

Economic Update



Release Date : 26 April 2018

Economic update - March 2018

Key data highlights:

The headline figures in March showed positive developments across key economic fundamentals, pointing to normalising economic conditions. The outlook for real earnings growing against continuously falling price growth, high levels of employment and low-level interest rates, appear to have boosted consumer optimism. However, the latest figures on the household savings ratio continue to point to a rundown of household savings to their lowest level, which is indicative of the increased borrowing by households throughout 2017. As the general economic effects of tightening monetary policy are now beginning to materialise, there is less pressure on the Bank of England to act on interest rates in May, though the outlook for pay growth, combined with spending and borrowing levels in the economy, will be closely monitored in informing future prospects for interest rate hikes.

The UK business landscape has also depicted an optimistic picture, underpinned by upbeat levels of business confidence in March. The manufacturing sector leads the way in business confidence, which is also reflected in the revisions made to the components measure of GDP growth, with manufacturing driving growth in Q4 2017. At the same time, business investment grew in March, setting investment plans on a positive trajectory. The expectation, however, is that real investment for the long term will continue to grow at a rather muted pace, as businesses remain wary of Brexit negotiations. Still, as the effect of a weak sterling continues to fade, lower input costs and inflationary pressures are likely to feed into an optimistic business environment.

Notes to Editor

- 1 For more information please call the [UK Finance press office on 020 7416 6750](tel:02074166750) or e-mail press@ukfinance.org.uk.
- 2 UK Finance is the trade association formed on 1 July 2017 to represent the finance and banking industry operating in the UK. It represents around 300 firms in the UK providing credit, banking, markets and payment-related services. The organisation brings together most of the activities previously carried out by the Asset Based Finance Association, the British Bankers' Association, the Council of Mortgage Lenders, Financial Fraud Action UK, Payments UK and the UK Cards Association.

Next update:

25 May 2018

Economic Update



Release Date : 26 April 2018

GDP

The UK economy expanded by 0.4% in Q4 2017, unrevised from its second estimate. On a calendar-year basis, the economy grew by an upwardly revised 1.8% in 2017. However, there have been revisions to the components measure of output across 2017, with services and manufacturing, in particular, driving growth.

past 3 years

Period	Latest	Quarter-on-year
2017 Q4	1.4%	quarter-on-year
2017 Q4	0.4%	quarter-on-quarter

Source: ONS

Inflation

In March 2018, both the official inflation measure CPI and the CPIH measure, which includes home occupiers' housing costs, fell to their lowest levels in a year from their February levels at 2.5% and 2.3% respectively. This is in line with the Bank of England's projections of a normalising inflation rate. With inflation now beginning to ease, consumers should start to feel less squeezed to spend.

Period	Latest	Annual
2018 Mar	2.5%	annual CPI %
2018 Mar	2.3%	annual CPIH %

Source: ONS

Wages

Nominal earnings rose by 2.8% in the three months to February 2018. Similarly, real earnings, adjusted for inflation, grew by 0.2%, recovering from their negative rate in the three months to January 2018. This suggests that, despite still running below the inflation rate, real earnings are beginning to normalise in response to the growing labour market and the prevailing positive economic conditions.

Period	Latest	Annual real earnings growth %
Feb 2018	0.2%	annual real earnings growth %

Source: ONS

Unemployment

The unemployment rate increased to 4.4% in Q4 2017 - an increase of 0.1% compared to the previous quarter. However, between December 2017 and February 2018, the unemployment rate fell at 4.2%. Industries with high employment help contribute to overall growing employment. With consistently growing labour market, there is an expectation that real earnings should continue to improve.

Period	Latest	Quarter-on-quarter
2017 Q4	4.4%	quarter-on-quarter

Source: ONS

Consumer confidence

Consumer confidence improved by three points in March 2018 to a level last seen a year ago. The figures point to optimism coming from increases in personal finance and the general economic conditions. The positive outlook for wage rises against falling inflation, high levels of employment and low-level interest rates, appear to have boosted consumer confidence.

