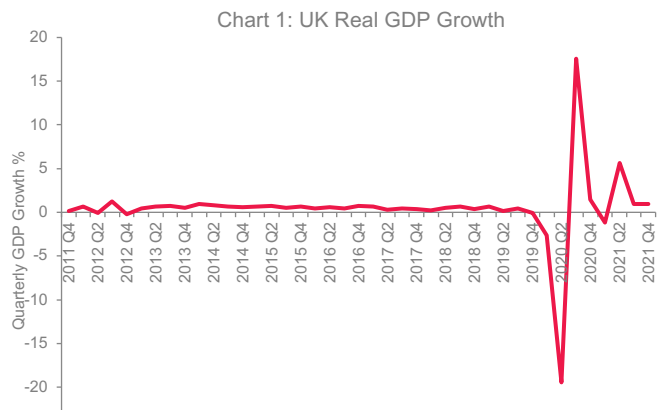


**Monthly headlines:**

- UK GDP continued to grow in Q4, despite Omicron driving a decline in output in December
- Inflation in the UK reaches 30-year high and interest rates rise again
- BCC Forecast: UK economic growth to halve this year as domestic and global headwinds soar

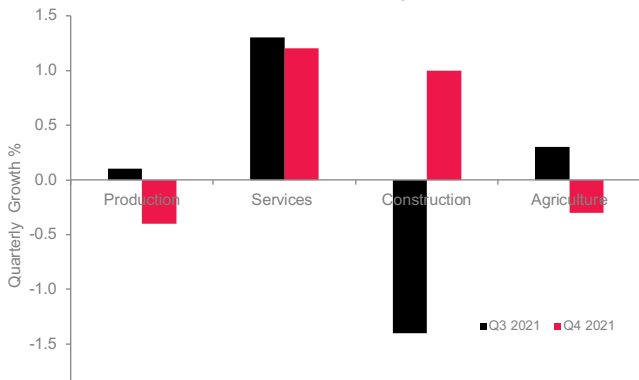
**UK economy continued to grow in Q4...**

The first official estimate of UK GDP revealed that the UK economy grew by 1.0% in Q4 2021, unchanged from Q3 (see Chart 1). UK economic output is now 0.4% below its pre-pandemic level. **For 2021 as a whole, the UK economy grew by 7.5%, the strongest outturn since official records began in 1949.** However, this more reflects data distortions caused by the comparison with the historic collapse in activity in 2020, than the reality on the ground. On a monthly basis, the UK economy contracted by 0.2% as Omicron and Plan B weakened activity.



Source: ONS UK GDP, Q4 2021

Chart 2: UK GDP Growth by Sector



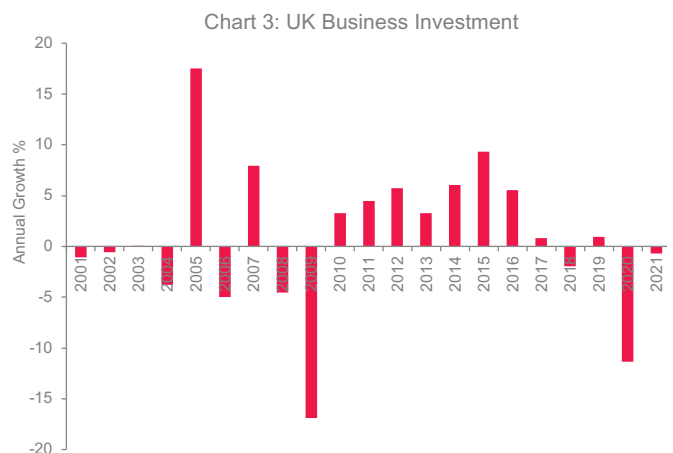
Source: ONS UK GDP, Q4 2021

**...as service sector record strong growth...**

Service sector output, grew by 1.2% in Q4 2021 (see Chart 2). Human health was a key contributor to the increase in Q4 services output, reflecting the boost from NHS Test and Trace and COVID-19 vaccination activities. In contrast, industrial output fell by 0.4% in Q4 and is now 3.6% below its pre-coronavirus levels. On a monthly basis, service sector output fell by 0.5% in December 2021, driven by a 3% fall in consumer-facing services activity as Omicron and Plan B increased consumer caution to socialise and spend.

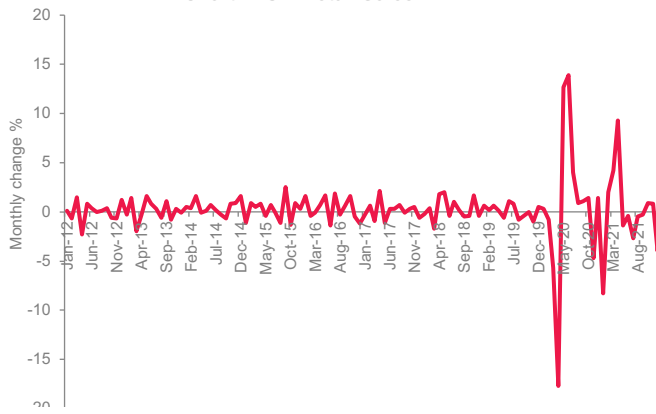
**...but business investment remains weak...**

The latest UK GDP data also revealed that business investment in the UK increased by 0.9% in Q4 2021, but remains 10.4% below its pre-pandemic level. Consumer spending rose by 1.2% in Q4 and is now just 0.4% below its pre-pandemic level. **For 2021 as a whole, business investment fell by 0.7%** (see Chart 3) and as such remains the weak point of the recovery, undermining UK's growth prospects and ability to raise productivity. In contrast, government (+14.5%) and household (+6.1%) spending increased significantly last year.



Source: ONS UK GDP, Q4 2021

Chart 4: UK Retail Sales



Source: ONS Retail Sales, January 2022

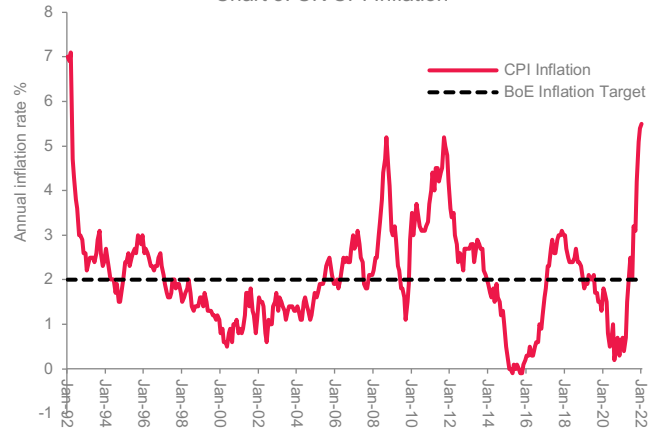
**...as retail sales partly rebound...**

Retail sales rose by 1.9% in January 2022, the biggest monthly rise since April 2021 and partly offsets the Omicron driven decline of 4% in December (see Chart 4). January's increase was largely driven by a 3.4% rise in non-food stores, amid a strong pick-up in home improvement activity. Fuel sales rose by 4.1% in January as mobility increased as the impact of Omicron started to ease. Food store sales fell by 2.3%, falling below pre-coronavirus levels for the first time. The proportion of online retail sales fell to 25.3% in January, the lowest proportion since March 2020.

**...UK inflation continues to rise...**

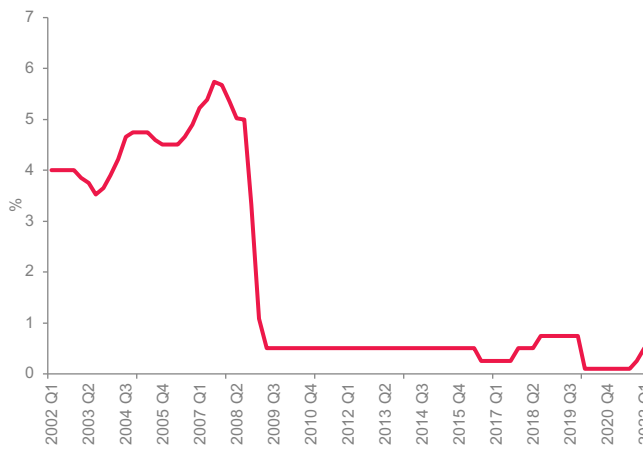
UK CPI inflation rose to 5.5% in January 2022, from 5.4% in December 2021, the highest rate since March 1992 (see Chart 5). January's increase was partly driven by higher clothing and footwear prices as retailers offered small discounts compared to the January sales in 2020. However, on a monthly basis, inflation declined by 0.1% in January, offering some hope that we may be nearing the peak in the current spike in inflation. BCC expects inflation to peak at 8% in Q2 2022, amid the reversal of the hospitality VAT cut, the energy price cap rise and the upward pressure wholesale energy costs and commodity prices caused by Russia's invasion of Ukraine.

Chart 5: UK CPI Inflation



Source: ONS Consumer Price Inflation, January 2022

Chart 6: UK Interest Rates



Source: Bank of England

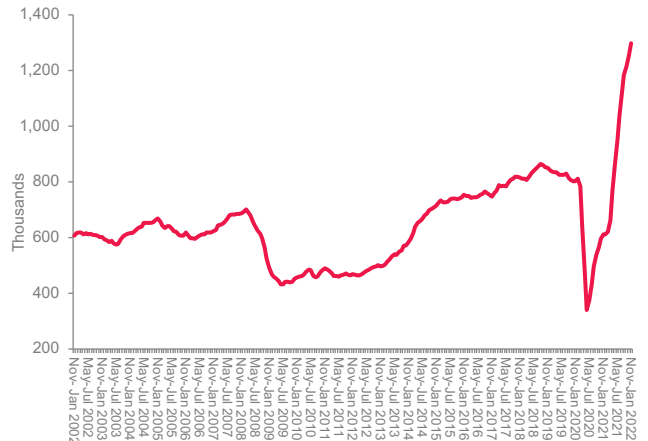
**...UK interest rates rise again...**

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 inflation set to rise materially higher in the near term, further interest rate rises are inevitable. However, higher interest rates will do little to limit the soaring energy costs and supply chain disruption that are driving the current spike in inflation. Raising rates too aggressively also risks weakening UK's growth prospects by undermining confidence.

**...job vacancies reach new record high...**

The number of employees on payroll rose by 108,000 in January 2022. Annual earnings growth, excluding bonuses, slowed from 5.0% to 3.7%. With inflation continuing to rise (see Chart 5), pay growth is now comfortably lagging behind inflation, increasing the squeeze on household finances. The number of job vacancies rose by 113,600 in the three months to January 2022 to a new record high of 1,298,400 (see Chart 7). The squeeze on firms' finances from inflation, soaring energy bills and the national insurance hike could weaken job creation and restrain pay growth further in the coming months.

Chart 7: Job Vacancies



Source: ONS Labour Market, February 2022

Chart 8: UK Government Borrowing



Source: ONS Public Sector Finances, January 2022

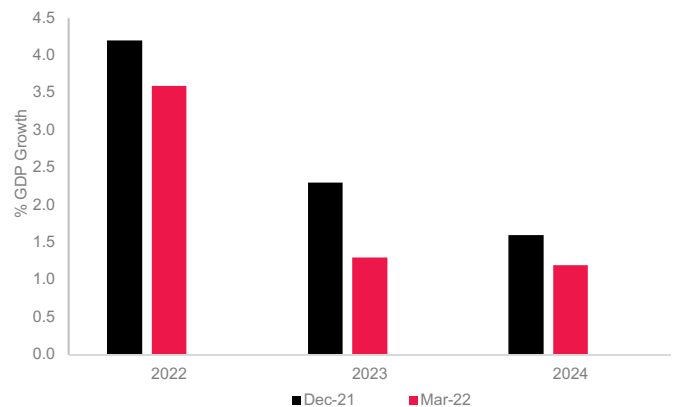
**...as the public finances improve...**

UK public sector finances (excluding public sector banks) recorded a surplus of 2.9 billion in January 2022 (see Chart 8). This was an improvement on the £5.4 billion deficit in January 2021, but £7 billion smaller than the surplus in January 2020, before Coronavirus. **January is typically a month where the public finances are in surplus due to the timing of self-assessed income tax receipts.** In the current financial year-to-date, government borrowing stood at 138.5 billion, the second-highest financial year-to-January borrowing since monthly records began in 1993.

**...but UK growth forecast to halve this year...**

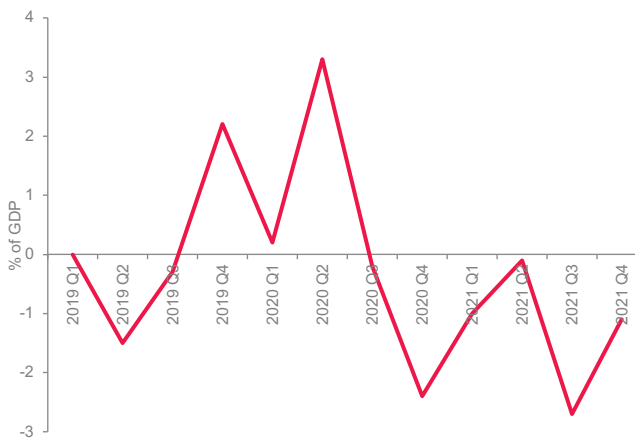
In its latest economic forecast, the BCC has downgraded its expectations for UK GDP growth for 2022 to 3.6% (see Chart 9), from 4.2% in its previous forecast in December 2021 and less than half the growth of 7.5% recorded last year. **The downgrade largely reflects a deteriorating outlook for consumer spending and a weaker than expected rebound in business investment, amid soaring inflation, major tax rises, and the impact Russia’s invasion of Ukraine.** Following forecasted GDP growth of 3.6% this year, UK economic growth is expected to slow sharply again to 1.3% in 2023, before easing to 1.2% in 2024.

Chart 9: UK GDP Growth Forecast Revisions



Source: BCC

Chart 10: UK Trade balance as % of GDP



Source: ONS UK GDP, Q4 2021

**...but UK’s trade position improves.**

UK’s trade balance narrowed to a deficit equivalent to -1.1% of GDP in Q4 2021, from -2.7% of GDP in Q3 2021 (see Chart 10). **The improvement in UK’s net trade position was driven by a rise in exports and a decline in imports in the quarter.** Exports rose by 4.9% in Q4. This reflected a 11.2% increase in the exports of goods, including fuels, chemicals, and machinery and transport equipment, which was partly offset by a 1.8% fall in services exports. Total import volumes fell by 1.5% in Q4 2021. The quarterly decline was driven by a 3% fall in services imports, including declines in telecommunications, financial services, and manufacturing and maintenance.

**Bottom line:**

**Taken together, February’s data releases indicate that UK economic prospects are deteriorating. The Chancellor should use this month’s Spring Statement, to tackle the cost-of-doing-business crisis by delaying the National Insurance rise, introducing a temporary energy price cap for smaller firms to protect them from energy price rises, and committing to no further policy measures that will increase costs for business for the remainder of this Parliament.**

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Email: s.thiru@britishchambers.org.uk

# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
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)	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Number of people on payroll (HMRC)	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
External	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
Financial	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	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.