

2015.09: September Economic Review

Highlights

- UK economic output is 5% above the 2008 pre-recession peak
- UK economy expanding at a solid rate
- Inflation remains low
- Real earnings continue to rise

Economic Review

The second official estimate for Q2 2015 growth in UK GDP was unrevised at 0.7%. UK economic output is now over 5% above its Q1 2008 pre-recession peak. Overall, the latest GDP figures support the view that the UK economy is expanding at a solid rate, (please refer to chart 1). The UK's trade deficit narrowed from £13.4 billion in Q1 2015 to £9.1 billion in Q2 2015, the lowest deficit since Q2 2013, driven by a rise in exports. In the three months to July 2015, UK unemployment rose by 25,000 compared with the previous three months.

Chart 1: UK real GDP versus GDP per head

The UK remains in a period of very low inflation: CPI inflation rose from 0.0% in June to 0.1% in July.

However, with annual earnings growth (excluding bonuses) rising by 2.8% in the three months to June 2015, real earnings continue to rise at a solid pace, (please refer to chart 2).

Chart 2: Real earnings growth

Retail sales rose by 0.1% in July. The biggest growths in sales were in electrical goods and furniture, both of which were up almost 20% on the month.

In annual terms, retail sales increased by 4.2%, the 28th consecutive month of growth (please see chart 3).

Chart 3: Retail sales

Overall, the latest retail sales figures indicate that the pace of growth in the UK is likely to remain strong in Q3.

Public sector net borrowing recorded a surplus of £1.3 billion in July 2015, the first July surplus since 2012. The improvement was largely due to higher tax receipts, which were 4.5% higher than in the previous year.

Despite the progress in reducing the UK's fiscal deficit, public sector net debt remains more than double pre-crisis levels.

Europe

The Eurozone economy grew by 0.3% in Q2 2015. Germany, the largest economy in the Eurozone, grew by 0.4% in Q1 2015. Economic growth in Greece picked up sharply, rising by 0.8% in Q2 after recording zero growth in the previous quarter. In contrast, France's economy did not grow at all in Q2 over the same period.

US

The US grew at an annualised rate of 3.7% in Q2 2015, up from previous estimates of 2.3%, and more than six times the growth of 0.6% recorded in Q1. Consumer spending, which accounts for more than two-thirds of US GDP, was upwardly revised to 3.1% from the previous estimate. The US economy is supported by a strong jobs market and weak inflation.

China

Despite cutting interest rates and devaluing their currency to make exports more competitive, concerns over the Chinese economy persist with stock prices falling by 16% over the past month. Uncertainty over its outlook is starting to weigh on the global economy.