

BRITISH CHAMBERS OF COMMERCE

MONTHLY ECONOMIC REVIEW MARCH 2018

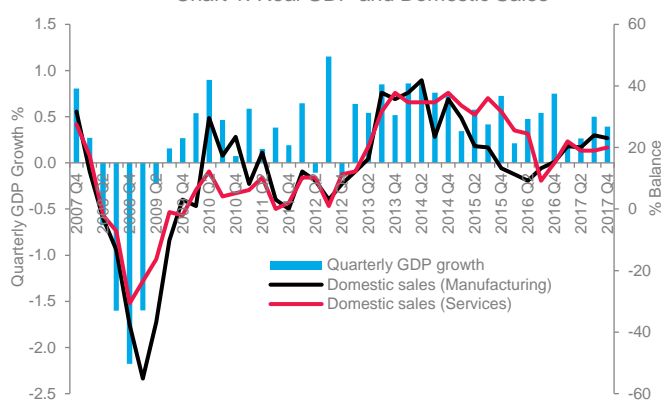
Monthly headlines:

- UK GDP growth for Q4 2017 revised down and the trade deficit widens amid rising imports
- UK unemployment rises with productivity growth at its strongest since the economic downturn
- GDP growth in Germany and France reach six-year highs as the global economy strengthens

UK economic growth in Q4 revised down...

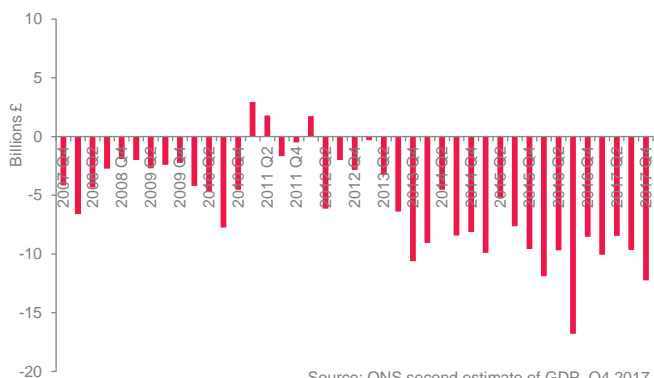
The second official estimate for Q4 2017 UK economic growth (GDP) stood at 0.4%, down from the previous estimate of 0.5%. **The downward revision was driven by industrial output growing by slightly less than previously estimated.** As a consequence, for 2017 as a whole, the UK economy grew by 1.7%, revised down from the previous estimate of 1.8%. Overall, the latest estimate for Q4 GDP is now more in line with the latest BCC Quarterly Economic Survey (**see Chart 1**) and confirms that UK economic growth remains subdued.

Chart 1: Real GDP and Domestic Sales



Sources: BCC QES, ONS second estimate of GDP, Q4 2017

Chart 2: UK's Net Trade Position



Source: ONS second estimate of GDP, Q4 2017

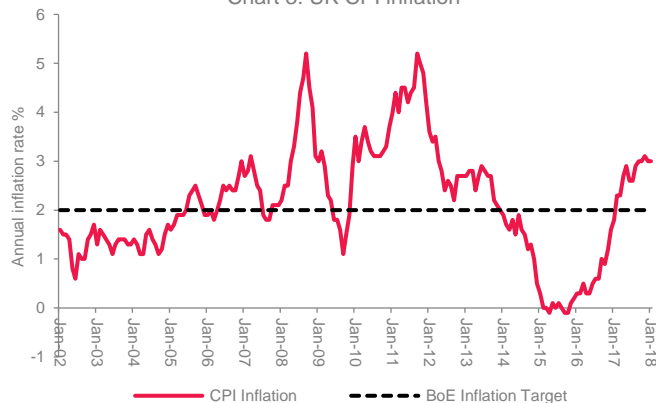
...the UK's trade deficit widens...

