

Main Economic & Financial Indicators UK

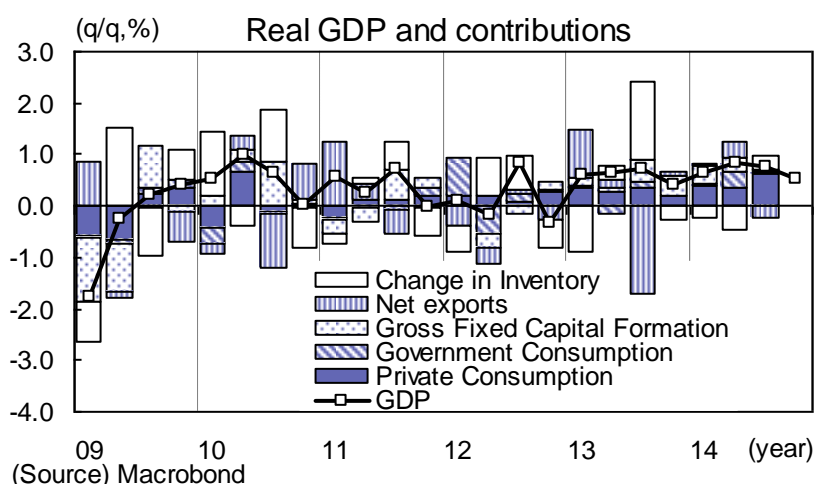
13 FEBRUARY 2015

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Overview

Although the UK economy has continued to expand, real GDP growth slowed down in the final quarter of 2014 to 0.5% q/q from 0.7% q/q in Q3. The Office of National Statistics has not yet released the breakdown of this figure from the expenditure side; however, the recent decrease in housing construction due to the cooling housing market may have been a drag on the economy. Adding to this, business investment, which made a negative contribution to overall growth in Q3 after four consecutive quarters of increases, may have been dampened again by mounting concerns over the weak economic prospects of the Eurozone as well as rising political uncertainties as May's general election nears. Meanwhile, robust growth in retail sales in Q4 suggests that consumer spending has continued to lead the UK's economic growth in Q4. Earnings growth moved into positive territory in recent months boosted by the recent lower inflation as a result of a fall in oil prices. Adding to this, net exports may have made a positive contribution to overall growth. The goods and services trade deficit decreased to £7.13bn in Q4 from £9.04bn in Q3.



Output

Industrial production decreased by 0.2% m/m in December. The mining sector continued to contract, partially owing to maintenance work at the North Sea oil fields. Meanwhile, the

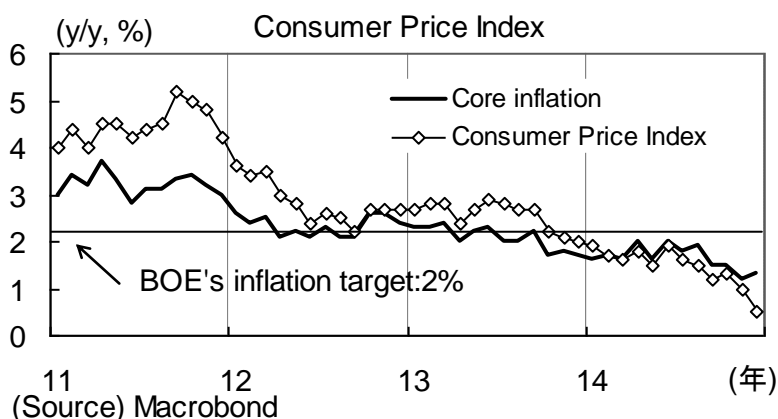
manufacturing sector grew for the second month in a row, up by 0.1% m/m. The Purchasing Managers' Index (PMI) for the manufacturing sector was almost unchanged at 53.0 in January. The growth pace in new orders also picked up, supported by robust growth in domestic orders as well as an increase in export orders, which remained above the 50 mark (which indicates expansion) for the second consecutive month.

Consumption, Labour Market

Retail sales growth remained robust, up by 0.4% m/m in December. Meanwhile, the growth pace in the number of people employed slowed down while the PMI's employment index (a forward-looking indicator for employment) for both the manufacturing and the service sectors softened in the second half of 2014. That being said, the readings for both sectors remained above the 50 mark and the latest reading (January) for the service sector jumped up to a level last seen in June of last year, suggesting that the number of employees is likely to continue to expand, albeit at a more moderate pace. The unemployment rate (ILO measure) fell to 5.8% in November after staying flat at 6.0% since August. Gross wages (3-months moving average) increased by 1.7% y/y in November, growing faster than the inflation rate for the second month in a row. Consumer confidence remained at a high level in December, supported by real income growth due to lower inflation.

Prices

The Consumer Price Index was up by only 0.5% y/y in December, mainly owing to a fall in energy prices. According to the inflation report published on February 12th by the Bank of England (BoE), inflation may fall into negative territory in the first half of 2015. That being said, the bank stated that the recent fall in inflation can mostly be explained by the sharp falls in food and energy prices so therefore the UK is not experiencing deflation. The bank's inflation forecast for 2015 was revised down to 0.5% y/y from its November forecast of 1.4% y/y.

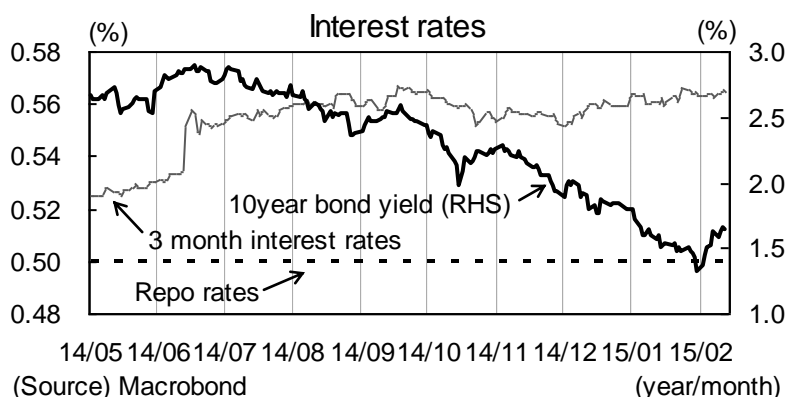


Interest Rates, Foreign Exchange Markets

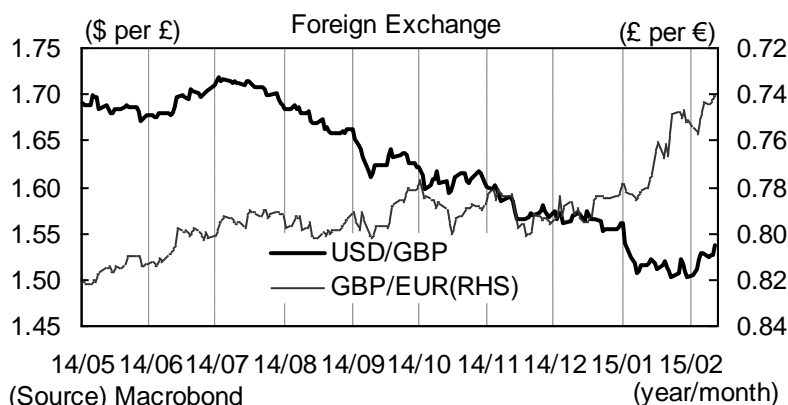
Policy Rate: At its meeting in January, the BoE's Monetary Policy Committee (MPC) decided to keep its policy rate unchanged at 0.50% and the size of its QE programme at £375bn. At the press conference on February 12th publishing the BoE's latest inflation report, Mark Carney, the BoE's governor, said that modest global growth is expected to continue, reflecting lower oil

prices and additional monetary stimulus provided by central banks. In the UK, the bank expects the economy to grow by 2.9% y/y this year and 2.9% y/y in 2016 (revised up from 2.6% y/y in the November forecasts), supported by growth in consumer spending as real income is boosted by rising wages and lower inflation. It also expects robust investment growth as access to credit continues to improve. That said, the bank added that if any downside risks such as disappointing global growth or any sign of deflation were to materialise, the MPC could take measures including a further cut in the bank rate towards zero.

Market Rate (January-): Long-term government bond yields started around 1.79%. The yields fell on the back of a weaker inflation outlook as well as mounting concerns over Greece, reaching a historical low of 1.32% on February 2nd. Subsequently, they rebounded slightly on the back of a robust increase in US employment, which strengthened expectations for earlier hikes in interest rates by the US Fed, finishing at around 1.6%.



Foreign Exchange Market (January -): Sterling’s value against the US dollar started around US\$1.56 in January. The pound fell sharply against the US dollar as the dollar rallied on expectations of a US Fed rate rise, falling to US\$1.506 on January 7th, the lowest level since July 2013. Subsequently, the pound stabilised for a while before starting to appreciate somewhat, reflecting a rise in the PMI reading for the service sector as well as an increase in December’s manufacturing output, finishing at around US\$1.53.



