

Professor Trevor Williams

## Agenda

- Heightened geopolitical uncertainty...
- ...but geoeconomic growth proving resilient
- Focus on UK

## Falling satisfaction with democracy...

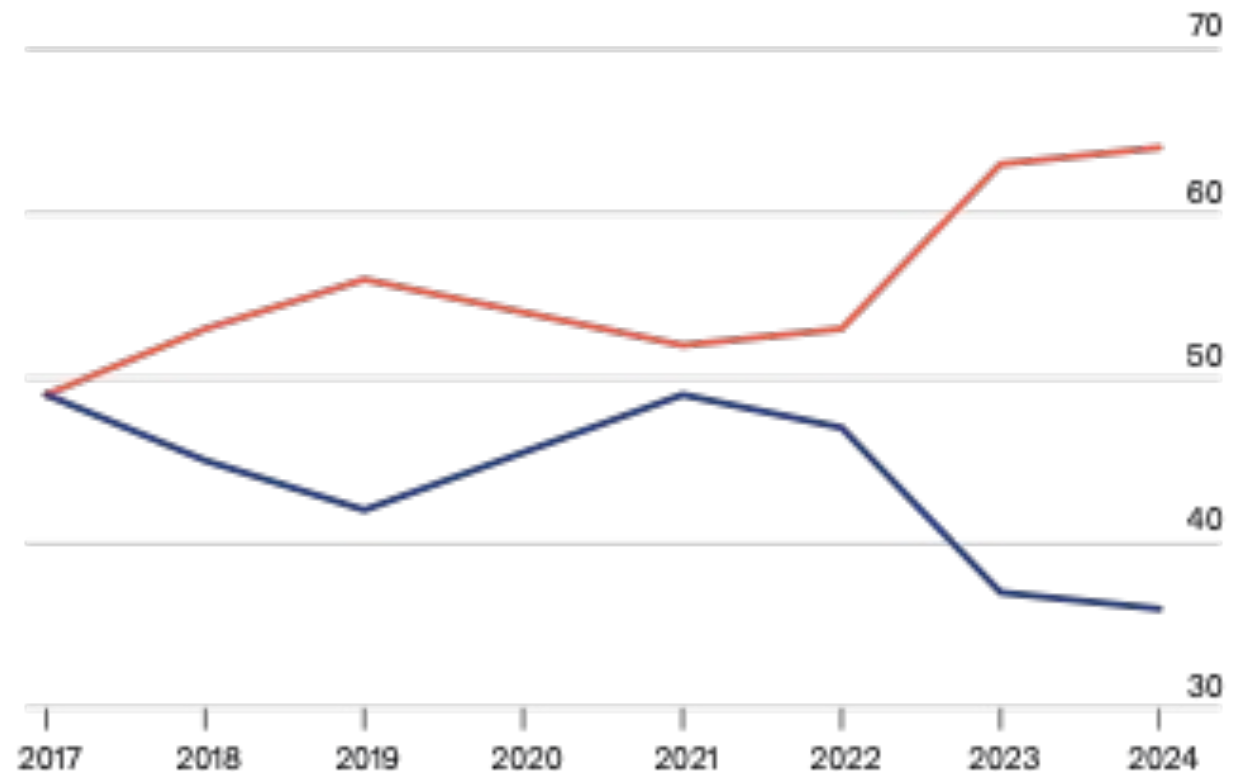
### Satisfaction with democracy across 12 high-income, democratic countries is down in recent years

Median % who are satisfied with the way democracy is working in their country

— Satisfied  
— Dissatisfied

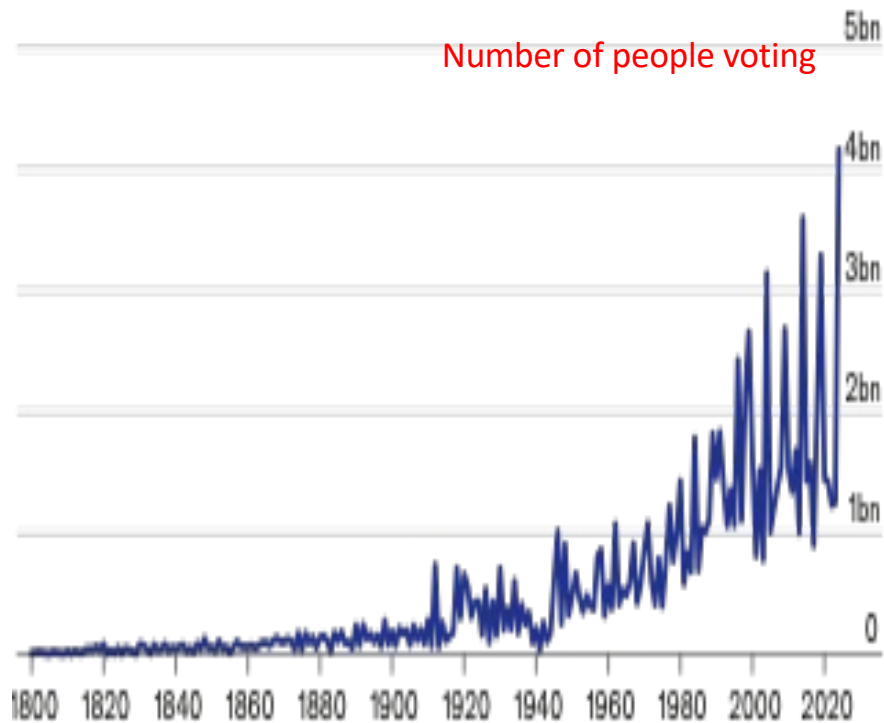
Note: Percentages are medians across 12 advanced economies: Canada, France, Germany, Greece, Italy, Japan, The Netherlands, South Korea, Spain, Sweden, the United Kingdom and the United States. Starting in 2021, U.S. data is from Pew Research Center's online American Trends Panel; older data is from telephone surveys.

Source: Pew Research Center.

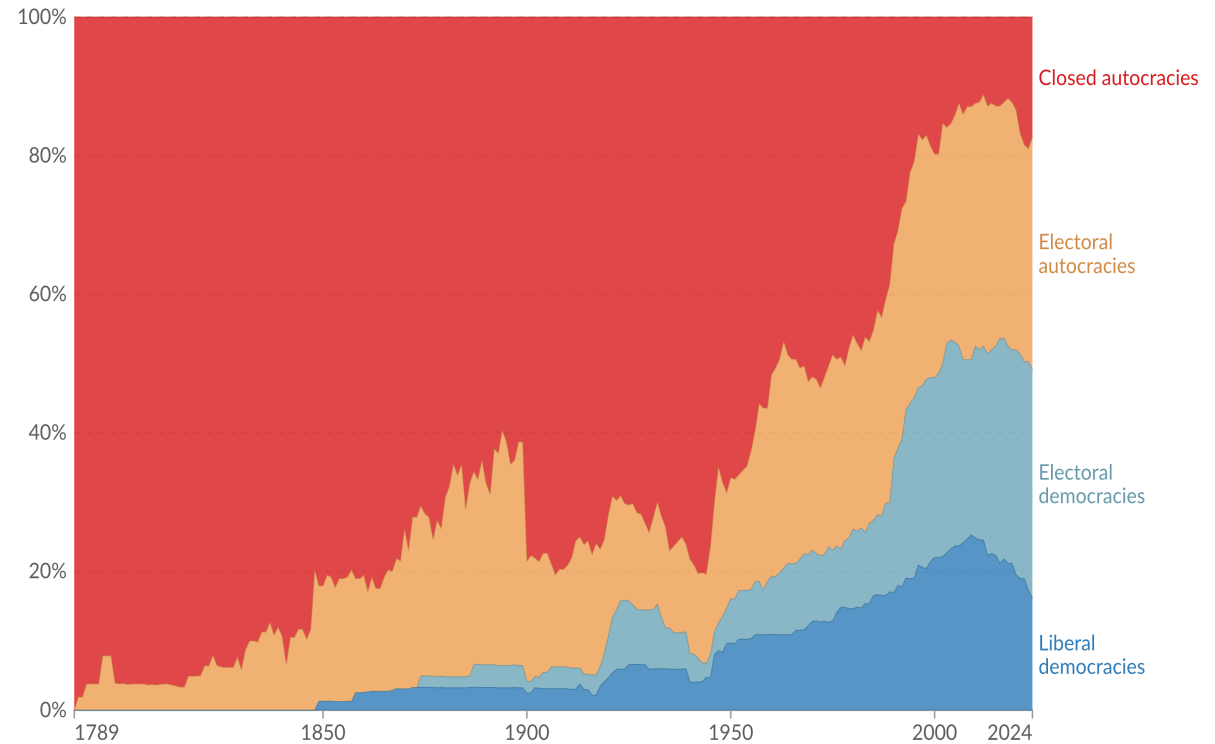


# ...but history sends a warning about voting rights

Despite a high number of people voting last year...



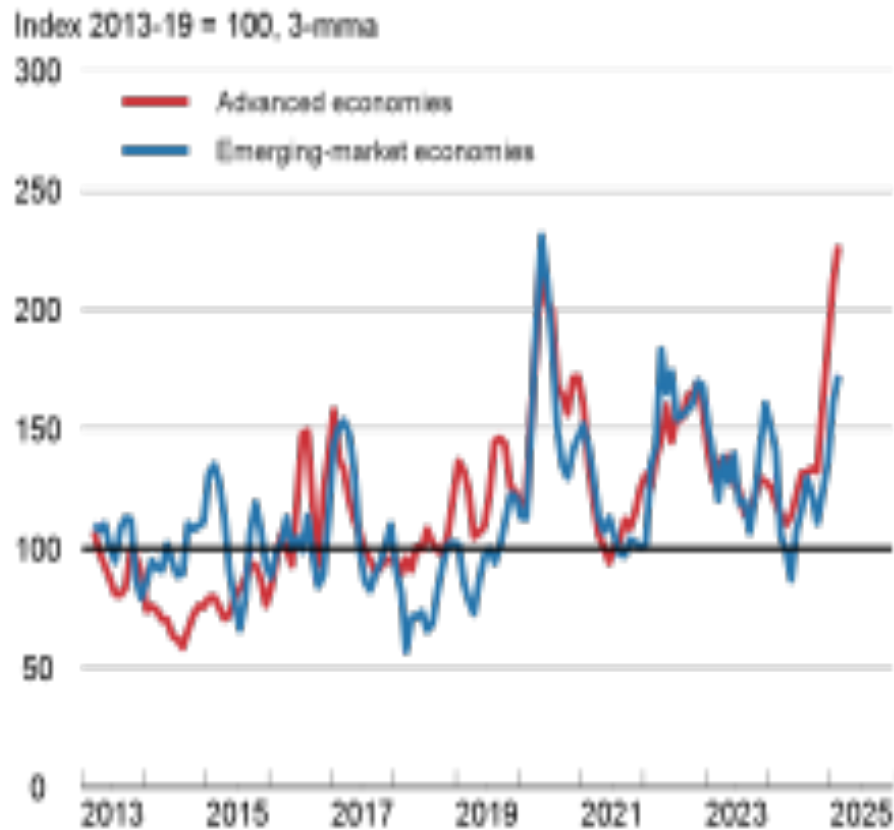
...autocracy is never far away



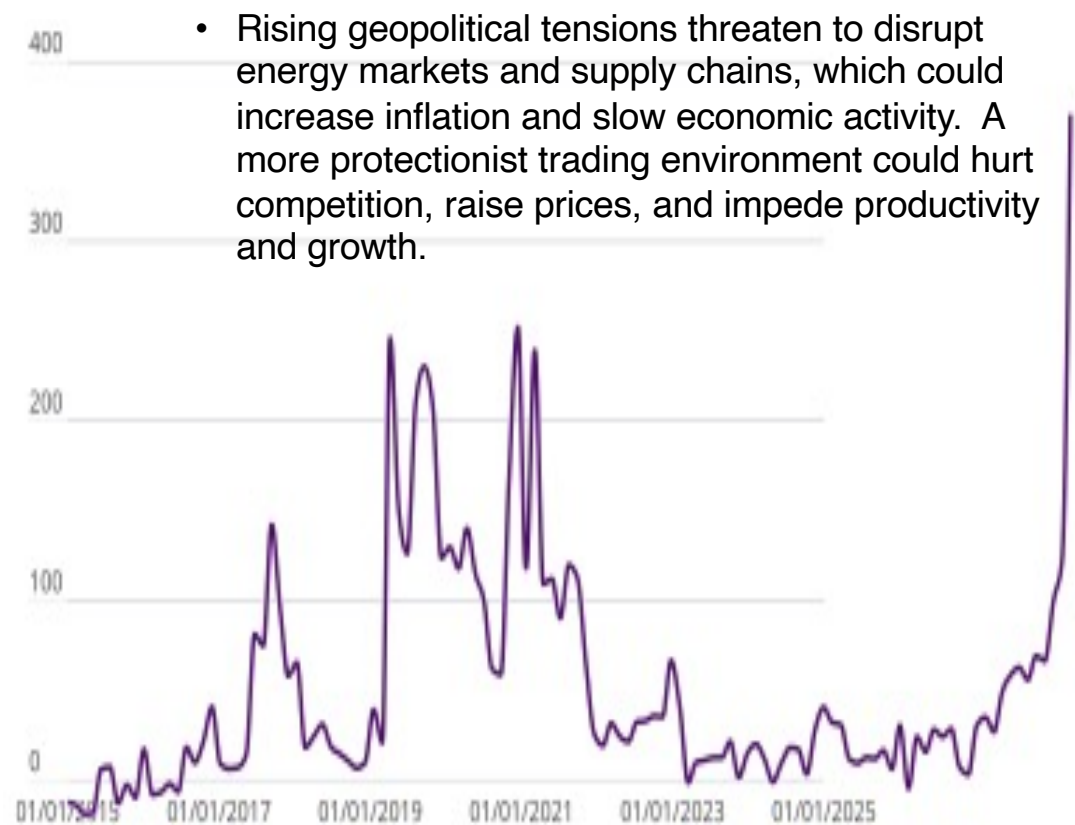
Source: Our World in Data

# Economic uncertainty is rising

## Economic uncertainty

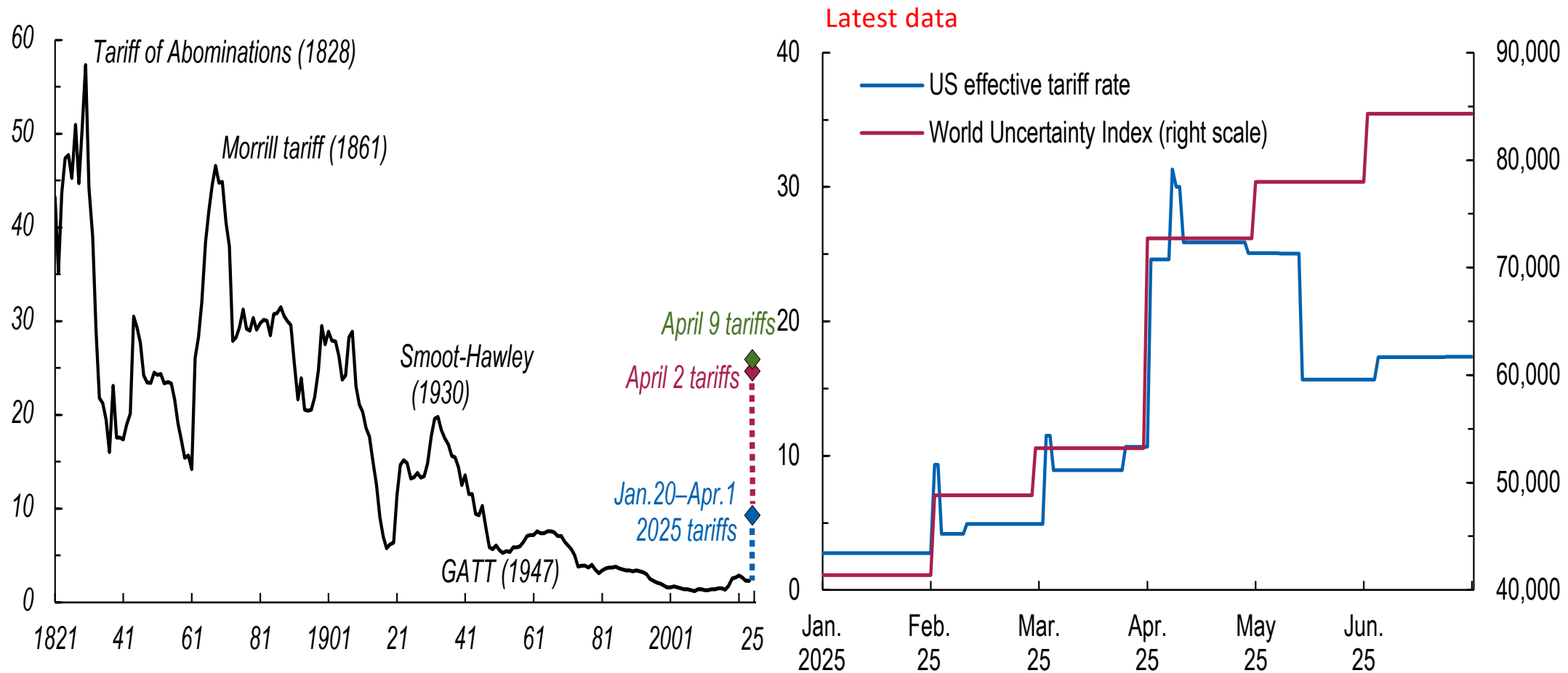


## Trade uncertainty index



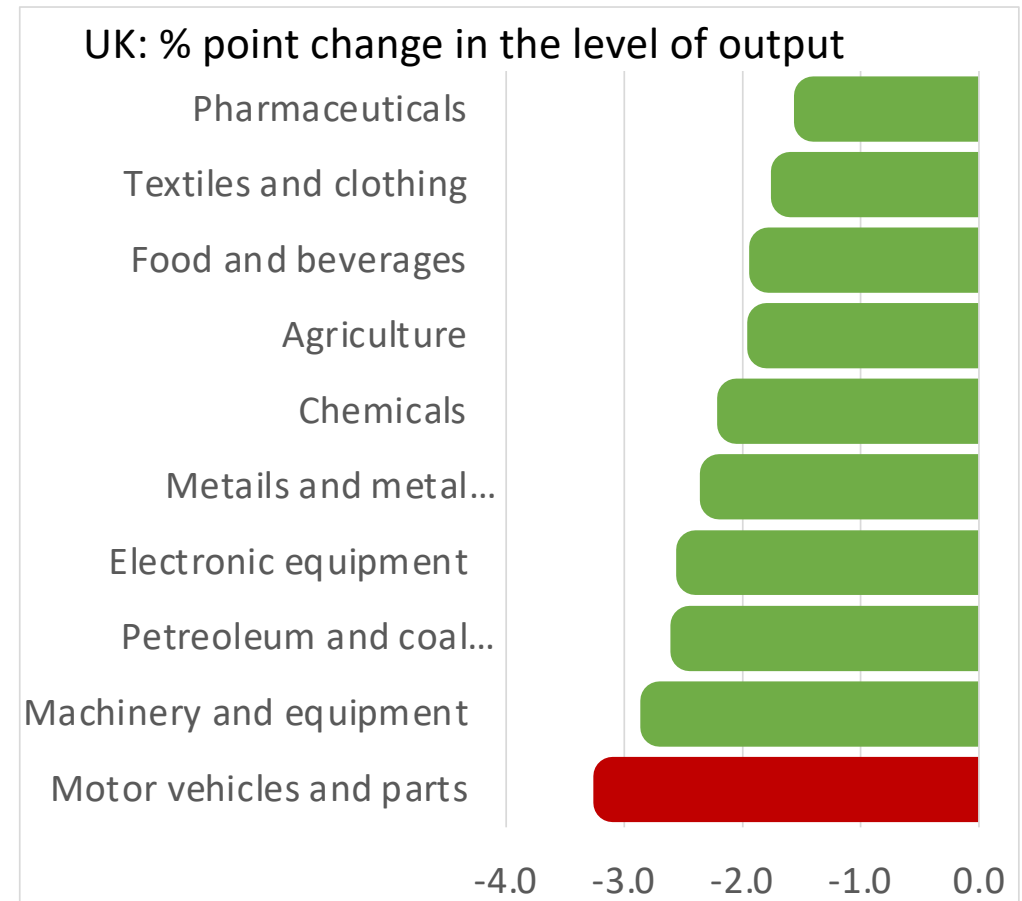
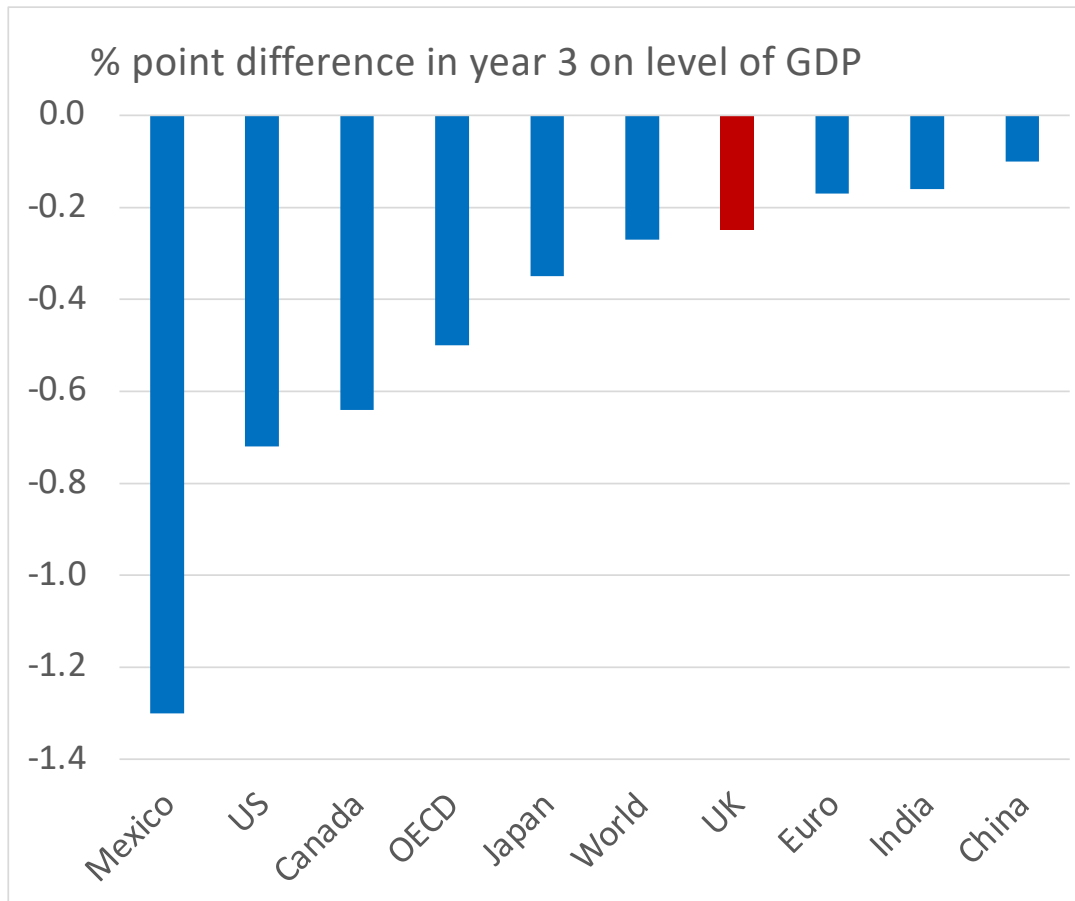
Source: : World Trade Organization; World Uncertainty Index (WUI) database; and IMF staff calculations.

## Average US Tariff Expected to Hit 22%— If Fully Implemented



Source: US Fed, ces: World Trade Organization; World Uncertainty Index (WUI) database; and IMF staff calculations.

...so, expect tariffs to have a negative impact on growth...



...but recession will be avoided, according to July WEO forecast

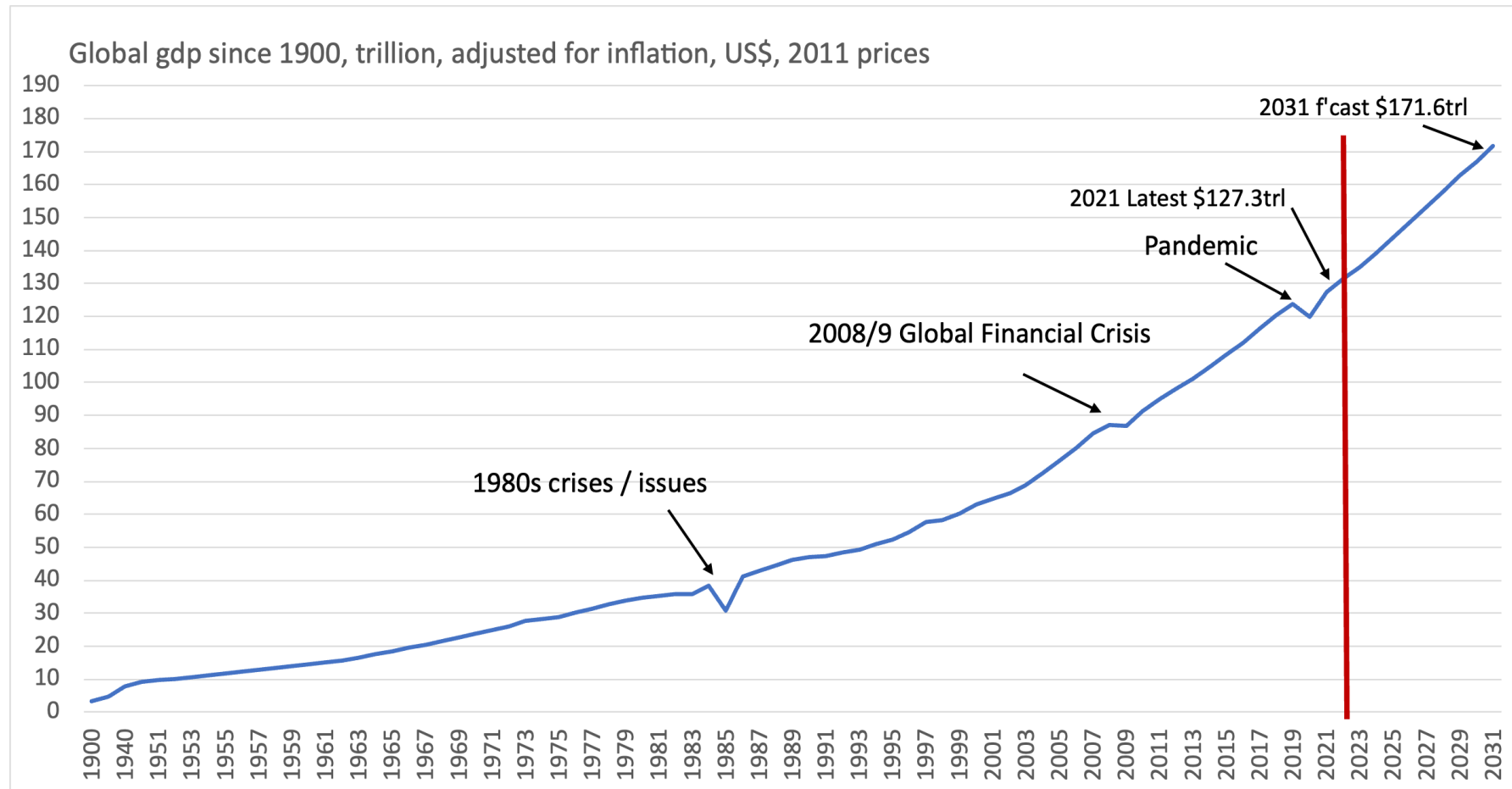
*(Percent change, unless noted otherwise)*

	Year over Year					
	2023	2024	Projections		Difference from April 2025 WEO Projections 1/	
			2025	2026	2025	2026
<b>World Output</b>	<b>3.5</b>	<b>3.3</b>	<b>3.0</b>	<b>3.1</b>	<b>0.2</b>	<b>0.1</b>
<b>Advanced Economies</b>	<b>1.8</b>	<b>1.8</b>	<b>1.5</b>	<b>1.6</b>	<b>0.1</b>	<b>0.1</b>
United States	2.9	2.8	1.9	2.0	0.1	0.3
Euro Area	0.5	0.9	1.0	1.2	0.2	0.0
Germany	-0.3	-0.2	0.1	0.9	0.1	0.0
France	1.6	1.1	0.6	1.0	0.0	0.0
Italy	0.7	0.7	0.5	0.8	0.1	0.0
Spain	2.7	3.2	2.5	1.8	0.0	0.0
Japan	1.4	0.2	0.7	0.5	0.1	-0.1
United Kingdom	0.4	1.1	1.2	1.4	0.1	0.0
Canada	1.5	1.6	1.6	1.9	0.2	0.3
Other Advanced Economies 3/	1.9	2.2	1.6	2.1	-0.2	0.1
<b>Emerging Market and Developing Economies</b>	<b>4.7</b>	<b>4.3</b>	<b>4.1</b>	<b>4.0</b>	<b>0.4</b>	<b>0.1</b>
Emerging and Developing Asia	6.1	5.3	5.1	4.7	0.6	0.1
China	5.4	5.0	4.8	4.2	0.8	0.2
India 4/	9.2	6.5	6.4	6.4	0.2	0.1

Source: TFW calculation, July WEO forecasts



Global growth has seen off shocks before. But shrugged them off...



Increase of \$37trln in global GDP, based on 2.7% pa rise in the decade to 2031

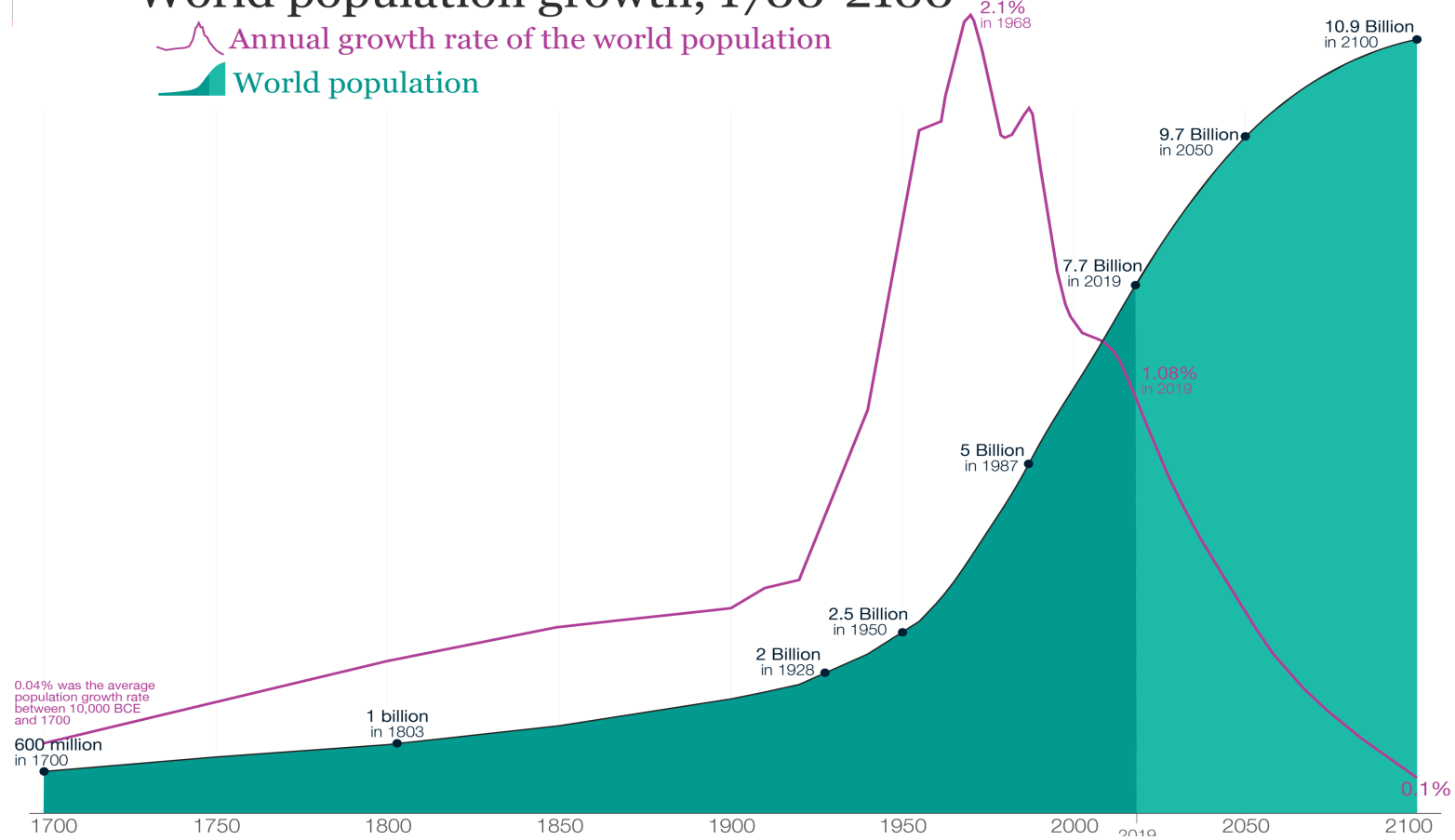
## How?

- More trade
- Open markets
- Lower tariff barriers
- Urbanisation
- Greater local / regional economic integration, like in EU
- Spread of technology from the power of open, global markets & speed of change
- Favourable population trends
- Productivity gains
- Better governance / rule of law / of contracts
- Increased investment flows

Short-term analysis hides 3 long term mega trends - population, climate change and technology - reshaping the world