The UK's trade deficit widened from £9.7 billion in Q3 2017 to £12.2 billion in Q4 2017 (**see Chart 2**). **The widening was driven by a 1.5% rise in imports and a 0.2% drop in exports in Q4.** As a consequence, net trade was a drag on UK GDP growth in Q4, knocking 0.5 percentage points off growth in the quarter. Business investment growth was flat in Q4, following a 0.9% rise in the previous quarter. Consumer spending grew by 0.3% in Q4 2017, down slightly from growth of 0.4% in Q3. Overall, **the latest GDP figures confirms that UK's GDP growth remains unbalanced.**

...UK inflation holds steady...

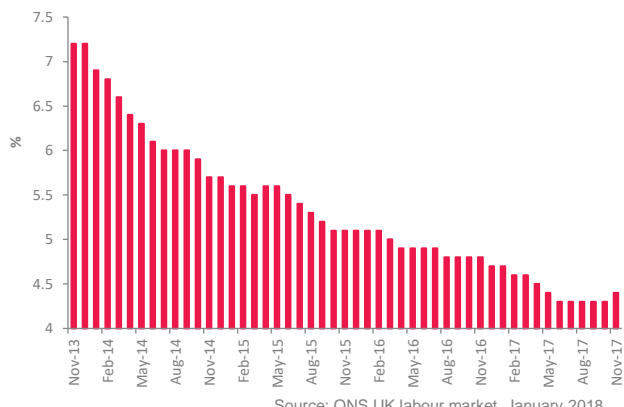
CPI inflation in the UK stood at 3% in January 2018, unchanged from December (**see Chart 3**). The largest downward contribution to change in the rate came from prices for motor fuels, which rose by less than they did a year ago. There are signs that inflationary pressures are easing further down the supply chain with prices of imported materials and fuels rising by 3.5% in the year to January 2018, the lowest since June 2016. However, while inflation will to continue to drift downwards, **inflation is likely to remain above the Bank of England's 2% target for some time to come.**

Chart 3: UK CPI inflation



Source: ONS Consumer Price Inflation, January 2018

Chart 4: UK Unemployment Rate



Source: ONS UK labour market, January 2018

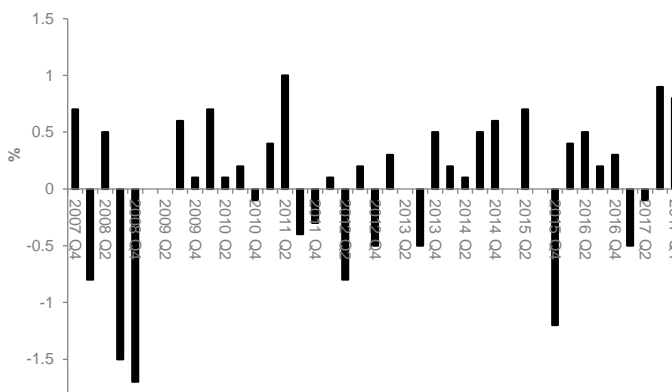
...as the UK unemployment rate picks-up...

In the three months to December 2017, the number of people in employment rose by 88,000. However, unemployment increased by 46,000 over the same period and the UK's unemployment rate rose from 4.3% to 4.4%, the first increase since August 2016 (see Chart 4). The pick-up in unemployment was partly due to a large increase in previously economically inactive people who are now seeking work. Although annual earnings growth, excluding bonuses, increased from 2.3% to 2.5%, price growth continues to outpace pay growth, stifling consumer spending, a key driver of UK GDP growth.

...productivity growth remains strong in Q4...

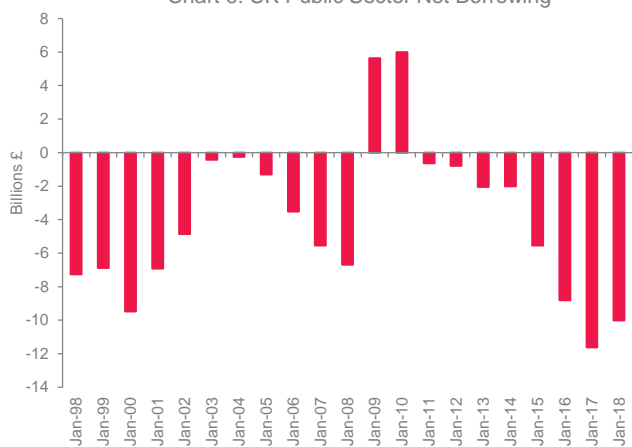
UK productivity, as measured by average output per hour worked rose by 0.8% in Q4 2017, down slightly from the 0.9% rise in Q3 but still the second highest rate of growth since Q2 2011 (see Chart 5). As a consequence, UK productivity in the second half of 2017 was stronger than any two consecutive quarters since the economic downturn. However, the UK's longer-term productivity performance remains weak compared to many of its international competitors. UK productivity remains hampered by longer term structural challenges, including the chronic skills shortage.

