ESSENTIAL READING

UK DEMAND & OUTPUT MONTHLY

UK Team

April 2015

GDP and latest nowcasts*

	ONS estimate	UK Team expectation	Consensus	Latest backcast
2014 Q4	**0.6%**	**0.5%**	**0.5%**	**0.7%**
	Latest nowcast		Last month's nowcast	
2015 Q1	**0.6% (0.7% final)**		**0.6% (0.7% final)**	
2015 Q2	**0.7% (final)**		**0.7% (final)**	

* The root mean squared error since Q1 2004 is 0.3pp

This month's data at a glance

Expenditure growth (%qoq) *contributions	2014 Q4 latest	2014 Q4 2nd release	News	2014 Q3	2014 Q2
GDP	0.6	0.5	0.1	0.6	0.8
Consumption	0.4	0.3	0.1	1.0	0.5
Govt consumption	-0.2	0.0	-0.2	0.5	1.7
Investment	-0.3	0.0	-0.3	1.8	0.6
- Business	-0.9	-1.4	0.5	0.3	2.7
- Housing	-1.1	0.8	-1.9	1.4	3.5
- Government	1.7	0.9	0.8	9.3	-11.9
Net Trade*	0.8	0.6	0.2	-0.7	0.3
- Exports	4.6	3.5	1.1	-0.1	-0.7
- Imports	1.6	1.3	0.3	1.4	-1.2
Other (inc. stocks)*	-0.4	-0.1	-0.2	0.1	-0.2

Monthly Output Indices	Jan	Dec	Nov	Oct	Sep
Index of Services	-0.2	0.6	0.1	0.3	0.6
- PNDS	-0.4	0.7	0.0	0.5	0.8
- Distribution	0.0	0.7	0.9	0.2	0.4
Index of Production	-0.1	-0.1	0.0	-0.1	0.6
- Manufacturing	-0.5	0.1	0.8	-0.7	0.6
Construction output	-2.6	0.6	-1.9	-1.5	1.9

Trade and Retail Sales	Feb	Jan	Dec	Nov	Oct
Retail sales vols (inc fuel)	0.7	0.1	0.1	1.6	1.2
Retail sales vols (exc fuel)	0.7	-0.3	-0.2	1.7	1.2
Goods imports	n.a.	-4.8	6.3	-2.0	-0.1
Goods exports	n.a.	-3.1	6.0	0.2	1.8

Survey Measures	Mar	Feb	Jan	Dec	Ave
Markit/CIPS Services*	n.a.	56.7	57.2	55.8	55.1
Markit/CIPS Manu*	n.a.	56.4	54.3	53.2	53.3
Markit/CIPS Construction*	n.a.	60.1	59.1	57.6	54.6
GfK/EU Consumer Conf	4.4	1.7	1.0	-0.8	-9.5

*Markit/CIPS Manufacturing, Construction and Services are confidential until the 1st, 2nd and 7th April 2015 respectively.

BCC Economic Survey	2015 Q1	2014 Q4	2014 Q3	2014 Q2	Ave
Man. Domestic sales	30	36	23	42	11
Man. Business confidence	47	45	54	51	27
Serv. domestic sales	34	38	35	35	19
Serv. Business confidence	41	46	45	46	29

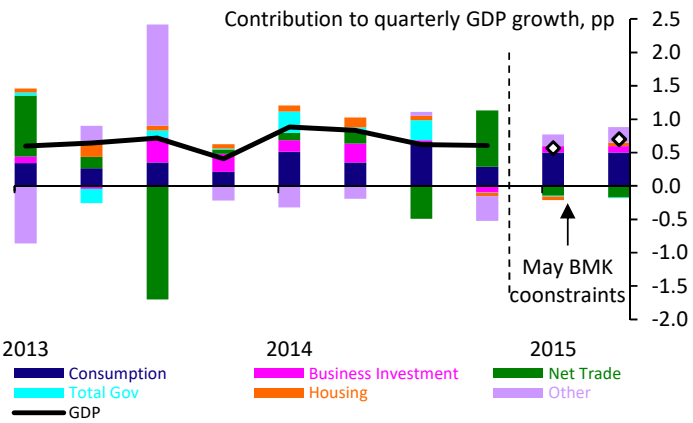
*CARE: BCC data are confidential until the 9th April 2015.

Q4 GDP growth was revised up, with slightly larger contributions from consumption and net trade. Our Q1 nowcast remains at 0.6%, but weakness in the January output data poses downside risks.

Q4 GDP growth was revised up by 0.1pp to 0.6%. Within that, the contributions of consumption and net trade were revised up a little. Although business investment is still estimated to have fallen in Q4, that is no longer the case in Q3.

Our Q1 nowcast remains at 0.6% for the initial estimate of GDP growth. The surveys continue to suggest solid growth, and other indicators have been strong. We expect the weakness in the January output data to unwind later in Q1.

Chart 1: Contributions to quarterly GDP growth



Q4 GDP growth revised up to 0.6%.

The ONS estimate that GDP grew by 0.6% in Q4. We expect growth to be revised up further, to 0.7%, as the estimate matures, based on past revision properties and the strength of the surveys. On the expenditure side, both consumption and net trade were revised up, offset by a more negative stockbuilding contribution **(Chart 1)**. On the output side, the contribution from services, in particular PNDS, was revised up. There were revisions across 2014, with Q1 growth revised up to 0.9% (from 0.7%). Calendar year growth in 2014 is now 2.8% (up from 2.6%), meaning that on current estimates the UK was the fastest growing G7 economy in 2014.

Our Q1 nowcast remains at 0.6%

The output data for January this month were disappointing. Services and production were weaker than expected, while construction was much weaker. In contrast, both the surveys and the other indicators this month have continued to suggest solid and stable growth in the near-term. On

Chart 2: Monthly services growth

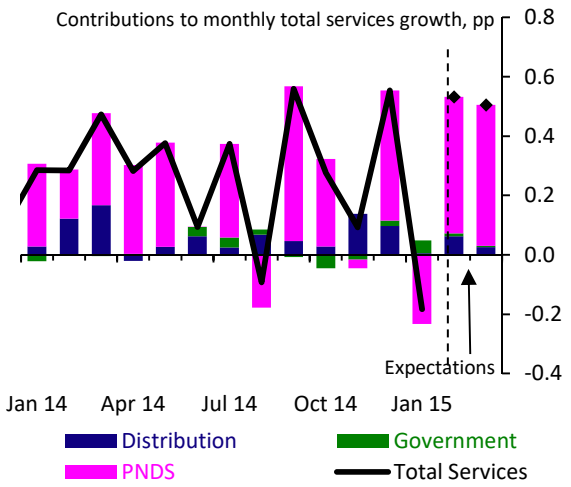


Chart 3: Contribution to construction output

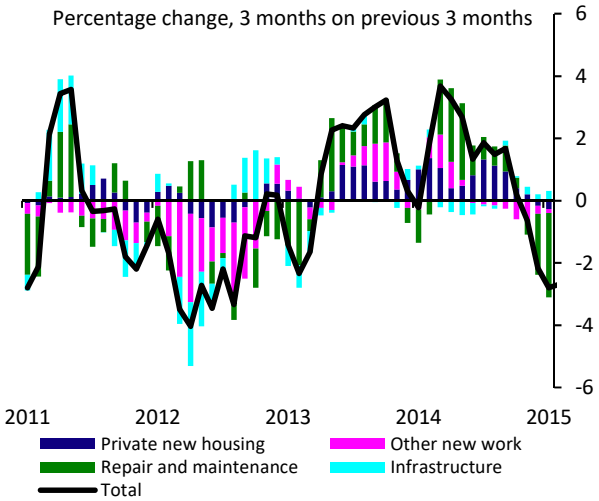
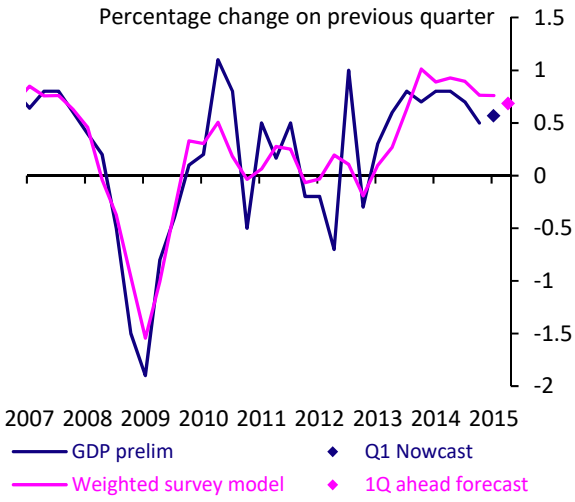


Chart 4: Weighted survey model



balance, our Q1 nowcast is unchanged at 0.6% for the preliminary estimate, and 0.7% for the final estimate, but the weak January output data pose downside risks to this view.

Output data in January were weak

Total services fell by 0.2% in January, which was weaker than expected. Within this, distribution output was flat, while government services were slightly stronger than expected. The weakness was concentrated in business services and finance, and two sub-sectors within that. A sharp fall in services output is usually unwound, at least in part, in the following month. Taking this together, we therefore expect services output to rebound later in Q1 **(Chart 2)** (or that January will be revised up).

Construction output fell by 2.6% in January, with three month on three month growth of -2.8%, the largest fall since August 2012. The data suggest a sharper and more generalised easing in construction growth than other indicators and intelligence. Within that, repair and maintenance (R&M) has been a particularly substantial drag on recent growth **(Chart 3)**. There is no obvious economic reason for the weakness in R&M, and we are concerned that there could be some residual seasonality within the data. The ONS agree this could be an issue, and are looking to address it in an ongoing seasonal adjustment review.

In the near term, we expect a rebound in construction growth. In part, that is based on our view that R&M growth will bounce back, as seasonal weakness unwinds. In addition, the construction surveys, despite easing recently, have continued to suggest increased activity in the industry and our range of construction models still point to an unwind of the Q1 weakness. The ongoing issue[1] over construction price indices means that the data are more uncertain than usual.

That said, in part the weakness of the construction data reflects a moderation in house building, which we expect to persist: the DSI team has revised down its dwellings investment forecast (For more see).

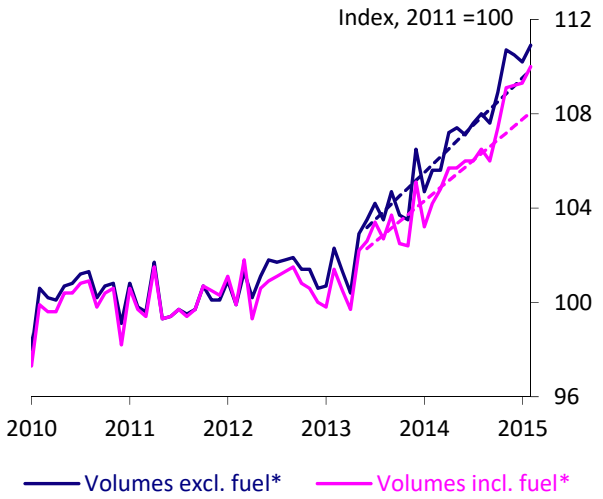
Meanwhile, total production fell by 0.1% in January, driven by a fall in manufacturing (-0.5%). There was better news in the other production components. Energy grew as expected (1.0%); within that, extraction grew strongly (2.1%) and utilities output was flat.

The surveys still suggest solid and stable growth

The surveys have continued to suggest solid and stable growth in the near term, with the weighted survey model (WSM) remaining at 0.8% for Q1.The Markit/CIPS composite output and expectations balances picked up in March. And, despite easing slightly, the BCC and CBI surveys continued to suggest steady growth. The BCC noted that businesses are generally "*quietly confident*" in the near-term growth outlook. The gap between the WSM and our nowcast is not

[1] The UK Statistics Authority suspended the designation of '*Construction Output and New Orders*' as National Statistics on 11 December 2014 due to concerns around the quality of its deflators. Subsequently, the ONS has been using statistical models to create price indices for the purpose of deflation. The ONS have stated that the confidence intervals surrounding these models are wide and caution should be taken when using the deflated estimates.

Chart 5: Retail sales volumes



** Dashed lines show trends over the period June 2013-October2014*

Chart 6: Business investment intentions swathes

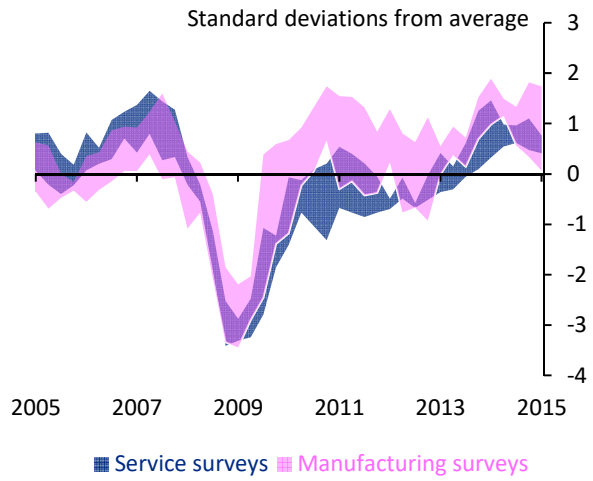


Table 1: Feb *IR* key judgements table

Likely developments in 2015 H1 and Q3:	Assessment
Quarterly consumer spending growth of a little below 1%	*Slightly weaker*
Average quarterly growth in export volumes of around ¾%	*On track*
Broadly flat housing investment	*Slightly weaker*
Average quarterly business investment growth of around 1½%	*Slightly weaker*

** Note that current assessment is only over H1 2015 and not Q3*

unusual and we have been aiming down on the model over the past year **(Chart 4)**.

The expectation balances of the surveys were more mixed this month, but, combined through the WSM, they still point to growth around average in Q2. There has been little news for Q2, so our nowcast remains at 0.7% (final estimate).

Consumption revised up slightly, while indicators continue to show strength

Quarterly consumption was revised up a touch to 0.4% in Q4, from 0.3%, although this is still weaker than the 0.8% we had assumed in the Feb *IR.* Other consumption indictors have been strong this month. The GfK/EC consumer confidence headline balance strengthened further, with the balance for major purchases increasing to its highest level since October 2006.

Retail sales grew by 0.7% in February, with all sub-components growing on the month. An upward revision to January sales meant that 3mo3m growth was above 2.0% for the third consecutive month (the first time on record). Even after smoothing through the recent volatility, retail sales growth (including and excluding fuel) has been above its recent trend **(Chart 5)**, consistent with some boost to consumption volumes from lower prices.

Business investment revised up, but still much weaker than Feb IR

Business investment growth was revised in both Q3 (+0.3% from -1.2%) and Q4 (-0.9% from -1.4%). It therefore no longer shows two consecutive quarterly falls, although investment growth in Q4 is still much weaker than the expectation in the Feb *IR* (+2.5%). Extraction investment fell, as expected, although by less than estimated last month.

The upward revision to business investment growth takes it somewhat closer to the business survey indicators, although several of those series have eased from their late 2013/early 2014 highs. This easing in the survey indicators has been driven primarily by the manufacturing, rather than services, sector **(Chart 6)**.

Strong contribution from net trade in Q4

The contribution of net trade to Q4 GDP growth was revised up, to +0.8pp, broadly as expected. The current account balance improved from its revised record of -6.1% in Q3, to -5.6%, with the narrowing of the deficit driven by an improvement in the trade balance. There was also upside news in trade in goods in the three months to January, with goods exports stronger and imports weaker than expected.

Overall, the data flow over the month leaves our view of the near term growth outlook intact. But there are two caveats to that: first, the weak January output data; second, that despite the positive revisions to consumption and business investment, the short-term outlook for both remains more subdued than at the time of the February IR (Table 1).

ANNEX: UK DATA DETAIL

This annex provides links to charts and tables that give more detail on recent data.

Individual data releases: the table below contains links to standard charts and tables for each data release, as well as the official ONS or survey commentary.

GDP	Released	Data up to	Indicator
GDP (Prelim)	**27/01/15**	Q4 2014	GDP: Preliminary indicator
GDP (Second estimate)	**26/02/15**	Q4 2014	GDP: Second estimate indicator
GDP (QNA)	**31/03/15**	Q4 2014	GDP: Quarterly National Accounts indicator

Monthly ONS data	Released	Data up to	Charts
Index of Services	**31/03/15**	Jan-15	IoS Charts
Index of Production	**11/03/15**	Jan-15	IoP Charts
Construction output	**13/03/15**	Jan-15	
Retail Sales	**26/03/15**	Feb-15	Retail Sales charts
UK Trade	**12/03/15**	Jan-15	Trade charts
Output surveys			
Markit/CIPS Services	**07/04/15**	Mar-15	CIPS services charts
Markit/CIPS Manufacturing	**01/04/15**	Mar-15	CIPS manufacturing charts
Markit/CIPS Construction	**02/04/15**	Mar-15	CIPS construction charts
BCC	**09/04/15**	Q1 2015	
CBI Quarterly Industrial Trends	**22/01/15**	Q4 2014	CBI QIT charts
CBI Services	**25/02/15**	Q1 2015	CBI SSS charts
CBI Financial Services	**30/03/15**	Q1 2015	CBI FSS charts
CBI Monthly Trends Enquiry	**23/03/15**	Mar-15	CBI MTE
Experian Construction	**02/02/15**	Dec-14	Experian charts
Consumption Indicators			
GfK/EU Consumer Confidence	**30/03/15**	Mar-15	Consumer confidence charts
BRC Retail Sales Monitor	**10/03/15**	Feb-15	BRC RSM charts
CBI Distributive Trades	**26/03/15**	Mar-15	CBI DT charts
SMMT car registrations	**05/03/15**	Feb-15	SMMT charts

Yellow denotes new data this month.

Red denotes latest data are not publically available at time of circulation (link will be updated when it is available)