## World population growth is slowing....

### World population growth, 1700-2100

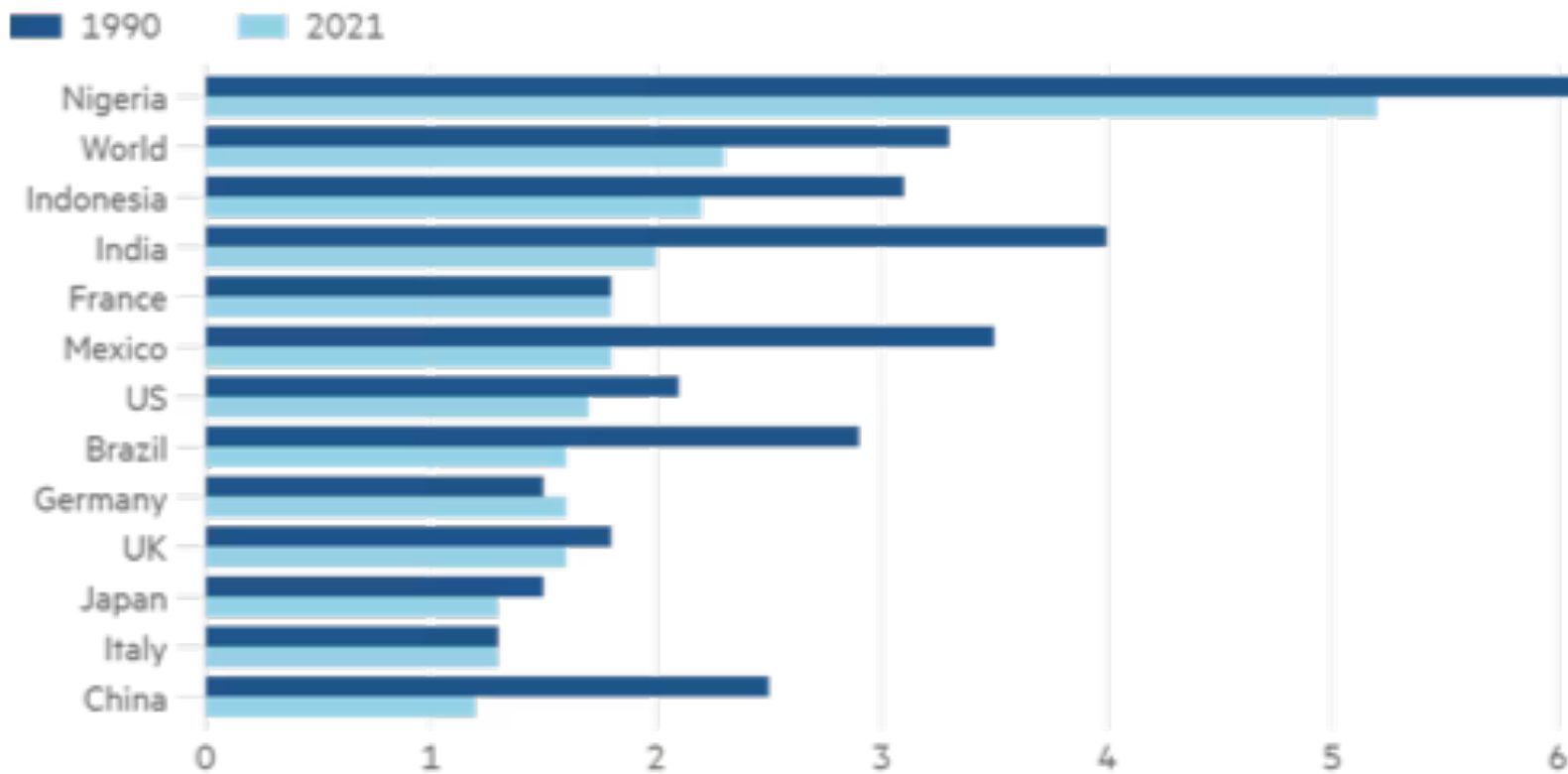


But the number of people won't peak until 2100

Source: Johns Hopkins University SSSE; Our World in data; UN; World Bank

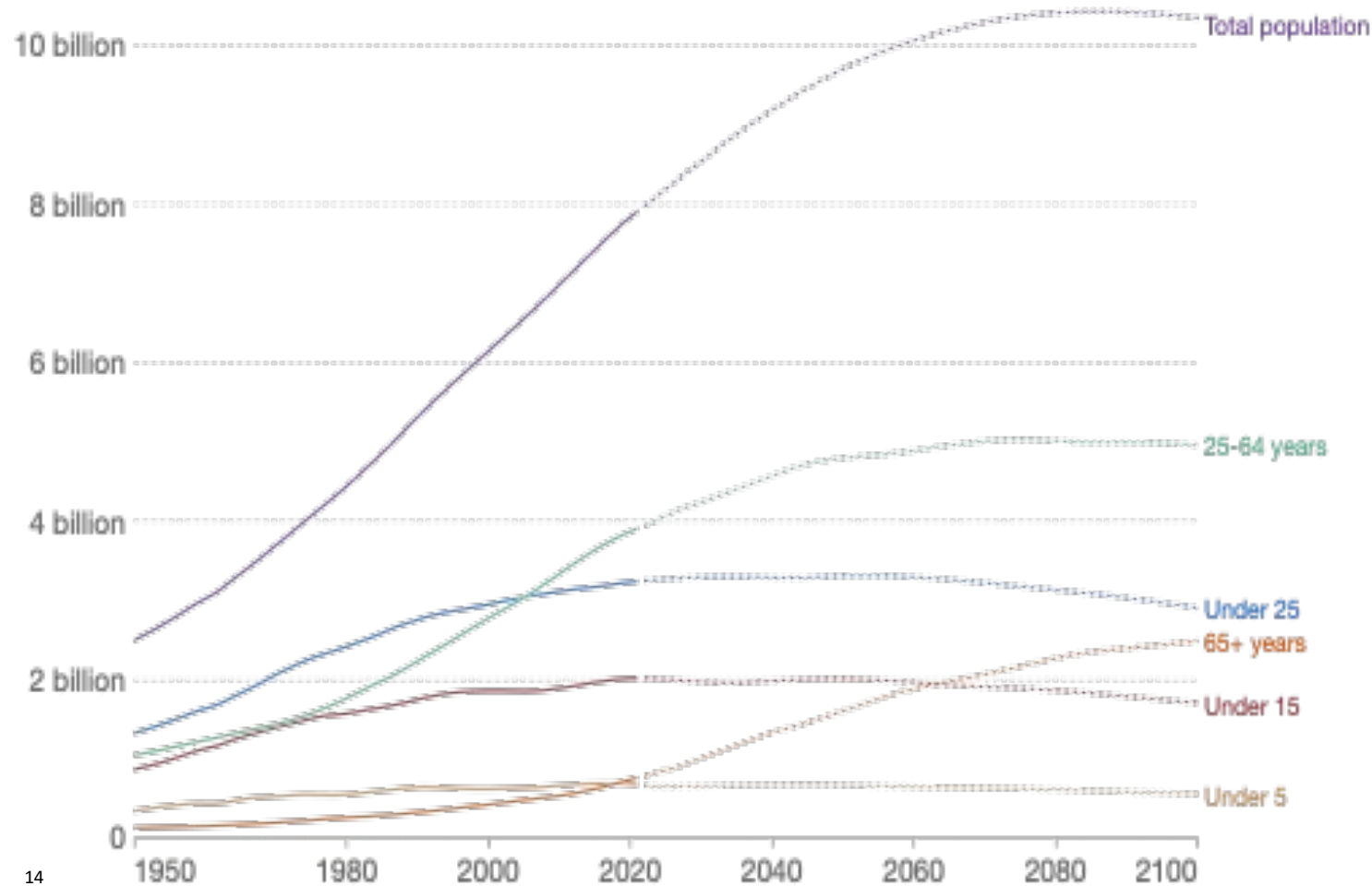
....as fertility rates decline, unevenly, across the world

Fertility rate (births per woman), selected countries



Source: Johns Hopkins University SSSE; Our World in data; UN; World Bank

Its also ageing...

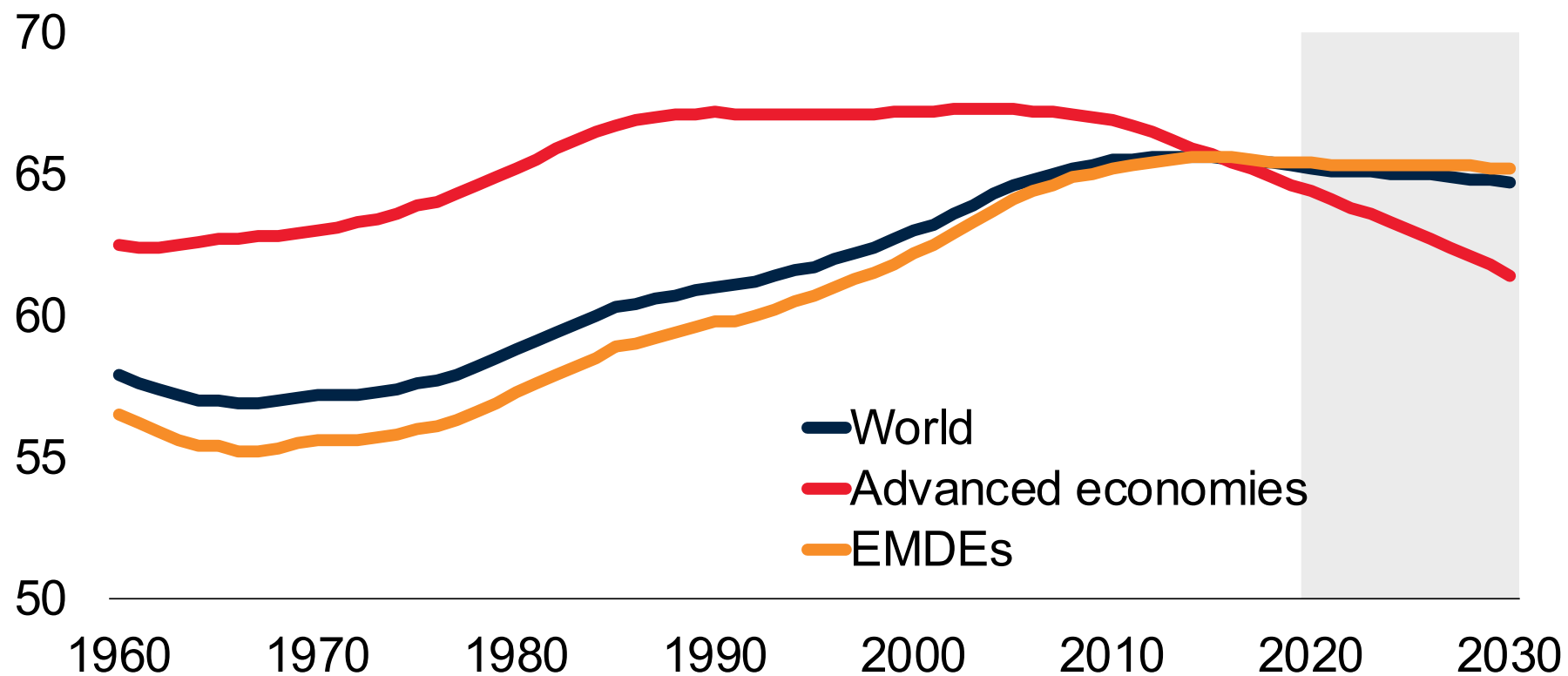


This aging trend in advanced economies, raises savings supply and boosts the demand for labour.

It also implies lower 'real' interest rates and more savings under management

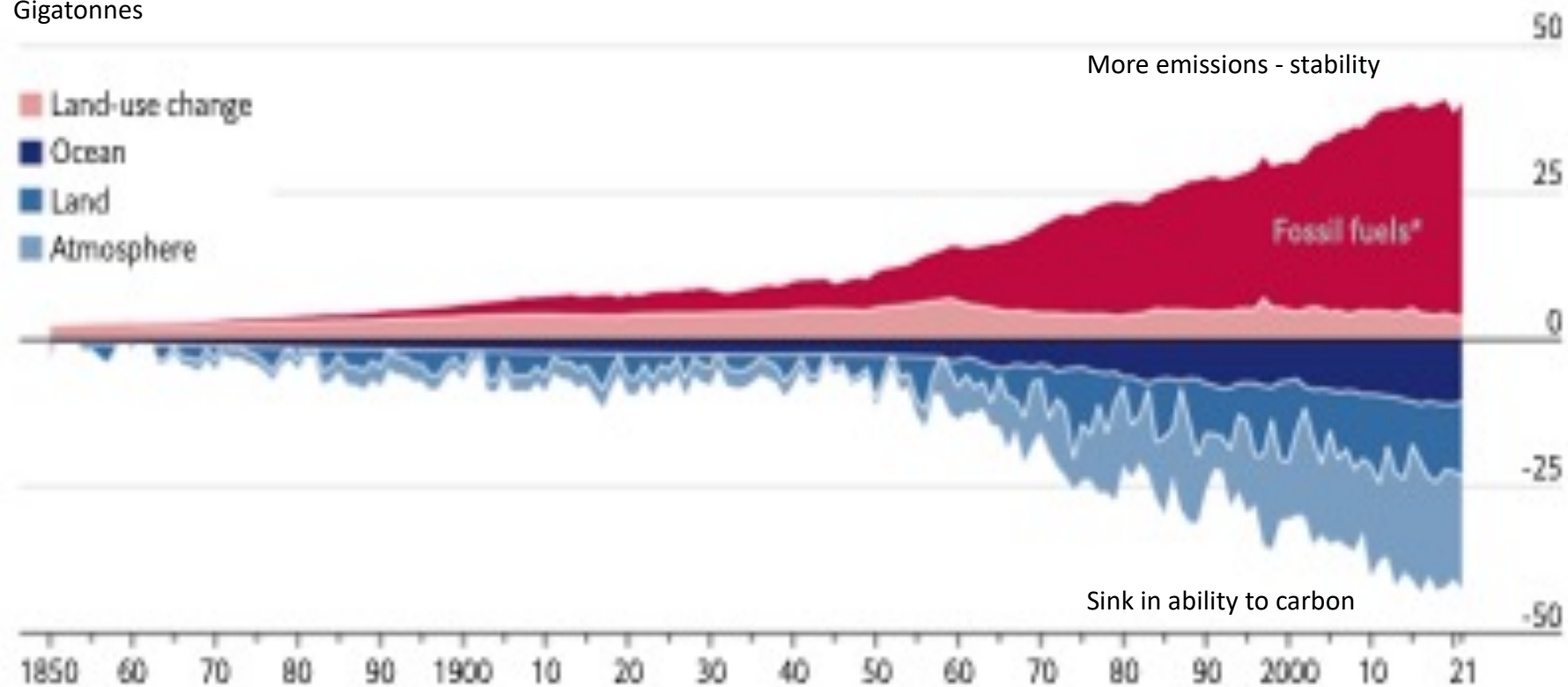
...most markedly in developed economies

working age as percent of total population



## Climate: 1.5c target will be missed – but there has been progress

Global sources and sinks of CO<sub>2</sub>  
Gigatonnes



\* includes carbonisation

Source: Global Carbon Project

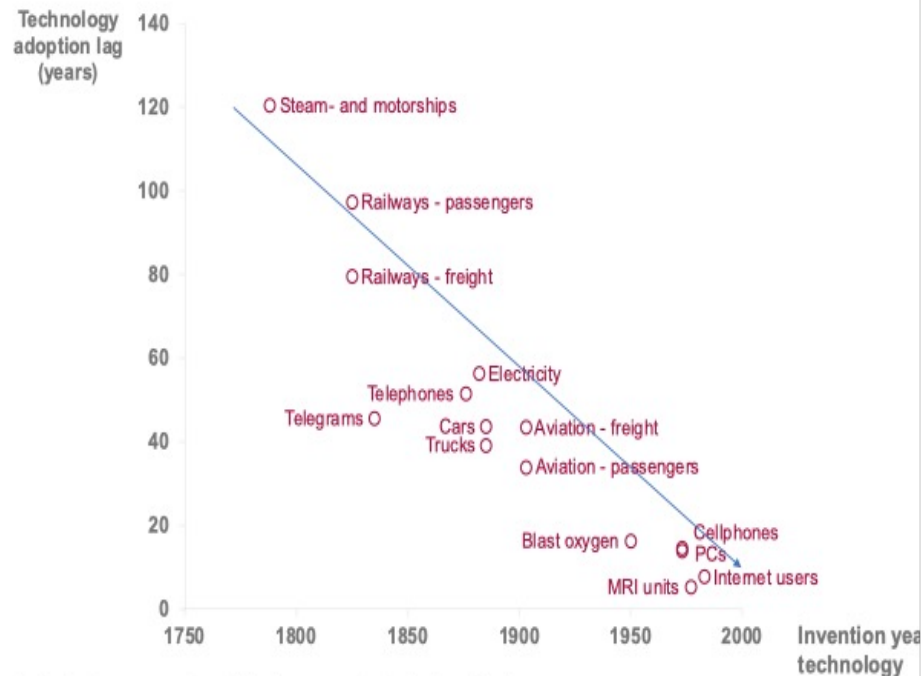
In the early 2000s, the rate at which pollutants increased was about 3% a year.

In the past decade it has fallen to 0.5%.



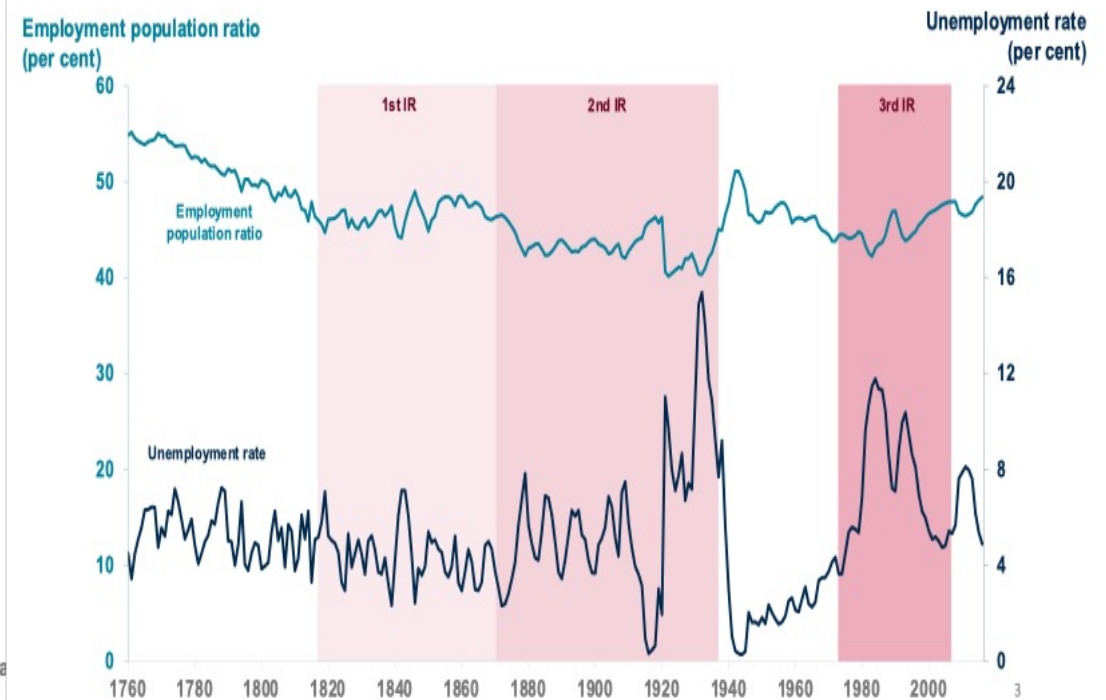
# The pace of technological change is accelerating

## Technology adoption accelerating



Notes: Technology adoption lag is a mean estimated lag in cross-country technology diffusion.  
Source: Comin, D and Hobijn, B (2010), 'An exploration of technology diffusion', *American Economic Review*, Vol. 100, No. 5, pp2031-59.

