

Main Economic & Financial Indicators UK

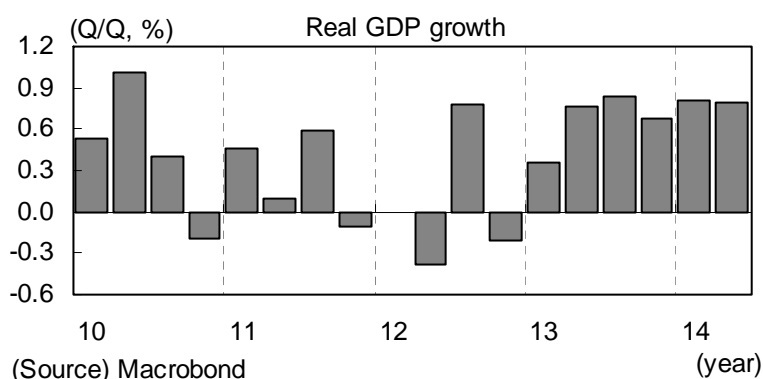
22 AUGUST 2014

AKIKO DARVELL
ASSOCIATE ECONOMIST
ECONOMIC RESEARCH OFFICE (LONDON)
T +44-(0)20-7577-1591
E akiko.darvell@uk.mufg.jp

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

Overview

The UK economy continued its strong recovery in Q2. Real GDP was up by 0.8% q/q, recording six consecutive quarterly growths. Mark Carney, the governor of the Bank of England (BoE), said at the press conference for the August inflation report on August 13th that the country's economic momentum is looking more assured. He added that the record employment growth and the increase in total hours worked as well as the record high participation rate signals that the slack in the economy is being used up at a faster than expected rate. The BoE estimates that the degree of slack is now broadly in the region of 1% of GDP, down from 1.0-1.5% of GDP estimated in the May inflation report. That being said, the economy is still facing headwinds including weak wage growth, ongoing balance sheet repair in the public and private sectors, growing geopolitical risks as well as the sluggishness in the Eurozone economy. The governor reiterated that the rate increases will be gradual and limited. Meanwhile, although the BoE's Monetary Policy Committee meeting held on August 6th and 7th kept the interest rates unchanged, two out of nine members voted to increase the interest rates by 25 basis points. According to the minutes of the meeting, these two members argued that it was possible that wages were lagging developments in the labour market to some extent, so the bank rate should be raised in advance of wage growth.



Output

Industrial production increased by 0.3% m/m in June after a decrease in May, supported by strong growth in transport equipment (+5.5% m/m). Although there are some signs of

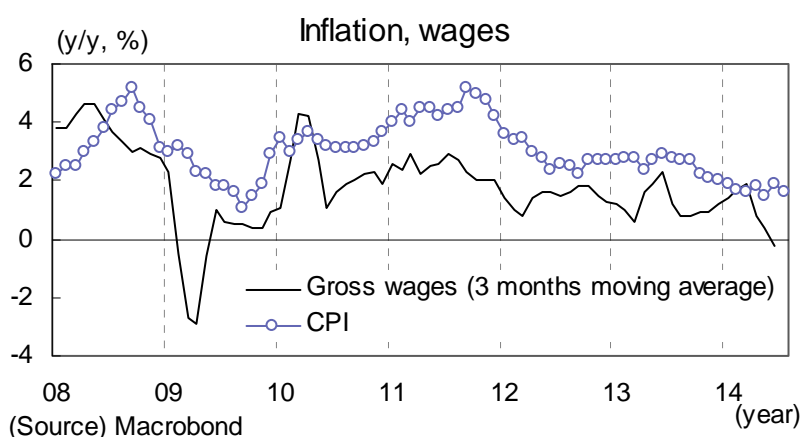
deceleration in external demand, the latest reading of the Purchasing Managers' Index (PMI) for the manufacturing sector remained above the 50 mark which indicates an expansion in the sector supported by domestic demand, suggesting that output is likely to remain resilient.

