

### Monthly headlines:

- UK GDP growth picked up in Q4, driven by stronger output from the services sector
- The number of UK jobs vacancies reach record high as inflation eases a little
- Global economic conditions continue to improve as Eurozone GDP growth reaches 10-year high

### UK economy enjoyed a strong end to 2017...

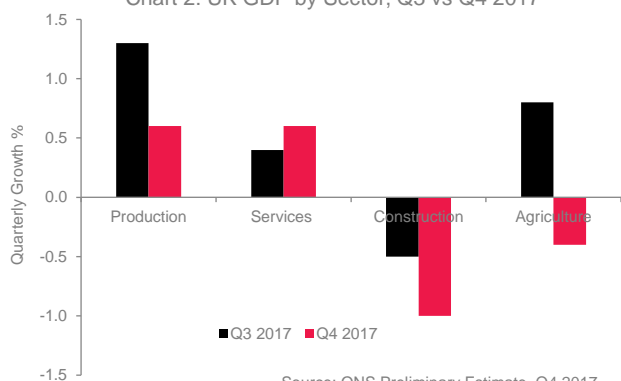
The first official estimate of economic growth (GDP) put UK economic growth at 0.5% in Q4 2017, the strongest rate of growth since Q4 2016 and up from the growth of 0.4% recorded in the previous quarter. However, in annual terms, the UK economy grew by 1.5% in Q4, down from 1.7% in the previous quarter. **The UK economy grew by 1.8% in 2017 as a whole, the slowest rate of growth since 2012 (see Chart 1).** Overall, the latest GDP data confirms that the UK's economic performance remains underwhelming despite a strong end to 2017.

Chart 1: UK Real GDP Growth



Source: ONS Preliminary Estimate, Q4 2017

Chart 2: UK GDP by Sector, Q3 vs Q4 2017



Source: ONS Preliminary Estimate, Q4 2017

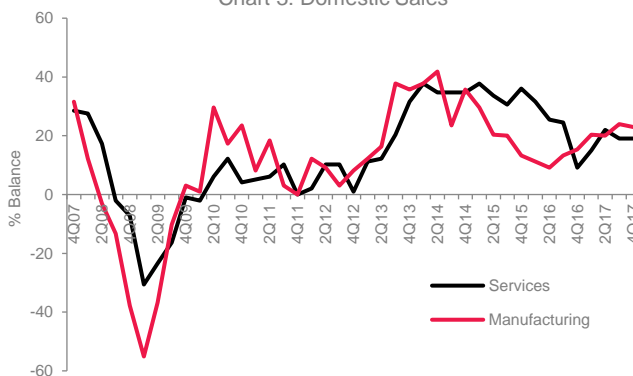
### ...driven by the services sector...

Service sector output grew by 0.6% in Q4 (see Chart 2), up from the growth of 0.4% recorded in Q3 and accounted for almost all of the GDP growth recorded in the quarter. Industrial production grew by 0.6% in the quarter, with manufacturing output up by 1.3%. In contrast, construction sector output fell by 1% in Q4, the third successive quarterly contraction. Agricultural production dropped by 0.4% in the quarter. **Taken together, the Q4 GDP figures are further confirmation that UK growth remains unbalanced with an over-reliance on services to drive growth.**

### ...as Q4 QES points to more modest growth...

The BCC's Quarterly Economic Survey (QES) for Q4 had almost all indicators for the services sector below their pre-EU referendum levels and the strong performance of manufacturers for most of 2017, eased slightly in the final quarter. The balance of manufacturers reporting increased domestic sales declined to +23% in Q4, from +24% in Q3 (see Chart 3). The domestic sales balance in the services sector was up slightly, from +19% to +20%. **The latest QES data suggests that UK's economic performance in Q4 was slightly more subdued than the official figures suggest.**

Chart 3: Domestic Sales



Source: BCC QES, Q4 2017

Chart 4: Job Vacancies



Source: ONS UK labour market, January 2018

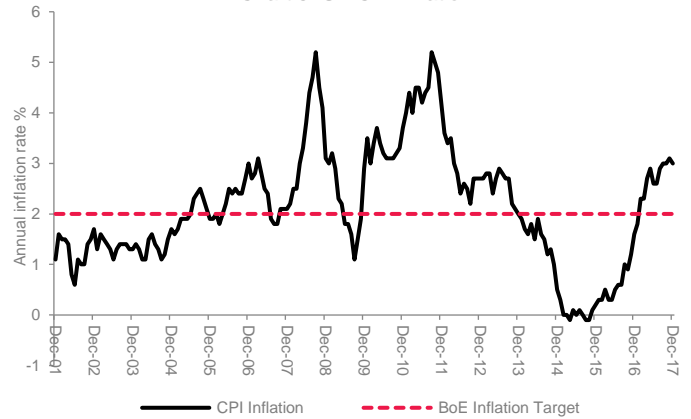
**...job vacancies reach record high...**

In the three months to November 2017, the number of people who are in employment rose by 102,000, compared with the previous three-month period. **There is further evidence of the UK's chronic skills shortage with the number of job vacancies rising by 60,000 over the past year to 810,000, the highest since records began in 2001 (see Chart 4)** UK labour market conditions may cool over the next year, as sluggish economic growth and Brexit uncertainty weigh on jobs growth. However, we expect that the UK unemployment rate will remain well below the long-run average.

