British Chambers of Commerce

UK Monthly Economic Review

October 2014

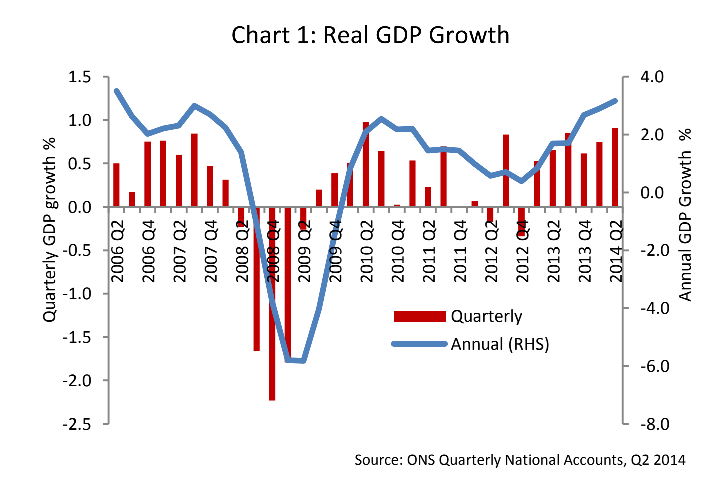
(Based on September 2014 data releases)

Monthly headlines:

- UK economic growth in Q2 revised up with growth recorded in most sectors
- UK surpassed pre-recession peak earlier than previously estimated
- Low inflation and weak wage growth reinforces the case for low interest rates

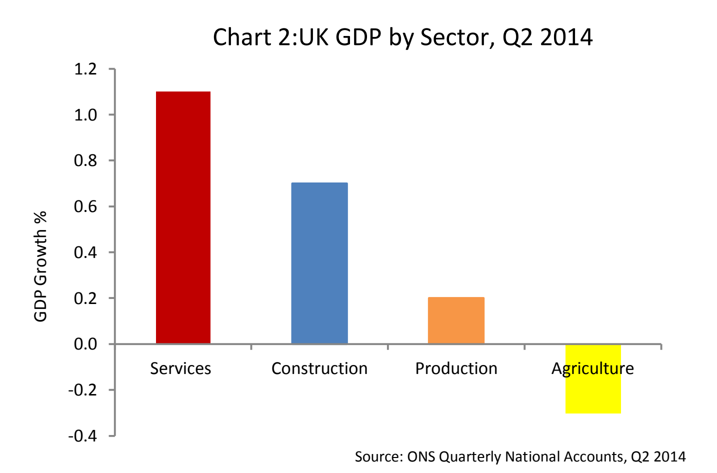
UK economic growth revised up to 0.9%...

The third official estimate of economic growth (GDP) revealed that the UK economy grew by 0.9% in the second quarter of 2014, an upward revision from the previous estimate of 0.8%**.** This mirrors the Q2 2014 BCC Quarterly Economic Survey (QES) in which the results were positive overall and pointed to continued growth. Year-on-year GDP growth in Q2 was unrevised at 3.2%, the fastest rate of growth since Q2 2006 **(see Chart 1)**. **Overall, the upward revision to Q2 GDP supports our view that 2014 will be a strong year for the UK economy.**



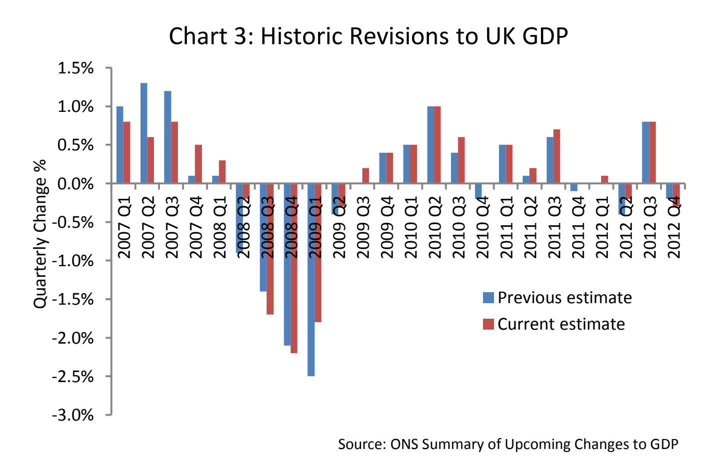
...with growth that was broadly-based...

