

BRITISH CHAMBERS OF COMMERCE

QUARTERLY ECONOMIC FORECAST Q1 2020

Headlines:

- UK GDP forecast to grow at 0.8% in 2020, 1.4% in 2021 and 1.6% in 2022
- UK export growth in 2020 is projected to be its weakest since 2012
- Business investment in 2020 is expected to contract, and household spending is projected to slow

UK GDP growth to slow sharply...

The British Chambers of Commerce (BCC) has downgraded its UK GDP growth expectations for 2020 to 0.8%, from 1.0%. Outside of the 2008/09 financial crisis, this would be the weakest full-year growth outturn since 1992 and down sharply from UK GDP growth of 1.4% in 2019. Minimal quarter-on-quarter GDP growth in Q1 2020 is forecast, followed by a contraction in Q2. UK GDP growth is expected to pick-up in subsequent years: to 1.4% in 2021 and 1.6% in 2022. Our forecast indicates that by the end of 2022, the UK economy will have grown below its historic average growth rate of 2.6% for eight successive years, the longest period since records began.

...with Coronavirus is expected to weigh on key drivers of UK GDP growth...

The disruptive impact of Coronavirus is expected to weigh significantly on key drivers of UK GDP growth through the first half of 2020. UK export growth in 2020 is projected to be its weakest since 2012 as a subdued global economy, the impact of Coronavirus and uncertainty over future trading arrangements constrain export activity. Business investment is expected to contract by 0.7% this year as the impact of Coronavirus and the cost of doing business in the UK limit investment intentions. Growth in household spending in 2020 is predicted to be at its slowest since 2011, as the effect of Coronavirus temporarily weakens consumer demand, despite historically low unemployment.

...monetary and fiscal policy action taken should help support the UK economy.

In addition to the impact of Coronavirus, a lack of clarity on the UK's future trading relationship with the EU and other partners around the world and a struggling global economy is also predicted to limit UK's near-term growth prospects. On the upside, historically strong levels of government spending - both observed in Budget 2020 and anticipated in the upcoming Spending Review and Autumn Budget - are expected to support the UK economy through the forecast period. The measures announced by the Bank of England, including lowering interest rates and steps to support business access to finance, will also help mitigate some of the impact of the Coronavirus on the UK economy.

“Our latest forecast indicates that the UK economy faces a challenging short-term outlook. It is increasingly likely that the boost from higher government spending and more political certainty, will be surpassed over the near-term by the negative impact of Coronavirus on the UK economy.

Although the scale and impact of Coronavirus remains highly uncertain, early evidence of disruption to supply chains and weakening in consumer demand and business activity could mean that even in the case of a temporary shock to the economy, there may be some long-term impact on economic output - particularly if significant action is needed to combat its spread.

Failure to achieve a UK-EU arrangement conducive to trade is also a key risk to the outlook for the UK economy as disruption in early 2021 could adversely affect economic conditions.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q1 2020

(ANNUAL CHANGE %)

Current forecast (2020 Q1)				
BCC Economic Full Forecast (Annual % change)				
	2019	2020	2021	2022
GDP	1.4%	0.8%	1.4%	1.6%
Household Consumption	1.3%	0.9%	1.4%	1.5%
General government	3.6%	3.6%	3.0%	2.7%
Investment	0.4%	-0.6%	1.5%	1.6%
of which: Business Investment	0.3%	-0.7%	0.6%	1.0%
Exports	3.7%	0.1%	0.9%	1.4%
Imports	3.6%	0.8%	2.1%	2.3%
Total Production	-1.4%	-0.5%	1.0%	1.0%
Manufacturing	-1.5%	-0.4%	1.0%	1.1%
Construction	2.5%	0.7%	0.9%	1.5%
Services	1.8%	1.0%	1.2%	1.5%
Unemployment rate %*	3.8%	3.9%	4.0%	4.0%
Unemployment 000's**	-75	28	31	5
CPI inflation	1.8%	1.6%	1.7%	1.9%
Average earnings	3.5%	2.8%	2.9%	3.0%
Interest rates (Q4)*	0.75	0.75	0.75	1.00
NetTrade-Goods&Services-%GDP*	-1.2%	-1.7%	-2.1%	-2.6%
BofP-CurrentAccount-%GDP*	-3.9%	-4.5%	-4.9%	-5.5%
PSNBex-BCC forecast-FinYears-%GDP*	2.9%	2.9%	2.4%	
PSNBex-BCC forecast-FinYears-£bn*	63.6	65.5	57.0	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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