



Institute for Fiscal Studies



GDP, incomes and austerity

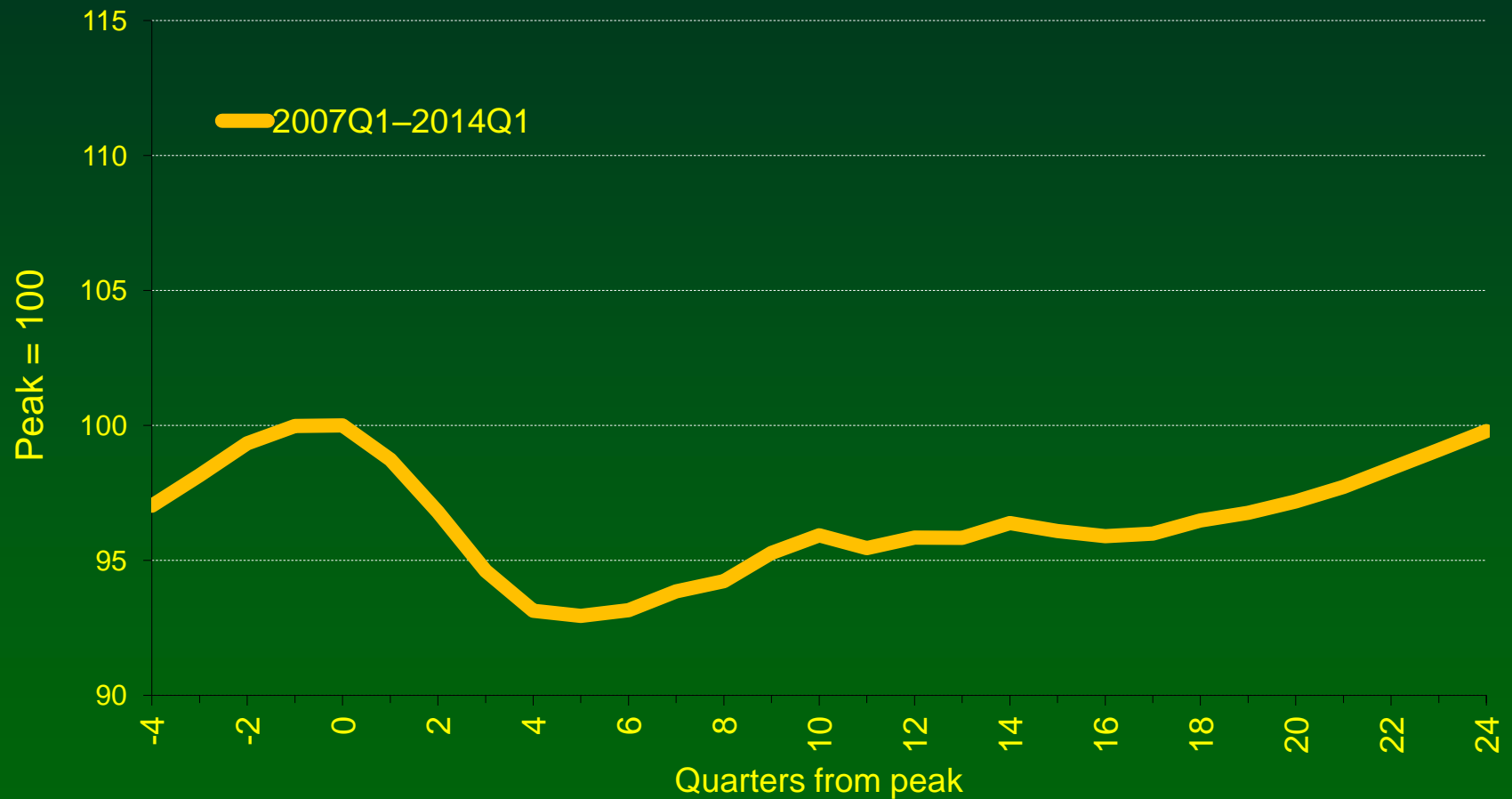
Paul Johnson

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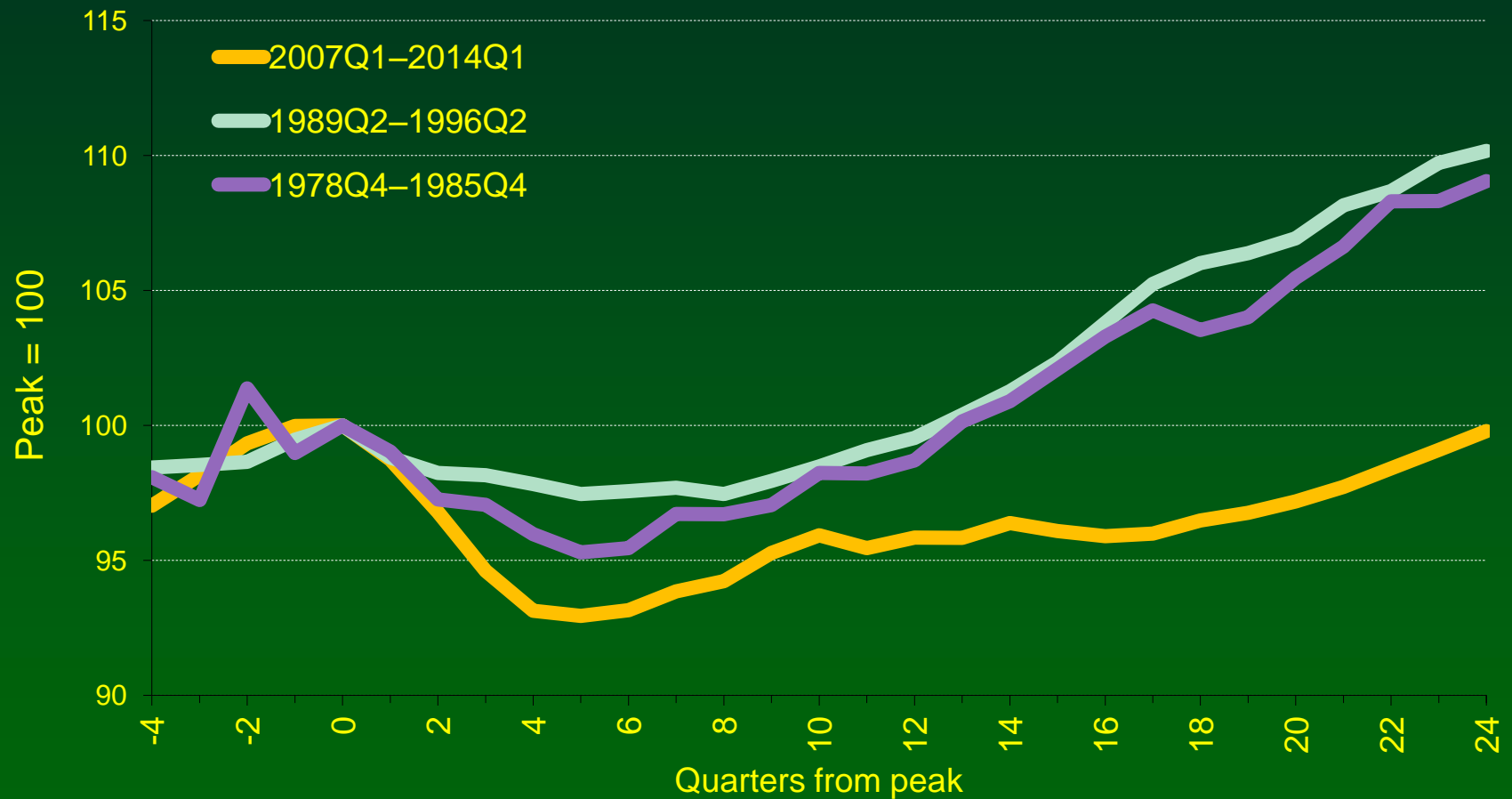
Since 2008...

- Following a long period of growth, GDP has fallen dramatically and failed to recover

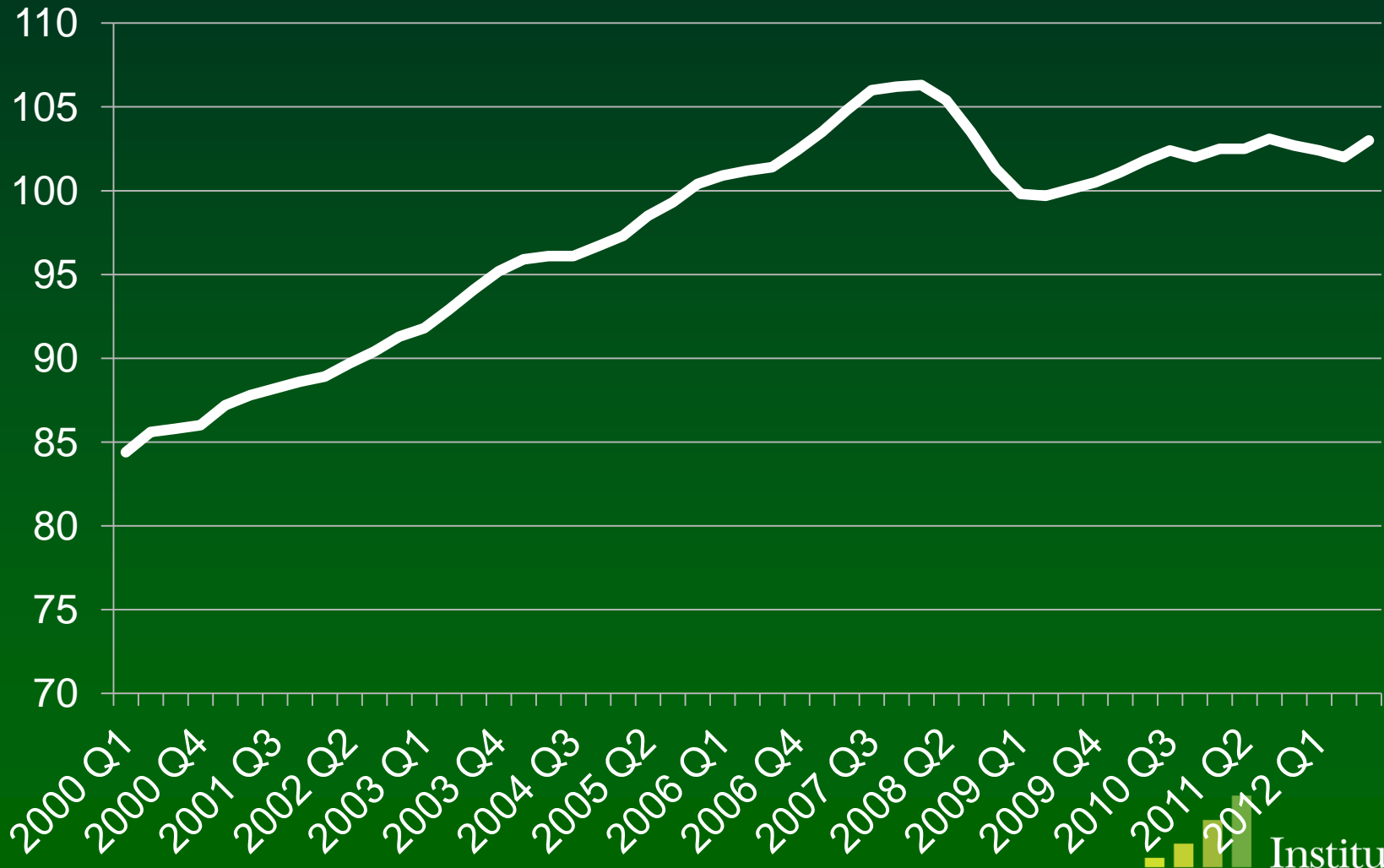
GDP has nowhere near recovered pre-crisis levels



A completely different story than previous recessions



Last quarter's good news doesn't change the pattern: GDP flat for two years

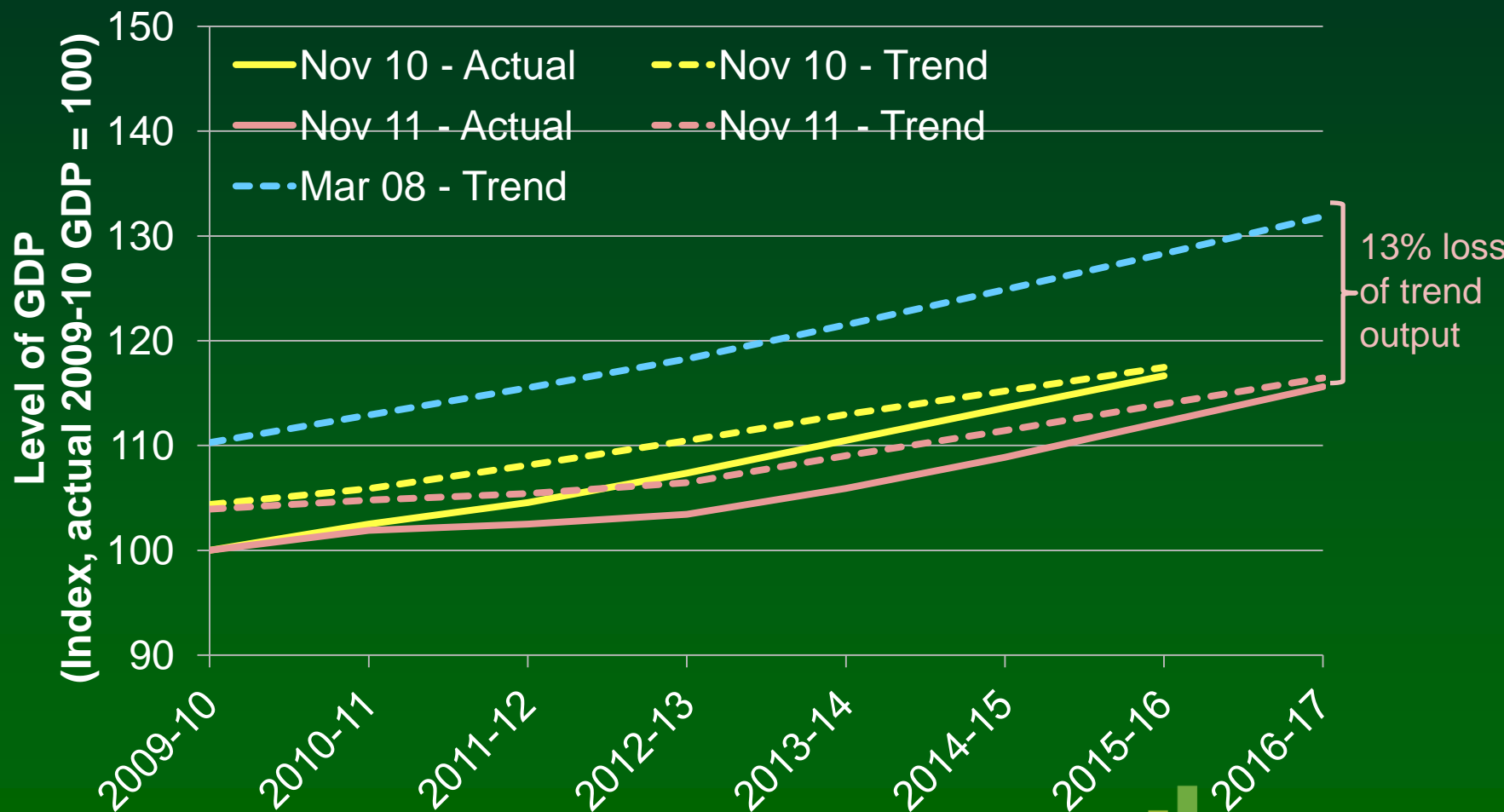


Since 2008...

- GDP has fallen dramatically and failed to recover
- Trend output is now expected to be 13% smaller in 2016 than had been forecast in Budget 2008
 - The economy will be about £200 billion smaller than expected
- This is expected to be a permanent loss
 - Depends on uncertain estimates of the “output gap”

Trend GDP revised down as successive outturns for actual GDP weaker than expected

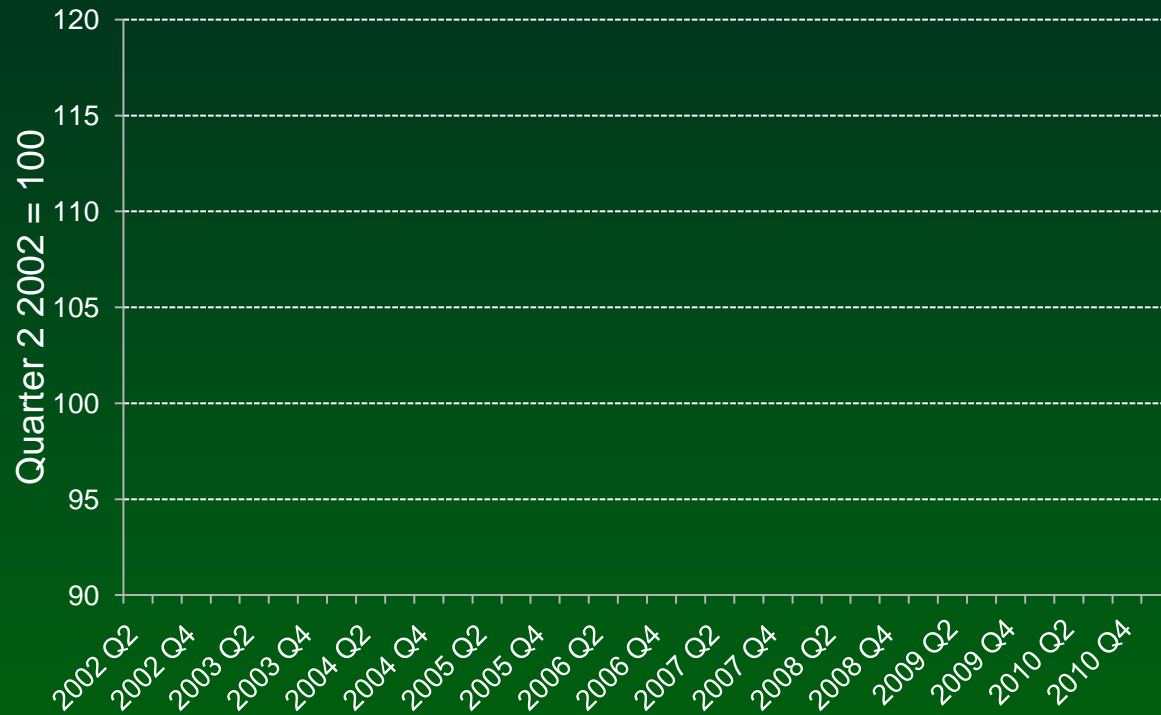
Comparison of forecasts for real GDP growth and trend GDP



But GDP isn't everything

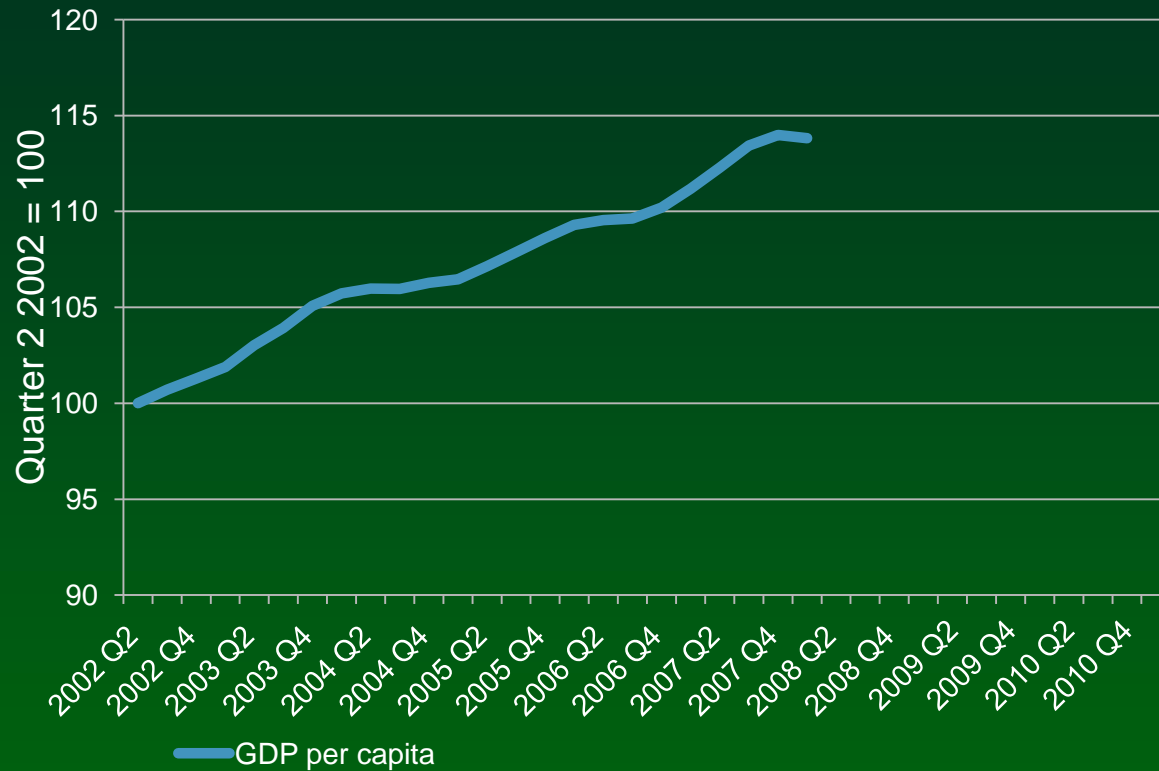
- Incomes matter most to most people
 - They were rising much more slowly than GDP pre-recession

