

Main Economic & Financial Indicators UK

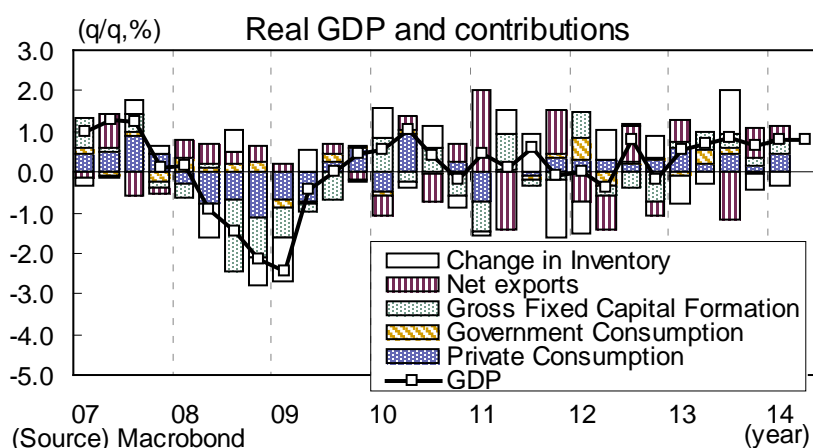
5 AUGUST 2014

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Overview

The UK economy continued its strong recovery in Q2; its real GDP grew by 0.8% q/q, surpassing the pre-crisis level. Growth in private consumption seems to have contributed positively to overall growth again, given the fact that retail sales increased by 1.6% q/q in Q2 on the back of marked improvements in consumer confidence. As the UK economy grew strongly in the first half of 2014, the IMF upgraded the UK's economic growth forecast for this year by 0.4% to 3.2% y/y, well above the expected growth in the US and Germany (+1.7% y/y and +1.9% y/y respectively). Meanwhile, the Bank of England (BoE) released its Monetary Policy Committee's (MPC's) July meeting minutes on July 23rd. The minutes revealed that the MPC believes that sustained economic momentum is looking more assured. However, the MPC also stated that there are signs that the pace of the global recovery is slowing. Furthermore, the outlook for household spending growth is a little weaker given that growth in real incomes has been slow, so any increase in consumer spending is likely to be financed by a further fall in the savings rate, which suggests that the growth pace may decelerate in the second half of this year. Mark Carney, the BoE governor, said that a rate rise is drawing closer while reiterating that the increases will be gradual and limited.

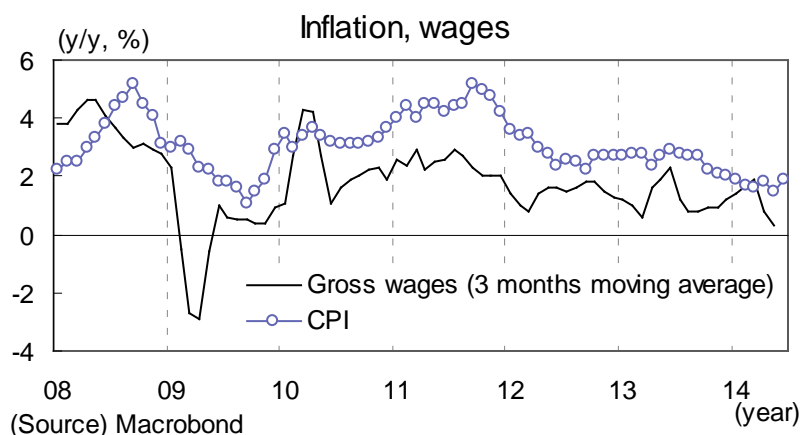


Output

Industrial production decreased by 0.7% m/m in May after three consecutive months of positive month-on-month growth. The Purchasing Managers' Index for the manufacturing sector fell by 1.8 points to 55.4, weighed down by a slower increase in new orders due to a deceleration in export order growth. The employment index in the sector fell to its lowest level since October 2013, although it remained above the 50 mark which indicates an increase.

