

# UK Market Report

## Q1 2016 Overview

Even as the Brexit “showdown” in June draws closer, the UK economy remains on a high with key indicators supporting a solid foundation for economic growth. The economy continues to recover confidently from the aftermath of the financial crisis, underlining the UK’s continued position as one of the world’s most vibrant environments for innovative and pioneering business projects.

## Economy

The UK boasts the 5th largest GDP in the world and the second largest in Europe after Germany, based on market exchange rates. With the economy growing at 2.2% in 2015 (see Table 1), the UK was second only to the US in the G7 growth rankings last year. Good news came in the form of the recent upward revision to quarterly GDP growth in Q4 2015, suggesting that the economy carried more positive momentum into 2016 than might have been thought previously. The national accounts released in Q1 2016 revealed that consumer spending was the key driver of GDP growth in Q4 2015

and this looks to be the case in the early part of this year. A recent survey from leading consumer market research institute GfK provides further evidence that consumers remain optimistic about their personal financial situation at the moment.

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*“Business investment remains an important driver of growth in the economy.”*  
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**TABLE 1**

UK Key Economic Indicators	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth	1.5	2	1.2	2.2	2.9	2.2	2.1	2.3	2.2	2
Inflation, CPI	3.3	4.4	2.8	2.6	1.5	0.05	0.5	1.4	1.8	1.9
Gross government debt, share of GDP	76	81.8	85.3	86.2	88.2	89.2	89.8	89	87.6	85.3
Wages, hourly (£)	20.3	21.5	21.8	21.7	23.3	21.9	20.5	21.9	23.6	24.9
Balance of payments, share of GDP	-2.8	-1.7	-3.3	-4.5	-5.1	-5.2	-4.4	-3.5	-3	-2.7
Country share in world import	4.4	4.1	4.1	4.1	4	4.2	4.2	4.1	4.1	4
Private consumption, share of GDP	61.4	61.2	61.8	61.9	61.6	61.8	61.7	61.4	61.2	61.2
Population, million	62.8	63.3	63.8	64.2	64.7	65.2	65.6	66.1	66.6	67
Export of goods & services growth, pct	6.2	5.6	0.7	1.5	0.4	5.1	1.7	3.4	4.3	4.2
Import of goods & services growth, pct	8.7	1	3.1	1.4	1.8	3.3	2.3	3.4	3.5	3.6

Source: Oxford Economics



Business investment remains an important driver of growth in the economy. Although some of the historical data has recently been revised upwards, business investment in Q4 2015 declined by 2% quarter on quarter. The upcoming referendum on the UK's membership of the EU, along with other concerns about the overall strength of the global economy, has affected corporate confidence and negatively impacted an area which has underpinned recent growth in the UK.

In the housing market, mortgage activity remains strong in the context of the post financial crisis period. Mortgage approval figures in January this quarter represented a two-year high and net lending figures were also high. This may be explained as a rush by investors to complete transactions before April's increase in stamp duty on buy-to-let properties and second homes took effect.

One of the highlights of Q1 2016 was the February publication of the Monetary Policy Committee's Inflation Report, which forecasts that Consumer Price Index (CPI) inflation will remain very low this year at an average of 0.5% (see Table 1). Compared with November, the forecasts for wages, inflation and GDP growth were revised down. With the bank rate remaining at the historically low level of 0.5% since the financial crisis, it is difficult to say with certainty when to expect an increase in the interest rate. It is

possible that the rate will not rise at all in 2016, with the first increase coming in Q2 2017 or even later.

## Politics

Britain will vote in a historic referendum on 23 June, on whether to remain a member of the EU (UK joined the EEC in January 1973) or leave, alias Brexit. Preceding the announcement, Prime Minister David Cameron renegotiated the terms of the UK's membership of the EU. Mr Cameron has since claimed that the gains made due to this renegotiation signify that the UK has a "special status" within the EU; it is hard to see however, how the nature of the renegotiation will impact the UK vis-à-vis EU reforms. As the referendum date draws nearer, opinion polls show that the voting will be extremely tight and it remains very difficult to predict how it will play out. The uncertainty is a concern for businesses, as the Government may be forced to renegotiate the terms of various trade deals with the EU.

Copenhagen was at the centre of the Brexit debate on 23 May, as the British Chamber of Commerce in Denmark (BCCD) hosted a Brexit Conference at Børsen. High profile speakers from both the 'remain' and 'leave' camps attended the event, including Anders Fogh Rasmussen, former Secretary-General of NATO and former Prime Minister of Denmark.



The Conservative party currently holds a small majority in Parliament with the Labour party trailing by 8% points on average this year. With a budget deficit at 5% of GDP, reducing this figure remains one of the Government's top priorities. For example, there are plans to cut welfare spending by £12bn by 2019. March 2016 saw the resignation of senior Cabinet Minister Iain Duncan Smith, with cuts to disability benefits cited as a key factor in his decision. These cuts in government spending are not only divisive for the Government, they also impact household incomes, countering any positive effects provided by the introduction of the "National Living Wage", which came into effect on 1 April 2016. Consequently, consumer spending growth is projected to decline from 3% in 2015 to around 2% annually up to 2019.

