

## Letter from the President A Question of Inflation

While Brexit dominates the UK news, some stories are just too big to be crowded-out. The election of Mr Trump as US President is a case in point. Though it is becoming clear that not all the hustings rhetoric will come to pass, promises to support domestic producers and re-negotiate trade agreements do raise the worrying spectre of protectionism and beggar-thy-neighbour policies of the past. Whether Mr Trump's 'deliberate uncertainty' ('he wouldn't really do that, would he?') is more smoke screen than strategy, it may well strengthen his hand in international negotiations. And if these two events reflect a more primal appetite for change, there are surely lessons to be heeded as we approach elections in a number of key European countries. The old adage, two is a coincidence and three is a trend, has a disquieting ring about it. Recent events have pumped uncertainty into a world economy that is over-inflated in that regard.

One thing that has reacted measurably to all the uncertainty is the value of the Pound: Since the referendum in June 2016 it has depreciated some 15% against the dollar and 20% against the Euro. With the UK importing roughly half of its food from overseas (much of it from the EU) and with many raw materials priced in dollars, food prices in the UK will rise. But by how much ultimately depends on how far (and for how long) the Pound falls and crucially whether it is accompanied by rising food-commodity and energy prices on world markets, which could amplify the effect substantially. Recent estimates suggest that for a persistent 10% depreciation in the pound (or for a 10% rise in commodity prices) UK food inflation eventually rises by around 4.5%, other things held equal, but by some 2% allowing for product substitutions and other adjustments. But it is worth noting that this may underestimate the likely impact. Not only does it ignore the possibility of higher import costs due to post-Brexit trade arrangements (Defra (2016) <https://www.gov.uk/government/publications/how-defra-has-estimated-the-potential-effect-of-import-tariffs-on-uk-food-prices>) but there has been intense retail price competition that has left little in the way of margins that could absorb such a shock, particularly a persistent one. And with the Grocery Code Adjudicator scrutinising the retailers' conduct with their suppliers, it seems inevitable that more of the cost increases coming down the line will be passed on to consumers than in the past. The New Year seems set to be as momentous as 2016.

**Tim Lloyd**, AES President 2016-17 (tlloyd@bournemouth.ac.uk)