Examining the Evolving Cost-of-Living Crisis

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In 'Hard Times' (McCabe, 2021), it was speculated that, given the success of the vaccine roll-out, potentially heralding an end to the pandemic, 2022 might be a year when events were not quite so bleak. We could look forward to better times.

There were certainly grounds for believing that were the economy to develop sufficient momentum, sustained recovery would follow.

Indeed, it was promised that 2022 would see fulfilment of the election manifesto promise to invest through 'levelling up' in areas of the country in which, due to decline in traditional industries, there was long-term unemployment, lack of prospects and endemic deprivation. Nonetheless, regardless of tenuous signs of hope, the portents were ominous.

Underlying structural economic issues, existing long before the once-in-a-century pandemic, meant that there were likely to be difficulties ahead for many, especially for those already struggling to pay bills. Recovery of economies across the world after the pandemic meant there were supply-chain problem with a range of basic commodities and, crucially, a spike in demand for energy which had caused prices to rise.

A hefty increase in the 'price cap' for energy used domestically was predicted. The Office of Gas and Electricity Markets (Ofgem), which regulates the electricity and downstream natural gas markets in the UK, imposed a 54% increase which will take effect from April 1st. For all but the minutely small number of households self-sufficient in fuel, this means a greater chunk of income being dedicated to paying utility companies providing electricity and gas.

However, the spike in the cost of energy was predicted to have another effect. Commercial users of energy do not enjoy the protection of the Ofgem price cap. Therefore, firms, unless they've hedged and agreed long-term prices for fuel required, are hit by any cost increase. They must either bear the pain or raise prices.

Many firms, still recovering from the negative impact of the pandemic, increased prices to deal with rises in fuel as well as a range of other commodities in short supply. As such, it was possible to identify an emergent cost of living crisis (Mellor, 2022). What was needed was stability and, it was hoped, no more shocks.

Though warning signs suggested the possibility, most believed a Russian invasion of Ukraine would not take place. Sadly, with tragic and heart-breaking consequences for those affected, President Putin made the decision to invade Ukraine on 24th February. We're informed Putin believed this would involve a rapid *blitzkrieg.*

Putin's illegal invasion is turning out to be far more protracted than planned and producing a dreadful toll of suffering. Whatever the eventual outcome of the current conflict in Ukraine, it's indisputable that tens of thousands, including women and children, will have been killed and horrifically injured.

The UN (United Nations) estimate of 3 million Ukrainians, mainly women and children as well as males over 60 and therefore too old to engage in defence, have become displaced by conflict. The vast majority, if they can, have fled the country making themselves refugees (BBC, 2022).

Worryingly, senior EU diplomat Josep Borrell suggests that if conflict in Ukraine persists, there could be as many as 5 million refugees.

One very immediate consequence for all European countries receiving these people – Poland has taken the largest number at well over 1.7 million (Middleton, 2022) – is the need to find accommodation and pay for looking after people who, through no fault of their own, were forced to run for the lives with nothing more than a suitcase.

As to when these people will ever be able to return to Ukraine is uncertain.

Regardless of rumours of some sort of negotiated peace settlement between Ukraine and Russia, and it has to be hoped that this will occur very soon – the economic shock will be felt in this country. Ukrainian President Zelensky admitting his country won't join NATO is seen as a vital concession to Russia (Brown and Rose, 2022).

Russia is a petro-economy (Horton, Palumbo and Bowler, 2022). Wintour (2022), citing Thane Gustafson, author of *Klimat, Russia in the Age of Climate* Change (2021), points out that Hydrocarbons generate 56% of Russia's export income and 39% of the federal budget.

Though the UK is not dependent on such exports – importing 8% of oil (mainly used to produce diesel) and 4-5% of gas – any disruption will negatively influence wholesale prices, which affects the costs we must pay.

As reported by Reuters in January (2022), because of higher than anticipated prices for oil and natural gas, these exports contributed far more to Russia's budget than had been planned. As the report explained, Russia export of crude oil accounted for $110.2 billion, oil products for $68.7 billion, natural gas via a pipeline of $54.2 billion and liquefied natural gas $7.6 billion.

Because of sanctions, declaration by a number of European countries to reduce dependence on Russian energy, as well as concerns that there might be retaliation by cutting off its supply of oil and gas, there's been another rapid spike in wholesale prices. Oil rose to $139 a barrel last week, a 30% increase since Russia's invasion (BBC, 2022a).

Unsurprisingly, gas prices have also increased. Last week wholesale gas was being sold as at 800p a Therm, representing an 18-fold increase since January 2021 (Chapman, 2022).

Though oil and gas prices have fallen back in anticipation of conflict in Ukraine possibly being ended soon, combined with recognition Europe's reliance on Russia's export of fossil fuels won't terminate anytime soon, there's still great nervousness by traders. Each development, particularly if negative, is likely to cause prices to increase again.

Notably, the price of energy has been partly decreased by news that because of an upsurge in Covid-19 cases in China, which implements a strict, "zero-Covid" strategy, citizens in a number of cities and counties are being subject to lockdown restrictions (*Guardian*, 2022). Given that one of the cities is 'tech hub' Shenzhen, in which 17.5 million people live, there'll be some supply chain problems (Wackett, 2022).

Some strange ironies of the conflict between Ukraine and Russia are emerging. Apparent reproachment with Iran, a country with significant oil reserves which would help in making up for any loss of Russian oil if this source were to cease, suggests hope for better relations ahead (Motamedi, 2022). The freeing of Nazanin Zaghari-Ratcliffe bodes well in this regard (MacDiarmid and Vahdat, 2022).

What is unseemly is the rush by PM Boris Johnson to create an even closer relationship with Saudi Arabia. Johnson, who's happy to acknowledge Putin's crimes, should surely be aware of Saudi Arabia's support for the Yemini government in its war on rebels that's resulted in alleged war crimes (Cheeseman, 2021). Saudi Arabia's leader, Prince Mohammed bin Salman, is implicated in the assassination of US-based journalist and critic, Jamal Khashoggi, in 2018.

At the weekend Saudi Arabia executed 81 prisoners for crimes ranging from killings to membership of militant groups, that largest number ever carried out on one day (Amnesty International, 2022). Little wonder Johnson is accused of switching allegiance from one cruel dictator to another (Peat, 2022).

However, what's certain is that we're going to see high energy prices for next couple of months. Should conflict in Ukraine continue over the summer, there'll be another, potentially large, uplift in the price cap by Ofgem on October 1st. Some firms may find it increasingly difficult to continue to trade if energy remains expensive.

In the meantime, we'll experience price rises for a number of products. The Treasury select committee was informed by leading economics and energy analysts on Monday that Petrol could soar to £2.50 a litre, while diesel could hit £3 and may even be rationed (Davies, 2022). This will make motoring prohibitively expensive for individuals and mean that distribution and delivery costs will go up which, in all probability, will be passed onto consumers.

Additionally, because of conflict in Ukraine, traditionally referred to as the 'breadbasket' of Europe, there's going to be consequences for the price of grains including wheat, corn and barley. Food will increase dramatically.

Ronald Kers, chief executive of food company 2 Sisters, stresses that the prices it's paying to farmers for some foods, including chickens, has risen by 50% (White, 2022). The overall impact on prices charged for foods commonly purchased could go up by 15% Kers believes (Chapman, 2022a).

On top of the proposed 1.25% increase in National Insurance due in April, as well as probable further increases in interest rates, it's hardly a surprise many commentators are concerned that the cost-of-living crisis will affect an even greater number of families than envisaged before Russia's invasion of Ukraine.

AS ONS (Office for National Statistics) data published on Tuesday demonstrates, though employees' regular pay, excluding bonuses, increased by 3.8% between November and January from the previous year, inflation, already at 5.5%, and expected to continue rising, will wipe out any benefit (BBC, 2022b).

As the Guardian's Larry Elliott asserts, even though unemployment has, according to the ONS fallen to 3.9%, almost what it was prior to the pandemic, and there' no shortage of jobs available, increased prices, taxes and energy costs "will bring gloom" (2022).

Similarly, the Resolution Foundation, the independent think tank which campaigns to improve standards of living for low-and middle-income families believes the squeeze caused by rising prices on typical 'real households', will mean they are 4% worse off (about £1,000 a year). In its fourth *Living Standards Outlook* (2022), the Resolution Foundation outlines a number of worrying consequences for already hard-pressed families none of which include the economic impact of war in Ukraine:

- Uprating benefits with a lagged measure of inflation will reduce the real value of the income provided by the benefits system by £10 billion in 2022-23
- "Across the income distribution, real incomes are currently projected to be lower in 2026-27 than in 2021-22"
- "2019-20 to 2024-25 is currently on track to be the worst parliament on record for income growth (with a 2 per cent drop in the median, without assuming any impact from the situation in Ukraine)"
- As benefits are reduced, relative poverty, absolute poverty and overall inequality will increase
- Prevalence of absolute child poverty is projected to be higher in 2026-27 than in 2019-20.

Chancellor Rishi Sunak, who's due to deliver his spring statement next week, is expected to provide additional assistance to help those suffering the effects of the cost-of-living crisis intensified by conflict in Ukraine (Giles and Parker, 2022).

As Paul Johnson, director of the Institute for Fiscal Studies, writing in *The Times*, contends in comparing the current crisis to the oil crisis of 1973, the vast majority will become poorer (2022). The question is for how long the crisis will be and how profoundly dreadful the pain will be for some.

That we're collectively going to experience a much tougher economic climate is certain. We can expect to see a vast increase in all forms of poverty based on many families having to make tough choices about whether to buy food or pay utility bills.

Government narrative is that public finances must continue to be improved to reduce public debt which, stands at over £2.3 trillion (Partington, 2022). It costs £6.1 billion each month in interest payments (which will rise with inflation and any increase in base rate). Failure to assist those who are being severely squeezed, especially families facing destitution, would come with political risk to a government which must face the electorate by, at the latest, December 2024.

There's a Latin proverb that hope Is the first step on the road to disappointment.

In the current climate, we have to hold onto the hope that Putin recognises the madness of his invasion into Ukraine and end the utter misery and suffering inflicted on its citizens.

Equally, we have to continue to hope that deprivation and inequality endured by millions in this country is, as anticipated by government in its levelling up paper, remedied over the next decade.

We must therefore hope to live in less interesting times in which peace, stability and increased prosperity for all, especially the poorest, become common characteristic features.

After all, what else can we do?

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