

BRITISH CHAMBERS OF COMMERCE

QUARTERLY ECONOMIC FORECAST Q2 2017

Headlines:

- UK set for a prolonged period of anaemic economic growth
- Consumer price inflation expected to peak at 3.4% in 2017, squeezing consumers and business
- While UK's long-term growth prospects remain uncertain, the risks are shifting to the downside

UK GDP growth forecast to remain lacklustre...

The British Chambers of Commerce (BCC) has slightly upgraded its UK growth forecast for 2017 from 1.4% to 1.5%. GDP growth of 0.4% is expected in Q2 2017. Despite slower than expected growth in the first quarter, the BCC has slightly upgraded its growth forecast for 2017 mainly as a result of stronger global outlook. Its expectations for growth in 2018 and 2019 remain unchanged at 1.3% and 1.5% respectively. Economic growth is expected to remain well below historical trend levels through the forecast period.

...while the net trade position should improve...

Export growth is expected to pick up to 3.1% in 2017 mainly as a result of stronger global outlook growth. While lower sterling has had mixed results of late, it remains likely to boost short-term export activity this year. Growth is then expected to remain steady over 2018 and 2019, at 2.9% and 2.8% respectively. Import growth is projected to slow from 2.8% in 2017 to 1.4% in 2018 as household consumption and investment soften, before accelerating to 1.6% in 2019 as domestic demand begins to pick up.

...inflation to remain a major challenge...

Rising inflation is anticipated to remain a key concern for businesses and consumers. With sterling continuing to trade at its post-EU referendum value and oil prices remaining firm, inflation is expected to peak at 3.4% towards the end of 2017. It is then projected to moderate slowly over 2018 and 2019, but remain above target. Our new central forecast is that the first increase in UK official interest rates, to 0.5%, will occur in Q1 2018. This is three quarters earlier than predicted in our Q1 forecast.

...stifling consumer spending and business investment.

Following a robust end to 2016, household consumption is expected to slow, growing at 1.3%, 0.9% and 1.2% over 2017, 2018 and 2019 respectively, as inflation continues to drag on real earnings growth. Business investment is forecast to start growing again in 2017 (after shrinking by 1.5% in 2016), albeit weakly at 0.3%, as upfront cost pressures continue to weigh on businesses' investment decisions.

“While we have slightly upgraded our outlook for 2017, our current forecast points to several years of subdued activity in the UK economy, with economic growth under-performing its historic average. Higher inflation is likely weigh significantly on the UK's near-term growth prospects. We expect inflation to rise further over the course of this year as the rising cost of imported raw materials continues to filter through supply chains. Consumer spending, a key driver of UK economic growth, is expected to slow considerably as inflation erodes real wages. Consumer spending, a key driver of UK economic growth, is expected to slow considerably as inflation erodes real wages.

“Although the UK's growth prospects over the long-term remain highly uncertain, the risks are shifting to the downside. Increased uncertainty in the aftermath of the General Election and around the Brexit negotiations could result in more muted growth. An earlier than required tightening in monetary policy could destabilise consumer and business confidence and push UK growth materially lower, particularly during this period of political instability. While interest rates need to rise at some point, it should be done slowly and steadily so as not to harm the UK's growth prospects.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q2 2017

(ANNUAL CHANGE %)

	2016	2017	2018	2019
GDP	1.8%	1.5%	1.3%	1.5%
Household Consumption	2.8%	1.3%	0.9%	1.2%
General government	0.8%	1.1%	1.0%	0.9%
Investment	0.5%	1.3%	0.6%	1.4%
of which: Business Investment	-1.5%	0.3%	0.5%	1.2%
Exports	1.8%	3.1%	2.9%	2.8%
Imports	2.8%	2.5%	1.3%	1.8%
Total Production	0.7%	0.9%	0.7%	1.1%
Manufacturing	0.8%	1.2%	0.6%	1.2%
Construction	2.4%	1.1%	0.7%	1.2%
Services	2.9%	1.7%	1.3%	1.6%
Unemployment rate %*	4.9%	4.9%	5.2%	5.1%
Unemployment 000's**	-147	12	104	-22
Youth unemployment rate %*	13.3%	13.4%	13.8%	13.7%
Youth unemployment 000's**	-82	-1	14	-13
CPI inflation	0.6%	2.9%	2.8%	2.5%
Average earnings	2.3%	2.3%	2.3%	2.5%
Interest rates*	0.40%	0.25%	0.30%	0.40%
Net Trade (Goods&Services) %GDP*	-1.9%	-1.4%	-1.0%	-0.6%
BofP-CurrentAccount-%GDP*	-4.4%	-2.6%	-2.0%	-1.6%
PSNBex-BCC forecast-FinYears-%GDP*	2.5%	3.1%	2.6%	1.8%
PSNBex-BCC forecast-FinYears-£bn*	48.7	62.8	56.2	39

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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