
THE ECONOMIC OUTLOOK & LEADERSHIP

LEEDS

30 November, 2018

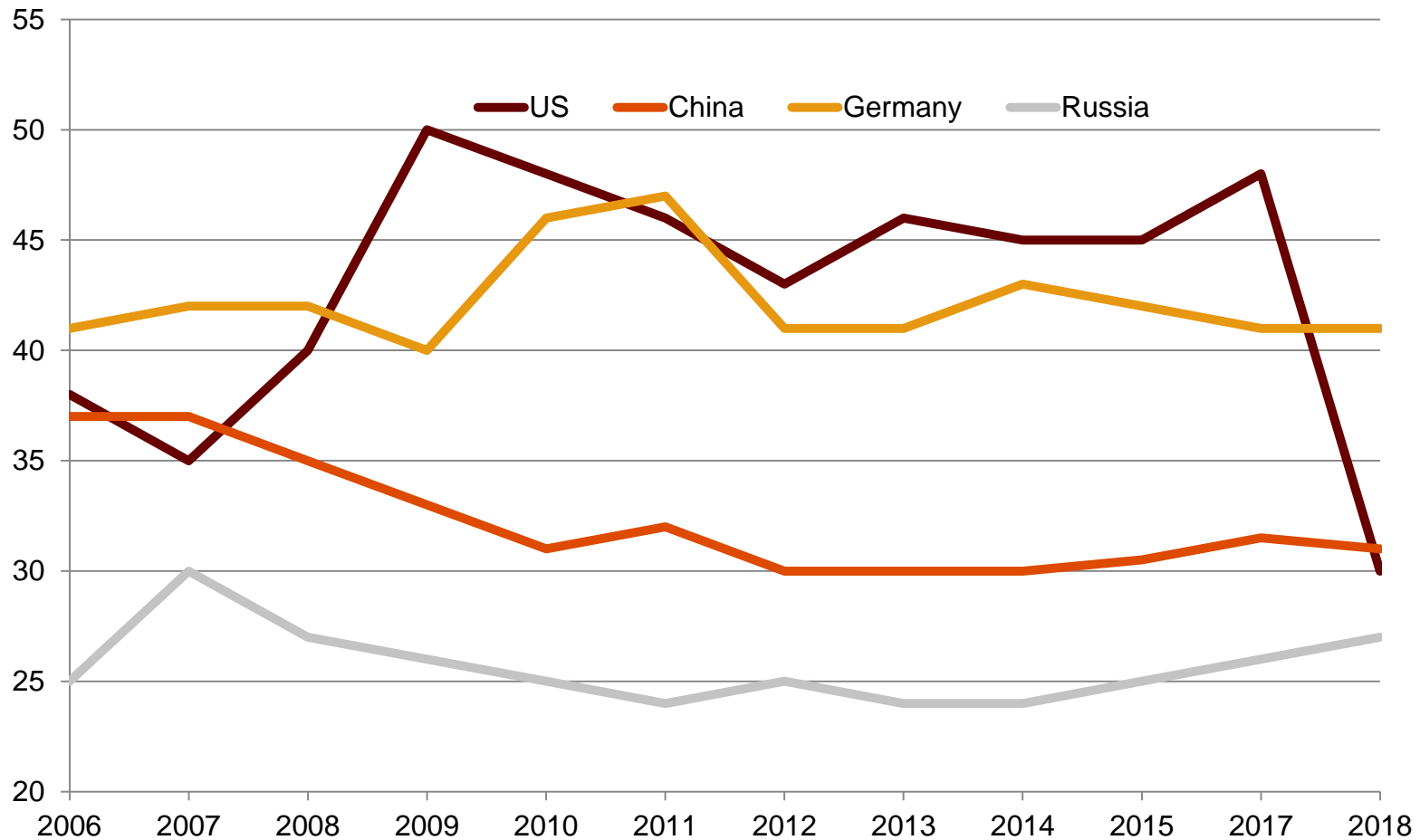
Speaker: Professor Trevor Williams, visiting professor at University of Derby, author, economic consultant & Chair of IEA's Shadow MPC

ECONOMICS AND LEADERSHIP- SOME TAKEAWAYS

- THOUGHT LEADERSHIP – THEORETICAL / PHILOSOPHICAL – ADAM SMITH, DAVID RICARDO
- COUNTRIES LEAD – US / CHINA
- SECTORS LEAD – DIGITAL, INFORMATION TECHNOLOGY
- POLICTICIANS LEAD – TRUMP, PUTIN, XI JINPING
- HEADS OF BUSINESSSS LEAD (CAPTAINS OF INDUSTRY LEAD?)
- REGIONS LEAD – EAST COAST / WEST COAST IN US, SE IN UK
- TECHNOLOGIES LEAD – QUANTUM COMPUTERS, SOFTWARE DESIGN

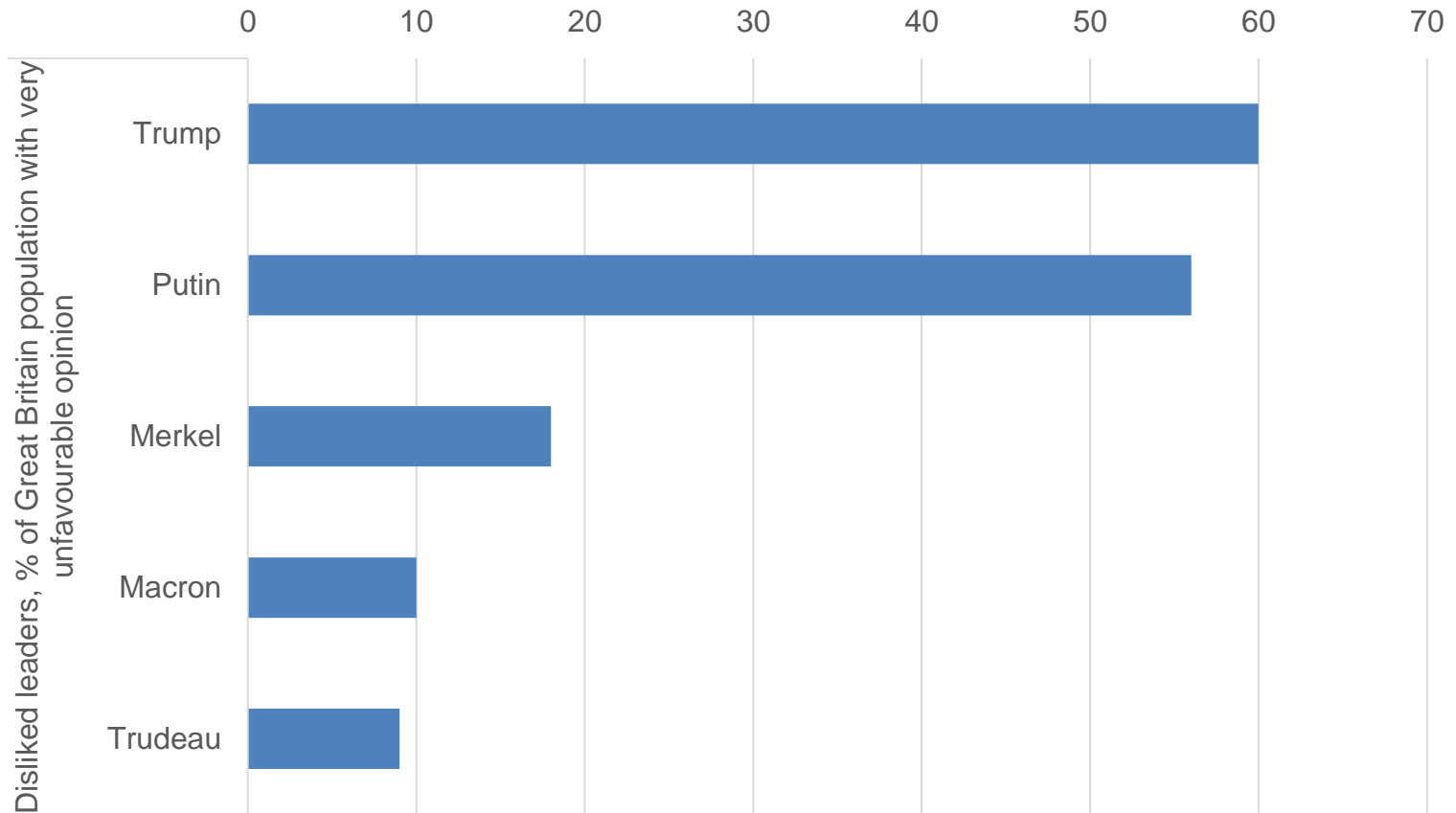
US GLOBAL LEADERSHIP TAKES A HAMMERING

Median across 134 countries polled (%)



Source: Gallup

TRUMP WON'T LIKE THIS UK POLL...

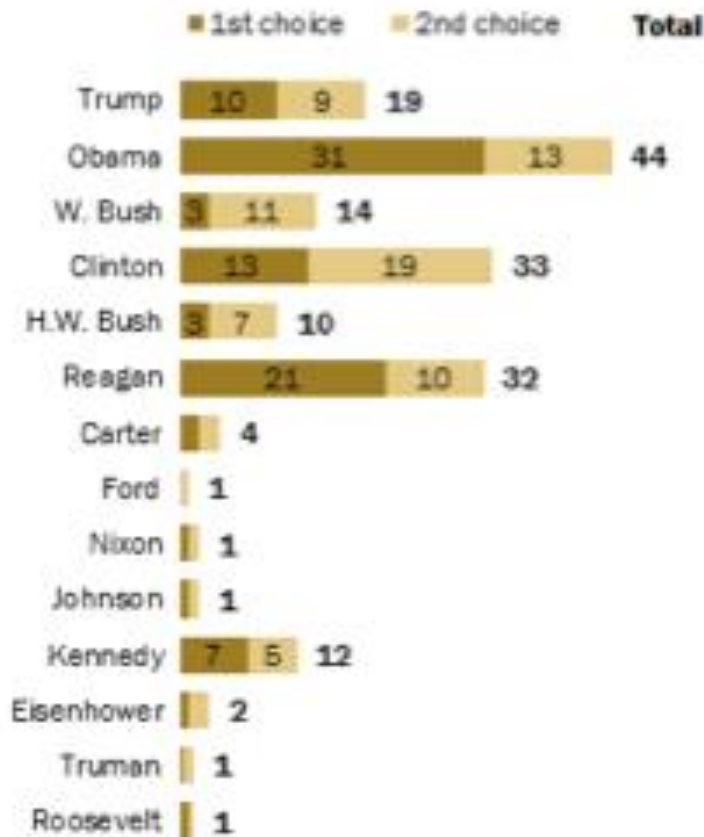


Source: YouGov, July 2018

...AND THIS US ONE EVEN LESS

Which president has done the best job during your lifetime?

% who say ____ has done the best job as U.S. president during their lifetime



The survey by Pew Research Center, conducted June 5-12 among 2,002 adults, asks people in an open-ended format which president has done the best job in their lifetimes. The analysis is based on their first and second choices.

About one-in-ten adults (12%) say John F. Kennedy did the best job in office during their lifetimes. But Kennedy is named as the best or second best president by about a quarter of those who were alive during his presidency: 24% of Baby Boomers and 25% of those in the Silent Generation.

People's views of the best president of their lifetimes are partly tied to their ages. Millennials, who are currently ages 22 to 37, are far more likely than older generations to name Obama as one of the best presidents in their lifetimes: About six-in-ten Millennials (62%) view Obama as one of the top two, with nearly half, 46%, naming him the best president.

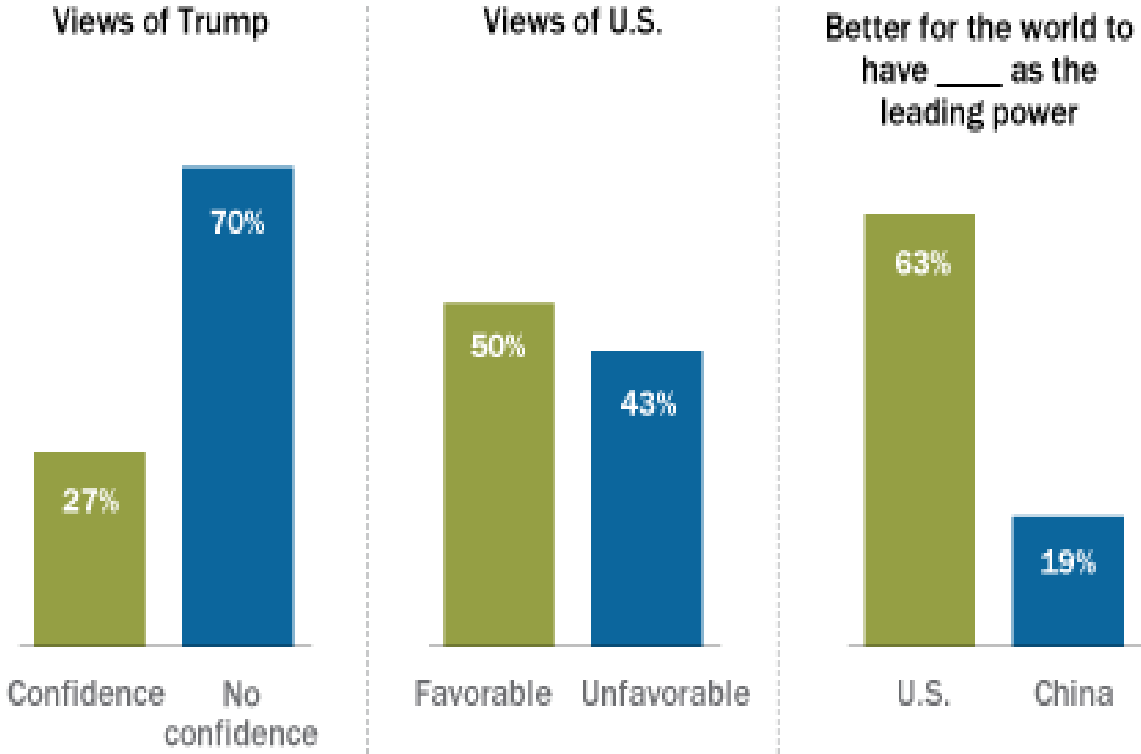
Note: Democrats say Obama republicans say Reagan

