

## Sluggish UK growth casts doubt over 2017 rate hike

Second quarter growth shows momentum in the UK economy is fading, casting doubt over recent Bank of England signals that rates could rise this year.



Source: Bank of England

# 0.3%

### UK economic growth

dashing any hope that momentum would return after a particularly soft start to the year

### Slowing growth as temporary factors dissipate

The major UK growth engine was once again the service sector, with most of the strength coming from retail trade and somewhat surprisingly, the film industry. On the former, it seems the combination of unseasonably warm weather in April and June, as well as the late timing of Easter, has helped retailers. The warm spells have also given food and drink businesses a boost.

But these factors are likely to prove temporary (particularly the weather...), and as real wages

continue to fall, the household spending squeeze will continue to intensify. It's also likely that when we get the detailed GDP breakdown in the next release, investment will have slowed as political uncertainty weighs on decision making.

## Possible downward revision

It's also worth remembering that Wednesday's estimate is composed of only 45% 'hard' data, with the rest generated by ONS statistical models. There is always the potential for revisions, and given the relatively strong construction and service sector gains assumed for June, a downwards revision cannot be ruled out.

For the Bank of England outlook, what matters most is that growth in the first half of this year is markedly slower than the pace seen last year. With signs of domestic inflationary pressures still limited, we think it is unlikely that the Bank will hike rates this year.

## Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).