FINSBURY

Analysis of the UK's Autumn Statement

November 2016

INTRODUCTION

Philip Hammond's Autumn Statement gave surprising detail about the cost of the EU referendum result and reinforced the way in which the May Government wants to deal with the situation it has inherited.

The Government has far less money than it thought it would have only six months ago, with borrowing up £122 billion over the next five years. This troubles May and Hammond less than it would have their predecessors, as they have largely abandoned the austerity agenda that has shaped Government decisions since 2010.

As anticipated, extra money has been found for infrastructure spending, R&D investment and those whom May calls the "just about managing", now enthusiastically referred to as the JAMs.

Of the extra £122 billion in borrowing, £58.7 billion is the direct result of the referendum having caused potential economic output growth to fall by 2.4 percentage points over five years. This means that the previously forecast surpluses for 2019 and 2020 have now been replaced by deficits.

The deteriorating fiscal position means the Government will continue to have relatively little money to appease aggrieved voters. This makes the Government vulnerable to internal conflict and external pressure, although even with a small majority, they will be comforted by the continued unpopularity and of the opposition Labour Party.

Companies will need to be flexible if they are to navigate this political terrain. The uncertainty over Brexit in particular gives companies a short-term opportunity to be helpful to Government to improving its understanding of how Brexit might affect the economy. The benefit in doing this before the Government establishes its priorities for Brexit cannot be overstated.

With its expert team drawn directly from a range of senior roles in government and politics, Finsbury stands ready to help.

KEY MEASURES

Both the content and delivery reflected the sober and muted approach of the new Chancellor. Gone were the often cynical, always political, sleights of hand from George Osborne and Gordon Brown, who both had rampant ambitions of becoming Prime Minister. Philip Hammond makes merit of being a serious man for serious times, but showed enough political guile to both praise his predecessor, while unceremoniously dumping his fiscal straightjacket.

It hardly came as a surprise to discover that the Government has little fiscal room for manoeuvre, and the focus has instead been on tangible means of delivery. For example, whereas infrastructure plans previously led with hugely expensive and eye-catching proposals such as HS2 and Crossrail, the focus today was on eliminating traffic pinch points across the country to help increase productivity. This may not directly lead to extra seats at the next General Election but it will probably be viewed as a good value means of spending public money.

John McDonnell (Shadow Chancellor of the Exchequer, Labour): The figures speak for themselves: growth down; wage growth down; investment down. The deficit target, failed. The debt target, failed. The welfare cap, failed. The verdict could not be clearer. The so-called "long term economic plan" has failed.

Winners

- Middle to lower earners
- Road users
- R&D intensive industries

FTSE-100 down

0.5%

Related to this, the dull-sounding yet worthy National Productivity Investment Fund sees the Government pledging £23 billion for "innovation and infrastructure" over the next five years. The details of this will need to be examined but it is likely that a number of existing announcements will have been double-counted, such as investments in R&D and roads.

Mark Reckless (Economy Spokesman, UKIP): Despite the fearsome predictions of Remain supporters, the overall prognosis for the economy is good, as we knew it would be. The official forecast is that unemployment in 2020 after we have left the EU will be just 860,000. This administers the last rites to the infamous claim that 3 million jobs would be lost if we left the EU.

There were also, as expected, a number of measures to help the so-called JAMs, but nothing that would constitute a major giveaway, more a signal of future intent. The Personal Allowance and Higher Rate Threshold will both be gradually increased to £12,500 and £50,000 respectively by 2020-21. Additionally, the National Minimum Wage and National Living Wage will both see an increase from April 2017, with the Treasury predicting some low paid workers being up to £1,400 per year better off as a result.

Losers

- Insurers
- Employee Benefits (e.g. gym and phones)
- Letting Agents

The most significant number...was the fact we're going to grow over the next few years but grow much less quickly

