Major Indicators

	Q3 2016	Q4 2016
UK GDP growth	**0.6% growth**	**0.6% growth**

The Q4 2016 preliminary estimate for GDP shows that UK GDP has grown at 0.6%, the same rate as in Q2 2016 and Q3 2016. In Q4 2016, growth has been primarily driven by a strong performance in Services, which increased by 0.8% (most recent quarter on the previous quarter). Production (0.0% growth), Construction (0.1% growth) and Agriculture (0.4% growth) experienced either no growth or small increases in output from Q3 2016 to Q4 2016. Annual UK GDP growth in 2016 is estimated at 2.0%. This is a slight decrease when compared to 2015, when annual GDP growth was estimated at 2.2%.

	Q3 2016	Q4 2016
Economic Growth Forecasts for 2017		**1.4% growth**

In its November 2016 Economic and Fiscal outlook, the Office for Budget Responsibility forecast UK GDP growth of 1.4% for 2017; this represents a 0.8% reduction versus the March 2016 forecast. In its Overview of the World Economic Outlook, the IMF has projected UK growth in 2017 at 1.5%; this has been revised upwards from the previous projection of 1.1% growth published in October 2016. However, there has been a downward revision for the IMF's prediction for UK growth in 2018; it now predicts growth in 2018 of 1.4%, a -0.3% revision from the prediction in October 2016.

	Q3 2016	Q4 2016
US GDP Growth	**3.5% growth (annualised rate)**	**1.9% growth (annualised rate)**

According to the 'advance' estimate released by the Bureau of Economic Analysis, US GDP increased at an annual rate of 1.9% in Q4 2016. This was reflective of an increase 'in consumer spending, private inventory investment, residential investment, business investment, and state and local government spending.' However, this was 'partly offset by declines in exports and federal government spending'.

	Q3 2016	Q4 2016
Euro Area	**EA 19 0.4% growth** **EU 28 0.5% growth**	**EA 19 0.4% growth** **EU 28 0.5% growth**

According to the preliminary flash estimate released by Eurostat, seasonally adjusted GDP rose by 0.4% in the Euro Area and by 0.5% in the EU28 in Q4 2016. EA19 and EU28 GDP grew at the same rates in Q3 2016. When compared with Q4 2015, GDP rose by 1.7% in the EA19 and 1.8% in the EU28. In Q4 2016, Greece (-0.4%) and Finland (-0.5%) were the only two countries to record a decline in GDP.

UK Output - Sub-sector Trends		
	Q3 2016	**Q4 2016**
Overall Production	**0.4% decrease**	**0.0% growth**
The UK's Index of Production was flat in Q4 2016 after experiencing a decline in Q3 2016. Production has increased by 1.5% when Q4 2016 is compared to a year earlier. Production contributed 0.00 percentage points to the headline GDP figure for Q4 2016.		
Manufacturing	**0.8% decline**	**0.7% growth**
According to the Q4 2016 Preliminary GDP estimate manufacturing grow by 0.7% in Q4 2016 compared with a 0.8% decline in Q3 2016. The growth in Manufacturing was largely attributed to a growth in the pharmaceuticals industry. There were also increases in 'electricity, gas, steam and air conditioning supply' (3.9% increase); and 'water supply, sewerage, waste management and remediation activities' (1.7% increase). However, the decline in mining (6.9% decrease), which was the largest decrease since Q4 2012 (9.2% decrease), offset the growth in the other components.		
Construction	**0.8% decline**	**0.1% growth**
Construction provided a 'negligible positive' contribution to GDP growth in Q4 2016, according to the Q4 2016 preliminary GDP estimate, posting 0.1% growth versus a 0.8% decline in Q3 2016. Overall in 2016, Construction grew by 1.4%, slowing considerably from 2015 when it increased by 4.9%. Construction output has not declined on a yearly basis since 2012.		
Services Overall	**1.0% growth**	**0.8% growth**
The 0.6% overall growth in UK GDP in Q4 2016 was driven by Services, which showed 0.8% growth during the quarter, compared with a 1.0% increase in Q3 2016. Within the Services aggregate, the 'distribution, hotels and restaurants' sector grew by 1.7% in Q4 2016 and 'businesses services and finance industries' increased by 0.9% in the same quarter. However, in Q4 2016 growth in 'transport, storage and communications' was only 0.3% compared to 2.9% in Q3 2016.		

