CBI Economics

Economy in brief

For CEOs, FDs, and business leaders

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

June 2022

Employment
(Feb '22– Apr '22)
75.6%

Unemployment
(Feb '22– Apr '22)
3.8%

Productivity growth
(Output per hour, Q1 2022 vs 2019 pre-pandemic levels)
+1.5%

Real wage growth
(Feb '22– Apr '22 on a year ago, excl. bonuses)
-2.2%

GDP to see a one-off fall over Q2

Business surveys are pointing to a weakening in economic activity, with both the CBI's Growth Indicator and the Purchasing Managers' Index (PMI) indicating a sharp slowing in growth over the last couple of months. This follows already sluggish GDP data: excluding drags from Test & Trace and COVID vaccination activity unwinding, official data shows that economic momentum remained tepid going into Q2. Alongside softer business surveys and the extra bank holiday in June, this means that the economy is likely to contract over the quarter (our own forecast is for GDP to *decline* by 0.2%). However, this is unlikely to mark the start of a recession – with Q3 having a full set of working days, activity should rebound (we expect *growth* of 0.4%).

Inflation continues to rise

But looking through this near-term volatility, it's clear that we're set for a period of weaker economic growth ahead. The principal driver is high inflation, and the subsequent squeeze on households' real incomes and spending. CPI inflation rose to 9.1% in May, remaining at a 40-year high. Strong price rises are becoming more broad-based: of the 86 individual items in the CPI basket, around half saw inflation of 7% or above.

Near-term risks to inflation are to the upside. The May CPI data was collected before domestic fuel prices rose again, suggesting that this will show up in the June data. Global oil prices have risen further, and the strength in wholesale energy prices has led to speculation of another large rise in Ofgem's energy price cap in October, to a greater degree than analysts were already predicting. The pound has also fallen in recent weeks, which raises the cost of imported goods.

But further ahead, inflation risks can either be categorised as more balanced or slightly to the downside. A weakening in economic growth and households' purchasing power should take some of the heat out of price rises. There are already some tentative signs of this: while headline CPI inflation rose in May, "core" inflation (i.e. excluding food and energy) fell back a touch (to 5.9%), for the first time in eight months.

Labour market tightness cement the case for more rate rises

But for now at least, consumer price inflation is likely to remain high over the year ahead. This puts the Bank of England in an tricky bind, given the need to calibrate monetary policy to both reign in inflation, and avoid choking off growth. The Monetary Policy Committee (MPC) seem to be prioritising the former objective for now, and voted to raise interest rates again in June – the fifth successive rise, bringing Bank rate to 1.25%. Three members of the Committee voted to raise rates even further (to 1.5%), and minutes of their meeting stressed that the MPC would act "forcefully" if inflationary pressures prove to be more persistent.

A key factor swaying the MPC towards further rate rises is the tightness in the labour market, and the subsequent threat that high inflation could feed through to pay awards. There is little sign of this occurring so far: both pay surveys and data on pay settlements remain contained (though anecdote suggests that pay awards are much higher for specific roles). But it's clear that developments in the labour market – particularly against the backdrop of weaker economic growth ahead – is something that the MPC will be keeping a close eye on during their future deliberations.

Alpesh Paleja
Lead Economist, CBI

Round-up of CBI June surveys*

CBI growth indicator: **amber**

Private sector activity rose only slightly in the three months to June, marking the weakest growth since April 2021. The deterioration was most marked in consumer services, which saw the sharpest fall in business volumes since February 2021. However, slower growth was also broad-based across other sectors. Only manufacturing output posted solid growth, albeit easing slightly on the ten-month high seen in the three months to May. Activity is set to be flat in the next three months, marking the second consecutive survey where businesses expect no growth.

+5%

Past three months*

Retail, wholesale and motor trades**	Business and professional services	Financial Services****	Consumer services	Manufacturing
+11%	+10%	+17%	-41%	+25%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-7%	+2%	0%	-43%	+20%

Growth indicator: sector detail

Manufacturing output continued to grow solidly, albeit easing on the ten-month high seen in the previous survey. Output is expected to rise firmly again in the next three months, albeit at a slightly slower pace once again

Distribution sales growth eased considerably, to its slowest since April 2021. This reflected slower growth in wholesaling sales, and a fall in motor trade volumes; while growth in retail sales held up, it remained relatively modest. Distribution sales are set to fall in the next quarter, reflecting a faster decline in motor trades and retail falling into the red. Growth in wholesaling sales is predicted to ease once again

Services business volumes stagnated, as consumer services saw the biggest decline since February 2021. This was offset by growth in business & professional services, though even this marked the slowest rise in four months. Services volumes are set to fall in the next quarter, as business & professional services volumes stagnate and consumer services firms continue to see heavy declines

** June surveys were in field between 25 May and 14 June (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 March 2022.*