Economic Update

1.1 Growth

Change in gross domestic product (GDP) is the main indicator of economic growth. 3rd quarter growth came in at 0.6% and the 4th quarter growth of 0.7%, but 1st quarter 2017 is expected to ease back. At its meeting of 19th January, the European Central Bank (ECB) left its main policy for interest rates at -0.4%. The easing in monetary policy in the euro area over the past few years has reduced the interest rates facing households and companies, and so has been one factor supporting GDP growth.

The Federal Reserve in February decided to keep interest rates on hold following its first meeting since President Donald Trump took office and the uncertain international backdrop. Despite the positive outlook on the economy, the central bank signalled there would be further gradual interest increases. Quarterly US GDP growth fell from 0.9% in the 3rd quarter to 0.5% in 4th quarter 4 2016.

1.2 Inflation:

The Consumer Prices Index (CPI) inflation rose to 1.6% in December and further substantial increases are very likely over the coming months. In the central projection, conditioned on market yields that are somewhat higher than in November, inflation is expected to increase to 2.8% in the first half of 2018, before falling back gradually to 2.4% in three years' time. Inflation is judged likely to return to close to the target over the subsequent year. Measures of inflation compensation derived from financial markets have stabilised at around average historical levels, having increased during late 2016 as concerns about a period of unusually low inflation faded.

1.3 Monetary Policy:

On 1 February 2017 the Monetary Policy Committee (MPC) voted unanimously in favour of maintaining the bank rate at 0.25% and re-enforcing its commitment to maintain the Quantitative Easing (QE) programme at £435bn. All Committee members judged it appropriate to leave the stance of monetary policy unchanged. The MPC noted that the path of monetary policy would continue to depend on the evolution of prospects for demand, supply, the exchange rate and therefore inflation. As a result, monetary policy could move in either direction to ensure a sustainable return of CPI inflation to the 2% target.

1.4 Interest Rates

The Council's treasury advisor, Capita Asset Services, has provided forecasts for PWLB rates based on the certainty rate (minus 20 bps), as shown in table on the following page

Interest rate forecast (as per Capita Treasury solutions)

	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019	Jun 2019	Sep 2019	Dec 2019	Mar 2020	Jun 2020
Bank rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%	0.75%
5 yr. PWLB rate	1.40%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%
10 yr. PWLB rate	2.10%	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.70%
25 yr. PWLB rate	2.70%	2.90%	3.00%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%
50 yr. PWLB rate	2.50%	2.70%	2.80%	2.80%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%