

One cheer for the OBR

With spectacular bad timing the OBR last autumn lowered their forecast for growth in the UK economy based on turning very negative about productivity growth. They did so just in time to see productivity suddenly spurt forward, and for the growth rate to come in 13% higher for 2017 than their forecast. That takes some doing, making that kind of error for the year in question when the forecast went out in the penultimate month of the year!

This time the OBR have second thoughts on 2018, and have edged their growth rate forecast up by 7% to 1.5%. I expect they will need to revisit this as the year progresses. I can only give one cheer for the OBR being a little less pessimistic. The upward revision to 2017 came about because the actual figures showed they had got the forecast wrong again. I remember being criticised for complaining that official forecasts since the Brexit vote rushed to be wrong by being too pessimistic, but so it has proved. These latest errors are not on the scale of the forecast winter recession in 2016-17 which the Treasury had to write out of its script when growth accelerated in the second half of 2016.

The OBR says they now do not know whether “growth slowed down, speeded up or remained stable between 2016 and 2017”, so it is difficult to see how they can ascribe anything to the Brexit vote! Their forecast error in 2017 comprised underestimating private consumption, private investment and government spending, but also overestimating the favourable impact of overseas trade. There was no decline in private investment in the way many establishment forecasts had expected. They have had to admit that a weaker sterling did not depress imports as forecast. Nor was the price effect as strong as some thought.

The OBR reminds us in their numbers just how much extra money the UK would have to send to the EU after we have left if a deal is concluded. It will need to be a very good deal in every other respect if it is to be worth £37bn. There's a lot of good we could do at home with that sum, and spending it at home instead of sending it to the continent would give a timely boost to our national output and income.