



# MONTHLY UK ECONOMIC BRIEFING

## JUNE 2018

### KEY POINTS

- The Bank of England's Monetary Policy Committee (MPC) voted to keep rates on hold at 0.5%, with no change in asset purchases and corporate bond holdings at GBP435bn and GBP10bn respectively.
- The headline and core CPI inflation rates held steady at 2.4% and 2.1%, y-o-y as a result of higher energy prices and the continued (though fading) pass-through of the 2016 sterling depreciation.
- Employment growth has continued at a relatively robust pace, with 146,000 new jobs created in the three months to April.
- Retail sales picked up from 1.4% to 3.9% y-o-y, the strongest since April 2017 partly reflecting a bounce-back from a snow-affected month, whilst the sales in May were boosted by the warm weather and the royal wedding.
- Consumer confidence picked up slightly in May with the GfK's Consumer Confidence Index increasing by two points in May 2018.



Real average weekly earnings increased by

**0.4%**



In May the RPI rate was

**3.3%**



GfK's Consumer Confidence Index increased by

**+2**



Number of new jobs created in Q1

**146,000**



In May the CPI rate was

**2.4%**



Unemployment rate unchanged at

**4.2%**

Sources: ONS, BNP Paribas, BoE and Macrobond

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# UK ECONOMIC UPDATE

## Rates on hold

The Bank of England voted to leave interest rates unchanged at 0.5% at its latest meeting (21 June). We saw a change with three policymakers, including chief economist Andy Haldane now pushing for rates to rise to 0.75%. The split vote increases the chances that interest rates are likely to be raised in August. The market is pricing roughly 50% chance of a hike in August.

## A poor start to Q2

The first output data for April pointed to a very poor start to Q2 with manufacturing output falling by 1.4% m-o-m – the third consecutive monthly decline. Construction output did regain growth of 0.5% m-o-m, after large falls in the preceding three months.

## But there has been some good news

The headline and core CPI inflation rates held steady at 2.4% and 2.1%, y-o-y. RPI inflation edged down by 0.1ppt, to 3.3% y-o-y. Headline inflation is above the BoE's 2.0% target entirely as a result of higher energy prices and the continued (though fading) pass-through of the 2016 sterling

depreciation.

According to the latest labour market statistics from the Office of National Statistics UK regular pay growth slipped back in the three months to April to 2.8% from 2.9% in March. Unemployment was unchanged at its 43-year low of 4.2%, in line with expectations.

Employment growth has continued at a relatively robust pace, with 146,000 new jobs created in the three months to April. Further detail in the latest release shows new jobs are coming from the private sector which created 542,000 jobs in the year to March 2018, while the public sector shed 102,000. The number of part-time workers who said they worked part-time because they could not find a full-time job has also been on the rise in recent months.

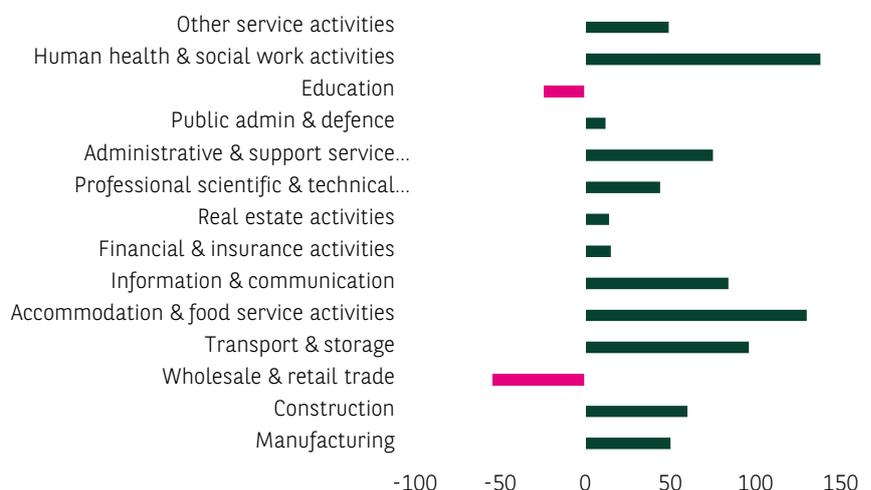
By sector, workforce jobs data show there were net job losses over the year to March 2018 in retail and trade (-30,000), construction (-17,000) and real estate (-11,000). These were offset by job creation in manufacturing (46,000) and services (168,000), including an additional 73,000 in human health and social work activities.

Despite the rise in employment the decline in hours worked has quickened. Average hours were down 1.2% y-o-y to 31.8 a week from a post-crisis peak of 32.4 which was seen in January 2017. Average hours for full-time workers have fallen from 37.7 to 36.9, while average part-time hours have risen from 16.1 to 16.4.

Consumer confidence picked up slightly in May. The GfK's Consumer Confidence Index increased by two points in May 2018. UK consumers are feeling more upbeat this month although with two bank holiday weekends and a royal wedding, this may not prove sustained.

As a result retail sales data over the past month has also looked positive. Retail sales picked up from 1.4% to 3.9% y-o-y, the strongest since April 2017. Growth in April partly reflected a bounce-back from a snow-affected month, whilst the sales in May were boosted by the warm weather and the royal wedding which drove up food and household goods spending in particular. But the gains were broad based with growth seen across all the main sectors.

CHANGES IN THE NUMBER OF WORKFORCE JOBS IN THE UK BETWEEN MARCH 17 - MARCH 18 (THOUSANDS)



**“Employment growth has continued at a relatively robust pace, with 146,000 new jobs created in the three months to April.”**

Source: Office of National Statistics