non-oil commodities (measured in US$)	38.0	15.9	-11.1	-6.2	6.2	-3.6
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.1	1.7	3.4	2.7	2.6	2.6

€ 3-month interbank rate (av; %)	-0.5	0.2	1.5	1.5	1.5	1.5
US$:£ (av)	1.38	1.24	1.21	1.29	1.38	1.42
US$:€ (av)	1.18	1.06	1.11	1.18	1.21	1.23

Economic growth

United Kingdom | Economy | Forecast | Economic growth

September 14th 2022

Surging inflation, supply-chain disruption, commodity price increases, post-Brexit trade frictions and domestic tax rises have dragged on growth in 2022. The main impact has been felt through accelerating inflation, which has eroded disposable incomes and weakened private consumption. Continued supply-chain disruption and rising overheads will also increase caution among businesses, affecting fixed investment. The introduction of new trade barriers after Brexit has exacerbated the supply shocks, affecting countries across western Europe, making the UK particularly vulnerable to trade-related disruption. We forecast that real GDP will grow by 3.3% in 2022, but the headline figure is flattered by year-on-year comparisons with the 2021 base year, when many lockdown restrictions were still in place.

We forecast negative economic growth from the second quarter of 2022 to the second quarter of 2023 as higher prices erode consumer confidence and business investment, while the cut-off of Russian gas to Europe will slow growth among the UK's largest trade partners and keep wholesale energy prices elevated. Real GDP will contract by 0.8% in 2023.

Growth will rebound thereafter, at 1.4% in 2024, and stabilise at about 1.6% in 2025-26. Structural limitations such as low investment and poor productivity, significant skills gaps, high regional inequalities and a reliance on consumer-facing services to drive growth, alongside the creation of new trade barriers by Brexit, will undermine the medium-term growth potential.

Economic growth

%	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
GDP	7.4	3.3	-0.8	1.4	1.5	1.6
Private consumption	6.2	3.9	-1.4	0.8	1.5	1.3
Government consumption	14.3	2.0	5.0	1.4	1.4	1.3
Gross fixed investment	5.9	5.2	-1.2	3.0	3.1	3.0
Exports of goods & services	-1.3	2.5	-1.6	3.8	3.9	3.8
Imports of goods & services	3.8	9.2	-2.3	2.6	4.4	3.9
Domestic demand	8.5	4.9	-1.0	1.1	1.7	1.7
Agriculture	4.0	5.0	-0.9	1.5	1.5	1.6
Industry	7.5	3.2	-0.8	1.4	1.5	1.6
Services	7.5	3.4	-0.8	1.4	1.5	1.6

[a] Actual. [b] EIU forecasts.

Inflation

United Kingdom | Economy | Forecast | Inflation

September 14th 2022

Inflation began to spike sharply from mid-2021 as energy and commodity import costs began rising—a trend that accelerated in 2022 following Russia's invasion of Ukraine. The government's policy to cap household energy prices will slow growth in utility prices in late 2022 and 2023, but the combination of higher input costs and a tight labour market has led to inflationary trends across other products and services. The government's expansionary fiscal policy is likely to provide greater inflationary pressure as household and corporate incomes rise, averaging 8.6% in 2022 and peaking at 11.2% in the first quarter of 2023. From then, the combination of stabilising global energy prices, negative economic growth and capped energy costs will start to erode inflation, which will average 8% in 2023 and decline to 3% in 2024, after which energy markets will begin to stabilise, reducing inflation gradually to about 2% in 2025-26.

Exchange rates

United Kingdom | Economy | Forecast | Exchange rates

September 14th 2022

The increasing strength of the US dollar in 2022 pushed the dollar/sterling exchange rate to US$1.16/£1 by end-August—the lowest level ever barring a brief period in 1985. This strength is driven by an aggressive tightening cycle by the Federal Reserve (the US central bank) and a "flight to safety" among investors triggered by the Russia-Ukraine war. We expect the pound to remain weak against the dollar for the remainder of 2022 and most of 2023, only strengthening again once inflation eases and the flight to safety abates.

Sterling has remained broadly stable against the euro at about €1.18/£1 in 2022, as Europe has suffered from similar weaknesses against the dollar. However, the UK's steep current-account deficit is likely to subject sterling to greater market volatility, and we expect the currency to depreciate slightly against the euro before rebounding slightly in 2024 and 2025. It should stabilise thereafter as markets and energy prices become calmer, with both currencies appreciating against the dollar until 2026.

External sector

United Kingdom | Economy | Forecast | External sector

September 14th 2022

The UK has run a persistent current-account deficit since 1985. Like most European countries, we expect the trade balance to deteriorate significantly as energy suppliers are forced to buy imported natural gas on the spot market at prices more than three times their year-earlier levels. Given its dependence on natural gas, we expect this to nearly double the UK's trade deficit and increase the current-account deficit from 2.6% to 5.2% of GDP in 2022, and remain elevated at 5% of GDP in 2023, before beginning to decline in 2024 as new domestic supply comes online and international energy prices begin to fall.

Brexit has weighed on imports and exports over the medium term, with exports of goods and services declining by 1.3% in real terms in 2021, even after the pandemic-related decline in 2020—a situation unique in Europe. Imports also rebounded slowly in 2021, growing by just 3.8% despite the pandemic rebound.

Country forecast overview: Business environment rankings

United Kingdom | Business | Business environment | Rankings overview

September 14th 2022

Value of index[a]		Global rank[b]		Regional rank[c]	
2018-22	2023-27	2018-22	2023-27	2018-22	2023-27
7.80	7.70	15	20	9	11

[a] Out of 10. [b] Out of 82 countries. [c] Out of 18 countries: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the UK.

- The UK's global ranking drops by five places and its regional ranking falls by two places. Brexit has worsened the UK's terms of trade, but the country's strengths—a pro-business policy stance, a welcoming attitude to foreign investment, and flexible labour and product markets—will continue.

Business environment at a glance

United Kingdom | Business | Business environment | Business environment at a glance

September 14th 2022

Policy towards private enterprise and competition

2022-23: A 130% ”super-deduction” on capital investment is in place.

2024-26: Elevated state intervention in investment and innovation continues. New state-aid rules are implemented.

Policy towards foreign investment

2022-23: Continued openness to investment, but increased scrutiny in sectors considered sensitive to national security. Crackdown on Russian investment and money-laundering through the property sector.

2024-26: Infrastructure plans offer investment opportunities. Possible changes in tax policies to bolster inward investment.

Foreign trade and exchange controls

2022-23: Increased trade barriers with EU. Negotiations over Northern Ireland protocol. Supply-chain disruptions persist. Sanctions imposed on Russian exports.

2024-26: Continued UK-EU negotiations probable. New trade agreements with other countries, including potential accession to the trade bloc of Comprehensive and Progressive Agreement for Trans-Pacific Partnership.

Taxes

2022-23: Planned corporation tax increase from 19% to 25% in 2023 will be shelved, and the recently introduced 2.5-percentage-point increase in national-insurance contributions reversed.

2024-26: Renewed focus on fiscal consolidation, tax rises are likely to fund public spending, investment and social care.

Financing

2022-23: Monetary policy tightening, with the Bank of England (the central bank) raising interest rates. A loss of ”passporting” rights and restrictions on EU services trade. Slow progress in establishing equivalence with the EU.

2024-26: Modest decline in City of London’s status. Steady growth in alternative forms of debt-financing.

The labour market

2022-23: Labour market remains tight. Pandemic-related departure of expatriates and sharp drop in immigration from EU due to the end to free movement of labour. Shortages in low-skilled occupations continue.

2024-26: Increased immigration from Hong Kong. Addition of more low-wage sectors to shortage lists.

Infrastructure

2022-23: Greater spending on housing, transport and energy. Fracking legalisation and offshore oil and gas exploration expansion.

2024-26: Increased investment with emphasis on boosting competitiveness; new nuclear reactor to come online in 2026.

Technological readiness

2022-23: High e-commerce penetration and strong research base, but spending on research and development (R&D) remains below EU average. Continued high threat from cybercrime and cyber-espionage.

2024-26: Modest rise in public R&D spending. Development of state ”blue skies” fund.

Market opportunities: Social indicators and living standards

United Kingdom | Business | Market opportunities | Social indicators and living standards

May 16th 2022

Social indicators and living standards

	2021		2026	
		Western Europe (av)		Western Europe (av)
Health				
Healthcare spending (% of GDP)	12.5	11.3	12.0	11.1
Healthcare spending (US$ per head)	5,845	5,230	7,522	6,651
Infant mortality rate (per 1,000 live births)	3.9	3.2	3.7	3.0
Physicians (per 1,000 population)	3.1	4.0	3.3	4.2
Food and beverages				
Food, beverages & tobacco (% of household spending)	12.6	19.1	10.9	17.5
Meat consumption (kg per person)	84.1	89.6	84.0	95.1
Milk consumption (litres per person)	239.0	261.0	248.0	279.0
Coffee & tea consumption (kg per person)	4.6	6.2	5.1	6.7
Consumer goods in use (per 1,000 population)				
Passenger cars	547	552	536	n/a
Telephone main lines	475	415	476	401

Mobile phone subscribers	1,160	1,210	1,160	1,230
Television sets	1,177	837	1,339	935
Personal computers	872	843	878	867
Households				
No. of households (m)	28.0	193.0	28.4	200.9
No. of people per household (av)	2.4	2.2	2.5	2.1
Income and income distribution				
Median household income (US$)	64,540	52,760	82,720	62,670
Average monthly wage (US$)	4,500	4,150	5,730	n/a
Gini index	35.1[a]	–	–	–

[a] Latest available year.

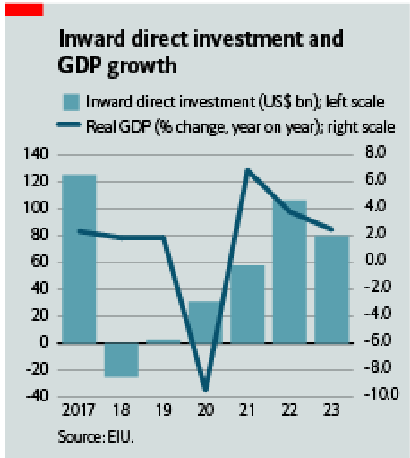
Sources: UN Statistical Office; World Bank; Food and Agriculture Organisation; Euromonitor; World Health Organisation; national statistical offices; International Telecommunication Union; EIU estimates and forecasts.

Global position

United Kingdom | Regulation | Global position

December 1st 2021

The outlook for the UK has become much more uncertain following the 2016 referendum vote to leave the EU. The UK departed the bloc on January 31st 2020, entering a transition period that lasted until end-2020, during which the UK retained most aspects of EU membership. An EU-UK Trade and Co-operation Agreement (TCA) came into force on January 1st 2021. It provides for zero-tariff, zero-quota trade between the UK and the EU. However, leaving the EU single market and customs union has created a variety of nontariff trade barriers. The TCA also leaves many aspects of the relationship between the UK and the 27-member bloc unsettled. The coronavirus (Covid-19) pandemic has compounded an already uncertain outlook during 2020 and 2021. Lockdowns and travel restrictions have delivered a severe blow to industries such as hospitality, tourism and aviation, as well as parts of the retail sector. The UK still has much to offer as an investment destination. Existing clusters and economies of scale in sectors such as pharmaceuticals, biotechnology, software development and financial services will remain powerful magnets for foreign entrants, while significant potential exists for large-scale, long-term investments in the energy, communications and transport sectors.



