[BCC comments on interest rate decision]

BCC comments on the Monetary Policy Committee's interest rate decision.

16th March 2017

Commenting on today's interest rate decision by the Bank of England's Monetary Policy Committee, Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC), said:

"While the Bank of England's decision to keep interest rates on hold was widely expected, there was a surprising shift in the committee's voting pattern, with one member voting for a rate rise. This partly reflects the fact that the Monetary Policy Committee are facing a more challenging period, with inflation likely to move materially above the 2% target in the coming months. Furthermore, if US monetary policy continues to tighten as expected, it may weigh on UK rate decisions by increasing the downward pressure on Sterling, pushing UK price growth higher.

"However, with UK economic conditions likely to become more subdued over the near term, and little evidence that higher inflation is becoming entrenched in stronger pay growth, the MPC has sufficient leeway to tolerate a prolonged period of above target inflation. Therefore, while the next move in interest rates is likely to be upwards, we don't expect this to happen until the end of 2018.

"With the MPC close to exhausting the monetary policy tools available to them, the government must do more to support business confidence and incentivise investment, particularly by tackling the rising input costs faced by businesses."

Ends

Notes to editors:

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BCC: pause for thought on NICs is welcome

Commenting on the statement by Chancellor Philip Hammond pausing the rise in National Insurance Contributions for the self-employed, Adam Marshall, Director General of the British Chambers of Commerce (BCC), said:

“The NICs rise, together with the cut to dividend tax-free allowances, was not viewed favourably by entrepreneurs – so this move and pause for thought are welcome. It would be far better to look at business and employment taxation in the round, to ensure that our tax system is competitive and equitable.”

Ends

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BCC Economic Forecast: UK growth upgraded for 2017 but to remain flat in the medium-term

Today the BCC releases its latest latest economic forecast.

14th March 2017

The British Chambers of Commerce (BCC) has today (Tuesday) upgraded its UK GDP growth forecast for 2017 from 1.1% to 1.4%. However, it has downgraded its expectations slightly for 2018 from 1.4% to 1.3%, and published its first forecast for 2019 of 1.5% growth.

The leading business group upgraded its growth forecast for 2017, driven by an upward revision to UK GDP growth data in the final quarter of 2016, and stronger than expected levels of consumer spending. There has also been a slight improvement in the outlook for investment and trade, compared to our previous forecast.

However, economic growth is expected to remain well below its long-term average over the forecast period.

Inflation is forecast to breach the Bank of England’s 2% target this quarter, with companies facing higher input costs, which will be passed through to consumers. While average earnings are expected to hold steady, the inflationary pressures are likely to erode real wages. As a result, consumer spending, a driving force of growth in the economy in recent years, is expected to slow substantially.

The UK’s net trade position is expected to improve over the next few years. Investment is forecast to contract this year, with subdued growth predicted in the following years, as uncertainties relating to the outcomes of the UK’s negotiations with the EU persist, and increasing input costs and taxes hit businesses.

In this period of uncertainty, there are heightened risks to the forecast. Faster levels of inflation and increased anxiety around the Brexit negotiations could result in more muted growth, however if resilience in consumer spending continues, growth levels could be bolstered.

Key points in the forecast:

- **UK GDP growth forecast for 2017 is upgraded to 1.4%, but is expected to slow to 1.3% in 2018, before accelerating slightly to 1.5% in 2019. Growth of 0.4% is expected in Q1 2017**
- **The improved growth forecast for 2017 is driven primarily by stronger than expected household consumption and ONS revisions to Q4 GDP data. GDP growth forecast for 2018 has been downgraded slightly from 1.4% to 1.3%,** with consumer spending expected to weaken
- The **pace of inflation has picked up faster than expected** and is forecast to breach the Bank of England’s 2% target early this year, **growing by 2.4% in 2017, 2.7% in 2018 before slowing to 2.5% in 2019**. This is higher than the previous forecast of 2.1% and 2.4% for 2017 and 2018 respectively
- **Consumer spending is expected to slow substantially from 1.6% in 2017, to 0.9% in 2018 and 1.1% in 2019** as inflationary pressures erode real wages
- **Business investment is expected to contract by 0.5% in 2017, before**

growth levels of 0.2% in 2018 and 1.0% in 2019

- **Export growth** has been upgraded from 2.3% to 2.7% in 2017, and from 2.9% to 3.1% in 2018, and is expected to be 2.8% in 2019.
- Looking at sectors, **construction** has been upgraded from -2.0% for 2017 to 0.4% and is expected to grow by 0.2% in 2018 and 1.0% in 2019. The **services sector** is expected to grow by 1.9% in 2017, 1.5% in 2018 and 1.7% in 2019. **Manufacturing** is to grow by 1.2%, 0.7% and 1.0% respectively.
- The main downside risk to our forecast is if inflation rises by more than we currently predict which would be a further squeeze on consumer spending and business investment. The upside risk is if consumer spending current resilience continues. Under this scenario, our expectations for GDP growth would be substantially higher.

