

Office for  
**Budget  
Responsibility**

# **Economic and fiscal outlook**

**5 December 2013**

**Robert Chote  
Chairman**

# Coverage and process

- **Five year forecasts, plus assessment of targets**
- **Independent BRC responsible for conclusions**
- **Helped by OBR staff and other officials**
- **Met with the Chancellor on 14 November**
- **Final post-measures forecast on 29 November**
- **No pressure to change any conclusions**

# Overview

- **The economy**

- Growth higher than expected through 2013
- But recent rapid pace unlikely to be sustained
- Growth surprise assumed cyclical rather than structural

- **The public finances**

- Deficits revised down by £73 billion from 13-14 to 17-18
- Higher receipts plus (this year) more underspending
- Fiscal mandate still met; debt-to-GDP target still missed

- **The fiscal consolidation**

- Government extends spending squeeze to 2018-19
- Brings budget back to balance ex APF transfers
- And cuts government consumption to post-war low

# Recent economic data

- **Real GDP has grown by 1.8% in first 3 quarters of 2013, compared to March forecast of 0.5%**
- **Private consumption and housing investment stronger than expected, but business investment and net trade continue to disappoint**
- **Hours worked even stronger than GDP, relative to forecast. So productivity disappoints again**
- **Inflation lower than expected**

# The short-term growth outlook

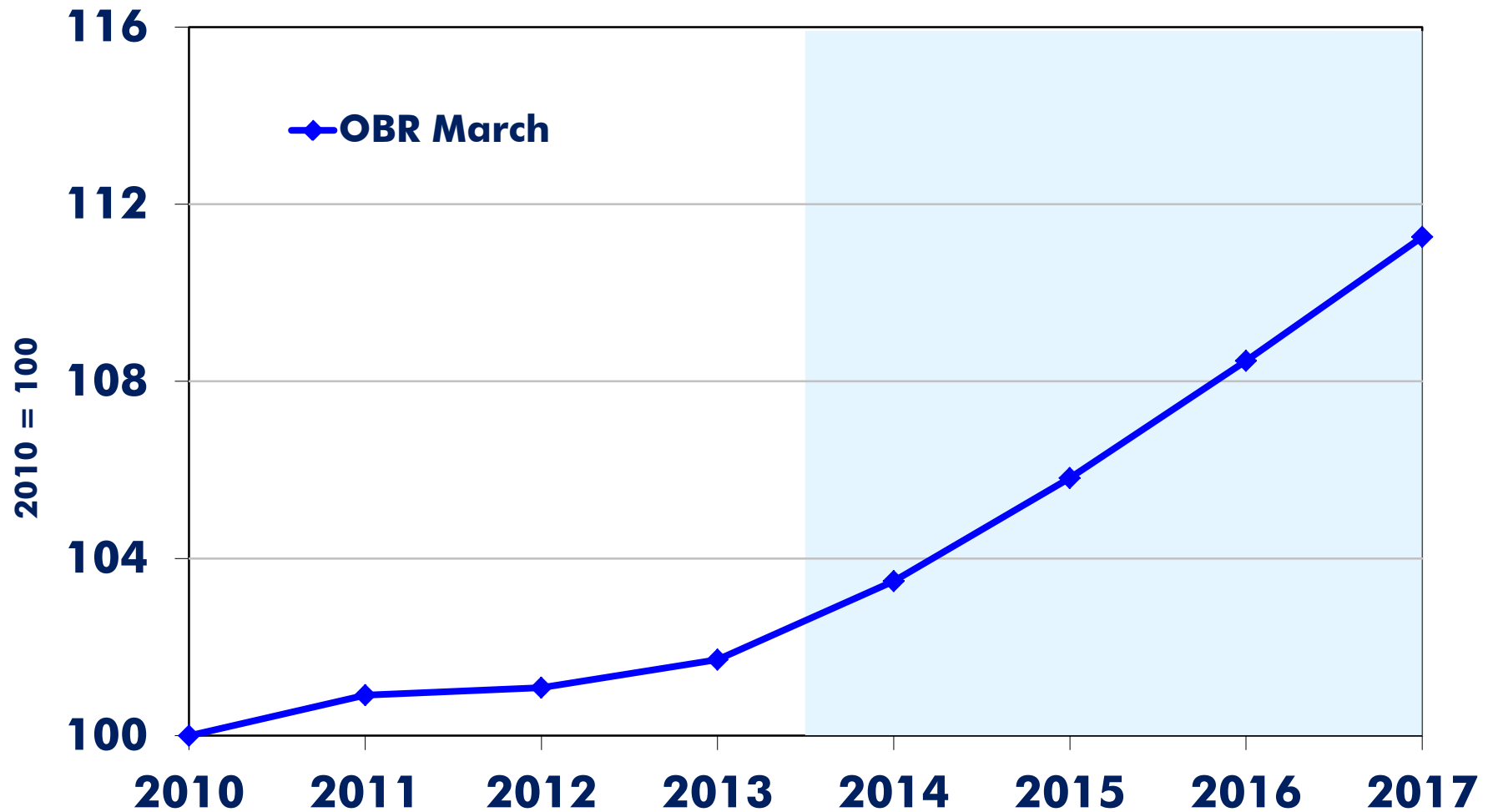
- **Real GDP momentum continues into Q4**
- **But pace of recovery slows in 2014**
  - Consumer confidence, credit conditions and housing market more conducive to growth.
  - But productivity, real incomes and export growth remain weak. Euro area still a concern

# Real GDP revised higher

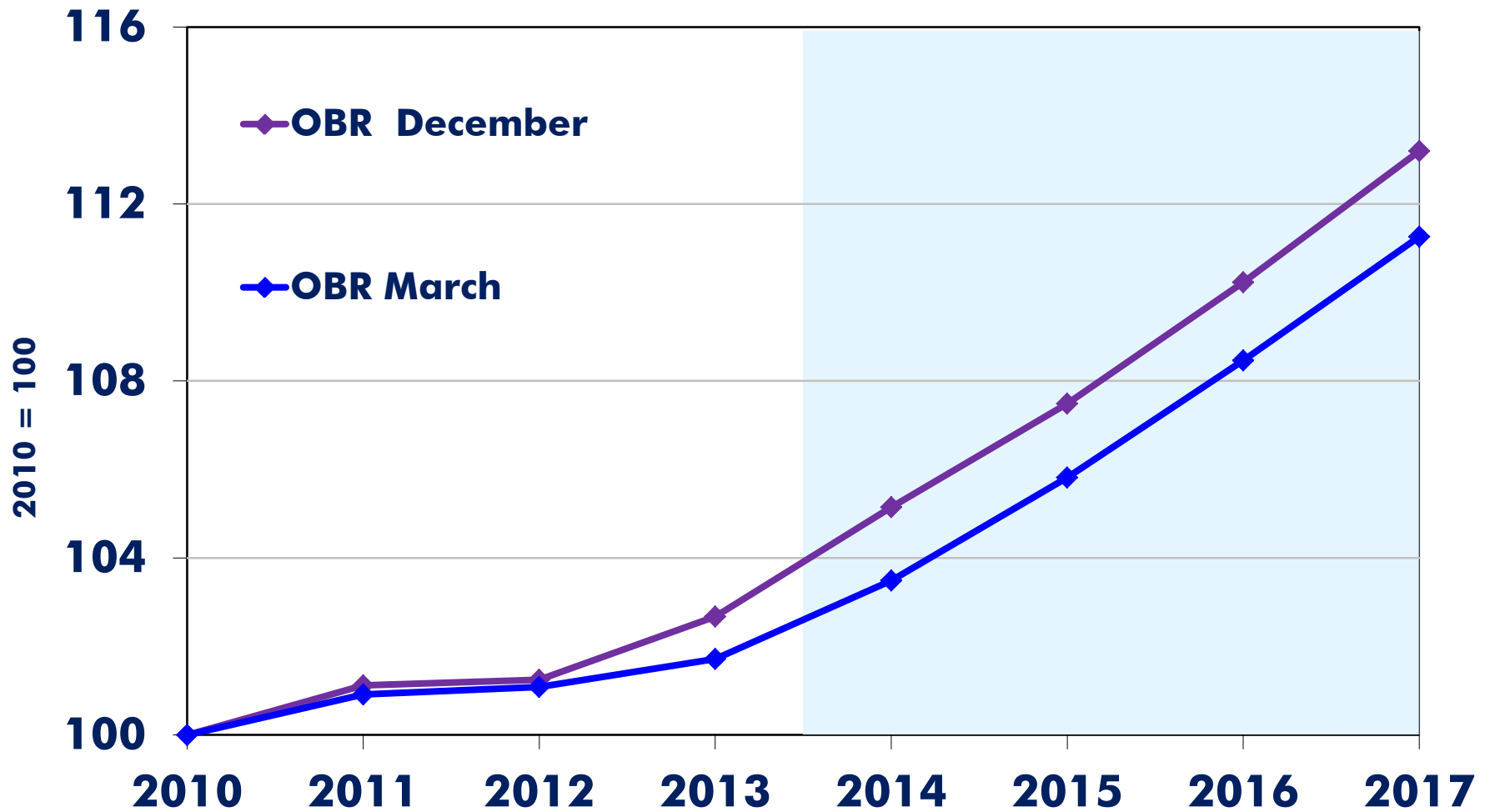
<b>% growth p.a.</b>	<b>March EFO</b>	<b>December EFO</b>	<b>Change</b>
<b>2013</b>	<b>0.6</b>	<b>1.4</b>	<b>+0.8</b>
<b>2014</b>	<b>1.8</b>	<b>2.4</b>	<b>+0.6</b>
<b>2015</b>	<b>2.3</b>	<b>2.2</b>	<b>-0.1</b>
<b>2016</b>	<b>2.7</b>	<b>2.6</b>	<b>-0.1</b>
<b>2017</b>	<b>2.8</b>	<b>2.7</b>	<b>-0.1</b>
<b>2018</b>	<b>-</b>	<b>2.7</b>	<b>-</b>

**By early 2018 real GDP 1.4% higher and nominal GDP 1% higher than in March EFO (2.7% including data revisions)**

# Level of GDP since the trough

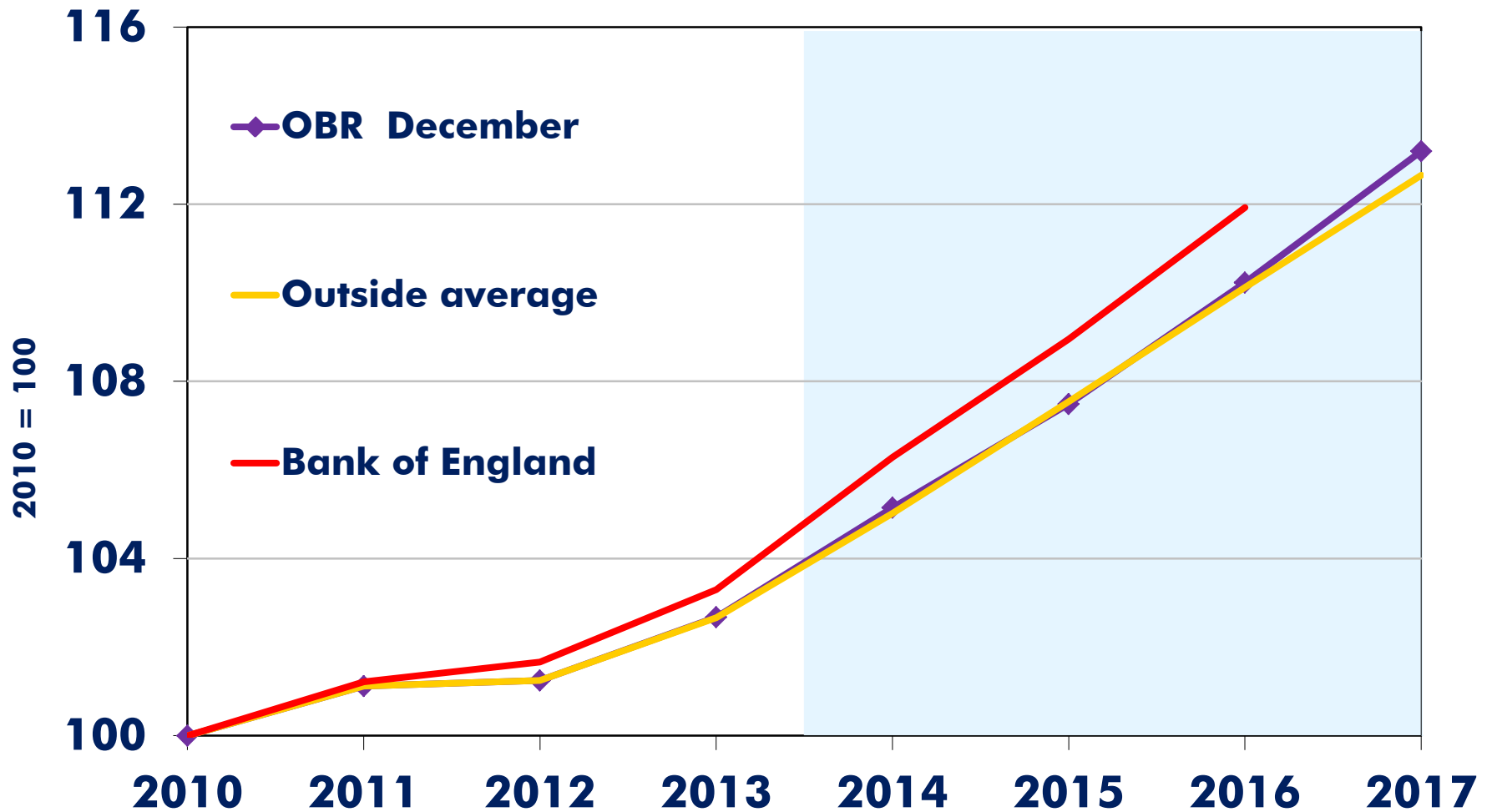


# Level of GDP since the trough

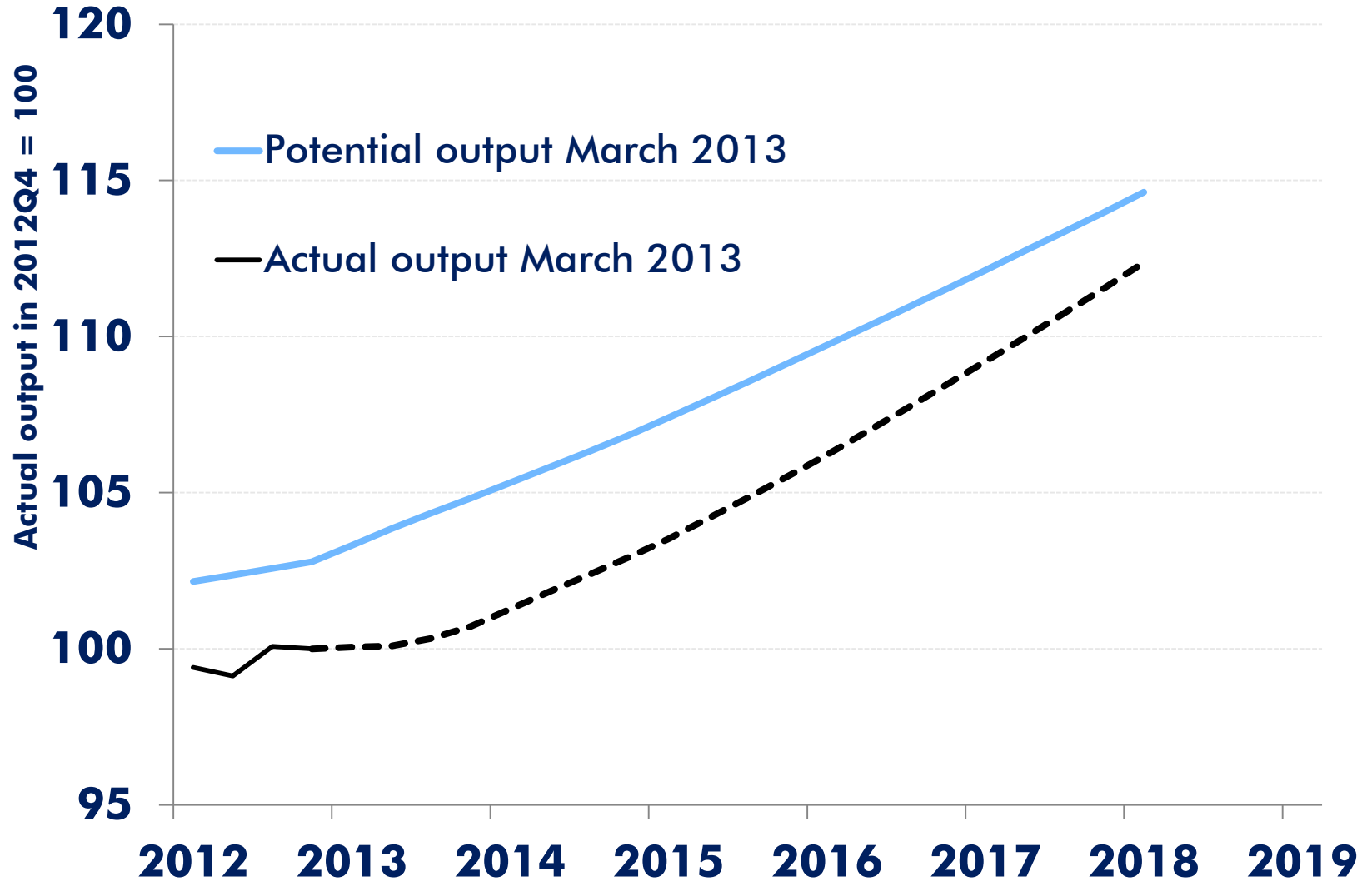




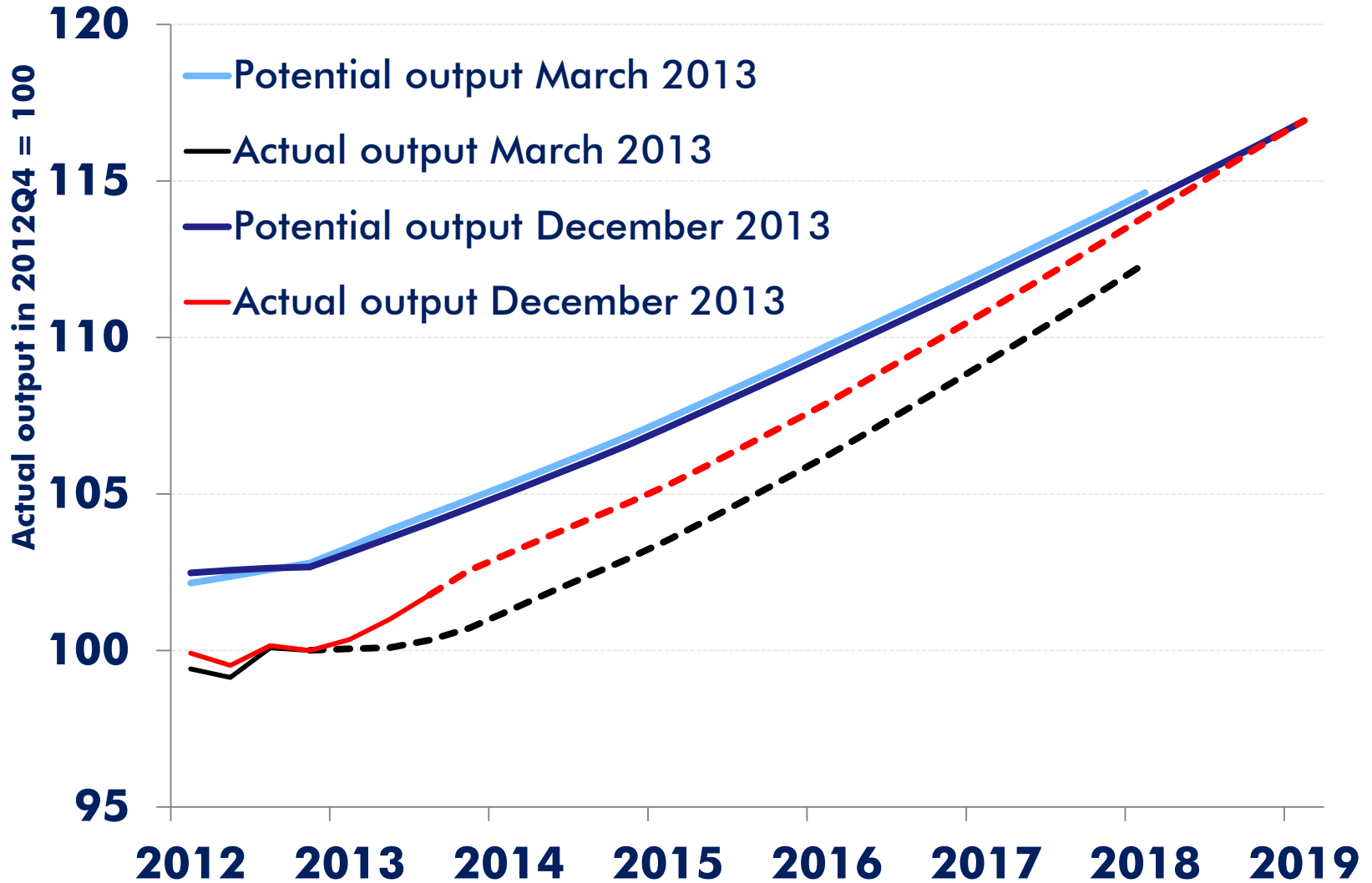
# Level of GDP since the trough



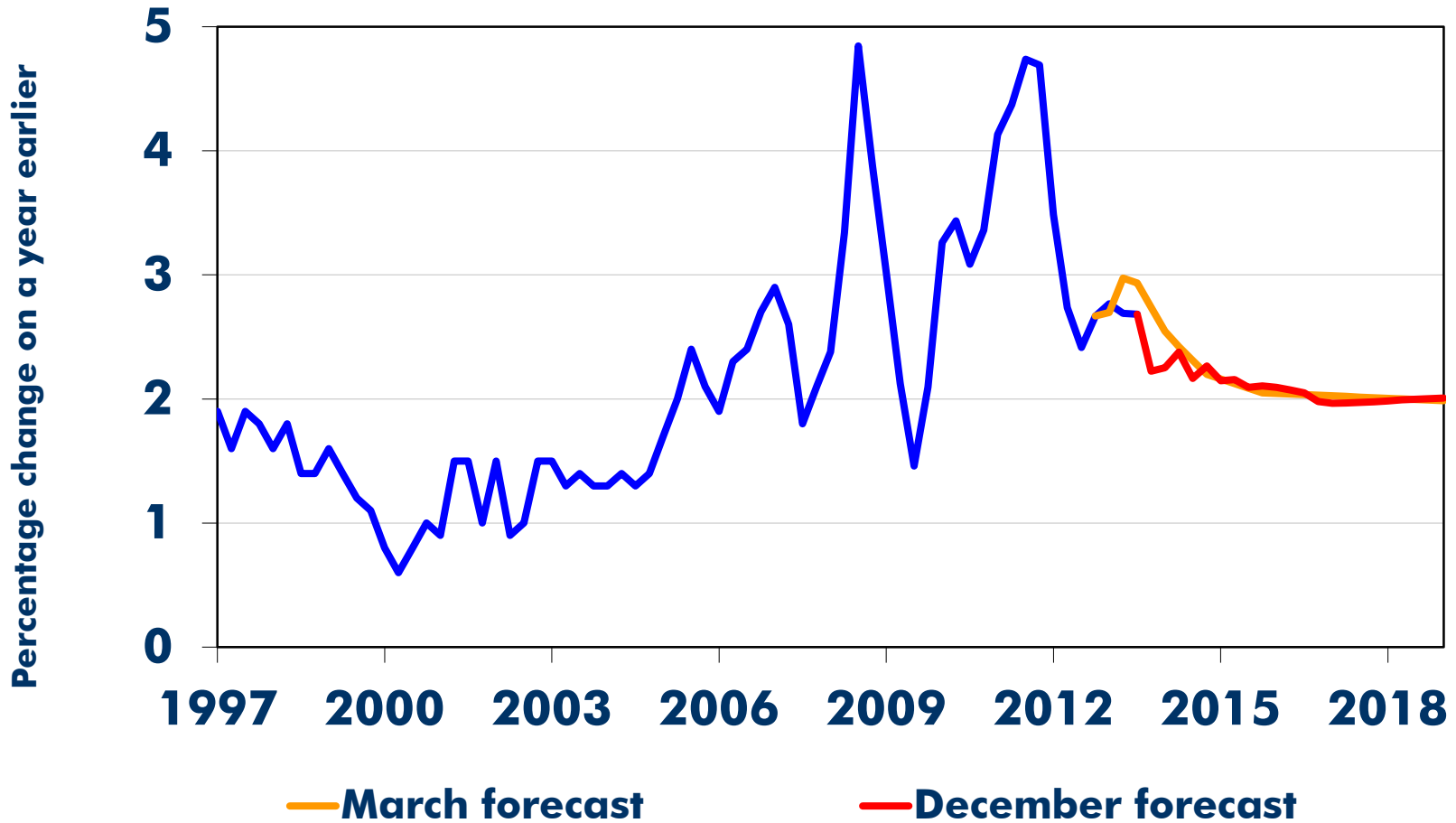
