

GROWTH PICKS UP BUT BREXIT FEARS LOOM LARGE



Although the UK economy recently recorded its fastest rate of growth in almost a year, Brexit-related uncertainties continue to cast a shadow over future growth prospects.

Data released by the Office for National Statistics (ONS) shows that gross domestic product rose by 0.6% during the May–July period boosted by an increase in consumer spending thanks to the unusually hot weather and England’s strong World Cup performance. This was the highest growth rate since August 2017 and marks a distinct pick-up compared to the 0.4% figure posted in the three months to June.

The latest data was significantly more positive than most economists had predicted and suggests the economy is on track for a solid third-quarter performance. However, while there may be few signs of an imminent Brexit-induced slump, most commentators still believe the economy could be set for a more stormy period as Brexit-related uncertainties act to constrain growth.

Indeed, the potentially dire consequences of a disorderly Brexit are increasingly coming to the fore. The IMF’s latest assessment of the UK economy, for instance, warns that a ‘no-deal’ Brexit would entail “substantial costs” and also concludes that the challenges in securing a Brexit deal remain “daunting”.

This pessimistic view of Brexit negotiations was subsequently vindicated at the EU Salzburg Summit with Donald Tusk’s rejection of Theresa May’s ‘Chequers’ proposals. The apparent impasse, along with continuing Tory internal Brexit divisions and a number of potentially hazardous parliamentary hurdles, suggest that Mrs May’s chances of delivering an orderly Brexit may not be particularly high.

While the full ramifications of a no-deal Brexit are impossible to accurately predict, it is clear that such a scenario is likely to have severe negative consequences for the UK economy. At the moment, Brexit is therefore clearly casting a long shadow over the country’s growth prospects.

RETAIL SALES RISE STRONGLY

The latest retail sales figures proved to be much stronger than analysts had been expecting as UK consumers continued their summer spending spree.

Official data published by ONS showed that retail sales volumes increased by 0.3% between July and August. In comparison, the consensus market forecast had predicted a 0.2% drop in sales during that period.

Across the three months to August as a whole, which smooths out monthly volatility in the data, the growth in sales was 2.0%. This was down from 2.4% in the three months to July, but still represents solid growth in sales volumes.

Commenting on the data, ONS senior statistician Rhian Murphy said: “Retail sales remained strong in the three months to August, with continued growth across all sectors. Food and household goods stores particularly benefited from the warm weather when compared with last summer.”

The latest monthly Distributive Trades Survey published by the Confederation of British Industry (CBI) also suggests that, while sales volumes growth did slow slightly in September, they remained in line with the long-run average and that firms expect sales to hold up this month as well.

Anna Leach, CBI Head of Economic Intelligence, did however add a note of caution saying: “As we head into autumn, retailers have seen the run of decent sales figures continue. But underlying conditions are clearly tougher, with the sector facing significant challenges – from squeezed household incomes, changing consumer habits to digital disruption.”

And economists are still warning that spending could slow across the rest of this year as a combination of relatively weak growth in real incomes and heightened political and Brexit-related uncertainty make consumers more cautious. However, the strong growth in sales witnessed over the summer months has certainly brought some much needed cheer to the beleaguered retail sector.



