

UK ECONOMIC OVERVIEW

SEPTEMBER 2018

The UK's quarter-on-quarter economic growth has remained unrevised at 0.4% for Q2 2018, although growth in Q1 2018 has been revised down to 0.1%. The annual growth rate for UK GDP in Q2 has been lowered to 1.2%, from 1.3% previously, due to a contraction in business investment.

The economy grew by 0.5% in H1 2018 compared with H2 2017, marking the weakest half-year growth since the second half of 2011.

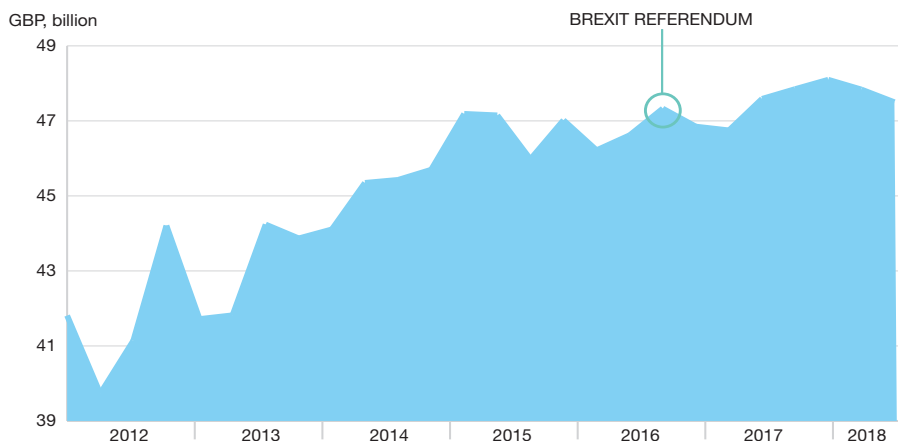
Services sector output increased at a rate of 0.6% in the three months to July. This constitutes the strongest growth since the three months to January 2017, and was driven by the wholesale, retail and motor trade sectors.

Manufacturing output fell by -0.1% in the three months to July 2018, which is primarily attributable to machinery and equipment, and metal products output. The monthly decrease in manufacturing output of -0.2% owes much to a fall of -7.5% in basic pharmaceutical products. In contrast, output across the rest of the sector was relatively strong.

Retail sales figures for August reported an increase of 3.3% from August 2017 in volume terms, with increases throughout all sectors. Food stores were the main annual growth contributor at 1.8%.

Non-food and household goods stores showed strong month-on-month growth, while food store and clothing retail sales decreased from July. Online spending reached a new peak proportion of all retailing at 18.2%.

FIGURE 1
UK business investment has taken a hit since the referendum



Source: Knight Frank Research, Macrobond

CPI inflation's 12-month growth rate rose to 2.4% in August from 2.3% in July this year. Increased inflation came from recreational and cultural goods and services, sea fares and new season autumn clothing; while mobile phone charges, and furniture and household goods exerted downwards pressure on the index.

The UK unemployment rate fell 20bps to 4.0% in the three months to July 2018, the lowest it has been since early 1975.

The 10-year gilt yield rose slightly to 1.40% at the end of August, from 1.37% at the end of July. The IPD equivalent yield remained at 5.83%, which takes the arbitrage down to 4.43% in August from 4.46% in July.

The pound remains tuned into news on Brexit negotiations. The GBP/USD rate has strengthened slightly on the back of upbeat UK Manufacturing PMI readings for September, and headlines suggesting that the UK is agreeable to a compromise

on the Irish border issue in order to seal a Brexit deal before year-end. The euro has weakened against the pound, as investors are concerned about the outlook for the Italian economy.

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| | SERVICES SECTOR 0.6% ↑ |
| | MANUFACTURING -0.1% ↓ |
| | RETAIL SALES 0.3% ↑ |
| | CPI INFLATION 2.4% ↑ |

COMMERCIAL RESEARCH

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