

Monthly headlines:

- UK GDP growth contracts in April as the latest QES points to a 'stagnant' second quarter
- BCC upgrades UK GDP growth forecast for 2019, but lower growth outlook for 2020 and 2021
- UK's current account deficit widens to fifth highest on record, amid a growing trade deficit

UK GDP growth contracted in April...

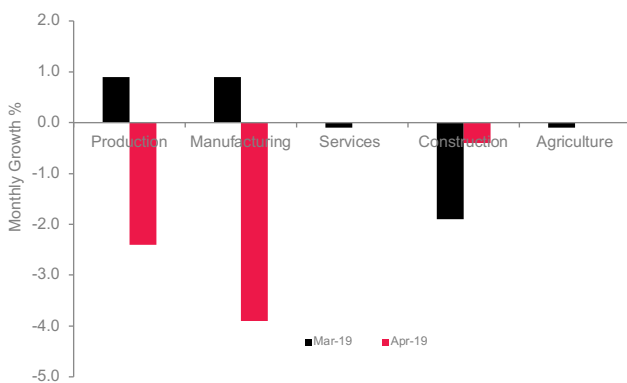
The latest official monthly estimate for UK economic growth (GDP) revealed that the **UK economy grew by 0.3% in the three months to April, down from growth of 0.5% recorded in the previous three-month period.** On the monthly measure, UK GDP declined by 0.4% in April 2019, the weakest outturn since March 2016 and is the second successive month that UK GDP has contracted (**see Chart 1**). The marked weakening in UK GDP in April suggests that despite a strong first quarter, the UK's underlying growth trajectory remains subdued.

Chart 1: Real UK GDP Growth



Source: ONS UK GDP estimate, April 2019

Chart 2: UK GDP growth by Sector



Source: ONS UK GDP estimate, April 2019

...as industrial output declines...

The latest GDP monthly estimate revealed that industrial production dropped by 2.7% in April, down sharply from growth of 0.7% recorded in March (**see Chart 2**). Within the industrial sector, **manufacturing output declined by 3.9%, the biggest contraction since June 2002.** This largely reflected a 24% fall in car production in April, as firms enacted planned factory shutdowns ahead of the original Brexit date in March. Construction output contracted by 0.4% in April and service sector output recorded zero growth in the month.

...as the latest QES points to a 'stagnant' Q2...

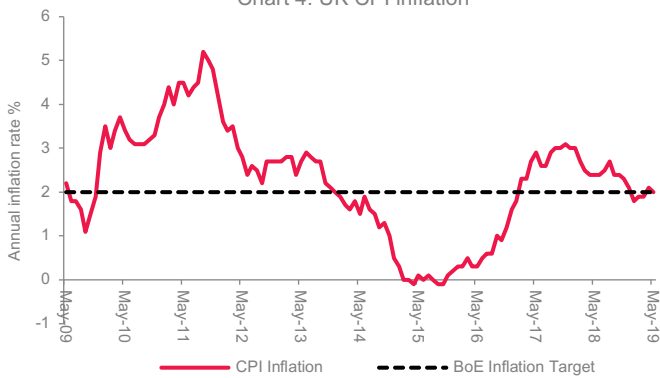
The results of the latest BCC Quarterly Economic Survey (QES) suggest that **underlying UK economic conditions remained stagnant in the second quarter of 2019.** In the manufacturing sector, the balance of firms reporting growth in domestic sales is at its weakest since Q2 2016 and the balance of firms reporting an increase in domestic orders was at its weakest since Q4 2012 (**see Chart 3**). While the services sector saw a slight rise in the balance of firms reporting higher domestic sales and orders and as well as export sales and orders, the balances remain below the levels recorded in Q4 2018.

