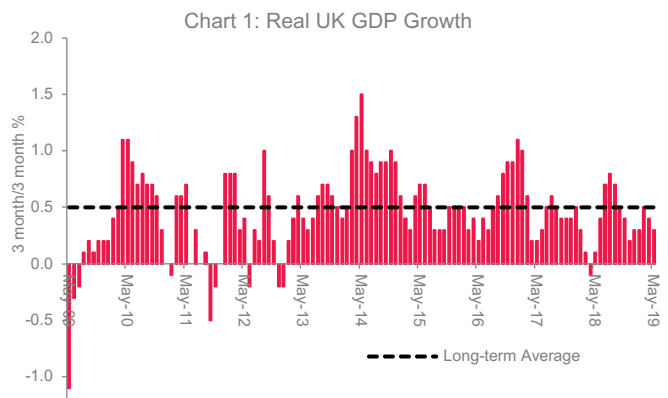


Monthly headlines:

- UK GDP growth subdued in May as industrial output slows
- UK inflation holds steady as wage growth rises to 11-year high
- IMF downgrades global growth outlook as GDP growth slows in China, US and the Eurozone

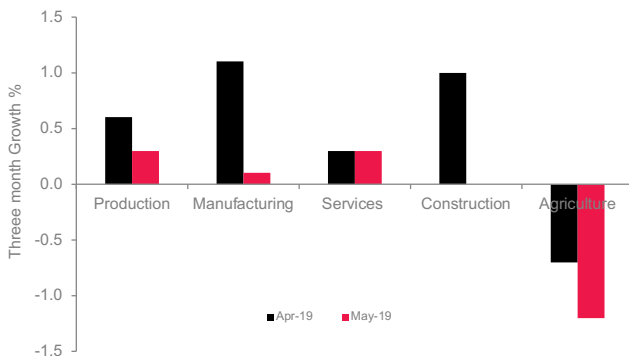
UK GDP growth remains subdued...

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy grew by 0.3% in May, partly offsetting the contraction of 0.4% in the previous month. On the rolling three-month-on-three-month measure, **UK GDP growth stood at 0.3% in May, down from growth of 0.4% in April.** (see Chart 1). The continued slowdown on the underlying three-month measure is further evidence that the UK economy is faltering under the weight of relentless Brexit uncertainty and tougher global economic conditions.



Source: ONS UK GDP estimate, May 2019

Chart 2: UK GDP growth by Sector



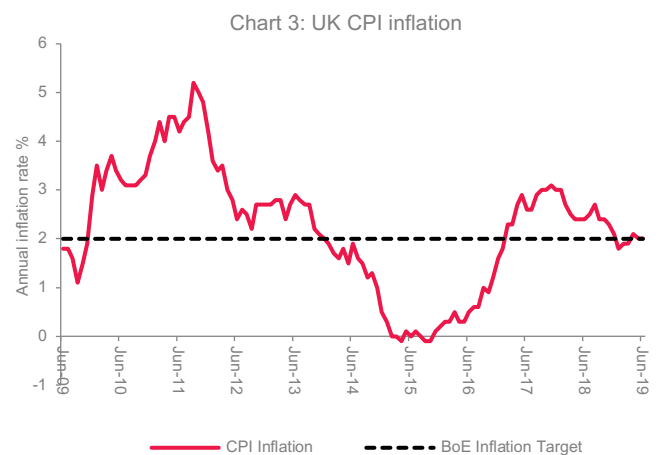
Source: ONS UK GDP estimate, May 2019

...as industrial output slows...

In the three months to May 2019, the service sector grew by 0.3%, unchanged from the previous three-month period (see Chart 2). Construction sector recorded zero growth and agricultural output dropped by 0.7%. Growth in industrial output slowed from 0.6% in the three months to April to 0.3% in May, with manufacturing output growing by just 0.1%. While **manufacturing output rose by 1.4% in May on the monthly measure, as car production reopened, following the April shutdown,** it failed to offset the 4.2% decline in manufacturing output in April.

