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## Sustainable growth in the 21<sup>st</sup> Century

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23 June 2015



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## Outline

- What is sustainable growth?
- Long growth waves in the UK economy
- Are we embarking on a new growth wave?
- Business, investment and policy implications

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## What is sustainable growth?

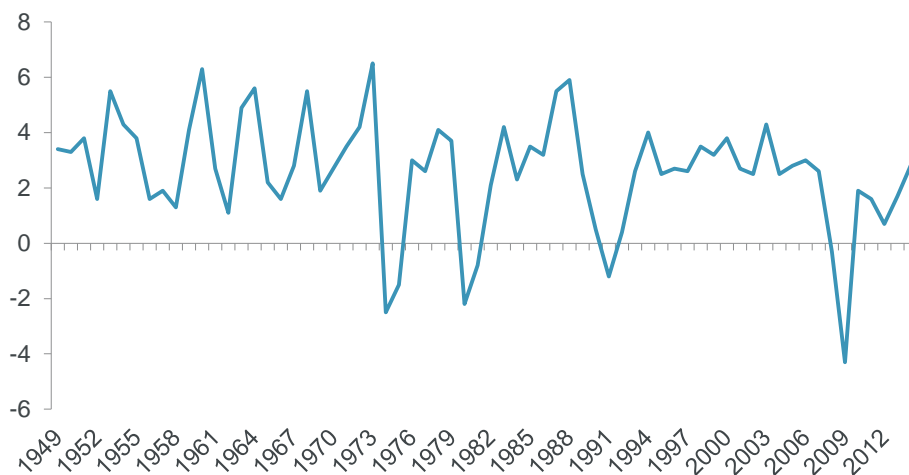
- Avoiding boom and bust cycles
- Supporting investment in capital, skills and ideas
- Respecting resource and environmental constraints
- Ensuring prosperity is shared across society

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## UK GDP growth since 1949

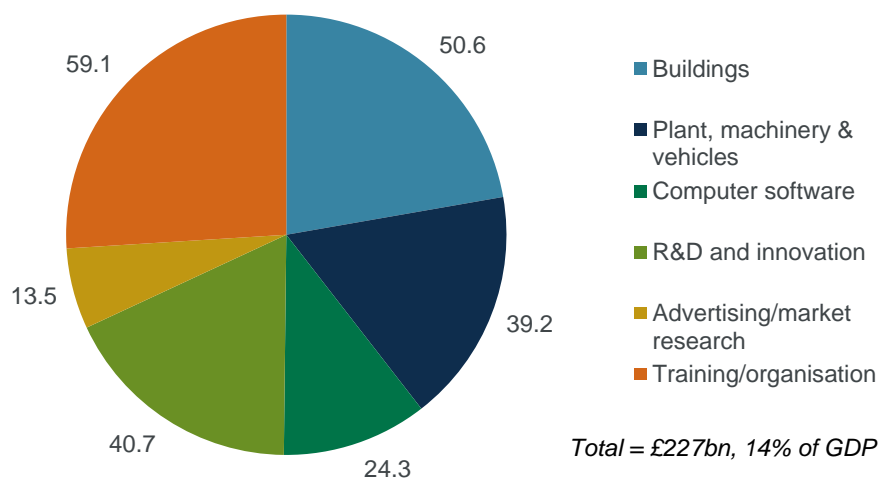
% per annum change in real GDP



Source: ONS

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## UK business investment in 2011, £bn

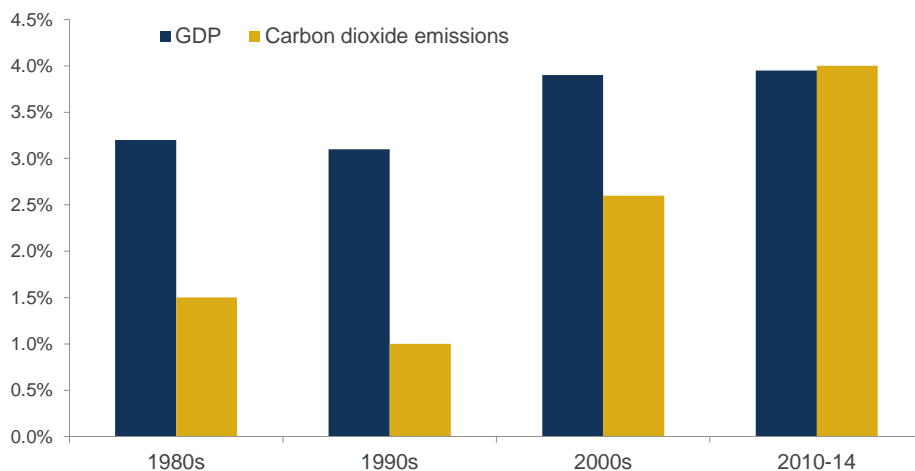


Source: Goodridge, Haskel and Wallis, 2014

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## World GDP and carbon emissions

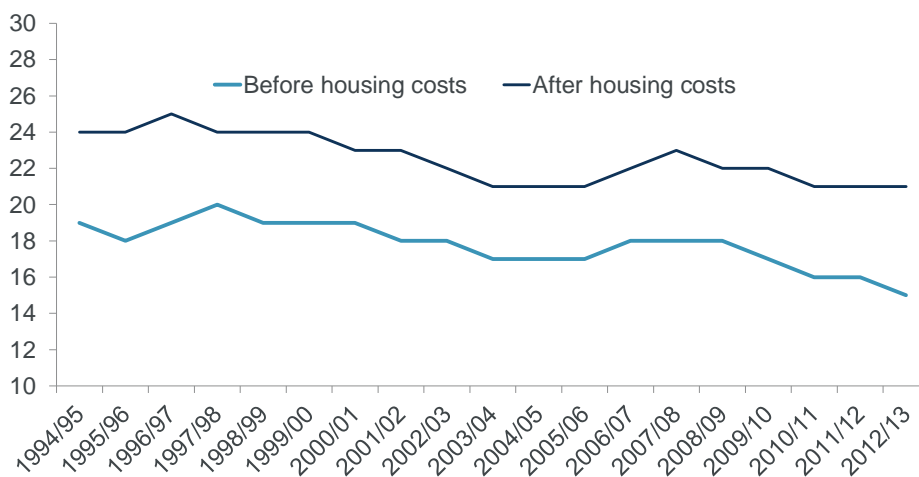
*% per annum growth*



Source: IMF and BP Statistical Review of World Energy

## UK individuals with low income

*% of individuals in households with income below 60% of median*



Source: Department for Work and Pensions

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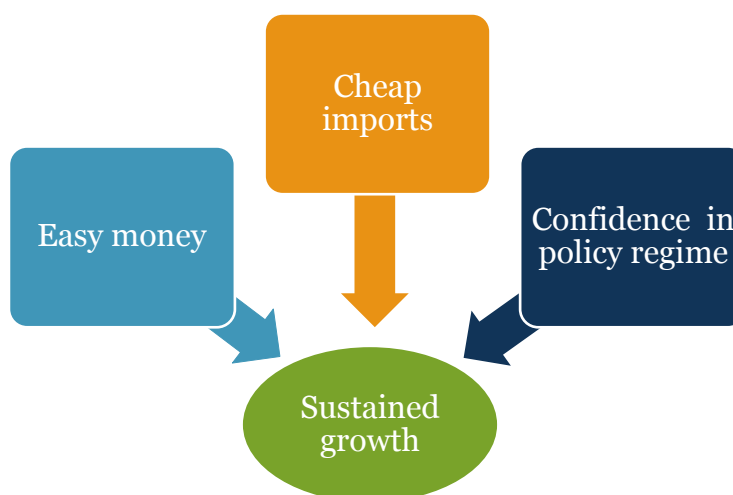
## Should we aim for zero growth?

- A growing world economy helps to support development of poorer countries
- Zero or very low growth risks rising unemployment as technology boosts productivity and displaces jobs
- No growth creates a divisive “zero sum” society where one person’s gain is another’s loss

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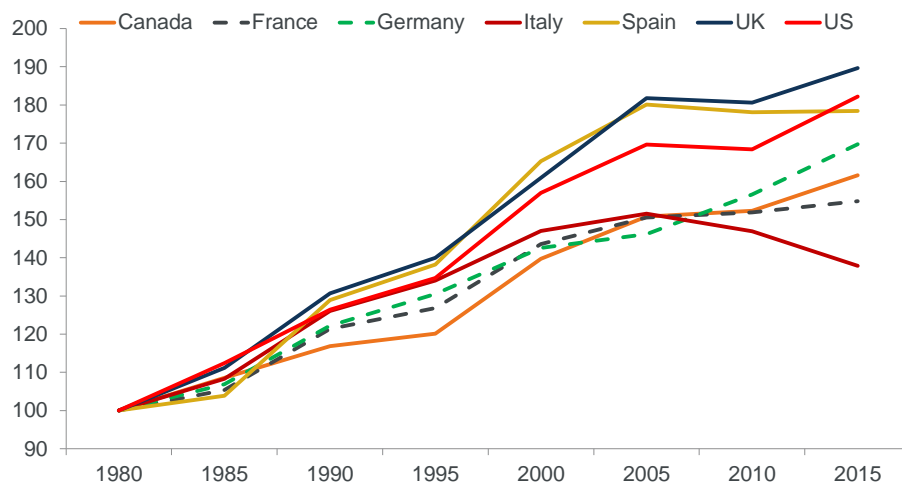
## Pre-2007 drivers of western growth



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## Western living standards since 1980

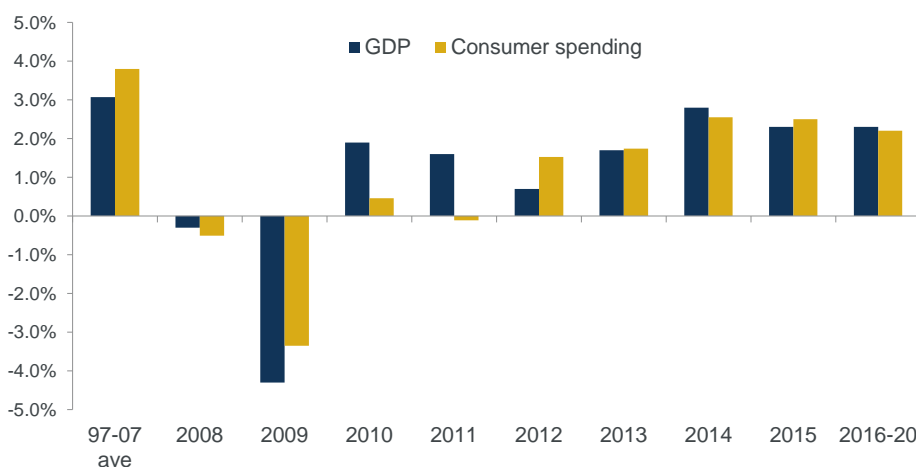
GDP/head in major Western economies, 1980=100



Source: IMF World Economic Outlook, April 2015

## UK economic outlook

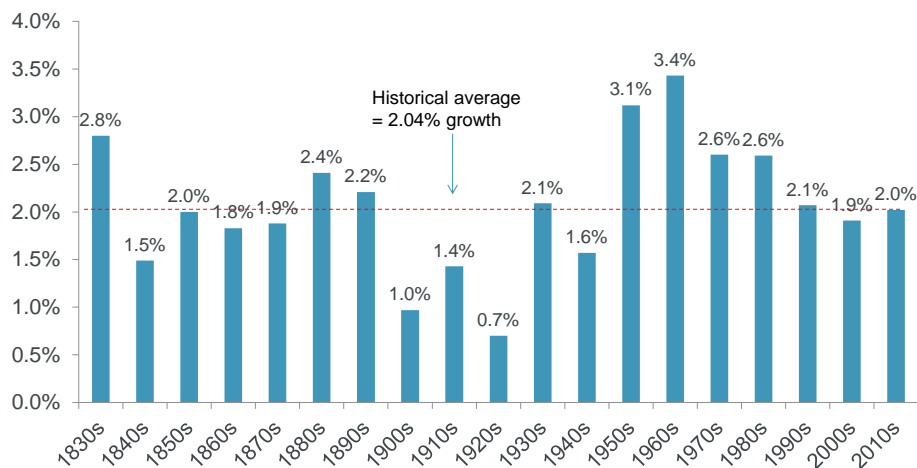
% per annum growth



Source: Office for National Statistics and PwC Forecasts

## New Normal - return to the Old Normal?

% annual change in GDP

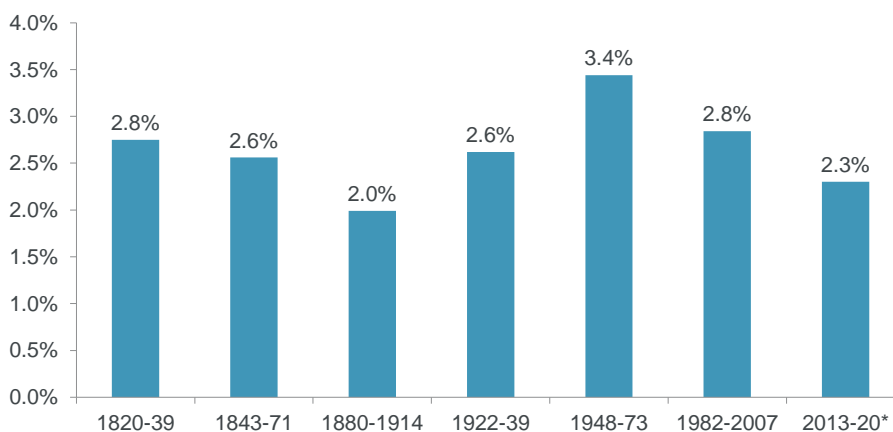


Source: Bank of England (1830-1949), ONS(1950-2013) and PwC forecasts

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## Long UK expansions over past 200 years

average annual % increase in GDP

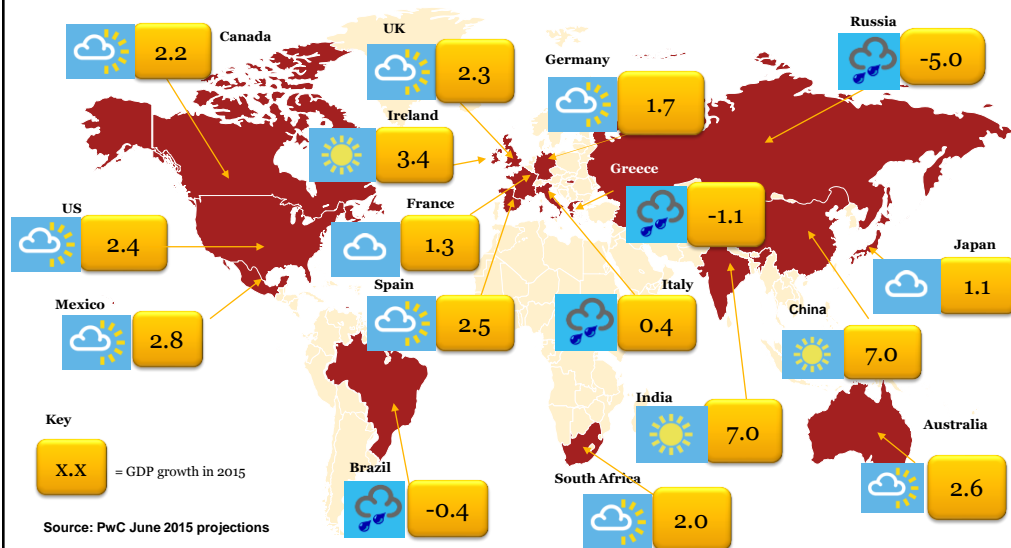


Sources: Bank of England; ONS; University of Warwick; PwC

\*partly forecast

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## Global growth in 2015 – latest PwC forecasts



