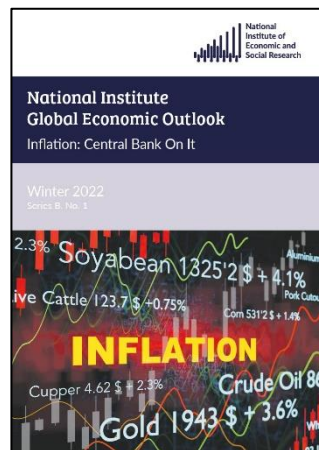


UK and Global Economic Outlooks

Winter 2022



Presenters

Opening Remarks

Professor Adrian Pabst

Global Outlook

Dr Corrado Macchiarelli

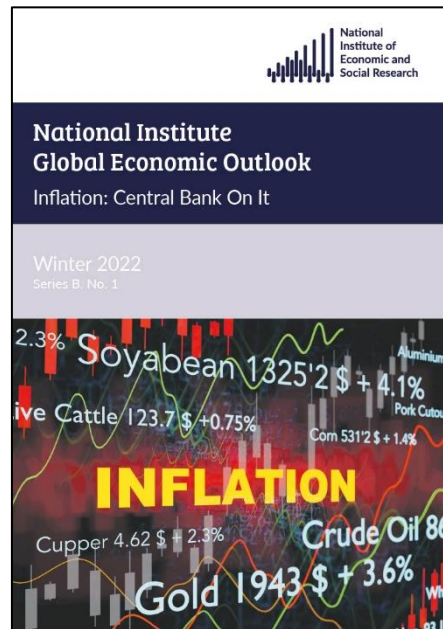
UK Outlook

Cyrille Lenoël

UK Regional Outlook

Professor Arnab Bhattacharjee

Opening Remarks



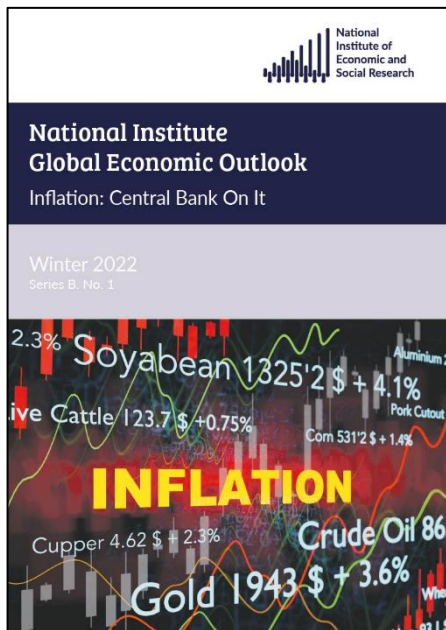
Professor Adrian Pabst

Our Message

- “Fix the Mix”
 - Economic volatility
 - Political uncertainty
 - People deserve better
- Fiscal Policy needs to build up Net Worth and address widening inequalities
- Monetary Policy refocus on objective of ensuring price stability

Global Economic Outlook

Inflation: Central Bank On It

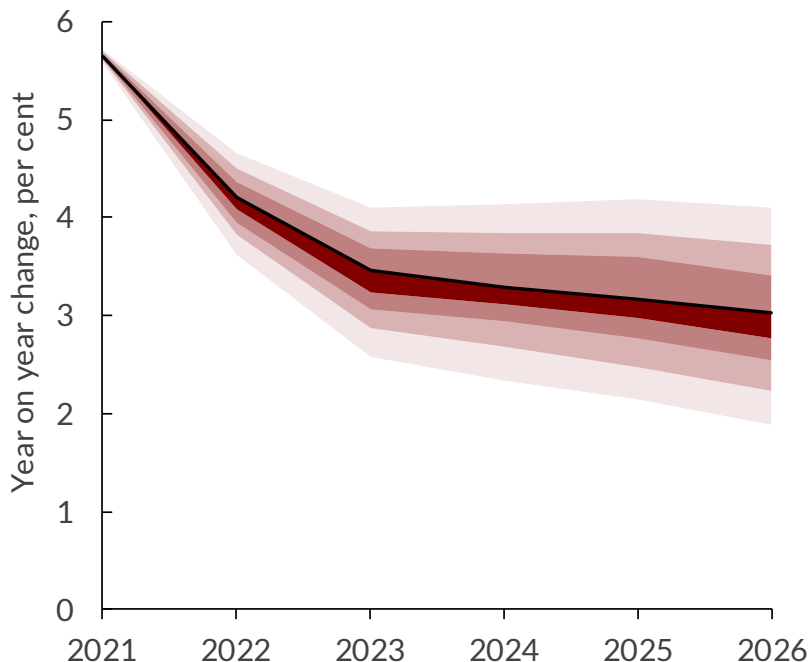


Dr Corrado Macchiarelli with Barry Naisbitt with Janine Boshoff, Ian Hurst, Iana Liadze, Xuxin Mao, Patricia Sanchez Juanino and Craig Thamotheram

Inflation Prompts Policy Normalisation

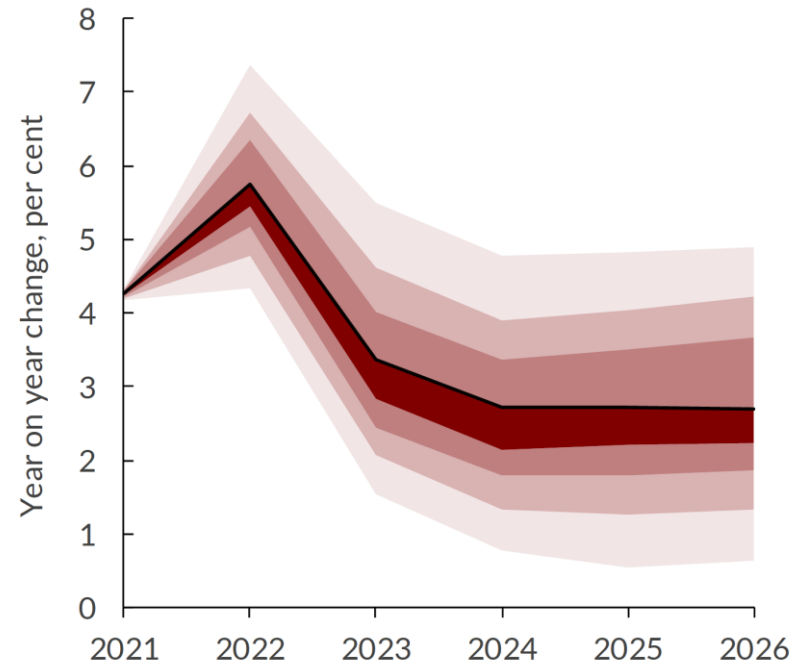
- Strong global growth last year marked a rebound from the dislocation in 2020 due to Covid-19. We are now returning to a period with annual global growth of around 3 per cent.
- Growth of 4.2 per cent this year marks a transition to that.

Global GDP Growth



Source: NiGEM database, NIESR forecast and NiGEM stochastic simulations.

Global Inflation Growth



Note: private consumption deflator.

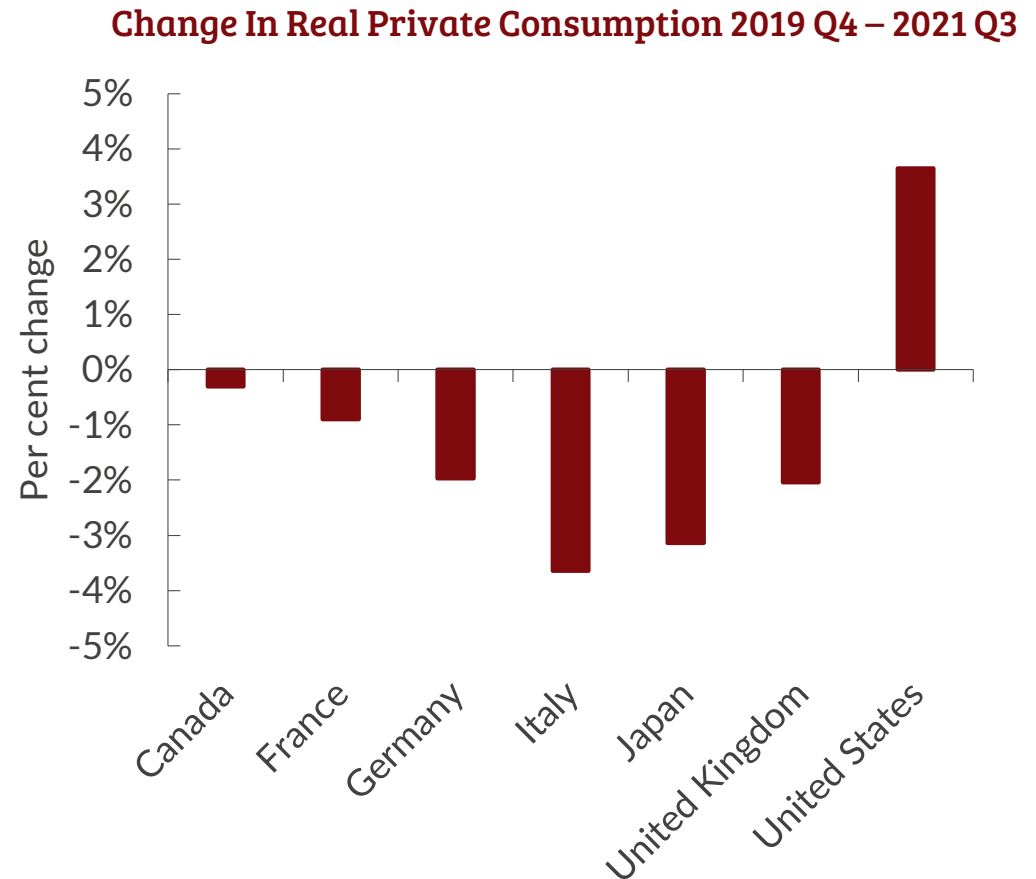
Source: NiGEM database, NIESR forecast and NiGEM stochastic simulations.

Inflation Prompts Policy Normalisation

- Supply chain disruption is still significant but has begun to ease.
- We expect OECD headline inflation to decline by the end of 2022 and broadly return closer to 2 per cent by 2023.
- Increasing second-round and inflationary effects are prompting central banks to tighten policy. We expect the Fed to hike four times each this year and next.