BUT VIEWS OF TRUMP DO NOT YET TRANSLATE INTO A CHALLENGE TO US GLOBAL LEADERSHIP

...but views of the US remain solid

Trump's international ratings remain low

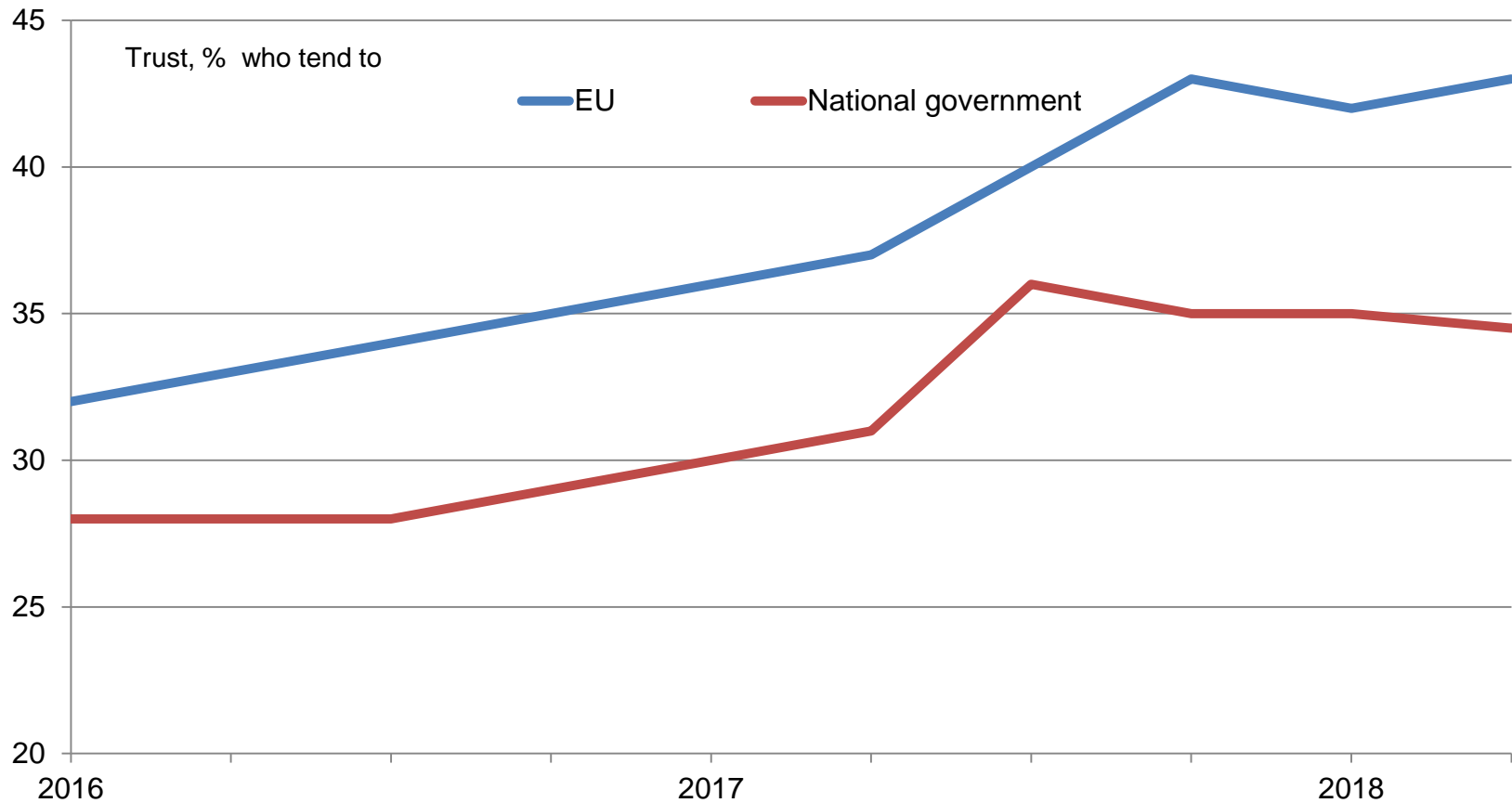
Most still want U.S. as top global power



Note: Percentages are medians based on 25 countries
Source: Spring 2018 Global Attitudes Survey

AN INCONVENIENT TRUTH FOR THE UK

Trust in the EU is higher than for national governments and rising



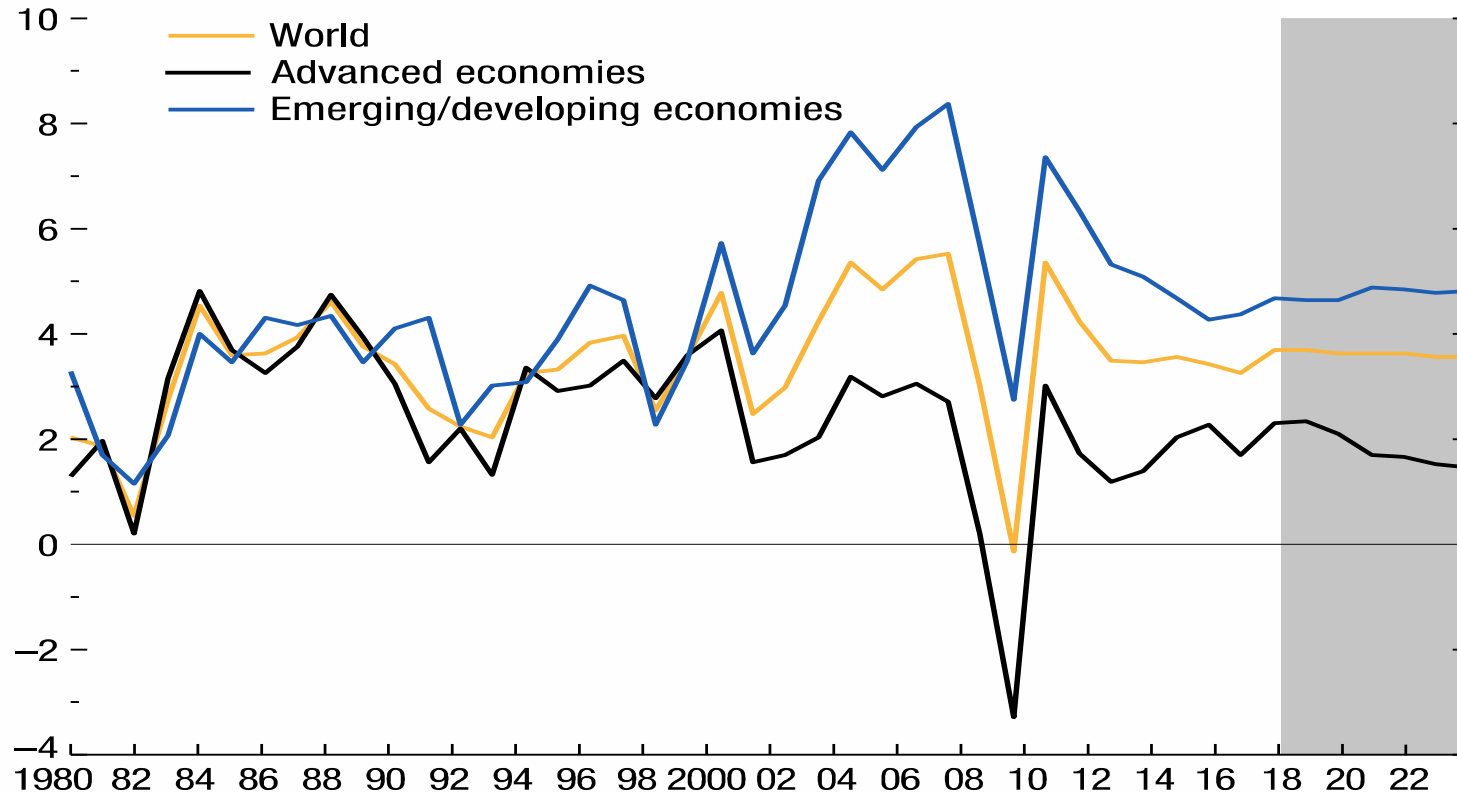
Source: Eurobarometer

IT'S NOT JUST ECONOMIC FACTORS THAT ARE LEADING TO DISCONTENT

- Demographics and changing shares of global GDP
- The pace of change is too fast for some
- Policies to support them lag
- Disruption caused by technology, leaves areas and sections of society to feel left behind
- The loss of influence globally as the world changes quickly
- A sense of being caught up by others and losing power / influence
- Over the next 20 years, the US will become a minority majority country, party allegiances are polarised, gaps in living standards between rural and urban need addressing – requires leadership
- US feels its loss of global hegemony
- Despite all of the evidence about rising living standards, it's not enough for many.

WORLD GROWTH IS FORECAST TO REMAIN SOLID

Warning: has the 10 year cycle really gone away?



Value of World Output (billions of US dollars)	Average									Projections		
	2000-09	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2023
At Market Exchange Rates	46,626	66,011	73,230	74,619	76,750	78,832	74,602	75,653	80,051	84,835	88,081	108,712
At Purchasing Power Parities	66,722	89,402	95,018	99,891	105,088	110,805	115,729	120,693	127,489	135,236	143,089	177,424

10.9% 2.0% 2.9% 2.7% -5.4% 1.4% 5.8% 5.9% 3.89% 23.4%

BREXIT AND BEYOND: FOCUS
ON THE UK OUTLOOK

UK SPECIFIC ISSUES - HOW ARE THESE CHALLENGES TO BE MET?

- BREXIT – generating uncertainty and consuming political energy – and undeliverable?
- Low productivity
- Falling real / nominal Pay
- An ageing population
- Rising household debt
- Public spending pressure – NHS in particular?

BREXIT - A FAILURE OF LEADERSHIP OR AN EXERCISE IN DEMOCRACY?

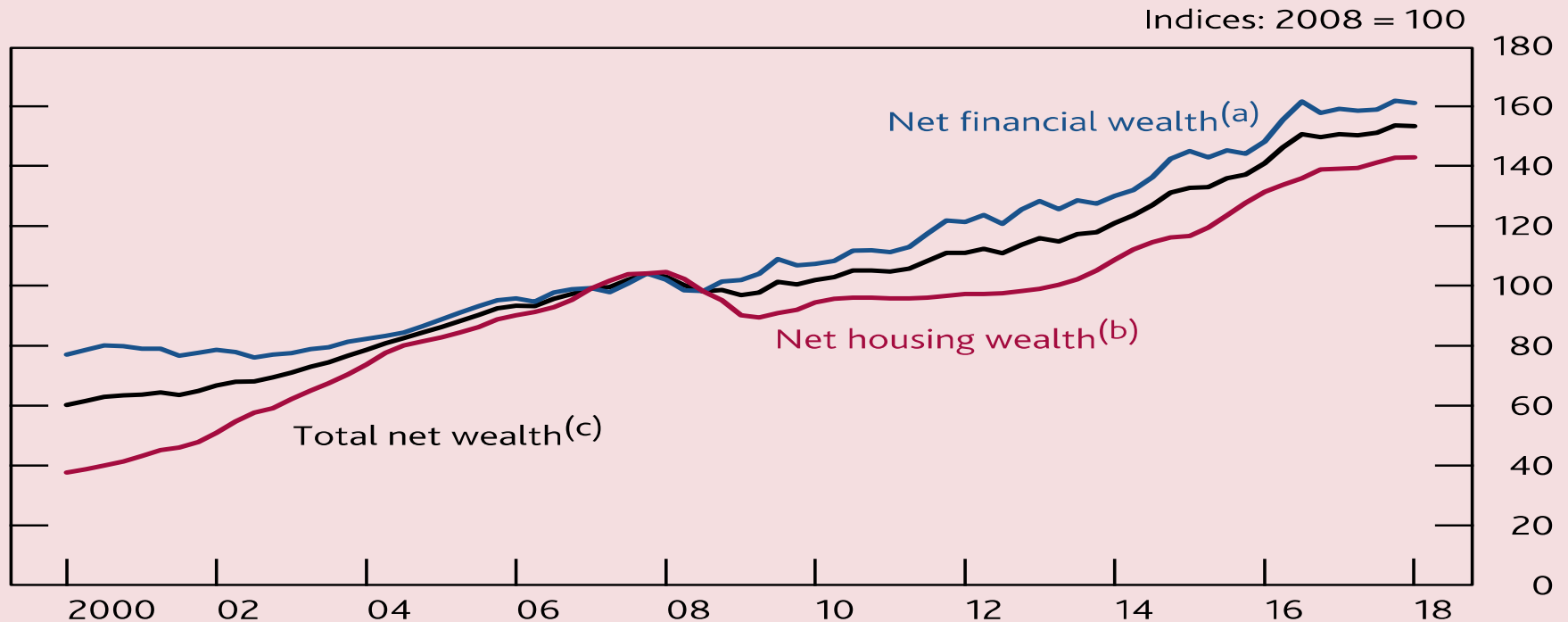
Specific challenges:

- Port delays
- Passporting
- Trade deals will take 5 to 10 years, so benefits of leaving delayed but costs immediate
- Representation on international bodies
- Agricultural subsidies, fishing, R & D spending etc
- EU agencies leaving the UK, medical council, patents body, EBRD

BUT THE BIGGEST LEADERSHIP CHALLENGE IS TO GET ANY SUPPORT FOR THE DEAL



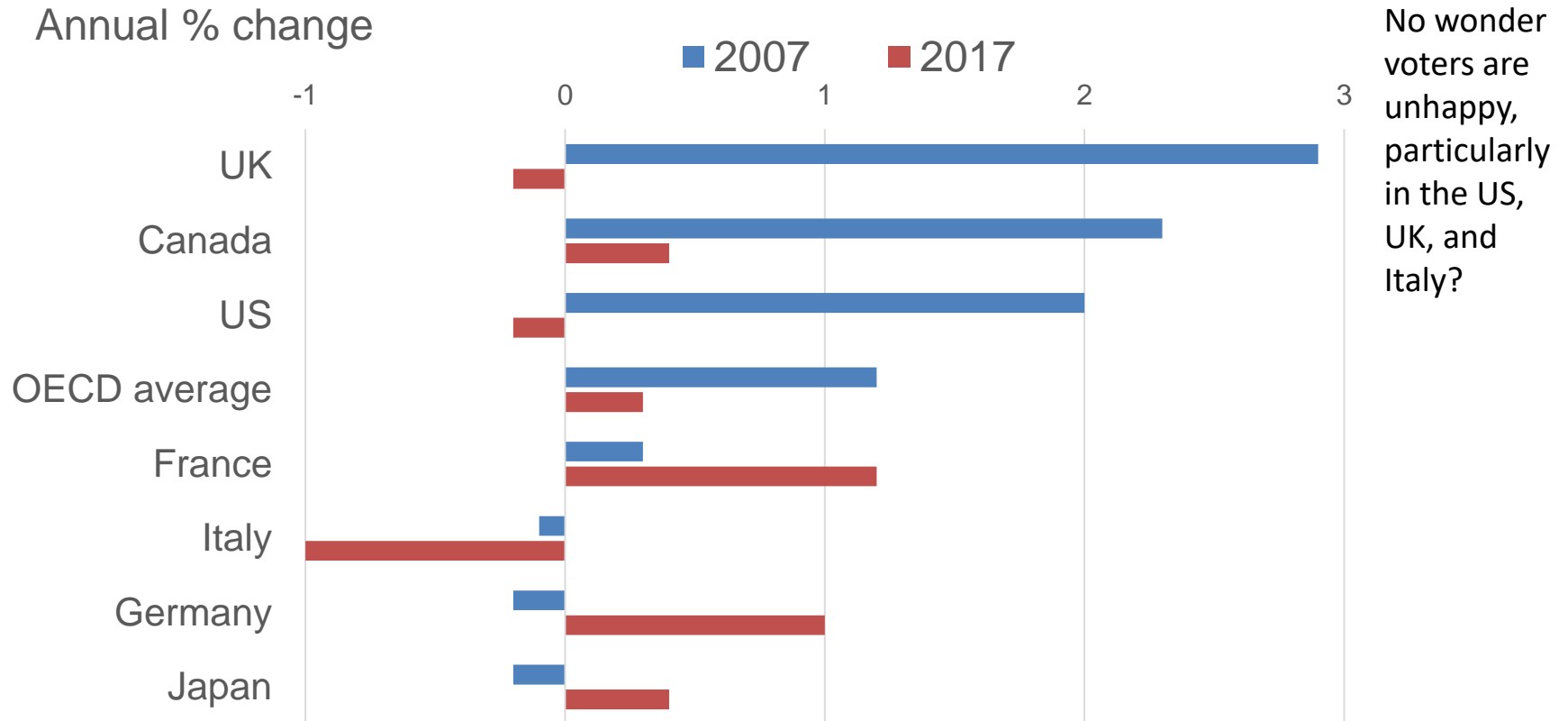
THOUGHT: DO THESE CHARTS SHOW ANYTHING THAT AFFECTED THE VOTE? NET FINANCIAL WEALTH RISES SHARPLY SINCE 2008...



Sources: IHS Markit, Nationwide, ONS and Bank calculations.

- (a) Financial wealth less unsecured debt. Not seasonally adjusted.
- (b) Housing wealth less secured debt. Housing wealth from 2017 onwards is an estimate based on growth in UK house prices according to the average of the quarterly Halifax/Markit and Nationwide house price indices. Not seasonally adjusted.
- (c) Sum of net financial and net housing wealth.

...BUT REAL INCOME GROWTH STAGNATES



THE EXPECTED IMPACT OF BREXIT

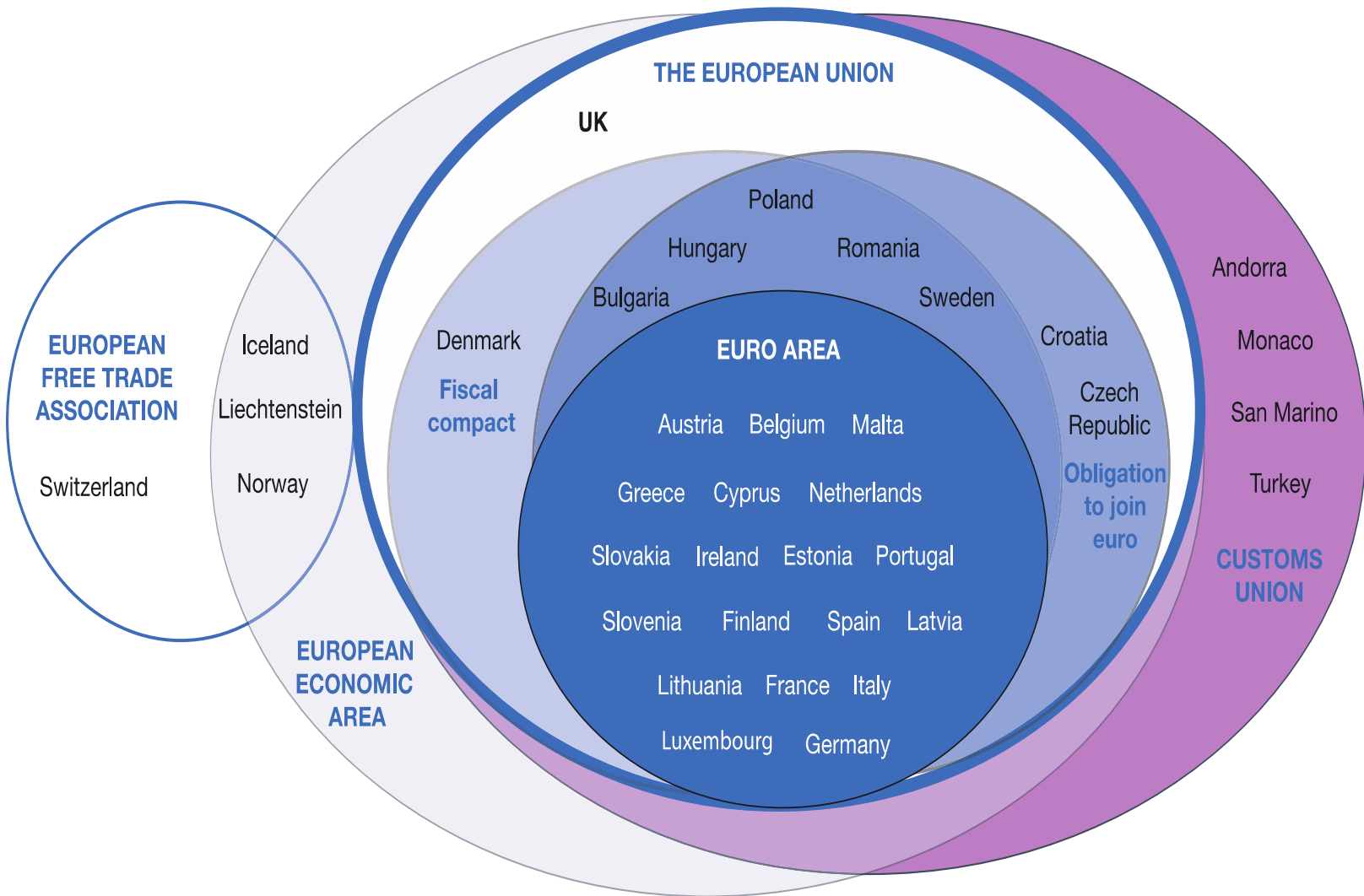
SHORT TERM:

- Volatility in asset prices
- Political uncertainty
- Financial markets price in some long-term costs, eg FX fall.

MEDIUM / LONG TERM IMPACT DEPENDS ON:

- Trade with the EU and other countries
- Inward investment to the UK
- Migration and labor flows
- Regulation
- Domestic reform - i.e productivity and the policy response (leadership)

UK LINKS WITH THE EU: WHICH OPTION TO CHOOSE?



WHOLE ECONOMY EU IMPACT SCENARIOS

Whole economy

Compared to today's arrangements (per cent change)		Modelled no deal	Modelled average FTA	Modelled EEA-type	Modelled White Paper	
					Modelled White Paper	Modelled White Paper with 50 per cent NTB sensitivity ¹¹
No change to migration arrangements	GDP	-7.7 (-9.0 to -6.3)	-4.9 (-6.4 to -3.4)	-1.4 (-2.4 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
	GDP per capita	-7.6 (-8.9 to -6.2)	-4.9 (-6.4 to -3.4)	-1.4 (-2.3 to -0.9)	-0.6 (-1.3 to -0.1)	-2.1
Zero net inflows of EEA workers	GDP	-9.3 (-10.7 to -8.0)	-6.7 (-8.1 to -5.1)	N/A ¹²	-2.5 (-3.1 to -1.9)	-3.9
	GDP per capita	-8.1 (-9.5 to -6.8)	-5.4 (-6.9 to -3.9)	N/A	-1.2 (-1.9 to -0.7)	-2.7

- Over a 15 year period, the UK is predicted to suffer a 1.4% drop in in GDP while remaining in the EU's single market via the European Economic Area (EEA), a 4.9% drop if it agrees a free trade deal, and an 7.7% drop if Britain leaves the EU without a deal and reverts to trading on World Trade Organisation terms.
- To put such a cut in perspective, 7.7 per cent of UK GDP is, in real terms, £158bn and such a reduction would lead to a loss of ~£60bn per year in government revenue (this is almost double the £38bn hit George Osborne's Treasury estimated in the run-up to the referendum).x

UK-WIDE SECTOR IMPACT SCENARIOS

Sector impact

Compared to today's arrangements (per cent change in GVA)	Modelled no deal	Modelled average FTA	Modelled EEA-type	Modelled White Paper	
				Modelled White Paper	Modelled White Paper with 50 per cent NTB sensitivity ¹⁵⁵
Manufactured Goods	-12 (-14 to -10)	-8 (-11 to -4)	-2 (-5 to -0.5)	-0.1 (-0.4 to +0.2)	-2
Agri-food	-11 (-12 to -9)	-7 (-9 to -5)	-3 (-5 to -2)	-2 (-2 to -2)	-4
Services	-8 (-10 to -6)	-5 (-7 to -3)	-1 (-2 to -0.8)	-0.9 (-2 to -0.1)	-2
Financial Services	-9 (-11 to -6)	-7 (-9 to -4)	-1 (-2 to -0.8)	-0.8 (-3 to -0.2)	-4
Networks	-4 (-5 to -2)	-2 (-3 to -0.3)	+0.2 (-0.3 to +0.7)	+0.8 (+0.3 to +1)	-0.4

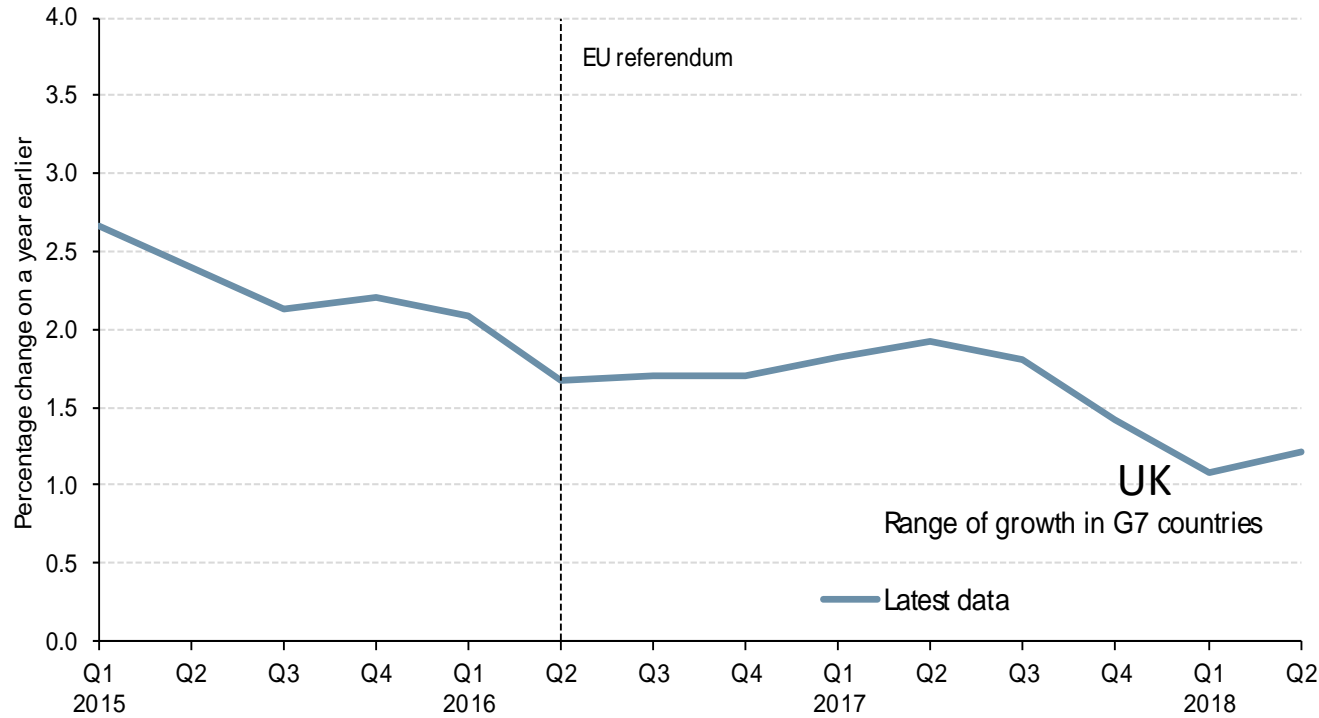
Trade policy, and openness to trade in particular, will influence the size and shape of the UK economy and can result in movement of economic activity between sectors. The macroeconomic analysis considers the economic impact on five sector groups and a further breakdown of eleven sectors of the economy, based on the characteristics and estimated changes to trade barriers for the sectors. The results are driven by each sector group's relative openness to trade, the barriers that the sector group faces in the scenarios and the level of integration the sectors have with the rest of the UK economy.

UK NATIONS AND REGIONS IMPACT OF BREXIT SCENARIOS

Compared to modelled no deal (percentage point difference in GVA)	Modelled White Paper		
	<i>Modelled White Paper</i>	<i>Modelled White Paper with 50 per cent NTB sensitivity¹⁶⁸</i>	Modelled average FTA
North East	+10.1	+8.4	+4.0
North West	+8.9	+7.2	+3.6
Yorkshire and the Humber	+8.2	+6.5	+3.2
East Midlands	+8.2	+6.6	+3.4
West Midlands	+9.2	+7.5	+3.9
East of England	+8.0	+6.3	+3.1
London	+5.0	+3.5	+2.0
South East	+7.1	+5.7	+2.8
South West	+7.2	+5.7	+2.9
Wales	+8.1	+6.4	+3.2
Scotland	+8.0	+6.0	+3.1
Northern Ireland	+8.9	+7.2	+3.5

The impact of the UK's exit from the EU will vary between the nations of the UK and English regions. Areas that trade more with the EU, or are more specialised in sectors facing potential new trade costs, are predicted to be most affected.

A BREXIT EFFECT ALREADY EVIDENT?



Source: OECD, ONS

Studies that construct a pre-vote 'doppelganger' for the UK suggest that the economy was 2 to 2½% smaller by mid-2018 than it would have been if the referendum had not been called.

