

## UK economic momentum fading despite solid third quarter

The UK economy shifted up a gear over the summer, but with the sunny weather now behind us and Brexit uncertainty very much in front, we suspect the momentum will fade over the winter. Expect something closer to 0.3% QoQ growth in the fourth quarter



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At 0.6%, the latest UK growth for the third quarter indicates the economy moved up a gear over the summer. The underlying details show much of this was driven by consumption, helped along considerably by persistently warm weather. There was also some better news for investment; it fell in the first two quarters of the year but grew by 0.8% in the third.

Exports have also rebounded strongly – although importantly a fair chunk of this is likely to be down to the erratic ‘non-monetary gold’ component. This is a quirk of the national accounts related to non-residents buying/selling gold and will have been cancelled out by an equal and opposite entry in the investment (valuables) category, so is altogether neutral for growth. Once that is stripped out, we suspect the trade story is much less exciting.

With that aside, overall there’s little doubt the economy had a better run over the summer. But now that the sunnier weather is behind us, we think this stronger momentum will begin to fade. There has already been some evidence of this in the latest PMIs, which indicate Brexit uncertainty may be beginning to weigh more heavily on activity.

# 0.3% ING's 4Q UK GDP forecast

While there have been positive signals that a Brexit deal may be nearing its conclusion, the challenge of getting it approved by Parliament looks as tough as ever. We still think there is a clear risk that we won't know for sure that 'no deal' has been avoided until next year. In the meantime, a greater number of firms are likely to enact contingency plans, and at the very least, this is likely to see investment and hiring slow further.

So we think the economy has a challenging few months ahead of it, and we expect to see fourth-quarter growth to slow to around 0.3%. Despite the Bank of England's cautiously optimistic stance/forecasts, we don't expect policymakers to hike rates again before May 2019 at the earliest.

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