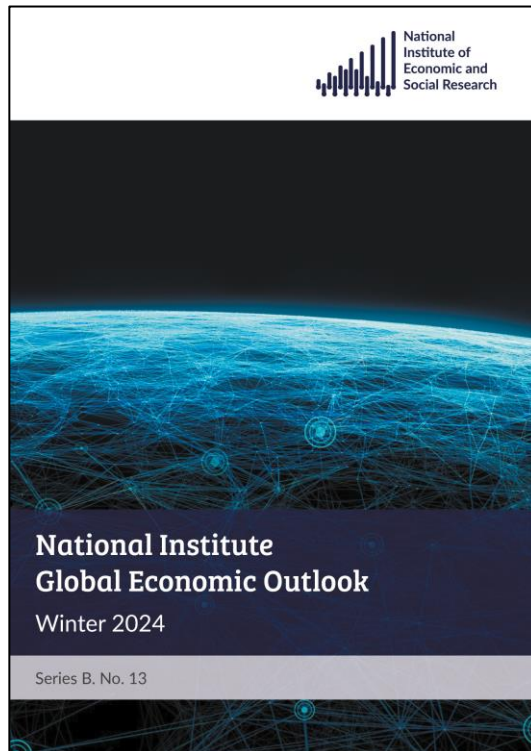


# The Outlook for the Welsh Economy

20 February 2024

# The Global Context



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



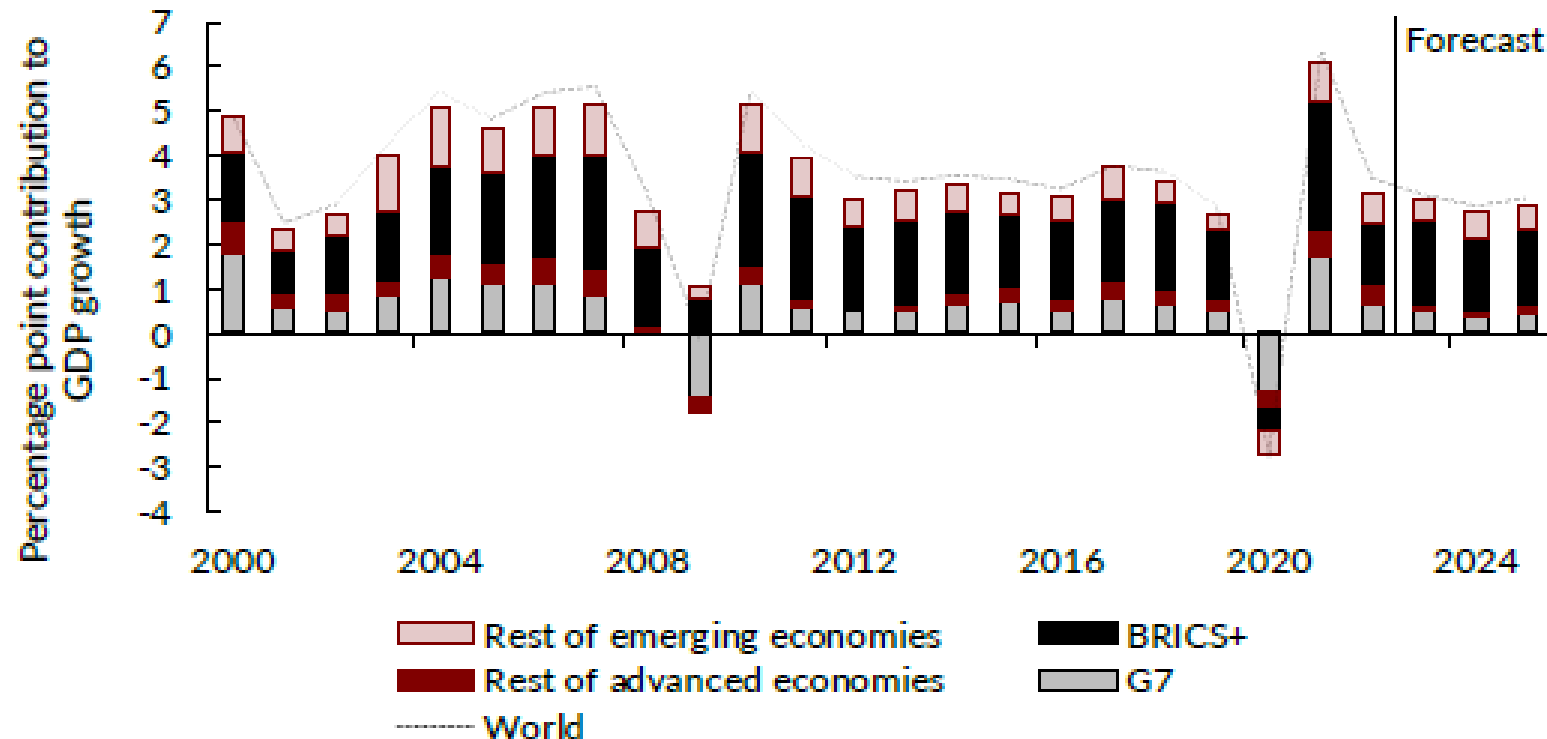
# Global Summary

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- *Global GDP growth is estimated to have slowed to 3.1 per cent in 2023 from 3.5 per cent in 2022 and a further slowing, albeit slight, is forecast for 2024.*
- *The Euro Area has stagnated, with the economy narrowly escaping recession, and Germany, its largest economy, experienced a contraction in GDP last year.*
- *Headline annual inflation rates have now fallen sustainably in the major advanced economies, mainly due to reduced price pressures from energy and food prices, the reduction in supply chain problems and the effects of rapid monetary policy tightening.*
- *Underlying or 'core' inflation remains an issue for monetary authorities, despite the peaks in headline inflation in the major advanced economies having passed*
- *Rising bond yields have put pressure on fiscal balances in advanced economies despite the gradual reductions in public debt-to-GDP ratios since 2021 . Little room for fiscal policy action in 2024 and 2025 at a time when many countries are holding elections.*

# Global Growth

Figure 19 Sources of global GDP growth



Source: NiGEM database and NIESR forecast.

- Brics+ continue to dominate. The contribution of advanced economies to global GDP growth has been declining over time as structural factors weigh on major economies.

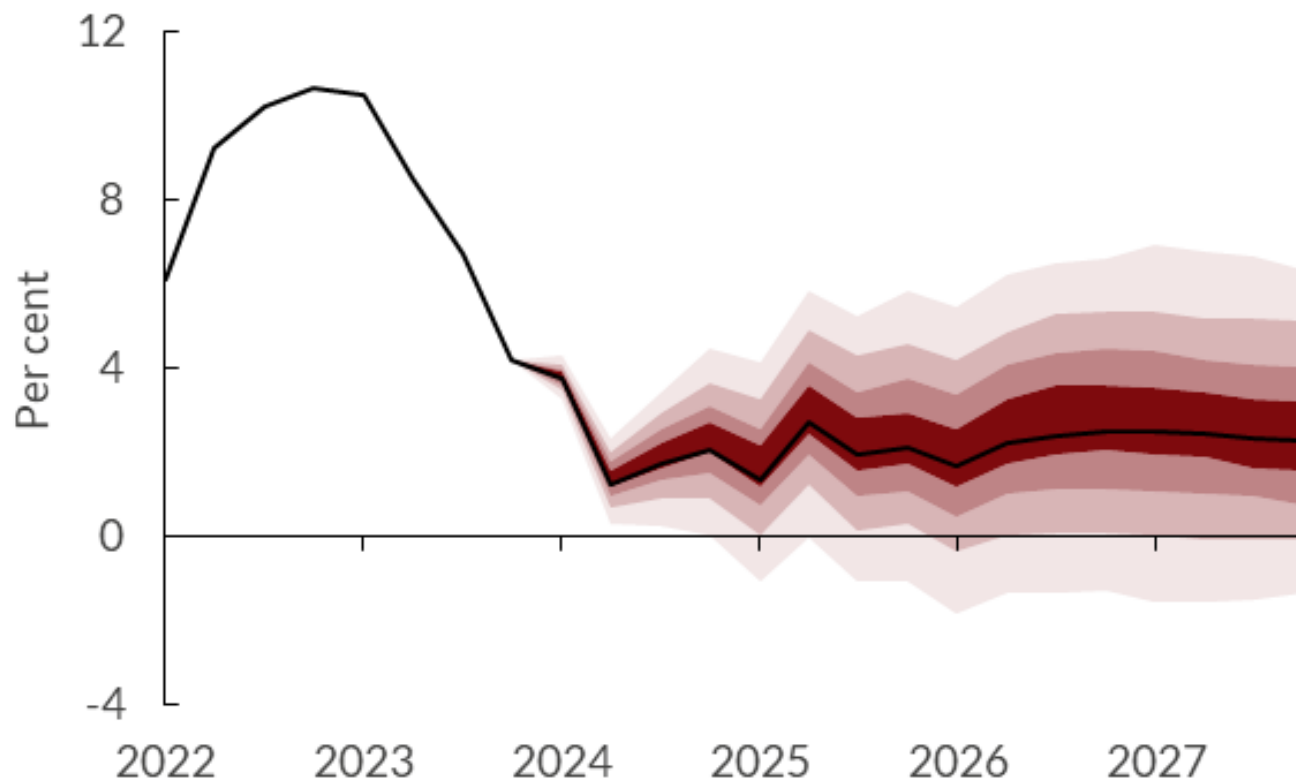
# UK Key Messages

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- Headline inflation falling quicker than expected
- BoE 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%

# CPI Inflation

Figure 1.3 CPI inflation fan chart



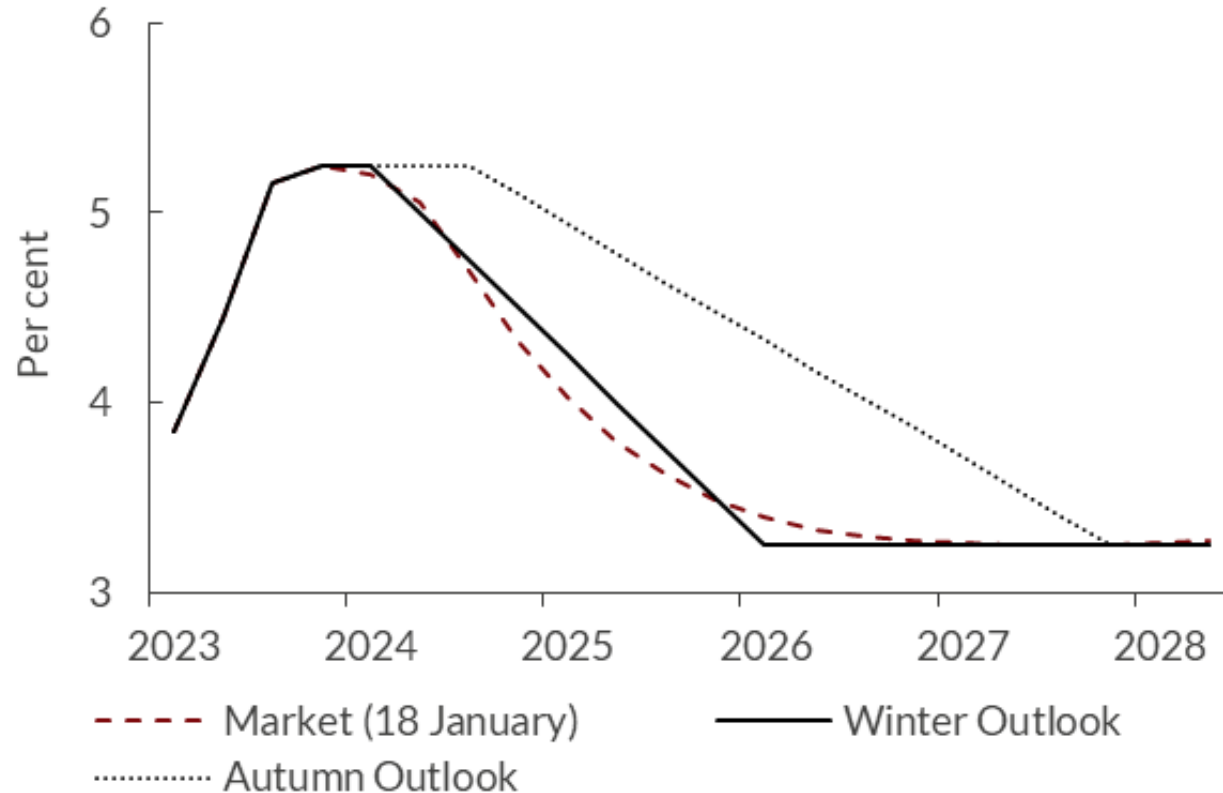
**Note:** The shades within the fan chart represent a 10 per cent chance that CPI inflation will lie within the boundary of that shade. There is a 20 per cent chance that CPI inflation will lie outside the shaded area of the fan.

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

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

# Monetary Policy

Figure 1.8 Bank Rate forecast comparison

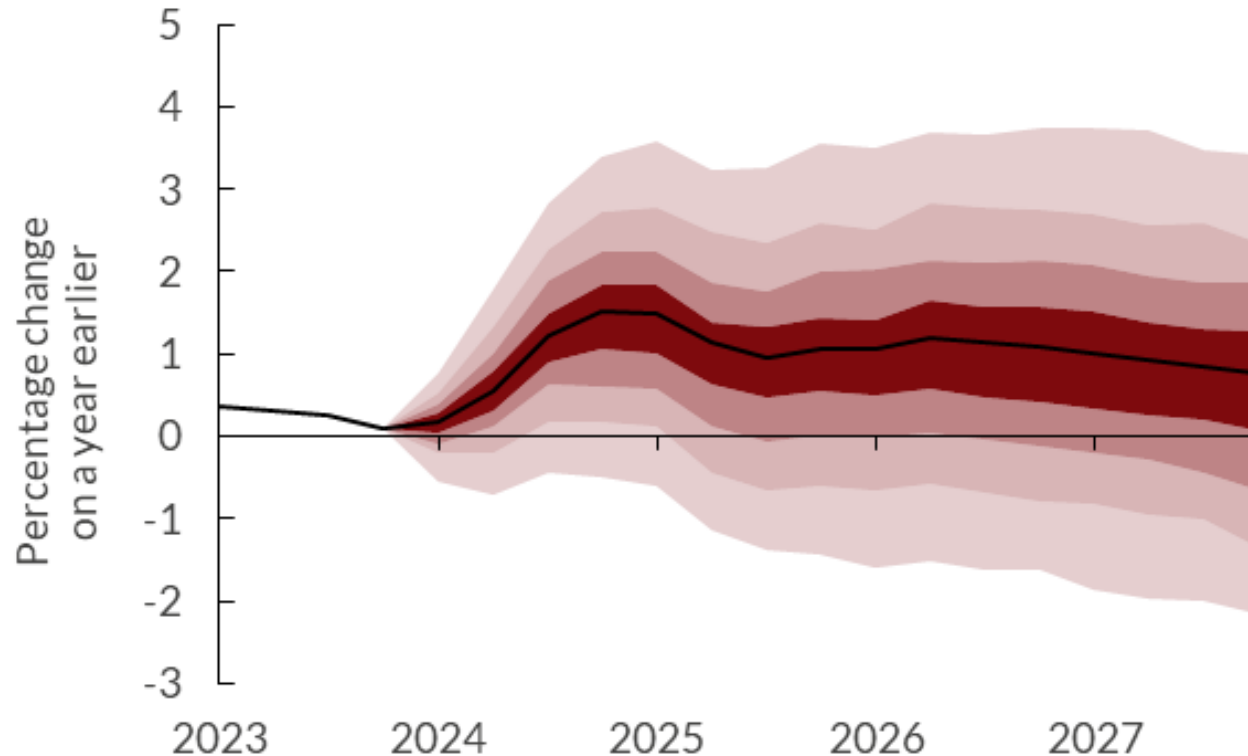


Source: NiGEM database and NIESR forecast

- Bank rates falling faster than previously anticipated
- We continue to believe rates will settle at around 3.25%
- 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



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.

