

**BRITISH CHAMBERS OF COMMERCE**

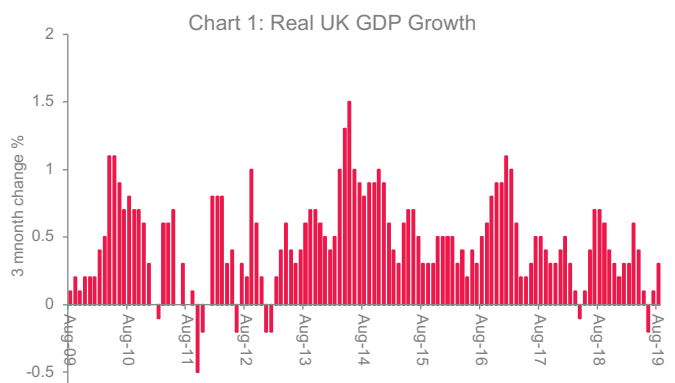
# MONTHLY ECONOMIC REVIEW November 2019

## Monthly headlines:

- Improvement in underlying UK GDP growth indicates that the UK will avoid recession in Q3
- UK inflation holds steady as UK jobs market shows signs of slowing
- Chinese GDP growth drops to 27-year low as trade tensions continue to weigh on global outlook

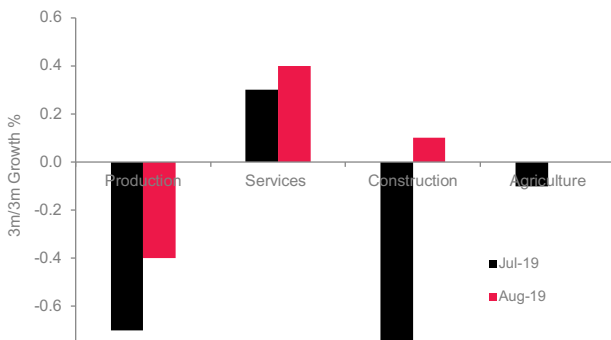
## Underlying UK GDP growth improves...

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy recorded growth of 0.3% in the three months to August 2019, up from 0.1% growth in the previous three-month period (see Chart 1). However, on the monthly measure, UK GDP contracted by 0.1% in August 2019, down from the 0.4% growth recorded in July. While the UK remains on a weak growth path, the latest data indicates that the UK will avoid slipping into recession and return to modest growth in Q3, following the contraction of 0.2% in Q2.



Source: ONS UK GDP: August 2019

Chart 2: UK GDP Growth by Sector



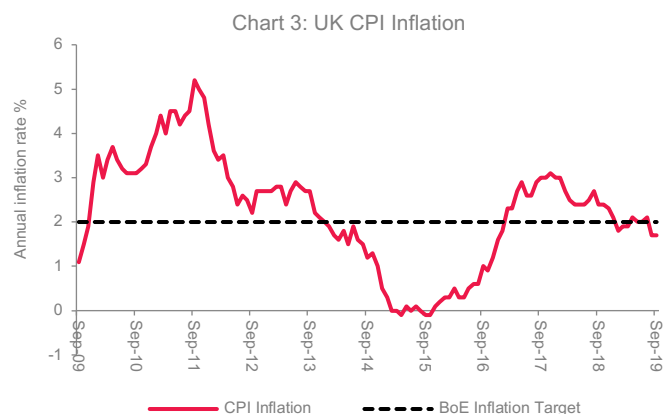
Source: ONS UK GDP, August 2019

## ...driven by stronger services output...

Output from the dominant services sector grew by 0.4% in the three months to August, up from growth of 0.3% in the previous three-month period. Construction output (+0.1%) also rose over the same period (see Chart 2). Industrial production fell by 0.4% in August, the fourth successive contraction on the three-month measure, with manufacturing output declining by 1.1%. On the monthly measure, the services sector recorded zero growth in August, construction output rose by 0.2% and industrial production dropped by 0.6%.

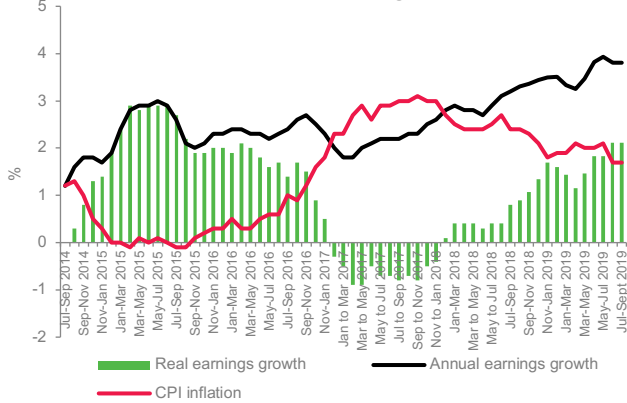
## ...as UK inflation holds steady...

UK CPI inflation stood at 1.7% in September 2019, the lowest rate since December 2016, but unchanged from August (see Chart 3). The largest downward contributions came from falling fuel and second-hand car prices, but were offset by price increases for furniture, household appliances and hotel rooms. There was a further easing in supply chain price pressures with prices for materials and fuels falling by 2.8% on the year to September 2019, down from a decline of 0.9% in August and largely reflected a 14.6% drop in oil prices over the past year.



Source: ONS Consumer Price Inflation, September 2019

Chart 4: UK Real Earnings Growth



Source: ONS Labour Market Overview, October 2019

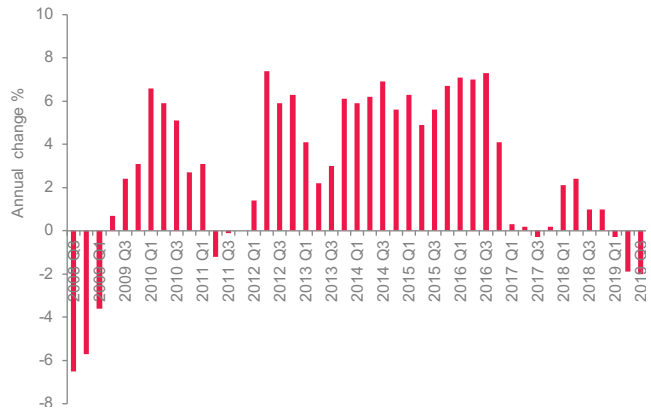
**...UK jobs market starting to slow...**

In the three months to August 2019, UK employment fell by 56,000 to 32.7 million. The number of people out of work increased by 22,000 over the same period. **The number of job vacancies dropped by 11,000, the eighth successive decline and suggests that employment growth could slow again.** Average weekly earnings growth (excluding bonuses) stood at 3.8% and with UK inflation holding steady, the gap between pay and price growth remains significant by recent standards (see Chart 4). This should help to support consumer spending, even if employment levels moderate further.

**...retail sales subdued...**

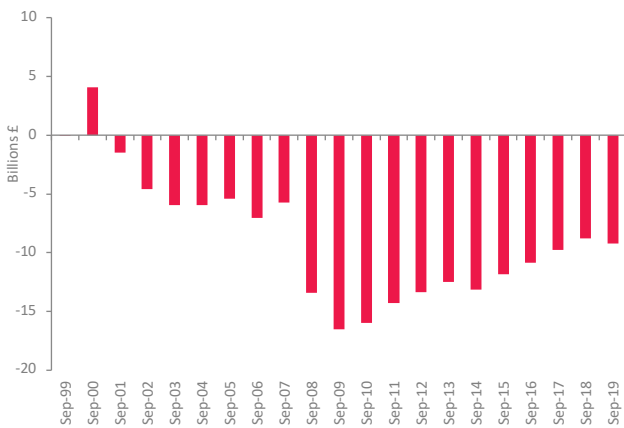
UK retail sales saw zero growth in September 2019, up from the contraction of 0.3% in August. Positive growth in food and non-food stores were offset by declines in fuel (-2%) and online sales (-1.6%). In annual terms, sales rose by 3.1%, up from 2.6% in the previous month but less than half the recent peak of 6.8% in March 2019. **Retail sales rose by 0.6% in Q3 as a whole, unchanged from Q2 and suggests that consumer spending made a reasonable contribution to UK GDP growth in the third quarter. In annual terms, sales in the non-specialised stores (including department stores) dropped by 2% in Q3, the biggest decline since Q1 2009 (see Chart 5).**

Chart 5: UK Non-specialised Store Sales



Source: ONS Retail Sales, September 2019

Chart 6: UK Public Sector Net Borrowing



Source: ONS Public Finances, September 2019

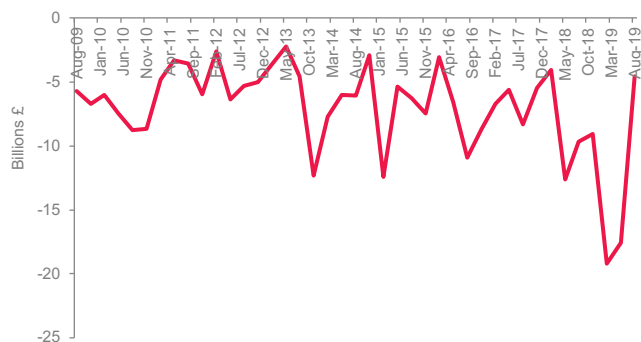
**...UK's fiscal position weakens...**

UK public sector net borrowing (excluding public sector banks) stood at £9.2 billion in September 2019, £0.4 billion higher than in September 2018 (see Chart 6). Borrowing in September tends to be higher than in most other months due to additional spending on winter fuel payments and student loan write-offs. In the current financial year-to-date (April to September) government borrowing rose by £5.9 billion to £39 billion. **If the UK remains on a low growth trajectory, its ability to generate enough tax revenue to deliver a sustained move away from austerity in the coming years will become more challenging.**

**...UK's trade deficit narrows...**

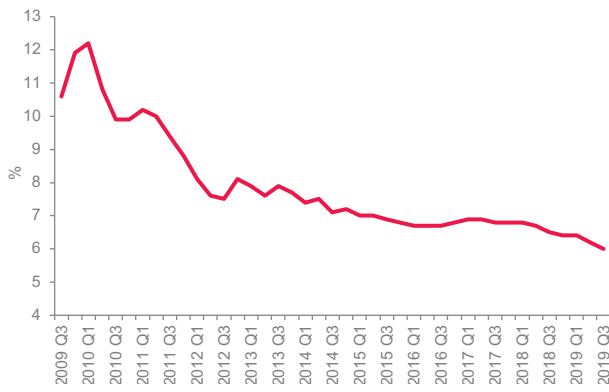
The UK trade deficit in goods and services was £4.6 billion in the three months to August 2019, a narrowing of £13 billion on the previous three months (see Chart 7). **The improvement was mainly due to a £12.5 billion narrowing in the UK's trade deficit in goods amid a 7.2% fall in goods imports.** The UK's trade deficit in goods with EU countries narrowed by £2.1 billion to £21.9 billion and with non-EU countries the deficit narrowed by £10.4 billion to £6.5 billion. Despite the improvement, Brexit uncertainty and subdued growth prospects in some of the UK's key export markets are likely to weigh on trading conditions for internationally active firms.

Chart 7: UK's Net Trade Position



Source: ONS UK trade: August 2019

Chart 8: Real China GDP Growth



Source: National Bureau of Statistics of China

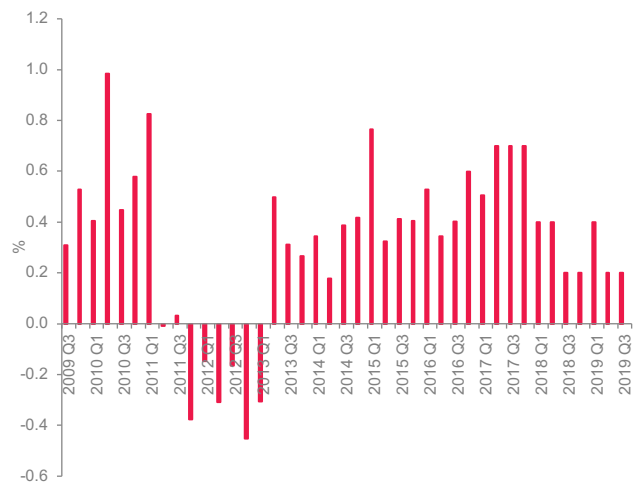
**...China's economy continues to slow...**

China's economy, the world's second largest, grew by 1.5% in Q3 2019, down from growth of 1.6% recorded in the previous quarter. In annual terms, **China's economy grew by 6.0% in Q3, the weakest growth since Q1 1992** and down from growth of 6.2% in Q2 (see Chart 8). However, China's growth rate remained within the government's target range for annual growth of between 6% and 6.5%. Despite government efforts to boost the economy, continued trade tensions with the US and slowing domestic demand is increasingly weighing on economic activity.

**...Eurozone growth holds steady...**

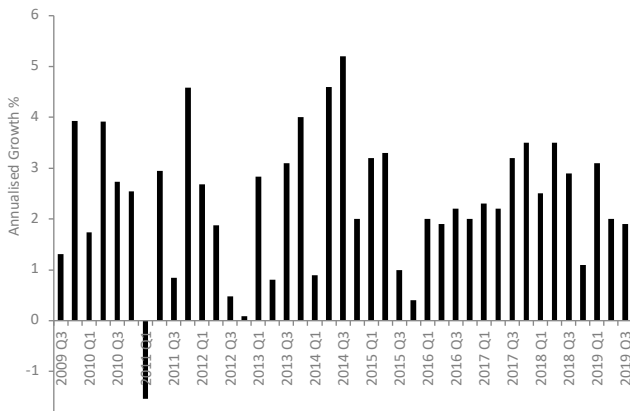
The Eurozone economy grew by 0.2% in Q3 2019, unchanged from the previous quarter (see Chart 9). In annual terms, the Eurozone economy grew by 1.1% in Q3, down from the growth of 1.2% in Q2. Persistent trade tensions and weaker global growth has subdued the near-term growth outlook for the Eurozone. Of the available country level data, **France, the Eurozone's second biggest economy, grew by 0.3% in Q3, unchanged from the previous two quarters.** Stronger consumer spending helped to offset a negative contribution from net trade to support French GDP growth in the quarter. Italy's economy, the third largest, saw growth of 0.1% in Q3, unchanged for the fourth successive quarter.

Chart 9: Eurozone Real GDP Growth



Source: Eurostat

Chart 10: US Real GDP Growth



Source: BEA

**...and US GDP growth slows in Q3.**

The first estimate of US GDP revealed that the US economy grew at an annualised rate of 1.9% in Q3 2019, the weakest growth since Q4 2018 and lower than the growth of 2% recorded in Q2 (see Chart 10). Although consumer spending, grew by 2.9% in the quarter, this was partly offset by a 1.5% decline in investment and slower growth in government spending. US exports grew by 0.7%, following a contraction of 5.7% in Q2. **Persistent trade tensions with China is increasingly weighing on economic activity in the US and helped drive the Federal Reserve's decision to cut interest rates in October - the third rate cut in four months.**

**Bottom line:**

**While the UK should avoid slipping into recession in Q3, last month's data releases indicate that relentless Brexit uncertainty and a slowing global economy continues to weigh heavily on the UK's growth trajectory. As we head towards a general election in December, any incoming government must focus on boosting the UK's economic growth prospects, including incentivising greater business investment.**

# 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	Oct-19
Household	Retail Sales (ONS)	Green	Red	Red	Red	Red	Red	Red	Red	Red	Yellow	Red	Red	Red	Red	Yellow
	Consumer Confidence (GfK NOP)	Green	Red	Red	Red	Red	Yellow	Green	Green	Yellow	Yellow	Green	Green	Red	Red	Red
	House Prices (Halifax)	Green	Red	Red	Green	Red	Red	Green	Green	Red	Green	Green	Green	Red	Red	Red
	New car sales (SMMT)**	Green	Red	Red	Red	Red	Red	Red	Green	Red	Red	Red	Red	Red	Red	Red
	Mortgage approvals (Bank of England)	Green	Red	Red	Green	Red	Red	Red	Red	Red	Red	Red	Green	Green	Red	Red
Business	Business confidence (BCC)***	Red	Red	Red	Red	Red	Red	Red	Red	Green	Green	Green	Red	Red	Red	Red
	Business lending (Bank of England)	Green	Red	Green	Red	Red	Red	Green	Red	Red	Red	Red	Green	Red	Red	Red
	Service sector output (ONS)	Yellow	Green	Green	Green	Green	Red	Green	Green	Red	Red	Yellow	Yellow	Yellow	Green	Yellow
	Production output (ONS)	Green	Red	Red	Yellow	Green	Red	Green	Green	Green	Green	Red	Green	Red	Red	Red
	Investment intentions (BCC)**	Red	Red	Red	Green	Red	Red	Red	Red	Green	Green	Green	Red	Red	Red	Red
Labour market	Employment (ONS)	Green	Green	Red	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Red
	Unemployment (ONS)	Green	Green	Red	Red	Red	Red	Green	Green	Green	Green	Green	Red	Red	Red	Red
	Earnings (ONS)	Red	Red	Red	Red	Red	Red	Red	Red	Yellow	Red	Red	Red	Red	Red	Red
	Economic Inactivity (ONS)	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Government	Public sector net borrowing (ONS)**	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Public sector net debt % of GDP (ONS)**	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Tax receipts (HMRC)**	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Current Budget Deficit (ONS)**	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
External	UK trade balance (ONS)	Green	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Export Sales (BCC)***	Yellow	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	Export orders (BCC)***	Yellow	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
Financial	Exchange rate (Bank of England)	Red	Green	Red	Red	Red	Red	Green	Red	Red	Red	Red	Red	Red	Red	Red
	Equity Prices (Bloomberg)	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red
	10 year Government bonds (Bloomberg)	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	Red	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.