Chart 5: UK Productivity (Output per hour worked)



Source: ONS UK productivity flash estimate, Q4 2017

Chart 6: UK Public Sector Net Borrowing



Source: ONS Public Finances, December 2017

...Public finances enjoy a strong January...

UK public sector finances (excluding public sector banks) recorded a surplus of £10 billion in January 2018. While January's outturn was £1.6 billion less than the surplus in January 2017, it was still the second-highest January surplus since records began (see Chart 6). January is typically a month where the public finances are in surplus due to the timing of self-assessed income tax receipts. In the current financial year-to-date (April 2017 to January 2018), Government borrowing fell by £7.2 billion to £37.7 billion, the lowest since 2008. The latest figures suggest that the UK government will undershoot its borrowing target for this financial year.

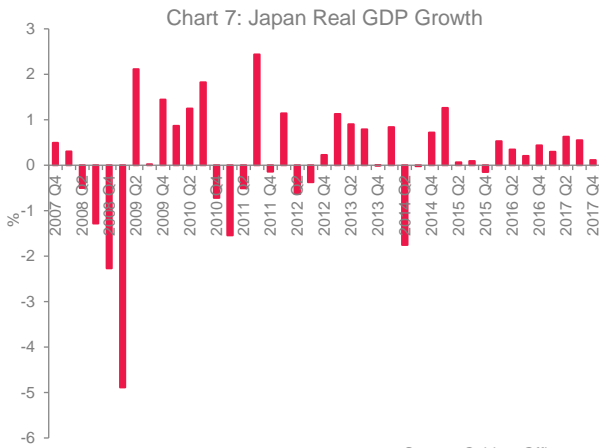
...as UK's growth outlook is upgraded...

In its February 2018 inflation report, the Bank of England upgraded its UK GDP growth forecast for 2018 to 1.8%, from 1.6% and for 2019, from 1.7% to 1.8%. The central bank's latest UK GDP growth forecast for 2017 and 2018 are higher than the BCC's latest growth projections (see Table 1). Overall, the forecasts from the latest inflation report will reinforce expectations of at least one interest rate hike this year. However, in our view, UK economic conditions will be more subdued over the near term than the Bank of England currently predicts and could well limit the extent to which interest rates will rise.

Table 1: UK GDP Growth Forecast Comparisons

	2018 (%)	2019 (%)	2020 (%)
Bank of England	1.8	1.8	1.8
IMF	1.5	1.5	-
OBR	1.4	1.3	1.3
BCC	1.1	1.3	-

Sources: BCC, IMF, OBR and Bank of England



...Japan GDP growth slows in Q4...

Japan, the world's third-largest economy, grew by 0.1% in Q4 2017 (see Chart 7), a sharp slowdown from the growth of 0.6% recorded in the previous quarter. However, GDP growth in the final quarter of 2017 means that the **Japanese economy has now grown for the eighth consecutive quarters, the longest period of continued growth since 1989**. Consumer spending, a key driver of Japanese GDP growth, grew by 0.5% in Q4. Overall, the outlook for Japan's economy remains relatively positive with Abenomics' (combining monetary and fiscal stimulus with structural reform) likely to continue to help support economic growth.

...as GDP growth in Germany...

