

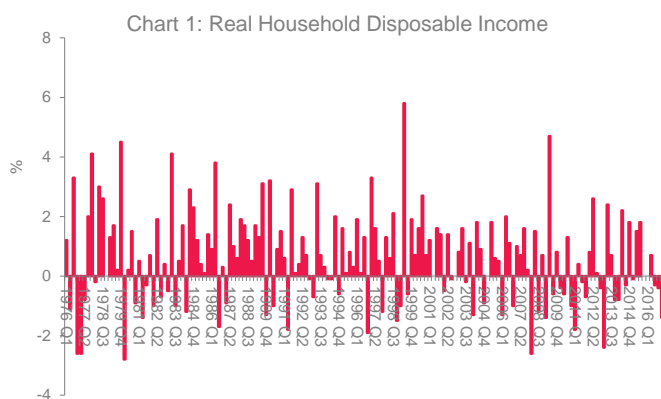
MONTHLY ECONOMIC REVIEW JULY 2017

Monthly headlines:

- UK GDP growth in Q1 unrevised at 0.2%, the lowest in the G7 and the EU
- Retails sales fall as inflation continues to rise and wage growth weakens further
- BCC forecasts anaemic growth, inflation and uncertainty likely weigh on the UK growth prospects

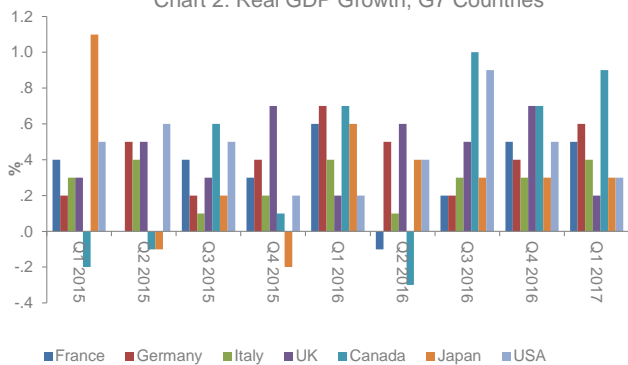
UK GDP growth in Q1 unrevised at 0.2%...

The third official estimate for Q1 2017 UK economic growth (GDP) stood at 0.2%, unrevised from the previous estimate. The latest estimate of UK GDP growth also revealed that real household disposable income fell by 1.4% in Q1 2017, the largest decline since Q1 2013. **This was also the third successive quarterly fall in real household disposable incomes - the longest contraction since the late 1970's (See Chart 1).** If this trend continues the downward pressure on consumer spending, a key driver of UK growth, will increase.



Source: ONS Quarterly National Accounts, Q1 2017

Chart 2: Real GDP Growth, G7 Countries



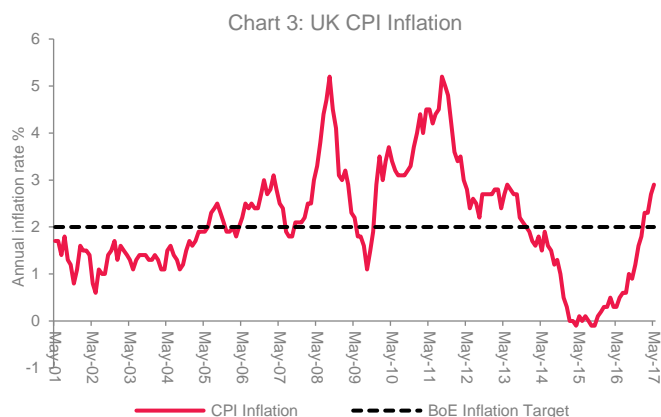
Source: ONS Quarterly National Accounts, Q1 2017

...the lowest in the G7 and the EU...

The UK's Q1 GDP growth of 0.2% was the slowest in the G7 (see Chart 2). **Canada (0.9%) recorded the strongest growth in the G7**, followed by Germany (0.6%) and France (0.5%). This was in marked contrast to the final quarter of 2016 when the UK recorded the joint highest growth in the G7. The UK also recorded the weakest growth among EU member countries in the first quarter of 2017. Romania (1.7%) recorded the strongest growth in the EU in Q1, followed by Latvia (1.6%) and Slovenia (1.5%). Greece (0.4%) recorded the second weakest growth, still double the growth recorded in the UK in Q1.

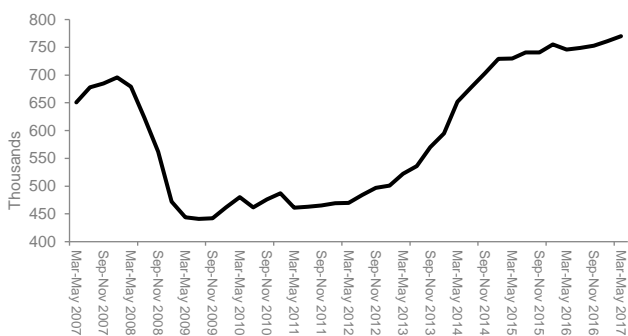
...and with inflation reaching a 4-year high...

UK CPI inflation stood at 2.9% in May 2017, the highest rate since June 2013 and up from the 2.7% rise in April (see Chart 3). Inflation has now been above the Bank of England's 2% target for four successive months with the decline in the value of sterling since the EU referendum vote pushing up the cost of imported raw materials. **We expect inflation will continue to rise over the coming months**, peaking at 3.4% by the end of the year as the recent sizeable increases in the cost of imported raw materials continue to filter through supply chains.



Source: ONS Consumer Price Inflation, May 2017

Chart 4: UK Job Vacancies



Source: ONS Labour Market data, June 2017

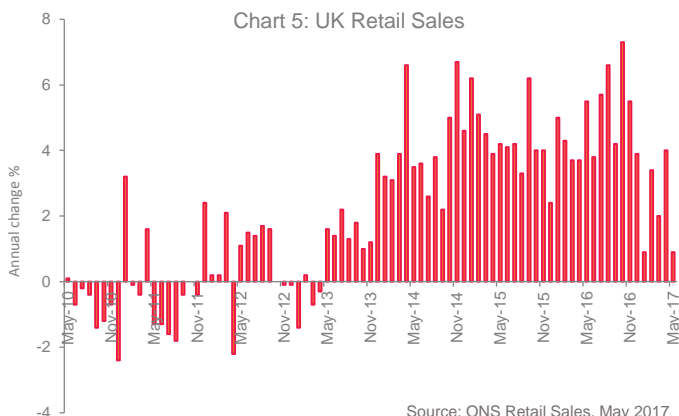
...and earnings growth slowing...

In the three months to April 2017, UK employment rose by 109,000. The number of people who are unemployed declined by 50,000 over the same period. However, **while the UK jobs market remains on a firm footing the strong headline figures mask some significant concerns.** With regular earnings growth slowing from 1.8% to 1.7%, the gap between pay and price growth widened further, increasing the squeeze on consumers. There is also further evidence of the growing skills shortage with the number of job vacancies up by 9,000 to 770,000 in the three months to May 2017 (**see Chart 4**).

...UK growth set to remain subdued in Q2...

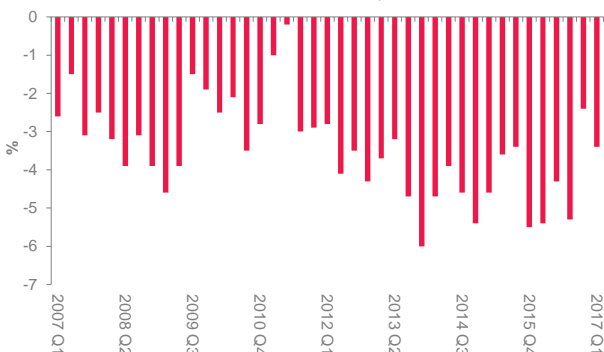
Retail sales dropped by 1.2% in May. While sales were up by 0.9% in annual terms, this was the weakest growth since April 2013 (**see Chart 5**). The main reason for the slowdown was a 1.2% fall in non-food store sales. There is further evidence that consumer spending continues to be hampered by rising prices. Average store prices rose by 2.8% on the year, the biggest increase since March 2012. **Overall, while recent economic data has been mixed, GDP growth looks to have remained subdued in Q2**, though a slight bounce back from Q1's very weak reading is possible.