# Higher GDP cyclical not structural



# Higher GDP cyclical not structural



# CPI inflation



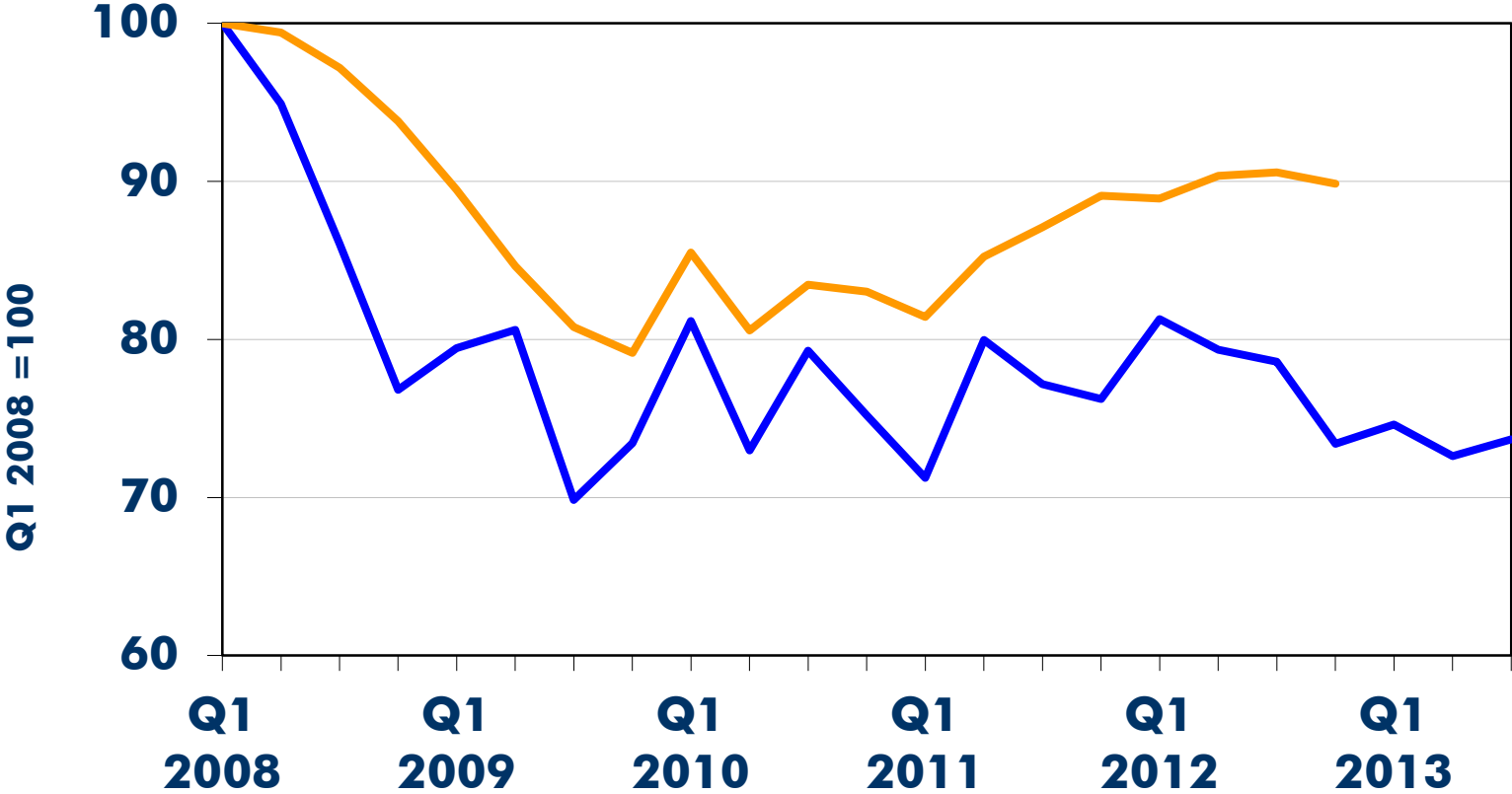
# The household sector

- **Pick up in consumer spending this year reflects lower saving not higher real incomes**
- **So we expect consumer spending growth to slow until productivity boosts earnings**
- **Consumption wage weak, but product wage may still be high relative to productivity**
- **Productivity growth only way to deliver rising living standards in the long term**

