

Melun

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### **What do the latest GDP data say about the post-Brexit economy?**

GDP grows by more than expected. But problems **lurk** behind the headlines

HAPPILY, it is now certain that the British economy will not fall into recession in 2016. On October 27th the Office for National Statistics estimated that in the third quarter of the year GDP grew by 0.5%. This is a big improvement on the 0.1% growth that the Bank of England

had forecast in August, and far better than some economists had predicted immediately following the Brexit referendum in June. British growth is good by international standards, and is in line with the average since 2010.

Yet markets **shrugged**. The pound registered little change against the dollar, against which it has lost nearly a fifth of its value since the referendum. The muted reaction was due to the fact that, beneath the impressive headline figure, there were signs that the British economy has not simply brushed off the Brexit vote. Of particular concern is the manufacturing sector, which economists had hoped would benefit from the weak pound. In the event it shrank by 1% compared with the previous quarter, its worst performance since 2012. Construction saw a bigger fall, of 1.4%, suggesting that firms and individuals are holding back on investment spending. Most of the economy's growth was in services, which grew by 0.8%.

This was a preliminary estimate, based on sparse data; readings of GDP are sometimes significantly revised years later. Other data give **a fuller picture** of Britain's post-Brexit economy, and it is not encouraging. Rising inflation will soon cause real wages to fall, pushing down living standards. The latest batch of public-finance figures (for September) made for painful reading. Tax receipts grew far more slowly than was forecast at the budget in March. By the end of this financial year the budget deficit is unlikely to be much lower than last year's, at around 4% of GDP.

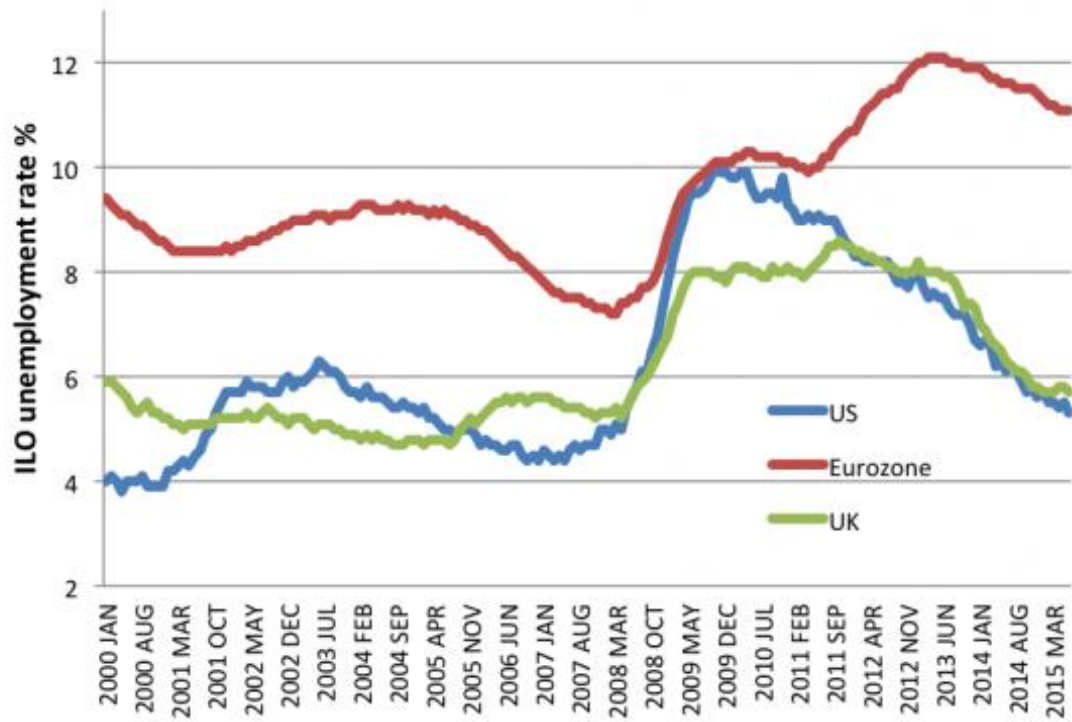
With decent growth in 2016, the Bank of England and the chancellor, Philip Hammond, will probably adjust their immediate plans. At its next interest-rate meeting in November, the bank is unlikely to cut the base rate from its level of 0.25%, as had been widely predicted a few weeks ago. And Mr Hammond may feel that he can get away with a smaller fiscal stimulus in his autumn statement, a mini-budget due on November 23rd (a relief, given the poor public-finance figures). But expect further monetary and fiscal **loosening** in the future—after all, Brexit itself is still to come.

(The Economist, October 29th, 2016)

## Questions

- 1) Why is the economic situation in Great-Britain better than expected ?
- 2) Explain the worry of economists concerning the manufacturing sector.
- 3) Why is Phillip Hammond's autumn statement a relief ?
- 4) Why is Brexit itself still to come ?

## Unemployment - UK, US, Eurozone



www.economicshelp.org | Source: ONS - ZXDX, ZXDH, LF2Q