Economic Outlook for Wales

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GDP Per head in Wales and the UK

£4012

£5128
The UK Economy in Focus

- UK economic performance has been dismal in recent years. Compared with historic trends, GDP per capita was nearly 16% lower in 2014 – a loss of about £4,500 per person (see Figure 1).
- The much-lauded growth rate of 2.7% in 2014 is flattered by population growth (net immigration is running at triple the government’s 100,000 target), poor eurozone performance and the fact that the economy has been stagnant since the 2008-09 global financial crisis.
- Jobs have held up surprisingly well with almost three quarters of the working age population in jobs, back to pre-crisis levels. But this is largely due to average real wages falling by about 9% since 2008, which has kept labour costs down.
- Productivity as measured by GDP per hour is also about 16% below trend, and 17% below the G7 average.
UK Austerity*

In 2010 coalition accelerated austerity already planned by the outgoing Labour government, taking out an additional 1.2% of national income. VAT was increased to 20% in 2011 and an addition £32 billion of spending cuts announced by 2015.

Fiscal years 2010-11 and 2011-12 a huge 40% real cut in public investment. This is contrary to traditional economic thinking- investment would have generated big ‘multiplier’ effect on output. With interest rates low this would have also supported the decision.

What governs the decisions taken is wrapped up in the deficit and and debit debate

*Difficult economic conditions created by government measures to reduce public expenditure
Public sector net debt

UK 2012/13 debt = £1,185bn, equivalent to £18,606 per person

All figures for financial years, eg April 2012-March 2013
Source: ONS/OBR
All figures for financial years, e.g. April 2012-March 2013
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Forecast Public Sector Net Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>£Billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>1400</td>
</tr>
<tr>
<td>2015-16</td>
<td>1450</td>
</tr>
<tr>
<td>2016-17</td>
<td>1500</td>
</tr>
<tr>
<td>2017-18</td>
<td>1550</td>
</tr>
<tr>
<td>2018-19</td>
<td>1600</td>
</tr>
<tr>
<td>2019-20</td>
<td>1650</td>
</tr>
</tbody>
</table>
UK growth fell to its lowest level since late 2012

Source: ONS
Is this possible? Inflation is currently 0.1% in May we had deflation prices falling
# Potential Departmental Spending Under Alternative Party Proposals

<table>
<thead>
<tr>
<th></th>
<th>2015-16 to 2019-20</th>
<th>2010-11 to 2019-20</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percentage</td>
<td>£billion</td>
</tr>
<tr>
<td><strong>2014 Autumn Statement</strong></td>
<td>-14.10%</td>
<td>-51.4</td>
</tr>
<tr>
<td><strong>Given party fiscal rules</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservatives</td>
<td>-8.30%</td>
<td>-30.1</td>
</tr>
<tr>
<td>Labour</td>
<td>-1.90%</td>
<td>-6.8</td>
</tr>
<tr>
<td>Liberal Democrats</td>
<td>-1.70%</td>
<td>-6.2</td>
</tr>
<tr>
<td><strong>Given party fiscal rules &amp; stated intentions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conservatives</td>
<td>-6.70%</td>
<td>-24.8</td>
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<tr>
<td>Labour</td>
<td>-1.40%</td>
<td>-5.2</td>
</tr>
<tr>
<td>Liberal Democrats</td>
<td>-2.10%</td>
<td>-7.5</td>
</tr>
</tbody>
</table>
Conservative plans through to 2019-20

• £21.6 billion surplus on the overall budget
• Cutting public spending to 35% of GDP, the lowest level since 1948
• Reducing real spending on public services by 14.1% between 2015-16 and 2019-20
• Half of public spending is welfare and this is projected to continue rising by 13%
• ‘Unprotected’ departments (all except health, schools and overseas aid) see cuts of a quarter of their budget (following on from cuts of a fifth in the previous five years).
Implications for Wales

• The block grant should not change materially in real terms over the coming four years. (Compares with a real terms cut of 8% last parliament).
• This assumption is based on the £8bn by 2019-20 on NHS spending in England- thus delivering a consequential increase in Wales.
• Non-devolved departmental spending in Wales will fall by approximately £260 million by 2018-19: this is a reduction of 16 per cent in real terms.
Implications for Wales Continued

• Spending on social protection in Wales by the UK Government will fall by approximately £550 million a year by 2018-19. Half of this fund is for protected services (Pensioner related benefits) therefore others services will see approximately a 10% reduction in funding.

• Total identifiable public expenditure in Wales will be cut by £810 million in real terms by 2018-19: a reduction of some 2.6 per cent.
Conclusions

• The next 4/5 years will be tough, but hopefully less destructive than the last parliament.
• There remains uncertainty over the extent to which economic growth in the UK will help reduce the fiscal deficit- and as such its hard to see the spending plans set in stone.
• Wales will have some difficult decisions over where the consequential increases in funds will be spent.
Side Note Project INTERIM

- The impacts of these macroeconomic effects are difficult to measure with the limited data and modelling capacity in Wales.
- Going forward, particularly with Tax raising powers given to Wales there needs to be greater economic intelligence.
- The WERU are currently involved in a number of projects to do this but all support from stakeholders is very welcome - watch this space.