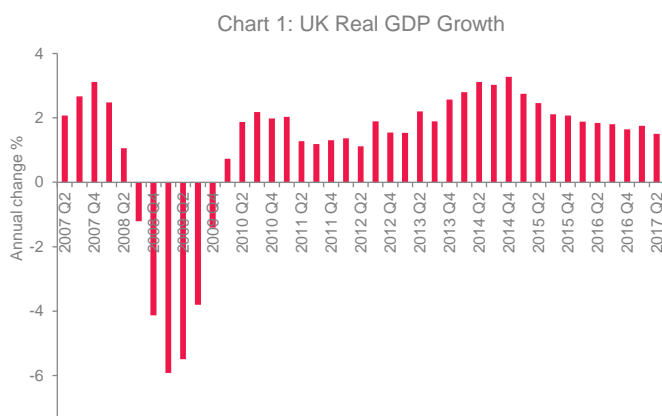


### Monthly headlines:

- UK GDP growth unrevised in Q2, the joint weakest in the G7 and the EU
- While UK labour market remains a bright spot, inflation resumes its upward trajectory
- BCC downgrades outlook for the UK economy with the fall in sterling failing to boost UK growth

### UK growth unrevised in Q2...

The second official estimate of UK economic output (GDP) recorded growth of 0.3% in Q2 2017, unrevised from the previous estimate and the growth recorded in Q1. However, due to data revisions in earlier quarters, the UK economy grew by 1.5% in annual terms in Q2, the slowest rate of growth since Q1 2013 (see Chart 1). The UK's confirmed GDP growth of 0.3% was the among the slowest in the G7 for the second successive quarter. Overall, the latest GDP figures suggests that the UK economy is on a low growth trajectory.



Source: ONS Quarterly National Accounts, Q2 2017

Chart 2: EU GDP Growth, Q2 2017\*



\*Ireland, Luxembourg data, not available for Q2 2017.

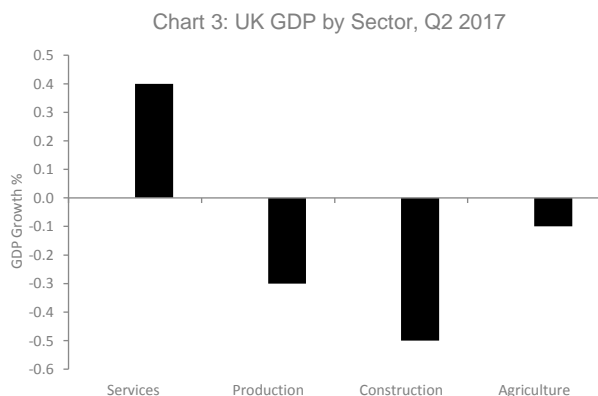
Source: Eurostat

### ...the joint lowest in the EU...

The UK's GDP growth of 0.3% in Q2 2017 was also the joint weakest in the EU (alongside Portugal). In contrast, the Czech Republic (2.5%) recorded the strongest growth amongst EU countries in Q2 (see chart 2). EU as a whole recorded GDP growth of 0.7% in Q2, up from the growth of 0.5% recorded in Q1. In annual terms, EU GDP growth picked-up to 2.4% in Q2 2017, up from 2.1% in the previous quarter. The pick-up in EU growth in Q2 was mainly driven by consumer spending, which rose by 0.5% in Q2, and together with stronger investment, helped to offset a smaller contribution from net trade.

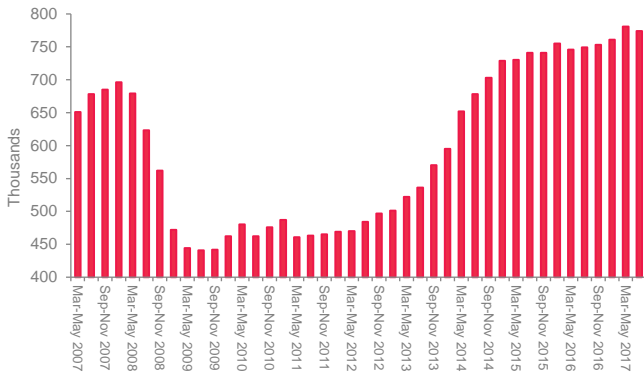
### ...and UK growth remains unbalanced...

UK GDP growth in Q2 was entirely due to growth in the service sector, with output from the other three main industrial groupings falling in Q2 (see Chart 3). Output from the service sector, which accounts for over three quarters of UK economic output, grew by 0.4% in Q2, up from 0.1% in Q1 2017. In contrast, industrial production (-0.3%), construction (-0.5%) and agriculture (-0.1%) contracted in Q2. Taken together, the Q2 GDP data confirms that UK growth remains unbalanced, with an over reliance on services and consumer spending to drive growth.



Source: ONS Quarterly National Accounts, Q2 2017

Chart 4: Job Vacancies



Source: ONS Labour Market Statistics, August 2017

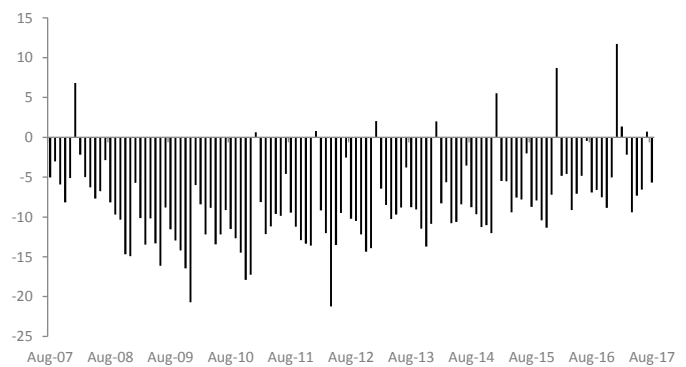
...while UK labour market remains a bright spot...

In the three months to July 2017, the number of people in employment rose by 181,000. The UK unemployment rate fell to 4.3%, down from 4.9% a year earlier and the lowest since 1975. However, **there is further evidence of the growing skills shortage with the number of job vacancies rising by 24,000 over the past year to 774,000 in the three months to July 2017 (see chart 4).** UK labour market conditions could moderate a little over the near term as the expected slowdown in GDP growth and the burden of upfront business costs take their toll on jobs growth.

...and government borrowing falls...

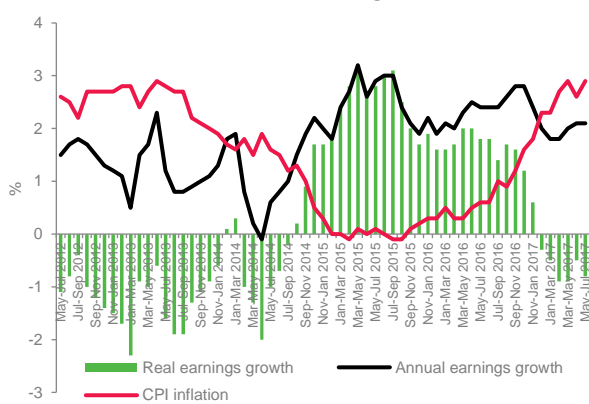
Public-sector borrowing (excluding public-sector banks) showed a deficit of £5.7 billion in August 2017, £1.3 billion lower than in August 2016. In the current financial year-to-date (April 2017 to August 2017), government borrowing totalled £28.2 billion, the lowest year-to-date net borrowing since 2007. **The improvement was mainly driven by a 5.6% rise in VAT revenue to £11.6 billion in August – a record outturn for the month.** However, deficit reduction is likely to prove more challenging over the next few years with a slowing UK economy likely to weaken tax revenue.

Chart 5: UK Government Borrowing



Source: ONS Public Finances, September 2017

Chart 6: UK Real Earnings Growth



Source: ONS Labour Market data, September 2017

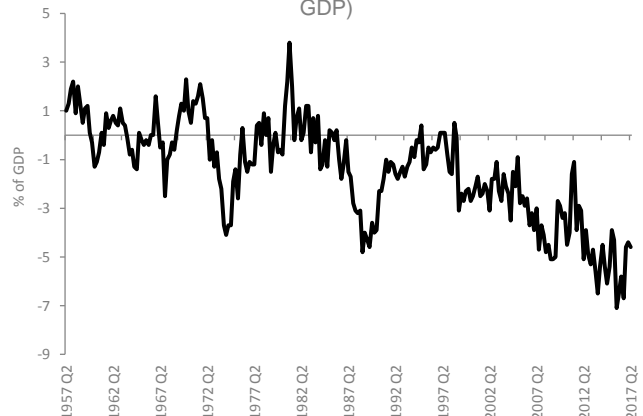
...inflation pick-ups again...