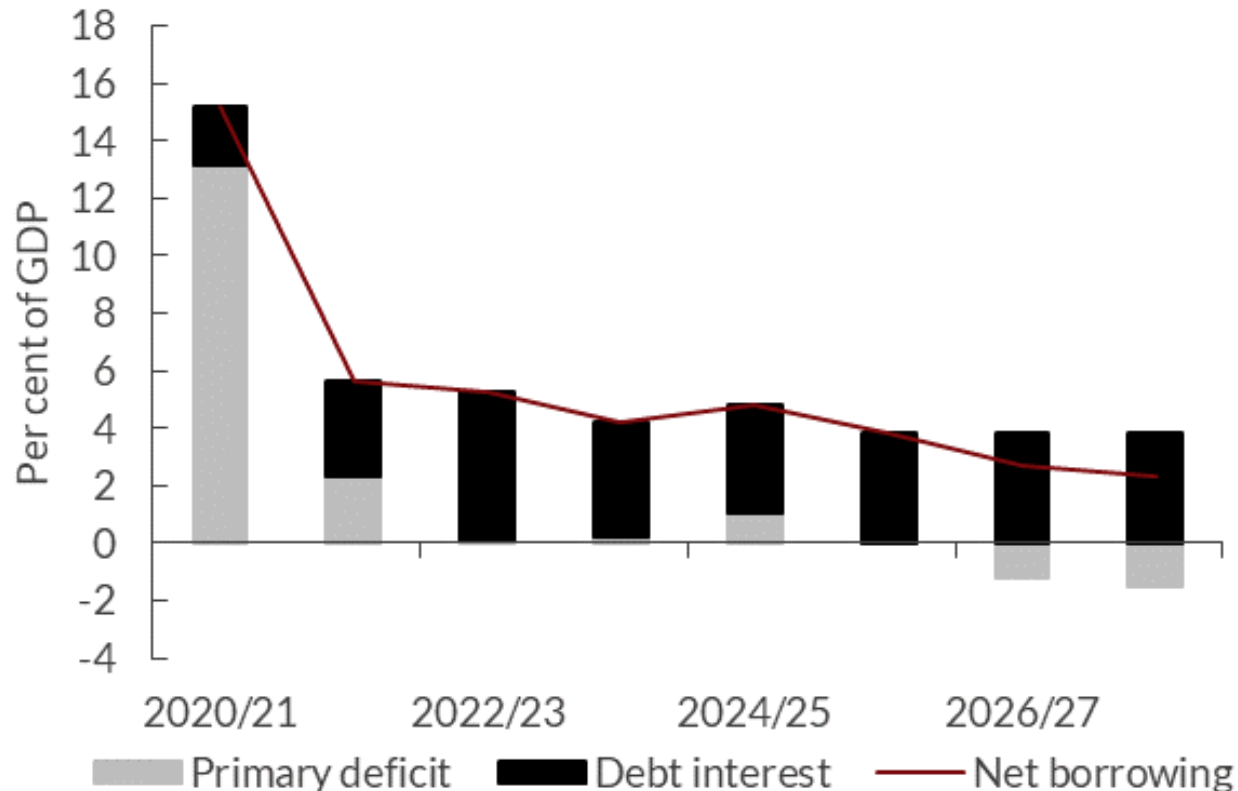
Source: NiGEM database, NIESR forecast and NiGEM stochastic simulations.

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



# Fiscal Policy

Figure 1.4 Public sector deficit to GDP ratio and its components

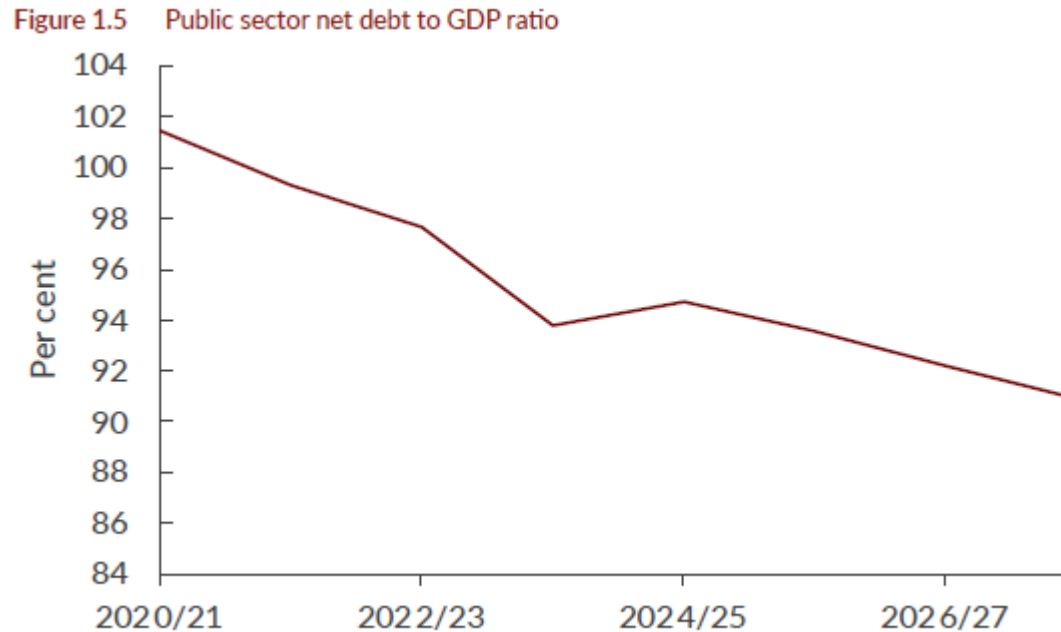


- Net borrowing to GDP falling slowly.
- Primary balance turning positive while interest payments as a share hold steady

Source: NiGEM database and NIESR forecast

# Fiscal Policy

- Debt to GDP to rise slightly in 24/25, but falling otherwise.



Source: NiGEM database and NIESR forecast.

# Key Messages

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- Headline inflation falling quicker than expected
- BoE to start cutting rates in May
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# Outlook for the UK Economy: Labour Market and Recent 'Trackers'



## GDP Trackers

Providing an estimate for the previous month's GDP, and a full forecast for the quarter of publication, our monthly GDP tracker provides a rolling monthly forecast for GDP...

[Learn more](#)



## Wage Trackers

Including predictions for regular pay for the whole economy, as well as forecasts for private and public sector wages, the wage tracker exploits information from key macroeconomic indicators...

[Learn more](#)



## CPI Trackers

CPI inflation reflects changes in the prices of thousands of products, some of them quite volatile. Our monthly CPI Tracker looks in detail at changes in the prices...

[Learn more](#)

# Key Outlook Messages: Labour Market

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- Due to issues with the ONS Labour Force Survey, labour market data was particularly uncertain during our forecast round...
- ...but we projected that the labour market will continue to cool throughout 2024 as vacancies continue to fall...
- ... leading wage growth to fall back near historical average in the medium-term

