

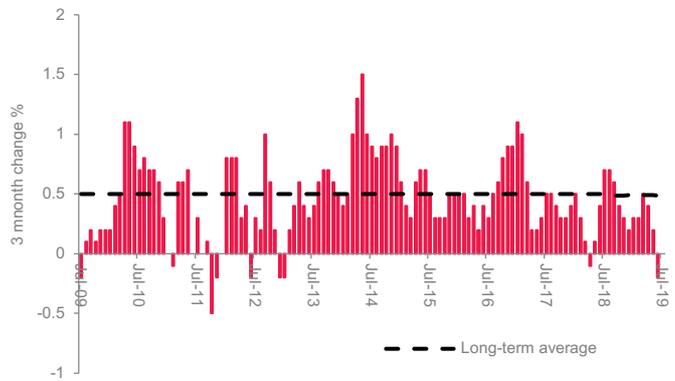
Monthly headlines:

- UK economy subdued in July as the latest QES points to a weak Q3
- BCC downgrades UK growth outlook amid Brexit uncertainty and weakening global growth
- OECD forecasts slower global growth as Australian GDP growth drops to 10-year low

UK GDP growth remained subdued in July...

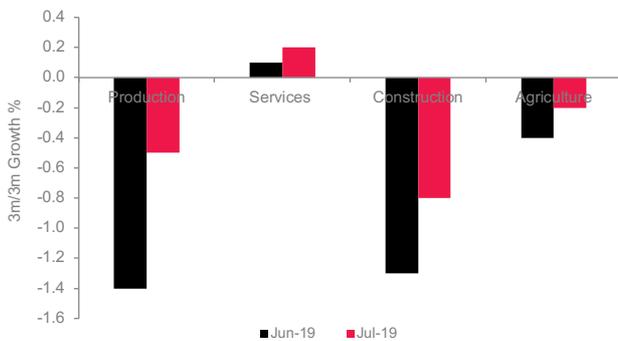
The latest official estimate for UK economic growth (GDP) revealed that the **UK economy recorded zero growth in the three months to July 2019, up from the contraction of 0.2% in the previous three-month period, (see Chart 1).** On the monthly measure, UK GDP grew by 0.3% in July 2019, up from zero growth in June. While there was a rise in GDP between June and July, the zero-growth recorded on the underlying three-month measure points to an economy under pressure from Brexit uncertainty and subdued global economic conditions.

Chart 1: Real UK GDP Growth



Source: ONS UK GDP estimate, July 2019

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP estimate, July 2019

...supported by the services sector...

In the three months to July 2019, **the service sector, which accounts for around 80% of UK economic output, grew by 0.2%, up from growth of 0.1% in the previous three-month period (see Chart 2).** In contrast, industrial sector output fell by 0.5% with manufacturing output shrinking by 1.1%. Construction sector output contracted by 0.8% and agricultural output dropped by 0.2%. However, on the monthly measure, the services (+0.3%), industrial (+0.1%) and construction (+0.5%) sectors recorded growth, while agriculture output contracted (-0.1%)

...as the latest QES points to a weak Q3...

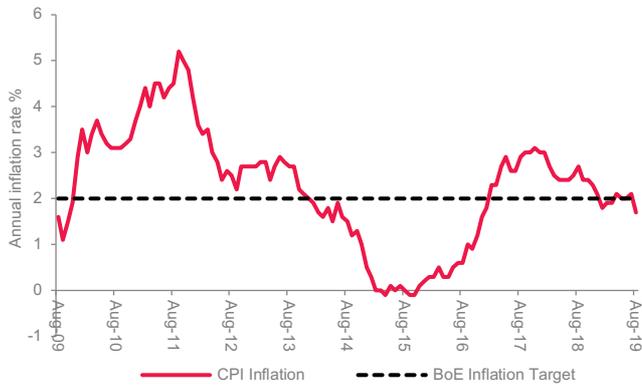
The results of the latest BCC Quarterly Economic Survey (QES) suggest that **UK economic conditions deteriorated in Q3 2019 with indicators of service sector and manufacturing activity weakening.** The balance of firms in the manufacturing sector reporting improved domestic sales fell from +10 to 0, the weakest level since Q4 2011 (see Chart 3). The balance of manufacturers reporting improved cashflow slipped from +2 to -7, the weakest level since Q3 2011. The balance of services firms reporting improved domestic sales dropped from +17 to +15, its lowest level since Q4 2016.

