



**BERENBERG**

PARTNERSHIP SINCE 1590

MACRO NEWS

12/07/16

Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

## UK: ECONOMIC IMPLICATIONS OF PRIME MINISTER MAY

### Berenberg Macro Flash

Theresa May will replace David Cameron as UK Prime Minister on Wednesday. Her appointment has a number of implications for the UK economy:

**Reduced political uncertainty:** UK politics has been in turmoil since the UK voted to leave the EU on June 23. This has hurt the confidence of households and businesses. After the Brexit-vote, GfK reported the sharpest drop in consumer confidence since 1994 and YouGov surveys point to weak business optimism in the medium-term compared to strong optimism pre-referendum. The sooner than expected selection of a new PM eliminates the two months of uncertainty that would have occurred under the previous schedule to elect a new Conservative leader and PM by 9 September. May has said that 'Brexit means Brexit' and that she will not call early elections. The next general election is scheduled for 2020. This provides some additional clarity as long as she manages to hold the Conservative Party together. Her non-confrontational style suggests that she may be able to do so. The reduced political uncertainty should help to stabilise confidence. If so, that would support our call that the UK economy will stagnate rather than enter a recession in the second half of this year.

**EU withdrawal process:** While May has previously said that she wouldn't trigger Article 50 to begin the withdrawal negotiations until next year, her sooner than expected rise to power raises the prospect that she can hand in the official EU divorce notice before the end of 2016 already. Before that, however, May will want to select a new cabinet, set up a trade department and probably fatten up the foreign office, as well as meet with EU leaders to signal that talks will begin on amicable terms, even if things are difficult behind the scenes. Starting to discuss the divorce terms and the new terms of trade as soon as possible in a constructive rather than confrontational way could support a quicker economic recovery as a reduction in uncertainty can mitigate the downside risks to business investment and hiring.

**Looser fiscal policy:** In her leadership speech, May said 'we should no longer seek to reach a budget surplus by the end of the Parliament. If before 2020 there is a choice between further spending cuts, more borrowing and tax rises, the priority must be to avoid tax increases since they would disrupt consumption, employment and investment.' This follows a similar announcement by Chancellor Osborne that the Treasury will no longer seek to reach a balanced budget by 2019-20 as set out in the UK's current Fiscal Charter. That both the current chancellor and the new PM hinted at less strict fiscal policy over the medium-term suits our call that the chancellor will announce some temporary fiscal easing measures no later than the November Autumn Statement to cushion domestic demand following the Brexit shock. Once again, the UK is de facto abandoning its own fiscal rules, this time under rather exceptional circumstances, though.



**BERENBERG**

PARTNERSHIP SINCE 1590

## MACRO NEWS

This message has been produced for information purposes for institutional investors or market professionals, it is not a financial analysis within the meaning of § 34b or § 31 of the German Securities Trading Act (Wertpapierhandelsgesetz), no investment advice or recommendation to buy financial instruments. The message does not claim completeness regarding the information on the developments referred to in it. On no account should it be regarded as a substitute for the recipient's procuring information for himself or exercising his own judgements. The message may include certain descriptions, statements, estimates, and conclusions underlining potential development based on assumptions, which may turn out to be incorrect. Berenberg and/or its employees accept no liability whatsoever for any direct or consequential loss or damages of any kind arising out of the use of this message or any part of its content. -- For full economics reports please visit our website or contact [capitalmarkets@berenberg.de](mailto:capitalmarkets@berenberg.de).

Joh. Berenberg, Gossler & Co.  
KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7878  
[www.berenberg.com](http://www.berenberg.com)  
[Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com)