

Article

Early insights into the impacts of the coronavirus (COVID-19) pandemic and EU exit on business supply chains in the UK: February 2021 to February 2022

Analysis of the impacts of the coronavirus (COVID-19) pandemic and EU exit on UK supply chains using data from the UK's Business Insights and Conditions Survey (BICS).

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1 . Main Points

- There is some evidence to suggest that both the EU exit and the coronavirus (COVID-19) pandemic have affected domestic and global supply chains, though we cannot tell whether these changes are permanent or not.
- Latest data shows 16% of businesses reported global supply chain disruption; this rose to 26% when excluding firms with fewer than 10 employees.
- Almost one-third (30%) of businesses in manufacturing, and wholesale and retail trade reported global supply chain disruption.
- 1 in 20 UK businesses reported that they had made changes to supply chains because of the end of the EU transition period.
- Businesses in the wholesale and retail, and transport and storage industries reported significant changes to their supply chains because of the EU exit, particularly reshoring supply chains and increasing their diversity.

2 . Introduction

The coronavirus (COVID-19) pandemic and the end of the EU transition period have had some impact on the UK's international trade flows, as well as causing disruption to global supply chains. [Recent analysis](#) by the Office for National Statistics (ONS) demonstrates the notable impact of these events on trade trends.

There is anecdotal evidence of labour and product shortages, reflecting shocks to the supply capacity of businesses and/or the inability to respond as quickly to the changes in demand for goods and services. The [Global Supply Chain Pressure Index \(GSCPI\)](#) indicates that global supply chain pressures are at historically high levels, although there are signs these may have peaked and started to moderate a little.

These disruptions not only have the potential to affect final demand but also intermediate demand; those goods and services that are inputs into production processes, which are traded by the UK. For example, the latest Organisation for Economic Co-operation and Development (OECD) [Trade in Value Added \(TiVA\)](#) estimates show the UK has a prominent role as a supplier of inputs to the exports of other countries, particularly to the EU, US, Singapore, and China. This highlights a high degree of integration of UK exporters in downstream supply chains, demonstrating the scope for these shocks to have an impact on the UK's international supply chains.

The TiVA estimates also highlight the UK's relative lack of dependence on imported intermediate inputs for production of outputs, which is partially explained by the UK's service-based economy. In this way, the UK may be more resilient to global supply chain disruption than other economies.

It is challenging to accurately measure to what extent business supply chains have been affected so far and, if so, whether they are likely to be permanent.

This article explores some of the initial evidence from the UK's Business Insights and Conditions Survey (BICS). It looks at whether businesses have changed suppliers in response to the coronavirus pandemic and/or EU exit and, if so, the ways in which businesses have changed suppliers as well as the extent to which any changes reported might be temporary or permanent. These are only provisional findings and extra caution should be taken when interpreting these results because of the small sample size.

3 . Supply chains: evidence from the Business Insights and Conditions Survey

The latest findings show that 16% of businesses, which had not permanently stopped trading, experienced global supply chain disruption in January 2022 (Figure 1). When excluding small firms (of zero to nine employees) the proportion was 26%. These disruptions have been particularly noticeable in both the manufacturing and wholesale and retail trade industries (both 30%).

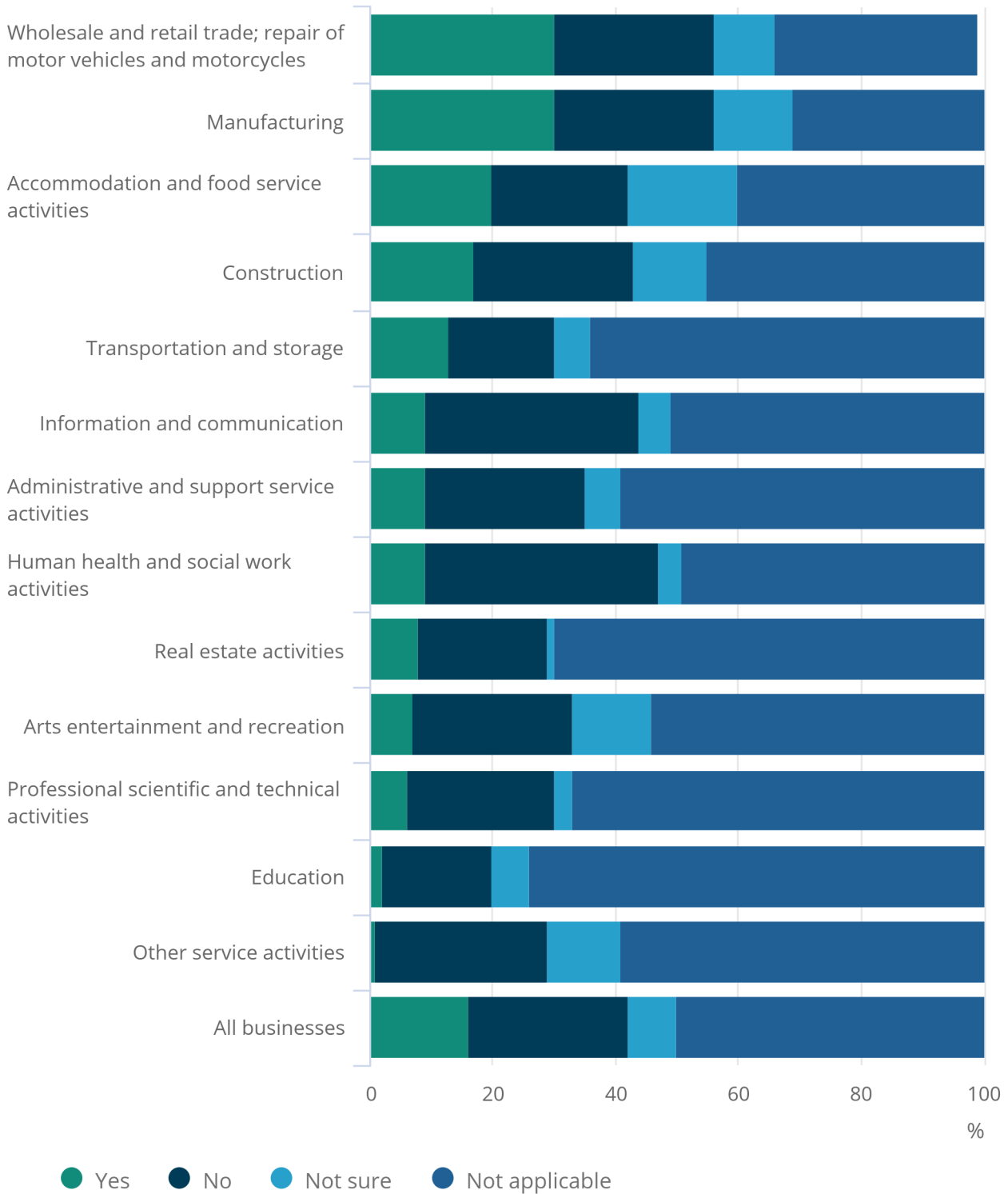
The onset of the Omicron variant leading to lockdowns before Christmas 2021 may have also contributed further to recent supply chain issues. From 13 December 2021 to 9 January 2022, respondents cited lack of product availability as the cause for disrupted global supply chains, with shipping issues and shortages of raw materials also being contributors.

Figure 1: Manufacturing and wholesale and retail trade industries reported significant global supply chain disruption over the last month

Global supply chain disruption, businesses not permanently stopped trading, broken down by industry, weighted by count, UK, 10 January to 6 February 2022

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Global supply chain disruption, businesses not permanently stopped trading, broken down by industry, weighted by count, UK, 10 January to 6 February 2022



Notes:

1. Final weighted results, Wave 49 of the Office for National Statistics' (ONS') Business Insights and Conditions Survey (BICS).
2. "Mining and quarrying" and "Water supply, sewerage, waste management and remediation activities" have been removed for disclosure purposes, but are included in "All businesses".
3. Rows might not sum to 100% because of rounding.

1 in 20 (5%) UK businesses that are currently trading reported they had made changes to their supply chains because of the end of the EU transition period. Excluding small firms (of zero to nine employees), around 8% of businesses said they had made changes.

