

# Main Economic & Financial Indicators UK

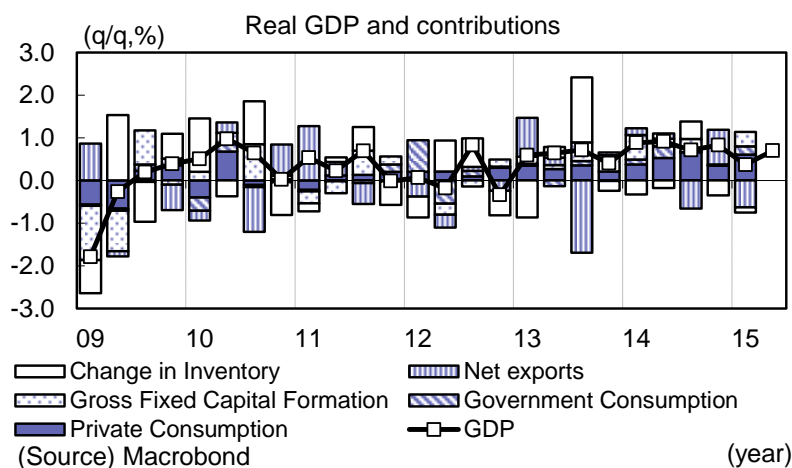
6 AUGUST 2015

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## Overview

The UK economy remains resilient with real GDP growth accelerating 0.7% q/q in Q2 2015 from 0.4% q/q the previous quarter. Examination of the breakdown by industry reveals that the service sector led overall growth with 0.7% q/q growth, picking up pace from the 0.4% q/q growth in Q1. Although a GDP breakdown from the expenditure side has not yet been released, a robust growth in retail sales in Q2 (up by 0.7% q/q) suggests that private consumption continued to boost overall growth. Looking ahead, it is thought that the UK economy will continue its resilient growth with private consumption taking a leading role due to an increase in real wages attributed to low inflation and growth of nominal wages. Regarding the housing market, the growth pace of house prices has been decelerating since the latter half of 2014. That being said, the recent leading indicators show that the number of new enquiries is increasing while the number of new sales is decreasing. This suggests tightening of supply and demand; hence the growth of house prices may start to accelerate in coming months.



## Output

In June, industrial production decreased by 0.4% m/m after four consecutive months of month-on-month increase. The Purchasing Managers' Index (PMI) for the manufacturing sector was 51.9 in July. Although PMI edged up from 51.4 the previous month, which was the lowest level since the start of the year, output growth is likely to be weak, despite domestic orders

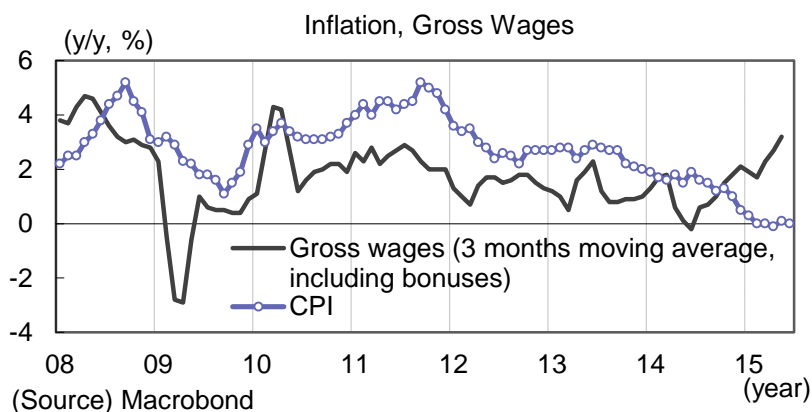
remaining firm. This is because the pace of increase in new orders slowed due to a decrease in export orders, reflecting a strong pound against the euro.

## Consumption, Labour Market

After robust growth in April and May (0.7% m/m and 0.3% m/m), retail sales were down 0.2% m/m in June. Looking at employment and wage, June's nominal wage growth (3-month moving average including bonuses) picked up pace from 2.7% y/y in May to 3.2% y/y. Meanwhile, the number of people in employment during March and May decreased 67,000 from December to February period, to 30.98 million. Additionally, the unemployment rate rose from 5.5% in April to 5.6% in May. The unemployment rate has remained almost unchanged since the start of this year. On 6th August, the Bank of England (BOE)'s inflation report stated that, since the labour demand remains strong, skill mismatch may be the one of the reasons behind the recent fall in employment.

## Prices

June's inflation rate was 0.0% y/y, slipping back from 0.1% y/y in May. The main reason for this is the steeper fall in food, energy and transport prices. The BOE revised its inflation forecast downwards for the final quarter of this year from its May forecast of 0.6% y/y to 0.3% y/y. It explained that downward pressure on inflation from the reduction in oil prices and appreciation of the pound over the past few months has meant that the increase in inflation over the following year will be more gradual than they had expected, despite the diminishing degree of slack in the economy and the pick-up in wage growth signalling the possibility of a rise in domestic costs. Nevertheless, the BOE maintained its view that the inflation rate will reach their target of 2% by the end of 2017.

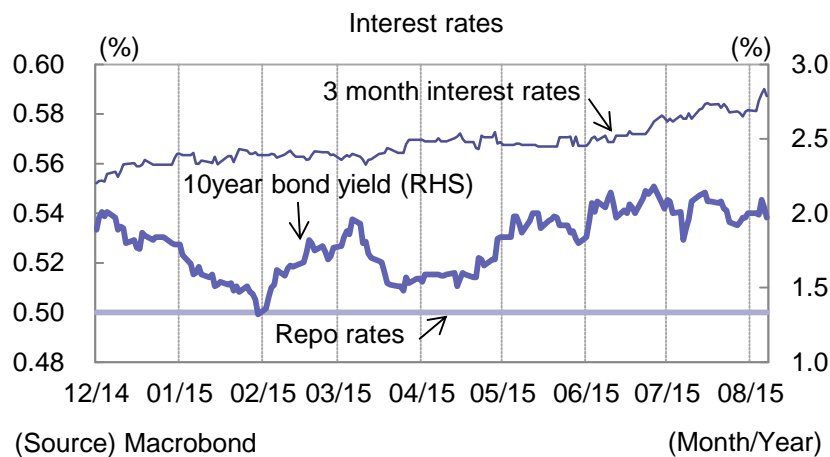


## Interest Rates, Foreign Exchange Markets

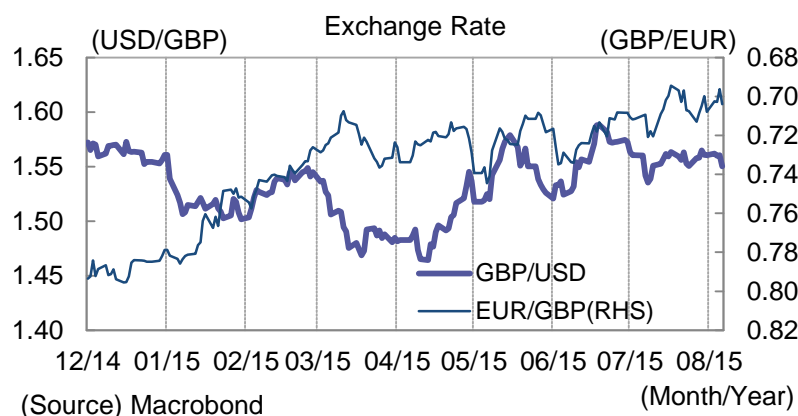
**Policy Rate:** At its meeting in August, the Monetary Policy Committee (MPC) of the BOE decided to keep its policy rate unchanged at 0.50% and the size of its QE programme at £375bn. Eight of the nine committee members voted to maintain the current interest rate, but Ian McCafferty, one of the more hawkish members of the MPC, supported an interest rate rise of 0.25%. According to the MPC meeting minutes, McCafferty argued that risks to the inflation

forecast were “sufficiently to the upside to justify an immediate increase in Bank Rate”. He reasoned that postponing the start of the rate rise would escalate the risk of having to increase it more sharply later on. It was the first time the split in voting was seen since December 2014 when two members, including McCafferty, voted in favour of a 25 basis points increase in bank rate.

**Market Rate (July-):** The long-term interest rate (10 year government yield) started at 2.09% in July. The yield plunged when Greece rejected the EU’s structural reform plans as a result of their referendum on the 5th and on the 7th the yield had fallen to 1.82%. In mid-July, yields surpassed the 2.0% barrier due to a suggestion from Mark Carney, the governor of the Bank of England, that the rate hike was drawing near; however, the rate fell to 1.9% as a result of strengthened perception that the BOE’s rate hike was still far off due to a fall in oil prices. At the start of August, yields rose ahead of the BOE’s policy decision on the 6th, hitting 2.09% on the 5th. Subsequently, yields fell again to 1.9% reflecting the BOE’s downward revision of their inflation forecast.



**Foreign Exchange Market (July-):** At the start of July, the pound’s value against the dollar was US\$ 1.56. The pound fell after the Greek referendum and by the 9th it had fallen to US\$ 1.53. A decrease in US retail sales in mid-July strengthened the pound to US\$ 1.56 and whilst there was a temporary dip due to a decrease in the UK’s inflation expectations, the pound stabilised at around US\$ 1.56 during the end of July and the start of August. That being said, the pound fell to US\$ 1.54 on the 6th August due to the downward revision of the BOE’s inflation forecast.



## 1. Annual and quarterly data

	12	13	14	2014/Q2	Q3	Q4	2015/Q1	Q2	
Real GDP Growth *	0.7	1.7	3.0	0.9 3.0	0.7 3.0	0.8 3.4	0.4 2.9	0.7 2.6	
Real business investment	4.2	5.3	8.0	3.6 11.9	-0.2 7.6	0.3 5.1	2.0 5.7	- -	
Industrial Production *	-2.7	-0.5	1.7	0.3 1.9	0.2 1.3	0.4 1.3	0.2 1.0	0.7 1.5	
Manufacturing	-1.3	-2.0	7.1	0.5 3.2	0.4 3.1	0.4 2.9	0.1 1.4	-0.3 0.6	
Confidence (%, balance)									
Manufacturing	-6.7	-2.0	7.1	10.2	7.2	6.2	5.3	0.9	
Consumer	-20.1	-10.1	4.4	6.9	5.0	3.6	4.2	4.4	
Retail Sales Volume *	0.8	1.5	4.0	1.8 4.4	0.4 3.1	2.3 5.3	0.8 5.5	0.7 4.3	
Claimant Count *	(000s)	1,585.6	1,421.9	1,037.6	1,080.6	980.3	908.2	824.3	799.9
(% change on previous term)		3.3	-10.3	-27.0	-8.5	-9.3	-7.4	-9.2	-3.0
Unemployment rate *	(Claimant count base, %)	4.7	4.3	3.0	3.0	2.8	2.6	2.3	2.3
