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UK economic growth stronger than expected in Q4

The ONS' preliminary estimate of UK Q4 GDP came in stronger than expected while CBI surveys indicate some variation in sector performance at the start of 2018. Meanwhile, the household squeeze continues as real wages fall for the tenth month running.

The ONS' preliminary estimate of Q4 2017 GDP showed that UK growth edged higher at the end of 2017, to 0.5% (up from 0.4% in Q3). This was higher than both consensus expectations and our "nowcast" of 0.4% growth. The uptick was driven by a broad-based pick-up in growth in the services sector, which grew at the fastest pace in a year.

Meanwhile, growth in manufacturing was solid which chimes with the strong performance in manufacturing suggested by business surveys. However, consumer-facing businesses such as distribution, hotels and restaurants observed a weakening in growth, likely reflecting the ongoing squeeze in households' real disposable incomes. The CBI's growth indicator for January suggest that growth in activity eased somewhat.

The CBI's business surveys for January broadly echo the mixed sectoral conditions seen in the Q4 GDP data. The CBI's Industrial Trends Survey continued to show strong growth in manufacturing, but elevated costs pressures drove the strongest expectations for domestic price inflation since 1984.

Additionally, capacity pressures are biting hard with the proportion of firms working below capacity the lowest since 1989.

And, firms continue to air concerns over skills shortages in the sector, with the number citing skills shortages as a factor to limit output the highest since 1974. Meanwhile, growth in the retail sector was tepid in the year to January while consumer services saw growth ease over the last quarter. This highlights that challenges remain for the consumer-facing sector as the squeeze on household incomes continues.

The ONS' latest release of labour market statistics showed that employment returned to growth (rising by 102,000 to 32.2 million), following a decline in the previous two rolling quarters. However, unemployment was little changed compared with the previous quarter with the unemployment rate remaining at 4.3% and the lowest level since 1985. CPI inflation edged down in December to 3.0%, from 3.1% in November, in line with consensus expectations.

However, the pressure on wages continues: real wages fell for the tenth month running, with CPI inflation once again higher than nominal wage growth.