## Little evidence of technological unemployment over long term

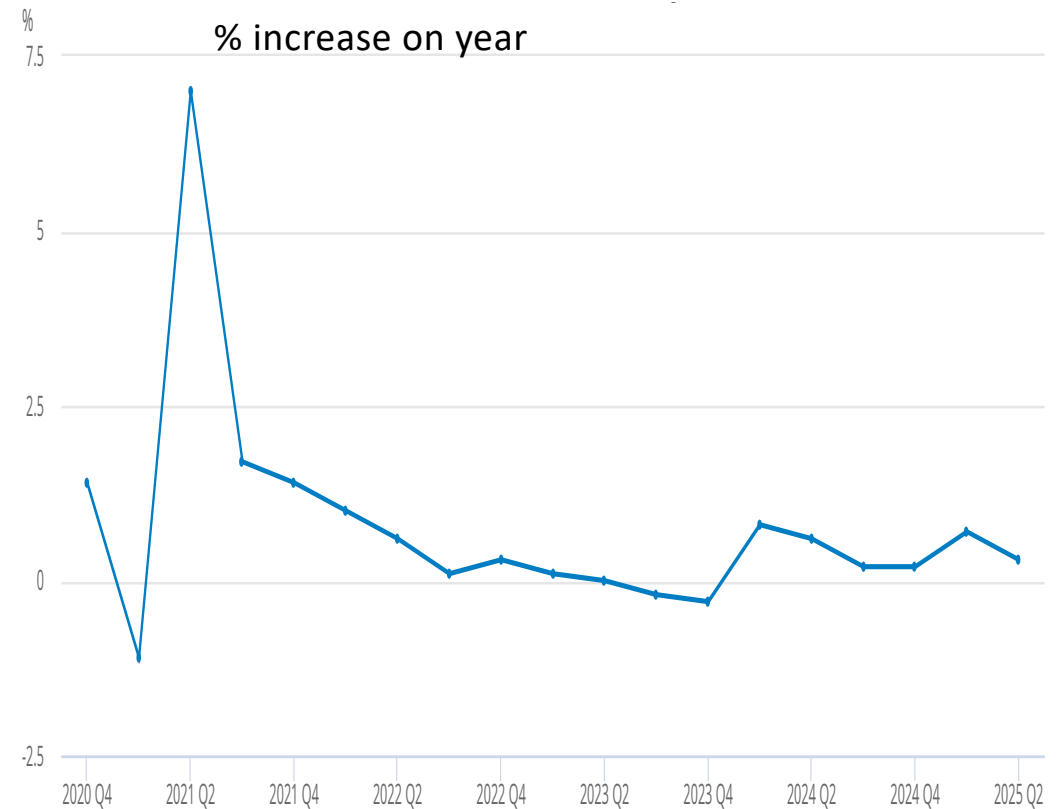
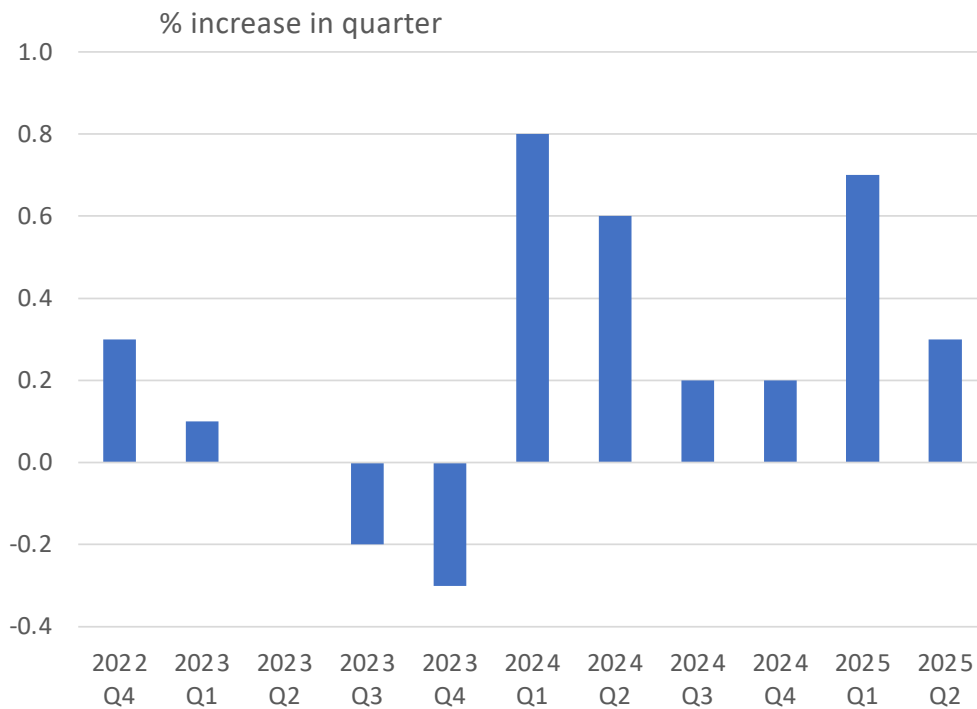


But the mix of employment will change, in ways we can't necessarily predict

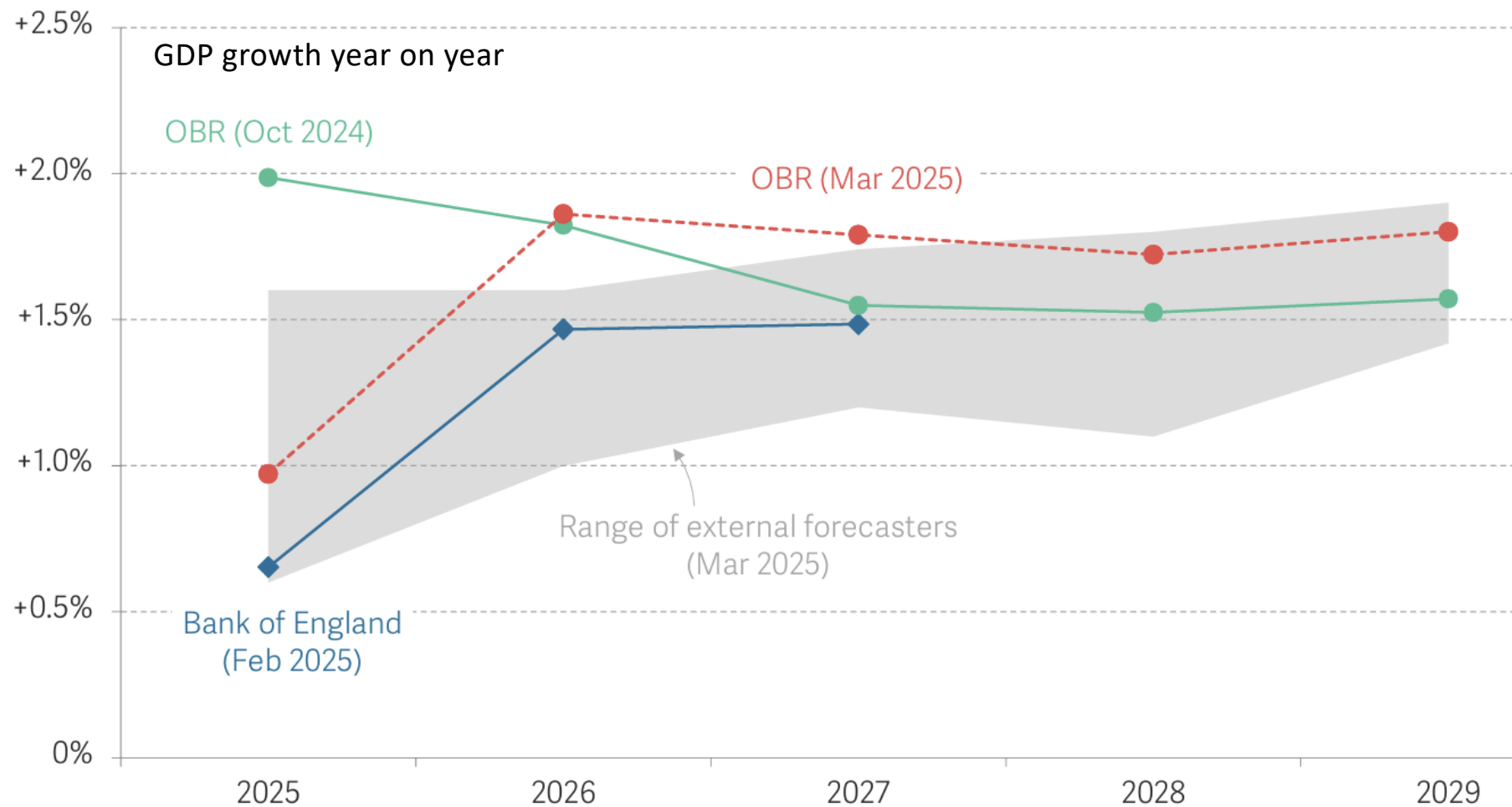
Focus on the UK

# UK economic growth remains positive...

## UK GDP growth rose in Q2...

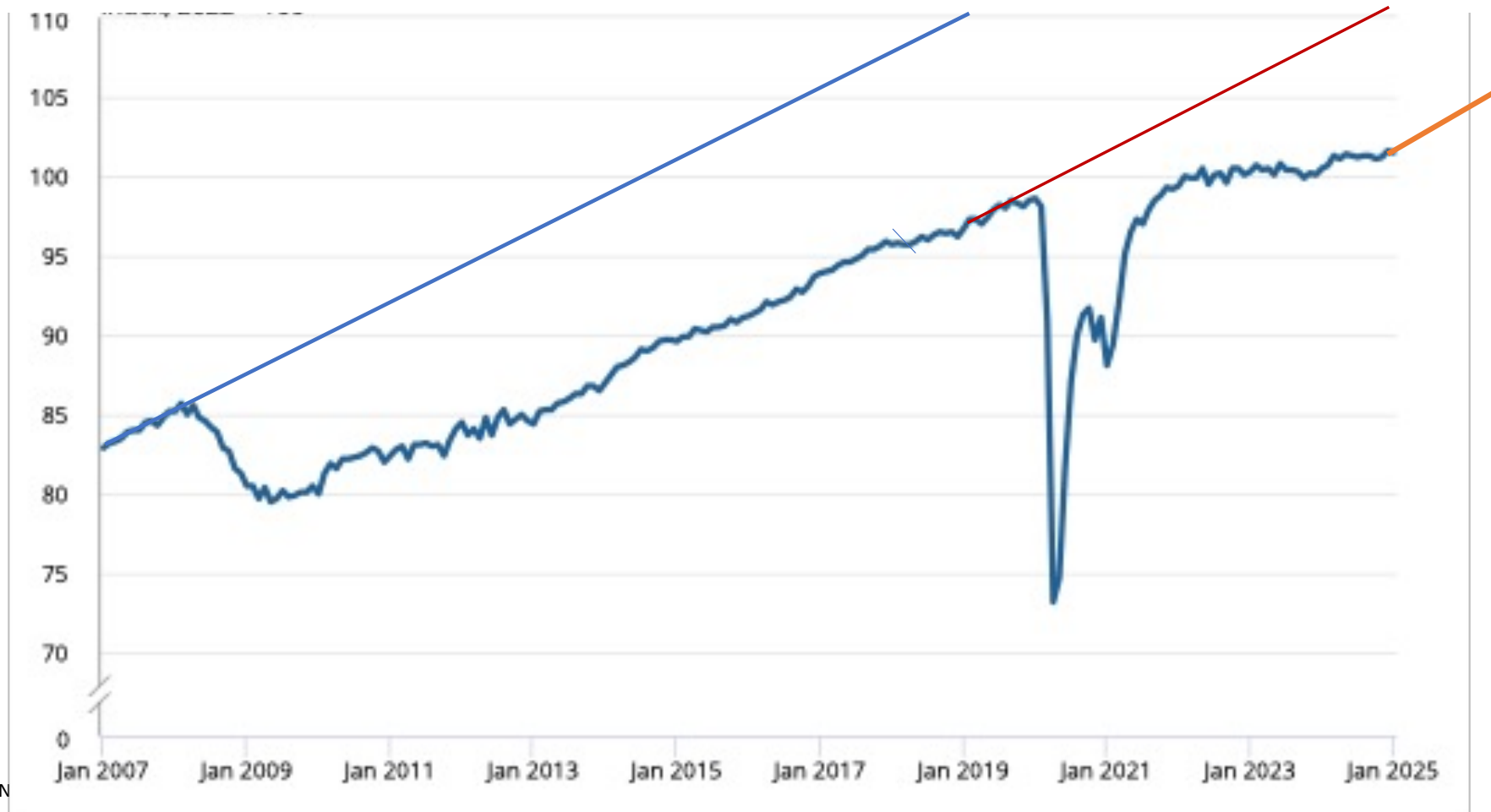


...barring a shock, it will persist...



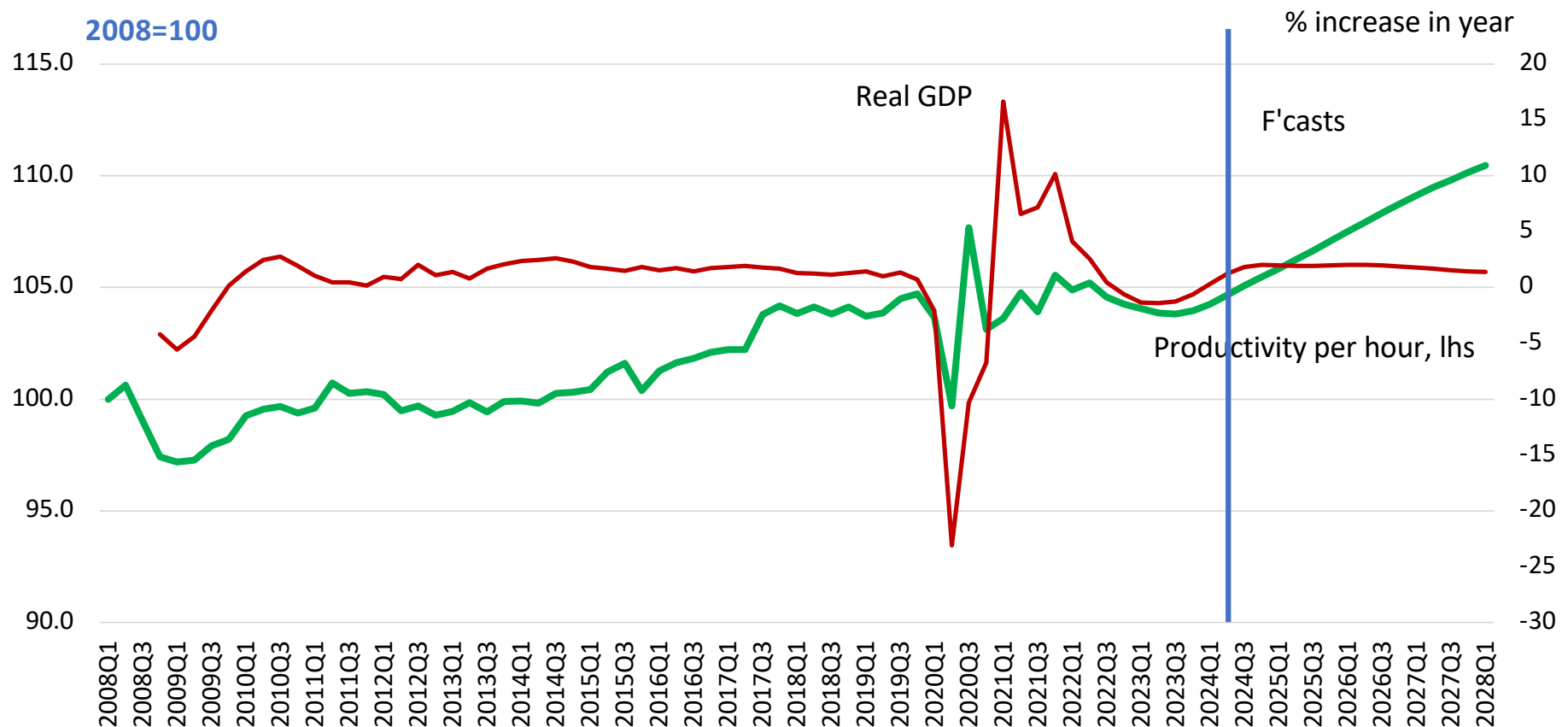
Source: OBR, IFS

However, trend rate of UK growth is now around 1¼% pa...



Source: ON

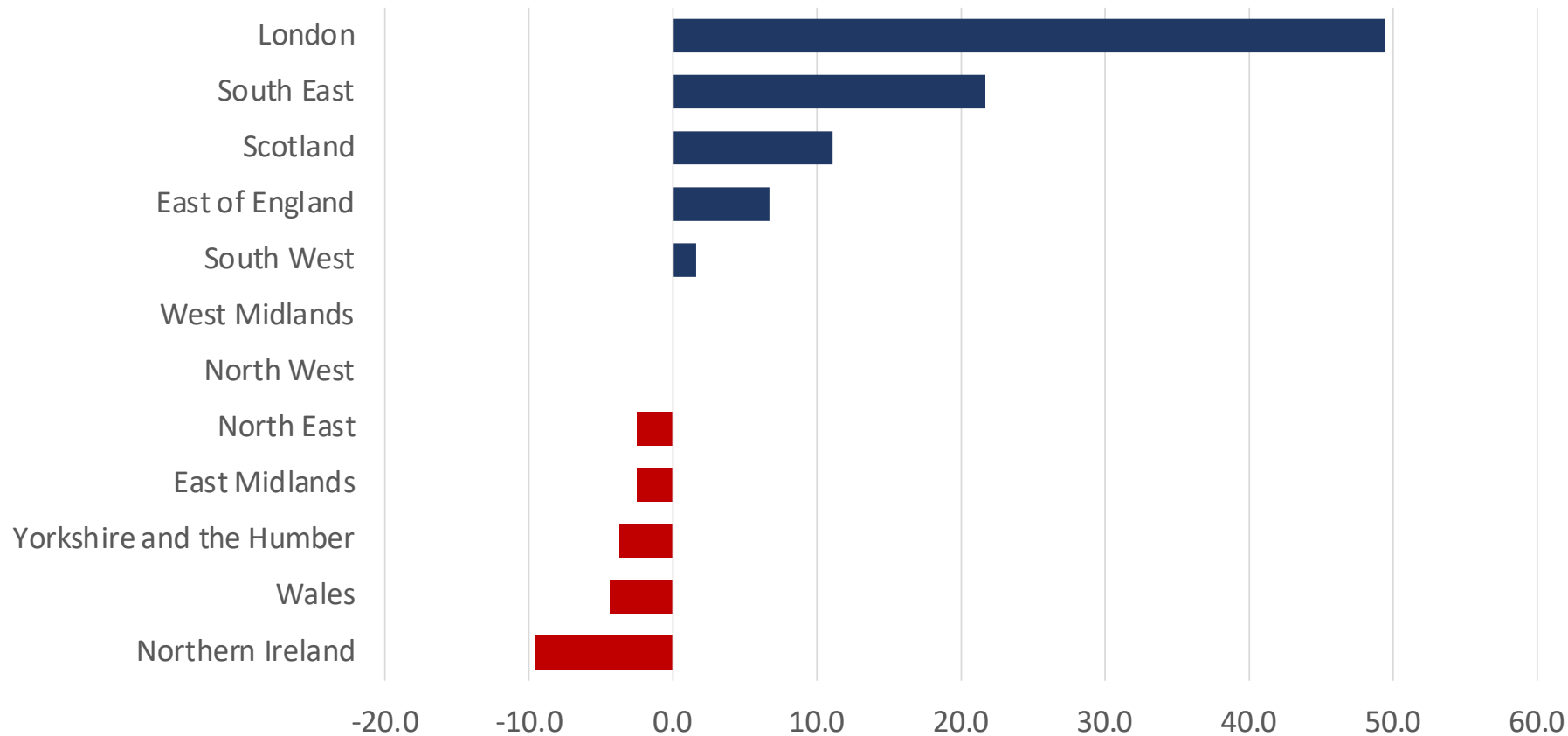
## ...because of slowing productivity\*



\*The rate of growth in potential output is a function of the evolution of the two large 'stocks' and the efficiency with which they are combined (the labour force, the capital stock, and TFP). Source TFW calculation, OBR, ONS

## Though big differences exist within the UK...

Output per hour relative to median (percent)

