



# MONTHLY UK ECONOMIC BRIEFING

## OCTOBER 2018

### KEY POINTS

- The UK Budget is taking place on 29 October 2018, earlier than usual - to fit between two EU summits.
- During the Conservative Party conference Theresa May's speech indicated that the UK was nearing the end to austerity.
- Public finances have continued to outperform, for the full year 2017/18 the deficit came in at just under GBP40bn which is approximately GBP5bn less than what the OBR was expecting six months ago.
- If this recent trend is sustained then estimates show borrowing could come in around £11bn lower than anticipated.
- However the Chancellor may feel retaining a fiscal buffer in case growth slows dramatically would be wise at this moment in time. So we don't expect any major spending announcements in this budget.
- UK inflation dropped to 2.4% y-o-y from 2.7%, surprising to the downside. This further confirms that the spike witnessed in August was temporary.



UK interest rates are currently at

**0.75%**



In September the RPI rate fell to

**3.3%**



Q2 2018 GDP increased to

**0.4%**



In September the 10yr government bond yield averaged

**1.57%**



In September the CPI rate fell to

**2.4%**



Forecast for Q3 GDP growth are

**0.4%**

Sources: ONS, BNP Paribas, BoE and Macrobond

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# UK ECONOMIC UPDATE

## An early Budget

The UK Budget is taking place on 29 October 2018 which is not only earlier in the year than has been in the recent years but also on a Monday rather than the usual Wednesday - the first time since 1962. An early budget was announced in order to fit between two EU summits.

## Spending cuts or giveaways?

During the Conservative Party conference Theresa May's speech indicated that the UK was nearing the end to austerity. After eight years of fiscal tightening, this would mark a significant change to government policy. We have already seen the government move in that direction with the announcement of lifting the public sector pay cap and an additional GBP20bn in NHS spending.

In order to assess whether there will be government spending, it is worth reviewing the public finances, which have continued to outperform. For the full year 2017/18, the deficit came in at just under GBP40bn which is approximately GBP5bn less than what the OBR was expecting six months ago.

This improvement in public finances are largely a result of stronger growth in receipts and weaker growth in government spending. If this recent trend is sustained then estimates show borrowing could come in around £11bn lower than anticipated. As a result, this will provide the Chancellor some leeway to ease policy without increasing borrowing or taxes.

However, we may experience The Chancellor's reluctance in spending all of this gain especially as uncertainty surrounding Brexit remains high. The Chancellor may feel retaining a fiscal buffer in case growth slows dramatically would be wise at this moment in time.

Furthermore, public sector debt is still elevated, and it is unclear how the government would fund further spending as the Conservative manifesto has already ruled out any changes to the rate of VAT, income tax or national insurance and the measures that were announced during the Party conference - the Digital services tax and higher stamp duty on foreign buyers are highly unlikely to cover it.

## UK inflation surprises on the downside

UK inflation dropped to 2.4% y-o-y from 2.7%, surprising to the downside. This further confirms that the spike witnessed in August was temporary, and according to the original forecasts inflation is still heading back below target next year.

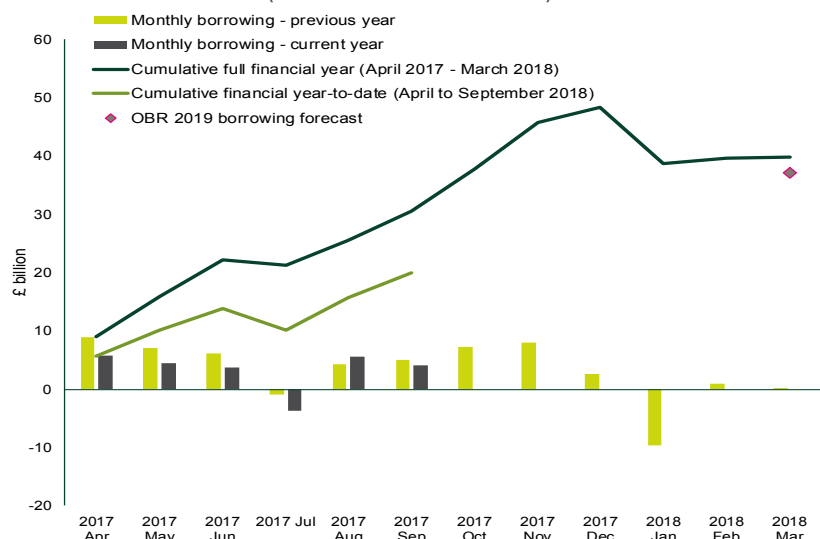
Core CPI and CPIH inflation fell by 0.2ppts each to 1.9% and 2.2% respectively and RPI inflation fell by 0.2ppts to 3.3%.

BNP Paribas continue to see CPI and RPI inflation trending downwards ending 2018 at 2.4% and 3.3% respectively.

Alternatively, UK wage data recently has been positive, regular pay which excludes bonuses grew by 3.1% in the three months to August. With unemployment at a record low the labour market remains robust which is finally supporting wage growth. This could push domestically generated inflation higher although at the moment there is little evidence in the data.

**“The improvement in public finances are largely a result of stronger growth in receipts and weaker growth in government spending.”**

PUBLIC SECTOR NET BORROWING (EXCLUDING PUBLIC SECTOR BANKS)



Source: Office of National Statistics

# KEY ECONOMIC & PROPERTY METRICS

October 2018

IPD Net initial yields	Level	1m ago	Difference
All Property	4.93	4.97	● -0.04
Retail	5.68	5.72	● -0.03
Office	4.49	4.56	● -0.07
Industrial	4.47	4.51	● -0.04
Residential	3.03	2.48	● 0.55

IPD Capital growth	Level	1m ago	Difference
All Property	0.18	0.09	● 0.09
Retail	-0.52	-0.35	● -0.16
Office	0.31	0.10	● 0.20
Industrial	0.84	0.63	● 0.20
Residential	0.72	0.27	● 0.46

IPD Total Returns	Level	1m ago	Difference
All Property	0.60	0.51	● 0.08
Retail	-0.04	0.12	● -0.16
Office	0.68	0.49	● 0.19
Industrial	1.22	1.02	● 0.20
Residential	1.12	0.63	● 0.49

Economic	Level	1m ago	Difference
UK GDP*	0.4	0.1	▲ 0.31
EU GDP*	0.5	0.4	▲ 0.09
US GDP*	1.0	0.5	▲ 0.47
UK RPI	3.3	3.5	● -0.20
UK CPI	2.4	2.7	● -0.30
US CPI	2.3	2.7	● -0.41
EU HICP	2.2	2.2	● 0.03

Rates	Level	1m ago	Difference
BoE policy rate	0.75	0.75	▬ 0.00
ECB key interest rate	0.00	0.00	▬ 0.00
US Fed rate	2.25	2.00	▲ 0.25
SONIA	0.70	0.70	▼ -0.01
EONIA	-0.35	-0.34	▼ -0.01
SHIBOR	2.65	2.31	▲ 0.34
TONAR	-0.06	-0.06	▼ -0.01
UK 5YR swap	1.44	1.35	▲ 0.10
US 5YR swap	3.03	2.85	▲ 0.19
EU 5YR swap	0.39	0.27	▲ 0.12

10YR Bond yields	Level	1m ago	Difference
UK	1.57	1.43	▲ 0.14
France	0.81	0.68	▲ 0.13
Germany	0.37	0.29	▲ 0.08
US	3.00	2.89	▲ 0.11
Japan	0.12	0.10	▲ 0.02

Equity dividend yields	Level	1m ago	Difference
All share	3.80	3.78	▲ 0.02
Financial	3.87	3.82	▲ 0.05
Non-financial	3.77	3.76	▲ 0.01
REITS	4.22	4.04	▲ 0.18

Exchange rates	Level	1m ago	Difference
EUR per GBP	1.12	1.12	▲ 0.01
USD per GBP	1.30	1.30	▲ 0.00
MYR per GBP	5.40	5.34	▲ 0.06
SGD per GBP	1.78	1.78	▲ 0.00
CNY per GBP	8.96	8.87	▲ 0.08
JPY per GBP	148.15	144.08	▲ 4.07
HKD per GBP	10.20	10.20	▲ 0.01
KRW per GBP	1447.30	1450.08	▼ -2.78

Volatility	Level	1m ago	Difference
FTSE 100 Volatility Index	11.75	12.92	▶ -1.17
S&P 500 Volatility Index	12.12	12.86	▶ -0.74
Eurostoxx Volatility Index	14.76	15.63	▶ -0.87

Commodities	Level	1m ago	Difference
Brent \$/bbl	77.43	74.25	▼ -3.18
Gold \$/oz	1187.25	1202.45	▲ 15.20

\*Quarterly GDP - compared to the previous quarter  
The latest level date of reference refer to the previous month highlighted on the top right, unless stated otherwise.

Sources: Macrobond, MSCI, BNPPRE