ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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UK GDP slips in 2019Q2: a correction, not recession

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Introduction: GDP, not yet a recession

The first estimate for GDP for 2019Q2 showed a modestly worse-than-expected fall of 0.2% (QOQ), partly deflecting downward revisions to the initial estimates for April and May, after an increase of 0.5% in 2019Q1.[1] The Bank of England, for example, had expected a flat figure, whilst Markit's June surveys had implied a fall of 0.1% (QOQ).[2-3]

There was much speculation that the economy was falling into "recession", but it is worth noting there are problems with the term "recession". The term "recession" is conventionally defined as when an economy experiences two or more consecutive quarterly falls in GDP. But this can be criticised for being misleading in at least two ways. Firstly, if an economy grows below trend, or even stagnates, this can result in significantly higher unemployment. This state of affairs undoubtedly feels like recession for those adversely affected, even though GDP does not actually fall on a quarter-to-quarter basis and would not be described as a "recession" on the conventional definition. Secondly, an economy which experienced two consecutive quarters of modestly falling GDP and then recovered quickly would, obviously, be in far better shape than one that experienced sharper falls in output and/or falls in output over a more protracted period. Yet both scenarios would be referred to as "recessions" on the conventional definition.

So even if GDP slips a tad in 2019Q3, and even in 2019Q4 as well, but thereafter recovers with little overall damage to employment, some commentators will doubtless herald such a state of affairs as a "recession". But, as we discussed in a fairly recent Perspective, this would barely constitute the sort of recession experienced by the UK economy in the mid-1970s, early-1980s, early-1990s and the Great Recession, when there were prolonged hits on GDP and unemployment rose sigificantly.[4] Chart 1a (and annex table 1) shows how GDP fared in these recessions. In the mid-1970s recession, GDP fell over 5% from pre-recession peak (1973Q2) to trough (1975Q3), in the early-1980s the equivalent figure was also over 5%, in the early-1990s the overall fall was a relatively modest 2%, whilst in the Great Recession the decline was over 6%. Chart 1b shows how unemployment rose significantly in all four recessions.

Chart 1a The last four recessions; pre-recession quarterly peak GDP (Q0) =100

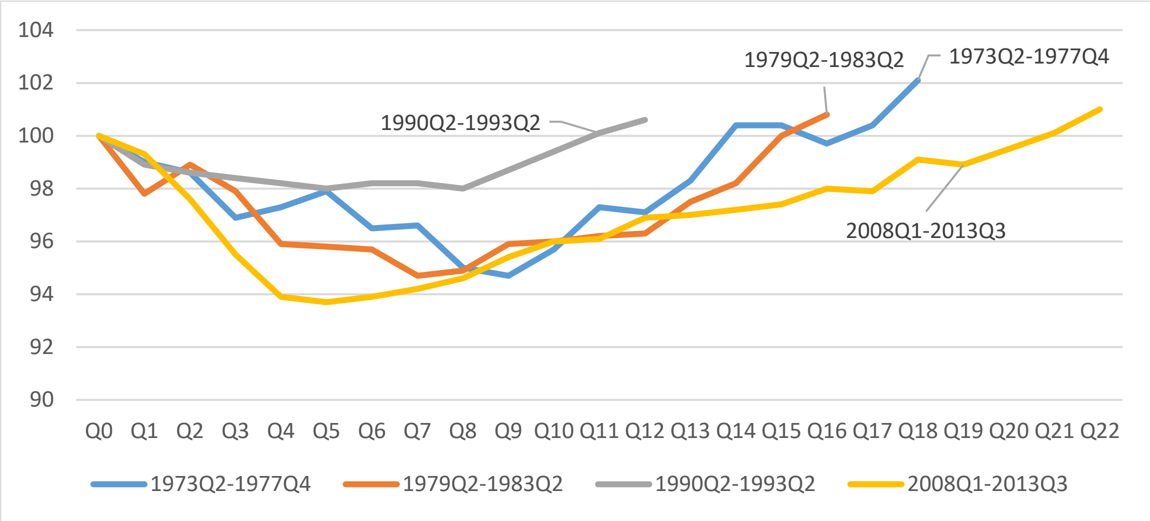
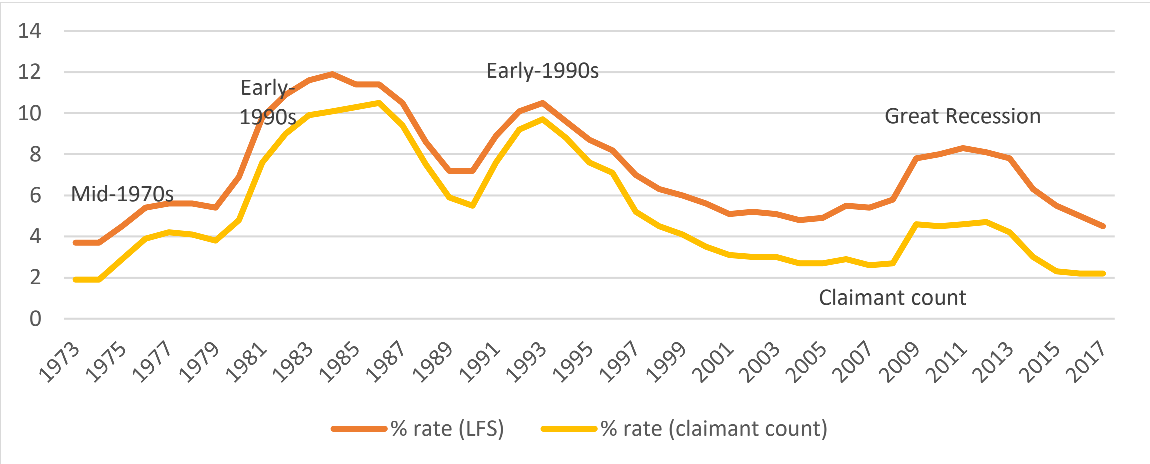


Chart 1b UK unemployment rates (%): Labour Force Survey (LFS) and claimant count



Source: Ruth Lea, "The past four UK recessions compared, and no recession expected on Brexit", *Arbuthnot Banking Group*, 10 September 2018.

There were very special monetary and financial circumstances which triggered these four recessions. The first three were broadly characterised by high interest rates intended to control inflationary pressures and the Great Recession was triggered by the financial crisis of 2007-08. Going forward, we do not see interest rates rising over the next year or two, indeed they may even fall, and given the tighter regulation and closer supervision of the financial sector, a repeat of the financial crisis seems unlikely.

Assuming that Brexit occurs in 31 October (as a central case scenario), there could well be some disruption to the economy as it adjusts to Brexit, especially if the UK leaves the EU trading under WTO rules, without the passing of the Withdrawal Agreement (as seems likely). But, given the preparations by both the UK Government and the EU, these disruptions should be containable and relatively short-lived. It, therefore, seems unlikely that Brexit, in itself, would throw the economy into a full-blown recession as experienced in the mid-1970s, early-1980s, early-1990s and the Great Recession.[5-6]

GDP in 2019Q2: a correction to 2019Q1…

As already indicated, GDP fell by 0.2% (QOQ) in 2019Q2, to be 1.2% higher (YOY), having grown by 0.5% in 2019Q1. But, as the ONS noted, "…the path of GDP and some of its components had been particularly volatile through the year so far, largely reflecting changes in timing of activity related to the UK's original planned exit date from the European Union in late-March (29 March)". In particular, there was evidence that "…stockpiling was taking place in 2019Q1, which provided a boost to GDP, with the latest figures showing that these increased stock levels were partly run down in 2019Q2. Furthermore, it was also reported that a number of car manufacturers had brought forward their annual shutdowns to April as part of contingency planning".[7] The weak 2019Q2 can, therefore, be interpreted as a "correction" to the above trend 0.5% increase in 2019Q1.

…the expenditure breakdown…

Chart 2a shows the contributions to growth of the main expenditure components. From chart 2a it is clear that there were two very large movements, firstly, between 2018Q4 and 2019Q1 and, secondly, between 2019Q1 and 2019Q2. The first movement relates to gross capital formation (GFC, grey bars in chart 2a), which made a very large contribution to growth in 2019Q1 but dragged GDP down significantly in 2019Q2. The second movement relates to external trade (blue bars), which worked in the opposite direction.

Concerning GFC it should be noted that it comprises four components: gross fixed capital formation (GFCF) + changes inventories (stocks) + the alignment adjustment (the adjustment applied to the expenditure and income measures of GDP that balances these with the output measure of GDP)[8] + net acquisitions of valuables. The ONS provides the contributions of total GFC and GFCF (within which business investment is separately identified, incidentally) for all quarters shown (chart 2a). The ONS, also, helpfully provides the data broken down by GFC component for the last three quarters (chart 2b) and this is where the effects of the swings in inventories in 2019Q1 and 2019Q2 become clearer. Chart 2b shows that:

- Total GFC (green bars in chart 2b) contributed 2.8% to growth in 2019Q1, and detracted from growth by 4.0% in 2019Q2 (and see chart 2a, grey bars).
- The movement on GFCF was relatively modest – contributing 0.2% in 2019Q1, but detracting 0.15% in 2019Q2 (and see chart 2a).
- There was a large swing in inventories – from a contribution to growth of 1.5% in 2019Q1, but detracting from GDP by 2.2% in 2019Q2. This movement confirms the evidence that there was considerable stockpiling prior to the expected Brexit day (29 March), followed by destocking in 2019Q2.
- There was also a significant swing (in the opposite direction) in the statistical adjustments.
- And there was a large swing in "net acquisitions of valuables" – with a large (2.3%) contribution in 2019Q1 to a major drag on growth (1.95%) in 2019Q2. The impact of the swing in net acquisitions on GDP is, however, not as dramatic as it looks at first sight because at least some of the movement is offset by movements in the trade figures (see next paragraph).

This leads to the trade data, shown in chart 2c:

- Imports in 2019Q1 were swollen by high imports ahead of the original Brexit Day (29 March), as businesses "stocked up". This was followed by a sharp fall in imports in 2019Q2.
- Specifically, there were high imports of "unspecified goods" (including non-monetary gold (NMG)) in 2019Q1, which was broadly reversed in 2019Q2. Crucially, trade in NMG has erratic

and offsetting impacts on both gross capital formation (GCF, where they are classified in "net acquisitions of valuables") and net external trade. These movements do not affect headline GDP as they are recorded as equivalent offsetting impacts in the UK National Accounts, but they are reflected in the composition of GDP growth.

- Exports also contributed to growth in 2019Q1, which was more than reversed in 2019Q2.
- All in all, net trade (blue bars) detracted from growth in 2019Q1 (3.0%), whilst the improvement in the trade balance in 2019Q2 was estimated to contribute 3.5% to growth in 2019Q2 (also chart 2a).

Chart 2a Expenditure-based GDP: contributions to growth (%), 2018Q1-2019Q2

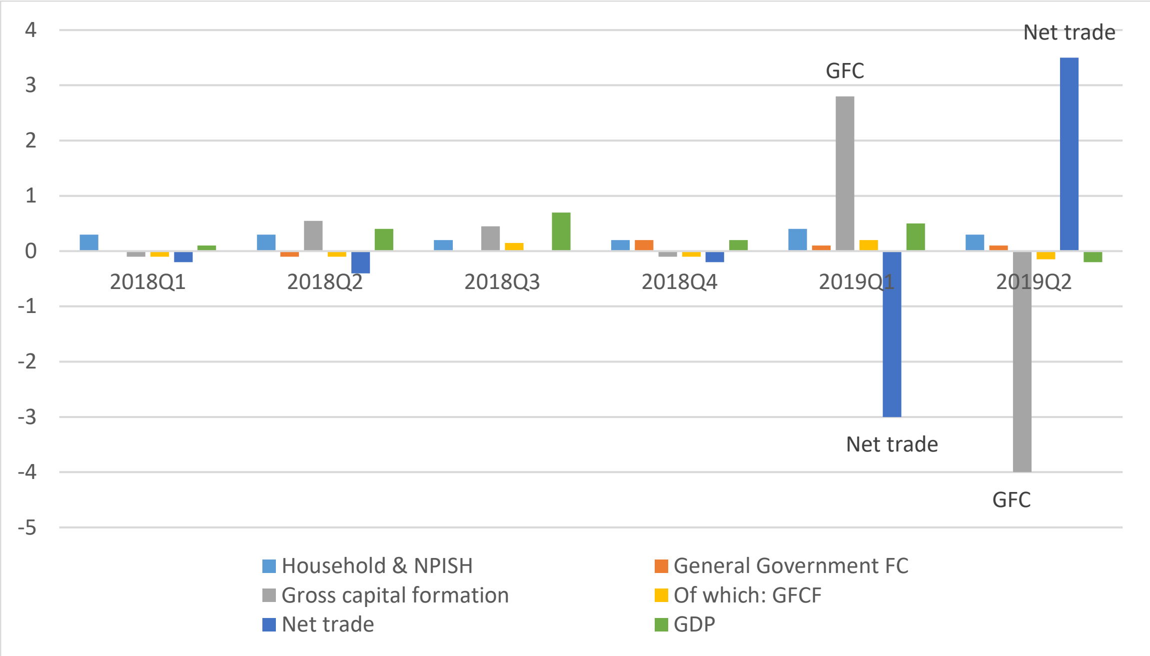


Chart 2b Expenditure-based GDP (GFC, components): contributions to growth (%), 2018Q4-2019Q2

