APPENDIX A

Economic Review	
Economic Growth The rebound in quarterly GDP growth in Q2 to 0.4% appeared to overturn the weakness in Q1 which was largely due to weather-related factors. However, the detail showed much of Q2 GDP growth was attributed to an increase in inventories. Year/year GDP growth at 1.2% also remains below trend.	**Local Context** A reduction in economic activity could have an adverse effect on the Council's trading operations (e.g. CIS, Markets, Car Parks, Building Control, Development Control, leisure) as well as receipts from business rates and council tax. In addition restricted economic growth will increase financial strain on household which may result in increased demand for Council services such as benefits, homelessness, and housing services.
Inflation Oil prices rose by 23% over the six months to around $82 per barrel. UK Consumer Price Inflation (CPI) for August rose to 2.7% year-on-year, above forecast and also that of the Bank of England in its August *Inflation Report*, as the effects of sterling's large depreciation in 2016 began to fade.	**Local Context** Inflationary pressures could start to effect council spending. As a result there could be pressure on some budgets where costs are rising. There will also be increased pressure in the MTFS to mitigate this pressure through changes in spending and income generation. The increase in Business Rates is set on the September CPI, so this will rise by 2.4%
UK Monetary Policy The Bank of England made no change to monetary policy at its meetings in May and June, however hawkish minutes and a 6-3 vote to maintain rates was followed by a unanimous decision for a rate rise of 0.25% in August, taking Bank Rate to 0.75%.	**Local Context** Increases in the Bank of England rate have pushed up other market rate e.g. Money Market Funds and deposit accounts rates. As a result the Council's income from investment interest has increased.
Global Monetary policy The escalating trade war between the US and China as tariffs announced by the Trump administration appeared to become an entrenched dispute, damaging not just to China but also other Asian economies in the supply chain. The fallout, combined with tighter monetary policy, risks contributing to a slowdown in global economic activity and growth in 2019.	**Local Context** A reduction in economic activity could have an adverse effect on the Council's trading operations (e.g. CIS, Markets, Car Parks, Building Control, Development Control, leisure) as well as receipts from business rates and council tax.
Market Reaction Gilt yields displayed marked volatility during the period, particularly following Italy's political crisis in late May when government bond yields saw sharp moves akin to those at the height of the European financial crisis with falls in yield in safe-haven UK, German and US government bonds. Over the period, despite the volatility, the change in gilt yields was	**Local Context** The increase in gilts yields will have a direct effect on the Council if it wishes to borrow from the PWLB, as the rate of interest is set in relation to gilt yields. Higher yields mean higher borrowing rates.

small. The 5-year benchmark gilt only rose marginally from 1.13% to 1.16%. There was a larger increase in 10-year gilt yields from 1.37% to 1.57% and in the 20-year gilt yield from 1.74% to 1.89%. The increase in Bank Rate resulted in higher in money markets rates. 1-month, 3-month and 12-month LIBID rates averaged 0.56%, 0.70% and 0.95% respectively over the period.	
Labour Market The most recent labour market data for July 2018 showed the unemployment rate at 4%, the lowest rate since 1975. The 3-month average annual growth rate for regular pay, excluding bonuses was 2.9%, providing some evidence that a shortage of workers is providing support to wages. Real wages (adjusted for inflation) grew only by 0.2%, a marginal increase unlikely to have had much effect on households.	**Local Context** In a labour market where there are few vacancies, the Council may find it harder to recruit suitably skilled staff.
EU Withdrawal The EU Withdrawal Bill, which repeals the European Communities Act 1972 that took the UK into the EU and enables EU law to be transferred into UK law, narrowly made it through Parliament. With just six months to go when Article 50 expires on 29th March 2019, neither the Withdrawal Agreement between the UK and the EU which will be legally binding on separation issues and the financial settlement, nor its annex which will outline the shape of their future relationship, have been finalised, extending the period of economic uncertainty.	**Local Context** Withdrawal from the EU may create skills shortages especially in the construction and tourism industries. Whilst not a direct impact on the Council, there may be a role for the Council to engage with the local economy to help support local businesses where there are skills shortages.
Economic Outlook The view is that the UK economy still faces a challenging outlook as the minority government continues to negotiate the country's exit from the European Union. Central bank actions and geopolitical risks, such as trade wars, have and will continue to produce significant volatility in financial markets.	**Local Context** Challenging conditions in the economy will impact on the Council’s services that are income earning.
Interest Rates Forecast Having raised interest rates in August 2018 to 0.75%, the Bank of England’s Monetary Policy Committee (MPC) has maintained expectations of a slow rise in interest rates over the forecast horizon. The MPC has a definite bias towards tighter monetary policy but is reluctant to push interest rate expectations too strongly. While policymakers are wary of domestic inflationary pressures over the next two years, it is	**Local Context** Increases in the Bank of England rate have pushed up other market rate e.g. Money Market Funds and deposit accounts rates. Whilst this is good news, interest rates are still at historically low levels, combined with the prediction that rates will rise slowly, total interest receipts will not increase significantly in the medium term.

believed that the MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective weapon should downside Brexit risks materialise.	
Source of Data: Arlingclose Ltd	