

Economic Update



Release Date : 25 May 2018

Economic update - April 2018

Key data highlights:

The headline figures in April showed the UK economy growing at its slowest pace in more than five years, with weaker manufacturing growth, subdued consumer-facing industries and construction output falling significantly. Despite the positive outlook for real earnings growing against continuously falling price growth, high levels of employment and low-level interest rates, consumers remain wary of their day-to-day finances and propensity to shop. In addition, the latest figures on the household savings ratio point to a rundown of household savings to their lowest level, which is indicative of the increased borrowing by households throughout 2017. If the pattern of solid jobs growth and a gradual pick-up in earnings growth persist through the year, this is likely to put pressure on the Bank of England to increase interest rates later in 2018.

The UK business landscape has depicted an optimistic picture, underpinned by stable levels of business confidence during April. With over half of firms more optimistic about the economy than they were at the start of the year, it will be interesting to see if that trend continues to grow throughout 2018. 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, normalising 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.

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GDP

The UK economy was estimated to have slowed by 0.1% in Q1 2018, down from 0.4% in Q4 2017. UK GDP growth was the slowest since Q4 2012, with construction being the largest drag on GDP, falling by 3.3%. After a strong period, manufacturing growth slowed to 0.2%, partially offset by an increase in energy production. The services industries were the largest contributor to GDP growth, increasing by 0.3% in Q1 2018, although the longer-term trend continues to show a weakening in services growth.

past 3 years

Period	Latest	Quarter-on-year
2018 Q1	1.2%	quarter-on-year
2018 Q1	0.1%	quarter-on-quarter

Source: ONS

Inflation

In April 2018, both the official inflation measure CPI and the CPIH measure, which includes home occupiers' housing costs, continued falling to their lowest levels in a year from their March levels at 2.4% and 2.2% 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 CPI %
2018 Apr	2.4%	annual CPI %
2018 Apr	2.2%	annual CPIH %

Source: ONS

Wages

Nominal earnings rose by 2.9% in the three months to March 2018. Similarly, real earnings, adjusted for inflation, grew by 0.4%, continuing to recover from their negative rate at the start of the year. Nevertheless, inflation remains higher than pay growth and so the real value of earnings continues to decline.

Period	Latest	Annual real earnings growth %
Mar 2018	0.4%	annual real earnings growth %

Source: ONS

Unemployment

The unemployment rate fell to 4.2% in Q1 2018, slowing from 4.4% in the previous quarter. With strong labour market growth, there is an expectation that real earnings should continue to improve. However, if this pattern of solid jobs growth and a gradual pick-up in earnings growth persist through the year, then this could push the MPC towards an interest rate rise later in 2018.

Period	Latest	Quarter-on-quarter
2018 Q1	4.2%	quarter-on-quarter

Source: ONS

Consumer confidence

Consumer confidence dropped two points in April 2018. Despite the positive news about normalising wages, no imminent interest rate rise, and record high levels of employment, consumers have reported concerns about the lack of security in their day-to-day finances and propensity to shop, spend and plan for their future.

Period	Latest	Monthly index score
Apr 2018	-9	monthly index score

Source: Haver Analytics, GfK Consumer Confidence Index

Retail sales

Retail sales increased in April 2018, as petrol and other sales recovered from last month. However, the underlying trend remains subdued with the volume of goods bought over the last six months broadly unchanged. Increases this month were seen across all sectors, except department stores. This was in line with the average store prices, which also increased from the previous month.

Period	Latest	Volume (quantity bought), month-on-month	Store prices, year-on-year
Apr 2018	1.6%	volume (quantity bought), month-on-month	2.2%
Apr 2018	2.2%	store prices, year-on-year	

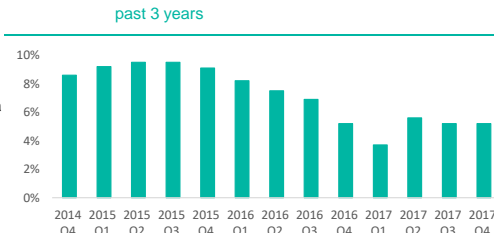
Source: ONS

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Household savings ratio

The household saving ratio remained unchanged at 5.2% in Q4 2017. 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.



