Brexit's ripples effects on UK's overall economic indicators

THE IMPACT OF BREXIT ON EMPLOYMENT, INFLATION, AND FISCAL/MONETARY POLICY ON THE UK ECONOMY

Introduction

Brexit stand for “Britain leaving the European Union (EU)”. This term occurred due to the merger of two terms; British and Exit. On Thursday June 23, a referendum was held by the United Kingdom whose aim was deciding if the country should leave European Union or continue being a member (Armstrong, 2017). After the citizens of the country casted their votes, the leave emerged as the winner with 52%. On the other side, 48% of UK’s citizens voted for remaining in the union. Approximately 30 million UK’s residents participated in the pool casting which represent 71.8% of the country’s total population (Passlack, 2016). 53.4% England citizens opted to leave the union while 46.6% wanted to remain. Besides, Northern Ireland and Scotland supported the idea of remaining in the EU while Wales voted to leave the Union. However, UK’s Prime Minister David Cameron was against the referendum’s decision to leave the European Union (EU). Consequently, he advocated for the country to remain in the union; however, he did not succeed in his campaign (Glencross, 2016). During this period, the value of British pound declined to its minimum level compared to the United States of America’s dollar (Ford & Goodwin, 2017). This was the lowest level the British pound had reached in the last 30 years. The following month, David Cameron decided to resign and he was replaced by Theresa May who was Home Secretary. Theresa replaced Cameron and occupied his previous positions; as UK’s Prime Minister and as a leader of the Conservative party. During a UK’s snap election which was held on June 8, 2017, May managed to retain her position as the Prime Minister. However, she is faced with challenge during her reign since Conservatives party no longer hold the outright majority in Parliament. May associate all these challenges with the hard mandate for a "hard Brexit," which she is in charge. This is an early signs that Brexit will affect country’s politics and economic drastically in future. This paper seek to analyse the impact of Brexit on employment, inflation, and fiscal/monetary policy which will have a long-term on the United Kingdom’s of America economy.

Employment

Employment can be described as a relationship involving two parties, often on the basis of contract. In this form of contract, one party (employee) get paid by the other party (employer) for the work done. The employer could be an individual, a corporation, and co-operative among other entities.

The impact of Unemployment on Economic Growth

Brexit resulted into massive unemployment crisis in the UK. More than 47% of EU citizens who have been working in the country in the past claim to leave the country within the next five years. These employees are high-skilled and experienced and provides skilled labor in various industries in the country. Consequently, most UK’s companies will be closed down due to the lack of qualified labor force. This move will drastically affect UK citizens who were employed in those industries. Besides, the huge number of workers leaving employment are reducing the amount of tax revenue collected by the UK's government. The tax revenue is the primary source of UK's government. The government uses the collected amount of income to pay for civil servants. Therefore, the decline in the level of tax received by the government will force it to fire some laborers who work in various public sectors. Consequently, this move drags country's economy behind. With huge number of employees thinking of quitting UK's workforce, the country's workforce is shrinking instead of growing. A shrinking workforce does not pause threat to the country's economy only but also to various businesses enterprises operating in the country.

The major customer in UK's business today are the country's workforce. Therefore, their threat to leave the country leave companies with no other option rather than closing down. Labor shortages are already experienced in IT, engineering, seasonal agriculture, care work, and accountancy. Most firms based in UK have already reported challenges they are facing while hiring new workers as well as maintaining the old workforce. British business are likely to continue losing their major employees until the UK government agrees to negotiate better immigration policy than what is already put in place. Besides, approximately 38% of lower skilled laborers from EU countries are developing strategies of leaving UK's labor market (Rosamond, 2016). Their move gives British business more reason to worry about the future of their companies. Thousands of British independent retailers are already closing down their premise.

Brexit has triggered foreign investors to withdraw their investments from the United Kingdom of America due to political uncertain currently experienced in the country. UK being a first world country is likely to be targeted by various terror groups. However, EU nations come together to fight terrorist in case any of the member country is attacked by terrorist; the strength depicted by these nations while fighting for terror group threaten terrorist thus reducing chances of attack (Grimmel &Giang, 2017). Brexit leaves UK alone in fighting terror attackers which increases the possibility of attack. Therefore, to avoid losing the invested capital in the event of terror attack in the country, foreign investors are withdrawing their investments in the country. This action is leaving many individuals who were employed by the company.

