



Economic Policy: The UK Economy and Selected Topics in Economic Policy

A look at the Data

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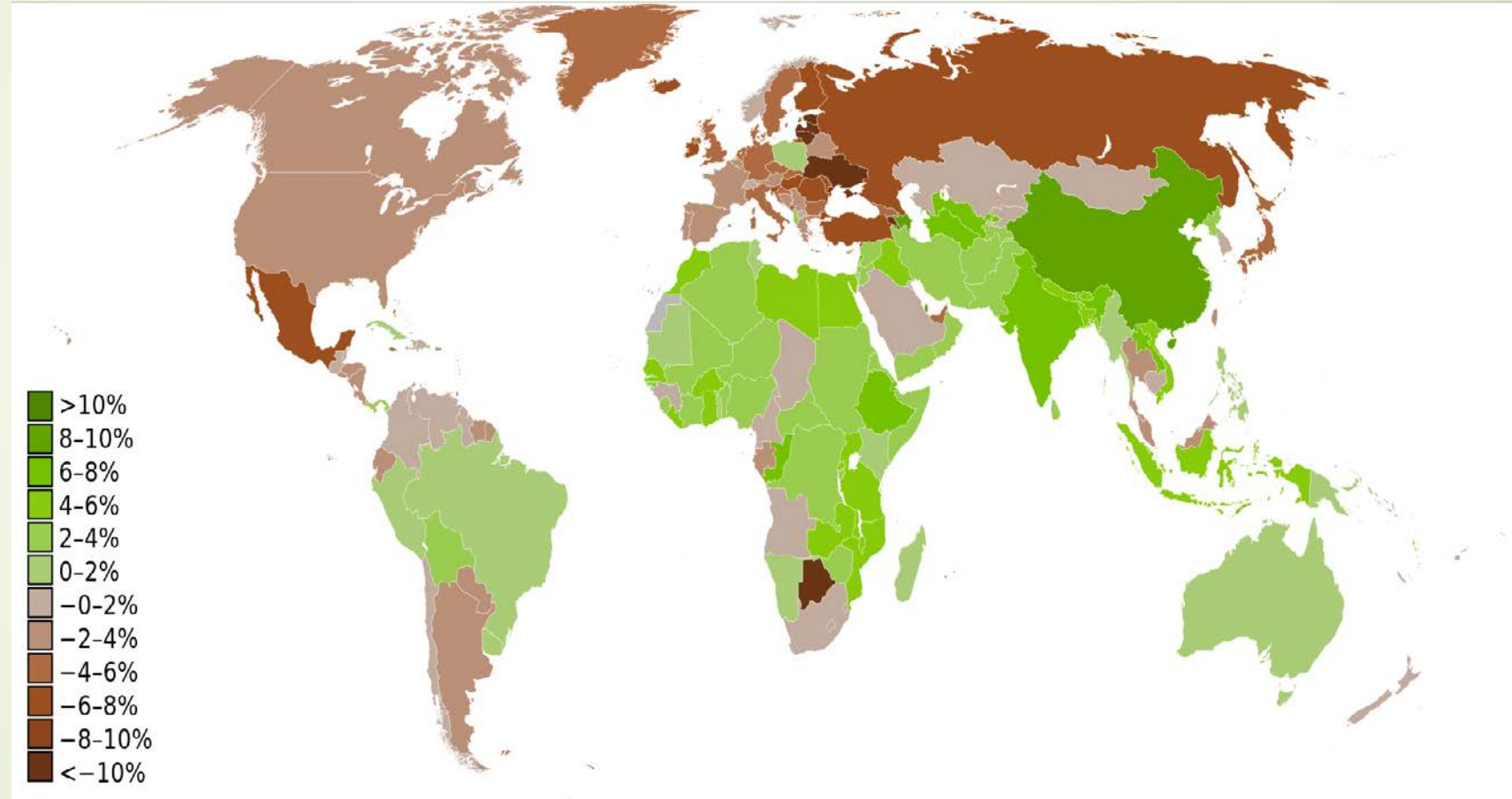
Data

- ▶ “The world is one big data problem.” – Andrew McAfee
- ▶ “Data really powers everything that we do.” – Jeff Weiner, LinkedIn
- ▶ “I keep saying that the sexy job in the next 10 years will be statisticians, and I’m not kidding.” – Hal Varian, chief economist at Google
- ▶ “In God we trust. All others must bring data.” – W. Edwards Deming
- ▶ “Torture the data, and it will confess to anything.” – Ronald Coase

