APPENDIX A

Economic Review of 2018/19	
Economic Growth	**Local Context**
After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend.	The rate of growth suggests that Council services that are based on consumer demand, may experience a slow-down in demand.
Inflation	**Local Context**
UK Consumer Price Inflation (CPI) for March 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report.	Increases in inflationary pressure will be felt across service budgets, potentially requiring some adjustments to service provision. Although the rate is still historically low. In the short-term inflation may fall due to lower retail prices.
Labour Market	**Local Context**
The most recent labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.	With employment at a record high, recruiting is likely to become more difficult for the Council, as the number of potential candidates is likely to reduce. In addition wage levels continue to rise steadily, and so whilst general inflation remains low, there is potential for increased pressure to increase the Council's pay by greater percentage than in recent years.
UK Monetary Policy	
Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.	The increase to 0.75% has pushed up investing rates on investments the Council can access to an average 0.75%.
EU Exit	
The original EU exit day of 29th March 2019, was not achieved. Having failed to pass a number of meaningful votes in Parliament, including rejection of the deal negotiated by the PM for the third time, MPs voted by a majority of one to force the PM to ask for an extension to the Brexit process beyond 12th April in order to avoid a no-deal scenario. Recent talks between the Conservative and Labour parties to try to reach common ground on a deal which may pass a vote by MPs	The uncertainty that results from the delayed exit will potentially feed into the reduced growth forecasts, and cause increased volatility of interest rates as markets react to progress on the deal.

have not produced a way forward. The EU have made it clear that the terms of the deal are not up for further negotiation. The ongoing uncertainty continues to weigh on sterling and UK markets.	
Global Influences	**Local Context**
The US Federal Reserve continued its tightening bias throughout 2018, pushing rates to the 2.25%-2.50% range in December. However, a recent softening in US data caused the Fed to signal a pause in hiking interest rates at the last Federal Open Market Committee (FOMC) meeting in March. Globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The US continues to be set on a path of protectionist trade policies and tensions with China in particular, but with the potential for this to spill over into wider trade relationships, most notably with EU. The EU itself appeared to be show signs of a rapid slowdown in economic growth with the major engines of its economy, Germany and France, both suffering from downturns in manufacturing alongside continued domestic unrest in France. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence	Whilst the Council is insulated to some extent from global fluctuations, the possible impact of trades wars on inflation could make the goods that the council purchases more expensive, particularly those with a significant input from outside the EU, e.g. IT equipment.
Source of Data: Arlingclose Ltd	