

# Main Economic & Financial Indicators UK

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## 1. Overview

The UK economy fared better than expected in 2016, despite the shock of Britain's decision to leave the EU at a referendum in June last year. However, the slowdown of the UK economy has been more evident since the start of 2017. In Q1 2017, the real GDP growth rate was 0.3% quarter-on-quarter (QoQ), decelerating from 0.7% QoQ in Q4 2016 (Chart 1). A breakdown by sector reveals that growth of the service sector, which comprises nearly 80% of the UK's GDP, was 0.3% QoQ, a significant deceleration from 0.8% QoQ the previous quarter. Consumer-focused industries, such as retail and accommodation, have been affected in particular by weaker private consumption, caused by the impact of pound depreciation on import prices.

Looking forwards, the UK's economic growth is likely to remain weak. On 29<sup>th</sup> March, the UK government formally notified the EU that it will leave the union, triggering the start of the two-year negotiation process. Two days later, on 31<sup>st</sup> March, the EU issued draft negotiating guidelines for Brexit which were formally approved on 29<sup>th</sup> April by the 27 member states, excluding the UK. The guidelines state that negotiations on a trade agreement will not commence until a certain degree of progress has been made in negotiating priority issues such as settlement of the UK's unpaid contributions to the EU budget, the protection of both UK and EU citizens and businesses interests, and the management of the UK and Irish national border. The EU's draft negotiating guidelines run counter to the UK government's desire to negotiate the terms of the UK's withdrawal from the EU in parallel with a trade deal. There is also a conflict in opinion on both sides, particularly regarding the sum of the UK's bill for unpaid contributions, which points to a high risk that the UK will face tough negotiations. As a result, uncertainty surrounding the future of the UK economy is likely to continue; businesses will refrain from investing and the increase in employment and wages will be limited. Furthermore, a weakening of households' purchasing power is expected to drive down consumption. This is due to sluggish wage growth and a rise in import prices owing to pound depreciation. Under these circumstances, it is likely that the UK economy will remain in a lower gear.

On 22<sup>nd</sup> April, Prime Minister Theresa May called a general election which will take place on 8<sup>th</sup> June, ahead of the planned election in 2020. One of the aims in calling a snap election is to gain the consensus of the UK electorate ahead of Brexit negotiations with the EU. In addition,

the incumbent Conservative Party are expected to achieve an overwhelming victory as the support rate for the Labour Party, the largest opposition party, has fallen owing to division in the party. If the Conservative Party achieves a parliamentary majority with a large margin, it will enable them to steer parliament smoothly and will strengthen Theresa May's footing within the party. According to the most recent polls, support for the Conservative Party is at 46.7%, far exceeding that of the Labour Party, on 28.6% (Chart 2). On 4<sup>th</sup> May, the Conservative Party achieved a sweeping victory at local elections. This suggests they are likely to increase their number of seats at the upcoming general election.

Chart 1: UK Real GDP

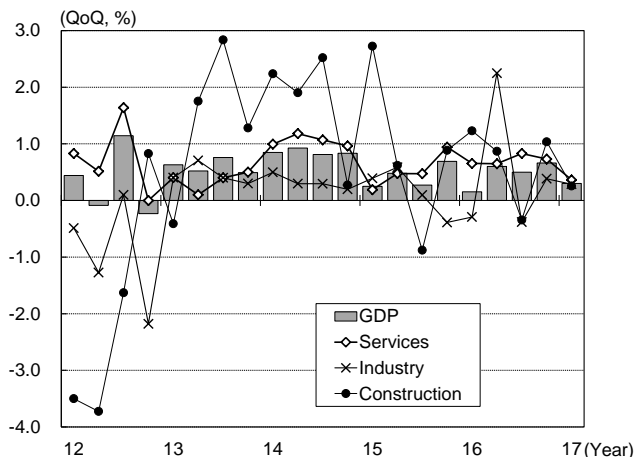
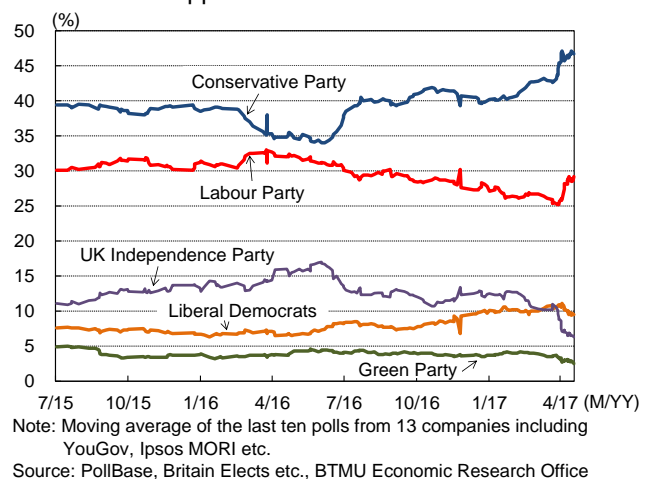


