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Western European Economic Indicators and Insights

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# UK: Activity Jumps Back Clearly

**More Rationale for BoE Inaction!**

Real GDP jumped by a higher-than-expected 1.0% in Q/Q terms last quarter, very much ending the formal recession which saw a three quarter long period of contraction, including the 0.4% Q2 fall. This result brought the Y/Y rate back up half a percentage point to flat.

**Distortions Clearly Unwound**

This recovery in GDP is of no great surprise, although perhaps a further warning that the continued weak business survey numbers still have many shortcomings in trying to assess the extent of swings in activity. The question is the extent to which special factors accounted for the recovery last quarter. *Very clearly, the negative impact of the Royal Jubilee (which led to additional working day in Q3 that could not be accounted for in seasonal adjustments) were unwound, with it likely that their collective impact fully reversed the 0.4% Q2 drop. In addition, the Olympics may have boosted activity by around 0.2-0.3 percentage points.*

**Some Underlying Recovery Evident**

Given these distortions, this leaves something likely a quarter of percentage point as the possible underlying growth in the quarter. This is hardly a firm picture, still leaving GDP some 3 percentage points below the peak level seen in Q1 2008, but is certainly better than seen in the last few quarters. The question remains how sustainable this may be. Obviously, this is a very hard question to answer at this juncture given what are the mixed messages in what has been a more positive data backdrop of late.

*The GDP details also provide mixed messages, very much consistent with fresh weakness occurring in services in yet-to-be published September data*, as the impact of the Olympics unwinds, but with a further rise in manufacturing activity, the latter occurring in the face of apparently weak survey numbers for the sector. Actual September data may instead point to a revision to this GDP estimate, but there it (as yet) no clear rationale in which direction it may be. All of which mean that the GDP data will be taken as they are.

**Policy Reverberations**

In the meantime, the Q3 data as they stand will cause clear political reverberations, particularly in regard to the stance of fiscal policy, albeit with the Government still likely to accept that it will be unable to hit its fiscal goals. *The data will also create little stir within the BoE, which has long held out that the economy is much stronger than GDP data has been suggesting.* Indeed, the Q3 GDP backdrop is actually a little firmer than the already upbeat picture embedded in (August) BoE projections.

**DE View:** As a result, and especially given recent comments from Governor King in which he acknowledged more positive signs in the economy, *the MPC is unlikely to add to its asset purchase plan next month, especially with the BoE now veering more to its innovative Funding for Lending Scheme as a means of providing any further stimulus.*