



Kallum Pickering, Senior UK Economist | Kallum.pickering@berenberg.com | +44 203 465 2672

UK: PMIS SIGNAL FASTER GROWTH IN Q4

Berenberg Macro Flash

The UK seems to have escaped its early 2017 soft patch. Robust PMI data in the final quarter of 2017 supports our call that real GDP growth probably picked up towards the end of last year. The composite PMI rose to 55.2 in Q4, up from 54.1 in Q3 and the highest reading since Q4 2016. Both the services and manufacturing sectors benefited from stable gains in domestic demand and building global momentum. After a lull in real GDP growth, with just 0.3% qoq in Q1 and Q2 of 2017, growth accelerated to 0.4% qoq in Q3, and likely picked up again in Q4 to 0.5% - see Chart 1.

2017, not such a bad year after all. The UK economy probably expanded by 1.8% yoy in 2017. While this is below the 2% annual average for the post-Lehman period, it is probably at, or even a little above, what the UK can manage on trend outside of the EU. To be fair, relative to the market's very depressed growth expectations for 2017 following the Brexit vote in 2016, the UK did much better than expected last year. That is, however, not to say that Brexit did not hurt. Growth in the US and the Eurozone, the UK's major trading partners, accelerated to well above the average of recent years. The uncertainty from Brexit prevented the UK from fully enjoying the tailwind from the synchronised global upswing. Without Brexit, the UK economy would have expanded by at least 2.5% last year.

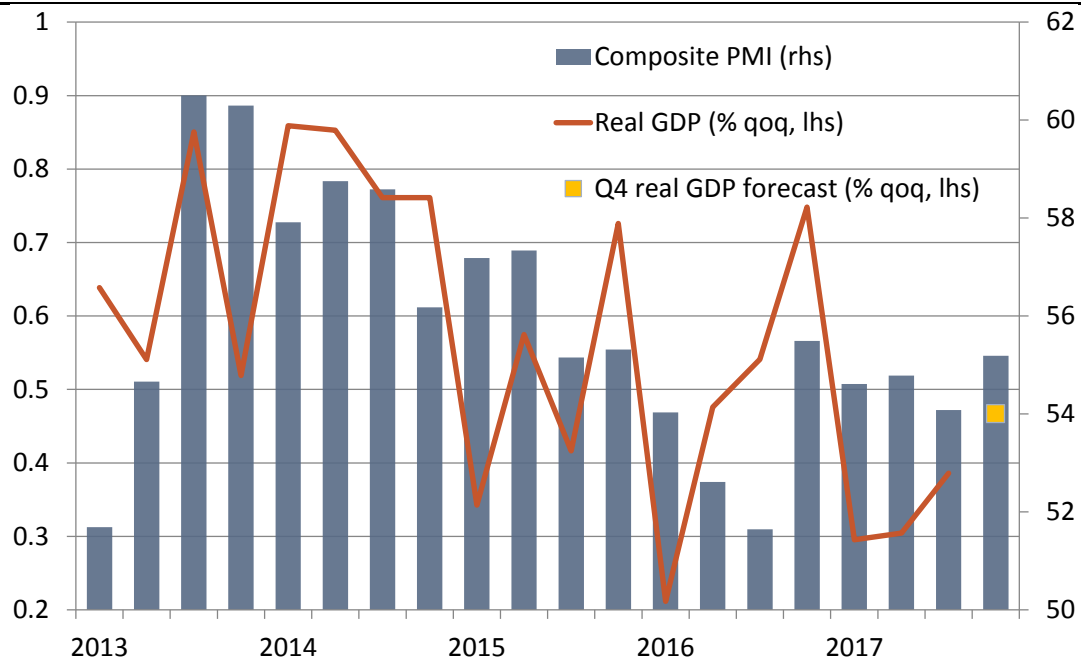
Upside risks to the 2018 outlook. We expect real GDP growth to remain stable at 1.8% in 2018. As in 2017, the UK looks set to stay close to the bottom of the G7 growth league as the other major advanced countries grow well above their own potential rates again. However, with the risk of a hard Brexit falling compared to last year - we currently see a 20% chance of a hard Brexit - less uncertainty tilts risks to the outlook to the upside. If UK firms, households and markets become less worried about the risk that the UK could crash out of the EU in March 2019 without an agreed framework for future trade with the EU, they will act with less risk aversion. There is thus a modest chance that spending and investment could beat to the upside.

For our latest global outlook, which details our major calls for the next two year, please see [Global outlook 2018: coping with the boom](#).



MACRO NEWS

Chart 1: Composite PMI data suggest real GDP growth accelerated in final quarter of 2017



Quarterly data. Composite PMI (manufacturing +services). Source: Markit/CIPS, ONS, Berenberg calculations. A PMI above 50 signals growth.

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Joh. Berenberg, Gossler & Co. KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7859
www.berenberg.com
florian.hense@berenberg.com