# The housing market

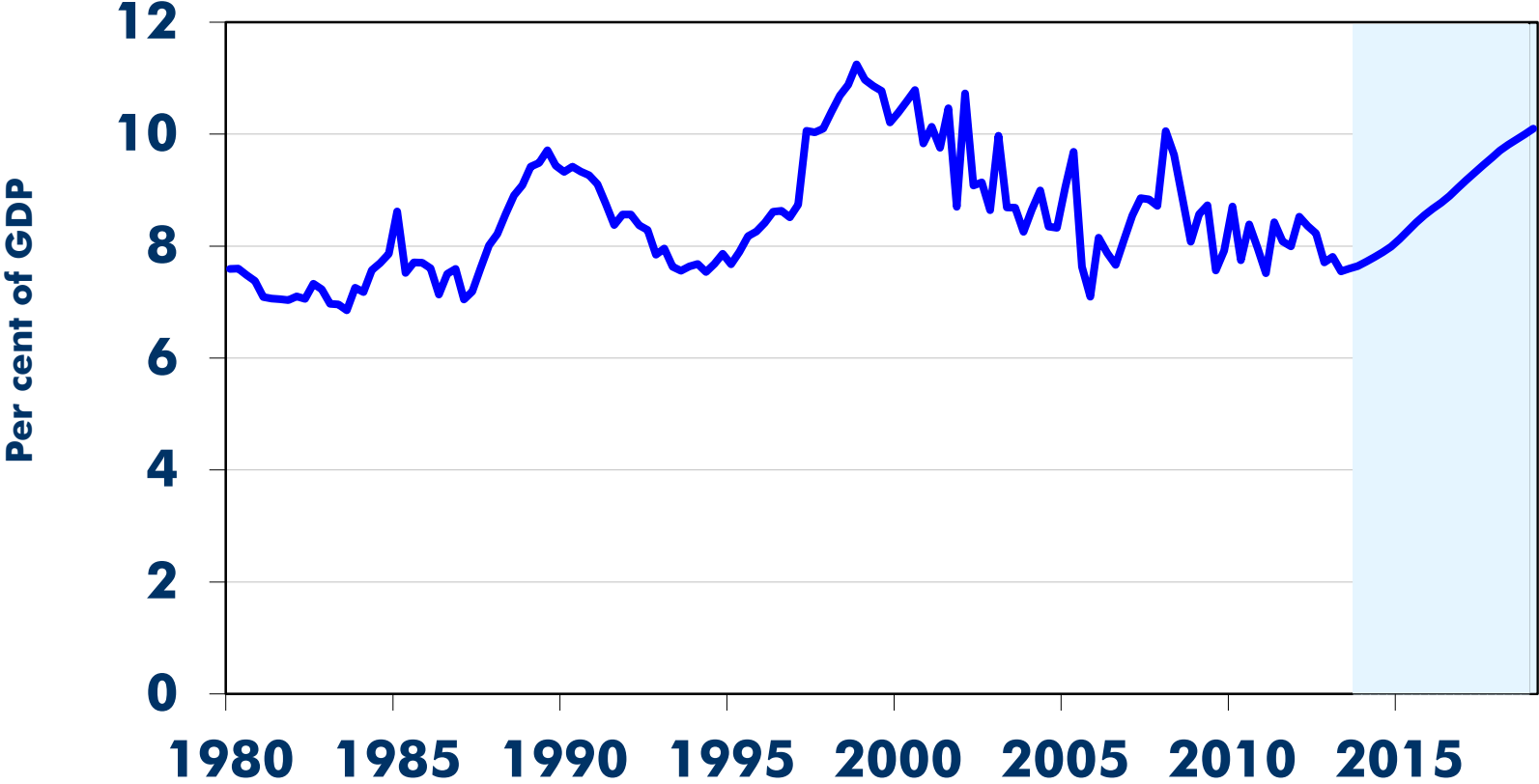
- **House price inflation forecast revised up, reflecting recent data and mortgage finance**
- **Expect house prices to rise 5% in 2014 and 7% in 2015. Level in 2017-18 up 10% since March**
- **Prices rising as demand increases, while supply inelastic. Fundamentals, not a bubble**
- **'Help to buy' contributing to higher demand, raise prices short term and supply later**

