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Western European Economic Indicators and Insights

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UK: Clearer Recession?

Real GDP decreased by 0.3% in Q/Q terms last quarter, a notch weaker than initially estimated and a drop that now matches the fall seen in Q4 2011. This downwardly revised result knocked the Y/Y rate down 0.6 percentage point to -0.1% was below consensus thinking, it also suggesting that the UK is in formal recession given the two successive quarters of recorded contraction in economic activity.

How Weak is Construction?

The source of the recession came from the construction side of the economy, which suffered a deeper slide, probably a result of poor weather, although survey data for the sector paint a more upbeat picture. *This overall GDP weakness is puzzling but is one that the BoE explicitly pointed to as far back as its early-April MPC meeting, worried that activity would have been lowered by weak construction, albeit artificially so as surveys for this sector (and the economy more broadly) point to a relatively stronger backdrop*. Indeed, given the poor weather during Q1, the weakness in energy production is surprising, with little recovery from the weather-induced drop seen in the final part of last year. Regardless, it seems that the economy did make some recovery from the poor weather with more services and manufacturing readings for March suggesting that the economy entered the current quarter on a firmer footing.

BoE Not Troubled by GDP Weakness

Moreover, the fact that *expenditure side break-down, released for the first time with this estimate, showed the Q1 weakness to be solely inventory-driven* may make the BoE even more dismissive of the GDP numbers. Indeed, the change in inventories knocked 0.7 percentage point off Q1 growth, a weakness that does not sit easily with the continued rise in imports, or the gains in all aspects of domestic demand, particularly the clearer strength in business investment.

More Concern at Softer Surveys

Nevertheless, the fact that more up-to-date surveys have started to fall, eg the May CBI numbers, will be the more important factor influencing BoE thinking, numbers which alongside the more sizeable downside risks, make fresh stimulus from the BoE all the more likely in the next 2-3 months.