

United Kingdom

Business investment and exports boost economy in third quarter

- GDP up 0.5% in Q3, unchanged from initial estimate
- Business investment rises 0.9%, exports and consumer spending both up by 0.7%
- Q4 looking solid but growth likely to slow in 2017

The second release of GDP data from the Office for National Statistics confirmed the earlier estimate that the UK economy grew 0.5% in the third quarter. There was welcome news of business investment rising and exports also making a strong contribution to growth, while households continued to spend.

However, although data suggest the economy continued to show resilience in the fourth quarter, there is still a strong likelihood that growth will wane as we move into 2017.

Business investment rises

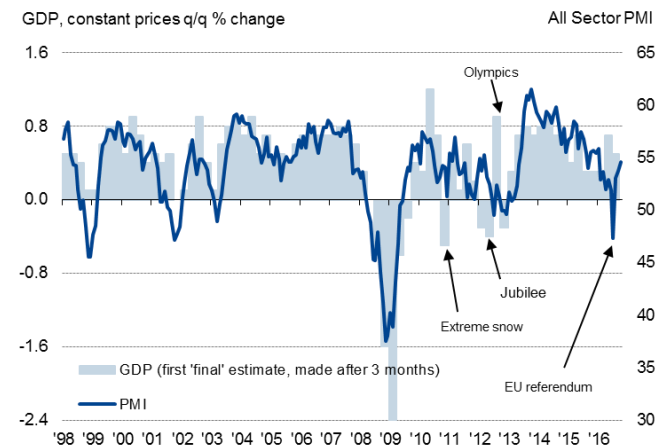
The new data, which provide the first estimates of the expenditure side of the economy, showed business investment rising by a solid 0.9% in the three months to September, defying expectations of business spending in areas such as equipment and machinery having been hit by uncertainty caused by the referendum. However, the investment data are notoriously revision-prone and also tend to reflect long-term investment decisions made well in advance. It is therefore perhaps too early to see any Brexit-related impact on investment, though the sustained rise is nevertheless encouraging in terms of the extent to which business continued to expand.

Export surge

There were also signs of the weaker pound bringing benefits to exporters. The GDP data confirm earlier survey data which have indicated that the exchange rate is boosting overseas sales. Exports increased by 0.7% in the three months to September, the largest rise since early-2014.

A 0.7% rise in household spending meanwhile highlighted the extent to which consumers likewise appear to have remained largely unaffected by the Brexit vote in terms of their appetite to spend.

GDP showed resilience in face of Brexit shock



Sources: IHS Markit, ONS.

Fourth quarter looking solid

Data also suggest the economy has also shown reassuring resilience in the fourth quarter. The Markit/CIPS [PMI surveys](#) in fact showed the pace of economic growth to have accelerated in November to the fastest since January. Moreover, [retail sales](#) showed the largest annual gain for 14 years in October.

But confidence is low

However, to say that the economy has been unscathed by the Brexit vote would be too complacent. The GDP data show that the construction sector has fallen into a technical recession, with output down 1.1% in the third quarter after a 0.1% decline in the three months to June. Industrial production and manufacturing output meanwhile fell 0.5% and 0.9% respectively in the third quarter. The upturn was therefore driven by services, where activity rose 0.8%.

Both companies and households have also grown increasingly worried about the future. [Business confidence](#) about the year ahead has fallen to its lowest for just over four years, accompanied by subdued hiring and investment intentions. The [latest survey](#) of British households meanwhile found the outlook for personal finances over the coming year to be the gloomiest for three years in November; the

darker mood stemming mainly from fears of spending power being eroded by rising prices.

For the moment, the data suggest that the economy has exhibited greater than anticipated resilience in the face of headwinds such as Brexit worries and rising prices. However, it seems likely that growth will slow further in coming months as these headwinds intensify.

Chris Williamson

Chief Business Economist

IHS Markit

Tel: +44 207 260 2329

Email: chris.williamson@ihsmarkit.com

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