

## 2015 AUTUMN STATEMENT PREVIEW

### Will it leave a chill in the air?

**Rhys Herbert**

Senior Economist

+44 (0)20 7158 1743

- Chancellor of the Exchequer George Osborne will deliver an update on the state of the UK public finances in his Autumn Statement on 25<sup>th</sup> November. In conjunction with this he will also present the outcome of the Spending Review, which provides detailed plans on the outlook for public spending until fiscal year 2019-20.
- The Chancellor is likely to focus on four issues. First, he will reaffirm his commitment to his core strategy of fiscal consolidation and austerity. Second, he may need to outline steps to address the overrun in this year's public finances compared with the July Budget forecast. Third, he will have to find a way to handle the tax credits issue after the rejection of his original proposals in the House of Lords. Finally, he will provide detail on public spending plans. None of these is likely to change the big picture for the UK economy.
- Despite some critical comments on his austerity programme, not only from the House of Lords but also from some of his own MPs, the Chancellor will almost certainly stick to his guns. He may be obliged to acknowledge that the near-term UK economic picture looks a little less positive than a few months ago, but he can attribute this to international factors rather than his own policies.
- Disappointing outturns on the public finances over the first half of the current fiscal year leave government borrowing likely to overshoot the July 2015 Budget plans. We expect the Chancellor's new forecasts will show this lost ground being made up by the end of the forecast horizon in 2019/20 and so he will still be able to claim that he meets his fiscal targets. However, the overshoot reinforces the impression that the Chancellor has little scope to ease up on austerity if he is to meet those targets.
- That complicates the decision on how to respond to the House of Lords vote on tax credits. The Chancellor will not want this to swell the overall welfare budget and so will be looking for savings elsewhere. He is likely to find savings of around £2bn through lower than previously expected interest payments on the National Debt. Reports suggest that the Welfare & Pensions Secretary successfully fought off a potential cut to his Universal Credit scheme and so other savings will be looked for in areas such as housing benefit and departmental spending.
- When the current Spending Review was launched, it was announced that further cumulative spending cuts of around £20bn were required over the next four years. With some spending such as healthcare ring fenced, big reductions are needed in other areas. Reports to date suggest that the Treasury has reached agreement with eleven government departments. The announced spending reductions to date fall short of the target but some big departments are still to settle. One of these is the Home Office. Recent headlines on immigration and terrorism will make further cuts in this department particularly fraught.
- We do not expect the Chancellor's statement to have significant implications for either UK market interest rates or sterling. Instead, the key for both will be ongoing international and domestic economic developments. At the margin, however, if the Chancellor delivers another £20bn of budget cuts, interest rate expectations, bond yields and the pound may all come under some further downward pressure.

*Chancellor to stick to his guns*

*2015/16 overrun to be made up in later years*

*House of Lords decision on tax credits means Chancellor needs to find savings elsewhere*

*Spending Review focused on finding £20bn of savings out to 2019/20*

## CONTACTS

### ECONOMICS

**Jeavon Lolay**  
**Head of Economics & Strategy**  
 T: +44 (0)20 7158 1742

**Adam Chester**  
**Head of Economics**  
 T: +44 (0)20 7158 1740

**Carl Paraskevas**  
**Senior Financial Economist**  
 T: +44 (0)20 7158 1741

**Nikesh Sawjani**  
**Economist - Rates**  
 T: +44 (0)20 7158 1749

**Michael Sawicki**  
**Senior Economist**  
 T: +44 (0)20 7158 1746

**Rhys Herbert**  
**Senior Economist**  
**(Sector & Regions)**  
 T: +44 (0)20 7158 1743

**Hann-Ju Ho**  
**Senior Economist (G10)**  
 T: +44 (0)20 7158 1745

**Jonathan Thomas**  
**Senior Economist (UK)**  
 T: +44 (0)20 7158 1750

### STRATEGY

**Eric Wand**  
**Head of FI Strategy**  
 T: +44 (0)20 7158 8231

**Alessandro Mercuri**  
**Inflation / Volatility Strategist**  
 T: +44 (0)20 7158 8236

**Achilleas Georgolopoulos**  
**Rate Strategist**  
 T: +44 (0)20 7158 8248

**Gajan Mahadevan**  
**FX Strategist**  
 T: +44 (0)20 8975 5016

### DATA ANALYTICS

**James Binny**  
**Head of Data Analytics**  
 T: +44 (0)20 7158 2154

**Robin Wilkin**  
**Cross Market Strategist**  
 T: +44 (0)20 7158 1637

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