

QUARTERLY ECONOMIC FORECAST Q4 2023

The BCC expects UK GDP growth to flatline for the next three years.

- UK economic growth set to remain sluggish, with growth rate of 0.6% now expected for the whole of 2023, dropping to 0.4% in 2024, and nudging up only slightly to 0.6% in 2025.
- The inflation rate is expected to slow to 4.6% in Q4 2023, revised down slightly from last quarter. The interest rate is expected to have reached its peak but will remain higher for longer.
- Investment and government spending are expected to decline in 2024.

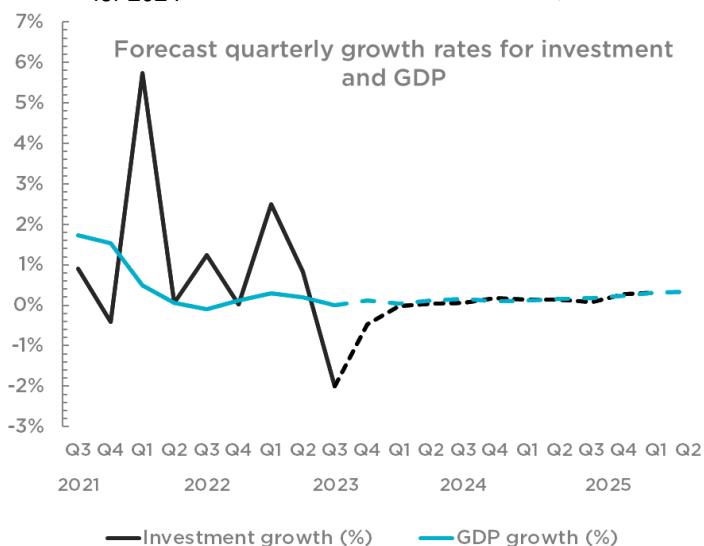
In the short term, the BCC is expecting 0.6% growth for the whole of 2023, falling to 0.4% in 2024 and rising slightly to 0.6% in 2025. Prolonged high interest rates, trade barriers, particularly with the EU, and limits on consumer spending are all seen to feed into a low growth climate.

Exports are expected to grow by just 0.5% and 1.2% in 2024 and 2025, respectively, following a contraction of 0.5% in 2023. Imports are similarly lacklustre, with further regulatory changes at the UK and EU borders continuing to weigh on trade flows. Against this background, the BCC expects business investment to contract by 0.8% in 2024, before rebounding to 1.2% in 2025.

0.4%
forecast change
in GDP growth
for 2024

-0.8%
forecast change in
business
investment for 2024

4.6%
forecast CPI
inflation rate by
Q4 2023



GDP growth

Inflation

Despite core inflation now outpacing the headline CPI rate, BCC research indicates the proportion of firms expecting their prices to rise is continuing to fall. The forecast for the CPI rate is now 4.6% in Q4 2023, 3.1% in Q4 2024, and 1.9% in Q4 2025. With the CPI rate slowing, the Bank of England interest rate is expected to have hit its peak by Q4 2023 at 5.25%, although is likely to remain relatively high at 5.0% by Q4 2024 and 4.25% by Q4 2025.

Employment

While the number of vacancies continues to decline and demand remains subdued, the unemployment rate is also expected to stay higher for longer, hitting 4.8% by the end of 2025. However, this cooling of the labour market is yet to translate into any significant easing of the recruitment difficulties felt by firms, with BCC research showing the hospitality, construction and manufacturing sectors all struggling. Average earnings are now expected to grow more strongly than inflation across the forecast period, with growth of 5.5% in Q4 2023.

Current forecast (2023 Q4)

| BCC Economic Full Forecast (Annual % change) | | | | |
|--|-------|-------|-------|-------|
| | 2022 | 2023 | 2024 | 2025 |
| GDP | 4.3% | 0.6% | 0.4% | 0.6% |
| Household Consumption | 5.2% | 0.4% | 0.2% | 0.7% |
| General government | 2.5% | -0.4% | -0.8% | 0.0% |
| Investment | 7.9% | 2.6% | -1.1% | 0.5% |
| of which: Business Investment | 9.6% | 5.6% | -0.8% | 1.2% |
| Exports | 8.6% | -0.5% | 0.5% | 1.2% |
| Imports | 14.1% | -1.5% | 0.3% | 1.1% |
| Total Production | | | | |
| Total Production | -3.1% | 0.1% | 0.3% | 0.4% |
| Manufacturing | -3.3% | 1.1% | 0.5% | 0.6% |
| Construction | 6.5% | 2.8% | 0.5% | 1.0% |
| Services | 5.6% | 0.5% | 0.5% | 0.8% |
| Unemployment rate %* | | | | |
| Unemployment rate %* | 3.7% | 4.1% | 4.7% | 4.8% |
| Unemployment 000's** | | | | |
| Unemployment 000's** | -262 | 161 | 199 | 58 |
| Youth unemployment rate %* | | | | |
| Youth unemployment rate %* | 10.5% | 12.1% | 12.9% | 13.0% |
| Youth unemployment 000's** | | | | |
| Youth unemployment 000's** | -68 | 81 | 30 | 4 |
| CPI inflation (Q4)^ | | | | |
| CPI inflation (Q4)^ | 10.8% | 4.6% | 3.1% | 1.9% |
| Average earnings (Q4)^ | | | | |
| Average earnings (Q4)^ | 7.0% | 5.5% | 3.5% | 2.5% |
| Interest rates (Q4)* | | | | |
| Interest rates (Q4)* | 2.81 | 5.25 | 5.00 | 4.25 |
| NetTrade-Goods&Services-%GDP* | | | | |
| NetTrade-Goods&Services-%GDP* | -2.8% | -1.3% | -1.4% | -1.5% |
| BofP-CurrentAccount-%GDP* | | | | |
| BofP-CurrentAccount-%GDP* | -3.2% | -2.1% | -1.4% | -1.8% |
| PSNBex-BCC forecast-FinYears-%GDP* | | | | |
| PSNBex-BCC forecast-FinYears-%GDP* | 5.0% | 5.9% | 5.0% | 3.6% |
| PSNBex-BCC forecast-FinYears-£bn* | | | | |
| PSNBex-BCC forecast-FinYears-£bn* | 127.8 | 156.4 | 134.0 | 97.5 |

* Reported as levels

** Change in levels

^ Annual % change in Q4

For more information, contact David Bharier, Head of Research

Email: d.bharier@britishchambers.org.uk