

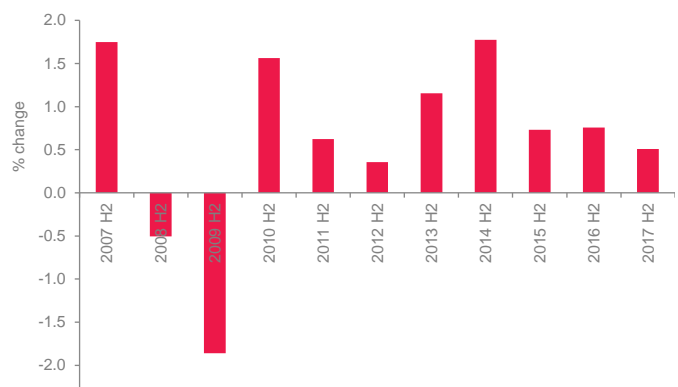
### Monthly headlines:

- UK GDP growth unrevised in Q2, as business investment and consumer spending slows
- While UK labour market remains strong, pay growth continues to lag behind price growth
- GDP growth strengthens in key UK markets, including the Eurozone and the US

### UK GDP growth in Q2 unrevised...

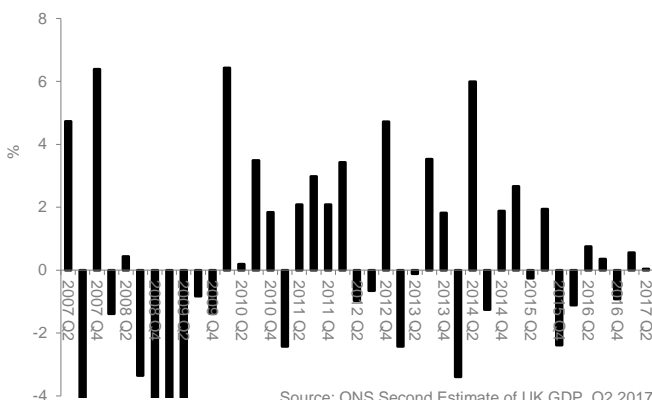
The 2nd official estimate of economic growth (GDP) recorded UK economic growth of 0.3% in Q2 2017, unrevised from the previous estimate and up slightly from the growth of 0.2% recorded in the first quarter. While growth in Q2 was the eighteenth successive quarter of GDP growth, economic growth in the first half of the year was the weakest since 2012 (see Chart 1). In annual terms, the UK economy grew by 1.7% in Q2, down from the growth of 2.0% recorded in the previous quarter. Overall, the latest GDP figures adds to the growing evidence that UK economic growth is moderating.

Chart 1: UK Real GDP Growth



Source: ONS Second Estimate of UK GDP, Q2 2017

Chart 2: Business Investment



Source: ONS Second Estimate of UK GDP, Q2 2017

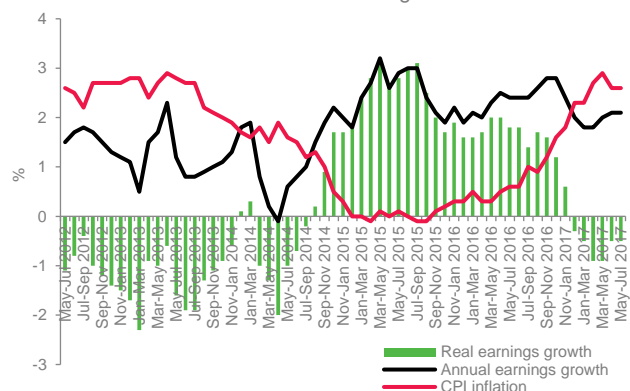
### ...as business investment slows...

