

UK Monthly Economic Review

July 2015

(Based on June 2015 data releases)

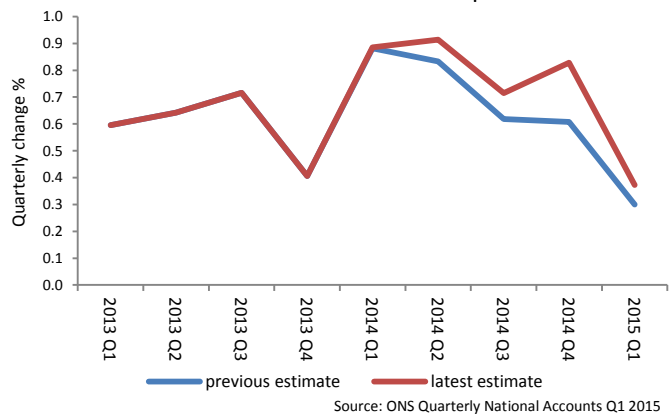
Monthly headlines:

- Q1 UK GDP growth revised up, driven by less pessimistic construction output figures
- Latest economic data suggests a pick-up in UK economic growth in Q2
- Eurozone economy showing signs of improvement, but Greece is on the brink

UK economic growth revised upwards...

The third official estimate for Q1 2015 growth in GDP revealed that **the UK economy grew by 0.4% in Q1 2015, revised up slightly from the previous estimate of 0.3%** (see Chart 1). GDP growth for 2014 as a whole was also revised up to 3.0% from 2.8%, the fastest pace of growth since 2006. **These upward revisions mean that the official GDP figures are now more in line with the latest Quarterly Economic Survey (QES) data**, which indicated that the UK economy was doing better than the previous estimates of Q1 2015 GDP had suggested.

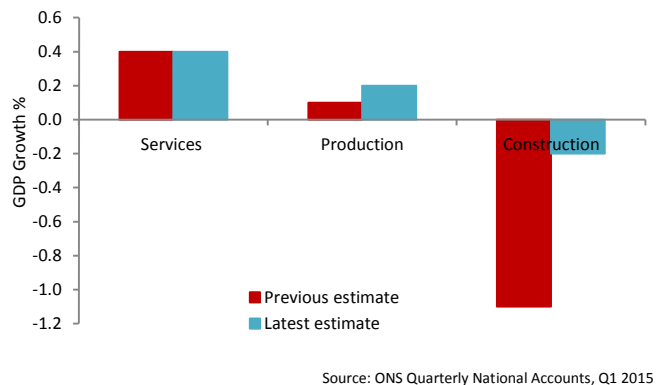
Chart 1: GDP Estimate Comparison



...boosted by better construction data...

The upward revisions to **UK GDP growth were largely driven by better performance from the construction sector than previously thought**. Output from the sector fell by just 0.2% in Q1 (see Chart 2), a marked improvement on the previous estimate of a 1.1% contraction. However, this was largely due to the recently announced new methods to measure construction output. Industrial production increased by 0.2% in Q1 2015, upwardly revised from the previous estimate of 0.1%. Service sector output growth was unrevised at 0.4%.

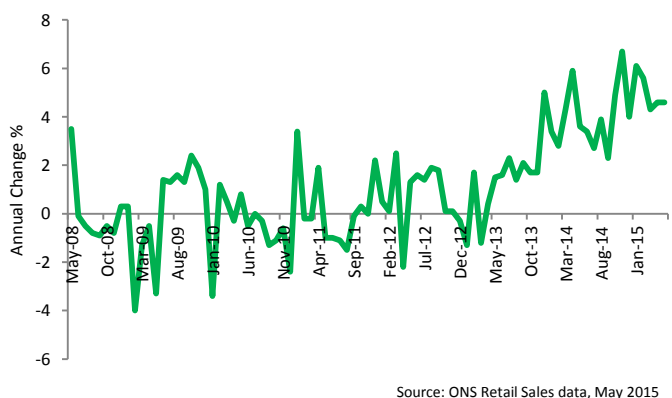
Chart 2: UK GDP by Sector, Q1 2015



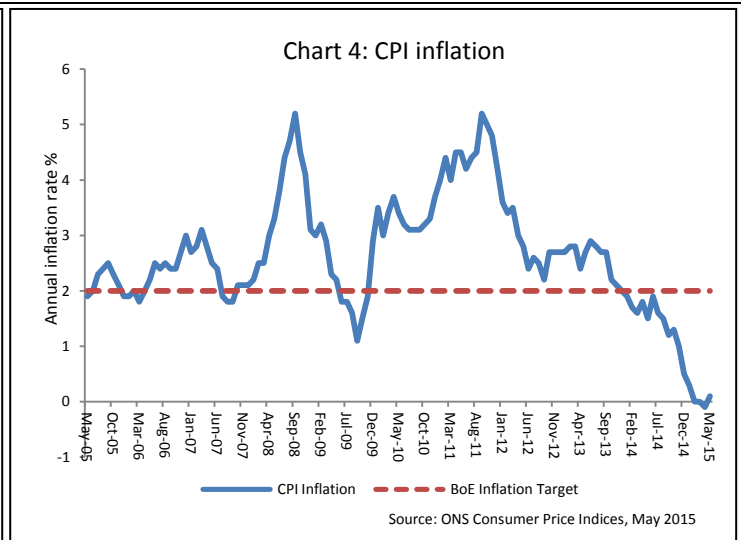
...and a pick-up in growth is likely in Q2...

The service sector, which accounts for over three-quarters of UK economic output, grew by 0.2% in April and was up by 2.8% in annual terms. Industrial output, which accounts for almost 15% of UK GDP, increased by 0.4% in April 2015. In contrast, output from the construction sector, which accounts for around 6% of UK GDP, fell by 0.8% in April. Retail sales growth slowed to 0.2% in May, from 0.8% in April, but was up by 4.6% in annual terms (see Chart 3). **Overall, we think that the UK economy will grow by 0.7% in Q2.**

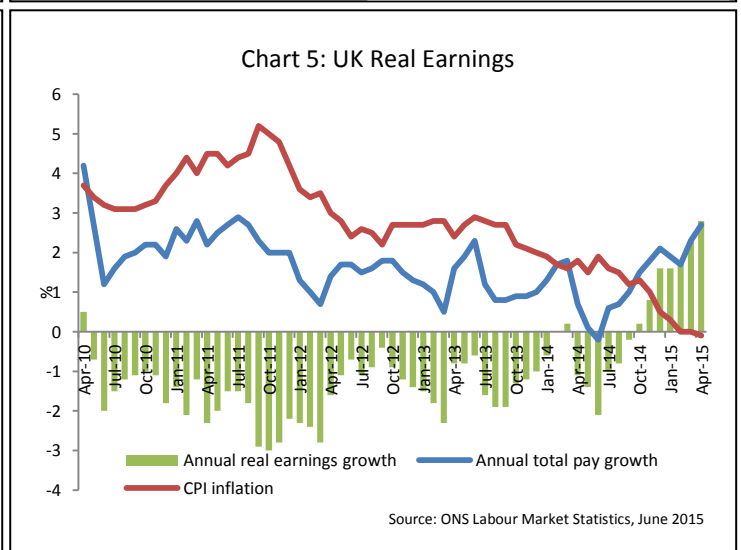
Chart 3: UK Retail Sales



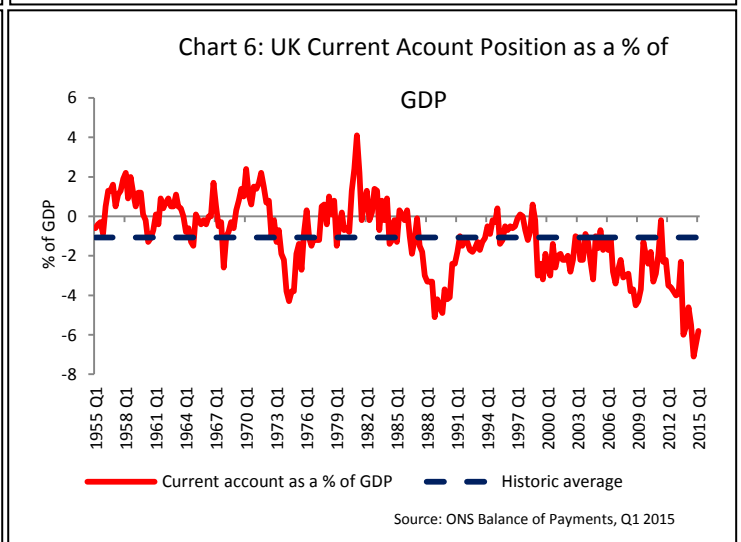
...while inflation is back in positive territory...
CPI inflation rose from -0.1% in April to 0.1% in May 2015. However, despite bouncing back into the positive territory, this was still the seventeenth successive month that CPI inflation has been below the Bank of England's 2.0% target (see Chart 4). The largest upward contribution to the change came from transport services, notably air fares which were partly driven by Easter falling earlier in April this year, compared to 2014. However, with the latest QES revealing that intentions to raise prices remain weak, **inflation is likely to remain close to zero in the coming months.**



...real earnings are still growing...
In the three months to April 2015, the number of people in work rose by 114,000 compared with the previous three months. Total pay rose by 2.7% in annual terms over the same period, the fastest rate of growth since 2011. Therefore with CPI inflation hovering around zero percent (see Chart 4) earnings growth continues to outstrip price growth (see Chart 5). With two-thirds of UK GDP driven by consumer spending, the rise in real earnings, which is helping to boost consumer spending power, as well as a strengthening labour market will continue to help support the UK's near term economic outlook.

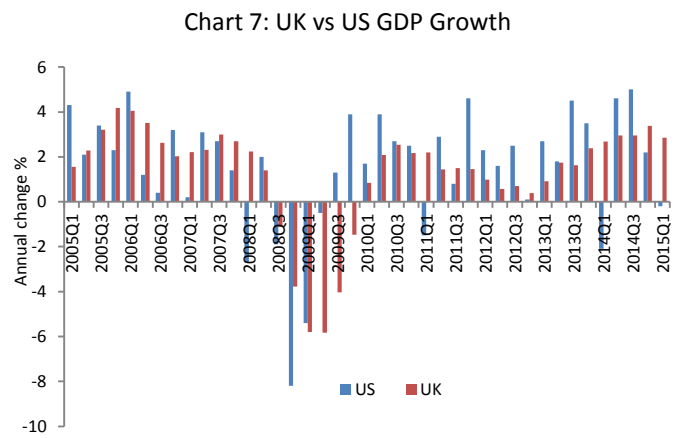


...but rebalancing is still a major challenge...
 The UK's current account deficit (the gap between what the UK earns and spends) stood at 5.8% of GDP in Q1 2015, lower than the upwardly revised 6.4% recorded in Q4 2014. Despite this improvement, the UK's current account deficit in Q1 was still more than five times the historic average of 1.1% (see Chart 6). A breakdown of the data revealed that the UK's trade deficit widened to £7.5 billion in Q1 2015, from £6.9 billion in Q4 2014. **The scale of the current account deficit makes the UK more susceptible to external shocks and confirms that the task of rebalancing the UK economy remains difficult.**



...as US GDP falls by less than expected...

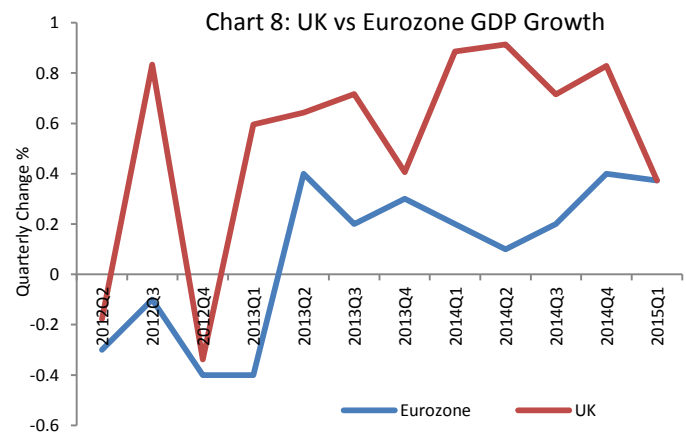
The second estimate of US GDP for Q1 2015 revealed that the US economy contracted at an annual rate of **0.2% in the first quarter of the year (see Chart 7)**, lower than the previous estimate of a 0.7% contraction. Consumer spending, which accounts for more than two thirds of US GDP, grew at an annual rate of 2.1% in Q1. Furthermore, **US growth is likely to pick-up in the coming quarters** with faster wage growth and strong employment - the jobless rate in the US fell from 5.5% to 5.3% in June - expected to help support growth.



Sources: ONS, BEA

...and while the Eurozone is improving...

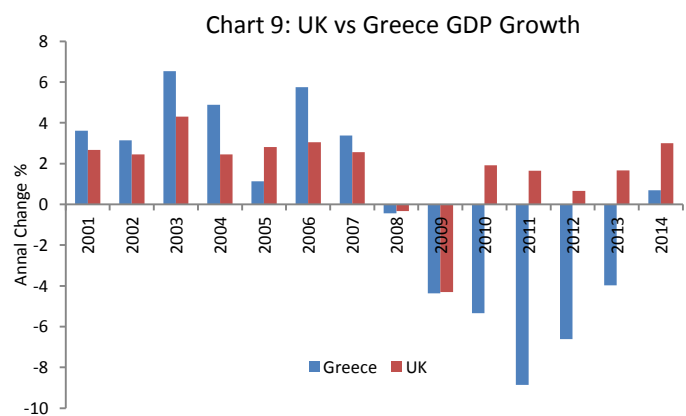
The second estimate of Eurozone GDP growth revealed that growth was unrevised at 0.4% in the Q1 2015, in line with the latest UK growth figure for Q1 (see Chart 8). However, there was a slight upward revision to Eurozone growth in Q4 2014 to 0.4%, from the previous estimate of 0.3%. Consumer spending (+0.5%) and investment (+0.8%) made positive contributions to GDP growth. In contrast, **trade was a drag on Eurozone growth in Q1** with export growth in the Eurozone slowing to 0.6%, from 0.8% and import growth rising to 1.2%, from 0.8%.



Sources: ONS, Eurostat

...Greece remains on the brink.

With the possibility of Greece becoming the first country to exit the Eurozone now more likely, the decline in its economy has been dramatic. Upon joining the Euro in 2001, Greece averaged GDP growth of 4.1% a year between 2001 and 2007, notably higher than the UK average of 2.9% over the same period (see Chart 9). However, **Greece as one of most indebted countries, were hit particularly hard by the 2008 global financial crisis** and saw its economy contract by 4.1% a year between 2008 and 2014. **With Greece on the brink, Eurozone's outlook remains very fragile.**



Sources: ONS, Eurostat

Bottom line: Overall, last month's economic data releases provide further evidence that the UK economy will grow at a good pace this year. However, risks remain and although the risk of contagion to the UK from the Greece debt crisis remains relatively low, more must be done to address the UK's unsustainable current account deficit.

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UK economic summary chart

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