

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL
RESEARCH:
PRESS CONFERENCE
Monday 22nd July 2019
Opening remarks by the Director**

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our August 2019 *Review*. The most recent international data indicates that the global output growth cycle may have peaked, and while we expect global GDP growth to continue, it will be slower than in the past two years. Tariff increases, trade disputes as well as some reduction in production in key emerging economies have contributed to slowing growth. Compared to our expectation at this time last year world growth in 2019 looks likely to be some 0.5% less than we had anticipated.

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 will have the option to increase monetary accommodation to support economic activity. But the persistent inability of policy rates to return to ‘normal’ continues to indicate ongoing weaknesses in economic structures and is a source of concern.

Against a background of a deteriorating global outlook, which will remove one of the key recent supports for UK growth, the UK’s future relationship with the European Union (EU) remains unresolved. EU exit-related uncertainty and the deferral and divergence of investment plans will place downward pressure on activity as has the reversal of stockbuilding from the first quarter of this year. Under our central forecast, based on a ‘soft’ EU exit, chronic uncertainty and with some evidence of a sufficiently weak

Q2 and Q3 for us to go on recession-alert, we expect GDP growth to be little above 1% this year and next. With inflation stable at target, and only limited evidence of domestic inflationary pressure, Bank Rate would remain 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 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 nearly 5 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 and prospects increasingly murky.

Whilst it might be argued that the economy has not yet palpably suffered from the risks and uncertainties to which has been subjected since the referendum. Clearly investment and the exchange rate have performed poorly but employment remains buoyant. To the representative household growth in income of 1% per year may not seem to be so bad compared to 1.5 to 2% per year, as long as it can have its 1 and a bit jobs and can pay its mortgage. It is against this sanguine backdrop that the Institute's forecast for negative GDP growth for Q2 caused many to think again. It may not be much of a surprise, given excess stockbuilding in Q1, but seems likely to mean that the new Prime Minister may not only have to face the same gambit from the EU's negotiators, with the Irish border buffering against exit from the Customs Union, but also may have the backdrop on economy that no longer provides such obvious insulation against the case for a hard EU Exit. With the names of the Prime Minister, Chancellor of the Exchequer and Governor of the Bank of England shortly all to change, it is little wonder that those making forward-looking plans are waiting or looking elsewhere if they can. The prospect of a "No-Deal Brexit" is concentrating minds and, although we outline how policymakers may respond to such a shock in the UK Chapter and in my Commentary, however we look it there will not be much economic joy in such an Exit.

Research Articles

The research articles have been edited by Rhys Bidder (NIESR) and Rebecca Riley (NIESR and ESCoE) and focus on research emerging from the Economic Statistics Centre of Excellence (ESCoE) Conference on Economic Measurement 2019 at Kings College London. Many aspects of the new economy have thrown up challenges for economic measurement and unless these are confronted by national statistical institutes, policy is in danger of being unable to match social requirements.

A number of leading experts in the field have provided in-depth analysis of various aspects of economic measurement, with six articles on issues ranging from the measurement of intangibles to welfare, cross-border data flows, the links between economic complexity and emergent economic activity and trade dependencies. Andrew Aitken (NIESR and ESCoE) discusses measuring welfare beyond GDP, Josh Martin (Office of National Statistics) looks at new measures of intangible investment from the ONS, Diane Coyle (University of Cambridge and ESCoE) and David Nguyen (NIESR and ESCoE) examine the challenges for price indices that arise from cloud computing and cross-border data flows, David Byrne (Federal Reserve Board of Governors) points to the mysterious cross-country dispersion in mobile phone prices, Alex Bishop and Juan Mateos-Garcia (Nesta) explore the link between economic complexity and emergent economic activities and Oscar Lemmers and Khee Fung Wong (Statistics Netherlands) distinguish between imports for domestic use and for re-exports in the Netherlands.

Concluding Remarks

As I said at the release of the May *Review*, 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. To an extent the level of business investment since 2016 also indicates this form of seizure. Whilst attention is often focussed on the big questions of monetary and fiscal policies, the real business of government involves

addressing matters such as the roads, schools, hospitals, housing, railways and broadband and it is becoming clear that progress has stalled. In its most positive interpretation leaving the EU may have offered a fresh start for national planning and re-orientation towards a new national direction 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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