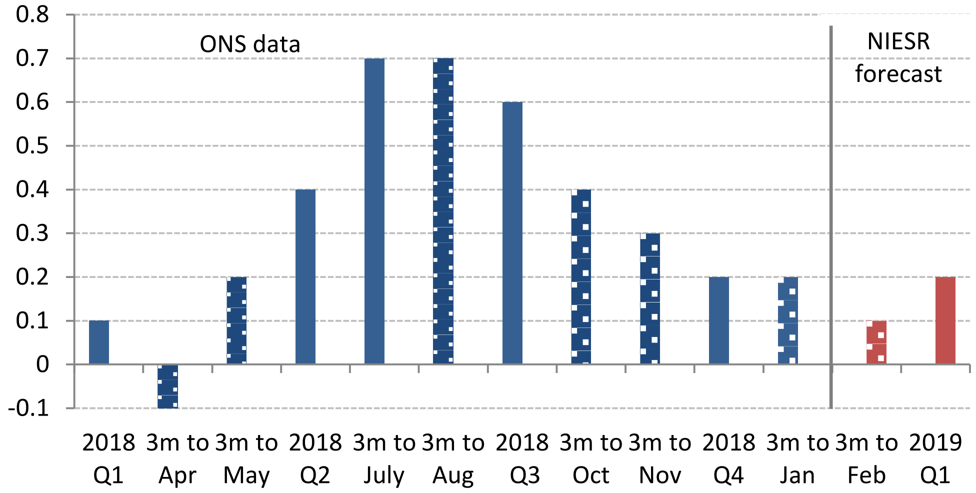
Press Release

NIESR MONTHLY GDP TRACKER: March 2019

UK economic growth continues at slow pace

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

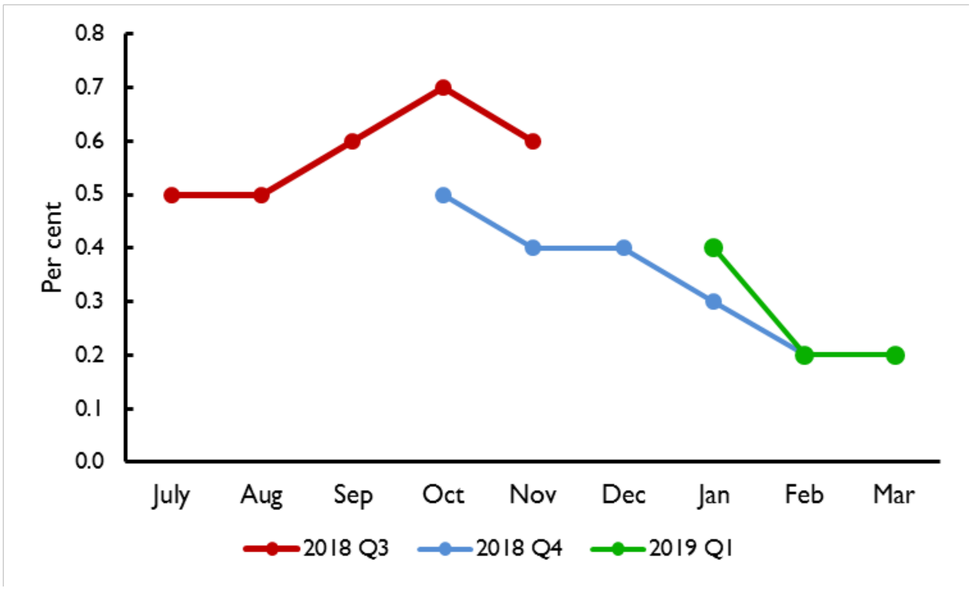
- The UK economy is on course to grow by 0.2% in the first quarter of 2019, the same pace as in the fourth quarter of last year (figure 1).
- According to new ONS statistics published this morning, the UK economy expanded by 0.2 per cent in the three months to January. This outturn was in line with the 0.2 per cent growth rate that we forecast last month for the same period. Survey evidence suggests that growth is likely to be marginally positive in February and March.
- There was a general improvement across all major sectors in January, with the most significant contribution coming from the service sector, which is estimated to have recovered the ground lost in December. Economic growth in the first quarter is expected to be mainly driven by the service sector, with small positive contributions expected from the production and construction sectors (figure 3).

