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Markit Economic Research

27/06/2013

United Kingdom

“Double-dip” recession revised away

- **Double-dip recession revised away by ONS GDP revisions**
- **First quarter GDP unrevised at 0.3%, with surveys signalling further uplift in Q2**
- **Steep falls in household incomes and business investment add to signs of fragile economy**

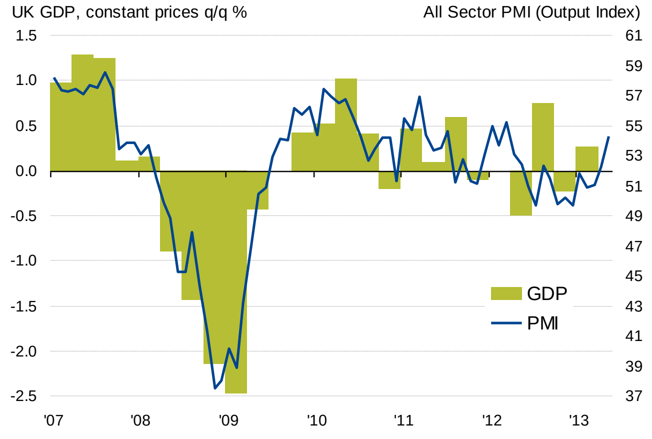
Economic history has been re-written yet again. The Office for National Statistics has revised away the UK’s ‘double-dip’ recession.

The data also show the economy expanded at a reasonable but unexciting pace in the first quarter of this year, albeit with worrying signs of steep falls in business investment and household incomes, which serve as a reminder to the government and Bank of England that much still needs to be done to get the UK economy back to health.

The country’s output, as measured by gross domestic product, was originally estimated to have fallen for three consecutive quarters from late-2011 to mid-2012, representing a mild second recession after the steep downturn endured in 2008-09, at the height of the financial crisis. Output is now estimate to have fallen 7.2% during the 2008-09 crisis instead of 6.3%.

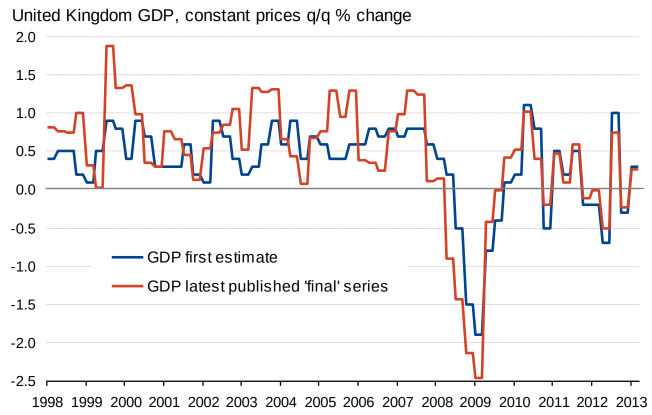
A recession is usually defined as two consecutive quarters of decline, but new data indicate that output no longer fell in the first quarter of 2012. Moreover, if we bear in mind that the drop in output in the second quarter of 2012 was thought to be entirely due to the Queen’s Jubilee celebrations, the second recession was clearly just a symptom of mis-calculation of data and lost working days.

GDP and the PMI



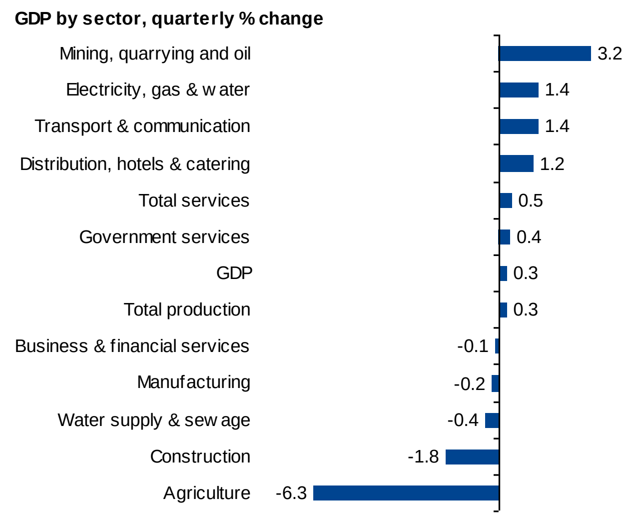
Sources: Markit, ONS.

Retelling history



Sources: Markit, ONS.

GDP in Q1 2013



Economy reviving but still in fragile state

Economic growth in the first quarter of this year was left unrevised at 0.3%, as expected. This modest but unexciting growth corresponds with the signal from the business surveys, which also indicate that the pace of growth looks to have picked up in the second quarter. The available information points to GDP growth approaching 0.5% in the three months to June.

However, other data within today's release provides a reminder of the fragility of the economy, and especially business confidence. The economy is just 0.3% larger than a year ago, half the previous estimate. Moreover, although profits rose 4.9% in the first quarter (stronger than the initially though 4.1% rise), business investment slumped by 1.9% (steeper than earlier estimates of a 0.4% fall). That was the largest drop in investment since the height of the financial crisis in the third quarter of 2009, and is a worrying sign that businesses remain reluctant to spend on new investment projects – something that has been an ongoing key factor behind the economy's disappointing recovery to date.

There were also worrying signs from the household sector, with incomes falling 1.7% in the first quarter compared to a previously-estimated 0.3% drop. The latest decline is the largest since the first quarter of 1987 and is a salient reminder that the consumer is being squeezed by record low pay growth, and as such is unlikely to help drive economic expansion in any meaningful way until pay growth revives.

More QE?