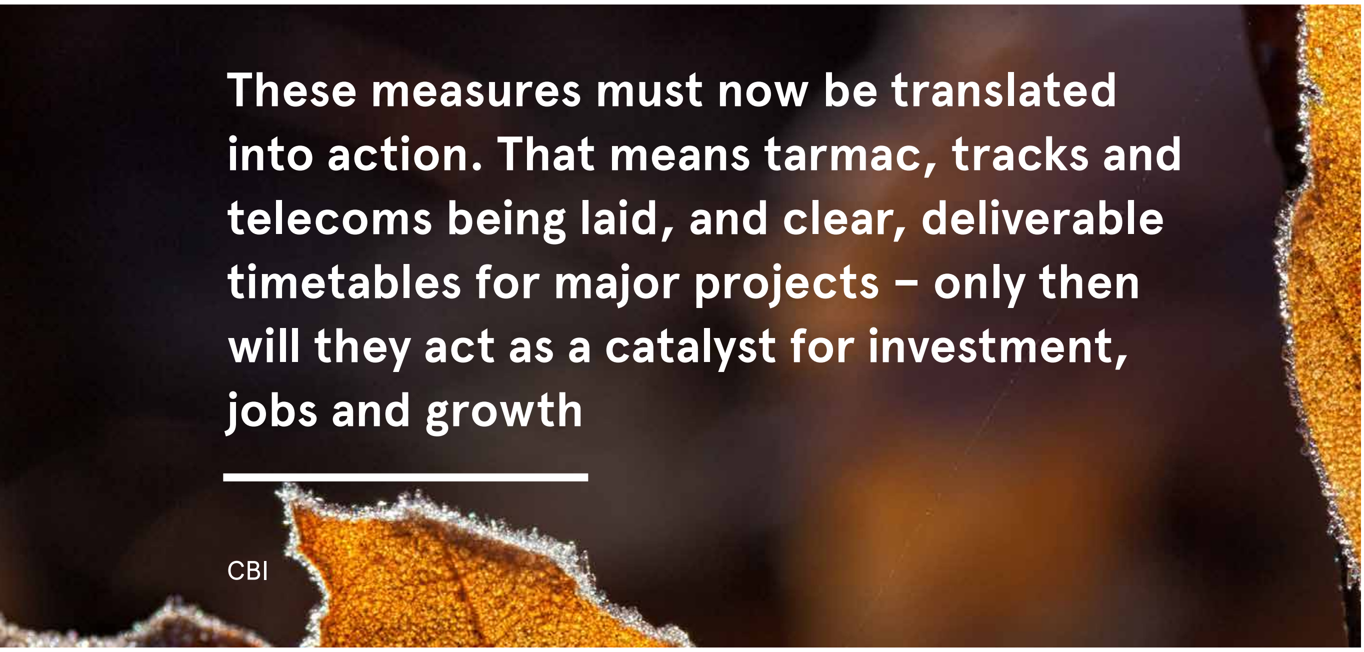
IFS

There were pledges to assist more people to get onto the housing ladder in response to the alarming drop in home ownership over the past decade. A total of £2.3 billion was pledged for a major programme of housing investment to help ensure that Britain meets its housing targets, after years of under-supply. For those who can't afford to buy, it was announced that renters would be protected from fees set by letting agents.

Sterling down

0.4%

Tim Farron (Leader, Liberal Democrats): This is a Government that is just about managing. The official figures have revealed a £220 billion Brexit black hole- hundreds of billions taken out our economy when we need it most. Given how bad the outlook is, it's no wonder the Chancellor doesn't want to have to do another Autumn Statement.



These measures must now be translated into action. That means tarmac, tracks and telecoms being laid, and clear, deliverable timetables for major projects – only then will they act as a catalyst for investment, jobs and growth

CBI

BREXIT EFFECT

The UK Government is bound to follow the forecasts set by the independent Office of Budget Responsibility (OBR).

The OBR formally asked the Government for its desired trade regime and system of migration control following the UK's departure from the EU but the Government declined to answer beyond what it has said publicly already.

Left, as it described it "little the wiser as regards the choices and trade-offs that the Government might make during the negotiations," the OBR assumed that:

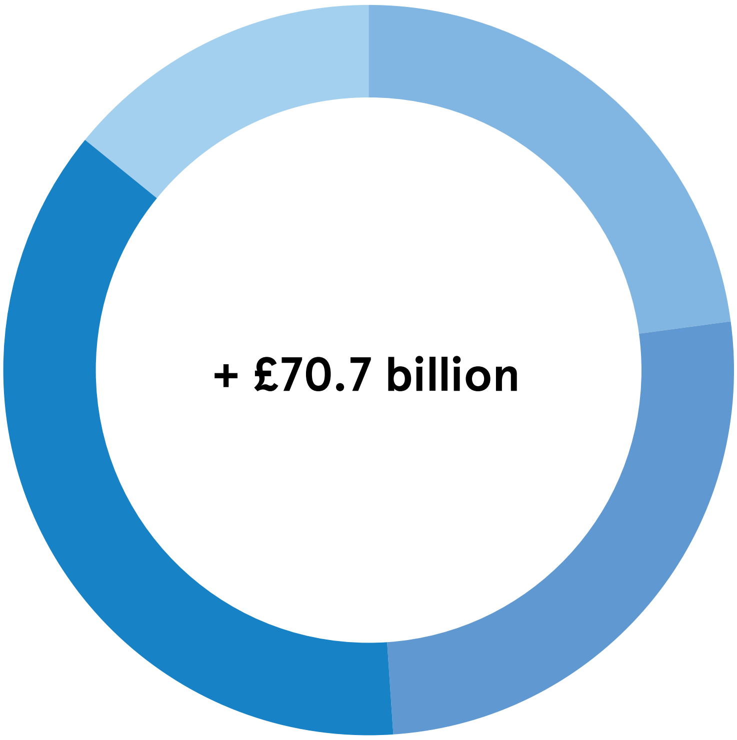
- The UK will leave the EU in April 2019,
- The negotiation of new trading arrangements with the EU and others will slow the pace of import and export growth for the next 10 years, and
- The UK will adopt a tighter migration regime.

