Developments in Economics Education

Communicating economics: a year in the frontline

7th September 2017
UCL

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National Institute of Economic and Social Research

NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:
PRESS CONFERENCE
Tuesday 1st August 2017
Opening remarks by the Director

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our quarterly Economic *Review*. This morning we will concentrate on the outlook for the World and UK economy, which are perhaps showing signs of a divergence with below par growth in the UK and growing signs of a robust recovery in the rest of the World....

...Our forecasts for GDP growth in the UK for this year and next remain unrevised at 1.7 per cent and 1.9 per cent, respectively. The economy has slowed each year since 2014 and accordingto our forecast, 2017 will mark the trough for GDP growth. Thereafter, we envisage a modest recovery that takes economic growth to a level that is close to potential....We have brought forward the timing of the rate hike from the second quarter of 2019 to the first quarter of next year...We have brought forward the timing of the Bank Rate hike from the second quarter of 2019 to the first quarter of next year. Such a move would be the first policy rate increase in nearly eleven years. This rate increase should not be seen as a tightening in policy, but instead as a modest withdrawal of some of the additional stimulus that was injected into the economy after the 2016 EU referendum. Ultimately we think that the groundwork for a fuller normalisation of policy has yet to be laid.

Jagjit S. Chadha
1st August 2017

Press Coverage I

EXPRESS

UK economy to grow faster EVERY YEAR in Brexit run up experts RUBBISH 'dossier of doom'

THE REMAINER "dossier of doom" was far too "pessimistic" and the economy will actually start growing faster in the run up to Brexit, a major study revealed.

theguardian

UK economy is about to surge back to life, says leading forecaster

Economic thinktank NIESR predicts boom in exports and higher wages will lead to GDP growth of nearly 2% and interest rate rise

MailOnline

UK plc is set for a pre-Brexit BOOM driven by exports - but it could push up interest rates, think tank says

INDEPENDENT

News › Business › Business News

UK GDP growth to slow to 1.7 per cent in 2017 says think tank

The latest forecast by the National Institute of Economic and Social Research also assumes a hike interest rates by the Bank of England in the first quarter of 2018

Press Coverage II

FINANCIAL TIMES

Eurozone growth accelerates after populist electoral threat recedes

- Fastest pace in 6 years • Spain and France flourish • Manufacturing jobs boom helps UK

EXPRESS Home of the Daily and Sunday Express

DEATH OF PROJECT FEAR: Red-faced experts ADMIT they were 'too pessimistic' about Brexit

DIRE Brexit forecasts by so-called economic experts were "too pessimistic", one institu admitted today.