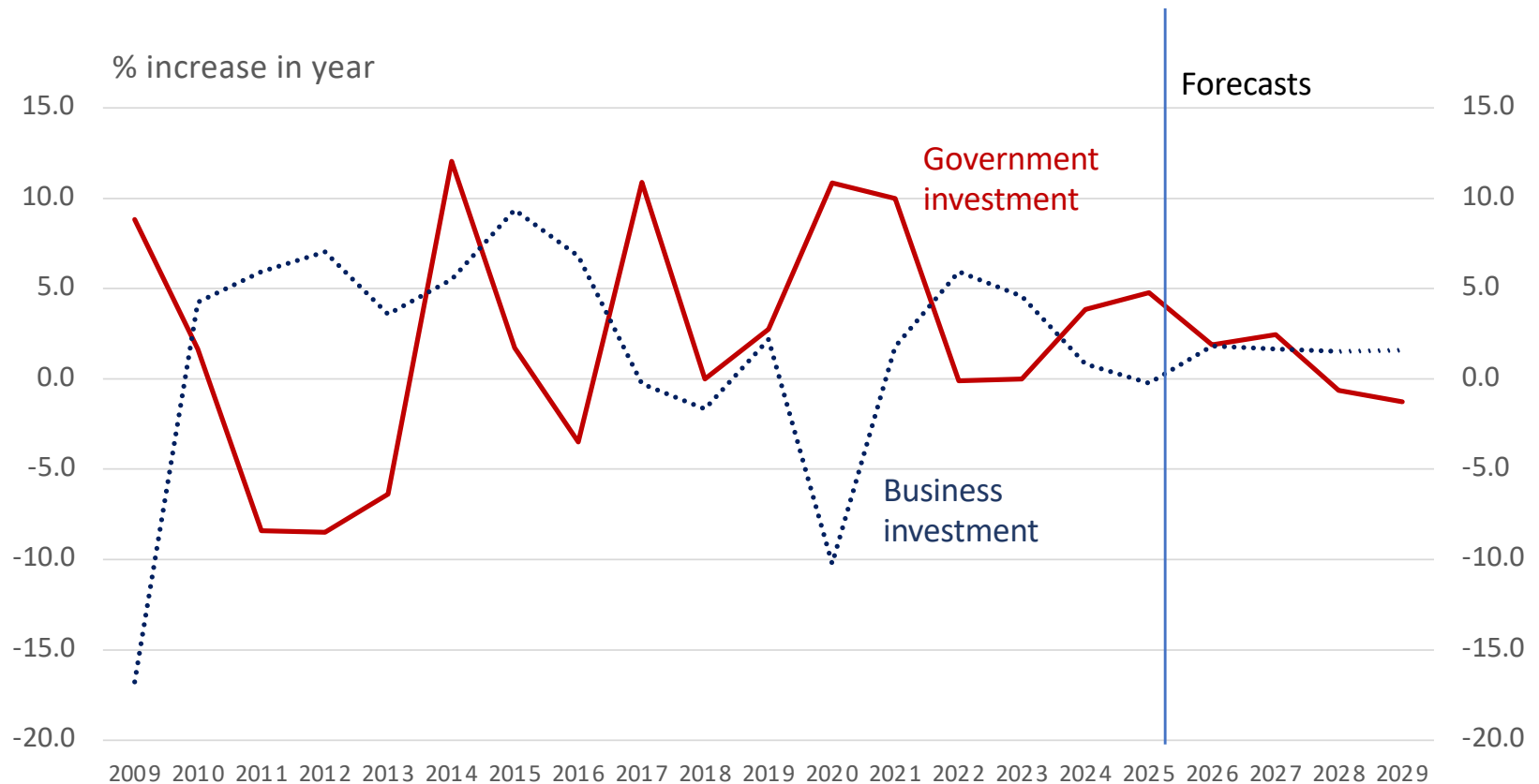


Successive Governments have tried to address the difference in productivity within the country but have all failed. Why can't we adopt 'best practices'?

\*raising productivity to 'best in class' within the UK would make big difference to the headline rate

## ..investment spending has been weak & volatile...

OBR forecast seem very optimistic about productivity given it has grown only 0.3% pa in the preceding decade

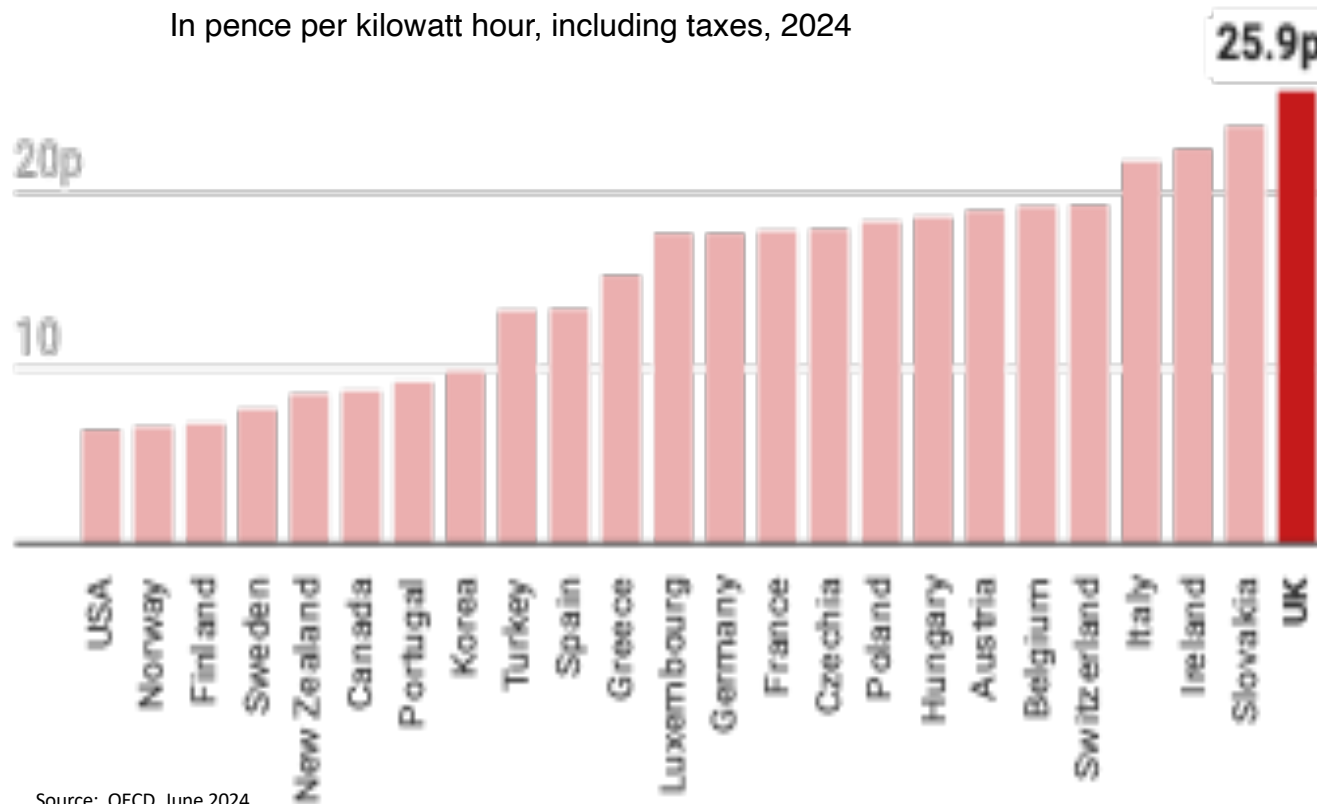




## ..and finally energy costs in the UK are elevated and...

Industrial electricity prices in the UK amongst the highest in the world

In pence per kilowatt hour, including taxes, 2024

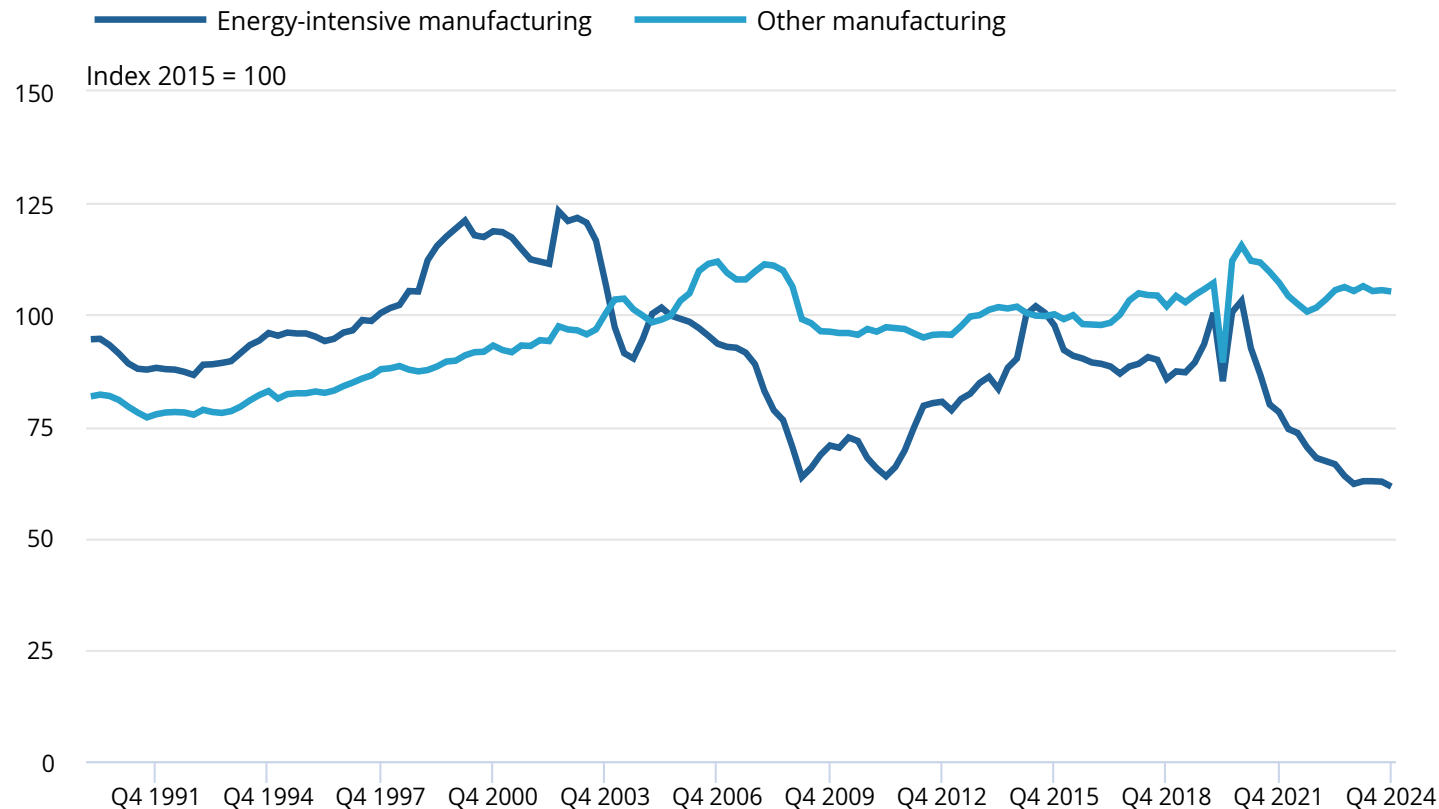


Source: OECD, June 2024

In the UK there is a very close association between gas and electricity prices, which follows from the way the system price of electricity is determined. The system price is set by the most expensive supply bid accepted from the various electricity generators. The electricity generation plants whose bid determines the system price are called “price setter”, or “price maker”, or “plants at the margin”, while those with bids lower than this price are called “price taker” or “infra-marginal” plants.

## ...are hurting economic recovery & its long term prospects

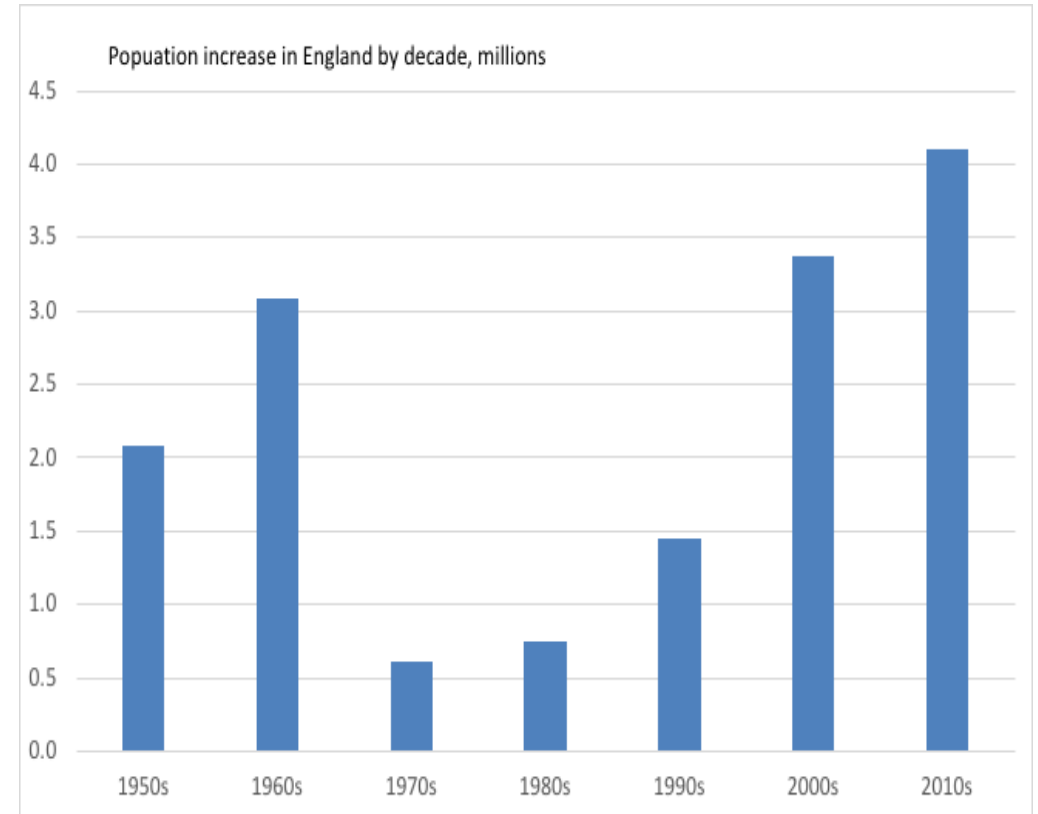
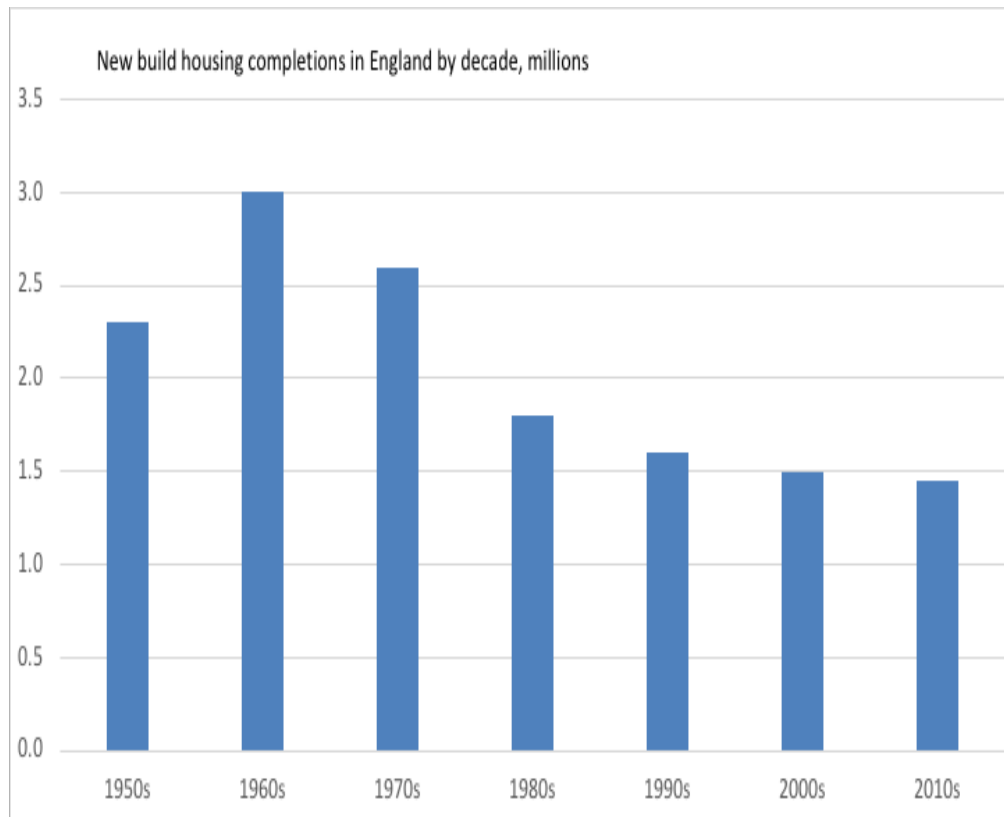
### ...hurting production in energy intensive industries..



### Volume fall output by sectors, Q1 2021 to Q4 2024:

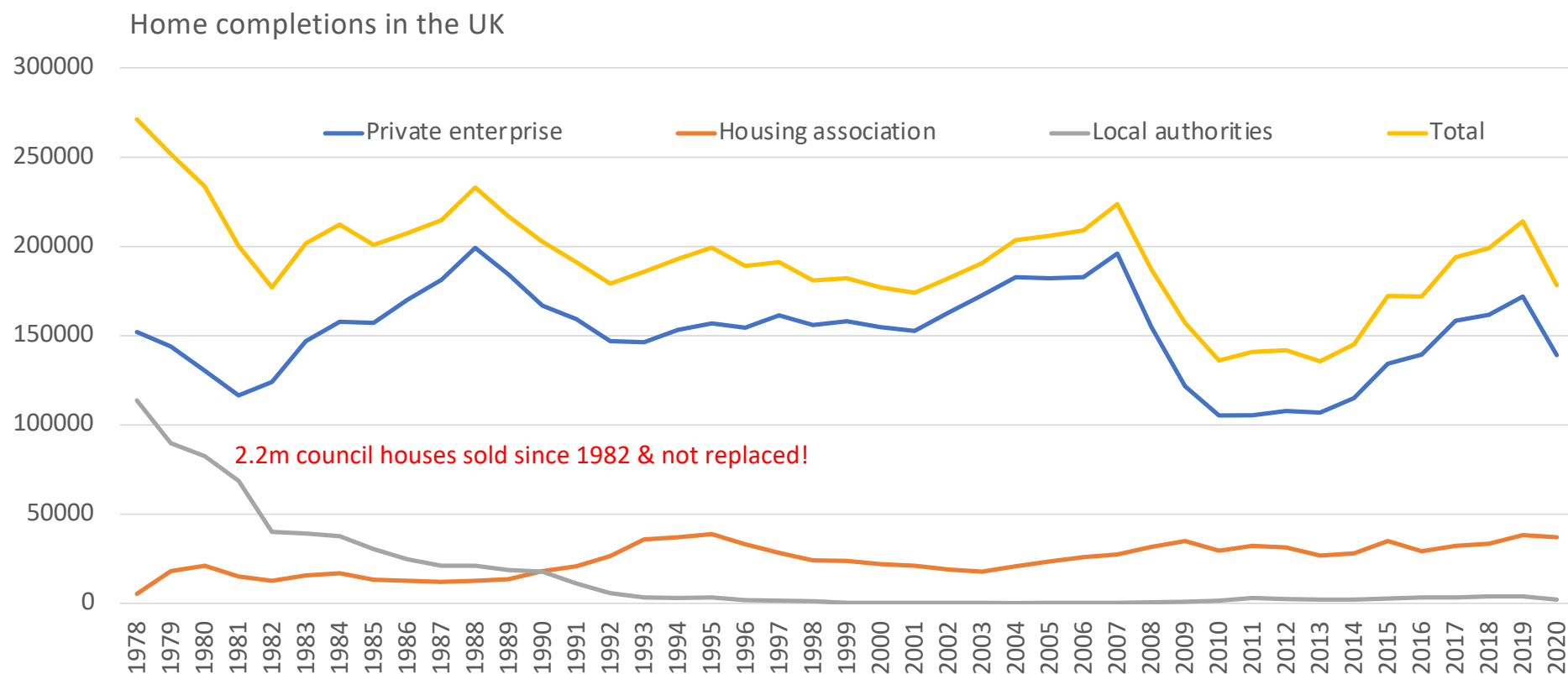
- 28.9% in the manufacture of paper and paper products
- 30.2% in the manufacture of petrochemicals
- 30.6% in the manufacture of inorganic non-metallic products
- 46.5% in the manufacture of basic metals and castings

## But lack of affordable of housing has also hit activity

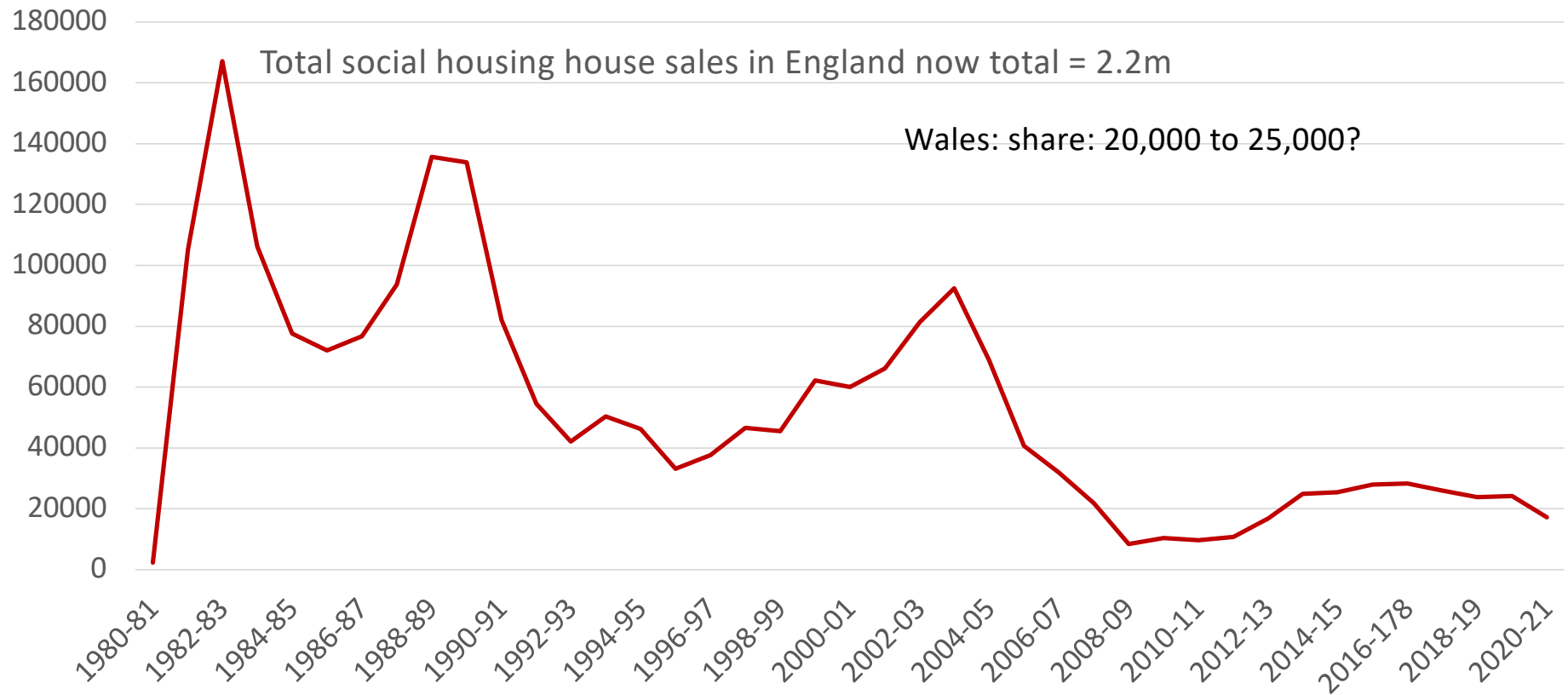


- Sources: Ministry of Housing, Communities and Local Government, ONS and Bank calculations.(a) Chained-volume measure, 2016 prices. Excludes major repairs and improvements to existing dwellings.(b) Number of permanent dwellings started/completed by private enterprises up to 2018 Q3 for England and Northern Ireland. Data from 2011 Q2 for housing starts in Wales and from 2018 Q3 for housing starts and completions in Scotland have been grown in line with permanent dwelling starts/completions by private enterprises in England. Data are seasonally adjusted by Bank staff.

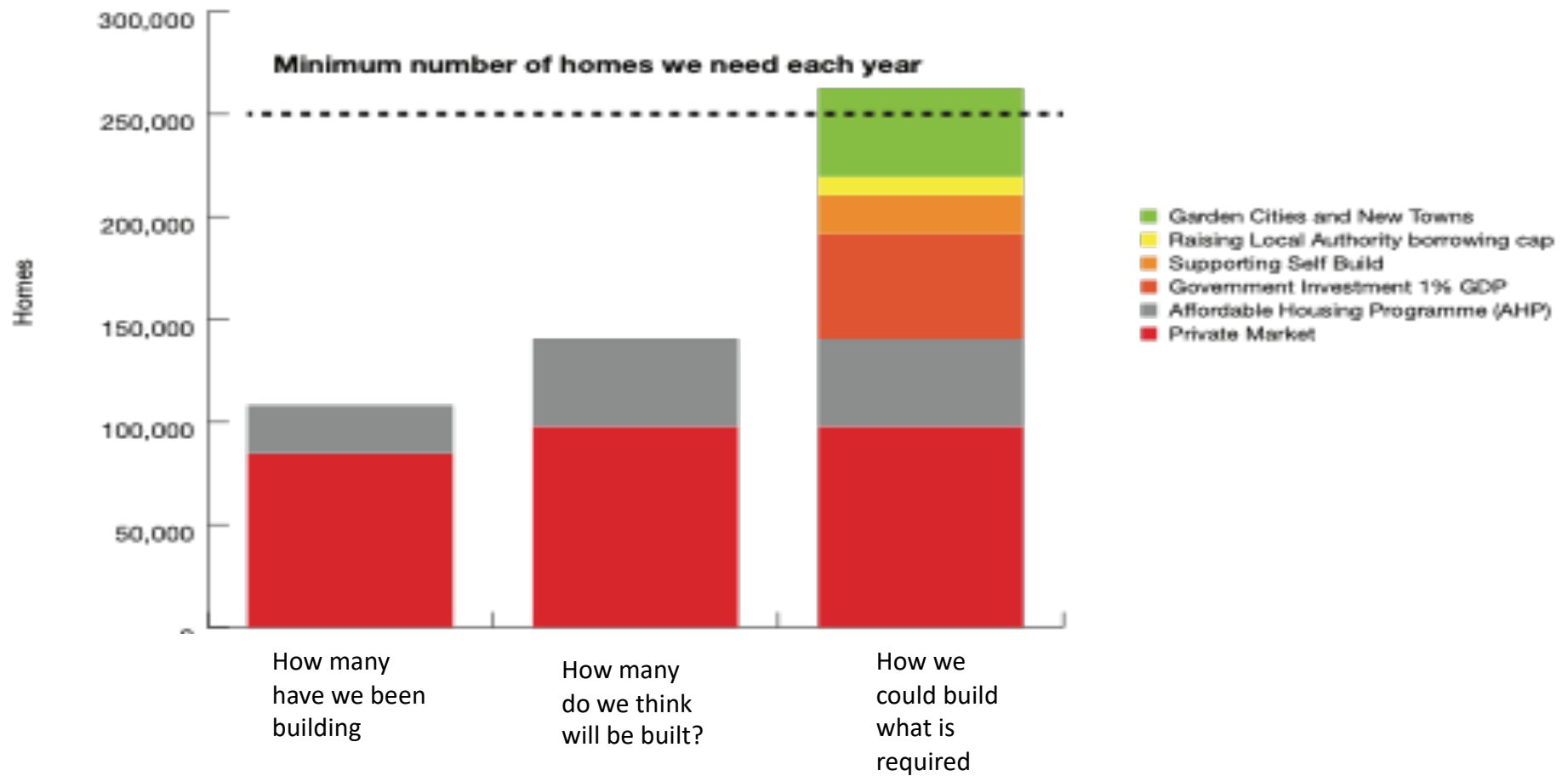
## The private sector & housing associations have not replaced the loss of LA building



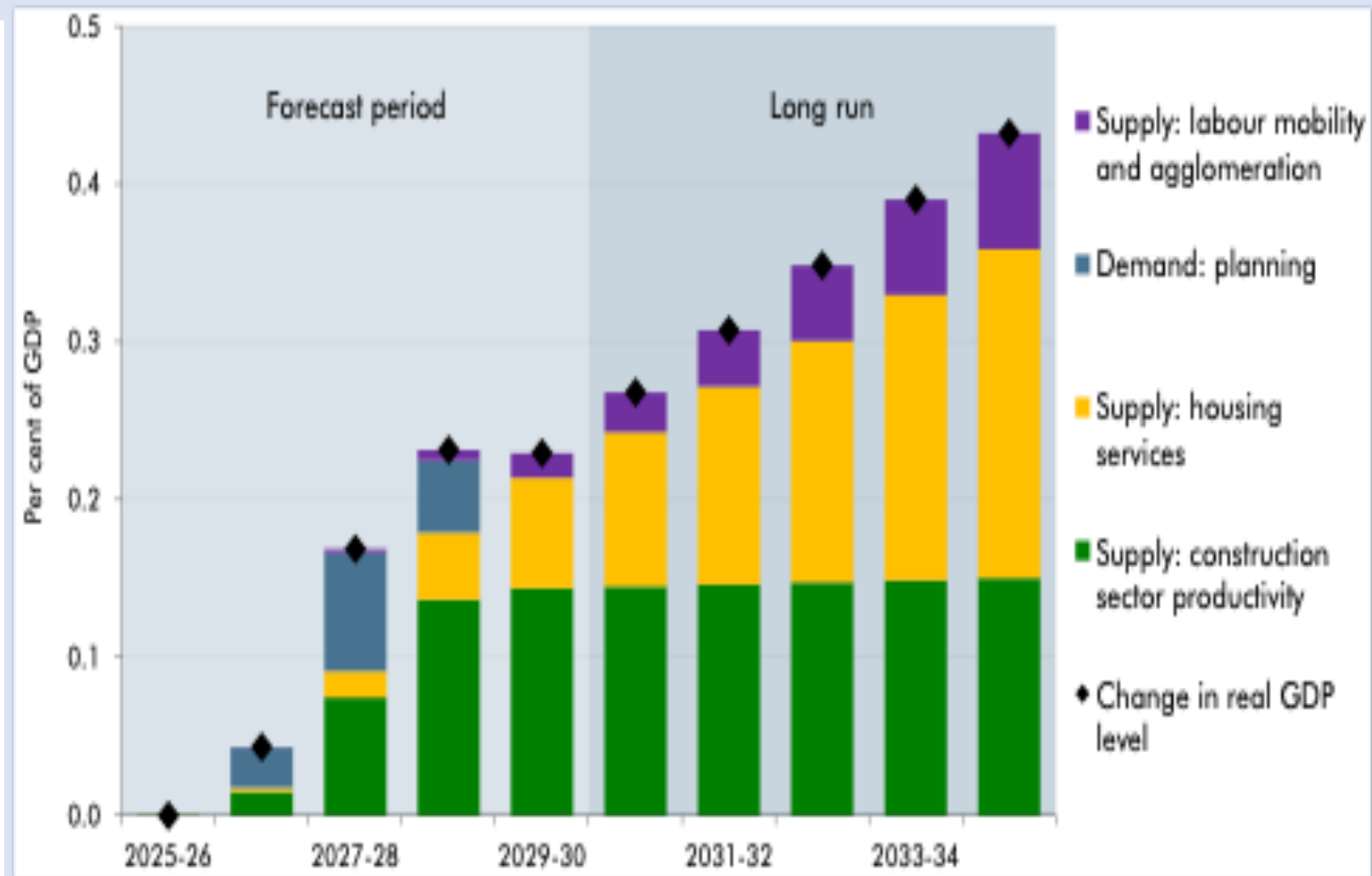
## Council house sales have not been replaced....



