HawkinsHatton

CORPORATE LAWYERS

Newsletter September 2022

CAUSE AND EFFECT

It has been some since I have been talking about the big beast stalking the long grass of the UK economy. But we can all now see the beast of inflation has pounced not just in the UK but also in the global economy as it ravages all of the 38 countries in the OECD (Organisation for Co-operation and Development) to a greater of lesser extent.

Now being in the midst of inflationary pressures, the question people are all asking is "when will it end?" but to understand that we will need to know what has led to the current situation. In one word "Covid" has had a big part to play as it has caused the "workshop of the world" (a phrase originally coined for the UK economy at the start of the Industrial Revolution) China to effectively shut-up shop to prevent Covid outbreaks. This is still being done now in large parts of China, so making the distribution of goods very erratic. Whilst in the western world furlough fuelled the demand for consumables which were now getting harder to obtain because of China's zero policy on Covid.

Then there has been quantitative easing ("QE") which again the UK and to be fair the EU and the US have all adopted due to the pandemic by in effect printing money in the form of government bonds to help stimulate economic recovery as well as pushing businesses and so stemming job losses. Just to put this in focus, it is estimated that the UK has spent 375 billion pounds which is equivalent to 20% of the UK's GDP with QE.

The combination of these two factors has meant there is more money chasing less goods, which inevitably leads to higher prices and now there is an ongoing war in Ukraine which is causing disruption to the global markets, not just wheat and grain but also things like neon and palladium as well as for oil and gas. All of which again leads to less supply to meet current demands so prices have to go up.

So, we can all see what the causes are and we can all feel the effect even if it is just putting petrol in a car. We have to give some thought to the fact that if there are any other factors that come into play to derail growth, then we will be in recession for longer than anticipated albeit this is not being reflected in unemployment as we still have full employment but that is a discussion for another day in terms of the war on talent. If we do get wage inflation without increasing productivity, it will be a full gone conclusion that the recession will ravage much more of the UK economy than anticipated.

Hopefully when Liz Truss gets her feet under the table, she will firmly take control of the government and give it direction which it needs in order to steer a path to growth and away from potential stagflation albeit the market for employment is still overheating.

***Colin Rodrigues** (Our Corporate Partner)*

In This Issue

INTERESTING TIMELINE

Colin Rodrigues (our Corporate Partner) does not have a crystal ball, but he does have his ear to the ground as he works on the coal face of what is the SME sector for UK plc.
This is reflected in his accurate editorials predicting current inflationary trends since 2018.

Tracking Inflation

Inflation

2018 — Aug 2018 — Feb 2020 — May 2021 — Oct 2021 — Feb 2022 — Mar 2022 — Jun 2022 — Jul 2022 — 2023

A High Street Called Titanic
Express & Star

We are at a watershed moment in the economic development insofar as the UK high street is concerned. Britain built an empire on trade and were fondly known through-out the world "as a nation of shopkeepers", but has this all changed with the dawn of an internet-savvy generation?

In a recession everyone understands that retail will be under pressure as people want to keep their money in their pockets. However, by all measures, whilst the British economy has slowed down we are not in recession. In fact, the job market is tight and inflation is also falling.

What then is causing the sea change in the high street? Is it the direct costs of having a footprint in the high street as compared with having a distribution centre? Or, is it a change in our shopping habits as the internet savvy generation are now older and have more disposable income.

The old stalwarts of the high street have been consigned to the dustbin of change as we have moved into new waters. Warnings of this collapse on the high street have been broadcast, even the British Retail Consortium as far back as two years ago warned that there would be 900,000 jobs lost in the retail sector.

Everybody would like to blame the national minimum wage and business rates as these are the two largest costs retailers face. I agree that these costs contribute to the difficulties for retailers, as compared with internet retailers who may instead use distribution centres and less employees.

The other catalyst for change is shopping ***habits.*** *We* ***are*** *still in a cycle of consumption, it is just that consumption has moved from the high street to online.*

Exit Brexit Growth
Birmingham Post

As we can finally see an end in sight to Brexit, we must now start to look to the future of the UK economy and try and influence the best way for the UK to deal with the challenges it will face in the post Brexit world.

This leads me to an issue which I always express a strong opinion about as it is something I look to improve within my own firm on a continuing basis. In a word it is "productivity". This has long been the curse of the UK economy as there are inefficiencies in what we do in the UK at work.

Will the UK get back to the growth it achieved in the last decade? This was over 2% in real terms which can be translated down into the doubling of living standards every 35 years. But since the turn of the century, the UK growth figures have been well below this.

Economists have mused and politicians have pondered over the reasons why productivity has been so low in the UK. Consensus has centred around the fact that the UK has been more focused on ensuring that (since the last financial crisis) those who are able and willing to seek employment gain employment and so the UK is close to full employment.

Another conundrum is that, notwithstanding we have almost full employment within the UK, inflation is still at an all time low. In the post-Brexit world with the UK no longer being the magnet it once was for the younger mobile Europeans; the UK may not continue with this full employment so now the UK must concentrate all its efforts on productivity otherwise inevitably firms within the UK will have to raise prices to deal with demand.

Is the Big Beast Back?
Birmingham Post

It was in the 1970s when the spectre of inflation stalked the UK economy like a big beast in the long grass when the rate of inflation was as high as 25%.

But what exactly is inflation? We mostly associate inflation with Latin American countries like Argentina and Nicaragua. Though this view is not wholly wrong, as in simplistic terms if demand for goods outstrips supplies, then prices increase as demonstrated by Alfred Marshall's supply and demand curve, for those economists among you.

In the UK, inflation is measured by the Office for National Statistics (**"ONS"**) and they report to the Government to look at the Consumer Price Index (**"CPI"**) when deciding which levers to press in order to control inflation, albeit the control of monetary policy has been given to the Bank of England (**"BoE"**) who set interest rates. The CPI is a measurement of the weighted average of goods and services which we consume in the UK which then translates into the cost of living, as the CPI measurement includes housing, food, transport and utilities.

It was just reported by the ONS last week that in the last 12 months to April 2021 the CPI has increased by 0.7% to 1.5%. This increase was more likely than not helped by the rise in fuel prices from the 12-year low this time last year as a result of the first lockdown when most people will recall that there were no cars on the road.

According to the BoE, this rise in inflation should settle down later in the year and then fall back to 2% in 2022 and 2023. However, this is not a settled view of all economists that this overshoot in the inflation target will only

Back to the Future
Express & Star

Not the famous film with the DeLorean, and that synonymous cinematic scene throwing Marty McFly back in time through the use of the mystical flux capacitor. I mention this because sometimes it seems like we are back in the 1970s, notwithstanding we are in 2021. Growing up in the 70s, I can recall the soaring energy prices, power cuts, bin strikes, food shortages and rising inflation that were associated with the 1970's. That is why there are so many comparisons between the challenges faced in 2021 and those in the 1970's.

There are myriad reasons we can attribute to why all these things are happening, whether this be as a result of Brexit, Covid-19 lockdown, structural changes in the UK economy, the global supply chain crisis and so forth.

You may recall earlier this year I said "is that big beast back, stalking the long grass of the UK economy ready to pounce on the unwitting consumer". I think we can all agree that the real threat to the UK's economic recovery is inflation, notwithstanding the recent backroom chatter about stagflation when the Furlough Scheme was wound up.

I am not a doom-monger but I do see the real-world effects that are faced by corporate clients in the current economic climate. Developer clients are struggling not just with manpower, but soaring prices in raw materials and are insisting that buyers of commercial property exchange sooner rather than later to try and tie in the price increases otherwise they have to be passed on. Higher wages

Tyger Tyger Burning Bright
Express & Star

No, not that William Blake famous poem or Chinese New Year but is it that beast stalking the long grass of the UK economy known as inflation.

There is one thing I always beat the drum about which is productivity and now I have added inflation to this ensemble. It is impossible to ignore that inflation is currently running at over 5% as I can see the real effects working at the coal face with business clients.

I do not have a crystal ball, economists and policy makers are saying the current inflation rate is only 'transitory inflation' and it will be gone before we really suffer from its long-term effects. It is only because I was a child of the Thatcher generation that I am able to say I have seen it before. In those times inflation averaged over 12% and some prices doubled if not trebled.

There are many reasons that contribute to the current rate of inflation, including a contracting market in energy suppliers or the cost of 'big-ticket' items increasing because of supply chain issues.

All the things I have mentioned for the current rate of inflation are very similar to those of the 70s where we had a weak pound, a fuel crisis and the government injecting money into the economy through high wage settlements for public sector employees. In the same way during the last 24 months the government has borrowed record sums to deal with COVID and prevent a free fall in the economy.

The real difference now though is interest rates have not increased to counter-act inflation but will the

Chart Topping Headlines
Birmingham Post

This is not my homage to the 1980s, which was a special time in my childhood, nor is it a throwback to "Top of the Pops" – for those who may remember it. Instead, I am looking back at the various headlines that stemmed from it which were created by the Office for Budget Responsibilities ("OBR").

Their three chart topping headlines were, in third place that "inflation will rise by an average of 7.4% this year and could even peak at 8.7%". Those figures have not been seen since the 1980s. Then, just in front of that was the other OBR headline that the "UK tax burden being at the highest rate since the 1940s." New in at number one the "living standards are expected to fall at their fastest rate since the 1950s." Who remembers the 1950s?

These headlines from the OBR were a backdrop to the spring statement, which is not a budget, but which showed that the UK public finances were in a better place than they were a year ago. So then why all the headlines? More importantly, why is it important?

I have always talked about productivity and that investment is the driver for productivity which will lead to a highly skilled economy, and higher wages. But, given Covid, productivities contribution to wage growth has been outpaced by the new driver which is inflation. It is inflation which is putting the pressure on wage growth. The problem with the current inflation is that this is something that cannot be easily fixed with interest rates, because the cause of the inflation pressure is from supply shocks, rather than home-grown inflation.

Cause & Effect
Birmingham Post

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The combination of these two factors has meant there is more

Back to the Future Part 2
Express & Star

You may recall that sometime ago I wrote an article entitled 'Back to the Future' which was not a homage to the film, but a comparison to the economic woes of the 1970s and what is presently happening to the UK economy. This is my follow up to that article.

Currently in the news, unions are balloting members to go on strikes to fight for higher wages, in a backdrop where the Bank of England ("BOE") is predicting that the current, "9% annual rising inflation, is more likely to be 11% later this year". Even in the legal profession barristers are walking out of cases in protest for higher wages. So, it is not just the post office and railway workers who are feeling the economic strains but it spans across all sectors of the economy.

The question is now, not when will the UK hit a recession, but how long and deep will it be? We may just need to accept that inflation is not transitory despite the BOE claiming this for a long time. The reason for this is that inflation is not wholly down to our domestic economy, but as a result of imported inflation through rising fuel and supply chains issues which have been exacerbated by the stop start of the Chinese economy (to avoid Covid) and the impact of the war in Ukraine has had on food supplies.

Given the big beast known as inflation has arrived and continues to ravage the UK economy, we need to make sure that what is left is not picked off by the other predator being stagflation, which was also

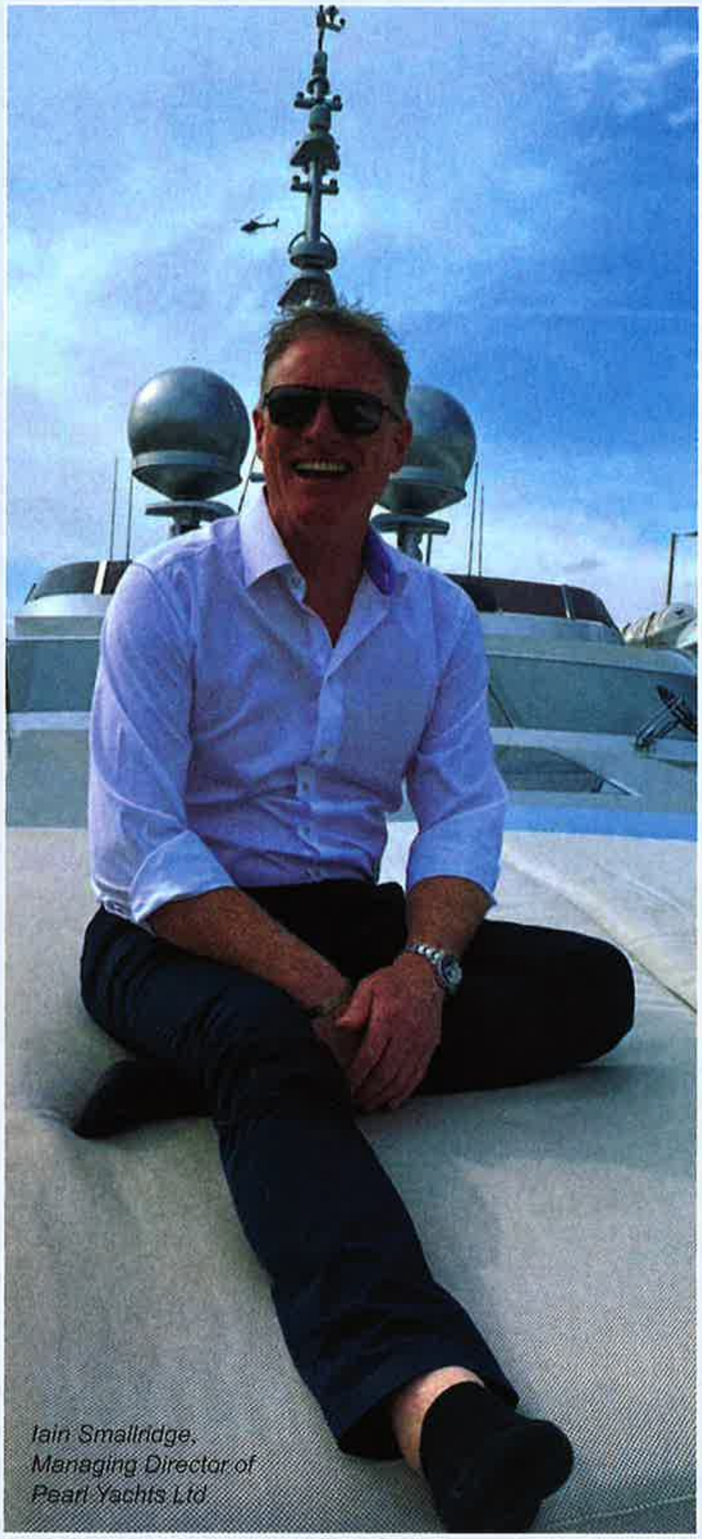
(Article by Colin Rodrigues)

GETTING TO KNOW YOU

This is a feature where we ask clients of HH a range of obscure questions in order to get a better appreciation of their life and interests.

This edition features **Iain Smallridge, Managing Director of Pearl Yachts Ltd.**

1. **Where were you born?** *Crawley in the Summer of 1969!*
2. **Can you summarise your education in a few words.** *Non eventful!*
3. **Can you summarise your business career in a few words.** *Yacht Captain turned boat builder and after nearly 25 years of hard work we are starting to reap the rewards. The Pearl brand is now widely recognised as a high quality boutique yacht builder on both sides of the Atlantic.*
4. **Where would you like to be in 5 years?** *Continuing our growth and launching a range of Pearl Superyachts.*
5. **What do you enjoy most about being in business?** *The constant challenges and rewards that it brings.*
6. **What one piece of advice would you give to aspiring entrepreneurs?** *Never give up!*
7. **What is your most memorable event in your life?** *The birth of my 2 sons.*
8. **What was the biggest challenge you faced in your business and how did you overcome it?** *There have been many challenges but competing in a market place that is dominated by some of the largest boat companies in the world is probably the most difficult....and we do it by doing what they do, but better.*
9. **What is your favourite food?** *I'm torn between a good curry or an all English Breakfast.*
10. **If you had one wish what would it be?** *It has to be peace on earth and goodwill to all men.*
11. **What country would you most like to visit?** *Australia and New Zealand.*
12. **What did you wish you knew this time last year?** *That Covid 19 isn't going away as quickly as we hoped.*
13. **What would your ideal Sunday be?** *An all English breakfast, kart racing with my sons and then a good curry!*



Iain Smallridge, Managing Director of Pearl Yachts Ltd

14. **If you could invite anyone for dinner (living or deceased, real or fictional), who would it be and why?** *Elvis, a true legend.*
15. **What is your favourite thing about your career?** *In our business we get to meet some amazing people who have made the most of their lives and we get a taste for what their lifestyle is like.*
16. **What did you want to be when you grew up?** *A lawyer!!*