BCC Economic Forecast: UK set for weakest year of GDP growth since 2009

The British Chambers of Commerce (BCC) has today (Monday) slightly downgraded its growth expectations for the UK economy, forecasting GDP growth for 2018 at 1.3% (from 1.4%) which, if realised, will be the weakest calendar year growth since 2009, when the economy was in the throes of the global financial crisis. The BCC has also downgraded its GDP growth forecast for 2019 from 1.5% to 1.4%.

The downgrades have been largely driven by a more lacklustre outlook for consumer spending, business investment and trade. While real wage growth has returned to positive territory, the UK's leading business group does not expect this to translate into materially stronger spending over the forecast horizon, with weak productivity expected to limit the extent to which wages will increase, and household finances are likely to remain stretched amid historically low household savings and high debt levels.

Business investment growth is expected to slow in 2018 to 0.9%, from 2.4% in 2017. 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.

The UK's net trade position is expected to weaken over the next few years by more than expected in the previous forecast. Exporters will struggle to recover the ground lost in the year so far, as growth in key markets moderates.

Growth in service sector output, a key driver of UK GDP growth, is expected to slow to 1.2% in 2018, which would be the weakest outturn since 2010. Consumer-focused industries such as retail and hospitality are expected to remain under the most pressure amid weak consumer spending.

If realised, the forecast suggests the economy is in a torpor, with uncertainties around Brexit, interest rate rises, and international developments such as a possible trade war and rising oil prices, all having an impact. The BCC urges the government to focus as much as possible on the domestic business environment, reducing the uncertainty that firms face, and take action on skills shortages and poor mobile connectivity, which lower productivity and hold UK businesses back.

Key points in the forecast:

- **UK GDP growth forecast** for 2018 is downgraded from 1.4% to 1.3%, down from 1.5% to 1.4% in 2019, rising to 1.6% in 2020 (unchanged)
- **Quarter-on-quarter GDP growth is forecast to rise by 0.4% in Q2 2018,** from 0.1% growth in Q1.
- **Growth in household consumption** for 2018 is expected to slow to 1.0%,

before rising to 1.4% in 2019 and 1.7% in 2020
- **Inflation will continue to ease,** but will not fall below the 2% target until 2020.
- The next **interest rate rise**, by 0.25%, is forecast to occur in Q4 2018, followed by a further increase to 1.0% in Q2 2019, with no further rises expected over the remainder of the forecast period
- **Average earnings growth will continue to slightly outpace inflation** over the forecast period, with growth of 2.7%, 2.9%, and 3.0%, compared with inflation of 2.5%, 2.3%, and 1.9%
- **Export growth** of 2.8% in 2018, 2.9% in 2019, and 2.9% in 2020 is expected. This compares with **import growth** of 1.7% in 2018, 2.5% in 2019, and 3.0% in 2020
- Growth in the **construction sector** is expected to slow significantly in 2018, with 0.7% growth, compared to 5.7% in 2017. The sector picks up slightly in the remainder of the forecast period, with 1.3% and 1.5% in 2019 and 2020 respectively
- **Services sector growth** is expected to slow to 1.2% in 2018, before picking up to 1.5% in 2019 and 1.9% in 2020
- **Business investment** is expected to remain weak, with growth across the forecast period of 0.9% in 2018, 1.2% in 2019, and 1.7% in 2020

Dr Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

“A decade on from the start of the financial crisis, the UK now faces another extended period of weak growth amidst a backdrop of both domestic and global uncertainty.

“Our forecast should serve as a wake-up call to government – as it demonstrates that ‘business as usual’ is not an option when it comes to the economy.

“With firms facing ongoing Brexit uncertainty, increasing global protectionism and instability in some parts of the world that will impact on costs and profits, now is the time for more robust action to support business confidence and investment.

“Brexit cannot be Westminster’s only priority. Businesses across the country want to see far more urgency around fixing the fundamentals here at home and a concerted effort to lower the high costs of doing business.

“The next few years are set to be a testing time for business in the UK. What firms and their employees need is much more visible evidence that ministers are committed to getting the basics right – which would enable business in turn to invest, take risks and grow.”

Suren Thiru, Head of Economics at the British Chambers of Commerce, added:

“While the bad weather had a demonstrative impact on the economy in Q1 2018, the latest outlook suggests that the loss of momentum suffered by the UK in the first quarter is more than just a temporary soft patch, with UK growth forecast to remain well below its historic average for the foreseeable future unless action is taken.

“The downgrades to our forecast reflect a broad-based weakening in the outlook for key areas of the UK economy including consumer spending, business investment and trade. Consumer spending is expected to be more subdued over the near term from a combination of sluggish real wage growth and stretched household finances. Trading conditions for UK exporters are expected to become more challenging over the forecast period as growth in key markets start to moderate. Against this backdrop, the case for sustainable increases in interest rates continues to look rather weak.

“While Brexit uncertainty and the weakness in sterling have weighed on overall UK growth, it is the failure to deal with the longstanding structural issues from weak productivity to the deep imbalances in the UK economy that continue to undermine the UK’s growth potential.

“The risks to the outlook are on the downside. A messy departure from the EU would likely slow UK GDP growth further over the medium term. The prospect of an escalating trade war is now a key downside risk to our forecast as it could mean much weaker export and business investment growth than implied by the current forecast.”

Ends

Notes to editors:

The British Chambers of Commerce (BCC) sits at the heart of a powerful network of 53 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

The BCC has launched a campaign aimed at eradicating not-spots for mobile voice coverage. Add your not-spot [here].

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Immigration relaxation for doctors a

welcome first step, says BCC

Commenting on reports that the Home Office is to exclude non-EU doctors and nurses from the Tier 2 visa cap, Jane Gratton, Head of Business Environment and Skills Policy at the British Chambers of Commerce (BCC), said:

“This is a positive first step. Non-EU doctors and nurses make up a large share of visas granted under the Tier 2 regime, so removing these workers will help many businesses across the UK economy to access the skills they can’t recruit from the UK. The cap on Tier 2 visas has been routinely under pressure from many sectors, with businesses having to compete for vital skills to fill growing shortages.

“However, if the UK is to truly become Global Britain, then this must only be a first step. The government should go further and remove the arbitrary migration target, and scrap the cap on Tier 2 visas across industry. The current policy hurts business and dissuades some of the best and brightest from coming to the UK, and any changes must help firms compete on the global stage.”

Ends

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BCC comments on Apprenticeship starts

Commenting on the apprenticeship and levy statistics for June 2018, issued today by the Department for Education, Jane Gratton, Head of Business Environment and Skills Policy at the British Chambers of Commerce (BCC), said:

“This further drop in the number of apprenticeship starts is a clear sign that something is going wrong with the Apprenticeship Levy.

“Businesses want to make the system work, and train and up-skill people of all ages, but the system as it stands is in need of reform.

“The government needs to listen to the business community, and work with us to ensure more people have access to high-quality apprenticeship training, in order to make the Levy system work better for everyone.”

Ends

Notes to editors:

The BCC and the Chartered Management Institute (CMI) has published a 10-point-plan for business and government, aimed at reforming the Apprenticeship Levy to make it work for everyone.

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BCC comments on inflation figures for May 2018

Commenting on the inflation statistics for May 2018, published today by the Office for National Statistics, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

“Inflation held steady for the first time since January 2018, with the upward pressure from fuel prices in May offset by weaker outturns in several categories. That said, the marked pick-up in producer price growth does point to increased inflationary pressures further down the supply chain.

“It is possible that inflation may start to drift upwards in the coming months as the recent spike in oil prices filters through supply chains and into higher consumer prices. However, any pick-up in inflation would be relatively short-lived, with price growth likely to resume its downward path later in the year as the pressure from oil prices eases.

“With inflation unchanged and a number of other economic indicators pointing to a weakening economy, the prospect of an August rate hike is looking more remote. Indeed, the case for raising interest rates at all this year continues to look limited at best.

“With economic conditions becoming more sluggish, more needs to be done to incentivise business investment, including addressing the burden of upfront costs and taxes faced by UK business, as well as tacking longstanding issues such as the skills gap and the chronic underinvestment in the UK’s digital and physical infrastructure.”

Ends

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