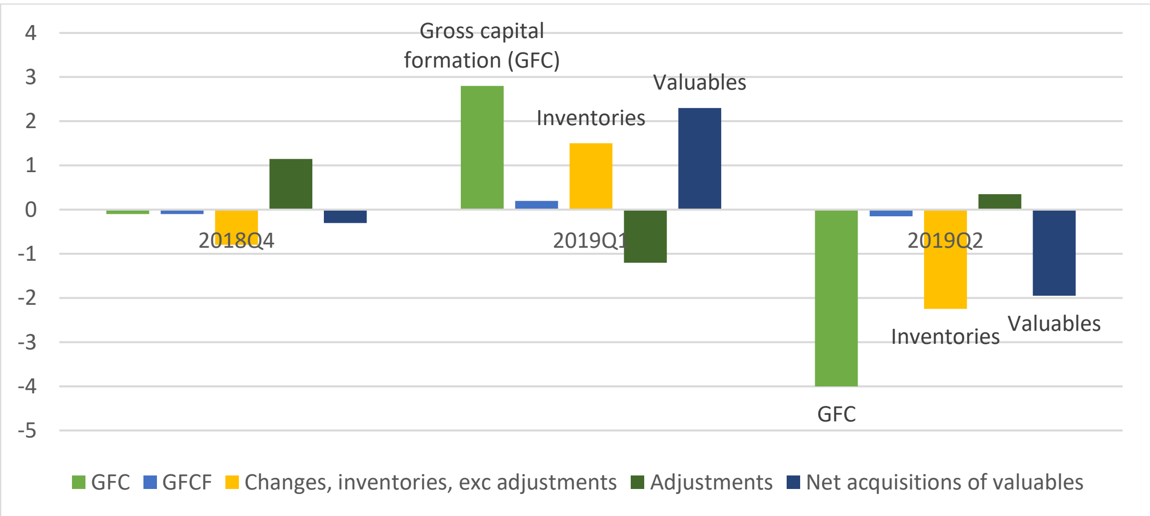
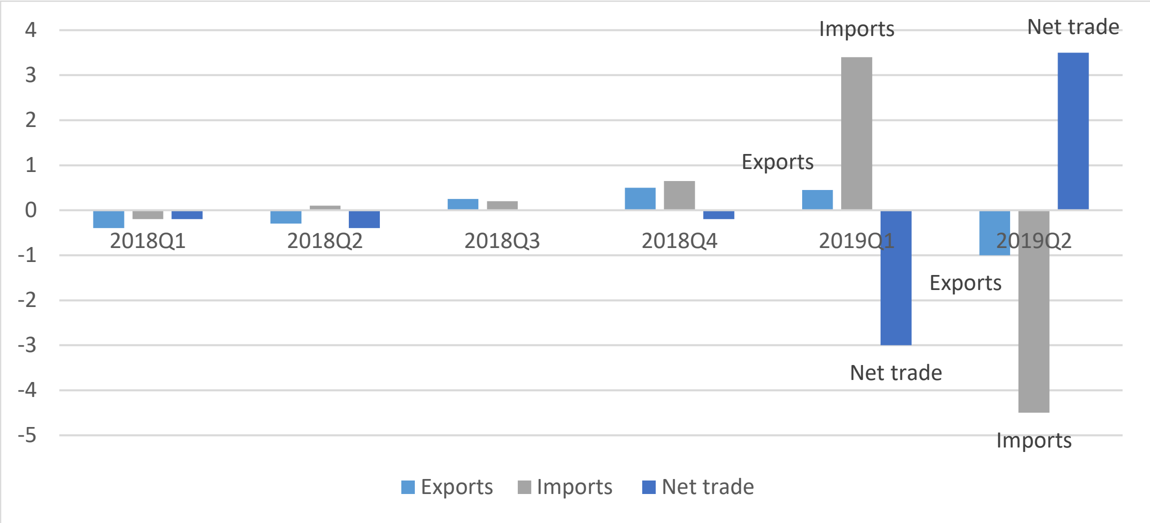


Chart 2c Expenditure-based GDP (exports, imports, net trade): contributions to growth (%), 2018Q1-2019Q2



Source: *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019. NPISH=non-profit institutions serving households; FC=final consumption; Gross capital formation (GCF) = gross fixed capital formation (GFCF) + changes in inventories + net acquisitions of valuables + alignment adjustment. There is also a balancing adjustment on inventories for 2019Q2.

In terms of actual estimates:

- Household consumption growth was a resilient 0.5% (QOQ) in 2019Q2, compared with a rise of 0.6% in 2019Q1.
- Government consumption increased by 0.7%, driven by increases in government spending in a number of sectors, including healthcare and spending by local authorities. Growth was 0.8% in 2019Q1.
- Gross Fixed Capital Formation (GFCF) fell in 1.0% in 2019Q2, after rising by 1.2% in 2019Q1. The decline in 2019Q2 mainly reflected a 2.7% fall in government investment. Within GFCF, business investment slipped by 0.5% after a 0.4% increase in 2019Q1, which had followed four consecutive quarters of decline throughout 2018. Business investment has been disappointing.
- Inventories swung from an increase of £5.7bn in 2019Q1 to a decrease of £4.0bn in 2019Q2 (including the statistical adjustments). Excluding the statistical adjustments, the swing was from stock-building of £6.6bn in 2019Q1 to destocking of £4.9bn in 2019Q2 – an overall movement of £11.5bn, 2.25% of quarterly GDP.
- In constant prices, the trade (goods and services) deficit fell from £21.6bn in 2019Q1 to just £4.4bn in 2019Q2, an improvement of £17.2bn (3.5% of GDP). Exports slipped by £5.1bn, but imports dropped £22.2bn.

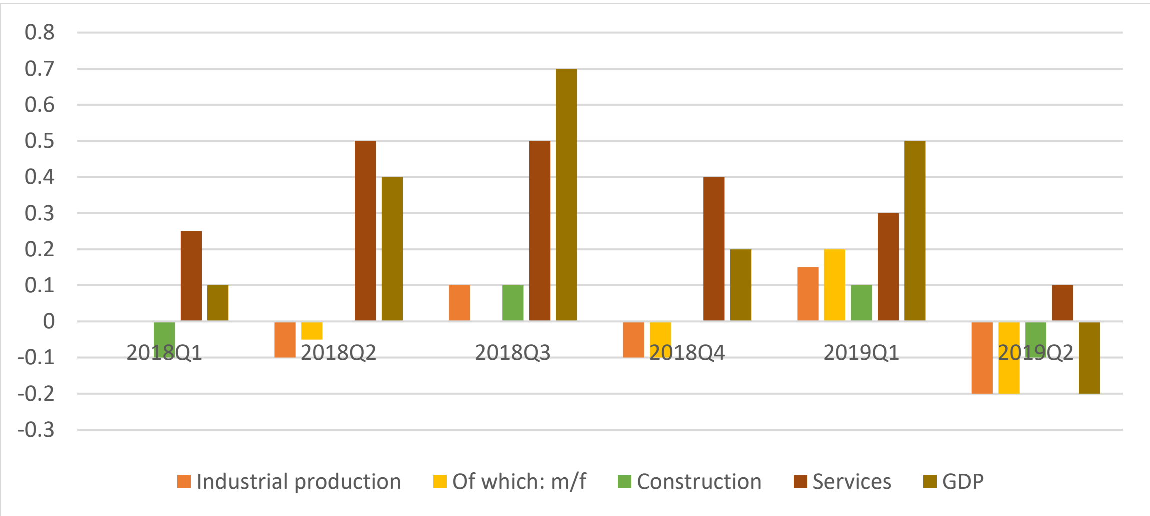
…and the industrial breakdown

Turning to the industrial breakdown chart 3 shows the contributions to growth for the main industrial groups. Services was the only contributor to growth in 2019Q2 and it was a relatively weak contribution at that, well down on 2019Q1. Both production (including manufacturing) and construction made negative contributions.

In terms of actual growth:

- Services growth slowed to 0.1% (QOQ) in 2019Q2, after 0.4% growth in 2019Q1, with the information and communication sector making the largest contribution. The ONS commented that there "has been a loss of momentum in the services industry over the last year".[9]
- Production output contracted by 1.4% (QOQ) in 2019Q2 whilst manufacturing contracted by 2.3% (QOQ). Manufacturing had been fairly subdued through 2018 but picked up sharply in 2019Q1, growing by 1.9% (QOQ), which was "consistent with activity being brought forward ahead of the UK's original intended EU departure date". The fall in manufacturing output in 2019Q2 was also driven by a 5.2% decline in manufacturing output of transport equipment, which largely reflected the partial closures of various car manufacturing plants (annual shutdowns brought forward to April). Mining and quarrying output fell by 0.4% (QOQ), driven by scheduled maintenance in a number of oil and gas fields. In contrast, electricity, gas, steam and air conditioning as well as water supply and sewerage production grew by 2.5% and 1.0% respectively.[10]
- Construction output fell by 1.3% in 2019Q2, following an increase of 1.4% in 2019Q1. The quarterly fall was due primarily to a 6.0% decline in repair and maintenance work. However, public housing new work made a positive contribution.[11]

Chart 3 Output-based GDP: contributions to growth (%)



Source: *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019. Some non-addition due to rounding errors.

Remember: first GDP estimates are vulnerable to revision

A cautionary note: GDP data are vulnerable to revisions, as shown in chart 4, which compares the ONS's first ("month 2") estimates with the latest estimates.

Two instances where the data have been significantly revised, in particular, stand out. The first related to the initial under-estimates of the downturn in 2009 and the second was the so-called "vanishing double dip" of 2012H1. Concerning the latter, table 1 shows how the early estimates showed a clear, albeit relatively shallow, dip in GDP in 2012H1, which has since been revised away. The remaining slippage for 2012Q2 is associated with the extra holiday celebrating for the Queen's 60th accession anniversary.[12]

Chart 4 GDP QOQ growth estimates, 2008Q1-2019Q2: first, latest

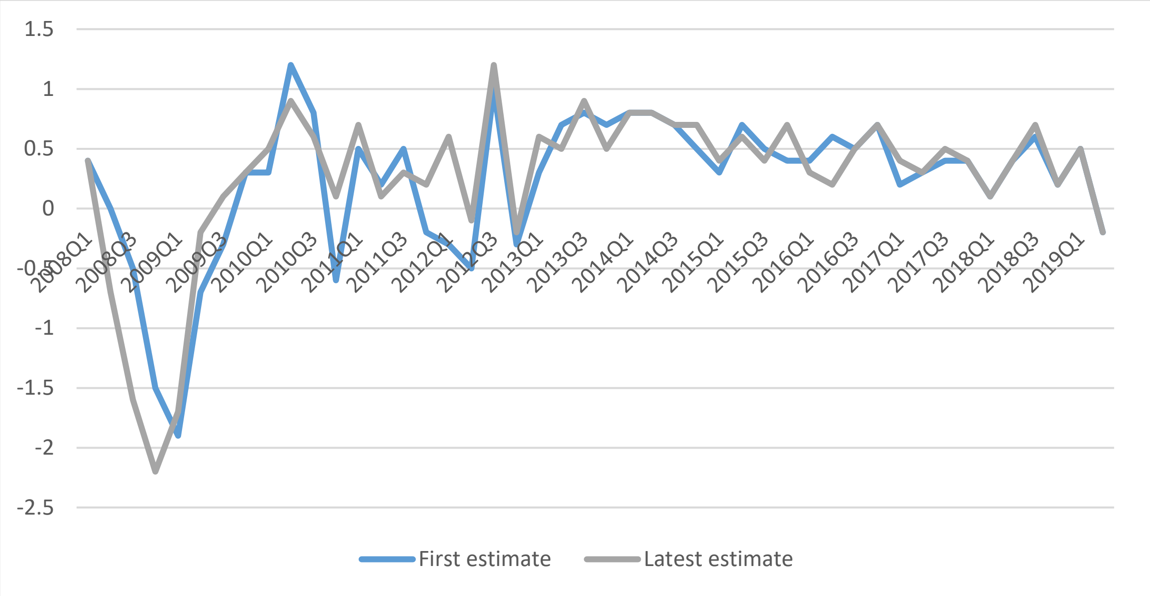


Table 1 GDP QOQ growth estimates: the vanishing "double dip"

