Office for
Budget
Responsibility

Economic and fiscal outlook

Robert Chote
Chairman

22 November 2017

Coverage and process

- Five year forecasts, plus assessment of targets
- Independent BRC responsible for conclusions
- Met with Chancellor and officials on 3 November
- Final pre-scorecard forecast on 9 November
- No pressure to change anything
- Change in spending profile notified late

Key points

Weaker outlook for economic growth

- Growth slightly weaker than expected so far this year
- Weaker outlook for growth over the medium term
- Reflects judgements on productivity flagged in October

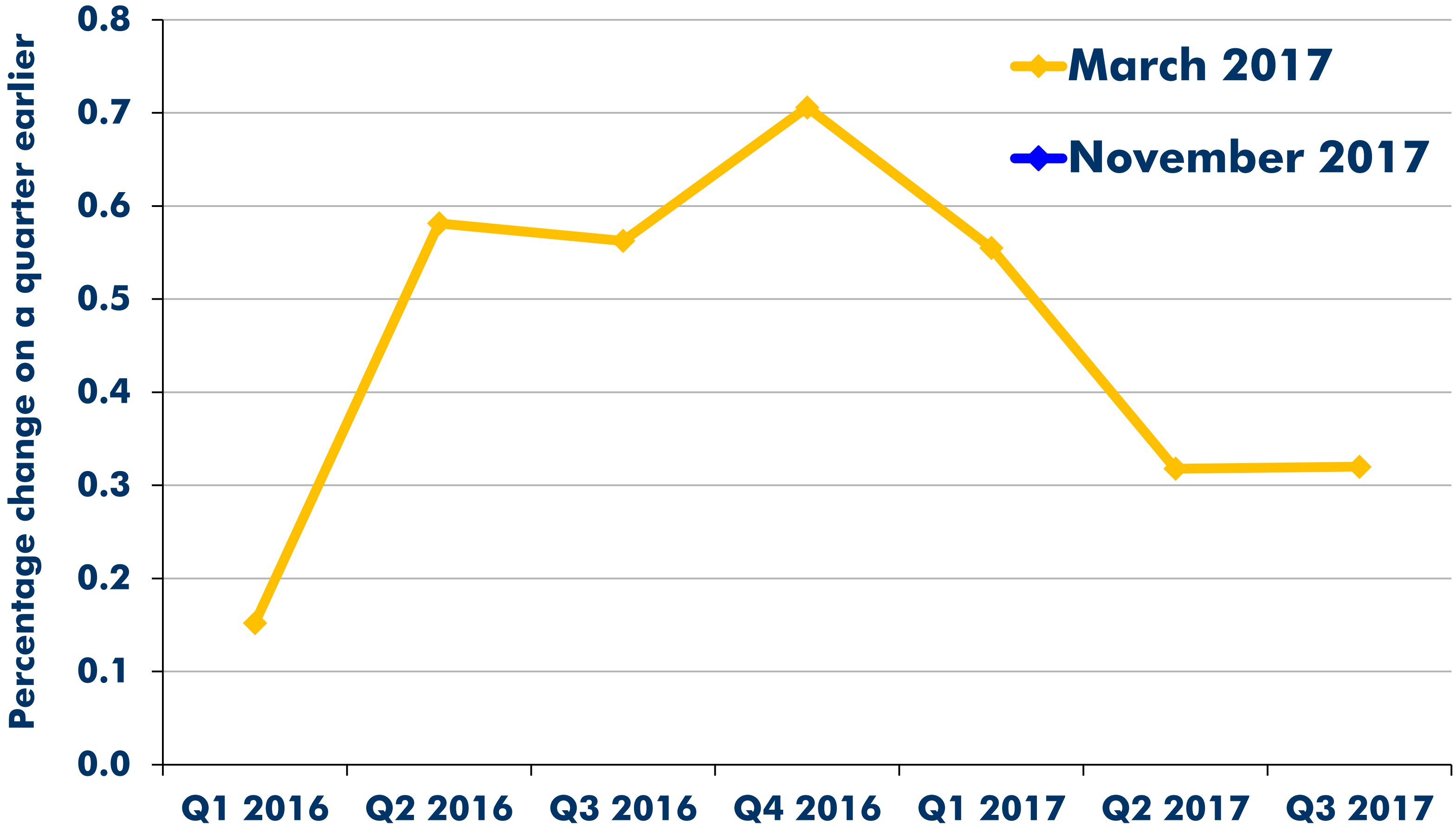
Deficit smaller near-term, but bigger thereafter

- Deficit smaller than expected 2016-17 and 2017-18
- Thereafter weaker economic growth raises borrowing
- Fiscal policy loosened from 2017-18 to 2021-22, tightened in 2022-23

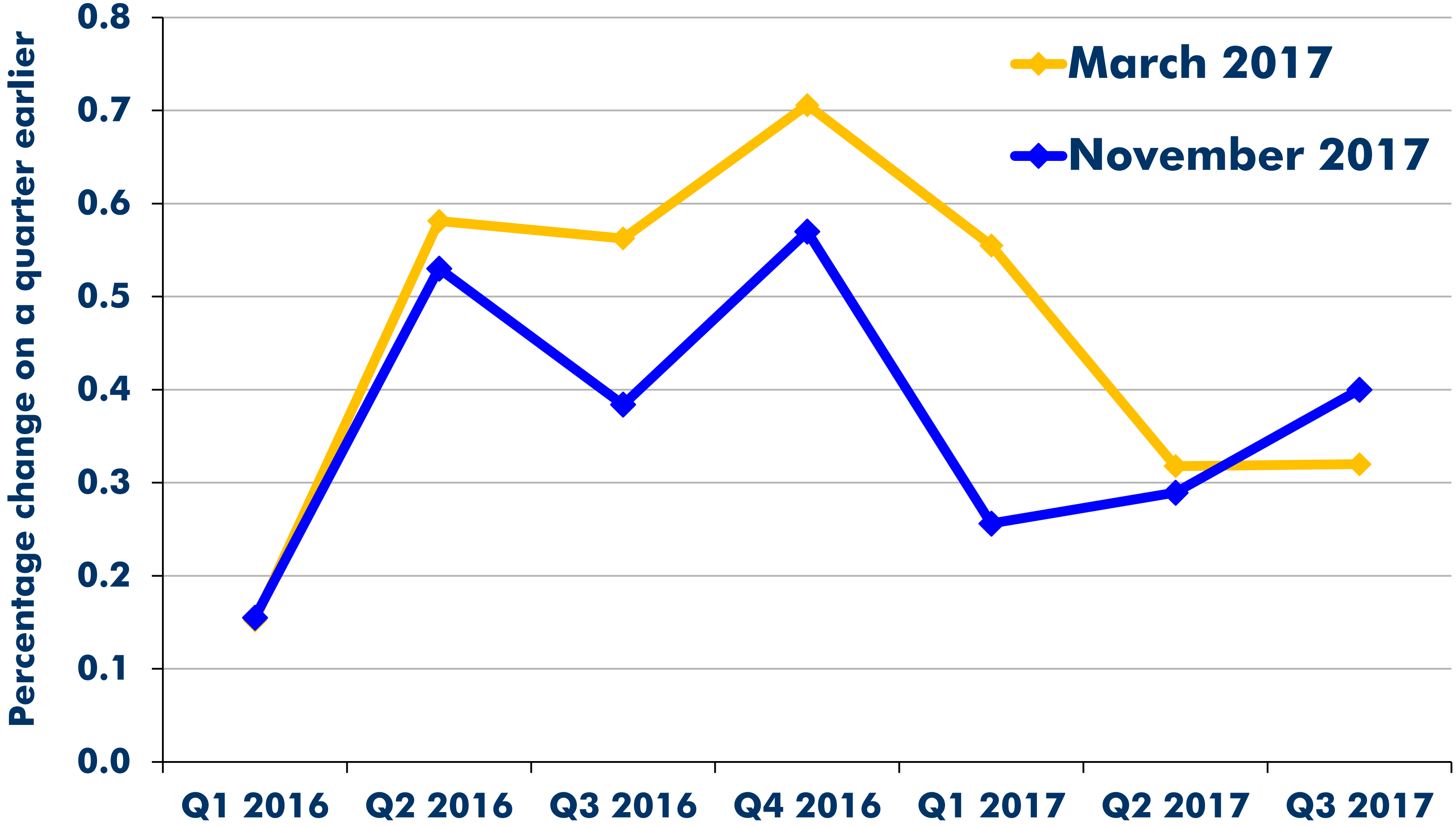
Government on course for targets, but not a surplus

- Structural borrowing and debt targets met with room to spare
- Forecast changes and giveaway reduce room for manoeuvre
- Balancing budget in medium term looks even more challenging

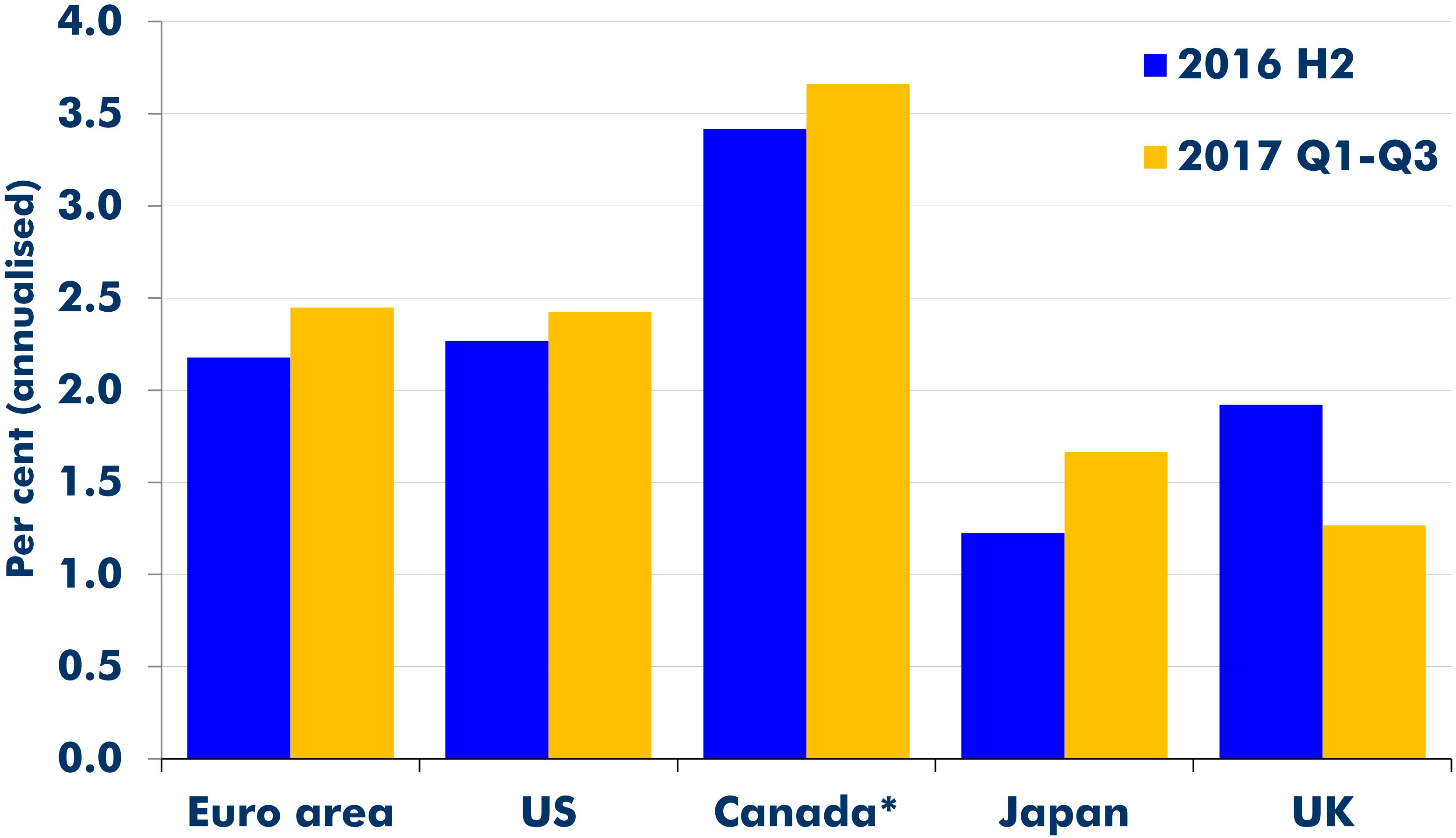
Quarterly GDP growth



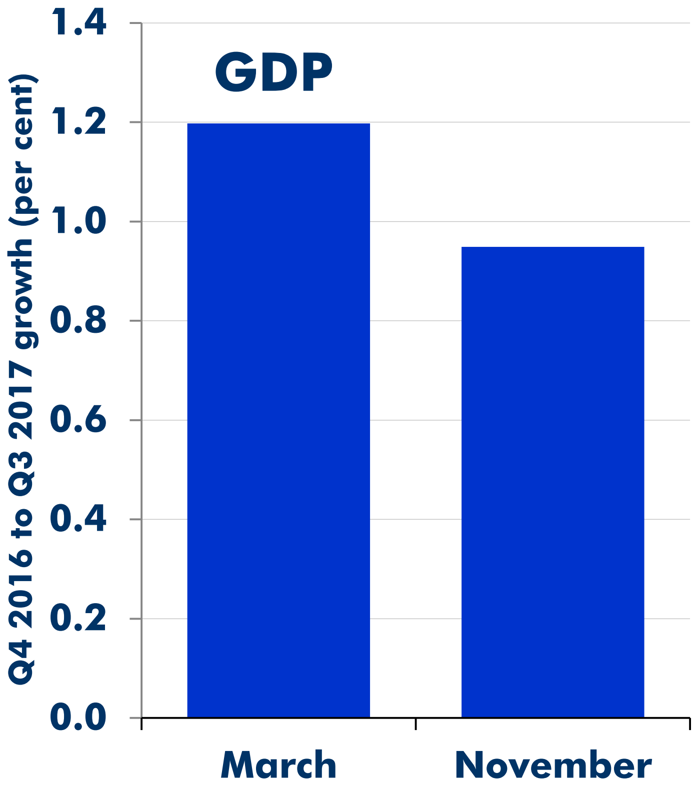
Quarterly GDP growth



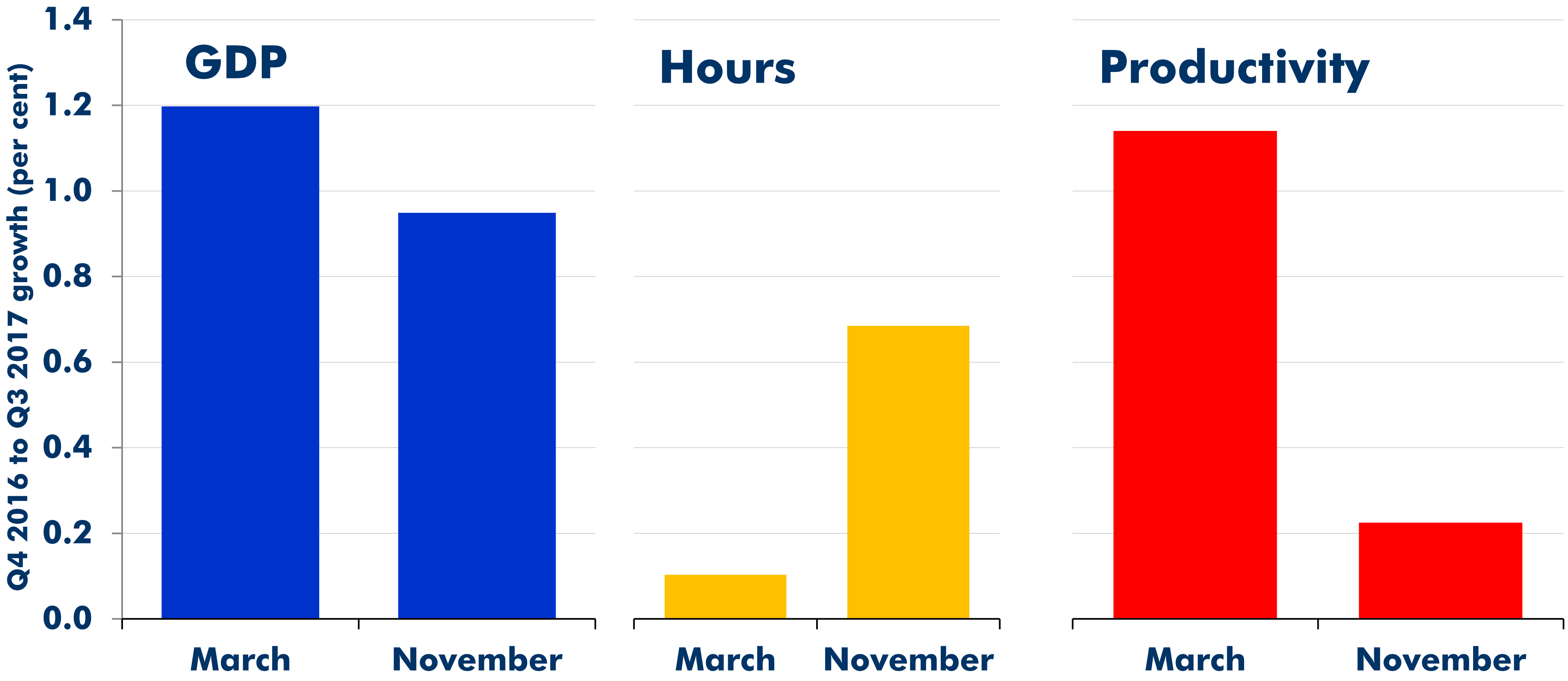
Annualised GDP growth



GDP, hours and productivity



GDP, hours and productivity



Potential output judgements

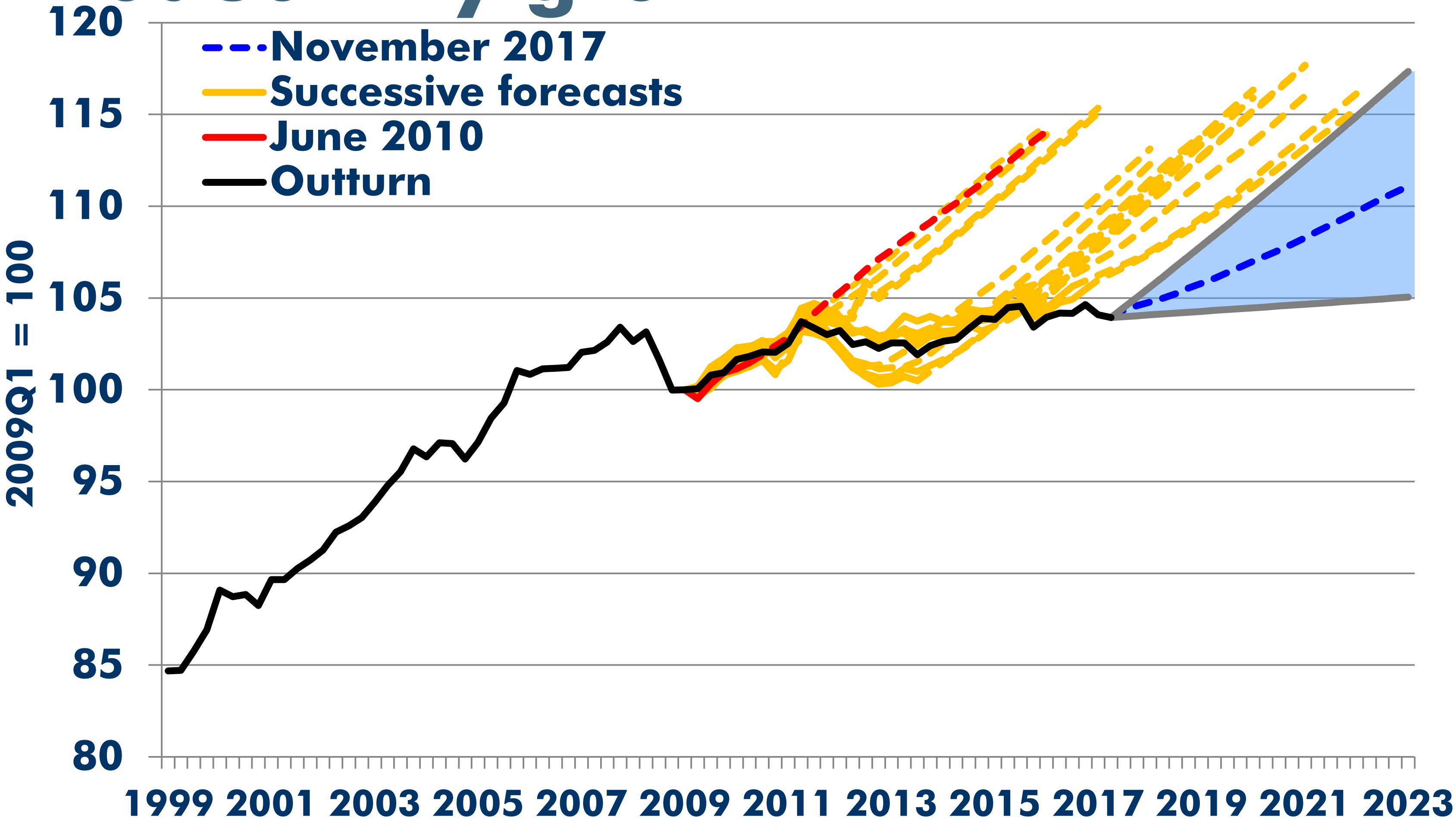
Potential hours worked

- Adult population
- Activity rate
- Employment rate
- Average hours

Productivity

- Output per hour

Productivity growth



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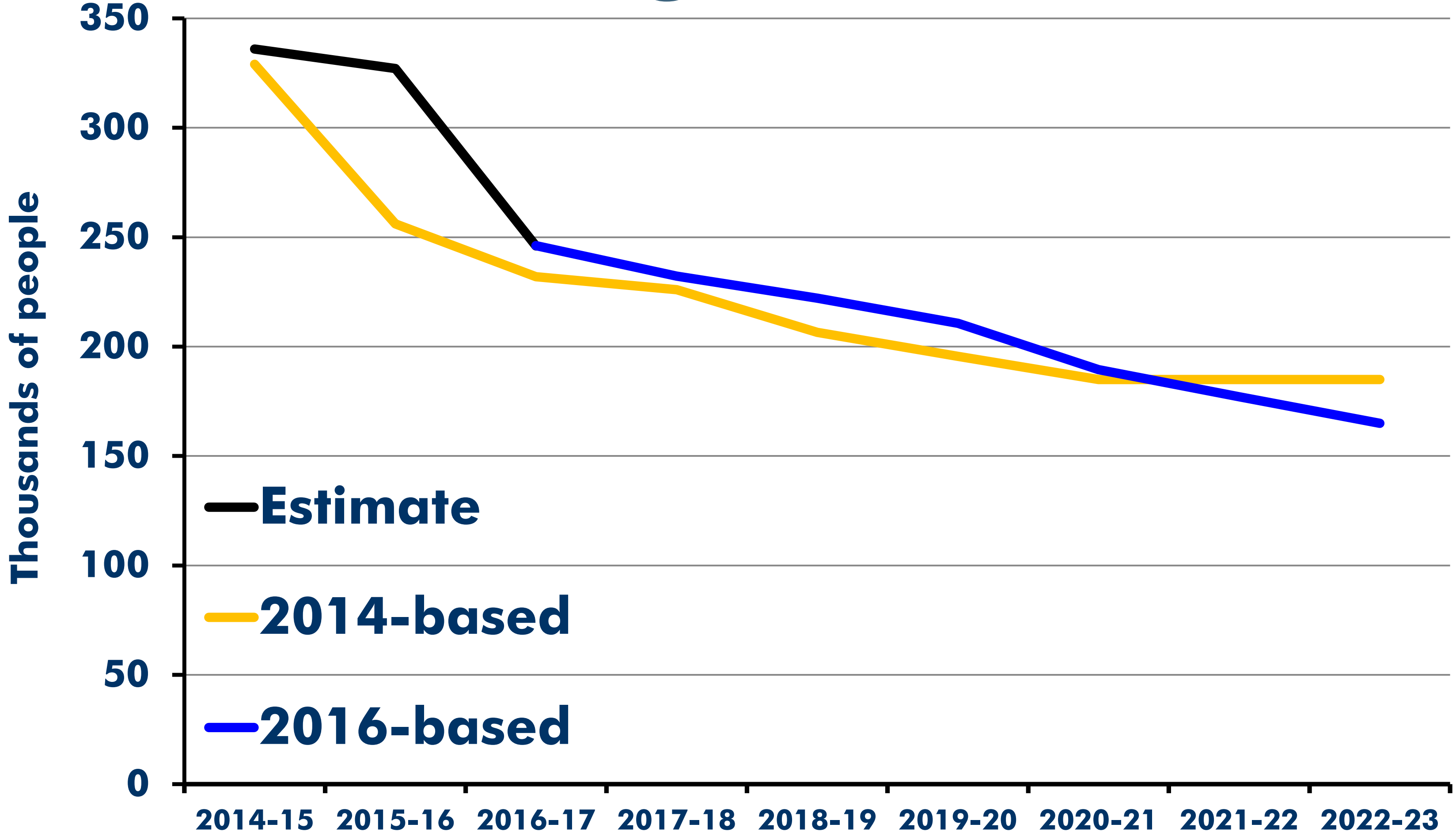
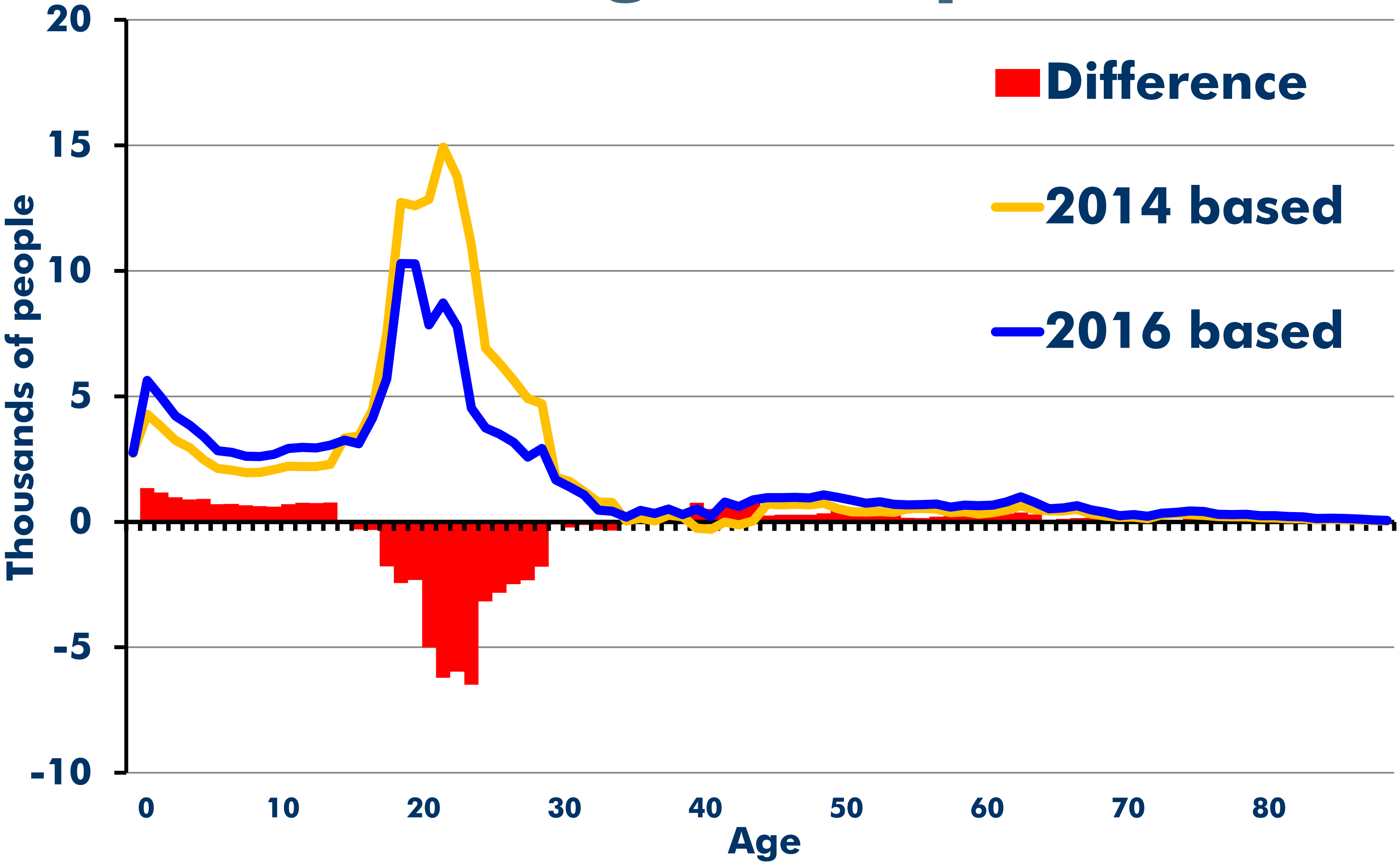
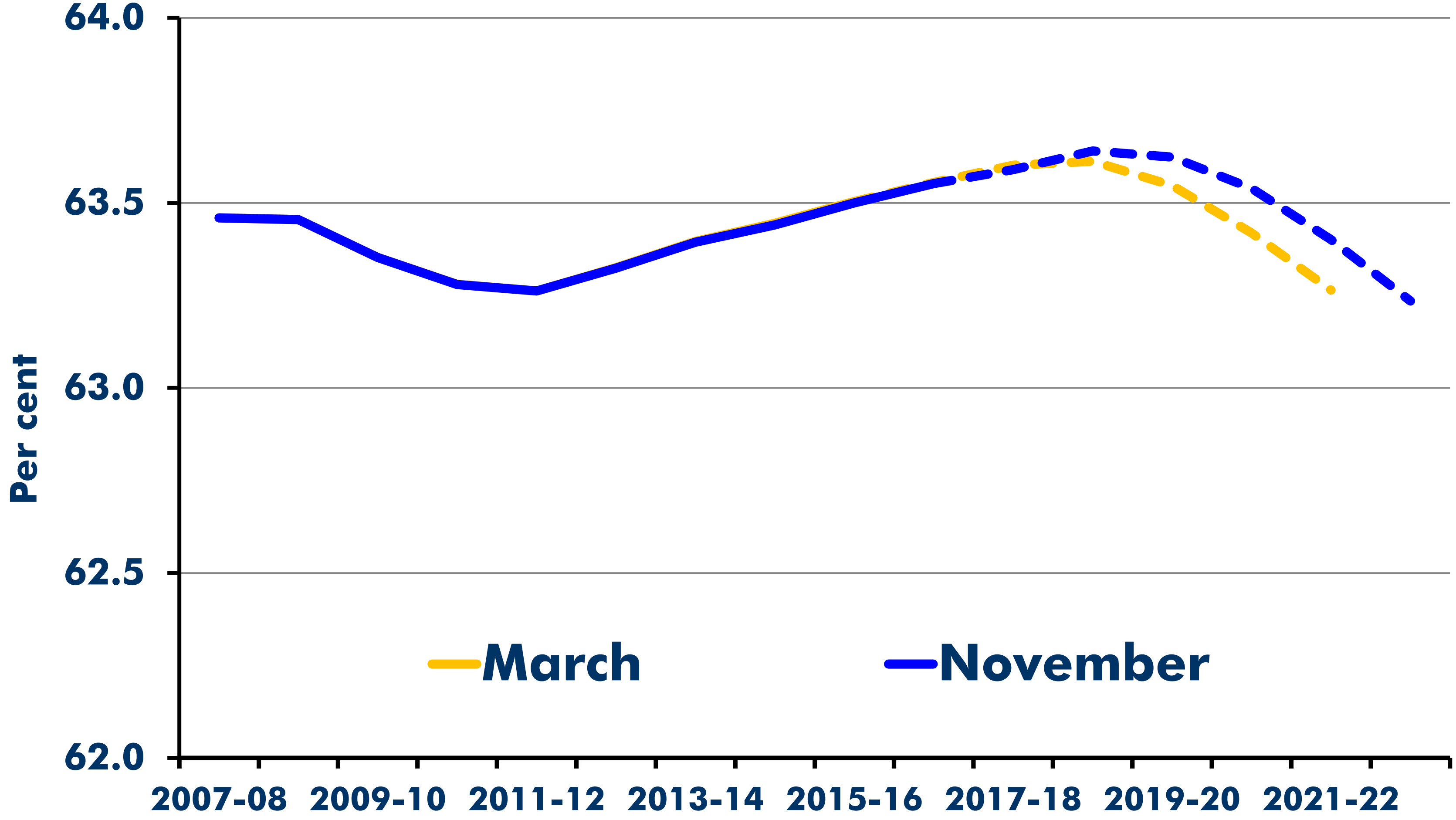
Net inward migration



