

Global Economic Research

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Mounting Headwinds For The U.K.

Today's supply and inflation challenges stem from Brexit.

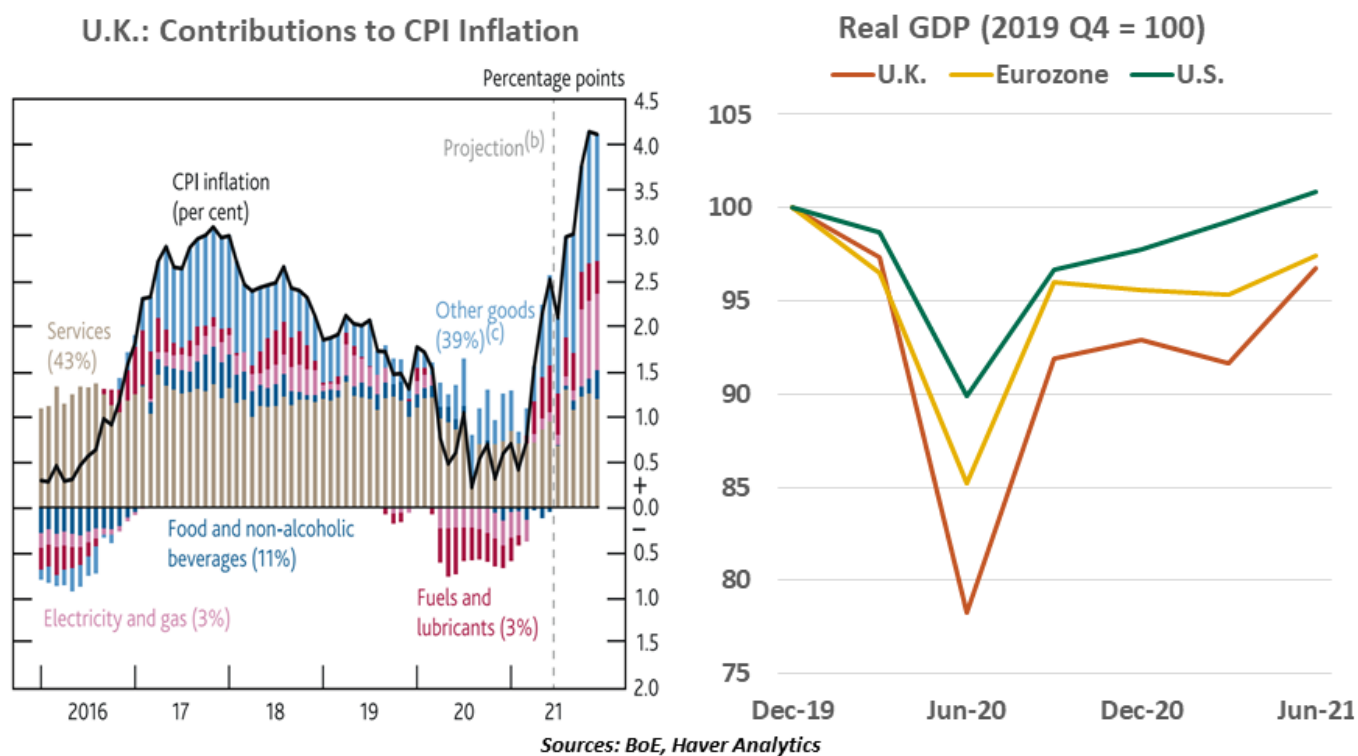
By Vaibhav Tandon



It's been only a few months since the United Kingdom reopened its economy after a pitched battle with COVID-19. After a promising summer, Britain is ripe for a fall. Inflation in the U.K. is heading north and likely to breach the 4% mark in the coming months. Prices of petrol, natural gas, food and a range of other goods and services have been surging.

This comes at a bad time for British consumers, who are coping with the end of the employment furlough scheme, the expiration of universal credit for poorer families, and National Health Service tax rises, which are all straining the income side of household budgets. The production side of the U.K. economy is also in a bad way. Several British power companies have failed, and some factories halted operations amid surging energy prices. COVID-19, tax changes ([IR35](#) is resulting in a significant cut to take-home pay) and curbs on low-skilled foreign workers are creating enduring labor shortages in Britain.

After a strong summer, the U.K. economy has run into a wall of worry.



Despite an incomplete economic recovery, inflationary pressures amid a shortage of workers have forced the Bank of England to adopt a more hawkish stance, implying that tightening could begin sooner than later. Coupled with a fiscal policy that is set to become a drag on growth, the U.K. economy could be heading for stagflation. The British pound hit its lowest value in eight months against this backdrop.

The faltering economy has U.K. Prime Minister Boris Johnson looking for a fall guy. Blaming the Europeans for troubles at home, Johnson has threatened to trigger Article 16 of the Northern Ireland protocol, which would essentially abrogate the agreement. This would undoubtedly provoke an angry reaction from the EU, which could end up making matters worse. To be sure, Brexit isn't helping the situation. It was a British invention, and the U.K. is now paying its price(s).

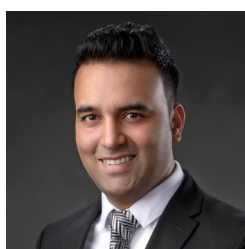
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Vaibhav Tandon

Vice President, Economist

Vaibhav Tandon is an Economist within the Global Risk Management division of Northern Trust. In this role, Vaibhav briefs clients and colleagues on the economy and business conditions, supports internal stress testing and capital allocation processes, and publishes the bank's formal economic viewpoint. He publishes weekly economic commentaries and monthly global outlooks.

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