EU citizens who used to consume good produced by UK's company stop importing these products. As a result, the company's profit margin drops due to decline in the market coverage which in turn reduces the company' sales volume. These company have no other option rather than sucking some workers to cut down the cost of production. The sucked employees are rendered jobless due to Brexit. Its clear Brexit is only worsening employment problem in the country. Therefore, all the independent retailers operating in the country and their employees need take an action as soon as possible to reduce possible future uncertainties.

Inflation

In economics, inflation means an increase in either supply of money or product's price levels. Almost all counties experience inflation at one point (Mokgola, 2015). Generally, inflation means a rise in prices as compared to a particular scale. In case of increase in money supply within a particular economy, economy, it is usually indicated by rise in price levels of goods. Since emergence of Brexit, the United Kingdom of American has experienced continued inflation in its economy which has resulted into rise in prices of most products. Therefore, the referendum has contributed towards decline in the value of the pound. Currently, the value of the pound is 20% less compared to the value dollar than it was initially before supporting Brexit. According to the economics' natural laws such a trend in the economy is likely to translate into a greater inflation rate in future. Furthermore, international merchants trading with the United Kingdom of American will continually charge for the supplied goods and services an amount which is equivalent in their currencies. For example, traders might charge an equivalent amount in dollars and euros. However, if the amounts are converted, they will rate higher in sterling. Both finished goods like food stuffs, drinks, and clothing as well as raw materials such as car parts which are processed in Britain will be affected in case of rise in the inflation rates. Besides, the price of petrol is likely to increase since dollars are used to value oil. Therefore, the effects of high rate of inflation experienced in Britain is already known. The only question in the minds of most UK citizens is whether the situation is likely to change in future and by what margin.

In December 2016, the rate of inflation in the country increased by 1.6% which was measured by the government using Consumer Prices Index. It occurred earlier than it had been proposed by city analysts. Around 1.2 % increase will be experienced in November. Sharp increase in the prices of petrol, food and air prices is responsible for the experienced percentage increase. According to the government, a combination of the rising prices for oil and costlier imports have the possibility of affecting both the prices of food production as well as prices charged on consumer for food products. Besides, in December prices of staples food products such as bread, vegetables, and sugar increased.

According to economists the prevailing CPI rate is the highest level to have been experienced in the country's economy within such a short duration; two years. Moreover, in November alone there has been 1.8% rise in the landowners housing rates which has led to about 8% rise in the annual rate. Besides, the pound is continuing to weaken which causes further increase in prices of goods and the current rate of CPI which is around 1.6 %. Also, the prices of food fuel and air prices have risen above the expectations. Therefore, the current condition is an indication of a tough Brexit period that will be experienced in the United Kingdom of America since the sterling is expected to fall even more.

This action will further have an effect on the inflation rate experienced in the nation in the short-term. Most of major retailers in the country have already declared their intention to pass to the customers the rising costs of importing products from other countries. Therefore, families will be directly affected by the rising mortgage and food inflation. In this year only, the rate of inflation is likely to rise by 3% which will definitely reduce individuals' income levels. Consequently, the overall economic effect caused by Brexit will be experienced by the nation in the coming years particularly the rising inflation rates which is accelerated by the pound's a sharp fall.

Impact of Inflation on Economic Growth

Achieving price stability and economic sustainability, is the most significant goals guiding macroeconomic practices of various countries across the globe (Sloman & Sutcliffe, 2002). To sustain country's economic growth, attention is given to price constancy in the economies. Besides, domestic currency's purchasing control is strengthened to achieve the set objective. Recently, economic and policy makers are focusing on establishing if inflation affects country's economic growth. Various studies indicate damaging connection exist between inflation rate and the country’s economic growth. To be precise, the major concern is establishing whether inflation supports economic growth or if it is against economic growth of the country.

The rate of every country’s economic growth is highly dependent on the nation’s capital formation level (Atkinson, 2002). Conversely, country’s savings and investment determines its capital formation. Generally, inflation rates and economic growth experienced in most countries have not been consistent.

Inflation can be indicated by an increase in the Consumer Price Index of a nation. Most economies across the globe use consumer price index as an index for measuring salaries, earnings, contracted prices, and pensions among others; therefore, consumer price index is an important economic indicator. Besides, other economies make use of the Gross Domestic Product as its economic indicator (Gardner, 2002). This economic indicator has also been impacted by the inflation rate. Consequently, GDP is a significant tool for the determination of country’s inflation rates.