Labour Markets, Prices

The unemployment rate (ILO measure) stood at 6.5% in May. Growth in gross wages (3-months moving average) decelerated from 0.8% y/y in April to 0.3% y/y in May. Meanwhile, the Consumer Price Index accelerated from 1.5% y/y in May to 1.9% y/y in June. This is partly owing to higher clothing prices, as retailers deferred their summer sales (which usually start in June) as a result of the higher consumer demand for summer clothing due to the good weather.



Consumption

Retail sales increased 0.1% m/m in June. Although it fell by 0.2 points in June, the Consumer Confidence Index remained at a high level. Looking ahead, the reading of July's Distributive Trades Survey by the CBI suggests that continuous good weather conditions are likely to support retail sales for the time being. That being said, there remain possibilities that consumer spending may decelerate given that wage growth continues to hover below inflation.

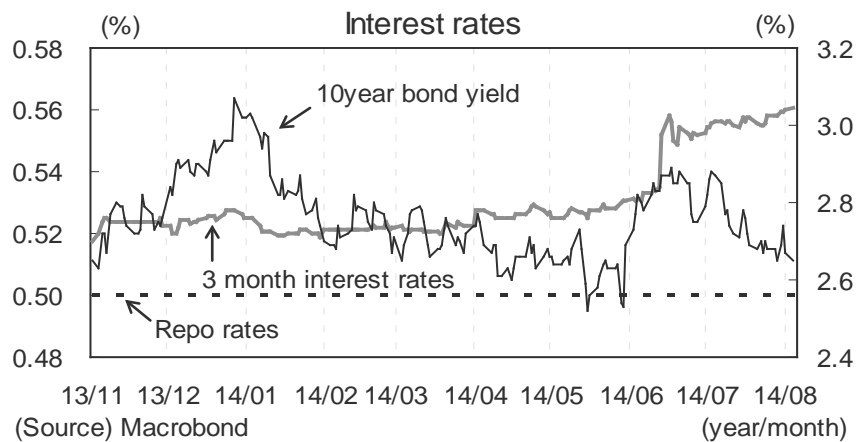
Housing Market

Mortgage approvals have been on a decreasing trend, reflecting the tighter lending criteria banks have enforced in order to comply with the new mortgage lending rules implemented at the end of April. Although the number of mortgages approved had increased in June from a month earlier, it was down by 11.8% compared to the peak in January. Meanwhile, according to the Nationwide House Price Index, growth in house prices slowed from 11.8% y/y in June to 10.6% y/y in July, decelerating for the first time since August 2013. The latest RICS Housing Market Survey, a forward-looking indicator, suggests that the supply-demand gap is narrowing as the number of houses on sale increased while the number of new buyer enquiries decreased.

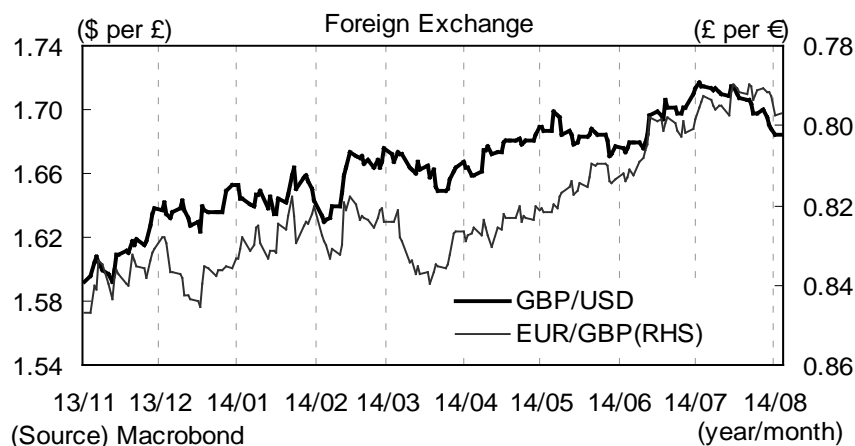
Interest Rates, Foreign Exchange Markets

Policy Rate: At its meeting in July, the BoE's MPC decided to keep its policy rate unchanged at 0.50% and the size of its QE programme at £375bn. The minutes of the meeting revealed the MPC's view that the weakness of wages in the face of strong rises in employment has become more striking, and uncertainty about the degree of slack has risen. It added that the MPC would consider this issue further in its August inflation report.

