

# United Kingdom

## Economic downturn due to cautious consumers, falling business investment and export losses

- **Second estimate of Q4 GDP unchanged at -0.3%**
- **Business investment falls at fastest rate for two years, exports and imports fall, consumer spending rises at weakest rate for a year**
- **PMI points to return to growth in Q1**

The UK economy contracted 0.3% in the final quarter of last year, but the country is now estimated to have grown in 2012 as a whole rather than stagnated as previously thought, and looks set to narrowly avoid a triple-dip recession. A return to growth is likely in the first quarter. However, none of the root causes of the weakness of the economy have yet been resolved, suggesting very modest growth at best can be expected over the course of 2013.

The second estimate of gross domestic product (GDP) confirmed that the UK economy contracted 0.3% in the final three months of 2012. An upward revision to growth in the third quarter, from 0.9% to 1.0%, and a milder downturn in the first quarter (a 0.1% decline instead of a 0.2% reduction), means the economy grew 0.2% in 2012 as a whole rather than stagnating as previously thought. The marginal growth is nevertheless still a major disappointment and without the boost from the Olympics the underlying trend in the economy was one of clear contraction.

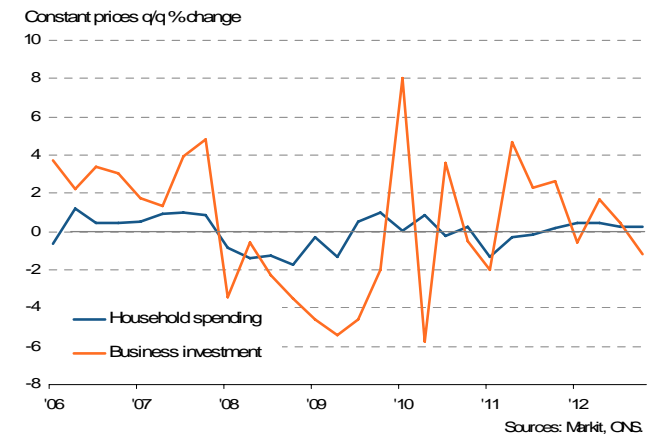
In terms of output, manufacturing shrank less than previously thought in the final quarter, with output down 1.3% instead of the previously estimated 1.5% decline. Construction grew 0.9% instead of 0.3%, but service sector output is now thought to have fallen by 0.1% instead of the initial flat picture.

The main area of weakness remained the energy sector, with the so-called extractive industries seeing an 11.0% drop in output, largely due to North Sea rig maintenance.

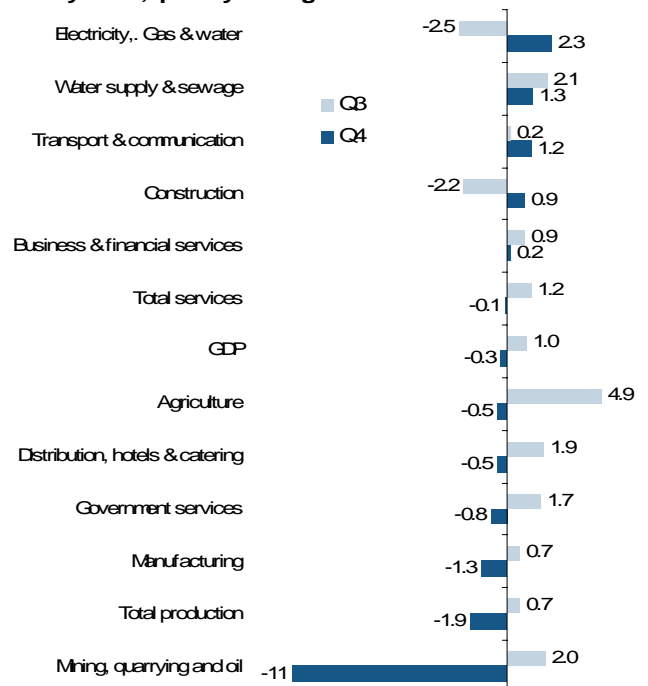
Looking at the composition of GDP by expenditure, consumer spending rose just 0.2% in the final three months of the year, its weakest increase seen

throughout 2012, while business investment fell 1.2%, its largest decline for almost two years. While the latter is a worrying indication of firms' lack of appetite to invest, the decline should be treated with particular caution as the investment data are prone to substantial revision.

### Business investment and consumer spending



### GDP by sector, quarterly % change



## Exports fall

Imports fell 1.2%, the largest decline for almost two years and highlighting the downturn in domestic demand late last year. However, in a sign of how weakness in the global economy has been exacerbating the sluggish demand at home, exports of goods fell 1.9%, partially reversing a 3.3% increase seen in the third quarter, while exports of services fell 0.8%, down for the fourth successive quarter.

## 'Triple-dip' averted?

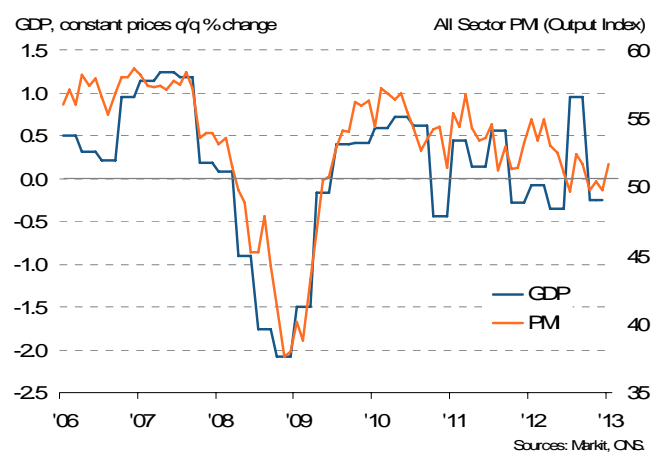
The big question remains as to whether the economy will contract again in the first quarter, thereby constituting a triple-dip recession. The concern as to whether this will affect the country's AAA credit rating has of course passed, but a renewed slide into recession would lead to further calls for the Chancellor to boost growth in the upcoming Budget and for the Bank of England to undertake more quantitative easing, or find other more drastic stimulus measures as hinted by the Bank's deputy governor Paul Tucker yesterday.

One of the biggest clues as to how the economy has fared in the first quarter has come from the PMIs, which showed business activity reviving at the start of the year, growing at the fastest rate for four months.

The current best-estimate is for GDP to grow by perhaps 0.2% in the first quarter as a whole, based on the January PMIs and leading indicators, thereby narrowly skirting a triple-dip recession. However, with political tensions rising in the eurozone due to the inconclusive Italian elections, low consumer confidence at home, signs of still weak bank lending

and businesses remaining reluctant to invest due to economic uncertainty, none of the main causes of weak growth have been resolved. The outlook for the rest of the year is therefore one of very modest economic growth at best with ongoing, heightened risks of another slide back into contraction.

## GDP and the PMI



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