

Economic Update



Release date : 24 October 2018

Economic update - October 2018

Key data highlights:

September saw inflation fall back to 2.4%, reducing the likelihood of a Bank Rate rise from 0.75%. Higher employment and real wage growth is holding up sentiment, but consumers remain wary of their day-to-day finances and are becoming less likely to spend or save. The alternative measure of inflation containing owner-occupiers' housing costs - owning, maintaining and living in one's own home and Council Tax (CPIH, 2.2%) shows that utility bills have become the largest contributor to the housing component of the index, reflecting lower disposable income.

The new monthly GDP figures showed growth of 0.7% in the three months to August, with the services sector the largest contributor (0.4%), followed by construction (0.2%). The hot weather in June and July saw retail, food and drink production businesses performing well, but all output measures weakened in the month of August, suggesting that Q3 data may be weak.

The UK business landscape continues to show uncertainty around the Brexit negotiations. After three consecutive quarterly increases in 2017, business investment has stalled in 2018. In Q2 it was 0.7% lower than in Q1 and 0.2% lower than a year earlier. Expenditure on transport equipment was the largest negative contribution, only partly offset by small increases in ICT equipment and other machinery.

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

Output improved slightly in Q2 of 2018 with growth of 0.4% compared to of just 0.2% in Q1.

past 3 years

Quarter	GDP Growth (%)
Q2 2015	2.4
Q3 2015	2.1
Q4 2015	2.2
Q1 2016	2.1
Q2 2016	1.7
Q3 2016	1.7
Q4 2016	1.7
Q1 2017	1.8
Q2 2017	1.9
Q3 2017	1.8
Q4 2017	1.4
Q1 2018	0.2
Q2 2018	0.4

Latest

Q2 2018	1.2%	year-on-year
Q2 2018	0.4%	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 2.4% 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%.

Month	CPI Inflation (%)
Sep 2015	0.0
Dec 2015	0.2
Mar 2016	0.5
Jun 2016	0.6
Sep 2016	0.8
Dec 2016	1.5
Mar 2017	2.5
Jun 2017	2.8
Sep 2017	2.9
Dec 2017	2.8
Mar 2018	2.4
Jun 2018	2.3
Sep 2018	2.4

Latest

Sep 2018	2.4%	annual CPI %
Sep 2018	2.2%	annual CPIH %

Source: ONS

Wages

Nominal earnings rose by 3.1% in the three months to August 2018. Adjusted for inflation, real earnings rose to 0.7%, marking six months of real wage growth after the contraction through 2017.

Month	Real Earnings Growth (%)
Aug 2015	2.5
Nov 2015	1.8
Feb 2016	1.7
May 2016	1.5
Aug 2016	1.4
Nov 2016	1.4
Feb 2017	1.4
May 2017	-0.5
Aug 2017	-0.4
Nov 2017	-0.4
Feb 2018	0.4
May 2018	0.5
Aug 2018	0.7

Latest

Aug 2018	0.7%	annual real earnings growth %
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Source: ONS

Unemployment

The unemployment rate improved to 4.0% in Q2 2018, from 4.2% in Q1. Tighter labour markets and limited slack is expected to lead to stronger pay growth.

Quarter	Unemployment Rate (%)
Q3 2015	5.2
Q4 2015	5.1
Q1 2016	5.0
Q2 2016	4.9
Q3 2016	4.8
Q4 2016	4.7
Q1 2017	4.6
Q2 2017	4.5
Q3 2017	4.4
Q4 2017	4.3
Q1 2018	4.2
Q2 2018	4.0

Latest

Jun 2018	4.0%	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.

Month	Consumer Confidence Index (%)
Sep 2015	2.0
Dec 2015	3.0
Mar 2016	0.0
Jun 2016	-10.0
Sep 2016	-2.0
Dec 2016	-5.0
Mar 2017	-4.0
Jun 2017	-5.0
Sep 2017	-8.0
Dec 2017	-10.0
Mar 2018	-5.0
Jun 2018	-8.0
Sep 2018	-9.0

Latest

Sep 2018	-9	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.

Month	Retail Sales Growth (%)
Sep 2015	2.0
Dec 2015	4.0
Mar 2016	2.0
Jun 2016	2.0
Sep 2016	4.0
Dec 2016	7.0
Mar 2017	4.0
Jun 2017	2.0
Sep 2017	4.0
Dec 2017	2.0
Mar 2018	2.0
Jun 2018	6.0
Sep 2018	3.0

Latest

Sep 2018	3.0%	volume (quantity bought), year-on-year
Sep 2018	4.9%	value year-on-year

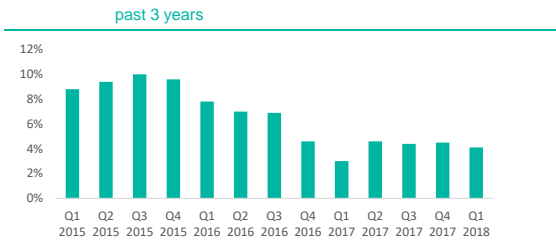
Source: ONS

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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.

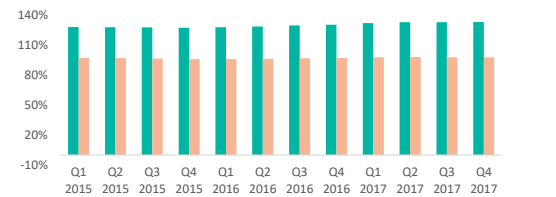


Latest
Q1 2018 4.1% household ratio (%), quarterly

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.

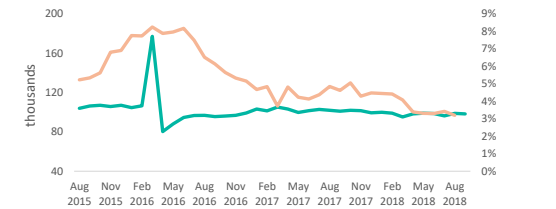


Q4 2017 133.2% household debt to income (%), quarterly
Q4 2017 97.8% of which mortgages (%), quarterly

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 has been stable through 2018 with a monthly average of 98,200. Annual UK house price inflation has been slowing through the year and the current rate stands at 3.2%.



Sep 2018 98,400 Residential property transactions over £40,000 GBP
Aug 2018 3.2% 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 higher in August. Nearly half of firms were more optimistic about the economy than they were at the start of the year.

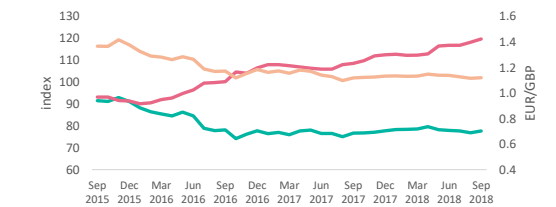


Sep 2018 47.0% business confidence, monthly, up (%)

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 119.7 in September, with producer price inflation falling to 1.4% (There is a base year effect contributing to the decrease in the annual rate as the sterling effective exchange rate index had a slower increase in September 2018 (a positive 1.0% on the month) .

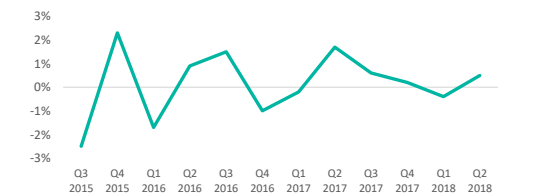


Sep 2018 77.7 broad exchange rate index, monthly
Sep 2018 € 1.12 EUR/GBP, monthly average
Sep 2018 119.7 input PPI, monthly

Source: Haver Analytics, ONS

Business investment

After falling by 0.4% in Q1 2018 business investment grew by 0.5% in Q2 2018. 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.

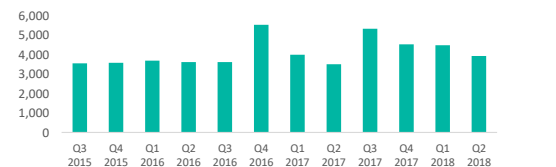


Q2 2018 0.5% quarter-on-quarter % growth

Source: ONS

Company insolvencies

There were a total of 3,918 company insolvencies in Q2 2018. Total company insolvencies fell by 12% compared to Q1 2018. Following changes to claimable expense rules the number of companies entering insolvency in Q1 2018 increased by 12.3% when compared with the same quarter in 2017.



Q2 2018 3,918 quarterly totals

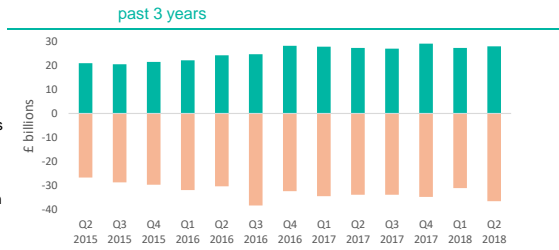
Source: The Insolvency Service

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Trade in goods & services

The total UK trade deficit widened by £4.8bn to £8.7bn in the three months to June 2018. This was due mainly to falling exports and rising imports of goods. The widening goods deficit of £2.9bn with non-EU countries was due mainly to falls in exports of cars and aircraft and rising imports of unspecified goods to and from non-EU countries in the three months to June 2018.



Latest

Q2 2018 **£28.1 bn** Services balance, three-month on three-month

Q2 2018 **-£36.7 bn** Goods balance, three-month on three-month

Source: ONS

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	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	
Inflation	annual CPI	3.0%	3.0%	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%	2.4%	2.4%	2.5%	2.7%	2.4%
	annual CPIH	2.8%	2.8%	2.8%	2.7%	2.7%	2.5%	2.3%	2.2%	2.3%	2.3%	2.3%	2.4%	2.2%
Wages	annual real earnings growth	-0.5%	-0.4%	-0.5%	-0.3%	-0.2%	0.2%	0.4%	0.5%	0.5%	0.3%	0.6%	0.7%	
Consumer confidence	monthly	-9	-10	-12	-13	-9	-10	-7	-9	-7	-9	-10	-7	-9
Retail sales	volume (quantity bought), month on same month previous year	1.4%	0.0%	1.1%	2.0%	1.6%	1.6%	1.3%	1.1%	4.0%	3.1%	3.9%	3.4%	3.0%
	value (month on same month previous year)	4.7%	3.0%	4.2%	4.7%	4.6%	4.2%	3.2%	3.1%	6.4%	5.5%	6.0%	5.7%	4.9%
Property transactions and house prices	Residential property transactions over £40,000 GBP	101,100	101,920	101,660	99,380	99,920	99,130	95,170	98,350	99,040	98,640	96,280	98,900	98,400
	annual house price rates of change, %	4.6%	5.1%	4.3%	4.5%	4.5%	4.4%	4.1%	3.4%	3.3%	3.3%	3.4%	3.2%	
Business confidence	monthly	39.0%	42.0%	45.0%	45.0%	50.0%	47.0%	48.0%	48.0%	51.0%	46.0%	46.0%	44.0%	47.0%
Sterling exchange rate and producer prices	broad exchange rate index, monthly	76.7	76.8	77.1	77.8	78.3	78.4	78.6	79.7	78.2	77.9	77.6	76.9	77.7
	EUR/GBP, monthly average	1.12	1.12	1.13	1.13	1.13	1.13	1.13	1.15	1.14	1.14	1.13	1.12	1.12
	input PPI, monthly	108.5	109.8	112.0	112.5	112.7	112.2	112.3	112.9	116.5	116.8	116.8	118.2	119.7

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	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	Jun-18	
GDP	quarter-on-year	2.7%	2.4%	2.1%	2.2%	2.1%	1.7%	1.7%	1.7%	1.8%	1.9%	1.8%	1.4%	1.1%	1.2%
	quarter-on-quarter	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%	0.4%
Unemployment	quarter-on-quarter	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%	4.0%
Household savings ratio	quarterly %	8.8%	9.4%	10.0%	9.6%	7.8%	7.0%	6.9%	4.6%	3.0%	4.6%	4.4%	4.5%	4.1%	
Household debt	household debt to income (%), quarterly	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	97.4%	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	3.3%	-0.1%	-2.5%	2.3%	-1.7%	0.9%	1.5%	-1.0%	-0.2%	1.7%	0.6%	0.2%	-0.4%	0.5%
Company insolvencies	quarterly totals	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	3,918
Trade in goods and services	services balance, three-month on three-month	£23.1 bn	£21.0 bn	£20.6 bn	£21.6 bn	£22.3 bn	£24.3 bn	£24.8 bn	£28.3 bn	£27.9 bn	£27.4 bn	£27.1 bn	£29.2 bn	£27.4 bn	£28.1 bn
	goods balance, three-month on three-month	-£33.2 bn	-£26.8 bn	-£28.8 bn	-£29.8 bn	-£32.0 bn	-£30.5 bn	-£38.5 bn	-£32.5 bn	-£34.6 bn	-£34.0 bn	-£34.0 bn	-£34.9 bn	-£31.2 bn	-£36.7 bn

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