BCC forecast: Fall in sterling failing to lift UK growth

The British Chambers of Commerce publishes its latest forecast, looking at GDP growth, inflation, exports and other economic indicators for 2017-2019.

The British Chambers of Commerce (BCC) has today (Friday) slightly downgraded its medium-term outlook for the UK economy over the next few years. While the BCC has slightly upgraded its UK growth forecast for 2017 from 1.5% to 1.6%, its growth expectations for 2018 and 2019 have been cut from 1.3% to 1.2%, and 1.5% to 1.4% respectively.

The leading business group has slightly upgraded its forecast for 2017, driven by a moderately stronger outlook for consumer spending growth in 2017. While inflation remains elevated, it is expected to peak at 3% by the final quarter of 2017. However, inflation is still forecast to outpace average earnings until 2019, eroding real wages and weighing on consumer spending, a key driver of economic growth, in future years.

A weaker contribution from net trade and more subdued consumer spending growth were the main reasons for the slight downgrade to the BCC's growth forecast for 2018. While the outlook for export growth remains unchanged, the rate of import growth is expected to increase, with little evidence that customers are switching from imported goods despite their rising cost. Falling real wages, and a slight weakening in labour market conditions, will see consumers rein in their spending in 2018. The slight downgrade for growth in 2019 reflects a lower contribution from net trade and weaker investment compared to our Q2 forecast.

The UK economy is expected to remain on a slow-growth trajectory for the forecast period, which reinforces the need for decisive action to boost the domestic business environment. The government must use the Autumn Budget to alleviate the burden of upfront costs facing companies, incentivise investment, and improve infrastructure.

Key points in the forecast:

- UK GDP growth forecast for 2017 is upgraded to 1.6% from 1.5%, and is expected to slow to 1.2% in 2018 (downgraded from 1.3%), before rising to 1.4% in 2019 (downgraded from 1.5%)
- Inflation of 2.7% is forecast for this year, and 2.9% and 2.5% in 2018 and 2019 respectively. The previous forecasts were for 2.9%, 2.8% and 2.5% respectively. Inflation is expected to peak at 3% in the last quarter of 2017, lower than our previous forecast of 3.4%, due to the slowing growth in input costs
- Export growth of 3.1% is forecast this year, and is expected to slow to 2.9% in 2018 and 2.8% in 2019. This is unchanged from our previous forecast

- Import growth forecasts have been upgraded to 2.9% in 2017, 1.5% in 2018 and 2.0% in 2019, from 2.5%, 1.3% and 1.8% respectively.
- Consumer spending growth has been upgraded for 2017 from 1.3% to 1.5% but is expected to slow to 0.8% and 1.3% in 2018 and 2019
- Business investment growth has been revised slightly upward for 2017 and 2018, to 0.4% and 0.8% respectively, but has been downgraded for 2019 from 1.2% to 0.9%,with some firms expected to bring some investment decisions forward
- Our new forecast is that the first increase in UK official interest rates, to 0.5%, will occur in Q3 2018. This is two quarters later than predicted in our Q2 forecast
- Looking at sectors, manufacturing has been upgraded from 1.2% to 1.4% in 2017 and is expected to grow at 0.7% and 1.1% in 2018 and 2019. Construction has been revised upwards for 2017, from 1.1% to 1.3% and is expected to grow at 0.7% and 1.0% thereafter. The services sector has been upgraded from 1.7% to 1.8% in 2017, and is forecasts to grow at 1.2% and 1.6% in the following years

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

“While some businesses report strong trading conditions, the UK economy as a whole is treading water, and there is no sign on the horizon of a return to healthier levels of growth.

“Our forecast suggests that the hoped-for rebalancing of the UK economy towards investment and export is unlikely to materialize in the medium term. The rising upfront cost of doing business in the UK, the uncertainty around Brexit, and the constraints created by skills gaps and shoddy infrastructure collectively outweigh any benefit arising from the recent depreciation of sterling. A cheaper currency does not automatically mean an export boom, no matter how some politicians and commentators will it to happen.

“Business communities across the UK need to see action to boost confidence on two fronts: Brexit and the business environment here at home. A comprehensive Brexit transition deal, and a swift shift to focus on the future UK-EU trade relationship, are needed this autumn. The UK also needs an Autumn Budget that pulls out the stops to support business growth, at a time of significant uncertainty and change.”

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

“The changes to our growth forecast suggest that the UK economy is likely to remain on a low-growth trajectory, and will be marginally smaller at the end of the forecast period than we predicted in the second quarter.

“It is increasingly clear that the post-EU referendum slide in the value of sterling has done more harm than good. Inflation is being driven by the sizable increases in the cost of imported raw materials over the past year, and is expected to remain a drag on consumer spending over the near term, with pay growth not expected to outpace price growth until 2019.

“The contribution of net trade to UK GDP growth is not expected to be as strong as we previously predicted, as we see little evidence that the depreciation of the pound is materially boosting the UK's external position. While the outlook for UK exporters is for modest growth, imports are expected to grow at a faster rate than we previously forecast, with little evidence that consumers or firms are switching away from imports towards domestic alternatives despite their rising cost.

"Although there remains considerable uncertainty over UK's growth prospects, the risks to our current outlook are to the downside. On Brexit, our forecast implicitly assumes a relatively smooth exit from the EU. A more sudden departure would be likely to trigger a far more marked weakening in economic conditions."

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

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BCC: Trade mission opportunity to strengthen ties with Japan

Commenting as part of the Prime Minister's trade delegation to Japan, Dr Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

"The links between British and Japanese businesses are deep and strong, and this mission is an important signal of the shared desire to see trade between our two countries grow further in the years to come.

"Japanese firms have been huge investors in the UK over the years, and their long-term commitment in towns and cities across the country is valued and celebrated. Many have put down roots, boosted local employment, forged links with local firms, and built deep UK supply chains. Our business communities have been enriched by their presence and their engagement.

“Increasing numbers of UK companies are also doing business in Japan, selling both their products and their know-how to Japanese clients.

“Boosting two-way trade between the UK and Japan is a major opportunity. Chambers of Commerce across the UK are pleased to be part of the effort to make that happen.”

Ends

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BCC and DIHK: Joint UK-German call to put shared economic interests first in Brexit negotiations

The British Chambers of Commerce (BCC), and the Association of German Chambers of Commerce (DIHK) have called for UK and EU negotiators to put a clear focus on our shared economic interests as Brexit talks reconvene in Brussels.

28th August 2017

The leading German and UK business organisations are challenging political leaders to build an atmosphere of mutual trust and constructive dialogue, to deliver clarity and certainty for trading businesses across Europe.

With the third round of Brexit negotiations underway, a number of business-critical areas that form part of the withdrawal agreement are yet to be resolved, including the rights of EU workers in the UK and UK workers in the EU27. Additionally, there are hundreds of practical and technical issues, including customs arrangements and tax procedures, that need to be negotiated as part of the future EU-UK relationship during later stages of the negotiations. Businesses in both the UK and Germany want to see talks move on to these fundamental issues – and particularly customs concerns – as soon as possible.

There is great uncertainty in the business community all across Europe. A DIHK survey has found out that the business outlook of companies that are engaged in trade with the United Kingdom is worsening, due to the expectation of cost burdens from limits on free movement of workers, taxes, tariffs and increasing bureaucratic hurdles at Europe's new borders negatively affecting business on both sides.

Meanwhile, respondents to a recent British Chambers of Commerce survey have expressed their preference for a substantial transition period, with 68% saying they seek a transition period of at least three years. Both German and British businesses also want clarity at the start on the overall shape of the final destination settlement.

The United Kingdom is the third-largest market for German goods exports; in turn, Germany is the UK's second-largest goods and services exports destination. German companies maintain about 2,500 branch offices in the UK, which employ nearly 400,000 workers. British companies have 1,200 branch offices in Germany, which employ about 220,000 workers.

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

"As Brexit talks continue, it's clear that companies in the UK and on the Continent all want economic issues to rise to the top of the negotiations agenda. There is real business appetite from both sides for a focus on practical, day-to-day business concerns, and a desire for clarity on future trading arrangements.

"The UK and the EU must begin work on transitional arrangements, particularly on customs, so that firms on both sides of the Channel have the confidence to make investment decisions.

"Chambers of Commerce in the UK and in Germany want to see thriving trade continue between our firms, both now and into the future. Politicians must do everything in their power to help this happen."

Dr Martin Wansleben, Chief Executive Officer of the Association of German Chambers of Industry and Commerce (DIHK):

"Businesses are very concerned that Brexit will have a major negative impact. Not only it could lead to more trade barriers – additional bureaucracy, increased waiting time and stricter border controls resulting in higher costs. The terms of exit are still completely unclear. Many of our members are reporting that they are already shifting investments away from the UK in anticipation of these barriers.

“The first effects of the Brexit vote are already being observed: German exports to the United Kingdom were down by 3 percent in the first half of this year compared to the first half of last year, whilst exports to the EU increased with 6 percent in the same period.

“A transitional period would be helpful for business, but it is important to businesses on both sides that the contours of a future trading relationship are becoming clearer over the next months.”

ENDS

The **British Chambers of Commerce** (BCC) sits at the heart of a powerful network of 52 Accredited Chambers of Commerce across the UK, representing 75,000 businesses of all sizes and within all sectors, who employ 5 million people around the UK. Our Global Business Network connects exporters with nearly 40 markets around the world. For more information, visit: www.britishchambers.org.uk

The **Association of German Chambers of Industry and Commerce** (Deutscher Industrie- undHandelskammertag – DIHK) is the umbrella organisation of 79 Chambers in Germany (IHKs) and the worldwide network of 130 business representations abroad. All companies registered in Germany, with the exception of handicraft businesses, the liberal professions and farms, are required by law to join a Chamber. Thus, the DIHK speaks for more than 3.6 million enterprises: www.dihk.de

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BCC: 4 in 5 businesses hit by rising employment costs

Today BCC, in partnership with Middlesex University London, releases its annual workforce survey, which looks at the cost implications for business of changes in employment legislation.