Chart 3: Domestic Sales



Source: BCC QES, Q3 2019

Chart 4: UK CPI inflation



Source: ONS Consumer Price Inflation, August 2019

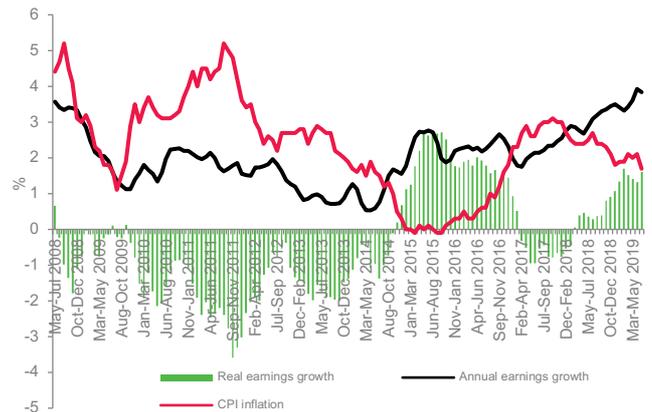
...as inflation slows sharply...

CPI inflation in the UK stood at 1.7% in August 2019, the lowest rate since December 2016 and down from 2.1% July (see Chart 4). It is also the first time since March 2019 that UK inflation has been below the Bank of England's 2% target. The largest downward pressure on consumer prices came from a range of recreational and cultural goods and services as well as clothing. While the outlook for inflation remains relatively subdued, a no-deal departure remains a significant risk, as a disorderly exit from the EU would likely drive a drop in sterling and higher supply costs, pushing up consumer prices.

...boosting real wage growth...

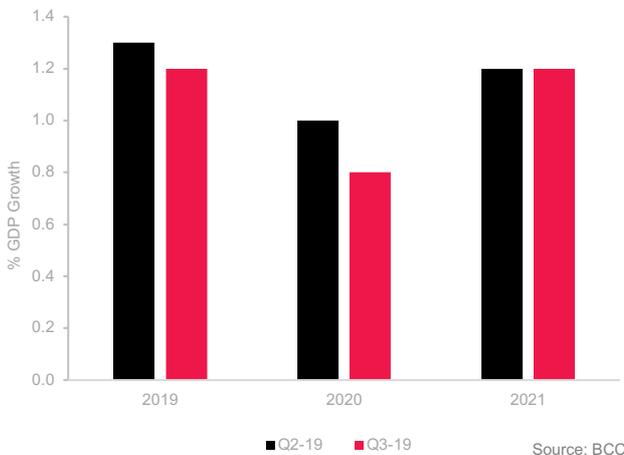
In the three months to July 2019, the number of people in employment rose by 31,000 to 32.8 million. UK unemployment fell by 11,000 over the same period and the UK's unemployment rate dropped back to 3.8%, the lowest rate since 1974. Annual earnings growth, excluding bonuses, increased from 3.4% to 3.8% (see Chart 5) and together with slowing inflation (see Chart 4) is providing some welcome respite to financially stretched households. There was further evidence that demand for labour is moderating with the number of job vacancies currently at 812,000, a fall of 23,000 compared with the previous three-month period.

Chart 5: UK Real Earnings Growth



Source: ONS Labour Market Overview, September 2019

Chart 6: BCC UK GDP Growth Forecast Revisions



Source: BCC

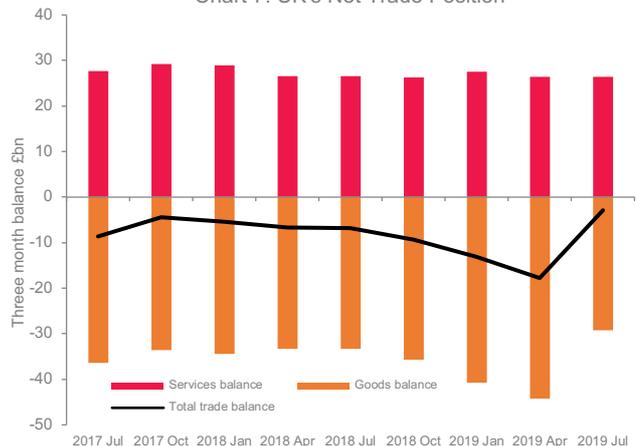
...BCC downgrades its UK growth forecasts...

The BCC has downgraded its UK economic growth (GDP) forecast for 2019 from 1.3% to 1.2% (see Chart 6). The BCC has also downgraded its UK growth forecast for 2020 from 1.0% to 0.8%. The downgrades reflected a weaker outlook for investment, trade and productivity amid a continued lack of clarity over the outcome of Brexit and deteriorating global economic conditions. Business investment is now forecast to decline by 1.5% this year and by 0.1% in 2020, which together with the decline of 0.4% in 2018, would be the longest period of sustained full-year declines in business investment for 17 years.

...while UK's trade position improves...

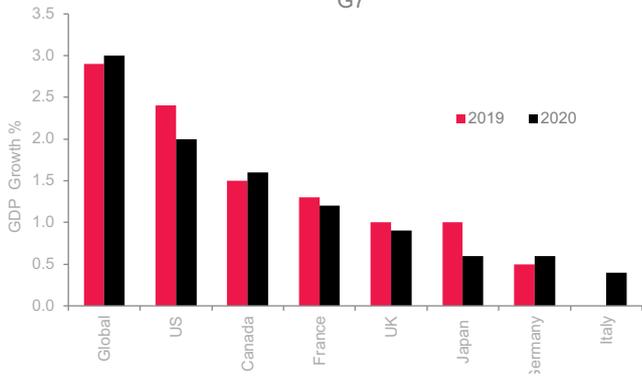
The UK trade deficit in goods and services was £2.9 billion in the three months to July 2019, a narrowing of £14.9 billion on the previous three months (see Chart 7). The deterioration was mainly due to a £14.9 billion narrowing in the UK's trade deficit in goods, with goods imports dropping by 10.6% as firms continued to run down stocks built up in Q1. Despite the improvement, 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



Source: UK trade: July 2019

Chart 8: Economic Growth Forecasts: Global Economy, G7



Source: OECD

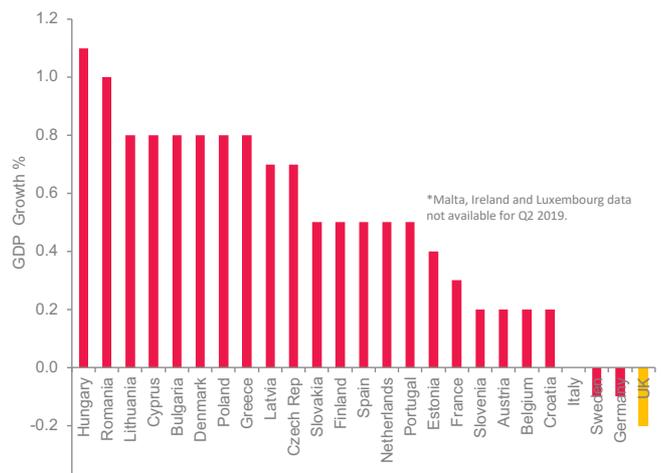
...OECD forecasts weaker global growth...

The OECD has downgraded its outlook for the global economy for 2019 to 2.9%, from its previous forecast of 3.2% and for 2020 from 3.4% to 3.0% (see Chart 8). The OECD cited mounting global trade tensions as the biggest driver behind the forecast downgrades, while also noting that a slowing Chinese economy and a no-deal Brexit are headwinds for the global economy. The OECD also cut its 2019 UK GDP growth forecast from 1.2% to 1.0% and is projecting a further slowdown in UK GDP growth in 2020 (to 0.9%, from 1.0%), mirroring the BCC's latest outlook.

...Hungary records the strongest growth in Q2...

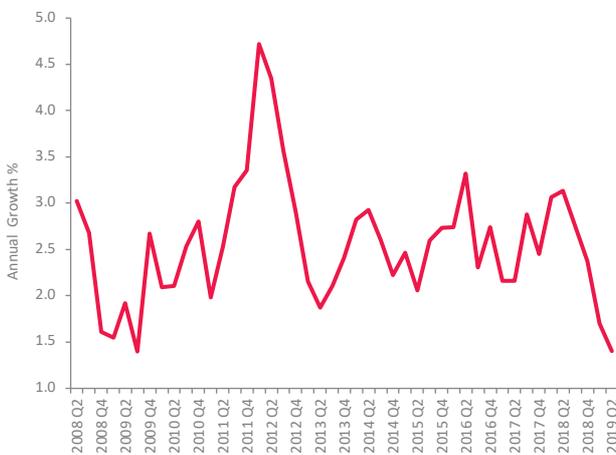
GDP growth across the EU stood at 0.2% in Q2 2019, down from growth of 0.5% recorded in the previous quarter. In annual terms, GDP growth across the EU stood at 1.4% in Q2. Fifteen EU countries (where data is available) saw a slowdown in GDP growth in the second quarter, compared to Q1. The top two performers in the EU were in Eastern Europe (see Chart 9). Hungary (1.1%) recorded the strongest growth in the EU in Q2, followed by Romania (1.0%). In contrast, Germany, the largest economy in the eurozone, contracted by 0.1% and together with the UK (-0.2%) and Sweden (-0.1%) were the only EU countries to record a decline in economic output in the quarter.

Chart 9: EU GDP growth by member country*, Q2 2019



Source: Eurostat

Chart 10: Australia Real GDP Growth



Source: Australian Bureau of Statistics

...Australia's GDP growth drops to 10-year low.

Australia's economy grew by 0.5% in Q2 2019, unchanged from the previous quarter. The relatively sluggish growth in Q2 partly reflected subdued consumer spending which grew by 0.4% in the quarter amid sluggish wage growth and a 4.4% decline in dwellings investment. In contrast, Government spending grew by 2.7% and net trade increased by 1.4% in the quarter. In annual terms, Australian GDP growth slowed to 1.4% in Q2, the weakest outturn since Q3 2009 and down from growth of 1.7% in the previous quarter (see Chart 10). Australian GDP growth has slowed sharply in annual terms since peaking at over 3% in early 2018.

Bottom line:

Overall, September's data releases indicate that the UK economy remains under pressure from uncertainty over Brexit and weakening global economic conditions. Avoiding a messy and disorderly exit from the EU is critical as such an outcome would likely deliver a major negative shock to the UK economy. At the same time, government must take swift and tangible action to inject momentum and confidence into the UK economy, including the delivery of key infrastructure projects across the country.

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19
Household	Retail Sales (ONS)	Green	Green	Red	Red	Green	Red	Green	Green	Green	Yellow	Red	Green	Red	Red
	Consumer Confidence (GfK NOP)	Green	Red	Red	Red	Red	Yellow	Green	Green	Yellow	Yellow	Red	Green	Red	Red
	House Prices (Halifax)	Green	Red	Red	Green	Red	Green	Red	Green	Red	Green	Green	Red	Red	Red
	New car sales (SMMT)**	Green	Red												
	Mortgage approvals (Bank of England)	Green	Red												
Business	Business confidence (BCC)***	Red	Green	Green	Red	Red	Red								
	Business lending (Bank of England)	Red													
	Service sector output (ONS)	Yellow	Green	Green	Green	Green	Green	Red	Green	Green	Red	Yellow	Yellow	Yellow	Green
	Production output (ONS)	Red	Red	Red	Yellow	Red									
	Investment intentions (BCC)**	Red													
Labour market	Employment (ONS)	Green	Green	Red											
	Unemployment (ONS)	Green	Green	Red											
	Earnings (ONS)	Red	Green	Yellow	Red	Red	Red	Red	Red						
	Economic inactivity (ONS)	Red													
Government	Public sector net borrowing (ONS)**	Red													
	Public sector net debt % of GDP (ONS)**	Red													
	Tax receipts (HMRC)**	Red													
	Current Budget Deficit (ONS)**	Red													
External	UK trade balance (ONS)	Red													
	Export Sales (BCC)***	Yellow	Red												
	Export orders (BCC)***	Yellow	Red												
Financial	Exchange rate (Bank of England)	Red	Green	Green	Green	Red	Green	Green	Red						
	Equity Prices (Bloomberg)	Red													
	10 year Government bonds (Bloomberg)	Red													

*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.