

# Economic Update



Release date : 28 December 2018

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Economic update - December 2018

## Key data highlights:

November saw inflation fall slightly to 2.3 per cent, reducing the likelihood of a Bank Rate rise from 0.75 per cent. Consumers remain wary of their day-to-day finances with sentiment falling to its lowest for eleven months even with higher employment and real wage growth. 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 per cent) 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 0.6 per cent in the three months to September, with the services sector the largest contributor (0.4 per cent), followed by construction (0.13 per cent). Quarter 3 saw an increase in growth driven by the manufacture of transport equipment businesses as more goods were exported.

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 with three consecutive quarterly falls, the first time this has happened since the economic downturn of 2008 to 2009. In quarter 3 it was 1.2 per cent lower than in quarter 2. Expenditure on transport equipment and ICT was the largest negative contributions.

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## 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 collective voice for the banking and finance industry. Representing more than 250 firms across the industry we help drive forward positive change to enhance standards, support customers and promote innovation.

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**GDP**

Output improved slightly in Q3 of 2018 with growth of 0.6% compared to of just 0.4% in Q2.

past 3 years

Latest

Q3 2018	1.5%	year-on-year
Q3 2018	0.6%	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 2.3% 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

Nov 2018	2.3%	annual CPI %
Nov 2018	2.2%	annual CPIH %

Source: ONS

**Wages**

Nominal earnings rose by 3.3% in the three months to October 2018. Adjusted for inflation, real earnings rose to 1.0%, marking nine months of real wage growth after the contraction through 2017.

Latest

Oct 2018	1.0%	annual real earnings growth %
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Source: ONS

**Unemployment**

The unemployment rate rose slightly to 4.1% in Q3 2018, from 4.0% in Q2. Tighter labour markets and limited slack is expected to lead to stronger pay growth.

Latest

Q3 2018	4.1%	quarter-on-quarter
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Source: ONS

**Consumer confidence**

Consumer confidence has fallen over the past year as consumers remain wary of the outlook for their day-to-day finances and propensity to spend.

Latest

Nov 2018	-13	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

Nov 2018	3.6%	volume (quantity bought), year-on-year
Nov 2018	5.0%	value year-on-year

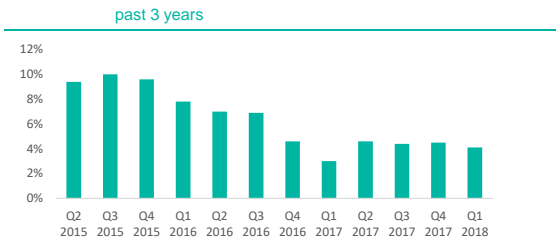
Source: ONS

# Economic Update



## 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

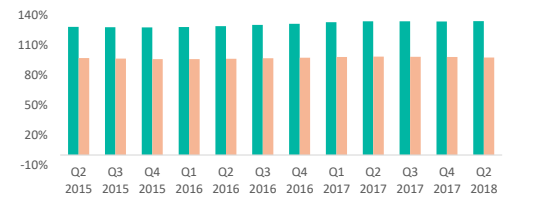
Latest

Q1 2018 4.1%

household savings ratio (%), quarterly

## Household debt

In Q2 2018, household debt reached 134% 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

Q2 2018 134.2%

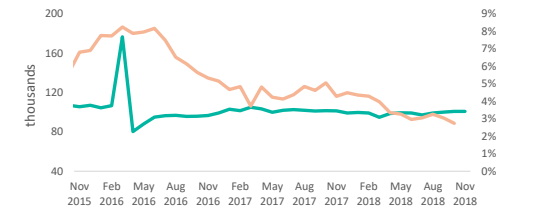
household debt to income (%), quarterly

Q2 2018 97.8%

of which mortgages (%), quarterly

## Property transactions and house prices

The number of property transactions completed in the UK, with a value of £40,000 or above has been stable through 2018 with a monthly average of 99,100. Annual UK house price inflation has been slowing through the year and the current rate stands at 2.7%.



Source: Haver Analytics, Land Registry, ONS

Nov 2018 100,930

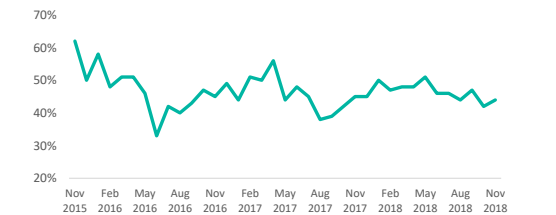
Residential property transactions over £40,000 GBP

Oct 2018 2.7%

annual house price rates of change, %

## Business confidence

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



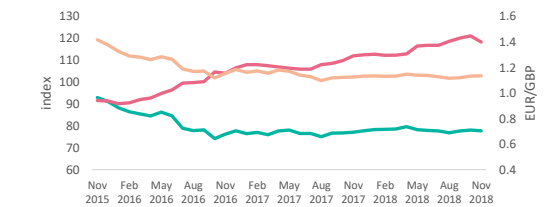
Source: Haver Analytics, Lloyds Business Barometer

Nov 2018 44.0%

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 118.3 in November, with producer price inflation falling to 0.9%.



Source: Haver Analytics, ONS

Nov 2018 77.8

broad exchange rate index, monthly

Nov 2018 € 1.14

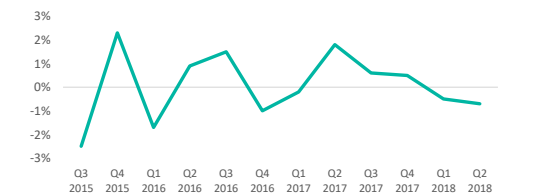
EUR/GBP, monthly average

Nov 2018 118.3

input PPI, monthly

## 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.



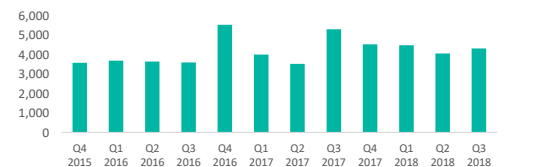
Source: ONS

Q2 2018 -0.7%

quarter-on-quarter % growth

## Company insolvencies

There were a total of 4,308 company insolvencies in Q3 2018 in England and Wales. Total company insolvencies fell by 4% 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.



Source: The Insolvency Service

Q3 2018 4,308

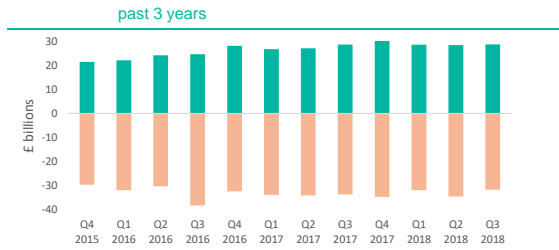
quarterly totals

# Economic Update



## Trade in goods & services

The total UK trade deficit narrowed by £3.2bn to £2.9bn in the three months to September 2018.



Latest

Q3 2018 **£28.9 bn** Services balance, three-month on three-month

Q3 2018 **-£31.9 bn** Goods balance, three-month on three-month

Source: ONS

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		Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18
Inflation	annual CPI	3.1%	3.0%	3.0%	2.7%	2.5%	2.4%	2.4%	2.4%	2.5%	2.7%	2.4%	2.4%	2.3%
	annual CPIH	2.8%	2.7%	2.7%	2.5%	2.3%	2.2%	2.3%	2.3%	2.3%	2.4%	2.2%	2.2%	2.2%
Wages	annual real earnings growth	-0.5%	-0.3%	-0.2%	0.2%	0.4%	0.5%	0.5%	0.3%	0.6%	0.7%	0.9%	1.0%	
Consumer confidence	monthly	-12	-13	-9	-10	-7	-9	-7	-9	-10	-7	-9	-10	-13
Retail sales	volume (quantity bought), month on same month previous year	1.0%	1.9%	1.7%	1.7%	1.3%	1.0%	4.0%	3.1%	3.9%	3.4%	3.4%	2.4%	3.6%
	value (month on same month previous year)	4.1%	4.7%	4.6%	4.2%	3.3%	3.1%	6.4%	5.5%	6.0%	5.6%	5.2%	4.1%	5.0%
Property transactions and house prices	Residential property transactions over £40,000 GBP	101,410	99,260	99,830	99,200	94,930	98,620	99,390	99,270	97,310	99,280	100,180	100,830	100,930
	annual house price rates of change, %	4.3%	4.5%	4.4%	4.3%	4.0%	3.4%	3.3%	3.0%	3.1%	3.3%	3.0%	2.7%	
Business confidence	monthly	45.0%	45.0%	50.0%	47.0%	48.0%	48.0%	51.0%	46.0%	46.0%	44.0%	47.0%	42.0%	44.0%
Sterling exchange rate and producer prices	broad exchange rate index, monthly	77.1	77.8	78.3	78.4	78.6	79.7	78.2	77.9	77.6	76.9	77.7	78.1	77.8
	EUR/GBP, monthly average	1.13	1.13	1.13	1.13	1.13	1.15	1.14	1.14	1.13	1.12	1.12	1.13	1.14
	input PPI, monthly	112.0	112.5	112.7	112.2	112.3	112.9	116.5	116.8	116.8	118.6	120.1	121.1	118.3

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	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	Sep-18	
GDP	quarter-on-year	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%	1.5%
	quarter-on-quarter	0.6%	0.4%	0.7%	0.3%	0.2%	0.5%	0.7%	0.4%	0.3%	0.4%	0.4%	0.1%	0.4%	0.6%
Unemployment	quarter-on-quarter	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%	4.1%
Household savings ratio	quarterly %	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	128.3%	128.0%	127.8%	128.3%	129.2%	130.4%	131.5%	133.1%	133.9%	134.0%	133.8%	133.7%	134.2%	
	of which mortgages (%), quarterly	97.1%	96.7%	96.1%	96.1%	96.5%	97.0%	97.6%	98.2%	98.5%	98.4%	98.2%	97.9%	97.8%	
Business investment	quarter-on-quarter % growth	-0.1%	-2.5%	2.3%	-1.7%	0.9%	1.5%	-1.0%	-0.2%	1.8%	0.6%	0.5%	-0.5%	-0.7%	-1.2%
Company insolvencies	quarterly totals	3,796	3,536	3,567	3,677	3,633	3,591	5,519	3,996	3,518	5,290	4,515	4,471	4,049	4,308
Trade in goods and services	services balance, three-month on three-month	£21.0 bn	£20.6 bn	£21.6 bn	£22.3 bn	£24.3 bn	£24.8 bn	£28.3 bn	£26.9 bn	£27.2 bn	£28.9 bn	£31.3 bn	£28.8 bn	£28.6 bn	£28.9 bn
	goods balance, three-month on three-month	-£26.8 bn	-£28.8 bn	-£29.8 bn	-£32.0 bn	-£30.5 bn	-£38.5 bn	-£32.5 bn	-£34.1 bn	-£34.3 bn	-£33.8 bn	-£34.9 bn	-£32.1 bn	-£34.7 bn	-£31.9 bn

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