

# Monthly Economic Review

## April 2016

(Based on March 2016 data releases)

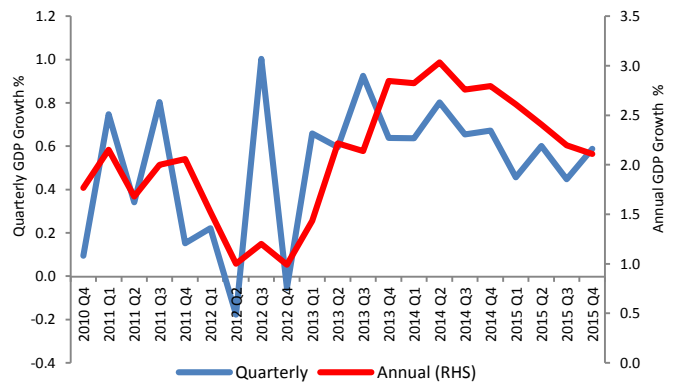
### Monthly headlines:

- Q4 2015 UK GDP growth revised up but current account deficit hits record high
- OBR UK growth forecasts downgraded amid weaker global outlook and UK productivity
- UK's fiscal outlook weakens, but OBR still predicts a small budget surplus by 2019

### Economic growth in Q4 upgraded...

The third official estimate for Q4 2015 economic growth (GDP) was 0.6%, revised up from the previous estimate of 0.5%. In annual terms, UK GDP increased by 2.1% revised up 0.2 percentage points from the previous estimate. As a result of these revisions, the UK economy grew by 2.3% for 2015 as a whole, up from the previous estimate of 2.2%. UK economic output is also now 6.8% above its Q1 2008 pre-recession peak. Overall, the latest UK GDP growth figures suggest that the UK economy is currently growing at a reasonable rate.

Chart 1: Real GDP Growth

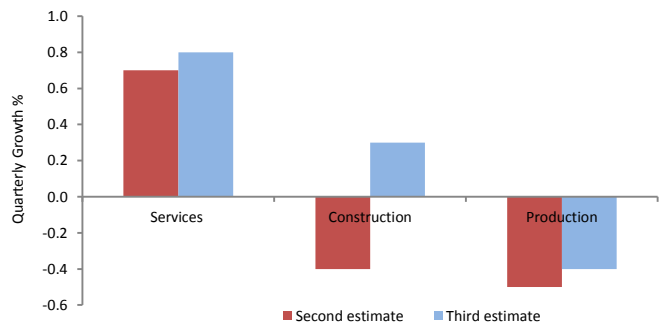


Source: ONS National Accounts, Q4 2015

### ...driven by stronger service sector output...

The upward revision to UK GDP was mainly driven by the services sector (which accounts for more than three quarters of UK economic output) growing by 0.8% in Q4 2015, up from the previous estimate of 0.7% (see Chart 2). Industrial production output fell by 0.4%, revised up from the previous estimate of a 0.5% fall. Construction sector output increased by 0.3% in Q4 2015, revised up from the previous estimate of a 0.4% decline. These figures reinforce our view that UK growth remains unbalanced with an over-reliance on the service sector.