Latest

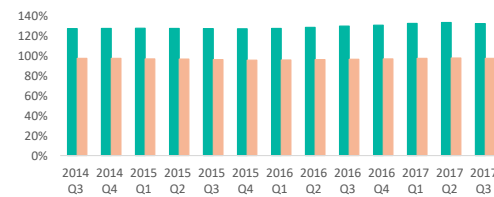
2017 Q4 5.2%

household 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

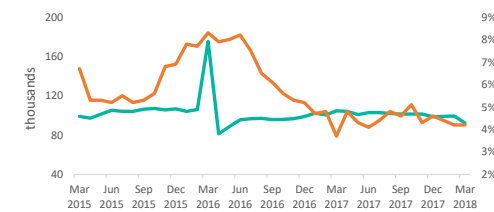
2017 Q3 97.9%

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 92,270 in March 2018, down from 99,400 on the previous month. In line with this, the average house prices in the UK fell by 4.2% in the year to March 2018 - a level last seen in November 2013.



Mar 2018 92,270

Residential property transactions over £40,000 GBP

Mar 2018 4.2%

annual house price rates of change, %

Source: Haver Analytics, Land Registry, ONS

Business confidence

Business confidence in April 2018, referred to as the average of business prospects and economic optimism, has remained unchanged from the previous month at 48.8%. Firms continue to remain resilient since the referendum vote in June 2016. With over half of firms more optimistic about the economy than they were at the start of the year, it will be interesting to see if that trend continues to grow throughout 2018.



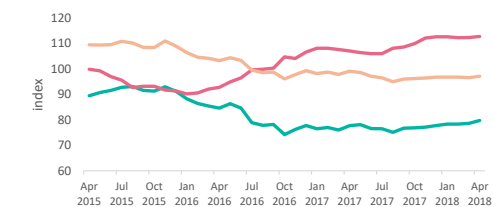
Apr 2018 48.0%

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. The input PPI value increased slightly to 112.6 in April, with producer price inflation rising by 2.7%, which is unchanged from the previous month. This is broadly 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.



Apr 2018 79.7

broad exchange rate index, monthly

Apr 2018 € 1.14

EUR/GBP, monthly average

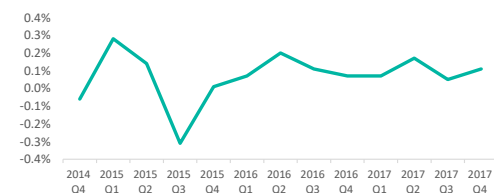
Apr 2018 112.6

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.



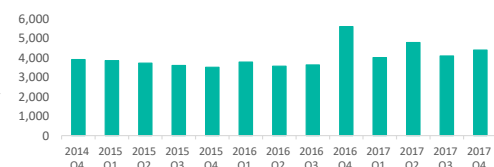
2017 Q4 1.1%

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

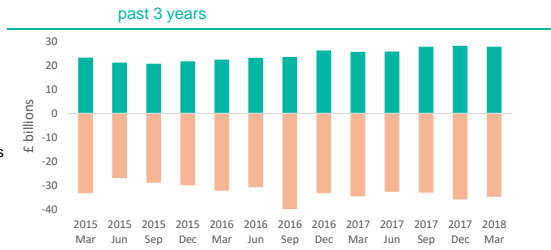
Source: The Insolvency Service

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Trade in goods & services

The total UK trade deficit narrowed £0.7bn to £6.9bn in the three months to March 2018. This was due mainly to falling goods imports from non-EU countries. The narrowing goods deficit with non-EU countries was due mainly to falls in imports of machinery and transport equipment, and clothing and works of art of £1.3 billion and £0.5 billion respectively in the three months to March 2018.



Latest

2018 Mar **£27.7 bn** Services balance, three-month on three-month

2018 Mar **-£34.6 bn** Goods balance, three-month on three-month

Source: ONS

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	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Inflation													
annual CPI	2.7%	2.9%	2.6%	2.6%	2.9%	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%
The UK economy was estimated to have slowed by	2.6%	2.7%	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.3%	2.2%
Wages													
annual real earnings growth	-0.6%	-0.5%	-0.5%	-0.4%	-0.4%	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	0.4%	
Consumer confidence													
monthly	-7	-5	-10	-12	-10	-9	-10	-12	-13	-9	-10	-7	-9
Retail sales													
volume (quantity bought), month-on-month	1.5%	-0.4%	0.0%	0.3%	1.0%	-0.9%	0.5%	0.9%	-1.2%	-0.1%	0.8%	-1.1%	1.6%
In April 2018, both the official inflation measure CPI and the CPIH measure	2.9%	3.1%	2.7%	2.7%	3.1%	3.3%	3.1%	3.1%	3.1%	2.8%	2.5%	1.9%	2.2%
Property transactions and house prices													
Residential property transactions over £40,000 GBP	104,050	100,890	102,770	102,830	101,950	101,470	101,470	101,380	98,700	99,000	99,400	92,270	
annual house price rates of change, %	4.8%	4.3%	4.1%	4.4%	4.8%	4.6%	5.1%	4.3%	4.6%	4.4%	4.2%	4.2%	
Business confidence													
monthly	56.0%	44.0%	48.0%	45.0%	38.0%	39.0%	42.0%	45.0%	45.0%	50.0%	47.0%	48.0%	48.0%
Sterling exchange rate and producer prices													
Nominal earnings rose by 2.9% in the three months to March 2018.	77.6	78.1	76.5	76.5	75.1	76.7	76.8	77.1	77.8	78.3	78.3	78.6	79.7
EUR/GBP, monthly average	1.18	1.17	1.14	1.13	1.10	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.14
input PPI, monthly	106.9	106.3	105.9	105.9	108.0	108.5	109.8	112.0	112.5	112.5	112.1	112.2	112.6

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		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	Jan-18
GDP	quarter-on-quarter	3.3%	2.7%	2.5%	2.1%	2.1%	1.9%	1.8%	2.0%	2.0%	2.0%	1.8%	1.8%	1.4%	1.2%
	The UK economy was estimated to have slowed by	0.8%	0.3%	0.6%	0.4%	0.7%	0.2%	0.5%	0.5%	0.7%	0.2%	0.3%	0.5%	0.4%	0.1%
Unemployment	quarter-on-quarter	5.7%	5.5%	5.6%	5.3%	5.1%	5.1%	4.9%	4.8%	4.8%	4.6%	4.4%	4.3%	4.4%	4.2%
Household savings ratio	quarterly %	8.6%	9.2%	9.5%	9.5%	9.1%	8.2%	7.5%	6.9%	5.2%	3.7%	5.6%	5.2%	5.2%	
Household debt	household debt to income (%), quarterly	127.8%	127.9%	128.2%	128.0%	127.8%	127.6%	128.0%	129.0%	130.2%	131.2%	133.0%	133.9%	132.9%	
	In April 2018, both the official inflation measure CPI and the CPIH	97.9%	97.8%	97.4%	97.1%	96.6%	96.1%	96.1%	96.5%	97.0%	97.3%	97.8%	98.2%	97.9%	
Business investment	quarter-on-quarter % growth	-0.6	2.8	1.4	-3.1	0.1	0.7	2.0	1.1	0.7	0.7	1.7	0.5	1.1	
Company insolvencies	quarterly totals	£3,898	£3,843	£3,718	£3,593	£3,504	£3,769	£3,557	£3,625	£5,594	£4,003	£4,774	£4,083	£4,382	
Trade in goods and services	nominal earnings rose by 2.9% in the three months to March 2018. Similarly real	£24.2 bn	£23.1 bn	£21.0 bn	£20.6 bn	£21.6 bn	£22.3 bn	£23.0 bn	£23.4 bn	£26.1 bn	£25.5 bn	£25.7 bn	£27.7 bn	£28.1 bn	£27.7 bn
	Goods balance, three-month on three-month	-£33.8 bn	-£33.2 bn	-£26.8 bn	-£28.8 bn	-£29.8 bn	-£32.0 bn	-£30.6 bn	-£39.8 bn	-£33.1 bn	-£34.4 bn	-£32.5 bn	-£32.9 bn	-£35.7 bn	-£34.6 bn

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