

CIA Third Quarter Economic Report 2021

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@See_Chem_Bus

Current shape of the industry



3700 businesses providing over **500k** jobs (155,000 directly, supporting a further 350,000)



Salary over **55%** higher than the average weekly wage



Highly productive sector with **£123k** GVA* per employee
↑ 82% higher than manufacturing
↑ 90% higher than the average worker



Over **20%** of UK R&D spend



Adds more than **£18bn** of value to the UK economy every year from total annual turnover of almost **£56bn**



UK's largest exporter of manufactured goods with annual exports of over **£57bn**



*Gross Value Added

Figures correct as at February 2021

Executive summary

I am pleased to present our latest economic report, which has been written by Tom Warren, our Head of Economics.

This report has two sections - a **CIA analysis of Government data** via the Office for National Statistics (ONS), that assesses the UK chemical industry's performance in 2021 and what challenges lie ahead, followed by the **results and further analysis of our own Q3 business survey**. Unless otherwise specified, figures are for the chemical industry - excluding pharmaceuticals.

Since our last update, the **outlook for the UK economy and chemical industry has darkened**. Shortages and upward pressure on the prices of raw materials, drivers, freight and skilled labour have riddled the chemical industry throughout the whole of 2021 while in recent months gas, electricity and carbon price rises have posed acute challenges for an industry that is already facing significant increases in input costs.

The Bank of England continues to reiterate its belief that this **spike in inflation** will be temporary however we're repeatedly hearing from CIA membership that inflation is feeling a lot more sticky than transitory. In the 12 months to September 2021, the prices of chemical inputs including fuel rose 15.9% while in the same period the prices of outputs rose 12.2%.

After entering 2021 at elevated levels, **chemical production** contracted 1.9% in the first quarter of 2021 before experiencing a modest expansion of 0.2% in the second quarter. IHS Markit remain bullish for the chemical industry, forecasting output growth of 1.0% in the third quarter of 2021 and 0.2% in the final. The CIA is less optimistic and forecasts a

between 1%-2% contraction in the third quarter followed by flat growth in the final.

Revisions published in the UK's most recent quarterly national accounts displayed that chemical production performed better than expected in 2020 with production growth being revised from 3.3% to 7.0%.

Turning our attention to data collected in the **CIA's Q3 business survey**, respondents reported their fifth successive quarter of growth however the rate of growth was significantly slower than that experienced in the second quarter and below expectation.

Looking ahead to the final quarter of this year, respondents expect growth to almost come to a standstill as rising energy, raw materials and carbon costs as well as HGV driver and freight shortages restrict production. However, looking ahead 12 months members are optimistic that the

near-term challenges will have been resolved placing the industry back into a position of growth.

Currently, rising energy prices are reported to be the biggest issue faced by the industry as

respondents on average have seen a 115% rise in their per-unit energy costs over the last 12 months. Raw material shortages, price increases and driver shortages are seen as the second, third and fourth-biggest issues the industry is currently facing.

"Rising energy prices are reported to be the biggest issue faced by the industry"



Steve Elliott
Chief Executive
Chemical Industries Association

Historical Revisions to Chemical Production

The latest quarterly national accounts (Blue Book) published by the Office for National Statistics (ONS) on September 30 2021, used new methodology and data improvements that affect quarterly current price and volume, and monthly chained volume measures of gross domestic product (GDP) and its constituent parts, one of which being chemical production.

In Blue Book 2021, the ONS produced annual volume estimates of GDP in the Supply and Use Tables (SUT) framework for the first time - including the first published official estimates of GDP applying double deflation along with improved reconciliation of current price and volume estimates. For more details on the logic and reasoning behind these changes see the [ONS's blog](#) on the matter.

At a macroeconomic level, the impacts of the changes have been marginal but not negligible as the average GDP growth rate between 2010 and 2019 was revised from 1.9% to 2.1%, however when drilling down to the chemical industry the impacts have been far more profound. Table one portrays this fact and contains data for annual UK chemical production from 2010 to 2020 for both pre and post methodology changes. Material changes in historical production levels are not exclusive to the chemical industry and have been experienced in multiple manufacturing industries. The CIA - outside of the report - will look in detail and the statistical and economic drivers of these changes and will publish a report on the results.

Table 1 displays the annual chemical production growth pre and post Blue Book methodology change

	Pre-Blue Book methodology change	Post-Blue Book methodology change
2010	-1.9%	-3.7%
2011	6.1%	-14.1%
2012	-1.1%	29.9%
2013	-0.9%	6.9%
2014	1.4%	16.5%
2015	4.4%	26.0%
2016	-6.2%	-18.0%
2017	2.2%	-5.6%
2018	1.3%	7.3%
2019	-1.3%	15.6%
2020	3.3%	7.0%

Source: CIA analysis of ONS data

The new methodology - which is claimed to be more accurate - has fundamentally changed the rhetoric of chemical production being relatively stable year on year, with the peak year-on-year swing in production in the 11-year period coming between 2015 and 2016 of 10.6%, driven by the EU referendum result. Now the swing in the same period is estimated to be a colossal 44.0%. Looking to more recent years, chemical production in 2019 was positively revised from a contraction of 1.3% to an expansion of 15.6% while in 2020 boosted chemical demand to tackle the pandemic and stockpiling ahead of the end of the transmission period helped increase production a further 7.0%.