Living Standards since 2002-03



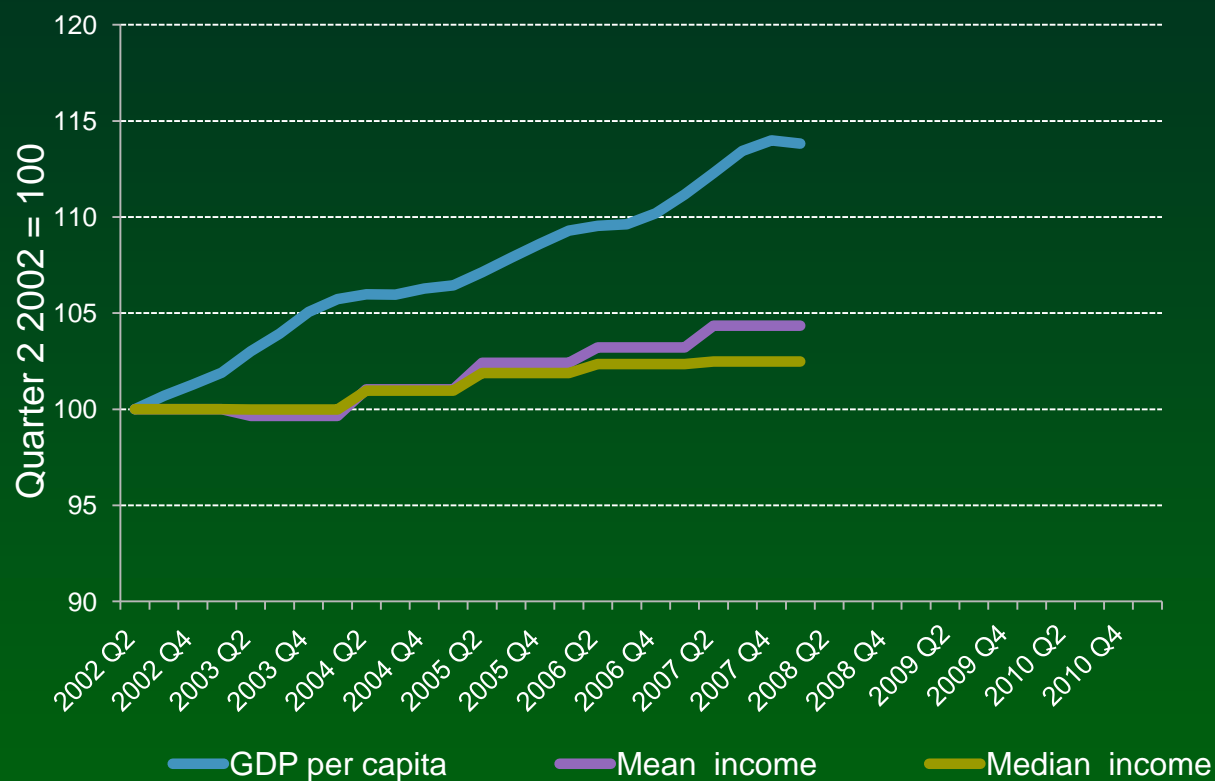
Source: ONS series IHXW and Family Resources Survey, various years

GDP per capita 2002-03 to 2007-08



Source: ONS series IHXW and Family Resources Survey, various years

Slow income growth before the recession



Source: ONS series IHXW and Family Resources Survey, various years

But GDP isn't everything

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 - Stood up well during the recession

Sharp fall in GDP per capita in recession...



Peak to trough
fall in GDP per
capita of 7.9%

Source: ONS series IHXW and Family Resources Survey, various years

...But average incomes continue to rise

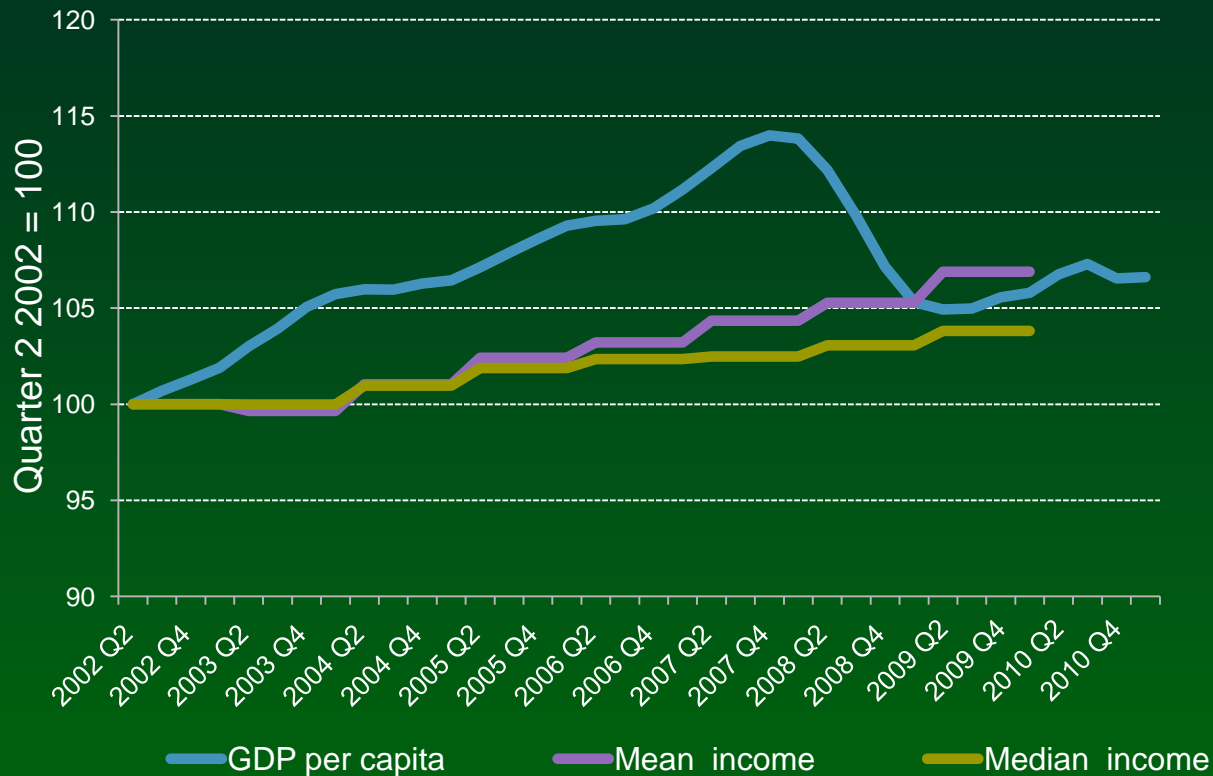


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But GDP isn't everything

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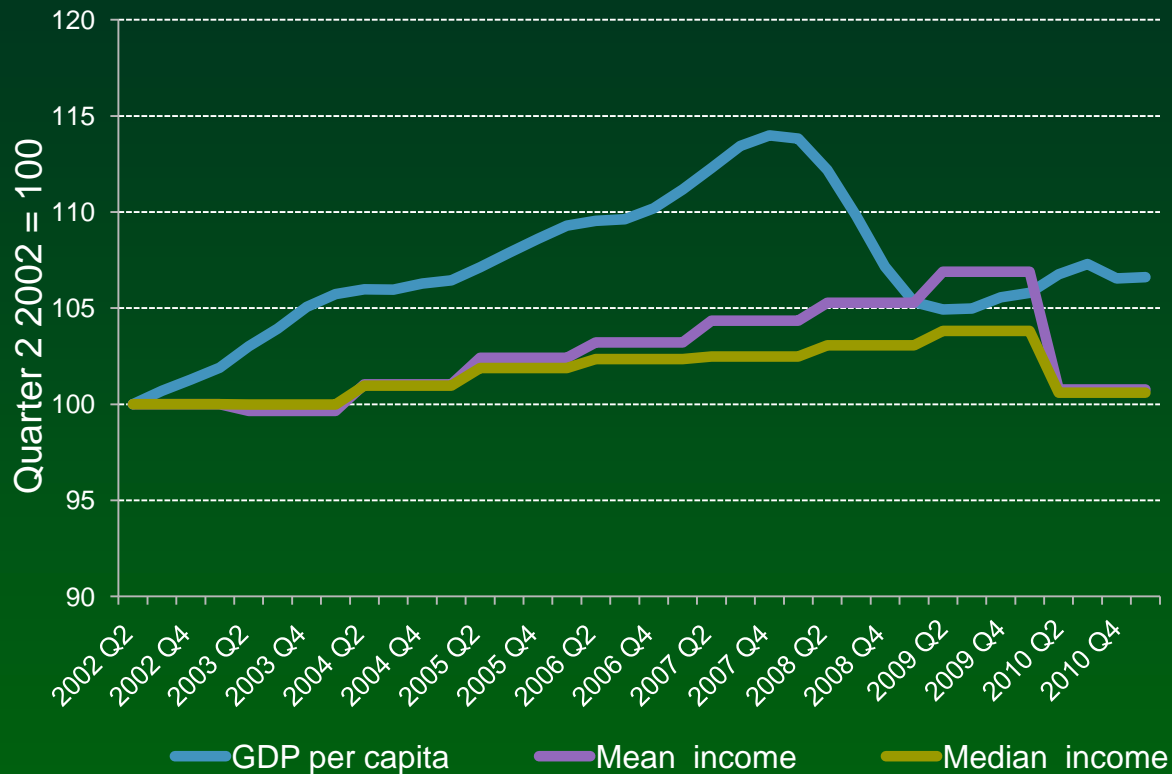
Weak macroeconomic recovery in 2010-11



GDP per capita
grew 1.4% in
2010-11

Source: ONS series IHW and Family Resources Survey, various years

Large falls in average income in 2010-11



Source: ONS series IHXW and Family Resources Survey, various years

- Median income fell 3.1% to reach £ 419 per week
- Mean income fell 5.7% to reach £511 per week

We don't expect a swift recovery

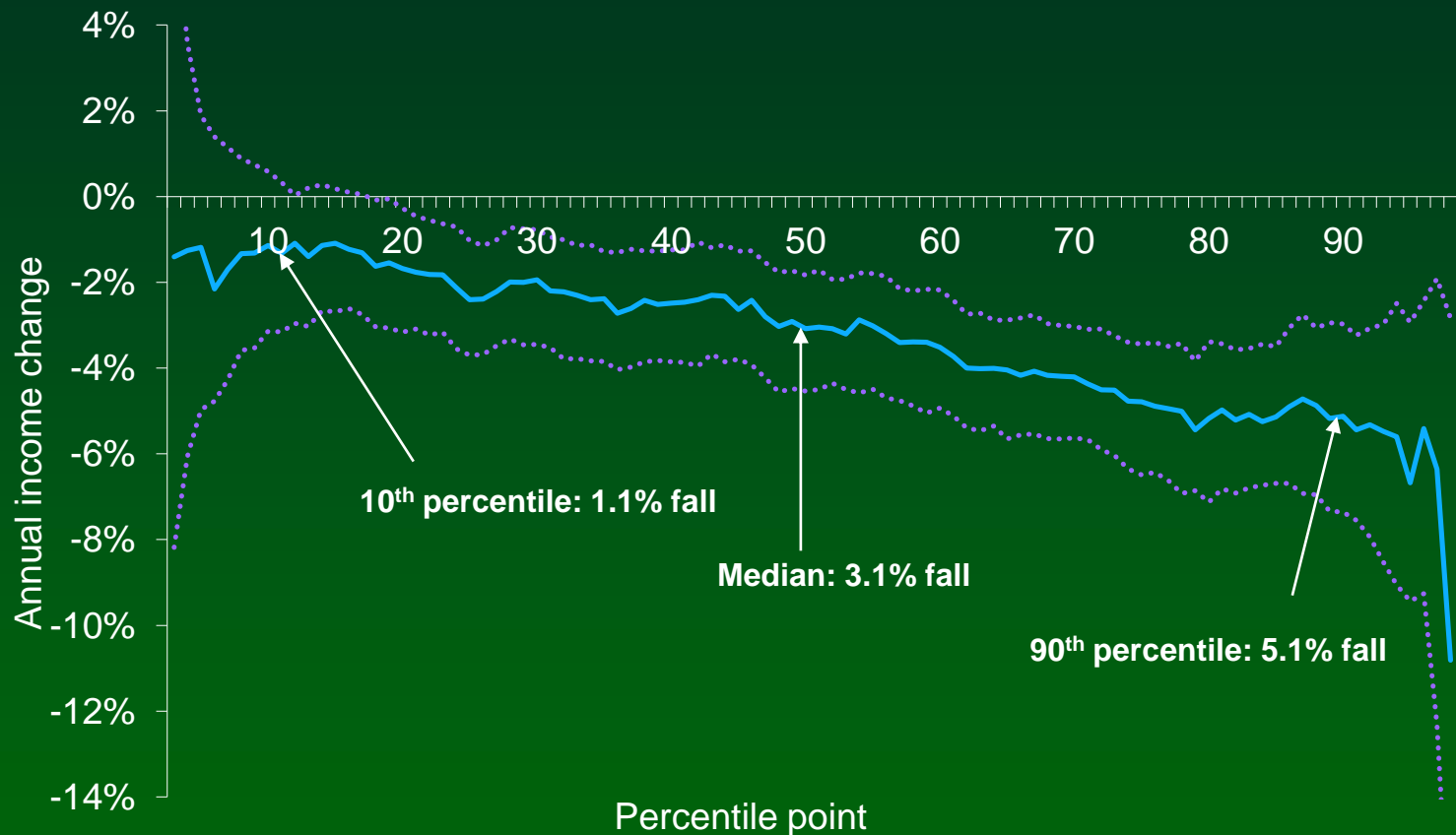


Sources: Department for Work and Pensions' HBAI series; IFS calculations and projections using Family Resources Survey.

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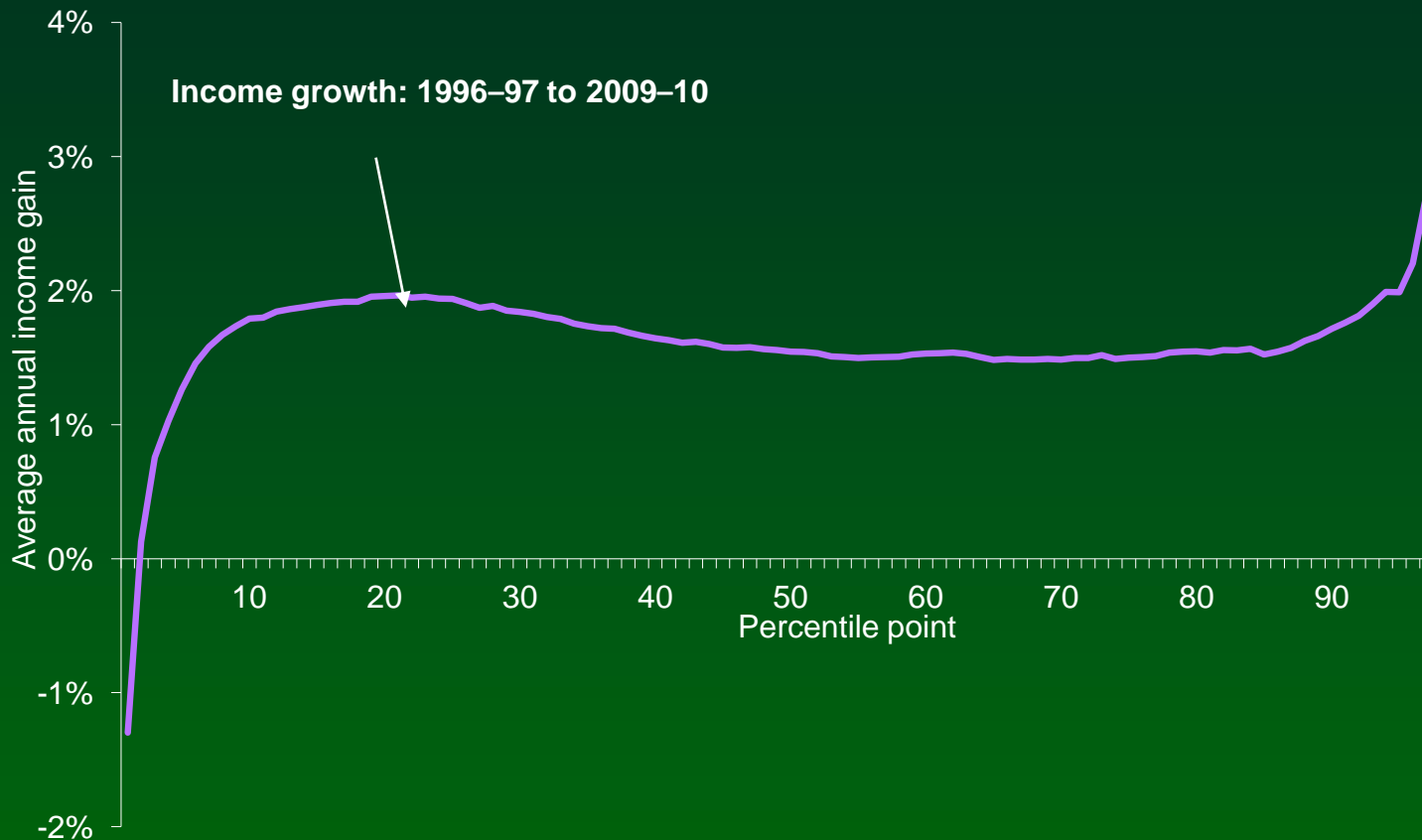
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 - With the rich hardest hit

2010-11 saw rich lose most



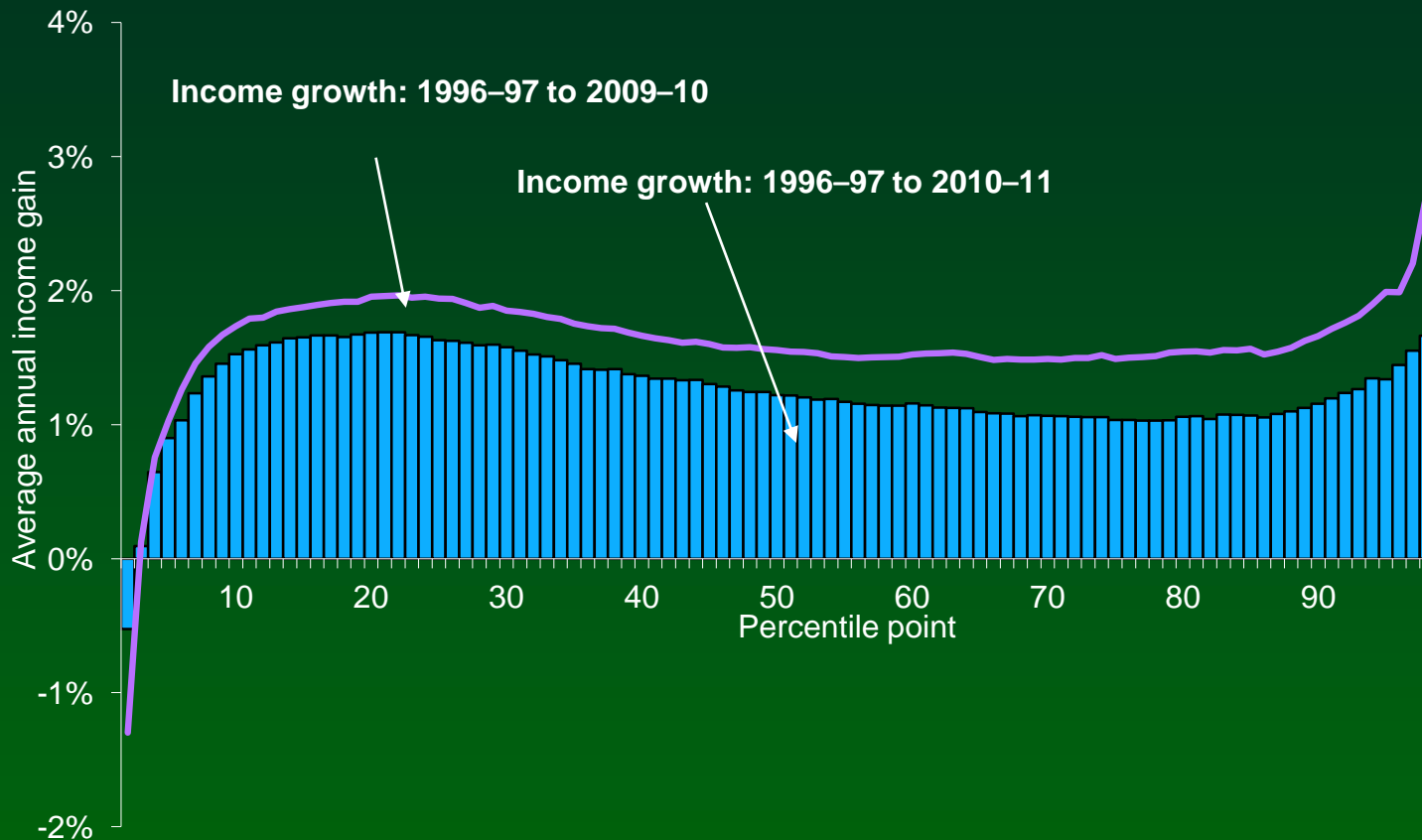
Source: Figure 3.3 of *Living Standards, Poverty and Inequality: 2012*

