Sample Report

UK Consumer Credit Report

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Summary

Bank of England raises rates to 0.75%

In line with our forecasts, the nine-strong Monetary Policy Committee (MPC) have voted unanimously to increase Bank Rate by 25bps, to 0.75%, only the second rise since the financial crisis.

The MPC's decision to hike rates was driven by a perceived requirement to combat domestic cost pressures, namely from wage growth, that they say are building in line with a tightening labour market.

However, in the longer term movements in pay tend to closely mirror the trend in productivity (output per worker) through its impact on the amount of revenue that companies generate, and ultimately what they can afford to pay their employees.

Productivity has remained stubbornly low since the financial crisis, but the MPC expects growth to pick up slowly in the coming quarters, reaching an annual rate of around 1¼% by xxxx.

Given their assumptions on productivity and wage growth, as well as an expectation that import cost pressures will continue to ease in line with the diminishing impact of sterling's deprecation on import prices, the MPC has repeatedly stressed that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

Our central macroeconomic forecast for the UK continues to be predicated on a steady rise in base rate to 1.5% by the end of xxxx. The potential outcome of Brexit negotiations presents an ongoing risk to the outlook both to the upside and downside, and the MPC have not ruled out a rate cut if economic conditions should deteriorate.

Credit forecast summary*

UK	14	15	16	17	18-22
Secured Credit					
Interest Rate (%)					
Gross Lending level (£billions)					
Net Lending level (£billions)					
Debt Stock (£billions)					
Write-offs (£billions)					
Write-off rate (%)					
Unsecured Credit					
Interest Rate (%)					
Gross Lending level (£billions)					
Net Lending level (£billions)					
Debt Stock (£billions)					
Write-offs (£billions)					
Write-off rate (%)					

A disorderly transition to a 'Hard' Brexit is the key risk to our central case scenario, as it could negatively impact on business confidence, investment and hiring. The possibility of lingering above target inflation also poses a downside risk to the consumer spending outlook.

★ TOP 5 ★
MOST ACCURATE FORECASTING HOUSE
Rated in 2016 by the Sunday Times

Credit conditions

Lending remains firm

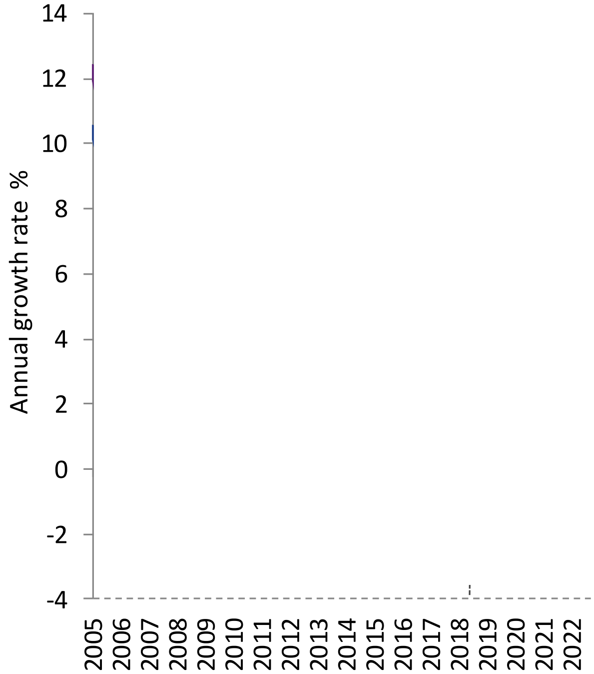
The latest Bank of England data shows that net lending secured on dwellings came in at £3.9 billion in June, up fractionally from May and exceeding the six month average of £3.5 billion. Annual growth for mortgage lending was unchanged at 3.2%.

Consumer credit net lending came in at £1.6 billion in June, unchanged from May, but up compared to the six month average of £1.4 billion. Within consumer credit, net credit card lending and other loans and advances were also both unchanged at £0.5 billion and £1 billion respectively, broadly in line with their six month averages. Furthermore, the annual rate of growth in total net lending held steady at 8.8%. The gains remain rapid relative to the post recession average, though have eased by roughly 0.5 percentage points compared to the start of the year, and are down from a peak of 10.9% in November xxxx.

Lenders responding to the Bank of England Credit Conditions Survey (CCS) reported that supply of credit in the secured and unsecured markets was flat in q2. They expected supply to be broadly unchanged in the secured credit market in q3, but decrease slightly for unsecured credit, with credit scoring criteria likely to become significantly tougher. The CSS also shows that respondents anticipate a pick-up in demand for unsecured credit and secured lending for mortgaging, but no change in lending for house purchase. This follows a flat q2 in the unsecured market, but an increase in the secured lending market.

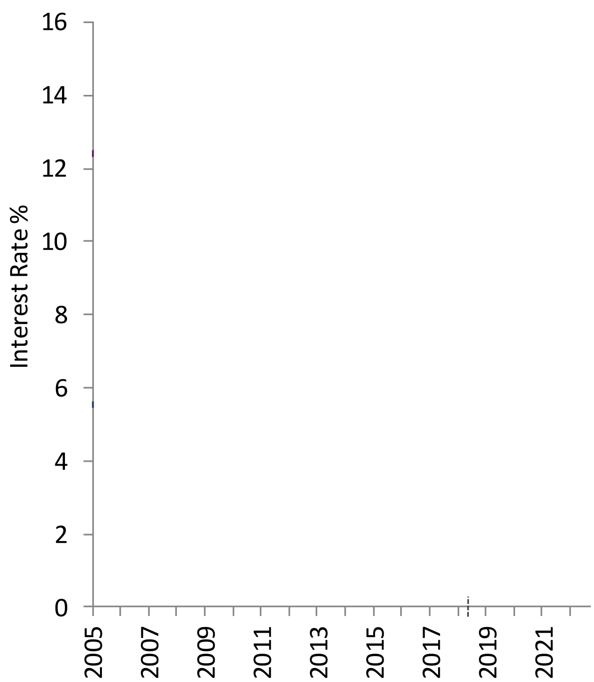
Near-term outlook: Demand for unsecured credit remains strong, while in the secured credit market the near-term outlook looks flat. On balance, a tightening in regulation in the consumer credit market is anticipated to underline a modest slowdown in overall net lending to below 3% (year-on-year) by xxxxq4, from near 4% in xxxxq2. While mortgage rates remain supportive, a modest tightening in q2 and going into q3 will also take the edge off what will still be a very strong growth rate by historic standards.

Annual growth of net lending to households



Source: National Statistics, Experian

Market average retail interest rates

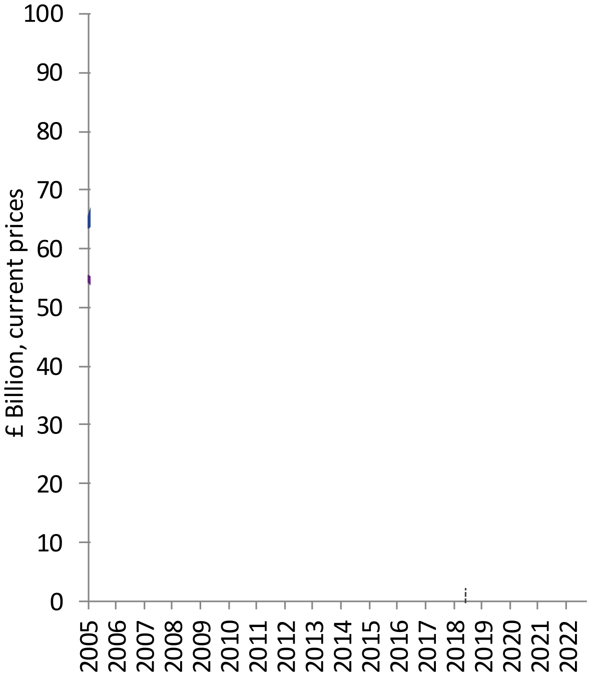


Source: National Statistics, Experian

***Our forecasts were locked on 10 February*

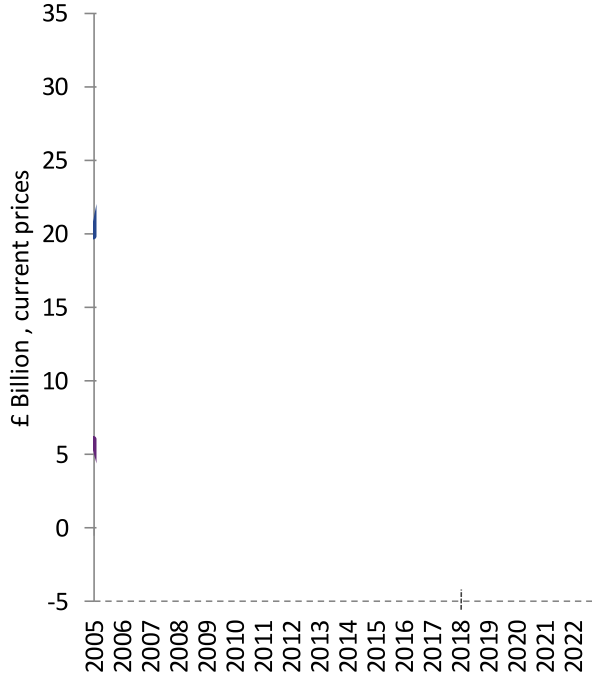
Credit conditions

Gross lending to households (quarterly)



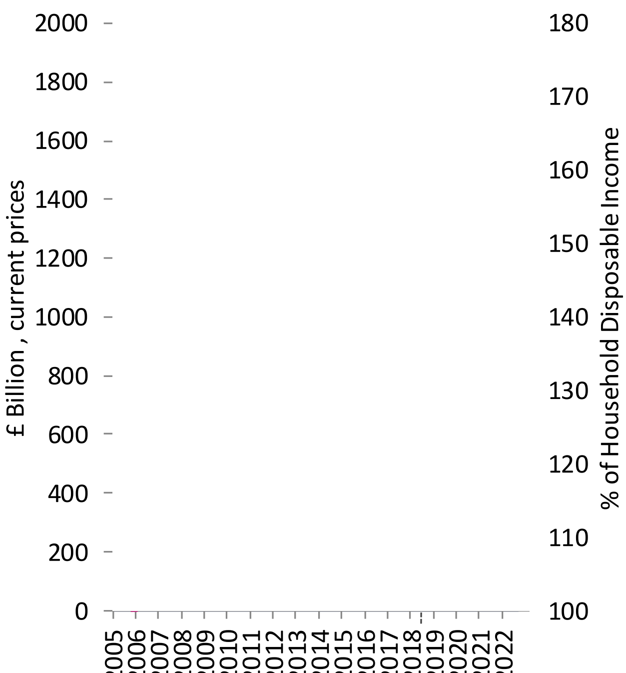
Source: National Statistics, Experian

Net lending to households (quarterly)



