

Economy in brief

For CEOs, FDs, and business leaders

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

September 2022



Employment

(May '22 – Jul '22)

75.4%



Unemployment

(May '22 – Jul '22)

3.6%



Productivity growth

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

-1.0%



Real wage growth

(May '22 – Jul '22 on a year ago, excl. bonuses)

-2.8%

Business resumes

The sad passing of HM the Queen led to a pause in parliamentary business. But while the UK has been in formal mourning, economic conditions have continued to be torrid. The appointment of a new prime minister unleashed a flurry of announcements to address the impact of soaring energy bills on consumers and businesses. But businesses have been left hanging regarding the detail of the business package and the affordability of a mammoth £150 billion stimulus package. Meanwhile, the pound hit another 37 year low against the dollar following disappointing retail sales data, the latest labour market data saw the biggest quarterly rise in inactivity since the pandemic began, and rising underlying inflation is putting pressure on the MPC to deliver a 75 basis point rise in rates.

The outlook for the UK economy

The UK's economic outlook has jumped around considerably over the past couple of months. In June, the CBI's forecast was for 2023 growth of 1% and average inflation of 4.1%. After political interference in pipeline gas supply to Europe in early July, the Bank's August forecast was for 2023 growth of -1.5% and inflation of 9.6%. The UK government's price cap announcement in September then led to another shift in forecasts, with latest estimates for GDP growth in 2023 at around 0, and inflation around 5%.

The composition and scale of the Truss fiscal package will be important for refining economic forecasts further and for later years. As well as beneficial effects on the level of inflation and growth which are an arithmetic function of the price cap, there will be business and consumer confidence impacts too. Most significant though will be the Bank of England's interest rate response. Interest rates are rising in part because demand is outpacing supply. A fiscal injection pours fuel on that fire, meaning interest rates will rise further and faster, tightening finance conditions for businesses and households. The UK is buffeted by many of the same storms affecting continental Europe, particularly energy and other commodity price volatility and post pandemic supply chain disruption.

UK labour market no longer gives competitive edge

Sterling has had a volatile summer, amidst ever worsening economic data. The euro hasn't had an easy ride either, likewise approaching parity with the dollar. But while the UK shares Europe's exposure to Russian manipulation of gas prices, the labour market is where the UK appears a global outlier. Both the Eurozone and US have labour market activity back at pre-pandemic levels, but the UK's active population (the number of people in employment or actively seeking work), has recently seen most of its post-pandemic recovery unwind.

It's no surprise that recruitment challenges remain one of the top issues on CBI members' minds: the number of unemployed people per vacancy is the lowest on record; wage growth is rising; and employers are having to get ever-more creative in sourcing talent. The extent to which UK inactivity reflects a significant worsening in the performance of the health service is of increasing concern: another issue to add to the significant task list of the new cabinet.

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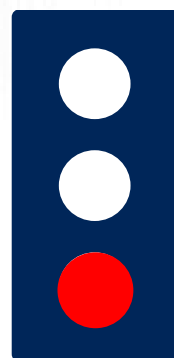


Round-up of CBI August surveys*

CBI growth indicator: red

Private sector activity fell in the quarter to August, for the first time since March 2021, after growing at an above-average pace last month. The decline was driven by manufacturing output – which fell for the first time since early 2021 – and consumer services, where activity dropped at a much sharper rate than the three months to July. Business & professional services activity also stagnated, with distribution the only sector to post modest growth. Looking ahead, activity is expected to fall at an even sharper rate in the next three months.

-5%



Past three months*



Next three months**



Growth indicator: sector detail

UK manufacturing output fell for the first time since February 2021 in the three months to August, with no growth expected in the three months ahead. Manufacturers also reported order book volumes falling below normal for the first time since April 2021, while expectations for selling price inflation strengthened.

Distribution sales volumes grew at a broadly average pace in the quarter to August. Within this, wholesale volumes grew at a similar pace to last month, while retail sales returned to growth and motor trades volumes continued to fall (albeit at a slower rate). Distribution sales are expected to be broadly flat in the next three months.

Services business activity fell in the quarter to August, after growing at an above average pace last month. Within this, business & professional services ground to a halt, while consumer services activity fell at a much sharper pace. The contraction in total services volumes is expected to deepen in the next three months.

* August surveys were in field between 26 July and 15 August. (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 June 2022.