Spring forward or fall back?

The questions facing the UK economy ahead of the Spring Statement 2019

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Summary

Ahead of Budgets and Spring Statements, speculation usually revolves around what the forecast will say and what the Chancellor will do. But, as with so much in UK politics in 2019, next week’s version feels different.

We might expect little change in the Office for Budget Responsibility’s (OBR’s) economic and fiscal projections: yes the economy appears to have slowed markedly at the start of 2019, but most forecasters are assuming that some of that missing growth is recovered in future years. And, even as the economic growth figures have disappointed, we’ve seen upside surprises on employment (again), on pay (at last) and on the public finances (confirming that the good fiscal news delivered in the autumn has permanence). More so than usual, the uncertain current economic and political backdrop would seem to discourage big changes in predictions of what might come next.

And we can expect very little on the policy front too. Parliamentarians are likely to be somewhat distracted next Wednesday, voting on Brexit to decide our economic future rather than focusing on forecasts of it. The fact that those decisions remain outstanding raises the chances that the Chancellor chooses to keep his powder dry, waiting to see which way the Brexit wind blows before setting his course for this year’s Spending Review for instance. That review is due to happen in the autumn, meaning he will need to set out the overall spending envelope before too long. But delays are commonplace in government these days. He suggested back at the Budget that he might be in a position to increase the total available to departments relative to the provisional figures he set out alongside the new NHS deal. That though was contingent on securing an orderly Brexit and an associated double “deal dividend”. That is yet to arrive – adding weight to the suspicion that he’ll give himself a little more time before committing.

But, while the Spring Statement might not be one that generates many answers, it will at least set out the backdrop to some crucial questions. It comes at a hugely important time for the UK economy. Uncertainty abounds, and the risk that the early-2019 slowdown persists or develops into a downturn is non-trivial. The OBR’s central case outlook might well be only modestly weaker than its October one, but the chance that something altogether more serious occurs is definitely heightened, with the Bank of England now assessing there to be a one-in-four chance of recession in 2019.

So it’s worth asking how well placed different parts of the economy are to deal with what might come next. More specifically, this paper explores the three big questions being asked of the UK economy right now:
• How much of the business investment that’s gone missing in recent years and months will eventually return, and how much is permanently lost?

• When and how will consumers bring their spending back in line with their incomes?

• How does government ‘end austerity’ while simultaneously delivering the reductions in an elevated stock of debt it wants to see?

From the perspective of businesses, the past year has been characterised by growing pessimism and an increasing reluctance to act. The post-crisis recovery in business investment had been broadly matching the pattern of past recoveries, but stopped doing so once the EU Referendum Act came into force. Had it continued on its previous path we might have expected businesses to be investing £60 billion more a year today than they actually are. Of course Brexit might not be the only factor at play, and the recent global economic slowdown is likely to be complicating matters. But the UK’s investment trend stands out – for all the wrong reasons – internationally: our post-referendum stagnation contrasts with a steady uptick in investment across much of the rest of the G7.

The big question is whether today’s missing investment is merely being delayed, stored up for a point at which clarity returns? Or whether firms are now pursuing entirely alternative strategies that will see certain activity permanently lost to the UK? What we can say is that the longer today’s uncertainty persists, the more likely it is that investment disappears for good. And each quarter matters. If UK business investment were to continue to stagnate as it has during the period since the referendum for another four quarters, we would miss out on another £9.3 billion of spending relative to the trajectory we might have expected in a more normal period.

While many businesses are gloomy, UK consumers continue to exhibit stronger relative levels of confidence – about themselves at least. Purchasing power has been actively damaged by the Brexit process, but households have continued spending. They have chosen to look through the income effect, dipping into savings in order to keep on consuming. There is a growing acknowledgement among households that the wider economy is facing a period of heightened risk, but they continue to have faith in their own personal prospects.

Yet there are signs that significant numbers of households are vulnerable to any downturn. There are, for example, 9.5 million working-age households who say they don’t have enough savings to deal with an emergency. And, despite confidence proving robust in the main, one-in-five believe they’re “quite likely” to suffer a “sharp drop” in income in the coming year, rising to almost 30 per cent among households in the bottom fifth of the working-age income distribution who are most exposed. One-in-five (20 per cent) of these lowest income households say that they are both quite likely to suffer an income shock and have insufficient savings to deal with it.

Additionally, one-in-three (31 per cent) working-age households display at least one sign of debt ‘distress’ – either excessive debt concern, difficulty meeting bills and repayments, or evidence of being in arrears. And 1.3 million households are in an apparently acute situation, having exhibited signs of all three forms of distress. Again the situation is worse
at the bottom of the income distribution, with nearly one-in-ten (9 per cent) working-age households in the poorest fifth showing acute signs of debt distress.

What happens in the coming months and how firms and households respond is therefore critical. If businesses conclude that they have been too pessimistic, we might expect a rebound in activity as firms return to the market and release pent up investment demand. If on the other hand consumers decide they have been too optimistic in assuming their income growth slowdown was temporary, we might see a significant correction in spending as they seek to build up savings and pay down debts. In any case, we can expect modification of behaviour by both businesses and households: the key question is how much and when?

Government will of course need to stand ready to respond to whatever comes along. The good news on this front is that the deficit is now much improved from its post-crisis condition. Indeed the rolling 12-month public sector net borrowing total is at its lowest level as a share of GDP since 2002. But net debt remains elevated, and it is here that debates about the future of the public finances are likely to centre.

Even in the absence of further turmoil, the Chancellor must perform a difficult balancing act as he prepares for the Spending Review – namely simultaneously delivering on his pledges to lower debt and ‘end austerity’. While the provisional spending plans he outlined back at the Budget marked a corner turned in terms of overall spending on public services – setting out plans for increases after ten years of falling real-terms expenditure – they were not sufficient to ensure an end to austerity for all departments or those facing social security reductions. Doing so requires him to make some tough choices.

If, for example, he were to set out a path for the four years after 2019-20 that ensured currently unprotected government departments had their day-to-day budgets (resource departmental expenditure limits, or RDEL) protected in real terms and on a per capita basis, he would need to find £4.5 billion (in 2018-19 prices) in tax revenues, other spending cuts or higher borrowing by 2023-24. Alternatively maintaining the RDEL budgets of the unprotected departments as a share of GDP would cost £10.8 billion in today’s terms.

