

APPENDIX A

Economic Review of 2017/18	
Economic Growth	Local Context
The UK economy showed signs of slowing with latest estimates showing GDP, helped by an improving global economy, grew by 1.8% in 2017, the same level as in 2016. This was a far better outcome than the majority of forecasts following the EU Referendum in June 2016, but it also reflected the international growth generated by the increasingly buoyant US economy and the re-emergence of the Eurozone economies.	The rate of growth suggests that Council services that are based on consumer demand, such as Leisure and CIS are likely to experience a steady rate of growth over the short-term.
Inflation	Local Context
The inflationary impact of rising import prices, a consequence of the fall in sterling associated with the EU referendum result, resulted in year-on-year CPI rising to 3.1% in November before falling back to 2.7% in February 2018.	Increases in inflationary pressure will be felt across service budgets, requiring some adjustments to service provision.
Labour Market	Local Context
The labour market showed resilience as the unemployment rate fell back to 4.3% in January 2018. The inherent weakness in UK business investment was not helped by political uncertainty following the surprise General Election in June and by the lack of clarity on Brexit, the UK and the EU only reaching an agreement in March 2018 on a transition which will now be span Q2 2019 to Q4 2020.	With employment at a record high then recruiting is likely to become more difficult for the Council, as the number of candidates are likely to reduce. In addition wage growth is starting to pick up, and so whilst general inflation remains low but increasing, there is a potential for increased pressure to increase the Council's pay by greater percentage than in recent years.
Consumer Expenditure	Local Context
After a weak August, British consumers picked up the pace of their spending in Q3. UK retail sales growth surged to a 14-year high in October as consumers kept spending and colder weather boosted clothing sales. According to the British Retail Consortium (BRC), fears over Brexit are likely to weigh on sales in the period ahead.	Overall economic growth in the UK is strong and this has been largely driven by consumer spending. This augurs well for the services the Council provides, suggesting there is likely to be strong demand for services into the medium term.
Global Influences	Local Context

<p>In contrast, economic activity in the Eurozone gained momentum and although the European Central Bank removed reference to an 'easing bias' in its market communications and had yet to confirm its QE intention when asset purchases end in September 2018, the central bank appeared some way off normalising interest rates. The US economy grew steadily and, with its policy objectives of price stability and maximising employment remaining on track, the Federal Reserve Open Market Committee (FOMC) increased interest rates in December 2017 by 0.25% and again in March, raising the policy rate target range to 1.50% - 1.75%. The Fed is expected to deliver two more increases in 2018 and a further two in 2019. However, the imposition of tariffs on a broadening range of goods initiated by the US, which has led to retaliation by China, could escalate into a deep-rooted trade war having broader economic consequences including inflation rising rapidly, warranting more interest rate hikes.</p>	<p>Whilst the Council is insulated to some extent from global fluctuations, the possible impact of trades wars on inflation could and will make the goods that the council purchases more expensive.</p>
<p>UK Monetary Policy</p>	<p>Local Context</p>
<p>The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 0.25% in November 2017. It was significant in that it was the first rate hike in ten years, although in essence the MPC reversed its August 2016 cut following the referendum result. The February Inflation Report indicated the MPC was keen to return inflation to the 2% target over a more conventional (18-24 month) horizon with 'gradual' and 'limited' policy tightening. Although in March two MPC members voted to increase policy rates immediately and the MPC itself stopped short of committing itself to the timing of the next increase in rates, the minutes of the meeting suggested that an increase in May 2018 was highly likely.</p>	<p>The continuing expansion Commercial Investment Strategy offers an opportunity to achieve higher returns (yields) but still with a high degree of security. The security is as a result of the ownership of an asset (property) or and investment in assets (Property Funds). An attempt to achieve higher returns using financial investments would result in the taking on of more risky investments, despite the likelihood of increases in rates.</p>
<p>Market Reaction</p>	<p>Local Context</p>
<p>The increase in Bank Rate resulted in higher money markets rates: 1-month, 3-month and 12-month LIBID rates averaged 0.32%, 0.39% and 0.69% and at 31st March 2018 were 0.43%, 0.72% and 1.12% respectively. Gilt yields displayed significant volatility over</p>	<p>PWLB borrowing rates are based on gilt yields. As a result when the Council needs to borrow the rates on offer are low by historic standards but the direction of travel is for increases but at a moderate (although erratic) rate.</p>

<p>the twelve-month period with the change in sentiment in the Bank of England's outlook for interest rates. The yield on the 5-year gilts which had fallen to 0.35% in mid-June rose to 1.65% by the end of March. 10-year gilt yields also rose from their lows of 0.93% in June to 1.65% by mid-February before falling back to 1.35% at year-end. 20-year gilt yields followed an even more erratic path with lows of 1.62% in June, and highs of 2.03% in February, only to plummet back down to 1.70% by the end of the financial year.</p> <p>The FTSE 100 had a strong finish to calendar 2017, reaching yet another record high of 7688, before plummeting below 7000 at the beginning of 2018 in the global equity correction and sell-off.</p> <p>.</p>	<p>The majority of the Council's cash balances are kept in Money Market Funds or instant access accounts. Whilst rates on instant access accounts have fallen, the recovery of overnight rates may push up rates offered by Money Market Accounts. The rates on Money Market Accounts fluctuate and are therefore more likely to increase than bank accounts, which tend to change rate less often.</p>
<p><i>Source of Data: Arlingclose Ltd</i></p>	