PM Datanote: U.K. Second Estimate of GDP, Q1

In one line: Consumers keep the recovery going.

GDP increased 0.4% quarter-on-quarter in Q1, in line with the preliminary estimate and the consensus.

The new expenditure breakdown of Q1 GDP shows that the recovery is perilously dependent on consumers. Real household spending increased by 0.7% quarter-on-quarter and contributed 0.5 percentage points to GDP growth. Collectively, the rest of the economy is stagnating. Total investment rose by 0.5%, but this reflected increases in dwellings and public investment; business investment fell by 0.5%, ostensibly due to the risk of Brexit. Net trade subtracted 0.4pp from the quarter-on-quarter growth rate of GDP. Government consumption rose by 0.4%.

The latest business surveys suggest that GDP growth has slowed further in Q2, perhaps to zero. Concerns about Brexit likely are playing a role, but the downward trend in GDP growth since 2014 suggests that the E.U. referendum is not solely to blame. Household real income growth is fundamentally slowing as job growth moderates, the fiscal consolidation intensifies and inflation revives. Meanwhile, the real effective exchange rate remains uncompetitive and will strengthen again if the U.K. remains in the E.U. As a result, any post-referendum rebound looks likely to be modest and short-lived. We still expect GDP to rise by just 1.5% year-over-year in 2016.

The chart shows that GDP growth has become less well-balanced across the expenditure components, with household spending doing all of the work.