BUZZ-ONOMICS

A CLEAR AND ACCESSIBLE GUIDE TO THE STORIES THAT MATTER

St Catherine's BRAMLEY

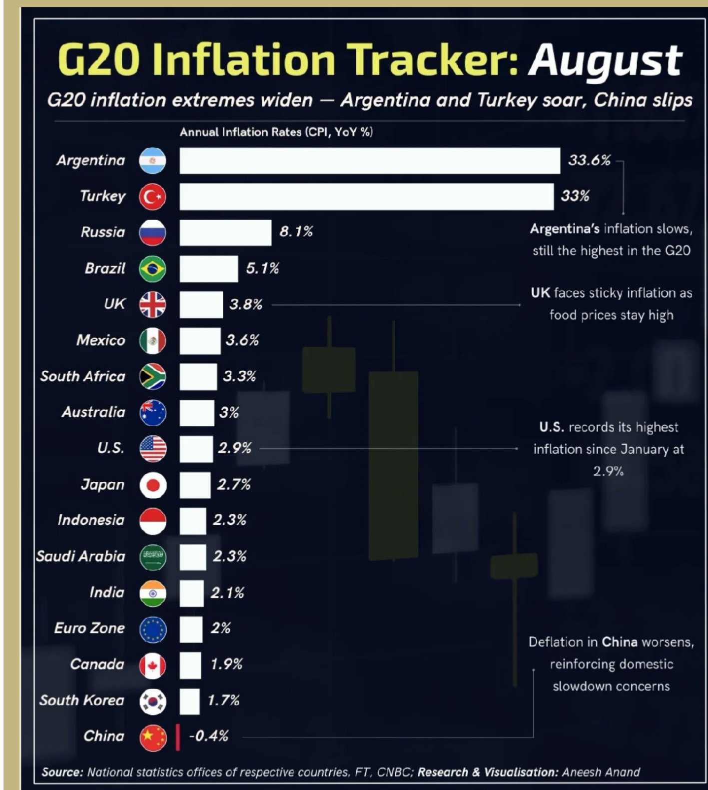
This week has brought further warnings about the state of the economy. The infographic to the right shows that although the UK's inflation rate is way below that of Argentina it is still above that of many other countries. This matters because it makes our exported goods and services less competitive and if wages don't keep pace, then standards of living will fall.

Over the last few days, the IMF (an international organisation who amongst other things produce reputable forecasts) also expressed concerns that high inflation and a weak economy means that improvements in living standards in the UK will be the worst out of all the G7 countries. The other G7 countries are the US, Canada, France, Germany, Italy, and Japan. The Bank of England have also joined the debate warning of recession. A recession means the economy shrinks for a period of six months or more. The Office for Budget Responsibility have talked about economic growth being "permanently weaker". This is a problem for the government as they promised to raise living standards and to deliver faster economic growth per person than the other G7 countries by the end of the parliament. Forecasts are simply that - forecasts - but the economic outlook seems concerning.

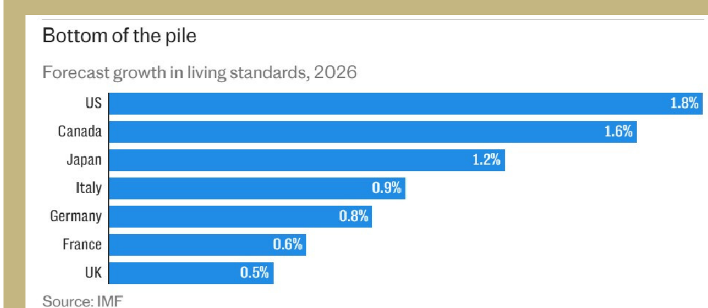
These warnings come only weeks before the Chancellor needs to make some tough decisions on spending and tax. Decisions will be announced in the Budget at the end of November. Slower growth matters because it means the government will receive less in tax receipts as fewer people will be earning and spending and company profits are also likely to be lower. The IMF have warned that the Chancellor needs a credible plan to avoid a situation where the government needs to borrow more. Even now investors are only willing to lend money to the government at higher interest rates than in other comparable countries. Problems of this sort are relatively recent for the UK government as it has an exemplary record of repaying money it has borrowed.

What are people saying might happen in the Budget? Goldman Sachs say the tax rises will need to be "significant". This is awkward because in the run up to the last election the Labour Party said they would not increase taxes on "working people". Possibilities include extending the freeze on tax thresholds. Tax thresholds are the incomes at which people start to pay tax or move into a higher tax band. There is a possibility of reforming property taxes such as stamp duty (payable on the purchase of a house) or introducing capital gains tax when people sell their main residence. There could be changes to pensions (long term savings to fund retirement) and/ or higher taxes on online gaming companies or bank profits.

All this uncertainty means that consumer confidence and business confidence remain low. According to some commentators the housing market is almost at a standstill. None of this is helping the UK's growth prospects.



Source : Visual Capitalist



Source : Telegraph

Questions to consider:

- Do you think people are right to worry about the state of the economy?
- Do you think it is wrong if a government breaks its election promises?

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