## How to build more...



## OBR: addressing these trends will boost UK growth

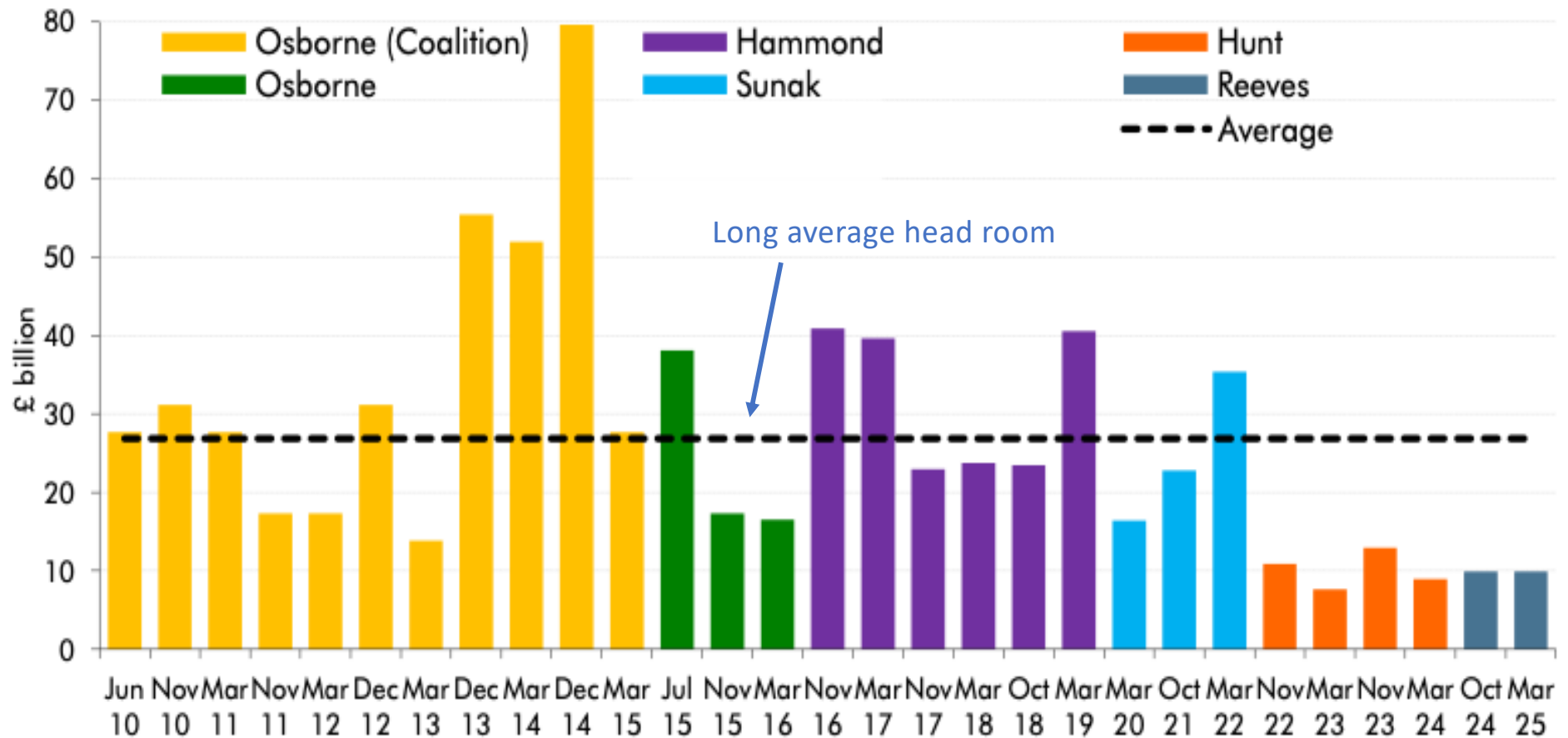


## Government's policy agenda

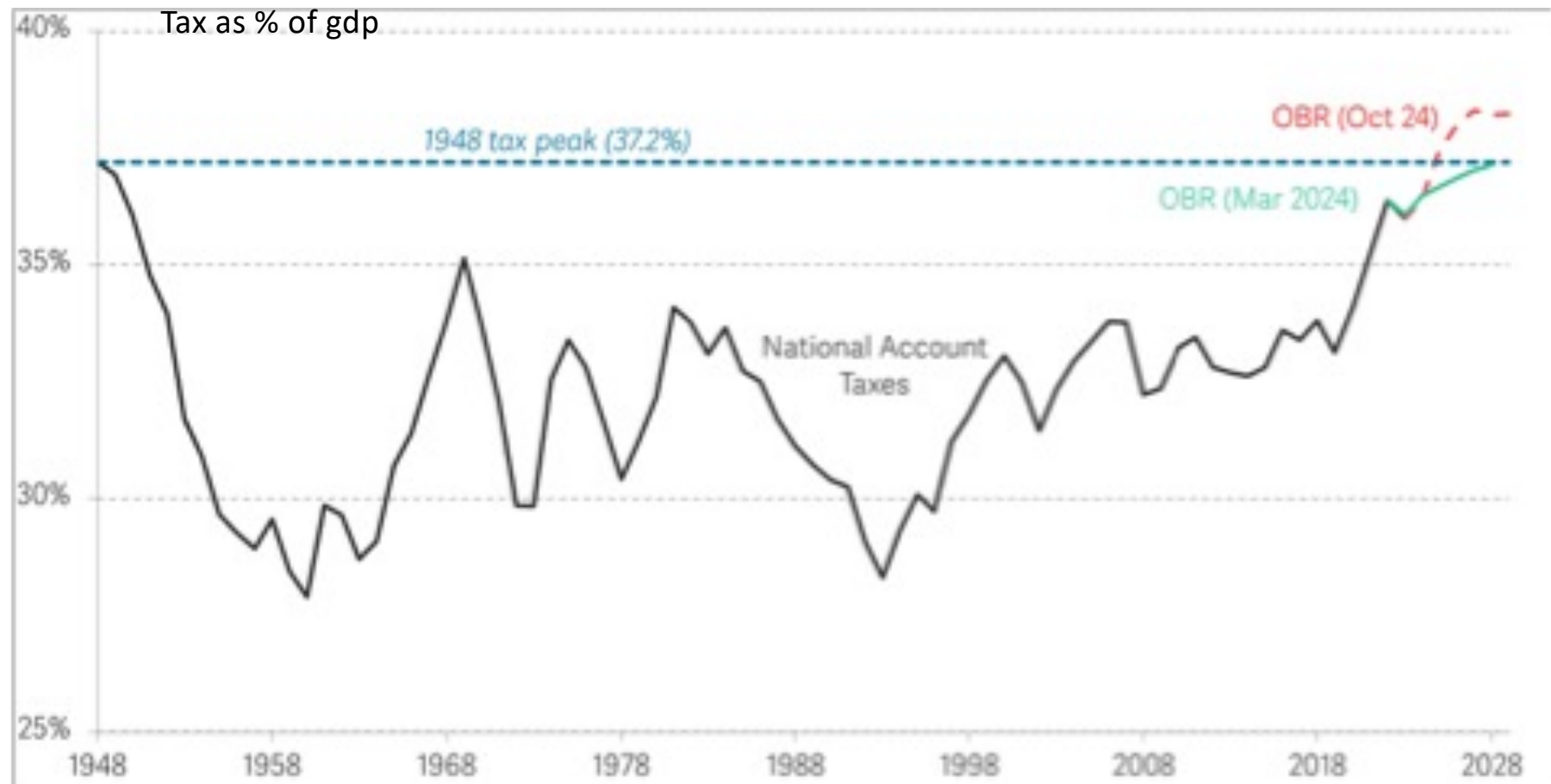
- A significant increase in taxes and spending aims to prevent reductions in expenditure and investment.
- Objective: a bid to address two decades of economic stagnation and speed up growth...
- ...however, this cannot be remedied in a single Budget or within a 5-year span.
- Comprehensive structural reforms are necessary – it must be transformative, and it must be delivered quickly.



## Chancellor has little fiscal headroom...

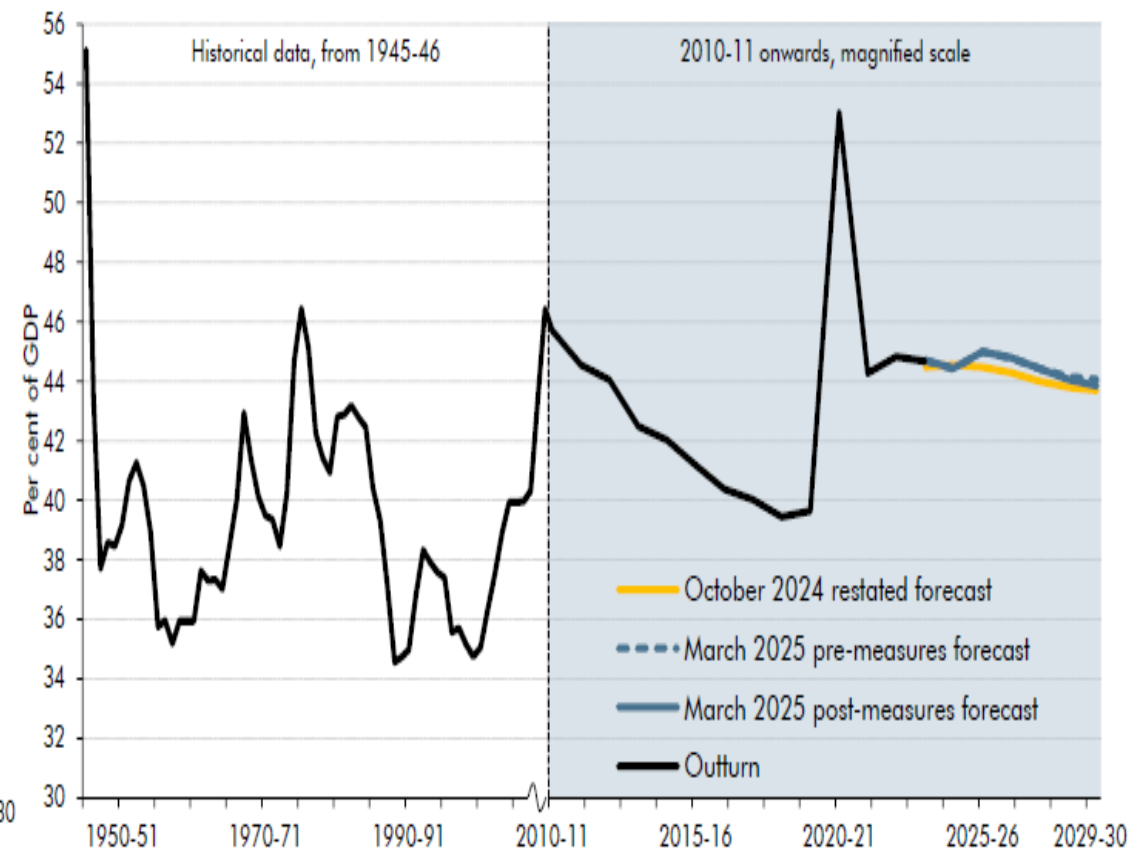
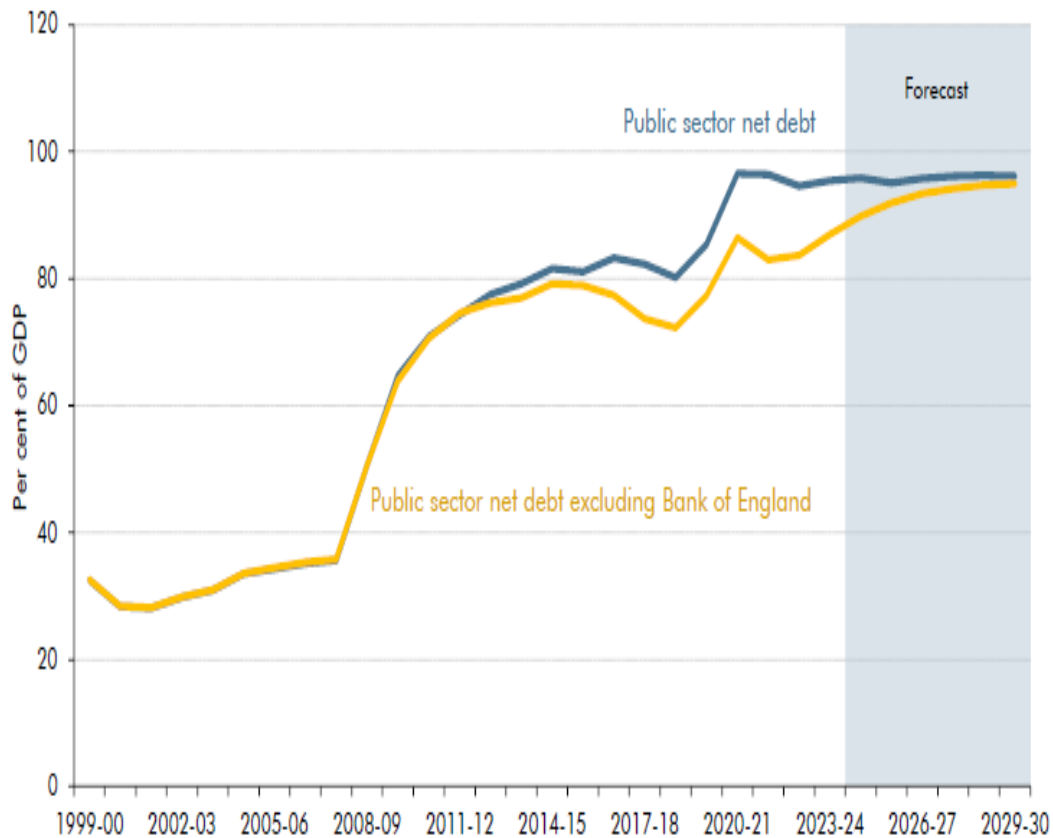


As tax as a share of the economy to hit post war high...



Source: OBR, IFS

...debt to remain near 100% as a share of GDP...



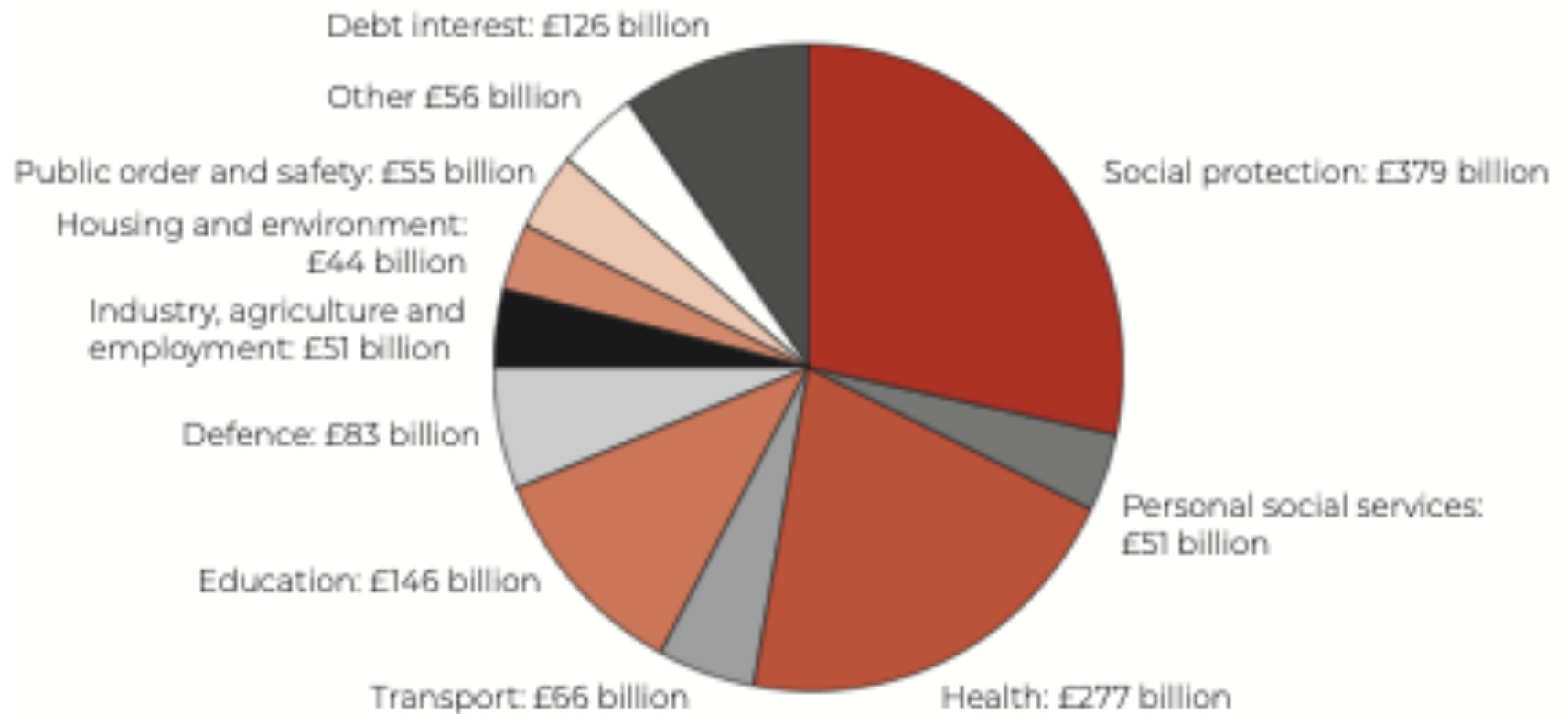
# Debt interest payments are a risk spending plans...

## UK government debt interest payments, £ billion

	24/25	25/26	26/27	27/28	28/29	29/30
October 2024 forecast	104.9	105.7	108.2	112.9	117.9	122.2
March 2025 forecast	105.2	111.2	111.4	117.9	124.2	131.6

Source: OBR March 2025

...as it takes a larger share of government spending, 2029/30



Figures may not sum due to rounding.

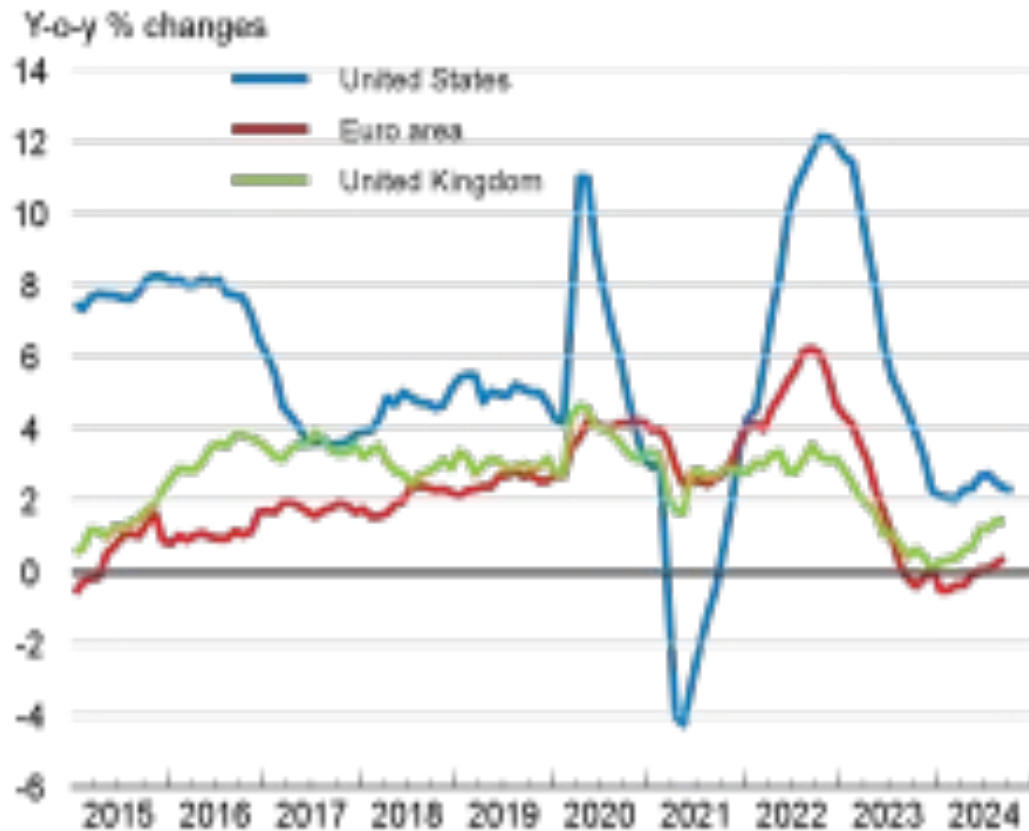
Illustrative allocations to functions are based on HMT analysis including capital consumption figures from the Office for National Statistics.

Source: Office for Budget Responsibility and HM Treasury calculations

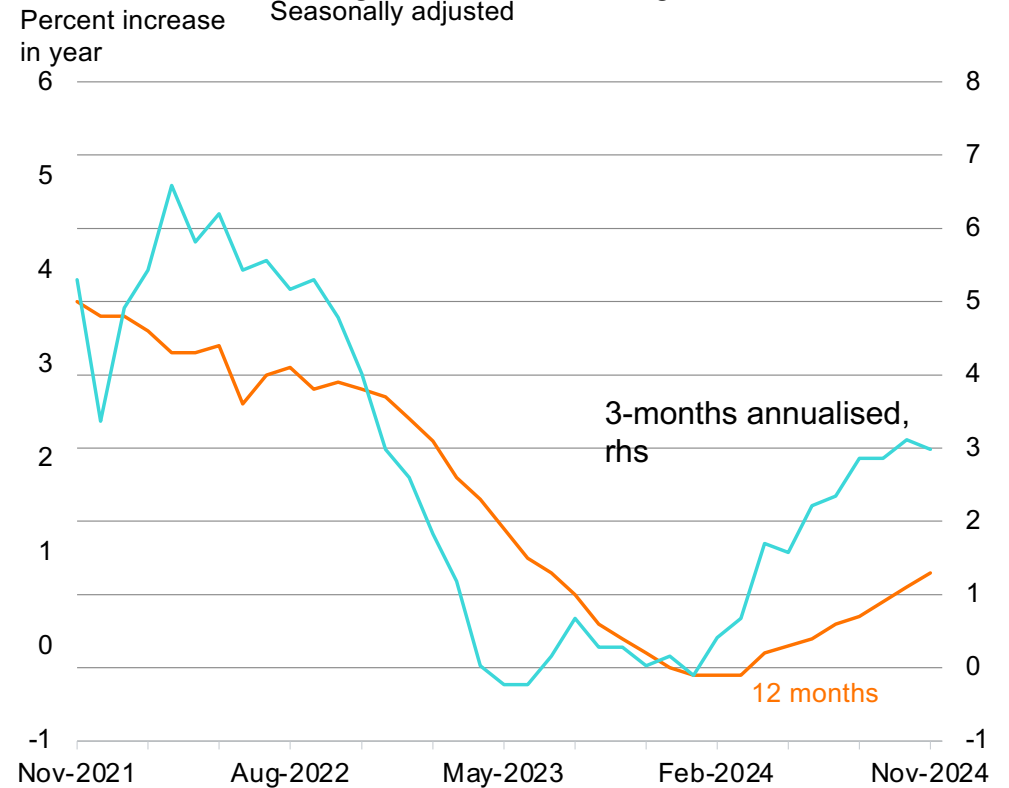
It's not all bad news!

