

# UK economy

## Economy contracts 0.2% in final quarter of 2011

- **First estimate points to 0.2% GDP contraction in final quarter**
- **Downturn led by manufacturing and utilities**
- **Upward revision likely in future releases, and survey data suggest downturn will be mild and short-lived**

The UK economy contracted in the final quarter of last year, with gross domestic product (GDP) falling 0.2%. The decline was the first for a year and contrasted with a 0.6% expansion in the third quarter.

The downturn was led by manufacturing, which saw production fall 0.9%, and utilities, where output collapsed 4.1% as unseasonably mild weather led to reduced demand for energy. Service sector output was unchanged, though there was evidence pointing to weakness in the retail sector as consumers struggled with rising prices and low pay growth. Government and other services showed the strongest expansion, with output rising 0.4%.

### Upward revision likely

While the UK clearly faces a risk of sliding back into another recession, which is commonly defined as two consecutive quarters of declining GDP, there are growing indications that any downturn is likely to be mild and short-lived.

First, it is important to remember that first estimates of GDP must be taken with a large pinch of salt. In the decade starting 1998, one-in-three initial estimates have ended up being revised up or down by at least 0.5% (see chart).

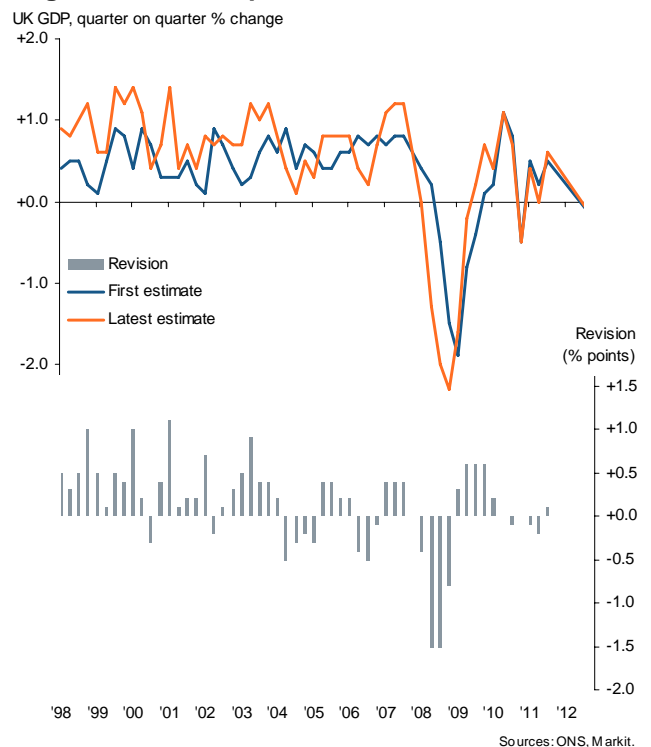
Second, business surveys suggest that the economy stagnated in the final quarter of last year, with economic growth accelerating in December. The three PMI surveys collectively signalled the strongest expansion for five months at the end of last year. Other official data released today also showed the service sector expanding 0.6% in November, setting the stage for a possible upward revision to the fourth quarter GDP data and a rebound in growth in the first quarter.

Similar survey data have also shown business conditions starting to improve in important export markets such as the Eurozone and the US, as well as emerging markets such as China and India.

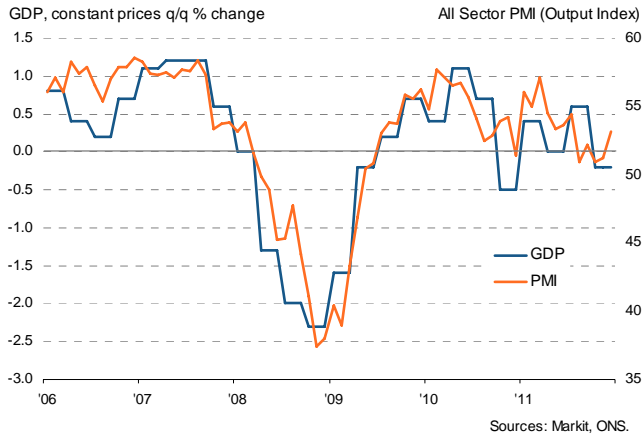
### Eurozone uncertainty

The huge uncertainty is still the Eurozone, and a worsening of the region's debt crisis remains the single biggest threat to the UK economy. Recent tentative signs of improving growth could quickly fade away if the crisis deteriorates. On the other hand, an improvement in the situation in the euro area could lead to business and consumer confidence continuing to revive, spurring on a return to economic growth in early-2012.