Delivering such an outcome would go a long way to backing up the government’s claim that it is ‘ending austerity’, but how he did it would also matter. Public spending increases would no doubt be welcomed by many, but they should not come at the expense of further reductions in social security for lower income households who have already suffered significant cuts and who – as we have seen – appear particularly exposed to any future downturn in economic conditions. Indeed, the Chancellor should actively look to support such households, using the Spring Statement to finally scrap the benefit freeze before it moves into its fourth year. That would cost £1.5 billion, but it would save couples with children in the bottom half of the income distribution £200 on average and go some way to arresting the recent rise in child poverty which is set to continue over the coming years.

With other spending cuts hard to come by and increased borrowing undermining plans for significant debt reductions, boosting public service spending into the medium term would require the Chancellor to explore options for raising additional tax revenues
(or lowering tax expenditures). It is of course a controversial area, and one that can be
difficult to navigate for a government without a decent majority. But it’s a topic that will
only grow in importance as an ageing society puts increasing pressure on the state into
the 2020s. Better then to start the conversation sooner rather than later.

That he will almost certainly not do so at next week’s Spring Statement is symptomatic of
the missed opportunity it represents. The Chancellor thought it would mark the point at
which he would explain how he intended to put the “deal dividend” to work and provide
direction for this year’s Spending Review, which would ideally have included thoughts on
tax reform as well as a strategic focus on what the state does.

That it is unlikely to be any of those things is a great shame, although clearly far from the
biggest negative from the failure to resolve how Brexit will be taken forward. That it is
unlikely to register as even being the biggest thing happening in Westminster that day
shows the extent to which today’s messy politics continues to get in the way of making
progress on the important economic questions facing the country.

The near-term economic picture has changed little since the
OBR’s last Outlook

When the Chancellor announced that the government would move to one fiscal event
a year back at Autumn Statement 2016, he said that he would no longer be making
significant tax and spending changes twice a year “just for the sake of it”. Last year’s
maiden Spring Statement was accordingly lean, with Philip Hammond’s assertion
that he was feeling “positively Tigger-like” generating more headlines than any policy
announcements. Following the Prime Minister’s decision to allow parliament the
opportunity to vote on a ‘no deal’ Brexit next Wednesday (the same day as the Spring
Statement), this year’s speech may well end up drawing even less attention.

Yet, while Philip Hammond might be able to choose to largely opt out, the Office
for Budget Responsibility’s (OBR’s) head Robert Chote won’t be so lucky. Given the
uncertainty that is characterising the UK economy right now, commentators will want
to pick very carefully through his organisation’s Economic and Fiscal Outlook for any
sign of a change in its assessment of where we’re heading over the next five years. Back
at October’s Budget for instance, the OBR provided a modest upgrade to many of its
forecasts and – crucially – handed the Chancellor a £74 billion fiscal windfall. Might
there be similarly eye-catching forecast movements this time around?

It looks unlikely. Indeed, this may well be a Spring Statement and Outlook that doesn’t
provide many new answers but instead helps to underline the key questions facing
government, businesses and households right now.

Figure 1 sets out the performance of a number of key economic measures and compares
them to the OBR’s Budget projections. Following the addition in most instances of an

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growth after Brexit”, Evening Standard, 13 March 2018
extra quarter of data (covering the final three months of 2018), along with revisions to previous outturns, very little appears to have changed.

**Figure 1:** The economy in 2018 evolved broadly as the OBR projected in October

OBR projections and latest outturns, Q1 2015 = 100: UK

Each of GDP, GDP per capita, hours worked and average earnings look to have ended 2018 very slightly higher than was projected at the Budget, but the differences are marginal. Productivity now appears to have outperformed the OBR’s expectations in the first half of 2018, but it ended the year very slightly lower than the OBR projected. The only measure in which any significant change appears to have occurred is household income per capita. The latest outturn data suggests that income per person ended 2018 around 1.5 per cent higher than the OBR had previously projected. This upgrade relates to some sizeable revisions to the 2017 data however (reflecting changes in ‘other social insurance benefits received by households’), rather than any marked pick up in the forecast period.

Overall then, the updated economic picture for 2018 looks little altered from the one set out by the OBR back in October. But what about the prospects for 2019? Here there are signs of a darkening of the picture at the start of the year, thought it remains to be seen whether that feeds through into a weaker OBR outlook for the year as a whole.

**Figure 2** uses business survey data to show how economic activity has evolved across the construction, manufacturing and services sectors in the period up to January 2019. Businesses are asked whether activity has expanded, stayed the same or contracted.
relative to the previous month. An overall figure above 50 therefore points to a growing sector, whereas a score under 50 implies the sector is shrinking. While the January data suggests that all sectors continued to grow at the start of 2019, the overall pace of expansion was very subdued. For example, the construction measure was the weakest for ten months, and the services figure was the weakest in two and a half years. The manufacturing index looked a little stronger, but was driven by firms stockpiling ahead of Brexit: new order growth slowed very markedly.

**Figure 2: Business surveys point to a sharp slowdown in activity at the start of 2019**

Together, these three PMI measures are taken as a sign that GDP “stagnated” at the start of 2019, slowing still further from the disappointing growth figures posted at the end of 2018. Certainly growth in the first quarter of this year looks on course to come in somewhat below the OBR’s October expectations (it projected quarter-on-quarter growth in GDP of 0.4 per cent in Q1 2019).

But what about a little further out? While we are in the midst of a slowdown in the global economy, the particular UK experience is very strongly associated with uncertainty related to the imminence of Brexit. There is some expectation therefore that activity is being postponed rather than foregone altogether, meaning some of the growth will return once today’s uncertainty subsides.

Clearly timing matters here, and the longer current uncertainty is sustained the more likely we would expect temporary weakness to turn permanent. Nevertheless, it is telling that the full-year economic projections set out for 2019 by a range of forecasters moved only marginally between October 2018 and February 2019.

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Figure 3 shows the ranges recorded on a selection of measures by those forecasters collated by HM Treasury as part of its monthly Forecasts for the UK economy publication. In each instance we set out the minimum, maximum and mean values recorded across a consistent group of institutions. For comparison, we also show the OBR projection for October and the Bank of England forecasts published in the November and February Inflation Reports.

Figure 3: Forecasts for 2019 have also moved only marginally since the October Budget

Projected growth rates in 2019

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<th>Measure</th>
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The picture is a little mixed. The average forecast for GDP growth in 2019 falls from 1.5 per cent to 1.4 per cent, while the average forecast for productivity growth falls from 0.9 per cent to 0.6 per cent. But the average forecast for employment growth is up from 0.5 per cent in October 2018 to 0.6 per cent in February 2019. Likewise, the average nominal earnings forecast rises from 3 per cent to 3.1 per cent and the average real-terms income growth forecast increases from 1.4 per cent to 1.6 per cent. This pattern of a labour market that is surprising on the upside while the wider economy surprises on the downside likely reflects the specific investment-focus of the slowdown.

The movement of the Bank of England between its two forecasts is more straightforwardly negative, with reductions in its projections for GDP, employment, productivity and earnings. However, the OBR was generally more pessimistic about 2019 than the Bank of England at the time of the Budget, so there is no guarantee that the OBR will feel the need to follow the Bank’s lead and set out a more negative outlook. Indeed, the OBR’s October projection for average earnings in 2019 remains significantly more
negative (in our view, too negative) than even the lowered forecast the Bank moved to in its February Inflation Report.

Overall then, there is nothing in the behaviour of other forecasters to imply that the OBR will make anything more than modest changes to its main economic projections for 2019 when it presents its next Outlook. It’s possible we’ll see a slight reduction in the growth forecast, but we might also see a slight improvement in projections for employment and pay.

There is also little to suggest we should expect any significant change in from the OBR’s previous positive assessment of the public finances

As the OBR’s last Outlook showed, however, it’s quite possible for modest movements in economic projections to sit alongside very large revisions to the forecast for public finances. Back in October, the near-term element of the OBR’s significant public finance upgrade reflected both the fact that tax receipts had been much stronger than expected in the first half of 2018-19 and that spending on welfare and debt interest had simultaneously been lower. Over the medium term, the OBR’s upgrade reflected its belief that the economy had greater growth potential than previously assumed (shown by a reduction in its estimate of the sustainable rate of unemployment and an increase in its estimate of labour market participation).

So have the figures released since October done anything to support or undermine this revised assessment, or indeed to suggest that further revision is required? Figure 4 sets out how public sector net borrowing (PSNB) has evolved over the first ten months of 2018-19, alongside the trajectories recorded in each of the previous four financial years for comparison. It suggests that borrowing is in line to broadly match the stronger October projection.

The provisional figures show that borrowing in the Apr-18 to Jan-19 period amounted to £21.2 billion. That’s 47 per cent down on the same period in 2017-18, which is a little larger than the OBR’s forecast reduction for 2018-19 as a whole of 39 per cent. A simple extrapolation of the data across the final two months of the final year would leave borrowing some £3.1 billion lower than projected in October, implying that we might expect a further modest improvement in the public finance projections at next week’s Spring Statement.

However, the scale of the year-on-year drop in borrowing for the first ten months of the year owes much to an especially strong set of figures for January – with an all-time record surplus being recorded off the back of a surge in income tax and National Insurance receipts. Looking instead at the first nine months of the 2018-19 financial year, borrowing was down 36 per cent on the same period in 2017-18 – slightly lower than the reduction needed to meet the full-year Budget projection. Much then depends on whether the January data represents a genuine uptick in receipts, or more of a blip. And the OBR has cautioned against simply assuming the former.
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Figure 4: Ten months into 2018-19, government borrowing is broadly on course to match the OBR’s Budget projection

Cumulative public sector net borrowing, outturn and forecast (nominal, excluding public sector banks): UK

![Graph showing cumulative public sector net borrowing](source: ONS, Public Sector Finances)

It has pointed out for example that HMRC administrative data for early February suggests that some of the strength of the January self-assessment tax receipts data reflected a higher proportion of people paying on time. Once available, the combined January and February receipts data may well result in a smaller reduction in borrowing than is currently implied. But whether it does or it doesn’t, the OBR’s tone certainly suggests that it will reserve judgement when presenting its updated Outlook next week.

And even if the 2018-19 borrowing projection is revised down a little, there doesn’t appear to be any shift in the fundamental nature of UK growth (beyond the one already identified in the OBR’s Budget forecast revision) that would warrant any major change in assumptions about borrowing in the remainder of the forecast period. If, for instance, the OBR follows the lead of other forecasters as discussed above and lowers its GDP projection for 2019 but raises its employment and earnings projections, we might expect the impact on tax revenues to roughly cancel out. Looking across the forecasts for PSNB in 2019 captured in the October 2018 and February 2019 editions of HM Treasury’s Independent Forecasts publication, we see that the average barely moved at all, falling from £32.9 billion to £32.6 billion.

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[6] A change in the accounting treatment of student loans will have a significant effect on levels of borrowing at some point in the near future, but the government is likely to take steps to sidestep this technical issue. See M Whittaker, Hitting the books: student loans and the public finances, Resolution Foundation, 16 December 2018
[7] HMT, Forecasts for the UK economy: a comparison of independent forecasts
But there is an unusually high level of uncertainty surrounding current forecasts

All forecasts are of course uncertain. But the backdrop of the UK’s imminent withdrawal from the EU means that the projections provided by the OBR alongside the Spring Statement are likely to be even more tentative than usual. On the subject of Brexit, while the OBR will no doubt comment on developments since October, we should expect it to continue to apply the same broad brush assumptions to its central case that have been in place since just after the referendum – as set out in Box 1.

i Box 1: OBR Brexit assumptions

The OBR has been clear about the modelling challenges posed by Brexit, bringing as it does an unknown endpoint and policy that evolves in real time. Following the referendum result, it established broad brush assumptions and judgements which have continued to underpin its central case ever since. These assumptions are listed on the OBR website, and include:

- The UK leaves the EU in March 2019.
- The negotiation of new trading arrangements with the EU and others slows import and export growth over a 10-year period.
- The UK adopts a tighter migration regime following departure from the EU than that currently in place, but not sufficiently restrictive to reduce net inward migration to the desired ‘tens of thousands’.
- Any reduction in expenditure transfers to EU institutions – after factoring in the cost of the financial settlement – would be recycled fully into extra spending. This assumption is fiscally neutral.

However, it stands ready to alter its projections once the nature of the UK’s future relationship with the EU becomes clearer – and it has already reviewed a number of studies looking at how trade intensity and efficiency, along with migration, might be affected. Its current approach averages across a number of potential outcomes, and is therefore subject to considerable change once a more certain path is established. More so than usual then, we should consider the Outlook published on 13 March to be illustrative.

