Section 2

The economic outlook

The strength of the economic recovery over the summer has been much swifter than expected by the OBR back in March 2021, with the economy in August now measured to be around 4 per cent larger than expected. This good news means the OBR is likely to make the largest upgrade to the forecast of current-year GDP growth in nearly 40 years. And the rapid bounce back means that growth in 2021 looks set to be the fastest in peacetime for nearly a century.

But it is too soon to declare the pandemic over. The pace of the recovery has slowed across a range of indicators, with GDP growth in July and August just 0.3 per cent – far from a booming recovery. Signs that demand is faltering after its swift bounce back have been exacerbated by disruption on the supply side and some wages rising in the face of labour shortages leading to sharp increases in inflation: CPI inflation reached 3.2 per cent in August, having been just 0.4 per cent in February, and the Bank of England has forecast that it will rise above 4 per cent by the turn of the year. While the causes of this higher inflation are inherently temporary, it is unclear how persistent it will prove. Temporary or not, higher inflation is a problem because it will reduce real incomes by as much as 2 per cent (or around £1,000 on average annual household income) by the end of next year, relative to the previous forecast made by the OBR in March. It could also prompt higher interest rates from the Bank of England. Together with a £13 billion headwind from increases in employer NICs, and sharp cuts to UC, there will be major headwinds to families' spending power in the coming months.

The big judgement facing the OBR is whether to reduce its estimate of economic 'scarring' from the pandemic. This is important because such a change would reduce the OBR's borrowing forecast, creating more room for the Chancellor. In March, the OBR thought that, in the medium-term, the economy would be 3 per cent smaller than it had predicted pre-pandemic. This level of 'scarring' would be lower than any UK recession since the 1960s. While it remains unclear how much of the pre-pandemic trend the economy will recover, there have been tentative signs of improvement in data relating to the longer-term supply-side of the economy since

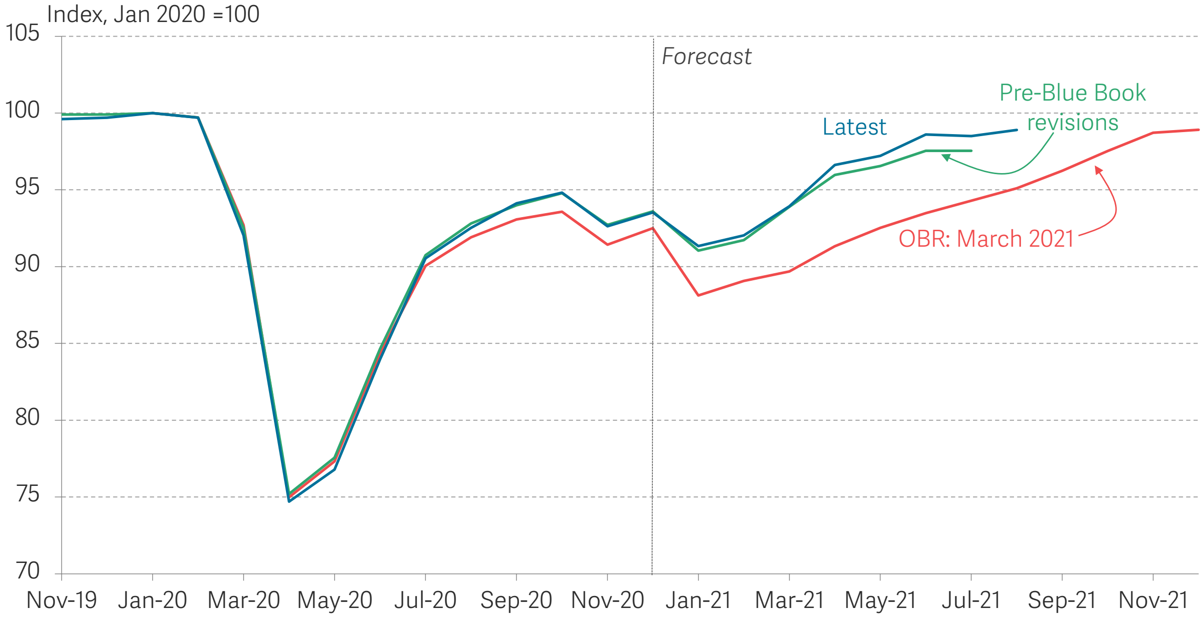
March. Unemployment is expected to peak materially lower, meaning that long-term unemployment will do less damage to the economy. There are also tentative signs that productivity and labour force growth will be stronger than expected. These factors are reflected by the fact that only two out of 12 official and private sectors forecasters have reduced their estimate of the size of the economy in the medium-term in the past six months. But the level of scarring remains hugely uncertain – not least because a key determinant of the extent of eventual scarring will be how successful fiscal policy is in driving a rapid recovery – and the OBR's judgement will have significant impacts on this and future fiscal forecasts.

The good news for the Chancellor is that the economic starting point is much better than expected

Since the OBR made its March forecast, it is clear the economy has surprised on the upside. As shown in Figure 1, GDP in August was around 4 per cent stronger than the OBR expected.[1] Around 1 per cent of that reflects changes to measured size of the economy at the start of the OBR forecast period. The rest reflects the better-than-expected performance of the economy while social distancing restrictions were in place, and a more rapid recovery as they were lifted.

FIGURE 1: **GDP is around 4 per cent higher than the OBR's March forecast**

Monthly index of Gross Value Added, outturn and OBR forecast: UK



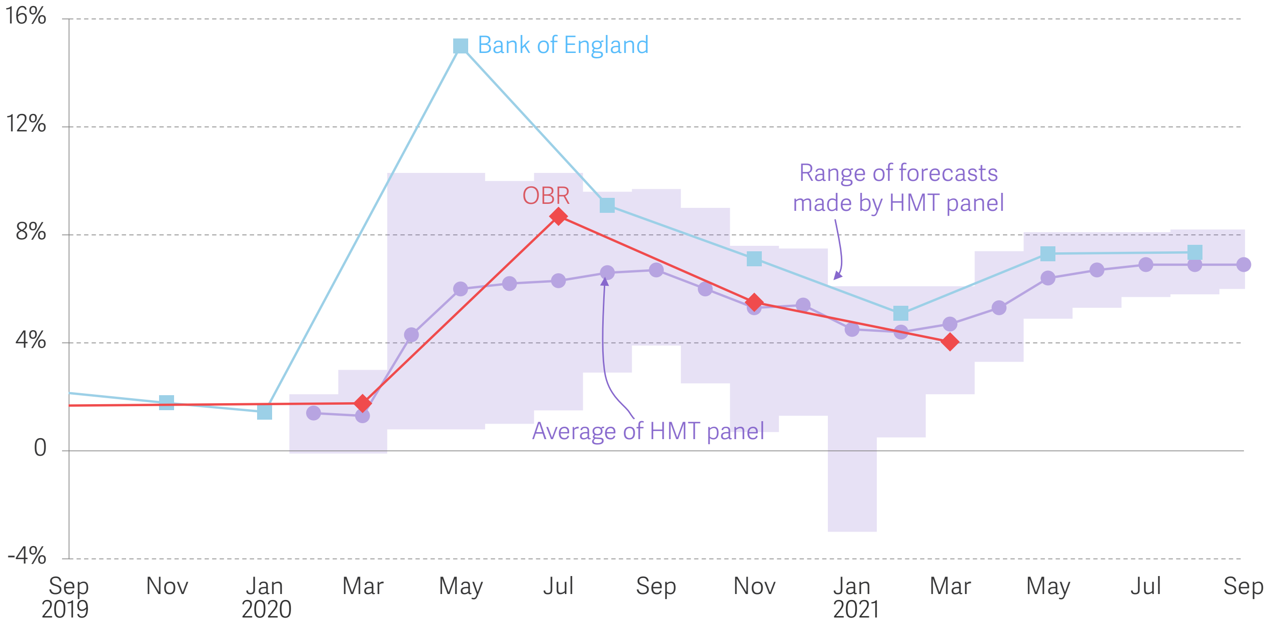
NOTES: The OBR's March 2021 forecast is adjusted for the difference between the quarterly estimate of output and expenditure measures of GDP.
SOURCE: RF analysis of ONS; OBR.

