

Predictions for 2016

Barry Naisbitt, Chief Economist at Santander UK, reflects
on 2015 and looks at the year ahead





The New Year is a good time to reflect and forecast, and while the complex interplay between market demand and business operations should not be oversimplified, looking back at 2015, the economic world had three key themes that are likely to also impact the year ahead.

Here, **Barry Naisbitt**, Chief Economist at Santander UK, gives his assessment:

The US vs. the Eurozone

One recent trend that is likely to continue into 2016 is the divergence between US and European economies. This is evident in the direction of exchange rate changes, with the dollar appreciating while the euro depreciates.

It is also reflected in the direction of monetary policy. The US Federal Reserve's decision to raise interest rates – the first increase since 2006 – has drawn market attention. In contrast, the European Central Bank is still undertaking quantitative easing in the Eurozone and recently cut deposit interest rates.

Despite this, there have been similarities in the economic performance of the two areas. Both have seen unemployment rates fall, low inflation and economic growth. Indeed, the latest IMF projections show 2.6 per cent growth in 2015 for the US and 1.5 per cent for the Eurozone.

This is expected to continue, although not at a rapid pace; the IMF expects growth of 2.8 per cent in the US and 1.6 per cent in the Eurozone for 2016. It's doubtless that progress through the year will be uneven, but the prospects for businesses look encouraging.

“Oil and commodity prices will remain a key focus for businesses in 2016”

As 2015's fall in inflation was largely due to the sharp drop in oil and other commodity prices (which started back in 2014), unless those declines continue it looks likely that inflation will pick up in 2016.

Global trends

The interplay of geopolitical and economic trends will continue to be important, particularly for companies that are principally exporters or importers.

For example, oil and commodity prices will remain a key focus for businesses in 2016. Reduced demand for commodities such as copper and iron ore, together with lower rates of economic growth, have had wide repercussions on emerging markets. This has been further impacted by the strength of the US dollar.

Also commanding considerable attention in the second half of 2015 was concerns over the potentially fragile emerging market economies. In particular, there was nervousness that China's growth – as it moves from being an investment-led to a consumer-led economy – will be much slower than previous years.

Growth in the UK

For the UK, the major macroeconomic theme in 2015 was continued economic growth and falling unemployment.

Current indicators suggest that the economy continued to grow in the final quarter of 2015, which means the UK will have had twelve successive quarters of uninterrupted growth. While the pace may not have been exceptionally rapid, it has proved sustainable and has meant that unemployment fell to its lowest rate (5.2 per cent in October) since the start of 2006.

If productivity growth picks up, employment is likely to rise and result in a stronger overall economic position. And, with UK households now seeing their real average earnings rise (due in large part to the sharp fall in inflation), the signs are positive for business in 2016. ■



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Barry has been Chief Economist at Santander UK – formerly Abbey National – since 1998. He joined the organisation in 1994 and has worked through a period of significant change in the UK and global economies.

Prior to this, Barry worked as Principal Economist in HSBC's Business Economics Unit, an Economic Advisor at both HM Treasury and the National Economic Development Office (NEDO) and as a lecturer in economics at Liverpool University.

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