UK Monthly Economic Review

April 2015

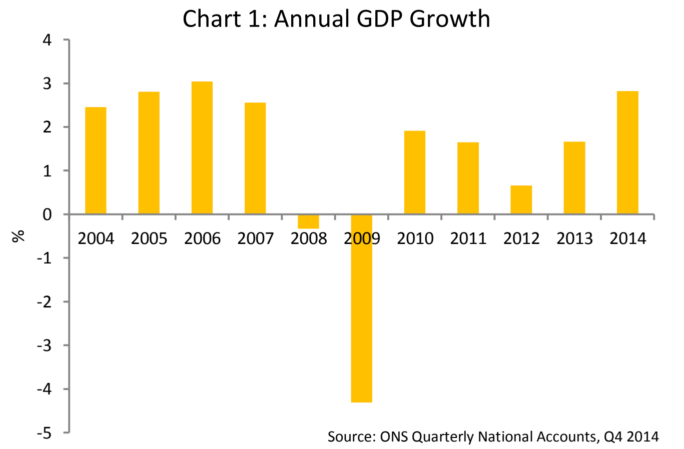
(Based on March 2015 data releases)

Monthly headlines:

- UK GDP revised up in Q4 reflecting stronger than expected growth in the services sector
- BCC and OBR upgrade growth forecasts, aided by falling inflation and unemployment
- UK economy remains imbalanced with current account deficit at record high

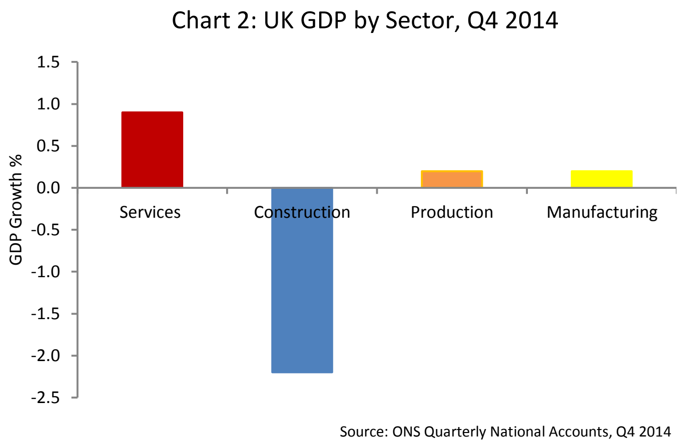
UK GDP revised up in Q4...

The third official estimate of economic growth (GDP) for Q4 2014 was revised upwardly to 0.6%, from its previous estimate of 0.5%. Furthermore, **due to upward revisions for previous quarters, the UK's economic performance in 2014 was slightly better than previously thought**. The UK economy grew by 2.8% in 2014, up from the previous estimate of 2.6%. This now represents the fastest rate of growth since 2006 **(see Chart 1)**. The revised figures mean that UK economic output in Q4 2014 was 3.7% higher than its pre-recession peak in Q1 2008.



...reflecting stronger service sector output...

The upward revision to UK GDP in Q4 2014 was largely driven by revised service sector output. Output from the service sector, which accounts for over three quarters of UK economic output, grew by 0.9% in the quarter **(see Chart 2)**, up from the previous estimate of 0.8% and marks the eighth consecutive quarter of positive growth. Industrial production increased by 0.2% in the quarter, but **construction was a drag on growth, falling by 2.2% in Q4 and knocking 0.1 percentage points off the overall figure.**



...as BCC and OBR upgrade GDP forecasts...

The BCC has upgraded its UK economic growth forecast for 2015, from 2.6% to 2.7% (see Table 1). The BCC's growth forecast for 2016 has also been increased from 2.4% to 2.6% and the BCC forecast growth of 2.6% in 2017. Similarly, the Office for Budget Responsibility (OBR) upgraded its GDP forecast for 2015 from 2.4% to 2.5% and for 2016 from 2.2% to 2.3%. **Although the OBR's latest GDP forecasts are below our own, the upgrades from both the BCC and OBR confirm that the UK's economic outlook remains strong.**

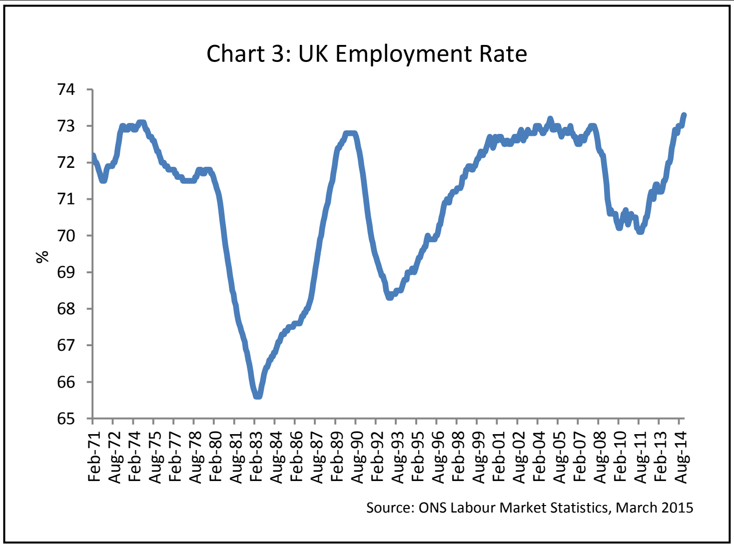
Table 1: UK GDP Forecast Comparisons

	2015 (%)	2016 (%)	2017 (%)
Bank of England	2.9	2.9	2.7
BCC	**2.7**	**2.6**	**2.6**
IMF	2.7	2.4	-
OBR	2.5	2.3	2.3

Sources: BCC, Bank of England, IMF and OBR

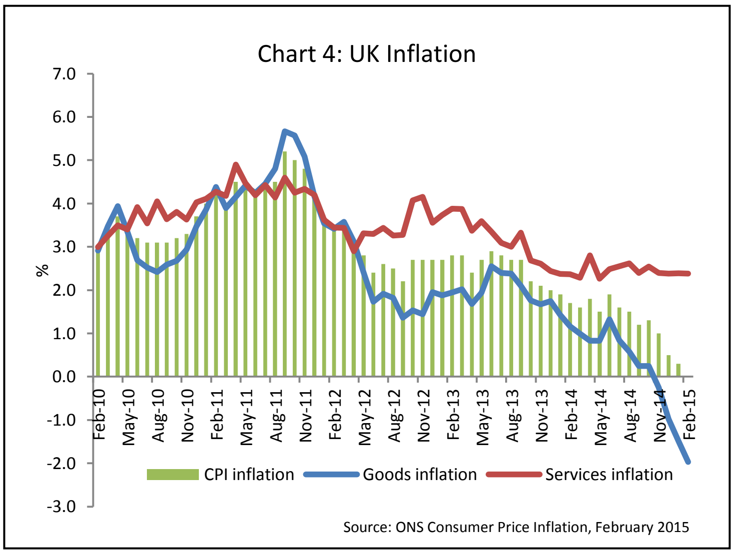
...driven by a strengthening jobs market...

In the three months to January 2015, UK employment rose by 143,000 compared with the previous three months. As a consequence, the proportion of people in work rose to 73.3%, the highest since records began in 1971 **(see Chart 3)**. The number of people who are unemployed fell by 102,000 over the same period to 1.86 million. As a result, the unemployment rate fell to 5.7%, from 6.0% in the previous three months. Overall, the latest job figures show that **the UK labour market continues to strengthen and will contribute to growth in the near term.**