Germany's economy, the largest in the Eurozone, grew by 0.6% in Q4 2017, outperforming the UK economy for the fourth successive quarter (see Chart 8). Q4 growth was largely driven by an improvement in their net trade position with exports growing by 2.7%, more than offsetting the 2% rise in imports. **The German economy grew by 2.2% in 2017 as a whole, the strongest growth since 2011**. Germany's economy is likely to grow at a solid rate over the near term with an improving global economy helping to support export growth, an important driver of German GDP growth.

Chart 8: Real GDP Growth UK vs Germany

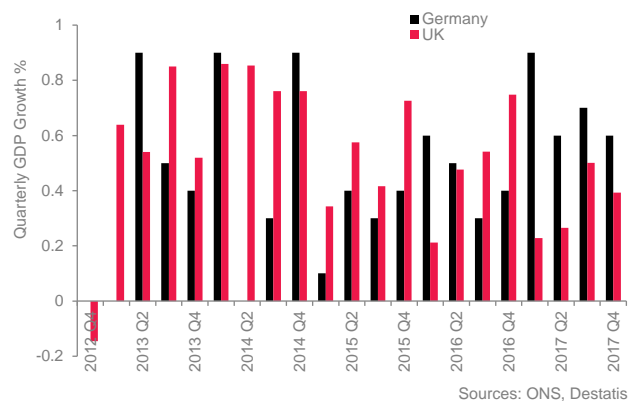
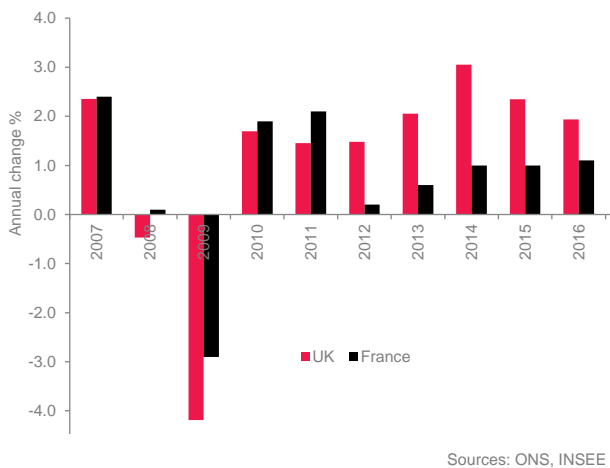


Chart 9: Real GDP Growth UK vs France



...and France reach six-year highs...

The French economy, the second largest in the Eurozone, grew by 0.6% in Q4 2017, slightly stronger than the growth of 0.5% recorded in the previous quarter (see Chart 9). Exports grew by 2.4% in the quarter while imports rose by just 0.3% over the same period. As a consequence, net trade added 0.6 percentage points to French GDP growth in the quarter. **Overall, the French economy grew by 2% in 2017, the strongest rate of growth since 2011 with strong investment growth a key factor**. Looking forward, strengthening global demand, falling unemployment and prospect of key domestic reforms are likely to ensure that the French economy continues to grow at a good rate.

Bottom line:

Overall, the latest data releases point to a moderating in UK economic conditions with GDP growth likely to remain sluggish over the near term. Therefore, as we move through the Brexit process action is needed to address the longstanding issues, from the UK's skills gap to our creaking digital and physical infrastructure, that continue to undermine the UK's economic performance.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Household	Retail Sales (ONS)													
	Consumer Confidence (GfK NOP)													
	House Prices (Halifax)													
	New car sales (SMMT)**													
	Mortgage approvals (Bank of England)													
Business	Business confidence (BCC)***													
	Business lending (Bank of England)													
	Service sector output (ONS)													
	Production output (ONS)													
	Investment intentions (BCC)**													
Labour market	Employment (ONS)													
	Unemployment (ONS)													
	Earnings (ONS)													
	Economic Inactivity (ONS)													
Government	Public sector net borrowing (ONS)**													
	Public sector net debt % of GDP (ONS)**													
	Tax receipts (HMRC)**													
	Current Budget Deficit (ONS)**													
External	UK trade balance (ONS)													
	Export Sales (BCC)***													
	Export orders (BCC)***													
Financial	Exchange rate (Bank of England)													
	Equity Prices (Bloomberg)													
	10 year Government bonds (Bloomberg)													

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimate.