Press Release
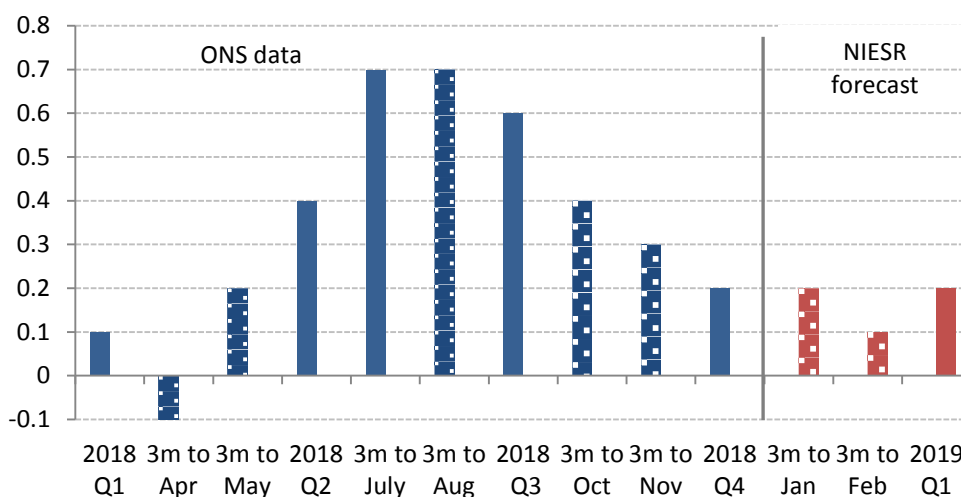
NIESR MONTHLY GDP TRACKER: February 2019

UK economy weaker than expected in December

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

- Latest economic data confirms that the UK economy lost momentum in the final quarter of 2018, with quarterly growth of 0.2%. GDP growth is set remain weak in the first quarter of this year.

- According to new ONS statistics published this morning, the UK economy expanded by 0.2 per cent in the final quarter of last year after growing by 0.6 per cent in the third quarter (three months to September). The outturn was slightly lower than the 0.3 per cent GDP forecast that we published last month for the same period, and reflected weaker output in December than we had expected. Building on the official data, our monthly GDP Tracker suggests that the economy will also expand by just 0.2 per cent in the first quarter of this year.

- All major sectors showed a fall in output in December and, while single month figures can be volatile, the widespread weakness in output is a concern going into 2019.

Garry Young, Head of macroeconomic forecasting and modelling, said *"The UK economy weakened sharply at the end of 2018, with falls in output in all of the major sectors in December. While single month figures can be volatile, the widespread weakness in official output data and many business surveys does not augur well for economic performance in the United Kingdom in 2019. Further downside economic news, including a costly exit from the EU, would strengthen the case for a more active policy response".*

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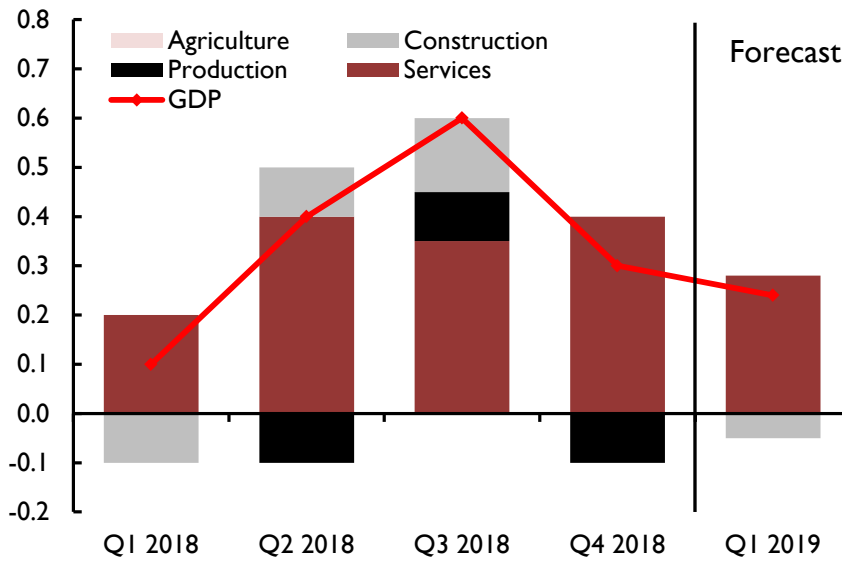
Forecast news

Figure 3 shows the evolution of our short-term forecast for the third and fourth quarters of 2018 and the first quarter of this year, highlighting an accumulation of downside news in recent months. We first published a forecast for the final quarter of 2018 in October at 0.5 per cent and this was subsequently revised lower to 0.3 per cent last month. The official data is weaker still at 0.2 per cent growth. The widespread downward news is also reflected in our forecast for current quarter, which has been revised down from 0.3 per cent growth last month to 0.2 per cent today.

Figure 3: Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)
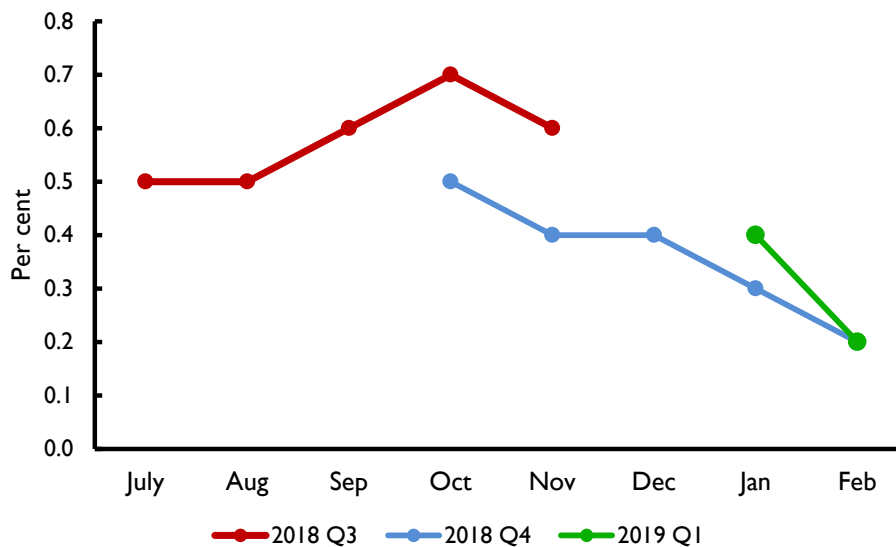
Services (80 per cent of GDP)

According to ONS, growth in the dominant service sector eased to 0.4 per cent in the final quarter of last year, in line with our previous estimate. This is the only major sector that has consistently made a positive contribution to growth since the start of 2018.

Within the service sector, official data shows that professional, scientific and technical activities made the biggest positive contribution to growth in the final quarter of last year.

Figure 4: Service sector surveys and ONS manufacturing sector growth (3 months on previous 3 months, per cent)
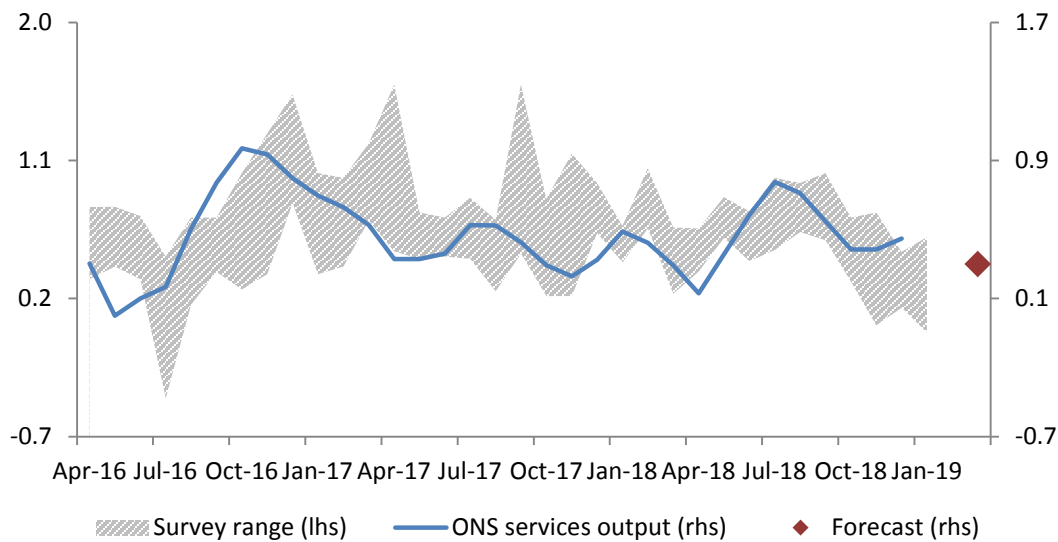
Source: ONS, CBI, Markit, Bank of England Agents, NIESR

The message from the business surveys remains downbeat (Figure 4) and businesses have cited political uncertainty and Brexit as the main reason for the slowdown. The headline business activity balance in the IHS Markit/CIPS UK services PMI survey fell to 50.1 in January which indicates that activity was broadly stagnant compared with the previous month. The UK is not alone - the analogous global survey suggests that global services activity has softened with the headline activity balance in January fell to a 28-month low.

According to CBI Distributive Trades survey, retail sales volumes growth improved somewhat after a weak Christmas period. That message was echoed by the BRC-KPMG Retail Sales Monitor which reported a 2.2 per cent increase in total sales in January compared with a year ago. Latest vehicle registration data from SMMT shows UK new car market 1.6 per cent lower in January compared to the same month last year. Data from SMMT suggests that consumers are turning away from diesel cars with sales volumes some 30 per cent lower in 2018 and choosing alternatively fuelled and petrol cars instead.

Production (14 per cent of GDP)

The production sector comprises of the manufacturing sector, mining and quarrying; electricity gas, steam and air conditioning; water supply and sewerage; and oil and gas extraction. Production output fell by 1.1 per cent in the final quarter compared with the previous three months. The outturn was well below our forecast of 0.3 per cent growth that we published last month, this partly reflected downward revisions in the official output data for October and November.

Manufacturing

Within production, the dominant manufacturing sector fell by 0.9 per cent over this period.

Recent UK survey data points to a slowdown in manufacturing sector output (Figure 5). The latest CBI Industrial Trends Survey suggests that growth eased in January, but output continued to expand at a pace that is faster than the long-run average. The near term outlook for the sector was however, less positive. The CBI business optimism balance fell sharply as concerns about political and economic conditions mounted and consistent with that, investment intentions fell in January to levels well below the long-run average. The message from the IHS Markit/CIPS UK manufacturing PMI survey was similar – production volumes eased, the rate of expansion of new orders slowed and finished goods inventories rose rapidly. Here again, firms expressed worries about Brexit and the slowdown in European economic growth. The impact of Brexit is evident in the Deloitte survey of CFOs which points to a reduction in recruitment, capital expenditure and M&A activity. The survey respondents rate Brexit as the most important risk facing their business.

The latest Society of Motor Manufacturers and Traders (SMMT) report shows a 22 per cent decline in car production on a year-on-year basis in December and exports fell by 25 per cent over this period. The auto sector has faced headwinds related to the introduction of new automobile emissions standards, concerns related to policy around diesel cars and the introduction of trade barriers and slowing Chinese demand. Worries about trade barriers are evident in a number of countries. These have contributed to the J.P. Morgan Global Manufacturing PMI production balance falling to a 31-month low and new export work in this survey dropping for the fifth consecutive month.

Figure 5: Manufacturing sector surveys and ONS manufacturing sector growth (3 months on previous 3 months, per cent)
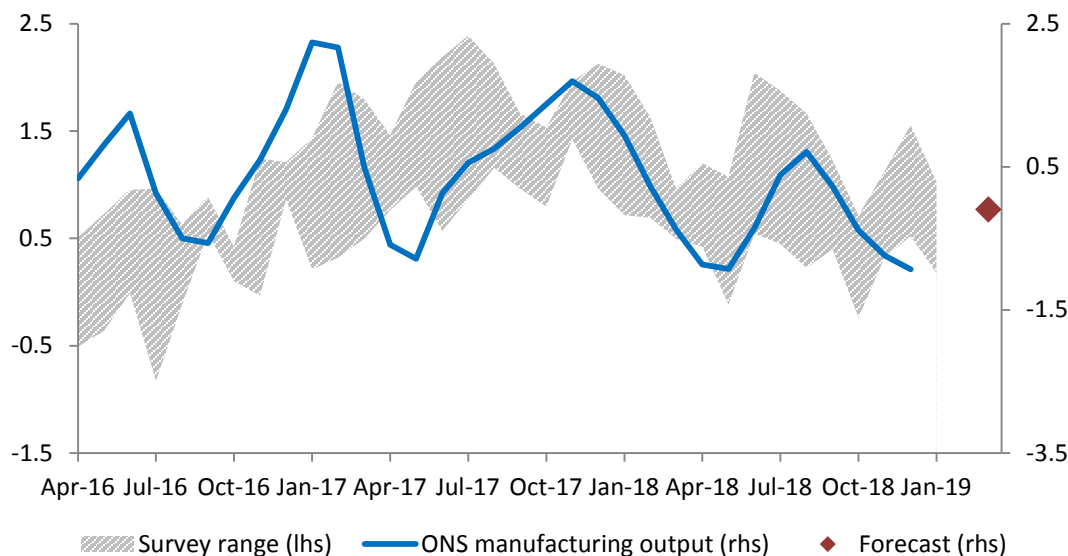
Source: ONS, CBI, Markit, Bank of England Agents, NIESR

Mining and quarrying

Mining and quarrying is a small and erratic component of the industrial production sub-component. Output in the three months to December was 1.5% lower than in the previous three months.

Construction (6 per cent of GDP)

Output in the construction sector weakened sharply in December and was 0.3 per cent lower in the three months to December than in the previous three months.

Looking ahead into the first quarter, the latest reading from the IHS Markit/CIPS construction PMI survey signals a further loss in growth momentum as Brexit uncertainty intensifies. The headline business activity balance fell to its lowest level in ten months.

Outlook for the whole economy in 2019

NIESR publishes a comprehensive global and UK macroeconomic forecast each quarter. Under the central scenario of our February forecast, which was conditioned on a soft Brexit, we were expecting GDP growth of 1.5 per cent in 2019. Our monthly GDP tracker emphasises the downside risks to that view. We emphasised in our latest report 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.

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	0.2	0.5	-0.4	0.1
2018Q2	0.4	0.4	0.0	0.4	0.0
2018Q3	0.6	0.6	0.5	0.1	0.0
2018Q4	0.2	0.2	0.4	0.2	0.0
Average absolute error				0.16	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	103.8	100.6	103.7	107.2	102.6	102.9	101.2	105.5	99.5	104.8	99.7
May-18	103.6	103.6	103.7	100.6	105.3	107.7	101.9	103.2	96.0	100.2	100.7	107.5	100.1
Jun-18	103.9	103.8	103.7	100.6	105.4	108.4	102.7	104.2	96.2	100.0	102.3	108.3	99.8
Jul-18	104.2	104.1	104.1	100.6	106.3	108.6	103.3	103.9	100.1	103.7	101.7	108.6	99.5
Aug-18	104.3	104.2	104.0	100.7	106.2	109.5	103.2	103.6	99.5	105.4	102.2	108.4	99.3
Sep-18	104.2	104.1	104.1	100.7	105.2	110.1	102.6	103.5	98.7	101.8	101.0	110.1	99.5
Oct-18	104.4	104.4	104.7	101.0	105.8	109.4	102.3	103.0	98.2	103.4	100.8	109.7	100.0
Nov-18	104.6	104.8	104.7	101.0	106.9	110.0	101.9	102.9	97.2	101.2	101.0	109.8	100.5
Dec-18	104.3	104.6	104.7	101.0	105.9	110.1	101.5	102.2	96.9	101.7	101.9	106.7	100.9
Jan-19	104.5	104.7	105.0	101.1	106.3	110.3	101.9	102.6	97.9	101.6	101.9	107.8	101.1
Feb-19	104.7	105.0	105.2	101.1	106.5	110.8	101.9	102.6	98.7	101.0	102.0	107.9	101.1
Mar-19	104.8	105.2	105.4	101.1	106.5	111.1	101.9	102.6	98.2	100.9	102.2	108.0	101.0
Percentage change, 3 months on previous 3 months													
Aug-18	0.8	0.7	0.3	0.0	1.9	1.5	0.5	0.7	-2.0	1.6	1.8	2.6	-0.2
Sep-18	0.6	0.5	0.3	0.1	1.0	1.5	0.6	0.2	1.7	1.7	0.8	2.0	-0.4
Oct-18	0.4	0.4	0.4	0.2	0.1	1.3	0.1	-0.4	1.4	2.2	-0.2	1.2	-0.2
Nov-18	0.3	0.4	0.5	0.3	0.0	0.9	-0.7	-0.7	-0.6	-0.9	-1.1	1.3	0.5
Dec-18	0.2	0.4	0.6	0.3	0.3	0.4	-1.1	-0.9	-2.0	-1.5	-0.4	-0.3	1.0
Jan-19	0.2	0.5	0.5	0.2	0.6	0.4	-0.9	-0.8	-1.5	-2.0	0.3	-1.2	1.2
Feb-19	0.1	0.3	0.4	0.1	0.3	0.5	-0.5	-0.6	-0.2	-0.7	1.0	-2.2	1.0
Mar-19	0.2	0.3	0.5	0.1	0.2	0.8	0.0	-0.1	0.9	-0.9	0.8	-0.8	0.6
Percentage change, month on same month in previous year													
Aug-18	1.7	1.8	1.6	-0.1	3.5	4.2	1.3	1.2	0.0	6.0	-0.4	0.0	-4.1
Sep-18	1.4	1.7	1.5	0.1	2.7	4.3	-0.5	0.0	-2.4	-0.4	-1.8	2.5	-4.1
Oct-18	1.7	2.0	2.1	0.5	3.2	3.3	-0.8	-1.0	0.9	0.1	-2.7	3.5	-3.6
Nov-18	1.5	2.0	1.7	0.8	3.6	3.6	-1.2	-1.2	-1.9	-0.4	-1.5	1.9	-2.8
Dec-18	1.1	1.7	1.6	0.5	3.3	2.1	-0.8	-2.1	-4.1	20.4	-0.7	-2.5	-1.8
Jan-19	1.2	1.6	1.3	0.6	3.0	3.2	-1.0	-1.5	0.1	-1.5	1.7	0.1	0.1
Feb-19	1.7	2.2	2.0	0.7	3.1	4.6	-1.2	-1.2	-2.9	-0.2	1.7	0.9	1.4
Mar-19	1.7	2.1	1.9	0.4	3.5	4.0	-1.1	-0.7	-6.2	2.5	1.5	2.9	1.6
Percentage change, month on previous month													
Aug-18	0.1	0.1	-0.1	0.1	-0.1	0.8	-0.1	-0.3	-0.6	1.6	0.5	-0.2	-0.2
Sep-18	-0.1	-0.1	0.1	0.0	-0.9	0.5	-0.6	-0.1	-0.8	-3.4	-1.2	1.6	0.2
Oct-18	0.2	0.3	0.6	0.3	0.6	-0.6	-0.3	-0.5	-0.5	1.6	-0.2	-0.4	0.5
Nov-18	0.2	0.4	0.0	0.0	1.0	0.5	-0.4	-0.1	-1.0	-2.1	0.2	0.1	0.5
Dec-18	-0.3	-0.2	0.0	0.0	-0.9	0.1	-0.4	-0.7	-0.3	0.5	0.9	-2.8	0.4
Jan-19	0.2	0.1	0.3	0.1	0.4	0.2	0.4	0.4	1.1	-0.1	0.0	1.1	0.2
Feb-19	0.2	0.3	0.2	0.0	0.1	0.4	0.0	-0.1	0.8	-0.6	0.1	0.1	0.0
Mar-19	0.1	0.1	0.2	0.0	0.0	0.3	0.0	0.1	-0.5	-0.1	0.2	0.0	-0.1

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