BVGS A Level Economics: Summer Work 2017

Section 1

Aim:

Using the data sets below, and your own economic knowledge, write a report on the current state of the UK economy and make recommendations for the development of government policy over the next 12 months. In particular, discuss economic outlooks for the four key acro-economic objectives of: unemployment, growth, inflation and the balance of payments.

Unemployment

UK unemployment rate to rise in 2018, says EY Item Club (15 May 2017: http://www.bbc.co.uk/news/business-39913811)

Unemployment is set to increase amid a slower growth in jobs, a new report predicts.

The jobless rate will rise from about 4.7% this year to 5.4% in 2018 and 5.8% in 2019, said the EY Item Club.

The forecasting group said employment will fall for the first time since 2009, albeit only by 0.1% next year, as the supply of workers slows.

Official unemployment data and average wages will be published by the Office for National Statistics on Wednesday.

The UK jobless rate is currently 4.7%, **according to latest ONS figures.**

The Item Club said that a slowing supply of jobs is behind its forecast, as employers adjust to a tightening labour market by greater use of existing staff.

"The UK labour market may be starting to become a victim of its own success," said Martin Beck, senior economic adviser to the Item Club.

"As the proportion of people in work has climbed ever higher, firms may have found it more difficult to fill vacancies, resulting in greater utilisation of the existing workforce and slower jobs growth."

He added: "On a positive note, slower growth in the workforce may deliver a boost to what has been a long period of insipid productivity growth.

"With the flow of potential workers slowing, firms are likely to have more incentive to invest in improving efficiency or labour-saving technology," he said.
Average earnings are expected to increase by 2.75% this year and at similar rates in 2017 and 2018. However, prospects for growth in real pay, taking inflation into account, look less bright, the report predicted.

Growth
Source: https://www.theguardian.com/business/2017/may/31/uk-comes-bottom-of-the-g7-growth-league-as-canada-takes-the-lead - 31st May, 2017

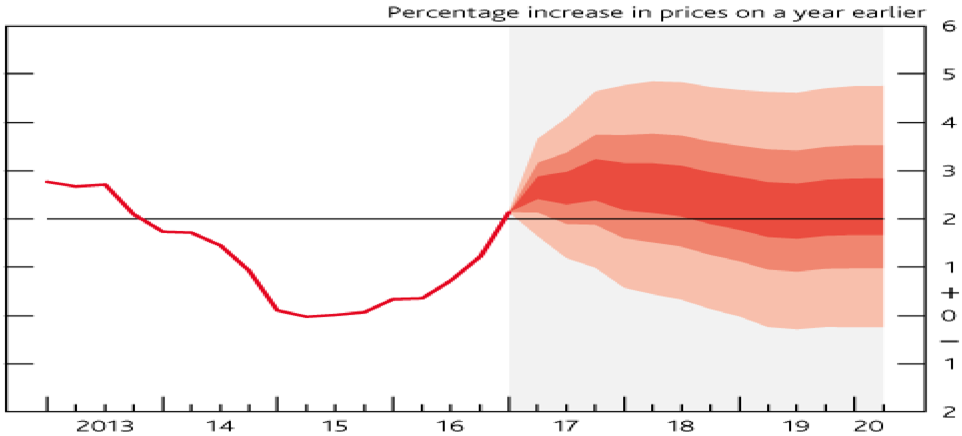
'UK comes bottom of G7 growth league as Canada takes lead'

Britain's 0.2% growth rate puts it on a par with Italy, while Canadian economy expanded by 0.9% in first quarter. The UK has slumped to the bottom of the league table of advanced economies after Canada registered stellar growth in the first three months of the year. Canada was the final member of the G7 to report its growth figures, which confirmed the UK as officially the joint worst performing member so far this year. The announcement marked a significant decline for the UK economy, which a year ago was outshining Germany, the US and Japan. In February it was announced that Germany had pipped the UK as the fastest-growing G7 nation during 2016 by 10 basis points.
However, the latest figures for Canada, which showed that growth accelerated to 0.9% in the first quarter, putting it top of the G7 performers, has left Britain languishing alongside Italy at the bottom of the table. Germany is in second spot at 0.6%, followed by Japan with 0.5%, France 0.4% and the US at 0.3%. The UK and Italy are then level on growth of just 0.2%.
The sluggish expansion in the first quarter provides the latest evidence that the early resilience to the EU referendum result last June is now wearing off as higher inflation puts consumers under pressure. Prices have been increasing since the Brexit vote because the referendum result sent the pound sharply lower and has raised the cost of imports to the UK. That higher inflation has hit household budgets and dented the main driver of UK growth, consumer spending.
The Bank of England said earlier this month that it expected GDP growth would edge up marginally to 1.9% for 2017 from 1.8% in 2016. But it warned that living standards would fall this year because inflation would be higher than pay growth. Credit ratings agency Moody's added on Wednesday that the Brexit-related slowdown in the UK had been more modest than expected and that it had raised its forecast for growth this year to 1.5% from 1%. It added: "Nonetheless, Moody's still expects weaker growth as investment spending slows as Brexit negotiations get under way and consumers feel the impact of accelerating inflation."
There do not appear to be any such concerns in Canada, however, where the national statistics agency said real gross domestic product grew at an annualised rate of 3.7% in the first three months of the year, helped most recently by a boost to household spending and a turnaround in business investment. The figure was below expectations of 3.9%, according to Thomson Reuters, but was still lauded by economists.
"At the end of the day, we have to call it strong no matter what," said Derek Holt, an economist at Scotiabank. "A lot of other countries would like to be in this position. If we continue to get growth numbers like this, absent trade policy risks, it's going to be tougher for the Bank of Canada to avoid rate hikes at some point in the distance," Holt said.

The Canadian economy also appeared to be on a solid footing going into the second quarter, with growth rising by a better-than-expected 0.5% in March on the back of stronger activity in the manufacturing and retail trade sectors.

Growth was also supported by businesses rebuilding their inventories, which economists said could be reversed in coming quarters. Meanwhile, consumers continued to spend, particularly on vehicles. Wages rose by 1% compared with the previous quarter and the savings rate fell to 4.3% from 5.3%

Inflation



(Source: BoE - http://www.bankofengland.co.uk/publications/PublishingImages/inflationreport/cpimktmay17.gif)

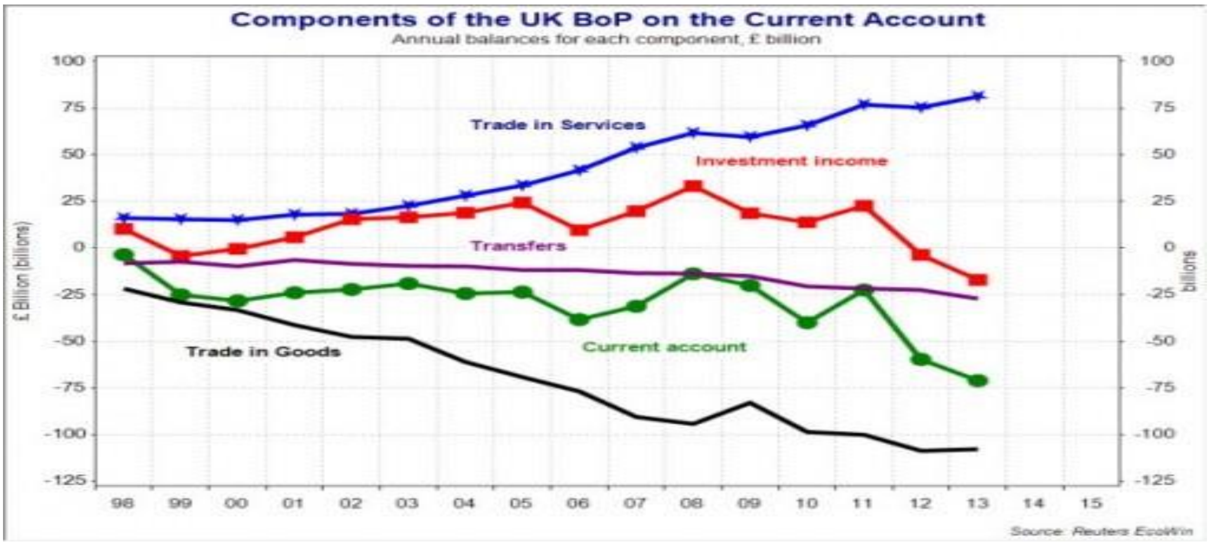
Monetary Policy Summary

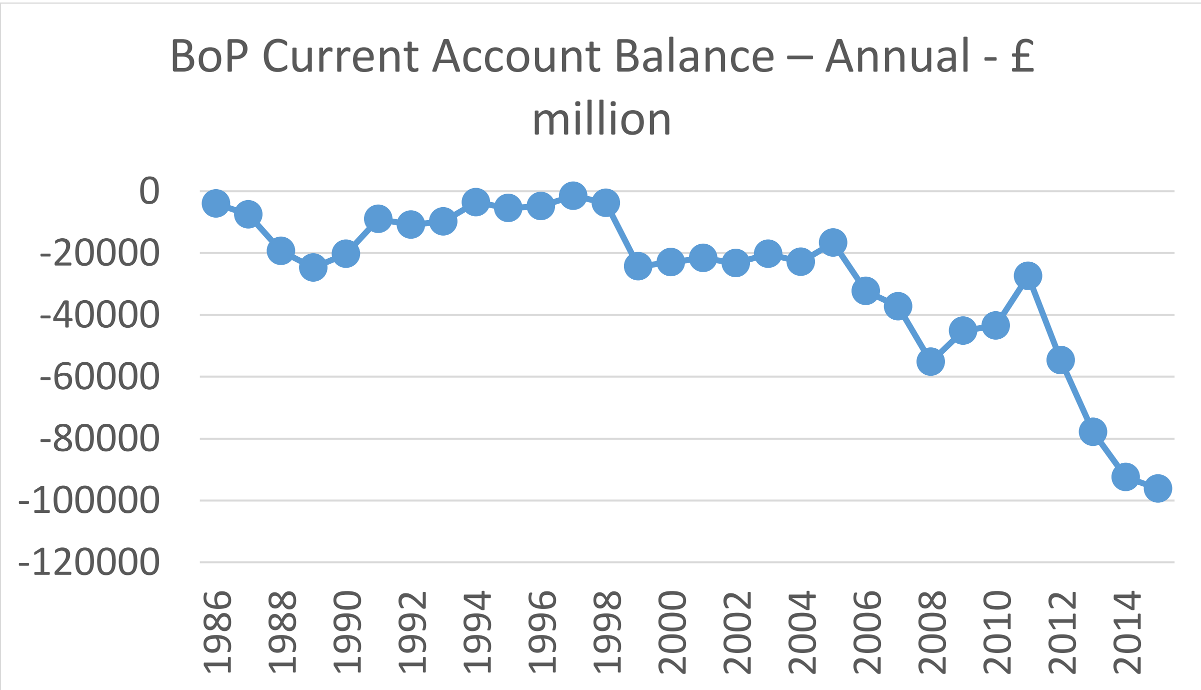
The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 10 May 2017, the Committee voted by a majority of 7–1 to maintain Bank Rate at 0.25%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

As the MPC observed at the time of the United Kingdom's referendum on EU membership, the appropriate path for monetary policy depends on the evolution of demand, potential supply, the exchange rate, and therefore inflation. Aggregate demand slowed markedly in 2017 Q1, and the MPC's central projection contained in the May Inflation Report is now for quarterly growth to remain around current rates, and close to trend. The slowdown appears to be concentrated in consumer-facing sectors, partly reflecting the impact of sterling's past depreciation on household income and spending. The Committee judges that consumption growth will be slower in the near term than previously anticipated before recovering in the latter part of the forecast period as real income picks up. In the MPC's central forecast, weaker consumption this year is largely balanced by rising net trade and investment. The outlook for global activity continues to improve. Business surveys and Bank Agents' reports imply that business investment growth is likely to be higher in 