
Can Britain grow?

Archie Hall – Britain economics correspondent, *The Economist*

Does Britain have a growth problem?

Across the political spectrum, lots of people are worried.

“The central challenge is our growth performance”

– Rachel Reeves, 2024



“I have three priorities for our economy: growth, growth and growth.”

– Liz Truss, 2022

References to Economic Growth in Parliament
(12 month moving avg, Jan 2020=100)



Source: Hansard, Author's Calculations

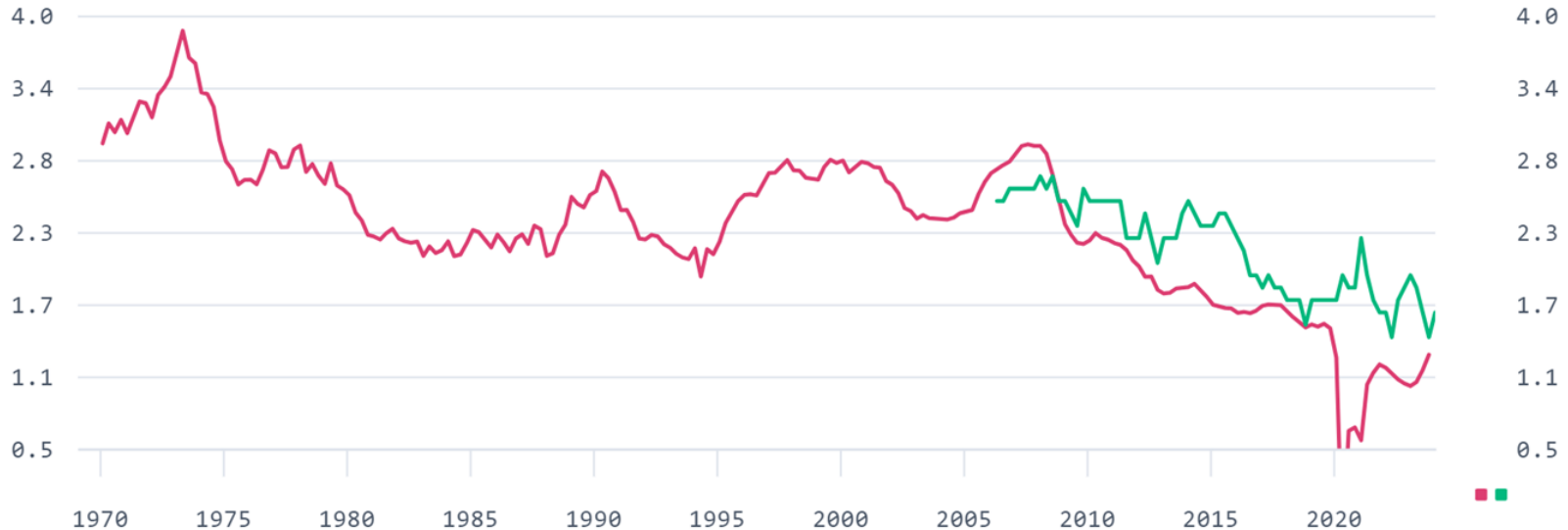
Does Britain have a growth problem?

Compared to Britain's own history, growth has definitely sagged ...

Long-Run British Growth

■ 15-year GDP Growth (Annualised)