And the potential for some form of ‘disorderly’ Brexit remains (despite the expectation that parliament will vote to reject a no deal Brexit next week in favour of delaying the UK’s exit date). Such an outcome would likely have a much more significant and immediate impact on the economy and therefore on performance against the OBR’s projections. The government’s own assessment is that, after 15 years, a no deal Brexit would leave the economy between 6.3 per cent and 9 per cent smaller than would be the case were the UK

[8] OBR, Discussion Paper No. 3: Brexit and the OBR’s forecasts, October 2018
not to leave the EU. In this scenario, PSNB would be increased by 2.4 per cent of GDP (or £95 billion).\[^9\]

What’s clear is that, even if no one can confidently predict what will come next, the *risk* of economic turmoil looks particularly heightened just now – especially when we add the recent slowdown in the global economy into the mix. Indeed, the Bank of England believes there’s a one-in-four chance of the UK economy entering recession in 2019.\[^10\]

*Figure 5* details the evolution of this increased pessimism over the past four years. The bars show the Bank’s assessment of the probability of GDP growth sitting within various bands four quarters on from the publication of the February *Inflation Report* (i.e. in Q4 2019). There is for instance a 22 per cent chance that growth is negative in this quarter, and a further 25 per cent chance that it lies somewhere between zero and 1 per cent (therefore a 47 per cent chance of growth of under 1 per cent).

*Figure 5: The Bank of England believes the likelihood of an economic downturn has significantly heightened*

![Probability distribution for GDP four quarters out from selected Bank of England Inflation Reports](image)

Notes: In each instance, the GDP growth projections are based on market interest rate expectations and other policy measures as announced at the time of the relevant *Inflation Report*.  

In contrast, the February 2018 *Inflation Report* presented a 10 per cent probability of GDP growth being negative four quarters out (i.e. in Q4 2018) and a further 18 per cent chance of lying between zero and 1 per cent. The February 2017 distribution was broadly similar, but both the 2017 and 2018 distributions were more negatively skewed than the February 2016 one (before the EU referendum). At that time, the Bank assessed there to be just

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a 6 per cent chance that growth would be negative four quarters out (in Q4 2016) and a further 14 per cent chance of growth sitting between zero and 1 per cent.

Two conclusions jump out from the analysis above. First, that the economic and public finance projections set out by the OBR alongside the Spring Statement are likely to be little altered from those published at the time of the Budget in October. And second, that there is very good reason to suppose that those projections will be much revised at future fiscal statements given the wide range of possible Brexit outcomes that are still possible.

With this in mind, the rest of this note focuses less on what the OBR might say next week and more on the condition of the various sectors of the economy – businesses, households and government – just ahead of our potential step into the unknown. That is, not what answers we might be about to receive, but rather what are the questions our economy is currently asking of different parts of society.

In the face of rising uncertainty, businesses have become increasingly nervous and have cut back on investment

Economic and political uncertainty, and the growing concern about the potential for an economic slowdown in the months ahead (driven by a combination of a cooling global economy and the inevitable impact of any form of Brexit or by the turmoil associated with a disorderly Brexit) has had a very clear impact on the behaviour of firms.

In explaining the weakening PMI data set out in Figure 2 for example, businesses increasingly point to Brexit as a source of uncertainty and disruption. Most recently, the Chief Business Economist at IHS Markit concluded from the January 2019 data that:

*Companies are becoming increasingly risk averse and eager to reduce overheads... Such worries were in turn most commonly linked to heightened Brexit anxiety, though wider global political and economic factors were also seen to have been taking their toll on demand.*[11]

The Bank of England has identified very similar findings; namely that Brexit is a source of uncertainty and one that is growing in importance. For example, around half of the chief financial officers surveyed for the Bank’s *Decision Maker Panel* in November 2018 said Brexit represented one of their top three current sources of uncertainty – roughly 12 percentage points higher than the average answering in this way in all earlier waves of the survey.[12]

This uncertainty has especially dragged on investment intentions, as shown in Figure 6. It sets out the average score for investment intentions as recorded by Bank of England agents in the period up to January 2019. In both the manufacturing and services sectors intentions have been somewhat subdued across the entirety of the post-referendum period, with companies citing Brexit uncertainty as the biggest headwind to capital expenditure.[13] But there was an especially marked reduction in average scores in the second half of 2018.

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The impact on investment volumes themselves is very obvious. Figure 7 shows how business investment has evolved since the financial crisis, and compares this with recoveries from previous UK recessions. It shows that the trajectory this time around was broadly in line with the average of previous episodes until the point at which the EU Referendum Act was passed towards the end of 2015. Since then, investment has entirely flat-lined, and is now around 25 per cent lower (or £59.8 billion a year) than it would have been had it continued to follow the average of previous recessions.
Despite the timing, we obviously can’t conclude that investment gap has been entirely driven by the referendum announcement. And it must certainly be the case that weaker global growth over the past year has also acted to lower demand for such spending. But, as Figure 8 shows, the UK has shifted over this period from having a level of investment growth near the top of the G7 to one that is some way below the spread recorded across the other G7 members. And, as the business survey results discussed above imply, the UK’s comparative performance has significantly worsened over the past 12 months. This UK exceptionalism increases the case for pointing to Brexit uncertainty as a key driver of the investment slowdown.
This slowdown in business investment in recent months is perhaps understandable, as Monetary Policy Committee (MPC) member Jan Vlieghe has argued:

When any potential change to the future relationship was still many quarters away, there was relatively little firms could or wanted to do in anticipation. As many firms told me during my regional visits in 2017, it was too costly for them to sit on their hands and postpone major investment decisions for long periods... But as we get closer and closer to the moment when we will – or at least might – learn more about what the future relationship looks like, and how smooth the transition is, it makes sense for firms to put more spending on hold.\(^{14}\)

Going forward, the key question is how much of this slowdown in investment represents a postponement – with the implication that we can expect a rebound in spending once businesses have greater clarity about what the future holds – and how much represents a permanent cancellation. And whatever the answer to that question is, it would seem probable that the longer uncertainty reigns the more likely it is that firms will walk away from investing in the UK altogether.

\(^{14}\) G Vlieghe, “The Economic Outlook: Fading global tailwinds, intensifying Brexit headwinds”, speech given at the Resolution Foundation, 14 February 2019
This matters because we are facing a period in which different groups are calling for an extension to Article 50 that might range from a few months to two years. And even then uncertainty about the final relationship the UK will have with the rest of the EU will persist.

To illustrate how much is at stake, *Figure 9* sets out the impact of investment growth doing no more than matching the average rate recorded since the EU Referendum Act for a further four quarters. In contrast to returning to the average growth rate that applied in the recoveries from previous recessions, continued stagnation would result in annualised investment coming in around £9.3 billion lower by the end of the four quarters. Clearly then, some post-Brexit clarity would make a big difference to business prospects.

*Figure 9*: If sustained uncertainty causes business investment to continue flat-lining through 2019, the UK can expect to miss out on a further £9.3 billion of spending

Annualised real-terms business investment by numbers of quarters since the pre-crisis GDP peak, and counterfactual: UK

In contrast, consumer confidence has been broadly unchanged, with households drawing down on savings to continue spending

In direct contrast to the slowdown in business investment growth that we’ve seen over recent months, households have been continuing to spend. *Figure 10* sets this out, detailing the evolution of household incomes and consumption over recent years.
Ahead of the announcement of the EU referendum, household spending grew broadly in line with household incomes – with some immediate post-crisis mending of the saving ratio giving way to a very gentle downward drift after 2009. Post-referendum however, real-terms household incomes flat-lined – an outcome we have shown to be directly associated with the Brexit result\(^{[15]}\) - but consumer spending continued to grow. The pace of that growth slowed slightly from 2017 onwards, but it has nevertheless continued to outpace income growth. Overall, consumer spending per person has increased by £980 a year since the introduction of the \textit{EU Referendum Act}, while income per person has risen by only £140. Correspondingly, the saving ratio has fallen significantly over this period – standing at 3.8 per cent towards the end of 2018.

This reaction is likely a product of the fact that households continue to have faith in their own financial prospects – even as they increasingly believe that the economy as a whole is set to fare less well over the coming months. \textit{Figure 11} provides some evidence, by setting out trends in the GfK consumer confidence index through to February 2019.

\(^{[15]}\) J Smith, \textit{Counting the cost: UK living standards since the 2016 referendum}, Resolution Foundation, February 2019
Figure 11: Overall consumer confidence has fallen since the EU referendum

Overall GfK consumer confidence index: UK

The overall index is a composite of four separate measures that ask respondents to make backward and forward looking assessments of both the overall state of the economy and their own financial circumstances. For each question, the net balance of positive and negative responses is recorded, with the overall index averaging across these balances. The chart shows that overall UK consumer confidence has been in negative territory for the vast majority of the period covered by the survey. It has declined over the post-referendum period, and the 12-month average currently sits at -7.4. That’s much less negative than was recorded in the aftermath of the financial crisis (when it fell as low as -25), and less negative than the average recorded across the whole period (-8.6). Nevertheless, the downward movement after the EU referendum is clear.

However, unlike the business sentiment responses recorded above, there is no sign of any further marked deterioration over the last 12 months (that is, as Brexit has approached). And, when we dig in more detail into the different component parts of the index, we reveal a marked divergence in attitude to the macro picture and the personal one.

Figure 12 does this, setting out the trends in each of the four component measures that are used in the overall index. What stands out is the extent to which three of the measures – on households’ personal financial situations in the past 12 months and the next 12 months, and their attitudes to making major purchases in the next year - appear both broadly flat over recent months and relatively high compared to the full period averages.
In contrast, there has been a very sharp deterioration in attitudes regarding the general economic situation over the next year. And the current net balance of -26.4 is well below the full period average of -12.2. It is this trend which seems to be driving the movement in the overall index.

Figure 12: Households increasingly think the economy is going to stutter over the coming year, but they remain confident in their own financial situations

Net balances of positive and negative responses to selected consumer confidence questions: UK

Households then have shifted to a very negative position when considering what’s about to happen in the wider economy, but remain broadly neutral about the evolution of their own situation over the past 12 months and are net positive about what the next year holds. Likewise, while they record a net negative balance on the question of whether the next 12 months are a good time to make major purchases or not, their position is little altered over the past year and significantly less negative than the one recorded immediately post crisis.

So household behaviour has proved much more immune to Brexit uncertainty than firm behaviour has. Consumers appear to have ‘looked through’ the reduction in their purchasing power reflecting, perhaps, an assumption that it is temporary. The result is they now have different questions to answer: firms need to decide when they will return
to investment spending, whereas households need to decide when they will rein their spending in. On this question, it’s worth considering just how well placed households are to take such action.

**But household financial resilience looks limited, especially in some parts of the income distribution**

The GfK consumer confidence findings are visible in other surveys too. For example, the latest edition of the Bank of England’s *NMG Survey* (covering 6,000 households in September 2018) recorded a net balance of 28 per cent of working-age respondents saying they expected the economy to get worse over the following 12 months. A net balance of 28 per cent also said that there was an elevated likelihood of the economy suffering a “severe” downturn over the same period. Yet when it came to personal finances, a net balance of 5 per cent of working-age households said they expected their own circumstances to improve over the course of the year.\[16]\[16]

The *NMG Survey* provides us with the opportunity to dig into the characteristics of households with greater or lesser levels of confidence, and allows us to match subjective attitudes to objective measures of economic wellbeing. In particular, it gives us the chance to consider differences across the income distribution.

In relation to attitudes to wider economic conditions, there appears to be little meaningful variation across income groups. However, there is a marked difference when it comes to households’ assessments of their own financial positions. *Figure 13* makes this clear, detailing the responses recorded across equivalised working-age household income quintiles. It shows that a net balance of working-age households are pessimistic about their own prospects in both the bottom fifth of the income distribution (a net balance of 5 per cent) and in the next fifth (a net balance of 6 per cent). The balance switches to positive (2 per cent) in the middle quintile, before climbing as high as 23 per cent among the richest fifth of working-age households.

So while there is relatively little difference in the way different income groups view overall economic prospects over the coming 12 months, there is a very clear split in perceptions of their own outlook. Perhaps unsurprisingly, those on low to middle incomes appear most worried – a perception that appears to chime with recent experience, with recent figures confirming that income growth flat-lined and inequality rose over 2017-18.\[17]\[17]

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Figure 13: Lower income working-age households are more pessimistic than others about their financial prospects in the coming year

Expected change in household financial situation in coming 12 months, by equivalised working-age household income quintile: GB, September 2018

And lower income households are also more likely to believe they are at risk of a very significant financial correction, as Figure 14 shows. Across all working-age households, 19 per cent said they were “quite likely” to suffer a “sharp drop” in income in the 12 months following the survey. But that figure climbed to 28 per cent among the poorest fifth of working-age households. Interestingly, this concern is also more elevated among the top fifth of households, with 24 per cent describing their chance of a sharp drop as “quite likely”. But we have good reason for worrying more about the consequences for those on low to middle incomes. And, as recent Resolution Foundation work has shown, the prospects for those at the bottom of the income distribution do indeed look unfavourable at the moment. [18]

