

UK Monthly Economic Review

March 2015

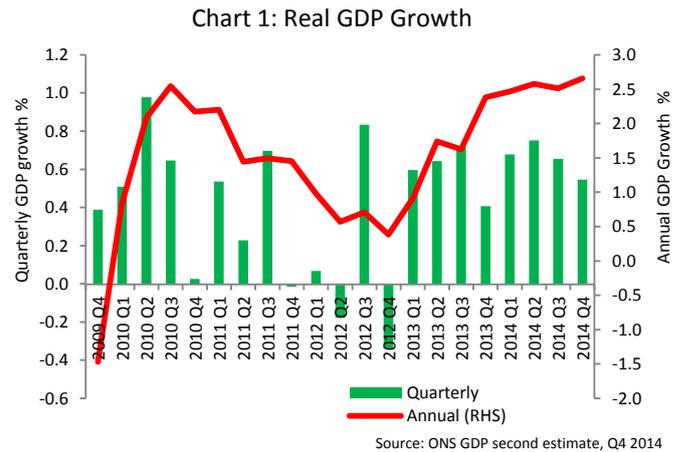
(Based on February 2015 data releases)

Monthly headlines:

- UK GDP unrevised in Q4 with net trade and consumer spending helping to support growth.
- Business investment declines at its fastest rate for six years.
- A period of deflation possible in the coming months, but unlikely to last.

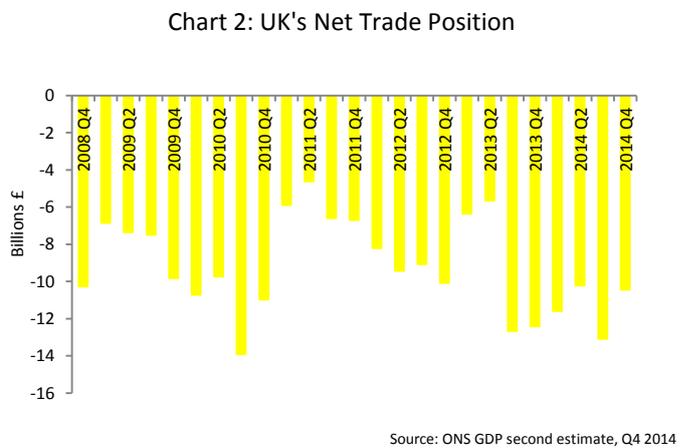
Economic growth in Q4 unrevised at 0.5%...

The second official estimate for Q4 2014 economic growth (GDP) was unrevised at 0.5% and therefore remains the slowest rate of growth since Q4 2013 (see Chart 1). This easing in growth mirrors the results from the Quarterly Economic Survey (QES) over the same period where most of the key national balances are now below the all-time high levels recorded over the last year. In annual terms, UK GDP growth was unrevised at 2.7% in Q4. The latest GDP figures confirm that, despite a recent easing in growth, the UK's recovery remains strong.



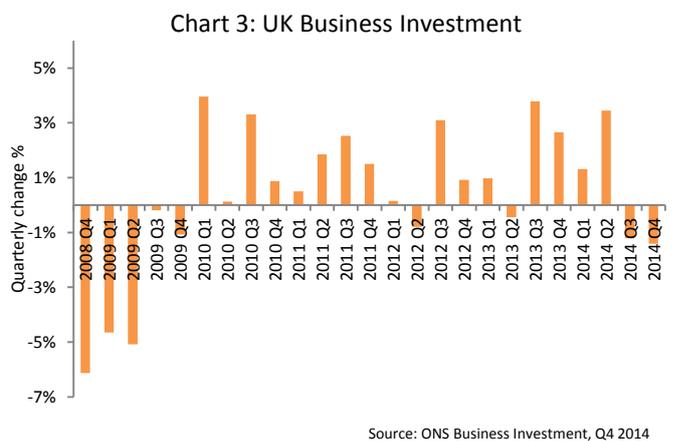
...with UK exports helping to power growth...

The second estimate of Q4 2014 GDP revealed that exports played a major role in driving growth in the quarter. The UK's trade balance (exports minus imports) deficit narrowed from £13.1 billion in Q3 2014 to £10.4 billion in Q4 2014 (see Chart 2). This improvement was driven by a 3.5% rise in exports, the biggest quarterly rise since Q2 2013, which more than offset the 1.3% rise in imports over the same period. Consumer spending continues to help power growth, rising by 0.5% in Q4, the fourteenth consecutive quarter of growth.



...but business investment weakens...

