

## Round up

### The ONS confirmed the slowdown of the UK economy in the first quarter of 2018

The second estimate of GDP for 2018q1 confirmed that the UK economy expanded only by 0.1% compared with a quarter ago. This reading included the demand breakdown which confirmed a subdued, but better than expected, private consumption growth of 0.2%.

A negative surprise came from business investment which contracted by 0.2% in the quarter after an already weak q4 which saw 0.3% growth. Both imports and exports figures reported a decline of 0.6% and 0.5% respectively. This may be related to logistics problems related to bad weather and some bounce back is expected in the next quarter.

The second estimate did not revise the whole economy GDP figure, but it actually revised up the figures for construction. The sector performance remains subdued, but the contraction was actually 2.7% instead of 3.3%, as first thought.

Once more, the ONS stated that the bad weather effect was limited to few sectors such as construction and retail sales, and these weaknesses were partially offset by the boost to energy suppliers and online retail sales.

The weak reading contributed to the MPC decision, which voted 7-2 against a rate hike in May.

GDP grew by  
**0.1%**  
in 2018q1.

### To some extent, Q1 was also weak for other advanced economies

**Average G7 GDP growth (excluding UK) was**

**0.3%**  
in 2018q1

The first quarter of 2018 was characterized by soft expansions not only in the UK but also, to some extent, in other advanced economies. The average quarterly GDP growth for G7 countries (excluding the UK) was 0.3%. The same average was 0.5% in 2017q4 and 0.6% in q3. However, it should be noted that several statistical agencies have experienced in the past some issues with the first quarter release due to a factor known as "residual seasonality". The Japanese performance was particularly bad with a 0.2% GDP contraction in the quarter. This is the first negative reading since 2015q4.

### Wages finally running faster than inflation

Wages continued to grow in the three months to March reaching a nominal annual expansion of 2.9%. The figure is well above the 2.5% inflation registered in March meaning that real wages are growing. April inflation was even weaker at 2.4% with prices moving faster than expected towards the 2% target set by the Bank of England.

Slowing CPI, together with weak GDP data, have changed market expectations on monetary policy. At the moment a rate hike in 2018 is not ruled out, but its probability is way lower than a couple of months ago.

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**2.9%**  
in the three months to March

### About PMIs

**Manufacturing PMI at**

**54.4**  
in May

In May, manufacturing PMI rose to 54.4 up from the 17-month low registered in April. However, the positive number hides a few concerns. Production accelerated thanks to an intense build-up of inventories and a reduction of work backlogs. Considering the uncertainties related to a possible trade war with the US and the slowdown seen in European PMIs, everything is pointing to a soft (but positive) expansion in the second half of the year.

## Chief Economist's Comment

As expected, a majority of the Monetary Policy Committee opted to leave interest rates unchanged in May. The decision was accompanied by new forecasts for the UK economy, which materially downgraded the growth outlook for 2018. We haven't be too perturbed about the possibility of gradual rises in Bank Rate, from a manufacturing perspective and, despite criticism of the Bank's recent communications, last month's Super Thursday was one of the more predictable policy events of the past month.

We've also revised down our growth expectations for UK GDP this year, expecting an expansion of 1.2%. We're still a fraction more upbeat about the manufacturing picture, with our projection for 2018 growth largely unchanged at 1.9%. We haven't been far from big risks (or indeed opportunities) that could have a significant bearing on UK industry, but a number of other – less predictable – developments in the past months inject new uncertainties into our forecast outlook.

The building rumblings of a trade war have now hit the UK shores with the news that tariffs will be applied to steel and aluminium exports to the US. The direct impact on UK producers, who have been on the up following some capacity reductions and increased demand, will be negative. Less hard to determine is the effect and scale of further retaliations. These disputes put our forecasts on negative watch.

The potential for things to go wrong have also been present in Europe – the formation of an Italian government, the risks of snap elections in Spain – and have prompted heightened financial market volatility. There is the chance of more downside surprises as the next phase of Brexit votes and negotiations gets underway this month. Given the deteriorating investment picture – in the official statistics and our latest *Manufacturing Outlook* report – manufacturers will be hoping for clarity on the encroaching end game, not more debate and confusion.

## Data summary

	Period	Figure	Reference	Trend
UK GDP growth	2018 Q1	0.1%	q-on-q	↓
UK Manufacturing PMI (Index)	2018 May	54.4	index	↑
UK Services PMI (Index)	2018 May	54.0	index	↑
Eurozone Manufacturing PMI (Index)	2018 May	55.5	index	↓
EEF Annual GDP Forecast	2018	1.2%	y-on-y	↓
EEF Pay Settlements	2018 Apr	2.6%	3m-on-3m	↑
Average earnings – manufacturing	2018 Mar	2.6%	3m-on-3m	↓
Average earnings – whole economy	2018 Mar	2.9%	3m-on-3m	↑
UK ILO Unemployment rate	2018 Mar	4.2%	%	↔
CPI inflation	2018 Apr	2.4%	y-on-y	↓
RPI inflation	2018 Apr	3.4%	y-on-y	↑
UK Consumer Confidence Index	2018 May	-7	index	↑
Index of Production	2018 Mar	0.1%	m-on-m	↔
Index of Manufacturing	2018 Mar	-0.1%	m-on-m	↑
UK Trade - Goods balance (£billion)	2018 Mar	-12.3	level	↓
Business Investment growth	2018 Q1	-0.2%	q-on-q	↓
Manufacturing Investment growth	2018 Q1	3.7%	q-on-q	↑
UK Debt to GDP level	2016/7	86.6%	GDP %	↓
UK Current Account Balance % of GDP	2016/7	2.4%	GDP %	↓

Sources: ONS, Markit, GfK NOP, EEF and Oxford Economics