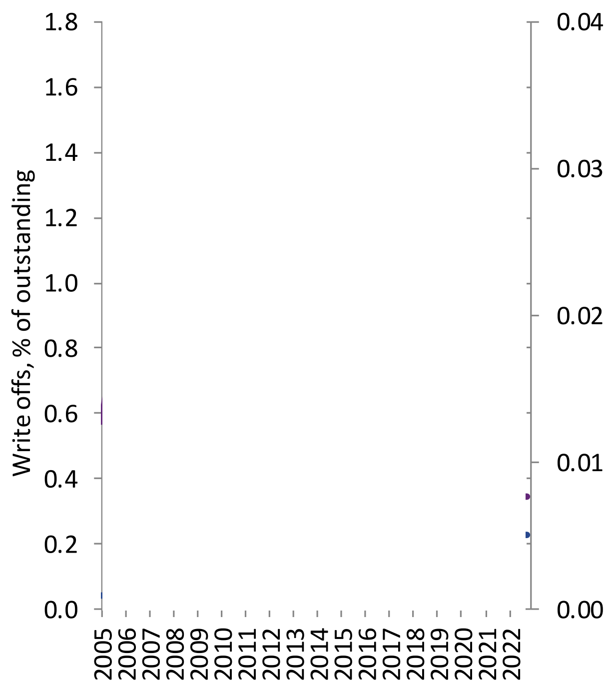
Source: National Statistics, Experian

Total outstanding loans to households



Source: National Statistics, Experian

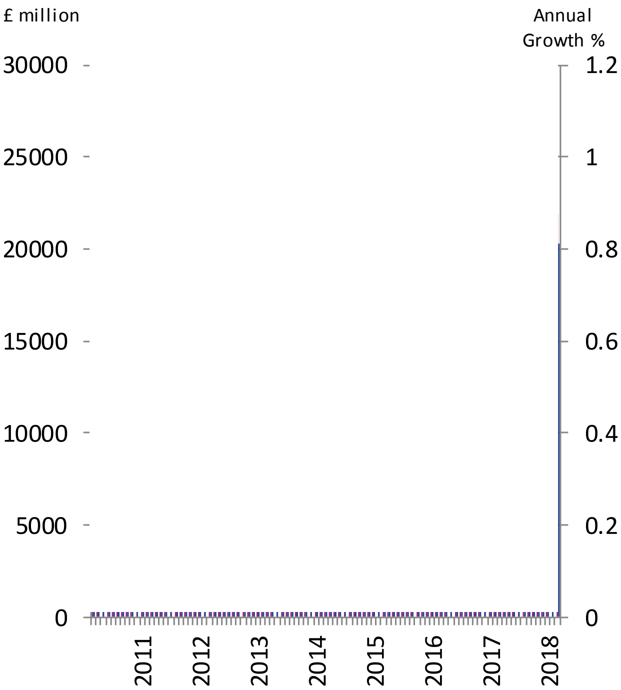
Write off rates on loans to households



Source: National Statistics, Experian

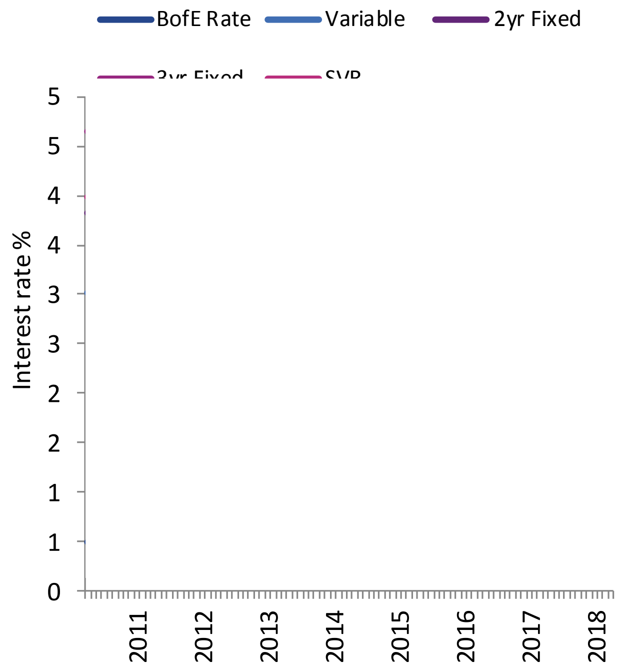
Credit conditions

Secured loans: Approvals & gross lending



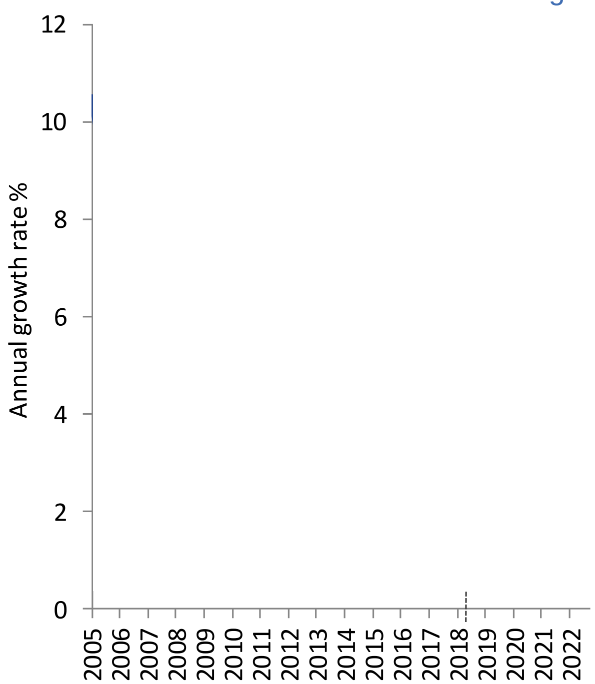
Source: Bank of England

Secured loans: Interest rates



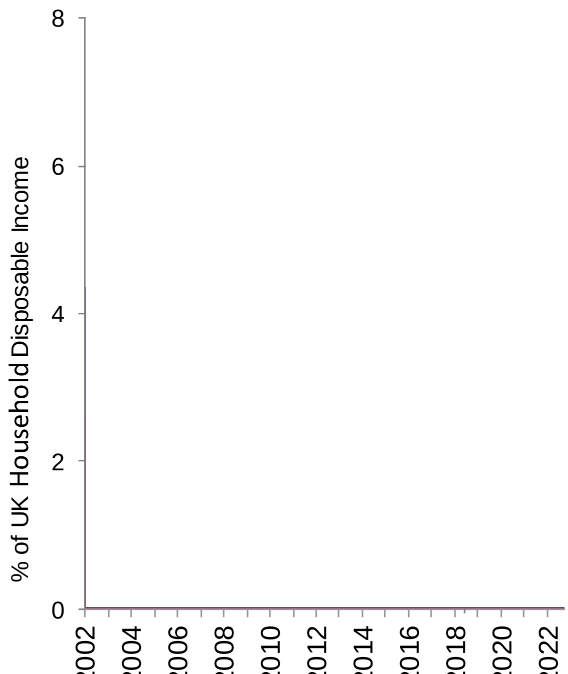
Source: Bank of England

Growth forecasts: Secured net lending



Source: National Statistics, Experian

Interest payments as % of household income



Sources: Bank of England, National Statistics, Experian

Unsecured lending
Growth expected to slow

Consumer credit net lending came in at £1.6 billion in June, unchanged from May, but up compared to the six month average of £1.4 billion. Within consumer credit, net credit card lending and other loans and advances were also both unchanged at £0.5 billion and £1 billion respectively, broadly in line with their six month averages. Furthermore, the annual rate of growth in total net lending held steady at 8.8%. The gains remain rapid relative to the post recession average, though have eased by roughly 0.5 percentage points compared to the start of the year, and are down from a peak of 10.9% in November xxxx.

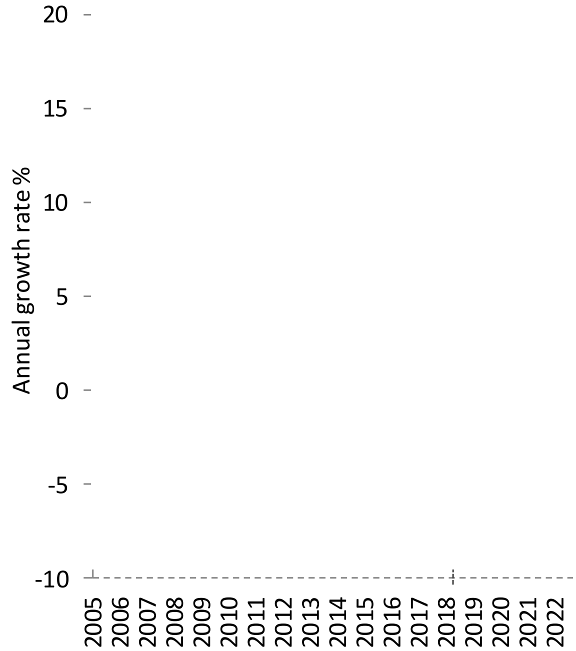
Lenders responding to the CCS reported that the availability of unsecured credit to households was unchanged in q2 and was expected to decrease slightly in q3. Credit scoring criteria for the granting of other unsecured loans were reported to have become significantly more tough and the proportion of applications that were approved fell slightly. Conversely, the proportion of approvals of credit card loan applications increased significantly.

Respondents to the CCS also reported that demand for unsecured lending was unchanged in q2, but they expected an increase in q3. Lender expectations were underlined by an anticipated rise in credit card lending, offset by a slight decrease for other unsecured lending.

In terms of loan pricing, CCS respondents reported a tightening in spreads in q2, driven by a significant narrowing in spreads on other unsecured lending products. Overall unsecured lending spreads were expected to widen slightly in q3. Bank of England data also shows that while quoted rates on new £5000 and £10,000 were slightly lower in June than they were in December last year, they are higher than they were a year ago, and have crept up in recent months.

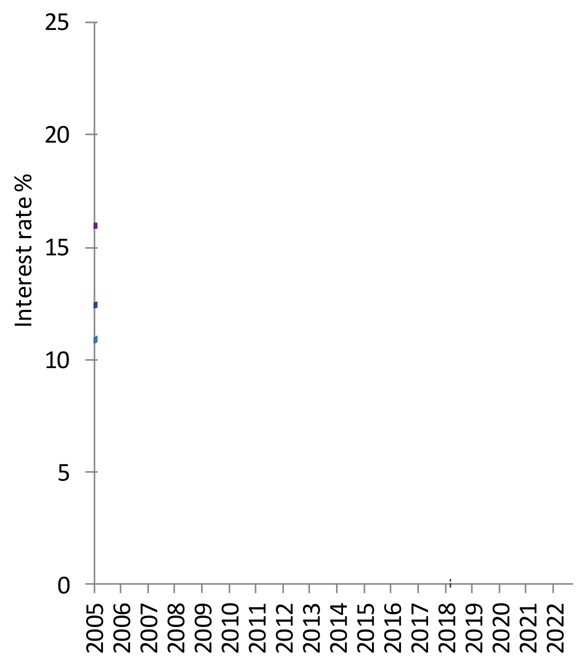
On balance, we expect a tightening in credit scoring criteria and marginally less supportive interest rates to underline an easing in consumer credit growth (year-on-year) from 8.2% in xxxxq2 to a little over 7% by xxxxq4. Growth at these rates is well above the historic average, and reflects continuing strong demand.

Unsecured net lending to households



Source: National Statistics, Experian

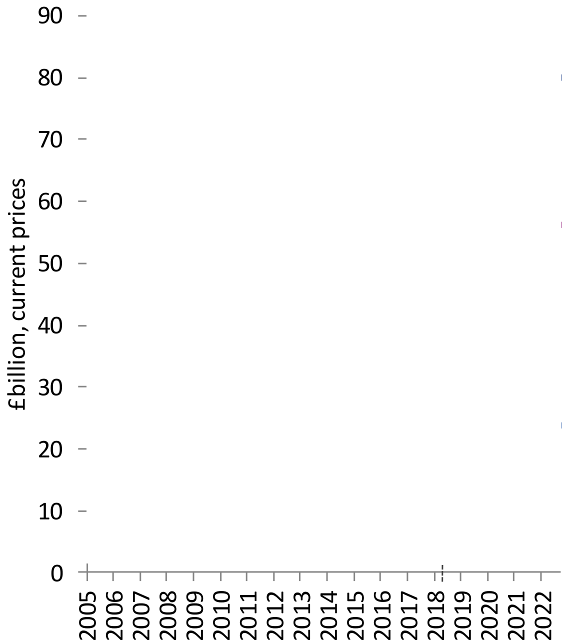
Retail interest rates: Unsecured loans



Source: National Statistics, Experian

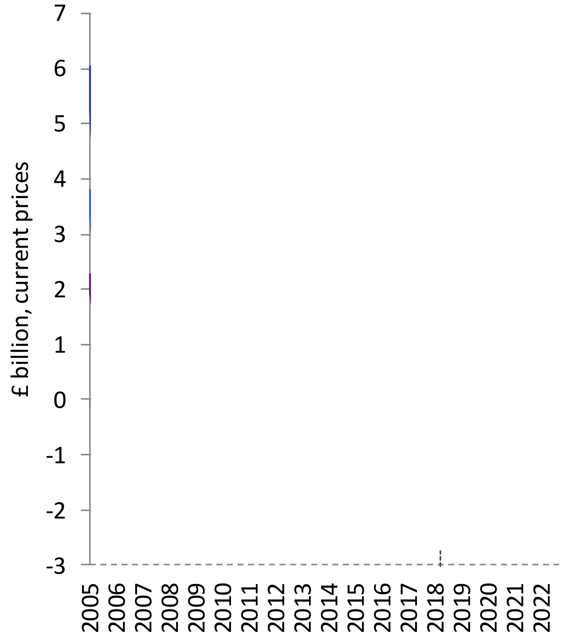
Unsecured lending

Unsecured gross lending (quarterly)



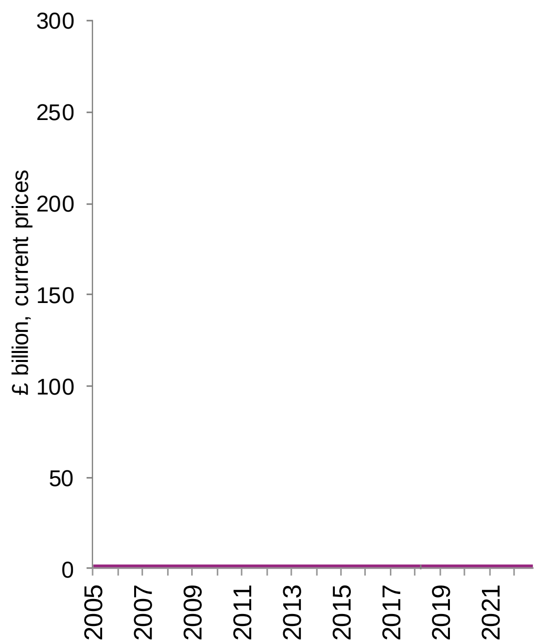
Source: National Statistics, Experian

Unsecured net lending (quarterly)



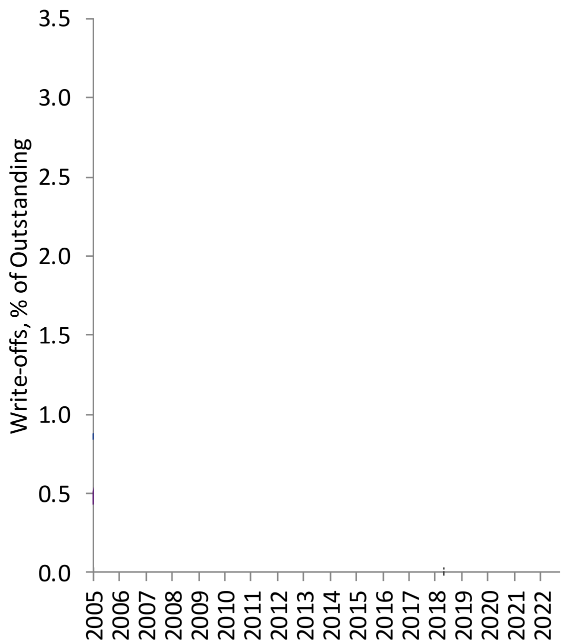
Source: National Statistics, Experian

Outstanding unsecured loans to households



Sources: National Statistics, Bank of England, Experian

Write off rates on unsecured loans



Source: National Statistics, Experian

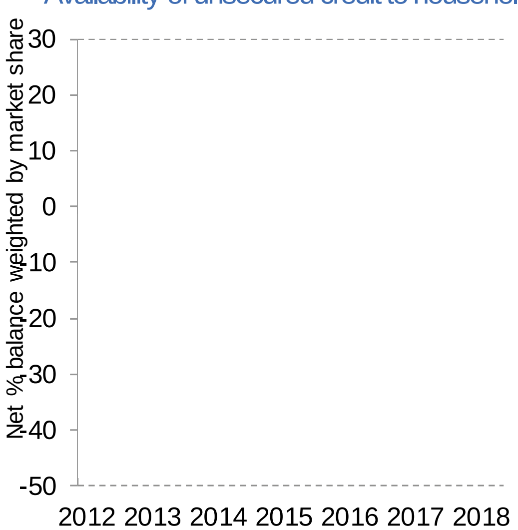
Unsecured lending

Summary of credit conditions survey responses: Unsecured lending to households

	Previous 3 Months			Next Three Months		
	2017Q4	2017Q1	2018Q2	2017Q4	2017Q1	2018Q2
Availability of Unsecured Credit to Households						
Demand for Unsecured Lending						
Credit Cards						
Other Unsecured						
Credit Scoring Criteria						
Credit Cards						
Other Unsecured						
Proportion of Applications Approved						
Credit Cards						
Other Unsecured						
Average credit quality of new lending						
Credit Cards						
Other Unsecured						
Lending Spreads						
Credit Cards						
Other Unsecured						
Credit Card Limits						
Minimum payments of credit card balances						
Default Rates						
Credit Cards						
Other Unsecured						
Losses Given Default						
Credit Cards						
Other Unsecured						

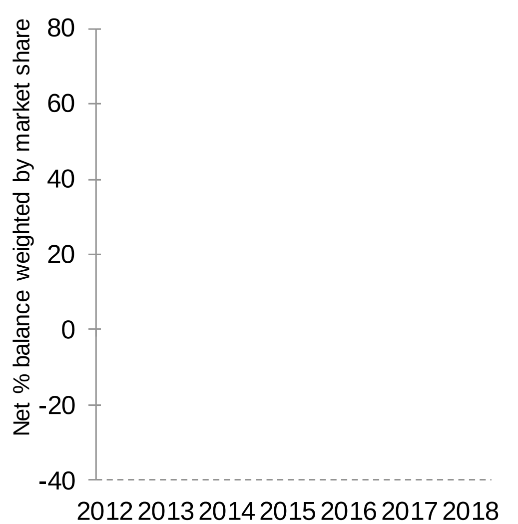
Source: Bank of England

Availability of unsecured credit to households



Source: Bank of England

Demand for unsecured loans by households



Source: Bank of England

Secured lending

Borrowing likely to slow

The latest Bank of England data shows that net lending secured on dwellings came in at £3.9 billion in June, up fractionally from May and exceeding the six month average of £3.5 billion. Annual growth for mortgage lending was unchanged at 3.2%.

Lenders responding to the CCS reported that the availability of secured credit to households was unchanged again in the three months to mid-June xxxx and they expected no change over the next three months to mid-September xxxx. At the same time they reported that household demand for secured lending for remortgaging increased in q2, and expected demand to increase slightly in Q3. Demand for secured lending for house purchase was reported to have been unchanged in Q2, and was expected to be unchanged in Q3.

