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UK: SOLID Q1 GDP DESPITE SOME BREXIT RELATED ONE-OFFS

Berenberg Macro Flash

UK real GDP, qoq %, Q1 2019

Actual:	0.5
Previous:	0.2
Consensus:	0.5
Berenberg:	0.5

Strong rebound at the start of 2019: In line with the pick-up in momentum in the US and across major parts of Europe, **UK real GDP growth accelerated to 0.5% qoq in Q1 2019 after the soft 0.2% in Q4 2018.** The UK economy was 1.8% bigger in Q1 2019 than a year ago. Nominal GDP growth advanced to 1.0% qoq from 0.7%. The strong **performance bucks the trend implied by much of the soft data** including the composite PMI which signalled a further loss of momentum at the start of the year following the subdued end to 2018. In the age of Brexit, however, such indicative data no longer track the official output data as well as before. Digging through the data, two points are most noteworthy: (1) **household demand grew at a solid rate**, underpinned by healthy fundamentals; but (2) **there was less precautionary stockpiling - in case of a hard Brexit on March 2019 - than the survey data had indicated.** Of course, this might be partly reflected in the surge in imports.

Real consumption remained buoyant in Q1 despite softer consumer confidence linked to increased anxieties about Brexit. Real household consumption expanded by a strong 0.7% qoq, the fastest rate of growth since Q1 2017. The robust spending growth suits our long standing positive view about UK consumption, against a general pessimism by the market overall. Consumer fundamentals are in great shape. The labour market is solid – real wages are on the up and labour demand is at a record high. Household net-worth is at a near-record high and credit conditions are easy.

Panic stockpiling – not so much: Despite the record jump signalled by survey data, stockpiling continued to rise at only a moderate pace in Q1 - even as firms stepped up their preparations for the potential worst-case scenario of a hard Brexit on 29 March – Chart 1. The latest Brexit delay until the end of October now sets that risk back by six months. As a result, the stockpiling that added to GDP growth in recent quarters may be partly unwound in Q2 with the risk of a sharp rise again in Q3 if the hard Brexit risk still remains a prospect by then. Stockpiling trends may exacerbate the usual volatility in the quarterly trend in GDP growth this year and **could** act as a modest drag on production over the medium term if the UK **dodges** the hard Brexit risk **and** emergency stockpiles are gradually run down. Nevertheless, on the back of a Brexit deal, we would expect stronger consumption and investment growth to more than compensate for any drag from drawing down inventories again. For consumers, occasional stockpiling of some goods ahead of the initial 29 March Brexit day probably played only a small role in the Q1 data.



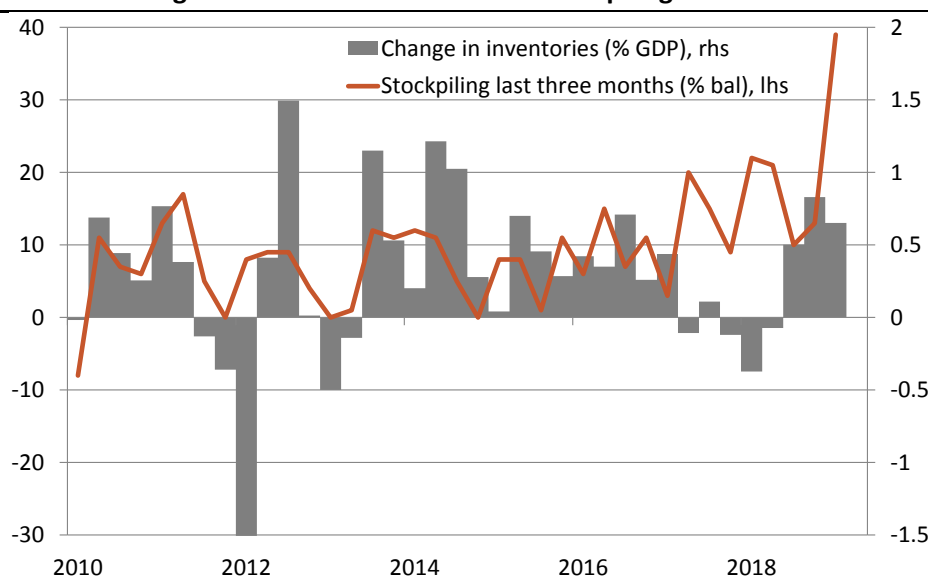
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Surprise rebound in business investment: The broadest measure of investment, real gross fixed capital formation (GFCF), grew by 2.1% qoq in Q1 – although this is partly due to one-off factors (see below). Whereas real business investment rebounded by 0.5% in the first quarter, it remained 2.0% below the 2017 Q4 peak – Chart 2 – and well below comparable trends in consumption. Business investment declined in each quarter of 2018 as Brexit fears completely [sapped business appetite to step up productivity-enhancing capital investment](#), despite major parts of the economy running at near-capacity.

