

# Main Economic & Financial Indicators UK

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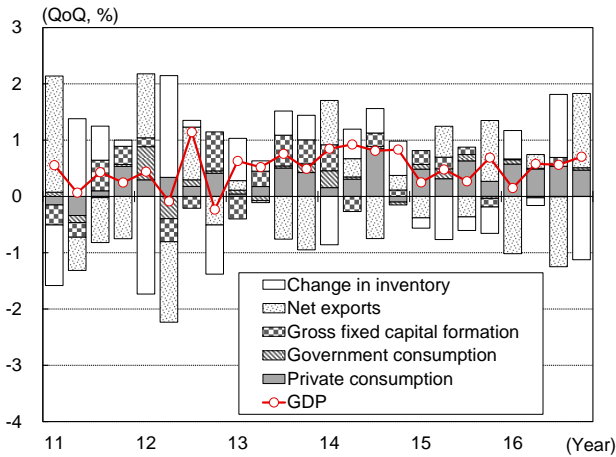
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## 1. Overview

The UK economy fared better than expected in 2016 after the shock of Brexit, where the UK voted to leave the EU at a referendum in June. In Q4, the real GDP growth rate was 0.7% quarter-on-quarter (QoQ), accelerating somewhat from 0.6% QoQ in Q3 (Chart 1). A breakdown of real GDP by expenditure shows that exports rebounded from a fall of 2.6% QoQ in Q3, and recorded strong growth: 4.1% QoQ in Q4. Meanwhile, imports declined slightly by 0.4% QoQ. As a result, net exports made a significant contribution to overall real GDP growth. Growth of private consumption was 0.7% QoQ in Q4, slowing slightly from 0.8% QoQ the previous quarter, yet it remained robust and continued to support economic growth. It appears that a decrease of the unemployment rate to 4.8%, the lowest level since 2005, underpinned private consumption. Adding to this, a rise in inflation expectations on the back of pound depreciation seems to have driven people to bring forward purchases. On the other hand, gross fixed capital formation growth was flat compared to the previous quarter. The breakdown shows that business investment is down 1.0% QoQ, after recording a positive growth of 0.7% QoQ in Q3.

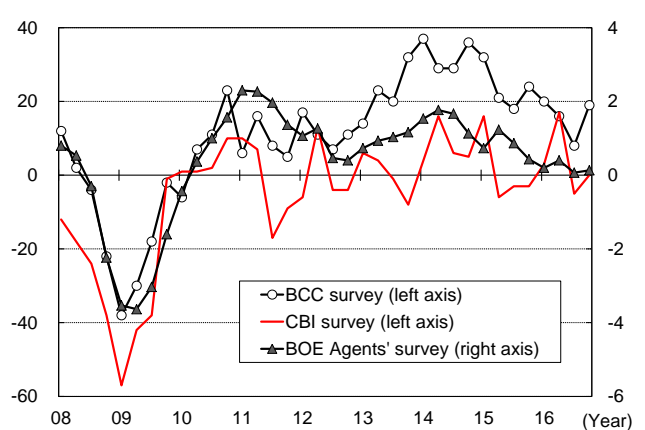
The UK economy is likely to decelerate in 2017. First, growth of private consumption, which has been a driving force of the economy up until now, is forecast to slow. Towards the end of 2016, the inflation rate rose considerably owing to a recovery of oil prices and an increase in import prices on the back of a fall in the pound since the referendum. The inflation rate is expected to continue to accelerate in the coming months and there is a strong possibility that businesses will curtail a rise in wages due to high levels of uncertainty surrounding Brexit. These factors will weaken the real purchasing power of households and are likely to push down consumption. Furthermore, if the UK government does trigger Article 50 to leave the EU by the end of March as it intends and negotiations begin, uncertainty may rise further, putting pressure on businesses to continue to cut back their investment. In a number of surveys of business conditions carried out in Q4 last year, investment appetite for the next twelve months appears to have recovered slightly but remains at a low level on the whole, suggesting that business investment will continue to be sluggish (Chart 2).

