

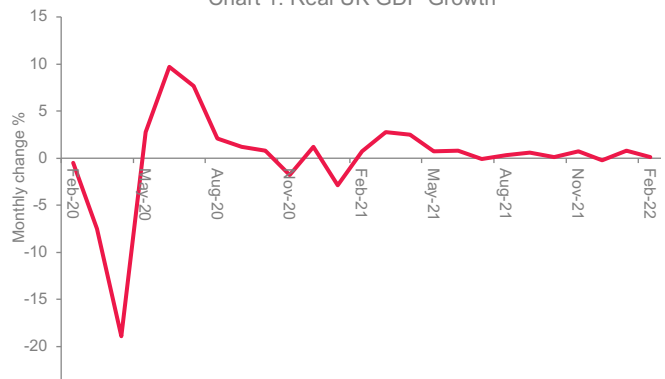
Monthly headlines:

- UK GDP growth slowed sharply in February, amid declining industrial and construction output
- Retail sales in the UK fell sharply in March as inflation surged to 7%
- IMF downgrades outlook for the global economy as US GDP contracts in Q1

UK GDP growth slowed sharply in February...

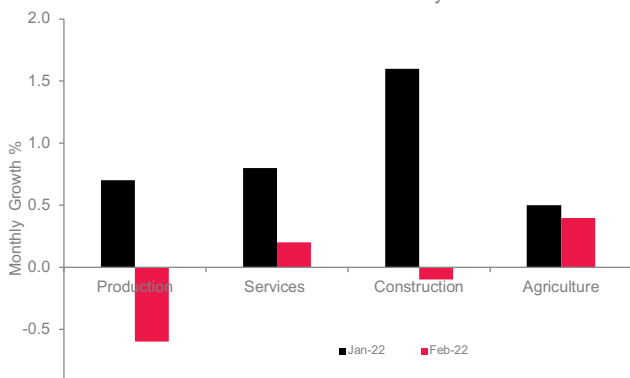
The official estimate of UK GDP revealed that the UK economy grew by 0.1% in February 2022, down from growth of 0.8% in January (see Chart 1). As a consequence, UK economic output on a monthly basis is now 1.5% above its pre-pandemic level. **February's slowdown is likely to be the start of a prolonged period of considerably weaker growth** as rising inflation, surging energy bills and higher taxes increasingly damages key drivers of UK output, including consumer spending and business investment.

Chart 1: Real UK GDP Growth



Source: ONS UK GDP, February 2022

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, February 2022

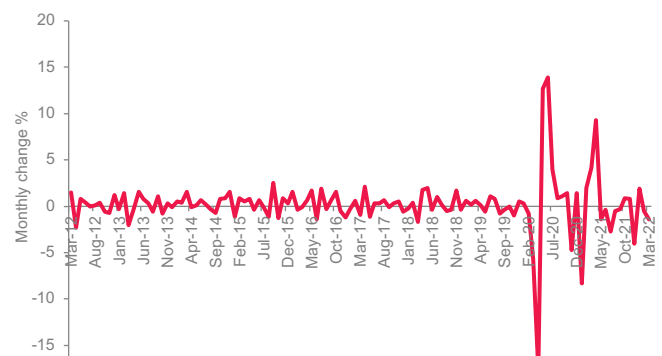
...as industrial and construction output drops...

Services was the main driver of GDP growth in February 2022. Services sector grew by 0.2%, down from growth of 0.8% in January (see Chart 2). Accommodation services output rose by 8.6% in the month as the end of Plan B restrictions supported activity. However, growth in service sector output was largely offset by declines in construction (-0.1%) and industrial output (-0.6%). **Large falls in both NHS Test and Trace (-47%) and the vaccination programmes (-65%) knocked 1.1 percentage points off GDP growth in February.**

...as retail sales fall in March...

