



# MONTHLY UK ECONOMIC BRIEFING

## JULY 2018

### KEY POINTS

- The market is pricing in more than an 80% chance of a 25bp rate hike at the next Bank of England Monetary Policy meeting on 3rd August.
- Recent UK activity data has provided some support for the Bank of England’s judgement that Q1 weakness was temporary.
- The headline rate of CPI was unchanged at 2.4% y-o-y in June, while consensus had expected a rise to 2.6%.
- The UK government published its White Paper on the future relationship with the EU this month. The paper is intended as a blueprint for further negotiations with Brussels.
- On goods trade, the UK is proposing a free trade area facilitated by a customs arrangement.
- On financial services, the White Paper proposes an ‘enhanced equivalence’ solution.
- The White Paper also reiterates that free movement of people will end as the UK leaves the EU, but states that tourists and those arriving for short business trips from the EU will be able to enter the UK without a visa.



Real average weekly earnings increased by

**0.4%**



In June the RPI rate was

**3.4%**



Q1 2018 GDP was revised up to

**0.2%**



Number of people in work

**32.4m**



In June the CPI rate was unchanged at

**2.4%**



Forecast for Q2 GDP growth are

**0.4%**

Sources: ONS, BNP Paribas, BoE and Macrobond

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# UK ECONOMIC UPDATE

## **Will they, won't they?**

Back in April, the market was fully priced for a rate rise in May. The Q1 preliminary GDP growth of 0.1% q-o-q delayed any possible rate hike until August. With the next meeting on 3 August, the market is pricing in more than an 80% chance of a 25bp hike.

Recent UK activity data has provided some support for the Bank of England's (BoE) judgement that Q1 weakness was temporary.

The labour market remains strong, even if a marked pick-up in headline wage growth remains elusive. Estimates from July's Labour Force Survey show that there were 32.4 million people in work, 137,000 more than Q1 2018 and 388,000 more than a year earlier. Latest estimates also show that average weekly earnings for employees in real terms increased by 0.4% excluding bonuses, and by 0.2% including bonuses, compared with a year earlier.

The headline rate of CPI was unchanged at 2.4% y-o-y in June, while consensus had expected a rise to 2.6% on the back

of higher energy prices. The RPI rate rose by 0.1ppt, to 3.4% y-o-y (consensus 3.5% y-o-y).

## **Brexit update**

The UK government published its White Paper on the future relationship with the EU this month. The paper is intended as a blueprint for further negotiations with Brussels, so any final deal is likely to be different to the content of the White Paper.

On goods trade, the UK is proposing a free trade area facilitated by a customs arrangement. This seems similar to the government's previous 'customs partnership' suggestion made in the customs paper published last year, i.e. where goods destined for the UK attract a UK tariff, and where they are destined for the EU, EU tariffs will be applied.

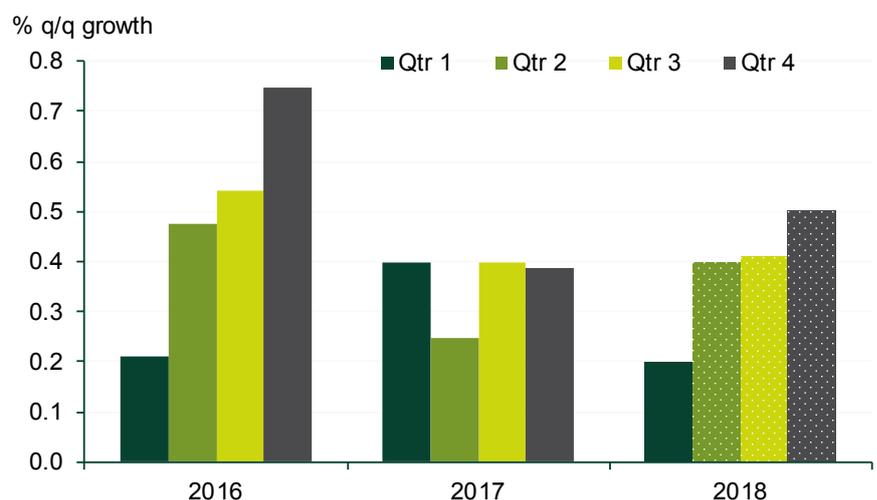
On financial services, the White Paper mentions that the government recognises the UK can no longer operate under the 'passporting' system, but also that the EU's existing 'third party equivalence' arrangements do not go far enough. Instead, the UK proposes a new economic

and regulatory arrangement with the EU in financial services. This new arrangement would need to encompass a broader range of cross-border activities that reflect global financial business models and the high degree of economic integration.

The White Paper states that free movement of people will end as the UK leaves the EU, but states that tourists and those arriving for short business trips from the EU will be able to enter the UK without a visa. In terms of migration, further details will be laid out in the Migration Advisory Committee (MAC) report due in September 2018. But the Paper suggests that the UK wants to retain free movement for 'talented people' and students.

Regarding next steps there are 14 weeks to go before the European council summit deadline for a deal on 18 October. Parliament returns on 5 September but breaks again for conference season between 14 September-9 October. It is now a race against time to ensure the EU engages on the White Paper.

QUARTERLY UK GDP GROWTH RATE + FORECAST



**“Recent UK activity data has provided some support for the Bank of England’s judgement that Q1 weakness was temporary.”**

Sources: Macrobond, BNP Paribas