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## Potential drivers for a new growth wave

- Technology – but not just IT/communications
- Globalisation and development in Asia/Africa
- Demographics and the “Independence Economy”
- Services sector revolution – new business models facilitated by the internet and social change
- Shift in the energy system to a more sustainable low carbon model

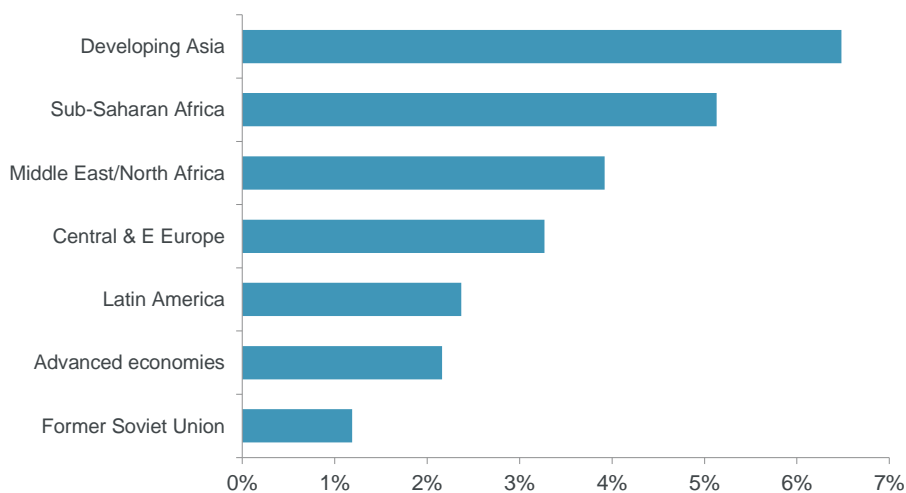
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## Medium-term regional growth prospects

% average growth, 2015-20, latest IMF forecasts

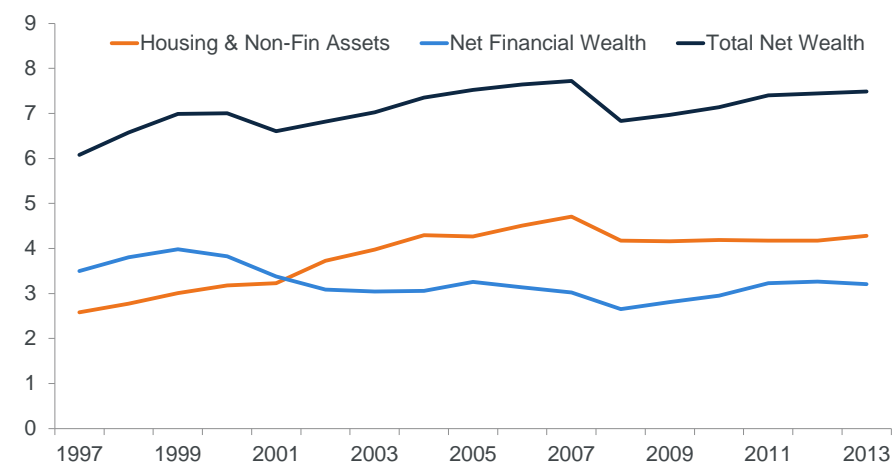


Source: IMF World Economic Outlook, April 2005

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## UK household net wealth over 7x income