Market rate (June-): Long-term government bond yields started around 2.73% in June. The yields then rose after the BoE governor Mark Carney's comments on June 12th that the first interest rate increase could happen sooner than markets expect, reaching a six-month high of 2.89% on June 17th. Subsequently, however, the yields fell as the vulnerability of the Eurozone was rekindled by the financial troubles of the Portuguese Bank, Banco Espirito Santo. Rising geopolitical risks over the situation in Ukraine after the downing of a Malaysian Airlines jet as well as the worsening Gaza-Israel conflict also increased the demand for UK gilts, pushing the yields down to around 2.70%.



Foreign Exchange Market (June-): Sterling's value against the US dollar started around US\$1.67 in June. It then followed an appreciating trend, boosted by Mark Carney's comments on the possible timing of the BoE's interest rate increase, reaching US\$1.72 on July 3, the highest level since 2008. Subsequently, however, the pound came under selling pressure, reflecting the weak retail sales and the deceleration in house prices as well as the acceleration in the US GDP growth in Q2, finishing around US\$1.70.



1. Annual and quarterly data

	11	12	13	2013/Q2	Q3	Q4	2014/Q1	Q2	
Real GDP Growth *	1.1	0.3	1.7	0.7 1.8	0.8 1.8	0.7 2.7	0.8 3.0	0.8 3.1	
Real business investment	-1.3	3.9	-1.2	0.8 -3.6	3.0 -1.2	1.5 8.3	5.0 10.6	- -	
Industrial Production *	-1.2	-2.4	-0.4	0.6 -0.9	0.7 -0.4	0.4 2.2	0.7 2.4	- -	
	Manufacturing	1.8	-6.7	-2.1	0.5 -1.1	0.9 -0.7	0.6 1.7	1.5 3.6	- -
Confidence (% , balance)	Manufacturing	-1.8	-6.7	-2.1	-8.9	1.8	7.5	4.4	9.3
	Consumer	-21.4	-20.1	-10.1	-16.7	-3.8	-2.8	2.1	6.9
Retail Sales Volume *	0.3	1.0	1.7	0.9 1.3	1.4 2.0	0.9 3.4	0.6 3.7	1.6 4.5	
Claimant Count *	(000s)	1,534.4	1,585.5	1,421.3	1,388.2	1,270.5	1,173.3	1,079.4	-
	(% change on previous term)	2.5	3.3	-10.4	-6.8	-8.5	-7.6	-8.0	-
Unemployment rate *	(Claimant count base, %)	4.7	4.8	4.2	4.1	3.7	3.7	3.2	-
	(ILO base, %)	8.1	7.9	7.6	7.8	7.6	7.2	6.8	-
Average Earnings *	(YoY, %)	2.5	1.4	1.2	2.3	0.8	1.2	1.9	-
Producer Prices	Output Prices	4.7	2.1	1.3	0.3 1.3	0.4 1.5	-0.4 0.9	0.3 0.6	0.1 0.4
	Input Prices	14.5	2.8	2.6	-1.9 1.5	-0.2 2.5	-1.7 -0.6	-1.3 -5.0	-1.4 -4.5
Consumer Price Index	CPI	4.5	3.2	3.1	0.7 2.7	0.3 2.7	0.6 2.1	0.1 1.7	0.7 1.7
	RPI	5.2	3.2	3.0	1.0 3.1	0.5 3.2	0.6 2.6	0.6 2.6	0.8 2.5
	RPIX (excluding mortgage interest payments)	5.3	3.2	3.1	0.9 3.1	0.5 3.2	0.7 2.7	0.6 2.7	0.9 2.6
House Price (HBOS Index)		-2.5	-0.6	4.6	2.2 3.7	2.0 6.2	2.0 7.5	2.3 8.7	2.3 8.8
Visible exports	Whole World (GBP mln)	298,421	300,457	304,756	78,632	75,149	74,615	71,790	-
	(YoY, %)	12.5	0.7	1.4	6.5	-0.4	-0.1	-6.0	-
	EU (GBP mln)	158,764	151,062	153,549	38,817	38,981	36,961	35,670	-
	(YoY, %)	11.9	-4.9	1.6	4.7	4.2	-2.5	-8.0	-
Visible imports	Whole World (GBP mln)	398,513	409,157	412,646	104,066	104,797	101,381	98,273	-
	(YoY, %)	9.5	2.7	0.9	2.1	2.8	-1.3	-4.0	-
	EU (GBP mln)	201,988	208,184	218,240	53,778	55,422	54,910	51,951	-
	(YoY, %)	8.6	3.1	4.8	4.6	6.9	3.8	-4.0	-
Visible balance	Whole World (GBP mln)	-100,092	-108,700	-107,890	-25,434	-29,648	-26,766	-26,483	-
	EU (GBP mln)	-43,224	-57,122	-64,691	-14,961	-16,441	-17,949	-16,281	-
Current Account*	(GBP mln)	-22,475	-59,657	-72,761	-7,729	-23,919	-23,519	-18,495	-
Money Supply	M4 : (YoY, %)	-2.5	-1.0	0.3	1.6	2.6	0.3	-0.2	-
Public sector net cash requirement	(GBP mln)	6,861	16,609	15,896	-1,425	6,200	15,896	15,741	11,836
Foreign reserves **	(US\$ bln)	79.27	88.60	92.40	90.16	93.28	92.40	97.27	99.42
Repo rate	(%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates	(%)	0.88	0.83	0.51	0.51	0.51	0.52	0.52	0.53
10-Y UK government bond yields		3.03	1.88	2.36	1.91	2.72	2.78	2.78	2.70
USD/GBP exchange rate		0.62	0.63	0.64	0.65	0.65	0.62	0.60	0.59
GBP/Euro exchange rate		0.87	0.81	0.85	0.85	0.85	0.84	0.83	0.82
JPY/GBP exchange rates		127.75	126.46	152.58	151.60	153.28	162.62	170.13	171.85
Effective exchange rate ****		79.93	82.95	81.41	80.48	81.18	83.55	85.61	86.92

Note : The upper line is the quarterly percentage change, the lower line is the annual percentage change unless otherwise indicated

Unemployment rate =unemployed total / total labour force

Money supply, foreign reserves : End-period figures

Repo rates are end-period figures, other interest rates and exchange rates are period averages.

* seasonally adjusted, ** excluding Gold, **** 1990 = 100

Sources : Office for National Statistics etc

2. Monthly data

		2013/12	2014/01	2	3	4	5	6	7
Real GDP Growth *		No figures for a monthly basis							
Industrial Production		0.3	-0.2	0.9	0.1	0.3	-0.7	-	-
		1.7	2.3	2.5	2.5	2.9	2.3	-	-
	Manufacturing	0.5	0.3	1.1	0.5	0.3	-1.3	-	-
		1.4	3.2	4.0	3.5	4.3	3.7	-	-
Confidence (% , balance)	Manufacturing	8.8	5.9	6.0	1.3	8.0	8.0	11.9	7.4
	Consumer	-3.3	1.0	2.0	3.3	5.7	7.6	7.4	4.8
Retail Sales Volume *		3.0	-2.5	1.5	0.6	1.0	-0.5	0.1	-
		6.0	3.6	3.1	4.5	6.3	3.7	3.6	-
Claimant Count *	(000s)	1,206.5	1,171.7	1,141.8	1,113.4	1,080.6	1,044.3	-	-
	(MoM, %)	-2.6	-2.9	-2.6	-2.5	-2.9	-3.4	-	-
Unemployment rate *	(Claimant count base, %)	3.6	3.5	3.4	3.3	3.2	3.1	-	-
	(ILO base, %)	7.2	7.2	6.9	6.8	6.6	6.5	-	-
Average Earnings *	(YoY, %)	1.7	1.6	1.8	2.2	-1.5	0.4	-	-
	Headline rate (3 month average)	1.2	1.4	1.7	1.9	0.8	0.3	-	-
Producer Prices	Output Prices	0.0	0.3	0.1	0.1	0.1	-0.1	-0.2	-
		1.0	0.9	0.6	0.4	0.6	0.5	0.2	-
	Input Prices	0.3	-0.9	-0.5	-0.4	-0.9	0.3	-0.8	-
		-0.9	-2.9	-5.8	-6.3	-5.3	-3.8	-4.4	-
Consumer Price Index	CPI	0.4	-0.6	0.5	0.2	0.4	-0.1	0.2	-
		2.0	1.9	1.7	1.6	1.8	1.5	1.9	-
	RPI	0.5	-0.3	0.6	0.2	0.4	0.1	0.2	-
		2.7	2.8	2.7	2.5	2.5	2.4	2.6	-
	RPIX (excluding mortgage interest payments)	0.5	-0.4	0.7	0.3	0.4	0.1	0.2	-
		2.8	2.8	2.7	2.5	2.6	2.5	2.7	-
House Price (HBOS Index)	(MoM, %)	-0.5	1.2	2.5	-1.2	-0.3	4.0	-0.6	-
	(3M average YoY, %)	5.7	7.8	10.1	8.5	6.8	10.7	9.5	-
Visible exports	Whole World (GBP mln)	25,181	23,869	23,443	24,478	23,975	24,124	-	-
	(YoY, %)	-1.4	-5.5	-6.6	-5.8	-7.2	-6.8	-	-
	EU (GBP mln)	12,588	11,940	11,492	12,238	12,216	12,192	-	-
	(YoY, %)	1.3	-6.5	-12.1	-5.4	-3.6	-7.4	-	-
Visible imports	Whole World (GBP mln)	32,925	33,320	32,182	32,771	32,787	33,328	-	-
	(YoY, %)	-4.4	0.8	-5.6	-7.1	-4.5	-3.7	-	-
	EU (GBP mln)	17,905	17,476	17,362	17,113	17,152	17,435	-	-
	(YoY, %)	4.0	-0.3	-2.7	-8.7	-2.7	-1.9	-	-
Visible balance	Whole World (GBP mln)	-7,744	-9,451	-8,739	-8,293	-8,812	-9,204	-	-
	EU (GBP mln)	- 5,317	- 5,536	- 5,870	- 4,875	- 4,936	- 5,243	-	-
Current Account*	(GBP mln)	No figures for a monthly basis							
Money Supply	M4 : (YoY, %)	0.3	0.1	1.1	-0.2	-0.6	-0.8	-0.6	-
Public sector net cash requirement		15,896	-19,405	-138	15,741	-10,934	8,381	11,836	-
Foreign reserves **		92.40	92.60	93.83	97.27	94.99	97.20	99.42	-
Repo rate		0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates		0.52	0.52	0.52	0.52	0.53	0.53	0.54	0.56
10-Y UK government bond yields		2.92	2.86	2.74	2.72	2.67	2.63	2.82	2.75
USD/GBP exchange rate		0.61	0.61	0.60	0.60	0.60	0.59	0.59	0.59
GBP/Euro exchange rate		0.84	0.83	0.83	0.83	0.83	0.82	0.80	0.79
Yen/GBP exchange rate		169.53	171.06	169.09	170.11	171.62	171.42	172.53	173.69
Effective exchange rate ****		84.44	85.46	85.79	85.59	86.22	86.88	87.71	88.76

Note : The upper line is the monthly percentage change, the lower line is the annual percentage change unless otherwise indicated

Unemployment rate =unemployed total / total labour force

Money supply, foreign reserves : End-period figures

Repo rates are end-period figures, other interest rates and exchange rates are period averages.

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Sources : Office for National Statistics etc

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