Output increased in three (services, industrial production and construction) of the four main industrial groupings (see Chart 2) in Q2. Service sector output rose by 1.1% in Q2 and construction sector output was revised up to 0.7%, compared with the previous estimate of zero growth. Industrial output rose by 0.2% in Q2, but output from the agricultural sector fell by 0.3% over the same period. Elsewhere, business investment grew by 3.3% in the second quarter and consumer spending grew by 0.6%, the twelfth successive quarterly rise.



...and UK's recent GDP history is upgraded…

The ONS has revised UK GDP data during and after the 2008-09 recession. This is due to methodological changes, including the reclassification of research and development as an investment in assets rather than expenditure. These changes mean that the 2008-09 recession was not as deep as previously thought with a peak to trough GDP fall of 7.2% revised to 6% **(see Chart 3)**, and the UK reached its pre-crisis peak in Q3 2013, rather than Q2 2014. **Despite the revisions this was still the most severe recession, and the weakest recovery on record.**



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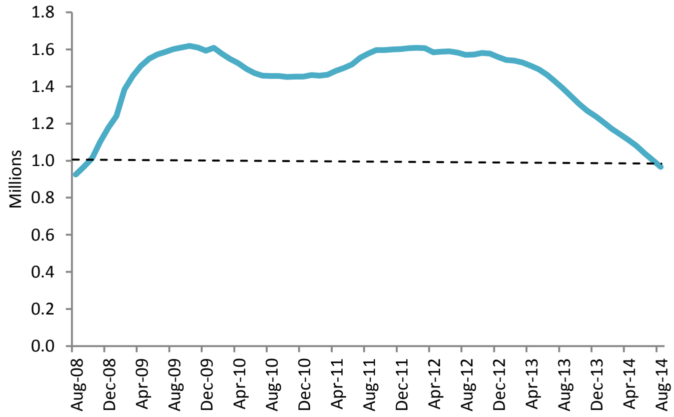
...and the UK jobs market is strengthening...

In the three months to July 2014, the number of people in employment rose by 74,000. UK unemployment fell by 146,000 over the same period and **the unemployment rate continues to decline, reaching 6.2%, the lowest since late 2008.** The number of people claiming Jobseeker's Allowance (claimant count) fell by 37,200 to 966,500 in August 2014, the 22nd successive monthly decline and the first time in six years that the claimant count has fallen below one million **(see Chart 4)**. **These figures confirm that the UK jobs market continues to be a major source of strength for the UK economy.**

Chart 4: UK Claimant Count

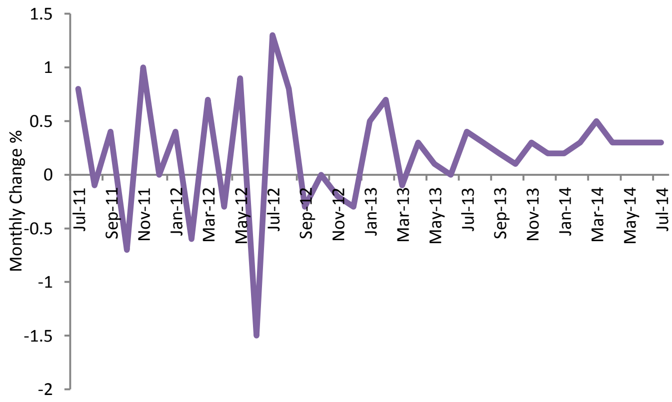


Source: Labour Market Statistics, September 2014

...as data points to continued growth in Q3...

The services sector, which accounts for three-quarters of UK economic output, grew by 0.3% in July, the fourth consecutive 0.3% monthly rise **(see Chart 5)**. Retail sales rose by 0.4% in August, following a 0.1% rise in July. The construction sector recorded annual growth for the 14th consecutive month, rising by 2.6% in July. Output from the manufacturing sector, which accounts for 10% of UK economic output, rose by 0.3% in July. Overall, recent economic data supports our view that the UK economy will record strong growth in Q3. **We expect the UK economy to grow by 0.8% in Q3 2014.**

