

## UK budget: Every little helps?

As expected, Chancellor Hammond delivered a budget with few major changes but a wealth of incremental measures. This doesn't change materially the outlook for the UK economy; growth is set to remain fairly sluggish and hampered by Brexit uncertainty.



## A little bit for everyone

As had been widely anticipated, the independent budget watchdog OBR delivered a significant downgrade to the forecasts underpinning the budget, with a cumulative 2.1% reduction in the level of GDP by 2021. That brings the budget forecast broadly in line with the Bank of England's forecast.

The forecast downgrade has been partly offset by better than expected tax revenue this year and next, but the increased spending announcements made today mean that net borrowing is set to be around £20bn higher each year from 2019/20 relative to the March projections, effectively reducing the headroom available against the Chancellor's fiscal rules in future budgets.

In terms of new policy announcements the Chancellor opted for a broad approach, announcing incremental increases for a wide swathe of policy areas. The most significant sums came for health services and home construction, both political priorities. Additional funds were also announced for a range of new technologies, ranging from electrical vehicles and future and infrastructure and electrical vehicles.

Increases in the minimum wage (+4.4%), additional funds (£1.5bn) for the universal credit benefits system, and increases in the income tax thresholds (+3%) will provide some support to household disposable incomes, but consumer spending power remains under pressure as inflation is set to exceed wage growth for some time yet.

Given only limited changes to the fiscal stance, this budget will do little to change the near term economic outlook for the UK. Growth is likely to remain sluggish over coming quarters as Brexit uncertainty continues to weigh. A key issue for investors is the political outcome; Chancellor Hammond has been under significant pressure in the run-up to the budget. Given he has a reputation as a 'safe pair of hands' on the economy, should he be forced out that could add to uncertainty around the economic outlook.

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