

Economic forecasts

The latest IMF forecasts show the UK economy going from being the fastest growing economy last year to be the slowest of the advanced countries next year. The IMF is more pessimistic than the OBR/Treasury for 2023 and is more likely to be right. The OBR/Treasury model usually underestimates the impact of permissive monetary and fiscal policies on the upside, as it did last year, and is too optimistic about the resilience of the economy to tight money and tax hikes on the downside. Last year I predicted a much lower deficit and higher tax revenues than the official estimates at the time of the budget and was pleased to see that happier outcome come to pass.

The IMF says the UK economy will be slowed from 7.5% in 2021 to just 1.2% in 2023. That should be no surprise to anyone watching policy developments. Last year the Bank went on printing extra money all year, long after it should have stopped. This year it will be printing none. It is in danger of hiking rates too high to contract things more. Last year the Treasury planned for a large budget deficit. This year it is trying to get a lower one through large tax rises. This will sandbag growth which in turn reduces buoyancy of revenue. The OBR model still does not capture the full sensitivity of tax revenue to growth rates. Both these policy tightenings come on top of the large hit to real incomes being administered by energy and food price inflation. The high inflation is both the result of past laxity in money growth and the global supply hits to the world economy.

The collapse of the GFK Consumer confidence index to minus 38 should be a final warning to the Treasury. This takes it down to a level lower than it hit in 2020 over lockdown, lower than during the Exchange Rate Mechanism recession and almost as low as the great recession and banking crash of 2009.

One of my critics wants clarity about my forecasts. I am always clear about them. I do not have a model of the economy myself, but study the official models and offer adjustments to their results as they are flawed in ways I have described. Just as last year I forecast a lower deficit and more tax revenue, for 2023 I forecast a lower growth rate for GDP and a worse situation on revenues and deficit than the OBR figures. I urge the government to abate its large tax rises which are the main reason the IMF figures put the UK in bottom place next year. The other main advanced economies have the same pressures from higher inflation as us, and the US, Canada and some others will have a substantial monetary tightening to contend with but do not have the big tax rises. The European countries need tighter money to curb their inflation and may get it later this year.