UK economy shrinks in August as Brexit uncertainty builds

August's GDP figures are arguably not quite as bad as they look - the 0.1% contraction follows a solid July growth figure. But even so, there's very little to cheer about in the UK economy at the moment

A delivery driver in the City of London

UK GDP contracted by 0.1% in August, suggesting there is very little to cheer about in the UK economy at the moment.

Admittedly it is worth noting that this latest fall in output followed a decent July figure, which was revised upwards to 0.4%. It is also true that the 0.7% fall in manufacturing output during August was amplified by a fall in volatile pharmaceutical production, according to the ONS (the UK's statistics agency).

However, that was counterbalanced by greater momentum in transport-related output – many of the factory shutdowns that normally occur over the summer had been brought forward to April to shield against possible Brexit-related disruption. That meant that output was perhaps slightly higher for the time of year.

In the short-term, there is some potential for manufacturing to bounce back as stock building activities resume ahead of October 31 – albeit with inventory levels already high and warehousing space scarce, this will be on a much more limited scale than before the original March deadline.

-0.1%

UK Monthly GDP (August)

(MoM%)

Worse than expected

Most of this is ultimately noise though, and the broader economic trend remains pretty lacklustre. Much of the weakness is centred on investment. Uncertainty surrounding Brexit and global economic activity means firms are reluctant to expand, while preparations for a possible 'no deal' exit on October 31 will also be drawing time/resources away from potential investment projects.

This, in tur,n appears to be creating problems for the service-sector. The latest PMI is now below the 50 breakeven level, and that's partly because new orders are slipping. Among other things, reduced appetite to expand reduces demand for financial, legal and other professional services. Given the likelihood of a further Brexit delay – most likely coupled with a highly unpredictable general election – this situation is unlikely to improve any time soon.

> That said, the economy will most likely avoid a near-term technical recession. Consumer activity is continuing to grow, even if confidence remains fairly depressed. Shoppers appear to have been less fazed by the ups-and-downs of the Brexit process than businesses.
>
> But even so, economic growth is likely to remain fairly modest for the rest of this year, averaging around 0.2-0.3% per quarter. This means that the Bank of England is likely to remain cautious, although we still feel its probably too early to be pencilling in UK rate cuts.

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