



ECONOMICS WEBINARS

# The State of the British Economy

A Level Economics

Hosted by Geoff Riley

# These are the key macroeconomic policy objectives



Price Stability (CPI  
Inflation of 2%)



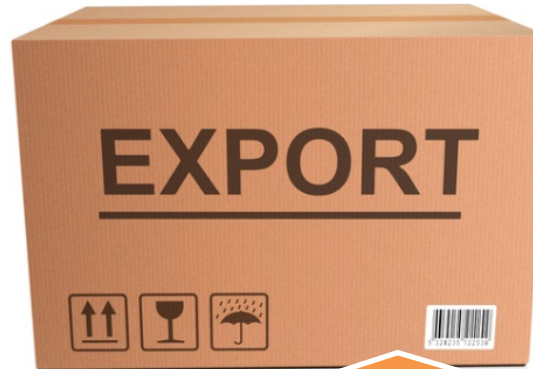
Growth of Real GDP  
(National Output)



Falling Unemployment /  
Raising Employment



Higher Average Living  
Standards (national  
income per capita)



Stable Balance of  
Payments on the Current  
Account



An Equitable Distribution  
of Income and Wealth

# Additional objectives of macroeconomic policy



**BUDGET**

Balancing the budget and reducing the national debt



Improved economic well-being



Better regional balance in the UK economy



Improved access to & quality of public services



Improved global competitiveness



Environmental sustainability

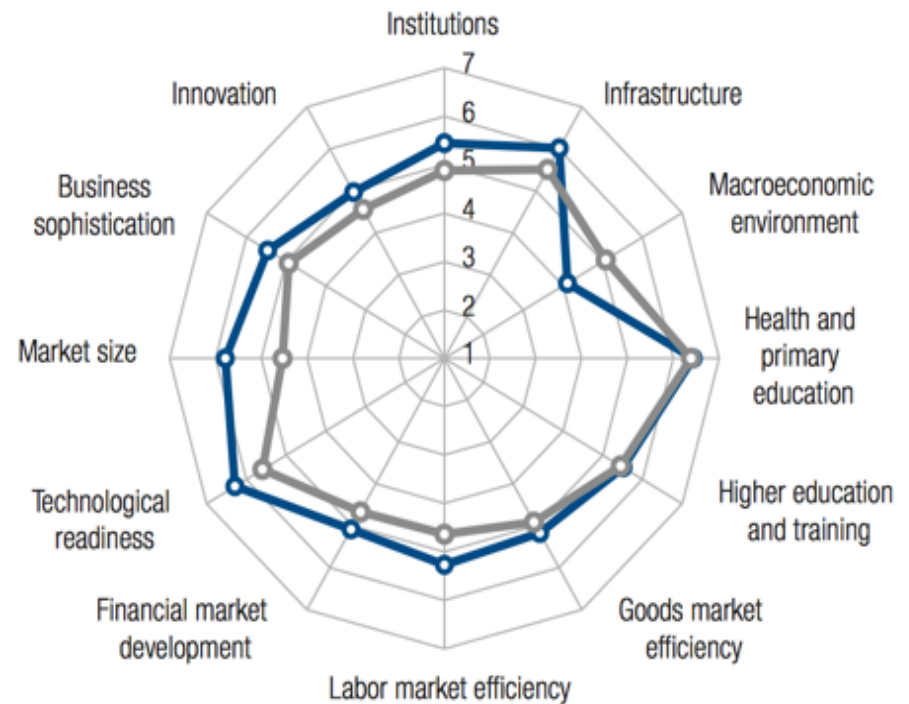
# 2015-16 Global Competitiveness Index (UK Rankings)

Indicator	UK ranking out of 144 countries
Overall competitiveness	10 <sup>th</sup> /144
Institutions	12 <sup>th</sup> /144 (legal 6 <sup>th</sup> )
Infrastructure	9 <sup>th</sup> /144 (roads 29 <sup>th</sup> )
Macroeconomic environment	108 <sup>th</sup> /144 (Government debt 123 <sup>rd</sup> )
Labour market efficiency	5 <sup>th</sup> /144 (Quality of Maths & Science 43 <sup>rd</sup> )
Technological readiness	3 <sup>rd</sup> /144 (Mobile broadband 16 <sup>th</sup> )

## Highlighted problems for businesses

- Access to finance for business
- Skills gaps in the workforce

## Stage of development



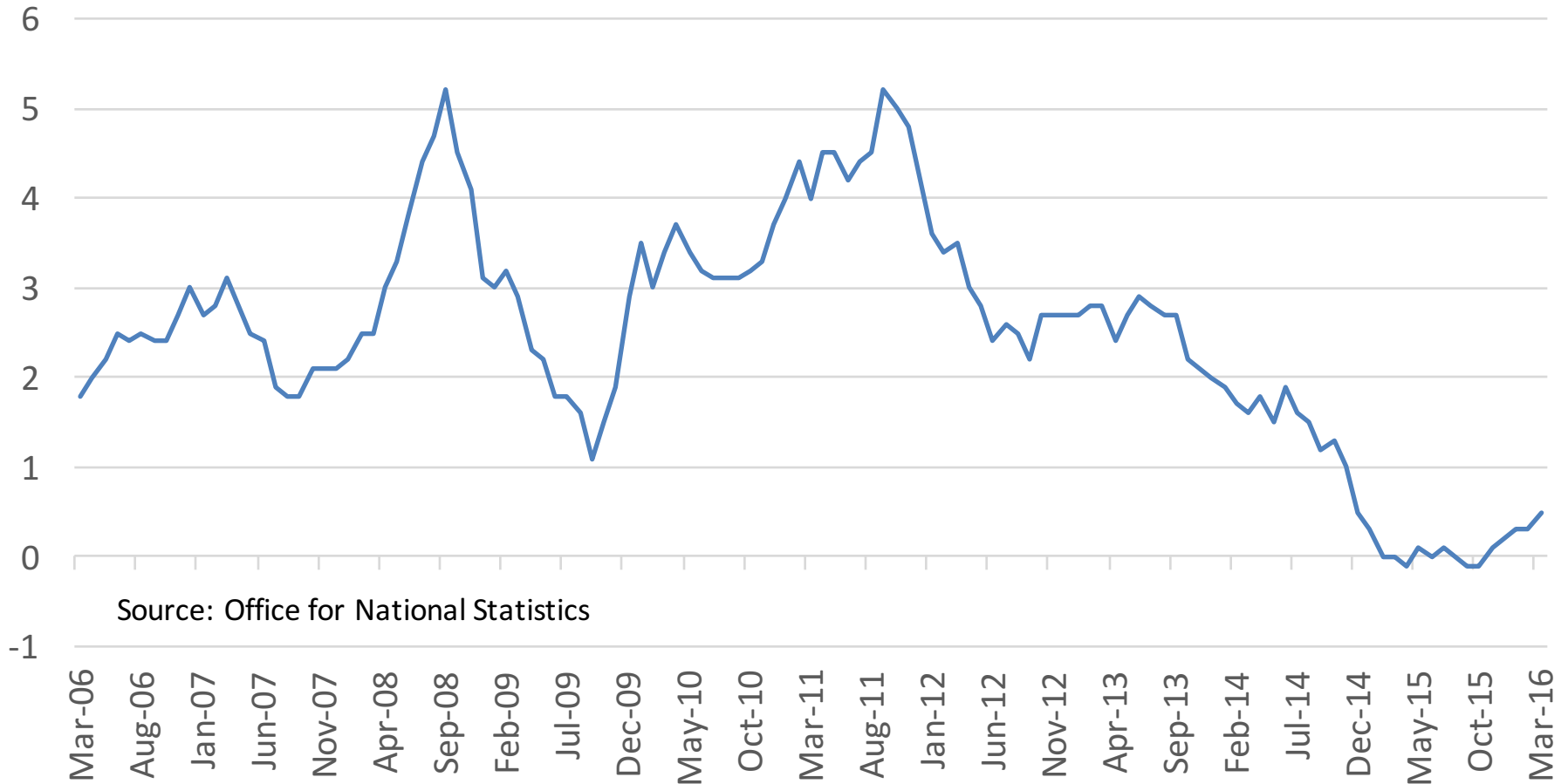
—○— United Kingdom    —○— Advanced economies

# UK Economy Overview (Source: March 2016 Budget)

<i>% change unless stated</i>	2014 Actual	2015 Actual	2016 (Forecast)
<b>Output at constant market prices</b>			
<b>Gross domestic product (GDP)</b>	<b>2.9</b>	<b>2.2</b>	<b>2.0</b>
<b>Expenditure components of real GDP</b>			
Household consumption	2.5	2.9	2.4
General government consumption	2.5	1.7	0.2
Business investment	4.7	4.7	2.6
General government investment	5.8	2.2	0.2
Net trade	-0.4	-0.5	-0.4
<b>Inflation</b>			
<b>Consumer price index</b>	<b>1.5</b>	<b>0.0</b>	<b>0.7</b>
<b>Labour market</b>			
Employment (millions)	30.7	31.2	31.6
Average earnings	1.4	2.3	2.6
<b>LFS unemployment (rate, per cent)</b>	<b>6.2</b>	<b>5.4</b>	<b>5.0</b>

# CPI Inflation in the UK over the last 10 Years

Annual rate of consumer price inflation in the UK



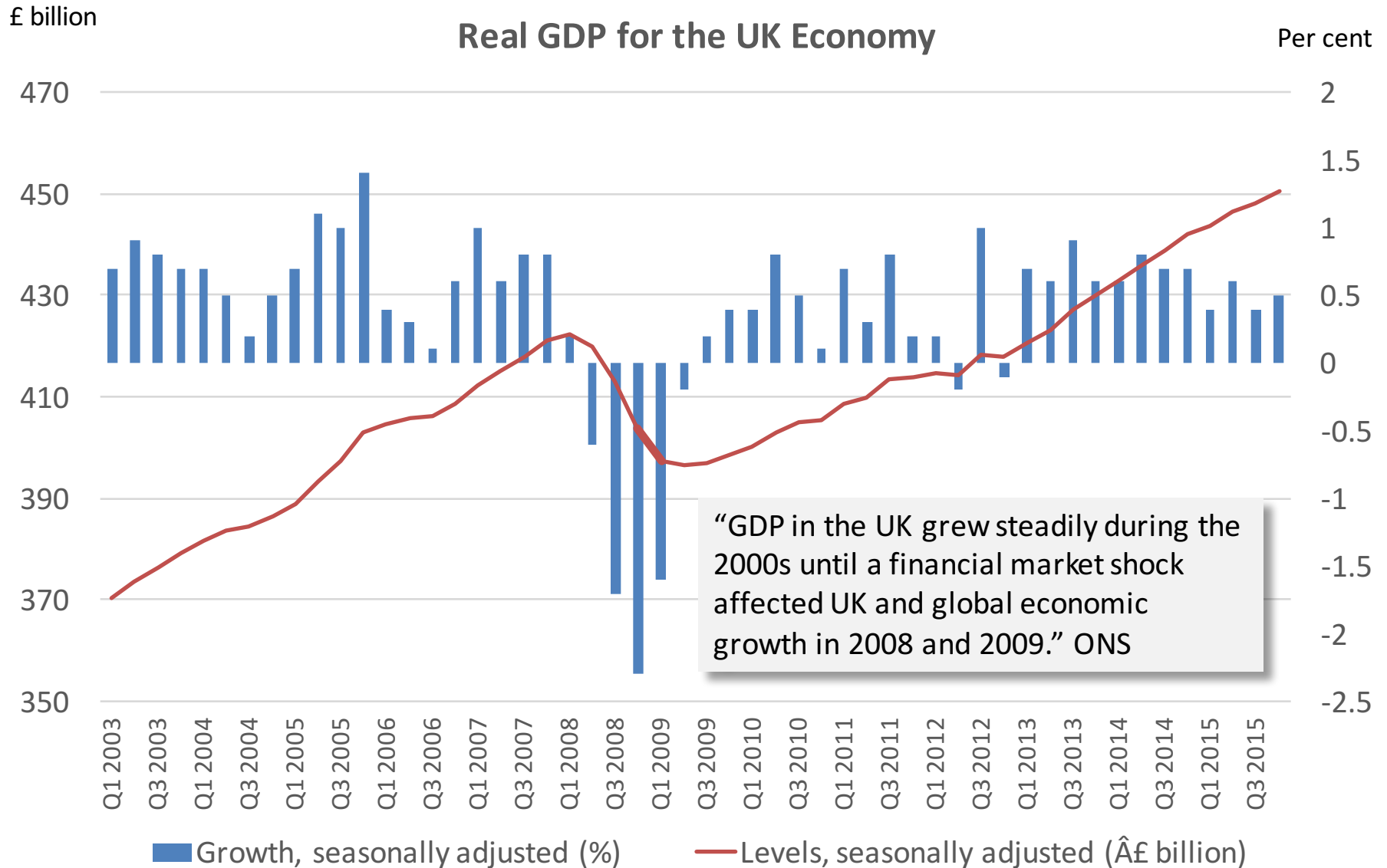
Source: Office for National Statistics

Consumer price inflation is the rate at which the prices of goods and services bought by households rise or fall. It is estimated by using price indices



