

BRITISH CHAMBERS OF COMMERCE

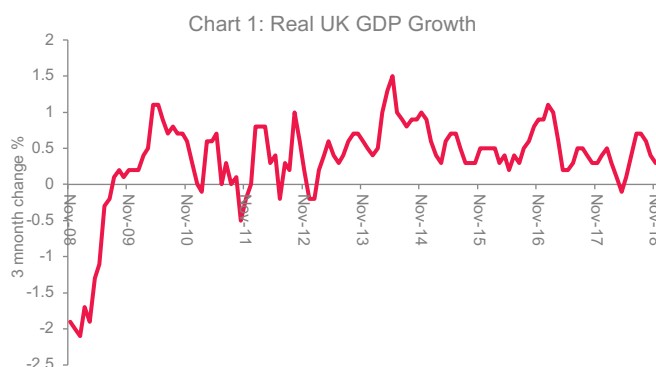
# MONTHLY ECONOMIC REVIEW FEBRUARY 2019

## Monthly headlines:

- UK GDP growth sluggish in November as industrial output continues to decline
- UK labour market remains a bright spot and inflation weakens further
- China GDP growth slows to 28-year low, as Italy slips into recession

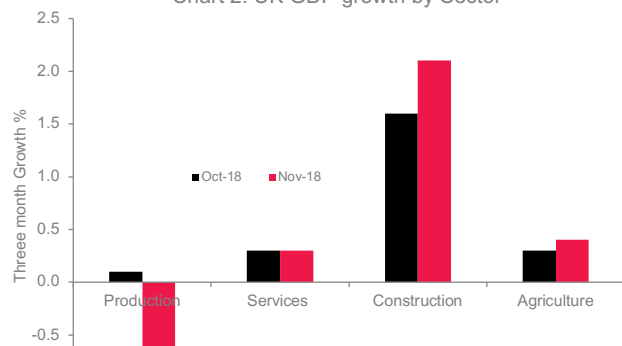
## UK GDP growth subdued in November...

The latest official monthly estimate for UK economic growth (GDP) revealed UK GDP growth of 0.2% in November 2018, up from 0.1% growth in October. In annual terms, UK GDP growth stood at 1.4% in November, down from growth of 1.6% in October. **On the rolling three-month-on-three-month measure, UK GDP growth stood at 0.3% in November, down from growth of 0.4% recorded in the previous month (see Chart 1).** The latest GDP data suggests that the UK economic conditions were subdued in the final quarter of 2018.



Source: ONS UK GDP estimate, November 2018

Chart 2: UK GDP growth by Sector



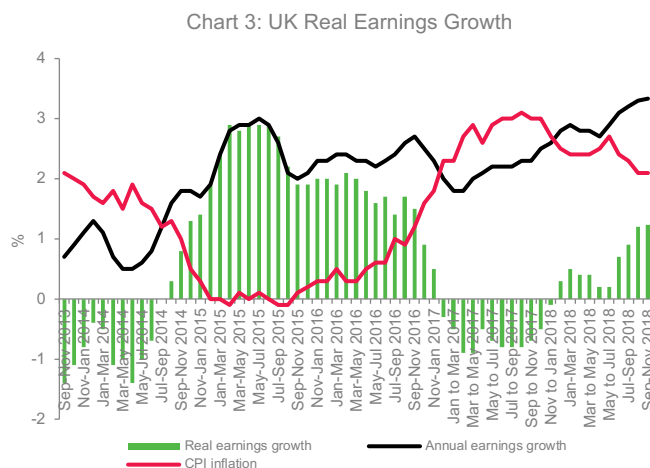
Source: ONS UK GDP estimate, November 2018

## ...as industrial output contracts...

Total industrial output fell by 0.8% in the three months to November 2018 (see Chart 2), with all four of the main production sub-sectors – manufacturing (-0.8%), electricity and gas production (-0.6%), water supply (-1.8%) and mining and quarrying (-1.1%) – collectively declining for the first time since October 2012. This means that the **industrial sector is likely to have been a drag on UK GDP growth in Q4 2018.** Construction output rose by 2.1% in November and the services sector remains the main driver of UK economic growth despite growing by just 0.3%.

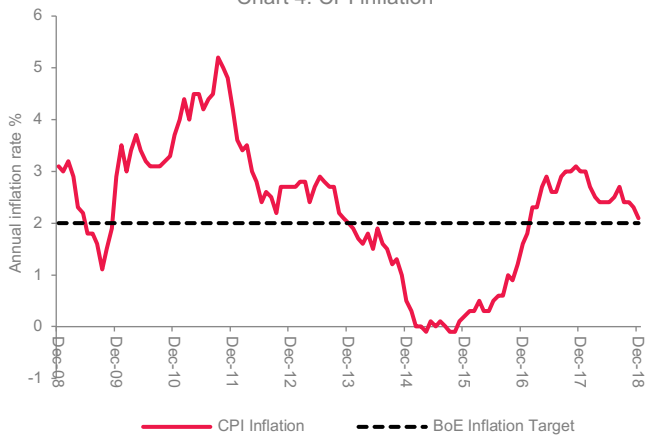
## ...UK labour market continues to tighten...

In the three months to November 2018, the number of people who are in employment rose by 141,000. While UK unemployment rose by 8,000 over the same period, the **unemployment rate remained at 4.0%, the lowest since 1975.** With regular pay (excluding bonuses) increasing by 3.3% and inflation slowing, real wage growth is now at its highest since the end of 2016 (see Chart 3). However, achieving real wage increases over a sustained period is likely to prove challenging without delivering a marked improvement in productivity and easing the high upfront costs faced by businesses.



Source: ONS UK Labour Market data, January 2019

Chart 4: CPI inflation



Source: ONS UK Consumer Price Inflation, December 2018

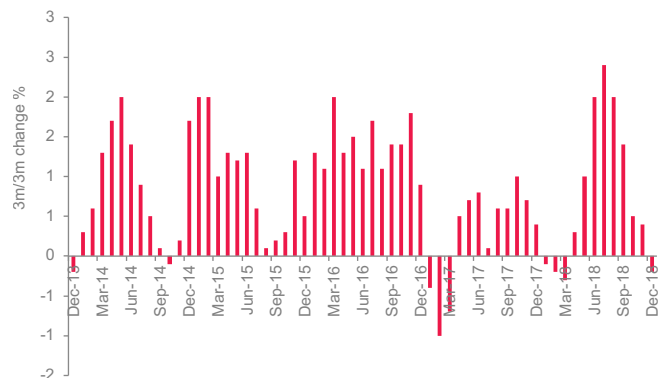
... inflation continues to drift downwards...

CPI inflation in the UK stood at 2.1% in December 2018, the lowest rate since January 2017 and down from 2.3% in November (see Chart 4). The largest downward contribution to change in the rate came from falls in petrol prices and from air fares which rose between November and December but by less than a year ago. The largest upward pressure on inflation came from accommodation services. While inflation is likely slip beneath the Bank of England's 2% target sooner rather than later, inflationary pressures could increase over the near term with continued weakness in sterling likely to increase the cost of imported raw materials.

...retail sales decline...

Retail sales fell by 0.9% in December, down from the 1.3% rise in November. The decline in December largely reflected shoppers bringing forward their Christmas expenditure to take advantage of the Black Friday sales in November. In the three months to December 2018, retail sales decreased by 0.2% (see Chart 5). For 2018 as a whole, retail sales rose by 2.7%, up from 2.0% growth in 2017. The retail sector is likely to remain under pressure in 2019 as sluggish real wage growth and weak consumer confidence continues to weigh on consumer spending.

Chart 5: UK Retail Sales

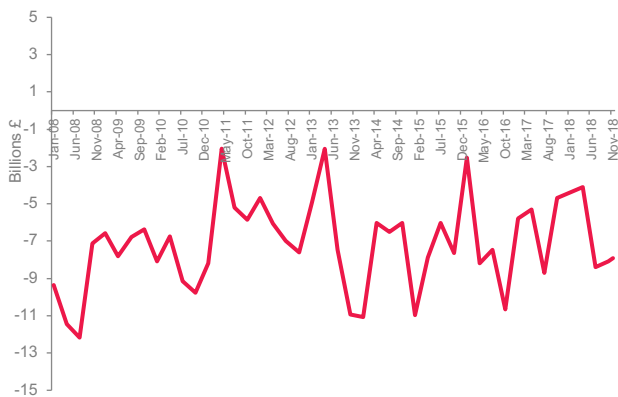


Source: ONS Retail Sales, December 2018

...as UK's trade deficit narrows...

In the three months to November 2018, the UK's trade deficit narrowed by £0.2 billion to £7.9 billion, (see Chart 6). The slight improvement was driven by a large increase in exports. The UK's trade deficit in goods widened by £0.8 billion with EU countries and narrowed by £0.9 billion with non-EU countries. The UK's trade deficit widened by £4.1 billion in the 12 months to November 2018, driven by a narrowing in the UK's surplus in services. Trading conditions for UK exporters have become more challenging as uncertainty over Brexit and slowing growth in key markets weigh on exporters.

Chart 6: UK's Net Trade Position

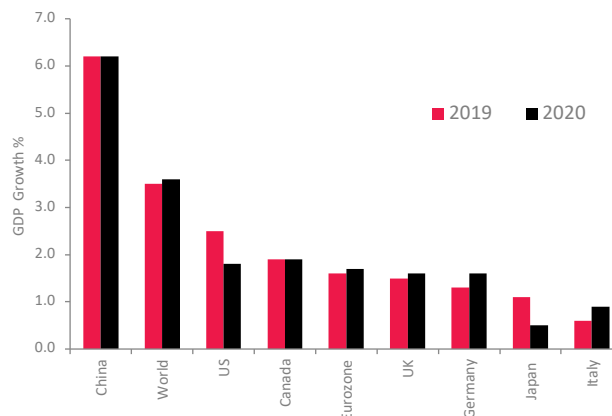


Source: ONS UK Trade, November 2018

...as the IMF downgrades global outlook...

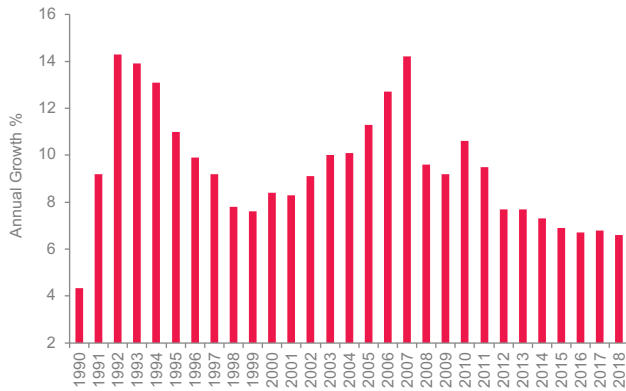
The International Monetary Fund (IMF) has downgraded its outlook for the global economy. The IMF cut its GDP growth forecast for 2019 to 3.5% (see Chart 7), from its previous forecast of 3.7%. The IMF has also cut its growth forecast for 2020 from 3.7% to 3.6%. The IMF cited the negative effects of the trade tensions between the US and China and a subdued end to 2018 in a number of advanced economies, as the main drivers of the downgrade. The IMF also warned that a no-deal Brexit and a sharper slowdown in China are the biggest downside risks to growth in the global economy in 2019.

Chart 7: Global Economic Growth Forecasts



Source: IMF

Chart 8: China Real GDP Growth



Source: National Statistics Bureau of China

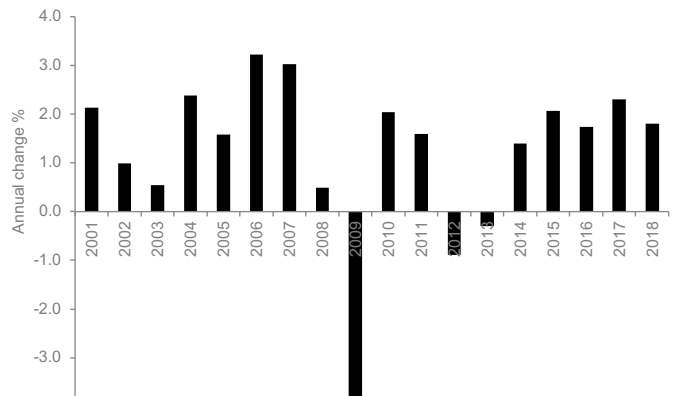
**...Chinese growth drops to 28-year low...**