Chart 5: UK Service Sector Output

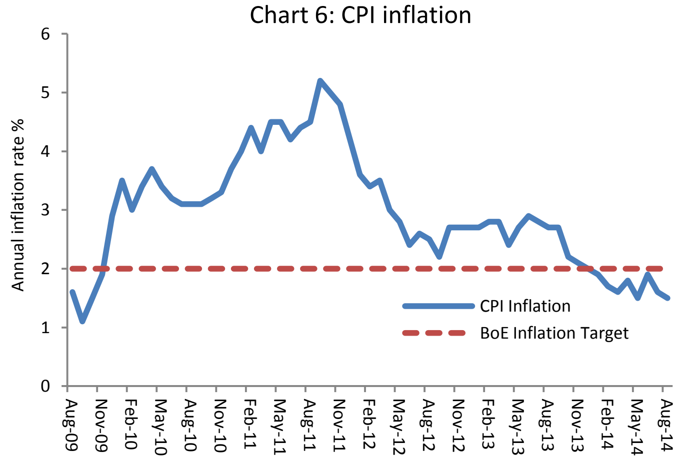


Source: Index of Services, July 2014

...but while inflation is weakening...

CPI inflation fell slightly to 1.5% in August, from 1.6% in July, the eighth month in a row that inflation has been below the Bank of England's target of 2% **(see Chart 6)**. The largest downward contributions came from food and non-alcoholic drinks prices which fell at their steepest rate for more than a decade and from fuel prices which are currently at their lowest level for more than three and a half years. **The weakness in inflation provides further evidence that inflationary pressures in the economy are easing and strengthens the case against an immediate rise in interest rates.**

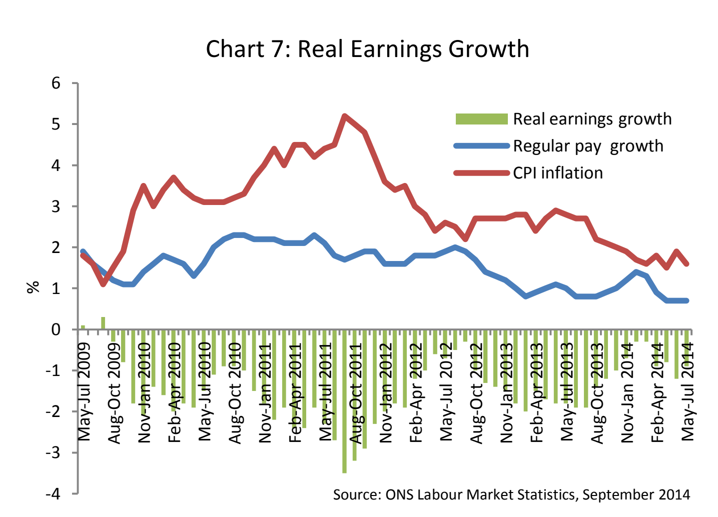
Chart 6: CPI inflation



Source: ONS Consumer Price Indices, September 2014

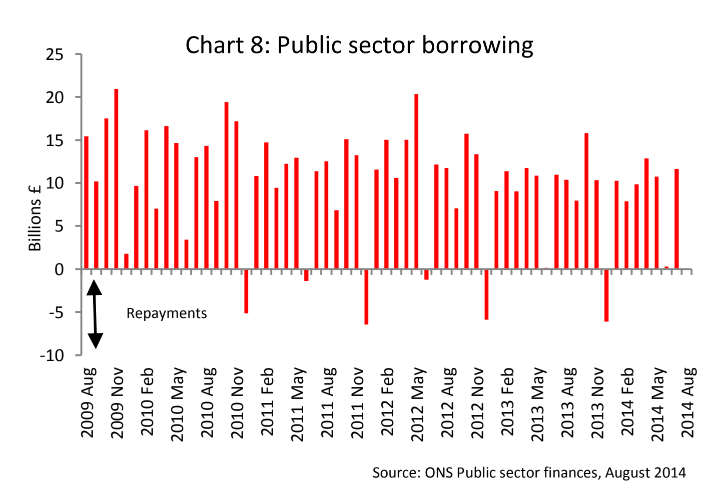
...it continues to outpace wage growth...

