

BRITISH CHAMBERS OF COMMERCE

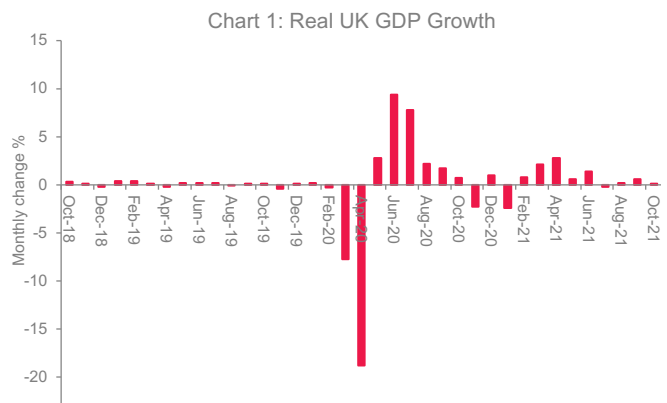
MONTHLY ECONOMIC REVIEW January 2022

Monthly headlines:

- UK GDP growth slows in October as industrial and construction output falls
- Omicron and Plan B weakening economic activity as consumer caution increases
- Interest rates increase for the first time since 2018 as UK inflation reaches decade high

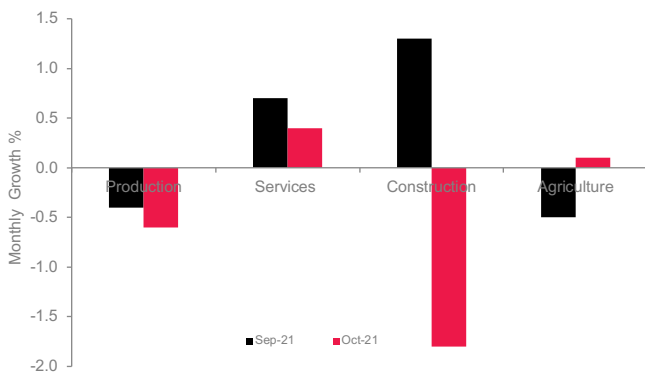
UK GDP growth slows in October...

The first official estimate of UK GDP revealed that the UK economy grew by 0.1% in October 2021 (see **Chart 1**), down from growth of 0.6% in September. On a monthly basis, UK economic output is now 0.5% below its pre-pandemic level in February 2020. In the three months to October, UK GDP grew by 0.9%, down from growth of 1.3% in the previous three-month period. **UK economic activity is likely to have slowed sharply in Q4 2021 as supply and staff shortages, rising inflation and the impact of the Omicron variant and Plan B weakens output.**



Source: ONS UK GDP, October 2021

Chart 2: UK GDP Growth by Sector



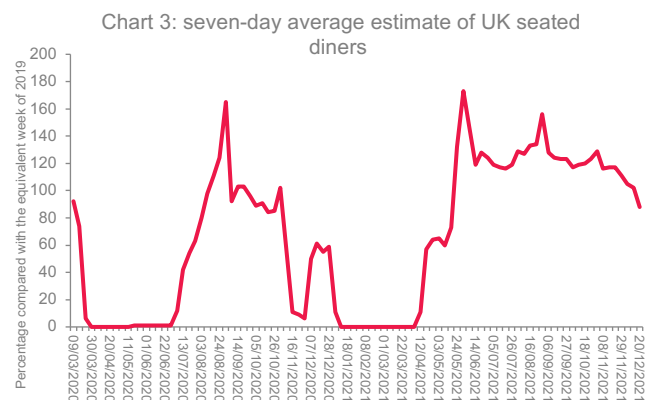
Source: ONS UK GDP, October 2021

...as industrial and construction output falls...

Service sector output grew by 0.4% in October 2021, down from growth of 0.7% in September (see **Chart 2**). Growth in the sector was largely driven by human health activities, which grew by 3.5%, mainly because of a continued rise in face-to-face appointments at GP surgeries in England. **Construction sector output fell by 1.8% in October, the largest fall since April 2020 and the sector is now 2.8% below its pre-pandemic level.** Industrial output fell by 0.6%, reflecting declines in electricity and gas supply (-2.9%) and mining and quarrying output (-5.0%).

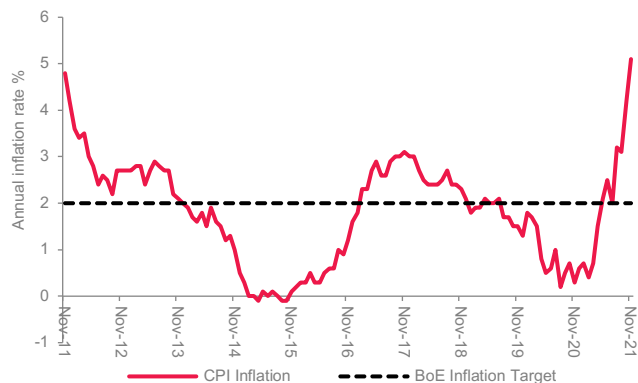
...as Omicron and Plan B weakens activity...