■ BoE External Forecasters Survey: Rolling 3Yr Ahead Growth Forecast

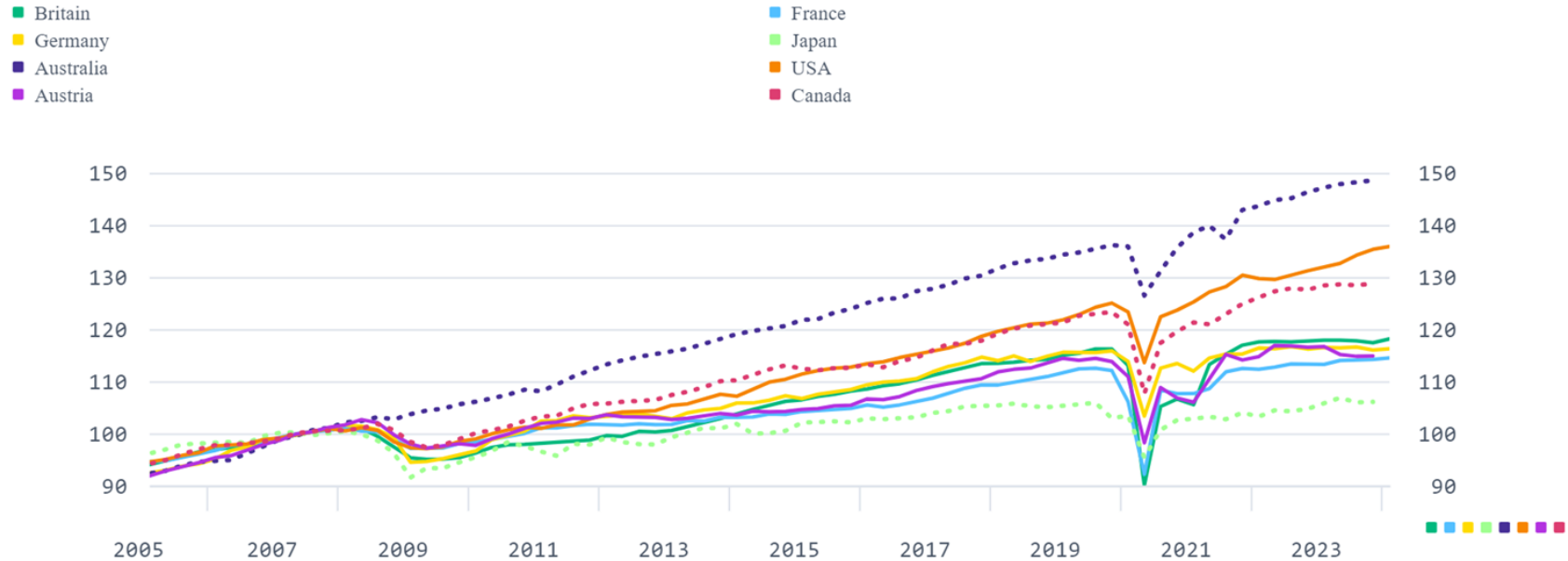


Source: Office for National Statistics

Does Britain have a growth problem?

... compared to peer economies, the record is mixed. Especially recently.

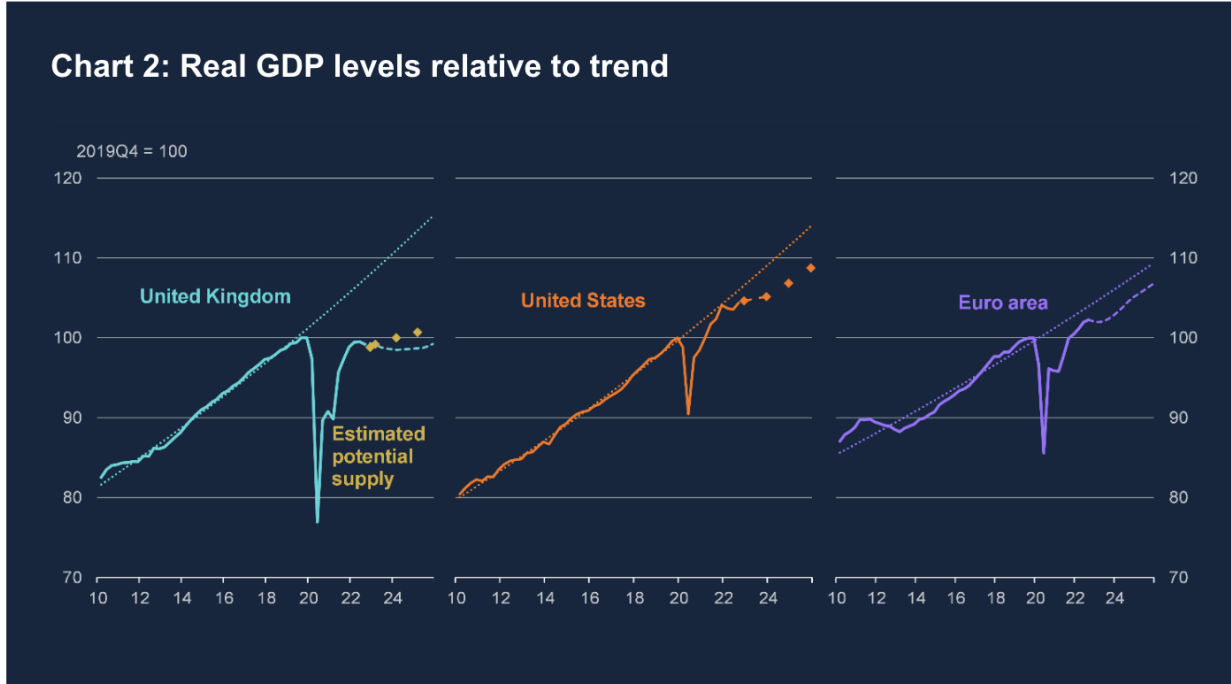
GDP Levels Since the Financial Crisis (2007 = 100)



Source: Office for National Statistics

Does Britain have a growth problem?

