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## UK Q3 GDP REBOUND, FUTURE HINGES ON POLITICS

### Berenberg Macro Flash

#### UK real GDP, qoq %, Q3 2019

Actual:	0.3
Previous:	-0.2
Consensus:	0.4
Berenberg:	0.3

**Wobbly at a very subdued trend:** A rebound in exports, stable gains in household consumption, and a continued pickup in government spending lifted the UK economy out of its Q2 slump. Real GDP growth expanded by 0.3% qoq in Q3, in line with our projection but a little below consensus (0.4%). The rebound follows the 0.2% contraction in Q2. Intensifying Brexit uncertainties over the last three years have gradually eroded the UK's underlying growth momentum. After averaging 0.6% in 2015, the average quarterly pace of growth has slowed each year since then. Down from 0.38% in 2018, the quarterly pace has slowed to 0.22% for the first three quarters of 2019 – barely half of the UK's potential rate (0.4%). The slowdown highlights the pains of political uncertainties linked to Brexit and the upcoming general election on 12 December. Despite the rebound in real GDP, at 0.5%, the quarterly pace of nominal GDP growth was the slowest of the year so far. The UK's best chance of a sustained economy recovery rests on the Conservatives winning a majority in just over four weeks time before delivering an orderly Brexit on 31 January.

#### Key takeaways:

- **Modest gains in real consumption:** Despite solid annual gains of c2.0% yoy in real wages, softer consumer confidence linked to increased anxieties about Brexit is hurting household demand. Following a small 0.1ppt uptick, real household consumption expanded by 0.4% qoq – slightly below the three year average of 0.5% qoq. Consumer fundamentals are in good shape and the labour market is firm. Household net-worth is at a near-record high and credit conditions are easy. If political risks can fade a little, household spending can underpin a healthy rebound in domestic demand.
- **Uncertainty hurts business investment:** The broadest measure of investment, real gross fixed capital formation (GFCF), contracted by 0.2% qoq in Q3 after falling by 0.9% in Q2. Real business investment was flat on the quarter. Compared to Q2 2016, before the Brexit vote, business investment was up just 0.4%. Versus the pre-referendum trend, business investment was down c16%. A recent surge in government spending – the first phase of the planned fiscal stimulus – continued to partly offset the weakness in investment (Chart 2).
- **Uptick in exports:** Exports rebounded by 5.2% qoq after contracting by a sharp 6.6% in Q2. The gains in exports outpaced the much smaller 0.8% rise in imports after the huge 13.0% drop in Q2. Despite generally weak global demand for industrial products goods exports grew by 5.0%, reflecting gains in machinery and transport equipment and chemicals.
- **Surprise dip in stockpiling:** Ahead of the potential hard Brexit on 29 March 2019 firms had built up stocks equivalent to 1.1% of GDP in Q1. With Brexit still unresolved firms held on to their elevated stock piles in Q2. Surprisingly, however, despite the risk of a hard Brexit on 31 October, firms cut back on stocks equivalent to 1.0% of GDP in Q3. Whether firms will rebuild them in Q4 while awaiting the election outcome remains to be seen. Stockpiling trends linked to Brexit have exacerbated the usual volatility in the quarterly trend in GDP growth this year. The volatility in trade this year is partly linked to the ups and downs in stockpiling.

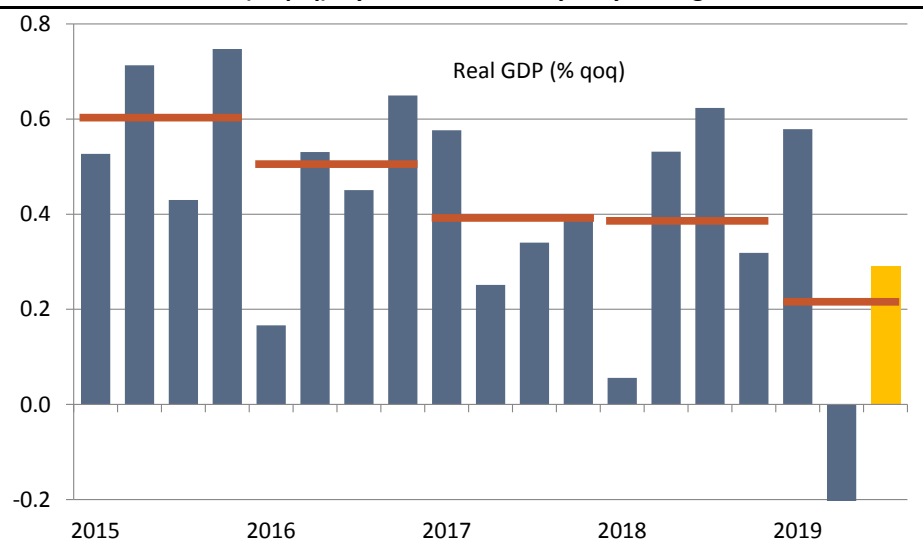
*For a full breakdown of the Q3 GDP data – including by major sector - see Tables 1 and 2 below.*



## MACRO NEWS

**Election outlook:** [Polling suggests that current Prime Minister Boris Johnson \(Conservative\) will likely win a majority on 12 December \(Chart 3\)](#). For two reasons, this outcome would be positive for the medium-term UK economic outlook: 1) it would put the UK on the path to an orderly Brexit on 31 January 2020; and 2) it would do away with the risk that Labour leader Jeremy Corbyn could ever become prime minister and damage the UK with left-wing economic policies. If our base case prevails, rising confidence and reduced uncertainty can underpin a rebound in domestic demand growth. [We look for GDP growth to pick up to 1.8% in 2020 from c1.3% this year, before rising to 2.1% in 2021](#). The risks to this call are twofold: 1) if the global economy fails to recover from its current soft-patch; and 2) if the general election ends in either hung parliament or with a Labour majority – thereby extending the period of damaging Brexit uncertainty while adding to the domestic political uncertainties.

**Chart 1: UK real GDP (% qoq) – yellow lines show yearly average**

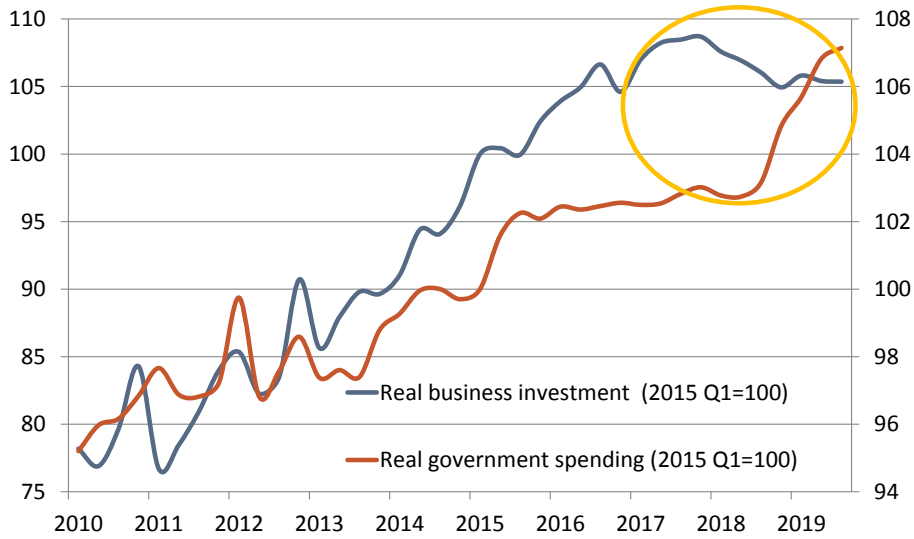


Quarterly data. Source: ONS

**Chart 2: Government spending versus business investment**

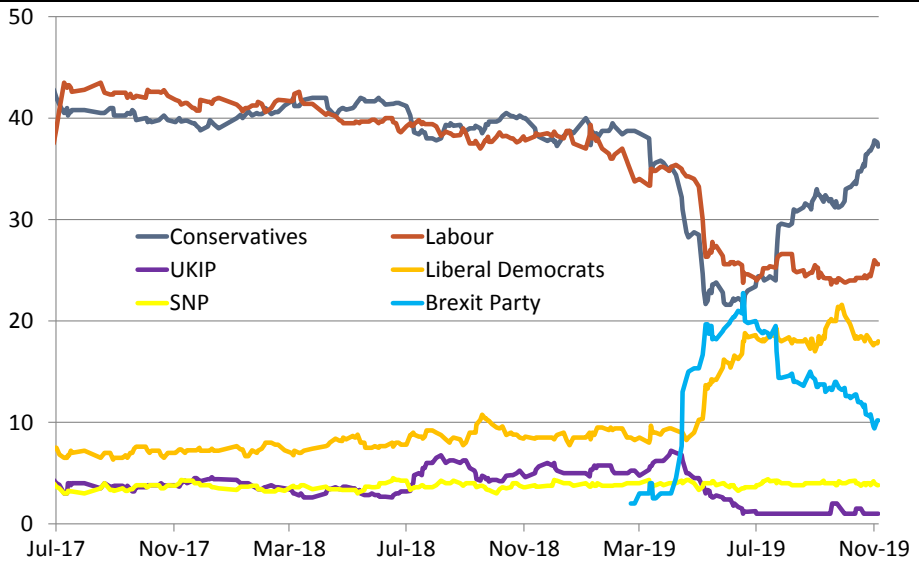


# MACRO NEWS



Quarterly data. Source: ONS

**Chart 3: UK opinion polls (next general election)**



Three-poll moving average. 8 June 2017 election results: Conservatives (42.4%), Labour (40.0%) LD (7.3%), SNP (3.1%) and UKIP (1.8%). SNP: Some data points include Plaid Cymru. Source: National polls.



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**Table 1: GDP by expenditure**

	% qoq, sa						% yoy, sa		
	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	2016	2017	2018
Real GDP	0.5	0.6	0.3	0.6	-0.2	0.3	1.9	1.9	1.4
Nominal GDP	0.9	1.2	0.5	1.2	0.7	0.5	4.1	3.8	3.3
Private Consumption	0.5	0.3	0.2	0.3	0.3	0.4	3.6	2.2	1.6
Government Consumption	0.0	0.4	1.6	0.8	1.1	0.3	1.0	0.3	0.6
Gross investment	-0.4	0.5	-0.1	0.9	-0.9	-0.2	3.6	1.6	-0.1
Business investment	-0.6	-0.8	-1.0	0.8	-0.4	0.0	4.3	2.9	-1.6
Final Domestic Demand	1.9	0.4	0.7	3.3	-1.3	-0.4	4.3	3.4	3.4
Exports	-2.6	3.4	0.5	1.6	-6.6	5.2	2.7	6.1	-0.9
Imports	0.4	0.9	2.8	10.3	-13.0	0.8	4.4	3.5	0.7
GDP deflator	2.0	2.5	1.6	1.7	2.3	2.0	2.1	1.8	1.9

Source: ONS

**Table 2: GDP by sector**

	% qoq, sa						% yoy, sa		
	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	2016	2017	2018
Services	0.9	0.6	0.6	0.4	0.1	0.4	1.2	1.7	0.2
Industrial production	-0.8	0.6	-0.8	1.1	-1.8	0.0	3.9	6.5	-0.4
Construction	0.8	1.1	0.2	1.6	-1.2	0.7	2.0	1.7	2.1
Farming and fishing	-1.0	-0.3	0.8	-1.5	-0.4	-0.2	-5.5	5.7	-4.0

Source: ONS

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