

What Are the Immediate Prospects for the British Economy (spoiler alert – not good)?

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There's been a slew of negative stories recently as to how bad things are for the public in terms of personal finances.

The recent rise in the bank of England base rate last week to 5.25%, intended to deal with inflation that, at 7.9% CPI (Consumer Prices Index) for the last 12 months to June 2023, though a reduction from May's figure of 8.7%, will undoubtedly increase the sense that things are not getting better.

It's salutary to remember that less than two years ago the rate was fractionally above zero at 0.1% as a consequence of the slowdown caused by the pandemic. And rates had been at an historically low level of 0.5% since 2009 due to the impact of the Global Financial Crisis.

Though the longer average of interest rates is closer to where they are now, a generation of homeowners and business has become used to paying low rates for borrowing.

Nonetheless, there's been a shock to business owners who are experiencing reduced levels of confidence as the toxic combination of more expensive money and commodity prices put pressure on their margins.

Unsurprisingly, consumer confidence has taken a hit which means (Romei, 2023), which means they cut back on their purchasing. This, unfortunately, means that retailers and those supplying goods (manufacturers) suffer.

In recent years, and despite predictions otherwise, unemployment (though not economic inactivity) has remained at a level not experienced since the 1970s. However, many believe that the recent hike in interest rates will create additional unemployment.

The Bank of England in announcing last week's rise also stated their view that unemployment is likely to increase to almost 5%.

Independent think-tank, The Resolution Foundation, which campaigns to improve living standards of those on low-to-middle incomes, claims there will be a direct impact on employment in the UK (Resolution Foundation, 2023). Its Research Director, James Smith, believes that though pay rates are increasing meaning the squeeze being felt due to inflation by many will ease, soon, "the price for taming inflationary pressures from Britain's tight labour market is an increase in unemployment of around 350,000."

Smith also pointed out that, on average, those with fixed rate mortgages coming to an end in the next six months face a hefty hike in their monthly repayments. He claims on average this amounts to £3,000 in repayments next year.

First time buyers, unless they have 'booked a deal', are looking at paying considerably more than they would have done this time last year prior to the infamous 'mini budget' presented by chancellor Kwasi Kwarteng.

Little wonder many believe the rise in house prices across the country are at an end (Wearden and Middleton, 2023).

As we know, this budget, part of Liz Truss' unfunded tax cuts, caused consternation on the money markets. This led to her demise and, lasting only 49 days as PM, earned her the dubious record of being one of the shortest surviving to hold this post.

The replacement of Kwarteng and Truss by Jeremy Hunt and Rishi Sunak last October was supposed to create stability in markets and restore their confidence in the UK's economic position, not to mention improving the election prospects of the Conservative Party.

It's not quite worked out as planned.

In the last year, as a direct consequence of Russia's illegal invasion of Ukraine, we've seen the cost of energy rise dramatically which led to government support last winter and which only ended a couple of months ago. In turn this has led to a surge in costs for producers of manufactured goods that has, as well as increasing the prices we must pay, resulted in many businesses experiencing considerably reduced returns and in many cases, caused losses.

Add in the very rapid increase in the price of food and the situation for many, especially those whose income has not risen by the same rate as inflation to believe that their situation can't get much worse.

As we head towards September and the political conference season, knowing that a general election must be held by no later than January 2025, there'll be inevitable attention on what the two main party leaders, Sunak and Labour's Keir Starmer, present in terms of vision to improve the economy.

Both leaders will be well aware of the immutable principle that voters do not support a party likely to make them worse off. As Boris Johnson so adeptly demonstrated when he was leader, telling people they will be better off, even without evidence, can produce considerable dividends.

Politics, it seems, has a tenuous relationship with economic reality.

Johnson's ability to spin a good story – some would claim lies – about what would transpire once the country finally left the European Union have been shown to be mere bluster.

Though history may judge Johnson to have been lucky in choices that allowed him to wrest control of his party from the hapless Theresa May, who most certainly was unable to 'get Brexit Done', he may also be equally judged to have been unlucky in being the PM when the UK, like the rest of the world, experienced the worst health crisis for a century.

The impact of Covid and the ensuing pandemic created understandable panic among citizens and, of course, the need to effectively shut the country down. The need to provide assistance by government to both individuals and businesses which had lost livelihoods and ability to conduct trade came at a phenomenal cost.

As the House of Commons reported earlier this year, "Current estimates of the total cost of government Covid-19 measures range from about £310 billion to £410 billion", which is the equivalent of between £4,600 to £6,100 for every person in the UK.

The legacy left by the chancellor who introduced what were extremely expensive, and unprecedented, measures, a certain Rishi Sunak, is now, of course, PM who'll be acutely aware of the strain on public finances.

And if the cost of dealing with the pandemic was not enough, conflict in Ukraine led to a spike in world energy prices, particularly gas, which meant everyone's bills rose at an alarming rate.