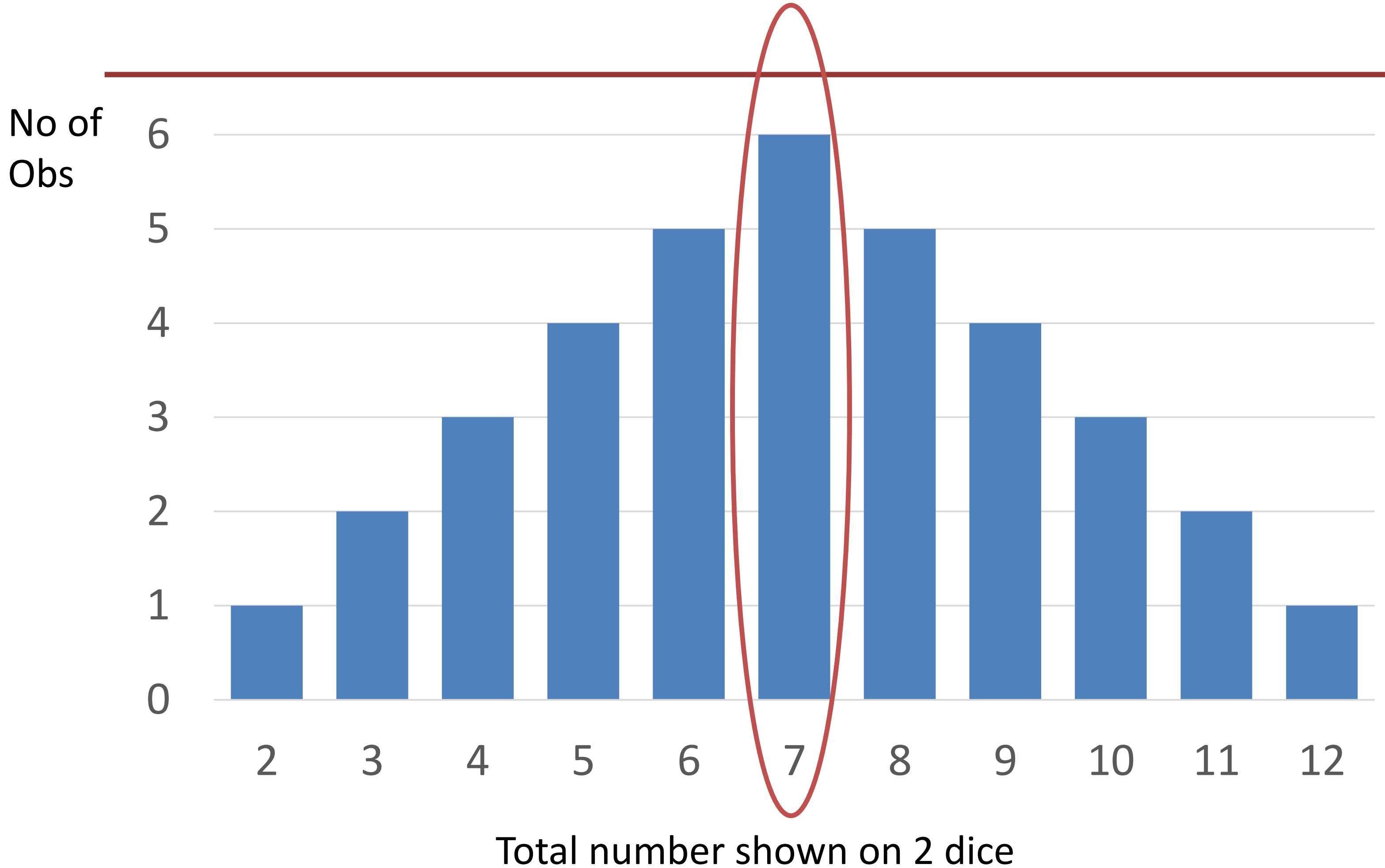
BoE shouldn't wait until after Brexit to raise rates, Niesr says

Bloomberg

Bank of England Urged to Raise Rates Before Brexit

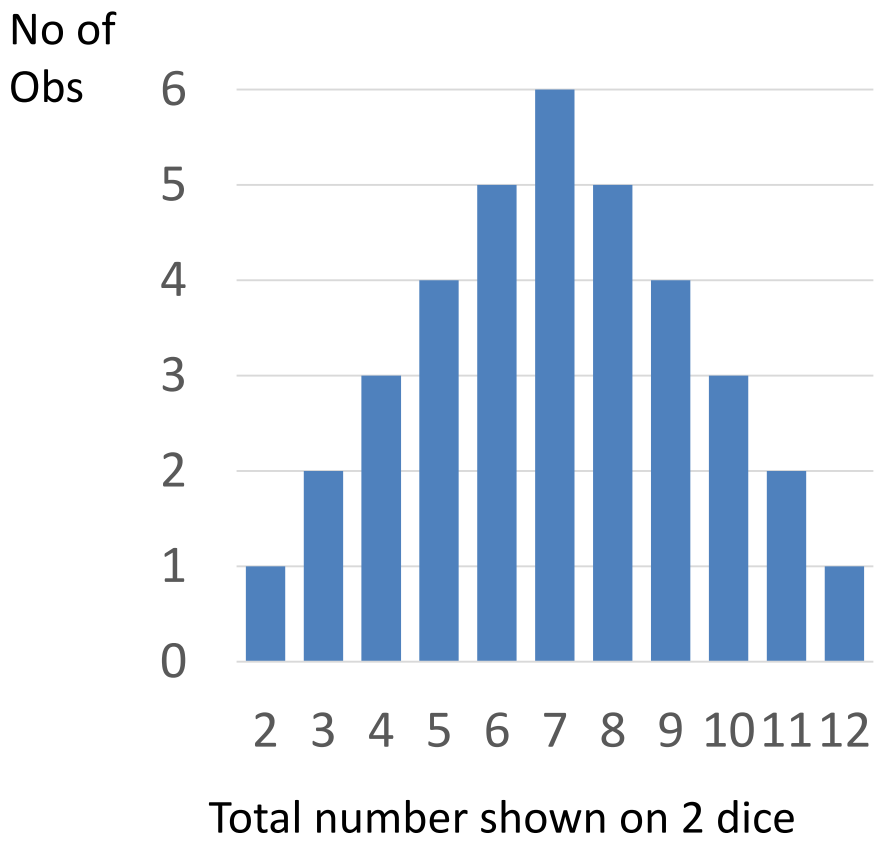
Economic fightback will trigger rates rise