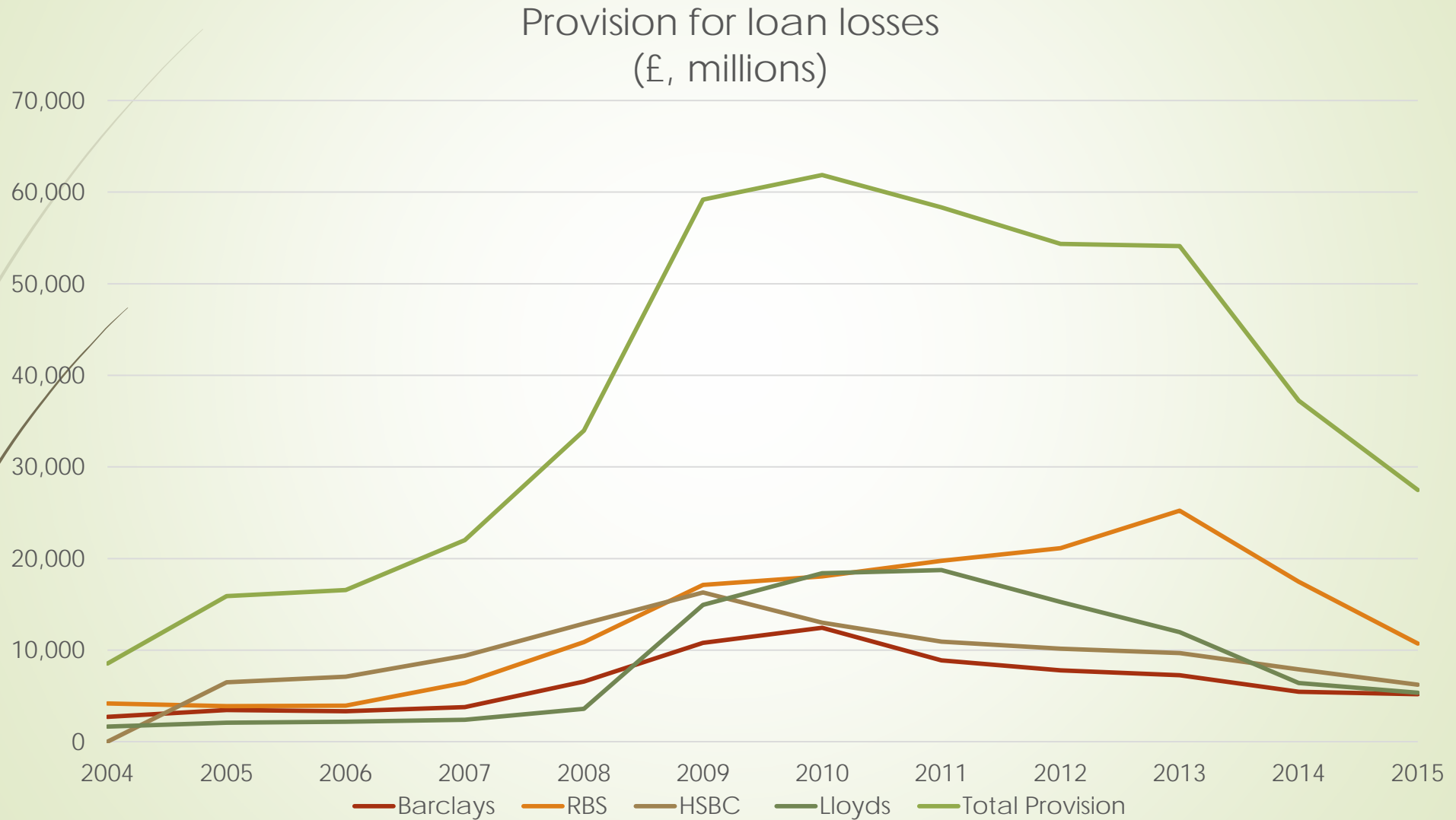
Agenda

1. Overview of the UK Economy: What happened during the Recession?
2. Where are we now?
3. Have we recovered from the recession?

The global spread of the financial crisis



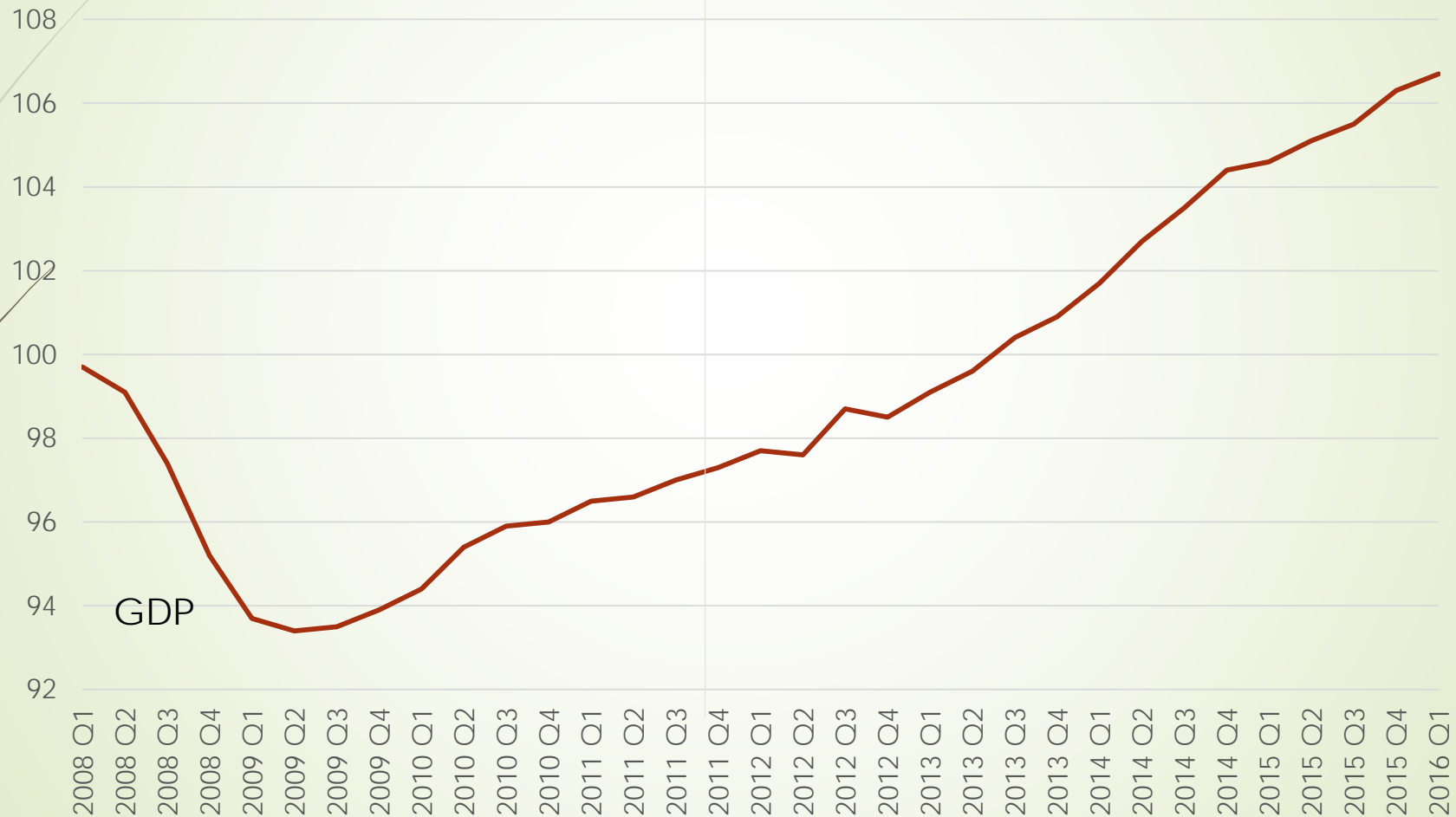
The mortgage crisis resulted in significant loan losses for the major banks, which led to the bailout of RBS



