**Sense that spring was postponed too long this year? The UK economy and the Bank of England feel the same.**

**Data dependent**. The Bank of England held rates at 0.5% last week. The move was expected after a stream of weaker than expected data had blown plans for a rate hike off course. Two members of the nine man Monetary Policy Committee persisted with their calls for a hike. For the remaining seven they’re happy to wait for the data to confirm that the first quarter weakness in growth is temporary. So an August hike remains on the table. Markets are giving it a 40% chance. But waiting for clarification on the economic rebound may mean it’s later than that.

**Refreshed**. The decision also came with an update to the Bank’s growth outlook. It now thinks the economy will grow by an uninspiring 1.4% this year, previously estimating it would be 1.8%. That improves slightly next year to 1.7% (formerly a similar 1.8%). While real income growth is set to remain subdued, the Bank thinks growing investment and exports will provide a good degree of offset. The inflation forecast was also trimmed as it appears sterling’s rise is falling out of the inflation figures quicker than previously assumed. The 2% inflation target is expected to be reached in 2020.

**New faces.** The drivers of UK economic growth have shifted, with consumer spending taking an uncharacteristic backseat as investment grabs the wheel. In output terms, industrial production grew by 0.6% in Q1, thanks solely to a super-strong January (up 1.2%). Underneath it’s clear manufacturing is slowing, down 0.1% in March, with no growth since December. Again, goods destined for the consumer sector are the cause. In contrast, capital equipment grew by 2.3% in Q1. There’s also the recent rise in sterling. The consumer is the greater concern, especially if it starts to discourage investment.

**Look beyond the snow.** The UK construction industry had a bad start to the year, with output down 2.7% in the three months to March. Many sub-sectors have been having a tough time for a while with the headline figures held up last year by strong growth in private housebuilding. That support fell away in Q1, leading the industry to contract. Is this another sign of the Beast from the East’s impact? It certainly is hard to build houses when you can’t lay bricks. But the ONS cautioned against just blaming the snow, repeating their judgement that the weather had little impact on already sluggish growth.

**God’s Own Country.** After March’s weather-induced low, the UK’s private sector bounce back was disappointing. Not so for all regions mind, with a strong rebound in business confidence in eleven of the twelve regions. According to the PMIs, the South West reported a significant slowdown for business activity, new orders and employment and was the only region not to see a pick-up in business confidence last month. Three more saw the pace of growth in business activity ease. Most notably Wales, which slowed to a 21-month low. Yorkshire & the Humber was the star performer with firms posting the sharpest acceleration in business activity and where firms remain the most optimistic about the year ahead.

**Confidence boost.** The rebound following the Beast from the East slowdown in March was largely underwhelming across Europe. Northern Ireland's modest pick-up in business activity and lacklustre new orders growth was disappointing, though a surge in optimism about the year ahead is encouraging. Manufacturers and service sector firms are responsible for this new found positivity. The grass is certainly greener as far as export markets are concerned. That's not something retailers can really tap into as the domestic market matters to them. Retail has seen a significant slowdown in activity since the turn of the year with orders falling for the first time in 21-months in April. Local construction activity was also close to stagnation. Manufacturing a broad based recovery will be difficult.

**Down but not out.** All eyes are on the UK housing market as the prospects show a strong north/south split. Halifax reported house prices rose 2.2% in the year to April, but that prices had started to fall in the last month. It is the top of the market that's weakening fastest. On average properties worth over £500k were being sold below the asking price, whilst those under the half million mark were seeing stronger demand and selling above the asking price. Prospects for house price growth over the year still look poor, with a net balance of 20% of surveyors expecting falls. Outside the capital though more surveyors expected rises (+31). But sellers will worry that regions often follow where London leads.

**Outperforming.** There were further signs in April from RICS that Northern Ireland's housing market is outperforming the UK, with prices and activity here rising. It's maybe nothing to get too excited about though. Prices at a UK-level started to dip in April, driven by a continued fall in London and the South East. Expectations for London also remain downbeat for the year ahead. In terms of Northern Ireland, anecdotally, RICS says that the new homes market is performing well with strong levels of activity, and the outlook for the market for the 12-months ahead remains relatively upbeat.

**Soft core.** Of the main central banks, the Federal Reserve has been the most active in tightening monetary policy. Inflationary pressures have been accelerating during 2018. As expected, the headline rate of US CPI hit a fourteen-month high of 2.5% y/y in April. Underlying inflation, as measured by core-CPI – which strips out food and energy prices – was somewhat tamer at 2.1% y/y. While this matched the March reading it was weaker than analysts had anticipated. A tightening labour market and rising oil prices should add further inflationary pressures in the coming months. Unlike their UK counterparts, don’t expect the Fed to be deterred from raising rates, and for a second time this year, in June.

**Digital saviour. The UK’s** investment record is poor. Traditionally we invest a small share of our income. And that’s true for business as well as government. Between 1995 and 2015, UK firms came last among OECD countries. The dominance of services in the economic make-up is largely to blame – the larger the share, the lower invested in tangible assets. Yet as the digital economy has taken off, so has UK firms’ investment in Intellectual Property, which now accounts for at least one-quarter of all investment. This plays to the UK’s streghth. So the future may look brighter for Britain’s investment.

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