**...as inflation eases a little...**

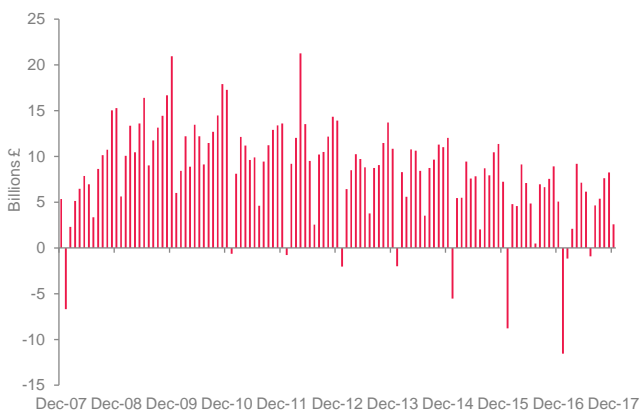
**CPI inflation in the UK stood at 3.0% in December 2017, down from the 3.1% in November, the first drop in the rate since June 2017 (see Chart 5).** The largest downward contribution came from airfares. While it's probable that inflation is now on a downward trajectory, the latest QES suggests that the substantial increases in the cost of raw materials over the past year are still passing through supply chains, and therefore progress back to the Bank of England's 2% target is likely to be slow. Crucially, **price growth is still likely to outpace pay growth over the near term, squeezing consumer spending.**

Chart 5: UK CPI inflation



Source: ONS Consumer Price Indices, December 2017

Chart 6: UK Government Borrowing



Source: ONS Public Finances, December 2017

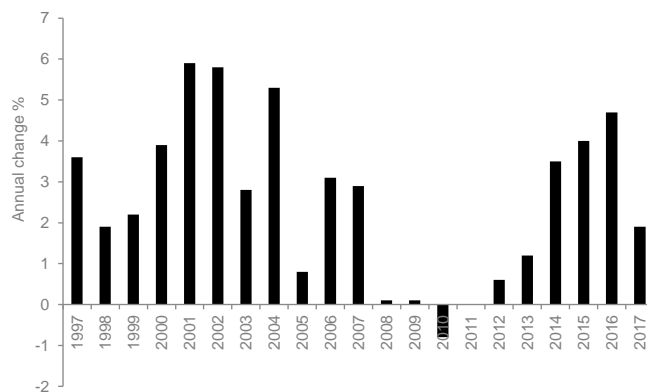
**...EU rebate boosts the public finances...**

UK public sector finances (excluding public sector banks) recorded a deficit of £2.6 billion in December 2017, the lowest December borrowing outturn since 2000 (see Chart 6) and £2.5 billion lower compared with December 2016. **The improvement in the month was driven by the UK receiving a £1.2 billion rebate from the EU.** However, public sector net debt currently stands at 85.4% of UK GDP, more than double pre-crisis levels. While the UK government is set to undershoot its borrowing target for this financial year, weaker economic conditions over the near term are likely to restrict the UK's ability to generate the tax receipts needed to deliver real progress in cutting the deficit.

**...retail sales growth drops to four-year low...**

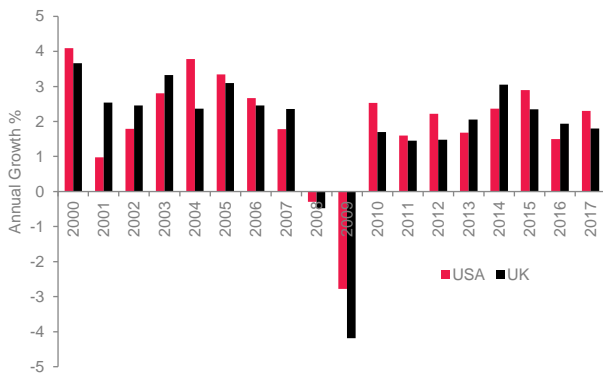
Retail sales fell by 1.5% in December, compared to a 1% rise in November. This partly reflects consumers continuing to move Christmas purchases earlier, with higher spending in November and lower spending in December than seen in previous years. On the annual three month-on-three-month measure rose by 1% in the three months to December, the joint lowest since May 2013. For the whole of 2017, retail sales increased by 1.9%, the lowest annual growth since 2013 (see Chart 7). **The retail sector is likely to remain under pressure in 2018 as negative real wage growth stifles on consumer spending.**

Chart 7: UK Retail Sales



Source: ONS Retail Sales, December 2017

Chart 8: UK vs US Real GDP Growth



Sources: ONS, BEA

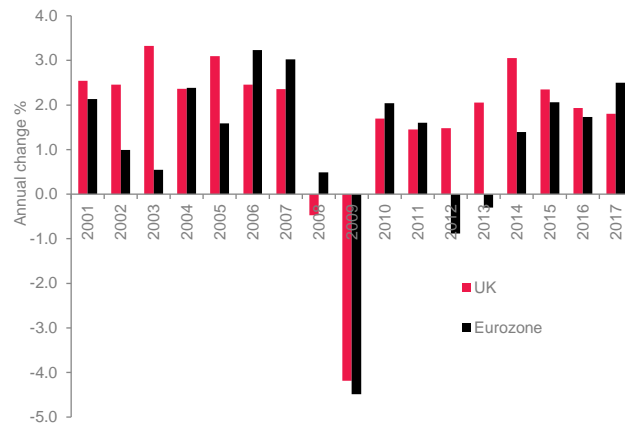
### ...while US GDP growth slowed in Q4...

The US economy, the world's biggest, grew at an annualised rate of 2.6% in Q4 2017, a slowdown from the 3.2% growth recorded in the previous quarter. A deterioration in the US's trade position was the main driver behind the slowdown with imports rising by 13.9% in Q4, more than double the 6.9% rise in exports over the same period. However, **the US economy grew by 2.3% in 2017 as a whole, up significantly from the growth of 1.5% recorded in 2016 (see Chart 8)**. Despite the slight slowdown in the final quarter of 2017 an improving global economy, rising oil prices and a weak dollar are likely to support US growth over the next year.

### ...Eurozone growth reaches 10-year high...

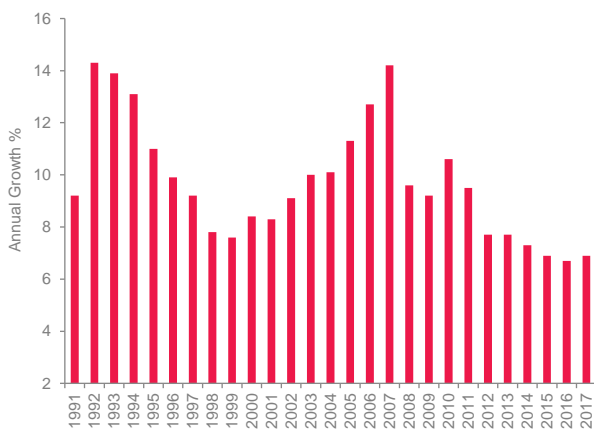
The Eurozone economy grew by 0.6% in Q4 2017, slightly higher than the Q4 growth of 0.5% recorded in the UK over the same period (see Chart 9). In annual terms, the Eurozone economy grew by 2.7% in Q4, down slightly from the growth of 2.8% in the previous quarter. **Over the whole year 2017, the Eurozone's economy grew by 2.5%, the strongest rate of growth since 2007**. The pick-up in Eurozone GDP growth over the past year has been largely supported by the European Central Bank's (ECB) stimulus programme, which included cutting interest rates to zero percent.

Chart 9: UK vs Eurozone Real GDP Growth



Sources: ONS, Eurostat

Chart 10: China Real GDP Growth



Source: National Bureau of Statistics of China

### ...and China GDP growth pick-ups once again.

China's economy, the world's second-largest, grew at an annual rate of 6.8% in Q4 2017, higher than the government's current growth target of 6.5%. As a consequence, **China's economy grew by 6.9% in 2017 as a whole, the first pick-up in full year Chinese GDP growth since 2010 (see Chart 10)**. GDP growth in China has been partly driven by stronger exports, which were up by almost 11% in annual terms and reflects the improving outlook for the global economy which has increased demand for Chinese goods. However, despite the improvement in 2017, government attempts to reduce debt levels and improve air quality in the country could drag on economic activity this year.

#### Bottom line:

**Last month's data suggests that UK GDP growth is likely to remain sluggish, despite an improving global economy. It is therefore vital that more is done to stimulate economic activity, including addressing the chronic skills shortages, our creaking physical and digital infrastructure and the burden of upfront business costs, that continue to weigh on the UK's long-term growth prospects.**

For more information please contact Suren Thiru, Head of Economics.  
Email: s.thiru@britishchambers.org.uk. Tel: 0207 654 5801

# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indictors (sources)	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
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.