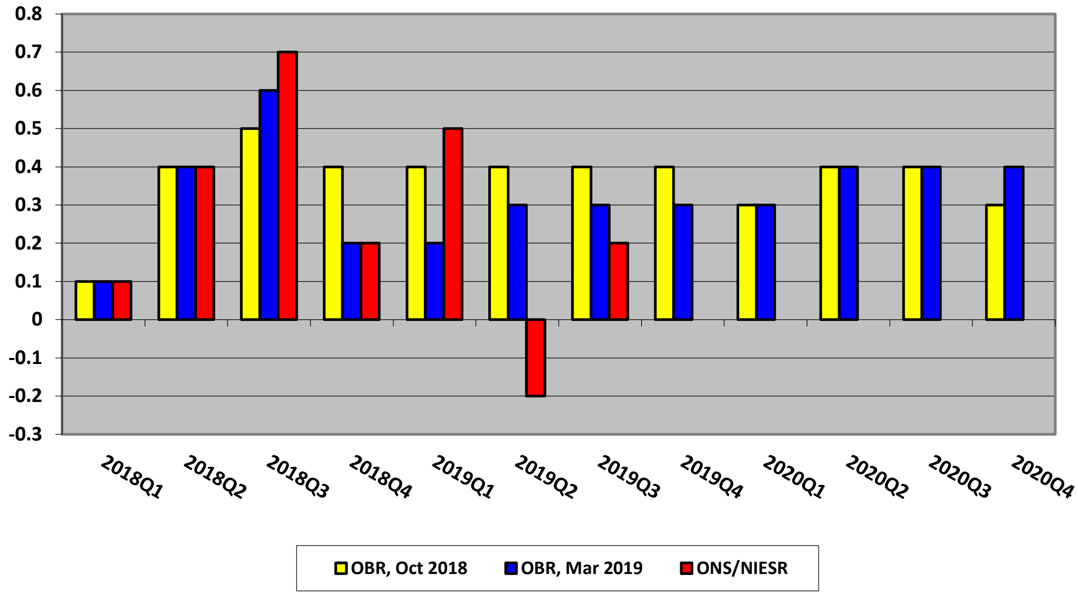
		"Month 1"	"Month 2"	Latest estimate
2011Q1		0.5	0.5	0.7
2011Q2		0.2	0.2	0.1
2011Q3		0.5	0.5	0.3
2011Q4	**"The double dip"**	**-0.2**	**-0.2**	0.2
2012Q1		**-0.2**	**-0.3**	0.6
2012Q2		**-0.7**	**-0.5**	-0.1
2012Q3		1.0	1.0	1.2
2012Q4		-0.3	-0.3	-0.2

Source: "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019, revisions triangles. The "first" estimate is the ONS's "month 2" ("month 1" estimates have recently been discontinued).

Prospects for 2019Q3: modest increase expected

If Brexit does occur on 31 October, it will be prior to the first estimates for GDP for 2019Q3, which are scheduled for 11 November 2019, though, of course, the monthly data for July (9 September) and August (10 October) will already have been released. Suffice to say, we have very little hard information available so far for 2019Q3. NIESR's forecast of a 0.2% (QOQ) increase (in chart 5) can, therefore, only be speculative but it seems reasonable.[13]

Chart 5 GDP data (QOQ, %), OBR forecasts for October 2018, March 2019, ONS/NIESR latest



Sources: (i) OBR, *Economic and fiscal outlook*, October 2018, March 2019; (ii) *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019; (iii) *NIESR*, "NIESR monthly GDP tracker – economic growth grinds to a halt", 9 August 2019.

We do, however, have July's retail sales, which rose 0.2% (MOM), to be 3.3% higher YOY, with strong growth (6.9%) in non-store retailing.[14] A fall had been expected after June's 0.9% (MOM) rise. The ONS commented that "…department stores' growth increased for the first time this year with growth of 1.6% (MOM); this followed six consecutive months of decline". Given the still robust employment situation coupled with rising real earnings (discussed below) retail sales should remain firm. A more speculative support for growth in 2019Q3 is that businesses may increase their stocks ahead of Brexit Day of 31 October as they did before 29 March – and this could spill over into 2019Q4.

Other sources of information are the much-followed Markit/CIPS surveys, which suggested manufacturing and construction continued to contract in July, whilst services growth picked up modestly.[15-17] Markit concluded that "…the latest PMI numbers are indicative of the economy stagnating at the start of the third quarter." Given the prospects for retail sales, Markit's conclusion may be too pessimistic for the whole quarter and we would expect a small increase, as NIESR (above).

Other recent statistical releases

The GDP figures for 2019Q2, understandably, were the main statistical event over the past fortnight. But there were other data to note (see economic data tracker, annex table 2) including the monthly GDP figure for June. This showed zero (MOM) growth after a rise of 0.2% (revised down, MOM) in May.[18] Services output was flat, whilst production contracted by 0.1% and construction contracted by 0.7%.

The trade data were released for 2019Q2.[19] The total trade (goods & services) deficit narrowed by £16.0bn to £4.3bn in 2019Q2, largely due to falling imports of goods. Within the total:

- The goods deficit fell by £16.6bn (QOQ) to £30.4bn in 2019Q2. Imports of goods fell 13.0% (QOQ), following sharp rises in 2019Q1, ahead of the original Brexit day (29 March), as discussed above. Export of goods slipped 1.5% (QOQ). Excluding the erratic unspecified goods (including non-monetary gold (NMG), see above), the total trade deficit narrowed by £6.2bn to £4.0bn in 2019Q2, as imports from EU countries fell following sharp rises in 2019Q1. This gives a more accurate assessment of the underlying state of the trade position than the raw data.
- The services surplus fell modestly (by £0.6bn) to £26.2bn. The services surplus covered over 85% of the goods deficit.

The labour market remains robust…

Employment rose by 115,000 (QOQ) in 2019Q2 to 32.81mn, a record high, and was 425,000 higher than a year earlier (seasonally adjusted).[20] People working full-time increased by 262,000 (YOY), to reach 24.11mn, whilst part-time working rose by 162,000 (YOY) to reach 8.70mn. The employment rate (the proportion of people aged from 16 to 64 who were in work) was 76.1%, the joint-highest on record since comparable records began in 1971. The employment rates for men and women were 80.1% and 72.1% respectively. The recent increase in the employment rate for women is partly due to ongoing changes to the State Pension age for women resulting in fewer women retiring between the ages of 60 and 65.

Unemployment, however, inched up 33,000 (QOQ) in 2019Q2 (to 1.33mn) and the unemployment rate (the proportion of the labour force that were unemployed) inched up to 3.9%, but was still lower than the 4.0% recorded a year earlier. It has not been lower since December-February 1975. The inactivity rate (the proportion of people aged 16-64 who were economically inactive) was 20.7%, a joint-record low.

Job vacancies remain strong, though they have eased since the beginning of 2019. There were 820,000 job vacancies in the three months to July 2019 (sic), still at near-record levels since comparable records began in 2001. The total was down 20,000 (QOQ) and down 20,000 (YOY).

All in all, this report suggests the labour market remains robust, though the unemployment rate has picked up a tad and the number of vacancies is easing, though still very high.

…whilst the number of EU nationals in employment remains high

Turning to the breakdown by nationality of the annual (YOY) increase in employment of 430,000 (non-seasonally adjusted) in 2019Q2:[21]

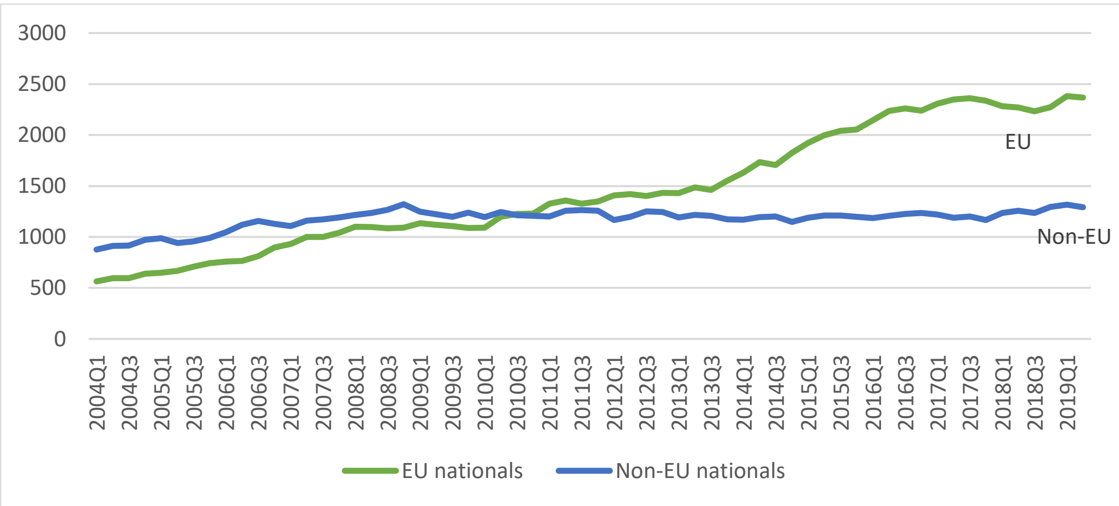
- The number of EU nationals rose by 99,000 YOY (23.0% of the total), to 2.37mn (see table 2), which was near record levels, despite the intention of the UK to leave the EU and the weaker pound. As can be seen from chart 6, the number of EU nationals fell between 2017Q3 and 2018Q3, but this was reversed in 2018Q4 and 2019Q1, though there was a marginal fall in 2019Q2.
- The number on non-EU nationals increased 34,000 YOY (7.9% of the total) to 1.29mn (see table 2).
- The number of UK nationals increased by 298,000 YOY (69.3% of the total) to 29.08mn.

Table 2 also contains employment by country of birth, as well as employment by nationality (for non-UK nationals). There were 5.78mn people born abroad working in the UK in 2019Q2, which was over 2 million higher than the number of non-UK nationals (3.66mn). This arises because the estimates for people born abroad include over 2 million UK nationals born abroad – overwhelmingly from non-EU countries.

Table 2 Non-UK nationals, people born outside the UK, in employment in the UK, recent data, millions

	2018Q2, 2019Q2			**2019Q1, 2019Q2**		
	2018Q2	**2019Q2**	**2019Q2-2018Q2 (YOY change)**	**2019Q1**	**2019Q2**	**2019Q2-2019Q1 (QOQ change)**
Non-UK nationals (ONS figure 1):						
EU	2.27	2.37	0.10	2.38	2.37	-0.01
Non-EU	1.26	1.29	0.03	1.32	1.29	-0.03
Total	3.53	3.66	0.13	3.70	3.66	-0.04
People born outside UK (ONS figure 2):						
EU	2.35	2.44	0.09	2.42	2.44	0.02
Non-EU	3.25	3.34	0.09	3.38	3.34	-0.04
Total	5.60	5.78	0.18	5.80	5.78	-0.02
People born outside the UK minus non-UK nationals:						
EU	+0.08	+0.07	…	+0.04	+0.07	…
Non-EU	+1.99	+2.05	…	+2.06	+2.05	…
Total	+2.07	+2.12	…	+2.10	+2.12	…

Chart 6 Non-UK nationals working in the UK, thousands, 2004Q1-2019Q2



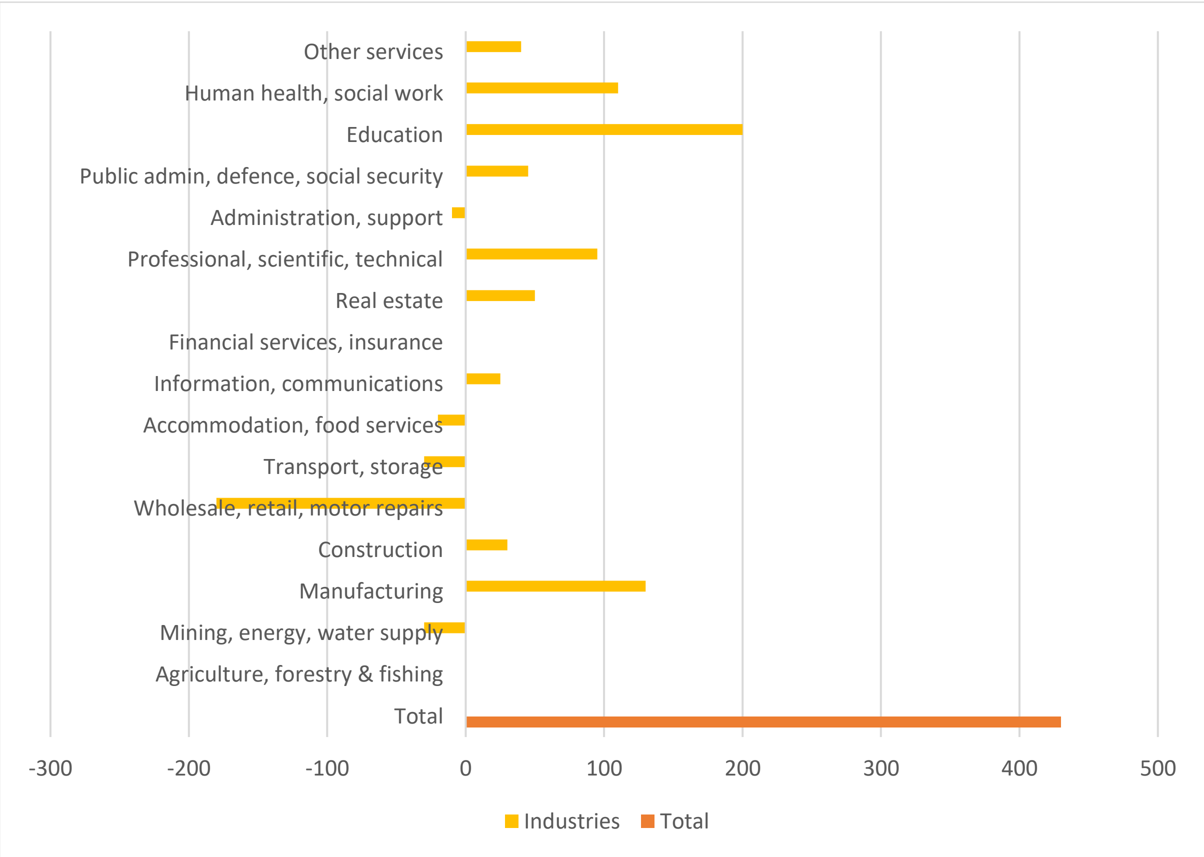
Source: *ONS*, "UK & non-UK people in the labour market: August 2019", 13 August 2019, figures 1 & 2. LFS data, not seasonally adjusted.

