Wages continue to plummet in the UK, as inflation rises

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Recent reports highlight the ongoing attack on the living standards of the working class and sections of the middle class.

The impact of years of wage cuts was revealed in a survey of 6,500 workers published in June by the Unison trade union. It found that just over half had borrowed money from family or friends.

Two out of five of those surveyed, including paramedics, teaching assistants and council workers, said they were unable to save any money. One in 10 had missed meals to feed their children.

Last month, Visa, the debit and credit card company, published its Consumer Spending Index (CSI) for the UK.

The report showed that for the first time since 2013, there was a fall in household expenditure, down 0.8 percent on the year across a wide spectrum.

Among the hardest hit sectors were transport and communication down 7.9 percent, clothing and footwear sales down 5.2 percent and household goods down 4.1 percent. Business analysts IHS Markit compiled the report on behalf of Visa.

The report quoted Annabel Fiddes, an economist at IHS Markit: "Latest data revealed a renewed fall in UK consumer spending…the first decline in spending for nearly four years. The overall reduction was driven by a fall in spending on the High Street, which declined at the quickest pace since early 2012.

"The outlook for consumer spending continues to look relatively bleak, with households facing faster increases in living costs and muted wage growth."

Fiddes warned that with "uncertainty around the outcome of Brexit and a slowdown in UK economic growth, it's likely we will continue to see weaker expenditure trends at least in the near-term."

Kevin Jenkins, UK & Ireland managing director for Visa, commented, "Our index clearly shows that with rising prices and stalling wage growth, more of us are starting to feel the squeeze."

With June's snap general election resulting in an enormously weakened and unstable minority Conservative government tasked with completing two years of Brexit negotiations, Ben Brettell, senior economist at Hargreaves Lansdown, summed up these concerns, stating, "The UK economy faces a dangerous cocktail of political uncertainty, slowing growth and shrinking real wages."

An article in the June 14 *Independent* noted that the Office for National Statistics on the UK labour market showed that while average wages increased 2.1 percent in the first quarter of the year, inflation for April was recorded as growing by 2.7 percent. This meant a fall in value in real terms wages by 0.6 percent, the biggest drop since August 2014.

Between 2007 and 2015, real wages in the UK declined enormously. Apart from Greece, the UK has the worst record on workers' spending power of any Organisation for Economic Co-operation and Development country. The latest ONS figures put the level of average wages in real terms below even the figure for the end of 2007.

The *Independent* quoted the response to the ONS figures by Samuel Tombs, an economist at the economic intelligence company, Pantheon Macroeconomics. He said the wages figures were "astonishingly weak."

"The painful experience of 2011/12, when inflation surged but wage growth weakened, appears to be repeating; firms are responding to rising raw material costs and uncertainty about the economic outlook by doubling down on pay awards," Tombs concluded.

The significance of the fact that in real terms wages are falling, while the number in work is increasing, was highlighted in comments by Stephen Clarke, an analyst at the Resolution Foundation think tank. He concluded that wages would only decline further, stating, “The sharp contrast between our terrible record on pay and strong jobs performance shows that the currency-driven inflation we are experiencing is not feeding through into wage pressures and is simply making us all poorer instead.”

Following last year’s referendum vote to leave the European Union, the value of the pound decreased markedly. Inflation is now beginning to increase significantly. The ONS figures show inflation at its highest since June 2013, reaching 2.9 percent in May. Price increases for food and clothing helped to boost the inflation figure. Also on the rise are the costs of holidays and recreational goods such as computer games, the price of which rose by 0.9 percent in May compared to the previous month.

Some experts expect inflation to be running at 3.2 percent by the end of the year.

Last week, the *Guardian* cited the comments of Amit Kara of the National Institute of Economic and Social Research, who warned, “We expect inflation to rise further over the course of this year and to reach a peak in the final quarter of 2017. This spike in inflation will exert further downward pressure on real household disposable income, at a time when wage growth remains modest and in turn squeezes consumer spending.”

The impact of the fall in real wages and rising inflation is negatively affecting the retail sector, which makes up an important component of the UK economy. Analysis of footfall figures (number of people entering shops) for UK high street shops showed a 2 percent drop in May, compared to the same month last year.

As a result, big business is demanding further concessions from the government. Helen Dickinson, chief executive of the British Retail Consortium, said, “In an uncertain economic climate, retailers will be looking to the next Government to fundamentally reform business rates; to implement a more sustainable system that allows for growth and investment.”

The decline in footfall was reflected in the sharp drop in retail sales as recorded by the ONS of 1.2 percent in May. Sales levels were last at the current levels in 2013, with the decline higher than analysts had expected.

Commenting on the figures in the *Guardian*, Samuel Toms of Pantheon Macroeconomics explained: “Retailers have not finished yet passing on higher import prices to consumers, wage growth looks set to remain depressed and banks are reporting that they intend to restrict the supply of unsecured credit. As a result we expect quarter-on-quarter growth in households’ real spending to average just 0.2 percent in the remaining three quarters of 2017, ensuring that the overall economy continues to struggle.”

The fall in wages will be exacerbated with millions facing huge increases in mortgage payments, if the Bank of England decides to increase interest rates. Last month, it was revealed that the Bank of England’s chief economist Andy Haldane, who voted with the majority of the bank’s Monetary Policy Committee (MPC) to keep increase rates at 0.25 percent, favours an increase later this year.

This week, Bank of England governor Mark Carney appeared to support an interest rate increase in the period ahead, stating that “some removal of monetary stimulus is likely to become necessary”. He said the bank would consider a rise based on “how the economy reacts to both tighter financial conditions and the reality of Brexit negotiations. These are some of the issues that the MPC will debate in the coming months.”