

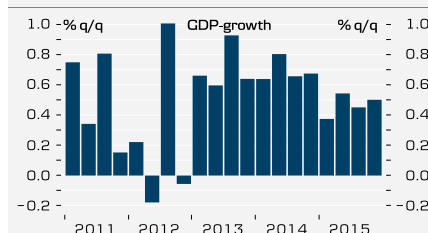
28 January 2016

Flash Comment UK

Growth rebounded to 0.5% q/q in Q4 15

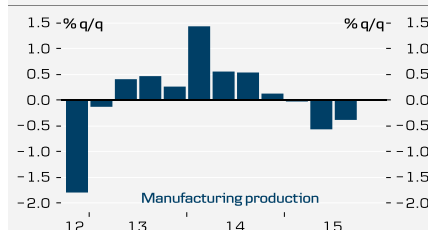
- The Office of National Statistics has just released the first estimate of UK Q4 15 GDP growth (based on less than 50% of the total information required for the final estimate). **The figures show that growth increased to 0.5% q/q in Q4 from 0.4% q/q in Q4, in line with our expectations and consensus.** Overall, GDP grew by 2.2% in 2015 down from 2.9% in 2014.
- The service sector (78.4% of GDP) was still the main contributor to growth.** Services increased by 0.7% q/q and thus contributed by 0.52 percentage points to quarterly GDP growth in Q4. Construction (6.4% of GDP) declined by 0.1%, which was better than expected. Thus construction contributed neither positively nor negatively to growth. Total industrial production (14.6% of GDP) fell 0.2%, which was not enough, however, to drag overall GDP growth down by more than 0.03pp due to the low weight. The fall in total industrial production was caused by a fall in mining & quarrying of 1.4% q/q, which was the first decline since Q3 14. Manufacturing production was unchanged in Q4. **Manufacturing production is still struggling with the slowdown in manufacturing globally and the past GBP appreciation.**
- Going forward, we expect the UK to grow at a similar pace around 0.5% q/q (or perhaps marginally higher).** Growth will continue to be driven by services (domestic demand) but we also expect the manufacturing cycle to turn, which should help the struggling manufacturing sector in the UK. However, as we wrote in our latest macro forecasts for the UK, we think *Brexit uncertainty is the biggest threat to the upturn* (published 6 January).
- Although Bank of England (BoE) will be happy to see that growth rebounded in Q4, it does not significantly change its assessment of the economy.** Very low inflation, subdued wage inflation and financial turmoil are reasons enough for BoE to be patient. **The BoE February meeting takes place next week and at this meeting we will get an updated Inflation Report and Carney will be answering questions at the following press conference.** We already know that BoE is likely to take another dovish stance as BoE governor Mark Carney recently held a very dovish speech in which he explained why BoE is not 'Fed light'. Still, the new Inflation Report is set to attract attention since we will get more precise information about how the latest developments in the global economy and financial markets have affected BoE's view on the economy in terms of growth, unemployment and inflation forecasts.

GDP grew 0.5% q/q in Q4



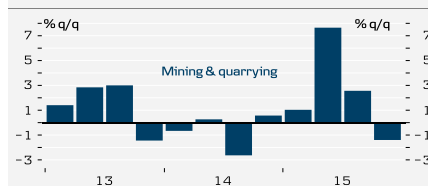
Source: Office for National Statistics

Manufacturing production continues to be weak



Source: Office for National Statistics

First fall in mining & quarrying since Q3 14

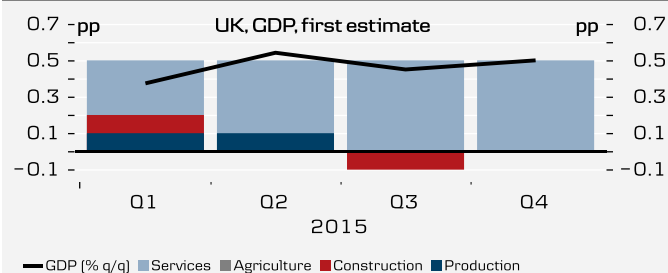


Source: Office for National Statistics

Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

Charts

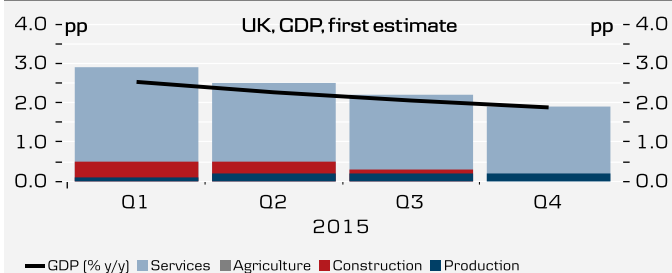
Growth continues to be driven by services



Note: May not sum due to rounding

Source: Office for National Statistics, Danske Bank Markets

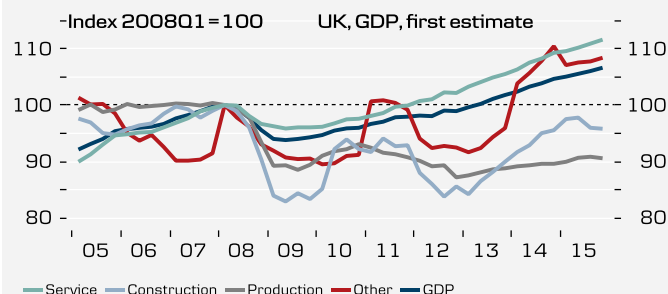
Year-on-year growth slowed to 1.9% y/y



Note: May not sum due to rounding

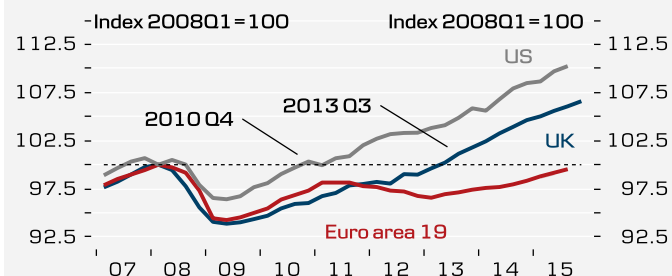
Source: Office for National Statistics, Danske Bank Markets

Manufacturing production struggles with the slowdown in manufacturing globally and the GBP appreciation



Source: Office for National Statistics, Danske Bank Markets

UK economy has outperformed the euro area



Source: ONS, BEA, Eurostat

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of the research report is Mikael Olai Milhøj, Analyst.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in this research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the Danish Society of Financial Analysts' rules of ethics and the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.