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FORECASTING BRITAIN'S FUTURE:

WHAT BUSINESS CAN EXPECT FROM THE NEXT 12 MONTHS

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ABOUT crf

Founded in 1994, **Corporate Research Forum (CRF)** is a membership organisation whose purpose is to increase the effectiveness of the HR function, in order to drive sustained organisational performance, through developing the capability of HR professionals. Through more than 25 years of research and the expertise of our team, we have developed a deep understanding of the ways HR can contribute to business outcomes – what works, what doesn't, and in what circumstances. With a network of over 250 leading organisations, we continue to grow as the respected focal point and knowledge source for improving corporate and individual performance.

We support our members in enhancing their personal capabilities and building organisational effectiveness, guiding them through topics relevant to success, identifying actionable insights and practical recommendations and facilitating networking opportunities. Our work helps organisations and the HR function make sense of the environment in which they operate, and develop capacity to deal with continuous uncertainty.

For more details on how your organisation can benefit from CRF membership please contact:
Richard Hargreaves, Managing Director, richard@crforum.co.uk.

CRF Website →

FURTHER READING

CRF. 2022. ***The New Realities of the Working Environment.*** https://www.crforum.co.uk/research-and-resources/research-the-realities-of-the-new-working-environment

CRF. 2023. ***HRD Briefing 2024: Navigating Change in an Uncertain World.*** https://www.crforum.co.uk/research-and-resources/hrds-briefing-navigating-change-in-an-uncertain-world

CRF. 2024. ***HRD Summary Notes: Revisiting the New Working Environment.*** https://www.crforum.co.uk/research-and-resources/hrd-summary-notes-revisiting-the-new-working-environment

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CRF's partner **Headspring** are on a mission to create a purposeful business culture through bespoke learning and development solutions. As a leader in the design of corporate education solutions, Headspring combines the academic rigour and innovative approach of IE Business School with the business acumen and fresh perspectives of FT Journalists to deliver ground-breaking learning and consulting solutions. To learn more about their solutions, visit: https://www.headspringexecutive.com/customisation-at-scale

If you believe your organisation can benefit from integrating the FT into your Leadership and Talent Development programmes, explore Headspring's FT Executive Briefings: https://www.headspringexecutive.com/financial-times-executive-briefings

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FT Executive Briefings: We would like to invite attendees to explore our bite-sized L&D programmes that offer critical thinking skills, comprehensive insights, and an unbiased perspective essential for navigating today's complexities.

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FORECASTING BRITAIN'S FUTURE: WHAT BUSINESS CAN EXPECT FROM THE NEXT 12 MONTHS

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Disappointing economic performance, weak productivity and a series of global crises have created a difficult context for UK businesses in recent years. However, initial signs of recovery are beginning to emerge and the formation of a new government will create further change.

To help organisations navigate this turbulent context, CRF and Headspring hosted an in-person event for senior HR leaders – **Forecasting Britain's Future: What Business Can Expect From the Next 12 Months**. Featuring expert input from speakers Chris Giles, Economics Commentator at the *Financial Times*, and Isabel Berwick, Working It Host & Editor at the *Financial Times*, the session explored the UK's economic landscape, the implications of a new government for HR professionals and ways of addressing the UK's productivity crisis.

THE UK ECONOMIC CONTEXT

LINKEDIN

SLIDES

CHRIS GILES is the FT's economics commentator. He writes a fortnightly column and the weekly newsletter, *Chris Giles on Central Banks* (sign up here). Previously, he was economics editor and served as a leader writer. He is an Honorary Professor of Practice at the UCL Policy Lab. Before joining the FT, he worked for the BBC, Ofcom and the Institute for Fiscal Studies. Chris loves numbers.

Chris Giles, Economics Commentator at the *Financial Times*, presented an overview of the UK's economic landscape. He emphasised that the state of the global economy is far more influential for our current context than actions taken by the UK government.

INFLATION

- Since 2020, high inflation has been a key driver of economic instability in advanced economies (particularly the US, the UK and Europe).
- We are now entering a deflationary phase, though inflation within the service sector has fallen more slowly. The stickiness of inflation in certain sectors has contributed to fewer interest rate cuts than expected this year across the US, the UK and Europe. However, there have been signs that has improved in the last few weeks of June 2024.
- These trends have been similar across all advanced economies, indicating that these are global trends which are not solely affected by domestic government policy.

ECONOMIC GROWTH

- Over the last 40 years, annual global growth has averaged around 3.4%. Over the next five years global growth is predicted to be relatively stable and will average just below this figure. There is optimism that the global economy will recover slightly after withstanding several crises such as the war in Ukraine, the energy crisis and the Covid-19 pandemic.
- However, the above does not capture the lack of stability in the global economy. Different regions have contributed unevenly to global growth. For example, a substantial amount of the world's growth in the 2010s was driven by China. Conversely, growth in Europe has been weak and has contributed very little to global growth figures; consumption in Europe has still not recovered to pre-Covid trends.
- There are multiple threats to the global economy in the coming years, including:
  - Inflation still has not fully subsided.
  - There are severe problems in the Chinese economy and the country's domestic spending is weak.
  - Trade tensions are worsening, as seen in the US and the EU's tariffs on Chinese goods. These tensions are likely to worsen further, with the potential to severely impact global growth.
  - Geopolitical tensions, particularly the French elections and the US elections in November.

THE UK ECONOMY

- The UK's economic performance since the 2008 financial crash has been disappointing, but not unique – the rest of Europe has broadly performed similarly. Since 2008, economic forecasts for the UK have trended downwards (from 2.75% to 1.5% a year). This indicates that there has been a sharp downgrade in what people believe the UK economy can achieve. Changing this lack of confidence should be a key priority for the new government.
- The current levels of economic growth (averaging 1-1.5%) and public service provision are not satisfying the wants of the British public. There will be significant pressure on a new government to change this.
- However, green shoots of recovery are starting to appear. Whilst changes have not been drastic, consumers are slightly more confident and business activity has increased. Business investment, seriously weakened since 2016, has recently finally begun to recover.
- The next government will inherit a Labour market defined by the following trends:
  - Unemployment is low, but is very slowly rising. However, response rates to national labour force surveys have fallen over the last decade and significantly worsened since the pandemic. This raises questions about how representative labour market data is.
  - The labour market is starting to cool, as is UK wage growth (though both are still hot relative to the pre-pandemic average).
  - Participation in the labour market has also worsened since the Covid pandemic and is particularly poor amongst older generations. This is troubling as this a UK-specific, rather than a global, issue. Falling labour participation is also contributing to the UK's productivity issues.

Q What impact would rejoining the EU have on the UK economy?

A *It would be beneficial as Brexit has cost the UK around 2-3% of GDP over the last 8 years, or 0.4% a year. This has been a definite drag on the UK economy and rejoining the EU would likely provide a boost of the same magnitude. However, it's important to emphasise that Brexit has not been the only factor dampening the economy. Additionally, the chances of rejoining the EU in the coming years are virtually non-existent.*

BOOSTING PRODUCTIVITY IN THE UK

LINKEDIN

SLIDES

ISABEL BERWICK is the host of the FT's *Working It* podcast about the workplace and writes the weekly *Working It* newsletter. She is the editorial lead for the FT Women in Business Forum, moderates and hosts FT and external events, and is the author of *The Future-Proof Career: Strategies for Thriving at Every Stage*. Isabel joined the FT in 1999 from *The Independent on Sunday*, where she was the business editor. She held senior editing roles on FT Weekend and the Opinion Desk before becoming Work & Careers editor in 2018, overseeing the FT's management, leadership and workplace content.

Chris Giles and Isabel Berwick, *Working It* Host and Editor at the *Financial Times*, discussed the current productivity crisis in the UK and how businesses can navigate this. Weak productivity is one of the greatest problems the UK is currently facing and the economy will not substantially improve until this is addressed.

Causes include:

- **Economic structure.** The UK has a 'two-speed' economy, consisting of a sector that performs averagely and a sector that is world-class (e.g. London's economy, professional services etc.) and has historically raised aggregate productivity. However, the high-performing sector of the UK's economy has struggled in recent years and it is not entirely clear why. Increasing the productivity of the 'average' sector would additionally help spread wealth and growth, though is an issue that governments have grappled with for decades and is unlikely to be resolved any time soon.
- **Stasis in labour market.** Businesses and employees have prioritised resilience over risk-taking. Companies are hoarding labour due to fears that hiring will be difficult, even if people are not working at their full capacity. Employees are also taking fewer risks in the labour market and people (particularly younger generations) are staying in their roles for longer. This lack of dynamism is negatively impacting productivity.
- **Poor management.** The poor quality of management has long been a contributor to weak productivity. However, this is unevenly spread, with the UK's top companies suffering less from shortages of quality management skills.
- **A lack of certainty** in the economy since the Covid-19 pandemic (though the election results will bring greater clarity).

Potential ways of improving the productivity crisis include:

- Improving further education so that it equips people with the skills required by businesses. This is particularly important for the less well-performing sectors of the economy, though is an area which governments have long had little success in changing.
- Fostering a mindset of risk-taking over resilience, as well as being comfortable with making difficult decisions. A higher rate of labour market churn will likely boost productivity but feel disruptive in the short term for HR functions.
- Leveraging the productivity-enhancing aspects of Generative AI.
- Creating boundaries around hybrid working, which has become dictated by what worker's want.

Q How does the UK's furlough policy compare with the approach the US took during the pandemic?

A *In Europe, furlough schemes were used during the pandemic to keep workers attached to their companies. This was based on the theory that matching employees and employers is difficult and therefore keeping them attached would be good for growth. In the US, employees could be fired but were given money by the government. Whilst the jury is still out on the impact (and the US did not face an energy crisis to the same magnitude), it appears that the US model may have better boosted growth by creating more dynamism in the labour market.*

LOOKING TO THE FUTURE – THE NEXT UK GOVERNMENT

Chris Giles outlined what initial steps a new Labour government might take and what businesses and HR leaders can expect from the formation of a new government.

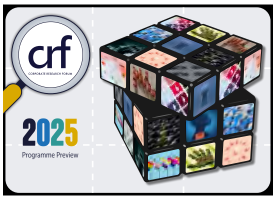
WHAT CAN BUSINESSES EXPECT FROM THE NEW GOVERNMENT?

- The formation of a new Labour government is widely expected. The Labour party have been cautious not to outline significant details about what they plan to do in government – businesses can therefore expect them to take further action than what they have explicitly stated. However, this will very likely align with the largely centrist approach the party outlined in their manifesto.
- It is likely a Labour government will take action very quickly relating to workers rights. According to their manifesto, a Labour government will take the below actions in the HR space, though specific details are still unclear:
  - Ban 'exploitative' zero hour contracts.
  - End fire and rehire.
  - Provide immediate rights to sick pay and parental leave and against unfair dismissal.
  - Apply the minimum wage as a genuine living wage to all.
- It is also likely that a new Labour government will take quick action regarding planning. This could include actions that don't require primary legislation (such as forcing local authorities to meet housing targets) as well as potentially changing the law to make it more difficult for the public or businesses to block new infrastructure. Changing this balance of power could unlock many opportunities for growth, though will take some years before the full impact is seen.
- Chris Giles recommended that Labour should not implement a large tax raising budget as they have not pledged to do so, but explained that they could take small actions to raise more funds (such as slightly changing the Bank of England's remit). This would help address issues which need to be quickly solved, such as the junior doctor's dispute.

CREATING A VIRTUOUS CYCLE OF GROWTH

- If the new government takes the time to formulate a plan to improve growth and address difficulties in the public sector, and the green shoots of recovery continue to materialise, this could create a virtuous cycle of growth. In this scenario, there will be more money in the public purse to ease pressures on public services, which in turn will drive further growth.
- Achieving this will be more difficult in the late 2020s than in the 1990s as the UK has an ageing society, placing more pressure on public spending. Conversely, taxes have been raised in the last five years, meaning more tax revenue will be created if the economy improves.
- Consumption in Europe has been weak due to a lack of confidence and optimism in the economy. If confidence increases, then this could also contribute to a virtuous circle of growth. Achieving this change will be hard for governments to achieve, but not impossible. The subsiding of the energy crisis, as well as Europe's relative resilience during the crisis, are both reasons for optimism.

2025 CRF PROGRAMME



CRF's 2025 programme will help businesses prepare for the rapidly changing external context through focusing on three key themes:

1. Strategies to prepare the individual, the function and the organisation for future success amid a challenging environment.
2. Creating a culture of innovation, inclusivity and growth.
3. Driving organisational productivity through better understanding of workplace psychology and technology.

The full 2025 programme will be published shortly. If you have any questions, or to sign up for further updates, please contact events@crforum.co.uk.

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INTERNATIONAL CONFERENCE:
Applications and Implications of Emerging Technology

Monday 7 – Wednesday 9 October
In-Person, St. Julian's, Malta

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