Things Can Only Get Better…But Not Any Time Soon!

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Tuesday's announcement by the ONS (Office for National Statistics), tells us much about the state of the economy. That UK unemployment fell from 3.9% to 3.8% in the three months to February, back to its pre-pandemic levels (October-December 2019), suggests an economy that's recovered from the shock caused by lockdowns and prospects for workers are good.

However, it's important to disentangle what the numbers actually show. As Strauss, writing in the FT claims, "the country's employment rate stayed flat as large numbers of people chose to leave the workforce despite record levels of vacancies" (2022). There are 1.296 million unemployed and, between January and March, 1.288 million vacancies.

Some may claim the similarity of these two figures represents an opportunity to create almost zero unemployment. The reality is that those who are unemployed usually don't possess the requisite skills and experience employers wish to procure. The shortage of the 'right' workers is an issue increasingly undermining the UK's economy.

Significantly, overall employment, with 32.485 million in work, though increasing by 10,000 in the latest quarter, is in excess of 500,000 workers lower than before March 2020. Tim Wallace, the *Telegraph's* Deputy Economics Editor, commenting on the paper's live business feed (*Telegraph*, 2022) cites the 800,000 workers who were self-employed prior to the pandemic and were "hit particularly hard" by the impact of lockdown.

As Wallace explains, though the number of employees has increased by more than 330,000, those under who are but classed as being 'inactive' in that they are neither in work nor looking for work, has risen to 8.857 million, the highest level since 2017. According to the ONS's data, the number of workers who are registered as long-term sick is now more than 2.3 million.

Additionally, the number of those who are economically inactive because they're looking after family or home or retired has increased. The former now stands at 1.7 million, the highest this figure has been since March 2020. The number of those retiring early, has increased and, according to Wallace, "more than 1.2m under-65s say they are retired" (*ibid*).

Overall, according to the ONS, economic inactivity rate increased by 76,000 over the quarter December 2021 to February 2022 (0.2%) and now stands at 21.4%. This should mean that those whose skills are most in demand should experience a rise in their pay. It's to be noted that vacancies in construction and have risen by 18.7% and those in hotels and food services, including restaurants, and entertainment have risen by 13.1%.

James Reed, chairman of Reed.co.uk, quoted on the Telegraph's live business feed (*ibid*), contends what we're seeing is a symptom of "The Great Lie Down" who, because of the pandemic, were forced out of the workforce but acknowledge being freed of the pressure and stress of regular working. Crucially, Reed argues, for these people to be "coaxed back", they will need to "convincing with attractive employment arrangements, higher wages and better conditions and benefits."

Pay, and the rate at which it's paid, as the ONS made clear in Tuesday's announcement, is going to be significant for many workers in the coming months (Inman, 2022). Data published by the ONS on Wednesday shows that CPI (consumer prices index) inflation, is now 7%, the highest it's been since 1992 (Partington, 2022a).

According to the ONS, RPI (retail price index), which includes housing, is now 9%. This is significant as a quarter of the national debt is based in this measure. This will mean the servicing costs are likely to increase on the £83 billion figure the OBR (Office for Budget Responsibility) calculated in its report to the Chancellor last month to substantiate the spring spending review.

Clearly, in order for any worker to maintain their standard of living it's essential to secure pay rises higher than the prevailing rate of inflation. Interestingly, so called 'experimental data' produced by the ONS indicates that because of shortages of workers in many sectors, median monthly pay increased by 6.0% for the to March.

For some, therefore, the gap between what they earn and the average price they must pay for goods and services is not great. Indeed, for those working in the finance and insurance sector, where pay has grown by 19.7%, there'll be a significant increase in spending power. Many companies are resorting to the tactic used by airline company, British Airways (BA), which is reportedly willing to pay a 'welcome bonus' of £1,000 to lure cabin crew away from rivals (Macola, 2022).

Unfortunately, though, for millions of other workers, a gap that's already significant is likely to become much greater in coming months as inflation increases to close to 9% as the OBR predict, or double digit, as many fear is possible because of the consequence of conflict in Ukraine and its impact on energy, fuel and food prices (Nachiappan, 2022).

As the ONS indicated in Tuesday's announcement, average earnings, including bonuses, are growing at 5.4%. However, without including bonuses, according to ONS data, average pay only increased by 4%. Little wonder a range of campaign groups are extremely concerned about the impact this widening gap is going to have for the prospects of millions of workers. There's particular concern for public sector workers and those on benefits whose incomes will rise by only 3.1%.

Matters are likely to become a great deal worse if, as is widely anticipated, conflict in Ukraine drags on for many summer months. According to an initial assessment by Ofgem which provides oversight of the domestic energy market, the average household bill could increase by another 20% (£500) in October to a total annual cost of £2,400 (Wright, 2022).

