

Monthly Economic Review

February 2016

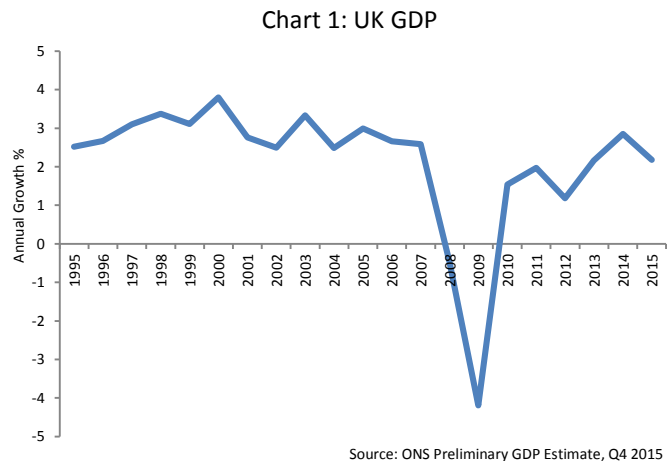
(Based on January 2016 data releases)

Monthly headlines:

- GDP growth in the UK weakened in 2015, with the construction sector back in recession
- UK unemployment drops to ten-year low, but earnings growth continues to weaken
- GDP growth in the world's two largest economies slows, as IMF cuts global outlook

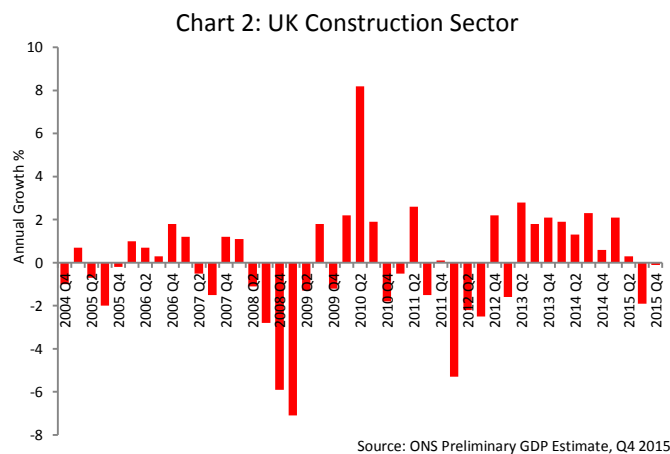
UK GDP growth slowed in 2015...

The first official estimate of economic growth (GDP) revealed that the UK economy grew by 0.5% in Q4 2015, slightly stronger than the growth of 0.4% recorded in the previous quarter. Despite the slight improvement in Q4, in annual terms the UK economy grew by 1.9% in Q4, down from the growth of 2.1% recorded in Q3. Similarly, the UK economy grew by 2.2% in 2015 as a whole, down markedly from the growth of 2.9% recorded in 2014 (see Chart 1). The latest GDP figures provides further evidence that the UK's economic recovery remains fragile.



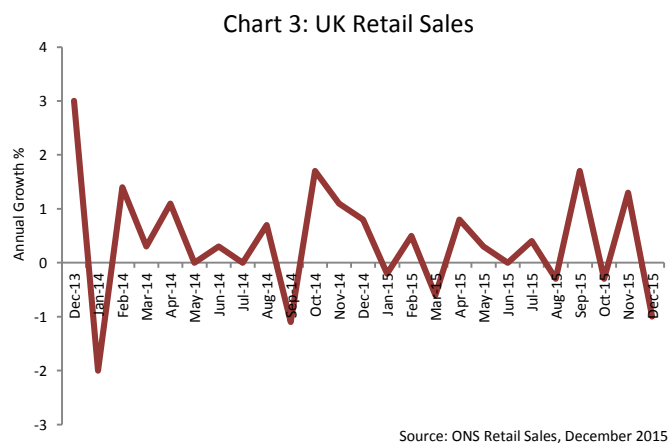
...as construction slips back into recession...

