

BCC forecast: UK economy remains subdued despite uplift from strong global growth

The British Chambers of Commerce (BCC) has today (Monday) upgraded its growth expectations for the UK economy, raising its forecast for GDP from 1.1% to 1.4% in 2018 and from 1.3% to 1.5% for 2019, and its first forecasts for 2020 is for 1.6% growth.

The upgrade to the leading business group's forecast is largely driven by slightly stronger than expected levels of consumer spending. The UK's export performance is expected to remain robust on the back of strong global growth, particularly in key markets such as the Eurozone and US. That said, with imports also likely to continue to grow at a good rate, the contribution of net trade to UK GDP growth over the near term is to be limited, particularly with little evidence of a sterling boost to the UK's overall net trade position.

Despite the upgrades, UK GDP growth is set to remain well below the historical average throughout the forecast period. Our latest forecast also implies that the UK will remain among the worst performing economies in the G7 until 2020 at the earliest.

Productivity is expected to improve marginally over the forecast period but will remain subdued, hampered by deep rooted problems in the economy, including skills shortages and chronic underinvestment in the UK's infrastructure.

Inflation is now expected to have peaked, and will begin easing in the near term as the impact of the post-EU referendum slide in sterling fades. While average earnings are now expected to grow by slightly more than expected in our previous forecast, real earnings growth is not expected to return to positive territory until 2019. Our new forecast is that the next increase in UK official interest rates, to 0.75%, will occur in Q2 2018, followed by another raise in the first quarter of 2019.

The BCC expects UK public sector borrowing to be £13.4bn higher over the next three years than forecast by the Office for Budget Responsibility at last week's Spring Statement.

The muted levels of growth forecast for the UK economy reinforces the BCC's calls for greater attention and investment to be focused on improving the UK business environment, particularly 'fixing the fundamentals' and taking action to crowd in more private-sector investment. Distracted by Brexit, Westminster is failing to enact an ambitious growth plan for the economy. To create conditions for growth, action is needed on the issues holding businesses back, including mounting skills shortages, delivery of long-

planned road and rail infrastructure projects, poor mobile connectivity, and high upfront costs for businesses.

Key points in the forecast:

- UK GDP growth forecast for 2018 is upgraded from 1.1% to 1.4%, and is expected to grow to 1.5% in 2019 (upgraded from 1.3%), and the first forecast of 2020 growth is 1.6%. Average earnings have been upgraded from 2.5% to 2.7% in 2018, and is expected to grow by 2.9% in 2019 and 3.0% in 2020
- Inflation of 2.9% is forecast for this year, and 2.6% and 2.2% in 2019 and 2020 respectively
- Consumer spending has been upgraded from 1.0% to 1.2%, and is expected to grow by 1.4% and 1.6% in 2019 and 2020 respectively
- Productivity is expected to grow by 0.9% in 2018, 1.1% in 2019 and 1.3% in 2020
- Our new forecast is that the next increase in UK official interest rates, by 0.25%, will occur in the second quarter of 2018, followed by another raise in the first quarter of 2019
- Export growth is expected to grow at 3.6% in 2018, 3.4% in 2019 and 3.0% in 2020, while import growth is expected to grow by 2.8% in 2018, 2.9% in 2019 and 3.1% in 2020
- Business investment growth has been upgraded from 0.8% to 1.1% for 2018 and is expected to grow by 1.3% in 2019 and 1.5% in 2020
- Looking at sectors, manufacturing is expected to grow by 1.4%, 1.5% and 1.6% across the forecast period. Construction growth is set to remain muted for 2018 at 1.1% and is expected to grow at 1.4% and 1.7% thereafter. Services sector growth has been upgraded from 1.3% to 1.5% in 2018, and is forecast to grow at 1.7% and 1.8% in the following years
- Public sector net borrowing is expected to total £49.7 billion in 2017/18, £45.8 billion in 2018/19 and £34 billion in 2019/20.

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

“While many individual businesses are doing well, the inescapable conclusion from our forecast is that the UK economy as a whole should be performing better than it is, given robust and sustained global growth.

“Although strong global conditions have given the UK a bit of a boost through higher export demand in recent months, we have serious concerns about the potential for further growth here at home when the performance of key trading partners slows. Sustained skills and labour shortages are also a real issue, with businesses reporting significant difficulties recruiting and retaining the people they need.

“Political uncertainty aside, the biggest brake on higher UK growth is a lack of concerted action to ‘fix the fundamentals’ here at home, with government attention distracted by Brexit.

“A concerted effort to get the basics right on connectivity, infrastructure, training, immigration, procurement and business costs would give rise to a wave of investment and significant productivity improvements. The power to

kick-start the UK economy, and raise the trend rate of growth above the current sluggish levels, lies in Westminster, not in Brussels – and businesses will respond to action by delivering investment, higher productivity, and the increased wages we all want to see.”

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

“We’ve slightly upgraded our near-term outlook for the UK economy, with a moderate pick-up in pay growth expected to support a modest improvement in consumer spending, a key driver of the UK economy.

“Export growth is also expected to remain robust as stronger global economic growth continues to support demand for UK goods and services. However, with little evidence of import substitution by consumers or businesses despite their high cost, the contribution of net trade to UK GDP growth over the next few years is likely to remain modest.

“Despite the upward revisions, our latest forecasts suggest that the UK is set for an extended period of sub-par growth – a damning indictment of the state of the UK economy given the rapidly improving global growth outlook. The persistent economic imbalances, including a dependence on consumer expenditure and service sector output as the main drivers of GDP growth, continues to hinder the UK’s growth prospects and leaves the UK more exposed to economic shocks.

“Our forecast implicitly assumes a relatively smooth Brexit with a transitional arrangement where trading conditions will be largely unchanged. Failure to achieve such an outcome would likely weigh on UK economic activity over the near term.”

Ends

Notes to editors:

BCC spokespeople are available for broadcast and print interviews, please contact the press office to arrange.

The BCC is campaigning for action to fix the fundamentals of the UK economy, ensuring the basics are right for business investment and growth. Adam Marshall touched on this theme extensively at the BCC Annual Conference on 8th March, as well as on the need to fight back against proposals for nationalization, and his detailed comments can be found [here](#).

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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