Is There Something I Should Know?

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Each day, it seems, we're bombarded with warnings about how difficult economic conditions are likely to become. Such warnings, from the sort of "experts" Michael Gove so famously chastised for believing, during the 2016 EU referendum campaign, that leaving would be negative, are intended to provide a sense-check of tougher times ahead.

At the end of last week there were two announcements providing indications of quite how bad things are and may indeed become. On Friday the ONS (Office for National Statistics), presented data showing that retail sales declined in December by 0.6% compared to November. Coincidentally on Friday, head of the International Monetary Fund (IMF), Kristalina Georgieva, whilst giving a speech at the Peterson Institute of International Economics in Washington, cited research carried out by her organisation indicating underlying conditions are rife for another "Great Depression".

The retail figure is significant as, traditionally, December is considered the 'bell-weather' month for retailers. As Woolworths discovered in the aftermath of the Global Financial Crisis (GFC), any diminution in sales during the festive season can prove terminal.

Moreover, in the ten years since the GFC, consumption through retail sales has been a major contributor to ensuring growth in the UK's GDP (Gross Domestic Product) – anaemic though it may be – continues.

Though there may be an argument that the introduction of 'Black Friday' has shifted consumer behaviour to purchase to late November, it's important to note that the ONS's data shows that there has not been a rise in retail figures since last July. This is the longest period without growth in this sector since the ONS started collecting statistics on it.

More worryingly, in the final quarter of last year, consumer spending in the UK declined by 1% when compared to the third quarter and by 0.9% over the whole of 2019. No-one who has walked down any high street outside of the most fashionable areas of London will fail to notice vacant shop units.

Collectively we're buying less. The reason is probably due to a variety of factors. However, though employment has remained positive, many jobs are temporary in nature and those employed are on flexible conditions such as 'zero-hour' contracts. There is plenty of evidence showing that those who are part of what is considered the 'Precariat' exist on income that means they struggle with the basics of food, accommodation and utility bills.

This week, Beales, though not a familiar name outside of the south coast, one of the oldest department stores in the country, has gone into administration meaning that its 1,300 employees employed in 22 stores face an extremely uncertain future. Only a fool would suggest that other high street names won't experience a similar fate. The portents are not good.

Georgieva in her speech on Friday suggested that conditions, difficult as they may be, are comparable to the so called "roaring 1920s". In citing inequality and financial sector instability, she was particularly critical of the UK. However, the import of Georgieva's message is that the 1920's, a decade perceived to be one of decadence when, after the horrors of the first-world war, confidence and investment boomed, led to the market crashes in 1929.

As she explained, "In the UK, for example, the top 10% now control nearly as much wealth as the bottom 50%." This situation, is, according to her, not good in the longer-term and creates additional pressures and instability.

Georgieva asserted that governments that acted in unison in the aftermath of the GFC to tighten regulations on financial institutions, should not be tempted to relax them. Such regulations were introduced precisely to attempt to stop banks and other financial institutions engaging in the sort of risk-taking that led to unprecedented problems of liquidity causing mayhem and, in turn, vastly reduced investment, spending and austerity due to bailing banks on the verge of failure out.

In a warning that will surely have resonance in the UK, Georgieva argued that there's temptation for governments to respond to political pressure caused by increased inequality by "quick fixes" that make the overall situation worse not better. The catalyst for the decision to hold a referendum was to head off the challenge of increasing support the UK Independence Party (UKIP) from voters who felt disillusioned, marginalised and "left behind" in comparison to other regions.

The outcome of the election Boris Johnson claimed he didn't want to call, an 80 seat majority, gives him a level of power that would allow him to take a much more adventurous approach than possible under predecessor Theresa May who was stymied by opposition from those opposed to anything other than the 'hardest' Brexit.

Freed of obligations to ensure the support from members of the European Research Group (ERG), there was a belief that Johnson would revert to the socially liberal incarnation he'd been when he was Mayor of London. It was speculated he might be willing to countenance the 'softest' possible departure from the EU; one that businesses argue is essential to protect their interests and the jobs of those they employed.

