

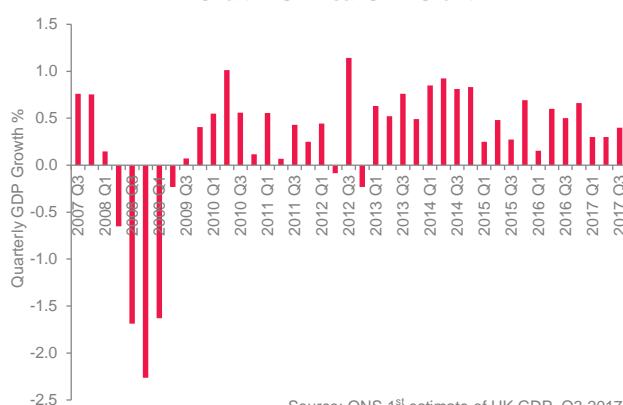
### Monthly headlines:

- UK economic conditions remain subdued, despite GDP growth picking up slightly in Q3
- BCC QES pointed to muted Q3 growth with the manufacturing boost failing to lift UK GDP growth
- Eurozone economy continues to outpace the UK as the US economy enjoys a strong Q3

### UK economy grew by 0.4% in Q3...

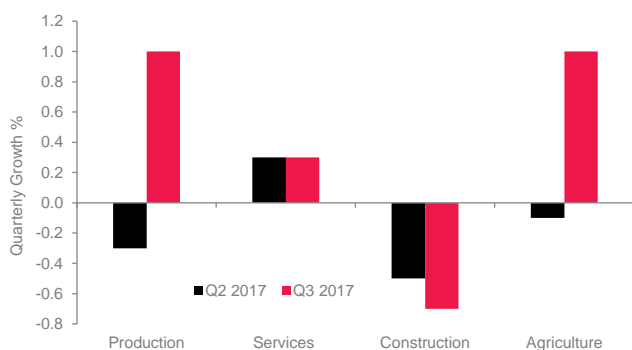
The first official estimate of UK GDP put growth in the third quarter at 0.4%, up slightly on the growth of 0.3% recorded in the previous quarter (see Chart 1) and stronger than had been expected. UK economic output is now 9.7% above its Q1 2008 pre-recession peak. While GDP growth in Q3 was a slight uptick on the previous quarter, the UK's combined economic growth performance over the first nine months of 2017 was still the weakest since late 2012. Overall, the latest GDP data suggests that the UK economy remains on a low growth trajectory.

Chart 1: UK Real GDP Growth



Source: ONS 1<sup>st</sup> estimate of UK GDP, Q3 2017

Chart 2: UK GDP by Sector, Q3 vs Q2 2017



Source: ONS 1<sup>st</sup> estimate of UK GDP, Q3 2017

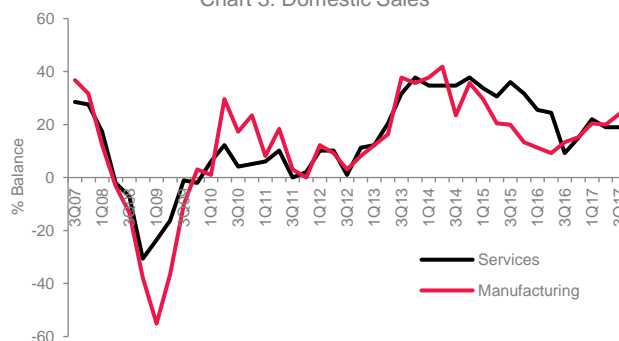
### ...with the industrial sector a bright spot...

Economic growth in Q3 2017 was mostly driven by the services sector. Output from the services sector, which accounts for over three-quarters of the UK's economic output, rose by 0.4% in Q3, unchanged from Q2 (see Chart 2). Industrial production grew by 1% in Q3, up from a decline of 0.3% in Q2. However, construction sector output fell by 0.7% in Q3 which means that the sector is now in a 'technical recession', following a decline of 0.5% in the previous quarter. Overall, the GDP figures for Q3 confirm that UK economic growth remains unbalanced.

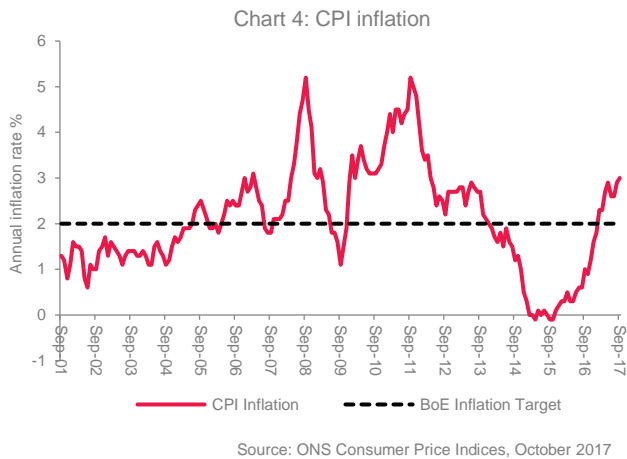
### ...mirroring the latest QES...

The results of the latest BCC Quarterly Economic Survey (QES) pointed to muted growth in Q3 2017. The balance of firms in the service sector reporting increasing domestic sales was unchanged at +19, below their pre-EU referendum level (see Chart 3). The proportion of firms in the manufacturing sector reporting improved domestic sales rose from +20 to +24, the highest since level since Q1 2015. The latest QES also confirms that recruitment difficulties in the services and manufacturing sectors remain significant.

Chart 3: Domestic Sales



Source: BCC

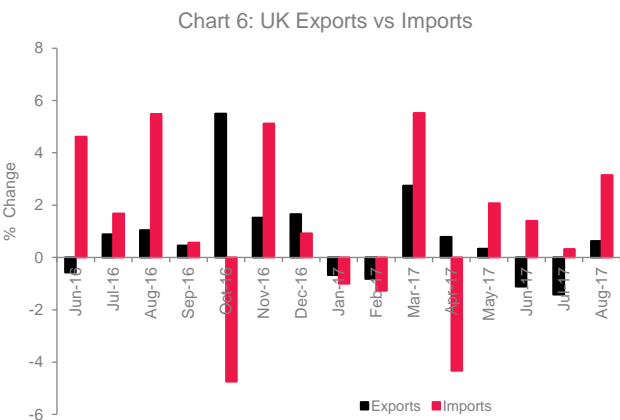
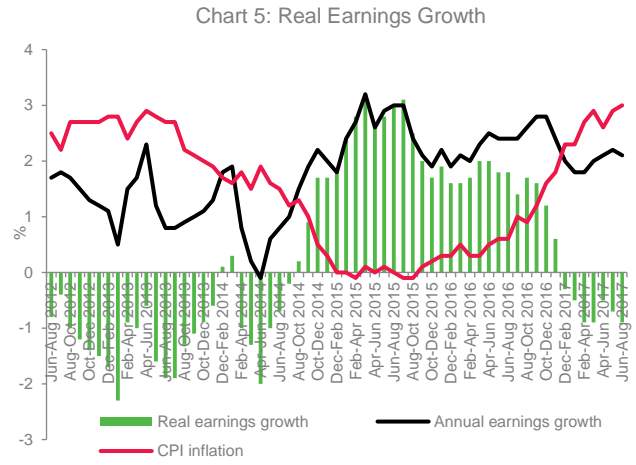


### ...as UK inflation rises to 3%...

UK CPI inflation rose to 3% in September 2017, the highest rate since March 2012 and up from the 2.9% increase in August. (see Chart 4). September's rise reflected increasing prices for food and recreational goods. However, there is little evidence that rising consumer prices is becoming embedded in stronger pay growth. The BCC's QES confirms that the percentage of firms citing pay settlements as the key driver behind price pressures remains well below the historic average. **Inflation is likely to peak by the end of the year before easing back in 2018** as the impact of the post-EU referendum slide in sterling subsidies.

### ...and UK jobs market remains resilient...

In the three months to August 2017, UK employment rose by 94,000, just over half the 175,000 jobs created in the previous three-month period (March-May 2017). The unemployment rate remains at a record low of 4.3%. With regular pay growth slowing from 2.2% to 2.1%, the gap between pay and price growth has widened further (see Chart 5), increasing the squeeze on consumers. Overall, **the latest jobs data provides further evidence that the UK jobs market remains resilient**, with firms still recruiting despite a softening economic picture.



### ...as UK's trade position weakens further...

The UK's trade deficit widened from £4.2 billion in July to £5.6 billion in August 2017, the biggest deficit since September 2016. While exports rose by 0.6% in September, this was more than offset by a 3.2% rise in imports over the same period (see Chart 6). There remains little evidence that the decline in sterling's value over the past year is boosting the UK's overall trade position. Businesses across the UK continue to report that the post-EU referendum weakness in sterling is hurting as much as its helping, with firms continuing to face higher input costs due to the weakening currency.

### ...UK 'diverges' from advanced economies...

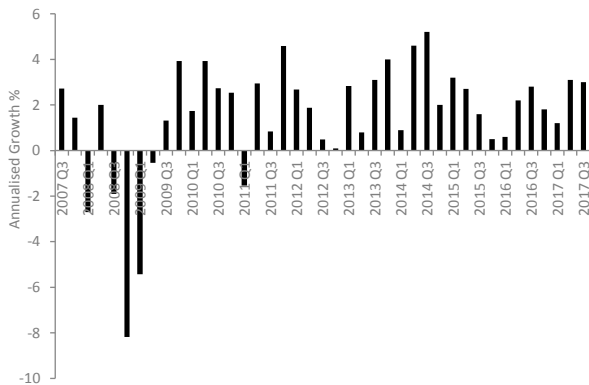
The International Monetary Fund (IMF) has downgraded its outlook for the UK economy. The IMF cut its GDP forecast for 2017 to 1.7%, from its previous forecast of 2.0% made in April. In contrast, the 2017 growth outlook in most of the other advanced economies, with the notable exception of the US, has improved since April (see Table 1). The IMF noted that the weakness in sterling since last summer has passed through into high UK inflation, in contrast to the pattern of low inflation in other advanced countries.

