UK Election Results and Economic Prospects

By Tony Brown

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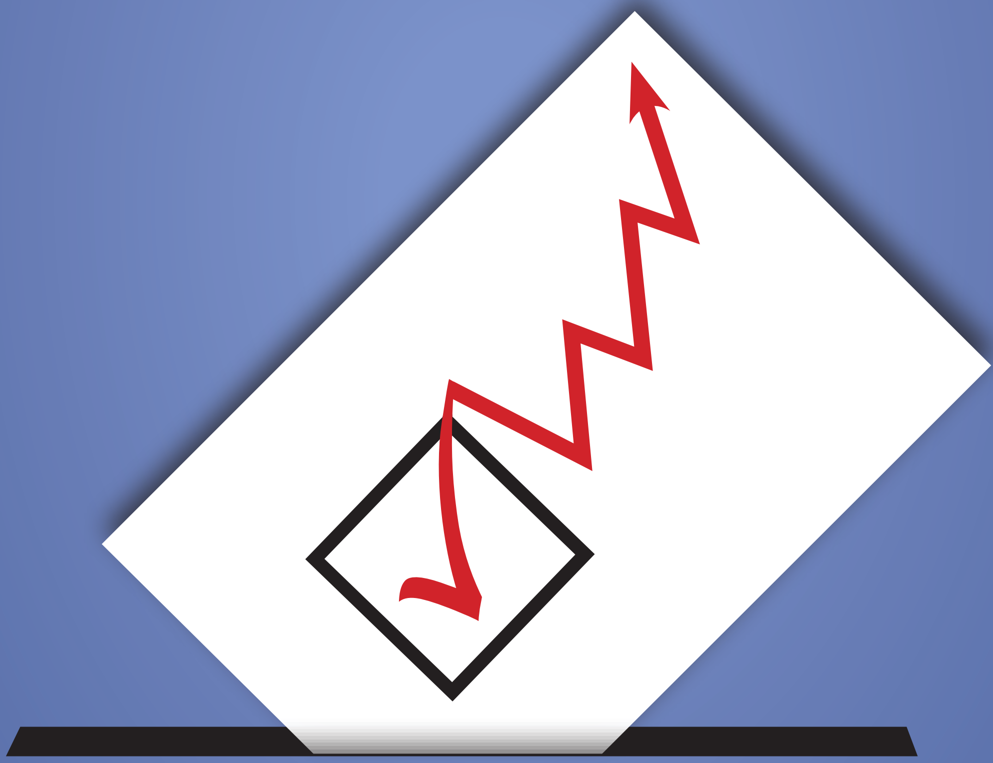

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This briefing note summarises recent developments in the UK and presents a snapshot of the British political and economic state of play since the election on 8 June 2017.

General Election, 8 June 2017

Prime Minister Theresa May called the June election to obtain a popular mandate for her approach to the Brexit negotiations and to secure time to implement the agreement she would achieve. The Conservative Party campaign centred on emphasising the Prime Minister's competence in preparing and managing the negotiation.

The Conservative Party entered the election with a narrow overall majority in the House of Commons – holding 330 seats in the 650-seat chamber - and with a 98-seat lead over Jeremy Corbyn's Labour Party. Early opinion polls suggested a significant increase in the Tory majority but, after a campaign in which Labour highlighted budget cuts and austerity and addressed the concerns of younger voters, the final election count on 10 June 2017 revealed a 'hung' parliament.

Key Results

The key results of the General Election may be summarised as:

1. The Conservative Party remained the largest party with 318 seats – a net loss of twelve seats and eight short of a majority.
2. The Labour Party gained 30 seats to end with 262.
3. The Conservatives obtained 43% of the vote and Labour 41% - together winning 580 of the 650 seats – so that the two major parties dominate parliament.
4. The Scottish National Party suffered a setback losing 21 seats to end with 35.
5. All other parties secured 35 seats: Liberal Democrats 12; Democratic Unionist Party 10; Sinn Fein 7; Plaid Cymru 4; Green 1; Independent Unionist 1. UKIP failed to win a seat and saw its share of the vote fall from 12.6% in 2015 to less than 2%.

Regional Results

In **England**, with 533 seats, the Conservatives (297) lost 21 seats while the Labour Party (227) gained the same number. The Liberal Democrats, with eight seats, gained one. The Green Party held its one seat.

