Global & UK Macroeconomic Outlook

Andrew Goodwin
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2014 saw the strongest growth in 7 years...

**UK: GDP growth**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth % Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-5.2</td>
</tr>
<tr>
<td>2010</td>
<td>1.7</td>
</tr>
<tr>
<td>2011</td>
<td>1.1</td>
</tr>
<tr>
<td>2012</td>
<td>0.3</td>
</tr>
<tr>
<td>2013</td>
<td>1.9</td>
</tr>
<tr>
<td>2014</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Oxford Economics
2014 saw the strongest growth in 7 years...

UK: GDP growth

% year

Source: Oxford Economics
...but some evidence of a loss of momentum

UK: Purchasing managers surveys

% balance*

65
60
55
50
45
40
35
30
25

Manufacturing activity
Services business activity
Construction activity

*value over 50 indicates rising activity


Source: CIPS/Markit

UK: Retail sales volumes

% quarter

2.5
2.0
1.5
1.0
0.5
0.0
-0.5
-1.0
-1.5
-2.0
-2.5


Source: Haver Analytics

OXFORD ECONOMICS
Cheaper oil will provide a major boost...

World: Impact of lower oil price on GDP*

- Thailand
- Mexico
- Turkey
- China
- India
- South Korea
- France
- United Kingdom
- United States
- Spain
- Eurozone
- Germany
- World
- Switzerland
- Italy
- Japan
- Sweden
- Russia

* comparison between June 2014 ($106 per barrel) and January 2015 forecasts ($55 per barrel)

Source: Oxford Economics

%point difference in level of GDP
…pushing UK inflation into negative territory

UK: Contributions to CPI inflation

% year

Forecast


Source: Oxford Economics
A strong labour market will also provide support
The MPC looks set to sit on its hands until 2016

UK: Interest rates

Source: Oxford Economics
Households to enjoy stronger spending power

UK: OE Spending Power Index
Index, 2007=100, 3-month moving average

Source: Oxford Economics

UK: Consumption & OE Spending Power Index

Source: Oxford Economics
Political uncertainty fears seem overdone…

UK: Business investment & policy uncertainty

- Real business investment (LHS)
- Policy uncertainty index (RHS)

Source: Haver Analytics, policyuncertainty.com

UK: Business investment & demand uncertainty

- Real business investment (LHS)
- Firms citing demand uncertainty as limiting investment (Inv., RHS)

Source: Haver Analytics
…with investment outlook looking bright

**UK: Net rates of return**

- Non-oil PNFCs
- Manufacturing
- Services

%  
- 18
- 16
- 14
- 12
- 10
- 8
- 6
- 4

1997 1999 2001 2003 2005 2007 2009 2011 2013

Source: Haver Analytics

**UK: PNFC deposits**

% of GDP, 4QMA  
- 30
- 28
- 26
- 24
- 22
- 20
- 18

1997 1999 2001 2003 2005 2007 2009 2011 2013

Source: Haver Analytics
Stronger global economy will support exports

**World: GDP forecasts**

<table>
<thead>
<tr>
<th>Region</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>2.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Eurozone</td>
<td>0.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Japan</td>
<td>0.9</td>
<td>1.8</td>
</tr>
<tr>
<td>China</td>
<td>6.8</td>
<td>6.1</td>
</tr>
<tr>
<td>World</td>
<td>2.9</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Source: Oxford Economics

**UK: Exports and world trade growth**

Source: Oxford Economics/Haver Analytics
Data revisions complicate supply side analysis

What did we say last year?

<table>
<thead>
<tr>
<th>Decomposing why UK GDP in 2013 is below its long-run trend (%)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree to which GDP is below the long-term trend</td>
<td>15</td>
</tr>
</tbody>
</table>

**Impact of the financial crisis on potential output:**
- Impact on the capital stock: 1
- Impact on growth in the labour supply: 0
- Impact on total factor productivity: 5

**Why are we below capacity?**
- Fiscal tightening: 4
- Tight credit conditions: 1
- Weak Eurozone demand: 1

Residual, which is likely to include factors such as the under-recording of the current level of GDP and slow adjustment: 3

Note: Figures may not sum exactly due to rounding.
Source: IFS Green Budget 2014, page 80
Data point to supply side strength in 2014

**UK: Working age population growth**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% year</td>
<td>1.2</td>
<td>1.0</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
<td>0.2</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Haver Analytics

**UK: Business investment and GDP**

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>% year</td>
<td>15</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: Haver Analytics
Strong, consumer-led, expansion in prospect

**UK: Contributions to GDP growth**

- **%pts**
  - 4.0
  - 3.5
  - 3.0
  - 2.5
  - 2.0
  - 1.5
  - 1.0
  - 0.5
  - 0.0
  - -0.5
  - -1.0


- **Categories:**
  - Consumer spending
  - Government consumption
  - Inventories
  - Net trade

Source: Oxford Economics

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**Legend:**
- Red: Consumer spending
- Yellow: Government consumption
- Blue: Investment
- Grey: Inventories
- Purple: Net trade

**Note:** The chart illustrates the contributions of different economic factors to GDP growth over the specified years.
Alternative scenarios for the UK economy

UK GDP forecasts for alternative scenarios

% year

Baseline
US & Eurozone upside surprise
Risk-off

Source: Oxford Economics