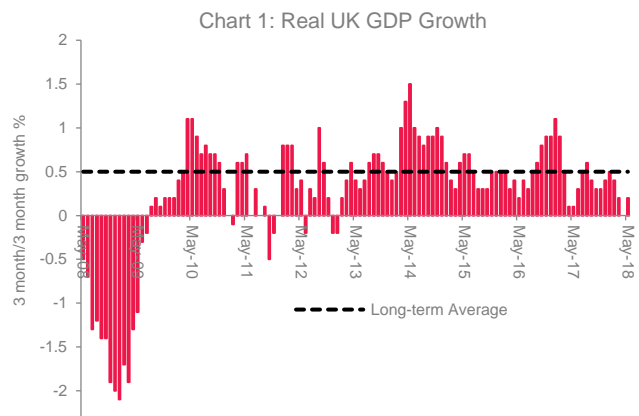


Monthly headlines:

- UK GDP growth picked up slightly in May driven by stronger service sector output
- Job vacancies reach new record high, but wage growth slows
- US GDP growth hits 4-year high as the Eurozone economy slows again

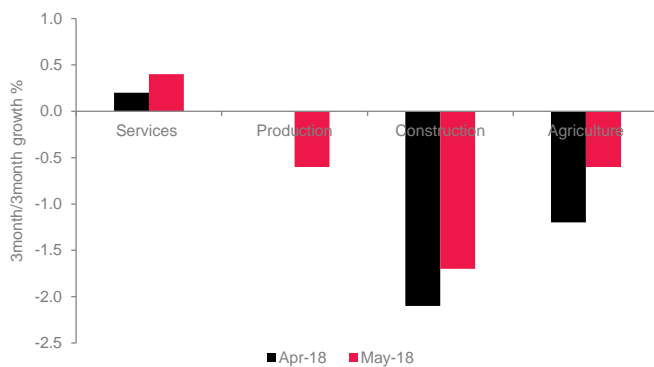
UK GDP growth remains underwhelming...

The new official monthly estimate for UK economic growth (GDP) revealed that the UK economy grew by 0.3% in May, up from growth of 0.2% in the previous month. On the rolling three-month-on-three-month measure, **UK GDP growth stood at 0.2% in May, up from zero growth in April, but less than half the long-term average of 0.5%.** (see Chart 1). While there has been a modest rally in economic activity over recent months but coming after the marked slowdown in Q1 there remains little to suggest that UK economic conditions are improving.



Source: ONS GDP Monthly Estimate, May 2018

Chart 2: UK GDP Growth by Sector



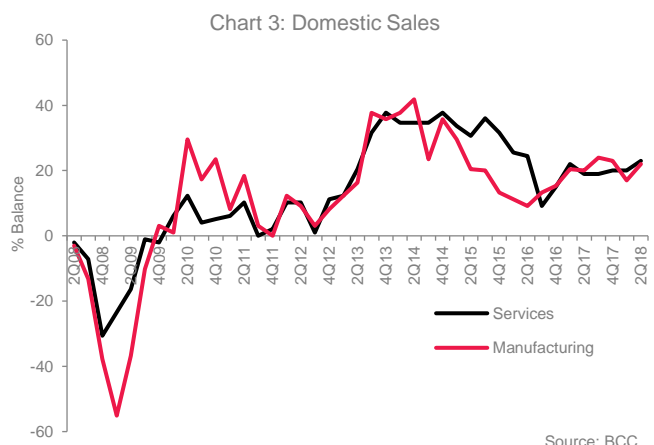
Source: ONS GDP Monthly Estimate, May 2018

...driven by the services sector...

In the three months to May 2018, **service sector output grew by 0.4%**, (see Chart 2), up from the **0.2% growth recorded in April** and accounted for **all of the GDP growth recorded in the three-month period**. Industrial production declined by 0.6% in May, with manufacturing output contracting by 1.2%. In contrast, construction sector output fell by 1.7% in the three months to May and agricultural output dropped by 0.6%. The latest GDP figures provide further confirmation that UK growth remains unbalanced with an over reliance on services to drive growth.

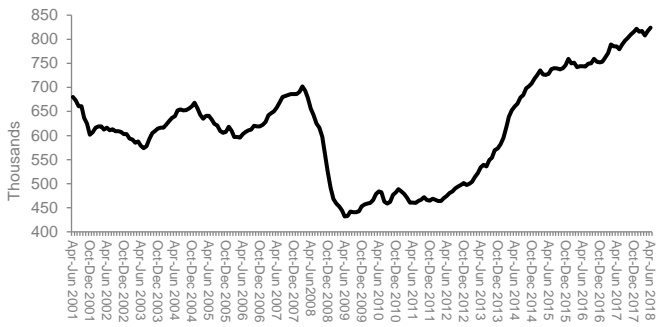
...in line with the latest QES...

The results of the Q2 2018 Quarterly Economic Survey (QES) pointed to **sluggish growth**. The balance of firms in the service sector reporting increasing domestic sales rose from +20 to +23, the highest since Q2 2016. (see Chart 3). The balance of manufacturers reporting rising domestic sales rose from +17% to +22%. However, investment intentions and business confidence weakened in Q2. While the modest pick-up in domestic activity points to a slight rebound in Q2 growth from a weak Q1, there remains little evidence to suggest a sustained upturn in the UK's growth prospects.



Source: BCC

Chart 4: Job Vacancies



Source: ONS Labour Market, July 2018

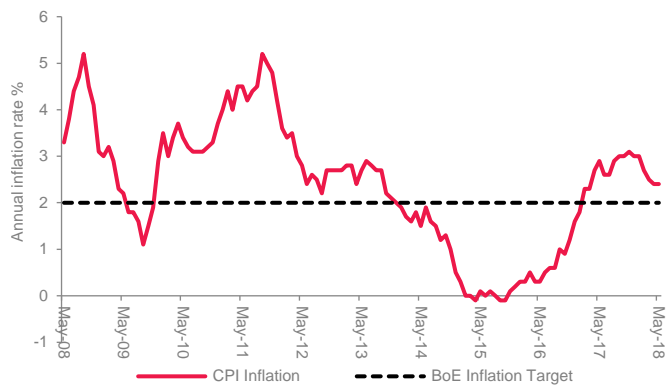
...job vacancies reach new record high...

In the three months to May 2018, the number of people in employment rose by 137,000. UK unemployment fell by 12,000. However, **annual earnings growth, excluding bonuses, slowed again from 2.8% to 2.7%**. UK wage growth continues to be undermined by poor productivity and the marked impact of underemployment. There is also further evidence of the growing skills shortage with the number of job vacancies rising by 39,000 over the past year to 824,000 in the three months to June 2018, a new record high (see Chart 4).

...and while inflation unchanged for now...

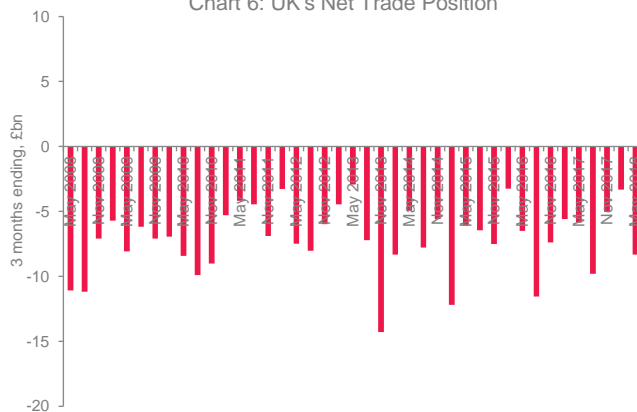
UK inflation stood unchanged at 2.4% in June 2018 (see Chart 5). Higher fuel prices produced the largest upward pressure on prices, but this was offset by falling prices for clothing. Prices for raw materials and fuel rose by 10.2% in the year to June 2018, up from 9.6% in May. This suggests that **inflation may rise in the short term as the recent oil price rises pass through supply chains**. However, any period of rising price growth is likely to be temporary and inflation should resume its downward trajectory once the impact of the pick-up in oil prices subsides.

Chart 5: UK CPI inflation



Source: ONS Consumer Price Inflation, June 2018

Chart 6: UK's Net Trade Position



Source: ONS UK Trade Data, May 2018

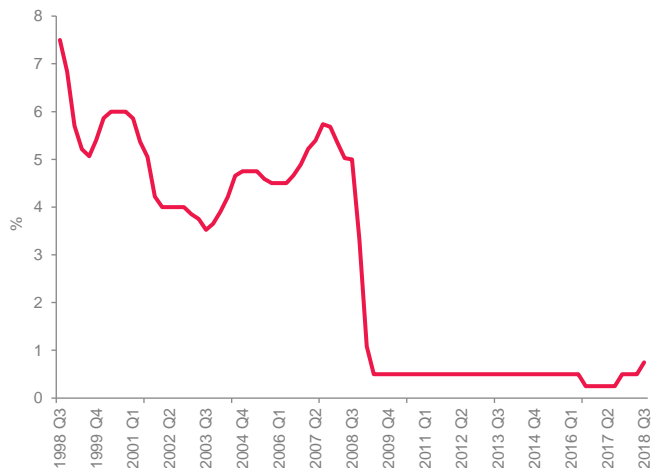
...as UK's trade deficit widens further...

In the three months to the end of May 2018, the UK's trade deficit widened by £5.0 billion to £8.3 billion, the largest deficit since August 2017 (see Chart 6). **The widening in the deficit was driven by both a 3.6% drop in goods exports and a 1.6% rise in imported goods**. The widening in the UK's trade deficit means that trade is likely to have been a drag on Q2 GDP growth. It's probable that the UK is now past peak-trading conditions for exporters, with slowing global growth, Brexit uncertainty and the prospect of a trade war weighing on the outlook for UK exports.

...UK interest rates rise...

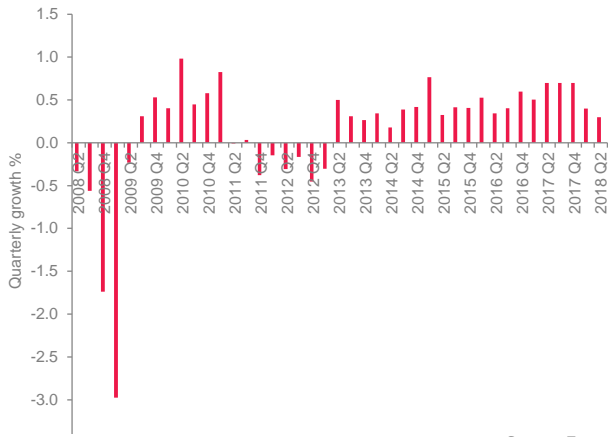
The Bank of England's Monetary Policy Committee (MPC) have increased UK interest rates to 0.75%, their highest level since March 2009 (see Chart 7), but still well below the historic average. The MPC voted unanimously 9-0 to raise interest rates. The decision to increase interest rates, while expected, looks ill-judged against a backdrop of a sluggish economy. Although a quarter point rise may have a limited long-term financial impact on most businesses, it risks undermining confidence at a time of significant political and economic uncertainty. **We currently expect that the next UK interest rate increase, to 1%, will occur early next year.**

Chart 7: UK Interest Rates



Source: Bank of England

Chart 8: Eurozone Real GDP Growth



Source: Eurostat

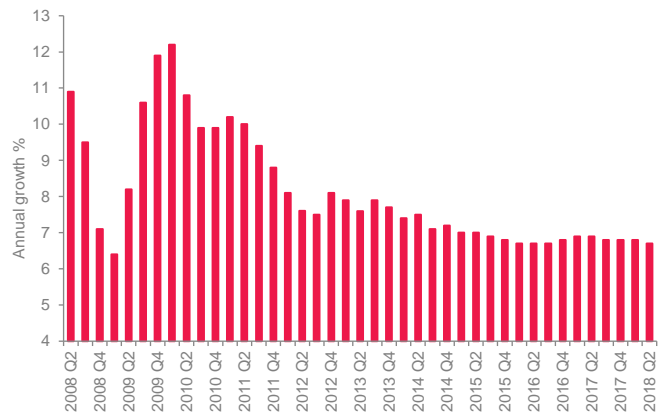
...Eurozone growth slows to two-year low...

The Eurozone economy grew by 0.3% in Q2 2018, the weakest growth since Q2 2016 and slightly lower than the Q1 growth of 0.4% recorded in the previous quarter (see Chart 8). In annual terms, the Eurozone economy grew by 2.1% in Q2, down from the growth of 2.5% in Q1. Following a strong 2017, the recent slowdown in Eurozone GDP growth partly reflects moderating global trading conditions which is weighing on export growth. Eurozone inflation is estimated to have increased to 2.1% in July 2018, from 2.0% in June and together with lower consumer confidence is weighing on household spending.

...Chinese growth remains above target...

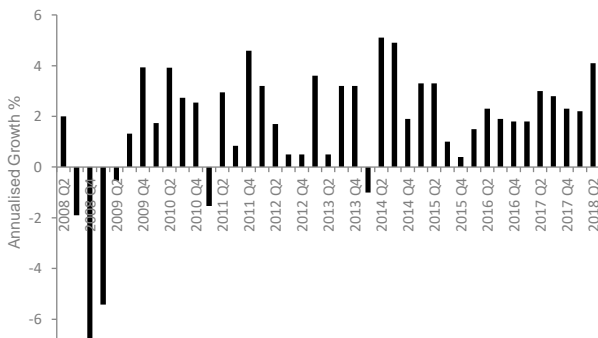
China's economy, the world's second-largest, grew at an annual rate of 6.7 in Q2 2018. While this was down slightly from the growth of 6.8% in the previous quarter (see Chart 9), it was higher than the government's growth target of 6.5%. On a quarterly basis, the Chinese economy grew by 1.8% in Q2 2018, up from 1.4% in Q1. The outlook for China's economy has moderated a little over recent months amid government attempts to tackle rising debt levels and the prospect of a lengthy trade war with the US. There also remain questions over the accuracy of China's GDP data.

Chart 9: Real China GDP Growth



Source: National Bureau of Statistics of China

Chart 10: US Real GDP Growth



Source: BEA

... and US GDP growth rises to four-year high.

The first estimate of US GDP revealed that the US economy grew at an annualised rate of 4.1% in Q2 2018. This is the fastest rate of growth since Q3 2014 and almost double the growth of 2.2% recorded in Q1 (see Chart 10). The increase in Q2 growth reflected a 4% rise in consumer spending, a marked pickup from growth of 0.5% in the previous quarter. US export growth nearly trebled from 3.6% in Q1 to 9.3% in Q2. While the pace of growth is unlikely to be sustained in the coming quarters as the prospect of an escalating trade war weighs on activity, the strong near-term outlook for the US economy should give the Federal Reserve sufficient scope to continue to gradually raise interest rates.

Bottom line:

Overall, the latest data suggests that UK economic conditions remain a challenge. While Brexit uncertainty is a factor, it is the failure to deal with the longstanding issues such as weak productivity that continues to hinder the UK's growth prospects. More needs to be done to increase business investment, including tackling the high upfront cost of doing business in the UK and addressing deep rooted structural issues such as the skills gap and the chronic underinvestment in the UK's infrastructure.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-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.