Table 1: IMF GDP Forecast Comparison

GDP Growth (Annual % change)	Apr-17	Oct-17	Change
Canada	1.9	3.0	1.1
US	2.3	2.2	-0.1
Germany	1.6	2.0	0.4
<b>UK</b>	<b>2.0</b>	<b>1.7</b>	<b>-0.3</b>
France	1.4	1.6	0.1
Italy	0.8	1.5	0.7
Japan	1.2	1.5	0.3

Source: IMF

Chart 7: US Real GDP Growth

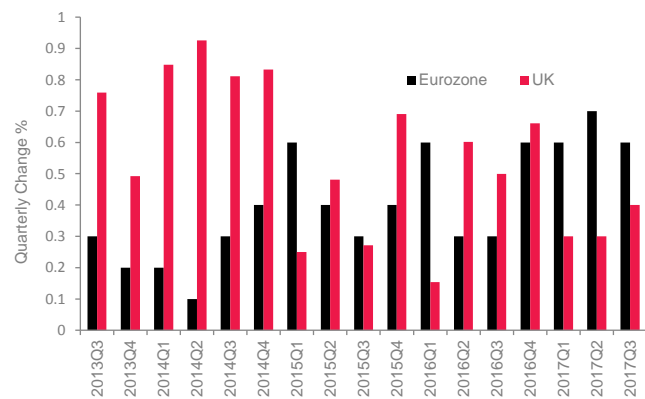


Source: BEA

### ...as US economy enjoys a strong Q3...

The US economy grew by an annualised rate of 3.0% in Q3 2017, according to the first official estimate, slightly lower than the growth of 3.1% recorded in previous quarter (see Chart 7). This is the second successive quarter that President Trump's GDP growth target of 3% has been met. The impact of Hurricanes Irma and Maria had been expected to weigh down on economic activity in Q3. However, **consumer spending rose by 2.4% in the quarter and made the biggest contribution to growth**. Business investment grew by 3.9% in Q3. The latest US GDP figures increase the likelihood of further US rate hikes in the coming months.

Chart 8: Eurozone, UK GDP growth

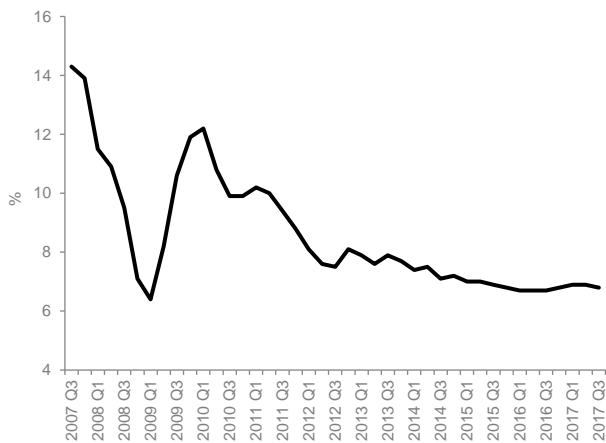


Sources: ONS, Eurostat

### ...Eurozone continues to outpace the UK...

The Eurozone economy grew by 0.6% in Q3 2017. This is down slightly from the growth of 0.7% recorded in Q2, but still well above the UK GDP growth of 0.4% over the same period (see Chart 8). **In annual terms, the Eurozone economy grew by 2.5% in Q3, the highest rate since Q1 2011**. Gradually improving labour market conditions and weak inflation have helped to boost consumer spending. Eurozone inflation stood at 1.4% in October 2017, down from 1.5% in September 2017. The Eurozone's unemployment rate stood at 8.9% in September 2017, down from 9.9% a year earlier.

Chart 9: Real China GDP Growth



Source: IMF

### ...and Chinese growth remains above target.

China's economy, the world's second-largest, grew at an annual rate of 6.8% in Q3 2017, higher than the government's current growth target of 6.5%, but down from the growth of 6.9% recorded in Q2 (see Chart 9). Despite the government's attempts to tackle China's high debt burden, credit grew faster than the economy itself in Q3 and helped drive growth in the quarter. Domestic consumption was an important driver of growth with retail sales rising by 10.3% in annual terms. China's economy is currently going through a series of significant structural changes to rein in debt and rebalance the economy away from export driven growth and towards consumption spending.

#### Bottom line:

**Overall, October's data releases suggest that the UK economic conditions remain muted. Against this backdrop, it is vital that the Autumn Budget delivers an ambitious programme of change that pulls out all the stops to support business growth, at a time of significant uncertainty and change. This must include action to ease the upfront cost pressures facing firms, including action on business rates.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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