Source: Capital IQ

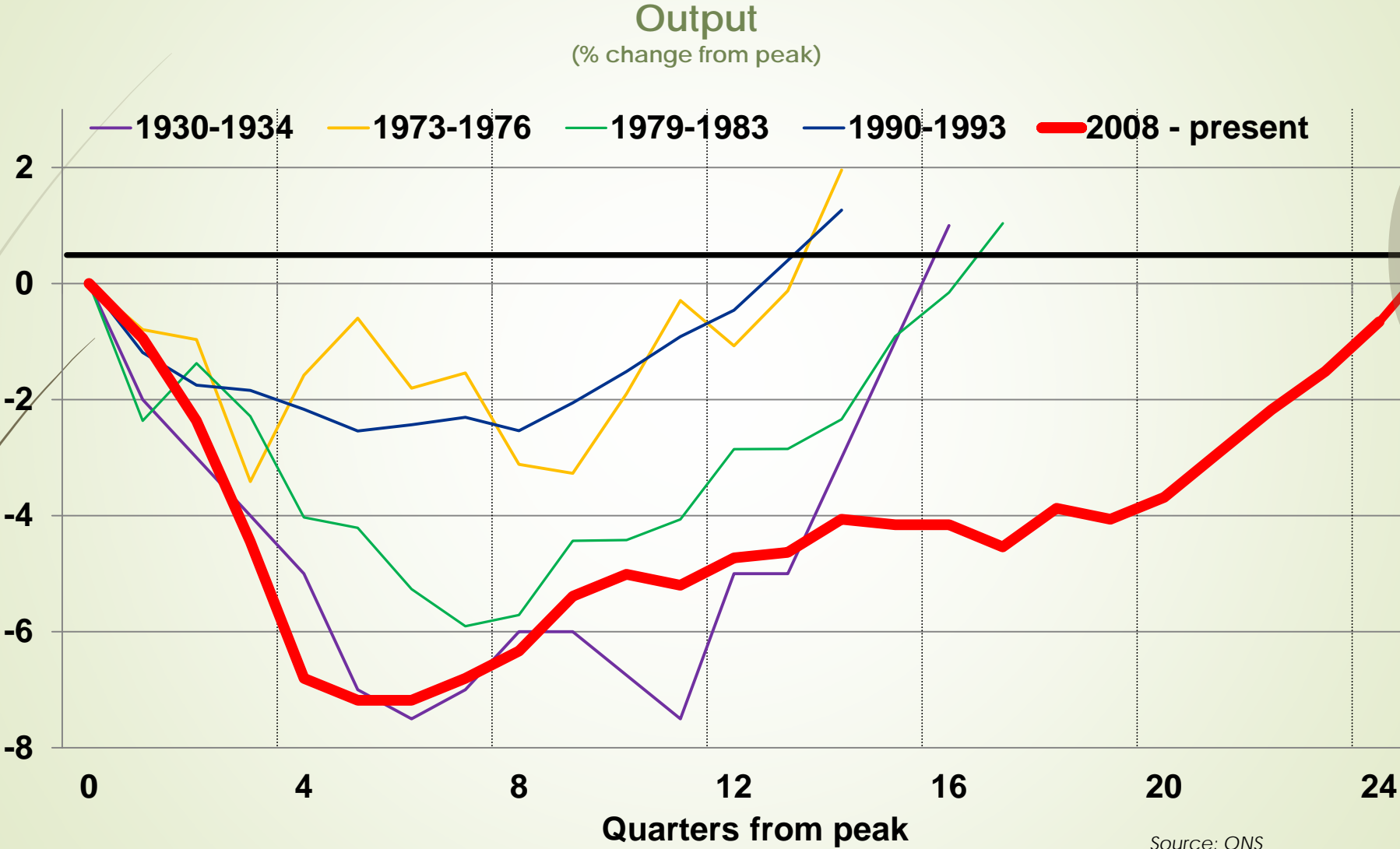
The UK experienced a significant fall in GDP during the financial crisis

Real GDP, UK



Source: ONS

The Great Recession – the worst output recession of all time - came to an end in 2014



Source: ONS



What has been the government's policy?



Stimulus Package



Austerity



Monetary Easing

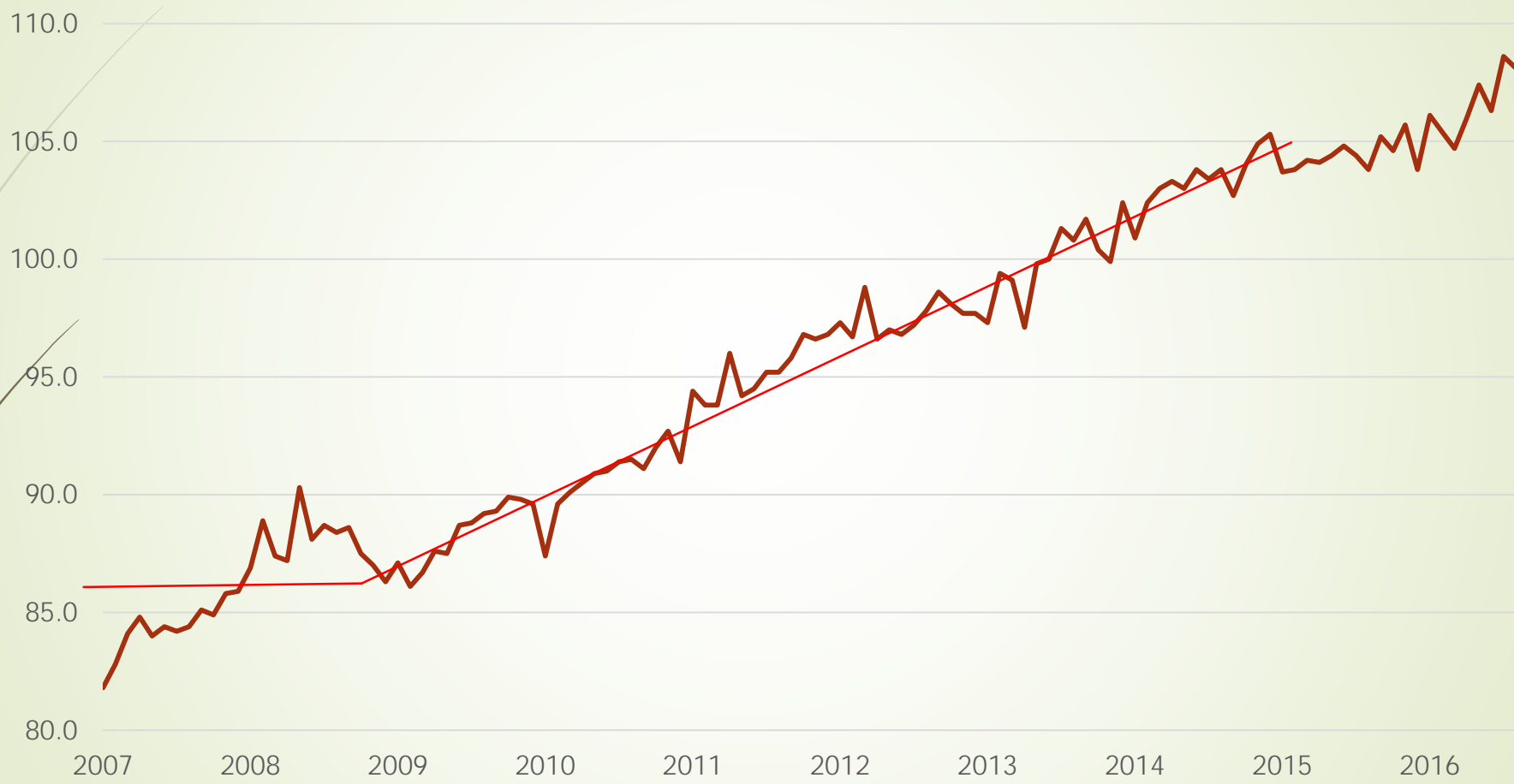


Consumer confidence weakened before making a slow recovery though recently the outlook has changed following the decision to leave the EU



