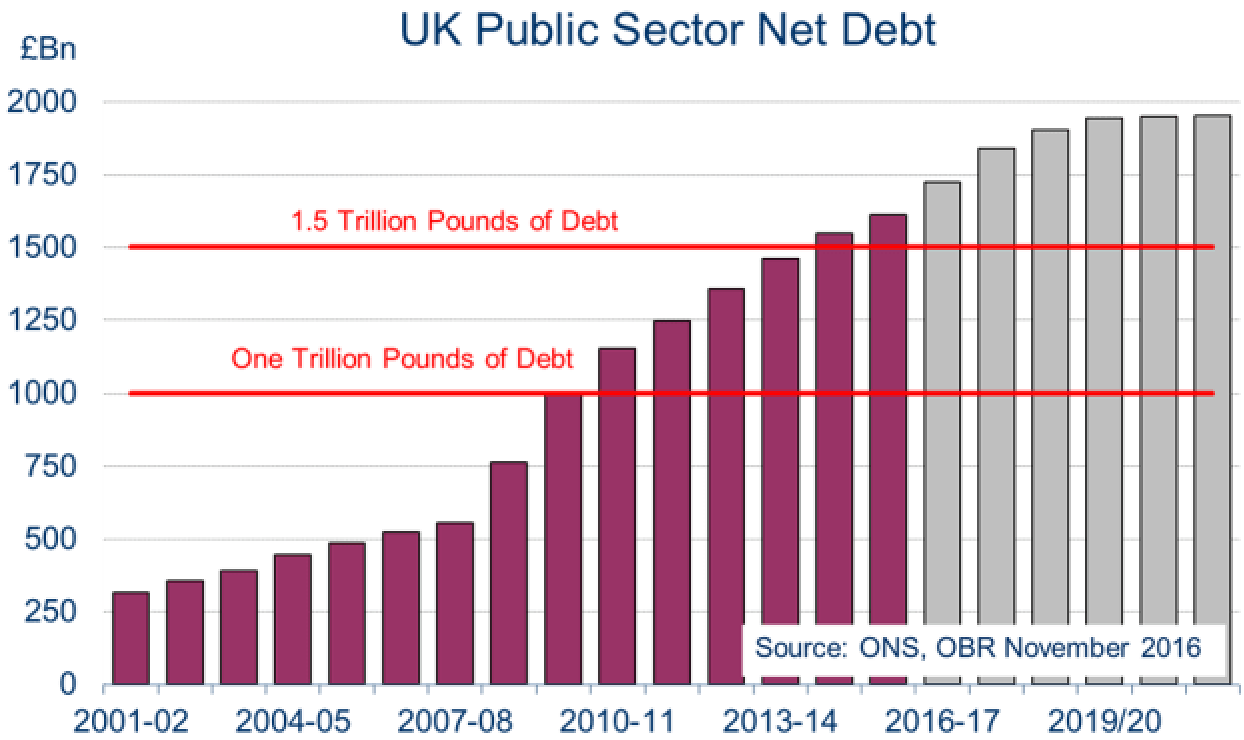


During George Osborne's reign at the Treasury, addressing the UK's productivity challenge took a back seat role to tackling the deficit. However, Philip Hammond has put productivity back on the agenda with the word appearing fourteen times in his speech today. In fact, the UK's dire productivity performance is a major factor behind the poor state of the public finances.

