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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