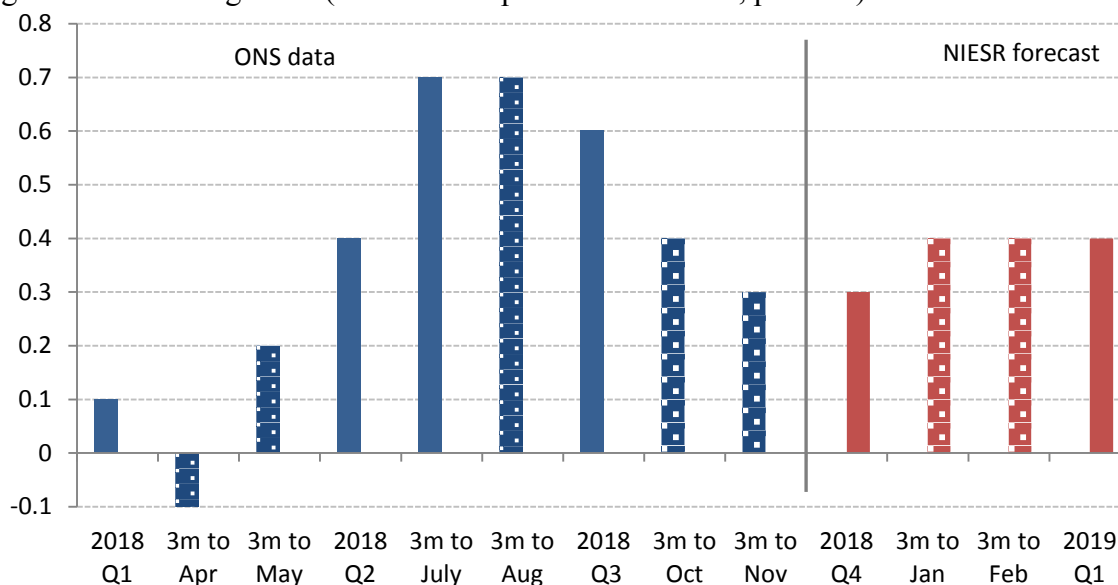


Press Release

NIESR MONTHLY GDP TRACKER: January 2019

Latest data confirm marginal slowdown in UK economic growth

Figure 1: UK GDP growth (3 months on previous 3 months, per cent)



Source: NIESR, ONS

Note: the solid bars show the 3m/3m growth rate for complete calendar quarters and the shaded areas show rolling 3m/3m growth rate for the intervening months. There may be inconsistencies in the growth rate arising from rounding

Main points

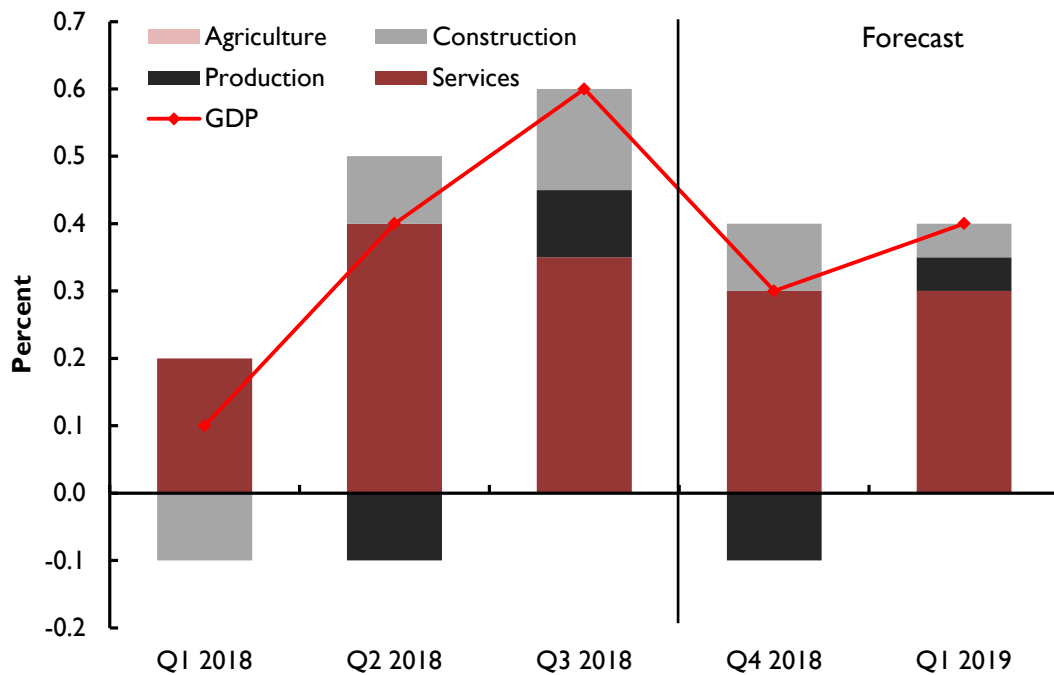
- UK economic growth looks set to slow to a quarterly rate of 0.3% in the fourth quarter of 2018 from 0.6% in the third quarter. This profile is marginally lower than the 0.4 per cent that we had published last month and points to GDP growth of 1.5 per cent in 2018.
- According to our forecast, growth in the final quarter is driven by the service and construction sectors. The slowdown in the manufacturing sector explains most of the weakness in fourth quarter output.
- We expect economic growth to recover modestly in the first quarter of this year to 0.4 per cent, but the risks to our forecast are skewed to the downside because of uncertainty related to Brexit.