Employment growth by industry: a mixed bag

The ONS provides the industrial breakdown for both employment and vacancies on a non-seasonally adjusted basis.[22] The data comparing 2018Q2 with 2019Q2 are shown in annex table 3. The vacancies data have changed little over the year and will not be discussed further. The employment changes (YOY), however, show marked changes, as shown in chart 7.

Over the last year, the biggest "losers" have been the "wholesale, retail and motor repairs" industry, doubtless reflecting the difficulties in the retail sector (retail is not identified separately). There have also been employment losses in mining et al, transport et al and accommodation et al. But there have been significant employment increases in education, human health et al, "other" services (including arts and recreation), public administration et al, professional services et al, information and communication, construction and, perhaps surprisingly given the poor growth record of the sector over the last year, manufacturing.

Chart 7 Employment changes 2018Q2-2019Q2, thousands, industrial breakdown, non-seasonally adjusted data



Source: *ONS*, "Vacancies and jobs in the UK: August 2019", 13 August 2019.
Note: total employment includes those working outside UK & those who did not state an industry and is, therefore, greater than the sum of the individual industries.

Average earnings are rising…

Underlying earnings growth has picked up since mid-2017 and this continued in 2019Q2. In 2019Q2 average weekly earnings for employees (GB) in nominal terms increased by 3.7% for total pay (including bonuses, YOY) and by 3.9% for regular pay (excluding bonuses, YOY).[23] These were the highest YOY increases since 2008Q2. The ONS noted that "…two contributing factors were introduced in April that had a greater potential impact this reporting period: pay increases for some NHS staff, which affect public sector pay growth, and the introduction of the new National Living Wage rate (4.9% higher than the 2018 rate) and National Minimum Wage rates, which will impact the lowest-paid workers in sectors such as wholesaling, retailing, hotels and restaurants."

Adjusting for prices inflation, the ONS said the latest estimates show that earnings in real terms increased by 1.8% (YOY, including bonuses) and by 1.9% (YOY, excluding bonuses). These strong increases in real earnings, coupled with high employment, should support household spending going forward.

…but productivity remains weak

There is little doubt that the productivity performance remains disappointing, but the data have to be treated with caution as they are derived statistics and are, to some extent, the other side of the coin of the very robust labour market performance. The ONS's flash estimate of <u>output per hour</u> (their main measure of labour productivity, "productivity hours") slipped 0.2% (QOQ) in 2019Q2, and was 0.6% lower (YOY). The YOY fall reflected a robust 1.8% rise in total hours worked more than offsetting the 1.2% rise in gross value added (GVA).[24]

<u>Output per worker</u> also fell in 2019Q2, by 0.5% (QOQ), but was just 0.1% down YOY. The YOY slippage reflected total employment growing faster than GVA, at 1.3% and 1.2% respectively. The growth in employment was driven by both the numbers of employees and self-employed, which grew by 0.8% and 3.9% respectively.

Inflationary pressures seem contained...

The CPIH inflation rate increased to 2.0% in July, compared with 1.9% in June.[25] The ONS said "…there were large upward contributions to the change in the CPIH 12-month rate from games, toys and hobbies, accommodation services, clothing and footwear, and other financial services. There were offsetting downward contributions from transport services and, to a lesser extent, from domestic fuels principally electricity and gas." The inflation rates for goods and services in July were 1.7% (1.5% in June) and 2.2% (unchanged) respectively. The core rate inflation (excluding energy, food, alcoholic beverages and tobacco) increased to 1.9% (1.7% in June). The Consumer Prices Index (CPI) 12-month rate rose to 2.1%, marginally above the Bank's 2% target, compared with June's 2.0%.

Turning to the producer price index (PPI), the inflation rate for the output PPI (goods leaving the factory gate) was 1.8% (YOY) in July (up from June's 1.6%), whilst the inflation rate for the input PPI (materials and fuels used in the manufacturing process) rose to 1.3% (YOY) in July, compared with 0.3% in June.[26] The ONS commented that fuels had provided the largest upward contribution to the annual rate of input inflation.

All in all, these reports suggest that prices inflation is fairly well contained, even though there were modest increases.

…whilst house prices inflation remains subdued

According to official data, UK average house prices inflation was 0.9% in the year to June 2019, unchanged from May's revised data.[27] The ONS commented "…over the past three years, there has been a general slowdown in UK house price growth, driven mainly by a slowdown in the south and east of England. The lowest annual growth was in London, where prices fell by 2.7% (YOY), less than the 3.1% fall in May 2019. Average house prices in London have now been falling over the year each month since March 2018". Prices rose only 0.1% (MOM, seasonally adjusted), in June.

The forthcoming Spending Round

The Chancellor announced on 8 August 2019 there would be a "fast-tracked one-year Spending Round".[28] The Spending Round, due to be completed in September, will support "the commitments made by the Prime Minister…including the recruitment of 20,000 extra police officers and his ambition for additional funding for schools, as well as delivering the government's promises on the NHS". The Government remains committed "to keeping borrowing under control and debt falling by meeting the existing fiscal rules".

