



Institute  
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# Current Issues in Pensions

Leeds 2016



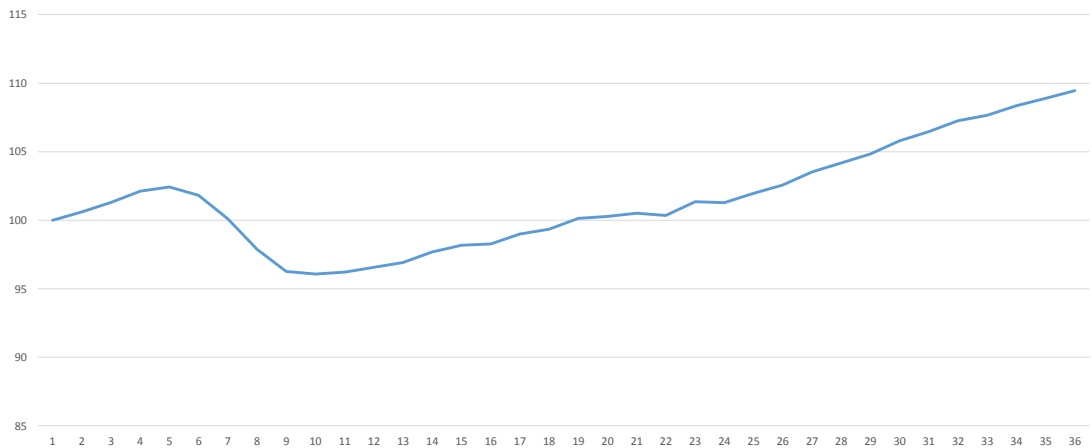
## Macroeconomic Prospects

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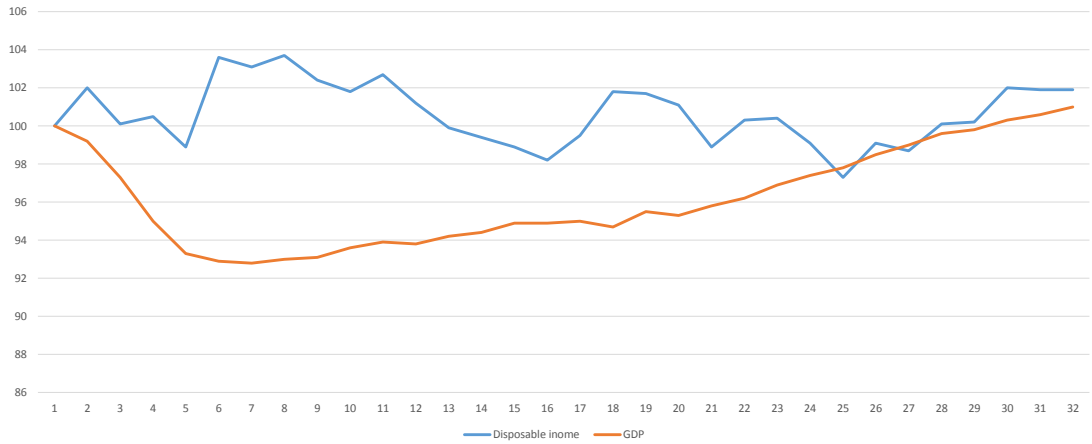
## Introduction

- Brief reminder of past 10 years
- Reflections of implications of past 10 years
- Forecasts for the near future
- Thoughts on economic effects of Brexit

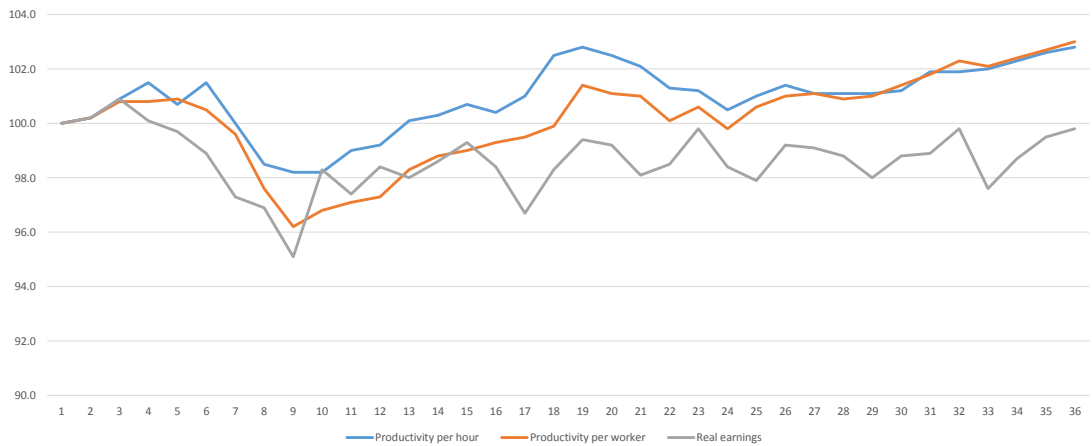
## GDP 2007 to 2015



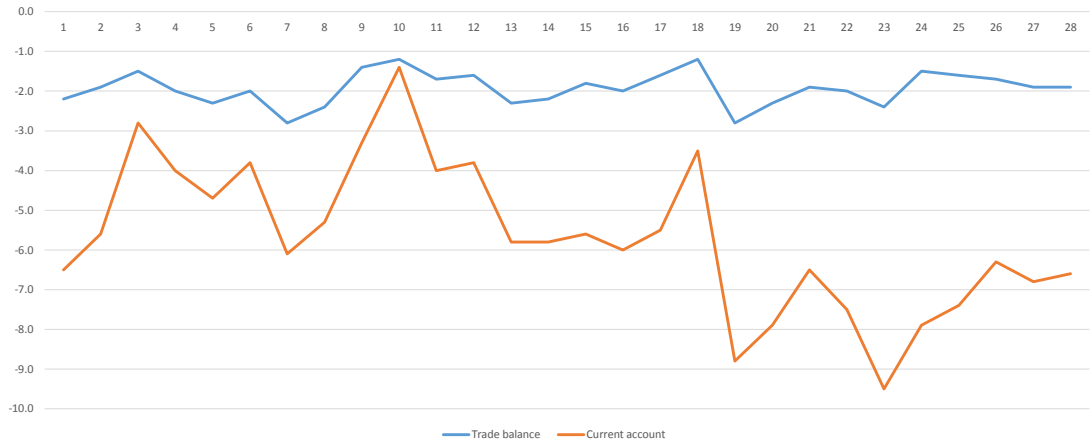
Income per head: 2008 to 2015



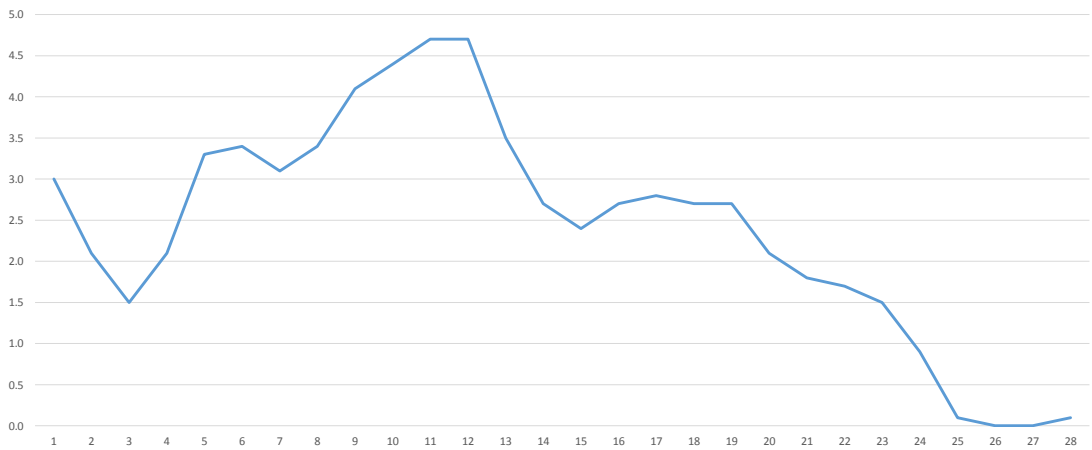
Productivity and real earnings 2007 to 2015



## Balance of payments 2009 to 2015



## Inflation: 2009 to 2015



## Interest rates and Quantitative Easing

- OBR forecast to 2020: bank rate below 2 per cent
- Widely recognised that there is little left in the monetary policy armoury
- Can QE be readily unravelled?

- Inflation depends on global inflation and outside UK control;
- Output very slow recovery
- Has the trend rate of growth changed?

## Near term prospects

<b>Forecasts for 2016</b>					
	<b>Independent<sup>+</sup></b>				<b>Average of new* forecasts</b>
	<b>Averages</b>		<b>February</b>		
	<b>February</b>	<b>January</b>	<b>Lowest</b>	<b>Highest</b>	
GDP growth (per cent)	2.2	2.2	1.5	2.6	2.1
Inflation rate (Q4: per cent)					
- CPI	1.1	1.3	0.4	1.9	1.1
- RPI	2.2	2.4	1.0	2.8	2.1
LFS unemployment rate (Q4: %)	5.0	5.1	4.6	5.5	5.0
Claimant unemployment (Q4: mn)	0.76	0.75	0.60	0.82	0.76
Current account (£bn)	-75.7	-77.6	-110.3	-51.0	-72.0
PSNB (2015-16: £bn)	63.2	57.6	43.0	79.6	65.8

<b>Forecasts for 2017</b>					
	<b>Independent<sup>+</sup></b>				<b>Average of new* forecasts</b>
	<b>Averages</b>		<b>February</b>		
	<b>February</b>	<b>January</b>	<b>Lowest</b>	<b>Highest</b>	
GDP growth (per cent)	2.2	-	1.2	2.7	2.2
Inflation rate (Q4: per cent)					
- CPI	2.0	-	1.6	2.9	2.0
- RPI	2.9	-	1.4	3.6	2.9
LFS unemployment rate (Q4: %)	4.9	-	4.4	5.3	4.9
Claimant unemployment (Q4: mn)	0.73	-	0.60	0.83	0.73
Current account (£bn)	-65.9	-	-93.4	-40.0	-65.9
PSNB (2016-17: £bn)	46.9	-	24.0	61.4	46.9

Is there a crisis around the corner?

- Financial crises are a frequent occurrence; and it is nearly 9 years since the start of the global financial crisis!
- A number of notable 'problem areas' – slow-down in China and financial issues, Brazil, banking issues in EU:
- Slow down in growth likely and governments appear to lack will to respond.

Brexit

- Talking about Brexit faces two obvious difficulties:
- can forecasting what would happen be separated from the views of the person making the forecasts on the desirability of Remain/Leave?
- what would the trading and other relationships between UK, rEU, and other countries be after exit?.

## Brexit

- What is though clear is that the two years or more following a Leave vote would involve considerable uncertainty, postponement of decisions, lower investment etc..

## Brexit

- I take University as example – it interacts with EU in terms of students and student exchange (Erasmus and other programmes), hiring staff under free movement of labour (and what happens to existing EU , and research (declare my own interests). I suspect that in the end there would be an accommodation with the EU in that a range of countries have associate type relationship.



## Brexit

- I'd expect a reduction in investment– to delay in the face of increased uncertainty;
- Slower growth over the next couple of years, increase budget deficit and possibly increased austerity
- Depreciation of the exchange rate in the face of uncertainties and poorer trade prospects.

## Longer term

- Trade treaties would need to be concluded with countries around the world; would they go significantly further than the WTO most favoured nation requirements?.
- The negotiations with the EU would be much more significant in their effects.

Would the economic effects be significant?

- A widely quoted review by the CBI of the costs and benefits of UK membership comes up with a wide range; a figure of £3000 per annum per household £1125 per individual quoted which amounts to 4 to 5 per cent of GDP; this looks to be overstating as studies they covered averaged around 2 to 3 per cent.
- 'economists' dirty little secret' (Paul Krugman): trade deals, removal of tariffs bring rather small gains.
- Higher estimates of gains rely on 'dynamic effects'

Would the economic effects be significant?

- My 'guess' is that the reversal of UK's membership of EU would involve some losses but relatively small (say 1 per cent of GDP at most).
- The immediate effects on trade between UK and EU would be relatively small (say some tariffs, offset by devaluation of pound against euro) though effects could increase over time.
- 'Dynamic effects' would not be lost; and EU has recently been the slowest growing region in the world.