The latest Q2 2017 GDP estimate revealed that business investment was flat in the second quarter of 2017, having grown by 0.6% in the previous quarter (see Chart 2). Consumer spending, which typically accounts for around two-thirds of UK economic output, grew by 0.1% in Q2, the slowest rate of growth since Q4 2014 and down from the growth of 0.4% recorded in the previous quarter. Declining real wage growth (see Chart 3) continues to be the key driver behind the slowdown in consumer spending. In contrast, government investment grew by 5% in the quarter, the biggest increase since Q3 2014.

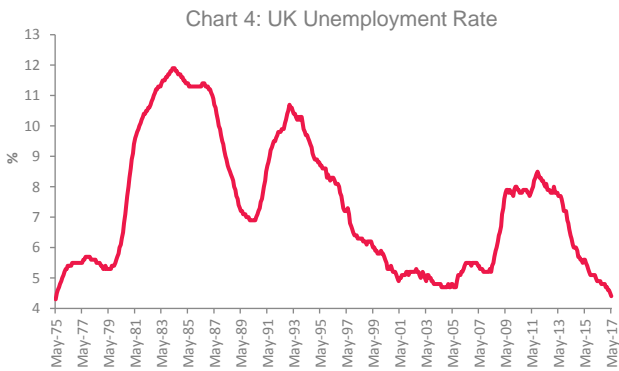
### ...inflation holds steady...

CPI inflation stood at 2.6% in July 2017, unchanged from the previous month but three times the rate at the same point a year ago. Declining fuel prices offset price increases in other goods and services such as clothing and food. With regular earnings growth hovering at around 2%, the gap between pay and price growth remains sizeable (see Chart 3), squeezing consumer spending and weakening overall UK growth. However, with input prices slowing for the sixth successive month it remains likely that inflation will peak before the end of this year.

Chart 3: Real Earnings Growth



Source: ONS Labour Market Statistics, August 2017



Source: ONS Labour Market Statistics, August 2017

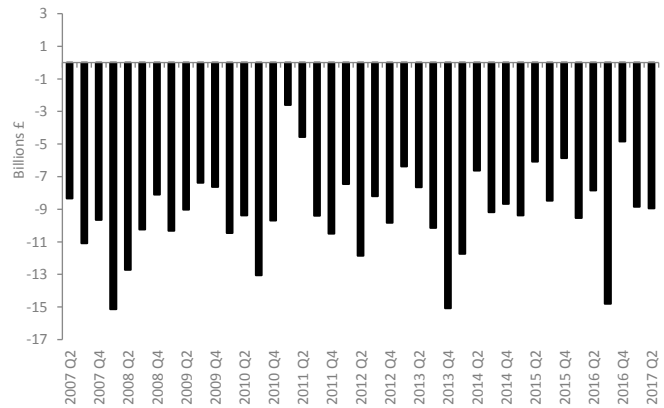
### ...and UK jobs market continues to strengthen...

In the three months to June 2017, UK employment rose by 125,000 compared with the previous three months. The number of people who are unemployed fell by 57,000 over the same period. **As a result, the UK unemployment rate dropped to 4.4%, the lowest since 1975 (see Chart 4).** The data also revealed that the number of job vacancies stood at 768,000 a drop of 16,000 from the three months to March 2017. However, UK labour market conditions could soften over the coming months, as uncertainty over Brexit and the increasing input costs take their toll on jobs growth.

### ...but the UK's trade deficit widens...

The UK trade deficit in goods and services was £4.6 billion in June 2017, a widening of £2 billion from May. As a result, the UK's trade deficit widened by £0.1 billion to £8.9 billion in Q2 2017. **(see Chart 5).** The widening in the deficit was driven by imports rising by £0.9 billion, stronger than the £0.8 billion rise in exports in Q2. **The post-EU referendum decline in the value of sterling has done little to boost the UK's trade position** with exporters still facing the higher cost of imported materials. However, stronger global economic growth should help UK exporters over the second half of the year.

