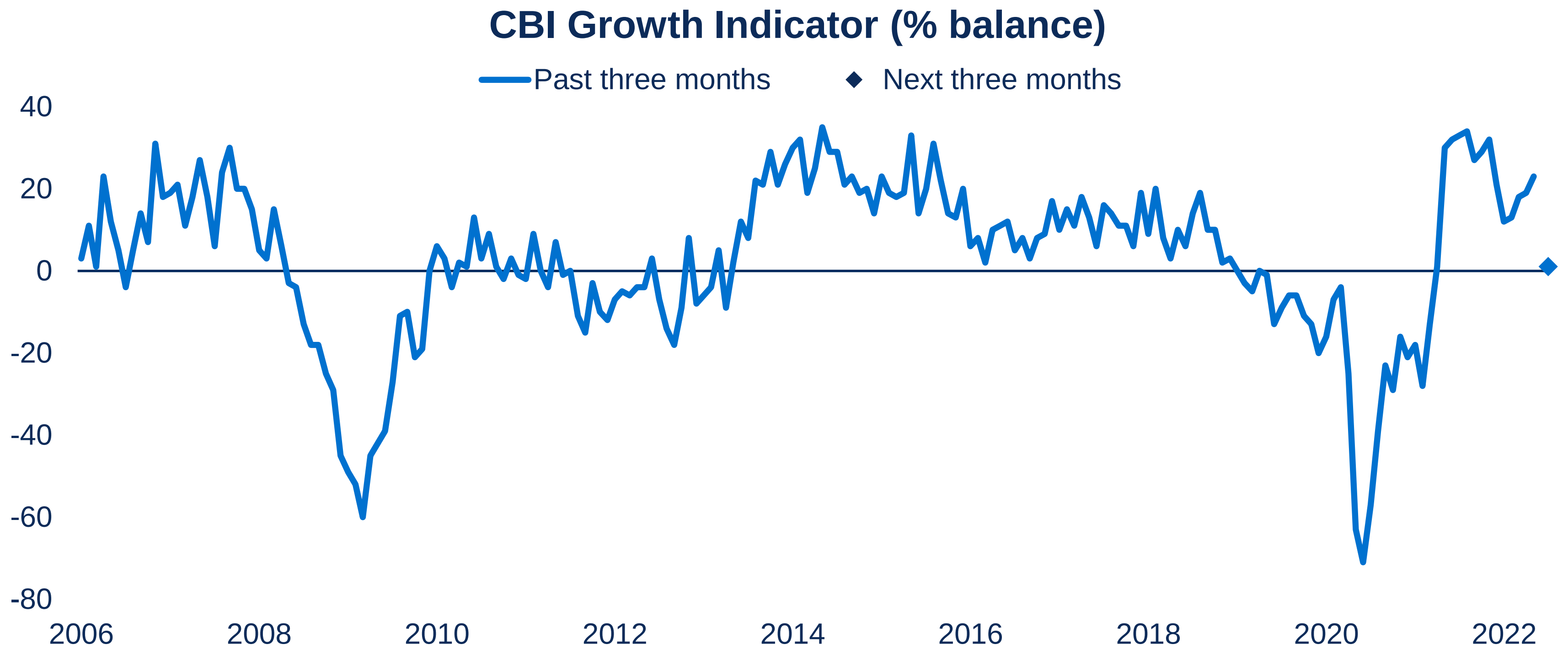
CBI QUARTERLY TRENDS

Q2 2022

KEY THEMES FROM THE CBI'S LATEST SURVEYS AND INSIGHTS

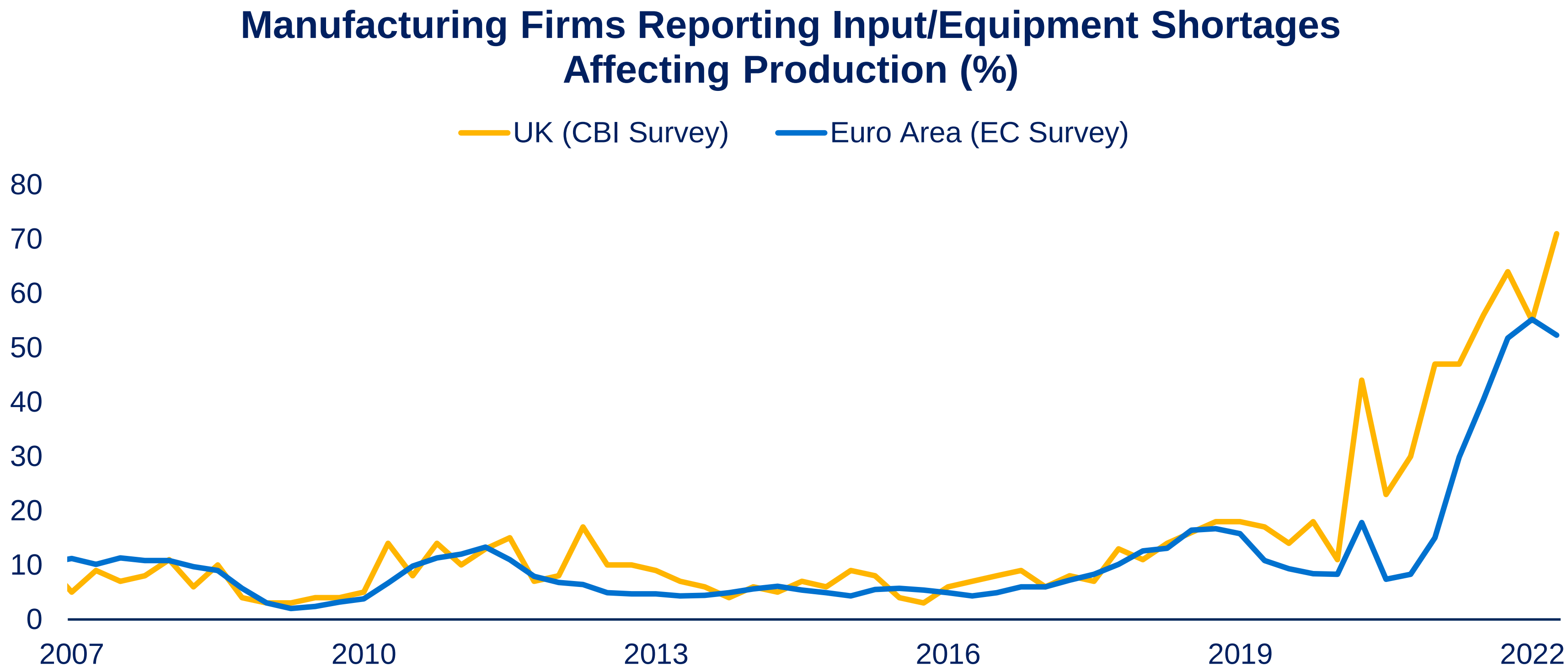
- Business activity overall has been resilient in recent months, but expectations point to the pace of growth flatlining in the next three months.
- The Russia-Ukraine war and recent Chinese lockdowns have compounded existing global supply chain challenges. These supply issues have, in turn, pushed up costs of energy and non-energy commodities.
- Many firms have responded to global supply disruption and input cost volatility by increasing inventories and diversifying supply chains.
- Due to the tight UK labour market, quick wage growth has put further pressure on firms' margins. However, workers are still expected to see a fall in real wages, as CPI inflation outpaces wage increases.
- Supply disruption, cost pressures, and broader economic uncertainty has led to a widespread deterioration in business sentiment.
- This decline in sentiment has, in turn, fed into a moderation in private sector investment intentions.

PRIVATE SECTOR ACTIVITY EXPECTED TO BE FLAT NEXT QUARTER



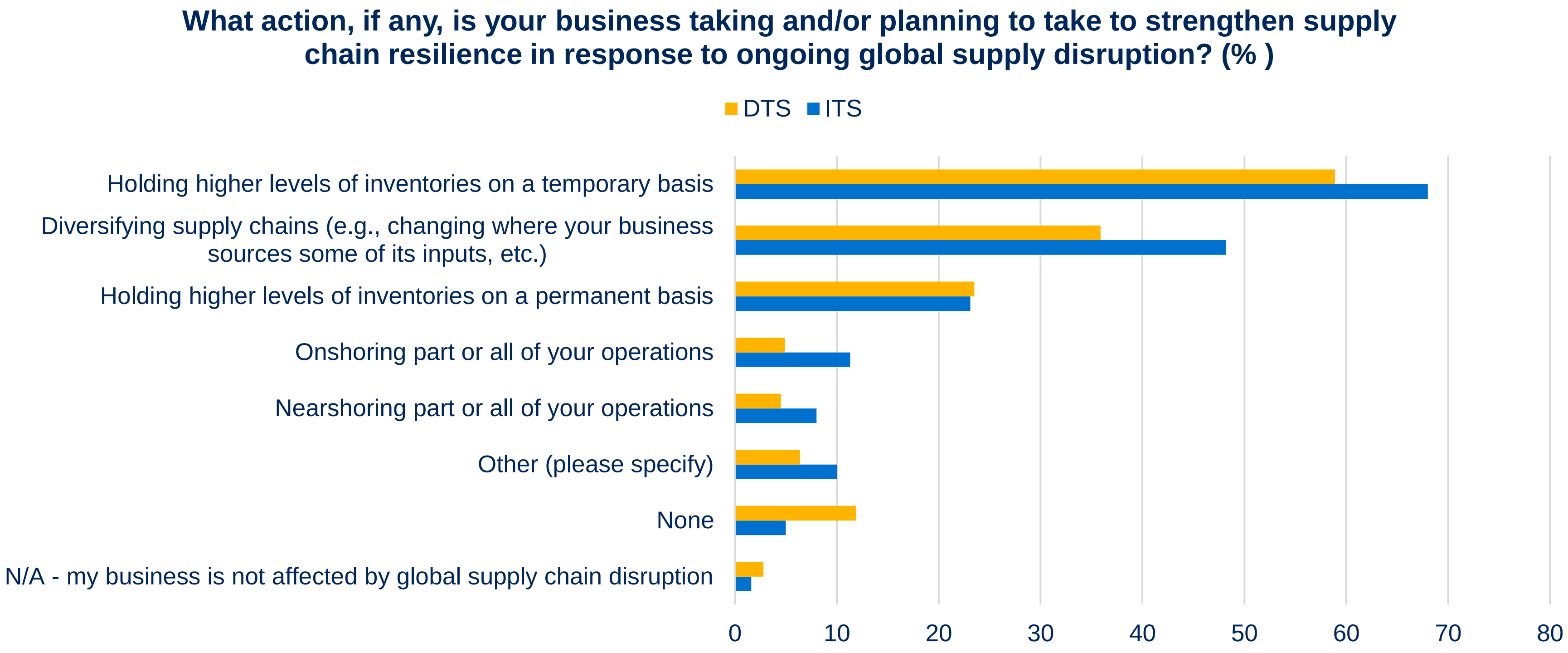
Private sector activity in the three months to May grew at the fastest pace in six months, driven by strong growth across business & professional services, manufacturing, and distribution. However, activity across the private sector is expected to be broadly flat in the next three months, marking the weakest expectations for growth since February 2021.

MANUFACTURING SUPPLY CONCERNS GROW MORE ACUTE



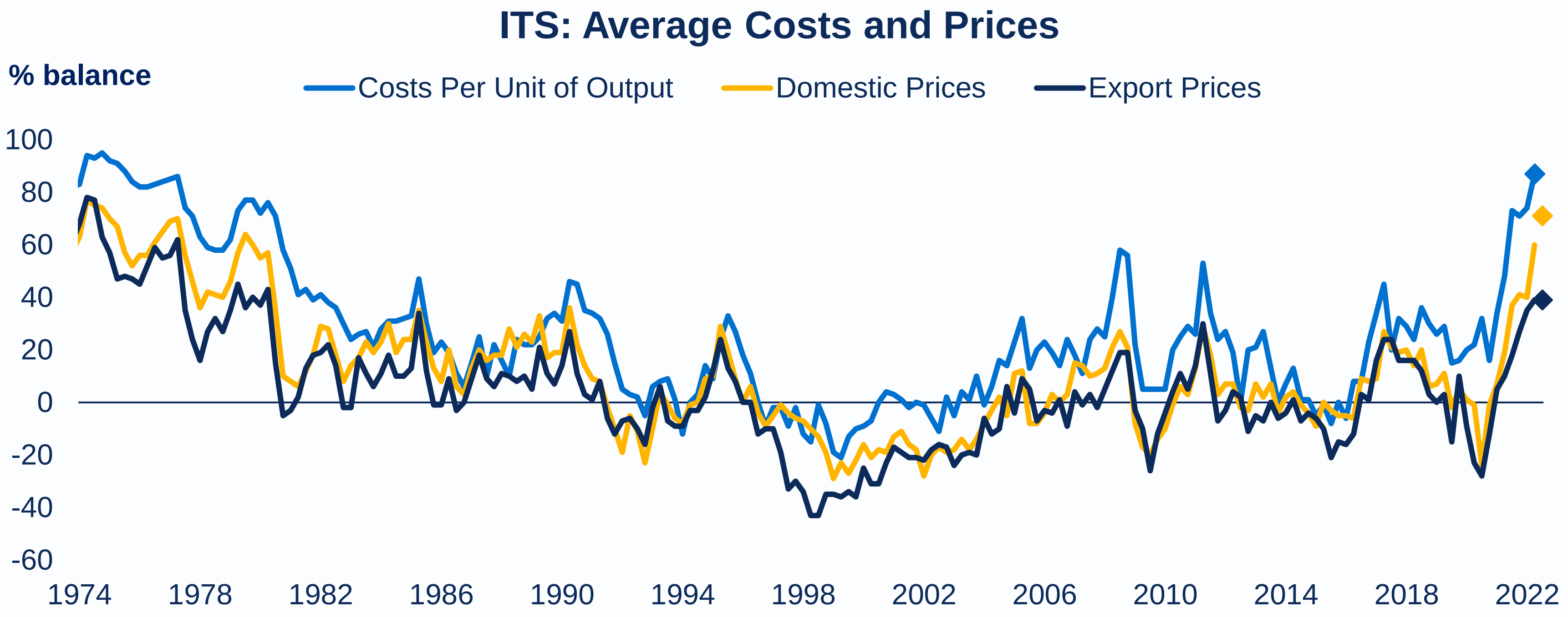
Concerns about a lack of availability of inputs have become more widespread for manufacturers, with 71% in April citing materials or components shortages as a factor likely to limit output in the next three months (the highest share since 1975). These worries reflect disruption in global supply chains stemming from COVID-19 (including recent Chinese lockdowns) and the Russia-Ukraine war.

FIRMS HOLDING MORE STOCKS AND DIVERSIFYING SUPPLY CHAINS



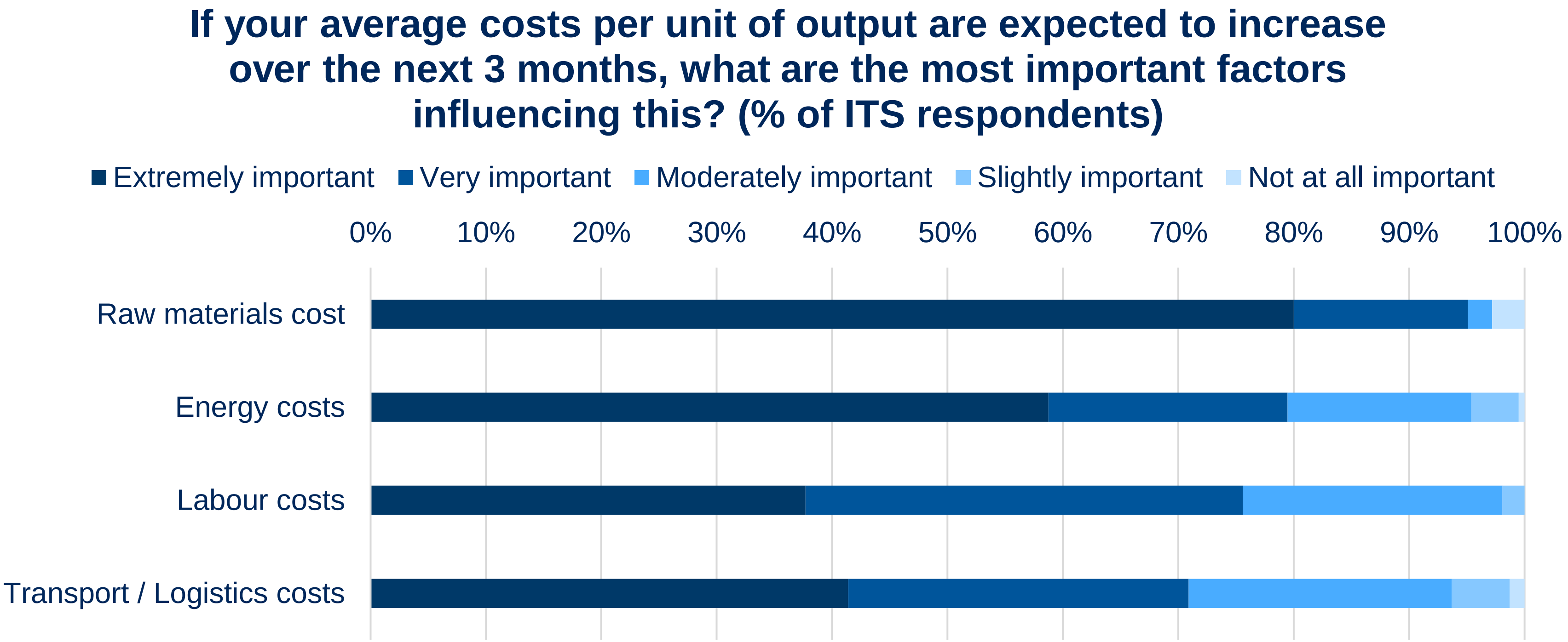
The most common actions that distribution and manufacturing firms are taking and/or planning to take to strengthen supply chain resilience are holding higher inventories (temporarily and/or permanently) and diversifying supply chains. Where possible, firms are trying to buy inputs earlier and, sometimes, in larger quantities in order to hedge against global supply disruption (and price volatility). They are also trying to diversify supply chains in order to reduce the risk of disruption in the first place.

MANUFACTURING COST/PRICE PRESSURES MOUNT



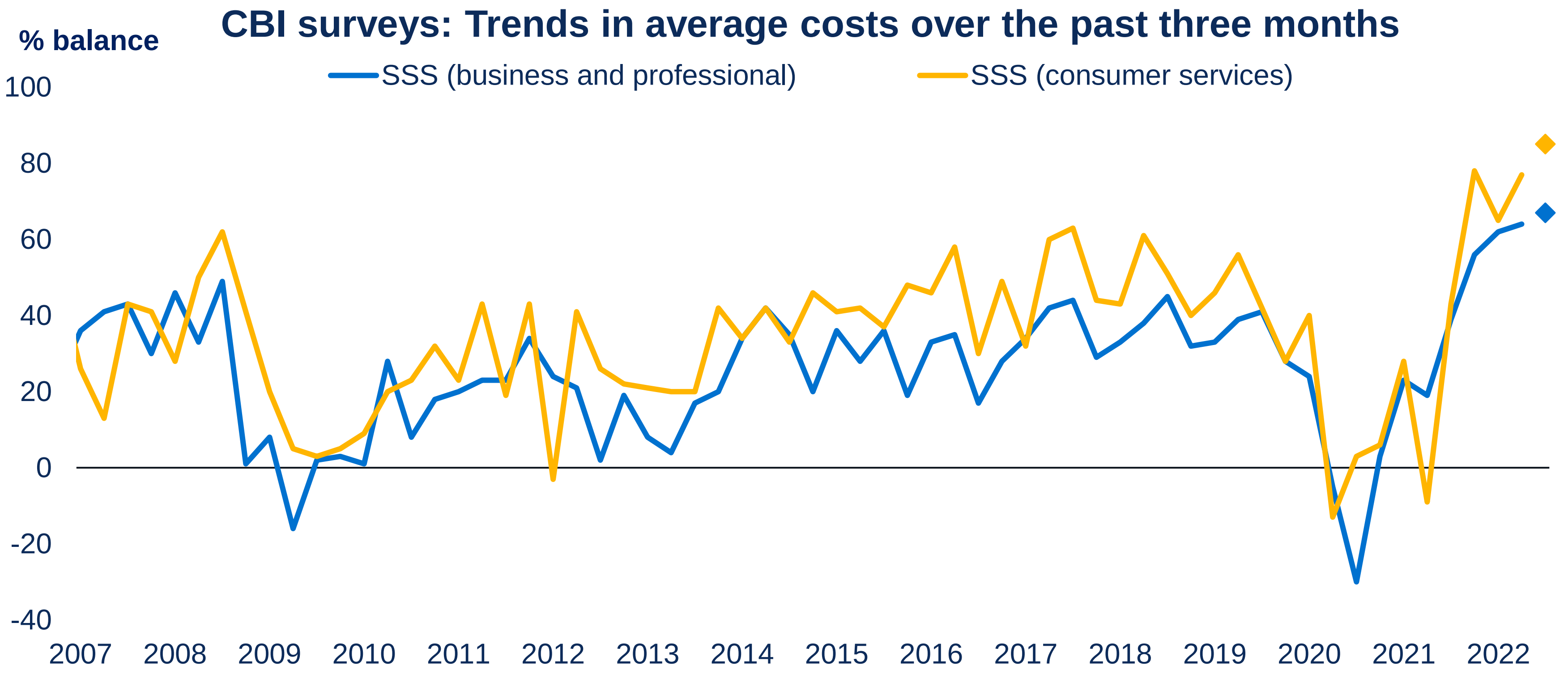
Manufacturers reported the fastest rate of average cost growth since 1975 in the three months to April, with a similar pace of growth expected in the next three months. Cost pressures continue to feed through to higher prices, with average domestic and export prices in the quarter to April growing at the sharpest pace since 1979 and 1980, respectively. Domestic prices are expected to accelerate further in the next three months, while export prices are expected to grow at a similar rate.

RAW MATERIALS PRICES EXPECTED TO FUEL COST INCREASES



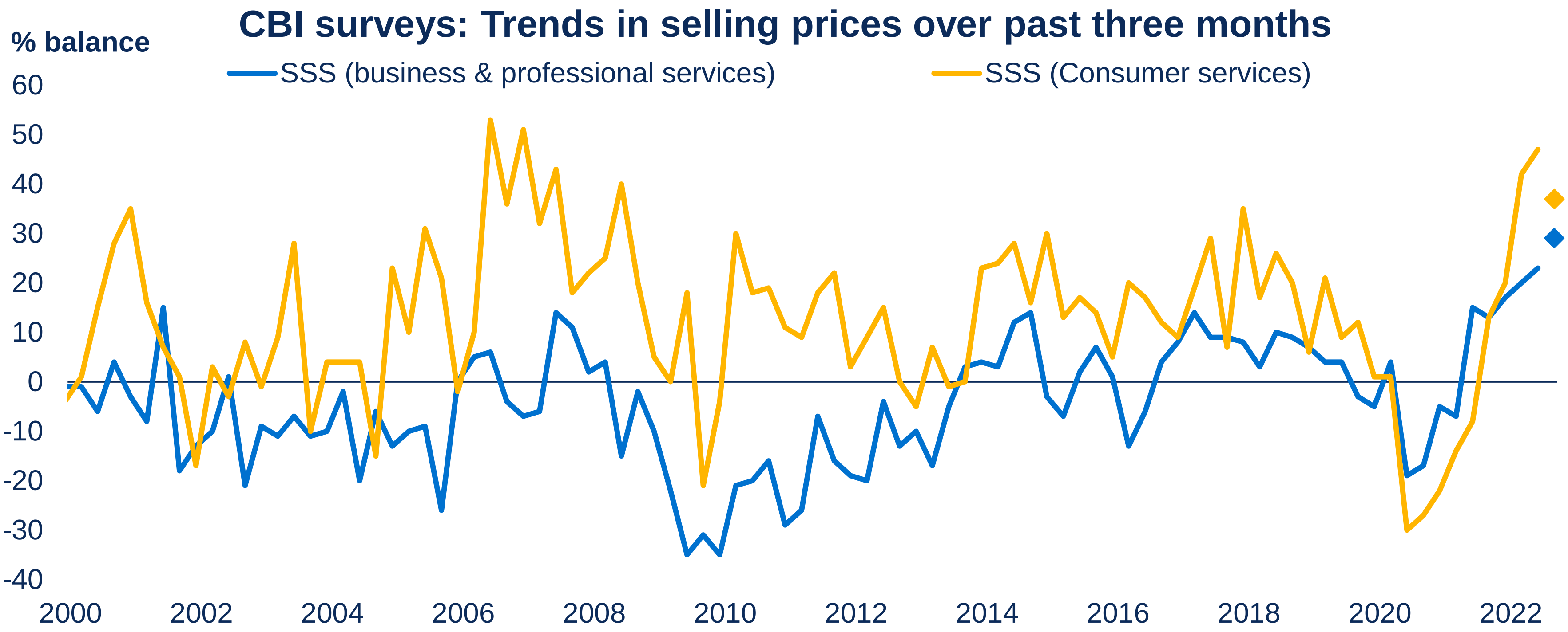
Manufacturers were most likely to say that raw material costs were an "extremely important" factor driving the anticipated increase in average costs over the next three months. This likely reflects the rise in commodity prices due to global supply disruption; for example, the Russia-Ukraine war has pushed up the cost of various industrial metals and agricultural goods.

SERVICES COST GROWTH REMAINS HISTORICALLY STRONG…



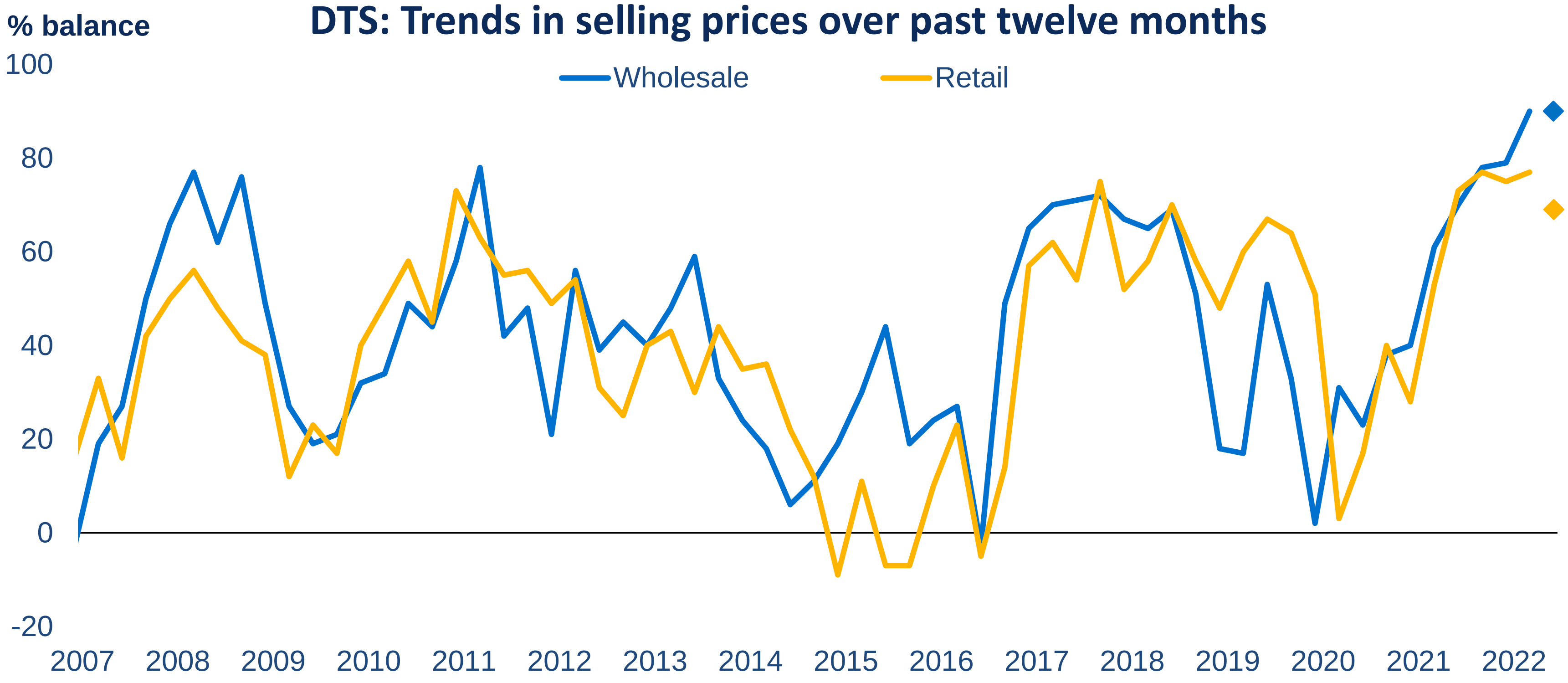
Business & professional services costs per person in the quarter to May grew at their quickest pace on record, while consumer services costs grew at the second fastest rate on record. Services firms have highlighted labour costs as a key driver of the recent pick-up, likely reflecting stronger wage pressures. Costs are expected to pick up further in both services sectors in the three months ahead.

…WHILE PRICE GROWTH CONTINUES TO PICK UP



Cost pressures are passing through to faster price growth in the service sector, with a new survey record pace for business & professional and the fastest rate for consumer services since 2006. Looking ahead, business & professional services price growth is expected to strengthen further next quarter, while consumer services firm anticipate price growth easing somewhat. Some services firms have noted that they are struggling to pass through higher costs due to long-term price agreements with clients.

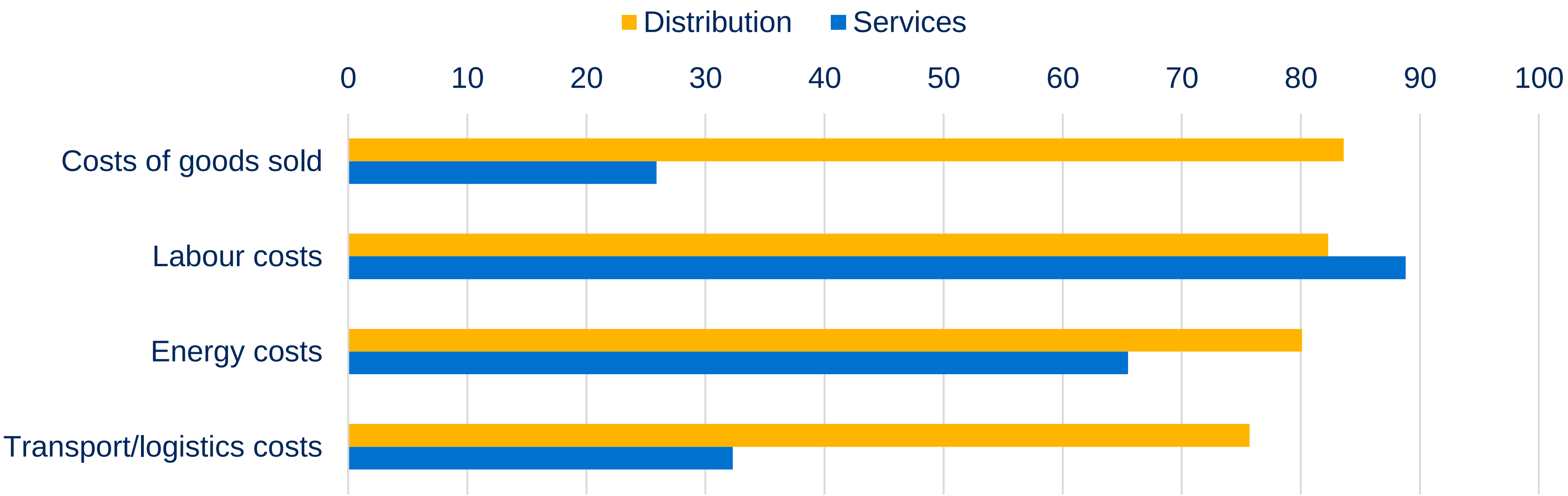
RETAIL AND WHOLESALE PRICE GROWTH REMAINS RAPID



Average retail selling prices in the year to May grew at a similarly rapid pace to February, but are expected to ease somewhat next quarter. Wholesale selling price growth in the year to May picked up to its fastest pace since August 1989, and is anticipated to maintain a similar rate in the next three months..

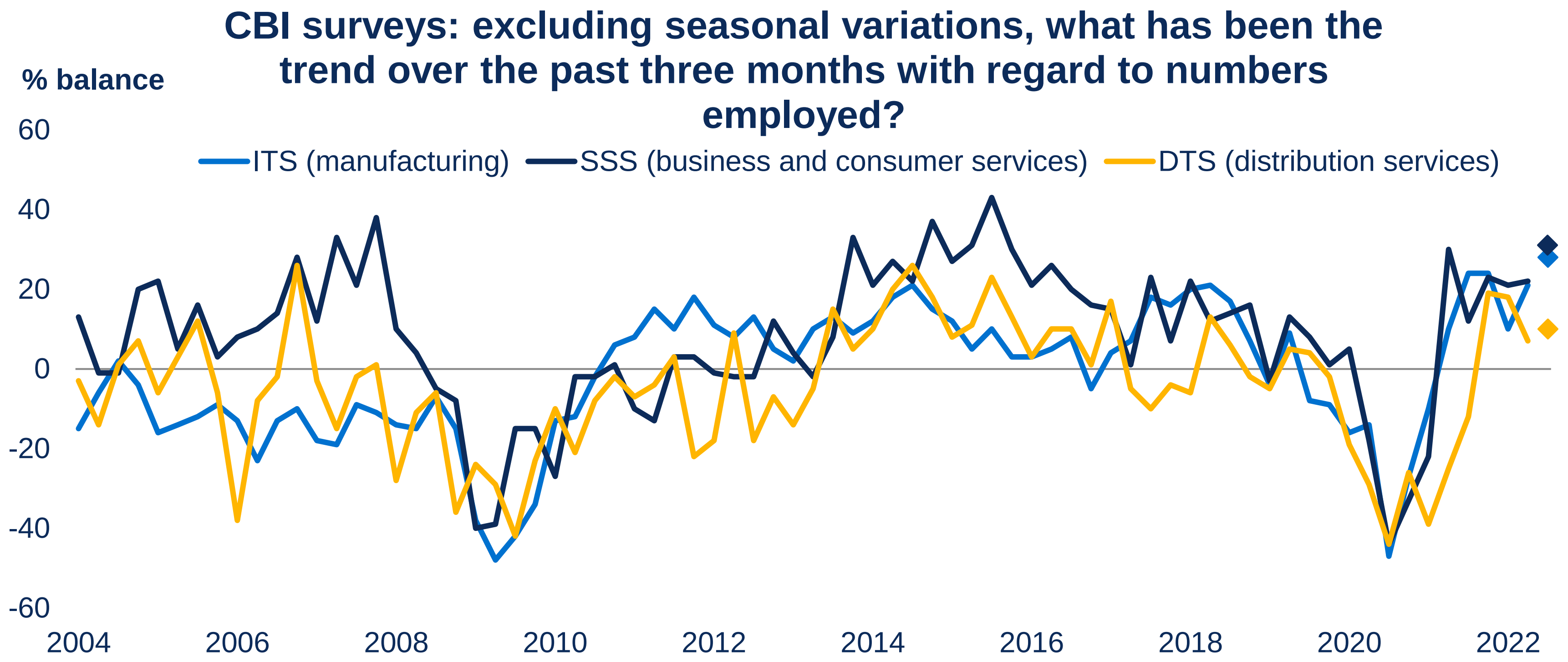
FIRMS EXPECT TO FACE A RANGE OF COST DRIVERS

If your average costs per unit of output are expected to increase over the next 3 months, what are the most important factors influencing this? (% of respondents)



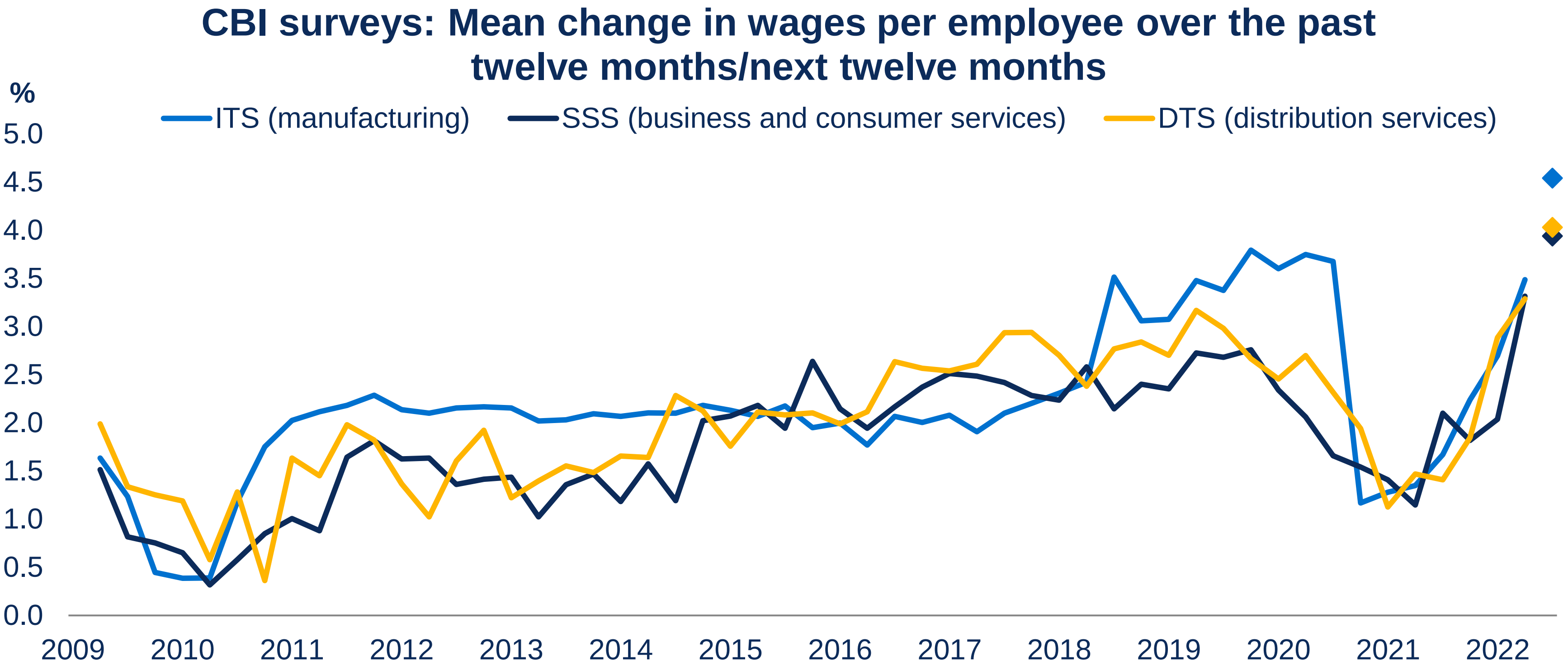
Distribution firms reported that costs of goods sold, labour costs, and energy costs were the main factors driving their anticipated increase in costs. Meanwhile, services firms were most likely to select labour costs as an important factor behind higher cost expectations.

EMPLOYMENT GROWTH AND EXPECTATIONS REMAIN SOLID



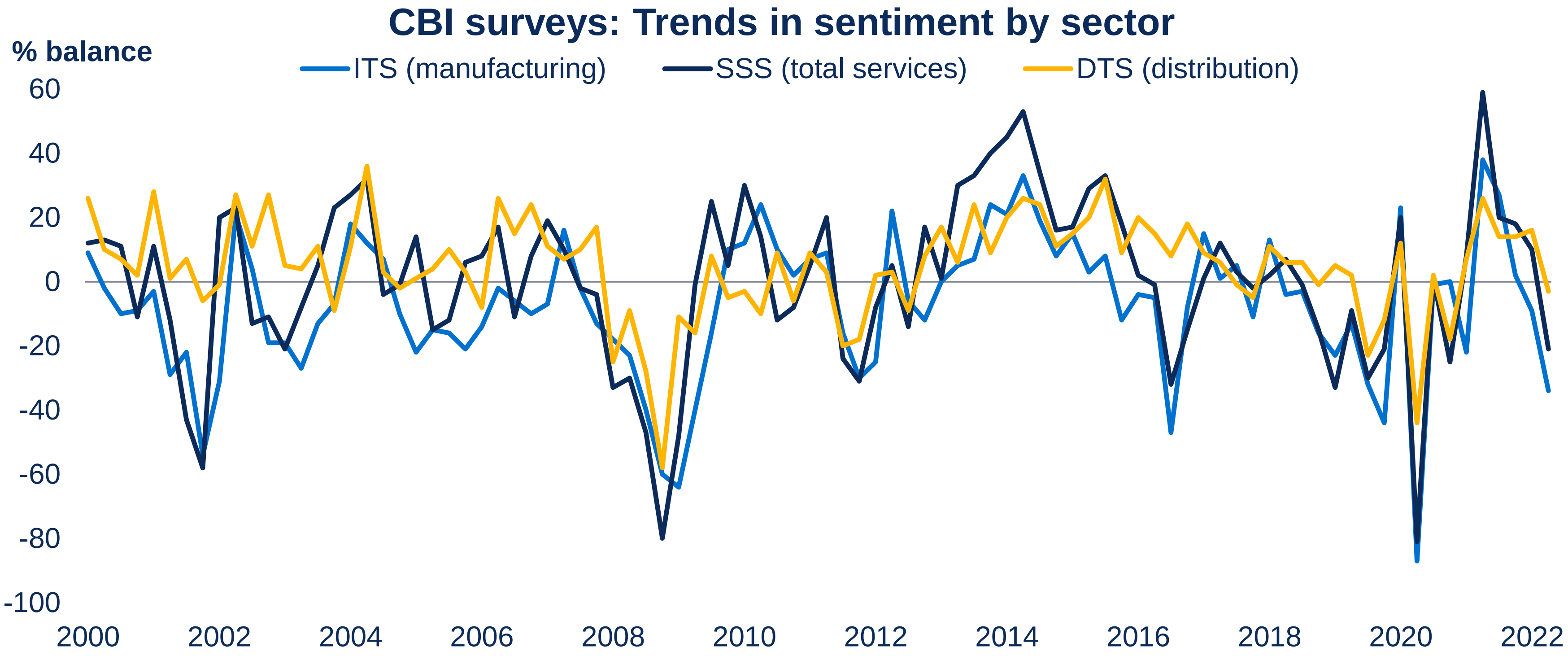
We've seen continued firm employment growth across our surveyed industries, which chimes with the ongoing strength of the labour market. Expectations for employment growth in the next three months also remain solid. Many firms continue to report difficulties recruiting amid a tight labour market, particularly in digital / IT roles. The competitive process of recruitment and retention is, consequently, putting upward pressure on wages.

EXPECTATIONS POINT TO FASTER NOMINAL WAGE GROWTH



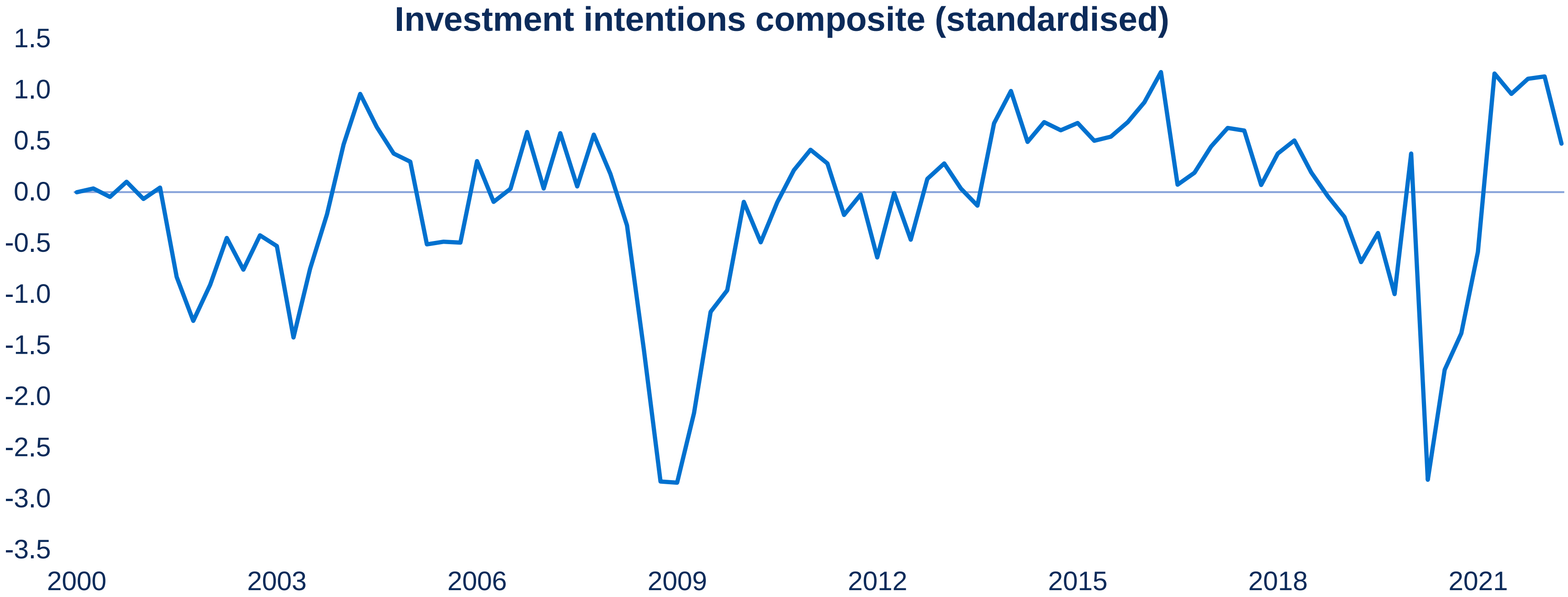
The tight labour market has contributed to faster wage growth across all major surveyed industries. Looking ahead to the next 12 months, all sectors expect to see higher wage growth (4.5% in manufacturing, 4.0% in distribution, 3.9% in services). These figures are, nonetheless, lower than recent forecasts of average CPI inflation over 2022 (Bank of England May 2022 forecast: 10.3%). This implies that workers are likely to see a real wage squeeze this year.

BUSINESS SENTIMENT DETERIORATES RAPIDLY



Despite the recent resilience in activity, firms' sentiment has deteriorated sharply due to supply challenges, cost pressures, and economic uncertainty. Optimism in the manufacturing and services sectors declined at its quickest rate since April and November 2020, respectively. Distribution firms expect their business situation to remain broadly stable in the next three months, which, nonetheless, marks the weakest sentiment since November 2020.

INVESTMENT INTENTIONS MODERATE



**Includes CBI survey data for manufacturing; distribution; consumer services; professional & business services, weighted by share in real business investment.*

The worsening in business sentiment has contributed to an easing in investment intentions. Each sector surveyed over Q2 2022 reported softer capital expenditure plans for the coming 12 months (compared to the previous 12) relative to Q1. That being said, many firms have mentioned that they are still planning to invest in technology, particularly to help alleviate labour shortages. Some businesses have also been looking at investing in energy efficiency measures due to higher energy costs.

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