Amit Kara, head of UK macroeconomic forecasting at NIESR, said “*The latest data confirm that UK GDP growth is slowing in the final quarter of last year. Activity is set to ease to 0.3 per cent over this period, which is slightly below potential. The slowdown comes alongside a general softening in global activity and is therefore, not entirely attributable to uncertainty caused by Brexit. Growth is being driven by the non-retail*

service sector and construction sectors. Manufacturing output growth appears to have contracted sharply over this period.

Looking ahead, we see economic growth recover to 0.4 per cent in the first quarter of this year mainly because output in the manufacturing sector stabilises. The risks to our forecasts however, are tilted to the downside because of Brexit.”

Figure 2: Contributions to quarterly GDP growth (percentage points)

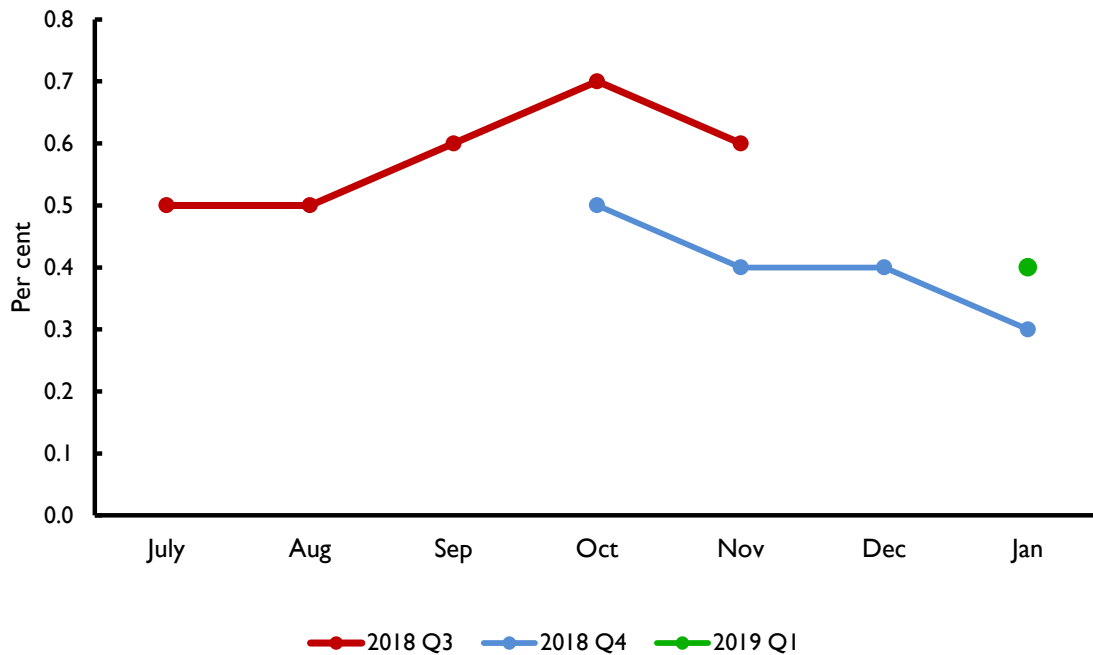


Forecast news

By tracking GDP each month we are able to provide a measure of the amount of economic news contained in the latest month’s data releases. Our forecast of GDP growth in the fourth quarter is 0.3 per cent which is slightly lower than the 0.4 per cent forecast that we published last month.

Figure 3 shows the evolution of our forecast for the third and fourth quarters of 2018. Our first forecast for the fourth quarter, published in October, stood at 0.5 per cent. We revised that forecast lower to 0.4 per cent in November, kept it unchanged at 0.4 per cent in December and nudged it lower to 0.3 per cent today. Our first forecast for the first quarter of 2019 published today stands at 0.4 per cent.