Chancellor Sajid Javid's recent interview with the *Financial Times* on 'face value' seems to put paid to such optimism.

In language that, as always, must be judged as having different audiences – pleasing his bosses Johnson/Cummings, assuaging concerns among the ERG, satisfying those who voted Tory in December, and as a marker to the EU prior to negotiations on the free trade deal – Javid was unequivocal; "There will not be alignment, we will not be a rule-taker, we will not be in the single market and we will not be in the customs union."

For optimists holding a candle for a soft Brexit that would maintain as close a relationship with the EU to ensure as much ease in trade with the EU as possible, the contents of Javid's interview will be as welcome as a kick in the teeth. His recognition that what is being suggested, will indeed "impact on business" was accompanied by telling them that they'd had over three years to prepare for whatever emerges and would need to "adjust".

Understandably, the response to Javid was a mixture of horror and apocryphal predictions of the potential impact. As occurred with the two deadlines to leave the EU last year, it's nigh on impossible to prepare for the possible introduction of a new regulatory regime that has no clarity or certainty.

Many sectors of industry and business contend that the end of frictionless trade through alignment of regulations will have profound consequences that will result in price rises in many products including, significantly for those on limited income, food.

Those that rely on seamless trade and unimpeded supply-chains with other companies and organisations in the EU, manufacturing (especially in the automotive sector) and pharmaceuticals, will suffer serious repercussions in terms of job losses and significantly reduced investment.

What Javid was suggesting in his interview with the *Financial Time*s may be a case of sabre rattling to threaten the EU with the worst possible outcome to concentrate their minds. This strategy worked well for Johnson when he became PM in renegotiating May's deal with the EU. However, assuming that what Javid suggested at the weekend to what actually emerges, there will be significant challenges and, to say the least, problems for the economy.

The impact of Javid's government's approach to negotiating the UK's trade relationship with the EU after Brexit would be most negatively felt in the parts of the country that he claims will soon experience benefit through very considerable investment in their infrastructure and skills.

It might be cynically suggested that what is the point of spending billions if firms in industries making the things we use and products that can be exported, which is good for the balance of payments, under increased pressure because of the government's approach to Brexit, close down or relocate to the EU?

Undoubtedly Brexiters will claim that being freed of the need to comply with the EU's unnecessary and overly-bureaucratic regulations and endless codicils will enable British industry to rediscover its competitive edge and entrepreneurial spirit. This, they would assert, will create the uplift in confidence that will ensure investment in jobs and opportunity that will result in the growth in the UK's GDP of 2.7 to 2.8%, double what it is currently, that Javid claims will be possible.

Others are not so bullish.

Outgoing governor of the Bank of England, Mark Carney, also told the *Financial Times* last week that he believes UK trend will stay at a much more modest 1 to 1.5%. Moreover, at Davos, the IMF are predicting that the overall growth in the world's economy for 2020 and 2021 will be, 3,3% and 3.4% respectively, not a great deal greater that the 2.9% experienced last year the weakest it's been since the GFC. Behemoth economies such as China are slowing down which, in a much more closely-connected world, is cause for concern for all nations.

We are likely to experience difficult times for the foreseeable future. Exporting to countries that are undergoing their own travails will be increasingly difficult. All of the warnings being presented would suggest that this is not a time to be contemplating a 'clean break' from the trading bloc still our largest export market. It's worth remembering that the top six of the top ten countries in terms of exports form the UK are in the EU and that Germany at 9.6% is second behind the United States at 13.4%.

It has to be said that thus far, the only people who appear to have benefitted significantly in recent years, certainly since the EU referendum in 2016, are the super-rich hedge-fund and equity investors Kristalina Georgieva cited in her speech. It's no coincidence that they supported and bankrolled the leave campaign.

As the title of this blog, 'Is There Something I Should Know?', a 1983 single from Birmingham-band Duran Duran suggests, maybe there is more information that we need to know about the government's stance on Brexit and negotiation of the free trade agreement. In the absence of such knowledge it has to be said that what we are hearing indicates a degree of illogicality that is likely to make the lives of those the government claims to want to help worse. As such it defies conventional economic wisdom.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807)