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## UK GDP – NICE RECOVERY BUILT ON SAND

### Berenberg Macro Flash

#### UK GDP, real, qoq %, Q4 2015

<b>Actual</b>	<b>0.6 (revised from 0.5)</b>
Previous	0.4
Consensus	0.5
Berenberg	0.5

**2015 UK GDP growth revised up 0.1ppt to 2.3% in 2015 - driven by domestic forces while trade dragged.** The UK economy expanded by 0.6% qoq in the final quarter, revised up from the previous estimate of 0.5%. On an annual basis, total output increased by 2.1% in Q4 (up from 1.9%). Following on the general trend for the year, consumption - this accounts for 65% of GDP - increased by 0.6% qoq, boosted by labour market gains and a tailwind from cheap oil. Despite fiscal consolidation, government spending increased (0.3% qoq) but at its slowest rate since Q1. Trade continued to exert a drag as imports grew by more than exports. In contrast to previous quarters, business investment fell sharply (-2.0% qoq). There is a good chance that business investment will remain weak until the second half of the year as firms postpone further investment until the UK's European fate is made clear at the EU referendum on June 23. We see a 35% risk of a Brexit.

**Despite upward revisions to growth, data points to an increasingly unbalanced economy.** With global headwinds blowing hard, the UK continues to rely on domestic demand and borrowing to drive growth. But just how sustainable is it? Today's data show that the UK's current account position deteriorated to the widest on record amid a fall in the savings rate. The current account widened to -£32.7b in Q4 from -£20.1b in Q3 as the UK continues to live well beyond its means. The savings ratio declined from 4.8% in Q3 to 3.8%. Separate data from the Bank of England point to strong growth in consumer credit too. Alongside the fall in business investment, these growth patterns suggest that the UK recovery is being increasingly built on sand. Low savings make it hard for households and businesses to ride out volatility. Deficits to drive growth today come at the expense of growth tomorrow. Given the Bank of England's ultra accommodative monetary stance the UK will probably be able to continue this trend for the some time. But it will eventually come at a cost.

#### UK Services, mom %, Jan

<b>Actual</b>	<b>0.2</b>
Previous	0.3 (revised from 0.2)
Consensus	0.2
Berenberg	0.2

**Services output maintained a strong trend at the start of 2016.** Services output increased by 0.2% mom, in line with estimates. Services accounts for 80% of total UK GDP so this bodes well for total output at the start of the year. On a 3m/3m basis, services output accelerated for the fourth month in a row to 0.9%. However, due to the financial market turbulence in February and early March, the service sector growth may have slowed sharply after January.



## MACRO NEWS

<b>% change, sa</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1'15</b>	<b>Q4</b>	<b>Q3</b>
GDP, qoq	0.6	0.4	0.6	0.5	0.7	0.7
yoy	2.1	2.2	2.4	2.6	2.8	2.8
Private consumption, qoq	0.6	0.6	0.7	0.8	0.6	0.6
Government spending, qoq	0.3	0.7	0.7	0.4	-0.3	0.3
GFCF, qoq	-1.1	0.4	1.3	1.5	0.1	1.8
Exports, qoq	0.1	-0.5	2.8	-0.1	3.8	0.4
Imports, qoq	0.9	2.9	-2.5	3.5	2.8	2.0
Business investment, qoq	-2.0	1.3	0.7	2.9	-0.1	0.0

<b>% change, sa</b>	<b>Jan</b>	<b>Dec</b>	<b>Nov</b>	<b>Oct</b>	<b>Sep</b>	<b>Aug</b>
Services, mom	0.2	0.3	0.4	0.1	0.5	-0.1
3m/3m	0.9	0.8	0.7	0.6	0.7	0.8

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