SECTION B

Read Figures 1 and 2 below and Extract A before answering Question 6.

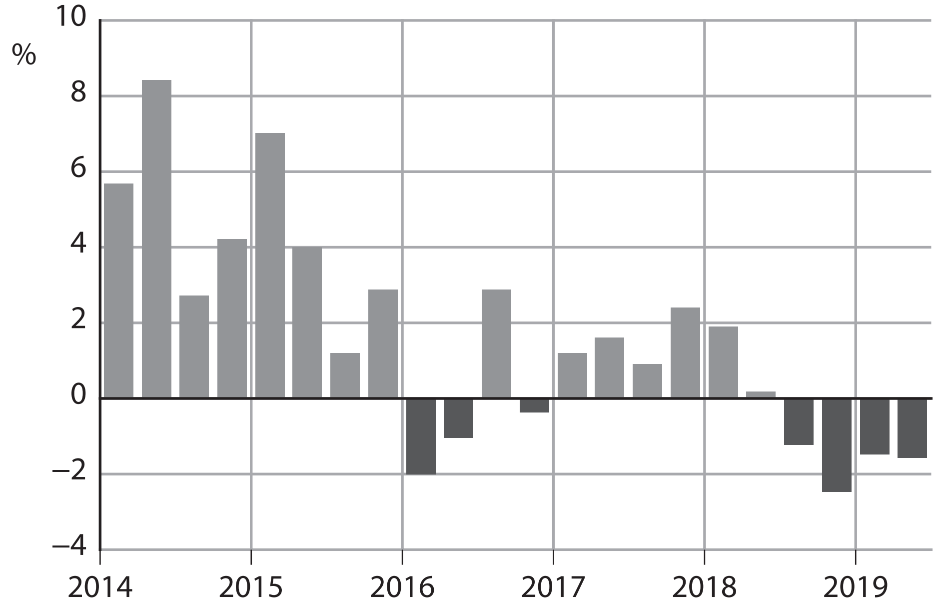
Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

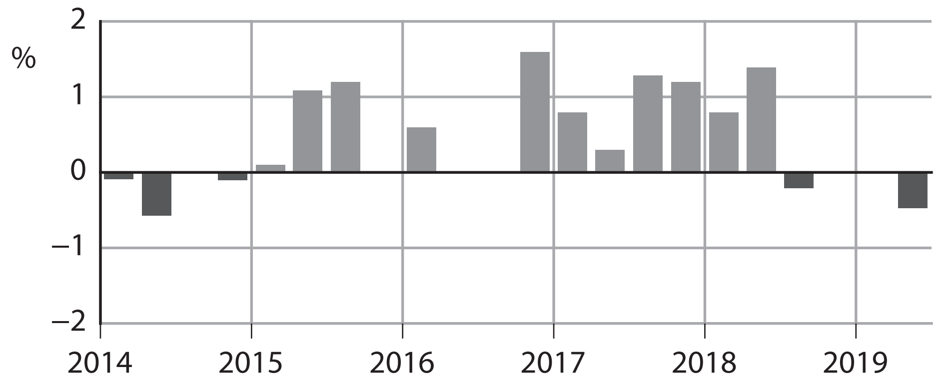
UK investment and productivity

Figure 1: UK investment, annual percentage change, 2014 to 2019



(Source adapted from: https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203)

Figure 2: UK labour productivity, annual percentage change, 2014 to 2019



(Source adapted from: https://www.theguardian.com/business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)

Extract A

Another recession?

For the first time in nearly seven years, the UK economy contracted by 0.2% in the second quarter of 2019. This was as a result of a significantly weaker than expected performance in almost every part of the UK economy.

Business investment has been weak across the world, but it is particularly low in the UK. Firms are reluctant to commit to capital spending while there is economic uncertainty. Growth in investment, in areas such as transport and machinery, has slowed. Global trade tensions are also affecting investment decisions.

Labour productivity decreased by 0.5% in the second quarter of 2019, the worst performance since mid-2014. Declining productivity is a concern especially as it comes at a time when the unemployment rate has been one of the lowest. The rate of unemployment decreased from 6% in July 2014 to 3.8% in July 2019.

The UK's economic growth has been held back by low investment and productivity since the Global Financial Crisis of 2008. Moreover, the uncertainty over the UK's future trade relationship with the EU has discouraged companies from investing in productivity-boosting technology. This has decreased the prospects for increases in workers' pay. Without business investment and improvements in productivity, short-term growth in real GDP is likely to slow further and reduce living standards.

However, the UK Government expects the UK economy to perform better than Germany and Italy. These export-focused countries are highly exposed to the slowdown in world trade and the fall in average global incomes.

The UK economy is seeing continued strength in consumer spending. Consumption will support growth, provided there is no sudden shock to the UK labour market. Household incomes are strong, primarily due to high employment. Government expenditure has also been rising since the end of 2018. The UK Government has promised more money for schools and infrastructure improvements.

Despite this, some economists believe that the UK economy is likely to experience another recession. They claim that low income households cannot cope with a new downturn. The overall picture for the UK economy does not look promising because most businesses are reluctant to invest, productivity is low and economic growth relies on continued consumption.

(Source adapted from: 'On the brink: Britain's economy braced for Brexit shock', FT, https://www.ft.com/ content/40c604d2-c01c-11e9-89e2-41e555e96722; 'Recession threat hangs over UK economy ahead of Brexit, FT, https://www.ft.com/content/5e12351e-baaf-11e9-96bd-8e884d3ea203; 'UK productivity falls at fastest pace in five years as Brexit dents investment, The Guardian, https://www.theguardian.com/ business/2019/oct/08/uk-productivity-brexit-boris-johnson-labour)