



# MONTHLY UK ECONOMIC BRIEFING

## MARCH 2019

### KEY POINTS

- The Office of Budget Responsibility (OBR) downgraded growth for 2019, with GDP growth now expected at 1.2% down from October’s forecast of 1.6%.
- The expected near term weakness in activity is largely due to a decline in business investment for a second successive year and poor performance in net trade.
- Latest figures from the Office of National Statistics (ONS) show that the UK employment rate (the proportion of people aged from 16 to 64 years who are in paid work) was 76.1% the highest figure on record.
- The unemployment rate fell further to 3.9%, the lowest its been since November 1974 to January 1975.
- The Consumer Price Index (CPI) increased to 1.9% in February from 1.8%, due to rising food, alcohol and tobacco prices.
- With inflation remaining below the Bank of England’s target, the Bank held off on raising interest rates at its latest meeting, amidst ongoing Brexit uncertainty.



UK interest rates are currently at

**0.75%**



In February the RPI rate remained at

**2.5%**



Q4 2018 GDP increased by

**0.2%**



In February the 10yr government bond yield averaged

**1.27%**



In February the CPI rate increased to

**1.9%**



Forecast for Q1 2019 GDP growth are

**0.4%**

Sources: ONS, BNP Paribas, BoE and Macrobond

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# UK ECONOMIC UPDATE

## Spring Statement

The Chancellor, Phillip Hammond presented the Spring Statement on 13 March. This was largely expected to be a low key event in the midst of three key parliamentary votes on Brexit. The Spring Statement focused predominately on the economic outlook with potential consequences on the longer term outlook for the economy in the case of a No Deal.

The OBR downgraded growth for 2019, with GDP growth now expected at 1.2% down from October's forecast of 1.6%. Growth for 2020/2021 remains unchanged at 1.4%. The expected near term weakness in activity is largely due to a decline in business investment for a second successive year and poor performance in net trade. These forecasts assume the UK makes an orderly departure from the EU.

The OBR forecasts show that the unemployment rate is expected to rise marginally to 4.1% in 2019 as employment intentions ease, falling back to 4% by late 2022 thereafter.

Average earnings are anticipated to

increase by 3.1% in 2019, up from 2.5% in the October forecast with average earnings growth reaching 3.3% by 2023.

## Labour market's continued strength

The UK's labour market continued to show remarkable strength. Latest figures from the ONS show that the UK employment rate (the proportion of people aged from 16 to 64 years who are in paid work) was 76.1% the highest figure on record. The highest employment rate estimate in the UK was in the South West (79.9%) and the lowest was in Northern Ireland (70.9%).

Detailed results show public sector employment increased by 54,000 and private sector employment increased by 129,000.

Analysis of the workforce jobs numbers which are mainly sourced from employer surveys, provides a more reliable industrial breakdown than the Labour Force Survey reveal the construction and professional scientific & technical sectors added the largest number of jobs. The service sector overall added 186,000 jobs over the final quarter of 2018. Office

based employment increased by 43,000. Financial, administration & support services and manufacturing experienced a decline in workforce jobs.

The unemployment rate fell further to 3.9%, the lowest its been since November 1974 to January 1975. Real average weekly earnings excluding bonuses increased by 1.4%.

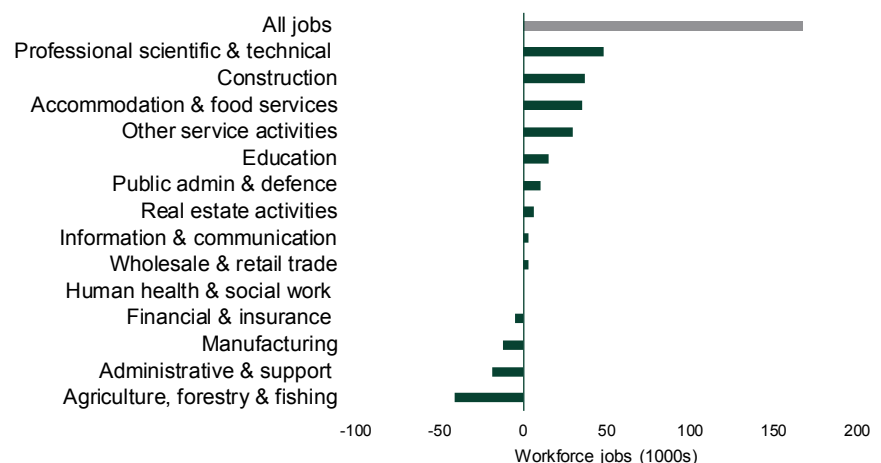
## Inflation ticks up

The CPI increased to 1.9% in February from 1.8%. Rising food, alcohol and tobacco prices largely contributed to the upward change in rate between January and February. The RPI remained unchanged at 2.5%.