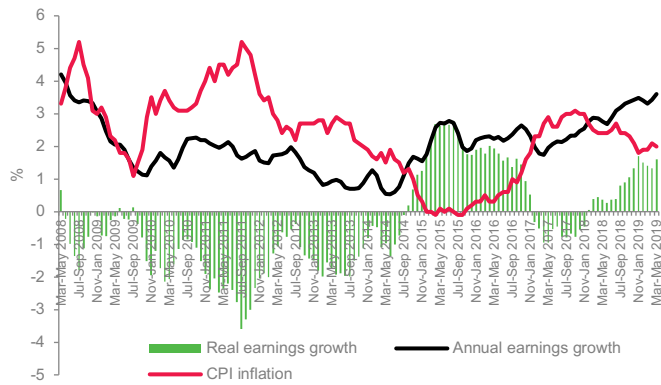
...with inflation unchanged for now...

CPI inflation in the UK stood at 2.0% in June 2019, unchanged for the second successive month and in line with the Bank of England's inflation target (see Chart 3). The downward pressure on the rate came from several price categories including fuel prices and accommodation services. However, this was offset by upward price pressures from clothing and food. While the recent downward pressure on sterling's value amid growing anxiety at the prospect of a no-deal exit may drive consumer prices higher over the near term, **a stalling economy is likely to keep price growth broadly in line with Bank of England's 2% target.**



Source: ONS, Consumer Price Inflation, June 2019

Chart 4: UK Real Earnings Growth



Source: ONS UK Labour Market, July 2019

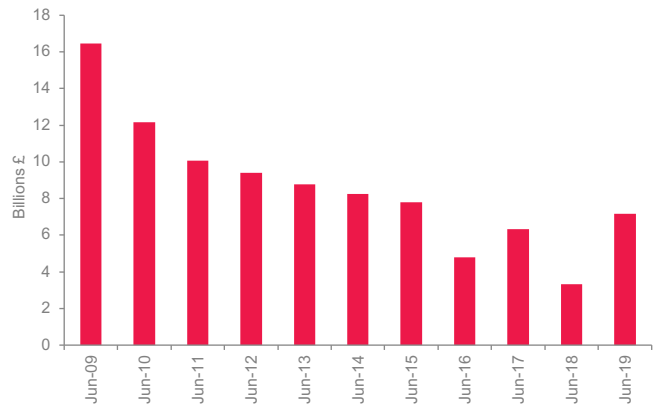
...real wage growth picks-up...

In the three months to May 2019, the number of people in employment rose by 28,000, the smallest increase since the three months to August 2018. UK unemployment fell by 51,000 over the same period. **Annual earnings growth, excluding bonuses, increased from 3.4% to 3.6%, the highest rate since 2008 (see Chart 4).** While modest inflation alongside rising pay growth is providing some welcome relief to financially stretched households, any boost to consumer spending is likely to be tempered somewhat by weak consumer confidence.

...government borrowing at 4-year high...

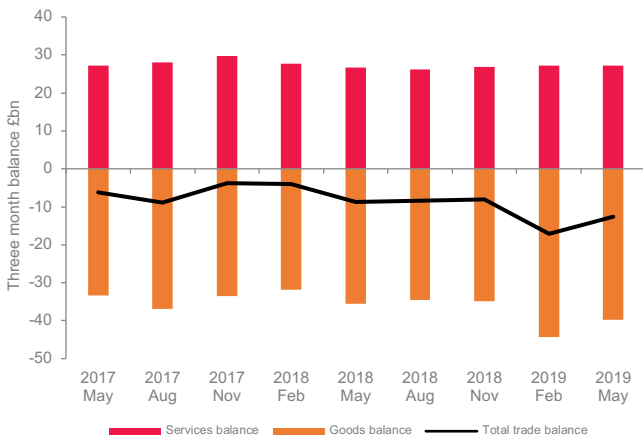
UK public sector net borrowing (excluding public sector banks) stood at £7.2 billion in June 2019, the highest June outturn since 2015 (see Chart 5) and £3.8 billion higher than in June 2018. The deterioration was partly driven by a £1.2 billion rise in government spending on goods and services. In the current financial year-to-date (April to June 2019), government borrowing rose by £4.5 billion to £17.9 billion. UK public sector net debt currently stands at 83.1% of UK GDP. If the economic conditions weaken as we predict, the UK's capacity to collect enough tax revenue to consistently achieve deficit reduction in the coming years will become more challenging.

Chart 5: UK Government Borrowing



Source: ONS Public Finances, June 2019

Chart 6: UK's Net Trade Position



Source: ONS UK Trade, May 2019

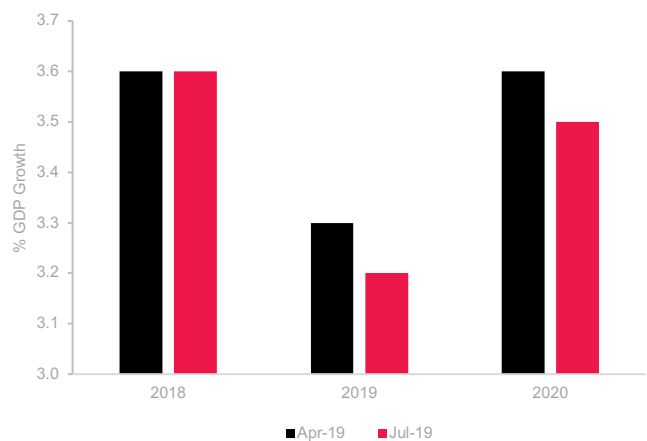
...while UK's trade deficit narrows...

The UK's trade deficit in goods and services was £12.6 billion in the three months to May 2019, a narrowing of £4.6 billion on the previous three-month period. The improvement was due to a 0.8% rise in exports of goods and a 2.9% drop in goods imports. **Despite the improvement in the three months to May 2019, the UK's total trade deficit widened by £20.6 billion to £46.2 billion in the 12 months to May 2019 (See Chart 6).** Brexit uncertainty, persistent exchange rate volatility and a slowing global economy are likely to increasingly weigh on the UK's net trade position over the medium-term.

...IMF downgrades global outlook...

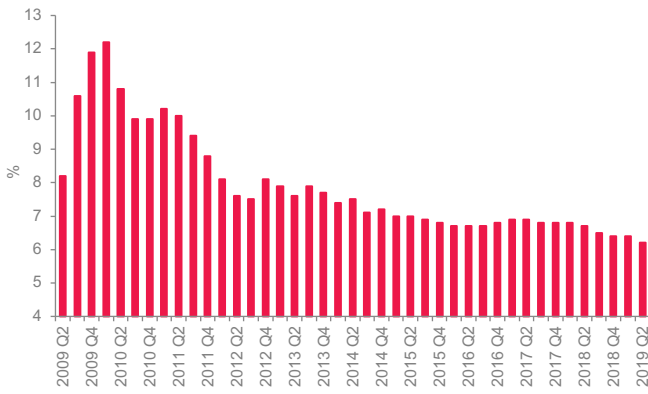
The International Monetary Fund (IMF) has downgraded its outlook for the global economy. The IMF cut its global GDP growth forecast for 2019 to 3.2% (see Chart 7), from its previous forecast of 3.3% published in April. The IMF has also cut its growth forecast for 2020 from 3.6% to 3.5%. Weaker global trade amid a marked increase in trade tensions between the US and China was the main driver behind the downgrade. The IMF now forecasts global trade growth of 2.5% in 2019, down from its previous forecast of 3.4%. The IMF warned that **the growing prospect of a no deal Brexit is adding to the downside risks to the global economic outlook.**