Net-trade drags: Partly to beat the potential tariffs on French wine and Italian cheese ahead of Brexit, UK imports jumped by 6.8% in Q1 2019 compared to Q4 2018, the fastest growth since 2015 Q1. Exports were flat on the quarter. However, the ONS reports notable one-off factors impacting trade and GFCF in Q1, ‘There have been some notable movements in imports of unspecified goods in the first quarter of 2019. These unspecified goods include non-monetary gold (NMG) and account for the large and offsetting impacts to gross capital formation and net trade’. [The ONS has written at length on this issue.](#)

Positive outlook: On the back of a Brexit breakthrough in Q2, the UK economy would likely rebound nicely in the second half of 2019, driven by stronger investment, consumption and confidence, with sustained gains in 2020. [We forecast GDP growth of 1.5% in 2019 and 2.1% in 2020.](#) If there is no resolution soon – and, thus, prolonged uncertainty and the risk of a hard Brexit continues into H2 – economic momentum will remain subdued as markets and firms will continue to fret about the risk of a hard Brexit.

Chart 1: Change in inventories as % GDP vs. stockpiling

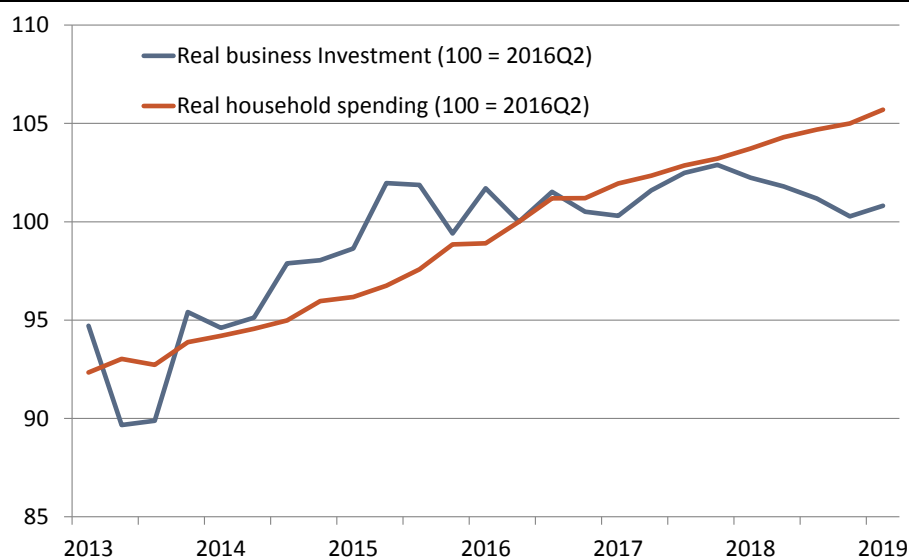


Quarterly data. Source: ONS, CBI. Survey data on stockpiling delayed one quarter - Q2 19 stockpiling data is aligned with Q1 19 change in inventories data.



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Chart 2: Real household spending vs. business investment



Quarterly data. Source: ONS.

Table 1: GDP by expenditure	% qoq, sa						% yoy, sa		
	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2016	2017	2018
Real GDP	0.4	0.1	0.4	0.7	0.2	0.5	1.8	1.8	1.4
Nominal GDP	1.0	0.7	0.7	1.1	0.7	1.0	3.9	4.1	3.3
Private Consumption	0.3	0.5	0.5	0.3	0.3	0.6	3.1	2.1	1.7
Government Consumption	0.0	0.2	-0.4	-0.1	1.3	1.4	0.8	-0.2	0.4
Gross investment	0.7	-0.8	-0.6	0.9	-0.6	2.1	2.3	3.5	0.2
Business investment	0.4	-0.6	-0.4	-0.6	-0.9	0.5	-0.2	1.5	-0.4
Final Domestic Demand	1.0	0.7	1.1	1.4	0.7	2.6	4.0	3.8	3.7
Exports	0.1	-1.3	-1.0	0.9	1.6	0.0	1.0	5.6	0.1
Imports	-0.6	-0.6	0.4	0.7	2.1	6.8	3.3	3.5	0.7
GDP deflator	2.1	1.9	2.1	2.0	1.7	1.6	2.1	2.2	1.9

Source: ONS

Table 2: GDP by sector	% qoq, sa						% yoy, sa		
	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2016	2017	2018
Services	0.3	0.4	0.6	0.6	0.5	0.4	1.0	1.8	0.8
Industrial production	0.7	0.1	-0.6	0.6	-0.8	1.4	4.1	7.1	0.3
Construction	0.3	-1.5	0.6	1.8	-0.6	1.1	1.9	2.1	1.8
Farming and fishing	-0.2	-2.1	-0.9	-0.1	0.7	-1.8	-5.6	3.0	-2.3

Source: ONS



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