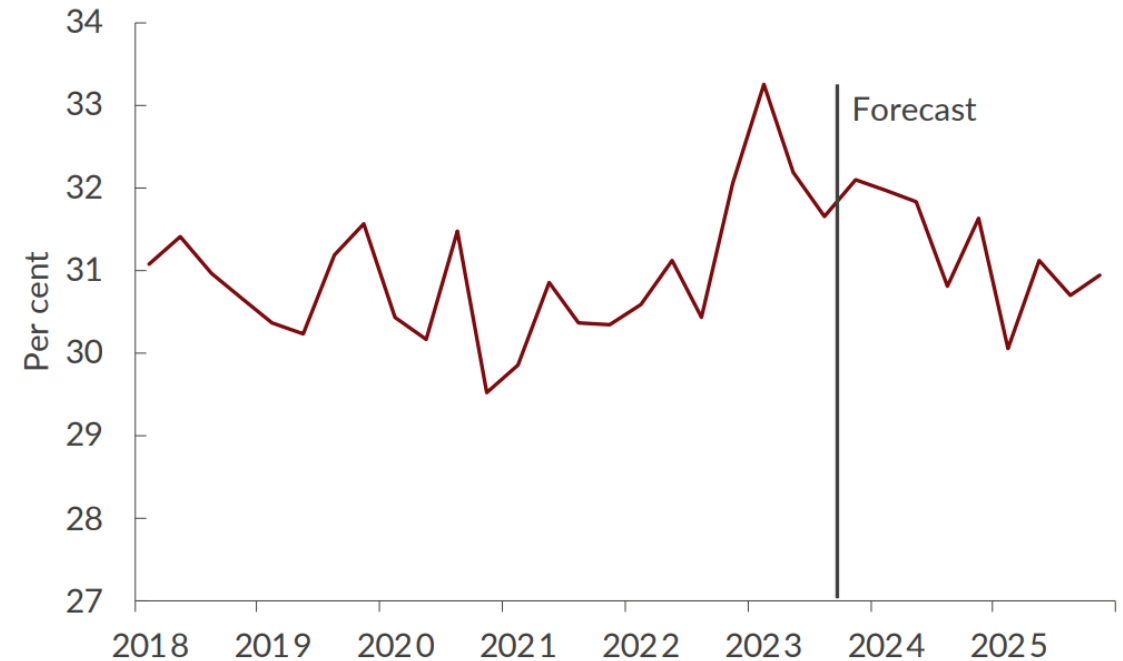
# Labour Market

Figure 1.7 Nominal and real wage growth



Source: ONS, NiGEM Database and NIESR forecast

Figure 1.15 Corporate Profit Income Share

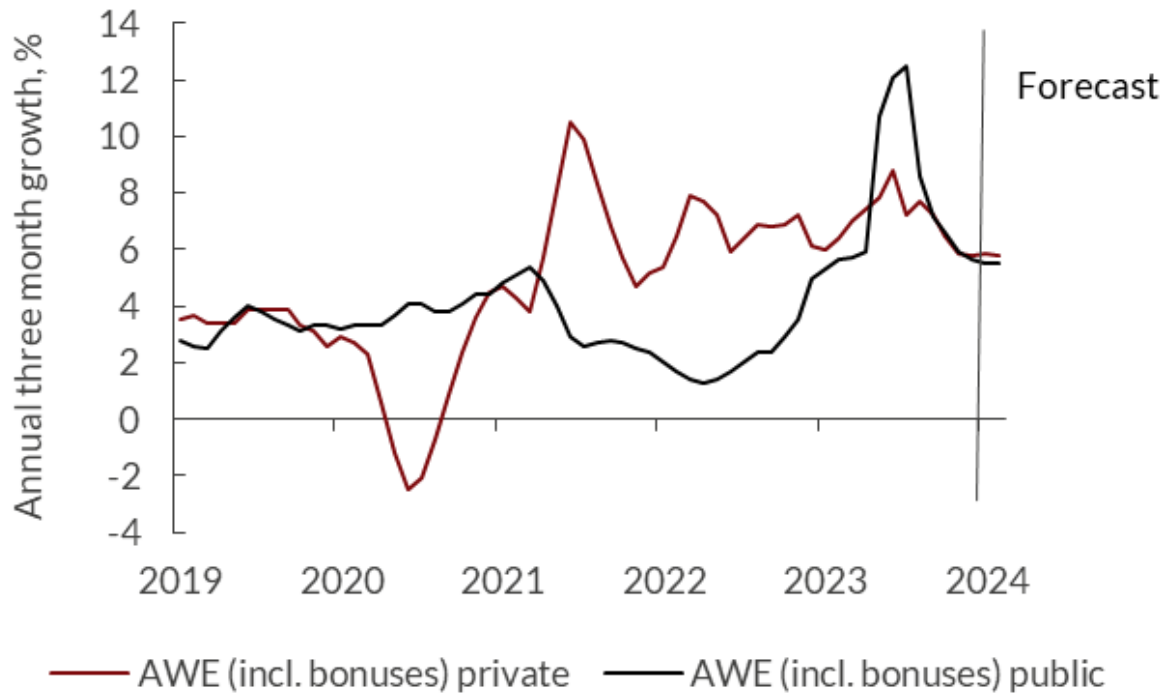


Source: ONS, NiGEM Database and NIESR forecast

- 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

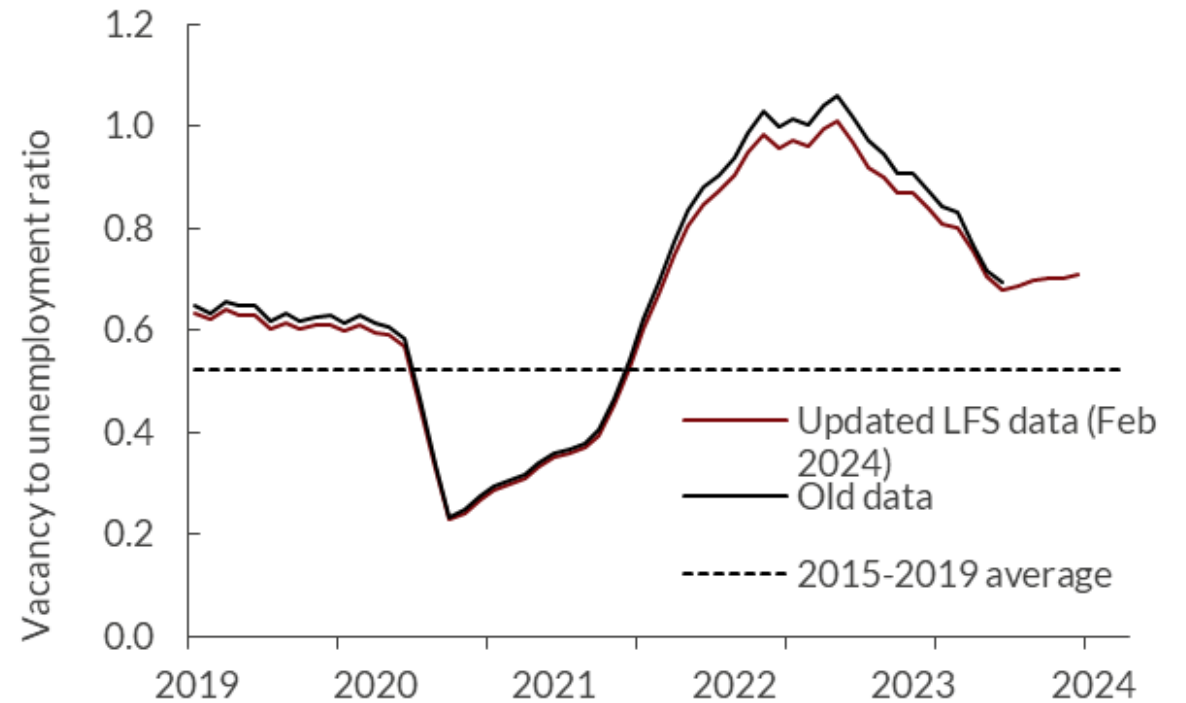
