Tullett Prebon Research, a blog by Dr Tim Morgan

Less bad, but still grim

by Tim Morgan on August 24, 2012

As had been widely anticipated, the Office for National Statistics' revised estimate of GDP shows that the economy declined by -0.5%, rather than -0.7%, in the second quarter of 2012. I don't somehow think that there are going to be too many street parties arranged to celebrate this happy event.

Amongst the gems that can be plucked from a book of military staff reports is the remark that "his men would follow this officer anywhere, but only out of a morbid sense of curiosity". It's getting a bit like that with the British economy.

One of the questions that I get asked on a regular basis is "when will the economy recover?" Hitherto, my answers have tended to be "not for some years yet", or "not until fundamental reforms are implemented".

The time is coming, though, when I will have to change these stock answers, because **it is by no means obvious that the British economy is going to recover at all.**

There is a limit to quite how long any country can go on living beyond its means, undermining its own economic performance, and acting as though it has a God-given entitlement to prosperity.

As the recent trade figures reminded us, the UK's imports include vital commodities such as food (last year, £36bn) and energy (£62bn). With a chronic deficit in goods, we have to rely on services to earn the foreign currency with which to pay for these essentials, yet banking, perhaps the most important service export sector, is under the cosh. At home, we have long-standing investment deficiencies, most notably in infrastructure (think nuclear here). Despite huge hikes in public spending over the last decade, capital investment by the state has been driven relentlessly downwards.

National self-delusion seems the order of the day. Latest figures confirm that public spending is rising, as is the deficit, yet this is supposed to amount to "sticking to the plan". Government debt, enormous though it is, excludes huge contingent liabilities. Booking the £28bn assets of the Royal Mail pension scheme as a debt reduction, whilst leaving the accompanying £38bn of liabilities off the books, is typical of the delusional management of the public finances. The opposition's only answer to a debt problem is to borrow more.

Someone, sometime, is going to have to say something about the Emperor's new suit of clothes.