

## Economic and fiscal forecasts

Updated: December 2012

### Purpose

This briefing summarises recent forecasts for the UK economy<sup>1</sup> and how these have changed in the past year. It compares forecasts from the Office for Budget Responsibility with that of independent forecasters where possible. It will be updated twice a year with the OBR forecasts (December and March).

### Background to the forecasts

The Office for Budget Responsibility (OBR)<sup>2</sup> was created in 2010 to provide independent analysis of the UK's public finances. Twice a year they produce an Economic and Fiscal Outlook report<sup>3</sup> which provides forecasts for the economy and public finances. The latest Economic and Fiscal Outlook<sup>4</sup> was published alongside the Chancellor's Autumn Statement 2012,<sup>5</sup> on 5 December 2012.

HM Treasury produces a monthly publication, Forecasts for the UK Economy,<sup>6</sup> which provides a summary of published material from independent forecasting organisations. The figures shown from this represent the average medium-term forecasts from the independent organisations.

<sup>1</sup> Comparable forecasts for Wales are not available.

<sup>2</sup> **Office for Budget Responsibility** [accessed 5 December 2012]

<sup>3</sup> Office for Budget Responsibility, **Economic and Fiscal Outlook** [accessed 5 December 2012]

<sup>4</sup> Office for Budget Responsibility, **Economic and Fiscal Outlook** [accessed 5 December 2012]

<sup>5</sup> HM Treasury, **Autumn Statement 2012**, 5 December 2012 [accessed 5 December 2012]

<sup>6</sup> HM Treasury, **Forecasts for the UK economy: A comparison of independent forecasts** [accessed 5 December 2012]

## GDP growth

Figure 1 shows the forecasts for gross domestic product (GDP) growth (both the OBR forecasts and the average independent forecasts) from 2012 to 2017.

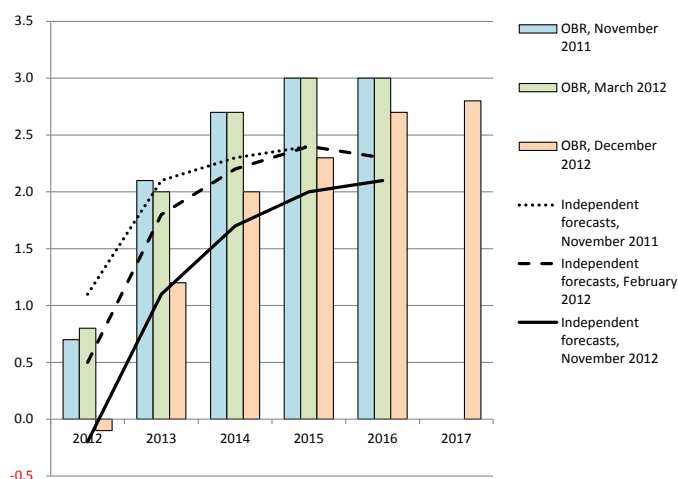
This shows that since March 2012 the OBR forecasts have been revised downwards by 0.9 percentage points in 2012, and 0.8 percentage points in 2013, with a further reduction of 0.7 in both 2014 and 2015 and a further downward revision of 0.3 percentage points in 2016.

Independent forecasts are less optimistic than that of the OBR, with forecast GDP growth on average 0.6 percentage points lower over the forecast period in comparison to independent forecasts in February 2012.

In comparison to the OBR's November 2011 forecasts: GDP growth has been revised downwards by 0.8 percentage points in 2012, and by 0.9 percentage points in 2013. Changes for 2014 to 2016 are the same as those shown since March 2012.

In comparison to the OBR's forecasts as at November 2010 GDP growth forecasts are much lower, with a downward revision of 2.7 and 1.7 percentage points for 2012 and 2013, respectively.

**Figure 1: GDP Growth (per cent change on previous year)**



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports and HM Treasury Forecasts for the UK economy

## Inflation - CPI

Figure 2 shows the forecasts for inflation as measured by the Consumer Price Index (CPI) (both OBR and independent forecasts) from 2012 to 2017.