# Wage Tracker

## Annual growth in Total Average Weekly Earnings



Source: ONS, NIESR calculations

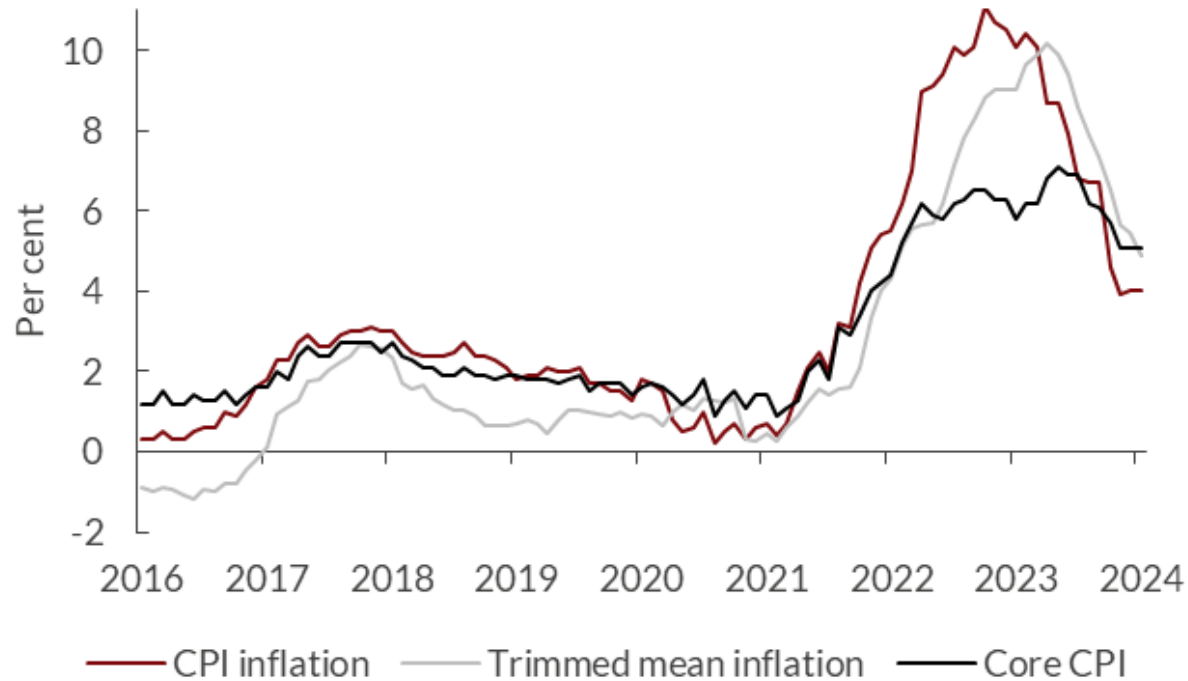
## Vacancy-to-unemployment ratio



Source: ONS, NIESR calculations

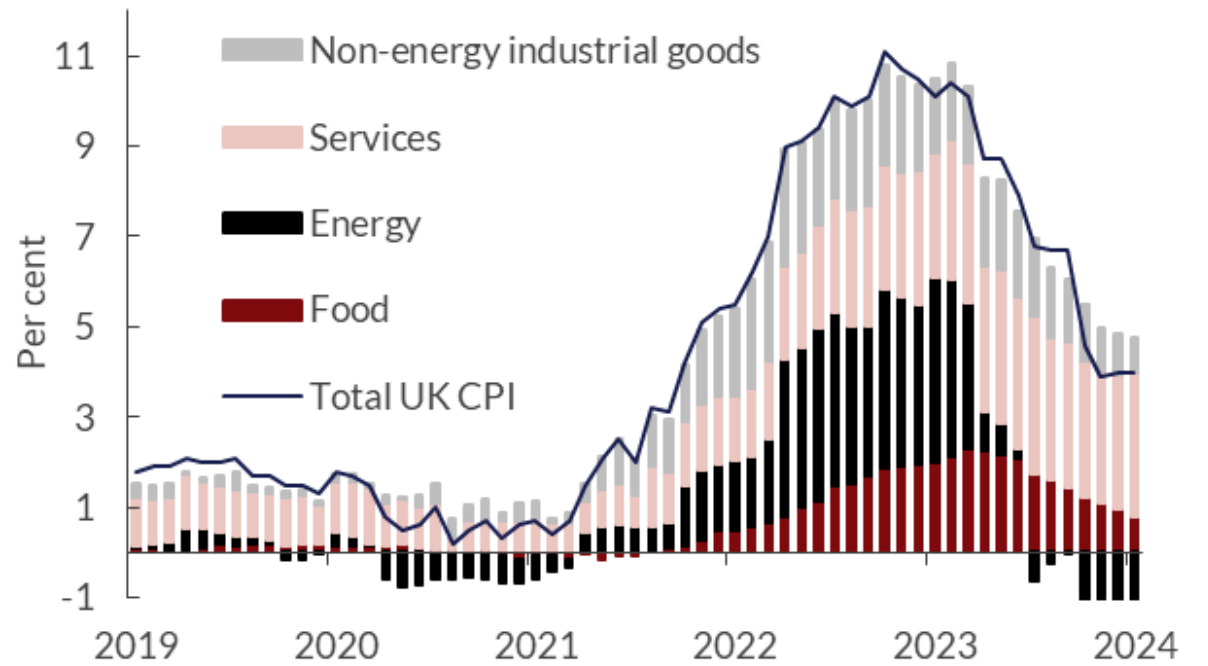
# CPI Tracker

## CPI inflation and underlying inflation



Source: ONS, NIESR calculations

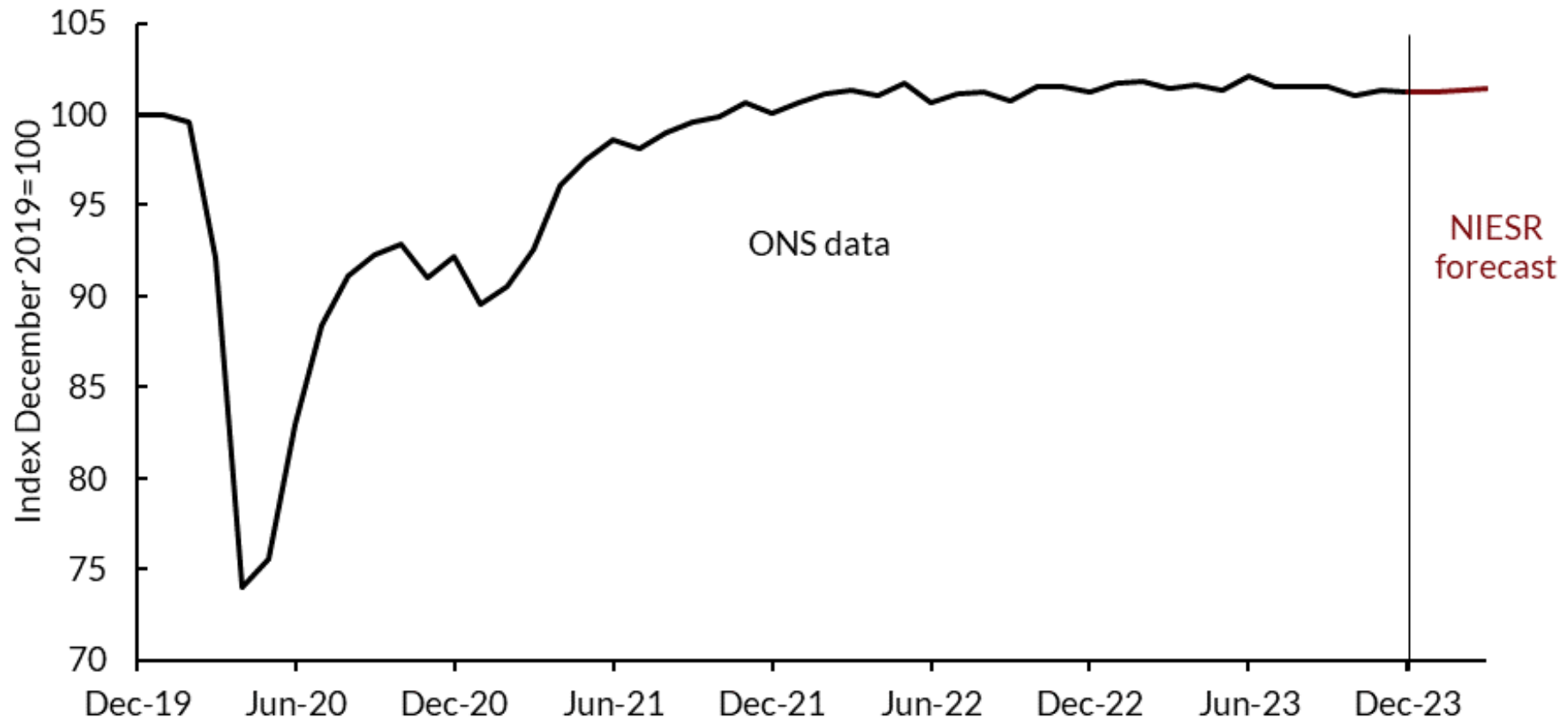
## Contributions to headline CPI inflation



