

# Monthly Economic Review

## September 2015

(Based on August 2015 data releases)

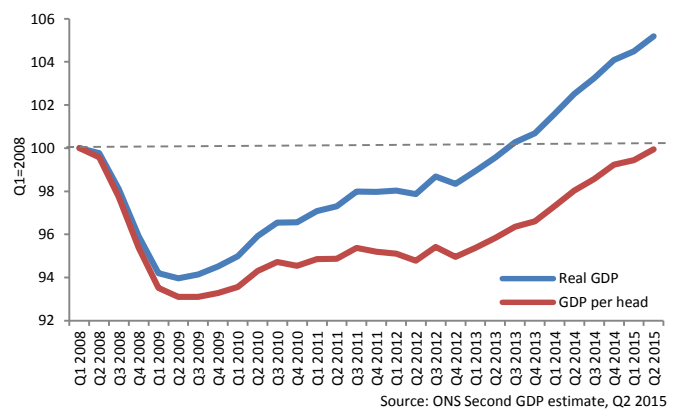
### Monthly headlines:

- UK economic growth in Q2 unrevised, as the trade deficit narrows and investment rises.
- UK unemployment rises again, but earnings continue to outstrip inflation.
- US growth is revised up sharply, but China weighing heavily on the global outlook.

#### UK GDP growth in Q2 unrevised at 0.7%...

The second official estimate for Q2 2015 growth in UK GDP was unrevised at 0.7%, compared to the 0.4% rise recorded in Q1. In annual terms, the UK economy grew by 2.6% in Q2, unrevised from the previous estimate. UK economic output is now over 5% above its Q1 2008 pre-recession peak. However, GDP per head, a key indicator of living standards, remains just below its pre-recession peak, despite rising by 0.5% in Q2 2015 (see Chart 1). Overall, the latest GDP figures mirror our view that the UK economy is expanding at a solid rate.

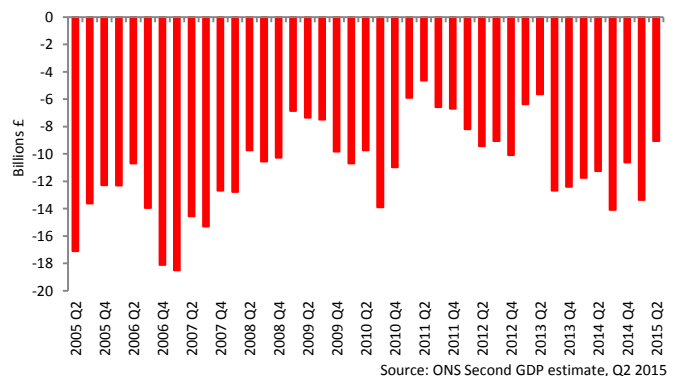
Chart 1: UK Real GDP vs GDP per head



#### ...with growth better balanced in the quarter...

The UK's trade deficit narrowed from £13.4 billion in Q1 2015 to £9.1 billion in Q2 2015, the lowest deficit since Q2 2013 (see Chart 2). This was driven by a 3.9% rise in exports in Q2, almost seven times the 0.6% increase in imports over the same period. As a consequence, trade boosted GDP by one percentage point in Q2, its biggest contribution since Q4 2011 and is in marked contrast to the previous quarter when net trade was a drag on growth. Business investment rose by 2.9% compared with the Q1 2015, the biggest rise since Q2 2014.

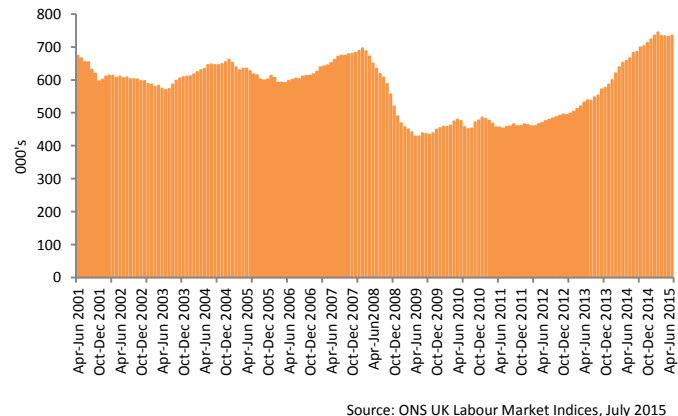
Chart 2: UK Trade Balance



#### ...and while the UK jobs market weakens...

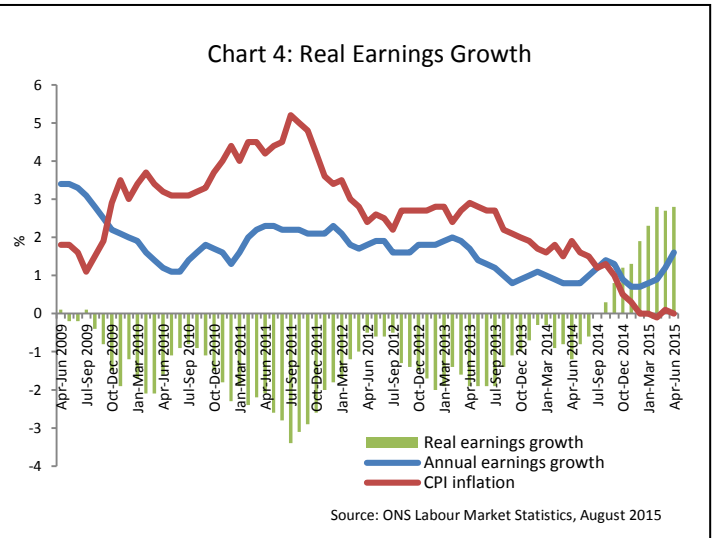
In the three months to July 2015, UK unemployment rose by 25,000 compared with the previous three months. The number of people in employment fell by 63,000 over the same period. There were 735,000 job vacancies in the three months to July 2015, the second highest number since records began in 2001 (see Chart 3). This mirrors the Q2 2015 Quarter Economic Survey where recruitment difficulties in the manufacturing sector reached a record high. However, despite this, the UK's labour market remains a source of strength for the UK economy.

Chart 3: Changes in UK Job Vacancies



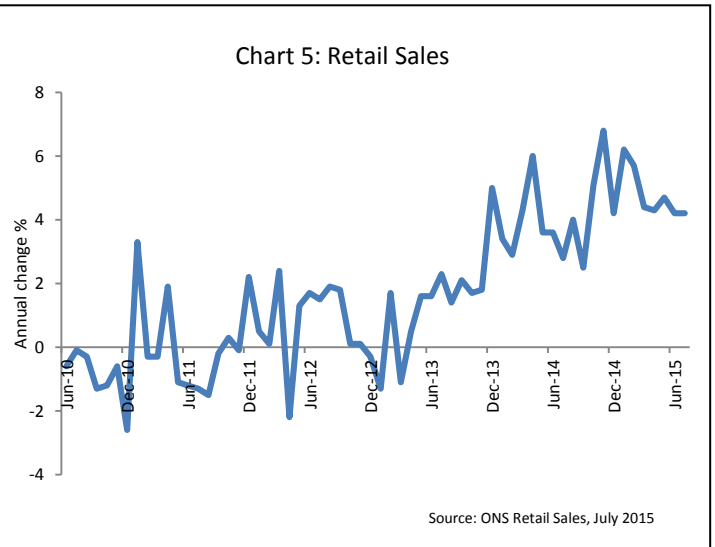
### ...strong real wage growth...

CPI inflation rose from 0.0% in June to 0.1% in July. A smaller fall in clothing prices on the month, compared with a year ago, was the main contributor to the slight rise in inflation. However, despite this increase, the **UK remains in a period of very low inflation**, and with annual earnings growth, excluding bonuses, rising by 2.8% in the three months to June 2015, real earnings continue to rise at a solid pace (see Chart 4). With two-thirds of UK GDP driven by consumer spending, **the rise in real earnings and therefore consumer's spending power will continue to support growth.**



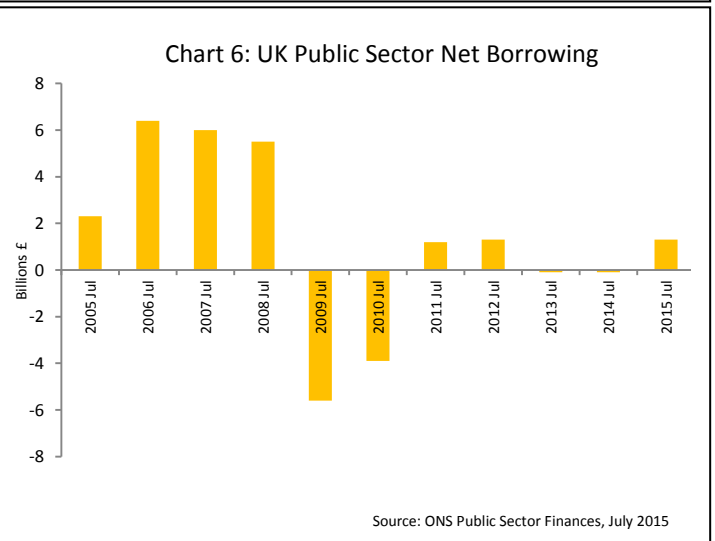
### ...will help to support UK growth in Q3...

Retail sales rose by 0.1% in July. The biggest growth in sales were in electrical goods and furniture, both of which were up almost 20% on the month and suggests that the greater spending power enjoyed by consumers in recent months (see Chart 4) is encouraging shoppers to purchase big ticket items. In annual terms, retail sales increased by 4.2%, the 28th consecutive month of growth (see Chart 5). Average store prices fell by 3.0% in July 2015 compared with July 2014. **Overall, the latest retail sales figures indicate that the pace of growth in the UK is likely to remain strong in Q3.**



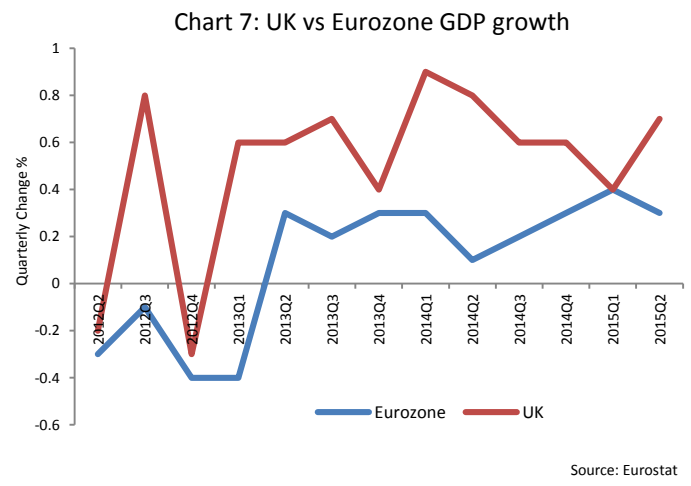
### ...but cutting the deficit remains a challenge.

Public sector net borrowing, excluding public sector banks, recorded a surplus of £1.3 billion in July 2015, the first July surplus since 2012 (see Chart 6). July tends to be a strong month for the public finances, due to the timing of corporation tax and self-assessment payments. The improvement in July 2015 was largely due to higher tax receipts, which was 4.5% higher than last year's figure. **Despite the progress in reducing the UK's fiscal deficit we have seen in recent months, public sector net debt, at 80.8% of GDP in July 2015, remains more than double pre-crisis levels.**



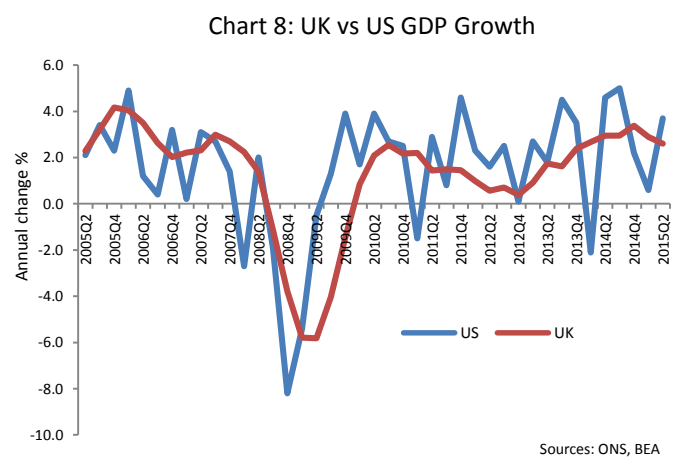
### While the Eurozone continues to grow...

The Eurozone economy grew by 0.3% in Q2 2015. Although this was down slightly from the growth of 0.4% in the previous quarter, it was still stronger than the average growth of 0.2% per quarter in 2014 (see Chart 7). In annual terms, the Eurozone economy grew by 1.2% in Q2. Germany's economy, the biggest in the Eurozone, grew by 0.4% in Q1 2015, up from 0.3% growth in Q1. **Economic growth in Greece picked up sharply, rising by 0.8% in Q2**, after recording zero growth in the previous quarter. In contrast, France's economy did not grow at all in Q2, compared to the growth of 0.7% recorded in Q1.



### ...and US growth is revised up sharply...

The second estimate of US GDP revealed that the US economy grew at an annualised rate of 3.7% in Q2 2015 (see Chart 8), up from the first estimate of 2.3%, and more than six times the growth of 0.6% recorded in Q1. The upgrade partly reflected a 3.2% rise in business investment in Q2, up from an earlier estimate of a 0.6% decline. **Consumer spending, which accounts for more than two-thirds of US GDP, was upwardly revised to 3.1%**, from the previous estimate of 2.9%. A strong jobs market and weak inflation, is helping to support consumer spending in the US.



### ...China remains a major concern.

Despite cutting interest rates and devaluing their currency to make their exports more competitive, concerns over the outlook for the Chinese economy persist with stock prices falling by 16% over the past month. **China's standing as the world's second-biggest economy (see Table 1)** and accounting for around a quarter global GDP growth means that **uncertainty over its outlook is starting to weigh on the global economy**. Global stock prices dropped over the past month with UK stock prices declining by 10%, amid fears over a prolonged slowdown in China.

Table 1: Ten Largest Economies (by GDP, current prices)

	2014
USA	\$17,419
<b>China</b>	<b>\$10,380</b>
Japan	\$4,616
Germany	\$3,860
<b>UK</b>	<b>\$2,945</b>
France	\$2,847
Brazil	\$2,353
Italy	\$2,148
India	\$2,050
Russia	\$1,857

Source: IMF

**Bottom line:** Last month's data releases confirm that the UK economy continues to perform well. However, global uncertainties, intensified by the current state of play in China, reinforces the case for keeping UK interest rates at their current level until well into next year.

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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)	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-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.