

BCC Economic Forecast: UK growth upgraded for 2017 but to remain flat in the medium-term

Today the BCC releases its latest latest economic forecast.

14th March 2017

The British Chambers of Commerce (BCC) has today (Tuesday) upgraded its UK GDP growth forecast for 2017 from 1.1% to 1.4%. However, it has downgraded its expectations slightly for 2018 from 1.4% to 1.3%, and published its first forecast for 2019 of 1.5% growth.

The leading business group upgraded its growth forecast for 2017, driven by an upward revision to UK GDP growth data in the final quarter of 2016, and stronger than expected levels of consumer spending. There has also been a slight improvement in the outlook for investment and trade, compared to our previous forecast.

However, economic growth is expected to remain well below its long-term average over the forecast period.

Inflation is forecast to breach the Bank of England's 2% target this quarter, with companies facing higher input costs, which will be passed through to consumers. While average earnings are expected to hold steady, the inflationary pressures are likely to erode real wages. As a result, consumer spending, a driving force of growth in the economy in recent years, is expected to slow substantially.

The UK's net trade position is expected to improve over the next few years. Investment is forecast to contract this year, with subdued growth predicted in the following years, as uncertainties relating to the outcomes of the UK's negotiations with the EU persist, and increasing input costs and taxes hit businesses.

In this period of uncertainty, there are heightened risks to the forecast. Faster levels of inflation and increased anxiety around the Brexit negotiations could result in more muted growth, however if resilience in consumer spending continues, growth levels could be bolstered.

Key points in the forecast:

- **UK GDP growth forecast for 2017 is upgraded to 1.4%, but is expected to slow to 1.3% in 2018, before accelerating slightly to 1.5% in 2019. Growth of 0.4% is expected in Q1 2017**
- **The improved growth forecast for 2017 is driven primarily by stronger than expected household consumption and ONS revisions to Q4 GDP data. GDP growth forecast for 2018 has been downgraded slightly from 1.4% to**

1.3%, with consumer spending expected to weaken

- The **pace of inflation has picked up faster than expected** and is forecast to breach the Bank of England's 2% target early this year, **growing by 2.4% in 2017, 2.7% in 2018 before slowing to 2.5% in 2019**. This is higher than the previous forecast of 2.1% and 2.4% for 2017 and 2018 respectively
- **Consumer spending is expected to slow substantially from 1.6% in 2017, to 0.9% in 2018 and 1.1% in 2019** as inflationary pressures erode real wages
- **Business investment is expected to contract by 0.5% in 2017, before growth levels of 0.2% in 2018 and 1.0% in 2019**
- **Export growth** has been upgraded from 2.3% to 2.7% in 2017, and from 2.9% to 3.1% in 2018, and is expected to be 2.8% in 2019.
- Looking at sectors, **construction** has been upgraded from -2.0% for 2017 to 0.4% and is expected to grow by 0.2% in 2018 and 1.0% in 2019. The **services sector** is expected to grow by 1.9% in 2017, 1.5% in 2018 and 1.7% in 2019. **Manufacturing** is to grow by 1.2%, 0.7% and 1.0% respectively.
- The main downside risk to our forecast is if inflation rises by more than we currently predict which would be a further squeeze on consumer spending and business investment. The upside risk is if consumer spending current resilience continues. Under this scenario, our expectations for GDP growth would be substantially higher.

Dr Adam Marshall, Director General of the BCC, said:

"Thanks to the hard work of businesses and the continued resilience of the redoubtable British consumer, the U.K. economy is likely to grow somewhat more strongly than we'd previously expected during 2017.

"Yet with several years of unspectacular growth ahead, coupled with inflationary pressures and the uncertain outcome of Brexit negotiations, it has never been more important to tackle the long-standing constraints that limit business confidence and growth here at home.

"Last week's Budget was a missed opportunity for the government to double down on infrastructure improvements and support for international trade, and to lower the heavy up-front taxes and costs that undermine business investment. More thoughtful and radical moves to improve the business environment would give businesses – and GDP forecasts – a boost during a critical and complex time."

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

"We have upgraded our growth forecast for 2017, driven by revisions to official GDP data and a stronger than expected end to 2016 for the UK economy.

"That said, the UK economy is still set to enter a more subdued period, with growth expected to remain materially below trend over the near term. The resilience in consumer spending, a key driver of UK growth, will slowly dissipate over the coming months as higher inflation and muted wage growth

combine to erode consumer spending power.

“The UK’s trade position will improve across the forecast period supported by the depreciation of Sterling and an improving outlook for the global economy.

“The imbalances in the economy continue to leave the UK increasingly exposed to economic shocks. While household consumption’s contribution to UK GDP growth is likely to decrease over the near term, the slight improvement in investment and trade prospects over the same period is not expected to be enough to prevent a slowdown in overall growth.”

Ends

Notes to editors:

As with all economic forecasts, further material changes to our forecast are possible.

Dr Adam Marshall, Director General, and Suren Thiru, Head of Economics, are available for interview.

A full copy of the forecast is available from the BCC press office.

The British Chambers of Commerce’s Quarterly Economic Forecast is run in partnership with Cambridge Econometrics.

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

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