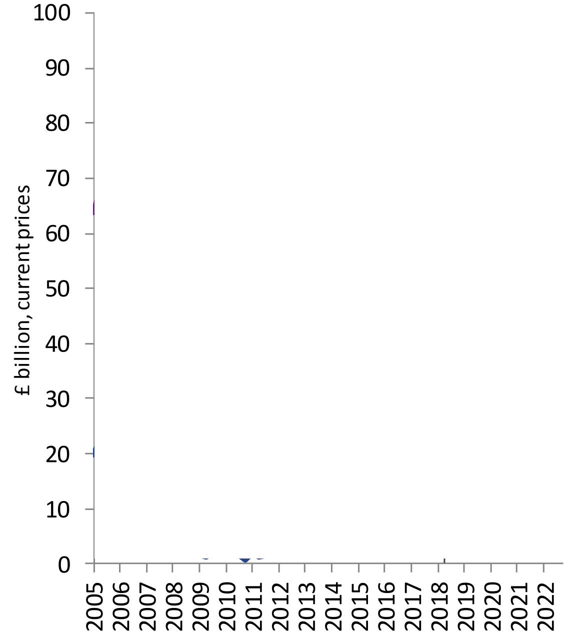
Interest rates on secured lending remain extremely supportive. According to the CCS overall spreads on secured lending to households — relative to Bank Rate or the appropriate swap rate — narrowed significantly in xxxxq2, for the sixth consecutive quarter. Within this, spreads on both buy-to-let and prime lending were reported to have tightened. A slight widening of spreads is. expected in xxxxq3, driven by prime lending,.

The most recent Bank of England data on quoted rates which covers June, shows some divergence in fixed rate mortgages across the various product types. However, in general rates have crept up slightly in the first two quarters of this year, though remain lower than they were a year ago

The August hike in Bank Rate from 0.5% to 0.75% has already prompted a number of major lenders to increase rates on their standard variable mortgages and tracker mortgages. Other lenders are expected to follow suit in the coming months, and rates on fixed deals are also likely to creep up.

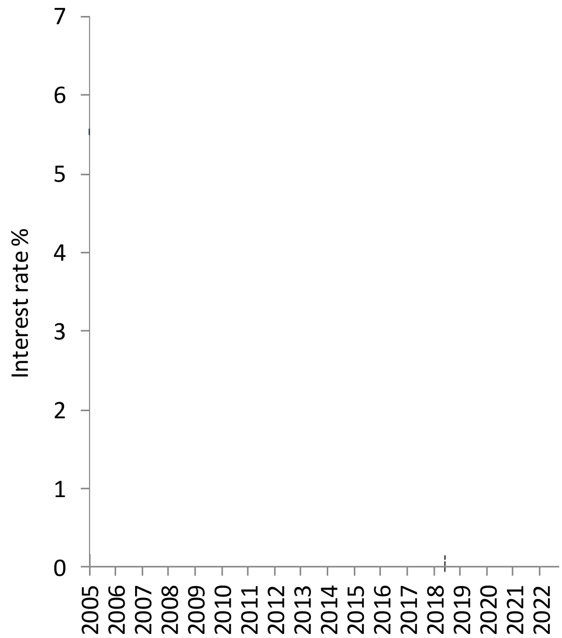
With mortgage rates becoming marginally less supportive and household budgets remaining under pressure, given above target inflation and historically weak, albeit accelerating wage growth, the increases in net secured lending are anticipated to ease to a little under 2% (year-on-year) by xxxxq4, from over 3% in xxxxq2.

Secured lending to households (quarterly)



Source: National Statistics, Experian

Retail interest rates: Mortgages



Sorce: National Statistics, Experian

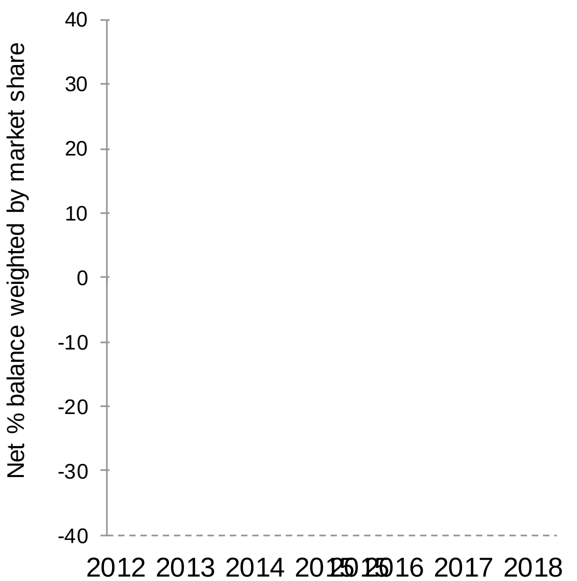
Secured lending

Summary of credit conditions survey responses: Secured lending to households

	Previous 3 Months				Next Three Months		
	2017Q4	2017Q1	2018Q2		2017Q4	2017Q1	2018Q2
Availability of Secured Credit to Households							
High LTV (> 75%)							
Low LTV (<= 75%)							
Demand for House Purchase							
Prime							
Buy-to-Let							
Demand for Re-mortgaging							
Willingness to lend with < 10% equity							
Credit Scoring Criteria							
Proportion of Applications Approved							
Average credit quality of new lending							
Maximum Loan to Value							
Maximum Loan to Income							
Lending Spreads							
Prime							
Buy-to-Let							
Lending Fees							

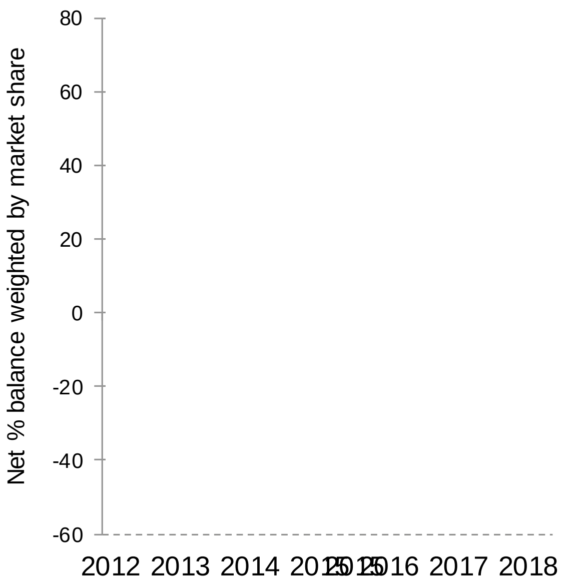
Source: Bank of England

Availability of secured credit to households



Source: Bank of England

Demand for secured loans by households



Source: Bank of England

Affordability: Household incomes

The latest Office for National statistics (ONS) data shows that real household disposable income grew by 0.3% q-on-q in xxxxq1, following a contraction of 0.5% year-on-year in xxxx as a whole – the weakest annual rate since xxxx. This underlined an increase of 0.2% in household spending, in line with the gains in the three quarters prior, but well down on the three-year and five-year averages.

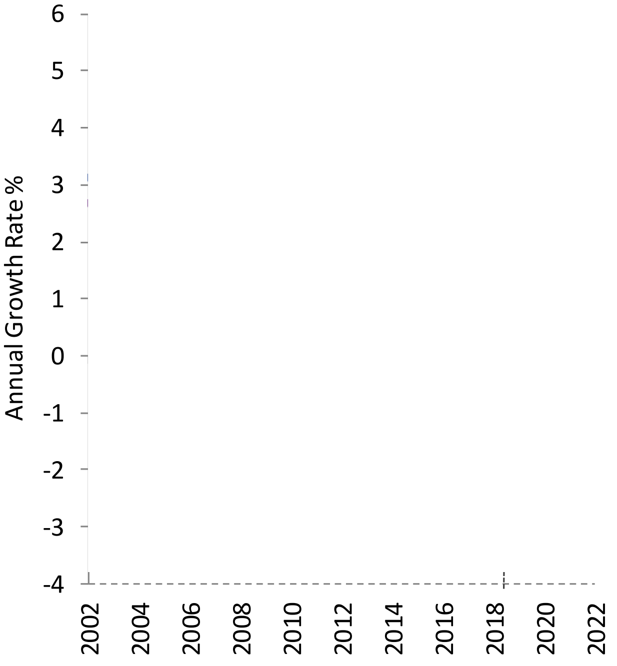
Through q2 and going into q3 incomes remained under severe pressure. In July inflation accelerated to 2.5%, from 2.4% a month earlier, the first rise since November xxxx. At the same time total pay growth in the year to April – June eased to 2.4%.

In the coming months diminishing import cost pressures linked to sterling's depreciation in xxxx are expected to exert downward pressure on inflation, however much of this will be offset by higher fuel costs, and this should keep inflation above the Bank of England's 2% target until the end of the year.

In terms of pay, tight labour market conditions and low unemployment should see growth slowly pick up, as it becomes more difficult for firms to recruit and retain staff. In the longer term productivity is also anticipated to make a modest recovery, providing further support to pay growth through its impact on the amount of revenue that companies generate, and ultimately what they can afford to pay their employees.

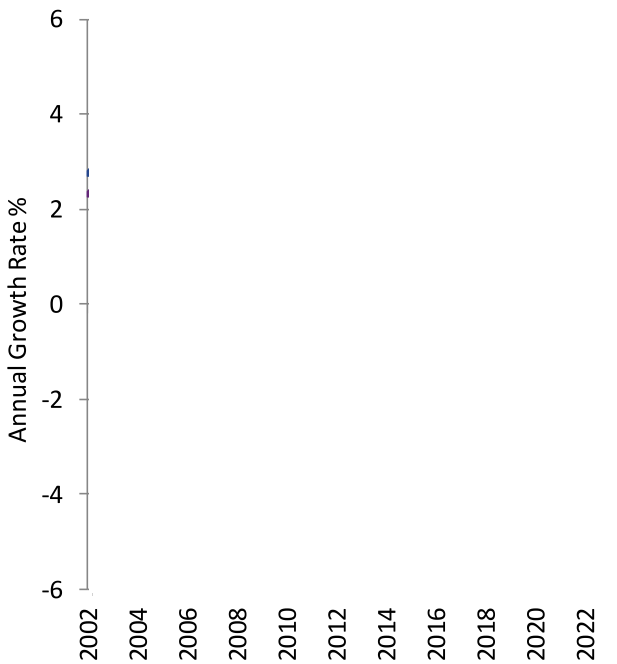
On balance, given a modest up-tick in pay and gently easing inflation, real disposable incomes are anticipated to grow by around 1.5% this year, although this has to be viewed in light of an increase of just 0.2% last year. Beyond this the gains are forecast to average 0.7% between xxxx and xxxx, before recovering to nearer 2% a year thereafter.

Real incomes remain under pressure



Source: National Statistics, Experian

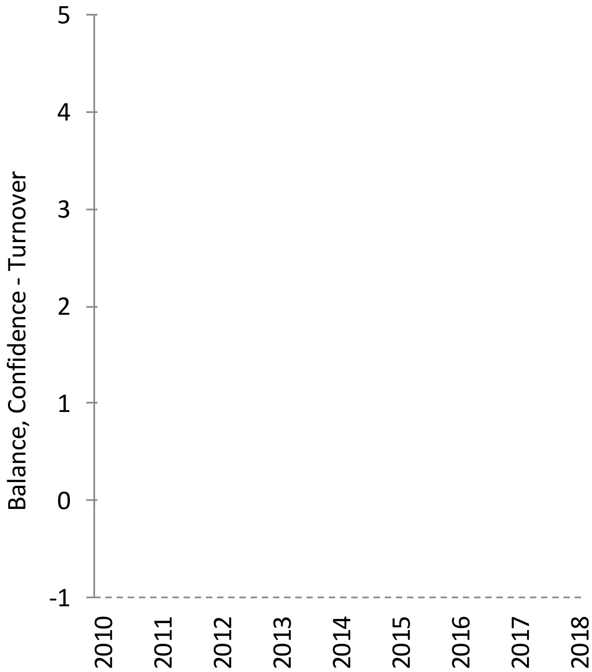
Employment incomes to improve through 2018