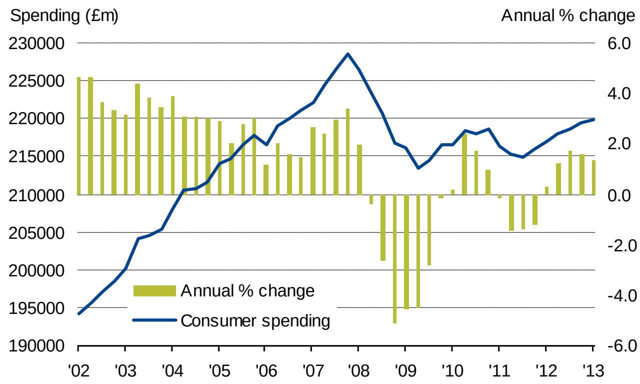
There is a general expectation that the Bank of England will restart its quantitative easing programme on the appointment of new governor Mark Carney, especially as the revision to the GDP data indicate that the economy is some 3.9% smaller than its pre-crisis peak, worse than the previously-thought 2.6% shortfall. However, this is no done deal. Carney inherits an economy that is fragile but steadily reviving, and his focus may instead be on helping manage expectations of how long interest rates will stay low for and finding new ways to boost lending, instead of simply printing more money.

False signals for policy

Although only mild, the second recession was politically embarrassing for the government and placed greater pressure on policymakers to act swiftly to stimulate growth. However, at the time, the downturn contrasted markedly with far more upbeat survey data. Most notably, the PMIs pointed to reasonable growth over much of the downturn period, with accelerating growth of services, construction accompanied by a reviving manufacturing sector between late-2011 and early-2012.

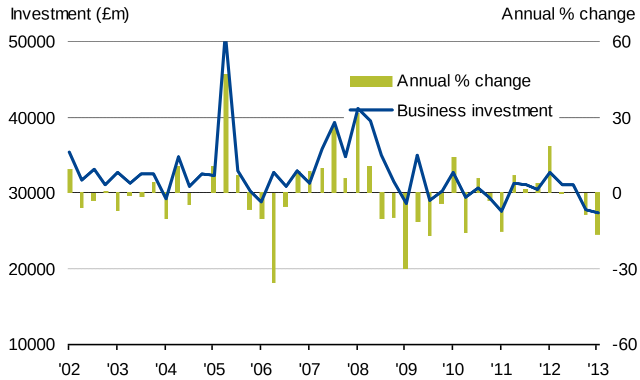
The revisions are therefore yet another reminder that official data need to be treated with a huge pinch of salt, not only when first released but also for a number of years after first publication, if policy errors are to be avoided. The revisions also add to the evidence that surveys such as the PMIs typically provide policymakers, investors and business decision makers with a more accurate indication of what's really happening in the economy, typically providing a better indicator of final (revised) official data than early official estimates.

Consumer spending



Source: ONS.

Business investment



Source: ONS.

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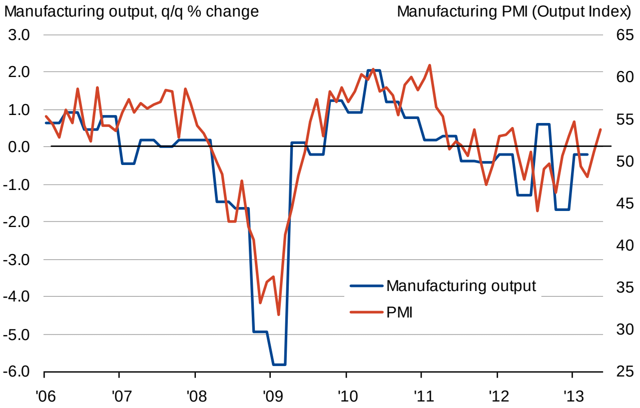
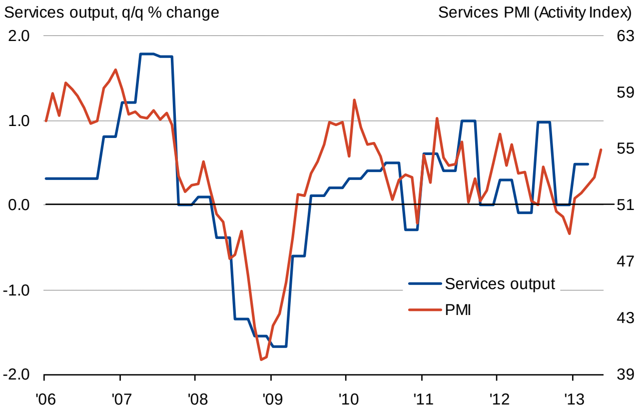
Manufacturing output



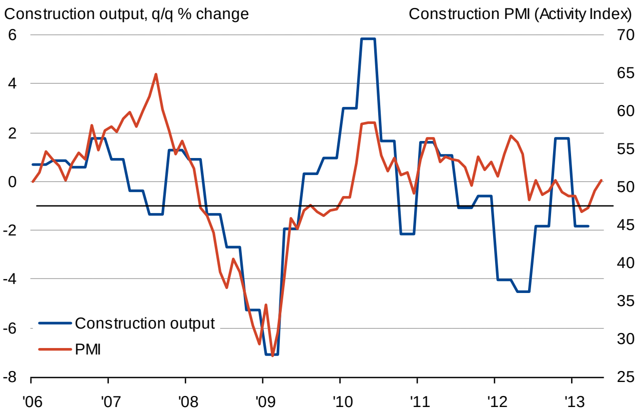
Sources: Markit, ONS.

Services



Sources: Markit, ONS.

Construction



Sources: Markit, ONS.