
UK ECONOMY ESCAPES SHORT-TERM BREXIT HIT, GETS NISSAN BOOST

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By William Schomberg and Costas Pitas | LONDON

Britain's economy slowed only slightly in the three months after the Brexit vote and carmaker Nissan said it would build more cars in the country, tempering fears about the immediate economic impact of the decision to leave the European Union.

The stronger-than-expected growth figures published on Thursday further diminished the likelihood of the Bank of England cutting rates as soon as next week, prompting investors to sell British government bonds.

But finance minister Philip Hammond sounded cautious, saying he still planned to provide support for the economy as Britain launches tough negotiations with the EU next year.

"I think it is right that we still prepare to support the economy during the coming period to make sure that we get through this period of uncertainty," said Hammond, who is due to announce his first budget plans next month.

Official data showed the economy grew by 0.5 percent between July and September, less rapid than the strong growth of 0.7 percent seen in the second quarter but comfortably above a median forecast of 0.3 percent in a Reuters poll of economists.

Sterling jumped to a one-week high against the U.S. dollar after the data and the yield on 10-year government bonds hit its highest level since the European Union membership referendum.

Marc Ostwald, a strategist at ADM Investor Services, said the GDP data killed the chance of a rate cut on Nov. 3 and could also prompt the Bank's most stimulus-skeptical policymaker Kristin Forbes to call for an end to its bond-buying.

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Construction cranes are seen on a residential building project behind homes in west London in Britain, October 26, 2016. REUTERS/Toby Melville

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Britain's dominant services industries provided all the growth, helped by a boom in the film and television sector as the latest releases in the Jason Bourne and Star Trek series hit the screens in July along with other blockbusters.

Compared with the third quarter of last year, growth picked up to 2.3 percent, the strongest pace in more than a year, according to the preliminary figures from the ONS.

"COME CLEAN"

Brexit supporters said the figures backed their argument that warnings of a big hit to the economy from a Leave vote were little more than scaremongering.

Economists for Brexit, a group who disagree with the majority view in their profession that leaving the EU is damaging, said Britain's finance ministry "must now come clean" and admit that its long-term forecasting was likely to be wrong, just as its short-term forecasts were.

But many economists are still warning that the real challenge is yet to come.

"The adverse consequences of the Brexit vote will become increasingly clear as inflation shoots up and firms postpone investment over the coming quarters," said Samuel Tombs of Pantheon Macroeconomics, who correctly predicted the quarterly growth rate in the Reuters poll.

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The sharp fall in the value of the pound since June is expected to push inflation to around 3 percent next year. BoE Governor Mark Carney this week noted the "fairly substantial" fall in sterling, in a sign that the Bank was no longer expecting to cut rates on Nov. 3.

Many companies are expected to put investment plans on hold pending the outcome of the two-year process of negotiating Britain's exit from the EU and a possibly longer period for securing the terms of its new relationship with the bloc.

But Japanese carmaker Nissan gave Prime Minister Theresa May a boost by saying it will build its new Qashqai model in Britain. A source said on Thursday the government had offered support to counter any damage from leaving the EU.

The new investment in manufacturing came as the ONS data showed how reliant Britain has become on its services sector, which grew by 0.8 percent from the April-June period.

By contrast, industrial production, including manufacturing, and construction both contracted, down 0.4 percent and 1.4 percent respectively. The fall in construction was the biggest since the third quarter of 2012.

(Additional reporting by David Milliken and Estelle Shirbon; editing by Andrew Roche)

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