

BRITISH CHAMBERS OF COMMERCE

## QUARTERLY ECONOMIC FORECAST Q3 2017

### Headlines:

- The UK economy remains on a low-growth trajectory as BCC downgrades medium-term outlook
- Weaker support from net trade is forecasted as import growth strengthens
- Business investment to remain sluggish and the pressure on consumer spending to persist

### **BCC downgrades medium-term outlook for the UK economy...**

The BCC has slightly upgraded its UK growth forecast for 2017 from 1.5% to 1.6%, but downgraded its growth expectations for 2018 and 2019 from 1.3% to 1.2%, and 1.5% to 1.4% respectively. UK GDP growth of 0.4% is expected in Q3 2017. The BCC has slightly upgraded its forecast for 2017, driven by a moderately stronger outlook for consumer spending growth in 2017. While inflation remains elevated, it is expected to peak at 3% by the final quarter of 2017. However, inflation is still forecast to outpace average earnings until 2019, eroding real wages and weighing on consumer spending, a key driver of economic growth, in future years.

### **...as expected contribution from net trade weakens...**

A weaker contribution from net trade and more subdued consumer spending growth were the main reasons for the slight downgrade to the BCC's growth forecast for 2018. While the outlook for export growth remains unchanged, the rate of import growth is expected to increase, with little evidence that customers are switching from imported goods despite their rising cost. Falling real wages, and a slight weakening in labour market conditions, will see consumers rein in their spending in 2018. The slight downgrade for growth in 2019 reflects a lower contribution from net trade and weaker investment compared to our Q2 forecast.

### **...and business investment to remain subdued.**

Business investment growth has been revised slightly upward for 2017 and 2018, to 0.4% and 0.8% respectively, but has been downgraded for 2019 from 1.2% to 0.9%, with some firms expected to bring some investment decisions forward. The escalating burden of up-front business costs, from business rates to the Apprenticeship Levy and the immigration skills charge, and continued uncertainty around the arrangements for the UK's departure from the EU is expected to weigh down on business investment.

“The changes to our growth forecast suggest that the UK economy is likely to remain on a low-growth trajectory, and will be marginally smaller at the end of the forecast period than we predicted in the second quarter. It is increasingly clear that the post-EU referendum slide in the value of sterling has done more harm than good. Inflation is being driven by the sizable increases in the cost of imported raw materials over the past year, and is expected to remain a drag on consumer spending over the near term, with pay growth not expected to outpace price growth until 2019.

The contribution of net trade to UK GDP growth is not expected to be as strong as we previously predicted, as we see little evidence that the depreciation of the pound is materially boosting the UK's external position. While the outlook for UK exporters is for modest growth, imports are expected to grow at a faster rate than we previously forecast, with little evidence that consumers or firms are switching away from imports towards domestic alternatives despite their rising cost. Although there remains considerable uncertainty over UK's growth prospects, the risks to our current outlook are to the downside. On Brexit, our forecast implicitly assumes a relatively smooth exit from the EU. A more sudden departure would be likely to trigger a far more marked weakening in economic conditions.”

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

# BCC ECONOMIC FORECAST SUMMARY Q3 2017

(ANNUAL CHANGE %)

	2016	2017	2018	2019
GDP	1.8%	1.6%	1.2%	1.4%
Household Consumption	2.8%	1.5%	0.8%	1.3%
General government	0.8%	1.1%	1.1%	0.9%
Investment	0.5%	1.6%	0.7%	1.1%
of which: Business Investment	-1.5%	0.4%	0.8%	0.9%
Exports	1.8%	3.1%	2.9%	2.8%
Imports	2.8%	2.9%	1.5%	2.0%
Total Production	0.7%	1.1%	0.8%	1.0%
Manufacturing	0.8%	1.4%	0.7%	1.1%
Construction	2.4%	1.3%	0.7%	1.0%
Services	2.9%	1.8%	1.2%	1.6%
Unemployment rate %*	4.9%	4.5%	4.7%	4.6%
Unemployment 000's**	-147	-133	105	-26
Youth unemployment rate %*	13.3%	12.3%	12.5%	12.4%
Youth unemployment 000's**	-82	-54	2	-8
CPI inflation	0.6%	2.7%	2.9%	2.5%
Average earnings	2.3%	2.4%	2.5%	2.8%
Interest rates (Q4)*	0.25	0.25	0.50	0.75
NetTrade-Goods&Services-%GDP*	-1.9%	-1.4%	-1.3%	-1.0%
BofP-CurrentAccount-%GDP*	-4.4%	-2.9%	-2.4%	-2.1%
PSNBex-BCC forecast-FinYears-%GDP*	2.3%	3.1%	2.8%	1.8%
PSNBex-BCC forecast-FinYears-£bn*	45.1	61.9	58.2	40.0

Sources: BCC, Cambridge Econometrics

\* Reported as levels

\*\* Change in levels

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