1 The OBR has indicated that its economy forecast was closed on 24 September 2021 and so it will not incorporate the latest vintage of GDP data. See: OBR, Announcement, 15 October 2021.

This improvement is set to lead to a record upgrade in the OBR's near-term growth forecast. The Bank of England's most recent projections – made in August – embody growth of 7.4 per cent this year. If the OBR followed suit, this would be the largest upgrade to current-year growth in nearly 40 years of fiscal forecasting; if it transpired, it would mean that growth for this year would be the fastest in peace-time in nearly a century.[2] And, although the Bank of England remains one of the most optimistic forecasters, as shown in Figure 2, other forecasters have also been upgrading their projections for 2021 growth.

FIGURE 2: **Since March, forecasts for growth this year have been marked up**

Calendar-year forecasts for real GDP growth in 2021, by date of forecast: UK



SOURCE: RF analysis of HM Treasury; Bank of England; and OBR.

The economy was in a 'sweet spot' over the summer, but the outlook has since deteriorated

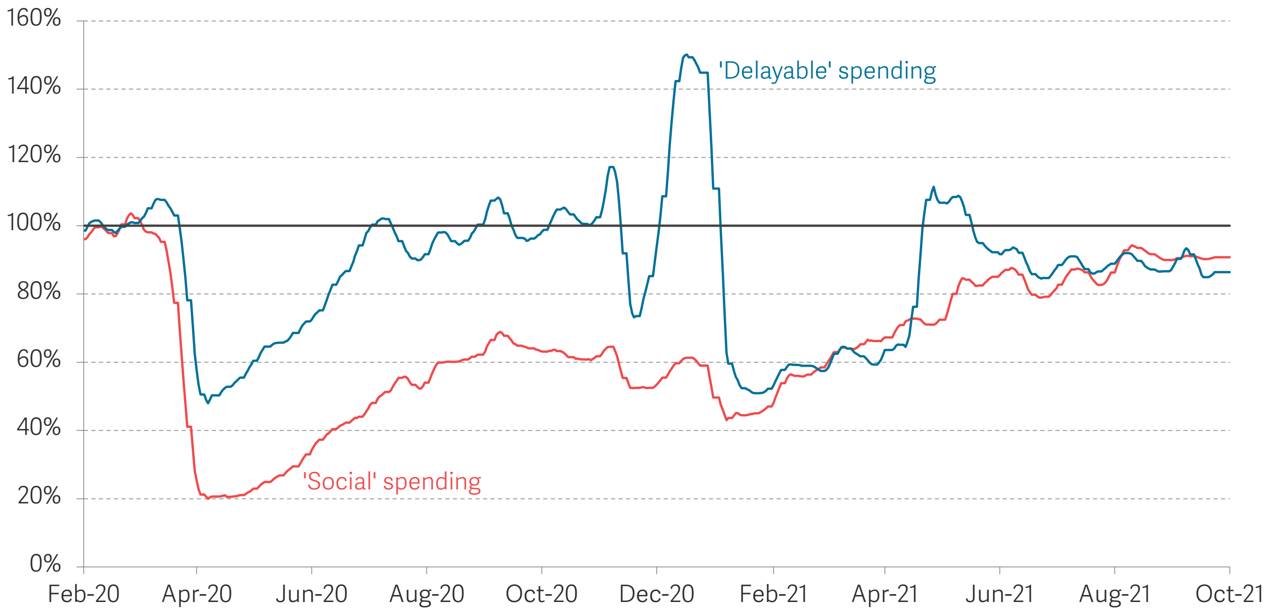
In the UK, a rapid easing in social distancing restrictions has prompted an equally rapid recovery. After Covid-19 restrictions were relaxed more quickly than in any other G7 economy,[3] there has been a rapid revival of social spending, as shown in Figure 3. Meanwhile, 'delayable' spending – such as that on luxury items and durable goods – recovered much more quickly during last year's lockdowns (consistent with families switching their spending to such items as social spending fell during lockdowns) and

2 Source: A Millennium of Macroeconomic Data, Bank of England.
3 Source: Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford, updated 14 October.

subsequently remained at or above pre-pandemic levels.[4] So, as we came into the summer, both social spending and durable spending were strong, prompting a sharp bounce back, with growth picking up more quickly than anywhere else in the G7 in the second quarter (April to June).

FIGURE 3: **Spending data points to a rapid recovery in social spending through the course of this year**

CHAPS credit and debit card purchases, per cent deviation from February 2020, seven-day moving average: UK



NOTES: The series shown in this chart are seven-day moving averages of CHAPS payments made by credit and debit cards to around 100 major UK retail corporates. 'Social' spending includes hospitality, hotels and transport services; 'Delayable' includes luxury items, clothing and footwear and household furnishings.
SOURCE: Bank of England, UK spending on credit and debit cards.

But more recent data on household spending has come as a blow to those who expect a rapid return to pre-pandemic levels of output. As people have returned to social spending, 'delayable' spending on goods has fallen back. This is evident not just in a reduction in 'delayable' credit card spending (Figure 3), which are now around 10 per cent below pre-pandemic levels, but also in official retail sales data. Moreover, social spending growth has plateaued since August this year below pre-pandemic levels. This is consistent with the Resolution Foundation's survey work in which a majority of families reported that they did not plan to return to pre-pandemic spending levels.[5] The central issue here is the extent to which the higher saving rates observed during the pandemic continue in the recovery: if families remain cautious in returning to their previous

4 Most recent data suggest that households have increased savings by more than £200 billion since the start of the pandemic. J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.
5 J Leslie & K Shah, (Wealth) gap year: The impact of the coronavirus crisis on UK household wealth, Resolution Foundation, July 2021.

spending habits, then the recovery will be more protracted. This is a key reason why in our previous work we have called for measures to boost household spending.[6]