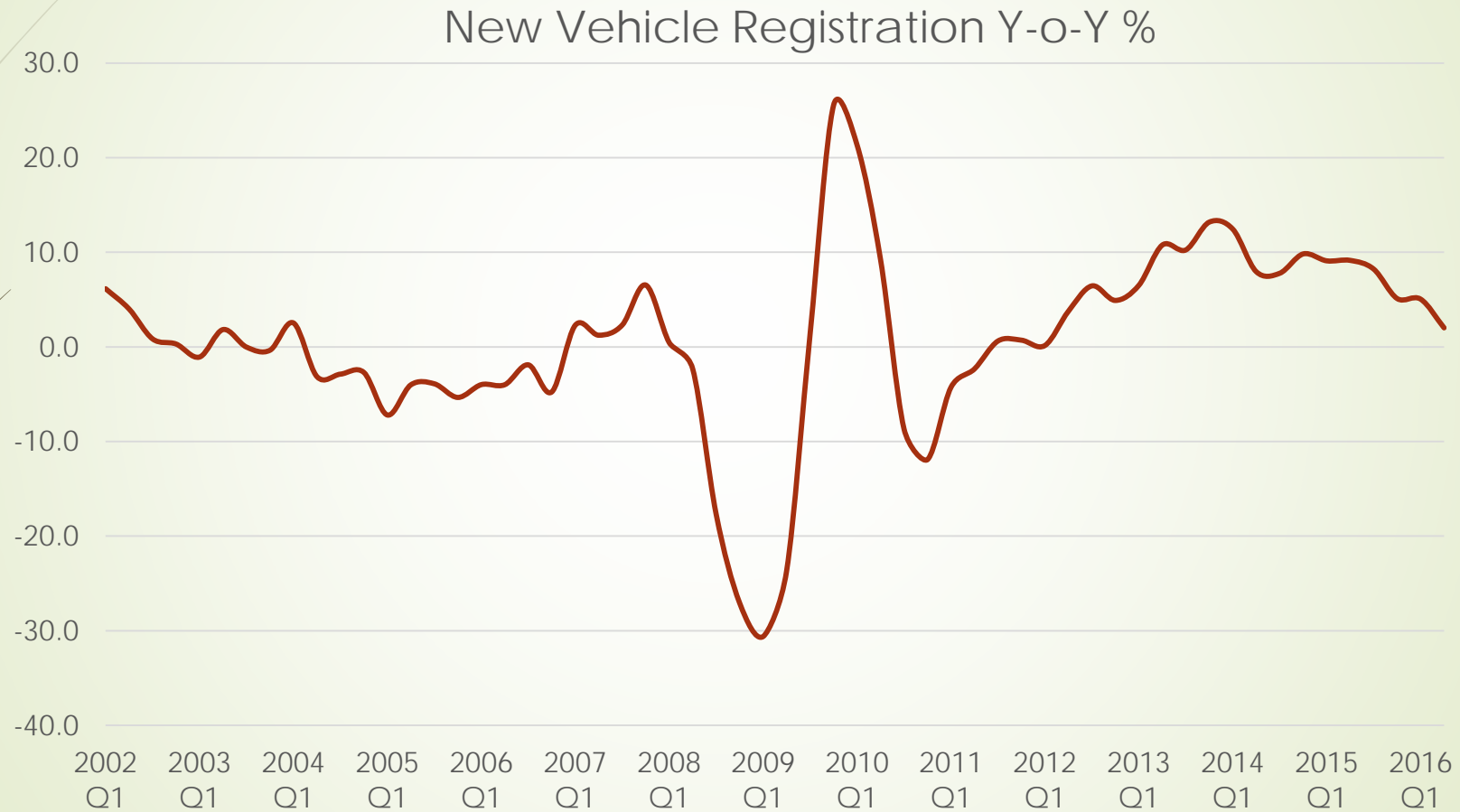
Source: Datastream

Retail sales grew despite output falling leading to a demand led recovery



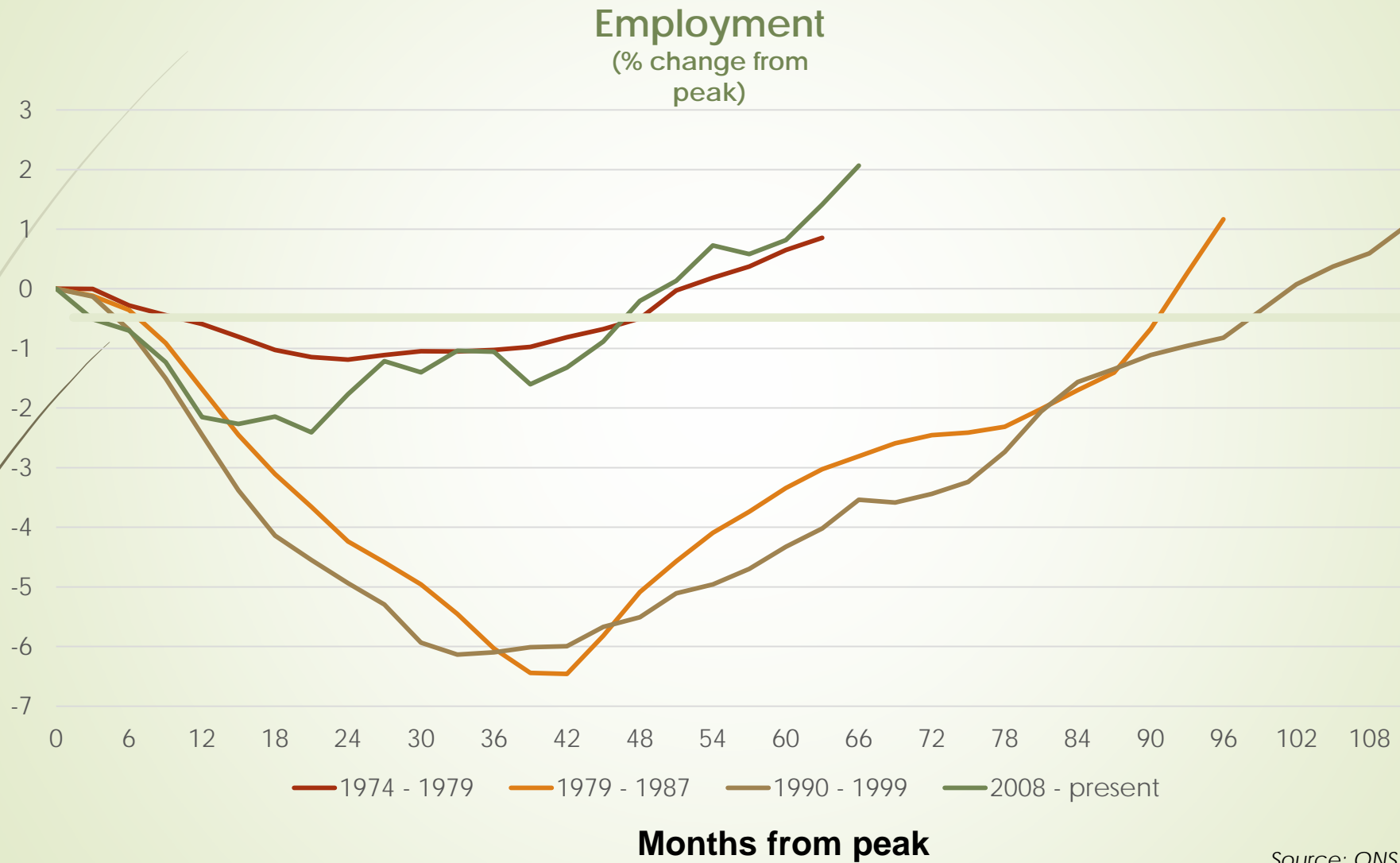
Source: ONS

Car sales, a good indicator of confidence, dipped significantly in 2008/09 but quickly became positive



Source: Dft

But it was not such a Great Recession when measured by employment – the 1980 and 1990 recessions were much worse



Source: ONS

Unemployment also rose with the financial crisis, reaching over 8% in 2011




Source: ONS

So has government policy worked?


