

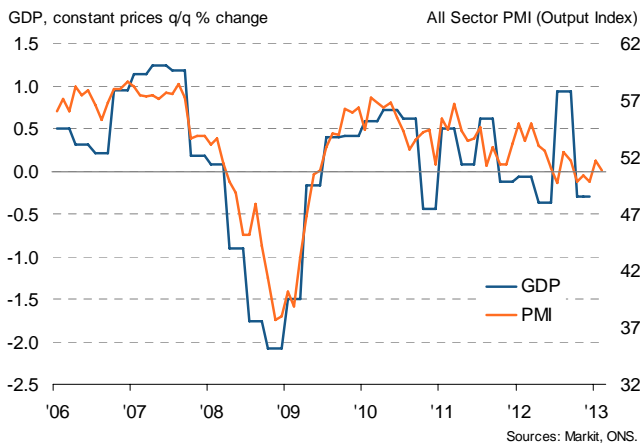
United Kingdom

Economy hit by falling investment, weak trade and cautious consumers

- **Fourth quarter GDP fell 0.3%**
- **Downturn linked to 0.8% fall in investment and 1.6% drop in exports, plus a mere 0.4% rise in consumer spending**
- **Savings ratio highest since 1997 last year**

Final data for the fourth quarter of last year show an economy suffering from the headwinds of falling exports, declining business investment and cautious consumers.

UK GDP and the PMI



The data from the Office for National Statistics suggest that the eurozone's recession continued to hit demand for UK-produced goods and services and that companies remained either reluctant to invest in new equipment and infrastructure due to the uncertain economic outlook, or remained squeezed of affordable credit. At the same time, households increased their spending, but likewise remained wary of unnecessary expenditure, with the savings ratio for the full year hitting the highest for 15 years.

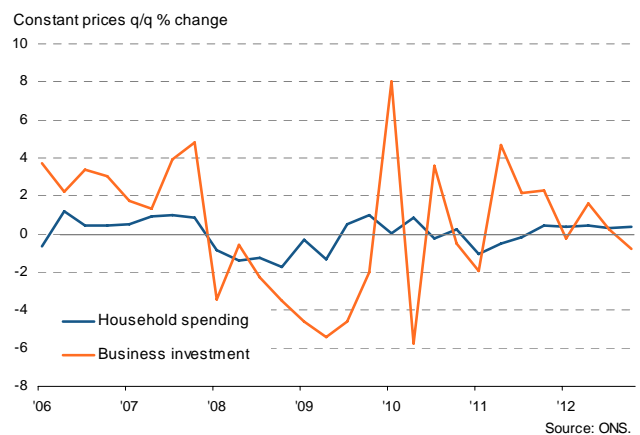
The UK economy is estimated to have shrunk by 0.3% in the final quarter of last year, unchanged on the previous estimates, having expanded 0.9% in the third quarter. The ONS reported that the main contributors to the decline were a downturn in overseas trade, with exports falling 1.6%, and a 0.8% drop in business investment.

North Sea rig maintenance also added to the downturn, causing output to fall 10.7% in the extractive industries, but manufacturing output similarly fell 1.4%, its largest fall since the first quarter of 2009. In contrast, services output was unchanged and the construction industry saw its first increase in production since the spring of 2011, with output rising 0.8%.

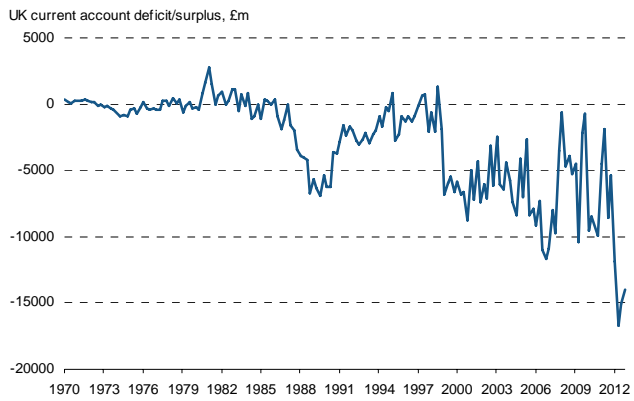
Household spending rose more than previously thought, with an increase of 0.2% revised up to 0.4%. Household spending has now risen modestly in each of the past five quarters, lifted in part by rising real incomes: although real average pay rates have been falling for some time now, total real incomes rose 2.1% over 2012 as a whole (despite a 0.1% dip in the fourth quarter), enjoying the strongest annual rise since 2003. Households clearly remained in a cautious mood throughout the year, however, meaning the savings ratio rose to 7.1%, its highest since 1997, albeit with a drop to 6.7% in the fourth quarter.

While severe weather will have no doubt hit the economy in the first quarter, adversely affecting retail sales, construction, agriculture and leisure activities in particular, it still seems likely that very modest growth will have been seen in the first three months of the year and a politically-embarrassing triple-dip may therefore be avoided.

Consumer spending and business investment



UK current account



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