Dr Adam Marshall, Director General of the BCC, said:

"Thanks to the hard work of businesses and the continued resilience of the redoubtable British consumer, the U.K. economy is likely to grow somewhat more strongly than we'd previously expected during 2017.

"Yet with several years of unspectacular growth ahead, coupled with inflationary pressures and the uncertain outcome of Brexit negotiations, it has never been more important to tackle the long-standing constraints that limit business confidence and growth here at home.

"Last week's Budget was a missed opportunity for the government to double down on infrastructure improvements and support for international trade, and to lower the heavy up-front taxes and costs that undermine business investment. More thoughtful and radical moves to improve the business environment would give businesses – and GDP forecasts – a boost during a critical and complex time."

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

"We have upgraded our growth forecast for 2017, driven by revisions to official GDP data and a stronger than expected end to 2016 for the UK economy.

"That said, the UK economy is still set to enter a more subdued period, with growth expected to remain materially below trend over the near term. The resilience in consumer spending, a key driver of UK growth, will slowly dissipate over the coming months as higher inflation and muted wage growth combine to erode consumer spending power.

"The UK's trade position will improve across the forecast period supported by the depreciation of Sterling and an improving outlook for the global economy.

"The imbalances in the economy continue to leave the UK increasingly exposed to economic shocks. While household consumption's contribution to UK GDP growth is likely to decrease over the near term, the slight improvement in investment and trade prospects over the same period is not expected to be enough to prevent a slowdown in overall growth."

Ends

Notes to editors:

As with all economic forecasts, further material changes to our forecast are possible.

Dr Adam Marshall, Director General, and Suren Thiru, Head of Economics, are available for interview.

A full copy of the forecast is available from the BCC press office.

The British Chambers of Commerce's Quarterly Economic Forecast is run in partnership with Cambridge Econometrics.

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BCC comments on statement by Scottish First Minister

Adam Marshall comments on the prospect of a second Scottish independence referendum.

13th March 2017

Commenting on the statement by Scottish First Minister Nicola Sturgeon that she will seek a second Scottish independence referendum, Dr Adam Marshall, Director General of the British Chambers of Commerce, said:

"Business communities all across the UK will be thinking, first and foremost, about the additional uncertainty that a second independence referendum would generate.

“Across Scotland – and throughout the UK – businesses want certainty, stability and confidence from governments. Firms understandably fear that another drawn-out constitutional debate would divert both Holyrood and Westminster away from delivering real-world practical support for business, investment, and growth.”

Liz Cameron, Chief Executive of Scottish Chambers of Commerce, added:

“It is welcome that the First Minister has indicated that the Scottish Government will continue to engage with the political process around the UK’s withdrawal from the EU. These are vital years ahead for the future of the UK and Scottish economy and it is crucial that Scotland has a voice at the centre of this process.

“Scotland has been through two referendums and two major elections over the past three years, and there is no doubt that this period of continual uncertainty has had a material impact upon businesses in Scotland. These are real and present business issues that are affecting business decisions and investment. A further referendum on Scotland’s independence would be no different, and the more that can be done to mitigate the duration of this uncertainty for business, the better. The Scottish Chambers of Commerce network will continue our process of engagement with businesses across Scotland to understand how this prospect could affect them and how their voices can be most effectively articulated during this process.

“In the current circumstances, businesses need as much certainty, stability and confidence as possible and it is the role of our Governments to provide it. The message from Scottish Chambers of Commerce members has been clear and consistent – our priority must be to create the conditions that will enable businesses to thrive. That means focus and resources must be directed towards greater strategic infrastructure investment, developing the skills we need to sustain growth, fair business taxation that does not limit entrepreneurship and investment and clear guidance on entering and trading in overseas markets – all of which must have a clear evidential basis. These are the priorities for business and must be for our Governments too.”

Commentary from Chamber business communities in Scotland is available from our colleagues at Scottish Chambers of Commerce.

Ends

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BCC comments on OBR forecast

Commenting on the latest forecasts by the Office for Budget Responsibility, published today in conjunction with the Chancellor's Spring Budget, Suren Thiru, Head of Economics at the BCC, said:

"The OBR's latest forecasts provide a more optimistic assessment of the UK's near-term economic prospects compared to the Autumn Statement in November, though still not as bright as this time last year.

"However, in our view the OBR is too bullish about the UK's near-term growth prospects. We expect that inflation will be a greater challenge to the UK economy than the OBR currently predicts, with price growth overtaking pay growth this year. This is likely to squeeze consumer spending, a key driver of UK growth. The OBR forecast also confirms that UK economic growth is expected to remain unbalanced, with business investment and trade forecast to add little to overall growth over the next few years, and will continue to leave the UK vulnerable to external shocks.

"On the public finances, the OBR have confirmed that the stronger than anticipated growth over recent quarters has boosted tax revenues and delivered a marked improvement to the UK's expected fiscal position. However, if economic conditions do become more challenging over the next few years than the OBR predicts, the UK's ability to generate tax receipts will come under greater pressure. Over the long-term, more needs to be done to achieve a sustainable strengthening and broadening of the UK's tax base, including greater support for firms looking to invest, recruit and grow their business."

Ends

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