

# SPRING BUDGET 2017: ECONOMIC SUMMARY



## HEADLINES:

- OBR UK growth forecast for 2017 upgraded but growth downgraded in 2018 and 2019.
- Public sector borrowing £51.7 billion in 2016-17, £16.4bn lower than forecast.

## BCC VIEW OF OBR ECONOMIC FORECAST

*The OBR's latest forecasts provide a more optimistic assessment of the UK's near-term economic prospects compared to the Autumn Statement in November, though still not as bright as this time last year. However, in our view the OBR is too bullish about the UK's near-term growth prospects. We expect that inflation will be a greater challenge to the UK economy than the OBR currently predicts, with price growth overtaking pay growth this year. This is likely to squeeze consumer spending, a key driver of UK growth. The OBR forecast also confirms that UK economic growth is expected to remain unbalanced, with business investment and trade forecast to add little to overall growth over the next few years, and will continue to leave the UK vulnerable to external shocks.*

*"On the public finances, the OBR have confirmed that the stronger than anticipated growth over recent quarters has boosted tax revenues and delivered a marked improvement to the UK's expected fiscal position. However, if economic conditions do become more challenging over the next few years than the OBR predicts, the UK's ability to generate tax receipts will come under greater pressure. Over the long-term, more needs to be done to achieve a sustainable strengthening and broadening of the UK's tax base, including greater support for firms looking to invest, recruit and grow their business."*

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## KEY POINTS:\*

1. **Economic growth:** The Office for Budget Responsibility (OBR) expects GDP growth for 2017 of 2.0 per cent, up from their previous forecast of 1.4 per cent published in November 2016. This is higher than the latest BCC forecast of 1.1 per cent. The growth forecast for 2018 has been downgraded to 1.6 per cent (previously 1.7 per cent). Forecasted growth in 2019 has been downgraded to 1.7 per cent (from 2.1 per cent).
2. **Inflation:** The OBR expects CPI inflation to be 2.4 per cent in 2017 and 2.3 per cent in 2018, broadly in line with its November 2016 forecast. CPI inflation is expected to move above to the Bank of England's target of 2 per cent in 2017.
3. **Labour market:** The OBR now expects unemployment to reach 4.9 per cent in 2017 and 5.1 per cent in 2018. This is lower with their November 2016 forecast of 5.2 per cent in 2017 and 5.5 per cent in 2018.
4. **Fiscal Forecast:** The OBR now expects public-sector net borrowing to reach £51.7 billion in 2016-17. This is £16.4 lower than the OBR forecast in November 2016. Public sector net debt as a share of GDP is forecast to be 86.6 per cent of GDP in 2016-17, peaking at 88.8 per cent in 2017-18, before falling to 79.8 per cent of GDP in 2021-22.
5. **Public spending:** Total public spending is expected to amount to around 39.3 per cent of GDP in 2016-17. Public spending has been forecast to total £772.8 billion in 2016-17, £6 billion less than the November 2016 estimate of £778.8 billion. Total public spending is now projected to fall to 37.9 per cent of GDP in 2021-22.

\*BCC's Q1 2017 Economic Forecast will be published on Tuesday 14<sup>th</sup> March.