Chart 7: IMF Global GDP Growth Forecast Revisions



Source: IMF

Chart 8: China Real GDP Growth



Source: National Bureau of Statistics of China

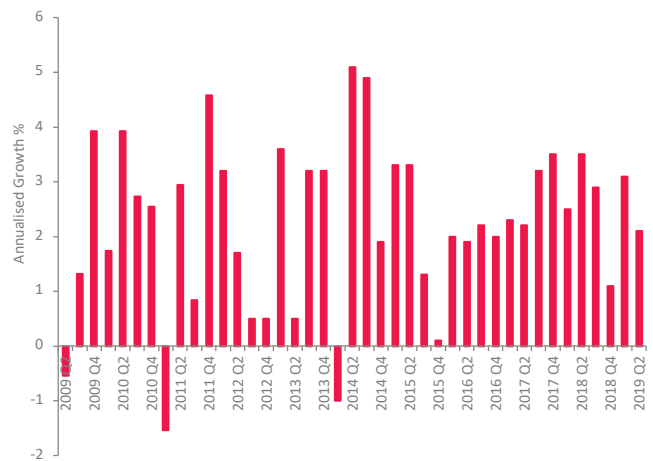
...Chinese growth drops to 27-year low...

China's economy, the world's second largest, grew at an annual rate of 6.2% in Q2 2019 (see Chart 8), the weakest growth since Q1 1992 and down from growth of 6.4% in the first quarter of 2019. **However, China GDP growth remains in line with the government's growth target of 6-6.5%.** Rising trade tensions with the US and weakening demand for Chinese goods and services amid a subdued global economy is slowing economic activity and means that Chinese GDP growth may moderate further over the rest of the year. The accuracy of China's economic data also remains questionable.

...as US GDP growth...

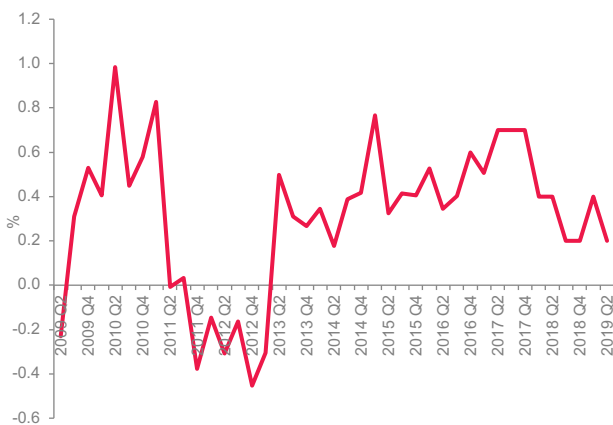
The first estimate of US GDP revealed that the US economy grew at an annualised rate of 2.1% in Q2 2019, down from growth of 3.1% in the previous quarter (see Chart 9). Consumer spending grew by 4.3% in Q2, the strongest growth since Q4 2017 and almost four times the growth of 1.1% recorded in the previous quarter. In contrast, private sector domestic investment declined by 5.5% in Q2, the biggest fall since Q4 2015. **Growing trade tensions with China and slowing global growth drove a 5.2% decline in US exports in Q2.** Concerns over the impact of a slowing global economy on the US was a key driver behind the Federal Reserve's decision to cut interest rates for the first time since 2008.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Eurozone Real GDP Growth



Source: Eurostat

...and Eurozone growth slows.

The Eurozone economy grew by 0.2% in Q2 2019, half the growth of 0.4% recorded in the previous quarter (see Chart 10). In annual terms, the Eurozone economy grew by 1.1% in Q2, down from the growth of 1.2% in Q1. **The recent slowdown in Eurozone GDP growth partly reflects moderating global demand and persistent Brexit uncertainty.** On the upside, the Eurozone's unemployment rate dipped from 7.6% to 7.5% in June 2019, the lowest rate since July 2008. The weakening growth outlook for the Eurozone's economy increases the possibility that the European Central Bank (ECB) will soon follow the US Federal Reserve and provide some monetary stimulus.

Bottom line:

Overall, the latest data suggests that the downward pressure on the UK economic growth remains significant. Against this backdrop, it is vital that the new Prime Minister prioritises avoiding a messy and disorderly exit from the EU, as such a departure would likely trigger a marked deterioration in economic conditions. More must also be done to boost the UK's growth trajectory by delivering the transformative infrastructure projects needed to secure the UK's economic future.

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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