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

January 2022

Employment
(Sep '21 – Nov '21)
75.5%

Unemployment
(Sep '21 – Nov '21)
4.1%

Productivity
(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 cost of living

The economic headlines so far this year have largely focussed on the cost of living crunch for consumers. Headline inflation rose to 5.4% in December – its highest rate in 30 years - and real wages in the year to November fell 1% (real wages were stagnant on the three-month measure). Concerns about the increase in the energy price cap for consumers dominate the headlines and are already affecting consumer confidence. The rise in energy bills, alongside weak real earnings, particularly affects those at the lower end of the income distribution, who have also faired particularly badly during COVID-19. And this has led some to question the usefulness of the CPI as an inflation measure.

Which inflation measure matters?

Many are asking this question, but the answer is not straightforward. The CPI inflation measure is designed to capture inflation in the average household's shopping basket. If your spending basket is different to that of the average household, your real-world inflation experience will likewise be different. The same is true for businesses. If you've been experiencing double-digit rises in some of your costs for many months, it's hard to lend much credence to an inflation measure (CPI) that has seemed so slow to respond to widely-reported inflationary pressures. The ONS does capture an average measure of the input price inflation experienced by firms which seldom features prominently in inflation commentary. But again, it's an average.

The growth outlook has weakened

Both consumers and businesses are set to experience elevated inflation for some time yet. In a recent note, Goldman Sachs concluded that energy prices were likely to remain elevated for another 3 years. Meanwhile, other costs continue to rise rapidly: our latest manufacturing survey shows unit costs rising at the fastest pace in over 40 years. Alongside labour shortages and wage pressures, these pressures will remain elevated for some months, before gradually easing later in the year. They risk eroding both consumer spending and business investment this year. And the global outlook has weakened in the last few months: the IMF has downgraded its global outlook, amidst higher-than-expected global inflation, tighter COVID-19 restrictions due to Omicron, and substantial downgrades to growth in the US and China.

Going for growth

There is a role for UK governments to play in nurturing the trajectory for growth. In the short-term, easing the financial pressures on households and firms will help support growth current and next year and reduce scarring. In the longer term, we need to nurture investment and innovation, and take advantage of growth opportunities in decarbonisation. CBI DG Tony Danker recently called on the government to introduce a permanent investment spend tax deduction. He also called for a skills levy which is fully recycled back to businesses, supported by a new independent skills body. We need to see longer term plans and funding structures to support the low carbon transition, and finally we need to reposition the UK globally as a competitive force through fundamental regulatory change.

Anna Leach
Deputy Chief Economist, CBI

Round-up of CBI December surveys*

CBI growth indicator: **green**

Private sector growth slowed in the three months to December compared to November - the slowest since the quarter to April. Within this, business and professional services, consumer services and distribution firms saw growth rates ease compared with November month, while manufacturers saw growth accelerate. Growth was expected to ease further in the coming three months. **Note these surveys were in the field up to 14th December (plan B was announced on 8th December).**

+21%

Past three months*

Retail, wholesale and motor trades**	Business and professional services	Financial Services****	Consumer services	Manufacturing
+21%	+16%	+42%	+23%	+29%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
+9%	+29%	+45%	-16%	+23%

Growth indicator: sector detail

Manufacturing output growth accelerated in the three months to December compared to the previous month, with growth is expected to slow slightly again in the next three months.

Distribution volumes grew at a slower pace in the quarter to December to one month previously, driven by falling motor trades volumes and slower growth in wholesale volumes, while retail volumes grew at a faster pace. In the next three months, volumes growth is expected to ease further due to slowing retail and wholesale growth, while motor trades volumes will fall at a similar pace.

Business volumes grew at a slower pace in both services sub-sectors in the three months to December compared with the three months to November. **Business & professional services** expect faster growth in the next three months, while consumer services firms expect volumes to fall.

** December surveys were in field between 22 November to 14 December (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 December 2021.*