

BRITISH CHAMBERS OF COMMERCE

MONTHLY ECONOMIC REVIEW December 2021

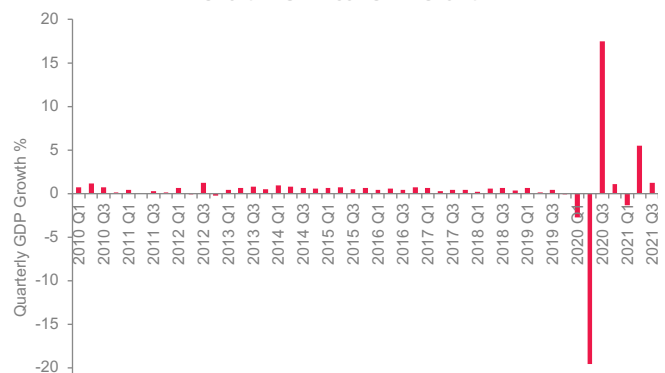
Monthly headlines:

- UK economic recovery slows in Q3 as manufacturing and construction output falls
- UK inflation rises to decade high as the labour market continues to rebound
- Interest rates set to rise sooner rather than later as MPC vote tightens

UK recovery loses momentum in Q3...

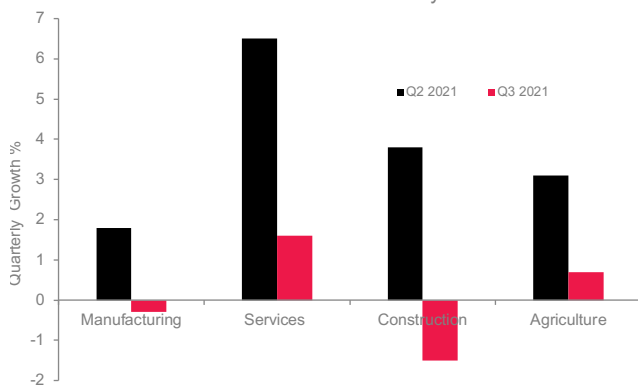
The first official estimate of UK GDP revealed that the UK economy grew by 1.3% in Q3 2021, down sharply from growth of 5.5% in the previous quarter (see **Chart 1**). UK economic output is now 2.1% below its pre-pandemic level. On a monthly basis, the UK economy grew by 0.6% in September, up from growth of 0.2% in August. **The third quarter slowdown is likely to be the start of a sustained period of more sluggish growth as staff shortages, supply chain disruption and surging inflation stifles economic output.**

Chart 1: UK Real GDP Growth



Source: ONS UK GDP, Q3 2021

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, Q3 2021

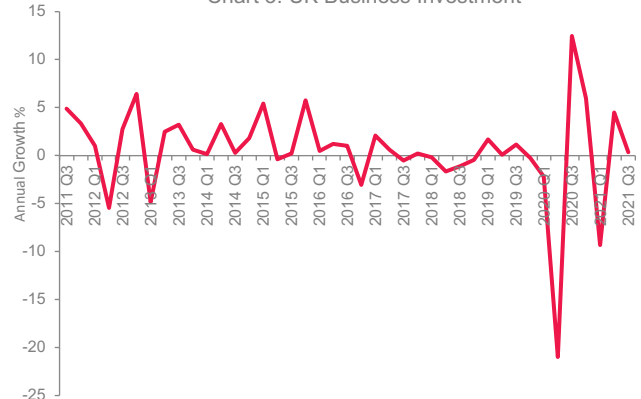
...manufacturing and construction output falls...

Service sector output, which accounts for three-quarters of UK economic output, grew by 1.6% in Q3 2021 (see **Chart 2**). Consumer facing services output increased by 2.2% in Q3 as the end of most covid restrictions in July helped drive a **30% rise in accommodation and food services output and a 19.6% increase in arts, entertainment and recreation services activity**. In contrast, output from the manufacturing sector fell by 0.3% in Q3 and construction sector output declined by 1.5% over the same period amid ongoing supply chain disruption.

...and business investment lags the recovery...

