

Main Economic & Financial Indicators UK

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1. Overview

There is an increasing risk of deceleration for the UK economy. Just over one month has passed since the UK voted to leave the EU at a referendum on 23rd June, and a sharp drop in the latest consumer and business sentiment indicates the economy is likely to slow from the latter half of the year.

Against this backdrop, the Bank of England's (BoE) Monetary Policy Committee announced its decision to cut its policy rate by 25 basis points (bps) and introduce a £170 billion stimulus package on 4th August. The key points of the decisions were a reduction of the policy rate from 0.5% to 0.25%, the introduction of a new Term Funding Scheme (TFS) of £100 billion for financial institutions, an expansion of the asset purchase scheme for UK government bonds (an increase of £60 billion from £375 billion to £435 billion) and the purchase of £10 billion of UK corporate bonds. There was a unanimous decision to cut the policy rate, which has not been reduced since March 2009. Furthermore, the TFS is intended to transmit the effect of the interest rate cut to the real economy. There is a risk that further policy rate cuts in a climate of already-low interest rates will tighten financial institutions' margins and lead to a reluctance to lend to businesses and consumers. According to the BoE, the funding cost for banks is at least 100bps, but under the new TFS, banks will be able to borrow from the BoE at policy rate or close to it. This aims to minimise the tightening of financial institutions' margins and to promote a cut in loan rates and an increase in lending to businesses and households.

In addition, the BOE's statement noted that if the worsening of economic indicators published in the coming months is confirmed, it is possible that the BoE will cut its policy rate further. However, at the press conference after the meeting, the governor of the BoE, Mark Carney, said that policy rates would remain "close to, but a little above, zero" and denied the introduction of negative interest rates saying that there were other monetary easing measures available.

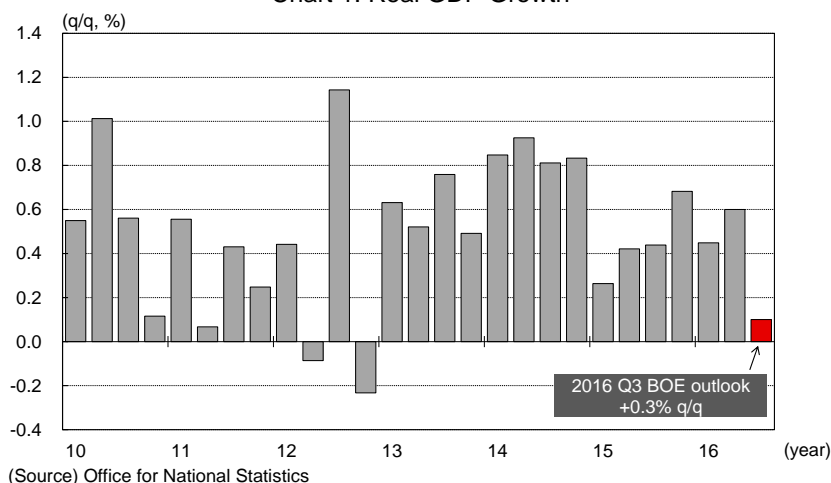
Financial markets largely welcomed the BoE's latest quantitative easing measures, but there are many saying that the effect of an economic boost from monetary policy alone is limited and that fiscal action by the government is necessary. Therefore, the autumn statement (normally announced around the end of November to the start of December) by Philip Hammond, the new Chancellor of the Exchequer, will be monitored closely.

2. GDP

The UK's real GDP growth rate was 0.6% q/q in Q2 (preliminary figure), accelerating from 0.4% q/q the previous quarter (Chart 1). A breakdown by industry reveals that the growth of the service sector decelerated for the second consecutive quarter, but showed steady growth of 0.5% q/q. While the industrial sector displayed strong growth of 2.1% q/q, the construction sector was down by 0.4% q/q – contracting for the second consecutive quarter. There were concerns that an increase of uncertainty ahead of the referendum would drag down GDP growth, but it was underpinned by robust service and manufacturing sectors.