Net wealth as a multiple of disposable income

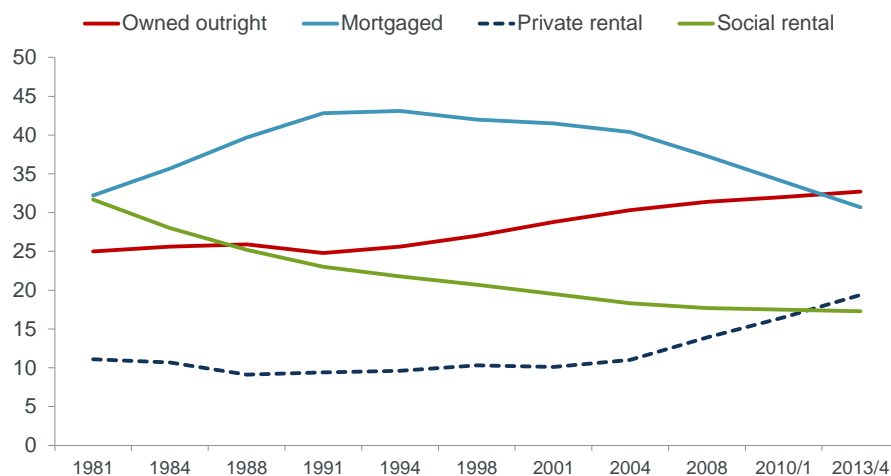


Source - ONS

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## Outright home ownership growing

% of English homes by tenure

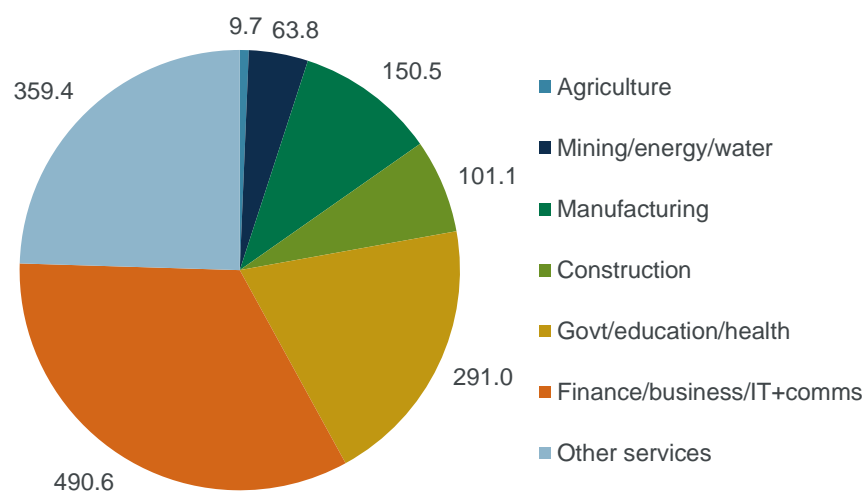


Source: English Housing Survey

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## Services industries dominate UK economy

UK Gross Value Added (exc imputed rent) in 2014, £bn



Source: Office for National Statistics

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## Business and investment implications

- Signs that UK and some other western economies are embarking on a new post-crisis growth wave
- Previous long growth waves have lasted 20 years or more
- Growth rates in this new wave unlikely to be strong. UK should expect 2-2.5% annual growth, compared with over 3% in the decade before the financial crisis
- As growth becomes more well-established, interest rates should return to more “normal” levels
- Potential drivers of growth are technology, economic development in Asia/Africa, demographic shifts, new business models in services and investment in sustainable energy

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## Policy implications

- Business-friendly policies and flexible labour markets help economies tap into new sources of growth
- Education and skills are key drivers of success in an increasingly services and people-oriented economy
- Investment in transport and communications infrastructure helps build business clusters and provide access to markets
- Reform and restructuring of public services and tax systems
- Trade liberalisation can play a key role in supporting the new growth wave – particularly the development of services trade
- Stronger policy framework needed for the transition to a more sustainable low carbon economy

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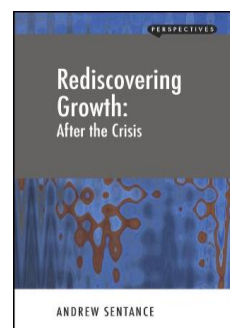
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# Questions

# Comments

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