Net inward migration profile



Participation rate



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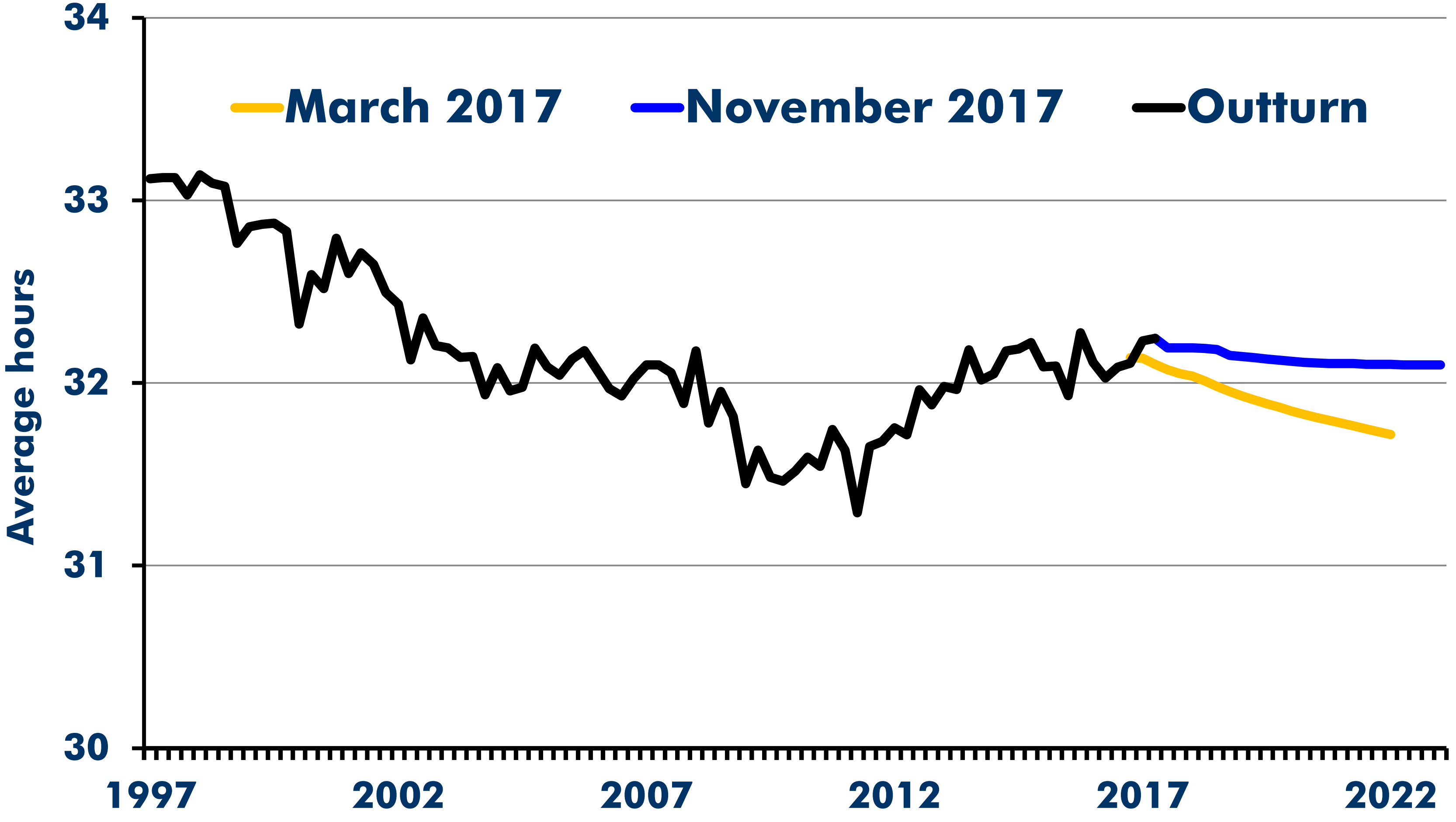
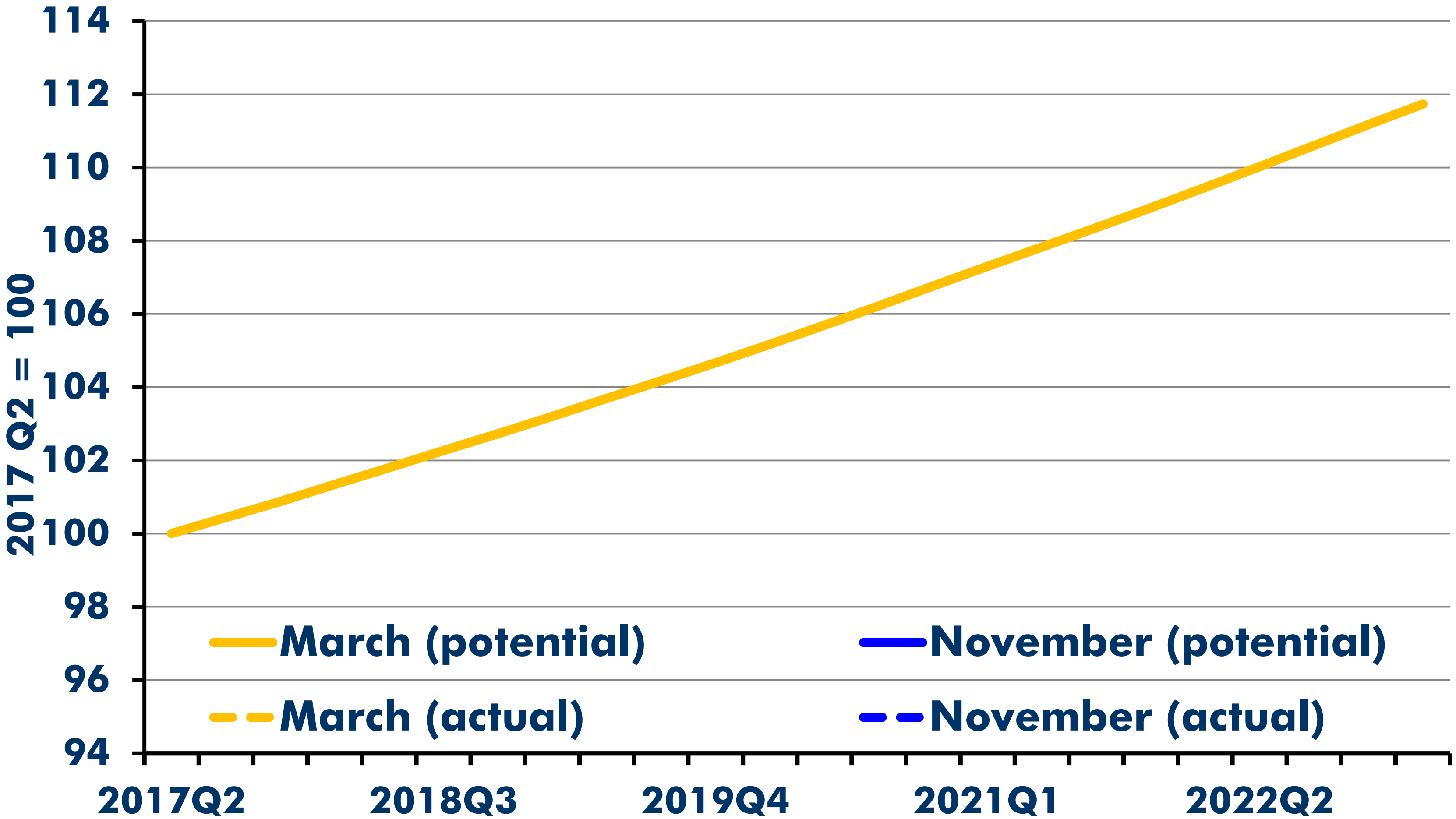
Unemployment and wages

Average hours worked



Potential and actual GDP growth



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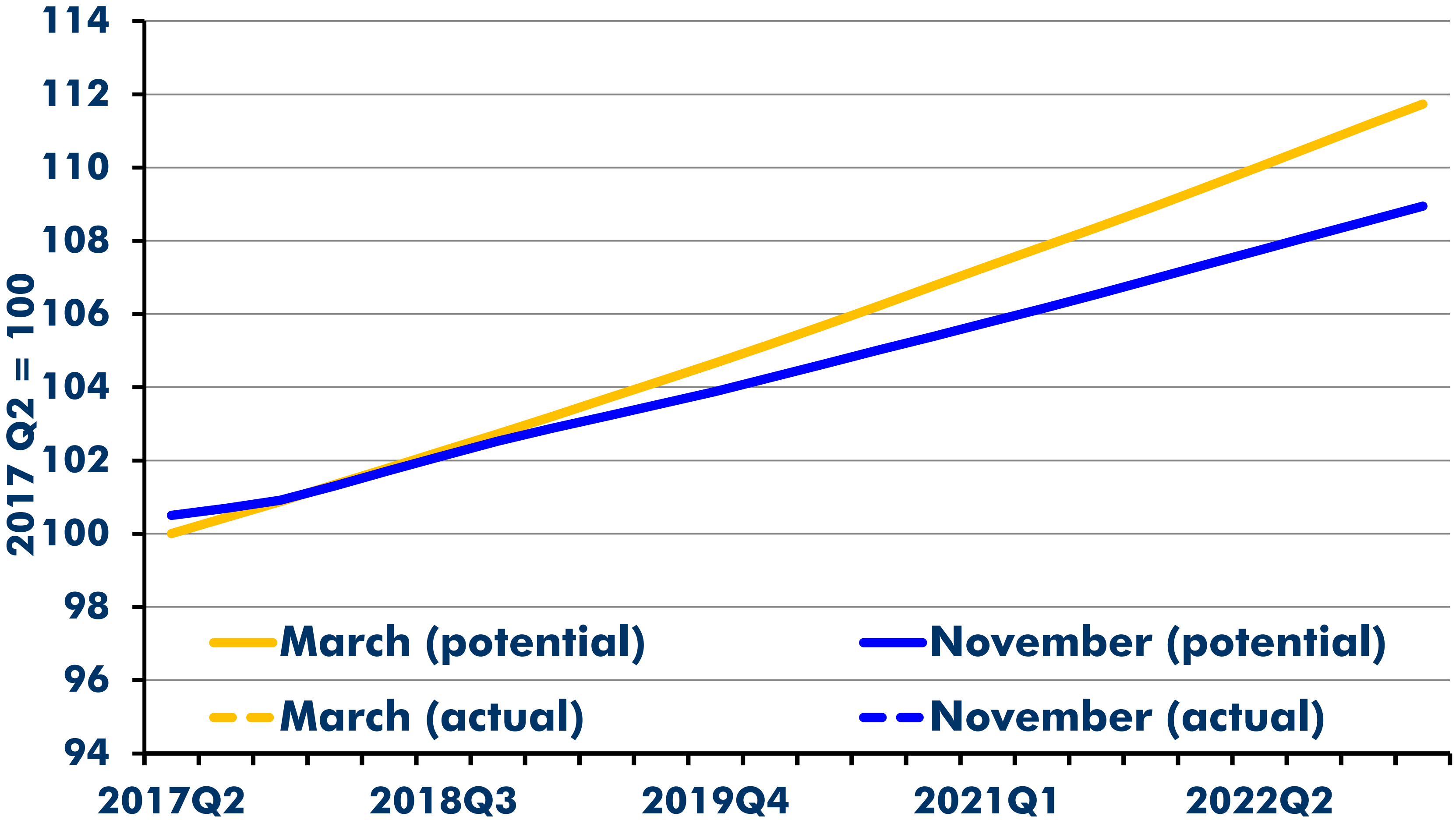

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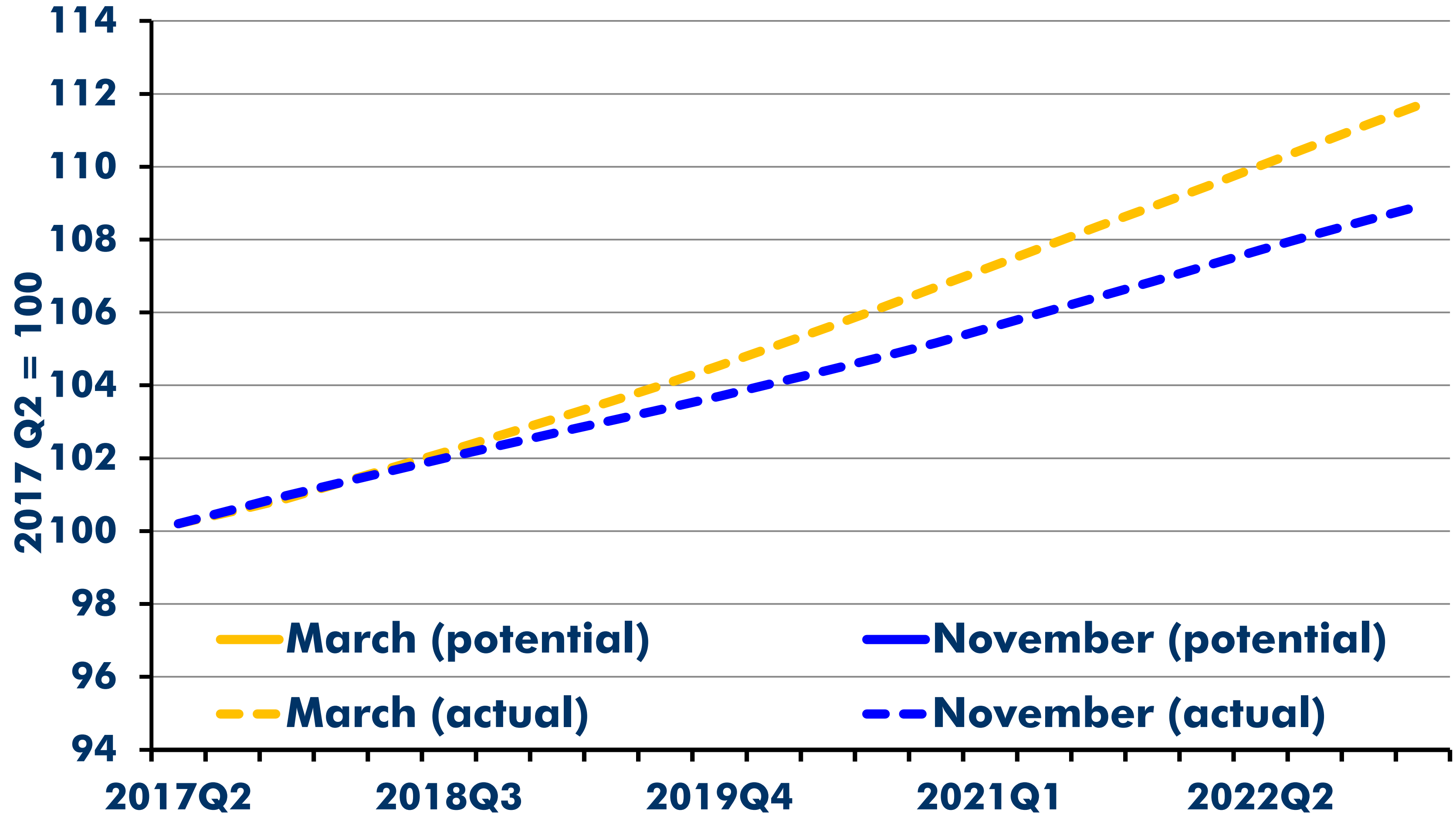
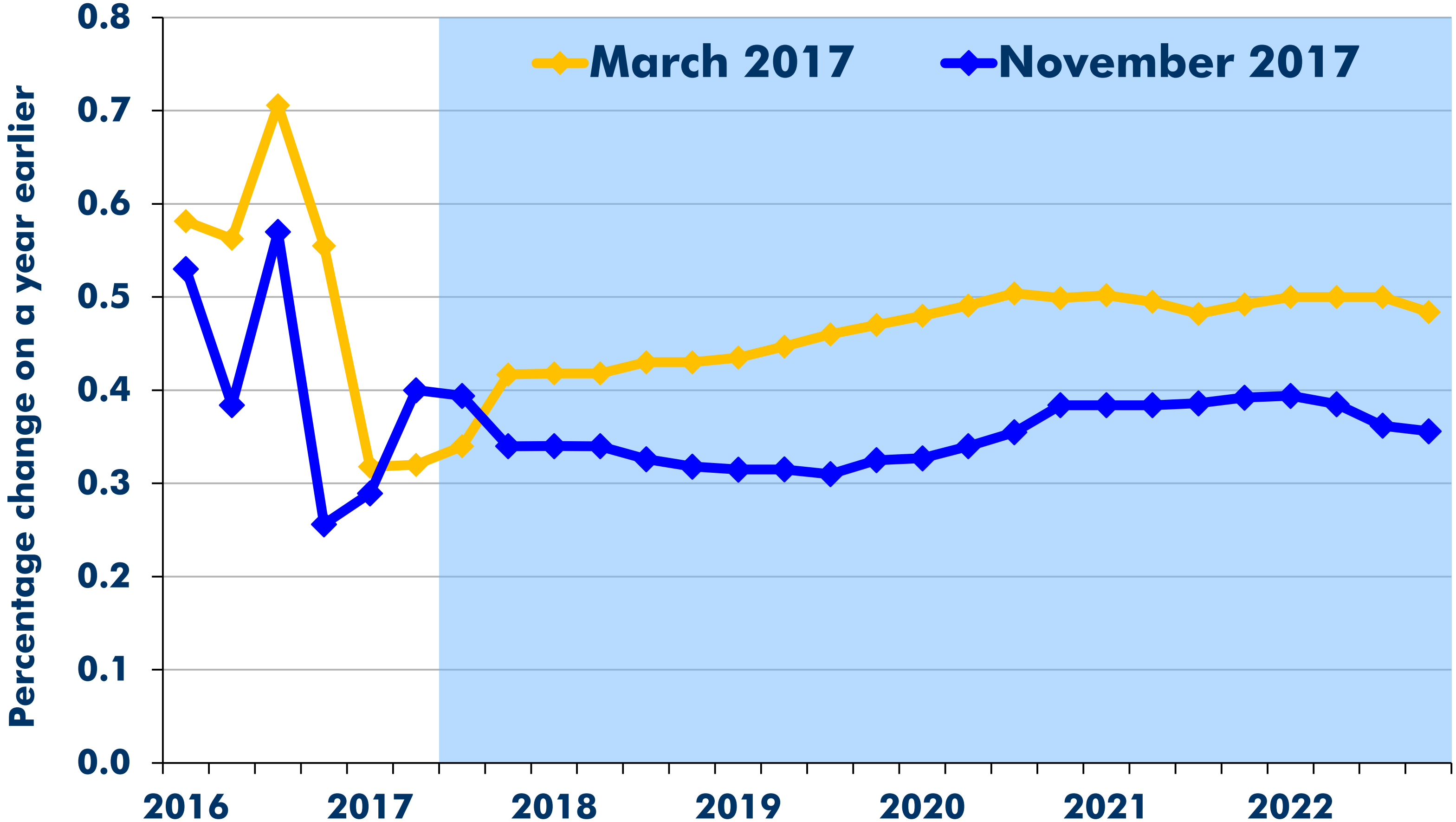
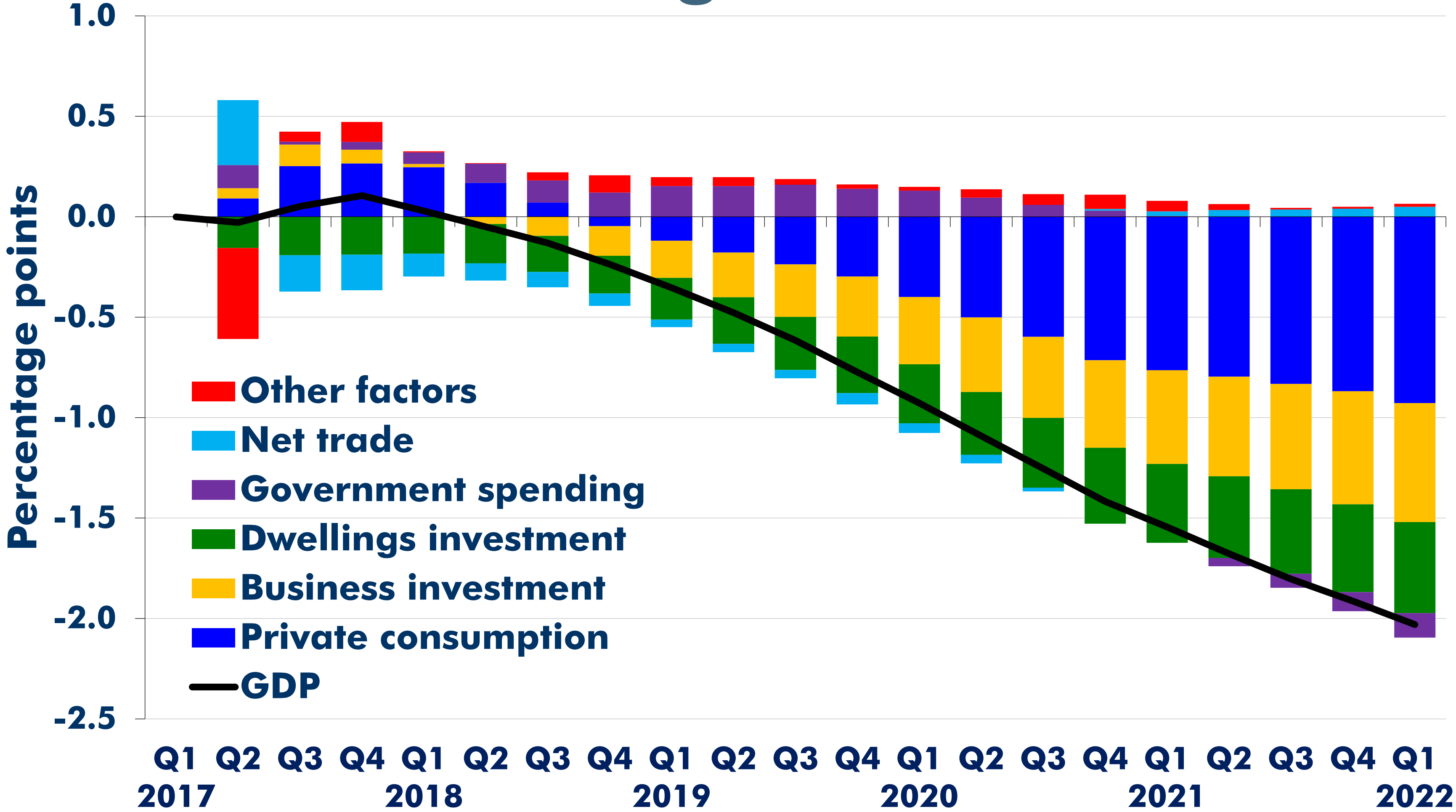
Potential and actual GDP growth



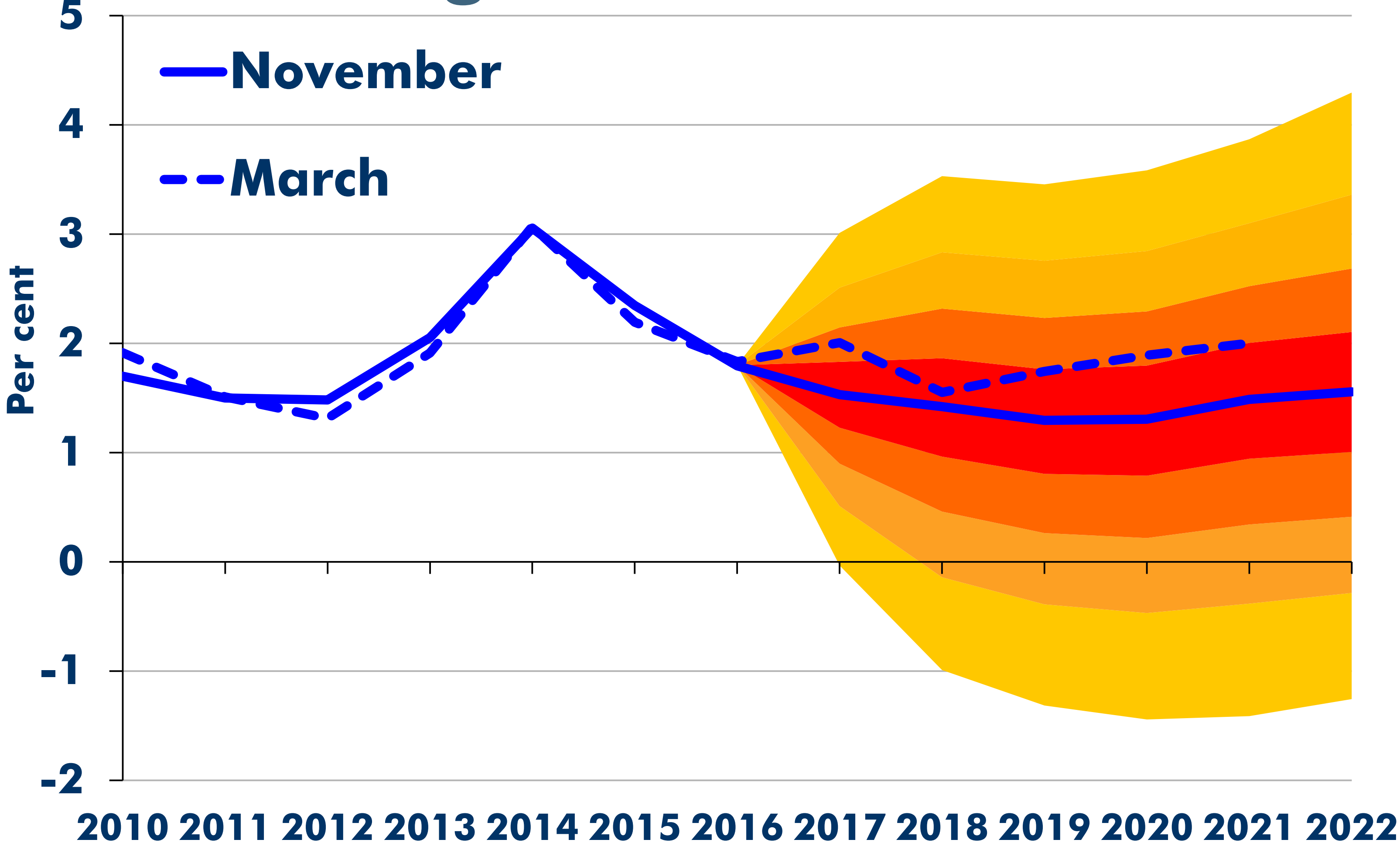
Quarterly GDP growth



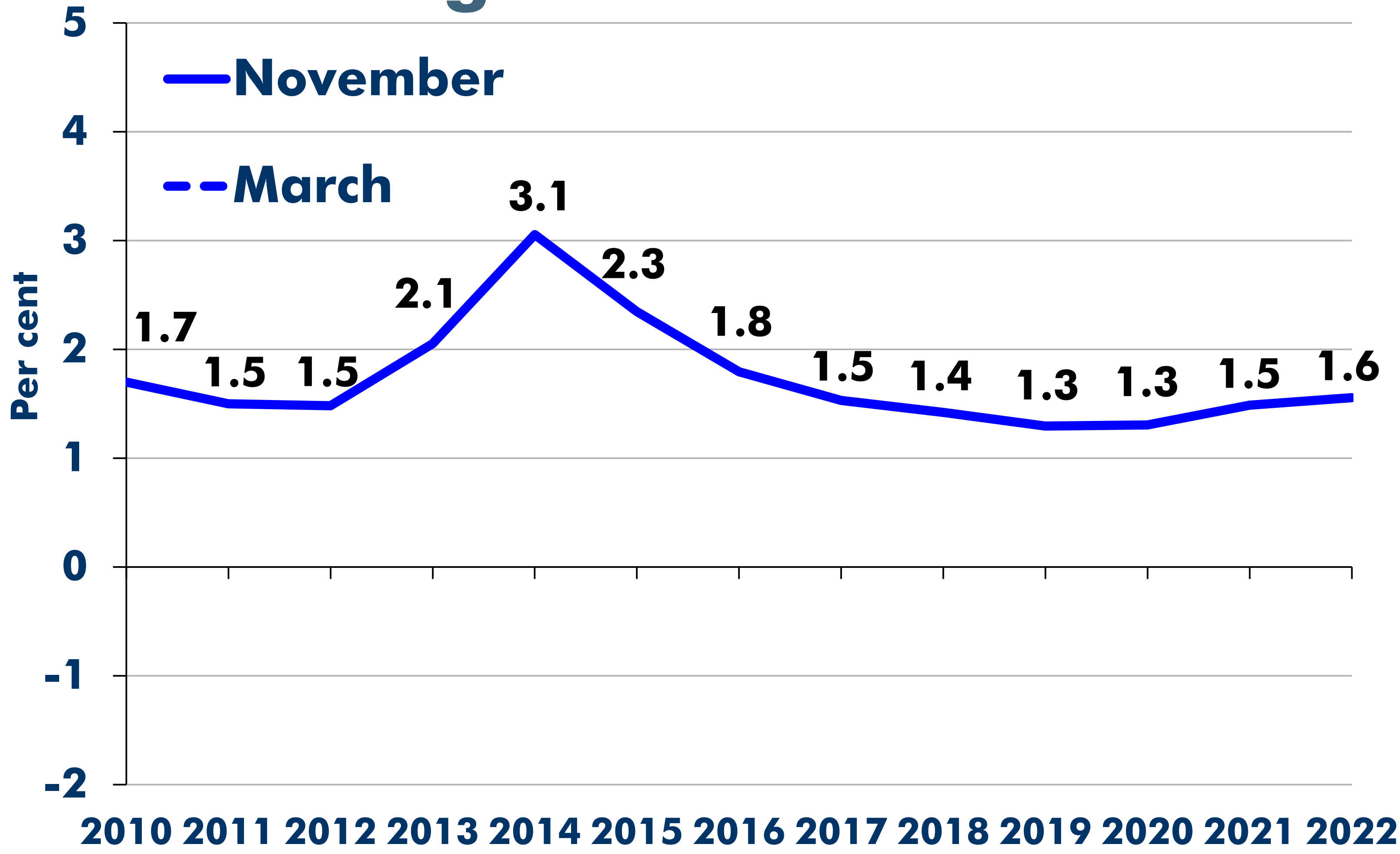
Cumulative GDP growth revision



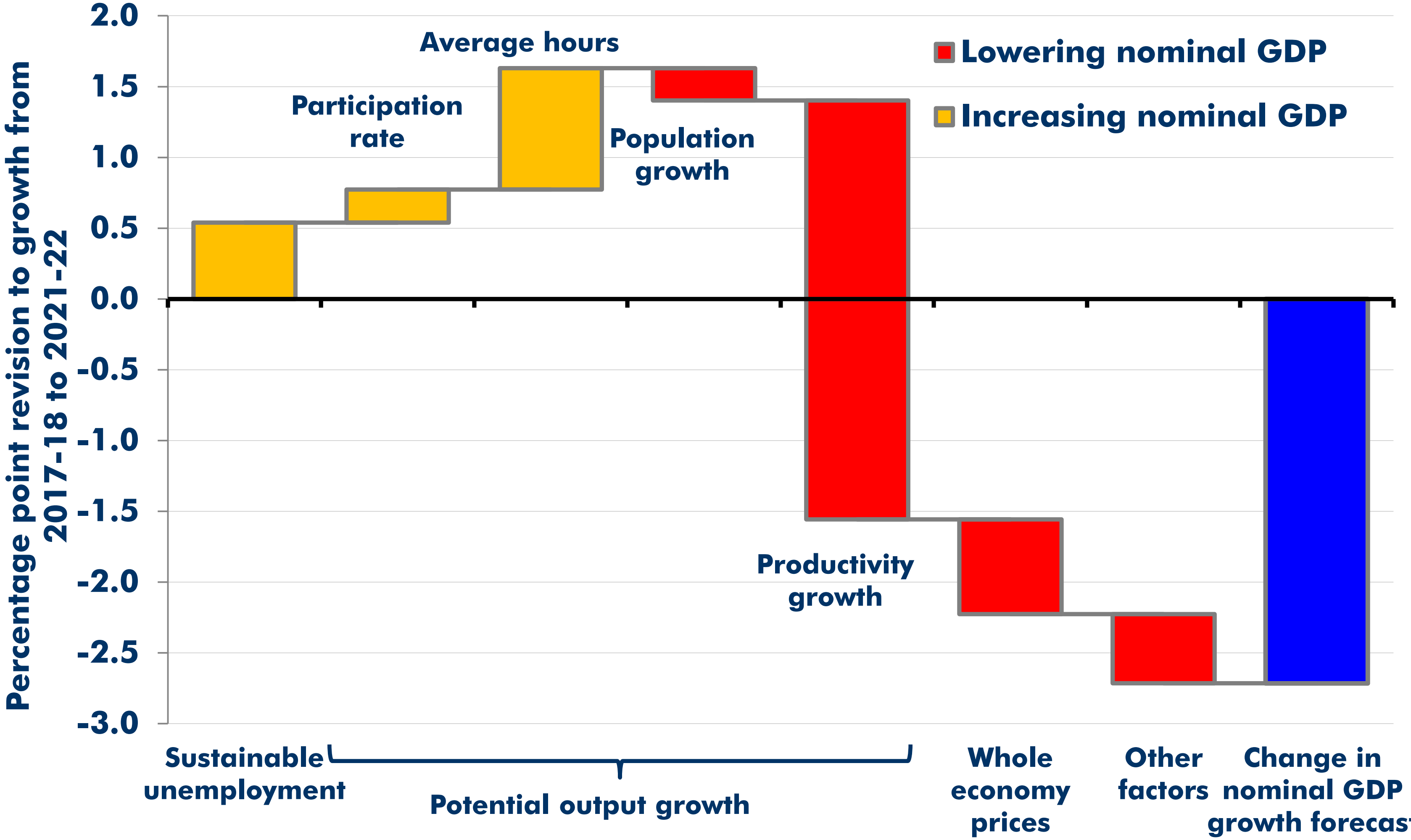
Actual GDP growth



Actual GDP growth



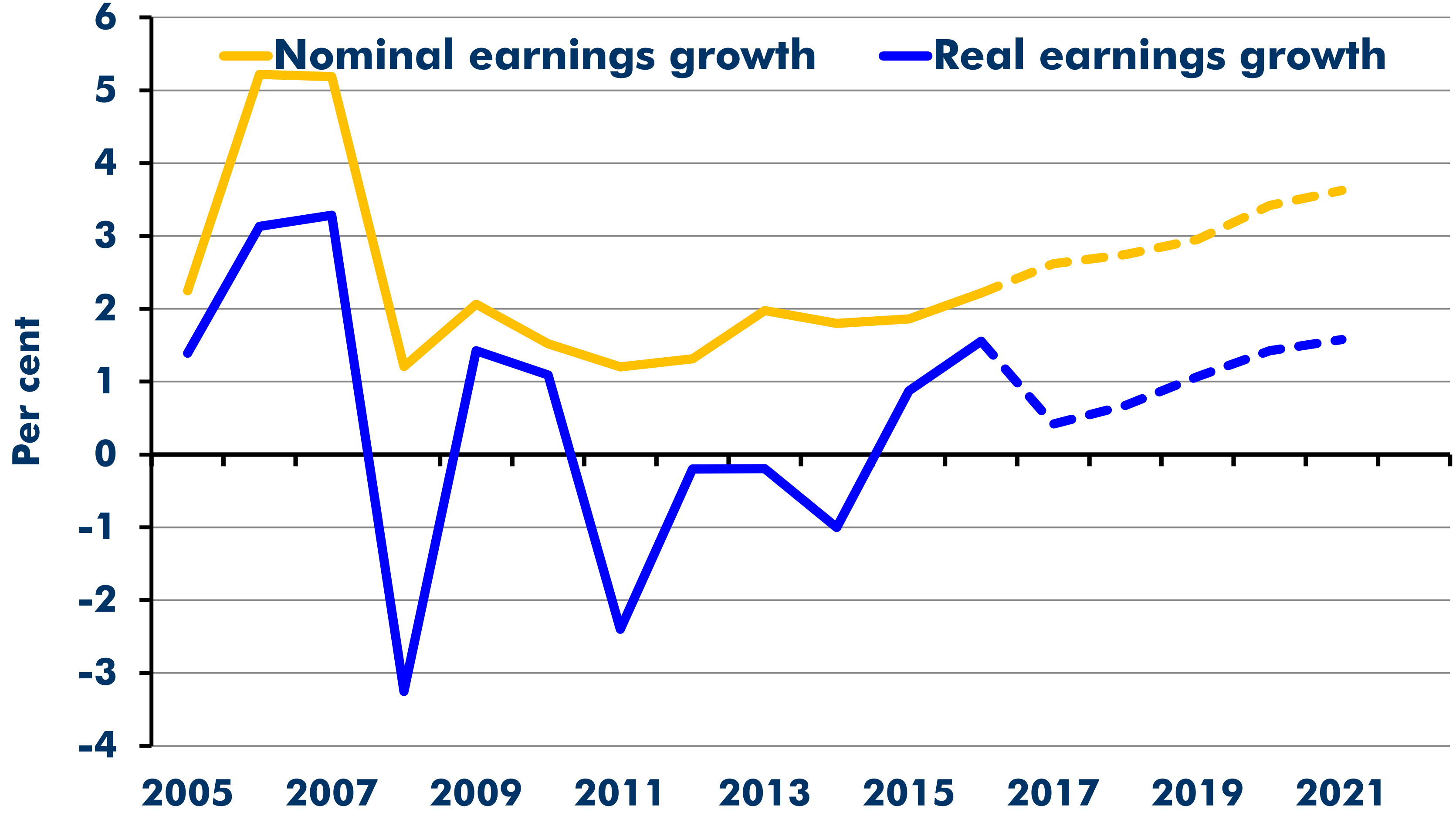
Nominal GDP growth



Nominal GDP growth

Cumulative percentage growth, 2017-18 to 2021-22	March	November	*Difference*
Nominal GDP	15.3	12.6	-2.7
Wages and salaries	14.9	11.9	-3.0
Non-north sea profits	16.0	13.5	-2.5
Nominal consumer spending	15.7	13.7	-2.0
Real business investment	16.5	9.7	-6.8

Earnings growth: March



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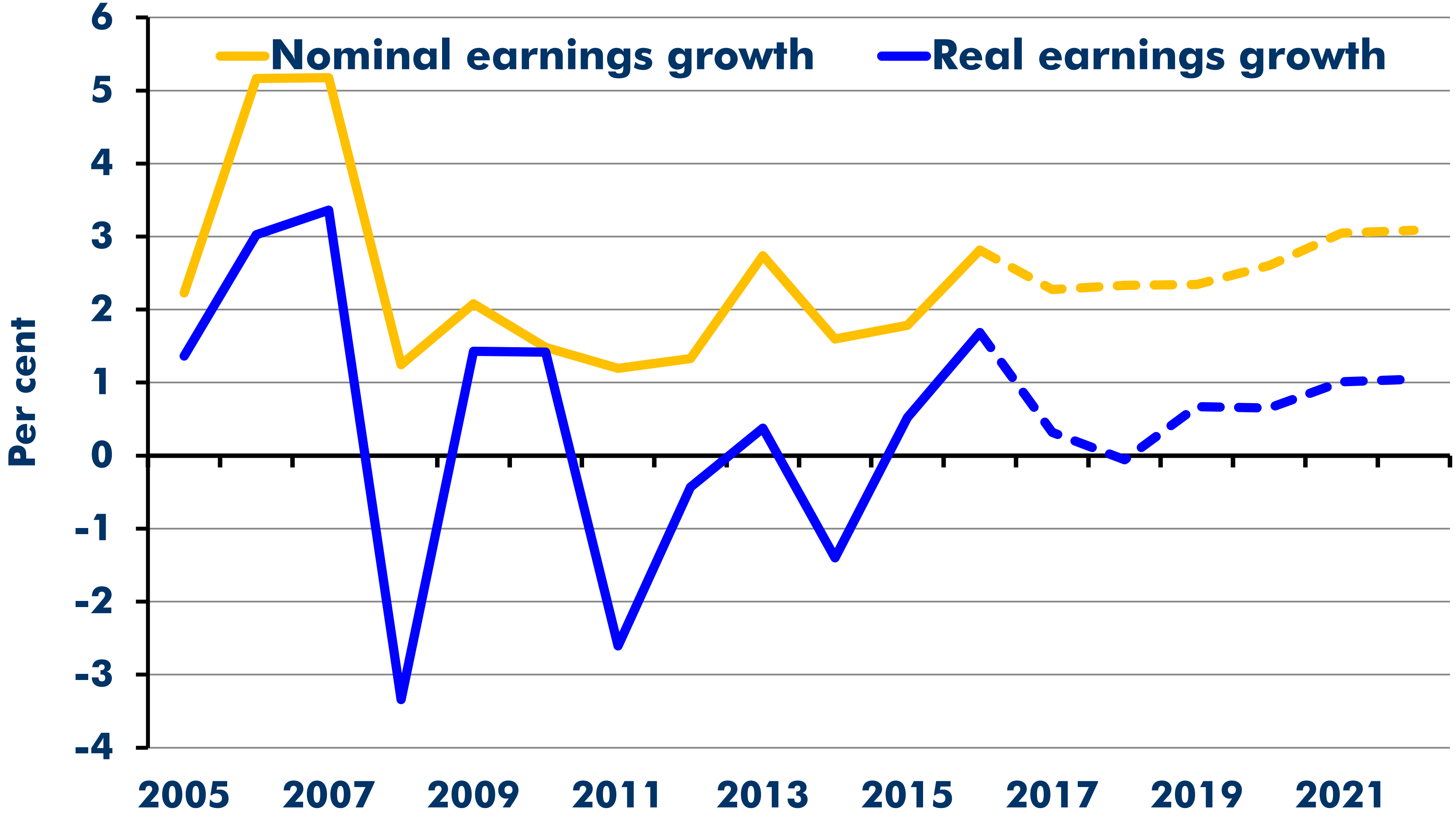
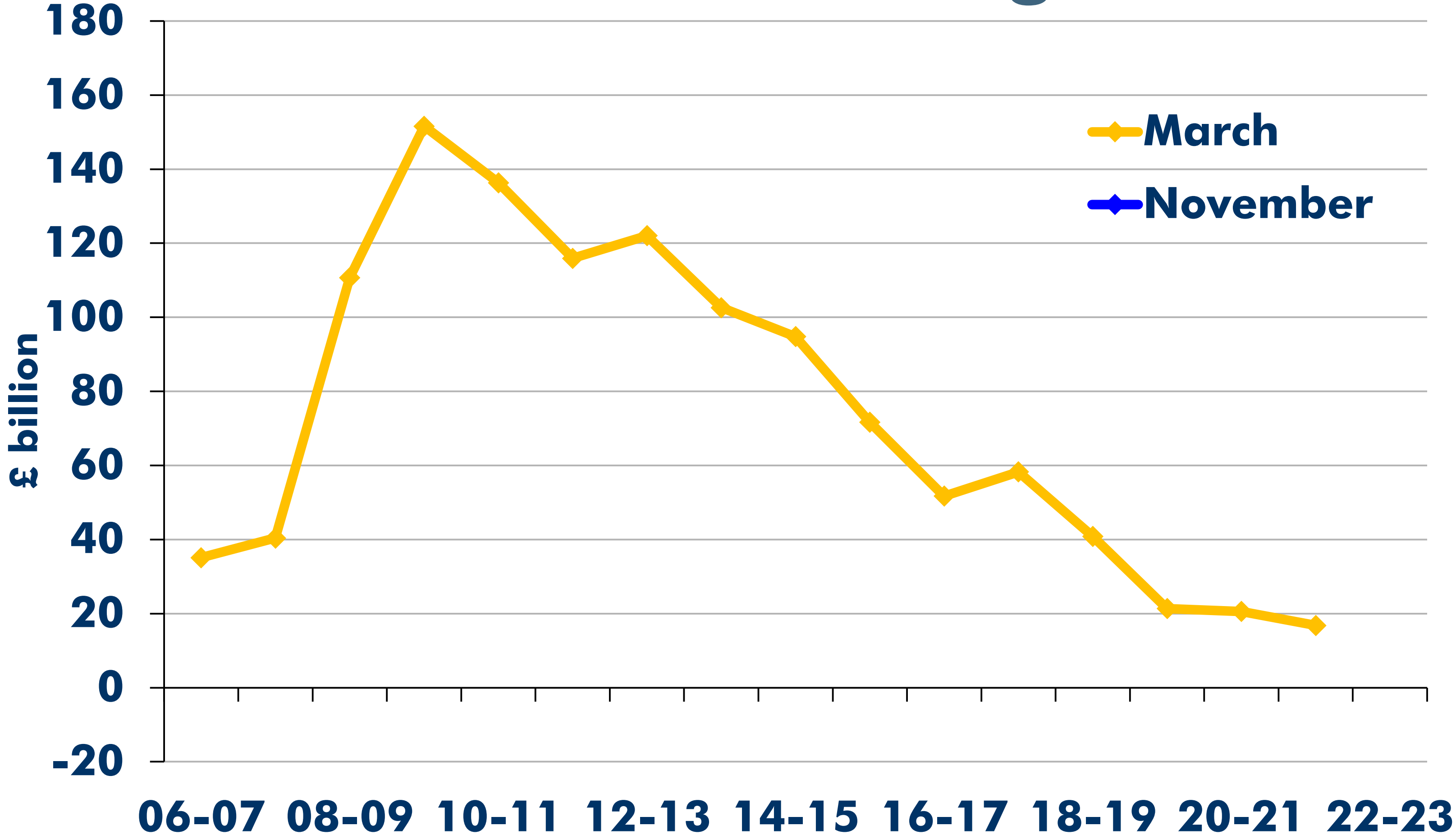
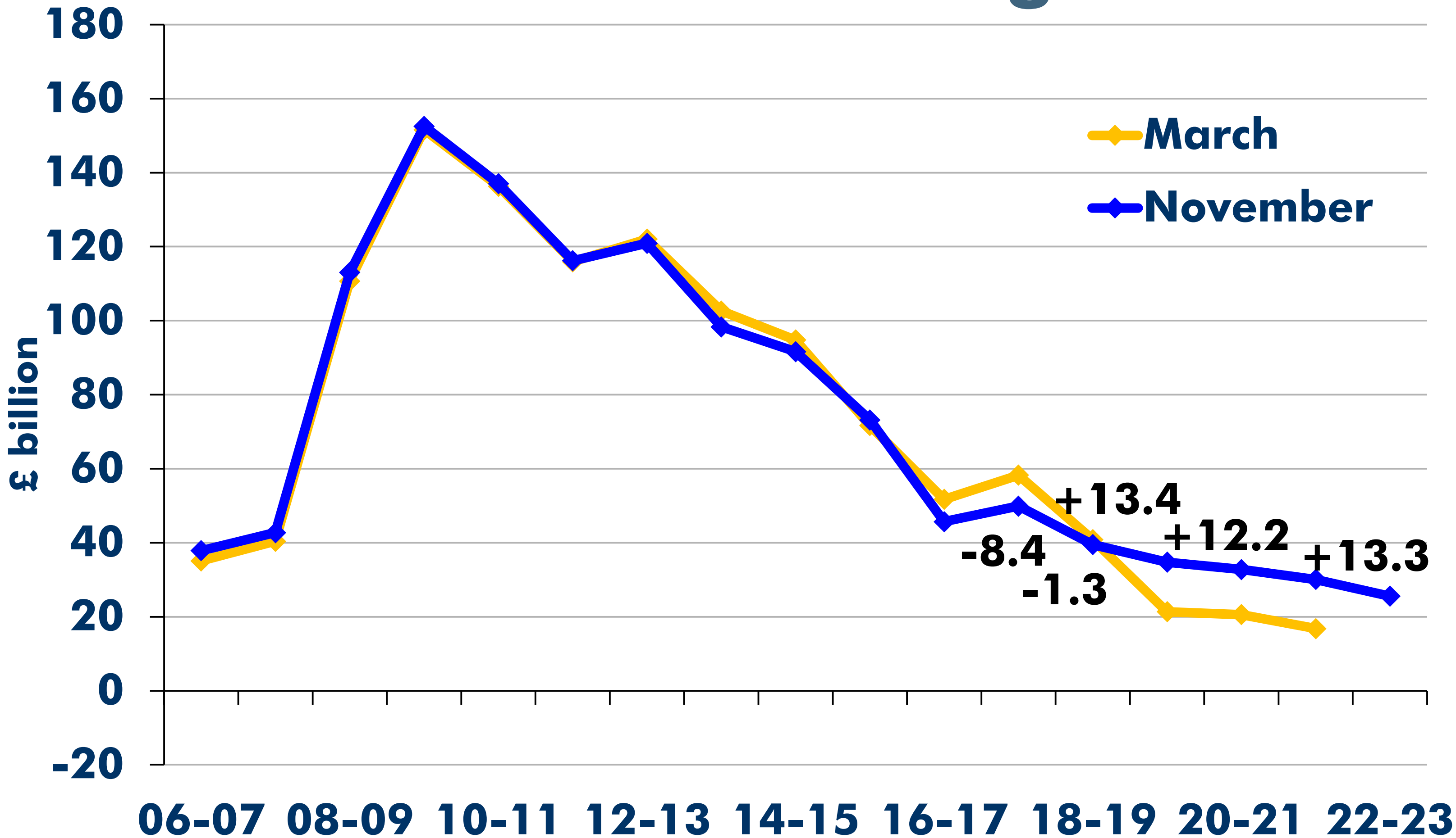
Earnings growth: November



