

# Monthly Economic Review

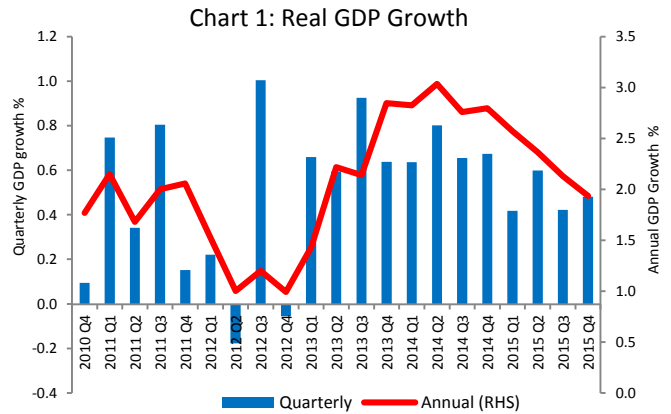
## March 2016

(Based on February 2016 data releases)

### Monthly headlines:

- Q4 2015 UK GDP growth unrevised, with the service sector continuing to support growth
- UK goods trade deficit and services trade surplus reach record highs
- India's economy outperforms China, as Eurozone growth hits four-year high

**Economic growth in Q4 unrevised at 0.5%...**  
**The second official estimate for Q4 2015 economic growth (GDP) was unrevised at 0.5%, the twelfth successive quarter of growth (see Chart 1).** In annual terms, the UK GDP was up by 1.9% in Q4. For 2015 as a whole, the UK economy grew by 2.2%, unrevised from the previous estimate. As a result, UK economic output is currently 6.7% above its Q1 2008 pre-recession peak. Although growth has slowed recently, the UK economy remains among the fastest-growing economies in the G7 with only the US recording faster growth than the UK in 2015.

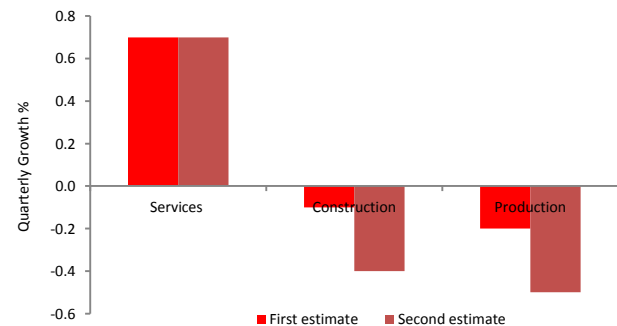


Source: ONS Second GDP Estimate, Q4 2015

### ...and growth remains unbalanced...

The UK service sector is still the biggest driver of UK growth, growing by 0.7% in Q4 2015, unrevised from the previous estimate (see Chart 2) and marks the twelfth consecutive quarter of positive growth. Production output fell by 0.5% in Q4 2015 compared with Q3 2015, revised down 0.3 percentage points from the previous estimate. Construction output dropped by 0.4% in Q4, revised down 0.3 percentage points from the previous estimate. **Overall, strong service sector output is helping to offset weakness in other areas of the UK economy.**

Chart 2: UK GDP by Sector, Q4 2015

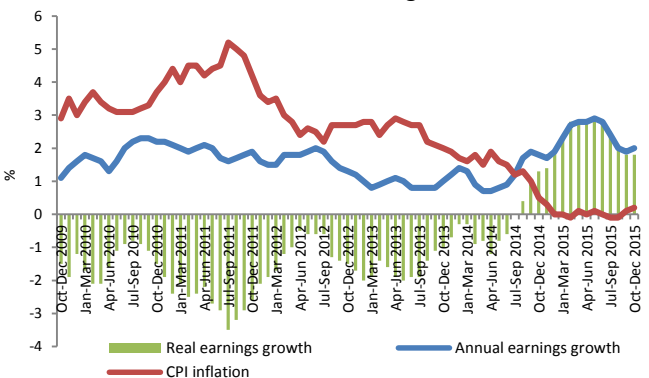


Source: ONS Second GDP Estimate, Q4 2015

### ...UK jobs market strengthens further...

**In the three months to December 2015, UK employment rose by 205,000 compared with the previous three months.** As a consequence, the UK employment rate reached 74.1%, the highest since records began. Although earnings growth remains stuck at around 2%, December was the fifteenth successive month that pay growth has outstripped inflation. This means that earnings continue to grow in real terms (see Chart 3) which is helping support consumer spending, a key driver of UK economic growth.

