

# **BCC: Anaemic economic growth reinforces case for action on business environment**

Today the BCC releases its Economic Forecast for Q2 2017.

26 June 2017

**The British Chambers of Commerce (BCC) has today slightly upgraded its UK growth forecast for 2017 from 1.4% to 1.5%. Its expectations for growth in 2018 and 2019 remain unchanged at 1.3% and 1.5% respectively.**

**Despite the slight upgrade to our outlook for 2017, growth over the next few years is forecast to remain anaemic – and well below historical averages.**

Despite slower than expected growth in Q1 2017, the leading business group has slightly upgraded its growth forecast for 2017 as a whole – mainly as a result of stronger global outlook growth, including in key markets for UK businesses. While lower sterling has had mixed results of late, it remains likely to boost short-term export activity this year.

Rising inflation is anticipated to remain a key concern for businesses and consumers, and is forecast to peak at 3.4% this year – a five year high. Our new 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.

With inflation rising and average earnings growth is expected to hold steady, wage growth in real terms is expected to remain negative over the next few years. As a consequence, consumer spending, a key driver of UK growth, is forecast to remain persistently weak over the next few years.

Economic growth is expected to remain well below historical averages through the forecast period, which reinforces the need to focus on creating the conditions for growth in the UK economy. Following an inconclusive General Election, the Chamber Network is calling for a cross-party focus on supporting business in all parts of the United Kingdom over the crucial months and years ahead.

## **Key points in the forecast:**

- **UK GDP growth forecast for 2017 is upgraded to 1.5% and is expected to slow to 1.3% in 2018, before rising to 1.5% in 2019. GDP Growth of 0.4% expected in Q2 2017**
- **GDP growth forecast for 2018 remains unchanged at 1.3%, and for 2019 at 1.5%**
- **Inflation of 2.9% is forecast for this year, peaking at 3.4% in Q4 2017. Inflation is expected to slow to 2.8% in 2018 and 2.5% in 2019. The**

previous forecasts were for 2.4%, 2.7% and 2.5% respectively

- First increase in official interest rates, to 0.5%, is expected in Q1 2018 – earlier than the prediction of Q4 2018 in our previous forecast
- Consumer spending growth has been downgraded for 2017 from 1.6% to 1.3%, and is expected to slow to 0.9% in 2018 and 1.2% in 2019 as real wages are eroded by inflationary pressures
- Business investment growth has been revised upward from -0.5% to 0.3% in 2017, driven by a strong first quarter, but we forecast that it will remain muted at 0.5% in 2018 before growing by 1.2% in 2019
- Export growth for 2017 has been upgraded from 2.7% to 3.1% but is forecast to slow to 2.9% in 2018 and 2.8% in 2019
- Looking at sectors, construction has been upgraded from 0.4% to 1.1% in 2017 and is expected to grow by 0.7% in 2018 and 1.2% in 2019. The services sector is expected to grow by 1.7% in 2017, 1.3% in 2018 and 1.6% in 2019. Manufacturing is to grow by 1.2%, 0.6% and 1.2% respectively

**Dr Adam Marshall, Director General of the British Chambers of Commerce, said:**

“Over recent months, many of the businesses I speak to have expressed cautious optimism for their own prospects, but remain wary about the growth prospects of the UK economy as a whole.

“In the wake of an inconclusive General Election, that wariness is set to increase – as is the sense that the UK economy is merely treading water. With inflationary pressures expected to intensify and consumer spending forecast to slow, this outlook is likely to persist in the near term.

“While the recent election campaign had almost no focus on supporting business, action to boost business confidence and growth remains urgent. A cross-party consensus must be sought in Westminster in order to create a UK business environment that supports sustained growth and job creation, even as the new government works to secure the best possible Brexit deal with the EU.

“The cost of doing business in the UK is too high – and weighs on the investment, recruitment and growth capabilities of our firms. Companies are faced with significant currency fluctuations and rising upfront costs, and their growth efforts are hampered by skills shortages and poor physical and digital connectivity. Westminster must come together to tackle these issues, which together with a pragmatic and economy-focused Brexit deal, will give business communities the best opportunity to foster lasting growth across the UK.”

**Suren Thiru, Head of Economics at the BCC, said:**

“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. Business investment is likely to remain relatively subdued as rising inflation and the escalating burden of upfront business costs weigh on investment intentions. On the upside, 2017 may prove the sweet spot for exporters as they are boosted by the persistent weakness in the value of sterling and an improving outlook for the global economy.

“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.”

## **Ends**

## **Notes to editors:**

The British Chambers of Commerce (BCC) sits at the heart of a powerful network of 52 Accredited Chambers of Commerce across the UK, representing thousands of businesses of all sizes and within all sectors. Our Global Business Network connects exporters with nearly 40 markets around the world. For more information, visit: [www.britishchambers.org.uk](http://www.britishchambers.org.uk)

## **Media contacts:**

Allan Williams – Senior Press Manager

020 7654 5812 / 07920583381

Orla Hennessy – Press and Communications Officer

020 7654 5813 / 07825746812