Economic Review

of October 2019

Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. We hope you will find this review to be of interest.

UK set to avoid recession

Better-than-expected gross domestic product (GDP) data for the latest three-month period has all but dispelled fears of a UK recession this year, although the current rate of growth does remain relatively lacklustre.

Official GDP figures released by the Office for National Statistics (ONS) show that the UK economy grew by 0.3% in the three months to August. While this was higher than all forecasts in a Reuters poll of economists, the stronger performance was due to revisions to data from earlier months and the most recent figure was actually weaker than expected. Indeed, the economy shrank by 0.1% during August.

Commenting on the figures, Rob Kent-Smith, Head of National Accounts at ONS, said: *"Growth increased in the latest three months, despite a weak performance across manufacturing, with TV and film production helping to boost the services sector. Services provided the majority of the growth over the three months, with production and manufacturing falling back."*

Although the economy remains fragile, the latest data has dispelled fears the UK was slipping into recession. After shrinking in the second quarter, a further negative figure in the current quarter would result in two consecutive quarterly contractions – the technical definition of a recession. However, ONS said the economy would now need to shrink by an almost unprecedented 1.5% in September for the third quarter to contract overall.

Meanwhile, the International Monetary Fund (IMF) has released its latest economic soothsaying. In a relatively downbeat assessment of the world economy, global growth forecasts for 2019 and 2020 were cut by 0.3% and 0.2% respectively, largely due to an escalation in the US/China trade conflict since its previous forecast. UK growth predictions for both this year and next were left unchanged, although it was stressed that the projections were based on an orderly Brexit.

Signs of slowing labour market

Official employment statistics suggest that the UK jobs market may have started to cool in recent months with the total number of people in work falling and the level of unemployment rising.

Although economic growth in the UK has for some time been below historic norms, the labour market has remained remarkably strong and provided a distinct silver lining for the economy over the past couple of years. However, the latest data suggests there are signs that the jobs market may now be cooling.

Statistics from the latest Labour Force Survey revealed that the total number of people in work fell by 56,000 in the June-to-August period. As a result, the overall employment rate (the proportion of 16 to 64-year-olds in work) fell to 75.9%, 0.2 percentage points lower than in the previous three-month period.

In addition, the total number of people unemployed increased by 22,000 to 1.31 million in the three months to August. This resulted in the overall unemployment rate rising to 3.9%, an increase of 0.1 percentage points compared to the previous quarter.

While the unemployment rate is still close to its lowest level in over 40 years and employment remains around historic highs, the rise in unemployment and drop in employment did come as something of a surprise to economists. ONS also reported that vacancies had fallen to their lowest level since September–November 2017 and admitted that the latest set of statistics did suggest the labour market is showing signs of slowing.

Commenting on the figures, ONS deputy head of labour market, Matt Hughes said: *"The employment rate is still rising year-on-year, but this growth has cooled noticeably in recent months. Among the under-25s, the employment rate has actually started to fall on the year."*

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Quilter Financial Planning

Markets (Data compiled by TOMD)

At the end of October, talk of renewed trouble in US-China trade negotiations cast doubt on the possibility of a long-term trade deal. The news knocked sentiment recently lifted by growing optimism the Phase One deal would be concluded in November.

In the UK, at the end of the month, markets braced for a wide array of Brexit possibilities after parliament approved a December election. October 31 marked the first full day of campaigning for Boris Johnson and his rivals. The more domestically focused midcap index closed marginally up at month end, while the large cap index lost 2.16% in October.

In the US, investors continued to digest the Federal Reserve's latest interest rate cut and commentary, as well as a host of major corporate quarterly results as earnings season rolled on. The NASDAQ Composite was buoyed by results from Apple and Facebook, the Dow Jones finished marginally up (0.48%).

On the foreign exchanges, sterling closed the month at $1.29 against the US dollar. The euro closed at €1.16 against sterling and at $1.11 against the US dollar.

Gold is currently trading at around $1,512.46 a troy ounce, a gain of 2.74% on the month, as trade woes brought the precious metal back in favour. OPEC (Organization of the Petroleum Exporting Countries) oil output bounced in October from an eight-year low as a rapid recovery in Saudi Arabian production offset losses in Ecuador and voluntary curbs under a supply pact. Brent crude is currently trading at around $60.21 a barrel, a loss of 0.94% on the month.

INDEX	VALUE (at 31/10/19)		% MOVEMENT (since 30/09/19)
FTSE 100	7,248.38	▼	2.16%
FTSE 250	20,021.50	▲	0.43%
FTSE AIM	889.54	▲	1.90%
EURO STOXX 50	3,604.41	▲	1.02%
NASDAQ Composite	8,292.36	▲	3.66%
DOW JONES	27,046.23	▲	0.48%
NIKKEI 225	22,927.04	▲	5.38%

Consumer caution abounds

The latest set of retail sales statistics suggest consumers have become more cautious about their spending in recent months despite the relatively strong growth in real wages witnessed over the past year.

Official data published by ONS revealed that retail sales volumes were flat in September when compared to the previous month, following a 0.3% decline during August. And, while moderate growth in sales was recorded across the third quarter as a whole, the annual pace of expansion did fall to 3.1%, the weakest rate of growth since late 2018.

ONS statisticians said that some retailers had suggested unusually rainy weather had a negative impact on high street shopping during September and this contributed to sales at department stores continuing their downward trend. In contrast, sales at food shops bounced back following a couple of weak months.

Signs that consumers may be turning more cautious will clearly be a key area of concern for the UK economy, as consumer spending has been the principal driver of growth over the past couple of years. Retail surveys conducted by the Confederation of British Industry and British Retail Consortium continue to paint a relatively bleak picture of conditions in the retail sector, although each survey's findings have so far proved to be much worse than subsequent official data has shown.

However, the lacklustre nature of the latest ONS retail sales figures may suggest that political uncertainty is starting to weigh more heavily on consumers and testing the resilience of UK shoppers. While the recent strong growth in real wages can be expected to continue underpinning consumer spending to some extent, the latest data will certainly add to concerns that confidence amongst the household sector may now be waning.

Economic cost of Brexit

A study conducted by the National Institute of Economic and Social Research (NIESR) suggests the Brexit deal negotiated by Boris Johnson will ultimately leave the UK £70bn worse off than if the country had retained its EU membership.

The analysis by the UK's oldest economic research institute estimates that the economy will be 3.5% smaller in 10 years' time if the UK leaves the EU with the Prime Minister's deal. While this is a better potential outcome than leaving with no deal at all – which NIESR estimates would see the economy shrink by 5.6% – it would be slightly worse than leaving under the terms previously negotiated by Theresa May.

Mr Johnson's Brexit plan centres on much looser economic ties with the EU, and the independent forecaster's modelling suggests the subsequent imposition of customs and regulatory barriers would hinder trade with the continent. Its analysis suggests this would leave all regions of the UK worse off than if the country had remained within the EU.

The Treasury has so far resisted calls to produce its own assessment of the economic impact of the new Brexit deal. However, a Treasury spokesperson did question the NIESR figures, suggesting the government plans a 'more ambitious' free trade agreement with the EU than assumed in the institute's economic model.

Whether the UK does ultimately leave under the terms agreed by the Prime Minister remains to be seen, as the Brexit process is once more in limbo while the political parties fight out a General Election scheduled for 12 December. With the EU agreeing to a further extension until 31 January, the final outcome of the Brexit saga would now appear to depend upon the make-up of the House of Commons when the newly elected MPs take up their seats in around six weeks' time.

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