# The UK Economic Cycle in Recent Years

Source: ONS

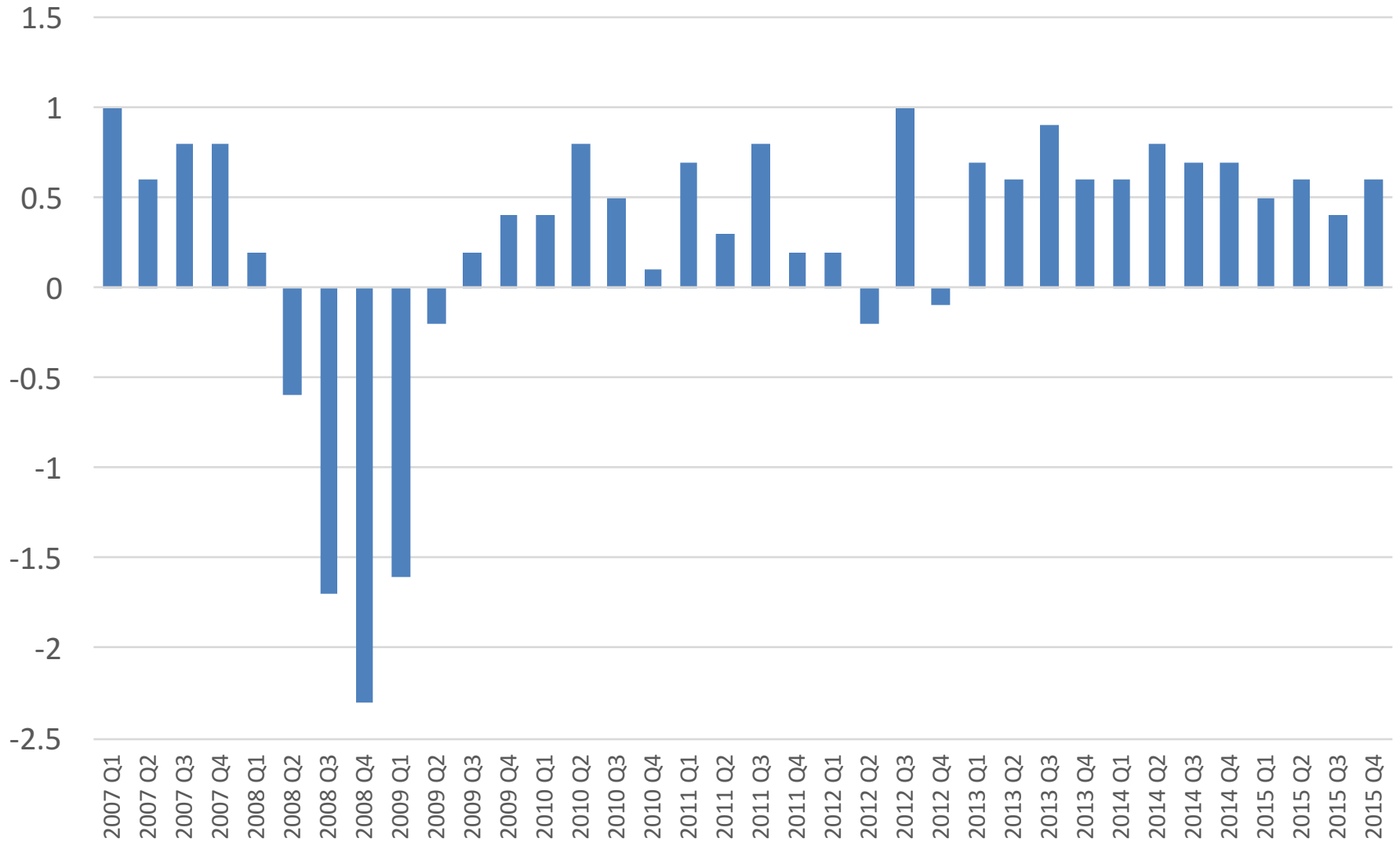


# Quarter on Quarter Growth in Real GDP for the UK

Source: ONS

UK GDP growth, quarter on quarter

Per cent

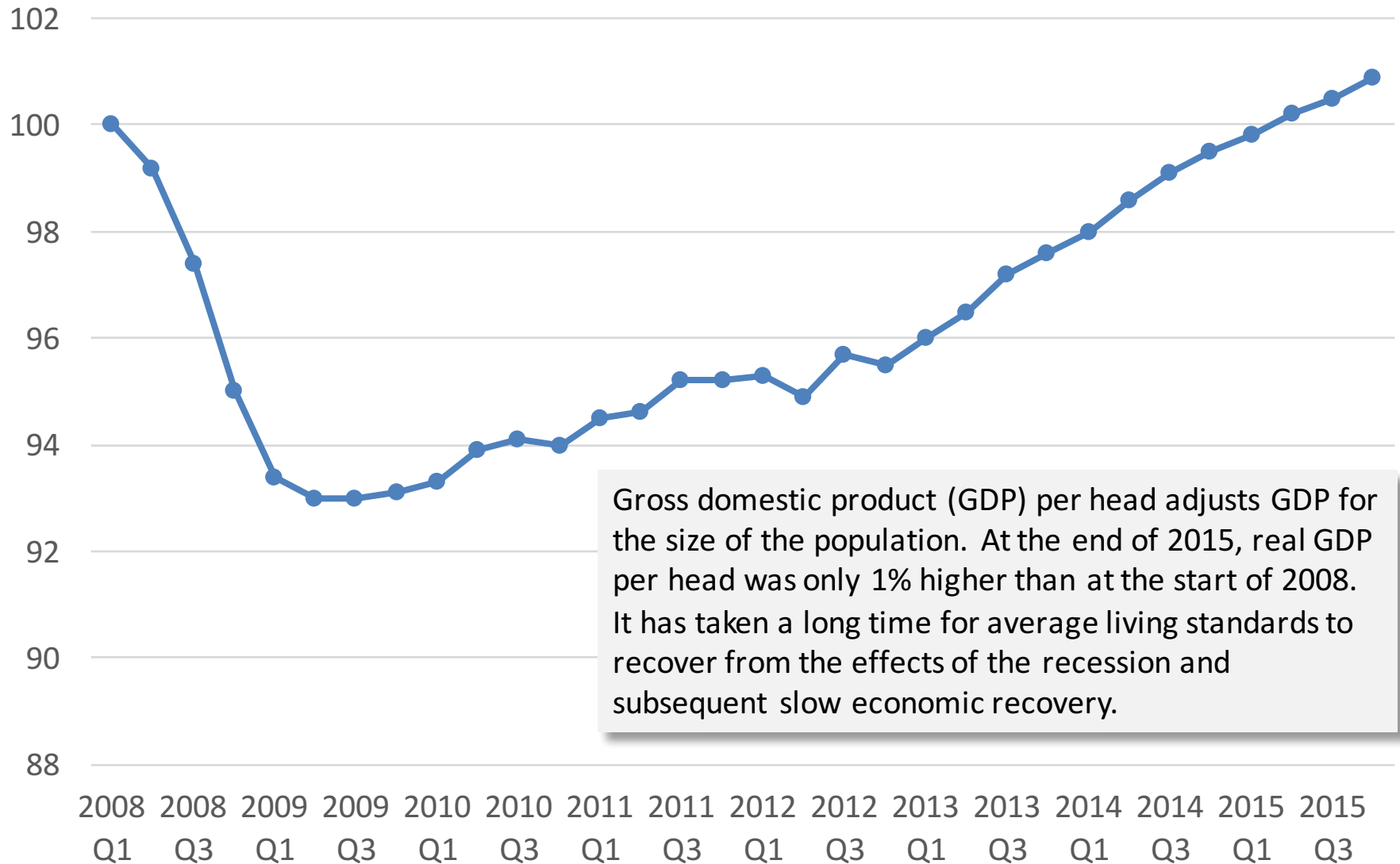




# Index of Real GDP Per Capita for the UK

Source: ONS

Gross Domestic Product (GDP) per head, Q1 2008 = 100



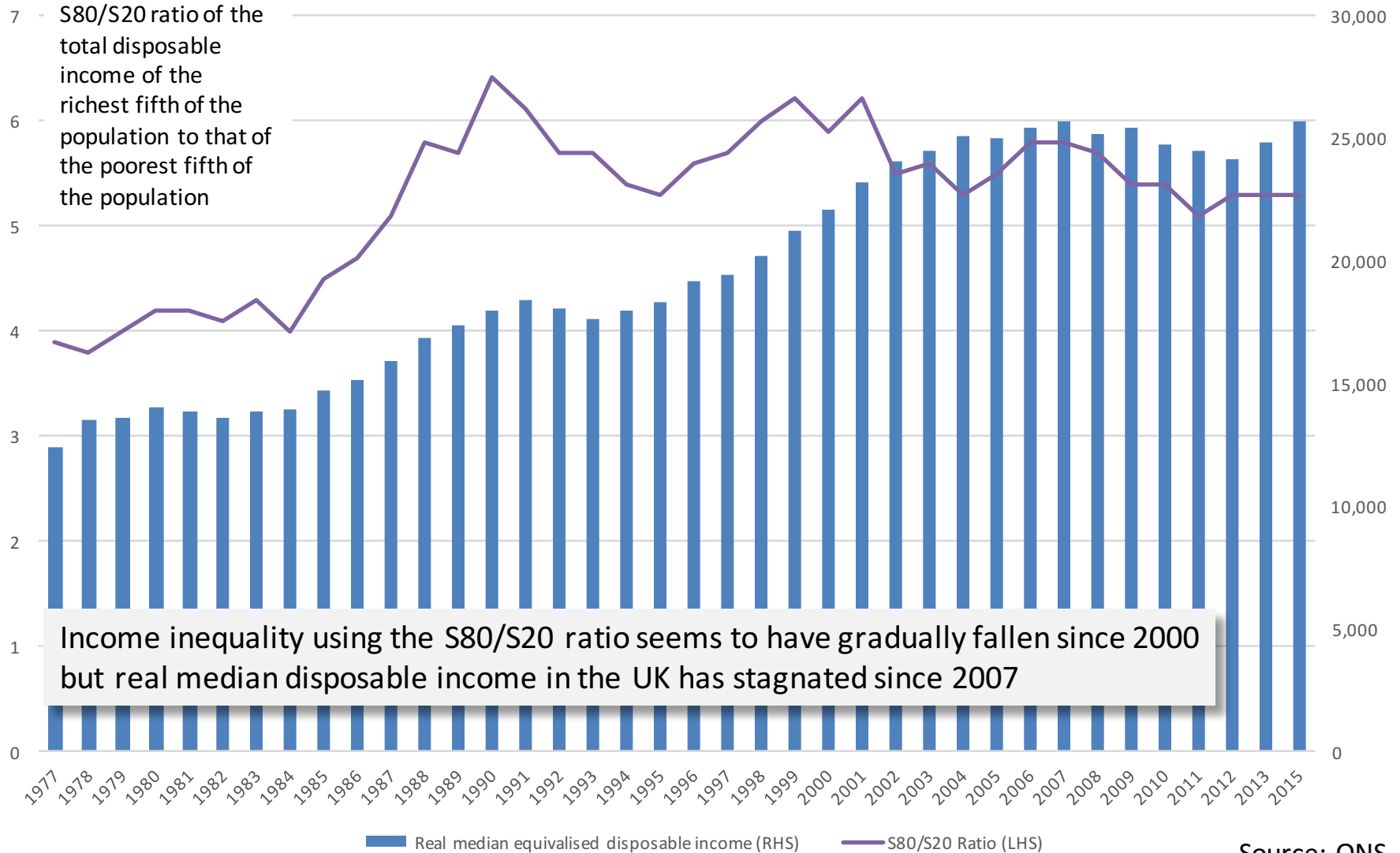
Gross domestic product (GDP) per head adjusts GDP for the size of the population. At the end of 2015, real GDP per head was only 1% higher than at the start of 2008. It has taken a long time for average living standards to recover from the effects of the recession and subsequent slow economic recovery.