Regulatory/market assessment

United Kingdom | Regulation | Regulatory/market assessment

December 1st 2021

- The National Security and Investment Act passed into law in April 2021 and comes fully into force from January 4th 2022. The act makes it mandatory for investors (domestic and foreign) in 17 sectors to notify the government in advance of any transaction, regardless of size, that might give rise to UK national security risks. The implicated sectors include defence, energy, transport and communications.

- In October 2021 the government unveiled a “net zero” strategy, outlining how the UK will meet its target to effectively eliminate green-house gas emissions by 2050. The following month, while the UK was hosting the UN’s COP26 climate talks, lawmakers approved a new Environmental Act that replaces EU legislation and oversight following the UK’s departure from the bloc.
- Citizens of the European Economic Area (the EU, plus Iceland, Liechtenstein and Norway) and Switzerland became subject to UK immigration controls from January 1st 2021. A new points-based immigration system now treats EU and non-EU citizens equally.
- In March 2021 the UK government repealed legislation implementing the EU’s directive on the taxation of interest and royalty payments. Companies now must rely on arrangements set out in bilateral tax treaties with individual EU member states, which in many cases eliminate withholding tax.
- The EU-UK Trade and Co-operation Agreement came into force in January 2021, outlining the initial terms of trade relations following the UK’s departure from the EU. The agreement provides for zero-tariff, zero-quota trade between the UK and the EU, at least in the first instance. However, leaving the single market and customs union have created a variety of nontariff trade barriers in the form of border checks and product certifications.

Regulatory/market watch

United Kingdom | Regulation | Regulatory/market watch

December 1st 2021

- After lifting most coronavirus (Covid-19) restrictions in mid-2021, the government introduced additional measures in early December 2021 following the emergence of the new Omicron variant. The provisions, which fall well short of the full lockdowns from earlier in the pandemic, include orders to work from home, wear face masks in public spaces and use vaccine passes.
- The government launched its coronavirus vaccination programme in December 2020, and nearly 70% of the UK population was fully vaccinated by end-November 2021. The government is encouraging uptake of booster shots following the emergence of Omicron, with just under 28% of the population having received the additional dose.
- The government has wound down most of the relief mechanisms it put in place to support workers and businesses during the pandemic, including the Coronavirus Job Retention Scheme, which expired in September 2021. A Kickstart scheme remains active; it funds new job placements for young people aged 16–24 and pays 100% of the national minimum wage for 25 hours per week for six months.
- A UK Shared Prosperity Fund is expected to launch in April 2022, with annual spending of around £1.5bn. It will replace the previous EU development funding schemes and will focus on regional development and employment support.
- The corporate income tax rate will increase from 19% to 25% in April 2023, according to an announcement by the government in March 2021. The higher rate will apply to companies with annual profits exceeding £250,000.

- At least in the short term, EIU does not expect the UK to trigger Article 16 of the Northern Ireland protocol, which would override that agreement. However, tensions remain high and a UK-EU trade war remains a notable risk. Checks between the UK and EU are likely to remain unenforced in the meantime as negotiations continue on a less invasive system.
- The government has said it will remove its 2% digital services tax once the OECD's new arrangement on global corporate tax takes effect. The agreement, which was finalised in October 2021, is meant to come into force by 2023 but could be derailed if the US fails to ratify it.

Long-term outlook: The long-term outlook

United Kingdom | Economy | Long-term outlook | Long-term outlook

May 16th 2022

	2022-30	2031-50	2022-50
Population and labour force (% change; annual av)			
Total population	0.37	0.25	0.29
Working-age population	0.08	0.01	0.03
Working-age minus total population	-0.29	-0.24	-0.25
Labour force	0.40	0.16	0.24
Growth and productivity (% change; annual av)			
Growth of real GDP per head	1.6	1.4	1.5
Growth of real GDP	2.0	1.7	1.8

Labour productivity growth	1.5	1.5	1.5
Growth of capital stock	3.2	2.7	2.8
Total factor productivity growth	0.4	0.6	0.6

Initial conditions: From the early 1990s to 2019, with the exception of the 2008 crisis period, the economic performance of the UK improved relative to that of many regional peers, owing in part to a sharp rise in labour utilisation, with strong employment growth fuelling strong overall expansion. The pace of economic growth began to soften in 2019, and the economy contracted sharply in 2020 amid the coronavirus pandemic. A firm rebound left the UK 0.4% below its 2019 level. Prospects for 2022-23 are weak as private consumption is hit by soaring inflation, corporates face rising debt from the coronavirus crisis (hampering investment), and trade frictions from Brexit and supply-chain disruption depress export-oriented industries. Despite securing the Trade and Co-operation Agreement with the EU, the UK's relationship with the bloc remains unsettled. The UK is likely to diverge in some areas of regulation, particularly in technology and life sciences, while non-tariff barriers put UK firms at a competitive disadvantage within the single market.

The UK's prospects for growth in the medium term will be highly dependent on government policy formulation in response to these challenges. Both major parties have signalled a willingness to pursue a more interventionist strategy in the economy and provide more public investment, in an effort to address the UK's regional inequality and weak productivity growth. The current government has increased its threshold for borrowing for investment from 2% of GDP to 3%, established a national infrastructure bank in addition to the pre-existing British Business Bank, and invested £800m (US$1.1bn) into a "blue skies" fund to support innovative research.

The UK's structural advantages have traditionally included a comparatively low regulatory burden, a flexible labour market and a business environment that is conducive to foreign investment, which we expect to persist. On the negative side, factors that tend to constrain the UK's long-term outlook include an over-reliance on wealth effects generated by the volatile financial and real estate sectors, high levels of private-sector debt and a deficit in ”intermediate” labour market skills, which are skewed by significant geographical inequalities. These have contributed to the development of an unbalanced economy. Levels of productivity in the UK, in terms of output per hour worked, lag well behind those in the US, Germany and France. This weak trend is worrying and will weigh on medium- and long-term growth if not reversed, as well as playing an increasing role in policy debates.

Demographic trends: The working-age population is forecast to rise gradually over the long-term horizon, and the share of the population aged 65 or over will continue to increase. We forecast that by 2050 those aged 65 or older will account for 25.4% of the population (up from 18.7% in 2018). The share of the working-age population peaked at 66% in 2008-09, and we forecast a steady decline to 58.3% by 2050. The labour force participation rate stands at just over 78%—higher than the OECD average. We expect migration to continue to provide a key source of population and human capital growth. Most countries that operate skills-based immigration systems adjust their requirements periodically, a trend that we expect the UK to follow.

The EU is set to remain a key export destination

External conditions: The UK is a highly trade-dependent economy, and thus its departure from the world’s largest trading bloc will have implications for its long-term prospects. Despite the UK leaving the single market, the EU is likely to remain the UK’s most important export destination, particularly for goods trade, given its proximity and the volume of existing trade. Although the UK’s departure from the EU will allow the UK to negotiate trade deals with third countries, the total estimated value of trade deals under negotiation will not make up for the loss of access to the EU market.

The UK is likely to maintain its surplus in services, which is expected to grow as a percentage of total trade value over the course of our long-term forecast period as e-commerce and trade in intangible goods become more prominent globally.

Institutions and policy trends: The UK is a long-established democracy with well-entrenched rule of law (guaranteeing security of contracts), liberalised product markets and a rigorous competition policy regime. Much of the UK's policy around competition, trade, product regulation and other areas of economic policymaking had been informed by its EU membership, as was the governance of its own internal market, much of which is currently being repatriated to domestic equivalent authorities. It remains too early to gauge how effectively policymakers and institutions will manage these competencies on a national level, and whether any benefits can be realised from regaining direct control.

Long-term performance: Since the 2008 financial crisis the UK has suffered from chronically low productivity growth relative to its OECD peer countries, and relied heavily on moving people into work. The UK's ability to increase its productivity will be the determining factor behind long-term growth potential. A number of factors have been cited as possible causes for the UK's persistent productivity gap with its peers. These include a high degree of centralisation of the economy around the capital, London; the UK's relatively low share of spending on research and development (R&D); the dominance of the volatile financial services sector; and reliance on low-skilled immigration. Successive governments have tried to address the productivity issue, including the current government, which has committed to an increase in public investment to stimulate R&D, a shift in emphasis towards skilled immigration and supporting investment outside London. Whether these plans will boost productivity remains highly uncertain. We forecast that real GDP will grow by an annual average of 2% in 2022-30, and moderate to 1.7% in 2031-50.

Income and market size

	2021	2030	2050
Income and market size			
Population (m)	68.2	70.5	74.1
GDP (US$ bn at market exchange rates)	3,188.4	5,090.8	11,021.6
GDP per head (US$ at market exchange rates)	46,750	72,220	148,780
Private consumption (US$ bn)	1,960.1	3,165.5	7,139.8
Private consumption per head (US$)	28,740	44,910	96,380
GDP (US$ bn at PPP)	3,406.0	5,113.3	10,628.7
GDP per head (US$ at PPP)	49,940	72,540	143,470
Exports of goods & services (US$ bn)	860.6	1,592.2	4,805.6
Imports of goods & services (US$ bn)	900.6	1,730.2	5,404.0
Memorandum items			
GDP per head (at PPP; index, US=100)	72.3	74.2	77.2
Share of world population (%)	0.9	0.8	0.8
Share of world GDP (% at market exchange rates)	3.4	3.5	2.9
Share of world GDP (% at PPP)	2.4	2.2	1.9
Share of world exports of goods & services (%)	3.1	3.7	3.8

Automotive

United Kingdom | Automotive | Overview

July 28th 2022

- The UK's automotive sector is in trend decline. Vehicle production and exports have fallen steadily since 2016, reflecting the damaging effects of Brexit on trade and the wider economy, as well as structural global factors linked to overcapacity and environmental pressures. Since 2020 activity has also been badly affected by major supply-chain disruptions from the pandemic and, more recently, the fallout from the Russia-Ukraine war. The conflict has amplified supply-side frictions, material shortages, already high commodity costs and other input-price pressures. This will constrain vehicle output and new-car stock well into 2023, with soaring living costs and domestic tax increases weighing on consumer demand.
- New-car sales slumped by 29.4% in 2020 to 1.63m units, the lowest level since 1992 and the fourth consecutive annual decline. This compared with a recent peak of 2.7m in 2016 and an annual average of 2.3m in 2010-19. Sales remained constrained in 2021, rising by just 1%, and fell again over the first half of 2022 amid rising cost-of-living concerns and a collapse in consumer sentiment.
- New commercial vehicle (CV) sales fell by 29.6% in 2020, to a seven-year low of 300,400 units. Sales rebounded firmly in 2021, driven by demand for light CVs (vans) in the online and logistics sectors. However, sales weakened quite sharply over the first half of 2022.
- In 2021 the UK was the world's 18th-largest automotive producer (and the sixth largest in Europe), according to the International Organisation of Motor Vehicle Manufacturers. Vehicle production expanded steadily in 2010-16, but has since fallen sharply, declining for five successive years. Following a drop of 8% in 2018 and 14% in 2019, output

slumped by 29% in 2020 and another 5% in 2021, with annual production of 933,172 units, the lowest in 40 years and just half the level of 2016. Output continued to decline over the first half of 2022.

