

United Kingdom

Economic upturn spurs rise in business investment, but household savings fall

- Q4 GDP growth confirmed at 0.7%
- Investment rises 8.7% on a year ago
- But current account deficit remains near record high and household savings ratio falls

Official data confirm that the UK economy grew 0.7% in the final quarter of last year, but also brought mixed news on the make-up of growth. On one hand, we saw confirmation that business investment is rising at a robust pace, which adds to signs of the sustainability of the recovery, but the trade deficit widened to the second highest on record. A fall in the savings ratio also suggests current household consumption is too reliant on people delving into their savings and therefore unsustainable, unless of course incomes start to rise.

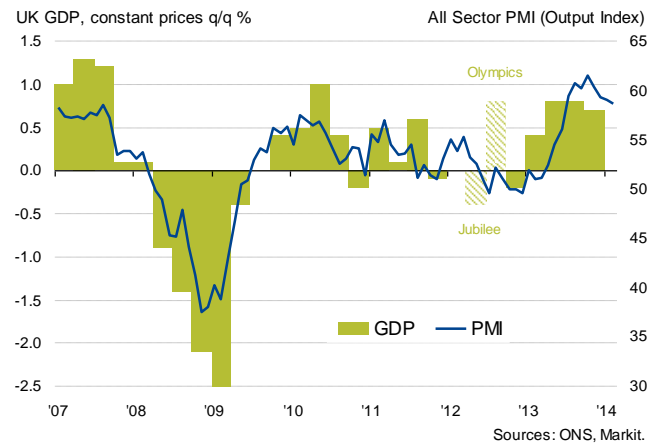
Investment upturn

The overall picture is nonetheless encouraging. Survey evidence suggests the investment surge will continue, and that recent export performance has in fact been better than the official data indicate, suggesting at least that the official trade data may soon rebound. Exporters are benefitting in particular from resurgent growth in the eurozone. With wages also showing signs of growing faster than inflation, real incomes may also soon start to rise, adding to the picture of improving economic fundamentals that should support ongoing robust growth in 2014.

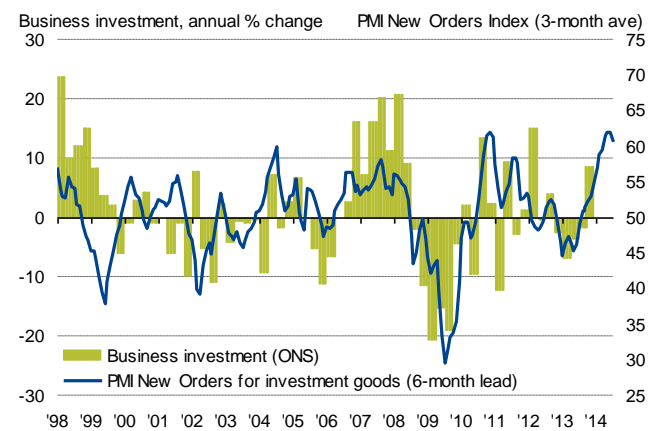
Since the recession, a lack of growth of business investment has been a grave concern, suggesting the recovery has been all-too dependent on consumer spending. However, data from the Office for National Statistics show that business investment rose 2.4% in the final quarter of last year, building on an identical increase in the third quarter. This growth spurt has pushed investment 8.7% higher than a year ago, with investment now having risen for four successive quarters.

The long-awaited revival of business investment looks set to continue: the upturn towards the end of last year had been signalled in advance by PMI survey data on

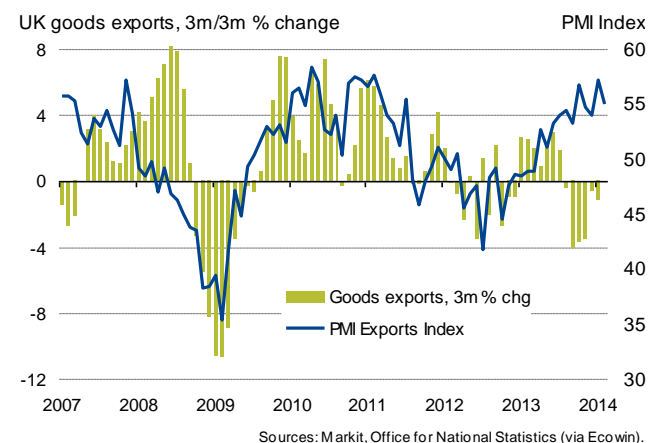
UK GDP and the Markit PMI



Business investment



Exports



new orders for investment goods, a series which has maintained a high level in recent months. Company profits are also rising at a healthy pace, up 5.4% in the fourth quarter and building on a 4.4% rise in the third quarter. Higher profits should help support investment in coming months.

Near-record balance of payment deficit

It was not all good news though: The current account deficit with the rest of the world rose to the second highest on record, and a fall in the household savings ratio suggests consumer spending is still being driven too much by reduced savings rather than rising incomes. The savings ratio fell from 5.6% to 5.0% between the third and fourth quarters, having been on a broadly downward trend over the past year-and-a-half. Real disposable household incomes fell by 0.1% over the same period. With a return of real wages growth on the cards for 2014, the latter situation may improve.

The current account deficit in the fourth quarter was £22.4bn, down only slightly from the third quarter's all-time high of £22.8bn. The recent deterioration has reflected a downturn in income from investments abroad, but also reflects weak exports. Although some improvement in the trade deficit was evident, exports fell by £0.4bn in the fourth quarter. This lack of export-fuelled growth remains a concern, although also something of a puzzle.

We remain surprised by the official data, where weak export growth in recent months contrasts markedly with the PMI, British Chambers of Commerce and EEF surveys, all of which are showing very strong export performances.

Services-led growth

In the detail of the GDP release, which was the third estimate for the fourth quarter, the services economy grew by a robust 0.8%, accompanied by a 0.6% gain in manufacturing output, down slightly on the third quarter's growth. Construction output fell 0.2%, though this is another official statistic that we query, as the survey evidence has pointed to very strong growth in recent months, not at least because the sector has seen demand for housing surge higher.

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