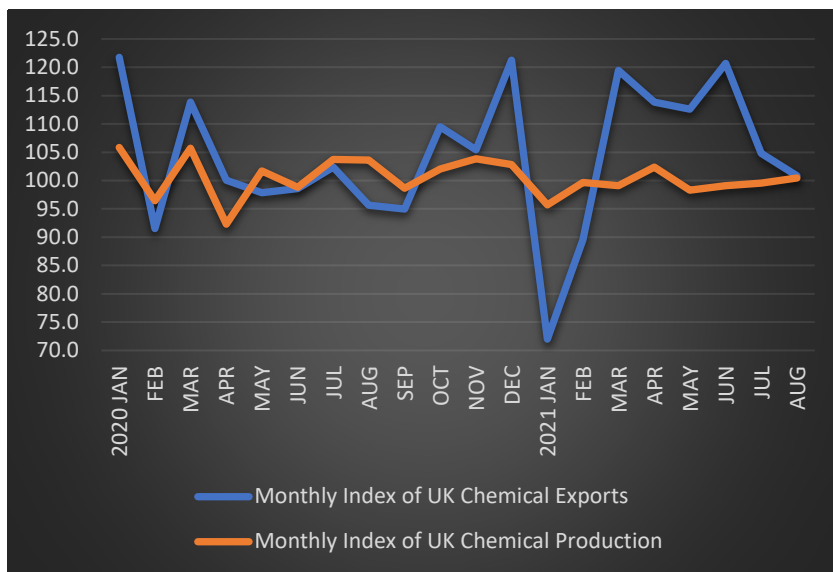
The chemical industry in 2021

For the aforementioned reasons, chemical production entered 2021 at the highest levels in the ONS' record that dates back to 1997. Between January and August 2021 chemical production contracted 1.5%, beginning to tack back down to a more sustainable level however was still 9.0% above pre-pandemic levels. IHS Markit maintain a bullish outlook for UK chemical production in the second half of 2021 forecasting output growth of 1.0% in the third quarter of 2021 and 0.2% in the

final quarter. At the CIA, we are less optimistic and forecast the chemical production will contract between 1.0% and 2.0% in the third quarter of this year and be flat in the final.

Chemical trade fell sharply in January 2021 as the UK came to terms with its new trading relationship with the EU, companies began working down stockpiles created in the final quarter of 2020 and international border restrictions were in place to slow the spread of the coronavirus. However, by the end of the first quarter export levels had fully recovered and in the three months to August 2021, UK chemical exports to the EU were up 17.8% compared to pre-pandemic levels while UK chemical exports to the rest of the world were down a modest 2.3% in the period.

Graph 1 displays the monthly Index of UK chemical production and trade, Q4 2019



Source: CIA analysis of ONS data

Graph 1 displays the monthly index of UK chemical exports and UK chemical production from January 2020 to August 2021, where the pre-pandemic level of Q4 2019 is equal to 100.

Business investment within the wider chemical industry (including pharmaceuticals) in the first half of 2021

reached £2.8 billion, 5.8% higher than the same period in 2020 however 4.4% below the period in 2019. The chemical industry's workforce, both employees and the self-employed, averaged 106,000 people in the first half of 2021 compared to 101,000 in 2020. It is worth noting that workers in the wider chemical industry in the first eight months of 2021 have earned on average 36.6% more than the rest of manufacturing and 50.5% more than the average worker in the economy.

The resilient performance displayed by the chemical industry through 2021 was driven by a multitude of factors. Firstly, the sustained demand for pharmaceutical goods, a key end market for the chemical industry, due to the pandemic has helped boost demand for chemicals. Moreover, the opening up of global economies has driven a broad-based recovery among global production industries benefiting the likes of foundation industries such

as the chemical industry. Secondly, consumer's spending habits regarding the percentage of disposable income they spend on goods compared to services has changed through the pandemic. Lockdowns meant that consumers could not spend their money on many recreational services, so instead spent it on goods which boosted demand for chemicals as over

95% of manufactured goods contain chemical products. Now that major economies have largely reopened consumer expenditure is slowly reverting to its long-run trend however expenditure on goods as a percent of income is still elevated.

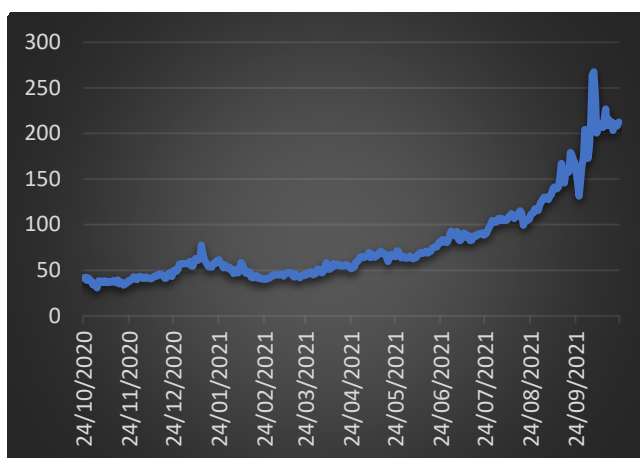
Although so far this report sounds positive, the industry has faced numerous challenges in 2021, many of which are expected to worsen through the winter

period, darkening the outlook for chemical production in the final quarter of 2021 and first half of 2022.

Challenges facing the industry

Despite the robust performance displayed in 2021, the chemical industry has faced strong headwinds from day one as on January 1 it had to come to terms with a new trading relationship with its largest trading partner whilst at the height of a pandemic. Moving through the year, supply chain bottlenecks, shortages of customs agents, freight and HGV driver led to production reducing raw material shortages which in turn led to a persistent rise in raw material prices. Moving into the second half of the year reduced stores and supplies of gas paired with peaking global demand as economies reopened, led to a continuing spike in gas prices which passed through into electricity prices in the UK. The UK's Emissions Trading Scheme (ETS) went live in May and since then the cost of carbon has risen around 30%, outpacing the cost in our European counterparts. These factors put together, create (the overused saying of) a perfect storm that is hampering production and darkening expectations for the final quarter of 2021 and the first half of 2022.

Graph 2 displays UK SAP gas Actual Day (p/therm)

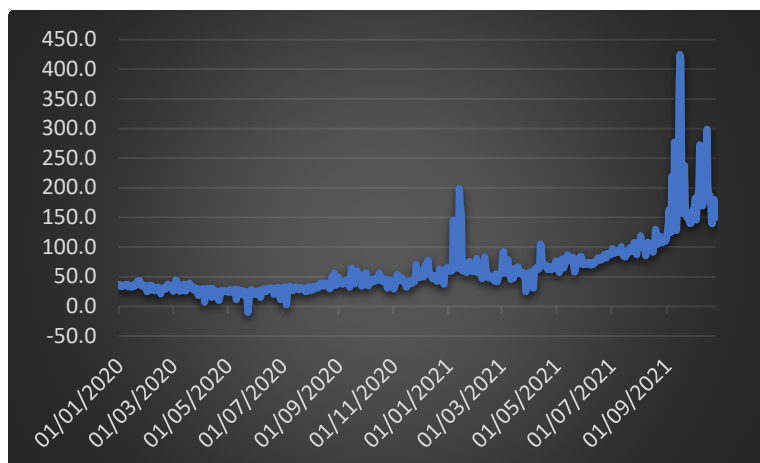


Source: National Grid

Graph 2 displays the UK gas System Average Price (SAP) actual day (p/therm) between October 24 2020, and October 23 2021. This is the average price of all gas traded through the balancing market. The SAP aggregates the trades conducted on the On-the-Day Commodity Market (OCM). This is the market that National Grid use in their role as residual balancer. This data is useful for analysing the trends of gas prices however does not display the whole picture as it is important to note that gas prices can be subject to extreme within-day trading price swings. With that said, the data displayed in the graph shows that currently in the UK the wholesale price of gas is over 400% higher than it was a year ago. The fact these are wholesale prices means it does not take into account border adjustments, producers' margins, transport and climate taxes which means the true cost increase to industrial consumers is even greater. Of course, companies who used futures contracts to hedge against gas price rises are not impacted by the current spike in prices however the longer it persists the more hedged positions will reach maturity and companies will be at the will of the spot rate. Moreover, the CIA is increasingly hearing from its members that access to sufficient sums of credit when taking a large future position in the gas market is a barrier to hedging, especially for smaller companies. No one can say when gas prices will return to a more stable and 'normal' level however the consensus is it is likely to get worse through the winter period before it gets better.

Gas is just one energy input used in the chemical industry, turning our attention to electricity, Graph 3 displays the UK Electricity Day Ahead Prices in GBP/MWh.

Graph 3 displays UK electricity Day Ahead Prices in GBP/MWh



Source: CIA analysis of ONS data

The caution taken when assessing the data in Graph 2 should remain when analysing Graph 3, as the day ahead electricity prices can too be subject to extreme intraday swings. UK electricity prices are inherently linked to gas prices as around 40% of electricity production comes from gas. Therefore, it is unsurprising that in the last year electricity prices have risen over 300% while at times when the wind was low in early September prices were over 1,000% higher than a year ago. Again, as we saw with gas prices, the most profound rise in prices has been in the last three months, vastly increasing energy bills for un-or-partially hedged companies.