Services remains by far the most dominant sector of the UK economy, growing by 0.7% in Q4 and accounting for all of the growth recorded in the quarter. In marked contrast, industrial output fell by 0.2% in the quarter. Construction sector output contracted by 0.1% in the last quarter for 2015, the second successive quarterly decline. This means that for the sixth time in the past ten years the construction sector is in recession - (see Chart 2). These figures reinforce our view that the UK's economy is becoming even more unbalanced.

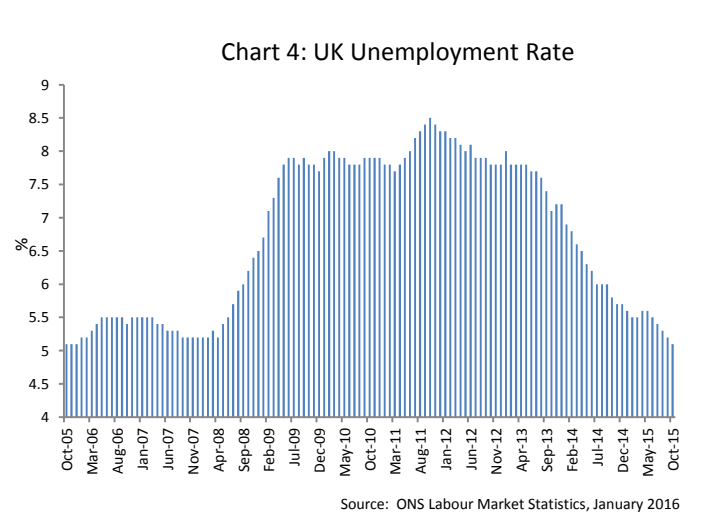


...and retail sales weaken...

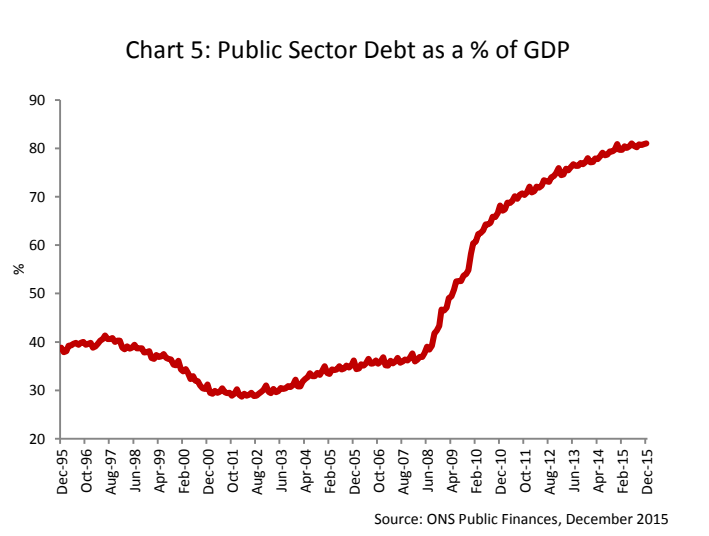
Retail sales fell by 1% in December, the biggest monthly fall since September 2014 (see Chart 3). The decline was partly driven by the mild weather in the month which hit clothing and footwear sales. However, retail sales were up by 2.6% in annual terms and on the rolling three month-on-three-month measure sales rose by 1.1% in the three months to December, the 24th consecutive month of growth. In annual terms, average store prices fell by 3.2% in December 2015. The weaker sales data mirrors our view that the economic recovery remains at risk.



...while unemployment drops to ten-year low...
In the three months to November 2015, UK employment rose by 267,000 compared with the previous three months. The number of people who are unemployed fell by 99,000 over the same period. As a result, the unemployment rate fell to 5.1%, its lowest level since the three months to October 2005 (see Chart 4). Although annual earnings growth continues to outstrip inflation, total pay growth weakened again, declining from 2.4% to 2.0%, the fourth successive quarterly slowdown. **Overall, the labour market remains a major source of strength for the UK economy.**



...UK public finances remain weak...
 Public-sector borrowing (excluding public-sector banks) showed a deficit of £7.5 billion in December, £4.3 billion lower than the total recorded in December 2014. Between April and December 2015, public sector net borrowing was £74.2 billion, £11 billion smaller than the total recorded in corresponding period in the previous financial year. **This improvement means that there is a chance government could meet its borrowing target for 2015/16.** However, reducing the UK's fiscal deficit remains a major challenge with public sector net debt still more than double pre-crisis levels (see Chart 5).



