

# United Kingdom

## Economic growth slows in first quarter, with further easing likely ahead

- **Economy grows 0.4% in first quarter**
- **Leading indicators point to further slowdown in second quarter amid Brexit uncertainties**
- **Growth driven by services as industrial output and construction decline**

UK economic growth slowed in the first quarter, according to official data, and key indicators point to a further deterioration in the second quarter.

The Office for National Statistics' first estimate of gross domestic product in the opening quarter of the year indicates that the economy grew 0.4%, easing from 0.6% in the final three months of last year.

The official release was in line with expectations and corroborates survey evidence showing a similar slowdown. However, the higher-frequency monthly PMI data also highlighted how the [slowdown deepened](#) after a reasonably solid January, suggesting that the economy started the second quarter on the back foot.

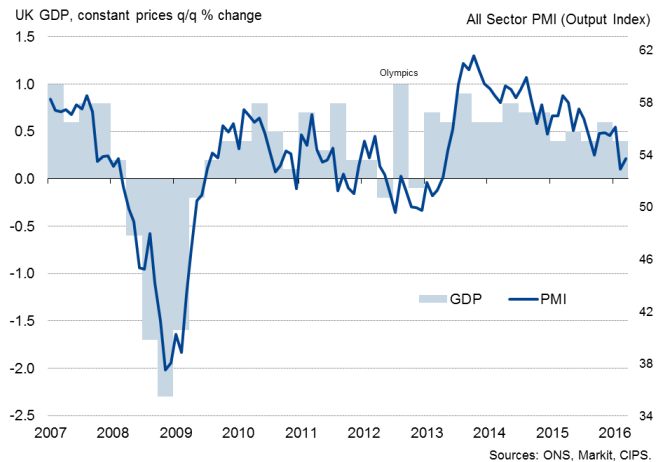
Uncertainty about the economic outlook appears to have intensified ahead of the EU referendum, and the danger is that this will cause a lull in businesses' decision making as the June vote draws closer, which will in turn reduce business spending, investment and hiring in the second quarter.

Surveys were already showing business optimism about the year ahead to have fallen in the first quarter, dropping to levels commensurate with a near-stalling of economic growth as 'Brexit' worries exacerbate existing concerns about the fragility of economic growth at home and abroad.

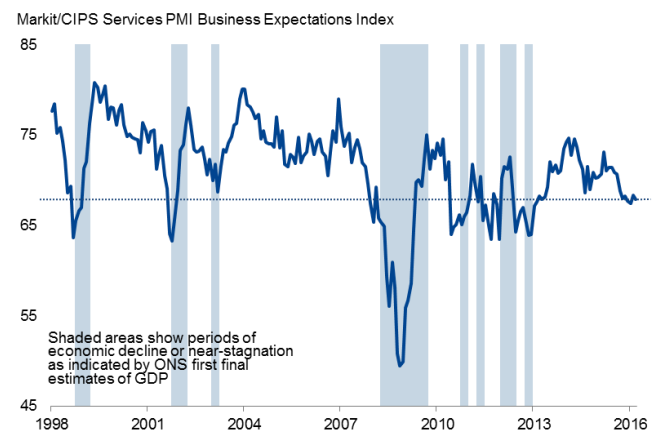
[Hiring has also slowed](#) so far this year and unemployment has risen for the first time since last summer. More recently, April survey data have shown the [mood darkening among households](#). Job insecurity has been running at its highest for almost two years in recent months.

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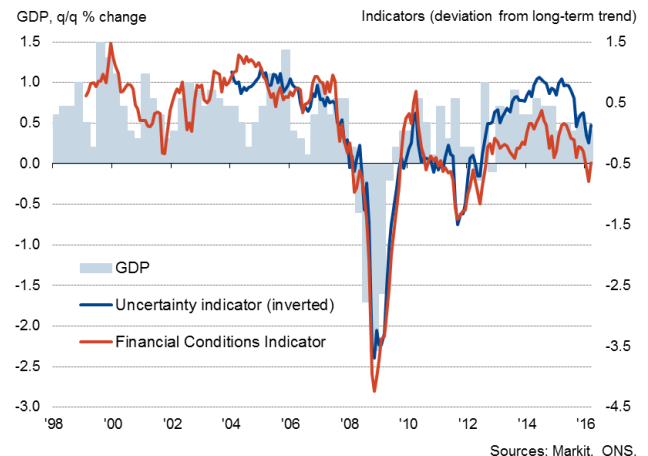
### UK PMI and GDP compared



### Future expectations



### Indicators point to further GDP slowdown



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## Cloudy outlook

The outlook beyond the second quarter has inevitably become increasingly cloudy with the uncertain outcome of the referendum, meaning all forecasts of economic growth carry huge health warnings.

Similarly, any decisions on policy at the Bank of England are likely to be kicked into the long grass until after the referendum, but these disappointing numbers will no doubt add to speculation that the next move in interest rates will be a cut.

## Services drive growth, again

In the detail of the GDP release, the numbers show the economy remaining totally reliant on the vast service sector to sustain growth, where a 0.6% expansion in the first quarter followed a 0.8% increase seen in the prior three months.

Industry, in contrast, saw output fall 0.4%, matching a similar downturn at the end of 2015, while construction output was down 0.9%.

Manufacturers continue to be hit by ongoing anaemic global trade flows, as well as the recent strengthening of sterling against the dollar. Service providers are less susceptible to weaker overseas demand, and the solid rise in output of the tertiary sector suggests consumer demand remained resilient in the face of Brexit worries.

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