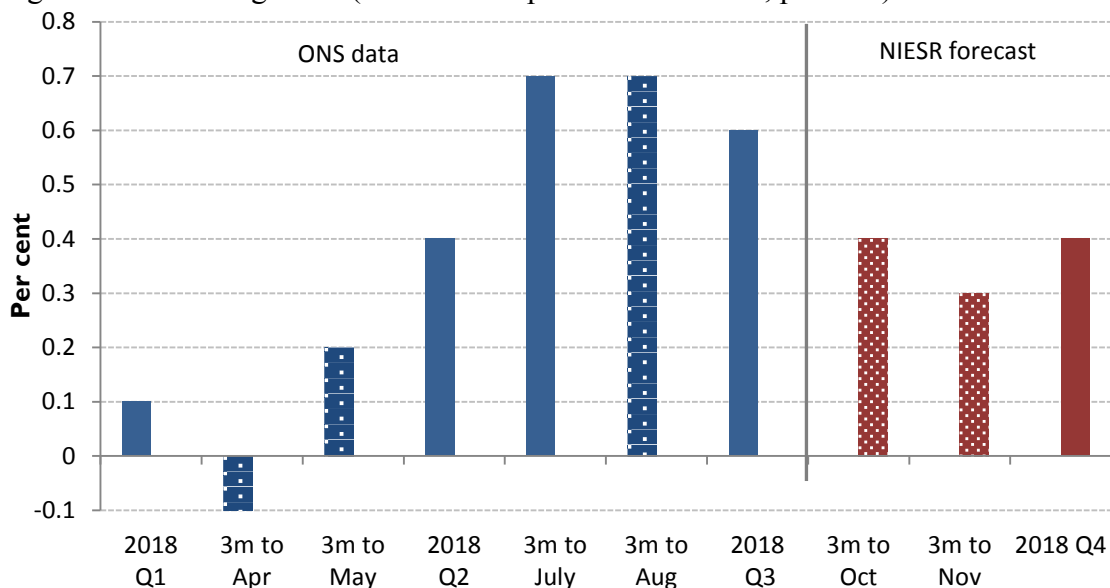


Press Release

NIESR MONTHLY GDP TRACKER: November 2018

UK economic growth slows to a more sustainable rate

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



Source: NIESR, ONS

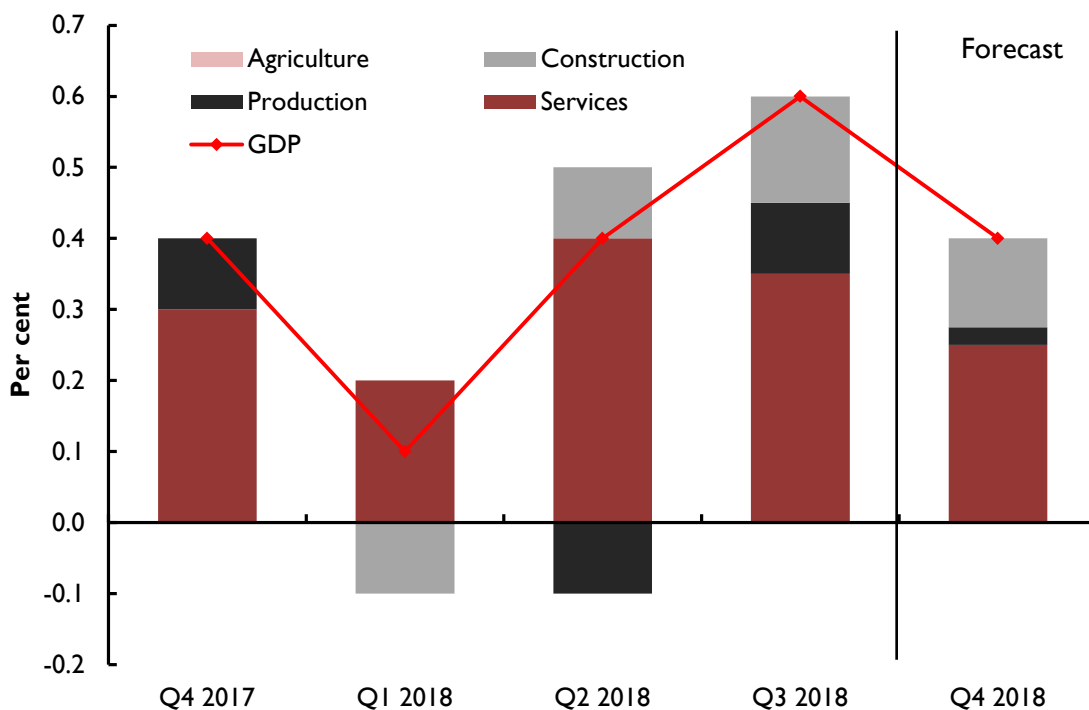
Note: the solid bars show the 3m/3m growth rate for complete calendar quarters and the shaded areas show rolling 3m/3m growth rate for the intervening months. There may be inconsistencies in the growth rate arising from rounding

Main points

- In our view, UK economic growth peaked in the third quarter of this year and will settle at a rate that is close to its post-crisis average in the final quarter.
- According to new ONS statistics published this morning, the UK economy expanded by 0.6 per cent in the third quarter (three months to September) after growing by 0.4 per cent in the second quarter (three months to June). The outcome was slightly lower than the 0.7 per cent monthly GDP forecast that we published last month for the same period and the error is partly because of back data revisions. **Building on the official data, our monthly GDP Tracker suggests that the economy will expand by 0.4 in the final quarter of this year.**
- The apparent strength in third quarter growth masks a loss in momentum in industrial production as well as services output in the latter part of the third quarter. There are a number of factors at play, including Brexit-related uncertainty.

Amit Kara, Head of UK macroeconomic forecasting, said “After rebounding from the weather-related disruption early this year to a pace that is considerably faster than our estimate of potential in the third quarter, GDP growth is on track to settle at 0.4 per cent in the final quarter of this year. This lower growth rate is broadly in line with the post-crisis average. The outlook for growth is particularly uncertain, especially with the exit date from the European Union fast approaching and the terms of the future relationship yet to be settled.”

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

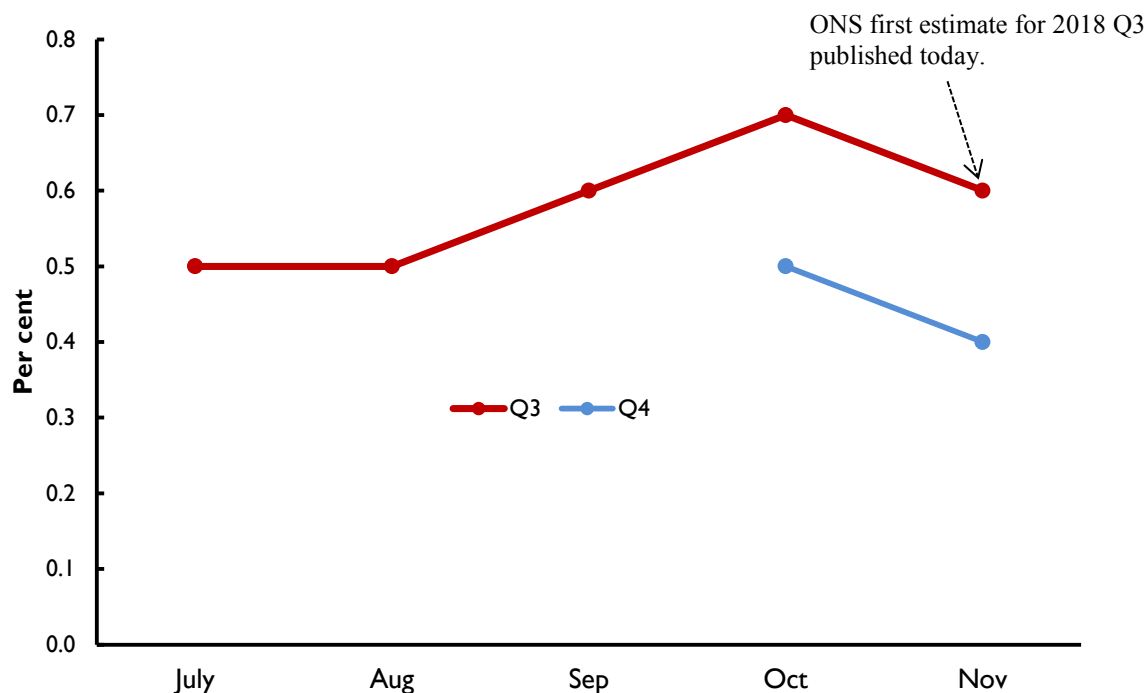


Forecast news

The NIESR GDP Tracker provides a rolling monthly forecast for GDP growth. The forecast for any particular quarter starts in the first month of that quarter and is then updated each month until the first official release which is some 40 days after the end of that quarter. For example, the forecast for the third quarter of 2018 was first published in July and then updated on three occasions in August, September and October. The ONS has published its first estimate for the third quarter of 2018 today (November). In other words, we have four opportunities to publish our GDP forecast for any particular quarter before the official release.

Figure 3 below shows the evolution of our forecast for the third and fourth quarters of 2018. Our forecast for the third quarter started at 0.5 per cent in July and was then raised to 0.6 per cent in September and finally to 0.7 per cent in October. According to the ONS, GDP expanded by 0.6 over this period. Similarly, our first forecast for the fourth quarter published last month stood at 0.5 per cent. We have revised lower that forecast to 0.4 per cent today.

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



The forecast in detail:

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 expanded by 0.8 per cent in the third quarter compared with the previous quarter. The outturn was lower than the 1.1 per cent forecast that we published last month. The news was mainly in the manufacturing and the mining sectors where the outturn was lower than our forecast.

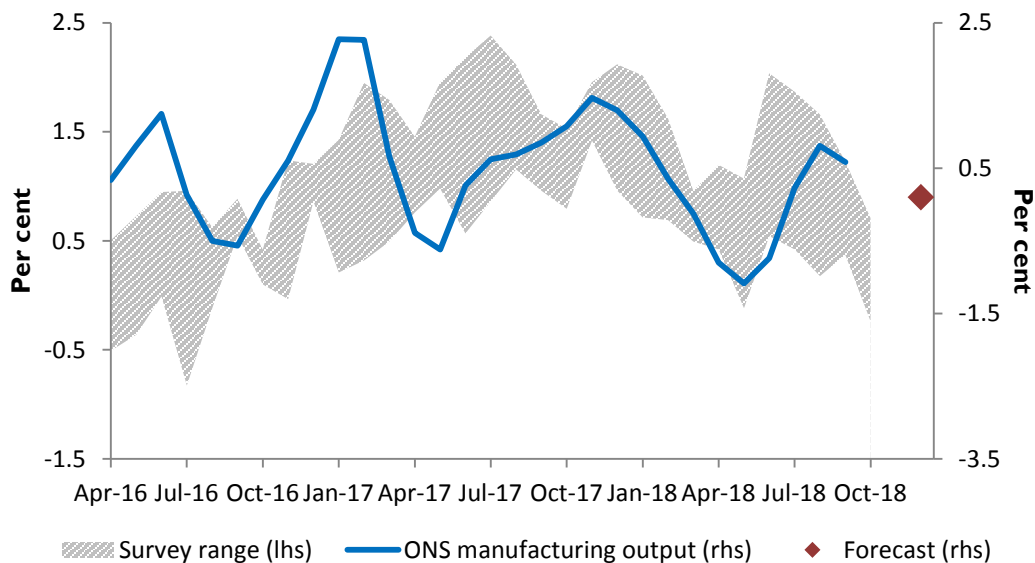
Manufacturing

Within production, the dominant manufacturing sector expanded by 0.6 per cent over this period. The rebound marks a turnaround from the performance in the second quarter of this year when output fell by a similar amount.

Business surveys indicate that the outlook has turned (Figure 4). The latest IHS Markit/CIPS UK manufacturing PMI survey suggests that manufacturing output growth slowed in October with outright declines in the forward-looking new orders balance and the employment balance. That message was echoed in the CBI Industrial Trends survey which reported a sharp downturn in the volume of new orders with the October balance at its lowest level since October 2011. That message was reinforced by the Bank of England Agents in its latest October scores, again for both domestic as well as exports.

The surveys point to three main reasons for the slowdown in UK manufacturing sector activity – Brexit, global trade tensions and the slowdown in the EU. Consistent with that, the PMI survey suggests that global manufacturing production eased to its slowest pace in 28 months in October and euro area output balance was at its lowest level since December 2014.

Figure 4: 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 expanded by 1.7 per cent in the third quarter according to the ONS.

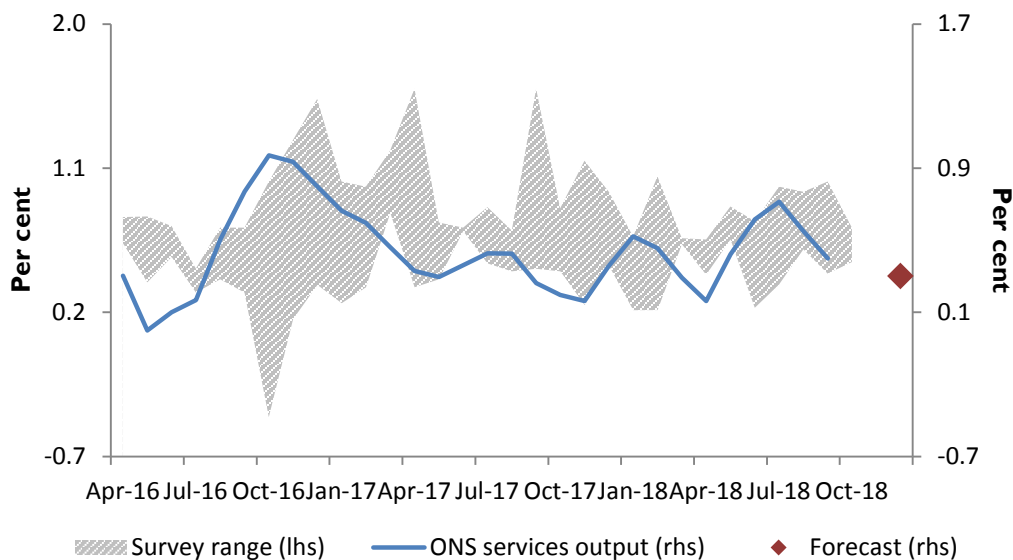
Services (80 per cent of GDP)

According to ONS, growth in the dominant service sector recovered from 0.3 per cent in the first quarter of this year to 0.6 per cent in the second quarter before easing to 0.4 per cent in the third quarter. The outturn for the third quarter was slightly lower than our forecast.

Within the service sector, information and communication made the biggest positive contribution to third quarter growth along with wholesale, retail and motor trade. There was however, a change in the growth momentum of the wholesale, retail and motor trade sector in part because of the introduction of new emissions standards (Worldwide harmonised light vehicle test procedure) in September which impacted on the sale of new cars. That apart, the boost in retail sales growth over the summer months that was driven by the football World Cup and the unusually warm summer appears to have faded in the

third quarter. This was evident in the BRC-KPMG retail sales monitor and the CBI monthly Distributive Trades Survey.

Figure 5: 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 PMI-Markit Service sector Business Activity balance nudged lower in October but the CBI survey painted a mixed picture where internet retail sales volume growth was at healthy levels and sales volume growth elsewhere slowed (Figure 5). Wholesale volumes also eased in October but that was balanced by motor trade which registered a strong recovery in October after the emission regulation-related slowdown in September. The Bank of England Agents scores remained steady both consumer goods and well as business services. There are indications of heightened Brexit-related uncertainty in the PMI survey. Elsewhere, the slowdown that is evident in retail surveys appears to be a timing issue – consumers are waiting for Black Friday sales which have become a regular event in the Christmas shopping calendar (BRC-KPMG Retail Sales Monitor).

Construction (6 per cent of GDP)

The construction sector rebounded in the third quarter with growth of 2.1 per cent compared with 0.8 per cent in the second and a fall of 1.5 per cent in the weather-disrupted first quarter.

Looking ahead into the final quarter of this year, the latest reading from the IHS Markit/CIPS construction PMI survey suggests that the sector will continue to expand, but growth is expected to nudge lower.

Outlook 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. Our monthly GDP tracker points to a downward revision of 0.1 percentage points to 1.3 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:

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	n.a.
Average absolute error				0.19	0.07

* 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 0.19% 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 Luca Pieri on 020 7654 1931/ l.pieri@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
Jan-18	103.2	102.9	103.5	100.3	102.8	106.5	103.1	104.4	97.4	102.6	101.0	107.5	102.2
Feb-18	102.9	102.6	103.1	100.3	102.9	105.5	103.2	104.0	100.7	100.6	101.7	106.6	101.9
Mar-18	103.0	102.8	103.3	100.7	102.4	106.5	103.0	103.6	102.6	97.7	102.3	104.9	101.9
Apr-18	103.2	103.2	103.6	100.9	103.3	107.0	102.3	102.7	99.6	104.6	100.8	104.9	102.1
May-18	103.5	103.5	103.4	100.8	104.9	107.6	101.7	103.0	95.4	99.1	102.1	107.9	102.2
Jun-18	103.7	103.5	103.2	100.8	104.8	108.5	102.7	104.0	95.8	99.2	104.5	108.9	102.0
Jul-18	104.0	103.8	103.7	100.6	105.7	108.5	103.1	103.8	99.1	102.7	102.9	109.1	102.2
Aug-18	104.0	103.9	103.6	100.7	105.6	109.3	103.0	103.7	98.8	103.5	103.1	108.8	102.3
Sep-18	104.1	103.8	103.7	100.8	104.2	109.9	103.0	104.0	98.4	101.8	102.4	110.7	102.3
Oct-18	104.2	103.9	103.7	100.8	104.6	110.2	103.2	104.1	99.6	101.1	102.8	111.0	102.3
Nov-18	104.5	104.2	104.0	100.8	105.2	110.6	103.0	103.7	100.3	101.0	103.0	111.5	102.3
Dec-18	104.6	104.4	104.2	100.8	105.2	111.0	103.1	103.9	100.3	100.8	103.1	111.8	102.3
Percentage change, 3 months on previous 3 months													
Mar-18	0.1	0.3	0.5	0.2	0.3	0.0	0.2	-0.1	1.1	2.5	-1.3	-1.5	-1.2
Apr-18	-0.1	0.2	0.2	0.4	0.2	-0.3	-0.1	-0.8	1.8	4.3	-0.7	-2.7	-0.8
May-18	0.1	0.4	0.2	0.5	0.9	0.5	-0.5	-1.1	-0.5	4.9	-0.3	-1.7	-0.2
Jun-18	0.4	0.6	0.1	0.4	1.6	1.4	-0.8	-0.7	-3.3	0.7	0.8	0.8	0.1
Jul-18	0.7	0.7	0.1	0.1	2.2	1.8	-0.3	0.2	-4.2	-0.6	1.5	3.0	0.2
Aug-18	0.7	0.5	0.1	-0.1	1.8	1.6	0.6	0.7	-1.3	1.3	1.7	2.9	0.1
Sep-18	0.6	0.4	0.3	-0.1	0.8	1.4	0.8	0.6	1.9	1.7	0.3	2.1	0.2
Oct-18	0.4	0.3	0.2	0.0	-0.3	1.5	0.6	0.3	2.2	1.8	-0.4	1.4	0.2
Nov-18	0.3	0.2	0.3	0.1	-0.7	1.4	0.1	0.1	1.5	-0.5	-0.7	2.0	0.1
Dec-18	0.4	0.3	0.3	0.1	-0.1	1.3	0.1	0.1	1.3	-1.7	0.2	1.8	0.0
Percentage change, month on same month in previous year													
Mar-18	1.2	1.2	1.7	0.3	0.6	2.6	2.5	2.2	11.2	-3.7	-2.0	-1.9	-0.7
Apr-18	1.4	1.6	2.4	0.2	1.4	2.9	1.4	1.0	3.5	5.2	-2.1	-1.7	-0.5
May-18	1.4	1.6	1.4	0.1	3.2	3.6	0.2	1.1	-3.3	-2.0	-0.7	1.2	-0.4
Jun-18	1.3	1.4	1.0	0.3	2.5	3.3	0.7	1.8	-2.0	-6.1	1.6	1.7	-0.9
Jul-18	1.7	1.8	1.6	0.2	3.2	3.7	1.0	1.3	-0.2	0.9	0.5	2.5	-1.1
Aug-18	1.4	1.7	1.2	0.1	3.1	4.1	1.0	1.3	-0.8	2.1	1.0	0.5	-1.4
Sep-18	1.5	1.7	1.3	0.5	2.2	4.4	0.0	0.5	-1.9	-1.7	0.2	3.1	-1.4
Oct-18	1.6	1.7	1.2	0.4	2.3	4.6	0.0	0.0	2.4	-4.2	-0.3	4.3	-1.4
Nov-18	1.4	1.6	0.9	0.7	2.2	4.6	-0.3	-0.4	1.1	-2.7	0.4	3.3	-1.0
Dec-18	1.5	1.6	1.2	0.5	3.0	3.3	0.8	-0.4	-0.6	20.0	-0.2	2.0	-0.5
Percentage change, month on previous month													
Mar-18	0.1	0.2	0.2	0.4	-0.5	0.9	-0.2	-0.4	1.9	-2.9	0.6	-1.6	0.0
Apr-18	0.2	0.4	0.3	0.2	0.9	0.5	-0.7	-0.9	-2.9	7.1	-1.5	0.0	0.2
May-18	0.3	0.3	-0.2	-0.1	1.5	0.6	-0.6	0.3	-4.2	-5.3	1.3	2.9	0.1
Jun-18	0.2	0.0	-0.2	0.0	-0.1	0.8	1.0	1.0	0.4	0.1	2.4	0.9	-0.2
Jul-18	0.3	0.3	0.5	-0.2	0.9	0.0	0.4	-0.2	3.4	3.5	-1.5	0.2	0.2
Aug-18	0.0	0.1	-0.1	0.1	-0.1	0.7	0.0	-0.1	-0.3	0.8	0.2	-0.3	0.1
Sep-18	0.0	-0.1	0.1	0.1	-1.3	0.5	0.0	0.3	-0.4	-1.6	-0.7	1.7	0.0
Oct-18	0.1	0.1	0.0	0.0	0.4	0.2	0.1	0.0	1.2	-0.7	0.4	0.3	0.0
Nov-18	0.2	0.3	0.3	0.0	0.6	0.4	-0.1	-0.3	0.7	0.0	0.2	0.5	0.0
Dec-18	0.2	0.2	0.3	0.0	0.0	0.4	0.1	0.2	0.0	-0.3	0.1	0.3	0.0

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