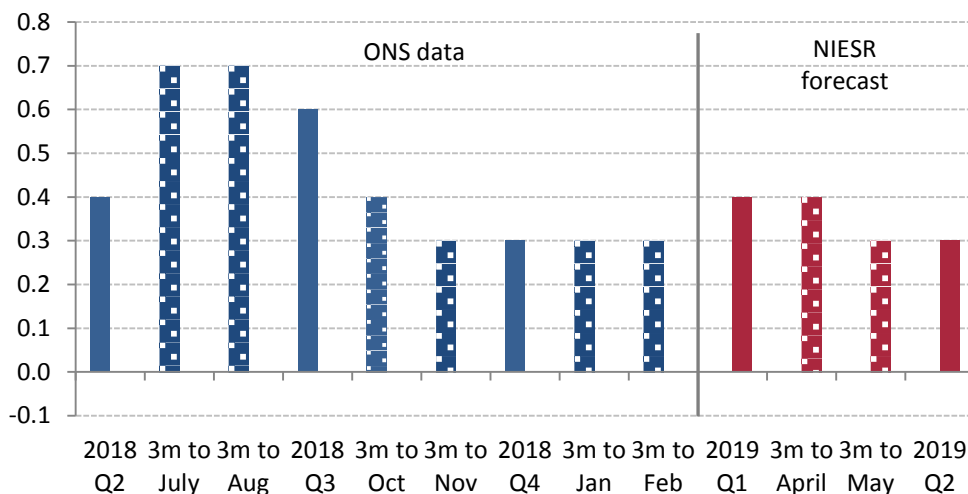## **Press Release**

NIESR MONTHLY GDP TRACKER: April 2019

Positive news on UK economy, but pace of growth remains modest

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 0.4% in the first quarter of 2019 and, if current trends continue, by 0.3% in the second quarter (figure 1).
- According to new ONS statistics published this morning, the UK economy expanded by 0.3 per cent in the three months to February. This outturn was higher than the 0.1 per cent growth rate that we forecast last month for the same period.
- Despite some weak survey evidence for the service sector in March, better than expected performance in January and February has led us to estimate that the economy grew by 0.4 per cent in the first quarter as a whole.
- Recent UK survey data had been pointing to a much stronger performance in the manufacturing sector than was apparent in the ONS data. The latest ONS data showing a widespread increase in output throughout the manufacturing sector has moved more into line with the survey evidence

Garry Young, Head of Macroeconomic Modelling and Forecasting, said *"The latest ONS data was better than we had expected, but recent survey evidence suggests that economic growth is likely to continue at a fairly modest pace for the first half of this year. This reflects the impact of Brexit-related uncertainty and slower growth in the global economy outside of the United States. The near-term outlook for the UK economy continues to depend on the outcome of the Brexit negotiations".*

Forecast news

Figure 2 shows how our short-term forecasts for recent quarters have changed as new information has become available. The latest monthly data was stronger than we had expected last month, and we have revised our estimate of growth for the first quarter of 2019 back up to 0.4 per cent. This is the first month of positive news on economic growth since October last year.

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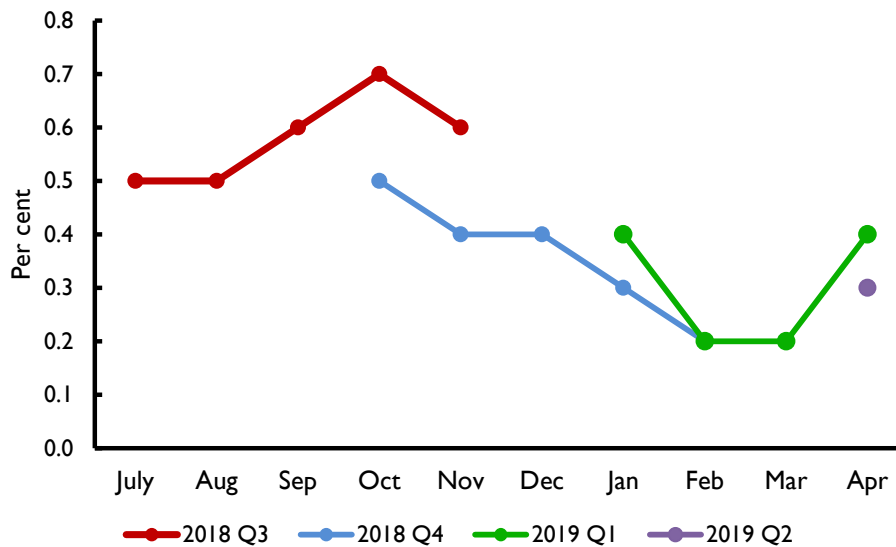
Sectoral detail

All of the major sectors are expected to make a positive contribution to GDP growth in the quarter as a whole (figure 3), partly reflecting a recovery in production and construction from a notably weak performance in December.

