

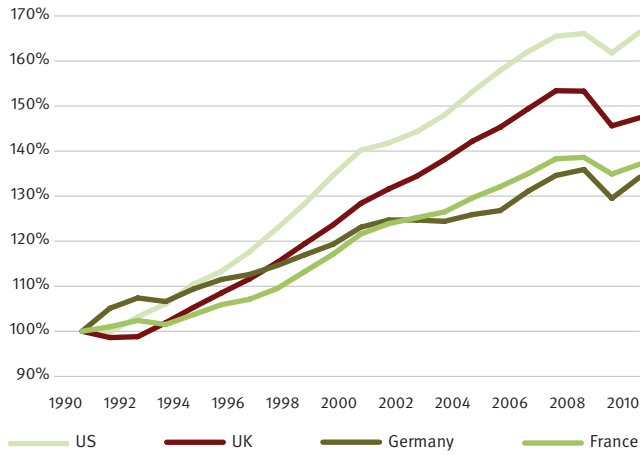


A vision for rebalancing the economy

CHART BOOK

The UK is a consumption-dominated economy

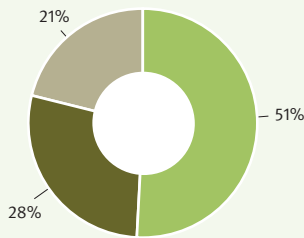
1.1 The UK economy has performed comparatively well in terms of pre-capita GDP growth since 1990



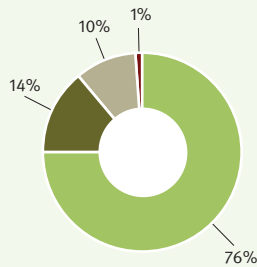
GDP per capita relative to 1990

1.2 But through time, per-capita growth has slowed and become more dominated by consumption

1970-79 Average growth: 2.3%



1979-97 Average growth: 2%



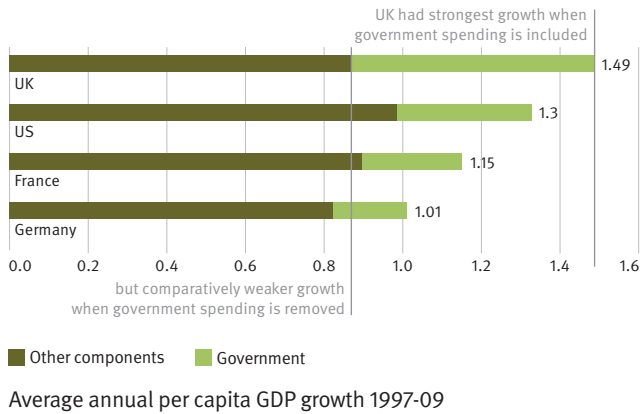
1997-2009 Average growth: 1.5%



Household consumption Government consumption Investment Net trade

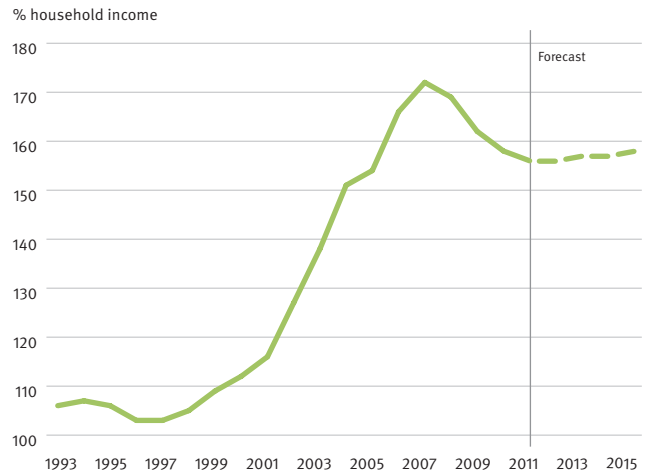
Average annual GDP per capita growth 1997-09

1.3 In particular, the outperformance of UK per-capita GDP growth was entirely due to greater government spending



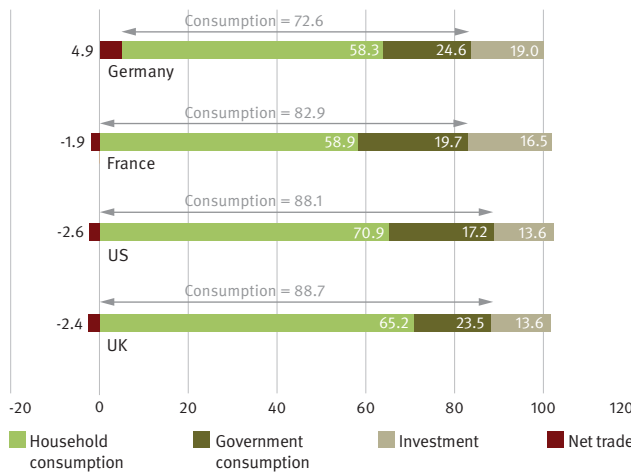
Average annual per capita GDP growth 1997-09

1.5 Growth in household consumption relied on ever-increasing levels of household debt relative to income



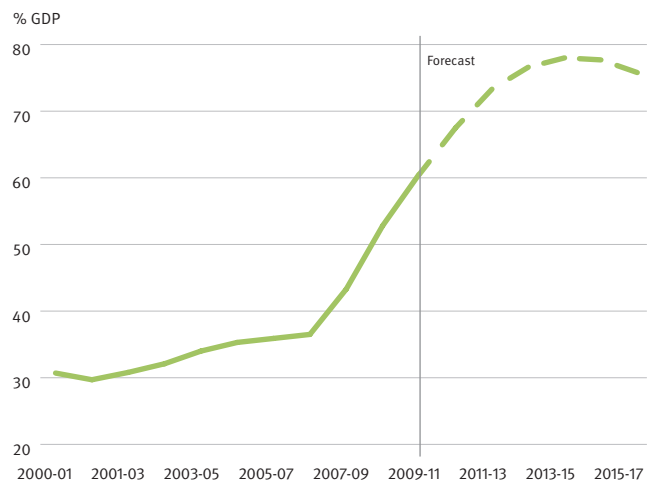
Household income to debt ratio 1993-2015

1.4 By 2009, consumption accounted for 89% of the UK economy – more than the US, France or Germany



Composition of GDP by component, 2009

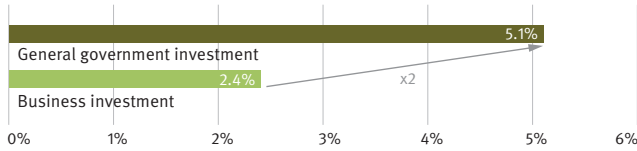
1.6 And a rapid expansion in government spending, coupled with the recession, led to rising government debt



Public sector debt (excluding financial interventions) % GDP 2000-01 – 2015-16

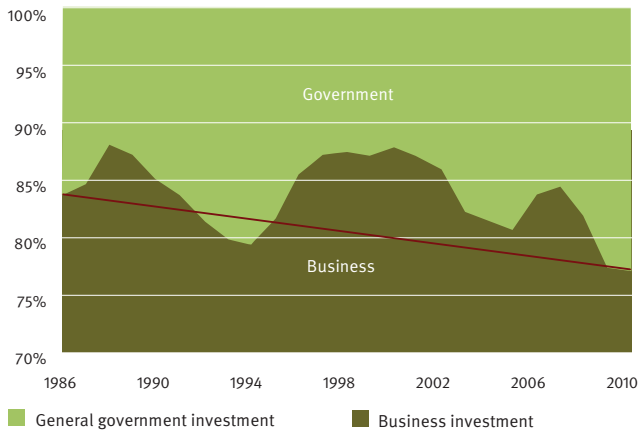
Business investment has been relatively weak

2.1 Government investment has grown twice as quickly as business investment in the last 20 years



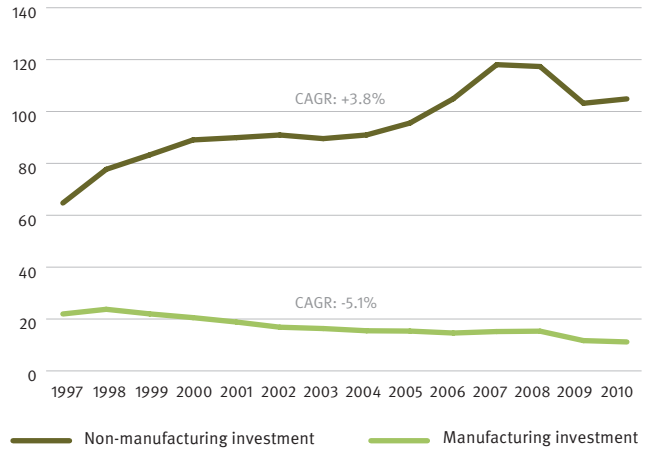
Business and government investment, compound annual growth rate (CAGR) 1990-2010

2.2 The share of UK investment coming from government has grown accordingly, from 17% in 1986 to 23% in 2010



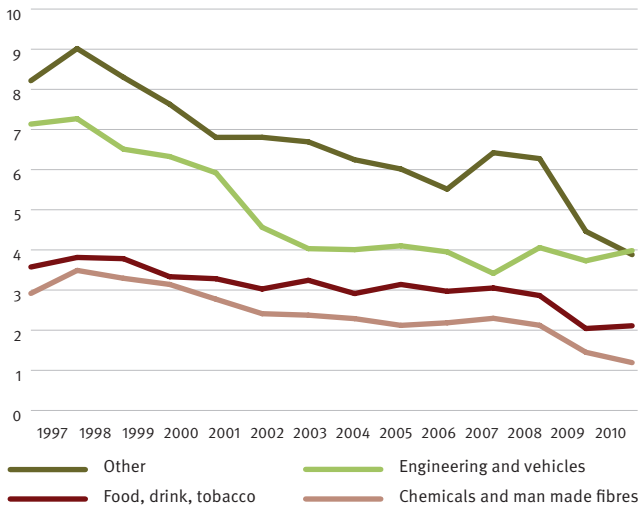
Investment 1986-2010, % of total investment

2.3 Non-manufacturing investment has grown well, while manufacturing investment has been in decline



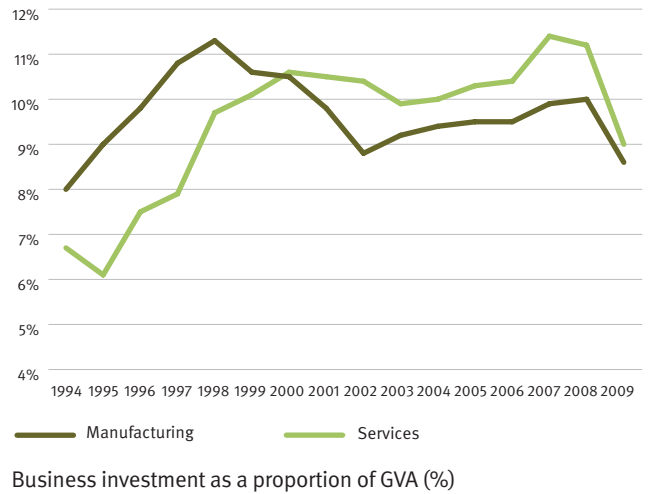
Business investment 1994-2010, real 2008 prices (£bn)

2.4 Investment has declined across the manufacturing sector



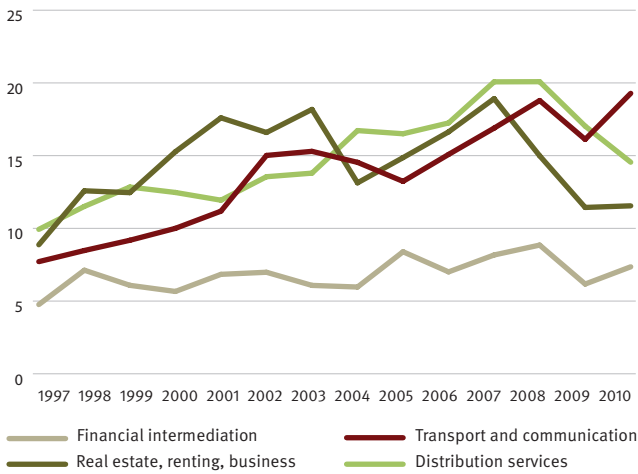
Private sector manufacturing investment by type, 1997-2010, real 2008 prices (£bn)

2.6 Since 2000, UK services have been more investment intensive than manufacturing



Business investment as a proportion of GVA (%)

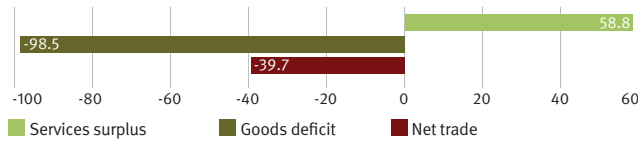
2.5 Distribution services and transport and communication services have driven investment growth in services



Private sector services investment 1994-2010, real 2008 prices (£bn)

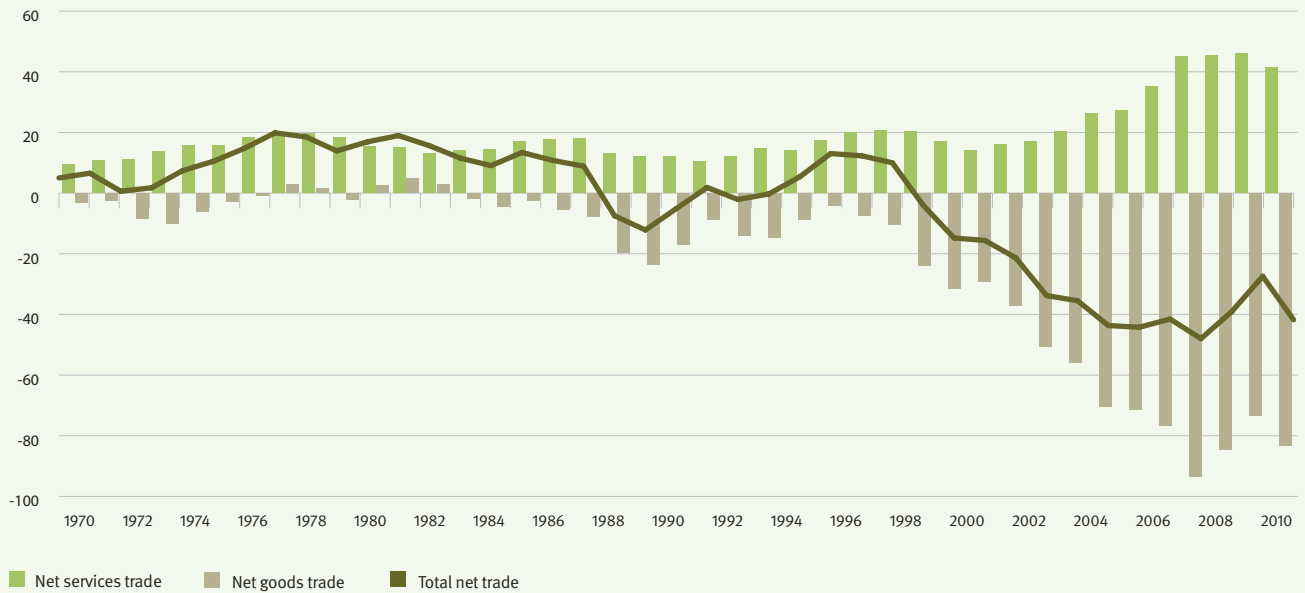
The UK's services trade surplus is outweighed by its goods deficit

3.1 UK imports exceeded exports by £39.7bn in 2010 due to a goods deficit that outweighed a services surplus



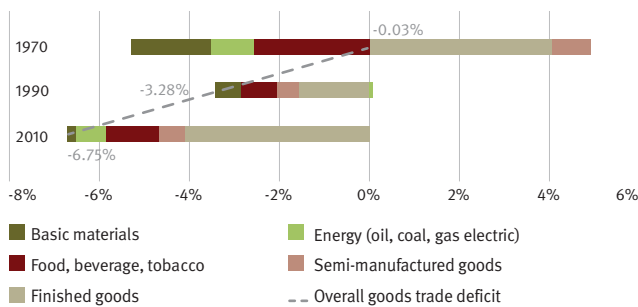
UK services, goods and net trade position (2010, £bn)

3.2 The polarisation of UK trade between goods and services has grown, as the net trade position has deteriorated



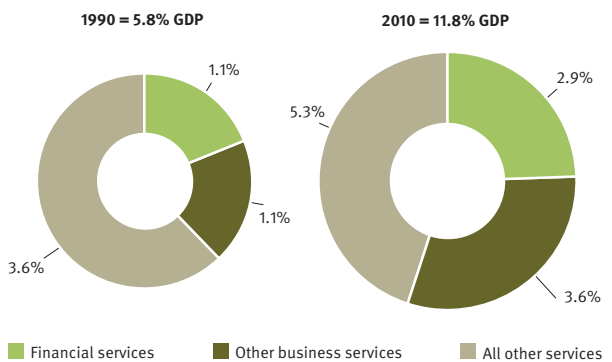
Goods, services and net trade balances 1970-2010 (£bn, real 2008 prices)

3.3 The UK's growing trade deficit in goods has been driven by a deteriorating finished goods balance. The UK was a net importer of all types of goods in 2010



Balance of trade in goods by subsector, % GDP, 1970, 1990, 2010

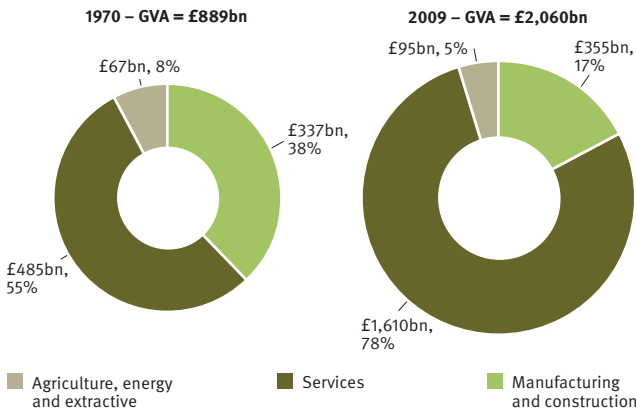
3.4 Exports in financial services and other business services (including the professional services) have grown quicker than overall services exports since 1991



Services exports 1991 and 2009, % GDP

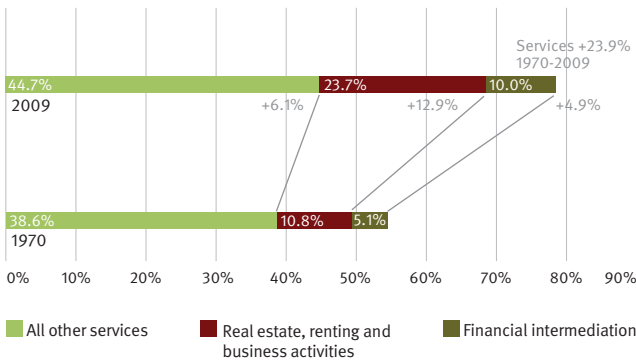
Services have driven UK growth

4.1 Services now account for 78% of UK output, up from 55% in 1970



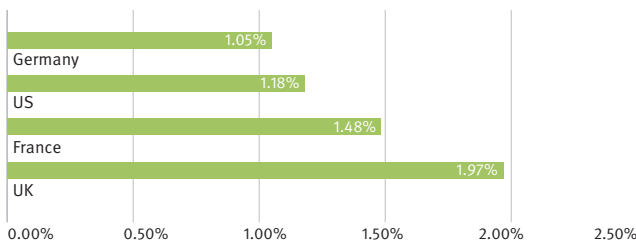
UK GVA by sector, £bn, real 2006 prices

4.2 Services grew as a proportion of the economy, driven by real estate, professional and financial services



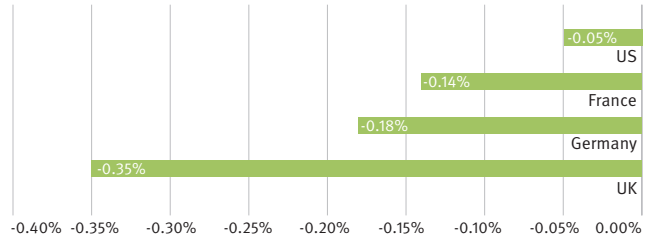
Services GVA, 1970 and 2009, % total GVA

4.3 Services growth in the UK has boosted overall growth to a greater extent than in France, the US or Germany



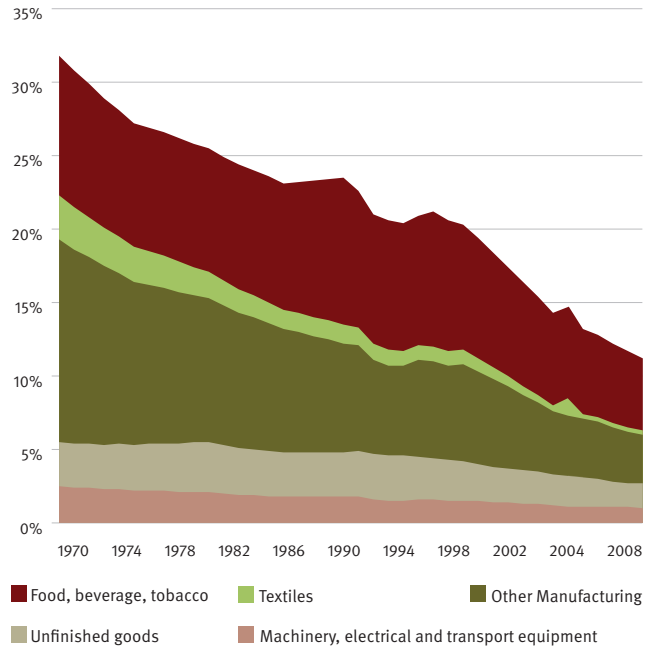
Average services contribution to per-capita GDP growth, 1997-09, %

4.4 Manufacturing decline has acted as a much bigger drag on growth in the UK than in the US, France or Germany



Average manufacturing contribution to per-capita GDP growth, 1997-2009, %

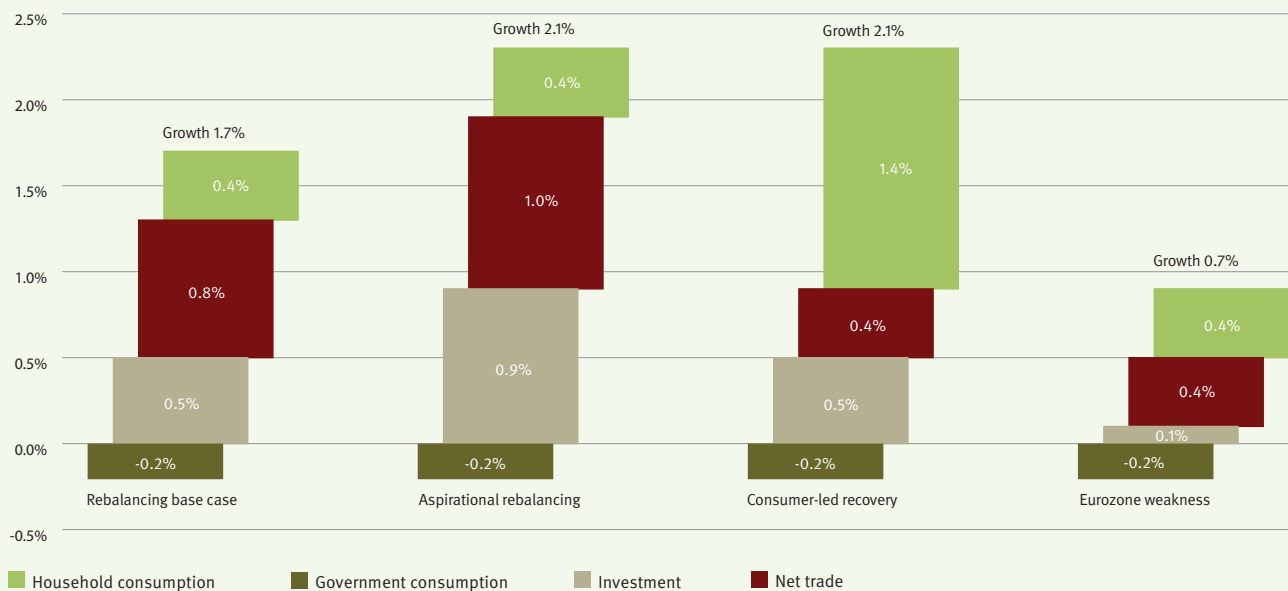
4.5 Decline in manufacturing relative to the whole economy occurred across all sectors



Manufacturing GVA, % total GVA, 1970-2009

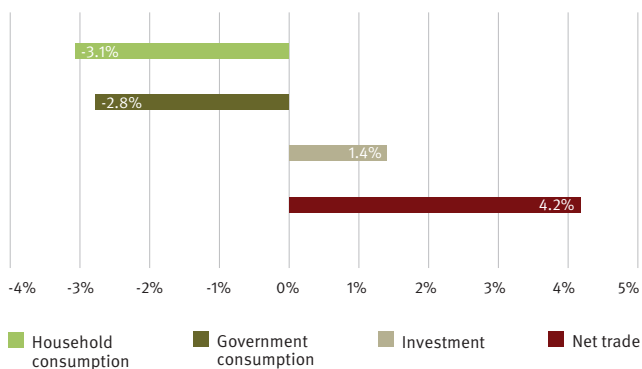
Rebalancing growth scenarios

5.1 Rebalancing requires investment and net trade to drive growth, with a weaker contribution from consumer spending



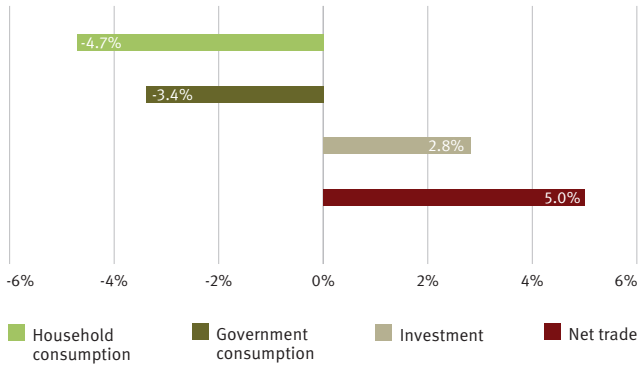
Annual average GDP growth by component under each scenario, 2010-2015. GDP component contributions are rounded to 1 decimal place and may not sum to GDP growth.

5.2 Growth is driven by investment and net trade, which increase in size as proportions of GDP



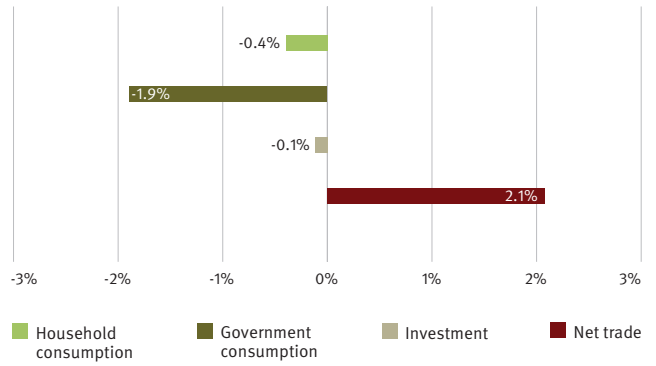
Rebalancing base case change in components as a % of GDP 2010-15

5.3 A stronger rebalancing effect occurs as investment and net trade grow at historically strong rates



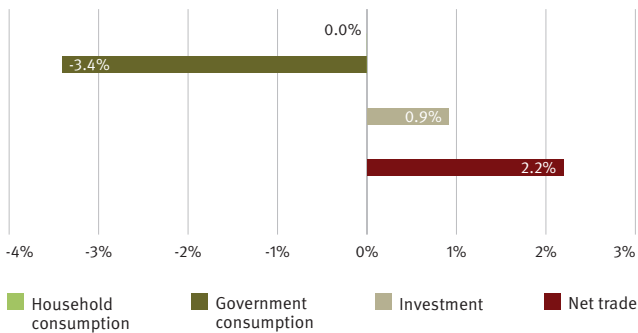
Aspirational rebalancing case change in components as a % of GDP 2010-15

5.5 Eurozone weakness reduces exports growth, leading to below-trend GDP growth, but still some rebalancing



Eurozone weakness scenario change in components as a % of GDP 2010-15

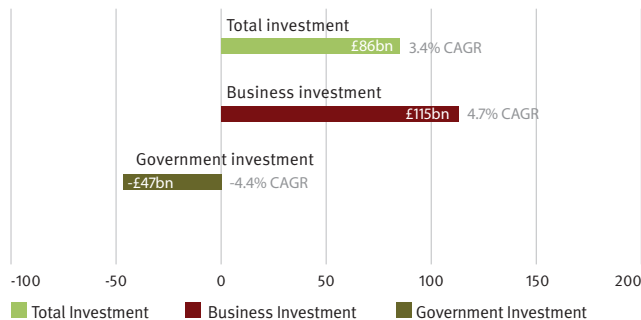
5.4 Stronger household consumption means it remains stable as a proportion of GDP, leaving only partial rebalancing



Consumer-led recovery change in components as a % of GDP 2010-15

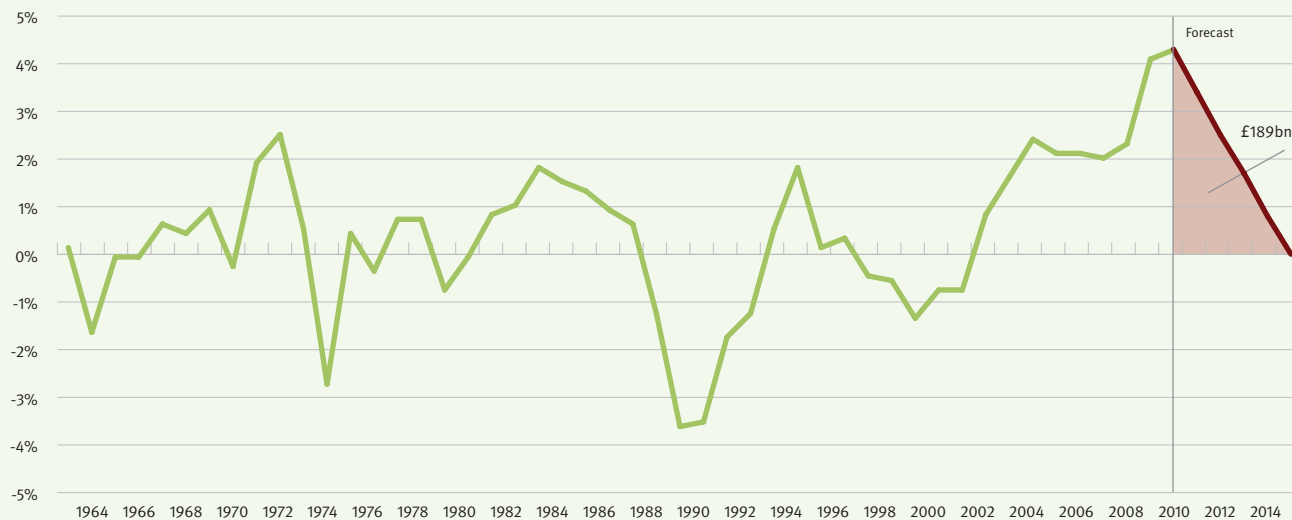
The investment supply and demand conditions are promising

6.1 £86bn of investment growth is required by 2015, with £115bn of private sector investment needed



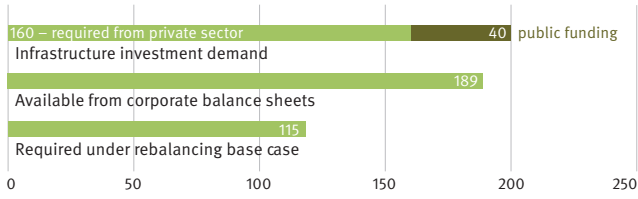
Required cumulative growth in investment under rebalancing base case 2010-2015, £bn, and CAGR, %

6.2 Reducing growth of corporate balance sheets to 0 by 2015 would release up to £189bn of investment



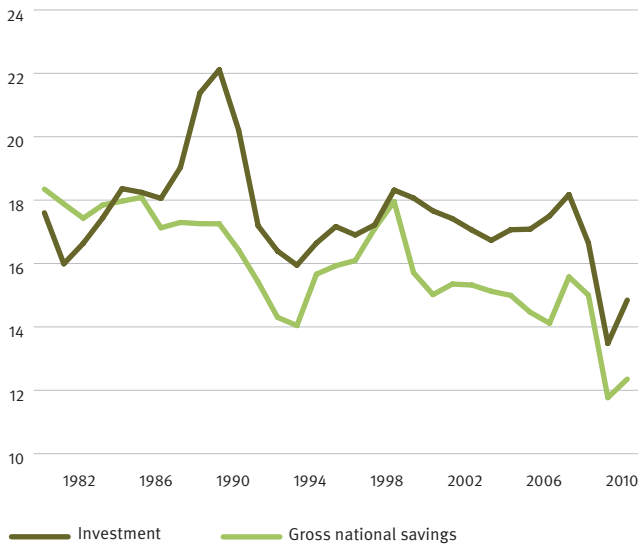
Non-financial corporations net financial flows 1985-2015 (% GDP)

6.3 The demand for private infrastructure investment matches the potential supply



Infrastructure investment required to meet demand, 2010-2015

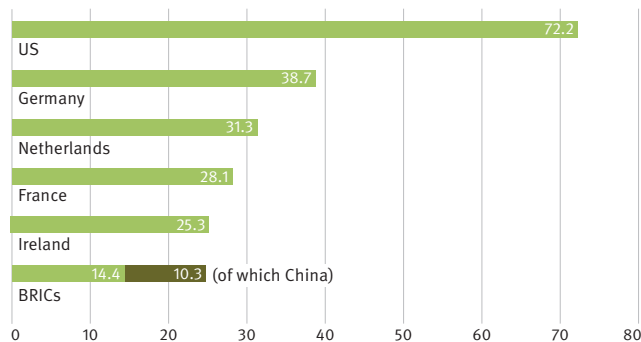
6.4 However, investment growth is limited by savings, which have declined significantly since 1980



UK investment and savings, 1980-2010 (% GDP)

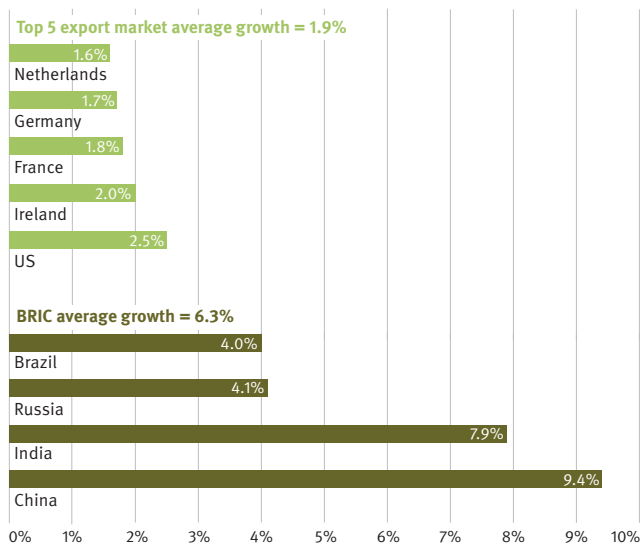
Exports must re-orientate towards high-growth economies

7.1 The UK exports less to the BRICs than to countries like Ireland and France



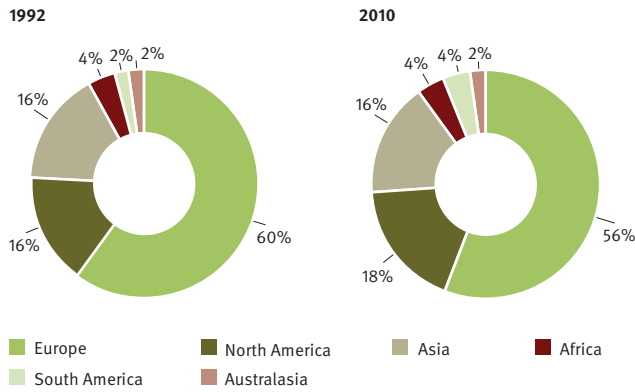
UK exports to top five destinations and BRICs, 2009 (£bn)

7.2 As a result, the UK's exports are not focused on the high-growth economies of the next five years



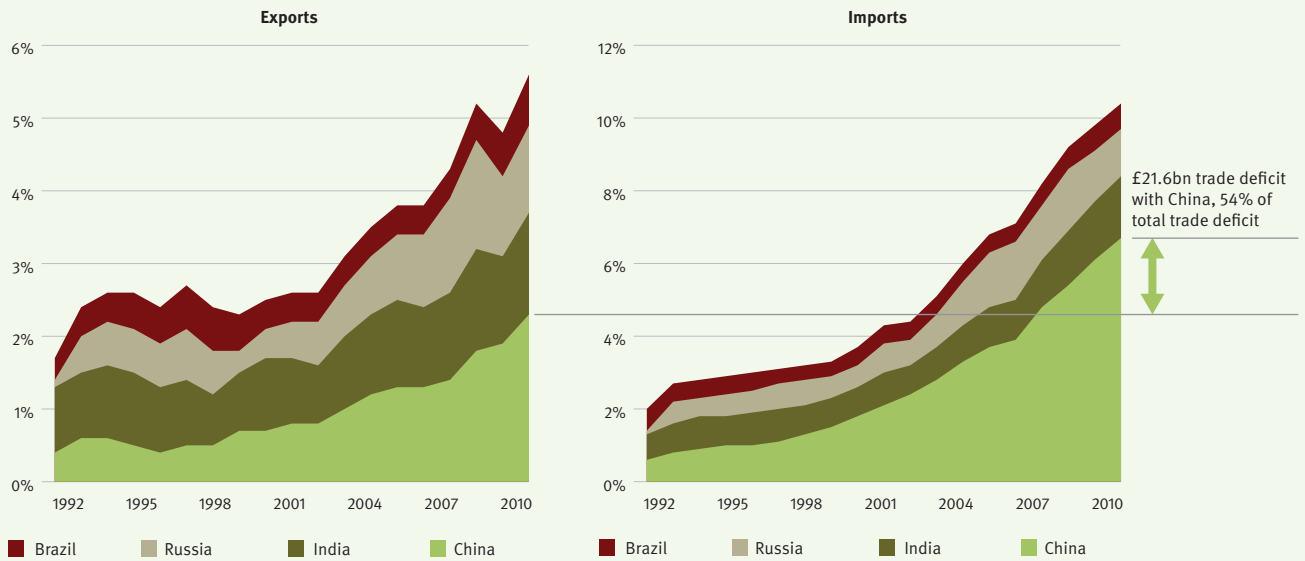
2010-2015 annual GDP growth in UK export markets

7.3 Despite significant changes in the world economy, there has been little change in the destination of UK exports



UK exports by destination, 1992 and 2009, % of total exports

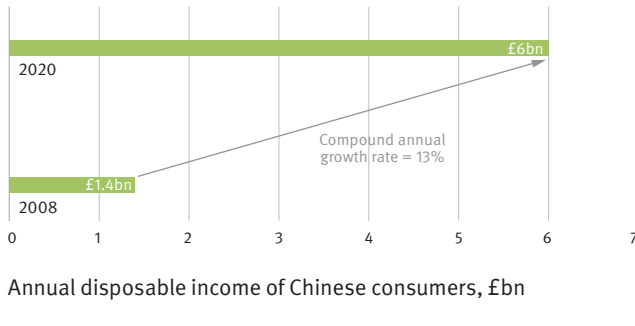
7.4 BRIC exports have grown steadily, but have been outpaced by rapid growth in imports, particularly from China



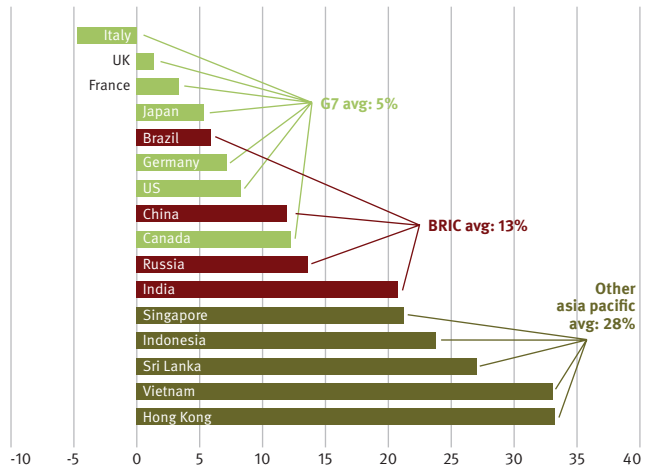
UK trade with BRICs, 1992-2010 (% total exports/imports)

Emerging market growth, urbanisation and digitalisation

8.1 The disposable income of consumers in high-growth countries like China is set to expand rapidly

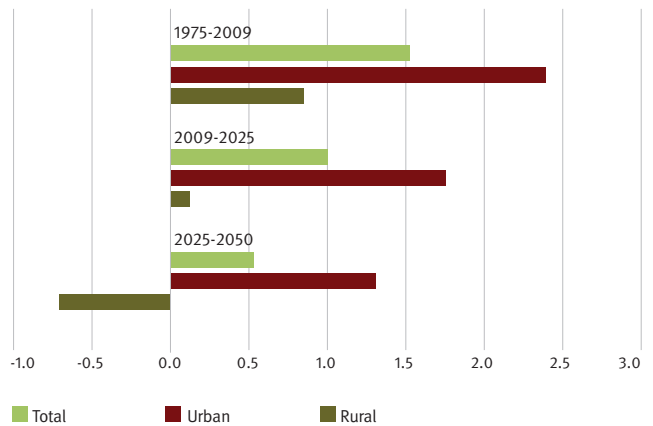


8.2 The world's high net worth population is growing fastest in the BRIC and Asia-pacific countries



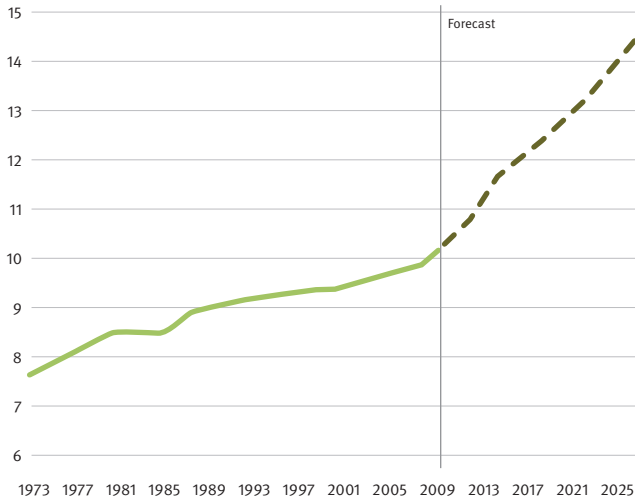
Growth in number of high net worth individuals, 2009-10

8.3 The world population will continue to urbanise until 2050, and begin to de-ruralise from 2025



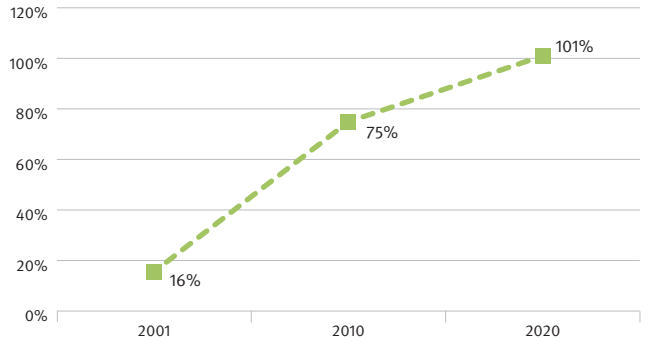
World population growth, annual average % change

8.4 Meanwhile, the size of the UK over-65 population will grow at an unprecedented rate



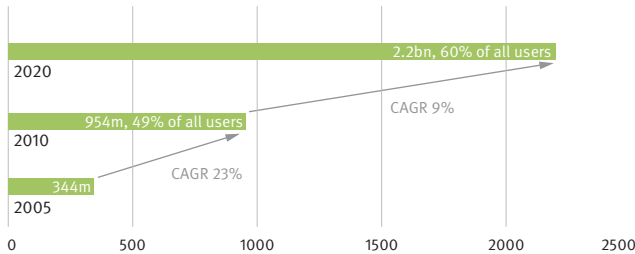
UK population aged 65 and over, 1980-2026

8.6 By 2020, there will be more than one mobile phone subscription per person on the planet, 2010 and 2020 (m)



Global mobile phone penetration (number of subscriptions as a proportion of global population)

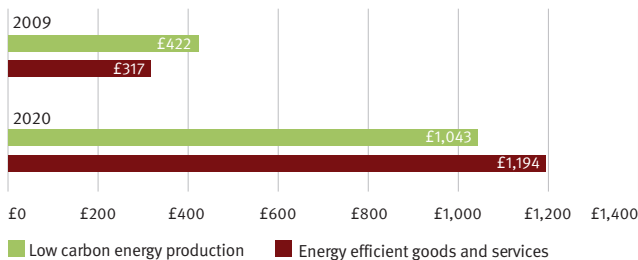
8.5 Growth of internet users will redistribute the proportion of users towards emerging market economies



Number of internet users in 25 emerging market economies, 2005, 2010 and 2020 (m)

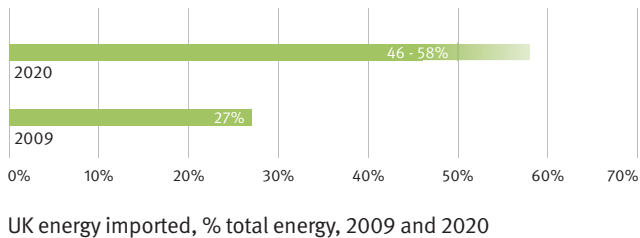
Resource constraints will grow, but the UK is well placed to survive

9.1 Opportunity: the value of markets associated with climate change is set to soar in the coming decade



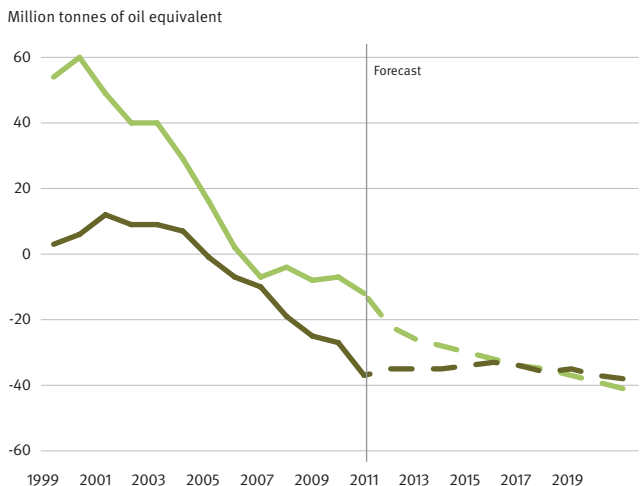
Global value of low carbon energy production and energy efficient goods and services, 2009 and 2020 (£m)

9.2 Challenge: by 2020, the UK will import around half of its energy – double the proportion imported in 2009



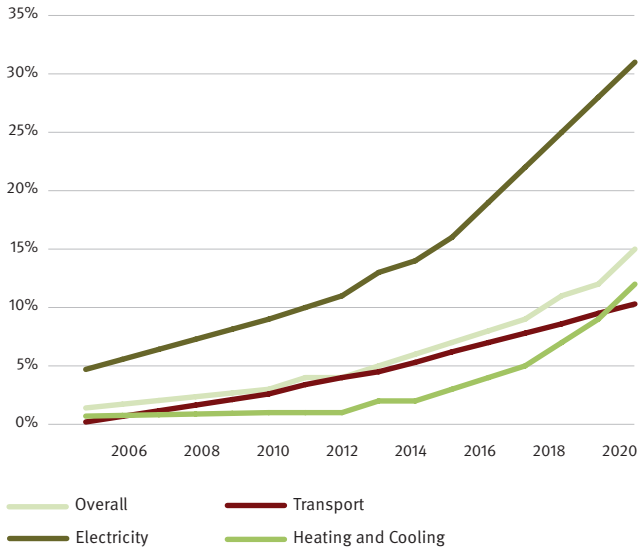
UK energy imported, % total energy, 2009 and 2020

9.3 This is largely because the UK is rapidly changing from a net exporter of oil and gas to a net importer



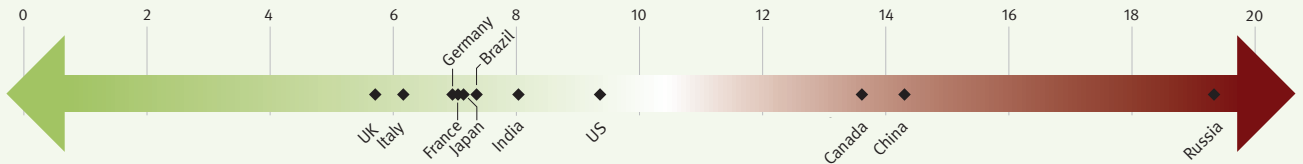
UK net trade in oil and gas, millions of tonnes of oil equivalent, 1998-2020

9.4 However, renewables will become a significant source of energy in the UK by 2020-15%



Proportion of renewable energy used in UK, 2005-2020

9.5 The UK requires less energy to generate GDP than the G7 or BRIC countries – a promising feature of the economy given growing resource pressures and increasing energy prices



Energy intensity of GDP, KBtu per dollar

Sources

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| 1.1 UNCTAD, CBI analysis | 3.1 ONS, CBI analysis | 6.1 CBI analysis |
| 1.2 UNCTAD, CBI analysis | 3.2 ONS, CBI analysis | 6.2 ONS, CBI analysis |
| 1.3 UNCTAD, CBI analysis | 3.3 ONS, CBI analysis | 6.3 HMT, ONS, CBI analysis |
| 1.4 UNCTAD, CBI analysis | 3.4 ONS, CBI analysis | 6.4 OECD |
| 1.5 ONS, OBR, CBI analysis | | |
| 1.6 ONS, OBR, CBI analysis | | |
| | 4.1 ONS, CBI analysis | 7.1 ONS, CBI analysis |
| | 4.2 ONS, CBI analysis | 7.2 IMF World Economic Outlook, CBI analysis |
| 2.1 ONS, CBI analysis | 4.3 UNCTAD, CBI analysis | 7.3 ONS, CBI analysis |
| 2.2 ONS, CBI analysis | 4.4 UNCTAD, CBI analysis | 7.4 ONS, CBI analysis |
| 2.3 ONS, CBI analysis | 4.5 ONS, CBI analysis | |
| 2.4 ONS, CBI analysis | | 8.1 Euromonitor International |
| 2.5 ONS, CBI analysis | 5.1 CBI analysis | 8.2 Capgemini/Merrill Lynch World Wealth Report 2011 |
| 2.6 ONS, CBI analysis | 5.2 CBI analysis | 8.3 UN |
| | 5.3 CBI analysis | 8.4 UN |
| | 5.4 CBI analysis | 8.5 Euromonitor International |
| | 5.5 CBI analysis | 8.6 Euromonitor International |
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| | | 9.1 HSBC |
| | | 9.2 DECC Annual Energy Statement 2010 |
| | | 9.3 DECC, CBI analysis |
| | | 9.4 DECC |
| | | 9.5 US Energy Information Administration, CBI analysis |



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