

NIESR

Monthly GDP Tracker

Recessionary Pressures Receding in the Rearview Mirror as UK Economy Gains Momentum

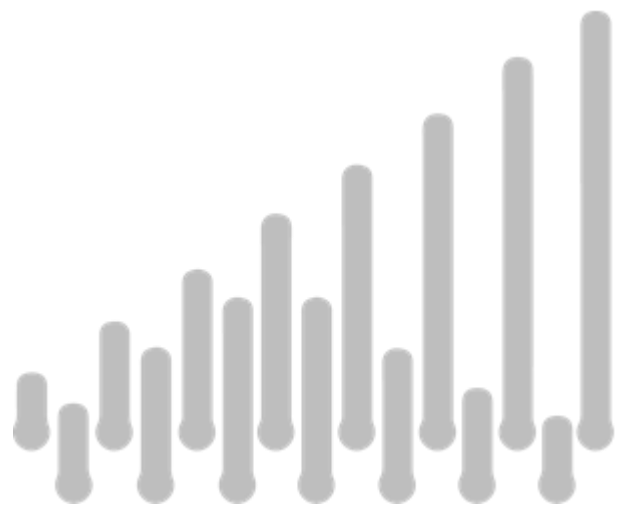
Hailey Low

12 April 2024

"Monthly GDP grew by 0.1 per cent in February 2024, with contributions from all major sectors except construction following a revised 0.3 per cent growth in January. In the three months to February, GDP growth was 0.2 per cent, higher than what we forecasted last month. On the back of exiting a shallow recession in 2023, this seems to be a turning point, but in a broader perspective, the UK economy has flatlined since 2022. Increasing productivity will be a constant challenge that requires structural changes and long-term spending commitments to public investment and infrastructure."

Hailey Low

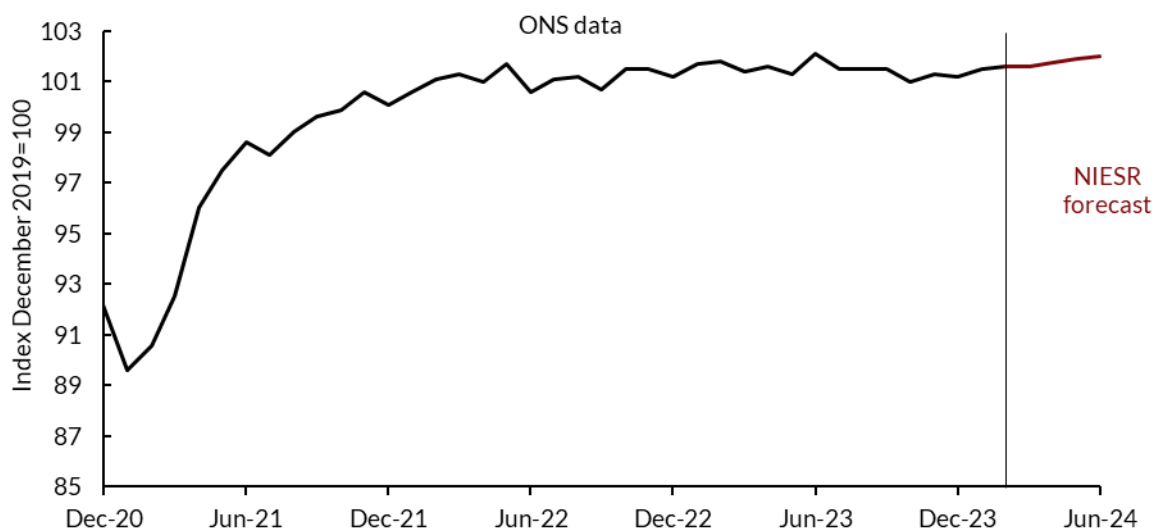
Associate Economist, NIESR



Main points

- Monthly GDP grew by 0.1 per cent in February, following a revised 0.3 per cent growth in January. This monthly figure was mainly driven by increasing output in production, particularly manufacturing and services.
- GDP grew by 0.2 per cent in the three months to February relative to the previous three-month period. This was generated by a rise in output in production and services.
- We forecast GDP to grow by 0.4 per cent in the first quarter of 2024. Our early forecast for the second quarter of this year sees GDP growing by 0.3 per cent. While exiting from the shallow recession in the second half of 2023 is welcoming, these forecasts remain broadly consistent with the longer-term trend of low, but stable economic growth in the United Kingdom (Figure 1).
- As we noted in our [response](#) to last month's Spring Budget, the measures implemented in the relatively low-key budget are unlikely to unlock the UK's growth and productivity problems. To escape a low-growth trap, structural changes are needed, such as an increase in public investment, particularly in infrastructure, education and health – which would also support growth in business investment.

Figure 1 - UK Monthly GDP

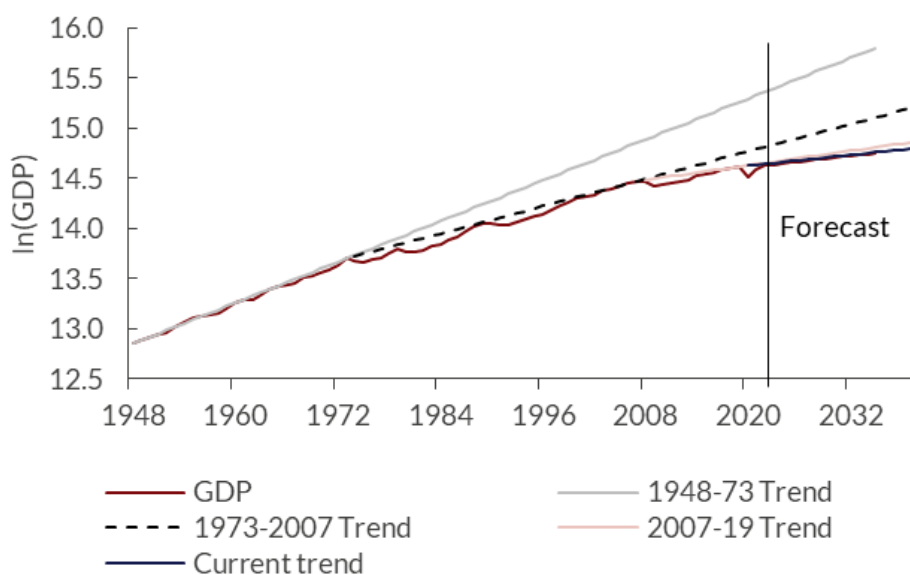


Economic setting

In our previous GDP tracker, published in March, we observed that GDP grew by 0.2 per cent in January, following a contraction of 0.1 per cent in December. We noted that this return to growth in January could be a turning point after the United Kingdom was reported to have entered a technical recession in the second half of 2023. Based on this data alongside higher-frequency data, we forecast GDP to grow by 0.4 per cent in the first quarter of 2024.

Today’s data suggest that monthly GDP grew by 0.1 per cent in February, following an upwards revision 0.3 per cent growth in January. Looking at the broader picture, GDP grew by 0.2 per cent in the three months to February relative to the previous three-month period. We now forecast GDP to grow by 0.4 per cent in the first quarter of 2024. Our early forecast for the second quarter of this year sees GDP growing by 0.3 per cent. These forecasts remain broadly consistent with the longer-term trend of low, but stable economic growth in the United Kingdom (Figure 1). In fact, looking at the longer-term picture, GDP growth has been near zero since early 2022 and GDP per head remains lower than its pre-Covid levels. This outlook for economic growth is quite low by historical standards (Figure 2).

Figure 2- UK GDP growth trends



Source: ONS, NIESR calculations

To further contextualise the near-term outlook for GDP, figure 3 compares spending and hiring indicators to pre-pandemic levels, while figure 4 records recent trends in PMIs. High frequency credit and debit card spending as well as housebuilding indicators have been on a gradually upwards path throughout the first quarter of this year. At the same time, the services PMI continues to suggest growth in the service sector, though it fell slightly from 53.8 in February to 53.1 in March. Further, the recent ONS retail sales data suggest that retail sales volumes remained flat in February after rebounding by 3.6 per cent in January. The S&P Global/CIPS UK Composite PMI – which combines comparable services and manufacturing indices – decreased

marginally from 53 in February to 52.8 in March. It is encouraging that overall, private-sector output showed signs of expansion in March following a year marked by subdued growth and a recent technical recession. Taken together, these early indicators suggest that, though GDP growth was subdued in 2023, we can be cautiously optimistic that GDP will grow in 2024.

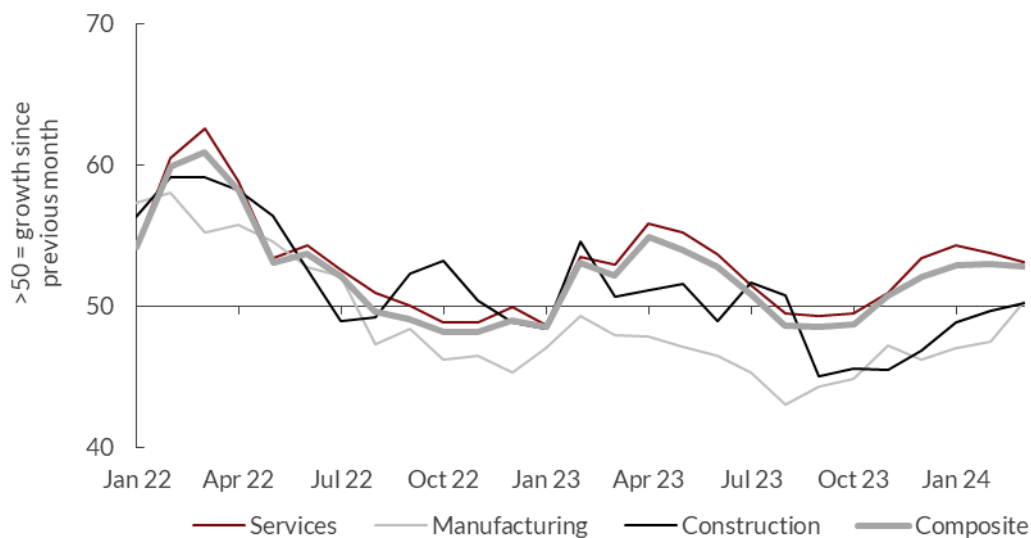
Figure 3 – Spending and hiring indicators (weekly indices)



Notes: (a) England and Wales. Debit and credit cards (CHAPS based): Index February 2020 = 100, a backward looking seven-day rolling average, non-seasonally adjusted, nominal prices. Job adverts: Index February 2020 = 100, weekly average. EPC certificates: Index February 2020 = 100, four-week rolling average, adjusted for timing of holidays.

Source: ONS, BoE, Adzuna, MHCLG, NIESR

Figure 4 – Recent trends in PMIs



Sources: Refinitiv Datastream, S&P

News in latest ONS data

The monthly GDP data for February were marginally better than we were expecting in last month's Tracker, growing by 0.1 per cent compared to our forecast of flatlining growth. GDP grew by 0.2 per cent in the three months to February, compared to our previous forecast of 0.1 per cent growth (Figure 5).

Figure 5 – UK GDP growth (3 months on previous 3 months, per cent)

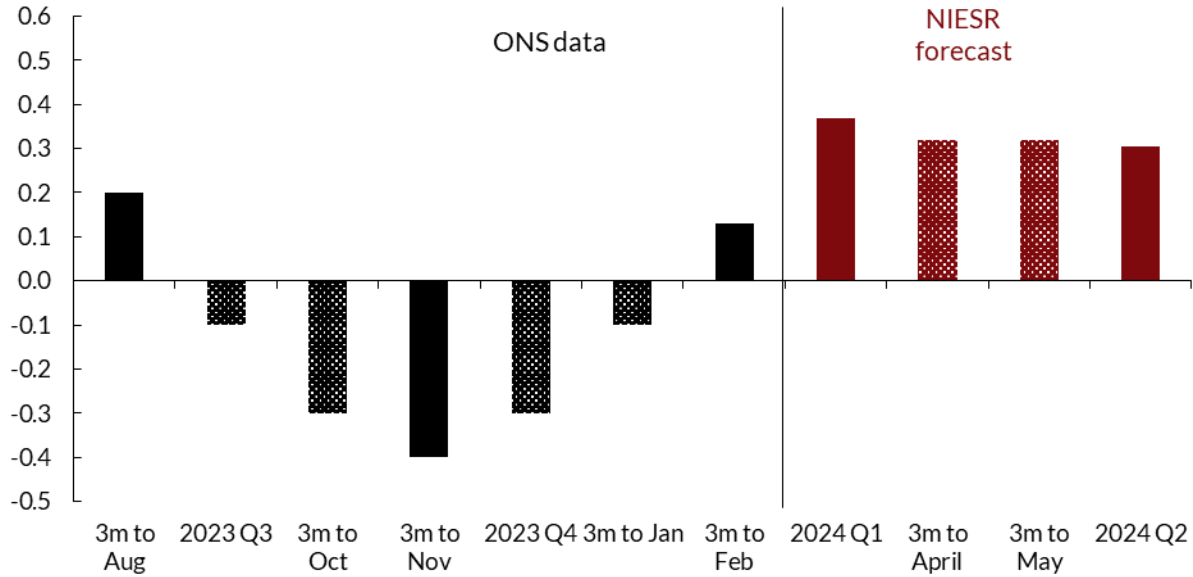
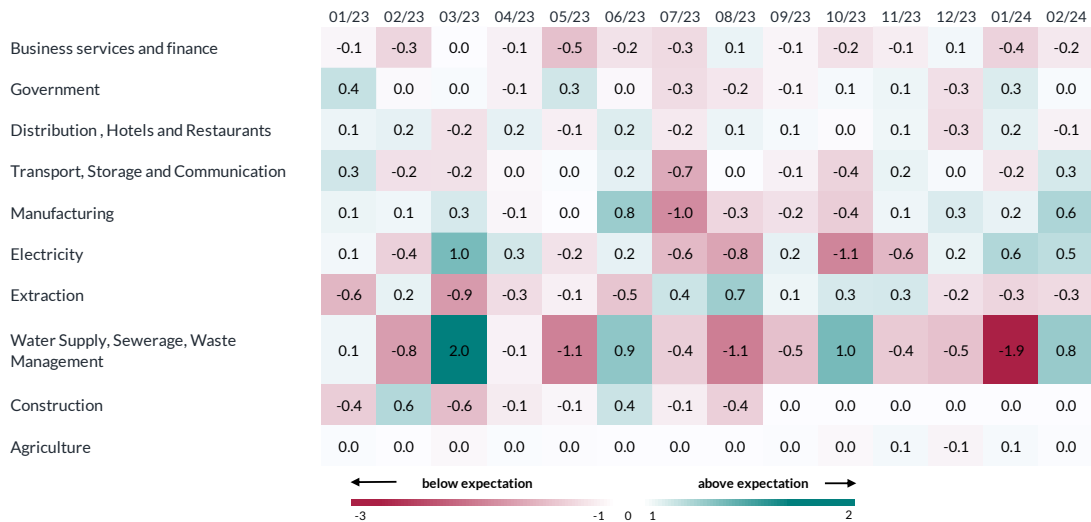


Figure 6 shows a heat map of the data surprises across sectors in the monthly data, relative to last month's GDP Tracker, highlighting the sectors where the surprises are large relative to the volatility of the output data.

Figure 6 – Surprises in monthly data



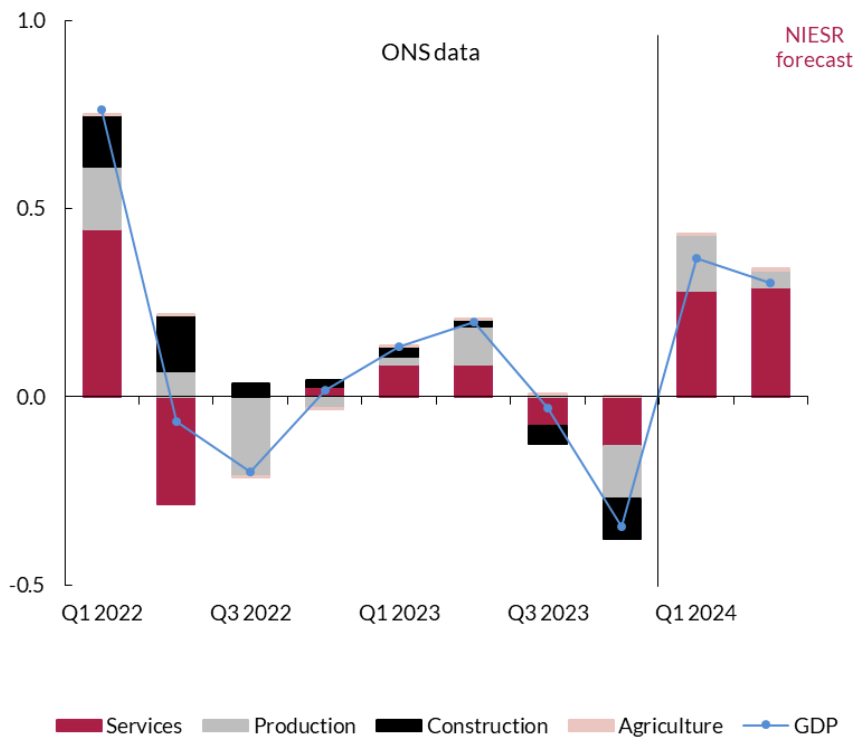
Note: Cells show forecast errors as a fraction of the standard deviation of errors for each series.

For more information on our forecast estimates relative to ONS data, please see the ‘Health Warning’ section below.

Sectoral detail

GDP grew by 0.2 per cent in the three months to February, driven by production and services with contraction in construction sector to offset these rises (Figure 7). Our forecast for the first quarter of 2024 sees stronger contribution from the production sector, with the services sector expected to remain the main driver of growth. Our early forecast for the second quarter of 2024 sees services sector fuelling growth. In both quarters, we expect broad-based growth with positive contribution from all sectors.

Figure 7 - Contributions to quarterly GDP growth (percentage points)

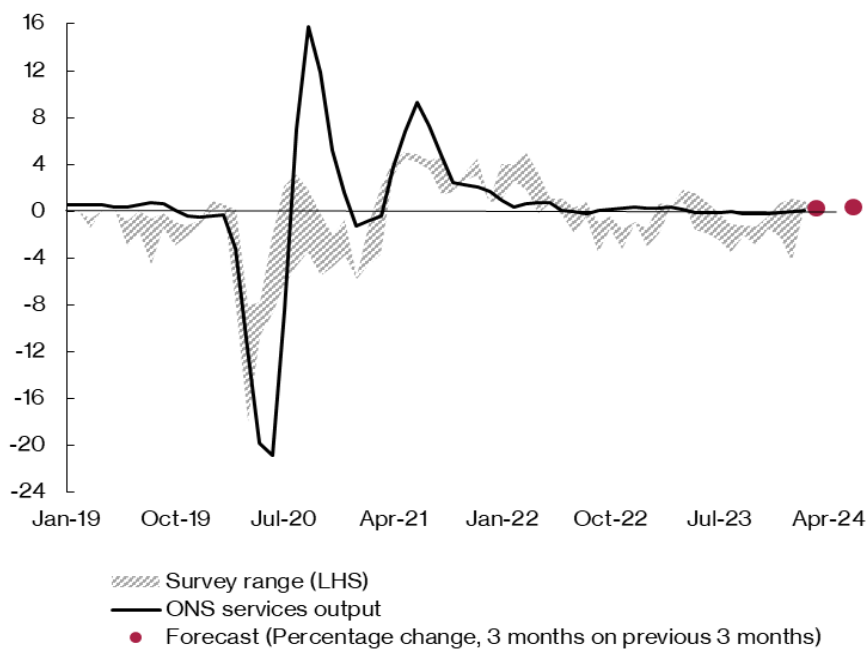


Services (80 per cent of GDP)

The survey balances point to optimistic prospects for the services sector in the first quarter of 2024, as shown by the survey indicators in figures 4 and 8. The S&P Global/CIPS UK Services PMI reported a balance of 53.1 in March, decreasing slightly from 53.8 in February, but overall pointing to expanding business activity. Survey respondents cited improved economic activity as the main factor supporting service sector growth, as growing business confidence continues to outweigh the effects of high borrowing costs and still-squeezed budgets.

Altogether, we forecast growth of 0.4 per cent in the services sector in the first quarter of 2024. Our early forecast for the 2024’s second quarter sees this sector grow by 0.4 per cent.

Figure 8 - 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.

Construction (6 per cent of GDP)

The S&P Global/CIPS UK Construction PMI survey registered an increase from 49.7 in February to 50.2 in March, its highest level since August 2023 above the neutral 50 (which indicates expanding output) following a long period of registered contraction. That this occurred while interest rates remain at their peak is optimistic for the interest-sensitive construction sector.

While the construction sector is negatively affected by the wet weather in February, we forecast growth in this sector to flatline in the first quarter of 2024. Our early forecast for the second quarter of this year sees this sector’s growth remaining unchanged from first quarter.

Production (14 per cent of GDP)

We forecast production sector output to grow by 1.1 per cent in first quarter of 2024 and by 0.3 per cent in the second quarter, 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 (which includes oil and gas extraction); electricity, gas, steam and air conditioning; and water supply and sewerage. The largest of these sectors are manufacturing, accounting for 10 per cent of GDP, and mining and quarrying, accounting for 1 per cent of GDP.

Manufacturing

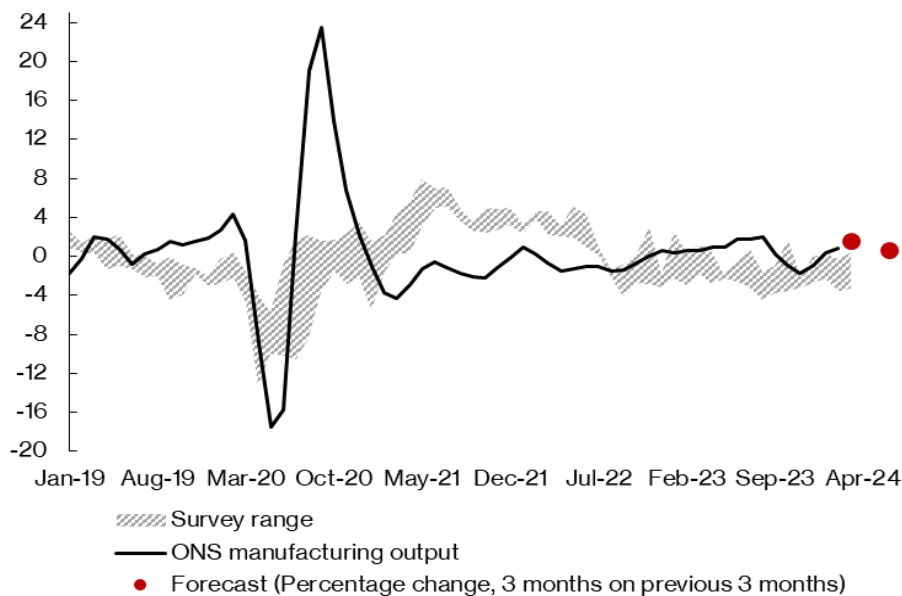
The S&P Global/CIPS UK manufacturing PMI rose from 47.5 in February to 50.3 in March, representing a 20-month high and the first time this sector has registered expanding output since July 2022. The previous sustained decline had been driven by a continuing combination of weak domestic and export demand, tight financial conditions, eroding consumer confidence, and a preference for reduced inventory holdings (as a cashflow-improving measure). The turnaround registered in March was attributed by survey respondents to improvement in overall operating conditions during March as well as an increase in new business inflows in the domestic market. Export orders, on the other hand, remained weak, falling on the month. Nonetheless, as a result of improvements in the domestic market, business optimism rose to its highest level since April 2023.

We expect to see this sector grow by 1.6 per cent in the first quarter of 2024 relative to the previous quarter. Our early forecast for the second quarter of this year sees this sector growing by 0.6 per cent.

Mining and quarrying

Mining and quarrying (extraction) is a small but erratic component of industrial production that can have an influence on overall GDP growth. We forecast this sector to contract by 2.4 per cent in the first quarter of 2024 and by 0.3 per cent in the second quarter.

Figure 9 - 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.

Table 1 - 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											
Latest weights			338	220	134	103	135	102	15	6	13	62	7
Feb-23	102.6	104.0	105.3	101.8	99.9	109.6	94.1	100.4	62.5	68.0	104.7	107.1	85.6
Mar-23	102.2	103.5	105.0	102.0	98.4	108.0	94.7	100.9	64.5	65.9	106.9	106.9	85.6
Apr-23	102.4	103.6	104.9	102.0	99.5	108.4	94.8	101.5	63.2	65.9	104.9	106.1	85.6
May-23	102.0	103.5	104.5	102.4	98.9	108.3	93.9	100.9	60.1	66.1	102.9	105.8	85.5
Jun-23	102.8	103.8	104.4	103.1	99.6	108.8	96.4	104.1	61.3	65.3	104.4	107.5	85.6
Jul-23	102.3	103.4	104.3	102.8	99.3	106.9	95.4	102.8	61.7	65.3	103.4	107.0	85.8
Aug-23	102.3	103.5	104.3	103.1	99.4	106.9	95.0	102.1	62.2	67.2	101.8	104.8	85.9
Sep-23	102.3	103.5	104.0	103.8	99.2	106.7	94.8	101.7	63.9	65.3	103.1	104.8	86.0
Oct-23	101.9	103.2	104.0	103.1	99.2	105.8	93.5	100.4	60.8	64.1	103.7	104.8	86.1
Nov-23	102.1	103.4	103.9	103.5	99.6	106.6	94.0	101.2	60.7	64.5	102.6	104.8	86.1
Dec-23	102.0	103.3	104.4	102.9	98.3	107.1	94.6	102.0	61.4	63.8	102.1	104.8	86.1
Jan-24	102.3	103.6	104.3	103.4	99.7	106.6	94.3	101.8	62.9	62.8	99.6	104.8	86.2
Feb-24	102.4	103.7	104.3	103.5	99.0	108.3	95.4	103.1	63.2	62.3	101.6	104.8	86.5
Mar-24	102.4	103.7	104.6	103.4	99.2	108.4	95.5	103.4	63.3	62.7	101.7	104.8	86.8
Apr-24	102.6	103.9	104.8	103.5	99.2	108.7	95.4	103.3	63.0	62.6	101.6	104.8	87.1
May-24	102.7	104.1	105.0	103.6	99.2	109.3	95.4	103.4	62.5	62.4	101.8	104.8	87.2
Jun-24	102.8	104.2	105.2	103.5	99.3	109.6	95.4	103.4	62.1	62.3	102.0	104.8	87.2

Percentage change, 3 months on previous 3 months

Feb-23	0.3	0.3	0.5	-0.3	-0.3	0.8	0.1	0.6	1.3	-9.1	0.3	0.8	-0.1
Mar-23	0.2	0.3	0.3	0.6	-1.0	0.8	0.2	0.6	1.5	-8.0	0.7	0.4	0.0
Apr-23	0.2	0.1	0.2	0.7	-1.0	0.1	0.5	1.0	0.5	-3.9	-0.3	1.2	0.1
May-23	-0.1	-0.1	-0.3	0.9	-1.0	-0.7	0.4	0.9	-1.1	-1.8	-0.6	0.3	0.0
Jun-23	0.0	-0.2	-0.5	0.7	-0.1	-0.5	0.8	1.6	-3.1	-0.7	-1.8	0.3	0.0
Jul-23	0.0	-0.1	-0.6	0.8	0.0	-0.6	0.7	1.7	-3.7	-1.6	-1.8	0.1	0.0
Aug-23	0.3	0.0	-0.4	0.8	0.5	-0.6	1.2	1.9	-1.4	-0.1	-1.6	0.2	0.2
Sep-23	-0.1	-0.2	-0.4	0.7	0.0	-1.5	0.0	0.0	1.7	0.3	-1.2	-0.9	0.4
Oct-23	-0.2	-0.2	-0.3	0.6	0.0	-1.4	-0.8	-1.2	2.1	-0.1	-0.7	-1.8	0.4
Nov-23	-0.4	-0.2	-0.4	0.5	-0.1	-1.1	-1.6	-1.8	0.1	-2.0	-0.1	-1.5	0.3
Dec-23	-0.3	-0.2	-0.1	-0.1	-0.3	-0.3	-1.1	-1.0	-2.6	-2.7	0.0	-0.7	0.2
Jan-24	0.0	0.0	0.1	-0.1	-0.1	0.3	-0.1	0.3	-1.0	-2.8	-1.4	0.0	0.2
Feb-24	0.2	0.2	0.4	-0.2	-0.3	0.9	0.7	1.2	1.1	-2.6	-2.0	0.0	0.2
Mar-24	0.4	0.4	0.3	0.3	0.3	1.2	1.1	1.6	3.5	-2.4	-1.8	0.0	0.5
Apr-24	0.3	0.3	0.3	0.2	-0.1	1.6	1.2	1.6	2.4	-1.8	0.2	0.0	0.8
May-24	0.3	0.3	0.4	0.2	0.2	1.4	0.7	1.1	0.7	-0.6	0.6	0.0	0.9
Jun-24	0.3	0.4	0.6	0.1	0.0	1.3	0.3	0.6	-0.9	-0.3	0.8	0.0	0.7

Percentage change, month on same month in previous year

Feb-23	0.7	0.8	2.4	-0.8	-2.3	2.1	-2.1	-1.4	-3.1	-11.7	-1.6	5.8	0.0
Mar-23	0.1	0.2	1.7	-1.1	-3.2	1.5	-1.1	-0.5	1.7	-15.0	0.4	3.5	-0.3
Apr-23	0.6	0.6	1.5	0.9	-3.0	2.2	-0.9	0.8	-1.6	-16.5	-3.0	2.9	-0.3
May-23	-0.4	-0.1	-0.1	0.7	-2.8	1.1	-2.1	-0.4	-4.9	-16.5	-3.2	0.3	-0.7
Jun-23	1.4	1.1	0.4	2.9	-1.4	2.6	1.5	4.0	-3.8	-15.5	-3.4	4.6	-0.7
Jul-23	0.4	0.2	0.1	2.2	-1.7	-1.3	1.0	3.5	-2.5	-19.5	-2.5	2.8	-0.6
Aug-23	0.3	0.1	-0.3	2.3	-1.4	-1.5	1.1	2.6	-0.8	-7.9	-4.2	0.2	-0.2
Sep-23	0.8	0.7	0.0	2.7	0.0	-0.7	1.1	2.6	0.6	-12.6	-2.6	0.3	0.4
Oct-23	-0.4	-0.5	-0.8	1.4	-1.6	-2.3	-0.7	0.2	-1.8	-11.6	-0.4	-0.4	0.5
Nov-23	-0.2	-0.3	-0.8	1.7	-1.1	-1.8	0.0	1.6	-1.9	-13.4	-3.0	-0.7	0.7
Dec-23	0.0	0.2	-0.5	2.7	-1.6	-0.6	0.5	2.0	-3.8	-7.3	-3.3	-1.4	0.7
Jan-24	-0.1	-0.3	-0.7	1.7	-0.4	-2.7	0.3	1.5	-0.9	-2.9	-6.2	0.4	0.8
Feb-24	-0.2	-0.3	-0.9	1.7	-0.9	-1.2	1.4	2.7	1.1	-8.4	-3.0	-2.1	1.1
Mar-24	0.2	0.2	-0.4	1.4	0.8	0.4	0.8	2.5	-1.9	-4.8	-4.8	-1.9	1.4
Apr-24	0.2	0.3	-0.1	1.5	-0.3	0.3	0.6	1.8	-0.3	-5.0	-3.1	-1.2	1.7
May-24	0.6	0.5	0.5	1.1	0.4	0.9	1.6	2.5	4.1	-5.6	-1.0	-0.9	1.9
Jun-24	0.0	0.4	0.8	0.4	-0.3	0.7	-1.1	-0.7	1.3	-4.5	-2.3	-2.5	1.8

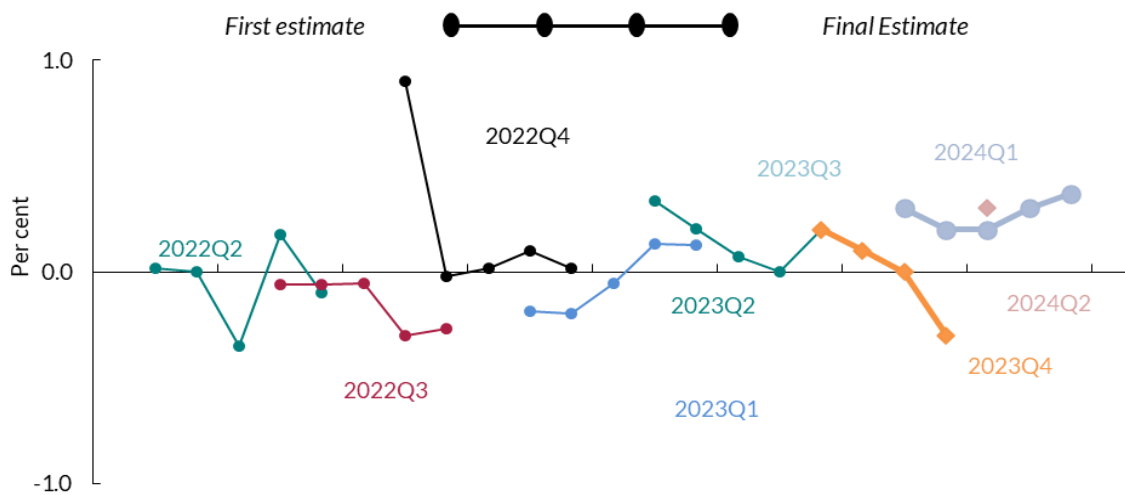
Percentage change, month on previous month

Feb-23	0.2	0.1	0.3	0.1	-0.2	0.0	0.1	0.1	-1.6	5.1	-1.4	2.6	0.1
Mar-23	-0.3	-0.5	-0.3	0.2	-1.5	-1.5	0.6	0.5	3.2	-3.1	2.1	-0.2	0.0
Apr-23	0.1	0.1	-0.1	0.0	1.1	0.4	0.1	0.6	-2.0	0.0	-1.9	-0.7	0.0
May-23	-0.3	-0.1	-0.4	0.4	-0.6	-0.1	-0.9	-0.6	-4.9	0.3	-1.9	-0.3	-0.1
Jun-23	0.8	0.3	-0.1	0.7	0.7	0.5	2.7	3.2	2.0	-1.2	1.5	1.6	0.1
Jul-23	-0.5	-0.4	-0.1	-0.3	-0.3	-1.7	-1.0	-1.2	0.7	0.0	-1.0	-0.5	0.2
Aug-23	0.0	0.1	0.0	0.3	0.1	0.0	-0.4	-0.7	0.8	2.9	-1.5	-2.0	0.1
Sep-23	0.0	0.0	-0.3	0.7	-0.2	-0.2	-0.2	-0.4	2.7	-2.8	1.3	0.0	0.1
Oct-23	-0.4	-0.3	0.0	-0.7	0.0	-0.8	-1.4	-1.3	-4.9	-1.8	0.6	0.0	0.1
Nov-23	0.2	0.2	-0.1	0.4	0.4	0.8	0.5	0.8	-0.2	0.6	-1.1	0.0	0.0
Dec-23	-0.1	-0.1	0.5	-0.6	-1.3	0.5	0.6	0.8	1.2	-1.1	-0.5	0.0	0.0
Jan-24	0.3	0.3	-0.1	0.5	1.4	-0.5	-0.3	-0.2	2.4	-1.6	-2.4	0.0	0.1
Feb-24	0.1	0.1	0.0	0.1	-0.7	1.6	1.2	1.3	0.5	-0.8	2.0	0.0	0.3
Mar-24	0.0	0.0	0.2	-0.1	0.2	0.1	0.1	0.3	0.1	0.7	0.1	0.0	0.4
Apr-24	0.1	0.2	0.2	0.1	0.1	0.3	-0.1	-0.1	-0.3	-0.2	-0.1	0.0	0.3
May-24	0.1	0.2	0.2	0.0	0.0	0.6	0.0	0.1	-0.8	-0.3	0.2	0.0	0.1
Jun-24	0.1	0.1	0.2	0.0	0.1	0.3	0.0	0.0	-0.7	-0.1	0.2	0.0	0.0

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 was published in January and then updated four times (in February, March, April, and May) before the ONS published 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. Figure 9 shows how our short-term forecasts for recent quarters have changed as new information has become available.

Figure 10 - Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)



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. Table 2 shows the growth in each sector in the most recent three-month period, compared with the previous three months, against the forecast for each in our previous GDP Tracker.

Table 2 - 3-month-on-3-month growth to February (per cent)

	GDP	Index of Services	Index of Production	Manufacturing	Mining and Quarrying	Index of Construction
Forecast	0.1	0.1	0.2	0.9	-2.7	0.0
Outturn	0.2	0.2	0.7	1.2	-2.6	0.0

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 (see, e.g., Figure 5).

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 the second quarter of 2020 when our GDP tracker in May pointed to growth of -22.8 per cent, 2.4 percentage points lower than the ONS first estimate of GDP growth.

Table 3 - Forecast Error Analysis: Quarterly GDP growth (per cent)

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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