

Monthly Economic Review

November 2015

(Based on October 2015 data releases)

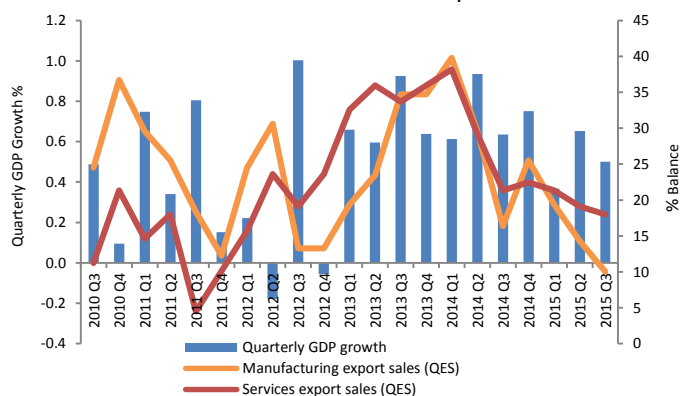
Monthly headlines:

- UK GDP growth slows in Q3 as construction output falls
- UK slips back into deflation as the employment rate hits record high
- Chinese growth drops to six-year low as the outlook for the global economy weakens

UK economic growth slows in Q3...

The first official estimate of economic growth revealed that UK GDP grew by 0.5% in Q3 2015, slower than the growth of 0.7% recorded in the previous quarter (see Chart 1). This mirrors the BCC Quarterly Economic Survey (QES) for Q3 2015 for which most of the key balances were down on the quarter. However, despite the slower growth recorded in Q3, UK economic output is now 6.4% above its Q1 2008 pre-recession peak. **Overall, the latest GDP figures confirm that the UK economy is growing at a reasonable rate.**

Chart 1: Real UK GDP and Export Sales

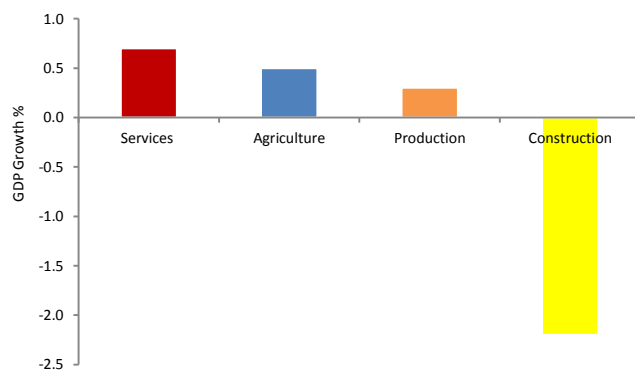


Sources: ONS GDP first estimate, BCC QES Q3 2015

...driven by weaker construction output...

Although output rose in three of the four main industrial groupings, **GDP growth in Q3 2015 was almost entirely driven by the services sector**, which accounts for over three quarters of UK GDP, with output from the sector growing by 0.7% in the quarter. Industrial production rose by 0.3% and output from the agricultural sector increased by 0.5% in Q3 (see Chart 2). In contrast, the **construction sector was a drag on growth** with output declining by 2.2% in the quarter and knocking 0.1 percentage points off the overall figure.

Chart 2: UK GDP by Sector, Q3 2015

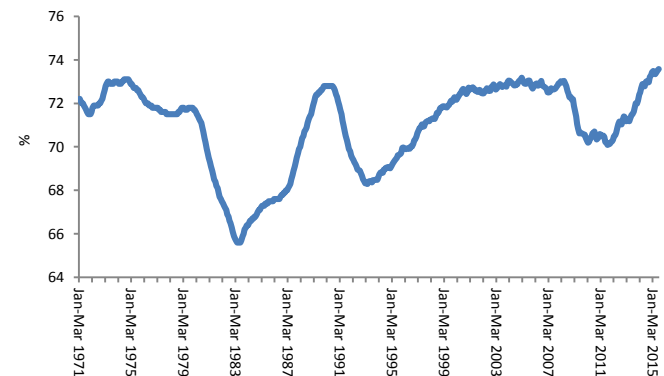


Source: ONS GDP first estimate, Q3 2015

...while the UK jobs market strengthens...

In the three months to August 2015, UK employment rose by 140,000 compared with the previous three months. As a consequence, **the UK's employment rate stood at 73.6%, the highest proportion since records began in 1971** (see Chart 3). The UK's youth unemployment rate fell from 15.9% to 14.8% over the same period. However, the youth unemployment rate still remains almost three times higher than the total national rate of 5.4%. **Overall, the strength of the UK labour market continues to help underpin UK growth.**

Chart 3: UK Employment Rate

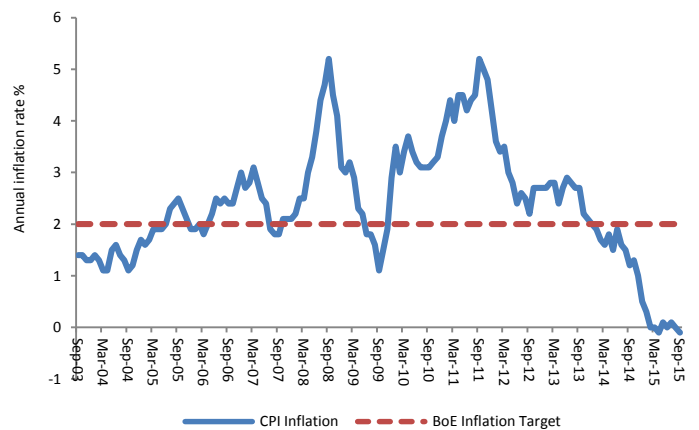


Source: ONS UK Labour Market Statistics, October 2015

...the UK slips back into deflation...

CPI inflation fell from 0.0% in August to -0.1% in September, the second month this year that inflation has moved into negative territory (see Chart 4). A smaller than usual rise in clothing prices and falling motor fuel prices were the main contributors to the decline in inflation. With inflation continuing to hover around 0% and total annual pay growth rising from 2.9% to 3.0% in the three months to August - almost double the average growth rate of 1.7% over the past five years - **real wages are now rising at a good rate and will help to support consumer spending, a key driver of UK growth.**

Chart 4: CPI inflation

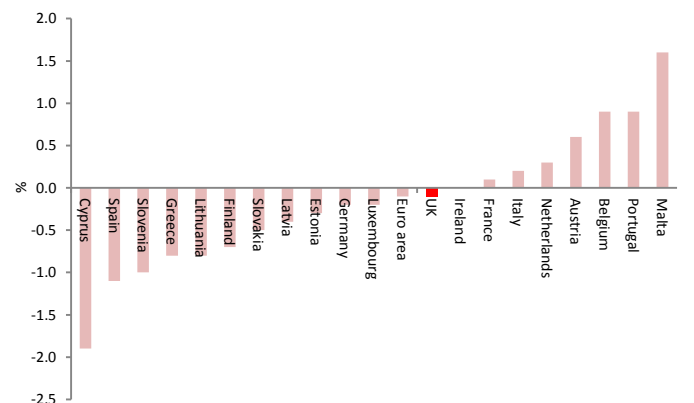


Source: ONS Consumer Price Indices, September 2015

...as global price growth weakens...

A number of major economies are also experiencing a period of very weak inflation. Eurozone inflation stood at -0.1% in September 2015, down from 0.1% in August. Eleven out of the 19 countries in the Eurozone are currently experiencing deflation (see Chart 5). The lowest inflation rates was recorded in Cyprus (-1.9%) and Spain (-1.1%) and the highest annual rate was recorded in Malta (1.6%). Similarly, annual inflation in the US dropped to 0% in September from 0.2% in August. **The fall in oil prices over the last year has been the major driver behind the fall in both UK and global inflation.**

Chart 5: Eurozone Inflation

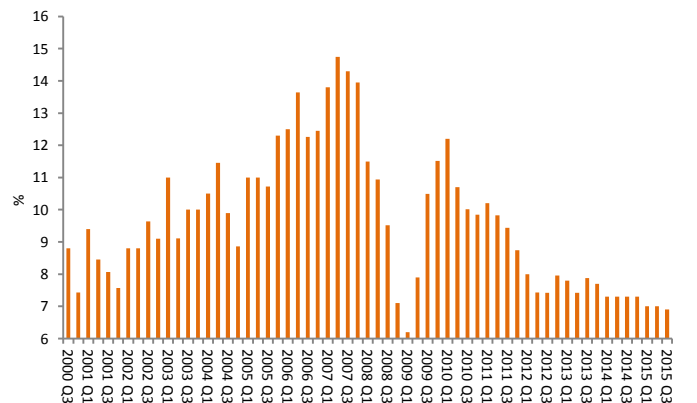


Source: Eurostat

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

China, the world's second-largest economy, grew at an annual rate of 6.9% in Q3 2015, the slowest rate of growth since Q1 2009 (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. China has been hit by stock market volatility, a weakening economy and is also attempting to rebalance its economy away from exports to consumer spending. Despite the announcement of a further cut in Chinese interest rates, **the slowdown in China looks set to continue and is a major risk to global growth prospects.**

Chart 6: Real China GDP



Source: Oxford Economics

...driving a weaker global economic outlook...

The IMF has downgraded its forecast for global growth. The IMF now expects the global economy to grow by 3.1% in 2015, lower than its previous forecast of 3.3%. The downward revision was mainly driven by the increased global uncertainty over recent months, including a weakening Chinese economy (see chart 6). Growth in advanced economies is expected to pick up slightly - **the IMF predicts that the US will be the fastest-growing economy in the G7 this year, followed by the UK (see table 1)**. In contrast, growth in emerging market economies is projected to slow.

Table 1: IMF GDP Forecast, G7 Countries

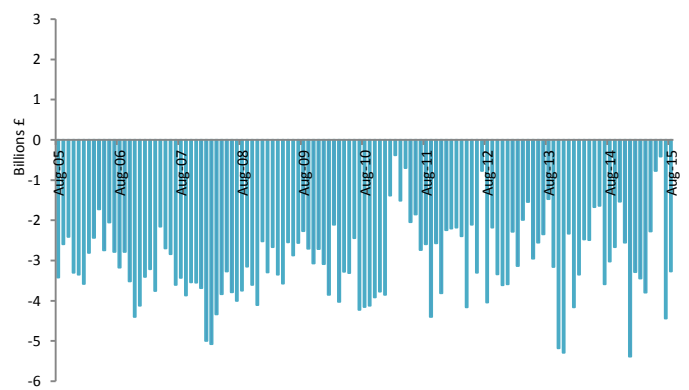
G7	2015 (%)
US	2.6
UK	2.5
Germany	1.5
France	1.2
Canada	1.0
Italy	0.8
Japan	0.6

Source: IMF World Economic Outlook, October 2015

...and UK's trade position remains weak...

The UK's trade deficit narrowed in August 2015, falling £1.2 billion to £3.3 billion (see Chart 7). This improvement was driven by a narrowing in the trade deficit in goods, for which the deficit decreased by £1.1 billion in August 2015 with exports of goods rising by 3.5% to £23.6 billion. However, despite August's improvement, the UK's trade deficit in the first two months of Q3 (July and August) 2015 of £7.7 billion was more than double the total trade deficit in Q2 2015 and confirms that **rebalancing the economy remains slow**.

Chart 7: UK's Net Trade Position



Source: ONS UK Trade, August 2015

...reinforcing the case to keep rates on hold.

Although earnings are now comfortably growing faster than inflation, the slower UK GDP growth recorded in Q3 and the deteriorating outlook for the global economy, intensified by current state of play in China, means that the Monetary Policy Committee (MPC) are now less likely to consider raising UK interest rates, which have been on hold since March 2009 (see Chart 8), for the foreseeable future. Furthermore, with **UK inflation close to 0% and likely to remain below the 2% inflation target until well into 2017, the MPC are under little pressure to raise rates anytime soon**.

Chart 8: UK Official Interest Rates



Source: Bank of England

Bottom line: *Although the UK economy continues to grow at a reasonable rate, the slower growth recorded in Q3 is a timely reminder that more needs to be done to address the long-term structural issues facing the UK economy – including training, infrastructure and access to finance – if we are to secure our economic future.*

For more information please contact: Suren Thiru, UK Economic Advisor. Email: s.thiru@britishchambers.org.uk. Tel: 020 7654 5801

Economic summary chart

		Deteriorating ■ No change ■ Improving ■												
Sector	Indicators (sources)	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-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)	■	■	■	■	■	■	■	■	■	■	■	■	■

*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.