

BRITISH CHAMBERS OF COMMERCE

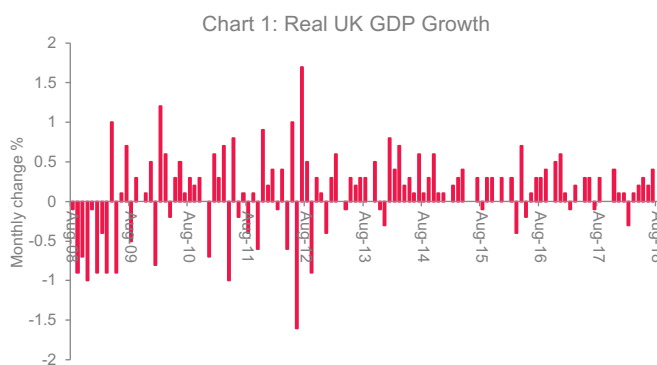
# MONTHLY ECONOMIC REVIEW NOVEMBER 2018

## Monthly headlines:

- UK GDP growth slows in August as service sector output moderates
- OBR predicts that UK growth will remain sluggish, but the UK's fiscal outlook has improved
- Eurozone GDP growth slows to 4-year low as economic growth in China and the US moderates

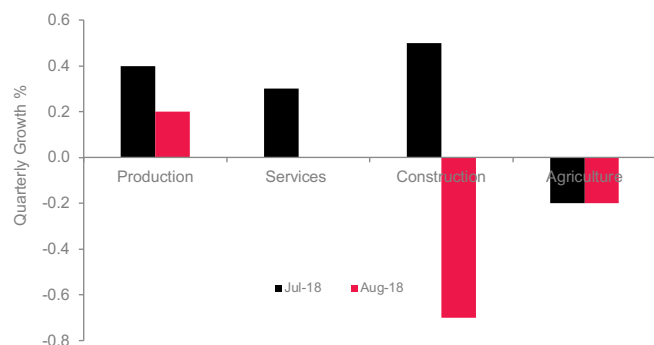
## UK GDP growth slowed in August...

The latest official monthly estimate for UK economic growth (GDP) revealed that UK economic growth was flat in August. This was the weakest outturn since February 2018 and down from growth of 0.4% in the previous month (see Chart 1). On the rolling three-month-on-three-month measure, **UK GDP growth stood at 0.7% in August, unchanged from the previous three-month period.** While there has been a recovery in economic activity over the summer months there remains little evidence that points to a sustained upturn in the UK's growth trajectory.



Source: ONS UK GDP estimate, August 2018

Chart 2: UK GDP growth by Sector



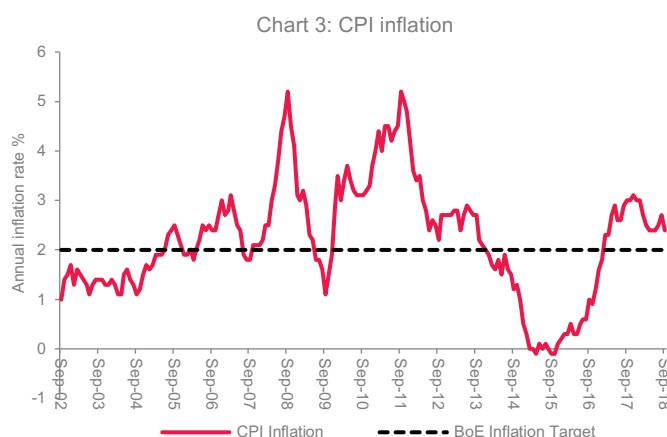
Source: ONS UK GDP estimate, August 2018

## ...as services sector growth moderates...

Growth in service sector output was flat in August 2018 (see Chart 2), down from the 0.3% growth recorded in July. Output from the construction sector dropped by 0.7%. Total industrial production rose by 0.2% in the month despite a 0.2% decline in output from the manufacturing sector. However, all sectors recorded growth on the three month-on-three-month measure. **The latest GDP figures provide further confirmation that UK growth remains unbalanced with the services sector continuing to drive UK economic output.**

