markit

Markit Economic Research

20/12/2013

United Kingdom

UK economic recovery stronger than previously thought

- **GDP revisions back to early 2012 mean economy grew more than previously estimated**
- **Third quarter GDP growth unrevised at 0.8%, but business investment revised higher**
- **Export drop pushes current account deficit to widest since 1989**
- **Tax receipts boost deficit reduction**

The UK economy has grown faster than previously thought over the past year. Updated data from the Office for National Statistics confirmed that the UK economy grew 0.8% in the third quarter compared with the second quarter, but prior data back to early 2012 were revised higher, meaning year-on-year growth was revised up from 1.5% to 1.9%. Compared to the pre-crisis peak, the economy is now thought to be 1.9% smaller rather than the prior estimate of 2.5%. The upward revisions were largely due to higher than previously estimated consumer spending.

Mixed news on rebalancing

While there was some welcome evidence of the economic upturn being driven by rising business investment as well as consumer spending, the data on exports were a major disappointment, to the extent that the drop in trade is a puzzle.

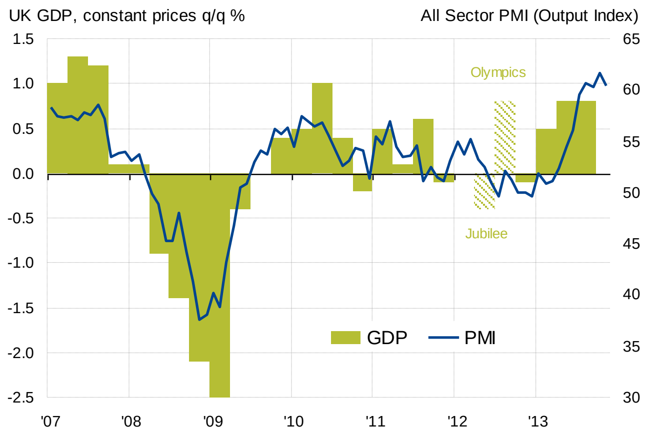
Business investment growth in the third quarter was revised up from 1.4% to 2.0%, outpacing household spending, growth of which was unrevised at 0.8%.

Industrial production rose 0.6%, but within the production sector manufacturing growth was revised down from 0.9% to 0.8%. Construction output was revised sharply higher, however, up from 1.7% to 2.6%. Output of the huge services sector was also greater than previously thought, rising from 0.7% to 0.8%. Within services, growth was led by business services, followed by hotels and restaurants.

The only sectors to see falling output were transport & communications, agriculture and electricity, gas & water production.

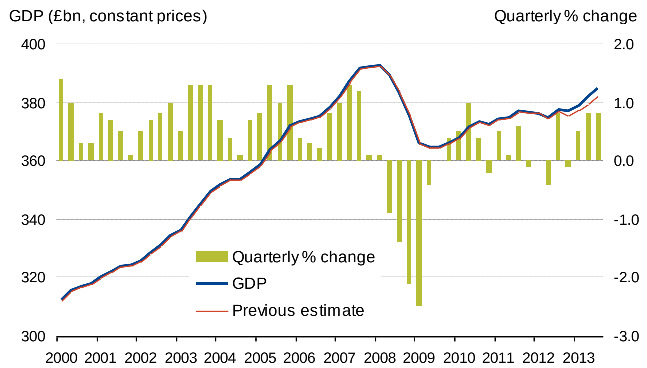
Perhaps the most disappointing news came from exports. The national accounts data showed exports

GDP growth and the PMI



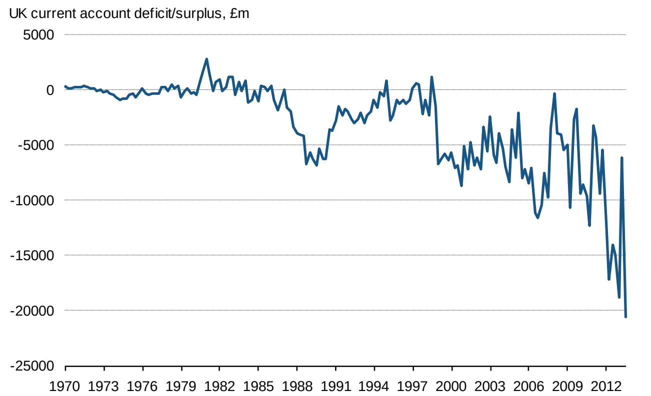
Sources: ONS, Markit.

Revision to GDP



Source: ONS.

Current account



Source: ONS.

falling 3.0%, larger than the 2.4% decline previously reported. The current account deficit grew to its widest since 1989 as a result, due to combination of the disappointing trend in export performance plus weaker investment from abroad.

Stronger fourth quarter growth

The drop in exports of this scale is puzzling, given the recent pick up in global economic growth. Business survey data have also painted a more upbeat picture of exports in recent months compared to the official data, and suggest that there is scope for these trade data to get revised higher.

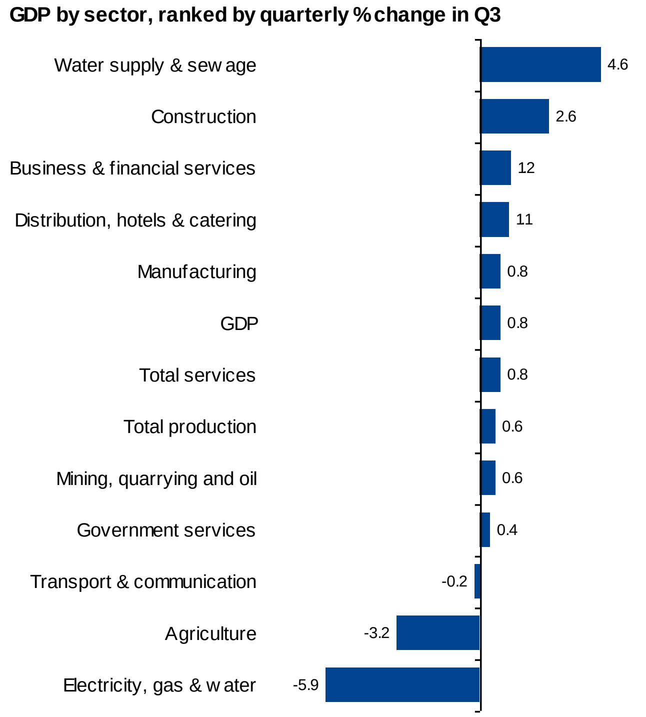
The surveys are also indicating that the pace of economic growth is likely to have accelerated further in the final quarter of the year. Fourth quarter GDP growth is likely to exceed 1.0%, providing the December survey results show similar findings to the strong readings seen in recent months. The all-sector PMI is showing the strongest rate of growth since the late 1990s, with employment likewise expanding at the fastest rate seen over the past 15 years.

The data so far for the fourth quarter also indicate that the upturn is being increasingly driven by the corporate sector, including rising investment, rather than consumer spending. While the latter provided a big impetus to growth in the third quarter, retail sales data suggest that the household sector has pulled back on spending somewhat in recent months. Meanwhile, indicators of business investment spending are strengthening. This points to a more broad-based and sustainable upturn.

Rising tax receipts help cut deficit

Other data also showed that the stronger economic growth seen in recent quarter has helped boost tax receipts, which has helped bring down government borrowing. Borrowing in the current tax year is so far 2.2% below last year (after distorting one-off effects have been accounted for). The deficit is running roughly in line with the projections from the Office for Budget Responsibility.

GDP breakdown in the third quarter



.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

Click here for more PMI and economic commentary.

For further information, please visit www.markit.com