That being said, it is likely that the economy will slow from the latter half of the year. Since the referendum, consumer sentiment has significantly worsened due to uncertainty surrounding the future. In the housing market, a sharp decline in the number of new enquiries indicates a risk of a slowdown in the rise in house prices, putting downward pressure on consumer sentiment. In addition, the Purchasing Manager's Index (PMI) for the service and manufacturing sectors both dropped below 50 in July, which is the boundary between expansion and contraction in business activities. There was already a sign that business investment is being withheld before the referendum and there are concerns that this trend will accelerate in the coming months. According to the latest inflation report from the BoE, the GDP growth rate is forecast to decelerate to 0.1% q/q in Q3 and while the UK will not fall into recession, growth will stagnate thereafter. From 2017, the BoE expects the economy will slowly head towards recovery due to the effects of quantitative easing, but both GDP growth rate forecasts for 2017 and 2018 were lowered since the previous forecast in May. The 2017 GDP growth rate forecast was revised down from 2.3% q/q to 0.8% q/q, and the forecast for 2018 was reduced from 2.3% q/q to 1.8% q/q.

Chart 1: Real GDP Growth



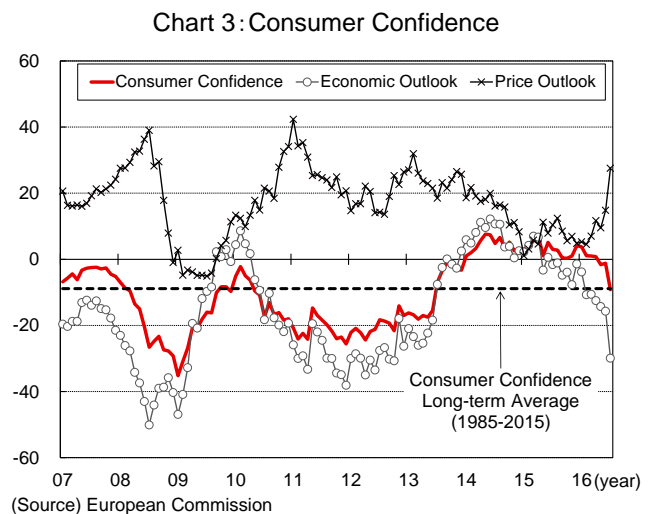
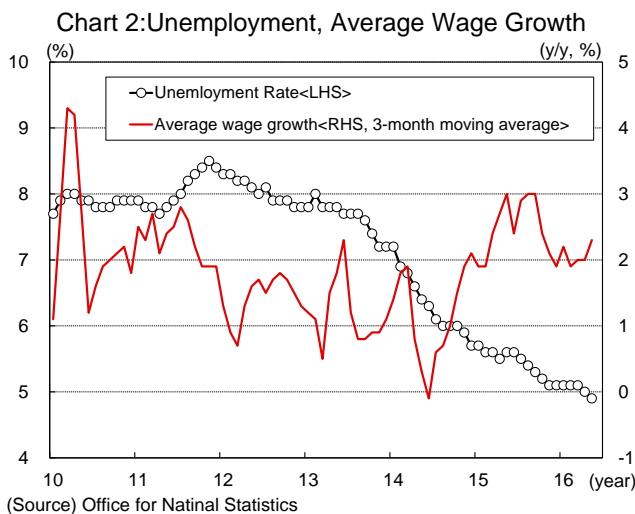
3. Output

The PMI for the manufacturing sector was 48.2 in July, a considerable fall from 52.4 in the previous month. This is the first time it has dropped below 50 – which indicates a contraction of business activities – since 2013. The breakdown of this figure reveals that export orders increased slightly, underpinned by the depreciated pound, but new orders contracted as a whole for the first time since 2013 due to a fall in domestic orders.

4. Employment, consumption and consumer confidence

The number of employees in the period from March to May increased to a record high of 31.7 million. The unemployment rate was 4.9% in May, falling below 5% for the first time since 2005 (Chart 2). However, according to a survey in June by the Recruitment and Employment Confederation, the number of new full-time employees fell for the first time since September 2012, indicating that businesses' intentions to hire new workers were affected even before the referendum. Furthermore, the PMI's employment index revealed a decrease of employment across all sectors: manufacturing, services and construction. The BoE's most recent estimate is that the unemployment rate will rise from the current level of 4.9% to 5.6% by 2018.