- EIU forecasts that new-car sales will contract by 5% in 2022 to a multi-decade low. The near-term risk of a UK recession is high and the medium-term outlook for the economy is weak. There is considerable uncertainty amid the ongoing conflict in Ukraine over the path of energy prices and inflation. Pent-up demand and an expected gradual easing of supply bottlenecks should support a moderate upturn in sales in 2023-24, but overall activity will be subdued. We forecast a compound annual growth rate (CAGR) of 3.8% in 2022-26—inflated by the weak base in 2021—with annual sales remaining below their 2010-19 trend. The share of chargeable electric vehicles (EVs) will continue to rise (from 18.5% of new-car sales in 2021), but significantly wider take-up will be constrained by affordability issues and limited charging infrastructure. The UK is the only major European market not to offer purchase incentives for private EV buyers, having scrapped its subsidy scheme in mid-2022.
- The UK left the EU single market and customs union in January 2021, having agreed a limited Trade and Co-operation Agreement (TCA) with the EU. This averted the imposition of immediate tariffs and allowed for quota-free trade, but it represented a ”hard Brexit” with significant new trade frictions and non-tariff barriers, and disruption to integrated global supply chains (already under strain from the pandemic). Full customs controls took effect in 2022, implying tighter import restrictions. Amid broad mistrust in the EU of the current UK government, UK-EU tensions will persist.
- The UK has five mass producers of vehicles (all foreign-owned) that have primarily used the country as an export base to the EU. Challenges posed by structurally weakened trade and investment links as a result of Brexit will be amplified by prolonged disruptive effects to supply chains from the pandemic and the war in Ukraine. Recent state-subsidised EV-related investments have safeguarded the near-term future of plants operated by Nissan (Japan) and Vauxhall (owned by Netherlands-based Stellantis), but risks of a downsizing of the UK’s automotive industry will persist in the coming years. A major factor will be the UK’s ability to attract EV battery production facilities

(gigafactories) in the face of strong competition from more-established hubs in Europe (such as Germany and Hungary) and Asia.

Consumer goods

United Kingdom | Consumer goods | Overview

August 18th 2022

- The UK's large consumer sector has faced considerable headwinds in recent years, with an economically damaging Brexit process, the coronavirus pandemic and the fallout from the Russia-Ukraine war constraining household demand, hindering business activity and disrupting firms' supply chains. The near-term economic outlook is poor and has materially deteriorated in recent months, with household incomes facing a severe real-term squeeze in 2022-23 from soaring energy and food costs, elevated inflation, increased taxes and higher interest rates. Consumer sentiment has slumped to historical lows, and, although moderate fiscal support for households is expected in the coming months, the scale of the energy-price shock and related economic weakness imply a high likelihood of the UK falling into recession.
- Following an initial pandemic-driven slump, retail sales were fairly resilient in 2020-21, reflecting increased online spending, fiscal support and a shift in consumption from services (affected by movement restrictions) to retail goods. Underlying demand has weakened since mid-2021—retail volumes fell for a fourth successive quarter in April-June 2022—and EIU expects volume sales to decline this year, amid the inflationary hit to purchasing power and a post-restrictions transition from goods back to services, particularly travel and hospitality.
- Conditions will remain challenging in 2023-24, and we expect weak average volume growth of just 0.3% per year over our forecast period to 2026. Retail sales in value terms will be boosted by higher prices, but retailers' margins

will be squeezed by increased costs of energy, transport, materials and labour.

- The UK will remain Europe's largest online retail market. Robust internet sales have gone hand in hand with falls in retail employment and the number of retail stores, mostly in town centres (traditional department stores have been a notable casualty). Online sellers will continue to thrive, despite increased regulatory scrutiny and plans for new e-commerce taxation. Online grocery retail is more extensive than in most peer countries and will be among the fastest-growing segments of the e-commerce market over the forecast period.
- The retail sector accounts for about 6% of UK GDP and employs about 2.9m people, of which a significant proportion work part-time. The ongoing impact of Brexit and the fallout from the pandemic and the cost-of-living crisis will exacerbate relatively large existing social inequalities across the UK, sustaining more polarised demand in the discount and luxury channels. Usage of credit cards and buy-now-pay-later credit schemes will increase as consumers' purchasing power decreases.
- The UK left the EU single market and customs union on January 1st 2021, after finalising a Trade and Co-operation Agreement (TCA) with the EU. The TCA averted a no-deal fiasco, and in theory allows for tariff- and quota-free UK-EU trade. However, the agreement is limited in scope and the "hard Brexit" has created significant new non-tariff barriers, trade frictions and regulatory compliance issues. Disruption to trade has become more evident since full customs controls took effect in January 2022.
- Brexit has inflamed tensions in Northern Ireland, which remains in a regulatory union with the EU for most goods to avoid border checks on the island of Ireland. This has in effect created a border between Northern Ireland and the rest of the UK, which is disrupting cross-region post-Brexit trade. This was widely anticipated and there is no easy solution. The UK government has threatened to override parts of the Northern Ireland protocol that it agreed to under the TCA, which the EU has warned would trigger retaliatory action by the bloc, potentially leading to a wider trade war.

Retail sales

	2017[a]	2018[a]	2019[a]	2020[b]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Retail sales (£ bn)	393.6	408.1	425.1	433.7	462.7	492.5	531.0	551.6	572.3	595.5
Retail sales (US$ bn)	507.5	545.1	543.0	556.7	636.7	617.7	654.4	693.6	759.7	833.7
Retail sales, volume growth (%)	2.9	1.4	2.4	1.0	4.1	-2.1	-1.0	0.9	1.7	2.1
Retail sales, US$ value growth (%)	0.4	7.4	-0.4	2.5	14.4	-3.0	5.9	6.0	9.5	9.7
Non-food retail sales (US$ bn)	269.8	292.9	295.2	295.4[a]	352.6	344.4	363.0	381.6	418.5	459.5
Food retail sales (US$ bn)	237.7	252.3	247.7	261.3	284.1	273.3	291.4	312.0	341.2	374.2
Consumer price inflation (av; %)	2.6	2.3	1.7	1.0[a]	2.5[a]	8.7	9.0	3.0	2.0	1.9

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: Edge by Ascential; EIU.

- More broadly, Brexit has led to a decline in UK-EU trade in food products and has disrupted large parts of the UK's fisheries, agriculture, and food and drink sectors, which face significant medium-term damage. An exodus of EU labour has contributed to employee shortages in some retail and foodservice sectors.

Energy

United Kingdom | Energy | Overview

September 30th 2022

- EIU expects total energy consumption in the UK to decline by 1.4% year on year in 2022, pulled down by elevated energy prices and concerns about gas supplies. Energy demand will also fall in 2023 as the economy declines. Over our forecast period (2022-31), energy demand will continue to fall, at an annual average of 0.7%, as energy-efficiency gains completely offset demand growth driven by economic growth. We forecast that real GDP will grow at an annual rate of 1.6% in that period.
- Despite rebounding by 11.6% year on year in 2021, oil consumption will decline by 1.9% in 2022, mainly pulled down by high crude and refined-product prices. We forecast that the decline will be steeper in 2023, at 2.2%, and continue in 2022-31, during which oil demand will fall at an annual average of 1.2%, mainly owing to the electrification of transport and efficiency gains in new internal combustion vehicles. It is our view that oil demand in the UK will never return to pre-pandemic levels.
- We expect natural gas consumption to increase by only 0.9% in 2022, and it will decline by 0.5% in 2023 as economic activity declines and gas prices in Europe continue to soar. Gas demand will remain flattish over our forecast period. We expect gas demand in the UK to peak in 2027, after which the increase on renewable-based power generation will start to dent gas consumption.
- Although the decline in coal consumption may be softened in the short term by less use of natural gas in the power generation sector, we expect coal demand to decline in 2022 by 4.7% year on year and in 2023 by 1.9%. Thereafter, coal consumption will fall drastically mainly owing to the planned phase-out of coal use in power generation by end-2024. We expect annual coal consumption to fall by an annual average of 13.8% in 2022-31.

- We expect the share of fossil fuels in total energy demand to decline from 78% in 2022 to 73% in 2031. Natural gas will continue to be the main energy source in the UK in our forecast period.
- We forecast that the share of non-hydro renewables (without considering biomass) in power generation will rise from 33% in 2022 to 54% in 2031.

Energy: key indicators

	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]	2031[b]
GDP (US$ bn at market exchange rates)	2,760	3,188	3,120	3,201	3,654	4,045	4,326	5,212
Real GDP (% change, year on year)	-9.3	7.4	4.4	-0.8	1.4	1.6	1.7	1.6
Population (m)	67.1	67.3	67.5	67.7	68.0	68.2	68.4	69.4
Population (% change, year on year)	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Gross domestic energy consumption (ktoe)	156,477	166,732[c]	164,396	162,735	160,013	159,853	159,628	157,225
Gross domestic energy consumption (% change, year on year)	-8.3	6.6[c]	-1.4	-1.0	-1.7	-0.1	-0.1	-0.7

Note. Forecasts for all dates are available via EIU's data tool.

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Sources: EIU; © OECD/IEA 2018 IEA statistics, www.iea.org/statistics, licence: www.iea.org/t&c.

Financial services

United Kingdom | Finance | Overview | Financial services | Overview

July 27th 2022

- The UK has one of the world's best-developed financial industries. The coronavirus pandemic has delivered a sharp, but hopefully short, shock to the sector. Managing the country's departure from the EU may prove to be a greater challenge. It is likely to require a long-term shift in trading relationships and may contribute to an ongoing shrinkage of the sector. The country's financial firms are likely to face more difficult conditions in late 2022 and in 2023 as economic growth slows, inflation remains high and interest rates rise.
- London, the capital, is currently one of the two leading global financial centres (along with New York) and has the largest share of many international markets. The UK financial sector—banking, insurance, fund management, securities and alternative investment—plays a significant role in the economy. In 2021 it accounted for 8.3% of gross value added, down from 9.1% at its peak in 2009, according to the Office for National Statistics (ONS). It employed 1.1m people, or 3.2% of the total workforce, down from 3.7% in 2009. The industry makes a substantial contribution to the balance of payments and tax revenue.
- In response to covid-19, the government enforced nationwide shutdowns and rolled out financial support to help workers and businesses affected. This included more than £330bn (US$434bn) in government-backstopped loans, business tax deferments and holidays, targeted aid to the worst-hit sectors, and wage support for salaried and self-employed workers. However, most of the measures had been wound down by early 2022.
- The UK recorded real GDP growth of 7.4% in 2021, following a severe 9.3% contraction in 2020 amid the pandemic. GDP rose above its pre-pandemic level for the first time in November 2021, according to the ONS. EIU forecasts growth of 3.6% in 2022 and an average of 1.3% per year in 2023-26. The UK has been one of the worst-hit

countries in Europe in economic terms, as well as having among the region's highest cumulative totals of covid-19 deaths and confirmed cases. However, its relatively high vaccination rate has helped to contain the recent incidence of serious illness and hospitalisation.

- In early July 2022 Boris Johnson resigned as prime minister following a series of scandals, but he remains in office until a successor is chosen by members of the ruling right-wing Conservative Party. The result of this contest will be announced on September 5th.
- The UK left the EU on January 31st 2020, ending 47 years of membership. A transition period with the EU ended on December 31st 2020. An EU-UK free-trade agreement was concluded in December 2020, which averted the most extreme form of "no deal" disorder. The trade pact did not include financial services, but the UK and the EU agreed and implemented some temporary arrangements to reduce disruption to financial markets. The UK granted a designation of regulatory equivalence for many EU financial firms, allowing them to continue to operate in the country. However, the EU did not reciprocate for UK financial firms, except for derivatives clearing houses.
- The UK government is emphasising the benefits of being able to determine its own priorities for the financial sector. It has begun to reform regulations governing UK financial markets, starting with changes to stockmarket listing rules. The government's legislative programme for the year ahead, announced in May 2022, includes the Financial Services and Markets Bill, which proposes to replace some elements of retained EU law applying to the sector.
- The Bank of England (BoE, the central bank) has increased its main rate five times since December 2021, from 0.1% to 1.25%, in the face of growing inflationary pressures. It has also signalled that further rises will be required in the coming months. The BoE has begun to reduce its quantitative easing programme, which peaked at £895bn. UK consumer price inflation averaged 2.5% in 2021, up from 1% in 2020, and we forecast that inflation will rise further, to an average of 7.3% in 2022.

- We expect London to retain its status as one of the world's main financial centres, especially in the trading of foreign exchange and derivatives, but a loss of influence and post-Brexit restrictions on financial services trade with the EU are inevitable. Reaching agreement on a complex new trading arrangement will be difficult and time-consuming (taking years, rather than months), and financial firms in the UK must come to terms with the loss of "passporting" (the right of UK-regulated companies to do business in the EU and vice versa).
- Financial services companies previously serving the EU from the UK will continue to relocate some of their operations and staff to within the bloc. Although outflows of financial sector employees (and related tax revenue) from the UK have so far been modest, it is likely that the trend will continue as competing financial services hubs, including Amsterdam (Netherlands), Frankfurt (Germany) and Paris (France), gradually grow in size and influence. European policymakers will strive to attract major financial functions away from London.

Healthcare

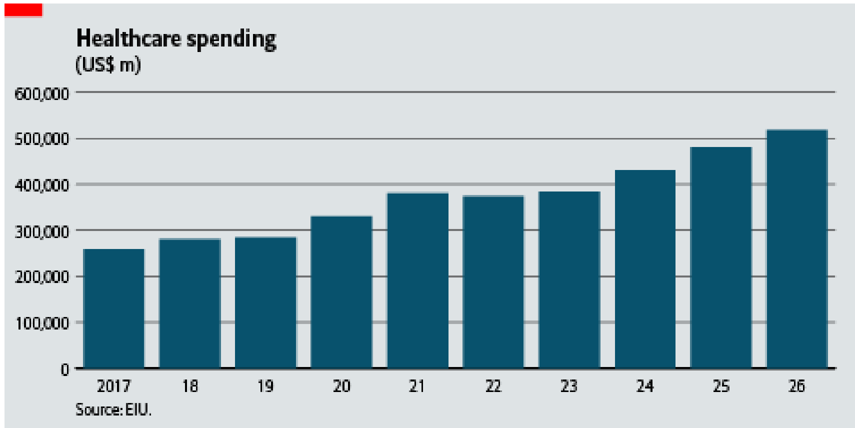
United Kingdom | Healthcare | Spending

September 30th 2022

Overview

- In the last two years the UK's healthcare system, already struggling with high demand, has faced three challenges: the covid-19 pandemic, the UK's departure from the EU's single market on January 1st 2021 and a global energy crisis following Russia's invasion of Ukraine in March 2022. The first pushed up death rates, necessitated additional funding and expanded waiting lists for non-covid care. The second has caused recruitment problems and necessitated an overhaul of pharmaceutical supervision. The third has caused high inflation and an economic slowdown; EIU expects real GDP to fall by 0.8% in 2023, pushing down healthcare spending in real terms.

- In addition, the UK's Conservative prime minister resigned in September 2022 and was replaced by Liz Truss, who appointed a new health minister (Thérèse Coffey). This was shortly followed by a controversial government mini-budget that aims to cut taxes and bolster investment. However, the reaction of markets and the IMF has been damning, causing the currency to plunge. Unless reversed, the budget is likely to lead to cuts in healthcare spending over the first half of our forecast period.
- The UK responded to the pandemic by increasing spending on healthcare to an estimated 12% of GDP in 2020 and 11.9% in 2021, according to the OECD. We forecast that this share will rebound to 12% in 2022 and in 2023 as real GDP growth slows. However, despite strong nominal growth in healthcare spending in local-currency terms over these two years, we expect spending to fall in real terms in 2023.



- Over our full five-year forecast period (2022-26), we expect health spending to rise at a compound annual growth rate (CAGR) of 5.7%. However, with inflation high, real growth in healthcare spending will average just 1% a year, compared with 2.2% a year in the five years before the pandemic.

- Pharmaceutical sales will grow at a CAGR of 4.9% in nominal local-currency terms in 2022-26, driven partly by covid-19 vaccine sales as well as the higher price of imported medicines as the pound weakens. So far, 86.9% of the population aged over 12 have received at least two vaccine doses, and over 68% have received three doses, according to government data. A booster (fourth) dose was offered to certain groups from early 2022.

Funding sources

- Healthcare provision in the UK is dominated by the National Health Service (NHS), which is financed primarily via general taxation. NHS care is free at the point of delivery, but fixed charges are levied (in England) for most prescription medicines and dental care, with some exemptions.
- Public expenditure (including compulsory contributions) accounted for 81.7% of current health spending in 2020, according to provisional data from the OECD, above the OECD average of 74%. The public share in the UK has increased from 78.5% in 2019, but remains lower than current shares in Germany (85.1%) and France (83.7%).
- The former government had reaffirmed a pre-pandemic funding deal in 2018, which will cause spending (excluding emergency covid-19 funds) to rise by £33.9bn (US$42bn) per year by fiscal year 2023/24 (April 6th-March 5th). The new government may be forced to abandon these promises in light of the UK's weak public finances.
- In particular, the government has reversed a new levy that was intended to raise health and social care funding by £12bn a year, in part to pay for elderly care. The levy, which was to become a tax on earned income from 2023, saw

national insurance payments for all working adults increase by 1.25 percentage points and another 1.25 points for employers. However, the levy will now be cancelled with effect from November 2022.

Healthcare: key indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Life expectancy, average (years)	81.0	81.0	81.1	81.2	81.3	81.4	81.5	81.6	81.8	81.9
Life expectancy, male (years)	79.1	79.2	79.3	79.4	79.5	79.7	79.9	80.0	80.2	80.4
Life expectancy, female (years)	82.8	82.8	82.9	82.9	83.0	83.1	83.1	83.2	83.3	83.4
Infant mortality rate (per 1,000 live births)	3.9	3.8	3.9	3.9	3.9	3.8	3.8	3.8	3.7	3.7
Healthcare spending (£ bn)	201.1	210.0	222.8	257.6	276.7	301.3	316.7	334.2	350.1	365.5
Healthcare spending (% of GDP)	9.6	9.7	9.9	12.0	11.9	12.0	12.0	11.8	11.9	12.0
Healthcare spending (US$ bn)	259.3	280.6	284.6	330.7	380.7	374.4	384.2	431.1	481.3	519.1
Healthcare spending (US$ per head)	3,924	4,223	4,262	4,932	5,658	5,546	5,672	6,344	7,059	7,589
Healthcare (consumer expenditure; US$ bn)	30.6	32.3	31.0	28.4	32.5	31.3	31.6	33.8	36.5	38.2
Doctors (per 1,000 people)	2.8	2.8	3.0	3.0	3.2	3.2	3.2	3.3	3.3	3.3
Hospital beds (per 1,000 people)	2.5	2.5	2.5	2.4	2.3	2.3	2.3	2.3	2.2	2.2

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: US Bureau of Census; UN; OECD; World Bank; EIU.

- Most NHS funding and commissioning occurs under separate frameworks in the four UK nations, with variations in policies. About 86% of funding goes to NHS England, with Scotland, Wales and Northern Ireland sharing the rest under a formula (the Barnett formula) related to population size.

- The 2021 Health and Care Act has reorganised NHS England funding flows from July 2022. It has transferred management from the 191 clinical commissioning groups (CCGs) set up in 2012 to 42 integrated care systems that will co-ordinate care at regional levels. The reforms do not apply in Scotland, Wales or Northern Ireland.

Private health insurance

- Voluntary (or private) spending on healthcare accounted for 18.3% (provisional data) of the UK's total health expenditure in 2020, the smallest share since 2010, according to the OECD. By contrast, up until 2018, the share of voluntary spending on healthcare had been gradually rising as a share of overall health expenditure.
- Out-of-pocket (OOP) spending accounted for 13.8% of total health spending, down from 15.9% in 2019. Nevertheless, the amount of spending continued to rise on a per capita basis (current prices; PPP) in 2020.
- The private health insurance market remained broadly flat in the years preceding the pandemic, reflecting the dominance of the NHS. In 2020 private spending on private acute medical care in hospitals and clinics shrank by about 30%, as the private sector provided resources to the NHS (at cost). This was followed by a strong rebound in 2021, as private contractors helped the NHS to reduce the backlog of non-covid care.
- The leading independent healthcare group is Bupa, with 2.3m policyholders and 31m customers at the end of June 2020. It was boosted by an agreement between Bupa UK and a friendly society, CS Healthcare, to transfer the latter's 17,500 members as of January 2021.

Telecommunications

United Kingdom | Telecommunications | Overview

August 11th 2022

- Mobile telephony makes up the majority of telecommunications connections in the UK. The mobile penetration rate has levelled off in recent years amid a saturated market. EIU expects a moderate rise during the five-year forecast period (2022-26), with the rate reaching 117.5%.
- There were an estimated 41.2 broadband subscriptions per 100 people in 2021, with total internet user penetration at 97.1% of the population. We forecast a rise in user penetration to 99.7% by 2026, with the coronavirus pandemic likely to accelerate the upward trend.
- The government published an updated UK Digital Strategy in June 2022, focusing on technology-led economic growth and productivity. A new central digital and data office became operational in April 2021. Its remit includes innovation and transformation strategies related to cyber-security, data and emerging technologies.
- The UK is ahead of many European countries in fifth-generation (5G) deploy-ment, owing largely to a clear policy. The country's largest mobile operators have all launched 5G services, although speed remains below expectations. Operators will focus on boosting revenue from industrial usage of 5G.
- The Telecommunications (Security) Act, aimed at safeguarding the UK's 5G and fibre-broadband infrastructure, became law in November 2021. It provides the state with new powers to impose controls on the use of telecoms goods, services or facilities deemed to be a high risk to national security. Companies that violate these will be subject to a fine of up to 10% of their relevant turnover.

- The digital strategy aims for the majority of the population to have 5G mobile coverage by 2027. In 2020 the government and Ofcom, the telecoms regulator, agreed on a scheme with the UK's four main mobile network operators (MNOs)—O2, EE, Vodafone and Three—for a shared rural 4G network that would remove most connectivity "not spots" (areas without 4G coverage) by 2025.
- A 2018 commitment to achieve "full-fibre broadband coverage" by 2025 has been watered down to a minimum of 85% gigabit-capable broadband by the same year. Most of the network will be built through private investment, with a government budget of £5bn (US$6.6bn) allocated to the 20% of premises that are hardest to reach. In November 2020 the government announced plans to spend £1.2bn of this funding in 2020-25.

Telecoms penetration

	2017[a]	2018[a]	2019[b]	2020[b]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Telephone main lines (m)	31.8	31.5	32.4[a]	32.0[a]	31.5	31.3	31.2	31.1	31.1	31.0
Telephone main lines (per 100 people)	48.1	47.4	48.5	47.8	46.8	46.4	46.0	45.8	45.6	45.3
Mobile subscriptions (m)	79.1	78.9	79.8[a]	79.0[a]	79.1	79.5	79.6	79.8	80.1	80.4
Mobile subscriptions (per 100 people)	119.7	118.8	119.6	117.8	117.6	117.8	117.6	117.5	117.5	117.5

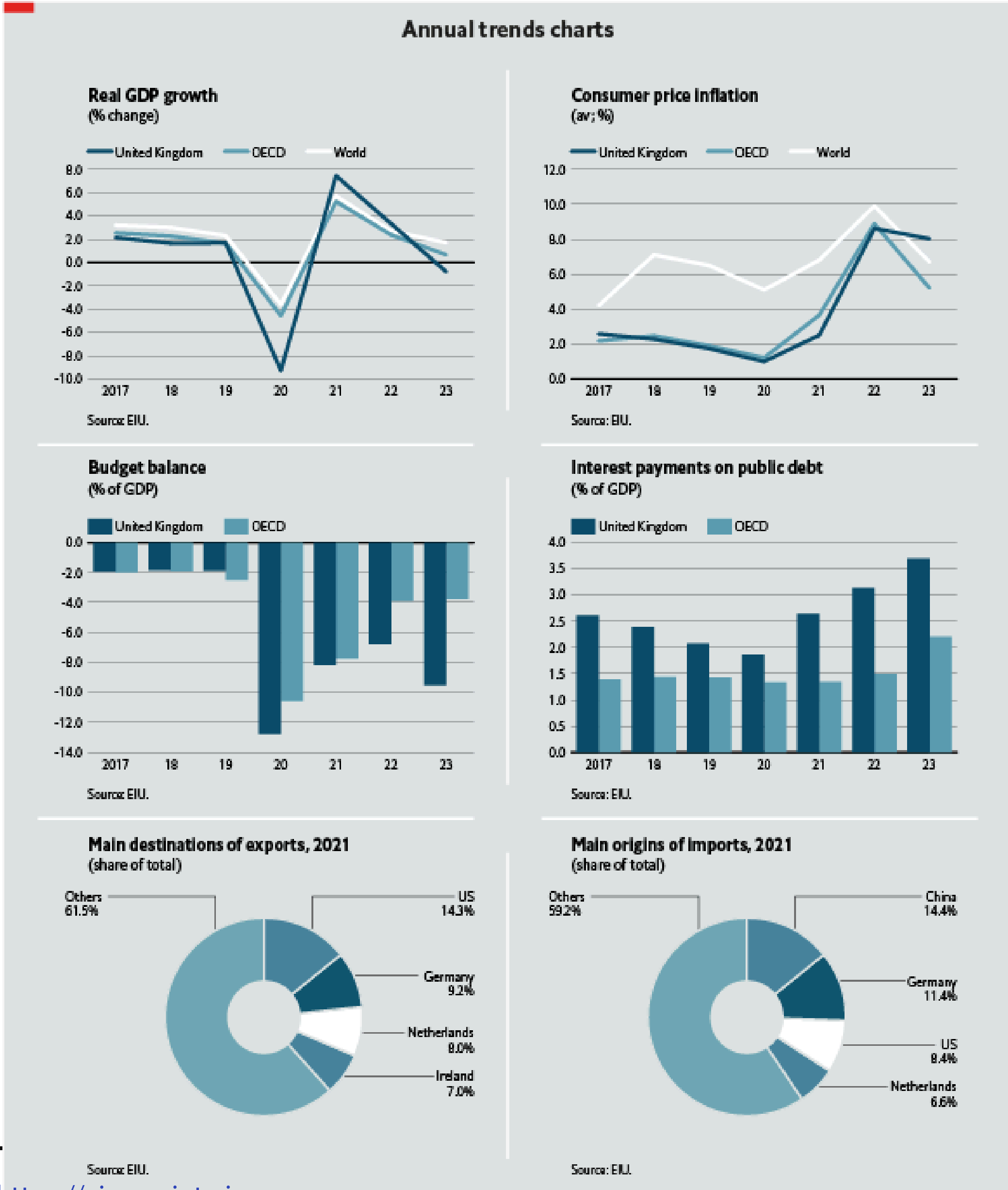
[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: International Telecommunication Union; EIU.

Data and charts: Annual trends charts

United Kingdom | Economy | Charts and tables | Annual trends charts

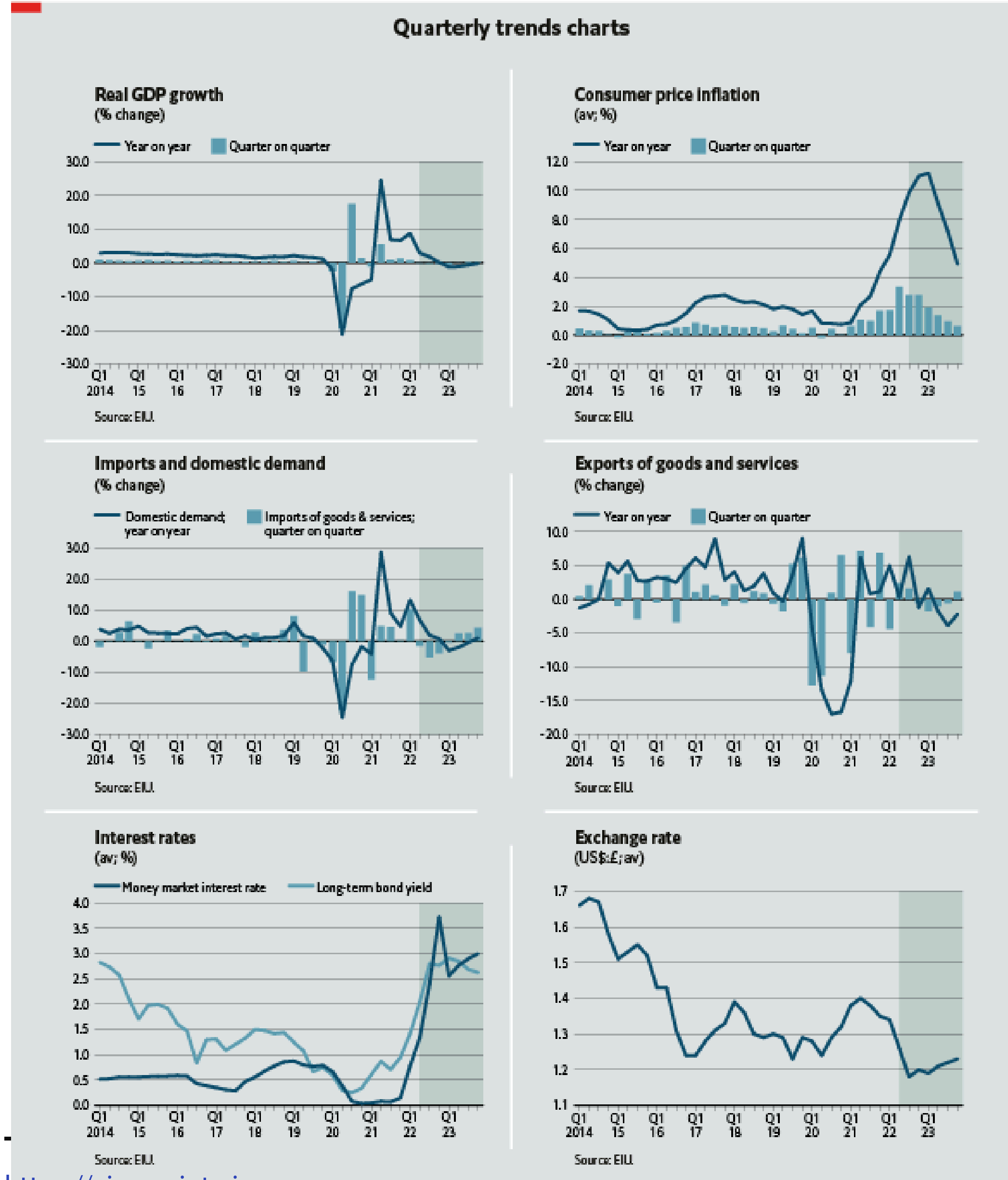
September 14th 2022


Annual trends charts
Real GDP growth
(% change)
United Kingdom
OECD
World
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
2017
18
19
20
21
22
23
Source: EIU.
Consumer price inflation
(av; %)
United Kingdom
OECD
World
12.0
10.0
8.0
6.0
4.0
2.0
0.0
2017
18
19
20
21
22
23
Source: EIU.
Budget balance
(% of GDP)
United Kingdom
OECD
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
-12.0
-14.0
2017
18
19
20
21
22
23
Source: EIU.
Interest payments on public debt
(% of GDP)
United Kingdom
OECD
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2017
18
19
20
21
22
23
Source: EIU.
Main destinations of exports, 2021
(share of total)
Others 61.5%
US 14.3%
Germany 9.2%
Netherlands 8.0%
Ireland 7.0%
Source: EIU.
Main origins of imports, 2021
(share of total)
Others 59.2%
China 14.4%
Germany 11.4%
US 8.4%
Netherlands 6.6%
Source: EIU.