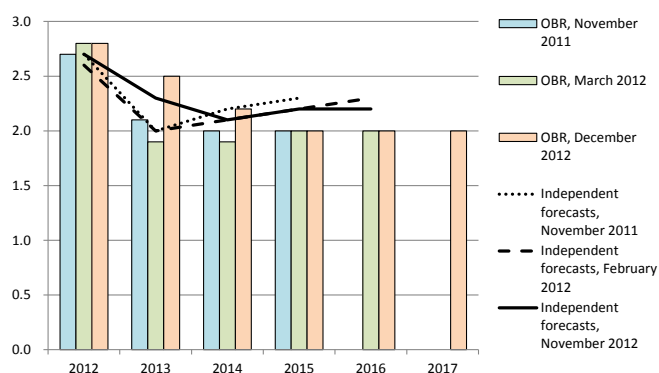
This shows that since March 2012 the OBR forecasts have remained static in 2012, and revised upwards by 0.6 percentage points in 2013 and 0.3 percentage points in 2014. Forecasts for 2015 and 2016 remain static.

Independent forecasts estimate similar inflation to the OBR forecasts, with inflation on average 0.1 percentage point greater over the forecast period in comparison to independent forecasts in February 2012.

In comparison to the OBR's November 2011 forecasts CPI inflation forecasts have been revised upwards by 0.1 percentage points in 2012, 0.4 percentage points in 2013, 0.2 percentage points in 2014 and remain static for 2015.

In comparison to the OBR's forecasts as at November 2010 CPI inflation forecasts are much higher in 2012, 2013, and 2014 (0.9, 0.5, and 0.2 percentage points, respectively), but remain unchanged for 2015.

Figure 2: CPI (per cent change on previous year)



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports and HM Treasury Forecasts for the UK economy

## Unemployment

Figure 3 shows the forecasts for unemployment as measured by the claimant count<sup>7</sup> (both OBR and independent forecasts) from 2012 to 2017.

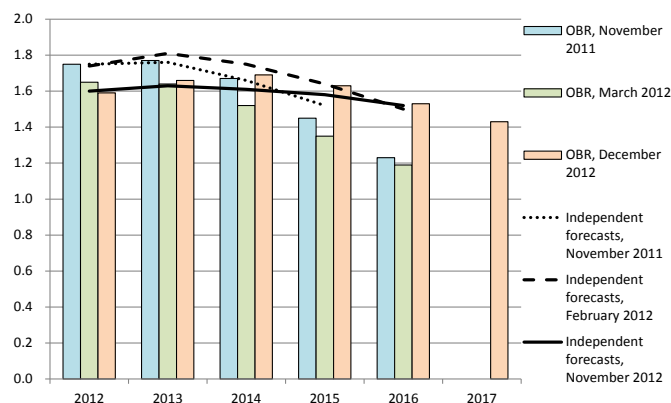
This shows that since March 2012 the OBR forecasts have been revised downwards by 60,000 in 2012, and revised upwards for all other years: by 20,000 in 2013, 171,000 in 2014, 280,000 in 2015 and 340,000 in 2016.

Independent forecasts are lower by 140,000 in 2012, 180,000 in 2013 and 140,000 in 2014 in comparison to independent forecasts in February 2012.

In comparison to the OBR's November 2011 forecasts claimant count forecasts have been revised downwards by 160,000 in 2012 and 110,000 in 2013. Forecasts have been revised upwards for all other years, by 20,000 in 2014, 180,000 in 2015 and 300,000 in 2016.

In comparison to the OBR's forecasts as at November 2010 claimant count forecasts are much higher in all years, by 180,000 in 2012, 360,000 in 2013, 480,000 in 2014, and 530,000 in 2015.

Figure 3: Claimant count (millions)



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports and HM Treasury Forecasts for the UK economy

<sup>7</sup> **Claimant count** measures the number of people claiming unemployment-related benefits; since October 1996 this has been the number of people claiming Jobseeker's Allowance (JSA).

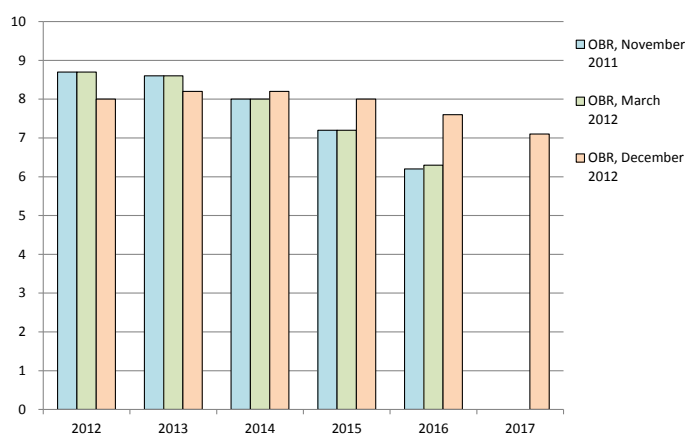
Figure 4 shows the forecasts for unemployment as measured by the ILO unemployment rate<sup>8</sup> (OBR forecasts only, these figures are unavailable from independent forecasts) from 2012 to 2017.

This shows that since March 2012 the OBR forecasts have been revised downwards by 0.7 percentage points in 2012 and 0.4 percentage points in 2013. For remaining years forecasts have been revised upwards, by 0.2, 0.8 and 1.3 percentage points in 2014, 2015 and 2016, respectively.

In comparison to the OBR's November 2011 forecasts the changes are the same as detailed above, as there was no difference between the November 2011 forecasts and those in March 2012.

In comparison to the OBR's forecasts as at November 2010 forecasts are much higher in all years, by 0.3 percentage points in 2012, 1 percentage point in 2013, 1.5 percentage points in 2014 and 1.9 percentage points in 2015.

**Figure 4: ILO unemployment rate(per cent of economically active population)**



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports

<sup>8</sup> **ILO unemployment rate** is the percentage of economically active people who are unemployed by the ILO standard. This includes those who are out of work and actively seeking a job, or those who are out of work and waiting to start a job in the next two weeks. It is measured by the Office for National Statistics' Labour Force Survey and is a more comprehensive measure of unemployment than the claimant count, as it covers everyone who is unemployed, rather than just those claiming benefits.

## Public sector borrowing and debt

Figure 5 shows the forecasts for public sector net borrowing (PSNB)<sup>9</sup> (both OBR and independent forecasts) from 2012-13 to 2017-18.

This shows that since March 2012 the OBR forecasts have been revised downwards by £12 billion in 2012-13. For all other years, forecasts have been revised upwards, by £1 billion in 2013-14, £13 billion in 2014-15, £21 billion in 2015-16 and £28 billion in 2016-17. Over the period 2012-13 to 2016-17 PSNB will be £51 billion higher than forecasts in March 2012.

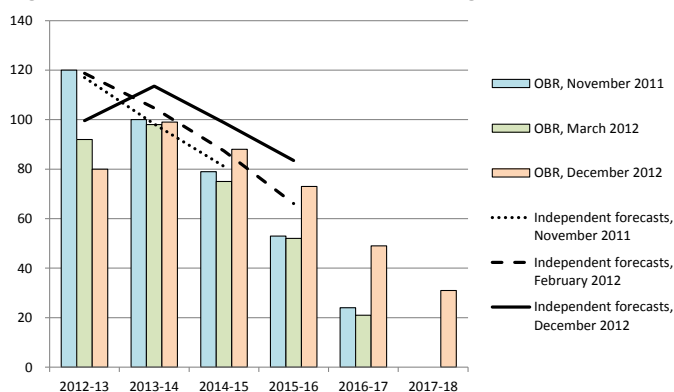
Independent forecasts are higher than those provided by the OBR, by £19.6 billion in 2012-13, £14.5 billion in 2013-14, £10.8 billion in 2014-15 and £10.5 billion in 2015-16.

In comparison to the OBR's November 2011 forecasts PSNB forecasts have been revised downwards by £40 billion in 2012-13 and £1 billion in 2013-14. For all other years, forecasts have been revised upwards, by £9 billion in 2014-15, £20 billion in 2015-16 and £25 billion in 2015-16. Over the period 2012-13 to 2016-17 PSNB will be £13 billion higher than forecasts in November 2011.

In comparison to the OBR's November 2010 forecasts, PSNB has been revised downwards by £11 billion in 2012-13, but upwards in all other years, by £39 billion in 2013-14, £53 billion in 2014-15 and £55 billion in 2015-16. Over the period 2012-13 to 2015-16 PSNB forecasts are £136 billion higher than those in November 2010.

<sup>9</sup> **Public Sector Net Borrowing (PSNB)** is the public sector's total expenditure (current and capital) less total receipts, and is a measure of the overall fiscal stance.

**Figure 5: Public Sector Net Borrowing (£ billions)**



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports and HM Treasury Forecasts for the UK economy

Figure 6 shows the forecasts for public sector net debt (PSND)<sup>10</sup> (OBR forecasts only, these figures are unavailable from independent forecasts) from 2012-13 to 2017-18.

This shows that since March 2012 the OBR forecasts have been revised upwards by £27 billion in 2012-13. Forecasts for 2013-14 and 2014-15 have been revised down by £2 billion and £3 billion, respectively. Forecasts for 2015-16 and 2016-17 have been revised upwards, by £5 billion and £19 billion, respectively.

Over the period 2012-13 to 2016-17 PSND will be £46 billion higher than forecasts in March 2012. This represents a debt to GDP ratio of 79.2 per cent in 2016-17 (forecast to be 74.3 per cent in March 2012).

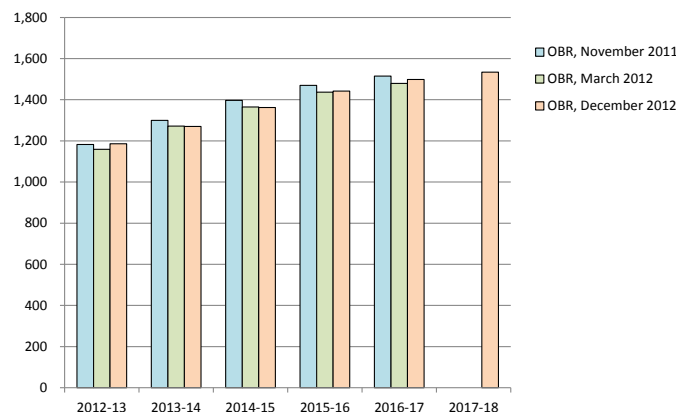
In comparison to the OBR's November 2011 PSND forecasts have been revised up by £4 billion in 2012-13, and then revised down by £30 billion in 2013-14, £35 billion in 2014-15, £28 billion in 2015-16 and £17 billion in 2016-17. Over the period 2012-13 to 2016-17 PSND will be £106 billion lower than forecasts in November 2011.

In comparison to the OBR's November 2010 forecasts, PSND is much higher, revised upwards by £29 billion in 2012-13, £38 billion in 2013-14, £78 billion in 2014-15 and £122 billion in 2015-16. Over the period 2012-13 to 2015-16, PSND will be £267 billion high than

<sup>10</sup> **Public Sector Net Debt (PSND)** is the cumulative total of the Public sector net cash requirement, and reflects the public sectors debt burden.

forecast in November 2010. This represents a debt to GDP ratio of 79.9 per cent in 2015-16 (forecast to be 67.2 per cent in November 2010).

**Figure 6: Public sector net debt (£ billions)**



Source: Office for Budget Responsibility Economic and Fiscal Outlook Reports

## Further information

Further detail on the figures as well as explanations for the revisions to the forecasts can be found in the full forecast document: Office for Budget Responsibility, *Economic and Fiscal Outlook*, December 2012

For further information on economic and fiscal forecasts, please contact **Dr Eleanor Roy** ([Eleanor.Roy@wales.gov.uk](mailto:Eleanor.Roy@wales.gov.uk)), Research Service.

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