

QUARTERLY ECONOMIC FORECAST Q4 2017

Headlines:

- UK GDP forecasted to grow by 1.5% in 2017, 1.1% in 2018 and 1.3% in 2019
- Inflation is expected to remain elevated in the short-term, peaking at 3% in Q4 2017
- UK's net trade position to remain subdued despite improving global outlook

UK GDP growth forecast revised down

The BCC has downgraded its three-year outlook for the UK economy, cutting growth expectations from 1.6% to 1.5% in 2017, from 1.2% to 1.1% in 2018, and from 1.4% to 1.3% in 2019. The slight downgrade is mainly driven by a slightly weaker contribution from net trade across the forecast period, while household consumption and business investment are expected to remain sluggish through the forecast period. UK productivity is also forecast to remain subdued. Quarter-on-quarter growth in Q4 2017 is forecast to slow slightly to 0.3%, from growth of 0.4% in the previous quarter.

UK inflation likely to peak shortly

Inflation is expected to remain elevated in the short-term, peaking at 3% in the final quarter of this year, and then moderate slightly as the impact of the post-EU referendum slide in sterling fades. However, inflation is forecast to outpace earnings until 2019, eroding real wages and weighing on consumer spending, a key driver of UK economic growth. As such, our new forecast is that the next increase in UK official interest rates, to 0.75%, will occur in Q4 2019.

Business investment growth forecasted to remain slow

The forecast for business investment growth in 2017 is upgraded to 2.1% (from 0.4%), reflecting upwards data revisions by the ONS to business investment for 2016. However, this momentum is not expected to continue. Higher import costs (in the face of the lower value of Sterling since the EU referendum), upfront cost pressures (such as the National Living Wage) and the uncertainty regarding the possible arrangements for the UK's departure from the EU are anticipated to dampen business investment prospects. Business investment growth is therefore forecasted to remain muted at 0.8% in 2018 and 2019.

UK's net position to remain subdued despite improving global outlook

The resilience of global economic growth is expected to drive increased international demand, with UK exports forecasted to grow robustly at 4.3% in 2017, 3.1% in 2018 and 2.9% in 2019. Import growth is projected to slow to 3.7% in 2017, 2.7% in 2018 and 2.9% in 2019. This leaves our net trade position weaker across the forecast period than we previously forecast in Q3.

“The downgrades to our growth forecast confirm that the UK economy is in a challenging period with growth likely to remain well below average for a prolonged period. Continued uncertainty over Brexit and the burden of upfront cost pressures facing businesses is likely to stifle business investment, while falling real wage growth is expected to continue to weigh on consumer spending. Furthermore, with businesses continue to report that the post-EU referendum weakness in sterling is hurting as much as its helping, the significant imbalances currently facing the UK economy is expected to persist through the forecast period.

The continued weakness in UK's productivity is a key concern and reflects the lack of progress in dealing with some of the deep-rooted structural problems in our economy, from skills shortages to creaking physical and digital infrastructure. Despite the downgrades to our growth projections, the risks to our forecast remain on the downside. Should the UK face a disorderly exit from the European Union, the UK's growth rates may be materially lower over the medium term.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q4 2017

(ANNUAL CHANGE %)

BCC Economic Full Forecast (Annual % change)				
	2016	2017	2018	2019
GDP	1.8%	1.5%	1.1%	1.3%
Household Consumption	2.8%	1.6%	1.0%	1.3%
General government	1.1%	0.7%	1.0%	1.0%
Investment	1.3%	2.3%	0.9%	1.1%
of which: Business Investment	-0.4%	2.1%	0.8%	0.8%
Exports	1.1%	4.3%	3.1%	2.9%
Imports	4.3%	3.7%	2.7%	2.9%
Total Production				
Total Production	0.7%	1.8%	1.0%	1.0%
Manufacturing	0.9%	2.0%	0.9%	1.1%
Construction	3.8%	3.2%	0.5%	1.0%
Services	2.5%	1.7%	1.3%	1.6%
Unemployment rate %*				
Unemployment rate %*	4.9%	4.4%	4.6%	4.5%
Unemployment 000's**				
Unemployment 000's**	-147	-165	75	-23
Youth unemployment rate %*				
Youth unemployment rate %*	13.3%	12.1%	12.3%	12.2%
Youth unemployment 000's**				
Youth unemployment 000's**	-82	-66	5	-2
CPI inflation				
CPI inflation	0.6%	2.7%	2.8%	2.5%
Average earnings				
Average earnings	2.8%	2.4%	2.5%	2.8%
Interest rates (Q4)*				
Interest rates (Q4)*	0.25	0.50	0.50	0.75
NetTrade-Goods&Services-%GDP*				
NetTrade-Goods&Services-%GDP*	-2.2%	-1.9%	-1.8%	-1.8%
BofP-CurrentAccount-%GDP*				
BofP-CurrentAccount-%GDP*	-5.9%	-4.5%	-3.0%	-2.7%
PSNBex-BCC forecast-FinYears-%GDP*				
PSNBex-BCC forecast-FinYears-%GDP*	2.3%	2.6%	2.3%	1.6%
PSNBex-BCC forecast-FinYears-£bn*				
PSNBex-BCC forecast-FinYears-£bn*	45.7	52.7	47.8	36.0

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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