Dreadful as this increase may be and, depending on the volatility of wholesale prices over the coming months, Ofgem provided a worst-case scenario to government ministers of a rise in the price cap which would result in a total average annual bill of £5,000. If this were to occur the impact would be utterly devastating to millions of families next winter.

Those on lowest incomes experience a disproportionately greater hit from the impact of inflation of basic items such as energy and food which takes up a larger slice of their income. Because these items are increasing at a faster rate than other commodities in the 'basket' used to calculate inflations, they are adversely affected by ay diminution in income (Myron Jobson, 2022).

Jake Finney, economist at PwC, also quoted on the Telegraph's live business feed (*ibid*), is pessimistic about the way in which wage increases will play out for workers in different sectors, "Lower-income workers are expected to see the sharpest fall in their wages this year, as higher earners are seeing significantly larger rises in their nominal pay packets."

Worryingly, Finney explains, modelling carried out by PwC indicate the squeeze being caused by wages lagging behind inflation could mean the average UK household being "around £900 worse off," but that the lowest earners may see incomes fall by "as much as £1,300."

As the BBC's Personal Finance Correspondent, Kevin Peachey asserts, policymakers (the government), because of the rapidly deteriorating economic situation, face the dilemma of what to do to ensure poverty does not dramatically increase (Jordan, 2022). Hoping that the market sorts the problem out is both crude and a highly uncertain 'solution'.

Besides, as Peachey explains, large wage increases will feed into the inflationary spiral and make what's already a bad situation worse. Equally, targeted support, by which money is given to the poorest, is costly to the treasury and will, if past form is anything to go by, be resisted by Chancellor Rishi Sunak.

What's for sure is that reduced spending power caused by the cost-of-living crisis will have profound implications for the UK economy. Retailing, already suffering from the effect of forced closures during lockdowns, will be hit by any reduction in discretionary spending.

Helen Dickinson, chief executive of the British Retail Consortium warns that though sales appear buoyant in recent months, this may be due to the increase in prices caused by supply-chain issues (Partington, 2022). As Dickinson claims, consumer confidence is fragile and many believe their personal finances will decline in the next 12 months, "reaching depths not seen since the 2008 financial crisis."

High streets, already depleted before the pandemic, will inevitably continue to suffer. Even retailers of food, which proved resilient during the pandemic, are starting to feel the pinch. For instance, sales at the Co-op's food business reduced by 2% to £9.1bn and profits fell by 57% (Butler, 2022). This was despite the group having invested £140m in opening 50 new stores and refitting 87 others.

There's absolutely no doubt that all but those who are wealthy or lucky enough to be on high salaries are starting to feel the pinch. As a longitudinal social study run by University College London indicates, participants are now more worried by the state of their finances than catching covid (Romei, 2022).

Some even believe that the situation we are likely to experience in coming months could see the dreaded combination of an economy shrinking whilst inflation continues to rise; what's known as 'stagflation' (Rogers, 2022). Karen Ward, chief market strategist for Europe, Middle East and Africa at JPMorgan Asset Management, is more sanguine about the UK's economic prospects but cautions the government to be more proactive in managing emerging risks (2022).

If there wasn't enough going on already, the fact that 'Partygate' has resulted in fixed penalty fines for the Prime Minister, Boris Johnson, as well his Chancellor, Rishi Sunak, for attending parties during lockdown provides another distraction from the cost-of-living crisis which is like nothing experienced for a generation.

At precisely the point at which we need the government to be at the top of its game, there continues to be uncertainty and equivocation about what is needed to support those most affected by eye-watering price rises and an economic that's faltering.

Given that GDP (gross domestic product), the measure of economic output, rose by only 0.1% in February, a fall of 0.7% from January, most commentators having predicted a rise of 0.3%, indicates that the UK is effectively in stall-mode (Sky News, 2022). And anyone who keeps abreast of covid-19 data will be aware that the rate of infection and, more particularly, deaths remain alarmingly high. 1,533 deaths have been recorded in the last seven days in which the person had tested positive in the previous 28 days (UK Gov, 2022).

There’s much to be done. Though, economically, things will eventually get improve, this won’t occur anytime soon.

Sadly, it must be feared, for the vast majority, things will get a great deal worse in coming months. The Chancellor will come under intense pressure from a wide range of bodies and campaign organisations to do more to provide assistance to individuals and businesses to alleviate financial pressure and stave off further economic decline which will create a vortex of hopelessness (Inman, 2022a).

Worryingly, anyone under the age of 55, who can’t remember what it was like to live in Britain in the mid-to-late 1970s, should be aware of the increasing appropriateness of the hit in December 1974 by Canadian rock outfit, Bachman Turner Overdrive:

‘“You ain’t seen nothin’ yet”.

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