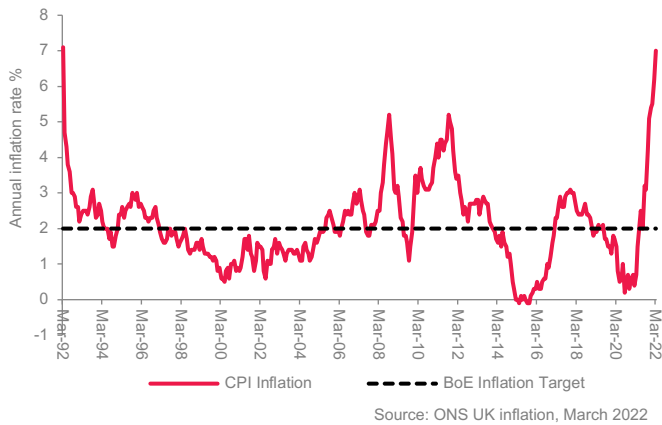
Retail sales decreased by 1.4% in March 2022, down from the revised decline of 0.5% in February (see Chart 3). The monthly fall was largely driven by a 7.9% fall in non-store retailing (including online) sales. Automotive fuel sales declined by 3.8% as consumers seemingly reduced non-essential road travel amid record high petrol and diesel prices. **March's decline may well be followed by a bigger fall in retail sales in April when the national insurance hike and a myriad of price rises for consumers kicked in, weakening confidence and further limiting discretionary spending.**

Chart 3: UK Retail Sales



Source: ONS Retail Sales, March 2022

Chart 4: UK CPI Inflation



... as UK inflation surges to 7%...

UK CPI inflation rose to 7.0% in March 2022, from 6.2% in February (see Chart 4). March's rise was largely driven by the increasing cost of housing and household services (including higher utility bills), rising fuel prices and more costly second-hand cars. **March's increase will be followed by a major uptick in April, as the increase in the energy price cap and the reversal of the VAT reduction for hospitality pushes inflation well above 8%.** Inflation is likely to peak close to 10% later this year, following the expected energy price cap rise in October.

...squeezing household finances further...

The number of employees on payroll rose by 35,000 in March 2022 to a record 29.6 million. The unemployment rate declined from 4.0% to 3.8% in the three months to February 2022. Although regular annual earnings growth increased slightly from 3.8% to 4.0%, with inflation soaring, wages are lagging behind price increases (see Chart 5). If this continues as expected, real household incomes will be damaged further, stifling consumer spending, a key driver of UK economic output. **The deteriorating economic outlook risks weakening labour market conditions by dampening recruitment and limiting firms' ability to increase wages and invest in their staff.**

Chart 5: UK Real Earnings Growth

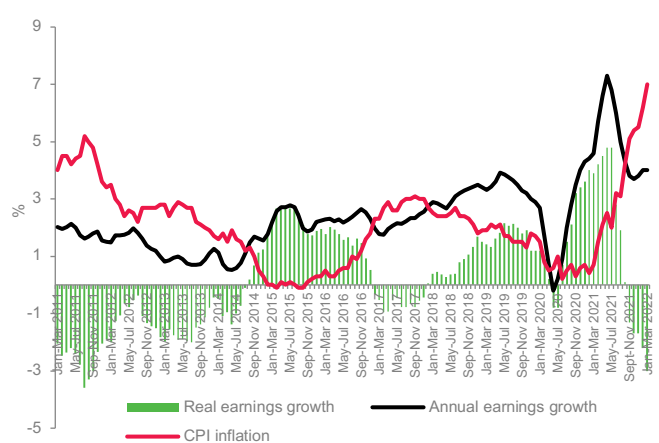
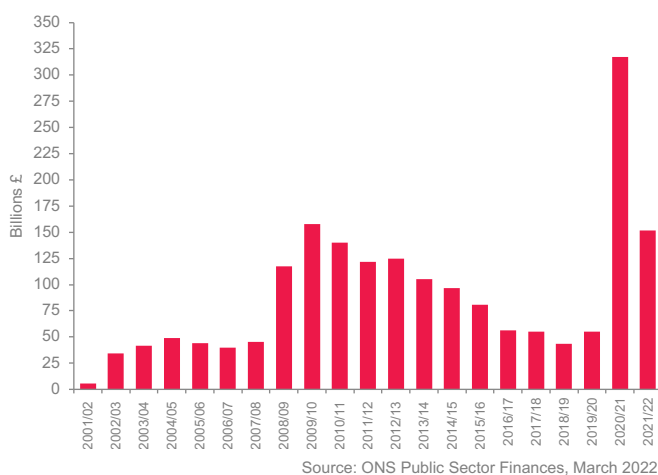


Chart 6: UK Public sector Net Borrowing



...government borrowing highest on record...

UK public sector net borrowing (excluding public sector banks) stood at £18.1 billion in March 2022, the second highest March borrowing since monthly records began in 1993, but £8.8 billion lower in annual terms. **UK public sector net borrowing totalled £151.8 billion in 2021/22 financial year (see Chart 6), the third-highest borrowing since records began in 1946/7, but less than half of the £317.6 billion borrowed in the same period last year.** This improvement largely reflected a reduction in spending following the end of the Covid support schemes, and stronger tax receipts as the economy reopened and Covid restrictions eased.

...as UK's trade deficit widens...

The UK's trade deficit in goods and services (excluding precious metals) widened by £8.6 billion to £21.2 billion in the three months to February 2022 (see Chart 7). **This deterioration was driven by a £14.2 billion rise in imports, which was only partly offset by a £5.7 billion rise in exports.** Although UK goods exports to EU countries rose by 25.4% in February, this just reflected the effects of operational changes made by HMRC to data collection. Exports to non-EU countries decreased by 6.4% in the month. Imports of goods from EU countries fell by 3% in February 2022, while imports from non-EU countries declined by 1.3%.

Chart 7: UK's Net Trade Position

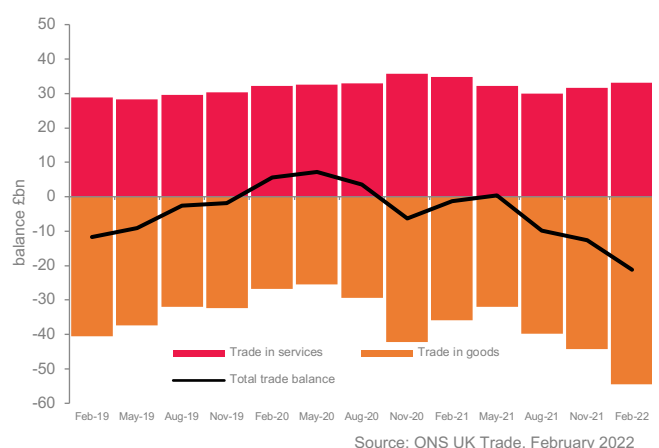
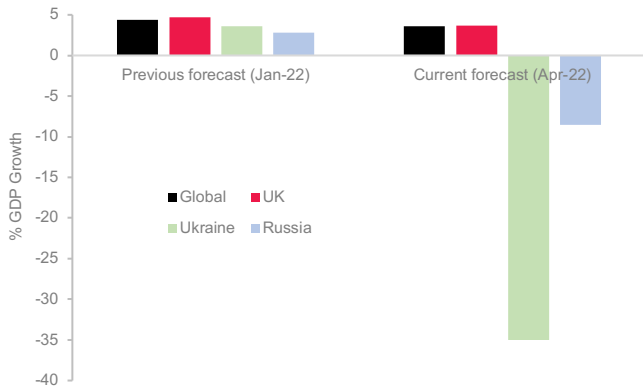


Chart 8: IMF GDP Growth Forecast Revisions



Source: IMF

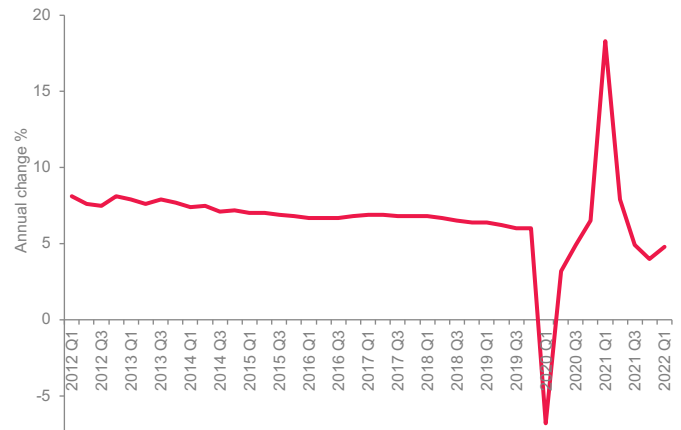
...IMF projects a weaker global recovery...

The International Monetary Fund (IMF) has forecast that the global economy will grow by 3.6% in 2022, down from their previous forecast in January of 4.4% (see Chart 8). The downgrade reflects the economic damage from Russia's invasion of Ukraine, including higher inflation amid soaring fuel and food prices. The IMF expects that Ukraine's economy will contract by 35% this year and Russian economic output will fall by 8.5% amid the ongoing conflict. The IMF projects that the UK economy will grow by 3.7% this year, down from its previous forecast of 4.7% and now in line with the BCC's latest forecast of 3.6%.

...as China GDP growth picks up in Q1...

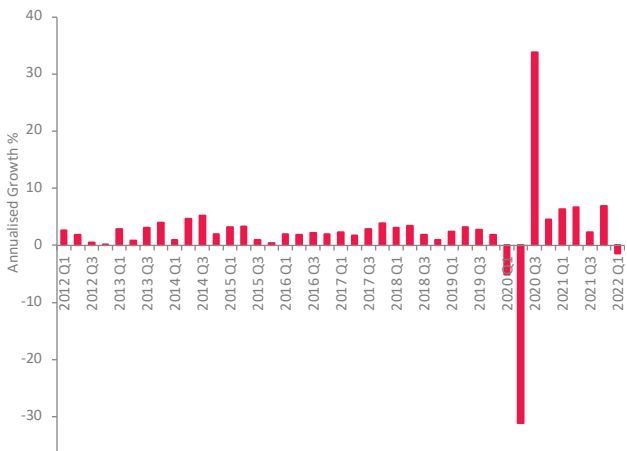
China's economy, the world's second largest, grew at an annual rate of 4.8% in the first quarter of 2022, up from growth of 4% in Q4 2021 (see Chart 9). Chinese GDP increased by 1.3% on a quarterly basis. Consumer spending was affected by travel restrictions in China during the Winter Olympics and Covid lockdowns in Shenzhen and Shanghai. As a consequence, retail sales contracted 3.5% in the quarter. While the Chinese government lowered its growth target for this year from 6.5% to 5.5%, renewed Covid lockdowns and the impact of Russia's invasion of Ukraine may mean China struggles to meet the new target.

Chart 9: Real China GDP Growth



Source: National Bureau of Statistics

Chart 10: US Real GDP Growth



Source: BEA

...but the US economy contracts.

The first official estimate of US GDP revealed that the US economy contracted at an annualised rate of 1.4% in Q1 2022, down sharply from growth of 6.9% recorded in the previous quarter (see Chart 10). Marked declines in net trade, inventory investment, and national defence spending weighed on US economic output in the quarter. US exports fell by 5.9% and imports rose by 17.7% in Q1, reflecting strong demand in the US and weaker economic growth in key export markets. National defence spending fell by 8.5% in the quarter. In contrast, consumer spending, which accounts for over two-thirds US economic output, grew by 2.7% in Q1 2022, up slightly from growth of 2.5% in Q4 2021.

Bottom line:

Taken together, April's data releases suggests that the UK is entering a period of considerably weaker growth as rising inflation, surging energy bills and higher taxes increasingly damages key drivers of UK output. The Government must provide more financial support, through the expansion of the energy bills rebate scheme, to include small firms and energy intensive businesses, and an SME energy price cap to protect smaller firms from some of the price increases.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Indicators (sources)	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Retail Sales (ONS)													
Consumer Confidence (GfK NOP)													
House Prices (Halifax)													
New car sales (SMMT)**													
Mortgage approvals (Bank of England)													
Business confidence (BCC)***													
Business lending (Bank of England)													
Service sector output (ONS)													
Production output (ONS)													
Investment intentions (BCC)**													
Employment (ONS)													
Unemployment (ONS)													
Number of people on payroll (HMRC)													
Earnings (ONS)													
Public sector net borrowing (ONS)**													
Public sector net debt % of GDP (ONS)**													
Tax receipts (HMRC)**													
Current Budget Deficit (ONS)**													
UK trade balance (ONS)													
Export Sales (BCC)***													
Export orders (BCC)***													
Exchange rate (Bank of England)													
Equity Prices (Bloomberg)													
10 year Government bonds (Bloomberg)													

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimate.