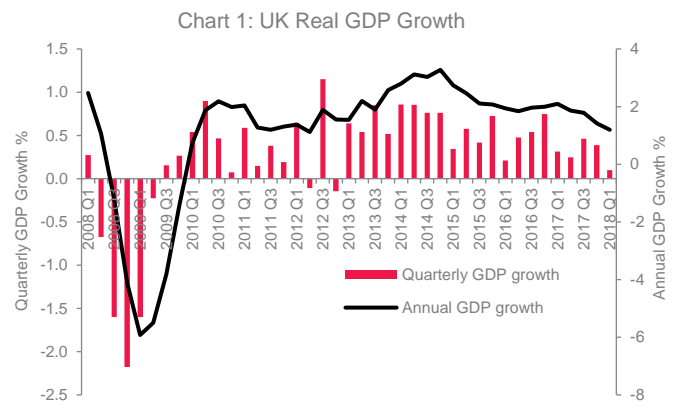


Monthly headlines:

- UK GDP growth slows to six-year low as construction output falls and services output weakens
- UK real wage growth returns to positive territory as inflation continues to slow
- While US GDP growth slows in Q1, IMF upgrades its global GDP growth forecast expectations

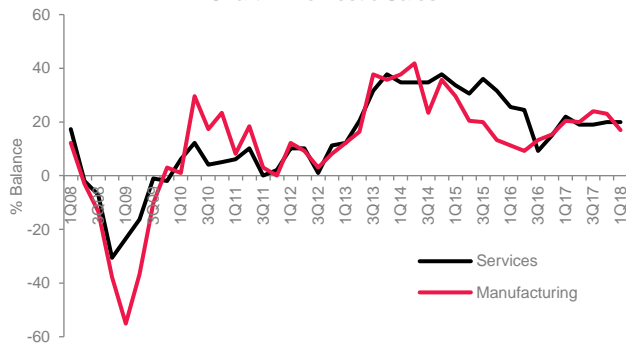
UK GDP growth slows to six-year low...

The UK economy grew by 0.1% in Q1 2018, the slowest rate of growth since Q4 2012 and slower than the growth of 0.4% recorded in Q4 (See Chart 1). In annual terms, the UK economy grew by 1.2% in Q1, down from the growth of 1.4% recorded in Q4. UK economic output is now estimated to be 10.7% above its pre-recession peak in Q1 2008. GDP per head declined by 0.1% in Q1 2018, the first fall since Q1 2016. Overall, the first estimate of UK GDP for Q1 2018 supports our view that growth in the UK economy is becoming more subdued.



Source: ONS Preliminary Estimate of GDP, Q1 2018

Chart 2: Domestic Sales



Source: BCC QES, Q1 2018

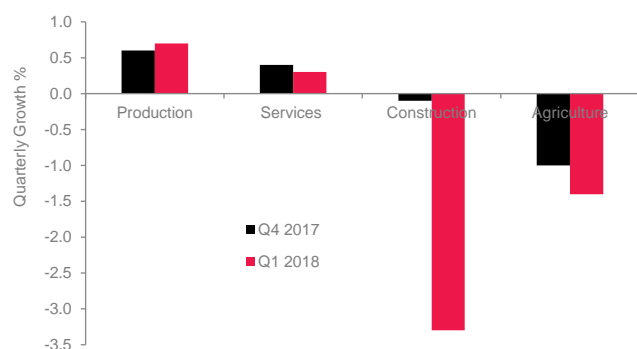
...mirroring the latest QES...

The results of the Q1 2018 Quarterly Economic Survey (QES) pointed to subdued growth in Q1 2018. The balance of firms in the manufacturing sector reporting increasing domestic sales fell from +23 to +17, the lowest since Q4 2016 (see Chart 2). In the services sector, the balance of firms reporting rising domestic sales held steady at +20. The latest balances show a continued pick-up in export activity for both service sector firms and manufacturers. The survey also recorded a pickup in business confidence and investment intentions in the first quarter.

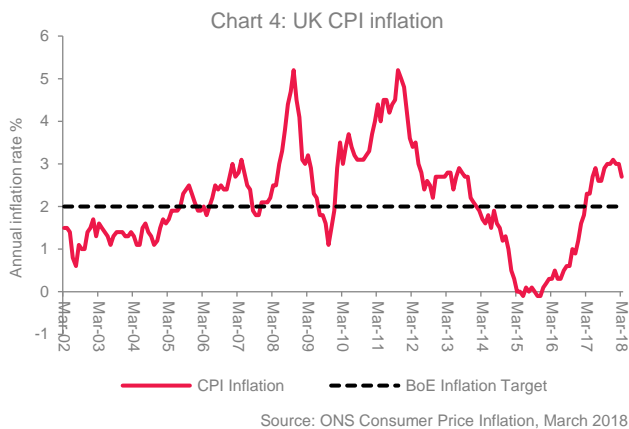
...as construction output falls sharply...

