

BRITISH CHAMBERS OF COMMERCE

MONTHLY ECONOMIC REVIEW MAY 2019

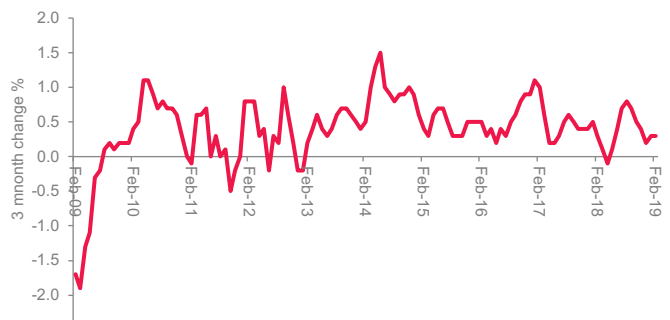
Monthly headlines:

- UK GDP growth subdued in February, while stockpiling boosts industrial output
- The UK labour market continues to tighten as productivity weakens
- GDP growth in the US and the Eurozone strengthens in Q1

...UK GDP growth subdued in February...

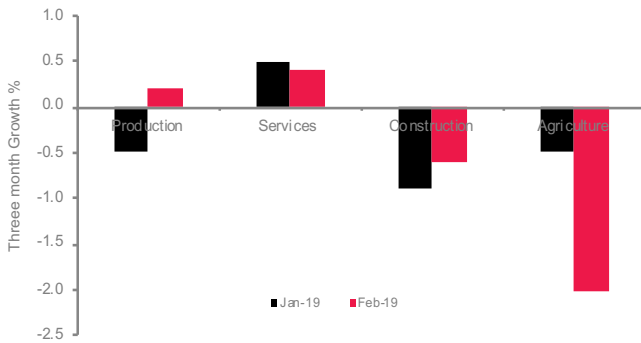
The latest official monthly estimate for economic growth (GDP) revealed UK GDP growth of 0.2% in February, down from 0.5% in January. Despite the slower monthly outturn, the slightly stronger growth on the underlying three-month measure in both January and February points to some welcome resilience in the UK economy. On the underlying three-month-on-three-month measure, **UK GDP growth stood at 0.3% in February unchanged from the upwardly revised figure for January** and up from 0.2% in December 2018 (see Chart 1).

Chart 1: Real UK GDP Growth



Source: ONS UK GDP estimate, February 2019

Chart 2: UK GDP growth by Sector



Source: ONS UK GDP estimate, February 2019

...stockpiling boosts industrial output...

Output from the services sector, a key driver of UK economic growth, grew by 0.4% in the three months to February, down from growth of 0.5% in the previous three-month period (see Chart 2). Industrial production increased by 0.2% in February, up from the decline of -0.5% recorded in January. **This improvement is likely to partly reflect a temporary boost from greater stockpiling** ahead of the original Brexit deadline. On the monthly measure, services (+0.1%) construction (+0.4%) and industrial (+0.6%) output increased in February.

...as inflation holds steady...

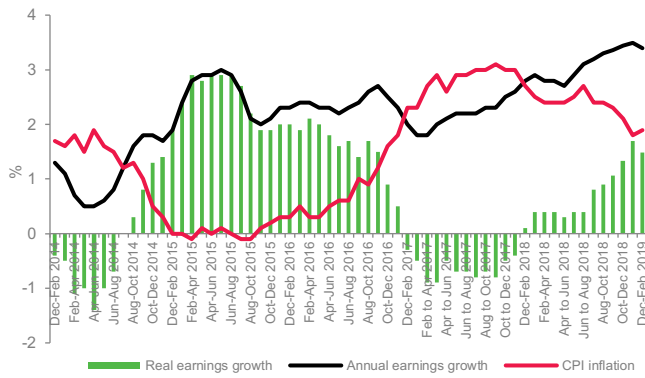
CPI inflation in the UK stood at 1.9% in March 2019, unchanged from February and is the third successive month that UK inflation has been below the Bank of England's 2% target (see Chart 3). The largest upward pressure came from rising prices for fuel and clothing which were offset by downward pressure from across a range of goods, including food and motor vehicles. **It remains probable that UK inflation will drift moderately higher in the coming months**, with firms reporting that the pressure to raise prices remains significant. Higher energy bills are also likely to add to the upward pressure on inflation.

Chart 3: UK CPI inflation



Source: ONS Consumer Price Inflation, March 2019

Chart 4: UK Real Earnings Growth



Source: ONS UK Labour Market Overview, March 2019

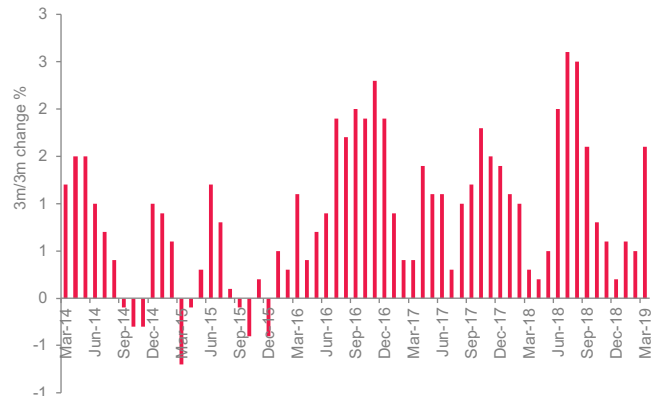
...UK labour market continues to tighten...

In the three months to February 2019, UK employment rose by 173,000 and number of people out of work dropped by 27,000 over the same period. With regular pay growth at 3.4% in the three months to February, pay growth continues to comfortably outstrip price growth (see Chart 4). While wage growth in real terms is likely to remain in positive territory for some time to come, the combination of a sluggish economy, weak productivity and high upfront costs for business is likely to limit the extent to which pay settlements are able to rise.

...retail sales continue to strengthen...

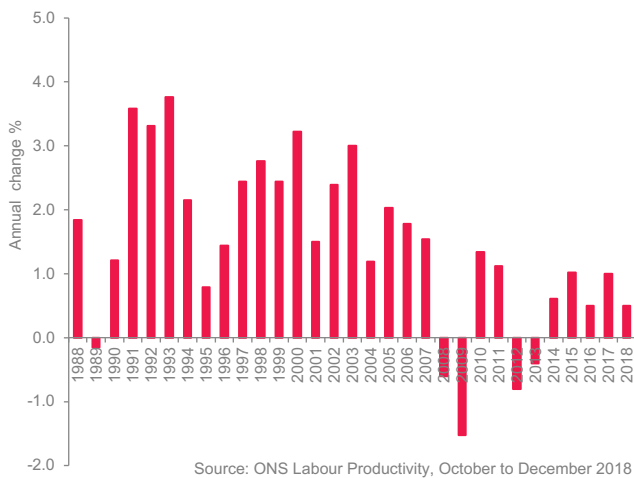
Retail sales rose by 1.1% in March 2019. In annual terms, sales rose by 6.7%, the strongest rise since October 2016. Department stores were the only store type to see a decrease in the quantity bought when compared with March 2018, with a fall of 0.3% in the month. The warmer weather helped boost retail activity, particularly when compared to a year earlier when the 'Beast from the East' impacted sales in March 2018. Retail sales grew by 1.6% over the first three months of 2019 (see Chart 5) and suggests that consumer spending made a marked contribution to UK GDP growth in the first quarter.

Chart 5: UK Retail Sales



Source: ONS Retail Sales, March 2019

Chart 6: UK Productivity (Output per hour)



Source: ONS Labour Productivity, October to December 2018

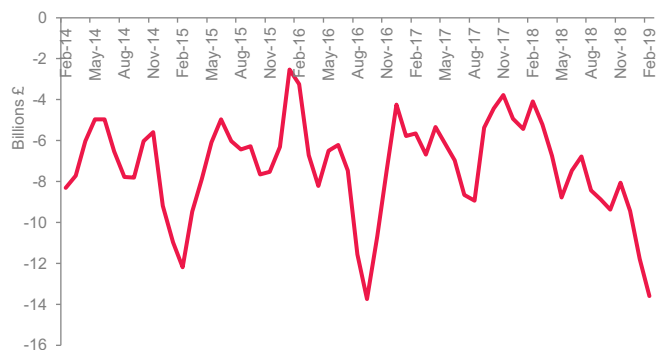
...productivity growth slows to five-year low...

UK productivity, as measured by average output per hour, dropped by 0.1% in annual terms in Q4, the second successive quarterly decline. For 2018 as a whole, UK productivity grew by 0.5%, the weakest outturn since 2013 (see Chart 6). The UK's productivity performance continues to be hampered by the failure to address the deep-rooted problems facing the UK economy, from skills shortages to the chronic underinvestment in infrastructure. The latest data also revealed that unit labour costs (which includes additional employer labour costs such as pension contributions) - rose by 3.1% in Q4, the fifteenth successive quarterly increase.

...while UK's trade position weakens...

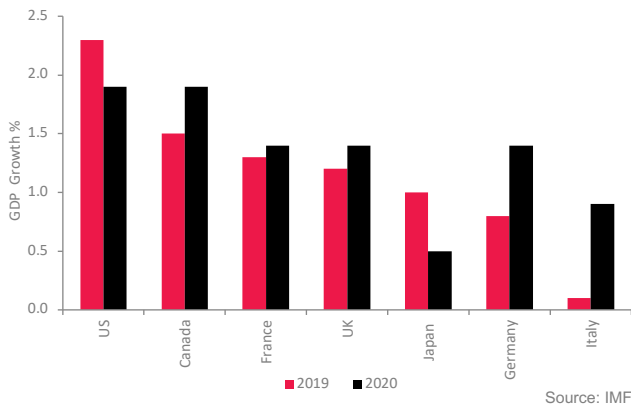
The UK trade deficit in goods and services widened by £5.5 billion in the three months to February 2019, compared with the previous three-month period (see Chart 7) and suggests that net trade is likely to have been a drag on UK GDP growth in Q1. The deterioration was mainly due to a £6.5 billion widening in the UK's trade deficit in goods, which was only partly offset by a £0.9 billion increase in the UK's trade surplus in services. Tougher global trading conditions, Brexit uncertainty and persistent sterling volatility are combining to make trading conditions for UK exporters more challenging.

Chart 7: UK's Net Trade Position



Source: UK Trade Data, February 2019

Chart 8: 2019 Economic Growth Forecasts: G7



...while IMF downgrades global outlook...

The International Monetary Fund (IMF) has downgraded its global GDP growth forecast for 2019 from 3.5% to 3.3%, which if realised would be the weakest growth since 2009. The IMF noted that **there are a number of headwinds facing the global economy, including trade tensions and the potential fallout from the Brexit process.** The IMF forecast that the UK economy will grow by 1.2% in 2019, in line with the BCC's latest forecast. This suggests that in 2019 the UK will be the fourth fastest growing economy in the G7 (see Chart 8).

...Eurozone growth strengthens in Q1...

The Eurozone economy grew by 0.4% in Q1 2019, the strongest growth since Q2 2018 and is up from the growth of 0.2% recorded in the previous quarter (see Chart 9). Of the available country level data, Spain, the fourth largest economy in the Eurozone, grew by 0.7% in Q1, while Italy exited recession, recording growth of 0.2% in the quarter. **The drop in the Eurozone unemployment rate to a decade low is likely to have helped drive stronger consumer spending, helping to boost overall growth in Q1.** However, the slowdown in China, global trade tensions and Brexit uncertainty are likely to weigh on Eurozone growth over the coming quarters.

Chart 9: Eurozone Real GDP Growth

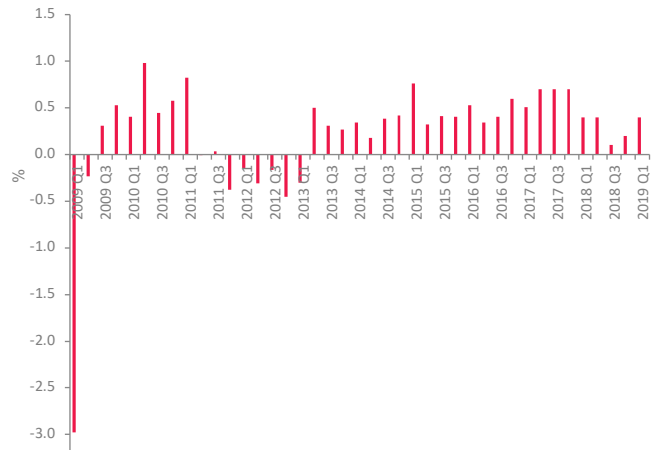
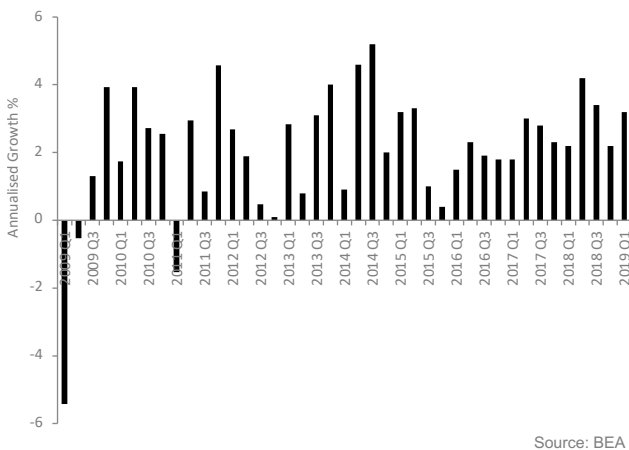


Chart 10: US Real GDP Growth



...and US growth picks up...

According to the first official estimate, the US economy grew at an annualised rate of 3.2% in Q1 2019. This was the first time in four years that the typically subdued Q1 GDP growth figure has exceeded 3% and is up strongly from growth of 2.2% in Q4 2018 (see Chart 10). **The uptick in growth was driven by stronger trade growth with US exports rising by 3.7% in Q1 and imports declining by 3.7% over the same period.** US GDP growth also received a temporary boost from firms building up their inventories in the quarter. Consumer spending, which accounts for around two-thirds of US economic output, slowed to 1.2% in Q1, down from 2.2% in the previous quarter.

Bottom line:

Taken together, last month's data releases suggest that underlying economic conditions in the UK remain subdued, despite the likely uptick in GDP growth in the first quarter. It is vital that ministers and parliament outline how it intends to end the current Brexit stalemate and provide clarity on the UK's future relationship with the EU. More also needs to be done to address the longstanding domestic issues, from the chronic skills shortage to the UK's faltering digital and physical infrastructure.

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