Chart 5: UK's Net Trade Position



Source: ONS UK Trade data, August 2017



Source: ONS Retail Sales, July 2017

### ...and there is a slow start to Q3...

Retail sales rose by 0.3% in July. The rise in the month was driven by a 1.5% increase in food sales. However, the figure for retail sales growth in June was revised down from 0.6% to 0.3%. **On the rolling annual three month-on-three-month measure – a more reliable indicator of the underlying trend – rose by 1.8% in the three months to June compared with the same period in 2016, the lowest since November 2013 (see Chart 6).** With pay growth continuing the lag to behind price growth **(see Chart 3)** consumer spending is likely to remain under pressure in the second half of the year, squeezing activity in the retail sector.

### ...as the UK's growth outlook is downgraded...

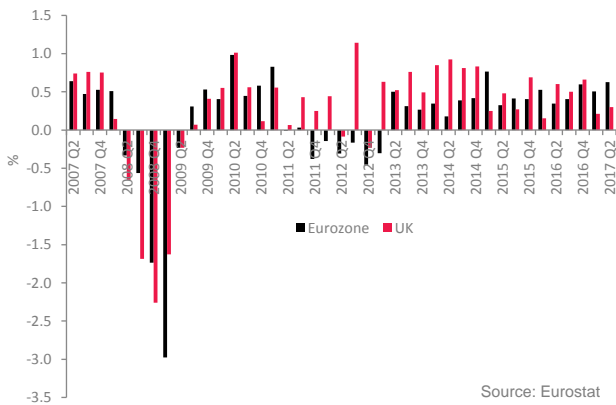
The Bank of England has downgraded its outlook for the UK economy. The central bank cut its UK GDP growth forecast for 2017 to 1.7%, from its previous forecast of 1.9%. They also downgraded their 2018 GDP growth forecast from 1.7% to 1.6%. The Bank of England attributed much of weakening outlook to more subdued consumer spending and business investment. As a result, the MPC vote to keep interest rates on hold at 0.25% widened from 5-3 to 6-2. **Overall, the Bank of England's latest forecasts of UK GDP growth suggest that the UK economy is in a more subdued period.**

Table 1: UK GDP Growth Forecast Comparison

GDP Growth (Annual % change)	2017	2018	2019
OBR	2.0	1.6	1.7
Bank of England	1.7	1.6	1.8
IMF	1.7	1.5	-

Sources: OBR, Bank of England and IMF

Chart 7: Real GDP: Eurozone vs UK



Source: Eurostat

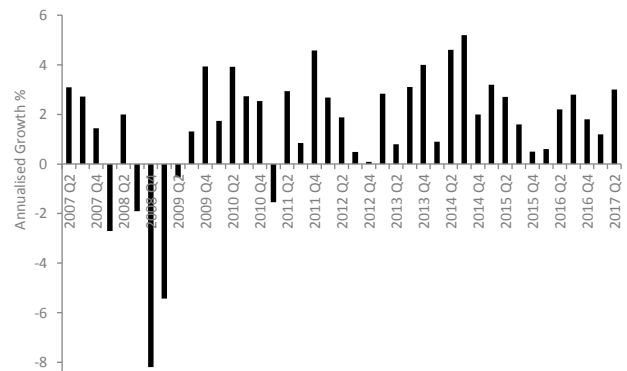
**...growth picks up in the Eurozone in Q2...**

The first estimate of Eurozone GDP had growth at **0.6% for Q2 2017**, up from the growth of 0.5% recorded in the previous quarter and double the UK GDP growth recorded over the same period (see Chart 7). In annual terms, the Eurozone economy grew by 2.2% in Q2, up from the growth of 1.9% recorded in Q1. The European Central Bank's (ECB) stimulus programme has been a key driver behind the Eurozone's stronger growth outlook. Of the available country level data, the Netherlands recorded the strongest growth (1.5%), followed by Latvia (1.3%).

**...US growth revised up to two-year high...**

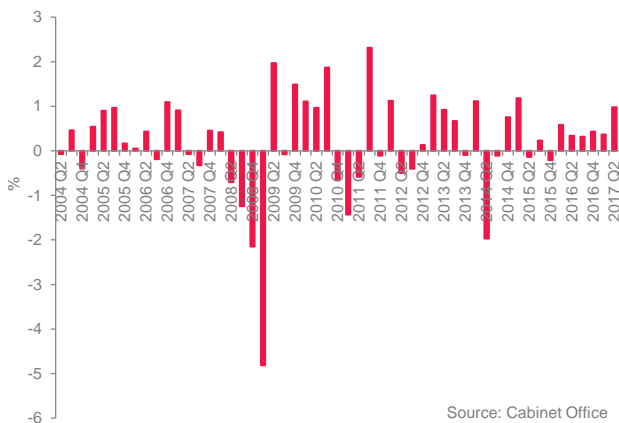
The second estimate of US GDP revealed that the US economy, the world's largest, grew at an annualised rate of **3% in Q2 2017** (see Chart 8), up from the previous estimate of 2.6%. This is also the fastest rate of growth since Q1 2015 and almost three times the growth of 1.2% recorded in Q1. The pick in growth in Q2 reflected a pick-up in consumer spending as well as increases in business investment, exports, and government spending. The improving near-term outlook for the US economy should give the Federal Reserve sufficient scope to continue to gradually raise rates, with another rate rise likely before the end of the year.

Chart 8: US Real GDP Growth



Source: BEA

Chart 9: Japan Real GDP Growth



Source: Cabinet Office

**...as Japan's economy strengthens further.**

Japan, the world's third largest economy, grew by 1.0% in Q2 2017, up from growth of 0.4% recorded in the previous quarter and over three times the growth recorded in the UK over the same period. This was also the sixth successive quarter of growth, the longest period of expansion since 2006 (see Chart 9). The pick-up in growth in Q2 was driven by household spending, which accounts for almost two-thirds of Japan's economic output, which rose by 0.9% in Q2, up from the growth of 0.4% recorded in the previous quarter. Business investment also picked strongly in the quarter, rising by 2.4% in Q2, compared to growth of 0.9% in the previous quarter.

**Bottom line:**

Overall, the latest data releases add to the growing consensus that the UK economy is weakening. As we move through the Brexit process there needs to be a greater focus on measures to boost confidence and growth, including addressing the escalating burden of up-front taxes and costs associated with doing business in the UK.

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indictors (sources)	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	
Household	Retail Sales (ONS)	Improving	Deteriorating	No change	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	
	Consumer Confidence (GfK NOP)	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	No change	Improving	Improving	Deteriorating	Deteriorating	Improving	
	House Prices (Halifax)	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Improving	No change	Improving	Improving	Deteriorating	Improving	
	New car sales (SMMT)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
	Mortgage approvals (Bank of England)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
Business	Business confidence (BCC)***	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
	Business lending (Bank of England)	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	
	Service sector output (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	
	Production output (ONS)	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	
	Investment intentions (BCC)**	Deteriorating	Deteriorating	Improving	Improving	Improving	No change	No change	No change	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	
Labour market	Employment (ONS)	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
	Unemployment (ONS)	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
	Earnings (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	
	Economic Inactivity (ONS)	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
Government	Public sector net borrowing (ONS)**	Deteriorating	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Improving	
	Public sector net debt % of GDP (ONS)**	Improving	No change	Improving	Improving	Deteriorating	No change	Improving	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	
	Tax receipts (HMRC)**	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
	Current Budget Deficit (ONS)**	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	
External	UK trade balance (ONS)	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	
	Export Sales (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
	Export orders (BCC)***	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	
Financial	Exchange rate (Bank of England)	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	
	Equity Prices (Bloomberg)	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	
	10 year Government bonds (Bloomberg)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	

\*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.