



MONTHLY UK ECONOMIC BRIEFING

JANUARY 2019

KEY POINTS

- UK Parliament voted 317 to 301 for an amendment tabled by Conservative backbencher Graham Brady. The amendment essentially means that the House will support the Prime Minister’s withdrawal deal provided an alternative to the Northern Ireland backstop is negotiated.
- Theresa May will now return to Brussels to negotiate changes to the backstop.
- The Bank of England’s next monetary policy meeting will take place on 7 February where the Monetary Policy Committee (MPC) is expected to keep rates on hold.
- UK Consumer price index fell by 0.2ppts to 2.1% y-o-y. As energy effects are expected to decrease further the inflation rate is therefore largely expected to fall below 2% later this year.



UK interest rates are currently at

0.75%



In December the RPI rate fell to

2.7%



Q3 2018 GDP increased to

0.6%



In December the 10yr government bond yield averaged

1.27%



In December the CPI rate fell to

2.1%



Forecast for Q4 GDP growth are

0.4%

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

UK Parliament voted 317 to 301 for an amendment tabled by Conservative backbencher Graham Brady. The amendment essentially means that the House will support the Prime Minister's withdrawal deal provided an alternative to the Northern Ireland backstop is negotiated.

This was however immediately rejected by the EU, who stated that the Withdrawal Agreement is not open for re-negotiation.

A further amendment tabled by Conservative MP Dame Caroline Spelman and Labour's Jack Dromey was also approved. This amendment says that MPs will not accept the UK leaving the EU without a Withdrawal Agreement and a Framework for the Future Relationship.

MPs did reject the Cooper amendment that sought to push forward a Bill requiring the government to delay Brexit if a deal has not been agreed by 26 February.

What happens next?

Theresa May will now return to Brussels

to negotiate changes to the backstop. A PM's spokesman also confirmed that if no revised deal is reached by 13 February the PM would table another amendable motion with vote on the motion likely taking place on 14 February.

Bank to keep rates on hold

The Bank of England's next monetary policy meeting will take place on 7 February where the Monetary Policy Committee (MPC) is expected to keep rates on hold. Markets are currently pricing in 25bp of tightening in mid-2020.

UK inflation fell further in December

UK Consumer price index (CPI) fell by 0.2ppts to 2.1% y-o-y. Retail price index (RPI) also declined by 0.5ppts to 2.7% y-o-y. The fall in inflation was largely due to the fall in energy prices. As energy effects are expected to decrease further the inflation rate is therefore largely expected to fall below 2% later this year.

RPI reform

The House of Lords Economic Affairs Committee recently issued a report on the

use of the RPI measure of inflation. Issues with RPI are largely around the way price measurements are averaged whereby RPI always has an upward bias of around 0.9ppts.

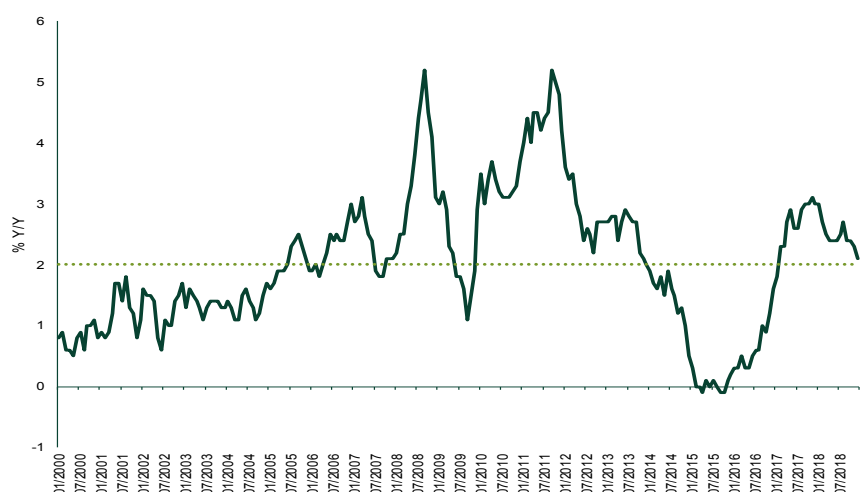
The report has suggested some recommendations which include switching away from the use of RPI and potentially reforming the way RPI is calculated.

Despite this report and its recommendations, reforming RPI is likely to be slow. The UK Statistics Authority will now need to submit its own recommendations to the Chancellor, who will then approve any potential plans for the reform of the RPI.

Reform of RPI is likely to feature towards the bottom of the list of priorities for the UK government as it has its hands full with Brexit at the moment.

“UK Consumer price index fell by 0.2ppts to 2.1% y-o-y. As energy effects are expected to decrease further the inflation rate is therefore largely expected to fall below 2% later this year.”

UK INFLATION RATE (CPI)



KEY ECONOMIC & PROPERTY METRICS

January 2018

IPD Net initial yields	Current*	1m ago	Difference
All Property	4.94	4.95	● -0.01
Retail	5.83	5.75	● 0.08
Office	4.42	4.47	● -0.05
Industrial	4.44	4.49	● -0.05
Residential	3.52	3.28	● 0.24

IPD Capital growth (%)	Current	1m ago	Difference
All Property	-0.15	-0.14	● -0.01
Retail	-1.60	-1.28	● -0.32
Office	0.24	0.21	● 0.03
Industrial	0.84	0.76	● 0.08
Residential	0.24	-0.02	● 0.26

IPD Total Returns (%)	Current	1m ago	Difference
All Property	0.27	0.28	● -0.01
Retail	-1.11	-0.79	● -0.32
Office	0.62	0.58	● 0.04
Industrial	1.23	1.15	● 0.08
Residential	0.63	0.36	● 0.27

Economic (%)	Current	1m ago	Difference
UK GDP**	0.6	0.4	▲ 0.19
EU GDP**	0.3	0.5	▼ -0.15
US GDP**	0.8	1.0	▼ -0.20
UK RPI	2.7	3.2	● -0.50
UK CPI	2.1	2.3	● -0.20
US CPI	1.9	2.2	● -0.26
EU HICP	1.7	2.0	● -0.32

Rates (%)	Current	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	2.50	2.25	▲ 0.25
SONIA	0.70	0.70	▼ 0.00
EONIA	-0.36	-0.35	▼ -0.01
SHIBOR	2.55	2.64	▼ -0.09
TONAR	-0.06	-0.06	▲ 0.01
UK 5YR swap	1.30	1.36	▼ -0.06
US 5YR swap	2.57	2.96	▼ -0.39
EU 5YR swap	0.20	0.28	▼ -0.08

10YR Bond yields (%)	Current	1m ago	Difference
UK	1.27	1.35	▼ -0.08
France	0.71	0.68	▲ 0.03
Germany	0.19	0.31	▼ -0.12
US	2.84	3.12	▼ -0.28
Japan	0.04	0.11	▼ -0.07

Equity dividend yields	Current	1m ago	Difference
All share	4.46	4.16	▲ 0.30
Financial	4.38	4.17	▲ 0.21
Non-financial	4.48	4.15	▲ 0.33
FTSE EPRA REIT's	4.73	4.57	▲ 0.16

Exchange rates	Current	1m ago	Difference
EUR per GBP	1.11	1.13	▼ -0.01
USD per GBP	1.28	1.28	▬ 0.00
MYR per GBP	5.28	5.34	▼ -0.06
SGD per GBP	1.74	1.75	▼ -0.01
CNY per GBP	8.78	8.88	▼ -0.10
JPY per GBP	140.40	144.86	▼ -4.47
HKD per GBP	10.00	9.99	▲ 0.02
KRW per GBP	1423.87	1430.72	▼ -6.84

Volatility	Current	1m ago	Difference
FTSE 100 Volatility Index	22.09	17.86	▲ 4.23
S&P 500 Volatility Index	25.42	18.07	▲ 7.35
Eurostoxx Volatility Index	23.86	18.49	▲ 5.37

Commodities	Current	1m ago	Difference
Brent \$/bbl	52.28	75.50	▼ -23.22
Gold \$/oz	1279.00	1217.55	▲ 61.45

**The latest level date of reference refer to the previous month highlighted on the top right, unless stated otherwise.

*Quarterly GDP - compared to the previous quarter

Sources: Macrobond, MSCI, BNPPRE