# Median Disposable Income and Inequality

S80/S20 ratio

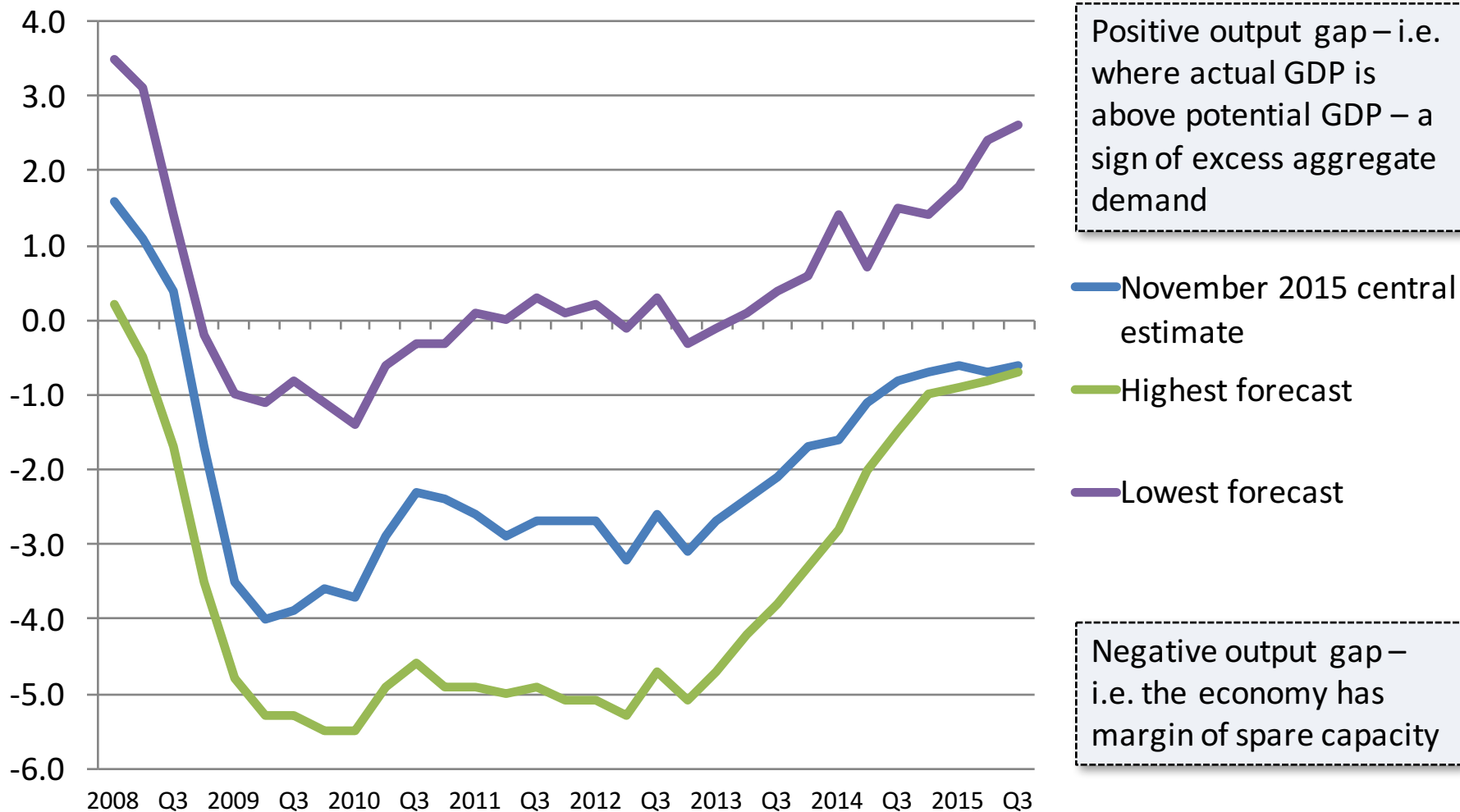
Real Median Disposable Income and Income Inequality in the UK

£s at constant 2014 prices



Source: ONS

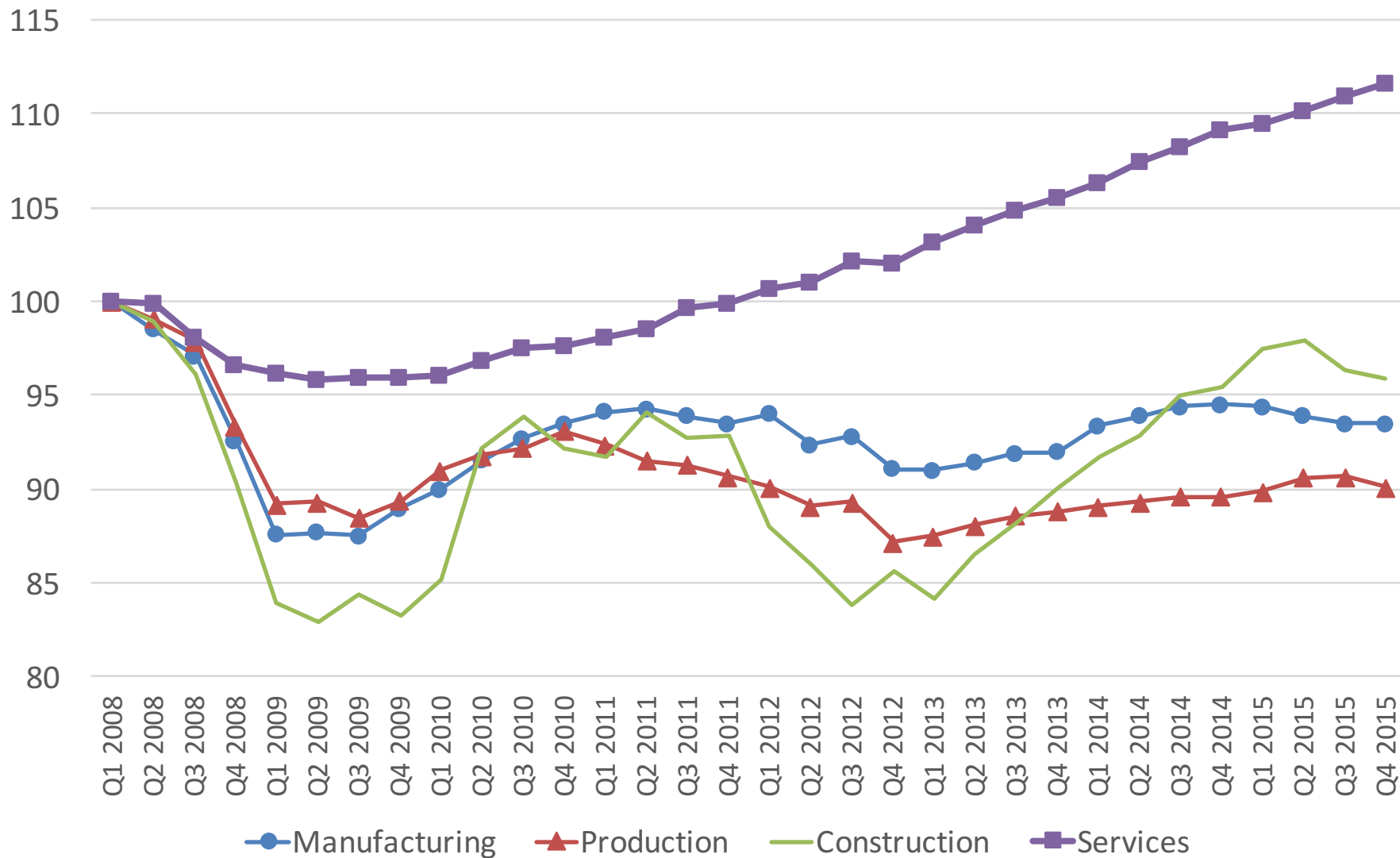
# The Estimated Output Gap for the UK Economy



The chart shows the estimated output gap for the UK economy. Note that there is a range of estimates from different economic forecasters.

# Index of UK Production by main Economic Sector

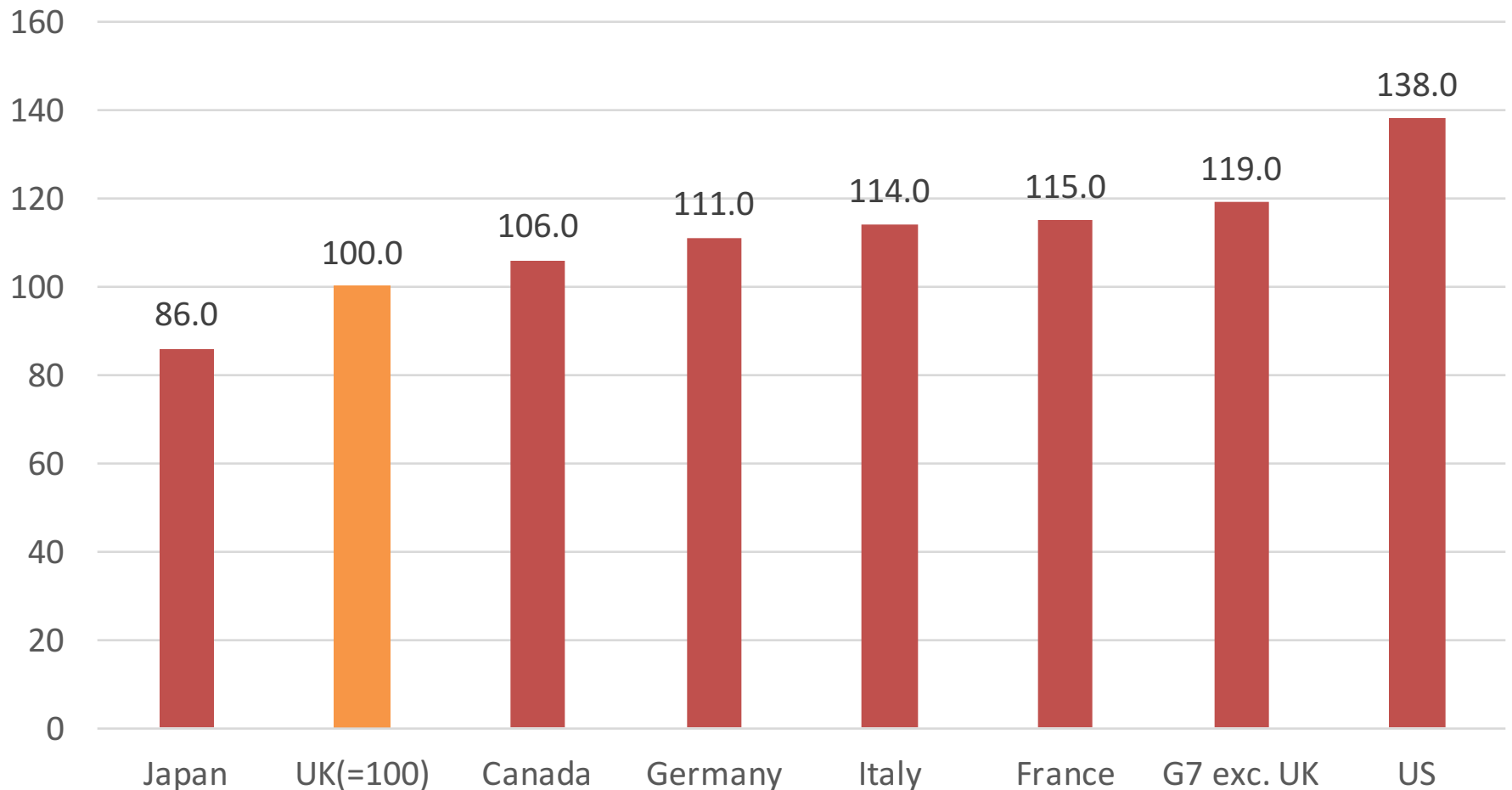
Index of Output at Constant Prices, 2008 Quarter 1 = 100