Unweighted regional estimates published in the Business Insights and Conditions Survey (BICS) show around 13% of Northern Ireland businesses reported making supply changes. This figure was higher than Scotland (9%), England (8%) and Wales (7%). These are not directly comparable with the weighted estimates as they are solely based on responding businesses in Wave 50 and not reflective of all UK businesses.

The extent of changes varied by industry. As Figure 2 shows, the highest proportion which have made changes to their supply chains are businesses within the wholesale and retail trade (9%) and manufacturing (10%) industries.

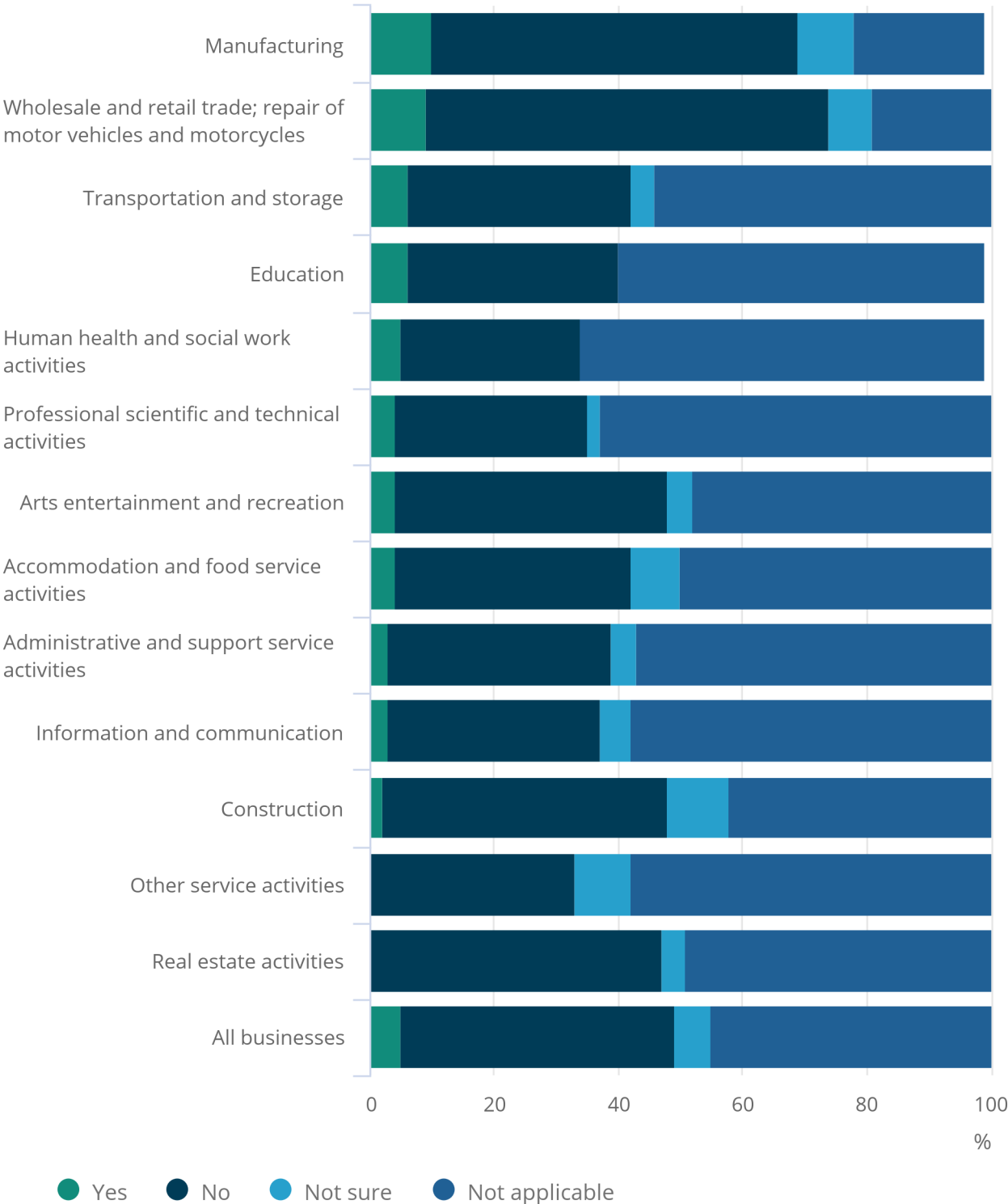
The businesses which have made changes to their supply chains in the manufacturing industry may be associated with the lack of material and equipment limiting production, as highlighted by the semi-conductor shortage. Businesses in the manufacturing sector that responded to the survey commented that they are holding higher stock levels, which are likely to mitigate this issue. Both the coronavirus (COVID-19) pandemic and EU exit may have contributed to these supply chain blockages by further limiting the mobility of labour. These bottlenecks have encouraged some businesses to rethink their supply chains.

Figure 2: 1 in 20 currently trading businesses reported changes to their supply chains because of the end of the EU transition period

Supply chain changes, businesses currently trading, broken down by industry, weighted by count, UK, 7 February to 20 February 2022

Figure 2: 1 in 20 currently trading businesses reported changes to their supply chains because of the end of the EU transition period

Supply chain changes, businesses currently trading, broken down by industry, weighted by count, UK, 7 February to 20 February 2022



Notes:

1. Final weighted results, Wave 50 of the Office for National Statistics' (ONS') Business Insights and Conditions Survey (BICS).
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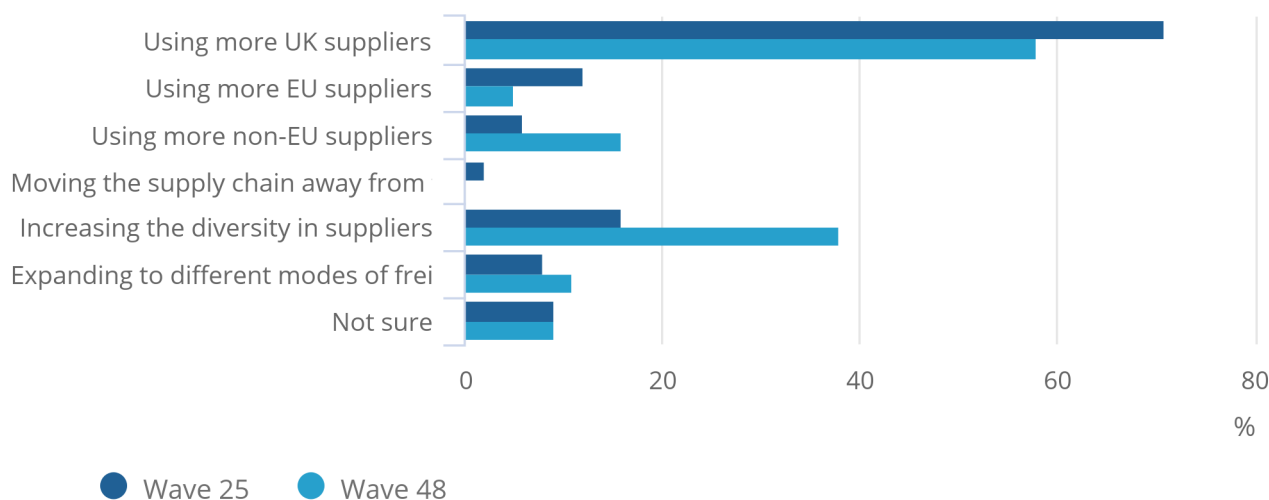
Of all businesses that reported changes to supply chains because of the end of the EU transition period, 58% reported using more UK suppliers (Figure 3). This is a marked decrease from earlier in the year, where 71% of businesses stated they were using more UK suppliers. These initial findings imply re-orientation from foreign to domestic suppliers, particularly in the wholesale and retail trade, and manufacturing industries. Figure 3 shows that there is some evidence that respondents have increased the diversity in suppliers over time.

Figure 3: Businesses are increasingly diversifying their supply chains and using more UK suppliers, all industries, weighted by count

Changes to all industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022

Figure 3: Businesses are increasingly diversifying their supply chains and using more UK suppliers, all industries, weighted by count

Changes to all industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022



Source: : Office for National Statistics – Business Insights and Conditions Survey

Notes:

1. Final weighted results, Wave 25 and Wave 48 of the Office for National Statistics' (ONS') Business Insights and Conditions Survey (BICS).
2. Wave 48 data have been used as relevant data from Wave 50 have been removed for confidentiality reasons, such as percentages less than 1%, breakdowns with a count of 10 or less, and breakdowns with a micro business count between 1 or 10 (a micro business has fewer than 10 employees).
3. Businesses were asked for their experiences for the survey live period.

