

QUARTERLY ECONOMIC FORECAST Q4 2018

Headlines:

- Subdued GDP growth forecast as Brexit uncertainty and weaker sterling weighs on outlook
- Business investment revised downwards as uncertainty weighs down on future prospects
- A messy and disorderly exit from the EU remains the key risk to the UK's growth prospects

GDP growth prospects subdued as business investment outlook weakens

The BCC has marginally upgraded its GDP growth forecast for 2018 to 1.2% (from 1.1%), due to a stronger than expected Q3 outturn as growth received a boost from a number of temporary factors, including the World Cup and the warm weather. However, UK GDP growth is expected to slow to just 0.1% in the final quarter of 2018. The BCC's forecast for 2019 GDP growth remains at 1.3% but has downgraded its 2020 GDP forecast to 1.5% (from 1.6%). Our latest forecast suggests that UK remains on track to record its second weakest decade of average annual GDP growth on record. The BCC expects a contraction of 0.6% for business investment growth this year, following weaker than expected data, down sharply from 1.0% previously forecast. The BCC expects business investment to grow by just 0.1% in 2019, down from 1.2% growth in its previous forecast.

Persistent weakness in sterling to stifle net trade and consumer spending

The slide in the value of the pound together with weaker confidence levels is expected stifle the contribution of net trade and consumer spending to UK GDP growth. Inflation is now expected to be higher over the forecast period as the weakness in the sterling pushes up the cost of imports. The BCC forecasts export growth of 1.4% in 2018, 2.3% in 2019, and 2.2% in 2020, down from 1.7%, 2.7% and 2.9% respectively in our previous forecast. Average earnings growth will outstrip inflation over the forecast period, but by less than in our previous forecast, with growth of 2.6%, 2.7%, and 2.9%, compared with CPI inflation of 2.5%, 2.4%, and 2.2%. The next increase in UK interest rates, to 1%, is expected in Q4 2019.

Weakening sector outlook as the macroeconomy softens

Growth in each of manufacturing, construction and services has been revised down slightly, reflecting the softening of the UK economy over 2019 and 2020. Weaker investment and export demand see growth in manufacturing slip to 1.1% and 1.3% in 2019 and 2020 (from 1.2% and 1.6% in the last forecast). Growth in construction edges down to 0.9% in 2018 and to 1.2% in both 2019 and 2020) as Brexit-uncertainty and the weak outlook curb firms' and households' investment intentions. With activity in other sectors softening, so too does demand for business and professional services, while weaker household spending hits consumer-related services. The service sector as a whole is expected to grow by 1.2% and 1.4% in 2019 and 2020 (down from 1.3% and 1.8%).

“The subdued growth outlook for the UK economy reflects our view that the weakness in sterling is likely to persist for some time and together with Brexit uncertainty is likely to drag on key drivers of UK economic growth - notably business investment, consumer spending, and trade. The contribution of business investment to UK GDP growth is expected to be more downbeat than we previously projected as the increased uncertainty over Brexit weakens business confidence and stifles investment activity. The downside risks to the UK's economic outlook remain uncomfortably high. A disorderly departure from the EU would likely deliver a significant negative shock to the UK economy, materially weakening the UK's near-term growth and productive potential. On the upside, greater clarity and precision over the UK's future relationship with the EU and with other key markets should help drive a marked uptick in economic conditions, including stronger investment intentions.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q4 2018

(ANNUAL CHANGE %)

Current forecast (2018 Q4)

BCC Economic Full Forecast (Annual % change)				
	2017	2018	2019	2020
GDP	1.7%	1.2%	1.3%	1.5%
Household Consumption	1.8%	1.5%	1.2%	1.5%
General government	-0.1%	0.6%	1.9%	2.0%
Investment	3.3%	0.1%	0.9%	1.4%
of which: Business Investment	1.8%	-0.6%	0.1%	1.2%
Exports	5.7%	1.4%	2.3%	2.2%
Imports	3.2%	0.6%	2.2%	2.5%
Total Production	2.4%	1.1%	1.2%	1.2%
Manufacturing	2.6%	1.1%	1.1%	1.3%
Construction	7.2%	0.9%	1.2%	1.2%
Services	2.0%	1.5%	1.2%	1.4%
Unemployment rate %*	4.4%	4.1%	4.3%	4.3%
Unemployment 000's**	-154	-88	60	16
Youth unemployment rate %*	12.3%	11.4%	11.5%	11.9%
Youth unemployment 000's**	-59	-47	1	14
CPI inflation	2.7%	2.5%	2.4%	2.2%
Average earnings	2.7%	2.6%	2.7%	2.9%
Interest rates (Q4)*	0.41	0.75	1.00	1.25
NetTrade-Goods&Services-%GDP*	-1.1%	-0.8%	-0.9%	-0.6%
BoFP-CurrentAccount-%GDP*	-3.7%	-3.2%	-2.3%	-1.5%
PSNBex-BCC forecast-FinYears-%GDP*	2.0%	1.4%	1.6%	1.4%
PSNBex-BCC forecast-FinYears-£bn*	40.1	28.9	36.0	32.5

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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