Many reasons attributed to the UK recovery:

- Consumer confidence, demand led recovery
- EU faltering
- Initial stimulus package
- Low interest rate environment
- Political stability
- Austerity

However, has the UK economy back to 'normal'?



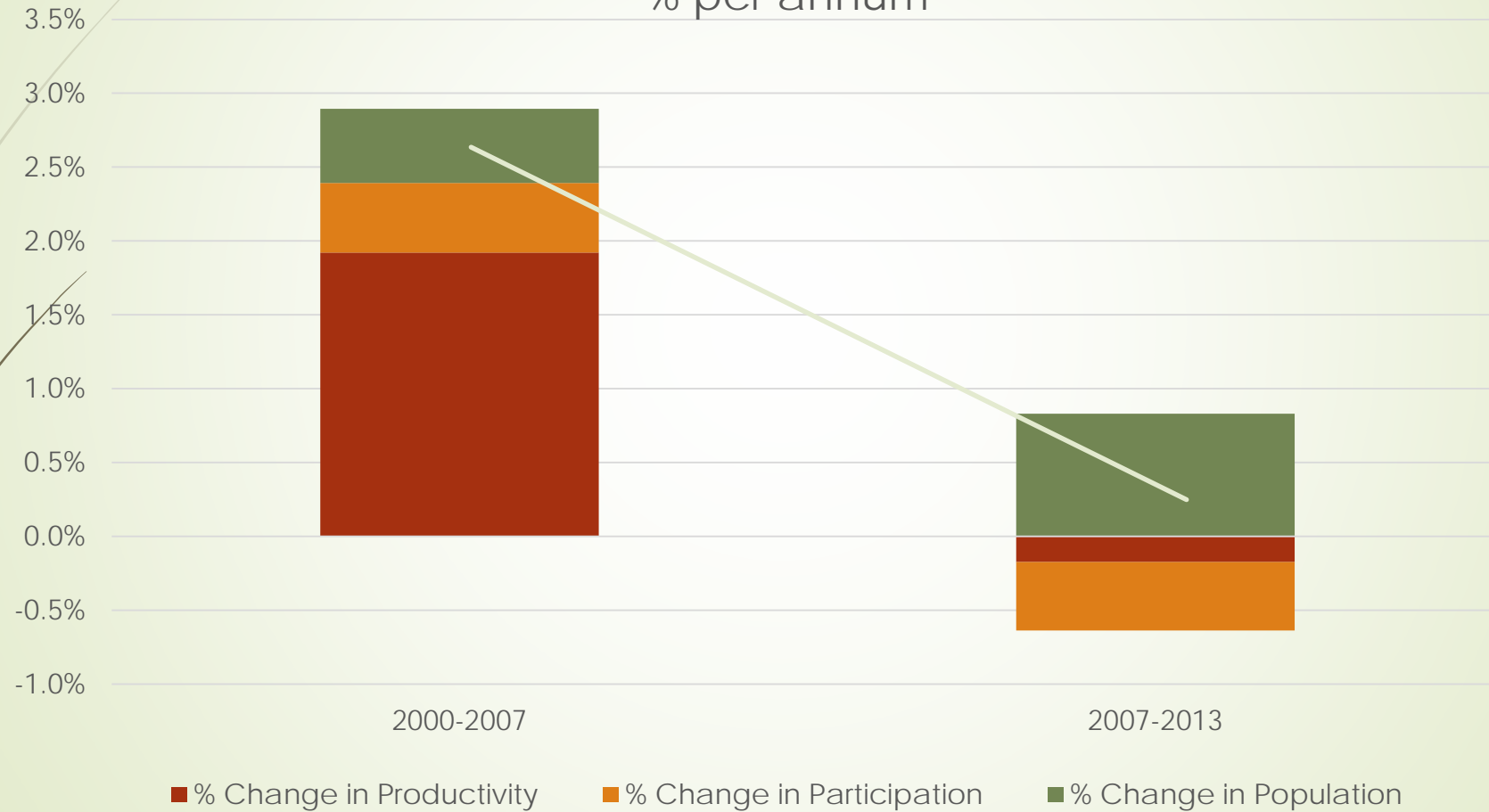
In the long term output growth depends on the growth of the productivity, labour and the population


$$\begin{array}{ccccccc} \text{\% change} & & & & \text{\% change} & & \text{\% change} \\ \text{in output} & = & \text{in} & + & \text{in} & + & \text{in} \\ & & \text{productivity} & & \text{participatio} & & \text{population} \\ & & & & \text{n} & & \end{array}$$

Some useful economic identities to help us analyse and understand the growth slowdown

GDP growth since 2007 has been driven mostly by population growth, with productivity and participation both falling

UK: Contributions to Growth
% per annum



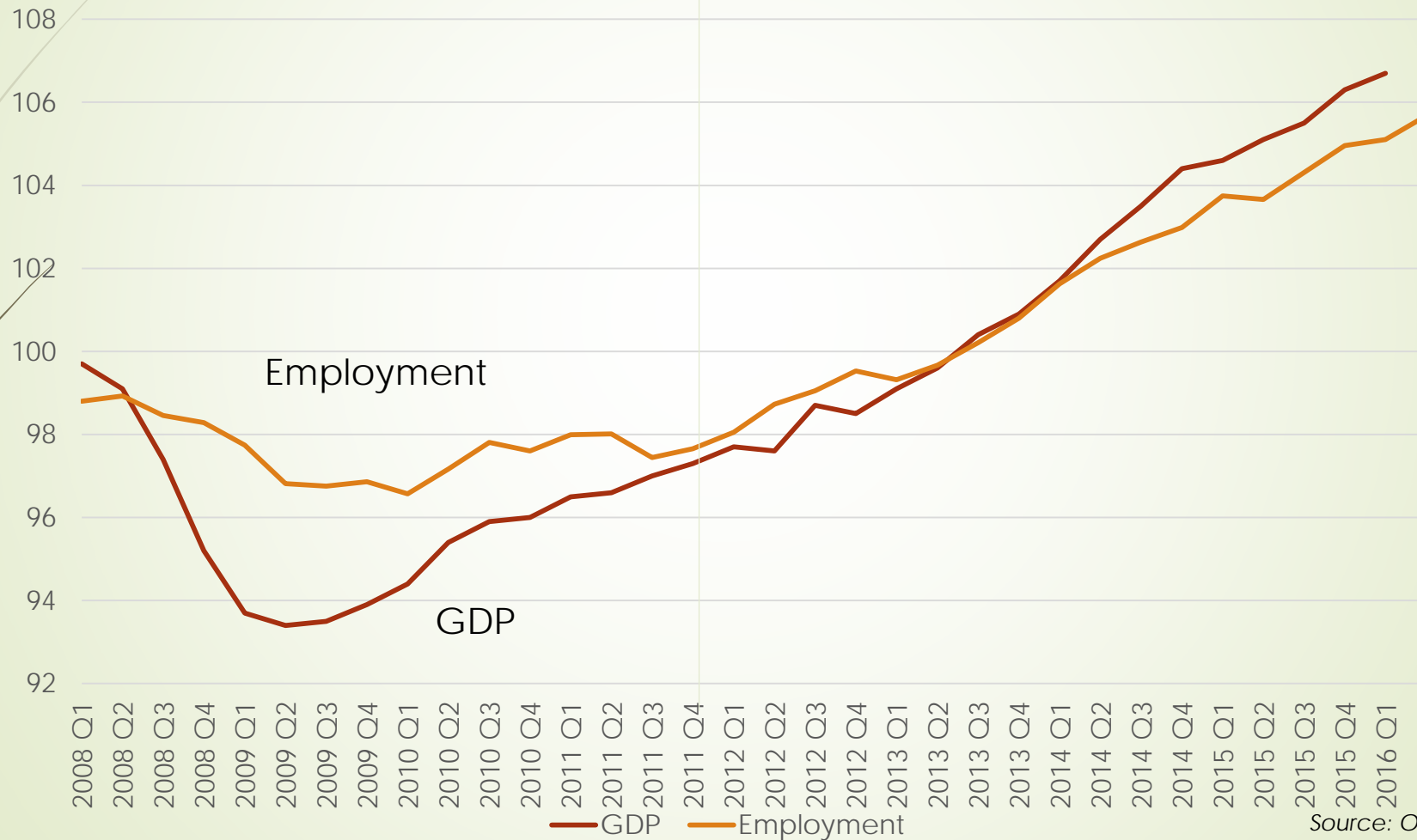
Source: ONS, IMF, World Bank

While GDP rose beyond its pre-crisis level...



...and employment rose to historic highs

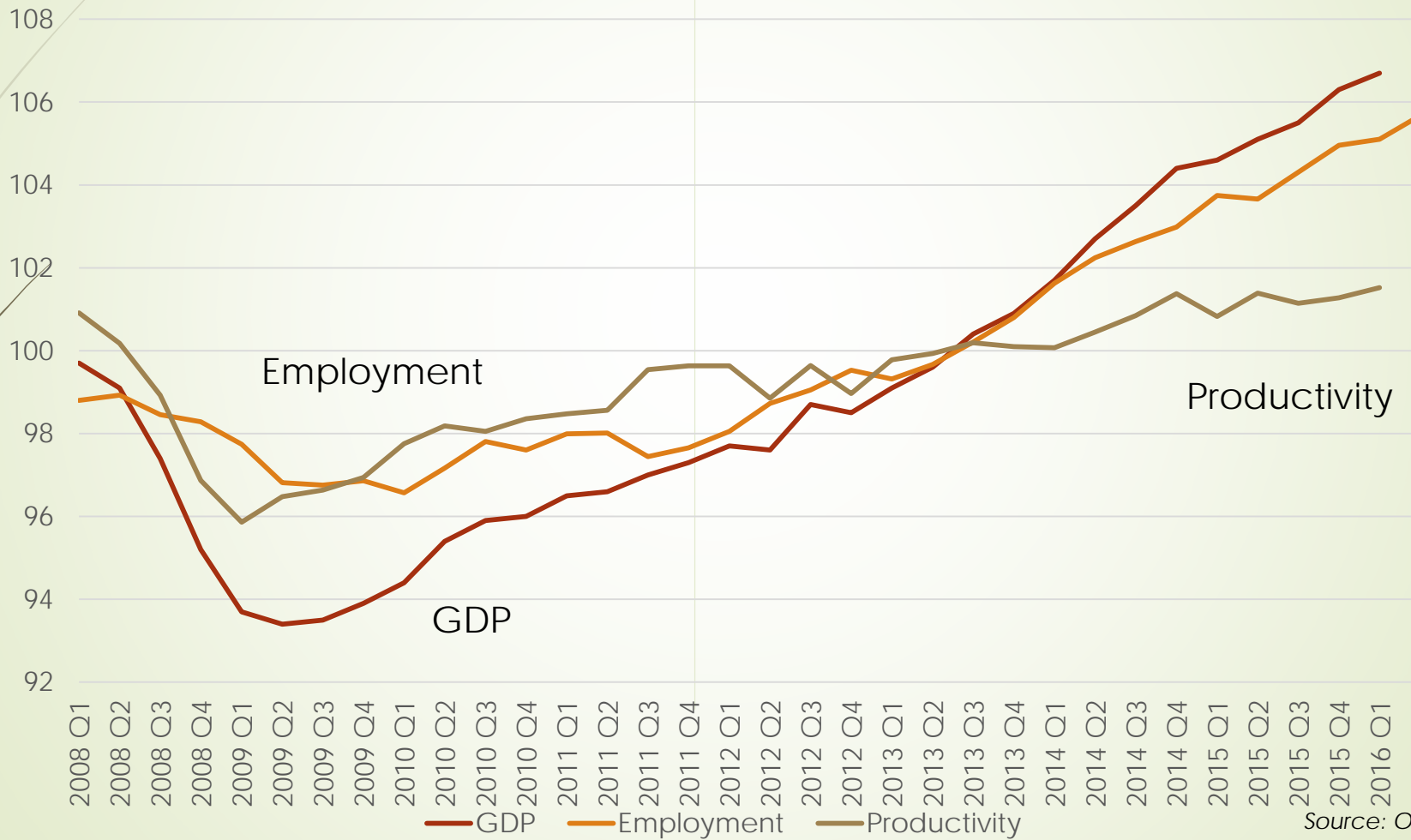
Employment and GDP



Source: ONS

Productivity has remained weak- which has been a global phenomenon

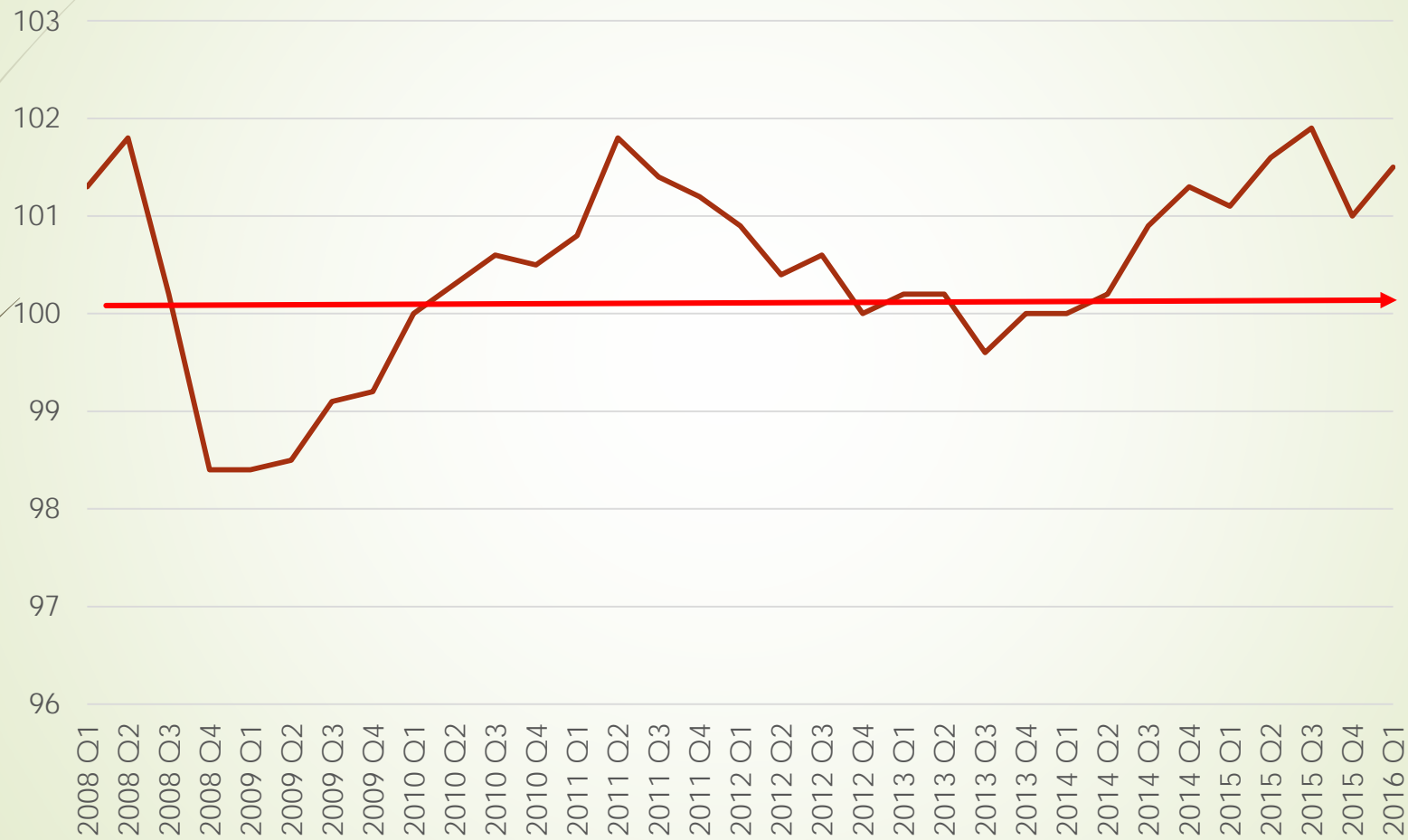
Employment, Productivity and GDP



Source: ONS

Hourly productivity is still lower than it was five years ago

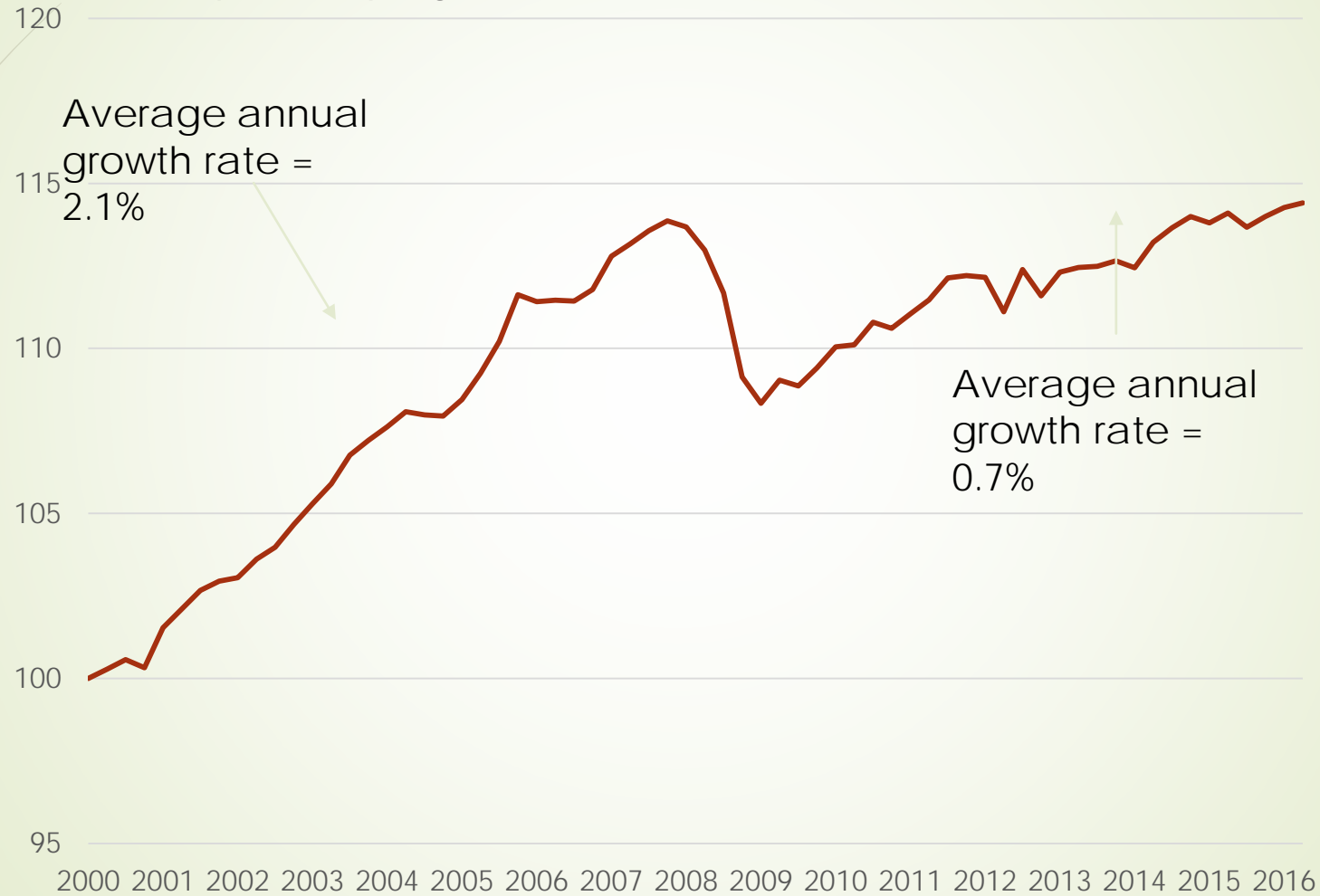
Output per hour



Source: ONS

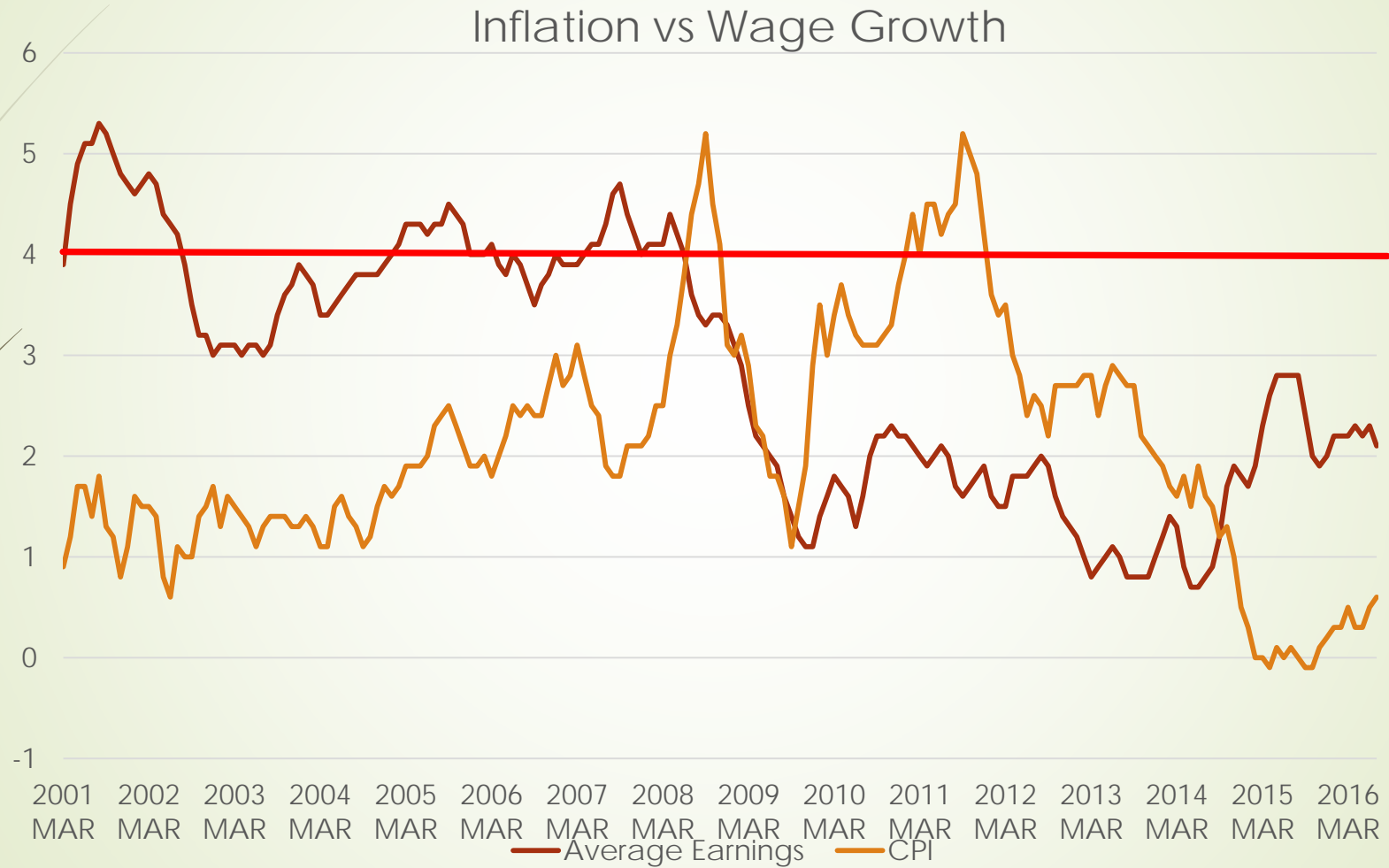
The growth of output per employee has fallen from 2.1% in the boom years to 0.7% since the financial crisis

Real GDP per Employee



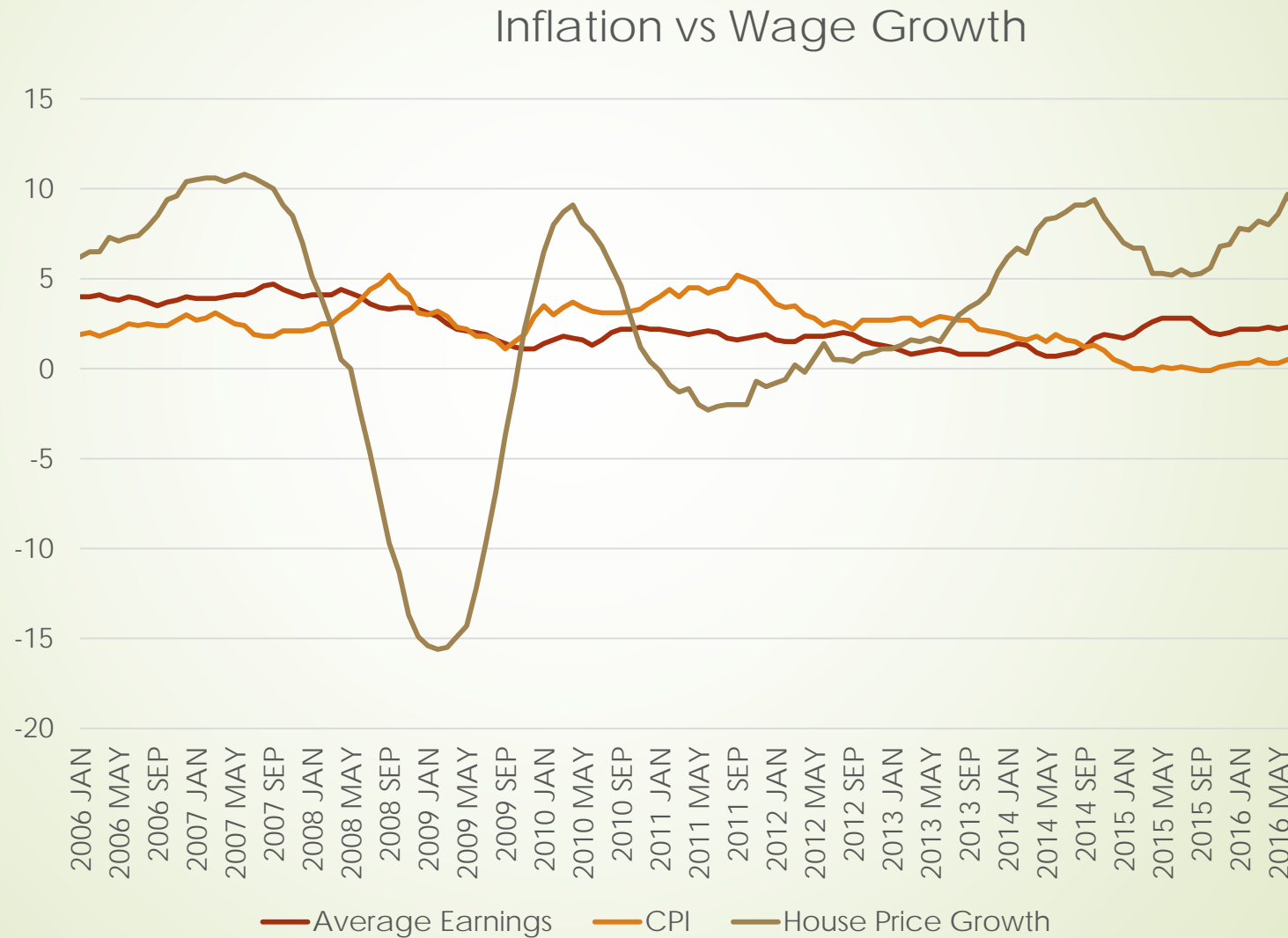
Source: ONS

Only recently have we seen wage increases higher than inflation



Source: ONS

Wage growth began to outstrip inflation in 2014, but housing costs remain a significant household expenditure





Has policy worked?

- Mixed Results
- Combination of short term stimulus and austerity have resulted in a return to growth, albeit after a long protracted duration of weakened growth though economic fundamentals remain weakened, which has slowly started to emerge post Brexit
- Falling investor confidence combined with a devaluation in the pound has put further pressure on the UK economy
- We still face a productivity puzzle and growth is still below its pre-crisis level
- What's next?
- Brexit will add further uncertainty
- Investors are already holding back investment
- Brexit deal will be key in setting the UK economy to a return to growth levels achieved pre-crisis