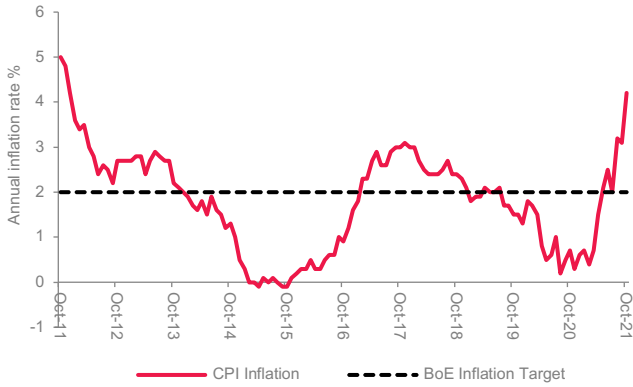
The latest UK GDP data also revealed that business investment in the UK increased by 0.4% in Q3 2021 and is now 12.4% below its pre-pandemic level (see **Chart 3**). Despite the prospect of upward revisions to earlier data, **business investment remains disappointingly short of pre-pandemic levels and as such remains the blackspot of the recovery, limiting the UK's ability to raise productivity and deliver a sustainably high wage economy**. In contrast, government (+0.9%) and household spending (+2.0%) increased in the third quarter.

Chart 3: UK Business Investment



Source: ONS UK GDP, Q3 2021

Chart 4: UK CPI Inflation



Source: ONS Consumer Prices, October 2021

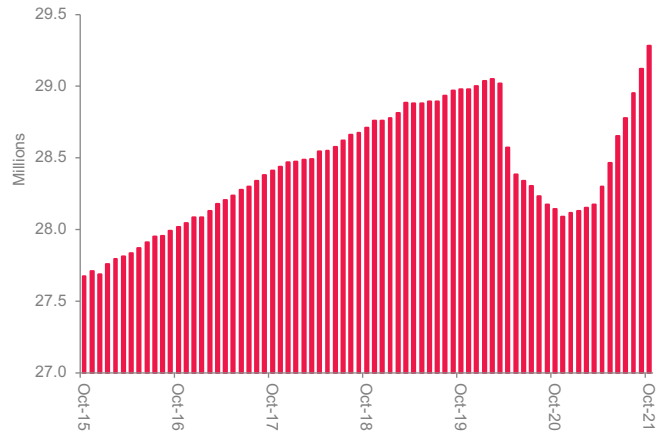
...as UK inflation surges...

UK CPI inflation rose from 3.1% in September to 4.2% in October 2021, the highest rate since December 2011 (see Chart 4). October's upturn was largely driven by rising household energy costs (following the increase in Ofgem's energy price cap), increased fuel prices and the partial reversal of the VAT reductions for hospitality and tourism which drove up restaurant and hotel prices. **A substantial winter surge in inflation remains probable with the rising cost of imported raw materials and higher energy prices likely to lift inflation to around 5% next year.**

...as the labour market continues to rebound...

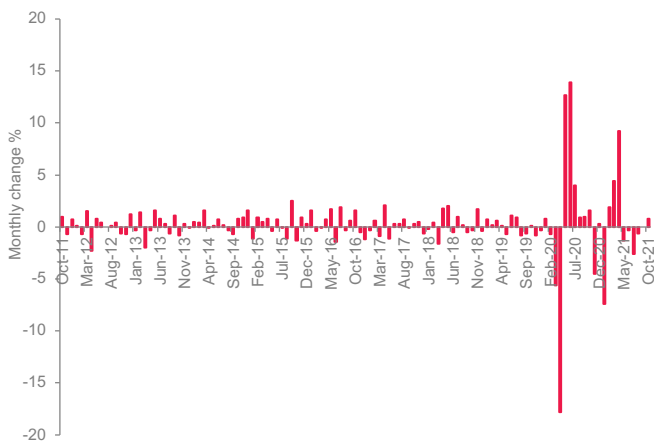
The latest data suggests that the end of furlough had little effect on the UK jobs market in October 2021. The number of employees on payroll rose by 160,000 to 29.3 million in October 2021, 235,00 higher than pre-pandemic levels as demand for labour continued to rise (see Chart 5). In the three months to October 2021, the number of job vacancies increased by 23.4% to 1,172,000, a new record high. Despite the success of furlough, the likely squeeze on hiring intentions from next year's national insurance hike and more sluggish growth could mean that labour market conditions start to moderate over the medium term.

