

UK Monthly Economic Review

December 2014

(Based on November 2014 data releases)

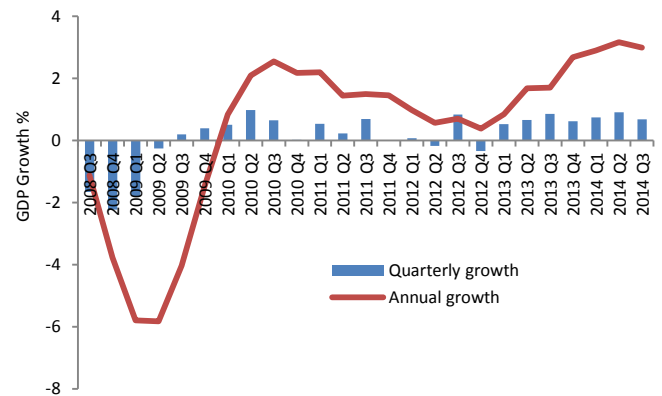
Monthly headlines:

- UK economic growth unrevised at 0.7% in Q3
- Salaries rise faster than inflation for the first time in five years
- Weakness in the eurozone and in the UK's public finances remain risks to the recovery

UK growth unrevised at 0.7% in Q3...

The third official estimate of economic growth (GDP) revealed that the UK economy grew by 0.7% in the third quarter of 2014 (see Chart 1), unrevised from the previous estimate. This is in line with the Q3 2014 BCC Quarterly Economic Survey (QES) as the results point to continued economic growth. Annual GDP growth in Q3 was unrevised at 3.0%. As a result, UK economic output is currently 3.4% above its pre-recession peak in Q1 2008. The latest economic growth figures confirm that the UK's recovery remains on track.

Chart 1: Real GDP Growth

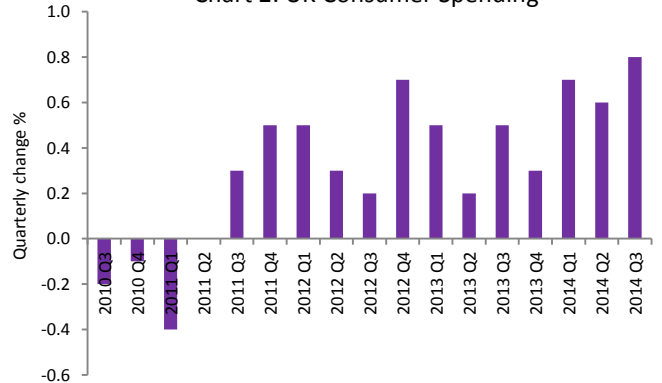


Source: ONS Second GDP Estimate, Q3 2014

...driven by consumer spending...

Consumer spending was the key driver of growth in Q3 2014, rising by 0.8%, the 13th successive quarter of growth (see Chart 2). Consumer spending accounted for almost three quarters of the total growth recorded in Q3. In annual terms, consumer spending rose by 2.4%. Total investment increased by 1% in Q3, driven by a 13.8% rise in general government investment. Although Business investment fell by 0.7% in the quarter, it is still up by 6.3% in annual terms.

Chart 2: UK Consumer Spending

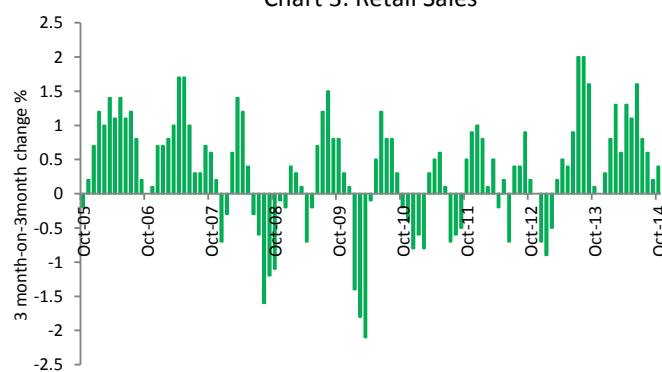


Source: ONS Second GDP Estimate, Q3 2014

...as early data suggests more growth in Q4...

Retail sales rose by 0.8% in October. On the rolling three month-on-three month measure – a better indicator of the underlying trend – retail sales rose by 0.4% in the three months to October. This is the 20th consecutive month of growth, the longest sustained period since November 2007 (see Chart 3). The latest retail sales figures indicate that the UK will see solid economic growth in Q4. Shop prices fell by 1.5% in annual terms in October, the largest drop since 2002, further easing the pressure on the Bank of England to raise interest rates.

Chart 3: Retail Sales



Source: ONS Retail Sales, October 2014

...and OBR confirms a stronger outlook...

The Office for Budget Responsibility (OBR) has upgraded their outlook for the UK economy. **The OBR increased its GDP forecast for 2014 to 3.0%**, slightly below the latest BCC forecast of 3.1% (see Table 1). The OBR's 2015 growth forecast has also been upgraded to 2.4%, from its March estimate of 2.3%. However, given the more subdued economic data recently, the scale of the upgrades are likely to have been smaller than would have been estimated a few months earlier. Nonetheless, **the upward revisions to the OBR's GDP forecasts suggest that the UK economy will continue to grow at a good pace.**

Table 1: UK GDP Forecast Comparisons

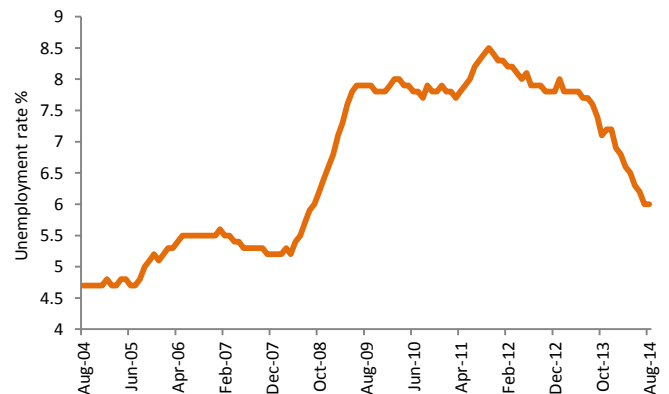
	2014 (%)	2015 (%)
Bank of England	3.5	2.9
BCC	3.1	2.7
OBR	3.0	2.4

Sources: BCC, Bank of England and OBR

...but while UK jobs total is at a record high...

In the three months to September 2014, UK employment rose by 112,000 compared with the previous three months to 30.8 million, the highest since records began in 1971. The number of people who are unemployed fell by 115,000 over the same period to 1.96 million. As a result, the unemployment rate was 6.0%, down from 6.3% in the previous three months, and is the lowest rate since late 2008 (see Chart 4). This is in line with the Q3 2014 QES where the national manufacturing and services balances for both employment and future hiring intentions rose in the quarter.

Chart 4: UK Unemployment



Source: ONS Labour Market Indices, November 2014

...and pay growth creeps ahead of inflation...

There are tentative signs that the squeeze on wages maybe easing. Regular pay growth, excluding bonuses, reached 1.3% in the year to September, beating September's inflation rate of 1.2%. This is the first time in five years that pay has risen at a faster rate than inflation and is a marked improvement on the same period in 2013 when prices were rising at more than three times the growth in earnings (see Chart 5). However, although real wage growth is finally in positive territory it remains weak and with living standards still under pressure, **interest rates are expected remain low well into 2015.**

Chart 5: Real Earnings Growth

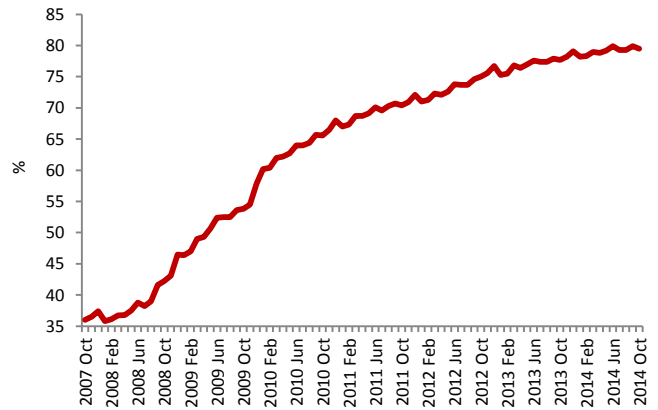


Source: Consumer Price Indices, October 2014

...the public sector finances remain weak...

During the first seven months of the financial year 2014/2015 (April to October), public sector net borrowing, excluding public sector banks totalled £64.1 billion, £3.7 billion higher compared with the same period in 2013/14. As a consequence, **the UK's public sector net debt in October 2014 rose to 79.5% of GDP, more than double pre-crisis levels (see Chart 6)**. Despite strong economic growth, the Chancellor George Osborne confirmed in the government's Autumn Statement that the OBR has raised its borrowing forecast for the current financial year by £4.9 billion to £91.3 billion.

Chart 6. Public Sector Net Debt as a % GDP

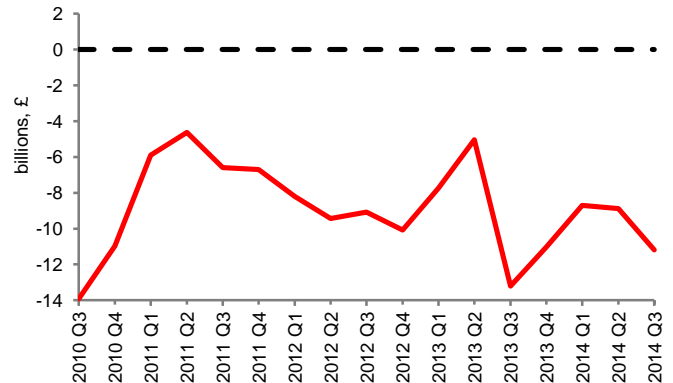


Source: ONS Public Finances, October 2014

...growth remains imbalanced...

While consumer spending and total investment rose in the third quarter, the UK's net trade position (exports minus imports) continues to weaken. The UK's deficit in net trade widened from £8.9 billion in Q2 2014, to £11.2 billion Q3 2014 (see Chart 7). This deterioration was driven by a 0.4% fall in exports and a 1.4% rise in imports. Consequently, **net trade was a drag on overall economic growth in Q3, knocking 0.5 percentage point off GDP growth** in the quarter and confirms that rebalancing the UK economy remains a major challenge.

Chart 7: UK's Net Trade Position

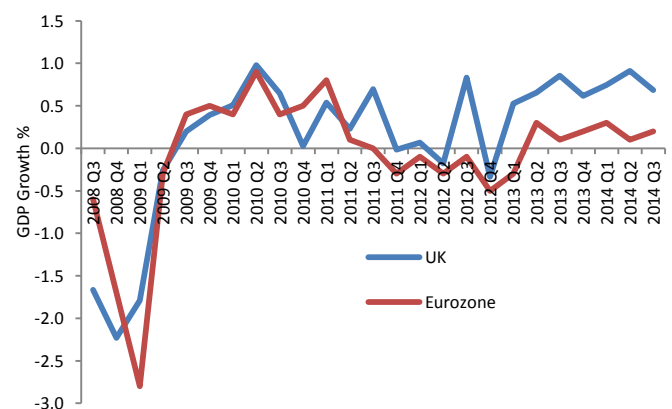


Source: ONS Second GDP Estimate, Q3 2014

...and major global headwinds remain.

In addition to concerns over the state of the UK's public finances and the imbalances in the recovery, **the Eurozone, the UK's biggest trading partner, continues to struggle**. Eurozone GDP grew by just 0.2% in Q3 2014, less than a third of the growth recorded by the UK over the same period (see Chart 8). The German economy narrowly avoided returning to recession, growing by 0.1% in the third quarter, following a 0.1% fall in the previous quarter. **The headwinds facing the UK economy reinforces the case for interest rates to be kept at their current low levels well into 2015.**

Chart 8: UK vs Eurozone GDP Growth



Sources: ONS, Eurostat

Bottom line: Overall, last month's data releases confirm that the UK's recovery remains on course. However, while the Autumn Statement addressed some of businesses key concerns, more needs to be done to address the UK's widening trade deficit as we are failing to make adequate progress towards rebalancing the UK economy.

UK economic summary chart

		Deteriorating ■ No change ■ Improving ■													
Sector	Indicators (sources)	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	
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)	■	■	■	■	■	■	■	■	■	■	■	■	■	
Financial	FTSE100 (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Wholesale funding (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Retail funding (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Oil prices (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Gold prices (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■	
Government	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Tax receipts (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Current Budget (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■	
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Exchange rate (Bank of England) +	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Eurozone GDP (Eurostat)****	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■	
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■	

*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.