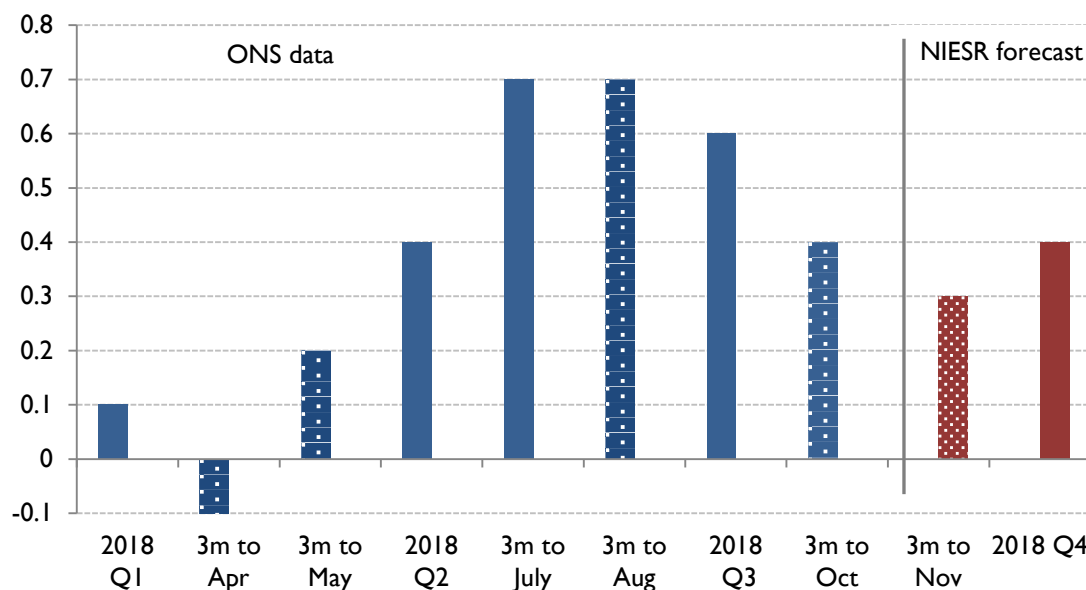


## Press Release

# NIESR MONTHLY GDP TRACKER: December 2018

## Latest data confirm slowdown in UK economic growth

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



Source: NIESR, ONS

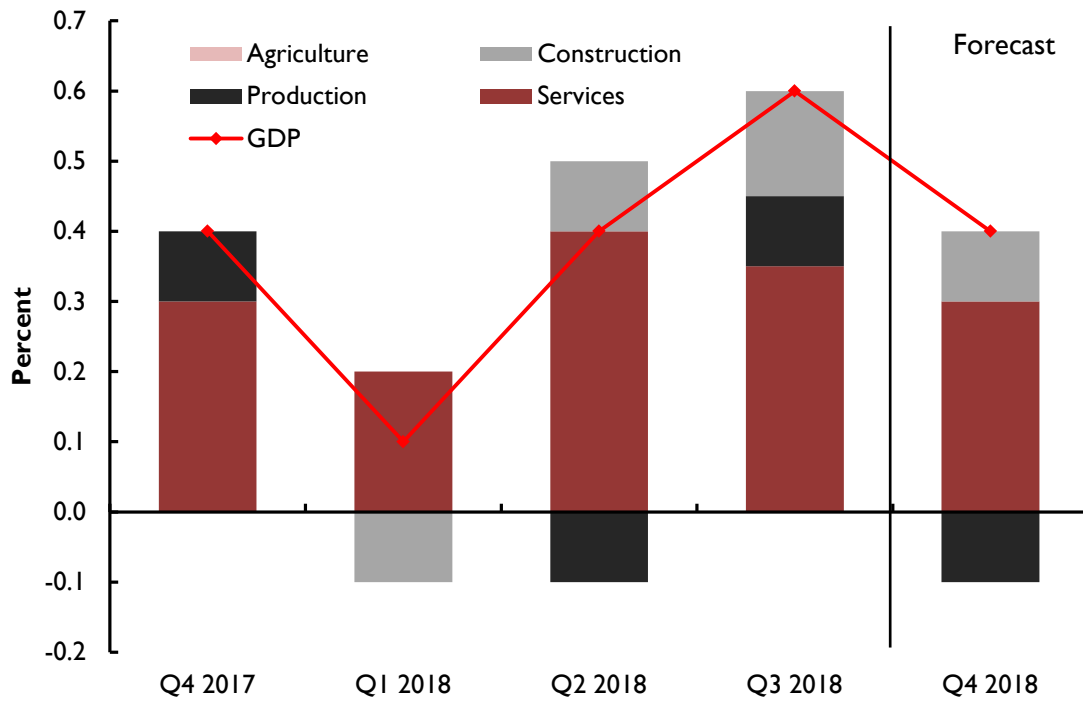
Note: the solid bars show the 3m/3m growth rate for complete calendar quarters and the shaded areas show rolling 3m/3m growth rate for the intervening months. There may be inconsistencies in the growth rate arising from rounding

### Main points

- UK economic growth looks set to slow to a quarterly rate of 0.4% in the fourth quarter of 2018 from 0.6% in the third quarter. This profile is unchanged from last month and points to GDP growth of 1.4 per cent in 2018.
- Growth is being driven by the service sector and a continued robust performance from construction. Manufacturing industry showed no growth in the latest three months.

Garry Young, head of macroeconomic modelling and forecasting at NIESR, said “*The latest data confirm that UK GDP growth is slowing after a strong performance in the middle of the year, and the risks appear to be to the downside. Final quarter GDP growth is set to be around 0.4 per cent, in line with potential, and implies that GDP growth for 2018 as a whole will be 1.4 per cent. Growth is being driven by the service and construction sectors. Manufacturing output growth appears to have stalled. Recent service sector surveys have been weak and point to further downside risks.*”

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

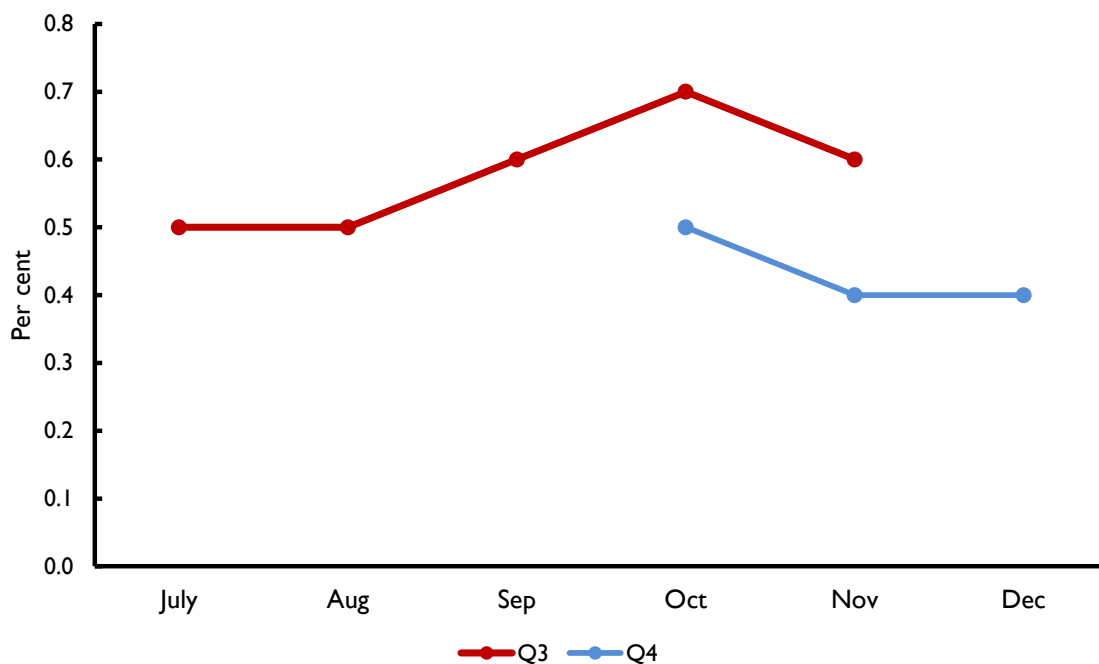


**Forecast news**

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 unchanged this 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 and have kept it at 0.4 per cent today, suggesting little overall news on the month.

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



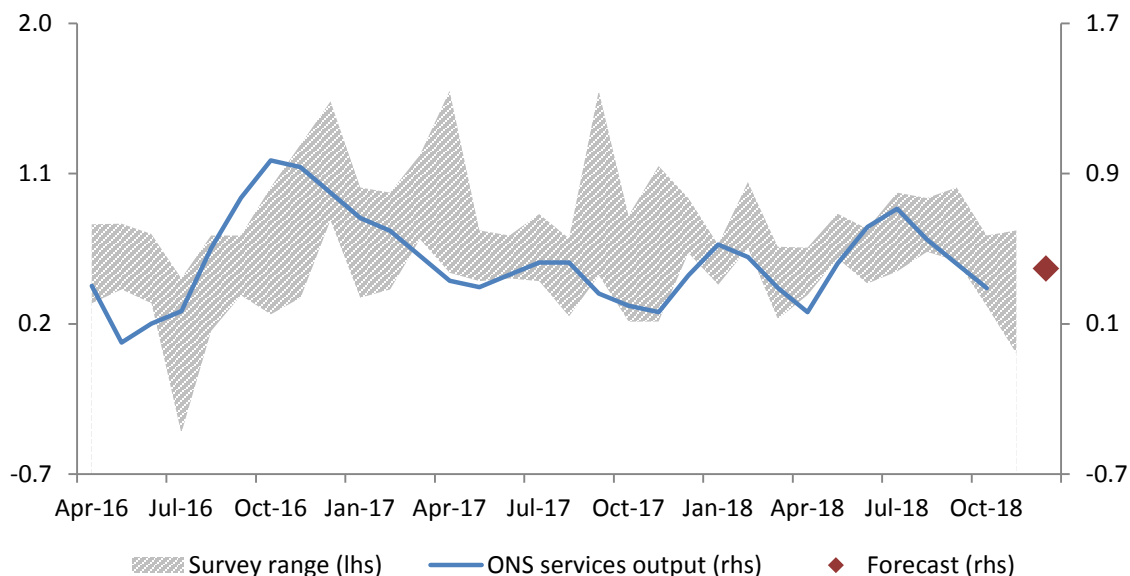
**The forecast in detail:**

**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 October, in line with our previous estimate. Our latest estimate is that service sector output will grow at around this rate in the fourth quarter as a whole.

Within the service sector, transport, storage and communication made the biggest positive contribution to growth in the three months to October at 1.2 per cent. This was partially offset by a weakening in distribution, hotels and restaurants where growth was negative. According to the ONS commentary, motor trade businesses reported a significant impact over the latest three months from the worldwide harmonised light vehicle test procedure that affected the supply and sales of new vehicles.

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 major surveyors is clear - business activity was weak in November and the outlook for activity in the near term is also subdued (Figure 4). This poses a downside risk to the outlook. The PMI and the CBI survey suggest that Brexit uncertainty is acting as a drag on investment decisions and on optimism more generally. According to the CBI survey, this is particularly acute in the consumer service sector. Consistent with that, the BRC-KPMG Retail Sales Monitor suggests lacklustre like-for-like sales growth of some 0.5 per cent in November compared with the previous year and total sales was just 0.5 per cent higher over the same period. Similarly, latest vehicle registration data from Society of Motor Manufacturers and Traders (SMMT) shows UK new car market 3.0 per cent lower in November compared to the same month last year. Consumer confidence appears to be playing a role. In addition to that, there have been further delays because of the implementation of the new worldwide harmonised light vehicle test procedure emissions test.

### Production (14 per cent of GDP)

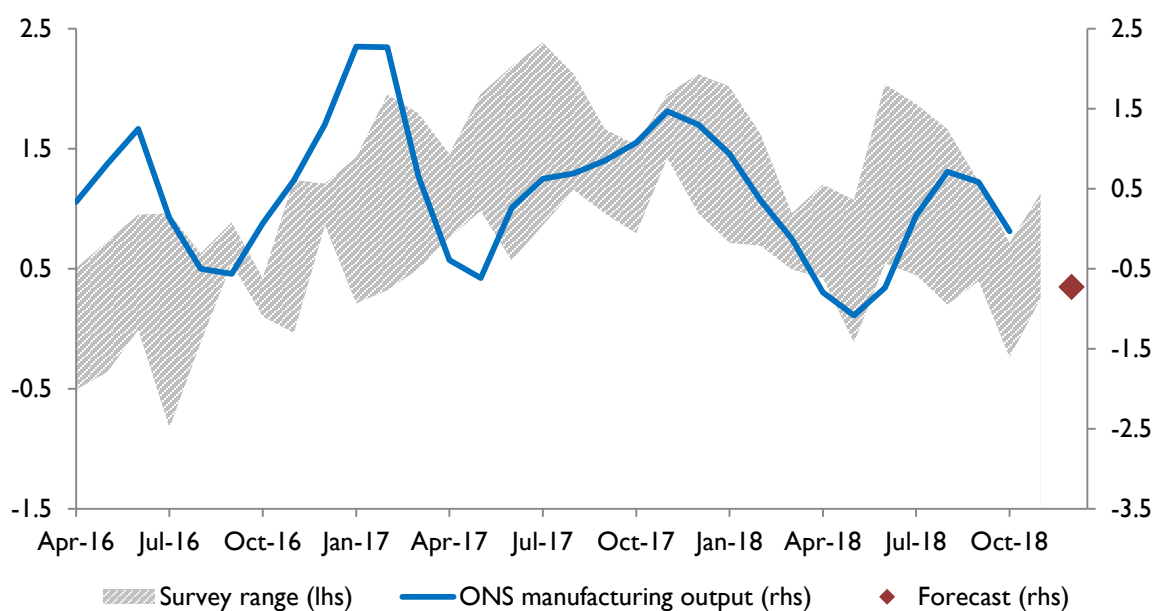
Production output expanded by 0.3 per cent in the three months to October. The outturn was lower than the 0.6 per cent forecast we published last month. The news was mainly in the manufacturing sector where there was no growth in the latest three months. Our estimate is that production sector output will recover only slightly in the rest of the year.

