Latest results from the Decision Maker Panel survey – 2021 Q4

The Decision Maker Panel (DMP) is a survey of Chief Financial Officers from small, medium and large UK businesses. We use it to monitor developments in the economy and to track businesses' views. This is a summary of results up until November 2021 and so predates the emergence of the Omicron variant.

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Around two-thirds of firms reported that they have been affected by some form of supply disruption during October and November

In November, 88% of businesses reported currently finding it harder than normal to recruit new employees, with 62% finding it 'much harder'

Businesses think that inflation is likely to remain elevated for at least the next year

Content

UK businesses have reported that the cumulative impact of Covid-19 (Covid) on sales, employment and investment, relative to a counterfactual scenario in which the pandemic had not taken place, eased during 2021 as restrictions have been lifted and the economy has reopened (Chart 1). In the November survey, businesses estimated that their sales in 2021 Q4 would be 5% lower than they otherwise would have been because of Covid, with investment 8% lower and employment 2% lower.

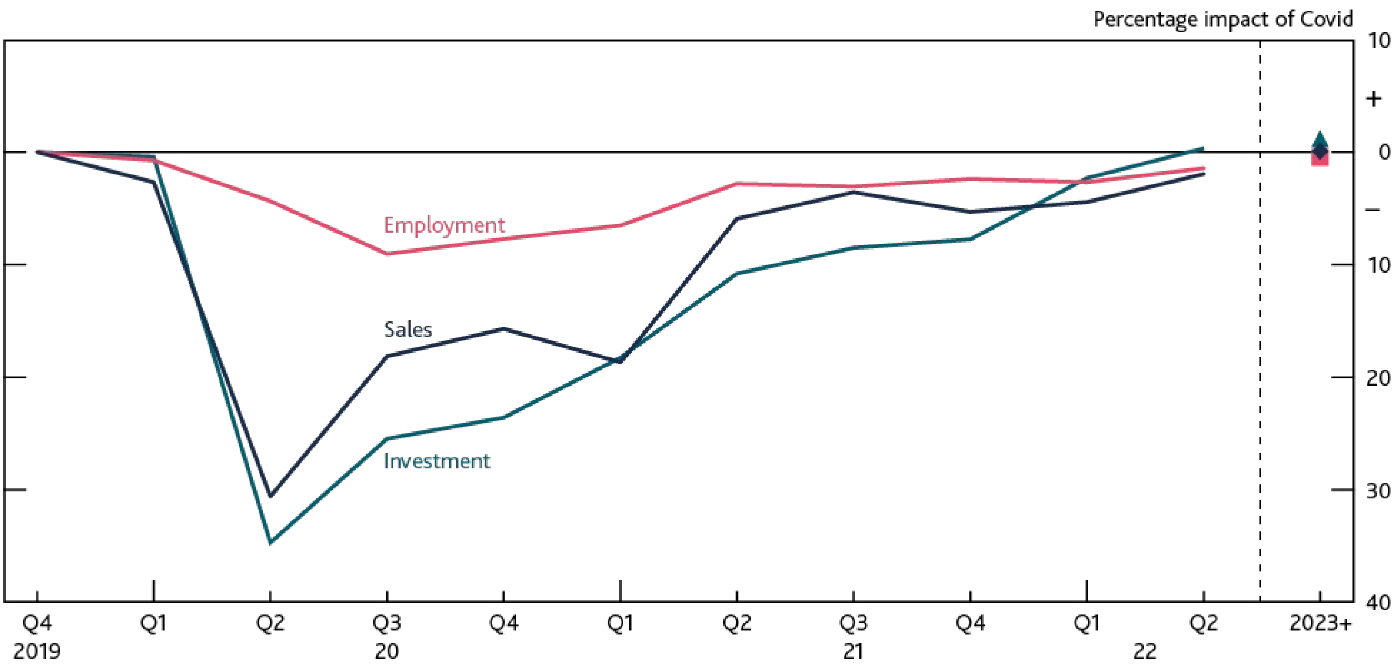
Respondents expected the impact of Covid on sales to continue to ease during 2022, from -5% in 2021 Q4 to -4% in 2022 Q1 and -2% in 2022 Q2, with the impact expected to be close to zero over the medium term (2023 and beyond). Note that these expectations predate the emergence of the Omicron variant.

The impact of Covid on employment was however expected to worsen marginally in the first quarter of 2022 to -3%, before easing to -1% in 2022 Q2. As with sales, Covid was expected to have little effect on employment over the medium term (2023+), compared with what it would have been otherwise. In absolute terms, panel members reported that their overall employment had increased by 2.5% on average over the year to November, following the end of the Coronavirus Job Retention Scheme on 30 September.

The impact of Covid on investment was also expected to wane over the coming quarters, and at a faster pace than for both sales and employment. The impact of Covid on investment was expected to ease from -8% in 2021 Q4 to -2% in 2022 Q1, in the November survey (Chart 1). Investment was expected to be around 1% higher compared with what it would have been without Covid over the medium term (2023+).

Chart 1: Businesses expect the impact of Covid on their sales, employment and investment to gradually wane

Expected impact of Covid on sales, employment and investment (a)



(a) The results are based on the questions: ‘Relative to what would otherwise have happened, what is your best estimate for the impact of the spread of Covid-19 on the sales/employment/capital expenditure of your business in each of the following periods?’. Data for 2020 Q2 are from the July 2020 DMP survey, data for 2020 Q3 are from the October 2020 DMP survey, data for 2020 Q4 are from the January DMP survey, data for 2021 Q1 are from the April 2021 DMP survey, data from 2021 Q2 are from the July 2021 survey and data from 2021 Q3 are from the October 2021 DMP survey. Data for 2021 Q4, 2022 Q1, 2022 Q2 and 2023+ are from the November 2021 DMP survey. Data shown for 2020 Q1 are percentage changes in aggregate ONS data for private sector output and private sector employment between December 2019 and March 2020.