Chart 3: Domestic Sales and Orders: Manufacturing Sector



Source: BCC QES, Q2 2019

Chart 4: UK CPI inflation



Source: ONS UK Consumer Prices, May 2019

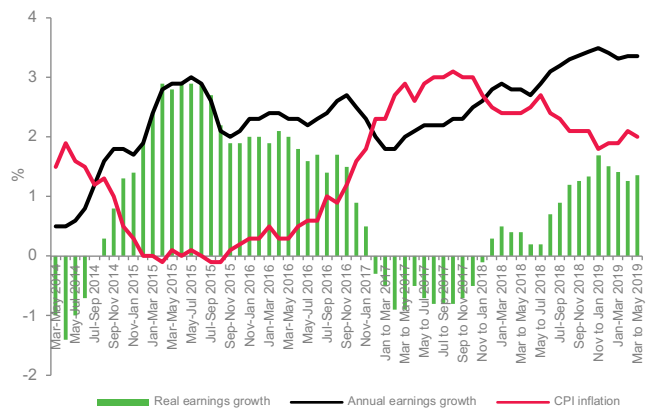
...as inflation eases...

CPI inflation in the UK stood at 2.0% in May 2019, down from 2.1% in April and back in line with the Bank of England’s inflation target (see Chart 4). Falling fares for transport services, particularly air fares (influenced by the timing of Easter in April) and falling car prices produced the largest downward pressure on prices. While the recent decline in the value of sterling may lift inflation back above target in the coming months, the expected weakening in economic conditions should keep inflation close to the Bank of England’s 2% target for some time to come.

...unemployment rate at 45-year low...

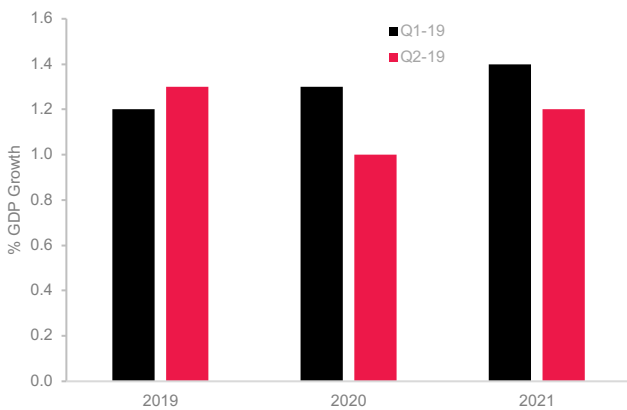
In the three months to April 2019, the number of people in employment rose by 32,000, lower than the increase of 99,000 over the previous three-month period. The unemployment rate stood at 3.8%, the lowest since the end of 1974. There were an estimated 837,000 job vacancies in the UK, 11,000 more than a year earlier. While regular annual earnings growth, excluding bonuses, slowed slightly from 3.5% to 3.4%, the easing in inflation (see Chart 4) means that the gap between price and pay growth remains significant (see Chart 5) and is helping to support consumer spending power.

Chart 5: UK Real Earnings Growth



Source: ONS Labour Market Overview, June 2019

Chart 6: BCC UK GDP Growth Forecast Revisions



Source: BCC Quarterly Economic Forecast, Q2 2019

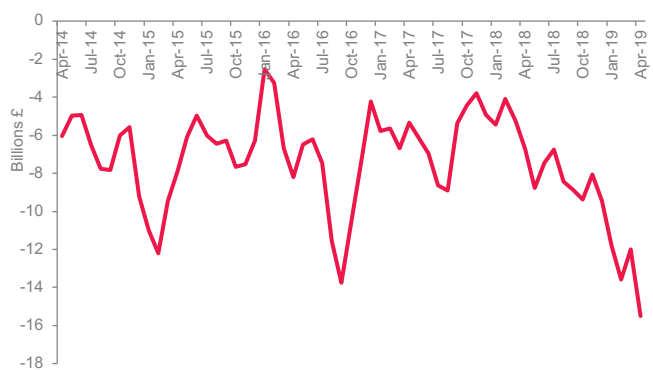
...BCC forecasts weaker UK growth...

