

Budget reflections

As we had read in the newspapers, the Office of Budget Responsibility decided to downgrade their forecasts for productivity, which led to a reduction in the growth forecasts. These growth forecasts have been up, down, up and now down a bit over the last two years as various assumptions have been changed. The latest version shows growth at 1.4% in 2018 and at 1.3% in 2019, down from 1.6% and 1.7% in the Spring forecast. These forecasts relate mainly to the pre Brexit period, with growth rising again in 2021 and 2022 after exit.

Despite this revision the government is still on track to start to cut debt as a proportion of GDP from next year onwards. Public sector borrowing is now estimated at £49.9bn this year compared with the £58.3bn in the Spring forecast, and to fall in cash terms for every year over the next five years. Revenues have been more buoyant than the forecasters expected.

The OBR may be right to reduce its productivity figure, as all major economies have experienced slower productivity growth than before the banking crash of 2009. The UK has been particularly successful at creating many more jobs. This will tend to reduce the average rate of productivity growth. Productivity is measured by comparing the value of the output sold with the numbers of employees creating it. As an economy increases the share of certain services it will tend to slow the growth of productivity. Faster productivity growth with higher productivity numbers is generated by large investments in oil extraction, chemical plants, automated engineering works and the like where the amount of output per employee is very high reflecting the large amounts of capital equipment put in.

It does seem that the global number crunchers are having difficulty capturing the value and the efficiency of the new digital revolution. The big digital service providers are cutting prices of traditional activities and supplying substantial service free to the individual user. Is this fully captured in the way they calculate the figures?

Meanwhile the official forecasters have struggled by taking too pessimistic a view of Brexit. Their idea that investment and confidence would be hit badly affected their short term forecasts after the vote. Some of this has now been adjusted in the latest forecasts which assume business investment will resume growth from this year onwards after a pause in 2016. They now expect employment to rise each year a little as the economy continues to create extra jobs. They expect good growth in UK exports this year and next, with very little growth in trade in 2020 and 2021.

Overall the forecasts look more sensible than the pessimistic ones in the summer of 2016. There could be more surprises on the upside, as there were today on the deficit this year and the tax revenues.