Chart 1: Real GDP



Source: Office for National Statistics, BTMU Economic Research Office

Chart 2: UK Manufacturers' Investment Intentions



Note: BOE's survey includes spending on plant and machinery, buildings etc. Source: BOE, BCC, CBI and BTMU Economic Research Office

## 2. Output

In December 2016, industrial production remained relatively strong, up 1.1% month-on-month (MoM), but decelerated from the 2.0% MoM growth recorded in November. A breakdown of this figure shows that growth of the manufacturing sector accelerated from 1.4% MoM in November to 2.1% MoM in December. Meanwhile, the mining and quarrying sector declined by 1.2% MoM in December, falling into negative territory. However, this decline was mainly due to the adverse effect of strong growth in November (up 7.7% MoM) where oil field operations resumed after maintenance work. Looking ahead, it appears that production will remain robust due to the resilient growth of new orders. The Manufacturing Purchasing Managers' Index (PMI) fell in February for the second month since December, where it reached its highest level since 2014. Nevertheless, it remained at a high level: 54.6. The breakdown shows a pick up in the growth of export orders, but the growth of new orders as a whole decelerated as a result of weaker domestic orders. In addition, input and output prices increased sharply from the latter half of 2016 due to the effect of pound depreciation, but this growth has now slowed. Nevertheless, these levels are still high, and it will be necessary to continue to monitor the risk of downward pressure on demand owing to a rise in inflationary pressure.

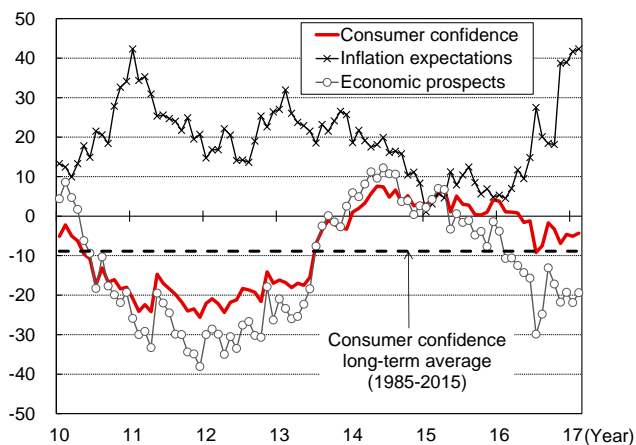
## 3. Consumption and employment

Retail sales (volume based) decreased by 0.3% MoM in January, declining for the third consecutive month. Households' purchasing power is expected to weaken owing to increased inflationary pressure from a recovery in oil prices and depreciation of the pound. As a result, private consumption growth is likely to decelerate in the coming months. In February, the consumer confidence index rose slightly but remained weak (Chart 3). The breakdown of this figure shows that inflation expectations have been rising significantly due to further depreciation of the pound since October last year, and the economic outlook is also weak owing to high levels of uncertainty surrounding Brexit.

In December last year, the pace of average wage growth (3-month moving average, including bonuses) increased 2.6% YoY, maintaining resilient growth (Chart 4). However, real wages are

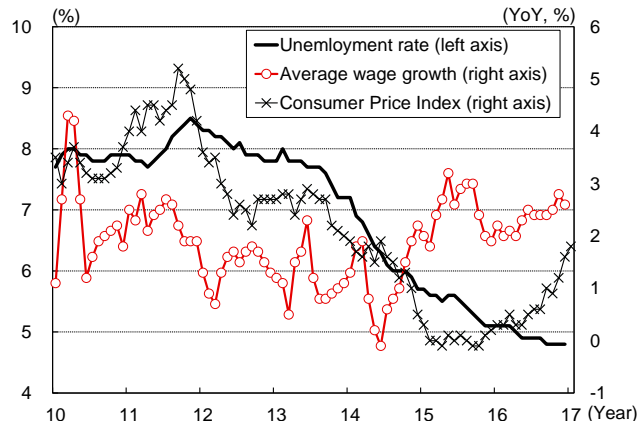
being eroded by the rise in the inflation rate. Looking at the latest labour market conditions, growth in the number of employees has been decelerating since the latter half of 2016. From the start of 2013 to the end of 2015, the number of employees increased at an average pace of 136,000 on a quarterly basis. However, this number shrunk to 44,000 QoQ during the latter half of 2016. A high level of uncertainty regarding Brexit is a factor which weighs on the growth of employment.