June's retail sales fell by 0.9% compared with the previous month. It appears that the reason for this fall is an adjustment from the strong growth of sales in April and May (+1.8% m/m and +0.9% m/m respectively) and fewer sales of summer clothing due to unseasonable weather. Consumption is forecast to be sluggish in coming months. The consumer confidence index was -9.2 in July, falling sharply from -1.2 the previous month (Chart 3). This was the sharpest month-on-month drop since 1991 and is slightly below the long-term average. The breakdown of this figure reveals that the consumer's economic outlook has significantly worsened, and expectations of inflation have risen sharply due to a sharp depreciation of the pound. Looking ahead, household's purchasing power is forecast to decrease due to a rise in prices of imported goods caused by pound depreciation, and there are concerns that this will further worsen consumer sentiment.



5. Prices

The Consumer Price Index was up by 0.5% y/y in June, accelerating from 0.3% y/y the previous month (Chart 4). After the referendum, the pound was down 10% against the dollar and it fell by 9% against the euro (Chart 5) and a rise in import goods prices is forecast to push up the inflation rate in the coming months. The BoE revised its inflation forecast upwards in its August inflation report. It foresees that inflation will rise to 1.5% y/y by the end of 2016 and will exceed the BoE's target of 2.0% in the latter half of 2017 and will reach 2.4% in the second half of 2018.

Chart 4: Consumer Price Index

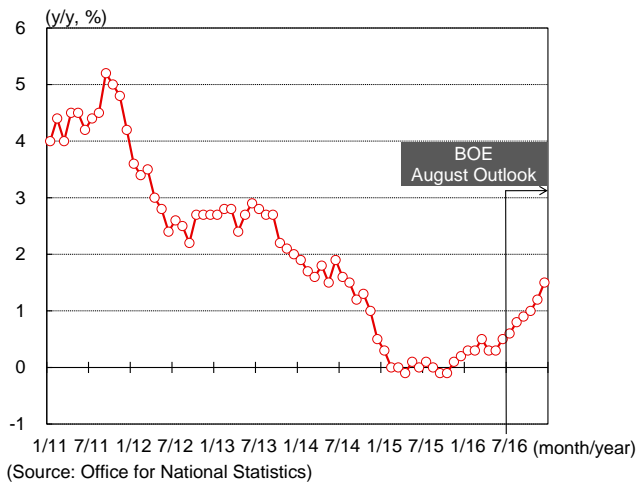
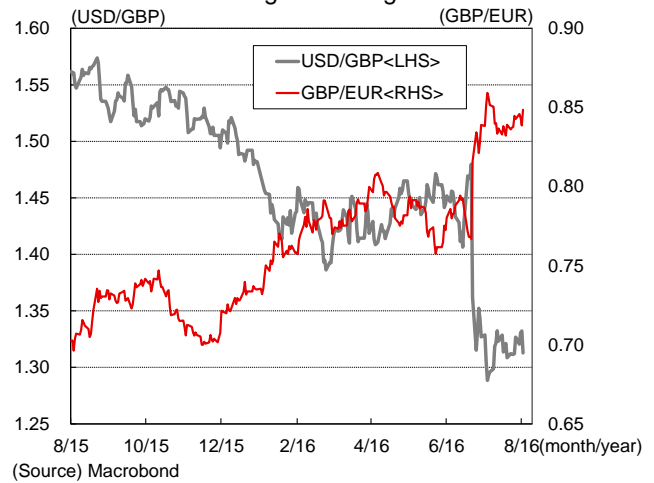


Chart 5: Foreign Exchange Rates



Main Economic Indicators (UK)

1. Annual, quarterly

	13	14	15	2015/Q2	Q3	Q4	2016/Q1	Q2	
Real GDP Growth *	1.9	3.1	2.2	0.4 2.3	0.4 2.0	0.7 1.8	0.4 2.0	0.6 2.2	
Real business investment	2.6	3.9	5.0	0.5 3.2	1.6 6.2	-2.2 1.9	-0.6 -0.8	- -	
Industrial Production *	-0.7	1.5	1.3	0.7 1.5	0.1 1.4	-0.3 0.9	-0.2 0.3	- -	
	Manufacturing	-1.0	2.9	-0.2	-0.5 -0.1	-0.4 -0.8	0.2 -0.9	-0.2 -1.0	- -
Confidence (%, balance)	Manufacturing	-2.0	7.2	0.0	1.3	-1.1	-5.5	-6.0	-2.2
	Consumer	-10.1	4.4	3.1	4.4	2.1	1.8	2.0	-0.7
Retail Sales Volume *	1.3	3.9	4.3	0.8 4.1	1.0 4.7	1.0 3.4	1.2 4.1	1.6 4.9	
Claimant Count *	(000s)	1,421.8	1,037.1	794.1	794.1	785.0	775.4	733.4	754.8
	(% change on previous term)	-10.3	-27.1	-23.4	-3.4	-1.2	-1.2	-5.4	2.9
Unemployment rate *	(Claimant count base, %)	4.3	3.0	2.3	2.3	2.3	2.2	2.2	2.2
	(ILO base, %)	7.6	6.2	5.4	5.6	5.3	5.1	5.1	-
Average Earnings *	(YoY, %)	1.2	1.2	2.4	2.4	3.0	1.9	2.0	-
Producer Prices	Output Prices	1.3	0.0	-1.7	0.3 -1.6	-0.5 -1.8	-0.6 -1.5	-0.2 -1.0	0.8 -0.5
	Input Prices	1.2	1.5	0.0	0.2 -12.0	-5.0 -13.6	-1.8 -12.0	-1.2 -7.6	4.1 -4.1
Consumer Price Index	CPI	2.6	2.4	1.0	0.6 0.0	0.1 0.0	0.1 0.1	-0.5 0.4	0.6 0.4
	RPI	3.0	2.4	1.0	258.5 1.0	259.3 0.9	260.0 1.0	260.0 1.4	262.2 1.4
	RPIX (excluding mortgage interest payments)	3.1	2.4	1.0	0.8 1.0	0.4 1.0	0.2 1.1	0.0 1.4	0.9 1.6
House Price (HBOS Index)	4.6	8.8	8.9	3.3 9.6	1.8 8.6	1.8 9.5	2.9 10.1	1.2 8.4	
Visible exports	Whole World (GBP mln)	303,147	292,894	284,855	74,209	70,129	69,017	69,949	-
	(YoY, %)	0.5	-3.4	-2.7	1.0	-3.0	-6.7	-2.2	-
EU (GBP mln)	151,256	145,472	133,524	33,983	33,458	32,605	33,623	-	
	(YoY, %)	0.4	-3.8	-8.2	-8.8	-6.4	-7.9	0.4	-
Visible imports	Whole World (GBP mln)	423,811	415,469	411,186	100,498	101,967	103,428	104,254	-
	(YoY, %)	2.7	-2.0	-1.0	-2.3	-1.5	-3.4	-1.0	-
	EU (GBP mln)	220,664	224,734	222,992	54,788	55,005	56,822	57,166	-
(YoY, %)	5.6	1.8	-0.8	-2.2	-1.9	-0.2	1.4	-	
Visible balance	Whole World (GBP mln)	-120,664	-122,575	-126,331	-26,289	-31,838	-34,411	-34,305	-
	EU (GBP mln)	-69,408	-79,262	-89,468	-20,805	-21,547	-24,217	-23,543	-
Current Account*	(GBP mln)	-76,442	-84,998	-100,261	-19,509	-21,857	-33,963	-32,593	-
Money Supply	M4 : (YoY, %)	0.2	-1.1	0.3	-0.3	-0.5	0.3	1.5	3.5
Public sector net cash requirement	(GBP mln)	16,528	23,095	9,473	13,080	16,884	9,473	17,706	14,855
Foreign reserves **	(US\$ bln)	92.40	95.70	119.03	110.67	118.88	119.03	125.19	128.74
Official Bank Rate	(%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates	(%)	0.51	0.54	0.57	0.57	0.58	0.58	0.59	0.58
10-Y UK government bond yields		2.36	2.53	1.83	1.87	1.94	1.88	1.54	1.50
USD/GBP exchange rate		1.565	1.648	1.528	1.532	1.549	1.517	1.431	1.435
GBP/Euro exchange rate		0.849	0.806	0.726	0.722	0.718	0.722	0.771	0.787
JPY/GBP exchange rates		152.58	174.33	184.92	185.95	189.18	184.10	164.84	154.77
Effective exchange rate ****		81.44	86.98	91.43	91.22	92.87	92.14	86.99	85.48

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

Main Economic Indicators (UK)

2. Monthly

		2015/12	2016/1	2	3	4	5	6	7
Industrial Production *		-1.1	0.8	-0.2	0.5	2.1	-0.5	-	-
		-0.2	0.7	0.1	0.1	2.2	1.4	-	-
	Manufacturing	-0.3	0.6	-0.9	0.2	2.4	-0.5	-	-
Confidence (%, balance)	Manufacturing	-7.4	-4.9	-8.8	-4.4	-6.4	-1.4	1.3	-2.6
	Consumer	4.1	3.8	1.1	1.0	0.8	-1.6	-1.2	-9.2
Retail Sales Volume *		-1.3	2.1	-0.5	-0.5	1.8	0.9	-0.9	-
		2.3	5.2	4.1	3.2	4.9	5.7	4.3	-
Claimant Count *	(000s)	763.1	734.7	725.4	740.1	746.5	758.7	759.1	-
	(M/M, %)	-2.2	-3.7	-1.3	2.0	0.9	1.6	0.1	-
Unemployment rate *	(Claimant count base, %)	2.2	2.1	2.1	2.2	2.2	2.2	2.2	-
	(ILO base, %)	5.1	5.1	5.1	5.1	5.0	4.9	-	-
Average Earnings *	(Y/Y, %)	1.6	2.7	1.3	2.0	2.6	2.1	-	-
	Headline rate								
	(3 month average)	1.9	2.2	1.9	2.0	2.0	2.3	-	-
Producer Prices	Output Prices	-0.3	-0.1	0.1	0.4	0.3	0.2	0.2	-
		-1.4	-1.0	-1.1	-0.8	-0.7	-0.6	-0.4	-
	Input Prices	-0.3	-1.3	0.4	1.7	0.8	2.2	1.8	-
		-10.4	-8.2	-8.0	-6.6	-7.1	-4.4	-0.5	-
Consumer Price Index	CPI	0.1	-0.8	0.2	0.4	0.1	0.2	0.2	-
		0.2	0.3	0.3	0.5	0.3	0.3	0.5	-
	RPI	0.3	-0.7	0.5	0.4	0.1	0.3	0.4	-
		1.2	1.3	1.3	1.6	1.3	1.4	1.6	-
	RPIX (excluding mortgage interest payments)	0.3	-0.7	0.5	0.4	0.1	0.3	0.4	-
		1.3	1.4	1.4	1.6	1.4	1.5	1.7	-
House Price (HBOS Index)	(M/M, %)	2.0	1.7	-1.5	2.2	-0.8	0.9	1.3	-
	(3M average Y/Y, %)	9.5	9.7	9.7	10.0	9.2	9.2	8.4	-
Visible exports	Whole World (GBP mln)	22,689	22,994	23,116	23,839	25,779	23,669	-	-
	(Y/Y, %)	-6.8	-4.7	-1.8	0.1	5.2	-4.1	-	-
	EU (GBP mln)	10,605	10,917	11,179	11,527	11,744	11,446	-	-
	(Y/Y, %)	-9.9	-2.7	-0.3	4.3	6.0	0.7	-	-
Visible imports	Whole World (GBP mln)	33,063	34,350	34,742	35,162	35,193	33,548	-	-
	(Y/Y, %)	-12.2	-2.6	3.0	-3.1	4.5	2.8	-	-
	EU (GBP mln)	17,904	17,916	19,465	19,785	18,639	18,759	-	-
	(Y/Y, %)	-6.6	-2.1	6.6	-0.2	5.0	5.8	-	-
Visible balance	Whole World (GBP mln)	-10,374	-11,356	-11,626	-11,323	-9,414	-9,879	-	-
	EU (GBP mln)	-7,299	-6,999	-8,286	-8,258	-6,895	-7,313	-	-
Money Supply	M4 : (Y/Y, %)	0.3	0.9	2.1	1.5	0.9	1.8	3.5	-
Public sector net cash requirement		9,473	-23,988	742	17,706	-3,482	4,688	14,855	-
Foreign reserves **		119.03	122.02	120.66	125.19	129.94	126.58	128.74	-
Official Bank Rate		0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
3M interest rates		0.58	0.59	0.59	0.59	0.59	0.59	0.57	0.51
10-Y UK government bond yields		1.87	1.74	1.43	1.47	1.61	1.57	1.31	0.91
USD/GBP exchange rate		1.498	1.440	1.430	1.424	1.431	1.453	1.421	1.314
GBP/Euro exchange rate		0.727	0.754	0.776	0.782	0.792	0.778	0.791	0.842
JPY/GBP exchange rates		182.09	170.30	163.84	160.82	156.81	158.26	149.44	136.83
Effective exchange rate ****		91.53	88.65	86.72	85.72	84.88	86.64	84.90	79.33

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

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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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