2017 than previously projected. The stronger global outlook and the level of sterling are providing incentives for many exporters to renew and increase capacity. Sterling appreciated by 2.5% between the February and May Inflation Reports, although it remained 16% below its November 2015 peak. Over the same time period, shorter-term UK interest rates fell, with the sterling yield curve used to condition the forecast close to its lowest level since the start of the year.

CPI inflation has risen above the MPC's 2% target as the depreciation of sterling has begun to feed through to consumer prices. This impact has been offset to some extent by continued subdued growth in domestic costs. In particular, wage growth has been notably weaker than expected. The MPC expects inflation to rise further above the target in the coming months, peaking a little below 3% in the fourth quarter. Conditioned on the market yield curve underlying the May projections, inflation is forecast to remain above the MPC's target throughout the forecast period. The projected overshoot entirely reflects the effects of the falls in sterling since late November 2015 on import prices. This effect is expected to diminish towards the end of the forecast period. With unemployment falling to its estimated equilibrium rate, however, wage growth is expected
(Source: Inflation Report, May 2017, Bank of England - http://www.bankofengland.co.uk/Pages/reader/index.aspx?pub=may&page=1)

Balance of Payments





Section 2

Chose one food commodity and one non-food commodity from the list below. Compare and contrast price fluctuations over the past two decades and explain their relevance for international economies.

Food commodities	**Share of global demand**
Pigs	46.4%
Eggs	37.2%
Rice	28.1%
Soybeans	24.6%
Wheat	16.6%
Chickens	15.6%
Cattle	9.5%

Non-food commodities	**Share of global demand**
Cement	53.2%
Iron Ore	47.7%
Coal	46.9%
Steel	45.4%
Lead	44.6%
Zinc	41.3%
Aluminum	40.6%
Copper	38.9%
Nickel	36.3%
Oil	10.3%