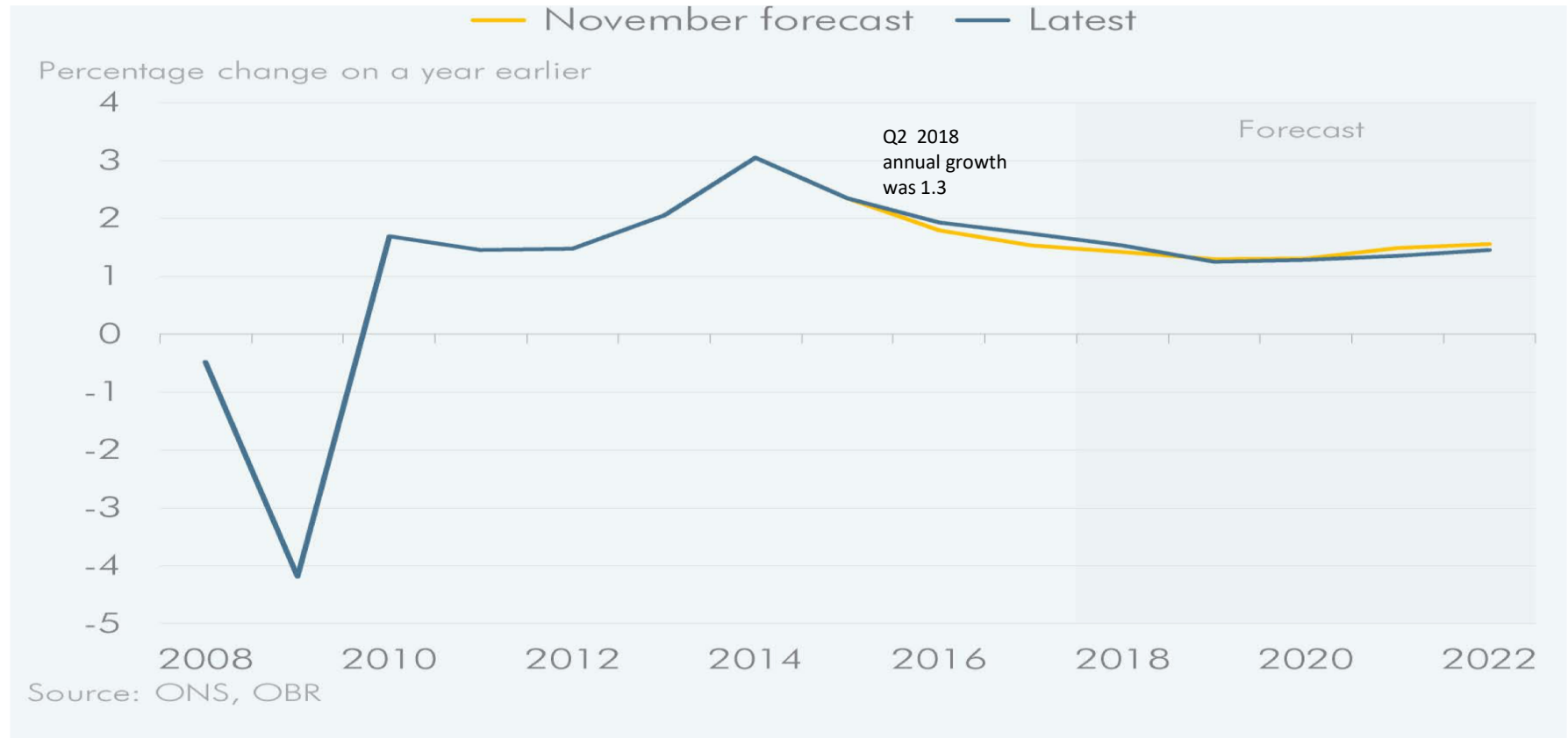
The average quarterly growth rate has slowed from 0.6 per cent between 2013 and 2015 to 0.4 per cent since the beginning of 2016, taking the UK from near the top of the G7 growth league table to near the bottom.

The long-term success of the UK economy will primarily depend on how Government, businesses and households adapt to changing global and domestic circumstances. It does not model:

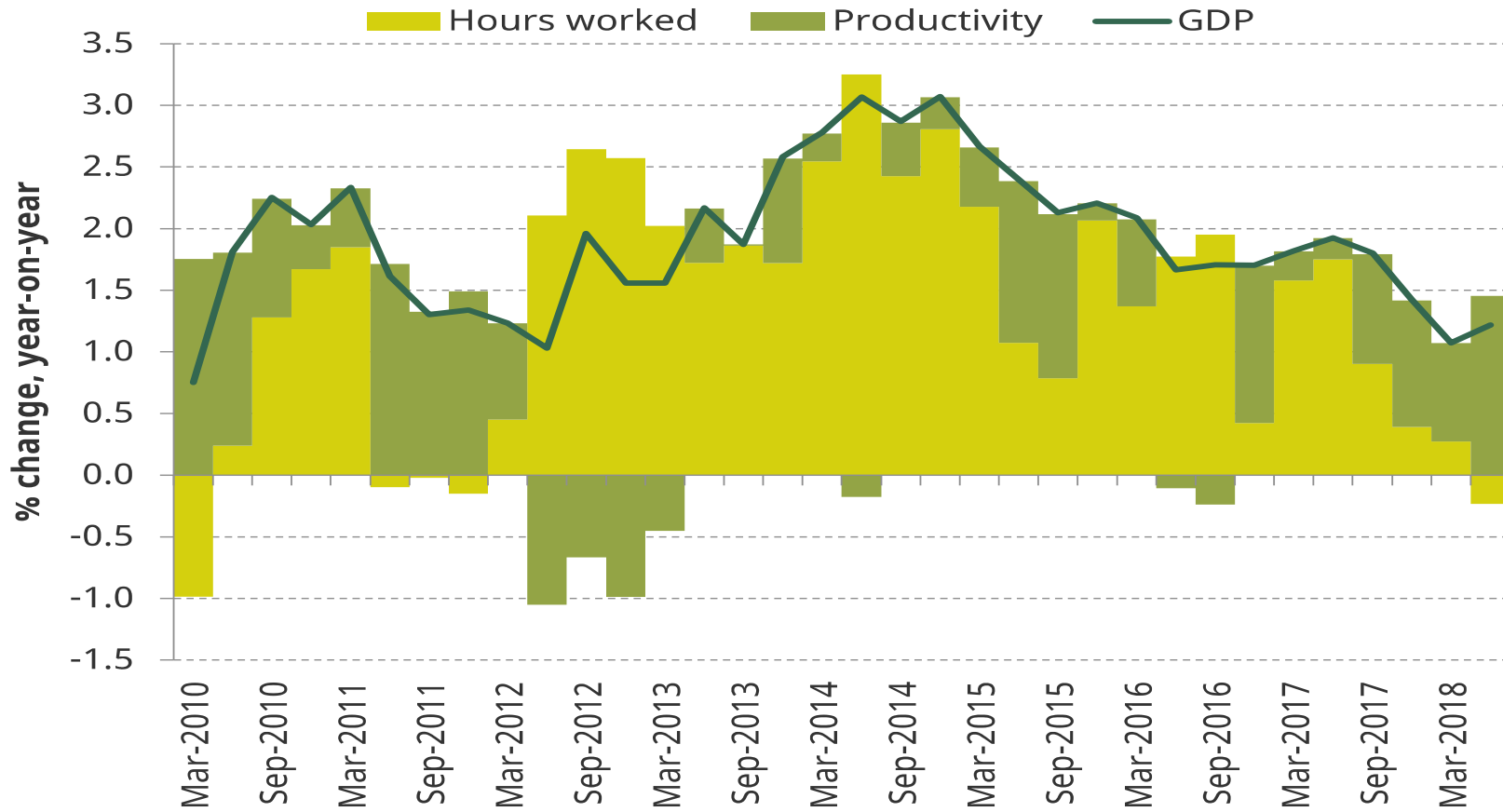
- a. Future domestic policy choices;
- b. Global trends such as the rise of global value chains, the increasing importance of services trade, changing demographics, technological advancement, and economic development.

REAL GDP GROWTH FORECAST TO PERSIST – BASED ON A DEAL

...but isn't the real issue how slow growth is under any scenario?



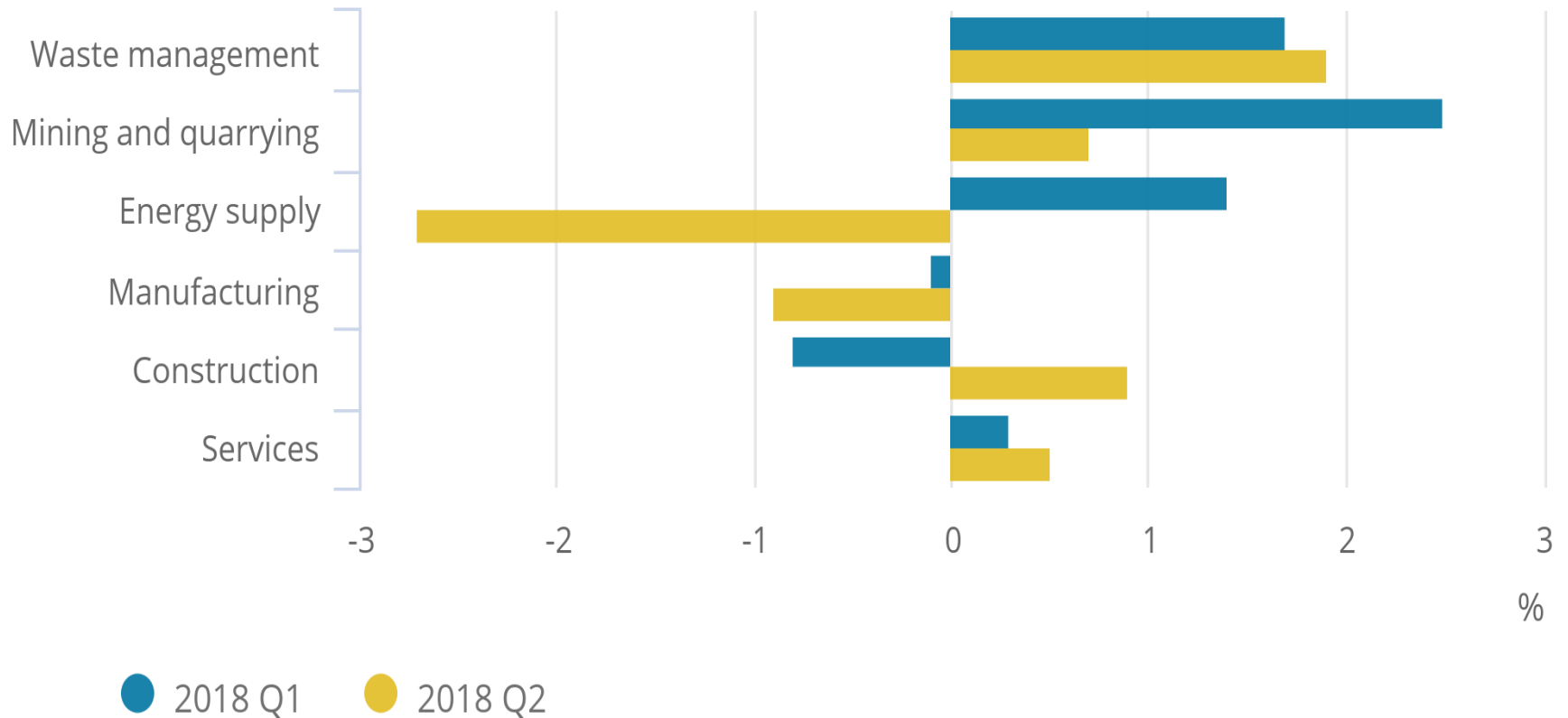
SLOWING GROWTH EXPLAINED: IT'S POOR PRODUCTIVITY



Source: ONS and Citi Research.

AS MANUFACTURING (10% of gdp) ENTERS RECESSION...

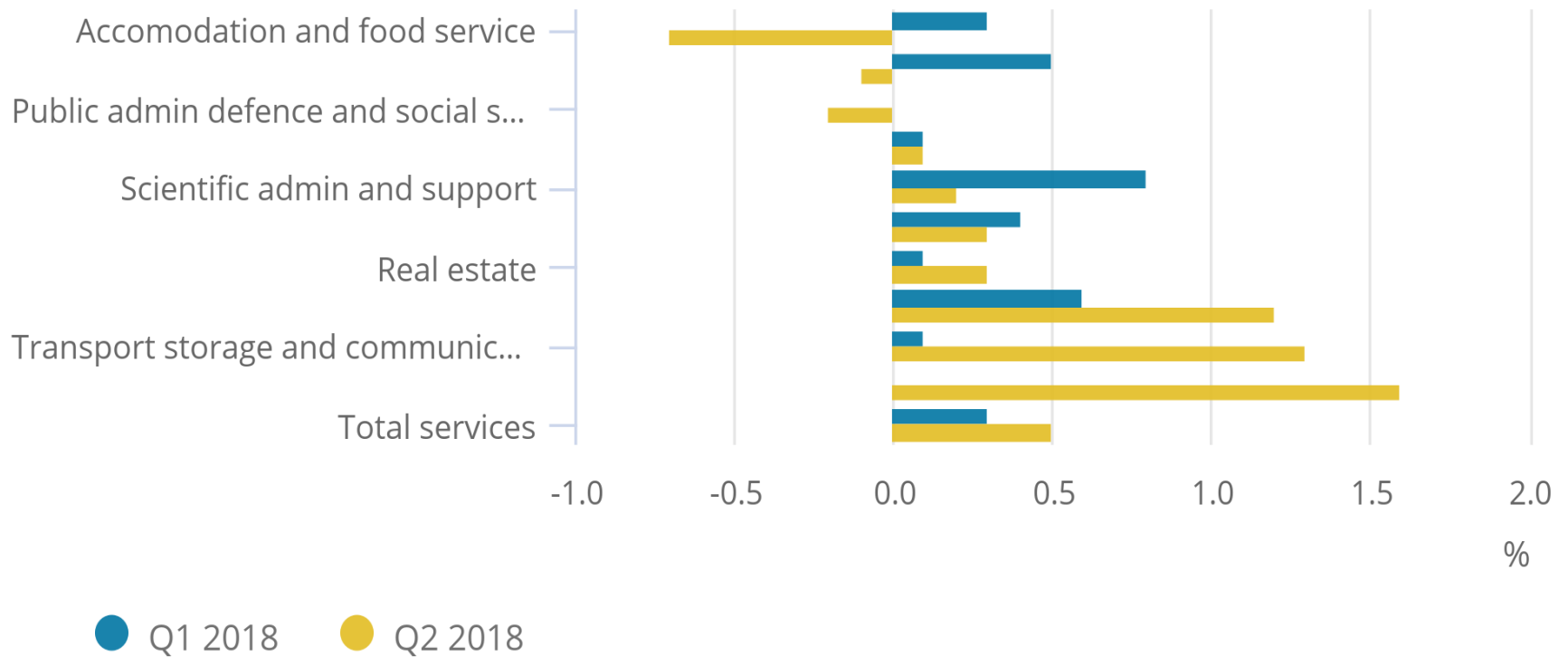
QUARTER ON QUARTER GROWTH, %



...SERVICES (83% of gdp) LEAD THE ECONOMY

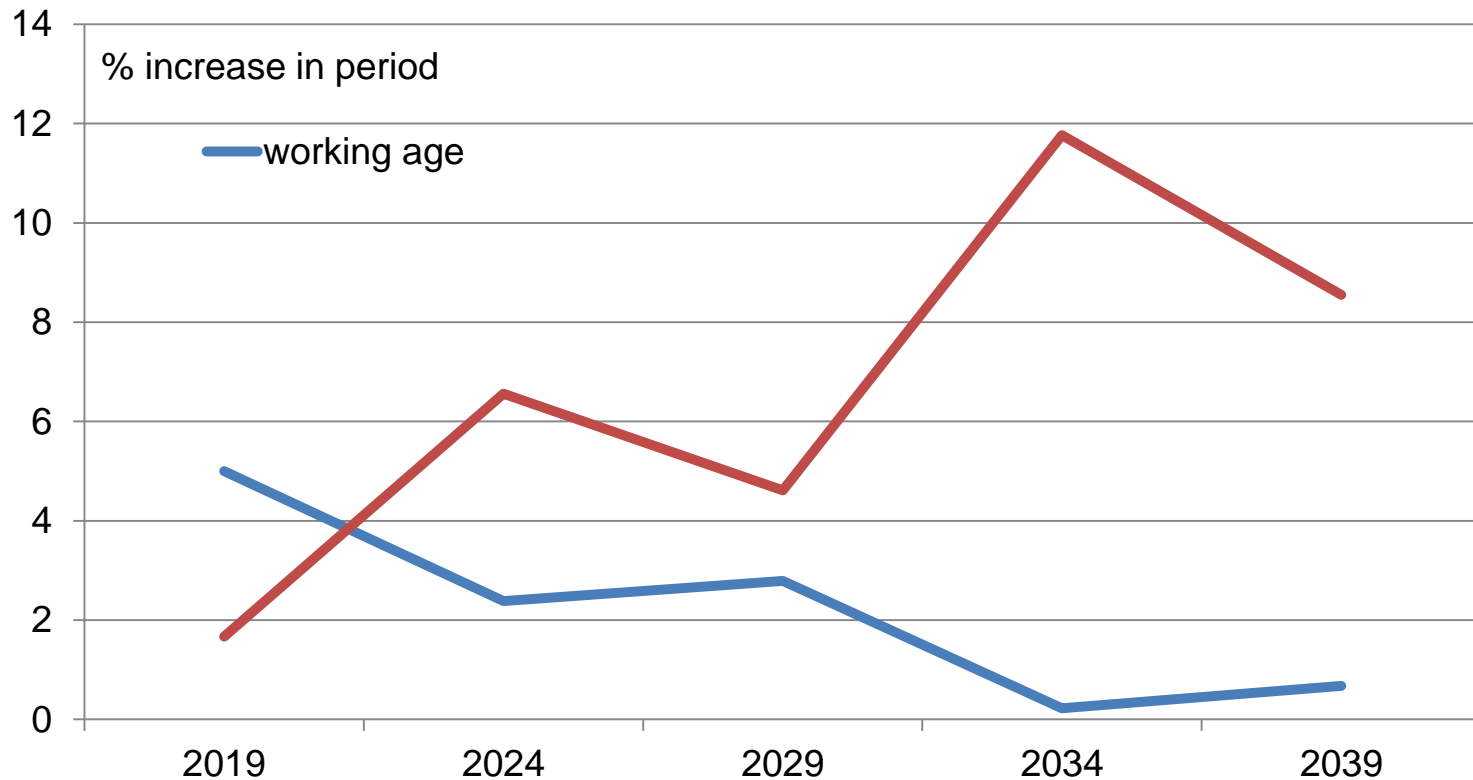
especially wholesales and retail trade, and transport, storage and communication

UK, Quarter 1 (Jan to Mar) 2018 and Quarter 2 (Apr to June) 2018



UK BALANCE SHEET TRENDS

AS THE POPULATION AGES... HOW TO COPE?

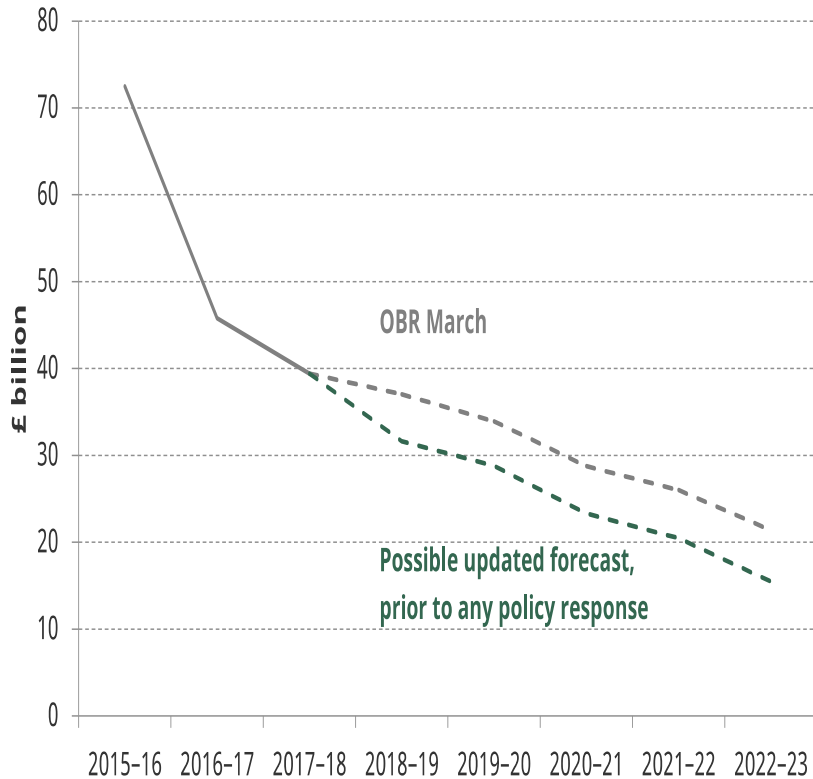


Source: TW consultancy, ONS projections

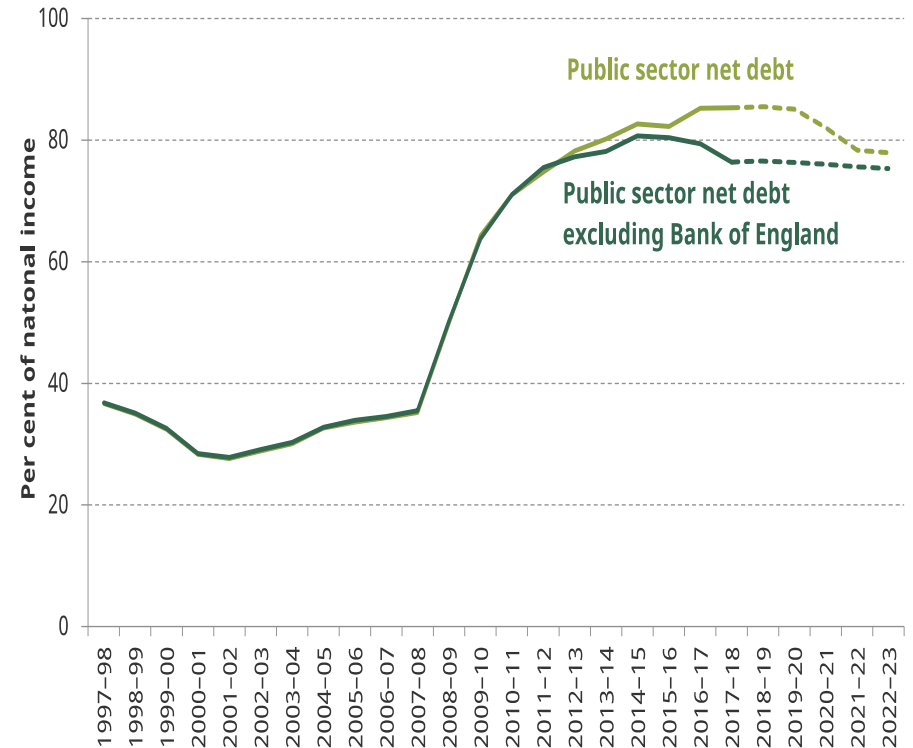
- Growth of those of pensionable age will outstrip that of the working population by 3 to 1 in 20 years, so spending will rise sharply come what may!

PRESSURE ON PUBLIC SPENDING WILL MOUNT...

Government borrowing be falling...

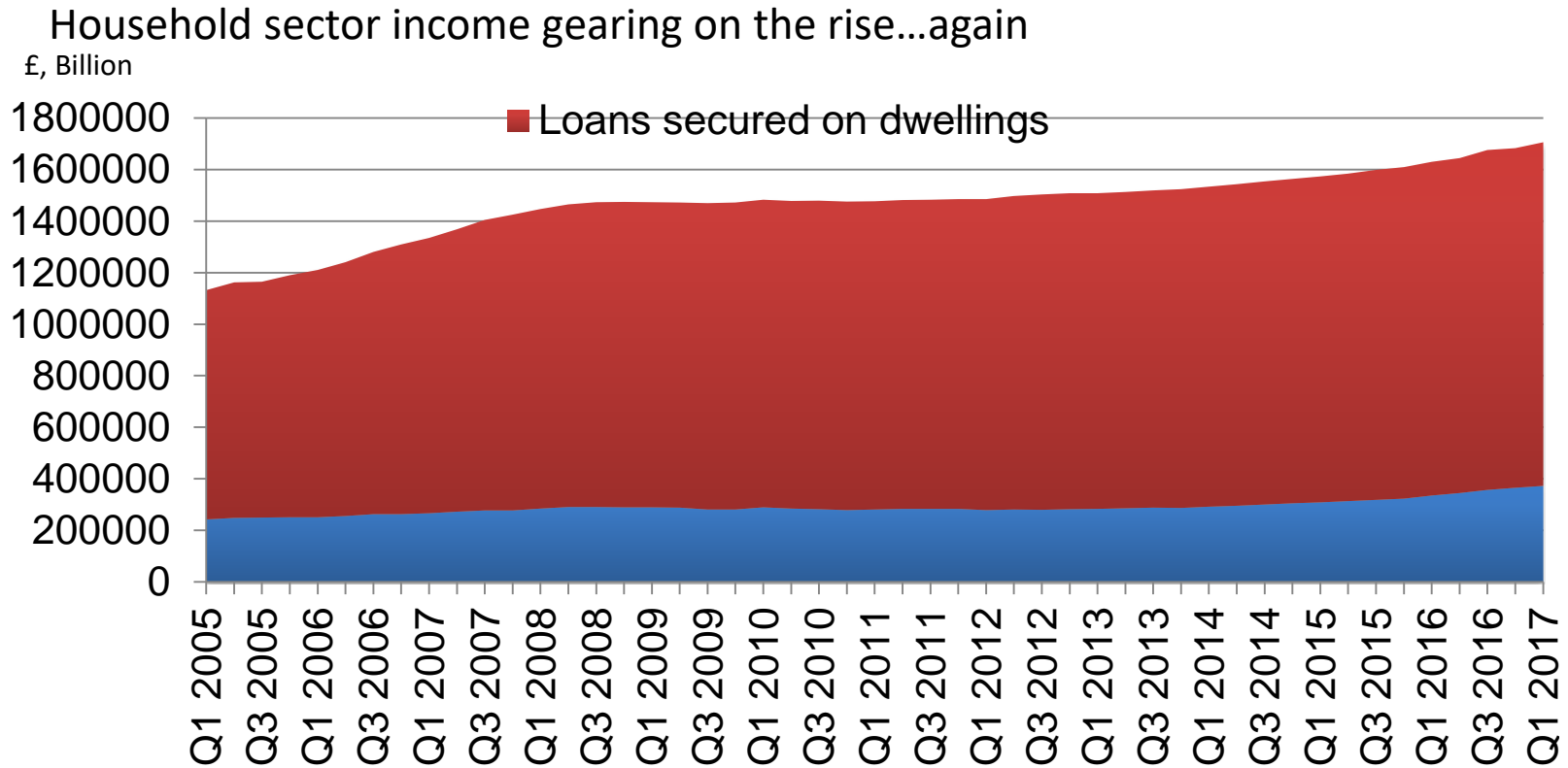


...but net debt has doubled & is still rising



Source: Office for Budget Responsibility, 'Public finances databank', July 2022, 28

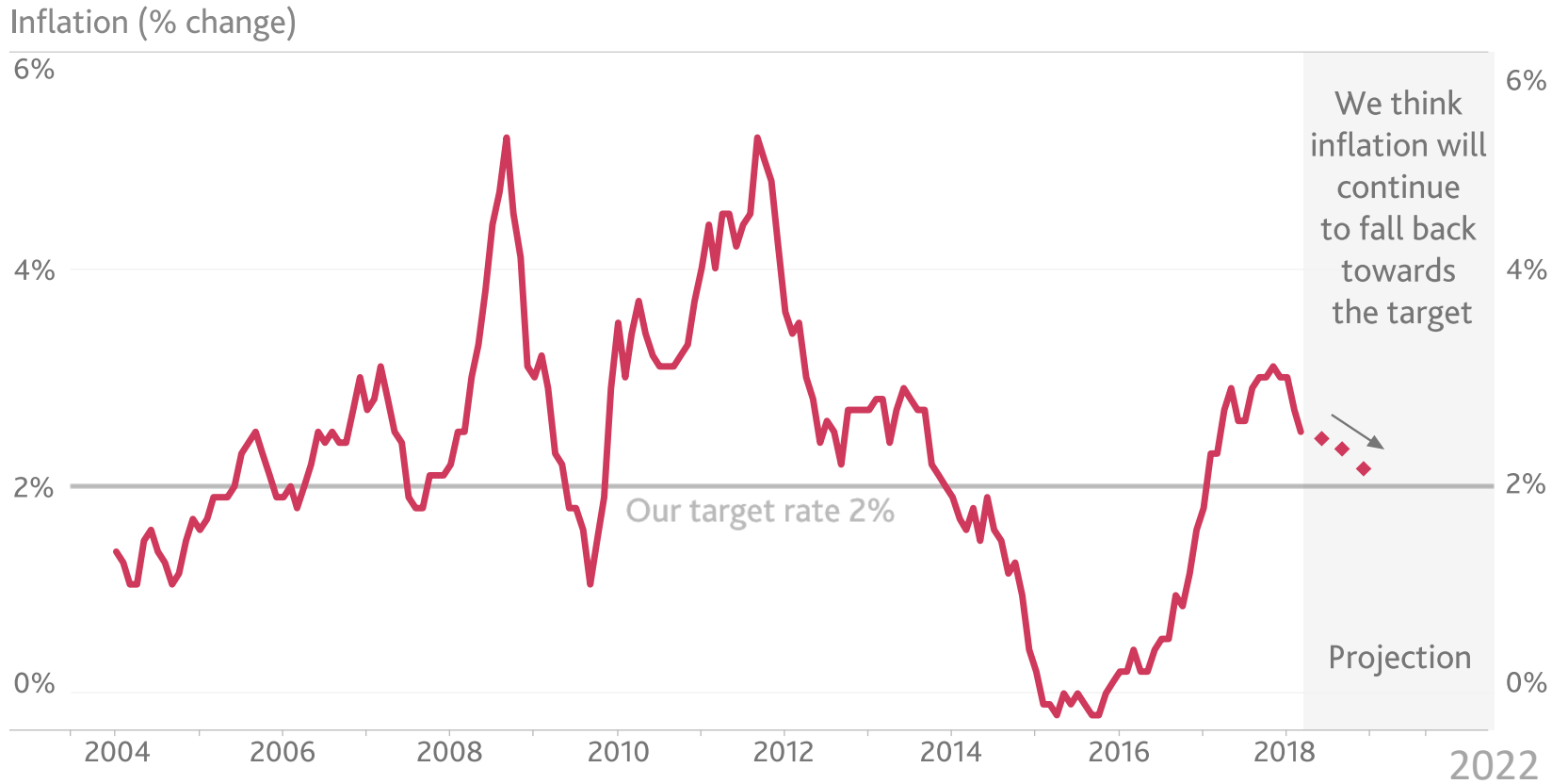
...JUST AS HOUSEHOLD DEBT RISES



Sources: TW consultancy

INFLATION TRENDS

CPI INFLATION IS SLOWLY RETURNING TO TARGET...



Source: ONS, TW consultancy

...DESPITE UNEMPLOYMENT DROPPING TO 4% IN SEPTEMBER AND EXPECTED TO REMAIN LOW



Sources: ONS and Bank calculations.

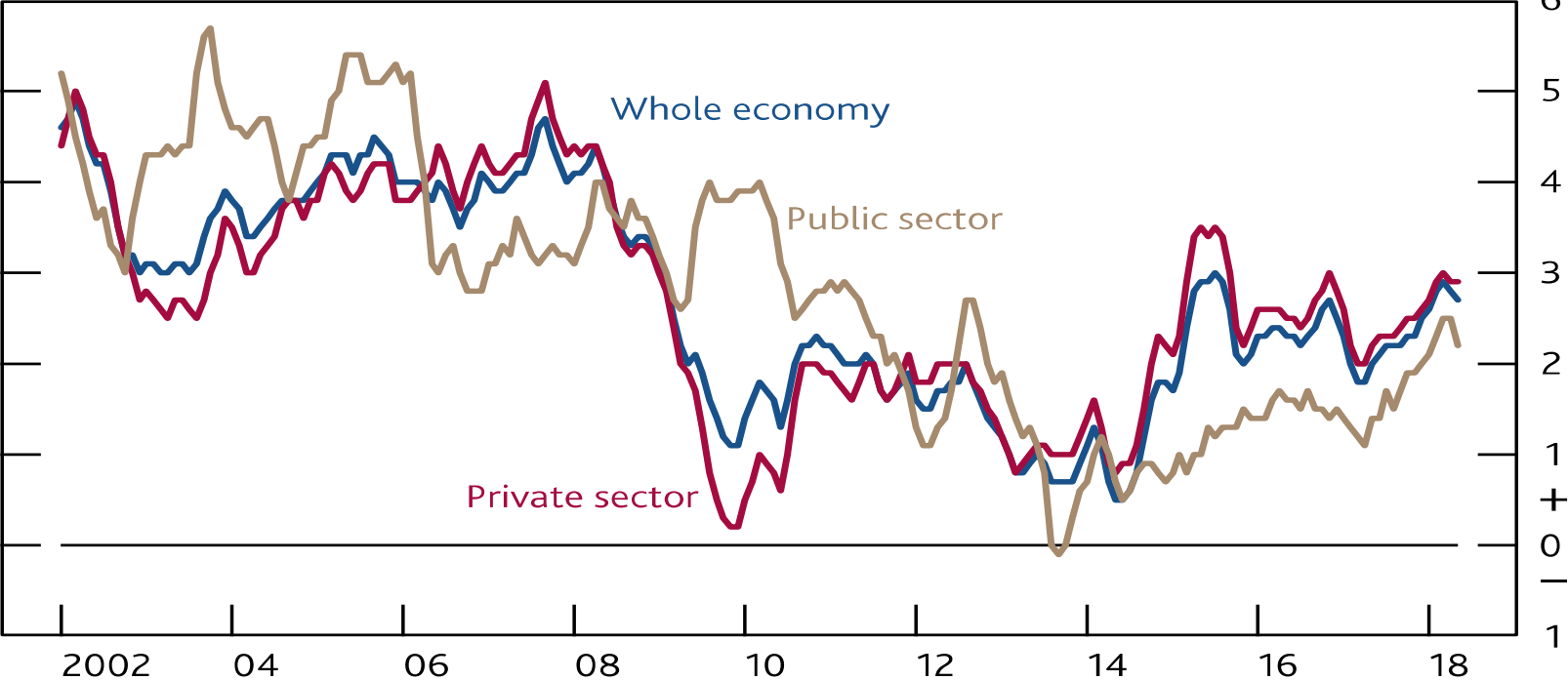
- (a) The beige diamonds show Bank staff's central projections for the headline unemployment rate for the three months to March, April, May and June 2018 at the time of the *May Report*. The red diamonds show the current staff projections for the headline unemployment rate for the three months to June, July, August and September 2018. The bands on either side of the diamonds show uncertainty around those projections based on one root mean squared error of past Bank staff projections for the three-month headline unemployment rate.

Source: ONS, TW consultancy

PAY GROWTH IN THE UK HAS ACCELERATED...

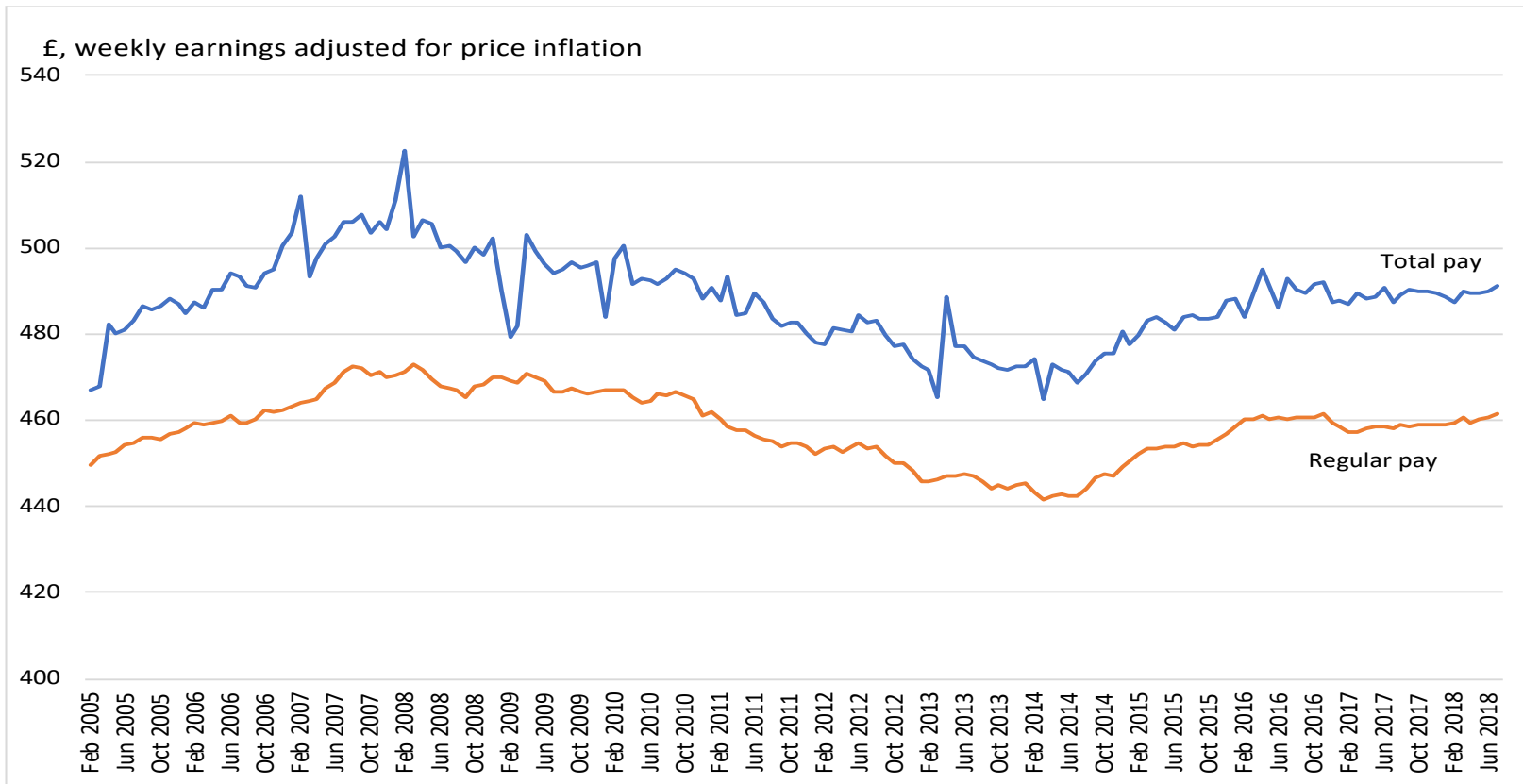
Regular pay

Percentage changes on a year earlier



Source: ONS, TW consultancy

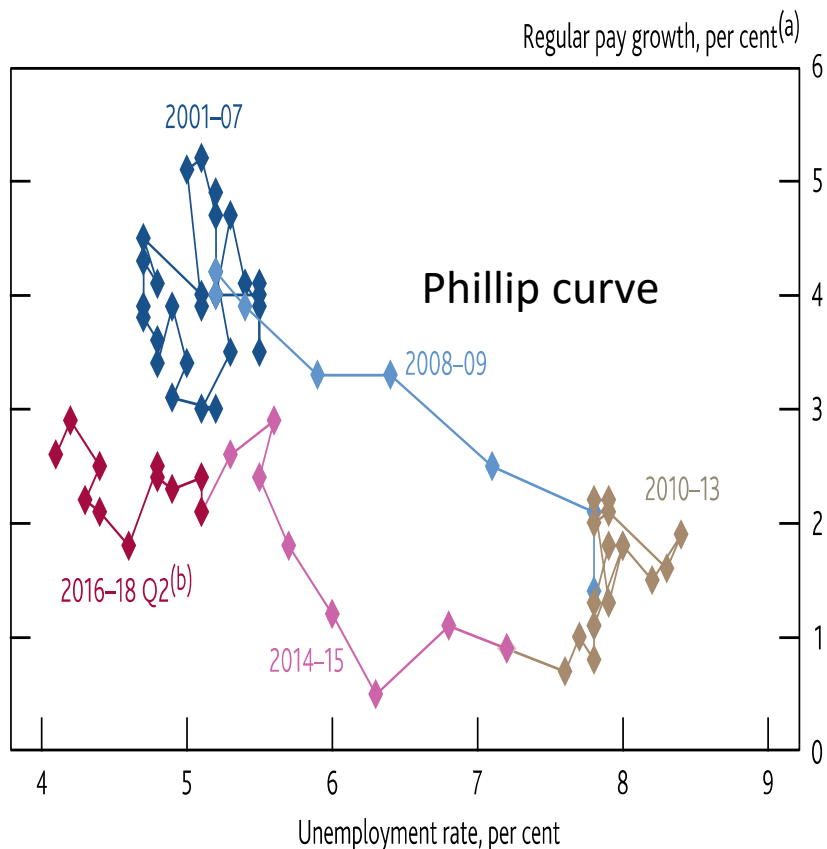
BUT REAL WAGE INFLATION REMAINS STUBBORNLY LOW...



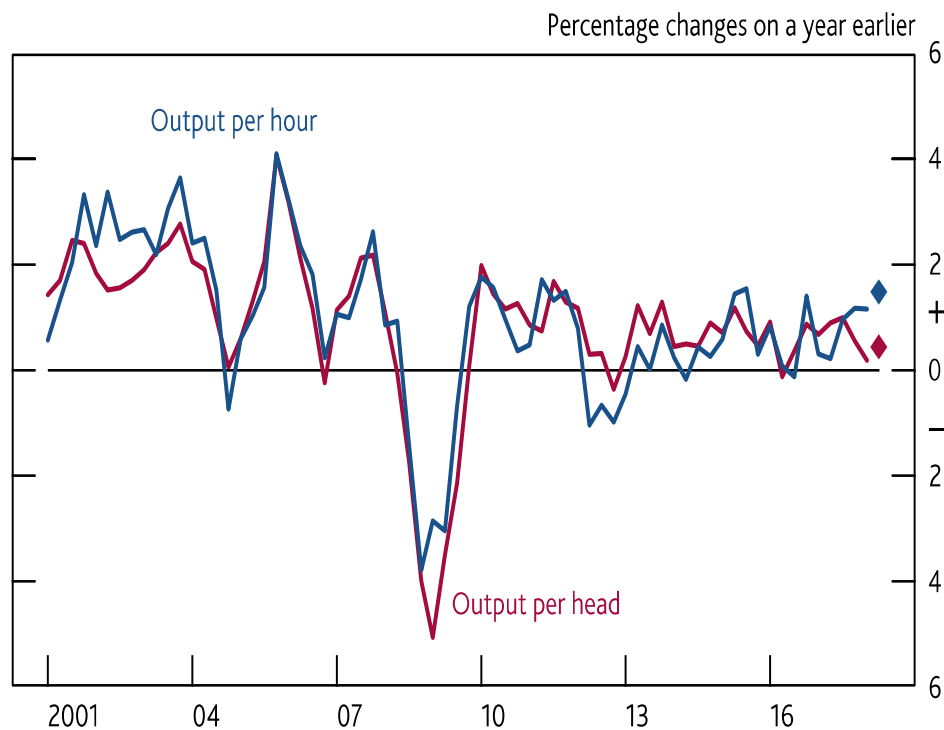
Source: ONS, TW consultancy

...AS PRODUCTIVITY REFUSES TO RISE...

Historically slow pay inflation is....



....explained by low productivity



Sources: ONS and Bank calculations.

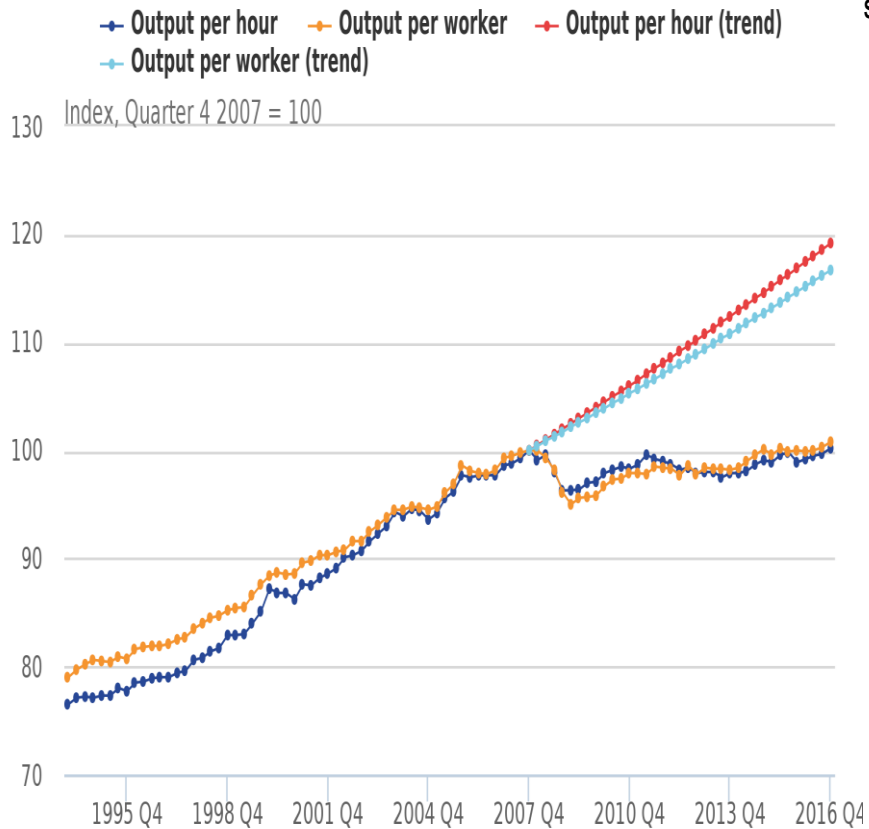
(a) Whole-economy AWE total pay excluding bonuses and arrears of pay. Percentage change on a year earlier.

(b) Diamond for 2018 Q2 shows Bank staff's projections, based on data to May.

(a) Output is based on the backcast for the final estimate of GDP. Diamonds show Bank staff's projections for 2018 Q2, based on data to May.

...AND IS WELL BELOW TREND

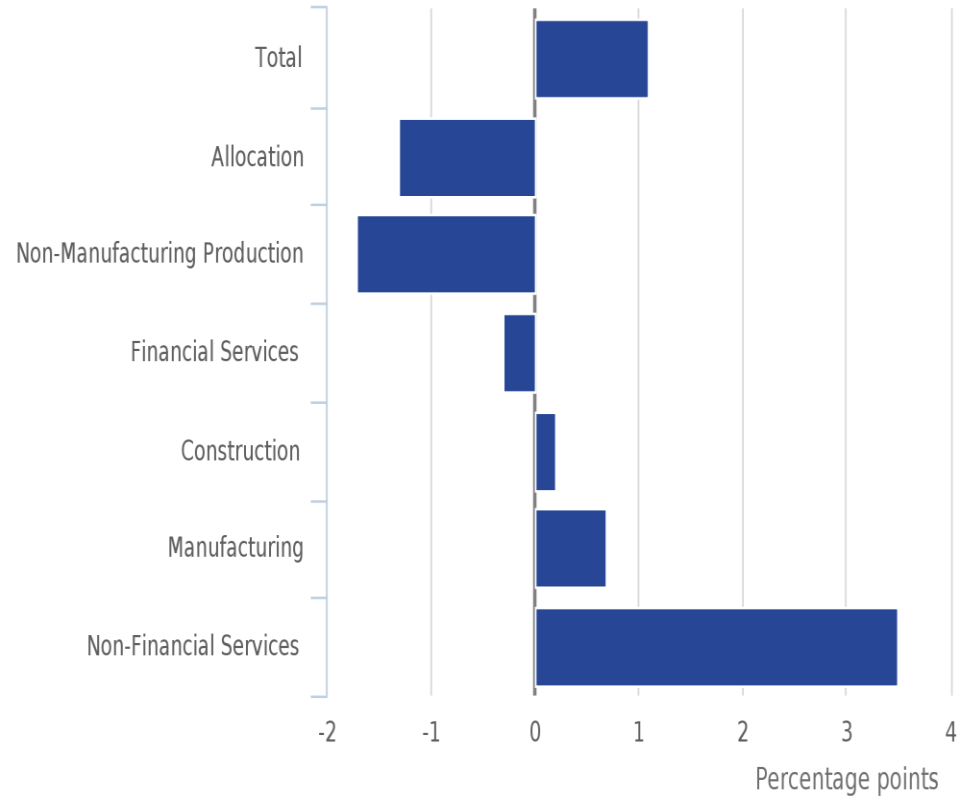
Quarter 1 (Jan to Mar) 2004 to Quarter 4 (Oct to Dec) 2016



Source: ONS, TW consultancy

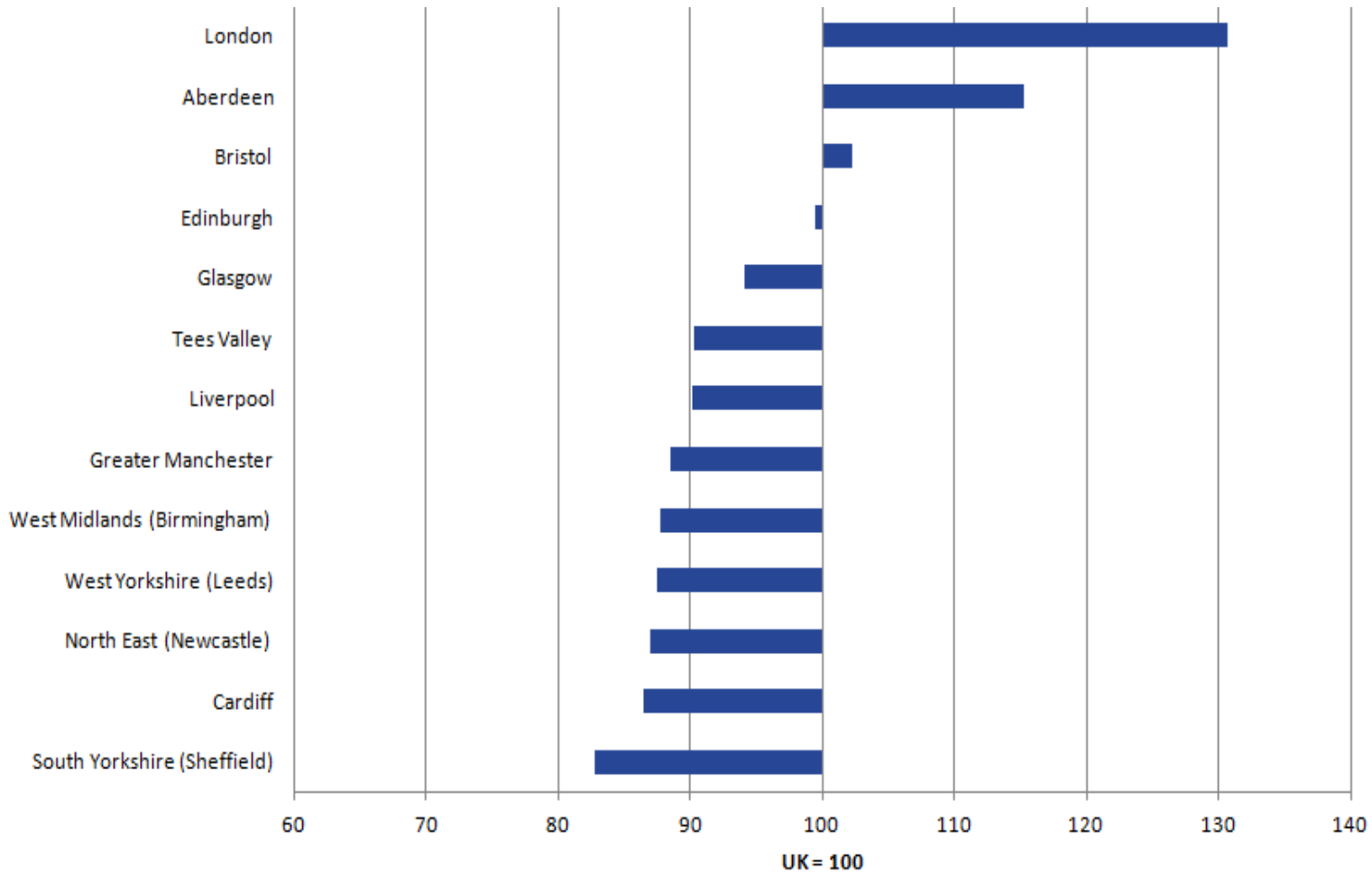
THOUGH NOT FOR EVERY SECTOR

Seasonally adjusted, cumulative since Quarter 1 (Jan to Mar) 2008, Quarter 4 (Oct to Dec) 2016, UK



..NOR EVERY AREA - UK PRODUCTIVITY BY CITY REGIONS – IT'S NOT ALL BAD

Value added per hour worked

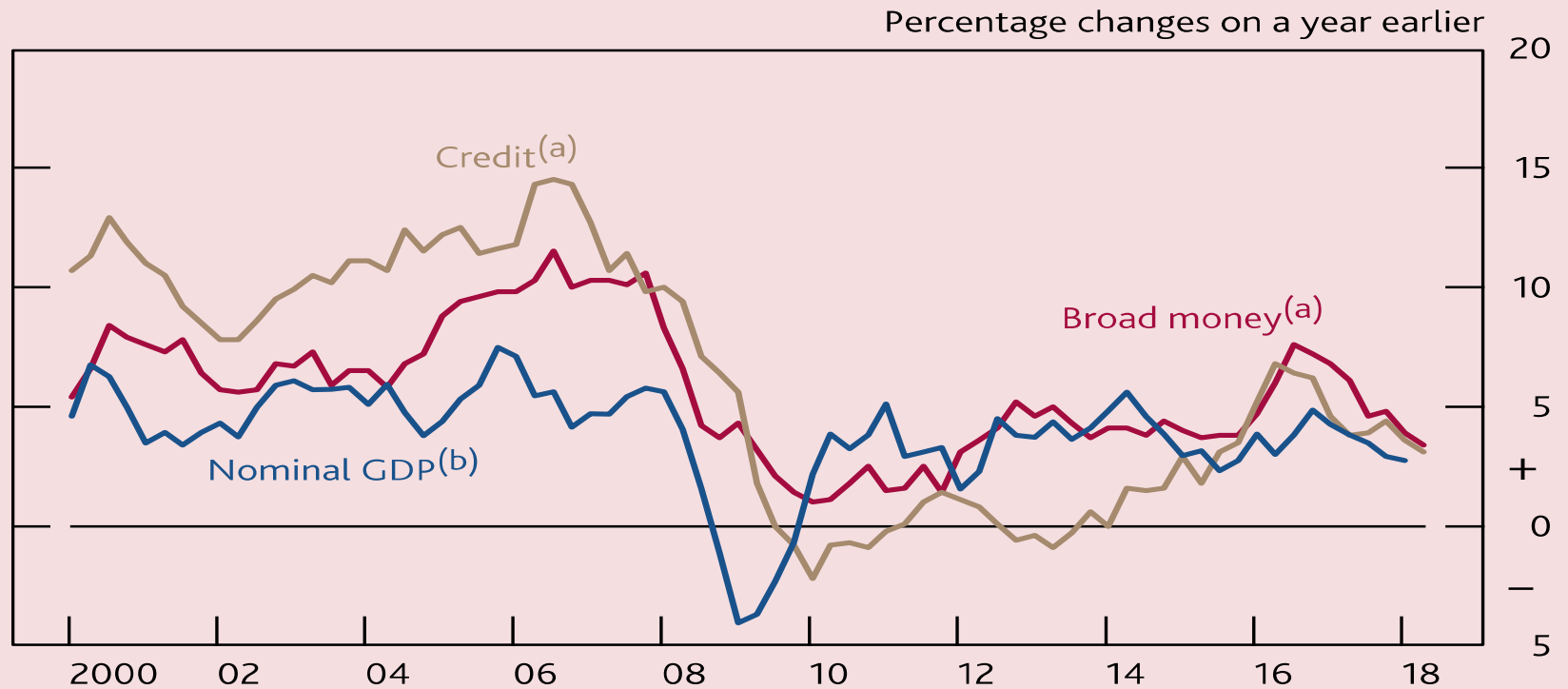


HOW TO IMPROVE UK PRODUCTIVITY – WHO LEADS ON THIS?

1. Skills – at all levels from basic to high end need to improve
2. Education – not an elite but everyone in a competitive world
3. Infrastructure: energy, rail, airport, road, port, broadband!
4. Housing – so people can move to where jobs are within the UK
5. Decentralise decision making to the local level
6. Allow local control of rates to allow business boost

MONETARY POLICY TRENDS

MONETARY SUPPLY GROWTH IS SLOWING...

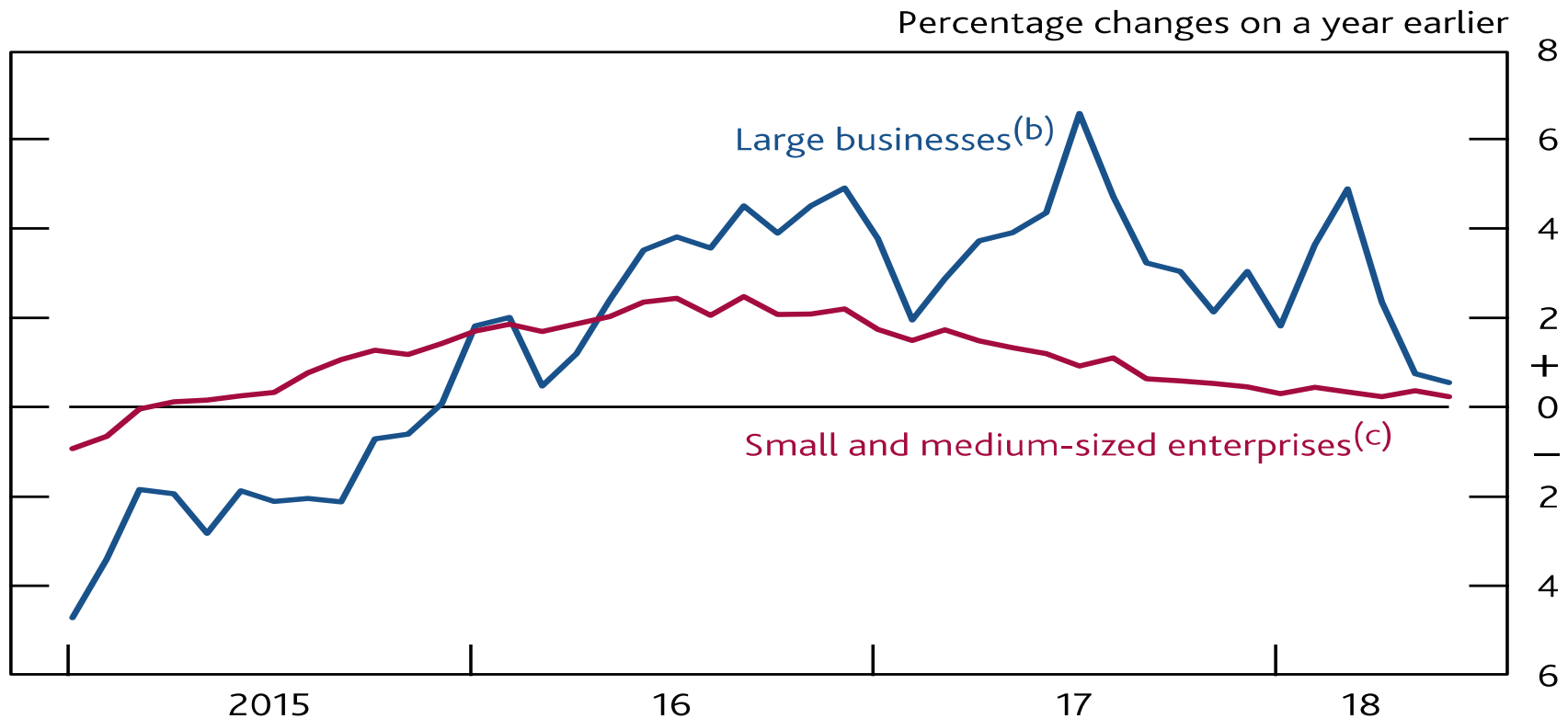


(a) M4 and M4 lending excluding the deposits of, and borrowing by, intermediate other financial corporations.

(b) At current market prices. Data are to 2018 Q1.

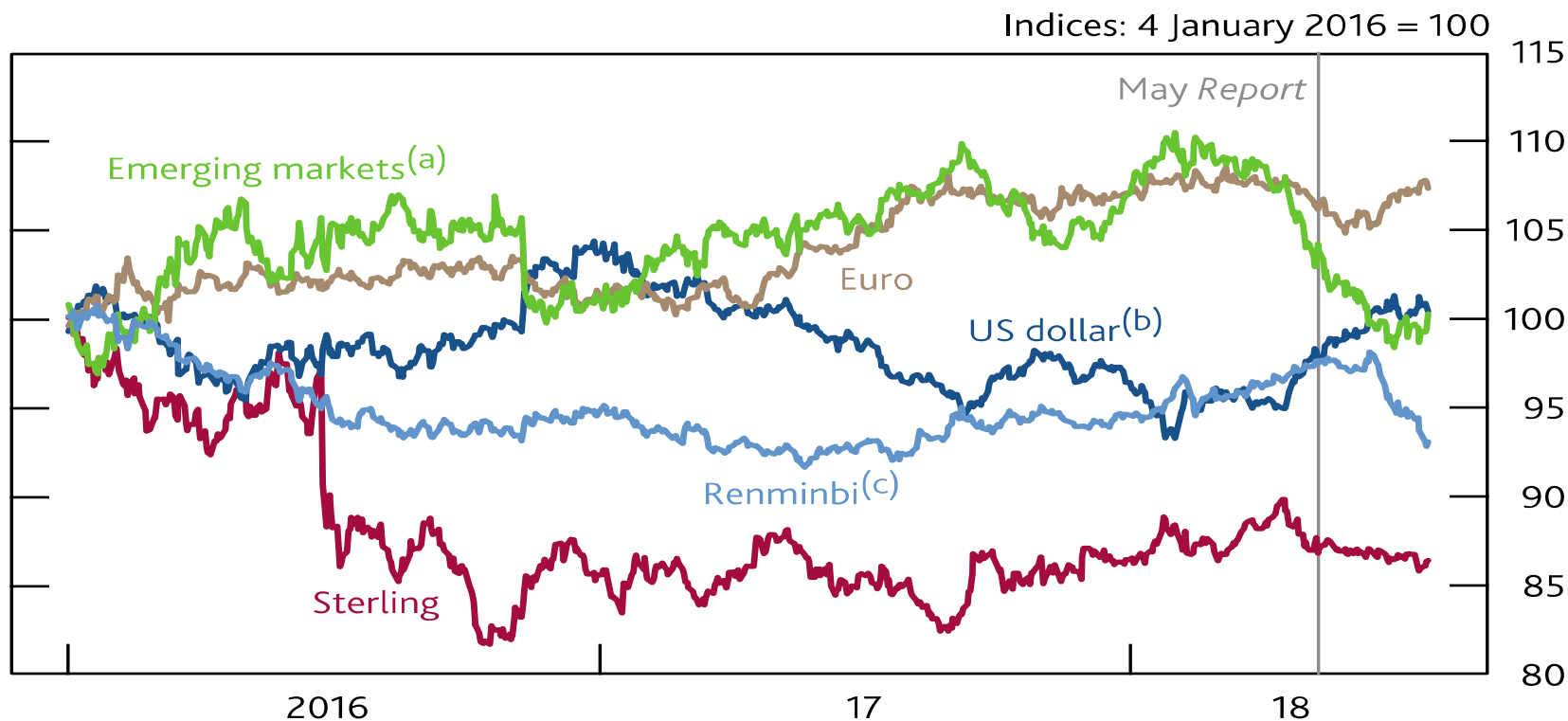
Source: ONS, TW consultancy

AND BORROWING BY COMPANIES IS SLIPPING...



- (a) Rate of growth in the stock of lending by UK monetary financial institutions (MFIs) in all currencies, expressed in sterling. Not seasonally adjusted.
- (b) Large businesses are those with annual debit account turnover on the main business account of over £25 million.
- (c) Small and medium-sized enterprises are businesses with annual debit account turnover on the main business account of equal to or less than £25 million.

STERLING CONTINUES TO WEAKEN, \$, EURO TO RISE



Sources: Bank of England, China Foreign Exchange Trade System (CFETS), ECB, Federal Reserve, JPMorgan and Bank calculations.

- (a) JPMorgan Emerging Markets Currency Index.
- (b) Federal Reserve US dollar nominal broad index.
- (c) Trade-weighted index. Calculated as a weighted average of end-day spot bilateral exchange rates, using weights published by the CFETS.

SO UK FINANCIAL MARKETS DON'T EXPECT MUCH OF A RATE RISE NO MATTER WHAT THE GOVERNOR OF THE CENTRAL BANK SAYS!

Market expectations about rate rises, at the last two MPC meetings

Per cent

	2018		2019				2020				2021		
	Q3 ^(b)	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
August	0.6	0.7	0.7	0.8	0.9	0.9	1.0	1.0	1.0	1.1	1.1	1.1	1.1
May	0.7	0.7	0.8	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.2	1.2	

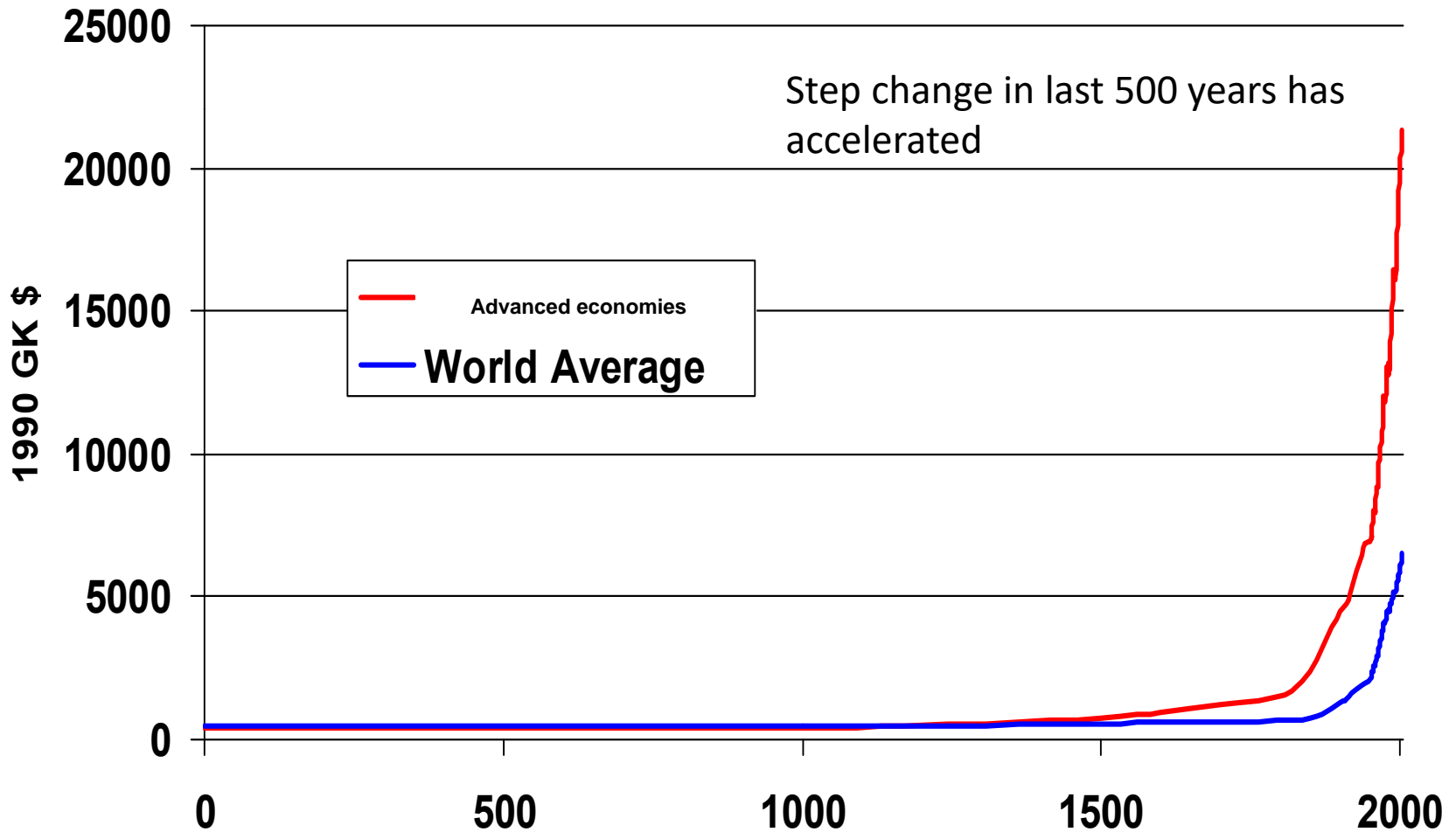
(a) The data are 15 working day averages of one-day forward rates to 25 July 2018 and 2 May 2018 respectively. The curve is based on overnight index swap rates.

(b) August figure for 2018 Q3 is an average of realised overnight rates to 25 July 2018, and forward rates thereafter.

THE FUTURE HAS ARRIVED
– HERE COMES THE
SHARING ECONOMY

A HISTORY OF HUMAN ECONOMIC DEVELOPMENT...

GDP per capita since AD1



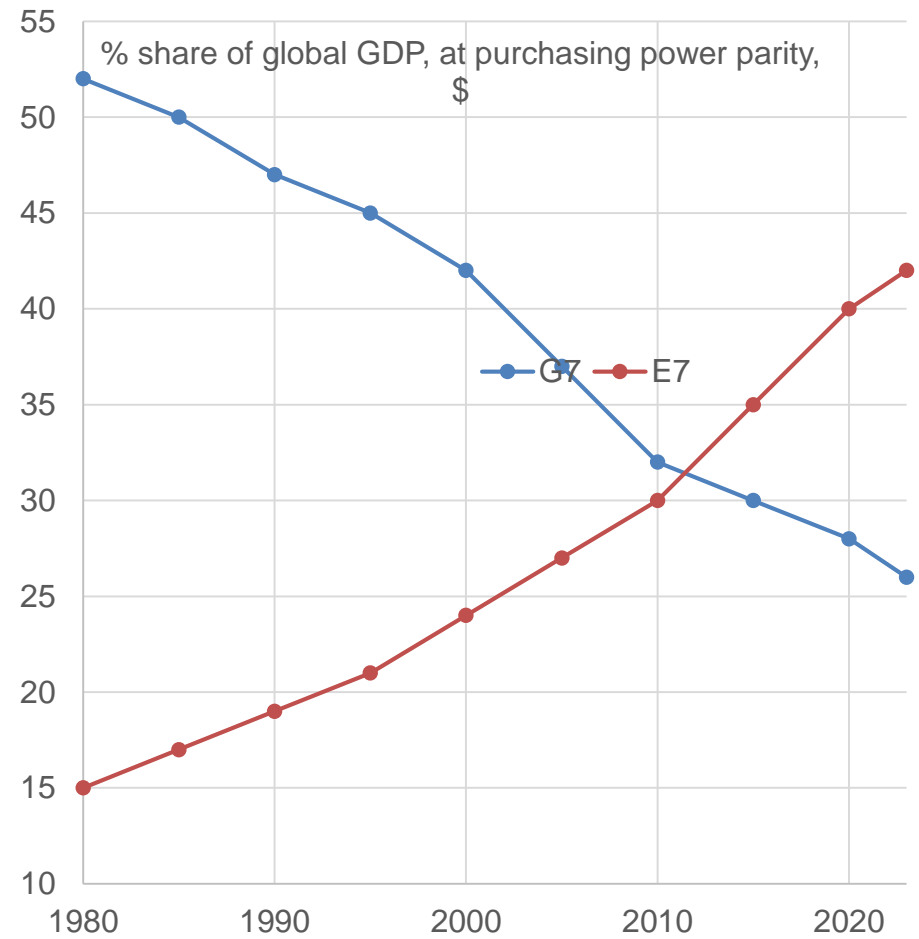
HERE ARE SOME SUMMARY FACTS ABOUT HUMAN PROGRESS

- Free trade has delivered more to humanity than any other economic system, ever.
- Billions of the world's people have been lifted out of poverty.
- Hundreds of millions have been added to the global middle class in the last 10 years.
- Infant mortality has plummeted. Literacy has increased. Women's rights have spread.
- Longevity has increased – more people are living longer than ever before in human history
- Putting unprecedented pressure on resources to meet demand - but herein lies the opportunity as technology speeds up change, creating opportunities and a better life for more people.
- The logic of husbanding resources through technical innovation as the global population heads to 11bn is inescapable
- David Ricardo showed 200 years ago (February 1817) how international trade lift incomes – comparative advantage.
- The poorest countries are those least involved in international trade, and least economically free. The richest are those most involved.

DEMOGRAPHICS & PROGRESS ARE RESHAPING WORLD ECONOMIC GEOGRAPHY

How do we prepare for it and who leads – WHERE IS THE VISION?

How many countries you can fit into Africa



EVERY INDUSTRY IS AFFECTED BY THIS CHANGE – CO-OPERATION AND LEADERSHIP KEY TO SUCCESS

Technological revolution to ‘speed up’: advent of quantum computers hastens this process, as it in turn revolutionises computing. Qubits (via superposition: two states at once and entanglement: the ability for 2 atoms to be linked and so influence each other even from a distance) rather than bytes will bring on the ‘robots’ even quicker. Arrival of quantum computers herald just that. So we need to be thinking about managing its social consequences.

- **Agriculture** – sensors in soil telling when to water, to pick, to fertilise; drones to monitor, water, spray; machines to plant and pick = lower cost, and prices and so greater incomes.
- **Manufacturing**: printed circuits. Remote printing, printable parts (in 3D), sensors in machines, human robot interface; self repair & reusable machines, driverless cars, boats, trains, planes.
- **Financial sector**: block chain, less people employed per activity (greater productivity), more trust, fewer banks, fewer barriers to entry, less ‘friction’, more income to invest, more inclusive, more access, lower costs.
- **Energy**: advent of block chain, smart systems, climate change, cost saving, competition, regulation drive innovation
- **Technology that lower transaction** costs can lead to disruption but boosts investment opportunities as wealth spreads, incomes rise and living standards increase. Wait until voice recognition works better and the ‘internet of things’ really kicks off.

LEADERSHIP IMPLICATIONS

- People cannot be left behind
- Access to all must be maintained – the elderly, poor, disabled, all areas of the country
- UK needs to maintain skills in new technology
- Attract talent from around the world
- Be open for business and ideas
- This will require: working together across private, not for profit public sector, education, skills Centre's, tech firms, fintech investors, policy makers.
- Young people have to be prepared for the future and they have to be equipped for it.
- UK has to harness all its talents

THANK YOU – QUESTIONS?

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