

BRITISH CHAMBERS OF COMMERCE

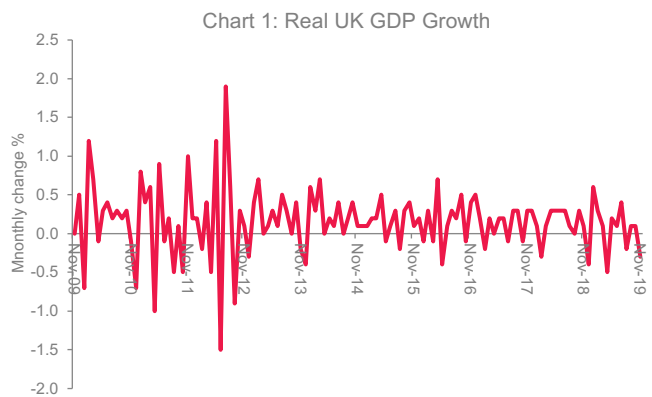
MONTHLY ECONOMIC REVIEW February 2020

Monthly headlines:

- UK economy contracted in November 2019, as services and industrial output weakened
- UK labour market remains a bright spot for the UK economy as inflation slows
- Global economic conditions remain challenging as US GDP growth slows to three-year low

UK GDP contracted in November...

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy contracted by 0.3% in November 2019, the biggest decline since April 2019. In the three months to November, the UK economy recorded growth of just 0.1% in November, down from 0.2% in October. On an annual basis, the economy grew by 0.6%, the weakest outturn since June 2012. (see Chart 1). We expect UK GDP growth slowed to around 0.1%-0.2% in Q4 2019, down sharply from 0.4% growth in Q3.



Source: ONS UK GDP: November 2019

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, November 2019

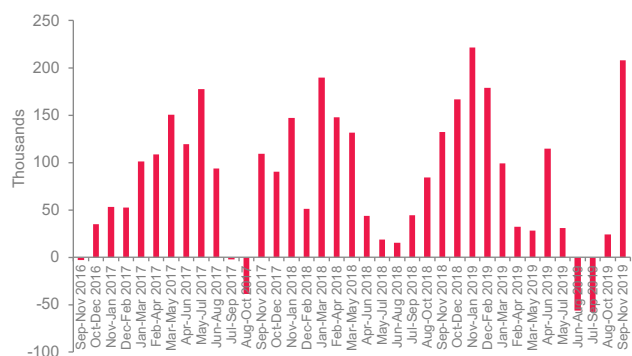
...as industrial and services output weakens...

On the monthly measure, industrial (-1.2%) and services output (-0.3%) decreased in November, more than offsetting a 1.9% increase in construction output in the month (see Chart 2). On the rolling three-month measure, output from the services sector, which accounts for around 80% of UK economic output, grew by 0.1% in November, down from growth of 0.3% in the previous three-month period. Construction output rose by 1.1% and total industrial production contracted by 0.6% over the same period.

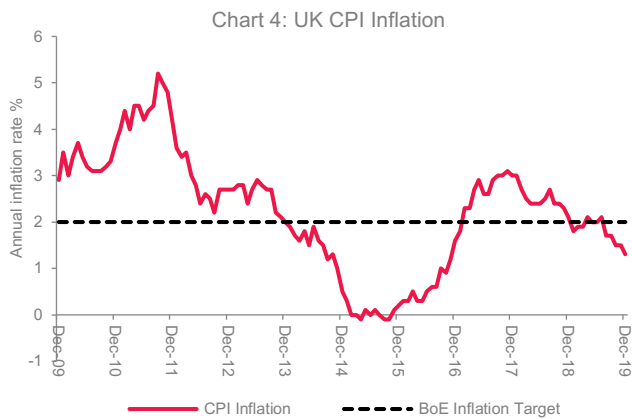
...but UK labour market remains a bright spot...

The UK jobs market remains strong despite a challenging economic backdrop. In the three months to November 2019, the number of people in employment rose by 208,000 (see Chart 3). UK unemployment dropped by 7,000 over the same period. However, average weekly earnings growth (excluding bonuses) slowed from 3.8% to 3.4% which will put further downward pressure on consumers' spending power, despite weaker inflation. In the final quarter of 2019, the number of job vacancies dropped by 11,000 to 805,000.