Figure 3: Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)



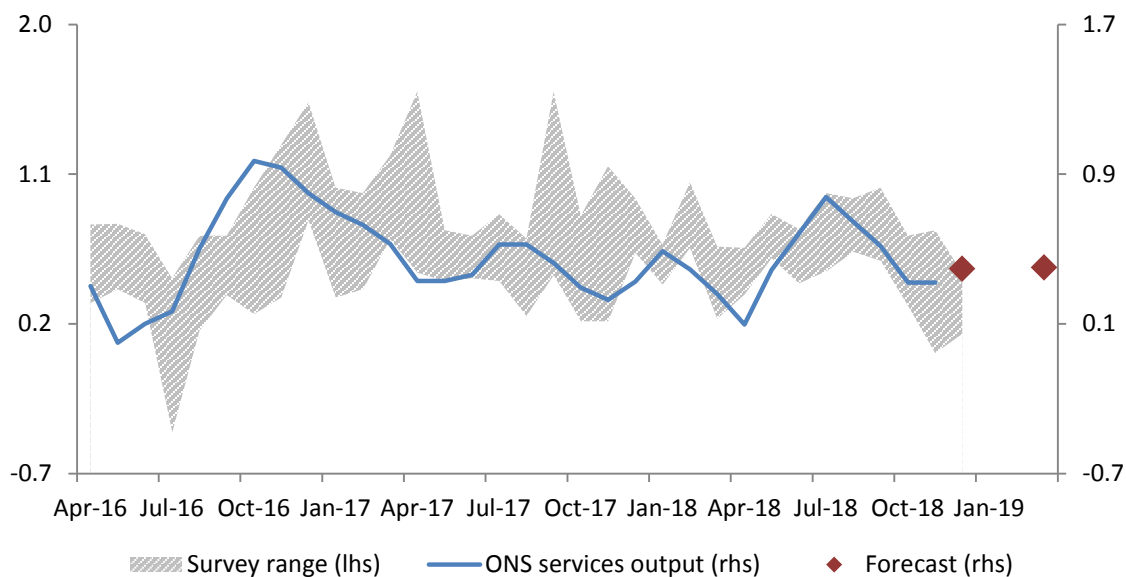
The forecast in detail:

Services (80 per cent of GDP)

According to ONS, growth in the dominant service sector eased to 0.3 per cent in the three months to November, in line with our previous estimate. Our latest estimate is that service sector output will grow by 0.4 in the final quarter.

Within the service sector, official data shows that professional and scientific activities, information and communication and human health activities made the biggest positive contribution to growth in the three months to November.

Figure 4: Service sector surveys and ONS sector growth (3 months on previous 3 months, per cent)



Source: ONS, CBI, Markit, Bank of England Agents, NIESR

Turning to the outlook for the service sector, the message from the business surveys is clear - business activity was weak in December and the outlook for activity in the near term is also subdued (Figure 4). Brexit-related uncertainty featured prominently in the IHS Markit/CIPS UK services PMI survey. The UK is not alone - the analogous global survey suggests that global services activity has softened as well with the headline activity balance in the final quarter of 2018 at its lowest level since end-2016.

According to CBI Distributive Trades survey, retail sales volumes growth was particularly weak over the Christmas period with retail volumes falling at the fastest speed since around four years. Consistent with that, the BRC-KPMG Retail Sales Monitor data for December suggests that total sales was flat on an annual basis in December while like-for-like sales growth fell by 0.7 per cent over the same period. The performance of the online channel was better according to the CBI survey with sales volumes gathering strength in December. Similarly, latest vehicle registration data from Society of Motor Manufacturers and Traders (SMMT) shows UK new car market 5.5 per cent lower in December compared to the same month last year. Consumer confidence appears to be playing a role but in addition to that data from SMMT suggests that consumers are turning away from diesel cars with sales volumes some 30 per cent lower in 2018.

Production (14 per cent of GDP)

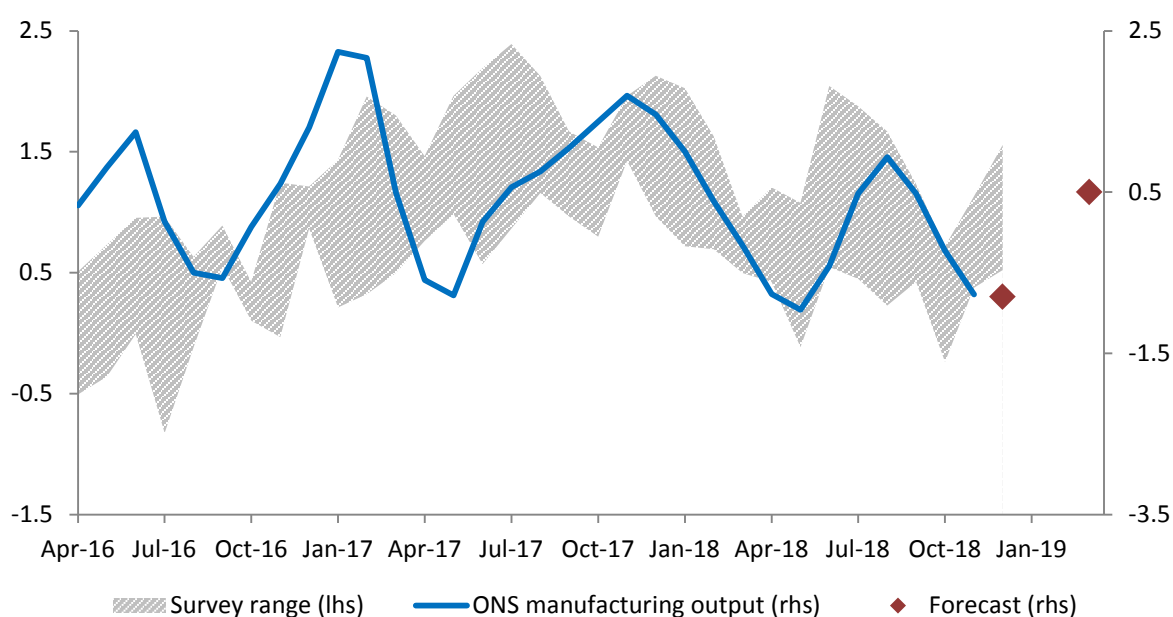
Production output fell by 0.9 per cent in the three months to November. The outturn was lower than the -0.3 per cent forecast we published last month. According to official data, output fell in all four sub-sectors over this period - the first time all the sub-sectors experienced negative growth since October 2012.

Within production, manufacturing output fell 0.8 per cent in the latest three month period. According to the ONS commentary, this reflected a broad-based decline across a number of industries within the manufacturing sector. Most notable among these is transport equipment, and in particular, motor vehicle output, where output fell by 2.4 per cent over this period.