1. Annual and quarterly data

	12	13	14	2013/Q4	2014/Q1	Q2	Q3	Q4	
Real GDP Growth *	0.7	1.7	2.6	0.4 2.4	0.6 2.4	0.8 2.6	0.7 2.6	0.5 2.7	
Real business investment	4.2	5.3	-	2.7 7.1	0.7 6.8	3.2 10.7	-1.4 5.2	- -	
Industrial Production *	-2.7	-0.5	1.4	0.3 1.9	0.4 2.2	0.3 1.7	0.1 1.1	0.1 0.8	
	Manufacturing	-1.3	-2.0	7.1	0.6 1.3	1.2 2.7	0.6 2.9	0.4 2.8	0.2 2.4
Confidence (% balance)	Manufacturing	-6.7	-2.0	7.1	7.9	4.9	10.2	7.2	6.2
	Consumer	-20.1	-10.1	4.4	-2.8	2.1	6.9	5.0	3.6
Retail Sales Volume *	0.8	1.4	3.8	0.1 2.9	0.7 3.5	1.6 4.1	0.4 2.8	2.3 5.0	
Claimant Count *	(000s)	1,585.5	1,421.3	1,031.1	1,270.5	1,173.3	1,078.4	975.4	897.4
	(% change on previous term)	3.3	-10.4	-27.5	-8.5	-7.6	-8.1	-9.5	-8.0
Unemployment rate *	(Claimant count base, %)	4.8	4.2	3.1	3.7	3.7	3.2	2.9	2.5
	(ILO base, %)	8.0	7.6	-	7.2	6.8	6.3	6.0	-
Average Earnings *	(YoY, %)	1.4	1.2	-	1.1	1.9	-0.1	1.0	-
Producer Prices	Output Prices	2.1	1.3	0.0	-0.4 0.9	0.3 0.6	0.1 0.4	-0.3 -0.3	-0.7 -0.6
	Input Prices	1.3	2.6	1.5	-1.7 -0.6	-1.3 -5.0	-1.5 -4.6	-3.2 -7.5	-3.3 -9.0
Consumer Price Index	CPI	2.8	3.1	2.4	0.6 2.1	0.1 1.7	0.7 1.7	0.0 1.5	0.1 0.9
	RPI	3.2	3.0	2.4	0.6 2.6	0.6 2.6	0.8 2.5	0.4 2.4	0.2 1.9
	RPIX (excluding mortgage interest payments)	3.2	3.1	2.4	0.7 2.7	0.6 2.7	0.9 2.6	0.4 2.5	0.2 2.0
House Price (HBOS Index)		-0.6	4.6	8.8	2.1 5.7	2.2 8.5	2.3 9.5	2.7 9.4	0.3 8.4
Visible exports	Whole World (GBP mln)	305,142	306,765	292,159	74,744	73,646	72,897	71,825	73,791
	(YoY, %)	-1.3	0.5	-4.8	-1.2	-2.9	-8.4	-6.2	-1.3
	EU (GBP mln)	153,181	154,579	147,989	37,085	36,958	37,651	36,538	36,842
	(YoY, %)	-7.3	0.9	-4.3	-2.6	-4.1	--2.6	-9.3	-0.7
Visible imports	Whole World (GBP mln)	414,114	419,364	412,080	103,616	102,721	102,718	103,426	103,215
	(YoY, %)	2.1	1.3	-1.7	0.7	-0.2	-2.7	-3.6	-0.4
	EU (GBP mln)	209,644	223,712	224,272	57,199	56,098	56,024	55,986	56,164
	(YoY, %)	1.9	6.7	0.3	8.6	2.7	1.9	-1.7	-1.8
Visible balance	Whole World (GBP mln)	-108,972	-112,599	-119,921	-28,872	-29,075	-29,821	-31,601	-29,424
	EU (GBP mln)	-56,463	-69,133	-76,283	-20,114	-19,140	-18,373	-19,448	-19,322
Current Account*	(GBP mln)	-61,925	-76,655	-	-24,548	-22,499	-24,303	-27,008	-
Money Supply	M4 : (YoY, %)	-1.0	0.2	-1.1	0.2	-0.3	-0.7	-2.5	-1.1
Public sector net cash requirement	(GBP mln)	17,677	16,284	21,408	16,284	15,963	14,980	17,435	21,408
Foreign reserves **	(US\$ bln)	88.60	92.40	95.70	92.40	97.27	99.42	94.38	95.70
Repo rate	(%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates	(%)	0.83	0.51	0.54	0.52	0.52	0.53	0.56	0.56
10-Y UK government bond yields		1.88	2.36	2.53	2.78	2.78	2.70	2.59	2.07
USD/GBP exchange rate		1.585	1.565	1.648	1.619	1.655	1.683	1.670	1.583
GBP/Euro exchange rate		0.811	0.849	0.806	0.841	0.828	0.815	0.794	0.789
JPY/GBP exchange rates		126.46	152.58	174.33	162.62	170.13	171.85	173.54	181.25
Effective exchange rate ****		82.95	81.41	86.99	83.55	85.61	86.92	88.03	87.35

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

	2014/06	7	8	9	10	11	12	2015/01
Real GDP Growth *	No figures for a monthly basis							
	0.1	0.2	-0.3	0.7	-0.2	0.0	-0.2	-
Industrial Production	0.8	1.2	1.3	0.7	0.8	1.1	0.5	-
* Manufacturing	0.7	0.2	0.0	0.6	-0.7	0.8	0.1	-
	2.0	2.6	3.2	2.4	1.9	3.0	2.4	-
Confidence (% , balance)	12.3	7.4	9.2	4.9	5.4	6.3	6.8	6.1
Manufacturing	7.4	4.8	6.6	3.5	5.2	2.6	3.1	3.0
Consumer								
Retail Sales Volume *	0.2	0.0	0.4	-0.3	1.1	1.6	0.4	-
	3.3	2.5	3.7	2.3	4.5	6.4	4.3	-
Claimant Count * (000s)	1,041.1	1,003.7	970.5	952.1	927.0	897.4	867.7	-
(MoM, %)	-3.7	-3.6	-3.3	-1.9	-2.6	-3.2	-3.3	-
Unemployment rate * (Claimant count base, %)	3.1	3.0	2.9	2.8	2.8	2.7	2.6	-
(ILO base, %)	6.3	6.2	6.0	6.0	6.0	5.8	-	-
Average Earnings * (YoY, %)	0.6	0.7	0.9	1.5	2.0	1.8	-	-
Headline rate (3 month average)	-0.1	0.6	0.7	1.0	1.4	-	-	-
Producer Prices								
Output Prices	-0.1	-0.1	-0.1	-0.2	-0.4	-0.2	-0.3	-
	0.3	-0.1	-0.3	-0.5	-0.6	-0.6	-0.8	-
Input Prices	-1.0	-1.7	-1.0	-0.8	-1.2	-0.7	-2.4	-
	-4.6	-7.5	-7.5	-7.4	-8.1	-8.2	-10.7	-
Consumer Price Index								
CPI	0.2	-0.3	0.4	0.0	0.1	-0.3	0.0	-
	1.9	1.6	1.5	1.2	1.3	1.0	0.5	-
RPI	0.2	-0.1	0.4	0.2	0.0	-0.2	0.2	-
	2.6	2.5	2.4	2.3	2.3	2.0	1.6	-
RPIX (excluding mortgage interest payments)	0.2	-0.1	0.4	0.2	0.0	-0.2	0.2	-
	2.7	2.6	2.5	2.3	2.4	2.0	1.7	-
House Price (HBO5 Index)								
(MoM, %)	-0.4	1.2	0.0	0.4	-0.4	0.5	1.1	2.0
(3M average YoY, %)	8.8	10.2	9.7	9.6	8.8	8.1	7.8	8.5
Visible exports								
Whole World (GBP mln)	23,888	24,200	23,280	24,345	24,561	24,599	24,631	-
(YoY, %)	-15.8	-6.4	-8.6	-3.6	-0.8	-0.2	-2.8	-
EU (GBP mln)	12,374	12,309	12,071	12,158	12,305	12,225	12,312	-
(YoY, %)	-5.3	-12.7	-9.6	-5.4	1.9	0.6	-4.2	-
Visible imports								
Whole World (GBP mln)	34,049	35,267	33,377	34,782	34,548	33,882	34,785	-
(YoY, %)	-3.9	-1.9	-6.2	-2.6	-1.3	-2.9	3.1	-
EU (GBP mln)	18,799	18,888	18,447	18,651	18,764	18,730	18,670	-
(YoY, %)	0.5	0.2	-1.6	-3.7	-2.2	-2.9	-0.2	-
Visible balance								
Whole World (GBP mln)	-10,161	-11,067	-10,097	-10,437	-9,987	-9,283	-10,154	-
EU (GBP mln)	-6,425	-6,579	-6,376	-6,493	-6,459	-6,505	-6,358	-
Current Account* (GBP mln)	No figures for a monthly basis							
Money Supply M4 : (YoY, %)	-0.7	-1.0	-1.4	-2.5	-2.6	-2.7	-1.1	-
Public sector net cash requirement	14,980	-6,742	2,327	17,435	-2,719	7,096	21,408	-
Foreign reserves **	99.42	98.78	97.93	94.38	95.68	97.90	95.70	-
Repo rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates	0.54	0.56	0.56	0.56	0.56	0.56	0.56	0.56
10-Y UK government bond yields	2.82	2.75	2.54	2.49	2.22	2.13	1.87	1.55
USD/GBP exchange rate	1.691	1.707	1.670	1.630	1.607	1.578	1.563	1.516
GBP/Euro exchange rate	0.804	0.793	0.797	0.791	0.789	0.791	0.788	0.767
JPY/GBP exchange rates	172.53	173.69	171.93	174.89	173.59	183.53	186.75	179.37
Effective exchange rate ****	87.71	88.76	87.77	87.52	87.37	87.04	87.58	87.79

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

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