BCC forecast: Uncertainty constraining UK economic growth

The British Chambers of Commerce (BCC) has today slightly downgraded its three-year outlook for the UK economy, cutting growth expectations from 1.6% to 1.5% in 2017, from 1.2% to 1.1% in 2018, and from 1.4% to 1.3% in 2019.

The slight downgrade to the leading business group's forecast is mainly driven by a slightly weaker contribution from net trade across the forecast period, while household consumption and business investment are expected to remain sluggish through the forecast period. UK productivity is also forecast to remain subdued.

Inflation is expected to remain elevated in the short-term, peaking at 3% in the final quarter of this year, and then moderate slightly as the impact of the post-EU referendum slide in sterling fades. However, inflation is forecast to outpace earnings until 2019, eroding real wages and weighing on consumer spending, a key driver of UK economic growth. As such, our new forecast is that the next increase in UK official interest rates, to 0.75%, will occur in Q4 2019.

The BCC expects UK public sector net borrowing to be £12.4 billion higher over the next three years than predicted by the Office for Budget Responsibility at the 2017 Autumn Budget, with slower growth expectations likely to reduce the Exchequer's ability to generate tax revenue.

With the UK economy expected to continue on a path of slow and sluggish growth, the business group is urging a far stronger focus on 'fixing the fundamentals' of the UK economy over the coming year – as skills and labour shortages, congested infrastructure, patchy digital connectivity, a slow planning system and high up-front costs stymie investment and stunt productivity improvements. At the same time, now that a breakthrough has been reached on the first phase of Brexit negotiations, the UK government must look to answer business's practical questions around trade to provide further clarity to firms.

Key points in the forecast:

- UK GDP growth forecast for 2017 is downgraded from 1.6% to 1.5%, and is expected to slow to 1.1% in 2018 (downgraded from 1.2%), before rising to 1.3% in 2019 (downgraded from 1.4%). Quarter-on-quarter growth in Q4 2017 is forecast to slow slightly to 0.3%
- Export growth is expected to grow at 4.3% in 2017, 3.1% in 2018 and 2.9% in 2019 as global growth drives international demand, while import growth is expected to grow by 3.7% in 2017 2.7% in 2018, and 2.9% in 2019. This leaves our net trade position weaker across the forecast period than we previously forecast in Q3.
- Productivity is expected to grow by 0.5% in 2017, 0.6% in 2018 and 0.5%

in 2019
- Inflation of 2.7% is forecast for this year, and 2.8% and 2.5% in 2018 and 2019 respectively. Inflation is expected to peak at 3%in the final quarter of 2017, in line with our previous forecast
- Our new forecast is that the next increase in UK official interest rates, to 0.75%, will occur in Q4 2019
- Growth in consumer spending is expected to slow from 1.6% in 2017 to 1.0% in 2018, before rising to 1.3% in 2019
- Business investment growth has been upgraded from 0.4% to 2.1% for 2017 as a result of revisions to ONS data, but is expected to slow to 0.8% in both 2018 and 2019
- Looking at sectors, manufacturing growth has been upgraded from 1.4% to 2% in 2017, and is expected to grow at 0.9% and 1.1% in 2018 and 2019. Construction growth has been revised upwards for 2017 from 1.3% to 3.2%, and is expected to grow at 0.5% and 1.0% thereafter. Services sector growth has been downgraded from 1.8% to 1.7% in 2017, and is forecast to grow at 1.3% and 1.6% in the following years
- Public sector net borrowing is expected to total £52.7 billion in 2017, £47.8 billion in 2018 and £36 billion in 2019.

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

“Despite pockets of resilience and success, and strong results for some UK firms, the bigger picture is one of slow economic growth amid uncertain trading conditions.

“Following the welcome news that the Prime Minister has reached a deal on the first phase of Brexit negotiations, it is now crucial to deliver a firm transition period and clarity on the nature of the UK’s future trading relationship with the EU. Despite last week’s deal, Brexit uncertainty still lingers over business communities, and is undermining many firms’ investment decisions and confidence. Certainty over the course of Brexit would also help to stabilise markets, and reduce the volatility of sterling, which businesses say is increasing their costs.

“Yet even the best possible Brexit deal won’t be worth the paper it’s written on if the government fails to address the many long-standing, and well-known, barriers to growth here at home. Ever-rising upfront costs, a labour market at capacity, growing pressure on land use, and a physical and digital infrastructure in need of investment and expansion, all prevent UK firms from reaching their potential. While the recent Budget made some welcome steps in the right direction, concerted and sustained action to fix the fundamentals is needed to encourage business investment and growth.”

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

“The downgrades to our growth forecast confirm that the UK economy is in a challenging period with growth likely to remain well below average for a prolonged period.

“Continued uncertainty over Brexit and the burden of upfront cost pressures facing businesses is likely to stifle business investment, while falling real wage growth is expected to continue to weigh on consumer spending. Furthermore, with businesses continue to report that the post-EU referendum weakness in sterling is hurting as much as its helping, the significant imbalances currently facing the UK economy is expected to persist through the forecast period.

"The continued weakness in UK's productivity is a key concern and reflects the lack of progress in dealing with some of the deep-rooted structural problems in our economy, from skills shortages to creaking physical and digital infrastructure.

"Despite the downgrades to our growth projections, the risks to our forecast remain on the downside. Should the UK face a disorderly exit from the European Union, the UK's growth rates may be materially lower over the medium term."

Ends

Notes to editors:

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

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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