# Competitiveness Issue for UK: The Productivity Gap

Labour productivity can be measured by GDP per hour worked and per worker, and growth in GDP per hour worked. This chart shows GDP per worker for G7 countries in 2015

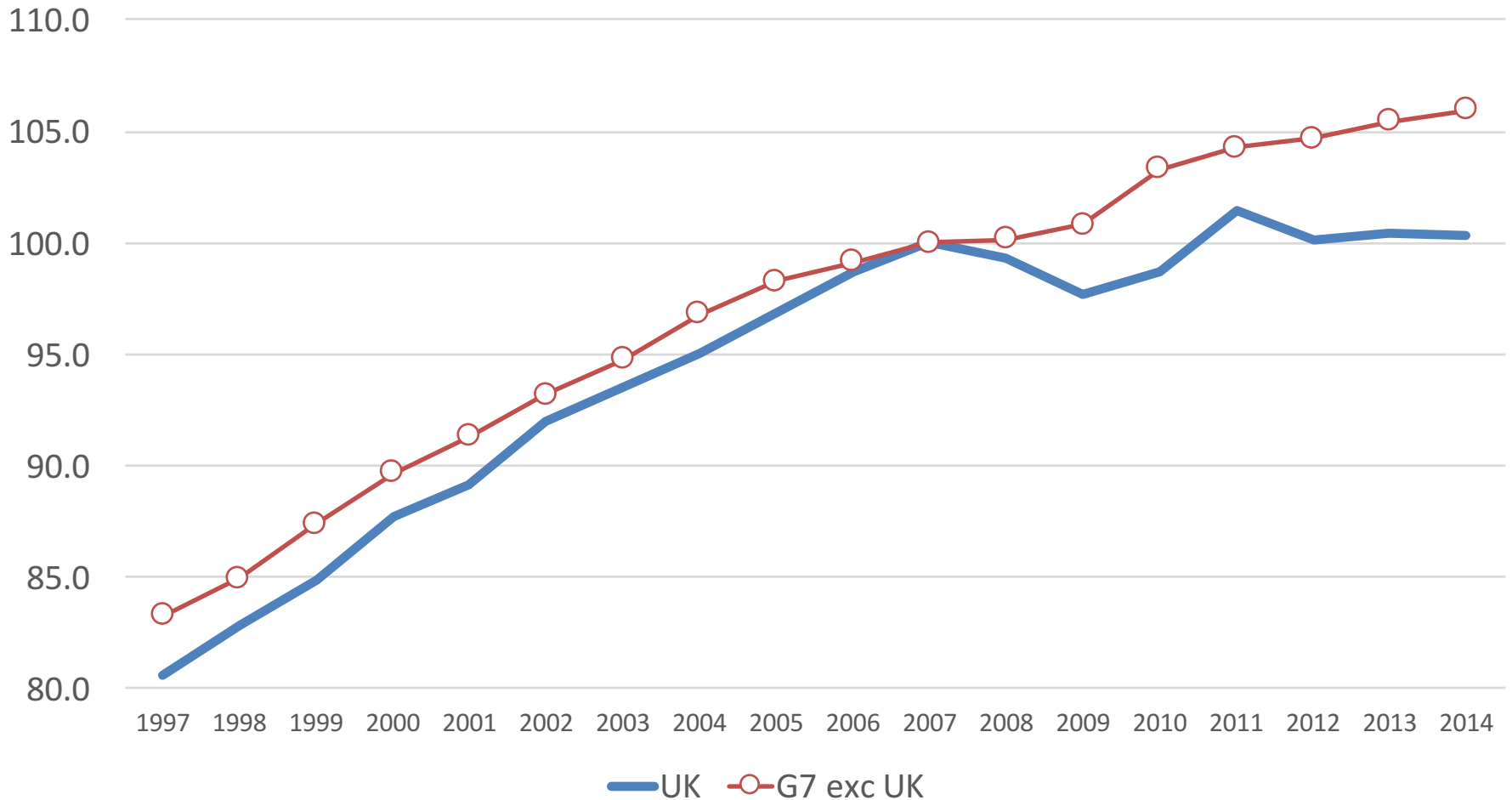
GDP per worker employed



# UK Productivity Growth has disappointed since 2007

Real output per person employed in the UK and G7 (excluding the UK)

Index of Constant price GDP per hour worked, 2007 = 100



# Why does the UK economy lag on productivity?



Low rate of new capital investment in the UK



Banking crisis affecting lending to businesses



Possible slowing rates of process innovation



Persistent and deep skills shortages in key industries



Relatively low levels of market competition

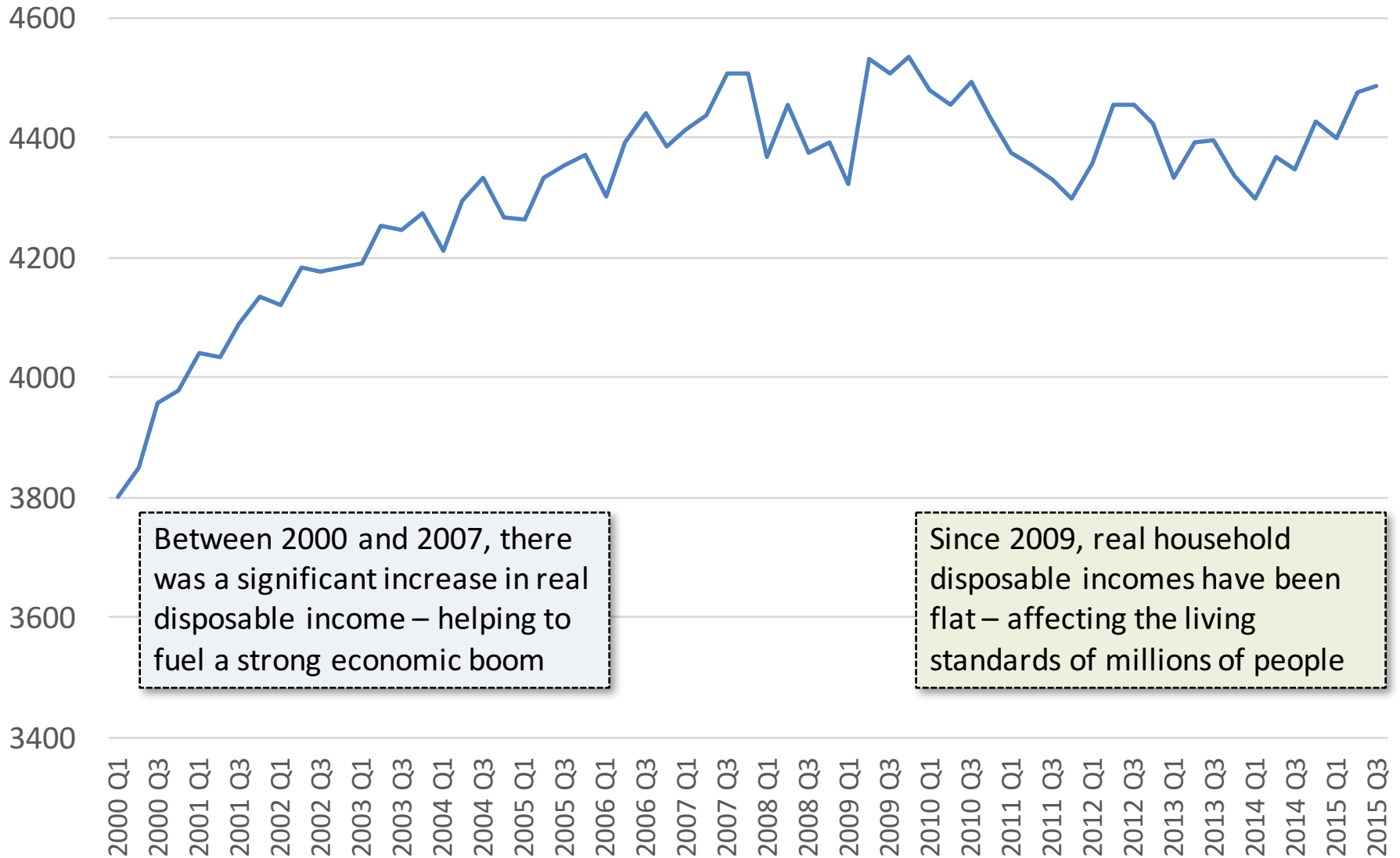


Low aggregate demand & high spare capacity – under-utilizing resources

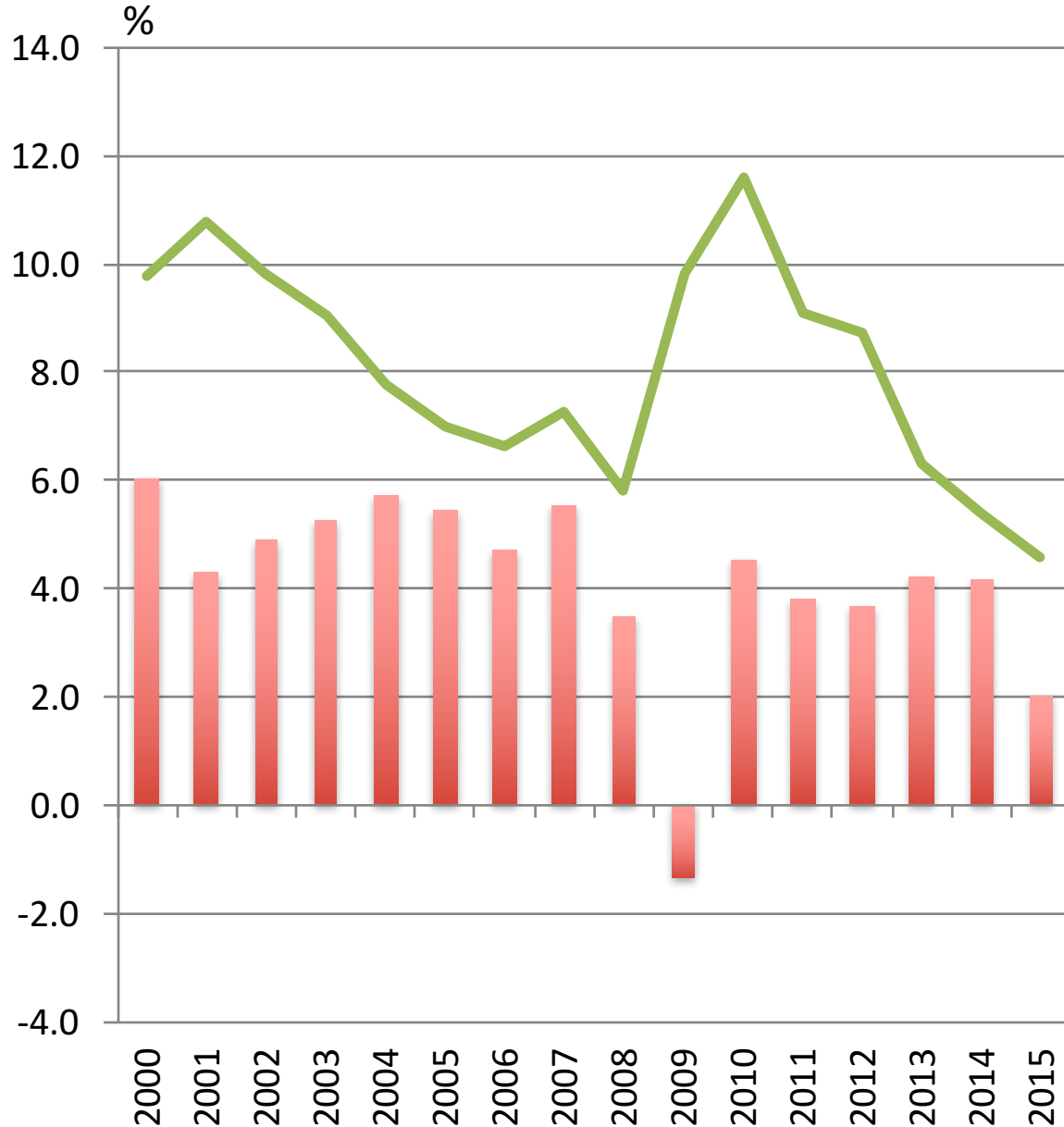


# Real Household Disposable Income (Per Quarter)

Real household disposable income per head (£s)



