ONS, OBR and Bank of England forecasts and figures

The recent revisions to the ONS GDP and national income figures for recent years show they do not know what has happened to our economy. It is good news the UK has leapt from bottom to third from top amongst G 7 nations for post pandemic growth. It is worrying the figures for the outturn alter so much. It makes it even harder for those trying to forecast what might happen next.

Meanwhile the OBR has regularly overstated the deficit for the immediate year by more than £100 bn .The Bank of England forecast inflation staying at 2% as it rose to 11%. It then said the rise would be short lived yet we are still way over target.

Despite this inability of these 3 bodies to tell us what has happened and what will happen next, the government remains wedded to tax and spend policies based on these inaccurate numbers. Worse still it accepts as the main guide on whether tax cuts can be afforded the OBR forecast of the deficit in five years time. No one can forecast that accurately as who knows what world growth will be in five years time, who will be President of the USA or Chairman of the Fed or what their policies will be. To ask the OBR to get that right when they cannot get the current year right and then to rely on it as if it were right to a few billions is absurd. The OBR task is made more difficult by past ONS understatements of GDP and therefore of productivity as these figures matter for the 5 year forecast . If you cannot rely on the Bank forecast of inflation you cannot know whether the Bank in 5 years time will need high rates to cut another inflation it has caused, or need low rates to end a recession it has brought on.

So what needs doing? All 3 forecasting and retro casting official bodies need to be asked to revise their models until they can predict and define the past more accurately . They need to back test their models and agree how to compute outturns.

The government needs to get rid of the 5 year deficit target. It should steer the economy with a 2% inflation target and a 2% growth target. It should use forecasting models with a better track record than the OBR, and make judgements taking into account money and credit conditions and allowing for how growth boosts tax revenues and can be boosted by lower tax rates. It should stop making tax the only flexible part of the package and see the importance of better spending controls and priorities to good outcomes.