

What to expect from Friday's UK growth numbers

We're expecting a bumper first-quarter growth figure, although the boost from 'no deal' stockpiling may not have been quite as large as first appeared. Consumer spending will give growth a helping hand, but with business investment continuing to struggle, we currently don't expect the Bank of England to hike rates this year



Source: iStock

Stockpiling - how much actually happened?

Looking ahead to Friday's first quarter UK GDP data, one question really stands out: how much stockpiling really happened ahead of the original March Brexit deadline?

On the face of it, the answer appears to be "quite a lot". Recent PMIs indicated that inventories increased at an unprecedented pace - no G7 economy has matched it in the surveys' history. This came amid increased concerns about the risk of a 'no deal' Brexit, where firms increased stocks of components and finished goods to insulate themselves against possible supply-chain disruptions.

Talk of a 'no deal' Brexit ramped up ahead of the original March deadline



Source: Bloomberg

It also appears that much of the activity was reasonably last minute. According to the Bank of England, roughly half of companies believed they were ready for 'no deal' around the turn of the year. That figure rose to 80% by the time of the Bank's March policy meeting.

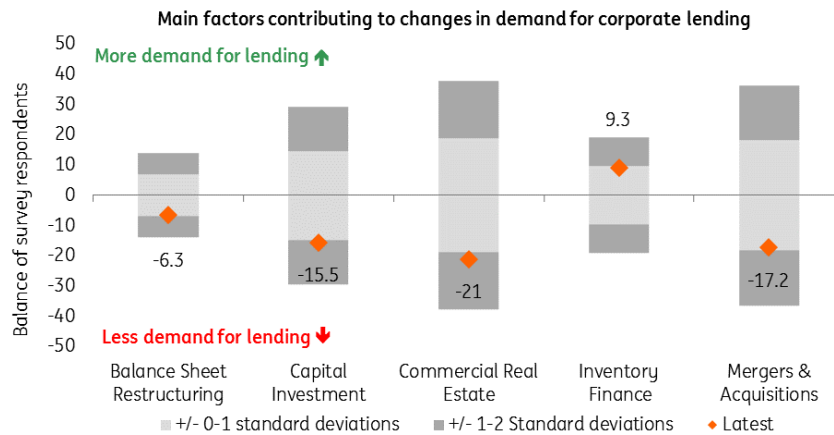
Putting these two pieces of information together suggests that we could be in for a bumper growth figure for the first quarter. However, there are a few reasons to think the actual scale of stockpiling may not have been quite as large as the surveys suggest.

Warehousing limits constrained some firm's preparations

Firstly, while the PMIs told us that a number of firms were boosting inventory, we suspect not all were able to do so by that much. Anecdotally, a number of companies reported that stockpiling activity had been constrained by limited warehousing availability. Storage space has been in short supply in recent years following the rapid shift towards online shopping.

The latest Bank of England credit conditions survey also suggested that while demand from corporates for inventory finance increased, it wasn't by an unprecedented amount. That tentatively suggests that either firms financed the extra purchases with cash reserves, or that they didn't stockpile to the extent that some other surveys had suggested.

Demand for inventory finance in Q1 wasn't unprecedented



Source: Bank of England

Standard deviations based on Bank of England Credit Conditions Survey responses since 2012

Finally, whatever inventory building took place, by definition a large chunk of it will have been imported from the EU. That implies that the impact on domestic demand could be more limited – although that said, Bank of England analysis indicates that real exports also increased during the first quarter, as firms on the other side of the channel prepared for possible ‘no deal’ disruption.

The environment for business investment remains challenging

The upshot is that the stockpiling effect may not have been quite as significant as some surveys suggest, although in any case, whatever inventory boost there was is likely to be reversed through the second quarter.

Away from inventories, the business investment picture continues to look pretty bleak. This component fell in every quarter of 2018 and probably did so again during the first quarter. ‘No deal’ Brexit preparations will have been costly but will have also taken up a lot of companies’ bandwidth, limiting appetite and scope to invest in other projects.

While we think the risk of a ‘no deal’ Brexit in October is relatively low, firms are likely to continue preparing for the worst-case scenario. There is a risk that business investment continues to decline over the next couple of quarters.

0.5% ING's 1Q UK growth forecast
(QoQ%)

Consumer spending will have helped lift growth

There is some good news though. Retail sales fared surprisingly well through the first quarter, helped along by rising wage growth and a solid jobs market backdrop. That should lift the consumption component of GDP, and the temporary dip in Brexit noise could help consumer

confidence recover a little in the near-term, potentially unlocking some further modest spending growth over the coming few months.

What this means for the Bank of England?

While we are sceptical about the full extent of stockpiling during the second quarter, the scope for better consumer spending and export figures means that we agree with the consensus forecast of 0.5% QoQ - albeit the risks are skewed to the downside. But with any inventory effect likely to unwind through the second quarter, the underlying trend will remain constrained by weak business investment. This is one reason why we don't expect a Bank of England rate hike this year.

However, if Article 50 is extended beyond October (which we certainly wouldn't rule out) then some of Governor Carney's comments from the most recent press conference suggest a November move isn't out of the question - particularly if the economy performs in line with the Bank's current forecasts.

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