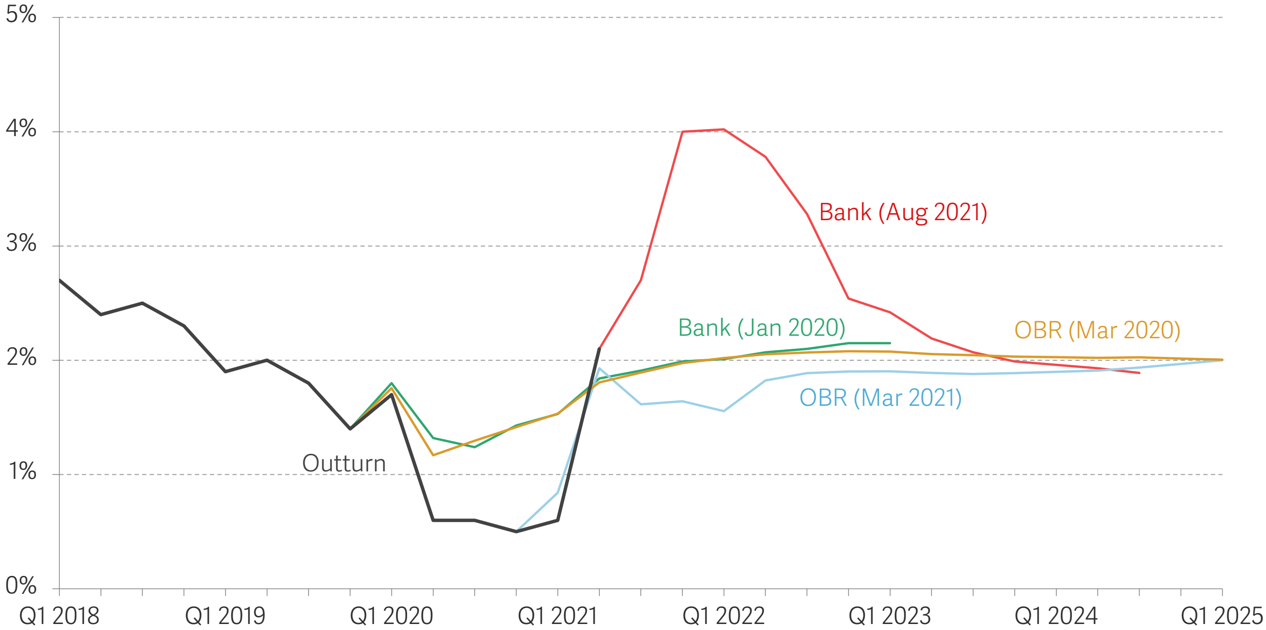
On top of signs that household spending has lost momentum after initially bouncing back rapidly, supply disruptions also threaten the speed of recovery. A key factor here has been the rapid increase in global goods activity. Such markets tend to be more volatile than GDP, and this has been the case over the past 18 months, with activity collapsing at the start of the pandemic and then recovering rapidly through 2021 (and a similar pattern was clear following the financial crisis).[7] All this has prompted sharp rises in global commodity prices, and difficulties in global supply chains, as production struggles to keep pace with recovery in demand (and still facing on-going Covid-related disruption). For the UK, this has been compounded by adjustment to the new trading arrangements with the EU.[8] Reflecting all this, wages for some workers have been rising rapidly in areas where there have been labour shortages.

Rising prices of global goods plus higher commodity prices mean a sharp rise in the prices of the goods we buy. Consumer Prices Index (CPI) inflation increased to 3.2 per cent in August, having been just 0.4 per cent in February. The bulk of that rise reflects an increase in goods prices, with services prices rising much more slowly. For the UK, a key element of the rise in inflation has been the sharp rise in the price of wholesale gas – exacerbated by disruption to the supply of gas to the European market – that will lead to further increases in inflation in the coming months when it feeds through into increases in the 'price cap' on energy bills. As shown in Figure 4, all this led the Bank of England to mark up its inflation forecast by a record amount to 4 per cent around the turn of the year, and they will also prompt a record increase in the OBR's inflation forecast. A key point to keep in mind, however, is that inflation driven by cost pressures in goods markets will be inherently temporary as markets adjust and the rate of price increases slows (even if prices remain high). Cost-driven inflation will only prove sustained if it feeds into higher inflation expectations and affects the wage-bargaining process.[9] Nevertheless, the extent to which higher inflation rates will last is highly uncertain.

6 G Bangham et al., Unhealthy finances: How to support the economy today and repair the public finances tomorrow, Resolution Foundation, November 2020.
7 International Monetary Fund, World Economic Outlook, October 2021.
8 J De Lyon et al, Trading places: Brexit and the path to longer-term improvements in living standards, The Economy 2030 Inquiry, October 2021.
9 J Smith, Macroeconomic Policy Outlook Q2 2021, Resolution Foundation, June 2021.

FIGURE 4: **Inflation is set to be much higher than the OBR expected in March**

Outturns and forecasts for 12-month CPI inflation: UK



SOURCE: ONS, Consumer price inflation; Bank of England, Monetary Policy Report; OBR, Economic and Fiscal Outlook.

However, temporary inflation is not necessarily benign for at least two reasons. First, higher inflation – even if it is temporary - will reduce families' spending power. Higher inflation reduces the amount of goods and services that households are able to afford, eroding the real value of incomes. Figure 5 shows outturns and past OBR projections for aggregate real household disposable income.[10] A combination of the £20 a week uplift to UC, the Job Retention Scheme and other government support packages meant that median household incomes have been more resilient than they have in past recessions despite this being the largest downturn in at least a century.[11]

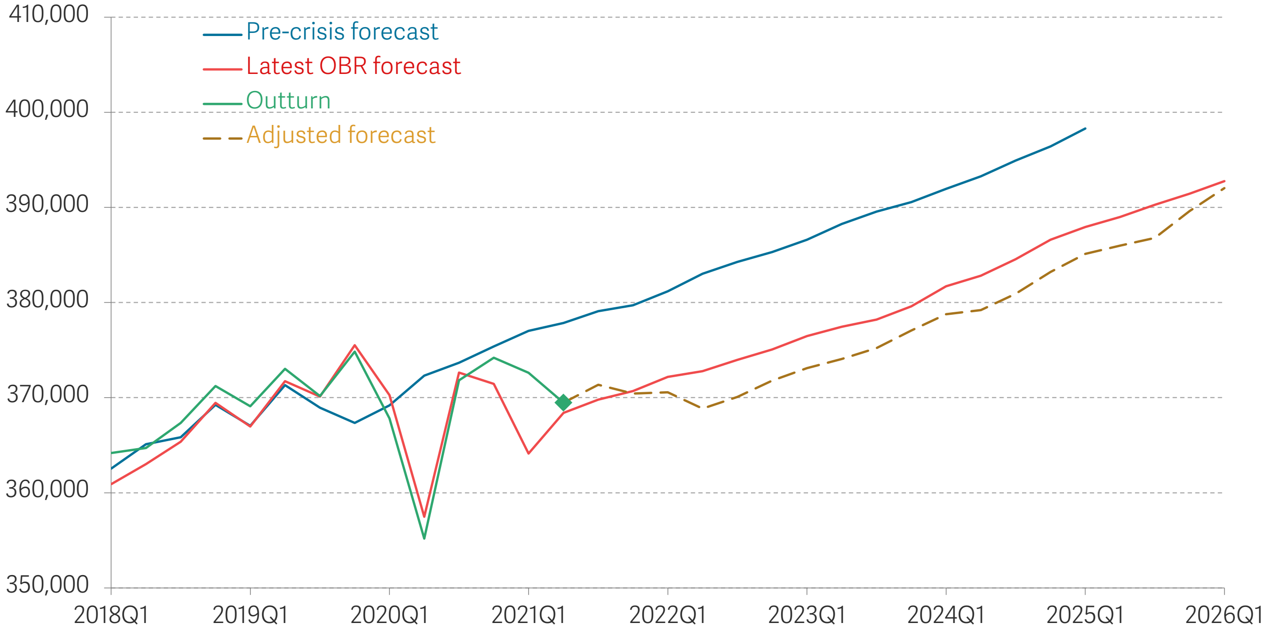
Figure 5 attempts to update the OBR's March 2021 forecast, accounting for recent income data, the rise in employer National Insurance Contributions (NICs) and the Bank of England's August inflation forecast.[12] By the end of 2022, higher inflation pushes down on real incomes mechanically by around 2 per cent relative to the previous forecast made by the OBR in March, and the rise in National Insurance contributions reduces annual aggregate household incomes by around £13 billion.[13] This simple estimate does not include any behavioural changes in reaction to these developments – most obviously,

