

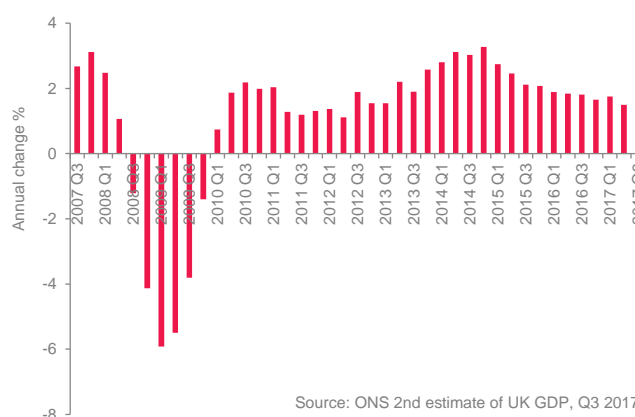
**Monthly headlines:**

- UK GDP growth in Q3 unrevised as business investment and the UK’s trade position weakens
- UK interest rates rise for the first time since July 2007, while inflation holds steady
- The OBR forecasts weaker economic and fiscal outlook for the UK amid subdued productivity

**UK growth unrevised in Q3...**

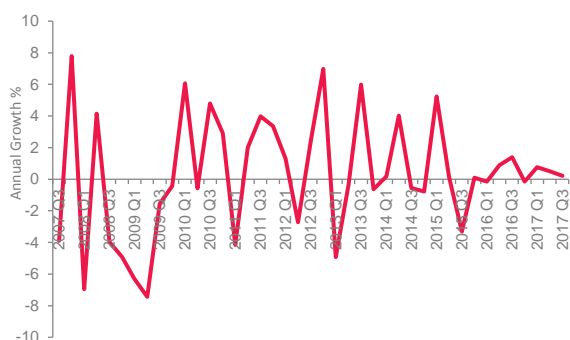
The second official estimate of economic growth (GDP) recorded UK economic growth of 0.4% in Q3 2017, unrevised from the preliminary estimate and up slightly from the growth of 0.3% recorded in the previous two quarters. UK economic output is now 9.7% above its Q1 2008 pre-recession peak. In annual terms, the UK economy grew by 1.5% in Q3, the joint slowest rate of growth since Q2 2012 (see Chart 1). At a sector level, **services remained the strongest contributor to GDP growth in Q3 2017**, with growth in the main sectors broadly unrevised from the previous estimate.

Chart 1: UK Real GDP Growth



Source: ONS 2nd estimate of UK GDP, Q3 2017

Chart 2: UK Business Investment



Source: ONS 2nd estimate of UK GDP, Q3 2017

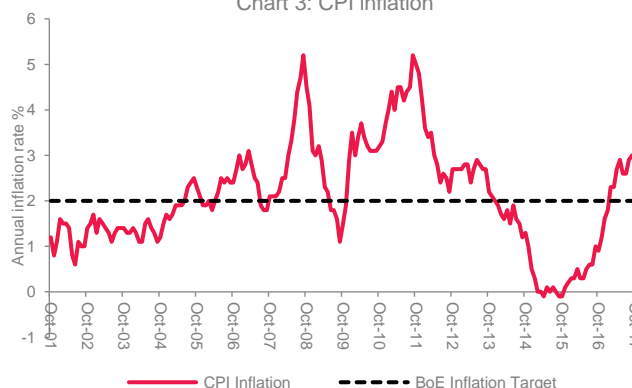
**...as business investment growth slows...**

The latest Q3 2017 GDP estimate revealed that business investment grew by 0.2% in the quarter, lower than the growth of 0.5% recorded in the previous quarter (see Chart 2). **Net trade was a drag on overall economic growth in Q3 2017**, knocking 0.5 percentage points off GDP growth in the quarter. In contrast, consumer spending was a key driver of Q3 growth, rising by 0.6% in Q3, up from the growth of 0.2% recorded in the previous quarter. Overall, the latest estimate confirms that the UK economy remains unbalanced.

**...while inflation holds steady...**

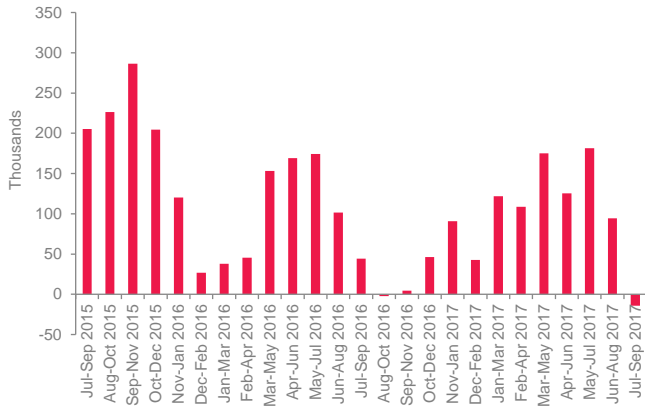
CPI inflation stood at 3.0% in July 2017, unchanged from the previous month but more than three times the rate at the same point a year ago (see chart 3). Rising food prices provided the largest upward contributions to change in the rate. However, this was offset by falling motor fuel and furniture prices. It remains probable that while inflation may drift above 3% in the coming months, **the current spike in inflation is likely to peak shortly** with slowing price growth at the factory gate suggesting that supply chain price pressures are easing.

Chart 3: CPI inflation



Source: UK consumer price inflation: October 2017

Chart 4: UK Employment



Source: ONS Labour Market Data, November 2017

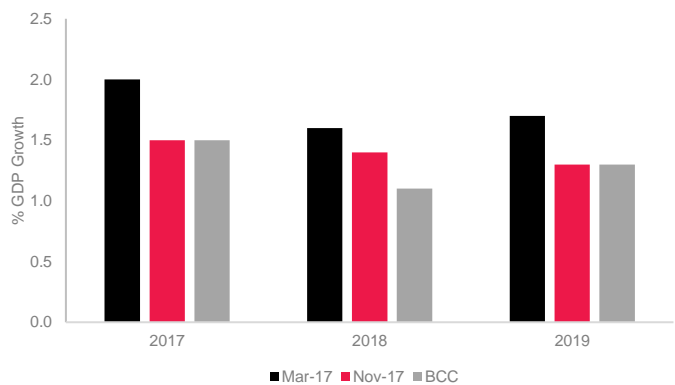
**...UK employment falls...**

In the three months to September, UK employment fell by 14,000, the first drop since the three months to October 2016 (see Chart 4). However, the number of people who are unemployed did drop by 59,000 over the same period. The drop in both UK unemployment and employment was due to the rise in people who are economically inactive (not working and not seeking or available to work). UK labour market conditions may moderate over the next year, as a slowing economy start to take its toll on jobs growth. That said, the flexibility of the UK jobs market will help limit the extent of any rise in unemployment.

**...OBR downgrades UK growth outlook...**

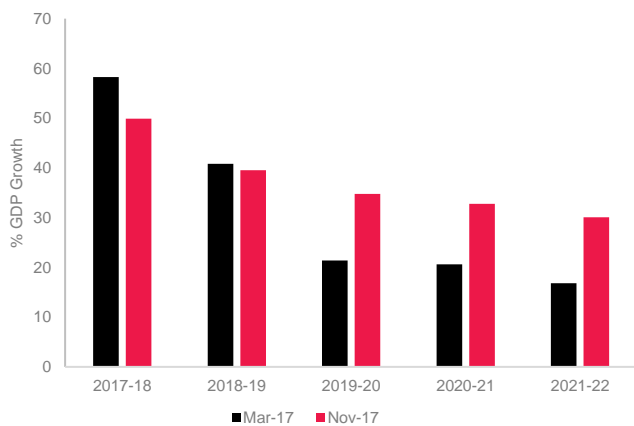
In its latest economic forecast, the Office for Budget Responsibility (OBR) expects GDP growth of 1.5% for 2017, lower than their previous forecast of 2.0% published in March 2017 (see Chart 5). The OBR's 2018 growth forecast has been downgraded from 1.6% to 1.4%. Forecasted growth in 2019 has also been cut from 1.7% to 1.3%. The OBR's revised forecasts mainly reflect their weaker outlook for productivity compared to their previous forecast. The OBR's latest GDP growth forecasts are now slightly more in line with the BCC's latest growth projections across the forecast period.

Chart 5: OBR UK GDP Growth Forecasts



Sources: BCC, OBR Economic Outlook, November 2017

Chart 6: Public Sector Net Borrowing Forecasts



Source: OBR Fiscal Outlook, November 2017

**...and a weaker fiscal outlook...**

The OBR expects public-sector net borrowing to reach £49.9 billion in 2017-18, £8.4 billion lower than their March 2017 forecast (see Chart 6). However, the OBR now forecast that UK public-sector borrowing will be £29.1 billion higher over this parliament than they had forecast in March 2017. The OBR's downgrades to their forecast for UK GDP (see Chart 5) and productivity growth were the main reasons behind the weaker fiscal outlook. The OBR's latest forecasts also revealed that the £26 billion 'fiscal headroom' previously identified to help stimulate the economy through more spending or tax cuts has now shrunk by £11 billion to £15 billion.

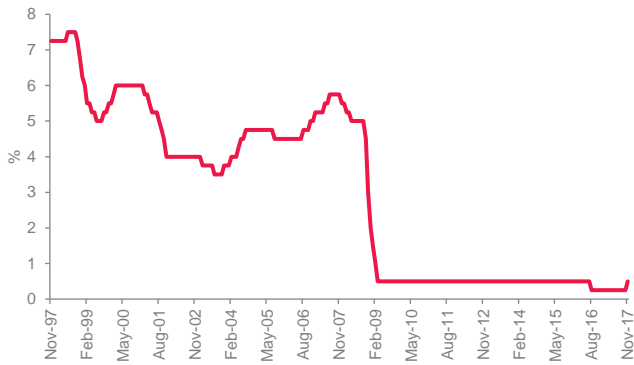
**...UK productivity picks up in Q3...**

UK productivity, as measured by average output per hour worked, rose by 0.9% in Q3 2017, the fastest rate of growth since Q2 2011 and is in marked contrast to the declines in the first half of the year (see Chart 7). The increase in productivity in Q3 was a driven a slight pick-up in GDP growth in the quarter (see Chart 1) and a fall in total hours worked. Despite the pick-up in productivity in Q3, the longer-term trends remain subdued. UK's productivity performance continues to be hampered by the deep-rooted problems, from skills shortages to creaking infrastructure.

Chart 7: UK Productivity (Output per hour worked)



Chart 8: UK Official Interest Rates



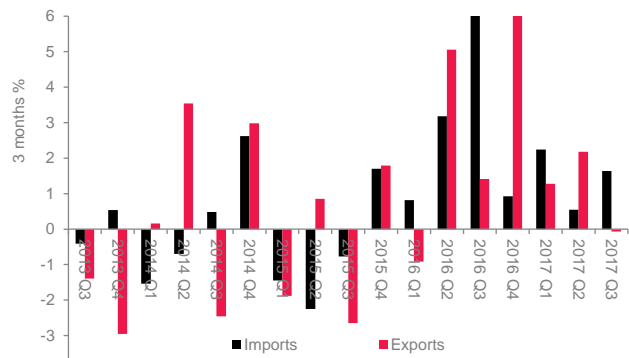
**...but UK interest rates rise ...**

The Bank of England's Monetary Policy Committee (MPC) have increased UK interest rates to 0.50%. This is the first time since July 2007 that UK interest rates have been increased (see Chart 8). The move reverses the cut in August 2016, which was made in the wake of the vote to leave the European Union. **With economic growth becoming more sluggish and continued uncertainty over Brexit it remains likely that the next interest rate rise is some way off.** While interest rates are likely to return to close to their historical average at some point, it should be done slowly and timed to not weaken the UK's growth prospects.

**...as UK's trade position remains weak...**

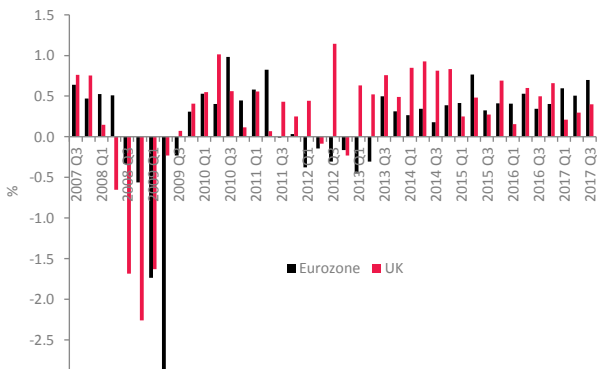
The UK trade deficit in goods and services was £2.7 billion in September 2017, a narrowing of £0.7 billion from August. However, for the third quarter of 2017, the deficit widened by £3 billion, to £6.9 billion in the previous quarter. **The widening in the deficit was driven by a 1.6% rise in imports and a 0.2% drop in exports over the same period (see chart 9).** While exports to EU countries rose by £0.9 billion, this was more than offset by a £1.7 billion fall in exports to non-EU countries. There remains little evidence that the drop in the value of sterling has boosted the UK's net trade position.

Chart 9: UK Exports vs Imports



Source: ONS UK trade data, September 2017

Chart 10: Real GDP: Eurozone vs UK



Source: Eurostat

**...the Eurozone grows steadily in Q3.**

The Eurozone economy grew by 0.6% in Q3 2017 (see Chart 10), down slightly from the growth of 0.7% recorded in the previous quarter. Eurozone growth in Q3 was mainly powered by Germany's economy, the biggest in the Eurozone, which grew by 0.8% in Q3, up from the growth of 0.6% recorded in the previous quarter. France, the Eurozone's second largest economy, grew by 0.5% in Q3. **Latvia (1.5%) recorded the strongest growth in the quarter**, followed by Finland (1.1%). In contrast, Lithuania recorded the weakest growth (0.1%), followed by Belgium (0.3%). Overall, the latest data confirms that the outlook for the Eurozone is improving.

**Bottom line:**

**The latest data releases reinforce our own view that the UK economy is in a prolonged period of sub-par growth. As we move through the Brexit process there needs to be a greater focus on measures to boost confidence and growth, including addressing the escalating burden of up-front taxes and costs associated with doing business in the UK.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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