

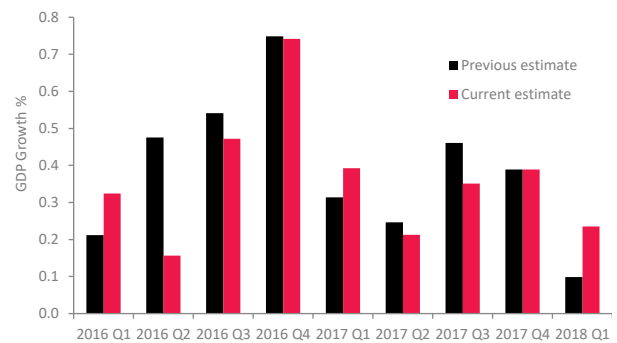
Monthly headlines:

- Q1 UK GDP growth upgraded as construction output drops by less than previously estimated
- UK inflation holds steady as pay growth slows
- The BCC downgrades its GDP growth expectations for the UK economy

Q1 UK GDP growth revised upwards...

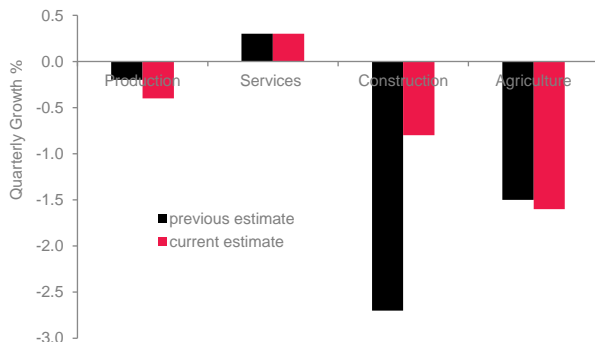
The third official estimate for Q1 2018 UK economic growth (GDP) stood at 0.2%, revised up from the previous estimate of 0.1% (see Chart 1). However, due to downward revisions to earlier quarters, UK GDP growth in Q1 2018 was unchanged in annual terms at 1.2%. Similarly, UK GDP growth for 2017 as a whole was revised down from 1.8% to 1.7%. UK economic output is now estimated to be 10.4% above its pre-recession peak in Q1 2008. **The latest estimate of UK GDP for Q1 2018 supports our view that UK economic conditions remains sluggish.**

Chart 1: UK GDP Growth Revisions



Source: ONS Quarterly National Accounts, Q1 2018

Chart 2: UK GDP Growth by Sector



Source: ONS Quarterly National Accounts, Q1 2018

...driven by revised construction data...

The upward revision to Q1 2018 GDP growth was driven by output from the construction sector declining by less than previously thought. Construction output fell by 0.8% in Q1 2018, up markedly from the previous estimate of a 2.7% decline (see Chart 2). However, this was still the weakest outturn since Q3 2012. The service sector, the main driver of UK GDP growth, rose by 0.3% in the quarter, unchanged from the previous estimate. Output from the industrial sector rose by 0.4% in Q1 2018, revised down from the previous estimate of a 0.2% decline.

...but still among the lowest in the EU...

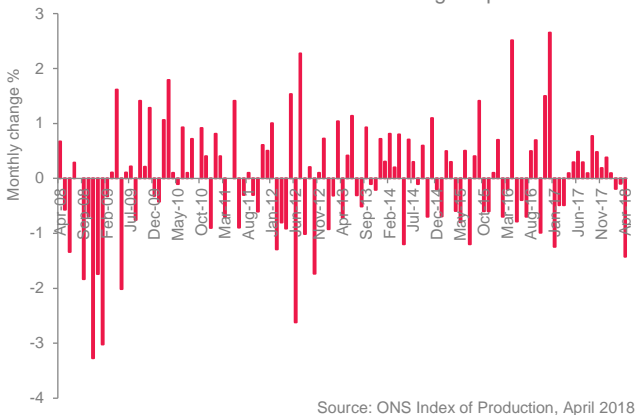
The UK's Q1 GDP growth of 0.2% was the joint third slowest among EU countries (see Chart 3). Eighteen EU countries (where data is available) grew by at least double the growth recorded in the UK in Q1. **Six out of the seven top performers in the EU were in Eastern Europe.** Poland and Latvia (both 1.6%) recorded the strongest growth in the EU in Q1, followed by Hungary and Finland (both 1.2%). Estonia (-0.1%) was the only EU economy that contracted in Q1. GDP growth across the EU stood at 0.4% in Q1 2018, down from 0.7% in Q4 2017.

Chart 3: EU GDP growth by member country, Q1 2018



Source: Eurostat

Chart 4: UK Manufacturing Output



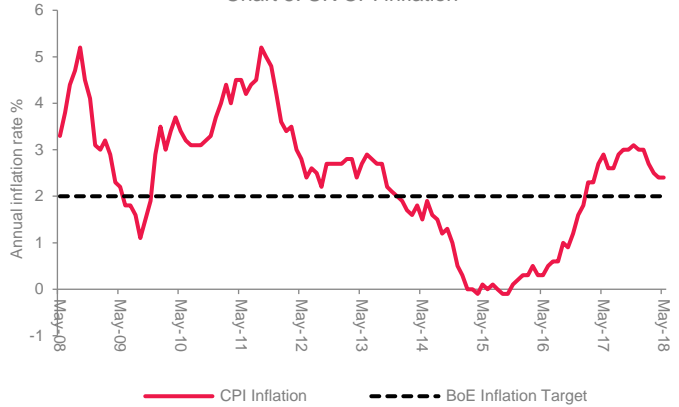
...Manufacturing output falls sharply...

Industrial production declined by 0.8% in April 2018. The fall in industrial output was largely driven by a 1.4% decline in output from the manufacturing sector, the biggest decline since October 2012 (see Chart 4). While construction output rose by 0.5% in April, on the rolling the three-month-on-three-month measure, construction output fell by 3.4% in April, the biggest decline since August 2012. **While we still expect that UK GDP growth will pick-up in Q2, as economic activity rebounds from the bad weather in Q1, growth is likely to remain under pressure in the near term.**

...and while inflation holds steady...

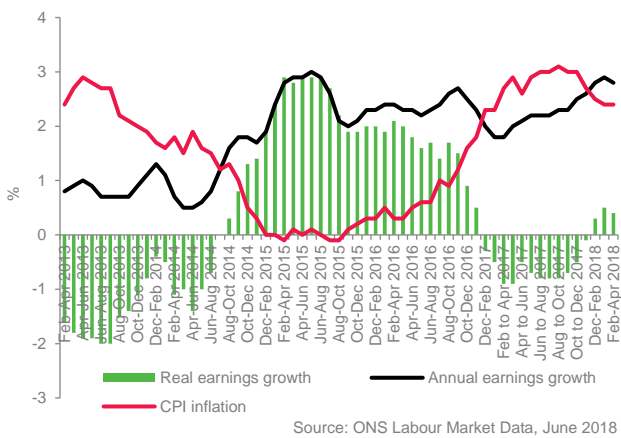
CPI inflation in the UK stood unchanged at 2.4% in May 2018, (see Chart 5). Rising fuel prices produced the largest upward contribution, but this was offset by downward pressure from several categories including food and drink. There are signs that inflationary pressures in supply chains are increasing amid rising oil prices. Material and fuel costs rose by 9.2% in the year to May 2018, up from 5.6% in April. However, any pick-up in inflation is likely to be relatively short-lived, with **price growth expected to resume its downward path later in the year as the pressure from oil prices ease.**

Chart 5: UK CPI inflation



Source: ONS Consumer Price Inflation, May 2018

Chart 6: Real Earnings Growth



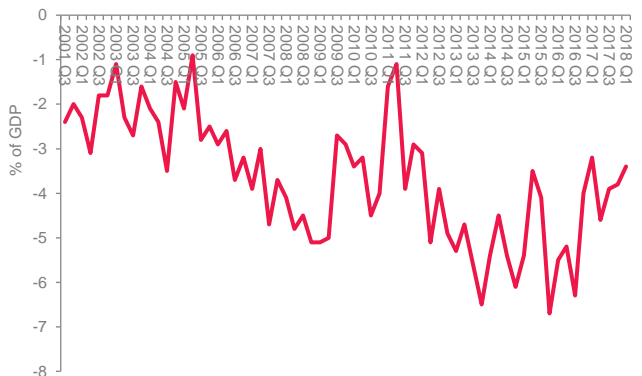
...pay growth slows...

In the three months to April 2018, the number of people in employment rose by 146,000. UK unemployment increased by 38,000 over the same period. There is further evidence of the continued skills shortage with the number of job vacancies rising by 33,000 in annual terms to 818,000, close to historic highs. Annual earnings growth, excluding bonuses, slowed from 2.9% to 2.8% and as a consequence the gap between price and pay growth has narrowed (see Chart 6). **Delivering sustained rises in real pay growth is likely to prove an uphill struggle with productivity weakening and UK economic growth slowing.**

...UK's current account position improves...

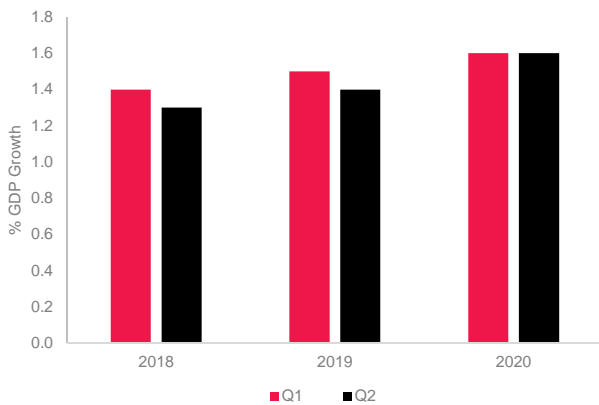
The UK's current account deficit (the gap between what the UK earns and spends) narrowed from £19.5 billion to £17.7 billion in Q1 2018. The current account deficit in Q1 2018 equated to 3.4% of UK GDP, still well above the historic average (see Chart 7). **The improvement in Q1 was partly due to the UK's trade deficit narrowing from £5.7 billion to £3.8 billion in Q1 2018, the lowest since Q1 2013.** Despite the Q1 improvement, the UK may now be moving past the recent sweet spot for exporters, with growth in key markets moderating and the impact of the post-EU referendum slump in sterling, which has helped some exporters, subsiding.

Chart 7: UK Current Account position (as a % of GDP)



Source: ONS Balance of Payments, Q1 2018

Chart 8: BCC UK GDP Growth Forecasts



Source: BCC

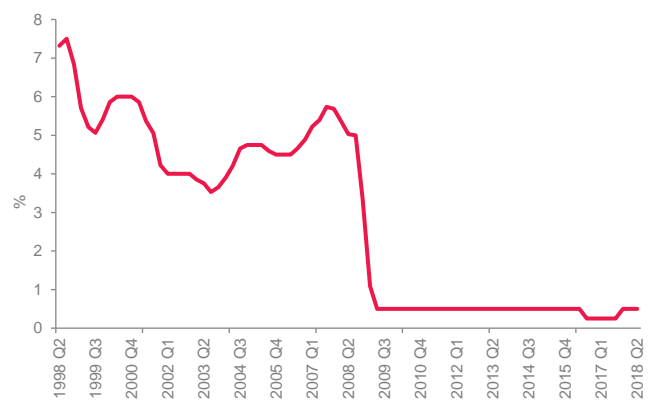
...BCC forecasts weaker UK growth...

The BCC has slightly downgraded its UK economic growth (GDP) forecast for 2018 from 1.4% to 1.3% which if realised would be the weakest full year growth outturn since 2009. The BCC also downgraded its UK growth forecast for 2019 from 1.5% to 1.4% (see Chart 8). The downgrades have been largely driven by a more subdued outlook for consumer spending, business investment and trade. Our latest outlook suggests that the loss of momentum suffered by the UK in Q1 is more than just a temporary soft patch, with UK growth expected to remain below its historical average for the foreseeable future, unless action is taken.

...as the vote on UK interest rates tightens...

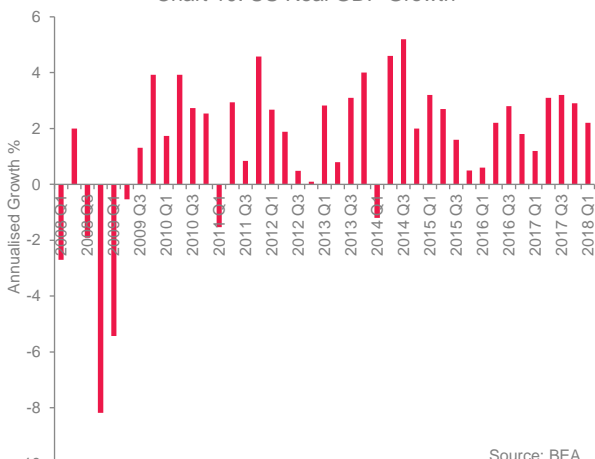
The Bank of England's Monetary Policy Committee (MPC) kept UK interest rates on hold at 0.50% in June (see Chart 9). The minutes from the last MPC meeting revealed that the vote on interest rates tightened from 7-2 to 6-3 in favour of keeping rates on hold, with the central bank's Chief Economist Andrew Haldane joining Ian McCafferty and Michael Saunders in voting for a rate hike. Our new forecast assumes that UK official interest rates will rise once this year, to 0.75%. However, with inflation on a downward trajectory and wage growth subdued the case for raising interest rates remains limited.

Chart 9: UK Interest Rates



Source: Bank of England

Chart 10: US Real GDP Growth



Source: BEA

...and US growth is revised down...

The US economy grew at an annualised rate of 2.0% in Q1 2018, according to the third official estimate. This was down from the previous estimate of 2.2% and lower than the growth of 2.9% recorded in Q4 (see Chart 10). The downward revision was driven by consumer spending, which typically accounts for over two thirds of US economic output, rising by 0.9% in Q1, down from the previous estimate of 1.0%. Export growth in the quarter was also revised down from 4.2% to 3.6%. Despite the downgrade in the first quarter of 2018, a robust labour market and the impact of significant tax cuts are likely to support US growth over the next year.

Bottom line:

Last month's data releases suggest that UK economic conditions remain sluggish despite the expected pick-up in GDP growth in the second quarter. Unless action is taken, UK growth is likely to remain below its historical average for the foreseeable future. Against this backdrop, more needs to be done to fix the fundamentals here at home, including addressing the high upfront cost of doing business.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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