Chart 3: Consumer Confidence



Source: European Commission, BTMU Economic Research Office

Chart 4: Unemployment, Average Wages and CPI



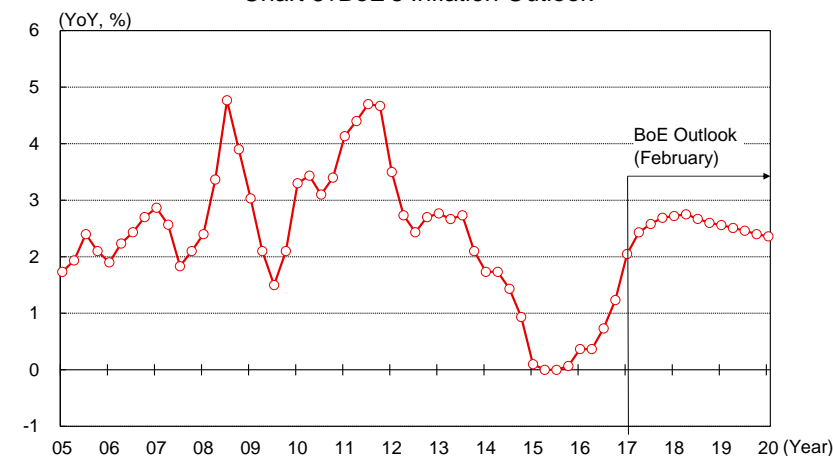
Note: Wage includes bonuses. 3-month moving average.

Source: Office for National Statistics, BTMU Economic Research Office

## 4. Prices

In January, the Consumer Price Index (CPI) rose by 1.8% YoY. Looking ahead, the inflation rate is expected to accelerate further due to a recovery of oil prices and the effect of pound depreciation. Looking at producer prices, the impact of pound depreciation since the referendum in June last year has led to an increase in input prices, which accelerated to 20.5% YoY in January. Output prices also rose by 3.5% YoY. This rise is forecast to be passed on to consumer prices in the coming months. According to the latest Bank of England (BoE) Outlook in February, the inflation rate will exceed 2.0% YoY (the target set by the BoE) in February this year and will remain above 2.5% from 2017 and into the first half of 2019 (Chart 5).

Chart 5: BoE's Inflation Outlook



Source: Office for National Statistics, BoE, BTMU Economic Research Office

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## 5. Monetary Policy

At the Bank of England's (BoE) Monetary Policy Committee (MPC) on 1<sup>st</sup> February, the policy rate was held at 0.25%. In the inflation report published the same day, the economic growth outlook for 2017 was raised from 1.4% YoY in the BoE's November forecast to 2.0% YoY. The forecasts for 2018 and 2019 were also revised upwards slightly, from 1.5% YoY to 1.6% YoY and from 1.6% YoY to 1.7% YoY respectively. The BoE cited "fiscal stimulus announced in the Chancellor's Autumn Statement, firmer momentum in global activity, higher global equity prices and more supportive credit conditions, particularly for households" as reasons for the upward revision. However, the slower wage growth and the rise of import prices due to pound depreciation will lead to weaker real income growth for households. As a result, the BoE predicts that consumption growth will decelerate. With these predictions, the BoE indicated that it will accept an overshoot of the inflation target of 2% over a longer period than usual in order to underpin the economy.