(ILO base, %)		8.0	7.6	6.2	6.3	6.0	5.7	5.5	-
Average Earnings *	(YoY, %)	1.4	1.2	1.2	-0.2	1.0	2.1	2.3	-
Producer Prices									
Output Prices		2.1	1.3	0.0	0.1 0.4	-0.3 -0.3	-0.9 -0.8	-0.7 -1.8	0.3 -1.6
Input Prices		1.3	2.6	1.5	-1.5 -4.6	-3.2 -7.5	-3.7 -9.3	-5.9 -13.5	0.3 -12.0
Consumer Price Index									
CPI		2.8	3.1	2.4	0.7 1.7	0.0 1.5	0.1 0.9	-0.7 0.1	0.6 0.0
RPI		3.2	3.0	2.4	0.8 2.5	0.4 2.4	0.2 1.9	-0.4 1.0	0.8 1.0
RPIX (excluding mortgage interest payments)		3.2	3.1	2.4	0.9 2.6	0.4 2.5	0.2 2.0	-0.4 1.0	0.8 1.0
House Price (HBOS Index)		-0.6	4.6	8.8	2.1 9.5	2.9 9.4	0.3 8.4	2.7 7.7	3.3 9.4
Visible exports									
Whole World (GBP mln)		305,142	306,765	292,204	73,151	71,324	73,733	71,490	-
(YoY, %)		-1.3	0.5	-4.7	-8.0	-6.9	-1.4	-3.4	-
EU (GBP mln)		153,181	154,579	147,293	37,878	35,946	36,137	33,563	-
(YoY, %)		-7.3	0.9	-4.7	-2.0	-10.8	-2.6	-10.1	-
Visible imports									
Whole World (GBP mln)		414,114	419,364	413,419	103,274	103,738	103,825	101,909	-
(YoY, %)		2.1	1.3	-1.4	-2.2	-3.3	0.2	-0.7	-
EU (GBP mln)		209,644	223,712	225,852	56,530	56,320	56,887	55,346	-
(YoY, %)		1.9	6.7	1.0	2.9	-1.1	-0.5	-1.4	-
Visible balance									
Whole World (GBP mln)		-108,972	-112,599	-121,215	-30,123	-32,414	-30,092	-30,419	-
EU (GBP mln)		-56,463	-69,133	-78,559	-18,652	-20,374	-20,750	-21,783	-
Current Account*	(GBP mln)	-61,925	-76,655	-105,651	-24,608	-31,806	-28,930	-26,548	-
Money Supply	M4 : (YoY, %)	-0.9	0.2	-1.2	-0.5	-2.6	-1.2	-0.7	-0.3
Public sector net cash requirement	(GBP mln)	17,754	16,282	23,013	14,490	19,143	23,013	20,881	13,914
Foreign reserves **	(US\$ bln)	88.60	92.40	95.70	99.42	94.38	95.70	105.78	110.67
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	0.53	0.56	0.56	0.56	0.57
10-Y UK government bond yields		1.88	2.36	2.53	2.70	2.59	2.07	1.63	1.87
USD/GBP exchange rate		1.585	1.565	1.648	1.683	1.670	1.583	1.515	1.532
GBP/Euro exchange rate		0.811	0.849	0.806	0.815	0.794	0.789	0.744	0.722
JPY/GBP exchange rates		126.46	152.58	174.33	171.85	173.54	181.25	180.44	185.95
Effective exchange rate ****		83.00	81.43	86.99	86.93	88.06	87.33	89.41	91.20

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

	2014/12	2015/01	2	3	4	5	6	7
Real GDP Growth *	No figures for a monthly basis							
	-0.1	-0.1	0.2	0.6	0.2	0.3	-0.4	-
Industrial Production *	1.2	1.5	0.4	1.1	1.0	1.9	1.5	-
Manufacturing	0.2	-0.8	0.4	0.4	-0.4	-0.6	0.2	-
	3.0	1.8	1.2	1.2	0.2	1.0	0.5	-
Confidence (% , balance)	6.8	6.1	8.4	1.3	1.4	2.1	-0.8	0.7
Manufacturing	3.1	3.0	3.9	5.6	6.9	1.1	5.1	3.0
Consumer								
Retail Sales Volume *	0.0	0.2	0.7	-0.7	0.7	0.3	-0.2	-
	4.2	6.3	5.8	4.5	4.4	4.7	4.0	-
Claimant Count * (000s)	881.3	845.6	821.2	806.1	798.3	797.1	804.2	-
(M/M, %)	-3.0	-4.1	-2.9	-1.8	-1.0	-0.2	0.9	-
Unemployment rate * (Claimant count base, %)	2.6	2.5	2.4	2.3	2.3	2.3	2.3	-
(ILO base, %)	5.7	5.7	5.6	5.5	5.5	5.6	-	-
Average Earnings * (Y/Y, %)	2.4	1.4	1.1	4.4	2.7	2.6	-	-
Headline rate (3 month average)	2.1	1.9	1.7	2.3	2.7	3.2	-	-
Producer Prices								
Output Prices	-0.5	-0.5	0.2	0.1	0.1	0.1	0.0	-
Input Prices	-1.1	-1.8	-1.7	-1.7	-1.7	-1.6	-1.5	-
	-3.3	-3.6	0.2	0.1	1.3	-1.1	-1.3	-
	-11.6	-14.1	-13.5	-13.1	-11.1	-12.3	-12.6	-
Consumer Price Index								
CPI	0.0	-0.9	0.3	0.2	0.2	0.2	0.0	-
RPI	0.2	-0.8	0.5	0.2	0.4	0.2	0.2	-
RPIX (excluding mortgage interest payments)	1.6	1.1	1.0	0.9	0.9	1.0	1.0	-
	0.2	-0.9	0.5	0.2	0.4	0.2	0.2	-
	1.7	1.2	1.0	0.9	0.9	1.1	1.1	-
House Price (HBOS Index)								
(M/M, %)	1.1	1.9	-0.4	0.6	1.6	0.3	1.6	-0.6
(3M average Y/Y, %)	7.8	8.5	8.3	8.1	8.5	8.6	9.6	7.9
Visible exports								
Whole World (GBP mln)	24,857	24,313	23,348	23,829	24,633	24,619	-	-
(Y/Y, %)	-1.9	1.2	-3.5	-7.5	-0.2	0.1	-	-
EU (GBP mln)	11,975	11,399	11,163	11,001	11,197	11,162	-	-
(Y/Y, %)	-6.8	-5.7	-8.6	-15.6	-12.7	-11.9	-	-
Visible imports								
Whole World (GBP mln)	35,165	33,306	34,069	34,534	34,020	32,619	-	-
(Y/Y, %)	4.3	-4.7	0.6	2.3	-0.9	-6.4	-	-
EU (GBP mln)	19,149	18,366	18,703	18,277	18,185	17,592	-	-
(Y/Y, %)	2.4	-2.7	-1.6	0.2	-2.7	-7.1	-	-
Visible balance								
Whole World (GBP mln)	-10,308	-8,993	-10,721	-10,705	-9,387	-8,000	-	-
EU (GBP mln)	- 7,174	- 6,967	- 7,540	- 7,276	- 6,988	- 6,430	-	-
Current Account* (GBP mln)	No figures for a monthly basis							
Money Supply M4 : (Y/Y, %)	-1.2	-2.0	-3.1	-0.7	0.0	0.5	-0.3	-
Public sector net cash requirement	23,013	-17,838	1,318	20,881	-5,814	11,919	13,914	-
Foreign reserves **	95.70	98.70	102.93	105.78	108.61	110.30	-	-
Repo rate	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates	0.56	0.56	0.56	0.56	0.57	0.57	0.57	0.58
10-Y UK government bond yields	1.87	1.55	1.65	1.68	1.62	1.92	2.05	2.02
USD/GBP exchange rate	1.563	1.516	1.533	1.496	1.495	1.546	1.557	1.556
GBP/Euro exchange rate	0.788	0.767	0.741	0.723	0.723	0.722	0.721	0.707
JPY/GBP exchange rates	186.75	179.37	182.07	180.06	178.81	186.67	192.68	191.87
Effective exchange rate ****	87.54	87.79	90.10	90.41	90.10	91.36	92.13	93.33

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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