

ECONOMIC REVIEW

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STOCKPILING BOOSTS UK ECONOMY

The UK economy grew more strongly than expected in February as 'pre-Brexit' stockpiling provided a boost to the monthly rate of economic growth.

Official gross domestic product (GDP) data released by the Office for National Statistics (ONS) has revealed that the economy expanded by 0.2% in February. While this does represent a relatively modest growth rate by historic standards, the figure was significantly higher than most economists had predicted and has eased potential fears that the UK economy could be set to stall or even contract during the first quarter of the year.

A key factor behind this stronger than anticipated performance, however, relates to manufacturers' stockpiling activity. Although ONS does not collect specific data on this area, it did state that survey evidence suggests some manufacturers changed the timing of their activities as the UK's original planned departure date for leaving the EU approached, in order to minimise any potential disruption to supply chains in the event of a no-deal Brexit.

February's strong GDP data therefore appears to reflect a rush by manufacturers to meet orders from clients stockpiling essential items ahead of Brexit. This point was further reinforced by the latest Confederation of British Industry (CBI) quarterly survey which showed that, in the three months to April, British factories stockpiled at the fastest pace since records began in the 1950s.

Meanwhile, IMF managing director Christine Lagarde has warned that further uncertainty surrounding the Brexit process will undoubtedly have a negative impact on the UK's future growth prospects. The warning followed release of the IMF's latest economic assessment with the new forecast suggesting the UK economy will expand by 1.2% in 2019, down 0.3% from the organisation's previous prediction published in January.



LABOUR MARKET REMAINS ROBUST

The UK labour market continues to confound economists and defy any signs of a Brexit-related slowdown, with the proportion of people in work reaching yet another record level.

Statistics from the latest Labour Force Survey showed that the number of people in work increased by 179,000 during the three months to February 2019, taking the total employment figure to a new record high of 32.7 million. Over the past year, this figure has risen by 457,000, with the increase due to more people working in a full-time capacity via a combination of full-time employees and the self-employed.

The data also showed that the total number of people unemployed fell by a further 27,000 during the three months to February. This left the total unemployment rate at 3.9%, its lowest level since the end of 1975.

Further growth in real pay levels was also reported in the latest batch of employment statistics. When adjusted for inflation, average earnings including bonuses, were found to have increased by 1.5% in the three months to February, compared to the same period a year earlier, the highest annual real rate of growth since the summer of 2016.

The continuing resilience of the jobs market has noticeably been in contrast to other more sluggish readings of the UK economy. And this strong set of employment data once again highlights that, while Brexit anxieties may be deterring many businesses from investing, it is certainly not deterring them from taking on more workers.

Firms' hiring plans, however, do typically lag behind changes in economic activity as businesses wait to assess the full impact of any changes in demand. Many economists are still therefore warning that signs of labour market weakness could yet emerge later in the year, particularly if the uncertainty surrounding Brexit is not resolved quickly.

As April drew to a close, weaker than expected factory data from China cast a shadow over global growth. Investor sentiment was pacified somewhat by positive euro zone growth and employment data, strong economic data from the US and rising oil prices.








Despite finishing the last trading day of the month down 0.3%, as the Chinese data, mining stocks and exporters weighed, the FTSE 100 managed to close a fourth consecutive month of gains, up 1.91%. The domestically focused FTSE 250 closed the month up 3.70%, the AIM followed suit, up a respectable 5.68% over the month. Data indicated stronger than expected Q1 growth in the euro zone, rebounding strongly from a slump in the second half of last year; unemployment fell to its lowest level in over a decade. The Euro Stoxx 50 gained 4.98% in April.

Sentiment for stocks on Wall Street was boosted by improving corporate profits. A jump in US consumer spending helped to propel US shares to highs at the end of April. The Dow Jones and the NASDAQ advanced 2.56% and 4.74% respectively in the month.

On the foreign exchanges, sterling closed the month at \$1.30 against the US dollar. The euro closed at €1.16 against sterling and at \$1.12 against the US dollar.

Brent crude gained in the month, to close at \$72.80 a barrel, up 7.85%. The US decision to end waivers on Iranian oil and OPEC (Organization of the Petroleum Exporting Countries) output curbs are expected to keep supply tight and oil prices buoyant this year, a recent survey has revealed. Gold closed the month at \$1,283.97 a troy ounce, a loss of

0.62% over the month. Despite a dip mid-month, the gold price traded higher toward the end of April, buoyed by the disappointing Chinese manufacturing and services data. The weaker US dollar underpinned the price. Gains are being limited by rising US Treasury yields and the stronger-than-expected economic data.

INDEX	VALUE (at (30/04/19))	% MOVEMENT (since 31/03/2019)
 FTSE 100	7,418.22	▲ +1.91%
 FTSE 250	19,824.81	▲ +3.70%
 FTSE AIM	968.90	▲ +5.68%
 EURO STOXX 50	3,514.62	▲ +4.98%
 NASDAQ Composite	8,095.39	▲ +4.74%
 DOW JONES	26,592.91	▲ +2.56%
 NIKKEI 225	22,258.73	▲ +4.97%

RETAIL SALES IN SURPRISE RISE

The latest retail sales statistics show that a combination of mild weather and rising real wages encouraged UK shoppers to shrug off Brexit woes and spend heavily during March.

According to ONS data, year-on-year growth in retail sales volumes jumped to 6.7% in March. This was the largest recorded growth rate since October 2016 and was significantly above all forecasts submitted in a Reuters poll of economists.

ONS said this surge in spending was partly due to the mild weather experienced this March in comparison to last year's icy blast courtesy of the 'Beast from the East' which significantly curtailed spending in 2018. However, the data also showed that, in monthly terms, sales rose for the third consecutive month, with March posting a higher than expected 1.1% increase.

This suggests it was not just better weather that enticed consumers to increase spending, with the recovery in real wage growth witnessed over the last year also likely to have played a role. The data also clearly implies consumers have been prepared to look beyond the economic uncertainty created by the Brexit impasse.

The CBI's latest retail sales survey also suggests consumers have maintained their appetite for spending with a stronger than expected retail sales balance of +13 recorded in April. Commenting on those figures, CBI Chief Economist Rain Newton-Smith said: "It's encouraging to see retailers with more of a spring in their step than in recent months. The recent pick up in real wages is a welcome support to the sector, making the pound in people's pockets stretch that bit further."

Ms Newton-Smith, however, did strike a note of caution adding: "This month's sales growth will have been distorted by the later timing of Easter, and falling sales in clothing and department stores underline how challenging underlying conditions remain."

BREXIT SAGA CONTINUES

Although the Brexit process still appears to be in a state of turmoil, a six-month extension has now been approved which appears to have averted the imminent prospect of the UK leaving the EU without a deal.

Following late-night talks in Brussels on 10 April, EU leaders granted the UK a six-month Brexit extension, setting a new deadline of 23:00 GMT on 31 October. However, it was also agreed that an earlier departure would remain possible if Theresa May could finally secure safe passage of her Withdrawal Agreement through the UK parliament.

The Prime Minister had initially requested a much shorter delay to the Brexit process in order to avoid the UK having to take part in elections to the European Parliament scheduled for Thursday 23 May. And the UK is now committed to holding those European elections or leaving on 1 June without a deal, unless Mrs May can somehow break the parliamentary deadlock surrounding her deal.

Talks between the government and the Labour Party aimed at reaching a cross-party consensus on how to handle Brexit have been taking place for a number of weeks now and are currently ongoing. But, while the talks have variously been described as 'positive' and 'productive', it remains unclear whether the two parties will find enough common ground for a potential solution to emerge that is capable of breaking the current impasse.

Although it remains impossible to predict what the ultimate conclusion to Brexit will be, the new Halloween deadline may therefore ultimately prove to be little more than a can-kicking exercise. In other words, we could be set for a further six months of political gridlock with the threat of a no-deal Brexit simply having been postponed until the autumn.

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