DOWN
GDP GROWTH
↓2.4%
over five years

UP
HIGHER EU COSTS
£800m↑
a year

With these assumptions, as a direct result of the EU referendum in June, the OBR has said that the UK will experience higher deficits.

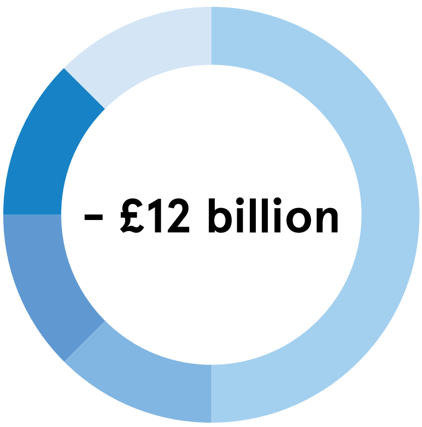
£58.7 billion extra borrowing over five years made up of:



- Lower migration [23%]
- Lower productivity [26%]
- Cyclical slowdown [37%]
- Higher inflation [14%]

DOWN
BUSINESS INVESTMENT
↓15%
over five years

UP
INFLATION
2%↑
over two years



- Lower interest rates [50%]
- Fall in pound [12.5%]
- Weaker property market [12.5%]
- Bank of England stimulus [12.5%]
- Stronger stock market [12.5%]

CONCLUSION

1. The less certain economic climate will make politics and business more volatile in 2017
2. The bigger you are, the more at risk you may be
3. You need to future-proof your business with a clear strategy for engagement with politicians and policymakers
4. This approach needs to prepare for Brexit, legislative changes and increased scrutiny of business conduct
5. Finsbury can help you to navigate through this challenging environment with a comprehensive strategy

FINSBURY

Finsbury

Abu Dhabi
1st floor, Office 27, Blue Building
Twofour54, Abu Dhabi
P.O. Box 77842
United Arab Emirates

+971 4 442 6034
enquiries-uae@finsbury.com

Beijing
20th Floor, East Tower, Twin Towers
B-12 Jian Guo Men Wai Avenue
Chaoyang District
Beijing 100022 PRC

+86 10 5816 2688
enquiries-prc@finsbury.com

Dubai
26th Floor, Office 2604, Tower-B,
Business Central Towers
Dubai Media City
Dubai
P.O. Box 74021
United Arab Emirates

+971 4 442 6034
enquiries-uae@finsbury.com

Hong Kong
501
Henley Building
5 Queen's Road Central, Central
Hong Kong

+852 3166 9888
enquiries-hk@finsbury.com

London
Tenter House
45 Moorfields, London
EC2Y 9AE
United Kingdom

+44 (0) 20 7251 3801
enquiries-uk@finsbury.com

Los Angeles
6300 Wilshire Boulevard
10th Floor
Los Angeles, CA 90048
United States

+1 310 633 9597
enquiries-us@finsbury.com

Moscow
Olimpiysky Prospect 16
Str. 5
3rd Floor
Moscow
129110
Russia

+7 495 252-03-25
enquiries-ru@finsbury.com

New York
3 Columbus Circle
9th Floor
New York, NY 10019
United States

+1 646.805.2000
enquiries-us@finsbury.com

Singapore
50
Scotts Rd, #02-01
228242
Singapore

+65 6597 7307
enquiries-sg@finsbury.com

Tokyo
Executive Centre
6-2-31 Roppongi
Roppongi Hills North Tower
Level 17
Minato-ku
Tokyo 106-0032
Japan

Washington, D. C.
1110 Vermont Ave NW Suite 1100
Washington, D.C. 20005
United States

+1.646.805.2042
stephen.labaton@finsbury.com

www.finsbury.com

Hering Schuppener

Berlin
Am Kupfergraben 4
10117 Berlin

+49 211 43079-0

Brussels
133 Rue Froissart
1040 Brussels

+49 211 43079-0

Düsseldorf
Berliner Allee 44
40212 Düsseldorf

+49 211 43079-0

Frankfurt am Main
Mainzer Landstr. 41
60329 Frankfurt am Main

+49 211 43079-0

www.heringschuppener.com