Chart 2: Support Rate for UK Political Parties



## 2. Output

In March, industrial production decreased 0.5% month-on-month (MoM), declining for the third consecutive month. A breakdown of this figure shows the manufacturing industry declined 0.6% MoM, decreasing for the third month in a row. This, along with a significant decrease of 4.2% MoM in the gas and electricity supply industry, pushed down industrial production overall (demand for energy fell in March due to higher temperatures). Meanwhile, leading indicators suggest that output could recover to some extent in the coming months. The Purchasing Managers' Index (PMI) for the manufacturing sector rose to 57.3 in April, the highest level since 2014. The breakdown shows the growth of new orders picked up because of robust demand from both the UK and overseas. The pace of increase in input prices, which accelerated sharply from the latter half of last year due to the effects of pound depreciation, slowed in April but remained on an upward trend. As output prices also continued to increase, it will be necessary to monitor the risk of downward pressure on domestic demand due to a rise in inflation.

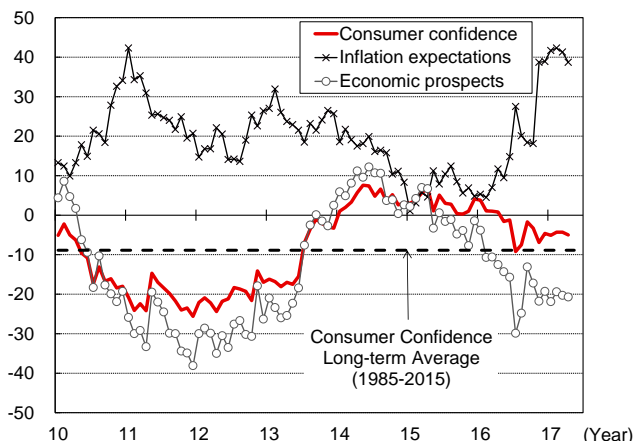
## 3. Consumption and employment

Retail sales (volume based) decreased by 1.8% MoM in March, after recording a 1.7% MoM growth in February. Looking forwards, an increase in inflationary pressure on import prices due to a fall in the pound is expected to put a strain on households' purchasing power and it is likely that private consumption will remain weak. Consumer confidence continues to soften

owing to a rise in inflation expectations and a weak economic outlook brought about by a high degree of uncertainty surrounding Brexit (Chart 3).

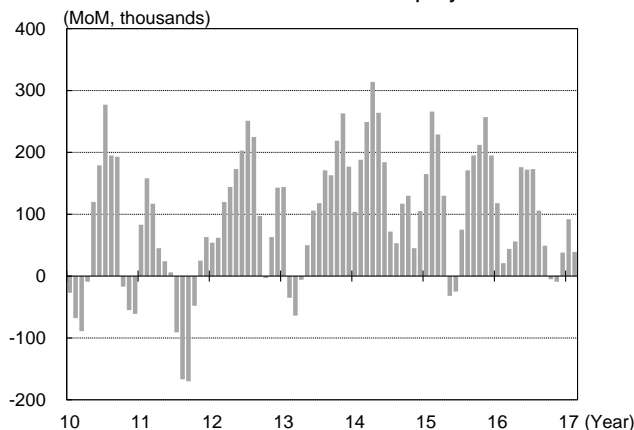
While labour market conditions continue to be favourable, the pace of recovery appears to be slowing. Since the start of the year, the average increase in the number of employees was 65,000 per month, which is significantly less than the average of 150,000 per month during the period from 2014 to 2015 (Chart 4). Average wages (3-month moving average, including bonuses) rose 2.3% YoY in February, maintaining resilient growth. However, the pace of growth was slower than the latter half of 2016, when the growth rate averaged 2.5% YoY.