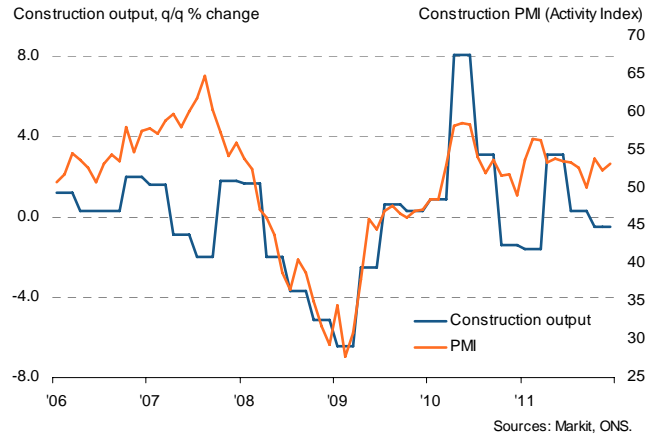
### UK gross domestic product revisions



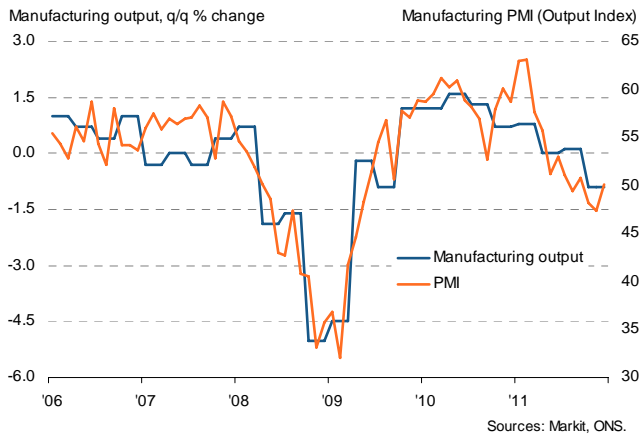
### PMI surveys and GDP compared



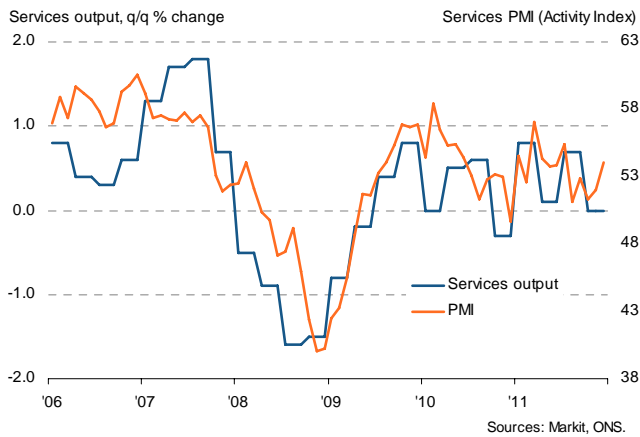
### Construction



### Manufacturing



### Services



### Quarterly % change

2011	Q4	(Q3)
GDP	-0.2	(0.6)
Production	-1.2	(0.2)
Mining, oil extraction & quarrying	-1.1	(-0.2)
Manufacturing	-0.9	(0.1)
Electricity, gas and water	-4.1	(2.2)
Water supply, sewage	0.2	(-0.5)
Construction	-0.5	(0.3)
Services	0.0	(0.7)
Distribution, hotels & catering	-0.5	(0.2)
Transport, storage & comms.	-0.1	(0.3)
Business services & finance	0.0	(1.2)
Government & other services	0.4	(0.6)
Agriculture & forestry	0.1	(0.5)

Source: ONS.

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