10 This national accounts measure includes income from assets – such as housing and equities – as well as labour income and benefits. It also includes the income of non-profit institutions serving households. For a discussion about the issues surrounding income measurement, see: A Corlett, Unequal results: improving and reconciling the UK's household income statistics, Resolution Foundation, December 2017.
11 K Handscomb et al, The Living Standards Audit 2021, Resolution Foundation, July 2021.
12 T Bell et al, Nationally Insured? New taxes and new spending to address key Department for Health and Social Care priorities, Resolution Foundation, September 2021.
13 We can convert the fall in income into cash terms by dividing the national accounts measures by the number of households. This suggests that, by the end of 2022, inflation-adjusted average income would be expected to be around £1,000 lower.

any changes in wage growth. But, based on this calculation, despite the improvement in the economic outlook, real incomes are likely to be little changed when the OBR updates its forecast.

FIGURE 5: **Higher inflation means the outlook for real household incomes has not improved by as much as have prospects for the economy**

Projections for total disposable household income, chained-volume measure, £ million: UK

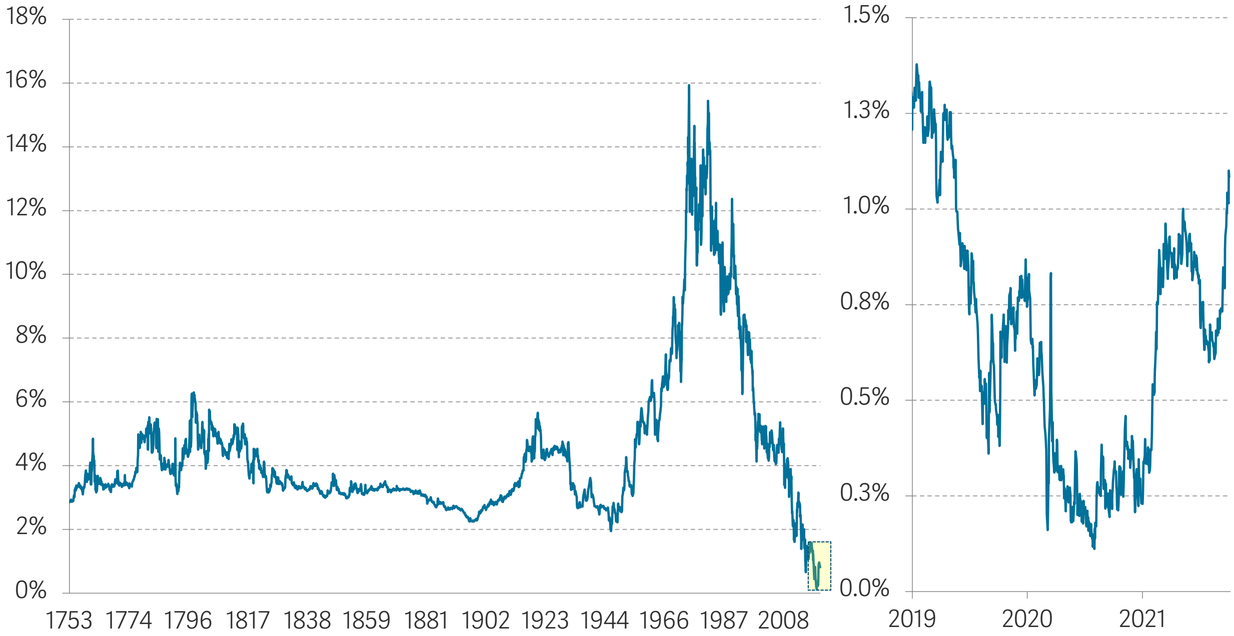


NOTES: Adjusted forecast follows same trend as previous OBR forecast, starting from latest National Accounts outturn data, adjusted in line with the Bank of England's August inflation forecast. Additional National Insurance contributions assumed to reduce income by £13 billion per year. Higher inflation assumed to increase benefit income by £5 billion per year, partly offsetting the overall fall in real incomes from higher inflation.
SOURCE: ONS, National Accounts; OBR, Economic and Fiscal Outlook, March 2021.

The other reason why even temporary inflation should not be seen as benign is because it may prompt the Bank of England to raise rates, leading to higher debt-servicing costs for the government, and a rise in the interest rates paid by firms and households. Indeed, higher inflation has already led to the markets now pricing in an interest rate rise for February, and this in turn has led gilt yields – the cost of servicing UK Government debt – to rise. As shown in Figure 6, although yields remain at incredibly low levels historically, they have increased in recent weeks.

FIGURE 6: **Debt yields have risen sharply in recent month but remain at incredibly low levels historically**

Medium-term (10-year when available) UK Government bond yields: UK



SOURCE: Bank of England, A Millennium of UK Data; Bank of England, Yield Curve Data.

Overall, then, despite the better starting point, the economic outlook has deteriorated in recent months. The Chancellor must, therefore, respond to the risk that things may get worse in the coming months. Increases in inflation, which reduce real household spending, and bottlenecks in supply chains at home and abroad will slow the recovery in the coming months. All of these factors should ultimately prove temporary, but there is a risk that these headwinds persist for longer than expected, leading to a more protracted recovery. And with Covid-19 cases rising as we come into the winter months, it is clear that the pandemic is far from over. In this context, withdrawing support for the recovery prematurely risks a renewed downturn and lasting damage to living standards.

There is a case for thinking that the OBR will reduce its 'scarring' estimate

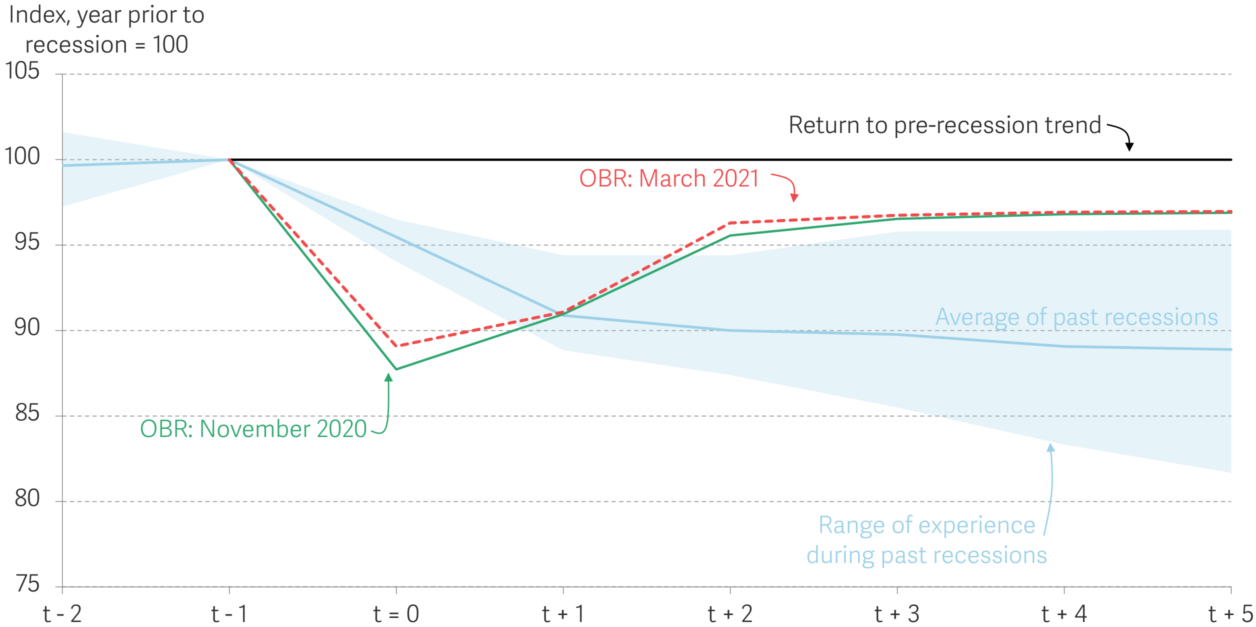
A key judgement for the OBR is whether it reduces its assumed 'scarring' effect of pandemic on the supply-side of the economy. As shown in Figure 7, post-war recessions have tended to leave the economy smaller relative to its previous path. the extent of such scarring has varied considerably, but has tended to be larger than the 3 per cent assumed by the OBR in March. This relative optimism makes sense, though: there are good reasons for thinking scarring might be smaller in this recession, given the lack of an underlying economic cause.[14] But even an assumed level of scarring at 3 per cent reduces

14 It also makes sense given the huge role played by fiscal policy in this recession.

future tax revenues and puts upward pressure on spending, making it harder for the Chancellor to deliver sustainable public finances in future. As a result, any changes to the OBR's scarring assumption could have a significant impact on overall fiscal policy.

FIGURE 7: **Output does not return to its previous trend after recessions**

The level of real GDP relative to pre-recession trend following past recessions (year prior to recession = 100)



NOTES: t = 0 is the year of the recession (first year that GDP growth is negative); swathe includes 1970s, 1980s, 1990s and financial crisis recessions. In the solid line (and for the swathe) trend is estimated to be the average growth rate over five years, five years prior to the start of the recession. The dotted lines show deviation from pre-recession, real time HM Treasury forecasts included in the OBR's historical forecast database.
SOURCE: RF analysis of ONS; OBR, Historical Forecast Database.

There are two ways to think about whether the OBR should revisit its judgement on scarring. The first is to look at the news on the supply side since March; the second is to consider whether the impact of the pandemic has been large enough to lead to 3 per cent scarring. We discuss both of these below.

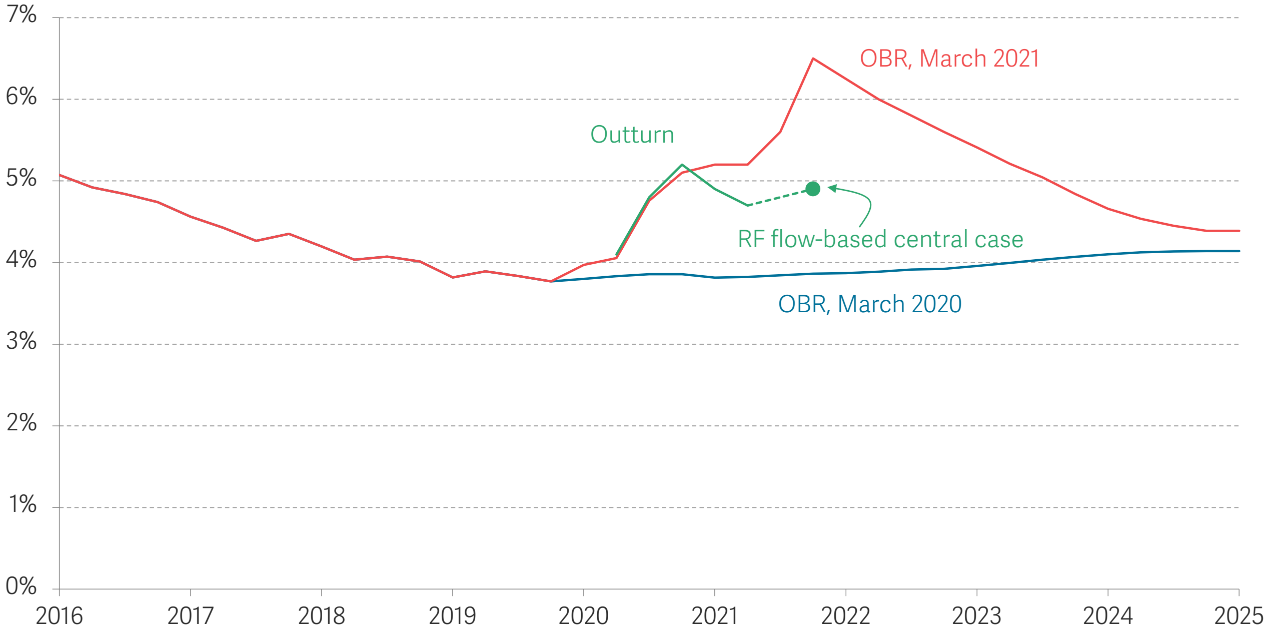
The improvement in the overall economic outlook – and particularly the labour market – provides grounds for thinking that the OBR is likely to reduce its estimate of scarring. The single most important piece of news in this context is on unemployment. Back in March, the OBR expected unemployment rate to peak at 6.5 per cent. But, as shown in Figure 8, unemployment has fallen in recent months and, based on our assessment of recent labour market flows, looks set to peak at around 5 per cent.[15] This is clearly good news,

15 H Slaughter & G Thwaites, Labour Market Outlook Q3 2021: Prospects for unemployment after the Job Retention Scheme, Resolution Foundation, September 2021.

and will mean that the longer-term unemployment rate – a key metric of scarring in past recessions – will not rise to anything like the extent that was expected in March.

FIGURE 8: **Unemployment looks set to peak far lower than expected even in March**

16+ unemployment rate, outturns and OBR forecasts: UK



SOURCE: RF analysis of ONS, Labour market statistics. RF estimate from H Slaughter & G Thwaites, Labour Market Outlook Q3 2021: Prospects for unemployment after the Job Retention Scheme, Resolution Foundation, September 2021.

But it is not just unemployment that matters for scarring. In March, the OBR provided an indicative decomposition of its 3 per cent scarring assumption, which we repeat in Table 1. This suggests that the OBR expected about a third of the scarring impact to come through the labour market – particularly through lower labour market participation – and two-thirds from lower productivity. Evidence on how the supply side is faring is discussed in Box 1, but Table 1 summarises our assessment of the recent evidence. Here the key takeaway is that there has been recent news that suggests the extent of scarring may well be smaller than the OBR thought in March. For example, productivity has come out stronger than expected, reflecting the strength of the recovery, and, although labour market participation has actually been weaker than expected, most of the fall in participation looks plausibly temporary.

TABLE 1: **Our assessment is that the supply-side data has improved somewhat since March**

News on components of supply-side scarring since March 2021

	OBR March 2021 assumed contribution to 'scarring' (per cent)	News since March
Labour market	1.0	+
o/w Population	*0.2*	*?*
o/w Participation	*0.5*	*?*
o/w Unemployment	*0.3*	+
Productivity	2.0	+
o/w Capital shallowing	*0.8*	*?*
o/w Total factor productivity	*1.2*	+
Total	**3.0**	+

NOTES: "+" = Lower scarring; "?" indicates that the data are uncertain and/ or changes are small.
SOURCE: RF analysis; OBR, Economic and Fiscal Outlook.

BOX 1: **Evidence on the underlying determinants of economic scarring**

In this box, we review the most recent data on the impact of scarring on the supply side of the economy. We focus on the labour market – particularly migration-driven changes in the labour force and how inactivity has evolved – but also look at evidence on the impact of the pandemic on productivity. In each case, a central issue is the extent to which changes in behaviour brought about by the pandemic are likely to become the 'new normal'.

Turning first to the labour force, where the key development is changes in net migration rates. Here a combination of Brexit and Covid-19 have probably led to a significant number of migrants leaving the country. Before the OBR's March forecast, estimates suggested a huge exodus of migrants of the order of 800,000.[16] But subsequent analysis that attempts to adjust for changes to survey methodology suggests around 500,000 migrants may have left the country.[17] On top of this uncertainty about how many migrants have left is additional uncertainty over whether workers who have left the country

16 M O'Connor & J Pores, Estimating the UK population during the pandemic, Economic Statistics Centre of Excellence, January 2021.

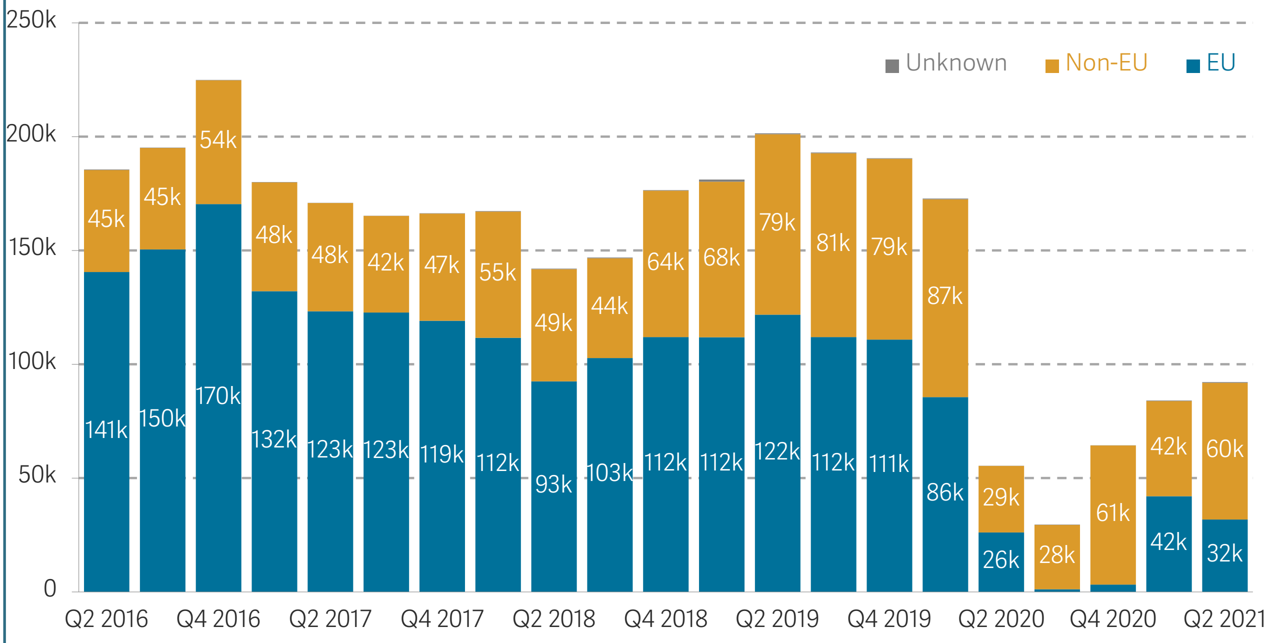
17 G Thwaites, Migration during the pandemic: Have 1.3 million migrants really left the country?, Resolution Foundation, March 2021.

during the pandemic will return. One piece of evidence we do have – data on new National Insurance numbers (or NINo) registrations, shown in Figure 9 – suggests new inward migration flows are recovering, but remain much lower than in 2019. On balance, then, it is not obvious that we have learnt much since March about changes to the number of migrant workers in the UK.

FIGURE 9: **NINo registrations suggest inward migration is recovering but remains well below pre-pandemic levels**

National Insurance Number registrations to overseas nationals: UK

SOURCE: RF Analysis of DWP, National Insurance Number Registrations to Adult Overseas Nationals Entering the UK.



Second, although the lower-than-expected rate of unemployment is good news for future scarring, labour force participation also determines scarring effects. Past recessions have led unemployed workers to become discouraged and either retire or otherwise stop looking for work.[18] Consistent with this, the OBR's breakdown of its scarring judgement from March shows that lower participation accounted for half of the impact of the pandemic on the labour market.

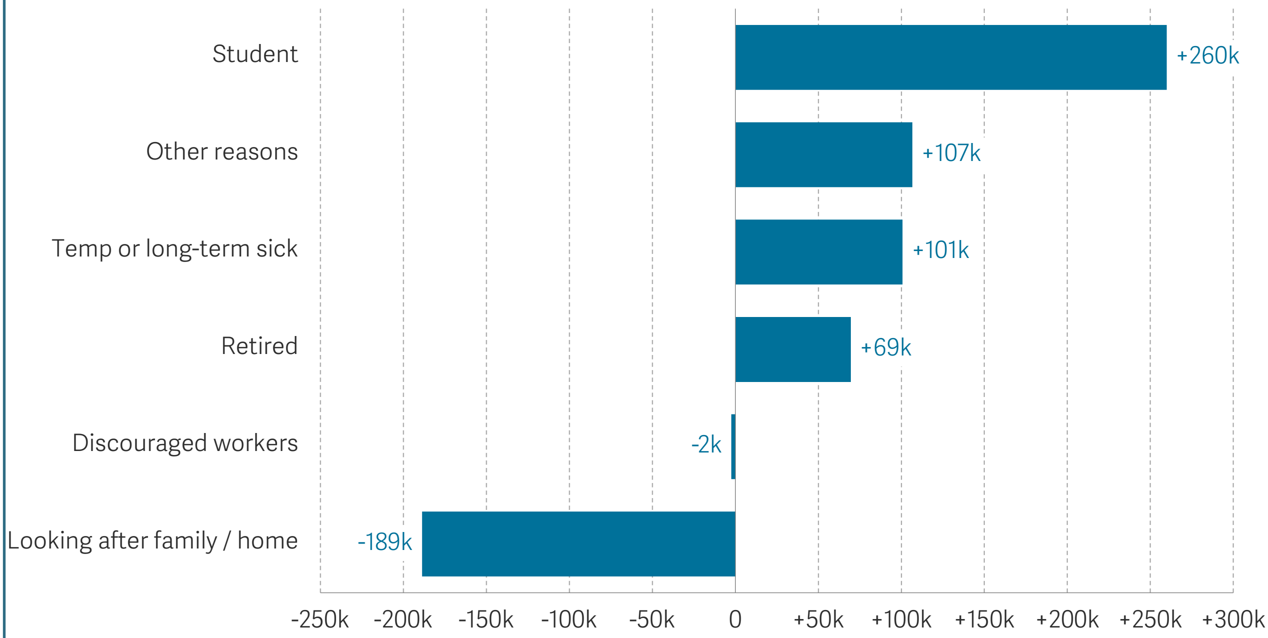
Since March, there has been a further fall in participation, but it is unclear how much this tells us about the longer-term impact of the pandemic. The 16+ participation rate has declined by 0.3

18 For example, see: B Bell & J Smith, 'Health, disability insurance and labour force participation', Bank of England Working Paper No. 218, 2004.

percentage points (or around 100,000 people) since March, and by around 0.5 percentage points since the start of the pandemic. Figure 10 decomposes this rise inactivity by reason; it shows that there has been a rise in the number of people saying they are inactive because they are a full-time student.

FIGURE 10: **Labour force participation has fallen in recent months but the extent to which this will last is uncertain**

Change in the number of working-age people who are economically inactive, by reason: UK, Dec-Feb 2020 to Jun-Aug 2021



SOURCE: RF analysis of ONS, Labour market statistics.

But, because much of this rise reflects a faller in the labour market participation rate of younger students – rather than a rise in the number of students – our view is that this is a temporary blip, and that students will return to their pre-pandemic patterns of working. The other key development is a fall in inactivity among those saying they are looking after family or their home. This has been linked to a rise in carers working from home. If so, and if the pandemic makes home working more common, then this rise in participation could prove longer-lasting. But the rise could also reflect second earners upping their hours to make up for income shocks.[19] The final category of interest is those saying they are retiring. Working-age retirement has been on a downward trend since the financial crisis, but, since the start of the pandemic, the number of working-age people saying that they have retired

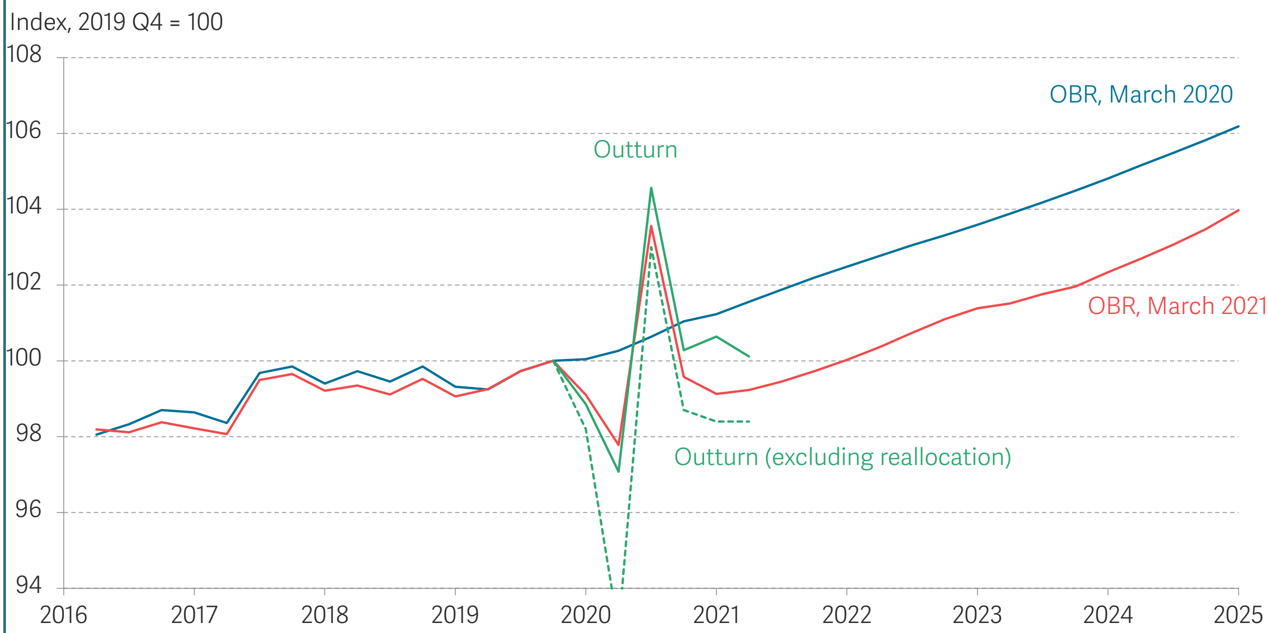
19 For a discussion, see: H Slaughter, Labour Market Outlook Q2 2021, Resolution Foundation, June 2021.

has increased by around 100,000. If this continues, then there may be a lasting reduction in participation from this source. Stepping back, though, labour force participation actually increased in the aftermath of the financial crisis, something that our previous work attributed to the impact of that recession on real incomes, and it is not implausible that we could see something similar following the pandemic.[20] On balance, then, it is not obvious that we have learnt a great deal about prospects for participation – suggesting this is not a place where the OBR is likely to change its scarring assumption.

The 'big ticket' item for the OBR's scarring assumption is labour productivity. Here, the improvement in the overall economic outlook since May means that there has been upside news (see Figure 11).

FIGURE 11: **Productivity has surprised to the upside, but sectoral reallocation effect has been important**

Output per hour, chained-volume index, 2019 Q4 =100



NOTES: 'Reallocation effect' is an estimate of the impact on aggregate productivity of changes in hours worked in relatively more productivity sectors.
SOURCE: ONS, UK productivity flash estimate: April to June 2021; OBR, Economic and Fiscal Outlook, March 2020 and March 2021.

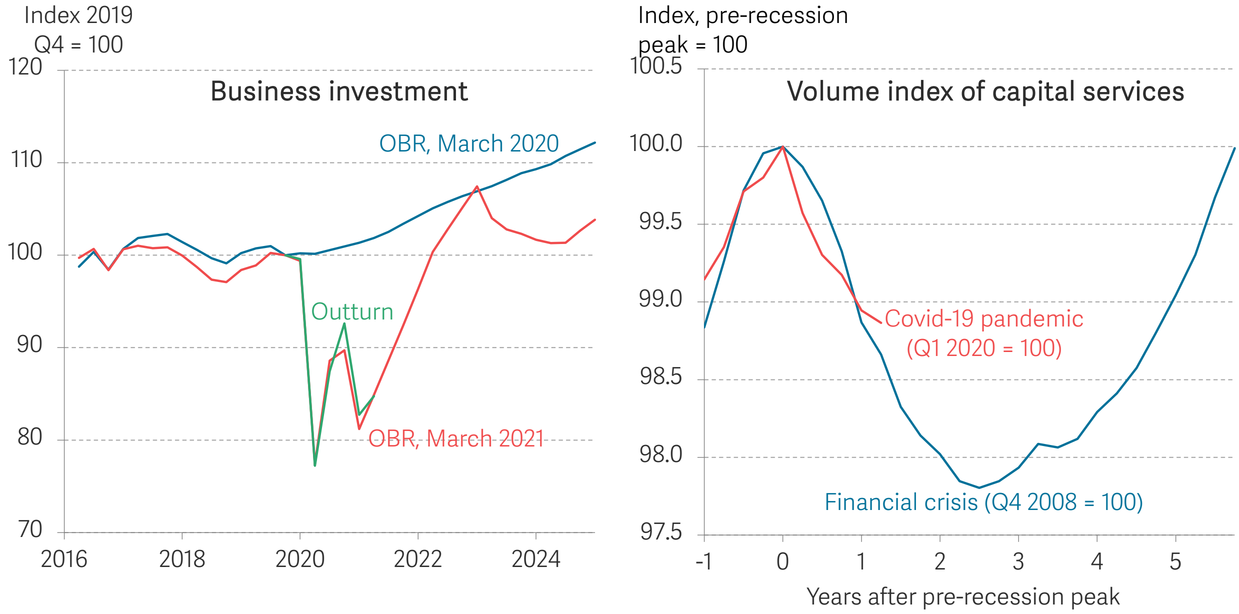
A key factor in driving changes in labour productivity is spending on physical capital. As shown in Figure 12, it is not clear that data on capital spending (i.e. business investment) has been markedly different to the OBR's March forecast, but the fall in investment spending at the start of the pandemic

