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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

The FRB as being hawkish, etc.

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3. Highlight of Indicator for this Month

Concerns loom over not only Brexit, but inflation (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

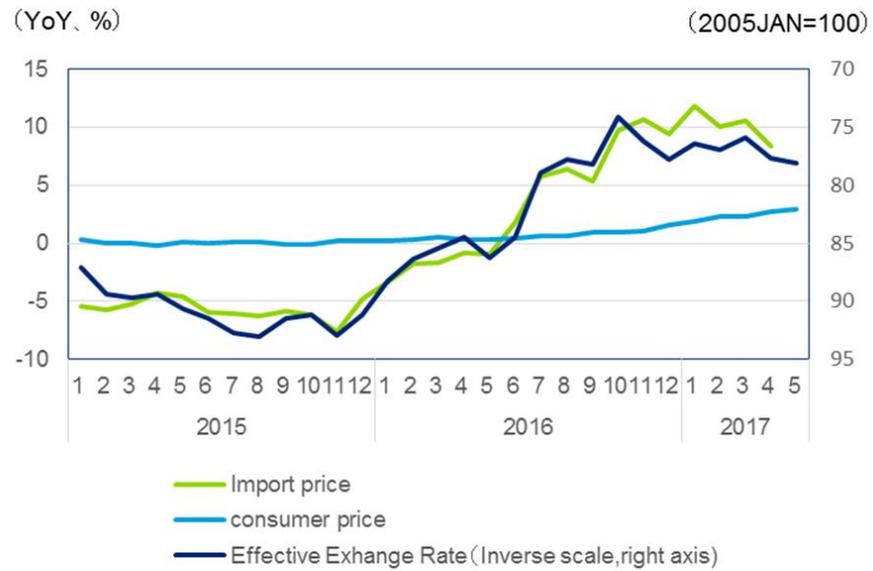
The In the U.K. general election, the Conservative Party led by prime minister May lost the majority seats. Dark clouds are looming over not only Brexit negotiations and domestic politics, but also their future economy.

The impact of GBP depreciation is particularly notable. Recently consumer prices have been increasing more rapidly, such as May consumer price index of +2.9% YoY. This is due to rise in import costs on GBP basis, which is passed through to price standards (Chart 1). In response to these price trends, three members voted for a rate hike at the June Monetary Policy Committee of the Bank of England. Although a prompt rate increase is unlikely given the uncertain economic prospect, the inflation cannot be overlooked.

Moreover, these inflation trends can place downward pressure on consumer spending. GDP in 1Q of 2017 dropped in growth rate from 4Q of 2016 to +0.2% QoQ (Chart 2). The breakdown indicates sluggish growth in household consumption, in addition to a plunge in net trade with growing import and falling export. In the future, consumer spending is likely to suffer more from inflation while export can benefit from GBP depreciation.

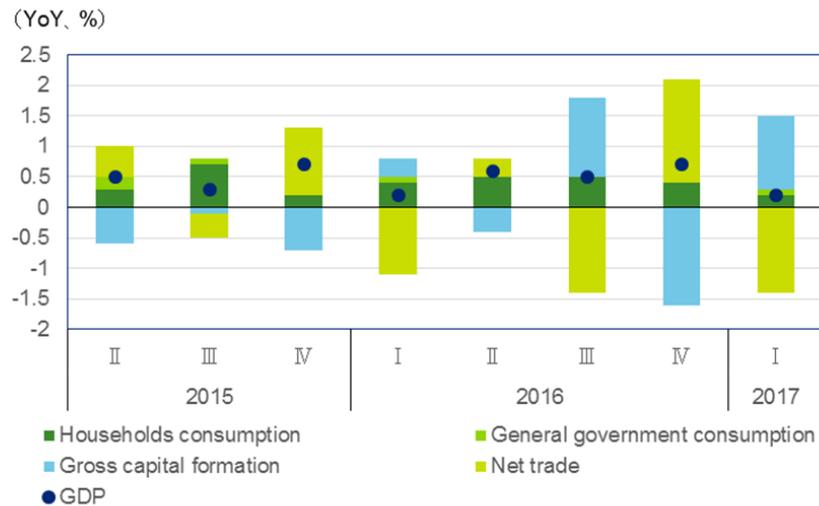
On consumer spending, some predict improvement in 2Q of 2017, given recovering retail sales in April. It is pivotal whether further GBP depreciation will deter consumption since economic stagnation would serve against the current administration.

Chart1 : Trends in Foreign Exchange Rates and Prices



*(Source) Office for National Statistics, Deloitte Touche Tohmatsu LLC.

Chart2 : GDP Growth Rates and Key Components



*(Source) Office for National Statistics, Deloitte Touche Tohmatsu LLC.

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