Chart 3: UK Employment



Source: ONS Labour Market Overview, January 2020



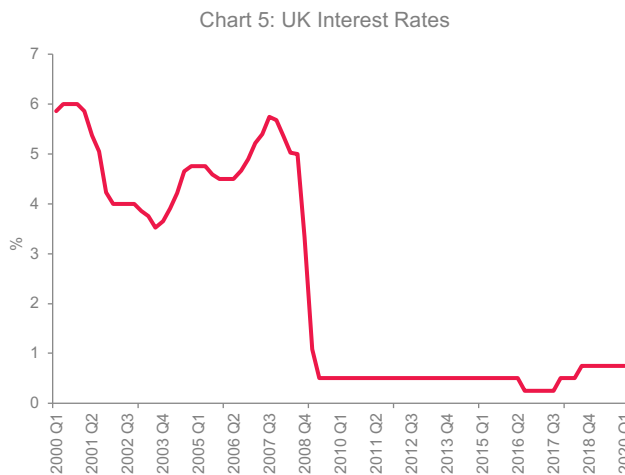
Source: ONS Consumer Price Inflation, December 2019

...as inflation weakens further...

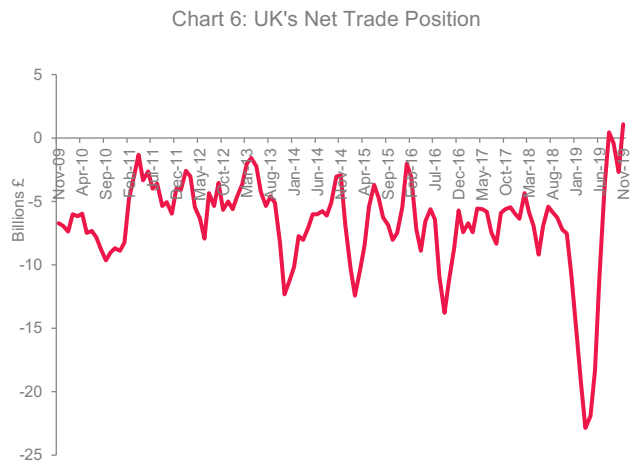
CPI inflation in the UK stood at 1.3% in December 2019, the weakest rate since 2016 and down from 1.5% in November (see Chart 4). The largest downward pressure on UK consumer prices in December 2019 came from falling prices for clothing and accommodation services, including hotels. **The near-term outlook for UK inflation remains benign with supply chain price pressures continuing to weaken.** Prices for materials and fuels fell by 0.1% on the year to December 2019, following a drop of 1.9% in November.

...UK interest rates remain on hold...

The Bank of England's Monetary Policy Committee (MPC) voted 7-2 in favour of keeping UK interest rates on hold at 0.75%. UK interest rates have been kept unchanged August 2018 (see Chart 5) and are still well below the historic average. Although the decision to keep interest rates on hold in January was the right one, sluggish economic conditions in the near term will mean the prospect of a rate cut will remain on the table for most of the year. However, with interest rates already near historic lows, the extent to which a cut can boost the UK economy is limited. **We currently expect UK interest rates to remain at 0.75% throughout 2020.**



Source: Bank of England



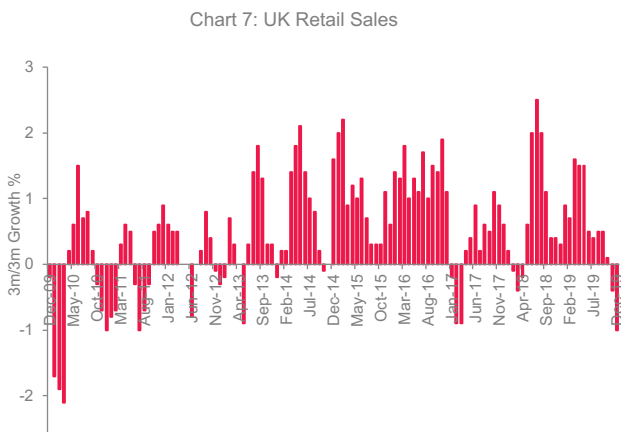
Source: ONS UK Trade, November 2019

...as UK's trade balance moves into surplus...

