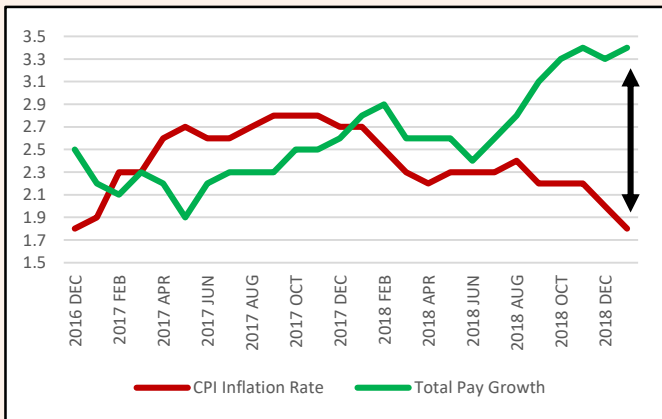


15/02/19

Here are the five economic stories which have caught our eye this week:

Rises Like a Rocket, Falls Like a Feather



This week the Office for National Statistics (ONS) released data detailing the latest inflation figures in the UK. The headline figure from this report was that the inflation rate (CPI) fell to its lowest level in two years. This is because the rate at which prices were rising in the month of January stood at 1.8%. This marks a slight slowdown compared to the final month of 2018 where prices were rising on average by 2.1%.

The main cause for the drop in the monthly inflation rate comes amidst a fall in energy and fuel prices, part of which stems from a government policy to intervene in the energy market and impose a price cap. However, what is of most significance to economists and statisticians is whether the latest set of inflation figures provide any evidence of a projected change in the monetary policy stance from the Bank of England in the coming months.

The monthly inflation figure itself is 0.2 percentage points below the Bank’s inflation target, but this represents the first time that UK CPI inflation has fallen below that target in two years. Is this just a temporary blip or is this more tangible evidence of a slowing economy? In essence, this explains why central banks look at a whole host of different data sets to establish a true sense of what is happening in the wider economy. One aspect that central bankers will take a particular focus on is the wage growth associated with workers in the UK. Traditionally if wages rise this signals a tight labour market and possibly a sign that a headwind in inflation is starting to develop. The UK is currently experiencing a period of sustained wage growth of 3.3% whilst inflation is falling.

Discuss how the data provided by the ONS in recent months provides evidence against the traditional Phillips Curve.

Imagine you are a member of the MPC for the Bank of England, in light of some of the recent economic data, what interest rate decision would you support?

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The Art of Negotiating a Trade Deal



This week the performance of the UK’s Trade Department was put under the microscope in relation to its handling of trade treaties in a post-Brexit Britain.

As a member of the European Union, the UK is part of the customs union and the single market. The customs union provides a trading bloc in which trade barriers are reduced/eliminated between European member states. The single market involves the convergence of regulation and product standards to one particular level. This means unless the EU has a trade agreement with a country outside of the EU, a common external tariff is applied to any goods that are traded between member and non-member states. The EU over the years has negotiated 40 preferential free trade agreements with 70 countries to provide special access to those markets for member states. These deals are infamous for their extensive negotiation time taken to make the deals legally binding.

Britain’s expected departure from the European Union (EU) will hurt UK-EU trade but will also result in the UK losing those existing trade agreements with countries such as Japan, Canada and Turkey. This means that in order to ensure that there is a smooth transition upon leaving the EU, businesses need to be provided with the certainty that the trade agreements will still remain in place.

However, it has come to light this week that the UK has only managed to ‘roll-over’ four of these existing trade treaties, which just about covers 13% of total UK trade which is facilitated by these preferential EU free trade agreements. The concern is that without these trade agreements in place, the economic consequences of Brexit may be steeper than anticipated in the short-term.

With the aid of a diagram, explain the extent to which free trade agreements affect the volume of imports into the UK.

Delays, Delay and More Delays



In 2018, the second and third largest supermarket chains stunned the business world with a proposed £12bn merger deal to create the UK's largest supermarket chain on a market share basis. The move came as a surprise to many because of the tribal instincts which exist in this fiercely competitive market – many shoppers have their 'go-to brand' to visit when carrying out their weekly shop. Would this merger deal see the disappearance of one of the most iconic brands on the UK high street?

Sainsbury's and Asda are mainstays in the UK supermarket industry and make up half of the traditional "Big 4" supermarket firms. If the merger goes ahead, the combined group will have a market share of 31.4% and have a combined store count of 2,800 stores across the UK. It is estimated that under this proposal one in every three pounds spent on grocery shopping will belong to this grocery group. The firm's profitability is expected to rise as a result of the group confirming that cost savings of 10% could be earned from the merger.

From the point of view of the Competition and Markets Authority (CMA) and many industry stakeholders what is of the greatest concern is the impact that this deal, if approved, would have on the competitive forces within the industry including contestability, bargaining power, service quality and final prices.

To reflect these concerns, an inquiry group composed of a series of CMA panel members have been busy producing a report to analyse the expected impact this merger deal would have at both a local and national level.

The scale and complexity of the report is extensive because of the wide consequences a deal of this magnitude could have on economic agents. As of this week the CMA announced that this report would be delayed by a further two months so that a "fully reasoned" decision can be reached. It is rumoured that the CMA will allow the deal to pass but only under a series of certain conditions such as a reduction in regional store concentration or an enforcement of supplier margins.

Discuss how a merger of this nature can affect the level of contestability in the supermarket industry going forward.

In reference to the information provided above, and your own knowledge, would you recommend that the CMA should intervene and prevent this merger from going ahead? Justify your recommendation.

Global Britain: A Twenty-First Century Version



This week a report published by the Henry Jackson Society thinktank, backed up by prominent politicians such as Boris Johnson, detailed the vision for UK foreign policy and in particular the UK's foreign aid responsibilities.

Within the report an important discussion is brought up over how to overhaul the rules which govern the way in which international development funding is spent or what is more commonly referred to as ODA. For a considerable period of time, the UK has committed 0.7% of GDP to foreign aid related purposes. This resulted in £13bn being sent overseas for development efforts in 2018.

ODA is only permitted to be directed to countries that satisfy a broad range of criteria and some have argued that it does not fit in line with the UK's political, commercial and diplomatic interests.

Research and discuss what criteria countries have to meet to be able to be eligible for ODA.

Discuss the view that free trade is more effective than aid in promoting economic development in developing and emerging countries.

Finland's Universal Basic Income Experiment



For two years, the Finnish government has experimented the idea of giving unemployed citizens a universal basic income of £500 a month. The concept of UBI provision is so that individuals are given a guaranteed financial safety net whilst actively searching for a job.

This is important because the attractiveness of providing a UBI to citizens stems from the fact that it allows individuals to re-train themselves during unemployment periods to help equip them with the essential skills required to get back on the jobs market.

The trial ran from January 2017 until December 2018 and affected 2,000 unemployed Finns. The results were that overall employment levels did not change, but the participants in the trial reported higher levels of happiness and felt less stress and pressure over this period.

In reference to your knowledge about the labour market, discuss why the provision of UBI may not prove effective in reducing unemployment numbers.