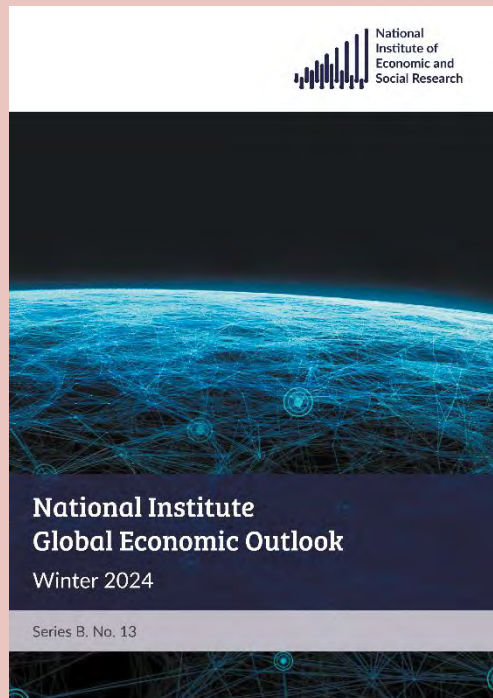


UK and Global Economic Outlooks



Winter 2024

Presenters

Opening Remarks

Stephen Millard

Outlook for the Global Economy

Barry Naisbitt

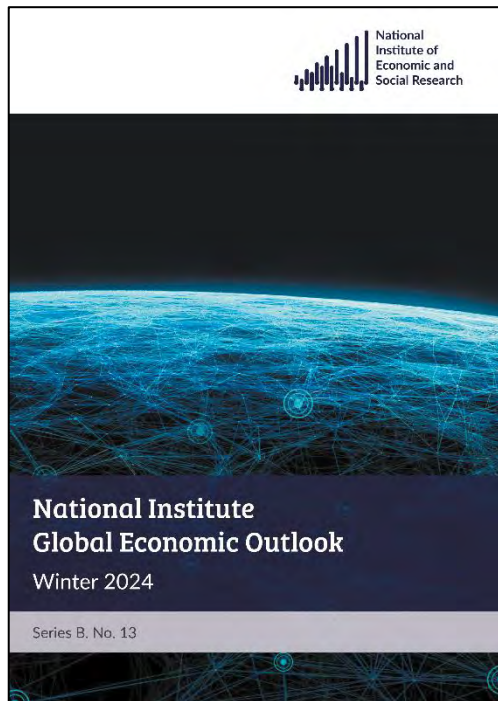
Outlook for the UK Economy

Ben Caswell

Outlook for UK Regions and Households

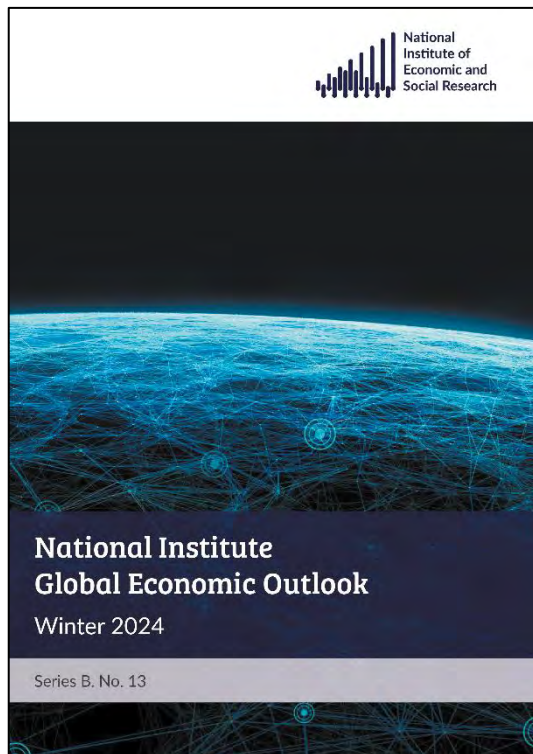
Arnab Bhattacharjee

Opening Remarks



Stephen Millard

Outlook for the Global Economy



Barry Naisbitt

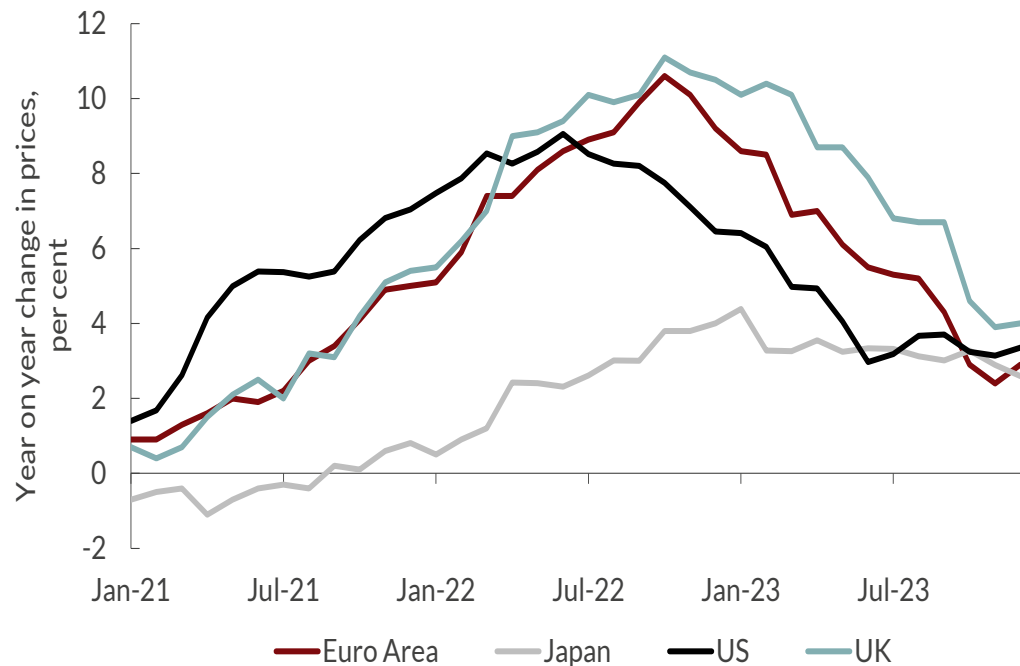
Ahmet Kaya, Stephen Millard, Shama Bernard, Ed Cornforth, Ian Hurst, Iana Liadze, and Patricia Sanchez Juanino

Our Global View

- Inflation has fallen in advanced economies
- Timing of monetary easing depends on core inflation
- Resilient but weak global economic activity
- Geopolitical events will be key for 2024 outlook
- Little room for fiscal policy action in a year of elections

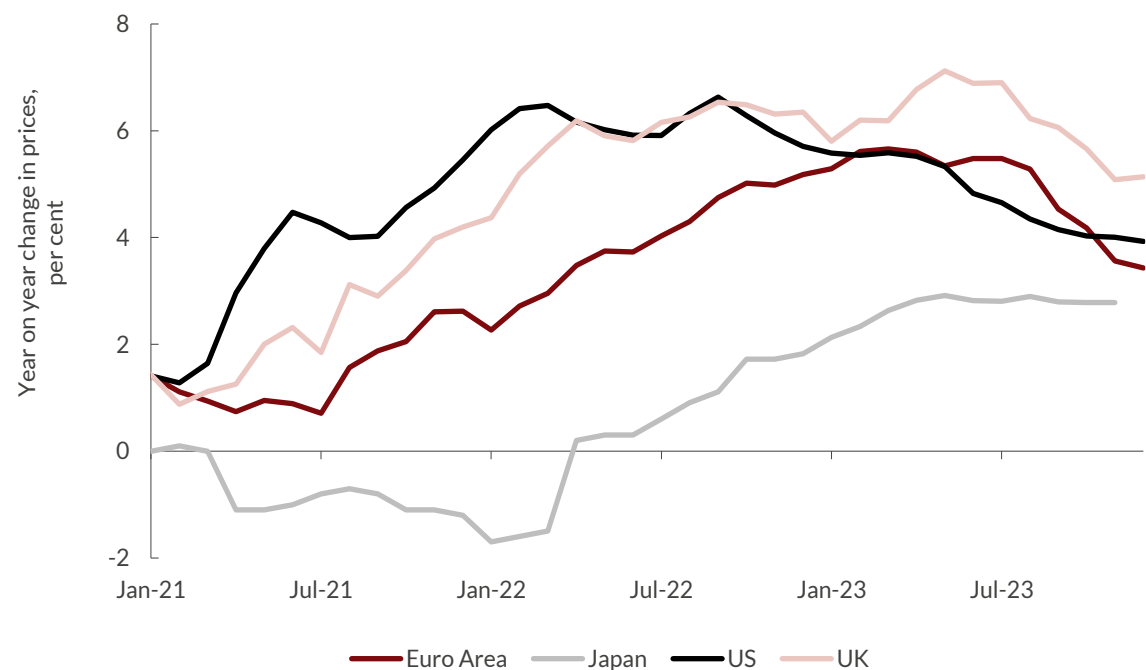
Inflation Considerably Below Peak Rates

Figure 3: Recent trends in inflation



Note: Inflation is based on the consumer price index.
Source: OECD, ONS

Figure 7: Annual core inflation

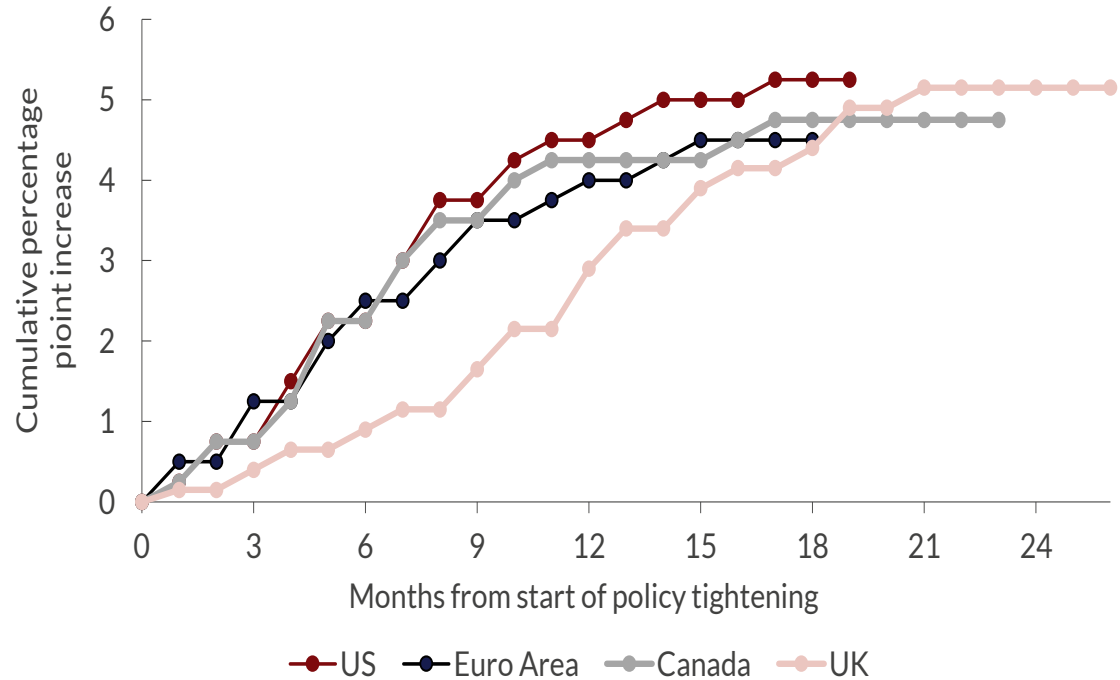


Note: Core inflation is total inflation less food and energy.
Source: OECD, ONS

- Inflation has continued to fall in advanced economies
- Core inflation remains stickier