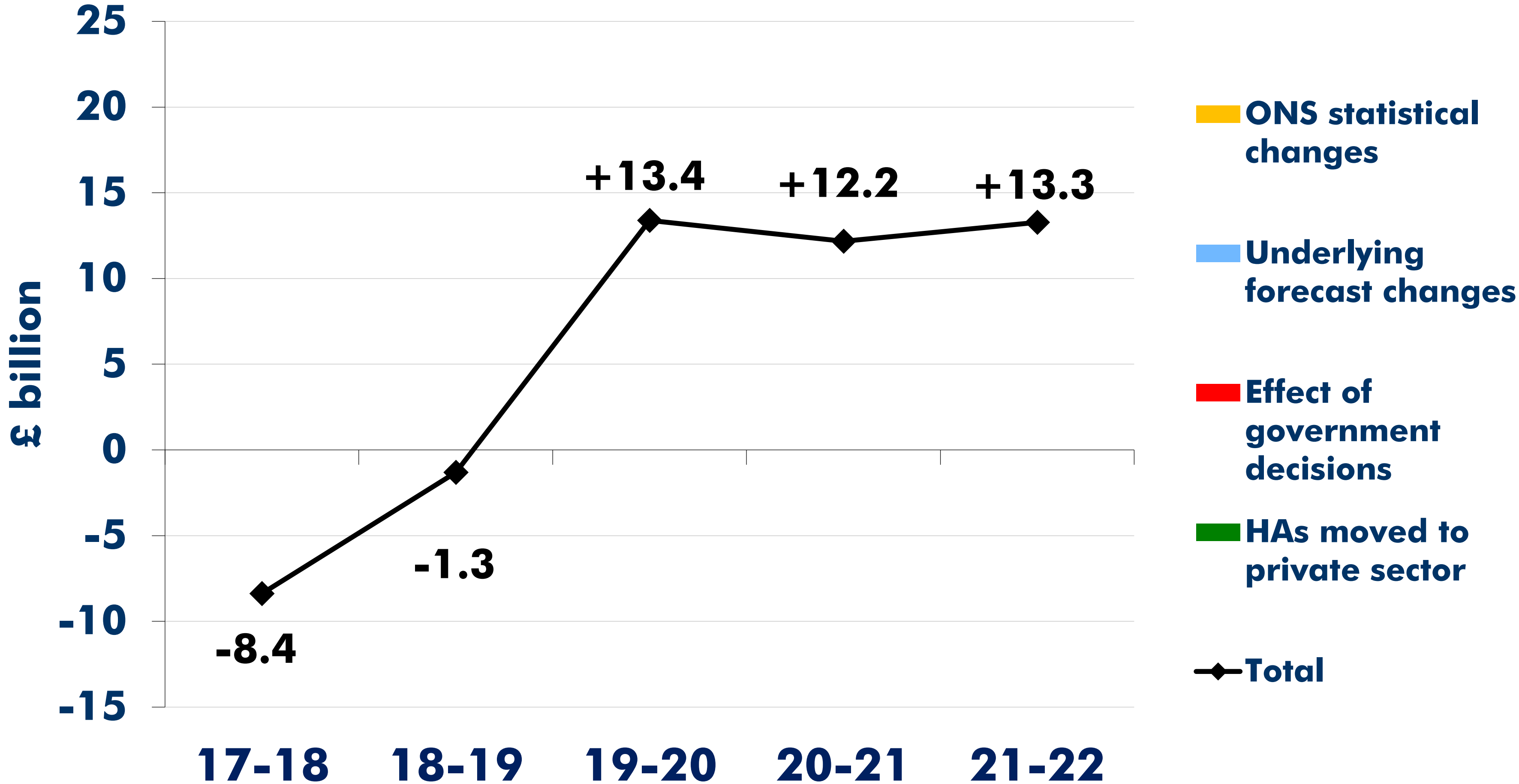
Public sector net borrowing



Public sector net borrowing



Change in net borrowing



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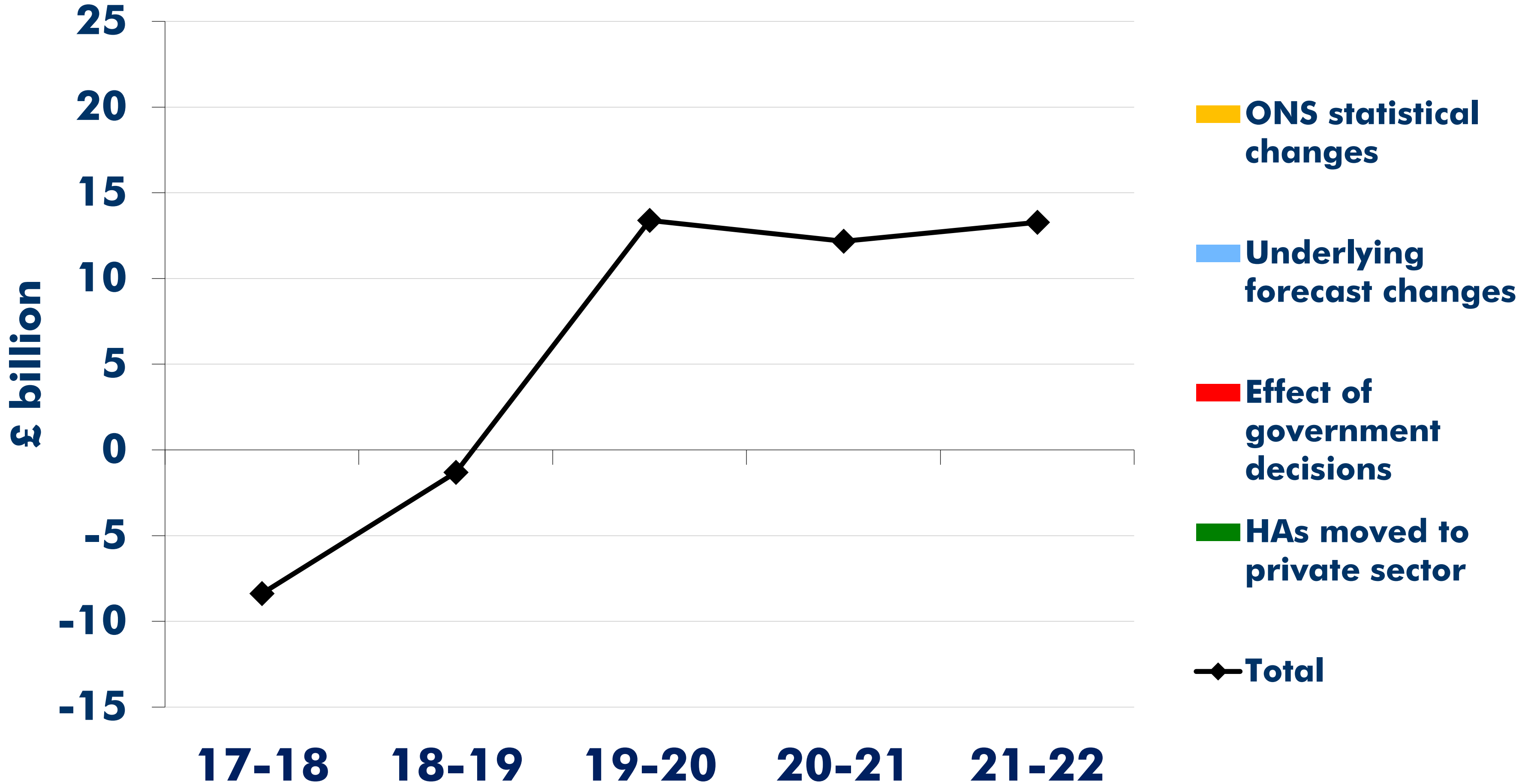
Change in net borrowing



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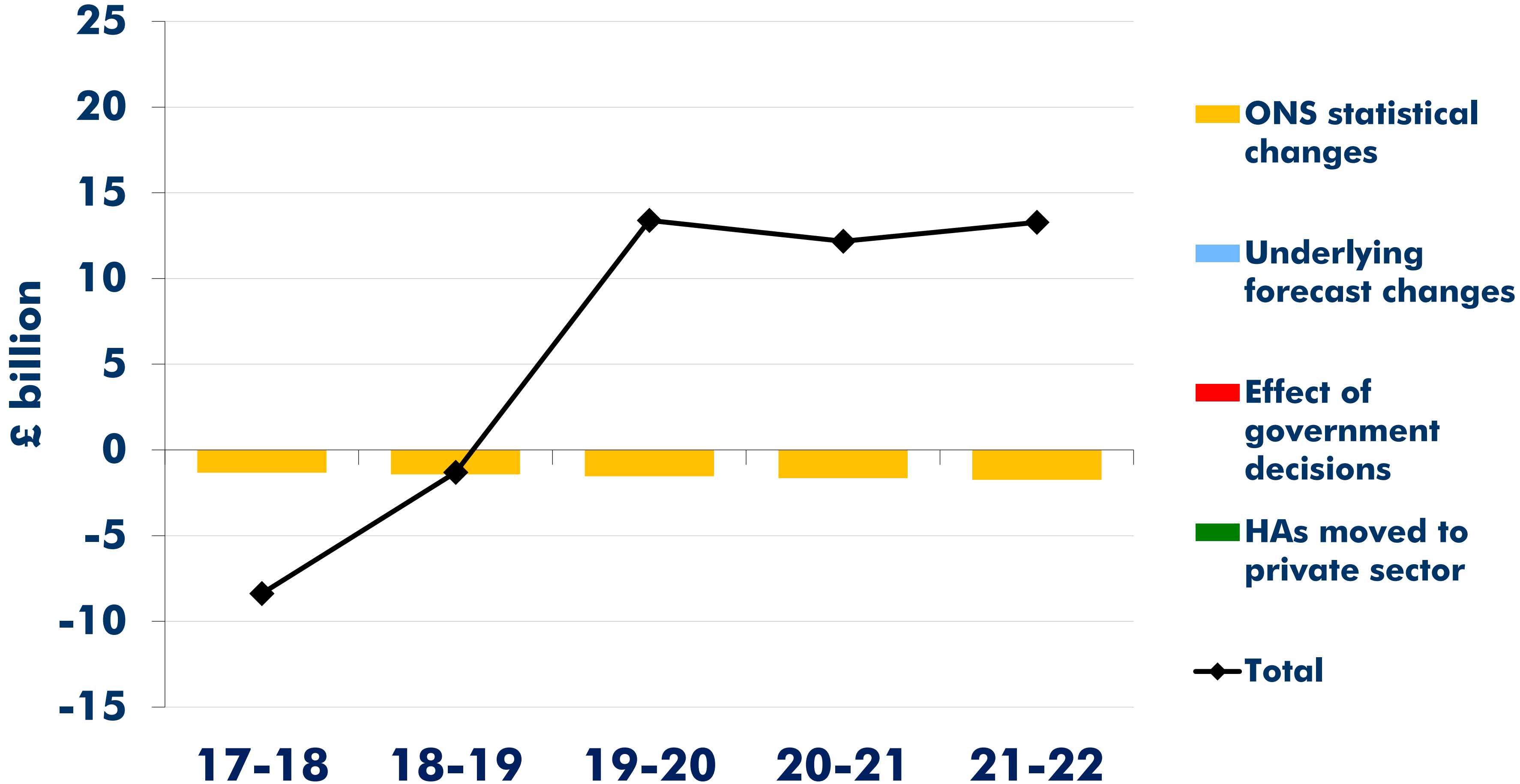

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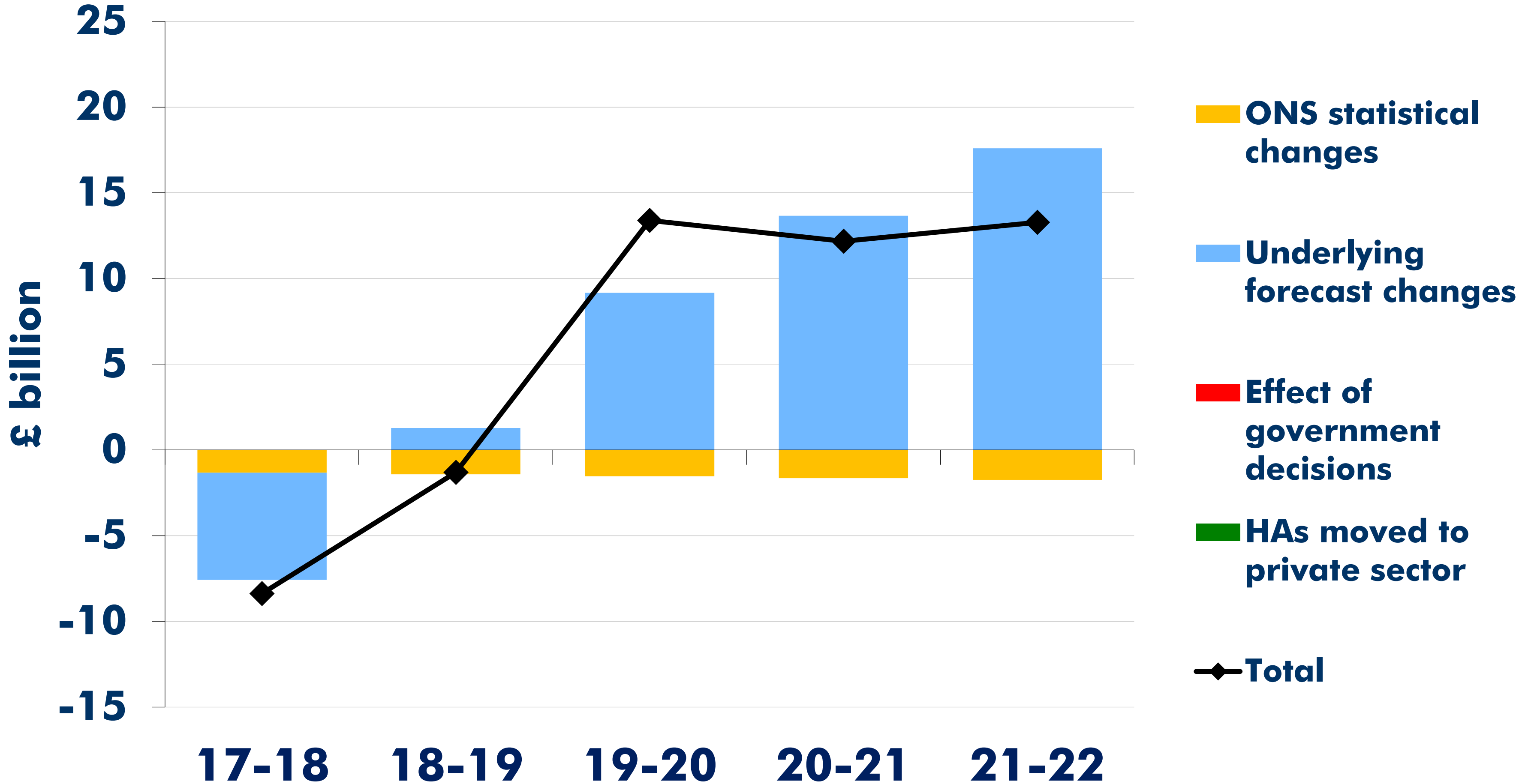

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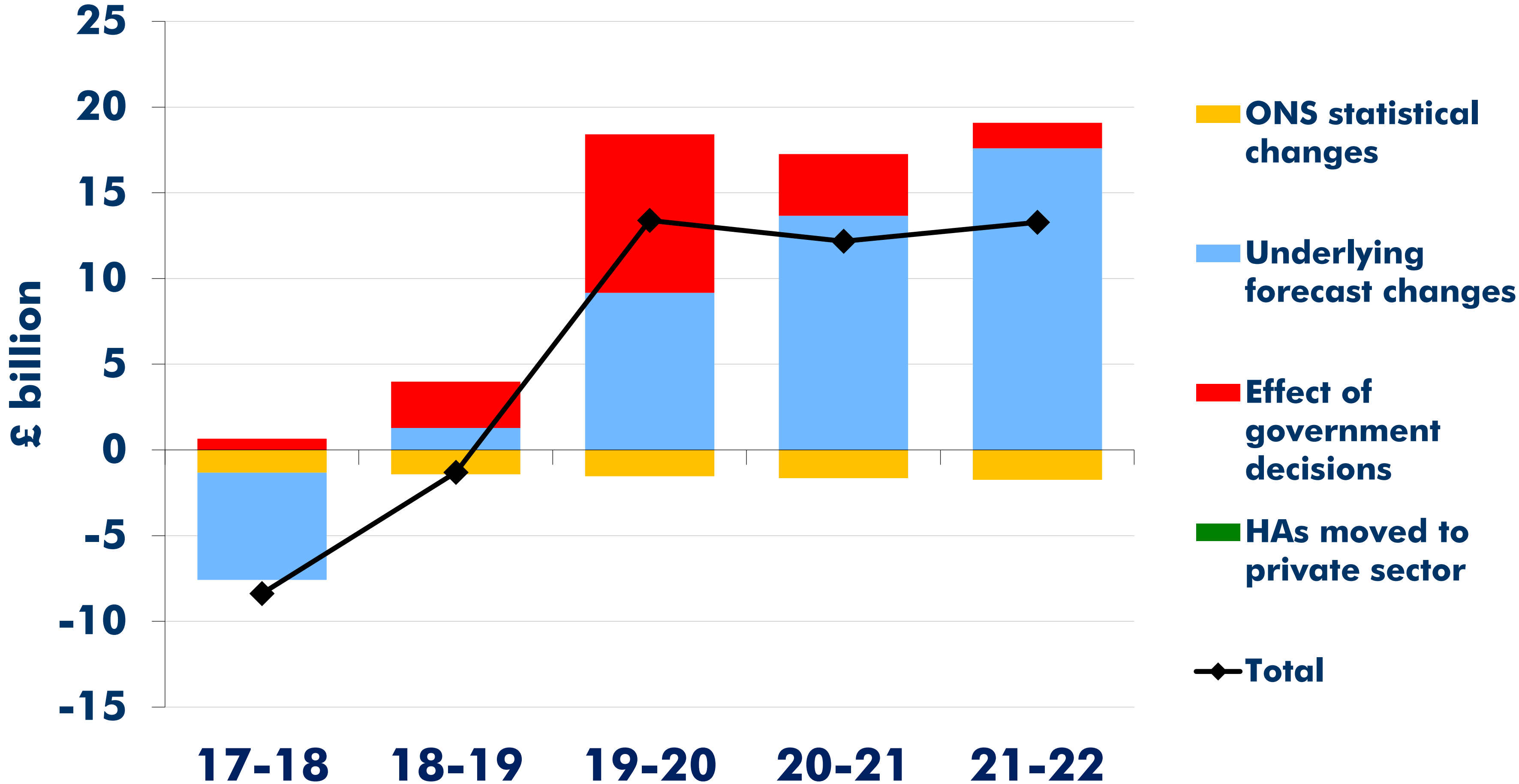

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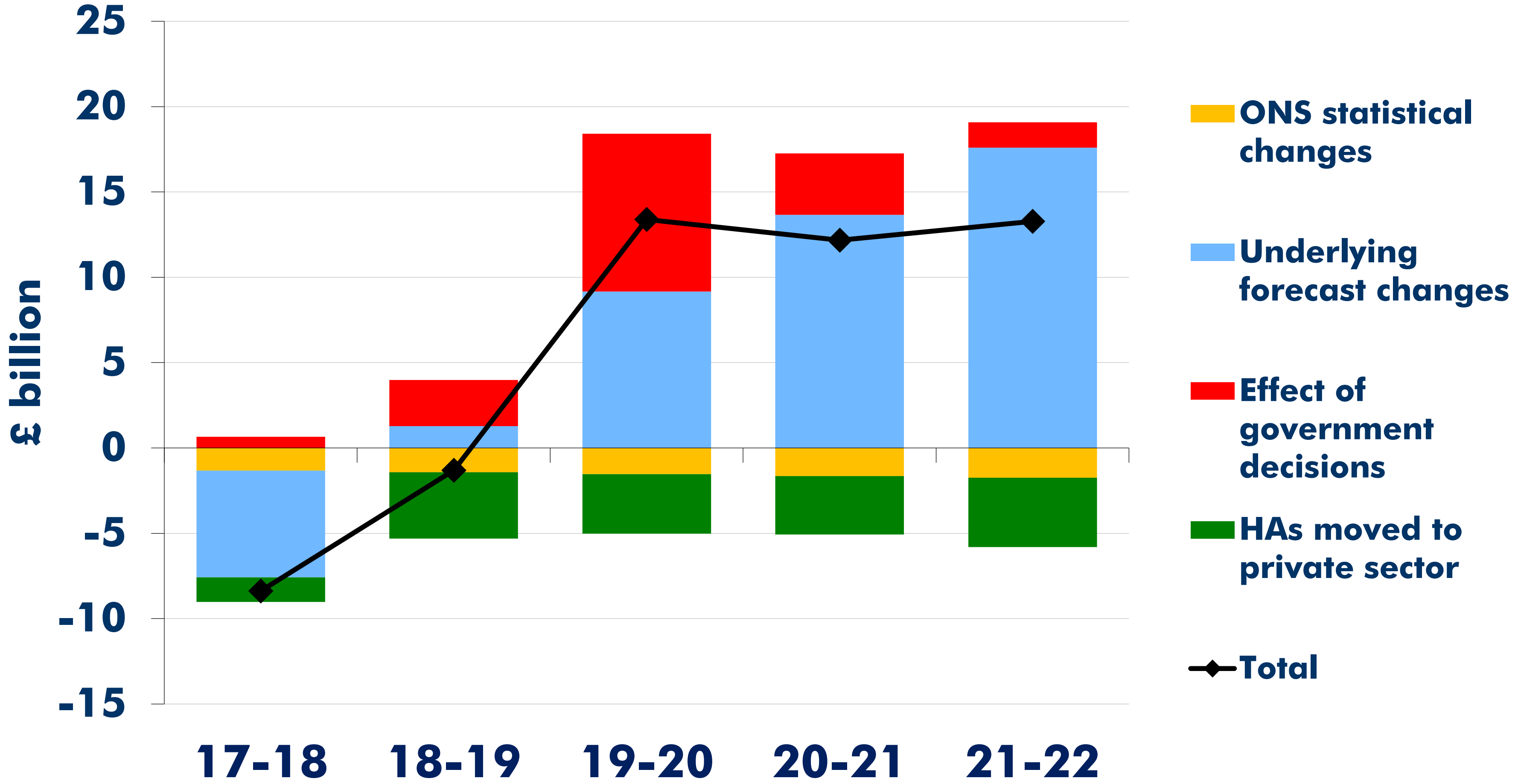
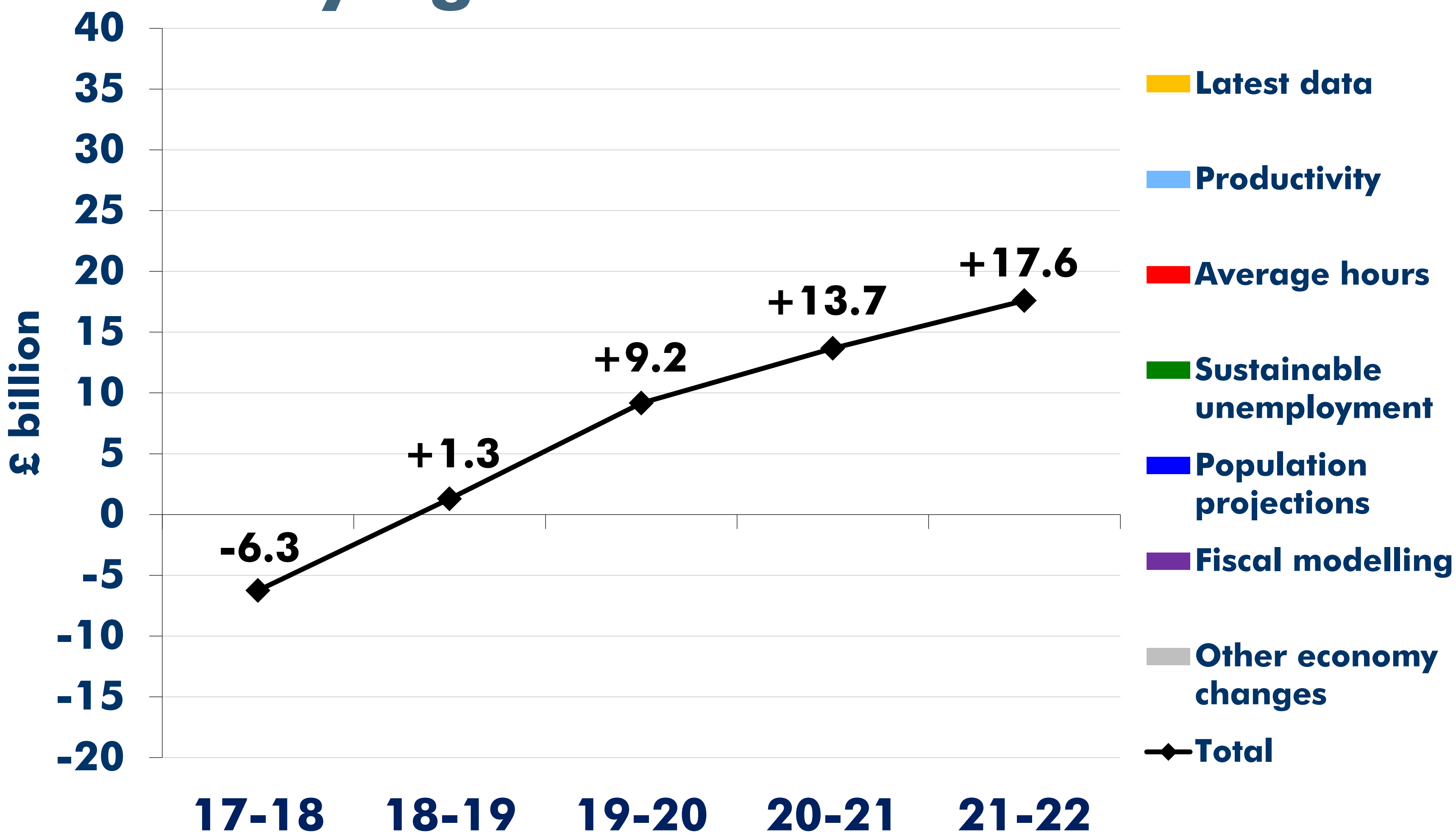


Underlying forecast revisions



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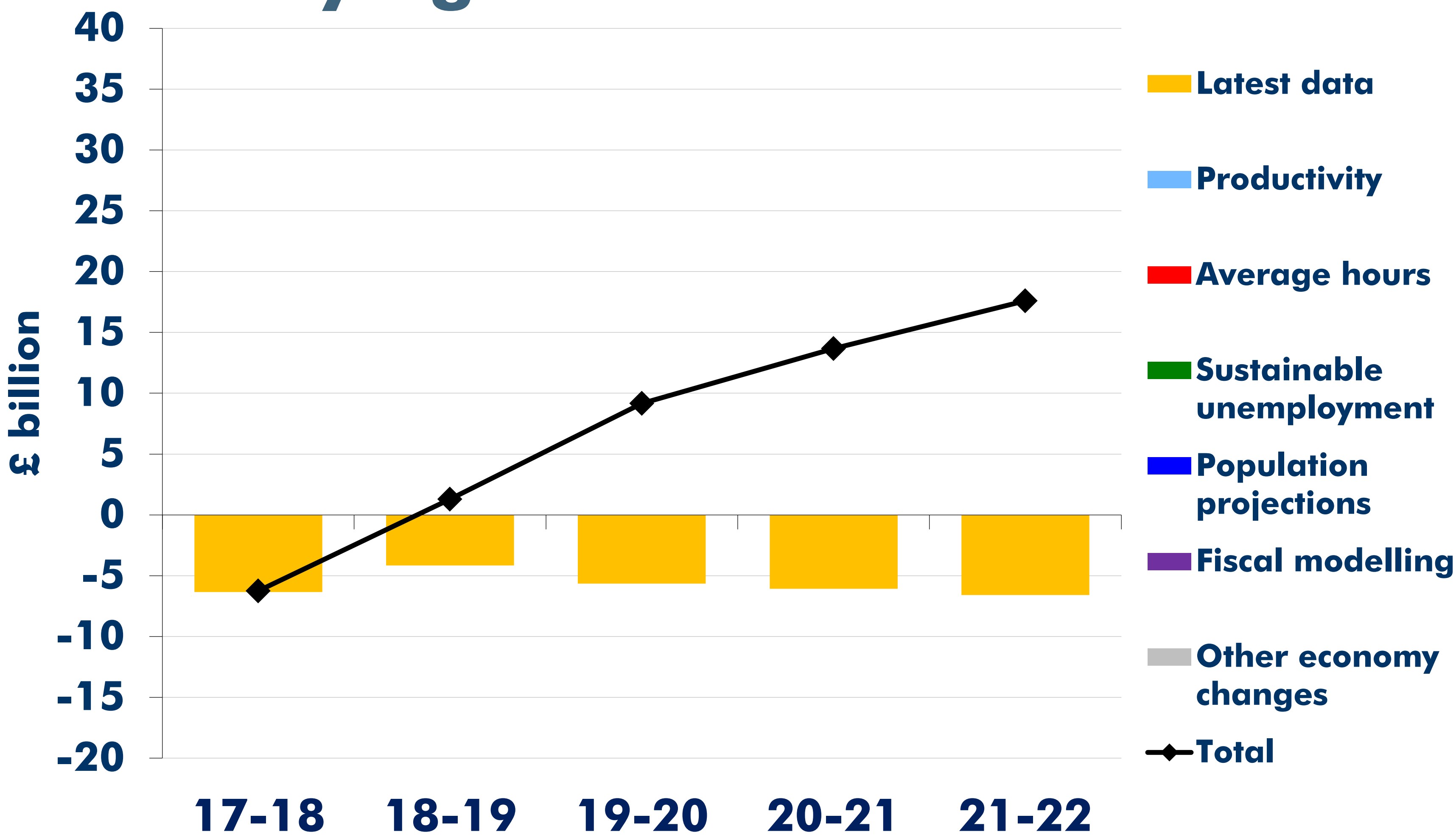