Period	Latest	Monthly index score
Mar 2018	-7	monthly index score

Source: Haver Analytics, GfK Consumer Confidence Index

Retail sales

Retail sales fell in March 2018, with the quantity bought down to a negative territory. The likely reason for the underperforming retail sales was the poor weather conditions in March, which impacted store visits. This is in line with an increase in online shopping over the same period. Meanwhile, the average store prices also fell from the previous month, reflecting an overall slowdown in price growth.

Period	Latest	Volume (quantity bought), month-on-month	Store prices, year-on-year
Mar 2018	-1.2%	volume (quantity bought), month-on-month	1.9%
Mar 2018	1.9%	store prices, year-on-year	

Source: ONS

Economic Update

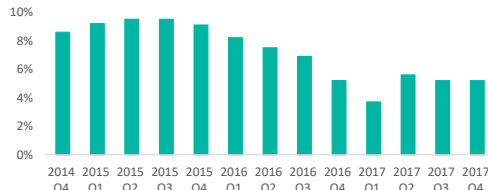


past 3 years

Latest

Household savings ratio

The household saving ratio remained unchanged at 5.2% in Q4 2017, but it marked the lowest annual saving ratio on record at 4.9%. The low saving ratio reflects a rundown of savings by households as growth in consumption spending continues to outstrip growth in real earnings. The rundown of household savings is also indicative of the increased borrowing by households throughout 2017.



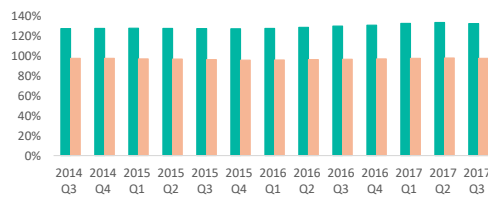
2017 Q4 5.2%

household saving ratio (%), quarterly

Source: ONS

Household debt

In Q3 2017, household debt reached 132.9% of household disposable income, 97.9% of which was comprised of mortgage debt. Household borrowing and inflation are still outpacing real earnings growth, which is associated with faster growth of household liabilities and debt servicing costs as a share of disposable income.



2017 Q3 132.9%

household debt to income (%), quarterly

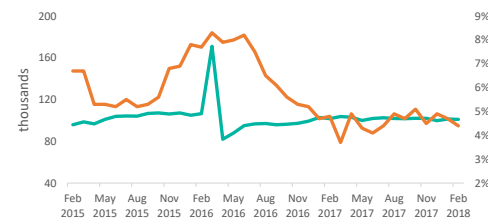
2017 Q3 97.9%

of which mortgages (%), quarterly

Source: Haver Analytics, Bank of England

Property transactions and house prices

The number of property transactions completed in the UK, with value of £40,000 or above, reached 101,000 in February 2018, slightly lower compared to the same month last year. At the same time, the average house prices in the UK grew by 4.4% in the year to February 2018, down from 4.7% in January 2018.



Feb 2018 101,000

Residential property transactions at £40,000 GBP or above

Feb 2018 4.4%

annual house price rates of change, %

Source: Haver Analytics, Land Registry, ONS

Business confidence

Business confidence in March 2018, referred to as the average of business prospects and economic optimism, has improved slightly from 47% to 48% on the previous month. Firms continue to remain resilient since the referendum vote in June 2016. The manufacturing sector, in particular, leads the way in business confidence. In contrast, the wholesale and retail sectors are still feeling the pressure of ongoing challenging conditions on the high street.



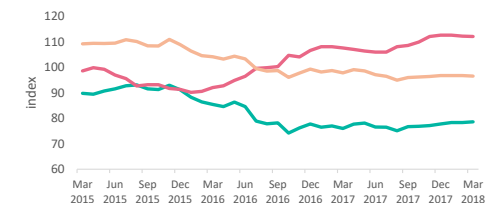
Mar 2018 48.0%

business confidence, monthly, up (%)

Source: Haver Analytics, Lloyds Business Barometer

Sterling exchange rate and producer prices

The sharp fall in the value of the pound following the referendum vote in 2016 has raised the cost of imports and pushed up the rate of inflation. However, we saw the input PPI value falling to 112.0 in March, with producer price inflation decreasing by 2.4% compared to 2.6% in the previous month. This is consistent with most forecasters, who expected that inflationary pressures during 2018 will start to fade, as the value of the pound begins to recover, albeit only gradually.



Mar 2018 78.6

broad exchange rate index, monthly

Mar 2018 € 1.13

EUR/GBP, monthly average

Mar 2018 112.0

input PPI, monthly

Source: Haver Analytics, ONS

Business investment

Business investment grew by 1.1% in Q4 2017, an increase from 0.5% in the previous quarter. The expectation is that real investment for the long term will continue to grow at a muted pace, as businesses remain in a 'wait-and-see' mode until there is a clearer picture of Brexit negotiations.



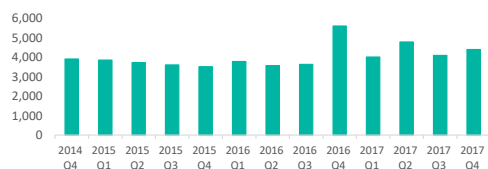
2017 Q4 1.1%

quarter-on-quarter % growth

Source: ONS

Company insolvencies

There were a total of 4,382 company insolvencies in Q4 2017. Following changes to claimable expense rules, total company insolvencies increased by 7.3% compared to Q3 2017. Excluding that event, the underlying number of companies entering insolvency in Q4 2017 fell by 17.2% compared to Q3 2017 and by 10.9% compared with the same quarter in 2016.



2017 Q4 4,382

quarterly totals

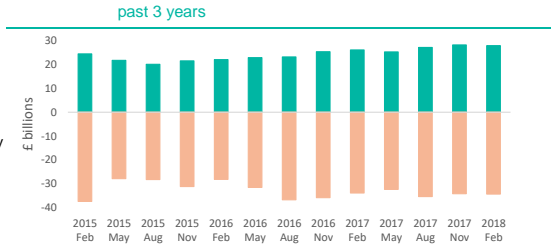
Economic Update



Source: The Insolvency Service

Trade in goods & services

The total UK trade deficit widened by £0.4bn to £6.4bn in the three months to February 2018. The widening was due mainly to trade in goods exports decreasing by £0.6bn to £80.3bn, partially offset by a £0.4bn increase in services exports. Decreases in export volumes had the largest impact on the widening of the trade in goods deficit in the three months to February 2018.



Month	Services balance, three-month on three-month	Goods balance, three-month on three-month
2018 Feb	£27.8 bn	-£34.2 bn

Source: ONS

Next update:

25 May 2018

Economic Update



Release Date : 26 April 2018

	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	
Inflation	annual CPI	2.3%	2.7%	2.9%	2.6%	2.6%	2.9%	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%
	annual CPIH	2.3%	2.6%	2.7%	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.3%
Wages	annual real earnings growth	-0.4%	-0.6%	-0.5%	-0.5%	-0.4%	-0.4%	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	
Consumer confidence	monthly	-6	-7	-5	-10	-12	-10	-9	-10	-12	-13	-9	-10	-7
Retail sales	volume (quantity bought), month-on-month	-0.8%	1.8%	-0.7%	-0.2%	0.6%	1.0%	-1.0%	0.6%	0.9%	-1.3%	0.0%	0.8%	-1.2%
	store prices, month-on-year	3.1%	2.9%	3.1%	2.7%	2.7%	3.1%	3.3%	3.1%	3.0%	3.1%	2.8%	2.5%	1.9%
Property transactions and house prices	Residential property transactions over £40,000 GBP	103,720	103,060	99,940	101,900	102,480	101,940	101,640	102,000	102,120	99,800	101,350	101,000	
	annual house price rates of change, %	3.7%	4.9%	4.3%	4.1%	4.4%	4.9%	4.7%	5.1%	4.5%	4.9%	4.7%	4.4%	
Business confidence	monthly	50.0%	56.0%	44.0%	48.0%	45.0%	38.0%	39.0%	42.0%	45.0%	45.0%	50.0%	47.0%	48.0%
Sterling exchange rate and producer prices	broad exchange rate index, monthly	76.0	77.6	78.1	76.5	76.5	75.1	76.7	76.8	77.1	77.8	78.3	78.3	78.6
	EUR/GBP, monthly average	1.15	1.18	1.17	1.14	1.13	1.10	1.12	1.12	1.13	1.13	1.13	1.13	1.13
	input PPI, monthly	107.5	106.9	106.3	105.9	105.9	108.0	108.5	109.8	112.0	112.5	112.5	112.1	112.0

For information or media enquiries, please contact press@ukfinance.org.uk

Next update:

25 May 2018

Economic Update



Release Date : 26 April 2018

	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
GDP	quarter-on-quarter	3.0%	3.3%	2.7%	2.5%	2.1%	1.9%	1.8%	2.0%	2.0%	2.0%	1.8%	1.8%	1.4%
	quarter-on-year	0.8%	0.8%	0.3%	0.6%	0.4%	0.7%	0.2%	0.5%	0.5%	0.7%	0.2%	0.3%	0.5%
Unemployment	quarter-on-quarter	6.0%	5.7%	5.5%	5.6%	5.3%	5.1%	5.1%	4.9%	4.8%	4.8%	4.6%	4.4%	4.4%
Household savings ratio	quarterly %	7.4%	8.6%	9.2%	9.5%	9.5%	9.1%	8.2%	7.5%	6.9%	5.2%	3.7%	5.6%	5.2%
Household debt	household debt to income (%), quarterly	127.7%	127.8%	127.9%	128.2%	128.0%	127.8%	127.6%	128.0%	129.0%	130.2%	131.2%	133.0%	133.9%
	of which mortgages (%), quarterly	97.8%	97.9%	97.8%	97.4%	97.1%	96.6%	96.1%	96.1%	96.5%	97.0%	97.3%	97.8%	98.2%
Business investment	quarter-on-quarter % growth	1.1	-0.6	2.8	1.4	-3.1	0.1	0.7	2.0	1.1	0.7	0.7	1.7	0.5
Company insolvencies	quarterly totals	£3,945	£3,898	£3,843	£3,718	£3,593	£3,504	£3,769	£3,557	£3,625	£5,594	£4,003	£4,774	£4,083
Trade in goods and services	Services balance, three-month on three-month	Nov-14	Feb-15	May-15	Aug-15	Nov-15	Feb-16	May-16	Aug-16	Nov-16	Feb-17	May-17	Aug-17	Nov-17
		£22.6 bn	£24.4 bn	£21.7 bn	£20.1 bn	£21.5 bn	£22.0 bn	£22.8 bn	£23.1 bn	£25.3 bn	£26.0 bn	£25.2 bn	£27.1 bn	£28.2 bn
	Goods balance, three-month on three-month	Nov-14	Feb-15	May-15	Aug-15	Nov-15	Feb-16	May-16	Aug-16	Nov-16	Feb-17	May-17	Aug-17	Nov-17
		-£30.1 bn	-£37.3 bn	-£27.8 bn	-£28.2 bn	-£31.0 bn	-£28.1 bn	-£31.5 bn	-£36.6 bn	-£35.8 bn	-£33.7 bn	-£32.3 bn	-£35.3 bn	-£34.1 bn

For information or media enquiries, please contact press@ukfinance.org.uk

Next update:

25 May 2018