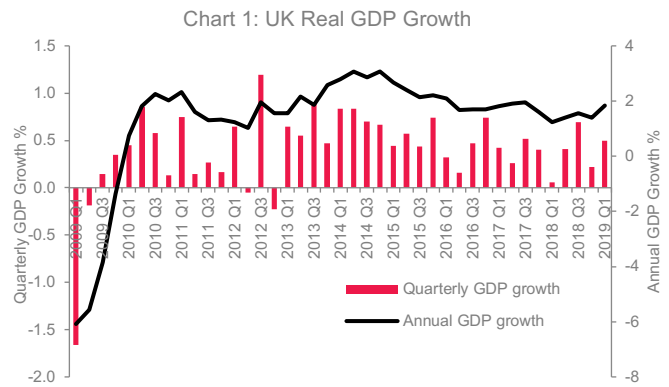


Monthly headlines:

- UK GDP growth improved in Q1, boosted by stockpiling and stronger consumer spending
- The UK labour market continues to tighten as inflation moves back above target
- UK's trade deficit widens as OECD downgrades its forecast for global growth

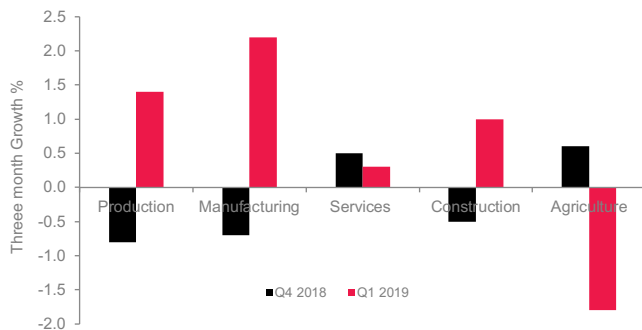
UK GDP growth picks-up in Q1...

The latest official estimate for UK economic growth revealed that the UK economy grew by 0.5% in Q1 2019, more than double the growth of 0.2% recorded in Q4 (See Chart 1). In annual terms, the UK economy grew by 1.8% in Q1, the strongest growth since Q4 2017 and up from the growth of 1.4% recorded in Q4. UK economic output is now estimated to be 12.6% above its pre-recession peak in Q1 2008. On the monthly measure, UK GDP contracted by 0.1% in March, following growth in January (+0.5%) and February (+0.2%).



Source: ONS UK GDP estimate, March 2019

Chart 2: UK GDP growth by Sector



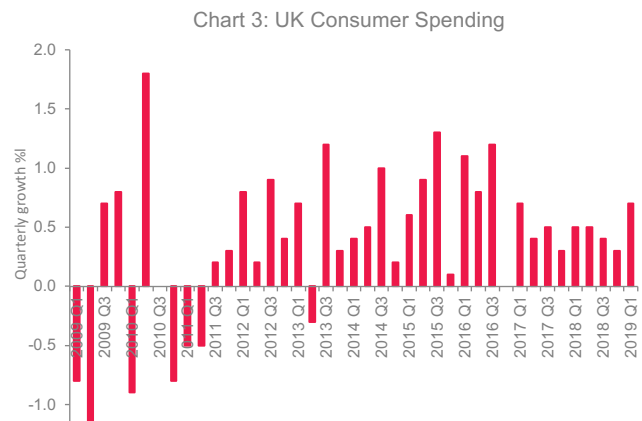
Source: ONS UK GDP estimate, March 2019

...boosted by stockpiling...

The uptick in UK GDP growth in Q1 was partly driven by a 1.4% rise in industrial production (see Chart 2). Within the industrial sector, **manufacturing sector output rose by 2.2% in Q1, the strongest growth since Q3 1988, reflecting the significant increase in stockpiling that took place ahead of a possible no-deal exit.** Service sector output, which accounts for over three quarters of UK economic output, rose by 0.3% in Q1, down from 0.5% in Q4 2018. Construction output rose by 1.0% in Q1, more than offsetting the 0.5% decline in the previous quarter.

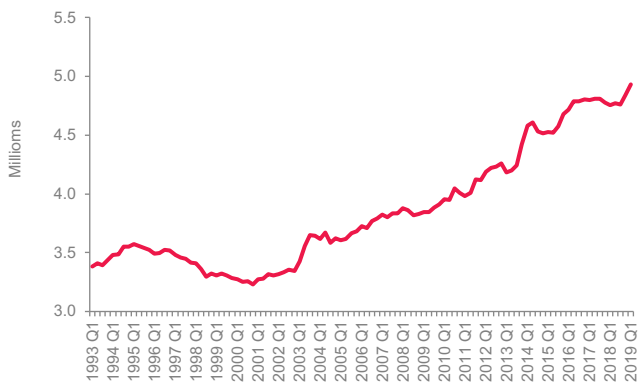
...and stronger consumer spending...

The first official estimate of Q1 2019 UK GDP also revealed that consumer spending was a key driver of Q1 growth, rising by 0.7% in the quarter, the strongest growth since Q1 2017 and more than double the growth of 0.3% recorded in Q4 2018 (see Chart 3). **Historically low unemployment together with the recent improvement in real wage growth combined to help boost household expenditure in the quarter.** Following four successive quarterly declines, business investment rose by 0.5% in Q1. However, despite the improvement, business investment in annual terms was still down by 1.4% in Q1.



Source: ONS UK GDP estimate, March 2019

Chart 4: UK Self-employment



Source: ONS UK Labour Market Overview, March 2019

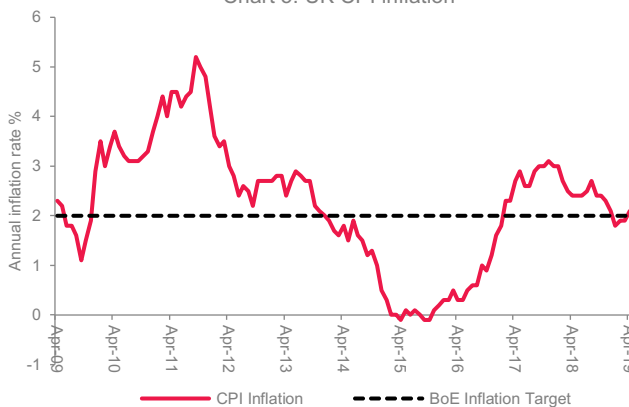
...while UK jobs market remains a bright spot...

In the three months to March 2019, the number of people in employment rose by 99,000 with **the number of self-employed workers rising by 90,000 to 4.9 million, a record high (see chart 4)**. The unemployment rate dropped from 4.0% to 3.8%, the lowest since the end of 1974. Average weekly earnings (excluding bonuses) growth slowed slightly to 3.3%, from 3.4%. While the labour market remains a bright spot for the UK economy, the notable downside to the strong headline jobs figures is weak productivity with firms tending to hoard labour, rather than invest.

...as inflation moves back above target...

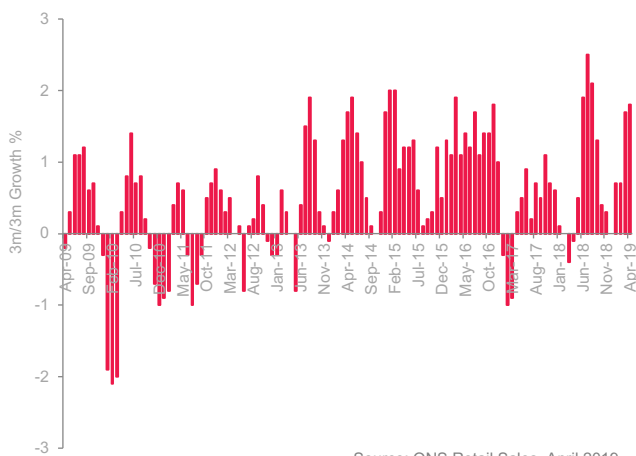
CPI inflation in the UK stood at 2.1% in April 2019, up from 1.9% in March and is the first time since December 2018 that UK inflation has been above the Bank of England's 2% target (see Chart 5). The largest upward pressure on consumer prices came from rising energy prices, following the increase in Ofgem's energy price cap in April, and higher air fares. While consumer prices may rise further in the near term, the outlook for inflation remains subdued with the current upward pressure on prices largely due to a number of temporary factors, which means that there remains little pressure to raise interest rates.

Chart 5: UK CPI inflation



Source: ONS Consumer Price Inflation, April 2019

Chart 6: UK Retail Sales



Source: ONS Retail Sales, April 2019

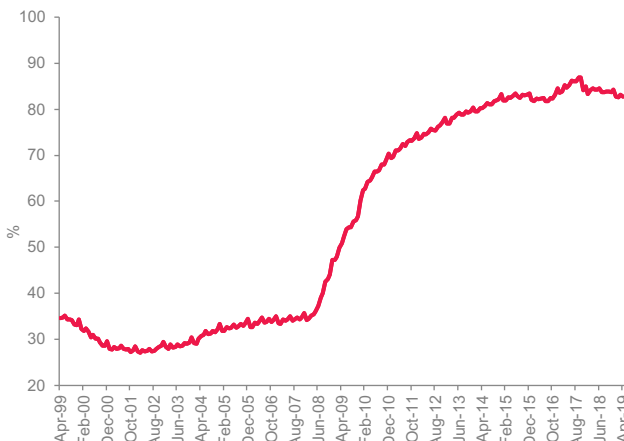
...retail sales flat in April...

Retail sales were flat in April 2019, the weakest outturn since December 2018 and down from the growth of 1.2% recorded in March. In annual terms, sales rose by 5.2%, with growth recorded across all sectors except household goods, which fell by 4.5%. On the rolling three-month-on-three-month measure, a better indicator of the underlying trend, sales rose by 1.8% in the three months to March 2019, the strongest growth since August 2018 (see Chart 6). Despite the recent improvement, a more subdued economy, weak productivity and high upfront costs for business are likely to stifle pay growth, weakening overall activity in the retail sector.

...as government borrowing falls...

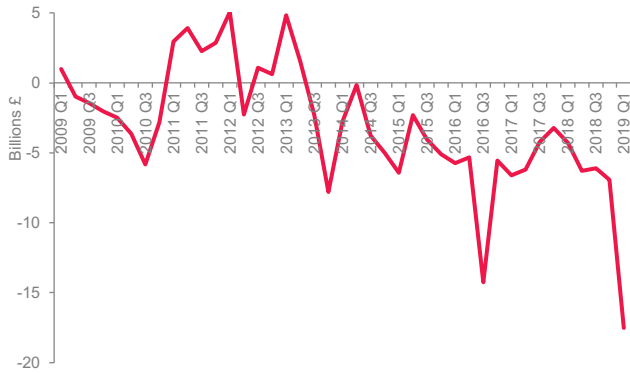
Public-sector borrowing (excluding public-sector banks) stood at £5.8 billion in April 2019, the lowest April outturn since 2007 and £30 million lower than at the same point in 2018. Estimated borrowing for the 2018/19 financial year as a whole was revised down by £1.1 billion. **Strong tax receipts continue to boost the UK's fiscal position** with revenue up by 2.4% in annual terms in April. Public sector net debt (excluding public sector banks) currently stands at 82.7% of UK GDP (see Chart 7). The improving fiscal data should give Chancellor some headroom to use the upcoming Spending Review and Autumn Budget to provide a boost to the UK economy.

Chart 7: UK Public Sector Debt as a % of GDP



Source: ONS Public Sector Finances, April 2019

Chart 8: UK's Net Trade Position



Source: ONS UK Trade data, March 2019

...while UK's trade deficit widens...

The UK trade deficit in goods and services was £18.3 billion in Q1 2019, an increase of £8.9 billion on the previous three-month period (see Chart 8). The deterioration was mainly due to a £6.4 billion widening in the UK's trade deficit in goods, and a £2.5 billion narrowing in the UK's trade surplus in services. The trade in goods deficit widened by £1.7 billion with EU countries and by £4.7 billion with non-EU countries. **The UK's net trade position is likely to remain under pressure** as exchange rate volatility, Brexit uncertainty and the prospect of an escalating US-China trade war weigh on trading conditions.

...the OECD forecasts weaker global growth...

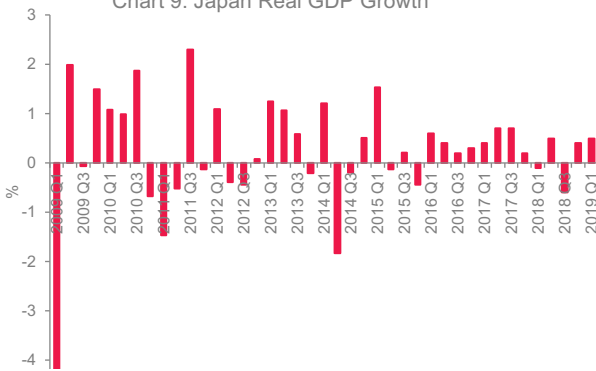
The Organisation for Economic Co-operation and Development (OECD) are currently forecasting global GDP growth of 3.2% this year, down from their previous forecast of 3.3%. The OECD then expect global growth to pick-up a little in 2020 to 3.4% (see Table 1). **The OECD said that the US-China trade war and weak investment were key factors behind the downgrade.** The OECD expects the UK economy to grow by 1.2% this year, which would be the weakest full year growth since 2009. The latest OECD growth forecasts suggest that the UK will be the fourth fastest growing G7 economy this year with the US expected to remain the fastest growing G7 economy in 2019.

Table 1: OECD GDP Growth forecasts, G7

GDP Growth (Annual % change)	2019	2020
World	3.2	3.4
US	2.8	2.3
Canada	1.3	2.0
France	1.3	1.3
UK	1.2	1.0
Germany	0.7	1.2
Japan	0.7	0.6
Italy	0.0	0.6

Source: OECD

Chart 9: Japan Real GDP Growth



Source: Cabinet Office

...Japanese economic growth picks-up in Q1.

Japan, the world's third-largest economy, grew by 0.5% in Q1 2019, the strongest growth since Q2 2018 and up from the growth of 0.4% recorded in the previous quarter (see Chart 9). Japan's economy grew at an annualised rate of 2.1% in Q1. **While the pick-up in growth was largely driven by a marked improvement in Japan's net trade position,** this was mainly due to a 4.6% drop in imports in Q1 which more than offset the 2.4% decline in exports over the same period. Consumer spending, which accounts for almost two-thirds of Japanese GDP growth, contracted by 0.1% in Q1 and business investment declined by 0.3% in the quarter.

Bottom line:

While the official GDP data pointed to a strong start to the year for the UK economy, the headline figure has been flattered by a number of temporary factors, and so does little to alter the UK's subdued underlying growth trajectory. With UK growth likely to slow in the coming quarters, it is therefore vital that ministers and parliament outline a clear path forward on Brexit, and do more to tackle the long-standing domestic challenges for the UK economy, from weak productivity to a growing skills gap and the need to invest in transformative infrastructure projects, that will boost growth across the UK.

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19
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.