

UK and Global Economic Outlooks

Spring 2023



Global Economic Outlook



Dr Kemar Whyte

with Xuxin Mao, Barry Naisbitt, Paula Bejarano Carbo, Ed Cornforth, Ian Hurst, Iana Liadze, Hailey Low, Stephen Millard, Joanna Nowinska and Patricia Sanchez Juanino.



Responding To Shocks

The global economy has been hit by two shocks:

1. Covid

2. Russia's war in Ukraine

and the responses to them

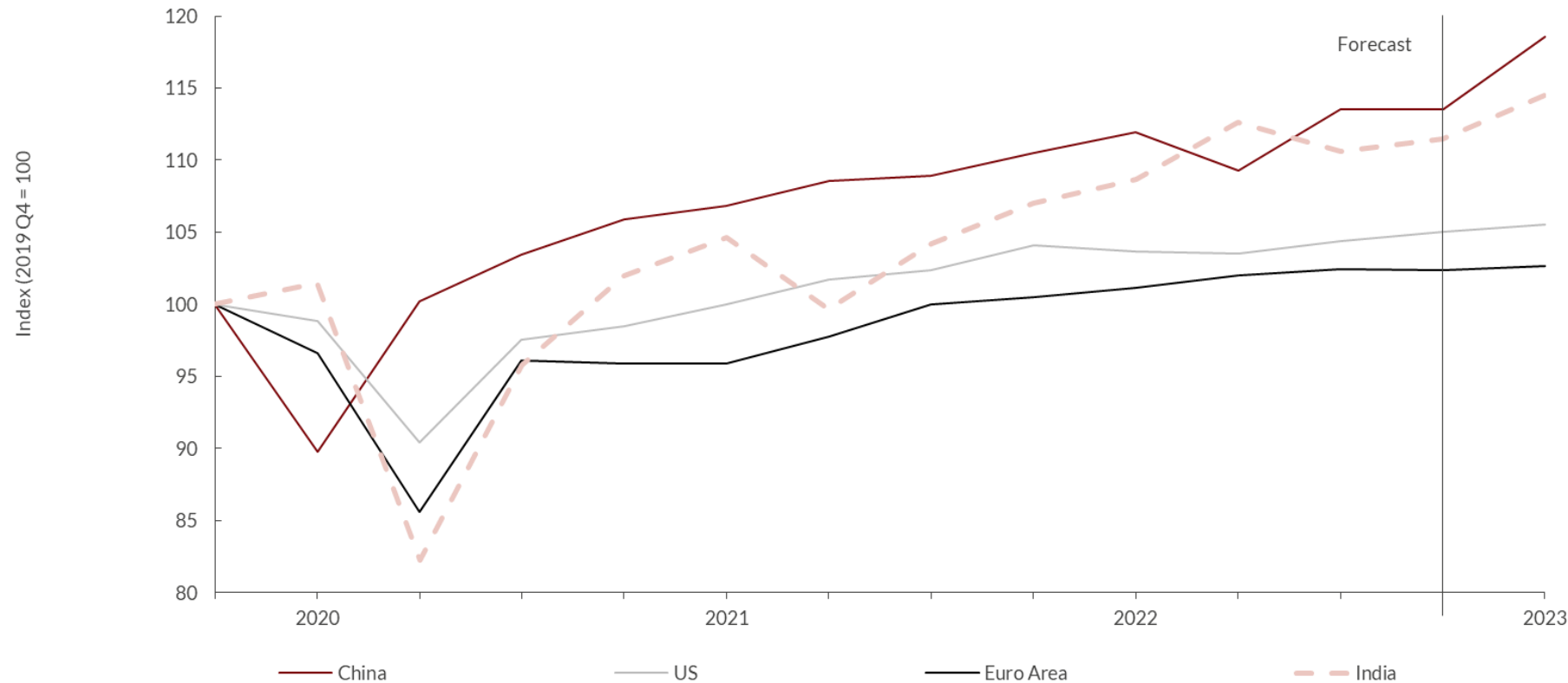
Lockdowns and behavioural responses to Covid

Rapidly rising inflation (especially in advanced economies)

Rapid monetary tightening

Just As Economies Were Recovering

GDP in China, the United States, India, and the Euro Area

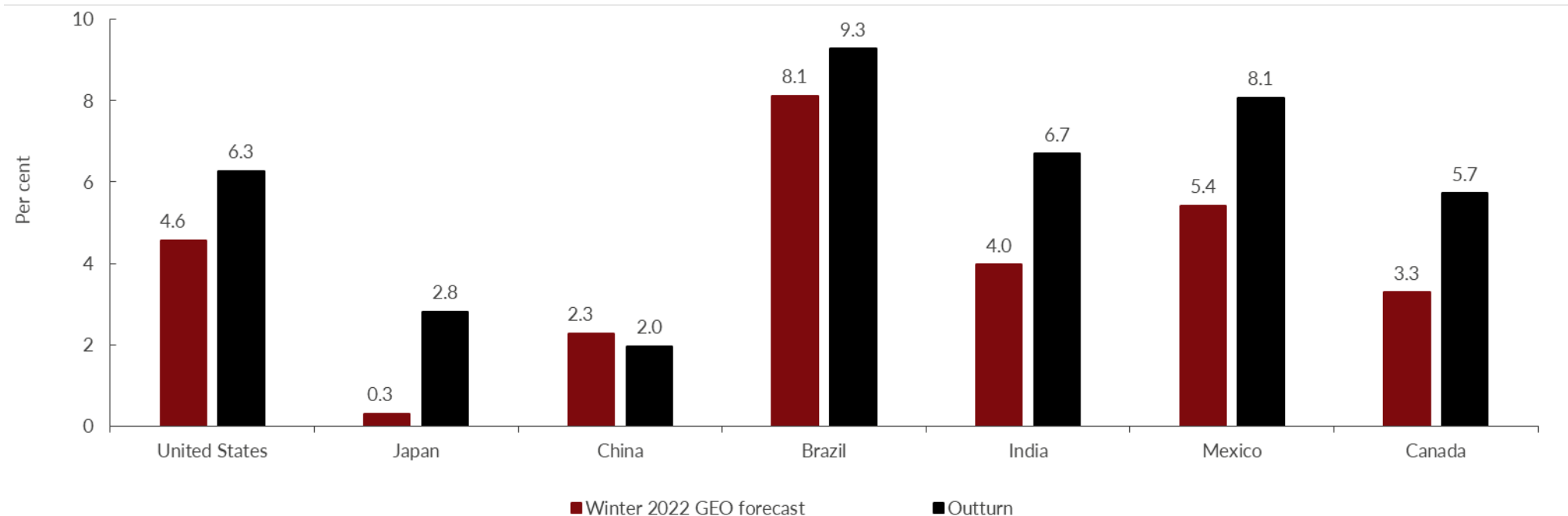


Source: NiGEM Database

...they were hit by new waves of Covid and the effects of war in Ukraine from Q1 last year

Inflation Picked Up Very Quickly...

Figure 10 Consumer price inflation in 2022



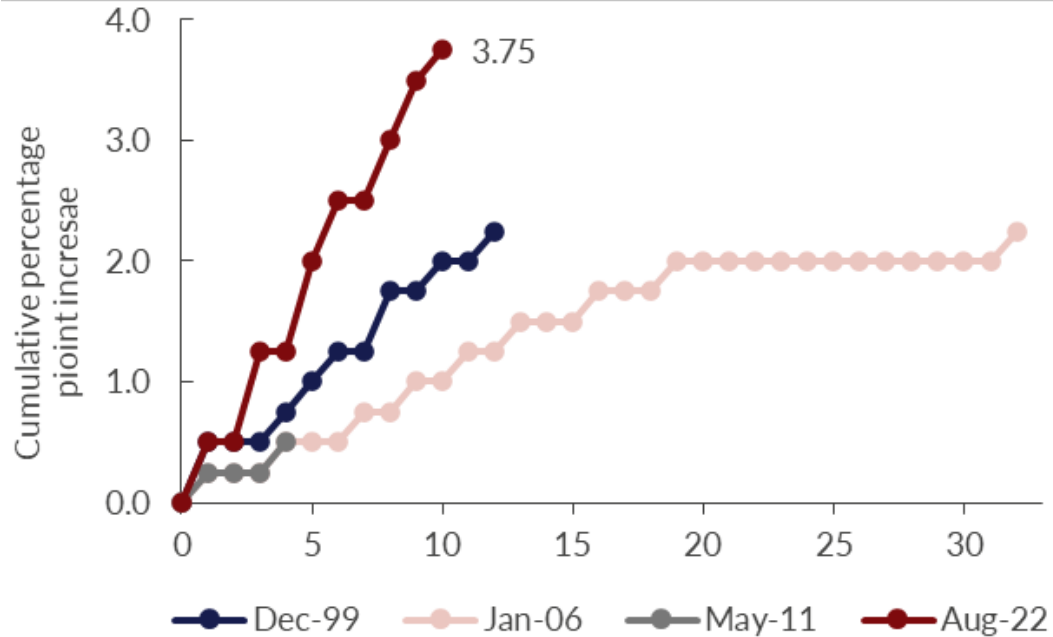
Source: NIESR Global Economic Outlook (Winter 2022); NiGEM Database

Notes: HICP for Euro Area countries; Implicit Consumer Expenditure Deflator for other countries

...especially in the advanced economies...
...and monetary policy responded

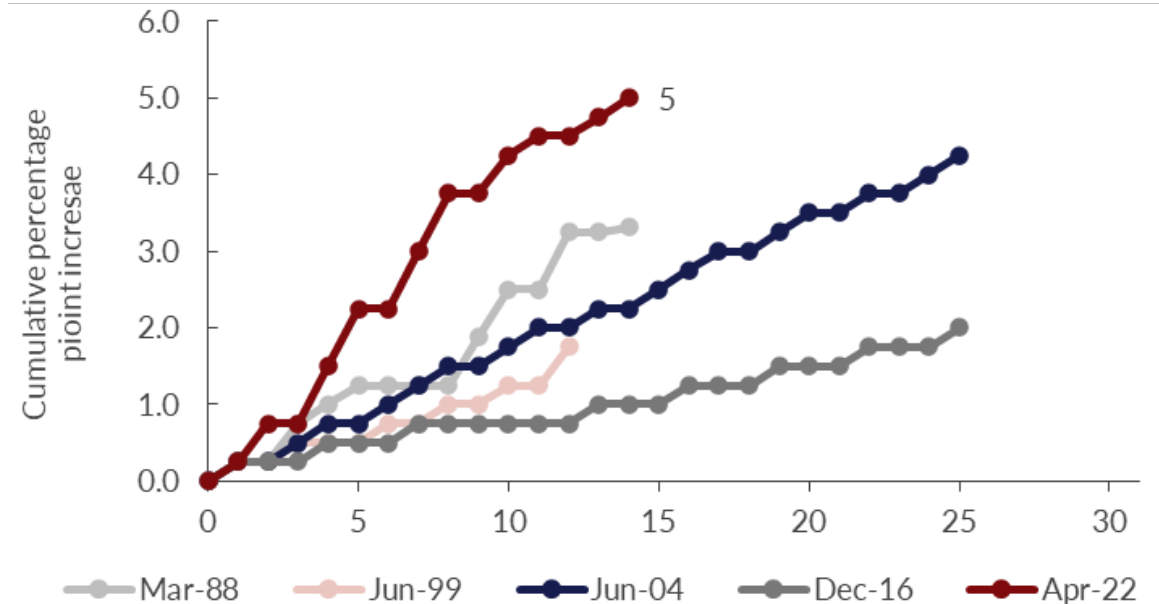
Monetary Policy Tightened Rapidly...

ECB policy interest rate tightening



Source: ECB

US policy interest rate tightening

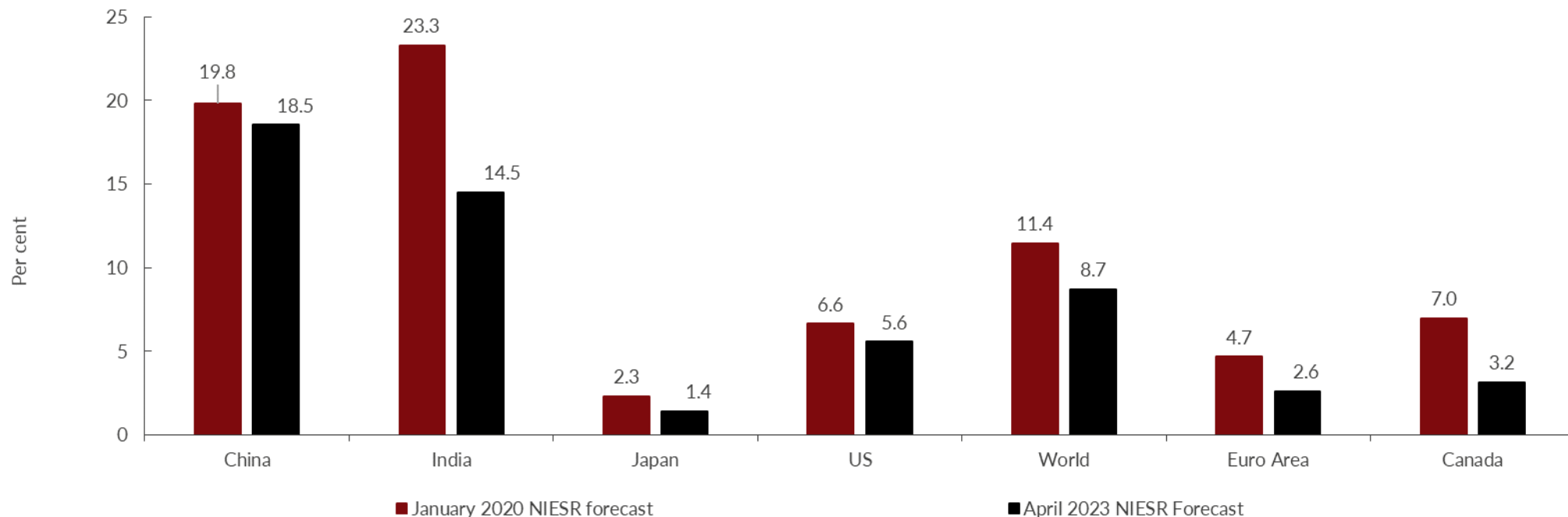


Source: Federal Reserve

- ...with central banks slow to recognise the threat of higher inflation
- Key question is when to halt the tightening?

How does GDP compare to where we thought it would be?

Percentage change in GDP between 2019Q4 and 2023Q1



Source: NIESR Global Economic Outlook (Winter 2022 and Spring 2023)

- US GDP is almost 'back on track' but Euro Area is falling short

So Where Are We Now On Output?

Figure 17 GDP growth in advanced economies

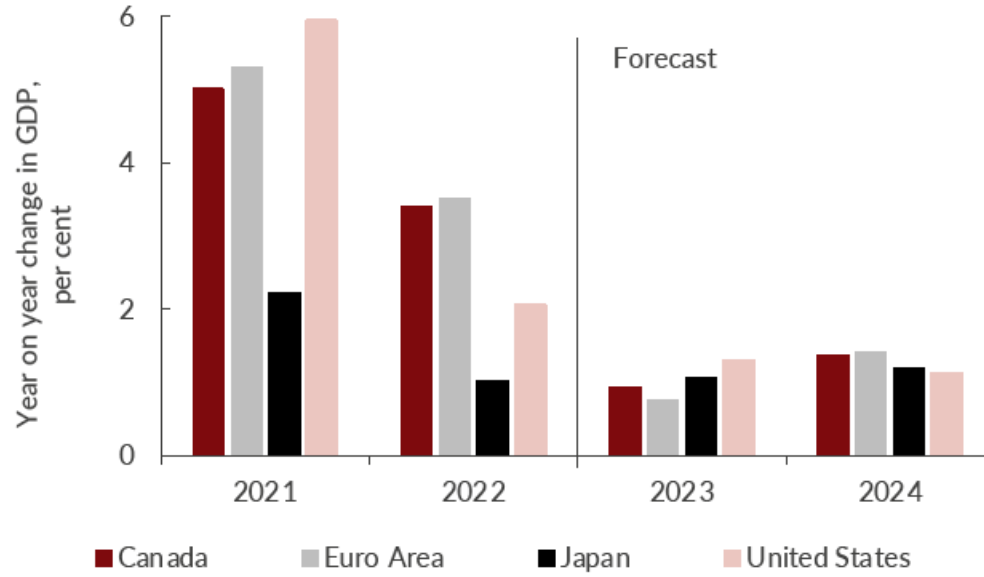
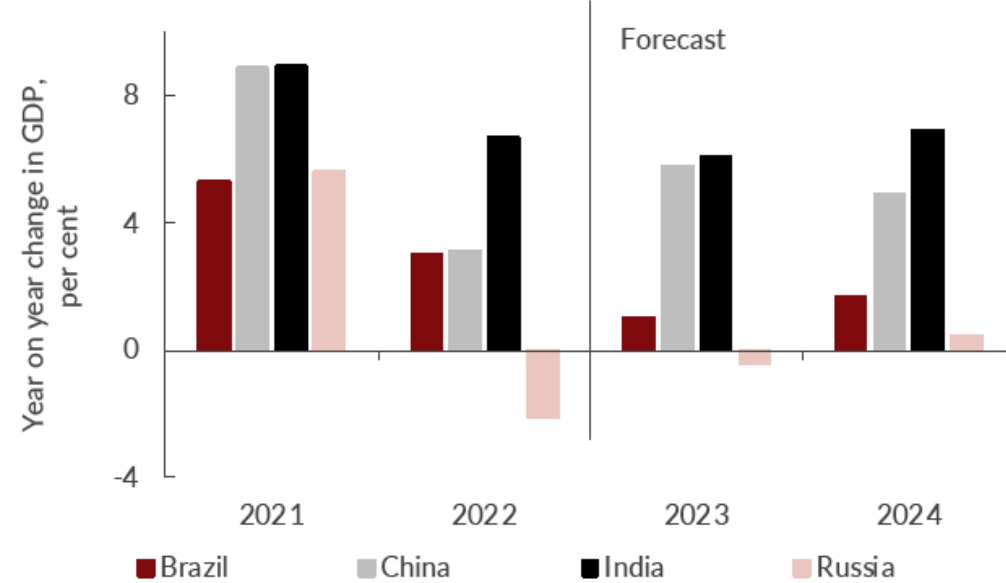


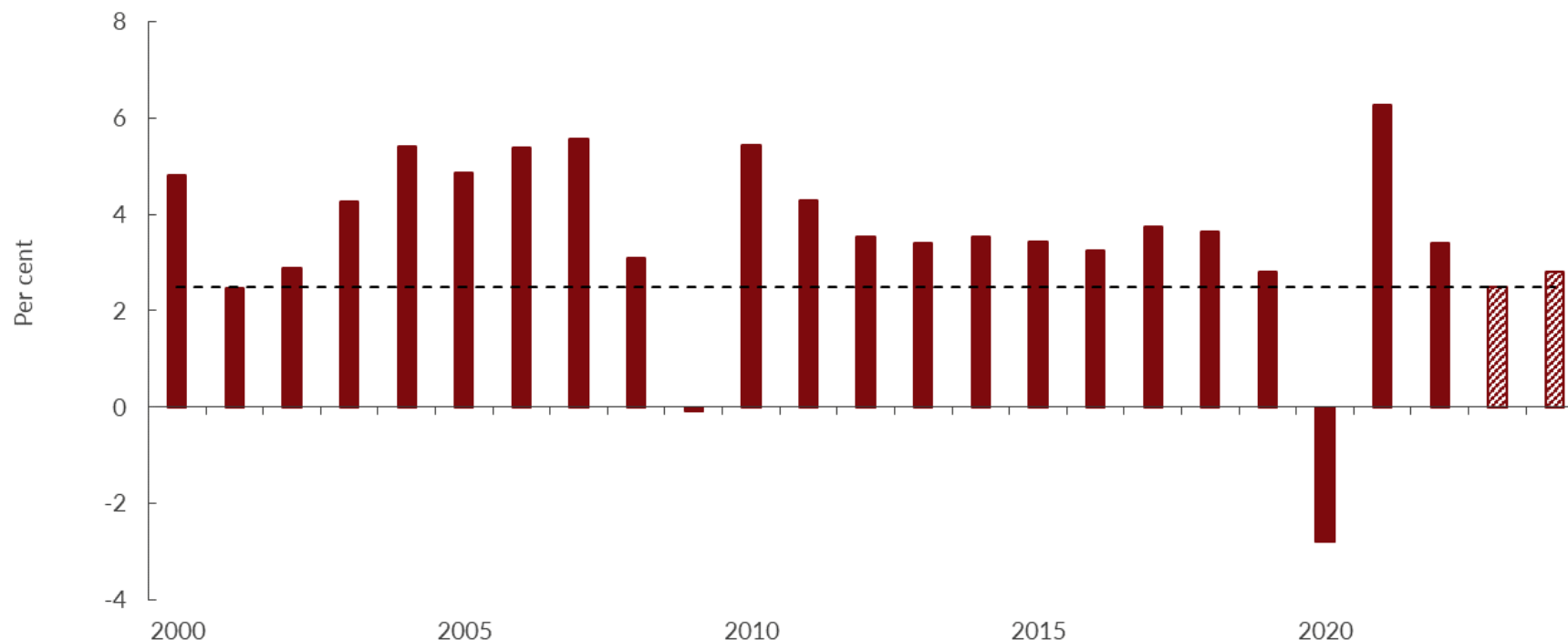
Figure 18 GDP growth in emerging economies



- The US economy is expected to grow slowly in both 2023 and 2024; no recession despite stress in banking sector
- EMEs maintain steady growth but huge disparities across countries

Slowest GDP Growth Since 2009...

Global GDP growth



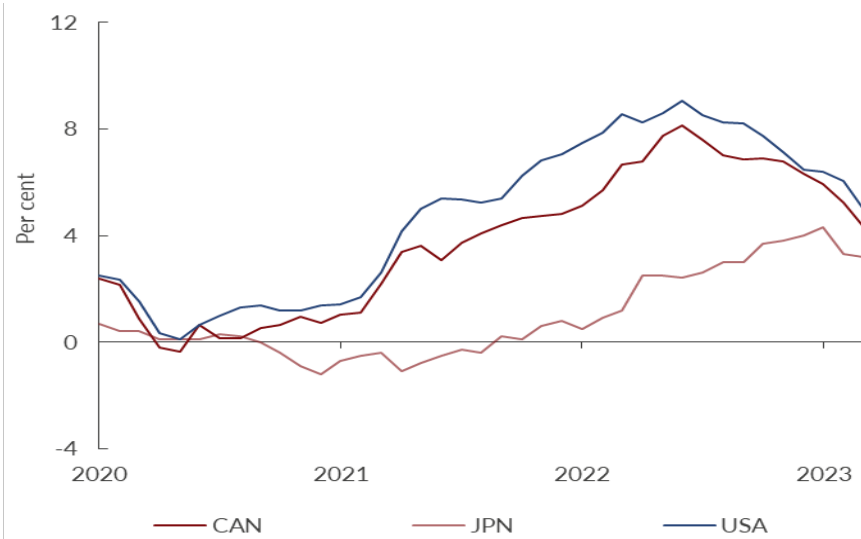
Source: NiGEM Database; NIESR Forecast

...except for Covid-hit 2020

- Growth to strengthen a little next year to 2.8%
- Stronger growth in Post-lockdown China

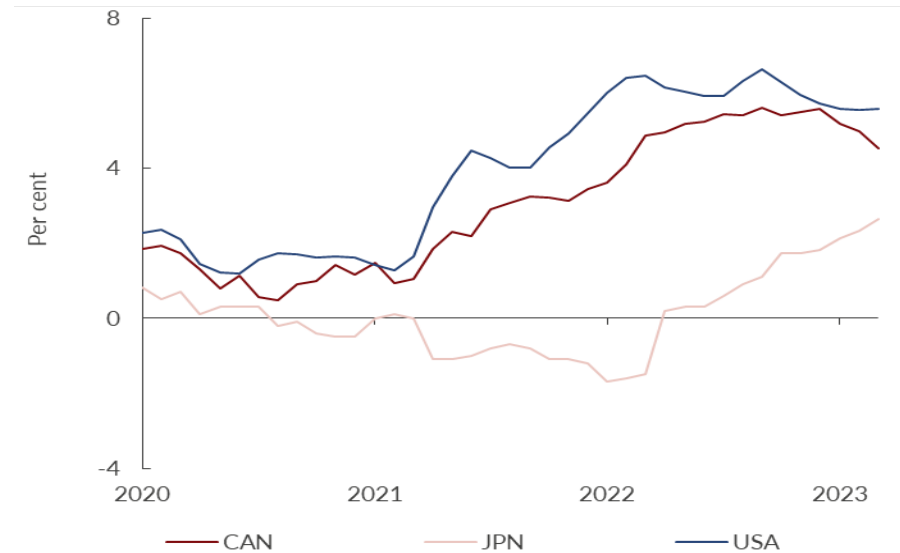
Headline Inflation Has Peaked

Figure 8 Annual headline inflation



Source: OECD

Figure 9 Annual core inflation

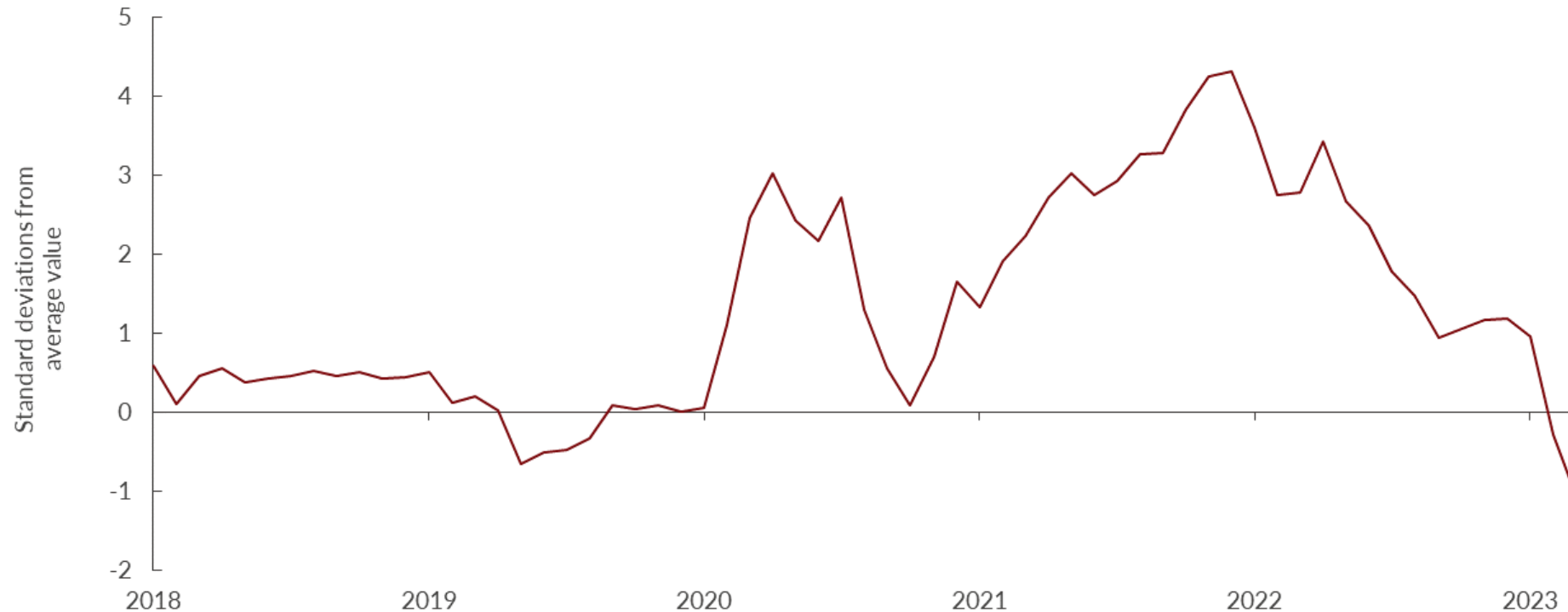


Source: NiGEM database
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- Headline inflation in G7 looks to have peaked
- But core inflation may still be rising ...
- ... signalling more persistent inflation?

Supply Chain Pressures Waning...

Global Supply Chain Pressure Index

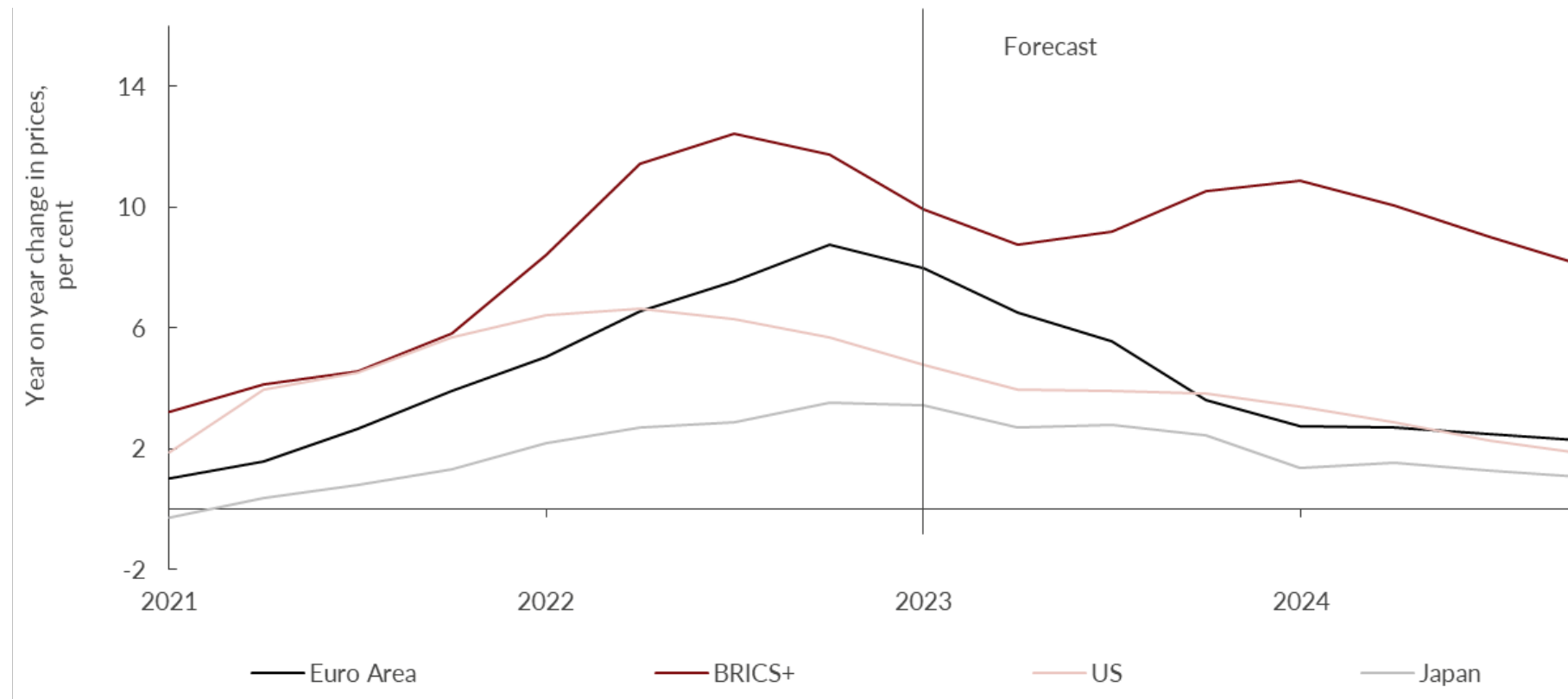


Source: Federal Reserve Bank of New York

...which is positive for lower inflation to come

We Expect Inflation to Fall...

Inflation in advanced and emerging economies

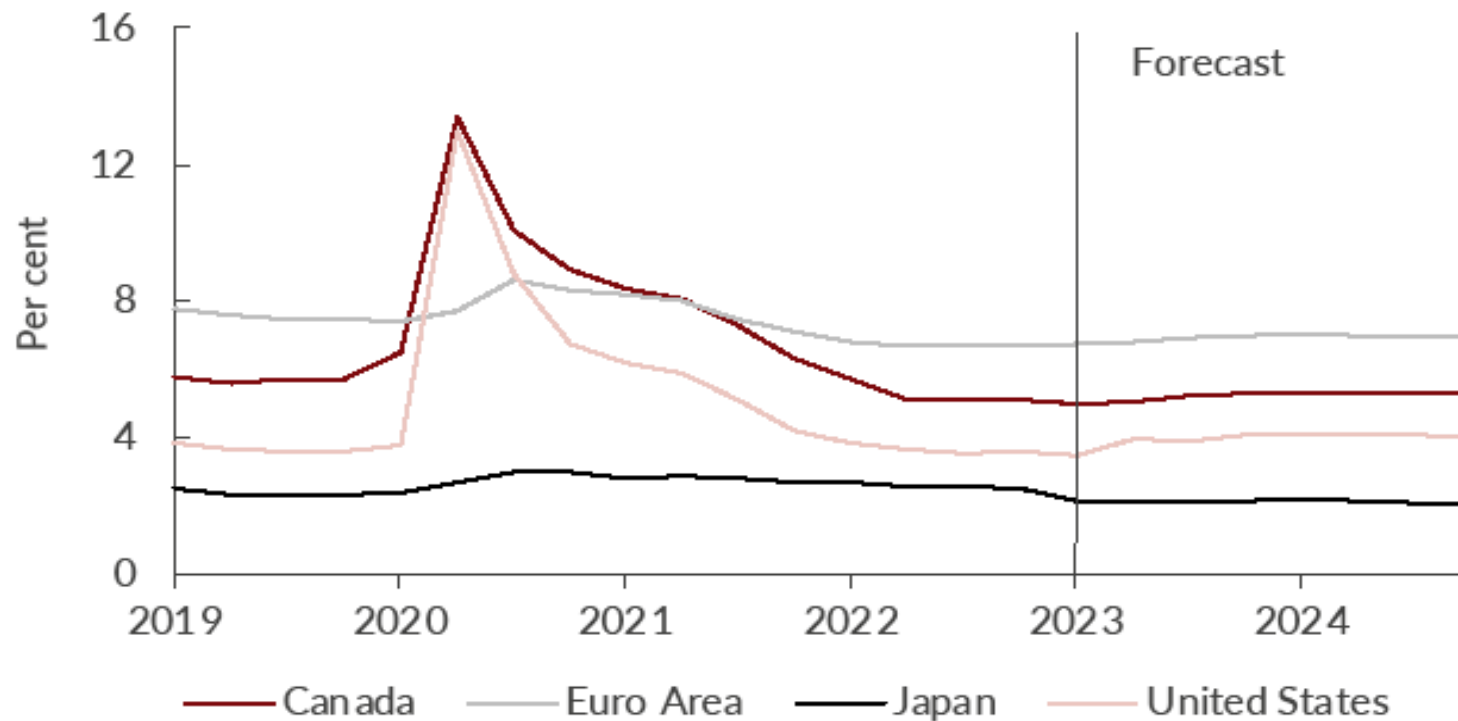


Source: NiGEM Database; NIESR Forecast

...but not to return to targets until 2024/25

Labour markets to remain robust..

Figure 19 Unemployment Rates

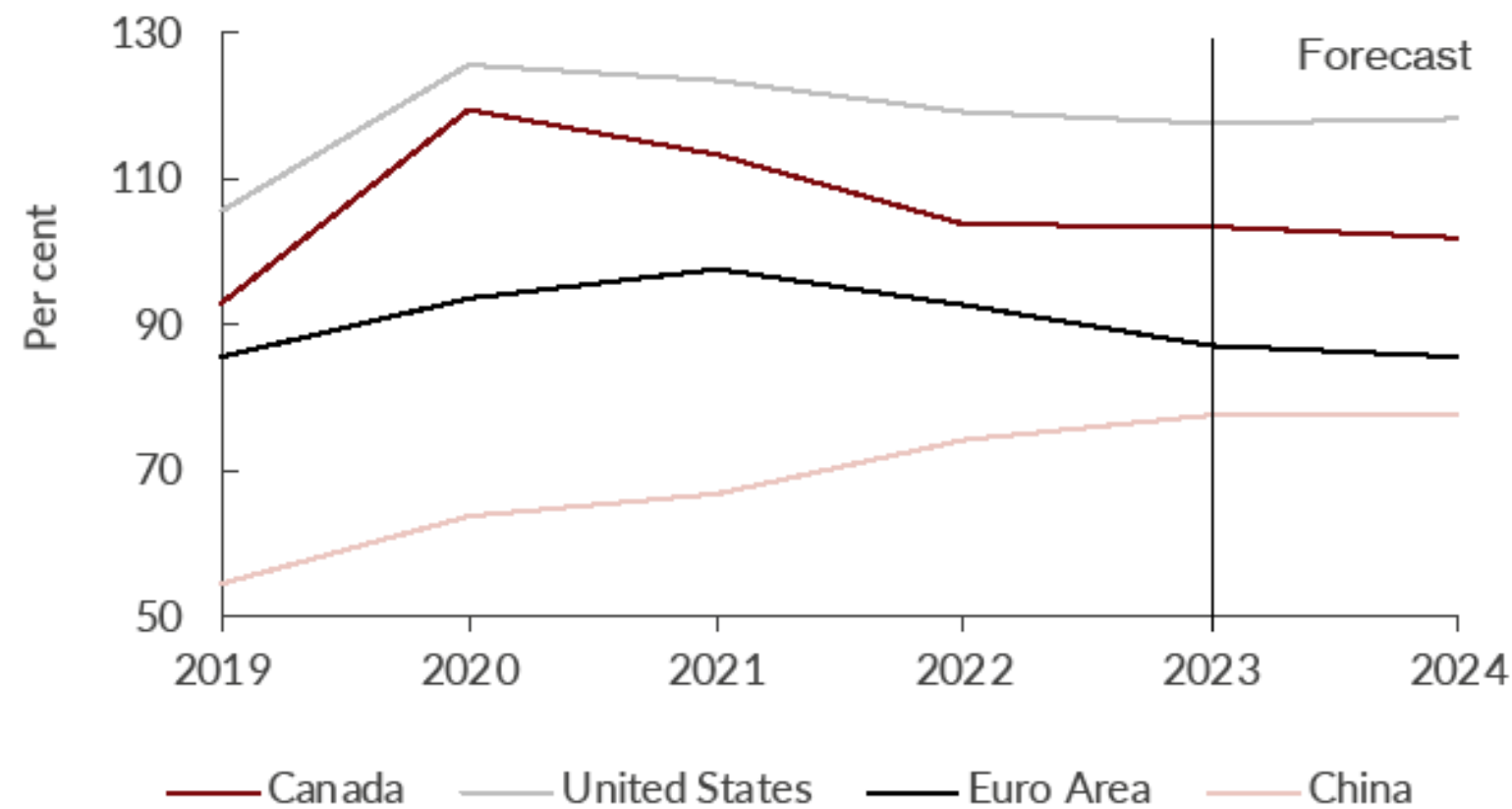


Source: NIESR Forecast and NiGEM Database

- Unemployment rates in major economies likely to edge lower than we were expecting in Winter forecast

US government's debt ceiling crisis edges closer..

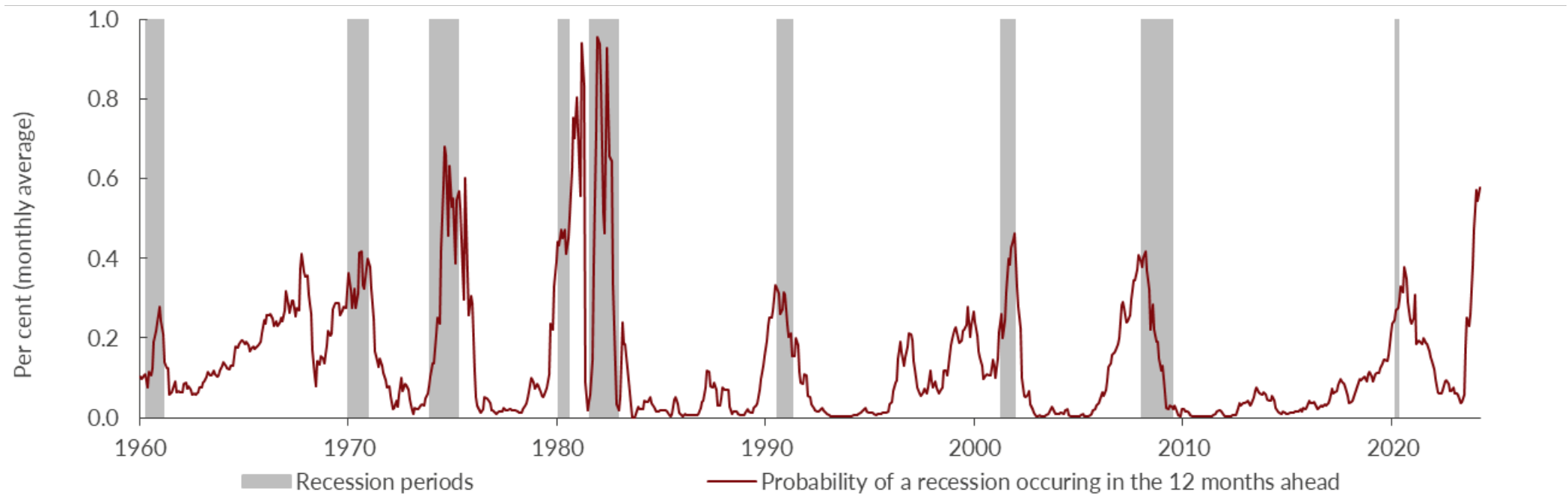
Figure 25 Public Sector Debt / GDP Ratios (per cent)



Source: NIESR Forecast and NiGEM Database

Key Risk – Fragile Growth Prospects

Figure 28 New York Federal Reserve recession probability indicator



Source: Federal Reserve Bank of New York

- Risk of a US recession
- Monetary policy may be tightened too much
- War in Ukraine is still continuing

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)
2022	3.4	10.9	5.3	2.1	3.0	1.0	3.5	3.5
2023	2.5	8.3	2.4	1.3	5.2	1.1	0.8	4.3
2024	2.8	5.6	2.5	1.1	4.9	1.2	1.4	4.4
	Summary of changes from our Winter forecast			Percentage point change from our Winter forecast , year-on-year				
2022	0.4	-0.2	-0.2	0.0	0.0	-0.2	0.1	0.1
2023	0.1	-0.3	0.5	0.8	0.7	-0.1	0.3	0.6
2024	0.0	-0.3	-0.4	0.1	0.4	0.2	-0.1	0.2

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.

