DECISION ECONOMICS, INC.
Information for Decisions™

Western European Indicators and Insights

December 22, 2011

Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

UK: GDP growth revised higher.

Weak undertone still very much evident

Real GDP increased by 0.6% in Q/Q terms in Q3, a 0.1 percentage upward revision to the previous reading, it also being a pick-up from the (downwardly) revised flat reading seen in the previous quarter. The net impact of revisions was positive, however. Even so, the Y/Y rate was unrevised, still slowing by 0.1 percentage point to 0.5%, a seven-quarter low.

The stronger pace of growth for last quarter is hardly indicative of any greater underlying momentum, nor is it less likely to mean that GDP may not even contract in the current quarter. Indeed, the revised spending side details are hardly positive for current quarter growth. Notably, the largest contribution to growth still came from a sharp rise in inventories which could very well have been involuntary if companies had been unable to sell as the global slowdown took hold over the summer. Indeed, inventories added 0.6 percentage point to GDP growth. Elsewhere, household spending was flat on the quarter, actually the least-bad outcome since Q3 2010, albeit with a modest rise in household incomes being saved: the savings ratio was little changed at 6.6%. Meanwhile, net exports, which the Bank of England had hoped would provide the engine of growth this year, actually cut quarterly GDP growth by 0.4 percentage point, having knocked 0.3 percentage point off in Q2. NB: this weakness was partly responsible for the record current account deficit in the quarter.

As for the Q3 dynamics, it is hard to ascertain to what degree they are purely a result of an unwinding of the series of special factors largely attributable for the softening in growth in Q2. These ranged from the additional public holiday for the royal wedding in April, the impact of the royal wedding itself, the supply effects from the Japanese earthquake, record warm weather in April and also the impact of sale in the UK of next year's Olympic tickets. Assessing the impact of these factors individually is difficult, let alone when all are considered together, although official estimates suggest the overall effect may have knocked GDP growth in Q2 by half a percentage point. As a result, it may be better to judge recent economic developments by averaging out the Q2 and Q3 outcomes. This leaves growth at around 0.3% Q/Q in each quarter, hardly inspiring and certainly not inconsistent with the likelihood that the economy may fail to exceed growth of 1% on average this year, especially given the strong likelihood that the economy will be flat in the current quarter.