Markit Economic Research
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# United Kingdom

## 2013 growth revised down but outlook brightens on rising business investment

- **2013 economic growth revised down to 1.8%, but data show upturn in investment towards end of year**
- **Profits and incomes both rise alongside broad-based upturn in output**
- **Investment, household spending and exports to deliver stronger GDP growth in 2014**

The economy grew less than first thought last year, but the estimate for the fourth quarter was left unchanged at 0.7% and the details of the latest release bode well for stronger growth in 2014.

The Office for National Statistics now estimates that gross domestic product rose by 1.8% in 2013 compared to its initial estimate of 1.9%. That was nevertheless still its best year of growth since 2007, when an expansion of 3.4% was recorded.

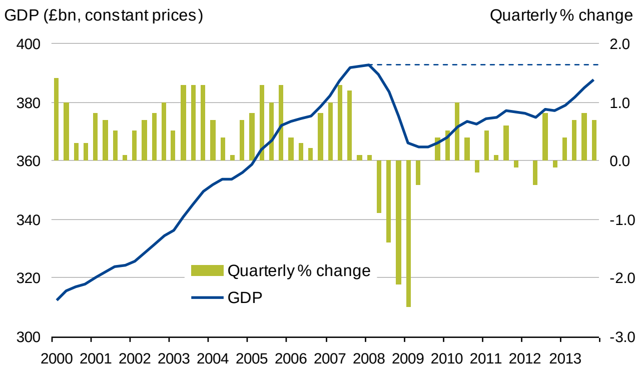
The downward revision reflects weaker than previous growth in the first half of the year, which brings the GDP data more into line with survey data, which had presented a less perky start to 2013, leaving a strong picture for the second half of the year, during which the expansion was fuelled by business investment, higher incomes, rising profits, exports and ongoing growth of consumer spending.

### Brighter outlook

Economists have been busy revising up their forecasts for 2014, with the Bank of England in a particularly bullish mood, expecting growth of 3.4%. Such optimism is looking warranted, given the current strong survey data, and the details of the fourth quarter GDP report.

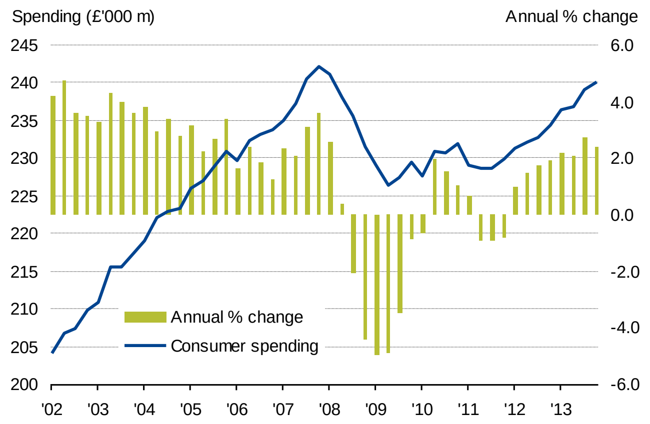
Key to the improved performance of the economy is whether companies will unleash their pent-up cash reserves and embark on a long-awaited investment spree. Economic uncertainty and credit constraints have discouraged investment and expansion since the financial crisis struck, but the improved outlooks at home and abroad mean the environment is now more conducive to investment and risk taking.

### Economic growth



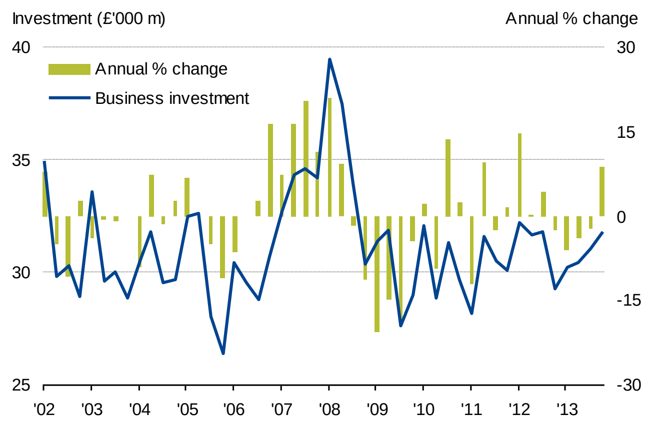

Source: ONS.

### Household spending




Source: ONS.

### Investment




Source: ONS.

The latest data show this investment upturn is already taking place: investment (as defined by gross fixed capital formation) surged 2.4% in the final three months of last year, building on consecutive increases in each of the prior three quarters. Investment stood 8.5% higher than a year ago as a result.