Business surveys indicate mixed near term prospects for the sector (Figure 5). Surveys from the European Commission (DG ECFIN) as well as the CBI point to a pick-up in activity in the final quarter of 2018. Output according to these two surveys as well as the Bank of Agents is at levels above the long run average. This stands in stark contrast with the IHS Markit/CIPS UK manufacturing PMI survey which points to sluggish output growth over the same period. For the quarter as a whole, the headline business conditions index was at its weakest level since the third quarter of 2018, essentially the quarter following the EU referendum. The message from the UK survey is consistent with the J.P. Morgan Global Manufacturing PMI which also registered its lowest balance since the third quarter of 2018.

Another difference between the CBI and the IHS Markit/CIPS relates to stock building. The CBI survey suggests that stocks are below long run levels but at adequate levels. By contrast, the IHS Markit/CIPS survey points to robust growth in new orders and a build-up of inventory. According to the survey, the stock of finished goods rose at by close to record levels in December. Respondents to the survey have explicitly the rise in order and inventory build to Brexit-related uncertainty.

Figure 5: Manufacturing sector surveys and ONS manufacturing sector growth (3 months on previous 3 months, per cent)



Source: ONS, CBI, Markit, Bank of England Agents, NIESR

Mining and quarrying is a small and erratic component of the industrial production sub-component. Output contracted by 1.1 per cent in the three months to November. The drop is mainly attributable to oil and gas extraction where production fell because of maintenance work in November.

Construction (6 per cent of GDP)

Growth in the construction sector rose from 1.6 per cent in October to 2.1 per cent in the three months to November. Construction output recovered in summer after the weather-induced slowdown in the early part of the year and growth has remained at a healthy level since then.

The outlook for the sector appears to be mixed. The IHS Markit/CIPS construction PMI survey points to a modest slowdown in activity in December. New orders have also eased in the latest survey. Construction sector business optimism however, bounced back after a particularly weak October outturn.

Expectations for the whole economy in 2018

NIESR publishes a comprehensive global and UK macroeconomic forecast each quarter. Under the central scenario of our November forecast, which was conditioned on a soft Brexit, we were expecting GDP growth of 1.4 per cent in 2018, and our monthly GDP Tracker points to a slightly higher growth rate of 1.5 per cent.

We emphasised in November that the risks to that forecast were tilted to the downside because of economic and political uncertainties related to Brexit negotiations. This uncertainty continues to act as a drag on investment spending and also a key risk going forward according to the Bank of England Decision Maker Panel. At the global level, there are some very early signs in business surveys that the risk from an escalation in protectionism and a more hostile international trading environment is holding back investment and activity more generally. Input costs for businesses are also rising.

Our next full UK and global forecast will be published on Wednesday 6th February.

Health warning:

The NIESR GDP Tracker provides a rolling monthly forecast for GDP growth. Our first estimate of growth for any particular quarter starts in the first month of that quarter and is then updated each month until the first official release in the second month of the following quarter. So, for example, our first estimate of growth in the third quarter of 2018, was published in July and was then updated on three occasions in August, September and October before the ONS published its first estimate for the third quarter of 2018 in November. In other words, we have four opportunities to publish our GDP forecast for any particular quarter before the official release.

NIESR's short-term predictions of monthly GDP growth are based on bottom-up analysis of recent trends in the monthly sub-components of GDP. These predictions are constructed by aggregating statistical model forecasts of ten sub-components of GDP. The statistical models that have been developed make use of past trends in the data as well as survey evidence to build short-term predictions of the sub-components of monthly GDP. These provide a statistically-based guide to current trends based on the latest available data. Each month these predictions will be updated as new ONS data and new surveys become available.

It is important to stress that the timelier NIESR guide to quarterly GDP growth will be less reliable than the subsequent ONS data releases as its data content is lower, particularly for estimates of the current quarter which in some months will be based only on forecasts rather than hard data. To mitigate this issue, NIESR will provide a guide to average errors based on past performance. NIESR will also each month provide clear guidance on how the latest news has caused its estimates of GDP growth in the current and preceding quarter to change and thereby quantify how the short-term outlook is being affected by recent data releases.

As we have adopted a new bottom-up methodology for producing estimates of GDP growth for the current and preceding quarters, we do not yet have a track record of estimates produced by the new approach. Nevertheless we would expect our estimates for GDP growth in the quarter prior to publication to be at least as reliable as those using the old methodology. Using the old methodology, the root mean square error of NIESR's early estimates of GDP for complete calendar quarters was 0.188% point for the period 1999Q3 – 2015Q4 once a noticeable outlier in 2010Q4 is excluded.

Forecast Error Analysis: Quarterly GDP growth (%)

Quarter	ONS first estimate	ONS latest estimate	NIESR nowcast*	Error in NIESR nowcast**	ONS latest – first
2016Q4	0.6	0.7	0.7	0.0	0.1
2017Q1	0.3	0.4	0.6	-0.2	0.1
2017Q2	0.3	0.3	0.4	-0.1	0.0
2017Q3	0.4	0.4	0.4	0.0	0.0
2017Q4	0.5	0.4	0.4	0.0	-0.1
2018Q1	0.1	0.1	0.5	-0.4	0.0
2018Q2	0.4	0.4	0.0	0.4	0.0
2018Q3	0.6	0.6	0.5	0.1	0.0
2018Q4	n.a.	n.a.	0.4	n.a.	n.a.
Average absolute error				0.15	0.04

* Made in the second month of the quarter, 3 months ahead of ONS first estimate

** ONS first estimate - NIESR estimate

To check how our methodology would work in real time we have gone back to late 2016 to produce judgement-free forecasts of GDP growth in future months based on the monthly data series available for the components in November 2016 (this is the earliest vintage currently available on the ONS website) and in each subsequent three months. We can then use these projections to calculate the forecast quarter-on-quarter growth rates for the current quarter and can compare these to the ONS first estimates of quarterly growth. The average absolute error for the quarters considered was 0.15 % points. The largest error was for 2018Q1 when our GDP tracker had initially expected growth to be 0.5%, 0.4% points higher than the ONS first estimate of GDP growth that was published in April 2018.

Notes for editors: For further information please contact the NIESR Press Office or Paola Buonadonna on 020 7654 1923/ p.buonadonna@niesr.ac.uk

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Table 1: Summary Table of GDP growth (2016=100)

2016=100	GDP index	Index of Services	Index of Services - Components				Index of Production	Index of Production - Components				Index of Construction	Agriculture
			Business services and finance	Government and other services	Distribution, Hotels and Restaurants	Transport, Storage and Communications		Manufacturing	Electricity, gas, steam and air conditioning	Mining and Quarrying	Water Supply, Sewerage and Waste Management		
Latest weights	1000	793	334	220	133	106	140	101	12	17	10	60	7
Apr-18	103.3	103.3	103.7	100.9	103.7	107.1	102.3	102.9	100.0	103.5	99.6	104.4	101.4
May-18	103.6	103.6	103.6	100.7	105.2	107.6	101.9	103.4	95.1	98.4	101.2	107.2	101.7
Jun-18	103.9	103.7	103.5	100.8	105.3	108.5	102.8	104.5	95.3	98.2	102.9	108.1	101.7
Jul-18	104.2	104.1	104.0	100.7	106.2	108.6	103.2	104.2	98.5	101.7	102.4	108.6	101.8
Aug-18	104.2	104.1	103.9	100.8	106.0	109.6	103.2	104.1	98.3	103.0	102.9	108.3	101.9
Sep-18	104.2	104.0	103.9	100.8	104.9	110.0	102.6	104.0	97.5	99.7	101.1	110.4	102.0
Oct-18	104.3	104.3	104.4	101.1	105.6	108.9	102.1	103.3	97.0	100.6	100.8	110.4	102.2
Nov-18	104.6	104.6	104.4	101.1	106.8	109.5	101.7	103.1	95.9	99.3	100.8	111.0	102.4
Dec-18	104.7	104.6	104.6	101.1	106.4	109.8	102.1	103.5	96.8	98.9	101.1	111.3	102.5
Jan-19	104.8	104.7	104.7	101.2	106.6	110.0	102.3	103.7	96.8	99.1	101.2	111.5	102.6
Feb-19	105.0	105.0	104.9	101.2	106.8	110.4	102.3	103.7	96.8	98.9	101.4	111.9	102.7
Mar-19	105.2	105.1	105.2	101.2	106.9	110.8	102.4	103.9	96.9	98.6	101.5	112.2	102.7

Percentage change, 3 months on previous 3 months

Aug-18	0.8	0.6	0.2	0.0	1.9	1.6	0.7	0.9	-2.2	1.5	2.2	2.8	0.3
Sep-18	0.6	0.5	0.3	0.0	0.9	1.5	0.6	0.5	1.3	1.4	0.9	2.4	0.3
Oct-18	0.4	0.3	0.4	0.2	-0.1	1.2	0.1	-0.2	1.3	1.7	-0.6	1.6	0.3
Nov-18	0.3	0.3	0.4	0.2	-0.1	0.5	-0.8	-0.8	-0.6	-1.1	-1.8	2.1	0.4
Dec-18	0.3	0.4	0.5	0.3	0.5	0.0	-1.0	-0.8	-1.6	-1.8	-1.2	1.6	0.5
Jan-19	0.4	0.5	0.5	0.2	1.0	0.2	-0.6	-0.3	-1.1	-2.0	-0.6	1.4	0.5
Feb-19	0.4	0.5	0.5	0.2	0.8	0.6	0.1	0.2	0.0	-0.9	0.3	0.9	0.4
Mar-19	0.4	0.4	0.5	0.1	0.5	0.9	0.3	0.5	0.3	-0.7	0.5	0.9	0.3

Percentage change, month on same month in previous year

Aug-18	1.6	1.7	1.5	0.0	3.3	4.3	1.4	1.7	-1.2	3.6	0.3	-0.1	-1.5
Sep-18	1.4	1.6	1.3	0.2	2.4	4.2	-0.5	0.5	-3.6	-2.4	-1.7	2.8	-1.6
Oct-18	1.6	1.9	1.9	0.6	3.0	2.8	-0.9	-0.7	-0.3	-2.6	-2.7	4.2	-1.4
Nov-18	1.5	1.9	1.4	0.9	3.5	3.1	-1.4	-1.1	-3.2	-2.3	-1.7	3.0	-1.0
Dec-18	1.4	1.7	1.5	0.6	3.8	1.9	-0.2	-0.9	-4.1	17.1	-1.5	1.7	-0.2
Jan-19	1.4	1.6	1.1	0.6	3.5	3.1	-0.7	-0.6	-0.9	-2.5	0.8	3.8	0.5
Feb-19	1.9	2.2	1.8	0.7	3.6	4.4	-0.8	-0.4	-4.3	-0.2	0.6	5.1	1.1
Mar-19	2.0	2.1	1.7	0.4	4.0	3.8	-0.5	0.2	-6.5	2.3	0.8	7.5	1.4

Percentage change, month on previous month

Aug-18	0.0	0.0	-0.1	0.1	-0.2	0.9	0.1	-0.1	-0.2	1.3	0.5	-0.3	0.1
Sep-18	0.0	-0.1	0.0	0.0	-1.0	0.4	-0.6	-0.1	-0.8	-3.2	-1.7	1.9	0.1
Oct-18	0.1	0.3	0.5	0.3	0.7	-1.0	-0.5	-0.7	-0.5	0.9	-0.3	0.0	0.2
Nov-18	0.3	0.3	0.0	0.0	1.1	0.6	-0.4	-0.2	-1.1	-1.3	0.0	0.5	0.2
Dec-18	0.1	0.0	0.2	0.0	-0.3	0.3	0.4	0.4	1.0	-0.4	0.3	0.3	0.1
Jan-19	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	-0.1	0.1	0.2	0.2	0.1
Feb-19	0.2	0.2	0.2	0.0	0.2	0.4	0.0	0.0	0.0	-0.2	0.1	0.4	0.0
Mar-19	0.2	0.2	0.2	0.0	0.1	0.3	0.1	0.1	0.1	-0.2	0.2	0.3	0.0

Note: There may be inconsistencies in the growth rates arising from rounding.