In the UK, which relies on gas to heat homes and has a reliance on this fuel to create electricity, the government once again provided more support to households and businesses.

So, some three years after we experienced the first deaths from Covid-19 and a year and a half into what seems like an intractable conflict in Ukraine, Sunak is dealing with an economy which, at best is sluggish, and surely cognisant that financial 'firepower' available to him and his government is severely depleted.

Against this backdrop Sunak, who, despite having lost the leadership election to replace Boris Johnson last summer to Liz Truss, became PM in the hope he'd revive the economy and, by dint, Conservative popularity, must contemplate what can be done.

The portents don't look good.

As independent thinktank the National Institute for Economic and Social Research, state in their most recent report UK Heading Towards Five Years of Lost Economic Growth (NIESR, 2023), because of the triple impact of leaving the European Union, the pandemic and ongoing conflict in Ukraine due Russia's invasion, the UK's economy has been badly affected (2023).

Worryingly, any diminution in prosperity will be felt most acutely by poorest citizens (Race, 2023).

As NIESR describe in their report, the poorest ten per cent of the UK population, already badly hit by the ongoing cost of living crisis, would have to increase their income by at least £4,000 per annum to have comparable living standards to those enjoyed prior to the pandemic (ibid).

Guardian economics editor, Larry Elliott, makes clear the stark problem poor households will face in the coming months, "hit by weak wage growth, higher debt, the need to devote more of their budgets to expensive energy, food and housing costs; and few with (if any) savings – would be 17% worse off by the end of 2024 than they were five years earlier. The richest households would be 5% worse off."

Contrary to what was asserted by Johnson and those who campaigned to prior to the December 2019 'Get Brexit Done' general election, those who felt marginalised and 'left behind' in the north of England, living in so called former "Red Wall" constituencies, and in which significant support for leaving the EU in the June 2016 referendum was demonstrated, things have not improved.

NIESR's deputy director for public policy, Prof Adrian Pabst, makes clear that one of the major promises made by Johnson, that 'levelling up' would occur, is patently not going to happen, "We are doing quite the opposite in terms of real wage growth."

As NIESR's director Jagjit Chadha contends, it's concerning that there are very definite indications of the return of 1970s "British disease" of the 1970s, when the UK experienced the combination of persistently high inflation and weak growth, frequently referred to as 'stagflation', have enormous implications for whichever party is in power after the next general election:

"Until we ignite economic growth, a substantial portion of households will struggle with high housing and food costs, poor transportation, a creaking healthcare service and dwindling savings. It is not a promising inheritance for the next government."

It's notable that HS2, a flagship infrastructure project, heralding the huge investment to increase capacity of the rail network and touted as a green solution to transport, appears, according to watchdog the Infrastructure and Projects Authority (IPA), "unachievable" (Simpson and Malnick, 2023).

Serious questions are also being asked as to the UK's preparedness for the transition to 'net zero' and the ability of energy producers to supply the vastly increased demand for 'greener' electricity once petrol and diesel vehicles are no longer available after 2030 (Fankhauser, 2023).

Following the recent by-elections there are serious concerns that, as voters in Uxbridge and South Ruislip showed by depriving Labour of a seat it expected to win, green measures, in that case intended to improve air quality, but costing citizens more, may prove unpopular to those whose finances are already under strain.

It's speculated the Conservative Party may under Sunak may, in an attempt to increase popularity and reduce potential losses at the next general election, be prepared to jettison even the relatively weak commitments that are still part of its future policy.

According to Times political journalists Steven Swinford, Oliver Wright and Chris Smyth, we can expect the Conservatives under Sunak to emphasise policies explicitly intended to appeal to a narrower band of supporters than the 'One Nation' Tories who used to be believed to support the party (2023):

"Sunak is planning to push a series of contentious policies in coming months in an attempt to create clear dividing lines with Labour on issues including crime, transgender rights and small boats."

Such policies, as well as creating a clear differentiation with the opposition, will result in a ramping up the so called 'culture war' that previously worked well for Boris Johnson.

Whether they will work as well for Sunak, a much less adept campaigner, remains to be seen.

It's clear Sunak's time in power, as well as his options for economic improvement, are, like good weather this summer, in short supply.

What can be said with certainty is that the state of the economy will continue to be a key issue for voters in the coming year.

If, as the Conservative Party under Sunak hopes, there's an upturn in economic fortunes, its electoral prospects may improve.

However, given the UK's being buffeted by a combination of international events, as well as the self-destructive consequences of leaving the EU (Keegan, 2023) which has added to the 'vortex of decline' being experienced, this seems unlikely.

What's apparent is that Rishi Sunak, a passionate supporter of leaving the EU, will continue to preside over the dog days of an administration that's out of ideas and now resorting to the worst form of 'dog whistle' politics in a desperate attempt to save himself and his party from a drubbing at the next general election.

Unfortunately, it must be asserted, whilst the country continues to 'go to hell in a handcart', we all collectively lose.

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