The upturn in investment should continue in coming months. Survey data show new orders for investment goods, a leading indicator of actual investment spend, rising at the fastest rate fro two decades in recent months.

For all the talk of a consumer-led recovery, consumer spending rose a modest 0.4% by comparison in the fourth quarter, down from 0.9% in the third quarter. However, the consumer should provide additional support to the recovery as we move through 2014, with the improving labour market, lower inflation and a buoyant housing market setting the stage for higher consumer spending. Households are the most optimistic about their future finances than at any time since the recession struck, and wages are showing signs of picking up, according to recruitment agency surveys. The GDP data showed compensation of employees rising 0.5% in the fourth quarter, up 3.9% on last year.

Exports are also beginning to pick up as growth revives in the eurozone.

This year should therefore be the best we have seen since the financial crisis for economic growth, but the need to tighten policy in 2015 means growth is likely to slow thereafter.

## Broad-based upturn driving profits growth

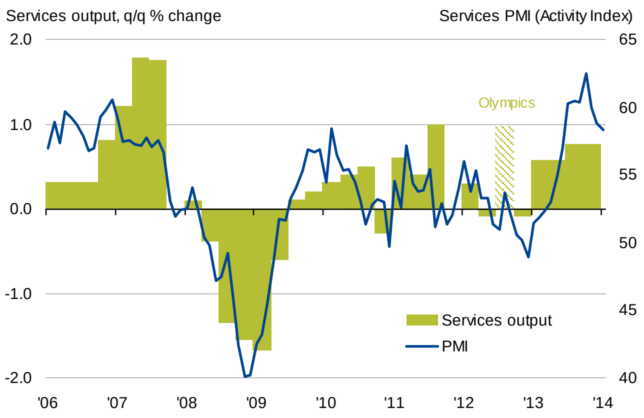
In the detail, growth of industrial production was revised down in the fourth quarter from 0.7% to 0.5% (with manufacturing output revised down from 0.9% to 0.7%), but construction was revised up to show an increase of 0.2% against a prior estimate of a 0.3% decline. Services output was left unchanged, showing a 0.8% increase.

The upturn in output across the three main business sectors led to a commensurate increase in profits, which rose 6.6% in the final three months of the year, up 4.4% on the same period a year ago.

The positive trend in spending follows a growing improvement in household sentiment, which is in turn linked to the sharp fall in unemployment, signs of rising incomes and a brightening economic news flow in general. Markit's February Household Finance Index survey showed the number of people more optimistic about their finances in the year ahead outnumbering pessimists for the first time since data were collected over five years ago.

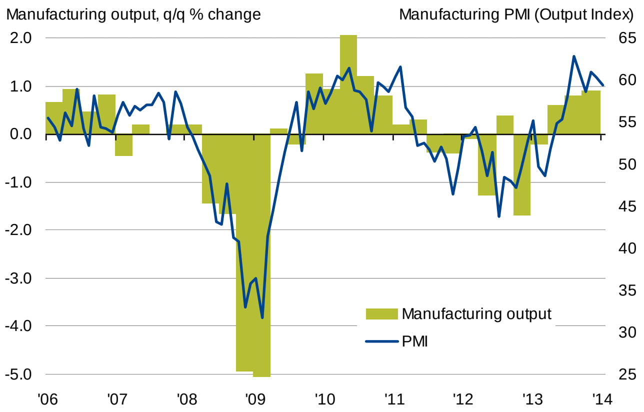
Consumers should therefore continue to help drive the economic recovery in 2014, boosted as the labour market continues to improve, wages start to show stronger growth and inflation remains subdued.

### Services



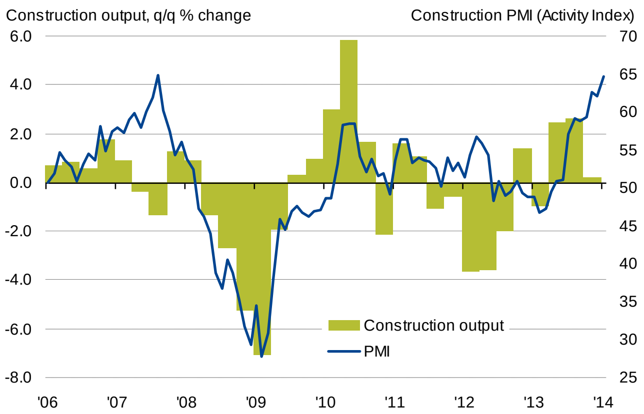

Sources: Markit, ONS.

### Manufacturing




Sources: Markit, ONS.

### Construction




Sources: Markit, ONS.

**Chris Williamson**
**Chief Economist**
Markit
Tel: +44 207 260 2329
Email: chris.williamson@markit.com

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