Since 2008...

- Following a long period of growth, GDP has fallen dramatically and failed to recover
GDP has nowhere near recovered pre-crisis levels
A completely different story than previous recessions

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Last quarter’s good news doesn’t change the pattern: GDP flat for two years
Since 2008...

• GDP has fallen dramatically and failed to recover
• Trend output is now expected to be 13% smaller in 2016 than had been forecast in Budget 2008
  – The economy will be about £200 billion smaller than expected
• This is expected to be a permanent loss
  – Depends on uncertain estimates of the “output gap”
Trend GDP revised down as successive outturns for actual GDP weaker than expected

Comparison of forecasts for real GDP growth and trend GDP

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Source: Author’s calculations, Office for Budget Responsibility, HM Treasury.
But GDP isn’t everything

• Incomes matter most to most people
  – They were rising much more slowly than GDP pre-recession
Living Standards since 2002-03

Source: ONS series IHXW and Family Resources Survey, various years
GDP per capita 2002-03 to 2007-08

Source: ONS series IHXW and Family Resources Survey, various years
Slow income growth before the recession

Source: ONS series IHXW and Family Resources Survey, various years
But GDP isn’t everything

- Incomes matter most to most people
  - They were rising much more slowly than GDP pre-recession
  - Stood up well during the recession
Sharp fall in GDP per capita in recession...

Peak to trough fall in GDP per capita of 7.9%

Source: ONS series IHXW and Family Resources Survey, various years
...But average incomes continue to rise

Source: ONS series IHXW and Family Resources Survey, various years
But GDP isn’t everything

- Incomes matter most to most people
  - They were rising much more slowly than GDP pre-recession
  - Stood up well during the recession
  - But took a dive in 2010-11
Weak macroeconomic recovery in 2010-11

GDP per capita grew 1.4% in 2010-11

Source: ONS series IHXW and Family Resources Survey, various years
Large falls in average income in 2010-11

- Median income fell 3.1% to reach £419 per week
- Mean income fell 5.7% to reach £511 per week

Source: ONS series IHXW and Family Resources Survey, various years
We don’t expect a swift recovery

Median net household income (indexed to 2009=100)

Sources: Department for Work and Pensions’ HBAI series; IFS calculations and projections using Family Resources Survey.
But GDP isn’t everything

• Incomes matter most to most people
  – They were rising much more slowly than GDP pre-recession
  – Stood up well during the recession
  – But took a dive in 2010-11
  – With the rich hardest hit
2010-11 saw rich lose most

Source: Figure 3.3 of *Living Standards, Poverty and Inequality: 2012*
In contrast to previous period

Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*
Income growth since 1996-97 (GB)

Average annual income gain

Percentile point

Income growth: 1996–97 to 2009–10


Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*
And very different from period from 1979-96

Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*
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• Employment rates look strong
Employment rates are remarkably high
But GDP isn’t everything

• Incomes matter most to most people
  – They were rising much more slowly than GDP pre-recession
  – Stood up well during the recession
  – But too a dive in 2010-11
  – With the rich hardest hit

• Employment rates look strong
  – And unemployment much less high than you’d expect
Unemployment rate lower than past recessions
(unemployment as percent of economically active population)
But GDP isn’t everything

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• Employment rates look strong
  – And unemployment much less high than you’d expect
  – Though that implies a productivity problem
Productivity (output per hour) has taken a dive
But GDP isn’t everything

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- Employment rates look strong
  - And unemployment much less high than you’d expect
  - Though that implies a productivity problem

- We also don’t have the repossession rates of the early 1990s
Repossession rates lower than early 1990s (as a percentage of total number of mortgages)
But GDP isn’t everything

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- We also don’t have the repossession rates of the early 1990s

- GDP obviously does not tell the whole story
  - But falling GDP did create a massive fiscal problem
This has created a hole in the public finances

Permanent damage = 7.5% of GDP (£114bn)

Notes and sources: see Figure 3.6 of The IFS Green Budget: February 2012.
Which has to be dealt with

- Debt: Budget 2008
- Debt: No policy action

Notes and sources: see Figure 3.3 of *The IFS Green Budget: February 2012.*
The government plans to do that over 7 years (original plan to do so over 5 years)

**Nov 2011:** 7.5% national income (£114bn) hole in public finances

Percentage of national income

- Other current spend
- Debt interest
- Benefits
- Investment
- Tax increases

Notes and sources: see Figure 3.5 of *The IFS Green Budget: February 2012*. 

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Which just leads to fiscal mandate being met.
Debt back on a more sustainable path - but to remain above pre-crisis levels for a generation

Notes and sources: see Figure 3.3 of *The IFS Green Budget: February 2012*. 
7-year squeeze on public service spending

Note: Figure shows total public spending less spending on welfare benefits and debt interest.
Summary

- The loss of output following the crisis has been deep and prolonged
- With a consequent reduction in household incomes
  - Though in many ways this really has been an equitable recession
- A dramatic worsening of the public finances
- Government’s fiscal consolidation is most dramatic in 60 years
  - But still leaves debt above pre-crisis levels for a generation or more
- More bad news likely in the Autumn Statement
Summary

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• More bad news likely in the Autumn Statement
• No sunny uplands around the corner