Chart 3: Real Earnings Growth

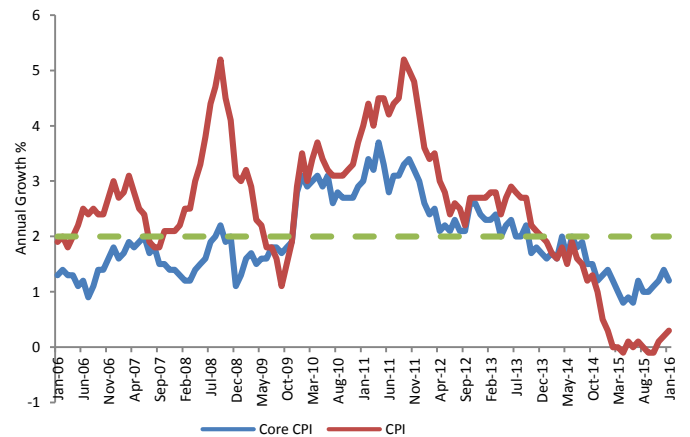


Source: ONS Labour Market Statistics, February 2016

### ...while UK inflation hovers around zero...

CPI inflation rose to 0.3% in January 2016, up from 0.2% December 2015, the highest rate since January 2016, but still well below the Bank of England's 2% inflation target. Although falling energy and food prices continue to keep headline inflation close to zero, 'core' inflation - which excludes products such as fuel and food that can have temporary price shocks – dropped to 1.2% still much lower than the central banks inflation target (see Chart 4), suggesting that inflation is set to remain low for some time yet. **With UK inflation expected to remain very weak, a rise in interest rates in 2016 is highly unlikely.**

Chart 4: UK Inflation

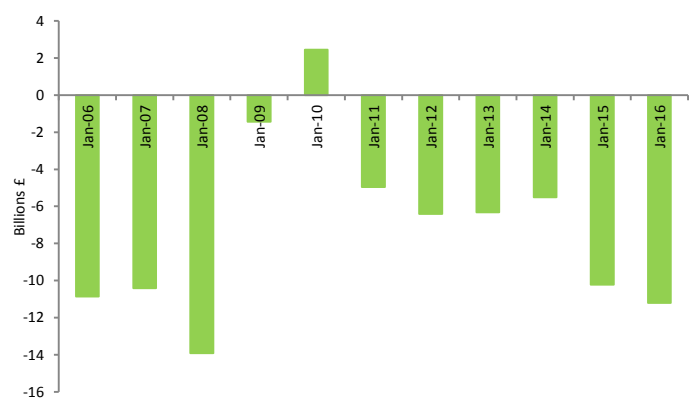


Source: ONS Consumer Price Indices, January 2016

### ...deficit reduction proving a real challenge...

UK public sector borrowing (excluding public sector banks) recorded a surplus of £11.2 billion in January 2016, the largest January surplus since 2008 (see Chart 5). January is typically a strong month for tax receipts due to the timing of self-assessment tax returns. However, with total borrowing for this financial year to date already standing at £66.5 billion, the **Chancellor faces a real challenge to meet the OBR's borrowing forecast of £73.5 billion for 2015/16** as a whole. To meet the OBR's forecast, the government would have to borrow no more than £7 billion in the remainder of this financial year.

Chart 5: UK Public Sector Net Borrowing

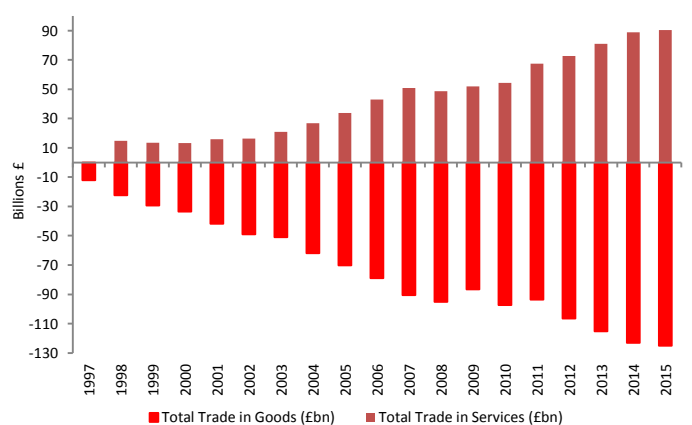


Source: ONS Public Finances, January 2016

### ...as UK's trade position remains weak...

The UK's trade deficit narrowed in December 2015 to £2.7 billion, from £4.0 billion in November. This reflects a deficit of £9.9 billion on goods, partially offset by an estimated surplus of £7.2 billion on services. UK's trade deficit for 2015 as a whole reached £34.7 billion, an increase of £0.3 billion from 2014. **The UK's trade deficit in goods widened to £125 billion in 2015, the highest on record (see Chart 6).** In marked contrast, the UK's trade surplus in services increased to £90 billion, also a record high. Overall, these figures confirm that rebalancing the UK economy remains a major challenge.