In contrast to previous period



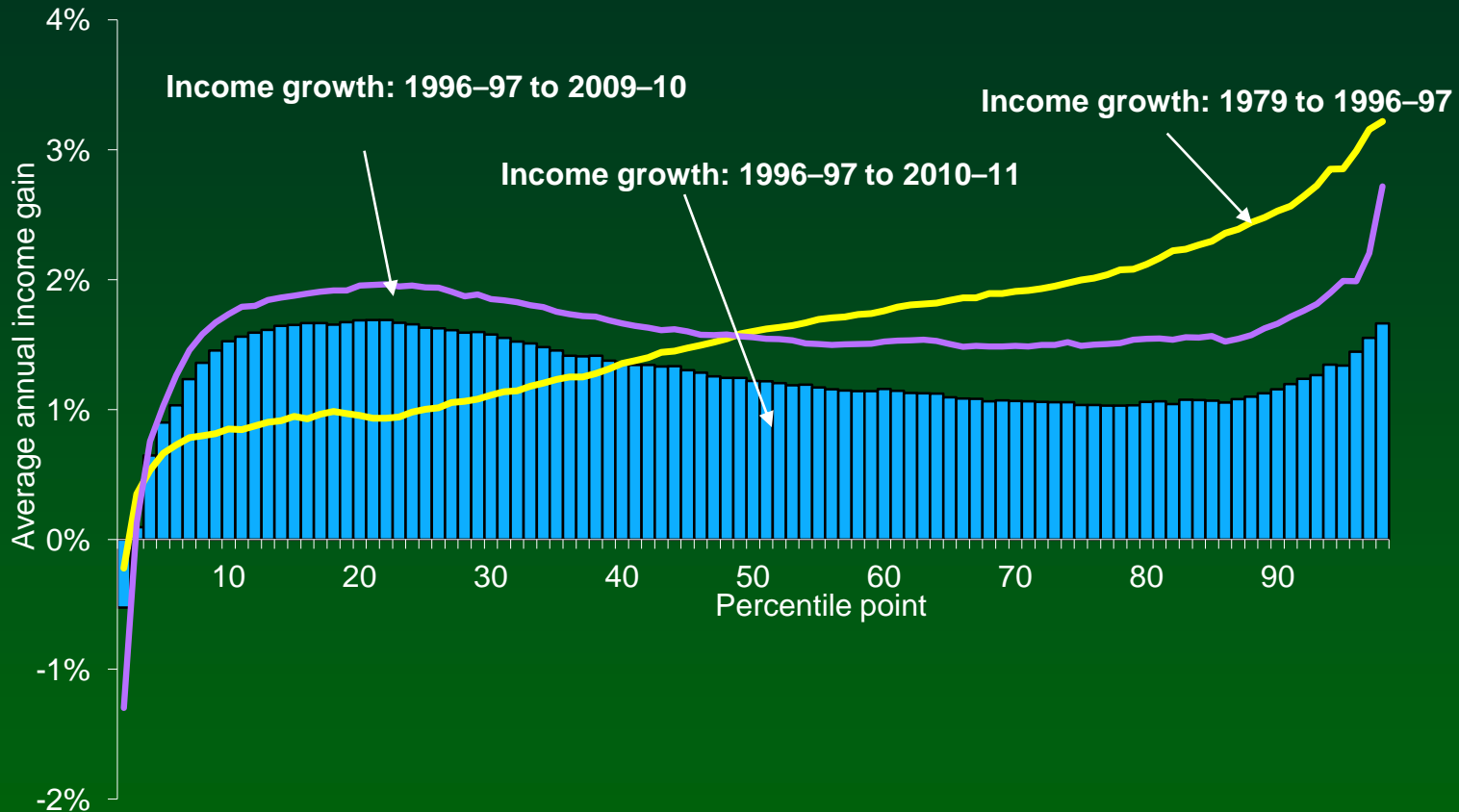
Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*

Income growth since 1996-97 (GB)



Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*

And very different from period from 1979-96

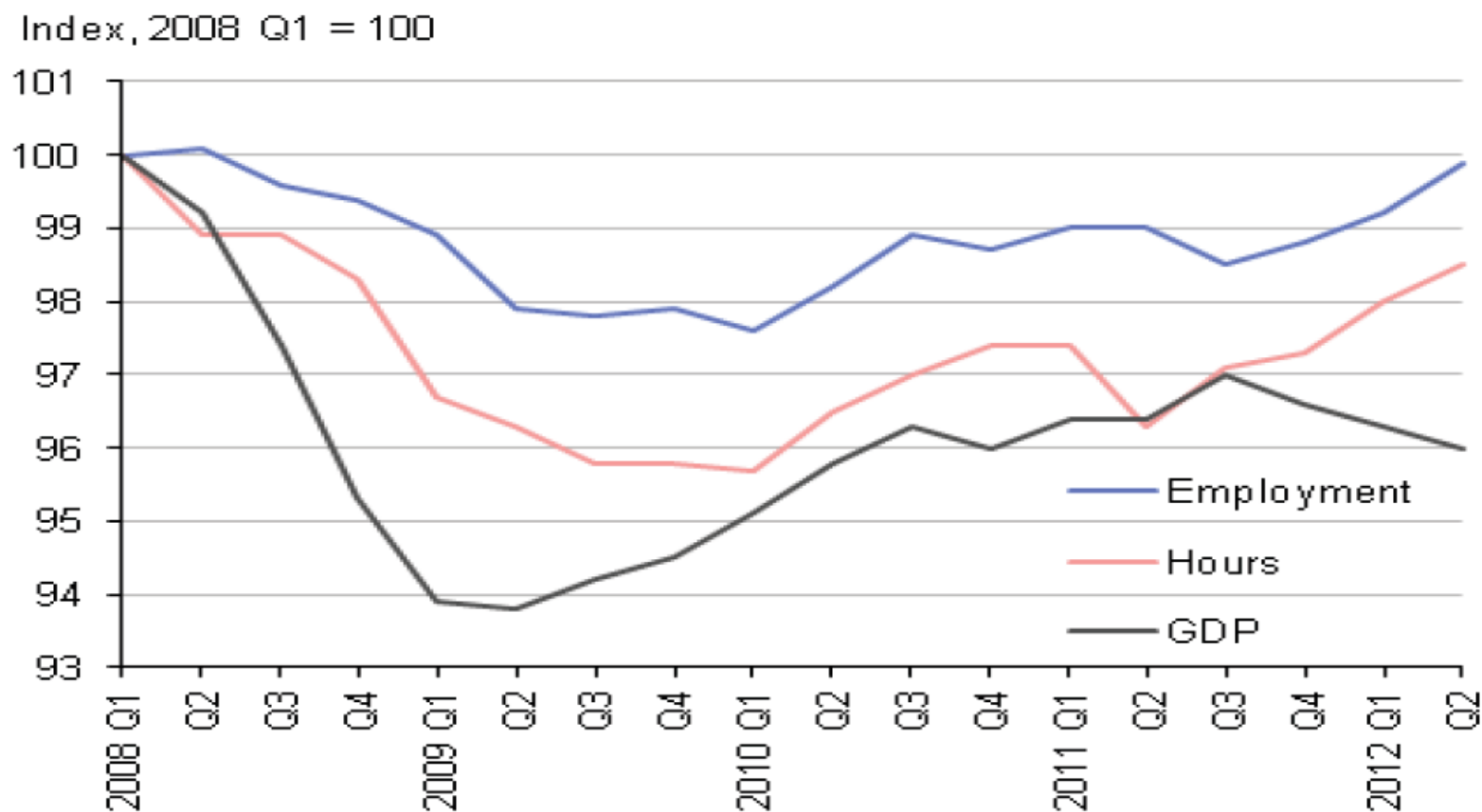


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- Employment rates look strong

Employment rates are remarkably high



Source: Office for National Statistics

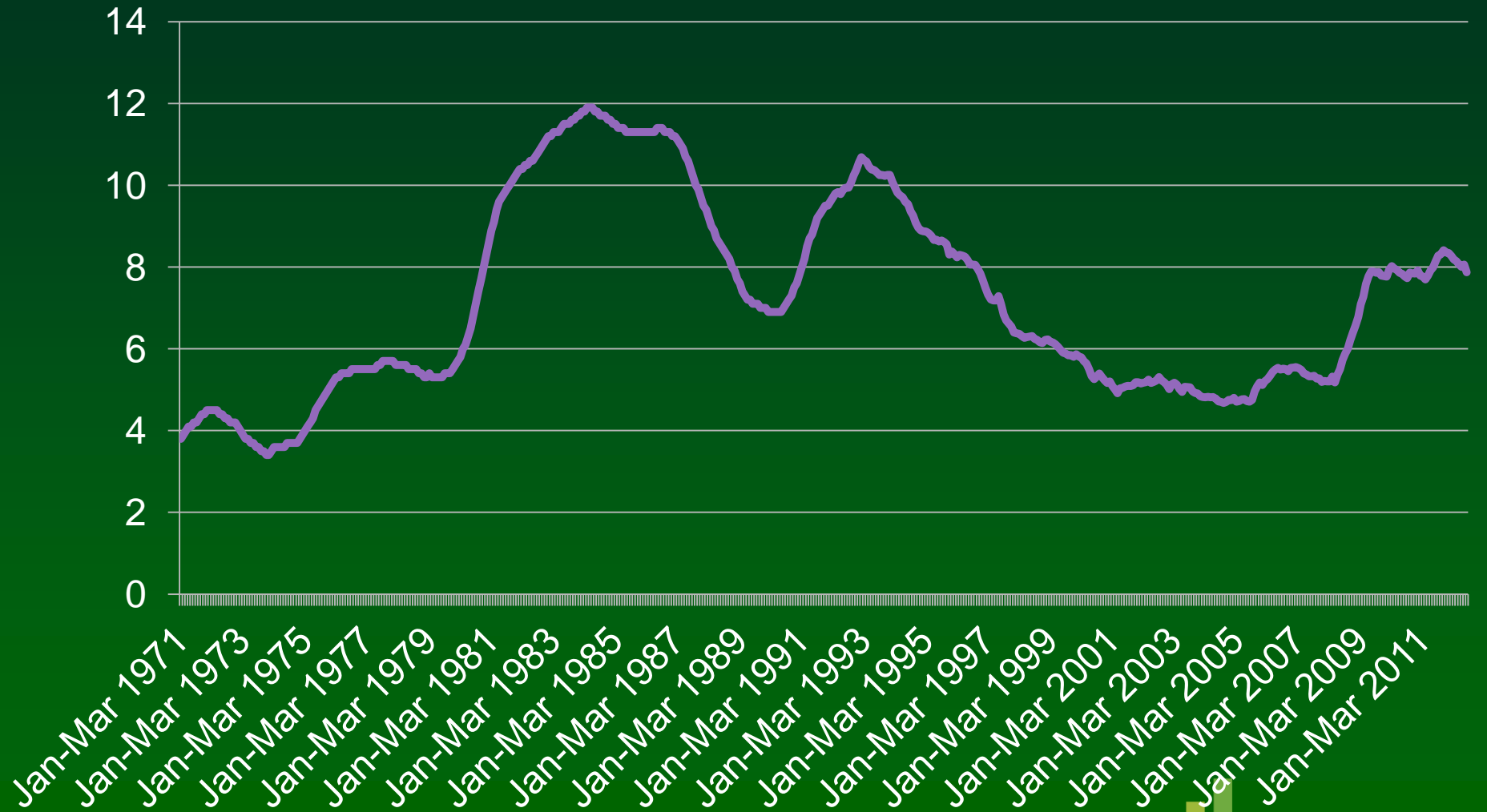


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Unemployment rate lower than past recessions

(unemployment as percent of economically active population)

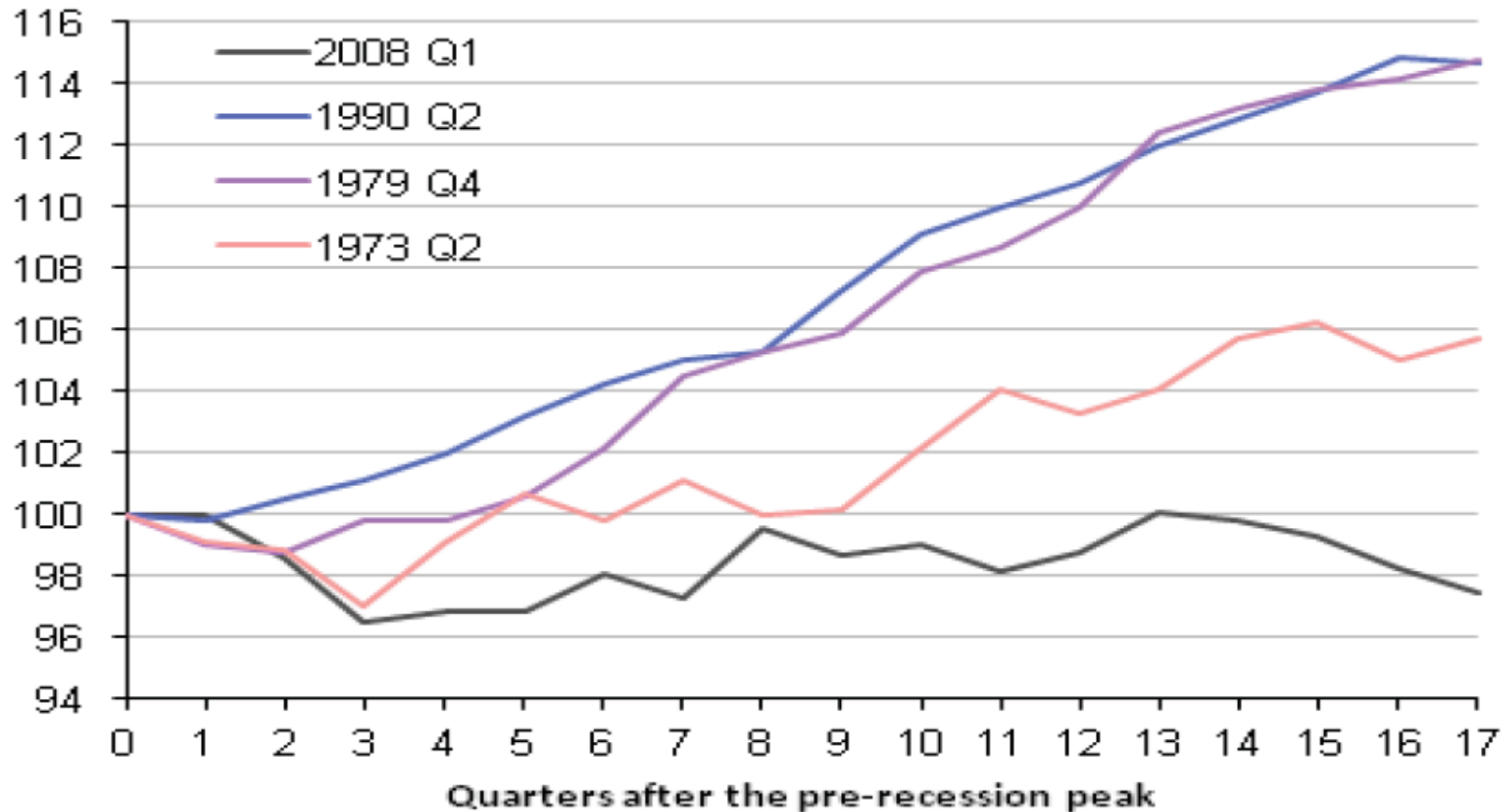


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Productivity (output per hour) has taken a dive

Index, pre-recession peak = 100

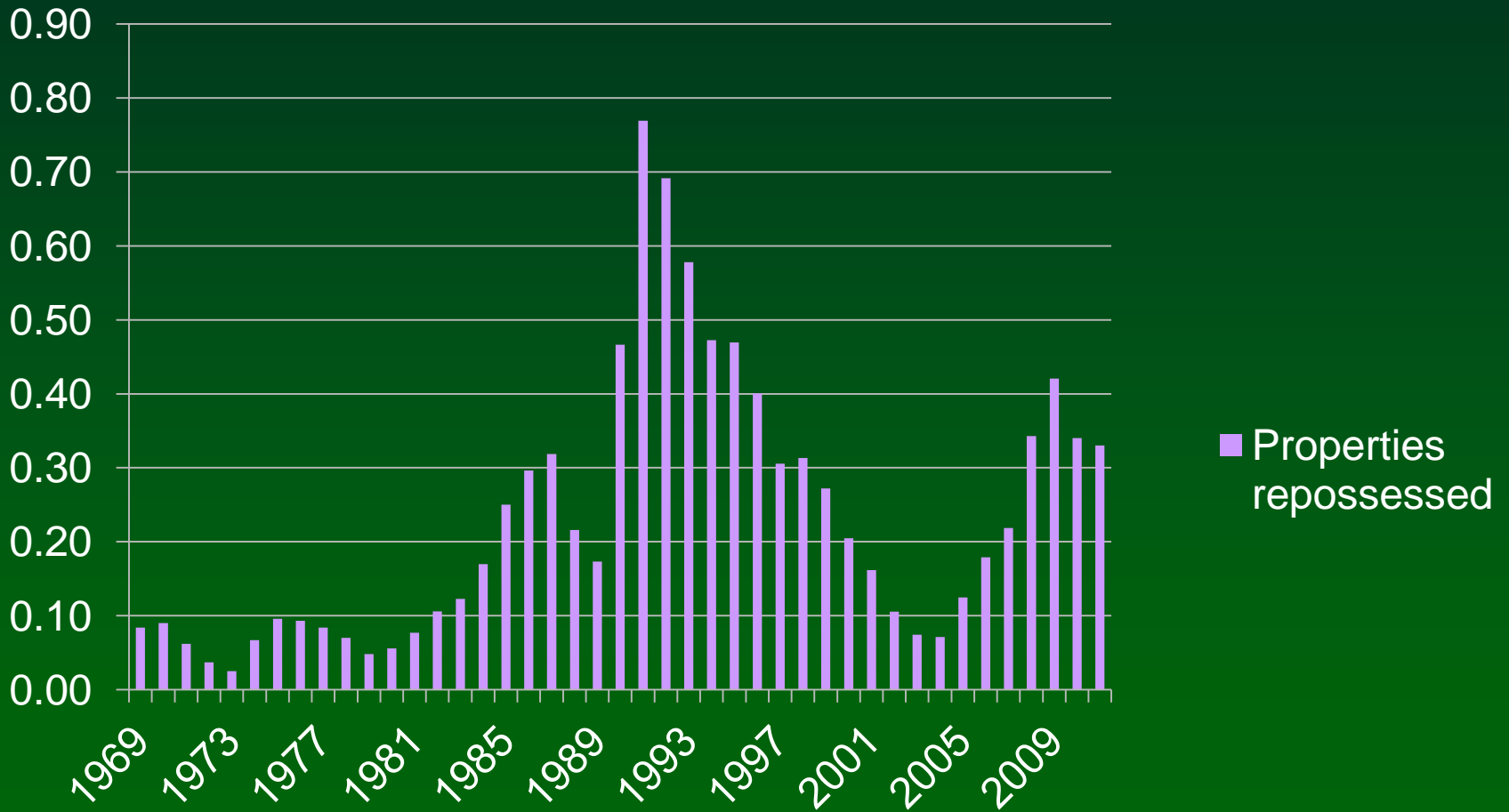


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- We also don't have the repossession rates of the early 1990s

Repossession rates lower than early 1990s

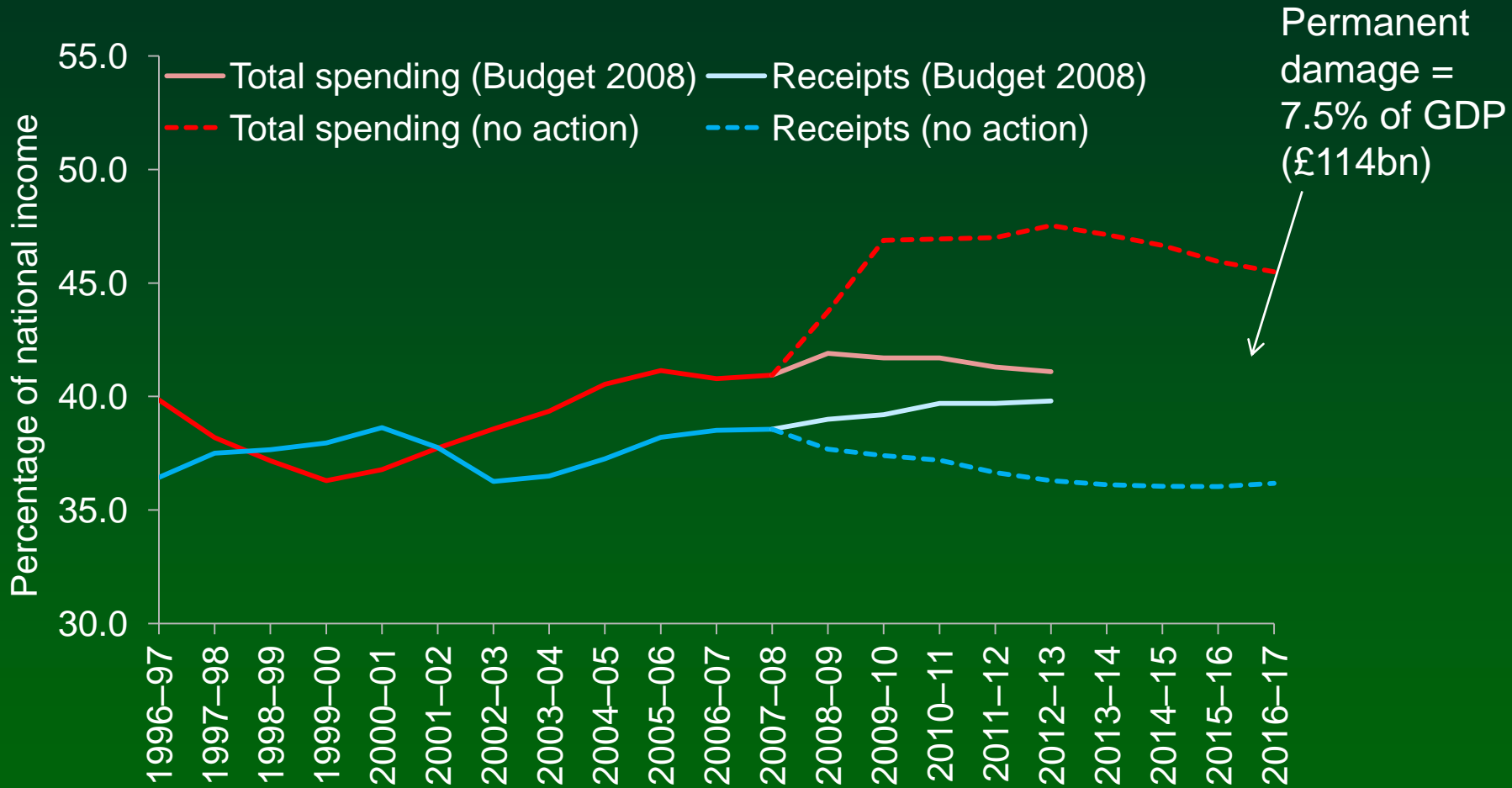
(as a percentage of total number of mortgages)