...the UK's economic outlook weakens...
 In its latest inflation report, the Bank of England has downwardly revised its UK GDP forecast for 2016 to 2.2%, from 2.5%. This means that the UK economy is now projected to grow at the same rate as last year. The Bank of England also downgraded its growth forecast for 2017 to 2.4%, from 2.7%. The central bank's growth forecast is below than our own GDP forecast but in line with latest outlook from the IMF (see Table 1). However, despite the slight differences, **the Bank of England's latest forecast supports our own view that outlook for the UK economy has weakened.**

Table 1: UK GDP Forecast Comparisons

	2016 (%)	2017 (%)
BCC	2.5	2.5
OECD	2.4	2.3
Bank of England	2.2	2.4
IMF	2.2	2.2

Sources: BCC, Bank of England, OECD and IMF

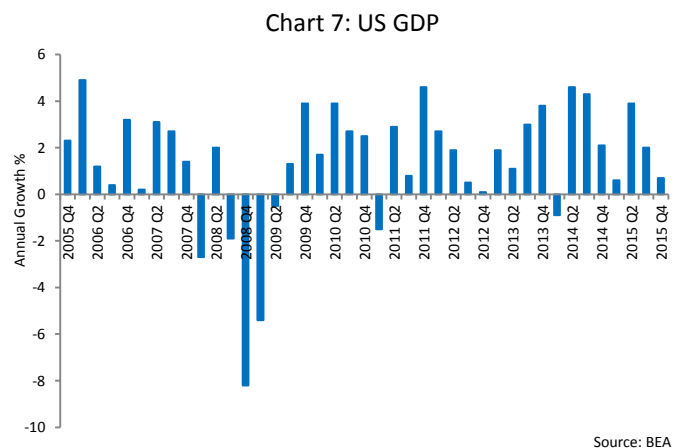
....and with Chinese GDP growth weakening...

China's economy, the world's second-largest, grew by 6.9% in 2015, its lowest rate of growth since 1990 (see **Chart 6**). China's economy grew at an average annual rate of 10.5% between 2000 and 2007, but has been slowing in recent years. The weaker growth in China has been partly driven by its attempts to rebalance its economy away from exports to consumer spending. There are also concerns that China's slowdown could be much greater than its official economic data is currently showing. The size of its economy means that a **prolonged and damaging slowdown in China is a major risk to the outlook for the global economy.**



...US growth slowing sharply...

The US economy, the world's biggest economy, grew at an annualised rate of 0.7% in Q4 2015, a marked slowdown from the 2% growth recorded in the previous quarter (see **Chart 7**). The slowdown was partly driven by weaker consumer spending which grew by 2.2% in Q4, down from 3.0% in the previous quarter. The US, like the UK, remains highly dependent on household consumption to drive growth. **The weaker US GDP data in Q4 2015 could push the timing of the next rise in US interest rates to much later in 2016, than previously expected.**



...global growth is downgraded...

The IMF has downgraded its forecast for global growth. The IMF now expects the global economy to grow by 3.4% in 2016, lower than its previous forecast of 3.6%. The downward revision to global growth was mainly driven by concern over the outlook for China, the prospect of rising US interest rates and the impact of lower commodity prices on emerging economies. However, these headwinds, the IMF currently predicts that the **UK economy will grow by 2.2% in 2016 which if achieved would make it the second-fastest growing G7 economy this year (see Table 2).**

Table 2: IMF GDP Forecast, G7 Economies

G7	2016 (%)
US	2.6
UK	2.2
Germany	1.7
Canada	1.7
France	1.3
Italy	1.3
Japan	1.0

Source: IMF

Bottom line: *January's economic data releases provide further evidence of the fragile nature of the UK economic recovery. Failure to address some of the deep-rooted issues facing our economy, such as access to finance and infrastructure, will leave the UK increasingly exposed to the negative consequences of a deteriorating global economy.*

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Economic summary chart

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

*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.