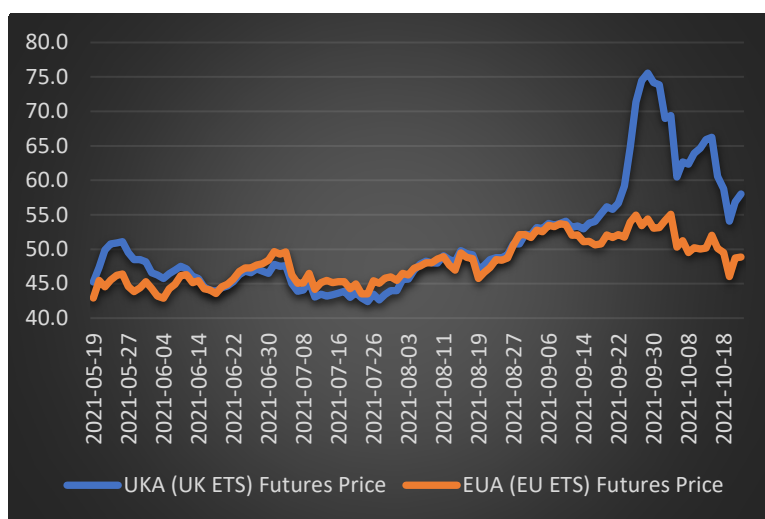
The UK's Emissions Trading Scheme (ETS) launched in May 2021 with the inaugural auction of more than six million credits sold to 14 bidders at a price of £43.99. The price of carbon soon rose, peaking at £75.60 in late September, 72% higher than the opening price and it currently sits at £58.00, 32% above the opening price. Not only has the cost of carbon increased since May, currently, prices are at a 19% premium on the EU ETS, further reducing UK producers' international competitiveness. Graph 4

displays the UK and EU ETS from May 2021 to the present day.

Graphs 2, 3 and 4 display input costs for energy-intensive users who are unhedged or have reached the end of their fixed-term energy contracts have rocketed in recent months. These price increases are not unique to the chemical industry as they impact all energy-intensive users, they are also not unique to the UK however have been more profound than in other parts of the world such

as Europe, the US and Asia. These sharp rises in energy costs come alongside steep rises in raw material prices. Graph 5 displays the 12-month growth rate in UK chemical input (including fuels) and output prices dating back to January 2000 to provide a historic context.

Graph 4 displays UK and EU Carbon prices

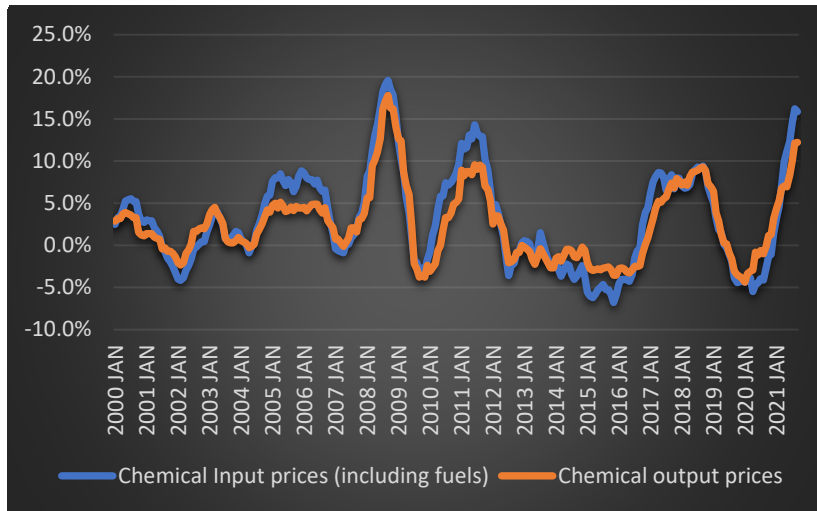


Source: Nord Pool

Chemical input prices (including fuels) are outpacing the rate of growth in output prices, a phenomenon that has been occurring since the start of 2021, which, when paired with the rising energy costs, is putting severe downward pressure on chemical producers' margins. Chemical input prices (including fuels) rose 15.9% in the 12 months to September 2021, which excluding August 2021 is the fastest rate

of growth since November 2008. In the same period chemical output prices rose 12.2%, the fastest pace since February 2009.

Graph 5 displays the 12-month growth rates in chemical input (including fuels) and output prices



Source: EMBER

The data presented above are current challenges faced by the industry and the focus on costs are easier to quantify than supply chain disruptions labour shortages. However, it is important to note that supply chain disruptions which increase producers' time to deliver, increase the time it takes to source raw materials and in extreme cases have forced producers to reduce production, have been rife in the chemical industry for the whole of 2021 are yet to ease to a manageable level. In fact, it is felt these issues will get worse through the winter period before easing in the second half of 2022.