Forecast Consensus for 2 Fair Dice



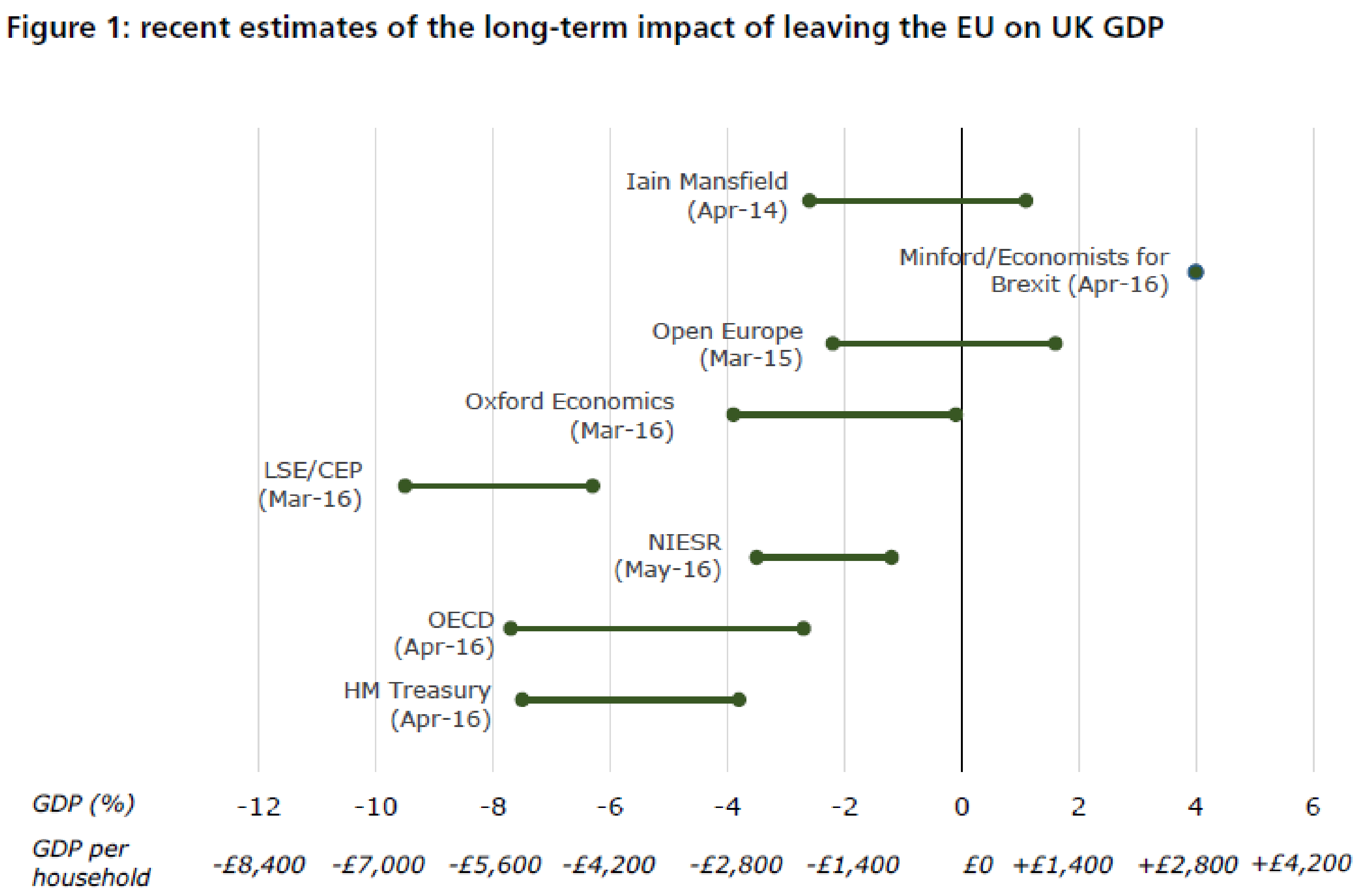
- Consensus forecast of ***7*** has a large forecast error but is quite rational

