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UK AUGUST GDP: WOW FACTOR

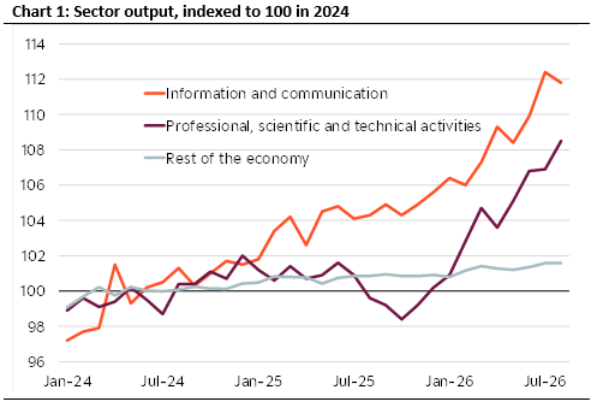
Berenberg Macro View

AI boom? In contrast to forecasts of a pullback after two large monthly gains in output, GDP edged up by a further 0.1% mom in September (consensus: -0.1%, Berenberg, -0.2%). That lifted annual UK GDP growth from 1.8% yoy in July to 2.1% yoy in August (consensus 1.9% yoy). Following three years over which growth has averaged 1.1%, the acceleration through the 2% threshold gives the data some wow factor. The sector breakdown suggests that AI is behind much of the upswing. Rapid increases in computer programming output continued, raising the output of the "information and communication" sector by 7.1% yoy and contributing about +0.5ppt to annual growth. Growth in accountancy, legal services and scientific research and development has moved up a gear too. Together they raised "professional, scientific and technical activities" output by a cool 9% yoy, which contributed 0.8ppt to yoy growth. It's a little more difficult to be sure how much of a role AI has had here. Either way, it is these two sectors that explain the recent pickup in growth. The rest of the economy is decidedly sluggish – see Chart 1.

Consumer resilience: The expansion of AI related sectors has not been the only upside surprise this year. Consumer expenditure has also proven remarkably resilient to the quadruple hit from a rising tax burden, higher energy prices and mortgage rates, and a weak labour market. Both retail sales volumes and the broader measure of "consumer-facing services" recorded solid growth up until August – see Chart 2. Admittedly, bigger challenges lie ahead following the fresh step up in energy prices and interest rates in September. We expect consumer spending to lose some momentum as a result.

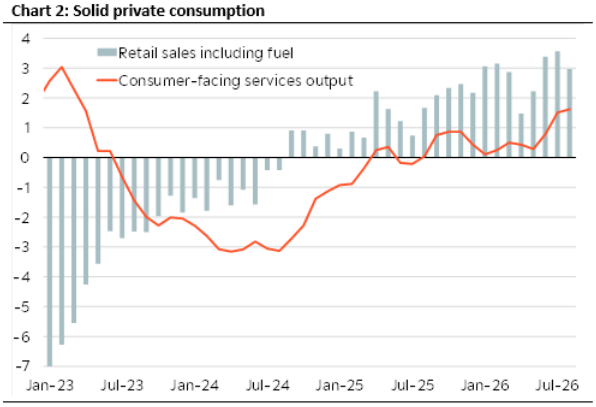
Policy implications: Economic growth driven by pockets of strength makes it tricky to set interest rates appropriately for the whole economy. However, the expansion in the two rapidly growing sectors of the UK economy has not resulted in any pickup in employment. In fact, employment in both sectors has declined since the start of 2025. As a result, we do not expect a traditional cyclical tightening of the labour market to follow. Thus, barring a renewed surge in energy prices, we remain content with our view that the BoE need only hike once, on 5 November.

Chart 1: Sector output, indexed to 100 in 2024



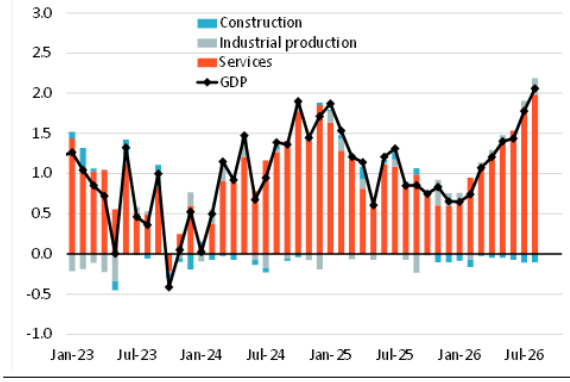
Sources: Haver, ONS, Berenberg.

Chart 2: Solid private consumption



% yoy growth in 3-month average. Sources: Haver, ONS, Berenberg.

Chart 3: Services remains the only game in town



In ppt, contributions to yoy GVA growth.

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