



INTRINSIC

ECONOMIC REVIEW

OF JULY 2017

Our monthly economic review is intended to provide background to recent developments in investment markets as well as to give an indication of how some key issues could impact in the future.

It is not intended that individual investment decisions should be taken based on this information; we are always ready to discuss your individual requirements. We hope you will find this review to be of interest.

POSITIVE UK ECONOMIC GROWTH IN Q2

According to initial estimates from the Office for National Statistics (ONS), in the second quarter of 2017 the UK economy continued to grow. They calculate that the UK saw growth of 0.3% in the three month period ending 30 June, an improvement from the Q1 figure of 0.2%. However, the ONS did caution of a "notable slowdown" since last year, where in the final quarter of 2016, Gross Domestic Product (GDP) grew by 0.7%.



UK's film production industry buoyant

The main contributors to the rise in Q2 GDP were the wider services sector and the retail sector. Another important boost to the country's GDP figures came from the UK film production industry, including distribution, such as box-office receipts. Film production was one of the best performing parts of the economy during the April-June period, growing 8%.

The improvement in these business areas was offset by a decline in activity seen in the economically important construction and manufacturing sectors, which weighed on overall growth.

Given that GDP figures are always closely monitored by the Bank of England's (BoE) Monetary Policy Committee, together with the country's inflationary trends, this improvement will certainly be taken into consideration when future decisions are made concerning UK interest rates.

On a more global perspective, and somewhat muddying the forecasting waters, the International Monetary Fund (IMF), based in Washington DC, downgraded the UK economy's overall 2017 forecasted growth by 0.3%, to 1.7%. One element of their logic behind this decision being the UK's Q1 GDP figure of 0.2%, which was weaker than many expected.

UK CAR PRODUCTION FALTERS AS UK SALES DROP

The Society of Motor Manufacturers and Traders (SMMT) recently reported that UK car production fell by 13.7% in June, compared to a year earlier. This is the third consecutive month that output has fallen, following a period of record growth. This fall in production parallels a decline in UK car sales, which can be partly attributed to uncertainty over Brexit.

Due to the production of new and updated models, some independent forecasters have predicted that output will accelerate in the last six months of the year. However, it is likely that the industry will fall short of its goal to produce in excess of two million cars per year by 2020.

The SMMT has cautioned that output could fall in 2019 if the UK fails to secure a deal with the EU that maintains trading conditions after Brexit. They predict a 10% fall in car production if, in the eventuality of a hard Brexit, the UK leaves the EU single market and customs union. Mike Hawes, SMMT chief executive commented: "Brexit uncertainty is not helping investment and growth is stalling. The government has been in 'listening' mode but now it must put on the table the concrete plans that will assure the future competitiveness of the sector."

Overseas demand for British-built cars has remained steady in the first half of this year, falling only by 0.9% compared to the same period last year. Analysts believe that the real test of confidence will come when carmakers decide where to build new models.



Third consecutive month of output decline