Inflation Prompts Policy Normalisation

- One major downside risk to economic activity in our central forecast is represented by persistently high inflation rates globally, and the onset of a significant rate hike cycle.



Source: NiGEM database.

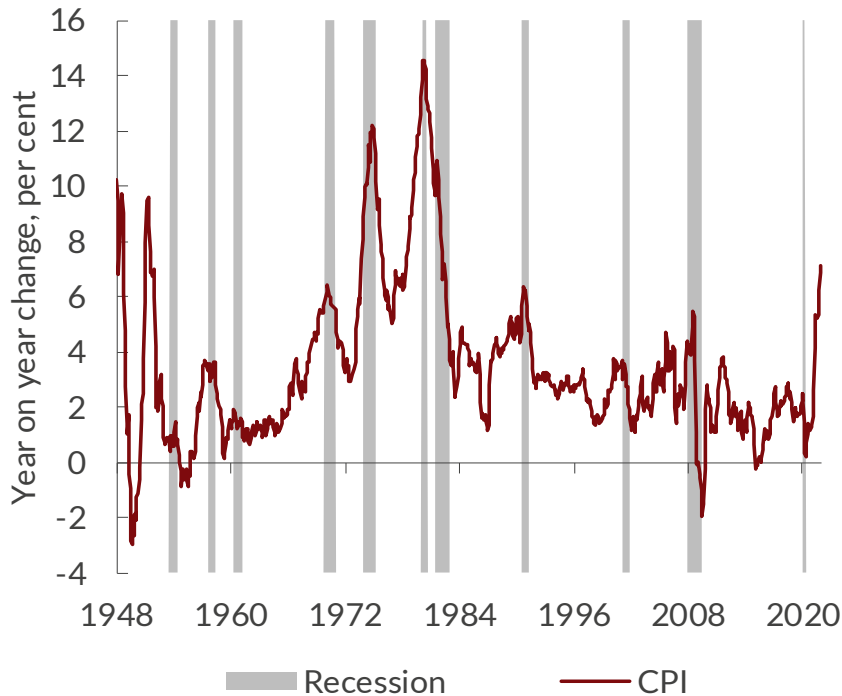
Global News

- China is facing highly transmissible COVID-19 variants without the most effective vaccines and with far fewer people protected by previous infection, requiring severe localised lockdowns.
- Fed officials' median interest rate projections released in December showed that the central bank could raise the federal funds rate -- the benchmark interest rate -- three times in 2022 from its current record-low level of near zero (**Box A - US Inflation: is it Back to the Future?**).
- Erdogan's policy risks dragging Turkey's economy down further (**Box B - Turkey's Unorthodox Monetary Policy**).
- A build-up of Russian troops near Ukraine increase the danger possible commodity price increases (**Risk scenario: : Another Round of Energy Price Hikes**).
- Developed nations' demand for booster jab is further slowing down global procurements.

US Inflation: is it “Back to the Future”?

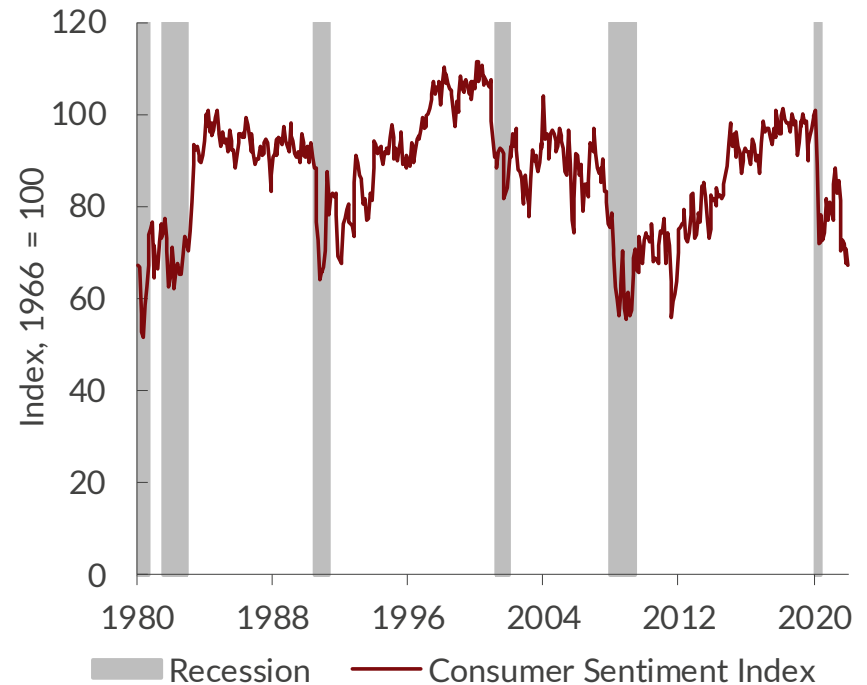
- Too sharp a rate hike cycle from the Fed could send the economy into a tailspin.

US Inflation through Boom and Bust



Source: BLS, FRED, NBER

US consumer sentiment



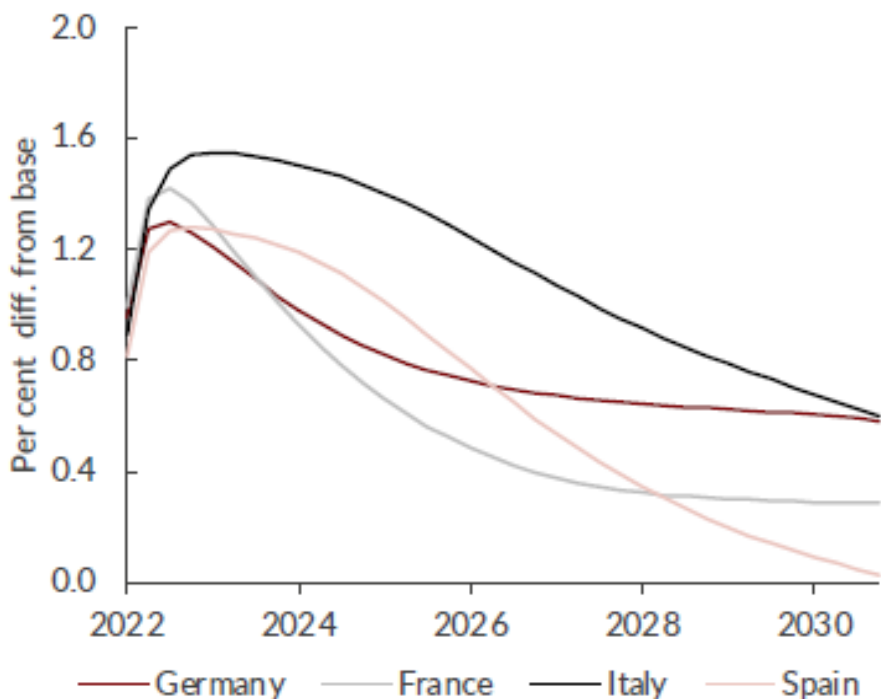
Source: University of Michigan

Topical Feature:

Monetary policy spillovers between the Euro Area and the USA

- We compare the spillovers from policy rate changes by the European Central Bank (ECB) and Federal Reserve System (Fed) on each other and on emerging market economies.
- We find that the Fed's influence on the Euro Area is significant, as the result of a weaker euro against the US dollar.
- The ECB, on the other hand, is found to have a negligible influence on the US economy.

Reaction of Euro Area domestic prices from a US monetary policy tightening when ECB monetary policy is endogenous and exogenous

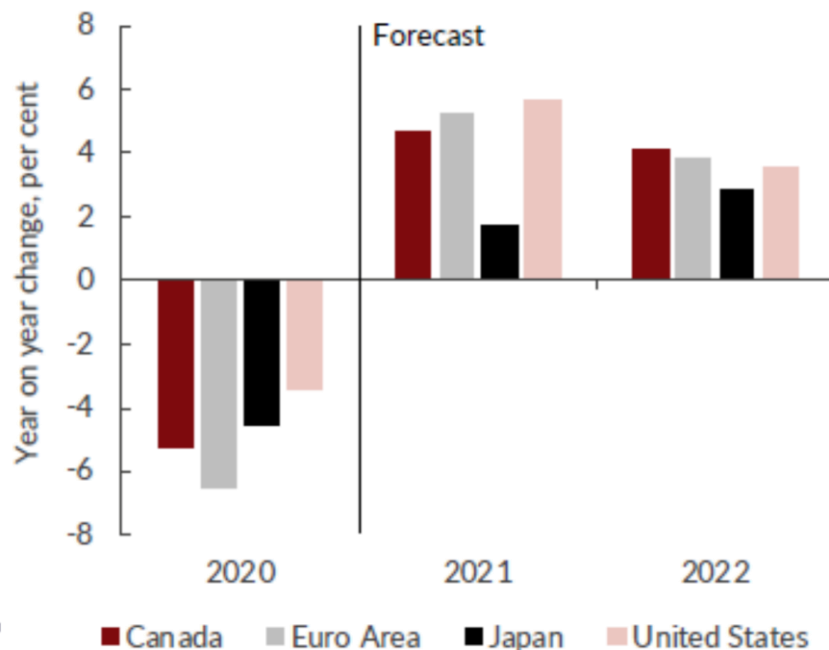


Source: NiGEM simulation.

Heterogenous Economic Experiences Still

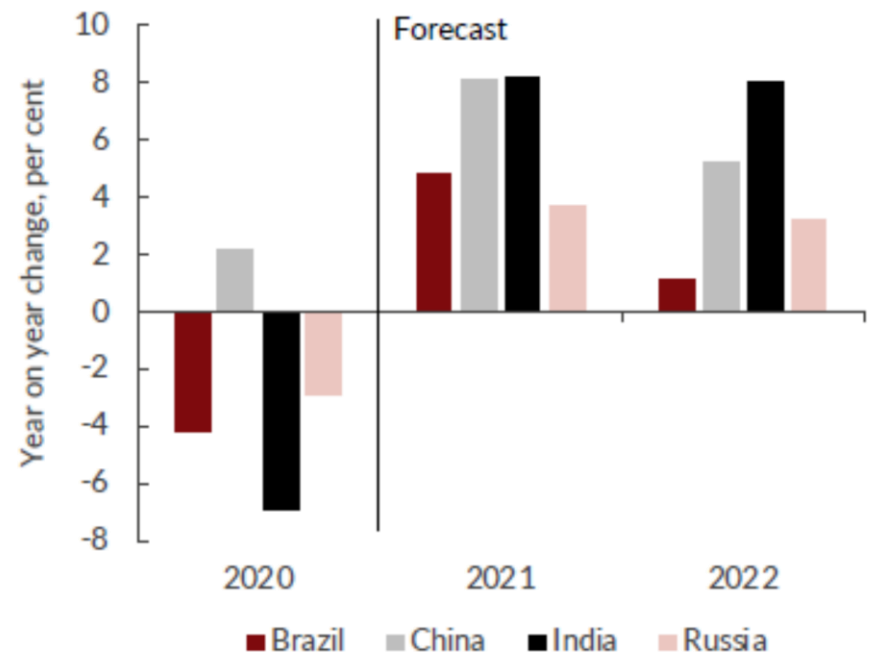
- There is still considerable heterogeneity in growth experiences across countries, particularly across advanced and emerging economies.

GDP growth in advanced economies (per cent)



Source: NiGEM database and NIESR forecast.

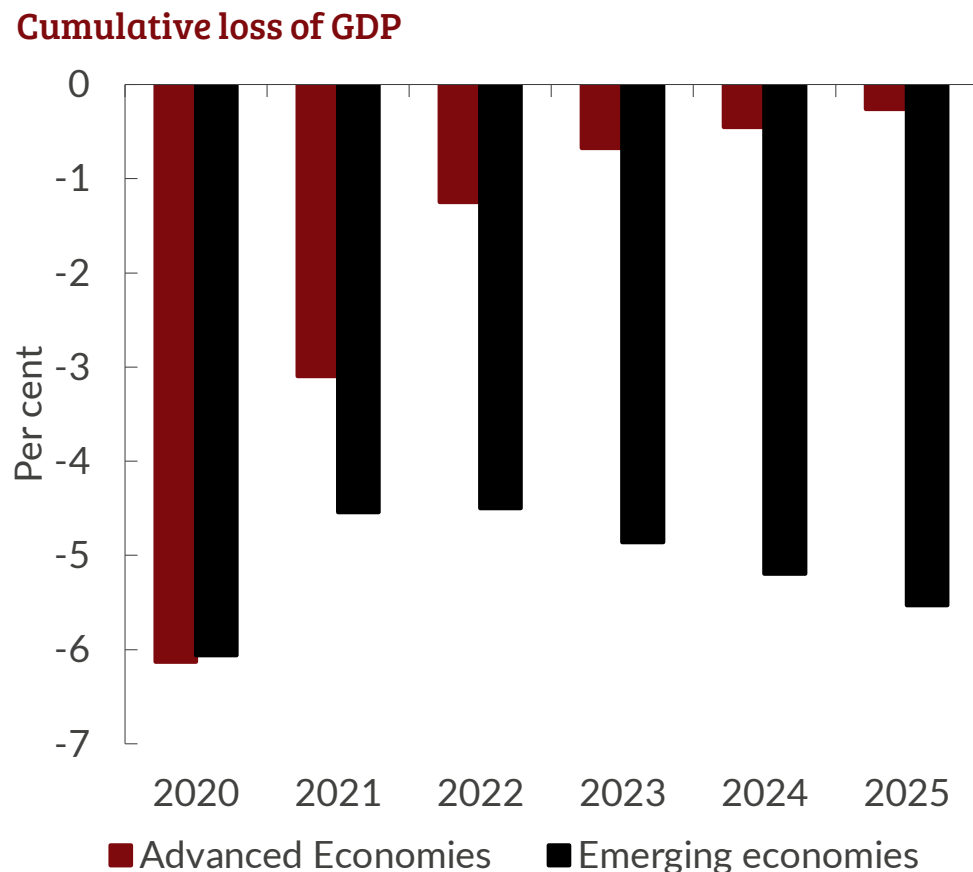
GDP growth in emerging economies (per cent)



Source: NiGEM database and NIESR forecast.

The Scarring Effect on GDP of Covid-19

- For 2025 we project global GDP to be 3 per cent lower than expected before the pandemic.
- With a cumulative loss of GDP relative to expected by 2025 at around \$28 trillion.



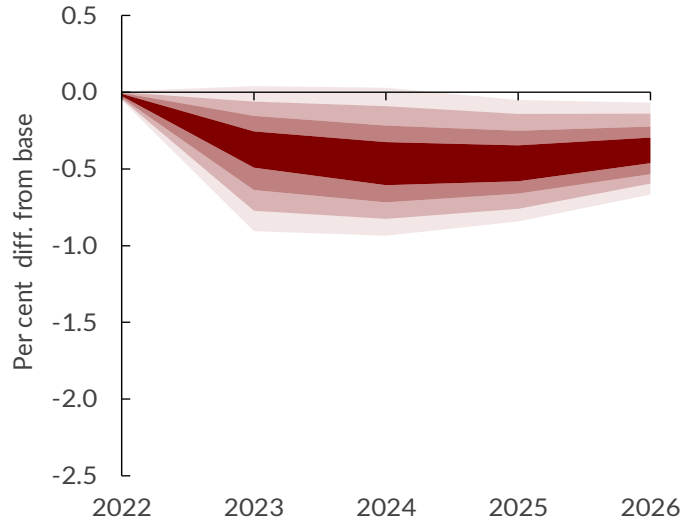
Source: NiGEM database and NIESR forecast.

Risks

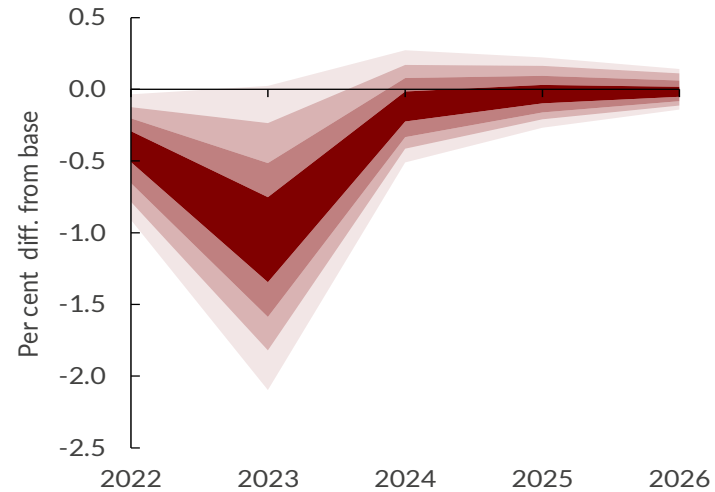
- If inflation sticks at higher levels, fighting inflation might come at the expenses of hurting the growth of the global economy (labour market).
- Inflation and tighter monetary conditions in advanced economies posing a particular risk to emerging market economies.
- As we head towards a global interest-rate tightening cycle, we forecast that debt concerns will mount.

Risk Scenario: The Effect of a Global Gas Price Shock

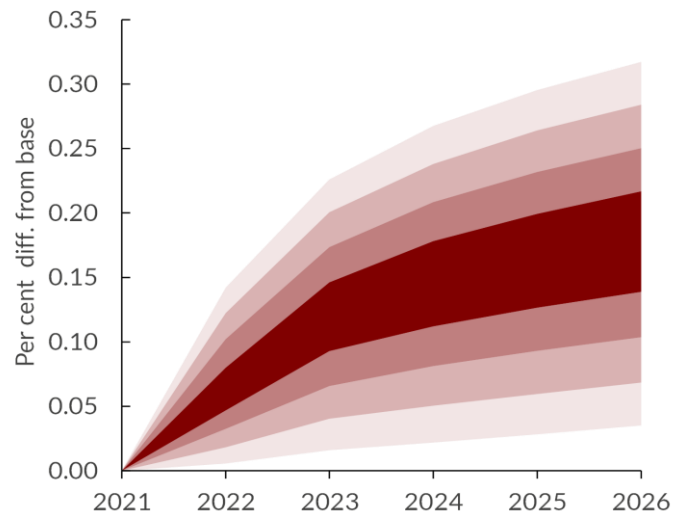
Global GDP growth



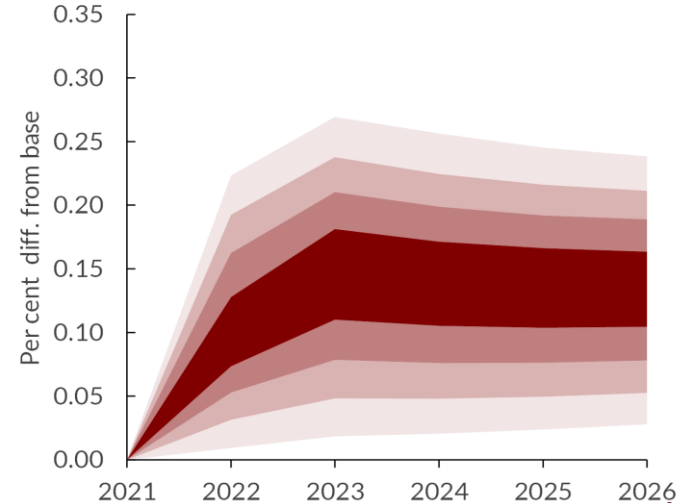
Euro Area GDP growth



Global inflation



Euro Area inflation



Source: NiGEM scenarios and NiGEM stochastic simulations.

Forecast Summary

Table 1	Global economic outlook summary			Percentage change, year-on-year				
	World economy			Real GDP growth in major economies				
	Real GDP ^a	Consumer prices ^b	World trade ^c	US	China	Japan	Euro Area	BRICS+ ^d
2021	5.7	3.6	7.8	5.6	8.1	1.7	5.2	7.1
2022	4.2	5.2	6.2	3.6	5.2	2.8	3.8	5.1
2023	3.5	2.9	6.0	2.3	5.1	1.4	2.5	4.7
	Summary of changes from our Autumn forecast			Percentage point change from our Autumn forecast , year-on-year				
2021	-0.1	0.4	-0.5	-0.2	-0.4	-0.8	0.4	-0.4
2022	-0.1	2.0	-1.4	-0.1	-0.5	0.6	-0.2	-0.3
2023	-0.2	0.3	-1.0	0.1	-0.5	-0.1	-0.2	-0.5

Note: ^a Based on 2017 reference year PPP shares. ^b OECD countries, private consumption deflator. ^c Volume of total world trade. ^d Includes Brazil, Russia, India, China, Indonesia, Mexico, South Africa, Turkey.

Source: NiGEM database and NIESR forecast.

UK Economic Outlook

Powering Down, Not Levelling Up



Cyrille Lenoël with Rory Macqueen, Paul Mortimer-Lee, Urvish Patel and Kemar Whyte

Outline

- Inflation in the driving seat
- Squeeze on real incomes and growth
- Tight labour market
- What's wrong with policy?



Higher Inflation, Lower Growth

- Inflation revised up this year
- GDP growth revised down next year
- Bank Rate revised up

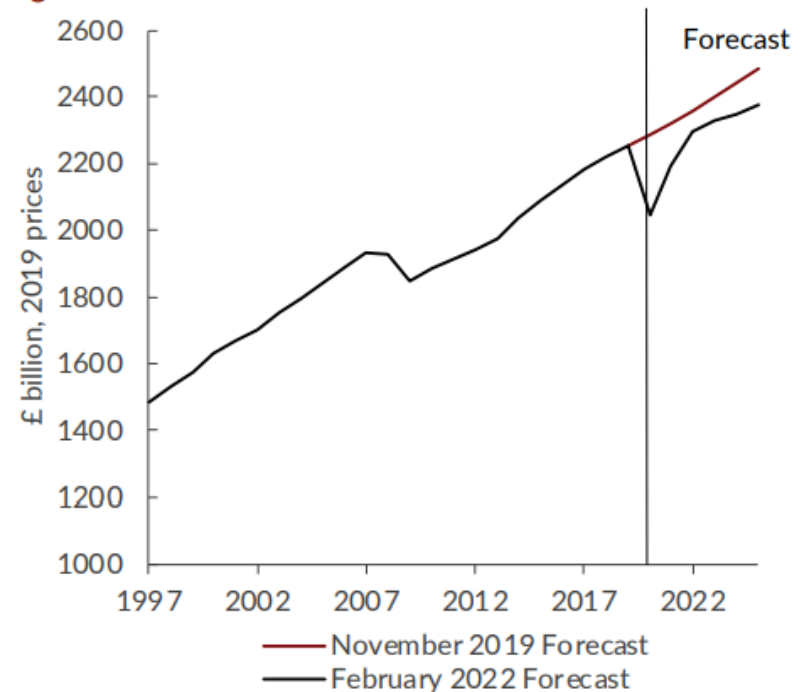
	2022	2023	2024
CPI inflation	5.9 (+1.5)	3.3 (-0.1)	1.9 (0)
GDP growth	4.8 (+0.1)	1.3 (-0.4)	0.9 (-0.4)
Bank Rate (December)	1.25 (+0.75)	1.5 (+0.5)	1.5 (-0.15)
Unemployment	3.9 (-0.5)	4.2 (-0.3)	4.2 (-0.1)

In brackets, the revision in percentage points from our November 2021 forecast

Covid Scarring

- GDP is 4% lower in 2025 than pre-pandemic forecast
- Eq. to £5,500 per person lost

Figure 1.5 NIESR forecasts for UK GDP

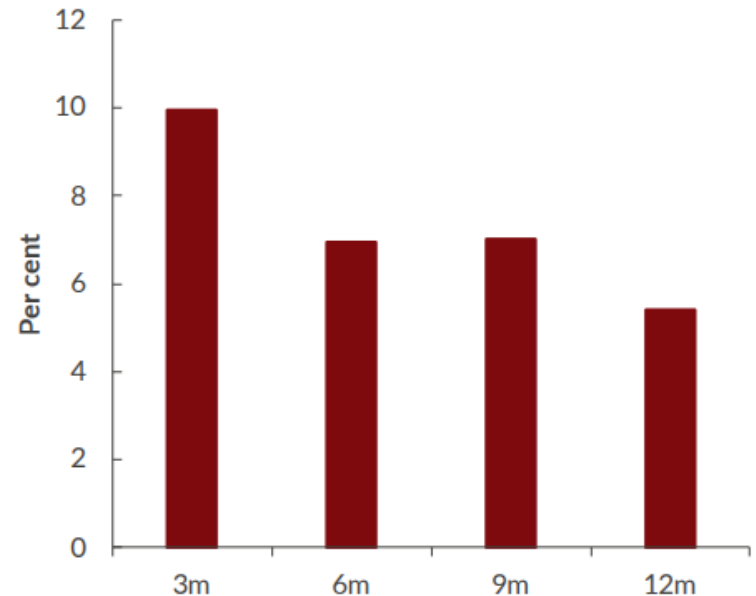


Source: NiGEM database, NIESR forecast

Surging Inflation

- Month-on-month annualised inflation averaged 10% in the last 3 months
- Inflation set to peak at 7% in April 2022
- Factors:
 - Rebound in domestic demand
 - Global supply bottlenecks
 - Higher energy prices
 - Tight labour market

Figure 1.23 Annualised consumer price index inflation over past year



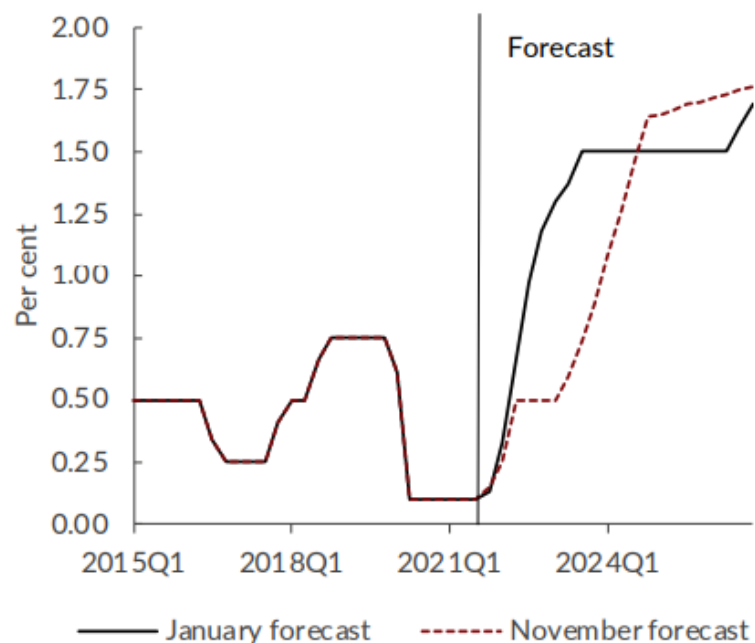
Source: ONS, NIESR calculations

Note: December 2021 CPI

Too Little Too Late

- Monetary policy too slack for too long
- Now in catch up mode
- Four hikes this year
- Gets to 1.5% and stops when inflation and growth slow
- Risk of overcompensating for past mistakes

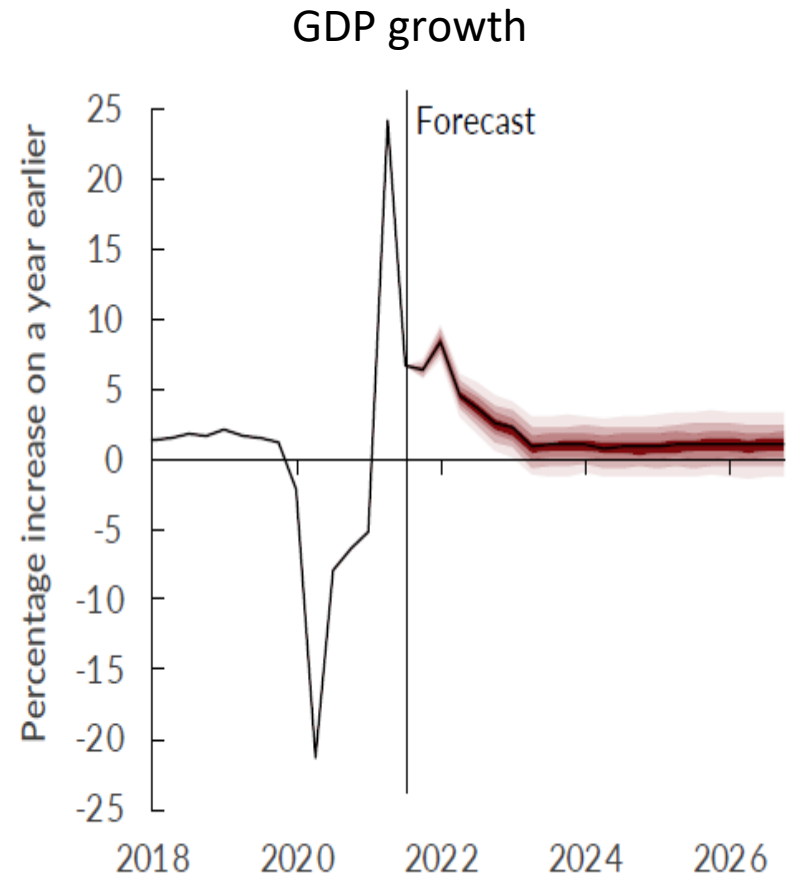
Figure 1.26 Bank rate



Source: NiGEM database, NIESR forecast

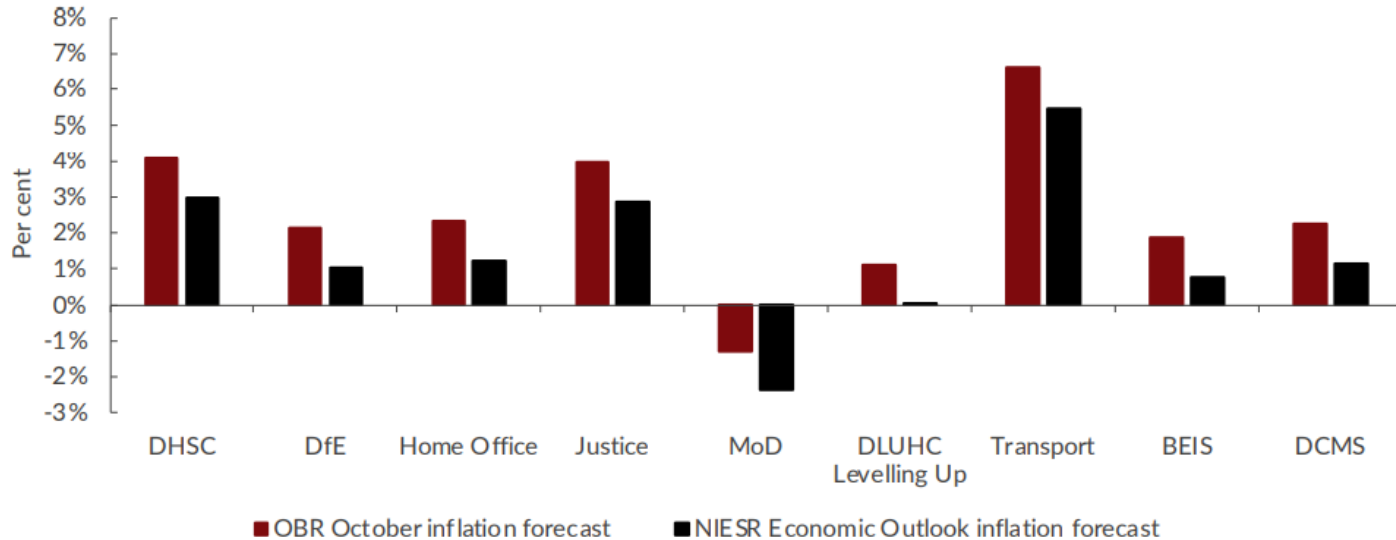
Recession Risks Rising

- Delayed monetary tightening
- Higher taxes
- Real income squeeze
- Corporate sector profit margins under pressure



Fiscal Tightening Ought to be Delayed

Figure 1.20 Average annual increase in department resource budgets 2021-22 to 2024-25 adjusted for inflation



Source: HMT, OBR, NiGEM, NIESR calculations

- Higher departmental spending limits
- Mitigate the cost-of-living crisis

Conclusions and Risks

- Fast inflation, slow growth
- Upside risks:
 - Lower inflation
 - Higher labour participation
 - Looser fiscal policy
- Downside risks:
 - Wage-price spiral
 - Lower productivity
 - Trade tensions with EU



Forecast Summary

Table 1.1 Summary of the forecast (percentage change unless otherwise stated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDP	1.7	1.7	-9.4	7.3	4.8	1.3	0.9	1.1	1.1
Per capita GDP	1.1	1.1	-9.8	6.6	4.4	1.0	0.6	0.7	0.8
CPI Inflation	2.4	1.8	0.8	2.6	5.9	3.3	1.9	1.7	1.9
RPIX Inflation	3.3	2.5	1.7	4.1	6.9	3.9	2.5	2.4	2.6
RPDI	2.8	1.3	-0.5	1.8	1.1	2.5	1.6	1.5	1.3
Unemployment, %	4.1	3.8	4.6	4.5	3.9	4.2	4.2	4.2	4.2
Bank Rate, %	0.6	0.8	0.2	0.1	0.8	1.4	1.5	1.5	1.6
Long Rates, %	1.4	0.9	0.3	0.8	1.2	1.5	1.7	1.8	1.9
Effective exchange rate	1.9	-0.3	0.5	4.8	2.2	-0.4	-0.4	-0.2	-0.1
Current account as % of GDP	-3.9	-2.7	-2.6	-2.4	-3.3	-3.8	-3.8	-3.5	-3.1
Net borrowing as % of GDP	1.7	2.3	14.8	6.7	3.7	2.8	2.4	2.3	2.0
Net debt as % of GDP	79.3	83.7	94.6	93.2	93.0	93.7	92.0	89.2	87.6

UK Regional Economic Outlook



Professor Arnab Bhattacharjee, with Max Mosley, Adrian Pabst and Tibor Szendrei

Key Messages

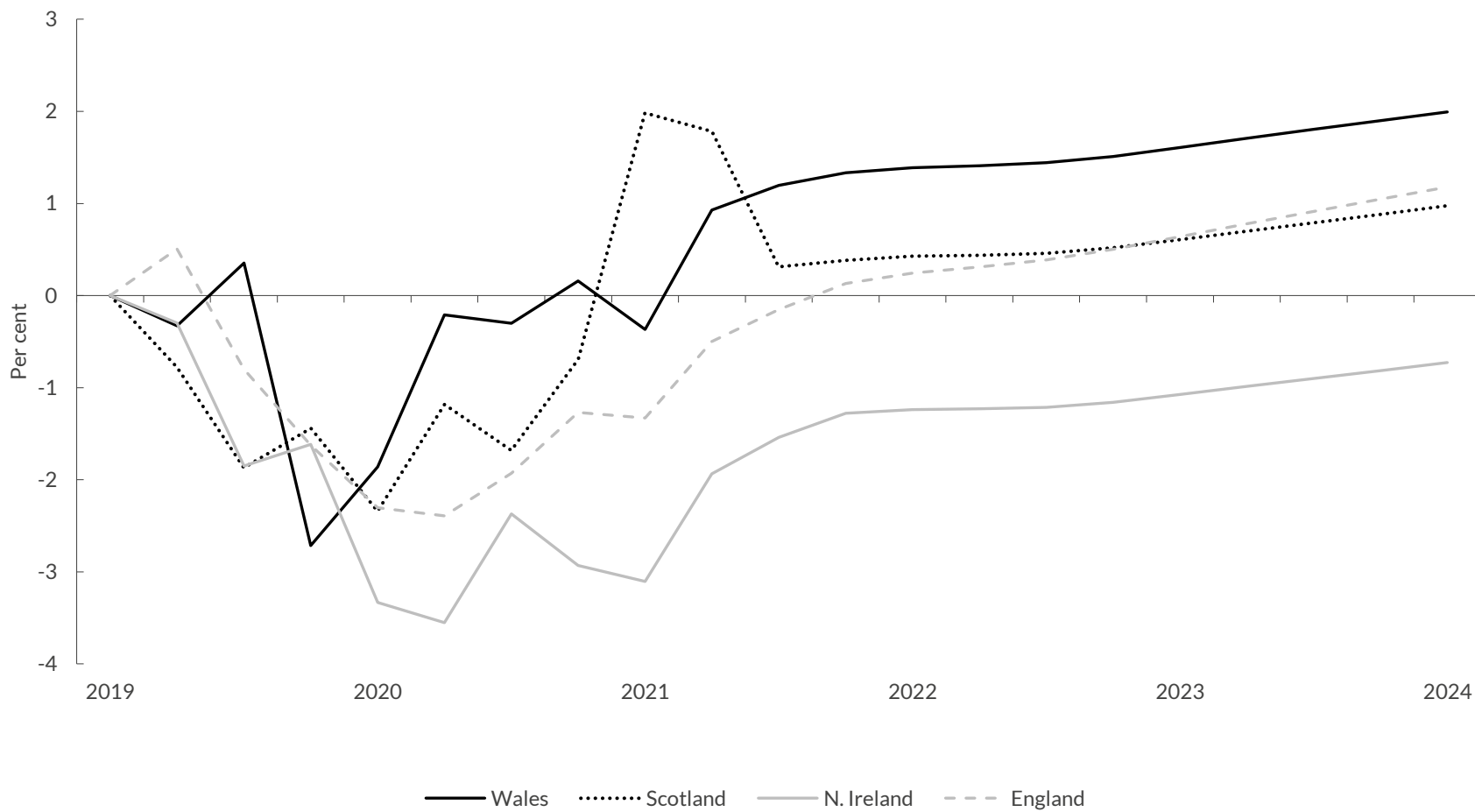
- **Deep disparities** between & within regional economies
- Increasing inequalities & **worrying rise in destitution**
- Policy options
 - Cost-of-living Crisis
 - Sustained Regional Regeneration

Regional GVA (% difference from 2019, Q4)

	UK	The North	The Midlands	South & East	London	Wales	Scotland	Northern Ireland
2020q4	-6.1%	-5.5%	-8.9%	-7.4%	-3.8%	-5.0%	-6.1%	-5.7%
2021q4	-1.1%	-1.2%	-4.7%	-2.9%	1.8%	-1.1%	3.1%	-1.4%
2022q4	1.8%	2.0%	-1.4%	1.0%	4.6%	1.4%	0.5%	1.5%
2023q4	2.9%	3.2%	-0.3%	2.1%	5.9%	2.4%	1.6%	2.5%
2024q4	3.9%	4.1%	0.6%	3.1%	7.0%	3.3%	2.4%	3.3%

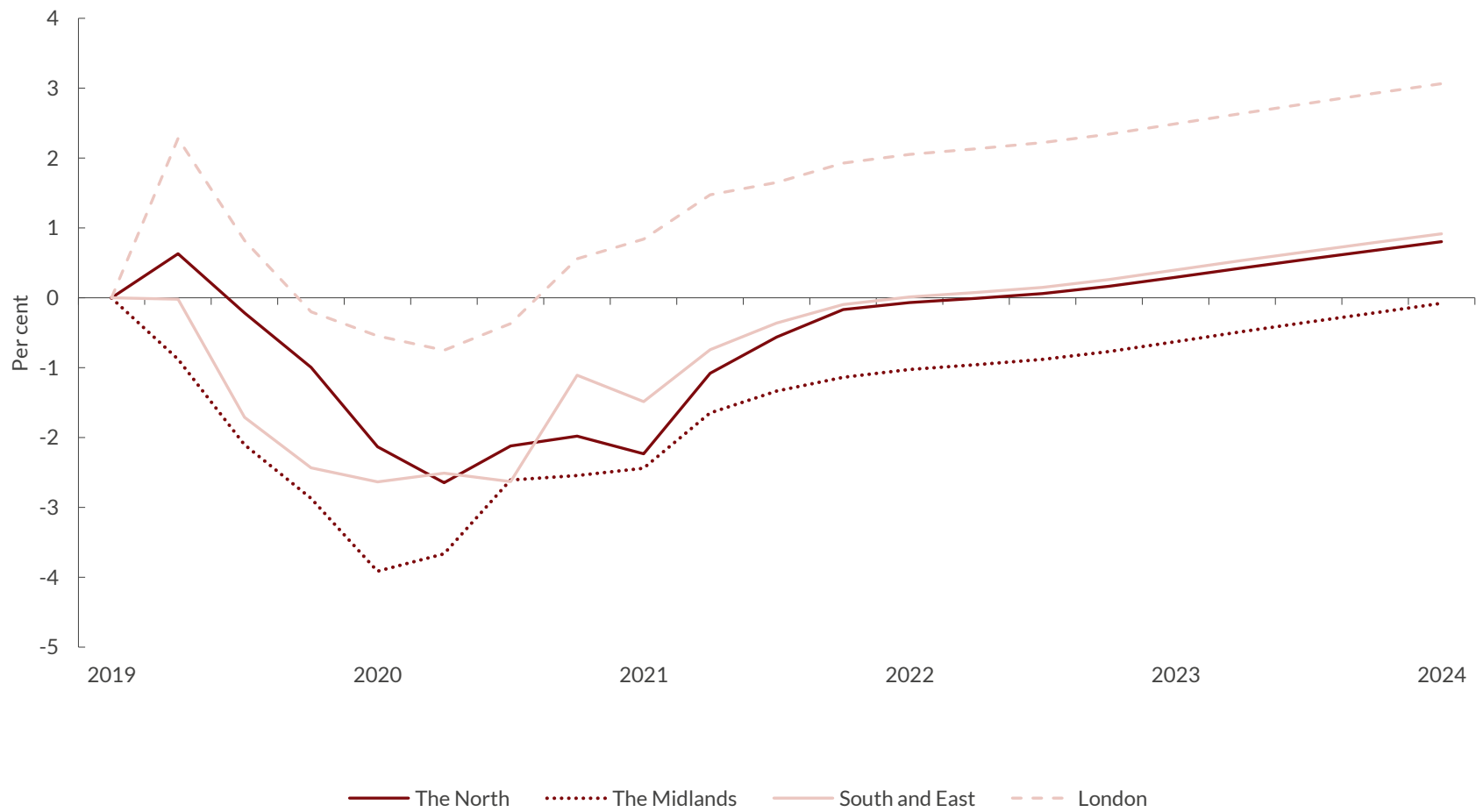
Source: NiREMS

Employment in the Four Home Nations



Relative to 2019Q4

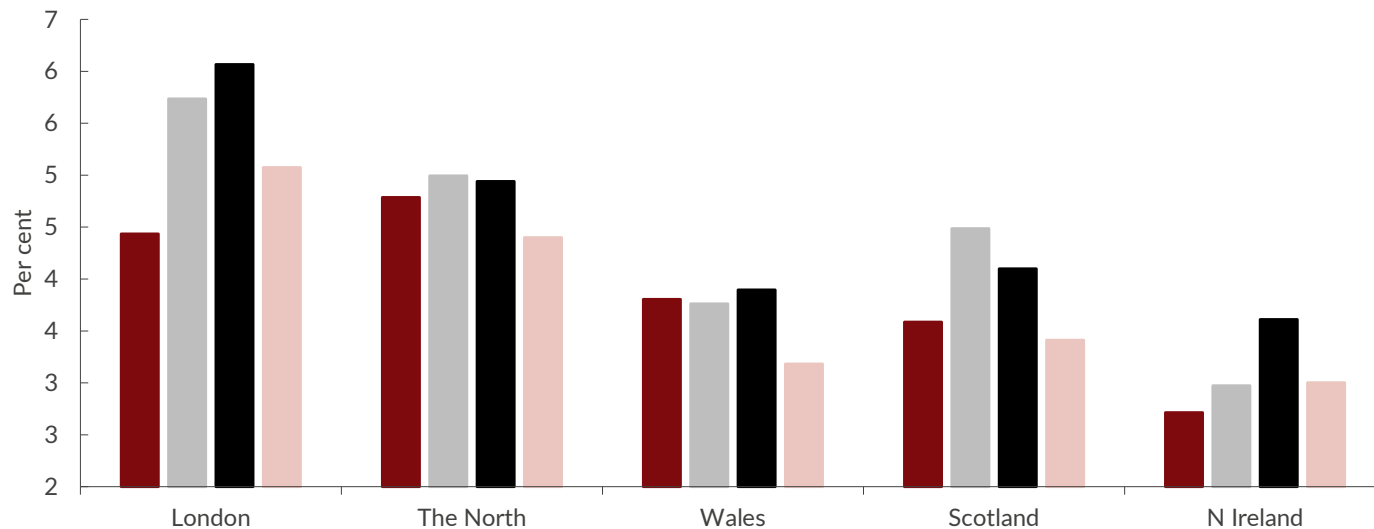
Employment in English Regions



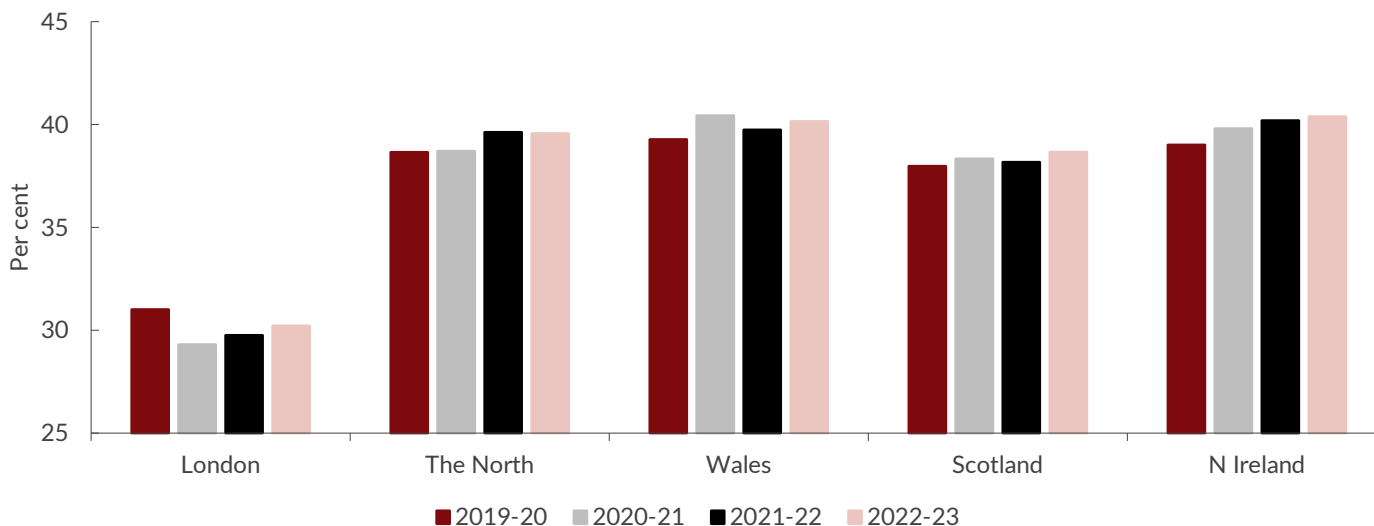
Relative to 2019Q4

Regional Labour Markets

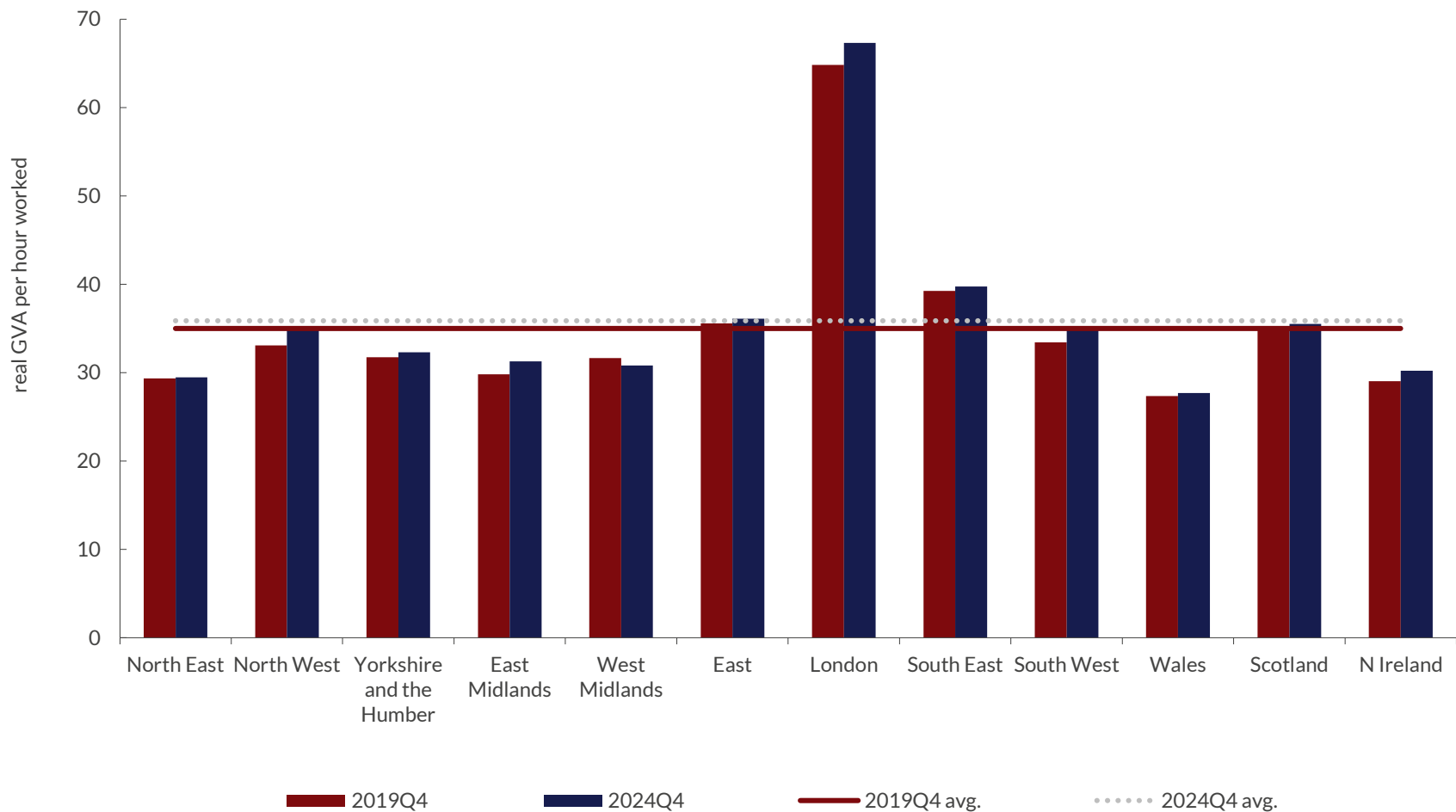
Regional unemployment rates



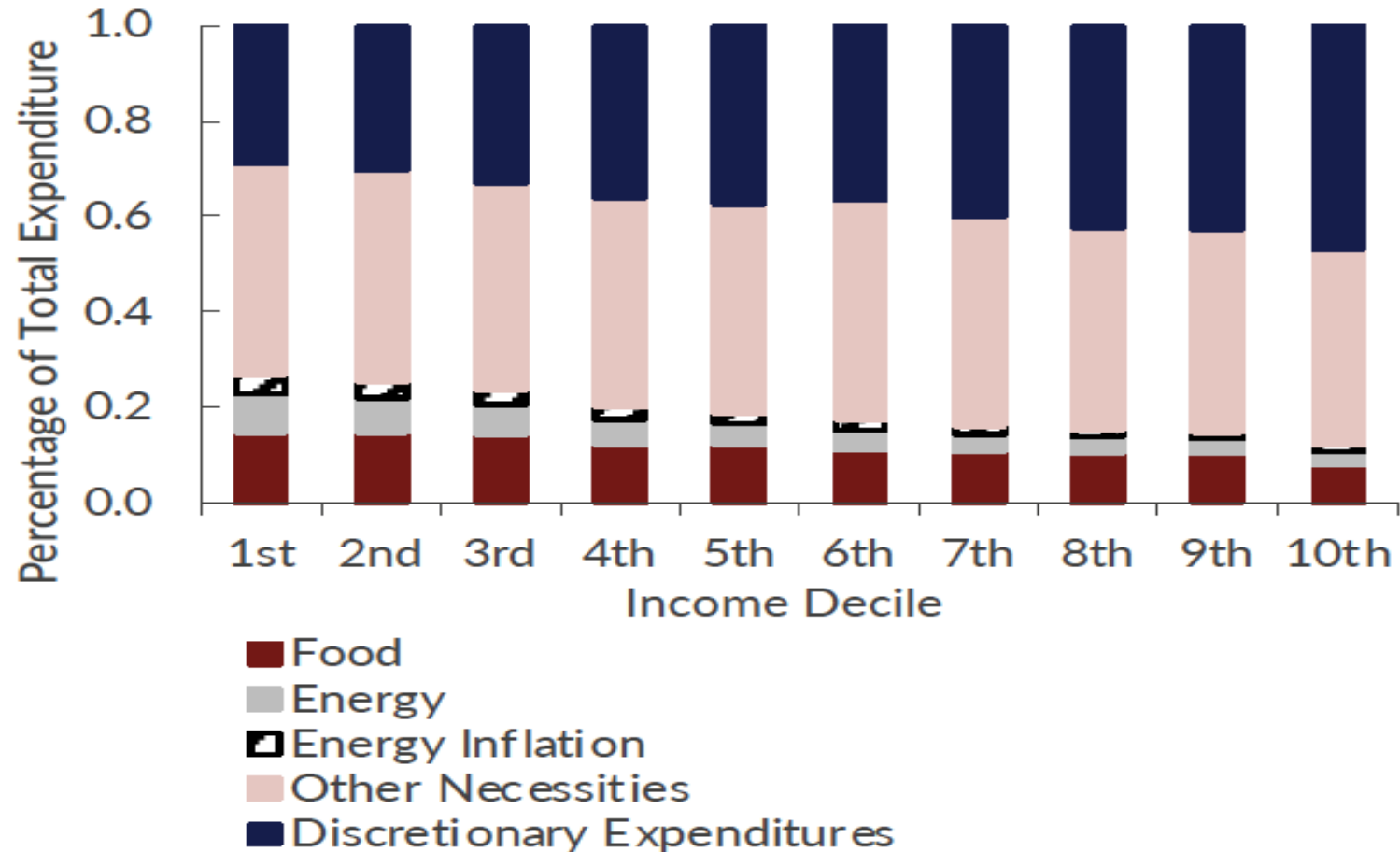
Regional inactivity rates



Regional Productivity



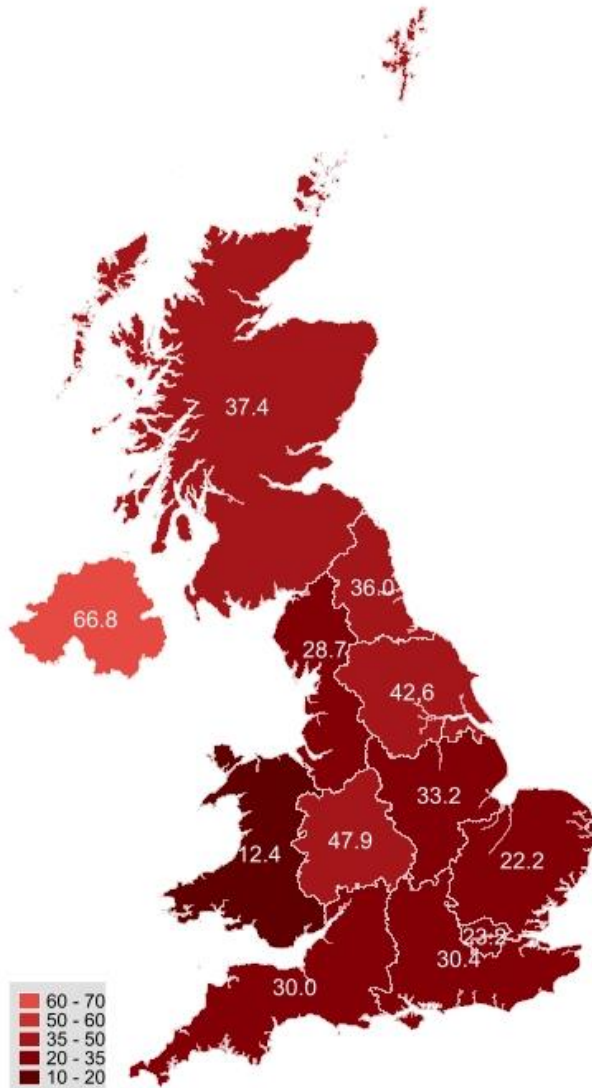
Squeeze on HH Budgets Across Distribution



Source: ONS Family Spending Survey 2019 and NiREMS

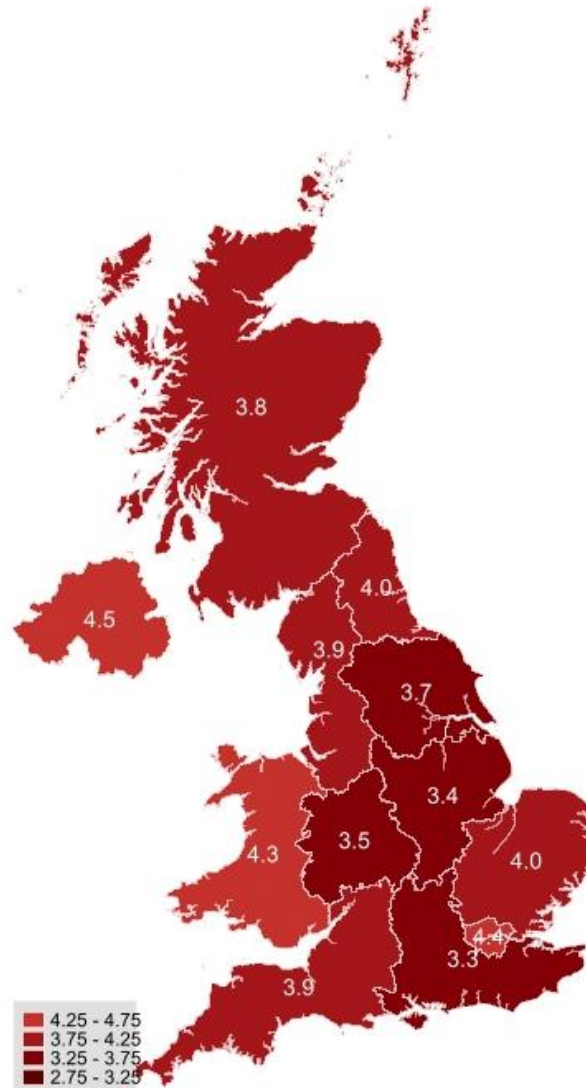
More Households in Destitution 2022-23

Higher destitution due to inflation (%)

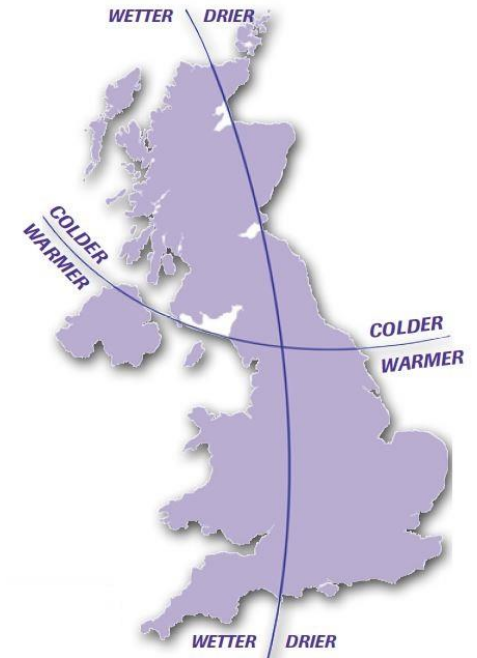


Source: LINDA, NiReMS

Higher destitution due to Covid (times)



Source: LINDA, NiReMS



Policy Options

- Many families £1,000 per year worse off
- One size does not fit all – targeted welfare
- We propose an expanded Winter Grant scheme worth £3 billion

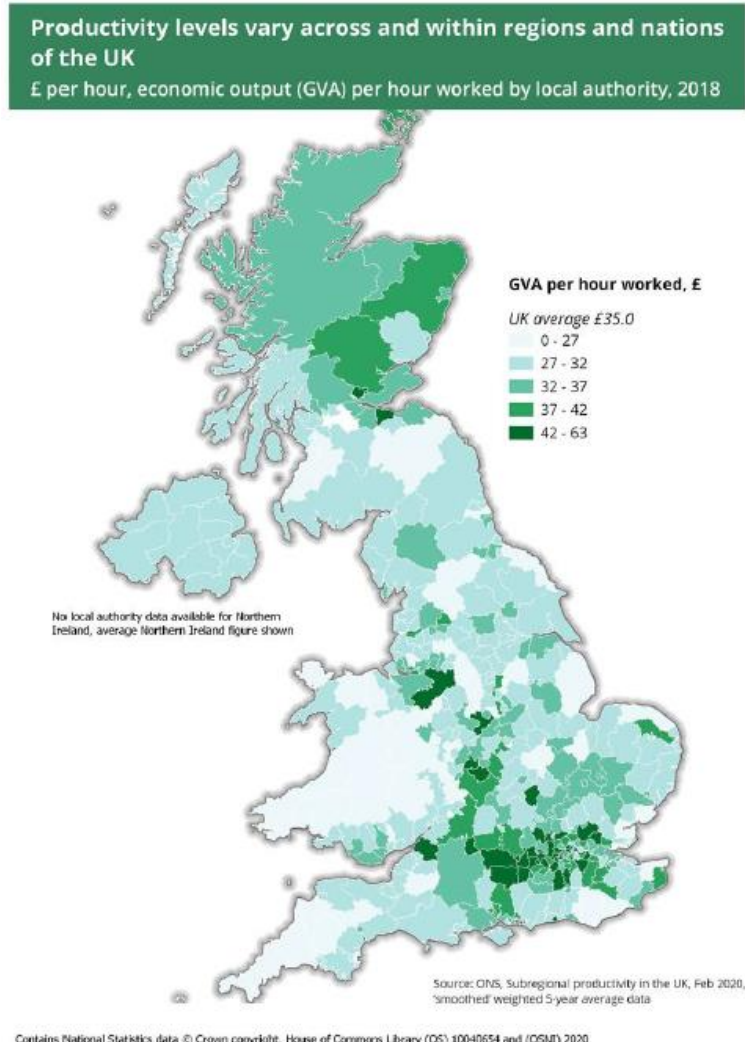


Levelling Up?

