

BRITISH CHAMBERS OF COMMERCE

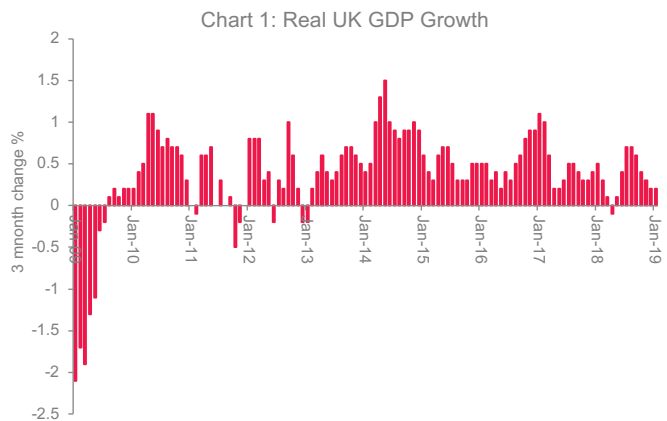
MONTHLY ECONOMIC REVIEW APRIL 2019

Monthly headlines:

- Underlying UK GDP growth subdued in January as latest QES points to a weak Q1
- The UK labour market continues to tighten as inflation increases
- US GDP growth revised downwards as global economic conditions continue to moderate

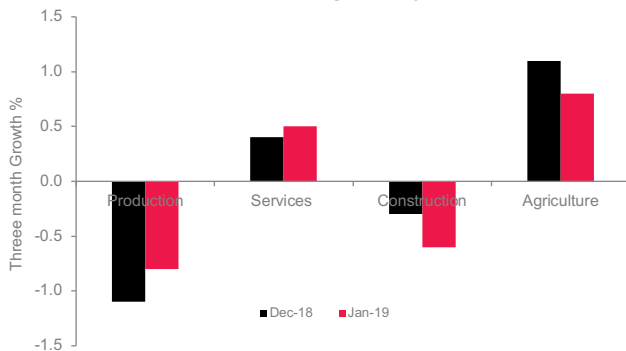
Underlying UK GDP growth muted in January...

The latest official monthly estimate for UK economic growth (GDP) revealed UK economic growth of 0.5% in January 2019, offsetting the decline of 0.4% in December. **UK GDP grew by 0.2% in the three months to January, unchanged from the previous three-month period (see Chart 1).** Though there was an increase on the volatile monthly measure, the subdued underlying GDP data is further evidence that the increased anxiety over Brexit and the weakening global trading conditions continue to weigh on the UK economy.



Source: ONS UK GDP estimate, January 2019

Chart 2: UK GDP growth by Sector



Source: ONS UK GDP estimate, January 2019

...with services still the key driver of growth...

The services sector, which accounts for around 80% of UK economic output, remains the main driver of UK GDP growth. In the three-months to January 2019, output from the services sector grew by 0.5%, up from growth of 0.4% in the previous three-month period. (see Chart 2). In contrast, industrial output fell by 0.8%, while output from the construction sector dropped by 0.6% in the month. On the monthly measure, services (+0.3%), construction (+2.8%) and industrial output (+0.6%) rose in January, offsetting the declines recorded in December.

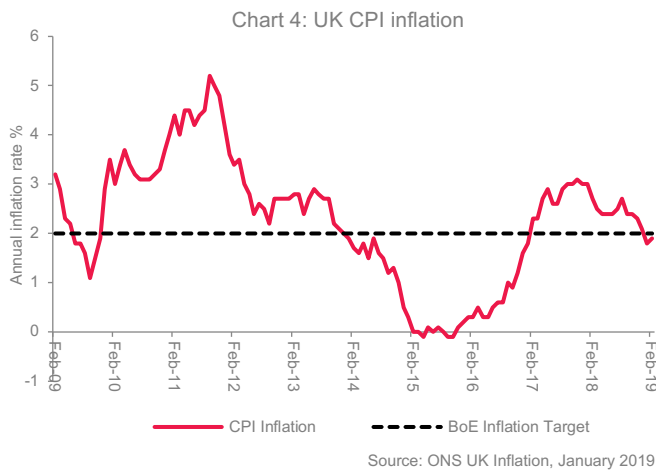
...UK jobless rate continues to decline...

In the three months to January 2019, the number of people in employment rose by 222,000 and UK unemployment dropped by 35,000. As a result, the UK unemployment rate fell to 3.9%, the lowest rate since 1975 (see Chart 3). With regular pay growth increasing from 3.3% to 3.4%, the gap between pay and price growth remains significant, easing the squeeze on consumers. The strong rise in employment is further evidence that the UK jobs market remains in good order, with firms still hiring in large numbers despite a challenging economic backdrop.

Chart 3: UK Unemployment Rate



Source: ONS UK Labour Market data, March 2019



...inflation picks up...

CPI inflation in the UK stood at 1.9% in February 2019, up from 1.8% in January and is the first increase since August 2018 (see Chart 4). Inflation is likely to drift higher in the coming months as the expected rise in Ofgem's energy price cap in April enters the calculation. Businesses are also reporting that the cost of imported raw materials are rising. However, the **UK's weakening economic outlook is likely to ensure that any rise in consumer prices would be largely transitory**, and inflation is expected to remain close to the Bank of England's 2% target for some time to come.

...BCC downgrades its UK growth forecasts...

The BCC has downgraded its UK economic growth (GDP) forecast for 2019 from 1.3% to 1.2% (see Chart 5). The BCC has also downgraded its UK growth forecast for 2020 from 1.5% to 1.3%, and the BCC's first forecast for 2021 is for growth of 1.4%. **A weaker outlook for business investment and trade amid continued Brexit uncertainty and slower expected global growth were the main reasons behind the forecast downgrade.** The weakening in the BCC's near-term outlook suggests that the UK economy is set to remain on a historically weak growth trajectory for some time to come.

Chart 5: BCC UK GDP Growth Forecast Revisions

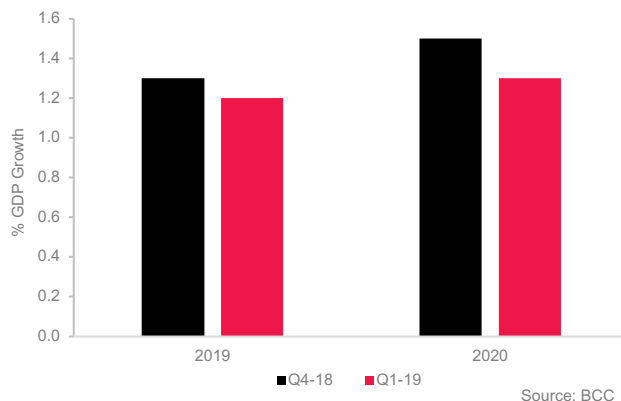


Chart 6: Export Sales and Orders: Service Sector



...as the latest QES points to a downbeat Q1...

The results of the latest BCC Quarterly Economic Survey (QES) suggest that **UK economic conditions weakened significantly in the first quarter of 2019.** The balance of firms in the manufacturing sector reporting improved export sales fell from +20 to +14, and the balance of firms reporting improved export orders dropped from +18 to +10 – both at their weakest level since 2016. The balance of services firms reporting improved export sales fell from +14 to +0, the weakest level since Q2 2009 (see Chart 6). Those reporting improved export orders in the services sector dropped from +9 to -2, reaching negative territory for the first time since Q4 2011.

...the weakening in the UK's trade position...

The UK trade deficit in goods and services was £10.4 billion in the three months to January 2019, a widening of £1.3 billion on the previous three months (see Chart 7). **The deterioration was mainly due to a £2.4 billion widening in the UK's trade deficit in goods**, which more than offset a £1.1 billion rise in the UK's trade surplus in services. Net trade is expected to make a negative contribution to GDP growth over the next few years as the lack of clarity on the UK's future trade arrangements, weaker global growth and continued trade tensions weigh on UK exporting.

Chart 7 UK's Net Trade Position

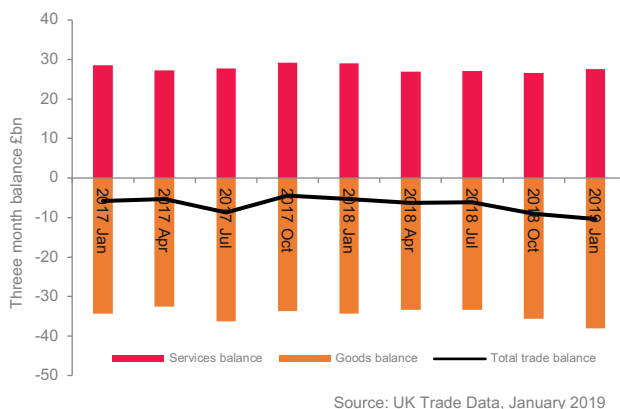
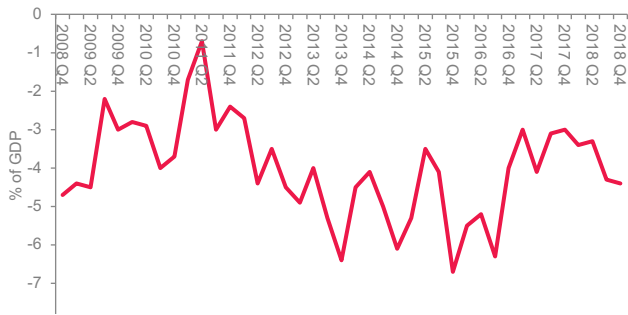


Chart 8: UK Current Account position (as a % of GDP)



Source: ONS Balance of Payments, Q4 2018

...widens the UK's current account deficit...

The UK ran a current account deficit (the difference between what we earned from other countries and what we spent) of £23.7 billion in Q4 2018, £0.7 billion higher than the deficit of £23 billion in the previous quarter. **The UK's current account deficit was equivalent to 4.4% of UK GDP in Q4, the largest since Q3 2016 and up from 4.3% in Q3 2018 (see Chart 8).** The increase in the current account deficit reflected weaker earnings for UK investors from their overseas holdings, as well as a deteriorating trade deficit.

...Estonia records the strongest growth in Q4...

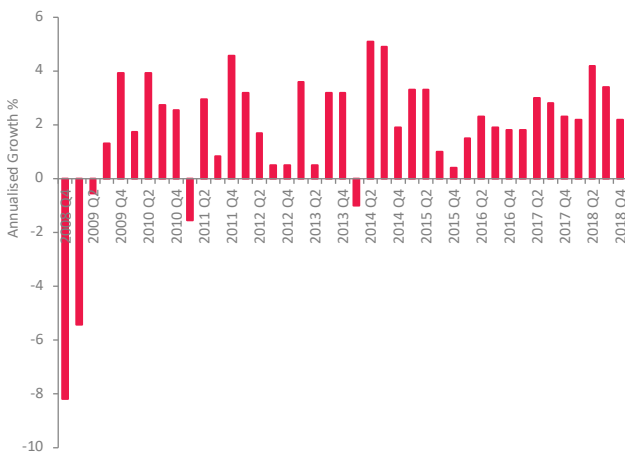
GDP growth across the EU stood at 0.3% in Q4 2018, unchanged from the previous quarter. In annual terms, GDP growth across the EU stood at 1.3% in the quarter. Eighteen EU countries (where data is available) grew by at least double the growth recorded in the UK in Q4. **Eight out of the ten top performers in the EU were in Eastern Europe (see Chart 9).** Estonia (+2.2%) recorded the strongest growth in the EU in Q4, almost double the growth recorded anywhere else in the EU. Lithuania (+1.3%) recorded the second strongest growth, followed by Latvia and Sweden (both +1.2%). Italy and Greece were the only EU economies that contracted in Q4 (both -0.1%).

Chart 9: EU GDP growth by member country, Q4 2018



Source: Eurostat

Chart 10: US Real GDP Growth



Source: BEA

...as Q4 US GDP growth is downwardly revised.

The US economy, the world's largest, grew by an annualised rate of 2.2% in Q4 2018, according to the third official estimate (see Chart 7). This was down from the previous estimate of 2.6% and markedly lower than the growth of 3.4% recorded in previous quarter. Consumer spending, which accounts for over two-thirds of US economic output, grew by 2.5% in Q4, revised down from the previous estimate of 2.8%. Government spending was also revised down to a 0.4% contraction in Q4, from the previous estimate of a 0.4% increase. **The headwinds facing the US economy are rising with weakening global growth, continuing trade tensions with China and the fading impact of the fiscal stimulus likely to slow US growth in 2019.**

Bottom line:

Overall, the latest data points to a persistently weak growth trajectory for the UK with increasing anxiety over Brexit, weakening global economic conditions and rising cost pressures likely to stifle UK economic activity over the near term. It is therefore critical that government and parliament pull out all the stops to avoid a messy and disorderly exit and provide firms with certainty on future conditions.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19
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.