Chart 2: UK GDP Revisions, Q4 2015

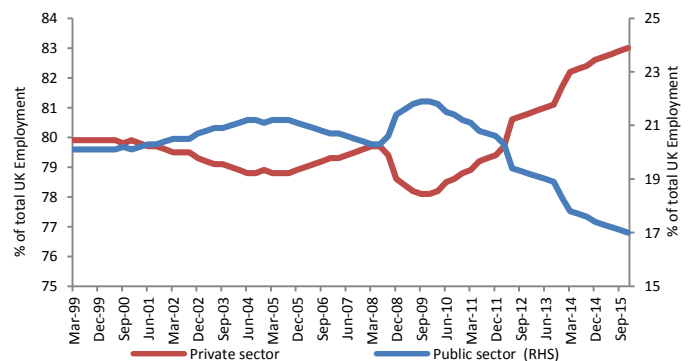


Source: ONS National Accounts, Q4 2015

### ...but while UK jobs' market strengthens...

In the three months to January 2016, UK employment rose by 116,000 compared with the previous three months. The number of people who are unemployed fell by 28,000. The private sector continues to drive UK jobs growth with private-sector employment rising by 529,000 over the past year, compared to a 50,000 fall in public-sector employment over the same period. As a consequence, the proportion of people working in the public sector dropped to 17% in December 2015, the lowest rate since records began in 1999 (see Chart 3).

Chart 3: UK Public vs Private Sector Employment

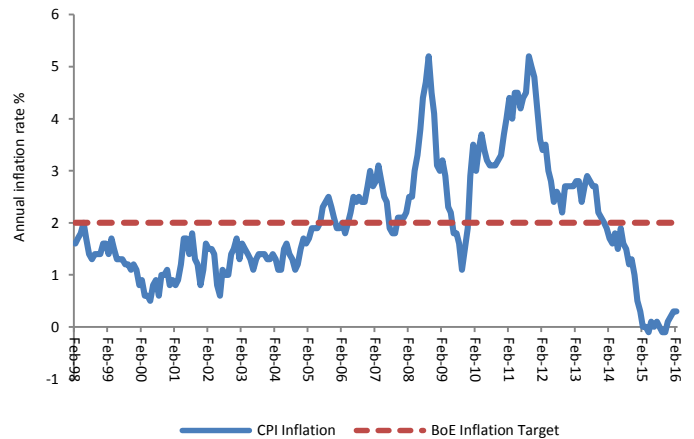


Source: ONS Labour Market Statistics, February 2016

### ...and inflation remains weak...

UK CPI inflation stood at 0.3% in February 2016, unchanged from January. The largest downward contribution came from the transport sector. UK CPI inflation has now hovered within half a percentage point of zero for fifteen successive months (see Chart 4). Although inflation is expected to move slightly higher over the next few months, it is likely to remain below 1% until the final months of this year, with the Bank of England's 2% inflation target not met until the end of 2017. **With prices continuing to grow slower than earnings, low inflation is helping support household spending, a key driver of UK GDP growth.**

Chart 4: CPI inflation

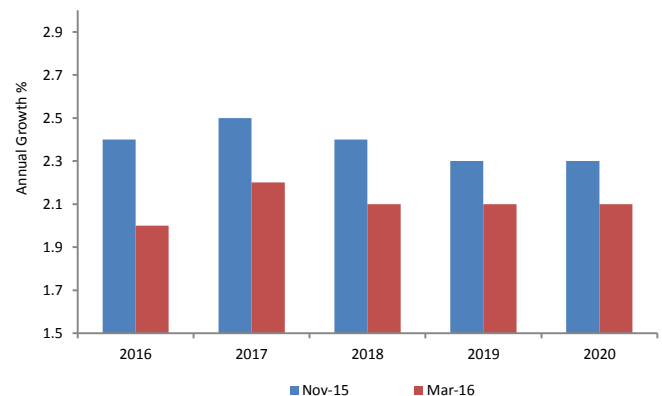


Source: ONS Consumer Price Indices, February 2016

### ...the OBR downgrades GDP forecasts...

The Office for Budget Responsibility (OBR) has downgraded its outlook for the UK economy for the next five years (see Chart 5). The OBR's GDP growth forecast for 2016 has been cut from 2.4% to 2.0% and is now lower than the BCC's GDP growth forecast for this year of 2.2%. The OBR also cut its growth forecast for 2017 to 2.2%, from 2.5% and for 2018 to 2.1%, from 2.4%. The BCC currently forecasts GDP growth of 2.3% in 2017 and 2.4% in 2018. **Although the OBR's latest GDP forecasts are now below our own, the BCC and OBR latest forecasts both confirm that the UK's economic outlook is weakening.**

Chart 5: OBR UK GDP Forecast Comparison

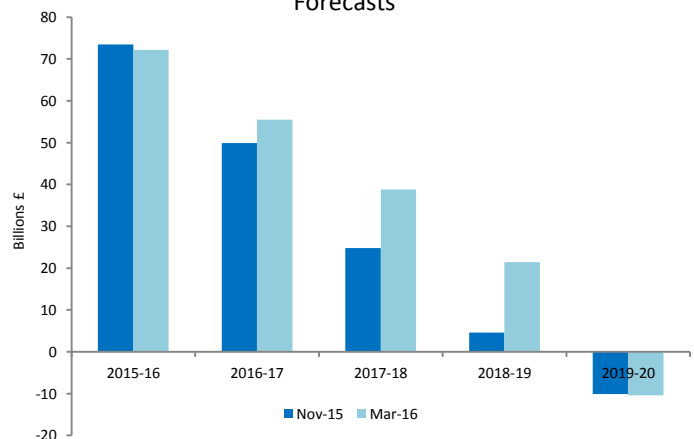


Source: OBR Economic and Fiscal Outlook, March 2016

### ...and has weakened the UK's fiscal outlook.

The OBR currently expects UK public-sector net borrowing to total £177.5 billion between 2015/16 and 2019/20, £34.8 billion higher than it had previously estimated (see Chart 6). The weaker fiscal outlook reflects lower wage growth, tax revenues and productivity associated with the OBR's more pessimistic outlook for UK GDP growth. However, partly as a consequence of the timing of various initiatives announced in the budget, the OBR still predicts that the UK will have a small budget surplus by 2019/20. **However, we believe that achieving a budget surplus by 2019 remains very challenging.**

Chart 6: OBR Public Sector Net Borrowing Forecasts

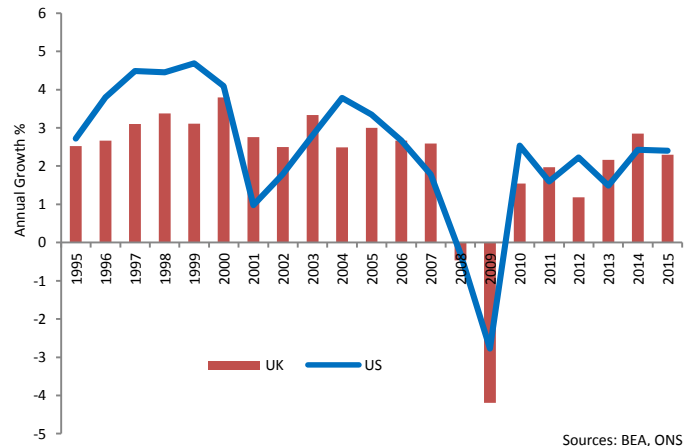


Source: OBR Economic and Fiscal Outlook, March 2016

### ...While US growth is revised up...

The third estimate of US GDP revealed that the US economy, a major UK trading partner, grew at an annualised rate of 1.4% in Q4 2015, up from the previous estimate of 1%, but this is still slower than the growth of 2.0% recorded in the previous quarter. The upward revision to Q4 GDP growth was partly driven by stronger consumer spending which was revised up to 2.4% in Q4, up from the previous estimate of 2.0%. For 2015 as a whole, the US economy grew by 2.4%. (See Chart 7) Although this was unchanged from the growth recorded in 2014, the US was still the fastest-growing G7 economy last year.

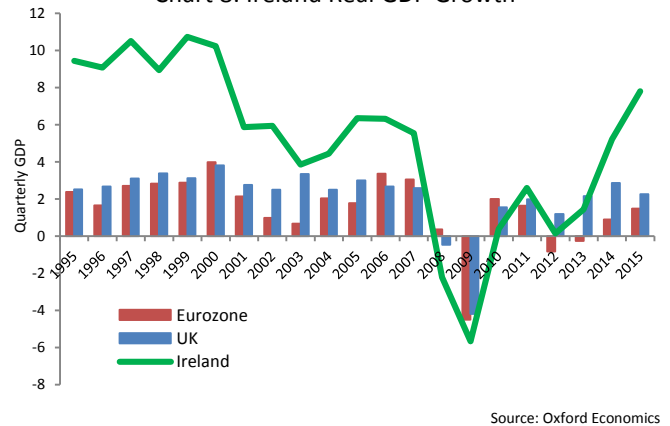
Chart 7: US, UK Real GDP Growth



### ...and Irish GDP growth hits 15 year high...

Ireland's economy, also a major UK trading partner, grew by 7.8% in 2015, the fastest rate of growth since 2000. The GDP growth recorded in Ireland last year was three times higher than the growth recorded in the UK and five times higher than the growth recorded across the Eurozone as a whole (See Chart 8). The pick-up in growth was driven mainly by growing foreign investment and improving consumer spending. However, Ireland's exposure to a weakening global economy and still high levels of domestic debt could well mean that Irish GDP growth slows this year.

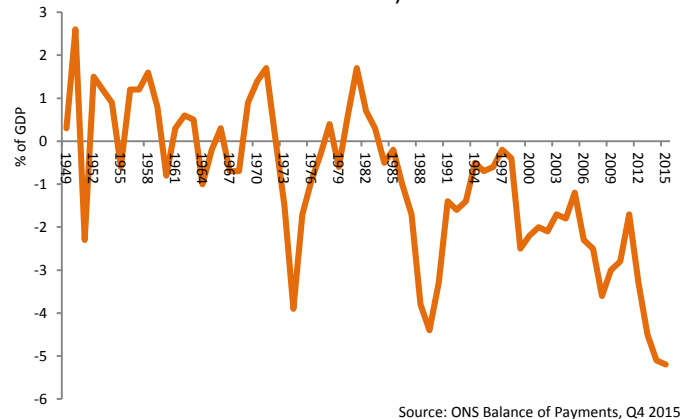
Chart 8: Ireland Real GDP Growth



### ...UK's current account deficit hits record high.

The UK's current account deficit (the gap between what the UK earns and spends) rose from 4.3% in Q3 2015 to 7% of GDP in Q4 2015, the highest deficit on record. The widening in the deficit was driven by a decline in income from the UK's direct investments abroad, while the UK's trade deficit widened to £12.2 billion in Q4 2015, from £8.9 billion in Q3 2015. As a consequence, the UK's current account deficit for 2015 as a whole reached 5.2% of GDP, also the largest figure since records began (see Chart 9). Overall, rebalancing the UK economy remains a major challenge.

Chart 9: UK Current Account position (as a % of GDP)



**Bottom line:** Taken together, March's economic data supports our view that although the UK economy is growing at a decent rate, more must be done to address the growing imbalances in our economy. This must include supporting businesses who are looking export and those trying to enter new export markets.

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## Economic summary chart

		Deteriorating <span style="color:red">■</span> No change <span style="color:yellow">■</span> Improving <span style="color:green">■</span>													
Sector	Indicators (sources)	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Household	Retail Sales (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Consumer Confidence (GfK NOP)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	House Prices (Halifax)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	New car sales (SMMT)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Mortgage approvals (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Business	Business confidence (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business lending (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Service sector output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Production output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Claimant count (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Economic Inactivity (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	■
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Exchange rate (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Global	US unemployment (BLS)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	Eurozone Unemployment (Eurostat)	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	China GDP (Oxford Economics)	■	■	■	■	■	■	■	■	■	■	■	■	■	■

\*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

\*\*Annual changes. \*\*\*Quarterly changes. \*\*\*\*Latest figures are estimates.