# Bank lending is on the rise...

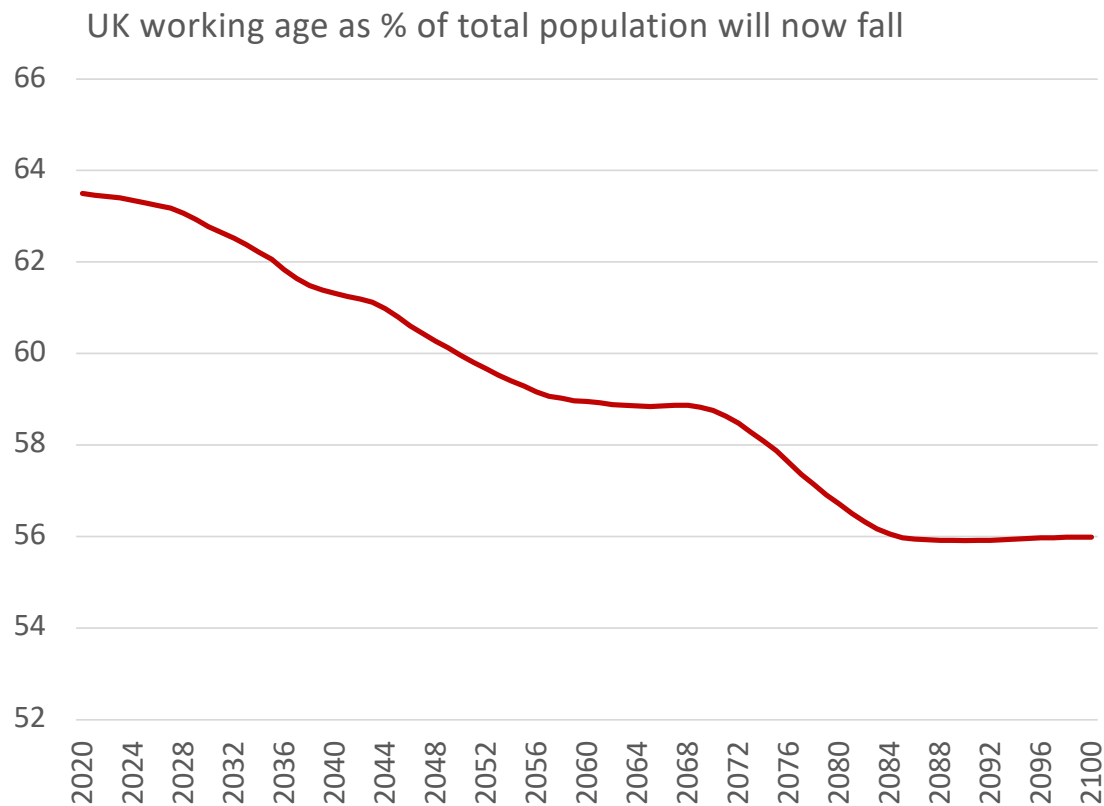
Total bank credit to borrowers



Lending secured on dwellings



## ...UK working age is shrinking but people working longer

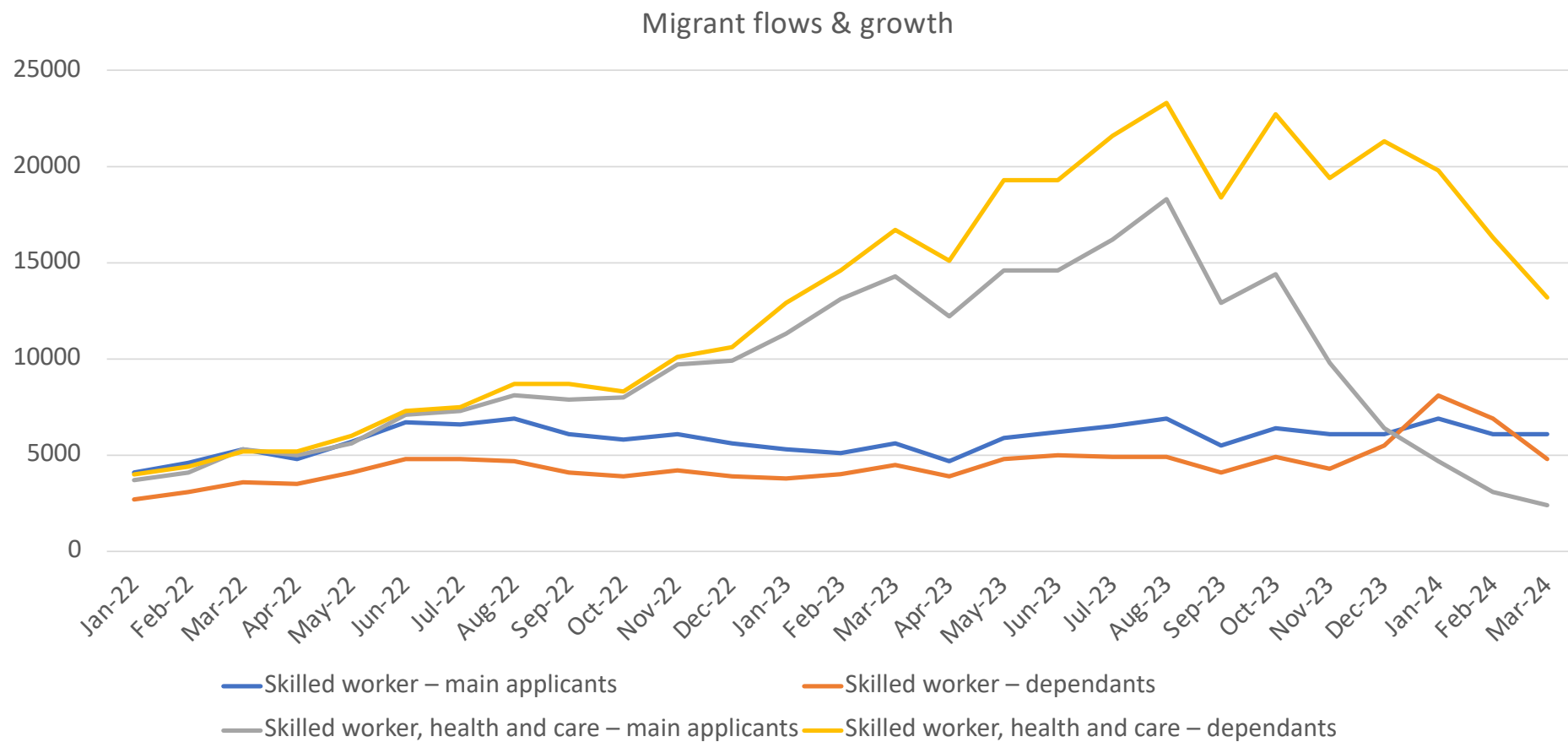


Source: ONS & TW calculations





## And what about migration policy in this context?

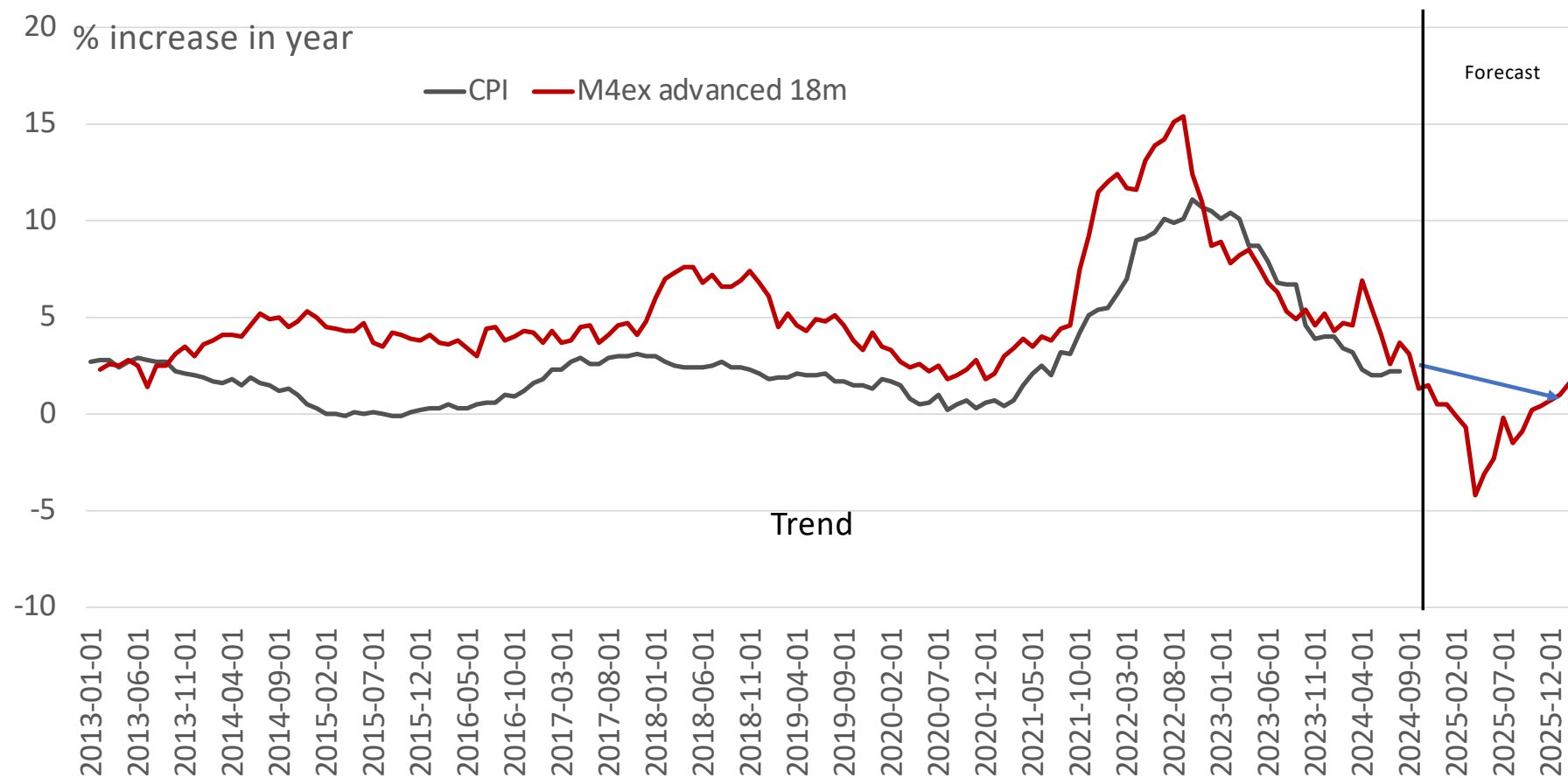


Source: UK office for National Statistics

## ...Labour market is cooling but unemployment remains low

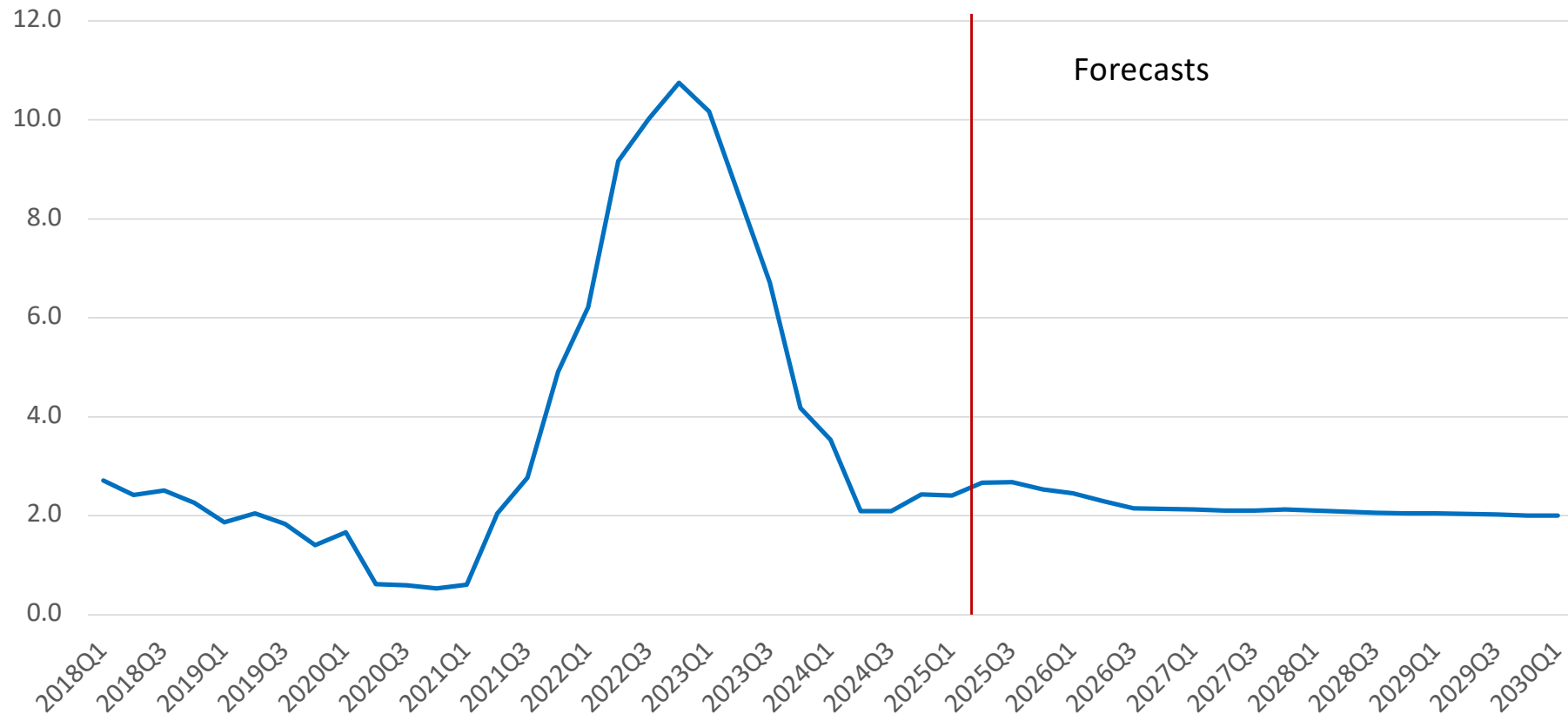
- Unemployment: The unemployment rate rose to 4.8% in the last three months, the highest rate in four years.
- Wage Growth: Despite the rise in unemployment, nominal wage growth remains robust at 4.8% (excluding bonuses) in the last three months, which is a concern for the Bank of England as it can fuel inflation.
- But job Vacancies: Vacancies have fallen to 724,000, which is below pre-pandemic levels and sign of weaker activity.
- Economic Inactivity: The economic inactivity rate has fallen over the last year but remains higher than pre-pandemic levels.

## Weak money supply growth means price inflation will slow

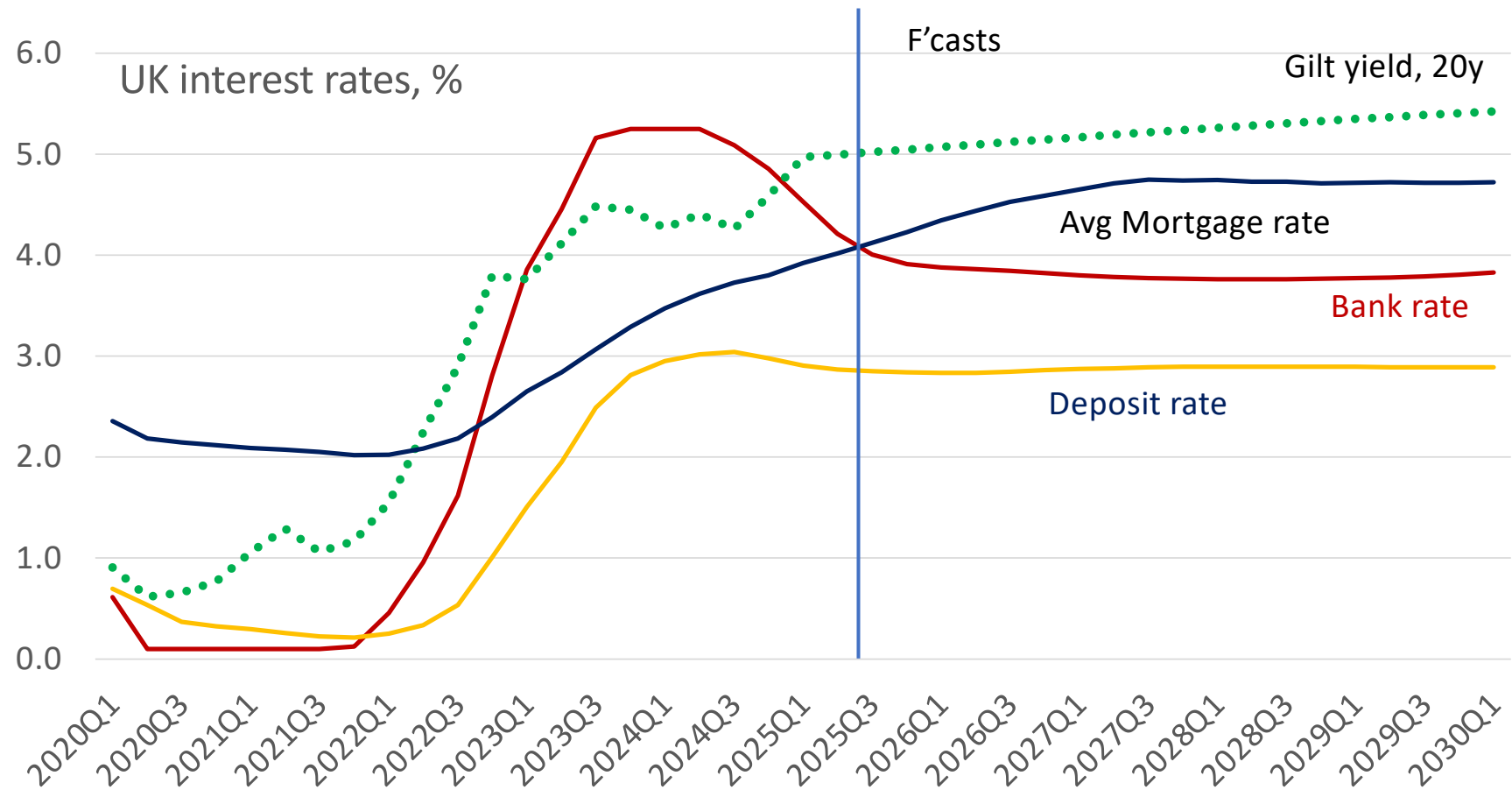


## OBR forecasts that the 2% inflation target will be met by mid-2026

CPI price inflation, % increase in year – OBR forecasts



..meaning further rate cuts are on the way



## Conclusions

World economy holding up better than expected

UK has seen pitiful growth in last 20 years, because of slowing productivity

High energy prices and lack of commercial and residential house building are factors

But official interest rates will fall when inflation drops to target

Expect bank rate to fall closer to 3% by 2026