

# Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

November 2022



## Employment

(Jun '22 – Aug '22)

75.5%



## Unemployment

(Jun '22 – Aug '22)

3.5%



## Productivity growth

(Output per hour, Q2 2022  
on a year ago)

0.4%



## Real wage growth

(Jun '22 – Aug '22 on a year ago,  
excl. bonuses)

-2.9%

## Monetary policy authorities struggle to land complex messages

All three central banks across the EU, UK and US have recently increased rates by 75 basis points to bring down soaring inflation amidst weakening growth outlooks. For the Bank of England, this was the biggest rate rise since 1989. For the US Fed, this was the fourth hike in a row and for the ECB, the second. The three economies are operating at different speeds too: in Q3, the US is estimated to have grown 0.6%, the euro area 0.2% (down from 0.8% in Q2) while the BOE expects UK GDP to have shrunk by 0.5% (from growth of 0.2% in Q2).

All three economies have different exposures to the war in Ukraine, pandemic legacies, levels of fiscal support and economic outlooks. It's no surprise that markets are struggling to digest complex economic shocks, outlooks, and rapidly rising interest rates. Unfortunately, central banks are struggling to communicate their judgements on the outlook too. US Fed watchers were left confused when the central bank said it would be raising rates more slowly but to a higher level. And the Bank's November Monetary Policy Report spent a lot of time talking about a forecast predicated on an interest rate trajectory with which it fundamentally disagrees.

## What does the Bank of England really think?

The Bank of England's November Monetary Policy Report fuelled widespread reports of the Bank forecasting the longest recession since the 1920s, with output shrinking through to 2024 Q4. Unhelpfully, despite being the Bank's central forecast, this isn't what the Bank actually thinks will happen. That forecast was based on market forecasts up to 25 October for an interest rate peak of 5.25%. If interest rates followed that path, inflation would fall below 2% in two years, and fall further beyond that, leaving the Bank in breach of its inflation mandate to return inflation to the 2% target sustainably. The Bank also presented a second forecast in which interest rates stay at 3% throughout their forecast, which also has inflation falling below target in the third year, but has the recession ending in 2023 Q4.

What to make of all this? Elsewhere in its report, the Bank indicates that rates will probably go up a bit further. Both of the Bank's forecasts have inflation at 5-6% by the end of 2023. And both show a pretty weak growth outlook, with households buffeted by rising energy and mortgage costs, and businesses by tighter financing conditions.

## Purse strings tighten for November Budget

Our expectation for the Budget on 17 November is that it will be focussed on reinforcing macroeconomic stability through the demonstration of sound public finance management. This means that a mix of spending cuts and tax rises is expected to help stabilise UK public sector debt. The period of lacklustre growth after the financial crisis is a reminder of the dangers of pushing for too much fiscal consolidation too soon. But debt repayments are far higher now as financing costs have gone up and so has the level of debt, and markets are anxious. A delicate balance of affordable support for businesses and households through the energy crisis in the short-term (in a way which doesn't complicate the Bank's inflation task) and growth-friendly fiscal consolidation in the long-term, is needed.

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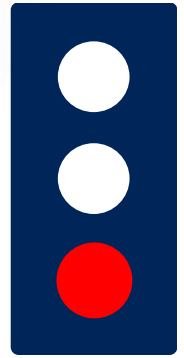


# Round-up of CBI October surveys\*

## CBI growth indicator: red

**Private sector activity** fell in the three months to October, albeit at a slightly slower pace than last month. Services activity declined at broadly the same rate as last month, with business & professional services falling at a slightly quicker pace and consumer services at a slightly slower pace. Manufacturing output also contracted slightly in the quarter to October, at a similar pace to September. Distribution was the only sector to see an expansion, as sales rebounded on the back of firm retail sales growth. The decline in private sector activity looks set to continue through the next quarter.

# -15%



### Past three months\*\*



### Next three months\*\*



## Growth indicator: sector detail

**UK manufacturing output** fell slightly in the quarter to October, at a broadly similar pace as in the quarter to September. Firms expect volumes to increase in the next three months.

**Distribution sales volumes** picked up in the quarter to October, having contracted in the quarter to September. The recovery is expected to be short-lived, however, with distribution firms anticipating a modest decline in volumes over the next three months.

**Services business volumes** fell in the three months to October, at a similar pace as in the three months to September. Over the next three months, services business volumes are expected to decline further, albeit at a slightly slower pace.

\* October surveys were in field between 26 September and 13 October (not including FSS).

\*\*Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'.

\*\*\* CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trades Survey.

\*\*\*\* Financial services are not included in the growth indicator composite; the latest FSS was September 2022.

Colour indicators illustrate whether the reported balance is above (green), below (red), or close to (orange) the long run average.