



# Global & UK Macroeconomic Outlook

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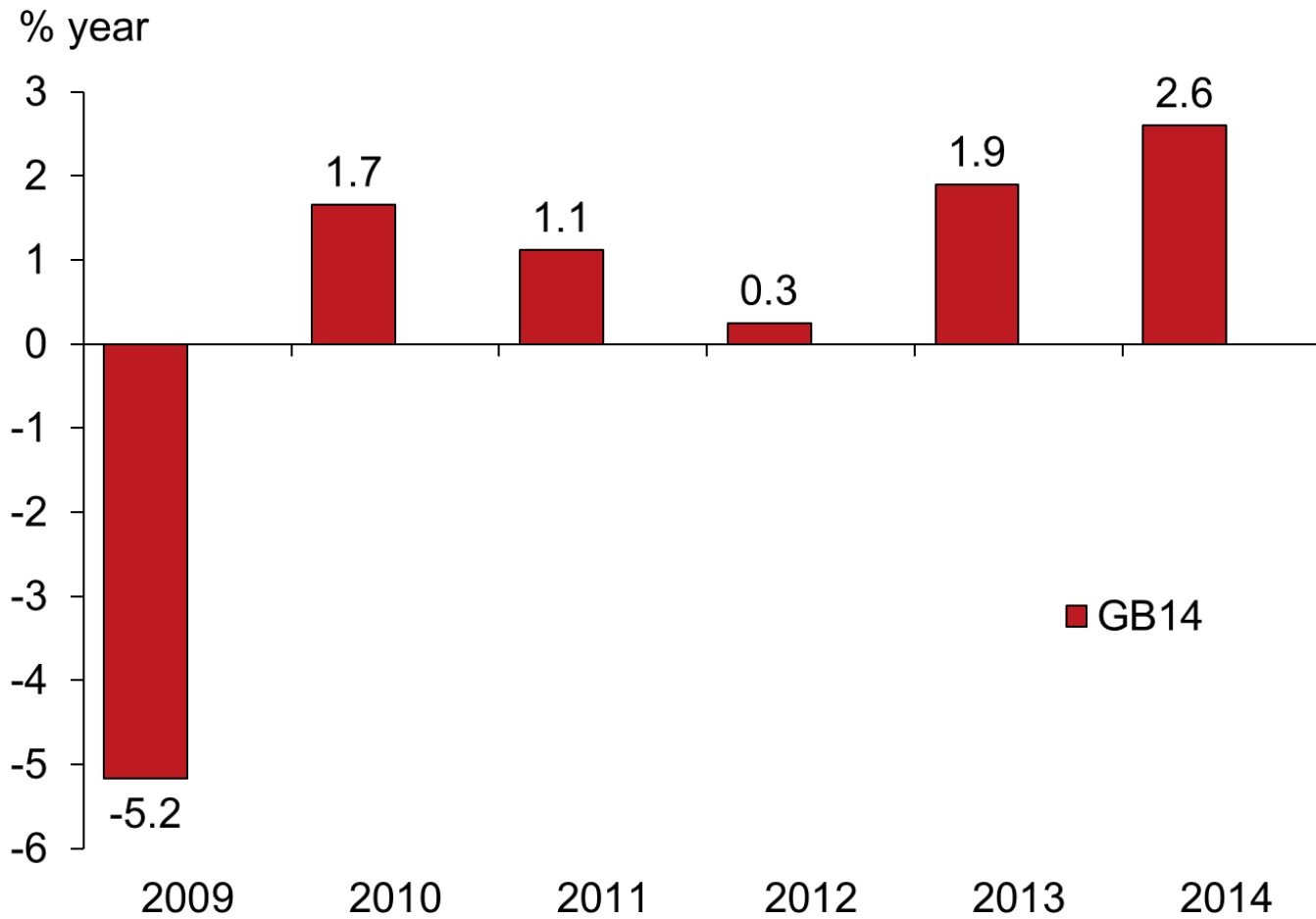


4<sup>th</sup> February 2015

# 2014 saw the strongest growth in 7 years...

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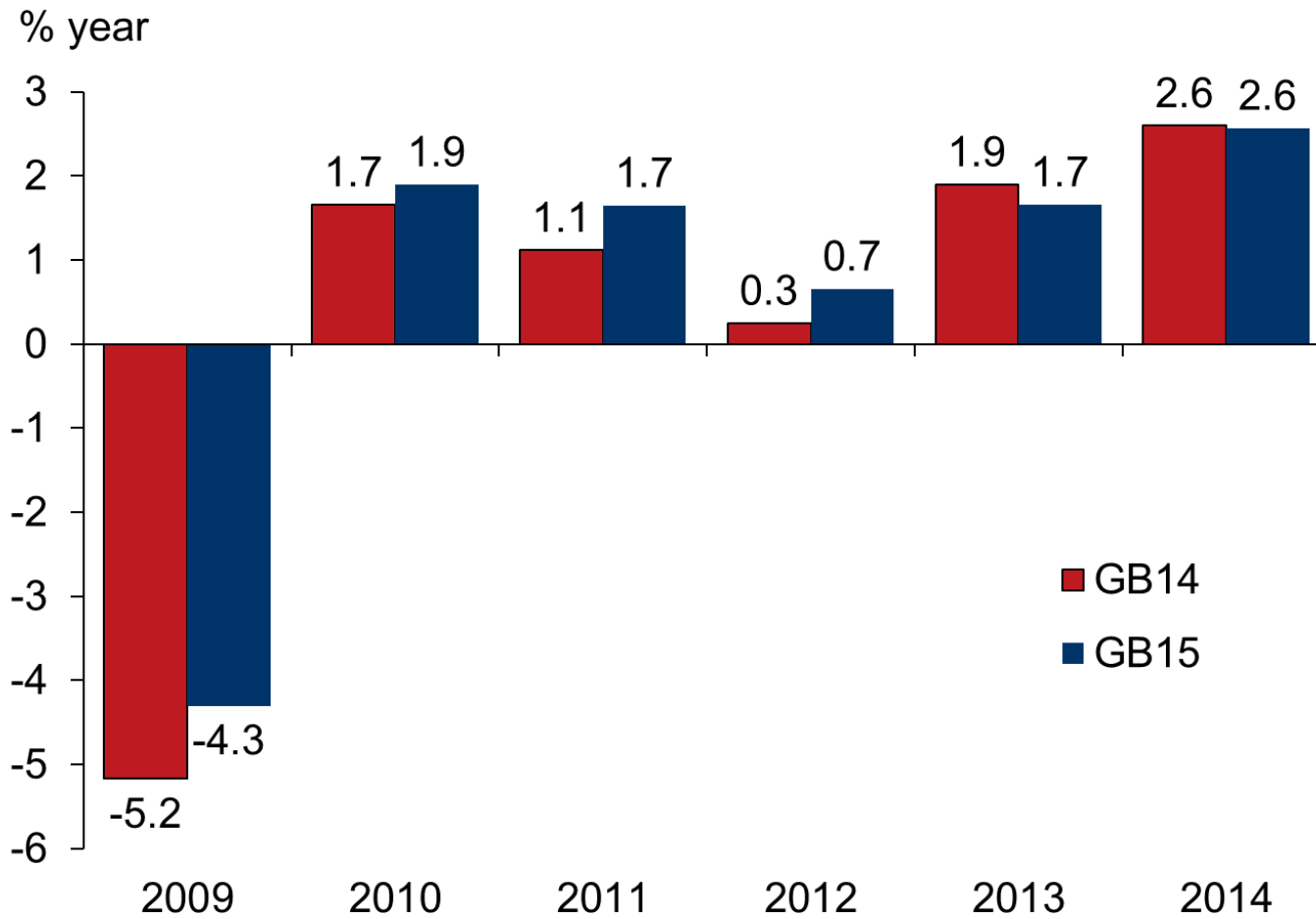
## UK: GDP growth



Source : Oxford Economics

# 2014 saw the strongest growth in 7 years...

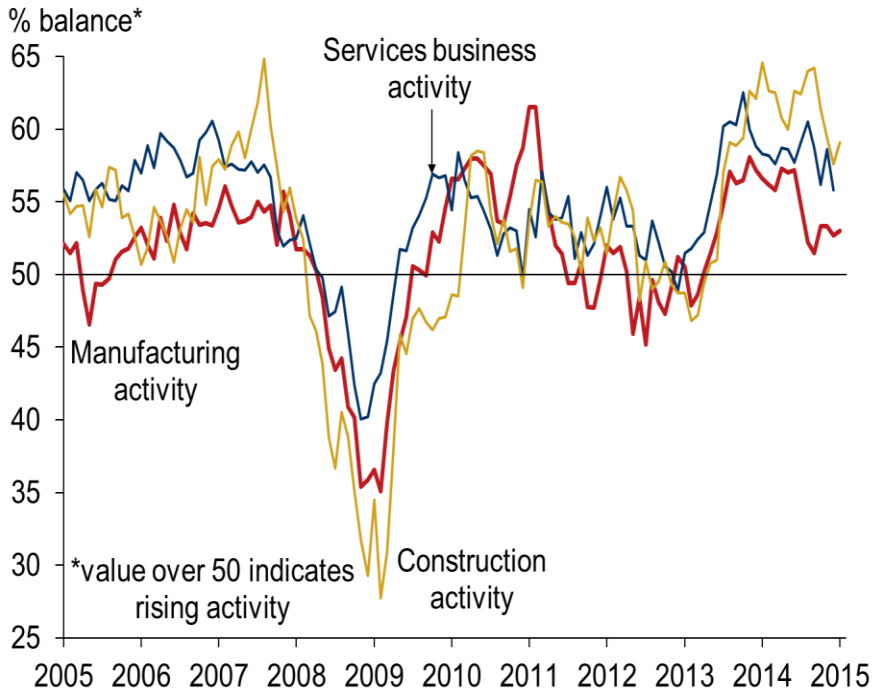
## UK: GDP growth



Source : Oxford Economics

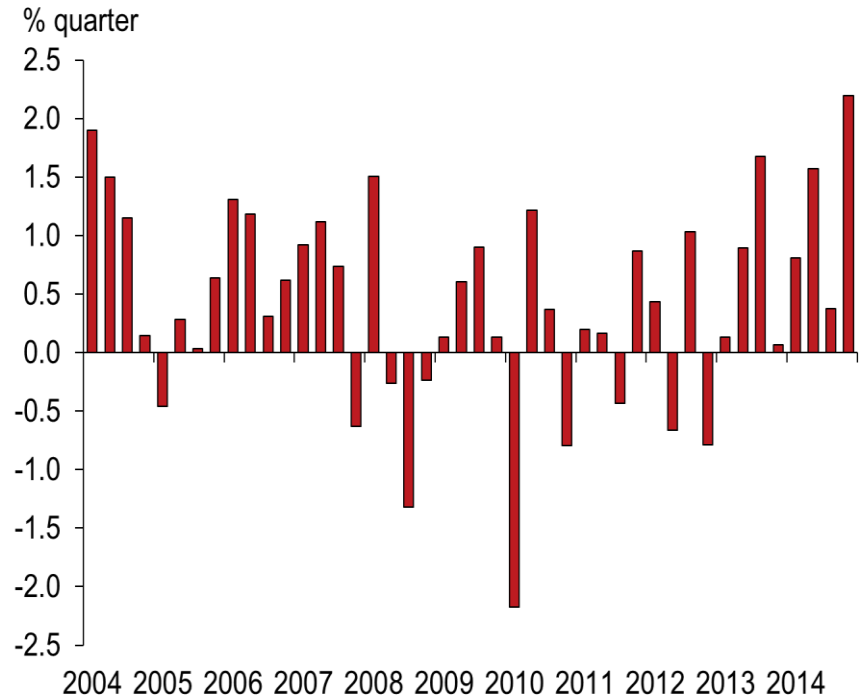
# ...but some evidence of a loss of momentum

## UK: Purchasing managers surveys



Source : CIPS/Markit

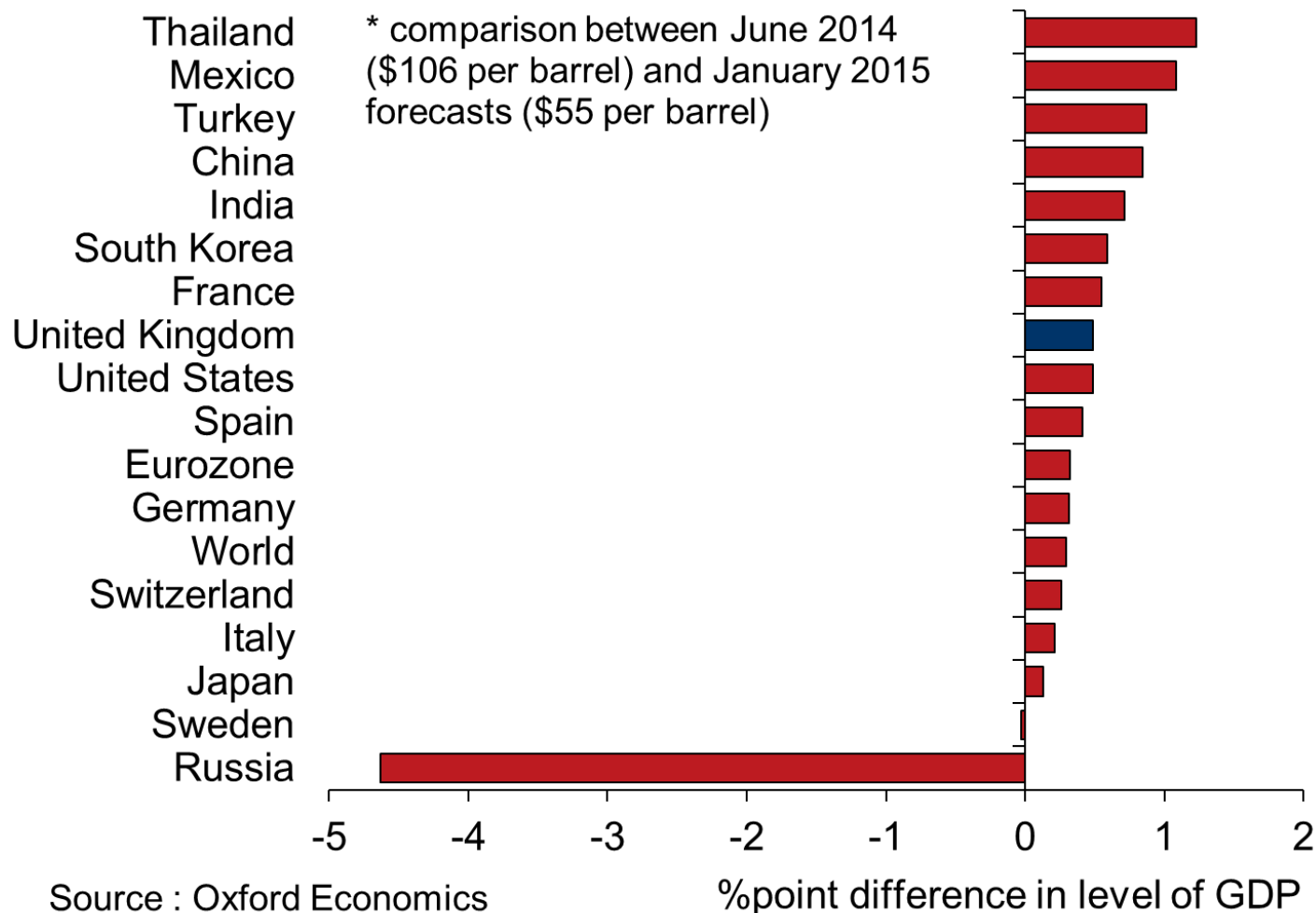
## UK: Retail sales volumes



Source : Haver Analytics

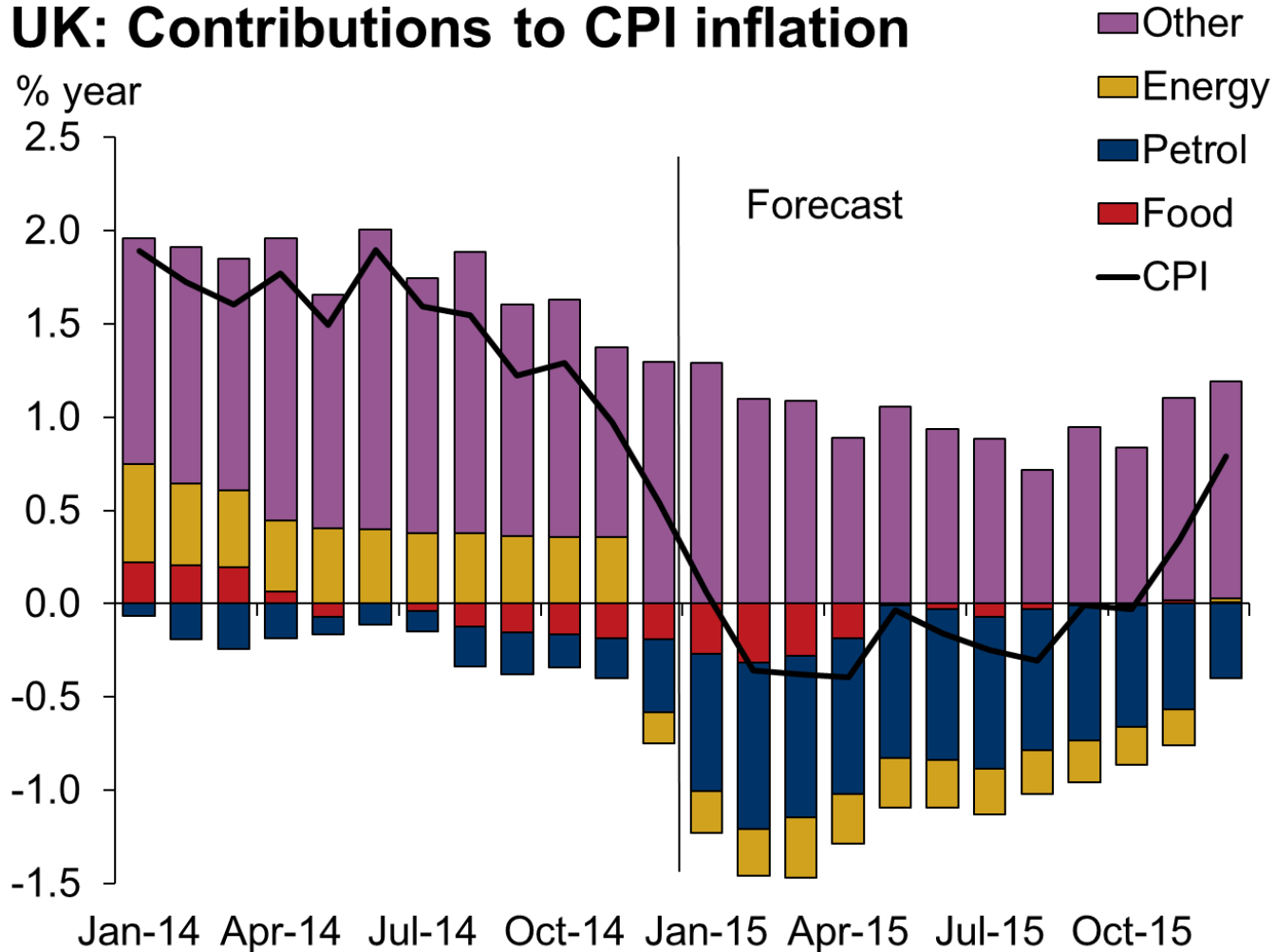
# Cheaper oil will provide a major boost...

## World: Impact of lower oil price on GDP\*



# ...pushing UK inflation into negative territory

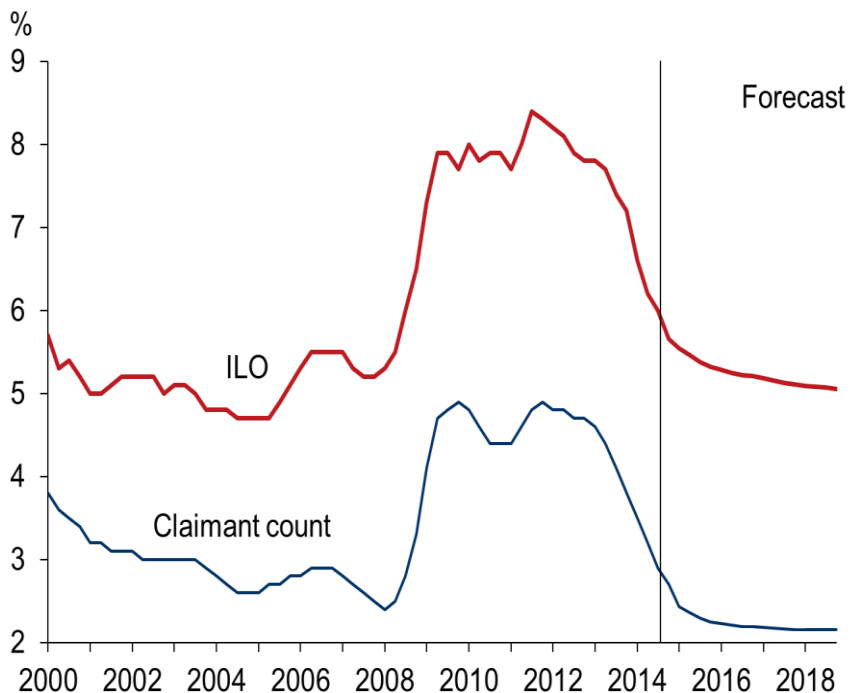
## UK: Contributions to CPI inflation



Source : Oxford Economics

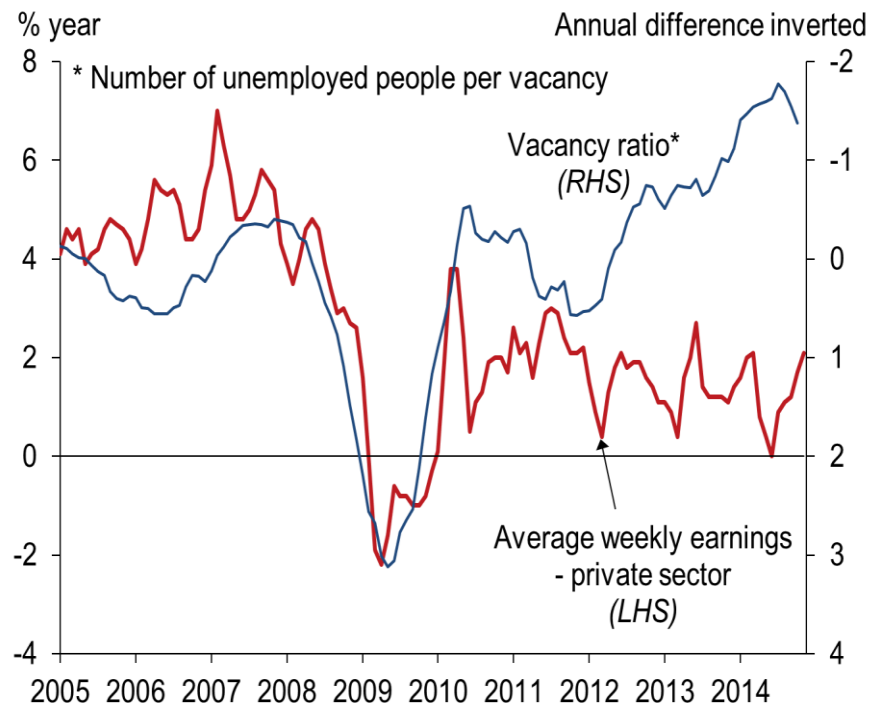
# A strong labour market will also provide support

## UK: Unemployment



Source: Oxford Economics

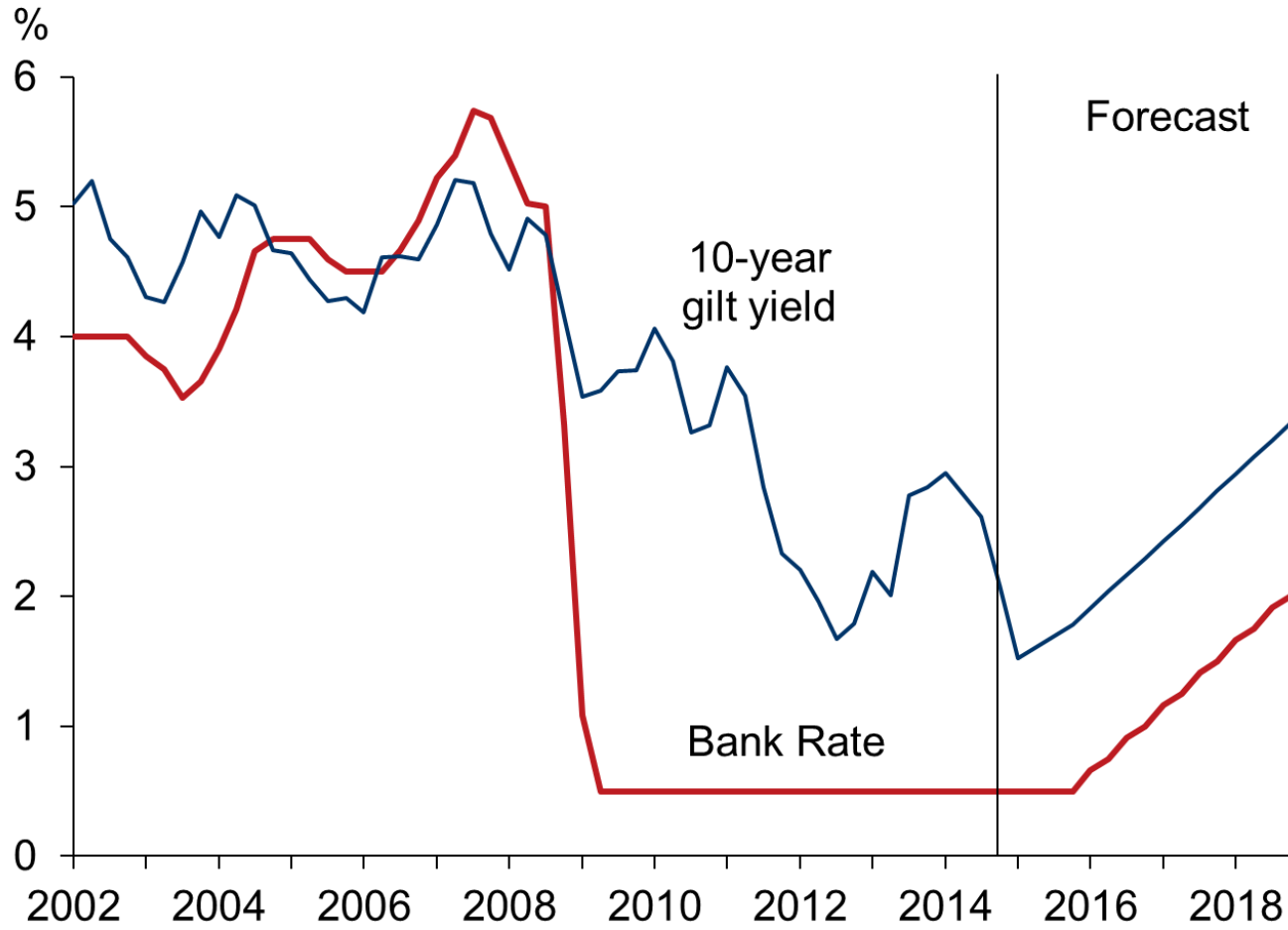
## UK: Earnings growth & vacancy ratio\*



Source: Haver Analytics

# The MPC looks set to sit on its hands until 2016

## UK: Interest rates



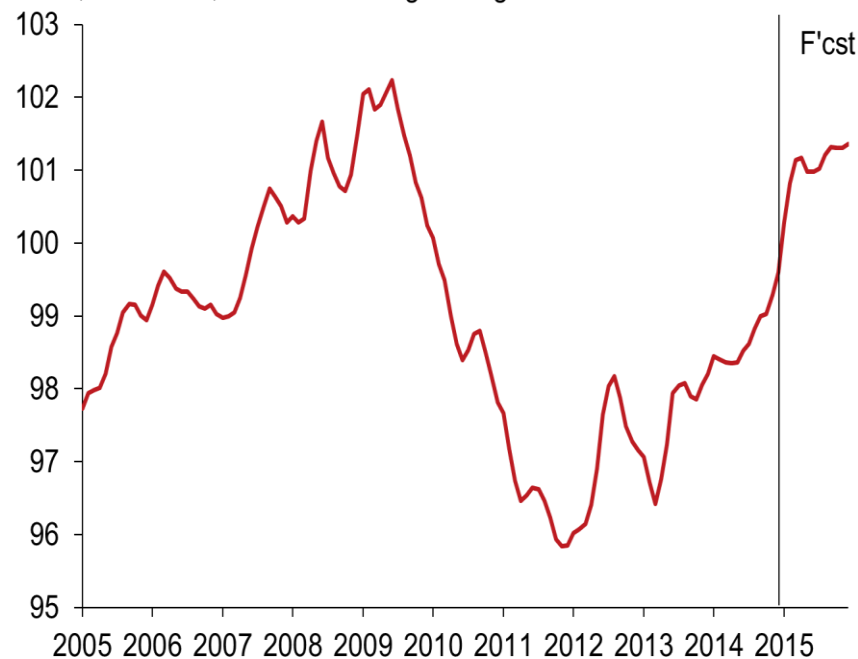
Source : Oxford Economics



# Households to enjoy stronger spending power

## UK: OE Spending Power Index

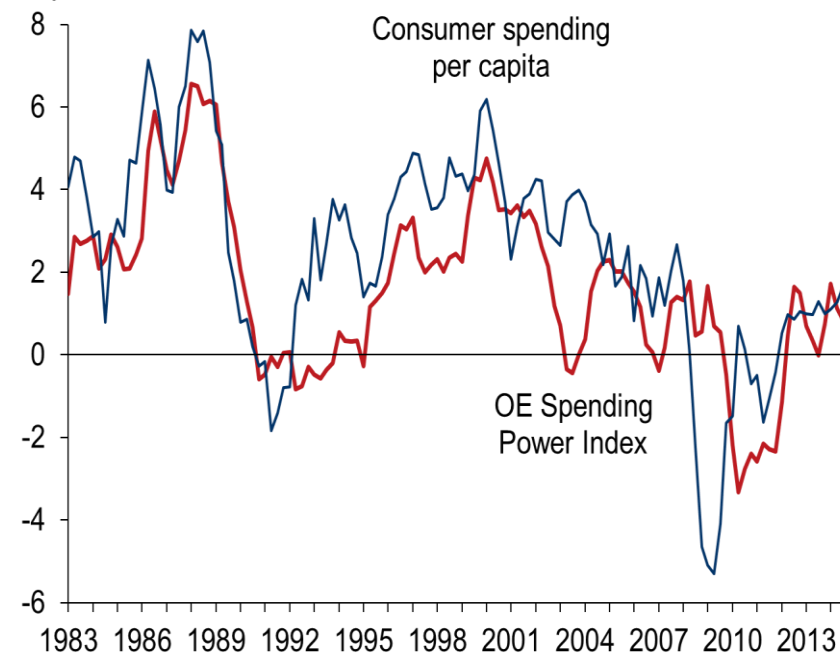
Index, 2007=100, 3-month moving average



Source : Oxford Economics

## UK: Consumption & OE Spending Power Index

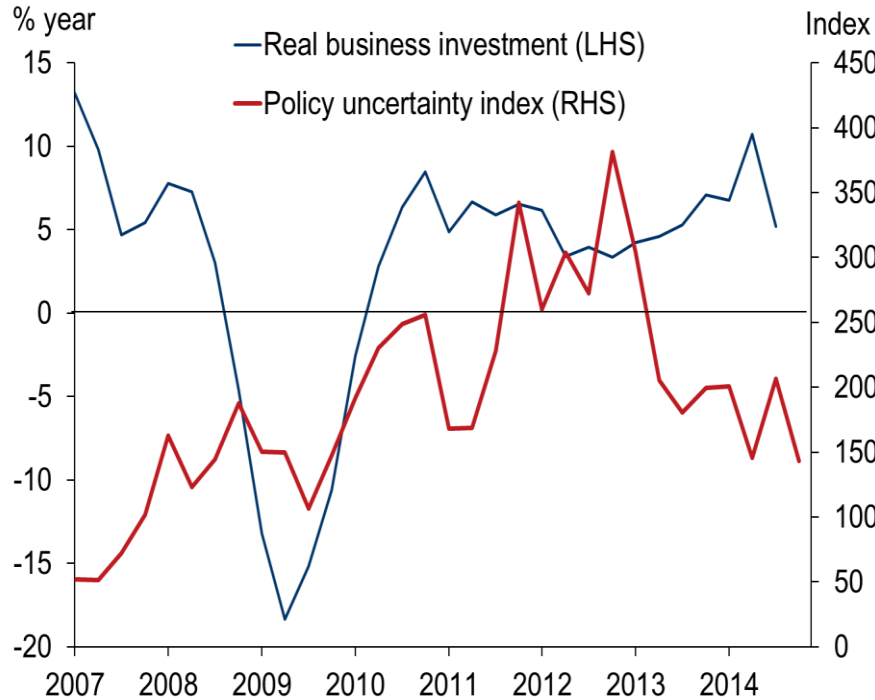
% year



Source : Oxford Economics

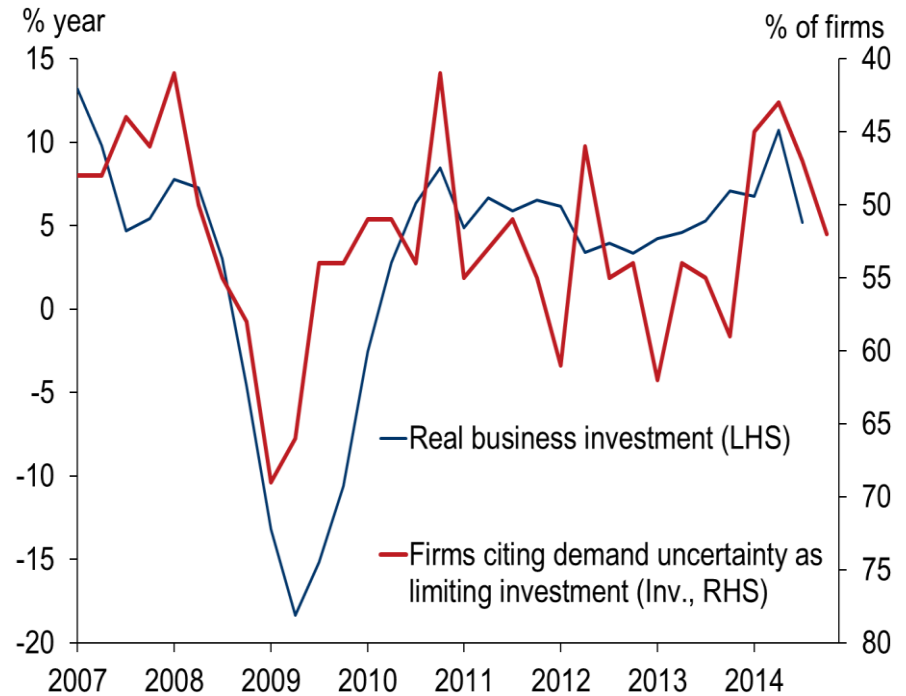
# Political uncertainty fears seem overdone...

## UK: Business investment & policy uncertainty



Source : Haver Analytics, [policyuncertainty.com](http://policyuncertainty.com)

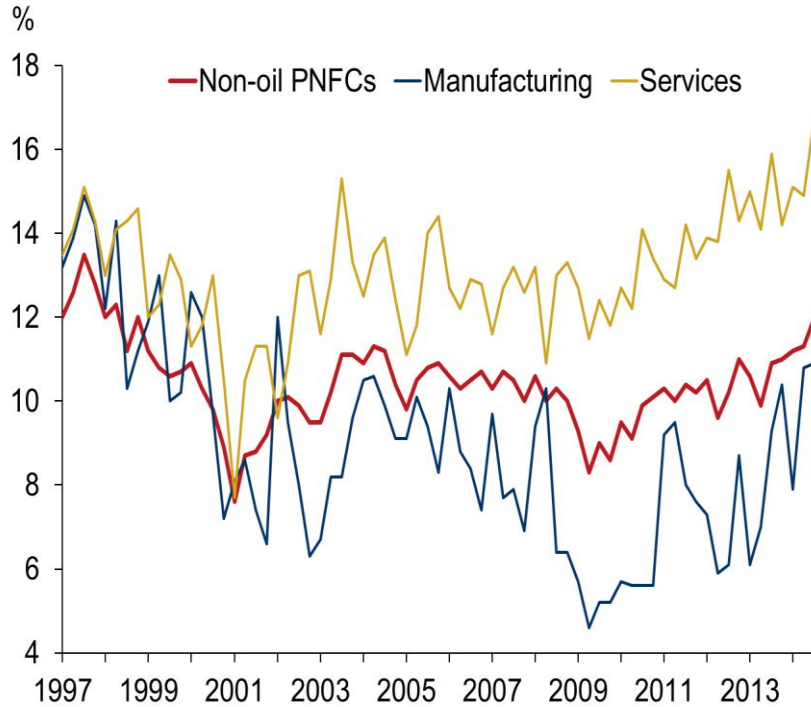
## UK: Business investment & demand uncertainty



Source : Haver Analytics

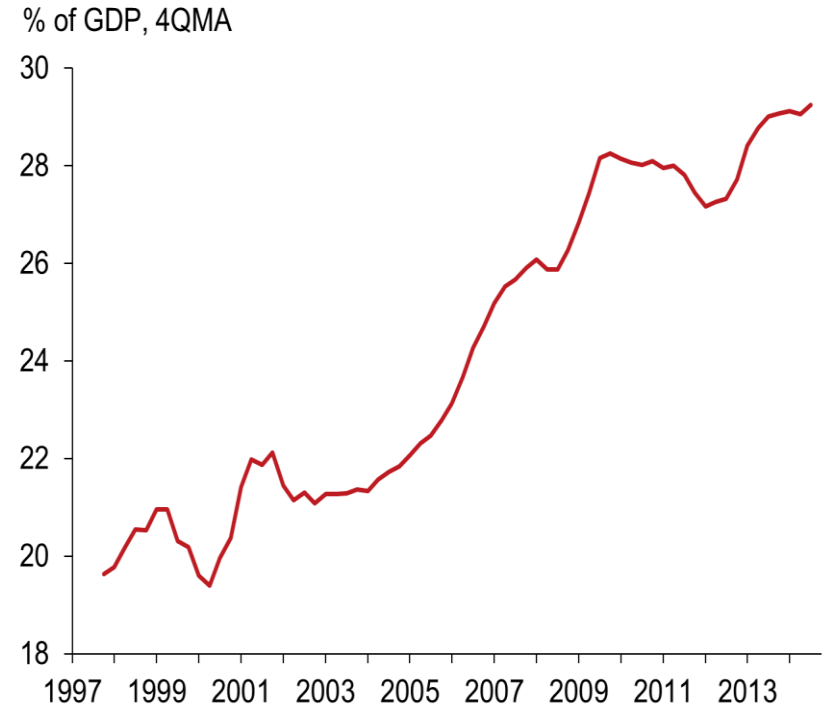
# ...with investment outlook looking bright

## UK: Net rates of return



Source : Haver Analytics

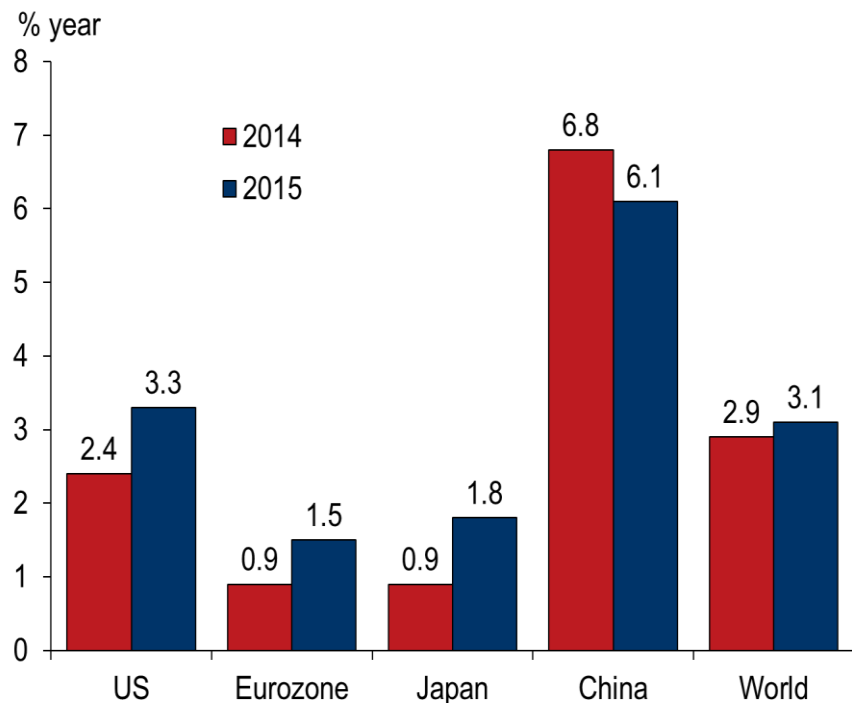
## UK: PNFC deposits



Source : Haver Analytics

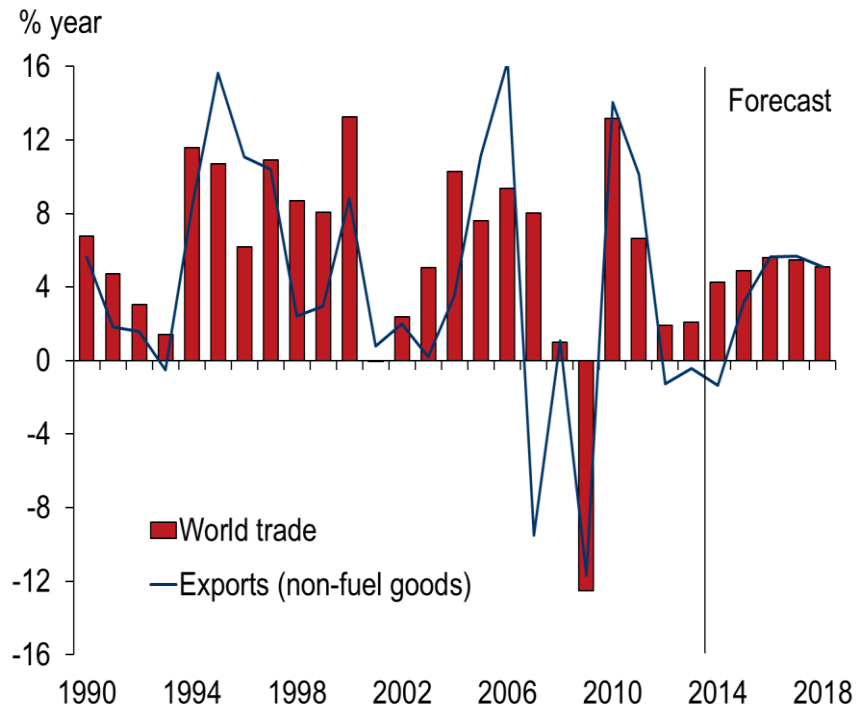
# Stronger global economy will support exports

## World: GDP forecasts



Source : Oxford Economics

## UK: Exports and world trade growth



Source : Oxford Economics/Haver Analytics

# Data revisions complicate supply side analysis

What did we say last year?