England (533 seats)	Net Change
Conservative 297	-21
Labour 227	+21
Lib Dem 8	+2
Green 1	-
UKIP 0	-1
Ind 0	-1

The Regional breakdown of seats won in England was:

	CON	LAB	LIB	GREEN	TOTAL	REFERENDUM
South East	73	8	2	1	84	Leave 52/48
North West	20	54	1	0	75	Leave 54/46
London	21	49	3	0	73	Remain 60/40
West Midlands	35	24	0	0	59	Leave 59/41
East	50	7	1	0	58	Leave 57/43
South West	47	7	1	0	55	Leave 53/47
Yorkshire/Humber	17	37	0	0	54	Leave 58/42
East Midlands	31	15	0	0	46	Leave 59/41
North East	3	26	0	0	29	Leave 58/42
TOTAL	297	227	8	1	533	Leave 52/48

In **Scotland**, (59 seats), the Scottish National Party lost 21 seats and 13% vote share (from 50% to 37%) while the Scottish Conservatives increased their vote share from 15% to 29% and gained 12 seats (from 1 to 13). Labour increased its vote share from 24% to 27%, winning seven seats, an increase of six. The Liberal Democrats gained three seats, to end with four. In the referendum, Scotland voted Remain 62% to 38%.

Scotland (59 seats)	Net Change
Scottish National Party 35	-21
Conservative 13	+12
Labour 7	+6
Liberal Dem 4	+3

In **Wales,** (40 seats), the Labour Party increased its representation by three to 28. The Conservative Party lost three seats. Plaid Cymru gained one seat while the Liberal Democrats lost their one seat. In the referendum, Wales vote Leave 53% to 47%.

Wales (40 seats)	Net Change
Labour 28	+3
Conservative 8	-3
Plaid Cymru 4	+1
Liberal Dem 0	-1

In **Northern Ireland**, (18 seats), the election saw the two largest parties achieve effective dominance in House of Commons seats. The DUP increased its vote share from 26% to 36% and won 10 seats (+2). Sinn Fein increased its vote share by 5% to 29%, winning seven 'abstentionist' seats (+3). One Independent Unionist MP held her seat. The UUP and SDLP lost all of their five seats and saw their vote share fall - for the SDLP from 14% to 12%.and for the UUP from 16% to 10%. The Alliance Party, with 8% of the vote, failed to win a seat. In the referendum, Northern Ireland voted Remain 56% to 44%.

Northern Ireland	Net Change
Democratic Unionist 10	+2
Sinn Fein 7	+3
UUP 0	-2
SDLP 0	-3

Conservative – DUP Confidence and Supply Agreement

Following the election, the Conservative Party and the Democratic Unionist Party entered into a 'confidence and supply' deal which gave Prime Minister Theresa May an effective majority for key votes in the House of Commons. The terms of the agreement, signed on 26 June 2017, highlighted the areas of policy on which these two parties find common ground, including national security and the negotiation of a successful Brexit.

Commentaries

Professor John Curtice, Professor of politics at Strathclyde University, commented that the issue of Brexit was associated with, and was probably at least a partial cause of, a reshaping of the choice voters made between Conservative and Labour, arguing that "With the exception of Scotland, the Conservative vote increased most in those areas that voted Leave, while Labour made most progress in areas that backed Remain" Prof. Curtice goes on to note that many Leave voters switched to the Conservatives, while Remain voters were more inclined to back Labour than their Leave counterparts. "Support for UKIP imploded to just 2% and the level of Liberal Democrat support failed to recover from the 8% to which the party had sunk two years ago. Meanwhile, the Conservatives and Labour between them won 85% of the votes cast […] more than at any election since 1970".

The Director of Chatham House, Robin Niblett, argued that, following the election, Prime Minister May faces a tougher challenge domestically in managing the Brexit negotiations. The Tory party still contains many "fierce Brexiteers", however the proportion of Tory MPs that are pragmatic and seek a more nuanced Brexit is higher than expected, according to Niblett. "The net effect of these conflicting pressures is likely to be the search for a pragmatic deal with the EU that can pass the threshold of a significant majority across the whole Parliament and not just in the Conservative Party".

Forecasts for the UK Economy

The Chief EU Negotiator, Michel Barnier, told the Economic and Social Committee in Brussels on 6 July 2017 that "Many of you, as entrepreneurs, trade unionists, leaders of NGOs, or leaders of the civil society, know that Brexit means uncertainty – for citizens first, for businesses, and for jobs."

Forecasts of the UK's economic prospects vary but all are qualified by reference to the uncertainties associated with Brexit. Speaking at the LSE on 6 July the Director General of the CBI, Carolyn Fairbairn, argued that uncertainty is "biting on our economy and our firms". According to Fairbairn, the disruption in trade which a 'no-deal' could present for businesses on seamless global supply chains means that businesses are slowing investment and changing plans in the UK. The CBI has warned that the UK economy will shift down a gear as Brexit talks get under way and household are squeezed by rising prices.

The CBI in a Policy Briefing argues that "as far as possible, these transitional arrangements should replicate as much of the economic relationship that is in place between the UK and the EU at the moment". Such a measure, it argues, would allow for a continuity of business operations, protect ease of trade between the UK and the EU as the specifics of the future relationship are negotiated. The brief goes on to state that: "The simplest way of achieving that would be for negotiators to agree that the UK should remain in the single market and a customs union until a new deal is in force."

The UK Office for Budget Responsibility (OBR) has forecast UK growth at 2% in 2017; 1.6% in 2018; 1.7% in 2019; 1.9% in 2020 and 2% in 2021. The Office states that "We remain a little more optimistic about the outlook for GDP growth than the average of external forecasters in most years". However, it makes the significant comment:

> *The Government has now set out some of its objectives for the UK after EU exit at greater length, but there is no meaningful basis for predicting the precise end-point of the negotiations as a basis for our forecast. There is also considerable uncertainty about the economic and fiscal implications of different outcomes even if they could be predicted.*

The OBR report notes that it asked the UK government to provide it with their plans on UK policies on trade, migration and EU finance post-Brexit, but were not "furnished with information that was not in the public domain" and were instead directed to Prime Minister May's speech *The United Kingdom's exit from and new partnership with the European Union*. and the subsequent White Paper for further detail. As such, the OBR report found that "the precise outcomes will depend on further policy development by the UK authorities and on forthcoming negotiations with the EU."

The National Institute for Economic and Social Research suggests that "GDP growth over the next couple of years will be subdued, growing at less than the economy's long-run potential rate of 2 per cent per annum, but households will feel the pinch from rising consumer price inflation." The NIESR further argues that a key element in its forecast is the impact on consumer spending of higher inflation due to the falling value of the pound since the Brexit vote.

The UK Engineering Employers' Federation has commented that British manufacturers are fast approaching a 'tipping point' where a lack of certainty over the direction of Brexit negotiations will force them to make painful cuts whatever the outcome. "UK businesses need to know soon what arrangements will be in place after March 2019 to be able to plan investment decisions and have confidence that an orderly and carefully managed approach to Brexit is under way."

The World Bank has forecast UK GDP growth at 1.7% in 2017; 1.5% in 2018 and 1.5% in 2019, in line with projections for the Euro Area but well below forecasts of 2.7%, 2.9% and 2.9% for the Advanced Economies as a whole. The UK forecasts represent an upgrading in line with the anticipated growth in the advanced economies. However, the World Bank comments that "if the uncertainty persists, it could weigh on investor confidence and derail the ongoing recovery in growth."

The OECD reports in its *June 2017 Economic Survey of United Kingdom* that the economy is projected to slow in 2017 and 2018 owing to uncertainty about the outcome of Brexit negotiations. The projection assumes that the United Kingdom's external trade will operate on a most favoured nation basis from April 2019. The uncertainty and the assumed outcome is projected to undermine spending, in particular investment.

A 2016 OECD report on the economic consequences of Brexit argued that:

> *Brexit would be akin to a tax on GDP, imposing a persistent and rising cost on the economy that would not be incurred if the UK remained in the EU. The shock would be transmitted through several channels that would change depending on the time horizon. As the uncertainty which has followed from the Brexit referendum has started to weaken growth in the UK the potential is very real that another major negative shock to the economic system could cause serious economic fallout to the UK economy, and potentially other OECD countries, particularly EU countries. The short-term potential outcome of Brexit, for the UK, is:*
>
> - *tighter financial conditions;*
> - *weaker economic confidence;*
> - *higher trade barriers; and*
> - *restrictions on labour mobility.*
>
> *Uncertainty about the outcome of the referendum has already started to weaken growth in the United Kingdom. A UK exit (Brexit) would be a major negative shock to the UK economy, with economic fallout in the rest of the OECD, particularly other European countries. In some respects, Brexit would be akin to a tax on GDP, imposing a persistent and rising cost on the economy that would not be incurred if the UK remained in the EU. The shock would be transmitted through several channels that would change depending on the time horizon.*
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> *In the near term, the UK economy would be hit by tighter financial conditions and weaker confidence and, after formal exit from the European Union, higher trade barriers and an early impact of restrictions on labour mobility. By 2020, GDP would be over 3% smaller than otherwise, with continued EU membership.*

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The Institute of International and European Affairs,

8 North Great Georges Street, Dublin 1, Ireland

T: +353-1-8746756 F: +353-1-8786880

E: reception@iiea.com W: www. iiea.com