Weakening GDP growth in Q1 was partly due to a 3.3% decline in construction output (see Chart 3). Growth in service sector output, slowed to 0.3% in Q1, from 0.4% in Q4 2017. However, the service sector was still the main driver of the economic activity in the quarter. Industrial production grew by 0.7% in Q1, with manufacturing output up by 0.2%. Significantly, the ONS noted that the impact of the 'Beast from the East' on overall UK growth in Q1 was relatively small. Taken together, the Q1 GDP figures confirm that UK growth remains unbalanced with an over-reliance on services to drive growth.

Chart 3: UK GDP growth by Sector



Source: ONS Preliminary Estimate of GDP, Q1 2018

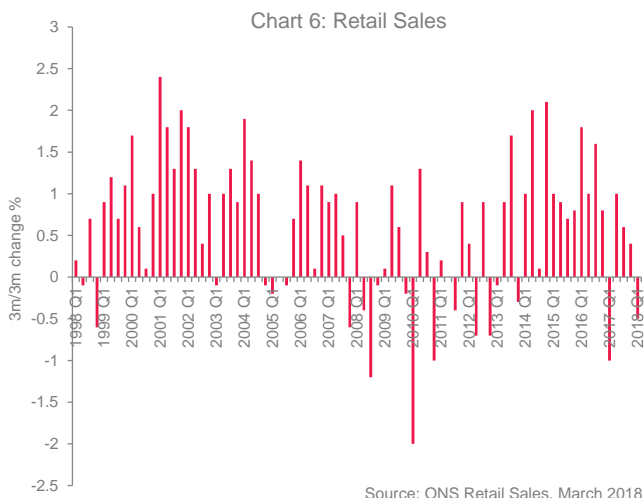
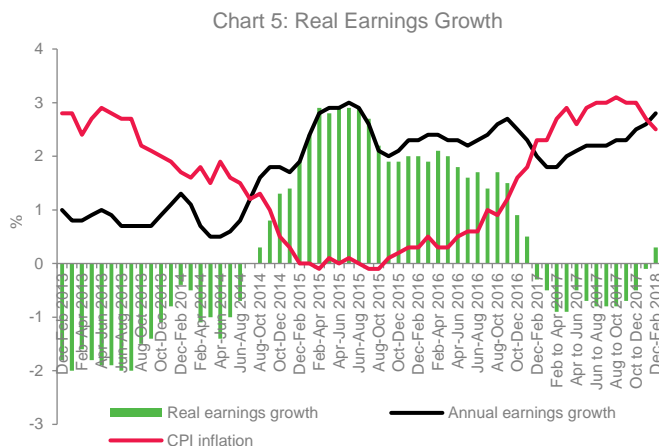


...with inflation slowing again...

CPI inflation in the UK stood at 2.5% in March 2018, the lowest rate since March 2017 (see Chart 4) and down from the 2.7% rise in February. The largest downward contributions to the change in the rate came from clothing and footwear prices, which rose by less than a year ago. **Inflation is likely to continue easing over the near term as the impact of the post-EU referendum slide in sterling fully dissipates.** That said, upward pressure from rising commodity prices could well keep inflation hovering above the Bank of England's 2% inflation target in the short term.

...real wage growth turns positive...

In the three months to February 2018, the number of people out of work declined by 16,000. As a consequence, the UK unemployment rate fell to 4.2%, the lowest rate since 1975. With regular pay growth increasing from 2.6% to 2.8%, **pay growth is now outpacing price growth for the first time since early 2017 (see Chart 5).** However, while the end of squeeze on real wage growth is an important moment, maintaining positive real wage growth could prove challenging without sustained increases in productivity and relieving the high upfront costs which restrict pay increases.



...but consumer spending remains weak...

Retail sales fell by 1.2% in March, following a 0.8% rise in February. **The decline in March was mainly due to the 'Beast from the East' impact on petrol sales which dropped by 7.4% in the month.** On the rolling three month-on-three-month measure – a more reliable indicator of the underlying trend – retail sales dropped by 0.5% in Q1 2018, the biggest decline since Q1 2017 (see Chart 6). The return to positive real wage growth is unlikely to translate into materially stronger consumer spending in the near term with consumers expected to remain under pressure from uncomfortably high debt levels. As a consequence, the retail sector is likely to remain under pressure for some time to come.

...as the UK's fiscal position improves...

Public sector net borrowing (excluding public sector banks) decreased by £0.8 billion to £1.3 billion in March 2018, compared with March 2017, the lowest March outturn since 2004. As a consequence, UK public sector net borrowing totalled £42.6 billion in 2017/18, the lowest since 2007/08 and £3.5 billion lower compared with the previous financial year (see Chart 7). **The UK's fiscal position has been boosted over the past year by a 4.4% rise in tax receipts as well as lower spending and debt interest payments.** However, public sector net debt stood at 86.3% of GDP in March 2018, almost three times pre-crisis levels.

