



THE WEEKLY U.K. ECONOMIC MONITOR

JUNE 11, 2018
SAMUEL TOMBS, CHIEF U.K. ECONOMIST

Markets' implied 60% chance of an August rate hike will come under pressure at the start of this week.

The consensus for April industrial production has overlooked a huge fall in energy output.

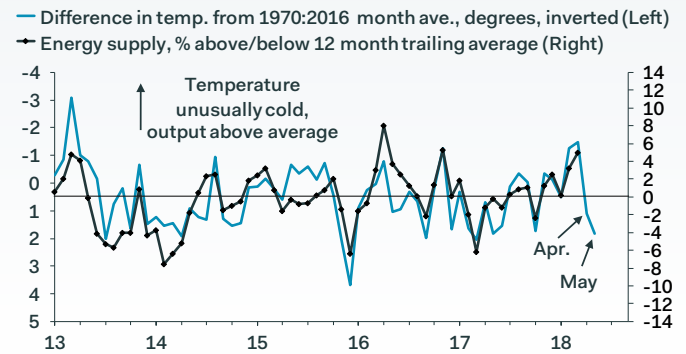
The unemployment rate likely edged up, and wage growth probably cooled a little, in April.

Production and Labour Market Data will Hit Rate Hike Odds

The resolution of tensions in Italy and above-consensus U.K. PMIs for May last week persuaded investors that the MPC likely will press on and raise interest rates soon. Our first chart shows that markets are pricing-in a 60% chance of an August rate hike—our base case since February—up from 30% at the start of June. **Industrial production and labour market data, however, due today and tomorrow, respectively, likely will prompt markets to have renewed doubts.**

The consensus for a 0.1% month-to-month rise in industrial production in April appears to overlook the likely huge fall in output in the energy supply sector. Demand for heating energy was boosted in March by extremely cold weather; average temperatures were

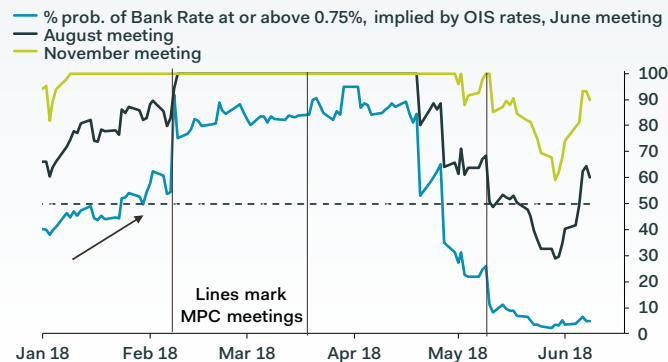
DEMAND FOR HEATING ENERGY LIKELY COLLAPSED IN APRIL



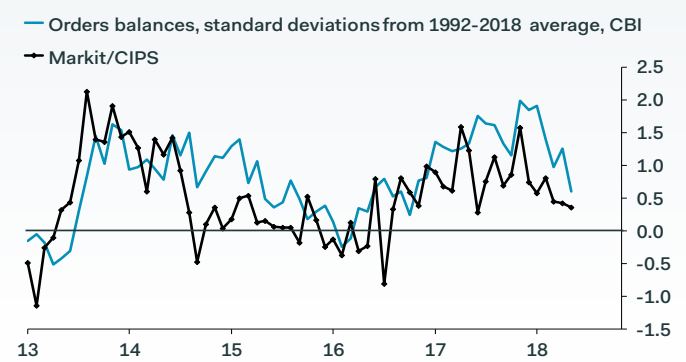
1.5 degrees Celsius below their 1970-to-2016 March average. By contrast, temperatures were 1.1 degrees above normal in April. This suggests that output in the energy supply sector will swing from about 4.0% above its 12-month trailing average in March, to 2.0% below in April. As a result, we have pencilled in a huge 6.0% decline in output, which would subtract 0.7 percentage points from growth in total production.

Meanwhile, the manufacturing sector is slowing; the orders balances of both the Markit/CIPS and CBI surveys have been trending down since the start of this year. Output, however, likely rebounded in April, because heavy snow disrupted supply chains in March. Supporting this idea, note that car production data from the SMMT point to around a 4.0% rise in

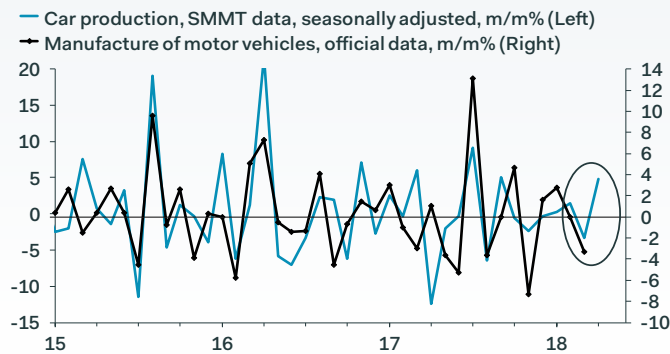
DATA THIS WEEK WILL TEST AUGUST RATE HIKE BETS



THE RECOVERY IN MANUFACTURING OUTPUT IS LOSING MOMENTUM...



...BUT CAR PRODUCTION LIKELY JUMPED IN APRIL

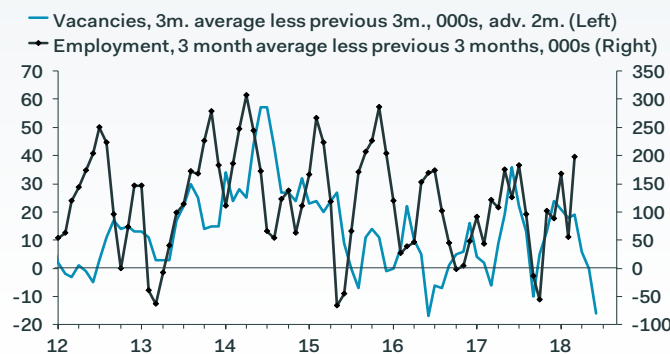


output of motor vehicles, which alone would contribute 0.3pp to growth in total manufacturing output. We look, therefore, for a 0.5% gain in the latter, which would boost total production by 0.4pp.

Output in the mining and water supply sectors, however, probably was stable in April; North Sea operators expected flat production at the start of the month. **As a result, the plunge in output in the energy supply sector likely dominated, leading to a 0.3% month-to-month fall in total production.**

April's labour market data, released on Tuesday, likely will leave a sour taste too. *We think that the headline, three-month average, unemployment rate likely rose to 4.3%, from 4.2% in March, above the no-change consensus and the 4.1% rate the MPC expects in Q2.* Measures of employment growth from the Markit/CIPS, REC/KPMG and E.C. surveys all have weakened this year. In addition, the three-month average level of the official measure of job vacancies was 1.9% lower in April than in January, pointing to an imminent deceleration in job growth. What's more,

JOB VACANCY DATA SUGGEST EMPLOYMENT GROWTH WILL SLOW



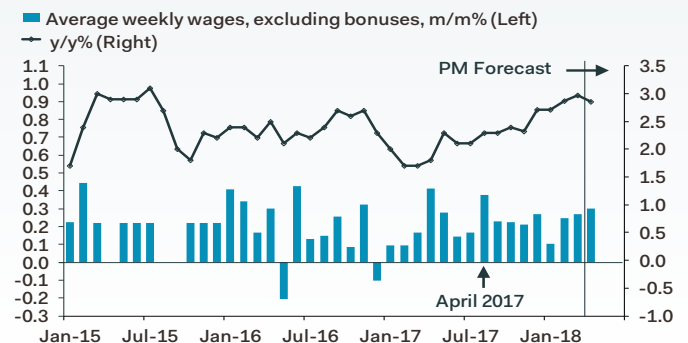
a cohort which consistently has reported a below-average unemployment rate left the sample in April.

Wages are harder to forecast than unemployment; surveys are only a loose guide, at best. We continue to think that month-to-month gains will strengthen a little this year in response to the further tightening of labour market, last year's rise in inflation, and the Chancellor's removal of the 1% cap on wage rises for some public sector workers. Note too that the increase in the National Living Wage this April, 4.4%, marginally exceeded the 4.2% rise in April 2017.

Nonetheless, average weekly wages excluding bonuses rebounded by 0.4% month-to-month in April 2017, following weakness earlier in the year. The 1.3 million NHS workers getting a 3% pay rise this year also will have to wait until July to see the money in their pay packets. As a result, we expect the year-over-year growth rate to fall to 2.9% in April, from 3.0% in March, keeping the headline rate at 2.9%.

None of these releases, however, will provide a knock-out blow to the chances of an August rate hike. May production and labour market data will be released before the August 2 MPC meeting. And output in the construction and services sectors likely rebounded in April, leaving GDP on course for a 0.4% quarter-on-quarter rise. In addition, CPI inflation likely will exceed the MPC's expectation in June, though it looks set to hold steady at 2.4% in May; see our preview tomorrow for more details. *Accordingly, we still see a 60% chance of an August rate hike.*

WAGE GROWTH WILL SLOW TOO, DUE TO A BASE EFFECT



Samuel Tombs

+44 (0)203 744 7430

samuel@pantheonmacro.com

THIS WEEK IN BRIEF

Note: "D" prefix denotes Datanotes for these releases.

Monday, June 11

• D: Industrial Production (4)/09:30 BST

We look for a **-0.3%** month-to-month print. A recovery from snow disruption in March and a jump in car production likely drove a 0.5% rise in manufacturing output. But warmer weather points to a 6% fall in output in the energy supply sector. Other sectors likely were stable. **Consensus: 0.1%**.

• D: Construction Output (4)/09:30 BST

Output likely rebounded in April from March's snow-hit level; we expect a **3.0%** month-to-month rise. **Consensus: 2.4%**.

• D: Trade (4)/09:30 BST

Mean-reversion in the erratics balance and higher oil prices likely ensured that the total trade deficit rose to about **£3.5B** in April, from £3.1B in March. **Consensus: £2.5B**.

Tuesday, June 12

• D: Labour market data (4)/09:30 BST

The headline, three-month average, unemployment rate likely rose to **4.3%** in April, from 4.2% in March. Meanwhile, the headline rate of year-over-year growth in average weekly wages excluding bonuses probably held steady at 2.9%. **Consensus: Unemployment: 4.2%, AWE: 2.9%**.

• MPC member Haldane speech/14:00 BST

The text of a speech on May 23 will be published.

• Key votes on the E.U. Withdrawal bill scheduled

The government aims to overturn 15 Lords amendments.

Wednesday, June 13

• D: Consumer Prices (5)/09:30 BST

We think CPI inflation held steady at **2.4%** in May, though the risks lie to the upside. The contribution to inflation from motor fuel and transport services likely jumped. But falling inflation in the core goods and electricity and natural gas sectors should restrain the headline rate. **Consensus: 2.4%**.

• Producer Prices (5)/09:30 BST

The surge in oil prices points to a **0.8%** month-to-month rise in input prices, leading to a **0.2%** rise in output prices. **Consensus: Input prices 2.0%, output prices 0.3%**.

• House Prices (4)/09:30 BST

Surveys suggest year-over-year growth in prices slowed to about **3.8%** in April, from 4.2% in March. **Consensus: N/A**.

Thursday, June 14

• D: RICS Residential Market Survey (5)/00:01 BST

We expect the house price balance to rise to about **-5** in May, from -8 in April. **Consensus: -5**.

• D: Retail Sales (5)/09:30 BST

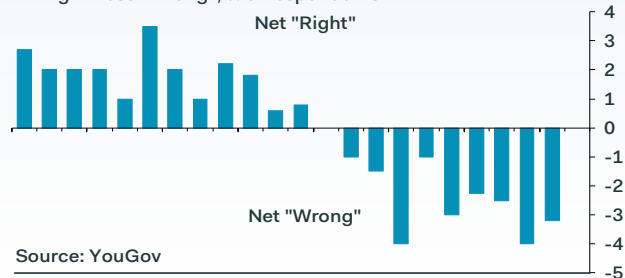
We look for a **0.7%** month-to-month rise in total sales volumes in May. Demand for weather-sensitive products likely rebounded from prior weakness. **Consensus: 0.5%**.

Friday, June 15

• No significant data released.

CHART OF THE WEEK: A HARD BREXIT IS A LOST CAUSE FOR THE PM

■ "In hindsight, was the UK right or wrong to vote to leave the EU?", "Right" less "Wrong", % of respondents



Source: YouGov

Aug 16 Nov 16 Feb 17 May 17 Aug 17 Nov 17 Feb 18 May 18

PANTHEON'S FINANCIAL FORECASTS

	End-month:					
	5pm Fri.	Jun	Sep	Dec	Mar 19	Dec 19
Bank Rate	0.50	0.50	0.75	0.75	1.00	1.25
3m Libor	0.63	0.80	0.90	1.00	1.10	1.40
12m Libor	0.94	1.10	1.20	1.30	1.50	1.80
2-year Gilt	0.74	0.80	1.00	1.20	1.30	1.80
10-year Gilt	1.39	1.50	1.70	1.80	1.90	2.20
30-year Gilt	1.85	1.90	2.00	2.20	2.30	2.50
FTSE 100	7681	7500	7400	7400	7500	7600
USD/GBP	1.34	1.35	1.38	1.40	1.40	1.40
EUR/GBP	1.14	1.15	1.20	1.27	1.27	1.27
Sterling TWI	77.9	79.1	81.9	85.9	85.9	85.9

PANTHEON'S ECONOMIC FORECASTS

	Period average:						
	Q1 18	Q2 18	Q3 18	Q4 18	2017	2018	2019
GDP, q/q%	0.1	0.4	0.3	0.3	-	-	-
GDP, y/y%	1.2	1.4	1.3	1.2	1.8	1.3	1.7
Employment, y/y%	1.2	1.2	1.3	1.0	1.0	1.2	0.6
Unemp. rate, %	4.2	4.2	4.2	4.2	4.4	4.2	4.1
Wkly earnings, y/y%	3.0	2.9	3.0	3.1	2.3	3.0	3.2
CPI, y/y%	2.7	2.5	2.5	2.3	2.7	2.5	2.0
RPI, y/y%	3.6	3.3	3.2	3.3	3.6	3.3	2.8
PSNB FY, £B	-	-	-	-	43	38	35
Cur. acc't., % GDP	-4.0	-3.8	-3.6	-3.4	-4.1	-3.7	-3.2
House prices, y/y%	3.8	2.5	1.3	0.0	4.7	2.0	1.5