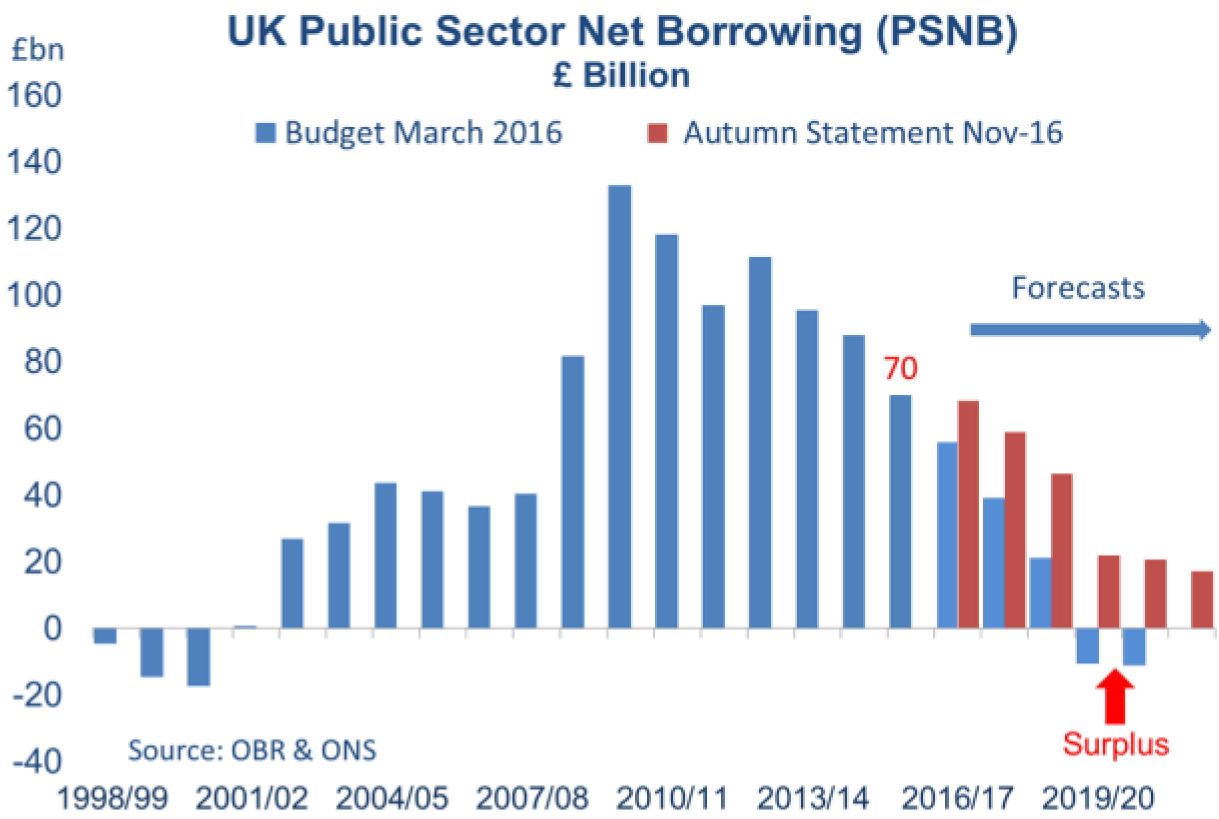
Philip Hammond put the shocking scale of the UK's productivity gap with its international competitors into perspective. It takes a UK worker five days to make what a German worker can produce in four. In turn, it is worth remembering that in terms of productivity, Northern Ireland lags behind the UK by as much as the UK lags behind Germany. As a result, it would take a Northern Ireland worker 6/7 days to match the output of a German counterpart.

National Productivity Investment Fund

Despite the state of the public finances, the Chancellor has set aside £23billion for a new National Productivity Investment Fund for the next five years. For perspective, this broadly equates to Northern Ireland's entire annual public spending. Innovation and infrastructure lie at the heart of this fund, with significant investment earmarked for housing, transport, telecoms and research & development. The Northern Ireland Executive will receive its share of this UK infrastructure investment to the tune of £250m through to 2021/22.

Growth forecasts down, borrowing up

As expected, the UK's economic growth forecasts were revised down and public sector borrowing revised up. The UK economy is expected to slow from 2.1% in 2016 to 1.4% in 2017 before a modest rebound to 1.7% in 2018. Northern Ireland is expected to expand at a much weaker pace and will struggle to avoid a contraction next year. This slower growth profile hits government tax receipts and means more borrowing is required to plug the deficit. An additional £110bn of public borrowing is now required, relative to March's forecast, for the five years to 2020-2021. This figure could fund UK education for a year. A deficit of £11bn is pencilled in for 2021/22. Overall, the UK government is set to borrow £234 billion in the six years to 2021/22. This could fund the NHS for over a year-and-a-half. Back in March, only the more pessimistic forecasters were talking about a third parliamentary term of austerity. From today's figures this is now accepted as a given.



Public spending has borne the brunt of austerity so far. Indeed, many of the spending cuts announced by Hammond's predecessor have been watered down. These include not implementing the planned cuts to Personal Independence Payment announced in March, and reprofiling the Universal Credit taper – both of which will mean individuals in receipt of these will benefit.

Much greater emphasis on taxation

However, there is now a much greater emphasis on taxation. Hiking Insurance Premium Tax (IPT) was George Osborne's stealth weapon of choice. Phillip Hammond has continued this tradition by announcing a two percentage point hike from 10% to 12% in June 2017. This will have seen the IPT rate double in just 19 months. (It was 5% when George Osborne arrived at the Treasury in 2010.) The IPT change is the biggest revenue generator and will bring in an expected £4bn over the next five years. This £4bn almost offsets the freeze in fuel duty in 2017/18, the seventh successive freeze and the longest freeze in 40 years. So what you gain at the petrol forecourt you will lose by paying more on your home and motor insurance.

Other tax hikes falling below the radar include: aligning the National Insurance contribution thresholds for employees and employers. Of more significance is the £1bn hit on salary sacrifice schemes which avoid income tax and National Insurance Tax contributions. There are also moves to clamp down on disguised remuneration for self-employed.

Set for higher taxation, higher inflation and public spending restraint

Overall, the big picture is a slowdown in economic growth with next year's expected rise in inflation set to hit consumer spending in particular. There have been some sweeteners to help those JAMs (Just About Managing) but the key thrust for the next few years is higher taxes, higher inflation and public spending restraint. Austerity hasn't gone away you know and will be complicated by BRUMP uncertainty (Brexit & Trump) in 2017 and beyond.

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