

What does the autumn Spending Review mean for your business?

This autumn's comprehensive Spending Review was one of the most significant public finance events for decades. Overall public expenditure is expected to tighten by over £110bn (6.3% of gross domestic product) during the course of the current parliament with three-quarters of savings coming through spending cuts and one-quarter through tax increases. Though public sector service users and employees will bear the brunt of these changes, private businesses and workers across the economy will feel the slowdown in both direct and indirect demand for their products and services.

Who will be affected?

Some industries and businesses will feel the financial pinch faster and more acutely than others. Those production industries which depend on public sector capital investment and goods purchases – such as construction, transport equipment and defence – are likely to see sharp declines in demand for their services. In particular, large investment programmes such as public housing, schools redevelopment and weapons programmes are likely to be drastically curtailed for the foreseeable future.

Many providers of business-related services and goods will be hit through the reduction in the demand and increased price sensitivity of government, including consultants, advertisers and suppliers of such products as office furniture. Companies who have relied heavily on public expenditure will need to seek out and develop new opportunities in the private economy.

Most manufacturing, construction and service industries will be more influenced by overall economic circumstances so will likely feel the impact of the public cuts indirectly through the impacts on the macroeconomy. They will need to focus on improving their productivity and offerings to increase their competitiveness. For many businesses, this will require increasing their focus on improving their international profile, especially for the faster growing economies in Asia, Latin America and the Middle East.

Consumer spending

Domestic consumer spending is expected to slow more significantly than overall economic activity as consumers consolidate their finances, manage down their debts and prepare for higher future costs. This is in response to expected future tax rises, increased employment uncertainty and the potential of having to pay for increased private provision as public

services and subsidies are withdrawn.

In addition, the planned increase in VAT to 20% will also weaken consumer demand for taxable goods and services. Together, these influences will dampen activity for retailers, distributors and producers of consumer goods – especially those which are seen less as necessities. On the other hand, lower cost retailers and producers may see increased demand if consumers shift their spending patterns towards more cost effective options. The retail and consumer products sectors would be the sectors most at risk of a continuing downturn if the public expenditure cuts cause consumer confidence to shrink further and limit personal spending even more.

So, what's the outcome?

Overall, the public spending adjustment should help the UK economy in securing a sustainable lowering of interest rates, limiting exposure to financial shocks through an uncertain bond market and reducing the crowding out of private investment. The treatment will often be painful for the patient, but the alternatives certainly look less likely to secure a cure and do risk increased long-term pain. The medicine may be bitter but, long-term, the country will emerge all the healthier for taking it.

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