# Business investment I



— Latest data    — Pre-2013 Blue Book data

# Business investment II





# The external sector

- **Big drop in financial services exports in 2012 revised away**
- **Export growth has been volatile – up 3% in Q2, down 2½% in Q3**
- **Forecast weaker in medium term than March, on slightly slower export market growth**
- **Little net trade contribution to growth**
- **Current account deficit narrows slightly**

# Risks and uncertainties

- **Euro area economies and banking systems have yet to fully adjust**
- **Expectation of end to loose global monetary conditions could be disruptive**
- **Productivity growth could disappoint again, delaying a return to real income growth**
- **Household finances in deficit and gross debt rising. Consistent with policy, but potential risks**

# The public finances

- **Once again comparisons complicated by:**
  - Government's decision to transfer Royal Mail pension fund assets to public sector in 2012-13
  - Government's decision to transfer money from Asset Purchase Facility (APF) to the Treasury now and back again when QE reverses
- **Focus here on Public Sector Net Borrowing excluding Royal Mail and APF transfers**
- **Methodological revisions to come**

# Net borrowing down in 2013-14

	<b>PSNB ex Royal Mail and APF</b>
<b>March forecast</b>	<b>£119.8bn</b>
Underlying increase in receipts forecast (mainly VAT, onshore CT and stamp duty)	–£5.7bn
UK-Swiss tax agreement receipts shortfall	+£2.3bn
Larger-than-expected underspending by central government departments	–£3.5bn (of which –£2bn policy)
Underlying decrease in other spending (including local authority underspending)	–£1.7bn
<b>December forecast</b>	<b>£111.2bn</b>

# Public sector net borrowing

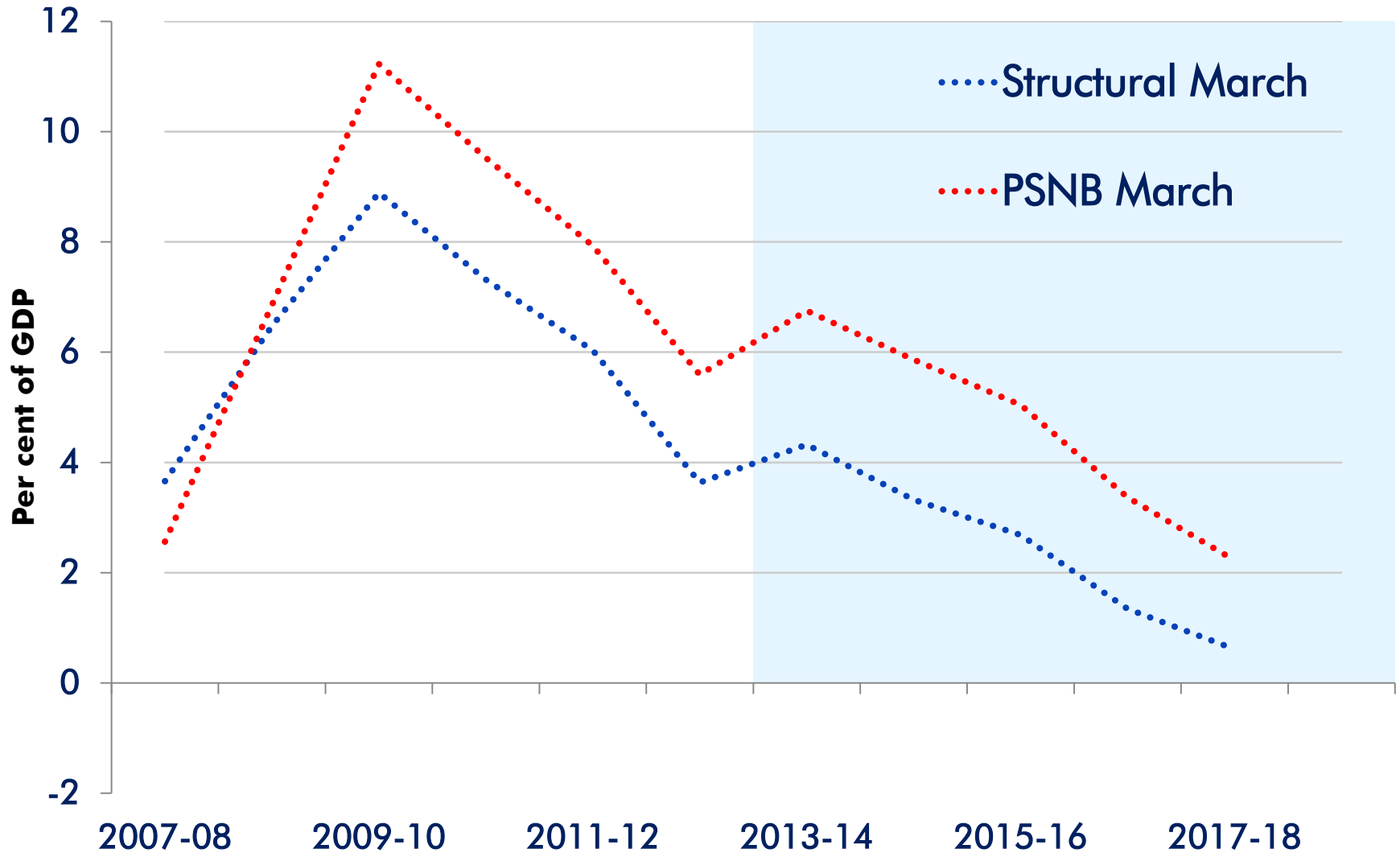
£bn, excluding RM and APF	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
<b>March</b>	<b>120</b>	<b>108</b>	<b>96</b>	<b>67</b>	<b>43</b>	<b>-</b>
Receipts forecast	-3	-10	-13	-15	-15	-
Depts' spending	-2	0	-1	0	-4	-
Other spending	-1	-3	-2	-2	-1	-
AS measures	-2.0	0.1	0.1	0.4	0.6	0.9
<b>December</b>	<b>111</b>	<b>96</b>	<b>79</b>	<b>51</b>	<b>23</b>	<b>-2</b>
<i>Memo: change</i>	<i>-9</i>	<i>-12</i>	<i>-17</i>	<i>-16</i>	<i>-19</i>	<i>-</i>

