

## QUARTERLY ECONOMIC FORECAST Q2 2019

### Headlines:

- UK GDP forecasted to grow at 1.3% in 2019, 1.0% in 2020 and 1.2% in 2021
- Brexit stockpiling to boost UK GDP growth in 2019, but lower output in 2020 and 2021
- A messy and disorderly EU exit remains the key risk to the UK's growth outlook

### Brexit stockpiling to hit economic growth in the medium term

The BCC has upgraded its growth expectations for the UK in 2019 to 1.3% (from 1.2%). However, it has downgraded its growth forecast for 2020 to 1.0% (from 1.3%) and to 1.2% (from 1.4%) in 2021. The BCC has slightly upgraded its growth forecast for 2019, driven by the exceptionally rapid stock-building early in the year. However, GDP growth is forecast to slow to 0.0% in Q2 2019, down from 0.5% growth in Q1. The immediate boost to UK GDP is forecast to come at the cost of more subdued growth in 2020 and 2021 as the unwinding of historically-high inventory levels, coupled with weaker business investment, weigh on economic activity. The BCC forecast assumes that the UK avoids a messy and disorderly exit from the EU, another scenario would lead to revisions in the next forecast.

### Outlook for business investment weakens further

Business investment is forecast to contract at a faster rate in 2019 (-1.3%) and recover more slowly in 2020 (0.4%) than expected in our previous forecast. The continued Brexit impasse, including the growing possibility of a no-deal exit, together with the high upfront cost of doing business in the UK and the running down of excess stock, is expected to suffocate investment activity over the near term. Trade is projected to make a negative contribution over the forecast period as exchange rate volatility, Brexit uncertainty and a subdued global economy, weaken trading conditions for UK exporters. We forecast export growth of 1.6%, 1.6% and 1.7%, compared to import growth of 4.3%, 1.8% and 2.2%.

### Consumer spending to remain resilient

Our forecast for household consumption growth been upgraded to 1.4% for 2019 (from 1.3%), followed by growth of 1.4% in 2020 and 1.5% in 2021. Consumer spending is expected to be supported by earnings growth outstripping inflation over the period, with growth of 3.0%, 2.9% and 3.0% respectively, compared with inflation of 2.1% in 2019 and 2020, and 2.0% on 2021. Unemployment is to remain low by historic standards. UK interest rates are expected to remain at 0.75% throughout 2019, before rising to 1.0% in 2020.

“The revisions to our forecast suggest that the UK economy is likely to remain on a disappointingly subdued growth path for some time to come. It is increasingly likely that the temporary boost from historically high stockpiling in Q1, which has marginally improved the growth outlook for this year, will be surpassed over the medium-term by the negative impact from the running down of these inventories. The downward pressure on business activity and investment intentions from the unwinding of stocks is likely to be exacerbated somewhat by increasing cost pressures and Brexit uncertainty, slowing overall economic growth across the forecast period.

The deteriorating outlook for business investment is a key concern as it limits the UK's productivity potential and long-term growth prospects. A messy and disorderly exit from the EU remains the main downside risk to the UK's economic outlook as the disruption caused would increase the likelihood of the UK's weak growth trajectory translating into a more pronounced deterioration in economic conditions.”

**Suren Thiru, Head of Economics, British Chambers of Commerce**

# BCC ECONOMIC FORECAST SUMMARY Q2 2019

<b>BCC Economic Full Forecast (Annual % change)</b>				
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
GDP	1.4%	1.3%	1.0%	1.2%
Household Consumption	1.7%	1.4%	1.4%	1.5%
General government	0.4%	2.4%	2.0%	2.0%
Investment	0.2%	0.8%	0.8%	1.3%
of which: Business Investment	-0.4%	-1.3%	0.4%	1.1%
Exports	0.1%	1.6%	1.6%	1.7%
Imports	0.7%	4.3%	1.8%	2.2%
<b>Total Production</b>				
Total Production	1.2%	1.2%	0.5%	0.7%
Manufacturing	0.9%	1.0%	0.5%	0.7%
Construction	0.3%	1.0%	0.9%	1.0%
Services	1.7%	1.4%	1.2%	1.4%
<b>Unemployment rate %*</b>				
Unemployment rate %*	4.1%	4.2%	4.4%	4.4%
<b>Unemployment 000's**</b>				
Unemployment 000's**	-96	39	91	6
<b>Youth unemployment rate %*</b>				
Youth unemployment rate %*	11.6%	11.6%	12.0%	12.1%
<b>Youth unemployment 000's**</b>				
Youth unemployment 000's**	-41	2	19	3
<b>CPI inflation</b>				
CPI inflation	2.4%	2.1%	2.1%	2.0%
<b>Average earnings</b>				
Average earnings	3.1%	3.0%	2.9%	3.0%
<b>Interest rates (Q4)*</b>				
Interest rates (Q4)*	0.75	0.75	1.00	1.00
<b>NetTrade-Goods&amp;Services-%GDP*</b>				
NetTrade-Goods&Services-%GDP*	-1.5%	-2.3%	-2.5%	-2.8%
<b>BofP-CurrentAccount-%GDP*</b>				
BofP-CurrentAccount-%GDP*	-3.9%	-4.6%	-4.7%	-4.8%
<b>PSNBex-BCC forecast-FinYears-%GDP*</b>				
PSNBex-BCC forecast-FinYears-%GDP*	1.1%	1.6%	1.4%	1.2%
<b>PSNBex-BCC forecast-FinYears-£bn*</b>				
PSNBex-BCC forecast-FinYears-£bn*	23.5	36.0	32.5	28.5

Sources: BCC, Cambridge Econometrics

\* Reported as levels

\*\* Change in levels

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