Chart 3: Consumer Confidence



Source: European Commission, BTMU Economic Research Office

Chart 4: Number of Employees



Note: The number of employees is a 3-month moving average

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

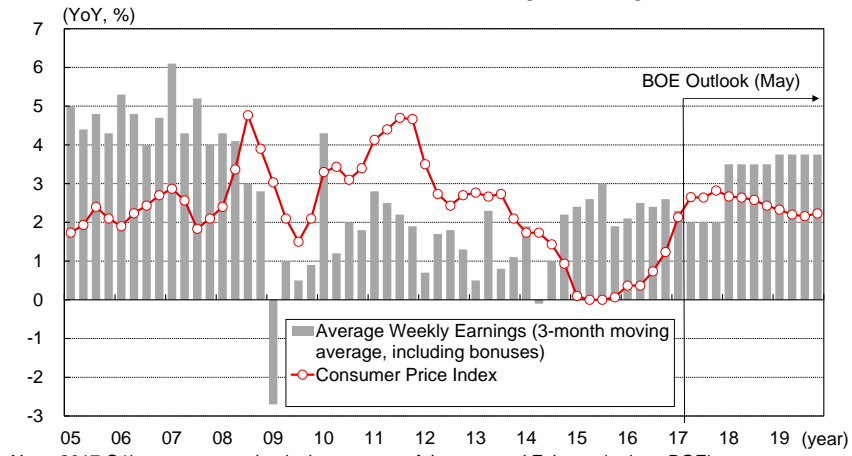
## 4. Prices

In April, the inflation rate rose to 2.7% YoY from 2.3% YoY the previous month. One reason behind the acceleration in the inflation rate is that the Easter holiday, which fell in March last year, was in April this year, resulting in an increase in items such as air fares. On top of this, there was also an impact from the increase in vehicle tax rates from 1<sup>st</sup> April and a rise in electricity prices.

## 5. Monetary Policy

At the Bank of England's (BoE) Monetary Policy Committee (MPC) on 11<sup>th</sup> May, the policy rate was held at 0.25%. In the inflation report published the same day, the economic growth outlook for 2017 was revised downwards slightly from 2.0% YoY, which was the BoE's forecast in February, to 1.9% YoY. The BoE expects the inflation rate will exceed the growth of wages in 2017 due to a rise in import prices caused by pound depreciation. They predict this will curb private consumption. On the other hand, they expect business investment will grow more than previously expected, particularly in export-oriented companies, as they are boosted by resilient growth in the global economy. The BOE predicts that this, along with net exports, will underpin the economy. That being said, the BOE noted that the forecast above is dependent on Brexit negotiations progressing smoothly.

Chart 5: BOE's Inflation and Average Earnings Outlook



Note: 2017 Q1's average earning is the average of January and February's data. BOE's average earning outlook is the annual average growth.

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

## Main Economic Indicators (UK)

1. Annual, quarterly

		2014	2015	2016	2016/Q1	Q2	Q3	Q4	2017/Q1
Real GDP Growth *		3.1	2.2	1.8	0.2 1.6	0.6 1.7	0.5 2.0	0.7 1.9	0.3 2.1
Real business investment		3.9	5.1	-1.5	-1.1 -1.9	0.8 -0.9	0.4 -2.4	-0.9 -0.9	- -
Industrial Production *		1.5	1.2	1.2	-0.3 0.0	2.2 1.6	-0.4 1.2	0.4 1.9	0.1 2.3
	Manufacturing	2.9	-0.2	0.7	-0.3 -1.1	1.8 1.2	-0.7 0.9	1.2 2.0	0.3 2.6
Confidence* (%, balance)	Manufacturing	7.2	0.0	-1.8	-6.0	-2.2	-2.3	3.1	9.1
	Consumer	4.4	3.1	-2.4	2.0	-0.7	-6.1	-4.9	-4.6
Retail Sales Volume *		4.0	4.3	4.9	1.9 4.3	0.7 4.3	1.9 5.4	0.9 5.5	-1.4 2.1
Claimant Count *	(000s)	1,037.1	799.0	775.9	744.0	772.5	786.4	800.7	753.1
	(% change on previous period)	-27.1	-23.0	-2.9	-5.0	3.8	1.8	1.8	-5.9
Unemployment rate *	(Claimant count base, %)	3.0	2.3	2.2	2.2	2.2	2.3	2.3	2.2
	(ILO base, %)	6.2	5.4	4.9	5.1	4.9	4.8	4.8	4.6
Average Earnings *	(YoY, %)	1.3	2.5	2.4	2.1	2.5	2.4	2.5	-
Producer Prices	Output Prices	0.0	-1.7	0.5	-0.2 -1.0	0.9 -0.4	0.6 0.8	1.1 2.5	1.0 3.7
	Input Prices	-6.6	-12.8	2.0	-1.2 -7.6	4.1 -4.1	5.5 6.5	5.2 14.1	2.9 18.8
Consumer Price Index	CPI	1.5	0.0	0.7	-0.5 0.4	0.6 0.4	0.5 0.7	0.6 1.2	0.5 2.1
	RPI	2.4	1.0	1.8	0.0 1.4	0.9 1.4	0.8 1.9	0.6 2.2	0.7 3.0
	RPIX (excluding mortgage interest payments)	2.4	1.0	1.9	0.0 1.4	0.9 1.6	0.9 2.0	0.7 2.5	0.8 3.3
House Price (HBOS Index)		8.8	8.9	7.6	3.0 10.0	1.0 8.4	0.0 5.8	2.5 6.5	0.1 3.8
Exports	World (GBP mln)	292,894	287,584	301,405	70,065	74,835	74,448	82,057	82,550
	(YoY, %)	-3.4	-1.8	4.8	-2.3	0.7	5.4	15.7	17.8
	EU28 (GBP mln)	145,472	133,957	144,175	33,296	35,666	37,071	38,142	40,304
	(YoY, %)	-3.8	-7.9	7.6	-0.6	3.9	-10.9	16.6	21.0
Imports	World (GBP mln)	415,469	407,304	435,472	102,384	105,700	113,687	113,701	119,425
	(YoY, %)	-2.0	-2.0	6.9	-3.6	4.0	14.3	13.6	16.6
	EU28 (GBP mln)	224,734	222,912	239,804	57,269	58,719	61,016	62,800	65,599
	(YoY, %)	1.8	-0.8	7.6	1.2	5.2	11.3	12.8	14.5
Trade balance	World (GBP mln)	-122,575	-119,720	-134,067	-32,319	-30,865	-39,239	-31,644	-36,875
	EU 28 (GBP mln)	-79,262	-88,955	-95,629	-23,973	-23,053	-23,945	-24,658	-25,295
Current Account*	(GBP mln)	-84,998	-80,233	-84,504	-25,723	-20,992	-25,701	-12,088	-
Money Supply	M4 : (YoY, %)	-1.1	0.3	6.3	1.5	3.6	6.1	6.3	6.6
Public sector net cash requirement	(GBP mln)	23,223	8,479	37,518	21,705	20,026	12,541	37,518	34,311
Foreign reserves **	(US\$ bn)	95.70	119.03	123.50	125.19	128.74	132.28	123.50	129.49
Official Bank Rate	(%)	0.50	0.50	0.25	0.50	0.50	0.25	0.25	0.25
3M interest rates	(%)	0.54	0.57	0.50	0.59	0.58	0.43	0.39	0.35
10-Y UK government bond yields	(%)	2.53	1.83	1.27	1.54	1.50	0.79	1.26	1.25
USD/GBP exchange rate		1.648	1.528	1.355	1.431	1.435	1.313	1.241	1.239
GBP/Euro exchange rate		0.806	0.726	0.819	0.771	0.787	0.850	0.869	0.860
JPY/GBP exchange rates		174.33	184.92	146.75	164.84	154.77	134.35	136.03	140.77
Effective exchange rate ***		86.97	91.45	82.02	87.02	85.59	78.86	76.65	77.13