## Main Economic Indicators (UK)

1. Annual, quarterly

		2014	2015	2016	2015/Q4	2016/Q1	Q2	Q3	Q4
Real GDP Growth *		3.1	2.2	1.8	0.7 1.7	0.2 1.6	0.6 1.7	0.6 2.0	0.7 2.0
Real business investment		3.9	5.1	-1.5	-2.4 1.9	-1.1 -1.8	0.6 -1.0	0.7 -2.3	-1.0 -0.9
Industrial Production *		1.5	1.2	1.2	-0.4 0.7	-0.2 0.1	2.2 1.7	-0.4 1.2	0.3 1.9
	Manufacturing	2.9	-0.2	0.7	0.1 -0.9	-0.3 -1.1	1.8 1.2	-0.8 0.8	1.2 1.9
Confidence*	Manufacturing	7.2	0.0	-1.8	-5.5	-6.0	-2.2	-2.3	3.1
(%, balance)	Consumer	4.4	3.1	-2.4	1.8	2.0	-0.7	-6.1	-4.9
Retail Sales Volume *		4.0	4.3	4.9	0.9 3.4	1.6 4.2	1.0 4.3	1.8 5.4	1.0 5.6
Claimant Count *	(000s)	1,037.1	799.0	775.9	783.3	744.0	772.5	786.4	800.7
	(% change on previous period)	-27.1	-23.0	-2.9	-1.1	-5.0	3.8	1.8	1.8
Unemployment rate *	(Claimant count base, %)	3.0	2.3	2.2	2.2	2.2	2.2	2.3	2.3
	(ILO base, %)	6.2	5.4	4.9	5.1	5.1	4.9	4.8	4.8
Average Earnings *		1.3	2.5	2.4	1.9	2.1	2.5	2.4	2.5
	(YoY, %)								
Producer Prices	Output Prices	0.0	-1.7	0.4	-0.6 -1.5	-0.2 -1.0	0.9 -0.4	0.6 0.8	1.0 2.4
	Input Prices	-6.6	-12.8	2.0	-1.8 -12.0	-1.2 -7.6	4.1 -4.1	5.5 6.5	5.3 14.2
Consumer Price Index	CPI	1.5	0.0	0.7	0.1 0.1	-0.5 0.4	0.6 0.4	0.5 0.7	0.6 1.2
	RPI	2.4	1.0	1.8	0.2 1.0	0.0 1.4	0.9 1.4	0.8 1.9	0.6 2.2
	RPIX (excluding mortgage interest payments)	2.4	1.0	1.9	0.2 1.1	0.0 1.4	0.9 1.6	0.9 2.0	0.7 2.5
House Price (HBOS Index)		8.8	8.9	7.6	1.7 9.5	2.9 10.0	1.1 8.4	-0.1 5.8	2.5 6.5
Exports	World (GBP mln)	292,894	287,584	301,705	70,921	70,281	74,854	74,406	82,164
	(YoY, %)	-3.4	-1.8	4.9	-4.2	-2.0	0.7	5.4	15.9
	EU28 (GBP mln)	145,472	133,957	144,424	32,705	33,372	35,680	37,042	38,330
	(YoY, %)	-3.8	-7.9	7.8	-7.7	-0.4	-4.0	10.8	17.2
Imports	World (GBP mln)	415,469	407,304	436,580	100,046	102,412	105,859	113,646	114,663
	(YoY, %)	-2.0	-2.0	7.2	-6.5	-3.6	4.2	14.3	14.6
	EU28 (GBP mln)	224,734	222,912	240,834	55,681	57,314	58,814	61,093	63,613
	(YoY, %)	1.8	-0.8	8.0	-2.2	1.3	5.4	11.4	14.2
Trade balance	World (GBP mln)	-122,575	-119,720	-134,875	-29,125	-32,131	-31,005	-39,240	-32,499
	EU 28 (GBP mln)	-79,262	-88,955	-96,410	-22,976	-23,942	-23,134	-24,051	-25,283
Current Account*		(GBP mln)	-84,998	-80,233	-	-25,847	-23,612	-22,079	-25,494
Money Supply		M4 : (YoY, %)	-1.1	0.3	6.2	0.3	1.5	3.6	6.2
Public sector net cash requirement		(GBP mln)	23,223	8,476	36,344	8,476	21,702	18,430	9,027
Foreign reserves **		(US\$ bn)	95.70	119.03	123.50	119.03	125.19	128.74	132.28
Official Bank Rate		(%)	0.50	0.50	0.25	0.50	0.50	0.50	0.25
3M interest rates		(%)	0.54	0.57	0.50	0.58	0.59	0.58	0.43
10-Y UK government bond yields		(%)	2.53	1.83	1.27	1.88	1.54	1.50	0.79
USD/GBP exchange rate			1.648	1.528	1.355	1.517	1.431	1.435	1.313
GBP/Euro exchange rate			0.806	0.726	0.819	0.722	0.771	0.787	0.850
JPY/GBP exchange rates			174.33	184.92	146.75	184.10	164.84	154.77	134.35
Effective exchange rate ***			86.98	91.43	81.91	92.14	86.99	85.48	78.72
									76.51

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, \*\*\* 2005 = 100

Source: Office for National Statistics, BoE, BTMU Economic Research Office

## 2. Monthly

		Jul 2016	Aug	Sep	Oct	Nov	Dec	Jan 2017	Feb
Industrial Production *		0.1	-0.3	-0.3	-1.1	2.0	1.1	-	-
	Manufacturing	2.1	0.9	0.5	-0.7	2.2	4.3	-	-
Confidence* (%, balance)	Manufacturing	-0.8	0.3	0.6	-0.9	1.4	2.1	-	-
	Consumer	1.0	0.9	0.6	0.0	1.7	4.0	-	-
Retail Sales Volume *		1.8	0.3	-0.2	2.1	-0.2	-2.1	-0.3	-
		5.7	6.6	4.1	7.4	5.8	4.1	1.5	-
Claimant Count *	(000s)	778.1	787.8	793.4	806.7	808.0	787.4	745.0	-
	(MoM, %)	-0.1	1.2	0.7	1.7	0.2	-2.5	-5.4	-
Unemployment rate *	(Claimant count base, %)	2.2	2.3	2.3	2.3	2.3	2.3	2.1	-
	(ILO base, %)	4.9	4.9	4.8	4.8	4.8	4.8	-	-
Average Earnings *	(YoY, %)	2.4	2.2	2.6	2.8	2.9	1.9	-	-
	Headline rate (3 month average)	2.4	2.4	2.4	2.5	2.8	2.6	-	-
Producer Prices	Output Prices	0.2	0.2	0.3	0.7	0.1	0.2	0.6	-
	Input Prices	0.2	0.8	1.2	2.1	2.4	2.8	3.5	-
Consumer Price Index	CPI	3.2	0.3	0.4	4.4	-0.6	2.7	1.7	-
		4.2	7.8	7.6	12.4	13.5	17.0	20.5	-
	RPI	-0.1	0.3	0.2	0.1	0.2	0.5	-0.5	-
		0.6	0.6	1.0	0.9	1.2	1.6	1.8	-
House Price (HBOS Index)	(MoM, %)	0.1	0.4	0.2	0.0	0.3	0.6	-0.6	-
	(3M average YoY, %)	1.9	1.8	2.0	2.0	2.2	2.5	2.6	-
Exports	World (GBP mln)	0.1	0.5	0.2	0.0	0.3	0.6	-0.6	-
	(YoY, %)	1.9	1.9	2.2	2.2	2.5	2.7	2.9	-
	EU 28 (GBP mln)	-1.1	-0.3	0.3	1.5	0.6	1.6	-0.9	-
Imports	World (GBP mln)	8.4	6.9	5.8	5.2	6.0	6.5	5.7	-
	(YoY, %)	24,839	25,058	24,509	26,265	27,354	28,545	-	-
	EU 28 (GBP mln)	12,498	12,507	12,037	12,229	12,985	13,116	-	-
Trade balance	World (GBP mln)	14.0	9.5	9.0	9.7	20.2	22.0	-	-
	(YoY, %)	36,402	38,608	38,636	36,319	38,909	39,435	-	-
	EU28 (GBP mln)	19,842	20,366	20,885	20,156	21,565	21,892	-	-
Money Supply	World (GBP mln)	9.2	10.9	14.2	7.5	14.5	21.0	-	-
	(YoY, %)	-11,563	-13,550	-14,127	-10,054	-11,555	-10,890	-	-
Public sector net cash requirement	EU28 (GBP mln)	-8,157	-7,885	-7,392	-7,787	-8,219	-7,576	-	-
Foreign reserves **	M4 : (YoY, %)	3.9	5.5	6.2	6.6	6.4	6.2	7.0	-
Official Bank Rate	(GBP mln)	4,270	7,408	9,027	908	20,028	36,344	-26,466	-
3M interest rates	(US\$ bn)	132.31	132.10	132.28	131.32	126.10	123.50	128.14	-
10-Y UK government bond yields	(%)	0.50	0.25	0.25	0.25	0.25	0.25	0.25	0.25
USD/GBP exchange rate	(%)	0.51	0.41	0.38	0.40	0.40	0.37	0.36	0.36
GBP/Euro exchange rate	(%)	0.91	0.69	0.77	1.04	1.34	1.38	1.37	1.25
JPY/GBP exchange rates		1.314	1.310	1.314	1.233	1.243	1.247	1.235	1.249
Effective exchange rate ***		0.842	0.856	0.853	0.894	0.867	0.846	0.861	0.852
		136.83	132.58	133.84	128.07	134.96	144.81	141.91	141.10
		79.33	78.28	78.60	74.63	76.64	78.18	76.94	77.52

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 and Foreign Reserves : End-period figures

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

\* seasonally adjusted, \*\* excluding Gold, \*\*\* 2005=100

Source: Office for National Statistics, BoE, BTMU Economic Research Office

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