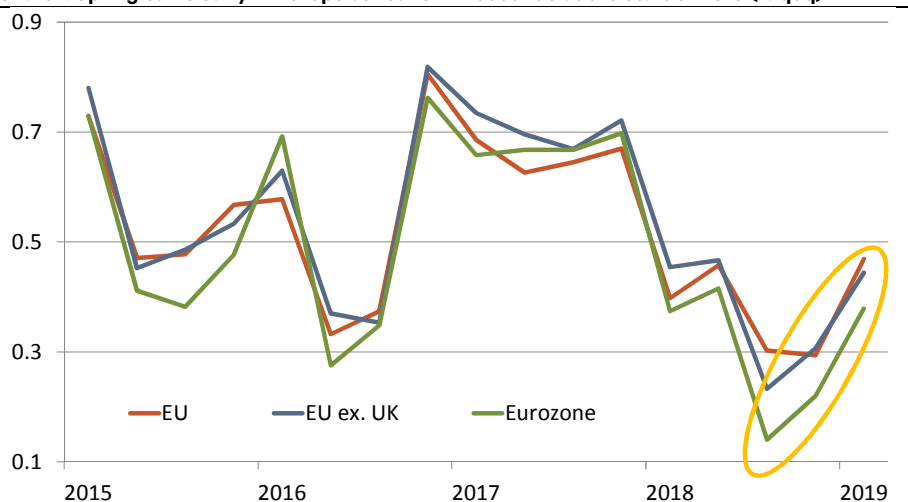


UK: set for positive Q1 growth surprise too

- **Good news for markets:** Q1 2019 real GDP data is outperforming our and consensus expectations in major parts of the advanced world. The better-than-expected data can reinforce the outlook for stronger global momentum over the course of 2019 that is embodied in the recent positive trends in risky assets like equities.
 - At 0.8% qoq, US real GDP [far exceeded expectations](#). We therefore upgraded our call for 2019 real GDP to 2.6% yoy from 2.4%.
 - Eurozone growth [recovered to its trend rate of 0.4% in the first quarter following the soft 0.2%](#) in Q4 2018. As a result, we have raised our real GDP forecast for 2019 to 1.1% from 1.0%.
- **Can the UK surprise to the upside too?** Yes. Eurostat estimates that real GDP growth for the EU28 was 0.47% in Q1, versus a slightly lower 0.44% rate for the EU excluding the UK – see Chart 1. This implies that UK growth contributed positively to the headline EU rate. We thus raise our estimate for Q1 2019 UK real GDP growth to 0.5% qoq from 0.2% previously. Due to the Q1 upgrade, we raise our 2019 annual growth forecast to 1.5% from 1.2% – see Table 1. The first official estimate of UK Q1 GDP is due on 10 May 2019.
- **Mind the gap:** If indeed Q1 UK growth comes in as strong as we now expect, it will buck the trend implied by much of the soft data including the composite PMI – see Chart 2 – which signalled a further loss of momentum at the start of the year following a subdued Q4 2018. In the age of Brexit, however, such indicative data no longer track the official output data as well as before. We highlight four key trends.
 - 1) **Growth remained solid in March:** Monthly data showed that real GDP grew by 0.4% in January/February 2019 compared to Q4 2018.
 - 2) **Real consumption probably remained buoyant in Q1** in line with the solid retail sales trends despite soft consumer confidence and increased anxieties linked to Brexit – see Chart 3.
 - 3) **The February industrial production rebound following the correction in late-2018 and in January 2019 may have extended into March** despite the continued downtrend in confidence among industrial producers – see Chart 4.
 - 4) Survey data suggest that a stockpiling surge in Q1 linked to fears of a hard Brexit on 29 March is likely to correct in Q2 and will likely accentuate volatility in H1 quarterly growth rates. **We look for a slowdown to 0.2% qoq in Q2 2019.**

For our full set of revised economic forecasts, see our [Forecasts at a Glance](#).

Chart 1: Spring came early in Europe as real GDP rebounds at the start of 2019 (% qoq)



Quarterly data. Source: Eurostat

Key macro reports

Understanding Germany: A last golden decade ahead
October 2010

Euro crisis: The role of the ECB
29 July 2011

The lessons of the crisis: what Europe needs
27 June 2014

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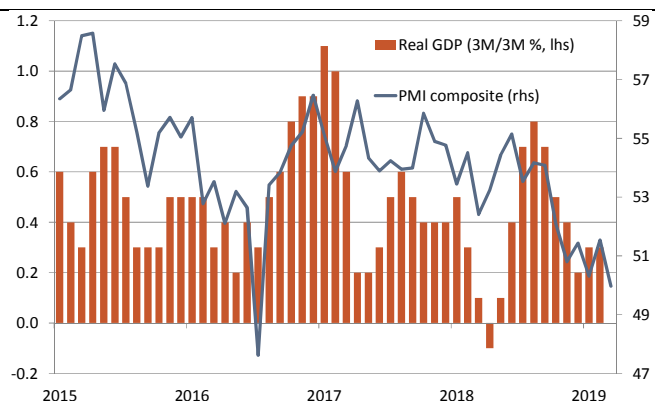
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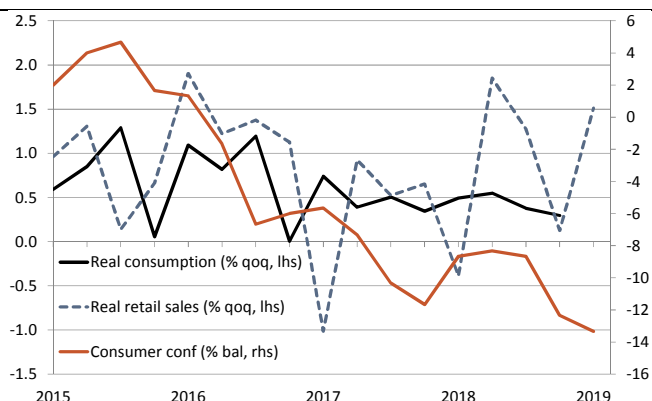
1 May 2019

Chart 2: Composite PMI signals Q1 softness in real GDP



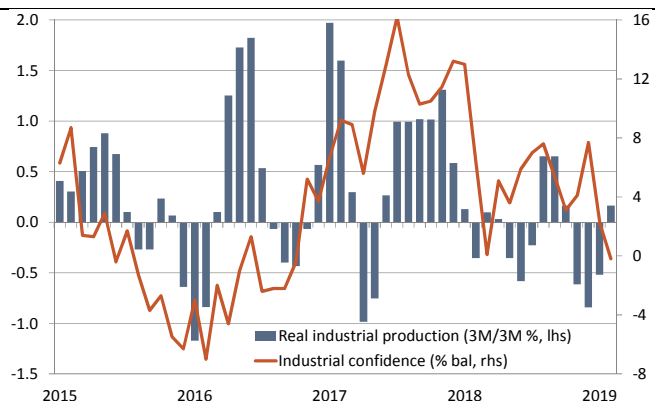
Quarterly data. Source: Markit, ONS. PMI above/below 50 indicates growth/contraction, respectively