Source: National Statistics, Experian

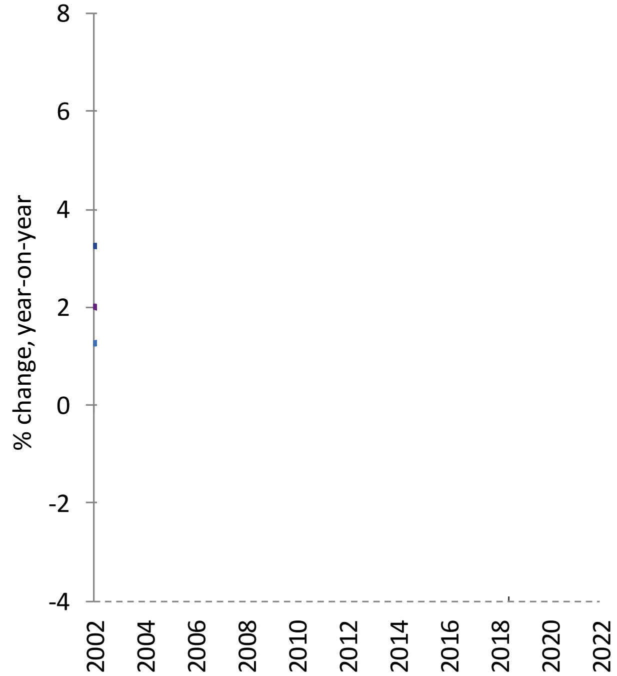
Affordability: Household incomes

Public sector wage freeze bites



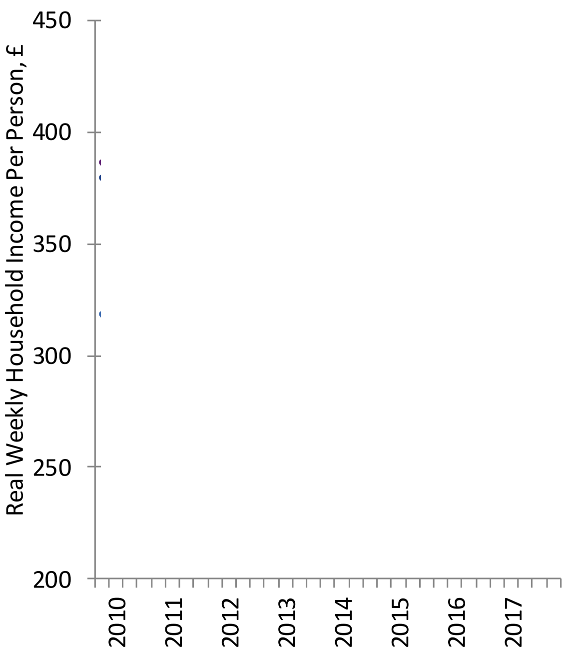
Source: British Chamber of Commerce

Real earnings should pick-up gradually



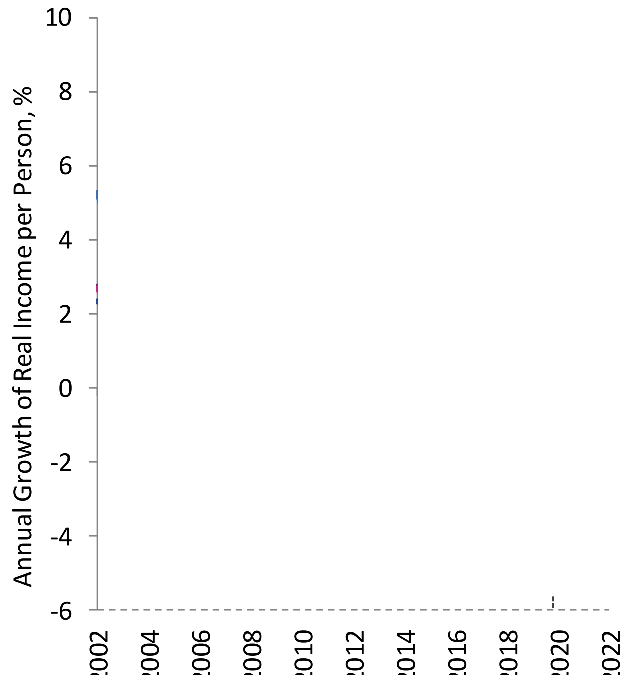
Source: National Statistics, Experian

Household Income flat for some time



Source: National Statistics, Experian

Incomes remain constrained



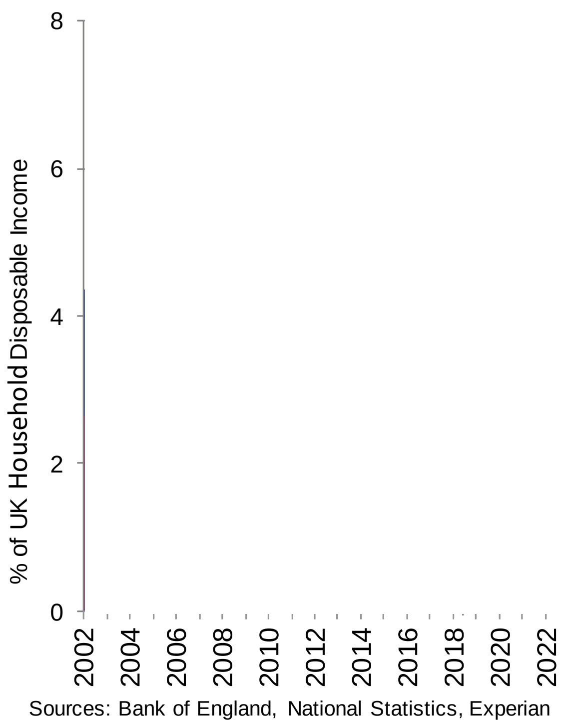
Source: National Statistics, Experian

Affordability: Household incomes

Household Incomes are relatively resilient in London and the south of England

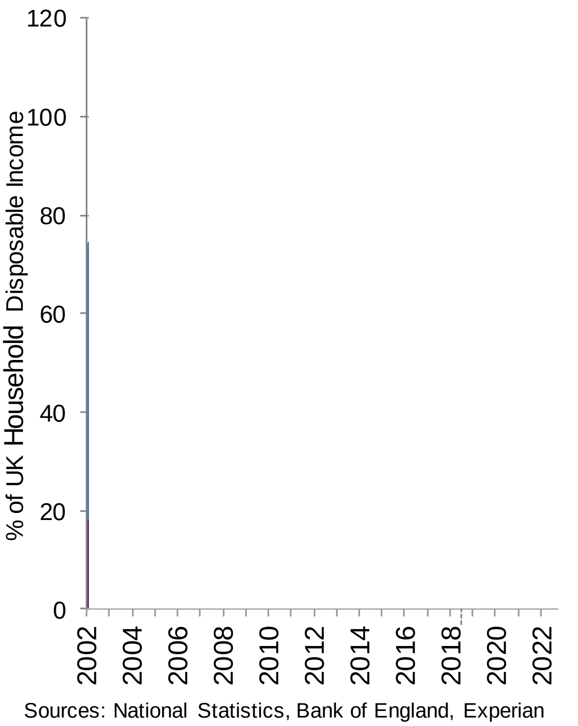
Source: National Statistics, Experian

Interest payments as % of household income



Sources: Bank of England, National Statistics, Experian

Outstanding debt as % of household income



Sources: National Statistics, Bank of England, Experian

Affordability: Cost of living

Inflation still above target

Consumer price inflation (CPI) rose to 2.5% in July, up from 2.4% in June. This is the first rise in the rate since November xxxx.

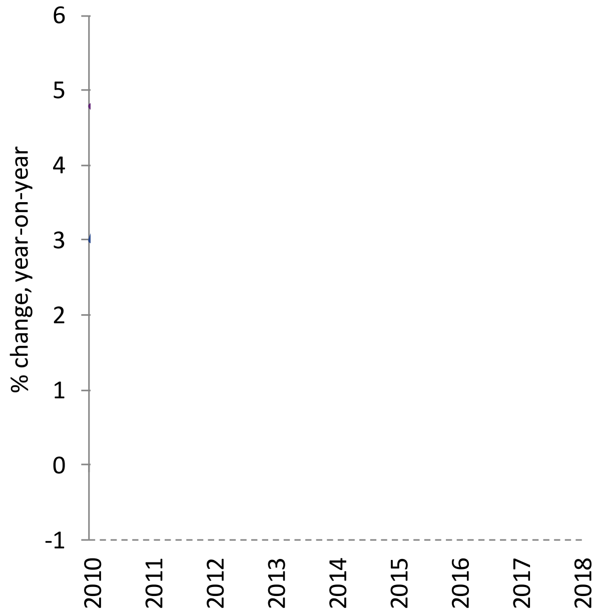
Transport continued to make the largest upward contribution to the 12-month rate, with a 5.7% increase in prices, the largest rise in over a year. The uptick was underlined by growth of 12.4% in the price of fuels and lubricants. Global oil prices have eased back somewhat in recent months after peaking in May, but remain much higher than they were a year ago. Brent Crude is currently trading at over 70 dollars a barrel, compared to less than 55 dollars a barrel last summer. In addition, as oil is priced in dollars, the recent weakening in the sterling/dollar exchange rate has pushed up fuel import costs.

Amongst the other components of CPI import cost pressures have generally diminished over the past year, as the much larger depreciation of sterling in xxxx drops out of the annual comparison. This can be seen in the latest producer price data which shows an easing in the headline rate of inflation for goods leaving the factory gate (output prices) to 3.1% in the year to July, down from 3.3% in June. Conversely, prices for materials and fuels (input prices) rose to 10.9%, up from 10.3%. However, more than seven percentage points of this increase is attributable to price movements for crude oil.

Clothing & footwear, a heavily imported good made the largest downward contribution to the 12-month rate in July, with prices falling by 0.4% year-on-year. This is the largest drop since October xxxx, and compares to annual rises of well above 3% in the Spring. Furthermore, core inflation which strips out the more volatile components of the headline index, including fuel, was unchanged at 1.9%, compared to 2.7% at the beginning of the year.

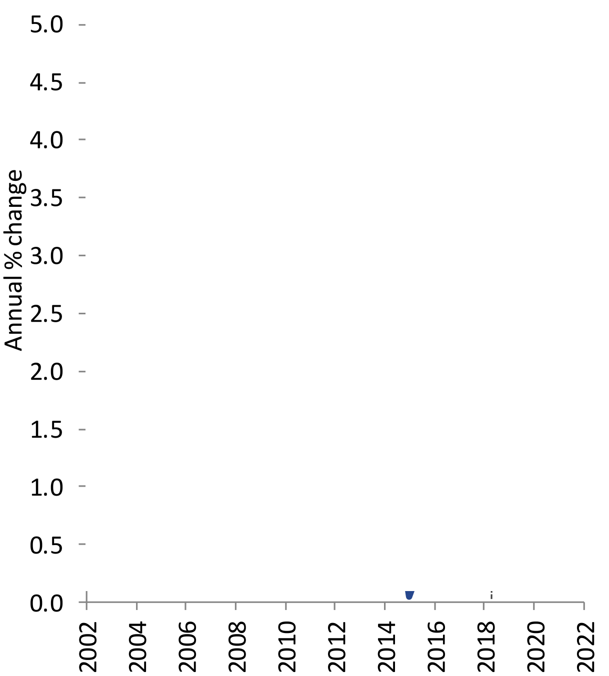
Diminishing import cost pressures are expected to continue to exert downward pressure on inflation, however much of this will be offset by higher fuel costs. This should keep inflation above the Bank of England's 2% target until the end of the year.

CPI inflation well above BoE target



Source: National Statistics

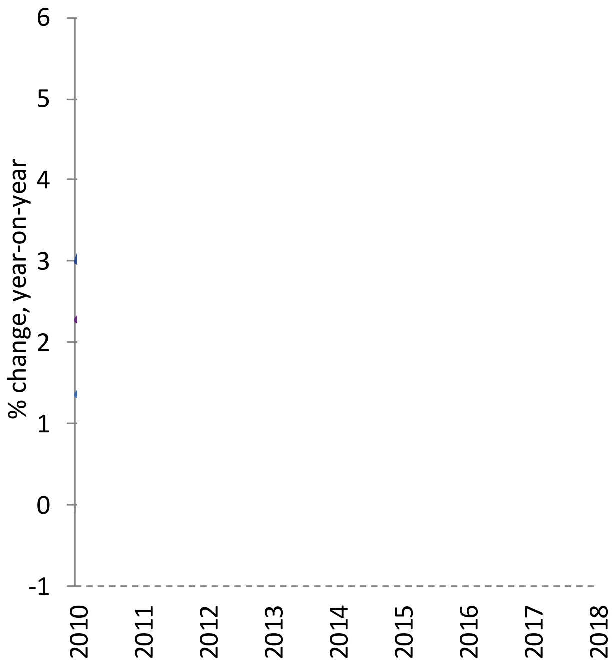
Inflation has probably peaked



Source: National Statistics, Experian

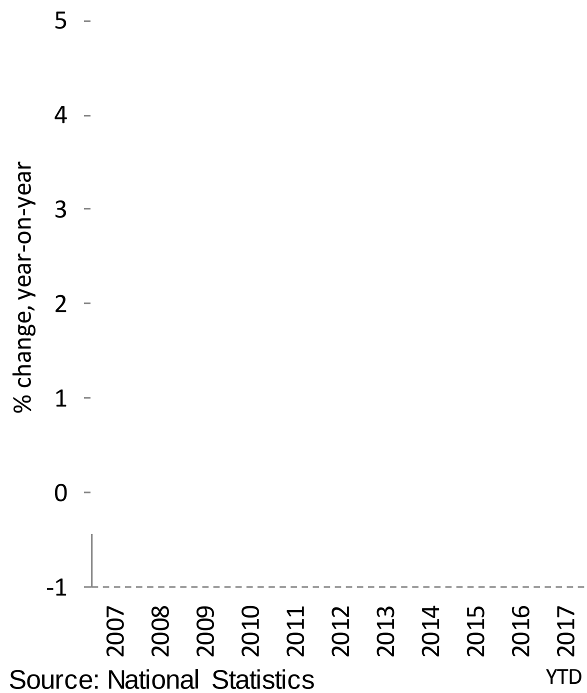
Affordability: Cost of living

CPI above BoE target



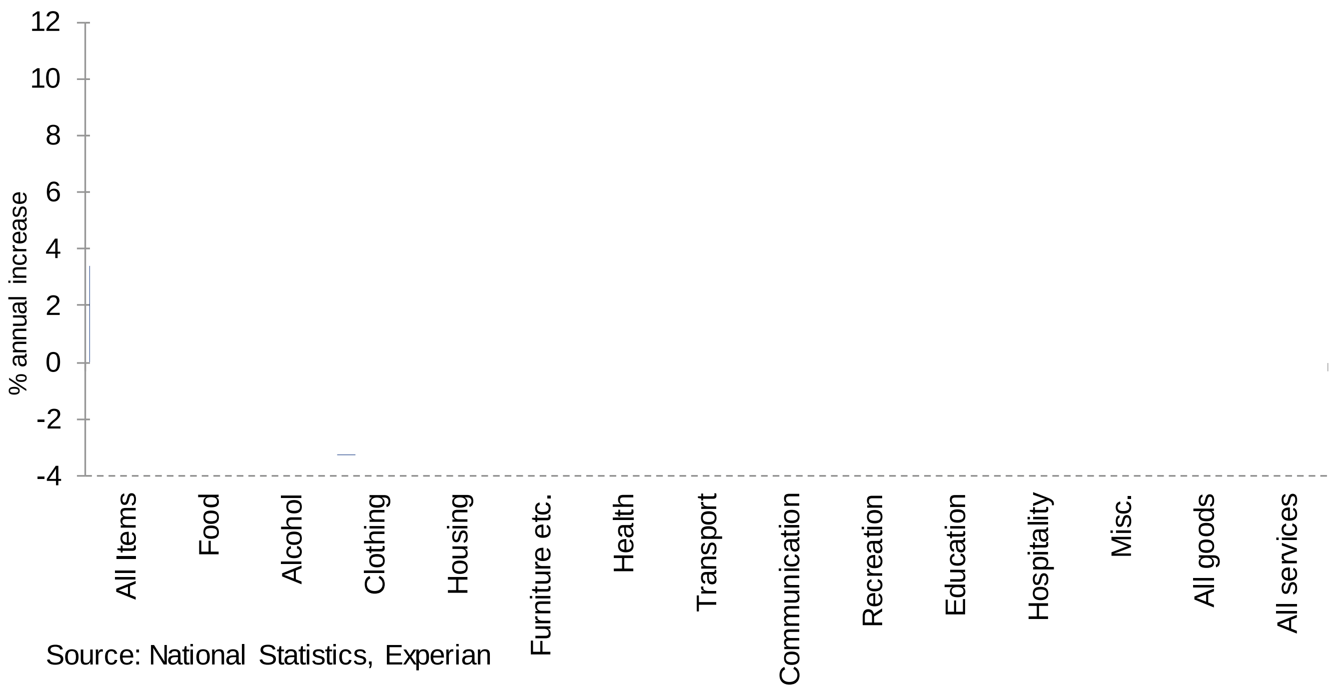
Source: National Statistics

Core inflation rose last year



Source: National Statistics

Increases in food & energy (transport) prices drive general inflation higher



Source: National Statistics, Experian

Affordability: Interest rate prospects

Bank rate at 0.75%

Central scenario:

In line with our forecasts, the nine-strong Monetary Policy Committee (MPC) voted unanimously to increase Bank Rate by 25bps, to 0.75% at their August rate setting meeting, only the second rise since the financial crisis.

The MPC's decision to hike rates was driven by a perceived requirement to combat domestic cost pressures, namely from wage growth, that they say are building in line with a tightening labour market. In the longer term they also highlighted that inflationary pressures were expected to build in line with a gently up-tick in productivity.

Given the mild upward anticipated trajectories for wage growth and productivity the MPC stated that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

Our central macroeconomic forecast for the UK continues to be predicated on a steady rise in base rate to 1.5% by the end of xxxx.

Risks to the central scenario:

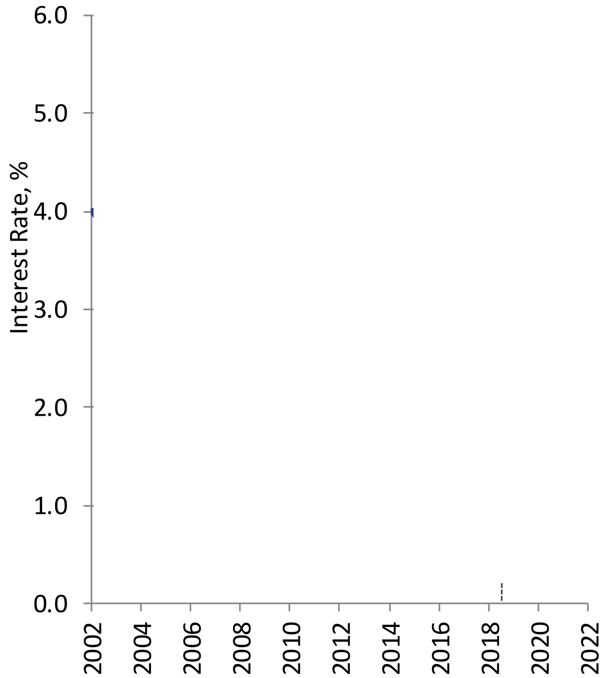
1. The renewed depreciation of sterling intensifies keeping inflation above target for longer, as import cost pressures linger. As oil is traded globally in dollar terms, sterling's weakness against the dollar is an acute risk, particularly while oil prices remain relatively high.

2. Export led output growth creates inflationary pressures as the global economic outlook strengthens.

3. A marked pick-up in domestic price growth emerges as the remaining slack in the economy is absorbed or productivity improves.

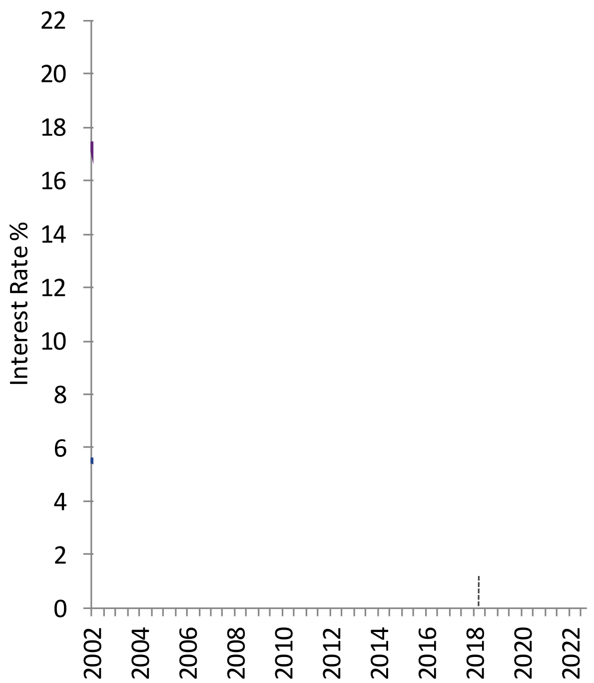
4. A disorderly transition to a 'Hard' Brexit' leads to a protracted period of weak business confidence, lower investment and a reduction in hiring, dampening inflation.

Bank rate to rise very slowly



Source: National Statistics, Experian

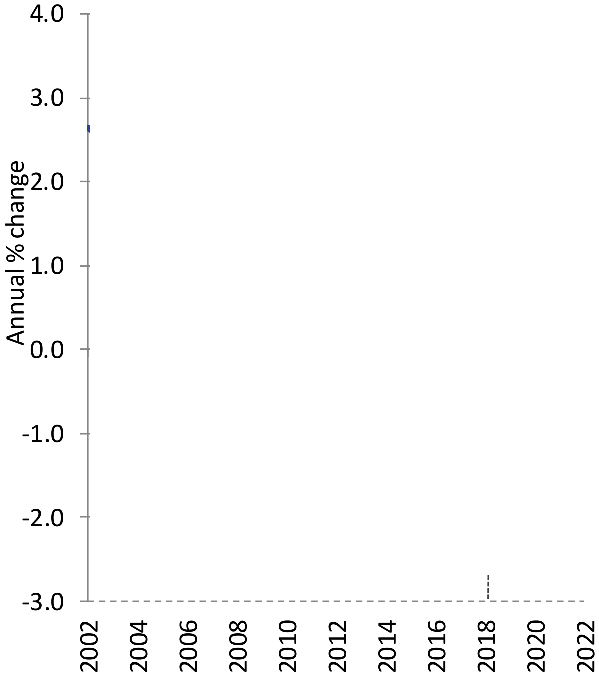
Mortgage and credit card interest rates



Source: National Statistics, Experian

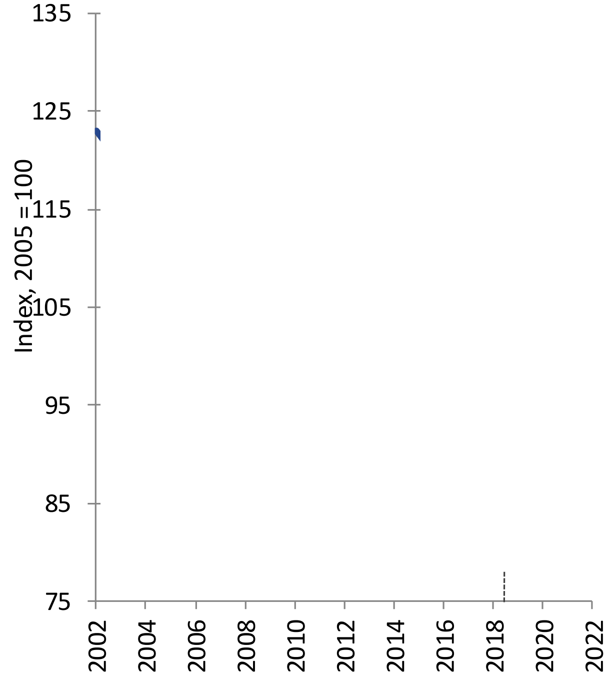
Affordability: Interest rate prospects

Labour costs set for modest increases



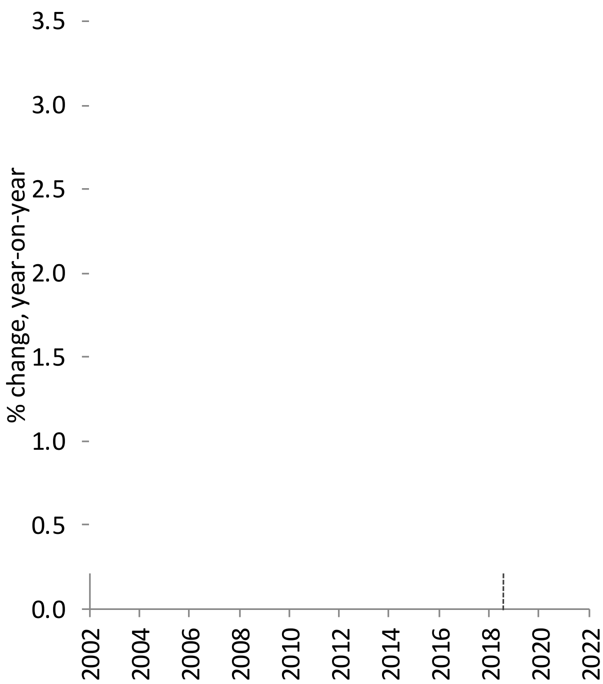
Source: National Statistics, Experian

Sterling remains relatively weak for now



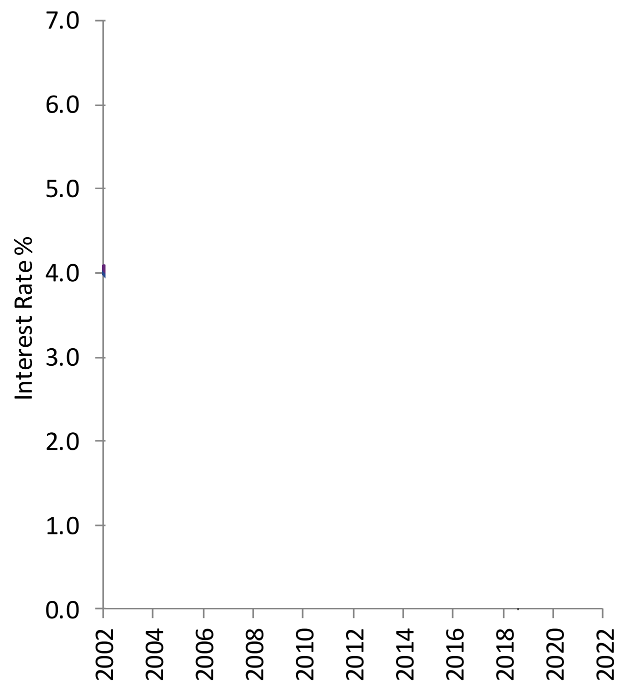
Source: National Statistics, Experian

Inflationary pressures continue to bite



Source: National Statistics, Experian

Interest rates to rise very gradually



Source: National Statistics, Experian

UK	Prospects & Key Risks
Recent Trends	UK GDP growth accelerated to 0.4% (q-on-q) in xxxxq2, up from 0.2% in the previous quarter.
Business Planning Assumptions	The MPC voted unanimously at their August meeting to increase Bank Rate by 25bps, to 0.75%, only the second rise since the financial crisis. Future increases are likely to be at a gradual pace and to a limited extent.
2-Year Outlook	Real GDP growth is forecast to grow by 1.4% this year, down from 1.8% in xxxx. **Key risks**: The momentum gathering in the global economy falters. The emerging trade war between China and the USA is of particular concern. Wage growth fails to accelerate holding back consumer spending further. Brexit related uncertainty negatively impacts on business investment and consumer confidence.
Longer-Term Outlook	GDP growth of 1.6% a year in xxxx-xx, with annual employment growth of 0.5%. **Key risks:** Public finances suffer from low economic growth and relaxation of austerity to support the economy. High debt exposure of public and private sectors becomes a serious burden.
Consumer	Spending growth to be sustained but at a much slower pace than in recent years. **Key risks:** Lingering above target inflation and weak earnings growth inhibit spending. Further Bank Rate hikes hit highly-exposed borrowers.
Trade	Trade should continue to benefit from sterling's weakness. **Key risk**: As sterling eventually appreciates, export price competitiveness diminishes and production output growth falters.
Inflation	Inflation accelerated to 2.5% in July. **Key risk**: There is a renewed depreciation in sterling, and associated import price pressures build. The upward trend in global oil prices continues.
Labour Market	Current strong employment growth should ease, however competition for employees is expected see pay growth accelerate mildly through xxxx. **Key risk**: Productivity gains stall, constraining pay.
Government	Fiscal policy expected to loosen in the coming year as suggested by the Chancellors Spring Statement. **Key risk**: An easier fiscal stance could raise concerns about the impact of high government debt on growth prospects.

Interest rates

In line with our forecasts, the nine-strong MPC have voted unanimously to increase Bank Rate by 25bps, to 0.75%, at the August rate setting meeting, only the second rise since the financial crisis. The MPC's decision to hike rates was driven by a perceived requirement to combat domestic cost pressures, namely from wage growth, that they say are building in line with a tightening labour market.

(% per annum)	2015	2016	2017	2018	2019
Base rate (y/e)					
10 yr yield (y/e)					

KEY RISK

The possibility of a fresh Sterling depreciation as Brexit uncertainties persist is a key inflation risk. This could lead to higher interest rates, earlier than in the Base case.

Exchange rates

The Bank of England's effective exchange rate index, a weighted average of the movements in cross-exchange rates against a basket of other currencies had been steadily rising in the year to April on expectations of a May rise in Bank Rate. However, with the interest rate rise failing to materialise, the exchange rate subsequently eased back. The August rate rise has of yet done little to reverse the downward trend.

	2015	2016	2017	2018	2019
US$ per £ (y/e)					
£ per € (y/e)					
REER (Jan 2005=100)					

KEY RISK S

Consumers will benefit as inflation slowly eases in line with softer import prices. However, household budgets remain under pressure and this is expected to continue to hold back outturns in the services industries, the main engine of the UK economy, throughout xxxx. If consumer confidence deteriorates further, any consumption driven recovery could falter. Furthermore, the slight narrowing in the trade deficit in xxxx, is not enough to suggest that export led sectors such as manufacturing can plug the gap left by reduced services sector gains.

Consumers

Consumer spending growth slows

Real household disposable income grew by 0.3% q-on-q in xxxxq1, following a contraction of 0.5% year-on-year in xxxx as a whole – the weakest annual rate since xxxx. This underlined an increase of 0.2% in household spending, in line with the gains in the three quarters prior, but well down on the three-year and five-year averages.

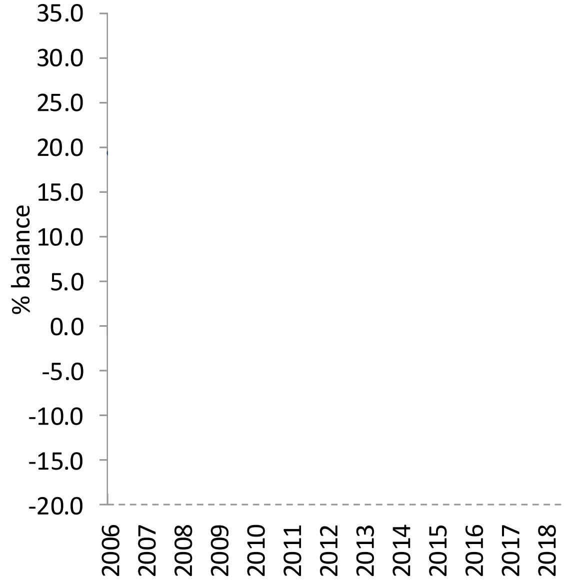
Consumer spending, had been growing at roughly 0.8% a quarter in the six quarters to xxxxq2. Sterling then depreciated markedly following the Brexit vote in June xxxx, which fed through to a sharp rise in inflation and an erosion of real incomes. This has underlined a slowdown in growth to nearer 0.3% a quarter in the xxxxq3 - xxxxq1 period.

More up-to-date retail sales data suggests that consumer spending may have strengthened somewhat in q2 and going in to q3. Retail sales volumes, which account for roughly a third of consumer spending grew by 2.1% in the three months to May – July, the largest increase since January xxxx.

Growth was driven largely by a healthy rise in food store sales, with supermarkets appearing to have benefited in some part from exceptionally good weather conditions, and high profile events such as the World Cup and Royal Wedding. Sales of summer clothing also offered support, briefly bucking an otherwise downward trend. Growth in the other components of retail sales was less assured.

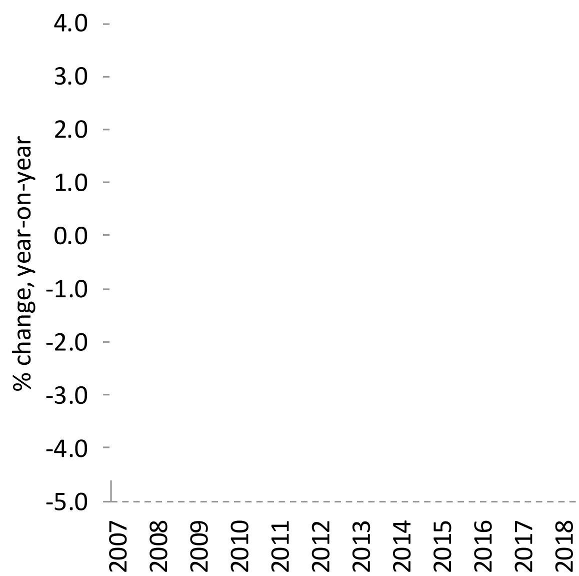
It is likely that some of the weather driven gains in retail spending will unwind in the coming months as the weakness in household budgets comes to the fore once more. Furthermore, an uptick in inflation to 2.5% in July, and an easing in total pay rises to 2.4% in the year to April – June has intensified the pressure on real incomes. Given this backdrop we expect consumer spending in 2018 to come in at 1.0% in xxxx as a whole, down from 1.7% in xxxx.

Consumer confidence still below pre-referendum levels….



Source: GFK and Experian

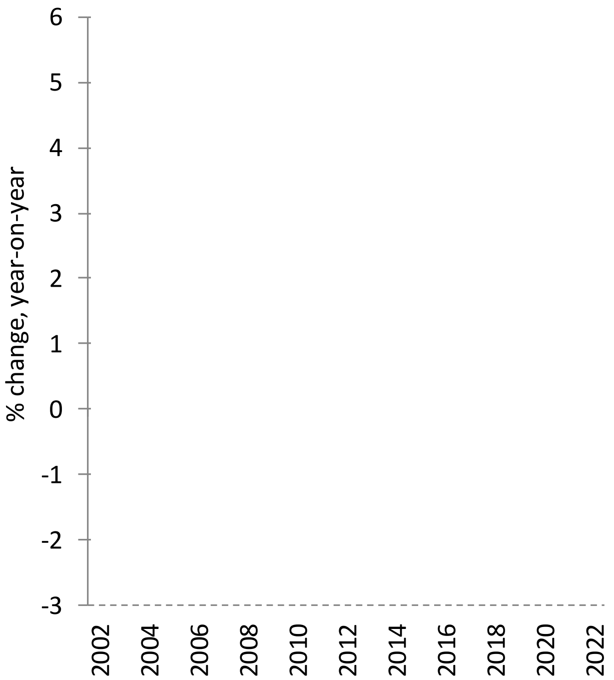
…predicating a slowdown in consumer spending



Source: National Statistics, Experian

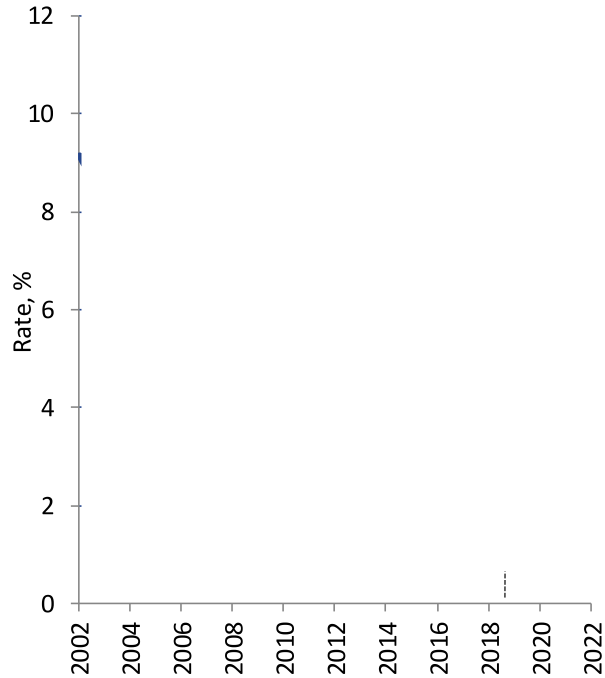
Consumers

Real household incomes in the doledrums



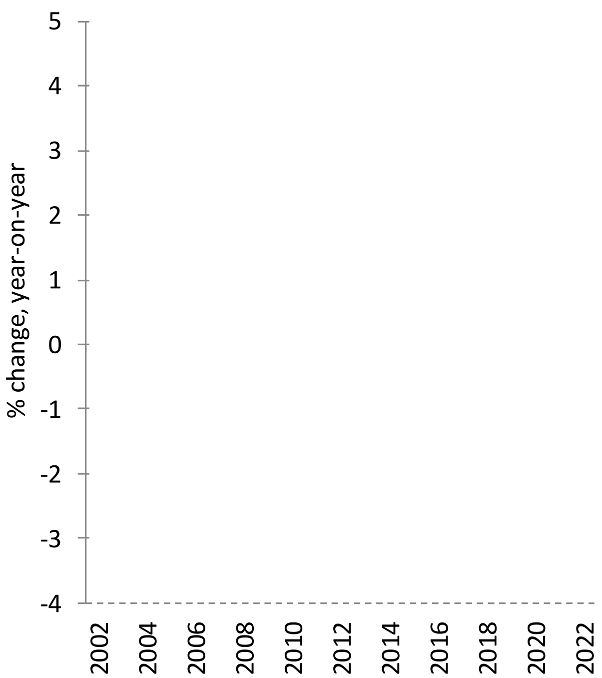
Source: National Statistics, Experian

Savings rate remains low



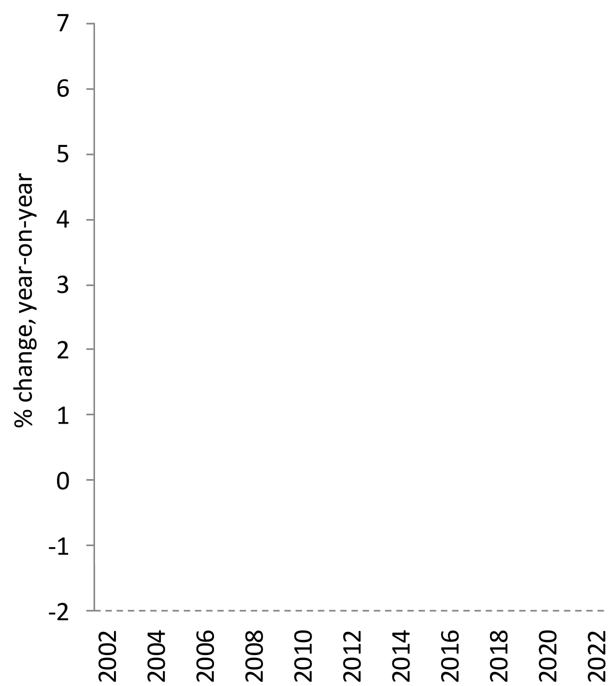
Source: National Statistics, Experian

Spending growth to remain muted for some time



Source: National Statistics, Experian

Retail sales come under pressure



Source: National Statistics, Experian

Housing market outlook: Summary
Price growth expected in the 2-3% range in xxxx

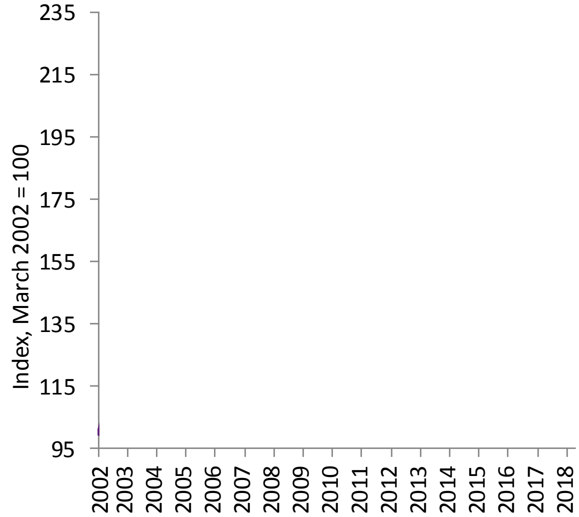
The latest RICS residential market survey shows that newly agreed sales (which had been negative for sixteen consecutive months) stayed flat in July, pointing to ongoing weakness in sales activity. On the demand side, new buyer enquires finally registered a muted positive reading following 17 months of no growth, while on the supply side, the number of new instructions faltered after a positive outturn in May and June. The supply side uplift in these two months had followed 26 months of decline and had been expected to be short-lived with the rate of new appraisals of property by valuers once again down on the year.

Bank of England data showed a small rise in the number of loans available for house purchase in q2 (65,600 in June, up from 63,100 in March). However, HMRC data also for June states that the number of residential property transactions fell by 5.7% y-on-y.

In a largely anticipated move, the MPC voted unanimously to increase Bank Rate by 25bps, to 0.75% at their August meeting. While a rise in interest rates typically exerts pressure on household finances, we expect the short-term impact of this move to be limited as rates are still historically low and a significant proportion of households remain on fixed-term mortgages. Having said that, household budgets remain constrained and with Brexit uncertainty abounding, demand is unlikely to pick-up in the short-term.

Nationwide data showed UK house price growth softened to 2% in the year to June, the smallest increase in five years. While annual growth bounced back modestly to 2.5% in July, it is unlikely to move beyond the 2-3% growth range any time soon. Similarly according to Halifax annual growth eased to 1.8% in xxxxq2, while ONS data, showed a 3.0% rise in the year to May, the weakest annual rate in five years. The RICS survey for July confirms that price expectations in the short-term remain negative, improving somewhat in the long-term. We expect house price growth (on the ONS measure) to land at between 2-3% this year.

House prices on a modest growth path

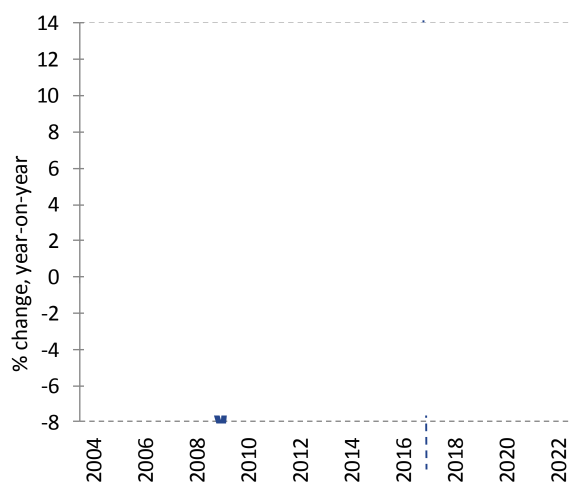


Source: National Statistics, Halifax, Nationwide

KEY RISK

The two key risks facing the economy are a breakdown in Brexit negotiations and the steady rise of household debt reminiscent of the period prior to the financial crisis.

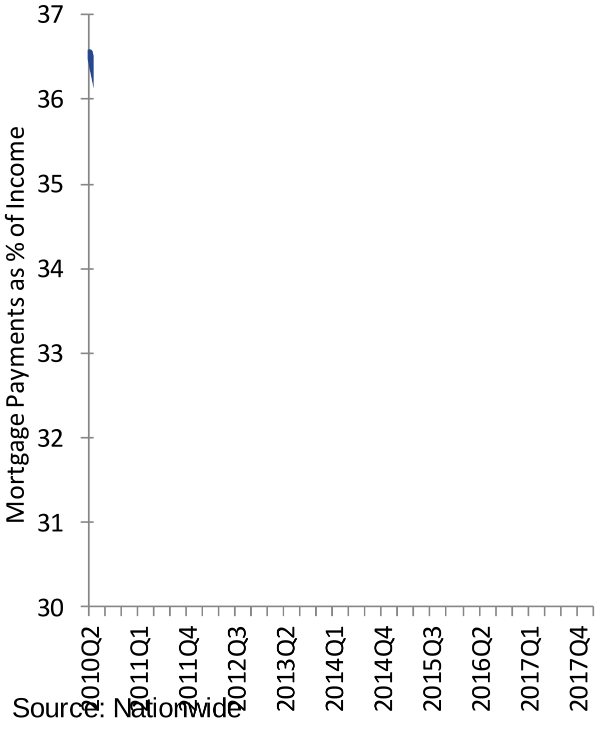
Tight supply and faltering demand flatten outlook



Source: National Statistics, Experian

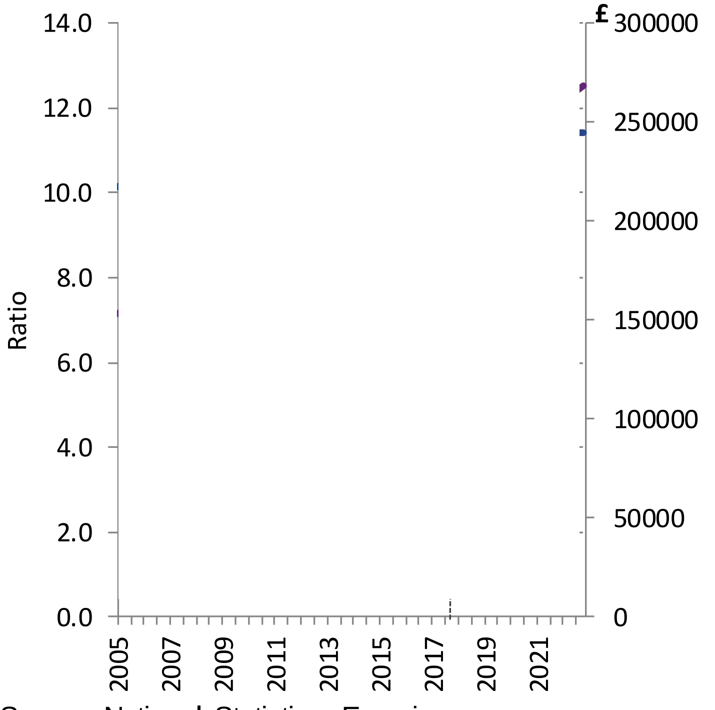
Housing market

Nationwide mortgage payments



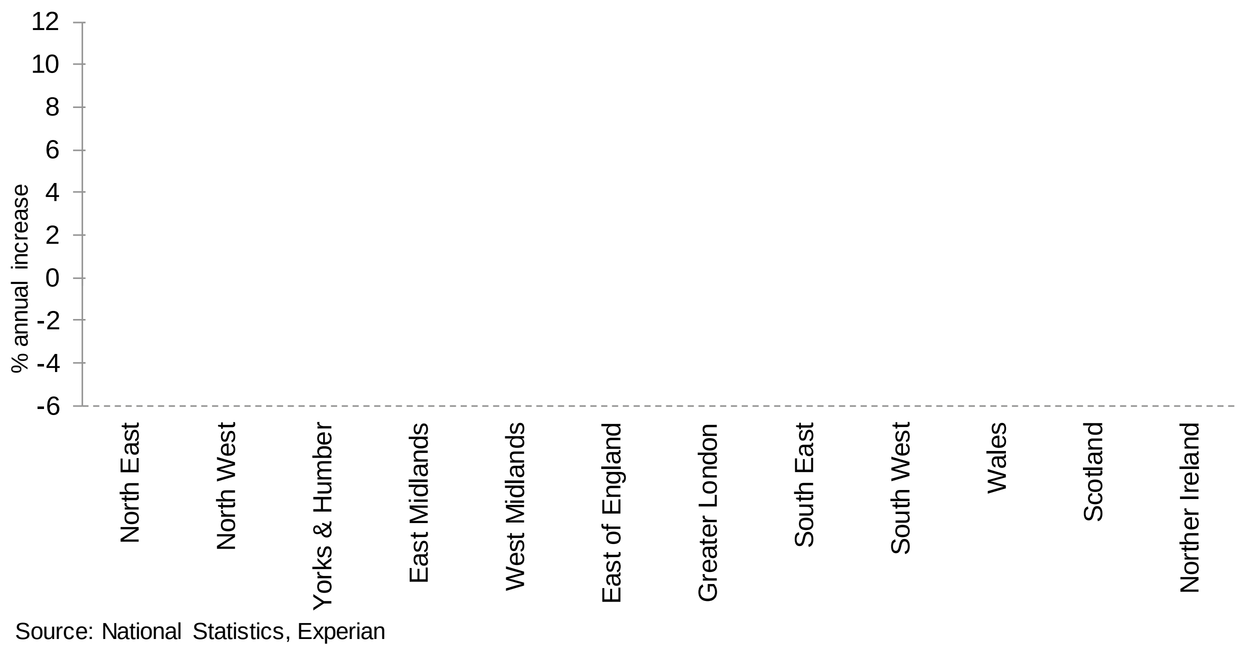
Source: Nationwide

House price to income ratio



Source: National Statistics, Experian

House price forecasts – UK Regions



Source: National Statistics, Experian

Recent trends

GDP growth accelerates to 0.4% in q2

The latest figures released by the ONS showed that UK GDP increased by 0.4% (q-on-q) in xxxxq2. This represents a 1.3% rise compared with the same quarter a year ago.

Only a sector breakdown is available with this first GDP estimate. This showed that overall growth was driven by a 0.5% rise in services output, largely stemming from wholesale and retail trade, as well as a recovery in the construction industry, which experienced a 0.9% increase.

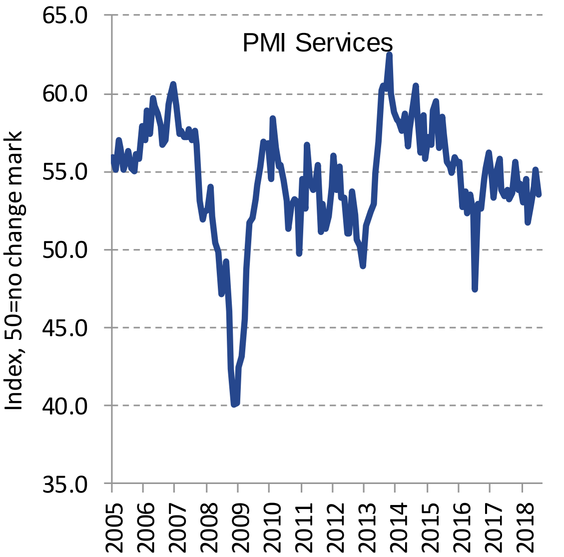
The biggest drag on overall growth came from the production sector, which contracted by 0.8%, underlined by falls of 0.9% and 2.7% respectively in manufacturing and energy supply.

While its overall effect was limited, the adverse weather in q1 did have some impact on the economy, particularly in construction, energy supply and some areas of retail. Today's figures show that some of these effects have unwound in q2 – although it is difficult to quantify their overall impact. Weather aside, the underlying trend in real GDP remains one of slowing growth. Comparing the xxxxh1 with the xxxxh2, the UK economy grew by just 0.6%.

Despite strengthening slightly this quarter, household consumption remains subdued, suggesting little room for an uplift in growth in the service industries that form the backbone of overall expansion. Similarly, subdued business investment figures indicate that Brexit-related economic and political uncertainties continue to dampen prospects for the sector. The modest q2 increase is likely to reflect a bounce back from a particularly low q1 figure, rather than the beginning of a sustained recovery. Furthermore, easing manufacturing export growth diminishes hopes that the sector could offset weaknesses elsewhere.

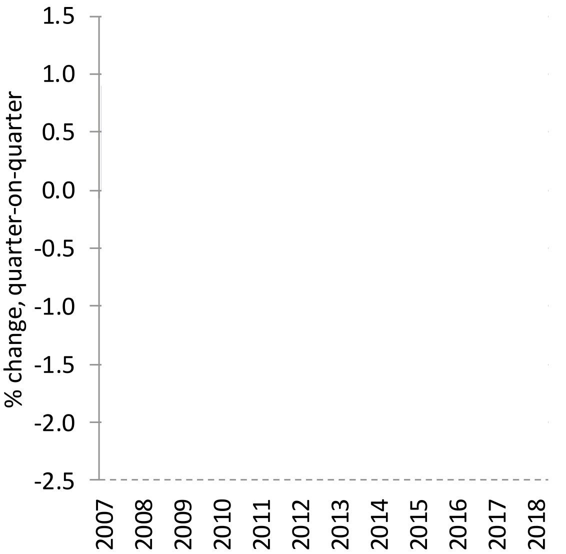
With GDP coming in broadly in line with our expectations in the second quarter, we continue to forecast growth of 1.3% in the year as a whole.

Services PMI recovered still strong



Source: CIPS

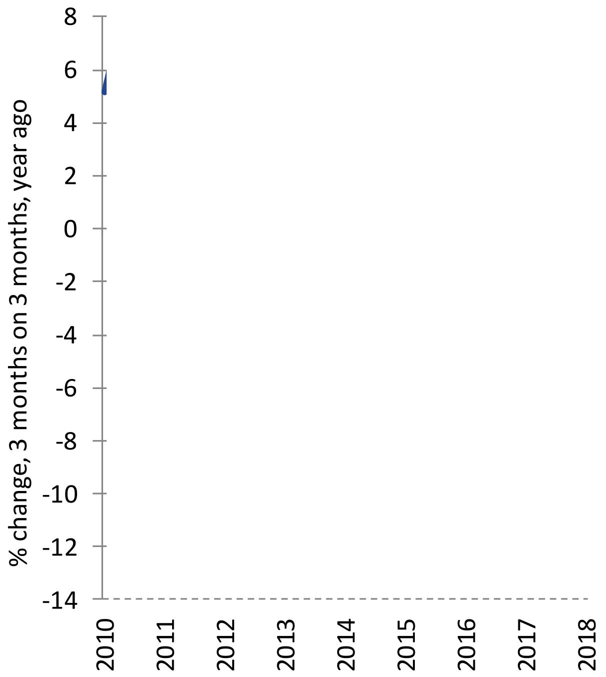
Growth improves in xxxxh2



Source: National Statistics, Experian

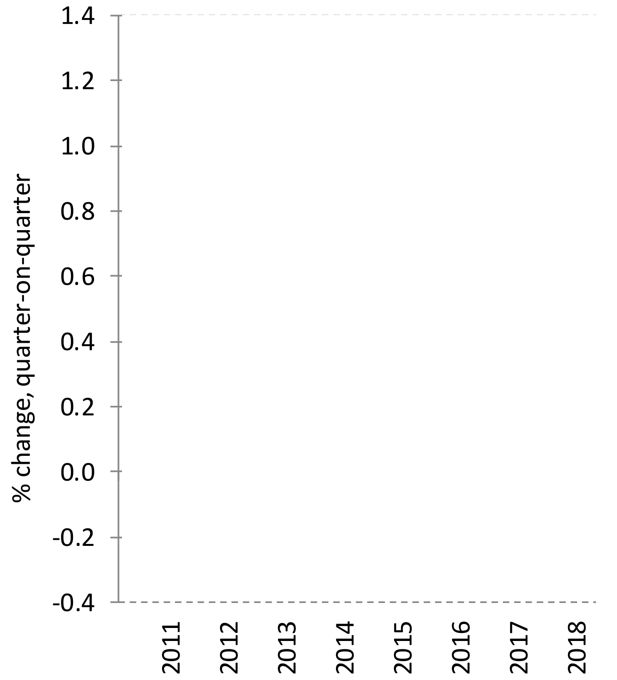
Recent trends

Manufacturing output down as overseas demand stays weak



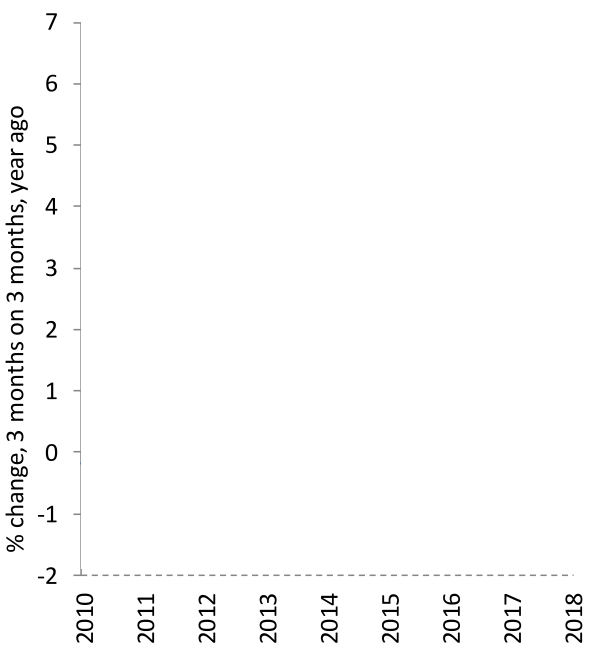
Source: National Statistics

Employment growth continues



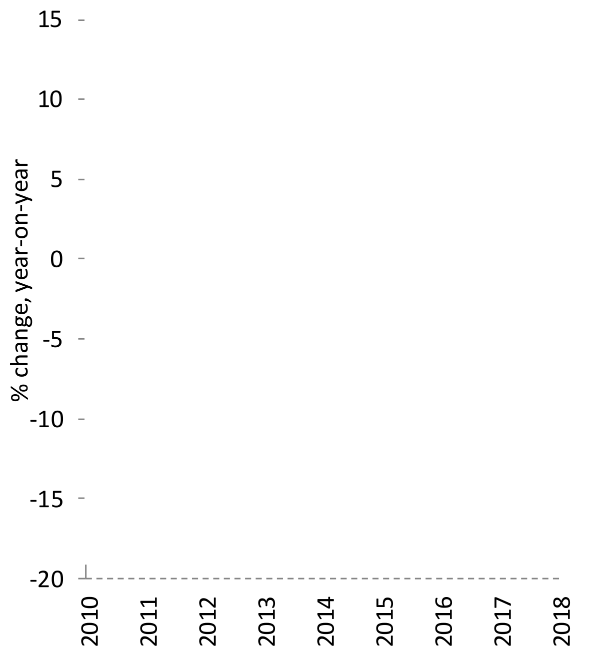
Source National Statistics

Retail boom well and truly over



Source: National Statistics

House price growth cools



Source: Nationwide, Lloyds Banking

Longer-term outlook

Uncertain outlook

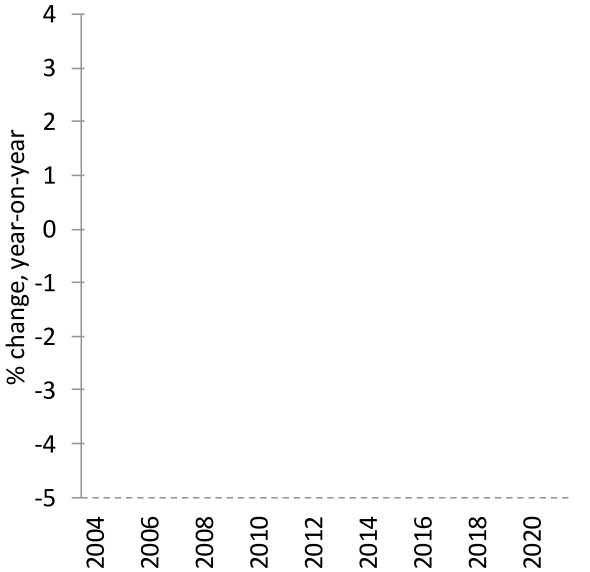
In January our macro forecasts incorporated the latest ONS population projections and a modest downgrade to productivity growth. The overall impact of these changes compared to last years forecasts was a 0.3% per annum downgrade to long-term GDP growth, to an average of 1.7%. This reflects weaker population and productivity growth.

The EU referendum result has created major uncertainties regarding the medium- and long-term outlook for the UK economy. Much will depend on the outcome of trade negotiations and terminating involvement with the EU and only time will tell how these issues affect economic performance.

Meanwhile the strong performance of the past four years means that the UK economy has recovered ground lost during the xxxx/xx recession more quickly than seemed likely a few years ago. But the repercussions of the recession and above all the implications of the Brexit vote are set to hamper economic progress for a few years. The pace of expansion is likely to be well below the long-term trend throughout xxxx-xx. GDP growth is expected to average 1.6% per annum during that period, against 2.6% from xxxx to xxxx.

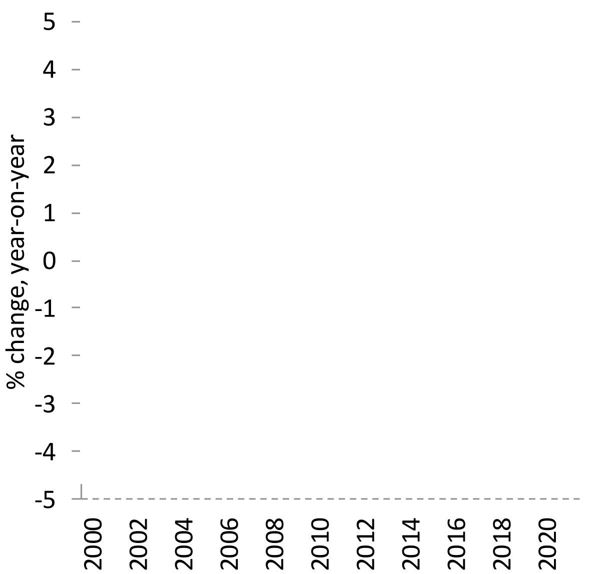
The weaker growth outlook reflects in large measure the expected slowdown in consumer demand, as real incomes are eroded by higher inflation and earnings growth that although accelerating, trails its historic average. Fiscal policy will be easier than in the past six years and the monetary stance will remain accommodative (even at 0.5% interest rates are at well below the historic average). This will help support activity but until the UK's post Brexit trading relationships are finalised it is not possible to determine whether this will be sufficient to avert an outright recession at some stage in the next few years.

Subdued GDP growth



Source: National Statistics, Experian

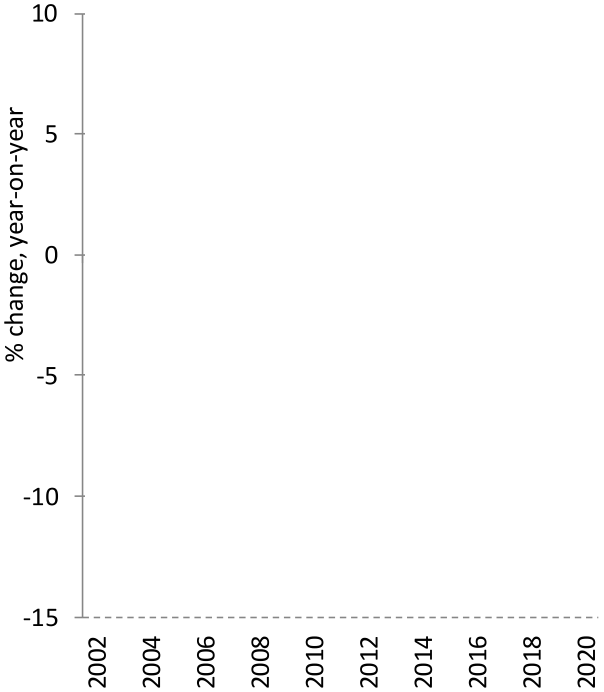
Consumption won't regain previous buoyancy



Source: National Statistics, Experian

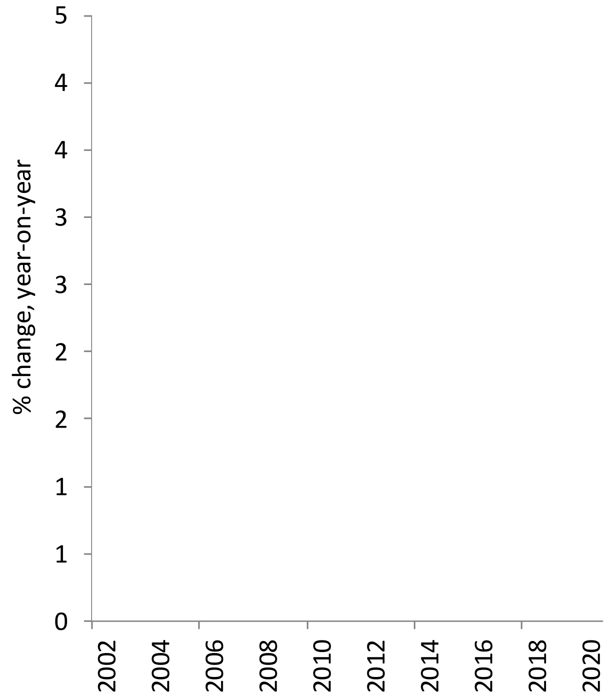
Two-year outlook

Investment remains muted



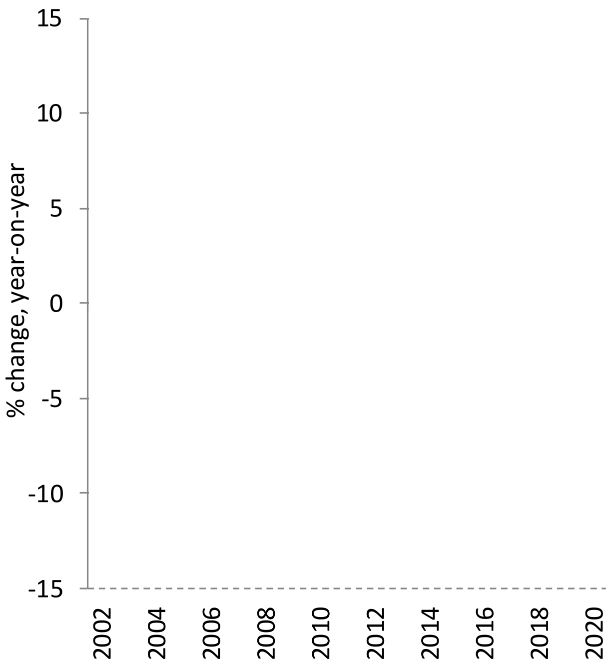
Source: National Statistics, Experian

Fiscal austerity squeezes public spending



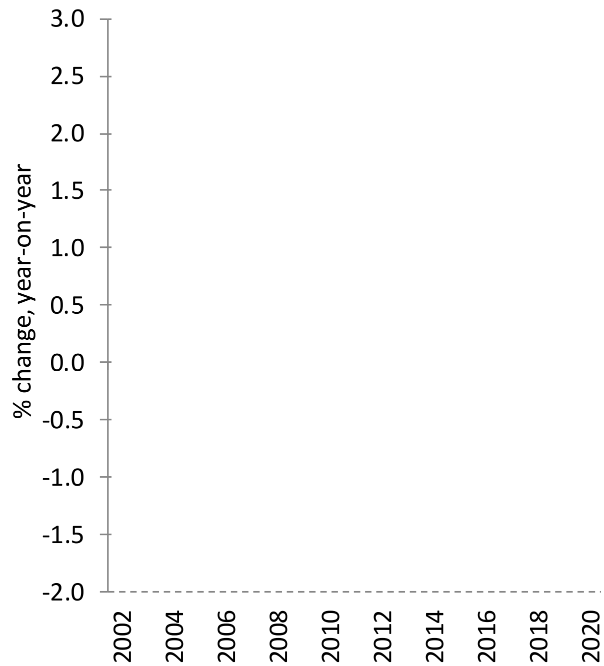
Source: National Statistics, Experian

Exports to outgrow imports next year



Source: National Statistics, Experian

Job growth to ease



Source: National Statistics, Experian

Labour market

Employment gains remain strong

The latest figures from the ONS showed that the labour market is generally in good health, however both total and regular pay growth eased.

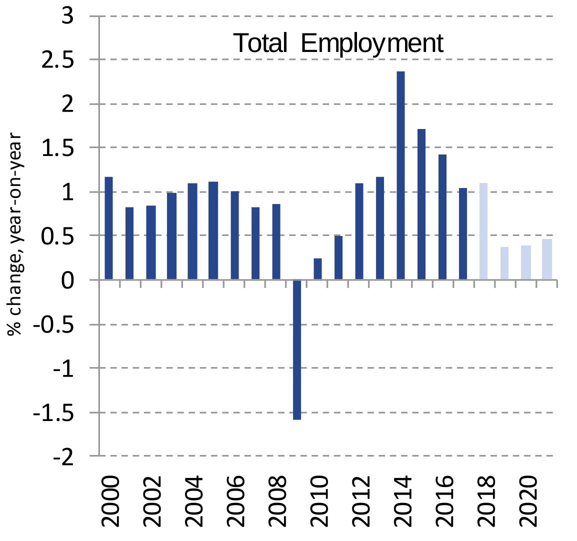
The key points comparing the three months to June xxxx with the previous three months are:

- Employment grew by 42,000 to 32.4 million.
- The number of people working full-time increased by 105,000, while the number of part-time workers fell by 64,000
- Unemployment dropped by 65,000 to 1.4 million and the unemployment rate eased to 4.0%
- The number of people in part-time work, because they could not find a full-time job, declined by 30,000
- Comparing April-June with a year earlier, pay for employees in Great Britain increased by 2.7% excluding bonuses, and 2.4% including bonuses.

Aside from a 77,000 increase in inactivity in the three months to April-June, the first in almost a year, the latest data points towards a continuing erosion of slack (available unemployed resource) in the economy. While the gain in employment was the smallest since February, the drop in unemployment was the largest since July last year. The unemployment rate is the lowest it has been since the winter of xxxx and the vacancy rate continues to trend up, increasing by 20,000 in the three months to May – July.

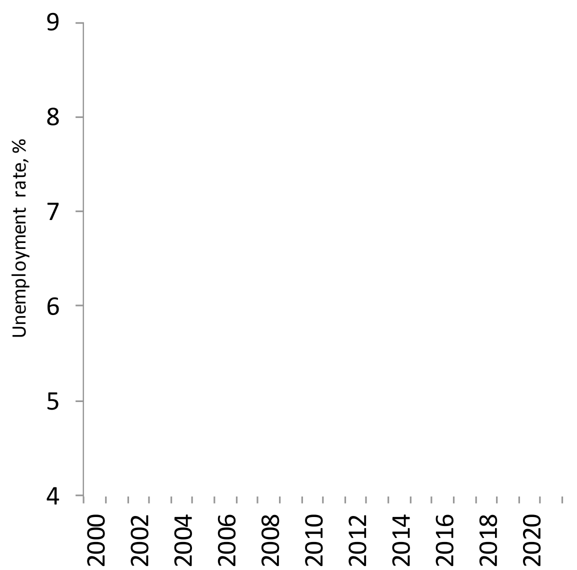
Tight labour market conditions and low unemployment are typically associated with higher pay increases as it becomes more difficult for firms to recruit and retain staff. However, having eased to 2.4% the gains in total pay are now no greater than they were in xxxx and xxxx. Worryingly the slowdown was underlined by an easing in private sector pay to 2.4%. Public sector pay which is less directly tied to labour market conditions accelerated slightly to 2.2%.

Employment growth to slow



Source:National Statisitcs, Experian

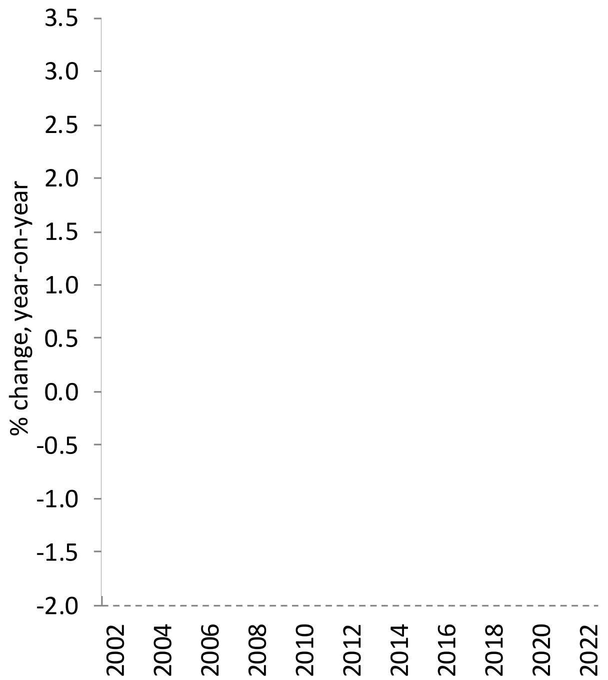
Unemployment set to rise marginally



Source: National Statisitcs, Experian

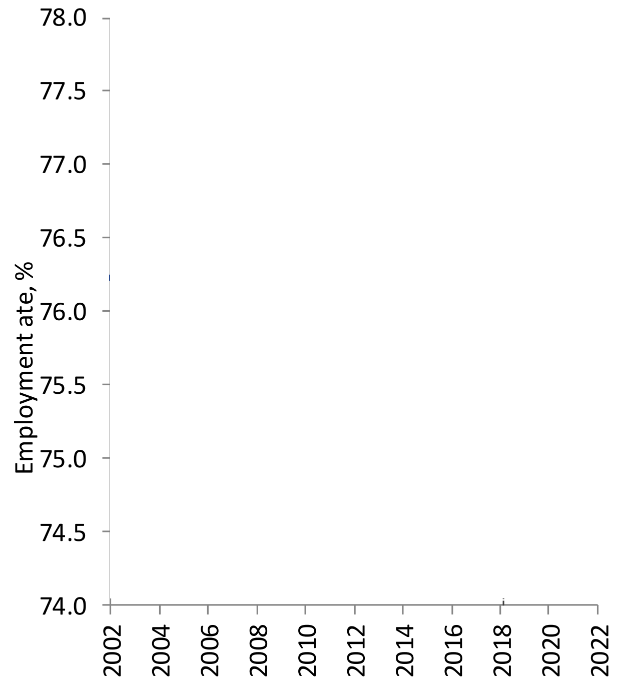
Labour market

Fragile productivity growth



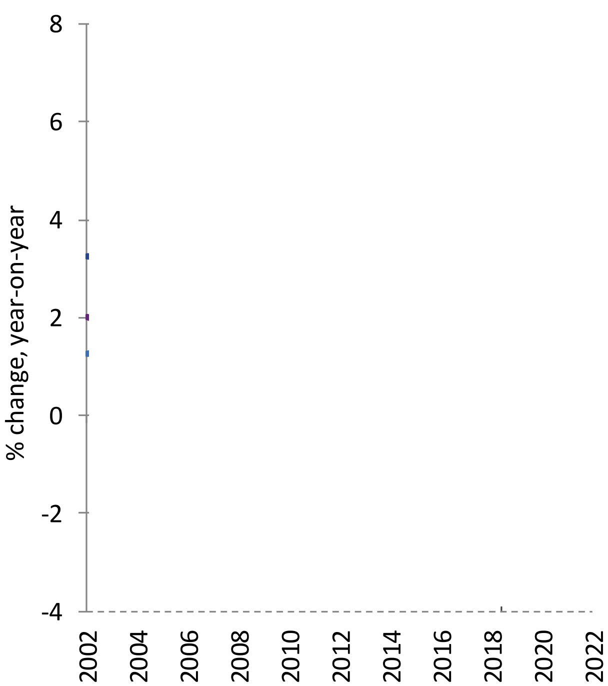
Source: National Statistics, Experian

Employment rate at historic highs



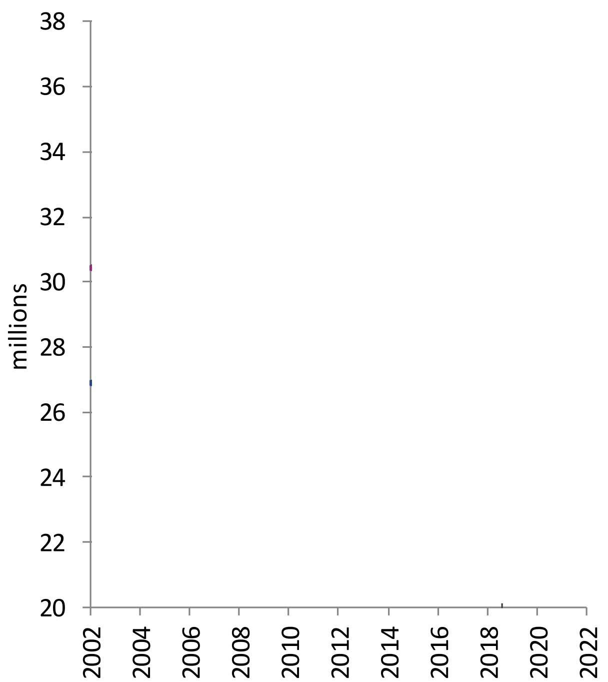
Source: National Statistics, Experian

Real earnings growth struggles



Source: National Statistics, Experian

Healthy employment gains



Source: National Statistics, Experian

Economics from Experian

Our economic forecasting expertise

Experian's team of 20 economists is a leading provider of global, national, regional and local economic forecasts and analysis to the commercial and public sectors. Our foresight helps organisations predict the future of their markets, identify new business opportunities, quantify risk and make informed decisions.

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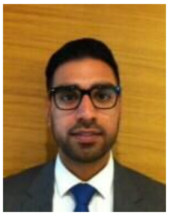

Mohammed joined Experian in April 2014 and leads in producing Experian's monthly UK macro forecast and the quarterly Consumer Credit Report. He is also the economist responsible for running economic stress scenarios. Before joining Experian Mohammed began his career as a fast-stream economist at Her Majesty's Treasury.

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James joined Experian in August 2013. He holds an Economics BSc (1st class honours) from the University of Sheffield, and an MPhil in Environmental Policy from the University of Cambridge. His role within the Economics team focuses largely on the UK consumer, and he is responsible for producing disaggregated income and spending forecasts by household.

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