

UK ECONOMIC OVERVIEW

AUGUST 2018

The UK economy grew by 0.4% in Q2 2018, representing a 0.2% acceleration from the first quarter of the year, and a 1.3% increase from the same quarter last year. Growth was driven by services and construction, but offset by a decline in manufacturing and energy supply.

Services sector output increased at a rate of 0.5% in Q2 2018, faster than the previous quarter (0.3%) and an improvement from this time last year (0.3%). This is the largest quarterly services growth since Q4 2016. The 12-month increase was 1.5%, an increase from the 1.2% recorded last quarter.

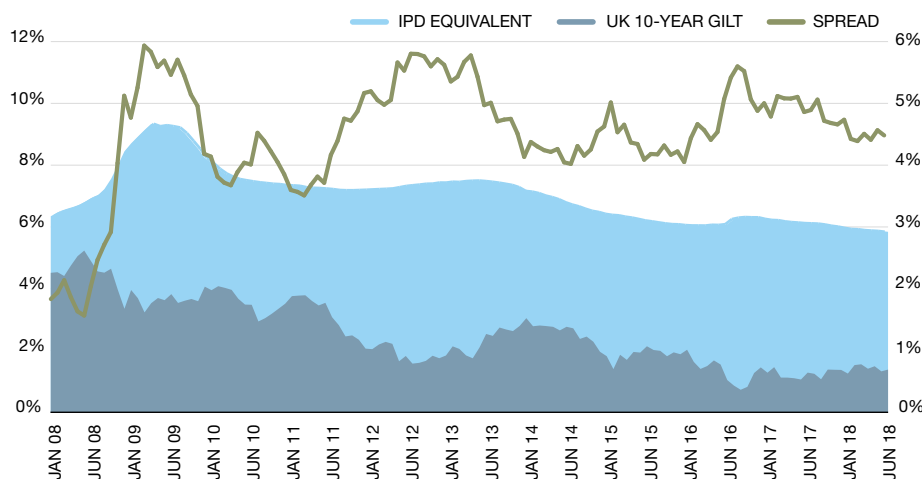
Manufacturing output in Q2 2018 fell by -0.8% compared to -0.1% in Q1 this year. The 12-month increase was 1.4%, driven by a rise in manufacturing of 1.3%.

Retail sales figures for July reported a 12-month increase of 3.5% in volume terms, topping both June's 2.9% and the slower growth of 1.1% in July 2017. The strong sales data has been attributed to the heatwave, which encouraged food and DIY spending.

CPI inflation rose to 2.5% in July from 2.4% in June, introducing the first increase since November 2017. The renewed depreciation in the sterling, associated import prices and an upward trend in global oil prices could contribute to inflation risk.

The UK unemployment rate stood at 4.0% in June 2018, 0.2 percent points

FIGURE 1
Yield spread



Source: Macrobond, MSCI, Knight Frank Research

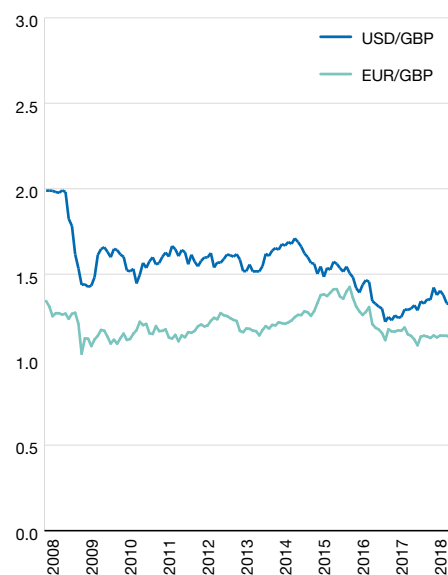
lower than in the first quarter this year, and the lowest since the winter of 1975.

The 10-year gilts fell to 1.37% at the end of July, from 1.42% at the end of June. The IPD equivalent yield fell slightly by 1bps to 5.83%. This pushed the arbitrage from 4.42% in June to 4.46% in July.

A slight dip in the German consumer confidence index has encouraged the sterling to Euro exchange rate to recover ground, although Brexit uncertainty continues to cast a shadow.

The Dollar has fallen as new trade deals between the US and Mexico have boosted demand for riskier and higher-yielding currencies. The Pound to Euro exchange rate has fallen by 2.0% in 2018 and now sits close to 11-month lows, while the Pound to Dollar exchange rate has fallen 4.5% in the same period.

FIGURE 2
Exchange rates



Source: Macrobond, Knight Frank Research

COMMERCIAL RESEARCH

Sherin Gooi
Assistant Economist
+44 20 7861 5051
sherin.gooi@knightfrank.com



© Knight Frank LLP 2018 – This report is published for general information only and not to be relied upon in any way. Although high standards have been used in the preparation of the information, analysis, views and projections presented in this report, no responsibility or liability whatsoever can be accepted by Knight Frank LLP for any loss or damage resultant from any use of, reliance on or reference to the contents of this document. As a general report, this material does not necessarily represent the view of Knight Frank LLP in relation to particular properties or projects. Reproduction of this report in whole or in part is not allowed without prior written approval of Knight Frank LLP to the form and content within which it appears. Knight Frank LLP is a limited liability partnership registered in England with registered number OC305934. Our registered office is 55 Baker Street, London, W1U 8AN, where you may look at a list of members' names.