Chart 3: Retail signals strong consumption in Q1, but confidence soft



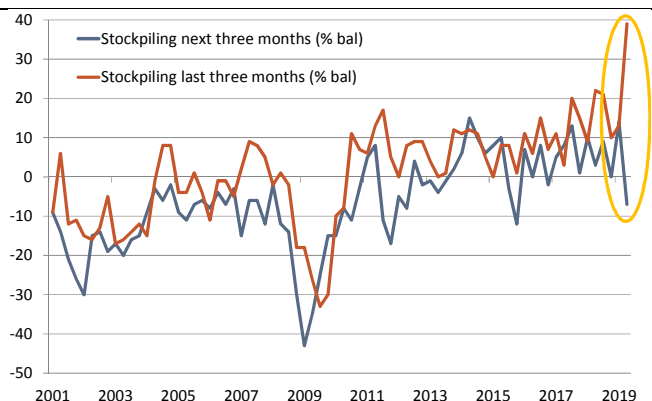
Quarterly data. Source: ONS, GfK

Chart 4: Production doing better than surveys suggest



Monthly data. Source: ONS, European Commission

Chart 5: Stockpiling surge and dip signals wobbles for GDP growth



Quarterly data. Source: CBI

Table 1: UK economic forecasts

		2017	2018	2019	2020	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
GDP	% y/y	1.8	1.4	1.5	2.1	1.2	1.4	1.6	1.4	1.8	1.6	1.3	1.5	1.7	2.1	2.2	2.2
	% q/q					0.1	0.4	0.7	0.2	0.5	0.2	0.4	0.5	0.6	0.6	0.5	0.5
	%q/q ann.					0.2	1.6	2.8	0.9	1.8	0.7	1.7	1.9	2.5	2.4	2.1	1.9
Private Consumption	% y/y	2.1	1.7	1.9	2.4	1.6	1.8	1.6	1.6	1.6	1.6	1.9	2.5	2.6	2.6	2.4	2.1
	% q/q					0.5	0.5	0.3	0.3	0.5	0.5	0.7	0.8	0.6	0.5	0.5	0.5
Government Consumption	% y/y	-0.2	0.4	1.5	0.7	0.8	-0.1	-0.3	1.0	0.8	1.7	2.2	1.1	1.2	0.8	0.5	0.4
	% q/q					0.2	-0.4	-0.1	1.3	0.0	0.5	0.4	0.2	0.1	0.1	0.1	0.1
Investment	% y/y	3.5	0.2	-1.8	3.7	2.1	-0.4	0.2	-1.1	-2.3	-2.8	-2.0	-0.3	2.7	4.8	3.9	3.6
	% q/q					-0.8	-0.6	0.9	-0.6	-2.0	-1.0	1.7	1.0	1.0	1.0	0.8	0.8
Final Domestic Demand ¹	% y/y	1.9	1.2	1.2	2.3	1.5	1.1	1.0	1.0	0.8	0.9	1.3	1.7	2.4	2.6	2.3	2.1
	% q/q					0.2	0.2	0.4	0.3	0.0	0.3	0.8	0.7	0.6	0.5	0.5	0.5
Net Exports ¹	% y/y	0.5	-0.2	-0.4	-0.1	0.5	0.0	-0.4	-0.7	-0.7	-0.3	-0.3	-0.1	0.0	-0.1	-0.2	-0.2
	% q/q					-0.2	-0.4	0.0	-0.2	-0.2	0.1	0.0	0.0	0.0	-0.1	-0.1	-0.1
Stockbuilding ¹	% y/y	-0.6	0.4	0.9	0.3	-0.8	0.3	0.8	1.3	1.9	1.3	0.5	-0.1	-0.7	-0.4	0.1	0.4
	% q/q					0.1	0.5	0.4	0.4	0.7	-0.2	-0.4	-0.2	0.1	0.1	0.1	0.1
Current Account Balance	GBP bn	-68.4	-81.6	-89.5	-76.5	-17.7	-17.3	-23.0	-23.7	-24.0	-22.7	-21.8	-21.0	-20.5	-19.6	-18.7	-17.8
	% of GDP	-3.3	-3.9	-4.1	-3.4	-3.4	-3.3	-4.3	-4.4	-4.4	-4.2	-4.0	-3.8	-3.6	-3.5	-3.3	-3.1
Industrial Production ²	% y/y	1.8	0.8	1.1	1.8	2.0	1.1	0.7	-0.7	0.1	1.1	0.9	2.2	1.8	1.8	1.8	1.8
	% q/q					0.1	-0.6	0.7	-0.8	0.9	0.4	0.5	0.5	0.5	0.5	0.5	0.5
Unemployment Rate ²	%	4.3	4.1	3.8	3.7	4.2	4.0	4.1	3.9	3.9	3.9	3.8	3.8	3.8	3.7	3.7	3.7
	% y/y	2.7	2.5	2.0	2.2	2.7	2.4	2.5	2.3	1.8	2.0	2.0	2.1	2.1	2.1	2.2	2.3
General Govt. Balance ³	% of GDP	-2.7	-1.6	-1.6	-1.2												
	% of GDP	87.9	86.7	85.3	84.3												
BoE Bank Rate ⁴		0.50	0.75	1.00	1.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.50

¹ Contribution to GDP growth ² Period averages ³ Maastricht basis ⁴ End period

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