CPI inflation in the UK stood at 2.9% in August 2017, the joint highest rate since April 2012. The main contributors to the increase was a 4.6% rise in clothing and footwear prices, the biggest rise on record. With average earnings growth holding steady at 2.1%, the gap between pay and price growth remains significant **(see Chart 6).** While inflation remains elevated, we expect the current spike in inflation to peak at around 3% by the end of the year. However, **inflation is still forecast to outpace average earnings until 2019,** weighing on real wage growth and dampening consumer spending, a key driver of economic growth.

...and UK's current account deficit widens...

The UK's current account deficit (the gap between what the UK earns and spends) rose from £22.3 billion in Q1 2017 to £23.2 billion in Q2 2017. The current account deficit in Q2 2017 equated to 4.6% of UK GDP, up from 4.4% in Q1 2017 **(see Chart 8).** **The widening in the current account deficit was driven by a rise in foreign earnings on investment in the UK,** which increased the deficit on primary income to £10.2 billion in Q2 2017, from a deficit of £8.8 billion in Q1 2017. However, this was partly offset by a narrowing in the trade deficit to £6.5 billion in Q2 2017, from £8.9 billion in Q1.

Chart 7: UK Current Account Position (as a % of GDP)



Source: ONS Balance of Payments, Q2 2017

Table 1: OECD GDP Growth Forecasts

GDP Growth (Annual % change)	2017	2018
World	3.5	3.7
Canada	3.2	2.3
US	2.1	2.4
Eurozone	2.1	1.9
Japan	1.6	1.2
UK	1.6	1.0

Source: OECD

**...the OECD forecasts stronger global growth...**

The Organisation for Economic Co-operation and Development (OECD) are currently forecasting global GDP growth of 3.5% this year and 3.7% in 2018 (see **Table 1**), up from the growth of 3.0% recorded in 2016. GDP growth forecasts for the Eurozone, Japan and Canada have been revised upwards, reflecting a stronger than expected performance in the first half of 2017. The OECD expects the UK economy to grow by 1.6% this year, before slowing to 1% in 2018. The latest OECD growth forecasts suggest that the **UK economy will remain on a lower growth path compared to other major economies over the near term.**

**...as BCC downgrades growth outlook...**

The BCC has downgraded its medium-term outlook for the UK economy over the next few years. While the BCC has slightly upgraded its UK growth forecast for 2017 from 1.5% to 1.6%, its growth expectations for 2018 and 2019 have been cut from 1.3% to 1.2%, and 1.5% to 1.4% respectively (see **Table 2**). We expect falling real wages to dampen consumer spending. Business investment is forecast to remain sluggish, and we expect a weaker contribution from net trade. Overall, **our latest forecast suggests that the UK economic growth will be subdued for the next few years.**

Table 2: BCC GDP Growth Forecasts

GDP Growth (Annual % change)	BCC Q2 17	BCC Q3 17	Change
2017	1.5	1.6	0.1
2018	1.3	1.2	-0.1
2019	1.5	1.4	-0.1

Source: BCC

Chart 8: UK Official Interest Rates



Source: Bank of England

**...but UK interest rates could rise again.**

The Bank of England's Monetary Policy Committee (MPC) kept UK interest rates on hold at 0.25%. UK rates have now been on hold at the current record low for almost a year (see **Chart 8**). However, the Bank of England's Governor, Mark Carney, has signalled that interest rates could rise in the 'relatively near term' amid concerns over inflation and consumer debt levels. This means that the **central bank could raise UK interest rates as early as next month.** However, we believe that it is imperative that the MPC provides monetary stability during this period of political and economic uncertainty and should keep interest rates on hold over the near term.

**Bottom line:**

**Taken together, the latest data releases suggest that UK economic conditions remain subdued with GDP growth likely to weaken further over the near term. With UK economic conditions softening, it is crucial that the MPC holds its nerve on interest rates, particularly during this period of heightened political uncertainty. More must also be done to ease the burden of high upfront business costs which continue to impede firm's ability to invest, recruit and grow.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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