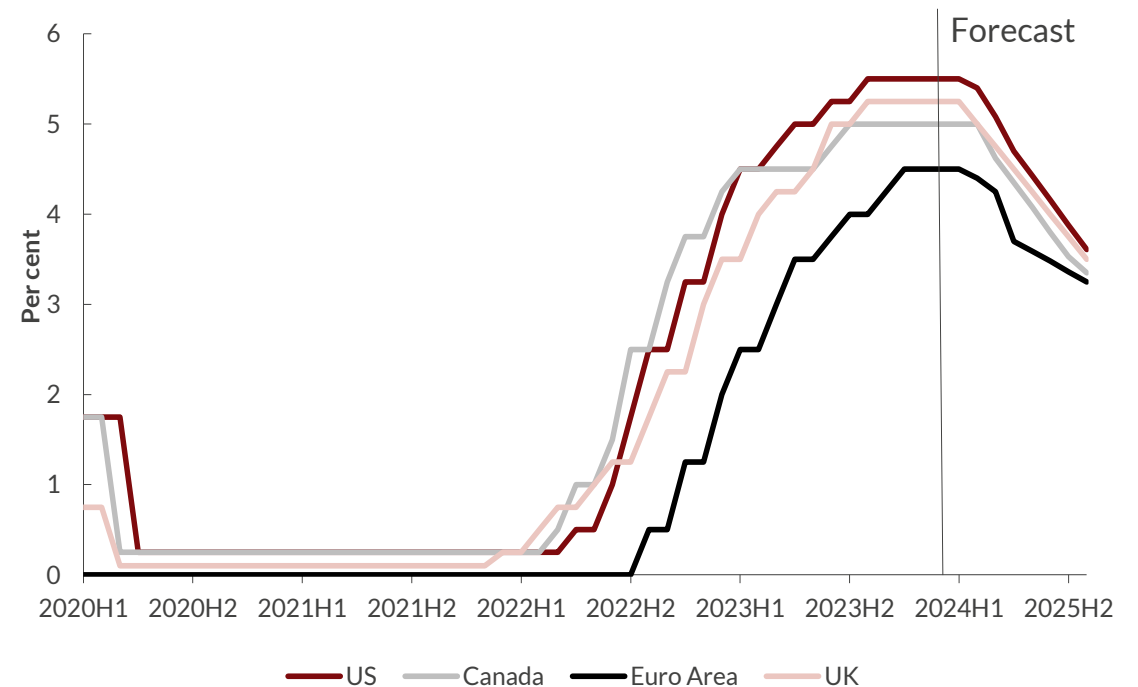
Policy Rates Remain at their Peaks

Figure 4: Monetary policy tightening



Source: Refinitiv Datastream

Figure 16: Policy rates in advanced economies

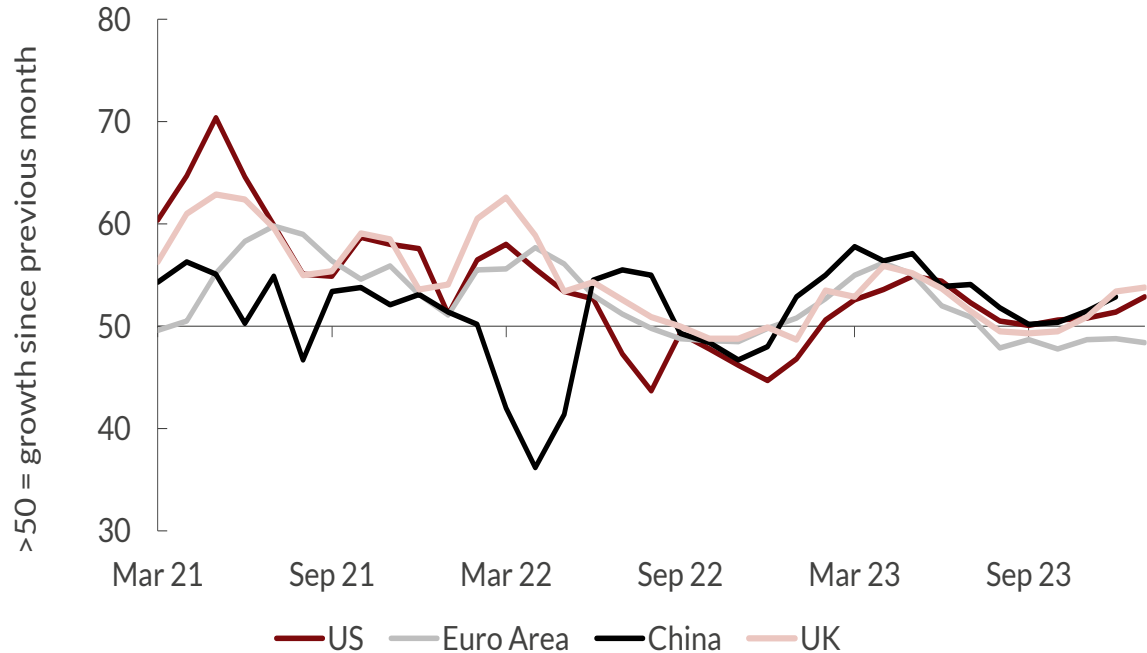


Source: Refinitiv Datastream, NIESR forecast

- Monetary policy tightening has halted in advanced economies
- Easing cycle to start in mid-2024, conditional on (core) inflation

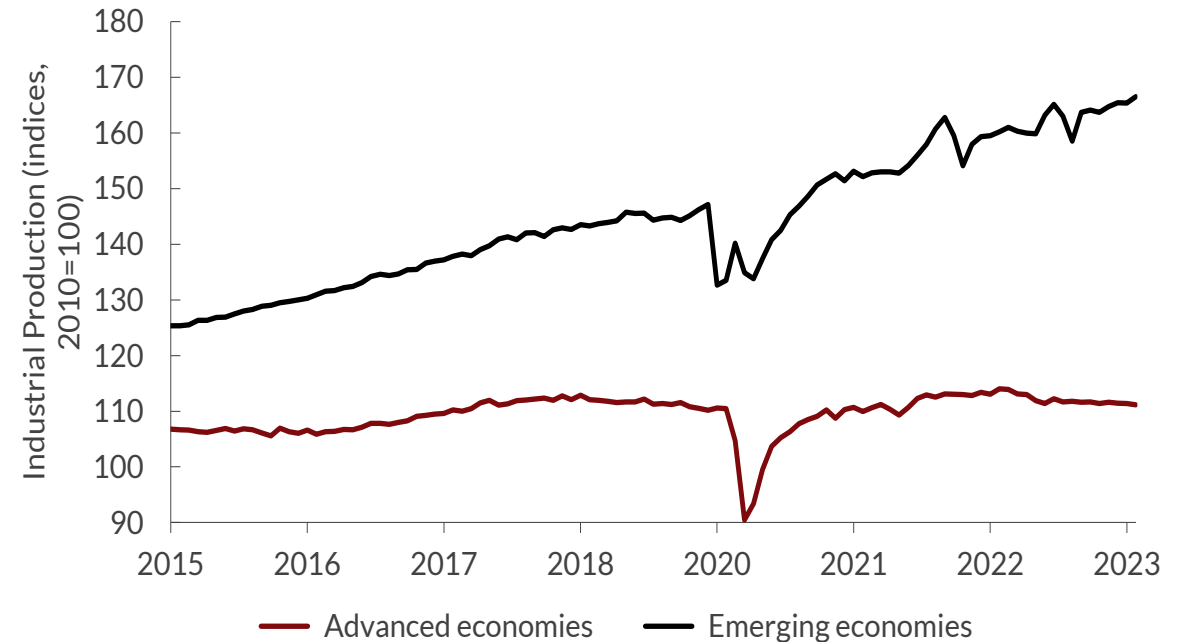
Growth in Economic Activity Driven by Services Sectors

Figure 10: Recent trends in PMIs - services



Sources: Refinitiv Datastream, S&P Global

Figure 11: Industrial Production



Source: CPB World Trade Monitor

- Pick up in services activity in advanced economies
- Industrial production is driven by emerging economies

