MONTHLY ECONOMIC BRIEF

JANUARY 2018

Economic summary

- **Q3 GDP growth rate was unrevised in its final estimate at 0.4%. However, revisions to the composition of growth left it looking more balanced over the quarter**
- **Employment continued to fall in the three months to October, but the labour market remains relatively tight**
- **The CBI's growth indicator rose above its long-run average to +19% in December**

Economic growth steady but subdued in Q3…

The ONS's final estimate of Q3 GDP growth was unrevised at 0.4%, continuing the pattern of steady but subdued momentum seen since the start of 2017. However, the ONS' revisions to the composition of growth left it looking more balanced over the quarter, with the breakdown showing a stronger contribution from business investment and exports.

However, while growth in household spending picked up in Q3, real incomes are still under pressure with consumers financing spending by running down their savings. Credit risk as interest rates start to rise is being monitored, but there are few signs that credit growth is unsustainable yet: recent research by the Bank of England and published in their Bank Underground blog finds that recent credit growth has been driven by borrowers with the highest credit scores, i.e. those least likely to suffer financial distress.

…while labour market softens in quarter to October

Employment fell by 56,000 to 32 million in the quarter to October according to Labour Market data from the ONS. Although this marks the second consecutive rolling quarter of falling employment, it follows a long run of strong growth and leaves the employment rate at 75.1%, down slightly from its recent high of 75.3%. Furthermore, the labour market remains relative tight, with the unemployment rate unchanged at 4.3%, the lowest since 1975.

But while wage growth (excluding bonuses) rose by 2.3% on the year in the three months to October, it continued to run well below CPI inflation (3.1% in November, up from 3.0% in October), meaning that real wages continued to fall, further underlining the challenging conditions facing households.

Survey data suggests surge in activity at year end…

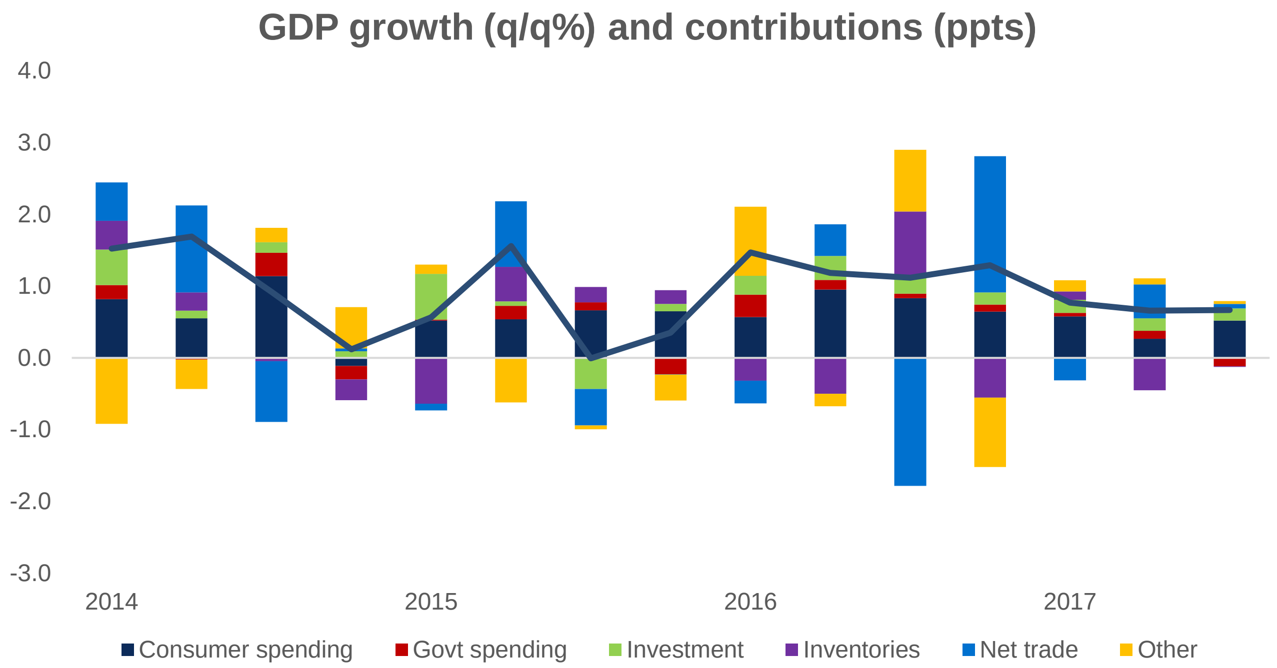
The CBI's growth indicator picked up sharply in December to its highest in two years, reflecting a broad-based pick-up in private sector activity. Manufacturing output growth remained at a brisk pace, while there was an improvement in growth among consumer-facing companies and retailers – albeit to a lesser degree than expected in the case of the latter. Meanwhile, growth also improved among business and professional services firms.

Despite strong data for December, the average for the growth indicator over Q4 was a little below that for Q3 (balance of 12% vs 14%), driven lower by a particularly weak reading for November. So our surveys imply little change in overall momentum in Q4 relative to Q3.

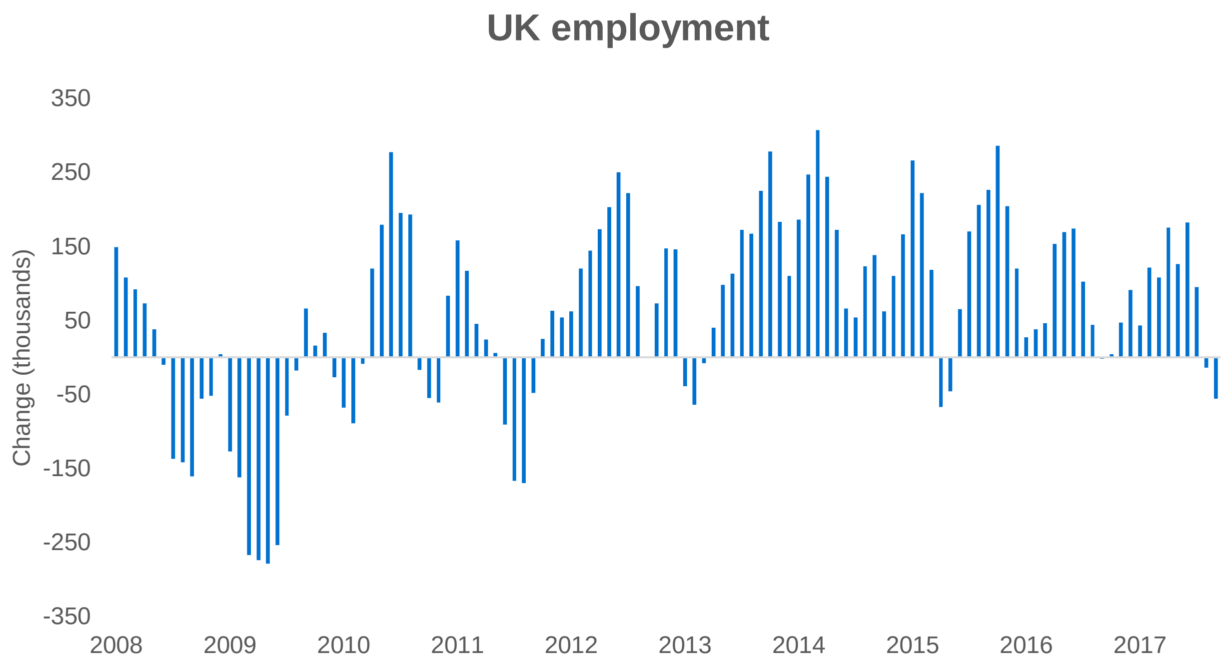
…but outlook remains subdued

Expectations from December's CBI surveys for the quarter ahead are weaker than those for November, despite the pick-up in growth recorded (with an expectations balance of +4% - the weakest since just after the referendum result in July 2016).

We expect growth to remain at around 0.4% per quarter over the next few years, yielding annual growth of 1.5% in 2018 and 1.3% in 2019 (see [CBI December 2017 forecast]). Consumer incomes will remain under pressure during 2018 as inflation remains elevated and earnings struggle to keep pace, affecting consumer-facing companies and retailers, and uncertainty will contain to constrain investment spending. We expect export growth to pick up further, but not to a sufficient degree to fully compensate for the slowdown in consumer spending and investment, which together account for three quarters of the economy.

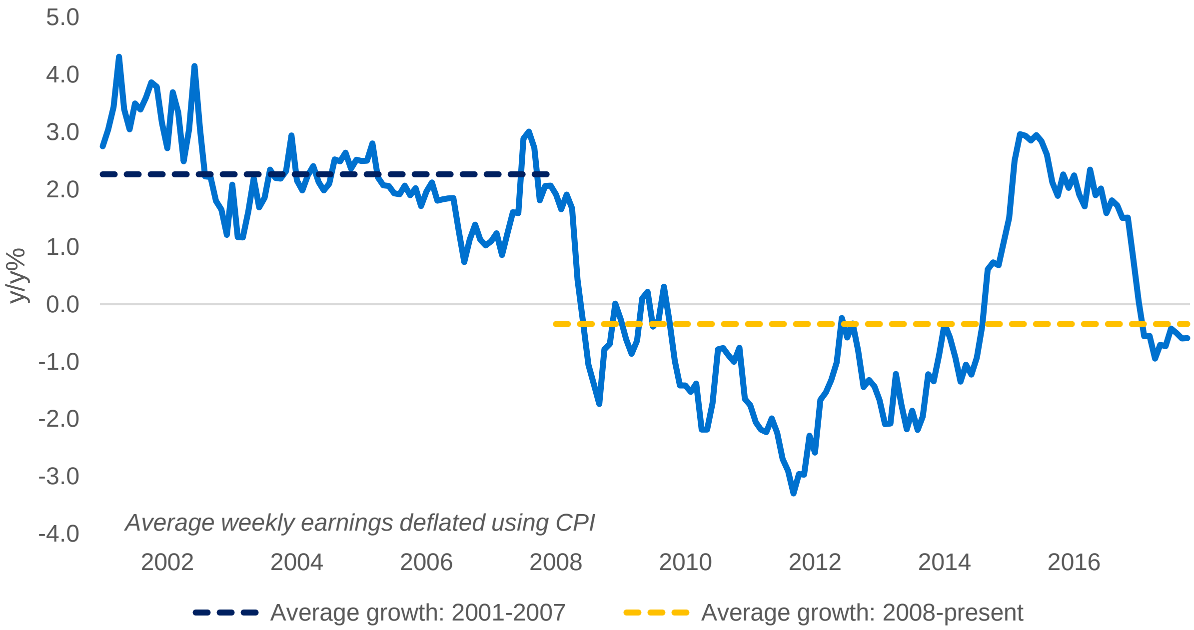


Source: ONS/Haver



Source: ONS/Haver

Real wage growth (regular pay)



Source: ONS/Haver

Results of December CBI Surveys[1]

Key

Positive (green)
Neutral (amber)
Negative (red)

	Optimism	Orders	Output/Volumes[2]	Prices and Costs	Employment	I
CBI Industrial Trends Survey (monthly[3]/quarterly) *Covers* *Manufacturing sector* *Conducted* *Quarterly: 26th September - 12th Oct* *Monthly: 22nd November – 12th Dec*	Optimism deteriorated in the October survey (-11%, av: -7%). Export optimism improved (+7%) but at a slower pace than in previous quarters	Total order books sustained their multi-year high (+17% from +17% av: -14%). Export order books (+16% from +20%, av: -18%) remained strong	Output growth was steady over the three months to December (+30% from +28%), but remained far above average (+4%). However, output growth is expected to slow next quarter (+13%)	Cost growth picked up (+32%) but is set to ease next quarter. Expectations for output price inflation picked up for the next three months (+23% from +17%)	Employment growth was broadly unchanged in the three months to October (+16% from +18%, av: -11%). However, headcount growth is expected to slow next quarter (+8%)	Manufacturers' plans for buildings investment deteriorated, to the weakest since July 2009 (-30% from -7%, av: -19%). Firms also expect to reduce expenditure on plant & machinery in the year ahead, in line with average (-7%)
CBI Distributive Trades Survey (monthly[3]/quarterly) *Covers* *Retail* *Conducted* *Quarterly: 27th October – 11th Nov* *Monthly: 23rd November – 13th Dec*	In the November survey, retailers expected the business situation to deteriorate (-5%) for the fourth consecutive quarter	Orders placed on suppliers continued to grow (+11% from +22%) vs December last year. Orders are expected to rise at the same pace in the year to January	Retail sales volumes eased slightly in the year to December (+20% from +26%), but this pace was along the long-run average (+20)	Prices grew at the fastest pace since August 1991 in the year to November (+75% from +54%). Similarly, strong inflation is expected in Dec (+70%)	The November survey showed numbers employed falling for the fourth consecutive quarter (-26% from -35%). Retailers expect to cut back further in December (-19%)	Investment intentions for the year remained positive in November for the second quarter running (+6% from +6%)
CBI Service Sector Survey (1) (monthly[3]/quarterly) *Covers* *Consumer services* *Conducted* *Quarterly: 30th October – 14th Nov* *Monthly: 24th November – 13th Dec*	Sentiment in consumer services deteriorated for the second consecutive quarter in the three months to November (-21% from -12%)		In the quarter to December, business volumes recovered (+10% from -20%). But they are expected to fall slightly next quarter (-4%)	Price inflation expectations remain elevated (+35% from +34%, av: +18%). Cost growth eased (+44% from +63%, av: +37%) but is set to pick up	Numbers employed fell in the three months to November for the first time since August 2013 (-7% from +23%). Employment growth is expected to rebound next quarter (+34%)	Firms expect to keep spending unchanged on vehicles, plant & machinery and land & buildings. Spending on IT is expected to remain robust (+25%)
CBI Service Sector Survey (2) (monthly[3]/quarterly) *Covers* *Business & Professional* *Conducted* *Quarterly: 30th October – 14th Nov* *Monthly: 24th November – 13th Dec*	Optimism rose slightly in the quarter to November for the third successive quarter, albeit at a slightly slower pace (+5% from +8%)		Business volumes increased in the quarter to December, (+17% from +1%). Volumes are expected to fall over the next three months (-2%)	Price expectations eased slightly (+9% from +13%), but remain above long-run average (-3%). Cost growth slowed last quarter (+29% from +44%), but a slight pick-up is expected (+33%).	Employment growth slowed (+16% from +24%) but remained above average (+11%) and growth is expected to ease further next quarter (+12%)	Firms expect to slightly increase spending on land & buildings slightly (+4%). Spending is expected to be unchanged for vehicles, plant & machinery while IT spending plans have softened (+9%)
CBI Financial Sector Survey (quarterly) *Covers* *Financial sector* *Conducted* *15th August – 1st September*	Optimism deteriorated further in the quarter to September (-6% from -10%), having fallen in five out of the previous six quarters		Growth in business volumes eased but remained in line with average (+13% from +44%, av: +14%). Growth was expected to accelerate in the quarter to December (+27%)	Average spreads declined (-30%) while fees & commissions were unchanged (0%). Average costs edged up (+6% from -6%), but were expected to be stable next quarter (-1%)	Numbers employed were unchanged in the quarter to September (-1% from +29%). Headcount was expected to increase in the quarter to December (+11%)	Investment intentions strengthened for IT (+68%) and land & buildings (+8%), with spending on vehicles, plant & machinery expected to stabilise after being -ve for three years (-1%)

[1] CBI survey results are reported as a 'balance' statistic – calculated as the difference between the percentage of respondents replying 'up' minus the percentage replying 'down'.
[2] The Industrial Trends Survey queries respondents on output, whereas the remaining surveys ask about volumes.
[3] Monthly ITS data includes output, orders and expected prices, otherwise data is quarterly. Monthly DTS data covers orders and volumes, otherwise data is quarterly. Monthly SSS data covers volumes and expected prices, otherwise data is quarterly. Monthly SSS data is unpublished, but is used to compile the monthly growth indicator. We do not include the monthly growth indicator in the scorecard as it is a composite of the CBI's survey data shown above.