Monthly Economic Review

November 2016

(Based on October 2016 data releases)

Monthly headlines:

- UK economy continues to grow at a moderate pace, but growth remains reliant on services
- The declining value of sterling set to push inflation higher in the coming months
- US economic growth at two-year high, boosted by stronger investment and exports

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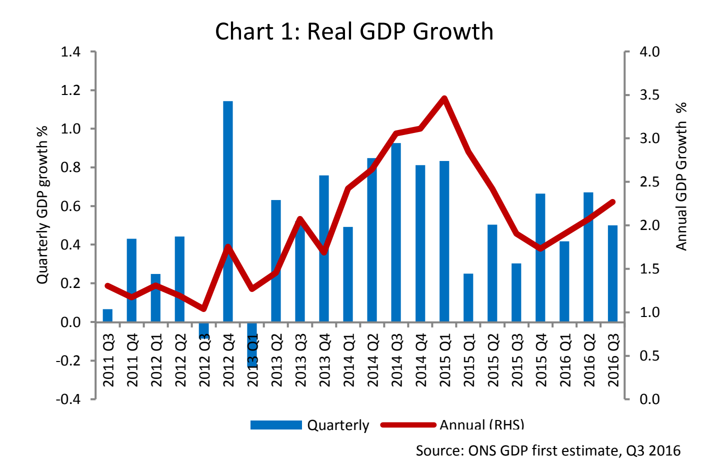
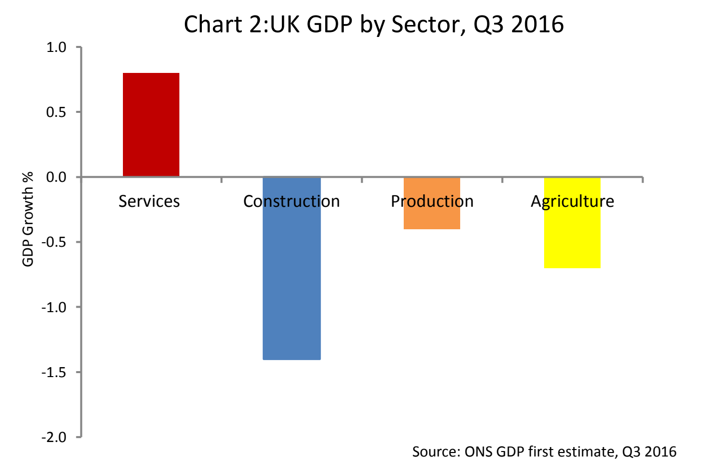
UK economy grew by 0.5% in Q3...

The first official estimate of UK GDP put growth in the third quarter at 0.5%, slower than the growth of 0.7% recorded in the previous quarter **(see Chart 1),** but stronger than many had expected. This mirrors the results from the latest BCC Quarterly Economic Survey (QES), which indicated continued growth but at a slower pace than before the EU referendum. UK economic output is now 8.2% above its Q1 2008 pre-recession peak. **The latest GDP figures confirm that the UK economy continues to moderate at a good rate.**



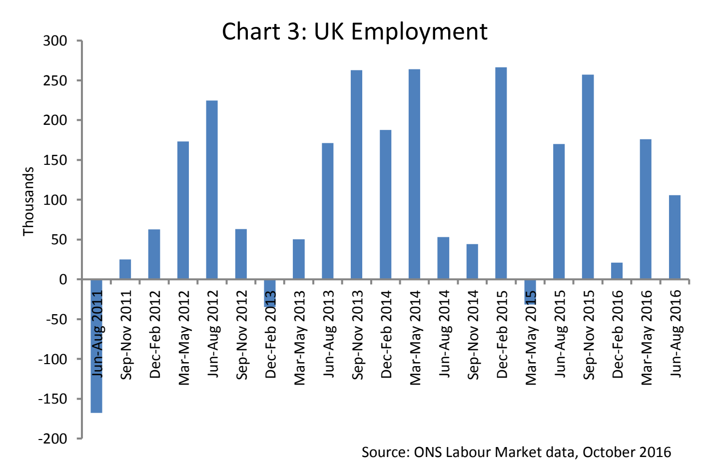
...but remains unbalanced...

Economic growth in Q3 2016 was entirely driven by the services sector. Output from the services sector, which accounts for over three-quarters of the UK's economic output, rose by 0.8% in Q3 **(see Chart 2)**. In contrast, output declined in the other three main industrial groupings. Industrial production declined by 0.4%, with manufacturing output falling by 1.0%. Similarly, output from the construction sector fell by 1.4% and agricultural production contracted by 0.7%. Overall, **the Q3 growth figures confirm that UK economic growth remains unbalanced.**



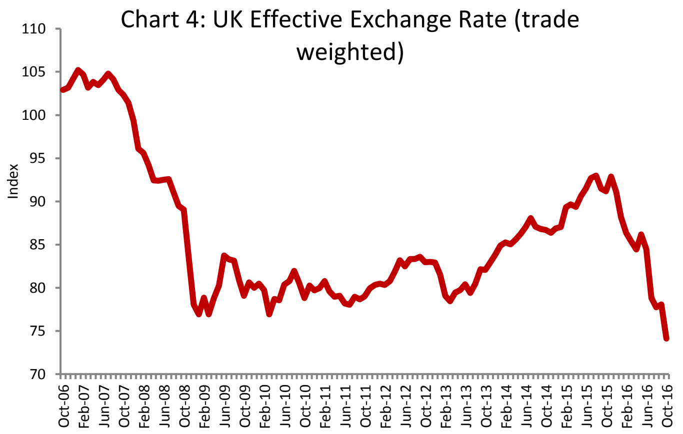
...while the UK jobs market remains strong...

In the three months to August 2016, UK employment rose by 106,000 compared with the previous three months **(see Chart 3)**. However, the number of people who are unemployed rose by 10,000 over the same period and the timelier claimant count measure rose by 700 in September, the second successive monthly increase. While it is likely to be some time before the full post-referendum employment market picture emerges, **the latest QES suggests that firms in both services and manufacturing are lowering their expectations for hiring**.



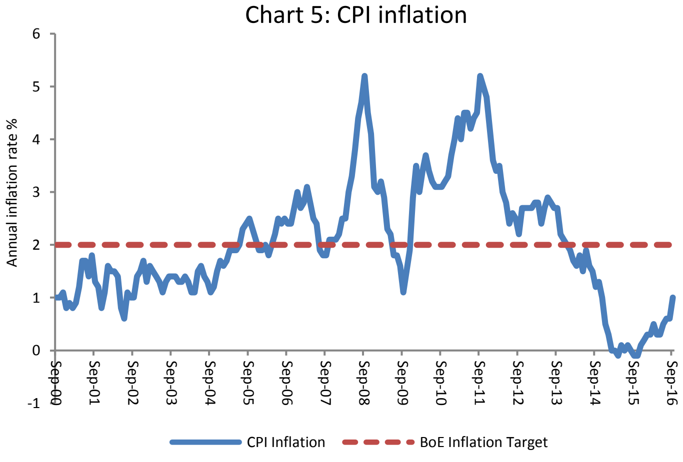
…sterling continues to weaken…

The value of sterling has fallen significantly since the EU referendum vote. On a trade weighted basis (weighted average of currencies as measured by trade flows), the value of sterling declined by 4.2% in October and has fallen by 16% since the EU referendum vote **(see Chart 4)**. Mounting political and economic uncertainty, particularly around Brexit, has been the main driver behind the current weakness in sterling. The dramatic decline in the value of the pound is expected to place increasing upward pressure on inflation in the coming months by raising the cost of imported goods and materials.



…increasing inflationary pressures…

UK CPI inflation rose to 1% in September 2016, from 0.6% in August the biggest month-on-month increase since June 2014 **(see Chart 5)**. However, inflation remains well below the Bank of England's 2% target. The main upward contributors to change in the rate were rising prices for clothing, hotel and fuel prices, which were partially offset by a fall in air fares and food prices. **The BCC expects rising prices to become an increasing impediment to the UK's growth prospects over the near term** as imported inflation erodes consumer spending power and squeezes profit margins.



…the outlook for the UK is still subdued…

In its latest quarterly inflation report, the Bank of England upgraded its UK GDP growth forecast for 2016 to 2.2%, from 2.0% and for 2017, from 0.8% to 1.4%. The central bank's latest UK GDP growth forecast for 2016 and 2017 is slightly higher than the BCC's latest growth projections **(see Table 1)**. However, the Bank of England's did downgrade its forecast for UK growth in 2018, from 1.8% to 1.5%. Despite the upgrade to its UK growth forecasts for 2016 and 2017, **the Bank of England remains more pessimistic over the outlook for the UK economy than before the referendum.**

Table 1: UK GDP Forecast Comparison

	2016 (%)	2017 (%)	2018(%)
Bank of England	2.2	1.4	1.5
BCC	**1.8**	**1.0**	**1.8**
IMF	1.8	1.1	1.7

Sources: BCC, IMF and Bank of England

…and cutting the deficit remains a challenge...

UK public-sector net borrowing (excluding public sector banks) recorded a deficit of £10.6 billion in September 2016, £1.4 billion higher than the deficit of £9.3 billion recorded in September 2015 (see Chart 6). For the 2016/17 financial year to date (April to September), government borrowing totalled £45.5 billion, down by £2.3 billion from the same period in 2015/16. The UK has consistently struggled to generate the tax revenue need to make meaningful progress in cutting the deficit and this underlying weakness is likely to be exacerbated further if the UK economy slows as we predict.

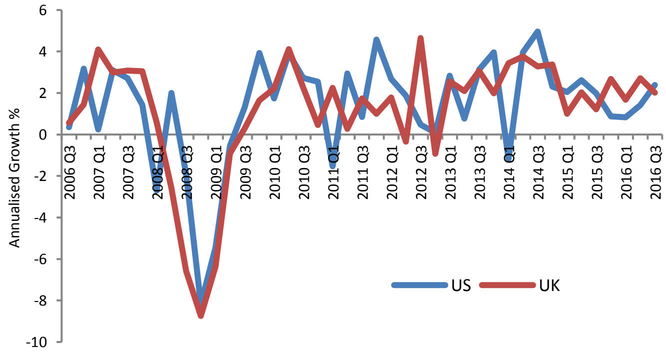
Chart 6: UK Public sector Net Borrowing

Source: ONS Public Finances, October 2016

...as US growth hits two-year high…

The first estimate of GDP put growth in the US economy, the world's largest, at an annualised rate of 2.9% in Q3 2016. This is the fastest rate of growth since Q3 2014 and more than double the growth of 1.4% recorded in Q2 **(see Chart 7)**. While consumer spending slowed, private sector investment rose by 3.1% and exports increased by 10%, the biggest increase since Q4 2013. The acceleration in US GDP growth together with a strengthening jobs market increases the likelihood of a further rise in US interest rates in the coming months.

Chart 7: Real GDP Growth, UK vs US

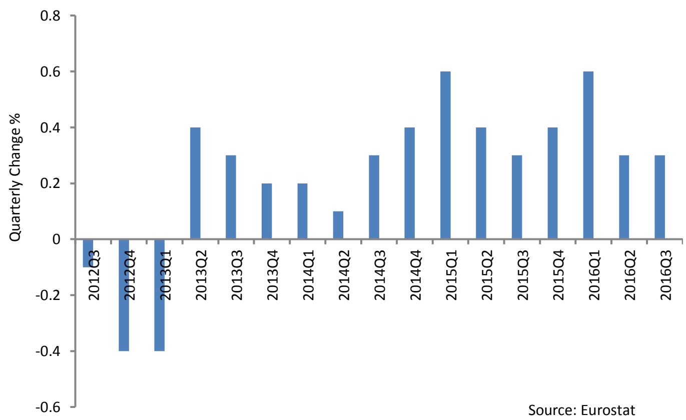


Sources: ONS, BEA

…and Eurozone growth holds steady.

The preliminary estimate of GDP put growth in the Eurozone economy at 0.3% in Q3 2016, unchanged from the previous quarter and is the fourteenth successive quarter of growth **(see Chart 8)**. In annual terms, the Eurozone grew by 1.6%. France, the second largest economy in Eurozone, grew by 0.2% in Q3, following a contraction of 0.1% in Q2. While the Eurozone continues to grow, continued concerns over the health of the banking sector and uncertainty over the implications of Brexit are likely to weigh on the near-term outlook for the Eurozone.

Chart 8: Eurozone GDP growth



Source: Eurostat

***Bottom line**: While the UK economy continues to grow at a moderate rate, economic conditions are likely to become more challenging over the next year. It is therefore vital that the upcoming Autumn Statement is used to support business investment and confidence, including much needed investment in our infrastructure.*

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Economic summary chart

Deteriorating | No change | Improving

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

*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.