Data and charts: Quarterly trends charts

United Kingdom | Economy | Charts and tables | Quarterly trends charts

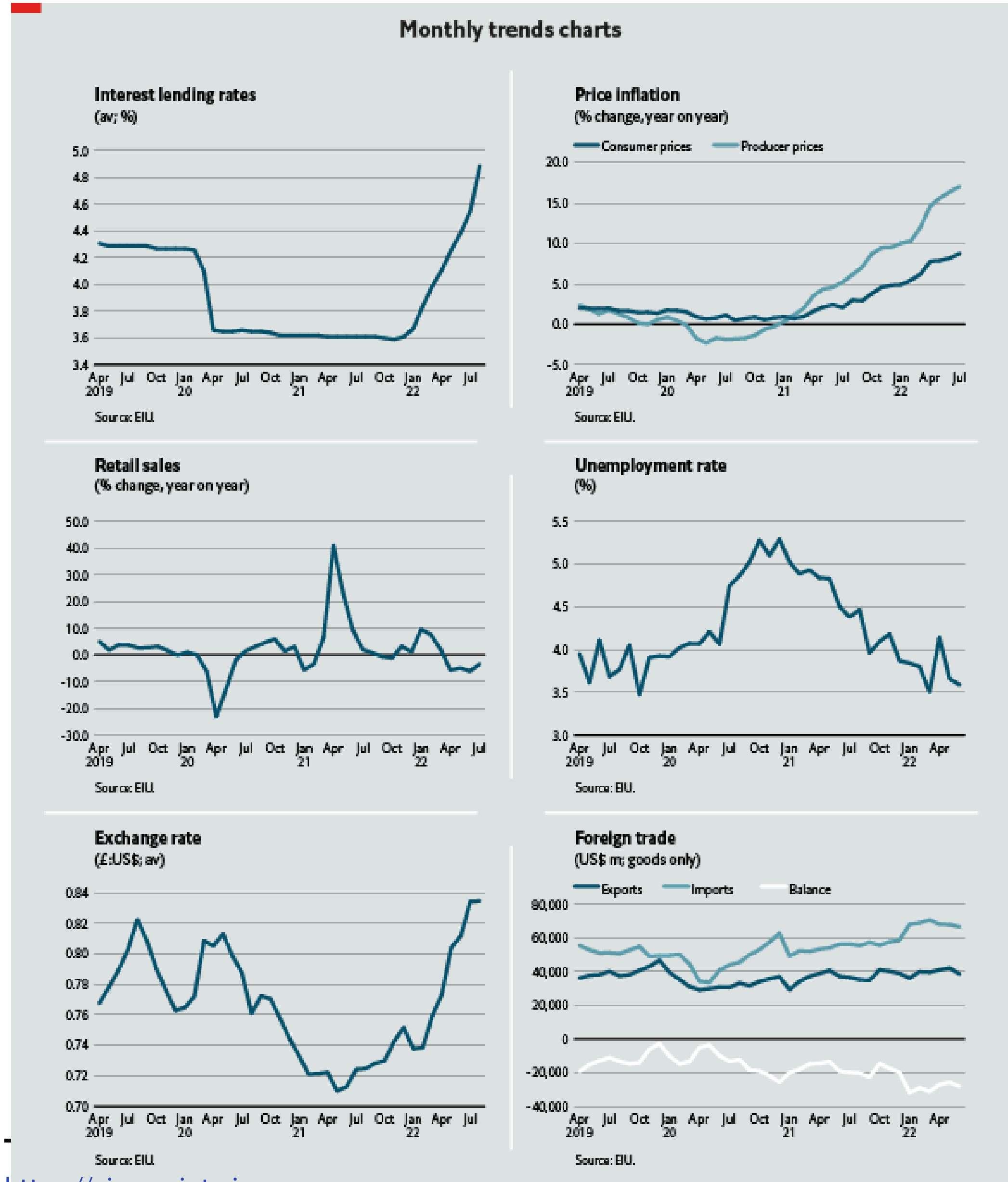
September 14th 2022


Quarterly trends charts
Real GDP growth
(% change)
Year on year
Quarter on quarter
Source: EIU.
Consumer price inflation
(av; %)
Year on year
Quarter on quarter
Source: EIU.
Imports and domestic demand
(% change)
Domestic demand; year on year
Imports of goods & services; quarter on quarter
Source: EIU.
Exports of goods and services
(% change)
Year on year
Quarter on quarter
Source: EIU.
Interest rates
(av; %)
Money market interest rate
Long-term bond yield
Source: EIU.
Exchange rate
(US$:£; av)
Source: EIU.

Data and charts: Monthly trends charts

United Kingdom | Economy | Charts and tables | Monthly trends charts

September 14th 2022


Monthly trends charts
Interest lending rates
(av; %)
Source: EIU.
Price inflation
(% change, year on year)
Consumer prices
Producer prices
Source: EIU.
Retail sales
(% change, year on year)
Source: EIU.
Unemployment rate
(%)
Source: EIU.
Exchange rate
(£:US$; av)
Source: EIU.
Foreign trade
(US$ m; goods only)
Exports
Imports
Balance
Source: EIU.

Data summary: Gross domestic product, current market prices

United Kingdom | Economy | Charts and tables | GDP at current market prices

September 14th 2022

Gross domestic product, at current market prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Expenditure on GDP (£ bn at current market prices)										
GDP	2,097.1	2,174.4	2,255.3	2,150.4	2,317.1	2,511.1	2,639.5	2,832.3	2,941.6	3,046.2
Private consumption	1,352.8	1,412.3	1,449.1	1,309.6	1,424.4	1,596.5	1,689.1	1,754.3	1,816.6	1,875.5
Government consumption	388.6	399.0	424.0	477.9	511.3	581.8	665.7	701.9	733.0	763.9
Gross fixed investment	377.9	386.5	399.6	367.9	395.8	408.1	403.3	415.4	428.2	440.9
Exports of goods & services	630.1	663.3	699.3	609.9	625.4	739.0	786.3	824.7	863.2	896.2
Imports of goods & services	656.6	691.6	719.9	603.5	654.5	844.3	911.9	866.0	900.4	932.4
Stockbuilding	4.4	4.9	3.3	-8.4	8.1	30.0	7.0	2.0	1.0	2.0
Domestic demand	2,123.6	2,202.7	2,276.0	2,147.0	2,339.5	2,616.4	2,765.1	2,873.6	2,978.7	3,082.4
Expenditure on GDP (US$ bn at current market prices)										
GDP	2,703.5	2,904.4	2,880.8	2,760.5	3,188.4	3,120.0	3,201.4	3,653.7	4,044.7	4,325.6
Private consumption	1,743.9	1,886.4	1,851.0	1,681.2	1,960.1	1,983.6	2,048.8	2,263.1	2,497.8	2,663.2
Government consumption	501.0	533.0	541.6	613.4	703.5	722.8	807.4	905.4	1,007.8	1,084.8

Gross fixed investment	487.1	516.2	510.4	472.3	544.6	507.1	489.2	535.9	588.8	626.1
Exports of goods & services	812.3	886.0	893.2	782.9	860.6	918.2	953.7	1,063.9	1,186.9	1,272.6
Imports of goods & services	846.5	923.8	919.6	774.8	900.6	1,049.1	1,106.1	1,117.2	1,238.0	1,324.0
Stockbuilding	5.7	6.5	4.2	-10.8	11.1	37.3	8.5	2.6	1.4	2.8
Domestic demand	2,737.7	2,942.2	2,907.2	2,756.2	3,219.4	3,250.9	3,353.8	3,707.0	4,095.8	4,377.0
Economic structure (% of GDP at current market prices)										
Household consumption	64.5	65.0	64.3	60.9	61.5	63.6	64.0	61.9	61.8	61.6
Government consumption	18.5	18.4	18.8	22.2	22.1	23.2	25.2	24.8	24.9	25.1
Gross fixed investment	18.0	17.8	17.7	17.1	17.1	16.3	15.3	14.7	14.6	14.5
Stockbuilding	0.2	0.2	0.1	-0.4	0.3	1.2	0.3	0.1	0.0	0.1
Exports of goods & services	30.0	30.5	31.0	28.4	27.0	29.4	29.8	29.1	29.3	29.4
Imports of goods & services	31.3	31.8	31.9	28.1	28.2	33.6	34.5	30.6	30.6	30.6
Memorandum item										
National savings ratio (%)	14.6	14.1	15.2	14.2	14.8	12.2	10.6	11.0	11.6	11.4

[a] Actual. [b] EIU forecasts.

Data summary: Gross domestic product, at constant prices

United Kingdom | Economy | Charts and tables | GDP at constant prices

September 14th 2022

Gross domestic product, at constant prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real expenditure on GDP(£ bn at 2019 prices)										
GDP	2,182.2	2,218.2	2,255.3	2,046.2	2,198.5	2,271.6	2,253.4	2,284.6	2,319.1	2,356.5
Household consumption	1,398.0	1,430.9	1,449.0	1,295.9	1,376.1	1,429.6	1,410.3	1,422.0	1,443.6	1,462.7
Government consumption	405.4	406.9	424.0	398.9	456.1	465.3	488.5	495.4	502.3	508.8
Gross fixed investment	397.7	397.4	399.6	361.6	382.9	402.9	398.2	410.1	422.7	435.3
Exports of goods & services	658.3	676.5	699.3	608.6	600.8	615.8	606.0	629.2	653.6	678.7
Imports of goods & services	678.6	699.5	719.9	606.4	629.7	687.7	672.2	689.8	719.8	747.7
Stockbuilding (% of GDP)	12.7	1.8	6.5	-9.0	0.2	30.0	7.0	2.0	1.0	3.0
Domestic demand	2,214.3	2,240.1	2,275.9	2,046.6	2,221.0	2,330.2	2,308.0	2,332.7	2,373.3	2,413.2
Real expenditure on GDP (% change)										
GDP	2.1	1.7	1.7	-9.3	7.4	3.3	-0.8	1.4	1.5	1.6
Household consumption	1.6	2.4	1.3	-10.6	6.2	3.9	-1.4	0.8	1.5	1.3
Government consumption	0.6	0.4	4.2	-5.9	14.3	2.0	5.0	1.4	1.4	1.3
Gross fixed investment	3.3	-0.1	0.5	-9.5	5.9	5.2	-1.2	3.0	3.1	3.0

Exports of goods & services	5.7	2.8	3.4	-13.0	-1.3	2.5	-1.6	3.8	3.9	3.8
Imports of goods & services	2.9	3.1	2.9	-15.8	3.8	9.2	-2.3	2.6	4.4	3.9
Stockbuilding (% contribution to GDP growth)	0.2	-0.5	0.2	-0.7	0.4	1.4	-1.0	-0.2	0.0	0.1
Domestic demand	1.9	1.2	1.6	-10.1	8.5	4.9	-1.0	1.1	1.7	1.7
Real contribution to GDP growth (% points)										
Private consumption	1.0	1.5	0.8	-6.8	3.9	2.4	-0.9	0.5	0.9	0.8
Government consumption	0.1	0.1	0.8	-1.1	2.8	0.4	1.0	0.3	0.3	0.3
Gross fixed investment	0.6	0.0	0.1	-1.7	1.0	0.9	-0.2	0.5	0.6	0.5
External balance	0.7	-0.1	0.1	1.0	-1.5	-2.0	0.2	0.3	-0.2	-0.1
Memorandum items										
Industrial production (% change)	0.1	3.5	3.6	-8.4	5.1	1.4	-4.0	2.2	1.6	1.6
Real personal disposable income (% change)	0.9	2.8	1.3	-0.3	1.3	-0.4	-1.6	0.6	1.0	1.3

[a] Actual. [b] EIU forecasts.

Data summary: Gross domestic product by sector of origin

United Kingdom | Economy | Charts and tables | GDP by sector of origin

September 14th 2022

Gross domestic product by sector of origin

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Origin of GDP (£ bn at constant 2018 prices)										
GDP at factor cost	1,950.8	1,981.4	2,017.3	1,832.4	1,969.8	2,035.3	2,019.0	2,046.9	2,077.9	2,111.3
Agriculture	13.4	11.9	13.8	12.5	12.9	13.6	13.5	13.7	13.9	14.1
Industry	389.3	396.1	405.5	361.5	388.5	400.8	397.4	403.0	409.0	415.6
Services	1,548.3	1,573.5	1,598.0	1,458.4	1,568.3	1,620.9	1,608.2	1,630.3	1,655.0	1,681.6
Origin of GDP (real % change)										
Agriculture	5.9	-10.9	15.9	-9.8	4.0	5.0	-0.9	1.5	1.5	1.6
Industry	1.3	1.7	2.4	-10.8	7.5	3.2	-0.8	1.4	1.5	1.6
Services	2.4	1.6	1.6	-8.7	7.5	3.4	-0.8	1.4	1.5	1.6
Origin of GDP (% of factor cost GDP)										
Agriculture	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Industry	20.0	20.0	20.1	19.7	19.7	19.7	19.7	19.7	19.7	19.7

Services	79.4	79.4	79.2	79.6	79.6	79.6	79.7	79.6	79.6	79.6
Memorandum item										
Industrial production (% change)	0.1	3.5	3.6	-8.4	5.1	1.4	-4.0	2.2	1.6	1.6

[a] Actual. [b] EIU forecasts.

Data summary: Growth and productivity

United Kingdom | Economy | Charts and tables | Growth and productivity

September 14th 2022

Growth and productivity

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Growth and productivity (%)										
Labour productivity growth	1.1	0.5	0.6	-8.5	7.8	2.5	-1.2	1.0	0.9	1.1
Total factor productivity growth	0.4	0.0	0.1	-8.9	1.2	-1.4	-1.1	1.1	1.0	1.1
Growth of capital stock	3.1	2.6	2.3	0.7	1.3	1.8	1.4	1.6	1.8	2.0
Growth of potential GDP	2.1	2.0	1.8	1.5	-1.2	-0.6	-0.4	2.0	1.9	2.1
Growth of real GDP	2.1[c]	1.7[c]	1.7[c]	-9.3[c]	7.4[c]	3.3	-0.8	1.4	1.5	1.6
Growth of real GDP per head	1.7[c]	1.1[c]	1.1[c]	-9.7[c]	7.1[c]	3.0	-1.1	1.0	1.2	1.3

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Data summary: Economic structure, income and market size

United Kingdom | Economy | Charts and tables | Economic structure, income and market size

September 14th 2022

Economic structure, income and market size

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Population, income and market size										
Population (m)	66.1	66.4	66.8	67.1	67.3	67.5	67.7	68.0	68.2	68.4
GDP (US$ bn at market exchange rates)	2,704	2,904	2,881	2,760	3,188	3,120	3,201	3,654	4,045	4,326
GDP per head (US$ at market exchange rates)	40,922	43,719	43,140	41,165	47,390	46,216	47,263	53,761	59,323	63,246
Private consumption (US$ bn)	1,744	1,886	1,851	1,681	1,960	1,984	2,049	2,263	2,498	2,663
Private consumption per head (US$)	26,397	28,396	27,718	25,070	29,133	29,383	30,246	33,299	36,635	38,940
GDP (US$ bn at PPP)	3,075	3,165	3,315	3,044	3,406	3,734	3,837	3,957	4,101	4,258
GDP per head (US$ at PPP)	46,538	47,636	49,636	45,387	50,623	55,310	56,651	58,218	60,145	62,264
Personal disposable income (£ bn)	1,381	1,448	1,487	1,499	1,556	1,671	1,763	1,828	1,882	1,943
Personal disposable income (US$ bn)	1,780	1,935	1,900	1,924	2,141	2,077	2,139	2,358	2,588	2,760
Growth of real disposable income (%)	0.9	2.8	1.3	-0.3	1.3	-0.4	-1.6	0.6	1.0	1.3
Memorandum items										
Share of world population (%)	0.88	0.88	0.88	0.87	0.87	0.86	0.87	0.87	0.87	0.85
Share of world GDP (% at market exchange rates)	3.36	3.41	3.33	3.29	3.36	3.14	3.04	3.27	3.42	3.54

Share of world GDP (% at PPP)	2.55	2.47	2.48	2.31	2.34	2.36	2.27	2.23	2.19	2.21
Share of world exports of goods (%)	2.51	2.47	2.58	2.32	2.05	1.95	1.89	2.02	2.16	2.43

[a] Actual. [b] EIU forecasts.

Data summary: Fiscal indicators

United Kingdom | Economy | Charts and tables | Fiscal indicators

September 14th 2022

Fiscal indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Fiscal indicators (% of GDP)										
Government expenditure	37.2	37.0	36.8	47.9	44.6	43.8	46.2	44.6	43.8	43.4
Interest[c]	2.6	2.4	2.1	1.9	2.6	3.1	3.7	4.3	4.8	4.8
Non-interest[c]	34.6	34.6	34.7	46.1	41.9	40.6	42.5	40.2	39.0	38.6
Government revenue[c]	35.3	35.1	34.9	35.2	36.4	37.0	36.7	36.3	37.9	39.0
Budget balance[c]	-1.9	-1.9	-1.9	-12.8	-8.2	-6.8	-9.5	-8.3	-5.9	-4.4
Primary balance[c]	0.7	0.5	0.2	-10.9	-5.5	-3.6	-5.8	-3.9	-1.1	0.3
Government debt[d]	85.2	84.5	83.8	102.5	102.8	101.7	107.2	107.8	110.2	110.2

[a] Actual. [b] EIU forecasts. [c] General government. [d] General government, gross public debt (Maastricht definition). Includes impact of financial sector interventions in Northern Rock, Bradford & Bingley and compensation payments to Icelandic bank depositors. Does not include impact

of reclassification of Royal Bank of Scotland and Lloyds Banking Group as public corporations by the Office for National Statistics. Does not include impact of gilt transactions with the Bank of England. End-period.

Data summary: Monetary indicators

United Kingdom | Economy | Charts and tables | Monetary indicators

September 14th 2022

Monetary indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Monetary indicators										
Exchange rate US$:£ (av)	1.29	1.34	1.28	1.28	1.38	1.24	1.21	1.29	1.38	1.42
Exchange rate €:£ (av)	1.14	1.13	1.14	1.12	1.16	1.17	1.10	1.10	1.14	1.15
Exchange rate US$:€ (av)	1.13	1.18	1.12	1.14	1.18	1.06	1.11	1.18	1.21	1.23
Exchange rate €:£ (year-end)	1.13	1.11	1.18	1.11	1.19	1.13	1.07	1.10	1.14	1.17
Real effective exchange rate (av; 2010=100)	97.1	98.9	98.4	98.6	102.4	100.6	98.7	101.9	106.4	108.7
M4 money supply growth (%)[c]	4.8	2.3	3.8	12.6	6.4[d]	2.6	1.8	7.5	2.8	3.3
Domestic credit growth (%)	5.4	3.2	4.9	3.1	6.4[d]	2.8	1.8	8.1	3.7	4.2
Purchasing power parity US$:£ (av)	1.47	1.46	1.47	1.42	1.47	1.49	1.45	1.40	1.39	1.40
3-month £-Libor rate (av; %)	0.4	0.7	0.8	0.3	0.1	2.1	2.8	3.1	3.4	3.7

10-year government bond yield (av; %)	1.2	1.5	0.9	0.4	0.8	2.3	2.8	2.8	3.0	3.0
Bank of England base rate (%; end-period)	0.50	0.75	0.75	0.10	0.25	3.50	4.00	4.00	4.50	5.00
Lending rate (%; average mortgage SVR from UK MFIs)	4.4	4.3	4.3	3.8	3.6	4.8	6.5	6.0	6.0	6.0
Deposit rate (av; %)	0.9	0.9	0.9	0.4	0.2	2.2	4.4	3.0	3.1	3.2

[a] Actual. [b] EIU forecasts. [c] Headline broad money (M4) figures from Bank of England include deposits of "intermediate other financial corporations" (IOFCs) that specialise in intermediation between banks, giving a distorted measure of underlying M4 growth. [d] EIU estimates.

Data summary: Employment, wages and prices

United Kingdom | Economy | Charts and tables | Employment, wages and prices

September 14th 2022

Employment, wages and prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
The labour market (av)										
Labour force (m)	33.5	33.8	34.1	34.1	33.9	34.0	34.1	34.3	34.5	34.7
Labour force (% change)	0.5	0.9	0.8	-0.1	-0.4	0.3	0.3	0.6	0.5	0.4
Employment (m)	32.1	32.4	32.8	32.5	32.4	32.7	32.8	32.9	33.1	33.3
Employment (% change)	1.0	1.2	1.1	-0.9	-0.3	0.8	0.4	0.4	0.6	0.5

Unemployment (m)	1.5	1.4	1.3	1.6	1.5	1.4	1.3	1.4	1.4	1.4
Unemployment rate (%; EU/OECD standardised measure)	4.4	4.1	3.8	4.6	4.5	4.1	4.3	4.3	4.2	4.0
Wage and price inflation (% except labour costs per hour)										
GDP deflator	1.8	2.0	2.0	5.1	0.3	4.9	6.0	5.8	2.3	1.9
Consumer prices (av; CPIH measure)	2.6	2.3	1.7	1.0	2.5	8.6	8.0	3.0	2.0	1.9
Producer prices (av)	3.9	3.4	1.4	-1.0	5.2	18.2	18.2	6.0	2.0	2.0
GDP deflator (av)	1.8	2.0	2.0	5.1	0.3	4.9	6.0	5.8	2.3	1.9
Private consumption deflator (av)	1.8	2.0	1.3	1.1	2.4	7.9	7.3	3.0	2.0	1.9
Government consumption deflator (av)	1.0	2.3	2.0	19.8	-6.4	11.6	9.0	4.0	3.0	2.9
Fixed investment deflator (av)	3.0	2.3	2.8	1.7	1.6	-2.0	0.0	0.0	0.0	0.0
Average nominal wages (av)	2.3	3.0	3.4	1.8	5.9	6.4	5.9	3.8	3.0	3.1
Average real wages (av)	-0.3	0.7	1.6	0.8	3.3	-2.0	-2.0	0.8	1.0	1.2
Unit labour costs (£-based; av)	2.0	2.4	3.0	13.4	-1.4	4.8	8.1	3.8	3.1	3.0
Unit labour costs (US$-based)	-2.9	6.1	-1.5	14.0	5.6	-5.3	5.6	10.4	9.9	6.4
Labour costs per hour (£)	22.0[c]	22.7[c]	23.5[c]	23.9[c]	25.3[c]	26.9	28.5	29.6	30.5	31.4
Labour costs per hour (US$)	28.4[c]	30.3[c]	30.0[c]	30.7[c]	34.8[c]	33.5	34.6	38.2	41.9	44.7