Our Global View

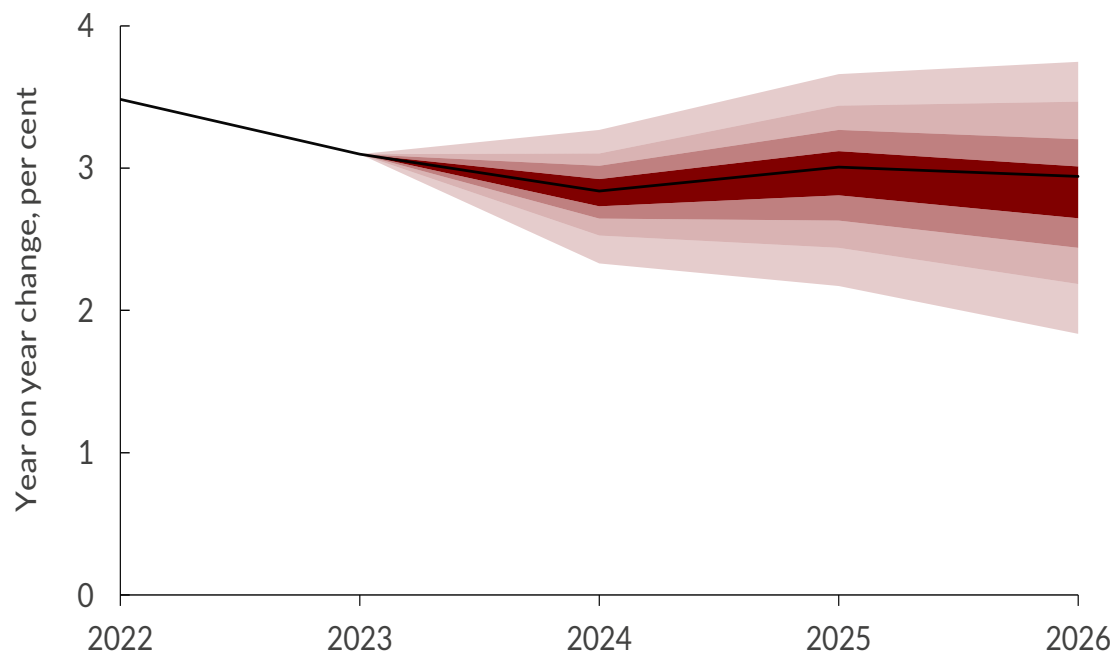
Table 1	Global economic outlook summary			Percentage change, year-on-year				
	World economy			Real GDP growth in major economies				
	Real GDP ^(a)	Consumer prices ^(b)	World trade ^(c)	US	China	Japan	Euro Area	BRICS+ ^(d)
2022	3.5	9.9	5.2	1.9	3.0	0.9	3.4	3.6
2023	3.1	9.9	1.1	2.5	5.2	1.9	0.6	5.0
2024	2.8	7.1	4.2	1.5	4.7	1.0	0.9	4.3
2025	3.0	3.8	5.7	1.7	4.5	1.2	1.5	4.3
	Summary of changes from our Autumn forecast			Percentage point change from our Autumn forecast , year-on-year				
2023	0.1	0.4	-0.5	0.3	0.1	0.1	0.0	0.3
2024	-0.1	1.4	1.0	0.1	0.1	-0.2	-0.3	0.1
2025	-0.1	0.0	1.1	0.0	-0.2	0.0	-0.1	-0.1

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

Source: NiGEM database and NIESR forecast

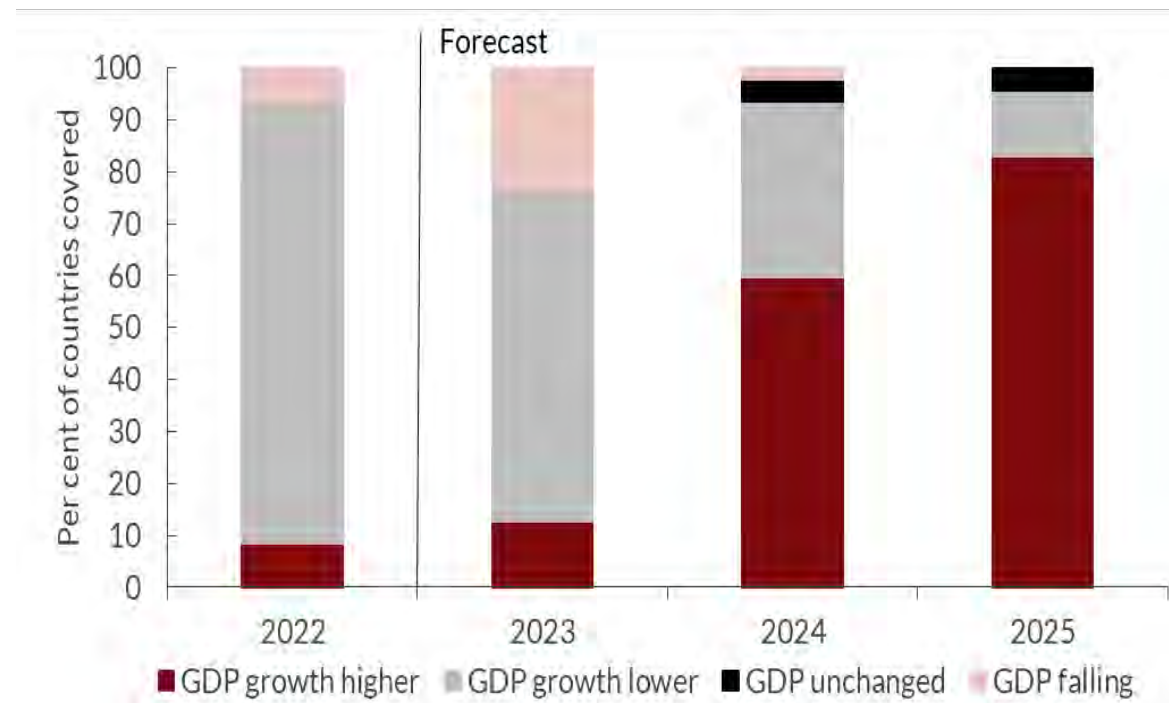
Slightly Weaker Global GDP Growth in 2024

Figure 1: Global GDP growth (forecast)



Source: NiGEM stochastic simulations

Figure 18: GDP change on previous years

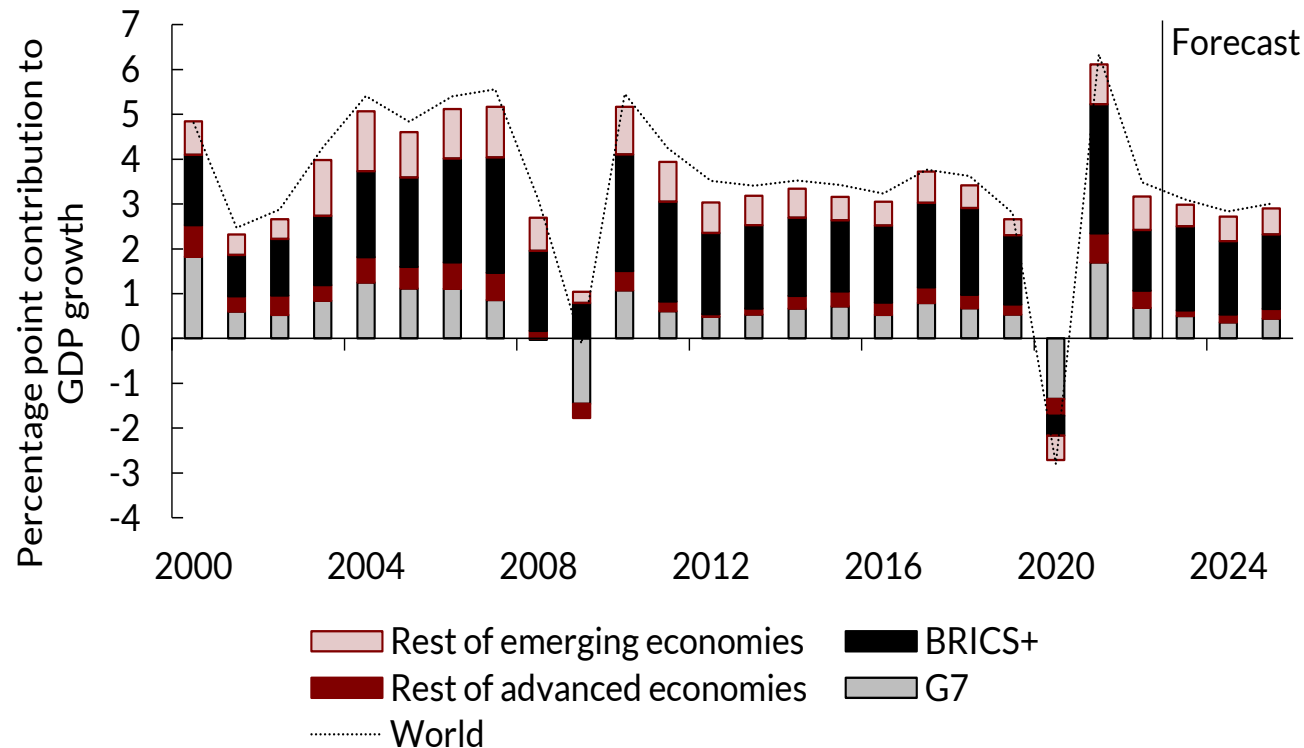


Source: NiGEM database and NIESR forecast

- GDP growth forecast at 2.8 per cent in 2024 from 3.1 per cent in 2023
- Two-thirds of countries will grow faster in 2024 than in 2023

Emerging Economies to Lead Global Economy

Figure 19: Sources of global GDP growth

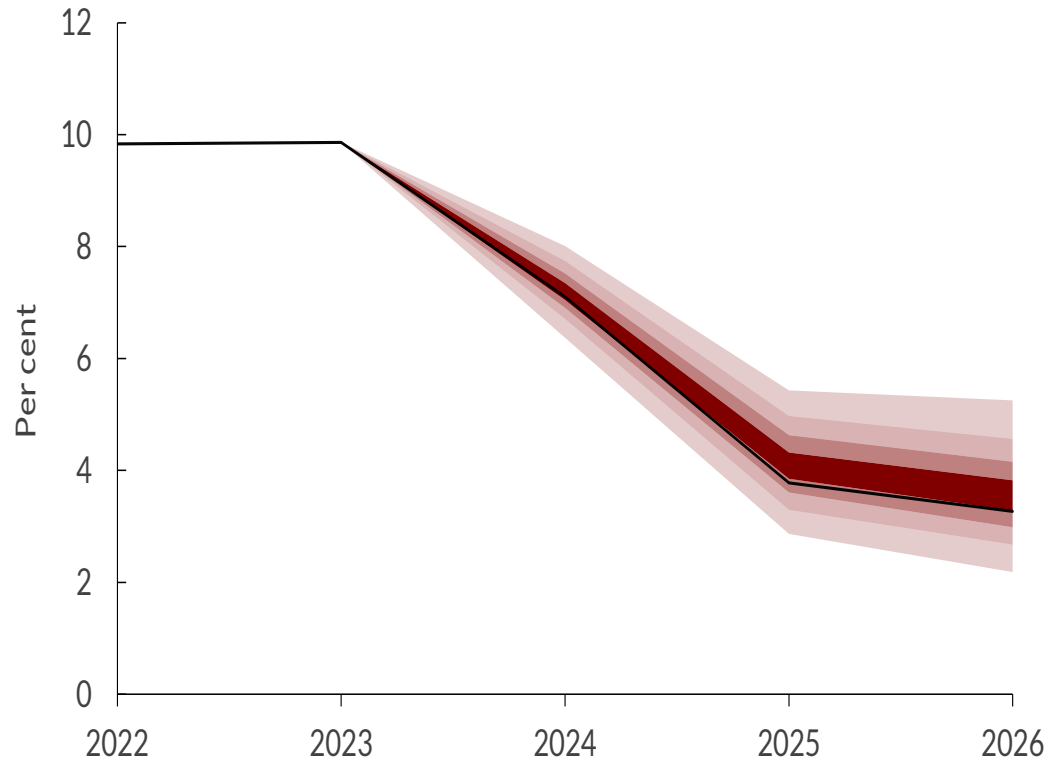


Source: NiGEM database and NIESR forecast

- GDP contribution of advanced economies has been slowing:
 - Unfavourable demographics
 - Climate adaptation
 - Trade fragmentation
- Emerging economies continue to lead but at a slower pace:
 - Limits of globalisation
 - Closer to productivity frontiers
 - New global challenges such as digitalisation & climate