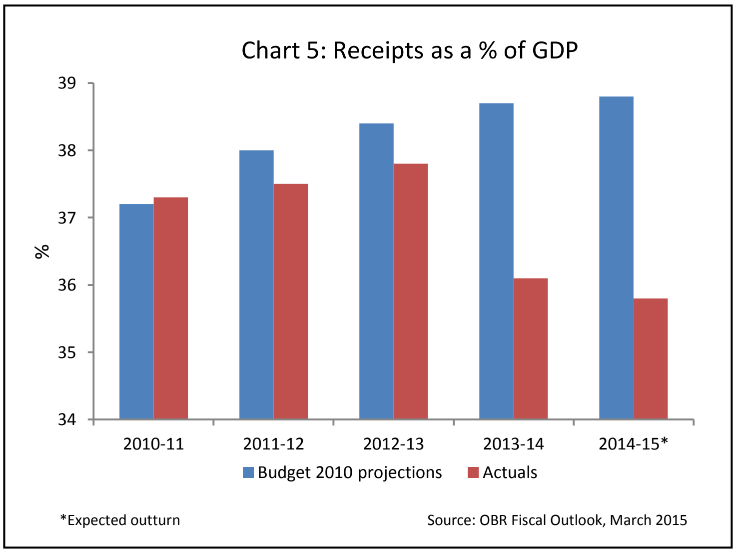
...and lower inflation...

CPI inflation fell from 0.3% in January to 0.0% in February, driven by lower prices for food and recreational goods. **It is now likely that we will see a temporary period of deflation - possibly as early as next month**. However, with inflation in the services sector, which accounts for over three quarters of the UK economy consistently above 2% **(see Chart 4)**, a prolonged period of declining prices remains highly unlikely. Furthermore, **lower inflation coupled with higher earnings is boosting people's spending power and alongside a strong labour market will support to economic growth in the year ahead.**



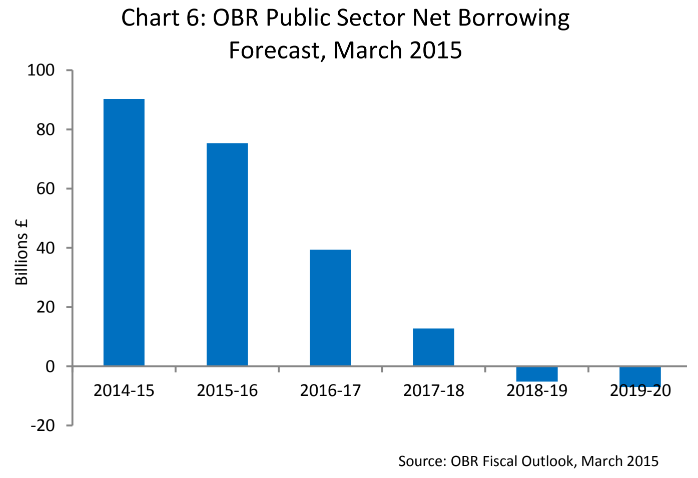
...which alongside stronger tax receipts...

For the second successive month, the proportion of self-assessed income tax recorded rose strongly. In February 2015, self-assessed income tax receipts were £4.2 billion; up 75% in annual terms. **Despite the recent improvement, the UK has struggled to generate the tax receipts forecast at the start of this parliament.** The Government is expected to have collected taxes worth 35.8% of GDP in 2014-15, almost a tenth lower than forecast in 2010 **(see Chart 5)**. The UK's ability to generate tax receipts remains constrained by falling oil and gas output and lower profits from the financial sector.



