

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.

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