Chart 5: UK Retail Sales



Source: ONS Retail Sales, May 2017

Chart 6: UK Current Account Position (as a % of GDP)



Source: ONS Balance of Payments, Q1 2017

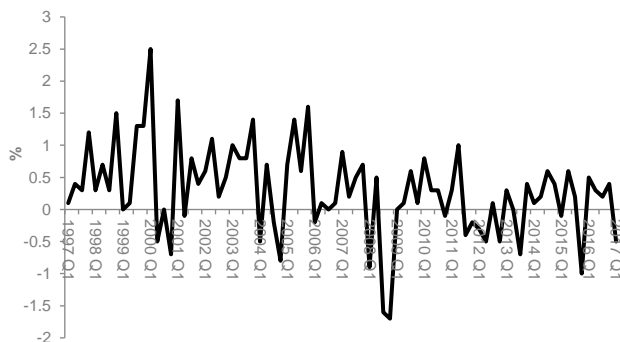
...rebalancing is still a major challenge...

The UK's current account deficit (the gap between what the UK earns and spends) rose from £12.1 billion to £16.9 billion in Q1 2017. The current account deficit in Q1 2017 equated to 3.4% of UK GDP, over three times the historic average (**see Chart 6**). **The deterioration in Q1 was due to the UK's trade deficit widening from £4.8 billion to £8.8 billion.** UK exporters are likely to be helped in the coming months by the brighter growth outlook for the global economy. However, while some firms are benefiting from a weaker sterling, there remains little evidence that it is materially boosting the UK's overall trade position.

...as UK productivity falls...

UK productivity, as measured by output per hour worked, fell by 0.5% in Q1 2017, the first decline since Q4 2015 (**see Chart 7**). Productivity is now 0.4% below the pre-recession peak in Q4 2007. **UK productivity has consistently been among the weakest in the G7.** In contrast to previous recessions, productivity failed to bounce back as the UK economy recovered from the 2008/09 recession. While the decline in productivity is partly due to the record employment levels, longstanding domestic issues, including the chronic skills shortages and creaking infrastructure have also stifled productivity.

Chart 7: UK Productivity (Output per hour worked)



Source: ONS Productivity data, Q1 2017

Table 1: UK GDP Growth Forecast Comparison

GDP Growth (Annual % change)	2017	2018	2019
OBR, Mar-17	2	1.6	1.7
Bank of England (May-17)	1.9	1.7	1.7
HMT Consensus (June-17)	1.6	1.4	-
BCC Q2 17	1.5	1.3	1.5
BCC Q1 17	1.4	1.3	1.5

Sources: BCC, HMT, OBR and Bank of England

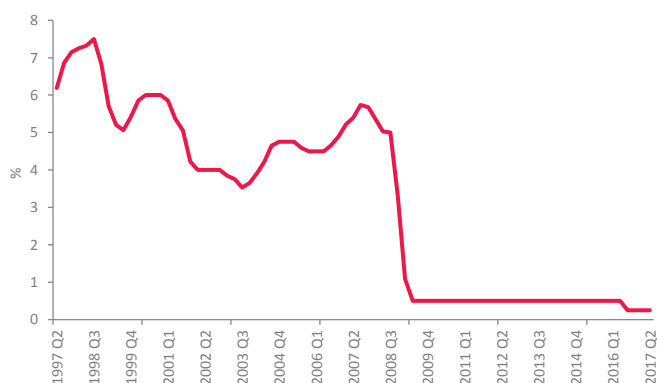
...BCC forecasts anaemic UK growth...

The BCC has slightly upgraded its UK economic growth (GDP) forecast for 2017 from 1.4% to 1.5% (see Table 1) mainly as a result of a stronger outlook for the global economy, including in key markets for UK businesses. Our projections for UK GDP growth in 2018 and 2019 have remained unchanged at 1.3% and 1.5% respectively. Rising inflation is expected to squeeze consumer spending and weaken investment. Uncertainty following the General Election and the impact of Brexit is also likely to weigh on UK growth. **Overall, our forecast suggests that the UK is set for a prolonged period of subdued, below average economic growth.**

...as the vote on UK interest rates tightens...

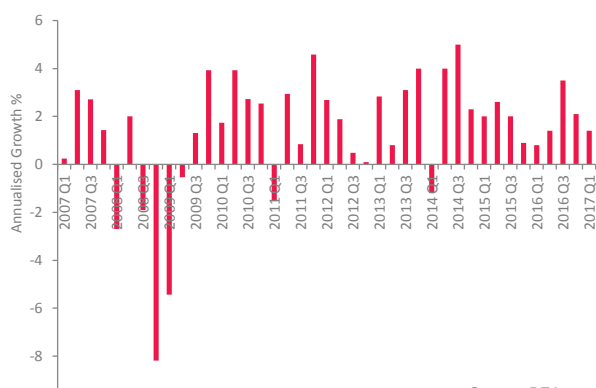
The Bank of England's Monetary Policy Committee (MPC) kept UK interest rates on hold at 0.25% in June (see Chart 8). However, the minutes from the last MPC meeting revealed that the vote on interest rates tightened from 6-1 to 5-3 in favour of keeping rates on hold. **Our new forecast assumes that UK official interest rates will increase in Q1 2018**, three quarters earlier than predicted in our previous forecast. That said, an earlier than required tightening in monetary policy could weaken confidence and push UK growth materially lower.

Chart 8: UK Interest Rates



Source: Bank of England

Chart 9: US Real GDP Growth



Source: BEA

...and US growth is revised up again.

The US economy grew by an annualised rate of 1.4% in Q1 2017, according to the third official estimate. This was up from the previous estimate of 1.2%, but still lower than the growth of 2.1% recorded in Q4 (see Chart 9). The upward revision was driven by consumer spending rising by 1.1%, higher than the previous estimate of 0.6%. Despite the upgrade, **the prospect of President Trump's GDP growth target of 3% being met looks remote** with the IMF downgrading its US GDP growth forecast for 2017 from 2.3% to 2.1%. Concerns over the viability of some of President Trump's proposals to boost growth have weakened US's growth outlook.

Bottom line:

Overall, the latest data releases suggest that UK economic conditions remained subdued in Q2 with rising inflation and political uncertainty weighing on economic activity. With economic conditions moderating, more must be done to tackle longstanding issues, from the chronic skills shortage to our creaking digital and physical infrastructure, that continue to undermine the UK's long-term growth prospects.

For more information please contact Suren Thiru, Head of Economics and Business Finance.
Email: s.thiru@britishchambers.org.uk. Tel: 0207 654 5801

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Household	Retail Sales (ONS)	Improving	Deteriorating	Improving	Deteriorating	No change	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Deteriorating
	Consumer Confidence (GfK NOP)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	No change	Deteriorating	Deteriorating	Deteriorating
	House Prices (Halifax)	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	No change	Deteriorating	Deteriorating
	New car sales (SMMT)**	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating
	Mortgage approvals (Bank of England)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Business	Business confidence (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Business lending (Bank of England)	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving
	Service sector output (ONS)	Improving	No change	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating
	Production output (ONS)	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating
	Investment intentions (BCC)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	No change	No change	No change	Deteriorating	Deteriorating	Deteriorating
Labour market	Employment (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
	Unemployment (ONS)	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Earnings (ONS)	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Economic Inactivity (ONS)	No change	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
Government	Public sector net borrowing (ONS)**	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving
	Public sector net debt % of GDP (ONS)**	No change	Improving	Improving	No change	Improving	Improving	Deteriorating	No change	Improving	Improving	Deteriorating	Improving	Deteriorating
	Tax receipts (HMRC)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Current Budget Deficit (ONS)**	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating
External	UK trade balance (ONS)	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Export Sales (BCC)***	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Export orders (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Financial	Exchange rate (Bank of England)	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating
	Equity Prices (Bloomberg)	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving
	10 year Government bonds (Bloomberg)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving

*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.