

## Weak UK growth unlikely to translate into BoE rate cut

The UK economy failed to grow in the fourth quarter, but this is 'old news' for markets. Optimism has increased among businesses, and while this may not fully translate into faster growth, we think it would take a more material deterioration in UK activity to convince the Bank of England to cut interest rates

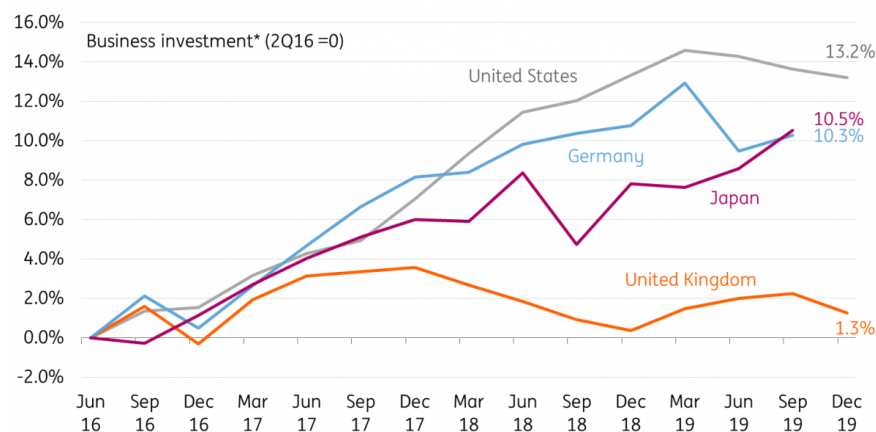


Source: Shutterstock

The UK economy failed to grow in the final quarter of 2019, according to the initial estimate. Consumer spending grew only marginally, reflecting weak demand over Christmas, while business investment fell by 1% - much more than expected, even considering the uncertainty surrounding Brexit and the general election.

This means that capital expenditure is only 1.3% higher in level terms than at the time of the 2016 referendum. By contrast, the US, Germany and Japan have all recorded double-digit growth since then, based on the closest comparable data.

## UK investment compared to other developed economies



Source: Macrobond, ING calculations

Directly comparable data for business investment isn't available. We have used private non-residential investment for US/Japan, non-government investment in machinery/equipment for Germany

The reality for markets though is that this is now old news. Not only did the Bank of England's recent projections factor in no growth in the fourth quarter, virtually every business survey has pointed to fresh optimism after the December election.

The question now is whether this improved sentiment will filter into the dataflow. It is possible that we see an improvement in consumer spending this year, given that wage growth has been strong at a time where household energy costs are set to drag inflation lower. That said, the global coronavirus outbreak is a clear risk to spending over the next few months were it to spread more widely.

However, we remain sceptical that investment will see a dramatic revival. Whether a free-trade agreement is signed this year or not, there's likely to be a wave of new friction for traders at the start of 2021. While it is uncertain how firms will react to this step-change, it is unlikely to translate into longer-term investment. Onshoring of production is likely to be viewed as more of a cost for firms (to mitigate disruption to just-in-time supply chains), and will ultimately draw resources away from other potential projects.

The bottom line is that we aren't expecting economic growth to speed up dramatically this year. However it is important to remember that the Bank of England isn't either. Its forecasts pencil in 0.2% growth in the first quarter, and 0.3% in the second. Barring a more material deterioration, we think policymakers will remain reluctant to cut interest rates. We currently forecast rates on hold through the rest of 2020.

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