Chart 7: UK Public Sector Net Borrowing

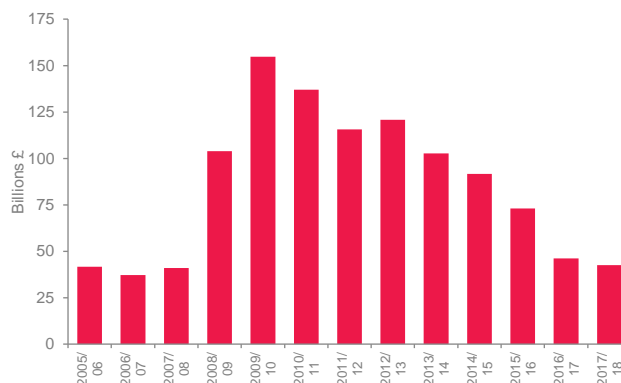


Chart 8: US Real GDP Growth



Source: BEA

...while US GDP growth slows...

The first estimate of US GDP revealed that the US economy, the world's largest, grew at an annualised rate of 2.3% in Q1 2018 (see Chart 8), the slowest rate of growth since Q1 2017 and lower than the growth of 2.9% recorded in the previous quarter. The slowdown was largely driven by consumer spending, which accounts for two-thirds of US economic output, growing by 1.1% in Q1, a sharp slowdown from the 4% increase in Q4 2017. Despite the weaker GDP figures in Q1, the outlook for the US economy remains relatively strong with significant tax reforms expected to help support growth over the near term.

...IMF upgrades its global growth outlook...

The International Monetary Fund (IMF) has upgraded its outlook for the global economy for 2018 to 3.9%, from its previous forecast of 3.7% made in October 2017. If realised this would be the strongest rate of global GDP growth since 2011. The IMF noted that the impact of expansionary fiscal policy in the United States and a 'partial' recovery in commodity prices are likely to help support global growth in the near term. The latest IMF forecasts also suggest that the UK will remain among the slowest growing economies in the G7 over the next few years (see Table 1).

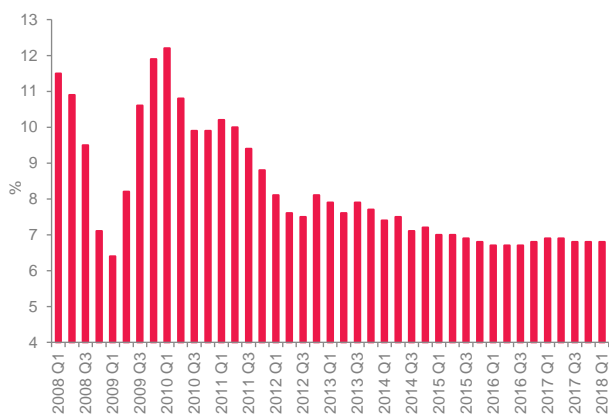
Table 1: GDP Growth Forecasts, G7 Countries

GDP Growth (Annual % change)	2018	2019	2020	Average (2018-20)
USA	2.9	2.7	1.9	2.5
Germany	2.5	2.0	1.5	2.0
Canada	2.1	2.0	1.8	2.0
France	2.1	2.0	1.8	2.0
UK*	1.4	1.5	1.6	1.5
Italy	1.5	1.1	0.9	1.2
Japan	1.2	0.9	0.3	0.8

*BCC Forecast

Sources: BCC, IMF

Chart 9: Real China GDP Growth



Source: National Bureau of Statistics of China

...and Chinese growth remains above target.

China - the world's second-largest economy - grew by 1.4% in Q1 2018, slower than the growth of 1.6% recorded in the previous quarter. In annual terms, the Chinese economy grew by 6.8% in Q1, unchanged from the previous quarter and above the Chinese government's GDP growth target of 6.5% (see Chart 9). A sharp rise in private sector investment helped to offset a drop in China's trade surplus. The near-term outlook for China has moderated a little with concerns over debt levels and government reforms likely to weigh on their near-term growth prospects. There also remain questions over the accuracy of China's GDP data.

Bottom line:

Taken together, last month's data releases suggest that the UK economy is becoming more subdued and reduces the likelihood of interest rates rising in the near term. Against this backdrop more must be done to boost UK's growth prospects, including incentivising business investment and addressing the UK's faltering digital and physical infrastructure.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indictors (sources)	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18
Household	Retail Sales (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Consumer Confidence (GfK NOP)	■	■	■	■	■	■	■	■	■	■	■	■	■
	House Prices (Halifax)	■	■	■	■	■	■	■	■	■	■	■	■	■
	New car sales (SMMT)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Mortgage approvals (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
Business	Business confidence (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business lending (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Service sector output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Production output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Economic Inactivity (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
Financial	Exchange rate (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Equity Prices (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■
	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimate.