

# UK economic outlook dims despite supply chain improvements

- Supply chain disruption will ease in the second half of 2022, but is unlikely to return to normal until 2023
- UK firms face challenges including high energy costs, increasing interest rates, and the ongoing impact of Brexit – as highlighted in the Allianz Trade Global Survey
- Insolvencies will grow faster in the UK than in many other countries due to faster withdrawal of government support

Supply chain disruption will ease in the second half of 2022, but challenges for UK businesses remain – including higher energy costs, increasing interest rates, and the ongoing impact of Brexit – Allianz Trade experts warn.

*Ana Boata, Allianz Trade's Head of Economic Research, and Özlem Özüner, Allianz Trade's Commercial Director in the UK and Ireland, discuss how the global economic environment will affect UK firms, and the results of the Allianz Trade Global Survey 2022.*

## Effects of global economic climate

Higher energy prices and disruption caused by the conflict in Ukraine have dimmed the economic picture globally since the start of 2022.

The Allianz Trade Global Survey 2022 questioned 3,000 companies worldwide before and after the start of the conflict. Before, just 6% of exporters saw revenue dropping in 2022; after the war began, that figure rose to 22%.

Ana says: "The good news is that a majority of corporates still expect turnover to increase in 2022. But the balance of risks is clearly much more worrying."

## Supply chain disruption to ease

Özlem warns that businesses are still being held back by disrupted supply chains caused by lockdowns in Shanghai and Shenzhen, two of the most important manufacturing and transportation hubs in China.

Ana says: "We knew there would be disruption in China – but we didn't expect it to be this high.

"But there are a lot of factors that will ease the pressure in the second half of the year."

Although some supply chain disruption will persist to 2023 – particularly in semiconductors where the backlog of orders is exceptionally high – the overall outlook is improving, especially with the chance of a 'grand re-opening moment' in China.

Some of this good news, though, could be bad news in disguise.

Improved availability of products and components, for example, is in part due to demand slowing, particularly in Europe. This is partly being caused by a rise in interest rates as central banks try to contain inflation, which has been pushed much higher by the energy price shock triggered by the conflict in Ukraine.

### **UK economic outlook**

The Allianz Trade Global Survey shows UK exporters are more worried than those in other major European countries about higher funding costs, with 51% citing it as a Top 5 risk after the invasion of Ukraine.

The Bank of England's move to raise interest rates in May was its third this year. In contrast, the European Central Bank has yet to raise rates (although it is talking about the first raise during the summer).

And all of this is on top of higher energy prices. The Allianz Trade Global Survey shows UK exporters are much more worried about these than exporters in France and Germany – 62% said they saw higher energy prices as a challenge in 2022.

The survey also shows UK exporters remain highly concerned about the impact of Brexit.

"Brexit still remains a hurdle - it's become a structural hurdle for UK exports," says Ana. She notes that, in 2021, UK exports fell in volume at a time when most countries were enjoying a post-lockdown surge in trade.

The result is that UK exporters were notably less optimistic than those in other major European countries.

### **Higher insolvencies in the UK**

"Business insolvencies in the UK have already reached pre-pandemic levels, which is an exception when it comes to developed markets," says Ana.

Her current estimate is for business insolvencies in the UK to be 37% above 2021 levels. That's a much higher jump than in many other countries, partly due to the UK government being quicker to withdraw COVID-19 support. However, she sees insolvencies in 2023 rising at a much more modest 4%.

The official insolvency data already reflects the rise in insolvencies in 2022. Insolvencies in England and Wales in the first quarter of 2022 were the highest for a decade, with the construction, retail and hospitality sectors among the hardest-hit in what has been dubbed 'a spring-time cash drought'. (Scotland reports data separately, but the trend is similar.)

"Overall, we see that recession risks are clearly on the rise," says Ana. She sees the UK entering a shallow technical recession – two quarters of negative economic growth – in the middle of 2022, followed by a very low or zero-growth period.

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