

BRITISH CHAMBERS OF COMMERCE

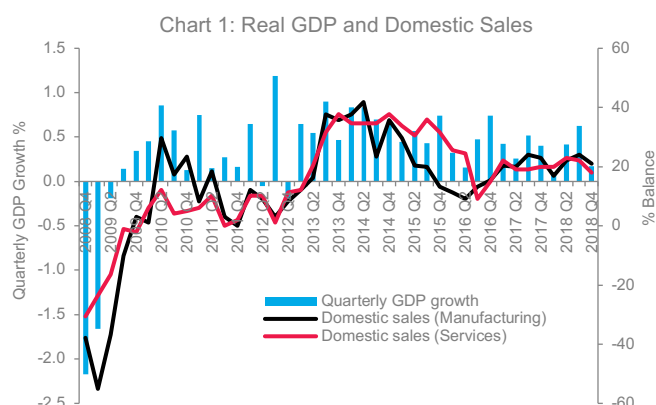
MONTHLY ECONOMIC REVIEW MARCH 2019

Monthly headlines:

- UK GDP growth slowed in Q4 2018 as the manufacturing sector weakens further
- Business investment in the UK continues to contract as the trade deficit widens
- UK jobs market strengthens further as inflation falls below target

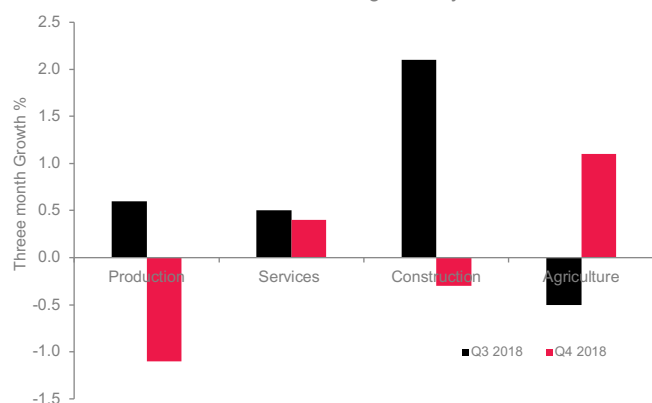
UK economy slowed sharply in Q4...

The first official estimate of UK GDP put growth in the fourth quarter at 0.2%, down from the growth of 0.6% recorded in Q3. This mirrored the results from the latest BCC Quarterly Economic Survey which confirmed that the UK economy ended 2018 stuck in a weak holding pattern (see Chart 1). UK economic output is now 11.9% above its Q1 2008 peak. **For 2018 as a whole, the UK economy grew by 1.4%, the joint weakest growth since 2009.** On the more volatile monthly measure, UK GDP fell by 0.4% in December 2018, down from growth of 0.2% in November.



Source: ONS UK GDP estimate, January 2019

Chart 2: UK GDP growth by Sector



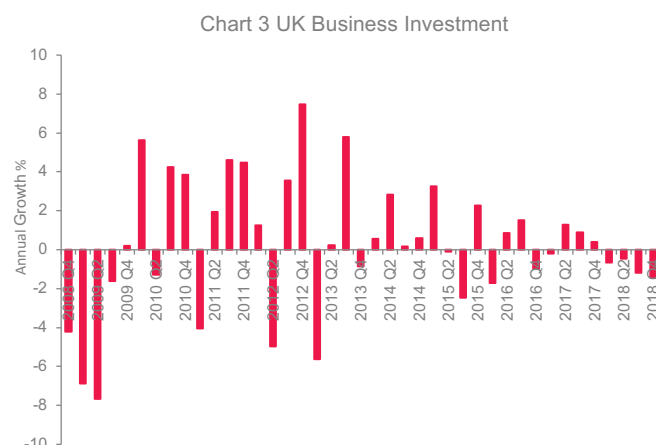
Source: ONS UK GDP estimate, January 2019

...as the industrial sector contracts...

The services sector, which accounts for around three-quarters of UK economic output, grew by 0.4% in Q4 and was the key driver of UK GDP growth in the quarter (see Chart 2). **The industrial sector contracted by 1.1% in Q4**, with output from the manufacturing sector, which accounts for around 10% of UK economic output, dropping by 0.9% in the quarter. Construction sector output fell by 0.3% in Q4. On the monthly measure, the services (-0.2%), construction (-2.8%) and industrial (-0.5%) sectors all contracted in December.

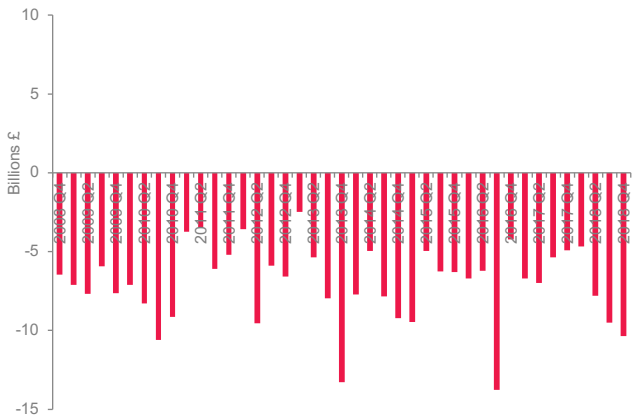
...and business investment contracts...

The latest UK GDP data also revealed that business investment in the UK fell by 1.4% in Q4, the largest decline since Q1 2016 (see Chart 3). **Business investment has now fallen for four successive quarters, the longest period of sustained contraction since the 2008/09 recession.** The continued decline in business investment is a concern as it weakens the UK's ability to raise productivity and lift our long-term growth prospects. Set against this, household (+0.4%) and government (+1.4%) consumption increased in Q4 2018.



Source: ONS UK GDP estimate, January 2019

Chart 4: UK's Net Trade Position



Source: ONS UK Trade, December 2018

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

The UK's trade deficit in goods and services widened by £0.9 billion to £10.4 billion in Q4 2018 (see Chart 4). The deterioration was driven by a £1.4 billion increase in the UK's trade deficit in goods as imports rose by 1.2% in the quarter, more than offsetting the 0.1% rise in exports. **The UK's trade deficit in goods with the EU widened by £1.6 billion in Q4 and narrowed by £0.2 billion with non-EU countries.** The UK's trade surplus in services widened by £0.6 billion. The widening in the UK's trade deficit is further evidence that slowing global growth and Brexit uncertainty are making trading conditions for UK exporters more challenging.

...inflation slips below target ...

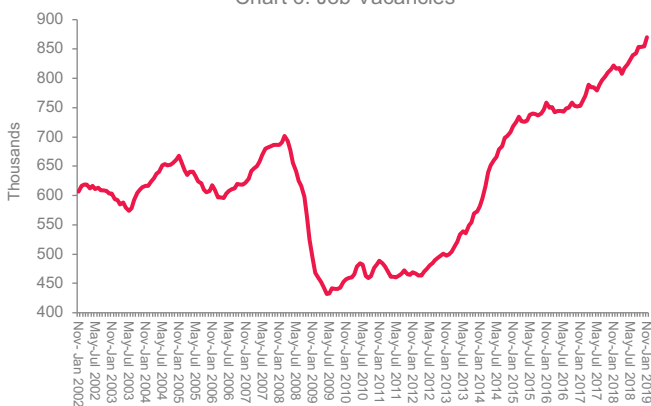
CPI inflation stood at 1.8% in January 2019, down from 2.1% in December (see Chart 5) and means that **UK inflation has dropped below the Bank of England's 2% target for the first time since January 2017.** The largest downward pressure on inflation came from falling energy prices, partly driven by the new cap on energy prices which came into effect last month. Brexit is the key risk to the UK's outlook for inflation as it could result in a substantial decline in sterling, increasing inflation and exacerbating the financial squeeze on consumers and business.

Chart 5: UK CPI inflation



Source: ONS UK Inflation, January 2019

Chart 6: Job Vacancies



Source: ONS UK Labour Market data, February 2019

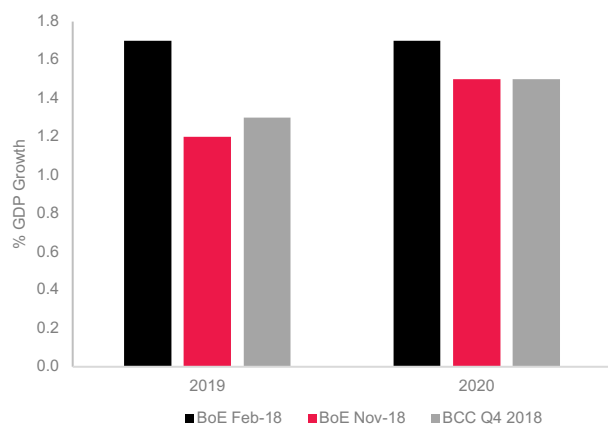
...UK labour market continues to tighten...

In the three months to December 2018, UK employment rose by 167,000. UK unemployment remained at 4%. With regular pay growth holding steady at 3.4% and inflation weakening, the gap between pay and price growth remains significant, providing some welcome respite to financially-stretched households. **The number of job vacancies rose by 16,000 over the past year to 870,000, a new record high (see Chart 6).** This is further confirmation that skills shortages are set to remain a drag on business activity for some time to come, impeding UK growth and productivity.

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

In its February 2019 inflation report, the Bank of England downgraded its UK GDP growth forecast for 2019 to 1.2%, from its previous estimate of 1.7%. The central bank cited Brexit uncertainty and the weaker global growth outlook as the key drivers behind the downgrade. The Bank of England also downgraded its growth forecast for 2020 to 1.5%, from 1.7%. The Bank's latest UK GDP growth forecast for 2019 and 2020 are now broadly in line with the BCC's latest growth projections (see Chart 7). Overall, **the forecasts from the latest inflation report reinforces a growing consensus that UK economic conditions are weakening.**

Chart 7: UK GDP Growth Forecasts



Sources: BCC, Bank of England

Chart 8: UK Government Borrowing



Source: ONS Public Sector Finances Data, January 2019

...Public finances enjoy a bumper January...

UK public sector finances (excluding public sector banks) recorded a surplus of £14.9 billion in January 2019, the highest January surplus since records began and £5.6 billion higher than in January 2018. (see Chart 8). 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, borrowing fell by £18.5 billion to £21.2 billion, the lowest since 2001. The latest data suggests that UK government will undershoot its borrowing target for this financial year.

...while US GDP growth slowed in Q4...

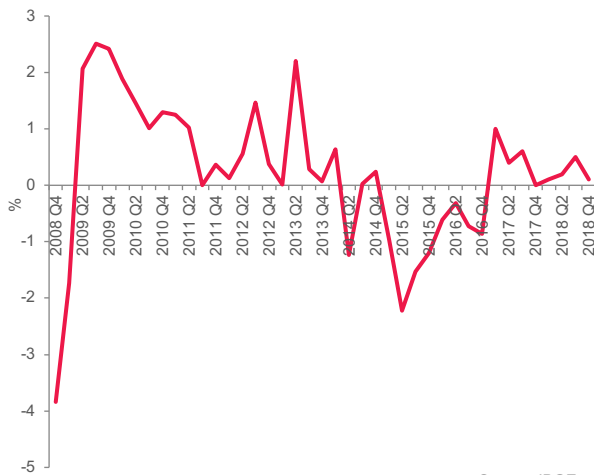
The US economy grew at an annualised rate of 2.6% in Q4 2018, a slowdown from the 3.4% growth in Q3. Consumer spending, which accounts for around two-thirds of US economic output, increased by 2.8% in Q4, down from growth of 3.5% in Q3. Net trade was a drag on growth in the quarter. For 2018 as a whole, the US economy grew by 2.9% (see Chart 9), up from growth of 2.2% in the previous year but just below President Trump's 3% GDP growth target. A weakening global economy, continued trade tensions and the effect of tightening monetary policy are likely to slow US growth over the next year, particularly as the boost from the recent fiscal stimulus fades.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Brazil Real GDP Growth



Source: IBGE

...as Brazil's economy weakens...

Brazil grew by 0.1% in the final quarter of 2018. Brazil's economy has now grown for eight successive quarters, following the country's exit from its longest recession in history. However, GDP growth in Q4 was down from the 0.5% growth recorded in Q3 (see Chart 10). The agricultural and services sectors made positive contributions to growth in the quarter, partly offset by a decline in industrial output. For 2018 as a whole, Brazil's economy grew by 1.1%, unchanged from 2017. The services sector (+1.3%) was the strongest performing sector in 2018. Brazil's economic outlook continues to be weighed down by high unemployment, declining investment and worrying high public debt levels.

Bottom line:

Overall, the latest data points to a marked weakening in UK economic conditions with GDP growth likely to remain sluggish over the near term with Brexit uncertainty, a slowing global economy and the persistent financial squeeze on consumers and businesses increasingly having a suffocating effect on economic activity. It's vital that government assure businesses and communities that an unwanted 'no deal' scenario will not happen by default and that clarity is urgently given on the key unanswered questions on the UK's future after March 2019.

For more information please contact Suren Thiru, Head of Economics.
Email: s.thiru@britishchambers.org.uk. Tel: 0207 654 5801



ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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