Is there really an economic recovery in Britain?

Chris Scott takes a look at how Britain is recovering from the recession and whether there truely has been a ‘recovery’

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Image: altogetherfool

For the coalition government, the improvement shown in economic indicators could easily be seen as a vindication of its policies. The latest data shows that unemployment is at 6.2%, the lowest it has been in over 26 years. Meanwhile recent revisions to the UK’s gross domestic product (GDP), to account for the increasing role played by new technology, suggest that the recovery has been stronger than previous forecasts have shown. This has shown that UK output passed its pre-crisis peak in the third quarter (Q3) of 2013, rather than Q2 2014 as originally reported.

The UK recovery also compares favourably when considering other nations’ recent performances. The Office of National Statistics (ONS) shows that GDP has increased by 8.1% since 2010. Only Canada and the United States have exhibited higher growth out of the G7 countries, at 9.6 and 9.5% respectively. The UK has also outperformed other major European countries, surpassing the growth rates of Germany and France, which achieved growth of 8.0% and 4.1% respectively since 2010. This is probably a consequence of the UK having less exposure to uncertainty in the Eurozone.

However despite this there are growing concerns that ordinary people are not feeling the effects of economic recovery. Real wages growth in particular is currently being outstripped by inflation, meaning that individuals generally have lower disposable income. Whereas between Q1 2004 and Q4 2008 nominal pay in the UK grew by 4% a year, between Q1 2009 and Q4 2013 it grew by only 0.6%. Research by the Trade Union Congress (TUC) suggests that this is partly because of changes in the composition of employment. In particular there has been a fall in the number of people working in the high productivity financial services sector, with a corresponding increase in people

working in low productivity sectors such as the leisure and catering industries. This has also led to lower growth in productivity, which continues to be below its pre-crisis peak.

One of the effects of this is that the economic recovery has failed to yield a significant increase in the tax revenue collected by the Treasury. Since those working in low productivity sectors often only do so on a part-time basis, or on a zero-hours contract, their wages are unlikely to be high enough to pay income tax. As such the economic recovery has not followed the usual trend, where as employment and output increase, tax revenue also increases. This forced the government to borrow £11bn more than anticipated last month, to compensate for the shortfall in revenue. If this persists, it will make the government's task of eliminating the budget deficit by 2019 more difficult.

There are also concerns that the recovery is perhaps too dependent on the services sector, therefore lacking the characteristics of a balanced recovery. Whereas the services sector has seen an increase in output of 3.6% from June 2013 to June 2014, manufacturing and construction continue to exhibit weak growth, and remain 7% and 10% below their pre-crisis peak respectively. This means recent GDP growth largely reflects increasing output in services and makes it more susceptible to volatility in the sector.

All of these factors indicate that the UK economic recovery has been far from comprehensive. While output has increased to above its pre-recession peak, it has failed to translate into improved living standards. Additionally the economy has so far failed to become less dependent on the services sector, which still makes up more than three quarters of output. Consequently the Conservative's re-election prospects remain highly uncertain.

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