With inflation remaining below the Bank of England's target, the Bank held off on raising interest rates as it waits for the outcome of UK's departure from the EU. The nine members of the monetary policy committee voted unanimously to keep rates at 0.75%. The BoE have said rates could move either way if there is a no-deal Brexit.

**"The UK's labour market continued to show remarkable strength. The service sector overall added 186,000 jobs over the final quarter of 2018."**

CHANGE IN UK WORKFORCE JOBS (Q4 18 VERSUS Q3 18)



Source: Office of National Statistics

# KEY ECONOMIC & PROPERTY METRICS

March 2019

IPD Net initial yields	Current*	1m ago	Difference
All Property	5.01	4.98	● 0.04
Retail	5.92	5.86	● 0.06
Office	4.52	4.45	● 0.07
Industrial	4.51	4.50	● 0.02
Residential	3.78	3.83	● -0.05

IPD Capital growth (%)	Current	1m ago	Difference
All Property	-0.32	-0.21	● -0.11
Retail	-1.10	-0.76	● -0.34
Office	-0.06	-0.03	● -0.03
Industrial	0.20	0.13	● 0.07
Residential	0.14	0.00	● 0.14

IPD Total Returns (%)	Current	1m ago	Difference
All Property	0.10	0.22	● -0.12
Retail	-0.60	-0.25	● -0.34
Office	0.32	0.35	● -0.03
Industrial	0.58	0.52	● 0.06
Residential	0.53	0.39	● 0.14

Economic (%)	Current	1m ago	Difference
UK GDP**	0.2	0.6	▼ -0.45
EU GDP**	0.3	0.3	▲ 0.00
US GDP**	0.6	0.8	▼ -0.19
UK RPI	2.5	2.5	● 0.00
UK CPI	1.9	1.8	● 0.10
US CPI	1.5	1.5	● 0.00
EU HICP	1.6	1.5	● 0.14

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	0.71	0.70	▲ 0.01
EONIA	-0.37	-0.36	▲ 0.01
SHIBOR	2.58	2.24	▲ 0.35
TONAR	-0.05	-0.06	▲ 0.01
UK 5YR swap	1.31	1.24	▲ 0.07
US 5YR swap	2.55	2.51	▲ 0.03
EU 5YR swap	0.17	0.13	▲ 0.04

10YR Bond yields (%)	Current	1m ago	Difference
UK	1.27	1.22	▲ 0.05
France	0.57	0.55	▲ 0.02
Germany	0.06	0.13	▼ -0.07
US	2.67	2.71	▼ -0.04
Japan	-0.02	0.01	▼ -0.03

Equity dividend yields	Current	1m ago	Difference
All share	4.29	4.29	● 0.00
Financial	4.24	4.22	▲ 0.02
Non-financial	4.30	4.32	▼ -0.02
FTSE EPRA REIT's	4.22	4.34	▼ -0.12

Exchange rates	Current	1m ago	Difference
EUR per GBP	1.17	1.15	▲ 0.02
USD per GBP	1.33	1.32	▲ 0.01
MYR per GBP	5.41	5.39	▲ 0.02
SGD per GBP	1.80	1.77	▲ 0.03
CNY per GBP	8.90	8.81	▲ 0.09
JPY per GBP	148.04	143.15	▲ 4.90
HKD per GBP	10.44	10.32	▲ 0.12
KRW per GBP	1496.41	1462.83	▲ 33.58

Volatility	Current	1m ago	Difference
FTSE 100 Volatility Index	13.18	13.93	▶ -0.75
S&P 500 Volatility Index	14.78	16.57	▶ -1.79
Eurostoxx Volatility Index	13.59	15.11	▶ -1.52

Commodities	Current	1m ago	Difference
Brent \$/bbl	61.87	52.28	▲ 9.59
Gold \$/oz	1319.15	1323.25	▼ -4.10

\*\*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