UNITED KINGDOM

What’s happening in this economy

In the context of long-term average annual growth since 1954 of 2.4 per cent and during a global upswing, GDP growth in the UK is currently 1.5 per cent (year to Q3 2018). The latest figures show a strong contribution from the services sector, and a rebound in manufacturing and construction. Growth in household consumption and business investment remains subdued.

Despite political uncertainty around Brexit, UK financial services growth is reasonably healthy and the volume of cross border lending from the UK into the EU has risen since the Brexit referendum. Inflation is currently at 2.4 per cent (above the two per cent target) and in August the Bank of England announced an increase in the interest rate to 0.75 per cent—its highest level since March 2009. This was in response to a tightening labour market with limited slack and record-low levels of unemployment. Further, there are signs of a slight pick-up in real wage growth which, combined with subdued productivity growth, is raising domestic inflationary pressures.

The UK’s population is getting older and growing steadily, presenting a challenge for local governments with reduced funding and significant statutory responsibility for social care services as a result of devolution. This—combined with relatively high rates of government debt (around 80 per cent) and limited recent improvements to the fiscal position—raises issues about the medium term budget position.

The government’s latest budget (Autumn 2018) prioritised supporting the National Health Service, committing an additional GBP 20.5 billion p.a. over five years, and brought forward a number of changes to personal income tax. For travellers to the UK, visitors from Australia (and the US, Canada, NZ and Japan) will soon be able to use e-gates at airports—currently only open to EU citizens.

Trade, investment, and commercial opportunities and activities

- In 2017, two-way trade was worth around AUD 26.6 billion, with Australian exports worth AUD 11.5 billion and imports from the UK AUD 15.1 billion:
  - The UK was Australia’s third largest services export market in 2017, and
  - Australia’s services exports to the UK were valued at AUD 5.4 billion and services imports from the UK valued at AUD 8.2 billion.
- The UK is the second largest source of total foreign investment in Australia:
  - at the end of 2017, total UK foreign investment in Australia was valued at AUD 481.4 billion

Key facts and figures

- GDP: USD 2,936.3 billion (2018)
- GDP growth: 1.4% (2018)
- Trade with Australia: AUD 26.6 billion (2017)
- Exports to UK: USD 11.5 billion (2017)
- Imports from UK: USD 15.1 billion (2017)
- Political system: Westminster
direct UK foreign investment in Australia was valued at AUD 83.2 billion, and
at the end of 2017, total Australian investment in the UK was AUD 333.1 billion making the UK
Australia’s second most important foreign investment destination.

- Australian investment into the UK is focused on:
  - business services
  - financial services including superannuation funds investing in infrastructure
  - construction and engineering
  - retail, and
  - information and communications technology sectors.

- The UK Government announced in June that British company BAE Systems had been selected for a AUD 35 billion warship-building program:
  - the Hunter class frigates will be built in Australia, creating 4,000 jobs nationally.

- UK investment in Australia ranges from small and medium sized technology firms opening new operations through to large superannuation funds investing in major Australian infrastructure and energy assets.

- Major current and emerging commercial foreign direct investment opportunities include:
  - renewable energy
  - major infrastructure
  - agri-food
  - fintech
  - edtech
  - transport tech
  - digital health, and
  - defence.

- The recent signing of the UK–Australia FinTech Bridge is an opportunity for deeper collaboration between governments, regulators and industry bodies. Australian firms will be able to access the UK regulatory sandbox—subject to meeting the necessary eligibility requirements—to expand new market testing.

- Major initiatives in the UK market over the next year include the:
  - Intelligent Transport Conference – November
  - Energy Storage Summit – February
  - Innovate Finance Global Summit – March
  - Smart Transport and Mobility Conference – April
  - Digital Health World Congress – May
EdtechXEurope – June
Smart Transportation and Mobility – June
London Tech Week – June
Health and Care Innovation Expo – September
Defence and Security Equipment International – September
Zero Emissions Vehicle Summit – September, and
World Agritech Summit and Future Food Tech Summit – October.

Trade policy and negotiations

Australia and the UK are deepening and broadening their trade relationship through a bilateral trade working group. The fourth meeting of the Australia–UK TWG was held from 25 to 26 July.

Australia and the UK hope to commence negotiations on a comprehensive and ambitious free trade agreement when the UK leaves the European Union.
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