China's economy, the world's second largest, grew at an annual rate of 6.4% in Q4 2018, down from 6.5% in Q3. As a consequence, **China's economy grew by 6.6% in 2018 as a whole, the weakest full year growth since 1990 (see Chart 8)** and down from the growth of 6.8% in 2017. China's attempts to cut debt levels and continued trade tensions with the US is increasingly weighing on economic activity and means that Chinese GDP growth is likely to slow further in 2019. The accuracy of China's economic data also remains questionable.

**...Eurozone growth slows to four-year low...**

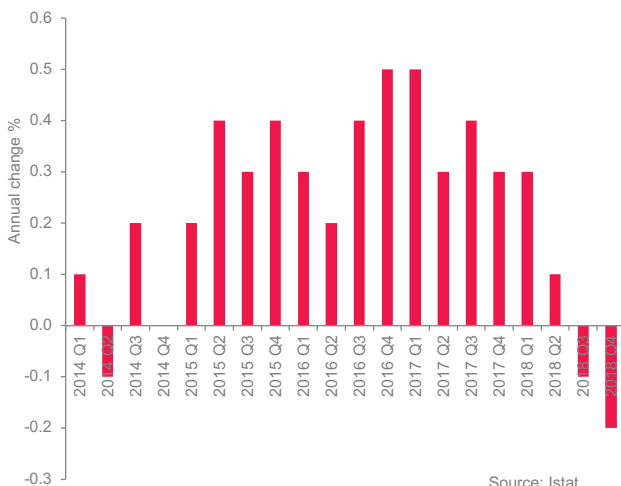
The Eurozone economy grew by 0.2% in Q4 2018, unchanged from the previous quarter. In annual terms, the Eurozone economy grew by 1.2% in Q4, down from growth of 1.6% in Q3. As a consequence, the Eurozone economy grew by 1.8% in 2018 as a whole, the weakest growth since 2014 and down from growth of 2.3% in 2017 (see Chart 9). The Eurozone's growth outlook has been weakened by the slowdown in Germany, the Eurozone's biggest economy, which grew by 1.5% in 2018, its slowest rate since 2013. **The slowdown in China, global trade tensions and uncertainty over Brexit are increasingly weighing on economic activity in the Eurozone.**

Chart 9: Eurozone Real GDP Growth



Source: Eurostat

Chart 10: Italy Real GDP Growth



Source: Istat

**...as Italy slips into recession.**

Italy's economy, the Eurozone's third largest, contracted by 0.2% in Q4 2018 (see Chart 10). This was the second successive quarterly decline and means that Italy is now in a technical recession. In annual terms, Italy's economy grew by 0.1% in Q4, down from growth of 0.6% in Q3. **Weak domestic demand meant that agriculture, forestry, fishing and industrial output all contributed to the contraction in Italian GDP growth in the final quarter of 2018**, which was only partly offset by a pick-up in exports. A weakening economy is likely to hamper to Italy's attempts to tackle its worrying debt levels by restricting the extent to which they can generate tax revenue.

**Bottom line:**

**Overall, the latest data indicates that UK economic conditions are weakening, with Brexit uncertainty, a more sluggish global economy and significant costs on both UK consumers and businesses stifling economic activity. It is therefore vital that government avoids a messy and disorderly Brexit on 29th March and ministers must stand ready to lift confidence and boost investment intentions.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
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)													
	Earnings (ONS)													
	Economic Inactivity (ONS)													
Government	Public sector net borrowing (ONS)**													
	Public sector net debt % of GDP (ONS)**													
	Tax receipts (HMRC)**													
	Current Budget Deficit (ONS)**													
External	UK trade balance (ONS)													
	Export Sales (BCC)***													
	Export orders (BCC)***													
Financial	Exchange rate (Bank of England)													
	Equity Prices (Bloomberg)													
	10 year Government bonds (Bloomberg)													

\*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 estimate.