

# Economy in brief

For CEOs, FDs, and business leaders

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

February 2022



## Employment

(Sep '21 – Nov '21)

75.5%



## Unemployment

(Sep '21 – Nov '21)

4.1%



## Productivity growth

(Output per hour, Q3 2021 vs 2019 pre-pandemic levels)

+1.1%



## Real wage growth

(Sep '21 – Nov '21 on a year ago, excl. bonuses)

0.0%

*The UK business community stands side-by-side with the government and the action it is taking in opposing Russian aggression and supporting Ukraine and its people. The CBI has already begun working closely with members regarding Ukraine, the impact of Russian sanctions and the information flow with government. This brief note summarises some initial analysis on the impact on the UK economy via four main channels, but we would also welcome your thoughts/insights (please email us at [insights@cbi.org.uk](mailto:insights@cbi.org.uk)).*

## Energy and other commodities

At a macro level, higher energy prices are the most immediate impact on the UK economy. Russia is the third largest oil exporter in the world. It supplies around 5% of the UK's total natural gas imports, but around 40% of the EU's gas imports. Just the threat of disruption to energy supplies has sent oil and wholesale gas prices sharply higher, with the price of a barrel of Brent Crude hitting 8-year highs of just over \$100, and UK gas futures increasing by over 40%. Though energy has so far been spared sanctions, additional hurdles to financial payments to Russian entities increase the possibility of less Russian oil and gas reaching the market. This is likely to keep global energy prices higher for longer, with analysts' oil price forecasts for the coming months in a range of \$110-120 p/b. Disruption to physical supply—potentially an act of Russian retaliation—is an upside risk.

The same is true of other global commodity markets, which are already tight owing to the disruptions inflicted by Covid, so prices are highly responsive to even the smallest supply shocks. Russia and Ukraine are major exporters of non-energy commodities, particularly industrial metals and foodstuffs, as well as fertilisers. There are reports that the closure of Ukrainian ports and rail is disrupting exports of key commodities (with 90% of Ukrainian grain exports transported by sea, for example). Higher global prices will ripple through to end users, adding to existing cost pressures for firms in a range of sectors, particularly food & drink, chemicals, metals, automotive, aerospace, technology and construction.

## Direct trade and financial links

From a macroeconomic perspective, disruption to direct trade with Russia and Ukraine poses less of a risk: the two countries account for less than 1% of UK exports and around 1.5% of imports, with foreign investment and incomes flows also relatively small. However, exposure varies greatly for individual businesses, many of which have already suspended shipments to Russia, are considering alternative suppliers and whether to divest of their Russian operations altogether, in some cases at a considerable financial cost.

## Confidence and the policy response

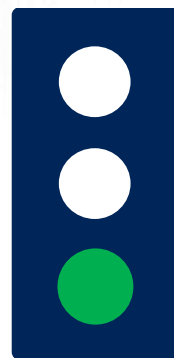
A fourth important transmission channel is via the hit to confidence and the broader tightening financial market conditions which, all else equal, will tend to weaken growth. This adds to the dilemma facing the Bank of England, which must weigh up the impact of higher energy prices on domestic inflation against corresponding hits to demand. While rising uncertainty might normally encourage the Bank to adopt a "wait-and-see" approach, existing concerns around near-term inflation expectations and wage-price dynamics suggest that the Bank will press ahead with a series of small interest rate rises this year.

# Round-up of CBI January surveys\*

## CBI growth indicator: green

Growth in **private sector** activity slowed in the three months to January. Within this, only the distribution sector saw faster growth compared with the three months to December. Growth in **manufacturing output and business & professional services volumes** eased, while consumer services activity fell for the first time since the three months to June 2021. Looking ahead, **private sector activity** is expected to grow at a similar pace in the next three months.

# +12%



### Past three months\*



+38%

Retail, wholesale  
and motor trades\*\*



+9%

Business and  
professional services



+42%

Financial  
Services\*\*\*\*



-23%

Consumer services



+14%

Manufacturing

### Next three months\*\*



+33%

Retail, wholesale  
and motor  
trades\*\*\*



+15%

Business and  
professional services



+45%

Financial  
Services\*\*\*\*



-53%

Consumer services



+23%

Manufacturing

## Growth indicator: sector detail

**Manufacturing** output growth slowed in the three months to January compared with the three months to December. Output is expected to grow at a faster pace in the next three months.

**Distribution volumes** grew at a faster pace in the three months to January. Within this, motor trades volumes returned to growth, wholesale volumes growth accelerated and retail growth slowed. Distribution volumes growth is expected to ease in the next three months, driven by slower wholesale and retail volumes growth, while motor trades volumes are expected to grow at a faster rate.

**Business volumes** were broadly flat in the three months to January. Within this, business & professional services growth slowed, while consumer services volumes fell. Services volumes are expected to remain broadly flat in the next three months, with business & professional services output expected to grow at a faster rate and consumer services output is expected to fall.

\* December surveys were in field between 20 December and 18 January.

\*\* 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 composite; the latest survey was December 2021.