**Cumulative downward revision of £73bn  
from 13-14 to 17-18**

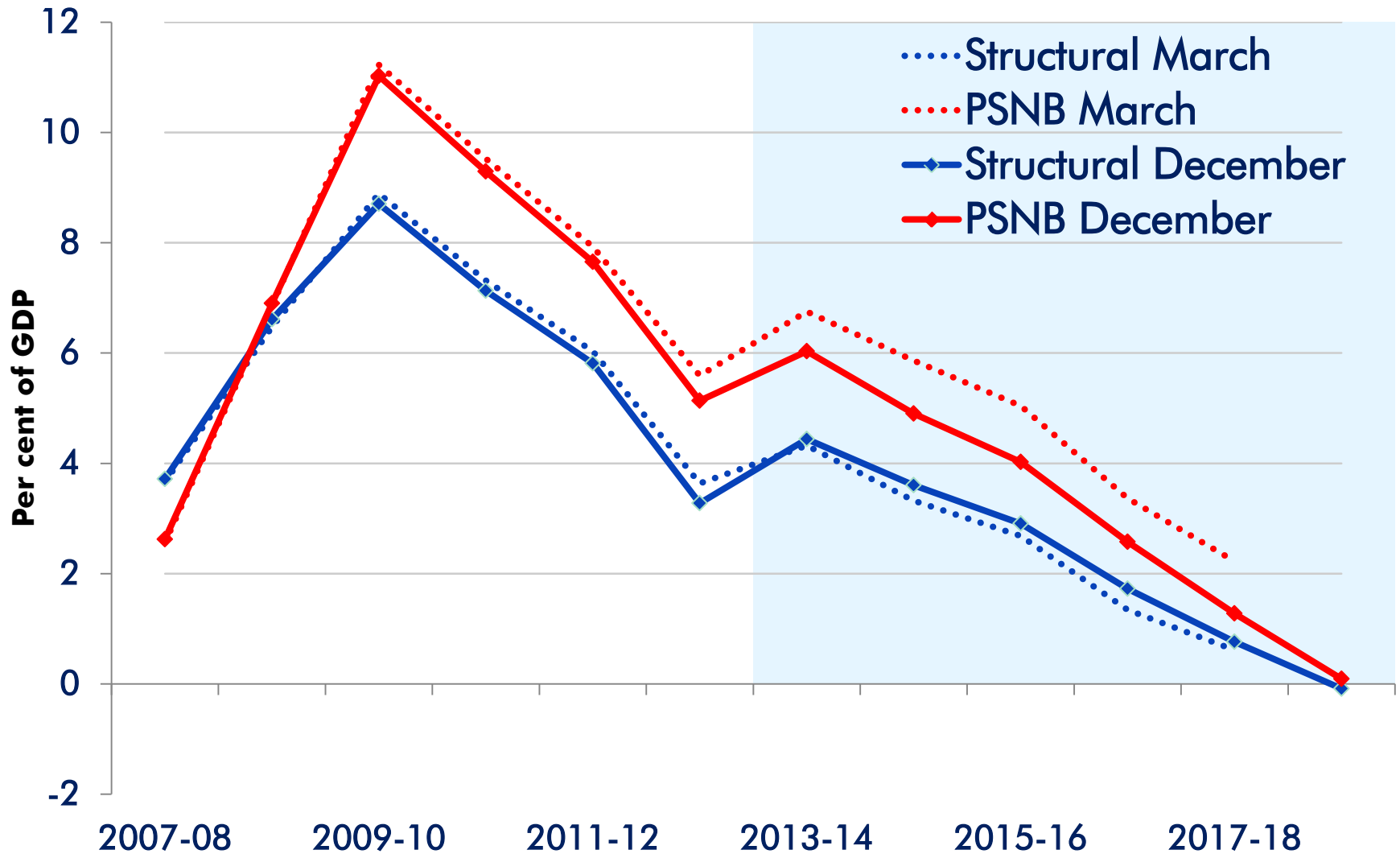
# Autumn Statement decisions

- **Treasury table shows neutral effect over forecast**
- **£2bn off departmental spending this year, offset by £1.4bn cumulative tax cut to 18-19 and £0.6bn spending increase in 14-15 and 15-16**
- **This spending increase comprises £5.5bn of specific increases in departmental spending, mostly offset by £2.2bn of unidentified cuts in other departmental spending and £2.7bn cut in welfare and other AME**
- **But package creates spending pressures beyond 15-16 and tax cuts will accumulate beyond 18-19**

