Brexit pain for holidaymakers as pound expected to fall further against euro

Investment bank Morgan Stanley predicts pound-euro parity by early next year

The fall in the pound has resulted in more people than usual opting for 'staycations' in the UK. Photograph: Carl Court/Getty Images

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British holidaymakers should brace themselves for more Brexit pain when they change their pounds into euros, with a leading investment bank forecasting the currencies are on the way to parity.

Sterling is trading at €1.09 after collapsing from €1.31 on the day before the UK voted to quit the European Union in June 2016.

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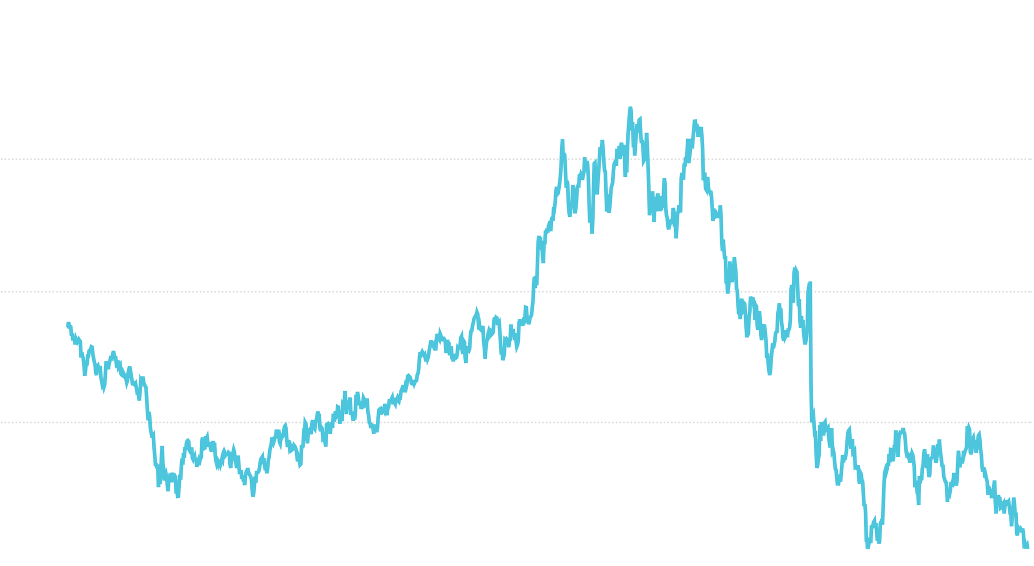
This has meant Brits holidaying in the likes of Spain and Italy have had their spending power slashed, which has meant more people than usual opting for "staycations" in the UK despite some poor summer weather.

Morgan Stanley believes the dilapidated British currency has further to fall, and is pencilling in pound-euro parity in the first three months of next year, when £1.02 will buy just €1.

It would signal the first time in its 18-year history the euro has reached parity with sterling.

Pound v euro



Piling on the misery, the bank described Britain's economic prospects as "bleak" as it heads for what appears to be a calamitous exit from the EU, with Tory ministers unable to provide clarity on their vision for life outside the bloc.

Theresa May, Philip Hammond, Boris Johnson, Chris Grayling, Liam Fox and Michael Gove have given contradictory statements about Conservative plans for trade, customs, tariffs, immigration, air control, a transition period and countless other facets of Britain's divorce.

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"The UK economic outlook looks bleak, with stretched household balance sheets, Brexit negotiation uncertainty potentially weighing on business investment, and net exports growth staying subdued despite a weak pound," Morgan Stanley analysts said.

"On the politics front, risks have also increased, with the Conservative party showing split opinions on the UK's Brexit position, revealing inner party tensions."

In contrast, the eurozone is on the up, with its economy expanding twice as fast as the UK in recent months.

The pound's collapse has been used by Brexiters to herald a new dawn of trading that would span beyond Europe. However, official figures on Thursday showed the trade deficit widened as a fillip to UK trade again failed to materialise.

Morgan Stanley also pointed to Britain's debt levels holding back growth, and investment evaporating after Brexit.

"The household sector has increased spending, primarily funded by unsecured lending, which is unsustainable. A consolidation of the household balance sheet, coupled with negative real wage growth, may reduce consumption, which has been propping up growth so far.

"Brexit uncertainty may also weigh on business investment, which will weaken the already lacklustre productivity growth outlook, suggesting real rates staying low."

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