The BCC has slightly upgraded its UK economic growth (GDP) forecast for 2019 from 1.2% to 1.3% (see Chart 6). However, the BCC downgraded its UK growth forecast for 2020 (from 1.3% to 1.0%) and 2021 (from 1.4 to 1.2%). The slight upgrade to the 2019 GDP growth forecast was driven by the exceptionally rapid stock-building early in the year. However, the immediate boost to UK GDP is forecast to come at the cost of more subdued growth in 2020 and 2021 as the unwinding of historically-high inventory levels, coupled with weaker business investment, weigh on economic activity.

...while UK’s trade position weakens further...

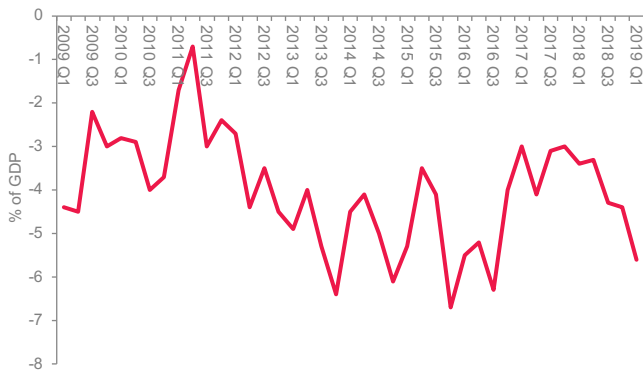
The UK trade deficit in goods and services was £15.6 billion in the three months to April 2019, a widening of £2.7 billion on the previous three months (see Chart 7). The deterioration was mainly due to a £2.8 billion widening in the UK’s trade deficit in goods, which was only partly offset by a £0.1 billion increase in the UK’s trade surplus in services. The trade in goods deficit with EU countries widened by £0.4 billion and by £2.4 billion with non-EU countries. Trade is likely to make a negative contribution to UK GDP growth over the medium term as exchange rate volatility, Brexit uncertainty and a subdued global economy weaken trading conditions for UK exporters.

Chart 7: UK’s Net Trade Position



Source: ONS UK Trade Data, April 2019

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



Source: ONS Balance of Payments, April 2019

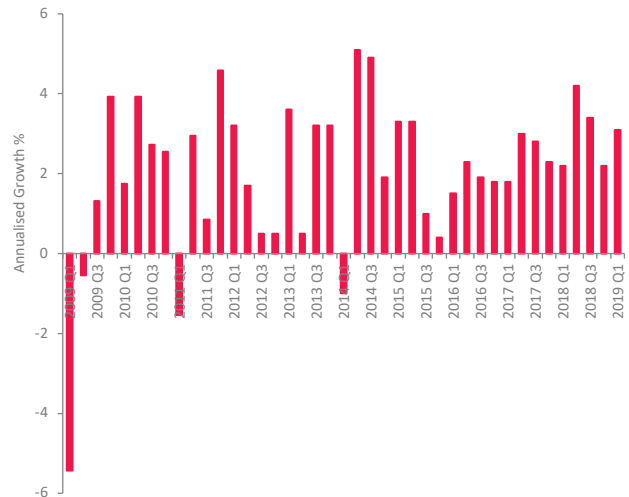
...widens the UK's current account deficit...

The UK ran a current account deficit (the difference between what we earned from other countries and what we spent) of £30 billion in Q1 2019, £6.3 billion higher compared to the previous quarter. **The UK's current account deficit was equivalent to 5.6% of UK GDP in Q1 2019, the fifth-highest on record and up from 4.4% in Q4 2018 (see Chart 8).** The deterioration largely reflected a marked widening in UK's growing trade deficit, which is over 3% of UK GDP for the first time since Q2 2002. The size of our current account deficit continues to leave the UK more susceptible to external economic shocks.

...while US growth is unrevised....