# Total and structural PSNB



# Total and structural PSNB

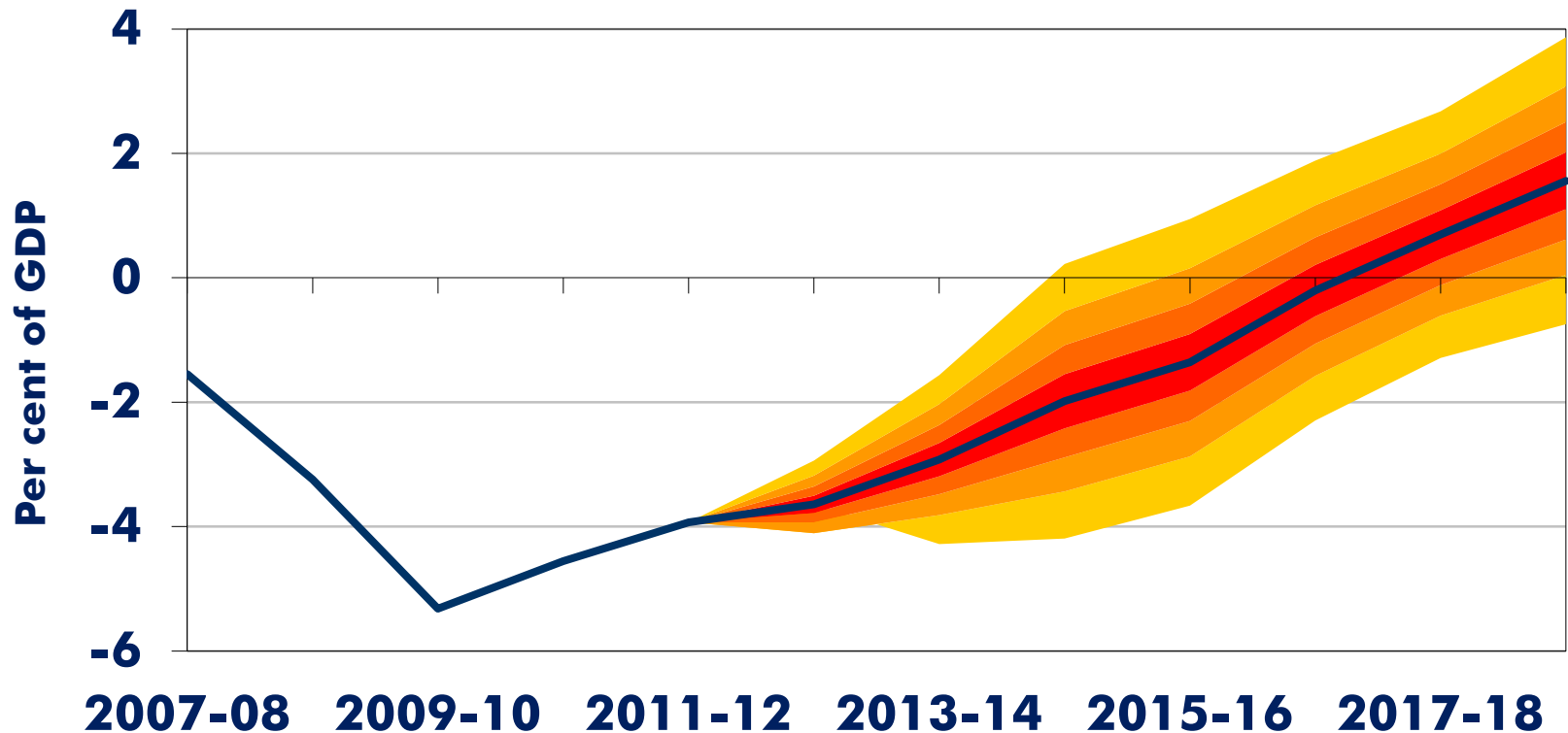




# The fiscal mandate

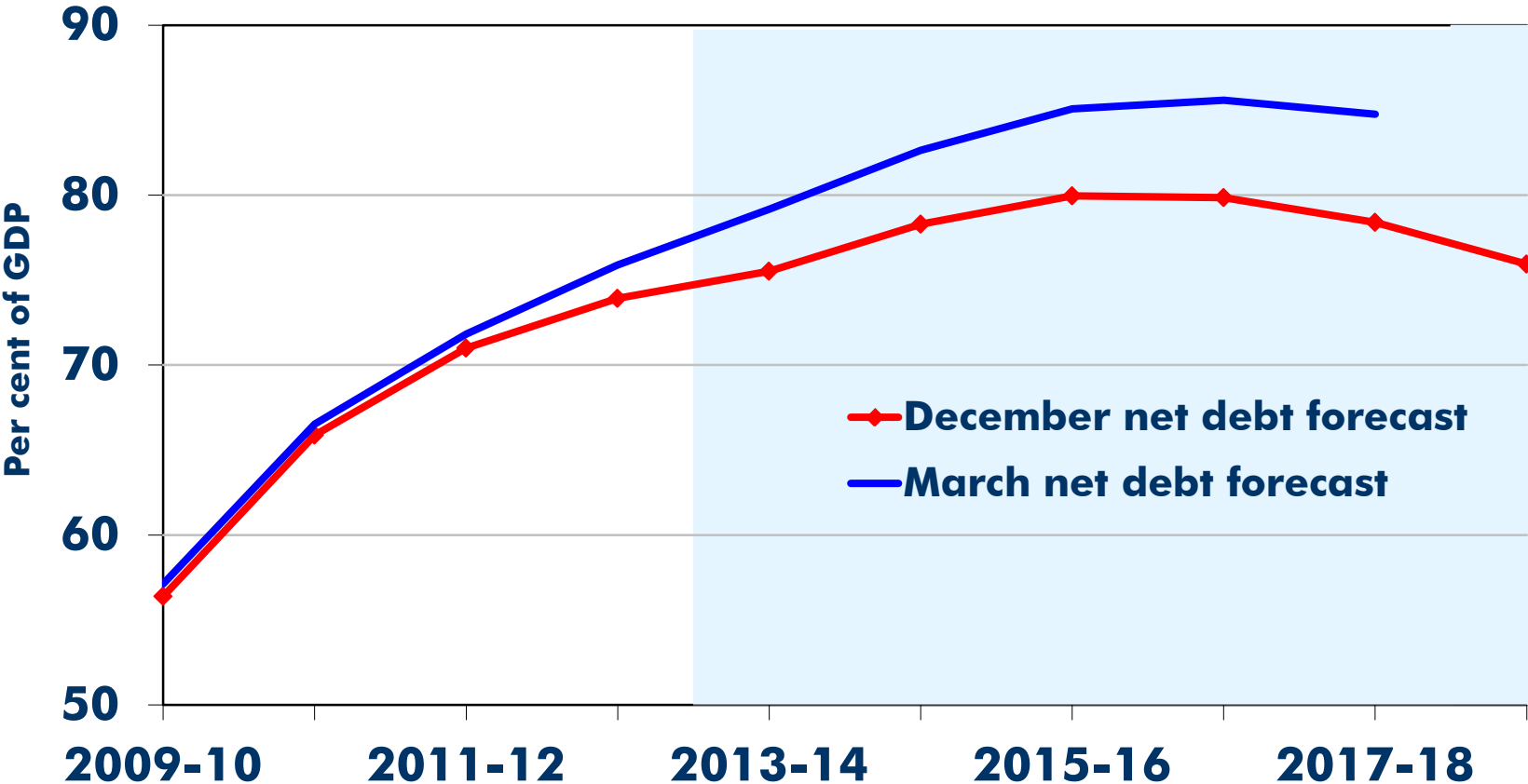
<b>CACB as % of GDP</b>	<b>2017-18</b>	<b>2018-19</b>
<b>March</b>	<b>+0.8</b>	<b>+0.8</b>
Autumn Statement measures	-	-
Implied cut in departmental spending	-	+1.0
Other forecasting changes (e.g. debt interest)	-	-0.2
<b>December</b>	<b>+0.7</b>	<b>+1.6</b>

# Uncertainty and the mandate



**Implies 80% chance of success**

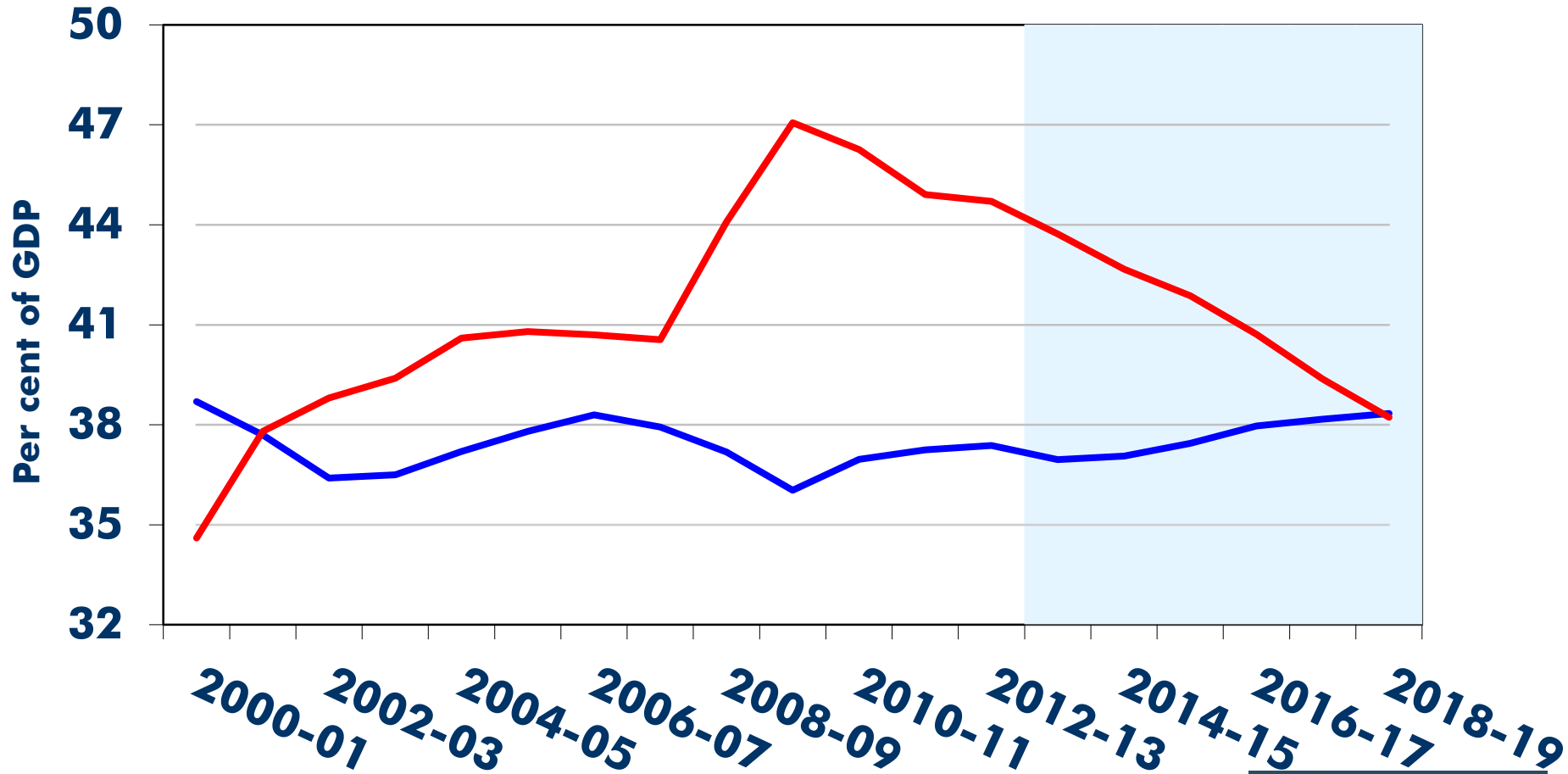
# Public sector net debt



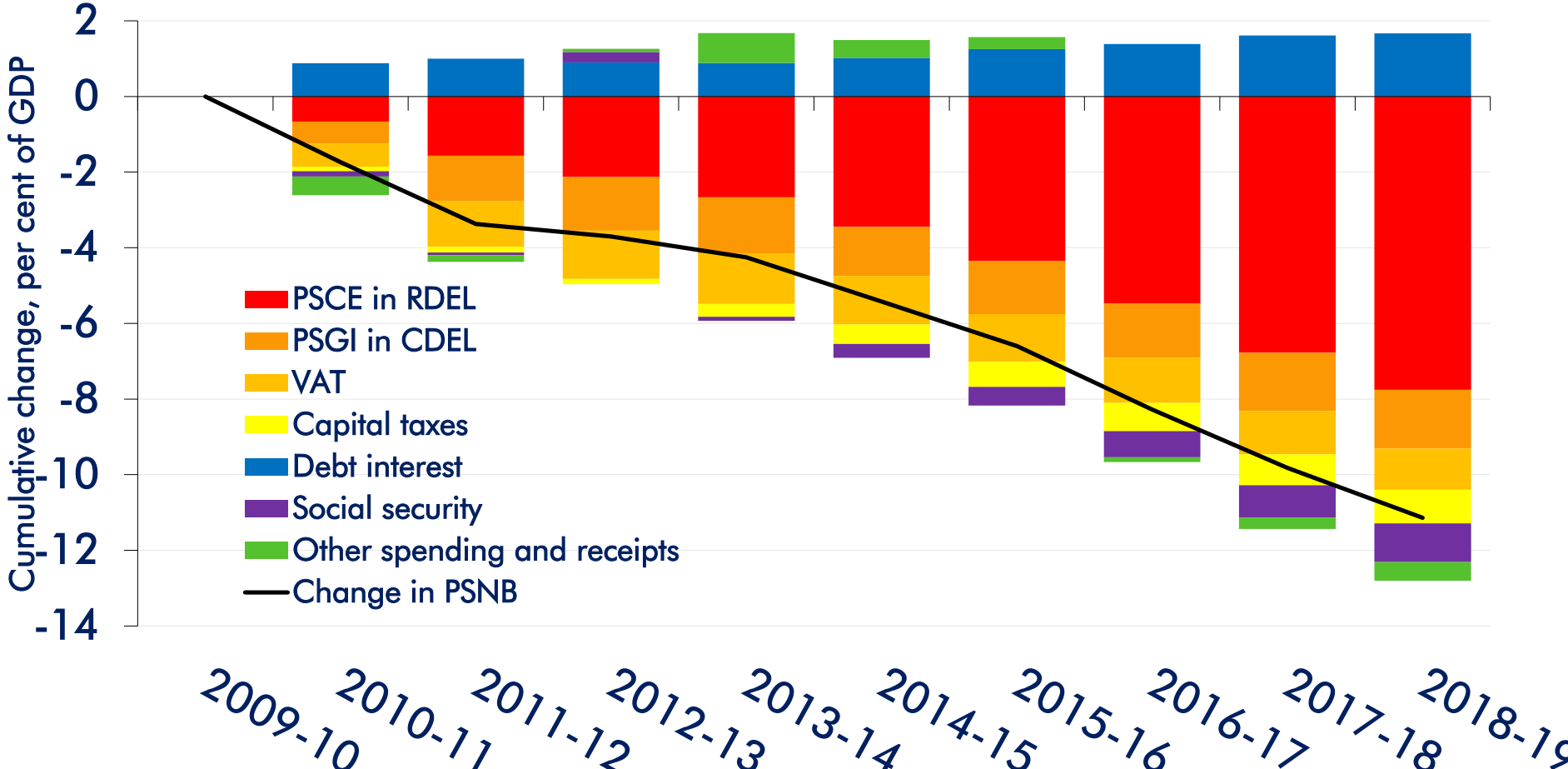
# Change in net debt on previous year

% of GDP	2015-16	2016-17
<b>March</b>	<b>+2.4</b>	<b>+0.5</b>
Nominal GDP revisions	+0.1	-
Lower net borrowing	-0.8	-0.6
Other	-0.1	-0.1
<b>December</b>	<b>+1.7</b>	<b>-0.1</b>

# Receipts and spending

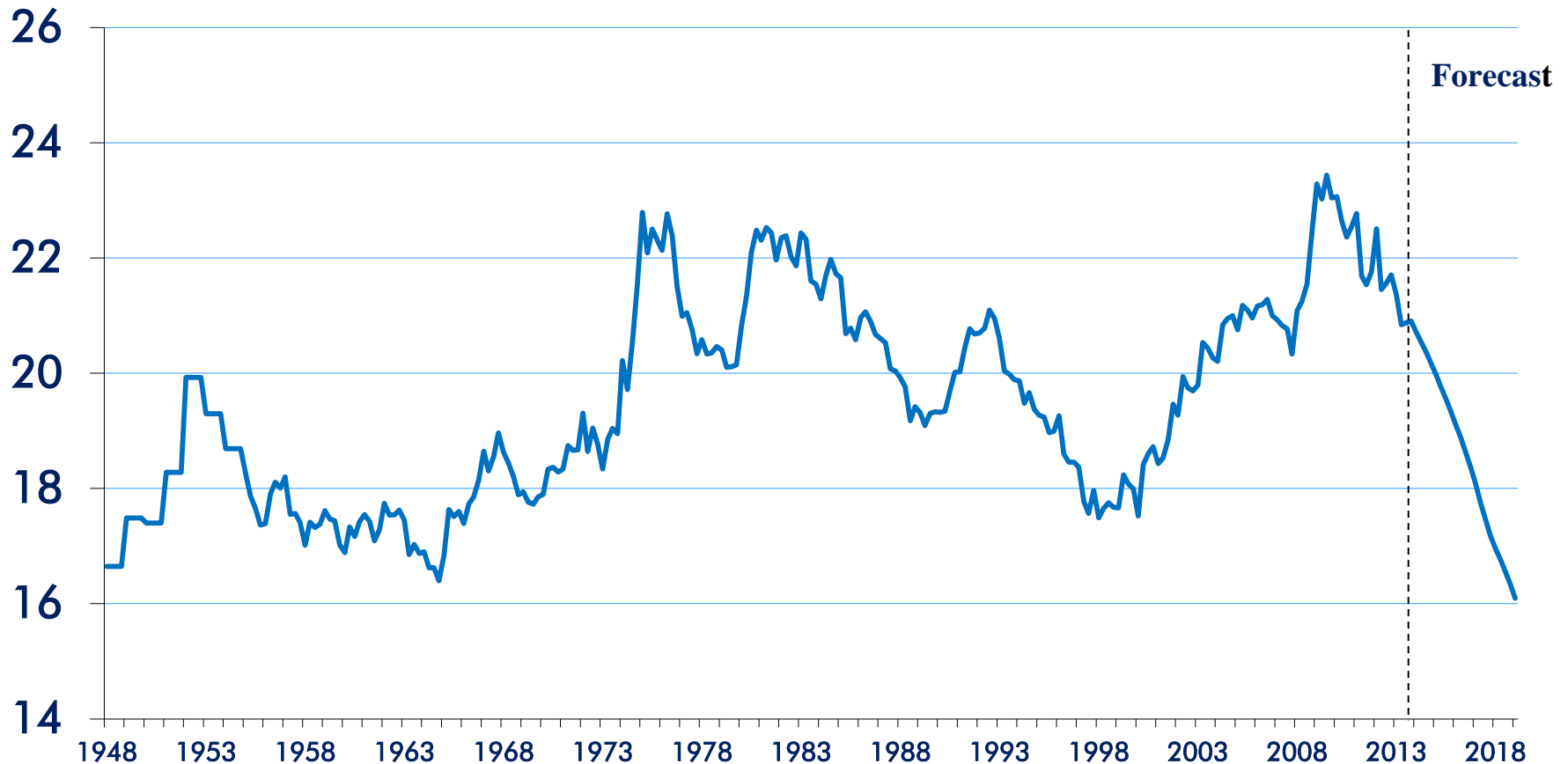


# How PSNB returns to balance



# Squeeze on current spending

Government consumption of goods and services as % of GDP



# Changing shape of the state

<b>Per cent of GDP</b>	<b>2018-19 vs 2007-08</b>
<b>Change in PSNB</b>	-2.7
<b>Change in receipts</b>	+0.4
<b>Change in net social benefits</b>	+1.7
<b>Change in debt interest</b>	+1.7
<b>Change in other spending (mostly public services /investment)</b>	-5.7