

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL
RESEARCH:
PRESS CONFERENCE
Tuesday 31st October 2017
Opening remarks by the Director**

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our November *Review*. This morning, with domestic monetary and fiscal policy in our sights, we will concentrate on the outlook for the UK economy, but that said the *Review*, as ever, contains careful analysis of the prospects for growth in each major region and country of the world. As we pointed out in the previous *Review* the UK is showing signs of a divergence with below par growth and growing signs of a balanced recovery in the rest of the World.

The subject of the research articles in this Review is the local and sectoral impacts of globalisation. The globalisation of production and the sources of consumption is hardly new but its consequences have become the economic leitmotif of our times, as it cuts across so many political questions that regularly dominate the agenda here and overseas. Economists commit the Ricardian vice of promoting the long run gains from trade and sometimes neglect the possibility of short run costs, which may not be easy to observe in aggregate but certainly bear down on at the disaggregated level in sectors, regions and households.

As we argued immediately after the referendum, “the intellectual journey taken by policymakers since 2007–8, in that less attention has been placed on the average but more on dealing with the tails of the distribution.”¹ This is because the economy tends to be buffeted as a result of aggregate shocks but their impact is not uniform. Different sections of the population experience the effects of these shocks in often quite different ways. The articles in this Review thus represent an important step along that journey and we hope that policymakers will continue to listen.

¹See Chadha, J.S. (2016), ‘Commentary: The Referendum Blues: shocking the system’, National Institute Economic Review, 237, August, pp. 4–8.

The projection for world GDP growth in 2017 remains stable at around 3.5 per cent. Growth projections for 2018 and the medium term are similarly stable at 3.6 and 3.5 per cent, respectively and inflation forecasts have nevertheless generally been revised down slightly. In the Euro Area, stronger economic performance, together with reduced political uncertainty, provides an opportunity for action to complete the monetary union and reduce economic imbalances while introducing structural reforms (*see* Boxes by Arno Hantzsche on the effects on tapering in the Euro Area and Cyrille Lenoel on the French fiscal plan). But to avoid jeopardising the recovery, central banks in the advanced economies will have to manage policy normalisation with particular caution. Perhaps nowhere more so than in the UK.

Before discussing the UK I want to mention three innovations in this *Review*. The first is the inclusion of a statistical benchmark prepared by the University of Warwick's Forecasting System (WBSFS) against which we are able to judge our structural projections. We also use Institute models to depict of two scenarios for the fiscal position dependent on two different views on the likely evolution of productivity. This view on productivity is a key judgement and as well as an important paper by Crafts and Mills on evolution of total factor productivity (TFP) in the US, Craig Thamootheram provides estimates of the underlying fall in the rate of growth TFP. We will continue to use the *Review* as a vehicle for methodological developments at the frontier of economic science.

Our projections for GDP growth in the UK for this year and next have been revised down to 1.6 per cent and 1.7 per cent, respectively. The economy has slowed each year since 2014 and, because we have revised down the likelihood for a recovery in productivity, output continues to grow below potential. That said as long as employment remains buoyant and nominal GDP growth remains on track we think the fiscal deficit will be eliminated in 2022 and the debt-to-GDP ratio will peak next financial year. Annual consumer price index inflation peaks at 3.2 per cent in the last quarter of this year before easing back to the target rate of 2 per cent or so in the final quarter of 2019.

Accordingly, we have brought forward the timing of the rate hike from first

quarter of next year to the final quarter of this year. Such a move would be the first policy rate increase in over ten years. The first rate increase should not be seen as a tightening in policy, but instead as a modest withdrawal of some of the additional stimulus that was injected into the economy after the 2016 EU referendum. A cautious and gradual normalisation may then follow. But ultimately we think that the foundations for a fuller normalisation of policy has yet to be laid because policy guidance needs to be developed and, more importantly, the capacity of the economy to nurture a sustained recovery.

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