## Market and Export Opportunities

Although exports have declined since 2012 (see Table 2), the UK maintains its position as Denmark's third largest trading partner with sectors such as the food, drinks and tobacco industry constituting a large share

of Danish exports to the UK (see Figure 1).

A UK sector under constant development is renewable energy. Being the largest offshore energy market in Europe, the UK has seen a sharp rise in electricity generated from renewable sources since 2008 (Figure 2). This positions the UK as a frontrunner in the renewable energy transition. Nevertheless, the UK still faces challenges in the renewable area, and to meet binding EU targets, 14 gigawatts of wind power energy need to be generated in British waters by 2020.

*"In order to stay competitive, businesses must stay on top of the global digitalisation trend."*

To meet that demand, DONG Energy announced a £6bn investment in the Humber region, which will see the construction of the world's largest offshore wind farm 'Hornsea Project One' just off the Yorkshire coast.

**TABLE 2**

Danish Exports to the UK	2010	2011	2012	2013	2014	2015	2016 (Jan-Feb)
Total Exports of Goods, Million Kr	43438.9	57439.7	60224.2	52764.7	48202.1	39324.4	5585.6
Growth, Million Kr, Year-to-Year	809.3	14000.8	2784.5	-7459.5	-4562.6	-8877.7	-33738.8
Growth	1.90%	32%	5%	-12%	-9%	-18%	
Main Sectors, Million Kr							
Food, drinks, tobacco	10910.9	1121.1	11707.9	11057.7	11350.2	11627.2	1767.2
Raw Materials	589.9	708.8	714.4	739.6	797.8	788.5	113.8
Minerals	7756.7	14667.2	17144.4	13878.4	9544.1	3378.7	163.3
Chemical Products	3247.1	4152.1	4547.9	4602.7	4584	4387.4	643.7
Processed Goods	4354.1	6511.6	6141.4	5911	4406.6	3399	584.1
Machinery and Transport	10140.2	13334.4	14184.6	11389.3	11885	9248.3	1246.9
Finished Products	5984.8	5985.9	5287.4	4678	5174.7	5920.8	973.1

Source: Danmarks Statistik



This presents huge opportunities for Danish companies in the renewable sectors, as Denmark leads the world in this sector.

To explore the business opportunities for Danish companies in the growing UK renewable energy sector, BCCD, in cooperation with the Hull and Humber Chamber of Commerce (HHCC), organised a series of trade missions to Hull. These successive trade missions, arranged in collaboration with Esbjerg Erhvervsudvikling (EEU) and Djurs Wind Power (DWP), brought Danish companies over to the UK to explore investment opportunities in the UK renewable sector.

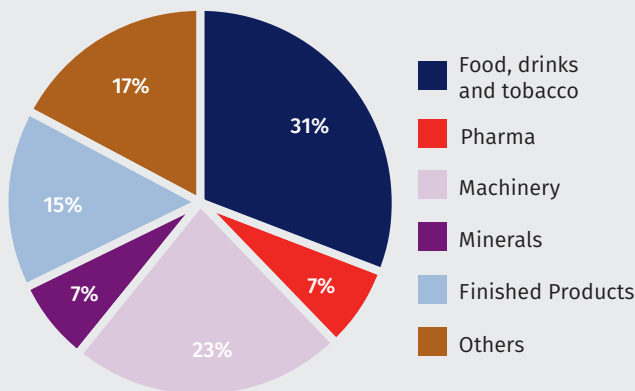
Technology is also showing great potential in recent years. In order to stay competitive, businesses must stay on top of the global digitalisation trend. Even taxis have not been spared, thanks to the American

tech company Uber. From 2011-2014, the digital sector grew 32% faster than the rest of the UK economy, accounting for approximately 1.6m jobs and raising £2.5bn in venture capital funding in 2015. The industry generates £161bn for the economy, supported by the government's removal of innovation barriers and initiatives to improve the digital infrastructure and skilled workforce.

This presents opportunities for the innovative skills of the Danish digital industry. Digitalisation is ranked as a high priority in the Danish public sector as well as the private sector. Denmark is known as a world leader within areas such as learning and healthcare technology; the development of the British market could prove a remarkable business opportunity.

**FIGURE 1:**

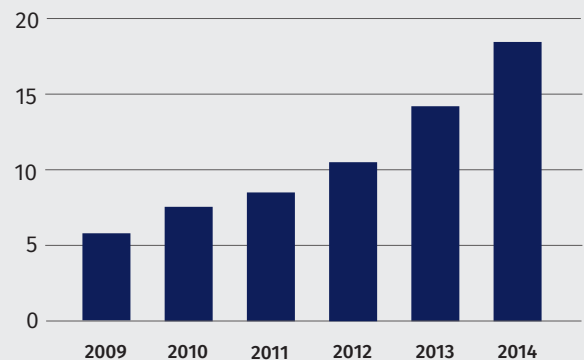
Danish Exports to the UK (Mar 2015 - Feb 2016)



Source: Danmarks Statistik & Danish Ministry of Foreign Affairs

**FIGURE 2:**

UK Electricity generated from renewable sources (% of gross electricity consumption)



Source: Eurostat

**Sponsors:**



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