

## 2017 is not looking good economically

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The papers are saying we should expect lower growth in 2017 than 2016. Is that reasonable? Here's a few reasons why that might well be the case.

### **A year ago we hadn't done Brexit**

A year ago we had just had a general election, had not done Brexit, were negotiating new flexibility with the EU and the Democrats were going to control Washington. There was a mood of vague optimism. Of course 2016 turned out OK, ish. It takes time for shocks to hit. But they did, and they too have their impact.

### **Brexit is having an impact**

There is no doubt about this: banks are already drifting away. Nissan is not so sure it's staying after all. Mayhem is reigning in Whitehall. Uncertainty is going to last for some time. Like it or not that will dampen the animal spirits that drive the economy, even if in the end it all turns out well. Investment will be down in the meantime.

### **Trump's in town**

And he's talking tariff wars, a reduction in US military spending overseas, tax wars and a real shift away from areas where investment is really required, like green technology. He also hates foreign cars and we sell the US quite a lot of cars. All of this has real and serious spillover effects for the UK. Trump is not good news for the UK economy. Demand for our goods and services will be down.

### **Interest rates will increase**

There are good reasons for this. First, the US will be increasing rates. Trump's policies demand it. Yellen thinks it's needed anyway. And there are signs we will too. The pound may well need support. We have a credit boom. We need to keep money flowing into London. Real increases are on the cards, and they're going to be uncomfortable for a lot of over-gearred households and businesses.

## **House prices aren't going as fast as they did**

Tax changes have started this process. So too will rate rises. And the UK rises and falls on the basis of house prices, which are slowing down.

## **Inflation is coming back**

This is a simple function of a falling pound: inflation will follow and there's no guarantee that wages will, especially in the public sector. So people will have less to spend on more expensive goods. That's not good for growth.

## **We're still suffering austerity**

Just in case you've forgotten, the government is still trying to do the opposite of what is needed when the economy is under-performing and facing systemic risks and is trying to cut its spending. That's the last thing we'll need, but it's what we'll get.

## **Something will break**

There are signs of stress all over the place. Whether it's the NHS, social care, other government systems at their limit before Brexit begins, or an overheated FTSE that has a habit of correcting quite radically when the time to do so comes, or consumer debt that could go bad, there are ample signs of things that could break in the UK economy right now and trigger a major lack of confidence. I will be candid and say I have no idea what will break: no one is clairvoyant, but break it may well do.

## **The government is clueless**

Around the world there is a crisis of confidence in government. That's why we have Trump. That's why we have Brexit. But dealing with the UK alone, sometime in 2017 a lot of people are going to realise that the government cannot deliver an easy or smooth Brexit, let alone one without considerable cost. That is not apparent to most people as yet. As the realisation that they have been sold a bad idea grows so will disillusionment with government, and that will hit spending hard as people pile on the savings.

## **Europe may be in trouble**

It takes on of the elections in the Netherlands, France and Germany to go far right for a crisis to develop. Two and we're in trouble. I don't think it's Germany. But the other two? Maybe. And if so the eurozone is in real difficulty. This may not happen, but our biggest trading partner is hamstrung until we know and that's still many months off.

## **We're not investing**

The UK is not investing in what it needs: **[May's new plan](#) will not address that. The best way out of recession is not being used.**

## **Wages are too low**

People are under-employed and underpaid in the UK. The result is we simply don't have enough to spend to rebalance the economy.

## **The UK won't tackle the tax gap**

The UK government says there is £35 billion of unpaid UK tax. I say it's maybe three times that. And we're sacking tax inspectors, still. As a result the level playing field that is required to build the confidence for small business to invest, most especially in skills, does not exist. Instead tax cheating prospers. We shoot ourselves in the foot by perpetuating this policy. And it is a choice. But it's one that's not being changed soon. That costs us growth.

## **Tax havens continue**

We won;t tackle tax abuse overseas either. The impact is the same: we lose out on growth because of reduced investment because cheating pays better. It's economic madness not to beat this abuse, but we won't.

## **In summary**

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