

Monthly Economic Review

May 2016

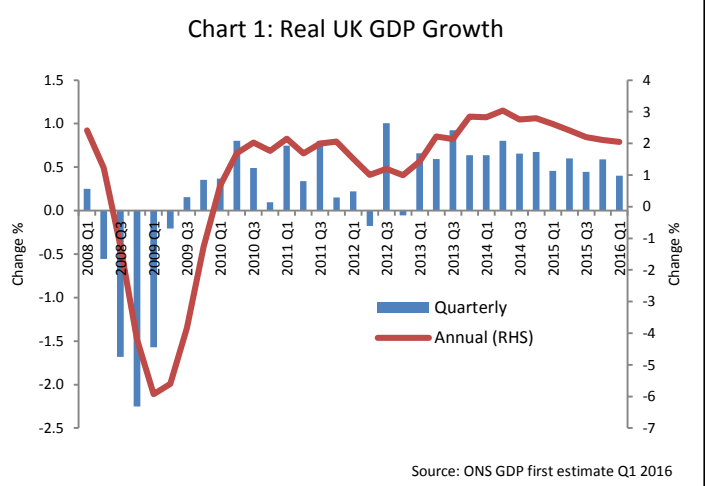
(Based on April 2016 data releases)

Monthly headlines:

- UK GDP growth slowed in Q1 2016, as manufacturing and construction output fell
- BCC QES confirms UK growth is slowing with key survey indicators either static or declining
- IMF downgrades global economic outlook, as US and Chinese GDP growth slows

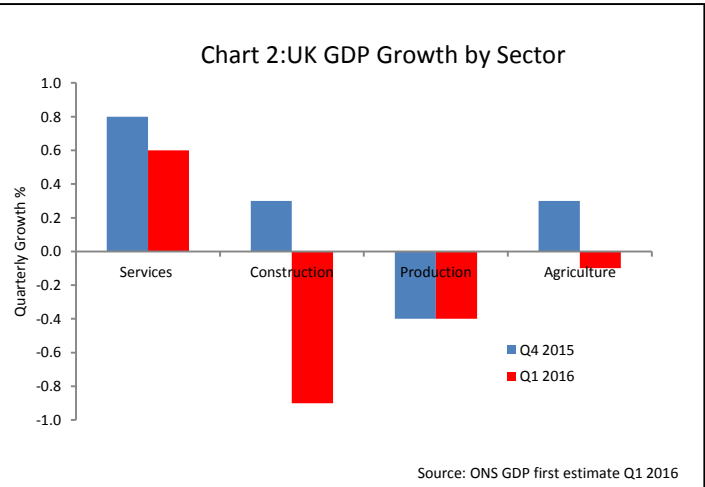
UK GDP growth slows in Q1 2016...

The UK economy grew by 0.4% in Q1 2016, the thirteenth successive quarter of growth, but slower than the growth of 0.6% recorded in Q4 (See Chart 1). In annual terms, the UK economy grew by 2.1% in Q1, unchanged from the previous quarter. As a consequence, UK economic output is now estimated to be 7.3% above its pre-recession peak in Q1 2008. Overall, **the preliminary UK GDP data for the first quarter of this year supports our view that growth in the UK economy is weakening.** The BCC is currently forecasting growth of 2.2% for 2016 as a whole.



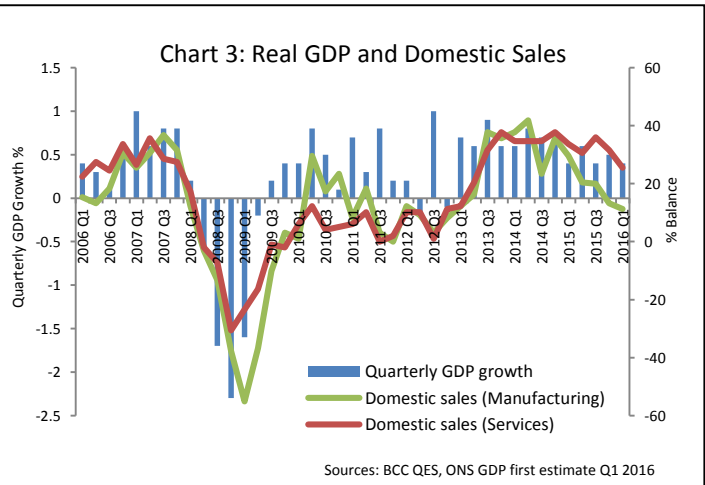
...as output weakens in most sectors...

Output fell in three of the four main industrial groupings (see Chart 2). In Q1, industrial production dropped by 0.4%, construction output fell by 0.9%, and agricultural production dropped by 0.1%. In contrast, **the service sector - was the only driver of GDP growth in the first three months of 2016,** growing by 0.6% in the quarter, although this was weaker than the 0.8% growth recorded in the previous quarter. Taken together the latest GDP sector data highlights the continued imbalances in UK economic growth.



...as the latest QES confirms weaker growth...

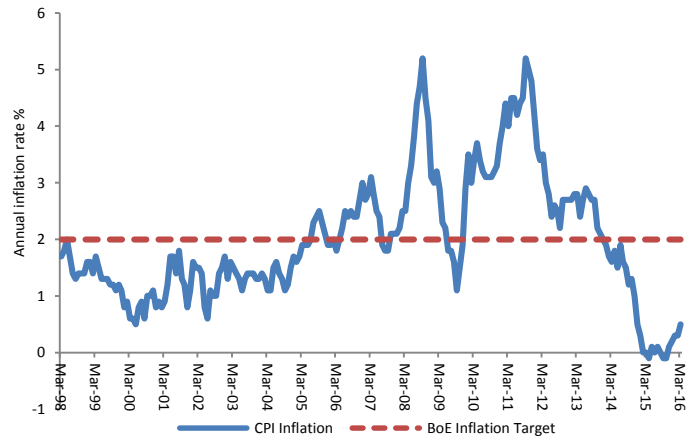
The latest Quarterly Economic Survey (QES) revealed that main balances for manufacturing and services were generally weaker in Q1. In the service sector, several of the key indicators fell slightly in the quarter with the balance for domestic sales falling to its lowest level since Q2 2013. In the manufacturing sector, most indicators remained weak by historic standards with domestic sales declining to their lowest level since Q4 2012 (see Chart 3). **Overall, the results from the latest QES mirrors the official data and confirms that UK economic growth is slowing.**



...while inflation remains weak...

CPI inflation rose from 0.3% in February to 0.5% in March, the highest rate since December 2014. A 23% rise in air fares was among the main contributors to the increase, reflecting the fact that Easter fell in March this year, compared with April in 2015. However, despite this increase, the UK remains in a period of weak price growth, with inflation having been below the MPC's 2% target for more than two years (see Chart 4). Furthermore, **with the 2% inflation target not likely to be met until the end of 2017, interest rates are likely to remain on hold for the foreseeable future.**

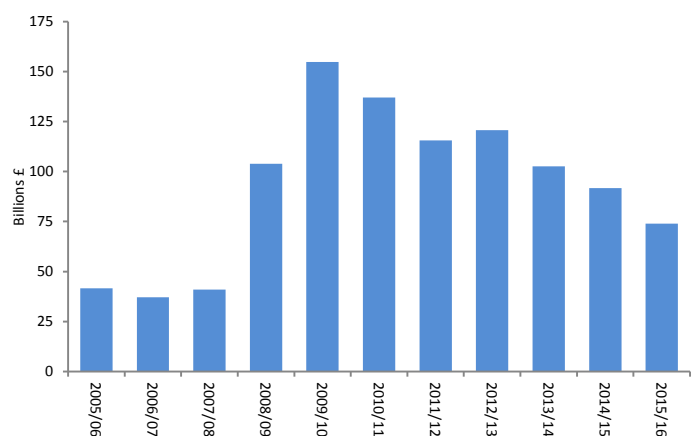
Chart 4: CPI inflation



...and the public finances are improving...

UK public-sector borrowing, excluding public sector banks, stood at £4.8 billion in March 2016, a decrease of £2.6 billion, compared with March 2015. For 2015/16 financial year as a whole, public-sector borrowing totalled £74 billion (see Chart 5), £17.7 billion lower than the total recorded in the previous financial year, but £1.8 billion higher than the Office for Budget Responsibilities (OBR) 2015/16 borrowing forecast of £72.2 billion. Despite the recent improvement, with the UK struggling to generate tax receipts, **the OBR's forecast of a budget surplus by 2019 still looks optimistic.**

Chart 5: UK Public sector Net Borrowing



...IMF downgrades outlook for the UK...

The International Monetary Fund (IMF) has downgraded its outlook for the UK economy. The IMF cut its GDP forecast for 2016 to 1.9%, from its previous forecast of 2.2% and if achieved would be the slowest rate of growth since 2012. The IMF's latest outlook is more pessimistic than the latest BCC growth forecast for this year of 2.2% (see Table 1). The IMF forecast for UK growth in 2017 was unchanged at 2.2%, also slightly below the BCC's latest forecast. Overall, **the IMF's latest forecasts of UK GDP provides further evidence that the outlook for the UK economy is weakening.**

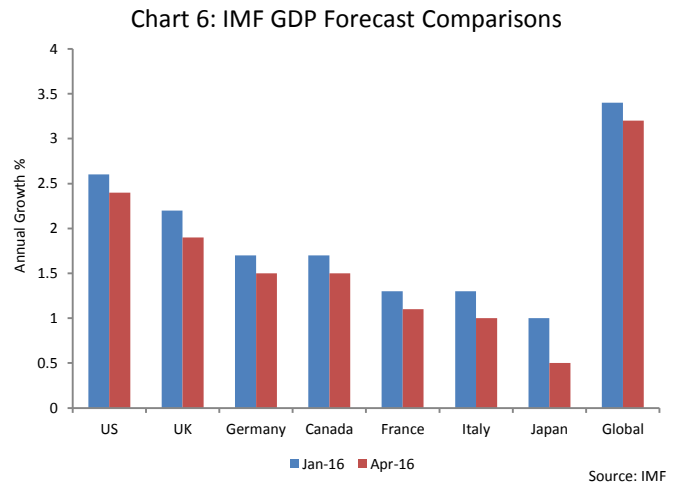
Table 1: UK GDP Growth Forecast Comparisons

	2016 (%)	2017 (%)	2018 (%)
Bank of England	2.2	2.3	2.4
BCC	2.2	2.3	2.4
IMF	1.9	2.2	-
OBR	2.0	2.2	2.1

Sources: BCC, Bank of England, IMF and OBR.

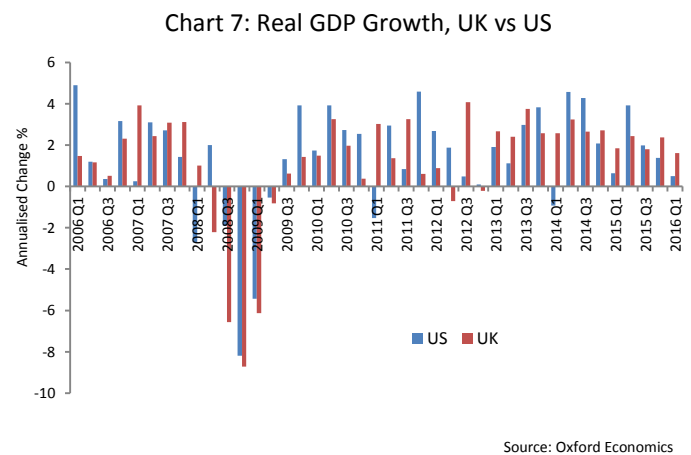
...as well as the global economy...

As well as downgrading its outlook for the UK economy, the IMF also downgraded its forecast for global growth. The IMF now expects the global economy to grow by 3.2% in 2016, lower than its previous forecast of 3.4% (see Chart 6). While the downward revision to global growth for 2016 reflects a widespread slowdown across all types of economies, emerging and developing economies are expected to see a more marked slowdown, particularly for commodity exporters with prices expected to remain weak. **The latest IMF forecasts confirm that the weaker global economic outlook remains a major risk to the UK economy.**



...with US growth slowing to two-year low...

The first estimate of US GDP revealed that the US economy, the world's largest, grew at an annualised rate of 0.5% in Q1 2016 (see Chart 7), the slowest rate of growth since Q1 2014 and just over a third of the GDP growth of 1.4% recorded in the previous quarter. The weakening in growth was largely driven by consumer spending, which accounts for two-thirds of US economic output, slowing to 1.9% in Q1 2016, from growth of 2.4% in the previous quarter. Despite the weaker GDP figures in Q1, **the outlook for the US economy remains relatively strong with the US likely to be the fastest growing economy in the G7 this year.**



...and China's economy is also slowing...

China - the world's second-largest economy - grew at an annual rate of 6.7% in Q1 2016, the slowest rate of growth since Q1 2009 and lower than the growth of 6.8% recorded in Q4 2015 (see Chart 8). However, GDP growth remains in line with the Chinese government's GDP growth target of 6.5-7%. Government stimulus measures, including boosting credit growth, saw housing and infrastructure investment rise by 10.7% in Q1 2016, up from 9.3% in Q4 2015. However, **concerns remain that China's economy is weaker than official economic data is currently showing.**



Bottom line: Taken together, the latest official and QES data reinforces our view that the UK economy is weakening. While the worsening global outlook remains an impediment to growth, more must be done to address the deep-rooted structural problems in our economy, including improving our physical and digital infrastructure.

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Economic summary chart

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

*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.