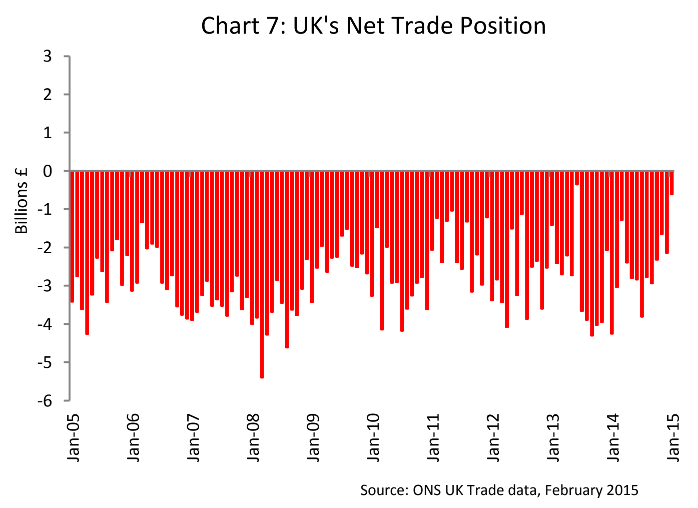
…have helped to improve the fiscal outlook...

Stronger tax receipts helped push public sector borrowing (excluding public sector banks) **down to £6.9 billion in February 2015**, £3.5 billion lower than in February 2014. In addition, falling inflation has reduced the government's debt interest payments (RPI inflation determines interest payments for index-linked gilts). The OBR now expects public-sector net borrowing to reach £90.2 billion in 2014/15, £1.1 billion lower than they forecast in December. The OBR also predicts that the UK will have a small budget surplus by 2018/19 **(see Chart 6)**.



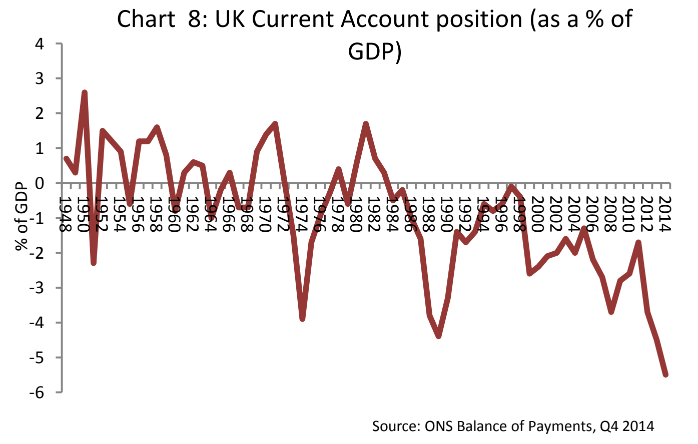
…but while the UK's trade deficit narrows...

The UK's trade deficit narrowed significantly in January 2015 to £0.6 billion, from £2.1 billion in December 2014 **(see Chart 7)**, with a deficit of £8.4 billion on goods almost entirely offset by an estimated surplus of £7.8 billion on services. The drop in the deficit was largely due to the steep drop in oil imports amid falling prices. Encouragingly, the volume of exports rose by 2.2% over the period, while the volume of imports fell by 4.0%. However, **with sterling strengthening and growth in the Eurozone, the UK's major trading partner, remaining weak, the narrowing in the trade deficit is unlikely to continue.**



...rebalancing is still a major challenge.

The UK's current account deficit (the gap between what the UK earns and spends) stood at 5.6% of GDP in Q4 2014, lower than the 6.1% recorded in Q3 2014. Despite this improvement, the **UK's current account deficit for 2014 as a whole reached 5.5% of GDP, the largest annual figure since records began in 1948 (see Chart 8)**. Although the UK's trade deficit has narrowed **(see Chart 7)**, the UK's income account deficit (the gap between our income from overseas investments and what other nations earn on UK investments) rose from £15.8 billion in 2013, to £38.8 billion in 2014.



Bottom line: *March's data releases confirm that* ***while the outlook for the UK remains positive, major imbalances remain*** *and our economy is still too reliant on consumer spending. Those in power after the general election must do more to back long-term business investment and provide the best possible support mechanisms for exporters.*

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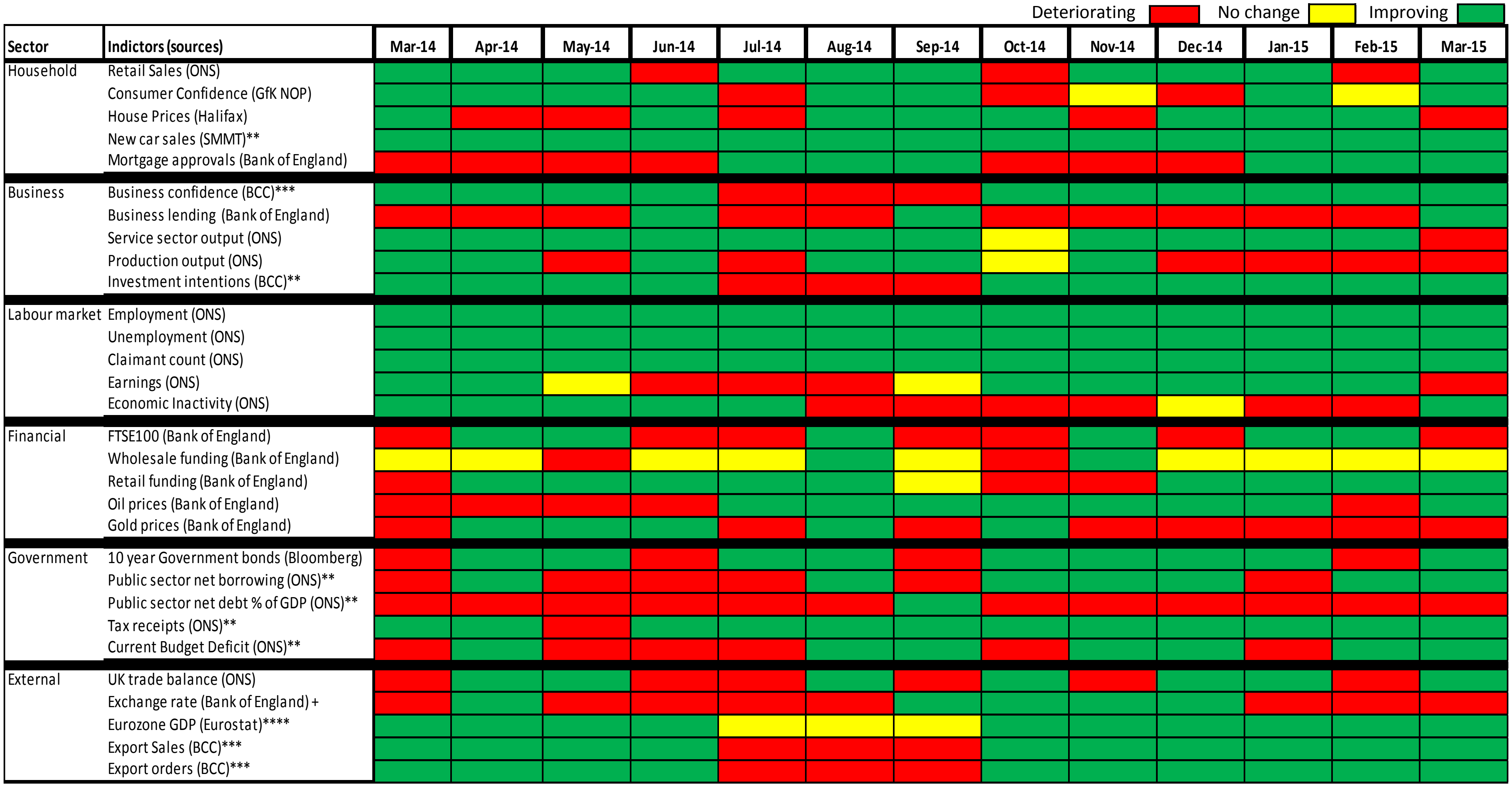
British Chambers of Commerce

UK Economic Summary Chart



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.