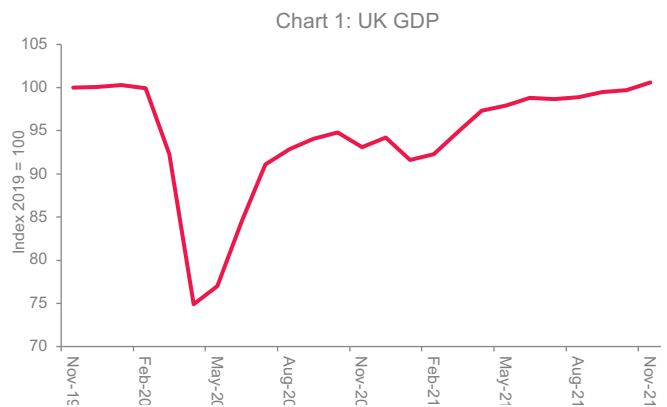


**Monthly headlines:**

- UK GDP growth rebounded in November as service, industrial and construction output increased
- Inflation in the UK reached 30-year high and interest rates rise again
- Eurozone GDP growth slowed sharply in Q4 2021 as US economic output accelerates

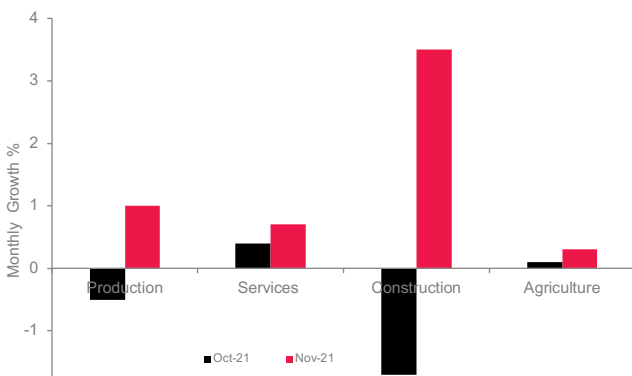
**UK GDP growth rebounds in November...**

The first official estimate of UK GDP revealed that the UK economy grew by 0.9% in November 2021, up from growth of 0.2% in October. As a consequence, **UK economic output on a monthly basis is now above its pre-pandemic level in February 2020, for the first time (see Chart 1)**. In the three months to November, UK GDP was up by 1.1%. Strong growth in November should be followed by a modest fall in output in December as consumer caution to socialise and spend, and mounting staff absences sparked by Omicron and Plan B limited activity.



Source: ONS UK GDP, November 2021

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, November 2021

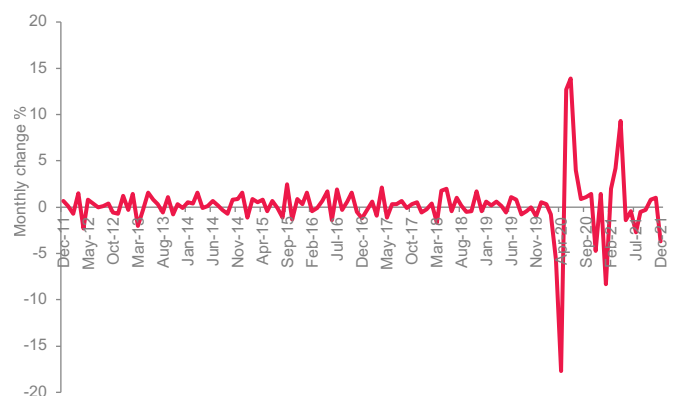
**...as all the main sectors record strong growth...**

All sectors saw positive monthly growth in November. However, services were the main contributor to the strong rebound in UK GDP growth. Service sector output grew by 0.7% in November 2021, up from growth of 0.4% in October (**see Chart 2**). **Output from consumer-focused services firms grew by 0.8% before the impact of Omicron**, reflecting a 1.4% increase in retail trade. Industrial output rose by 1.0% in the month, largely driven by a 1.1% increase in manufacturing sector output. Construction output rose by 3.5%, the largest monthly rise since March 2021.

