RESEARCH

UK ECONOMIC OVERVIEW MARCH 2019

Strong service sector performance drove the 0.2% GDP growth in the three months to January this year, which remained unchanged from December 2018. This matches the growth observed for the Eurozone and Switzerland, putting the UK above Germany, Italy and Hong Kong.

Year-on-year growth in January 2019 measured +1.3%. On a monthly basis, the economy bounced back from the mild contraction in December 2018 (-0.4%), though still only registers a sluggish pace of +0.5% in January 2019.

After the worldwide harmonised light-vehicle test procedure displaced activity in the previous three months, the motor trade industry is back with an increase of 1.9%. This has led wholesale, retail and motor trade to be the main contributor to the service sector. Output increased by 0.5% in the three months to January, by 0.3% month-on-month and by 1.8% year-on-year.

Manufacturing output fell by -0.8% in the three months to January 2019 owing to a large fall from basic metals and metal products, and from transport equipment. Month-on-month production output increased by 0.6% in January, largely due to strength in pharmaceuticals.

Retail sales increased 0.7% in the three months to February 2019, with strong growth noted in non-store retailing and fuel. The month also noted a year-on-year increase of 4.0% with growth in all main sectors. Online sales as a proportion of retailing fell 120bps in the month to February this year, but still increased 9.4% on the year.

UK inflation rate increased to 1.9% in February, up 10bps from last year. This comes amid rising food, alcohol and tobacco prices, which were offset by lower clothing and footwear prices. The unemployment rate fell to 3.9% in March 2019 – the lowest it has been since 1975 – despite the Brexit uncertainty. Companies have increased their hiring activity to the fasted rate in more than three years, leading to a record high in employment figures and rising real wage growth.

The 10-year gilt yield stood at 1.27% at the end of February, up 5bps from the end of January. The IPD equivalent yield dipped 1.53bps to 5.84% in the month to February. This means that the arbitrage came down 4bps to 4.57% at the end of February from 4.61% in January this year.

The Bank of England has kept interest rates at 0.75% as the 'when' and 'how' of Brexit remains unclear. Meanwhile, the pound exchange rate has been volatile so far this year. The sterling will look to whether the EU Withdrawal Agreement will pass the House of Commons, assuming that Theresa May is able to take it to the MPs again. If the Withdrawal Agreement is rejected a third time, there will be a choice between an extension of Article 50, and no-deal. Currency analysts expect these scenarios to push the sterling-to-euro rate towards parity, while the pound-to-dollar is expected to decline to $1.20. At the time of writing, GBP/EUR stands at €1.15 and cable trades around $1.31.

Q4 2018 registered the largest disinvestment in history as reported by insurance companies, pension funds and trusts according to the ONS. Asset managers have collectively withdrawn £34bn from their investments, notably in overseas securities. UK gilts and corporate securities have noted net investments of £15bn and £4bn respectively. Unit trusts and property unit trusts registered net disinvestments of amounting to -£26.6bn in Q4 2018, possibly in anticipation of mass redemptions.

FIGURE 1

Total net investment

UK, Quarter 1 (Jan to Mar) 2013 to Quarter 4 (Oct to Dec) 2018, £ billion

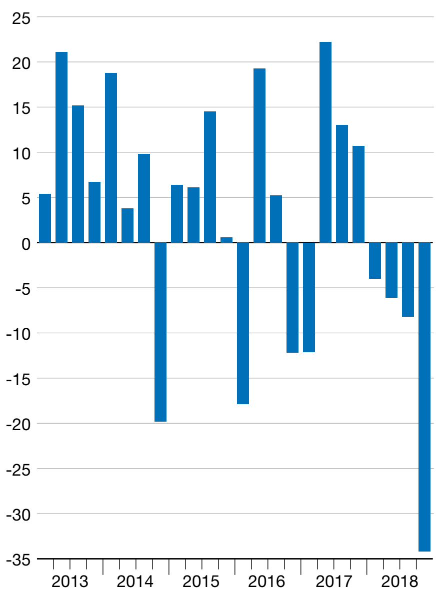
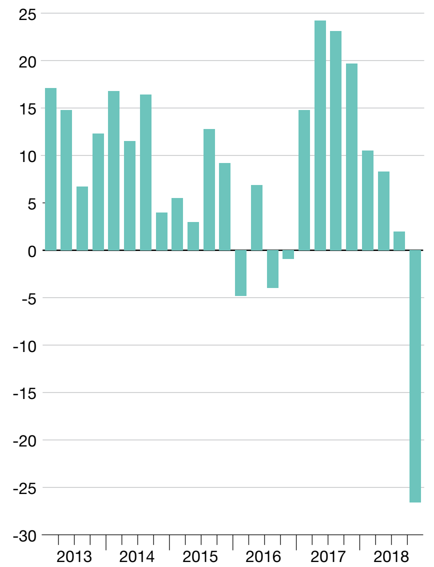


FIGURE 2

Net investment by unit trusts and property unit trusts

UK, Quarter 1 (Jan to Mar) 2013 to Quarter 4 (Oct to Dec) 2018, £ billion



Source: Office for National Statistic – Quarterly Transactions Surveys

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