While net trade and consumer spending rose in the final three months of 2014, business investment weakened. UK business investment fell by 1.4% in Q4 2014, the second successive quarterly fall and is the biggest drop since Q2 2009 (see Chart 3). This fall can be partly attributed to weaker investment by the oil and gas industry, amid falling oil prices. Nonetheless, the fall in business investment over the second half of 2014 is a timely reminder that more needs to be done to promote business investment and achieve better balanced growth.



...and UK growth likely to quicken this year...

In its latest inflation report, the **Bank of England** expects that the **UK economy will grow at a faster rate this year, compared to 2014**. The central bank forecasts UK GDP to grow by 2.9% in 2015 (see **Table 1**) which if achieved would be the fastest rate of growth for nine years. The Bank of England has upwardly revised its UK GDP forecast for 2016 to 2.9%, from 2.6% and for 2017 from 2.6% to 2.7%. While its growth forecast is higher than our own, **their view that UK economic growth has a good chance to regain stronger momentum in the medium term, is broadly in line with our own.**

Table 1: UK GDP Forecast Comparisons

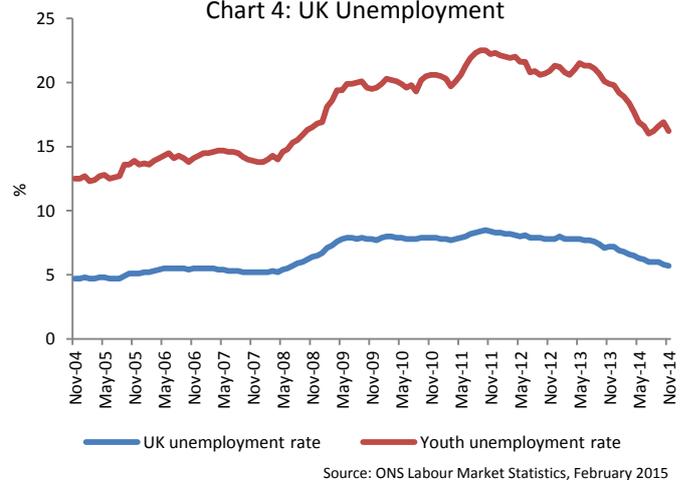
	2015 (%)	2016 (%)	2017 (%)
Bank of England	2.9	2.9	2.7
IMF	2.7	2.4	-
OECD	2.7	2.5	-
BCC	2.6	2.4	-

Sources: BCC, Bank of England, IMF and OECD

...supported by a strong jobs market...

In the three months to December 2014, **UK employment rose by 103,000 compared with the previous three months to 30.9 million, the highest number since records began**. The number of people who are unemployed fell by 97,000 over the same period to 1.86 million. As a result, the unemployment rate was 5.7%, down from 6.0% in the previous three months. This mirrors the Q4 2014 QES where the backward looking employment balances rose in the quarter. However, **the youth unemployment rate, at 16.2%, remains almost three times the national average. (see Chart 4).**

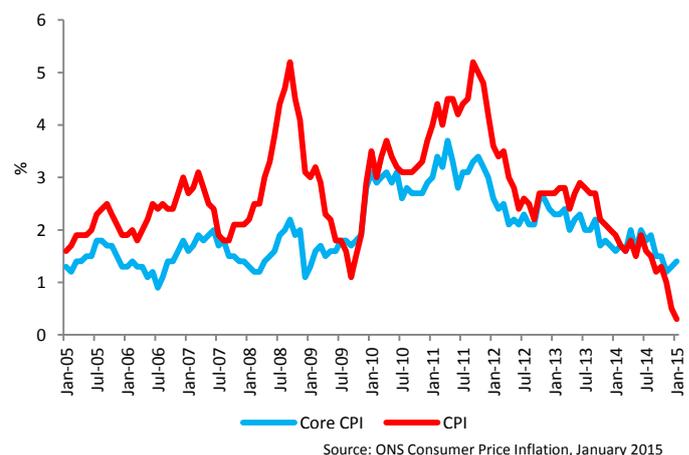
Chart 4: UK Unemployment



...and as inflation falls to all-time low...

CPI inflation fell from 0.5% in December to 0.3% in January, the lowest rate since estimates of the measure began in 1988. This is also the thirteenth successive month that inflation has been below the Bank of England's 2% target. The slowdown was driven by the falling cost of motor fuel and food. Although it is possible that **there may be some temporary deflation in the coming months**, with 'core' inflation - which excludes products such as fuel and food that can have temporary price shocks - rising in the month from 1.3% to 1.4% (see **Chart 5**) **there is very little risk of persistent deflation.**

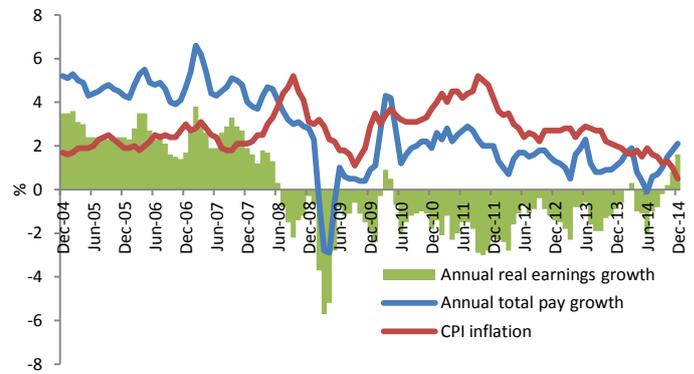
Chart 5: UK Inflation



...consumers spending power is rising.

Average earnings, including bonuses, rose by 2.1% in annual terms in the three months to December 2014. This is more than four times December's comparable inflation rate of 0.5% and means that **wages have their biggest lead over inflation since April 2008 (see Chart 6)**. With two-thirds of UK GDP driven by consumer spending, the rise in real earnings and therefore consumer's spending power is good news for the UK's near term economic outlook. However, it is important to remember that **wage rises can only be sustainable if they are matched by rises in productivity**.

Chart 6: UK Real Earnings

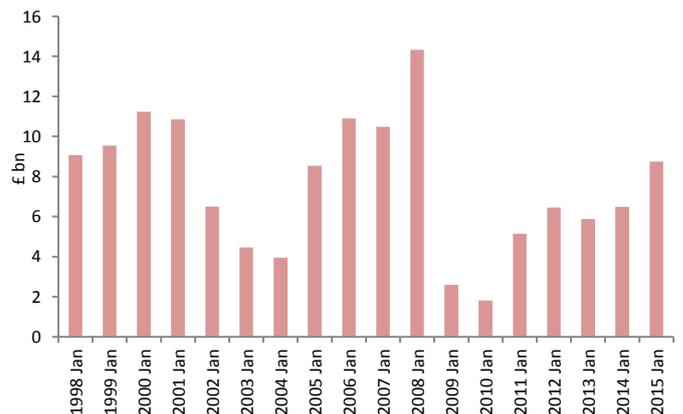


Source: ONS Labour Market Statistics, February 2015

Public finances enjoy a bumper January...

Public-sector borrowing (excluding public sector banks) showed a surplus of £8.8 billion in January, the biggest January surplus for seven years (see Chart 7). From April 2014 to January 2015, public sector net borrowing was £74 billion, £6 billion smaller than the £80 billion recorded in corresponding period in the previous financial year. **The improvement in the public sector finances means that the government could well meet its borrowing target for this year**. However, reducing the UK's fiscal deficit remains a major challenge with public sector net debt still more than double pre-crisis levels (see Chart 8).

Chart 7: Public Sector Net Borrowing

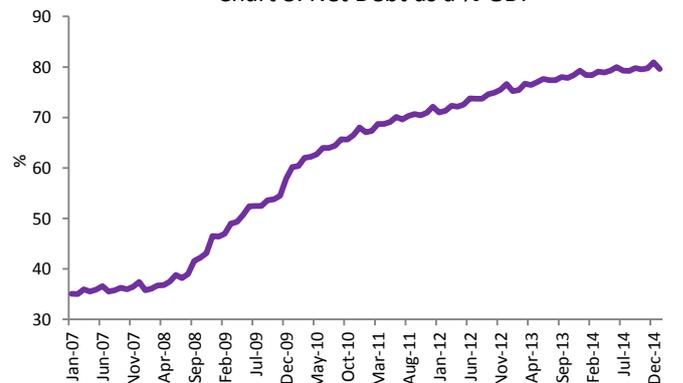


Source: ONS Public Sector Finances, January 2015

...boosted by strong tax receipts.

The marked improvement in the public finances was largely driven by a sharp rise in tax receipts. January's public sector finance data traditionally shows a surplus, as it includes tax receipts from those who submit self-assessment forms. However, in January 2015, self-assessed income tax receipts totalled £12.3 billion, up by 15.6% compared with January 2014. **Despite this improvement the UK's ability to generate tax receipts remains constrained** by declining oil and gas production and the financial sector's reduced profitability.

Chart 8: Net Debt as a % GDP



Source: ONS Public Sector Finances, January 2015

Bottom line: Overall, last month's data releases confirm that the UK's economy remains strong. However, the recovery still faces several obstacles, intensified by political and economic uncertainty. More must be done to support long-term business investment in particular if the UK is to remain among the fastest-growing countries in the G7.

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UK Economic Summary Chart

		Deteriorating ■ No change ■ Improving ■												
Sector	Indicators (sources)	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-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)	■	■	■	■	■	■	■	■	■	■	■	■	■
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. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimates.