

QUARTERLY ECONOMIC FORECAST Q1 2022

Headlines:

- UK GDP growth is to halve this year amid inflation, tax rises, and global headwinds
- Consumer spending downgraded with inflation to outpace wage growth until 2024
- UK inflation to rise to 8% with interest rate rises expected to double this year

UK's economic growth forecasts downgraded...

The British Chambers of Commerce has downgraded its expectations for UK GDP growth in 2022 to 3.6%, from 4.2% in its previous forecast in December 2021 and less than half the growth of 7.5% recorded last year. Following Q4 2021 growth of 1.0%, quarter-on-quarter GDP growth is forecast to slow to 0.7% in Q1 2022, then to 0.2% in Q2 and 0.1% growth in Q3. The downgrade largely reflects a deteriorating outlook for consumer spending and a weaker than expected rebound in business investment, amid soaring inflation, major tax rises, and the impact Russia's invasion of Ukraine. Following forecasted GDP growth of 3.6% this year, UK economic growth is expected to slow sharply again to 1.3% in 2023, before easing to 1.2% in 2024.

...largely reflecting a weakening outlook for consumer spending and business investment...

Consumer spending is forecast to grow at 4.4% in 2022, down from its previous forecast of 6.9%. The downgrade reflects the historic squeeze on household real incomes from high inflation. Inflation is projected to outpace wage growth until Q2 2024, maintaining the squeeze on household finances. Business investment is forecast to grow at 3.5% in 2022, down from the previous forecast of 5.1%. The downgrade reflects the expected weakening in investment intentions from rising cost pressures, higher taxes and weakening confidence amid deteriorating UK and global outlooks, including the current impact of Russia's invasion of Ukraine.

...and inflation forecast to rise 8% this year.

Rising raw material costs, the increase in the energy price cap, the reversal of the hospitality VAT cut and upward pressure on energy and commodity prices from the current impact of the Russian invasion are expected to lift CPI inflation to a peak of 8% in Q2 2022. If realised this would be the highest rate since July 1991. Rising raw material costs and the impact of Russia's invasion of Ukraine are also projected to keep UK inflation higher for longer. CPI inflation is expected to fall back to the Bank of England's 2% target in Q4 2024, over a year later than the previous forecast of Q2 2023.

“Our latest forecast signals a significant deterioration in UK's economic outlook. The UK economy is forecast to run out of steam in the coming months as the suffocating effect of rising inflation, supply chain disruption and higher taxes weaken key drivers of UK output, including consumer spending and business investment. Russia's invasion of Ukraine is like to weigh on activity by exacerbating the current inflationary squeeze on consumers and businesses and increasing bottlenecks in global supply chains.

The BCC' latest outlook suggests a legacy of Covid, and Brexit is an increasingly unbalanced economy with a growing reliance on household spending to drive growth. Such economic imbalances leave the UK more exposed to economic shocks and reduces our productive potential.

The downside risks to the outlook are increasing. Russia's invasion of Ukraine could drive a renewed economic downturn if it stalls activity by triggering a sustained dislocation of supply chains or a more significant inflationary surge. Tightening monetary and fiscal policy too aggressively risks weakening UK's growth prospects further by undermining confidence and damaging household and firm's finances.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q1 2022

Current forecast (2022 Q1)				
BCC Economic Full Forecast (Annual % change)				
	2021	2022	2023	2024
GDP	7.5%	3.6%	1.3%	1.2%
Household Consumption	6.1%	4.4%	1.3%	1.2%
General government	14.5%	3.2%	0.9%	1.0%
Investment	5.3%	3.4%	2.1%	1.4%
of which: Business Investment	-0.7%	3.5%	1.6%	1.5%
Exports	-1.1%	4.2%	1.6%	1.6%
Imports	3.0%	4.7%	1.6%	1.5%
Total Production	5.2%	2.7%	1.5%	1.3%
Manufacturing	6.8%	2.5%	1.6%	1.4%
Construction	13.5%	2.8%	1.9%	1.3%
Services	7.4%	3.8%	1.2%	1.2%
Unemployment rate %*	4.5%	4.0%	4.0%	3.9%
Unemployment 000's**	-31	-149	-20	-20
Youth unemployment rate %*	12.4%	11.0%	11.0%	10.9%
Youth unemployment 000's**	-70	-45	-4	-5
CPI inflation (Q4)	5.0%	5.5%	2.5%	2.0%
Average earnings (Q4)	3.3%	2.6%	2.4%	2.2%
Interest rates (Q4)*	0.15	1.00	1.50	1.50
NetTrade-Goods&Services-%GDP*	-1.1%	-1.4%	-1.6%	-1.6%
BofP-CurrentAccount-%GDP*	-2.6%	-3.0%	-3.2%	-3.6%
PSNBex-BCC forecast-FinYears-%GDP*	6.5%	4.1%	2.6%	
PSNBex-BCC forecast-FinYears-£bn*	152.4	101.0	66.0	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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