

BRITISH CHAMBERS OF COMMERCE

QUARTERLY ECONOMIC FORECAST Q2 2018

Headlines:

- The BCC downgrades its UK GDP growth outlook for 2018 and 2019
- Forecasts for consumer spending, business investment and trade downgraded
- Service sector output growth expected to slow to eight-year low

UK economic outlook weakens

The British Chambers of Commerce (BCC) downgraded its growth expectations for the UK economy, forecasting GDP growth for 2018 at 1.3%, down from our previous forecast of 1.4%. If realised, this would be the weakest calendar year growth since 2009. On a quarter-on-quarter basis, GDP growth is forecast to rise by 0.4% in Q2 2018, from 0.1% growth in Q1. The BCC has also downgraded its GDP growth forecast for 2019 from 1.5% to 1.4%. The downgrades have been largely driven by a more lacklustre outlook for consumer spending, business investment and trade. While real wage growth has returned to positive territory, this is not likely to translate into materially stronger spending over the forecast horizon, with weak productivity expected to limit the extent to which wages will increase, and household finances are likely to remain stretched from historically low household savings and high debt levels.

Business investment and net trade's contribution to growth to remain limited

Business investment growth is expected to slow in 2018 to 0.9%, (from 2.4% in 2017) and then grow by 1.2% in 2019, and 1.7% in 2020. The high upfront cost of doing business in the UK and the ongoing uncertainty over the UK's future relationship with the EU are expected to continue to stifle business investment. The UK's net trade position is expected to weaken over the next few years by more than expected in the previous forecast. Exporters will struggle to recover the ground lost in the year so far, as growth in key markets moderates. Exports are expected to grow by 2.8% in 2018, 2.9% in 2019, and 2.9% in 2020. This compares with import growth of 1.7% in 2018, 2.5% in 2019, and 3.0% in 2020.

Service sector output growth expected to slow to eight-year low

Growth in service sector output, a key driver of UK GDP growth, is expected to slow to 1.2% in 2018, which would be the weakest outturn since 2010. Consumer-focused industries such as retail and hospitality are expected to remain under the most pressure amid weak consumer spending. Growth in the construction sector is expected to slow significantly in 2018, with 0.7% growth, compared to 5.7% in 2017. The sector picks up slightly in the remainder of the forecast period, with growth of 1.3% in 2019 and 1.5% in 2020.

“The downgrades to our forecast reflect a broad-based weakening in the outlook for key areas of the UK economy including consumer spending, business investment and trade. Consumer spending is expected to be more subdued over the near term from a combination of sluggish real wage growth and stretched household finances. Trading conditions for UK exporters are expected to become more challenging over the forecast period as growth in key markets start to moderate. While Brexit uncertainty and the weakness in sterling have weighed on overall UK growth, it is the failure to deal with the longstanding structural issues from weak productivity to the deep imbalances in the UK economy that continue to undermine the UK's growth potential.

The risks to the outlook are on the downside. A messy departure from the EU would likely slow UK GDP growth further over the medium term. The prospect of an escalating trade war is now a key downside risk to our forecast as it could mean much weaker export and business investment growth than implied by the current forecast.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q2 2018

(ANNUAL CHANGE %)

Current forecast (2018 Q2)

BCC Economic Full Forecast (Annual % change)				
	2017	2018	2019	2020
GDP	1.8%	1.3%	1.4%	1.6%
Household Consumption	1.7%	1.0%	1.4%	1.7%
General government	0.1%	1.0%	1.0%	1.1%
Investment	4.0%	1.8%	1.2%	1.8%
of which: Business Investment	2.4%	0.9%	1.2%	1.7%
Exports	5.7%	2.8%	2.9%	2.9%
Imports	3.2%	1.7%	2.5%	3.0%
Total Production	2.2%	0.9%	1.2%	1.6%
Manufacturing	2.5%	1.0%	1.3%	1.8%
Construction	5.7%	0.7%	1.3%	1.5%
Services	1.5%	1.2%	1.5%	1.9%
Unemployment rate %*	4.4%	4.4%	4.5%	4.5%
Unemployment 000's**	-154	2	48	10
Youth unemployment rate %*	12.3%	12.3%	12.4%	12.4%
Youth unemployment 000's**	-59	4	12	-4
CPI inflation	2.7%	2.5%	2.3%	1.9%
Average earnings	2.4%	2.7%	2.9%	3.0%
Interest rates (Q4)*	0.41	0.75	1.00	1.00
NetTrade-Goods&Services-%GDP*	-1.4%	-0.8%	-0.8%	-0.7%
BofP-CurrentAccount-%GDP*	-4.1%	-1.7%	-0.8%	-0.5%
PSNBex-BCC forecast-FinYears-%GDP*	2.0%	1.8%	1.6%	1.4%
PSNBex-BCC forecast-FinYears-£bn*	40.5	38.8	34.0	31.0

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels