

# UK economy

## UK GDP revised up

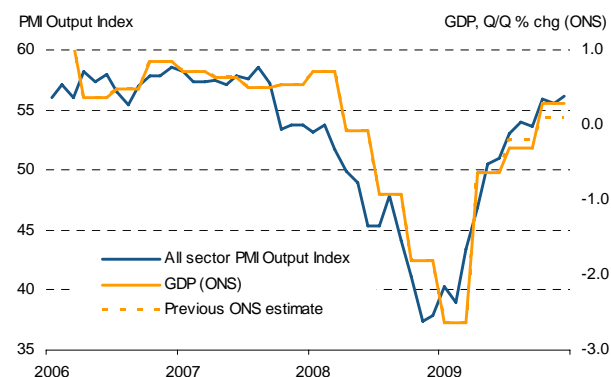
- **GDP confirm message of stronger-than-previously estimated growth for Q4.**
- **But important differences persist between PMI and GDP data.**

### Q4 GDP data revised up

In today's release of its second estimate of gross domestic product (GDP) in Q4 2009, the Office for National Statistics revised up its first estimate of quarter-on-quarter growth from 0.1% to 0.3%.

The initial estimate had surprised economists, who had been expecting stronger growth. These expectations had been based, in many cases, on upbeat survey data for the period, such as the CIPS/Markit Purchasing Managers' Index.

#### GDP



Sources: Markit, ONS

As we noted as early as 3 December 2009<sup>1</sup> "The composite [PMI] output balance is consistent with private sector growth of around 0.8% q/q in November, and therefore continues to support the view of a rise in GDP in the final quarter of 2009." With the subsequent release of December's PMI data showing that the "UK ends 2009 on a strong note"<sup>2</sup>, we remained convinced

<sup>1</sup> [http://www.markit.com/assets/en/docs/commentary/markit-economics/dec%2009/UK\\_allsectorPMI\\_09\\_12\\_03.pdf](http://www.markit.com/assets/en/docs/commentary/markit-economics/dec%2009/UK_allsectorPMI_09_12_03.pdf)

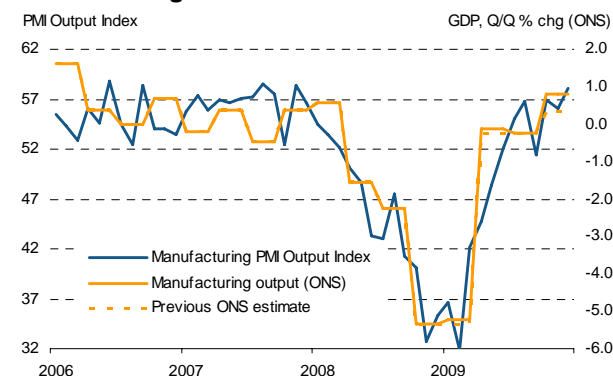
<sup>2</sup> [http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jan/UK\\_Review\\_10\\_01\\_13.pdf](http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jan/UK_Review_10_01_13.pdf)

that the UK recovery was more robust than official GDP estimates had been portraying. We noted that "The PMI data have indicated that expansion in recent months has been led by improvements in both manufacturing and services, with the hard-hit construction sector remaining a laggard."

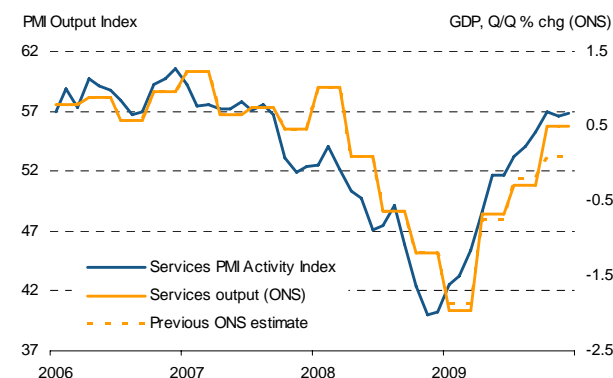
Both the stronger growth and sector trends signalled by the PMI have since been borne out by the revised GDP data for Q4 2009:

- growth of manufacturing output in Q4 2009 was revised up from 0.4% to 0.8%.
- output growth of the service industries was revised up from 0.1% to 0.5%.
- construction output is estimated to have fallen 1.0% (against an earlier flat reading)

#### Manufacturing

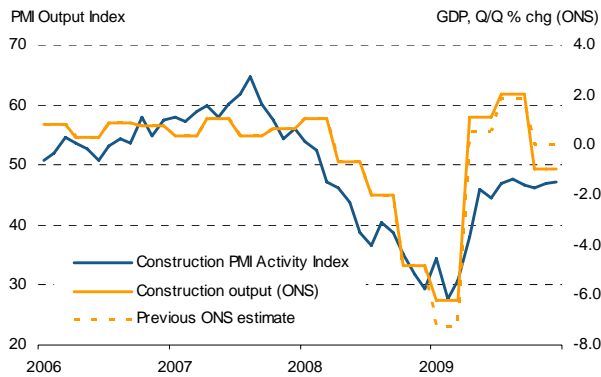


#### Services



Sources for above charts: Markit, ONS

### Construction

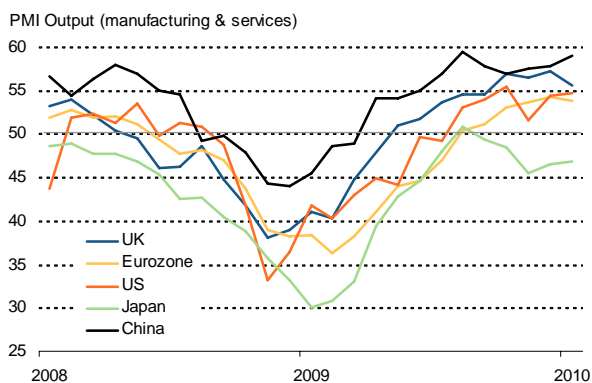


Sources: Markit, ONS

### UK outperforming the Eurozone

The upward revision to the Q4 GDP numbers also brings official data more closely into line with PMI numbers, in the sense that the UK is now outperforming the Eurozone. Data from Eurostat indicated growth of just 0.1% in the Eurozone in Q4, below the 0.3% expansion in the UK. The PMI data for the UK have been consistently above the Eurozone equivalent in recent months (see chart).

### International PMIs



Sources: Markit, ISM.

### But some important discrepancies persist

While the PMI data suggest that the latest revision to Q4 GDP represents a more accurate picture of actual economic growth in the UK, some important divergences persist between the PMI and GDP numbers:

- The growth of services activities may still be being underestimated by the ONS. According to the ONS, business and financial services output increased by just 0.3% in Q4. PMI data suggest considerably stronger growth for this sector, including for financial services in their own right. The difference may lie in the measurement of financial services “output”. The ONS reported that financial services output fell 0.6% in Q4, but that financial corporations earned higher profits in Q4. PMI data will include income earned on investments, so may more closely correspond with the ONS profits data rather than their “output” series.
- The latest estimates included a downward revision to Q3 2009 GDP, from -0.2% to -0.3%. The PMI are consistent with a stronger picture of growth in this period.

### Further recovery in Q1

January’s PMI data point to an ongoing recovery of the UK economy in early-2010, especially in manufacturing, with the headline ‘PMI’ hitting a 15-year high in January. Manufacturers were seen to have been increasingly benefiting from the weakness of sterling as a driver of renewed export growth. Growth of services slowed, though this was at least in part due to extreme adverse weather across much of the country. Construction continued to contract in January, but at a reduced rate.

## Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.