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

UK: REBOUND AHEAD AFTER FLAT Q4

Berenberg Macro Flash

UK real GDP, qoq %, Q4 2019

| | |
|------------|-----|
| Actual: | 0.0 |
| Previous: | 0.5 |
| Consensus: | 0.0 |
| Berenberg: | 0.0 |

Flat Q4 finishes off another weak year: A host of factors weighed on UK economic activity in the final quarter of 2019. At home, the 12 December snap election cast uncertainty about the outlook for Brexit and brought-forward the tail risk that Labour leader Jeremy Corbyn could become prime minister and damage the economy with his far-left economic policies. Abroad, the noisy US-China trade negotiations and downturn in global trade and manufacturing further added to business and household anxieties. The ONS estimates that real GDP stagnated in the final quarter, in line with our estimate and consensus. Following slight upward revisions to Q2 and Q3 2019 data, the ONS reports that real GDP expanded by 1.4% in 2019, up slightly from the post-Lehman low of 1.3% in 2018 – Tables 1 and 2. Given the unusually high risks facing businesses and households in 2019, the 1.4% gain is respectable. While it is far below the solid 2.1% rise for the US, it exceeded other major advanced economies (Japan 1.1%, Germany 0.5% and France 1.2%).

Key takeaways:

- **Soft real consumption:** Despite strong annual gains of 1.7% yoy in real wages in Q4, softer consumer confidence weighed on household demand. Real household consumption expanded by a mere 0.1% qoq in Q4 2019, the slowest rate since Q4 2018 and well below the three year average of 0.5% qoq.
- **Business investment collapsed:** The broadest measure of investment, real gross fixed capital formation (GFCF), contracted by 1.6% qoq in Q4 after rising by 0.3 % in Q3. Real business investment dropped by 1.0% on the quarter. Versus the pre-referendum trend, business investment was down 15% (Chart 1).
- **Uptick in exports partly reflects unusual factors:** Exports gained 4.1% qoq after rising by 5.9% in Q3. The ONS notes that *'trade imports and exports have been volatile through 2019, in part reflecting the effects of movements of "unspecified goods", which include non-monetary gold. Today's estimates show that the UK posted a trade surplus of £5.9 billion – or 1.1% of nominal GDP – in Quarter 4 2019. However, it should be noted that this figure is inclusive of precious metals. When precious metals are excluded, today's estimates show that the UK had a trade deficit of 1.2% of nominal GDP in the latest quarter'*
- **Small rebound in December:** The monthly GDP estimate shows that real GDP expanded by 0.3% in December 2019, correcting the 0.3% contraction in November. The monthly uptick reflected modest gains in domestic-oriented services (+0.3%) and construction (+0.4%) with only a slight gain for export-oriented industrial production (+0.1%) – Table 3.



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Survey data point to a sharp rebound in activity since the election: A range of surveys show that confidence and expected activity have ticked up sharply following the sweeping election win for Prime Minister Boris Johnson and the Conservative Party – Chart 2. Along with the recent jump in the composite PMI in January to 53.2 (the highest since September 2018 and up from 49.3 in December) the Deloitte Q4 2019 CFO survey (taken after the election) showed a surge in confidence to the highest in the survey’s history. The CBI quarterly industrial trends survey also reported the highest level of optimism since the second quarter of 2014.

Rebound ahead: While the risk of a disorderly Brexit at the end of the year will remain a worry for markets, households and businesses, the election has tilted the balance of factors that will determine the medium-term path of GDP to the upside. Three positive factors can underpin an economic rebound from 1.4% in 2019 to 1.7% in 2020 and 2.1% in 2021 – Chart 3:

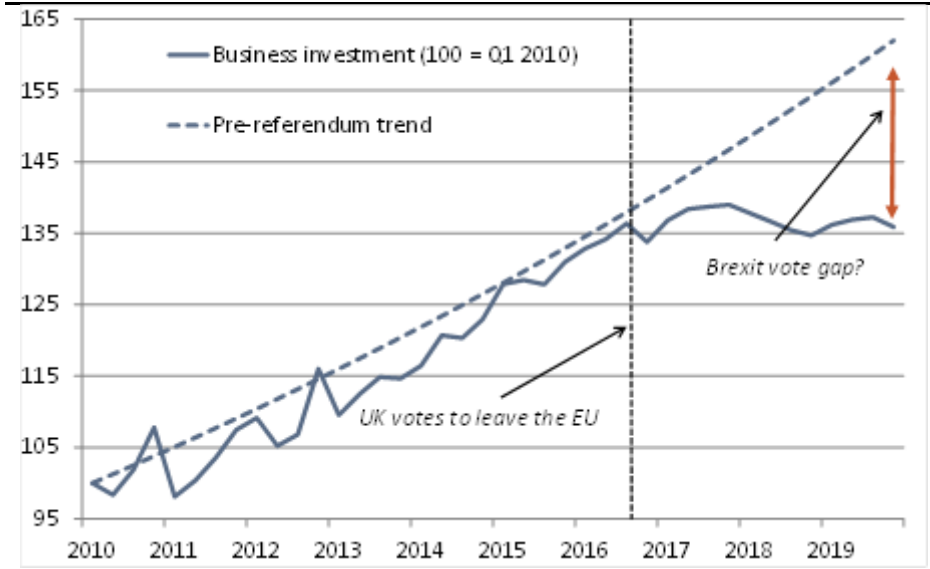
- 1) A recovery in global demand that lifts output in export-oriented industries. Forward looking industry surveys suggest the 2019 downturn has started to bottom out and that the economy could recover by spring.
- 2) Stronger household confidence can underpin a pick-up in real consumption growth, supported by solid real wage gains (+1.5% yoy for 2020) and healthy balance sheets (net-wealth is at a record high). Facing fewer political risks at home, consumers should now have the confidence to spend more.
- 3) Stimulative fiscal policies can reinforce the uptick in private spending. Johnson has already legislated for the fastest growth in day-to-day government spending in 15 years. Expect a major step up in investment spending at the upcoming budget on 11 March. Fiscal stimulus could contribute 0.7ppt to headline GDP growth in 2020 and 0.3ppt in 2021.

For a detailed overview on our key UK calls see [‘UK outlook 2020: the critical issues’](#)



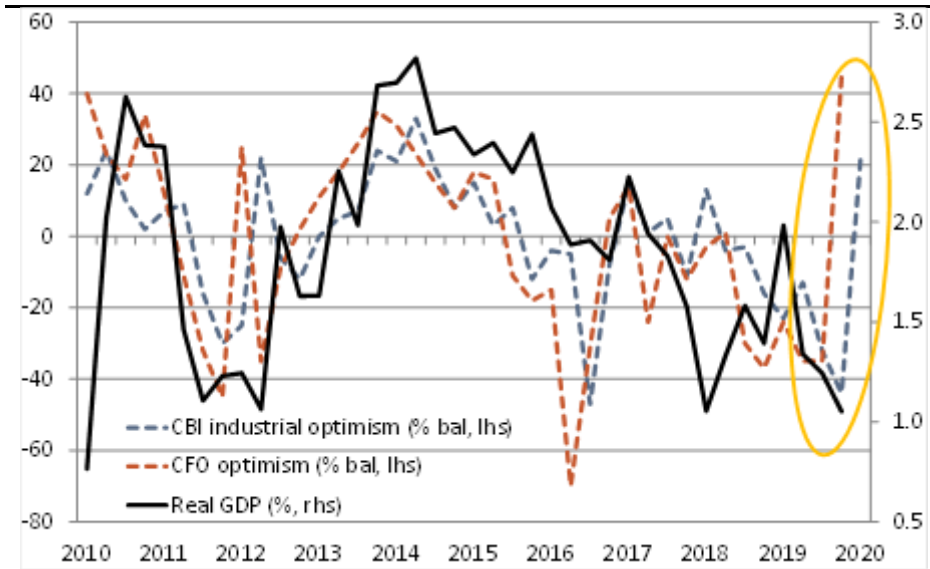
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Chart 1: Stalled business investment since the June 2016 EU referendum



Quarterly data. Source: ONS, Berenberg

Chart 2: Recent survey data point to rebound in real GDP growth

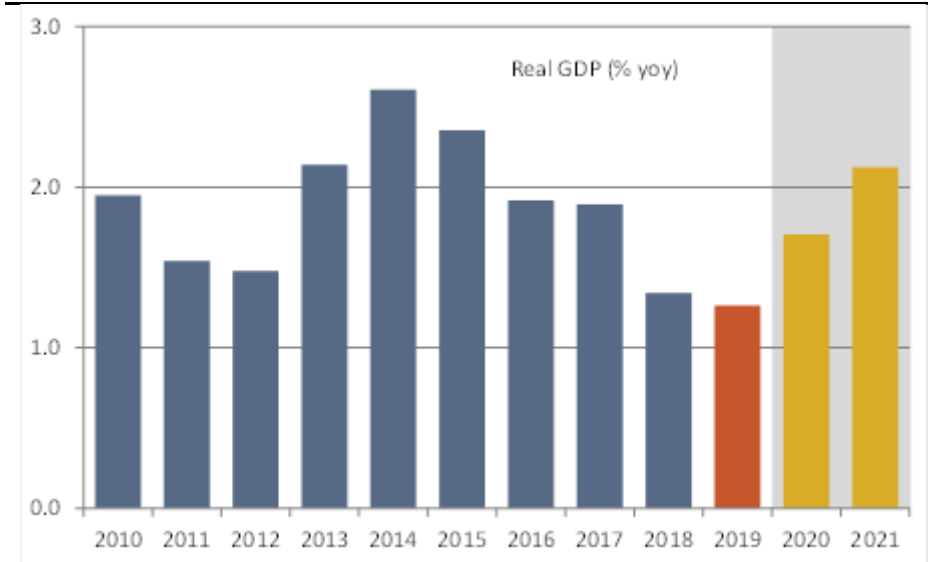


Quarterly data. Source: Deloitte, CBI, ONS.



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Chart 3: Real GDP (% yoy), shaded area shows Berenberg forecasts



Annual data. Source: ONS, Berenberg

Table 1: GDP by expenditure

| | % qoq, sa | | | | | | % yoy, sa | | |
|------------------------|-----------|------|------|-------|------|------|-----------|------|------|
| | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2017 | 2018 | 2019 |
| Real GDP | 0.6 | 0.2 | 0.6 | -0.1 | 0.5 | 0.0 | 1.9 | 1.3 | 1.4 |
| Nominal GDP | 1.1 | 0.4 | 1.3 | 0.4 | 0.9 | 0.1 | 3.8 | 3.5 | 3.3 |
| Private Consumption | 0.4 | 0.1 | 0.3 | 0.5 | 0.4 | 0.1 | 2.2 | 1.6 | 1.3 |
| Government Consumption | 0.6 | 1.3 | 0.6 | 1.3 | 0.3 | 2.1 | 0.3 | 0.4 | 3.6 |
| Gross investment | 0.3 | -0.1 | 1.1 | -0.5 | 0.3 | -1.6 | 1.6 | -0.2 | 0.4 |
| Business investment | -0.9 | -0.6 | 1.1 | 0.5 | 0.2 | -1.0 | 2.9 | -1.5 | 0.3 |
| Exports | 2.3 | -0.3 | 1.1 | -3.0 | 5.9 | 4.1 | 6.1 | 1.2 | 3.7 |
| Imports | 0.8 | 2.9 | 9.2 | -10.7 | 1.2 | -0.8 | 3.5 | 2.0 | 3.6 |
| GDP deflator | 2.7 | 1.9 | 1.8 | 1.9 | 1.8 | 1.8 | 1.8 | 2.2 | 1.8 |

Source: ONS

Table 2: GDP by sector

| | % qoq, sa | | | | | | % yoy, sa | | |
|-----------------------|-----------|------|------|------|------|------|-----------|------|------|
| | 3Q18 | 4Q18 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | 2017 | 2018 | 2019 |
| Services | 0.7 | 0.5 | 0.4 | 0.3 | 0.5 | 0.1 | 1.7 | 2.0 | 1.8 |
| Industrial production | 0.5 | -0.9 | 1.0 | -2.0 | -0.1 | -0.8 | 1.7 | 0.8 | -1.3 |
| Construction | 1.0 | 0.0 | 1.8 | -0.9 | 1.1 | 0.5 | 6.5 | 0.0 | 2.5 |
| Farming and fishing | -0.3 | 0.7 | -1.3 | -0.5 | -0.4 | -0.3 | 5.7 | -3.0 | -1.8 |

Source: ONS



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Table 3: Monthly real GDP by sector

| | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> |
|------------------------|------------|------------|------------|------------|------------|------------|
| GDP | | | | | | |
| mom (%) | 0.4 | -0.2 | 0.0 | 0.2 | -0.3 | 0.3 |
| 3m/3m (%) | 0.1 | 0.4 | 0.5 | 0.2 | 0.0 | 0.0 |
| Services | | | | | | |
| mom (%) | 0.3 | -0.1 | -0.1 | 0.3 | -0.4 | 0.3 |
| 3m/3m (%) | 0.4 | 0.6 | 0.5 | 0.3 | 0.0 | 0.1 |
| Ind. production | | | | | | |
| mom (%) | 0.0 | -0.7 | 0.2 | 0.1 | -1.1 | 0.1 |
| 3m/3m (%) | -1.0 | -0.7 | -0.1 | -0.6 | -0.6 | -0.8 |
| Construction | | | | | | |
| mom (%) | 1.3 | 0.0 | 1.5 | -2.2 | 2.4 | 0.4 |
| 3m/3m (%) | -0.7 | -0.3 | 1.1 | 0.7 | 1.3 | 0.5 |

Source: ONS

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Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3465 2672
www.berenberg.com
kallum.pickering@berenberg.com