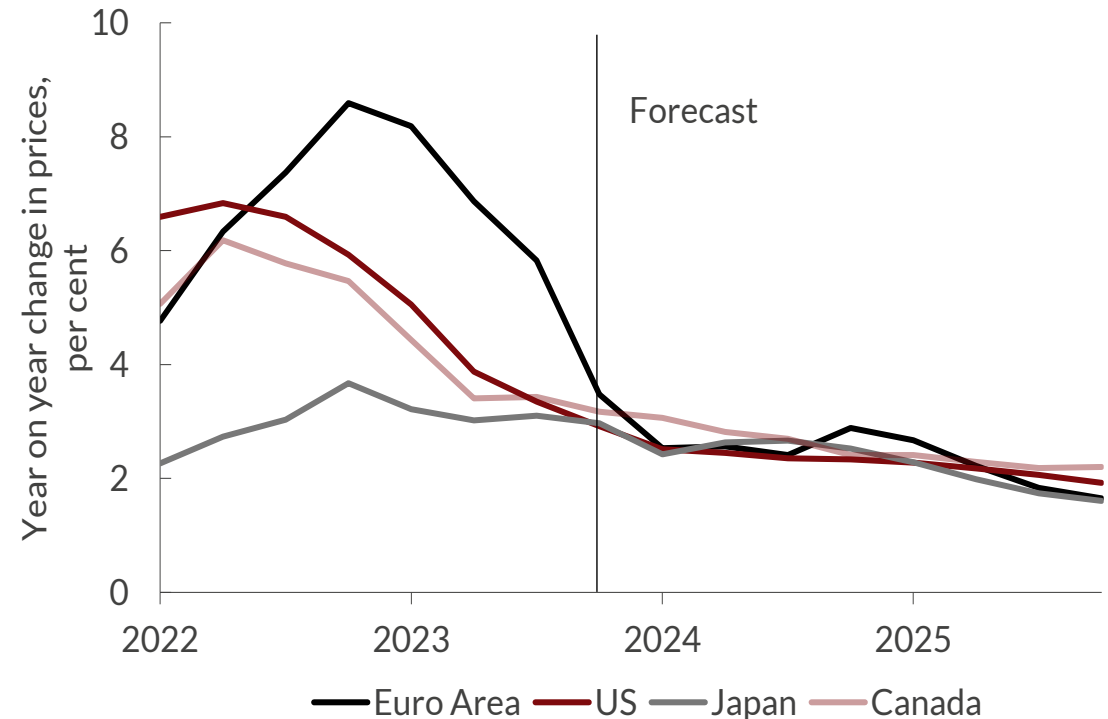
Inflation Will Get Closer to the Targets

Figure 2: OECD inflation (forecast)



Source: NiGEM stochastic simulations

Figure 24: Inflation in advanced economies



Source: NiGEM database and NIESR forecast

- Lower commodity prices & tighter policies will prompt lower inflation
- Risks are upside due to heightened geopolitical tensions

Risks

- On-going war in Ukraine
- Wider conflict in the Middle East
- Widespread elections around the globe
- Possible house price correction in the US
- Inflation may be stickier
- Sharper slowdown in China

Key Messages

- Inflation has fallen in advanced economies
- Timing of monetary easing depends on core inflation
- Resilient but weak global economic activity
- Geopolitical events will be key for 2024 outlook
- Little room for fiscal policy action in a year of elections

Outlook for the UK Economy



Benjamin Caswell

with Paula Bejarano Carbo, Huw Dixon, Hailey Low, Stephen Millard and Max Mosley

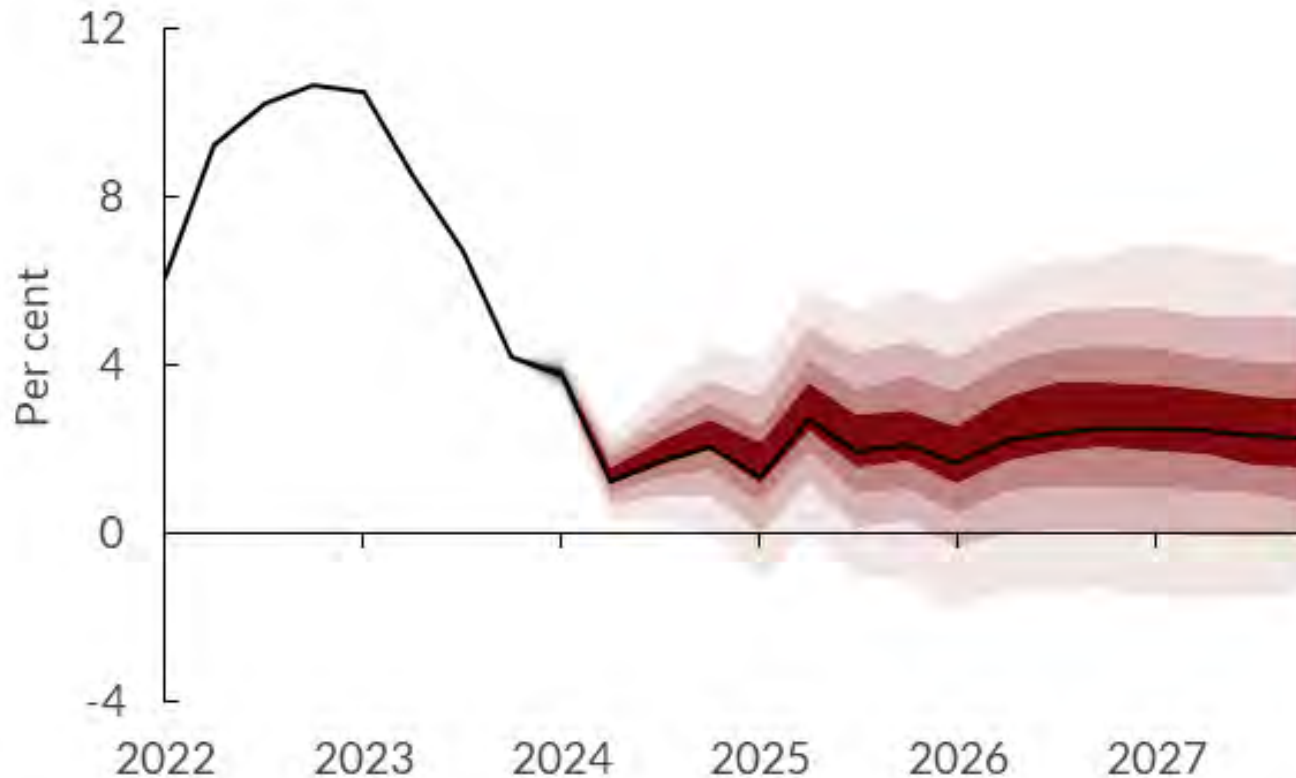


Key Messages

- Headline inflation falling quicker than expected
- Bank of England to start cutting rates in May
- UK (just) dipped into recession in the second half of 2023
- Growth to remain sluggish around lower trend rate of 1 per cent

CPI Inflation

Figure 1.3 CPI inflation fan chart



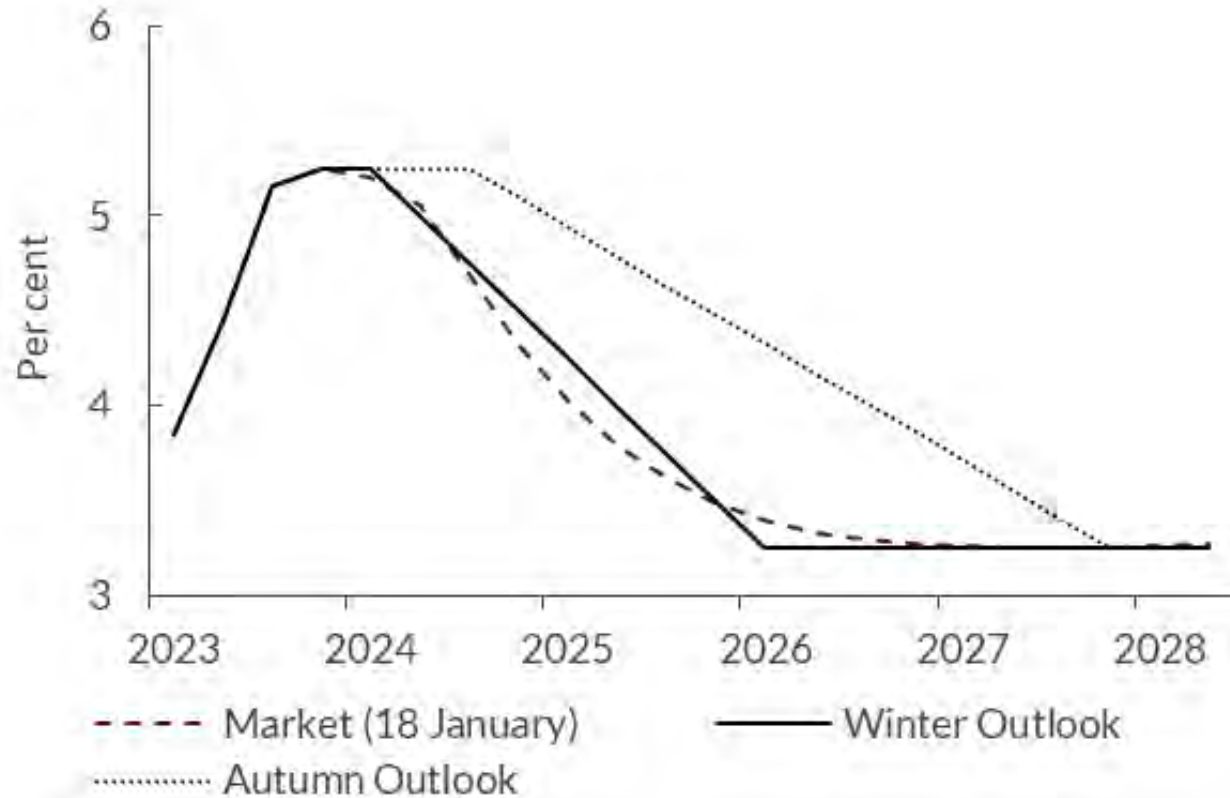
- CPI inflation at 4.0 per cent in December 2023
- We expect a fall to 3.7 per cent in 2024 Q1 and 1.2 per cent by Q2
- BoE on target by the end of 2024
- Upside risk from shipping and oil price shocks

Note: The shades within the fan chart represent a 10 per cent chance that CPI inflation will lie within the boundary of that shade. There is a 20 per cent chance that CPI inflation will lie outside the shaded area of the fan.

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

Monetary Policy

Figure 1.8 Bank Rate forecast comparison

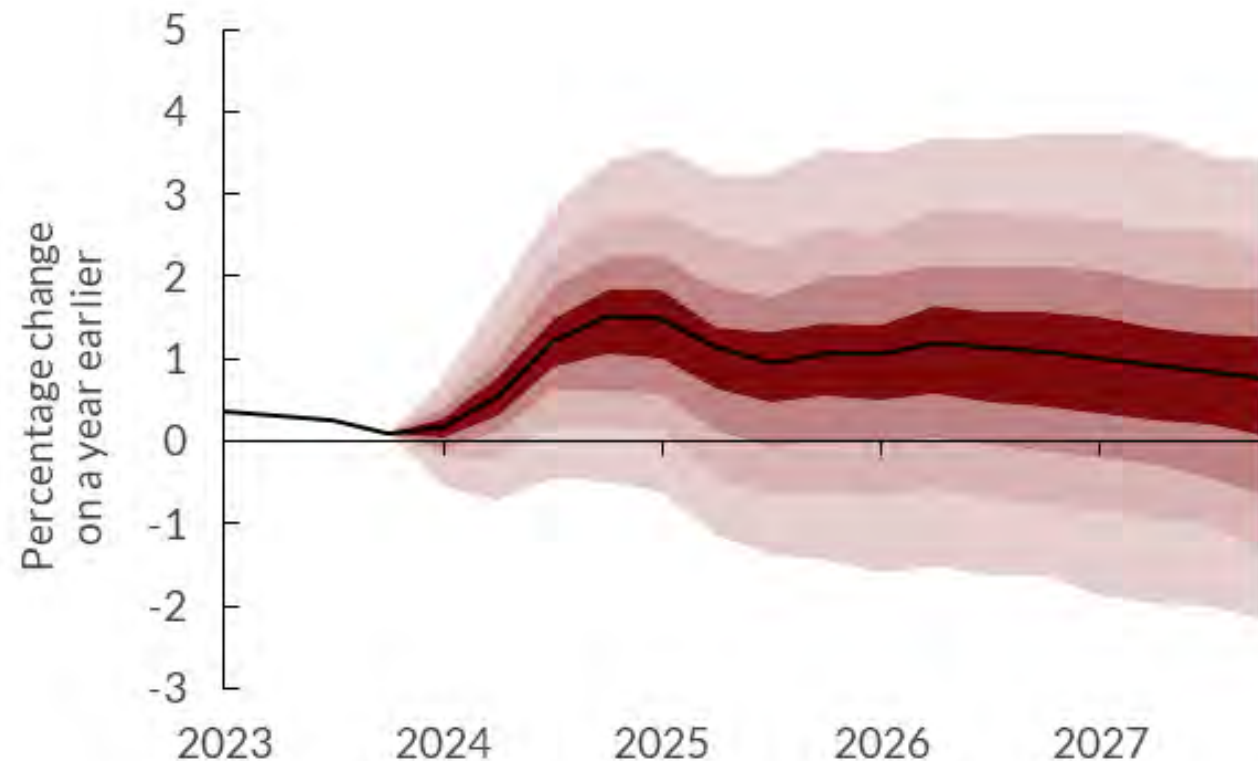


Source: NiGEM database and NIESR forecast

- Bank rates falling faster than previously anticipated
- We continue to believe rates will settle at around 3.25 per cent
- BoE needs to set the table for communicating rate cuts
- Risk of cutting too quickly while geopolitical risk looms

GDP Growth

Figure 1.1: Annual GDP growth



- Technical recession in the second half of 2023
- We expect GDP growth of 0.9 per cent in 2024 and 1.2 per cent in 2025
- Lower trend rate of growth, not an output gap
- Downside risk from geopolitical uncertainty

Note: The shades within the fan chart represent a 10 per cent chance that GDP growth will lie within the boundary of that shade. There is a 20 per cent chance that GDP growth will lie outside the shaded area of the fan.

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

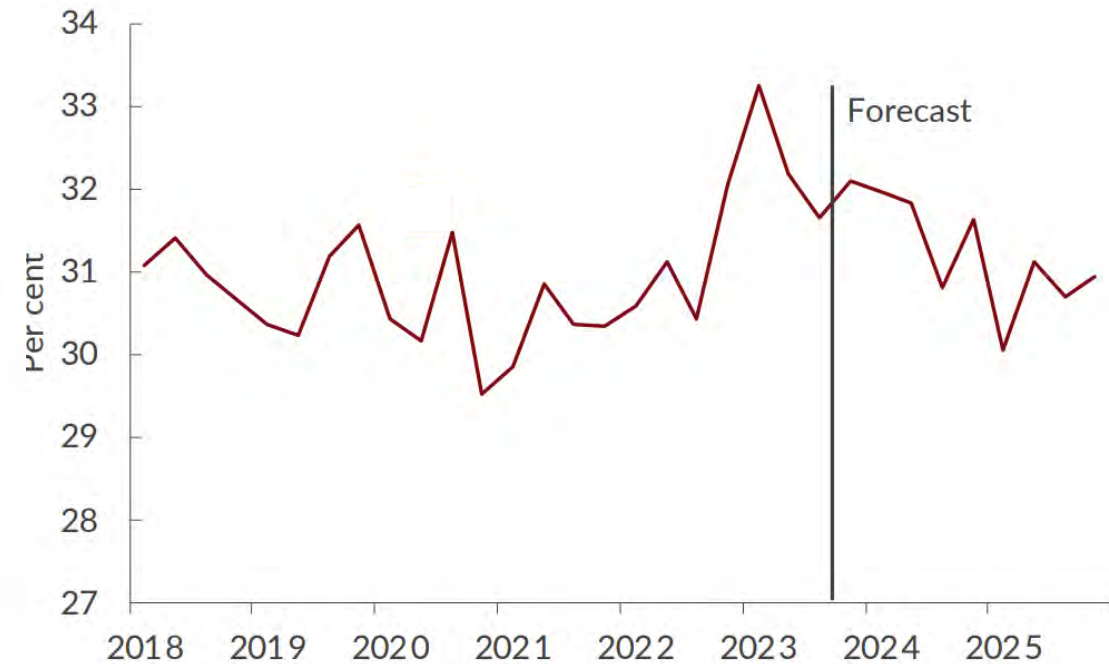
Labour Market

Figure 1.7 Nominal and real wage growth



Source: ONS, NiGEM Database and NIESR forecast

Figure 1.15 Corporate Profit Income Share

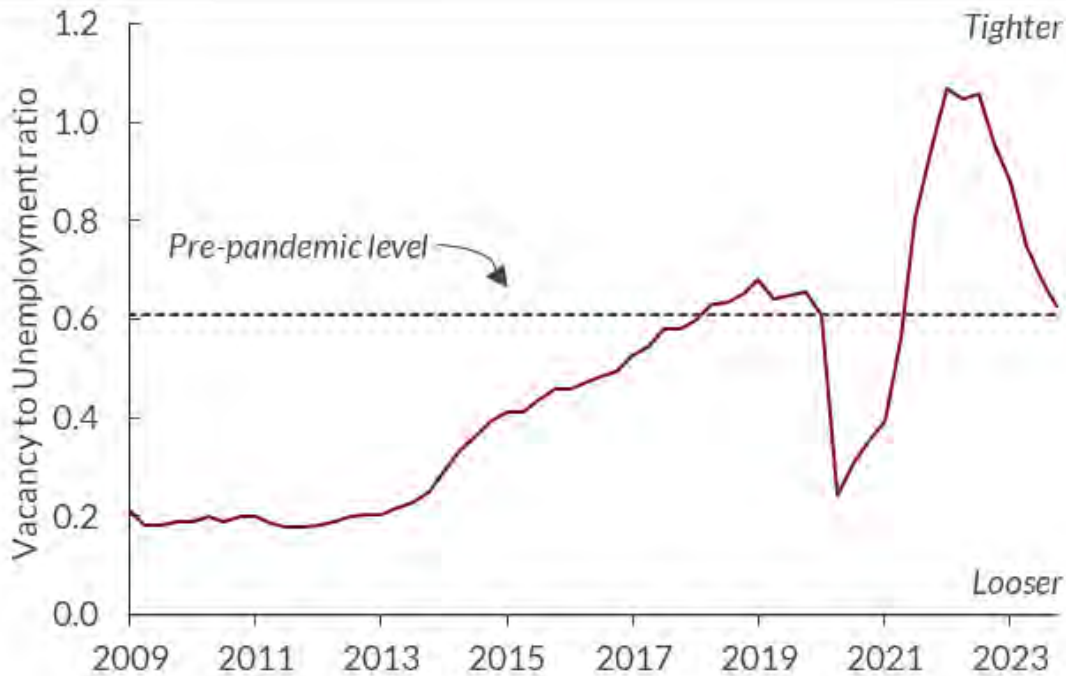


Source: ONS, NiGEM Database and NIESR forecast

- High wage growth absorbed by margins, so no wage-price spiral
 - Scope for this has ended now margin slack is gone
- Modest wage growth going forward as labour market softens

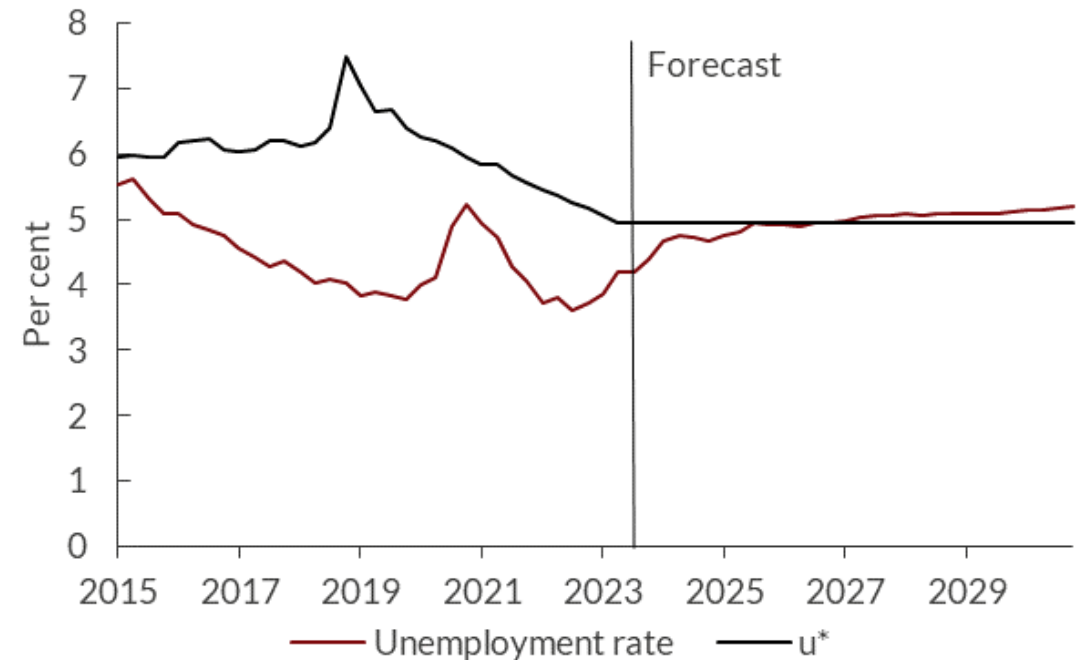
Labour Market

Figure 1.23 Vacancy to unemployment ratio



Source: ONS

Figure 1.15 Unemployment rate and u^*

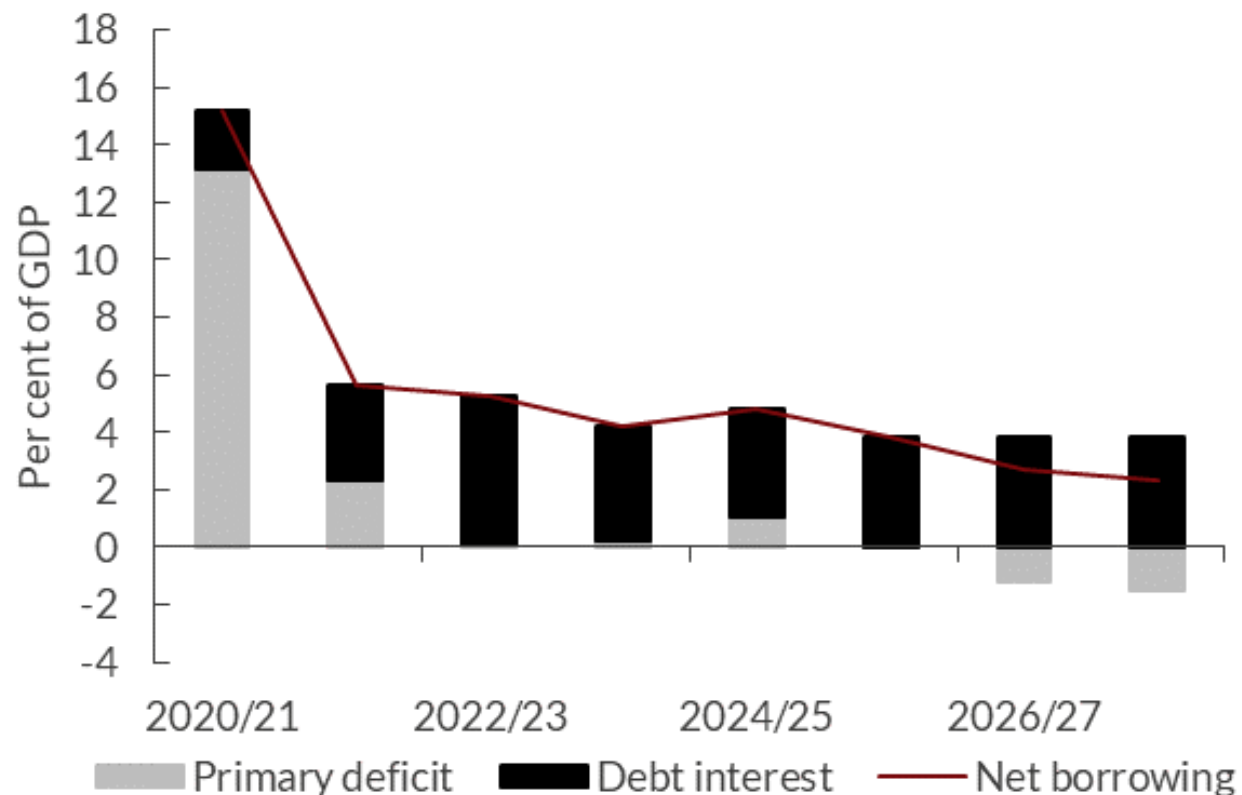


Source: NiGEM Database and NIESR forecast

- Labour market tightness returns to pre-pandemic levels
 - Recruitment difficulties have eased, but average weekly hours remain low
- Unemployment rising gently, slightly above equilibrium beyond 2026

Fiscal Policy

Figure 1.4 Public sector deficit to GDP ratio and its components

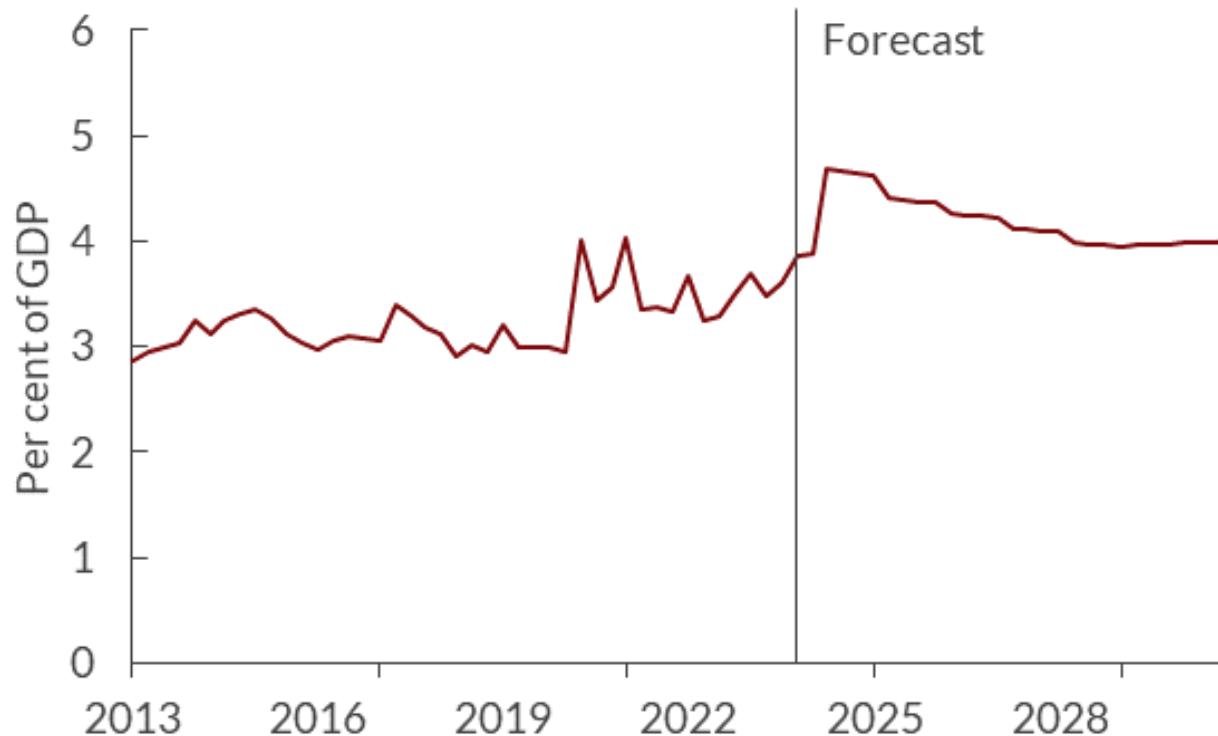


- Net borrowing to GDP falling slowly due to a rising structural budget surplus
- Primary balance turning positive while interest payments as a share hold steady

Source: NiGEM database and NIESR forecast

Fiscal Policy

Public investment to GDP ratio



Source: OBR, ONS and NIESR Forecast

- Short-term increase in public investment is welcome but needs to be sustained
- Remaining fiscal space should not be directed towards 'pre-election tax giveaways
- Fiscal framework needs reform to integrate long-term economic goals

Key Messages

- Headline inflation falling quicker than expected
- Bank of England to start cutting rates in May
- UK (just) dipped into recession in the second half of 2023
- Growth to remain sluggish around lower trend rate of 1 per cent

Outlook for the Devolved Nations, English Regions and UK Households



Arnab Bhattacharjee

with Ben Caswell, Adrian Pabst, Robyn Smith and Tibor Szendrei

Key Messages

- Slow recovery of the living standards of low-income households
- Uneven patterns of levelling-up
- Urgent policy action required to support local authorities and maintain public investment at 4 per cent of GDP per year

Key Messages on UK Households

Slow recovery from distributional shocks:

- For households in income deciles 1-4, living standards (as measured by real household disposable income) will be between 7 and 20 per cent lower in 2024-25 (relative to 2019-20)
- For the poorest 10 per cent, the fall in real income since 2019-20 is about £4,500 (in current prices)

Household Disposable Income

Fall in disposable income	Bottom decile	Decile 2	Decile 3	Decile 4	Decile 5	Decile 6	Decile 7	Decile 8	Decile 9	Top decile	Average
Household Disposable Income [nominal], 2024-25	£15,500	£28,600	£31,200	£37,500	£45,600	£53,800	£61,900	£73,000	£88,000	£162,600	£59,800
[Change in Income due to Inflation]	-£642	£874	-£21	£1,755	£2,279	£2,665	£3,086	£3,661	£3,981	£8,749	£2,639
[Change from 2023-24, real terms]	[1.8%]	[0.9%]	[1.4%]	[1.9%]	[2.3%]	[2.6%]	[2.9%]	[3.3%]	[2.9%]	[0.2%]	[1.9%]
[of which, NI rates & taxes, 2024-25]	-£46	-£362	-£236	-£126	-£15	£139	£334	£598	£478	£330	£109
[Share of Household Disposable Income Per Cent]	[-0.3%]	[-1.3%]	[-0.8%]	[-0.4%]	[0.0%]	[0.3%]	[0.6%]	[0.9%]	[0.6%]	[0.2%]	[0.2%]

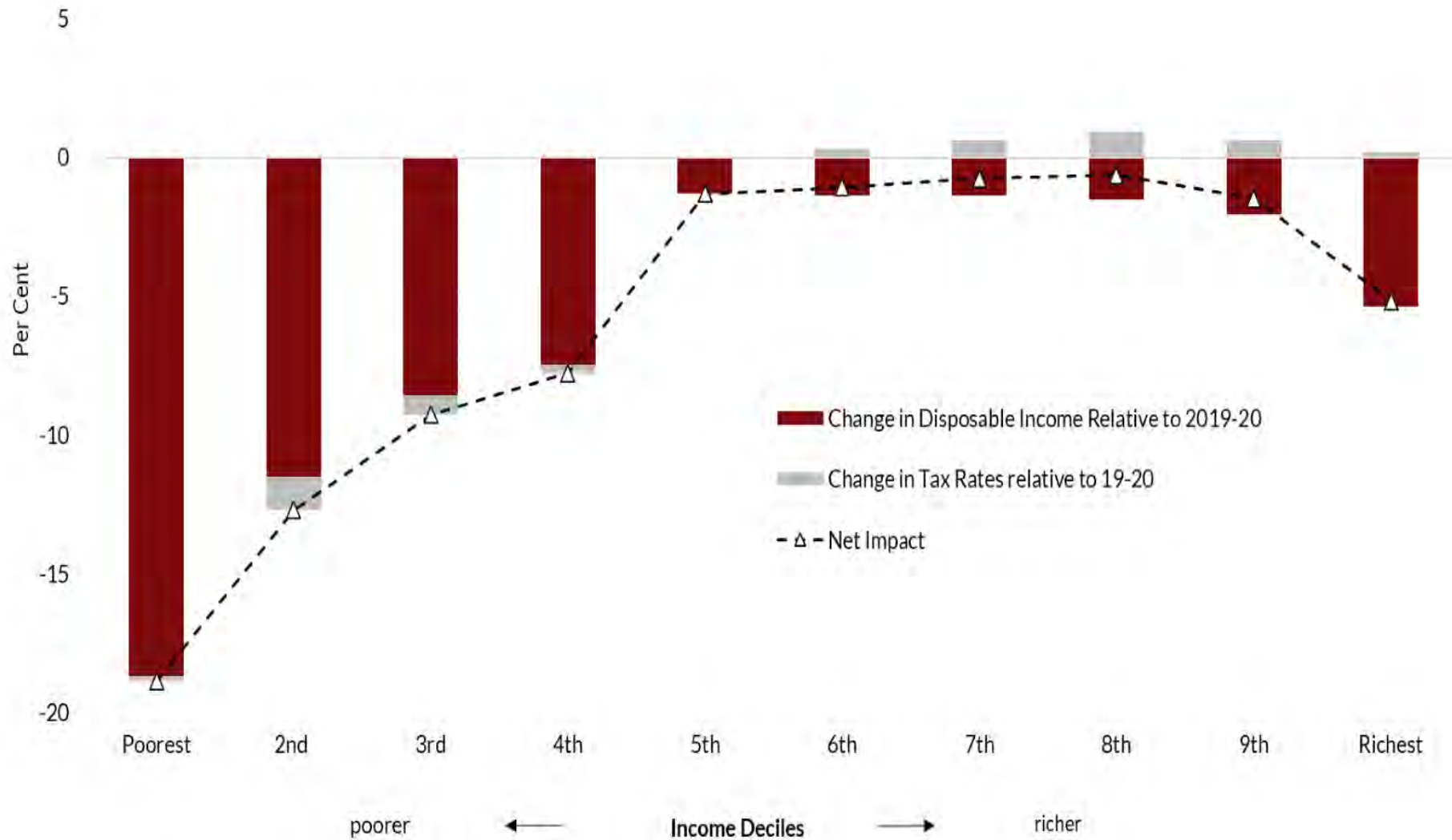
Source: LINDA

- Living standards will rise by 1.9 per cent on average in 2024-25
- For the ‘squeezed middle’, living standards are projected to rise by about 2 per cent on average in 2024-25 but will still be below pre-pandemic levels

Living Standards

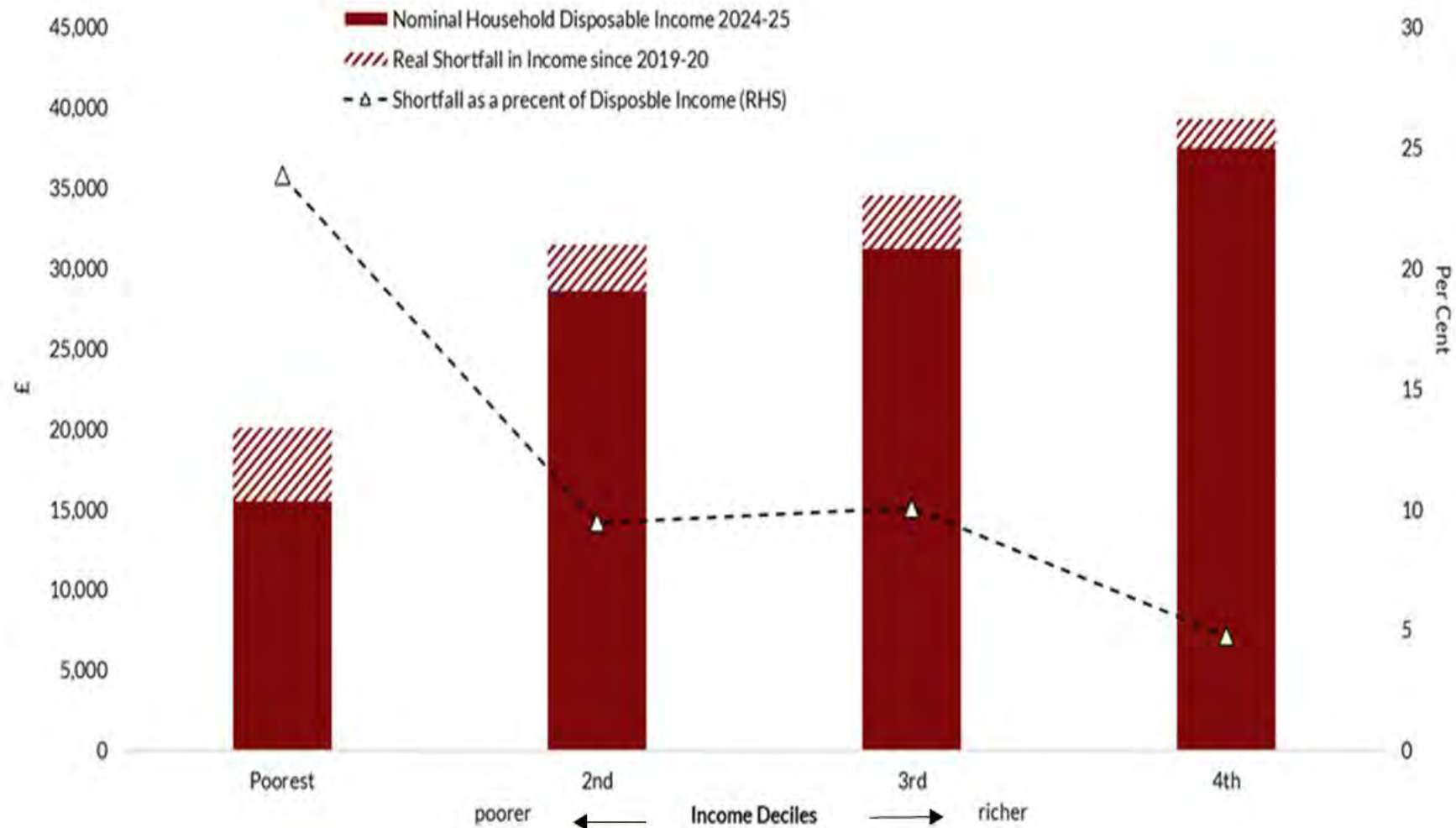
- Living standards will rise by 1.9 per cent on average in 2024-25
- For the 'squeezed middle', living standards are projected to rise by about 2 per cent on average in 2024-25 but will still be below pre-pandemic levels
- Living standards of people in income deciles 2-5 will not return to pre-pandemic levels until the end of 2027
- Scarring effects of cumulative shocks and despite policy interventions
- Loose monetary policy would have made it worse

Cumulative Impact of Price Shocks & Policy Interventions



Source: LINDA

Income Shortfalls by Decile in 2024-25 (relative to 2019-20)



Source: LINDA

Uneven Patterns of Levelling Up

Earnings

- Total weekly earnings grew by 7.2 per cent on average in the first three quarters of 2023
- The 10th percentile of wage growth is an important indicator of the economic circumstances of low-paid workers & low-income households
- Some significant regional variation

Weekly Gross Pay Year-on-Year Growth for 10th Percentile



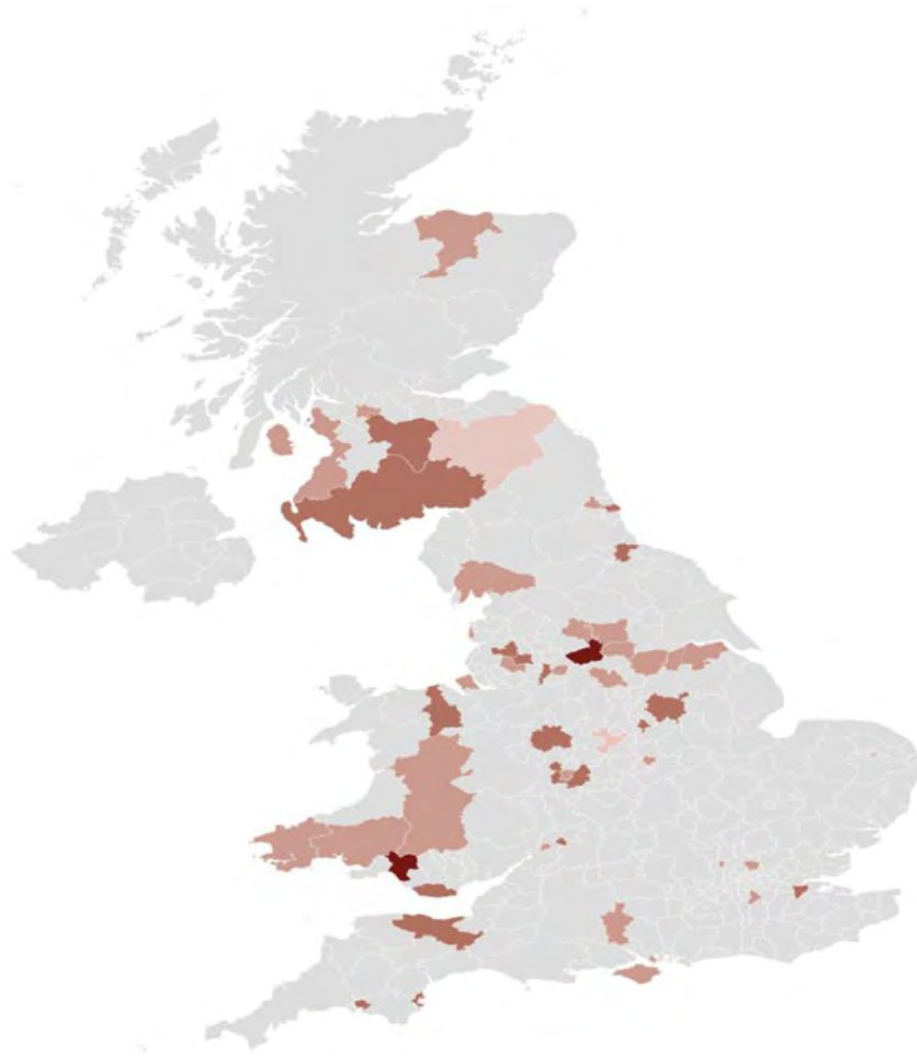
- 8.5 per cent growth on average (relative to 2021-22)
- 17.1 per cent increase in the North East
- NI, East of England, East Midlands & South West experienced an increase of less than 6.5 per cent

Source: ASHE and NIESR calculations

Geographic Distribution of Levelling Up Funds in Round 3

Levelling Up Funds

- £1.7bn in round one had larger shares for North West & Scotland, but otherwise more evenly spread
- In round two the largest concentration of £2.1bn was in the North West
- £1bn in round three went to Scotland, Wales and Yorkshire & the Humber

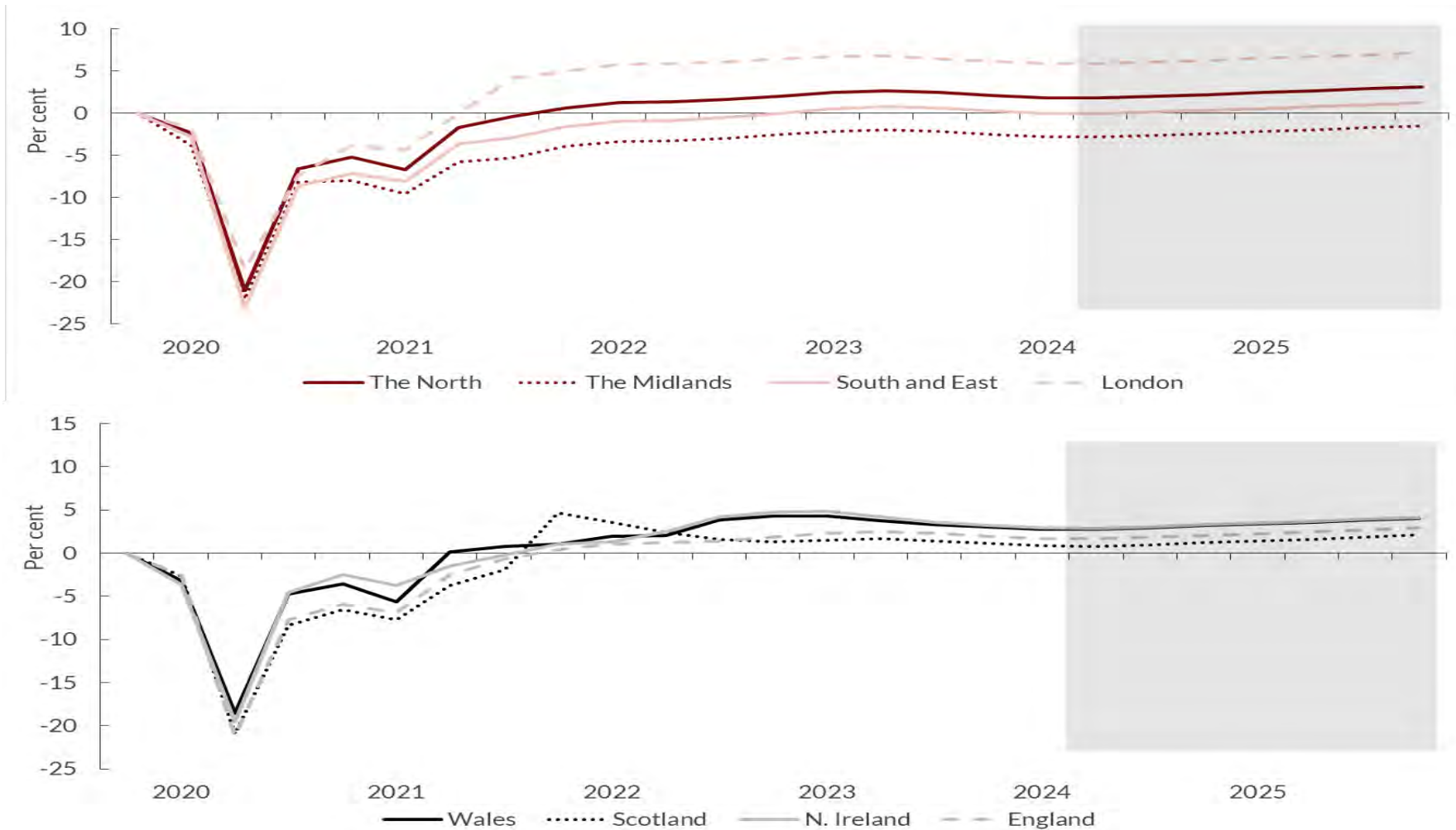


Source: Department of Levelling Up, Housing & Communities

Key Messages on UK Regions

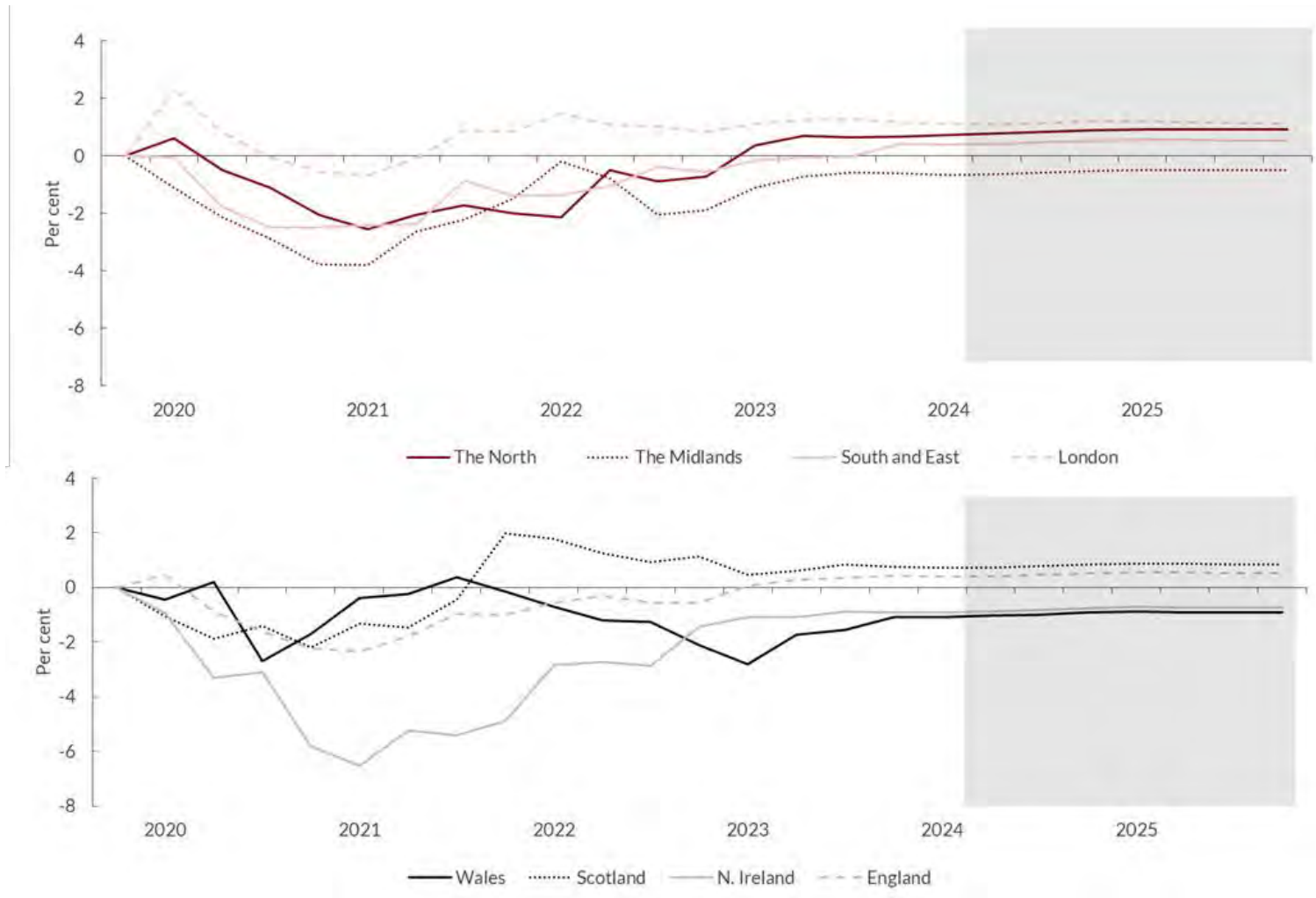
- ONS downward revision of UK-wide estimates of employment, but we find that this has negligible spatial impact
- Low economic growth for all devolved nations and English regions
- While most regions have now returned to pre-Covid levels of GVA, the Midlands will not revert to pre-pandemic levels until 2025

Regional/Devolved Nations GVA (relative to 2019Q4)



Source: NiReMS

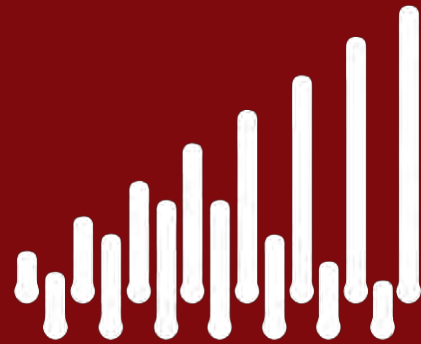
Employment Levels (relative to 2019Q4)



Source: NiReMS

Concluding Thoughts

- Lower-income households require real wage growth & would benefit more from higher thresholds than income tax cut
- Urgent policy actions include:
 - funds for local authorities at threat of bankruptcy
 - house building
- Medium- to long-term plan:
 - reform Council Tax
 - productivity-enhancing public investment



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