**...but Omicron hits retail activity...**

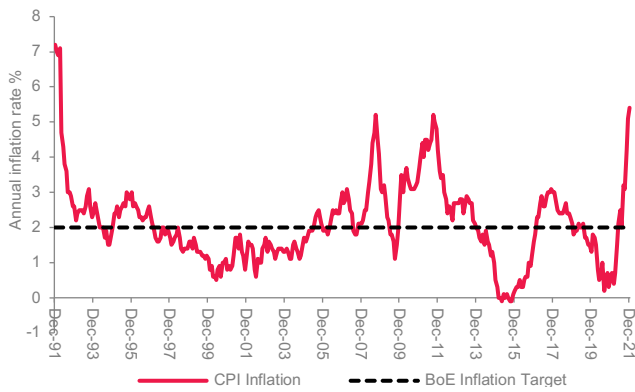
Retail sales fell by 3.7% in December 2021, down from growth of 1% in November (**see Chart 3**). **December's decline in sales largely reflected the increased consumer caution to spend and reduced footfall caused by Omicron and Plan B**, which drove a 7.1% decline in non-food stores sales. Fuel sales fell by 4.7% in the month as Omicron and Plan B reduced travel. Despite December's decline, sales volumes were still 2.6% higher than their pre-pandemic levels in February 2020. For 2021 as a whole, retail sales rose by 5.1%, the strongest growth since 2004.

Chart 3: UK Retail Sales



Source: ONS Retail Sales, December 2021

Chart 4: UK CPI Inflation



Source: ONS Consumer Prices, December 2021

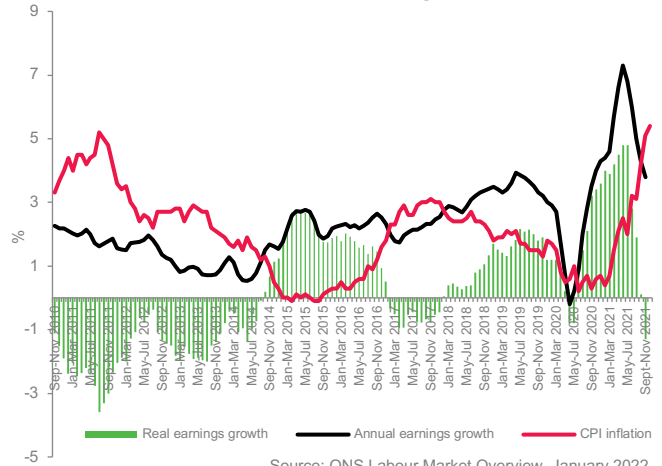
...as UK inflation rises to 30-year high...

UK CPI inflation rose to 5.4% in December, from 5.1% in November, the highest rate since March 1992 (see Chart 4). December's increase largely reflected rising food prices as well as higher clothing and furniture costs. However, supply chain price pressures eased slightly with growth in input prices at 13.5% on the year to December, down from 15.2% in November. **Inflation will continue to soar in the coming months as the increase in Ofgem's energy price cap from April, rising raw material costs and the reversal of the VAT reductions for hospitality push inflation to around 7% in the near term.**

...squeezing real wage growth...

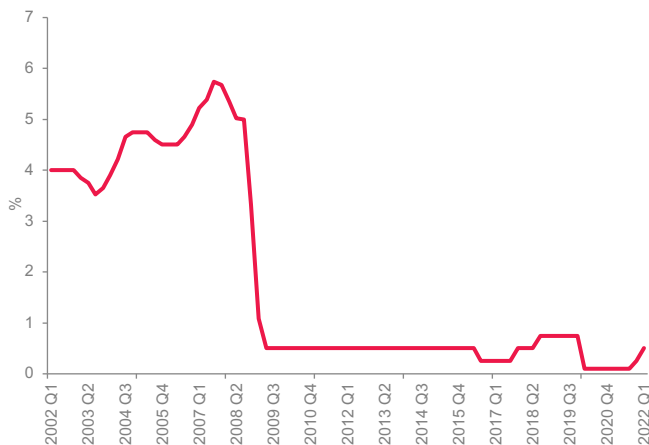
The number of employees on payroll rose by 184,000 in December 2021 and were up 409,000 on pre-coronavirus levels. The unemployment rate declined from 4.5% to 4.1%. Staff shortages continue to increase with the number of job vacancies rising by 127,800 in the three months to December to a new record high of 1,247,000. Annual earnings growth, excluding bonuses, slowed from 4.3% to 3.8%. **With inflation surging, price growth is now outpacing pay growth (see Chart 5), eroding consumers' spending power and squeezing already financially stretched households.**

Chart 5: UK Real Earnings Growth



Source: ONS Labour Market Overview, January 2022

Chart 6: UK Interest Rates



Source: Bank of England

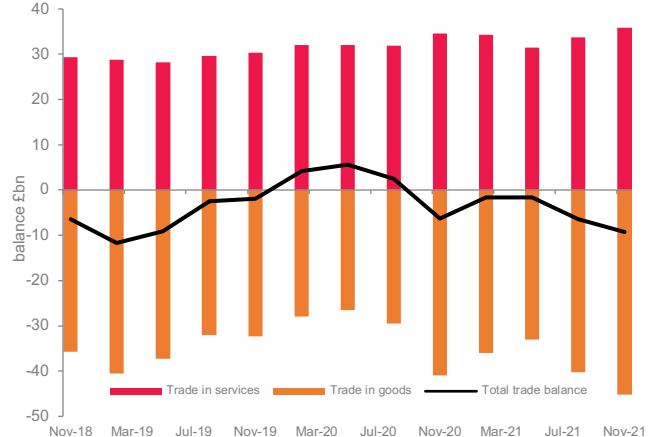
...UK interest rates rise again...

The Bank of England's Monetary Policy Committee (MPC) increased UK interest rates by 25 basis points to 0.50%, the highest rate since March 2020 (see Chart 6), and the first back-to-back rate rises since 2004. The MPC voted 5-4 to raise interest rates to 0.50%, with the 4 dissenters voting to raise rates to 0.75%. **With the increase in Ofgem's energy price cap from April set to push inflation to around 7%, despite government support, further interest rate rises are inevitable.** However, higher interest rates will do little to limit the soaring energy costs and persistent supply chain disruption that are driving the current spike in inflation.

...as UK's trade deficit widens...

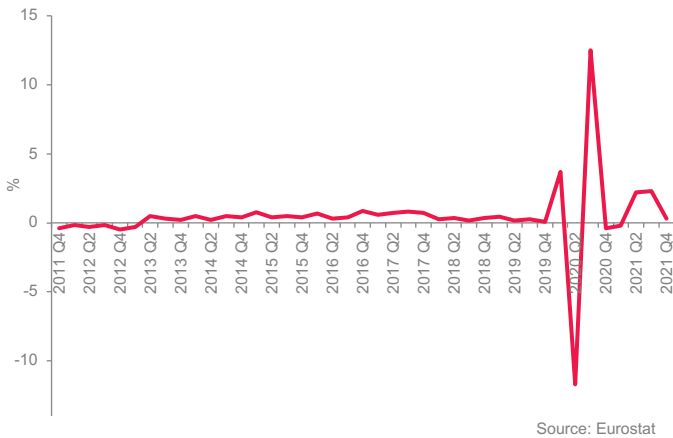
The UK trade deficit in goods and services widened by £2.8 billion to £9.3 billion in the three months to November 2021 (see Chart 7). This decline was driven by a £4.9 billion fall in the trade in goods balance which was only partly offset by a £2.1 billion rise in the trade in services surplus. **UK goods exports to EU countries rose by 0.1% in November and exports to non-EU countries fell by 2.1% over the same period.** Goods imported to the UK from the EU rose by 4.5% in November and imports from non-EU countries increased by 5.2%. This was the 11<sup>th</sup> successive month that non-EU imports were higher than from EU countries.

Chart 7: UK's Net Trade Position



Source: ONS Trade, November 2021

Chart 8: Eurozone Real GDP Growth



Source: Eurostat

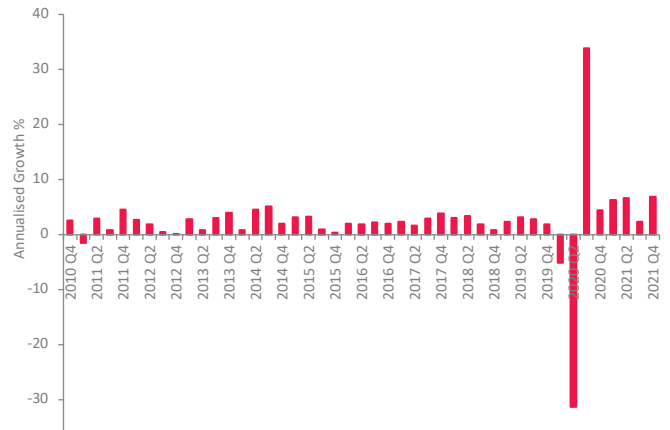
**...Eurozone GDP growth slowed sharply in Q4...**

The Eurozone economy grew by 0.3% in Q4 2021, down from growth of 2.3% recorded in Q3 (see Chart 8). The slowdown in the quarter reflected the squeeze on activity from Omicron and the reintroduction of restrictions in some Eurozone countries. Germany, the Eurozone’s biggest economy, contracted by 0.7% in Q4, amid rising covid cases and the introduction of restrictions on unvaccinated residents in December. In contrast, France (+0.7%), Italy (+0.6%) and Spain (+2%) all recorded strong growth in the quarter. For 2021 as a whole, the Eurozone economy grew by 5.2%.

**...while US GDP growth accelerates...**

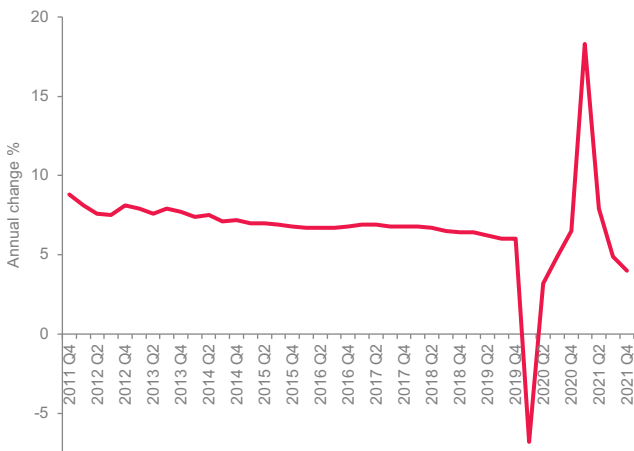
The first estimate of US GDP revealed that the US economy grew at an annualised rate of 6.9% in Q4 2021, up sharply from growth of 2.3% recorded in the previous quarter (see Chart 9). Strong upticks in exports, inventory investment and consumer spending, boosted activity in the fourth quarter. Consumer spending, which accounts for over two-thirds US economic output, grew by 3.3% in Q4, up from growth of 2.0% in Q3. US exports rose by 24.5% in Q4, following a 5.3% decline in Q3. Business investment rose by 2.0% in Q4, up from growth of 1.7% in Q3. For 2021 as a whole, the US economy grew by 5.7%, the strong outturn since 1984.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Real China GDP Growth



Source: National Bureau of Statistics of China

**...and China GDP growth slows.**

China’s economy grew at an annual rate of 4.0% in Q4 2021, the slowest outturn since Q2 2020 and down from growth of 4.9% in the previous quarter (see Chart 10). On a quarterly basis, Chinese economic output grew by 1.6% in Q4, up from growth of 0.7% in Q3. As a consequence, China’s economy expanded by 8.1% in 2021 as a whole, the strongest full year growth since 2011 and well above the government’s growth target of 6.0%. China’s zero-Covid policy is expected to restrict consumer spending and business activity over the near term, weighing on overall economic output. Concerns over the outlook for China’s economy led the central bank to cut a key interest rate for the first time since April 2020.

**Bottom line:**

**Overall, last month’s data releases suggest that the UK economy is under growing pressure from persistent supply side constraints and soaring cost pressures faced by both consumers and businesses. Action to limit the unprecedented surge in costs facing businesses, including financial support for those struggling with soaring energy bills and delaying the impending National Insurance rise, would help ease the pressure on firms to increase prices further.**

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Email: s.thiru@britishchambers.org.uk

# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Household	Retail Sales (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Consumer Confidence (GfK NOP)	■	■	■	■	■	■	■	■	■	■	■	■	■
	House Prices (Halifax)	■	■	■	■	■	■	■	■	■	■	■	■	■
	New car sales (SMMT)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Mortgage approvals (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
Business	Business confidence (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business lending (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Service sector output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Production output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Number of people on payroll (HMRC)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
Financial	Exchange rate (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Equity Prices (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■
	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■

\*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.