In the three months to November 2019, the UK's trade balance (the difference between what we import and export) recorded a surplus of £1.1 billion, up from a deficit of £2.7 billion in the previous three-month period (see Chart 6). The improvement was driven by a 2.9% increases in both goods and services exports. **The UK's trade deficit in goods widened by £1.8 billion with EU countries in the three months to November 2019 and narrowed by £0.6 billion with non-EU countries.** In the 12 months to November 2019, the UK's total trade deficit widened £9.1 billion to £36 billion, reflecting a £7.4 billion widening in the UK's trade in goods deficit.

...UK retail sales continue to contract...

Retail sales fell by 0.6% in December, the fifth consecutive month of no growth and follows a 0.8% contraction in November. The monthly decline partly reflected a 1.3% decline in food store sales, the largest fall since December 2016. **In the three months to December 2019, retail sales decreased by 1.0%, the biggest decline since March 2017 (see Chart 7).** The contraction on the three-month measure was largely driven by a 1% fall in non-food store sales. The retail sector is likely to remain under pressure in 2020 as sluggish real wage growth and subdued consumer confidence weigh on retail sales.



Source: ONS Retail Sales, December 2019

Chart 8: Eurozone Real GDP Growth



Source: Eurostat

...Eurozone growth slows to six-year low...

The Eurozone economy grew by 0.1% in Q4 2019, the weakest growth since Q1 2013 and down from growth of 0.3% in Q3 (see Chart 8). Eurozone's growth in Q4 was weakened by contracting GDP in France (-0.1%) and Italy (-0.3%) - the second and third largest economies in the Eurozone. In contrast, Spain recorded growth of 0.5% amid a pick-up in export growth. In annual terms, the Eurozone economy grew by 1.0% in Q4, down from growth of 1.2% in Q3. **Persistent trade tensions and subdued global economic conditions continue to limit economic activity in the Eurozone.**

...US GDP growth slows to 3-year low...

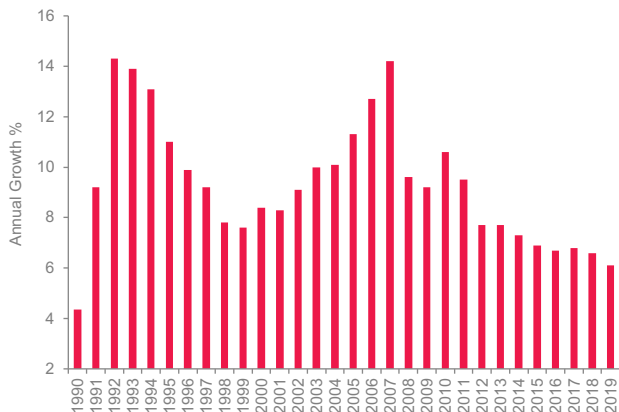
The US economy grew at an annualised rate of 2.1% in Q4 2019, unchanged from the previous quarter (see Chart 9). Consumer spending, which accounts for around two-thirds of US economic output, increased by 1.8% in Q4, down from growth of 3.2% in Q3. In contrast, the US net trade position improved significantly amid an 8.7% decline in imports. **For 2019 as a whole, the US economy grew by 2.3%, the weakest outturn since 2016 (see Chart 9), down from growth of 2.9% in the previous year and below President Trump's 3% GDP growth target.** A subdued global economy and continued trade tensions are likely to weigh on US economic activity in 2020.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: China Real GDP Growth



Source: National Bureau of Statistics of China

...and Chinese growth drops to 29-year low.

China's economy, the world's second largest, grew at an annual rate of 6.0% in Q4 2019, unchanged from the previous quarter. As a consequence, China's economy grew by 6.1% in 2019 as a whole, the weakest full year growth since 1990 (see Chart 10) and down from the growth of 6.6% in 2018. However, Chinese GDP growth remains within the government's growth target of 6.0-6.5%. **Continued trade tensions with the US and the impact of the coronavirus on economic activity means that Chinese GDP growth may slow further in 2020.** The accuracy of China's economic data also remains questionable.

Bottom line:

Overall, the latest data suggests that the UK economic conditions remain challenging, with UK GDP growth likely to have slowed in the final quarter of 2019. It is therefore vital that next month's Budget is used to take swift and tangible steps to inject momentum and confidence into the economy with measures aimed at boosting growth and productivity across the whole of the UK.

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)	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20
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.