20 T Bell & L Gardiner, Feel poor, work more | Explaining the UK's record employment, Resolution Foundation, November 2019.

will reduce the amount of capital services available to the corporate sector. A key driver of future capital spending is the 'super deduction' tax policy announced at the Budget in March which, by offsetting the impact of future corporation tax rises, provides an incentive for firms to bring investment forward. There has, however, been mixed evidence on its impact so far, and it is too early to say whether investment will turn out to be stronger or weaker than the OBR's forecast in March.

FIGURE 12: **There has been little news on investment or the capital stock relative to March**

Business investment, chained-volume index and volume index of capital services: UK



NOTES: Volume index of capital services is a measure of the contribution of physical capital to the production process and is estimated using measures of the stock of different types of physical assets such as building and plant and machinery.
SOURCE: ONS, National Accounts and Productivity overview, UK: April to June 2021.

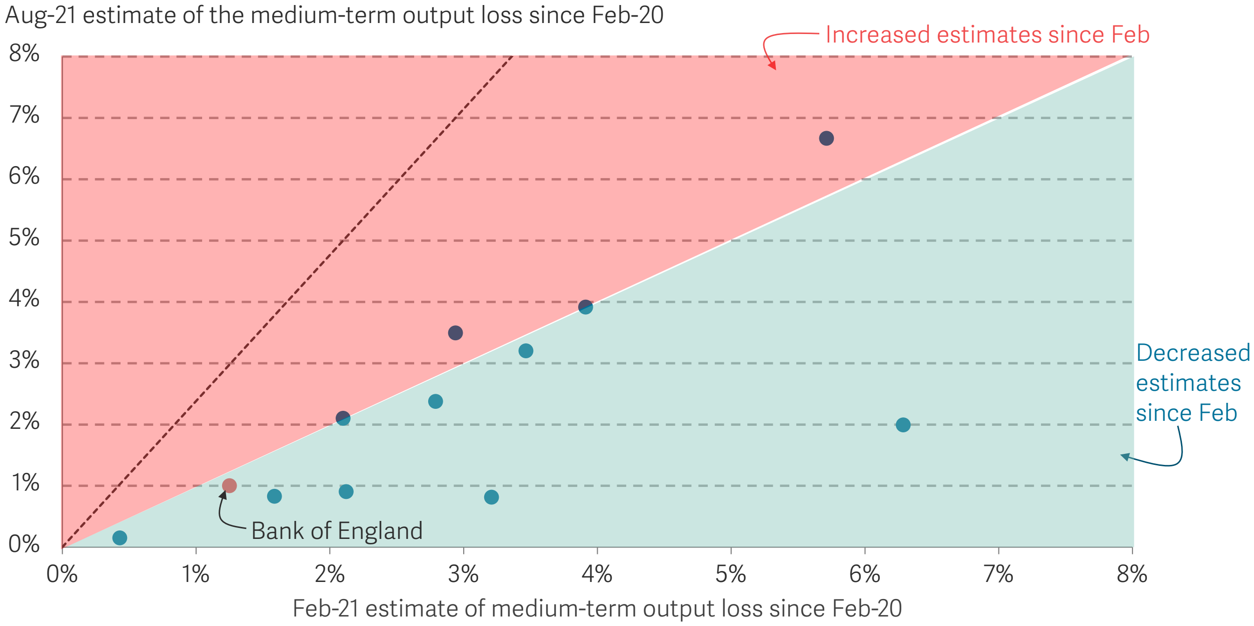
An important point to note in the better-than-expected productivity data is the contribution of reallocation between sectors. As shown in Figure 12, once the impact of changes in hours worked is taken to account, average productivity has been weaker. Because we don't know the extent to which this was factored into the OBR's March projections, it is unclear how this development will change its view of scarring. On the other hand, we would probably expect the boost to productivity from the shift in working patterns during the pandemic to unwind as the economy recovers.

Overall, then, the direction of travel is one of generally small good news on the supply side since March. That said, a huge amount of uncertainty remains, particularly on the key question of the extent to which productivity may turn out weaker.

Like others, our assessment is that the marginal news on scarring has been positive despite the obvious uncertainty. Figure 13 attempts to assess how a range of forecasters have changed their view over the past six months or so.[21] It is striking that only 2 out of 12 forecasters are assuming that the economy will be smaller in the medium term than they did in February (around the same time as the OBR's most recent forecast).

FIGURE 13: **Since March, forecasters have generally reduced their estimates of the extent to which output will be lower in the medium term**

Forecasts for the medium-term loss in output since February 2020: UK



NOTES: Dots compare the forecast level of GDP in February and August 2021 with the level implied by forecasts in February 2020. The level of GDP is estimated by compounding calendar-year growth rates.
SOURCE: HMT, Forecasts for the UK economy; Bank of England, Monetary Policy Report; IMF, World Economic Outlook.

Considering all these factors leads us to conclude that it would not be a surprise if the OBR reduced its estimate of scarring. However, although we agree that the stronger recovery provides grounds for thinking that there might be less scarring now than was expected in March, it is important to recognise the extent of the uncertainty here. Indeed, our judgement is that an assumption of 3 per cent scarring could easily be justified given changes in the size of the labour force, reduced business investment, and the impact of the pandemic on productivity.

That said, neither we nor the OBR can be definitive about the extent of eventual scarring. Crucially, this uncertainty should be factored into policy decisions in two ways. First, rapid tightening in the near term should be avoided, as this runs the risk of increasing the extent of scarring. This might be the case for a number of reasons, for example

21 For the HMT panel, it is necessary to back this out from medium-term forecasts – and so this will conflate other influences on the medium-term outlook in addition to scarring (for example, this could include changes in views about the eventual impact of Brexit).

because business investment turns out weaker than expected. Second, looking further ahead, policy for the middle of this decade should take this uncertainty into account. The Chancellor may be hoping that improvements in the outlook will allow for lower taxes, but he should also plan for the eventuality that the economy turns out to be smaller than expected and that more tax rises are needed.

Overall, then, we expect the OBR to provide the Chancellor with good news on the near-term economic outlook, and probably on the medium-term outlook too. In both cases uncertainty is significant, with a clear risk that the economy ends up being weaker either in the near term or the medium term. And these risks have a key role to play in the Chancellor's decisions on fiscal policy. We turn to those decisions in the next section.