

# Evaluation of the current state of uk economy economics essay



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After the global financial crisis in 2007, a significant number of countries, the majority of which are European, have suffered from economic recession to a varying degree. The economy of the UK, which is one of these countries and mainly relies on financial industry, has deteriorated seriously. Economics Help (2009) signified that since the 1930s, it was the deepest recession for the UK and difficult to achieve a faster recovery. For the purpose of evaluating the current economic state of the UK, three fields will be involved in the following sections. They are GDP (Gross Domestic Product), unemployment and inflation.

To start with, GDP is used as the first measure, since it is an important measure of national income (Anderton, 2008) and can therefore show the overall economic performance. During the 2008-2009 period, the UK economy was proved to be in a degenerating stage. According to National Statistics (2010b), GDP decreased by 4.9 percent in the whole year of 2009 in the UK. This indicates that the economy underwent an acute downturn. To be more precise, during 2009, many factories could not afford to produce more goods and more consumers did not have an ample amount of money to buy products. Moreover, GDP had contracted successively for six months until the third quarter of 2009 (National Statistics, 2010a). Thus, it is an undoubted fact that the UK has experienced recession in 2008 and 2009 because GDP falls in at least two consecutive quarters is defined as recession (Anderton, 2008). The financial crisis has exacerbated the UK economy continually and seriously.

Fortunately, even though the UK economy has depressed for approximately two years, there was a slight growth of GDP following the shrinkage.

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Nevertheless, there is still a wide disparity between 2007 and this year's GDP of the UK. National Statistics (2010a) pointed out that GDP grew by 0.4 percent in quarter four of 2009. Owing to this figure, there appears to be a slow recovery after the depression. However, it can not be too confidently asserted that the economic potential is great and the growth is sustainable, for GDP in the fourth quarter of 2007 was £333,394 million, compared with £316,205 million in quarter four of 2009 (Guardian, 2010). This demonstrates that the present GDP is 5.2 percent lower than two years ago and the figure is considered beyond the nation can afford, namely the economy of the UK has been destroyed. Apparently, although the UK economy has begun to grow, it is not as prosperous as the time before the financial crisis. The UK will undoubtedly need to take a long time to return to the same economic state as before mainly because the growth currently is sluggish and likely to be replaced by decreased GDP again.

#### Graph 1 Unemployment rate of the UK National Statistics (2010c)

On account of that GDP is the direct measure of a country's economy, in order to further estimate the UK's situation, side effects, such as unemployment, should be taken into consideration. Unemployment, which means the amount of people out of work, can reflect economic conditions. Graph 1 above illustrates that the unemployment rate rose rapidly during 2008 and 2009, reaching the peak of nearly 8.0 percent. In addition, National Statistics (2010c) reported that there were 687,000 people who remained unemployed for more than 12 months, compared with 61,000 fewer these people in the previous quarter. It can be concluded that the unemployment rate is very high and people find it more difficult to be hired <https://assignbuster.com/evaluation-of-the-current-state-of-uk-economy-economics-essay/>

again. There is a grave situation of employment. The most fundamental factor leading to aggravating unemployment is the shortage of demand. For the reason that consumers spend less on products, benefits companies receive fall. As a result, companies and factories have to cut down the costs of production accordingly. Finally, fewer workers are needed and unemployment occurs. Thus, high level of unemployment indicates economic degradation and proves the UK has suffered from a recession. Nonetheless, the trend showed in Graph 1 can not be neglected. It can be easily seen that the line fluctuates slightly between the last half-year of 2009 and the beginning of 2010, which means the unemployment rate tends to be stable. Therefore, it can be suggested that unemployment would not increase sharply.

#### Graph 2 Inflation of the UK National Statistics (2010d)

Apart from unemployment, the falling inflation also reveals a slowdown in the economy. When there is a sustained rise in prices, inflation is said to exist (Anderton, 2008). It can be seen in Graph 2 above that CPI, a measure of inflation, slumped from above 5 percent in 2008 to slightly over 1 percent in 2009. Since Anderton (2008) stated that a drop in the rate of inflation often accompanies recession, the fact that the speed of economic growth was slowing down can bear analysis. What is more, a decrease in inflation means there is less money injected into the market and less money in circulation. Consequently, companies would find it hard to finance and expand its production scale. Therefore, the economy was not very active and a recession existed between 2008 and 2009. On the other hand, referring to

Graph 2 again, CPI declined following half a year's growth that maybe <https://assignbuster.com/evaluation-of-the-current-state-of-uk-economy-economics-essay/>

caused by some particular policies adopted by the UK government, for instance, printing money. Although the previous rise of CPI presages recovery of economy, the current slide has aroused people's awareness. It is difficult to forecast how inflation will change in the future. Thus, though the UK economy tends to recover, by no means should people allege firmly that the economy would not deteriorate again.

In summary, declined GDP, rising unemployment and decreased inflation simultaneously prove that the economy of the UK has already experienced a serious recession. On the other hand, recently, it is in a way of recovery. Nevertheless, this recovery is slow and a recession may take place once again. The question that whether the recovery will be sustainable still remains unanswerable. As a result, the government and citizens should not be too optimistic about the future economy due to the wide gap between now and the most prosperous time. However, it should also be admitted that the UK economy has left its lowest point and is showing a growth. The British should cherish the hope of a better and bright future.