

BRITISH CHAMBERS OF COMMERCE

QUARTERLY ECONOMIC FORECAST Q1 2018

Headlines:

- The BCC has upgraded its GDP growth expectations for the UK economy
- However, UK to remain among the worst performing economies in the G7 until 2020 at the earliest
- UK interest rates forecast to rise to 0.75% in Q2 2018, followed by another rise in Q1 2019

UK economic outlook remains subdued

The British Chambers of Commerce (BCC) upgraded its growth expectations for the UK economy, raising its forecast for GDP from 1.1% to 1.4% in 2018, and from 1.3% to 1.5% for 2019, and its first forecast for 2020 is for 1.6% growth. The upgrade to the forecast is largely driven by slightly stronger than expected levels of consumer spending. Despite the upgrades, UK GDP growth is set to remain well below the historical average throughout the forecast period. Our latest forecast also implies that the UK will remain among the worst performing economies in the G7 until 2020 at the earliest. Productivity is expected to improve marginally over the forecast period but will remain subdued.

Net trade expected to add little to UK growth

Export growth is forecast to remain robust, growing at 3.6% in 2018, 3.4% in 2019, and 3.0% in 2020. The UK's export performance is expected to be robust on the back of strong global growth, particularly in key markets such as the Eurozone and US. That said, imports are also likely to continue to grow at a good rate, growing by 2.8% in 2018, 2.9% in 2019 and 3.1% in 2020. As a consequence, the contribution of net trade to UK GDP growth over the near term is expected to be limited, particularly with little evidence of a sterling boost to the UK's overall net trade position.

Interest rates likely to rise again this year

Inflation is now expected to have peaked, and will begin easing in the near term as the impact of the post-EU referendum slide in sterling fades. While average earnings are expected to grow by slightly more than expected in our previous forecast, real earnings growth is not expected to return to positive territory until 2019. Our new forecast is that the next increase in UK official interest rates, to 0.75%, will occur in Q2 2018, followed by another rise in the first quarter of 2019. The BCC expects UK public sector borrowing to be £13.4 billion higher over the next three years than the OBR are currently predicting.

“We've slightly upgraded our near-term outlook for the UK economy, with a moderate pick-up in pay growth expected to support a modest improvement in consumer spending, a key driver of the UK economy. Export growth is also expected to remain robust as stronger global economic growth continues to support demand for UK goods and services. However, with little evidence of import substitution by consumers or businesses despite their high cost, the contribution of net trade to UK GDP growth over the next few years is likely to remain modest.

“Despite the upward revisions, our latest forecasts suggest that the UK is set for an extended period of sub-par growth – a damning indictment of the state of the UK economy given the rapidly improving global growth outlook. The persistent economic imbalances, including a dependence on consumer expenditure and service sector output as the main drivers of GDP growth, continues to hinder the UK's growth prospects and leaves the UK more exposed to economic shocks. Our forecast implicitly assumes a relatively smooth Brexit with a transitional arrangement where trading conditions will be largely unchanged. Failure to achieve such an outcome would likely weigh on UK economic activity over the near term.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q1 2018

(ANNUAL CHANGE %)

BCC Economic Full Forecast (Annual % change)				
	2017	2018	2019	2020
GDP	1.7%	1.4%	1.5%	1.6%
Household Consumption	1.7%	1.2%	1.4%	1.6%
General government	0.3%	1.1%	1.0%	1.1%
Investment	3.9%	1.5%	1.5%	1.7%
of which: Business Investment	2.2%	1.1%	1.3%	1.5%
Exports	5.0%	3.6%	3.4%	3.0%
Imports	3.5%	2.8%	2.9%	3.1%
Total Production				
Total Production	2.5%	1.1%	1.4%	1.4%
Manufacturing	2.8%	1.4%	1.5%	1.6%
Construction	5.1%	1.1%	1.4%	1.7%
Services	1.6%	1.5%	1.7%	1.8%
Unemployment rate %*				
Unemployment rate %*	4.4%	4.5%	4.6%	4.6%
Unemployment 000's**				
Unemployment 000's**	-154	46	35	-2
Youth unemployment rate %*				
Youth unemployment rate %*	12.3%	12.4%	12.5%	12.5%
Youth unemployment 000's**				
Youth unemployment 000's**	-59	14	3	-3
CPI inflation				
CPI inflation	2.7%	2.9%	2.6%	2.2%
Average earnings				
Average earnings	2.4%	2.7%	2.9%	3.0%
Interest rates (Q4)*				
Interest rates (Q4)*	0.41	0.75	1.00	1.00
NetTrade-Goods&Services-%GDP*				
NetTrade-Goods&Services-%GDP*	-1.7%	-1.3%	-1.1%	-0.6%
BoFP-CurrentAccount-%GDP*				
BoFP-CurrentAccount-%GDP*	-4.8%	-2.8%	-1.7%	-0.7%
PSNBex-BCC forecast-FinYears-%GDP*				
PSNBex-BCC forecast-FinYears-%GDP*	2.4%	2.1%	1.5%	
PSNBex-BCC forecast-FinYears-£bn*				
PSNBex-BCC forecast-FinYears-£bn*	49.7	45.8	34.0	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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