



MONTHLY UK ECONOMIC BRIEFING

FEBRUARY 2019

KEY POINTS

- The UK economy grew by 0.2% in the final three months of 2018. This follows 0.6% growth recorded in the previous quarter. The fourth quarter data means that the UK expanded by 1.4% in 2018, down from 1.8% in 2017.
- Unemployment is at its lowest rate since 1975 at 4%. The employment rate was estimated at 75.8%, higher compared to a year earlier (75.2%).
- The Consumer Prices Index (CPI) 12-month rate was 1.8% in January 2019, down from 2.1% in December 2018.
- A second meaningful vote will take place on 12 March. If Parliament does not pass a deal by then, two further votes will take place - the first on 13 March offering Parliament the option to leave the EU with no deal. If that is also rejected, there would be another vote on 14 March where MPs will be offered the option to seek a short but limited extension of the Article 50.



UK interest rates are currently at

0.75%



In January the RPI rate fell to

2.5%



Q4 2018 GDP increased to

0.2%



In January the 10yr government bond yield averaged

1.22%



In January the CPI rate fell to

1.8%



Forecast for Q1 2019 GDP growth are

0.4%

Sources: ONS, BNP Paribas, BoE and Macrobond

CONTACTS



Etienne Prongué
Deputy Chief Executive Officer
etienne.prongue@realestate.bnpparibas
+44 (0)20 7338 4319



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 economic growth slows to 0.2%

The UK economy grew by 0.2% in the final three months of 2018. This follows 0.6% growth recorded in the previous quarter. In the final quarter production output fell by 1.1% – the steepest decline since the fourth quarter of 2012. Construction output fell by 0.3%. Growth in the fourth quarter was driven largely by the services sector. The fourth quarter data means that the UK expanded by 1.4% in 2018, down from 1.8% in 2017.

Strong labour market

Unemployment is at its lowest rate since 1975 at 4%. The employment rate (the proportion of people aged from 16 to 64 years who were in work) was 75.8%, higher compared to a year earlier (75.2%).

Signs of nervousness among businesses has not yet shown up in the jobs figures. However, the Bank of England's employment intentions deteriorated further in January, which may mean that we could see this reflected in the next batch of official data.

Typically, when unemployment is low, the

bargaining power of workers increases which means they are able to demand higher wages, higher wages mean higher costs for firms, which are then passed onto consumers by firms raising prices.

Unemployment and wage growth are therefore fundamental determinants of inflation. But we've seen inflation fall below the 2% target. The Consumer Prices Index (CPI) 12-month rate was 1.8% in January 2019, down from 2.1% in December 2018.

This is largely due to a fall in electricity, gas and other fuel prices between December 2018 and January 2019 compared with price rises the same time a year ago.

Also, effects of wage growth on inflation can be offset by increases in productivity which essentially allows cost savings. However, the link between pay growth and employment is disappearing and this remains one of the key puzzles of the post recovery economy in the UK.

Brexit update

MPs gave their backing on 27 Feb to a

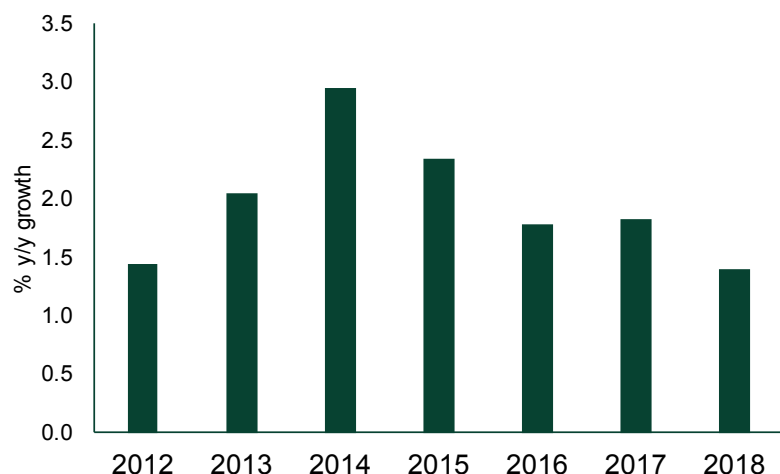
proposal asking the government for a change in the law so that the Brexit date can be altered, if Parliament voted to delay the UK's departure from the European Union.

In terms of key dates, a second meaningful vote will take place on 12 March. Theresa May essentially needs 116 MPs to change their minds to get the deal through parliament. If Parliament does not pass a deal by then, she would hold one or two further votes - the first on 13 March offering Parliament the option to leave the EU with no deal. If that is also rejected, there would be another vote on 14 March where MPs will be offered the option to seek a short but limited extension of Article 50.

At the moment unless the UK ratifies a deal or agrees an extension with the EU, the default outcome is for the UK to leave with no deal on 29 March. Moreover, even if the UK agreed an extension a no deal is still possible (although unlikely) once the agreed period of extension comes to an end.

“The UK economy grew by 0.2% in the final three months of 2018. The fourth quarter data means that the UK expanded by 1.4% in 2018, down from 1.8% in 2017.”

UK GDP GROWTH



Source: Office of National Statistics

KEY ECONOMIC & PROPERTY METRICS

February 2019

IPD Net initial yields	Current*	1m ago	Difference
All Property	4.98	4.94	● 0.04
Retail	5.86	5.83	● 0.03
Office	4.45	4.42	● 0.03
Industrial	4.50	4.44	● 0.06
Residential	3.83	3.52	● 0.31

IPD Capital growth (%)	Current	1m ago	Difference
All Property	-0.21	-0.15	● -0.06
Retail	-0.75	-1.59	● 0.84
Office	-0.03	0.24	● -0.27
Industrial	0.12	0.84	● -0.72
Residential	0.00	0.24	● -0.24

IPD Total Returns (%)	Current	1m ago	Difference
All Property	0.21	0.27	● -0.06
Retail	-0.25	-1.10	● 0.85
Office	0.35	0.62	● -0.27
Industrial	0.51	1.23	● -0.72
Residential	0.39	0.62	● -0.23

Economic (%)	Current	1m ago	Difference
UK GDP**	0.2	0.6	▼ -0.45
EU GDP**	0.2	0.3	▼ -0.07
US GDP**	0.6	0.8	▼ -0.19
UK RPI	2.5	2.7	● -0.20
UK CPI	1.8	2.1	● -0.30
US CPI	1.5	1.9	● -0.42
EU HICP	1.5	1.6	● -0.15

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	2.50	▬ 0.00
SONIA	0.70	0.70	▬ 0.00
EONIA	-0.36	-0.36	▬ 0.00
SHIBOR	2.24	2.55	▼ -0.32
TONAR	-0.06	-0.06	▬ 0.00
UK 5YR swap	1.24	1.30	▼ -0.06
US 5YR swap	2.51	2.57	▼ -0.06
EU 5YR swap	0.13	0.20	▼ -0.07

10YR Bond yields (%)	Current	1m ago	Difference
UK	1.22	1.27	▼ -0.05
France	0.55	0.71	▼ -0.16
Germany	0.13	0.19	▼ -0.06
US	2.71	2.83	▼ -0.12
Japan	0.01	0.04	▼ -0.03

Equity dividend yields	Current	1m ago	Difference
All share	4.29	4.46	▼ -0.17
Financial	4.22	4.38	▼ -0.16
Non-financial	4.32	4.48	▼ -0.16
FTSE EPRA REIT's	4.34	4.73	▼ -0.39

Exchange rates	Current	1m ago	Difference
EUR per GBP	1.15	1.11	▲ 0.03
USD per GBP	1.32	1.28	▲ 0.04
MYR per GBP	5.39	5.28	▲ 0.11
SGD per GBP	1.77	1.74	▲ 0.03
CNY per GBP	8.81	8.78	▲ 0.03
JPY per GBP	143.15	140.40	▲ 2.75
HKD per GBP	10.32	10.00	▲ 0.32
KRW per GBP	1462.83	1423.87	▲ 38.96

Volatility	Current	1m ago	Difference
FTSE 100 Volatility Index	13.93	22.09	▶ -8.16
S&P 500 Volatility Index	16.57	25.42	▶ -8.85
Eurostoxx Volatility Index	15.11	23.86	▶ -8.75

Commodities	Current	1m ago	Difference
Brent \$/bbl	52.28	52.28	▬ 0.00
Gold \$/oz	1323.25	1279.00	▲ 44.25

**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