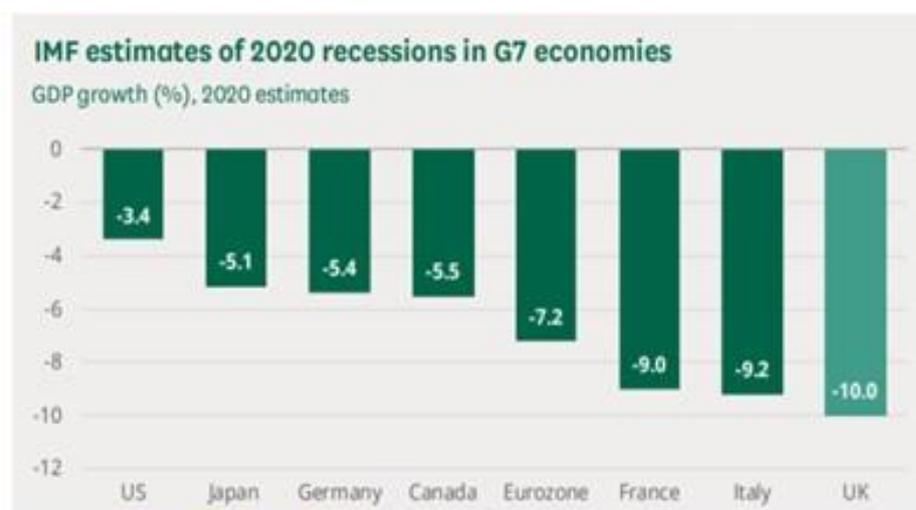


Say Hello, Wave Goodbye*

Dr. Steven McCabe, Associate Professor, Institute of Design and Economic Acceleration (IDEA) and Senior Fellow, Centre for Brexit Studies, Birmingham City University

In looking to the future there's a sense that, in the short-term at least, there'll be a relatively rapid return to normality in the UK's economy. This would be welcomed by government and, more particularly, individuals affected in the last twelve months by the health crisis which, this time last year, was starting to take hold and would lead to, currently, three lockdowns.

The magnitude of the economic hit that's been experienced thus far has been immense. A ten per cent decline in GDP (gross domestic product) in 2020 would, prior to the pandemic, have seemed inconceivable:



Source: IMF, [World Economic Outlook](#), 26 January 2021

As future generations may reflect, the reasons the UK suffered so badly was an initial lack of appreciation of how dreadful the threat posed by the virus would be, combined with ineptness in decision-making by government. Jessica Elgot, Deputy political editor of [The Guardian](#), provides an illuminating account by insiders of what was regarded as “panic mode” when confronted by a health crisis that spread at an alarming rate.

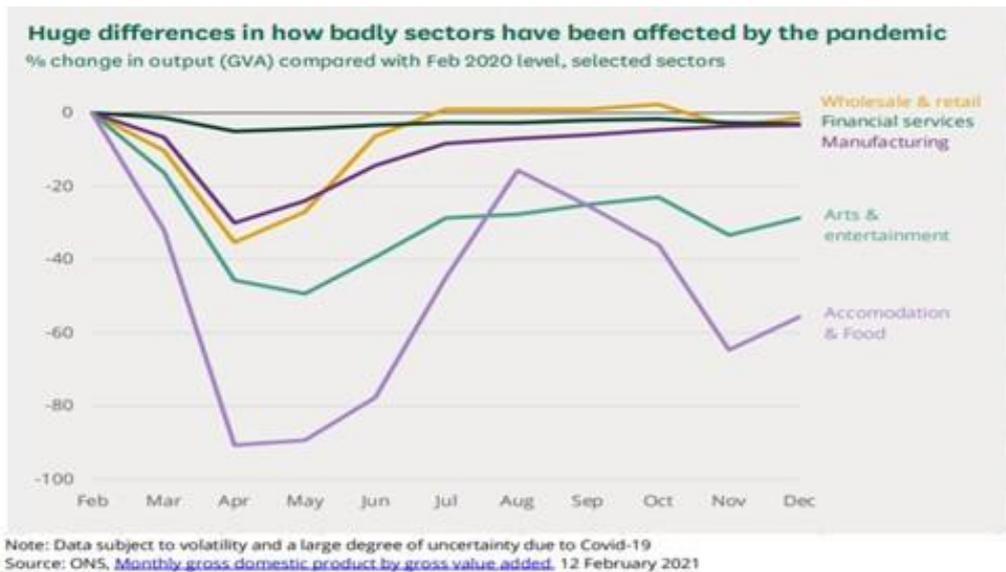
The economic consequences of the pandemic are presented in detail by Daniel Harari and Matthew Keep in the *House of Commons Library Briefing Paper no 8866, Coronavirus: Economic impact* published on 26th February 2021. As the table below shows, the way in which lockdown has affected various sectors varies according to the ability to continue normal activity:

Coronavirus impact varies a lot by economic sector
 % change in output of sector compared with its pre-coronavirus level of February 2020

	% of UK economic output (2019)	Sector's output compared with February 2020 level (% ch.)									
		Monthly vs. Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov
Agriculture	0.7%	-	-4.9	-15.1	-14.6	-13.0	-	-	-8.8	-9.0	-8.8
Mining & quarrying	1.0%	-	-6.5	-8.4	-6.1	+0.7	-	-	-9.0	-12.4	-13.1
Manufacturing	9.7%	-	-6.8	-30.1	-23.9	-14.3	-	-	-4.7	-3.7	-3.4
Energy supply	1.4%	-	-0.3	-8.6	-7.5	-3.7	-	-	-0.1	-1.7	-0.9
Water supply	1.2%	-	+0.4	-7.2	-7.1	-1.7	-	-	+0.7	+0.6	+0.7
Construction	6.6%	-	-3.6	-42.8	-35.5	-22.1	-	-	-2.2	-0.5	-3.4
Wholesale & retail trade	10.4%	-	-10.3	-35.2	-26.9	-6.2	-	-	+2.3	-3.5	-1.4
Transportation & storage	4.1%	-	-12.7	-34.8	-30.5	-21.2	-	-	-12.6	-12.5	-9.8
Accommodation & food	3.0%	-	-31.9	-90.6	-89.2	-77.7	-	-	-36.0	-64.5	-55.6
Information & communication	6.9%	-	-1.4	-11.3	-12.9	-9.0	-	-	-5.4	-7.1	-7.5
Financial services	6.3%	-	-1.1	-5.0	-4.4	-3.4	-	-	-1.6	-2.5	-3.1
Real estate activities*	13.4%*	-	-0.4	-2.5	-2.9	-3.0	-	-	-1.8	-2.1	-1.8
Professional activities	7.7%	-	-1.8	-17.5	-18.4	-12.3	-	-	-4.2	-4.7	-3.2
Business admin & support	5.3%	-	-10.3	-34.1	-34.0	-23.2	-	-	-16.4	-18.2	-16.1
Public administration	5.0%	-	+0.1	+0.4	+0.7	+0.9	-	-	+1.6	+1.5	+1.6
Education	5.9%	-	-22.8	-33.9	-29.4	-23.2	-	-	-5.5	-6.2	-7.2
Health	7.6%	-	-9.2	-25.8	-23.6	-20.4	-	-	-2.7	-2.3	0.0
Arts & entertainment	1.6%	-	-16.5	-45.6	-49.3	-39.4	-	-	-22.9	-33.2	-28.7
Other service activities	1.7%	-	-13.4	-46.5	-44.3	-40.3	-	-	-12.3	-31.7	-19.4
Households as employers	0.3%	-	-21.2	-49.4	-55.2	-55.6	-	-	-49.0	-56.5	-50.7
Total services	79.4%	-	-7.5	-22.6	-21.0	-14.6	-	-	-5.6	-8.5	-7.0
Whole economy	100%	-	-7.0	-24.0	-21.6	-14.5	-	-	-5.1	-7.3	-6.2

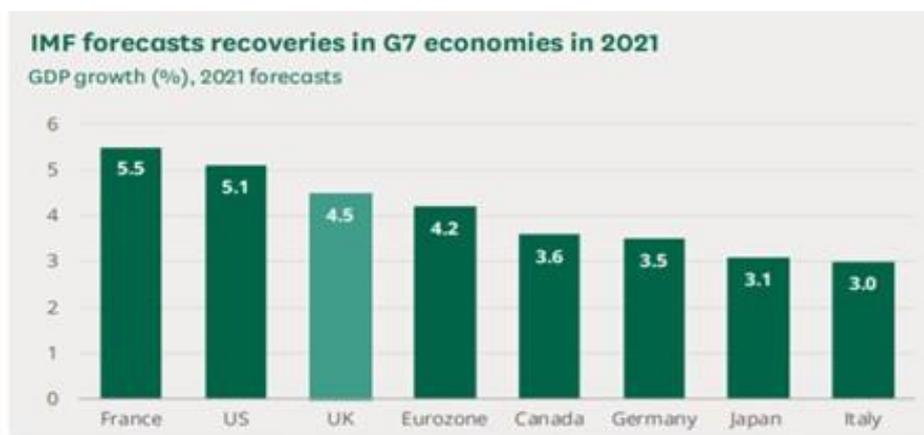
*Real estate activities includes "imputed rents" - estimates of hypothetical rental value of homes that owner-occupiers live in. This is an attempt to include the value of housing services going to owner-occupiers.
 Note: Economic output is Gross Value Added (GVA)
 Sources: ONS, Monthly GDP by gross value added dataset (12 Feb); ONS, GDP - low-level aggregates (12 Feb)

Unsurprisingly, as the diagram presented on page 16 of *Coronavirus: Economic impact* demonstrates, sectors in which, normally, greatest interaction between human beings occurs have experienced the largest decline due to coronavirus:



As is immediately apparent, hospitality (accommodation and food) as well as, to a lesser extent, arts and entertainment, have much ground to make up in getting back to the level of activity that existed prior to the pandemic. The consequences of lockdown have fallen hardest on those employed in such sectors which, given businesses tend to require a degree of flexibility by employees, largely consists of the young.

Clearly, many contend, provided the vaccine 'roll out' is as successful as hoped for, a return to normality will enable a 'bounceback' to occur allowing those made unemployed or furloughed to resume normal working patterns. As Harari and Keep, using World Economic Outlook data indicate, there'll be considerable recovery in G7 economies this year:



For international comparisons of latest quarterly GDP data and forecasts see the Library briefing, [GDP – International Comparisons: Key Economic Indicators](#).

That the UK is predicted to enjoy greater growth than the Eurozone (but behind France and the US) will be regarded as significant. As Eurosceptics will claim, this represents vindication of the decision by Johnson's government in following the will of those who voted to leave the EU. As they will claim, being free of the bureaucratic shackles of the overweening control of the EU is the logic which underpins a desire to re-establish the UK as a global player.

Such logic was articulated by no less than the Prime Minister in [*The Times*](#) in which he states "...the world needs Global Britain more than ever and, to be truly prosperous and successful, Britain needs to be global".

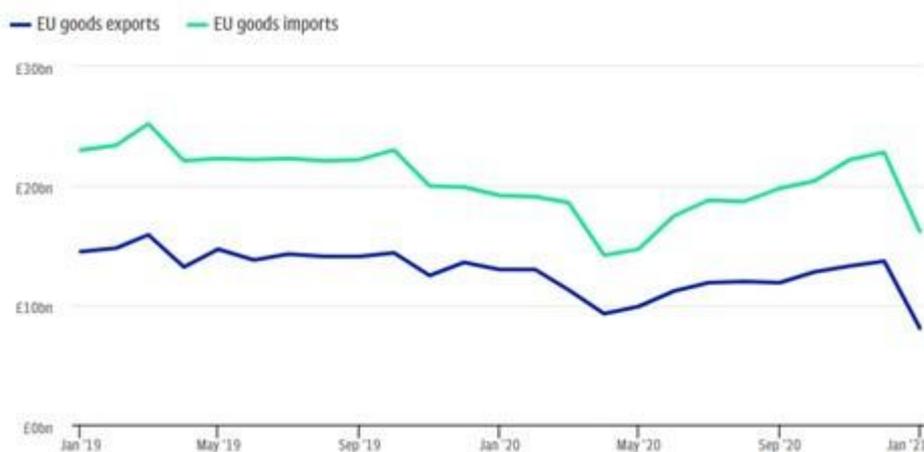
Not everyone is convinced Johnson's government will achieve the success predicted by advocates of the UK becoming a bigger 'hitter'. Catherine Philp, also writing in [*The Times*](#), in her article, 'Global Britain' must tread a fine line between China and America is among those who contend that the government's desire to create closer trade and business links with China should be set against security concerns and condemnation of the Uighur Muslims. As she points out, Washington describe what China is engaged in as "genocide".

Doing business with repugnant regimes is hardly new. China, a country long been associated with a poor record on human rights, has long been seen as a place in which to try and sell products and, more particularly, to garner much needed investment from. Such is the nature of global relationships though, as various adages warn, if you are not choosy about those with whom you conduct relationships, you should not be surprised if their reputations come back to haunt you.

In an in-depth article in [*The Guardian*](#), 'Why Britain is tilting to the Indo-Pacific region', Patrick Wintour, its Diplomatic editor, cites some of the concerns that are propelling Johnson and his government to engage in what some suggest may be considered to be "a hubristic and militarily dangerous imperial fantasy". Wintour cites the PM's brother Jo, a former minister who resigned from the government led by Boris before the last election, as a way of demonstrating the dangers inherent in the proposed Indo-Pacific policy with all its "pretensions, fluidity and contradictions".

As Jo Johnson acknowledges, the two big policies of this government, levelling-up and increasing global influence, could result in undermining each other. The desire to assuage the concerns of the increasingly volatile 'Red Wall' MPs who, with resonance to former US President Donald Trump, wish to see greater isolationism and protection of their jobs – not to mention the return of manufacturing jobs lost since the 1970s – may collide with the aspiration of, mainly southern, MPs who support increased trading with Indo-Pacific countries potentially resulting in greater imports of cheap goods.

Such are the dilemmas of a government which promised so much and, because of a pandemic practically no-one predicted, has yet to deliver on. Significantly, though not explicitly mentioned by government in its quest to become more global, is the fact that having left the EU with the 'skinniest of deals', has meant considerable negative impact on trade:



Source: *The Telegraph*

As anti-Brexit campaigning organisation, *Best For Britain* present in a tweet, the negative impact on certain exported foods has been astonishing:



Clearly, the short-term imperative is in ensuring a return to normal to protect as many jobs as possible. However, it's recognised there'll be dislocation and upheaval for those whose employment has disappeared during the pandemic or those expected to operate in a different way in the future.

The Bank of England's governor, Andrew Bailey, believes individuals expected to alter their occupation will be more inured to the prospect than those who lost jobs due to the decline in manufacturing and 'traditional' industries in the early 80s.

Nonetheless, there will be significant pain in coming months and years. Economist David Smith, writing in the [Sunday Times](#) believes there will be economic "scarring" due to the pandemic. Though fears expressed last summer we might see unemployment matching, or even surpassing, what was experienced in the 1980s, it's widely accepted that the spike this year, when furlough comes to an end, will be less extreme than once feared; likely to reach a maximum of 6.5% according to the OBR (Office for Budget Responsibility). Employment, OBR state, will not be back its pre-pandemic levels until 2025.

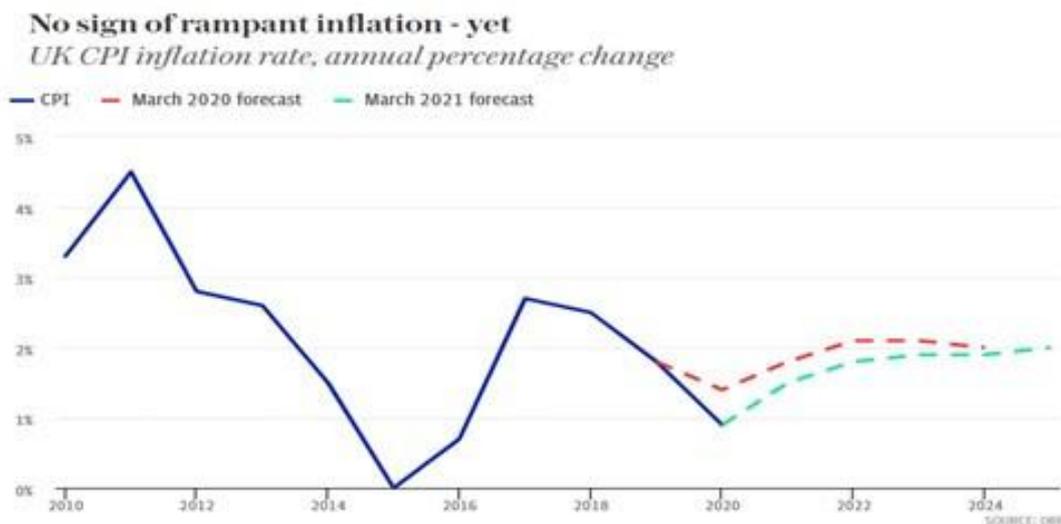
Unemployment will not be assisted by the chaos created by the CTA (Comprehensive Trade Deal) agreed between the UK and EU mid-afternoon last Christmas Eve which, as George Parker, Peter Foster and Sam Fleming of [The Financial Times](#) describe, has caused increasing suspicion, hostility and as, former European commissioner Lord Hill states, "political finger-pointing".

Any belief that having agreed the CTA both sides could concentrate on making the minutiae work effectively appear to have been

undermined by the appointment of Lord Frost by the PM to continue negotiations.

In pronouncing how important the 'Indo-Pacific tilt' is likely to be, many businesses will be acutely aware of the danger of becoming collateral damage in ongoing disputes between the EU and UK. Aspirations by government of opportunities in the future will ring hollow to those who lose their jobs.

Regardless of what happens *apropos* trade in the medium to long-term, a more immediate threat is the return of an 'old friend' which will affect us all, but especially the poorest inflation. Though currently 0.7% (the official target is 2%), inflation is widely expected to rise by the end of the year:



Source: The Telegraph

Hamish McRae writing in the *Financial Mail on Sunday* this week cites the fact that the traditional bellwether of economic activity, oil, has risen from below \$40 a barrel last autumn to \$70. As the world recovers after the pandemic, the price of oil is likely to continue rise. McRae also refers to copper, a vital metal critically indicative of future prospects, rising in price by 50% from \$6,000 a ton to \$9,000 a ton.

Significantly, McRae cites the fact that the cost of shipping a 40 foot container from Shanghai to Rotterdam, has risen from \$1,500 in 2019 to currently stand at a whopping \$8,000. This, of course, is probably a temporary spike caused by the disruption of containers being out of place following lockdowns across the globe. Nevertheless, as inflation

feeds through in higher prices for goods, there will be pressure by workers for their wages to rise to maintain standards of living.

If, as McRae, claims, inflation hits 4% by the end of the year, wage claims will follow leading to an inflationary spiral that will cause concern among policymakers in government. We could expect interest rates to rise which will have a very profound impact on already stretched families with mortgages.

Sadly, it must be feared, as we effectively wave goodbye to old 'friends' in the EU whilst busily proclaim our desire to forge new alliances in countries on the other side of the globe, we're likely to be beset by the threat of rising prices which could make British goods as unattractive as they were when Margaret Thatcher assumed power in May 1979 promising to banish the corrosive effect of [inflation](#).

The early 1980s are remembered as being traumatic for many communities. Let's hope the UK in the early 2020s under perennially optimistic Johnson, rather than being 'roaring', don't resemble the economically consequences of the 'Iron Lady's' policies.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807) and *English Regions After Brexit: Examining Potential Change through Devolved Power* (published by Bite-Sized Books, ISBN-13: 979-8666953099). He has contributed chapters to a number of texts in the last year (in 2020 unless otherwise stated): *Brexit Negotiations after Article 50: Assessing Process, Progress and Impact* (published in 2019 by Emerald Publishing, ISBN: 978-1787697683); *The Wolves in the Forest: Tackling Inequality in the 21st Century* edited by Hindley and Hishman (published in 2019 by Social Liberal Forum); *Boris, Brexit and the Media* edited by Mair, Clark, Fowler, Snoddy and Tait (published by Abramis Academic Publishing, ISBN-13: 978-1845497644); *The Virus and the Media: How British Journalists Covered the Pandemic*, edited by Mair (published by Bite-Sized Books, ISBN-13: 979-8643725824); *The Pandemic, Where Did We Go Wrong?* edited by Mair (published by Bite-Sized Books, ISBN-13: 979-8665858326); *BBC, A Winter of Discontent?* edited by Mair (published by Bite-Sized Books ISBN-13: 979-8694863117) and *The Pandemic, Where are We Still Going Wrong?* edited by

Mair, (published by Bite-Sized Books ISBN-13: 979-8563726338). His latest chapter, 'Does Vaccination offer Johnson a Way out of the Pandemic?' is published in Pandemic, A Year of Mistakes? Edited by Mair to be published by Bite-Sized Books (ISBN-13: 979-8702357799).

His latest co-edited book, *Exploring the Green Economy, Issues, Challenges and Benefits*, will be published in early summer. Additionally, his chapter, 'I Promised You a Miracle – Life Under 'Greased Piglet' Johnson', is due to be included in a forthcoming edited book examining on Boris Johnson and the rise of populism.

***Derived from the 1982 single from synthpop Soft Cell's hugely successful album 'Non-Stop Erotic Cabaret'**