## Decomposing why UK GDP in 2013 is below its long-run trend (%)

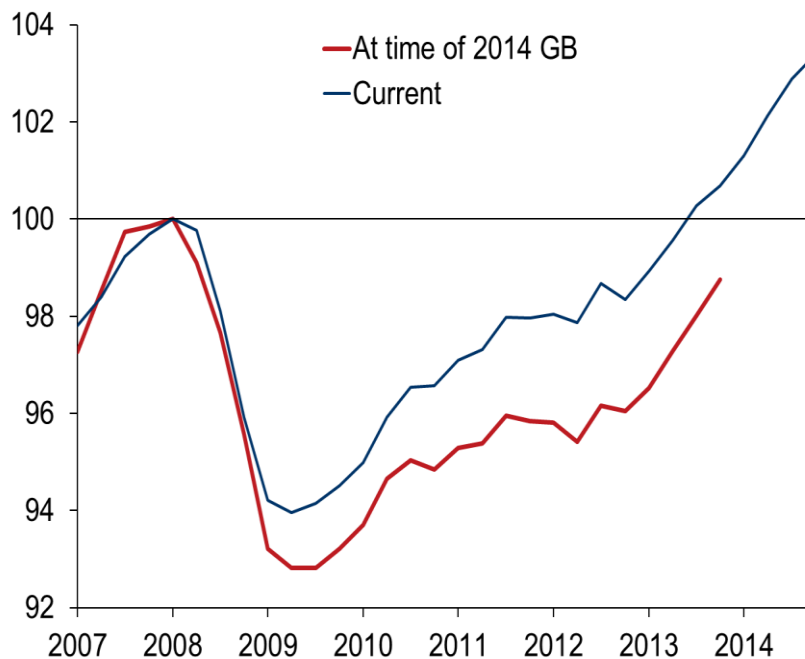
	%
Degree to which GDP is below the long-term trend	15
<i>Impact of the financial crisis on potential output:</i>	
Impact on the capital stock	1
Impact on growth in the labour supply	0
Impact on total factor productivity	5
<i>Why are we below capacity?</i>	
Fiscal tightening	4
Tight credit conditions	1
Weak Eurozone demand	1
Residual, which is likely to include factors such as the under-recording of the current level of GDP and slow adjustment	3

Note: Figures may not sum exactly due to rounding.

Source: IFS Green Budget 2014, page 80

## UK: Revisions to real GDP data

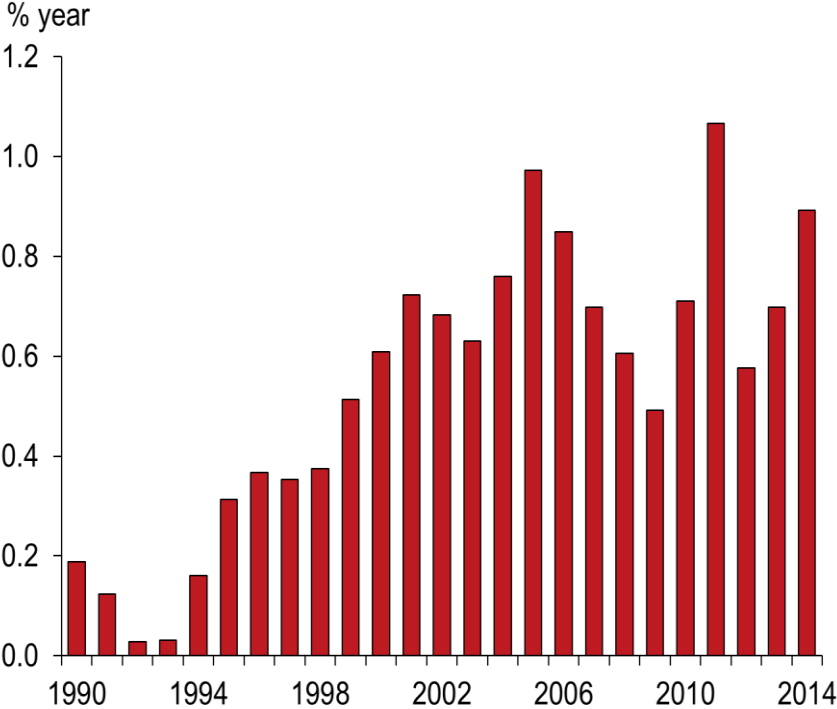
Q1 2008 = 100



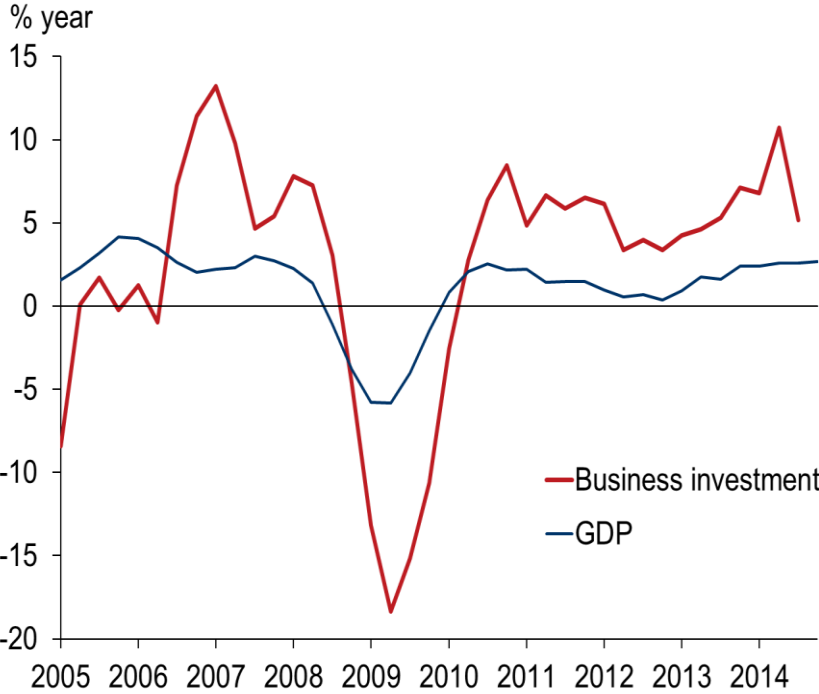
Source : Oxford Economics/Haver Analytics

# Data point to supply side strength in 2014

### UK: Working age population growth

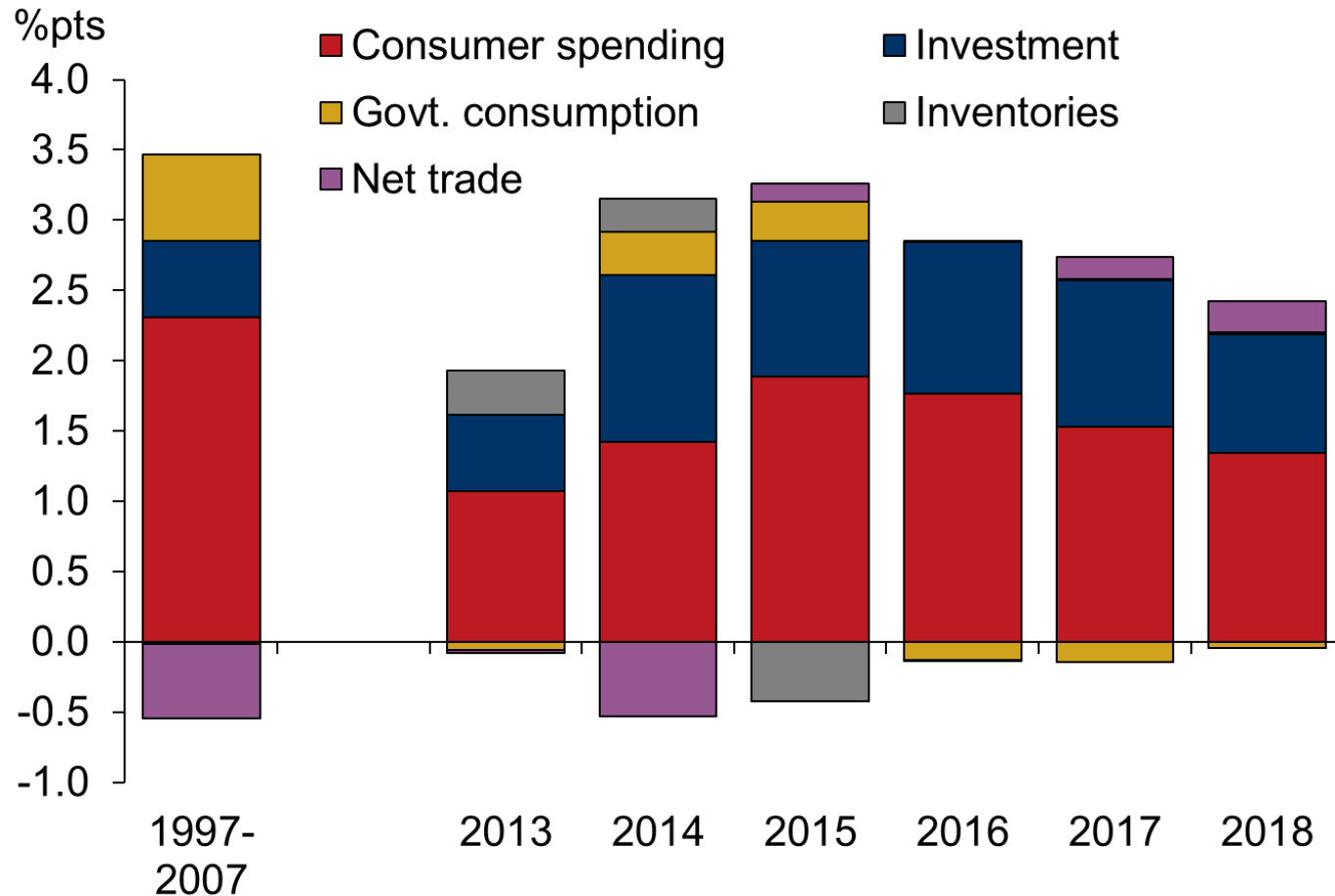


### UK: Business investment and GDP



# Strong, consumer-led, expansion in prospect

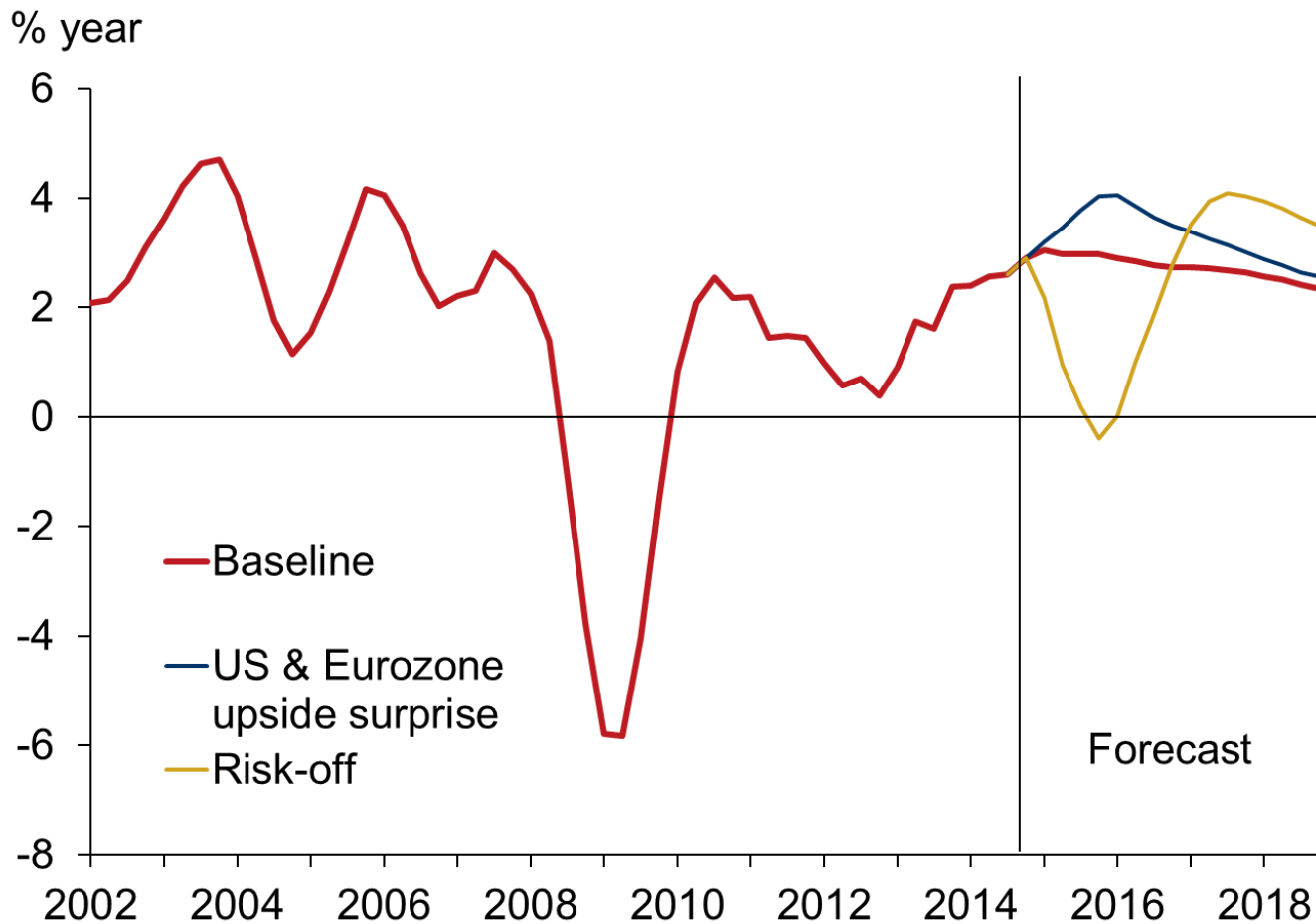
## UK: Contributions to GDP growth



Source : Oxford Economics

# Alternative scenarios for the UK economy

## UK GDP forecasts for alternative scenarios



Source : Oxford Economics