

Economic Update



Release Date : 25 July 2018

Economic update - July 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. With 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.
- 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 250 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

Growth in the UK economy slowed to 0.1% in Q1 2018, from 0.4% in Q4 2017 and to the slowest rate since Q4 2012. Construction output was the largest drag on GDP, falling by 3.3%, while after a strong period, manufacturing growth slowed to 0.2%. Service industries were the largest contributor to growth, increasing by 0.3%, although the longer-term trend continues to show a weakening in services output.

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

After falling in the first quarter, Inflation has remained stable since April, at 2.4%. Having maintained Bank Rate at 0.5%, expectations are rising of an MPC decision to increase the rate at their August meeting, but it is not a foregone conclusion.

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

Source: ONS

Wages

Nominal earnings rose by 2.7% in the three months to June 2018. Adjusted for inflation, real earnings fell slightly to 0.4%, marking six months of real wage growth after the contraction through 2017.

Period	Latest	May 2018	May 2018
May 2018	0.4%	0.4%	annual real earnings growth %

Source: ONS

Unemployment

The unemployment rate improved to 4.2% in Q1 2018, from 4.4% Q4. Stronger labour markets should lead to rising employment and higher output.

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

Source: ONS

Consumer confidence

Consumer confidence has improved since the turn of the year but consumers remain wary of the outlook for their day-to-day finances and propensity to spend.

Period	Latest	Jun 2018	Jun 2018
Jun 2018	-9	-9	monthly index score

Source: Haver Analytics, GfK Consumer Confidence Index

Retail sales

Monthly retail sales are on a stable trend after allowing for volatility arising from hot weather and the World Cup. Average store prices reflect inflation, suggesting little real increase in retail prices.

Period	Latest	Jun 2018	Jun 2018
Jun 2018	-0.5%	-0.5%	volume (quantity bought), month-on-month
Jun 2018	2.3%	2.3%	store prices, year-on-year

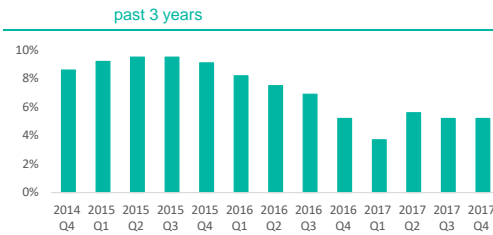
Source: ONS

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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 and increased borrowing by households throughout 2017.

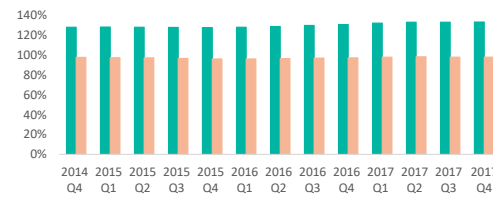


Latest
2017 Q4 5.2% household ratio (%), quarterly

Source: ONS

Household debt

In Q4 2017, household debt reached 133% of disposable income, 98% of which comprised of mortgage debt. Household borrowing and debt servicing costs, influenced by inflation, are outpacing real earnings growth, giving downward pressure on the savings ratio.

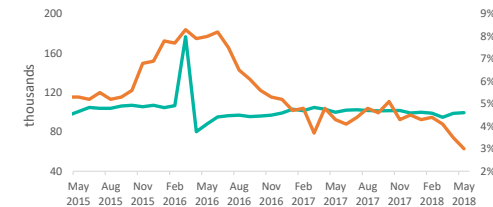


2017 Q4 133.2% household debt to income (%), quarterly
2017 Q4 97.8% of which mortgages (%), quarterly

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 99,590 in May 2018, up from 98,820 on the previous month. Annual UK house price inflation stood at 3% in May 2018, the lowest annual rate since August 2013.



May 2018 99,590 Residential property transactions over £40,000 GBP
May 2018 3.0% annual house price rates of change, %

Source: Haver Analytics, Land Registry, ONS

Business confidence

Business confidence, measured by average of business prospects and economic optimism, was slightly lower in June. Nearly half of firms were more optimistic about the economy than they were at the start of the year.

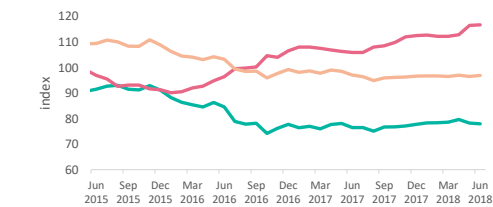


Jun 2018 46.0% business confidence, monthly, up (%)

Source: Haver Analytics, Lloyds Business Barometer

Sterling exchange rate and producer prices

Depreciation of sterling, following the referendum vote in 2016 raised the cost of imports and pushed up inflation. Input PPI value increased to 116.7 in June, with producer price inflation continuing to rise by 2.9%.

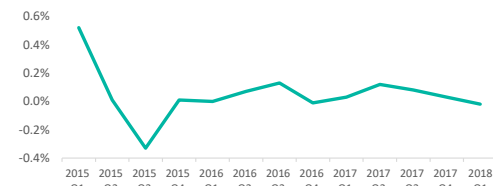


Jun 2018 77.9 broad exchange rate index, monthly
Jun 2018 € 1.14 EUR/GBP, monthly average
Jun 2018 116.7 input PPI, monthly

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.

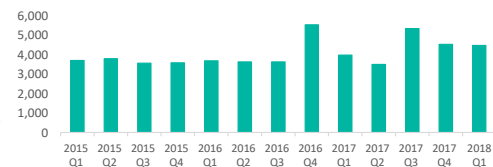


2018 Q1 -0.2% quarter-on-quarter % growth

Source: ONS

Company insolvencies

There were a total of 4,462 company insolvencies in Q1 2018. Total company insolvencies decreased by 1.1% compared to Q4 2017. Following changes to claimable expense rules the number of companies entering insolvency in Q1 2018 increased by 12.6% when compared with the same quarter in 2017.



2018 Q1 4,462 quarterly totals

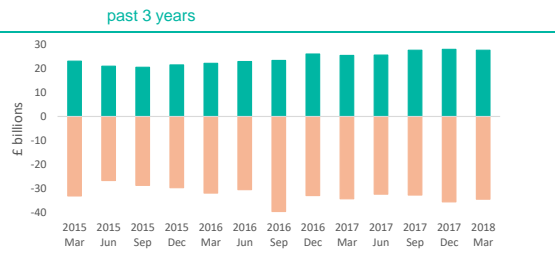
Source: The Insolvency Service

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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

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

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

Source: ONS

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		Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Inflation	annual CPI	2.6%	2.6%	2.9%	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%	2.4%	2.4%
	annual CPIH	2.6%	2.6%	2.7%	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.3%	2.2%	2.3%	2.3%
Wages	annual real earnings growth	-0.5%	-0.4%	-0.4%	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	0.4%	0.5%	0.4%	
Consumer confidence	monthly	-10	-12	-10	-9	-10	-12	-13	-9	-10	-7	-9	-7	-9
Retail sales	volume (quantity bought), month-on-month	0.6%	0.2%	1.0%	-0.8%	0.5%	0.8%	-1.2%	0.1%	0.7%	-1.1%	1.8%	1.4%	-0.5%
	store prices, month-on-year	2.6%	2.7%	3.1%	3.3%	3.1%	3.1%	3.0%	2.8%	2.5%	1.9%	2.2%	2.4%	2.3%
Property transactions and house prices	Residential property transactions over £40,000 GBP	102,150	102,530	101,880	101,430	101,650	101,710	99,280	99,920	99,130	94,890	98,820	99,590	
	annual house price rates of change, %	4.1%	4.4%	4.8%	4.6%	5.1%	4.3%	4.5%	4.3%	4.4%	4.1%	3.5%	3.0%	
Business confidence	monthly	48.0%	45.0%	38.0%	39.0%	42.0%	45.0%	45.0%	50.0%	47.0%	48.0%	48.0%	51.0%	46.0%
Sterling exchange rate and producer prices	broad exchange rate index, monthly	76.5	76.5	75.1	76.7	76.8	77.1	77.8	78.3	78.4	78.6	79.7	78.2	77.9
	EUR/GBP, monthly average	1.14	1.13	1.10	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.14	1.13	1.14
	input PPI, monthly	105.9	105.9	108.0	108.5	109.8	112.0	112.5	112.7	112.2	112.2	112.8	116.5	116.7

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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	Mar-18	
GDP	quarter-on-quarter	3.3%	2.7%	2.5%	2.1%	2.1%	1.9%	1.8%	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%	4.2%	
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%		
Household debt	household debt to income (%), quarterly	127.8%	127.9%	128.2%	128.0%	127.8%	127.6%	128.0%	128.8%	129.8%	130.6%	132.2%	133.1%	133.1%	133.2%
	of which mortgages (%), quarterly	97.9%	97.8%	97.4%	97.1%	96.6%	96.1%	96.2%	96.5%	96.9%	97.2%	97.8%	98.2%	97.9%	97.8%
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	£24.2 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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