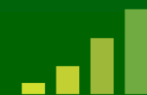
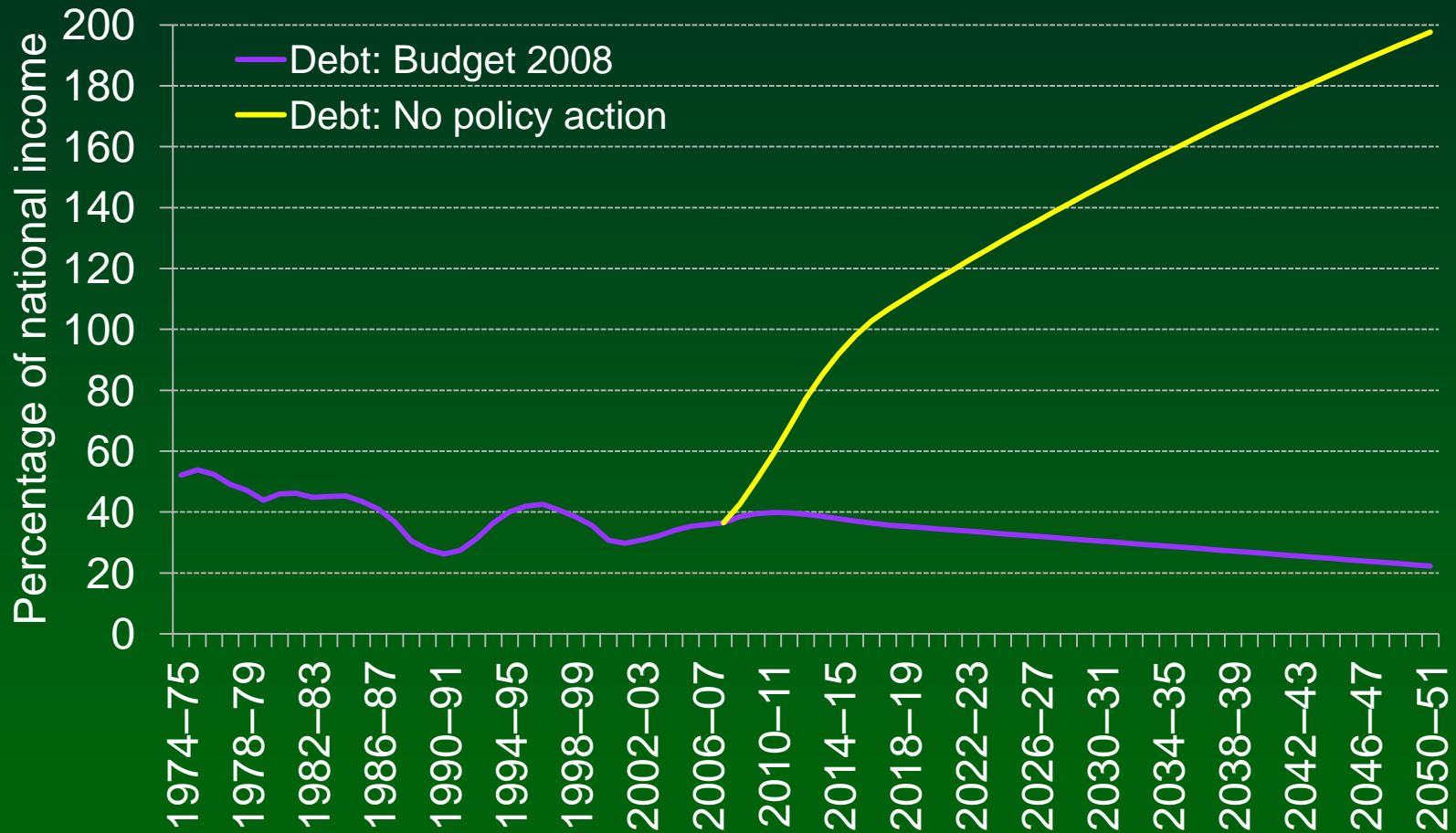
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- We also don't have the repossession rates of the early 1990s
- GDP obviously does not tell the whole story
 - But falling GDP did create a massive fiscal problem

This has created a hole in the public finances

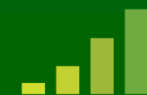
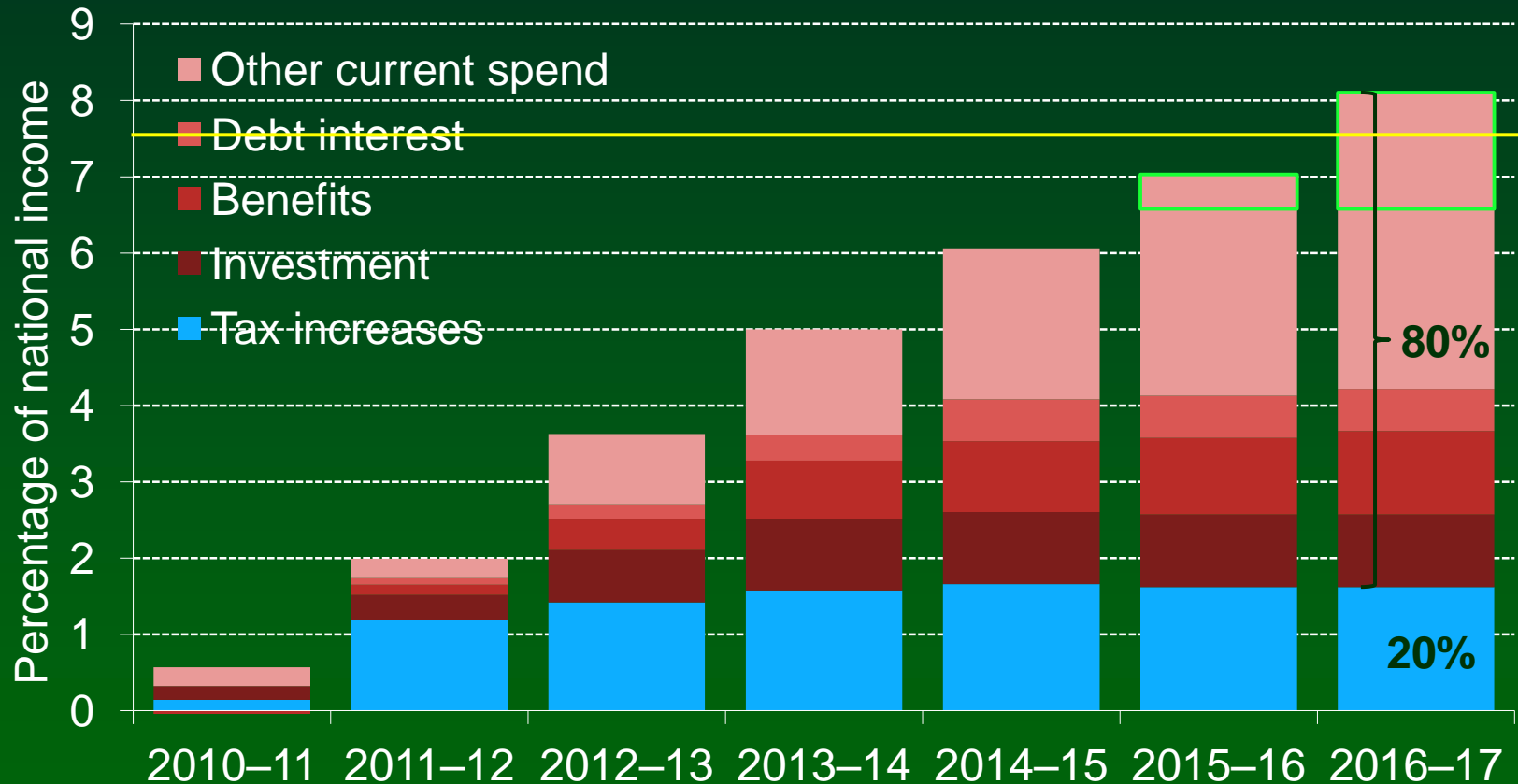


Which has to be dealt with

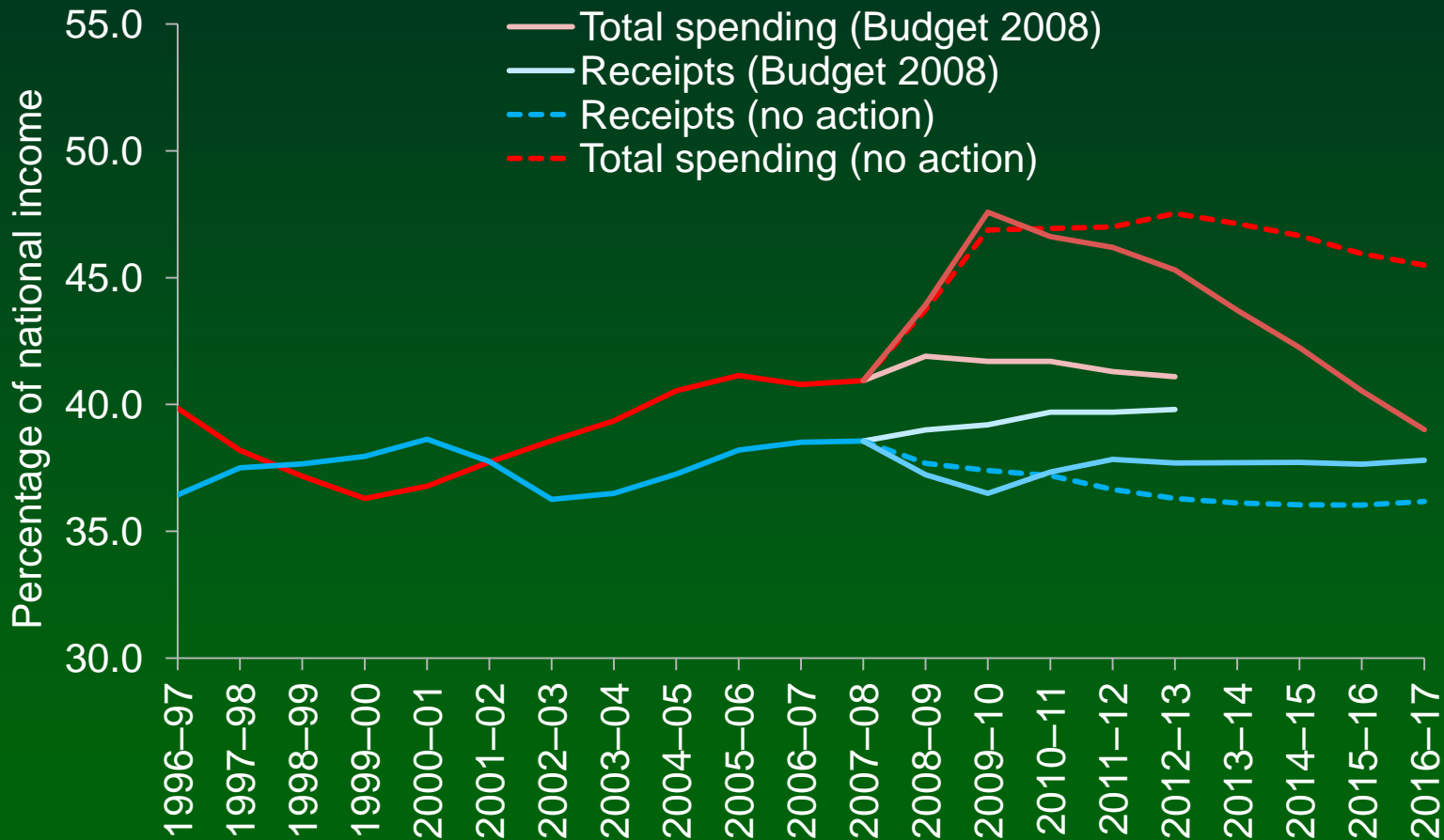


The government plans to do that over 7 years (original plan to do so over 5 years)

Nov 2011: 7.5% national income (£114bn) hole in public finances

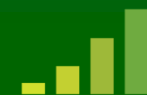
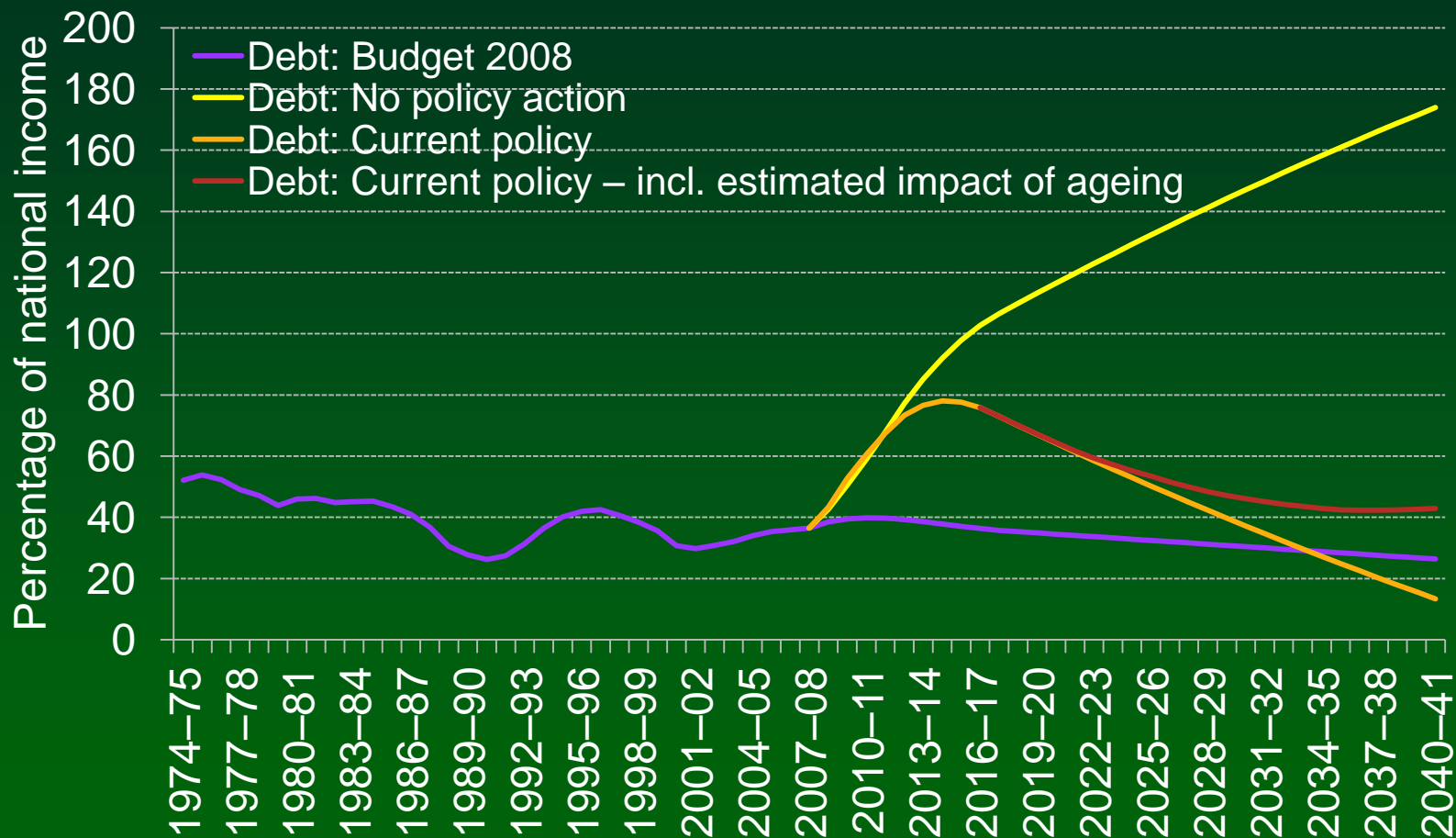


Which just leads to fiscal mandate being met..

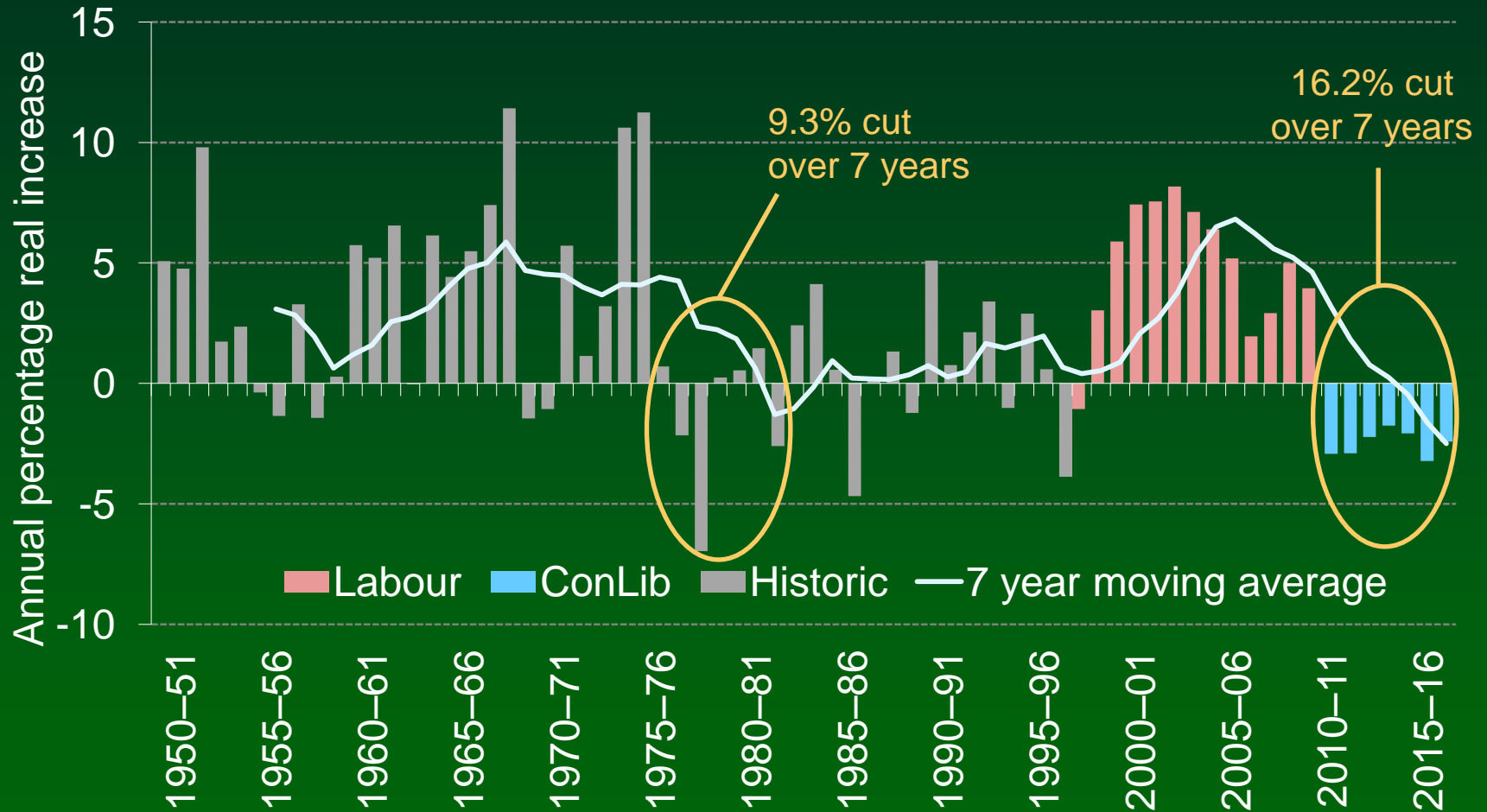


Debt back on a more sustainable path

- but to remain above pre-crisis levels for a generation



7-year squeeze on public service spending



Summary

- The loss of output following the crisis has been deep and prolonged
- With a consequent reduction in household incomes
 - Though in many ways this really has been an equitable recession
- A dramatic worsening of the public finances
- Government's fiscal consolidation is most dramatic in 60 years
 - But still leaves debt above pre-crisis levels for a generation or more
- More bad news likely in the Autumn Statement

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 - But still leaves debt above pre-crisis levels for a generation or more
- More bad news likely in the Autumn Statement
- No sunny uplands around the corner