DECISION ECONOMICS, INC.
Information for Decisions™

Western European Indicators and Insights

January 25, 2012

Andrew Wroblewski
Chief Economist, Eurozone and UK

London
+44 20 7959 3244
awroblewski@decisioneconomicsinc.com

UK: Modest drop in GDP.

Flat underlying trend continues

Real GDP decreased by 0.2% in Q/Q terms in Q4 2011, a little below consensus thinking, it also being a contrast to the (unrevised) 0.6% rise seen in the previous quarter. Even so, the Y/Y rate picked up 0.3 percentage point to 0.8%, up from the seven-quarter low seen in Q3.

As usual, this preliminary estimate comes with no spending details, instead providing insight merely into the output side of the economy. This showed the main source of the fresh weakness in Q4 came from the industrial side, largely from a clear fall in manufacturing but one that was accentuated by a fall in utility production that may have been a result of mild weather through the quarter. Construction was softer, although perhaps the same mild weather may result in some upward revision in this component in due course, while services were flat in Q4.

Even so, the Q4 overall GDP numbers could yet be revised lower, if utility output for December weakens further in response to the warm weather during the month rather than recovering as assumed. Regardless, this would only increase the likelihood that GDP may bounce (modestly) into the current quarter, if utility production duly recovers, while manufacturing weakness dissipates in the manner survey data are hinting at, eg the clearly more upbeat CBI Industrial Survey released today.

As a result, it is hard to argue other than the Q4 drop is still largely consistent with what is an underlying flat trend in the economy, with the fresh Q4 weakness also probably a pay-back for the array of special factors (such as mild spring weather and the royal wedding) that saw the Q3 bounce in GDP from the flat Q2 outcome. While politicians may try and explain the fresh weakness seen in Q4 GDP as a reflection of the impact of the Eurozone crisis, the fact that activity has seen weakness for some time, suggests that other factors - most notably fiscal consolidation and consumer retrenchment - are the more important causes.