

QUARTERLY ECONOMIC FORECAST Q1 2019

Headlines:

- UK GDP growth forecast has been downgraded to 1.2% in 2019 and to 1.3% in 2020
- GDP growth downgrades driven by weaker outlook for trade and business investment
- UK official interest rates forecast to remain on hold throughout 2019

Near term UK GDP growth outlook downgraded

The BCC has slightly downgraded its growth expectations for the UK economy, forecasting growth of just 1.2% in 2019 (down from 1.3%), which if realised would be the weakest growth in a decade. The BCC has also downgraded its growth forecast for 2020 to 1.3% (down from 1.5%) and published its first forecast for 2021 of 1.4% growth. A weaker outlook for business investment and trade amid continued Brexit uncertainty and slower expected global economic growth were the main drivers behind the downgrades to our forecast for GDP growth in 2019 and 2020. **The BCC forecast assumes that the UK avoids a messy and disorderly exit from the EU. Another scenario would lead to revisions in the next forecast.**

Trade and business investment to weaken

Business investment is forecast to decline by 1.0% in 2019, which if realised would be the weakest outturn since the financial crisis in 2009 and down sharply from the expected growth of 0.1% in the previous forecast. Ongoing uncertainty over the UK's future relationship with the EU is expected to weigh on investment intentions. Net trade is expected to make a negative contribution to GDP growth over the forecast period, reflecting the lack of clarity on the UK's future trade arrangements, weaker global growth and continued trade tensions. We forecast export growth of 1.8%, 1.7% and 1.7%, compared to import growth of 2.0%, 2.2% and 2.3%.

UK official interest rates forecast to remain on hold throughout 2019

Average earnings growth is forecast to outstrip inflation over the period, with growth of 2.9%, 3.0%, and 3.1%, compared with inflation of 2.1%, 2.0%, and 1.9%. However, the boost to household spending is expected to be limited by weak consumer confidence and high household debt levels. In terms of sectors, growth in the key services sector has been downgraded to 1.1% in 2019, from 1.2%. Growth in manufacturing in 2019 has also been downgraded to 0.5%, from 1.1%. Construction sector growth has also been downgraded to 0.7% (from 1.2%).

“The downgrades to our near-term growth outlook are a further indication that the UK economy is set to remain on a historically weak growth trajectory for some time to come, unless decisive action is taken. Brexit uncertainty, the financial squeeze on business and consumers and a slowing global economy are expected to weigh significantly on business investment and trade and limit the extent to which consumer spending will be boosted by a stronger real wage growth.

The significant costs, diversion of resources and loss of business that many firms have had to incur to protect themselves against a possibility of no-deal Brexit and the lack of clarity over the UK's future relationship with the EU is likely to limit the expected improvement in economic output as Brexit uncertainty eases.

While heightened uncertainty looms over the near-term outlook for the UK economy, the risks to the forecast remain firmly on the downside. A messy and disorderly exit from the EU would materially increase the probability of the UK slipping into recession, particularly if global economic conditions continue to soften.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q1 2019

Current forecast (2019 Q1)				
BCC Economic Full Forecast (Annual % change)				
	2018	2019	2020	2021
GDP	1.4%	1.2%	1.3%	1.4%
Household Consumption	1.7%	1.3%	1.4%	1.5%
General government	0.2%	1.9%	2.0%	2.0%
Investment	0.0%	0.3%	1.0%	1.3%
of which: Business Investment	-0.9%	-1.0%	0.6%	1.1%
Exports	0.2%	1.8%	1.7%	1.7%
Imports	0.8%	2.0%	2.2%	2.3%
Total Production	1.0%	0.5%	0.7%	0.8%
Manufacturing	0.9%	0.5%	0.7%	0.8%
Construction	0.7%	0.7%	1.0%	1.0%
Services	1.7%	1.1%	1.3%	1.7%
Unemployment rate %*	4.1%	4.3%	4.4%	4.4%
Unemployment 000's**	-96	84	49	-7
Youth unemployment rate %*	11.6%	12.0%	12.1%	12.2%
Youth unemployment 000's**	-41	24	10	5
CPI inflation	2.4%	2.1%	2.0%	1.9%
Average earnings	3.0%	2.9%	3.0%	3.1%
Interest rates (Q4)*	0.75	0.75	1.00	1.00
NetTrade-Goods&Services-%GDP*	-1.5%	-1.7%	-2.0%	-2.3%
BofP-CurrentAccount-%GDP*	-4.4%	-4.7%	-4.8%	-4.9%
PSNBex-BCC forecast-FinYears-%GDP*	1.6%	1.5%	1.3%	
PSNBex-BCC forecast-FinYears-£bn*	34.1	32.0	28.5	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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