Source: ONS, NIESR calculations



# GDP Tracker



Source: ONS, NIESR calculations

# Key Messages: Last Week's Trackers

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- **Wage growth** softened towards the end of 2023, but remained high by historical standards; labour market continues to cool but remains tight by historical standards
- **CPI inflation** remained unchanged at 4.0 per cent in January, representing a downward surprise in the headline rate
- **GDP** was lower in 2023 Q4 than in 2022 Q1, and GDP per head remains below pre-pandemic levels

# The Outlook for the Welsh Economy



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

# Key Messages on UK Regions

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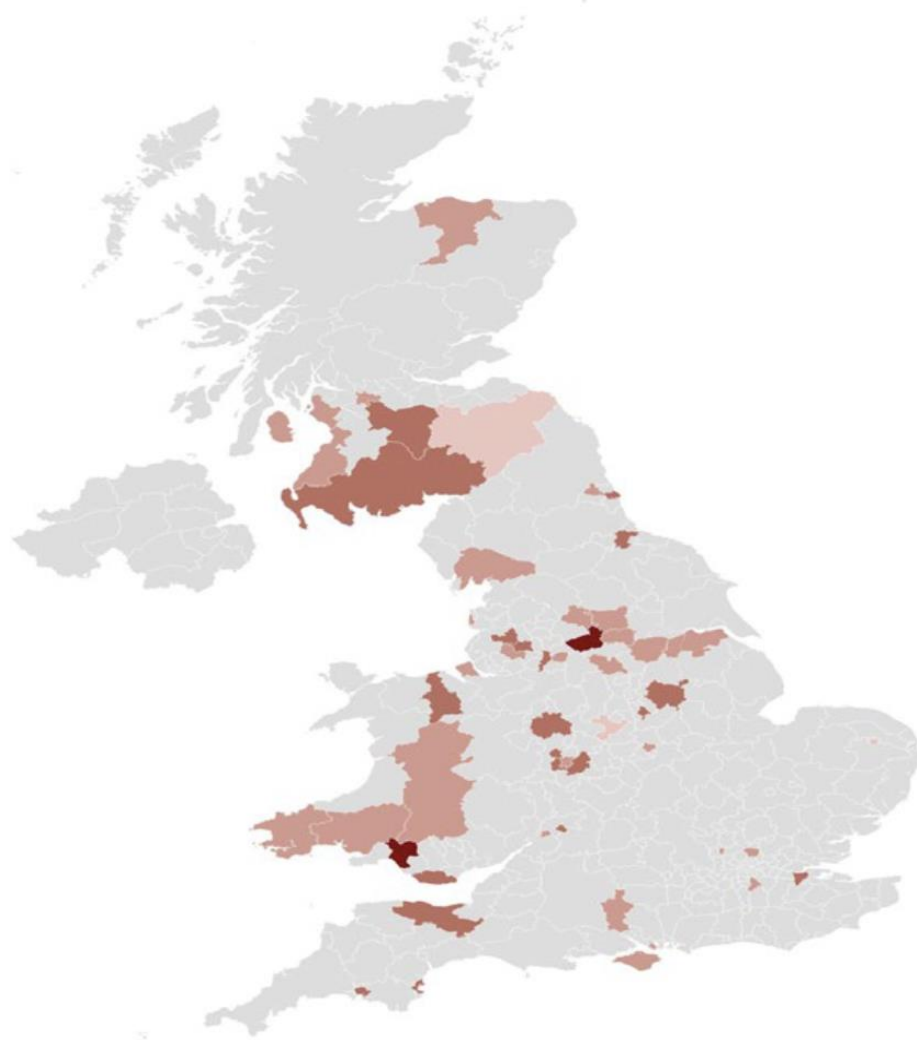
- Low economic growth for all devolved nations and English regions –stuck in the doldrums
- Persistent disparities of productivity and living standards between and within regions
- Chronic underinvestment and lack of adequate funding for Councils and public service provision

# Geographic Distribution of Levelling Up Funds in Round 3

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## 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

# Structural Gaps and Persistent Problems

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- 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

# Work & Wellbeing Prospects for Wales



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

# Key Messages

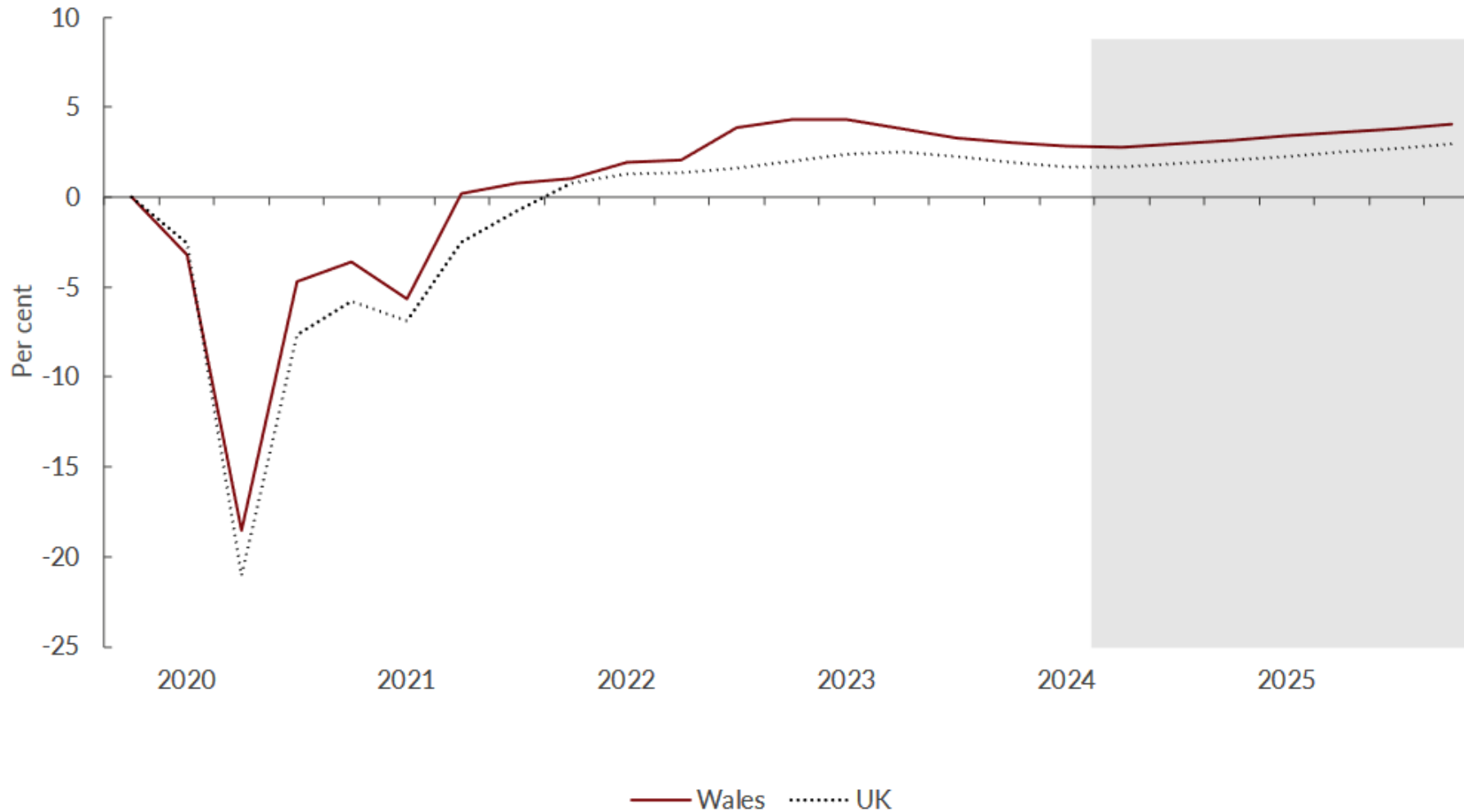
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- Inflation under control and real wages rising, but ...
- Slow recovery of the living standards of low-income households
- Uneven patterns of levelling-up
- Urgent policy action required to support local authorities
- Maintain public investment at 4 per cent of GDP per year, while properly funding public services post-election



# Welsh Output Above Pre-Pandemic Levels & Outperforming UK

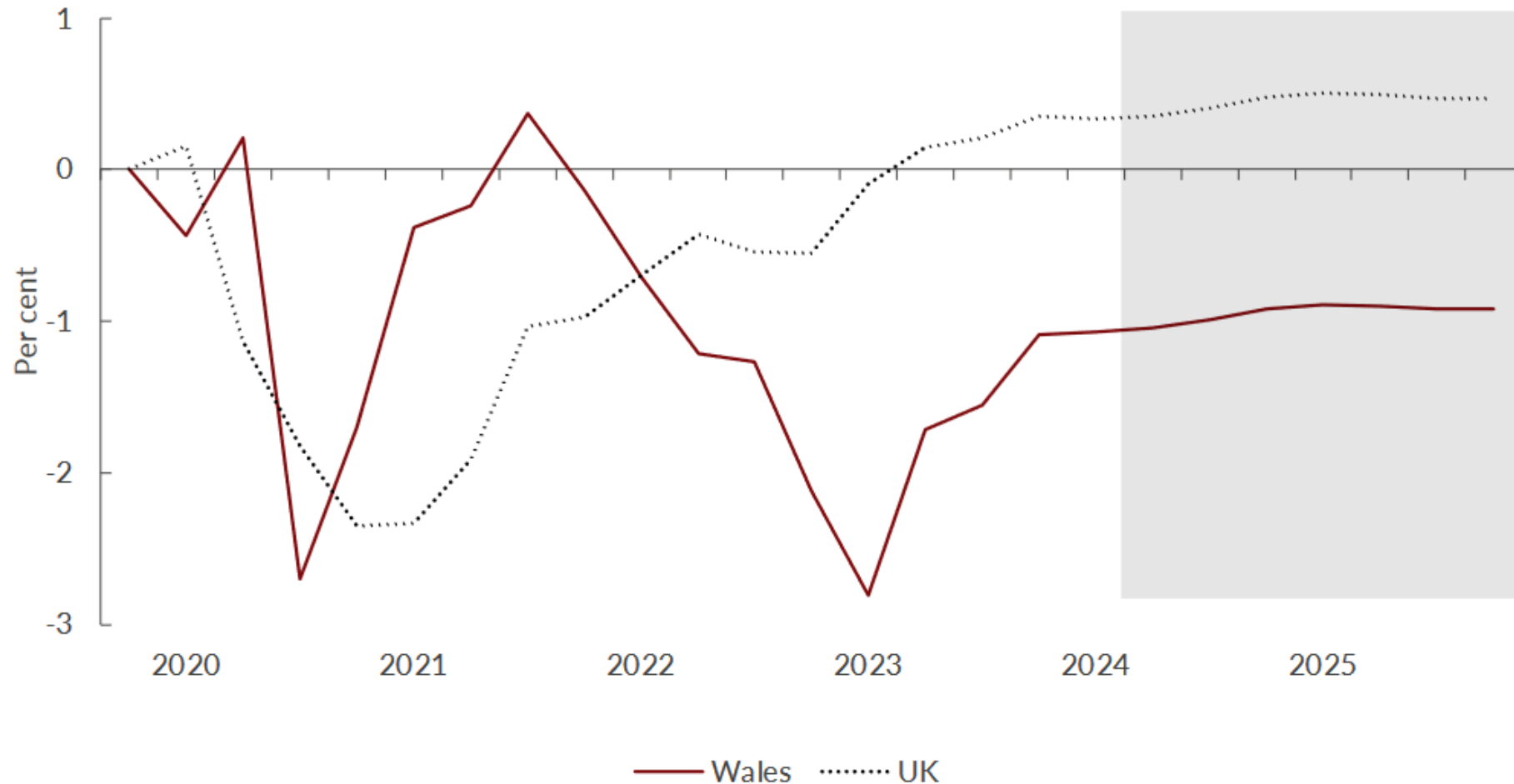
Figure 2.14 GVA in Wales relative to the fourth quarter of 2019



Source: NiReMS.

# Labour Market Uncertainty & Employment Recovery Very Sluggish

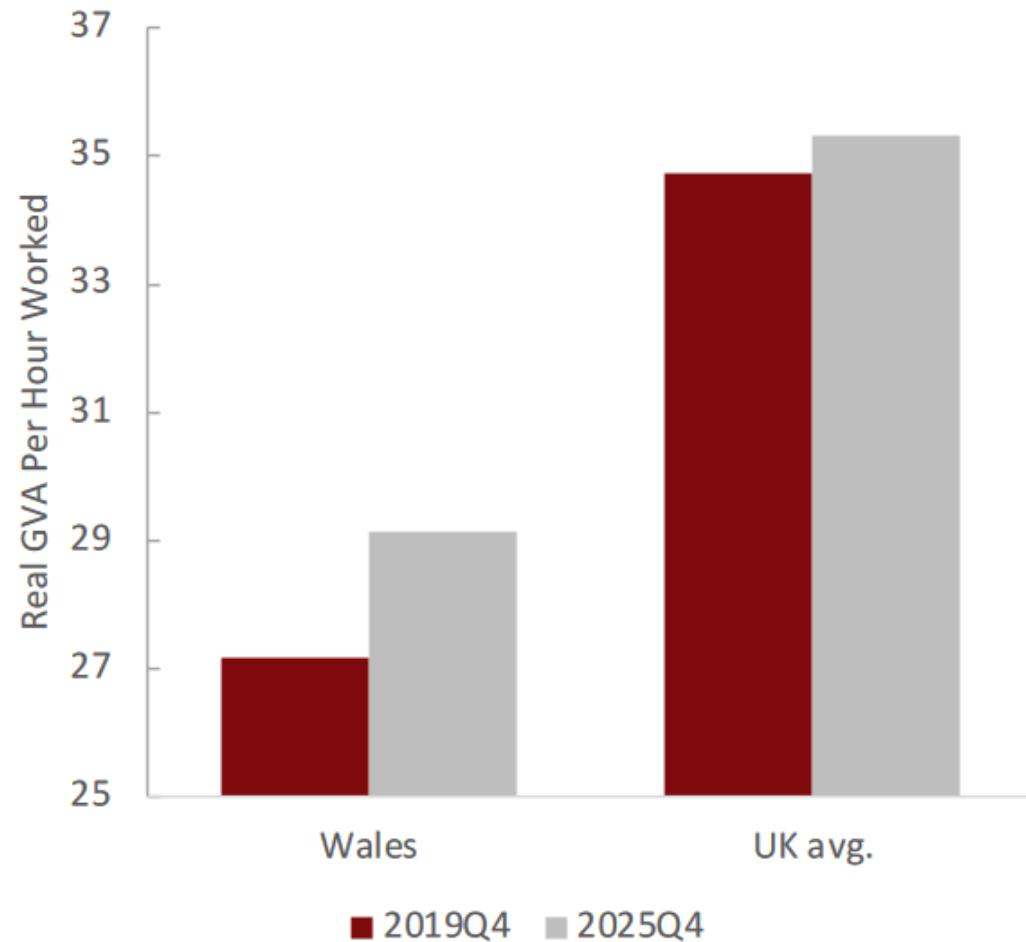
Figure 2.15 Employment in Wales relative to the fourth quarter of 2019



Source: NiReMS.

# Rising Productivity but Still Far Below UK Levels ... Let Alone London

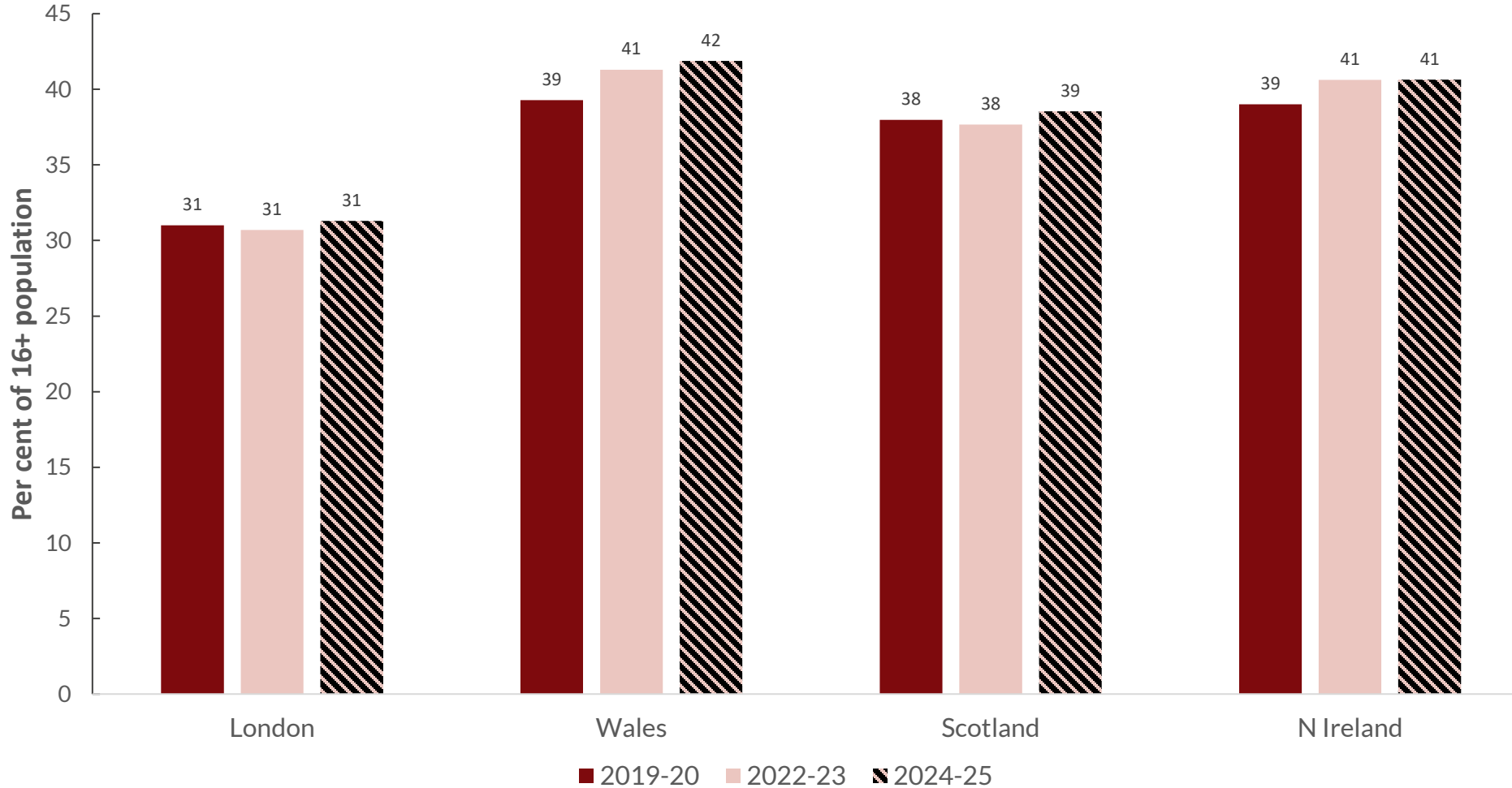
Figure 2.16 Productivity in Wales



Source: NiReMS.

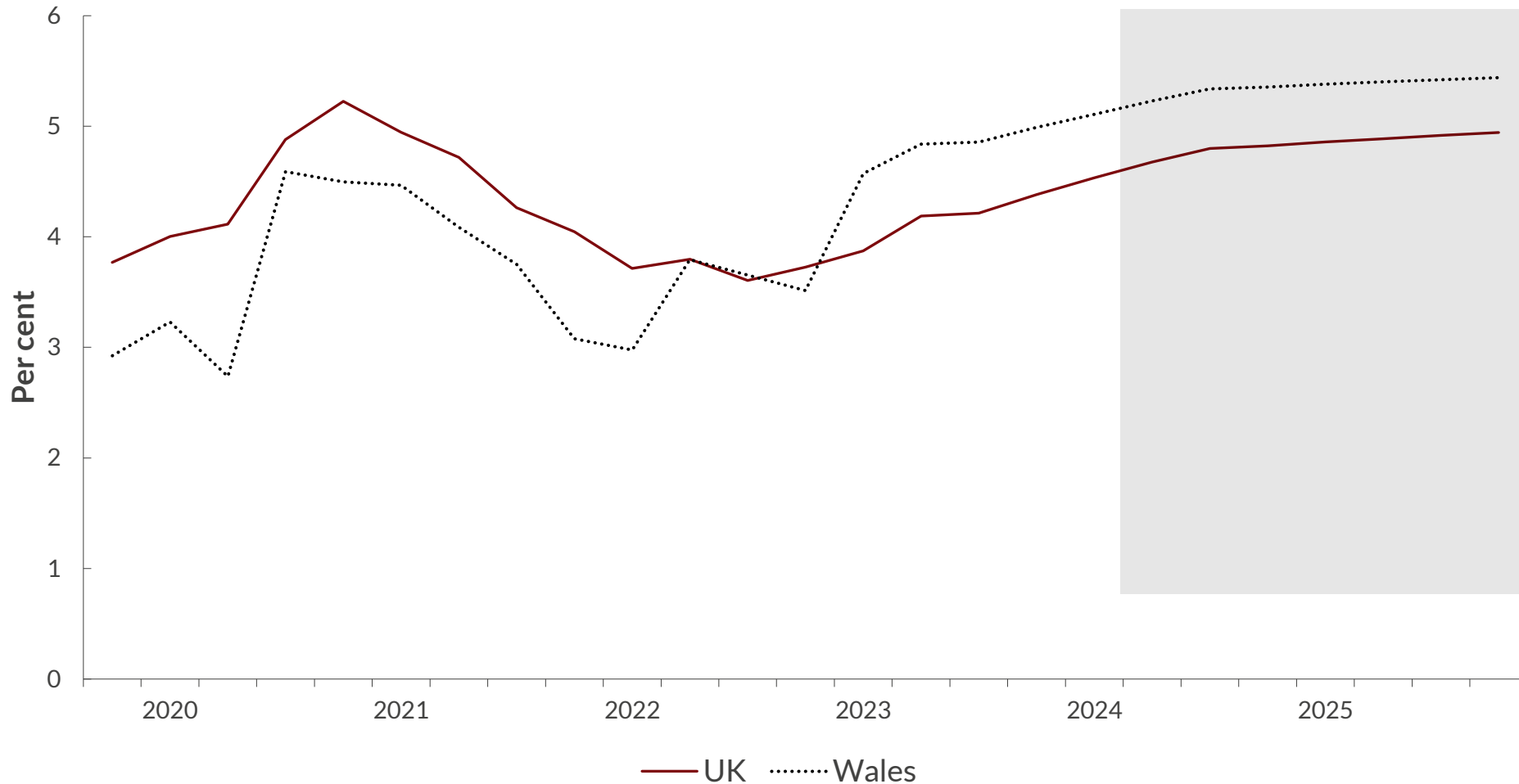
# Notwithstanding Huge Uncertainty in Labour Markets ... and Data ...

## High and rising inactivity in Wales



# Notwithstanding Huge Uncertainty in Labour Markets ... and Data ...

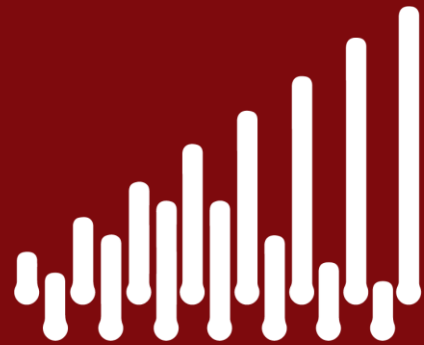
## Higher projected Welsh unemployment over the medium run



# Time For Decisive Policy Actions

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- Ambitious priorities for Welsh economy ‘built by all of us’
- Weak and uncertain labour markets
- Whither “Levelling Up”?
- Fair and inclusive (planned) transition to Net Zero?
  - Job losses from green modernisation of steel industry
  - Freeports bringing investments in green energy?
- Good, green and globally tradeable activities
  - Jobs and matching skills transitions?



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