Consumption

Retail sales increased 0.1% m/m in July. Although the Consumer Confidence Index fell by 2.6 points, it remained above the long-term average. Persistently weak wage growth, a rise in inflation in June as well as the increased expectations that the BoE will start to raise interest rates have dampened consumers' outlook for household finances.

Labour Markets, Prices

The unemployment rate (ILO measure) stood at 6.4% in June. Although the growth pace has been slowing somewhat in recent months, the number of people employed in April to June amounted to 30.6 million, 167,000 more than in the January to March period. Gross wages (3-months moving average) fell by 0.2% y/y in June, recording the first y/y fall in five years. Meanwhile, the Consumer Price Index rose by 1.6% y/y, decelerating from June's 1.9% y/y. This is partly owing to the fact that the summer clothing sales deferred from June started in July at a higher discount rate than in the prior year.



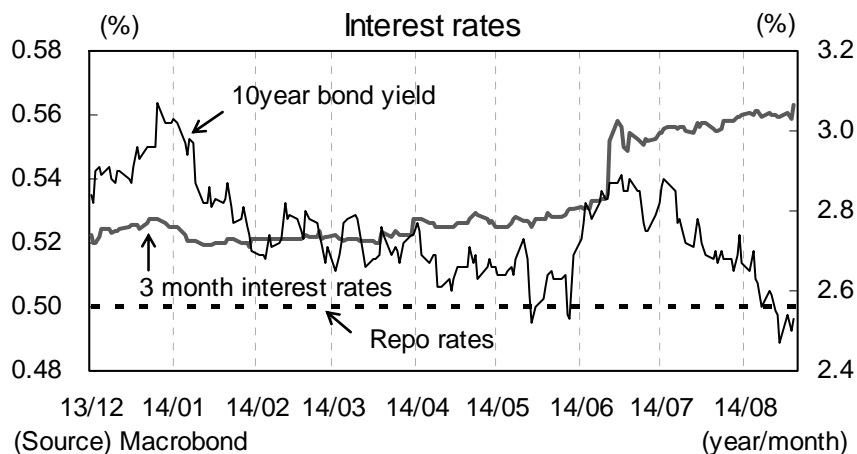
Housing Market

There are some signs emerging that the growth pace of the housing market is moderating, as the demand-supply gap seems to have narrowed somewhat in recent months. On the demand side, the number of mortgages approved decreased due to the tighter lending criteria banks enforced in order to comply with the new mortgage lending rules, while the number of housing transactions decreased. Adding to this, the number of new buyer enquiries also decreased and the House Price Index decelerated at the same time. Meanwhile, on the supply side, the volume of new private housing contracts reached close to the pre-crisis level while the PMI for the construction sector remains at a record high, suggesting that housing supply is on an increasing trend.

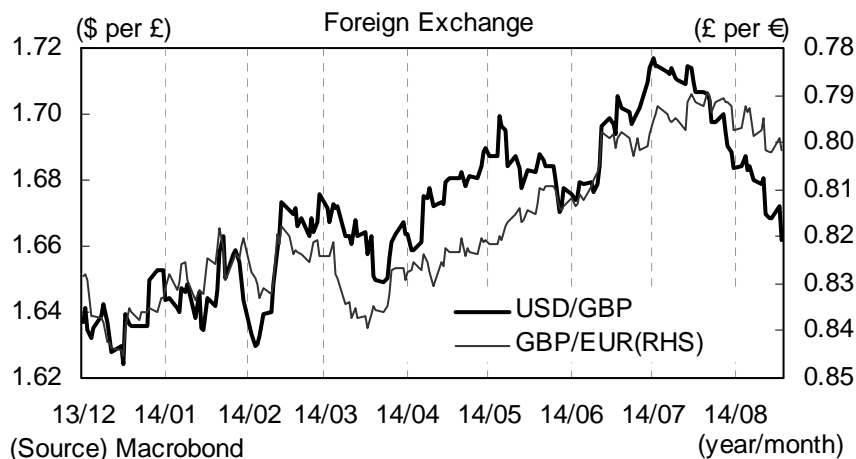
Interest Rates, Foreign Exchange Markets

Policy Rate: At its meeting in July, the BoE's Monetary Policy Committee 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 that while two members voted to increase interest rates, the remaining seven members voted to keep the rates unchanged, insisting that increases in the bank rate ahead of any pickup in wage and income growth risked increasing the vulnerability of highly indebted households.

Market Rate (July-): Long-term government bond yields started around 2.82% in July. 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. The yields continued to fall in August. The market expectations for the timing of the BoE's rate increase were pushed back, reflecting the BoE's downgrade of its wage growth forecasts, which in turn pushed the yields down to a 12-month low of 2.47% on August 15th.



Foreign Exchange Market (July-): Sterling's value against the US dollar started around US\$1.71 in July. After reaching the highest level since 2008 at the beginning of July, it followed a depreciating trend on the back of dollar-buying, reflecting the acceleration in US GDP growth in Q2 as well as the BoE's rather dovish inflation report. The fall in inflation in July also pushed Sterling down, finishing around US\$1.66.



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 3.2	
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	0.3 2.1	
	Manufacturing	1.8	-6.7	-2.1	0.5 -1.1	0.9 -0.7	0.6 1.7	1.5 3.6	0.2 3.3
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	1.0 1.4	1.3 2.0	0.9 3.4	0.6 3.7	1.4 4.2	
Claimant Count *	(000s)	1,534.4	1,585.5	1,421.3	1,489.0	1,388.2	1,270.5	1,173.3	1,078.4
	(% change on previous term)	2.5	3.3	-10.4	-3.1	-6.8	-8.5	-7.6	-8.1
Unemployment rate *	(Claimant count base, %)	4.7	4.8	4.2	4.5	4.1	3.7	3.7	3.2
	(ILO base, %)	8.1	7.9	7.6	7.8	7.6	7.2	6.8	6.4
Average Earnings *	(YoY, %)	2.5	1.4	1.2	2.3	0.8	1.2	1.9	-0.2
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	-1.5 -4.6
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	71,308
	(YoY, %)	12.5	0.7	1.4	6.5	-0.4	-0.1	-6.0	-9.3
EU (GBP mln)	158,764	151,062	153,549	38,817	38,981	36,961	35,670	36,221	
	(YoY, %)	11.9	-4.9	1.6	4.7	4.2	-2.5	-8.0	-6.7
Visible imports	Whole World (GBP mln)	398,513	409,157	412,646	104,066	104,797	101,381	98,273	98,697
	(YoY, %)	9.5	2.7	0.9	2.1	2.8	-1.3	-4.0	-5.2
	EU (GBP mln)	201,988	208,184	218,240	53,778	55,422	54,910	51,951	51,816
(YoY, %)	8.6	3.1	4.8	4.6	6.9	3.8	-4.0	-3.6	
Visible balance	Whole World (GBP mln)	-100,092	-108,700	-107,890	-25,434	-29,648	-26,766	-26,483	-27,389
	EU (GBP mln)	-43,224	-57,122	-64,691	-14,961	-16,441	-17,949	-16,281	-15,595
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	-0.6
Public sector net cash requirement	(GBP mln)	6,861	16,609	15,920	-1,425	6,201	15,920	15,752	11,927
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
GBP/USD 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	-0.6	0.3	-
	1.7	2.3	2.5	2.5	2.9	2.3	1.2	-
Manufacturing	0.5	0.3	1.1	0.5	0.3	-1.3	0.3	-
	1.4	3.2	4.0	3.5	4.3	3.7	1.9	-
Confidence (% , balance)	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	-0.7	0.2	0.1
	5.9	3.6	3.1	4.5	6.2	3.5	3.4	2.6
Claimant Count * (000s)	1,206.5	1,171.7	1,141.8	1,113.4	1,080.6	1,041.1	1,007.5	-
(MoM, %)	-2.6	-2.9	-2.6	-2.5	-2.9	-3.7	-3.2	-
Unemployment rate * (Claimant count base, %)	3.6	3.5	3.4	3.3	3.2	3.1	3.0	-
(ILO base, %)	7.2	7.2	6.9	6.8	6.6	6.5	6.4	-
	1.7	1.6	1.8	2.2	-1.5	0.5	0.4	-
Average Earnings * (YoY, %)	1.7	1.6	1.8	2.2	-1.5	0.5	0.4	-
Headline rate (3 month average)	1.2	1.4	1.7	1.9	0.8	0.4	-0.2	-
Producer Prices	0.0	0.3	0.1	0.1	0.1	-0.1	-0.1	-0.1
Output Prices	1.0	0.9	0.6	0.4	0.6	0.5	0.3	-0.1
Input Prices	0.3	-0.9	-0.5	-0.4	-0.9	0.2	-0.9	-1.6
	-0.9	-2.9	-5.8	-6.3	-5.3	-3.9	-4.5	-7.3
Consumer Price Index	0.4	-0.6	0.5	0.2	0.4	-0.1	0.2	-0.3
CPI	2.0	1.9	1.7	1.6	1.8	1.5	1.9	1.6
RPI	0.5	-0.3	0.6	0.2	0.4	0.1	0.2	-0.1
	2.7	2.8	2.7	2.5	2.5	2.4	2.6	2.5
RPIX (excluding mortgage interest payments)	0.5	-0.4	0.7	0.3	0.4	0.1	0.2	-0.1
	2.8	2.8	2.7	2.5	2.6	2.5	2.7	2.6
House Price (HBOI Index)	-0.5	1.2	2.5	-1.2	-0.3	4.0	-0.4	1.4
(MoM, %)	5.7	7.8	10.1	8.5	6.8	10.7	9.5	10.3
(3M average YoY, %)								
Visible exports	25,181	23,869	23,443	24,478	23,921	23,887	23,500	-
Whole World (GBP mln)	-1.4	-5.5	-6.6	-5.8	-7.4	-7.7	-12.7	-
(YoY, %)	12,588	11,940	11,492	12,238	12,200	12,013	12,008	-
EU (GBP mln)	1.3	-6.5	-12.1	-5.4	-3.7	-8.8	-7.5	-
(YoY, %)	32,925	33,320	32,182	32,771	32,747	33,037	32,913	-
Visible imports	-4.4	0.8	-5.6	-7.1	-4.6	-4.6	-6.3	-
Whole World (GBP mln)	17,905	17,476	17,362	17,113	17,152	17,084	17,580	-
EU (GBP mln)	4.0	-0.3	-2.7	-8.7	-2.7	-3.9	-4.4	-
(YoY, %)	-7,744	-9,451	-8,739	-8,293	-8,826	-9,150	-9,413	-
Visible balance	-5,317	-5,536	-5,870	-4,875	-4,952	-5,071	-5,572	-
Whole World (GBP mln)								
EU (GBP mln)								
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	15,920	-19,397	-134	15,752	-10,842	8,448	11,927	-9,706.0
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
GBP/USD 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
JPY/GBP exchange rates	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.

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

Sources : Office for National Statistics etc

The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU") is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). BTMU's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. BTMU's London branch is registered as a UK establishment in the UK register of companies (registered no. BR002013). BTMU is authorised and regulated by the Japanese Financial Services Agency. BTMU's London branch is authorised by the Prudential Regulation Authority (FCA/PRA no. 139189) and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of BTMU London branch's regulation by the Prudential Regulation Authority are available from us on request.

This report shall not be construed as solicitation to take any action such as purchasing/selling/investing in financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee, and do not accept any liability whatsoever for, its accuracy and we accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by copyright. No part of this report may be reproduced in any form without express statement of its source.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and The Bank of Tokyo-Mitsubishi UFJ, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.