

United Kingdom

Economy sustains steady growth in fourth quarter but faces tough 2016

- **GDP up 0.5% in Q4 but annual rate dips to 1.9%**
- **Economy dependent on services as manufacturing stagnates and construction sees renewed recession**
- **Surveys point to downside risks for 2016**

UK economic growth edged higher in the final quarter of last year, according to the initial official estimate of gross domestic product. However, the upturn masks an unbalanced economy and a slowing underlying pace of expansion, with the annual rate of growth slipping to the weakest for almost three years. Survey data also pointed to a further loss of momentum in December.

Uncertainty over 'Brexit', weak overseas growth and financial market volatility are all creating an unsettling business environment and point to downside risks to the economy in 2016. The coming year could easily see the pace of economic growth slow further from last year's 2.2% expansion, and the chances are growing that we will see yet another year in which interest rates are left at their record low of 0.5%.

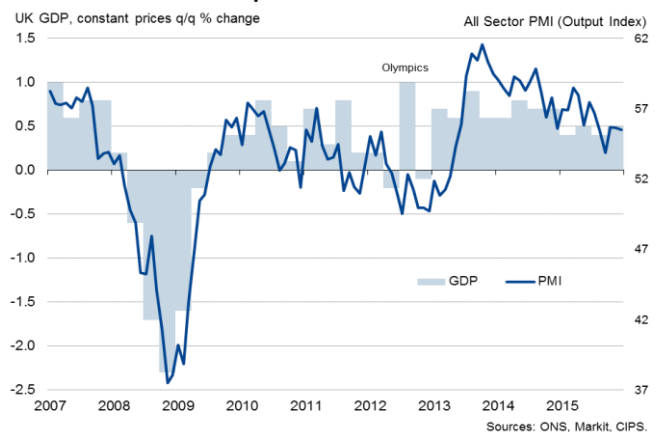
GDP rose 0.5% in the three months to December, in line with expectations and as [signalled in advance](#) by the PMI business surveys. That represents an improvement on the 0.4% expansion seen in the third quarter, although the weakening in the annual rate of increase from 2.1% to 1.9% perhaps paints a more accurate picture of the underlying trend in the economy.

The final quarter's reading confirms that economic growth slowed last year, with the economy expanding 2.2% over 2015 as a whole compared to 2.9% in 2014.

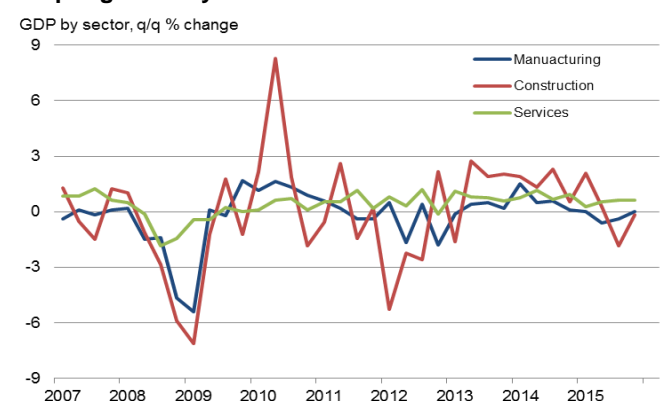
The data also confirm the unbalanced nature of growth late last year, with the economy reliant on services to drive the upturn while manufacturing languished and construction fell into a technical recession. The estimates show service sector output up 0.7% in the fourth quarter but manufacturing production stagnated and construction output dropped 0.1%, down for a second successive quarter. The energy sector also saw a slump in output which meant that overall industrial production fell 0.2%.

The initial GDP estimates come with the usual health warning that the data are often substantially revised in later releases. However, the broad picture of a slowing economy which is dependent on services tallies with the message from the business surveys, the latter also pointing to a further slight loss of momentum in December 2015, linked in turn to a deterioration in business optimism to the lowest for almost three years.

UK PMI and GDP compared



Output growth by sector



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