

BCC Monthly Economic Review

May 2015

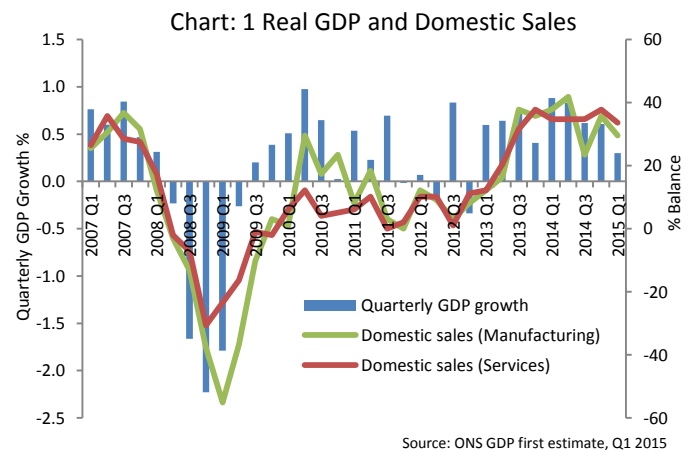
(Based on April 2015 data releases)

Monthly headlines:

- Outlook for the UK economy remains strong, despite GDP growth slowing to three-year low
- The UK's trade deficit widens, but public finances continue to improve
- Global outlook remains uncertain as China and US growth slows in Q1

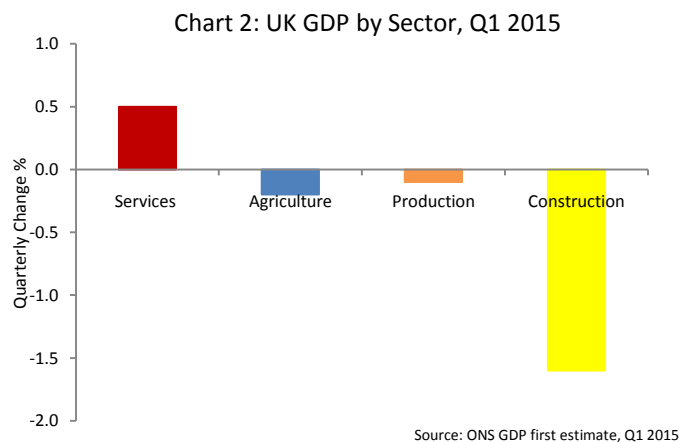
UK economic growth slowed sharply in Q1...

The UK economy grew by 0.3% in Q1 2015, the slowest rate since Q4 2012 and half the growth rate of 0.6% recorded in the previous quarter. In annual terms, UK GDP growth slowed to 2.4% in Q1, from 3.0% in Q4. Although the BCC's Quarterly Economic Survey (QES) revealed that most of the key balances weakened in Q1 2015 when compared with Q4 2014 (see Chart 1), the scale of the slowdown recorded in the official data is at odds with the latest QES data, which indicates that the UK economy is doing better than the preliminary GDP estimate suggests.



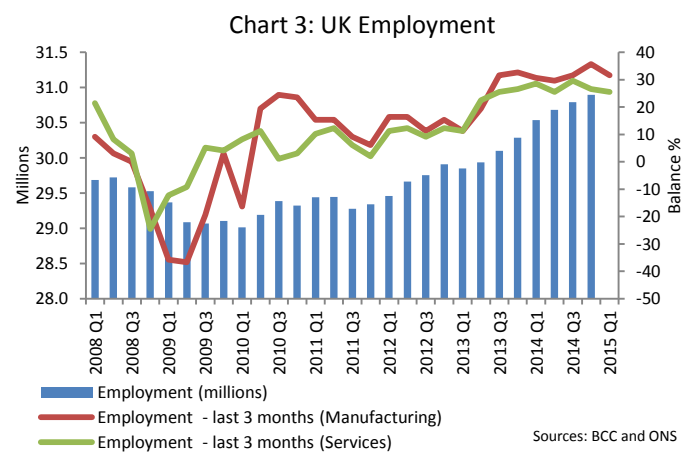
...as output weakens across the economy...

Output fell in three of the four main industrial groupings (see Chart 2). In Q1, industrial production fell by 0.1%, construction output declined by 1.6%, and agricultural production dropped by 0.2%. In contrast, the service sector - which accounts for over three quarters of UK economic output - was the sole driver of GDP growth in the first three months of 2015, growing by 0.5% in the quarter. Although this was weaker than the 0.9% growth recorded in the previous quarter, it would not be surprising if this estimate was upgraded in due course.

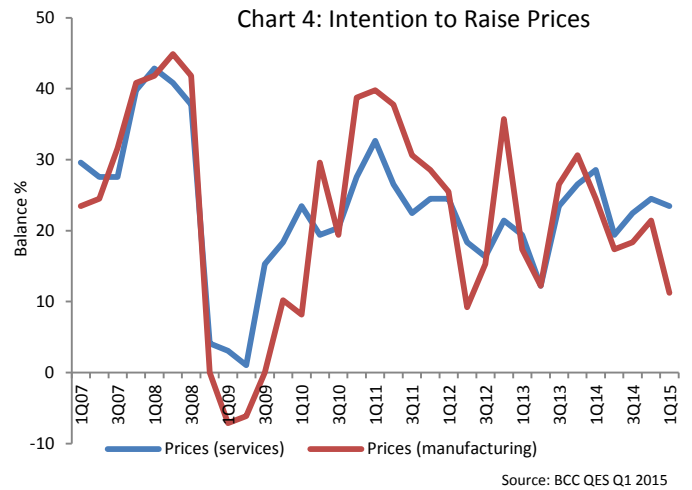


...however a strong jobs market...

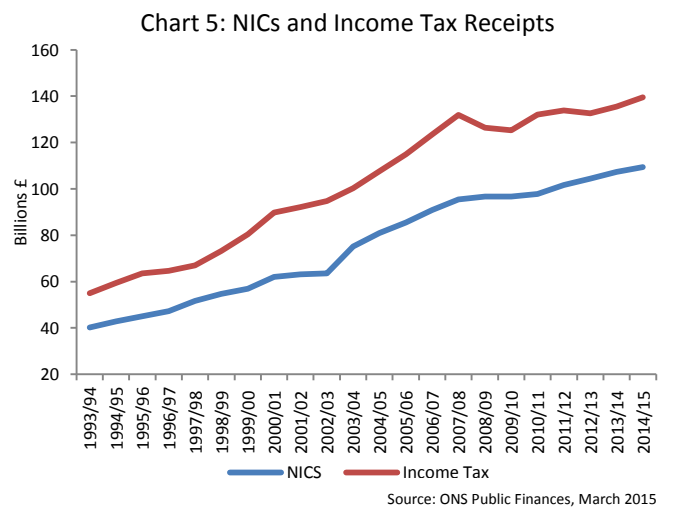
In the three months to February 2015, UK employment rose by 248,000 compared with the previous three months. The number of people who are unemployed fell by 76,000 over the same period. Although the latest BCC Quarterly Economic Survey (QES) revealed that the backward looking employment balances weakened in Q1 (see Chart 3), the declines were from the record highs recorded in the previous quarter. Overall, both the latest Official for National Statistics (ONS) and QES data highlight the continued strength of the UK labour market.



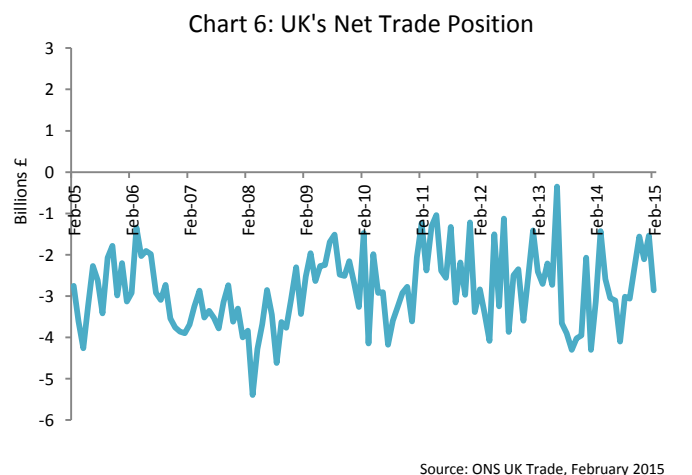
...and low inflation to support UK growth...
CPI inflation stood at 0% in March, unchanged from February. Falling clothing and gas prices put the largest downward pressure on prices overall, but these were offset by a rise in the price of motor fuels and smaller upward contributions from a variety of other products, such as food. Although any period of deflation in the coming months is likely to be temporary, the latest QES revealed that intentions to raise prices in the coming months fell in Q1. (see **Chart 4**). This means that **inflation is set to remain low in the near term which alongside growing employment will help to support UK GDP growth.**



...and the public finances are improving...
 UK public-sector borrowing, excluding public sector banks, stood at £7.4 billion in March 2015, a decrease of £0.4 billion, compared with March 2014. This improvement was driven by increased revenues from income tax and national insurance, which both reached their highest levels since records began in 1993 (see **Chart 5**). This meant that despite a slow start to the financial year, public-sector borrowing totalled £87.3 billion in 2014/15, £11 billion lower than the amount borrowed in 2013/14. Despite the recent improvement, the task of balancing the UK's public finances remains an uphill challenge.

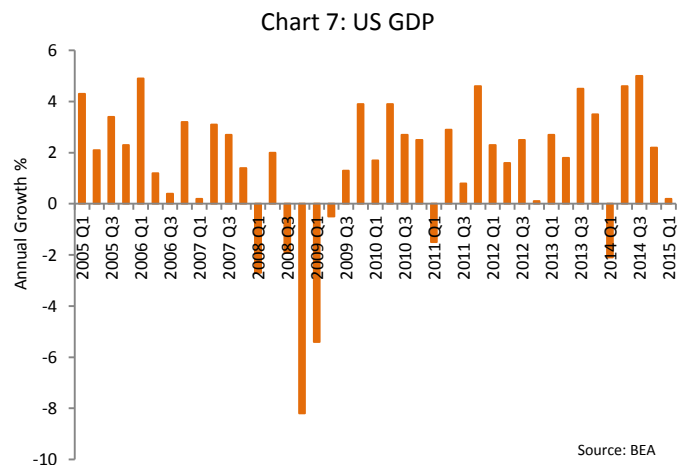


...but the UK's trade position remains weak...
The UK's trade deficit nearly doubled in February rising to £2.9 billion, from £1.5 billion in January (see **Chart 6**). There was a deficit of £10.3 billion on goods, which was partly offset by a surplus of £7.5 billion on services. This mirrors the findings from the latest QES, with the export balances for both manufacturing and services firms weakening in Q1. **The widening of the trade deficit mainly reflects a fall in exports of goods to non-EU countries, particularly to the US,** where exports decreased by £0.7 billion. Overall the latest trade figures confirm that rebalancing the UK economy remains too slow.



...as the US economy weakens in early 2015...

The US economy grew by 0.2% on an annualised basis in Q1 2015, weaker than the growth of 2.2% recorded in Q4 2014 (see Chart 7). This slowdown was driven by a 7.2% fall in exports and weaker consumer spending and investment. However, with the slowdown largely due to a number of short-term factors, including the harsh winter weather which hit consumer spending, the US economy may well bounce back in the rest of 2015, mirroring a similar trend seen in 2014 when US GDP contracted by 2.1% in Q1 before bouncing back in subsequent quarters.



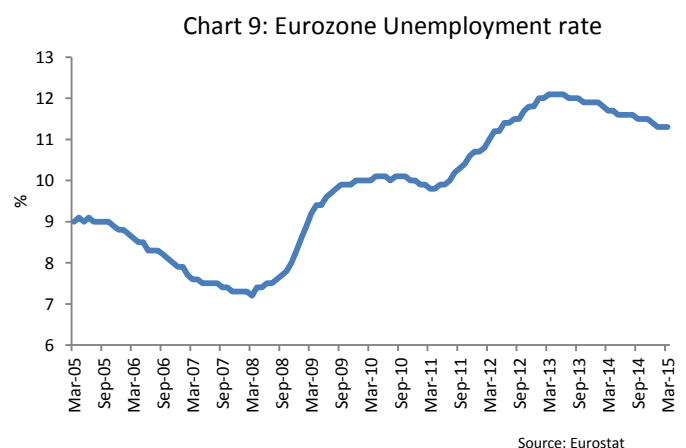
...and China's economy continues to slow...

China - the world's second largest economy - grew at an annual rate of 7.0% in Q1 2015. This is the slowest rate since Q1 2009 and lower than the growth of 7.3% recorded in the last quarter of 2014 (see Chart 8). This mirrors last year's slowdown with the Chinese economy growing by 7.4% for 2014 as a whole, the weakest rate since 1990. The continued slowdown in Chinese growth reflects the weakness in the property market, high debt levels following the credit-fuelled, investment-led recovery from the recession of 2008-09 and China's drive to rebalance its economy towards consumer-driven growth.



...but the eurozone is showing signs of life.

The number of people who were unemployed in the eurozone stood at 18.1 million in March, 679,000 lower compared with March 2014. This meant that the eurozone unemployment rate stood at 11.3% in March 2015, the joint lowest rate since May 2012 and lower than March 2014's unemployment rate of 11.7% (see Chart 9). Encouragingly, the eurozone also edged out of deflation in April after four months of falling prices. Despite the gradual improvement in inflation and unemployment data, the recovery in the eurozone remains very fragile.



Bottom line: Overall, April's economic data releases provide further evidence that the UK economy will continue to grow at a good pace. In contrast, the outlook for the global economy remains rather more uncertain with the growth prospects of individual countries likely to remain mixed. Although US growth is likely to pick up in the coming months, China's economy is expected to continue to slow and the eurozone remains weak.

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Economic Summary Chart

		Deteriorating ■ No change ■ Improving ■												
Sector	Indicators (sources)	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
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 (ONS)**													
	Current Budget Deficit (ONS)**													
External	UK trade balance (ONS)													
	Exchange rate (Bank of England)													
	Export Sales (BCC)***													
	Export orders (BCC)***													
Global	US GDP (BEA)****													
	US unemployment (BLS)													
	Eurozone GDP (Eurostat)****													
	Eurozone Unemployment (Eurostat)													
	China GDP (Oxford Economics)													
	China unemployment (National Bureau of Statistics)													

*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. Dates refer to the release dates for each indicator.

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