Figure 14: More than one-in-four lower income working-age households believe they are “quite likely” to suffer a “sharp drop” in income

Perceived likelihood among working-age households of suffering a sharp drop in income in the coming 12 months, by equivalised household income quintile: GB, September 2018

Source: RF analysis of Bank of England, NMG Survey

Given this apparent vulnerability, and perceptions of heightened economic risks, it’s worth considering how well positioned households are to deal with any significant income shocks. Worryingly, Figure 15 shows that nearly half (46 per cent) of working-age households say they don’t have enough savings to deal with an emergency, equivalent to around 9.5 million households across the country. And, perhaps unsurprisingly, the proportion rises rapidly as we move down the income distribution.
Figure 15: Nearly two-in-three lower income working-age households say they don’t have sufficient savings to deal with an emergency

Perceptions of having enough savings to deal with an emergency, by equivalised working-age household income quintile: GB, September 2018

Source: RF analysis of Bank of England, NMG Survey

Among those in the bottom fifth of the income distribution – where we’ve already seen 28 per cent say they’re “quite likely” to face a “sharp drop” in income – nearly two-in-three (63 per cent) say they don’t have sufficient savings to cope. Indeed, one-in-five (20 per cent) of the members of this income group reported both being quite likely to suffer a sharp drop in income over the coming 12 months and feeling that they had insufficient resources to deal with an emergency.

Alongside insufficient savings and safety nets, we might also worry about households holding high levels of debt. At the aggregate level, there are good reasons – associated with credit quality, low interest rates and improved regulation – for supposing that the UK is not facing the sort of debt problem it did ahead of the financial crisis. MPC member Ben Broadbent has argued for instance that the pace of credit growth serves as a better warning sign than the size of the stock, and on that basis UK households don’t currently look overstretched.[19]

Nevertheless, credit use always comes with risks, and it is highly likely that some households are already experiencing difficulties which could prove more problematic were economic conditions to deteriorate. Figure 16 shows that 12 per cent of working-age households said they were “very” concerned about their level of debt in September 2018, with 40 per cent expressing at least some concern.

Figure 16: One-in-four of those in the bottom fifth of the working-age household income distribution who have some form of debt say they find it “very” concerning

Level of concern with current amount of debt (secured and unsecured) among working-age households, by equivalised household income quintile: GB September 2018

![Bar chart showing level of concern with current amount of debt (secured and unsecured) among working-age households, by equivalised household income quintile: GB September 2018](chart)

Source: RF analysis of Bank of England, NMG Survey

Lower income households stand out once again, with 16 per cent of the poorest fifth saying they are “very” concerned and close to half (46 per cent) being at least “somewhat” concerned. Once again the top fifth of the distribution also records an above-average level of exposure, with 17 per cent saying they are “very” concerned. However, this in part reflects the fact that the prevalence of debt rises as we move up the income distribution (reflecting rising levels of home ownership in the main). So the number of lower income households recording concern represents a higher proportion of all borrowers within the group. That is, of those in the bottom fifth of the distribution with some form of debt, one-in-four (25 per cent) said they were “very” concerned; among borrowers in the top fifth the share was one-in-five (21 per cent).

This self-reported concern is just one potential means of capturing the difficulties households might be facing with debt. By looking across a number of objective and subjective measures, we can build a more complete picture of the proportion of households already displaying signs of debt ‘distress’ – a group that we might expect to be most exposed to any future economic deterioration.

As Figure 17 shows, close to one-in-three (31 per cent, or 6.5 million) working-age households recorded at least one sign of ‘distress’ in September 2018, with 21 per cent (4.4 million) saying they’d had difficulty paying for their accommodation in the past 12 months, 18 per cent (3.8 million) saying they were either “very” concerned about their overall debt level or found their unsecured debt repayments a “heavy” burden, and 11 per cent (2.3 million) reporting being in arrears on secured or unsecured credit. Around
14 per cent recorded more than one of these ‘distress’ signals and 6 per cent (1.3 million households) showed up on all three measures.

**Figure 17: Around 6.5 million working-age households record at least one sign of debt ‘distress’**

Debt ‘distress’ among working-age households: GB, September 2018

Unsurprisingly these figures are higher when we focus on low to middle income households. Repeating the exercise for those in the bottom 20 per cent of the working-age income distribution, we find that approaching half (46 per cent) of households record at least one sign of ‘distress’ and nearly one-in-ten (9 per cent) record all three measures.

Overall then, it would seem that UK households are pessimistic about the prospects for the UK economy over the coming months, but generally optimistic about their own circumstances. It’s hard to see how they can be right in both regards, and we must hope that it is the latter rather than the former which holds true. There is however, an acknowledgement that economic risk is somewhat heightened at the moment. And a sizeable proportion of households accept that they may personally face a significant correction over the year. Worryingly however, many appear ill-prepared to cope with such a change in circumstances – thanks to a combination of insufficient savings and an existing debt burden. That this is the case even at a time of record employment highlights the challenge the country might face if economic conditions deteriorate over the course of 2019.
The public finances are improved, but still potentially constraining

Given that context, it is worth turning finally to consider the health of the government’s finances. Having been central to so much of the UK’s economic and political debate in the post-crisis period, the deficit no longer draws the same level of attention. As Figure 18 shows, that owes much to the fact that government borrowing as a share of GDP has fallen from its post-crisis spike to a much more ‘normal’ level. As we noted above, the 2018-19 data has been strong, with a record surplus recorded in January. The rolling 12-month total public sector net borrowing (PSNB) figure is now just 1.1 per cent of GDP – its lowest level since May 2002. Indeed, borrowing has only been lower in around one-in-three of the 90 years shown on the chart.

As things stand, the Chancellor is also comfortably on track to achieve his central fiscal ‘mandate’ – to ensure the structural (cyclically-adjusted) deficit is below 2 per cent of GDP by 2020-21. As Figure 19 shows, the structural deficit is already at the 2 per cent mark and the OBR’s October forecast suggested that it would fall to 1.3 per cent of GDP by the target year.
Figure 19: As things stand, borrowing is on course to come in well below the Chancellor’s fiscal ‘mandate’ in 2020-21

Cyclically-adjusted public sector net borrowing as a share of GDP: UK

In cash terms, that was expected to be equivalent to headroom of £15.4 billion. As Figure 20 shows, that’s broadly in line with the average enjoyed across the various fiscal events held since 2010. And it was unchanged at the October Budget, with the Chancellor using the entirety of the fiscal windfall the OBR provided him with (primarily to increase additional NHS spending) rather than choosing to lower the deficit any further.
In taking that approach, the Chancellor appeared to confirm the de-prioritisation (if not outright abandonment) of the fiscal ‘objective’ set out in the Charter for Budget Responsibility and reaffirmed in the 2017 Conservative manifesto – namely to balance the public finances “by the middle of the next decade”. As Figure 21 shows, a simple extrapolation of the pace of deficit reduction currently planned for the years to 2023-24 beyond the OBR’s current forecast horizon would mean the deficit wouldn’t be eliminated until 2028. Getting instead to that point by the promised 2025-26 would require a significant acceleration in the pace of deficit reduction – something which seems at odds with the government’s recent emphasis on delivering the ‘end of austerity’.
Figure 21: Further consolidation of the public finances would be needed to hit the government’s fiscal ‘objective’ by the middle of the next decade

Public sector net borrowing as a share of GDP: UK

Source: RF analysis of OBR, Public Finances Databank

While the deficit is much reduced relative to its post-crisis surge, government debt remains elevated by historical standards. Figure 22 shows that it is at least heading in the right direction, with the OBR projecting at the October Budget that it would fall each year over the forecast horizon. By 2020-21, the debt-to-GDP ratio is set to have reduced to 79.7 per cent, a drop of 3.2 per cent of GDP (or around £72 billion) relative to 2019-20 and clearly meeting the Chancellor’s ‘supplementary’ target for debt to be falling as a share of GDP in 2020-21.
However, it is worth noting that the unwinding of the Bank of England’s Term Funding Scheme accounts for the majority (2.3 percentage points) of this reduction. And the overall pace of debt reduction remains slow. Even by 2023-24, when debt is projected to have fallen to 74.1 per cent of GDP – its lowest level since 2010-11 – the ratio will remain more than twice that recorded in 2007-08 (35.2 per cent).

It is debt then, rather than the deficit, that looks most likely to act as a potential constraint on government policy in the years to come. Not perhaps in the event of a downturn, where we can expect the government to at a minimum allow the automatic stabilisers to act. Indeed, with interest rates still only marginally above zero, there may well be a stronger case than in the past for a discretionary fiscal reaction too. Today’s higher level of debt would not prevent fiscal policy being used during a crisis, and we would support such action, though it could make it more challenging to do so.[20]

But elevated net debt is likely to constrain the Chancellor (or indeed any successor, given that both main parties are committed to lowering the debt-to-GDP ratio) in his efforts to ‘end austerity’ over the coming months. It’s a difficult balancing act that is likely to come to the fore as we approach the next Spending Review.

[20] The debate over how we should think of government debt in a low interest rate environment is gaining momentum, with interventions from Olivier Blanchard among others (see O Blanchard, Public Debt: Fiscal and Welfare Costs in a Time of Low Interest Rates, Peterson Institute for International Economics, Policy Brief, February 2019). It is a subject the Resolution Foundation will turn to in considerably more detail under the work programme of its new Macroeconomic Policy Unit (MPU).
And the backdrop to the next Spending Review remains challenging, with the government needing to balance its commitment to lowering debt with its pledge to ‘end austerity’

The 2019 Spending Review is due later this year, setting out the detailed budgets of government departments for some period beyond the 2019-20 financial year. While multi-year deals are typical, and the government has said it intends to deliver a three-year package, the heightened level of uncertainty and the potential need for policy nimbleness around Britain’s exit from the EU may yet convince the Chancellor to opt for something shorter instead. At this stage, it is unclear whether he will use the Spring Statement to set out his overall ‘envelope’ for total government spending over whichever number of years he does decide to carry out a review, or wait until Britain’s post-Brexit future becomes a little clearer.

Whatever approach he takes, it will be an important moment. After a decade of spending cuts, the Chancellor has made it clear that he now wants to embark on a new trajectory, setting out provisional spending totals at the October Budget which marked a clear change of direction. But it remains to be seen whether he will have the room – either fiscal or political – to truly ‘end austerity’.

Back in October, we referred to the Chancellor’s “significant easing” of austerity, but we were clear that he had not ended it.[21] As Figure 23 shows, the provisional plans he put in place back then meant that real-terms day-to-day spending (resource departmental expenditure limits, or RDEL) was projected to rise steadily over the OBR’s forecast horizon. Much of this was driven by the new NHS settlement of course, but the Budget plans also allowed for an annual average increase in non-health RDEL spending of 1.2 per cent a year between 2019-20 and 2023-24.

The overall increase in RDEL set out at the Budget was sizeable enough to also increase real-terms spending per person. Indeed, overall day-to-day departmental spending per person was projected to rise by 4 per cent between 2018-19 and 2022-23, rather than fall by 4 per cent as had been planned previously. However, even on these more ambitious plans, RDEL is set to continue falling as a share of GDP – albeit much more slightly than has been the case in recent years. And on all three measures shown in Figure 23, spending is still set to be lower in 2023-24 than in 2010-11. Overall, even with the new plans in place, we remain only part way through a pause in public spending growth that is unprecedented in modern times.

On this basis then, it would be wrong to declare austerity over. Even more so when we consider how the overall RDEL envelope will be allocated across departments. Given the very large resources being directed towards health at the Budget, and with defence and aid spending linked to the size of the economy, other departments will inevitably continue to face further cuts. Figure 24 makes the point, showing how planned increases in real-terms per capita RDEL spending will be split between the ‘protected’ and ‘unprotected’ departments. It shows that an overall provisional 3 per cent increase in RDEL per capita between 2019-20 and 2023-24 covers into an 8.8 per cent increase for the protected departments, and a further 2.8 per cent cut for the unprotected ones.
Figure 24: In the absence of an increase in the overall spending envelope, austerity is set to remain in place for unprotected departments

Cumulative real-terms change in RDEL per person from 2019-20 (GDP deflator): UK

Even within this overall tightening for the unprotected departments, we can expect some budgets to be squeezed harder than others. Figure 25 shows how per capita RDEL budgets across selected departments have already changed in the period since 2009-10. As of 2018-19, real-terms per capita resource spending in the Department for Transport has been cut by 70 per cent, and the BEIS budget has been reduced by 51 per cent.
Figure 25: The distribution of austerity has been very unevenly felt across government departments

Real change in departmental resource budgets (RDEL per person, GDP deflator) relative to 2009-10: UK

Source: HMT, PESA 2018; OBR, Economic and Fiscal Outlook; HMT, Budget 2018; ONS, GDP deflator, time series L8GG; and RF analysis

Taking 2019-20 budgets as given and assuming the cuts implied by the October Budget for the years after this are shared equally across departments, the chart also shows where the different departments can expect to find themselves by 2023-24. Increases of one-third (34 per cent) in the Department for International Development and one-fifth (21 per cent) in Health and Social Care stand in direct contrast to assumed cuts of one-half for Justice (48 per cent), BEIS (52 per cent) and Housing and Communities (57 per cent). And the cuts to day-to-day spending on Transport could rise above three-quarters (77 per cent).

