

QUARTERLY BRIEFING Q4. 2021

- > **ACTIVITY LEVELS DIP BUT
REMAIN STRONG**
- > **OVERSEAS SALES & ORDERS RETURN
TO NEGATIVE BALANCES**
- > **PRICE PRESSURES SMASH PREVIOUS
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REMAIN HIGH**
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MAINTAINED AND IMPROVED ON**

QUARTERLY BRIEFING Q4. 2021

Performance in UK markets, as well as indicators around workforce, cash flow, and business confidence, give reasons to be optimistic, but price pressures and a general slowdown in the economy also provide plenty of reasons to be cautious.

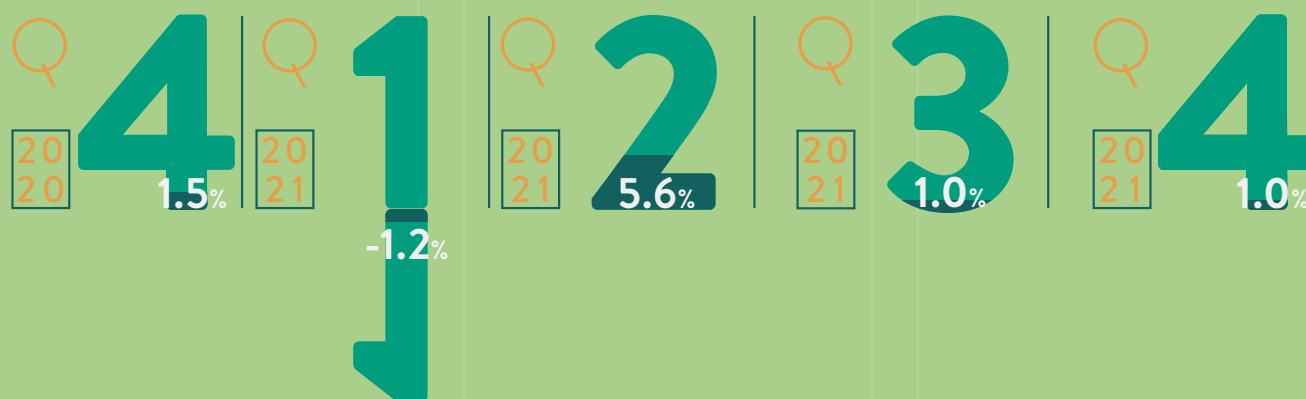
These are the latest findings from the fourth Lincolnshire Quarterly Economic Survey of 2021, which ran from the 1st to the 21st of November.

Locally we can see that activity levels in UK sales and orders have remained reasonably high despite dipping this quarter following the previous quarter's surge. This is despite a mixed set of GDP figures released during the course of this latest survey with strong growth in September (0.6%) but a disappointing October (0.1%) and Quarter 3 (1.0%) overall. Growth picked up again significantly in November (0.7%) but we can then see the impacts of the Omicron variant on the economy in December with GDP contracting by 0.2%.

UK GDP GROWTH

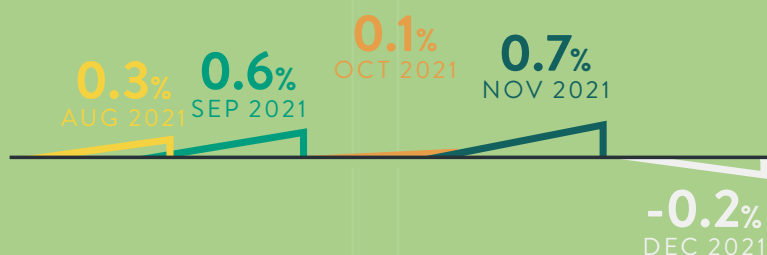
(Change in GDP compared to previous quarter)

Source: Office for National Statistics



UK GDP MONTHLY ESTIMATE

Source: Office for National Statistics



UK ECONOMIC GROWTH (GDP) FORECAST

Source: HM Treasury, Forecasts for the UK Economy: a comparison of independent forecasts, No. 414 January 2022



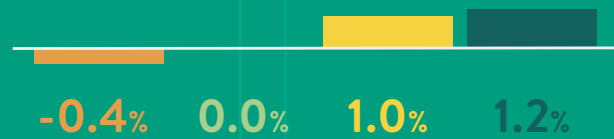
ACTIVITY LEVELS DIP BUT REMAIN STRONG

After the surge in the previous quarter, this quarter sees a dip in activity with the balance of responses for UK sales decreasing from +38 to +29 but remains historically high. We can see a similar trend in the balance of responses for advanced sales and bookings which has decreased from +27 to +11. At a broad sector level then we can see that these overall changes have been driven exclusively by drops in activity levels in Manufacturing with the balance of response figure for orders turning negative, dropping from +44 to -15. Clearly the smaller response numbers at this level are playing a role here but generally we can see a real negativity across most indicators for Manufacturing.



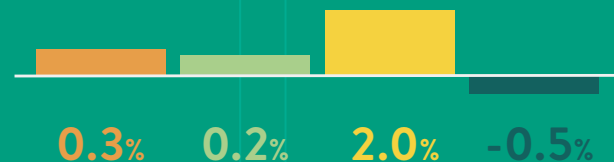
UK SECTORAL GROWTH (Q4 2021 - % CHANGE ON PREVIOUS QUARTER)

Source: Office for National Statistics



UK SECTORAL GROWTH (DEC 2021 - % CHANGE ON PREVIOUS MONTH)

Source: Office for National Statistics



- PRODUCTION
- MANUFACTURING (PART OF PRODUCTION)
- CONSTRUCTION
- SERVICES

OVERSEAS SALES & ORDERS RETURN TO NEGATIVE BALANCES

Whereas the previous quarter showed a dramatic improvement in overseas sales and orders activity, unfortunately that improvement has not held in this quarter with both balance of response figures returning to negative territory. The balance of responses for overseas sales has dropped from +15 to -13, whilst the balance of responses for overseas orders has dropped from 0 to -7.



HIGH CONFIDENCE LEVELS MAINTAINED AND IMPROVED ON

Despite some concerns around exports and prices, confidence levels have remained solid and in the case of future turnover levels have actually improved. So, the balance of responses for future profitability has held at +21, whilst the balance of responses for future turnover has increased from +41 to +50. At a broad sector level we can see that for the most part that improvements in the previous quarter have held and in the case of Services have actually improved. It will be interesting to see whether this remains the case next quarter when Services businesses will be responding after the effects of tighter Covid restrictions have been put into place.





BANK OF ENGLAND INTEREST RATE

0.5%

November saw the Bank of England hold the interest rate at 0.1% despite significant inflationary pressures at that time, with the Consumer Price Index (CPI) hitting 4.2%, and output prices at 8.0% and input prices at 13.0% (all figures for October reported in November). Even at this point in 2021 the survey recorded a record high in the balance of responses for businesses expecting to increase prices of their goods/services over the next three months.

Subsequently we have seen the CPI reach 5.5% in January 2022, with output prices now at 9.9% and input prices at 13.6%, and the Bank of England raising the interest rate twice, from 0.1% to 0.25%, and more recently at the beginning of February 2022 to 0.5%. It is telling that at this recent meeting of the Bank of England Monetary Policy Committee a minority of members (four of the nine) voted to increase the base rate to 0.75%.

It will probably come as no surprise then that inflation is expected to increase further in the coming months, with the Bank of England forecasting the CPI will be close to 6% in February and March, before peaking at around 7.25% in April. The Bank of England are also forecasting that the CPI will be higher over the longer term, with inflation of 2.6% and 2.1% in two years and three years' time respectively.

EXCHANGE RATES

Source: x-rates.com



JAN 21	DEC 21	JAN 22
\$1.37	\$1.35	\$1.34
€1.13	€1.19	€1.20

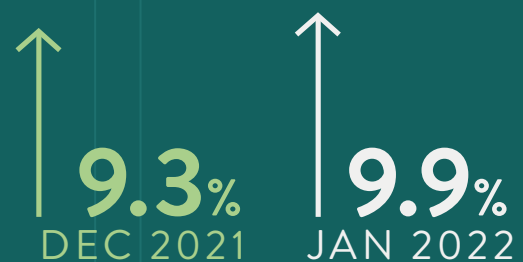
INFLATION

Source: Office for National Statistics

CONSUMER PRICES INDEX (CPI)



PRODUCER PRICES INDEX (PPI)



	2021												2022
12 MONTH ANNUAL RATE (%)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN
INPUT PRODUCER PRICE INDICES	1.9	3.2	6.1	9.6	10.4	9.7	10.5	11.4	12.4	13.9	15.2	13.8	13.6
OUTPUT PRODUCER PRICE INDICES	0.2	1.0	1.9	3.5	4.3	4.6	5.4	6.2	7.0	8.8	9.4	9.3	9.9

PRICE PRESSURES SMASH PREVIOUS RECORD HIGH

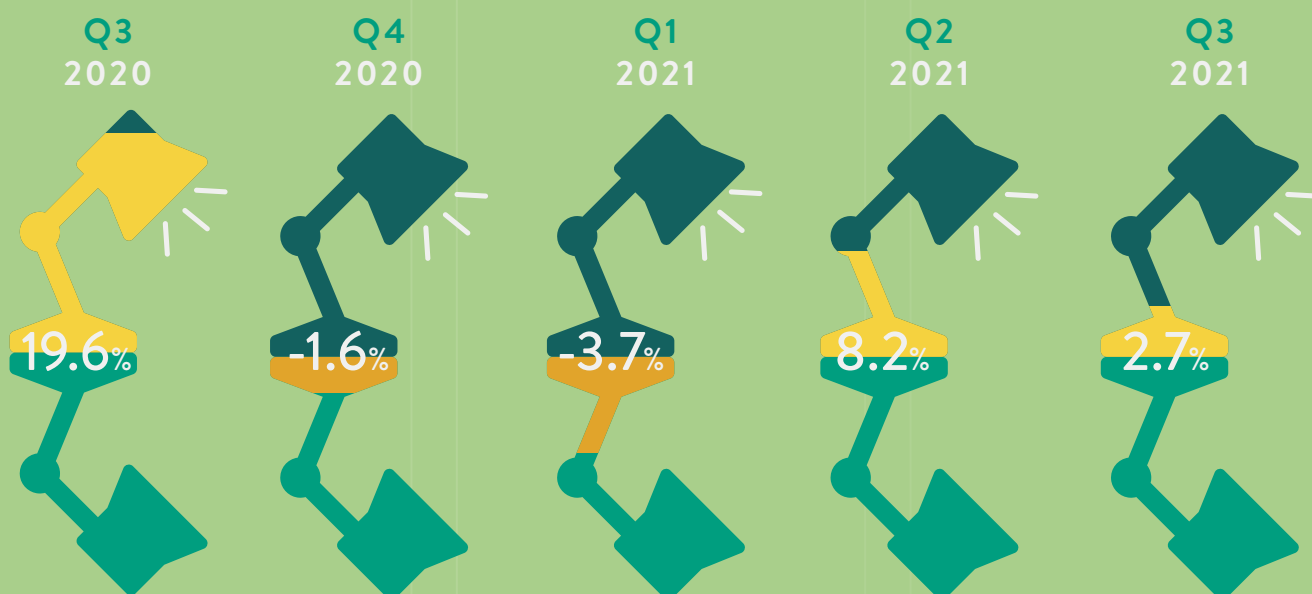
The final quarter of 2021 sees the balance of responses for businesses expecting to increase prices of their goods/services over the next three months increase from +59 to +68. Given the current outlook for CPI and ever-increasing levels of input and output inflation then we could see this increase further in 2022. 'Raw material prices' and 'other overheads' remain the key drivers of these price pressures but 'pay settlements' are being increasingly felt. Inflation remains the biggest concern for businesses by a substantial margin with 66% of responders, up from 39% in the previous quarter.



HOUSEHOLD SPENDING (% CHANGE ON PREVIOUS QUARTER - CHAINED VOLUME MEASURE SEASONALLY ADJUSTED)

Source: Office for National Statistics

<http://www.ons.gov.uk/ons/rel/consumer-trends/consumer-trends/index.html>



Whilst a lot of media coverage at the moment concerns the cost-of-living squeeze (a large part of which is being driven by energy prices) we should also consider that businesses too will be hit by these price rises, and that many will see custom drop as disposable incomes decrease (with wages rises below that of inflation).

Better news arrives in the form of hiring activity with the survey showing high and maintained levels in both recruitment activity over the last three months, and future recruitment activity over the next three months.

The end of the Coronavirus Job Retention Scheme as of September 30th avoided a sharp increase in unemployment with the claimant count (an experimental series that counts the number of people claiming Jobseeker's Allowance plus those who claim Universal Credit and are required to seek work and be available for work) showing that the proportion of residents aged 16-64 claiming across Greater Lincolnshire in October remained the same as in September at 4.3%. This rate has continued to fall with the rate dropping to 4.0% in January 2022 and remains below the national rate (4.3%).

Further labour market indicators show that the employment rate in Greater Lincolnshire has increased, from 71.9% in the year to July 2021 to 72.6% in the year to September 2021. This rate is however below the current national rate of 74.5%. Meanwhile, the economic inactivity rate (which has increased during the pandemic) remains higher than the national at 24.0% compared to 21.7%.

With vacancy numbers across Greater Lincolnshire at nearly 12,000 in January 2022 (a 47% increase on what they were this time last year) then the current labour market remains tight for employers (primarily as a result of people moving out of the labour market) but the survey results show that certainly over the last quarter local businesses have been able to recruit people into posts.

BUSINESS INSIGHTS AND CONDITIONS SURVEY WAVE 48

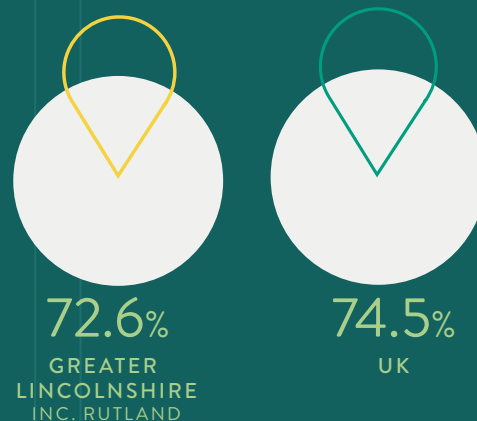
% Of all enterprises that have either permanently closed, or paused trading and do not intend to restart in the next two weeks (9-23 Jan 2022)

Source: Office for National Statistics

EMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

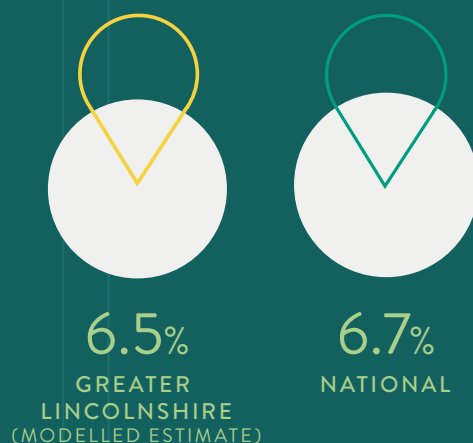
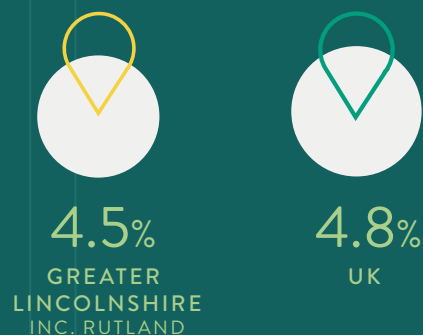
OCT 20 - SEP 21



UNEMPLOYMENT RATE (AGED 16-64)

Source: Annual Population Survey,
Office for National Statistics

OCT 20 - SEP 21



FUTURE RECRUITMENT INTENTIONS REMAIN HIGH

We can again see that high and maintained levels in future recruitment activity in the previous quarter have translated into actual recruitment levels holding this quarter with the balance of responses for recruitment over the past three months rising slightly from +16 to +18. Similarly, the balance of responses for future recruitment plans remains high despite dropping from +39 to +32 and once again suggests we should see strong levels of recruitment activity in next quarter's results.



Despite these headwinds of rising prices and a tight labour market, confidence levels have remained solid and in the case of future turnover levels have actually improved. This is a good sign given that businesses at this point will have been heading into a period of disruption and tighter restrictions caused by the spread of the omicron variant. The next survey in February will tell us more about how local businesses have got through this period and how they feel about prospects in 2022.



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