UK Output - Sub-sector Trends		
	Q3 2016	**Q4 2016**
Transport, Storage & Communication	**2.6% growth**	**0.3% growth**

Growth in Transport, Storage and Communication slowed in Q4 2016 to 0.3%, compared with growth of 2.6% in Q3 2016. According to the Q4 preliminary GDP estimate, this slower rate of growth can be attributed to Q3 2016 experiencing a particularly strong performance from the motion picture, computer programming and consultancy industries.

	Q3 2016	Q4 2016
Business Services & Finance	**0.8% growth**	**0.9% growth**

Business Services & Finance was described as having performed 'strongly' in Q4 2016, showing growth of 0.9%. Notably, the travel agency industry grew by 7.3% during the quarter. Overall, Business Services & Finance grew by 2.8% during 2016.

	Q3 2016	Q4 2016
Distribution, Hotels and Restaurants (Catering)	**1.1% growth**	**1.7% growth**

According to the Q4 2016 GDP preliminary estimate, the Distribution, Hotels and Restaurants (Catering) sector performed strongly in Q4 2016, posting growth of 1.7%. It contributed 0.24 percentage points to quarter-on-quarter GDP growth.

	Q3 2016	Q4 2016
Government and Other Services	**0.4% growth**	**0.4% growth**

According to the Q4 2016 GDP preliminary estimate, Government and Other Services has experienced two consecutive quarters of growth at 0.4%. During both quarters, human health activities were the main contributor.

<table>
<tr><th colspan="3">Macro Indicators</th></tr>
<tr><th></th><th>Q3 2016</th><th>Q4 2016</th></tr>
<tr><td>UK Retail Sales</td><td></td><td>Most recent 3 months on previous 3 months: Value 0.8%; Volume -0.4%</td></tr>
<tr><td colspan="3">According to the 'Retail Sales in Great Britain: Jan 2017' bulletin, UK retail sales experienced the first 3 month on 3 month decline in volume (-0.4%) since December 2013. Compared with January 2016, the value of retail sales increased by 3.4% in January 2017. However, between December 2016 and January 2017 the value of retail sales was flat. Online sales accounted for 14.6% of all retail spending in January 2017.</td></tr>
<tr><td>UK Consumer Confidence Index</td><td></td><td>-8 (November 2016)
-5 (January 2017)</td></tr>
<tr><td colspan="3">The overall GfK UK Consumer Confidence Index score increased by 2 points in January 2017. Three of the five measures increased, one remain unchanged and one declined (Major Purchase Index). The General Economic Situation measure increased by 2 points to -24. However, it should be noted that this is 21 points lower than in January 2016. The personal finance measure increased by 3 points to +3, which is 1 point lower than in January 2016.</td></tr>
<tr><td>UK CPI Inflation</td><td>Year to December 2016: 1.6% rise</td><td>Year to January 2017: 1.8% rise</td></tr>
<tr><td colspan="3">According to the UK Consumer Price Inflation Statistical Bulletin, the rate of inflation in the year to January 2017 was at its highest level since June 2014. The bulletin suggests that the main contributors to the recent rise in inflation have been the increasing price of motor fuels and food, although these remained unchanged between December 2016 and January 2017. In December 2016, transport (0.87%) was the biggest contributor to the change in the CPI 12-month rate.</td></tr>
<tr><td>UK Interest Rates</td><td>0.25% (December 2016)</td><td>0.25% (February 2017)</td></tr>
<tr><td colspan="3">The Bank of England's Monetary Policy Committee voted unanimously to maintain interest rates at 0.25%. It is noteworthy that the MPC has in its latest UK economic projections increased its growth forecast in 2017 to 2.0%. Growth in 2018 is expected to be at 1.6%, and 1.7% in 2019.</td></tr>
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<tr><th colspan="3">Macro Indicators</th></tr>
<tr><th></th><th>Q3 2016</th><th>Q4 2016</th></tr>
<tr><td>UK Net Debt</td><td>£1,638.5 billion (September)</td><td>£1,682.8 billion (January 2017)</td></tr>
<tr><td colspan="3">In the financial year to date, UK Public Sector Net Debt (excluding public sector banks) has increased by £91.7 billion compared with January 2016. UK Public Sector Net Debt, which represents the amount of money the public sector owes to UK private sector organisations and overseas institutions, is now equivalent to 85.3% of GDP. According to the Public Sector Finances Bulletin, the increase in net debt is 'largely a result of £58.0 billion of public sector net borrowing over that period plus cash transactions related to acquisitions or disposal of financial assets'.</td></tr>
<tr><td>UK Net Borrowing</td><td></td><td>£49.3 billion (April 2016 to January 2017)</td></tr>
<tr><td colspan="3">According to the most recent Public Sector Finances publication, Public Sector Net Borrowing (excluding public sector banks) decreased by £13.6 billion from April 2016 to January 2017 compared with the same period in 2015/16. This represents the 'lowest year-to-date borrowing since the financial year ending January 2008'.</td></tr>
<tr><td>UK Current Public Sector Budget Deficit</td><td></td><td>£22.1 billion (April 2016 to January 2017)</td></tr>
<tr><td colspan="3">The UK public sector budget deficit (excluding public sector banks) decreased by 45.2% when compared with April to January 2015/16, when the budget deficit stood at £40.3 billion. Between April 2016 and January 2017 the government borrowed £49.3 billion (see above), comprising £22.1bn related to 'day-to-day activities of the public sector' (i.e. the current budget deficit) and £27.2 billion related to capital spending.</td></tr>
<tr><td>Central Government Current Receipts (ONS)</td><td></td><td>£553.7 billion (April 2016 to January 2017)</td></tr>
<tr><td colspan="3">According to the most recent Public Sector Finances publication, Central Government Receipts increased by £28.5 billion when compared with the April to January 2015/16 period. From April to January 2016/7, National Insurance contributions stood at £101.5 billion, an increase of £8.4bn when compared with the same period in 2015/16. VAT receipts totalled £113.1 billion from April to January 2016/17, representing an increase of £4.1 billion when compared with the same period in 2015/6. It should be noted that in January receipts are particularly high because of a large number of self assessed Income Tax, Capital Gains Tax and National Insurance contributions.</td></tr>
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UK Banking Environment	
	Q4 2016
UK Banking Resilience	**The period of uncertainty triggered by the Brexit referendum looks set to continue following the US election. The UK financial system continues to show resilience in the wake of these vulnerabilities.**
The latest Financial Stability Report (issued November 2016) states that the outlook for UK financial stability remains challenging as the UK economy enters a period of adjustment following the EU Referendum. Vulnerabilities in the global environment and financial markets, which were already elevated in Q3 2016, have increased further since July, following factors such as the US election, the increasing reliance of China's growth on rapid credit expansion, financial market fragility, as well as impending elections in some parts of the Euro area. These risks have been reflected in the 2016 stress test of major UK banks which incorporated a severe global downturn. The results showed that the UK banking system remains resilient and is sufficiently capitalised to support the economy.	
UK Gross Bank Lending	**Bank funding conditions have been mixed in Q4 2016**
According to the latest Credit Conditions Review, whilst the availability of secured credit remained unchanged, demand for secured credit for house purchases increased slightly in the three months to mid-December, having fallen significantly in Q3 2016. A slight increase in the availability of unsecured credit was reported in Q4 2016, with an increase in demand from borrowers for credit card and other unsecured lending, such as personal loans. The availability of credit to businesses remains unchanged in comparison to Q3 2016, and although growth in bank lending to UK businesses continued at similar rates to those in the first half of 2016, some softening in the demand for credit by businesses was observed in Q4 2016.	
UK Loan Pricing	**There was mixed news on bank funding conditions in 2016 Q4.**
The Q4 2016 Credit Conditions review reported there was mixed news on bank funding conditions as sterling swap rates rose in Q4 2016, albeit remaining below levels seen at the start of 2016. Set against this, the spreads over relevant reference rates on retail deposits and wholesale funding have been, on average, lower in Q4 2016 than in Q3. In recent discussions, most major UK lenders thought the Bank of England's Term Funding Scheme had contributed towards the fall in wholesale funding spreads. Retail deposit growth slowed, but remained strong relative to recent years. Respondents to the Bank Liabilities Survey also reported an increase in their other funding volumes.	
UK Bond Issuance	
The latest quarterly Asset Purchase Facility report highlighted that nominal gilt yields rose on average by around 36 basis points in Q4 2016. The report explained that 'a significant amount of the gilts purchased via the Facility continued to be made available for on-lending to the market through the gilt lending arrangement with the DMO. Furthermore, it was reported that 'the average daily aggregate value of gilts lent by the APF to the DMO during the three months to 31st December 2016 was £1.1bn.'	

Corporate Level: Investment, Trade and Employment		
	Q3 2016	**Q4 2016**
Deloitte UK CFO Survey (Q4 2016)	**Brexit concerns weigh on corporate risk appetite**	**Optimism returns but risk appetite remains muted**
Business confidence is currently at its highest level for a year and a half, with 28% of CFOs at least somewhat more optimistic about the financial prospects of their company compared with three months ago. However, risk appetite is still subdued, with only 21% of CFOs believing that this is a good time to be taking greater risk onto their balance sheets. It should be noted that in Q2 2016 the figure was 8%. 'The effects of Brexit' and 'weak demand in the UK' are noted as being seen by CFOs as the greatest risks facing their businesses.		
UK Business Investment (ONS)	**£43.8 billion (Q2 2016)**	**£44.0 billion (Q3 2016)**
Between Q2 2016 and Q3 2016, business investment is estimated to have increased by 0.4%. This has been revised down by 0.5% from the earlier estimate of 0.9%. Between Q3 2015 and Q3 2016, business investment was estimated to have decreased from £45.0bn to £44.0bn. This represents a decrease of 2.2%. It has been revised downwards by 0.6% from the previous estimate of a 1.6% decrease.		
UK Trade Position	**£14.1 billion deficit**	**£8.6 billion deficit**
According to the UK Trade Statistical Bulletin, the narrowing of the trade deficit in Q4 2016 was a result of 'an increase in exports of goods to non-EU countries'. The main cause of the narrowing at the commodities level was an increase in exports of 'non-monetary gold, oil and aircraft as well as a decrease in imports of non-monetary gold'. Between Q3 2016 and Q4 2016, the fall in the value of sterling has resulted in export prices increasing by 3.0% and import prices increasing by 2.4%.		
FTSE 100	**6,954.21 9th December 2016 (Closed)**	**7,258.75 10th February 2017 (Closed)**
On January 13th 2017, the FTSE 100 hit an all time high, reaching 7,337.81. This followed a number of record closes in December 2016. Analysis suggests that the fall in the value of sterling has boosted UK shares as many FTSE 100 companies make a significant proportion of their profits outside of the UK.		

Corporate Level: Investment, Trade and Employment		
	Q3 2016	**Q4 2016**
UK Unemployment - % (ONS)	**(July - September 2016) 4.8%**	**(October - December 2016) 4.8%**
According to the 'UK Labour Market Feb 2016' bulletin, from October to December 2016 there were 31.84 million people in work in the UK. That is an increase of 37,000 when compared with July to September 2016 and 302,000 more than in the same period in 2015. In the period October to December 2016, a total of 1.6 million people were unemployed. However, the employment rate in the same period was 74.6%, which is 'the highest since comparable records began in 1971'.		
UK Job Creation - CIPD quarterly Labour Market Outlook (LMO)	**Net Employment Balance: +22 (Autumn 2016)**	**Net Employment Balance: +23 (Winter 2016-17)**
The LMO shows that 68% of employers plan to hire staff in Q1 2017. The public sector has the highest recruitment intensions at 85%. However, only 62% of private sector employers plan to hire in Q1 2017, this having decreased from 70% last Autumn. 22% of employers plan to carry out redundancies in Q1 2017, with this down slightly from 24% in the Autumn. 35% of public sector employers plan to carry out redundancies in Q1 2017 compared with 16% in the voluntary sector and 19% in the private sector.		
ICAEW Business Confidence Monitor (BCM)	**-9.8 Q4 2016**	**-8.7 Q1 2017**
The ICAEW Business Confidence Monitor for Q1 2017 shows that while business confidence remains in negative territory, it has improved since the post Brexit referendum low of -10.2 in Q3 2016. The ICAEW notes that confidence has probably been helped by the decline in the value of sterling, helping to improve the competitiveness of UK companies in global markets.		

Private Equity Data		
Standard Life and Unquote Barometer European PE Buyout Figures	**160 buyouts worth €29.37bn (Q2 2016)**	**144 buyouts worth €21.7bn (Q3 2016)**
According to the Standard Life and Unquote Barometer, there was a 10% decline in the number of buyout deals between Q2 2016 and Q3 2016. In terms of value, there was a 26.1% decline between Q2 2016 and Q3 2016. However, the mid-market experienced an increase of 13% (volume) and 20.4% (value) in Q3 2016. The UK (6 fewer deals), Switzerland (4 fewer deals) and the Netherlands (9 fewer deals) all reported declines in quarterly deal volume. Spain, on the other hand, experienced a 10-quarter high of 11 buyouts.		
CMBOR - European Buyout Figures	**467 buyouts worth €31.0bn (H1 2016)**	**919 buyouts worth €60.4bn (Full Year 2016)**
According to CMBOR, after strong activity in 2015, European buyout activity declined by value and volume in 2016. CMBOR notes that the fall in energy prices and the UK referendum on membership of the European Union have created 'cautious market conditions'. The number of buyouts declined from 978 in 2015 to 919 in 2016, while the exit value of buyouts fell from €162.0 billion in 2015 to €102.0 billion in 2016.		
CMBOR - UK Buyout Figures	**308 buyouts - £10bn (up to end of Sept 2016)**	**398 buyouts worth £11.9bn (Full Year 2016)**
The CMBOR fourth quarter UK Buyout report explains that the UK has 'struggled against the uncertain economic outlook created by the decision in June to leave the EU'. In 2015 there were 22 buyouts valued at over £250 million, but in 2016 this declined to 8. Overall, between 2015 (424 buyout deals) and 2016 (398 buyout deals) there was a 6% reduction in the total number of buyout deals in the UK.		
Dow Jones - European Venture Capital Investment	**(Q3 2016) 494 deals raised €2.17bn**	**(Q4 2016) 539 deals raised €2.93bn**
According to the Dow Jones European Venture Capital Report, in Q4 2016 there was a 35% increase in the amount of capital invested in European venture and a 9% increase in the number of deals completed compared with Q3 2016. By value, Information Technology led the way in Q4 2016, with €866.41 million invested; by volume, Business and Financial Services was the most active sector, with 143 transactions completed. Scottish Equity Partners' SEP V fund was the largest vehicle raised in Q4 2016. At €307 million it accounted for 19% of the total amount raised in Q4 2016.		

Private Equity Data		
MergerMarket Monthly M&A Insider	**18,039 deals worth US$4tn (Full Year 2015)**	**17,369 deals worth US$3.2tn (Full Year 2016)**
According to the full year 2016 MergerMarket M&A Insider, deal volume and value declined during the year compared with 2015. In terms of M&A value, North America ranked highest, with transactions worth US$1.5 trillion, or 47.8% of the global total. However, by volume, 6,756 transactions were completed in Europe during 2016, the largest number in any one region and comparing with 5,585 deals in North America. In 2016, the Energy, Mining and Utilities sector saw the highest overall deal value, at US$608.5 billion, driven by 11 mega deals (deals individually worth more than US$10 billion).		
Preqin - Global Private Equity Fundraising	**945 funds closed $329bn aggregate capital raised (Full Year 2015)**	**830 funds closed $347bn aggregate capital raised (Full Year 2016)**
The 2017 Preqin Global Private Equity and Venture Capital Report suggests that as more data becomes available the level of fundraising in 2016 is likely to exceed the total of $348 billion seen in 2014. This would represent 'the largest amount of capital raised since the GFC'. Preqin suggests that the decline in the number of funds that closed in 2016 compared with 2015 (12% decline) is representative of the 'continued trend towards greater concentration of capital among fewer funds'. This has resulted in an 'all-time high' average fund size of $471m.		

If you would like to discuss any of the information in this edition in more detail or are interested to hear about the work that Arbor Square undertakes for private equity firms and industry advisors, please don’t hesitate to get in touch on (0)20 7096 5017.