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Softest half year of GDP growth since 2011

At its August meeting, the Bank of England's Monetary Policy Committee voted 6-2 to maintain the Bank Rate at 0.25%, with McCafferty and Saunders once again dissenting by calling to hike it to 0.50%. The committee were unanimous in voting for no change to the level of quantitative easing that was last extended a year earlier. Alongside the decision, the Bank also released its quarterly Inflation Report in which it lowered its expectations for GDP growth in 2017 (to +1.7% from +1.9%) and trimmed its forecast for 2018 (+1.6% from +1.7%).

Economic growth remained sluggish in the second quarter, with GDP expanding 0.3% (around half of the UK's long-run average of 0.6%) following similarly tepid growth of 0.2% in the first quarter. By a small margin, the first half of 2017 has been the softest half-year period of growth in six years. Growth in the second quarter was predominantly driven by services (particularly retail and the film industry), whereas both manufacturing and construction output subtracted from growth.

The IHS Markit composite PMI for July ticked up to 54.1, from 53.8 in June – chiming with the CBI's Growth Indicator, which also picked up in the three months to July. Within the headline PMI, manufacturing activity picked up for the first time in three months, underpinned by near-record growth of new export orders, while the services sector also saw a modest uptick. Meanwhile, growth in the construction industry – which is excluded from the weighted composite – dropped to an 11-month low on the back of weakness in new business volumes.

Echoing the strengthening in the PMI, the CBI's Industrial Trends Survey found that manufacturing output had grown at the fastest pace since 1995 in the three months to July. Headcount increased at the fastest rate for three years and hiring intentions also improved. Growth in total orders moderated in line with expectations, but remained robust. Expectations for demand growth in the quarter ahead remain strong, with the outlook for export order growth at a four-decade high. Meanwhile, input cost pressures cooled and are expected to soften further in the near-term.

The CBI's Distributive Trades Survey found that retail sales growth had picked up in the year to July, driven by stronger grocery and clothing sales, while orders placed on suppliers rose at a solid pace for a second consecutive month. Looking ahead, retailers expect steady expansions in both sales and orders in the year to August, at rates similar to those seen this month.