BNP PARIBAS REAL ESTATE

Real Estate for a changing world

MONTHLY UK ECONOMIC BRIEFING
SEPTEMBER 2018

KEY POINTS

- The Bank of England's Monetary Policy Committee (MPC) voted unanimously (9-0) to keep policy rate on hold during the September meeting.
- The Committee noted that the GDP data is a little stronger than expected and as a result the Bank has upgraded its Q3 growth forecast.
- UK wage growth was relatively robust in the three months to July, with regular pay growth rising from 2.7% to 2.9%.
- The unemployment rate held steady at 4.0%, having declined from 4.2% in the three months to June.
- The UK's composite PMI rose to 54.2 in August, with falls in the construction and manufacturing sector PMIs, a relatively resilient service sector provides some comfort.
- The latest PMI survey data indicate that the economy is on course to expand by 0.4% in the third quarter.

UK interest rates unchanged at

0.75%

In August the RPI rate fell to

3.6%

The unemployment rate held steady at

4.0%

In August the 10yr government bond yield was

1.43%

In August the CPI rate increased to

2.7%

Regular pay growth increased by

2.9%

Sources: ONS, BNP Paribas, BoE and Macrobond

CONTACTS

Damian Cronk
Head of Commercial Markets
damian.cronk@realestate.bnpparibas
+44 (0)20 7318 5065

Sukhdeep Dhillon
Senior Economist
sukhdeep.dhillon@realestate.bnpparibas
+44 (0)20 7338 4834

© BNP PARIBAS REAL ESTATE ADVISORY & PROPERTY MANAGEMENT UK LTD. ALL RIGHTS RESERVED. No part of this publication may be reproduced or transmitted in any form without prior written consent by BNP PRE. The information contained herein is general in nature and is not intended, and should not be construed, as professional advice or opinion provided to the user, nor as a recommendation of any particular approach. It is based on material that we believe to be reliable. While every effort has been made to ensure its accuracy, we cannot offer any warranty that it contains no factual errors.

UK ECONOMIC UPDATE

Rates on hold

The Bank of England's MPC voted unanimously (9-0) to keep policy rate on hold, following August's unanimous decision to increase Bank Rate from 0.50% to 0.75%.

The Committee noted that the GDP data is a little stronger than expected and as a result the Bank has upgraded its Q3 growth forecast from 0.4% to 0.5% q-o-q.

Wage growth has come out a touch firmer than expected, too. UK wage growth was relatively robust in the three months to July, with regular pay growth rising from 2.7% to 2.9%. The unemployment rate held steady at 4.0%, having declined from 4.2% in the three months to June.

However, it is worth noting that the latest annual wage growth numbers are partly boosted by base effects, given that they compare pay levels against July 2017, where wages took a dip.

But the Committee also noted downside surprises to net trade and inflation. In particular, CPI inflation came in lower than expected in July. Since however, inflation did increase to 2.7% y-o-y in August. August's upward surprise was largely due to volatile components whose impact is likely to fade therefore this pick up is likely to be short-lived.

The Committee also highlighted three downside risks to UK economic prospects, which include:

1. UK exposures to volatility in emerging markets, which it deemed limited. But the Committee did flag the risk of broader contagion;
2. Recent protectionist measures implemented by the US and China which risked being a greater hit to world growth than the MPC anticipated last month;
3. Brexit uncertainties. In particular, the Committee believes that financial markets are placing a greater weight on a disorderly Brexit.

Buoyant activity in the services sector

The UK services PMI rose to 54.3 in August, almost a point higher than its July reading of 53.5.

There was also better news on the employment index, which rose to a 6-month high. However, firms' costs remained elevated, with the input price index ticking up half a point in August mainly reflecting higher salary payments and fuel prices.

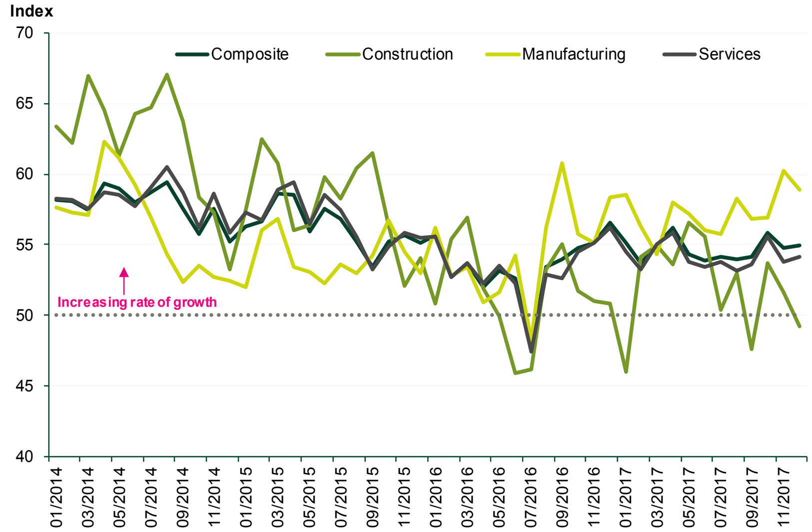
The UK manufacturing PMI dropped from 53.8 to 52.9 in August. This was the lowest level since July 2016, when the index fell sharply to 48.6 following the EU referendum result. High costs continue to weigh on manufacturers.

Further details of the survey reveal new export orders have been weak across the Eurozone since the beginning of the year, but stabilised or picked up a little in August, which may suggest there is more of a UK-specific Brexit impact here.

Despite falls in the construction and manufacturing sector PMIs, the UK's composite PMI rose to 54.2 in August. The latest PMI survey data indicate that the economy is on course to expand by 0.4% in the third quarter.

"The UK's composite PMI rose to 54.2 in August. The latest PMI survey data indicate that the economy is on course to expand by 0.4% in the third quarter."

PURCHASING MANAGERS INDICES



Source: Macrobond