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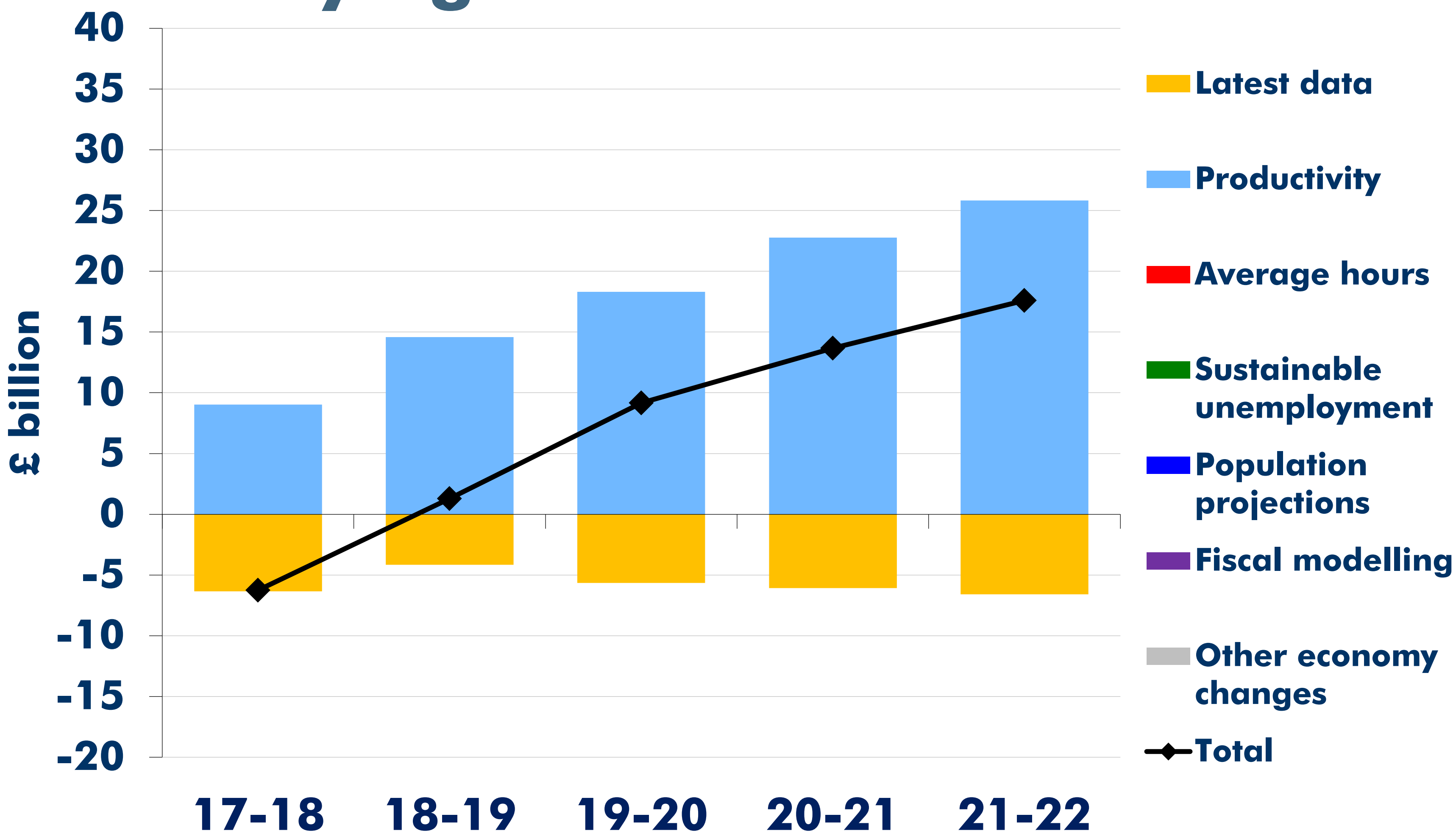

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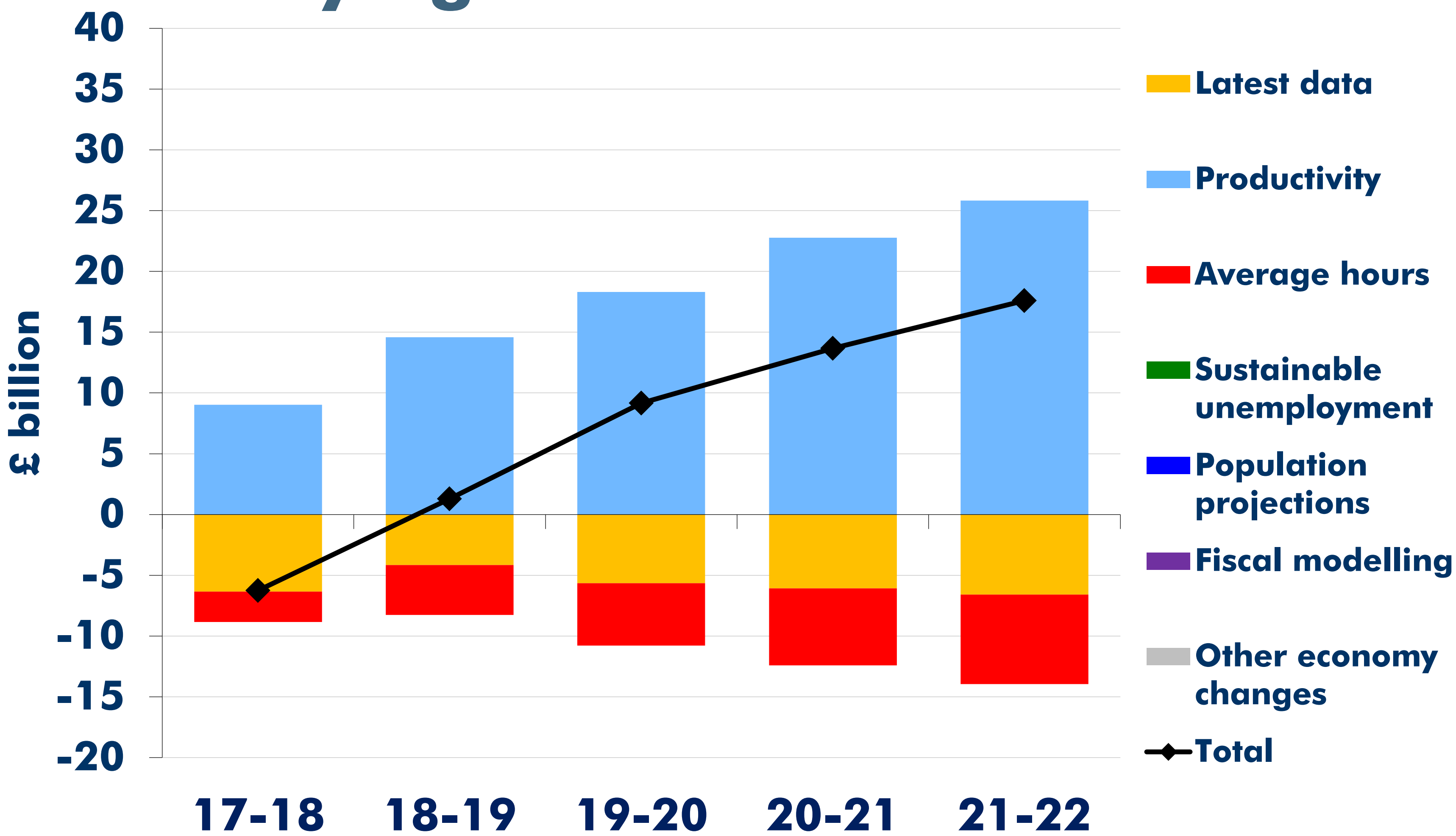

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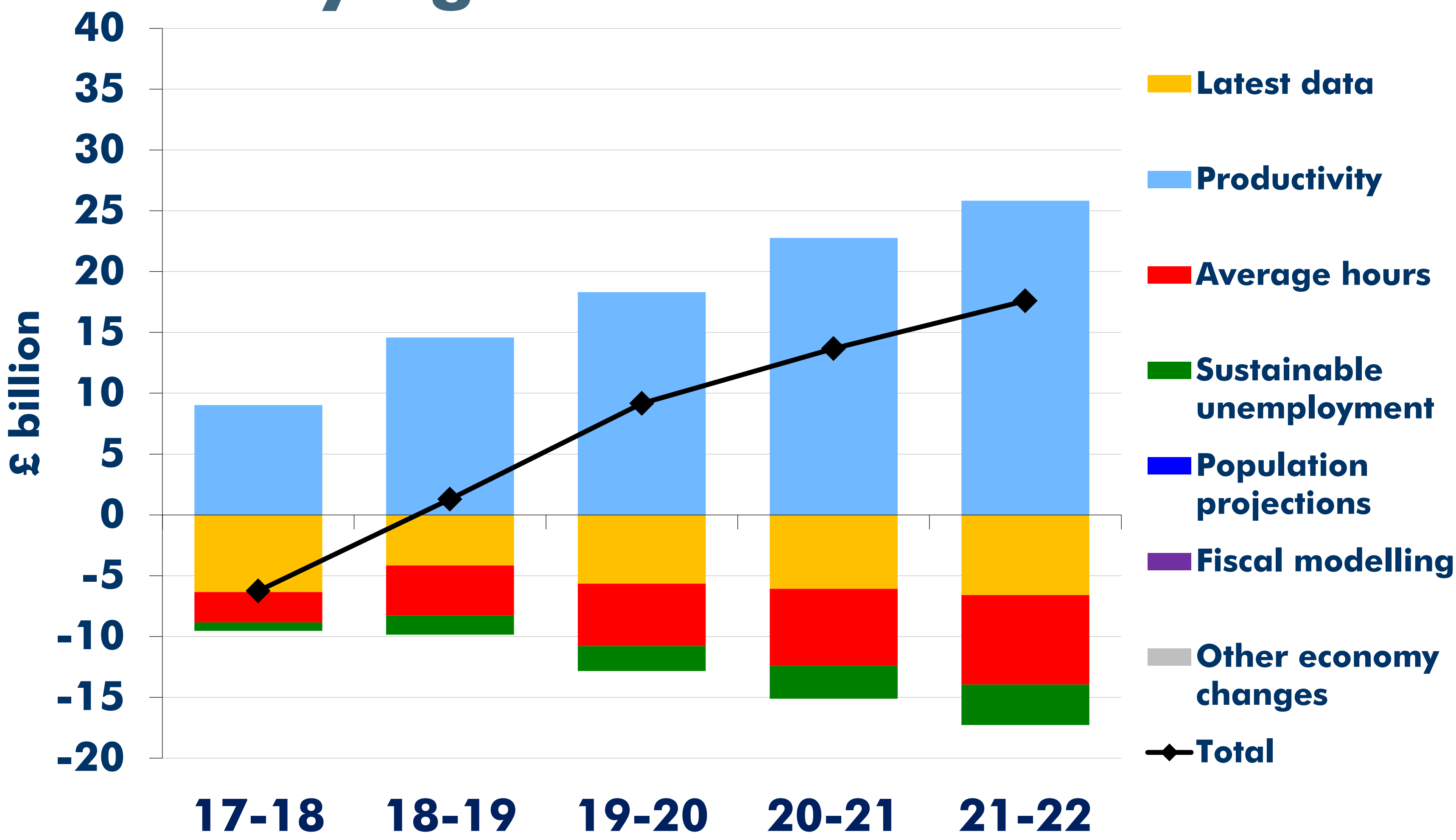

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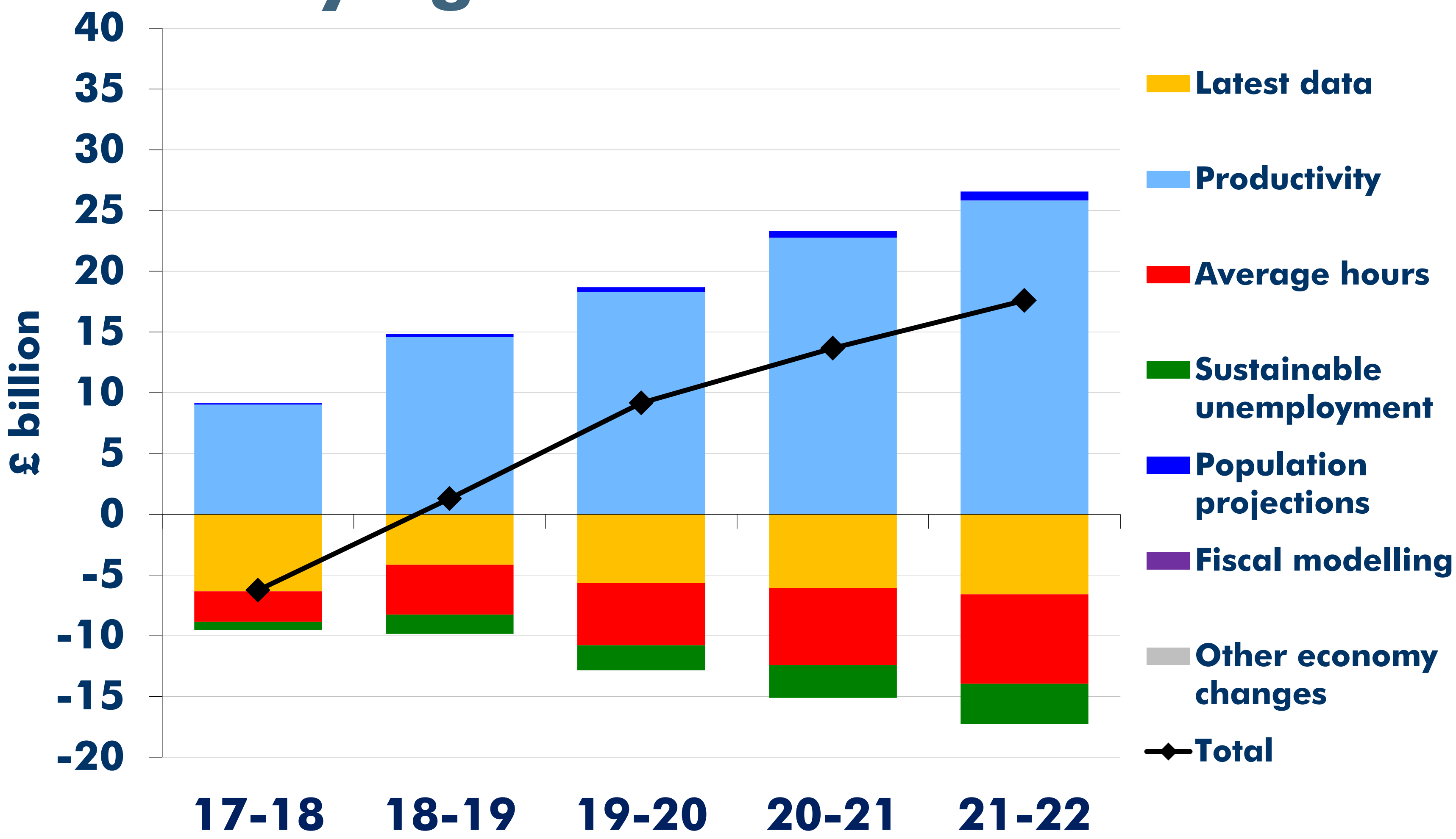

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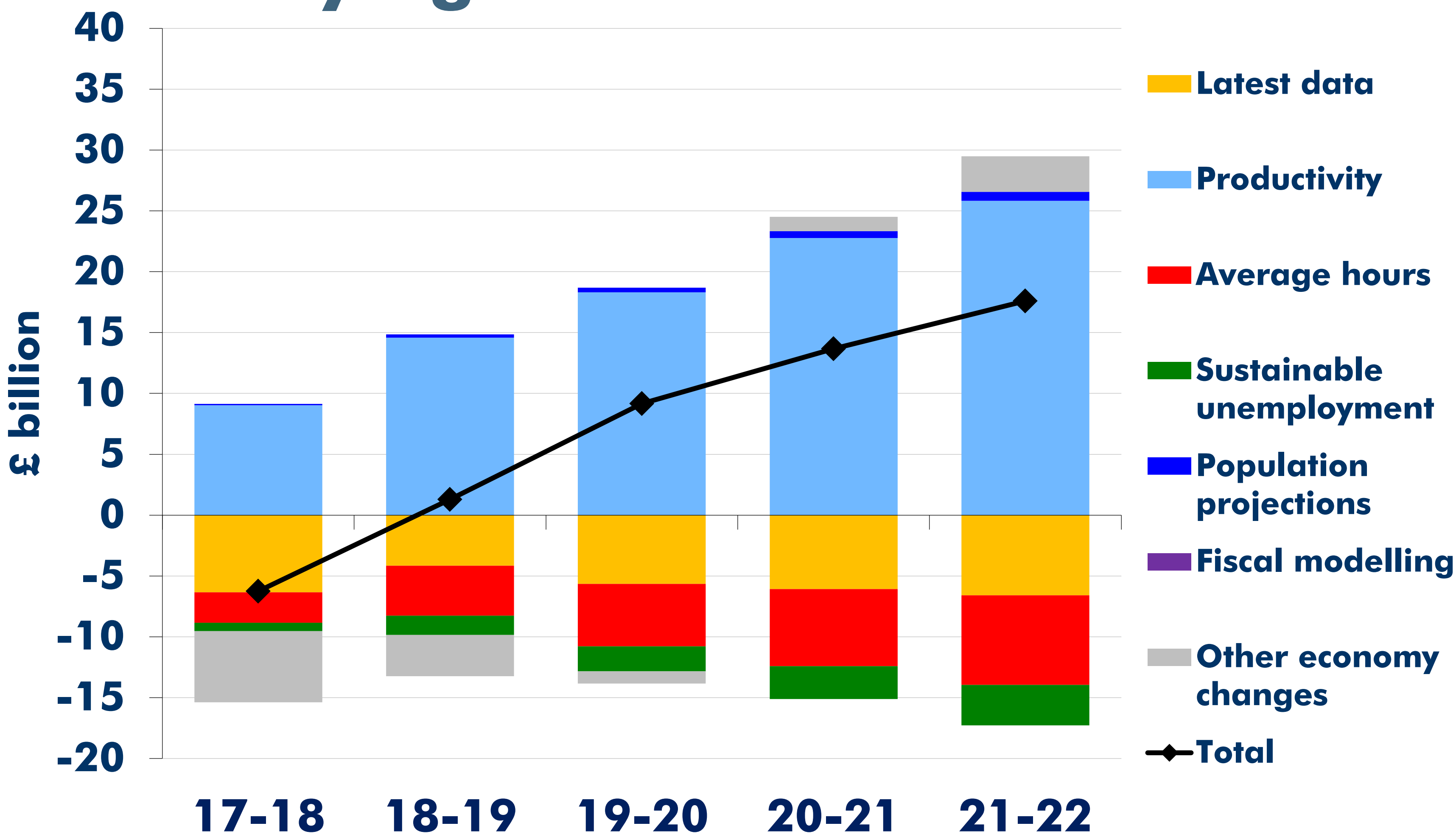

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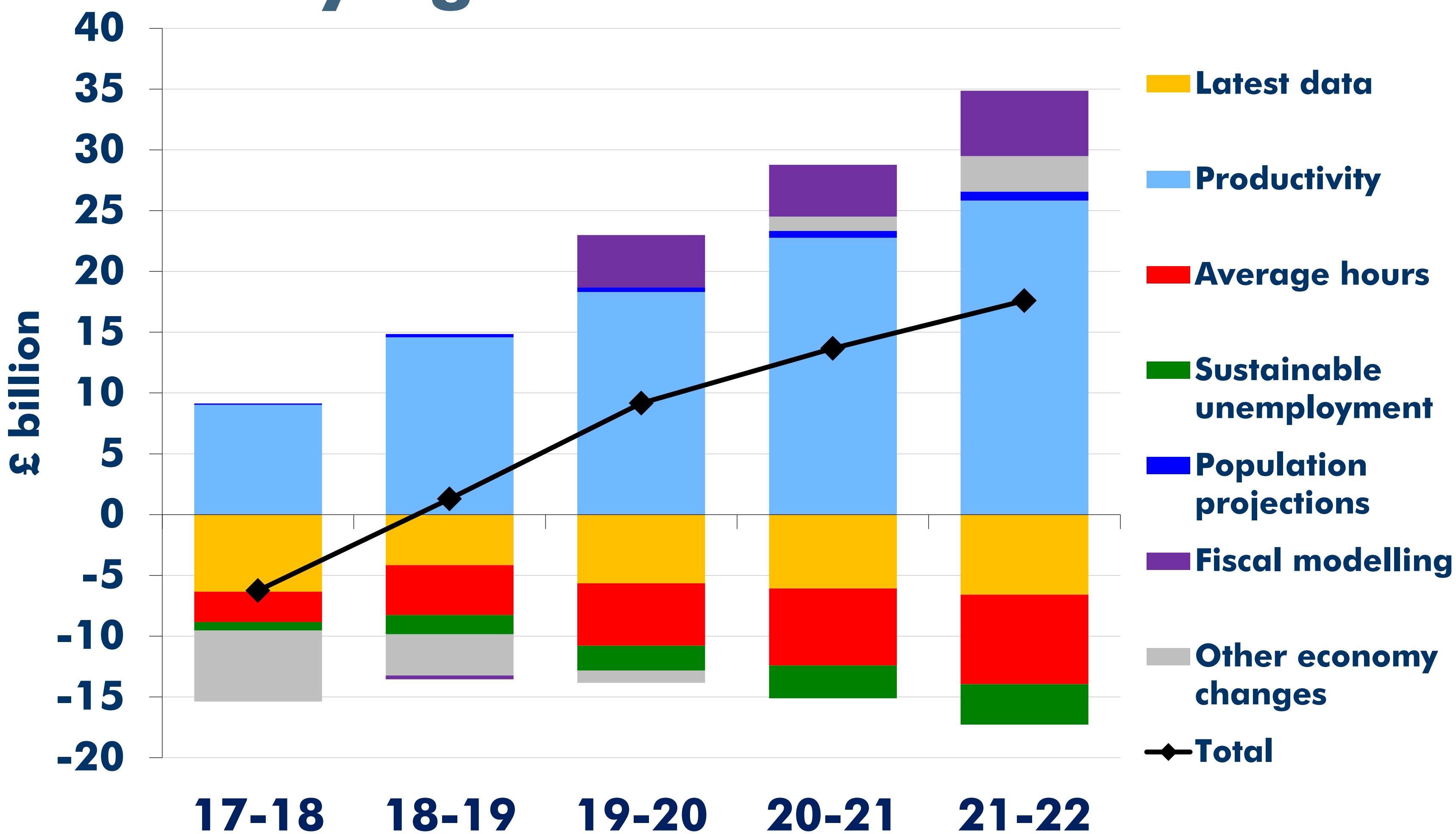
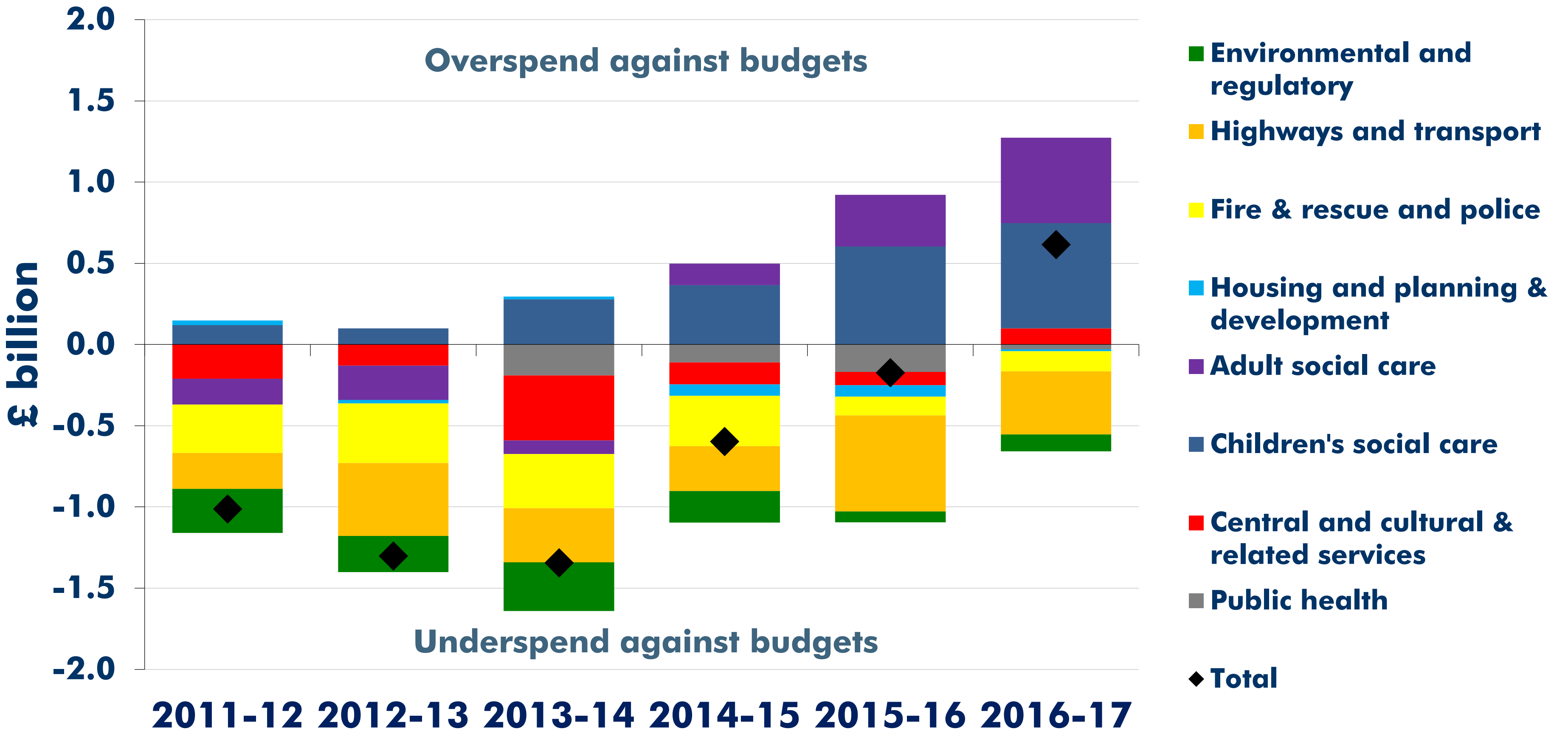
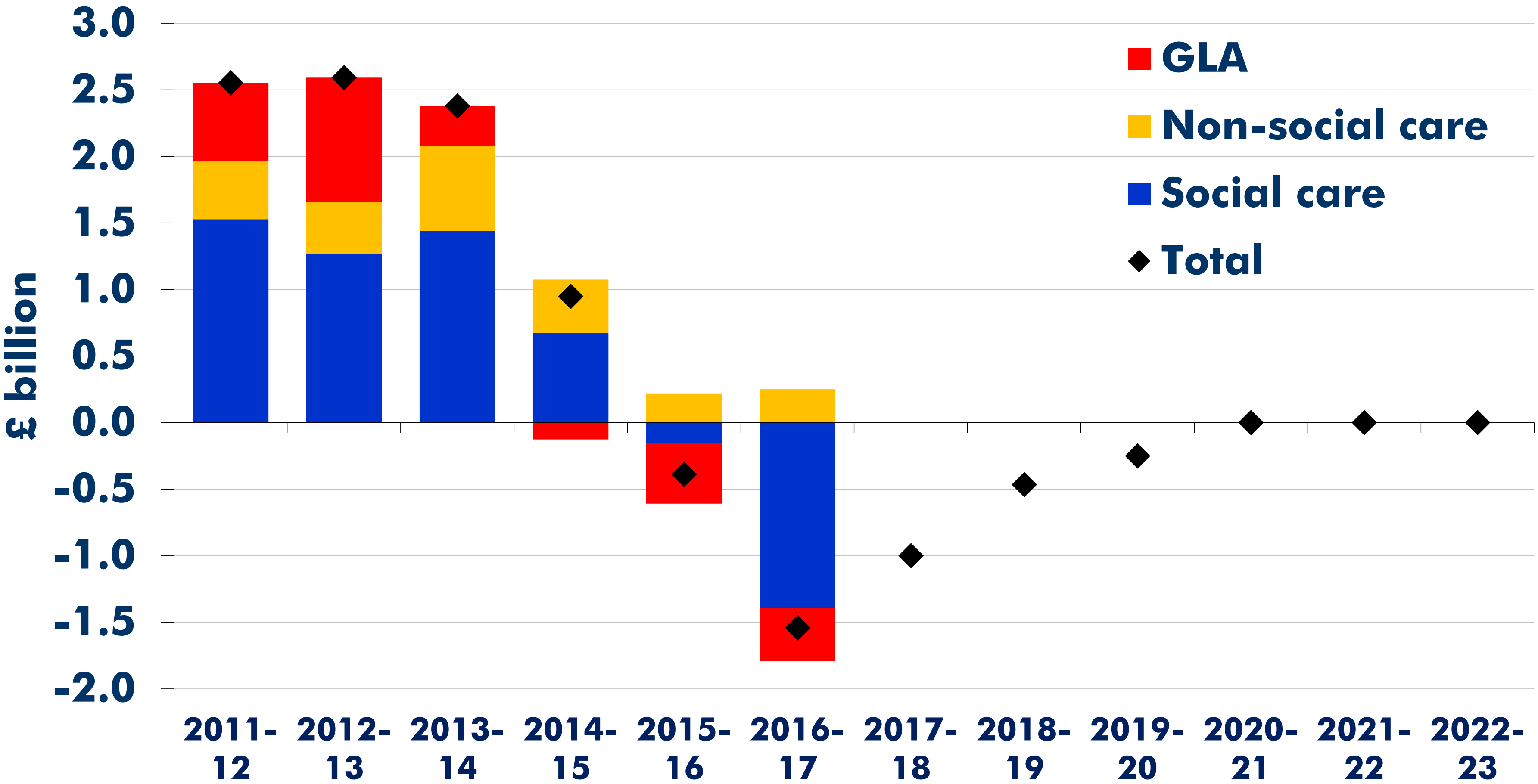


LA current spending vs budgets



*Excludes education spending

Changes to LA reserves



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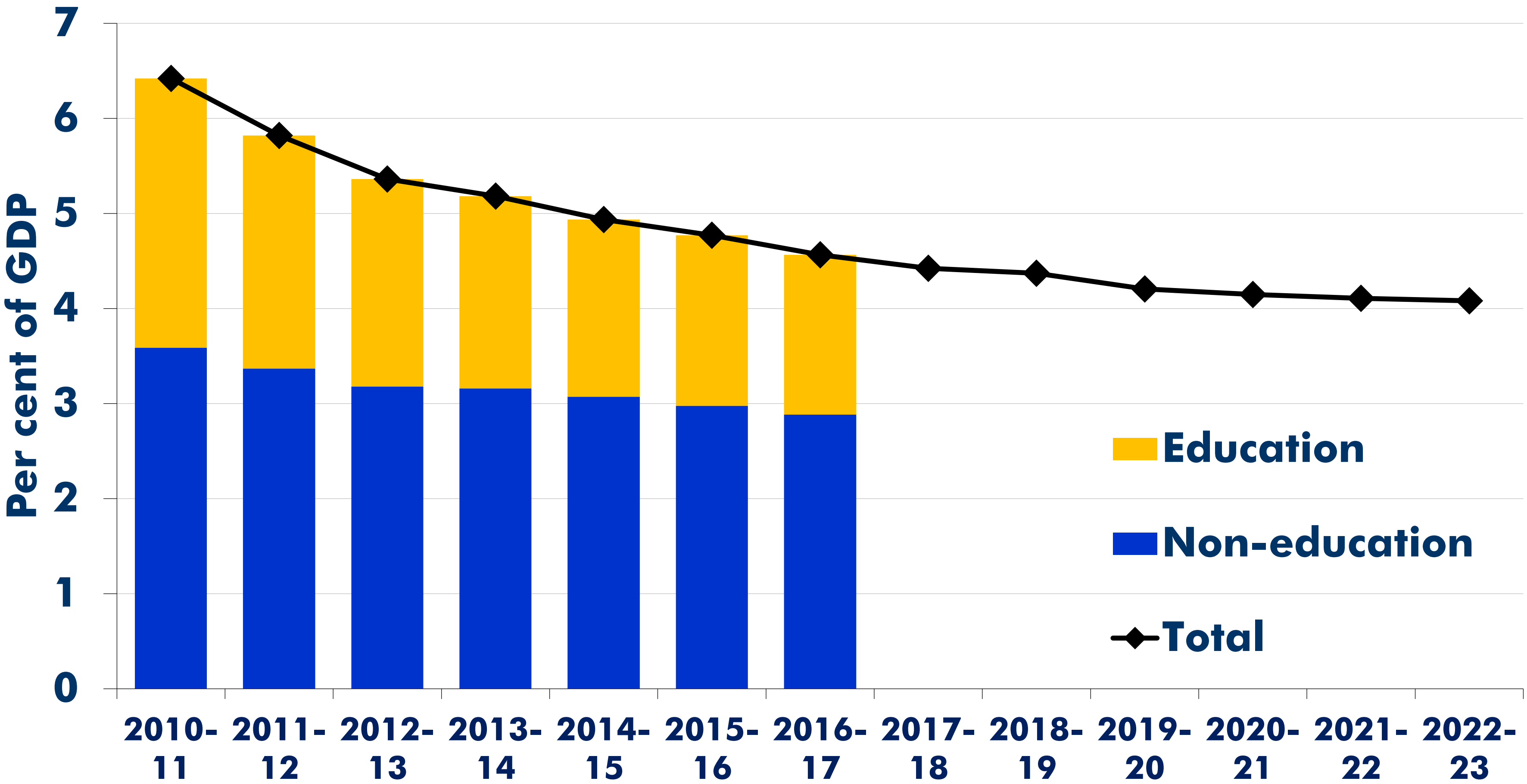
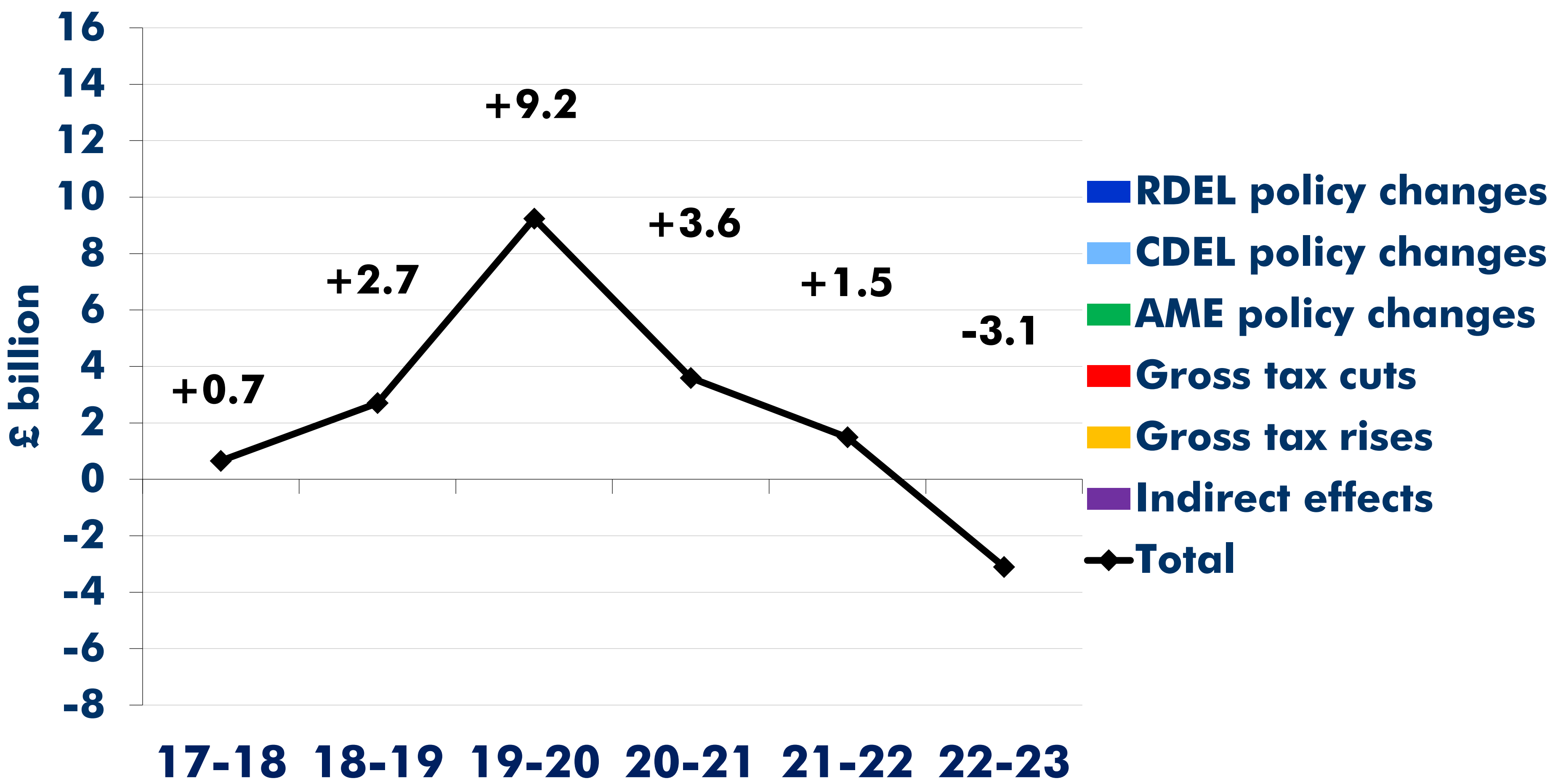
LA current spending



Impact of Budget decisions



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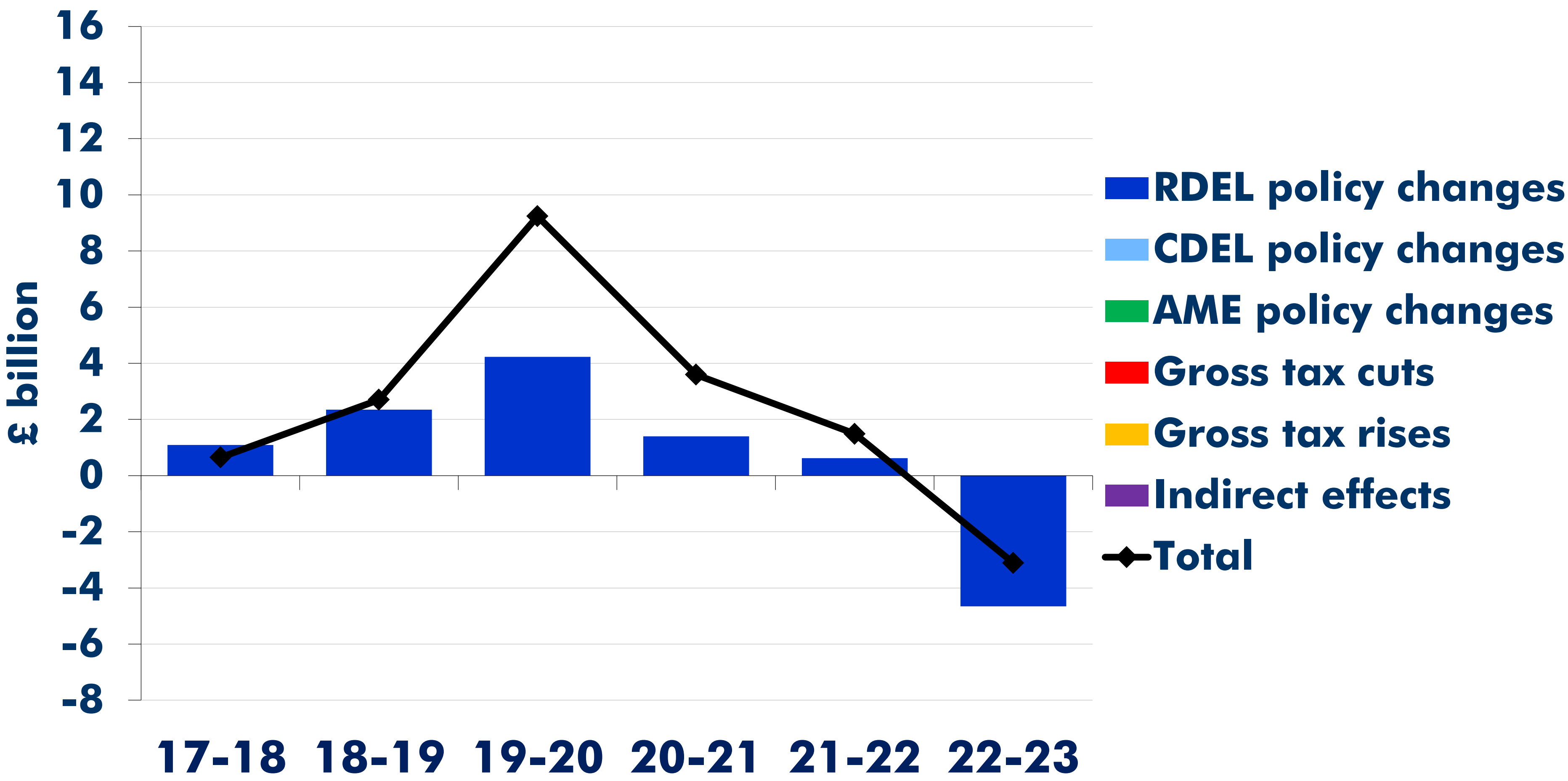
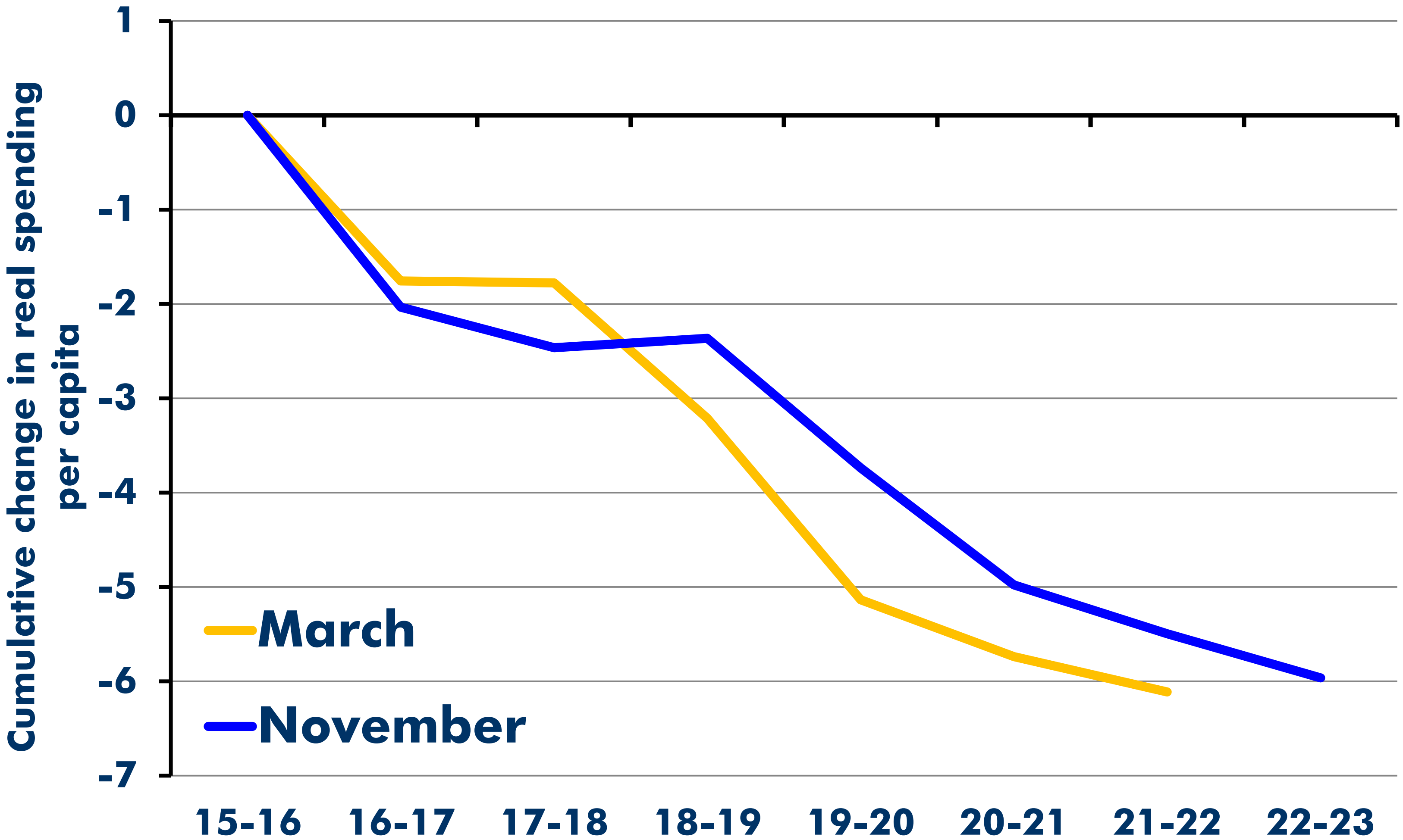
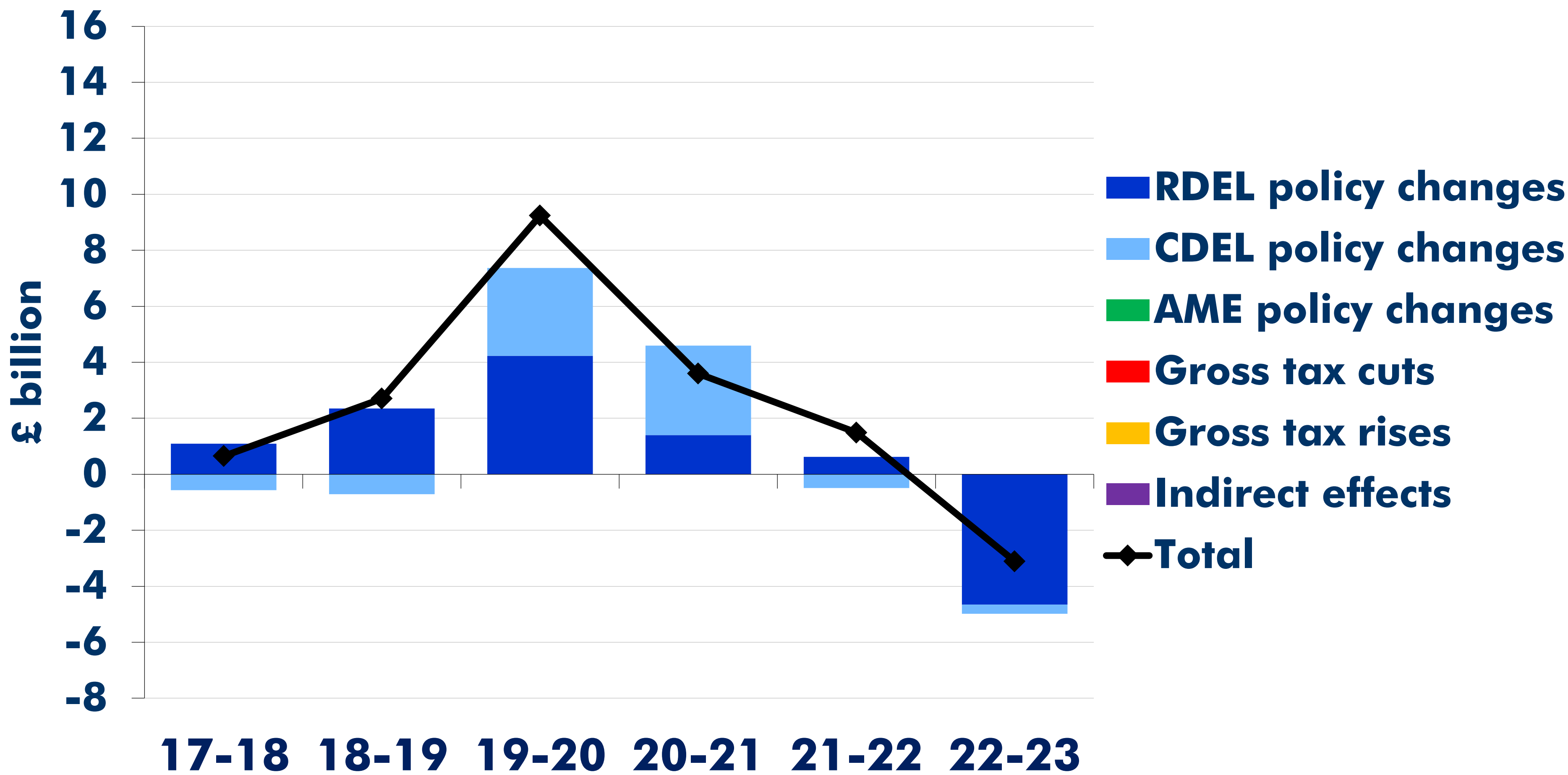


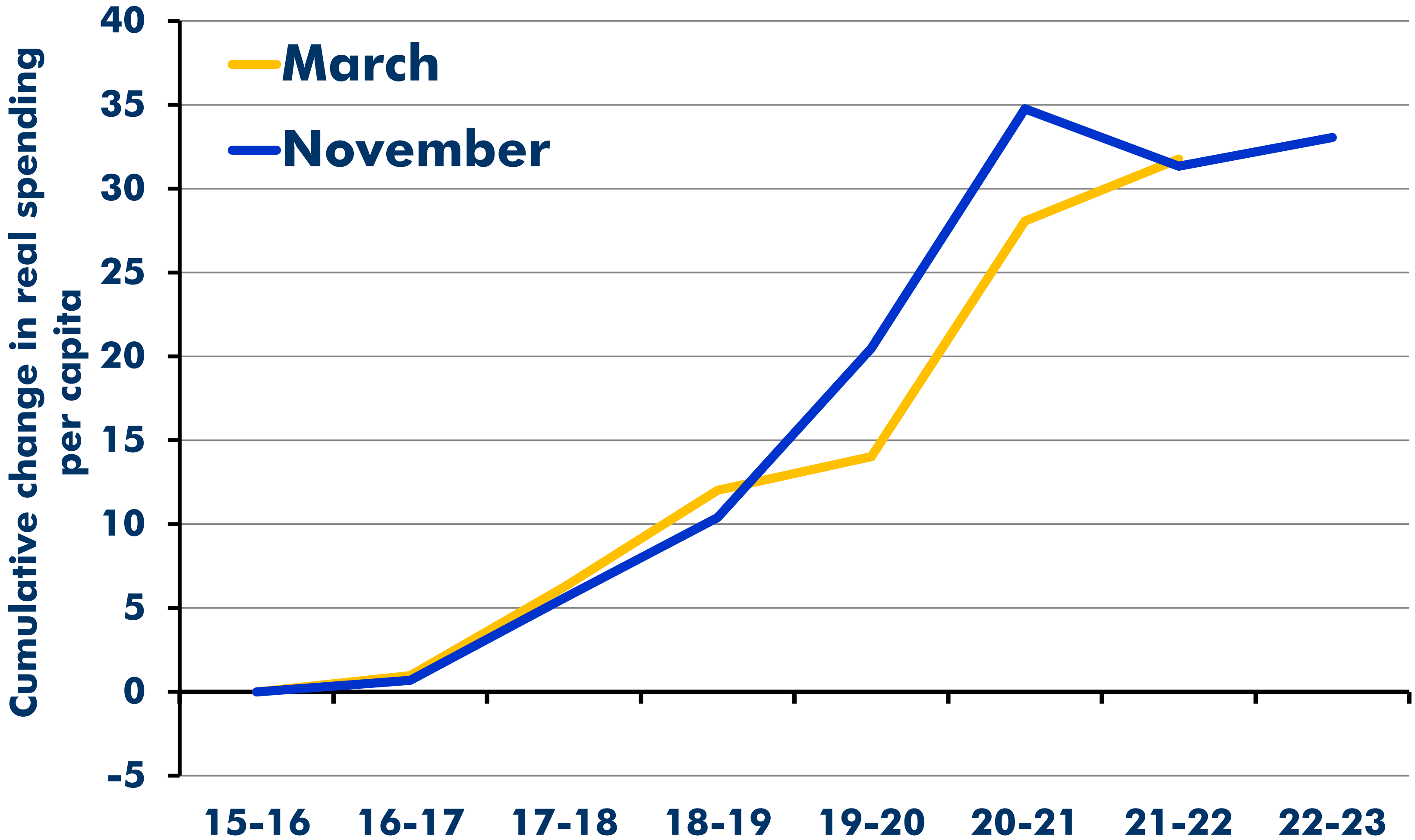
Profile of resource spending



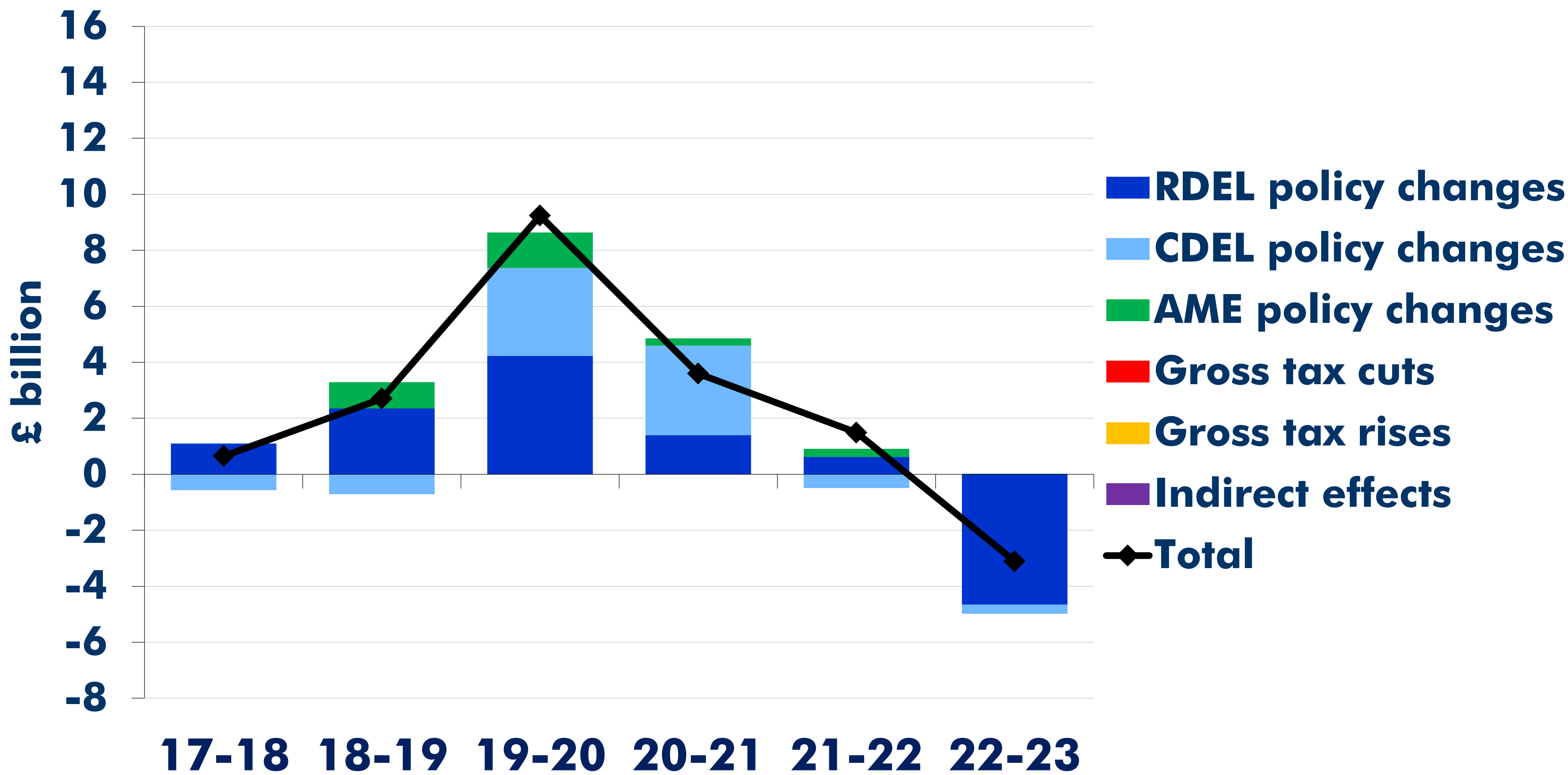
Impact of Budget decisions



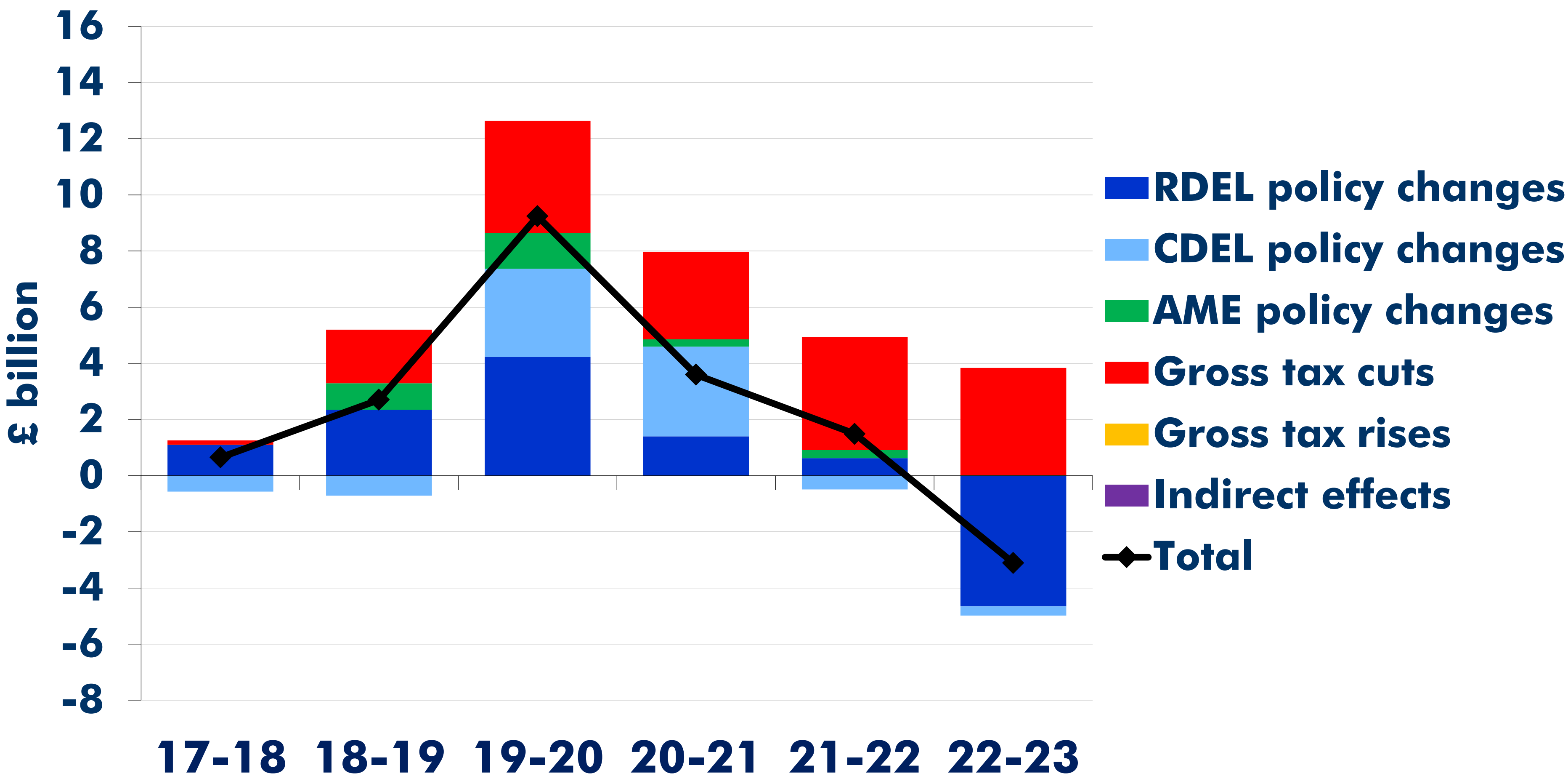
Profile of capital spending



Impact of Budget decisions



Impact of Budget decisions



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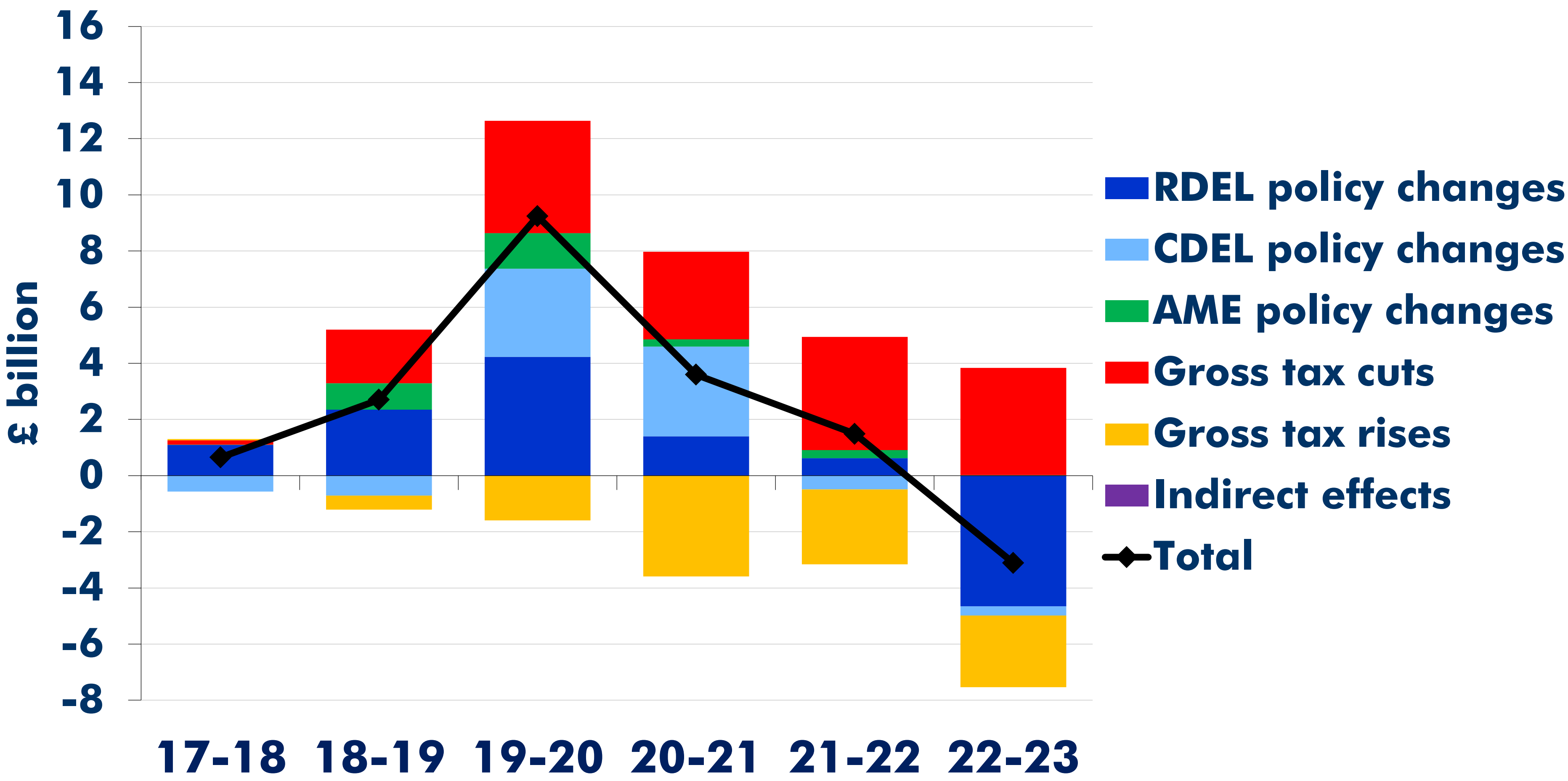

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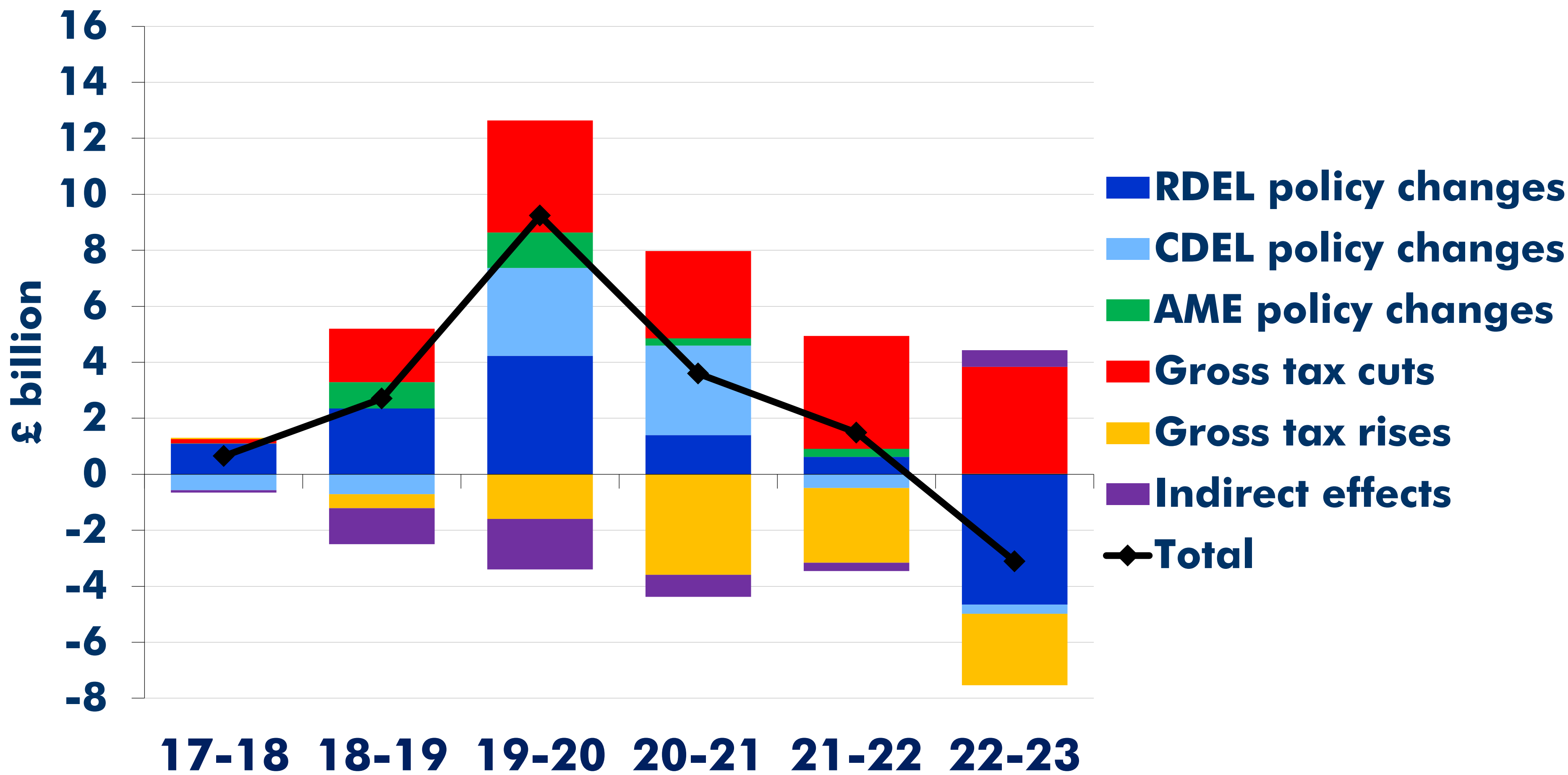
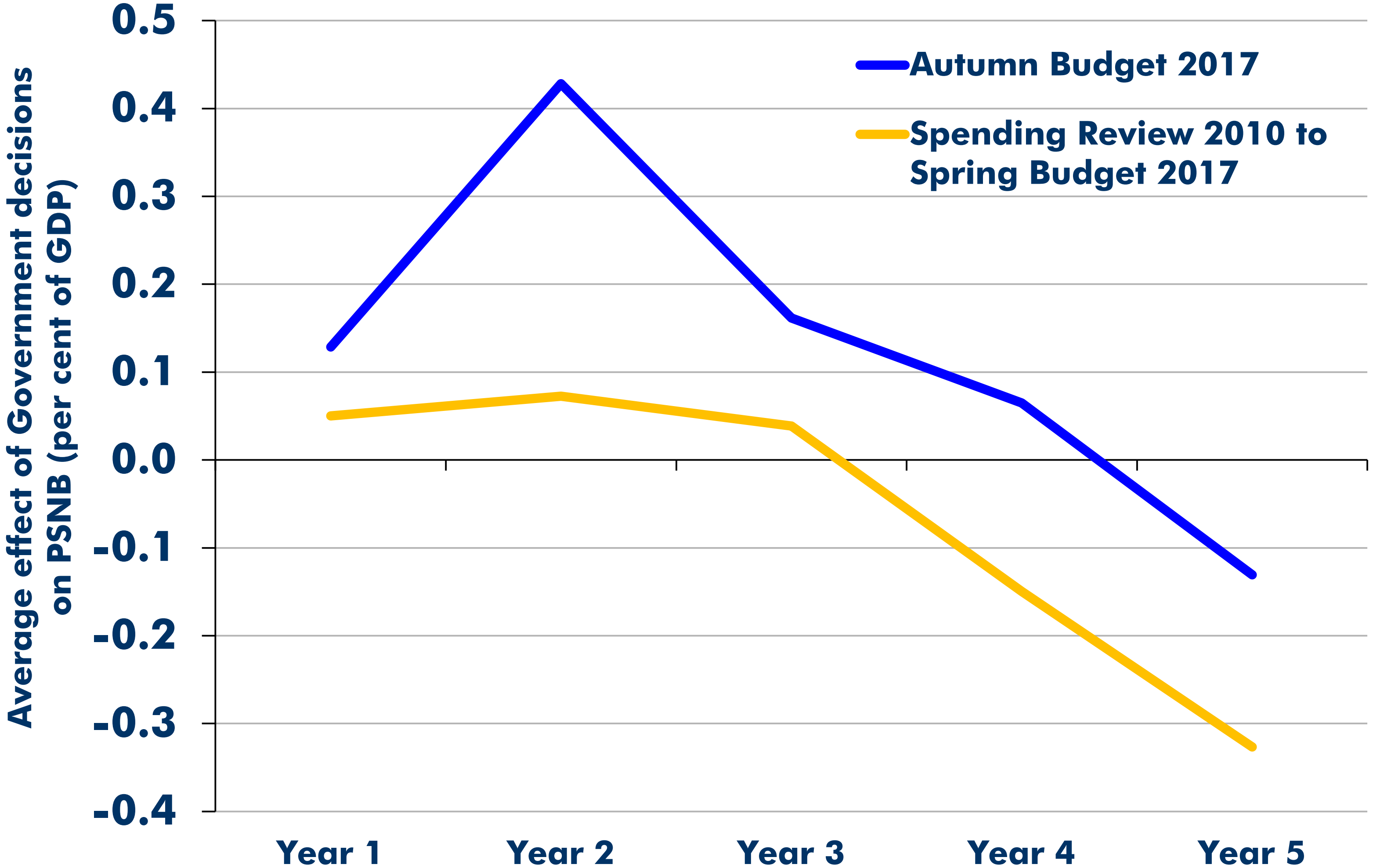
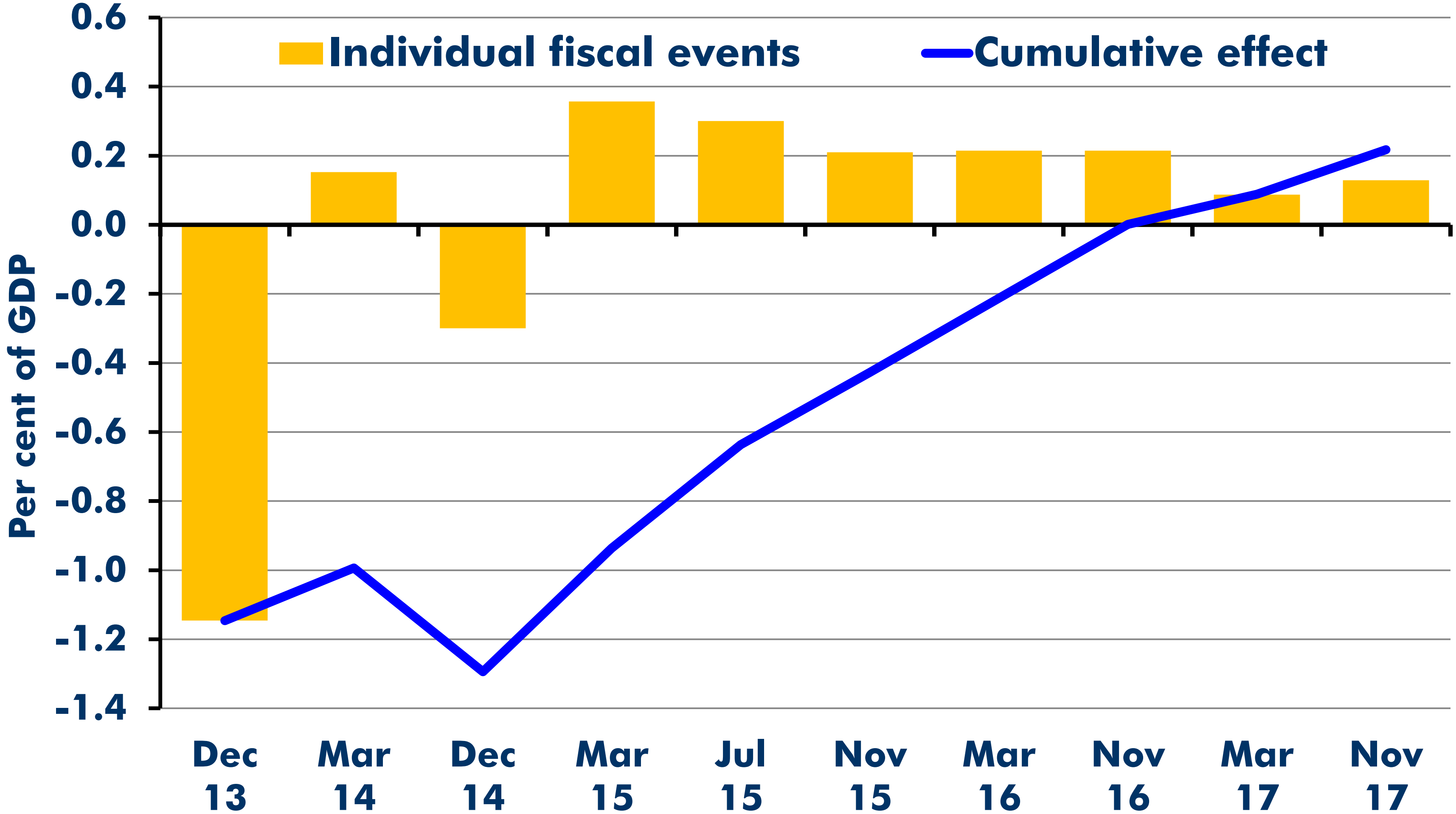


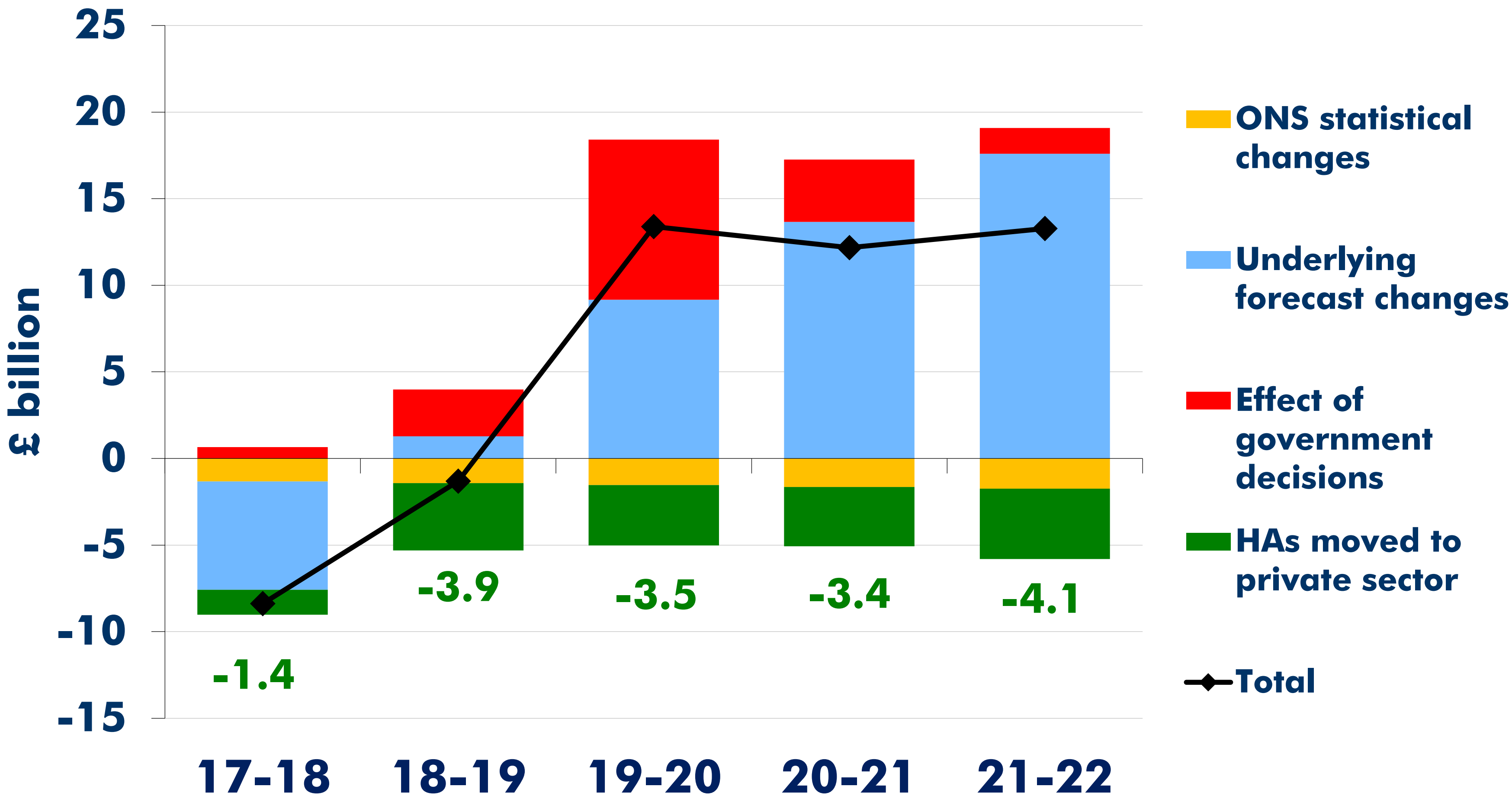
St Augustine rides again



Impact of policy decisions: 2018-19



Change in net borrowing



HA classification

“The fundamental question is ‘does government exercise significant control over the general corporate policy of the unit?’
The difference between the public and private sectors is determined by where control over the organisation lies, rather than by ‘ownership’ or whether or not the entity is financed from public funds.”

(Office for National Statistics)

DCLG on reclassification I

"Today we're [sic] reclassifying housing associations, taking them out of the public sector and off the government's balance sheet.

I know it sounds like a piece of bureaucratic box-ticking. But the results will be far-reaching. Freed from the distractions of the public sector, housing associations will be able to concentrate on developing innovative ways of doing their business, which is what matters most: building more homes".

(DCLG SoS, 16 November)

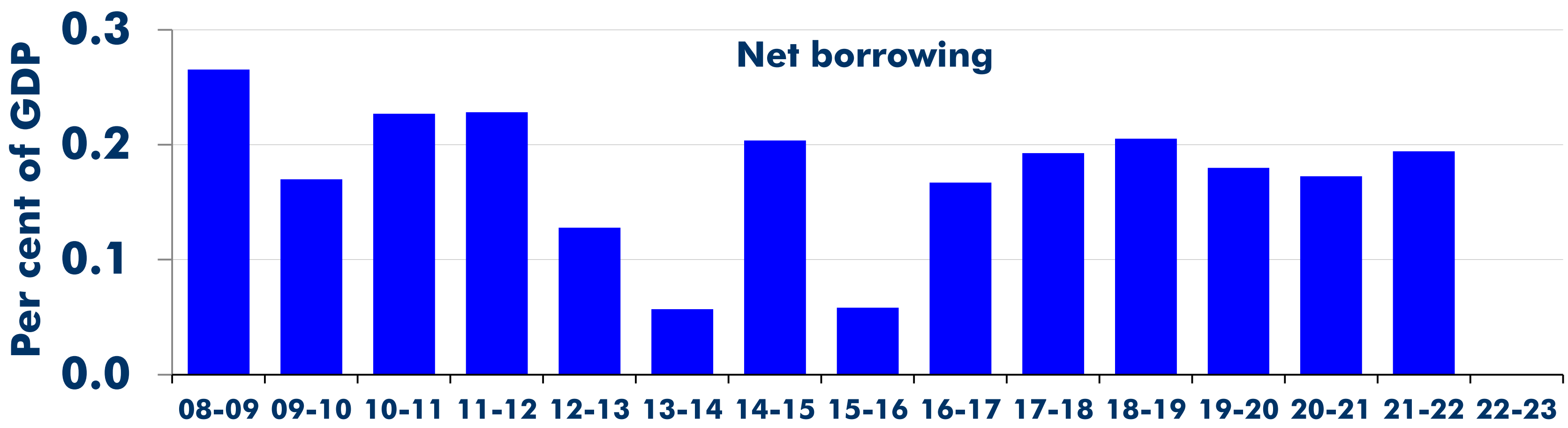
DCLG on reclassification II

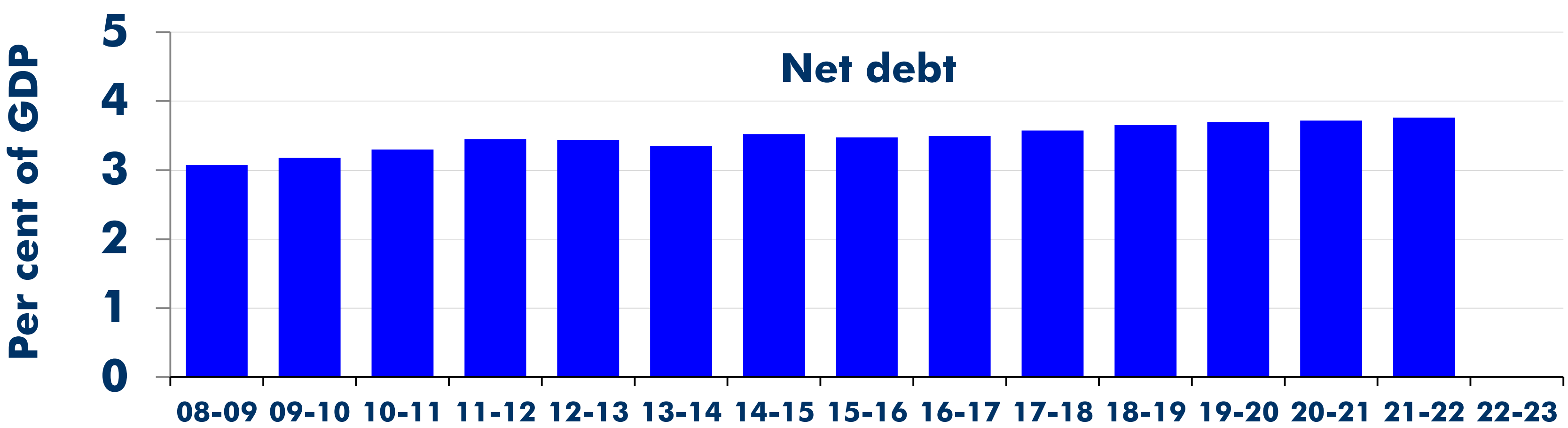
"The only reason these regulations have been introduced is to seek ONS to reclassify housing associations to the private sector.

In preparing [them], we have ensured that these only go as far as we have to, to reclassify housing associations… Local authorities remain able to influence housing associations through the various contracts and other agreements jointly negotiated."

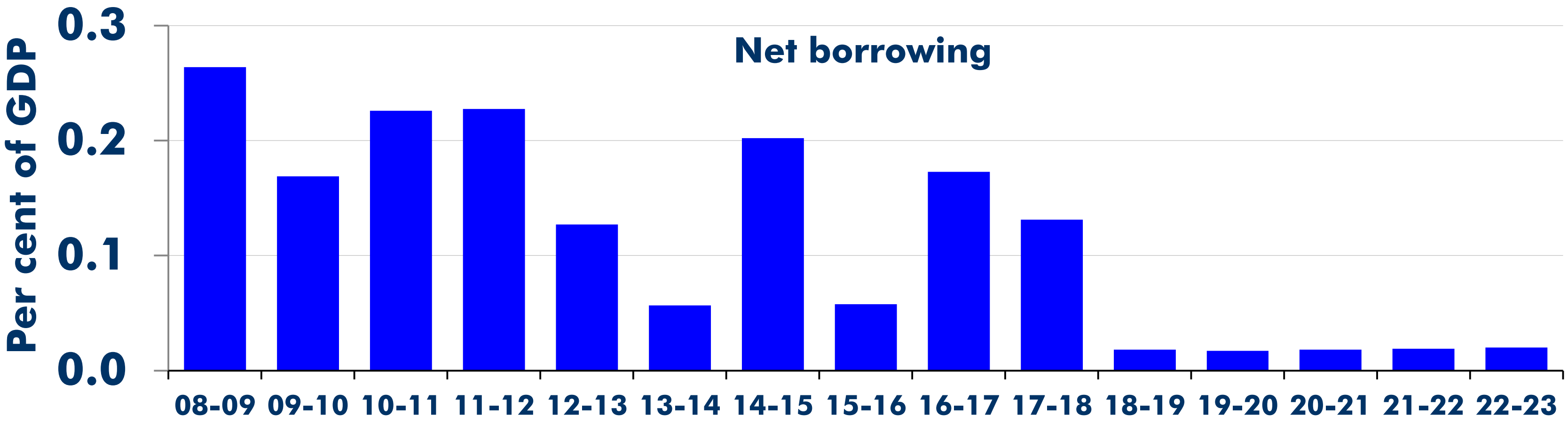
(DCLG written evidence to HoL, Sept/Oct)

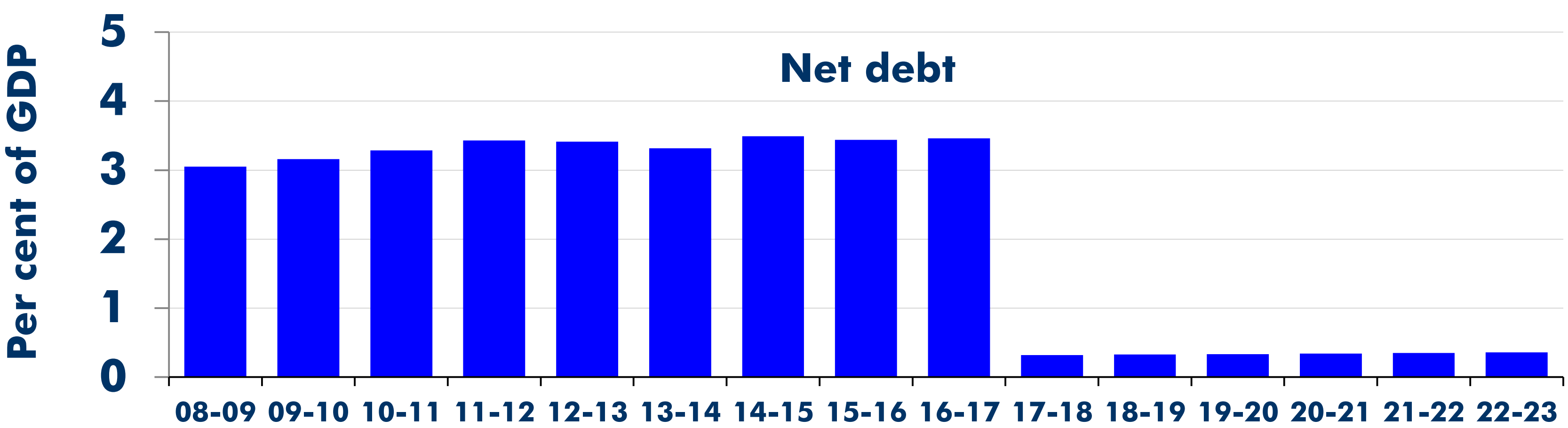
HA impact on public finances (March)





HA impact on public finances (November)





The Government's targets

Performance against the Government's fiscal targets

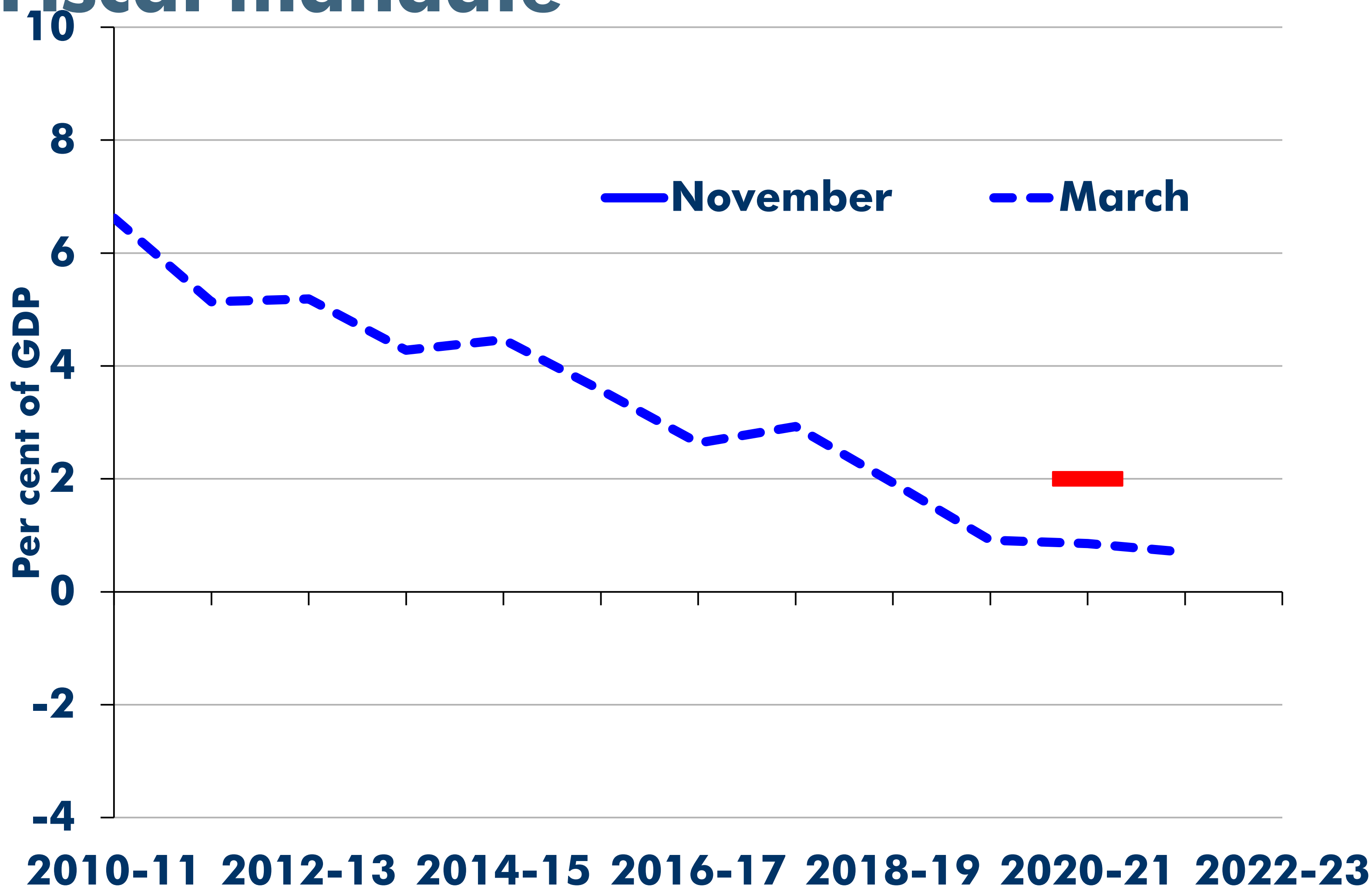
Fiscal mandate:
structural deficit below 2% of GDP in 2020-21

Supplementary target:
debt falls as % GDP in 2020-21

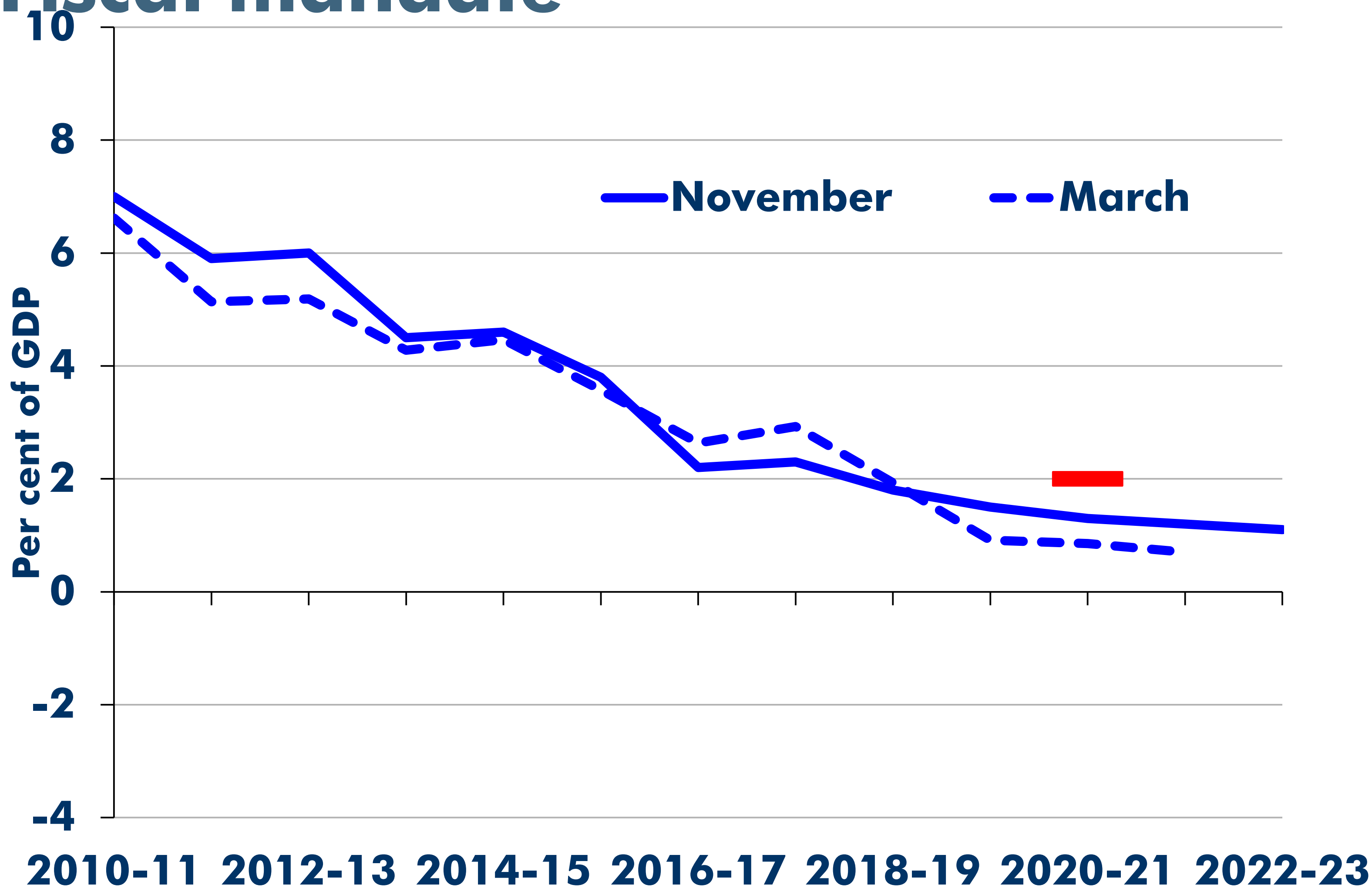
Welfare cap:
spending below cash limit in 2021-22

Fiscal objective:
balance budget by middle of next decade

Fiscal mandate



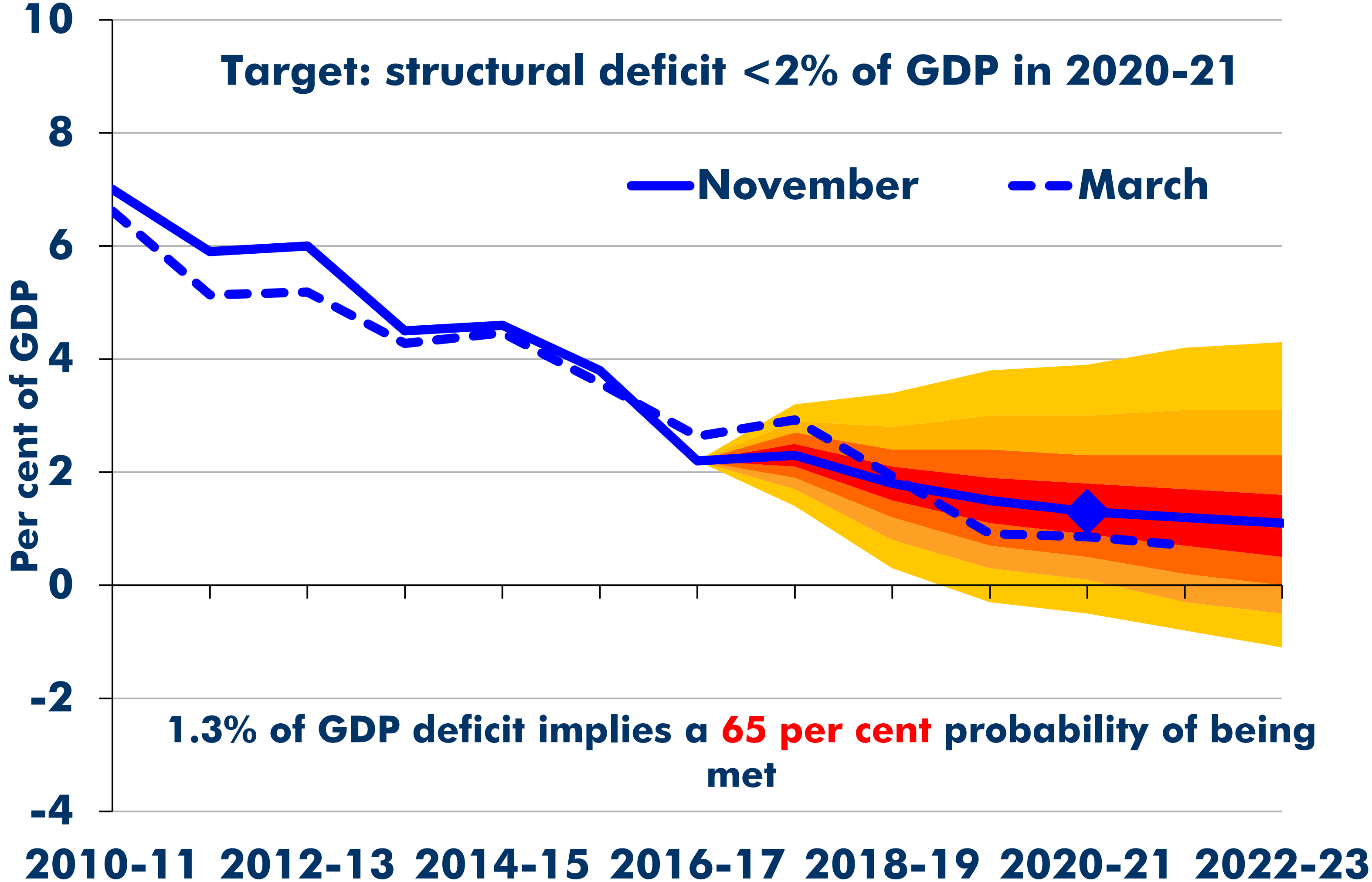
Fiscal mandate



Mandate: room for manoeuvre

	Headline		Like-for-like	
	£bn	%GDP	£bn	%GDP
Margin in March	**25.8**	**1.1**	**30.8**	**1.4**
Reclassification and accounting changes	*+5.1*	*+0.2*		
Underlying forecast changes	*-12.5*	*-0.5*	*-12.5*	*-0.5*
Government decisions	*-3.6*	*-0.2*	*-3.6*	*-0.2*
Margin in November	**14.8**	**0.7**	**14.8**	**0.7**

Fiscal mandate: November



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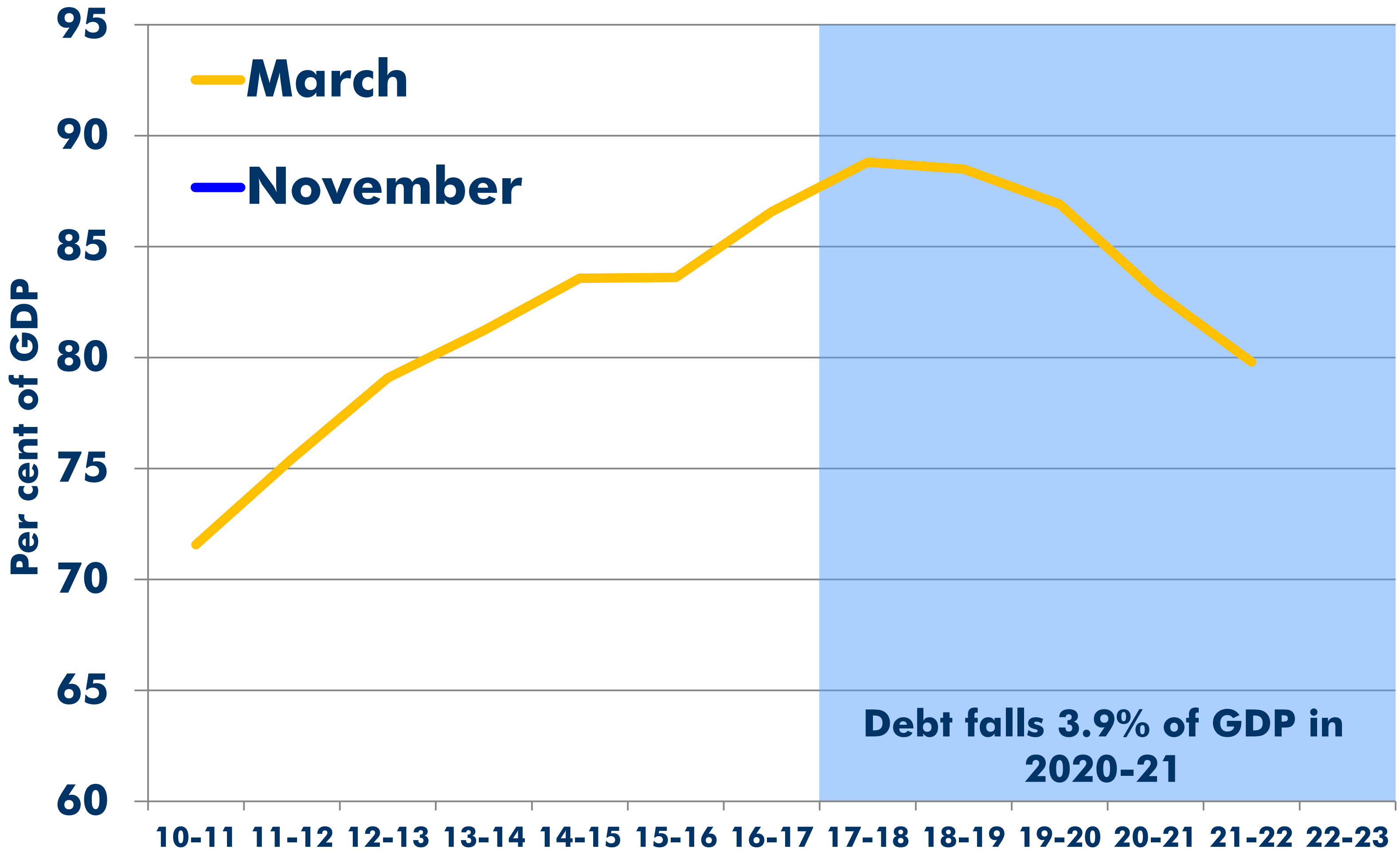
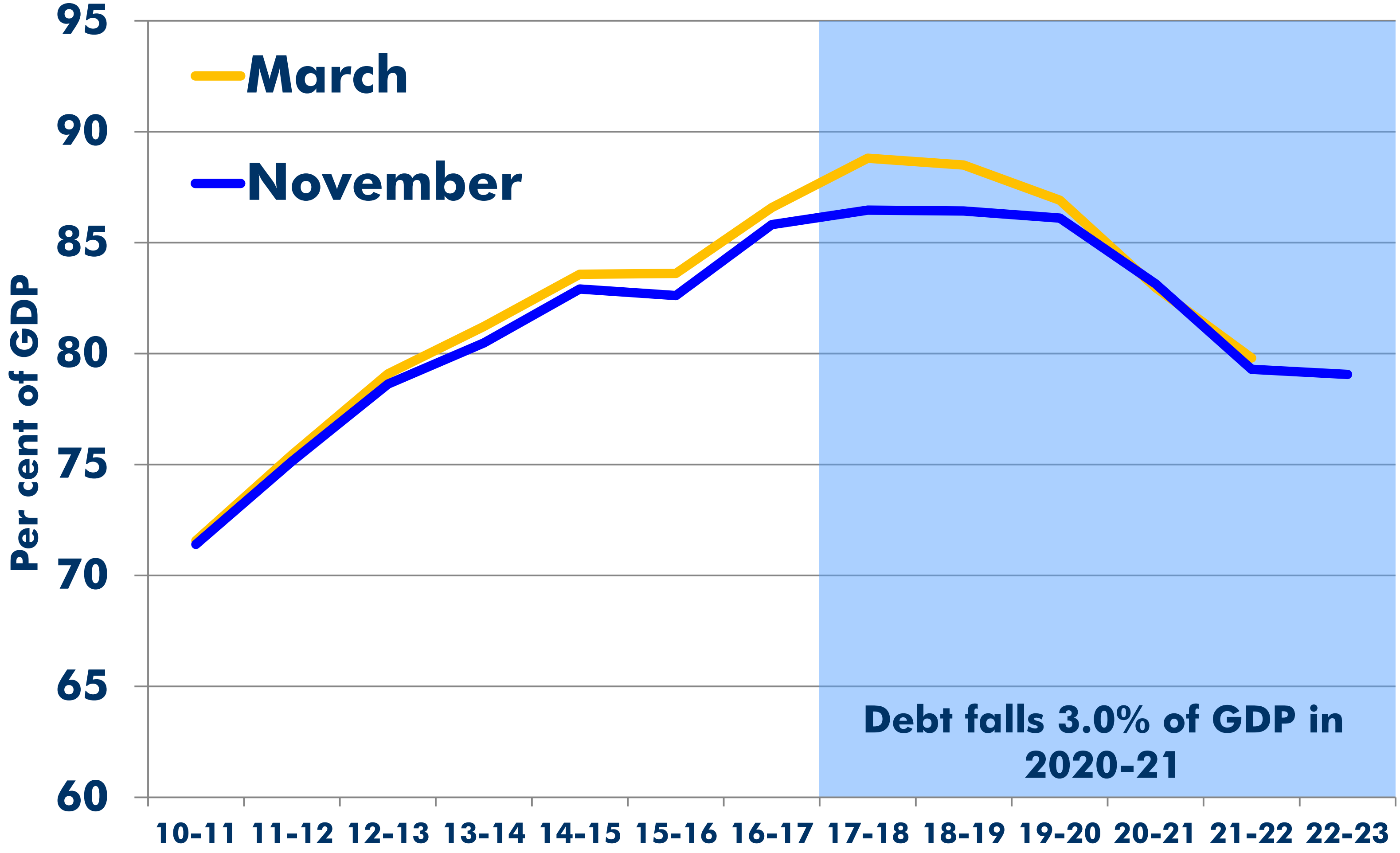
Public sector net debt



Public sector net debt



Public sector net debt

Per cent of GDP	16-17	17-18	18-19	19-20	20-21	21-22
March	**86.6**	**88.8**	**88.5**	**86.9**	**83.0**	**79.8**
November	**85.8**	**86.5**	**86.4**	**86.1**	**83.1**	**79.3**
Change	-0.8	-2.3	-2.1	-0.8	0.2	-0.5
of which:						
Housing associations	-	-3.2	-3.3	-3.4	-3.4	-3.4
Term funding scheme	0.2	1.9	1.9	1.8	1.6	0.0
Budget measures	0.0	0.1	0.3	0.6	0.8	0.7
Other underlying forecast changes	-0.4	-0.7	-0.9	-0.6	-0.1	0.6
Nominal GDP	-0.6	-0.5	0.0	0.7	1.2	1.6

Change in net debt in 2018-19

	Per cent of GDP
March forecast	**-0.3**
Lower nominal GDP	+0.5
Policy measures	+0.3
Underlying forecast changes	+0.1
HAs out of public sector	-0.1
UKAR and asset sales	-0.5
November forecast	**0 (-0.03)**

The welfare cap

	£ billion				
	17-18	18-19	19-20	20-21	21-22
Welfare cap and pathway plus margin	**120.8**	**121.9**	**122.9**	**126.3**	**129.7**
November forecast adjusted for inflation	**119.3**	**120.8**	**122.1**	**124.1**	**127.2**
Headroom (November)	*-1.5*	*-1.1*	*-0.8*	*-2.2*	*-2.5*
March forecast adjusted for inflation	**119.6**	**120.0**	**120.0**	**122.5**	**125.2**
Headroom (March)	*-1.2*	*-1.9*	*-2.8*	*-3.7*	*-4.5*

The welfare cap

	£ billion				
	17-18	18-19	19-20	20-21	21-22
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The 'fiscal objective'

The Charter commits the Government to

- "return the public finances to balance at the earliest possible date in the next Parliament"

Even more challenging than March

- Deficit only falls 1.1% of GDP in 2022-23, compared to 0.7% of GDP in 2021-22 in March
- If deficit were to continue falling at post Spending Review rate it would not balance until 2030-31
- And ageing and other spending pressures in health

Conclusion

Weaker outlook for the economy

- Trend productivity growth revised down
- But some offsets from hours and employment

Fiscal outlook deteriorates over time

- Deficit revised down last year and this year
- Weaker economy raises borrowing thereafter
- Budget adds more to borrowing
- Fiscal mandate met, but headroom halved
- Balancing budget more challenging