

QUESTIONS

1. Economic prospects in 2016: How easily will Britain's economy secure a third decent year of growth? Please explain your thinking

My best guess is growth continues at 2-2.5% but, with the global outlook increasingly clouded, much will depend on private domestic demand, in particular household spending. So real income growth remains crucial - but revolves round the nexus between nominal earnings, inflation, productivity and employment which are all highly uncertain. We do not know how employers will respond to the National Living Wage next year and the new Apprenticeship Levy approaching in 2017, both of which are essentially payroll taxes; we don't really understand why productivity collapsed in the wake of the financial crisis and hence whether recent signs of improvement will be maintained; and there are risks to inflation forecasts both ways after inflation failed to pick up as expected this year. I suspect that average earnings growth will turn out weaker than consensus - but so will inflation (again) - and the "productivity puzzle" will keep us on tenterhooks. So a lot of scope for forecasts to go wrong but, fingers crossed, real earnings growth will come out ok in the wash.

2. Brexit: If the British electorate vote to leave the EU in 2016, how would that

- a) change your views about prospects for next year?
- b) change your views about medium term prospects?

(a) Although a vote to leave would increase uncertainty, coming next summer at the earliest I doubt it would have much impact on the economic outcome for the year as a whole.

(b) Further out, though - for several years at least - I would expect the effect to be unambiguously negative. We cannot count on the EU being prepared to grant continued privileged access to the European market, particularly if the divorce turns vitriolic (contrary to received wisdom, in terms of trade flows "they" do not need "us" as much as we need them); and, if it was so easy to expand trade with the rest of the world to compensate, you would expect that to be happening already.

3. Nature of the recovery: What is your greatest concern about the balance of Britain's recovery? To what extent will that balance improve by the end of 2016?

Export- and investment-led growth has been the holy grail of UK policy makers for as long as I can remember. I suspect it will stay out of reach and this recovery, like others in the past, will remain consumer-led. While the floating pound rules out an old-style balance of payments crisis, the huge current account deterioration - albeit not principally due to trade - could ultimately result in an old-fashioned run on the pound. Would this be so bad? Once the dust settled, a lower pound might prove just what is needed to give both inflation and trade a much-needed boost.

4. Monetary policy: Please explain why you think monetary policy will be tighter or looser by the end of 2016. How much will it change?

I don't expect any change in monetary policy because in the last few years the MPC has consistently over-estimated inflationary pressures and continues to do so in the face of lacklustre growth and weak price pressures globally and spare capacity at home. While the risks of deflation point to policy loosening, the Bank will probably continue to produce forecasts showing the risks are on the upside and inflation is on course to hit the target....eventually.

5. Fiscal policy: Please explain which of the following statements is closest to your views George Osborne:

a) will struggle to impose his planned spending cuts and revenues will fall short of expectations;

b) will struggle to impose his planned spending cuts but revenues will remain on target or better;

c) will succeed in cutting spending , but revenues will fall short; or

d) will succeed in cutting spending and revenues will remain on target or better

As we have seen with the tax credits fiasco, in contrast to 2010-15 austerity in this Parliament means cuts to benefits and services which are high profile and which many people in general, and hence MPs in particular, care about. So I foresee further political and practical difficulties in implementing many proposed cuts and I doubt that devolving responsibility for some of the more sensitive decisions to the local level will lessen the flak. For spending, what you think is possible is a political as much as an economic judgement.

Fundamentally I am more positive about the scope for revenues to exceed expectations in upturns - except that the OBR's uplift to revenue projections in November on apparently flimsy grounds makes me worry they may have jumped the gun.

6. Housing: What effect are government policies likely to have on the housing supply and demand in 2016. How much will they contribute to likely changes in house prices?

In general the thrust of government policies has been to boost demand through subsidies for purchasers, with little evidence that this is feeding through to supply. This will remain the case in 2016 and prices will rise further, the more so if changes to buy-to-let taxation bring forward some demand in the new year. Longer-term, interventions in buy-to-let and high stamp-duty at the top end may dampen price inflation in some market segments but do little to resolve the supply/demand imbalance.