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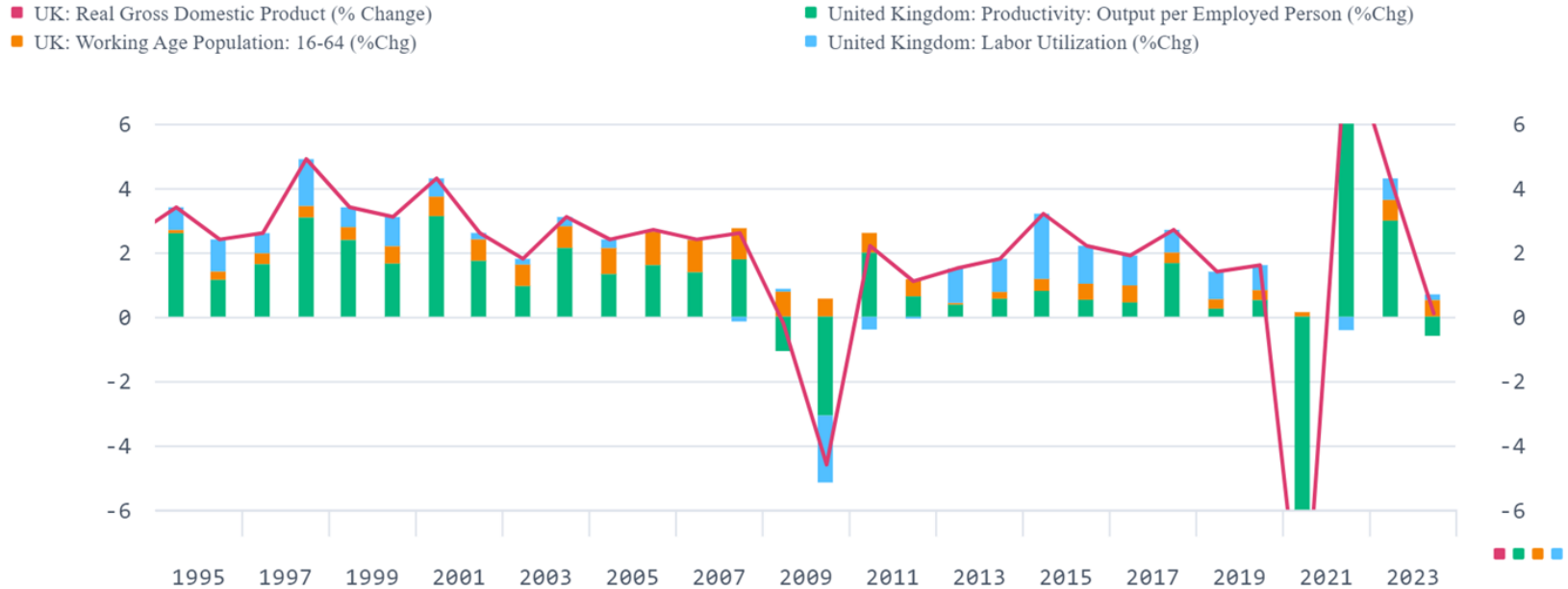
Source: Bank of England, ONS, Board of Governors of the Federal Reserve System, US Bureau of Economic Analysis, Eurostat, European Central Bank and Bank calculations.



So what's gone wrong?

Tepid productivity growth

Britain: GDP Growth Attribution



Source: Office for National Statistics

Weak investment

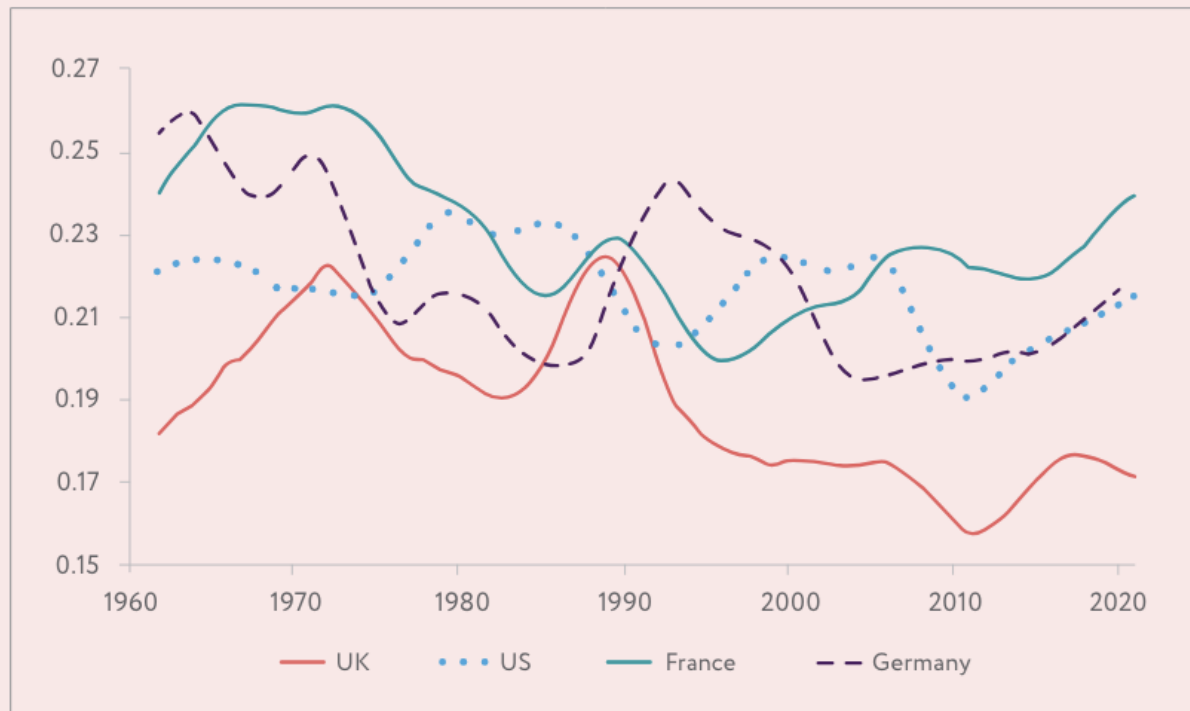


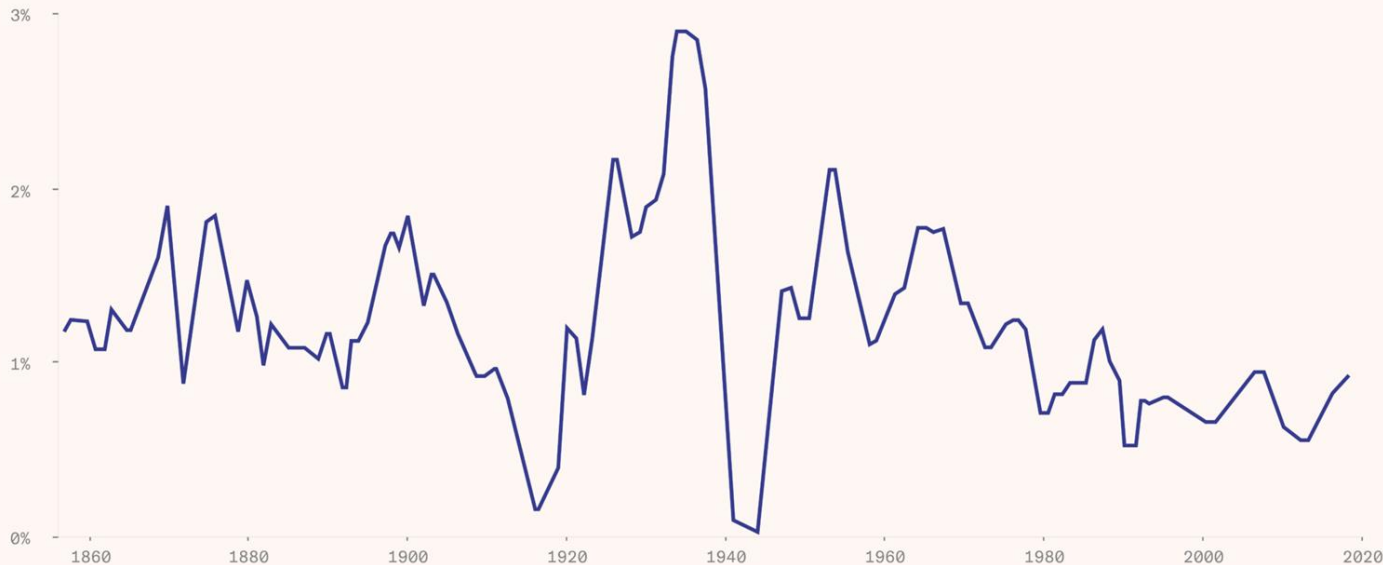
Figure 2: International comparison of investment as a percentage share of GDP (1960-2021)

Source: Chadha and Samiri (2022)

Housing crisis

Building rates in England and Wales

Net housing additions as a share of existing stock



[source: Data taken from Watling and Breach (2023) based on Holmans (2004)]

Made by: Francesca Mauri, Sara Ferrini



Housing crisis

House prices as a multiple of average earnings



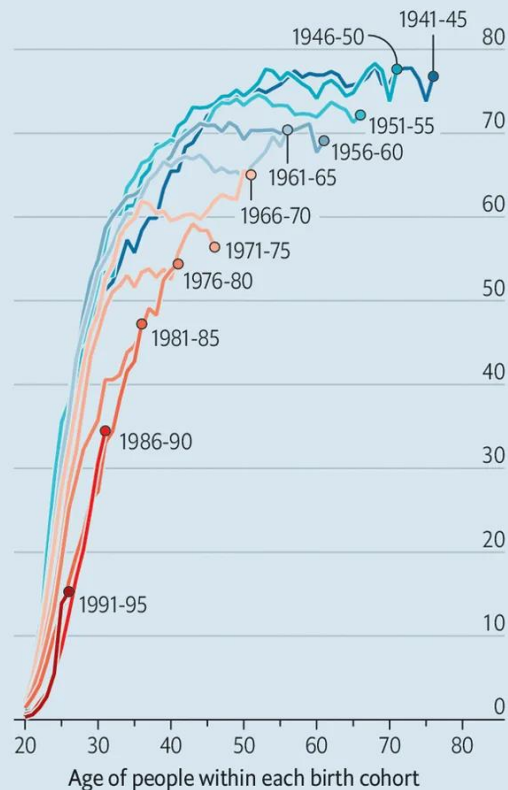
November 2022:
Average house price £294,559
Average earnings £32,278

Note: All data is based on calendar year averages apart from most recent, which is as at 30 November 2022.
Source: Bank of England, Land Registry, Office for National Statistics, and Schroders. 607178

Schroders

Rung out

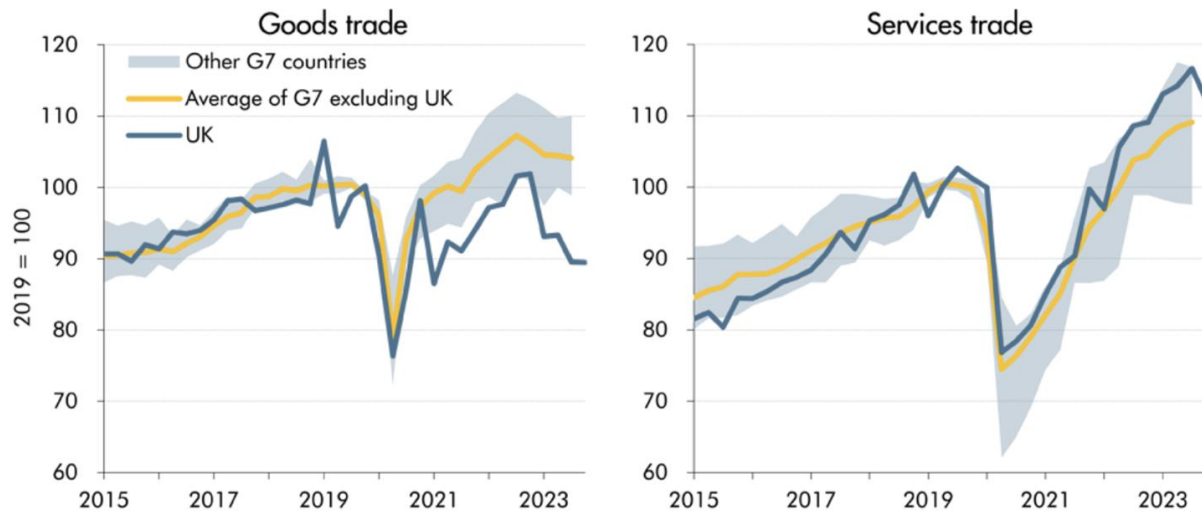
England, home ownership* by birth cohort, %



Source: Resolution Foundation *By household reference person

Brexit

Chart G: Goods and services trade in the UK and rest of the G7



Note: G7 data is only available to the third quarter of 2023.

Source: Office for Budget Responsibility, OECD

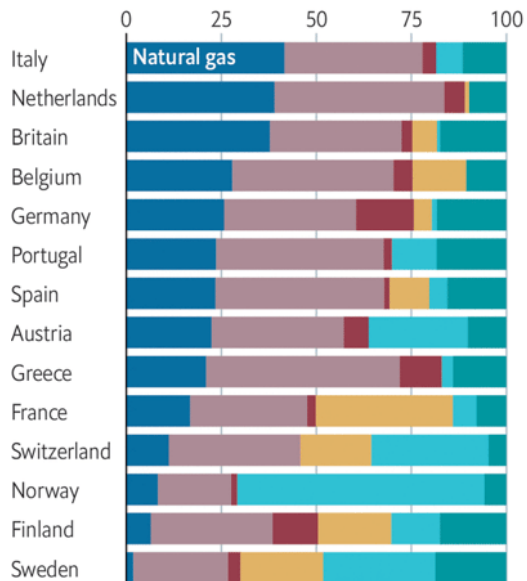
2022-3 energy shock

A volatile mix

Europe, energy consumption, by fuel type

Selected countries, % of total

Oil Coal Nuclear Hydro Renewables



Source: BP

The Economist

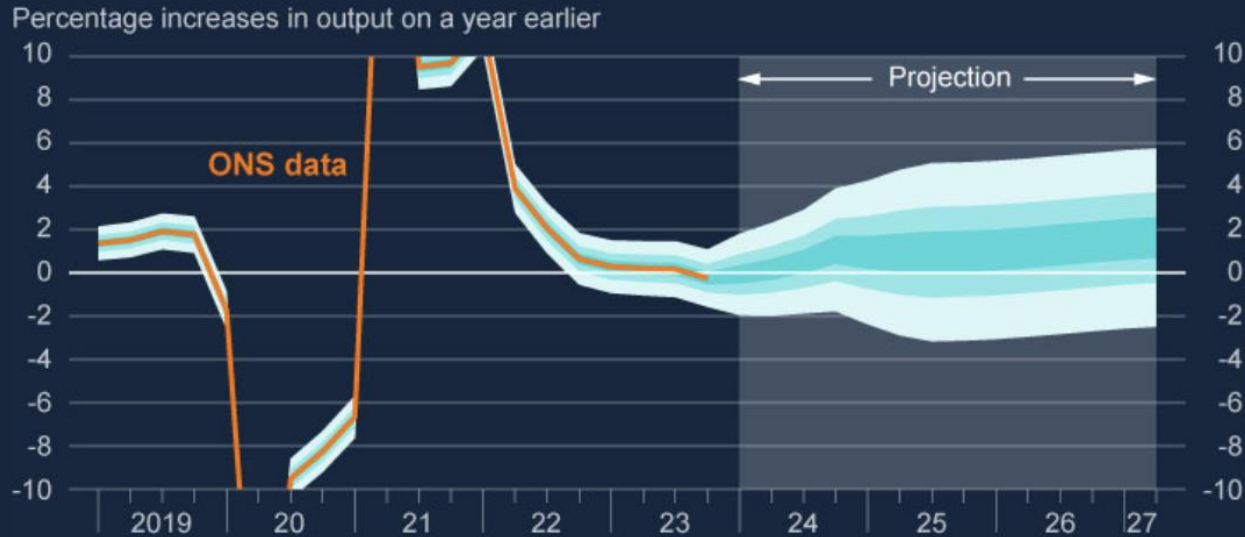
Natural Gas EU Dutch TTF (EUR/MWh) 29.670 -0.191 (-0.64%)



Source: TradingEconomics

What's coming next?

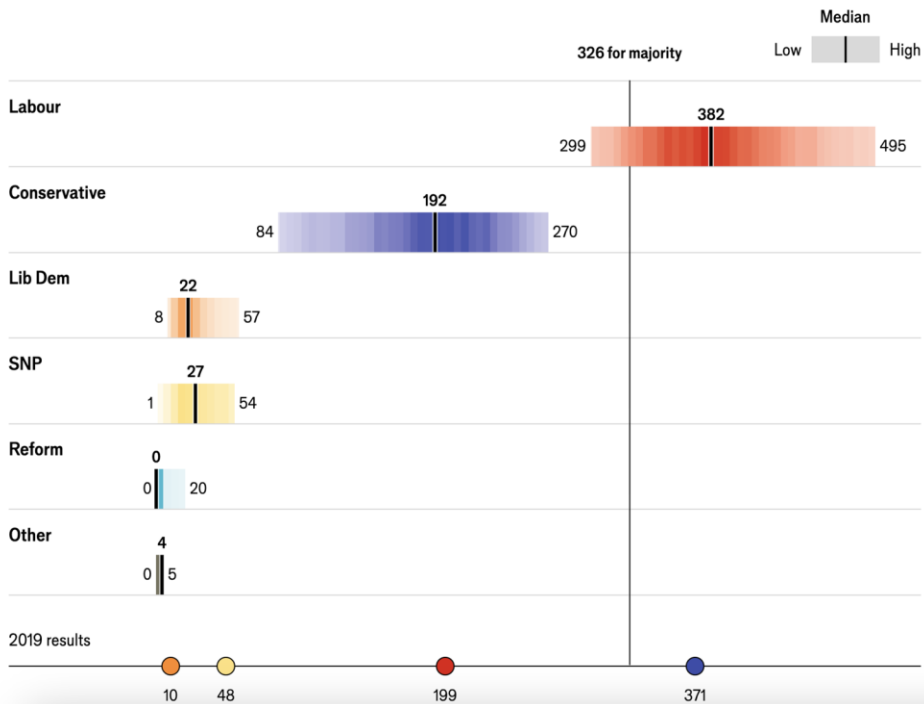
Chart 1.2: GDP growth projection based on market interest rate expectations, other policy measures as announced



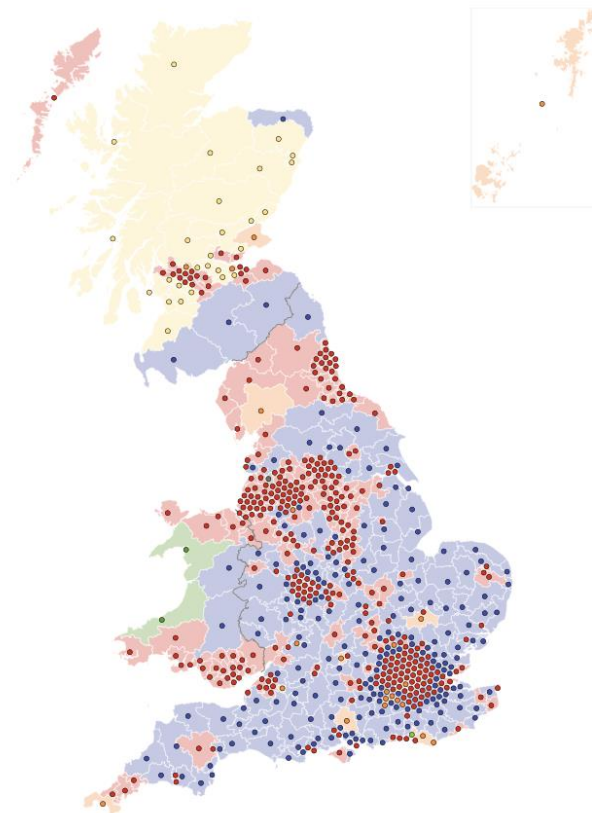
What's coming next?

Seat predictions

632 seats in Great Britain



Source: The Economist



The case for optimism

- The past five years have seen three huge one-off growth shocks for the UK: Covid, withdrawal from the EU, big rise in natural gas prices.
- **So it shouldn't be too surprising that growth hasn't been great** – that doesn't mean it can't pick up from here.
- There are also some **potential tailwinds**: political stability, easing monetary policy, lower natural gas prices, Labour's pledge to kickstart homebuilding, AI, turning public opinion on Brexit

The case for caution

- But: the **big question of why British productivity growth has been so poor is still mostly unanswered.**
- The **demographic situation is getting more challenging.** An ageing population will drive down labour participation and put pressure on public services. The rise in economic inactivity since Covid is especially troubling.
- **Labour has been tight-lipped about the details of its plans**– will it manage to deliver big reforms (especially on planning and the EU relationship) if it wins the next election?



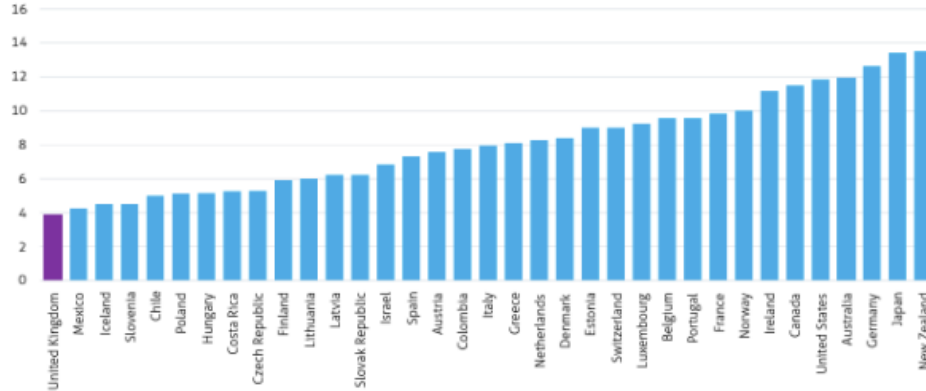
Thank you



Appendix

Political turmoil

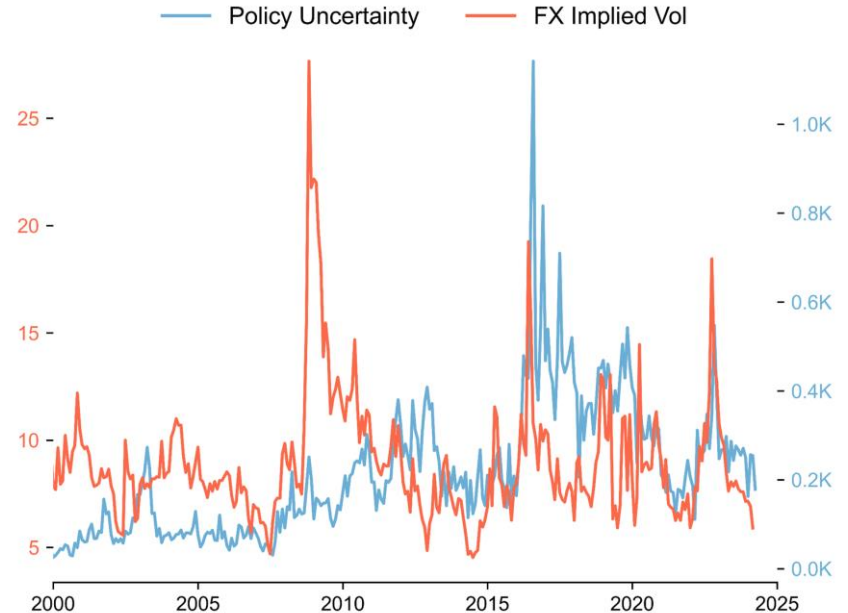
Figure 1 Average lifespan of fiscal rules in different countries (years)



Source: Institute for Government analysis of International Monetary Fund, Fiscal Rules Dataset 1985–2021. Analysis was performed on all OECD member countries for which data is available.

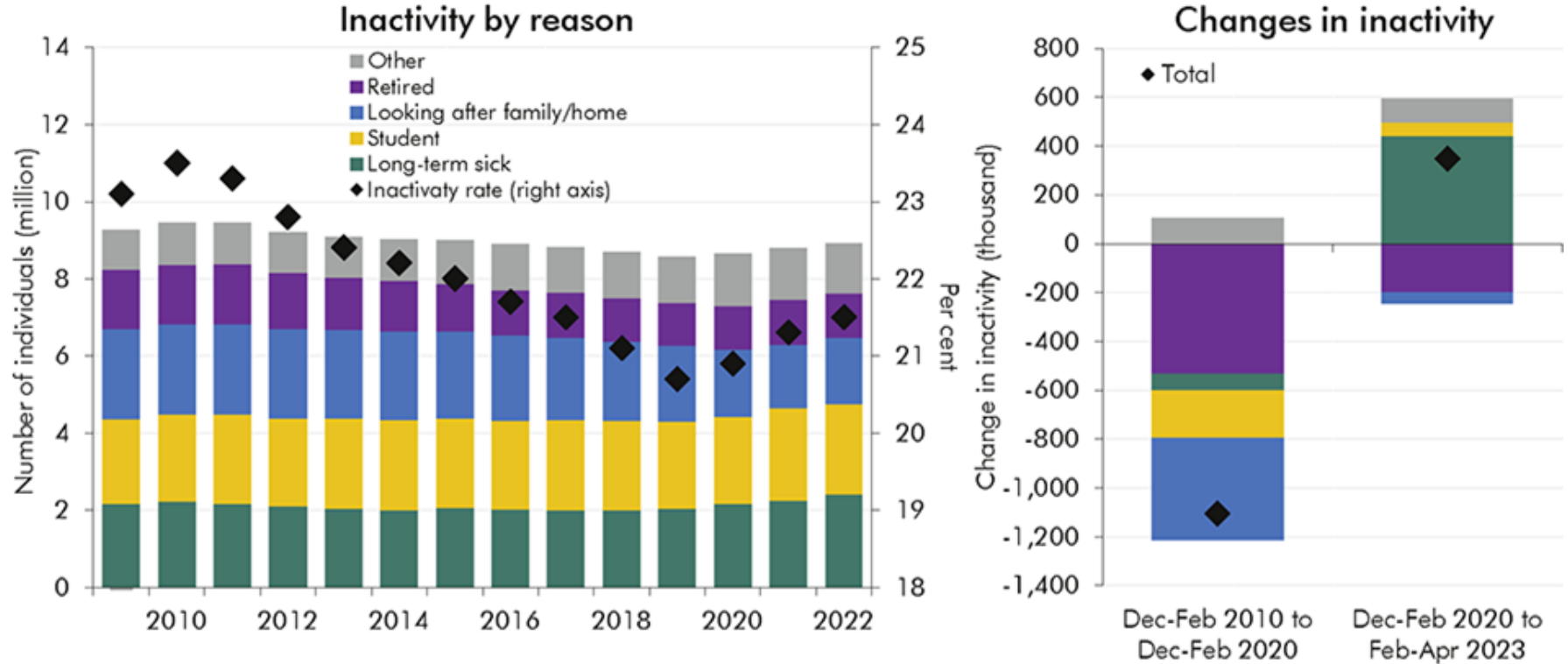
Electoral volatility

Britain, policy uncertainty vs GBP/USD implied volatility



Source: Bloomberg, Haver Analytics, Author's Calculations

Rise in economic inactivity since covid

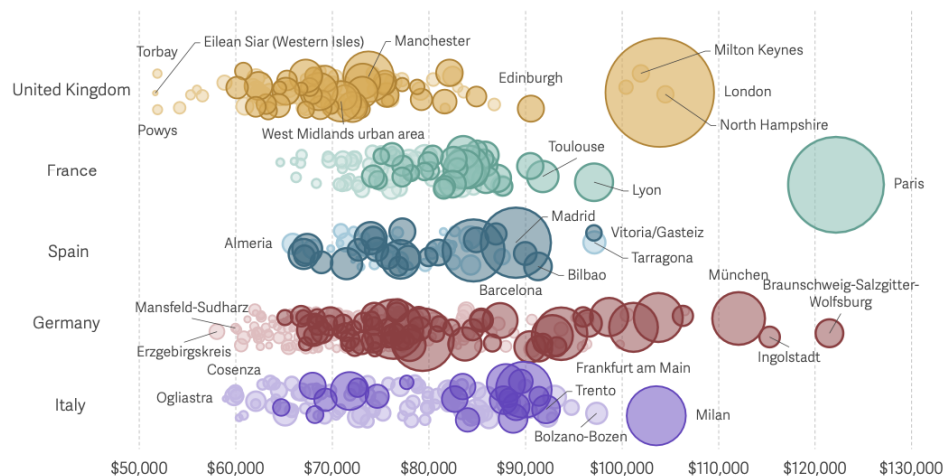


Source: ONS, OBR

Regional disparities

Figure 33: The UK's large cities are further behind the capital than in France

Gross value added (GVA) per worker by country and area: 2018



Notes: PPP adjusted. Spatial units are a combination of OECD metro regions and NUTS3 for non-metro regions. Metro areas are shown in darker bubbles in the figure. Bubbles are proportional to the number of workers in each region. Gross value added (GVA) is the value of a unit's outputs less the value of inputs used in the production process to produce the outputs.

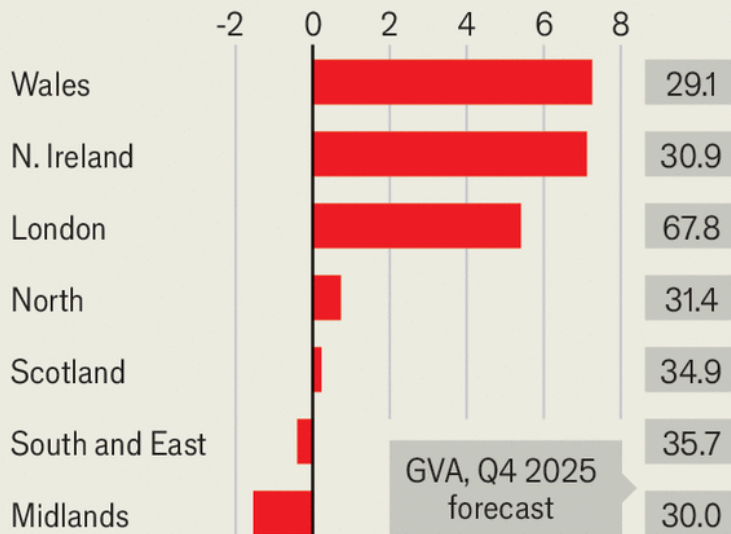
Source: Resolution Foundation, OECD

Regional disparities

Capital rules

1

Britain, GVA per hour worked,
% change Q4 2019-Q4 2025



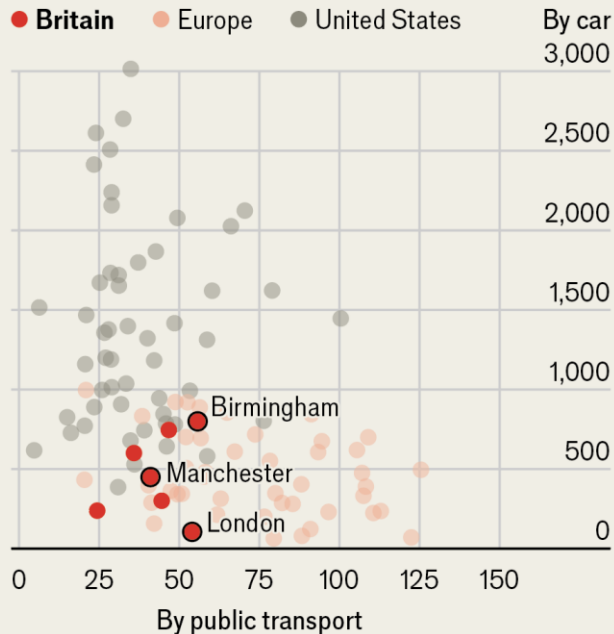
Sources: NIESR; *The Economist*

The Economist

Delays, trains and automobiles

3

Area accessible from city centre within
30 minutes at rush hour, 2022, sq km
Selected cities



Sources: "Tackling the UK's regional economic inequality",
by A. Stansbury et al., 2023; "More roads or public transit?
Insights from measuring city-centre accessibility",
by L.J. Conwell et al., NBER working paper, 2023

Monetary policy

Chart 2.7: Policy rate expectations have risen across many advanced economies since the February Report

Policy rates and forward curves for the US, euro area and UK ^(a)