The challenges laid out in this report so far have been current, near-term issues, however, the industry is not without its mid-to-long-term challenges. The future of UK REACH, the UK's answer to EU REACH, which addresses the production and use of chemical substances and their potential impacts on both human health and the environment, still poses a potential billion-pound threat to the UK industry at a time where cash is tight due to the current energy and raw material

climate. Moreover, in the long term, the transition to net zero poses a big challenge for the industry. If done well, with sufficient public sector investment that crowds in private investment, it will produce numerous opportunities for the chemical industry to create the

innovations required for a green economy. It is clear the chemical industry will not be able to be electrified so investments in hydrogen with carbon capture will be vital for the industries transition.

In summary, chemical production entered 2021 at record levels due to a multitude of reasons such a stockpiling ahead of the end of the UK-EU transition

period, the UK's thriving pharmaceutical industry and the structure of the industry itself. Moving through 2021 production levels were robust as in the UK and globally economies started to reopen, and consumers continued to spend a higher proportion of their disposable income on goods rather than services. However, input cost rises, supply chain disruptions and labour shortages have built up through 2021, coming to a head in the third quarter and likely causing further reductions in UK chemical production in the final quarter of 2021 and the first half of 2022. When looking forward a year or two, it is hoped that the majority of these challenges will have been played out and the chemical industry will be back in a position of growth.

Survey Results

About the survey

At the close of each quarter, we survey member companies of the Association to get on-the-ground data about current trading conditions and views on what lies ahead. The information from this is incredibly useful in our work and we are grateful to all who respond.

The CIA's Q3 business survey was live between 20 September and 1 October and received responses from 45% of the CIA's membership. The survey was split into two sections: industry performance and challenges. There were three questions in the industry performance section that asked respondents whether the 19 variables listed below had increased, decreased or stayed the same in the third quarter of 2021 compared to the second, and what member's expectations were for these variables in the final quarter of the year and 12 months' time.

Industry performance variables:

1. Total sales
2. Domestic sales
3. Exports
4. EU exports
5. Rest of the world exports
6. New orders
7. Production levels
8. Capacity utilisation
9. Employee numbers
10. R&D spend
11. Capital expenditure / Business investment
12. Your level of business optimism
13. Time to deliver
14. Raw material (input) prices
15. Cost of importing
16. Cost of exporting
17. Your energy costs
18. Finished goods (output) prices
19. Your company/site profit margins

When displaying the industry performance data diffusion indexes are used. These

are an easy to interpret statistical tool that can be read in the same way as Purchasing Managers Indexes (PMIs), therefore any figure below 50 indicates a contraction, above 50 an expansion while 50 means it remained constant.

Industry performance

Performance in the third quarter

Table 2 displays the diffusion indexes for the 19 variables mentioned in '*About the survey*'. The first column is the diffusion index for the performance in the third quarter, the second column contains the diffusion index for what was expected for the third quarter when respondents were asked in the CIA's Q2 business survey, and the third column contains the diffusion index for second-quarter performance.

There are two key takeaways from the data displayed in Table 2:

- 1) Respondents to the CIA's Q3 business survey reported their fifth successive quarter of sales and production growth in the third quarter of 2021 however alongside this came a broad-based rise in raw material and energy costs as well as the cost of importing and exporting and members' time to deliver.
- 2) Despite growth being reported in the third quarter, it was at a slower pace than what was expected from the data gathered in the CIA's prior Business Survey and was far below the rate of growth experienced in the second quarter of 2021. At the same time the rate of growth of raw material and finished goods prices as well as member's time to deliver, was quicker than expected.

Analysing the third-quarter data in more detail, breaking down total sales the domestic market slightly outperformed exports which goes against what has been

members increasing capacity to take advantage of heightened demand.

Energy costs and the cost associated with importing and exporting, three variables the CIA has not gathered data on before, were unanimously felt

Table 2 displays the diffusion indexes for the 19 variables mentioned in 'About the survey'

	Q3	Q3 expectation	Q2
Total sales	61.3	65.2	69.7
Domestic sales	58.8	58.8	63.2
Exports	57.7	61.8	67.6
EU exports	55.3	57.4	64.7
Rest of the world exports	62.8	66.2	71.2
New orders	60.3	60.3	73.5
Production levels	59.0	61.8	61.8
Capacity utilisation	59.2	64.7	66.2
Employee numbers	53.8	57.4	66.2
R&D spend	53.8	54.4	56.1
Business investment	62.8	58.8	69.1
Your level of business optimism	46.3	57.4	69.1
Time to deliver	65.4	60.3	70.6
Raw material (input) prices	97.5	77.9	94.1
Cost of importing	92.5	n/a	n/a
Cost of exporting	95.0	n/a	n/a
Your energy costs	93.8	n/a	n/a
Finished goods (output) prices	87.5	63.2	82.4
Your company/site profit margins	38.5	n/a	n/a

to have increased in the third quarter. More respondents experienced an increase in raw material prices than did increase their output prices, however both were exceptionally high. This disparity in the rise of input and output prices is reflected in the contractionary margins data, all of which has led to members feeling less optimistic in the third quarter than they did in second.

Source: CIA Q3 Business Survey

seen for the last couple of quarters. Breaking down exports, rest of the world exports continue to outperform EU exports however both regions displayed strong growth.

New orders, production levels and capacity utilisation, three correlated metrics, all showed strong growth. The 'slower' variables, employee numbers, R&D spend and business investment, which tend to have the lowest quarter on quarter volatility and react slower to economic shocks, all displayed growth with promising business investment figures as companies undertake investments that were postponed in 2020. Business investment figures are also receiving a boost as a portion is being brought forward to take advantage of the Government's super deduction and

Expectations for the fourth quarter

Table 3 displays the diffusion indexes for what is expected for each of the 19 variables in the fourth quarter of 2021. The key takeaway from this table is that sales growth is expected to come to an almost standstill while costs of energy, raw materials and trade are expected to continue the broad-based rise.

Table 3 displays the diffusion indexes for what is expected for each of the 19 variables in the fourth quarter of 2021

	Expectations for Q4
Total sales	53.8
Domestic sales	50.0
Exports	55.1
EU exports	51.3
Rest of the world exports	51.3
New orders	53.8
Production levels	56.4
Capacity utilisation	56.6
Employee numbers	53.8
R&D spend	48.7
Business investment	60.3
Your level of business optimism	47.4
Time to deliver	69.2
Raw material (input) prices	90.0
Cost of importing	78.8
Cost of exporting	82.5
Your energy costs	93.6
Finished goods (output) prices	87.5
Your company/site profit margins	38.5

Source: CIA Q3 Business Survey

Total sales are expected to experience modest growth in the final quarter of 2021. This sales growth is driven by exports, equally driven by EU and rest of the world trade while the domestic market is flat. New orders align with totals sales volumes while capacity utilisation aligns with production levels, slightly outperforming sales and new orders as companies try to build up inventory after a sustained period of material shortages and extended lead times.

A modest expansion in employee numbers, driven by increased production and investment is expected while R&D expenditure is expected to experience a modest contraction. Business investment is expected to sustain the strong growth exhibited in the third quarter, a positive sign for the future.

The rise in raw material prices and the cost of importing and exporting is expected to continue, albeit at a slightly slower pace than in the third quarter while energy costs and finished goods prices are expected to continue rising at the same pace. Respondents time to deliver is expected to worsen in the final quarter as the Christmas rush adds further strain on supply chains and freight. Again, the expected disparity in the rise of input and output prices is reflected in the contractionary margins data and respondents expect to be less optimistic.

Expectations for a year from now

Table 4 displays the diffusion indexes for what is expected for each of the 19 variables one year from now. The key takeaway from this table is that the data indicates that in a years' time most of the current challenges faced by the industry will be played out and despite growth stalling as we move into 2022, by the end of the year the industry will be back to growth.

Table 3 displays the diffusion indexes for what is expected for each of the 19 variables one year from now

	Expectations for 12 months' time
Total sales	71.6
Domestic sales	59.2
Exports	67.1
EU exports	66.2
Rest of the world exports	63.2
New orders	69.7
Production levels	71.1
Capacity utilisation	69.7
Employee numbers	55.4
R&D spend	63.2
Business investment	67.1
Your level of business optimism	57.9
Time to deliver	55.4

Raw material (input) prices	76.3
Cost of importing	71.1
Cost of exporting	67.1
Your energy costs	76.3
Finished goods (output) prices	73.7
Your company/site profit margins	52.7

Source: CIA Q3 Business Survey

The pattern of strong total sales growth driven by exports rather than the domestic market continues however conversely to recent trends, the EU market is expected to slightly outperform the rest of the world. The strength of the EU market comes off the back of a couple of years of lagging performance and a more comprehensive understanding of our new trading relationship and regulatory position with the Bloc.

Understandably, the correlation between new orders, production levels and capacity utilisation continues, with all three expected to experience strong growth. The 'slower' variables, employee numbers, R&D spend and business investment, are all expected to grow with business investment continuing to outperform for the reasons stated in 'performance in the third quarter'.

Despite the rises in energy, raw materials and finished goods prices, and the increase in member's time to deliver and cost of exporting and importing experienced in 2021, respondents do not expect these to have eased in a years' time, instead forecasting increasing in all the variables.

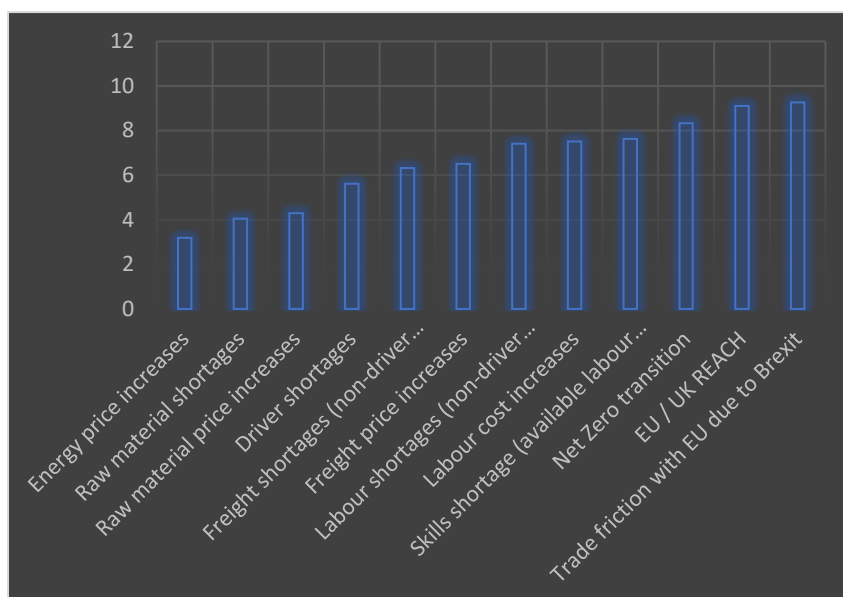
Margins are expected to stabilise and be in a slightly better place than they are today. With that in mind, respondents expect to be more optimistic in 12 months than they are now.

Challenges

The second section of the CIA's Q3 business survey focused in more detail on the challenges being faced by members, with a brief look at the opportunities within the industry.

The first question of this section asked respondents to rank 12 challenges faced by the industry from greatest to smallest with '1' signalling the greatest issue and '12' the smallest. If respondents felt one of the options was not a challenge, they were provided a N/A option. Graph 6 displays all 12 challenges from greatest to smallest when looking left-to-right.

Graph 6 displays the challenges being faced in the chemical industry



Source: CIA Q3 Business Survey

Currently, energy price increases are felt to be the greatest issue faced by the industry with 48.5% of respondents reporting it was the biggest challenge. Raw material shortages and raw material price increases were reported by 24.3% and 12.1% of respondents respectively to be the largest issue while 9.1% felt it was

driver shortages. It's important to note that the challenges to the right of the graph such as the net zero transition and EU / UK REACH, which currently are deemed to be the 'smallest' challenges of the option provided, does not mean they don't pose a large threat to the industry. The fact they currently aren't being as acutely felt as much as price increases and shortages are why they were lower down the standings. These issues should not be overlooked or underestimated when discussing the future of the chemical industry.

The next question asked respondents whether the 12 challenges from the previous question were improving, worsening or remained unchanged. Table 5 displays the diffusion indexes of the answers with figures above 50 indicating an improvement, below 50 worsening and 50 equals no change.

Table 5 displays the displays the diffusion indexes of the answers

	Diffusion Index
Energy price increases	1.4
Raw material shortages	27.0
Raw material price increases	12.2
Driver shortages	20.0
Freight shortages (non-driver related)	25.7
Freight price increases	10.8
Labour shortages (non-driver related)	43.1
Labour cost increases -	25.0
Skills shortage (available labour not matching vacancies)	34.7
Net Zero transition	47.2
EU / UK REACH	47.2
Trade friction with EU due to Brexit	55.4

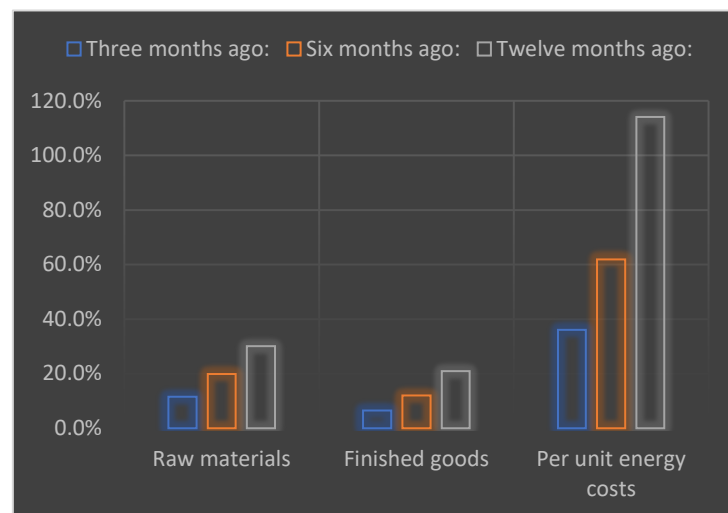
Source: CIA Q3 Business Survey

The data in Table 5 shows that 11 out of the 12 variables are worsening, which supports the belief that the economic climate for the chemical industry will get

worse through the winter period before it gets better. For energy prices, 97.3% of respondents felt they were worsening, whilst 81.1% of respondents felt the same was true for raw material and freight price increases. Trade friction with the EU post the transition period was the only challenge felt to be improving while the progress regarding the net zero transition and EU / UK REACH remains largely unchanged.

The survey then moved on to focus in more detail on raw material shortages and price increases. Just under 70% of respondents reported that the raw materials that they are experiencing shortages of vary through time. Moving onto prices, Graph 7 displays the increases in raw materials, finished goods and per unit energy prices compared to three, six and 12 months ago.

Graph 7 displays the raw material, finished goods and per unit energy price growth in the last 3, 6 and 12 months



Source: CIA Q3 Business Survey

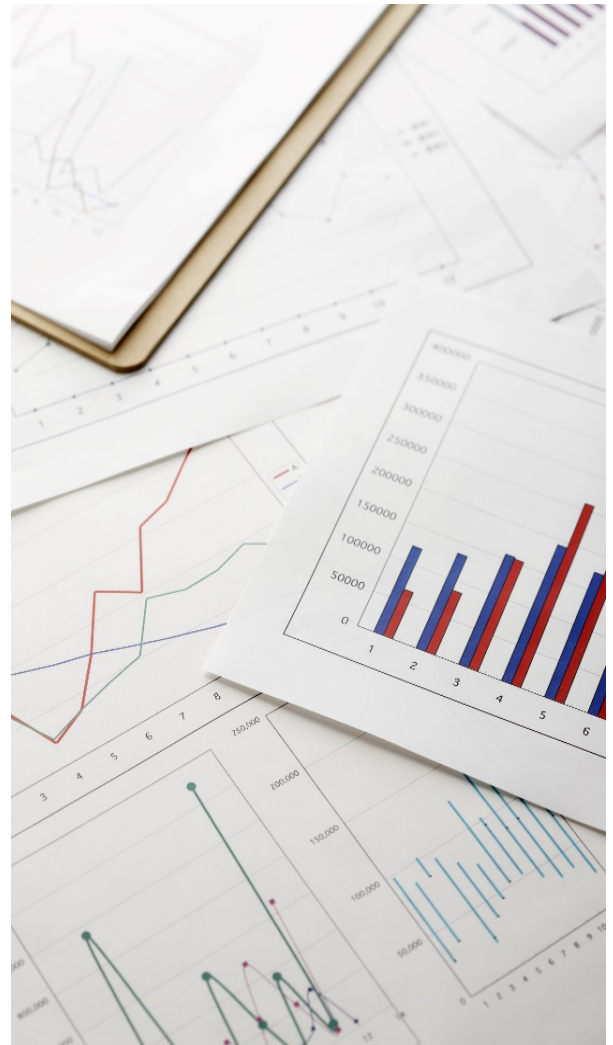
The data in Graph 7 displays larger price increases than is seen in the ONS data analysed in the 'Challenges facing the industry' section earlier in the report. However, it also supports the narrative that raw material price growth is outpacing the growth in finished goods prices. Due to a responsible level of hedging,

respondents to the CIA's Q3 business survey have limited their exposure to the over 400% and 300% rises in gas and electricity prices respectively over the last year, however, on average have still experienced an increase in energy costs of just over 115% in the period.

The final question of the survey surrounding challenges asked respondents whether they have experienced shortages of drivers, labour (non-driver related) and skills (available labour not matching vacancies). Driver shortages were reported by 70.3% of respondents while 45.9% reported non-driver related labour shortages. Skills shortages, a key area of focus for this government, were reported by 54.1% of respondents highlighting the continued need for adult reskilling.

The penultimate question in the survey asked members what the biggest near-term opportunity is for their company/site. Answers were largely business-specific with a couple of trends along the lines of: increased capacity, release of new products, cost-saving and taking advantage of market conditions.

The final question in the survey asked respondents what they wanted to see prioritised by Government in the October 27 Comprehensive Spending Review (CSR) and Budget. Answers to this question focused on energy and carbon costs and the transition to a net zero economy. You can read the CIA's representation to the Treasury ahead of the CSR and reaction to the [CIA website](#).



Summary

In summary of the survey data, respondents to the CIA's Q3 business survey reported their fifth successive quarter of sales and production growth however the outlook for the near-term darkens. Growth in the third quarter was slower than expected and far below the level witnessed in the second quarter, signalling that supply chain bottlenecks, energy prices and labour shortages were beginning to weigh on production. Raw material and energy price increases were reported by 95% and 90% of survey respondents respectively in the third quarter and this broad-based rise in prices is expected to continue into the final quarter of 2021 alongside stalling output growth. Respondents, however, were optimistic looking 12 months ahead that the industry will be in a better place than it currently is as many of the current challenges will have worked their way through.

Currently, rising energy prices are reported to be the biggest issue faced by the industry with raw material shortages, price increases and driver shortages coming in second, third and fourth respectively. Other than our trading relationship with the EU, all the challenges set out for respondents are felt to be worsening with a unanimous 97.1% of respondents feeling that energy prices are worsening. This fact is worrying as respondents on average have experienced a 115% rise in energy prices over the last year. Driver shortages are being experienced by over two-thirds of respondents while around half are experiencing non-driver related labour shortages and skills shortages.

Contact:



Tom Warren

Head of Economics

Email: WarrenT@cia.org.uk

Telephone: +44 (0)7799 892250

Simon Marsh

Communications Director

Email: MarshS@cia.org.uk

Telephone: +44 (0)7951 389197

