Are We Seeing What's Likely to be a 'Perfect Storm'?

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Tuesday's news that, according to the ONS (Office for National Statistics), the number of jobs vacancies between July and September has risen by 318,000 compared to the period January to March 2020, just prior to the pandemic, to stand at 1,102,000, a record, appears to be good news.

Add in the other headline figures produced by the ONS showing unemployment at 4.5%, employment at 75.3% underpins the sense among some that the worst of the economic problems caused by the pandemic is behind us.

Unsurprisingly, the government will argue statistics presented by the ONS demonstrate the success of policies in dealing with the pandemic, especially the use of the furlough scheme, and that a post-Brexit UK is ready to engage in recovery that leading to the "high-skill, high-wage" economy Boris Johnson believes possible.

Nigel Driffield, Professor of international business at Warwick Business School in The Conversation believes that this will only be possible following a "a major shift in the way British business works" (2021). It's to be noted that member of the Bank of England's monetary policy committee, Michael Saunders, interviewed by Telegraph economics editor, Russell Lynch (2021), when questioned about the PM's belief that increased wealth will be possible through a growth in productivity, whilst agreeing with in principle, acknowledges that there's no evidence that is occurring.

Significantly, Chancellor Rishi Sunak described the latest ONS data as being "encouraging". One can only assume that, perhaps bruised from his public fall-out with business secretary, Kwasi Kwarteng who, notably, appears to enjoy support from No 10 (Mason, Stewart, and Davies, 2021), he's seeking to reposition himself (Stewart, 2021).

There's little doubt it can be assumed, the staff of the PM's office are happy to 'clip the wings' of the member of Cabinet the public most widely acknowledged to be the capable of replacing him.

ONS data indicates that there are 3.7 vacancies for every 100 employee jobs, another record high. It's inevitable that in sectors in which there's greatest demand for labour and skills, transport and storage, rising by 56.1% in the last quarter, due to the crisis caused by businesses being unable to employ sufficient HGV drivers and other logistics staff, wage rates will increase.

The reality is, however, somewhat different.

Not all sectors are experiencing the same demand.

Though we read stories of those workers most in demand earning wages which, only a couple of months ago, would have seemed phenomenal, salaries being in excess of £50,000 now considered 'average', many see this as a temporary blip that will eventually be corrected Ruzicka, 2021).

As ONS point out, increases in pay are somewhat variable and, given we're still emerging from the pandemic and, of course, lockdown when the use of furlough caused a reduction in average wages last year, any rise must be judged accordingly. Intriguingly, according to the ONS, 'real regular pay' for the latest quarter rise by 3.4% which is somewhat less than the 7.2% which was the increase calculated for 'total pay' which included bonuses.

Pay increases which, for many, particularly those working for the public sector, are likely to become something of a battleground in coming months. MPC member, Michael Saunders, who's publicly stated that inflation is likely to rise above 4% by the end of this year, believes interest rates will be raised much sooner than had been anticipated:

“The February one is fully priced in and for December, it’s half priced in. I’m not trying to give a commentary on exactly which one, but I think it is appropriate that the markets have moved to pricing a significantly earlier path of tightening than they did previously.”

Indeed, though we’re understandably hearing much about how much energy is going to cost us when the price cap is reviewed next spring, estimated to be at 30% more, a protective mechanism not available to industrial users who’ve not ‘hedged’, and resulting in some sectors which are voracious users of energy (Bet, 2021), Saunders is worried by the impact the lack of availability of workers for some sectors is likely to cause problems.

Yael Selfin, chief economist at KPMG UK, is among many who fear that labour market shortages created due to the “reduced availability of overseas [EU] workers”, is likely to ” stunt” economic recovery following the pandemic and lead to increased stresses and pressure in terms of wage growth.

Mark Jenkins, a supply chain director for food wholesaler Brakes, based in London, who’s interviewed for a BBC article (2021), provides a usefully insightful vignette into the immediate difficulties being faced by businesses attempting to recruit workers and deal with supply-chain issues caused by a combination of Brexit and the pandemic:

“In the last four months, we’ve recruited 700 people. But 400 of our staff have left us to work for other companies. For every two people we hire, only one person stays, because there are other jobs in the market. Our training costs have increased.”

Perhaps because of the fact that Jenkins immediate area of operation is London, where competitiveness is acute and was arguably more dependent on workers from the EU, he admits that it’s been necessary to increase wages by 15% to 20% to “attract the right kind of people” as well as paying retention bonuses to ensure they don’t leave.

As he warns, any increase in costs experienced by Brakes as well as its suppliers, need eventually work their way through to customers being required to pay more; “at the end of the day, the consumers will feel the pain.”

Ash Amirahmadi, managing director of Arla Foods, interviewed by Sky News, explains that a shortage of drivers means his company is unable to deliver milk to hundreds of shops every day:

“We are very mechanised when it comes to our production of milk and dairy products in factories, but we need drivers to take that to the shops. On average we’re delivering to about 2,300 shops a day and we’re regularly not able to deliver to about 10pc of our shops. That gives you an idea of the type of shortage we’re dealing with.”

Many speculate what will happen next.

There can be no doubt that any slowdown in the economy caused by the array of issues currently confronting businesses combined with inflation raises the spectre of what’s known as ‘stagflation’ which the IMF (International Monetary Fund) in advance of its annual meeting this week, will undermine all developed economies (Partington, 2021).

Partington is not exceptional in asking whether what we are likely to experience due to supply shortages in labour and key materials will mean we will undergo conditions “reminiscent of the

1970s" and that, were the outlook to deteriorate "at anything like the pace of the past six months, could a renewed winter of discontent lie ahead?"

Stubbington and Strauss in an article concerned with stagflation for the Financial Times (2021), include views by Vicky Redwood, senior economic adviser at consultancy Capital Economics. She suggests that what we're likely to experience is "a long way off" what was experienced in the 1970s when inflation stayed, memorably in double digits. As such, she believes, we will experience "stagflation lite."

Kitty Ussher, chief economist at the Institute of Directors, provides salutary advice to what the government needs to do because of what she refers to as the 'vacancy paradox' in which there's record vacancies but a higher number of people unemployed than prior to the pandemic:

"The answer appears to be that those people seeking work do not have the skills or availability that employers need. Businesses will be looking to the government to prioritise lifelong skills and retraining to help them find the teams they need to expand and grow."

If current chaos wasn't already great enough, Felixstowe port has issued a warning that it's experiencing problems handling imports due to "supply chain bottlenecks" (Dempsey and Plimmer, 2021). These bottlenecks are due the general shortage of HGV drivers meaning it's now taking 10 days before cargo can be taken inland to be unloaded rather than usual four and half days which used to be the average.

As this article describes, Maersk, the world's largest container shipping company, has taken the decision to divert large vessels away from the UK because Felixstowe because it is "rammed full of containers". As a spokesperson for the port explains, though the situation is improving there will continue to be problems for the foreseeable future.

This will have potential consequences for consumers will be shortages of certain items. Gardner, Tovey and Millward warn that there is a possibility of "Toys, clothes and electronics" not arriving in time for Christmas (2021). Brown (2021), quotes Alex Veitch, deputy director at Logistics UK, who believes that the situation the UK faces because of the lack of drivers available, requires urgent action by the government to reconsider allowing on 5,000 temporary visas to be issued, though, apparently, there has been a poor rate of take-up by truck drivers from the EU (Trilling, 2021).

All that's needed to make current circumstances more resonant with the 1970s is for Boris Johnson, who's conveniently out of the country when the 150 page report, Coronavirus: Lessons learned to date, written by the Health and Social Care Committee and the Science and Technology Committee, is published, upon his return to the UK from holiday in Spain to be asked about the multitude of crises confronting the UK, to answer, ala Jim, 'Sunny' Callaghan in January 1979 on his return from an economic conference in Guadeloupe during the 'winter of discontent', when he was misquoted by The Sun as having stated "Crisis, what Crisis?".

For the record, Callaghan what actually said was "I don't think that other people in the world would share the view that there is mounting chaos."

In the meantime, Marios Hadjikyriacos, senior investment analyst at XM, based on his observations of simultaneous disruptions, shortages, hikes in energy prices and food which will result in a higher rate of inflation, believes we're seeing the beginning of a "perfect storm". The Financial Times carried a story on Tuesday that, according to IMF (International Monetary Fund) forecasts, the recovery of the UK's economy will be much slower than other G7 nations and, by 2024, still be 3% smaller.

Worryingly, on the basis of the incompetence demonstrated in the last two years, it's difficult to see how the current government will resolve the many crises it's currently confronted with.

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