# Household Saving Ratio for the UK Economy



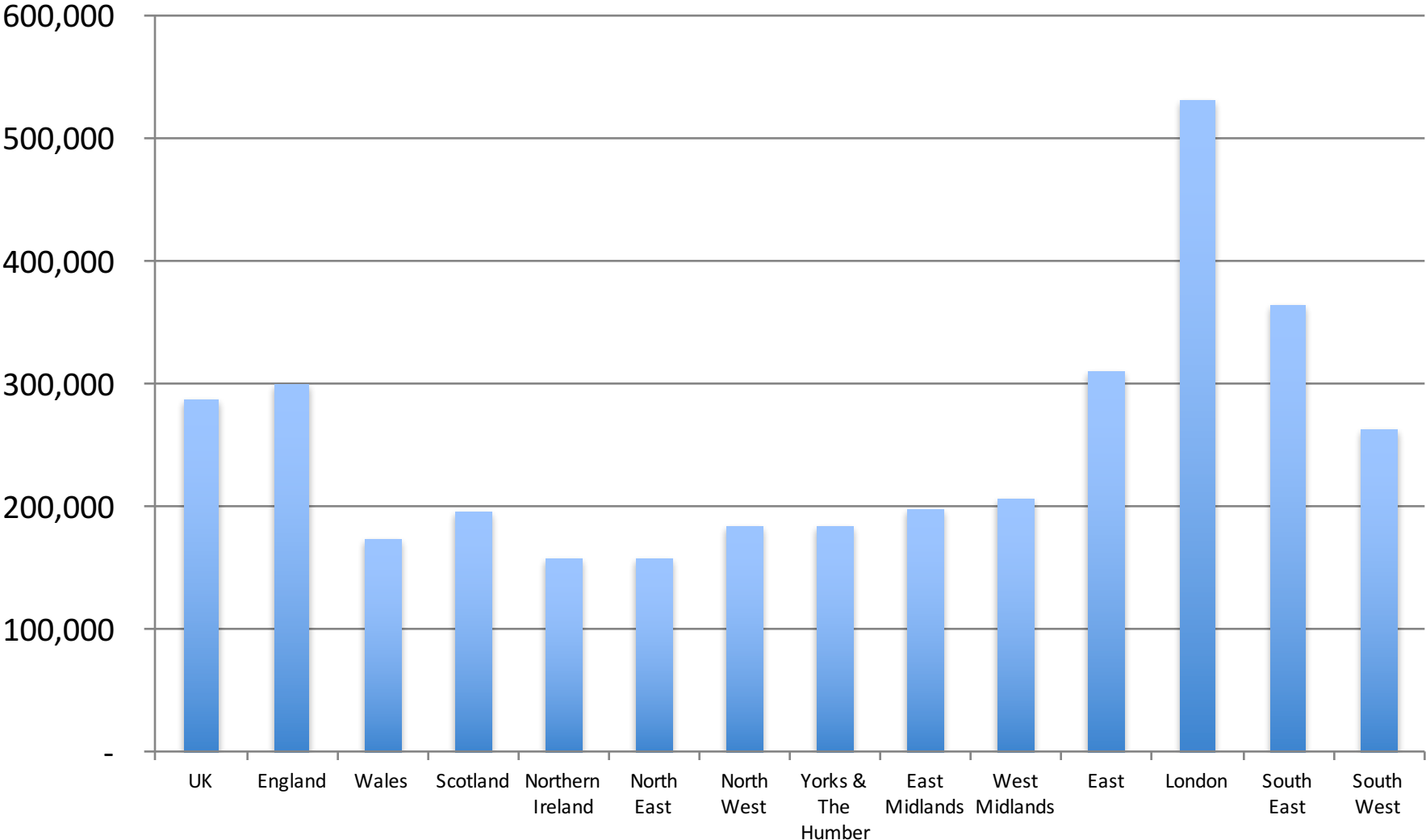
The chart shows the annual growth in household consumption of goods and services along with the household saving ratio (% of disposable income)

Household final consumption  
Savings ratio

The **saving ratio in the UK** has been falling since 2010 mainly due to a period of relatively strong consumer spending that has out-paced the growth of real disposable income

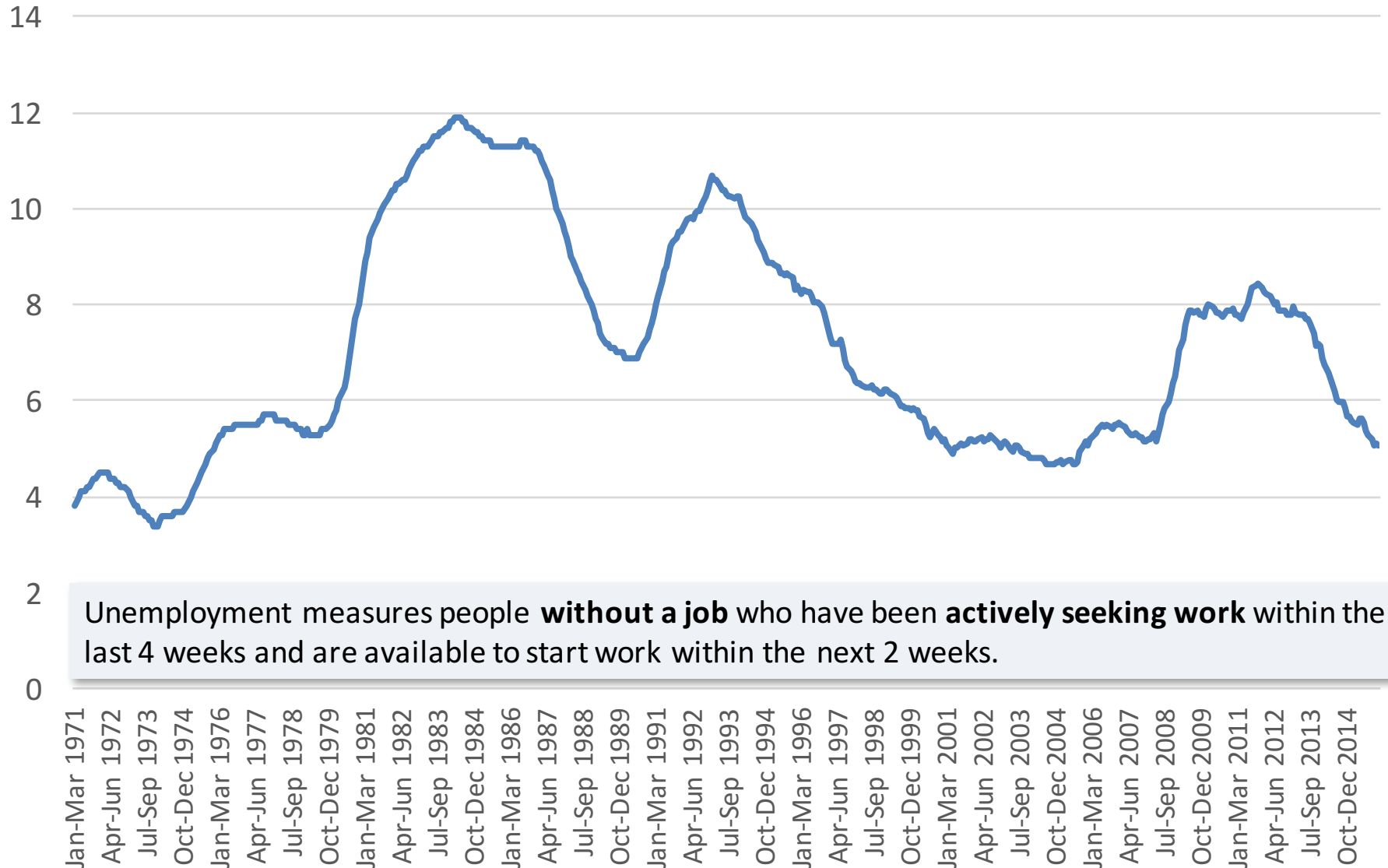
# Average UK House Prices by Region

£s  
Mix-adjusted average house price for UK countries and English Regions, October 2015



# UK Unemployment Rate (Labour Force Survey)

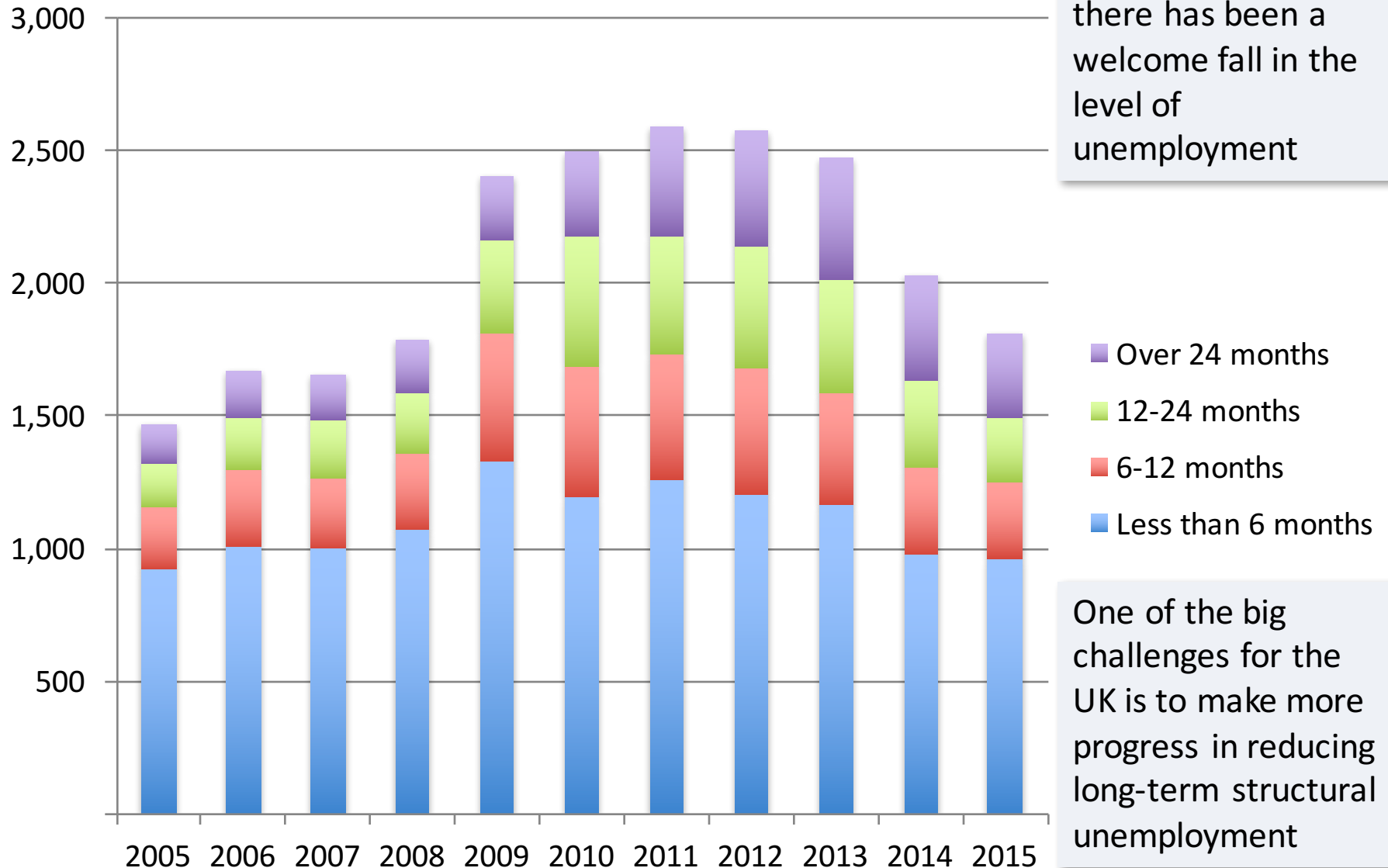
Unemployment rate (per cent of the labour force)



Unemployment measures people **without a job** who have been **actively seeking work** within the last 4 weeks and are available to start work within the next 2 weeks.

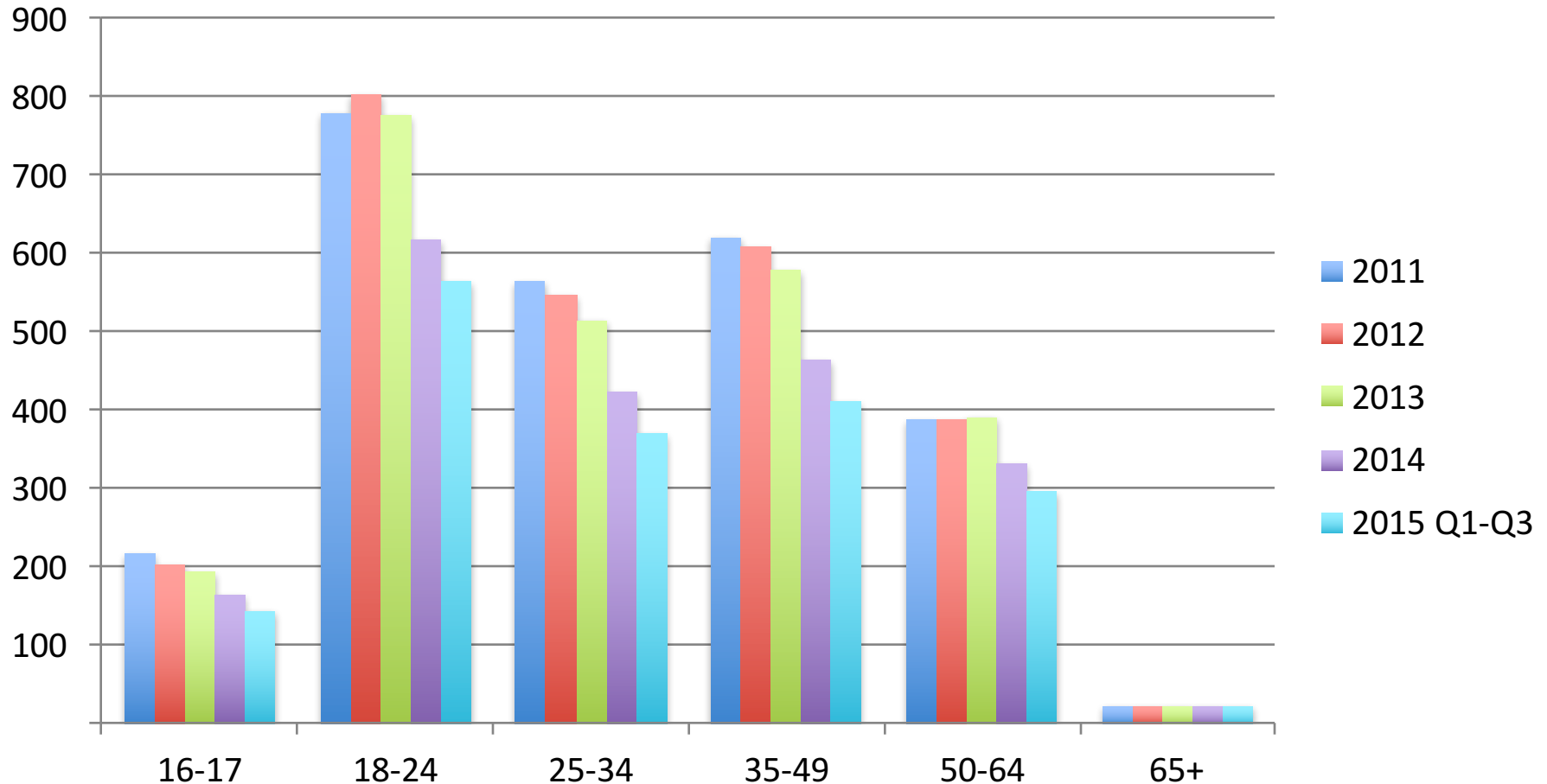
# Duration of LFS Unemployment in the UK economy

Total unemployment, seasonally adjusted



# Unemployment by Age in the UK Economy

Total unemployment, seasonally adjusted



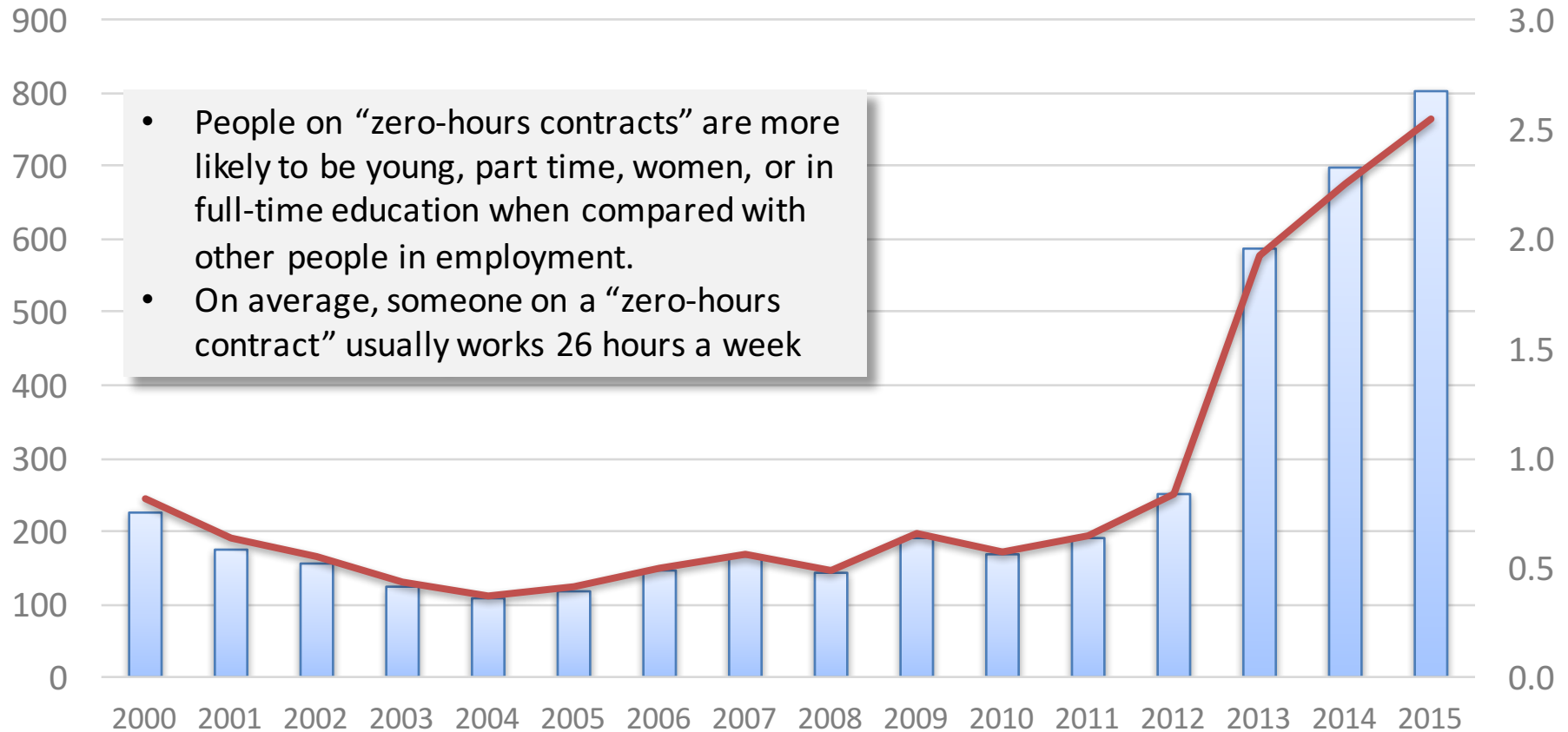
The decline in unemployment since 2011 has been across all age groups, but has been greater for the 18 to 49 age brackets during this period

# The Rise of Zero Hours Contracts in the UK Economy

Total  
(thousands)

Zero Hours Contracts do not guarantee a minimum number of working hours each week

% of people  
in work



- People on “zero-hours contracts” are more likely to be young, part time, women, or in full-time education when compared with other people in employment.
- On average, someone on a “zero-hours contract” usually works 26 hours a week

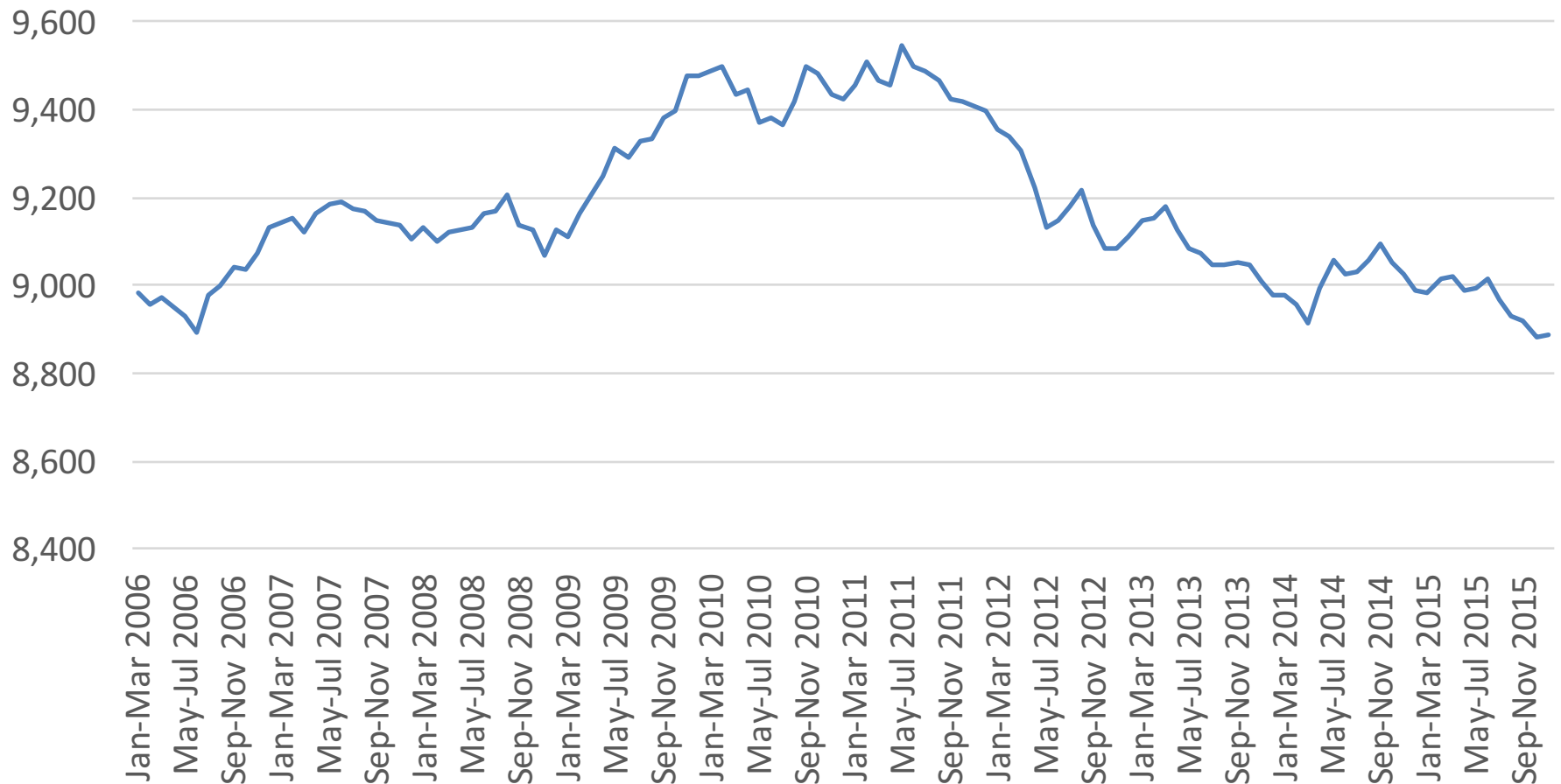
■ In employment on a zero hours contract (thousands)