Forecast Complexity



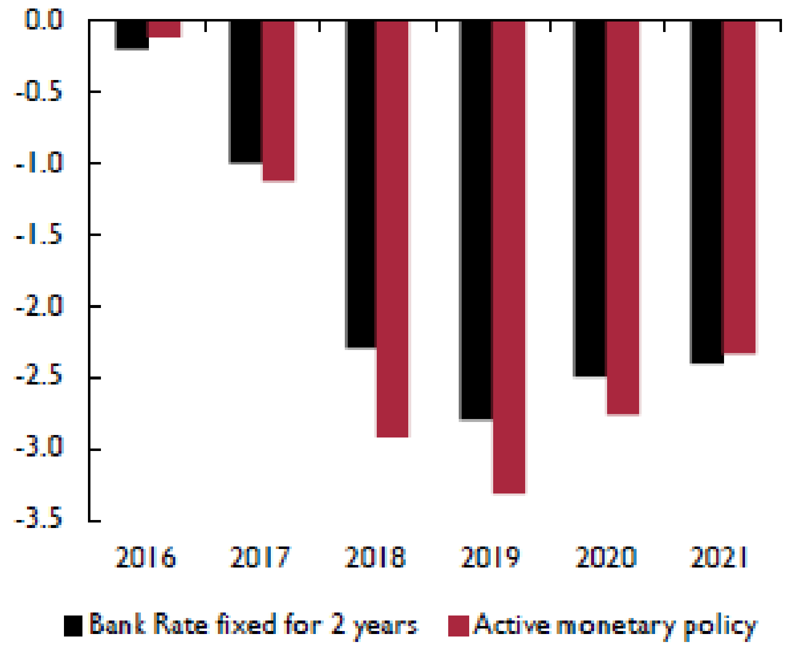
- Costly trade is like a tax on production and may shift the distribution
- Increases in uncertainty are like more dice with mean zero,
- Skews imply more dice with mean of greater than or less than 7
- May act against a central projection by formulating policy i.e. dice with numbers a function of the expected error – “feedback”

How do we use forecasts?



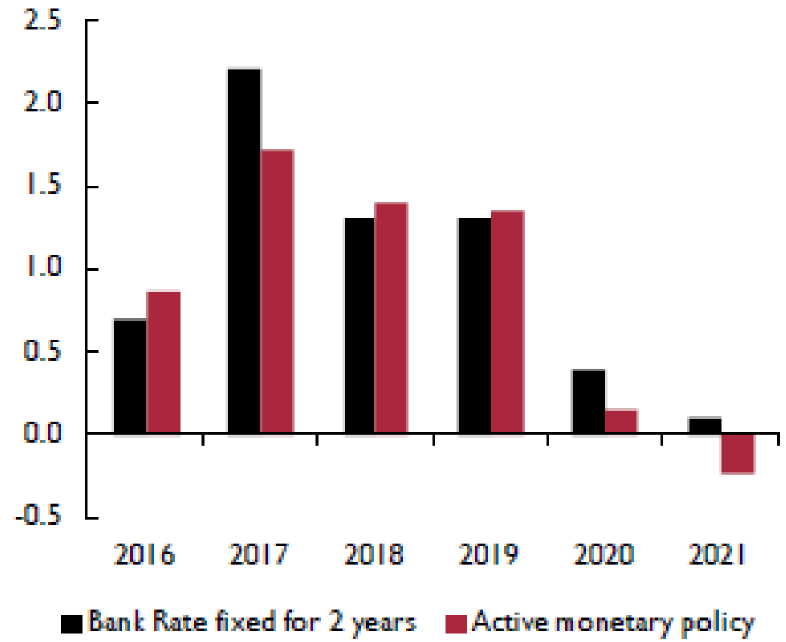
May 2016: A vote to leave: GDP negatively affected by the shock of a vote to leave; inflation spikes (relative to counterfactual)

GDP level (per cent difference from baseline)



Source: NiGEM simulations.

Inflation rate (percentage points difference from baseline)

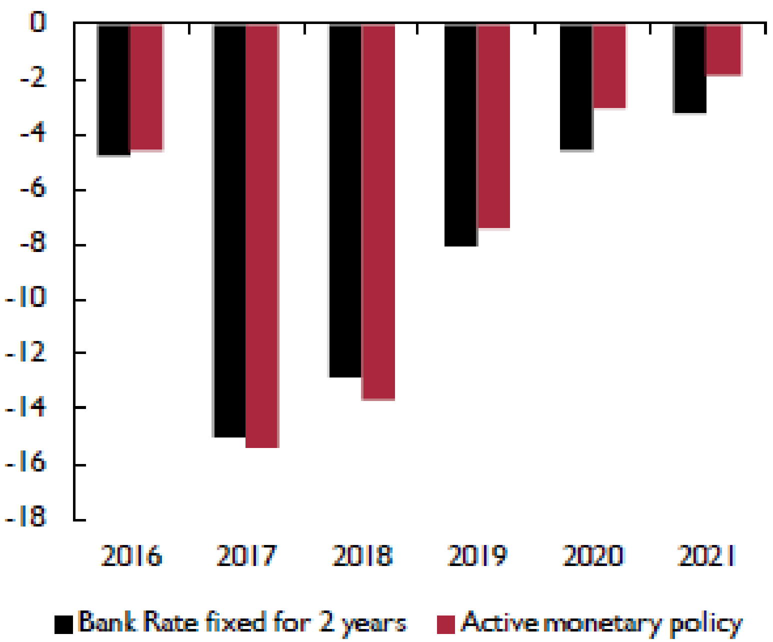


Source: NiGEM simulations.

Note: active policy suggests a tightening of interest rates from 2017. It refers to an endogenous response by the MPC, represented by a Taylor Rule (using the parameters published for the Bank's model COMPASS).

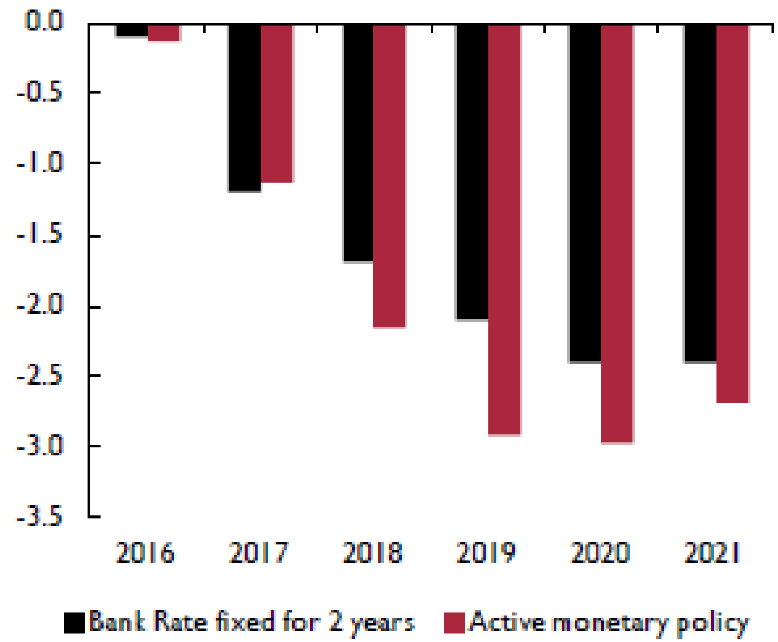
A vote to leave: private sector investment, at trough, around 15% below baseline

Private sector investment (per cent difference from base-line)



Source: NiGEM simulations.

Household consumption (per cent difference from base-line)

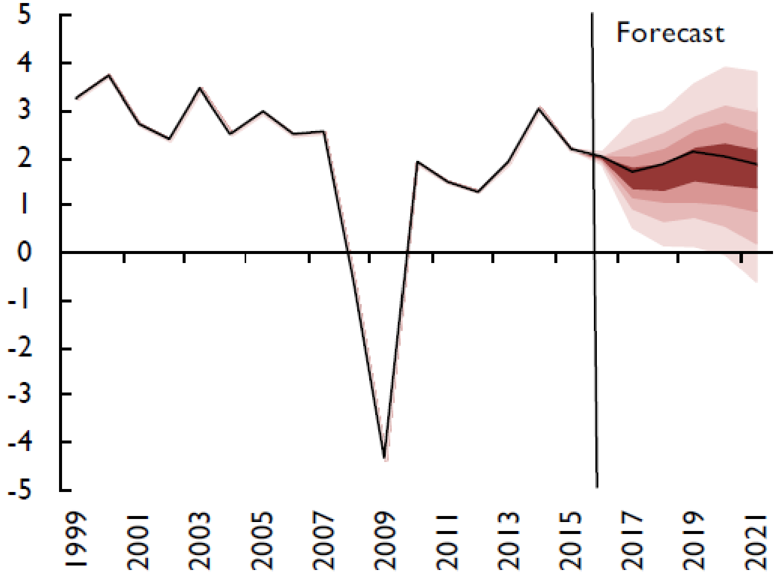


Source: NiGEM simulations.

Note: active policy suggests a tightening of interest rates from 2017. It refers to an endogenous response by the MPC, represented by a Taylor Rule (using the parameters published for the Bank's model COMPASS).

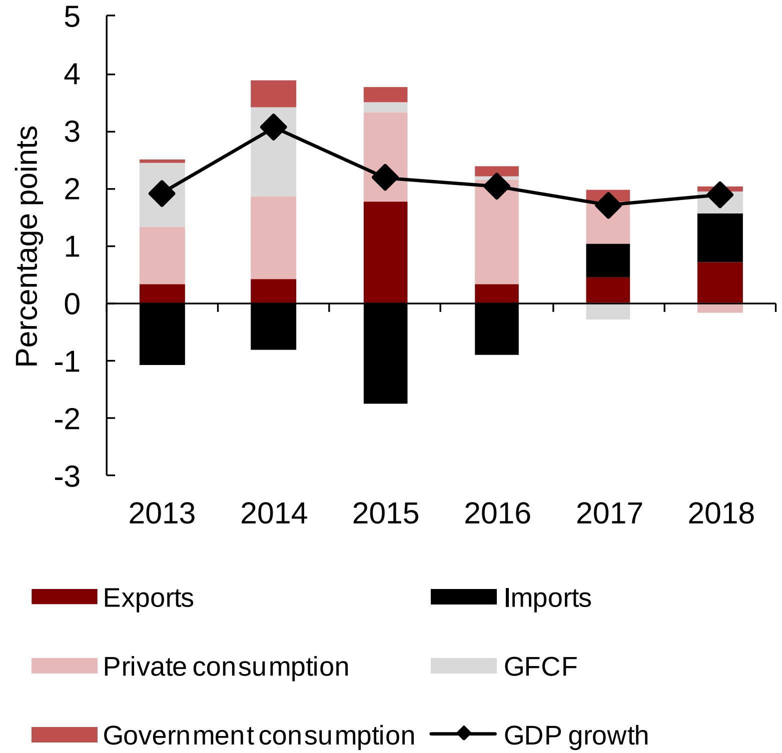
UK GDP growth 1.7% in 2017, 1.9% in 2018

GDP growth fan chart (per cent per annum)



Source: NiGEM database, NIESR forecast and NiGEM stochastic simulations.
Notes: Each bound represents a cumulative decile of the probability distribution around the February 2017 forecast.

Contributions to GDP growth



Source: NiGEM database; NIESR forecast
Note: GFCF is gross fixed capital formation

National Institute of Economic and Social Research

Summary of short-term economic performance following a vote to leave scenario

- Heightened risk and uncertainty
  - sterling to depreciate by around 20 per cent
  - Intense bout of inflationary pressure
- Tightening of monetary and financial conditions
  - Fall in investment, relative to counterfactual remain scenario
  - Weigh on household incomes and wealth
- GDP will be 0.7-1% lower than remain counterfactual in 2017
- Even as the short-term effects dissipate, the transition to the longer-run part from the shock of leaving the EU weighs on the economy

Long Run Impact: Headline Results

% decrease	Switzerland	WTO	WTO+
GDP	1.9 – 2.3%	2.7 - 3.7%	7.8%
Real wages	3.1 – 3.8%	4.6 – 6.3%	7.0%
Consumption	2.8 – 3.5%	4.0 – 5.4%	9.2%

- All results are % declines compared to the 2030 baseline of remaining in the EU
- Switzerland and WTO focus on trade and FDI effects
- WTO+ adds a 5% productivity drop to WTO-optimistic

Risks to the long-run Brexit forecast

- Upside: might reduce losses in WTO cases
  - Deregulation, gains estimated by Open Europe at £12.8 bn annually
  - Migration, if ‘optimal’ migration policy were achieved

- Downside: might further increase losses
  - Productivity, may be large
  - Scotland, Northern Ireland – debt?
  - Migration – skill shortages, skill mismatches
  - Policy log-jam

Issues

- Why Forecast – NIESR Commentary February 2017
- Explaining Economic Analysis – public understanding
- Explaining Forecasting e.g. GDP will be 0.7-1% lower than remain counterfactual in 2017
  - The conditional versus the unconditional
  - The value of forecast errors
- Championing social science experts to help understand complex processes
- Training the media to question non-expert spokespeople