

Data Alert: UK real GDP

Latest ONS release

February 2011

Introduction

These data alerts highlight key economic statistics as they are released and relate the messages they convey to the SW economy.

This particular alert considers the revision to fourth quarter UK real GDP just released.

The main message for SW business is that the weather effects blamed for the decline in aggregate activity at the end of 2010 are confirmed but the economy may have shrunk even without the snow.

Data Headlines

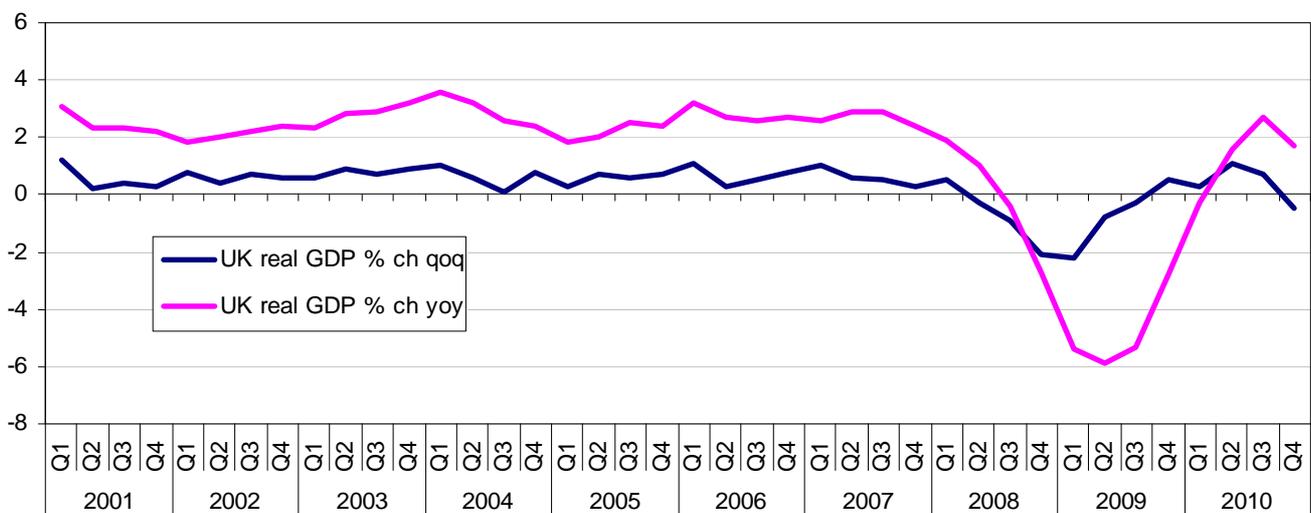
The revised estimate of UK real GDP in the fourth quarter of 2010 was an increased fall of 0.6%. In other words, at the end of last year, the economy was slightly weaker than thought a month ago and the decrease was not just down to cold weather.

The components of GDP reveal the following pattern of growth:

- 1) output – manufacturing growth was revised down to 1.1%, construction fell by 2.5% and services by 0.7% (revised lower). Within services, distribution (retail, hotels etc) were down 0.4%, transport and comms -1.4% and financial and business services -1.1%.
- 2) expenditure – household consumption fell 0.1% and investment 2.5%. Government spending increased 0.7%, and exports grew 2.3% - less than imports (+3%).

The economy entered 2011 in poor shape with no sign of the rebalancing hoped for by government and others. There is nothing in these figures to suggest investment and trade will substitute for consumption and government in the UK economy.

The chart shows how the recovery from a very deep recession faltered in late 2011.



Prospects

There have been some signs of a bounce in economic activity in January and, if anything, the signals were better for the South West than the country as a whole.

It must be borne in mind, however, that both January and December 2010 were severely weather affected. Both month-on-month and year-on-year comparisons, therefore, are likely to look favourable.

We would need to see this 'bounce' continue for a few more months to be confident of better growth this year.

Unfortunately, early surveys of February are not optimistic. With the VAT increase working through, other tax and interest rate changes coming, and food, fuel and energy costs soaring, aggregate demand is facing strong negative pressure.

Later this year, investment and exports are going to have to increase more strongly than we have seen to date to compensate for sluggish consumption and contracting government expenditure. Some surveys suggest this rebalancing may be showing in business intentions. But, so far, it is doubtful that its modest extent will be enough to offset brakes on discretionary spending.

The consensus is that real growth will end up around 2% per annum in 2011. This is not enough to generate sufficient private jobs to counter public redundancies.

With the global situation less than bullish, as US growth is expected to stay modest, the Eurozone is hamstrung by its fears of debt default, China seeks to slow its growth to tackle inflation and events in the Arab world add to the surge in commodity prices, the risks of 'stagflation' have increased.

Nigel Jump, February 2011



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