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

		09/2016	10	11	12	01/2017	2	3	4
Industrial Production *		-0.3	-1.2	2.3	0.9	-0.5	-0.8	-0.5	-
		0.5	-0.8	2.3	4.3	3.1	2.5	1.4	-
Confidence* (%, balance)	Manufacturing	0.6	-1.0	1.4	2.2	-1.1	-0.3	-0.6	-
	Consumer	0.6	0.0	1.8	4.2	2.5	3.0	2.3	-
Retail Sales Volume *		-2.4	-0.4	5.7	4.1	7.7	9.9	9.7	6.6
		-1.7	-3.3	-6.9	-4.6	-5.1	-4.3	-4.3	-5.0
Claimant Count *	(000s)	-0.1	2.0	-0.4	-2.2	-0.4	1.5	-1.4	-
	(MoM, %)	4.2	7.3	5.5	3.9	0.9	3.4	2.0	-
Unemployment rate *	(Claimant count base, %)	793.4	806.7	808.0	787.4	746.0	739.9	773.4	-
	(ILO base, %)	0.7	1.7	0.2	-2.5	-5.3	-0.8	4.5	-
	(YoY, %)	2.3	2.3	2.3	2.3	2.2	2.1	2.2	-
Average Earnings *	Headline rate	4.8	4.8	4.8	4.8	4.7	4.7	4.6	-
	(3 month average)	2.6	2.8	2.9	1.9	2.0	2.9	2.4	-
Producer Prices	Output Prices	2.4	2.5	2.8	2.6	2.3	2.3	2.4	-
	Input Prices	0.3	0.7	0.1	0.3	0.6	0.2	0.4	0.4
Consumer Price Index	CPI	1.2	2.1	2.4	2.9	3.6	3.7	3.6	3.6
	RPI	0.4	4.4	-0.6	2.4	1.4	0.0	0.0	0.1
	RPIX (excluding mortgage interest payments)	7.6	12.4	13.5	16.6	19.9	19.3	17.4	16.6
House Price (HBOS Index)	(MoM, %)	0.2	0.1	0.2	0.5	-0.5	0.7	0.4	0.5
	(3M average YoY, %)	1.0	0.9	1.2	1.6	1.8	2.3	2.3	2.7
		0.2	0.0	0.3	0.6	-0.6	1.1	0.3	0.5
Exports	World (GBP mln)	2.0	2.0	2.2	2.5	2.6	3.2	3.1	3.5
	(YoY, %)	0.2	0.0	0.3	0.6	-0.6	1.1	0.3	0.5
	EU 28 (GBP mln)	2.2	2.2	2.5	2.7	2.9	3.5	3.4	3.8
Imports	World (GBP mln)	0.3	1.5	0.6	1.6	-1.1	0.0	0.0	-
	(YoY, %)	5.8	5.2	6.0	6.5	5.7	5.1	3.8	-
	EU28 (GBP mln)	24,550	26,659	27,374	28,024	27,254	27,122	28,174	-
Trade balance	World (GBP mln)	3.6	16.1	15.1	16.0	15.5	16.3	21.7	-
	(YoY, %)	12,073	12,197	12,944	13,001	13,132	13,187	13,985	-
	EU28 (GBP mln)	9.3	9.4	19.8	20.9	20.9	17.4	24.9	-
Money Supply	World (GBP mln)	38,704	36,080	38,682	38,939	39,240	38,570	41,615	-
	(YoY, %)	17.8	4.4	15.9	21.2	19.6	12.4	18.0	-
	EU28 (GBP mln)	20,837	19,993	21,418	21,389	21,332	21,515	22,752	-
Public sector net cash requirement	World (GBP mln)	13.9	6.6	13.7	18.2	13.9	11.2	18.6	-
	(YoY, %)	-14,154	-9,421	-11,308	-10,915	-11,986	-11,448	-13,441	-
	EU28 (GBP mln)	-8,157	-7,885	-7,392	-7,787	-8,219	-7,576	-	-
Foreign reserves **	M4 : (YoY, %)	6.1	6.6	6.4	6.3	7.1	5.9	6.6	-
Official Bank Rate	(GBP mln)	12,541	1,828	21,074	37,518	-22,599	12,880	34,311	-
3M interest rates	(US\$ bn)	132.28	131.32	126.10	123.50	128.14	127.80	129.49	-
10-Y UK government bond yields	(%)	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
USD/GBP exchange rate	(%)	0.38	0.40	0.40	0.37	0.36	0.36	0.35	0.34
GBP/Euro exchange rate	(%)	0.77	1.04	1.34	1.38	1.37	1.25	1.14	1.13
JPY/GBP exchange rates		1.314	1.233	1.243	1.247	1.235	1.249	1.235	1.264
Effective exchange rate ***		0.853	0.894	0.867	0.846	0.861	0.852	0.866	0.848
		133.84	128.07	134.96	144.81	141.91	141.10	139.40	139.15
		78.75	74.77	76.77	78.32	77.10	77.70	76.65	78.27

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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