

QUARTERLY ECONOMIC FORECAST Q3 2018

Headlines:

- GDP growth has been revised downwards from to 1.1% in 2018 and to 1.3% in 2019
- The forecast downgrades have been driven by a weaker outlook for trade and investment
- Real wage growth to remain muted despite historically low unemployment rate

GDP growth revised downwards in the near term

The BCC has downgraded its growth expectations for the UK economy, forecasting GDP growth for 2018 at just 1.1% (down from 1.3%). The BCC has also downgraded its GDP growth forecast for 2019 from 1.4% to 1.3%. Our GDP growth forecast for 2020 is unchanged at 1.6%. Our latest forecast implies that by 2020 the UK economy will have experienced its second weakest decade of average annual GDP growth on record. The downgrades to our forecast for GDP growth in 2018 and 2019 have been driven by a weaker outlook for trade and investment. Consumer spending is also expected to remain weak with workers unlikely to experience meaningful real wage growth.

Export and investment growth to remain subdued

UK export growth is expected to slow to 1.7% in 2018, down from 2.8% in the previous forecast and then grow by 2.7% in 2019 and by 2.9% in 2020. Exporters are expected to face far more subdued growth given continued Brexit uncertainty and the expected slower growth in key markets. As a consequence, we expect a negative contribution from trade over the forecast period. The outlook for investment is more subdued than in our previous forecast with persistent economic and political uncertainty expected to increasingly weigh on investment intentions. Total investment growth of 1.4% is expected in 2018 (down from 1.8% in the previous forecast), with growth of 1.4% in 2019 and 1.5% in 2020. Business investment growth is expected to be weaker across the forecast horizon than in our Q2 forecast. The high upfront cost of doing business in the UK and the ongoing uncertainty over the UK's future relationship with the EU are expected to continue to stifle business investment.

UK labour market to remain a bright spot

The labour market is expected to continue to be a source of strength for the economy, with the unemployment rate forecasted to average 4.2% across the forecast period. However, in such a tight labour market, businesses will continue to face significant skills gaps, undermining their potential to grow. At the same time, workers are unlikely to experience meaningful real wage growth as the gap between pay and price growth is forecast to remain negligible. We expect that interest rates will rise to 1.25% by the end of the forecast period, with a single rate rise expected in both 2019 and 2020.

“The changes to our forecast indicate that the UK economy is in for a testing period, with persistent uncertainty and the possibility of a disorderly EU exit increasingly weighing on the UK's growth prospects. Mounting uncertainty and the cost of doing business in the UK is likely to put a brake on investment intentions, while for exporters a combination of moderating growth in key trading markets and Brexit uncertainty are forecast to limit export activity. Consumer spending is unlikely to offset the predicted weakness in investment and trade with real wage growth expected to remain muted across the forecast horizon. Despite the downgrades to our growth forecast, the risks to our outlook remain tilted to the downside.

A messy Brexit could further limit the extent to which the UK economy is able to grow, while the prospect of a renewed decline in sterling could increase the squeeze on consumers and businesses. A material broadening of global trade disputes, could also weigh further on economic activity in the UK.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q3 2018

Current forecast (2018 Q3)				
BCC Economic Full Forecast (Annual % change)				
	2017	2018	2019	2020
GDP	1.7%	1.1%	1.3%	1.6%
Household Consumption	1.8%	1.0%	1.3%	1.7%
General government	-0.1%	1.1%	1.1%	1.2%
Investment	3.4%	1.4%	1.4%	1.5%
of which: Business Investment	1.6%	1.0%	1.2%	1.4%
Exports	5.4%	1.7%	2.7%	2.9%
Imports	3.2%	1.4%	2.7%	3.0%
Total Production	2.3%	0.8%	1.2%	1.4%
Manufacturing	2.5%	0.8%	1.2%	1.6%
Construction	7.1%	1.5%	1.4%	1.4%
Services	1.8%	1.2%	1.3%	1.8%
Unemployment rate %*	4.4%	4.2%	4.3%	4.3%
Unemployment 000's**	-154	-77	40	14
Youth unemployment rate %*	12.3%	11.6%	11.7%	11.8%
Youth unemployment 000's**	-59	-33	9	1
CPI inflation	2.7%	2.5%	2.3%	1.8%
Average earnings	1.8%	2.6%	2.8%	3.0%
Interest rates (Q4)*	0.41	0.75	1.00	1.25
NetTrade-Goods&Services-%GDP*	-1.3%	-0.8%	-1.1%	-1.1%
BofP-CurrentAccount-%GDP*	-3.9%	-2.8%	-1.9%	-1.4%
PSNBex-BCC forecast-FinYears-£bn*	39.4	39.0	38.0	35.0

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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