Chart 5: UK Payroll Employment



Source: ONS Labour Market Overview, November 2021

Chart 6: UK Retail Sales



Source: Retail Sales, October 2021

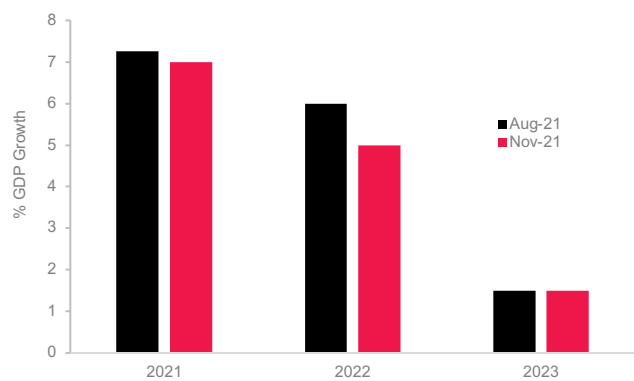
...and retail sales pick-up...

Retail sales rose by 0.8% in October 2021, the first monthly increase since April (see Chart 6). Consequently, sales volumes were 5.8% higher than their pre-covid level in February 2020. **October's increase was driven by a 4.2% rise in non-food stores, the only main retail sector that saw a rise in sales volumes.** Clothing stores reported an increase in sales of 6.2% with early Christmas trading boosting activity. In contrast, fuel sales fell by 6.4% in the month as concerns over fuel shortages faded. The proportion of retail sales online fell to 27.3% in October, the lowest proportion since March 2020, but still higher than pre-covid levels.

...UK's growth outlook downgraded...

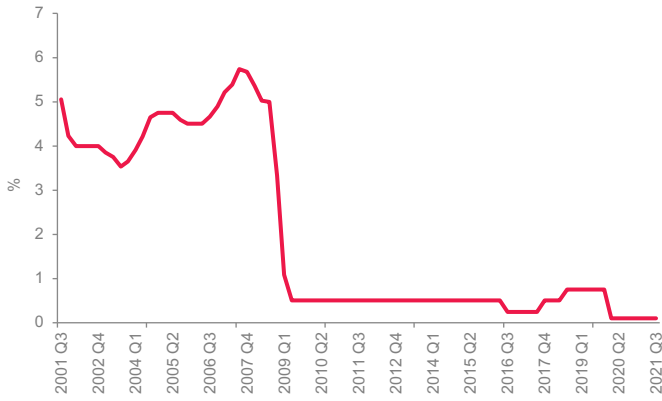
In its November 2021 Monetary Policy report, the Bank of England downgraded its UK GDP growth forecast for 2021 to 7.0%, from its previous forecast of 7.25% (see Chart 7). However, this would still be the strongest outturn since official records began in 1949. The central bank's forecast for GDP growth in 2022 has also been downgraded to 5%, from 6%. **The downgrades have been partly driven by the impact of ongoing staff and supply shortages and higher prices.** The Bank of England expects supply chain disruption to push inflation up to a peak of 5% in April 2022.

Chart 7: Bank of England UK GDP Growth Forecasts



Source: Bank of England

Chart 8: UK Interest Rates



Source: Bank of England

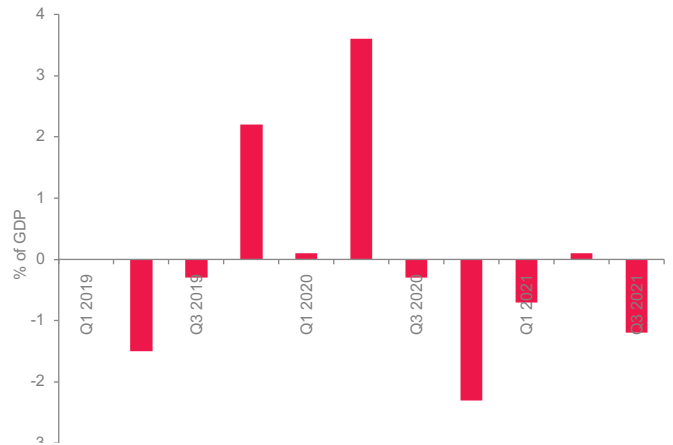
...as the vote on UK interest rates tightens...

The Bank of England's Monetary Policy Committee (MPC) kept UK interest rates on hold at their current record low of 0.1% in November (see Chart 8). The minutes from the last MPC meeting revealed that the vote on interest rates tightened from 9-0 to 7-2 in favour of keeping rates on hold, with the Dave Ramsden and Michael Saunders voting for a rate hike. **Although UK interest rates are set to rise sooner rather than later, with the current inflationary surge largely driven by supply side constraints and global price pressures, tightening UK monetary policy will do little to curb the current spike in consumer prices.**

...but trade drags on the recovery...

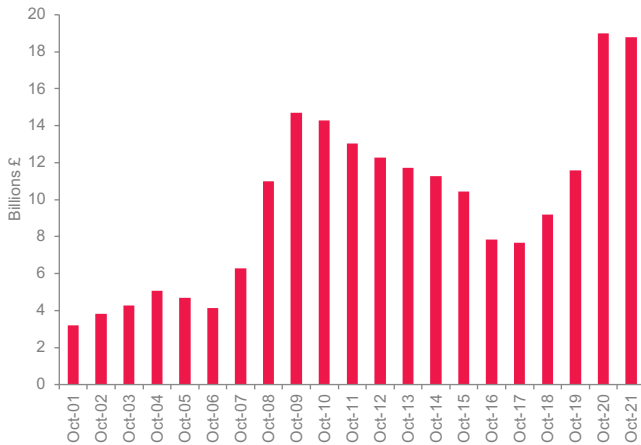
UK's trade balance fell to a deficit equivalent to -1.2% of GDP in Q3 2021, with net trade a drag on quarterly growth (see Chart 9). **The deterioration in UK's net trade position was driven by a rise in imports and a decline in exports in the quarter.** Exports fell by 1.9% in Q3, driven by a fall in exports of goods (-5.8%). Imports rose by 2.5% in Q3 driven by higher goods imports, including fuels and chemicals. UK exports of goods to EU countries fell by 1.2% in Q3, compared to a 5.5% decline in non-EU goods exports. Ongoing driver shortages and supply chain disruption may mean that international trade adds very little to overall economic output in the medium term.

Chart 9: UK Trade balance as % of GDP



Source: ONS UK GDP, Q3 2021

Chart 10: UK Government Borrowing



Source: ONS Public Sector Finances, October 2021

...as declines in government borrowing moderate.

UK public-sector borrowing (excluding public-sector banks) stood at £18.8 billion in October 2021 (see Chart 10). This was the second-highest October borrowing since monthly records began in 1993 and just £0.2 billion lower than in October 2020. **The modest improvement compared to previous months largely reflected slower growth in tax receipts and increased government spending amid higher debt servicing costs caused by rising inflation.** UK public sector net borrowing totalled £127.3 billion in the financial year to October 2021, £103.4 billion less than in the same period last year. Public sector net debt (excluding public sector banks) currently stands at 95.1% of UK GDP.

Bottom line:

Taken together, November's data releases indicate that UK's economic recovery from covid is starting to stall amid supply disruption, staff shortages and rising inflation. Against this backdrop, we would caution the Bank of England against raising interest rates too early to avoid destabilising an already brittle recovery.

For more information please contact Suren Thiru, Head of Economics.
Email: s.thiru@britishchambers.org.uk

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Household	Retail Sales (ONS)	Improving	Deteriorating	No change	Deteriorating	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Consumer Confidence (GfK NOP)	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	No change	Improving	Improving	Improving	Improving	Deteriorating
	House Prices (Halifax)	Improving	Improving	No change	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
	New car sales (SMMT)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Mortgage approvals (Bank of England)	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Business	Business confidence (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Business lending (Bank of England)	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Service sector output (ONS)	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	No change	Improving	Improving
	Production output (ONS)	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Investment intentions (BCC)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Labour market	Employment (ONS)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Unemployment (ONS)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Number of people on payroll (HMRC)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Earnings (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
Government	Public sector net borrowing (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Public sector net debt % of GDP (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Tax receipts (HMRC)**	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Current Budget Deficit (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
External	UK trade balance (ONS)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
	Export Sales (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Export orders (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Financial	Exchange rate (Bank of England)	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Equity Prices (Bloomberg)	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	10 year Government bonds (Bloomberg)	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimate.