

# Economic Update



Release Date : 26 June 2018

---

Economic update - May 2018

## Key data highlights:

The UK economy is growing at its slowest pace in more than five years, marked by weaker manufacturing and construction growth. Consumer-facing industries have also lagged, as average store prices increased, keeping inflation higher than pay growth. Despite that high levels of employment and low-level interest rates have kept consumer confidence more upbeat, consumers still remain wary of their day-to-day finances and propensity to shop, as the real value of earnings continues to decline. 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. The outlook for inflation and real earnings growth will be closely monitored over the coming months ahead of the next MPC's assessment of economy and interest rate decision.

The UK business landscape has continued to depict an optimistic picture, underpinned by stable levels of business confidence during May. 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 fell to a negative territory in Q1 2018, causing investment plans to stall. The expectation is that real investment for the long term will continue to grow at a rather muted pace, as businesses remain wary of Brexit negotiations. In line with that, sterling fails to gain pace, causing rising input costs and inflationary pressures, which, if persistent, may feed into a negative 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](mailto: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 July 2018

# Economic Update



Release Date : 26 June 2018

**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	2018 Q1	2018 Q1
2018 Q1	1.2%	1.2%	quarter-on-year
2018 Q1	0.1%	0.1%	quarter-on-quarter

Source: ONS

**Inflation**

In May 2018, the official inflation measure CPI remained unchanged from April 2018 at 2.4%. However, the CPIH rate was 2.3% in May 2018, up from 2.2% in April 2018, with the owner occupiers' housing costs making the largest housing-related contribution to the CPIH 12-month rate. The outlook for inflation and real earnings growth will be closely monitored over the coming months ahead of the next MPC's assessment of economy and interest rate decision.

Period	Latest	2018 May	2018 May
2018 May	2.4%	2.4%	annual CPI %
2018 May	2.3%	2.3%	annual CPIH %

Source: ONS

**Wages**

Nominal earnings fell by 2.8% in the three months to May 2018. Real earnings, adjusted for inflation, remained unchanged at 0.4%, continuing to hold up 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	Apr 2018	Apr 2018
Apr 2018	0.4%	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 the outlook for jobs and earnings remain positive through the year, then this could push the MPC towards an interest rate rise later in 2018.

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

Source: ONS

**Consumer confidence**

Consumer confidence increased two points in May 2018. Despite that UK consumers are feeling more upbeat this month, they remain way of the general state of the economy, the outlook of their day-to-day finances and propensity to spend. This is in line with falling retail sales, indicating that there is little motivation to spend.

Period	Latest	May 2018	May 2018
May 2018	-7	-7	monthly index score

Source: Haver Analytics, GfK Consumer Confidence Index

**Retail sales**

Retail sales slowed by 1.3% in May 2018, down from 1.8% from the previous month, following a more upbeat spending for food and household goods last month. This is also in line with average store prices, which increased from the previous month.

Period	Latest	May 2018	May 2018
May 2018	1.3%	1.3%	volume (quantity bought), month-on-month
May 2018	2.4%	2.4%	store prices, year-on-year

Source: ONS

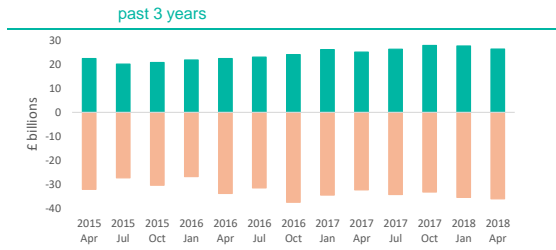


# Economic Update



## Trade in goods & services

The total UK trade deficit widened £1.9 billion to £9.7 billion in the three months to April 2018. The UK's trade in goods deficit improved £0.6 billion with countries outside of the EU and worsened £1.2 billion with countries inside the EU. There was a £9.9 billion improvement to the services trade surplus, due to a rise of 8.3% for services exports.



Latest

2018 Apr **£26.5 bn** Services balance, three-month on three-month

2018 Apr **-£36.2 bn** Goods balance, three-month on three-month

Source: ONS

Next update:

25 July 2018

# Economic Update



Release Date : 26 June 2018

		May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Inflation	annual CPI	2.9%	2.6%	2.6%	2.9%	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%	2.4%
	annual CPIH	2.7%	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.3%	2.2%	2.3%
Wages	annual real earnings growth	-0.5%	-0.5%	-0.4%	-0.4%	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	0.4%	0.4%	
Consumer confidence	monthly	-5	-10	-12	-10	-9	-10	-12	-13	-9	-10	-7	-9	-7
Retail sales	volume (quantity bought), month-on-month	-1.2%	0.4%	0.4%	1.0%	-0.8%	0.5%	0.9%	-1.2%	0.0%	0.8%	-1.1%	1.8%	1.3%
	store prices, month-on-year	3.1%	2.7%	2.7%	3.1%	3.3%	3.1%	3.1%	3.1%	2.8%	2.5%	1.9%	2.2%	2.4%
Property transactions and house prices	Residential property transactions over £40,000 GBP	100,000	101,930	102,460	101,860	101,450	101,730	101,850	99,510	100,050	99,510	96,800	100,190	
	annual house price rates of change, %	4.3%	4.1%	4.4%	4.8%	4.6%	5.1%	4.3%	4.5%	4.3%	4.7%	4.2%	3.9%	
Business confidence	monthly	44.0%	48.0%	45.0%	38.0%	39.0%	42.0%	45.0%	45.0%	50.0%	47.0%	48.0%	48.0%	51.0%
Sterling exchange rate and producer prices	broad exchange rate index, monthly	78.1	76.5	76.5	75.1	76.7	76.8	77.1	77.8	78.3	78.4	78.6	79.7	78.2
	EUR/GBP, monthly average	1.17	1.14	1.13	1.10	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.14	1.13
	input PPI, monthly	106.3	105.9	105.9	108.0	108.5	109.8	112.0	112.5	112.7	112.2	112.2	112.9	116.1

For information or media enquiries, please contact [press@ukfinance.org.uk](mailto:press@ukfinance.org.uk)

Next update:

25 July 2018

# Economic Update



Release Date : 26 June 2018

	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%
	quarter-on-year	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%	
	of which mortgages (%), quarterly	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	-0.8	5.2	0.1	-3.3	0.1	0.0	0.7	1.3	-0.1	0.3	1.2	0.8	0.3	-0.2
Company insolvencies	quarterly totals	£3,960	£3,692	£3,779	£3,550	£3,568	£3,668	£3,619	£3,614	£5,519	£3,964	£3,488	£5,325	£4,513	£4,462
Trade in goods and services	services balance, three-month on three-month	£24.7 bn	£22.5 bn	£20.2 bn	£20.9 bn	£21.9 bn	£22.5 bn	£23.1 bn	£24.2 bn	£26.3 bn	£25.2 bn	£26.4 bn	£28.0 bn	£27.8 bn	£26.5 bn
	goods balance, three-month on three-month	£-35.0 bn	£-32.2 bn	£-27.4 bn	£-30.5 bn	£-26.9 bn	£-33.9 bn	£-31.6 bn	£-37.6 bn	£-34.6 bn	£-32.4 bn	£-34.4 bn	£-33.3 bn	£-35.6 bn	£-36.2 bn

For information or media enquiries, please contact [press@ukfinance.org.uk](mailto:press@ukfinance.org.uk)

Next update:

25 July 2018