Figure 3: Contributions to quarterly GDP growth (percentage points)
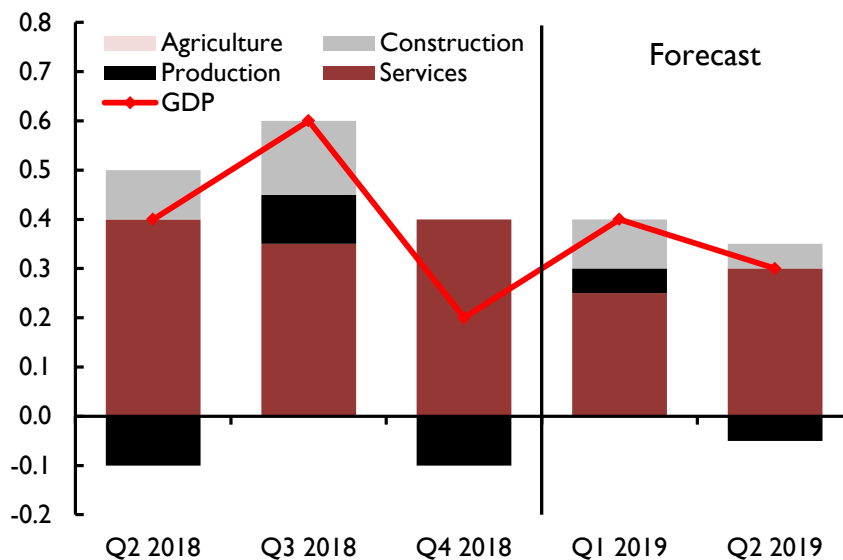
Services (80 per cent of GDP)

According to ONS, growth in the service sector was 0.4 per cent in the three months to February, 0.1 percentage points higher than our previous estimate. Within the service sector, official data shows that computer programming made the biggest positive contribution to growth in the three months to February.

Figure 4: ONS service sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)
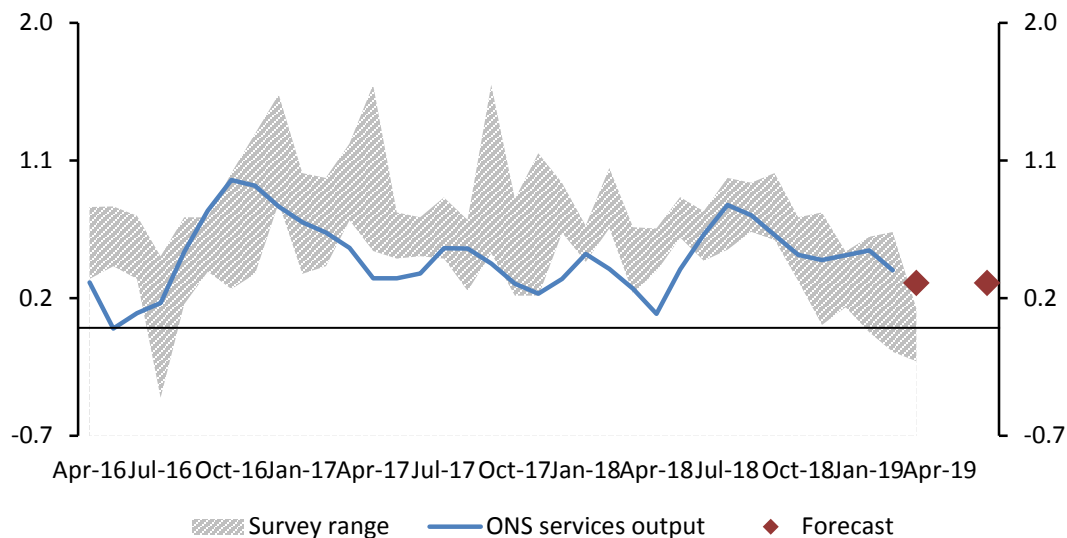
Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series. Source: ONS, CBI, Markit, Bank of England Agents, EC, NIESR calculations.

We expect the service sector to have grown by 0.3 per cent in the first quarter, as a fairly strong performance in January has been followed by further growth in February, but survey-based evidence of weakness in March (figure 4). The headline business activity balance in the IHS Markit/CIPS UK services PMI survey fell from 51.3 in February to 48.9 in March, the lowest reading since July 2016 in the immediate aftermath of the EU referendum. According to our estimates, a fall of this magnitude suggests output in some service sectors would be 0.3 per cent lower in March than had the PMI remained unchanged. This fall in the UK services PMI contrasted with a slight rise in global services activity: the J.P.Morgan Global Services PMI rose to 53.7 in March, continuing the recovery from a 28-month low of 52.6 reported in January.

There is continued evidence of timidity in the UK service sector. The UK services confidence indicator, collected by the EU, was -9.4 in March, the fifth consecutive negative reading. Based on recent trends we expect service sector growth to remain at around 0.3 per cent in the second quarter of 2019.

Production (14 per cent of GDP)

Production output rose by 0.2 per cent in the three months to February. The outturn was much stronger than the forecast of -0.4 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 rose by 0.4 per cent in the three months to February.

Figure 5: ONS manufacturing sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)
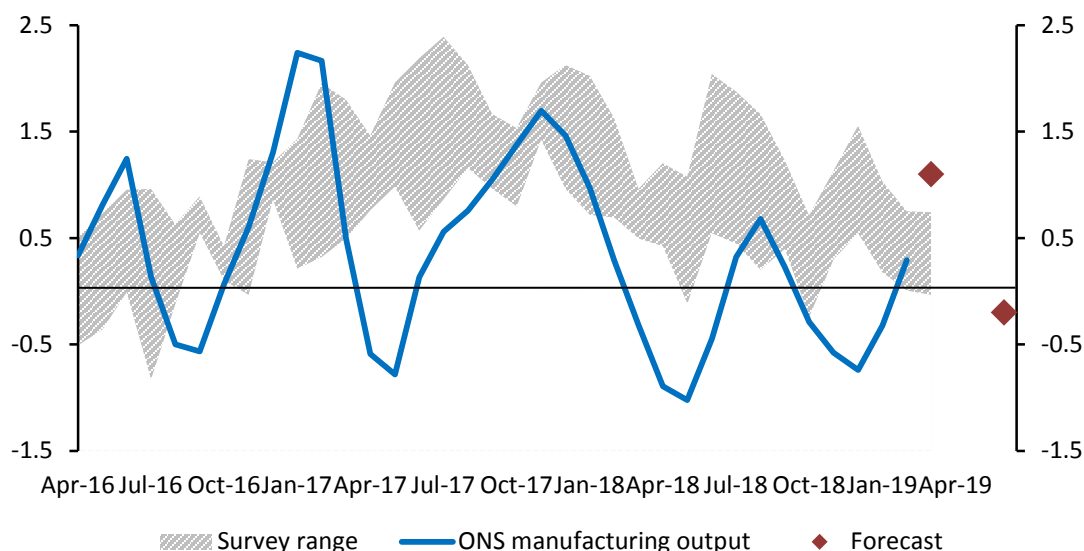
Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series. Source: ONS, CBI, Markit, Bank of England Agents, NIESR calculations

Recent UK survey data had been pointing to a much stronger performance in the manufacturing sector than was apparent in the ONS data. The latest ONS data showing a widespread increase in output throughout the manufacturing sector has moved more into line with the survey evidence (figure 5). For March, the IHS Markit/CIPS UK manufacturing PMI balance picked up to 55.1 from a revised 52.1 in February, where a balance above 50 is indicative of growth. It was reported that the increase in the PMI balance was driven by stockpiling, either by businesses building up their own inventories or to meet stockpiling demands by clients. It is expected that manufacturing output will grow by 1.1 per cent in the first quarter with the strength partly due to comparison with what now appears to be an erratically weak fourth quarter. UK manufacturing activity

increased more strongly than global manufacturing activity: the J.P.Morgan Global Manufacturing PMI was unchanged in March at 50.6.

Mining and quarrying

Mining and quarrying is a small and erratic component of the industrial production sub-component. Output in the three months to February was 0.9 per cent higher than in the previous three months, much stronger than the 0.1 per cent fall we had forecast last month.

Construction (6 per cent of GDP)

Output in the construction sector grew further in February after a strong recovery in January. On a three-month comparison, it was 0.6 per cent lower in the three months to February than in the previous three months, not as weak as suggested by the 1.2 per cent fall we had forecast last month.

The latest reading from the IHS Markit/CIPS construction PMI survey signals a loss in growth momentum, with the headline business activity balance at 49.7 in March, up marginally from 49.5 in February, but this represented the first two months of sub-50 readings since August 2016.

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. 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.

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 second quarter of 2019, is published this month and will then be updated three times (in May, June and July) before the ONS publishes its first estimate for the second quarter of 2019 in August. In other words, we publish four estimates of GDP for any particular quarter before the official release and change them as new evidence becomes available.

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 are updated as new ONS data and new surveys become available.

It is important to stress that the timelier NIESR guide to quarterly GDP growth is 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 provides a guide to average errors based on past performance. NIESR also provides 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 the bottom-up methodology for producing estimates of GDP growth for the current and preceding quarters is new, we do not yet have a long track record of estimates produced by this approach. To check how our methodology would work in real time we went 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. These are shown in the table below, which has been updated to include estimates since we started producing the GDP Tracker in July 2018. We calculate the forecast quarter-on-quarter growth rates for the current quarter and compare these to the ONS first estimates of quarterly growth. The average absolute error for the quarters considered was 0.19 % points. The largest error was for 2018Q1 when our GDP tracker methodology would have expected growth to be 0.5%, 0.4% points higher than the ONS first estimate of GDP growth that was published in April 2018.

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	0.6	0.6	-0.3	0.3
2017Q2	0.3	0.3	0.4	-0.1	0.0
2017Q3	0.4	0.5	0.4	0.0	0.1
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	0.7	0.5	0.1	0.1
2018Q4	0.2	0.2	0.4	-0.2	0.0
2019Q1			0.2		
Average absolute error				0.19	0.08

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

** ONS first estimate - NIESR estimate

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	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					140					60	7
			334	220	133	106		101	12	17	10		
Jun-18	103.9	103.8	103.6	100.7	105.4	108.9	102.8	104.2	95.0	102.8	103.1	108.0	100.0
Jul-18	104.2	104.1	103.9	100.7	106.4	109.1	103.3	103.7	98.7	106.2	103.3	108.1	99.9
Aug-18	104.3	104.3	103.9	101.0	106.2	110.1	103.3	103.6	98.4	107.1	103.3	108.1	100.0
Sep-18	104.3	104.2	103.8	101.1	105.3	110.7	102.8	103.6	97.1	103.7	102.8	109.7	100.5
Oct-18	104.5	104.5	104.2	101.4	106.0	110.3	102.5	103.0	97.1	105.8	102.3	109.4	101.1
Nov-18	104.7	104.9	104.4	101.6	107.0	110.7	102.3	103.1	96.5	103.9	102.0	108.7	101.0
Dec-18	104.4	104.7	104.2	101.5	106.0	111.4	101.9	102.5	96.3	104.7	102.3	106.0	100.2
Jan-19	104.9	105.0	104.0	101.6	107.4	112.1	102.7	103.6	96.8	104.6	100.6	109.7	98.8
Feb-19	105.1	105.1	104.1	101.8	107.4	112.1	103.3	104.5	95.6	107.0	100.3	110.1	97.5
Mar-19	105.0	105.1	104.1	101.8	107.3	112.1	102.7	103.9	94.9	105.0	100.9	110.0	96.8
Apr-19	105.1	105.3	104.3	101.8	107.5	112.5	102.5	103.8	94.8	104.5	101.0	110.3	96.9
May-19	105.3	105.4	104.6	101.9	107.6	112.8	102.5	103.8	94.1	104.7	101.1	110.6	97.4
Jun-19	105.4	105.6	104.8	101.9	107.7	113.3	102.4	103.8	93.5	104.5	101.3	110.8	98.0
Percentage change, 3 months on previous 3 months													
Jun-18	0.4	0.6	0.2	0.2	1.7	1.2	-0.6	-0.4	-3.7	2.6	0.6	0.5	-0.9
Jul-18	0.7	0.8	0.4	0.1	2.3	1.7	-0.2	0.3	-5.1	1.2	1.7	2.2	-0.6
Aug-18	0.8	0.7	0.3	0.2	1.9	1.8	0.7	0.7	-2.0	3.2	2.3	2.4	-0.5
Sep-18	0.7	0.6	0.3	0.3	1.1	1.8	0.7	0.2	1.6	2.2	1.6	1.8	-0.1
Oct-18	0.5	0.5	0.3	0.5	0.1	1.6	0.2	-0.3	1.5	1.9	0.3	1.2	0.5
Nov-18	0.4	0.4	0.3	0.6	0.1	1.1	-0.6	-0.6	-0.5	-0.9	-0.8	1.1	0.9
Dec-18	0.3	0.5	0.4	0.6	0.3	0.8	-0.8	-0.7	-1.5	-0.8	-0.9	-0.6	0.6
Jan-19	0.3	0.5	0.2	0.4	0.9	0.9	-0.5	-0.3	-1.0	-1.1	-1.1	-0.9	-0.5
Feb-19	0.3	0.4	0.0	0.3	0.8	1.2	0.1	0.3	-0.7	0.9	-1.3	-0.6	-2.0
Mar-19	0.4	0.3	-0.2	0.2	1.0	1.2	0.6	1.1	-0.9	0.7	-1.6	1.8	-3.0
Apr-19	0.4	0.3	0.0	0.2	0.6	0.8	0.6	1.0	-1.5	1.0	-0.9	1.9	-2.9
May-19	0.3	0.3	0.2	0.2	0.5	0.5	0.0	0.3	-1.7	-0.7	-0.1	1.6	-1.8
Jun-19	0.3	0.3	0.5	0.1	0.2	0.7	-0.4	-0.2	-1.7	-0.9	0.5	0.6	-0.3
Percentage change, month on same month in previous year													
Nov-18	1.6	2.1	1.4	1.4	3.7	4.2	-0.9	-1.1	-2.6	2.3	-0.5	0.8	-2.3
Dec-18	1.2	1.7	1.1	1.0	3.4	3.3	-0.4	-1.8	-4.7	23.9	-0.3	-3.1	-2.5
Jan-19	1.6	1.8	0.4	1.2	4.2	4.7	-0.2	-0.7	-0.1	3.0	0.2	2.1	-2.9
Feb-19	2.0	2.3	1.1	1.4	4.1	5.6	0.2	0.6	-5.0	4.9	-0.7	3.3	-3.5
Mar-19	1.8	2.0	0.7	1.2	4.2	4.7	-0.2	0.5	-8.2	6.2	-0.4	5.3	-3.7
Apr-19	1.8	1.9	0.8	1.2	3.6	4.9	0.0	0.9	-5.2	-1.3	0.7	5.1	-3.5
May-19	1.7	1.8	1.0	1.3	2.2	4.5	0.7	0.6	-0.7	3.1	-0.1	3.2	-2.9
Jun-19	1.5	1.7	1.2	1.2	2.1	4.0	-0.4	-0.4	-1.6	1.7	-1.8	2.6	-2.0
Percentage change, month on previous month													
Nov-18	0.2	0.4	0.2	0.2	0.9	0.4	-0.2	0.1	-0.6	-1.8	-0.3	-0.6	-0.1
Dec-18	-0.3	-0.2	-0.2	-0.1	-0.9	0.6	-0.4	-0.6	-0.2	0.8	0.3	-2.5	-0.8
Jan-19	0.5	0.3	-0.2	0.1	1.3	0.6	0.7	1.1	0.5	-0.1	-1.7	3.5	-1.4
Feb-19	0.2	0.1	0.1	0.2	0.0	0.0	0.7	0.9	-1.2	2.3	-0.3	0.4	-1.3
Mar-19	-0.1	0.0	0.0	0.0	-0.1	0.0	-0.6	-0.6	-0.7	-1.9	0.6	-0.1	-0.7
Apr-19	0.1	0.2	0.2	0.0	0.2	0.4	-0.1	-0.1	-0.1	-0.5	0.1	0.3	0.0
May-19	0.1	0.2	0.2	0.0	0.1	0.3	0.0	0.1	-0.8	0.2	0.1	0.2	0.5
Jun-19	0.1	0.2	0.2	0.0	0.1	0.4	-0.1	-0.1	-0.6	-0.2	0.2	0.2	0.6

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