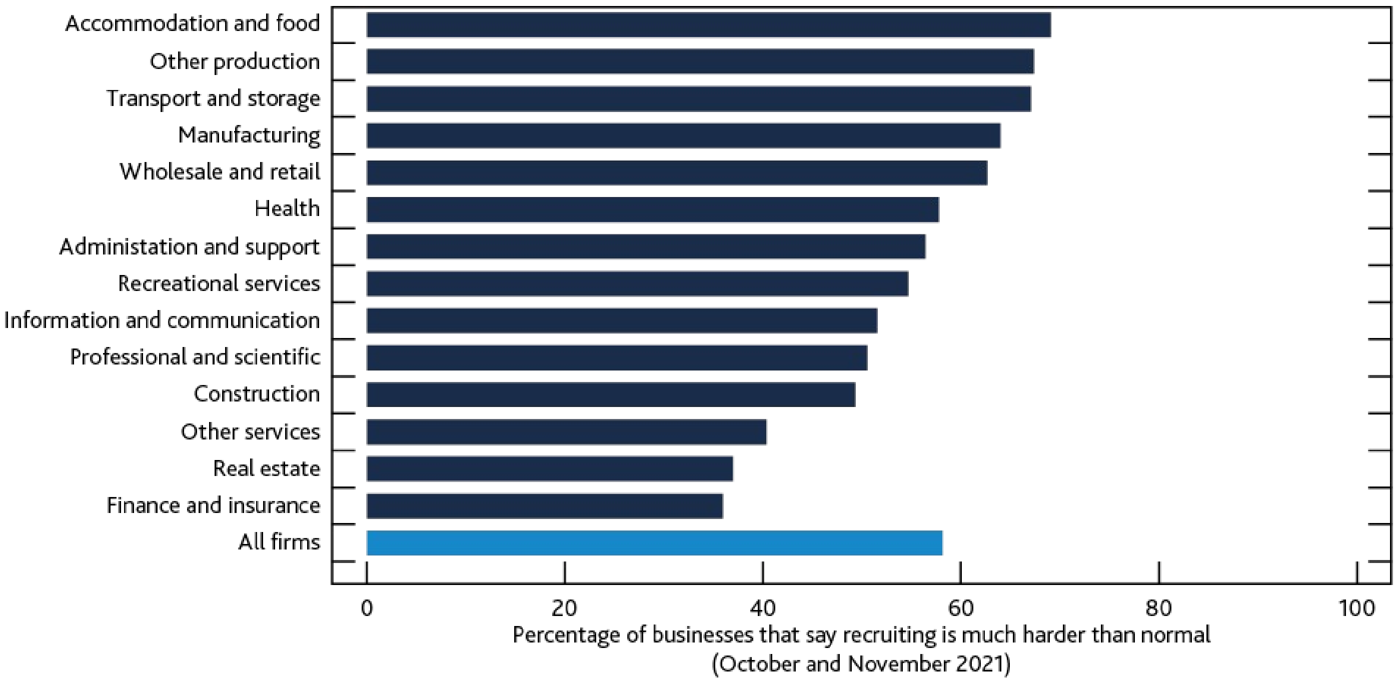
Labour and supply shortages

As well as asking businesses about the marginal impact of Covid on employment, the DMP also asked businesses in the October and November surveys about the current level of difficulty associated with recruiting new employees compared to normal. In November, 88% of businesses reported currently finding it harder than normal to recruit new employees, with 62% finding it 'much harder'. These proportions were slightly higher than in October, when 83% of businesses reported some form of recruitment difficulties, with 55% finding recruitment 'much harder than normal'.

Chart 2 shows the industry breakdown of the percentage of firms who reported it to be much harder than normal to recruit new employees (combining October and November data together). Recruitment difficulties were reported to be widespread across sectors. Firms most severely affected by recruitment difficulties were in the hospitality, transport and storage, wholesale and retail, and production sectors. Text comments left by businesses that answered this question revealed that hiring difficulties were prevalent for both skilled and unskilled positions, with firms citing problems such as lack of suitable candidates and high salary expectations as some of the drivers of these conditions.

Chart 2: Recruitment difficulties are broad-based across sectors

Percentage of businesses currently finding it much harder than normal to recruit (a)

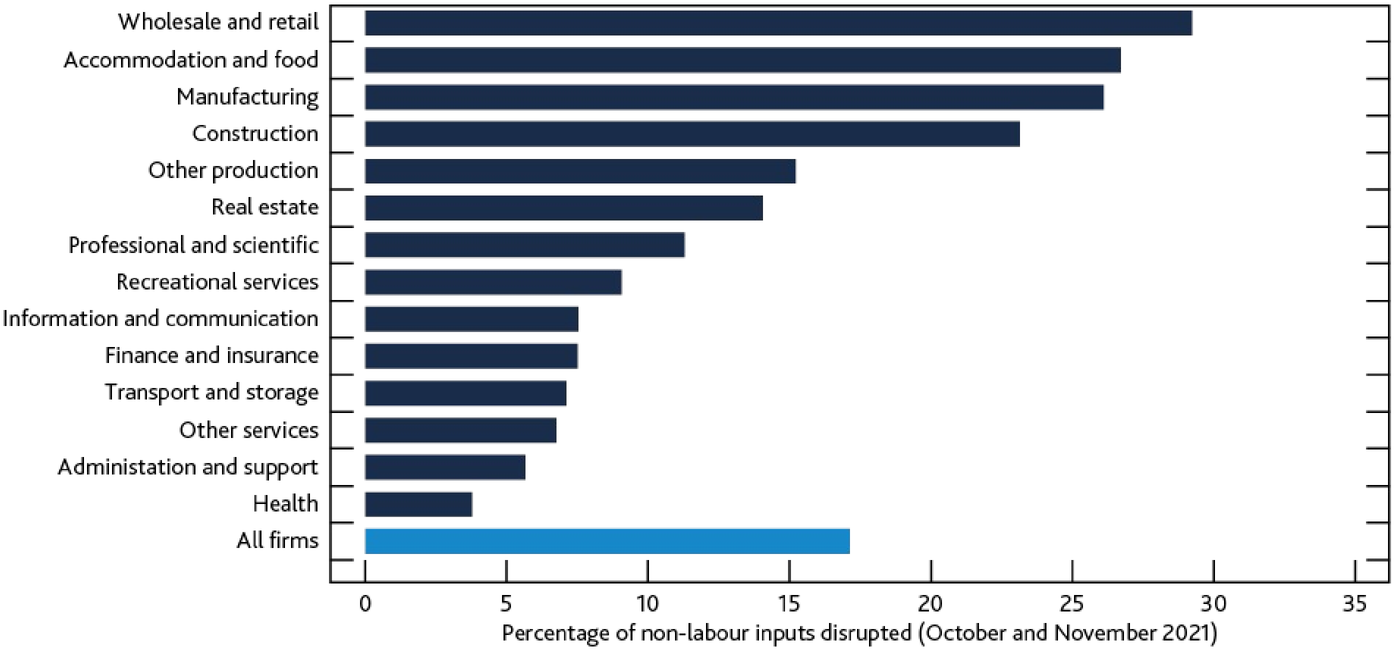


(a) Results on recruitment difficulties are based on the question 'Are you finding it easier or harder than normal to recruit new employees at the moment?' Respondents could select from one of the following options: (i) Much easier, (ii) A little easier, (iii) About normal, (iv) A little harder, (v) Much harder, (vi) Not applicable – not recruiting at the moment. Results are averaged across the October and November surveys.

Businesses in the DMP were also asked for the first time, in the October and November surveys, about disruption to their non-labour inputs. In October, firms reported that, on average, 18% of their non-labour inputs had been disrupted over the last month, falling slightly to 16% in November. On average across the two months, around two thirds of firms reported that they have been affected by some form of supply disruption, with 10% of firms reporting that disruption had affected over half of their non-labour inputs. In particular, firms cited pressures arising from global supply shortages, that were exacerbated by a lack of HGV drivers, in their text comments.

Supply disruption was reported to have been highest in wholesale and retail, followed by accommodation and food, manufacturing and construction (Chart 3). In these sectors around 25%–30% of non-labour inputs were reported to have been disrupted in October and November. In more service-based industries, supply disruption was reported to have been lower, typically in the region of 5%–10% of non-labour inputs. There was some degree of sectoral overlap between those reporting hiring difficulties and supply disruption, with firms in the hospitality sector also reporting higher disruption alongside more difficult recruitment conditions.

Chart 3: Recent supply shortages have been higher in sectors that primarily produce goods
Percentage of non-labour inputs disrupted (a)

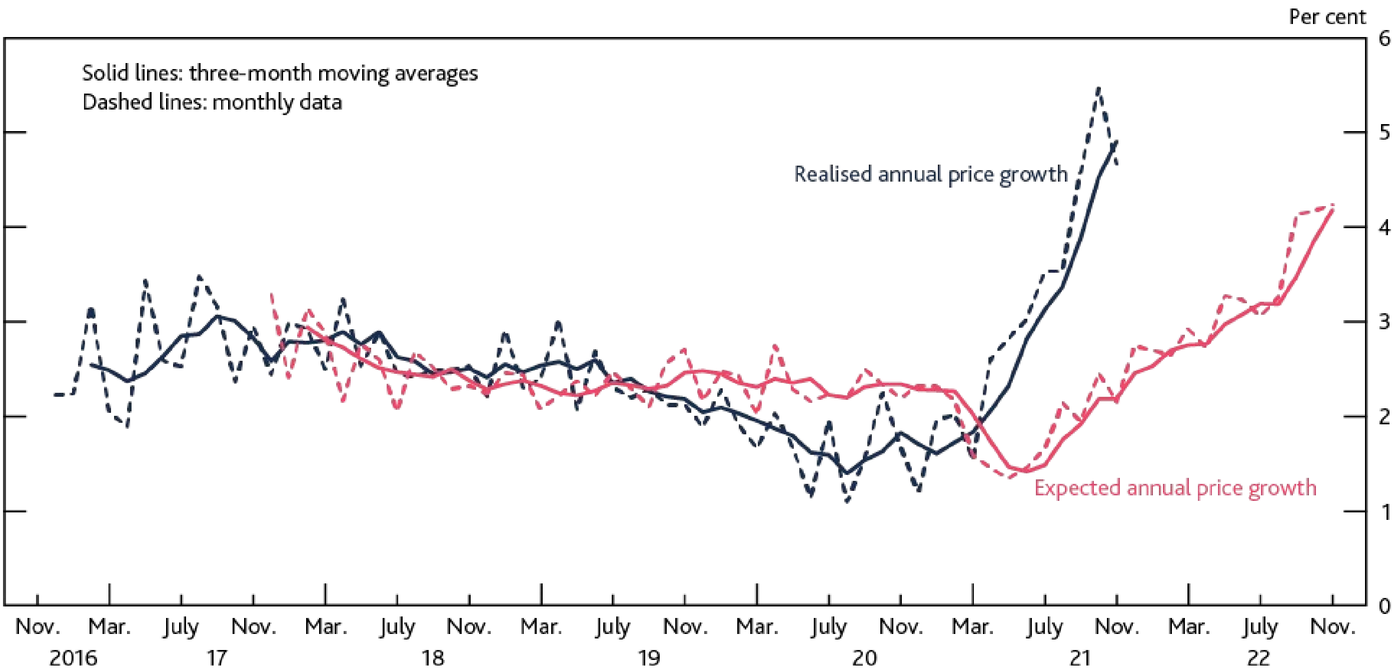


(a) Results on availability of non-labour inputs are based on the question 'Over the past month, has the availability of the non-labour inputs that your business uses been disrupted?'. Respondents provided a percentage impact figure. Results are averaged across the October and November surveys.

Output price inflation

DMP respondents reported that inflation in the prices that they charge has been increasing in recent months, reaching 4.9% on average in the three months to November (Chart 4), up from 3.4% in the three months to August. This refers to prices charged by businesses across the whole economy, including businesses that sell to other businesses, rather than just by those businesses that sell directly to consumers. Expected year-ahead price inflation has also been increasing, reaching 4.2% in the three months to November 2022, up from 3.2% in the three months to August 2022. That implies businesses think that inflation is likely to fall back a little, but remain elevated for at least the next year. Although uncertainty around these expectations for inflation is currently higher than normal.

Chart 4: Both realised and expected price inflation have been increasing in recent months
Realised and expected annual price inflation (a)



(a) Realised price growth results are based on the question 'Looking back, from 12 months ago to now, what was the approximate % change in the average price you charge, considering all products and services?'. Expected price growth results are based on the question: 'Looking ahead, from now to 12 months from now, what approximate % change in your average price would you expect in each of the following scenarios: lowest, low, middle, high and highest?' and respondents were asked to assign a probability to each scenario.

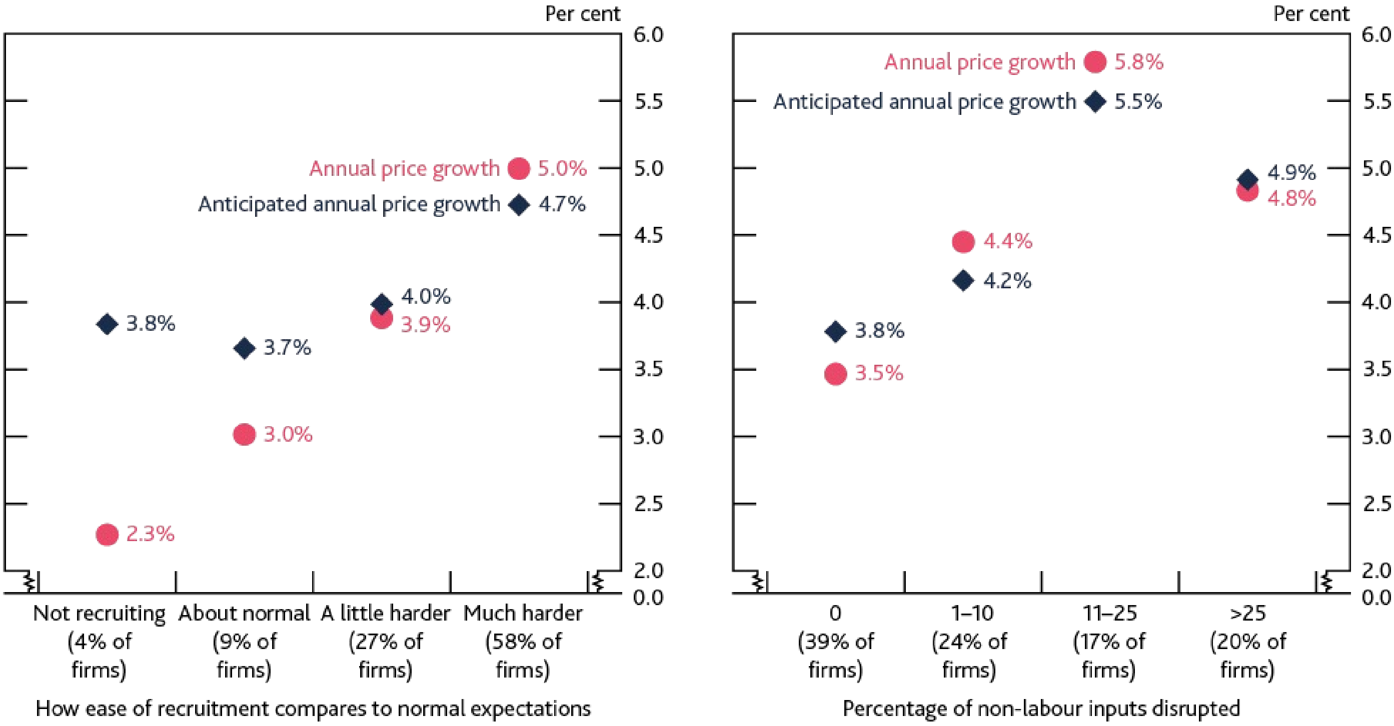
Supply and labour shortages and inflation

Recent increases in price inflation, both realised and expected, have been larger for firms in the DMP that are in industries that primarily produce goods rather than services. That might, at least, partly reflect recent increases in import prices and supply-chain disruptions. Manufacturing and wholesale and retail were the two sectors reporting the highest annual price inflation in November, and these were also two of the sectors that had been most heavily affected by supply disruption. However, there has also been some increase in services price inflation in the DMP too, most notably in the hospitality sector, which has also been the most severely affected sector with regard to recruitment difficulties in recent months.

Moreover, supply and labour shortages are positively correlated with inflation at the firm level in the DMP. Chart 5 shows the proportion of firms reporting supply and labour shortages in October and November, along with the average realised and expected inflation reported by firms within each category. Businesses that reported higher disruption to non-labour inputs reported higher annual price growth, relative to those facing no or low inputs disruption. Numerous firms explicitly linked price increases to supply shortages in their text comments. There was also a positive correlation between recruitment difficulties and inflation in the DMP. Businesses that reported tougher hiring conditions in November had also reported higher annual price growth (possibly due to increased wage pressures, although the DMP does not ask firms about this), relative to those experiencing more normal hiring conditions. However, expected year-ahead annual price inflation was more consistent across these different groups, perhaps suggesting that many firms had already begun passing through existing cost pressures to output prices.

Chart 5: Supply and labour shortages are positively correlated with inflation in the DMP

Supply and labour shortages, compared with annual realised and expected price growth (a)



(a) See footnotes to Charts 2, 3 and 4 for the questions used. Data on supply and labour shortages are from the October and November surveys. Inflation data are lagged by one month because of the panel structure of the DMP.

Methodology

The Decision Maker Panel (DMP) consists of the Chief Financial Officers of small, medium and large UK businesses operating in a broad range of industries.

We survey panel members to monitor developments in the UK economy and to track businesses' views on them. This work complements the intelligence gathered by our Agents.

This note is a summary of surveys conducted with DMP members up to November 2021. The November survey was in the field between 5 and 19 November. In November, there were 9,340 panel members and we received 2,780 responses.

Further monthly data from the November survey for a limited number of DMP series was published on 2 December 2021. Aggregate level data for all survey questions are published on a quarterly basis. Data from the August to October surveys were released on 4 November. More information can also be found on the DMP website.

The panel was set up in August 2016 by the Bank of England and with academics from Stanford University and the University of Nottingham. It was designed to be representative of the population of UK businesses. All results are weighted using employment data. See Bloom et al (2017) for more details.

The DMP receives funding from the Economic and Social Research Council.

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