Several businesses have provided comments in the survey that they are using fewer EU suppliers because of the EU exit, instead using alternatives such as UK suppliers or EU suppliers with UK subsidiaries. Of those which continue to use EU suppliers, some have stated that they have removed the UK operation from supply chain transactions and instead move goods directly within the EU.

Businesses that have provided comments also point to the goods shortage caused by the EU exit as the reason for their changing supply chains. The desire to reduce offshore supply implies businesses in the UK might be looking to minimise risks from trade disruption, making their supply chains more resilient in the wake of EU exit and the coronavirus pandemic.

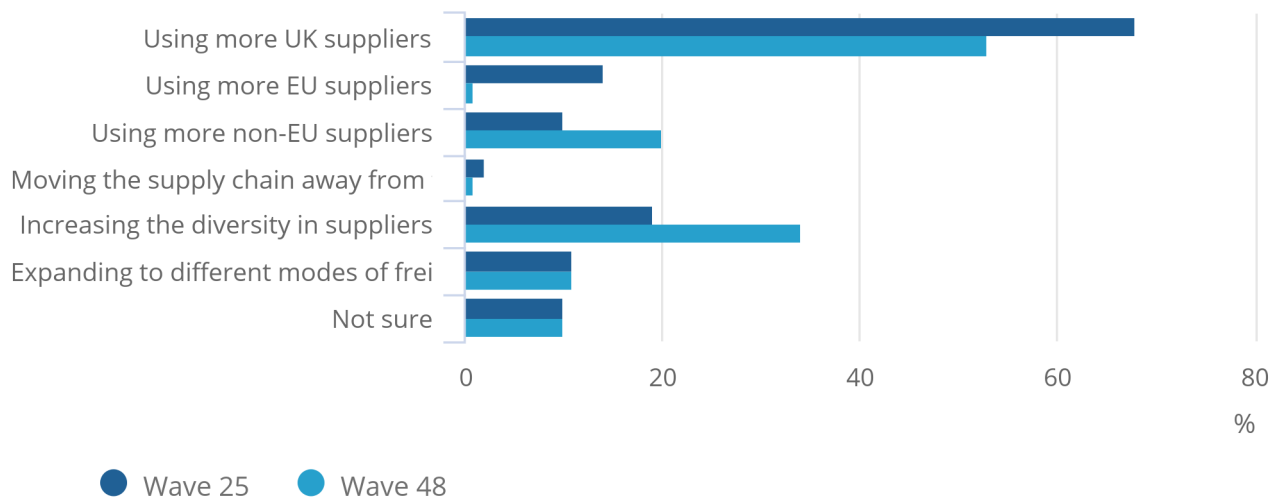
The percentage of businesses that have reported using more UK suppliers varies by industry. The share of businesses reporting the use of more UK suppliers is highest in the wholesale and retail trade industry (53%, BICS Wave 48).

Figure 4: Wholesale and retail trade industry reports significant changes to their supply chains following EU exit, weighted by count

Changes to wholesale and retail trade industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022

Figure 4: Wholesale and retail trade industry reports significant changes to their supply chains following EU exit, weighted by count

Changes to wholesale and retail trade industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022



Source: Office for National Statistics – Business Insights and Conditions Survey

Notes:

1. Final weighted results, Wave 25 and Wave 48 of the Office for National Statistics' (ONS) Business Insights and Conditions Survey (BICS).
2. Wave 48 data have been used as relevant data from Wave 50 have been removed for confidentiality reasons, such as percentages less than 1%, breakdowns with a count of 10 or less, and breakdowns with a micro business count between 1 or 10 (a micro business has fewer than 10 employees).
3. Businesses were asked for their experiences for the survey live period.

The transportation and storage industry has also seen a high number of businesses reporting the use of more UK suppliers (46%, BICS Wave 48). Additionally, 69% of businesses in transportation and storage have reported using more diverse suppliers in the wake of the EU exit.

Figure 5 illustrates this change over time in the transportation and storage industry. Not only has there been a surge in increasing the diversity of suppliers, but also the number of businesses using more EU suppliers, and those expanding to different modes of freight have both seen increases over time.

The [Bank of England's \(BoE\) Decision Maker Panel \(DMP\) Survey](#) for Quarter 4 (Oct to Dec) 2021 found that the transportation and storage and wholesale and retail trade industries have seen high levels of disruption to businesses' supply chains. Respondents highlighted pressures from global supply shortages coupled with a lack of heavy goods vehicle (HGV) drivers as the root of this disruption. Respondents to BICS also commented on the increased costs of HGV drivers when asked about supply chain changes because of the end of the EU transition period.

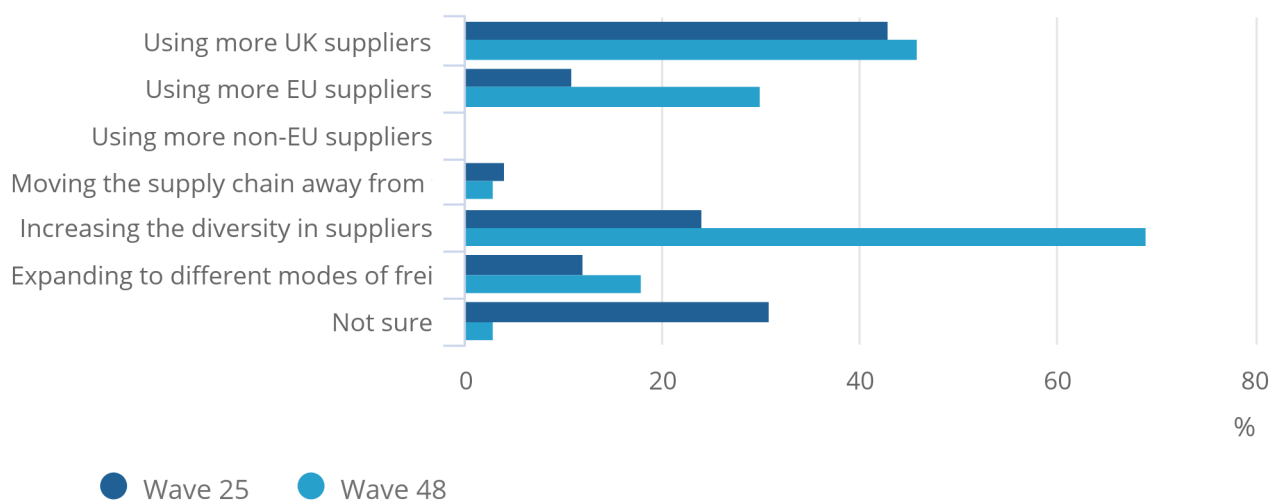
The [International Labour Organisation \(ILO\)](#) finds the transportation and storage and wholesale and retail trade industries at high risk of disruption from the coronavirus pandemic. This is because they are labour intensive and employ low-paid and low-skilled workers. The shortage of labour because of both the EU exit and the coronavirus pandemic has led to higher costs for businesses, resulting in the need to adjust supply chains accordingly.

Figure 5: Transportation and storage industries report large changes over time to their supply chains following EU Exit, weighted by count

Changes to transportation and storage industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022

Figure 5: Transportation and storage industries report large changes over time to their supply chains following EU Exit, weighted by count

Changes to transportation and storage industry supply chains, businesses currently trading who made changes to supply chains because of the end of the EU transition period, by industry, 22 February 2021 to 20 February 2022



Source: Office for National Statistics – Business Insights and Conditions Survey

Notes:

1. Final weighted results, Wave 25 and Wave 48 of the Office for National Statistics' (ONS') Business Insights and Conditions Survey (BICS).
2. Wave 48 data have been used as relevant data from Wave 50 have been removed for confidentiality reasons, such as percentages less than 1%, breakdowns with a count of 10 or less, and breakdowns with a micro business count between 1 or 10 (a micro business has fewer than 10 employees).
3. Businesses were asked for their experiences for the survey live period.

The BoE's DMP Survey highlights firms from transport and storage and wholesale and retail trade sectors were most severely affected by recruitment difficulties. Shifts in consumer demand during the coronavirus pandemic have also affected the wholesale and retail industry.

The [OECD](#) reported that the disparity in trade impacts across different product categories was larger in 2020 than any other year in the past two decades. Consumer demand for certain products (for example, electronics and protective equipment) rose during periods of lockdown while other products (for example, vehicles and machinery) were in lower demand; however, demand quickly surged once the restrictions eased.

Reshoring supply chains allows businesses to quickly adapt to changing demand. This could be a result of businesses seeking resilience in their supply chains, rather than other factors such as lower costs, in the wake of fluctuating demand during the coronavirus pandemic.

4 . Impacts of the coronavirus (COVID-19) pandemic and EU exit on business supply chains in the UK data

[Business insights and impact on the UK economy](#)

Dataset | Released 24 February 2022

Weighted estimates from the voluntary fortnightly business survey (BICS) about financial performance, workforce, prices, trade, and business resilience.

5 . Glossary

Coronavirus

Coronaviruses are a family of viruses that cause disease in people and animals. They can cause the common cold or more severe diseases, such as COVID-19.

COVID-19

COVID-19 is the name used to refer to the disease caused by the SARS-CoV-2 virus, which is a type of coronavirus. The Office for National Statistics (ONS) takes COVID-19 to mean presence of SARS-CoV-2 with or without symptoms.

EU exit transition

The EU exit transition is the period agreed in the UK-EU Withdrawal Agreement in which the UK is no longer a member of the EU but continues to be subject to EU rules and remains a member of the single market and customs union. When the UK left the EU on 31 January 2020, it entered the transition period. The transition period came to an end on 31 December 2020.

Exports

Goods or services sold to other countries; the opposite of imports.

Imports

Purchases of foreign goods and services; the opposite of exports.

Reshoring

Transferring business operations and production within domestic borders.

Total trade

The value of total trade between two trading partners (that is, exports plus imports).

6 . Data sources and quality

Business Insights and Conditions Survey

This article draws on data from the [Business Insights and Conditions Survey \(BICS\)](#), which captures businesses' views on financial performance, workforce, prices, trade, and business resilience.

Further information on the strengths and limitations, and how the data were created is available in the [Business Insights and Conditions Survey \(BICS\) QMI](#).

7 . Future developments

The findings in this article are provisional, so it is not possible to comment on whether they are likely to be temporary or permanent changes. While there may be early indicators of altered supply chains, structural changes take place over several years. We would expect that further insights will be possible over time and we will look to track how these changes evolve over the coming years.

8 . Related links

[UK Trade in services by modes of supply: 2020](#)

Article | Released 25 February 2022

Experimental estimates of UK trade in services by Mode of Supply, country and service type on a balance of payments basis.

[UK trade in goods, year in review: 2021](#)

Article | Released 1 March 2022

An analysis of UK trade in goods in 2021 in the context of the ongoing coronavirus (COVID-19) pandemic and the end of the EU transition period on 31 December 2020.

[Business insights and impact on the UK economy](#)

Bulletin | Released 24 February 2022

The impact of challenges facing the economy and other events on UK businesses. Based on responses from the voluntary fortnightly business survey (BICS) to deliver real-time information to help assess issues affecting UK businesses and economy, including financial performance, workforce, trade, and business resilience.

[UK trade: December 2021](#)

Bulletin | Released 11 February 2022

Total value of UK exports and imports of goods and services in current prices, chained volume measures and implied deflators.

[The impacts of EU exit and coronavirus \(COVID-19\) on UK trade in services: November 2021](#)

Article | Released 22 November 2021

An analysis of UK trade in services in the context of the ongoing coronavirus (COVID-19) pandemic and the end of the EU transition period on 31 December 2020.

[The impacts of EU exit and the coronavirus on UK trade in goods](#)

Article | Released 25 May 2021

An analysis of UK trade in goods in the context of the ongoing coronavirus (COVID-19) pandemic and the end of the EU transition period on 31 December 2020.