

UK ECONOMIC OVERVIEW

MAY 2019

Preparations for a Brexit that did not materialise in March gave the UK economy a one-off boost in the first quarter this year and lifted the economy by 0.5% as higher stocks and earlier orders bumped up the growth figure. This follows the sluggish 0.2% growth in GDP in the final quarter of 2018. The economy grew 1.8% year-on-year in Q1 2019 compared with the 1.4% in Q4 2018.

The service sector, which accounts for more than three quarters of Britain's GDP, increased by 0.3% in the first quarter this year, a little lower than the 0.5% growth in the final quarter last year. Growth was stumped by a weaker professional, scientific and technical activities sector, but supported by the retail sector with a boost from the information and communications sector.

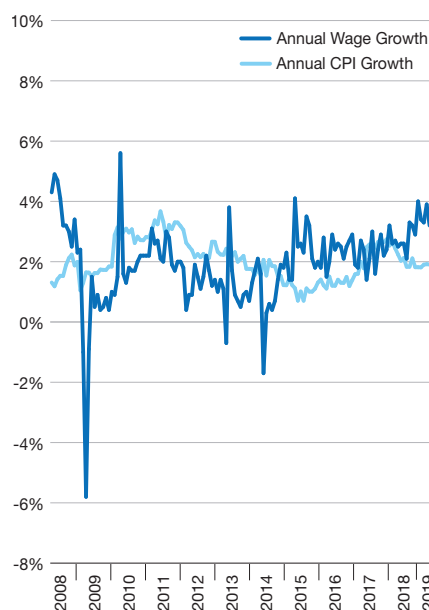
Manufacturing output increased by 2.2% in the first quarter with all sectors displaying upward contributions as factories rushed to complete orders ahead of the original March Brexit deadline. This constitutes the largest quarterly rise since Q3 1988. The volatile pharmaceuticals sector increased 9.4% thanks to strong exports in the first quarter, some of which resulted from the anticipation of a March Brexit.

Retail sales in the first quarter of 2019 increased 1.6% from Q4 2018, while year-on-year growth measured 6.7%. Non-store retailing contributed the most to annual growth in March. Online sales in March increased 12.4% from last year with most money spent in online textile, clothing and footwear stores.

The UK inflation rate during March remained unchanged from February at 1.9% and below the Bank of England's target of 2.0% for the third month running. Food and computer game prices came down slightly while cost of transport and clothing went up. Wage growth continues to increase, outstripping inflation. Coupled with high employment levels, British consumers, whose spending drives the economy, have more purchasing power again. The unemployment rate of 3.8% is at its lowest in 44 years - lower than the Eurozone average.

UK 10-year gilt yield at the end of April stood at 1.18%, up 0.21 percentage points from the end of March. With the IPD equivalent yield increasing 11.9 bps to 5.85% in the month to March, the arbitrage increased by 0.31 percentage points to 4.88% at the end of March.

FIGURE 1
Wage growth tracks above inflation for the third month running
March 2019, Annual % Growth (Oct to Dec)

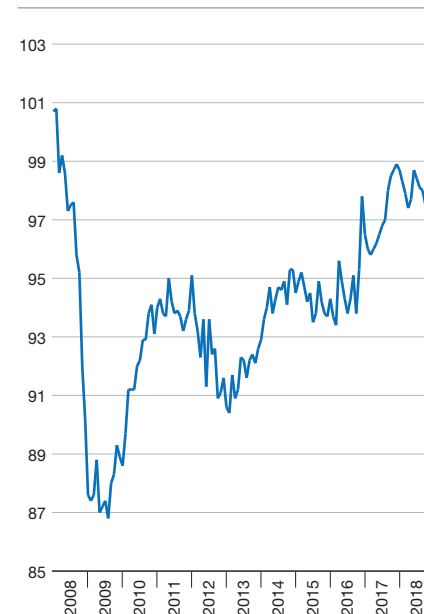


Source: ONS

The lack of an inflationary price squeeze is easing the pressure on the Bank of England to tighten their monetary policy, allowing policy makers to leave interest rates untouched until the Brexit fog clears. A potential interest rate hike suspension is further supported by the possibility of prime minister May being ousted before the Halloween Brexit deadline. That and ongoing cross-party talks in the latest round of Brexit negotiations have weighed down the sterling such that the pound-to-euro exchange rate stands above €1.14 and pound-to-dollar stands above \$1.28.

April's MSCI UK Monthly Index reported softening returns. Monthly capital growth for All Property was negative for the sixth consecutive month at -0.2% and remained flat on an annual basis. Monthly income return remained stable at 0.4%. Total return came in at 0.2% for April and 5.2% for the 12-months to April.

FIGURE 2
UK manufacturing index is close to returning to its pre-global financial crisis peak
Dec 2018, Seasonally adjusted, 2008 Q1 = 100



COMMERCIAL RESEARCH

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