Global & UK Macroeconomic Outlook

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2013 was much better than expected

UK: GDP
% year

Source: Oxford Economics
2013 was much better than expected

UK: GDP

% year

Source: Oxford Economics
PMIs suggest 2013 may have been even better

UK: GDP vs composite PMI

Source: ONS/CIPS/Markit
The recovery has been horribly unbalanced

UK: Contributions to GDP growth, 2013

Source: Oxford Economics
Where do we go from here?

- Limited room for consumers to further reduce the savings ratio…
More confident consumers have been saving less.

**UK: Consumer confidence & unemployment**

- **Confidence, % balance**
- **ILO unemployment rate, % (inverted)**

**UK: Savings ratio**

- % of household disposable income

Source: ONS
Where do we go from here?

- Limited room for consumers to further reduce the savings ratio…
- …but prospects for real wages are much improved
Skills shortages will boost wage pressures...

UK: BCC survey - recruitment difficulties

% of firms

Source: BCC
...allowing spending power to steadily improve

UK: Earnings & inflation

% year

Average earnings

CPI inflation

Forecast

Source: Oxford Economics
Bank Rate to remain at 0.5% until mid-2015

UK: Interest rates

Bank Rate
10-year gilt yield

Forecast

Source: Oxford Economics
Where do we go from here?

- Limited room for consumers to further reduce the savings ratio…
- …but prospects for real wages are much improved
- Housing should remain supportive without prices entering bubble territory (outside of London)
Rising supply should keep a lid on house prices

UK: Construction orders - new housing

£bn, 2005 prices

Source: ONS

UK: House prices and transactions

000's

% change

Source: Oxford Economics

Housing turnover (LHS)

House prices (RHS)

F'cast

Source: Oxford Economics

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£bn, 2005 prices

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F'cast

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Where do we go from here?

- Limited room for consumers to further reduce the savings ratio…

- …but prospects for real wages are much improved

- Housing should remain supportive without prices entering bubble territory (outside of London)

- Increasing signs that firms are planning to ramp up investment plans
Firms have continued to add to cash piles…

**UK: Business investment**

£bn, 4QMA

**UK: PNFC deposits**

% of GDP, 4QMA

Source: ONS
...but now confidence seems to be improving

UK: Confidence in profitability

% balance

Source: BCC

UK: Investment intentions

% balance

Source: BCC
Where do we go from here?

- Limited room for consumers to further reduce the savings ratio…
- …but prospects for real wages are much improved
- Housing should remain supportive without prices entering bubble territory (outside of London)
- Increasing signs that firms are planning to ramp up investment plans
- Improving global outlook will support stronger export growth
Surveys and official export data have diverged

**UK: Non-oil goods exports**

%3m-on3m, yr ago

Source: ONS

**UK: Export orders**

% balance

Source: BCC

- **EU**
- **Non-EU**

- **Service sector**
- **Manufacturing sector**
Stronger growth forecast in most markets...

World: GDP forecasts
% year

<table>
<thead>
<tr>
<th>Region</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.9</td>
<td>3.1</td>
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<tr>
<td>Eurozone</td>
<td>-0.4</td>
<td>0.9</td>
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<tr>
<td>Japan</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>China</td>
<td>7.7</td>
<td>7.3</td>
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<tr>
<td>World</td>
<td>2.2</td>
<td>2.9</td>
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</tbody>
</table>

Source: Oxford Economics
…so firm pickup in exports is in prospect
Faster and more balanced growth in prospect

UK: Contributions to GDP growth

%pts

Consumer spending
Investment
Govt. consumption
Inventories
Net trade

Source: Oxford Economics
### UK forecast summary

(Annual percentage changes unless specified)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tbody>
<tr>
<td>Domestic Demand</td>
<td>1.2</td>
<td>1.8</td>
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<td>2.2</td>
<td>2.3</td>
<td>2.2</td>
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<tr>
<td>Private Consumption</td>
<td>1.5</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.3</td>
<td>2.5</td>
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<td>Fixed Investment</td>
<td>0.7</td>
<td>-2.2</td>
<td>6.5</td>
<td>6.3</td>
<td>6.5</td>
<td>5.9</td>
<td>4.3</td>
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<tr>
<td>Stockbuilding (% of GDP)</td>
<td>0.3</td>
<td>0.9</td>
<td>0.6</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
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<tr>
<td>Government Consumption</td>
<td>1.6</td>
<td>0.4</td>
<td>0.8</td>
<td>-0.3</td>
<td>-0.9</td>
<td>-1.5</td>
<td>-0.7</td>
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<tr>
<td>Exports of Goods and Services</td>
<td>1.1</td>
<td>1.1</td>
<td>3.1</td>
<td>4.0</td>
<td>5.2</td>
<td>5.3</td>
<td>4.6</td>
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<tr>
<td>Imports of Goods and Services</td>
<td>3.1</td>
<td>0.8</td>
<td>1.9</td>
<td>3.1</td>
<td>4.0</td>
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<td>GDP</td>
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<td>1.9</td>
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<td>2.6</td>
<td>2.5</td>
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<td>Industrial Production</td>
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<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.3</td>
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<td>CPI</td>
<td>2.8</td>
<td>2.6</td>
<td>1.7</td>
<td>1.8</td>
<td>1.7</td>
<td>1.9</td>
<td>2.0</td>
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<tr>
<td>Current Balance (% of GDP)</td>
<td>-3.7</td>
<td>-3.6</td>
<td>-2.9</td>
<td>-2.3</td>
<td>-1.8</td>
<td>-1.5</td>
<td>-1.2</td>
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<tr>
<td>Government Budget (% of GDP)</td>
<td>-6.3</td>
<td>-5.5</td>
<td>-5.3</td>
<td>-4.3</td>
<td>-3.2</td>
<td>-2.0</td>
<td>-0.8</td>
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<tr>
<td>Short-Term Interest Rates (%)</td>
<td>0.84</td>
<td>0.50</td>
<td>0.53</td>
<td>0.66</td>
<td>1.57</td>
<td>2.61</td>
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<tr>
<td>Long-Term Interest Rates (%)</td>
<td>1.91</td>
<td>2.44</td>
<td>3.11</td>
<td>3.30</td>
<td>3.59</td>
<td>4.01</td>
<td>4.48</td>
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<tr>
<td>Exchange Rate (US$ per £)</td>
<td>1.59</td>
<td>1.56</td>
<td>1.57</td>
<td>1.53</td>
<td>1.55</td>
<td>1.53</td>
<td>1.52</td>
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<tr>
<td>Exchange Rate (Euro per £)</td>
<td>1.23</td>
<td>1.18</td>
<td>1.21</td>
<td>1.23</td>
<td>1.27</td>
<td>1.27</td>
<td>1.27</td>
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</tbody>
</table>
Output gap is large and will close very slowly

**UK: Output gap**

% of potential output

Source: Oxford Economics, OBR
Risks to the outlook

- How will companies respond to the improving outlook?
- Will house prices spiral out of control?
- Will real wages start to pick up as the recovery continues to gain momentum...
- ...and what about productivity?
- Will the MPC hold its nerve?

- Are we underestimating the likely recoveries in advanced economies?
- Will the Eurozone avoid deflation?
Alternative scenarios for the UK economy

UK GDP forecasts for alternative scenarios

% year

Source: Oxford Economics

Forecast

Baseline
Golden age
Eurozone deflation

Source: Oxford Economics