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Data summary: Current account and terms of trade

United Kingdom | Economy | Charts and tables | Current account and terms of trade

September 14th 2022

Current account and terms of trade

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Current account (US$ bn)										
Current-account balance	-98.1	-112.5	-77.0	-69.9	-82.5	-163.6	-158.5	-137.8	-122.8	-135.1
Current-account balance (% of GDP)	-3.6	-3.9	-2.7	-2.5	-2.6	-5.2	-5.0	-3.8	-3.0	-3.1
Goods: exports fob	435.4	468.3	474.9	396.8	442.3	488.7	494.8	557.4	622.0	656.4
Goods: imports fob	-616.4	-658.0	-651.9	-564.2	-656.8	-796.3	-840.5	-810.5	-888.3	-942.1
Trade balance	-180.9	-189.8	-176.8	-167.3	-214.4	-307.5	-345.8	-253.2	-266.3	-285.8
Services: credit	376.6	416.7	417.7	386.2	417.4	432.4	460.5	508.3	566.9	618.4
Services: debit	-229.8	-264.7	-267.4	-211.9	-242.9	-254.3	-270.8	-298.0	-326.4	-349.7
Services balance	146.8	152.0	150.3	174.3	174.5	178.1	189.7	210.3	240.5	268.6
Primary income: credit	241.8	291.9	277.8	174.5	249.6	328.3	435.6	409.7	392.8	402.0
Primary income: debit	-277.0	-332.6	-294.4	-214.8	-266.1	-337.0	-412.0	-474.6	-456.1	-487.3
Primary income balance	-35.2	-40.7	-16.6	-40.3	-16.5	-8.7	23.7	-64.8	-63.3	-85.3
Secondary income: credit	22.7	25.0	24.4	26.5	23.2	22.7	23.3	24.8	25.5	27.3
Secondary income: debit	-51.7	-59.1	-58.3	-62.8	-49.2	-48.1	-49.4	-54.9	-59.2	-60.0

Secondary income balance	-29.0	-34.1	-33.9	-36.3	-26.0	-25.4	-26.1	-30.1	-33.7	-32.7
Terms of trade										
Export price index (US$-based; 2010=100)	89.9	96.5	92.3	89.7	109.4	120.3	127.0	133.8	142.1	144.1
Export prices (% change)	1.1	7.3	-4.3	-2.8	21.9	9.9	5.5	5.4	6.2	1.5
Import price index (US$-based; 2010=100)	89.6	95.4	89.6	86.3	93.4	102.1	111.0	104.8	110.3	112.7
Import prices (% change)	1.2	6.5	-6.0	-3.7	8.2	9.3	8.7	-5.6	5.3	2.1
Terms of trade (2010=100)	100.4	101.2	103.0	104.0	117.1	117.8	114.3	127.6	128.8	127.9
Memorandum item										
Export market growth (%)	4.7	4.4	1.1[c]	-4.8[c]	10.3[c]	6.1	3.1	3.6	3.2	3.3

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Data summary: Foreign direct investment

United Kingdom | Economy | Charts and tables | Foreign direct investment

September 14th 2022

Foreign direct investment

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Foreign direct investment (US$ bn)										
Inward direct investment	125.4	-25.2	2.3	31.0	22.6	60.0	46.3	41.4	65.0	95.4
Inward direct investment (% of GDP)	4.6	-0.9	0.1	1.1	0.7	1.9	1.4	1.1	1.6	2.2
Inward direct investment (% of gross fixed investment)	25.7	-4.9	0.5	6.6	4.1	11.8	9.5	7.7	11.0	15.2
Outward direct investment	-172.0	28.7	48.2	53.3	-101.5	-18.2	-41.4	-37.8	-47.0	-66.8
Net foreign direct investment	-46.6	3.5	50.5	84.3	-78.9	41.9	5.0	3.6	18.0	28.7
Stock of foreign direct investment	2,369.0	2,226.0	2,317.0	2,548.0	2,562.0	2,622.0	2,668.4	2,709.8	2,774.8	2,870.3
Stock of foreign direct investment per head (US$)	35,859	33,507	34,697	37,996	38,079	38,839	39,393	39,872	40,698	41,967
Stock of foreign direct investment (% of GDP)	87.6	76.6	80.4	92.3	80.4	84.0	83.3	74.2	68.6	66.4
Memorandum items										
Share of world inward direct investment flows (%)	6.2	-6.3	0.2	3.1	2.0	4.9	3.6	3.1	4.7	6.6
Share of world inward direct investment stock (%)	7.9	6.9	6.8	7.6	6.9	6.5	6.3	6.2	6.1	6.0

[a] Actual. [b] EIU forecasts.

Political structure

United Kingdom | Summary | Political structure

September 14th 2022

Official name

United Kingdom of Great Britain and Northern Ireland

Form of state

Parliamentary monarchy

Legal system

Based on statute and common law; no written constitution; Scotland has its own system

National legislature

Bicameral; the House of Commons (the lower house of parliament) has 650 members directly elected on a first-past-the-post basis; the House of Lords (the upper house, with about 775 members) was reformed in 1999, when most hereditary peers lost their seats

Electoral system

Universal direct suffrage from the age of 18

National elections

The last general election was held on December 12th 2019; the next election must be held before January 2025

Head of state

King Charles III, who acceded to the throne on September 8th 2022

National government

Cabinet headed by the prime minister, who is appointed by the monarch on the basis of ability to form a government with the support of the House of Commons. The centre-right Conservative Party took office as a majority government in December 2019

Main political parties

Conservative Party; Labour Party; Liberal Democrats; Reform UK (formerly Brexit Party); Green Party; Scottish National Party (SNP); Plaid Cymru (Welsh National Party); Northern Ireland parties: Ulster Unionist Party (UUP), Democratic Unionist Party (DUP), Alliance Party, Social Democratic and Labour Party (SDLP), Sinn Fein

Prime minister: Liz Truss

Chancellor of the exchequer: Kwasi Kwarteng

Leader of the House of Commons: Penny Mordaunt

Leader of the House of Lords & Lord Privy Seal: Lord True

Minister for Intergovernmental Relations: Nadhim Zahawi

Parliamentary secretary to the Treasury & chief whip: Chris Heaton-Harris

Party chair & minister without portfolio: Jake Berry

President for COP26: Alok Sharma

Secretaries of state

Business, energy & industrial strategy: Jacob Rees-Mogg

Defence: Ben Wallace

Digital, culture, media & sport: Michelle Donelan

Education: Kit Malthouse

Environment, food & rural affairs: Ranil Jayawardena

Foreign, Commonwealth & development: James Cleverly

Health & social care (also deputy prime minister): Thérèse Coffey

Home Office: Suella Braverman

International trade: Kemi Badenoch

Justice & Lord Chancellor: Brandon Lewis

Levelling up, Housing & communities: Simon Clarke

Northern Ireland: Chris Heaton-Harris

Scotland: Alister Jack

Transport: Anne-Marie Trevelyan

Wales: Robert Buckland

Work & pensions: Chloe Smith

Central bank governor

Andrew Bailey

Basic data

United Kingdom | Summary | Basic data

September 14th 2022

Land area

244,100 sq km (including inland water), of which 71% is arable and pasture land, 10% forest and 19% urban and other. England totals 130,400 sq km, Scotland 78,800 sq km, Wales 20,800 sq km and Northern Ireland 14,100 sq km

Population

67.1m (official mid-year estimate, 2020)

Main urban areas

Population in ’000 (official mid-year estimates, 2020)

Greater London (capital): 9,304

Greater Manchester: 2,730

West Midlands: 2,607

West Yorkshire: 1,889

Glasgow: 1,673

Climate

Temperate

Weather in London (altitude 5 metres)

Hottest month, July, 13-22°C; coldest month, January, 2-6°C; driest months, March and April, 37 mm average rainfall; wettest month, November, 64 mm average rainfall

Language

English. Welsh is also spoken in Wales, and Gaelic in parts of Scotland

Measures

Officially metric system, but the former UK imperial system is still widely used

Currency

Pound (or pound sterling) = 100 pence

Time

GMT (summer time, 1 hour ahead)

Fiscal year

April 1st to March 31st; tax year April 6th to April 5th

Public holidays

January 3rd (New Year's Day*), April 15th (Good Friday), April 18th (Easter Monday), May 2nd (Early May Bank Holiday), June 2nd (Spring Bank Holiday), June 3rd (Platinum Jubilee Bank Holiday), August 29th (Summer Bank Holiday), September 19th (Funeral of Queen Elizabeth II) December 26th and 27th (Christmas Day and Boxing Day*)

*New Year's Day is traditionally celebrated on January 1st, and Christmas Day and Boxing Day are traditionally celebrated on December 25th and 26th. As those days fall on weekends in 2022, the next two working days are given as holiday


Main railway
Main road
International boundary
Country boundary
Main airport
Capital
Major town
Other town
0 km 50 100 150 200
0 miles 50 100
Shetland
Orkney
Thurso
Lewis
Outer Hebrides
Ullapool
Inverness
Kyle of Lochalsh
Isle of Skye
Aberdeen
SCOTLAND
ATLANTIC OCEAN
North Sea
Dundee
Mull
Oban
Perth
Stirling
Dunfermline
Greenock
Glasgow
Edinburgh
Islay
Motherwell
Berwick-upon-Tweed
Kilmarnock
Firth of Clyde
Dumfries
Newcastle
Sunderland
Londonderry (Derry)
NORTHERN IRELAND
Antrim
Stranraer
Larne
Carlisle
Omagh
Belfast
Bangor
Middlesbrough
Armagh
UNITED KINGDOM
Scarborough
Isle of Man
Lancaster
Bradford
York
Irish Sea
Blackburn
Leeds
Kingston upon Hull
Bolton
Grimsby
Liverpool
Manchester
Anglesey
Birkenhead
Sheffield
Warrington
Holyhead
Lincoln
Bangor
Chester
The Wash
REPUBLIC OF IRELAND
Wrexham
Stoke
Derby
Nottingham
ENGLAND
King's Lynn
Norwich
Shrewsbury
Great Yarmouth
Leicester
Cardigan Bay
Wolverhampton
Peterborough
Birmingham
Coventry
Aberystwyth
Northampton
Cambridge
WALES
Worcester
Ipswich
Fishguard
Milton Keynes
Luton
Gloucester
Oxford
Southend
Newport
Swindon
Swansea
Cardiff
LONDON
Bristol
Reading
Canterbury
Celtic Sea
Bristol Channel
Crawley
Dover
Barnstaple
Salisbury
Folkestone
Calais
Southampton
Hastings
Bournemouth
Portsmouth
Brighton


OCEAN
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