- Levelling Up White Paper
 - Ambitious Plans
 - Radical Shake-Up of Local Government

BUT

- No New Spending
- Central Control
- Likely outcomes vs goals?

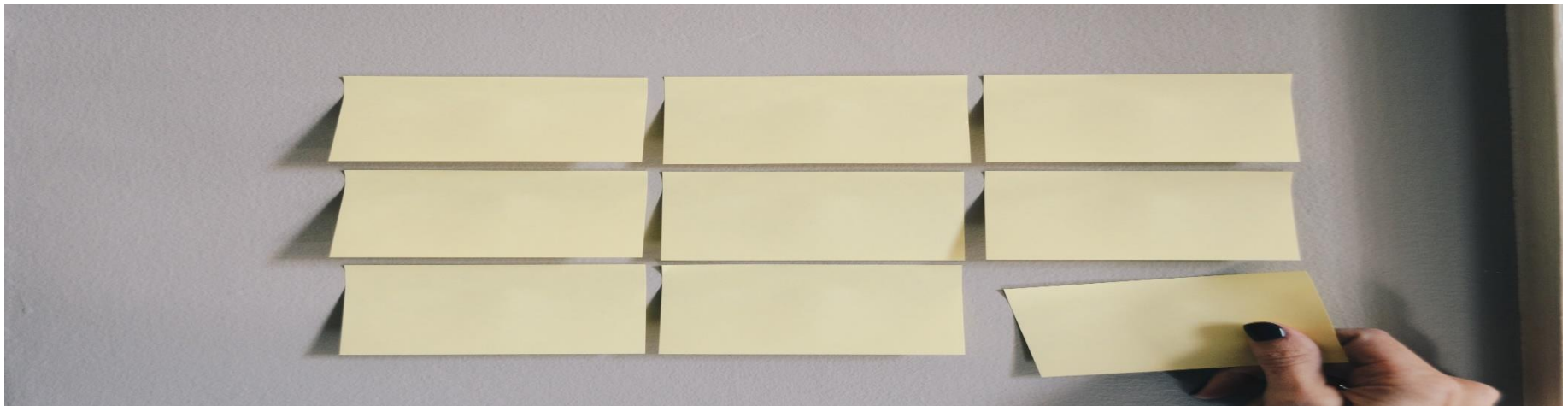


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Source: Spring Budget 2020 – Background Briefing

Regional Regeneration

1. Holistic approach & right scale of investment
2. Institutions with a long-term outlook to boost investment
3. Local design and delivery





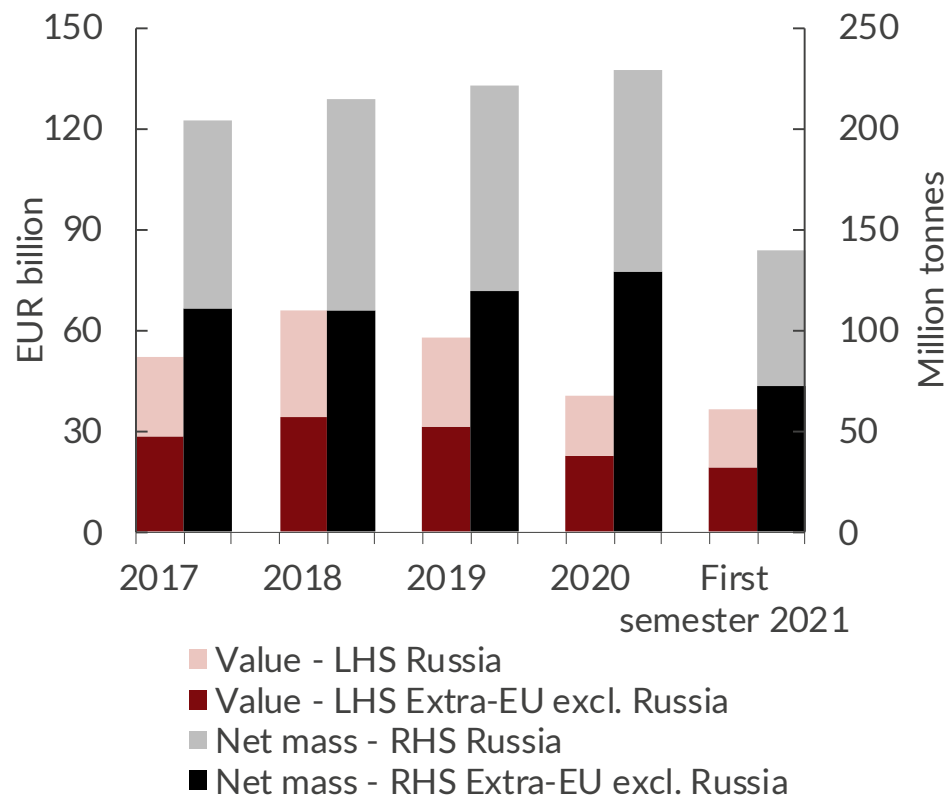
niesr.ac.uk/forecasts



Another Round of Energy Price Hikes

- The prospect of energy price disruptions on the European and global markets increases the downside risk to our short-term GDP growth forecast and increases the likelihood of inflation overshooting targets.
- The current security crisis at the border of Europe with a build-up of Russian troops near Ukraine has sparked speculation about energy price increases.

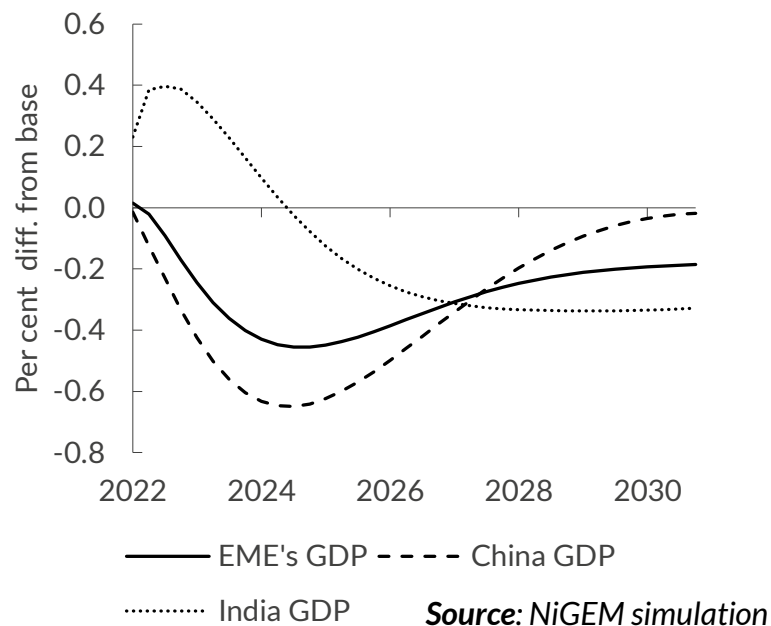
EU imports from extra-EU countries of natural gas, 2017 - first semester 2021



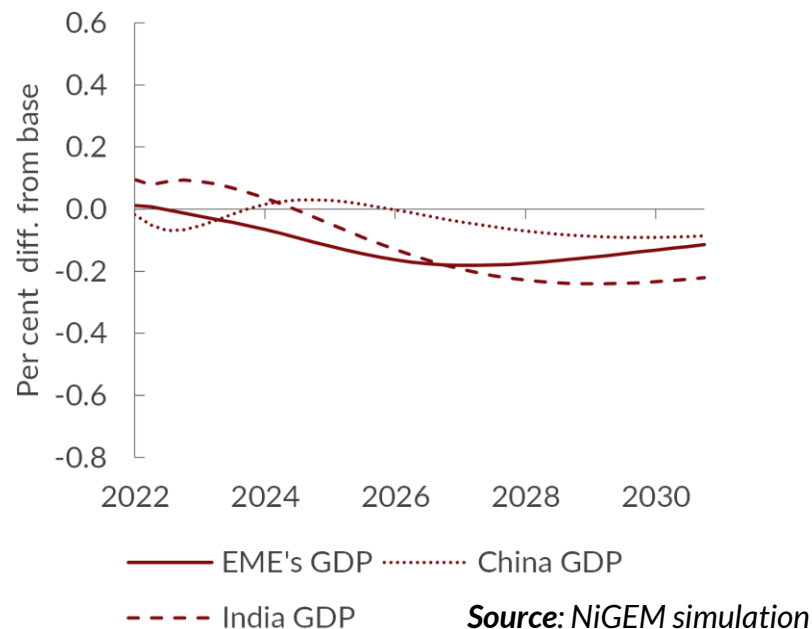
Source: NIGEM stochastic simulation.

How might such changes impact emerging markets?

Effects of a monetary policy tightening on EMEs' real activity (Fed tightens)



Effects of a monetary policy tightening on EMEs' real activity (ECB tightens)



- The monetary policy divergence between the ECB and the Fed extends beyond the bilateral spillovers between these two large economies. Both have considerable cross-border influence on emerging market economies (EMEs).
- The Fed's monetary policy is found to have larger spillovers in EMEs, both in terms of financial conditions and real activity (figures 7 and 8).