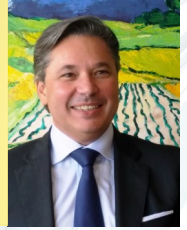


# WEEKLY ANALYSIS

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## UK FACING INFLATIONARY EFFECTS OF BREXIT

**UK GDP disappoints. Economic weakness expected in Q4. Exports to the EU drop by GBP 900 billion. Tight labour market. Inflation is spreading. Long-term interest rates rising. The BoE is ready to raise interest rates.**

### Key Points

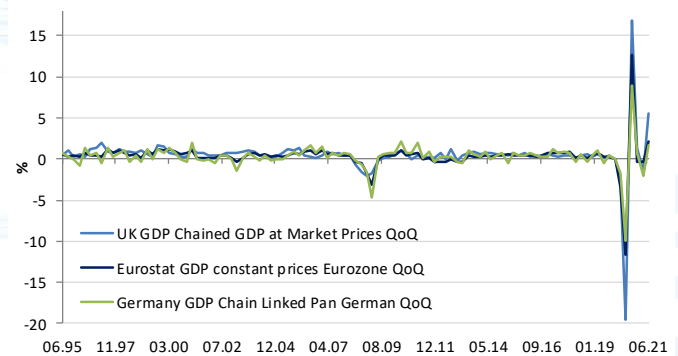
- UK GDP stagnates in July (+0.1%)
- Historic fall in UK exports
- Leading indicators still unconvincing
- The labour market is tightening and the BoE is concerned
- Household confidence still lacking
- Inflation taking hold and spreading gradually
- Trend reversal in the sterling bond market
- BoE not quite in panic mode yet
- Can the sterling benefit from the nominal rate differential?
- UK real estate remains in high demand
- Risk premium for equities at 20%

### UK GDP stagnates in July (+0.1%)

In July, UK GDP grew by only +0.1% over the month, below expectations. After a +1% increase in June, the anticipated slowdown turned out to be stronger than expected. Rising cases of Covid-19, worsening product shortages and a tight labour market have affected the recent performance of the economy. Despite the latest health restrictions having been lifted mid-July, many British people were still isolated. The rise in industrial production (+1.2%) logically made a positive contribution, while services stagnated due to the further decline in activity in distribution, transport and leisure. Post-Brexit GDP thus shows a cumulative increase over seven months of around +4.3%, mainly due to the solid recovery in Q2, revised to +5.5%, which followed the sharp correction recorded in January 2021 (-2.9%). Performance over three months remains encouraging (+3.6%), but momentum slowed during the summer, leading to fears of decelerating quarterly growth in Q3. At the end of June, British GDP did rebound by +22.2% year-on-year. However, it remains 2.1% below its pre-pandemic level. Q2 GDP had

benefited from the intensive vaccination efforts and the easing of health measures and pointed to a rather favourable third quarter. However, the recovery will probably also stall at the end of the year, particularly due to the expected disruption of supply chains and the difficulties encountered in certain segments of the labour market, which are likely to persist. The shortage of HGV drivers in the transport sector, estimated at around 100,000, is a glaring example of the problems arising from Brexit-related regulatory changes that could affect economic momentum and inflation in the coming months.

Quarterly GDP growth-UK



Sources: BBGI Group SA

### Historic fall in UK exports

UK trade with the EU fell sharply in July in the wake of Brexit. Total merchandise exports fell by GBP 300 million due to a GBP 900 million collapse in exports to the EU. A GBP 700 million increase in exports to other countries partly offset this decline. These latest figures are in line with the trend observed over the past several years. The UK has fallen off the list of Germany's top 10 trading partners following an 11% drop in exports to Germany. British exporters have lost their competitive edge since the beginning of the year. Even the financial services sector is struggling and has been steadily losing market share since 2017.