UK Economic Outlook



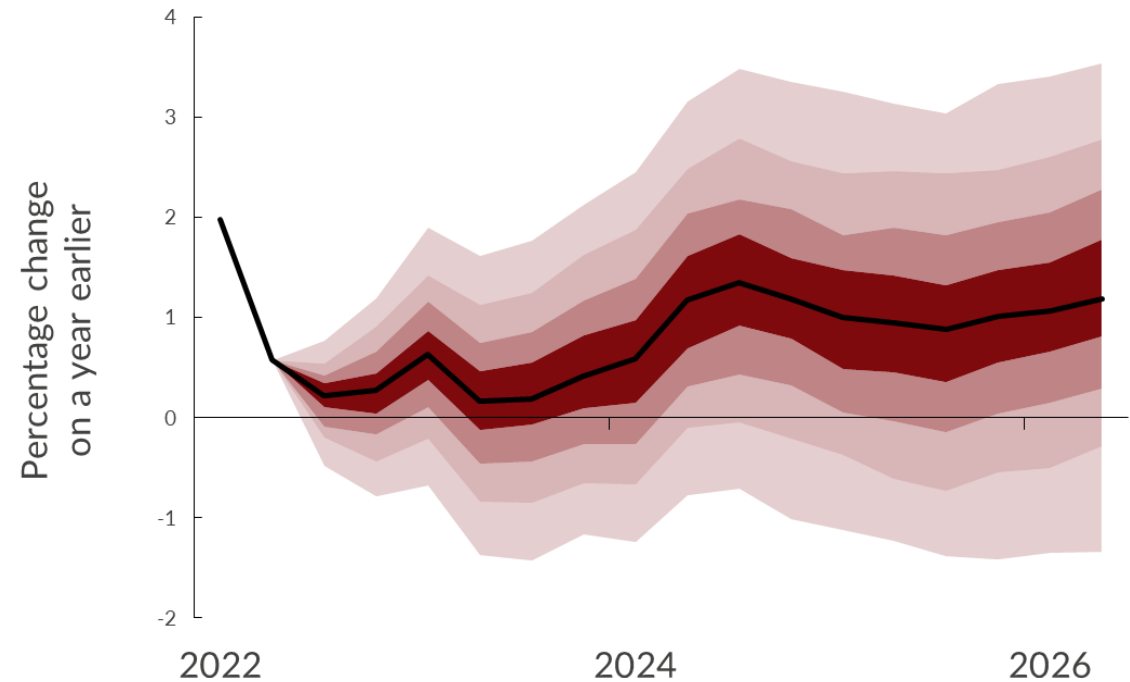
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Annual GDP growth

- Despite positive news in Q1, and avoiding recession, UK GDP growth will remain close to zero in 2023
- GDP will grow only slowly in 2024
 - 2023: 0.3%
 - 2024: 0.6%
 - 2025: 1.1%

Figure 1.2 GDP Growth



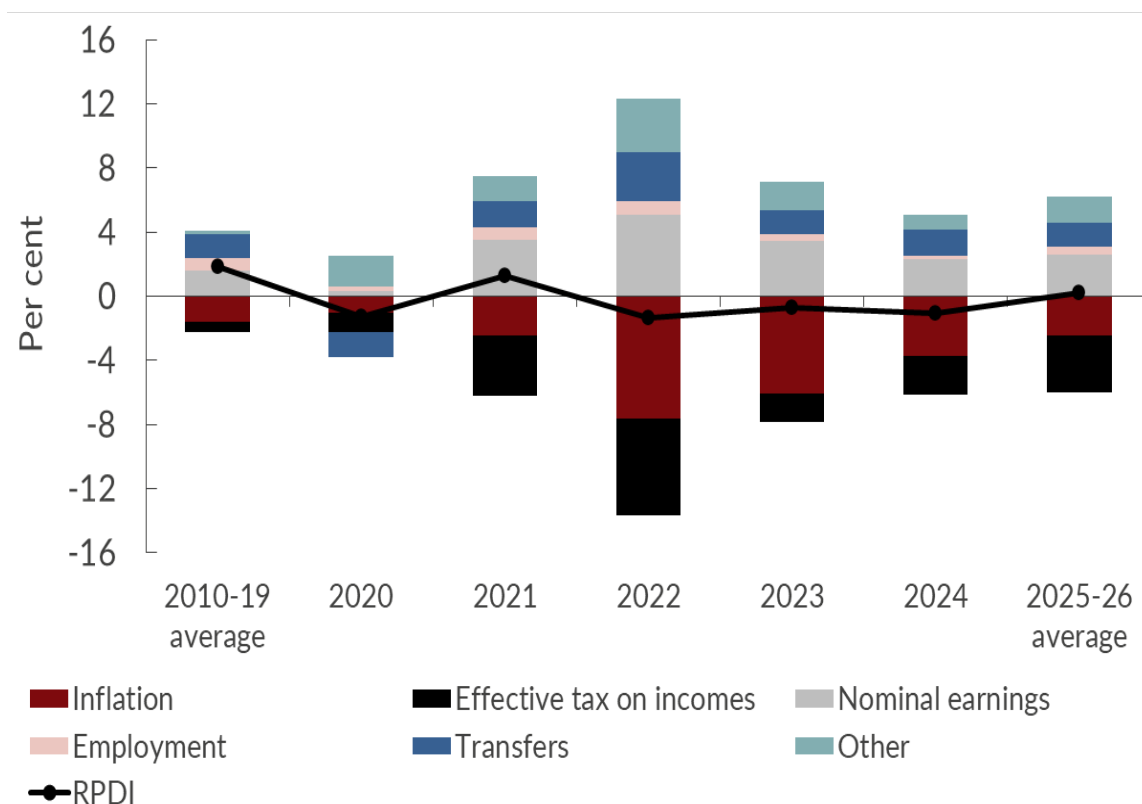
Note: The shades within the fan chart represent a 10 per cent chance that GDP growth will lie within the boundary of that shade. There is a 20 per cent chance that GDP growth will lie outside the shaded area of the fan.

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

Real Personal Disposable Income

- RPD I slightly up in 2022 Q4, the first time in four quarters
- But, we expect a fall in RPD I in 2023
- This will be contingent on the rate at which inflation slows and the level of pay increases

Figure 1.16 Contributions to growth in real personal disposable income

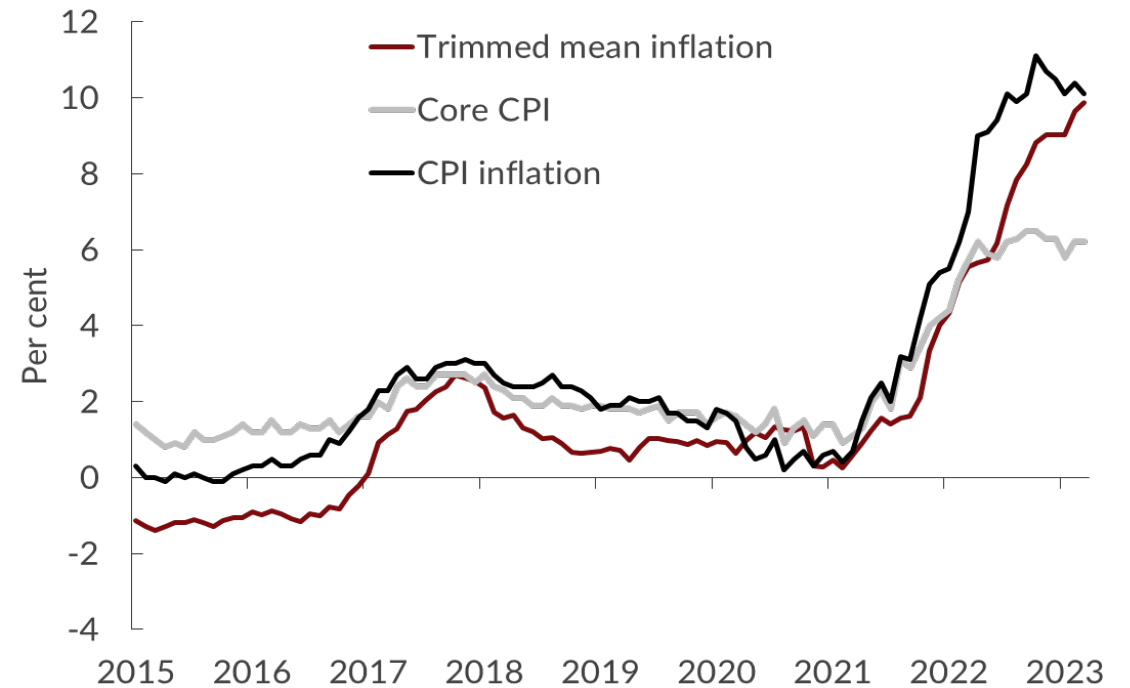


Source: NiGEM database, NIESR forecast

Inflation

- CPI inflation fell to 10.1% in March from 10.4% in February
- High rate driven by food price inflation, which rose to 19.1%, and wage settlements
- Core inflation remains high

Figure 1.8 Consumer price index headline and core inflation



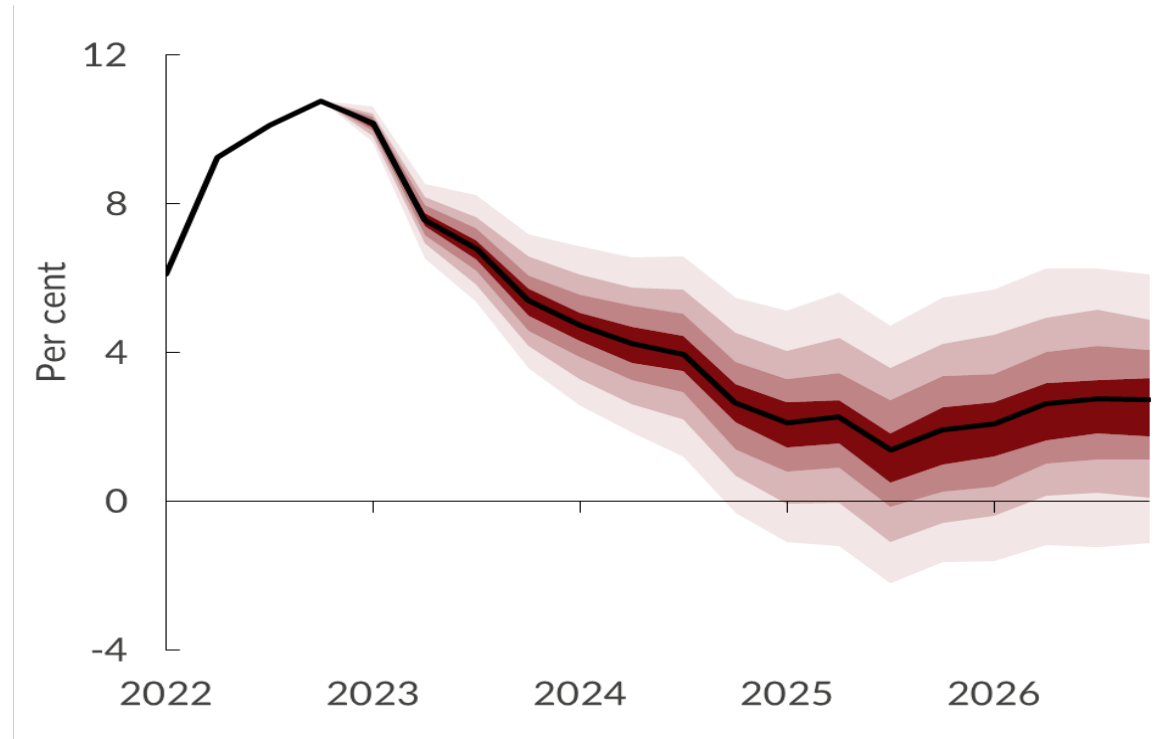
Note: Core CPI refers to CPI inflation excluding energy, food, alcoholic beverages, and tobacco. Trimmed mean inflation is measured by excluding 5 per cent of the highest and lowest price changes in the CPI calculation.

Source: NiGEM database, NIESR forecast

Inflation

- Inflation is forecast to fall in 2023, but not as quickly as in other forecasts
- CPI inflation to fall to 5.4% by the end of 2023 and not reach 2% until 2025 Q3
- This creates a dilemma for the MPC

Figure 1.4 CPI Inflation Fan Chart



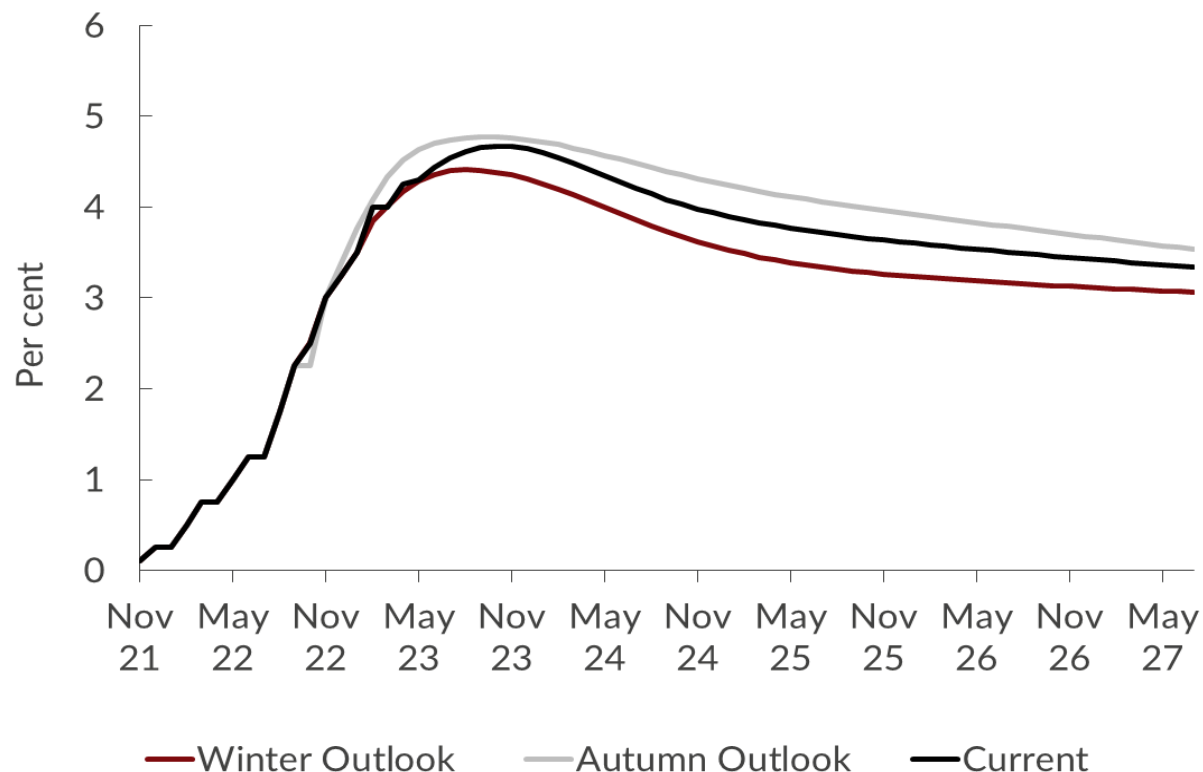
Note: The shades within the fan chart represent a 10 per cent chance that GDP growth will lie within the boundary of that shade. There is a 20 per cent chance that GDP growth will lie outside the shaded area of the fan.

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

Monetary Policy

- BoE increased Bank rate by 25 basis point at its last meeting
- Is that the peak?
- Will interest rates stay higher for longer?

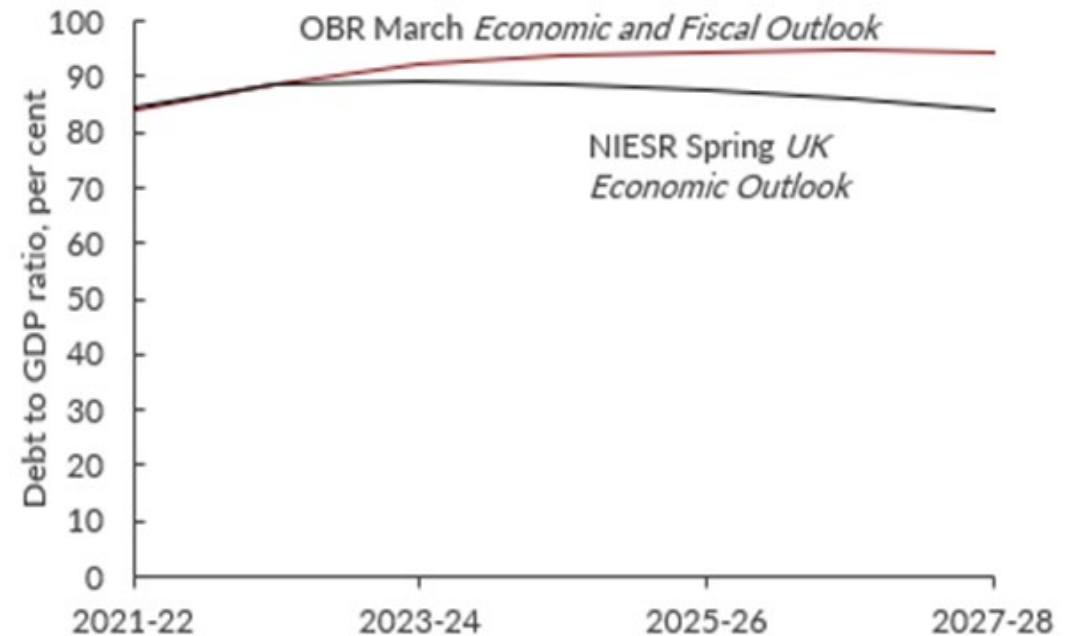
Figure 1.9 Bank Rate Forecast



Fiscal Policy

- We expect a lower Debt to GDP ratio than the OBR
- That is, greater fiscal space
- Why?

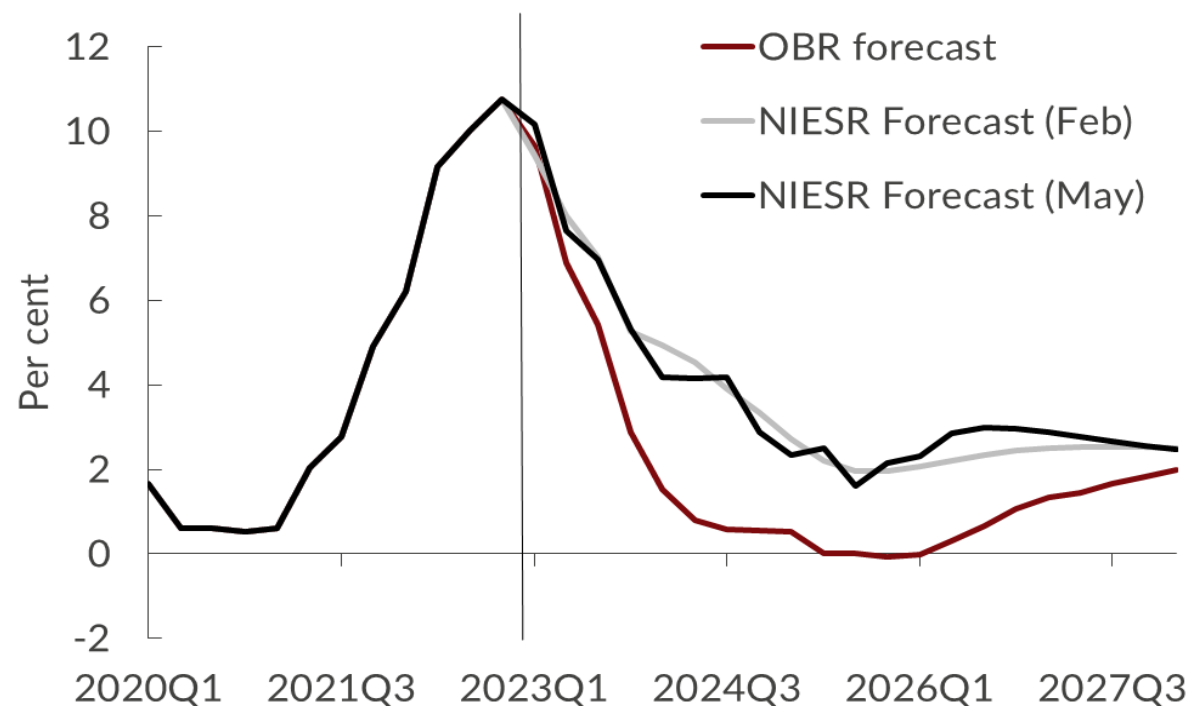
Figure 1.6 Public Sector Net Debt to GDP Ratio



Source: OBR, NiGEM database, NIESR forecast

Fiscal Policy

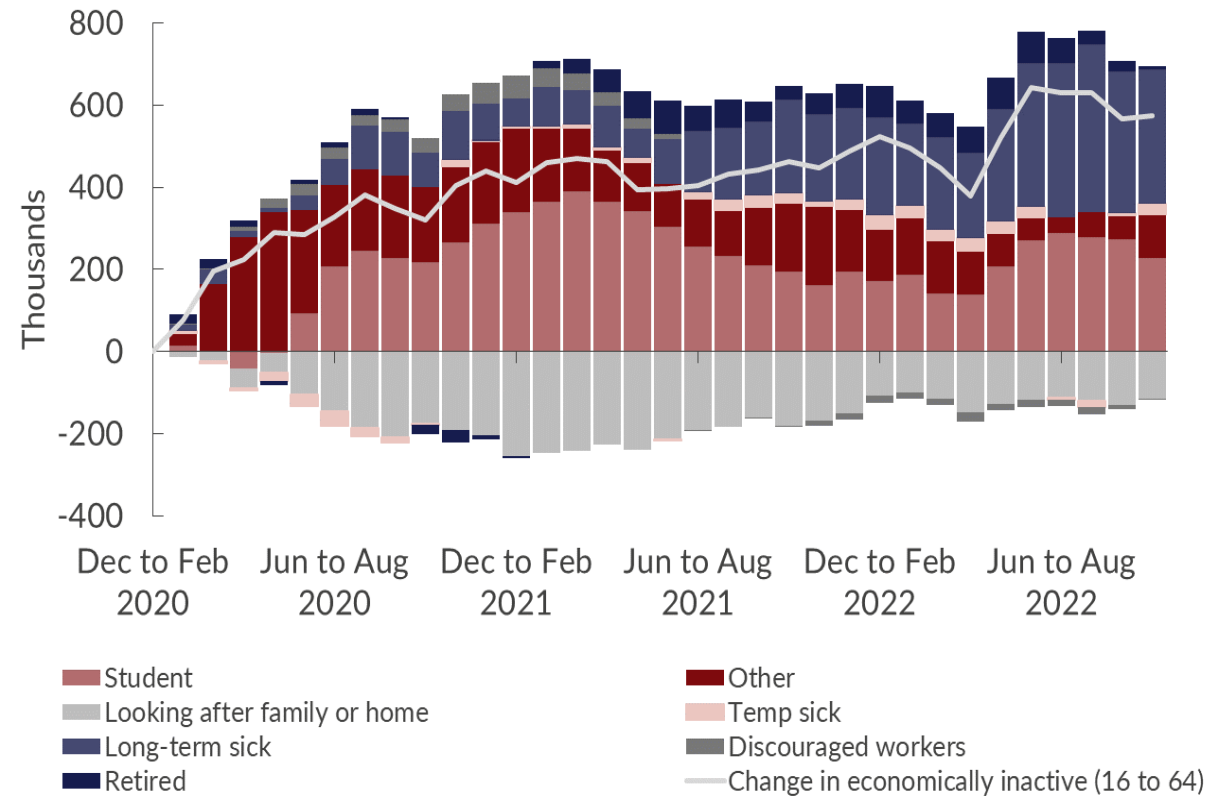
- NIESR's inflation forecast remains higher than the OBR's
- Implying more fiscal space on account of 'inflation tax'



Inactivity

- Labour supply shortages and the chronic investment deficit remain
- Budget measures a step in the right direction
- But more needed for stronger productivity growth to return to the UK economy

Figure 1.29 Change in economic inactivity by category

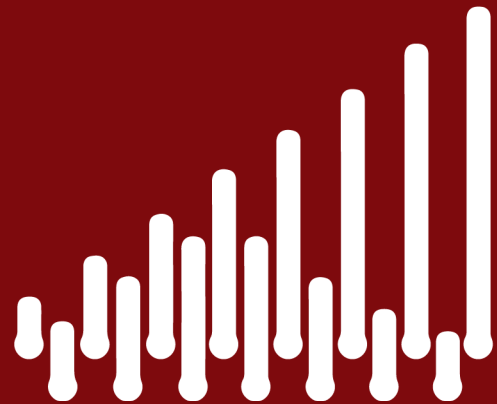


Forecast Summary

Table 1.1

Summary of the forecast (percentage change unless otherwise stated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027
GDP	1.6	-11.0	7.6	4.1	0.3	0.6	1.1	1.0	1.3
Per capita GDP	1.1	-11.4	7.2	3.5	0.2	0.1	0.7	0.7	0.9
CPI Inflation	1.8	0.8	2.6	9.1	7.4	3.9	1.9	2.5	2.5
RPIX Inflation	2.5	1.7	4.2	11.5	8.7	4.3	2.5	3.2	3.2
RPDI	2.1	-1.3	1.3	-1.4	-0.7	-1.1	-0.2	0.6	1.2
Unemployment, %	3.8	4.6	4.5	3.7	4.0	4.6	4.6	4.7	4.7
Bank Rate, %	0.8	0.2	0.1	1.5	4.3	4.3	3.9	3.6	3.3
Long Rates, %	0.9	0.3	0.8	2.4	3.4	3.4	3.3	3.3	3.2
Effective exchange rate	-0.5	0.5	4.7	-1.8	-0.9	0.2	-0.3	-0.4	-0.1
Current account as % of GDP	-2.9	-3.1	-1.5	-3.8	-5.9	-3.3	-2.0	-1.3	-0.3
Net borrowing as % of GDP	2.5	15.0	5.7	6.5	3.5	1.8	1.2	0.7	-0.1
Net debt as % of GDP	80.7	96.0	98.9	97.9	98.6	97.6	94.0	89.9	86.2



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