WEAK GDP GROWTH FORECAST FOR 2020 AS BUSINESS INVESTMENT FALLS

UK economic growth in 2020 is forecast to slow to its weakest rate since the financial crisis as higher government spending struggles to offset falling business investment, weakening net trade and sluggish consumer spending.

GDP growth is forecast to slow from 1.3% for this year to 1.0% in 2020 - the weakest outturn since 2009 – according to the latest economic forecast from British Chambers of Commerce (BCC). Although this is a slight upgrade on BCC's previous forecast of 0.8%, it indicates that by the end of 2020 the UK economy will have experienced its second weakest decade of average annual GDP growth on record. The BCC has upgraded its growth forecast for 2021 from 1.2% to 1.3%.

The upgrades are largely driven by stronger expected levels of government spending - both observed in the 2019 Spending Round and the anticipated uplift in expenditure by any incoming government. However, with tax revenue expected to weaken amid a slowing economy, stronger government spending is expected to come at the cost of higher borrowing. UK public sector net borrowing is forecast to be £83.4 billion higher over the next three years than predicted by the Office for Budget Responsibility at the 2019 Spring Statement.

According to the BCC forecast issued today, weaker outlook for business investment, net trade and consumer spending are expected to weigh on the UK growth prospects over the forecast period:

- **Business investment is forecast to contract by 1.0% in 2019 and by a further 0.7% in 2020**. Uncertainty, particularly over Brexit, and the upfront costs associated with doing business in the UK, are expected to continue to weigh on investment decisions.

- **The UK's net trade position is forecast to be weaker over the forecast period** than in the previous BCC forecast. A deteriorating outlook for the global economy, growing global trade tensions and continued uncertainty on the UK's future relationship with the EU are likely to stifle export sales.

- While average earnings growth in real terms is set remain in positive territory amid weakening inflation, **household spending is expected to be limited by a slowing labour market**.

Commenting on today's forecast Suren Thiru, Head of Economics at the British Chambers of Commerce, said:

"Our forecast points to several years of anaemic activity in the UK economy unless decisive action is taken.

"An expansion in government spending is likely to give a nudge to the UK economy, whoever wins the General Election. However, a slowing global economy and unrelenting political uncertainty are expected to weaken business investment, trade and consumer spending, limiting the UK's growth trajectory.

"Increased public spending where the objective is to strengthen growth and productivity can help support the UK economy in the near term. However, a sluggish economy could restrict the UK's capacity to collect enough tax revenue to deliver a marked boost in public spending. Under such conditions significant and sustained government borrowing could leave the UK more exposed to economic shocks.

"The downside risks to the UK's economic outlook remain concerningly high. Worsening global trends and uncertainty over the course of Brexit present real dangers for the UK economy. More uncertainty in the aftermath of the General Election and a persistent lack of clarity on the UK's future trading relationships could also result in more muted growth."

Adam Marshall, Director General of the British Chambers of Commerce, added:

“The needs of business have been glossed over in the General Election campaign, and our latest forecast shows the danger of allowing this to continue.

“As soon as the smoke clears from the election battlefield, economic growth must be put front and centre again in Westminster. No incoming government can deliver its promises to the electorate without healthy and thriving business communities – or without a clear and detailed plan for the UK’s future relationship with the EU.

“As long as businesses are held back by Brexit uncertainty, high up-front costs, skills gaps, and poor infrastructure, we can expect growth to be mediocre, at best. At this critical moment, details matter. An incoming government needs to get both the signals and the substance right – and give companies the confidence to invest.”

Key points in the forecast:

· **UK GDP growth forecast for 2019 is upgraded** from 1.2% to 1.3% **from 0.8% to 1.0% in 2020** and from 1.3% to 1.2% in 2021. This still represents the second weakest decade of average annual GDP growth on record
· **Quarter-on-quarter GDP growth is forecast to slow to 0.2% in Q4 2019,** down from the 0.3% growth in Q3
· **Government spending growth been upgraded to 3.3% for 2019 (from 2.3%),** to 3.0% for 2020 (from 2.4%), before growth of 3.0% in 2021 (from 2.2%) – This means growth each year of the forecast period is expected to more than three times the decade average to date of 0.9%
· **UK public sector net borrowing over the next three years is forecast to be £83.4 billion higher** than predicted by the Office for Budget Responsibility at the 2019 Spring Statement
· **Forecast for business investment growth been upgraded to -1.0% for 2019 (from -1.5%), but downgraded** to -0.7% for 2020 (from -0.1%), before growth of 0.8% in 2021 (unchanged from the previous forecast)
· **BCC expects export growth of 0.3% in 2019, 1.1% in 2020 and 1.4% in 2021,** weaker compared to our previous forecast of 1.3%, 1.3% and 1.5%
· **The forecast for household consumption growth been downgraded to 1.1% for 2019 (from 1.5%), for** 1.3% for 2020 (from 1.4%), before growth of 1.5% in 2021 (unchanged from the previous forecast)
· **Average earnings growth is expected to outstrip inflation over the period,** with growth of 2.9%, 2.8% and 2.9% respectively, compared with inflation of 1.8%, 1.6% and 1.7%
· **UK official interest rates are expected to remain at 0.75% throughout 2019 and 2020,** before rising to 1.0% in 2021