— Percentage of people in employment on a zero hours contract



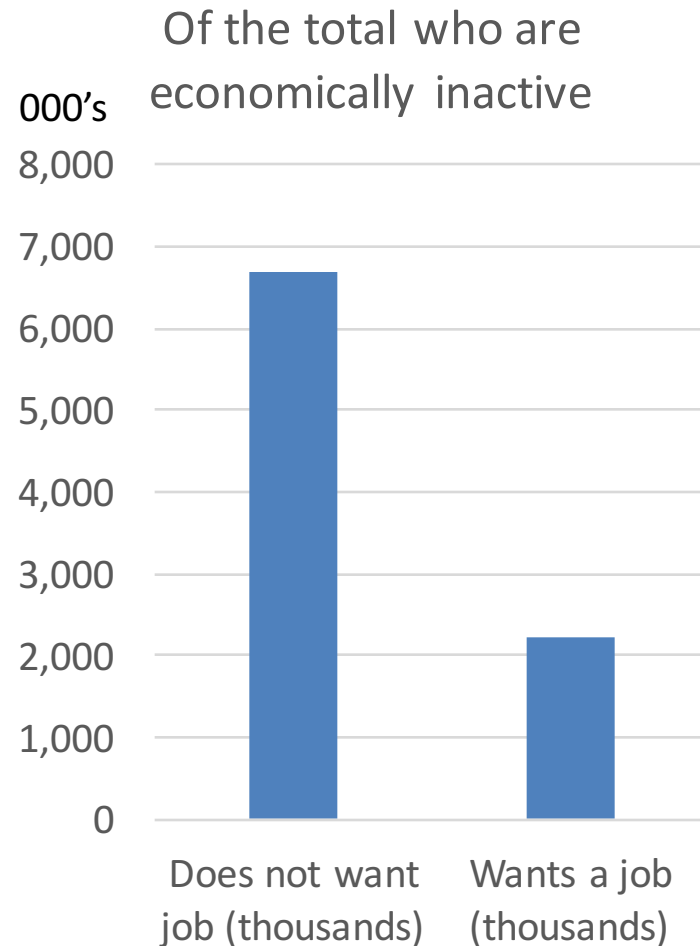
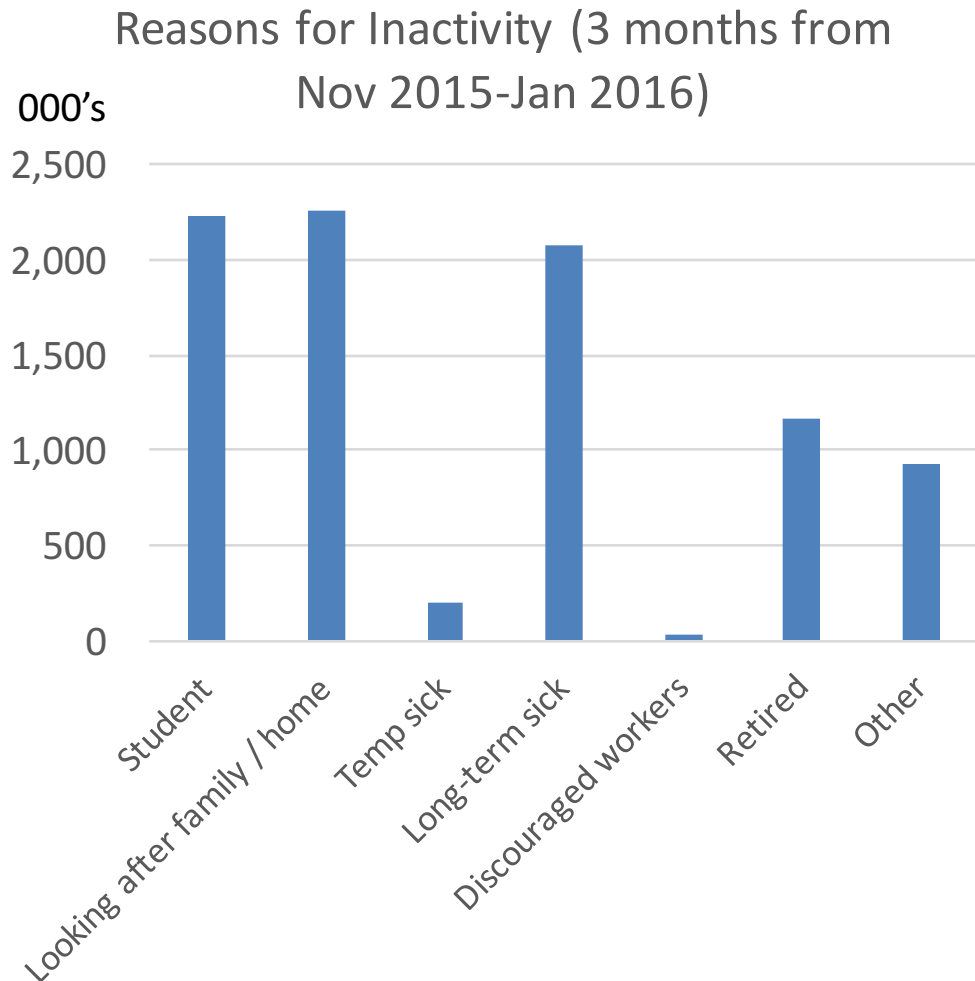
# Economic Inactivity in the UK Labour Market

Total economically inactive aged 16-64 (thousands)



People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks?

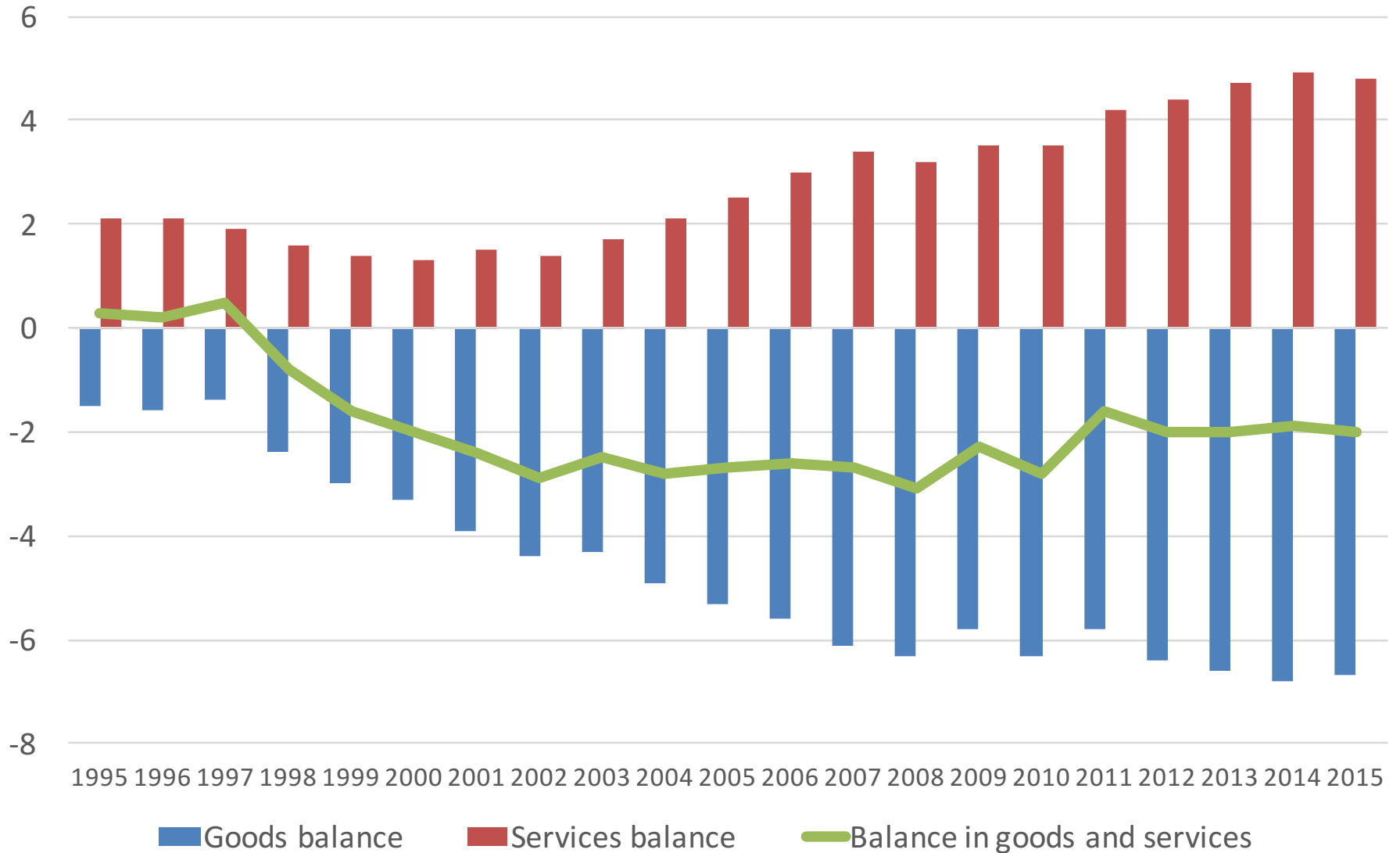
# Reasons for Economic Inactivity in the UK



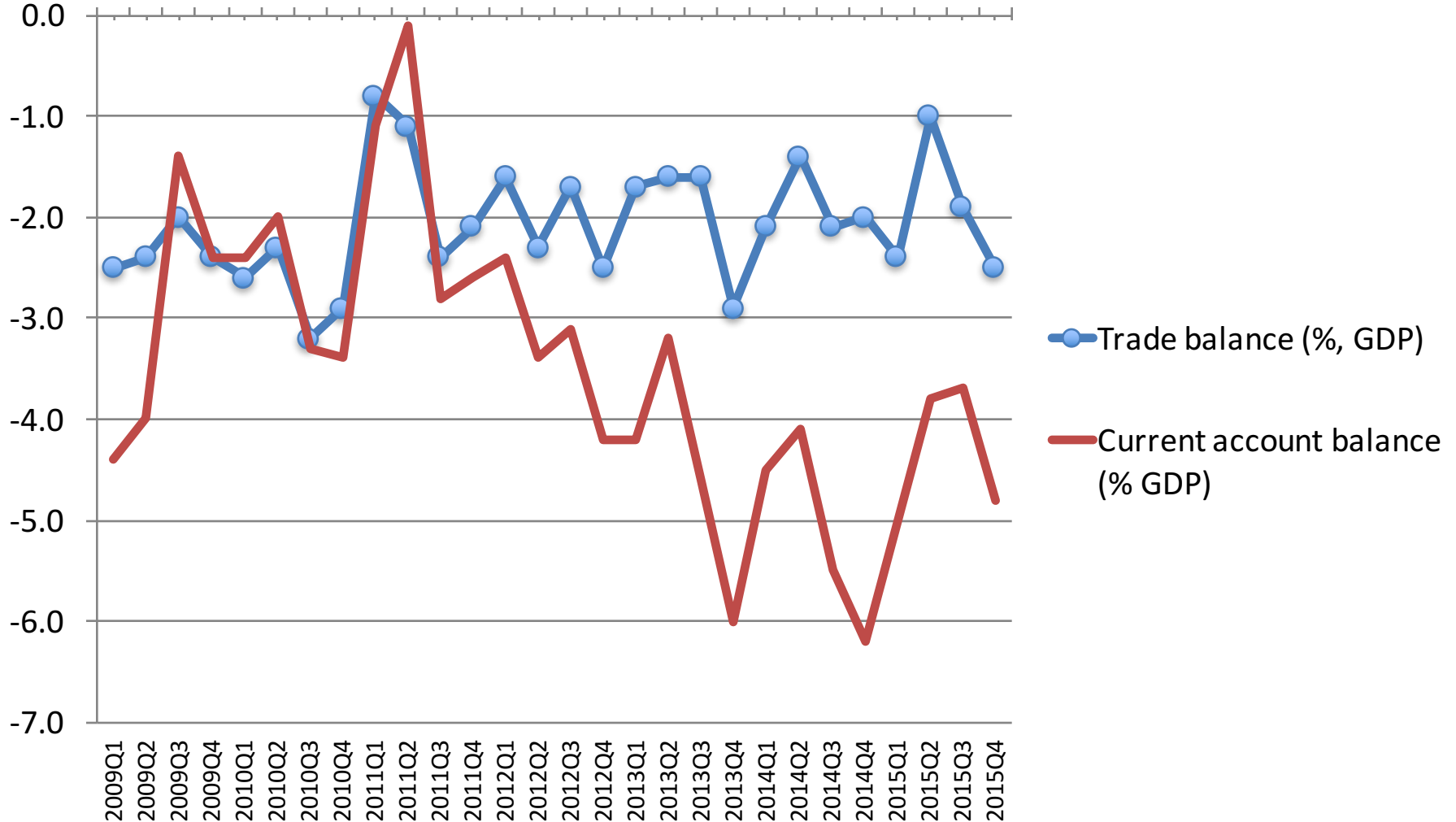
People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks

# UK Trade Balance in Goods and Services (% of GDP)

Trade Balances for Goods and Services (% of GDP)



# UK Trade and Current Account Balance (% of GDP)



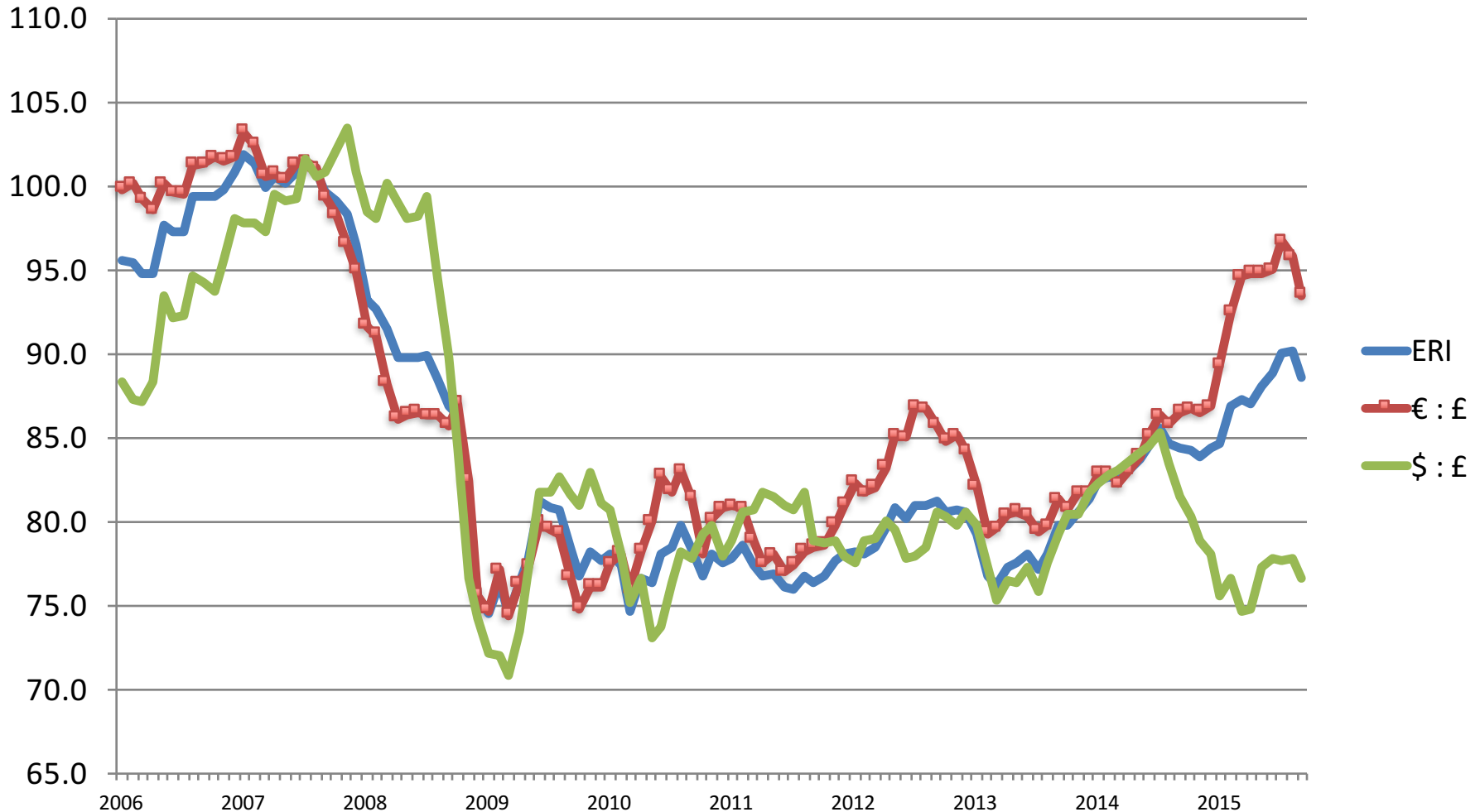
The UK's external trade position has worsened considerably in the last few years. Since 2013 the quarterly current account deficit has average 5% of our GDP

# Components of Current Account Balance (% of GDP)

Components of the UK Current Account (% of GDP), annual



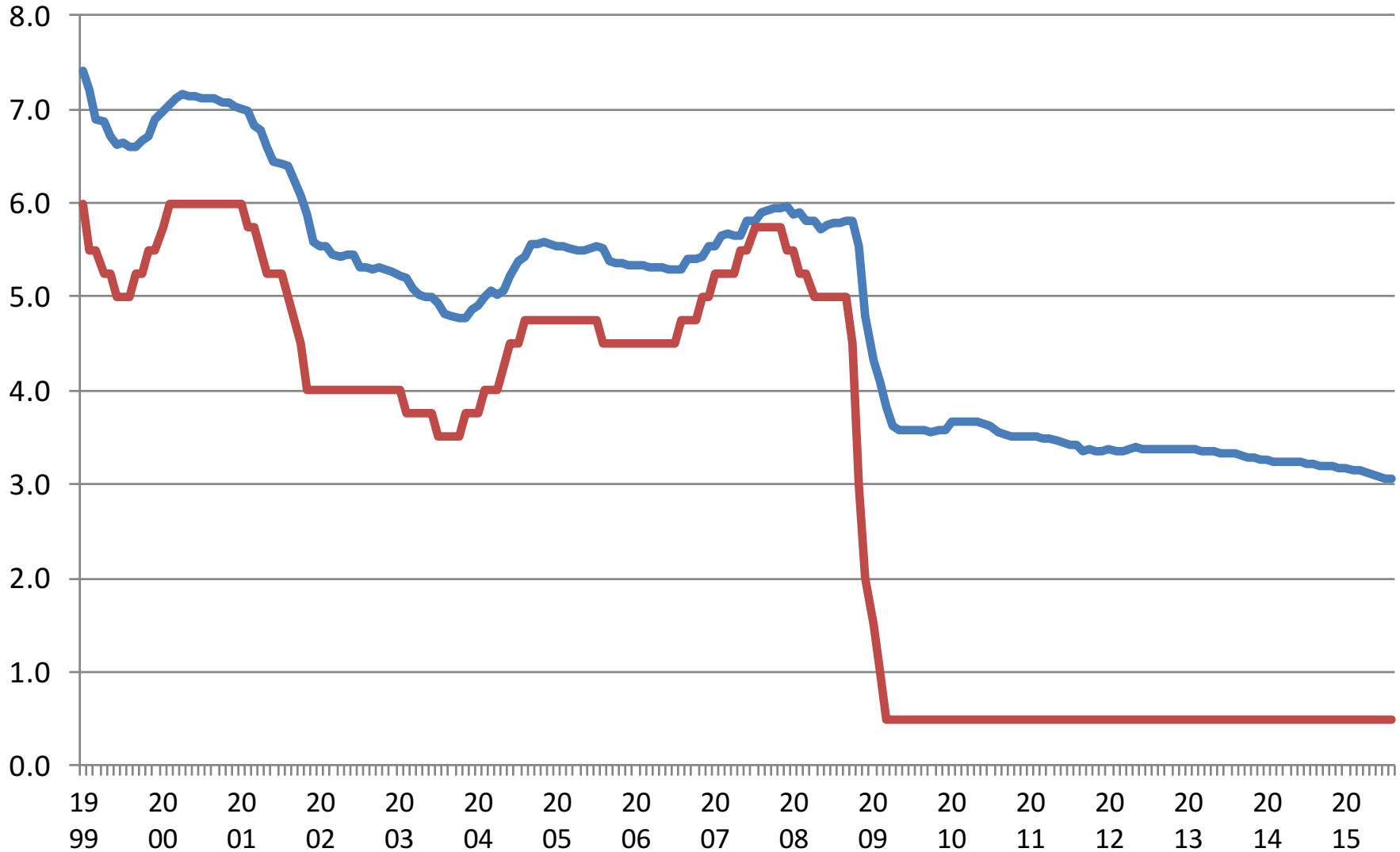
# Fluctuations in the UK Exchange Rate Index



The exchange rate index (ERI) is a trade-weighted measure of sterling against a basket of currencies – weighted by the share of UK trade with each country

# Base Interest Rates and Mortgage Rate in the UK

— Effective mortgage interest rate — Base rate

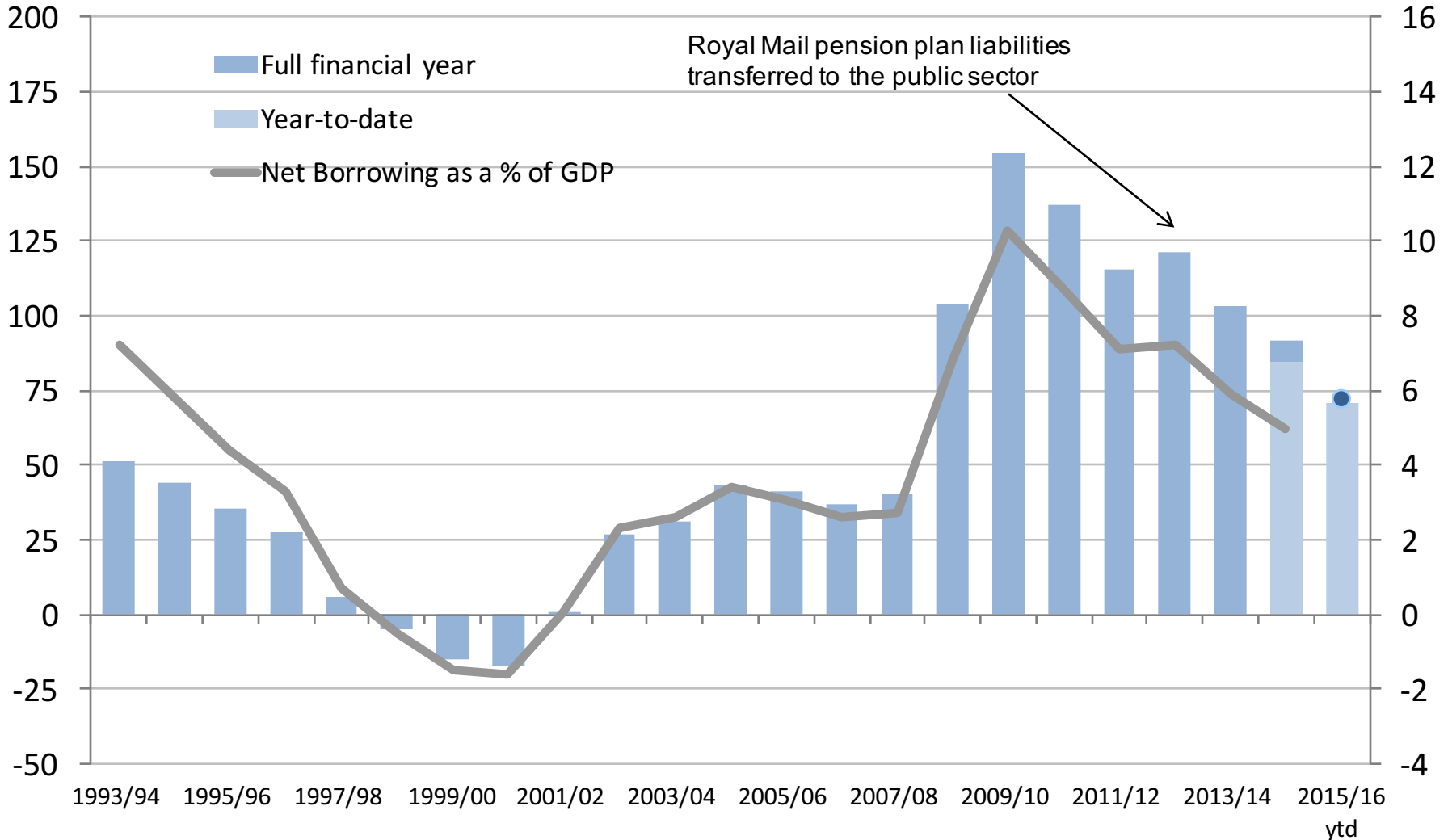




# UK Government Borrowing and Debt

Net Borrowing  
(£ billion)

Net Borrowing  
(% GDP)



# Thank you

[tutor2u.net/economics](http://tutor2u.net/economics)

 @tutor2uGeoff