

Office for  
**Budget  
Responsibility**

## **Forecast evaluation report 2017**

**Robert Chote**  
Chairman

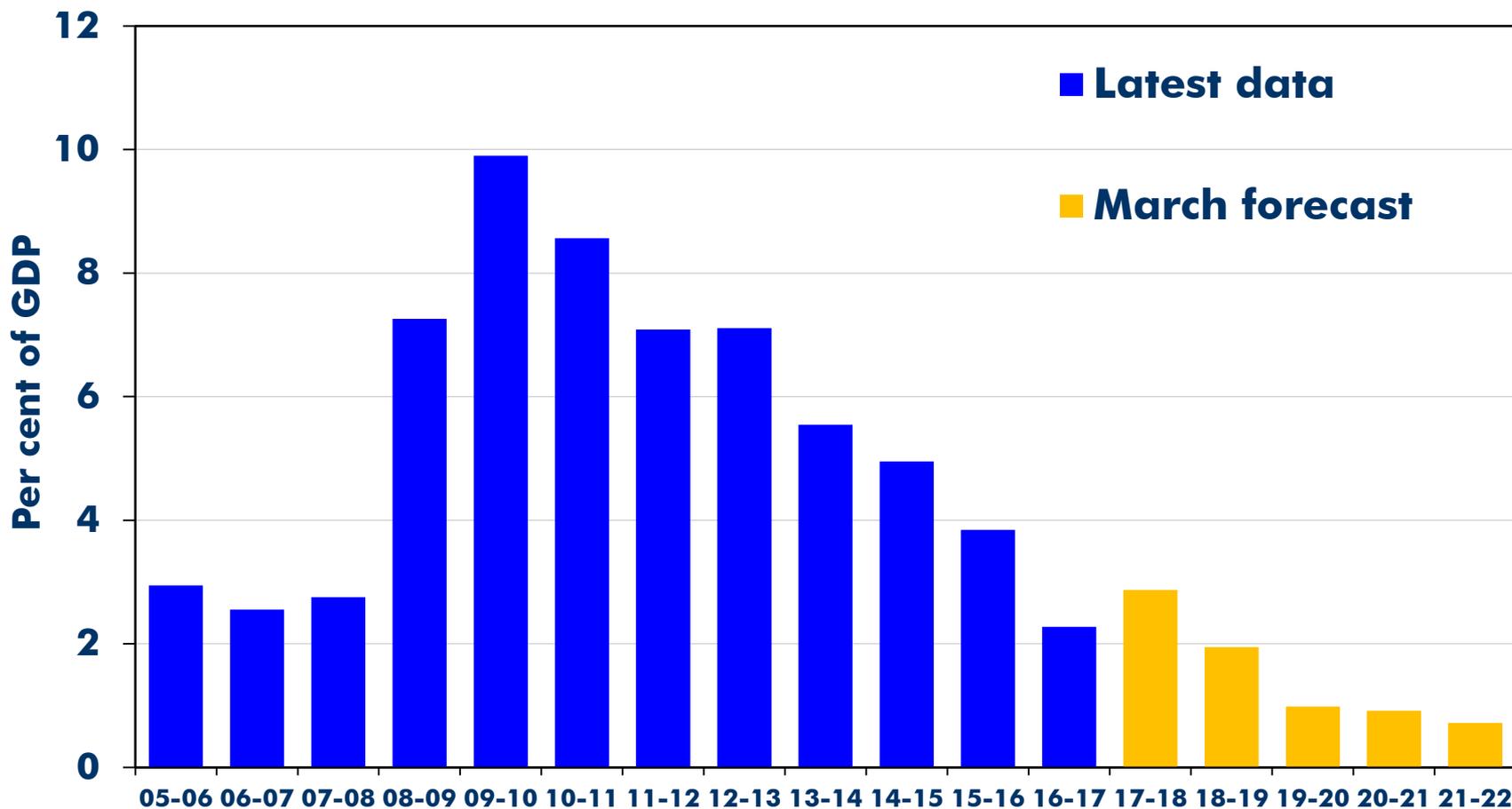
# Background to the FER

- The FER is an annual report looking at the performance of past EFO forecasts against the latest outturn data
- Rationale
  - Accountability and transparency
  - Lessons for future forecasts
- We focus this year on economic and fiscal forecasts from
  - March 2015: our last forecast under the Coalition
  - March 2016: our last forecast before the EU referendum
- Also an update on our review of fiscal modelling

# Outline of remarks

- The public finances
  - Public sector net borrowing forecasts since 2010
  - Public sector net borrowing in 2016-17
  - Public sector net borrowing this year
- The economy
  - Forecasts for GDP
  - Productivity and the labour market
  - Our Brexit judgements: an update

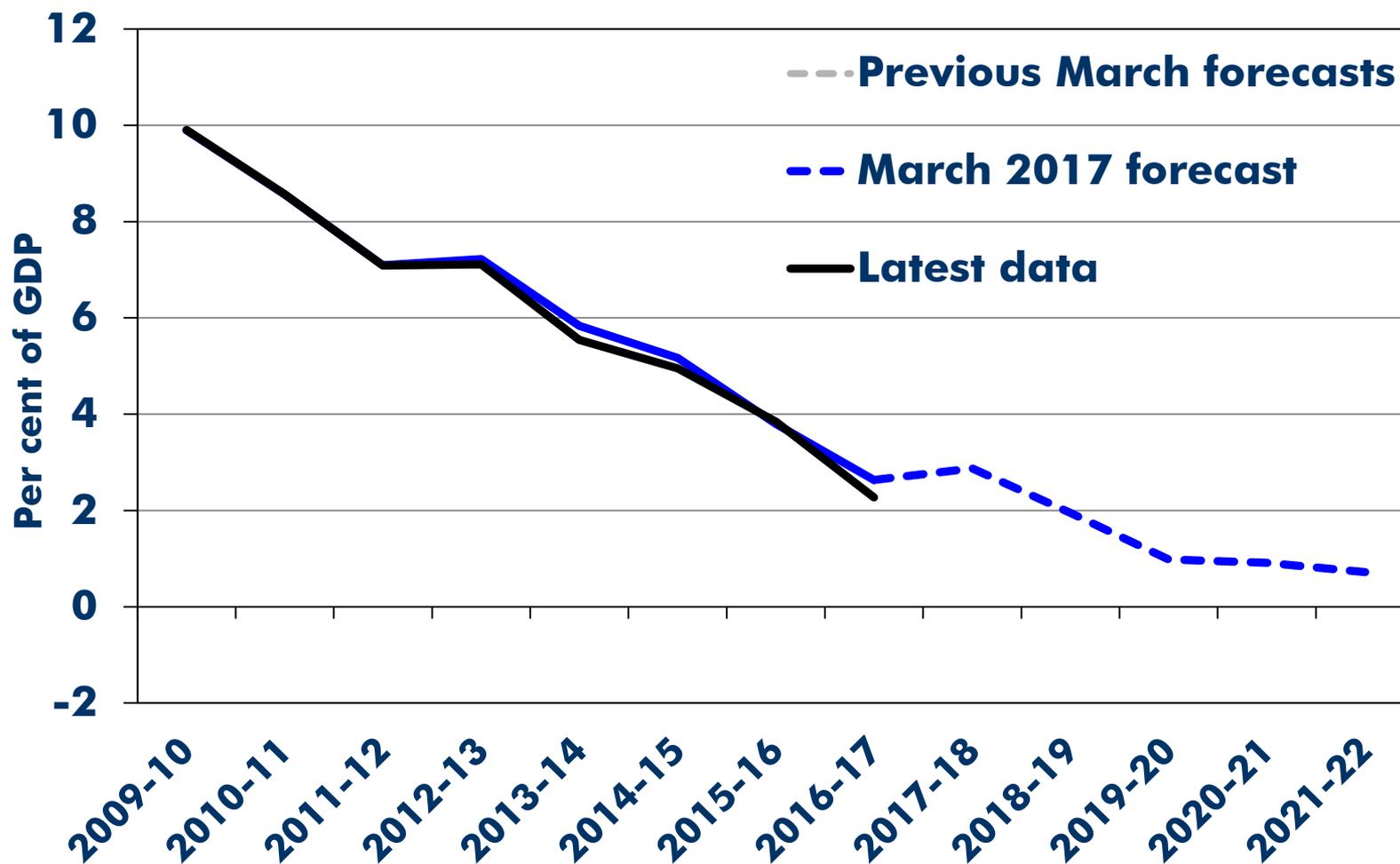
# Public sector net borrowing (PSNB)



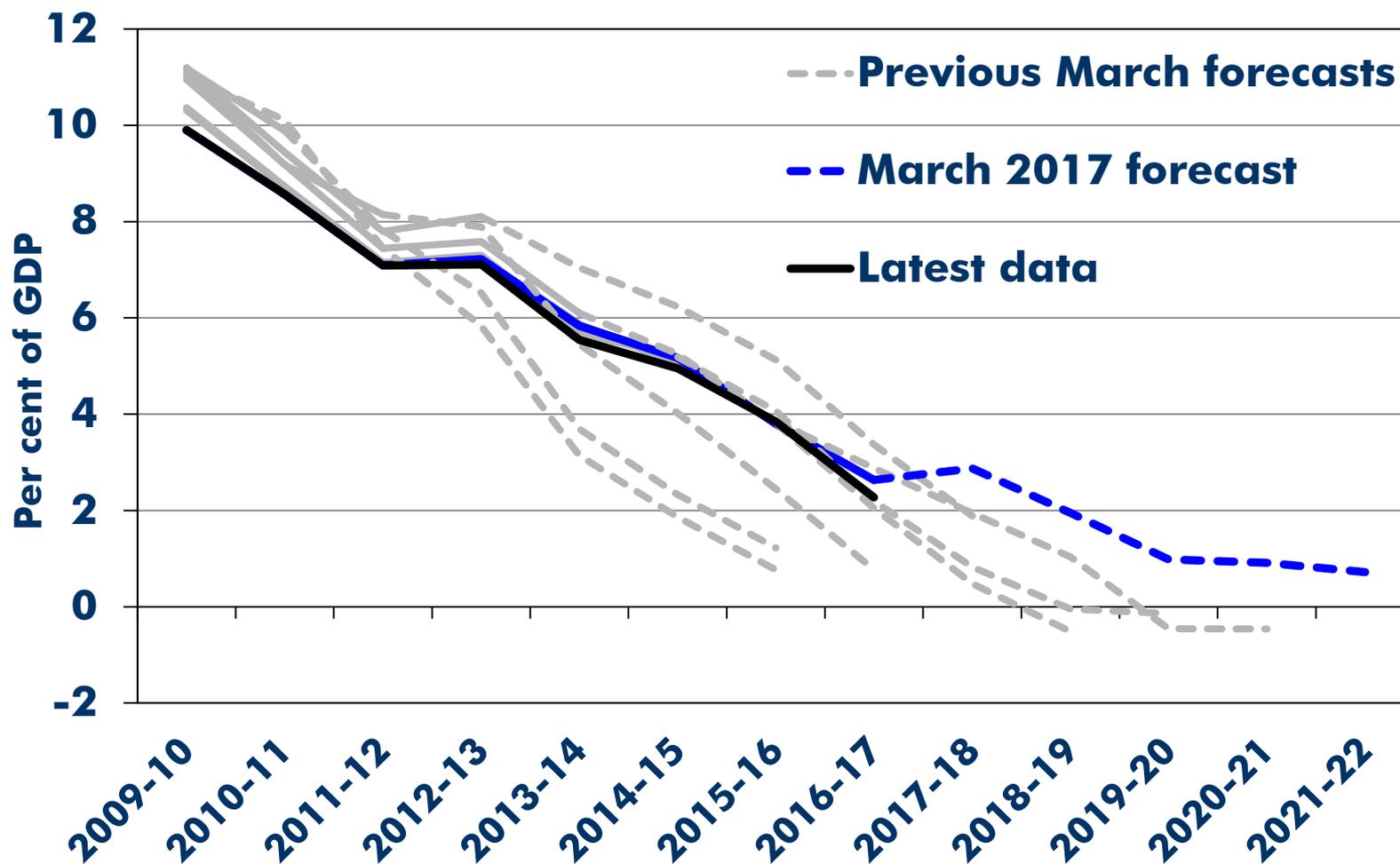
# Reasons for forecast differences

- Statistical changes
- Changes in Government policy
- Unexpected economic developments
- Unexpected fiscal developments

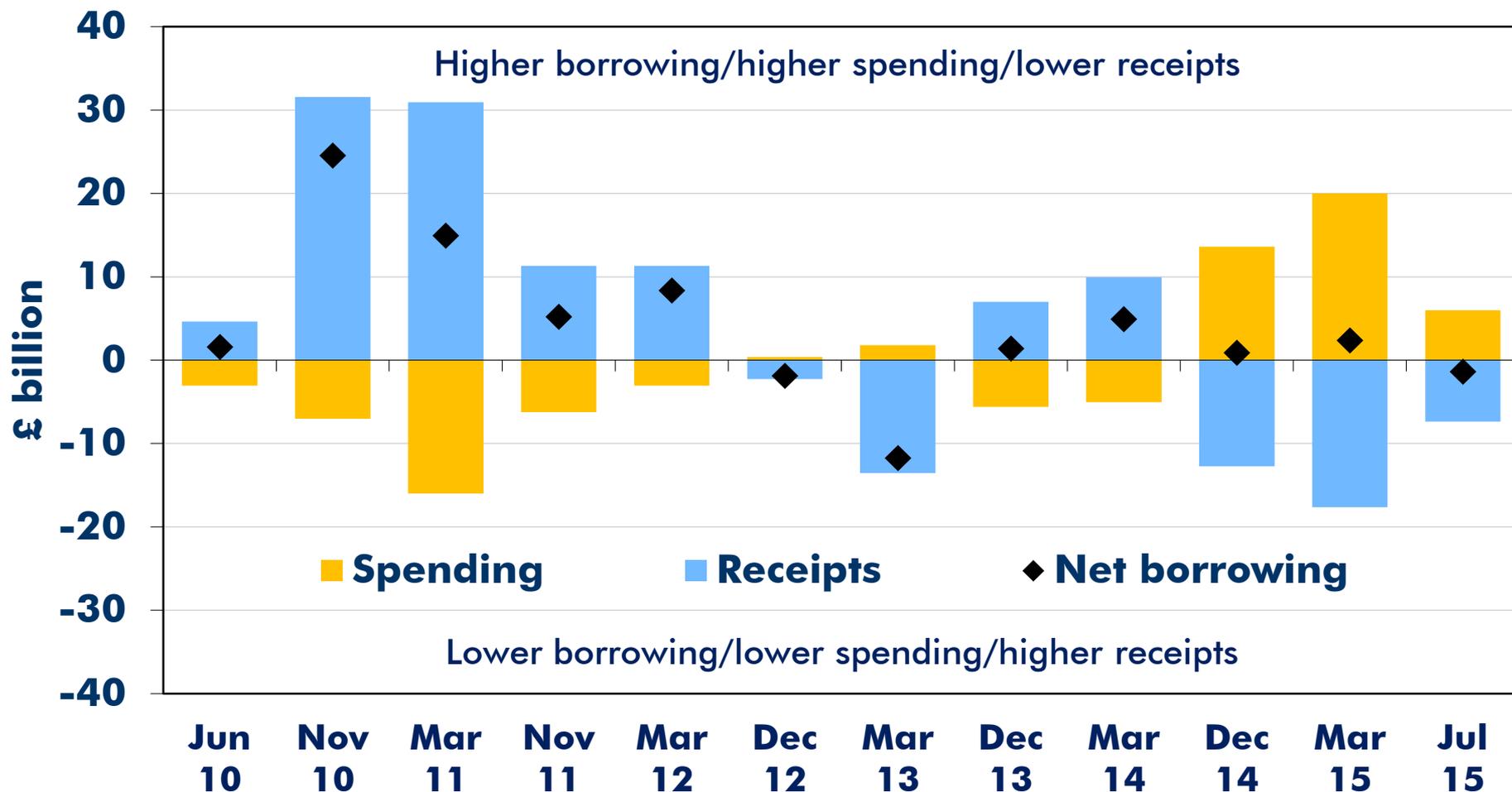
# PSNB forecast revisions



# PSNB forecast revisions



# PSNB 2-year forecast differences



# OBR forecasts vs previous 20 years: PSNB

Public sector net borrowing (per cent of outturn GDP)	In-year	One	Two	Three	Four	Five
June 2010	0.1	-0.6	0.0	1.7	2.9	3.3
November 2010	-0.6	0.0	1.6	2.6	3.4	3.3
March 2011	-0.4	-0.1	1.0	2.1	2.8	2.8
November 2011	-0.6	-0.1	0.4	1.0	1.5	1.6
March 2012	-0.6	-0.1	0.5	1.2	1.5	1.8
December 2012	-0.1	-0.3	-0.1	0.0	0.0	
March 2013	-0.2	-0.7	-0.6	-0.8	-0.5	
December 2013	-0.3	0.1	0.1	0.3		
March 2014	-0.1	0.1	0.3	0.6		
December 2014	-0.1	-0.1	0.3			
March 2015	-0.1	-0.1	0.4			
July 2015	0.0	0.2	0.2			
November 2015	0.1	0.0				
March 2016	0.1	-0.3				
November 2016	-0.9					
March 2017	-0.3					

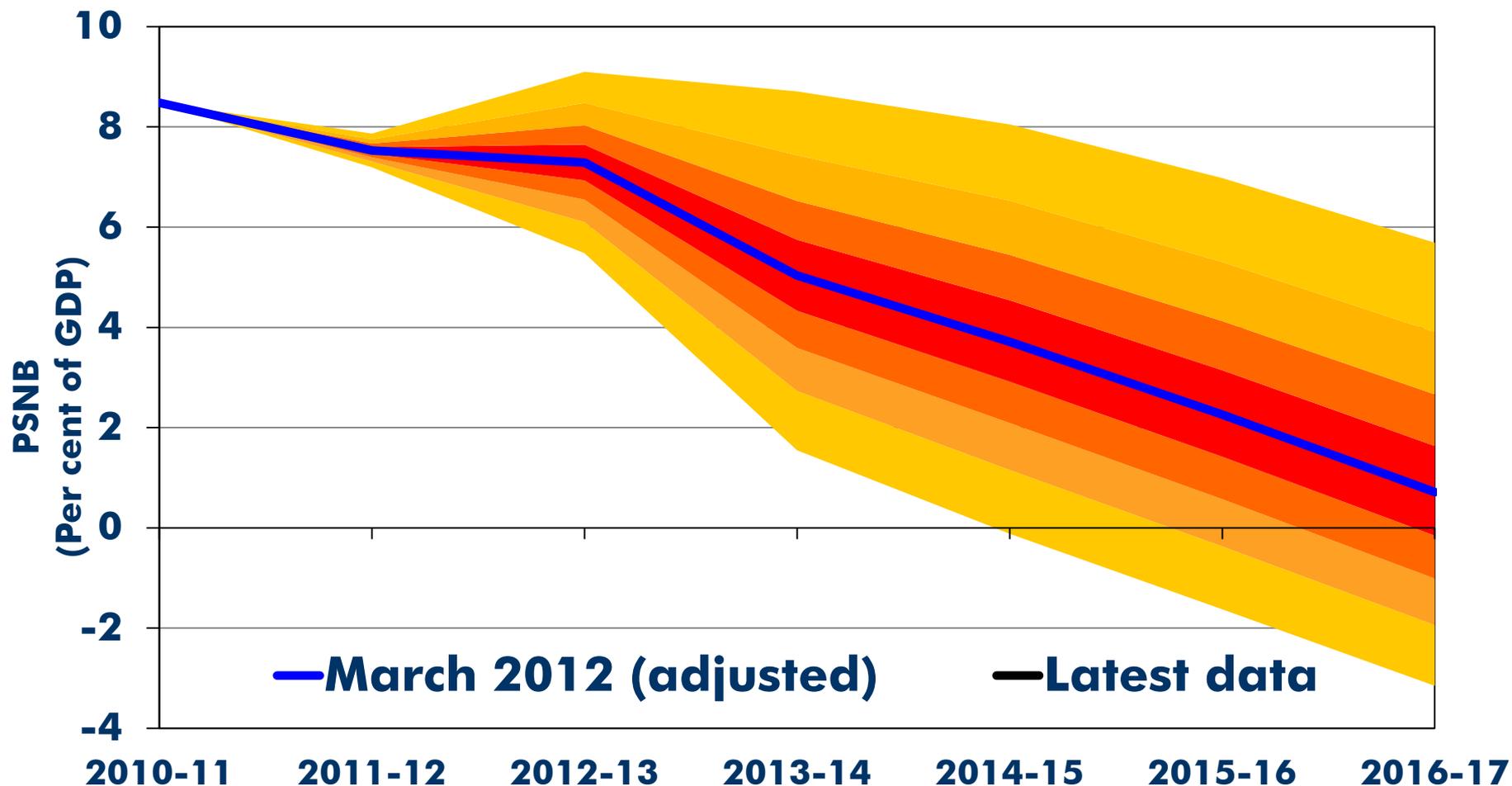
# OBR forecasts vs previous 20 years: spending

Spending (per cent of outturn GDP)	In-year	One	Two	Three	Four	Five
June 2010	0.5	0.0	-0.2	-0.3	-0.2	-0.3
November 2010	-0.1	-0.4	-0.3	-0.1	-0.1	-0.8
March 2011	0.2	-0.8	-0.9	-0.7	-0.6	-1.3
November 2011	-0.3	-0.5	-0.3	-0.3	-0.4	-0.3
March 2012	0.0	-0.3	-0.1	-0.1	-0.3	-0.2
December 2012	0.2	-0.1	0.0	-0.3	-0.1	
March 2013	0.3	-0.1	0.1	-0.3	-0.1	
December 2013	0.0	0.1	-0.3	-0.2		
March 2014	0.2	0.0	-0.3	0.0		
December 2014	0.1	0.1	0.7			
March 2015	0.1	0.2	1.0			
July 2015	0.2	0.3	0.3			
November 2015	0.0	-0.2				
March 2016	0.1	-0.1				
November 2016	-0.4					
March 2017	-0.1					

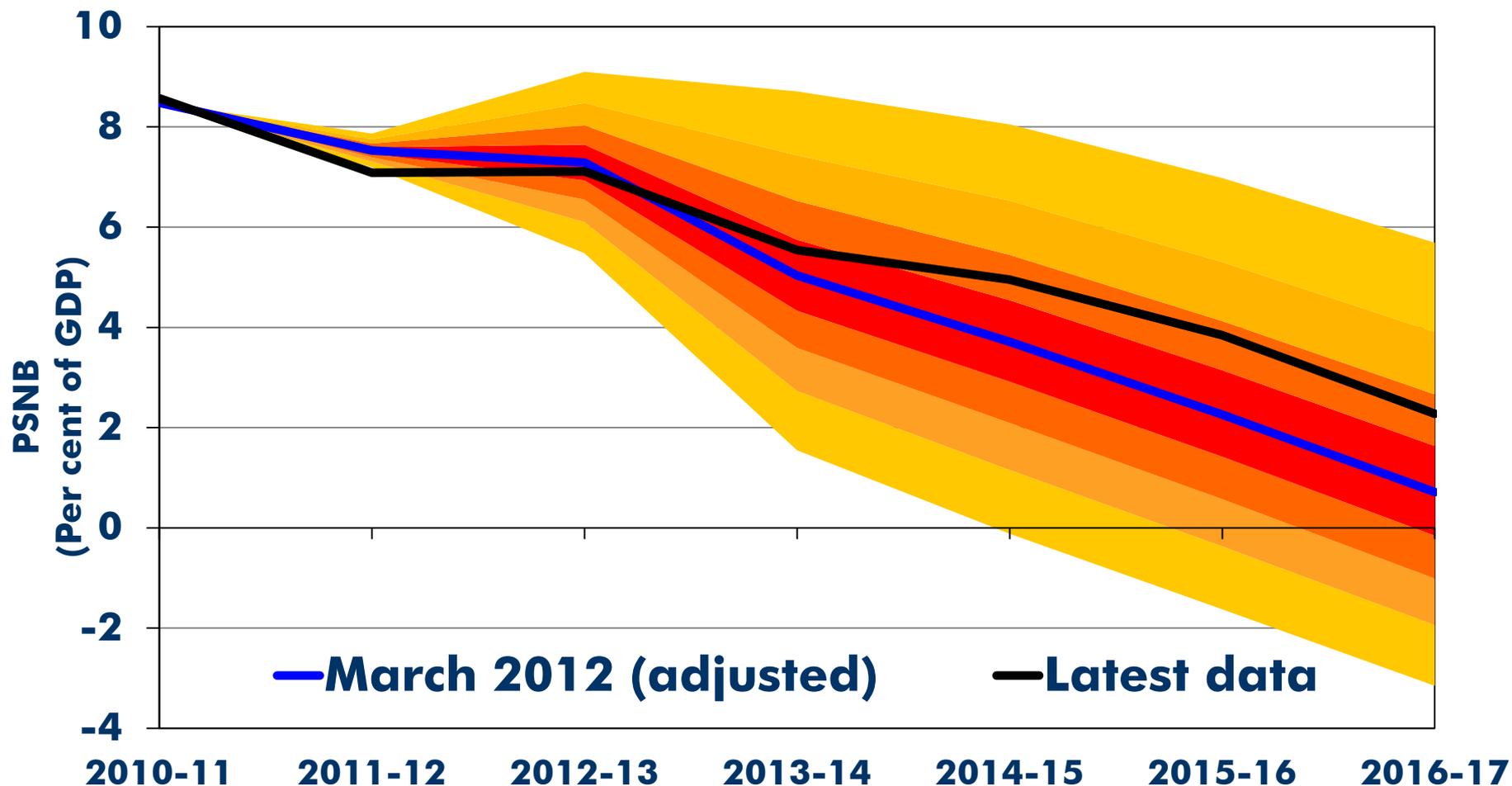
# OBR forecasts vs previous 20 years: receipts

Receipts (per cent of forecast GDP)	In-year	One	Two	Three	Four	Five
June 2010	-0.1	0.4	0.1	-1.1	-1.5	-1.8
November 2010	0.6	0.4	-0.7	-1.0	-1.3	-1.0
March 2011	0.4	0.0	-0.8	-1.2	-1.5	-1.2
November 2011	0.0	-0.7	-0.8	-1.0	-0.8	-0.2
March 2012	0.3	-0.5	-0.8	-1.1	-0.7	-0.3
December 2012	-0.7	-1.1	-1.3	-1.2	-0.7	
March 2013	-0.8	-1.0	-1.1	-1.0	-0.8	
December 2013	0.3	0.0	-0.1	0.0		
March 2014	0.3	0.1	-0.1	0.2		
December 2014	0.2	0.4	0.4			
March 2015	0.1	0.6	0.6			
July 2015	0.1	-0.2	-0.2			
November 2015	0.2	0.0				
March 2016	-0.4	-0.5				
November 2016	0.5					
March 2017	0.5					

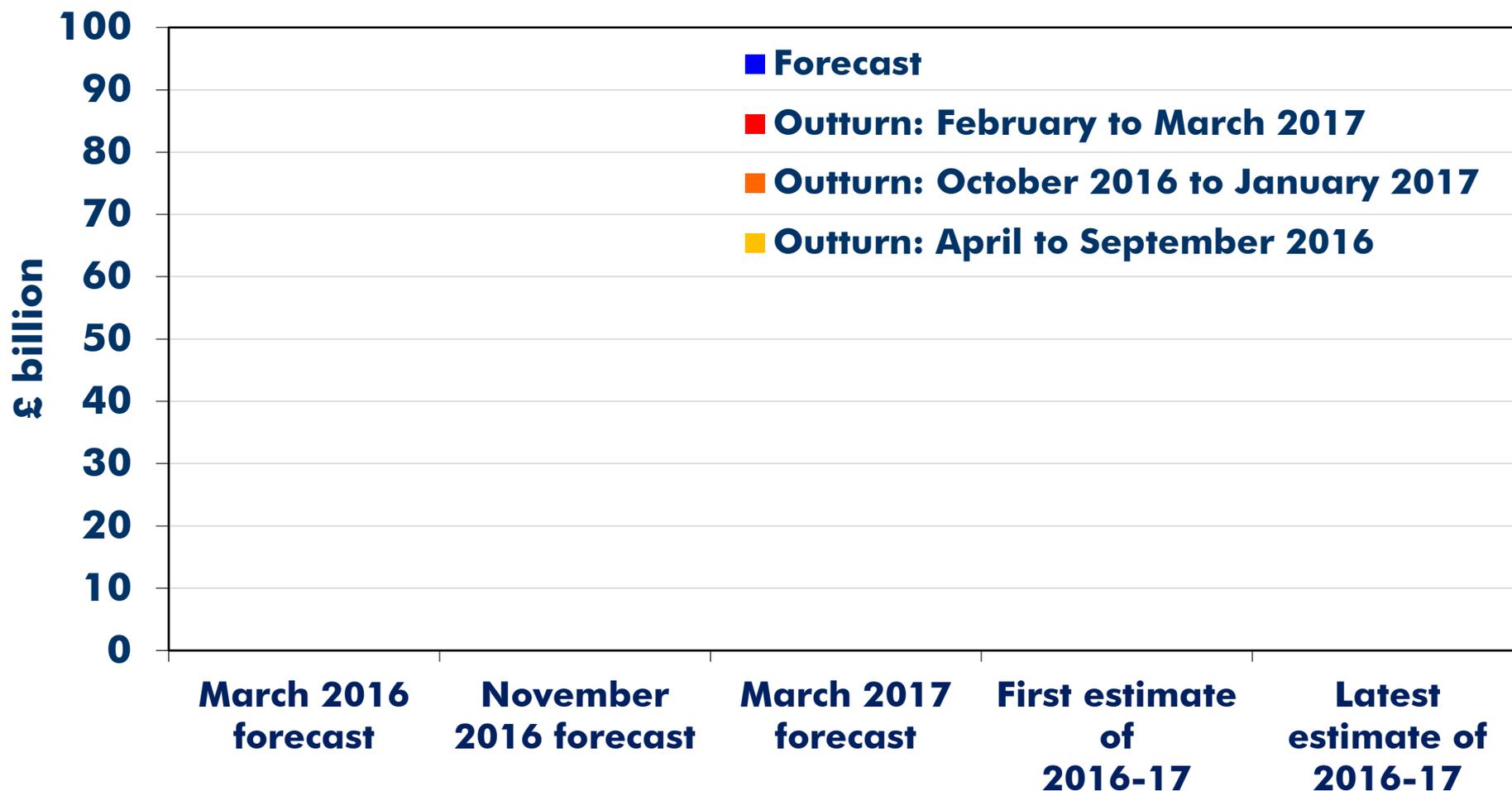
# PSNB forecasts: uncertainty



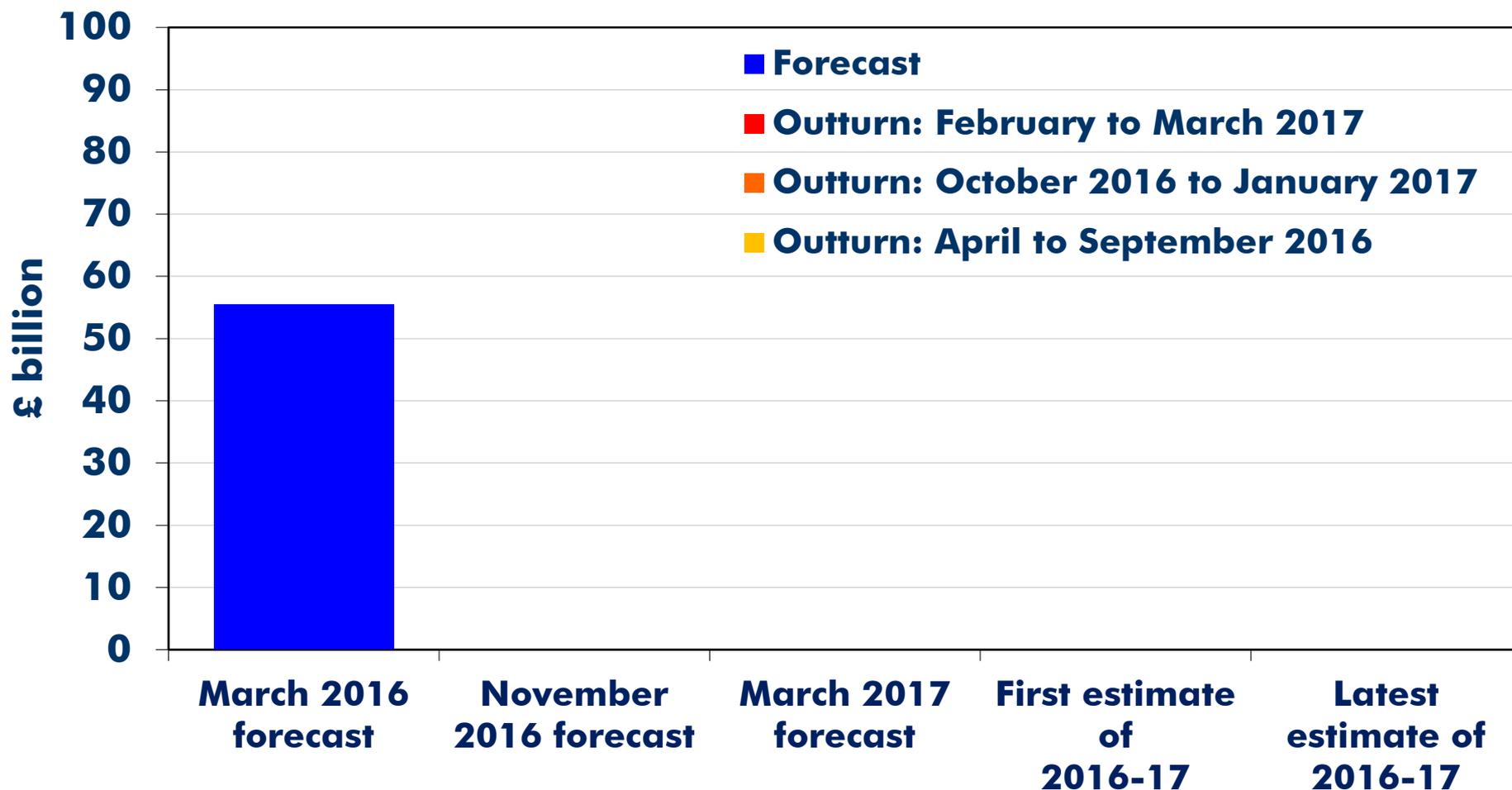
# PSNB forecasts: uncertainty



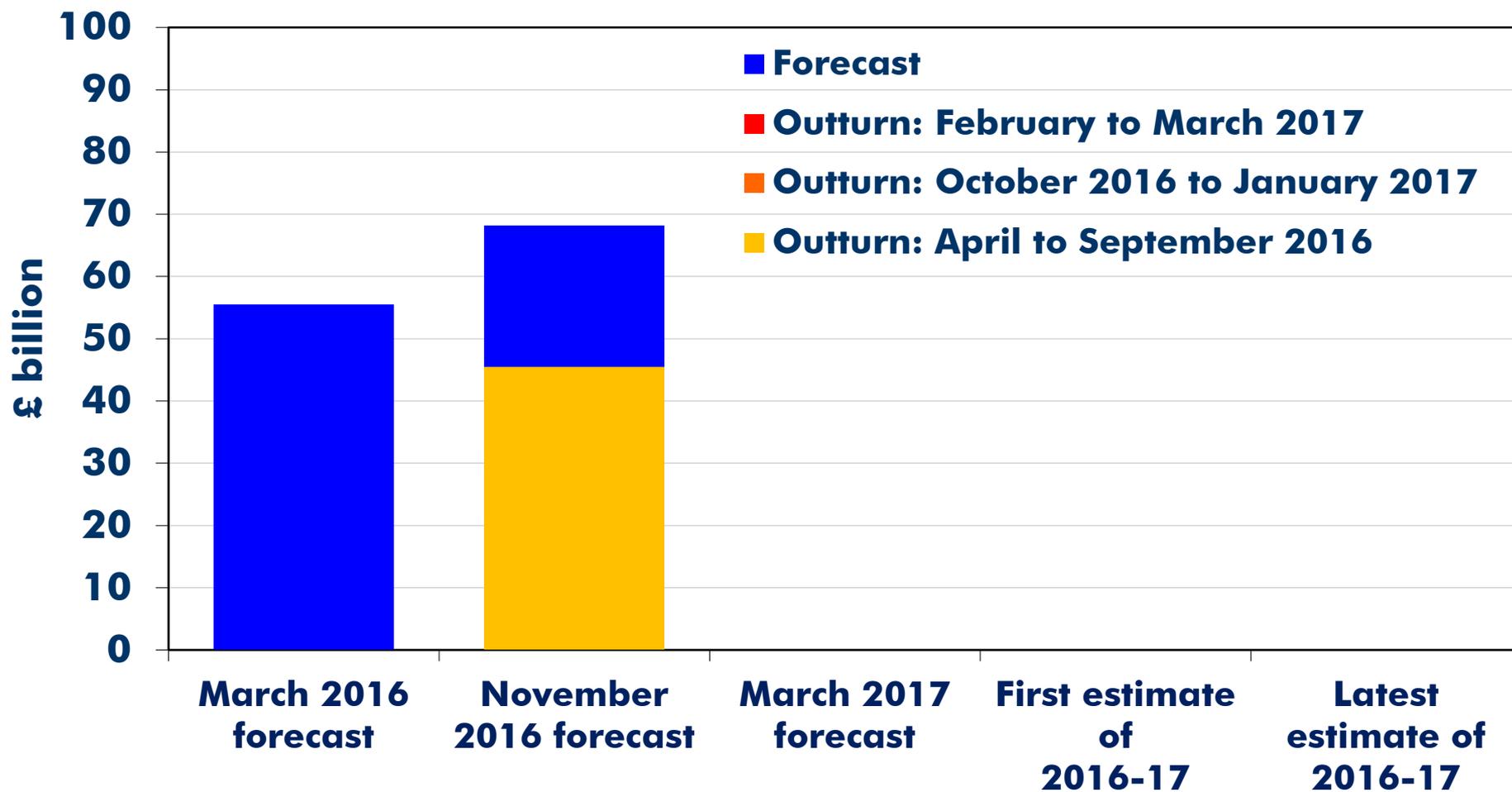
# PSNB in 2016-17



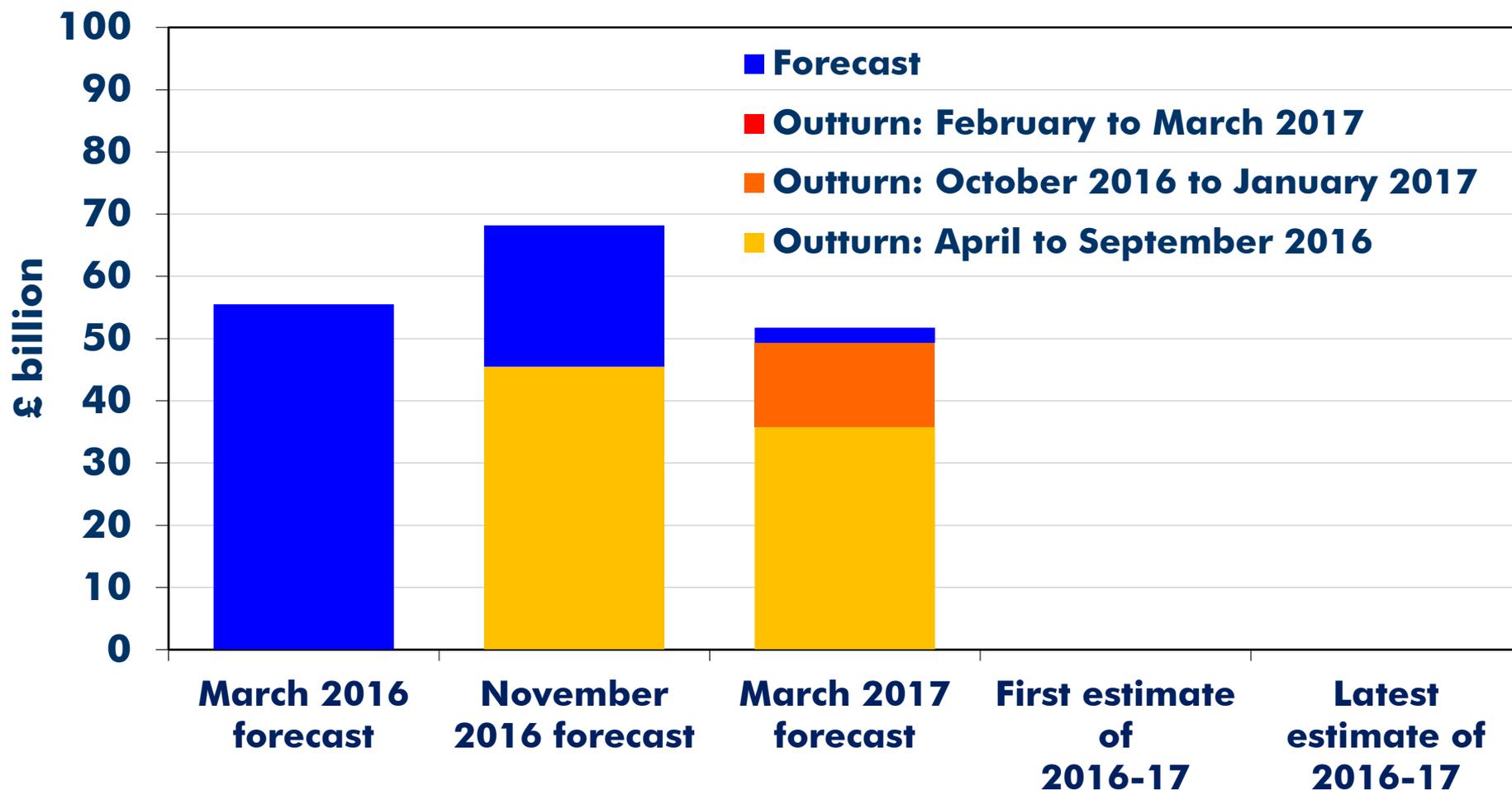
# PSNB in 2016-17



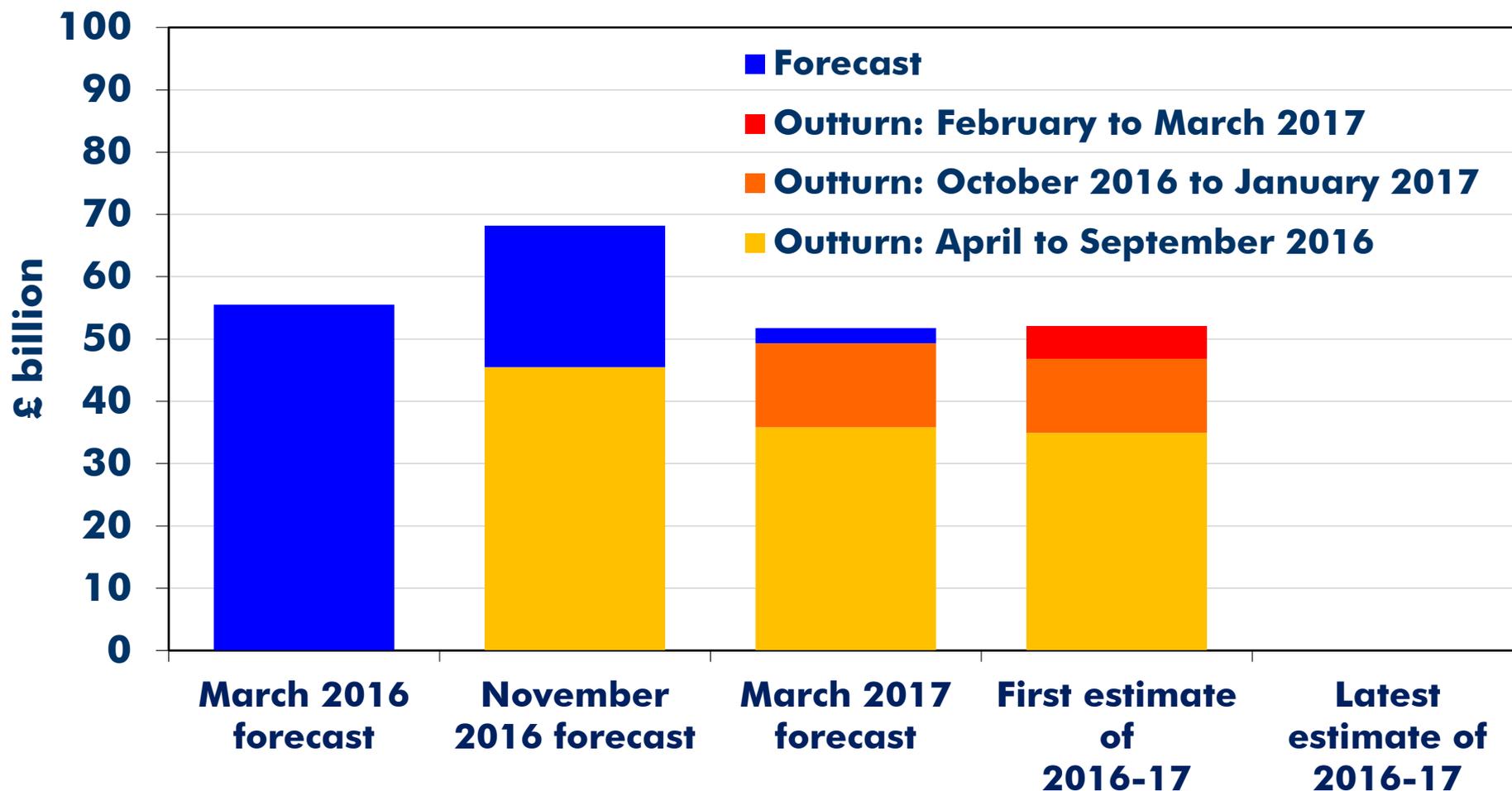
# PSNB in 2016-17



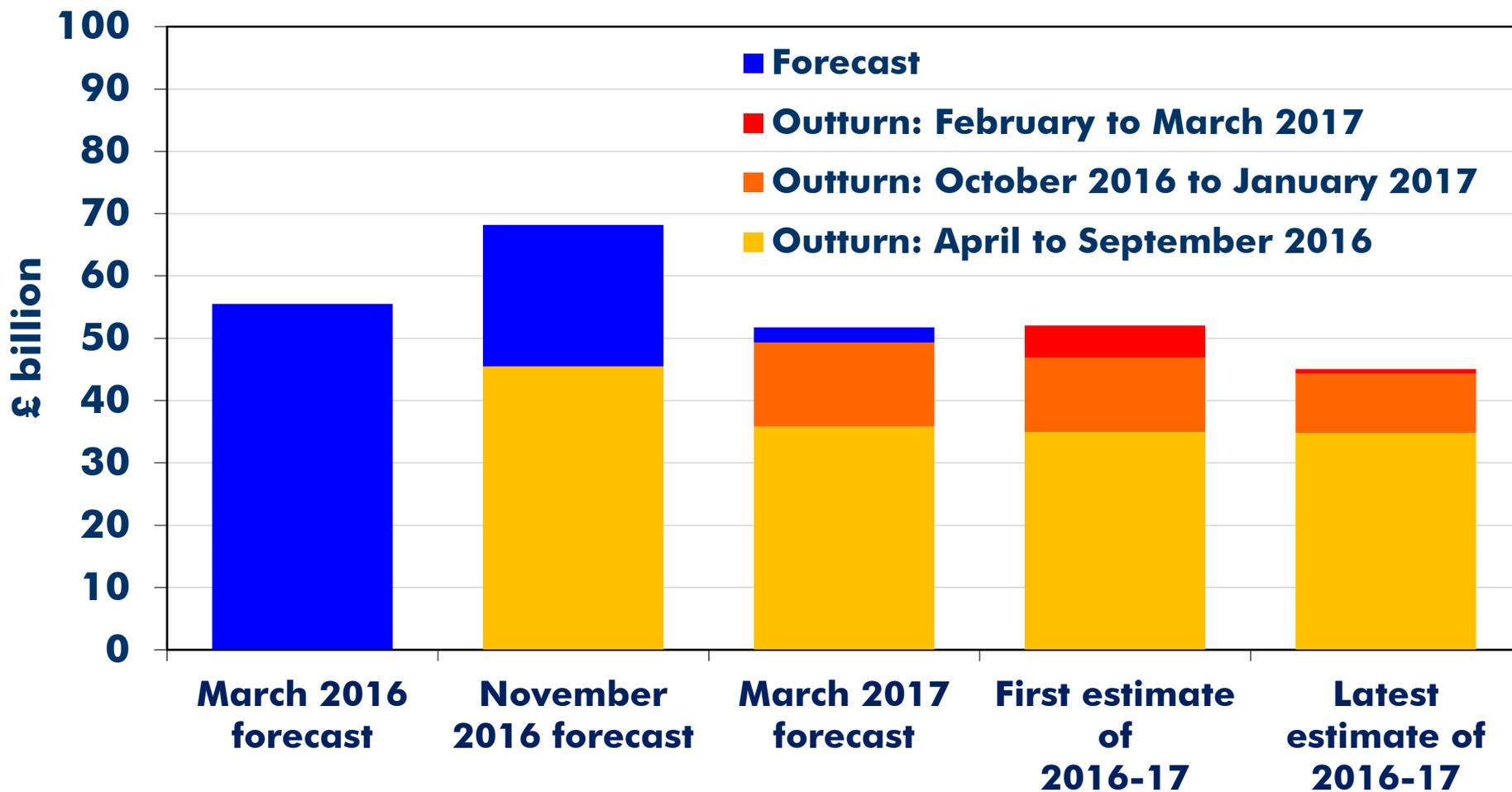
# PSNB in 2016-17



# PSNB in 2016-17



# PSNB in 2016-17



# PSNB in 2016-17: March vs today

<b>Net borrowing (£ billion)</b>	<b>March 2017 versus latest data</b>
<b>March 2017 forecast</b>	<b>52.0</b>
<b>Latest outturn</b>	<b>45.0</b>
<b>Difference</b>	<b>-7.0</b>
<b><i>of which:</i></b>	
<b>Classification and methodological changes</b>	<b>-1.3</b>
<b>Higher income tax and NICs</b>	<b>-3.5</b>
<b>Higher VAT receipts</b>	<b>-0.9</b>
<b>Higher corporation tax receipts</b>	<b>-0.8</b>
<b>Higher other central government receipts</b>	<b>-0.9</b>
<b>Lower central government spending</b>	<b>-1.9</b>
<b>Higher local authority net borrowing</b>	<b>1.8</b>
<b>Higher public corporation net borrowing</b>	<b>0.5</b>

# PSNB to date in 2017-18

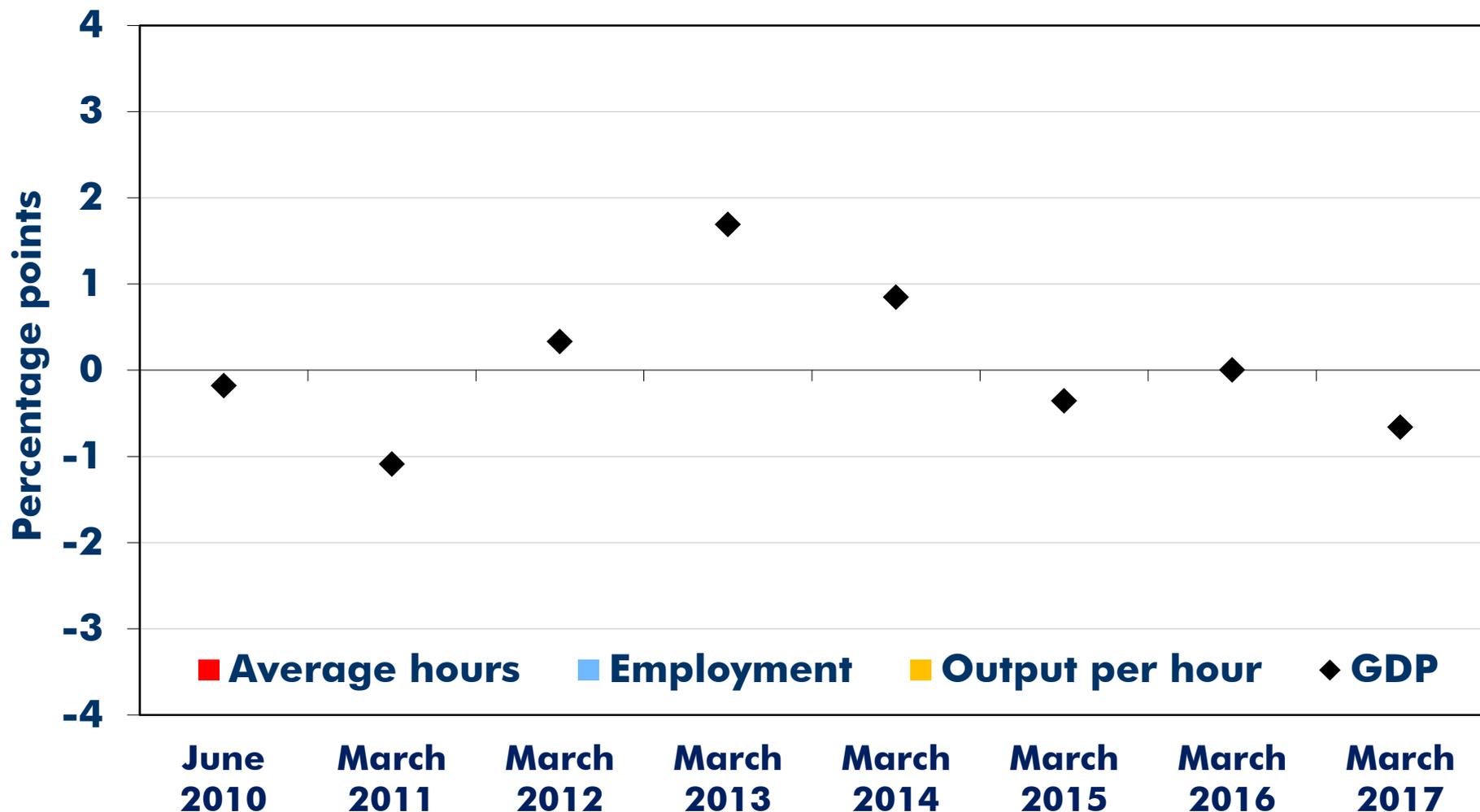
<b>2017-18 vs. 2016-17 (percentage change on a year earlier)</b>	<b>March 2017 forecast against latest 2016-17 data</b>	<b>April to August</b>
<b>Central government receipts*</b>	<b>2.0</b>	<b>3.7</b>
<i>of which:</i>		
<b>PAYE income tax and NICs</b>	<b>2.9</b>	<b>4.0</b>
<b>VAT</b>	<b>2.9</b>	<b>3.1</b>
<b>Self-assessment income tax</b>	<b>-13.2</b>	<b>5.7</b>
<b>Central government spending*</b>	<b>4.5</b>	<b>4.4</b>
<i>of which:</i>		
<b>Debt interest</b>	<b>14.6</b>	<b>17.0</b>
<b>EU transfers</b>	<b>28.0</b>	<b>27.6</b>
<b>Central government net investment*</b>	<b>13.3</b>	<b>17.5</b>
<b>Local authority net borrowing*</b>	<b>0.9</b>	<b>-2.9</b>
<b>Public corporation net borrowing*</b>	<b>7.3</b>	<b>-13.2</b>

\*Excludes APF transfers and central government grants to local authorities where relevant

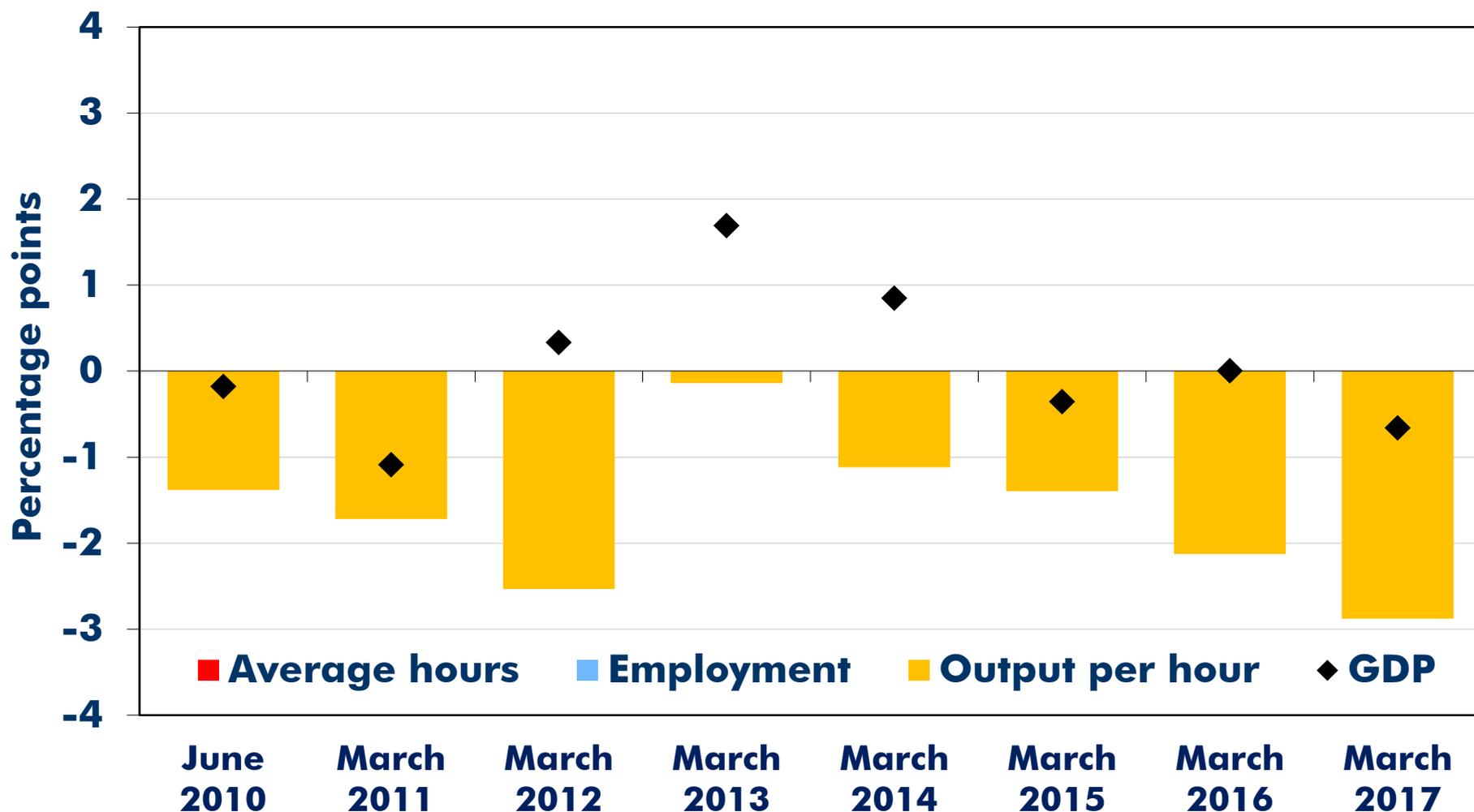
# OBR forecast vs previous 20 years: real GDP

Real GDP growth	In-year	One	Two	Three	Four	Five
June 2010	0.5	-0.8	-1.3	-0.8	0.4	-0.4
November 2010	-0.1	-0.6	-1.1	-0.8	0.3	-0.4
March 2011	-0.2	-1.0	-0.8	0.2	-0.5	
November 2011	0.6	0.8	0.0	0.4	-0.7	-1.2
March 2012	0.7	0.1	0.4	-0.7	-1.2	
December 2012	1.6	0.9	1.1	0.0	-0.9	
March 2013	1.5	1.3	0.0	-0.9		
December 2013	0.7	0.7	0.1	-0.8		
March 2014	0.4	0.0	-0.8			
December 2014	0.1	-0.1	-0.4			
March 2015	-0.2	-0.5				
July 2015	-0.1	-0.5				
November 2015	-0.1	-0.6				
March 2016	-0.2					
November 2016	-0.3					

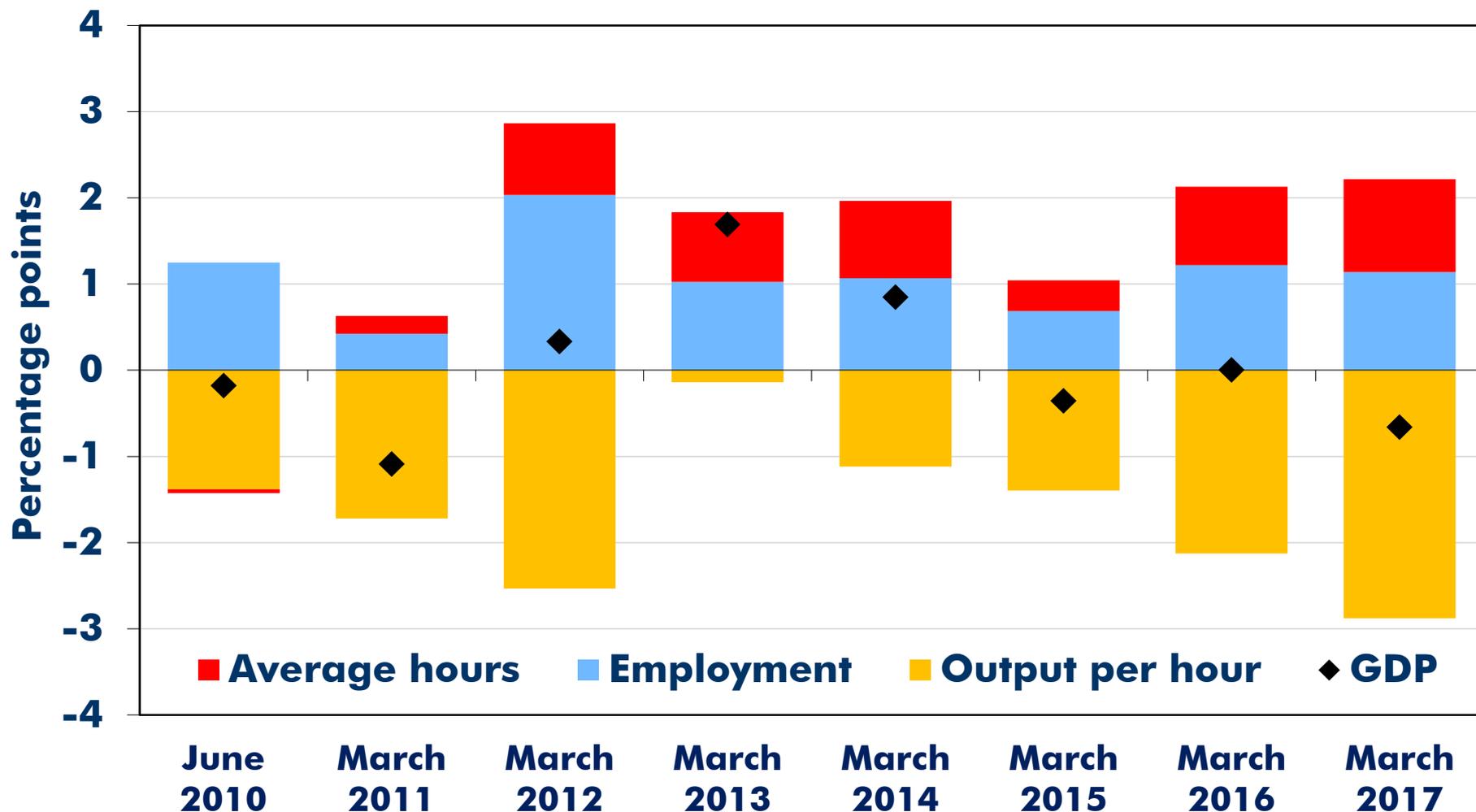
# Real GDP 1-year forecast differences



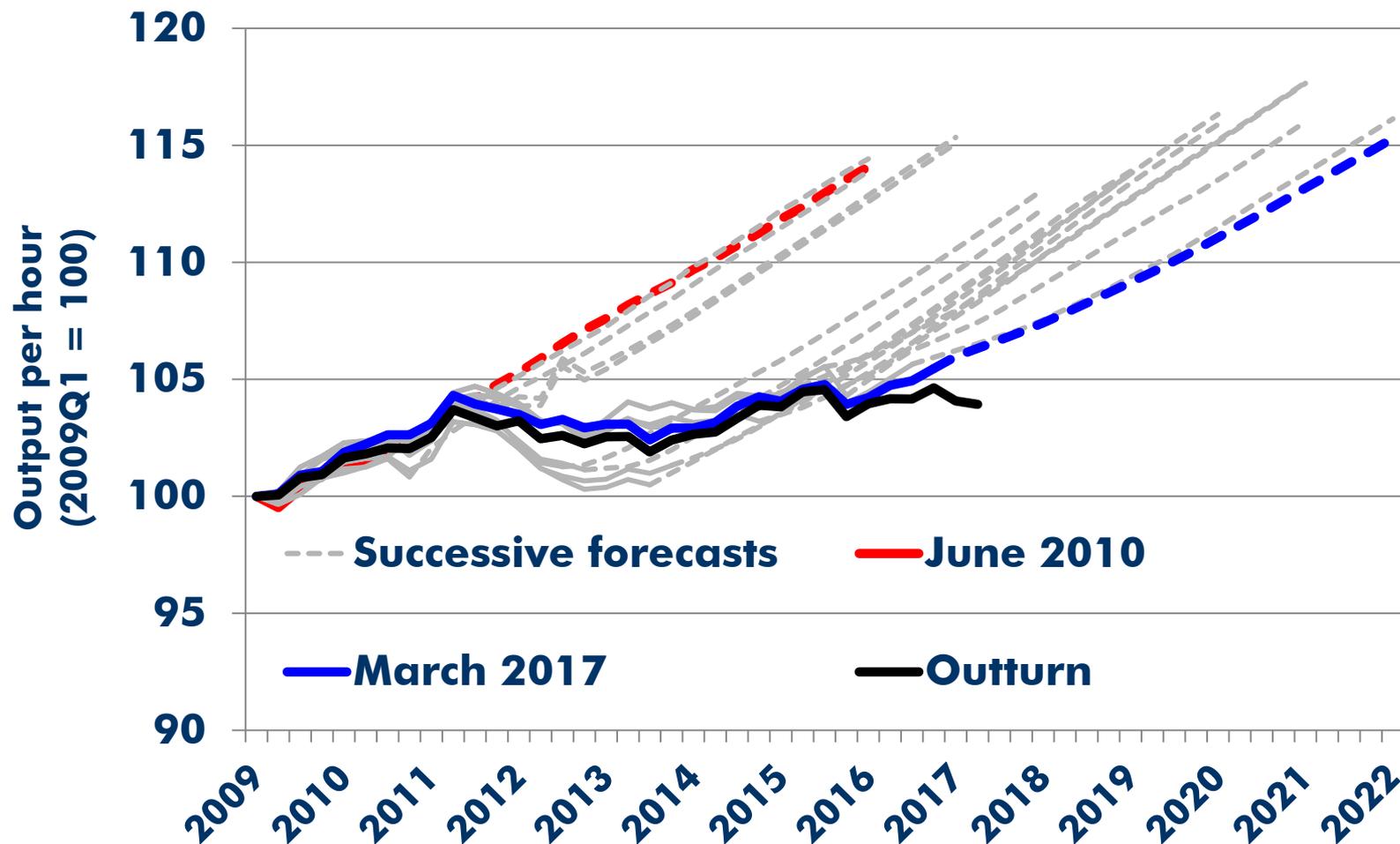
# Real GDP 1-year forecast differences



# Real GDP 1-year forecast differences



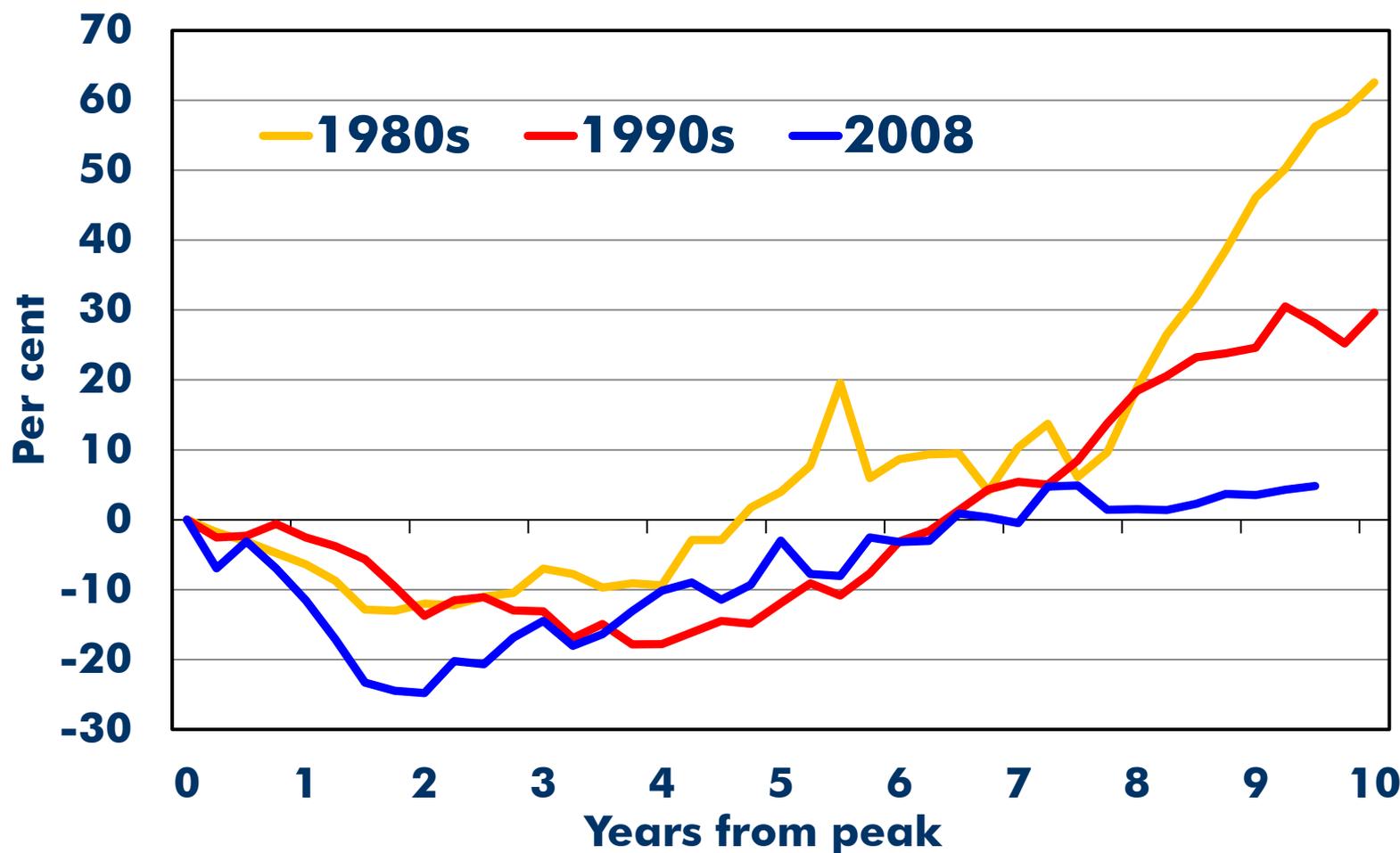
# Productivity: output per hour



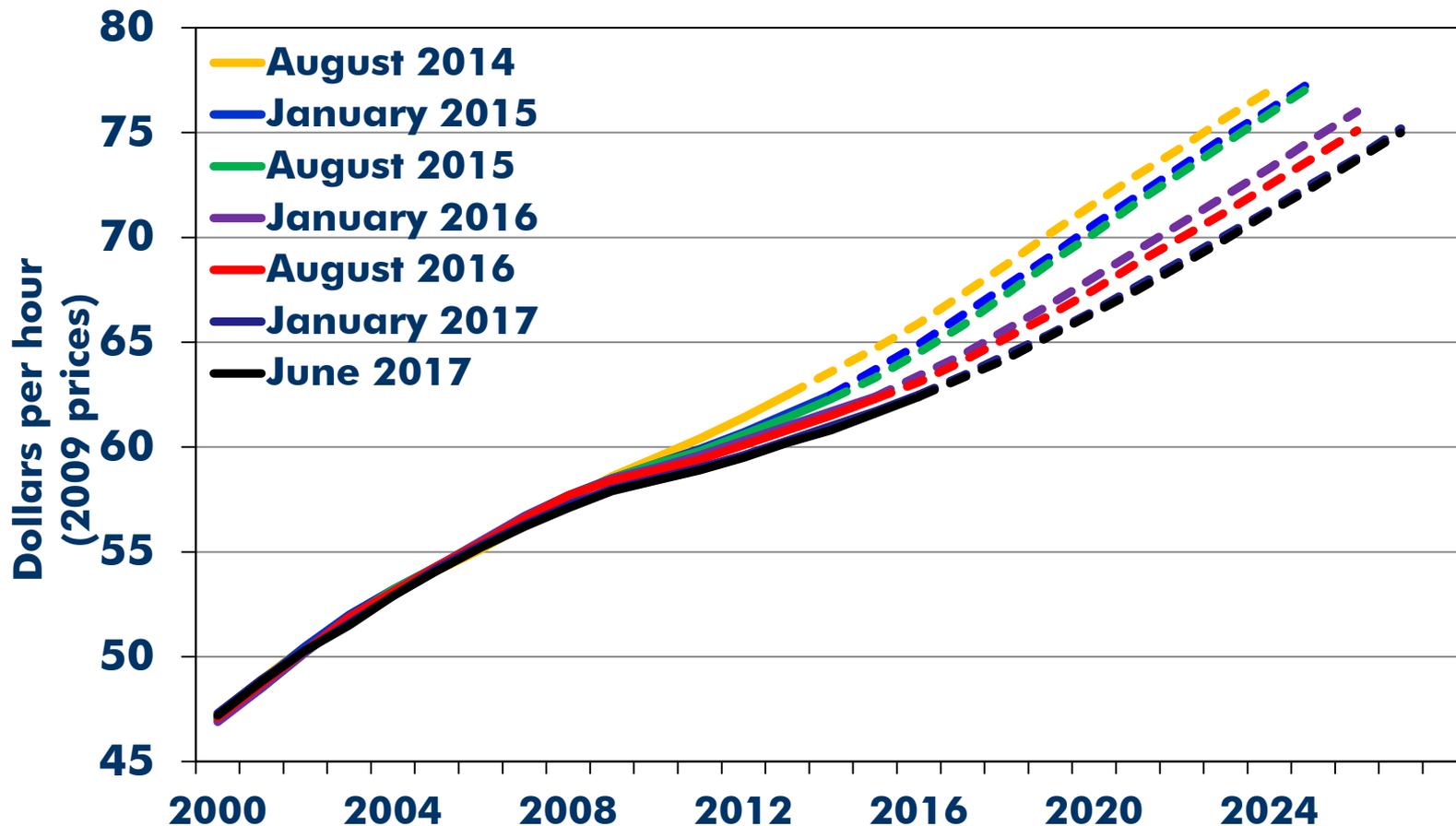
# The productivity puzzle: explanations

- Labour hoarding
- Inefficient reallocation of capital
- Very loose monetary policy
- Loose labour markets
- Weak business investment

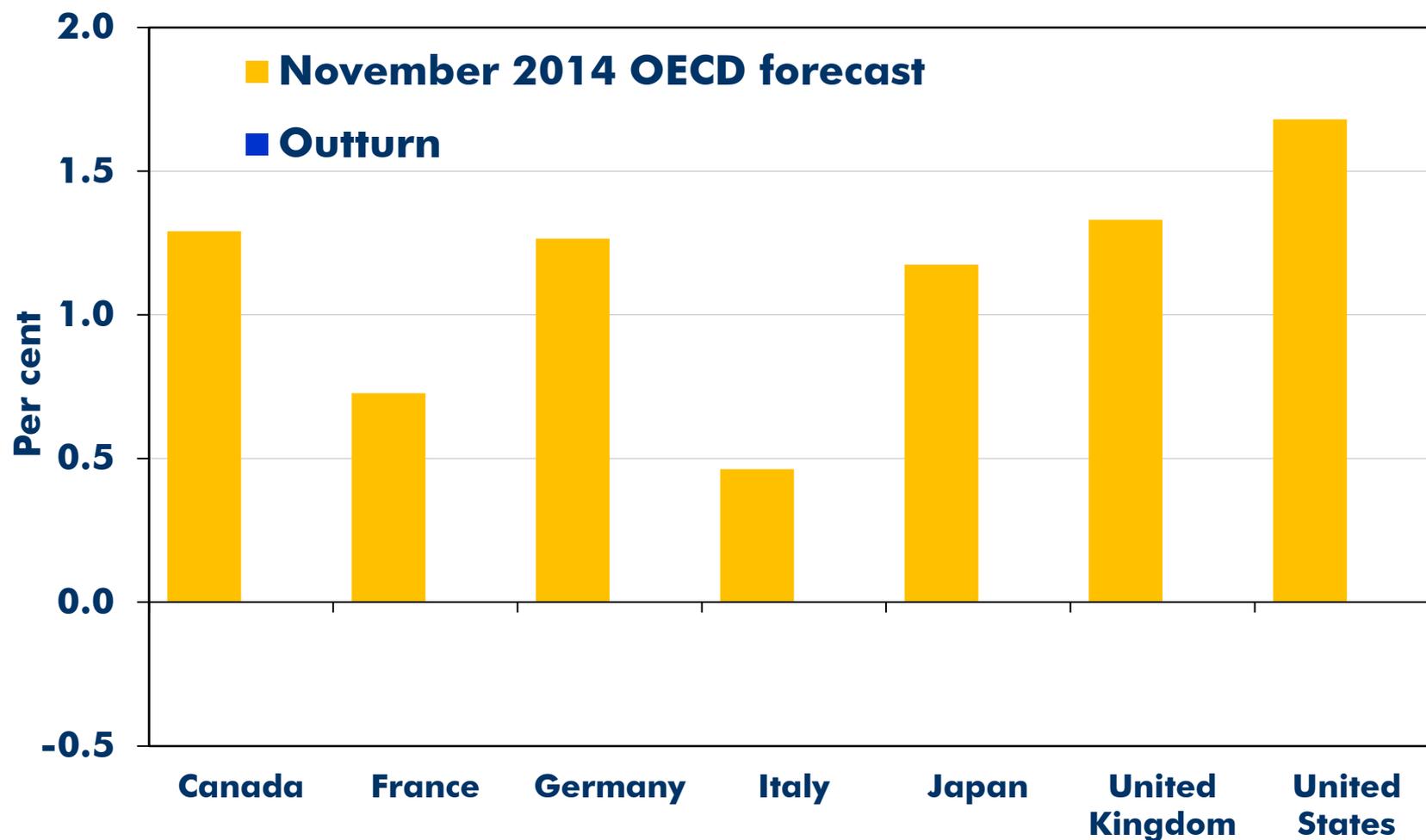
# Business investment



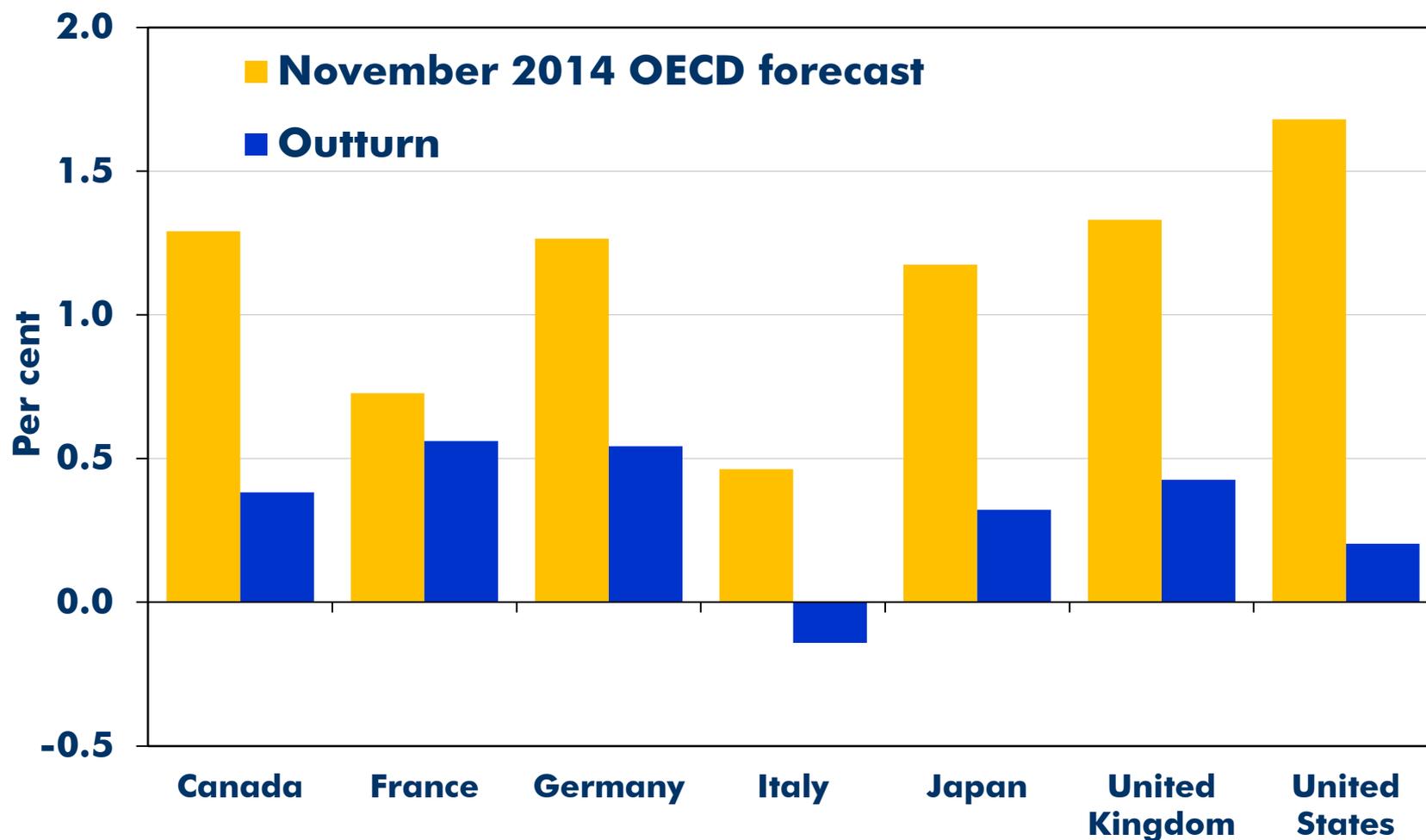
# US productivity disappointments



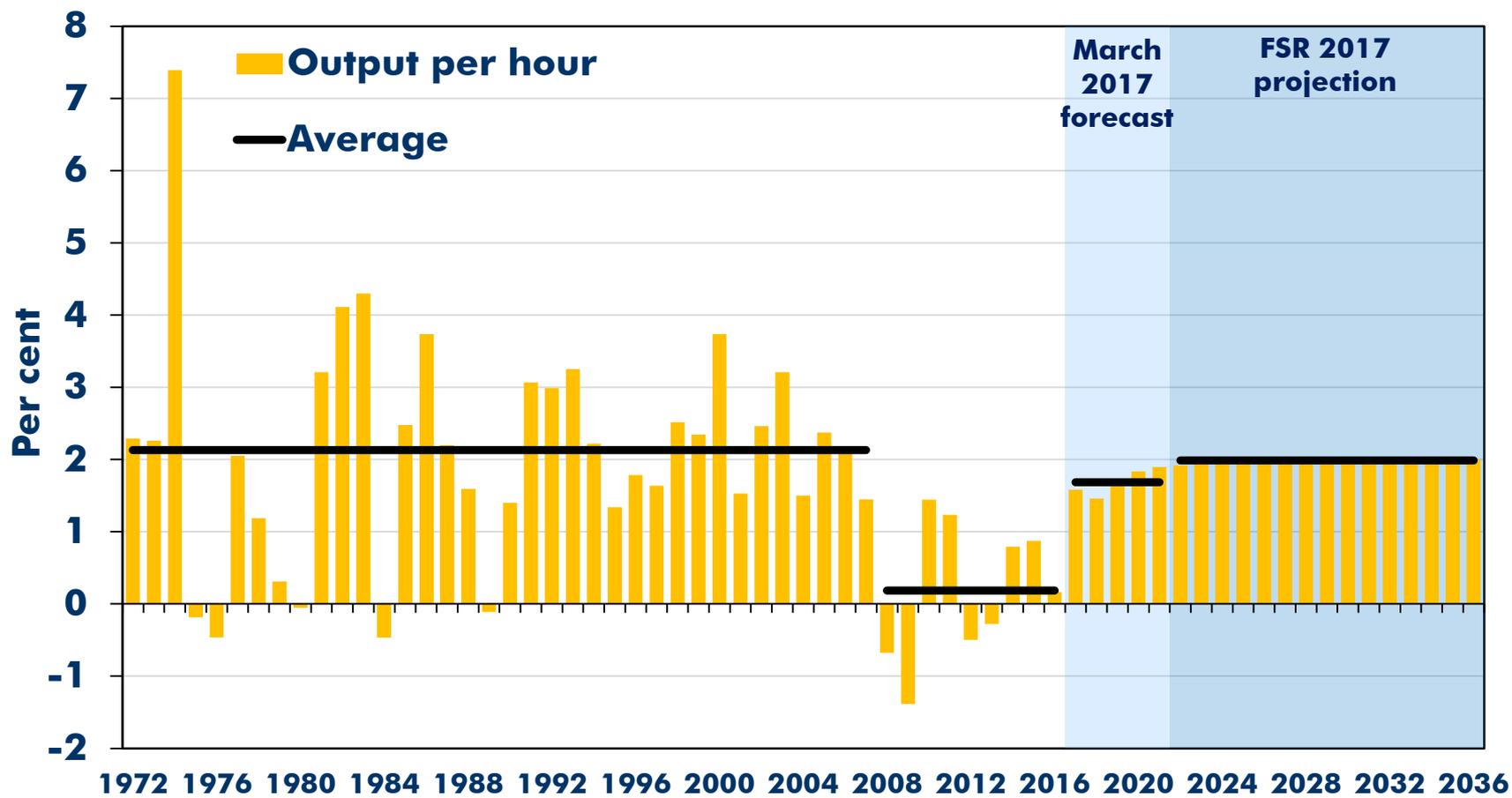
# G7 productivity disappointments



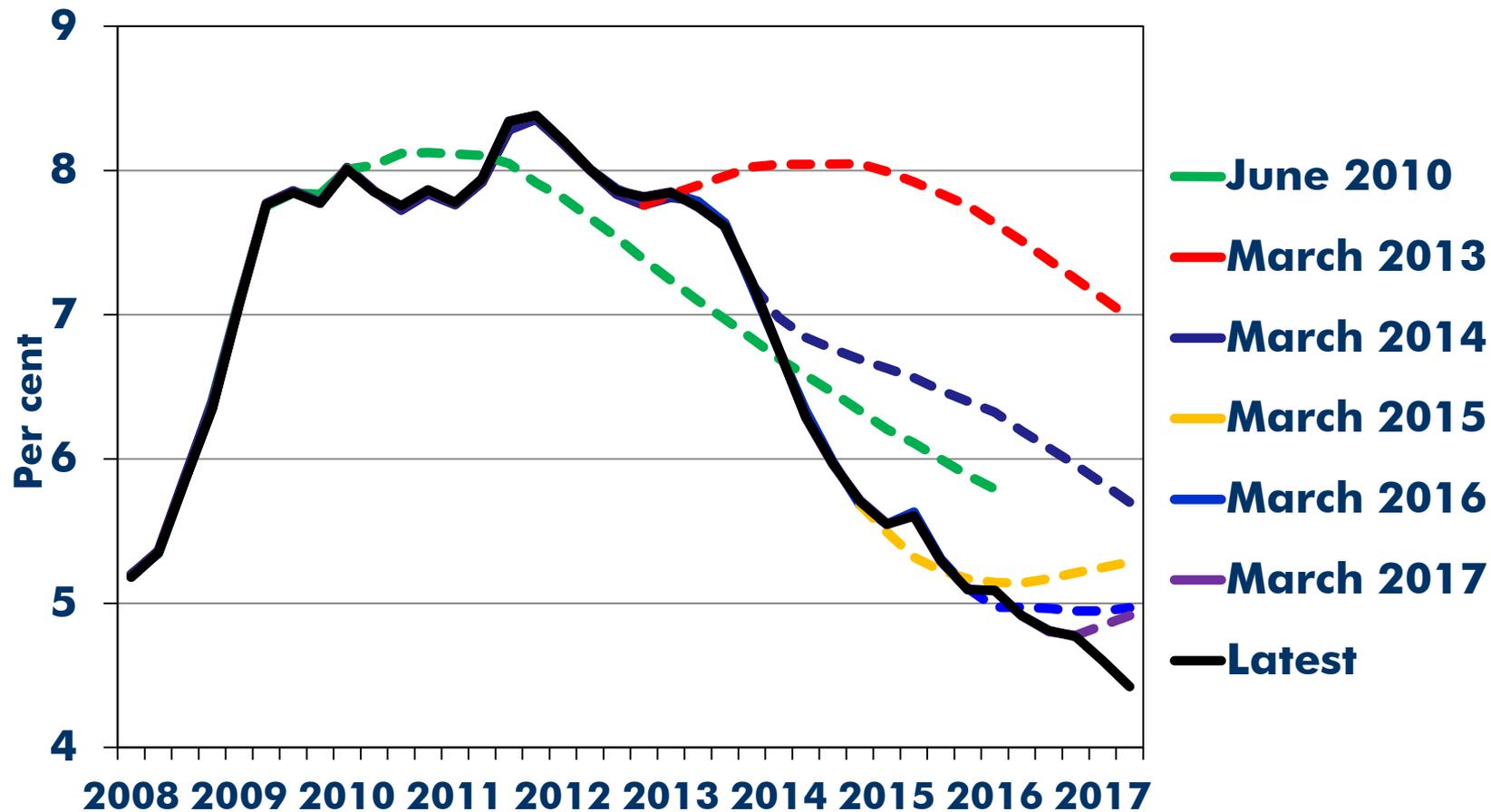
# G7 productivity disappointments



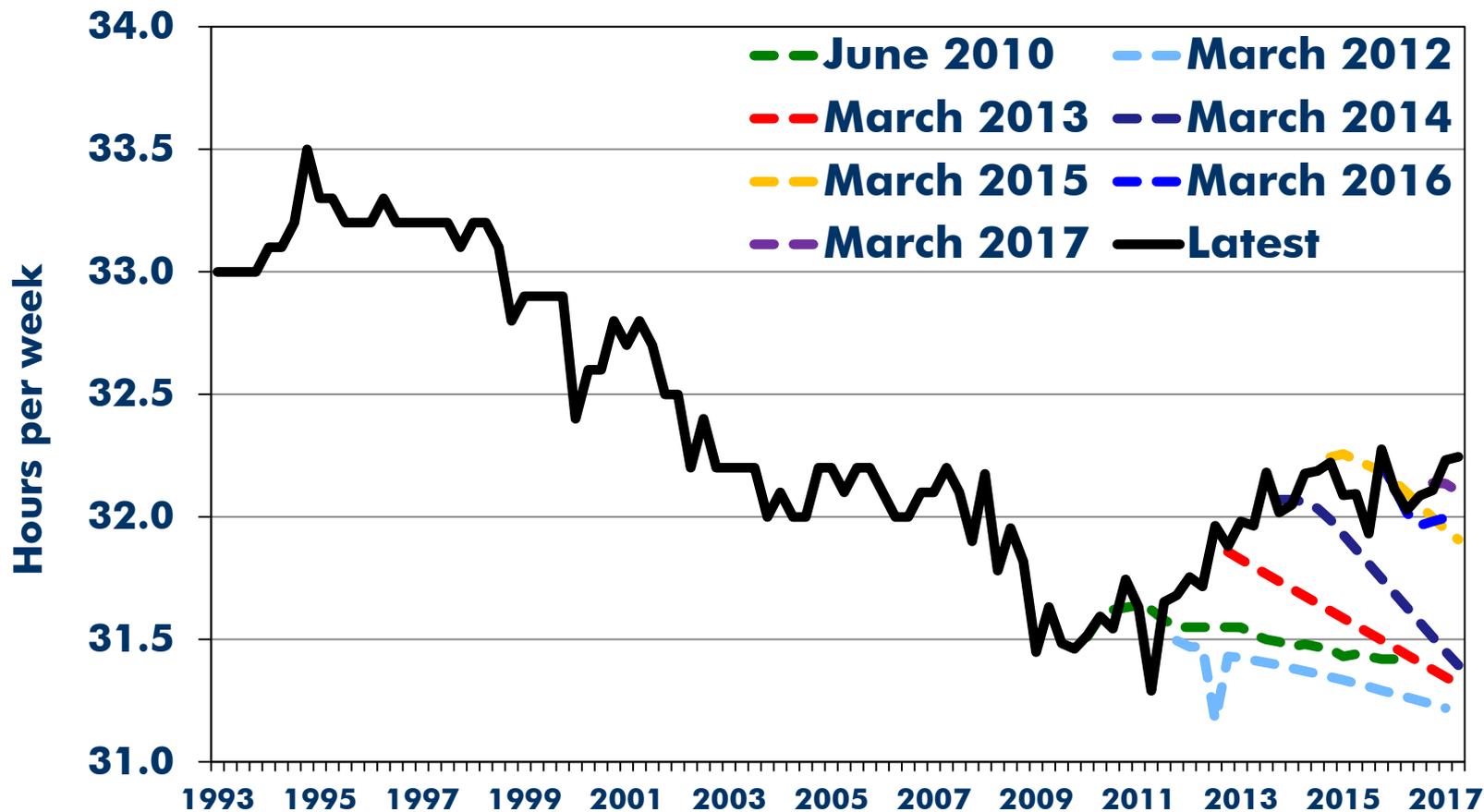
# Productivity growth: March forecast



# Unemployment rate



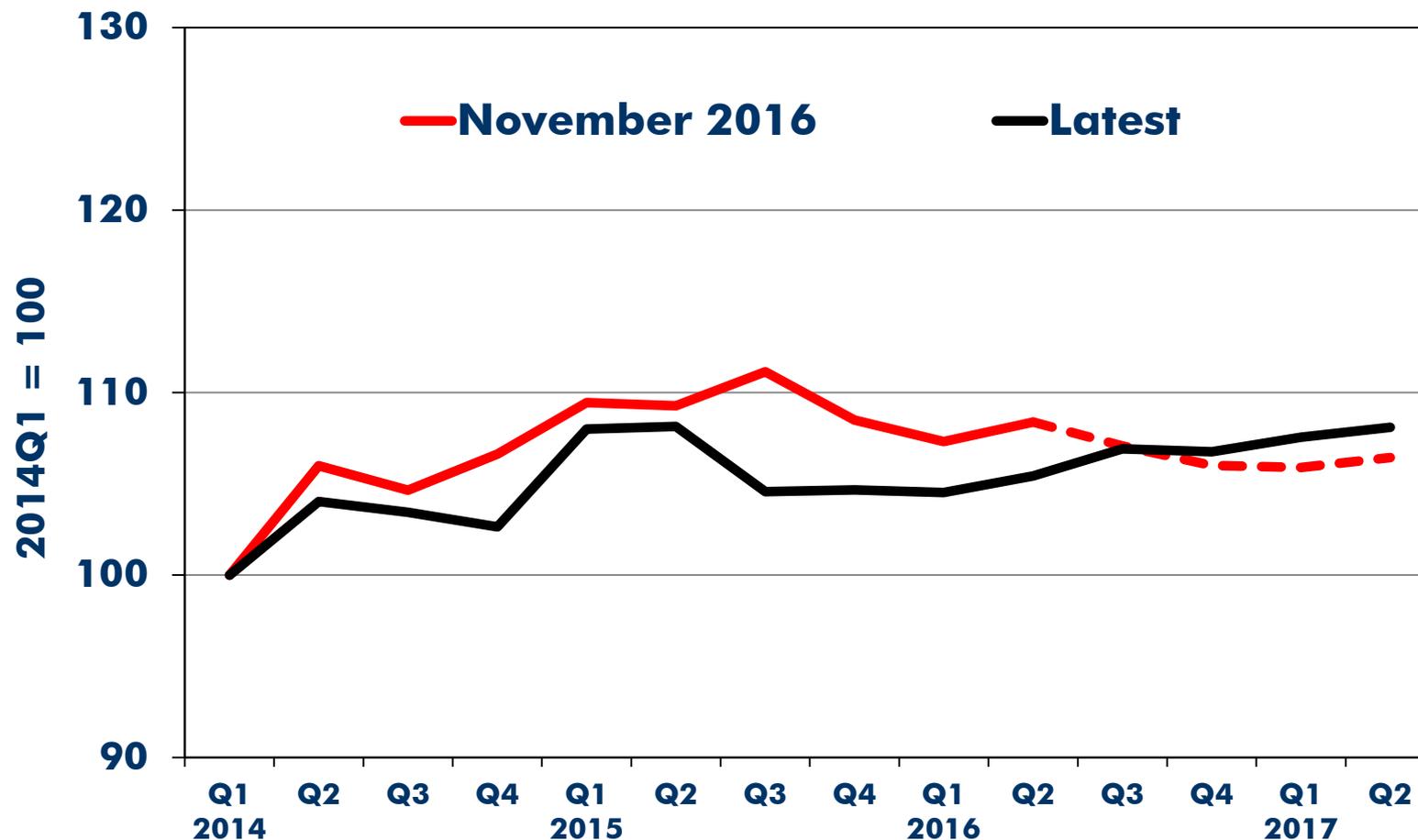
# Average hours worked



# Our Brexit judgements

- Weaker pound squeezes consumers
- Uncertainty deters business investment
- Weaker pound boosts net exports
- Transition to less trade-intensive economy
- Net inward migration to fall

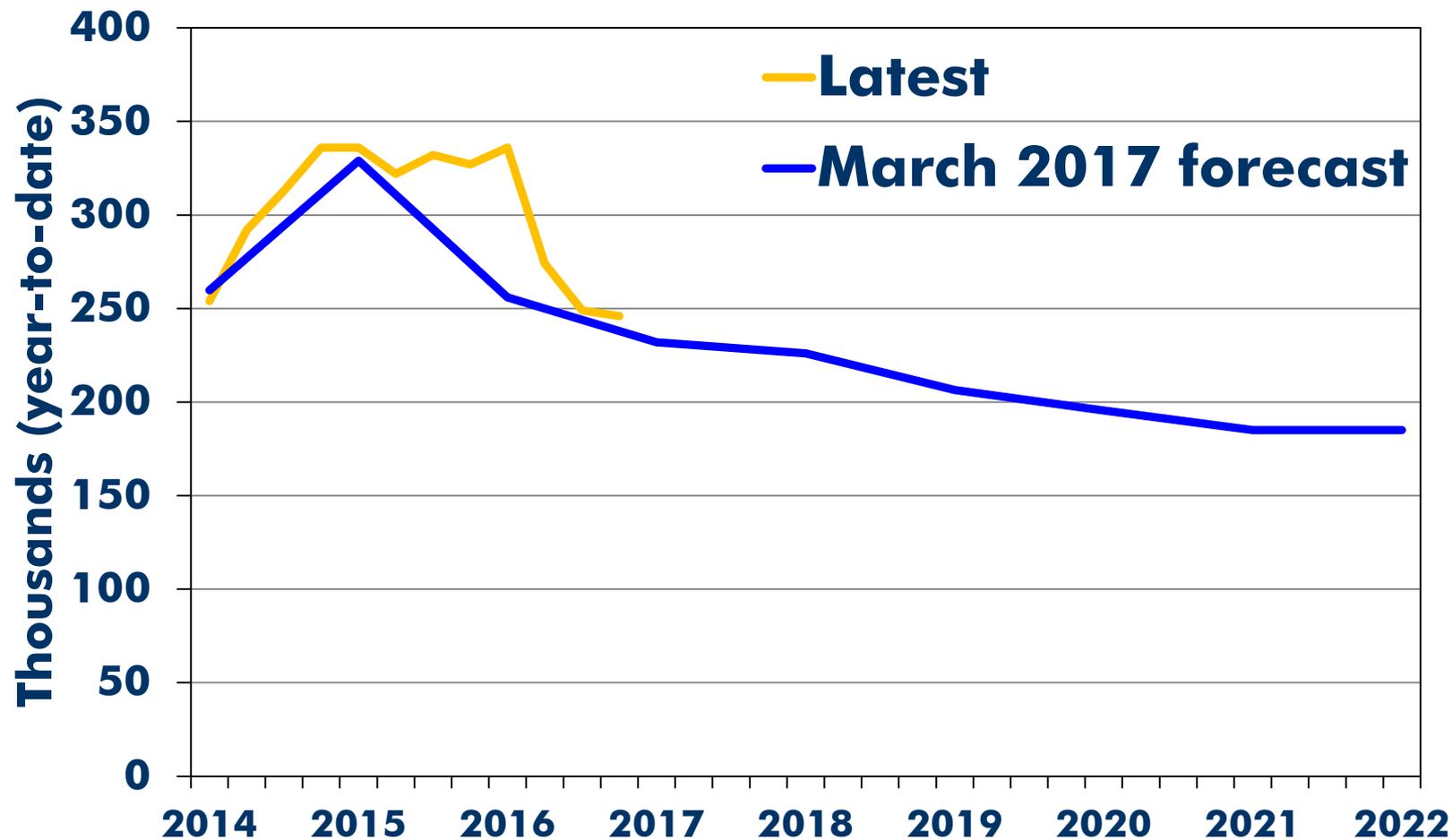
# Business investment



# Our Brexit judgements

- Weaker pound squeezes consumers
- Uncertainty deters business investment
- Weaker pound boosts net exports
- Transition to less trade-intensive economy
- Net inward migration to fall

# Net migration



# Our Brexit judgements

- Weaker pound squeezes consumers
- Uncertainty deters business investment
- Weaker pound boosts net exports
- Transition to less trade-intensive economy
- Net inward migration to fall

# Conclusion

- Budget six weeks away
- Lots of uncertainty in the forecast, but some pointers
- Bad for public finances
  - Weaker outlook for productivity
- Good for public finances
  - Lower sustainable unemployment rate
  - More hours worked
  - Downward revisions to last year's deficit
- Productivity likely to dominate