UK economy holds up in the second quarter despite headwinds

At face value, the UK's 0.3% second-quarter growth performance looks reasonable amid a flurry of global and domestic headwinds. But this is largely concentrated in components not intrinsically linked to underlying economic performance, and the Bank of England will take these figures with a pinch of salt. We expect growth to slow in the second half

Amid all the uncertainty, the UK's 0.3% second-quarter growth figure doesn't look too bad. Not at face value, anyway.

Growth was always going to be much slower than the 0.7% figure we saw in the first quarter, which was bolstered by frontloading of US tariffs as well as April's stamp duty deadline. But a strong June, and upward revisions to April's originally-reported 0.3% fall in output, were enough to produce respectable growth for the second quarter overall.

When you dig into it though, the data isn't as impressive as it first looks. Much of the growth was generated by government consumption, which the ONS puts down to a greater number of vaccinations, something that isn't indicative of underlying economic performance. Volatile stuff like inventories also boosted the numbers, and the key components of household consumption and business investment were actually much weaker than in the first quarter of the year.

In other words, it's worth not reading too much into these figures – and the Bank of England certainly isn't doing that. Remember that the Bank has concluded that the economy barely grew at all in the first quarter, despite the superficially strong GDP growth figure. We'd also note a tendency for the growth figures to come in strong through the first half of the year, only to be weaker in the second half. This is a trend we've seen over the past three years, which potentially points to challenges in the way the data is being seasonally adjusted and adjusted for inflation.

Given these reasons, we doubt the Bank will take too much inference from the stronger second quarter growth performance. At the very most, it might bolster the arguments of the hawks who are pushing for a slower pace of rate cuts from now on. But in practice, this will much more heavily depend on forthcoming inflation and jobs data.

We certainly expect the GDP figures in the second half of the year to have a weaker flavour to them. The jobs market is under pressure; payrolled employment has fallen in eight out of the last nine months. Investment intentions are lower, too. And despite the UK-US trade deal, the much bigger issue for UK firms is the uncertainty surrounding the global economic outlook caused by tariffs.

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