

# UK GDP

## UK confirmed in recession; breakdown of GDP data chimes with trends shown by PMIs as weakness exaggerated by fall in government output

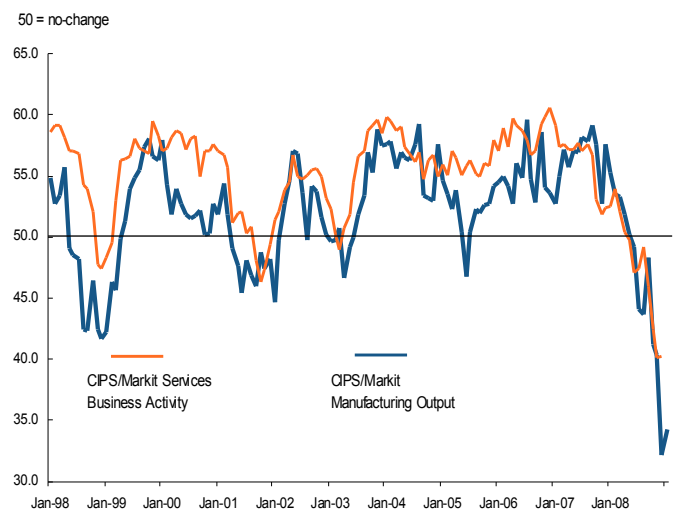
Today's official GDP numbers painted a depressing picture of the UK economy at the end of 2008, with output declining by a sharp 1.5% q/q and 1.8% y/y in the final quarter of the year. Not only weaker than many economists' forecasts, but it was the worst outturn since the deep recession of 1980 and, being the second successive quarter of falling output, confirmed that the UK has entered its first recession since the early 1990s.

Drilling down into the latest official data showed a broad-based decline, with severe weakness in the manufacturing sector. Output there declined 4.6% on the quarter and by 7.0% from a year earlier. The decline in service sector output, though modest compared to that seen in manufacturing, was still bad enough, down by 1.0% q/q, with hotels & catering faring particularly badly as consumers and businesses alike cut back on discretionary spend. Moreover, government and other services (which accounts for some 23% of the economy) showed a fall of 0.5% on the quarter (the worst performance since Q3 2004) and was a key factor in why overall GDP came in worse than economists had forecast.

Although government is not covered by the survey data, the breakdown of the national accounts figures is still consistent with findings from the CIPS/Markit PMIs for both manufacturing and services, which highlighted record falls in output in the two sectors during Q4 (see chart top right). A particularly severe contraction was seen in manufacturing, as highlighted by our note on the performance of the sector in early December, while the services survey has shown rapid declines in activity in recent months, with particular weakness seen in hotels & catering and financial intermediation.

While we remain sceptical that the latest ONS data will not be revised higher in future years (see our note dated 24/10/2008: UK Q3 GDP – is it really that bad?), there can be little doubt that the UK economy is now mired in a

**UK CIPS/Markit Manufacturing Output Index and Service Sector Business Activity Index**



recession that is likely to prove to be the worst in post-war history.

The next insight on where current conditions are, and the first data on trends in output at the start of 2009, will be provided in early February with the release of the trio of CIPS/Markit UK PMI surveys. Manufacturing is first up on February 2<sup>nd</sup>, followed by construction on February 3<sup>rd</sup> and finally the service sector on February 4<sup>th</sup>.

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