Further inflation rates experienced in a particular country affects its economic growth in various ways. First, inflation affects countries investments. Rise in the prices basic products in the economy forces the consumers to use their savings to recompense the raised price. Consequently, consumers deplete their savings which makes the country’s economy lack more money to fund their investments further. Therefore, it is clear high inflation rates hinders country’s economic growth since citizens tend to invest only when they have enough cash for transaction motive and savings.

Interest rates are affected by the rate of inflation experienced in a particular economy. Besides, the level of inflation has an impact on the country’s economic growth. In any economy, an increase in the inflation rates apparently causes a decline in the value of money. Decline in the individuals’ purchasing power in any economy is usually triggered by low value for money. Similarly, rise in the inflation rates leads to an increase in the interest rates. Consequently, cost of goods will be affected by rise of these two factors which will make consumers pay an extra amount for similar products. Therefore, these factors affects country’s economic growth.

Additionally, exchange rates in a certain economy is affected by the rate of inflation. The economic value of the affected currency declines with an increase inflation rates. Generally, different countries worldwide make use of exchange rates to determine its currency’s value. Also severe instabilities in rates of exchange are triggered by high inflation rates. High inflation rates cause a decline in the currency’s value which have an impact on the international trade; export and import. The overall economic growth of the globe is affected negatively when the international businesses are affected due to a decline in the value of money.

Besides, employment is affected by high inflation rates. Generally, employment levels of many countries are determined by the level of economic growth. Unemployment rates increases with an increase in inflation and vice versa.

Monetary policy

Monetary policy can be described as the process in which country’s monetary authority such as the central bank or currency board, regulates the amount of money in circulation (Hardwick, 2002). Often these regulatory authorities target either interest rates or inflation rates to enhance price stability of products in the country. Besides, monetary policy aims at contributing towards country's economic growth and price stability. Also, the monetary policy targets reducing the rate of unemployment in the country as well as establishing and maintaining exchange rates which can be easily predictable.

Impact of Monetary Policy on Economic Growth

In the latest Inflation Report released by the Bank of England, Brexit seem to have significant impact on the country's monetary policy. The conducted analysis aims at elaborating negative impacts of Brexit as far as changes in monetary policy are concerned. The analysis report indicated a remarkable weakening of growth outlook ranging from short to medium term.

During the second half of 2016, banks predict little growth rate characterized with weaker personal consumption levels and further drop in business investment. Approximately, 6.9% current account deficit experienced in 2006 is likely to decline further in the coming months due to10% decrease in the Sterling. Indeed, disposable real income levels will be affected by the decrease in the rates of exchange owing to the increasing prices of imports. Besides, these levels will be affected due to rise in costs of production for domestic products and the depressing expenditure of the domestic consumers. Besides, the amount the country will gain from its export volumes will critically depend on the established set of trading relationships after Brexit and whether there is any forthcoming increase in external demand of the country's products due to the decline in the value of sterling pound.

Relationship between Employment, Inflation, and Monetary Policy

High employment levels and low inflation rates are the cornerstone of successful monetary policy. A country with low inflation rates is likely to have high employment opportunities since consumers will be incur extra cost when purchasing basic commodities. As a result, citizens will manage to save some funds for investment purpose. Consequently, they can use the saved finances to open businesses which create employment opportunities for the country's residents.

On the other hand, if the monetary policy is used to regulate level of inflation in the economy, there is an increase in unemployment rates. This situation is referred to as the short term trade-off that occurs between inflation and unemployment. According to Gordon (2013), Philips in 1958 developed a curve shoeing an increase in inflation level lowers unemployment and vice versa. This relationship was put in a famous graph known by economist as Philip curve. According to the graph, inflation mostly results from demand-pull inflation, which tends to occur when the growth of aggregate demand occurs fasters than the growth of the aggregate supply. Consequently, more workforce is hired by businesses to increase the required labor supply. As a result, unemployment rate is reduced in the short run.

Conclusion

The decision made by the United Kingdom of America on 23rd June 2016 to cease being a member of the European Union has already started impacting negatively on the country's economic sector. Brexit has adversely affected country's employment, inflation rates, and its monetary policy. Particularly, Brexit has contributed substantially towards decline in the value of sterling which has triggered increase in unemployment rate, inflation rate, and nonliterary policy. Despite negative effects of Brexit, the country must deal with consequences of its actions. Inflation and employment levels plays a significant role in contributing towards country's economic growth. Consequently, the decision made by UK to quit the European Union will have a direct effect on its economic growth. As a result, Britain's major fiscal players need to design strategies which can assist to reduce or end negative impact of Brexit to the country's economy. This move will assist to reduce severe economic challenges the country is currently facing.