High-frequency data is showing declining levels of activity within the hospitality sector over recent weeks, amid the impact of the Omicron variant and Plan B. Data from online restaurant booking site OpenTable showed that in the week to 20 December 2021, the seven-day average estimate of UK seated diners fell 14 percentage points to 88% of the level in the equivalent week in 2019 (see **Chart 3**). This was the largest fall since 6 September 2021 and the lowest level since indoor dining reopened in England, Wales and Scotland.



Sources: ONS, OpenTable

Chart 4: UK CPI Inflation



Source: ONS Consumer Prices, November 2021

...as UK inflation continues to surge...

UK CPI inflation rose from 4.2% in October to 5.1% in November 2021 (see Chart 4). This is the highest rate since September 2011 and more than double the Bank of England's 2% inflation target. The increase largely reflected higher fuel prices and strong base effects which pushed up clothing and footwear prices in comparison with November 2020. **Inflationary pressures are expected to intensify in the near term as rising raw material costs, higher energy prices and the reversal of the VAT reduction for hospitality and tourism drives inflation above 6% by April.**

...and unemployment declines...

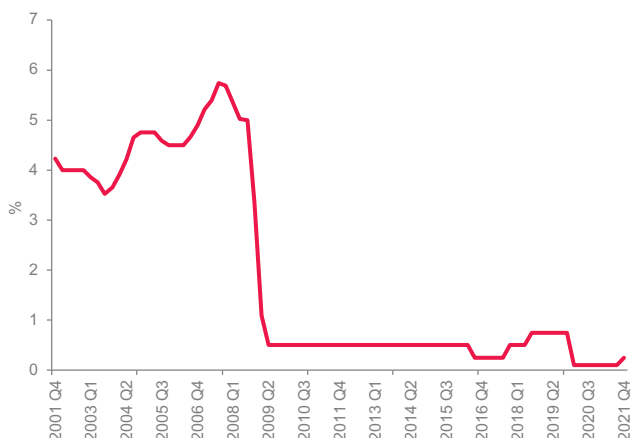
Rising payroll employment and falling unemployment confirm that the UK jobs market has continued to rebound strongly despite a slowing recovery and the end of furlough. In the three months to October 2021, UK unemployment fell by 127,000 and the unemployment rate declined from 4.6% to 4.2% (see Chart 5). The number of employees on payroll rose by 257,000 in November 2021, and were up 424,000 on the pre-coronavirus levels in February 2020. Staff shortages continue to increase with the number of job vacancies rising by 184,700 in the three months to November 2021, to a new record high of 1,219,000.

Chart 5: UK Unemployment Rate



Source: ONS Labour Market Overview, December 2021

Chart 6: UK Interest Rates



Source: Bank of England

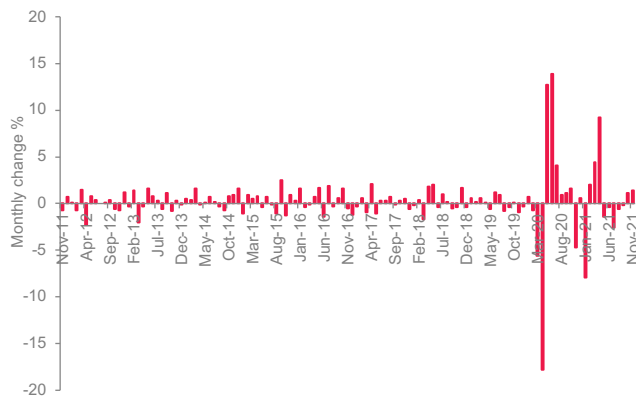
...as UK interest rates rise...

The Bank of England's Monetary Policy Committee (MPC) increased UK interest rates by 15 basis points to 0.25%, the highest rate since March 2020 and the first increase since August 2018 (see Chart 6). The MPC voted 8-1 to raise interest rates with only Silvana Tenreiro voting to keep rates on hold. **The Bank of England's decision to raise interest rates was surprising given mounting uncertainty over the economic impact of the Omicron variant.** While further interest rate rises are likely this year, with the current inflationary spike mostly driven by global factors, tightening monetary policy will do little to curb further increases in inflation.

...retail sales picked up in November...

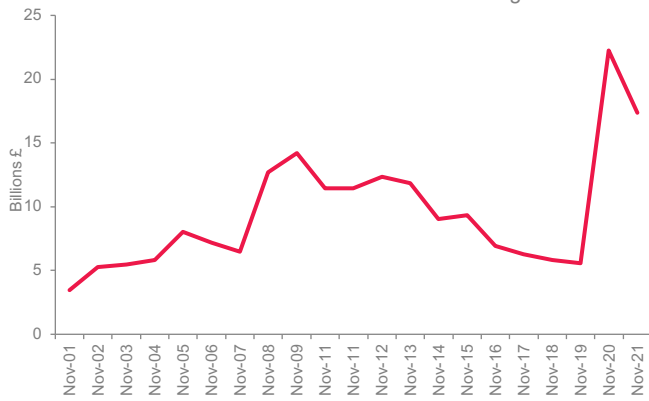
Retail sales rose by 1.4% in November 2021 (see Chart 7). **November's increase was largely driven by the boost to activity from Black Friday and early Christmas shopping** which drove a 2.0% rise in non-food stores sales, amid strong growth in clothing store sales (+2.9%) and sales in other non-food stores (+2.8%) such as computer stores, toy stores and jewellery stores. **However, more timelier data shows that retail footfall is weakening from the impact of Omicron and Plan B.** In the week to 2 January 2022, overall retail footfall in the UK was 75% of the level seen in the equivalent week of 2019.

Chart 7: UK Retail Sales



Source: ONS Retail Sales, November 2021

Chart 8: UK Government Borrowing



Source: ONS Public Sector Finances, November 2021

...as government borrowing falls sharply...

UK public-sector borrowing (excluding public-sector banks) stood at £17.4 billion in November 2021 (see Chart 8). This was the second-highest November borrowing outturn on record, but £4.9 billion lower than in November 2020. UK public sector net borrowing totalled £136 billion in the financial year to November 2021, £115.8 billion less than in the same period last year. This improvement largely reflected the phasing out of government support, including the furlough scheme, and stronger tax receipts as the economy reopened.

...as UK's trade deficit increases...

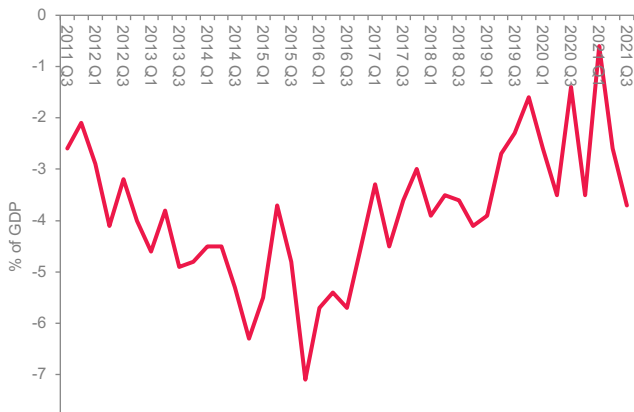
The UK trade deficit in goods and services widened by £4.5 billion to £5.2 billion in the three months to October 2021 (see Chart 9). This deterioration reflected both a £2.3 billion rise in imports and a £2.2 billion fall in exports in the month. UK goods exports to EU countries fell by 2.7% in October. In contrast, exports to non-EU countries rose by 6.2% over the same period. Imports from non-EU countries were higher than from EU countries for the 10th consecutive month. The ongoing disruption to international trade flows from Covid and continued post-Brexit disruption to trade with the EU means that the outlook for UK exporters is likely to remain challenging for some time.

Chart 9: UK's Net Trade Position



Source: ONS UK Trade, October 2021

Chart 10: UK Current Account position (as a % of GDP)



Source: ONS Balance of Payments, Q3 2021

...and the UK's current account deficit widens.

The UK ran a current account deficit (excluding non-monetary gold and other precious metals) of £21.7 billion in Q3 2021, £6.7 billion higher than the deficit of £15 billion recorded in Q2. The UK's current account deficit was equivalent to 3.7% of UK GDP in Q3, up from 2.6% in Q2 (see Chart 10). The rise in the current account deficit largely reflected a deterioration in the UK's trade balance and overseas firms receiving more income from their investments in the UK, than vice versa. The UK's primary income deficit (the income the UK receives and pays on financial and other assets) widened to £7.1 billion in Q3 as dividend payments reached their pre-pandemic peak, increasing earnings on portfolio investment in the UK.

Bottom line:

Taken together, last month's data releases suggest that UK's economic recovery is stalling amid the impact of Omicron, rising inflation, supply chain disruption and continued post-Brexit disruption. The Government must do all it can to support the UK economy through these uncertain times. If the current restrictions persist or are tightened further then a more comprehensive support package that matches the scale of any new measures, will need to be put in place.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-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.