The Chancellor hinted at the Budget that further money could be forthcoming for other departments at the Spending Review:

*When our EU negotiations deliver a deal, as I am confident they will, I expect that the “deal dividend” will allow us to provide further funding for the Spending Review.*[22]

But the “deal dividend” that he hoped to receive has not yet materialised. It had two proposed elements, conditional on achieving an orderly Brexit. The first related to the expectation that the OBR would upgrade its economic projections once a smooth Brexit deal was in place – reflecting the fact that it currently models something that falls between no deal and EEA membership. The second ‘dividend’ was expected to take the form of freedom for the Chancellor to make use of the fiscal headroom he has against his ‘mandate’ – which he has otherwise been holding back as a war chest in case of no deal.

Given developments since October, any such dividend may be at best delayed. Nevertheless, the fact remains that the Chancellor has talked up the possibility of making extra resources available to departments at this year’s Spending Review. As such, it is worth considering what might be required in order to be better able to lay claim to having ‘ended austerity’.

Figure 26 presents such an illustration. It sets out a ‘possibility frontier’, with every point on the line representing a different trade-off between real-terms per capita growth in RDEL (on the x axis) and some combination of higher taxation, higher borrowing (and therefore debt) or alternative spending cuts (on the y axis). The axes cross at the outcome implied by the Budget plans – with no other forms of revenue or savings being required to deliver average annual real-terms per capita RDEL growth of 1.3 per cent in the four years after 2019-20. All points to the right of the pink dot on the frontier represent more generous settlements for departments, with the requirement of extra tax revenue, borrowing or other spending cuts. And all points to the left of the pink dot represent outcomes in which taxes or borrowing can be cut or other spending can be increased, but at the cost of slower growth in day-to-day spending on departments.

Figure 26: Avoiding any more per capita cuts to non-protected departments after 2019-20 would require £4.5bn of extra tax, borrowing or alternative spending cuts in 2023-24

It shows, for instance, that increasing overall RDEL spending sufficiently to allow day-to-day budgets in the unprotected departments to be held constant in real-terms (alongside following through on planned increases in spending in the protected areas of health, aid and defence) would cost £1.2 billion in 2023-24 (in 2018-19 prices). Providing real-terms per capita protection for currently unprotected departments would require £4.5 billion.
And maintaining the 2019-20 level of RDEL spending in the unprotected departments as a share of GDP across the four years would mean the government would need to find £10.8 billion a year by 2023-24.

Were the government to achieve this outcome, then its claim that it had ‘ended austerity’ would carry greater weight. But much would of course depend on how this had been accomplished. As we argued at the October Budget, claims of ‘ending austerity’ will ring hollow for the millions of low to middle income households who have already endured sharp cuts in social security and who face the start of a fourth year of the benefit freeze from next month.

This final freeze is set to cost couples with children in the bottom half of the income distribution £200 on average, saving the Exchequer £1.5 billion. Over the four years as a whole it is expected to save the government £4.4 billion in total. On average, this policy will leave couples with children in the bottom half of the income distribution some £580 poorer in 2019-20 than they otherwise would be, with this figure rising to £710 for poorer single parents.[23]

We’ve shown elsewhere that we’re in the middle of a renewed period of rising child poverty: clearly it would be a mistake to secure a faster pace of RDEL spending at the further expense of support for vulnerable households.[24] Yet the Chancellor will be wary of significantly increasing borrowing and, more importantly, the stock of debt – particularly if today’s economic uncertainty persists and raises the prospect of having to make use of fiscal headroom for more reactive reasons.

Tax rises (or reviews of tax expenditures) are likely to offer the best solution to a Chancellor treading a path between debt reduction and restoration of public service spending growth. That’s very difficult to achieve at a time of political upheaval, and with no majority to speak of, but it is an argument which the Chancellor should be taking every opportunity to make.[25]

And even if he is successful in changing direction on austerity, it is worth considering one final option from Figure 26 by way of illustration of just how much things have changed over the last decade. The dot in the top right of the chart denotes the path the Chancellor would have to follow if he wanted to restore RDEL spending back to its pre-crisis level relative to the size of the economy. Getting there would require average increases in RDEL per capita spending of 5.3 per cent a year over the four years after 2019-20, and would cost £56.3 billion a year. This is an unrealistic ambition of course, but it serves as a reminder that ‘ending’ austerity may be only the first part of the battle – especially as we enter a phase in which our ageing society starts to put more pressure on public expenditure.

[23] A Corlett, Despite ‘the end of austerity’, April promises another deep benefit cut, October 2018
[25] And one on which we’ve offered some possible solutions. See T Bell & A Corlett, How wealth taxes can raise billions without scaring the horses, Resolution Foundation, 3 January 2019
Conclusion

Like much in the world of politics right now, next week’s Spring Statement is likely to feel a little odd. With few if any policies to discuss (and with colleagues in the chamber distracted by thoughts of other events occurring later that day), the Chancellor will likely spend his time highlighting the good news and cautioning on the bad in the OBR’s economic projections. But those projections themselves are likely to be only slightly altered from those presented last October. And as Brexit edges closer (without becoming any easier to discern), they risk becoming outdated very rapidly as the circumstances the UK finds itself in change. The whole event could have the feel of a phony war.

And yet the condition of Britain’s economy on the edge of Brexit is hugely important, and one the government must engage with. From the uncertainty that is destabilising businesses and harming investment, to the lack of economic resilience displayed by significant numbers of households (alongside ongoing active policy choices designed to lower the incomes of many of the country’s most vulnerable households), and the competing demands of restoring public services spending growth while continuing to lower the public debt, developments over the next few months are set to be crucial to the country’s prospects for growth and improved living standards.

Next week’s statement may well be a quiet affair, but we must hope it is one that provides the opportunity for careful reflection among our policy makers and a renewed determination to act. That messy politics has got in the way of what should have been an important moment should be a source of regret to all those involved.
The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- undertaking research and economic analysis to understand the challenges facing people on a low to middle income;
- developing practical and effective policy proposals; and
- engaging with policy makers and stakeholders to influence decision-making and bring about change.

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