

Economic Update



Release Date : 24 August 2018

Economic update - August 2018

Key data highlights:

The Monetary Policy Committee acted at the start of this month to raise Bank Rate by 0.25% to 0.75% to meet its 2% inflation target over the forecast period. The forecast for the UK economy is for annual growth of 1.75% per year in the next two years. While global demand will continue to support net trade and business investment, uncertainty over international trade and tariffs are raising concerns.

- Although high levels of employment and low interest rates have kept consumer confidence more upbeat, consumers remain wary of their day-to-day finances and propensity to shop, as the real value of earnings continues to be very modest and therefore consumption is only growing in line with real incomes.

The UK business landscape continues to depict an optimistic picture, underpinned by stable business confidence, largely based on domestic activity but conversely, business investment remains subdued. The expectation is that real investment, either funded by debt or equity, will continue to be at a rather muted pace, as businesses await certainty over Brexit.

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

Slow output of just 0.2% in Q1 is now seen as temporary with an improvement coming through in Q2, driven by consumption growth.

past 3 years

Latest

Q1 2018	1.2%	year-on-year
Q1 2018	0.2%	quarter-on-quarter

Source: ONS

Inflation

The Monetary Policy Committee voted unanimously to raise Bank Rate to 0.75% in August and to maintain Quantitative Easing levels. CPI inflation at 2.5% still largely reflects sterling's depreciation and higher energy prices, so the interest rate rise was largely anticipated. Over the 2-year forecast period, CPI inflation is expected to be slightly above target of 2%.

Latest

Jul 2018	2.5%	annual CPI %
Jul 2018	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.

Latest

Jun 2018	0.4%	annual real earnings growth %
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Source: ONS

Unemployment

The unemployment rate improved to 4.2% in Q1 2018, from 4.4% in Q4 and is projected to fall to 4.0% in Q3. Tighter labour markets and limited slack is expected to lead to stronger pay growth.

Latest

Mar 2018	4.2%	quarter-on-quarter
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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.

Latest

Jul 2018	-10	monthly index score
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Source: Haver Analytics, GfK Consumer Confidence Index

Retail sales

Retail sales growth rose sharply in Q2. Increased numbers of retail store closures and reduced retail footfall suggest consumers are moving to online stores and from goods to services.

Latest

Jul 2018	3.5%	volume (quantity bought), year-on-year
Jul 2018	5.9%	value year-on-year

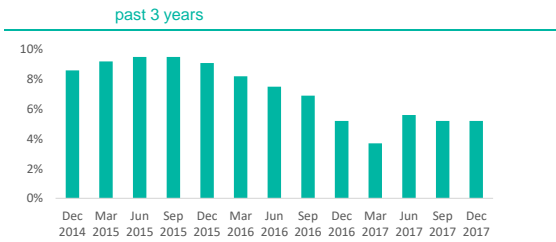
Source: ONS

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Household savings ratio

Stable post-tax income combined with rising consumption has led to a steady decline in the saving ratio since 2015.

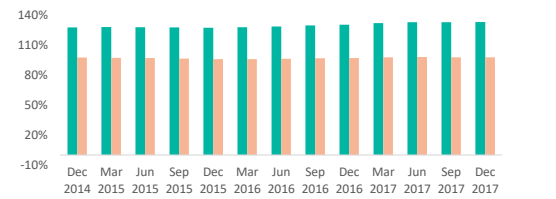


Source: ONS

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

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.

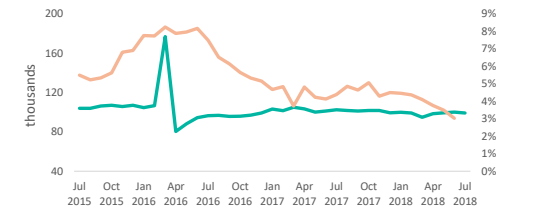


Source: Haver Analytics, Bank of England

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

Property transactions and house prices

The number of property transactions completed in the UK, with value of £40,000 has been stable at around 99,000 through 2018. Annual UK house price inflation has been slowing through the year and the current rate of 3% is the lowest since August 2013.



Source: Haver Analytics, Land Registry, ONS

Latest
Jul 2018 99,270 Residential property transactions over £40,000 GBP
Jun 2018 3.0% annual house price rates of change, %

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.

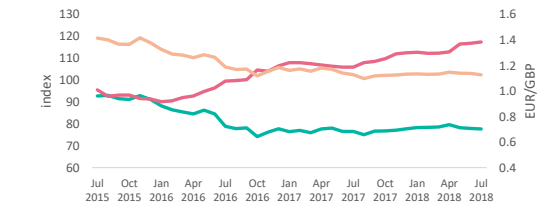


Source: Haver Analytics, Lloyds Business Barometer

Latest
Jul 2018 46.0% business confidence, monthly, up (%)

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 to 2.9%.

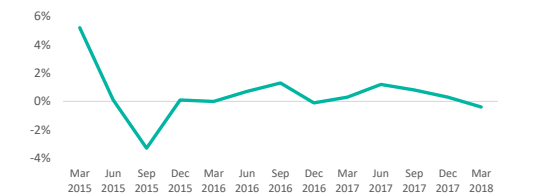


Source: Haver Analytics, ONS

Latest
Jul 2018 77.6 broad exchange rate index, monthly
Jul 2018 € 1.13 EUR/GBP, monthly average
Jul 2018 117.4 input PPI, monthly

Business investment

After growing by 1.1% in Q4 2017, business investment fell back in Q1, by 0.4%. The expectation is that real investment for the long term will continue at a muted pace, as businesses remain in a 'wait-and-see' mode until there is a clearer outcome from the Brexit negotiations.

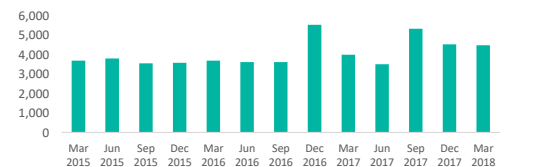


Source: ONS

Latest
Q1 2018 -0.4% quarter-on-quarter % growth

Company insolvencies

There were a total of 4,462 company insolvencies in Q1 2018. Total company insolvencies fell 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.



Source: The Insolvency Service

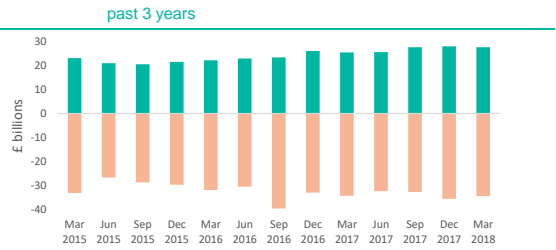
Latest
Q1 2018 4,472 quarterly totals

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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

Q1 2018 **£27.7 bn** Services balance, three-month on three-month

Q1 2018 **-£34.6 bn** Goods balance, three-month on three-month

Source: ONS

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	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Inflation	annual CPI	2.6%	2.9%	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%	2.4%	2.5%
	annual CPIH	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	-0.4%	-0.4%	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	0.4%	0.5%	0.5%	0.4%
Consumer confidence	monthly	-12	-10	-9	-10	-12	-13	-9	-10	-7	-9	-7	-9
Retail sales	volume (quantity bought), month on same month previous year	1.1%	2.2%	1.3%	0.1%	1.1%	1.4%	1.7%	1.7%	1.3%	1.2%	4.0%	2.9%
	value (month on same month previous year)	3.9%	5.4%	4.6%	3.2%	4.2%	4.4%	4.6%	4.1%	3.3%	3.3%	6.4%	5.3%
Property transactions and house prices	Residential property transactions over £40,000 GBP	102,550	101,820	101,330	101,700	101,820	99,390	99,940	99,240	94,890	98,520	99,400	100,060
	annual house price rates of change, %	4.4%	4.9%	4.6%	5.1%	4.3%	4.5%	4.5%	4.4%	4.1%	3.8%	3.5%	3.0%
Business confidence	monthly	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	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	1.13	1.10	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.15	1.14	1.14
	input PPI, monthly	105.9	108.0	108.5	109.8	112.0	112.5	112.7	112.2	112.3	112.9	116.5	116.8

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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-year	3.1%	2.7%	2.4%	2.1%	2.2%	2.1%	1.7%	1.7%	1.7%	1.8%	1.8%	1.7%	1.3%	1.2%
	quarter-on-quarter	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%	0.2%
Unemployment	quarter-on-quarter	5.7%	5.5%	5.5%	5.2%	5.1%	5.0%	4.9%	4.8%	4.7%	4.6%	4.3%	4.3%	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%	5.2%	
Household debt	household debt to income (%), quarterly	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	97.8%	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%	-0.4%
Company insolvencies	quarterly totals	3,962	3,682	3,789	3,547	3,570	3,676	3,610	3,611	5,522	3,982	3,498	5,320	4,517	4,472
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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