#### Manufacturing

Within production, manufacturing output was flat in the latest three month period. According to the ONS commentary, this reflected a decline in the often-erratic pharmaceutical industry.

Business surveys indicate that the near term outlook for the sector remains soft (Figure 5). The latest IHS Markit/CIPS UK manufacturing PMI survey remains close to the two-and-a-half year lows even though the survey balance nudged higher in November. The main source of that weakness is export demand. Export orders have eased globally, perhaps because of the rise in protectionist policies. The PMI survey suggests that this is particularly pronounced in emerging markets where export volumes have been impacted by the slowdown in China. Here in the UK, new export business has been slowing for some time after the temporary boost from the currency depreciation in 2015-16. Brexit uncertainty appears to be playing a role in the most recent surveys. That message was broadly echoed in the CBI Industrial Trends survey where the export order balance has fallen, but it's important to note that even with that fall, the latest reading remains well above the long run average. The Bank of England Agents October report paints a similar picture.

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 expanded by 2.7 per cent in the three months to October according to the ONS. According to ONS commentary, this reflected a 3.5 per cent rise in oil and gas extraction, due mainly to a return to full production during October, following periods of maintenance during August and September.

### **Construction (6 per cent of GDP)**

Growth in the construction sector slowed from 2.1 per cent in the third quarter to 1.2 per cent in the three months to October. This was still a strong performance.

Looking ahead, the latest reading from the IHS Markit/CIPS construction PMI survey points to a pick-up in construction activity in November to an eight-month high. Within construction, residential building was the fastest growth sector.

### **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, and our monthly GDP Tracker points to the same rate of growth.

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 6<sup>th</sup> 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 has published its first estimate for the third quarter of 2018 last month 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.
<b>Average absolute error</b>				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](mailto: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
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	104.0	104.1	101.0	104.7	109.2	102.4	103.0	98.3	103.6	102.1	110.5	102.4
Nov-18	104.4	104.3	104.3	101.0	105.1	109.9	102.4	102.9	99.0	102.8	102.5	111.0	102.6
Dec-18	104.6	104.5	104.6	101.1	105.1	110.2	102.7	103.3	99.6	102.0	102.7	111.3	102.7
<b>Percentage change, 3 months on previous 3 months</b>													
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	0.4	0.1	-0.3	1.2	0.3	0.0	1.8	2.7	-0.6	1.2	0.2
Nov-18	0.3	0.3	0.5	0.2	-0.7	0.8	-0.3	-0.5	0.7	0.9	-1.1	1.7	0.2
Dec-18	0.4	0.4	0.7	0.3	-0.2	0.5	-0.5	-0.7	0.2	0.1	-0.4	1.3	0.3
<b>Percentage change, month on same month in previous year</b>													
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	1.8	1.6	0.6	2.4	3.7	-0.8	-1.0	1.1	-1.8	-1.0	3.9	-1.3
Nov-18	1.4	1.7	1.3	0.9	2.1	3.9	-0.9	-1.1	-0.2	-1.0	-0.1	2.8	-0.7
Dec-18	1.5	1.7	1.6	0.8	2.8	2.5	0.4	-0.9	-1.3	21.4	-0.6	1.6	-0.1
<b>Percentage change, month on previous month</b>													
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	0.2	0.4	0.2	0.5	-0.6	-0.6	-1.0	-0.1	1.8	-0.3	-0.2	0.1
Nov-18	0.2	0.3	0.2	0.0	0.3	0.6	0.0	-0.1	0.7	-0.8	0.4	0.5	0.1
Dec-18	0.2	0.2	0.3	0.0	0.0	0.3	0.3	0.4	0.6	-0.8	0.2	0.3	0.1

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