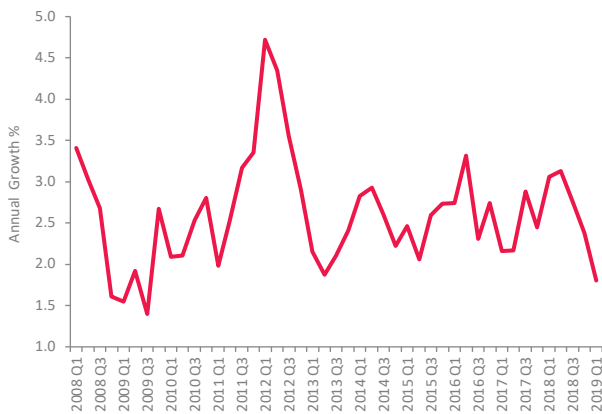
The US economy grew at an annualised rate of 3.1% in Q1 2019, according to the third official estimate. This was unrevised from the previous estimate and higher than the growth of 2.2% recorded in Q4 (see Chart 9). Consumer spending, which typically accounts for over two thirds of US economic output, grew by 0.9% in Q1, down from growth of 2.5% in Q4 2018. In contrast, export growth stood at 5.4% in the quarter, three times the growth of 1.8% recorded in the previous quarter. Despite the pick-up in growth in Q1, **the outlook for the US economy has weakened with mounting trade tensions with China likely to weigh on economic activity and increases the prospect of a cut in interest rates.**

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Australia Real GDP Growth



Source: Australian Bureau of Statistics

...Australia's GDP growth hits decade low.

Australia's economy grew by 0.4% in Q1 2019, up from growth of 0.2% in the previous quarter. However, **in annual terms, Australian GDP growth slowed to 1.8% in Q1, the weakest outturn since Q3 2009 and down from growth of 2.4% in the previous quarter (see Chart 10).** The slowdown was partly driven by growth in consumer spending slowing to 1.8% in the quarter, the weakest since Q2 2013. Dwellings investment dropped by 3.1% in annual terms in Q1, amid a slowing housing market. While Australia's economic outlook remains largely positive, subdued consumer spending and a more sluggish global economy is likely to stifle growth for some time to come.

Bottom line:

Last month's data releases suggest that underlying economic conditions in the UK remain decidedly downbeat, with intensifying uncertainty over Brexit, the rising costs of doing business in the UK and a sluggish global economy combining to suppress key drivers of growth. Against this backdrop, the focus must be on avoiding a messy and disorderly exit from the EU and removing barriers to growth in the domestic environment.

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Household	Retail Sales (ONS)	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating
	Consumer Confidence (GfK NOP)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	No change	Deteriorating	Deteriorating	No change	No change	Deteriorating
	House Prices (Halifax)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
	New car sales (SMMT)**	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
	Mortgage approvals (Bank of England)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
Business	Business confidence (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
	Business lending (Bank of England)	Deteriorating	Improving	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
	Service sector output (ONS)	Improving	Improving	No change	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	No change
	Production output (ONS)	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	No change	Improving	Deteriorating	Improving	Improving	Improving	Improving
	Investment intentions (BCC)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving
Labour market	Employment (ONS)	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Unemployment (ONS)	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
	Earnings (ONS)	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	No change	Deteriorating	Deteriorating
	Economic Inactivity (ONS)	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Government	Public sector net borrowing (ONS)**	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Deteriorating	Deteriorating
	Public sector net debt % of GDP (ONS)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Tax receipts (HMRC)**	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Current Budget Deficit (ONS)**	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
External	UK trade balance (ONS)	Deteriorating	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Export Sales (BCC)***	Improving	No change	No change	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Export orders (BCC)***	Improving	No change	No change	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
Financial	Exchange rate (Bank of England)	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Deteriorating
	Equity Prices (Bloomberg)	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving
	10 year Government bonds (Bloomberg)	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving

*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.