

United Kingdom

Economic growth confirmed at 0.8% in second quarter

- GDP up 0.8% in Q2
- Growth driven by services
- PMI points to further strong gain in Q3, but Ukraine crisis poses key downside risk

The UK economy's on-going recovery was confirmed by the second estimate of gross domestic product in Q2 showing a healthy 0.8% expansion compared to the first quarter, unchanged on the [initial estimate](#).

Growth over the past year was revised up to 3.2%, the fastest since 2007. The UK has enjoyed a period of consistently strong growth since the start of last year, during which the economy has grown some 3.8%. The second quarter upturn was notable in finally pushing GDP 0.2% above its pre-crisis peak, reached in the first quarter of 2008.

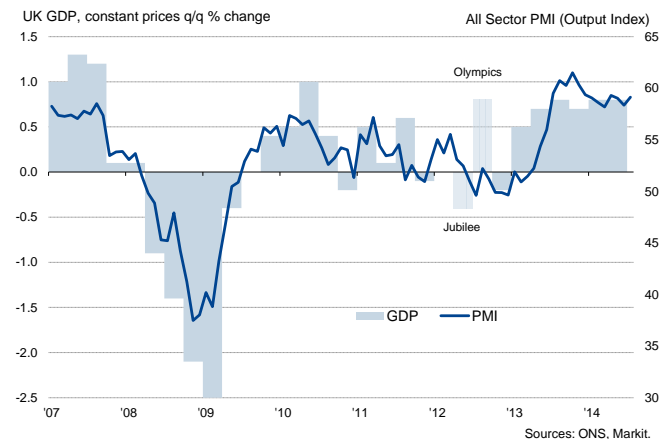
With the PMI surveys continuing to run at a level consistent with GDP rising 0.8% in July, the economy has started the third quarter with good momentum. The surveys support the view at the Bank of England that the [economy is set to grow by 0.7% in the third quarter](#), contributing to a 3.5% expansion over the whole of 2014.

There are also good reasons to believe that strong growth can be sustained as we move through the second half of the year, assuming of course that the Ukraine crisis does not escalate.

Most importantly, the Bank of England shows no signs of risking to kill off the recovery, by raising interest rates, anytime soon. With interest rate decisions tied to wage growth, and the official measure of pay unlikely to pick up in coming months, the first rise in interest rates is widely expected to be delayed until next year.

In the meantime, UK exporters could benefit from a pick-up in the global economy. The US in particular has returned to growth after the extreme weather hit the country in the first quarter, helping boost [global economic growth](#) to the fastest for almost three-and-a-half years in July.

UK economic growth and the PMI



Exporters are also likely to benefit in particular from eurozone growth accelerating on the back of ECB stimulus measures, announced back in June but still to take full effect. Most important will be the targeted lending programme, or TLTROs, which should help revive lending to business and households.

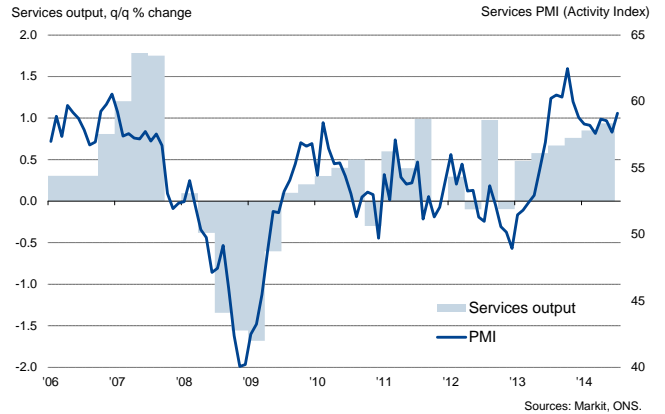
However, the pace of growth could cool more than the Bank of England is expecting if the crisis in Ukraine escalates. A worsening of the crisis will not only lead to greater risk aversion, meaning many investment and spending decision could be deferred, but EU sanctions will also have a direct impact on the economies of Europe.

The euro area, which is the UK's main export market, may be already showing signs of having weakened in the face of the crisis. A stagnation of GDP in the second quarter, due to downturns in Germany and Italy and a stalling of growth in France, has raised concerns about the fragility of the bloc's economy and its lack of resilience to shocks such as those posed by Russia. However, it remains too early to gauge the impact of the crisis on the economies of the UK and eurozone.

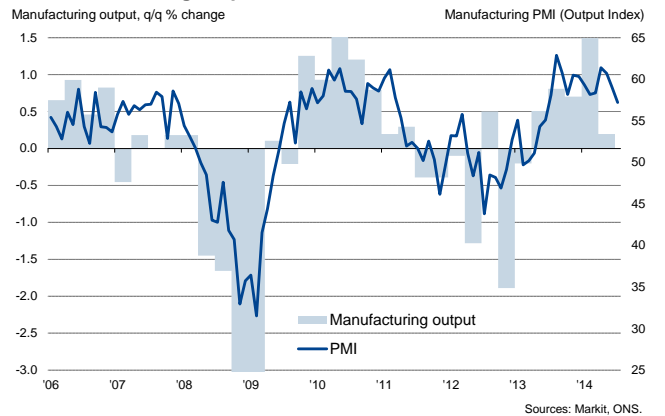
In the detail of the second quarter GDP report, growth was led by services, which enjoyed a 1.0% expansion, followed by production, which rose 0.3%. Agriculture fell 0.2% while construction was flat.

The flat trend in construction contrasts with the buoyant picture of the industry painted by the PMI surveys, which suggest there is potential for the official data to be revised higher at some stage. Similarly, the weak production data contrasted with stronger signals from the PMI survey. Services growth was broadly in line with the PMI.

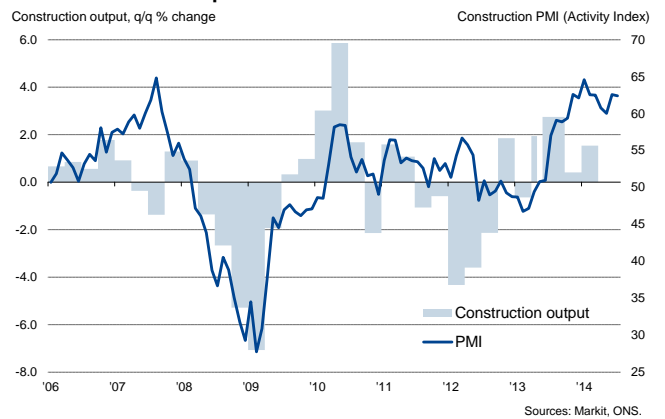
UK services output



UK manufacturing output



UK construction output



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