Garry Young, Head of Macroeconomic Modelling and Forecasting, said *"The latest ONS data come as something of a relief, after several successive months of downside news and some recent pessimistic commentary. Nevertheless, the pace of UK economic growth remains lacklustre, reflecting the impact of Brexit-related uncertainty and similarly weak growth in the global economy outside of the United States. The near-term outlook for the UK economy depends very much on the outcome of the Brexit negotiations that are being discussed in Parliament today, and the extent of any fiscal response promised in the Spring Statement tomorrow".*

Forecast news

Figure 2 shows the evolution of our short-term forecast for the third and fourth quarters of 2018 and the first quarter of this year, highlighting the recent accumulation of downside news, driven by the effects of Brexit uncertainty and a slowdown in global economy. The latest monthly data is broadly in line with what we had expected last month so that we have not revised our estimate of 0.2 per cent growth for the first quarter of 2019.

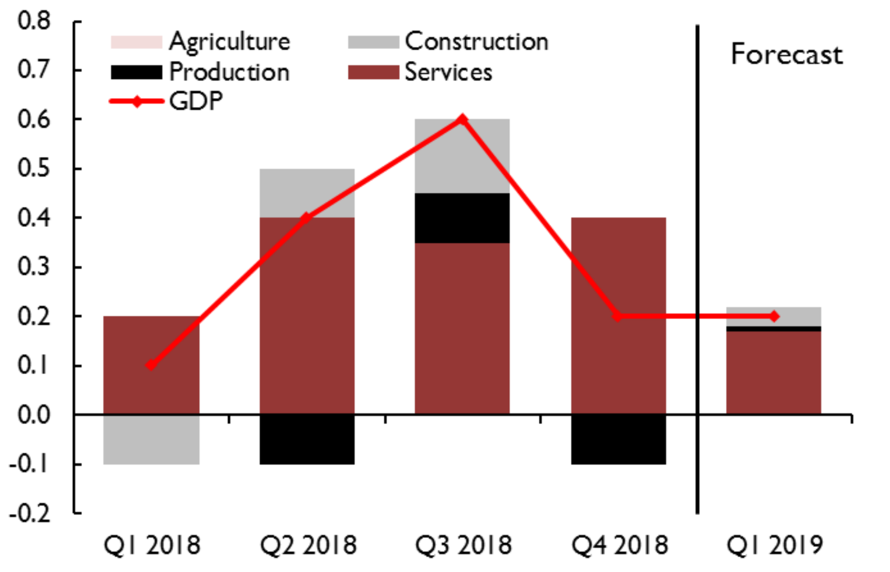
Figure 2: Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)



Sectoral detail

Economic growth in all of the major sectors remains fairly weak, although none are expected to make a negative contribution to GDP growth in the quarter as a whole (figure 3).

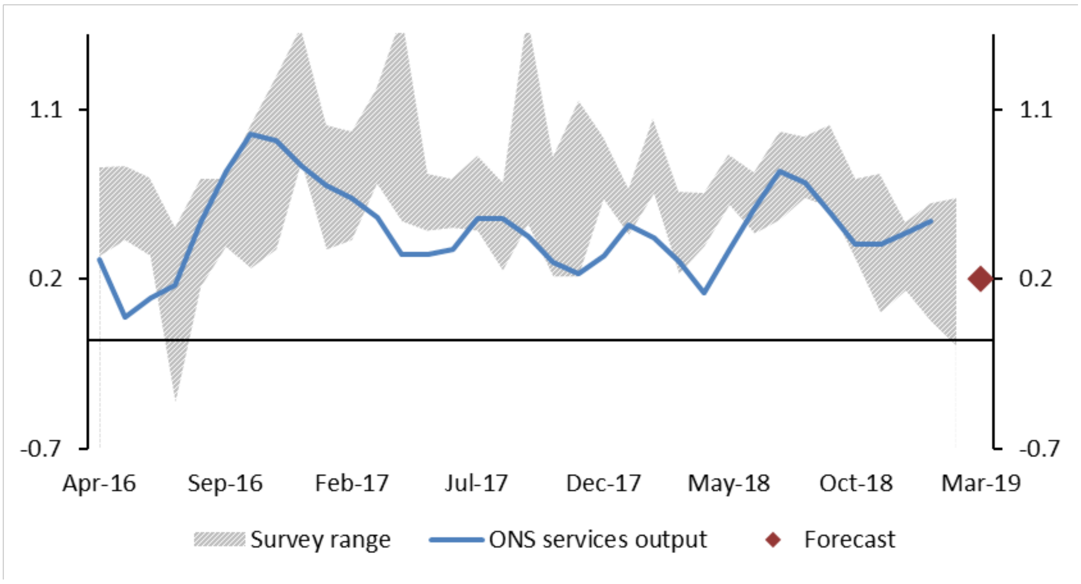
Figure 3: Contributions to quarterly GDP growth (percentage points)



Services (80 per cent of GDP)

According to ONS, growth in the service sector was 0.5 per cent in the three months to January, in line with our previous estimate. Within the service sector, official data shows that wholesale, retail and motor trade services made the biggest positive contribution to growth in the three months to January.

Figure 4: ONS service sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)



Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series. Source: ONS, CBI, Markit, Bank of England Agents, EC, NIESR calculations.

Recent business surveys suggest that service sector growth is set to remain slow through the quarter (figure 4), with most survey balances suggesting only marginally positive growth. The headline business activity balance in the IHS Markit/CIPS UK services PMI survey was 51.3 in February, a slight recovery from a two-and-a-half year low in January. This was in line with a slight rise in global services activity: the J.P.Morgan Global Services PMI rose to 53.3 from a 28-month low of 52.6 reported in January.

Despite the slight rise in activity, there is some evidence of an erosion of confidence in the UK service sector. The UK services confidence indicator, collected by the EU, fell to -17.3 in February, its lowest reading since the end of 2012, down from -8.4 in January. This is against an improvement in the EU as a whole.

There are some reports that consumer spending in early 2019 has been affected by Brexit-related uncertainty. The BRC-KPMG Retail Sales Monitor reported a slowdown in sales in February, after a modest recovery in January. This left total sales in February 0.5 per cent higher in February than a year earlier. According to the CBI Distributive Trades survey, retail sales volumes were flat in February.

Production (14 per cent of GDP)

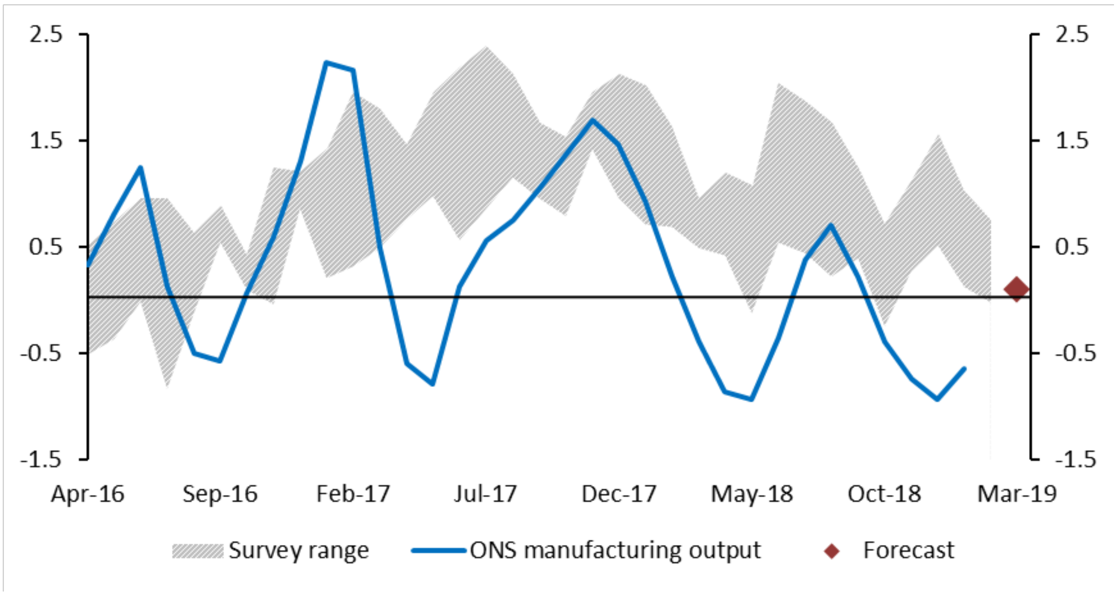
Production output fell by 0.8 per cent in the three months to January. The outturn was broadly in line with the forecast of -0.9 per cent growth that we published last month.

The production sector comprises manufacturing; mining and quarrying; electricity gas, steam and air conditioning; water supply and sewerage; and oil and gas extraction. The largest of these sectors is manufacturing, worth 10 per cent of GDP.

Manufacturing (10 percent of GDP)

Within production, output in the manufacturing sector fell by 0.7 per cent in the three months to January.

Figure 5: ONS manufacturing sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)



Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series. Source: ONS, CBI, Markit, Bank of England Agents, NIESR calculations

Recent UK survey data points to a slowdown in manufacturing sector output, though this is not as pronounced as in the official data (Figure 5). The latest CBI Industrial Trends Survey suggests that growth eased in February, but output continued to expand at a pace that is faster than the long-run average. The message from the IHS Markit/CIPS UK manufacturing PMI survey was similar – production volumes eased, with the balance falling from 52.6 in January to 52.0 in February. This dip was in line with a slight decline in global manufacturing activity: the J.P.Morgan Global Manufacturing PMI fell to 50.6 from 50.8 in January.

Mining and quarrying

Mining and quarrying is a small and erratic component of the industrial production sub-component. Output in the three months to January was 1.7 per cent lower than in the previous three months, slightly better than the 2 per cent fall we had forecast last month.

Construction (6 per cent of GDP)

Output in the construction sector recovered strongly in January after a fall in December. Nevertheless, on a three-month comparison, it was 0.8 per cent lower in the three months to January than in the previous three months, slightly better than the 1.2 per cent fall we had forecast last month.

The latest reading from the IHS Markit/CIPS construction PMI survey signals a further loss in growth momentum, with the headline business activity balance falling to 49.5 in February from 50.6 in January. This is the first reading below the 50 no-change threshold since March 2018.

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 are 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 is 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	-0.1	0.1
2017Q1	0.3	0.4	0.6	-0.3	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	0.1	-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	0.2	0.2	0.4	-0.2	0.0
Average absolute error				0.19	0.03

* 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 1931/ p.buonadonna@niesr.ac.uk

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

			Index of Services - Components					*Index of Production - Components*					
2016=100	***GDP index***	***Index of Services***	Business services and finance	Government and other services	Distribution, Hotels and Restaurants	Transport, Storage and Communications	***Index of Production***	Manufacturing	Electricity, gas, steam and air conditioning	Mining and Quarrying	Water Supply, Sewerage and Waste Management	***Index of Construction***	***Agriculture***
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	104.8	104.9	104.5	101.0	107.5	110.9	102.1	103.0	97.2	102.5	101.1	109.7	99.6
Feb-19	104.6	104.7	104.5	101.0	106.9	110.5	101.9	102.8	96.9	101.8	101.4	109.3	97.8
Mar-19	104.7	104.9	104.7	101.0	106.9	110.8	101.8	102.7	97.1	101.8	101.7	109.5	96.5
	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	0.4	0.2	1.0	0.6	-0.8	-0.6	-1.7	-1.7	0.0	-0.6	0.7
Feb-19	0.1	0.3	0.1	0.1	0.8	0.6	-0.4	-0.4	-1.1	-0.1	0.5	-1.2	-0.6
Mar-19	0.2	0.2	-0.1	0.0	0.9	0.8	0.1	0.1	-0.4	-0.1	0.1	0.7	-2.5
	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	1.4	1.7	0.9	0.5	4.2	3.7	-0.9	-1.2	-0.6	-0.6	0.9	1.9	-1.4
Feb-19	1.5	1.9	1.4	0.6	3.5	4.3	-1.1	-0.9	-4.7	0.6	1.1	2.1	-1.9
Mar-19	1.5	1.8	1.2	0.3	3.9	3.8	-1.1	-0.7	-7.2	3.4	1.0	4.3	-2.9
	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	0.4	0.3	-0.2	0.0	1.5	0.7	0.6	0.8	0.3	0.8	-0.8	2.8	-1.3
Feb-19	-0.2	-0.2	0.0	0.0	-0.6	-0.4	-0.2	-0.2	-0.4	-0.6	0.3	-0.4	-1.8
Mar-19	0.1	0.1	0.2	0.0	0.0	0.3	-0.1	-0.2	0.3	-0.1	0.3	0.2	-1.4

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