

# Concerns as UK growth slows sharply amid supply chain issues

Business groups have expressed concerns after official figures showed that UK economic growth slowed sharply between July and September as supply chain problems hampered the recovery from the pandemic.

New figures from the Office for National Statistics (ONS) showed the economy expanded by 1.3% between July and September, which was down from growth of 5.5% in the previous three months.

The British Chambers of Commerce said that the figures were “likely to be the start of a sustained period of sluggish growth” while the Federation of Small Businesses said there was a “mammoth task that lies ahead in securing a sustainable economic recovery.”

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The ONS said growth picked up in September to a better-than-expected 0.6% but revisions showed the performance was worse than first thought in July and August, with signs that well-publicised issues in global supply chain were taking their toll.

Car sales, in particular, have been hit by a shortage of semiconductor chips, while construction projects were delayed amid difficulties in getting materials, according to the ONS.

The third-quarter result means the economy is now 2.1% below where it was before the pandemic struck.

Grant Fitzner, chief economist at the ONS, said: “Growth picked up in September and the UK economy is now only slightly

below pre-pandemic levels. This latest increase was led by the health sector, boosted by more visits to GP surgeries in England. Lawyers also had a busy month as house-buyers rushed to complete purchases before the end of the stamp duty holiday.

“However, these were partially offset by falls in both the manufacture and sale of cars. Notably, business investment remained well down on pre-pandemic levels in the three months to September.”

The slowdown in third-quarter growth comes after the Bank of England held off from raising interest rates last week despite soaring inflation. It wanted to see how the jobs market and wider economy was holding up after the end of furlough and due to the supply problems before increasing rates from 0.1%.

The Bank had expected growth to slow to 1.5% in the third quarter and forecasts it will pull back further to 1% in the final three months of 2021.

The growth slowdown raises the threat of so-called stagflation – slowing growth combined with rising inflation – as the cost of living rockets higher with soaring energy and fuel costs adding to price increases due to supply issues.

The latest ONS figures show further evidence of supply chain strain on the UK economy, with car production, renting and leasing hit by the shortage of new cars throughout the quarter, while construction was also knocked in July and August.

The sector-by-sector breakdown for the third quarter showed services output rose 1.6% between July and September, down from 6.5% in the second quarter.

Federation of Small Businesses chair Mike Cherry said: “These deeply concerning figures point to the scale of the mammoth task that lies ahead in securing a sustainable economic

recovery.

“As they attempt to focus on getting back to full strength, small firms are up against supply chain disruption, spiralling costs and debilitating skills shortages.

“Unfortunately, it’s against this backdrop that the Government has decided to hike national insurance contributions and dividend taxation.

“We are now hurtling towards a flashpoint in April when the jobs tax and national living wage will rise at the same moment whilst business rates also kick in for many.”

Suren Thiru, head of economics at the British Chambers of Commerce, said: “Business investment remains disappointingly short of pre-pandemic levels, following a modest uptick in the quarter and as such remains the blackspot of the recovery, limiting the UK’s ability to raise productivity and deliver a sustainably high wage economy.

“The third quarter slowdown is likely to be the start of a sustained period of sluggish growth as staff shortages, supply chain disruption and surging inflation increasingly stifles economic output.

“Consequently, on a quarterly basis, the UK economy is only likely to return to its pre-pandemic level next year, behind many of our international competitors.

“With the headwinds facing the UK economy growing, we would caution the Bank of England against raising interest rates in the near term to avoid destabilising an already brittle recovery.”

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