However, while inflation is weakening, wage growth remains even weaker. Although CPI inflation fell from 1.6% in July to 1.5% in August, regular pay (excluding bonuses) grew by just 0.7% in the three months to July 2014, the lowest rise since records began in 2001. With June's CPI inflation reading of 1.5% more than double the latest rise in regular pay of 0.7% **(see Chart 7)**, real earnings continue to fall. Given that almost two-thirds of UK economic output is powered by consumer spending, **the weakness in real wages remains a risk to the recovery and strengthens the case for not raising interest rates this year.**



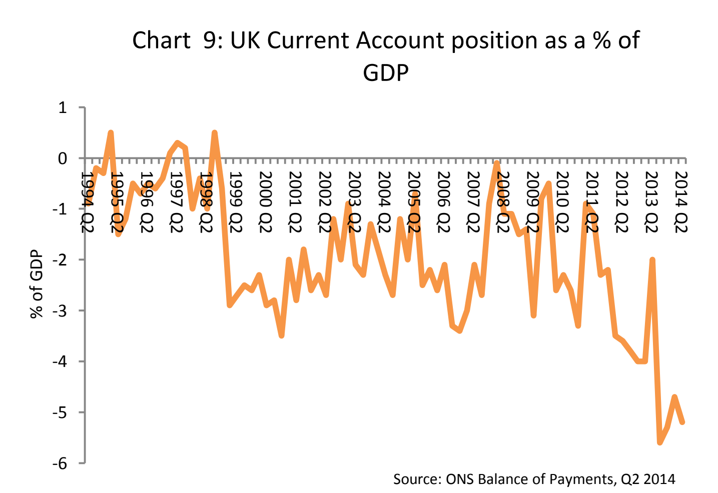
...and as cutting the deficit remains difficult...

Public sector borrowing (excluding the public sector banks) totalled £11.6 billion in August 2014, £0.7 billion higher than in the same month a year ago **(see Chart 8)**. Total borrowing for this financial year to date currently stands at £45.4 billion, £2.6 billion higher than in the same period in 2013/14. **Despite the recent strong economic growth, tax receipts remain weak, rising by just 3% over the past year.** Since the financial crisis, the sharp fall in oil and gas production and the weakness in the financial services sector have hampered UK's ability to generate tax revenues.



...so does rebalancing the UK economy.

The UK ran a current account deficit (the difference between what we earned from other countries and what we spent) **of £23.1 billion in Q2 2014, 13% higher than the deficit of £20.5 billion in Q1**. The UK's current account deficit was equivalent to 5.2% of GDP in Q2, up from 4.7% in Q1 **(see Chart 9)**. This widening of the current account deficit was driven by weaker investment income from abroad, which was partially offset by an improved trade deficit. **The size of the UK's current account deficit confirms that rebalancing the UK economy remains difficult.**



Bottom line: ***Last month's economic data releases highlight both the strength of the recovery and the challenges still facing the UK economy****. While 2014 is likely to be a strong year for the UK economy, more needs to be done to secure our economic future, including keeping interest rates low until there is a clear need to start increasing them.*

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UK economic summary chart

Deteriorating (red) | No change (yellow) | Improving (green)

Sector	Indictors (sources)	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14
Household	Retail Sales (ONS)	Deteriorating	Improving	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving
	Consumer Confidence (GfK NOP)	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	No change	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving
	House Prices (Halifax)	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving
	New car sales (SMMT)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Mortgage approvals (Bank of England)	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
Business	Business confidence (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
	Business lending (Bank of England)	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Improving
	Service sector output (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Production output (ONS)	Improving	Deteriorating	Improving	Improving	No change	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving
	Investment intentions (BCC)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
Labour market	Employment (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Unemployment (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Claimant count (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Earnings (ONS)	Deteriorating	Improving	Deteriorating	No change	Improving	Improving	Improving	Improving	No change	Deteriorating	Deteriorating	Deteriorating	No change
	Economic Inactivity (ONS)	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating
Financial	FTSE100 (Bank of England)	Deteriorating	Improving	Deteriorating	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating
	Wholesale funding (Bank of England)	Deteriorating	No change	No change	Improving	Improving	No change	No change	No change	Deteriorating	No change	No change	Improving	No change
	Retail funding (Bank of England)	Improving	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	No change
	Oil prices (Bank of England)	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
	Gold prices (Bank of England)	Improving	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating
Government	10 year Government bonds (Bloomberg)	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating
	Public sector net borrowing (ONS)**	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating
	Public sector net debt % of GDP (ONS)**	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Tax receipts (ONS)**	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
	Current Budget (ONS)**	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Improving
External	UK trade balance (ONS)	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating
	Exchange rate (Bank of England) +	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving
	Eurozone GDP (Eurostat)****	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	No change	No change
	Export Sales (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating
	Export orders (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating

*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.