25 August 2017

Around 4 in every 5 businesses have seen their costs increase this year through changes in employment legislation, according to a survey released today (Friday) by the British Chambers of Commerce (BCC).

BCC’s annual workforce survey of over 1,400 businesses, held in partnership with Middlesex University London, reveals that pensions auto-enrolment, the National Living Wage and the Apprenticeship Levy have increased the cost base of businesses, and could lead to reduced opportunities for investment and wage growth.

The rise in the National Living Wage (NLW) in April of this year has increased employment costs for one-in-two companies (50%) in the UK. There appears to be a North/South divide, with firms in the North of England (55%) and the Midlands (51%) more likely to be impacted by the National Living Wage than firms in the South (43%).

For the UK to remain an attractive and competitive environment going forward, action is needed to prevent unsustainable rises to the cost of doing business. The BCC is calling on the government to ensure no new upfront costs or taxes – which sap investment, growth and recruitment potential – are imposed on business for the remainder of this parliament.

Key findings of the survey are:

- Three quarters (75%) of respondents report an increase in costs as a result of pensions auto-enrolment, with nearly a quarter (23%) indicating a significant increase
- A fifth (20%) of businesses have seen costs increase from the introduction of the Apprenticeship Levy, and 8% from the Immigration Skills Charge
- Based on the forecast that the National Living Wage will increase to £8.75 per hour by 2020, 38% of respondents said in response that they would raise prices of products and services, with a further 25% expecting to reduce pay growth
- Consumer-facing industries were particularly affected by the rise in the NLW, with 73% of B2C sector firms – including wholesale, retail, accommodation and foods sectors – seeing an increase in costs. In comparison, 56% of manufacturers and 41% of B2B services report higher costs
- 25% of businesses say they would respond to future planned increases to NLW by reducing pay growth for staff, 21% by reducing staff benefits and 20% by scaling back recruitment

Jane Gratton, Head of Business Environment and Skills at the British Chambers of Commerce (BCC), said:

“Businesses are under increasing pressure from the burden of employment costs, and this will influence the choices they make and outcomes for employees. Higher employment costs impact on the bottom line and reduce the resources available to invest in the business and its people.

“Our survey shows that two thirds of businesses will need to take action in response to proposed increases in the National Living Wage over the next three years. Firms are most likely to respond by raising prices or adjusting employee pay growth and wider benefits. Increasingly, manufacturers are looking towards greater use of technology and automation. There comes a point at which rising employment costs can no longer be absorbed through reduced profits.

“At a time when employers across the country are facing acute skills shortages, it is vital that they have the resources and flexibility to invest in their workforce and the future needs of the business.

“Employment is just one element of the high upfront cost of doing business in the UK.   It is the cumulative impact of all of these changes, and the pace at which they are being introduced, that causes the greatest concern and poses the biggest risk. There is little scope for firms to absorb any further costs without there being damaging effects on competitiveness, growth and opportunities for people in the workforce. The government must ensure that there are no upfront further costs or taxes on businesses and entrepreneurs for the remainder of this parliament.”

David Williams, Director of Corporate Engagement at Middlesex University London, added:

“Businesses are facing the challenge of maintaining profitability while remaining price competitive. This is a tough balance to achieve during what is an uncertain period, and we are seeing many start to tighten their belts and pull back investment.

“We need to up our productivity to enable us to compete globally in a post-Brexit Britain, so it is important when making difficult choices, the development, upskilling and retention of the workforce is high on the list of investment priorities, and that businesses get the support they need to do this.”

Ends

Notes to editors:

The British Chambers of Commerce (BCC) surveyed 1,461 businesses from all regions of the UK online from 17 July to 1 August 2017. Of the businesses surveyed, 94% were SMEs, 29% operate in the manufacturing sector, and 71% operate in the services sector.

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BCC comments on position paper on enforcement and dispute resolution

Director General Adam Marshall comments on the latest position paper from the government on enforcement and dispute resolution.

"Legal certainty is fundamental to the ability to conduct business. Companies rely on the rule of law to uphold contracts, and to seek redress if one side falls short of the bargain.

"Throughout the EU's history there have been thousands of disputes pursued throughout the courts relating to cross-border trade. For businesses, both in the UK and EU, to trade confidently with their partners, they need clarity on how these issues will be resolved in the future.

"Firms on both sides benefit from a shared dispute framework across borders, so future procedures should be as stream-lined as possible to prevent unnecessary obstacles or bureaucracy."

ENDS.

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