

# UK economy

## Recession deeper than previously thought

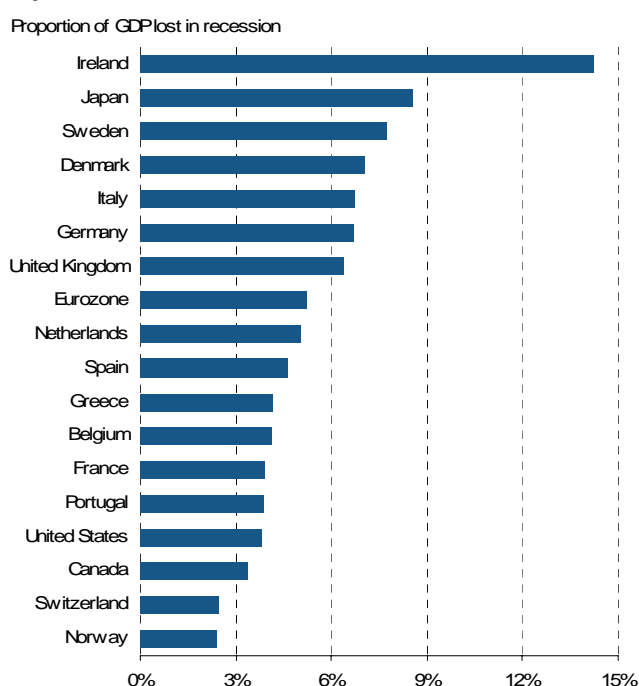
### UK recovery disappoints compared to peers

Latest data from the Office for National Statistics show that the UK recession was deeper than previously thought. Gross domestic product (GDP) fell 6.4% rather than the prior estimate of 6.2%. The economic contraction began in 2008 Q2 and the recovery commenced 2009 Q4. However, the recovery remains weak, with GDP rising just 0.4% in the final quarter of last year and by 0.3% in 2010 Q1.

Comparisons with other countries show that the UK did not fare too badly in the downturn. Ireland saw the steepest recession of the developed countries for which we have data for, followed by Japan. Sweden, Denmark, Italy and Germany also saw GDP fall by a larger proportion of its prior peak than the UK.

However, the Eurozone as a whole fared better than the UK, with a 5.3% drop in GDP, and the US saw a mere 3.8% decline.

### Depth of recessions



### International recessions

	Drop in GDP during recession	Current level below peak	Amount so far recouped
Belgium	4.1%	3.1%	25.8%
Canada	3.4%	0.5%	84.6%
Denmark	7.0%	5.3%	24.2%
Eurozone	5.3%	4.6%	13.0%
France	3.9%	2.8%	29.6%
Germany	6.7%	5.3%	21.2%
Greece	4.2%	4.2%	0.0%
Ireland	14.3%	12.0%	16.0%
Italy	6.8%	6.1%	10.2%
Japan	8.6%	4.7%	45.0%
Netherlands	5.0%	3.7%	26.0%
Norway	2.4%	1.9%	21.4%
Portugal	3.9%	2.1%	45.2%
Spain	4.6%	4.6%	1.7%
Sweden	7.7%	5.0%	35.2%
Switzerland	2.5%	0.7%	71.6%
United Kingdom	6.4%	5.7%	11.0%
United States	3.8%	1.3%	65.6%

Sources: Ecwin, Markit.

### UK recession

	Drop in GDP during recession	Current level below peak	Amount so far recouped
Agriculture, hunting, forestry & fishing	14.5%	14.5%	0.0%
Mining & quarrying incl oil & gas extraction	24.4%	24.4%	0.0%
Manufacturing	14.3%	12.1%	15.2%
Electricity, gas and water supply	13.5%	13.2%	2.2%
Total production	13.9%	12.6%	9.3%
Construction	15.0%	15.0%	0.0%
Distribution, hotels & restaurants	7.6%	5.2%	31.6%
Transport, storage & communication	8.5%	7.5%	12.2%
Business services & finance	6.3%	4.7%	25.0%
Govt and other services	1.2%	0.8%	33.3%
Services excl. govt.	6.4%	5.0%	21.3%
Total services	4.6%	3.6%	20.8%
GDP at market prices excl. oil & gas	6.1%	5.3%	14.1%
GDP excl. govt.	8.3%	7.3%	11.7%
GDP	6.4%	5.7%	11.0%

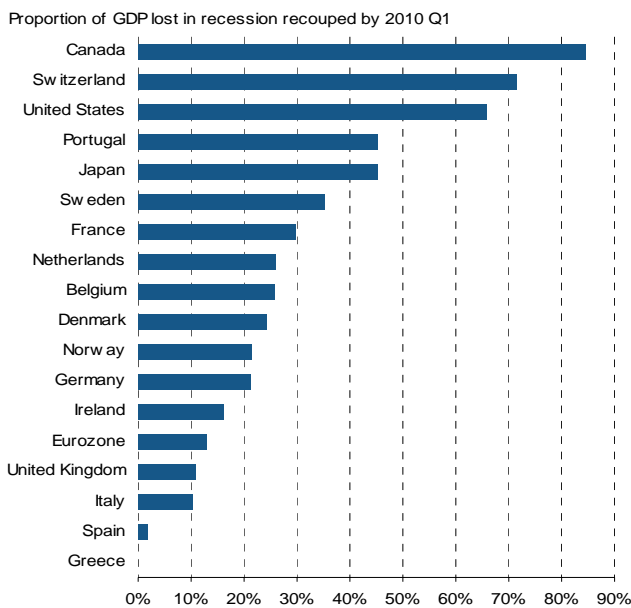
Sources: Office for National Statistics, Markit.

While the depth of the recession in the UK is perhaps not altogether surprising compared to international comparisons, the weakness of the UK recovery as portrayed by official data is both disappointing and somewhat puzzling.

With 2010 Q1 data showing a rise in UK GDP for the second quarter running, the economy has recouped 11% of the output lost during the recession. But this compares badly with other developed countries, with only Italy, Spain and Greece seeing lower recuperations (with Greece of course still in recession).

Canada leads the pack, having recouped 85% of GDP lost in its recession, followed by Switzerland (72%) and the United States (66%). While the Eurozone has only recouped 13% of lost GDP, France has regained some 30% and Germany 21%.

**Economic recoveries**



**Varied performance by sector**

Looking into the details for the UK, government and related services fell only 1.2% during the recession – the smallest fall of any sector – but private services fell by 6.4%. The drop in service sector output was nevertheless notably much less pronounced than the 14.3% drop in manufacturing production.

However, it is the extractive industries that saw the greatest fall in output during the recession, with a contraction which now extends to 24%, while construction has seen the second-largest loss, with output down 15%. What's more, these sectors were

still contracting in 2010 Q1, as was agriculture, hunting, forestry & fishing.

Meanwhile, non-government services have recouped 20% and manufacturing 15% of their recession losses so far during the recovery. Given the robust, resource-fuelled, manufacturing upturn that has been evident, it is perhaps surprising that mining & quarrying, which includes oil & gas extraction, remains in recession, and that electricity, gas and water supply has recouped just 2% of the 13.5% loss of output seen in the recession.

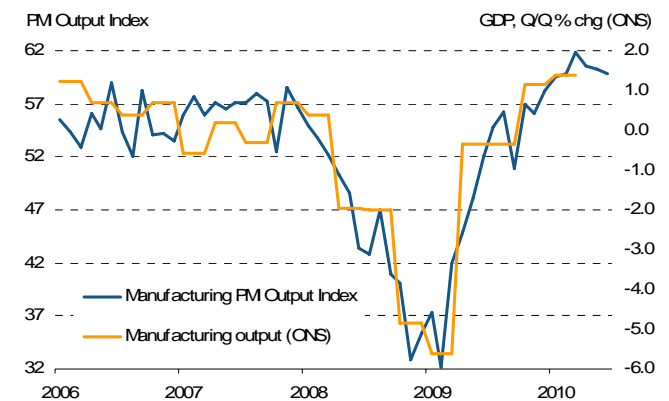
**Further recovery in Q2**

In fact, the entire underperformance of the UK recovery is surprising, given the strong monetary and fiscal stimuli the economy received, as well as the depreciation of sterling, which should have helped boost exports but appears to have had a limited effect (according to official data).

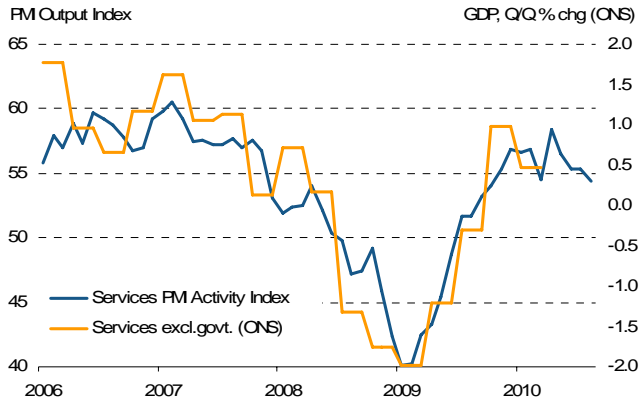
More encouraging were the data published today relating to business investment and manufacturing inventories, both of which improved in line with the PMI data (the former showing the latest quarterly rise for four years).

Further recovery is signalled by the PMI business surveys for Q2, however, which should improve substantially the recuperation picture. Beyond that, though, it looks likely that weaker PMI data mean economic growth will slow. (see [http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jul/UK\\_gdp\\_10\\_07\\_05.pdf](http://www.markit.com/assets/en/docs/commentary/markit-economics/2010/jul/UK_gdp_10_07_05.pdf))

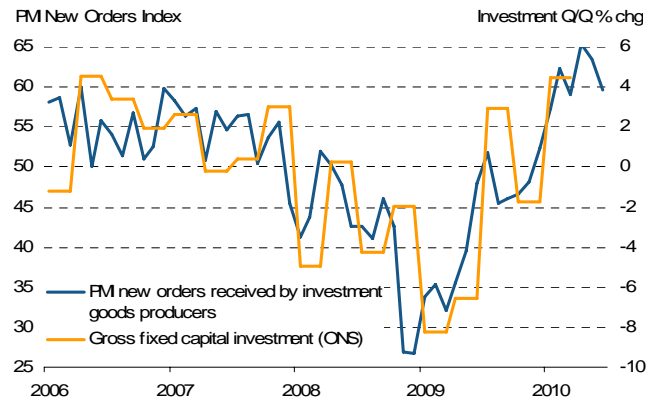
**Manufacturing**



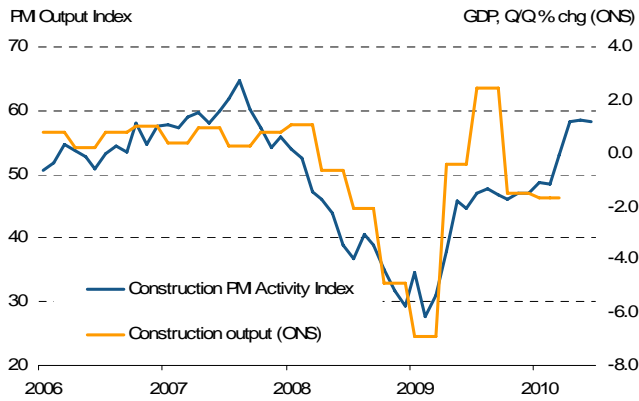
**Services (PMI shown with 3-month lead)**



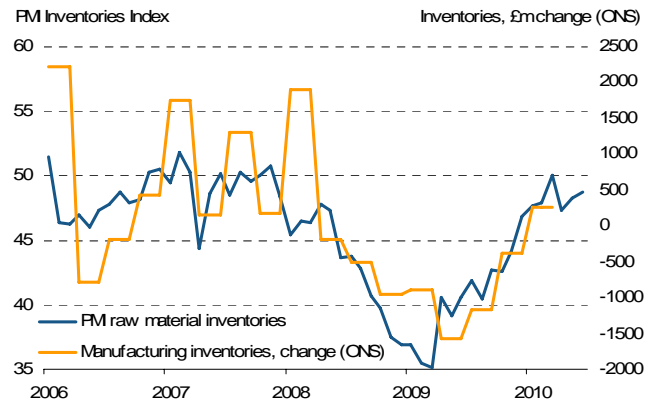
**Business investment**



**Construction**



**Manufacturing inventories**



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