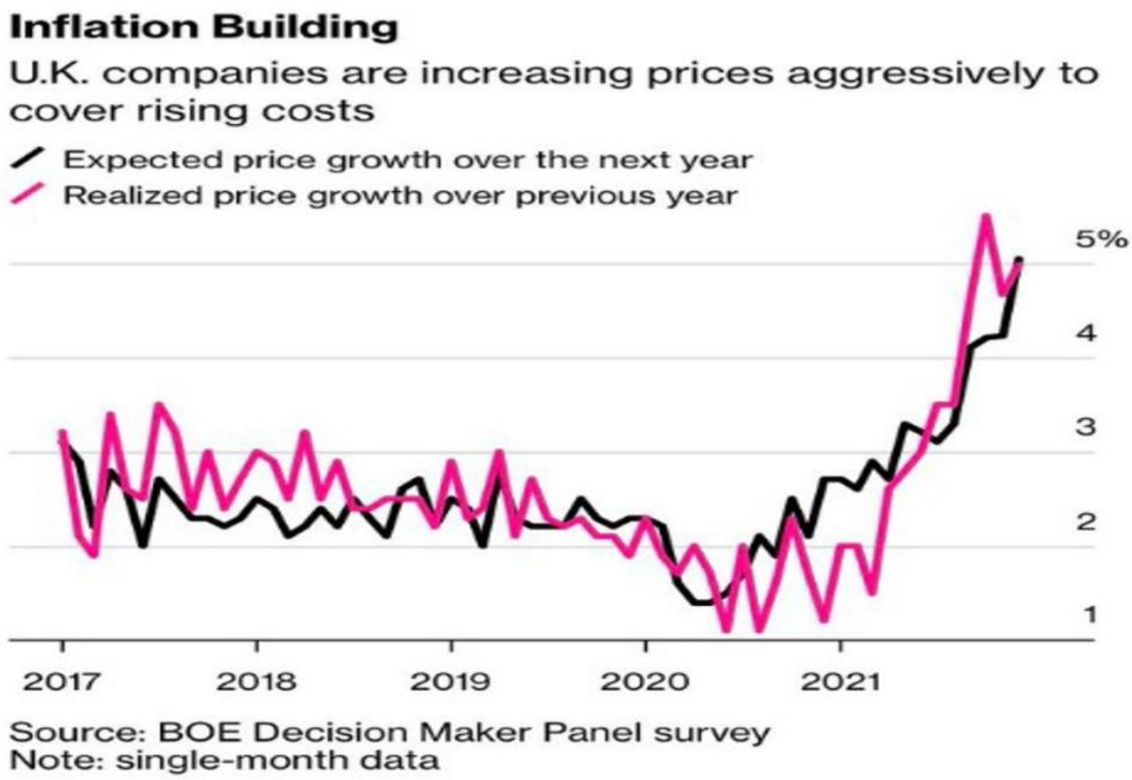
The Inflation Picture is Hotting Up – And Brexit Won't Help

Vicky Pryce, board member, Centre for Economics and Business Research, and Visiting Professor , BCU

Dr Steven McCabe in his BCU Centre for Brexit Studies blog on Jan 5, outlined the issues ahead for 2022, including concerns about inflationary pressures building up. Later that day the British Chamber of Commerce (BCC) published a poll they carried out which showed that 58% of firms responding to the survey which was carried out between November 1 and November 22, intended to raise prices for customers, with only 1% planning to reduce them. This was a record percentage planning to raise process since that survey started though it must be pointed out that it was carried out before the extra strains caused by the Omicron variant started being felt and also before the interest rate increase by the Bank of England on December 12.

Still the intention to pass on some of the rising costs to business was very much there . And on January 6 the Bank of England published the results of a survey of their own indicating that businesses are planning to raise prices by 5% on average in the new year, very much confirming the BCC findings. The interesting thing of course is that prices charged by firms were already up by 5% year- on -year on average by the end of 2021 though of course from a very low base hit during the pandemic where many businesses , though not all, saw prices flatline or even fall. Should we be surprised? Not really. The manufacturing sector, which has been particularly badly hit by supply chain issues and higher energy costs, has seen input costs go up at the highest pace on record. It has reacted by putting output prices up which in late autumn were rising by just over 9%, the highest since 2008, which was just before the financial crisis exploded.



One question of course is how persistent this may be.Another, and maybe linked question, is how easy it will be for those further price hikes to be passed on to other businesses or to the ultimate consumer when so much else may rise too, such as electricity and gas bills over the next year seriously denting real disposable incomes and therefore also the ability to spend. The answers are hard to determine , adding to the uncertainty for the next few months. But on current evidence the service sector seems to be already finding hardest having price rises accepted by the consumer

Being fatalistic or thinking about it purely as a global phenomenon about which we can do little, won't help. It is true that the whole world is feeling this inflationary strain as demand has recovered faster than supply when restrictions started being lifted. But the Office for Budget Responsibility in the note accompanying the Chancellor's autumn 2021 budget made it clear that Brexit has made supply chain problems worse in the UK compared to other parts of the world . The UK, as the OECD warned d a little while ago, looks like being hit for longer and with more persistent inflation than other parts of Europe at least, as both staff and supply shortages are further aggravated by Brexit.

We were already seeing the impact as early as in the year after the referendum where staff retention levels of EU workers in the National Health Service fell to the lowest among the various categories of workers and it is felt keenly in various parts of the NHS since, accentuated by the pressures of the pandemic. We have witnessed the problems with fuel supply, much worse here than in the rest of Europe , and in the HGV driver shortage saga. The farming community, where EU labour has traditionally represented more than 90% of the seasonal labour force, has been badly affected. And businesses more generally, including those in the hospitality sector , have found it difficult as a result of the loss of EU workers to serve customers and return to some semblance of normality.

So the questions remain partly unanswered and we will have to see whether customers overall will be able to pay those extra prices or will profitability , which was beginning to pick up , be squeezed again as customers either refuse to pay extra or just shy away. And what will that, alongside the threatened further interest rate increases, do to the large debt burden that many firms have accumulated during the pandemic. For SMEs in particular increased costs of trading with the EU, now aggravated by the new import controls at the UK end for anything coming from the EU as of January 1 ,will push prices even higher and will also act as a further disincentive to trading and investment. Supply side issues and thereby inflationary pressure will if anything get worse- as of course will consumer choice which will inevitably diminish.

References

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