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Snap

Challenges set to continue for UK economy as growth stalls

With a growing risk that we may not know whether 'no deal' has been averted until much closer to the 29 March deadline, the UK economy faces a challenging few weeks. The chances of a rate hike from the Bank of England this year are receding

It was back to reality for the UK economy during the fourth quarter, according to the latest GDP figures. Growth slowed to just 0.2%, a stark contrast to the 0.6% reading seen during the third quarter when warmer weather gave the economy a temporary reprieve. But the most alarming feature of these numbers is that fact that business investment fell for the fourth quarter in a row, as Brexit uncertainty continued to bite.

We highlight three reasons why things aren't likely to get much better during the first quarter.

0.2% Fourth quarter UK growth
(QoQ%)

Worse than expected

Firstly, despite various surveys suggesting manufacturers are building up supplies of components and finished goods, we don't think this will provide a meaningful boost to growth. By definition, many of these supplies are likely to be imported so won't boost domestic demand – and in any case, a lack of warehousing space means firms' capacity to stockpile is probably fairly limited.

Stockpiling aside, the next few weeks are likely to see an increasing number of firms continuing to implement contingencies, which is unlikely to be growth-positive. While we still think 'no deal' will be avoided on March 29, most likely by Article 50 being extended, there is now a growing risk we won't know for sure until the last minute. It's not clear whether the Cooper amendment, designed to lay the groundwork for Parliament to get a vote on delaying Brexit, will gain more traction this week than it did at the end of January. But our sense is that we are unlikely to get much additional clarity after Thursday's scheduled Parliamentary vote on Brexit.

This uncertainty appears to be slipping into the consumer mindset too, where confidence is now the lowest since 2013. If individuals gradually become more wary about the risks to job security and personal finances after March, we suspect at the very least consumers will hold-off on big-ticket purchases, favouring building levels of savings instead.

Putting all of this together, we agree with the Bank of England's latest assessment that growth will stay around 0.2% during the first quarter. This says to us that a rate hike during the first half of the year looks very unlikely.

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