Chart 6: UK Trade Balance: Goods and Services

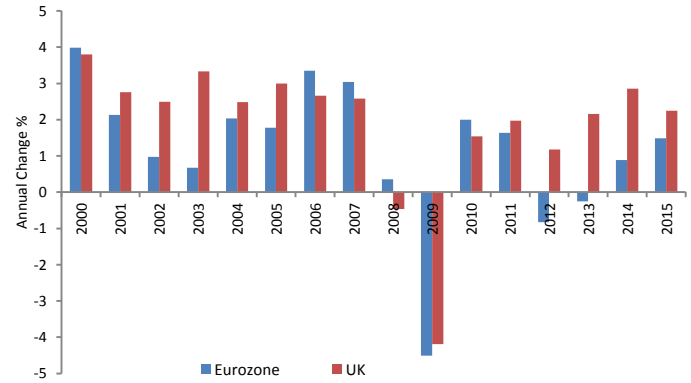


Sources: ONS UK Trade Data: December 2015

### ...and while the Eurozone is improving...

The first estimate of Eurozone GDP had growth at 0.3% for Q4 2015, unchanged from the previous quarter. Germany's economy, the biggest in the Eurozone, grew by 0.3% in Q3 2015, unchanged from the previous quarter. In contrast, Greece slipped back into recession in Q4 after declining by 0.6% in the quarter and a drop of 1.4% in Q3. **For 2015 as a whole, the Eurozone economy grew by 1.5%, the fastest rate of growth since 2011, but below the growth of 2.2% recorded in the UK last year (see Chart 7).** Overall, despite the stronger growth recorded last year, the outlook for the Eurozone remains weak.

Chart 7: UK vs Eurozone GDP growth

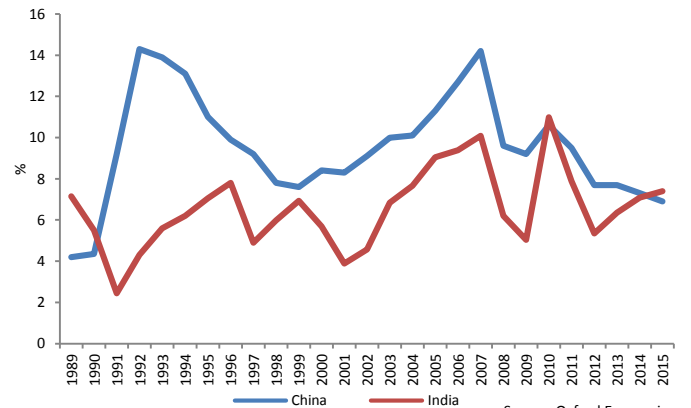


Sources: Eurostat, ONS

### ...as India's economy outpaces China...

India's economy, the world's third-largest, grew by 7.4% for 2015 as a whole, the fastest rate of growth since 2011. Significantly, **India's economy grew at a faster rate than China in 2015** - only the second time in the past twenty years that India has outperformed China (see Chart 8). Despite concerns that the official GDP data is overstating the true strength of the economies of both India and China, the outlook for India remains positive with a growing middle class and working age population expected to support consumer spending, a key driver of India's economy.

Chart 8: Real GDP: India vs China

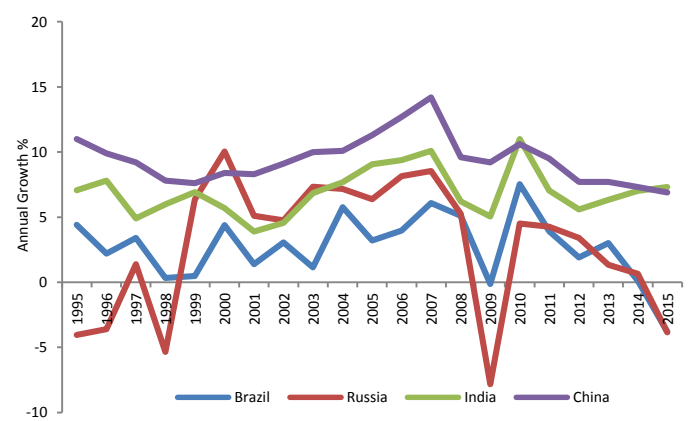


Source: Oxford Economics

### ...but Brazilian growth hits 25-year low...

Brazil's economy, the world's seventh-largest, contracted by 3.8% in 2015, the biggest decline since 1981. Lower global commodity prices, declining domestic demand and double digit inflation and interest rates have all contributed to the slowdown in Brazil. **The struggles faced by Brazil highlight the difficulties facing the 'BRIC' countries** which had been expected to be drivers of global growth. Although India is performing well, both Russia and Brazil are in recession and Chinese growth is slowing (see Chart 9), reflecting a wider slowdown among emerging markets.

Chart 9: Real GDP: BRIC Countries



Source: Oxford Economics

**Bottom line:** Overall, last month's data releases provides further confirmation that although the UK economy is growing at a reasonable rate, more must be done help to support investment and growth at a time of rising global uncertainty.

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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
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.