

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL
RESEARCH:
PRESS CONFERENCE
Wednesday 24th April 2019
Opening remarks by the Director**

Good afternoon. Welcome to the National Institute of Economic and Social Research for the release of our May 2019 *Review*. Although we identify material and worrying risks to both the global and UK economy, the global economic expansion looks set to persist. There is, of course, no mechanical rule we can use to call time on any expansion and so we will continue to study whether particular risks are materialising in a manner that stumps policymakers. Remarkably, given the caustic nature of much recent economic commentary, as we come to the end of the second decade of the 21st century we find a remarkable story: global economic growth of nearly 4% per annum this decade implies that world output has risen by nearly 50%, without any material signs of price inflation.

Although the most recent data does indicate that the global output growth cycle may have peaked, we do expect global GDP growth to continue, but at a slightly slower pace than in the past two years. Tariff increases and trade disputes have contributed to slowing growth and have added uncertainty to the global economic outlook. The level of public and private indebtedness remains a key risk in many countries, despite many improvements in the management of financial claims since the financial crisis. While slightly faster wage growth in advanced economies and tighter labour markets raise the potential for higher inflation, the fall in oil prices in late 2018 should, with some loss in output growth momentum, prevent a widespread pick-up in inflation. As long as low inflation persists, most central banks, with perhaps the notable exception of the ECB, will have the option to increase monetary accommodation to support economic activity should it be required.

The UK's future relationship with the European Union (EU) remains unresolved. EU exit-related uncertainty and the prospects for lower growth

have led to investment plans being deferred and, recently, to increased stockbuilding. Under our main-case forecast, based on a ‘soft’ EU exit and continuing uncertainty, GDP growth continues at around $1\frac{1}{2}$ per cent per annum in 2019 and 2020, broadly in line with potential output growth, and the unemployment rate stays at around 4 per cent. CPI inflation is forecast to remain around 2 per cent per annum as faster unit labour cost growth is offset by slower import price inflation. With inflation stable at target, and only limited evidence of domestic inflationary pressure, Bank Rate remains at 0.75 per cent throughout this year before being raised to 1 per cent in the second half of 2020. We continue to expect public spending to rise more quickly than currently planned. That, together with the forthcoming reclassification of student loans in the public finances, is likely to mean that the government’s medium-term fiscal objectives will not be met. The current account deficit is forecast to improve somewhat from some 4 per cent of GDP in 2019 to around 3 per cent in 2020, as domestic saving picks up relative to investment. Simply put, economic performance remains subdued.

One topic that has been at the forefront of the debate on the question of the UK’s future with the EU is immigration and so the articles in the *Review*, edited by Dr Heather Rolfe, are accordingly directed. Immigration is a key economic and social issue: it has played a role in fuelling economic growth, changed the demographic composition of the UK and shaped much of the political agenda. It played a role in the outcome of the EU referendum vote, leading the Government to seek to remove free movement from the terms of any future relationship with the EU. Since many of the UK’s skill and labour needs have been met by EU mobility in the past decade or so, on leaving the EU, we will require a new set of immigration policies, particularly in relation to the immigration of labour with lower level skills.

Currently it seems a wide range of immigration arrangements are possible. The White Paper, published in November 2018, set out its two principles of a single system with no priority to EU citizens within a ‘skills based’ system. The papers in this Review look at some of the options: Madeleine Sumption (Oxford) looks at employer sponsorship for skilled visas and Erica Consterdine (Sussex) at Youth Mobility Schemes. Anne Green (Birmingham)

takes a wider look at employers' use of low-skilled migrant labour, drawing on research with employers. Alexandra Bulat (UCL) also looks at the issue of low vs highly skilled migration, presenting findings from research with migrant and non-migrant members of the public. And Heather Rolfe, Johnny Runge and Nathan Hudson-Sharp (NIESR) also look at public attitudes, combining findings from focus groups with employer research to ask whether a new immigration policies might address public concerns without damaging the UK's economy and services.

One of the biggest dangers from the political turmoil over the form of EU exit is that public administration may begin to fail in its normal planning and response to market failures. Whilst attention is often focussed on the big questions of fiscal expansion and the level of Bank Rate, the real business of government involves addressing perhaps more mundane matters such as the roads, schools, hospitals, housing, railways and broadband. On the one hand leaving the EU may have offered a fresh start for national planning on a clean slate but if on the other hand decisions are not made and uncertainties resolved, we may find that the opportunities offered by a fast-changing and growing world may ultimately elude us.

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