

# NIESR

## Monthly GDP Tracker

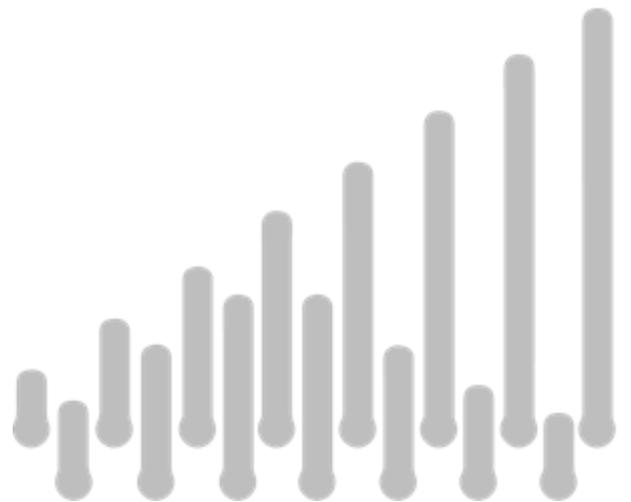
UK economy shrugs off Omicron but inflation will prove a bigger challenge

Rory Macqueen

11<sup>th</sup> March 2022

*“January’s strong GDP reading confirms that Omicron had a far smaller economic impact than previous waves of Covid-19. The wholesale and retail sector recovered strongly, regaining most of the ground lost in December. Manufacturing and construction both recorded their third straight month of growth after the supply chain constraints of the summer. With inflation likely to bite more as the first half of 2022 progresses, January’s growth could be the fastest we see for some time.”*

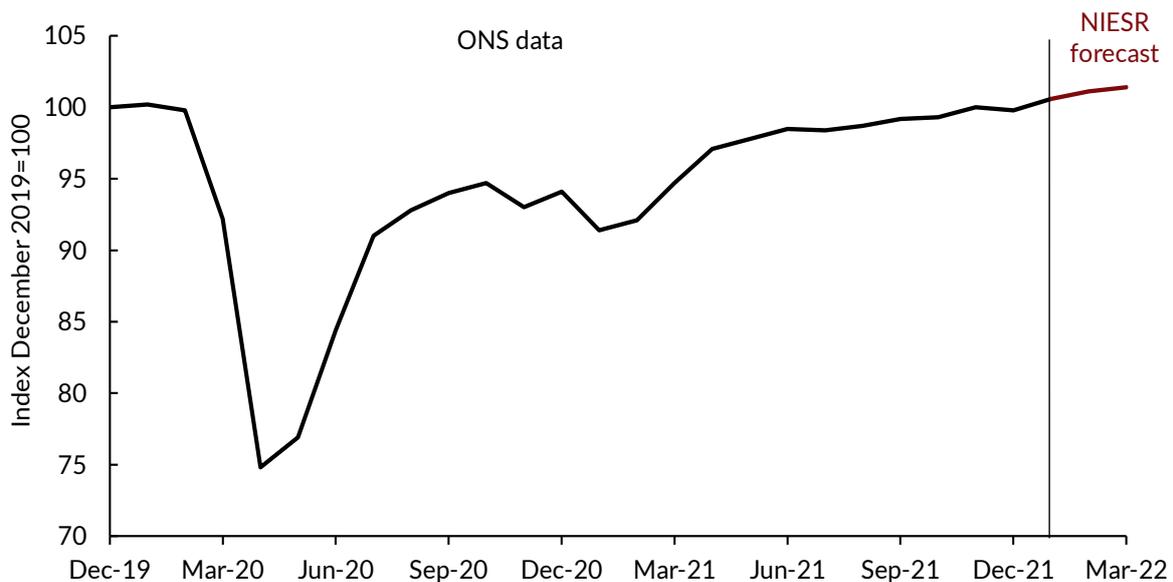
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## Main points

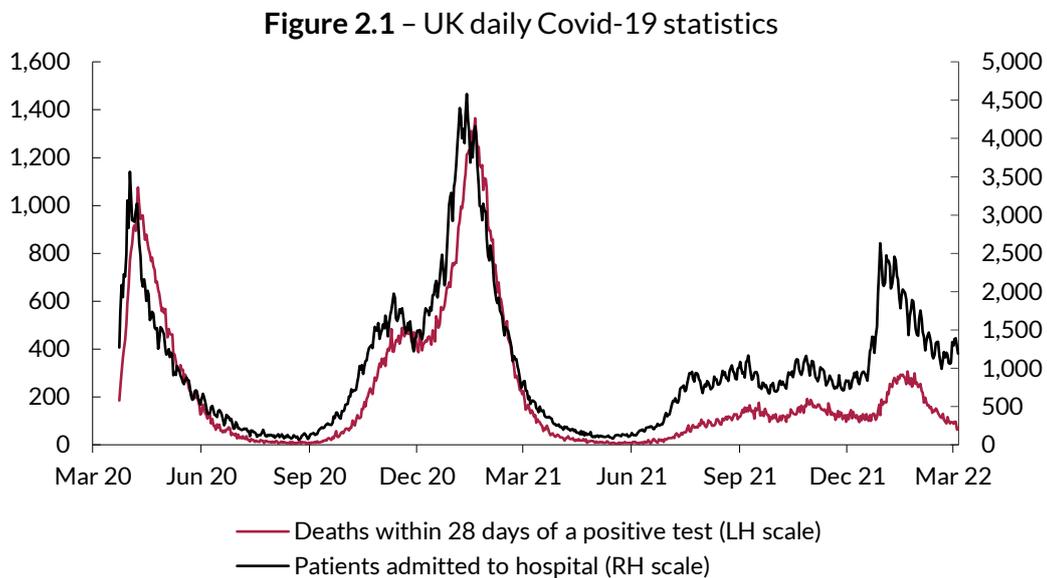
- Strong economic growth is now forecast to lead to growth of 1.3 per cent in the first quarter of 2022, with the Omicron variant confirmed to have left little impact on the level of UK economic activity compared with previous waves.
- With the war in Ukraine and expected long-term elevation of energy prices likely to affect the economy in the coming months, we forecast growth of 0.5 per cent in February and 0.3 per cent in March.
- While the UK economy as a whole is now 0.8 per cent larger than it was before the pandemic, there are large variations across sectors. Consumer-facing services and production are still well below (6.8% and 2.0%, respectively) their pre-pandemic levels while all other services and construction are now well above (3.4% and 1.4%, respectively).

Figure 1 - UK GDP



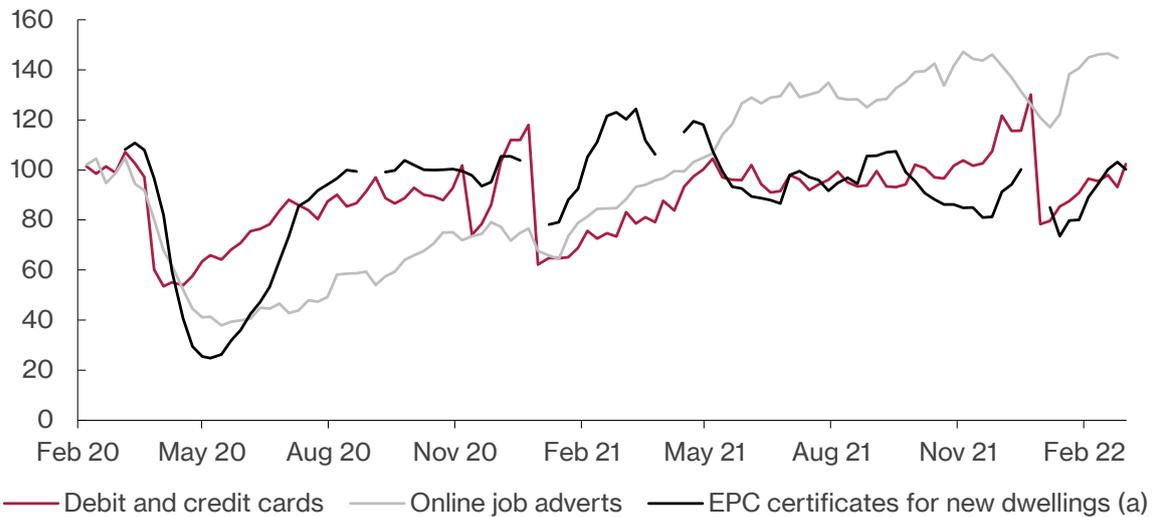
### Economic setting

The War in Ukraine is likely to drive inflation higher than it already would have been, impacting on the spending power of UK households particularly via energy prices. [NIESR research](#) suggests that inflation will now average 7 per cent in 2022, and GDP could be reduced by 0.8 percentage points to 4.0 per cent from the 4.8 per cent we forecast in our [Winter 2022 UK Economic Outlook](#). Covid-19 cases and hospitalisations have been on a downward trajectory recently, though ticked upwards in the last week, which is something else to be carefully monitored over the coming month (Figure 2.1).



