

Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

AUGUST 2019



Employment

(Mar '19 - May '19)

76.0%



Unemployment

(Mar '19 - May '19)

3.8%



Productivity growth

(Output per hour, Q1 2019 on a year ago)

-0.2%



Real wage growth

(Mar '19 - May '19 on a year ago)

+1.4%

Risks increase to world and UK economies

Federal Reserve and European Central Bank action indicate concern about global growth

July saw both the International Monetary Fund (IMF) and the Bank of England commenting on the deterioration in global growth across emerging and advanced economies. Trade tensions are driving both weaker trade between the US and China, and the more pervasive slowdown in manufacturing activity globally. An Organisation for Economic Co-operation and Development (OECD) measure of manufacturing business confidence has been declining since the end of 2017, while measures of global policy uncertainty have spiked sharply since the US first implemented trade tariffs against China. These developments led the IMF to revise down its forecast for world growth to 3.2% this year and 3.5% next year.

The weakening in the global growth outlook and muted inflationary pressures have pushed both the Federal Reserve and the European Central Bank (ECB) to soften their monetary policy stance. On 25 July, the ECB committed to maintaining a 'significant degree of monetary stimulus' and to shift their stance towards lower interest rates. Then, at the end of July, the Federal Reserve also announced a reduction in interest rates. Both actions have helped calm markets.

Risks to UK growth increase

Both the Financial Stability Report and the Inflation Report were published in July by the Bank of England. The Inflation Report highlighted the differing position of monetary policy in the UK in comparison with other advanced economies. This reflects the weakness in the pound, which is helping to keep inflation higher in the UK, the pronounced tightness in the labour market and risk that a no deal Brexit may stoke inflationary pressures in the UK further. The Bank's forecasts are predicated on the average of a range of Brexit outcomes. Meanwhile, the Financial Policy Committee continues to judge the UK banking system to be resilient to a worst-case disorderly Brexit scenario as well as a severe global recession.

UK companies feel Brexit fatigue

In recent months, many companies have remarked that they feel they've done all they can to prepare for a no deal Brexit and are keen to focus on other things. The CBI has recently published a document covering the no deal preparedness of the UK, EU, Member States and companies, called "*What comes next? The business analysis of no deal preparations*". As the risk of no deal has increased materially, it is important that companies continue to prepare themselves for its implications.

Anna Leach

Deputy Chief Economist, CBI

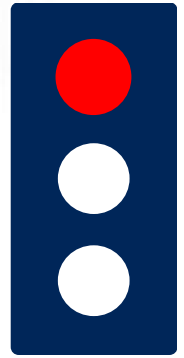


UK economic health check

CBI growth indicator: red

In the quarter to July, private sector volumes continued to fall, albeit at a slightly slower pace (-9%) than in June. This marked the ninth consecutive rolling quarter of flat or falling volumes. July's outturn reflected a slower decline in services volumes and a faster decline in both distribution and manufacturing volumes. The decline in distribution was broad-based across all three sub-sectors.

-9%



Past three months*



Next three months*



Growth indicator: sector detail

Distribution volumes declined at a faster pace in the quarter to July, underpinned by a sustained fall in retail sales. Meanwhile, wholesale volumes sharply declined and motor trades continued to fall, but at a slightly slower pace. Next quarter, distribution volumes are expected to be flat, with unchanged wholesale volumes and a recovery in retail sales growth offset by a decline in motor trades volumes.

Business volumes in the services sector continued to decline, but at a slower pace in the quarter to July. This was underpinned by a sharp fall in consumer services volumes alongside unchanged volumes in business and professional services. Over the next three months, overall services volumes are expected to return to growth, underpinned by a recovery in both business and professional services and consumer services growth.

Manufacturing output dropped in the quarter to July, with the drag on growth primarily driven by the motor vehicles and transport equipment sub-sector. Total new orders fell at the fastest pace since January 2012, driven by the fastest falls in domestic and export orders since the financial crisis. Manufacturing output growth is expected to recover next quarter.

*Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'

** Financial services are not included in the composite; the latest survey was June 2019.