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Economic Briefing

# UK elections – landslide win for Labour

**The Labour Party has won a landslide victory in the British parliamentary elections, gaining the most seats in over 100 years. With an expected 410 of the 650 MPs, the future Prime Minister Starmer can rely on a clear majority in the House of Commons. The previously governing Conservatives suffered a heavy defeat and are going into opposition after 14 years. The new government faces major challenges, although its room for maneuver is severely limited by the difficult budget situation.**

## Labour Party wins in a landslide...

As expected, the British Labour Party clearly won the UK's General Elections. With 638 of 650 constituencies declared, it achieved at least 410 seats in the House of Commons, an increase of over 200 seats (Chart 1). With this result, the party even eclipsed Tony Blair's election victory in 1997 (an increase of 147 seats). Labour has now a clear majority in Parliament. Keir Starmer, the leader of the Labour Party, will become the new British Prime Minister. However, the clear swing in favor of Labour is due to the peculiarities of the British electoral system. With around 34% of the vote, the party only managed a good 1.5 percentage points more than in the last election. Only in Scotland was it able to significantly increase its share.

Prime Minister Sunak's Conservatives, on the other hand, suffered a heavy defeat and lost more than 240 seats. They will only have about 120 MPs in the new House of Commons, the lowest number in the last 100 years. The Tories will go into opposition after 14 years in government.

Among the other parties, Nigel Farage's Reform UK Party won at least 4 seats. It received 4 million votes compared to 6.7 million for the Conservatives. The Scottish National Party (SNP), which campaigns for Scottish independence, lost most of its 52 seats. The Liberal Democrats, on the other hand, now has 70 MPs, a significant increase.

5 July 2024

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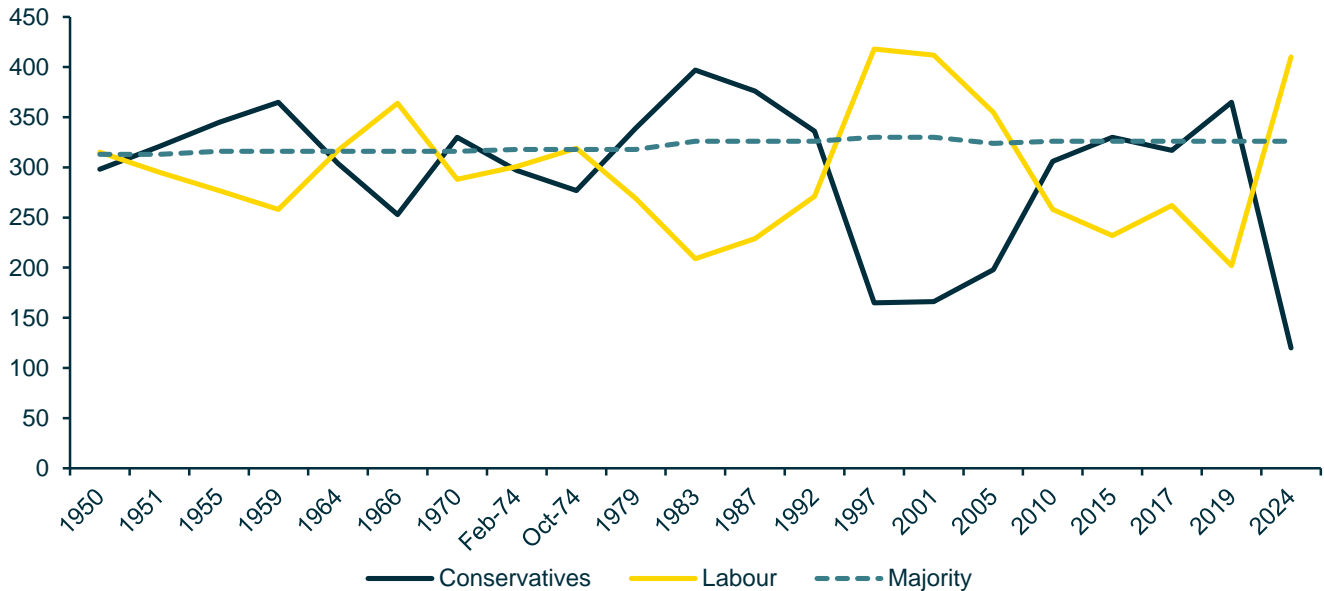
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**Chart 1 - Conservatives clearly lost General Election**

Seats in Parliament won by Conservatives and Labour



Source: UK Parliament, BBC, Commerzbank Research

**... after moving to the center**

An important prerequisite for Labour’s success was that Keir Starmer moved the party towards the center and ousted radical elements (former party leader Corbyn was even expelled from the party in the meantime). This has won back broad swathes of voters who had voted for the Conservatives in the last election. Labour’s election manifesto is far removed from radical proposals or massive spending programs:

- Labour plans comparatively small tax rises of £8 billion (0.3% of GDP). Among other things, the “non-dom” status is to be changed. This refers to a person who is resident in the UK but whose permanent residence for tax purposes is outside the country, which brings considerable tax advantages. There are also plans to introduce VAT of 20% on fees for private schools (which are attended by around 7% of British children) and an excess profits tax on energy companies.
- The election manifesto promises to build 300 thousand new homes a year over the next five years. This is a response to the worsening housing shortage, which has led to drastically rising rents, particularly in urban areas. However, this is an ambitious target. Last year, just 160 thousand new homes were completed, and the last time housing was built on the planned scale was in the 1960s.
- The ban on the sale of cars with combustion engines is to be brought forward again to 2030. Last September, Prime Minister Sunak’s government postponed the phase-out to 2035. Environmental and climate protection measures are to receive additional funding of almost 24 billion pounds in the next legislative period. A newly founded “Great British Energy Company” is to receive £1.7 billion of this annually, which should accelerate the roll-out of green and nuclear energy.
- In terms of foreign policy, Labour is “unequivocally” committed to nuclear deterrence (according to the Bulletin of Atomic Scientist, the UK has 225 nuclear warheads). This clear commitment marks a further break with Jeremy Corbyn’s Labour Party. The commitment to NATO is just as clear.



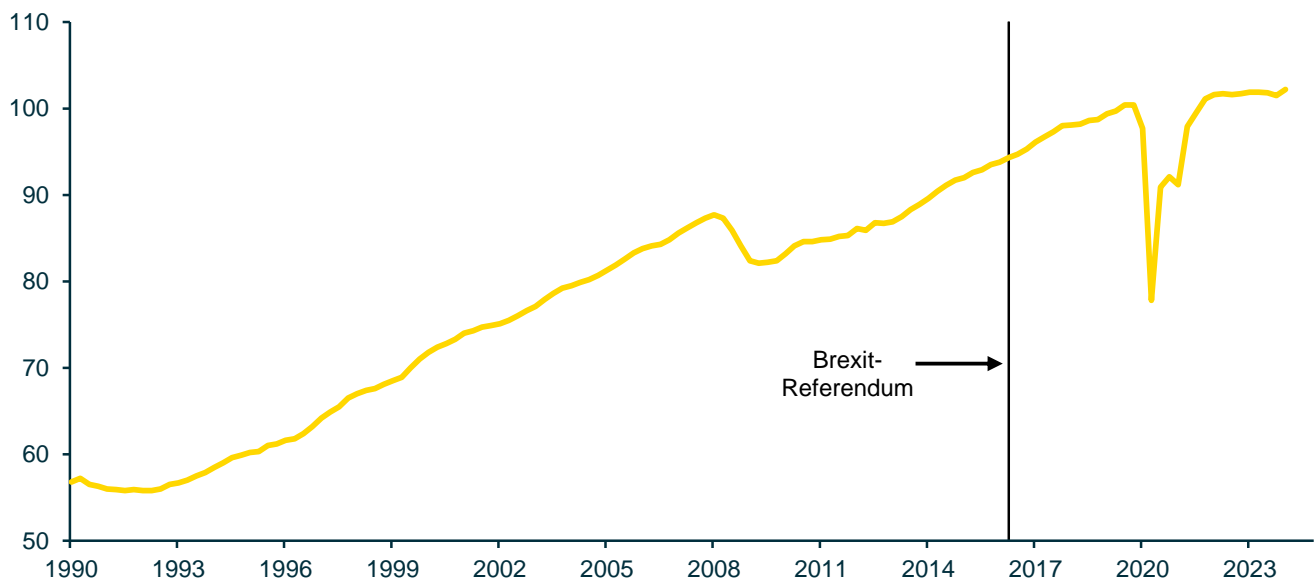
## .. there is a lot to do for a Premier Starmer

The political change is taking place against the backdrop of considerable structural problems that the UK is struggling with. However, these have little to do with Brexit, but have a much longer history. A look at real economic performance shows that the real break in development occurred during the global financial crisis of 2008. GDP collapsed and then moved along a lower path with a lower growth rate (Chart 1). Brexit - the referendum took place in June 2016 and the final exit from the EU after almost endless political turmoil at the end of January 2020 - did not have such a clearly visible impact.

Economic output is currently only 1.8% higher than in Q4 2019, i.e. immediately before the coronavirus crisis. However, Britain is not the only country with anemic economic growth in recent years: Germany's economic output was in Q1. 2024 was only 0.4% higher than at the end of 2019, while France achieved slightly higher growth of 3.3%.

### Chart 2 - The break in the trend happened in 2008

Real GDP, Index 2019=100, quarterly data



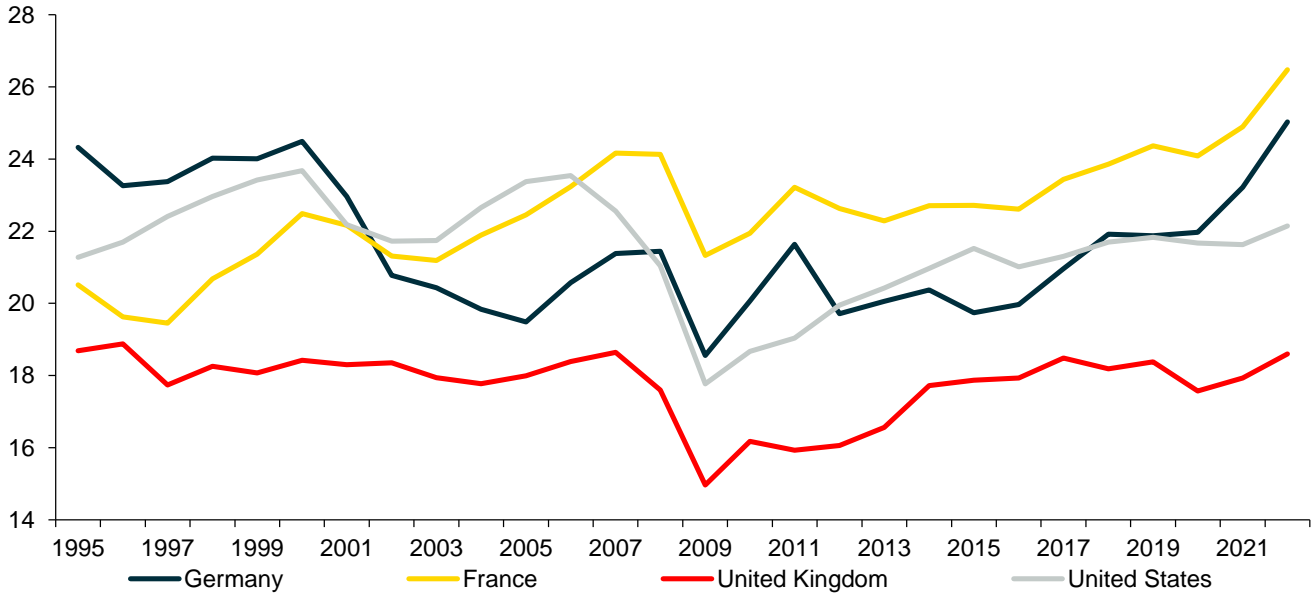
Source: ONS, S&P Global, Commerzbank Research

Behind the UK's years of weak growth lies a pronounced weakness in investment. For a generation, the UK's investment ratio has been significantly lower than that of other G7 countries, and the gap appears to have widened recently (Chart 3).



**Chart 3 - UK suffers from low investment**

Gross capital formation, in % of GDP

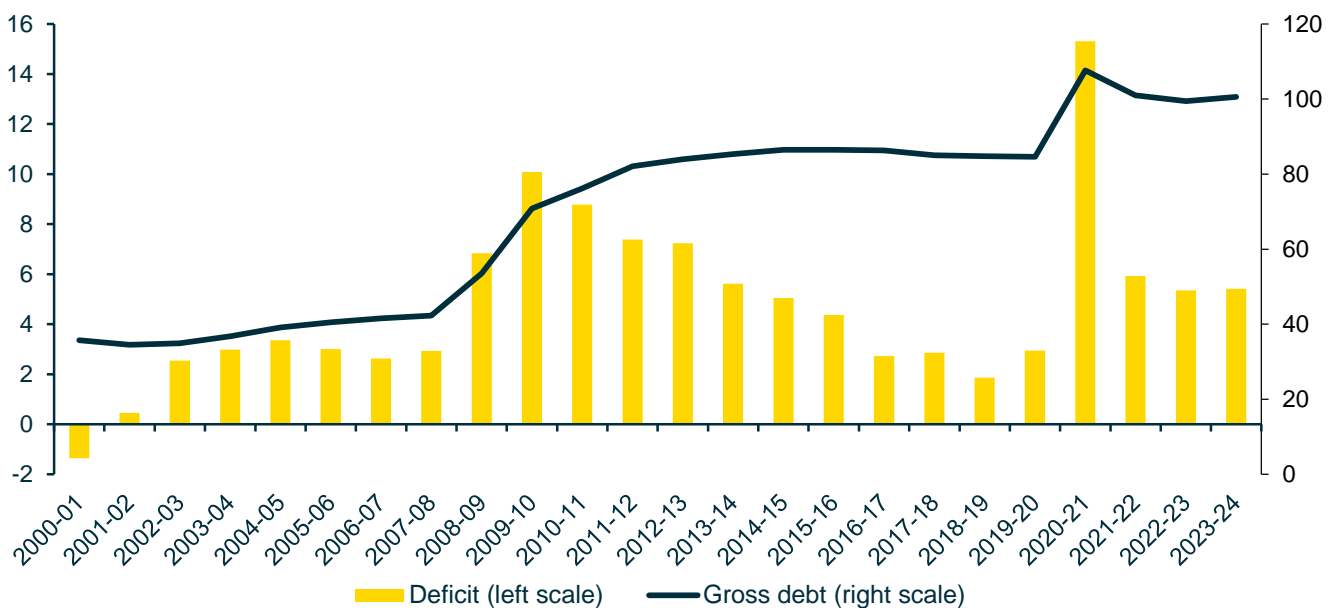


Source: World Bank, Commerzbank Research

Weakening investment is likely to be the main reason for the below-average productivity growth in the UK. Regulatory hurdles are often cited as the cause, and experience has shown that removing them is a lengthy and politically difficult task. In addition, the various crises of recent years have put public finances in disarray. Despite low unemployment, the budget deficit has still averaged 5.6% of GDP over the last three years, even though the coronavirus crisis is long over. Public debt is at 100% of GDP; before the 2008 crisis it was below 40% (Chart 4). There is no scope for extensive tax cuts or spending programs to boost growth.

**Chart 4 - Public finances are under pressure**

Current budget deficit and gross debt level, in % of GDP, fiscal years



Source: OBR, Commerzbank Research

**Big majority, big challenges**



The voters have given Labor a clear mandate. The new government is likely to focus primarily on issues such as the difficult situation in the healthcare system, the lack of housing and immigration. Major economic policy changes are not to be expected, which also applies to relations with the EU, which are likely to improve, at least in terms of atmosphere. At the same time, fiscal policy (as in other countries) is on an unsustainable course. The scope for fiscal policy may be even smaller than the current plans indicate, as growth assumptions have often proved to be too optimistic in recent years. However, we do not see a clear course for the UK to master these challenges.



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