Source: Data.gov.uk. See coronavirus.data.gov.uk for further information.

**Figure 2.2 – Spending and hiring indicators**



Notes: (a) England and Wales. Debit and credit cards (CHAPS-based): 100 = February 2020, percentage change on a backward looking seven-day rolling average, non-seasonally adjusted, nominal prices. Job adverts: change from the same week in 2019. EPC certificates: change from the same week in 2019/2020, four-week rolling average, adjusted for timing of holidays.

Source: ONS, BoE, Adzuna, MHCLG, NIESR.

High frequency indicators suggest that vacancies remain close to record levels. Card spending returned to autumn levels and new dwelling completions recovered from a recent low (Figure 2.2).

### News in latest ONS data

The monthly GDP data for January were stronger than we forecast in February, GDP growing by 0.8 per cent month-on-month instead of 0.3 per cent, and by 1.1 per cent on a rolling three-month basis (see Figure 3).

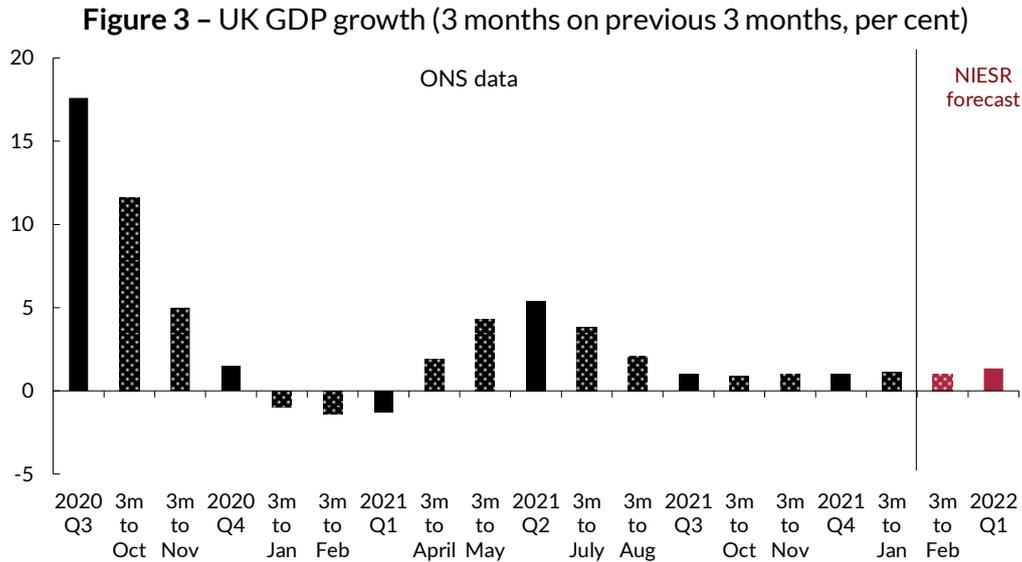
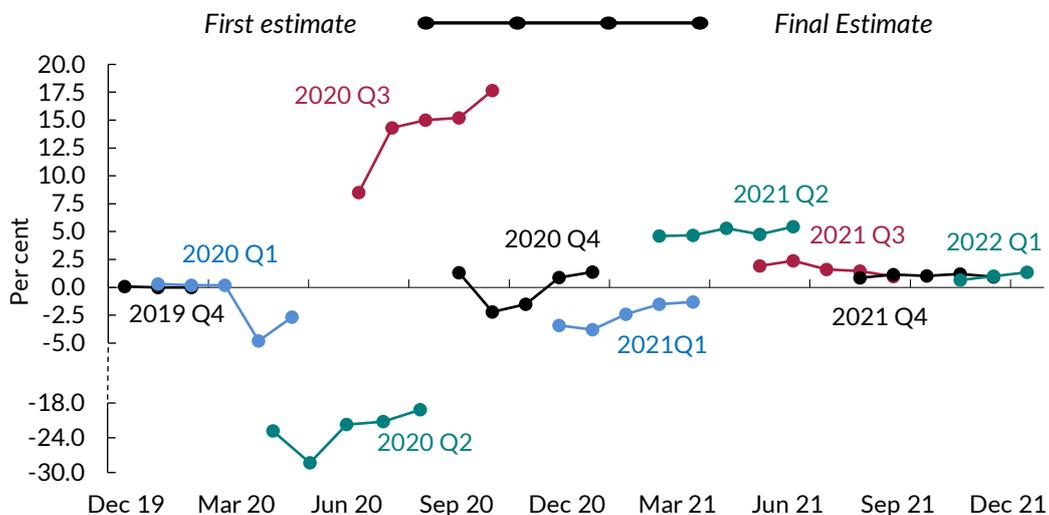


Figure 4 shows how our short-term forecasts for recent quarters have changed as new information has become available.

**Figure 4 - Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)**

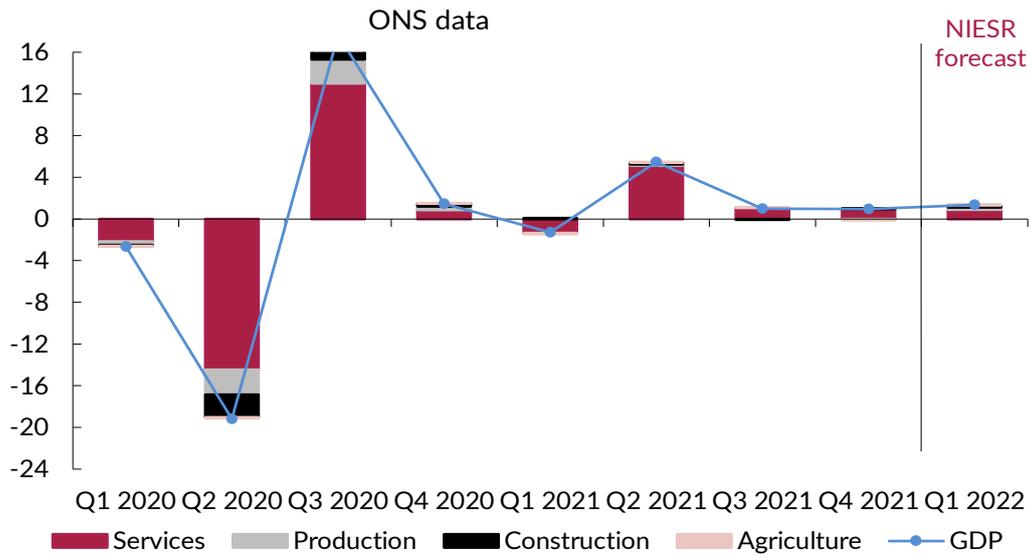




### Sectoral detail

We now forecast GDP to grow by 1.3 per cent in the first quarter of 2022 with all sectors contributing roughly in line with their GDP weights (Figure 6).

**Figure 6 - Contributions to quarterly GDP growth (percentage points)**

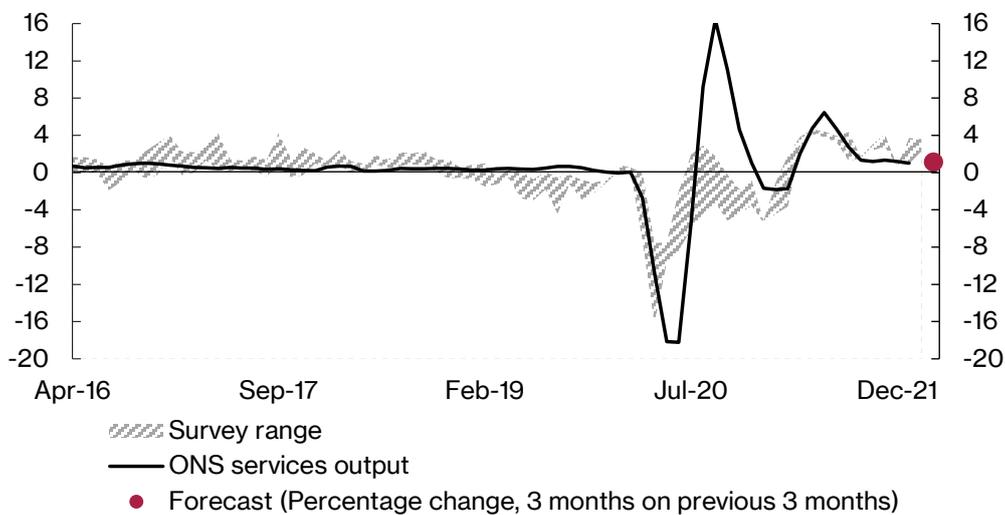


### Services (80 per cent of GDP)

The survey balances point to a slowing in the growth rate of activity in February, as shown by the swathe of survey indicators in figure 7. The headline business activity balance in the IHS Markit/CIPS UK services PMI registered 60.5 in February, up from 54.1 in January. Internationally, the JPMorgan Global Services Business Activity Index picked up to 53.4 from an 18-month low 51.1 in January.

Based on recent developments we expect service sector activity to grow by 1.1 per cent in the first quarter of 2022.

**Figure 7** - 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.

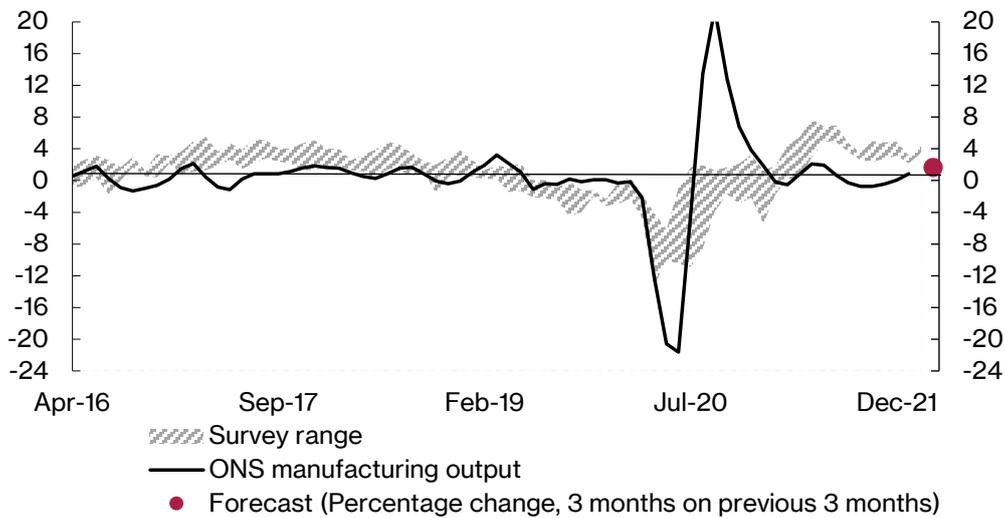
### Production (14 per cent of GDP)

We forecast that production sector output will grow by 1.4 per cent in the first quarter of 2022, though output in this sector is volatile and difficult to predict with accuracy on a quarterly basis. 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, accounting for 10 per cent of GDP.

### Manufacturing (10 per cent of GDP)

The IHS Markit/CIPS UK manufacturing PMI was slightly up at 58.0 in February, from 57.3 in January. The JPMorgan Global Manufacturing Output PMI was slightly up at 53.6. Our forecast for the first quarter of 2022 is for manufacturing to grow by 1.6 per cent (Figure 8).

**Figure 8 - 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, EC, NIESR calculations.

### Mining and quarrying (1 per cent of GDP)

Mining and quarrying is a small but erratic component of industrial production that can have an influence on overall GDP growth. We forecast a fall of 1.3 per cent in first quarter of 2022.

### Construction (6 per cent of GDP)

The IHS Markit/CIPS construction PMI survey registered 59.1 in February, up from 56.3 in January. We expect construction output to grow by 3.5 per cent in the first quarter of 2022.

Table 2 - Summary Table of GDP growth (2019=100)

2019=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		
	1000	796											
			339	217	133	108	136	102	15	6	13	61	7
Mar-20	92.3	92.1	97.6	87.4	84.7	93.8	93.4	93.1	99.3	81.1	99.7	92.5	95.1
Apr-20	74.9	76.7	88.9	71.5	51.8	79.7	74.1	69.2	89.7	77.6	92.2	53.9	83.0
May-20	77.0	78.1	88.6	72.8	58.7	80.1	78.9	75.5	88.6	80.7	92.7	58.9	83.6
Jun-20	84.5	85.0	91.9	79.0	77.4	86.2	87.8	85.0	95.0	91.3	98.4	71.9	85.3
Jul-20	91.1	91.4	93.5	89.0	91.3	90.0	92.4	91.3	100.6	83.9	99.0	84.5	87.2
Aug-20	92.9	93.3	93.7	91.7	97.2	89.6	93.6	93.5	100.9	78.9	98.9	87.0	89.2
Sep-20	94.1	94.4	95.3	94.7	94.5	90.7	94.4	94.6	101.7	75.9	99.4	89.7	91.0
Oct-20	94.8	95.1	95.9	95.6	93.1	93.1	95.2	95.9	98.4	78.5	99.7	91.1	91.4
Nov-20	93.1	92.7	95.6	95.0	83.0	91.9	96.2	97.7	98.4	75.4	99.7	92.1	91.1
Dec-20	94.2	94.3	96.5	96.5	86.5	92.3	95.9	96.5	101.0	77.2	100.5	90.6	89.9
Jan-21	91.5	91.1	96.0	90.8	78.8	91.8	94.7	95.1	102.3	74.3	100.1	89.5	88.9
Feb-21	92.2	91.7	96.6	90.8	80.9	91.2	95.2	96.1	102.3	70.2	101.1	92.5	88.7
Mar-21	94.8	94.5	98.1	97.1	82.4	92.9	96.4	97.4	101.5	73.3	102.6	96.1	88.6
Apr-21	97.2	97.5	97.0	101.5	94.5	94.6	96.2	98.1	104.8	60.3	101.4	96.4	90.2
May-21	97.9	98.3	96.6	102.1	99.5	94.5	96.9	98.2	108.3	62.8	101.8	95.5	91.0
Jun-21	98.6	99.4	97.9	103.2	101.2	94.9	95.5	97.9	102.1	55.7	103.4	95.6	92.2
Jul-21	98.5	99.3	97.0	103.4	101.0	96.1	96.1	97.5	99.8	68.4	104.5	94.6	92.2
Aug-21	98.8	99.6	97.7	101.7	103.0	96.9	96.6	97.5	96.3	80.2	104.4	93.8	91.2
Sep-21	99.3	100.3	98.9	103.7	102.0	96.5	96.1	97.1	95.2	78.7	103.7	95.0	90.9
Oct-21	99.4	100.7	98.5	104.2	101.7	98.0	95.3	96.9	92.2	74.6	104.2	93.6	91.0
Nov-21	100.1	101.3	99.4	104.4	102.5	99.9	96.0	97.6	94.2	72.4	106.2	95.4	91.1
Dec-21	99.9	100.8	99.6	104.8	97.7	100.8	96.3	97.8	95.7	70.1	108.0	97.3	91.5
Jan-22	100.7	101.6	99.6	105.6	100.1	103.0	96.9	98.6	96.7	71.5	106.4	98.4	91.9
Feb-22	101.2	102.2	100.1	105.7	100.9	103.2	97.3	99.1	96.0	71.6	106.7	98.9	92.2
Mar-22	101.5	102.5	100.4	105.9	101.2	103.7	97.5	99.4	96.3	71.1	107.2	98.9	92.2
<b>Percentage change, 3 months on previous 3 months</b>													
Mar-20	-2.7	-2.7	-0.9	-4.3	-4.7	-2.6	-2.4	-2.2	-5.1	-3.7	0.5	-1.7	-7.7
Apr-20	-11.1	-10.7	-4.7	-14.9	-21.3	-8.6	-10.3	-12.1	-7.1	-5.2	-2.5	-17.0	-10.2
May-20	-18.7	-18.1	-8.6	-24.1	-35.0	-15.0	-17.0	-20.6	-8.5	-6.4	-4.7	-29.8	-15.3
Jun-20	-19.2	-18.2	-9.7	-23.2	-34.1	-15.8	-17.3	-21.6	-8.5	-10	-5.3	-35.7	-15.9
Jul-20	-5.4	-5.4	-4.4	-7.4	-3.8	-6.0	-2.8	-4.1	-1.4	4.7	-0.3	-11.5	-8.2
Aug-20	10.0	9.2	1.5	12.1	36.2	4.8	11.2	13.5	6.8	12.1	4.1	18.6	0.0
Sep-20	17.6	16.4	4.9	23.3	50.6	9.9	16.5	21.6	10.9	-4.4	4.9	41.4	6.2
Oct-20	11.6	11.1	4.0	17.1	25.2	6.6	9.3	12.8	5.9	-8.8	2.7	24.4	6.1
Nov-20	5.0	4.6	2.8	9.9	1.8	3.7	4.4	6.8	0.6	-9.6	0.8	12.1	4.5
Dec-20	1.4	1.1	1.9	4.2	-7.2	2.6	2.5	3.8	-1.8	-3.2	0.9	4.8	1.9
Jan-21	-1.1	-1.7	1.1	0.1	-12.8	1.0	1.3	1.9	0.3	-2.7	0.8	1.6	-0.7
Feb-21	-1.5	-1.8	0.8	-2.5	-9.0	-0.1	0.0	-0.2	2.4	-3.5	1.0	-0.1	-2.2
Mar-21	-1.3	-1.7	0.9	-2.9	-7.8	-0.5	-0.3	-0.5	2.8	-5.8	1.3	1.6	-2.3
Apr-21	1.9	2.0	1.2	2.5	3.8	1.0	0.3	0.8	2.3	-10.2	1.6	4.7	-0.9
May-21	4.3	4.8	0.9	8.1	12.3	2.4	1.3	2.1	2.9	-11.4	1.4	5.6	0.9
Jun-21	5.5	6.5	0.3	10.1	21.9	2.9	0.8	1.9	3.0	-17.9	0.9	3.4	2.7
Jul-21	3.8	4.7	-0.1	6.7	17.0	2.4	0.2	0.7	0.5	-8.3	1.5	0.2	3.0
Aug-21	2.1	2.8	0.3	2.5	10.4	2.1	-0.4	-0.3	-5.2	4.0	2.1	-1.4	2.1
Sep-21	1.0	1.4	0.7	0.7	3.7	1.9	0.1	-0.7	-7.6	27.1	2.0	-1.4	0.3
Oct-21	0.8	1.2	1.2	0.3	1.7	2.1	-0.2	-0.7	-8.5	24.9	0.8	-1.2	-0.8
Nov-21	1.0	1.3	1.4	1.3	0.3	2.3	-0.3	-0.4	-5.6	10.5	0.6	0.0	-0.9
Dec-21	0.9	1.2	1.3	1.5	-1.3	3.2	-0.4	0.1	-3.2	-4.5	1.9	1.0	-0.3
Jan-22	1.1	1.0	1.2	1.7	-2.1	4.2	0.4	0.9	1.0	-8.4	2.7	3.1	0.5
Feb-22	1.0	0.7	0.8	1.2	-2.4	4.3	1.1	1.3	2.4	-5.5	2.2	3.7	0.9
Mar-22	1.3	1.1	0.9	1.2	0.1	3.8	1.4	1.6	2.5	-1.3	0.6	3.5	1.0
<b>Percentage change, month on same month in previous year</b>													
Mar-20	-7.6	-7.4	-1.9	-11.8	-15.3	-5.4	-8.7	-8.9	5.5	-31.0	-0.2	-7.0	3.0
Apr-20	-24.9	-22.9	-10.6	-27.9	-48.3	-20.5	-25.3	-30.0	-9.7	-24.1	-8.2	-48.1	-10.7
May-20	-22.9	-21.7	-11.0	-26.8	-41.4	-19.7	-21.4	-24.6	-12.4	-18.6	-8.3	-42.9	-11.9
Jun-20	-15.6	-15.0	-7.8	-21.1	-22.8	-14.2	-11.8	-14.9	-7.0	1.3	-3.1	-29.6	-12.2
Jul-20	-9.2	-8.9	-6.8	-11.0	-9.0	-10.9	-7.5	-9.0	0.1	-10.6	-1.5	-15.8	-14.3
Aug-20	-7.3	-7.1	-7.0	-8.8	-2.7	-10.4	-5.5	-5.9	2.5	-15.4	-1.7	-12.2	-15.9
Sep-20	-6.2	-6.1	-5.1	-5.9	-5.8	-10.0	-5.2	-5.1	0.7	-20.9	-0.4	-8.7	-17.1
Oct-20	-5.6	-5.6	-4.9	-5.1	-6.7	-7.7	-4.9	-4.8	-6.2	-12.0	0.5	-5.9	-17.5
Nov-20	-6.9	-7.5	-4.2	-6.3	-6.7	-7.7	-3.1	-1.8	-7.2	-14.2	0.5	-5.8	-16.8
Dec-20	-5.9	-6.2	-3.8	-5.1	-13.4	-7.4	-3.0	-3.0	-2.8	-19.0	1.4	-7.2	-13.8
Jan-21	-8.8	-9.6	-4.5	-11.2	-21.7	-7.5	-4.1	-4.7	2.0	-9.9	-0.2	-8.5	-14.2
Feb-21	-7.7	-8.6	-3.5	-10.2	-19.9	-8.2	-3.7	-4.1	3.2	-18.2	2.0	-4.6	-12.1
Mar-21	2.7	2.6	0.5	11.1	-9.7	-10	3.2	4.6	2.2	-9.6	2.9	3.9	-6.8
Apr-21	29.8	27.1	9.1	42.0	82.4	18.7	29.8	41.8	16.8	-22.3	10.0	78.8	8.7
May-21	27.1	25.9	9.0	40.2	69.5	18.0	23.0	30.1	22.2	-22.2	9.8	62.1	8.9
Jun-21	16.7	16.9	6.5	30.6	30.7	10.1	8.8	15.2	7.5	-39.0	5.1	33.0	8.1
Jul-21	8.1	8.6	3.7	16.2	10.6	6.8	4.0	6.8	-0.8	-18.5	5.6	12.0	5.7
Aug-21	6.4	6.8	4.3	10.9	6.0	8.1	3.2	4.3	-4.6	1.6	5.6	7.8	2.2
Sep-21	5.5	6.3	3.8	9.5	7.9	6.4	1.8	2.6	-6.4	3.7	4.3	5.9	-0.1
Oct-21	4.9	5.9	2.7	9.0	9.2	5.4	0.1	1.0	-6.2	-5.0	4.5	2.7	-0.5
Nov-21	7.5	9.3	4.0	9.9	23.5	8.7	-0.2	-0.1	-4.3	-4.0	6.5	3.6	0.0
Dec-21	6.1	6.9	3.2	8.6	12.9	9.2	0.4	1.3	-5.2	-9.2	7.5	7.4	1.8
Jan-22	10.1	11.5	3.7	16.3	27.0	12.2	2.3	3.7	-5.5	-3.8	6.3	9.9	3.4
Feb-22	9.8	11.4	3.6	16.4	24.7	13.2	2.2	3.1	-6.1	2.0	5.6	6.9	3.9
Mar-22	7.1	8.4	2.4	9.0	22.8	11.6	1.2	2.0	-5.2	-3.0	4.4	2.9	4.1
<b>Percentage change, month on previous month</b>													
Mar-20	-7.6	-8.2	-2.5	-13.6	-15.1	-5.5	-5.6	-7.1	0.2	-5.5	0.6	-4.6	-5.7
Apr-20	-18.9	-16.7	-8.9	-18.2	-38.8	-15.0	-20.7	-25.7	-9.7	-4.3	-7.5	-41.7	-12.7
May-20	2.8	1.8	-0.3	1.8	13.3	0.5	6.3	9.1	-1.2	4.0	0.5	9.3	0.7
Jun-20	9.7	8.8	3.7	8.5	31.9	7.6	11.4	12.6	7.2	13.1	6.1	22.1	2.0
Jul-20	7.8	7.5	1.7	12.7	18.0	4.4	5.2	7.4	5.9	-8.1	0.6	17.5	2.2
Aug-20	2.0	2.1	0.2	3.0	6.5	-0.4	1.3	2.4	0.3	-6.0	-0.1	3.0	2.3
Sep-20	1.3	1.2	1.7	3.3	-2.8	1.2	0.9	1.2	0.8	-3.8	0.5	3.1	2.0
Oct-20	0.7	0.7	0.6	1.0	-1.5	2.5	0.8	1.4	-3.3	3			

## 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 first quarter of 2020 is published in January and will then be updated four times (in February, March, April and May) before the ONS publishes its first estimate for the first quarter of 2020 in May 2020. 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 still relatively 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 was the earliest vintage then available on the ONS website) and in each subsequent three months. These are shown in Table 3, 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 0.22 percentage points. The largest error was for 2020Q2 when our GDP tracker in May pointed to growth of -22.8 per cent, 2.4 points lower than the ONS first estimate of GDP growth.

**Table 3 - 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	0.3	0.4	0.0	-0.1
2017Q4	0.5	0.4	0.4	0.1	-0.1
2018Q1	0.1	0.0	0.5	-0.4	-0.1
2018Q2	0.4	0.5	0.0	0.4	0.1
2018Q3	0.6	0.6	0.5	0.1	0.0
2018Q4	0.2	0.2	0.4	-0.2	0.0
2019Q1	0.5	0.6	0.2	0.3	0.1
2019Q2	-0.2	-0.2	0.3	-0.5	0.0
2019Q3	0.3	0.4	0.2	0.1	0.1
2019Q4	0.0	0	0.2	-0.2	0.0
2020Q1	-2.0	-2.1	0.2	-2.2	-0.1
2020Q2	-20.4	-20.4	-22.8	2.4	0.0
2020Q3	15.5	16.1	15.0	0.5	0.6
2020Q4	1.0		-2.2	3.2	
2021Q1			-3.8		
Average absolute error				0.22	0.08

**Notes for Editors:**

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