

UK economy entering challenging period despite solid summer

Sunny weather has given UK growth a much-needed boost over the summer, but the combination of Brexit uncertainty and consumer caution suggests the economy faces a challenging autumn and winter



Source: iStock

There's little doubt growth has stepped up a gear over the summer, helped along by better weather. Growth remained unchanged in August, but that follows what was a pretty chunky 0.4% increase in July. This points to a decent overall third-quarter GDP reading in the 0.5/0.6% region, but with the sunny weather now largely behind us, the question is whether the economy can sustain this better performance.

We think growth will face a number of challenges over the next few months. Firstly, of course, there's Brexit. While recent headlines suggest the UK and EU are getting closer to a deal, the real test will be when MPs vote on the agreement in Parliament. This is unlikely to happen until mid-December at the earliest, which means businesses will remain cautious and are likely to continue looking closely at their contingency plans until there is greater certainty. This also suggests we are unlikely to see a dramatic improvement in consumer confidence, particularly if employers continue to get more vocal about the possible implications for jobs in the event of 'no deal'.

That's another big headache for retailers, who will soon face the big tests of Black Friday and Christmas. The combination of greater uncertainty and the fact that real incomes are again being

squeezed by the near-10% rise in petrol prices since March indicates the high street faces another challenging period.

With that in mind, we think there's a risk that economic momentum slows again over the autumn and winter, which in turn means the Bank of England is unlikely to hike rates again before May 2019.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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