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## MACRO NEWS

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### UK GDP: SOFT START TO Q4 AS POLITICAL RISKS TAKE A TOLL

#### Berenberg Macro Flash

##### UK real GDP, mom %, Oct 2019

Actual:	0.0
Previous:	-0.1
Consensus:	0.1
Berenberg:	0.1

**Big risks weigh on economic activity:** Real GDP flat-lined in October following the 0.1% mom contraction in September. UK growth remains well below potential. On a 3m/3m basis real GDP was flat, compared to a post-EU potential rate of c0.4% qoq. Three factors suppressed economic activity at the start of the fourth quarter:

- 1) the ongoing global downturn in trade and industrial production caused by depressed business confidence stemming from the ongoing US-China trade skirmish;
- 2) as Brexit remains unresolved, the economic uncertainty about the future UK-EU relationship; and
- 3) political uncertainty linked to the upcoming UK election and the risk that Labour leader Jeremy Corbyn could come to power and damage the UK economy with his far-left policy agenda.

**Mixed picture across sectors:** Despite softer consumer confidence in recent months, household fundamentals remain robust. Healthy gains in real wages (up 1.9% yoy in September) and high employment continue to support demand in domestic-oriented industries even as softer foreign demand weighs on external-facing sectors. Domestic-oriented services expanded by 0.2% mom in October – in line with the average since January 2018 – and by 0.2% on a 3m/3m basis. Export-oriented industrial production remained weak. Output nudged up by just 0.1% in October following a 0.3% fall in September and a 0.7% drop in August. On a 3m/3m basis, industrial production declined by 0.7%. Output in the typically volatile construction sector collapsed in October (-2.3% mom, -0.3% 3m/3m).

**Policy uncertainty makes for worst year in a decade:** We look for real GDP to expand by just 0.2% qoq in Q4, down from 0.3% in Q3. That would put headline real GDP growth at c1.3% for 2019 – the weakest year since 2009 (during the financial crisis) when the economy contracted by 4.2%. By comparison, real GDP expanded by 1.5% per year in 2011 and 2012 during the worst years of the euro crisis. The softer-than-expected start to Q4 suggests some downside risk to our Q4 call.

**A chance to stop the rot:** On Thursday, UK voters will head to the booths for the third time since 2015. Prime Minister Boris Johnson and the Conservative Party look set to win a majority of seats in the House of Commons. If that happens, [expect medium-term UK economic growth to pick-up](#) to 1.8% in 2020 and to 2.1% in 2021 lifted by improving confidence (no hard Brexit and no Corbyn) and a fiscal stimulus.



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	Oct-19	Sep-19	Aug-19	Jul-19	Jun-19	May-19
GDP (mom %)	0.0	-0.1	-0.2	0.3	0.1	0.2
3m/3m %	0.0	0.3	0.2	0.1	-0.2	0.1
Services (mom %)	0.2	0.0	-0.1	0.3	0.2	0.1
3m/3m %	0.2	0.4	0.4	0.3	0.1	0.2
Industrial production (mom %)	0.1	-0.3	-0.7	0.1	0.1	1.1
3m/3m %	-0.7	0.0	-0.5	-0.7	-1.8	-0.3
Construction (mom %)	-2.3	-0.2	0.1	1.3	-1.1	0.1
3m/3m %	-0.3	0.6	-0.3	-1.1	-1.2	0.3

*All data in real terms. Source: ONS*

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