

BRITISH CHAMBERS OF COMMERCE

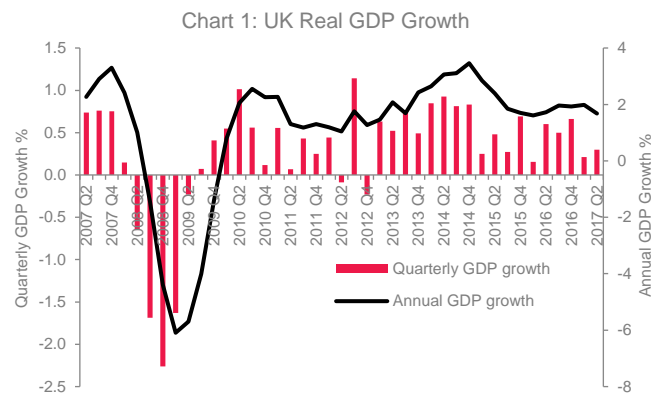
MONTHLY ECONOMIC REVIEW AUGUST 2017

Monthly headlines:

- UK GDP growth up slightly in Q2, boosted by stronger service sector output
- Inflation slows in June, while the UK jobs market goes from strength to strength
- IMF downgrades its UK growth forecast as latest BCC QES points to subdued economic activity

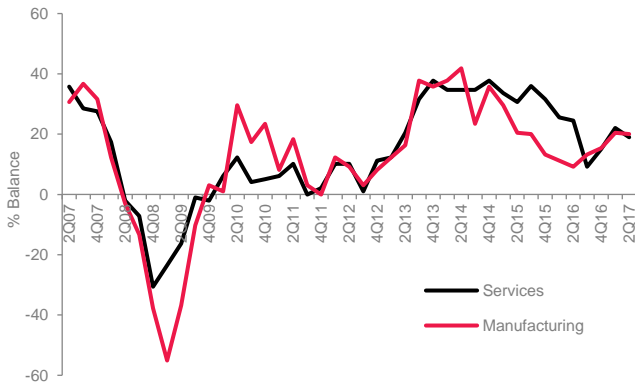
UK GDP growth subdued in Q2...

The first official estimate for Q2 2017 GDP growth revealed that the UK economy grew by 0.3% in Q2 2017, up slightly from the growth of 0.2% recorded in Q1 but less than half the pace of growth recorded at the end of 2016 (see Chart 1). UK economic output is currently 9% above its pre-recession peak. **The UK economy remains on track to grow by around 1.5% this year, which if realised would be the weakest rate of growth since 2012.** Overall, the first estimate of UK GDP growth for the second quarter of 2017 provides further evidence that the UK economy is trading water.



Source: ONS preliminary GDP estimate, Q2 2017

Chart 2: Domestic Sales



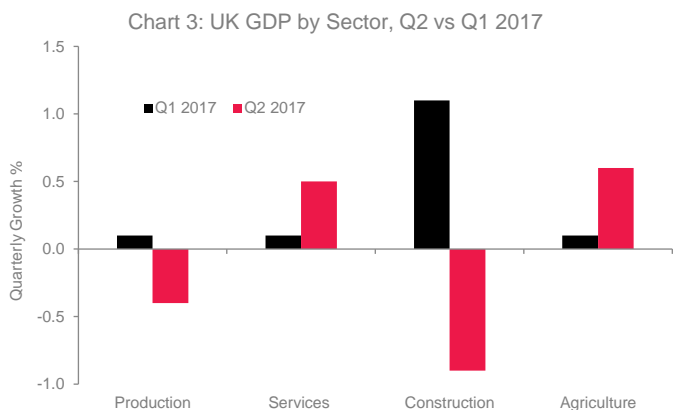
Source: BCC QES, Q2 2017

...mirroring the latest QES...

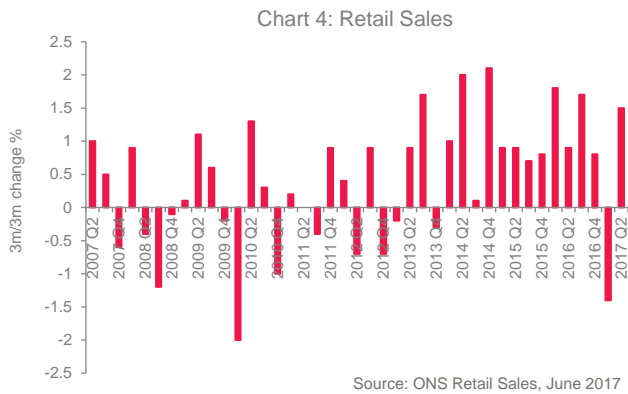
The results of the Q2 2017 Quarterly Economic Survey (QES) pointed to sluggish growth in the second quarter of 2017. The balance of firms in the service sector reporting increasing domestic sales fell from +22 to +19 (see Chart 2). In the manufacturing sector, the balance of firms reporting rising domestic sales held steady at +20. The latest balances show a continued pick-up in export activity for both service sector firms and manufacturers. The survey also recorded steady business confidence in the second quarter, but that rising cost pressures remain a key concern.

...as the services sector dominates...

The first estimate of UK GDP shows that economic growth remains unbalanced, with the service sector accounting for all of the growth recorded in Q2. The service sector – which accounts for over three quarters of UK economic output – grew by 0.5% in Q2 2017, up from the 0.1% recorded in the previous quarter (see Chart 3). In contrast, industrial production and the construction sectors were a slight drag on growth in Q2 with output falling by 0.4% and 0.9% respectively. Output from the agriculture sector rose by 0.6% over the same period.



Source: ONS Preliminary GDP estimate, Q2 2017

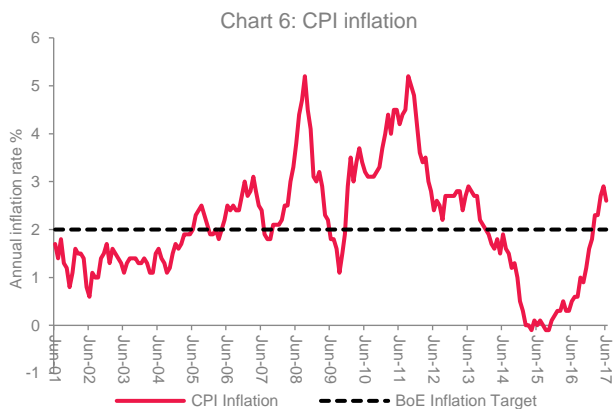
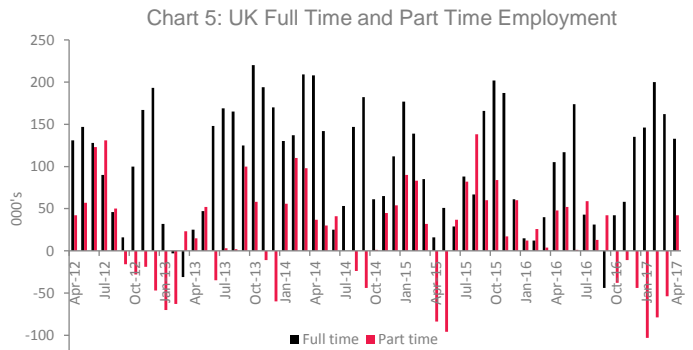


...boosted by higher output from the retail sector...

UK retail sales rose by 0.6% in June 2017 as the warmer weather helped boost sales of summer clothing. In annual terms sales were up by 2.9%. On a quarterly basis, retail sales increased by 1.5% in Q2 2017, compared to a drop of 1.4% in the previous quarter (see Chart 4). Average store price growth in annual terms slowed to 2.7% in June, from 3.2% in the previous month. Despite the recent improvement, trading conditions in the retail sector are expected to become more challenging in the coming months as rising inflation dampens consumer spending.

...UK labour market remains resilient...

In the three months to May 2017, UK employment rose by 175,000, mainly driven by a 133,000 rise in the number of full time workers (see Chart 5). UK unemployment dropped by 64,000 over the same period. These figures suggest the UK's jobs market is edging closer to full capacity. UK labour market conditions may start to moderate over the coming months as uncertainty over the impact of Brexit and the burden of upfront business costs takes its toll on jobs growth. However, the UK jobs market is likely to remain a source of strength for the UK economy.



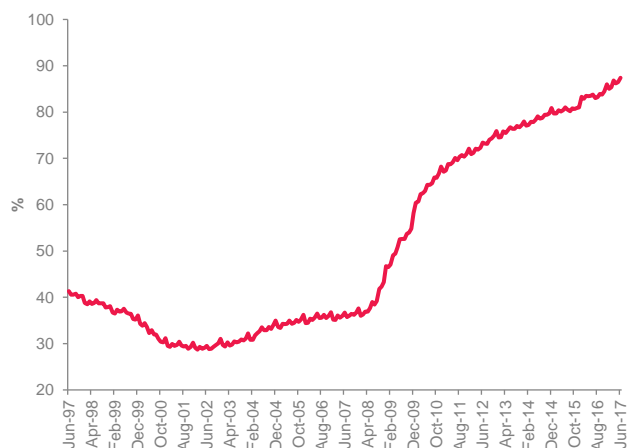
...while inflation slows...

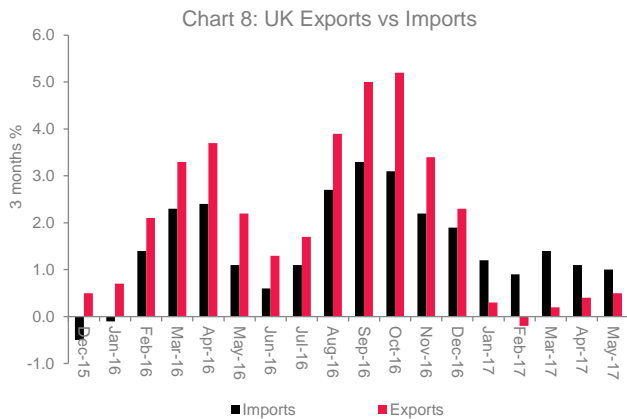
UK CPI inflation stood at 2.6% in June 2017, down from the 2.9% rise recorded in the previous month, but is still above the Bank of England's 2% inflation target (see Chart 6). Falling fuel prices were the main driver behind the fall in the inflation rate last month. Fuel prices dropped by 1.1% in June 2017, the fourth successive monthly decline. While inflation is likely to resume its upward trend in the coming months, there is some evidence that inflationary pressures in the supply chain are starting to ease. If this trend continues inflation is likely to peak sooner rather than later.

...it still weakens the UK public finances...

Public-sector borrowing (excluding public-sector banks) showed a deficit of £6.9 billion in June, £2 billion higher than in June 2016. The increase was due to recent rises in inflation pushing up the cost of index-linked bonds for the government. Between April and June 2017, public sector net borrowing was £1.9 billion higher than in the same period in the previous financial year. Public sector net debt stood at 87.4% of GDP in June 2017, almost three times pre-crisis levels (see chart 7). With the slowing UK economy likely to weaken tax revenues, deficit reduction is expected to prove the increasingly difficult over the near term.

Chart 7: Public Sector Debt as a % of GDP





Sources: ONS UK trade data, May 2017

...as UK's trade deficit widens further...

The UK trade deficit in goods and services was £3.1 billion in May 2017, a widening of £1 billion from April. In the three months to the end of May, the deficit widened to £8.9 billion, from £6.9 billion. **The widening in the deficit was driven by a 1.0% rise in imports**, which was only partly offset by a 0.5% increase in exports over the same period (see Chart 8). There remains little evidence that the drop in the value of sterling since the EU referendum is providing a net boost to UK exporters. That said, with economic conditions in key trading markets improving, we forecast that UK exports will grow by 3.1% this year, up from 1.8% in 2016.

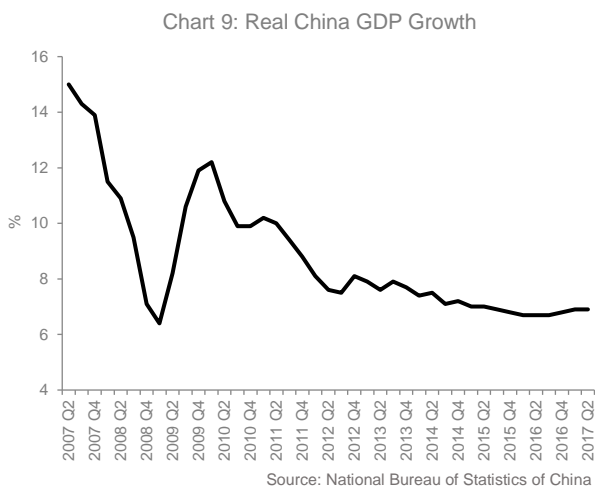
...as the IMF downgrades UK outlook...

The International Monetary Fund (IMF) has downgraded its outlook for the UK economy. **The IMF cut its GDP forecast for 2017 to 1.7%, from its previous forecast of 2.0%.** However, The IMF's latest outlook remains slightly more optimistic than the latest BCC growth forecast for this year of 1.5% (see Table 1). The IMF forecast for UK growth in 2018 was unchanged at 1.5%, also slightly above the BCC's latest forecast. Overall, the IMF's latest forecasts of UK GDP points to a growing consensus that the UK economy is in a more challenging period.

Table 1: UK GDP Growth Forecast Comparison

GDP Growth (Annual % change)	2017	2018	2019
OBR	2.0	1.6	1.7
Bank of England	1.9	1.7	1.8
IMF	1.7	1.5	-
BCC	1.5	1.3	1.5

Sources: BCC, OBR, IMF and Bank of England



Source: National Bureau of Statistics of China

...Chinese GDP growth remains above target.

China's economy, the world's second-largest, grew at an annual rate of 6.9% in Q2 2017. While this was unchanged from the previous quarter (see Chart 9), it was higher than the government's current growth target of 6.5%. **Growth was partly driven by firmer exports and production, amid an improving global outlook.** Domestic consumption also remains strong with retail sales rising by 11% in annual terms. Despite strong growth in the first half of the year, government attempts to tackle rising debt levels and concerns over the health of their financial system could push Chinese growth lower. There also remain questions over the accuracy of China's GDP data.

Bottom line:

Overall, the latest data suggest that UK economic conditions are becoming more challenging. It is therefore vital that as well as reaching a comprehensive agreement with the EU, longstanding domestic issues, including the multitude of upfront business costs that continue to undermine the UK's long-term growth prospects, are addressed.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
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.