

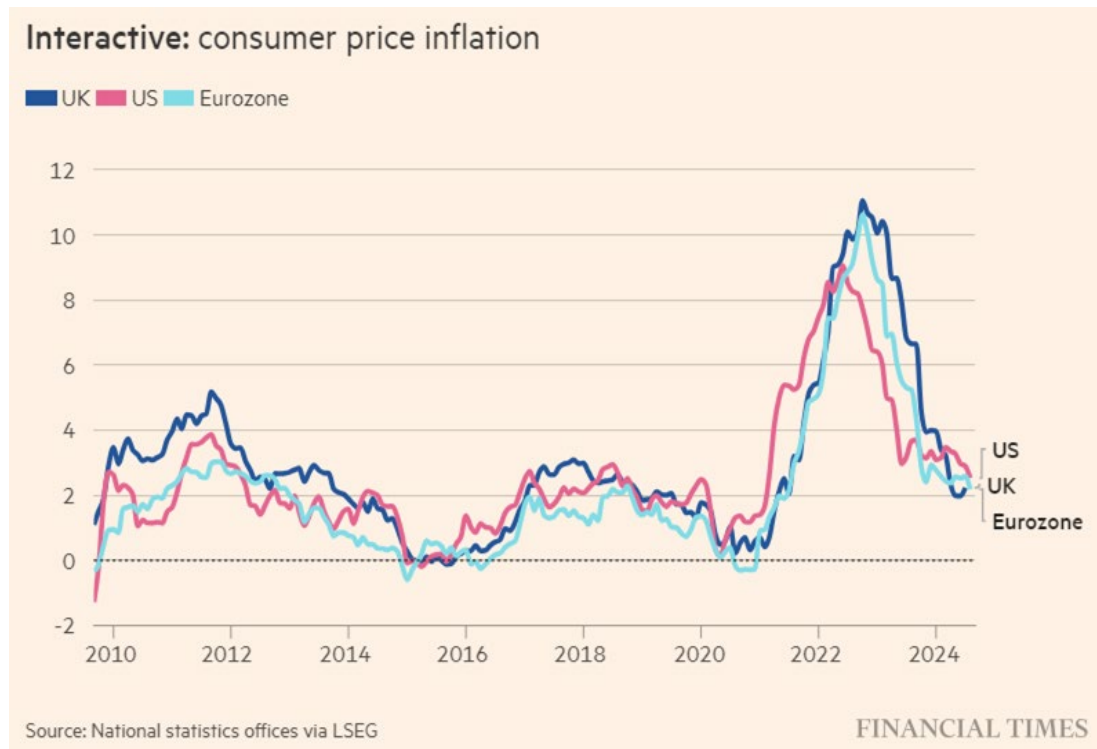
HBF Conference

Lord Gavin Barwell
03 October 2024

NorthStar

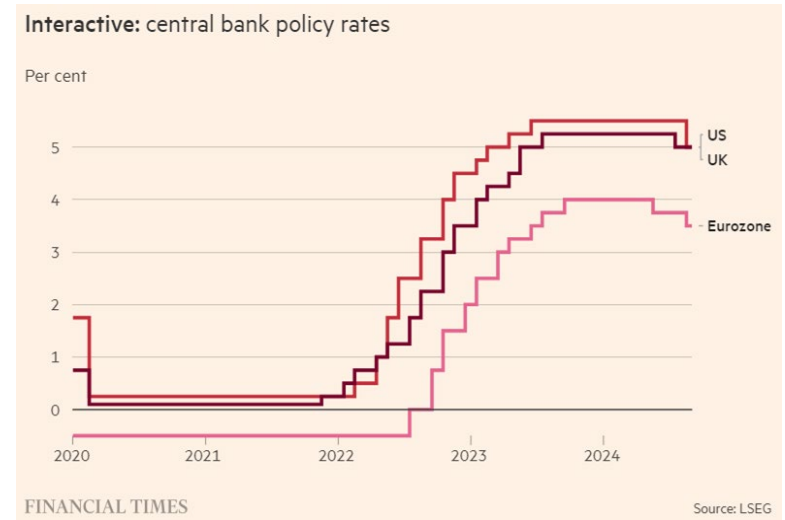
Macroeconomic outlook

Inflation is now nearly back to target in the world's largest economies



As a result, interest rates are now coming down

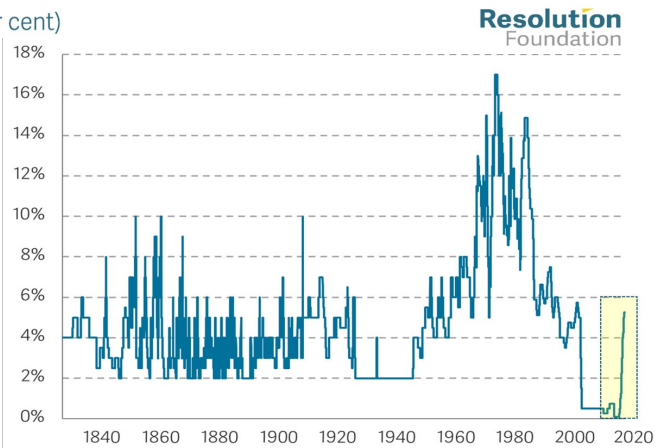
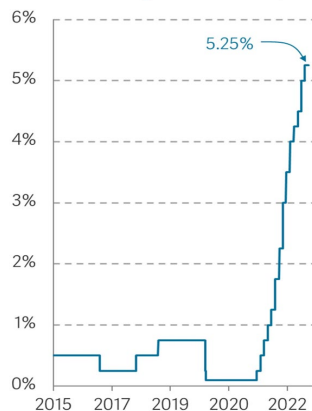
- Having looked the least well placed of the major central banks to deliver the mythical soft landing nine months ago, the Bank of England now looks the best placed - the ECB and the Fed are likely to continue cutting rates more quickly (the ECB because the Eurozone is suffering from weak growth, particularly in its three largest economies; the Fed because although the US economy is growing well, it has a dual mandate and is worried about the labour market)



Where will interest rates end up?

- Climate change and the partial decoupling of the global economy mean **inflation isn't going back to the ultra-low levels we have seen in recent years, so neither are interest rates**

Bank of England official policy rate (per cent)



Source: Bank of England, Official Bank Rate History Data from 1694.

Resolution
Foundation

“If expectations have re-anchored at our 2% target, interest rates will go to the level consistent with that target, not back to the super-low rates we needed to fight below-target inflation”

ECB Chief Economist Philip Lane

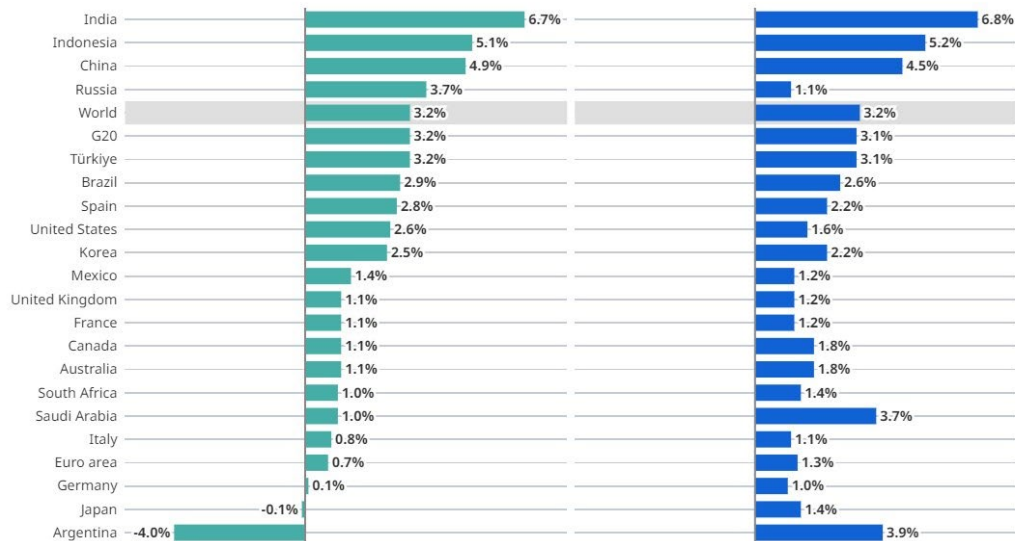
“I doubt we're going back to zero. It will be lower than it is today because it is restrictive today, it will be somewhere in the middle”

Governor of the Bank of England Andrew Bailey

Global growth improving, but still a bit anaemic

Real GDP projected growth rates for 2024 and 2025

%, year-on-year



Source: OECD Economic Outlook, Interim Report September 2024

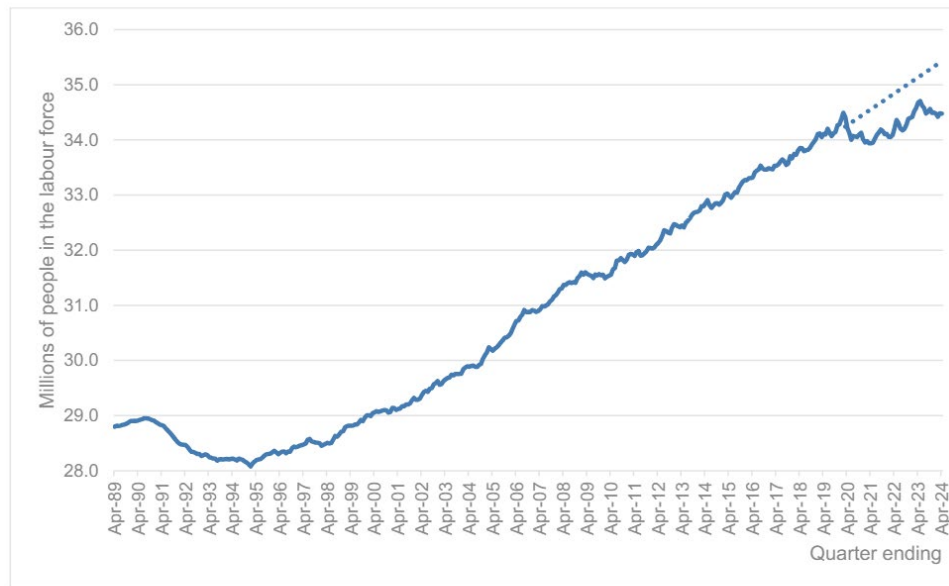
Source: [OECD](#)

- The OECD is predicting global growth will remain flat at 3.2% in 2024 and 2025
- **Much of what growth there is will come from Asian economies, with many advanced economies predicted to grow by less than the global average.** The US remains the main exception, on track to grow twice as fast as any other G7 countries in 2024

Rising economic activity means the UK labour force has not grown in the last four years

- The labour force has grown at a pretty constant rate since the mid 1990s, adding around a million people every four years. **In the last four years however, it has not grown at all**
- **This matters because the UK economy has largely relied on an expanding labour pool, not increased productivity, to drive economic growth in recent years**

Figure 4: Level of economic activity – actual and if pre-crisis trend had continued



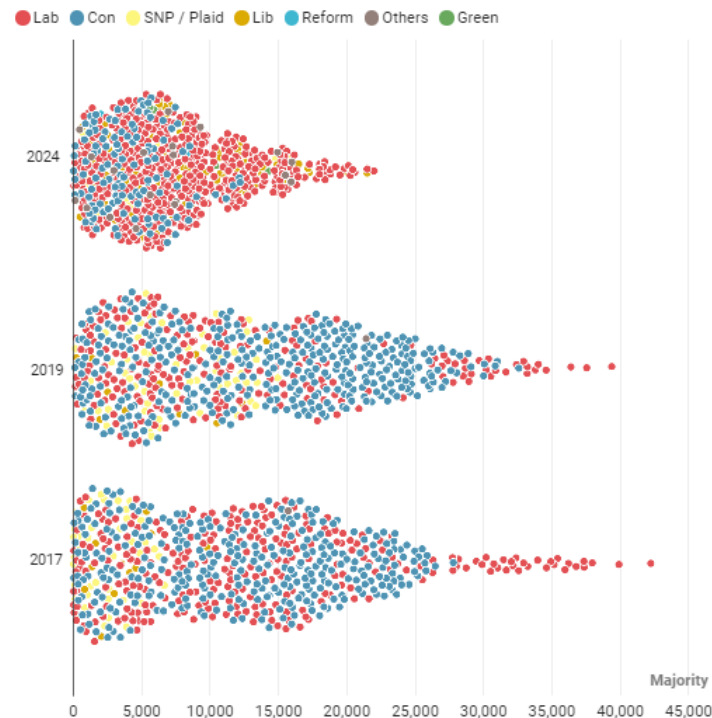
Source: Labour Force Survey and IES estimates

The UK

Labour is likely, but not certain, to be in government for at least two terms

- Given the size of its majority, **Labour is likely to be in government for at least two terms...**
- **...but with a more volatile electorate, many more marginal seats and an increasingly multi-party politics it isn't a given**









Majorities of all seats contested in recent elections. This election looks to be very marginal




A second independence referendum in Scotland has been kicked into the medium grass

- The SNP lost over 80% of its seats. **It clearly can't claim the result was a mandate for a second independence referendum, so that issue has been kicked into the medium grass** (underlying support for independence hasn't declined, so it remains a possibility in the longer term)
- The big question in Scottish politics is now whether Labour can repeat its success in the Scottish Parliament elections in 2026

Seats won by party in Scotland

	Party	Seats		Change
	Labour	37		+36
	SNP	9		-39
	Liberal Democrat	6		+4
	Conservative	5		-1

Note: After all results declared 

The new Government will be a government of the moderate centre-left

- Starmer won the Labour leadership on a left-wing manifesto
- But since becoming leader he has shifted the party to the centre:
 - abandoning more left-wing policies like increasing income tax for high earners;
 - changing the rules for future Labour leadership contests to make it much harder for a hard left candidate to win; and
 - preventing Jeremy Corbyn from running as a Labour candidate
- **He made it clear on election night that winning with a large majority wouldn't mean a more left-wing approach**

“We ran as a changed Labour Party, and we will govern as a changed Labour Party”

Keir Starmer

We'd say it has got off to a mixed start...

The good

- The constant psychodrama that characterised the last few years of Conservative governments is over
- It is talking a good game on focusing on the long term through its five missions
- It has shown a willingness to do things to boost growth that it knows will be unpopular with some voters e.g. on planning
- It is making an effort to reset relations with our European neighbours

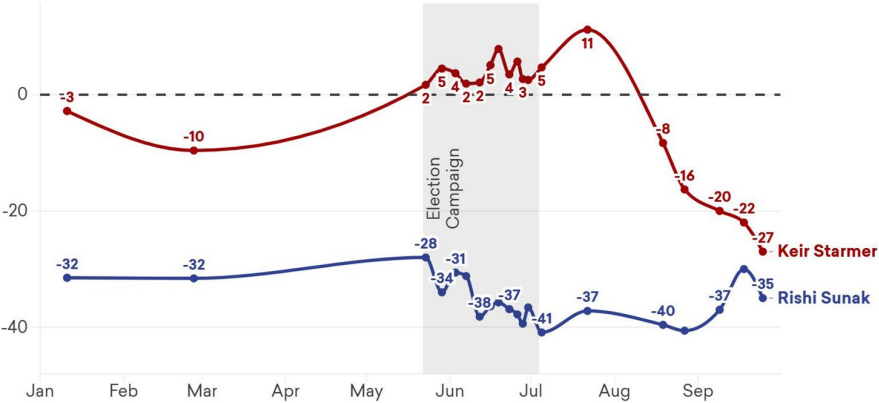
The bad

- It has got into difficulty on ethical issues with Ministers accepting donations to pay for clothes, holidays and parties
- The political operation in Number 10 isn't right with vicious briefing against Keir Starmer's Chief of Staff Sue Gray
- The economic message has been too gloomy
- It's argument that the public finances are much worse than expected so it is having to do things it didn't mention in its manifesto isn't working when it can find money for higher pay rises for public sector workers

...but as far as the electorate is concerned, the honeymoon is already over

Party Leader approval tracker

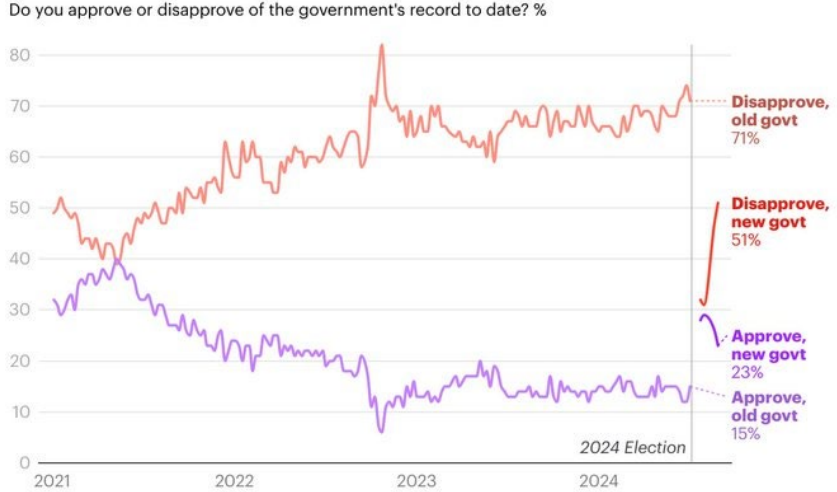
Net approval rating



Source: More in Common • Proportion who think Starmer is doing a "somewhat good" or "very good" job, minus those who think he is doing a "somewhat bad" or "very bad" job
Last fieldwork: 24-25 September

Source: [More in Common](#)

Approval of new government low, but higher than its predecessor



Latest data: 24 - 26 August 2024

There will be radical change in some areas but little change in others

Major change

- Economic policy - an industrial strategy
- Employment law - 'New Deal for Working People'
- More building
- Green transition accelerated
- More radical public service reform, particularly in the NHS
- More devolution (but how much more?)

Minor or no change

- Economic relationship with the EU (big change in tone, relatively small change in substance)
- Immigration policy
- Overall tax burden (though some changes that will be significant for particular sectors)
- Levelling up (but they've dropped the use of the term)
- Foreign and defence policy

The Autumn Budget: the key moment of this Parliament

- Rachel Reeves has to make key judgements about how much more to spend on public services and capital investment and, as a result, how much more to borrow and how far to go beyond the limited tax increases Labour proposed in its election manifesto
- **She faces risks on all sides:**
 - **if she is too cautious on day-to-day spending, public services may continue to deteriorate;**
 - **if she is too cautious on capital investment, she may not get the growth she needs to pay for better public services in the long term;**
 - **if she borrows too much, it will open the Government to attacks on maxing out the credit card; and**
 - **if she raises taxes by too much, it could both choke off growth and damage the Government's popularity**

What we expect

- As usual, there is a certain amount of expectations management going on (e.g. the Prime Minister saying that the Budget is “going to be painful”)
- **We expect that she will do three things:**
 - **there will be some loosening of fiscal rules to allow the Government to borrow more to fund capital investment** (the OBR has published a paper effectively encouraging the Government to do this, estimating that investing 1% of GDP will raise output by just under 0.5% in 5 years, rising to 2.5% in 50 years)
 - **there will be tight revenue settlements for some departments that some might characterise as austerity;** and
 - **there will be bigger tax increases than Labour set out in its manifesto.** Keir Starmer said that “those with the broadest shoulders should bear the heavier burden” but “I’ll have to turn to the country and make big asks of you as well”. **We think the most likely candidates are Capital Gains Tax and fuel duty**

Long term, Keir and Rachel know there's a limit to how much they can raise taxes; they therefore need higher growth

- The Budget should tell us more about the Government's growth plan
- Right now, the key ingredients look like:
 - stability to encourage more investment;
 - loosening planning policy to encourage more building;
 - tackling economic inactivity to grow the labour force; and
 - an industrial strategy to support key sectors

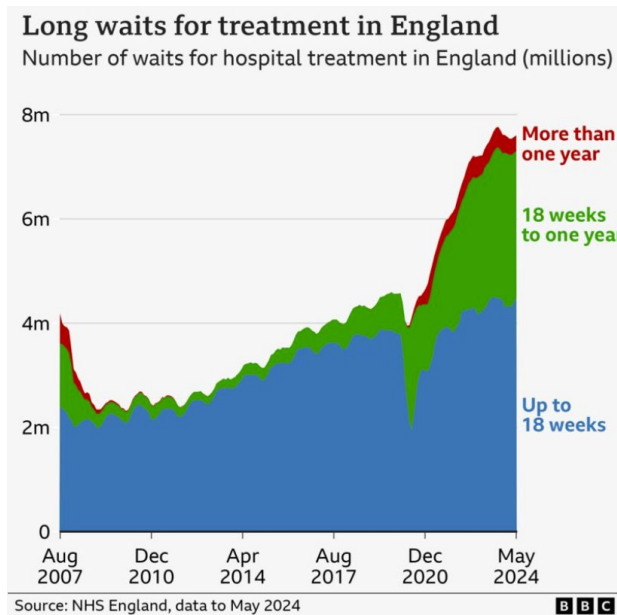
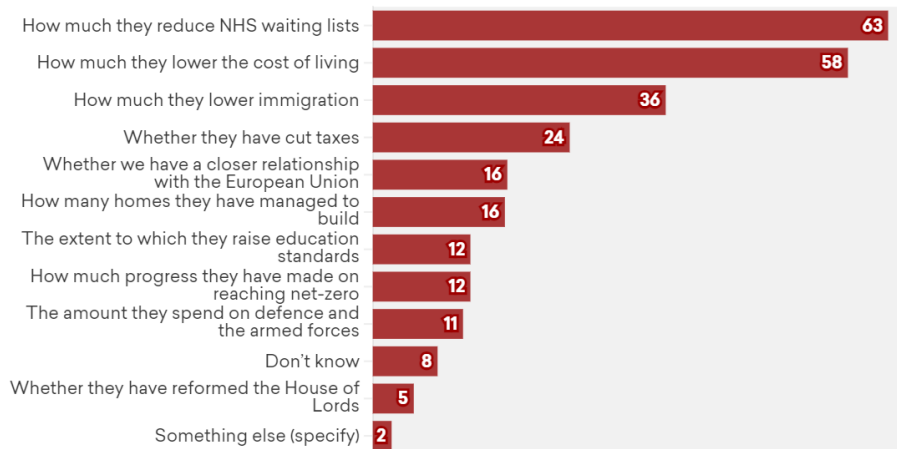
“Growth is the answer. Every one of our national missions depends on it”

Keir Starmer

The NHS: important both politically and economically

- As far as voters are concerned, **it is the NHS that really counts**
- Recovering performance is vital to tackling economic inactivity

Which of the following will be most important to you in judging the success of the Labour Government after 5 years? Select up to three.



The net zero transition: the long term challenge

- If Labour is in power for two terms, it will have to take the key remaining decisions to get us to net zero
- It has set a **target to achieve zero-carbon electricity by 2030**, a huge delivery challenge that is unlikely to be achieved but will accelerate progress. It has gotten itself into a political muddle over a non-manifesto commitment to cut bills by £300
- On transport, it has committed to **reintroduce the 2030 phase out date for the sale of new combustion engine vehicles** and to invest in charging infrastructure, addressing consumer fears over cost, range and lack of charging points
- **It's biggest challenge will be decarbonising the nation's building stock.** It has confirmed it **won't keep the 2035 ban on new gas boiler sales**. For lower income households, it will likely focus on incentives to support the transition to heat pumps and ensuring local councils have the funding and capacity to implement change
- In the **longer term, it will have to address the thorny issue of agricultural emissions**

UK/EU relations: stabilised...

- **Rishi Sunak adopted a very different approach to relations with the EU than Boris Johnson or Liz Truss, and it paid off with the EU making significant concessions**
- **The deal on the Windsor Framework has opened up some modest improvements in the UK/EU relationship**

“We have made a decisive breakthrough. These negotiations have not always been easy, but I’d like to pay an enormous personal tribute to Ursula for her vision in recognising the possibility of a new way forward”

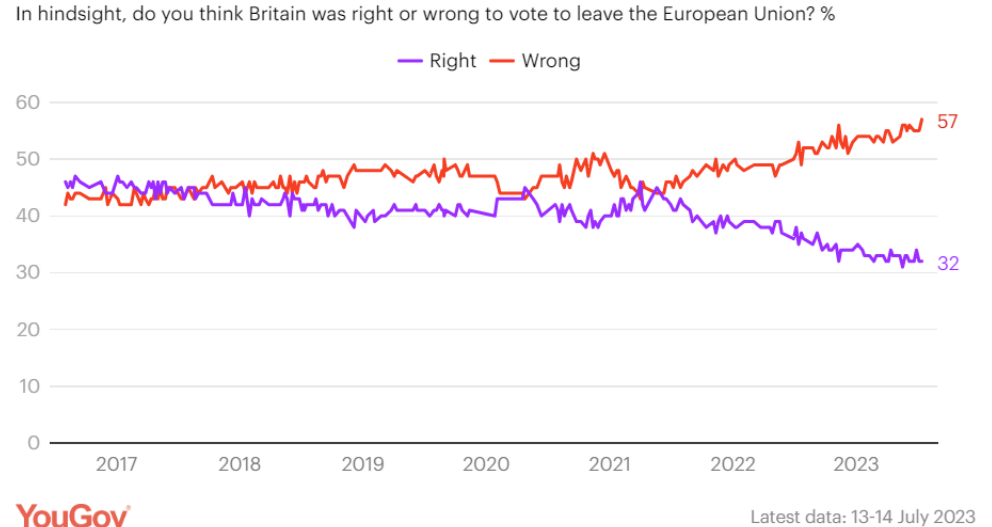
Prime Minister Rishi Sunak

“I remember our first discussions, the two of us were honest with each other about the difficulties in our bilateral relationship. It was vital to put that on the right footing”

European Commission President Ursula von der Leyen

... and likely to improve further

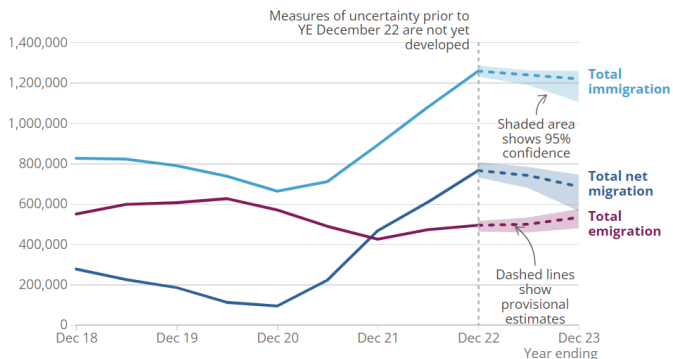
- **The threat from Russia** is driving closer relations
- **A new European Commission coupled with a Labour Government** will accelerate that closing, as would **the re-election of Donald Trump**
- Longer term, **UK public opinion** is becoming increasingly Brexit sceptic
- **A staircased entry of new EU members** may provide new options for the UK



The issue the right will seek to exploit: asylum and migration

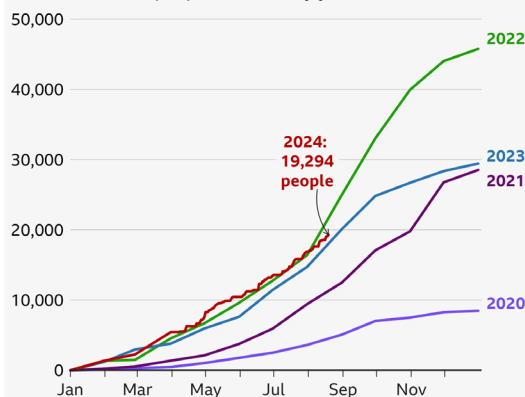
- Although net migration is coming down, it is still at a very high level
- Record numbers of people are crossing the Channel in small boats
- **The Conservatives are likely to focus their attacks on this issue, and even if they don't Reform certainly will** - Blair has warned Starmer of the risk this issue poses

Long-term net migration, immigration and emigration in the UK, between the YE December 2018 and the YE December 2023



Source: International Passenger Survey from the Office for National Statistics, Home Office Borders and Immigration data from the Home Office, Registration and Population Interactions Database from the Department for Work and Pensions

People crossing the English Channel in boats
Cumulative total people detected by year



Note: Data to 31 March 2024 is monthly totals, more recent figures are daily totals. Some data from the latest week may be unavailable

Source: Home Office/Ministry of Defence, latest data 19 Aug

“We need a plan to control immigration. We should move as the world is moving to digital ID. If not, new border controls will have to be highly effective”

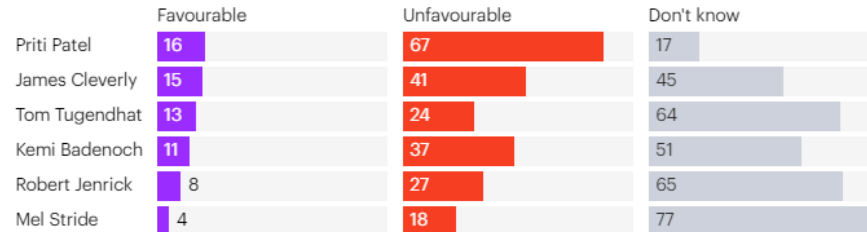
Former Prime Minister
Tony Blair

Election of a new leader of the Conservative Party

- Six people stood to be the next leader of the Conservative Party: Kemi Badenoch, James Cleverly, Robert Jenrick, Priti Patel, Mel Stride and Tom Tugendhat. Patel was eliminated on 4 September, followed by Mel Stride on 10 September, then two more in early October with party members then taking the final choice. **Our best guess is that the final two will be Jenrick vs Badenoch or Cleverly**
- **Parties often draw the wrong conclusion after a defeat**
- **Whoever wins is unlikely to become Prime Minister, but it's an important moment because it will determine the nature of the opposition the Government faces**

The Conservative leadership contest candidates: the unpopular and the unknown

Do you have a favourable or unfavourable opinion of the following? %



The strategic challenge the other main opposition parties face

The Liberal Democrats

The Liberal Democrats have a record number of MPs: the challenge is how do they build on that now Labour with whom they are quite closely aligned is in government? Most of the seats where they are in second place are held by the Conservatives - to win those seats and hold onto those they gained, they must simultaneously continue to attack them without looking like they are Labour supporters

Reform

Reform came third in terms of share of the vote, but won few seats. Most of the seats where they are in second place are Labour seats. Their strategy will be to portray the two main parties as two sides of the same coin when it comes to immigration, sleaze etc

The SNP

The SNP lost a higher proportion of their seats than the Conservatives - but it's hard to conduct an inquest when you're still in government in Holyrood; and hard to recover politically when you're having to take very painful decisions in office. Their strategy will be to portray Labour as to blame for those painful decisions

Thank you

Any views expressed are those of Lord Gavin Barwell in his personal capacity

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