



THE U.K. ECONOMIC MONITOR

MAY 10, 2019
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Cross-party talks aren't going well; Labour has little incentive to save the Tories from electoral disaster...

...But don't write off the PM; Tory MPs will be reluctant to do anything that risks another general election.

The rise of the Brexit party in Labour heartlands could panic some Labour MPs into doing a deal.

Is the Risk of a No-Deal Brexit Rising Again?

Unsurprisingly, cross-party Brexit talks are not going well. Prime Minister May surely is eager to do a deal, given the growing pressure on her leadership of the Conservative party. She has hinted in recent weeks that she would be prepared to accept a continued customs union with the E.U., at least until the next general election, to get a deal over the line. But it is still not in Labour's interests to bail her out.

Admittedly, Labour's non-committal stance on Brexit is causing it to lose support both to the new Brexit party and pro-E.U. organisations. It lost 84 councillors in last week's local elections and looks set to come second to the Brexit party in the European Parliament elections on May 23. But clarifying its stance on Brexit by doing a deal with the Prime

PLAN FOR ANOTHER ROUND OF KEY VOTES IN PARLIAMENT IN OCTOBER

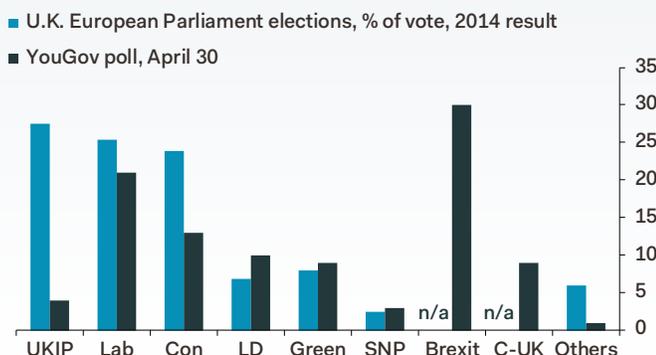
Date	Event
May 23	European elections
Jun. 15	EGM of Tory National Convention
Jul. 2	MEPs take up their seats
July	New Commission President elected
Jul. 26	MPs' summer recess begins
Sep. 2	MPs' summer recess ends
Sep. 29	Conservative Party Conference
Oct. 31	Deadline for Brexit
Nov. 30	President Tusk replaced
Dec. 12	Anniversary of May's confidence vote

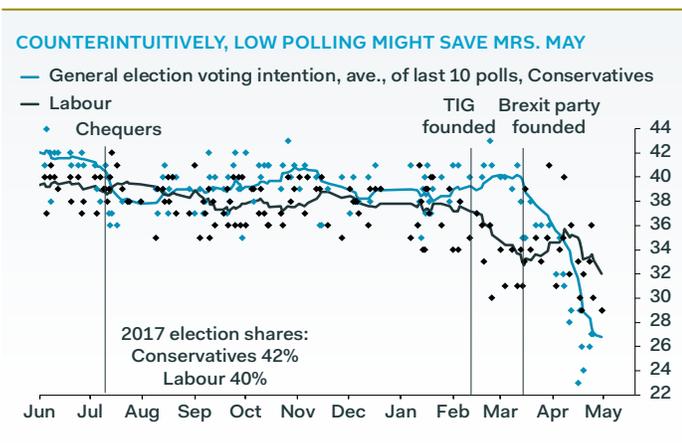
Minister likely would cost it even more support. In addition, the Conservatives are faring *much* worse than Labour; they lost 1,330 councillors and look set to get just 13% of the vote in the European elections.

Mr. Corbyn's primary objective remains to secure a general election as quickly as possible. A heavy defeat for the Prime Minister in the European elections might be the catalyst for a coup within the Conservative party. Under current rules, Mrs. May has immunity from further confidence votes in her leadership until the anniversary of the last one, on December 12. But a large defeat on May 23 might provide impetus for those rules to be changed. Defeat for the PM in a non-binding confidence vote at a June 15 Extraordinary General Meeting of the National Conservative Convention, made up of the party's 800 highest-ranking officials, also might make it impossible for the PM to limp on.

Technically, the Tories could change their leader *without* immediately holding another general election, as they did in 2016. But the party membership, which would then get to pick the new leader from a shortlist of two selected by MPs, likely will pick a Brexiteer who is prepared to opt for a no-deal Brexit if the E.U. does not renegotiate the existing Withdrawal Agreement. Only a few more moderate Tory MPs would need to leave the party for the newly-formed Change UK

WHY WOULD LABOUR THROW A LIFELINE TO THE CONSERVATIVES?





group for the government to lose its working majority in the Commons. Mr. Corbyn, therefore, has little interest in helping Mrs. May to cling on to power.

On balance, however, we still think that Mrs. May will survive as leader through to the next Brexit deadline on October 31. Counterintuitively, the Tories' slump in the opinion polls has a silver lining for Mrs. May, as it makes MPs reluctant to do anything that might trigger another election which might cost them their seats. Uniform national swing models imply that the number of Conservative MPs would drop to about 250, from 313 at present, if the last ten polls of general election voting intentions are close to the mark. Most Tory MPs would prefer to hold on until the scheduled end of this parliament in June 2022 than risk unemployment before then.

Even if Mrs. May hangs on over the coming months, we doubt that Mr. Corbyn's stance will change. A key impediment to a cross-party deal remains that any future Tory leader could tear up the non-binding Political Declaration in the second round of Brexit negotiations. **But Mrs. May's Plan B—putting a limited range of options, including a customs union, to indicative votes in parliament—has a decent chance of finally breaking the deadlock.**

The customs union proposal was defeated only by a wafer-thin 273-to-276 margin during the last round of indicative votes on April 1. Members of the Cabinet weren't able to vote in that process, but likely would follow the Prime Minister's lead if indicative votes were held again. What's more, Labour MPs in Leave-leaning constituencies likely will be more prepared to vote for the customs union plan if the Brexit party

puts in a strong performance in Labour's northern heartlands in the European Parliament elections. According to a YouGov poll conducted on April 30, support for the Brexit party and Labour in the north of England is tied at 31%.

If parliament can't decide by October 31, then it probably still is safe to assume that MPs would force the Prime Minister to request another Brexit extension, which then likely would be granted. Admittedly, populist parties are on the march across Europe, and newly-elected MEPs might want the Commission to take a harder line in negotiations. Brexit party MEPs, together with Eurosceptics from other countries, also might prove to be a roadblock to future E.U. reforms, frustrating those who want further integration, such as President Macron. And European Commission President Juncker's replacement, who will be appointed by July, also might take a less accommodating line.

Nonetheless, any extension request will be considered solely by the leaders of E.U. member states, not MEPs or the Commission President. Many E.U. leaders, alongside E.U. Council President Tusk—who will remain in post until November 2019—wanted to grant the U.K. a 12-month extension in April. Their willingness to agree to the extension also shows that they do not want to endure the economic fallout that no-deal would bring. **As a result, we still see just a 10% risk of a no-deal Brexit.**

A further Brexit extension, however, wouldn't be much to cheer, given that it would keep business investment and sterling depressed. Indeed, we would revise down our forecast for GDP growth in 2020 to 1.5%, from 2.0%, if such an extension were granted; more details [here](#). That would leave the case for the MPC to raise Bank Rate again before the end of this year more finely balanced. **Nonetheless, our base case remains that MPs finally coalesce around a customs union plan in the autumn.**

Please note that the U.K. Economic Monitor will not be published from Monday, May 13 through Friday, May 17, due to annual leave. Our service will resume Monday, May 20.

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THIS WEEK IN BRIEF

Note: "D" prefix denotes Datanotes for these releases.

Monday, May 6

- No significant data released.

Tuesday, May 7

- **D: Car Registrations (4)/09:00 BST**

Private new car registrations fell by **10.3%** year-over-year in April, worse than the 2.0% drop in the previous 12 months.

- **MPC member Cunliffe speaks in London/09:00 BST**

Mr. Cunliffe spoke about financial stability, not monetary policy. He highlighted the growing risks around U.S. corporate debt.

- **MPC member Haldane speaks in Sheffield/17:30 BST**

Mr. Haldane explored differences between regional economies and did not outline views on monetary policy.

Wednesday, May 8

- **D: BRC Retail Sales Monitor (4)/00:01 BST**

Year-over-year growth in like-for-like sales values increased to **3.7%** in April, from -1.1% in March. The later timing of Easter this year, however, drove the pick-up.

- **D: Halifax House Prices (4)/08:30 BST**

Halifax's index rose by 1.0% month-to-month in April, pushing up the three-month average of year-over-year growth in prices rose to **5.0%**, from 3.2% in March. All other indicators, however, point to broadly flat prices.

- **MPC member Ramsden speaks in London/09:15 BST**

Mr. Ramsden spoke about payments infrastructure, not his views on the stance of monetary policy.

Thursday, May 9

- **D: RICS Residential Market Survey (4)/00:01 BST**

The house price balance was unchanged at **-23** in April, and new buyer enquiries have continued to fall rapidly.

Friday, May 10

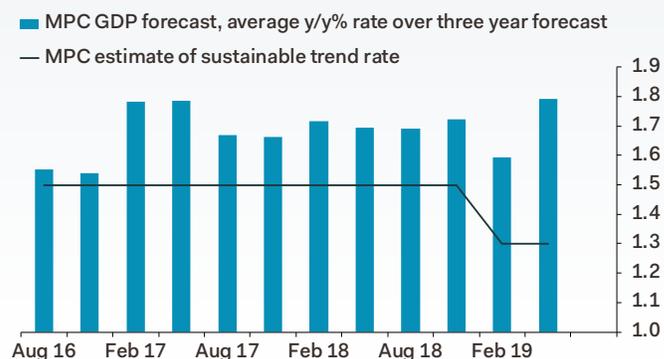
- **D: GDP (3/Q1)/09:30 BST**

We look for a 0.1% month-to-month rise in GDP in March, which would push the three-month-on-three-month growth rate up to **0.5%**, from 0.3% in February. Industrial production likely rose by about 0.5%, driven by further Brexit stockpiling. Services output probably increased by 0.1%, as solid growth in retail sales should offset wider weakness. But construction output likely fell back by about 1.0% from February's elevated level. **Consensus: 0.5%**.

- **D: Trade (3)/09:30 BST**

We expect mean reversion in the erratic balance to lead to a decline in the total deficit to about **£3.8B** in March, from £4.8B in February. **Consensus: £4.6B.**

CHART OF THE WEEK: THE MPC HAS BECOME MORE UPBEAT ON GDP



PANTHEON'S FINANCIAL FORECASTS

	End-month:					
	5pm Thu.	Mar	Jun	Sep	Dec	Dec 20
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.50
3m Libor	0.81	0.85	1.00	1.10	1.20	1.70
12m Libor	1.07	1.06	1.30	1.40	1.60	2.00
2-year Gilt	0.74	0.61	1.00	1.10	1.20	1.80
10-year Gilt	1.12	1.00	1.50	1.70	1.80	2.20
30-year Gilt	1.66	1.55	2.00	2.10	2.20	2.40
FTSE 100	7207	7000	7200	7400	7600	8000
USD/GBP	1.30	1.30	1.36	1.38	1.40	1.40
EUR/GBP	1.16	1.16	1.24	1.25	1.27	1.27
Sterling TWI	79.5	79.7	84.3	85.6	86.8	86.8

PANTHEON'S ECONOMIC FORECASTS

	Period average:						
	Q1 19	Q2 19	Q3 19	Q4 19	2018	2019	2020
GDP, q/q%	0.5	0.2	0.4	0.4	-	-	-
GDP, y/y%	1.8	1.6	1.3	1.4	1.4	1.5	2.0
Employment, y/y%	0.8	0.7	0.8	0.8	1.2	0.8	0.9
Unemp. rate, %	3.9	3.9	3.9	3.8	4.1	3.9	3.8
Wkly earnings, y/y%	3.4	3.2	2.9	2.6	2.9	3.0	3.2
CPI, y/y%	1.9	2.2	2.0	2.1	2.5	2.0	2.2
RPI, y/y%	2.6	2.9	2.6	2.7	3.4	2.7	3.1
PSNB FY, £B	-	-	-	-	23	30	40
Cur. acc't., % GDP	-4.5	-4.6	-4.8	-4.9	-4.1	-4.7	-5.0
House prices, y/y%	1.9	1.7	1.3	1.2	3.3	1.5	2.5