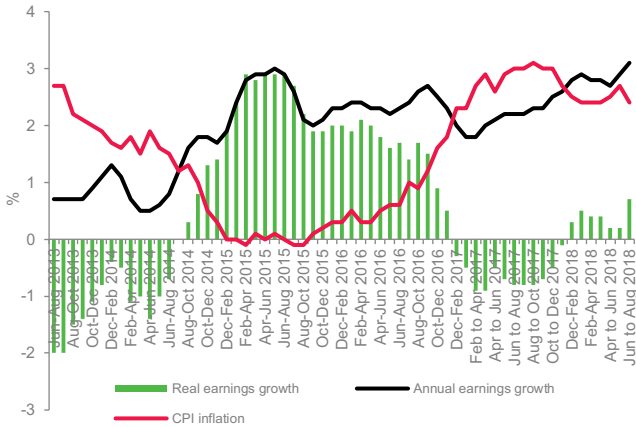
## ...as UK inflation slows...

UK CPI inflation slowed to 2.4% in September 2018, the first decline since April and down from the 2.7% increase in August (see Chart 3). The largest downward contribution to the rate came from lower costs for food and drink. However, **supply-chain price pressures remain sizeable with producer prices** rising from 2.9% to 3.1% on the year to September 2018. Inflation's trajectory is likely to fluctuate somewhat over the coming months as the downward momentum from a more subdued economy trades off against upward pressure from the persistent weakness in sterling.



Source: ONS Consumer Price Inflation, September 2018

Chart 4: Real Earnings Growth



Source: ONS UK Labour Market October 2018

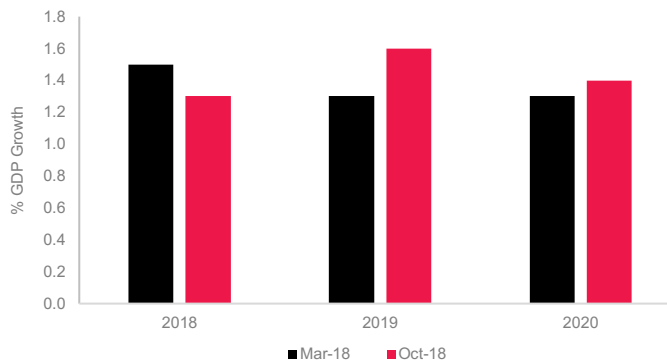
...wage growth picks-up...

In the three months to August 2018, UK employment fell by 5,000 and the number of people out of work declined by 47,000 over the same period. The unemployment rate remains at a record low of 4%. Regular pay growth increased to 3.1%, the highest since 2008. While there has been a welcome widening in the gap between pay and price growth (see Chart 4), achieving meaningful improvement in real wage growth may prove an uphill struggle unless the underlying issues that continue to limit pay settlements are tackled - notably sluggish productivity, underemployment and high upfront costs for businesses.

...OBR forecasts subdued UK growth...

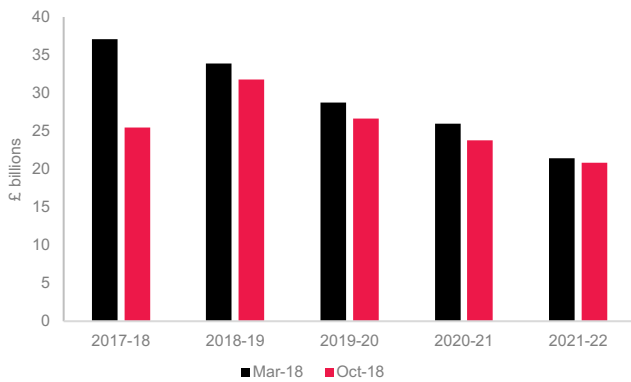
In its latest economic forecast, the Office for Budget Responsibility (OBR) expects GDP growth of 1.3% for 2018, lower than their previous forecast of 1.5% published in March 2018 (see Chart 5). However, the OBR's 2019 growth forecast has been upgraded from 1.3% to 1.6%. Forecasted growth in 2020 has also been increased from 1.3% to 1.4%. Despite the upgrades, the OBR's latest forecast implies that by 2020 the UK economy will have experienced its second weakest decade of average annual GDP growth on record, mirroring the BCC's latest forecast.

Chart 5: OBR UK GDP Growth Forecasts



Source: OBR Economic and Fiscal Outlook, October 2018

Chart 6: OBR Public Sector Net Borrowing Forecasts



Source: OBR Economic and Fiscal Outlook, October 2018

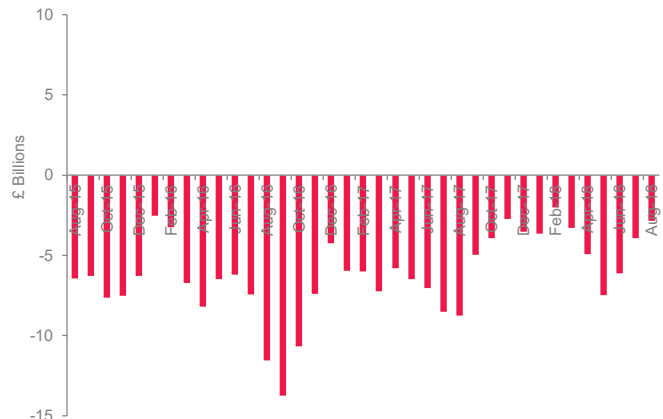
...but a stronger fiscal outlook...

The OBR expects public-sector net borrowing to reach £25.5 billion in 2018-19, £11.6 billion lower than their March 2018 forecast (see Chart 6). The OBR now forecast that UK public-sector borrowing will be £18.6 billion lower over the forecast period compared to their previous outlook. Public sector net debt as a share of GDP is forecast to peak at 83.7% in 2018-19, before falling to 74.1% of GDP in 2023-24. If UK growth remains subdued the UK's ability to generate tax receipts may prove more of an uphill struggle than the OBR currently expects.

...as UK's trade deficit narrows...

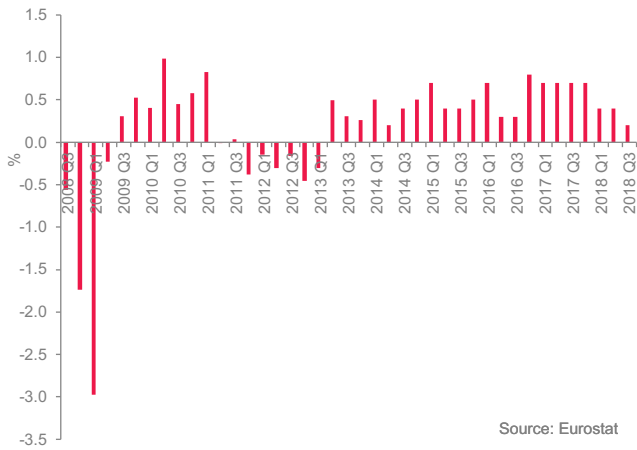
In the three months to August 2018, the UK's trade deficit narrowed by £4.7 billion to £2.8 billion (see Chart 7). A £3.5 billion narrowing of the goods deficit and a £1.1 billion widening of the services surplus led to the overall improvement. The trade in goods deficit narrowed by £2.4 billion with the EU and by £1.1 billion with countries outside the EU. Despite the recent improvement, the outlook for UK exporters has weakened since the start of the year with Brexit uncertainty, slowing growth in key markets and global trade tensions, weighing on export activity.

Chart 7: UK's Net Trade Position



Source: ONS UK Trade, August 2018

Chart 8: Eurozone Real GDP Growth



Source: Eurostat

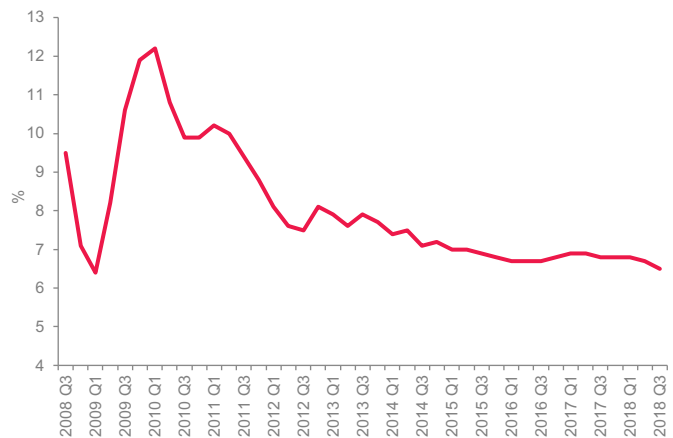
### ...Eurozone growth slows to four-year low...

The Eurozone economy grew by 0.2% in Q3 2018, the weakest growth since Q2 2014 and lower than the growth of 0.4% recorded in Q2 (see Chart 8). In annual terms, the Eurozone economy grew by 1.7% in Q3, down from growth of 2.2% in Q2. Of the available country level data, France, the Eurozone's second biggest economy, grew by 0.4% in Q3, up from 0.2% in Q2. In contrast, Italy's economy, the third largest, saw zero growth in Q3, down from 0.2% growth in Q2. **The Eurozone's growth prospects have moderated over recent quarters amid weaker global trading conditions and increased political instability.**

### ...as Chinese growth drops to 9-year low...

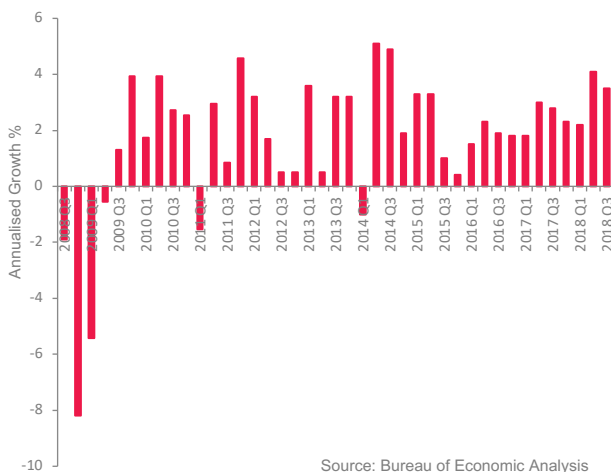
China's economy grew at an annual rate of 6.5 in Q3 2018, the slowest growth since Q1 2009 (Chart 9). This was down slightly from the growth of 6.7% in the previous quarter and was in line with the government's growth target of 6.5%. On a quarterly basis, the Chinese economy grew by 1.6% in Q3 2018, down from 1.7% in Q2. China's growth outlook has weakened since the start of the year as their escalating trade war with the US and government attempts to reduce debt levels increasing weighing on economic activity. The accuracy of China's economic data also remains questionable.

Chart 9: Real China GDP Growth



Source: National Bureau of Statistics of China

Chart 10: US Real GDP Growth



Source: Bureau of Economic Analysis

### ...and US GDP growth moderates in Q3.

The first estimate of US GDP revealed that the US economy grew at an annualised rate of 3.5% in Q3 2018, slower than the growth of 4.2% recorded in the previous quarter (see Chart 10). US exports declined by 3.5% in Q3, following a 9.3% increase in the previous quarter as firms brought forward export activity to earlier in the year, before the introduction of new tariffs by China. Growth in consumer spending picked-up slightly to 4% in Q3, the strongest growth since Q4 2014. While the US economy is likely to continue to grow above its long-term average over the near-term, **rising interest rates and the escalating trade war is likely to increasingly stifle US GDP growth.**

#### Bottom line:

**Overall, last month's data releases paint a rather subdued picture of the UK economy with growth expected to remain well below its long-run average over the next few years. While a number of the measures announced in the Autumn Budget, notably the increase in the Annual Investment Allowance, will help to lift business investment over the near term, a Brexit deal that gives firms the clarity and precision they need is vital to the UK's long-term growth prospects.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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