This one-year Spending Round will fund departments' FY2020 activities. (Departmental day-to-day spending is financed through Resource budgets, whilst capital budgets, used for long term projects such as infrastructure, are already in place for FY2020.) A full Spending Review will be held in 2020, which will review "public spending in the round and setting multi-year budgets". There remains speculation that there may be an emergency "no deal" Budget in early-October, ahead of an early General Election.[29]

References

1. *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019.
2. Ruth Lea, "The slowing global economy: the Central Banks respond", *Arbuthnot Banking Group*, 5 August 2019, discussed the Bank's GDP estimate.
3. Ruth Lea, "The UK economy in a global context: an important second tier economy", *Arbuthnot Banking Group,* 8 July 2019, discussed Markit's June surveys.
4. Ruth Lea, "The past four UK recessions compared, and no recession expected on Brexit", *Arbuthnot Banking Group*, 10 September 2018.
5. Ruth Lea, "The slowing global economy: the Central Banks respond", *Arbuthnot Banking Group*, 5 August 2019, discussed the UK preparations by the Johnson Government.
6. *House of Commons Library*, "EU preparations for a no-deal Brexit", 30 May 2019.
7. *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019.
8. *ONS*, "GDP first quarterly estimate, UK: 2019Q2", 9 August 2019. The ONS explained that alignment adjustments have a target limit of plus or minus £2bn on any quarter. In periods where the data sources are particularly difficult to balance, larger alignment adjustments are sometimes needed. To achieve a balanced GDP dataset through alignment, balancing adjustments are applied to the components of GDP where required. There is a balancing adjustment on inventories for 2019Q2.
9. *ONS*, "Index of services, UK: June 2019", 9 August 2019.
10. *ONS*, "Index of production, UK: June 2019", 9 August 2019.
11. *ONS*, "Construction, GB: June 2019", 9 August 2019.
12. Ruth Lea, "The British economy: no "triple dip" but no breakthrough either", *Arbuthnot Banking Group*, 7 May 2013.
13. *NIESR*, "Monthly GDP tracker – Economic growth grinds to a halt", 9 August 2019.
14. *ONS*, "Retail sales, GB: July 2019", 15 August 2019. In June 2019, online retailing rose to 19.9% of total retailing in July, compared with 18.9% in June.
15. *Markit/CIPS, manufacturing PMI*, "UK manufacturing PMI remains stuck at six-and-a-half year low", 1 August 2019. The PMI was 48.0 in July, below the 50.0 no-change threshold, and unchanged from June.
16. *Markit/CIPS, construction PMI*, "UK construction output declines again in July", 2 August 2019. The PMI improved to 45.3, still below the 50.0 no-change threshold, compared with June's 43.1.
17. *Markit/CIPS, services PMI*, "Business activity growth edges up to a nine-month high", 5 August 2019. The PMI picked up to 51.4 in July, above the 50.0 no-change threshold, compared with June's 50.2.
18. *ONS*, "GDP monthly estimate, UK: June 2019", 9 August 2019.
19. *ONS*, "UK trade: June 2019", 9 August 2019.
20. *ONS*, "Labour market overview, UK: August 2019", 13 August 2019 and accompanying releases.
21. *ONS*, "UK & non-UK people in the labour market: August 2019", 13 August 2019.
22. *ONS*, "Vacancies and jobs in the UK: August 2019", 13 August 2019.
23. *ONS*, "Labour market overview, UK: August 2019", 13 August 2019 and accompanying releases.
24. *ONS*, "UK productivity, flash estimate, 2019Q2", 13 August 2019.
25. *ONS*, "Consumer price inflation, UK: July 2019", 14 August 2019. The CPIH is the Consumer Prices Index including owner-occupiers' housing costs and is the ONS's preferred measure of consumer prices inflation.
26. *ONS*, "Producer price inflation, UK: July 2019", 14 August 2019.

27. *ONS*, “UK house prices index: June 2019”, 14 August 2019. The UK’s four countries continued to show different inflation rates in June: England (+0.7% YOY), Wales (+4.4% YOY), Scotland (+1.3% YOY) and Northern Ireland (+3.5% (2019Q2, YOY)). In England, there was, as always, a significant range across the regions: East Midlands (3.2%), West Midlands (2.6%), North West (2.4%), North East (1.8%), Yorkshire & Humberside (0.9%), East (0.7%), South West (-0.2%), South East (-0.6%), and London (-2.7%).
28. *HM Treasury*, “Chancellor fast-tracks Spending Round to free up departments to prepare for Brexit”, 8 August 2019.
29. *Daily Mail*, “Sajid Javid sparks speculation a general election announcement is imminent by fast-tracking spending review for public services”, 9 August 2019.

Annex

Table 1 The last four recessions

	Pre-recession peak	**Trough**	**Pre-recession peak attained**		**GDP fall pre-recession peak to trough**
			Quarter	**Quarters from start of recession**	
Mid-1970s recession	1973Q2	1975Q3	1976Q4 (though note 1977Q2 (Q16) “double dip”)	14 (3½ years)	193.5/204.4=fall of 5.3%
Early-1980s recession	1979Q2	1981Q1	1983Q1	15 (3¾ years)	214.6/226.7=fall of 5.3%
Early-1990s recession	1990Q2	1991Q3	1993Q1	11 (2 ¾ years)	287.1/292.9=fall of 2.0%
Great Recession	2008Q1	2009Q2	2013Q2	21 (5¼ years)	428.1/456.7=fall of 6.3%

Source: Ruth Lea, “The past four UK recessions compared, and no recession expected on Brexit”, *Arbuthnot Banking Group*, 10 September 2018. GDP data in 2016 prices (£bn).

Table 2 UK economic data tracker

Date	**Release**	**Source**	**Quarter, year**	**Outcome**
28 Jun	Current Account, Balance of Payments (2019Q1):	ONS	2019Q1	Deficit: £30.0bn (5.6% of GDP), £23.7bn (4.4% of GDP, 2018Q4)
28 Jun	Trade (goods & services) balance:	ONS	2019Q1	Deficit: £20.3bn (2019Q1), £9.4bn (2018Q4)
28 Jun	• Visible trade balance	ONS	2019Q1	Deficit: £47.0bn (2019Q1), 36.9bn (2018Q4)

28 Jun	• Services balance	ONS	2019Q1	Surplus: £26.8bn (2019Q1), £27.5bn (2018Q4)
28 Jun	Primary income balance	ONS	2019Q1	Deficit: £3.2bn (2019Q1), £8.4bn (2018Q4)
28 Jun	Secondary income balance	ONS	2019Q1	Deficit: £6.6bn (2019Q1), £5.9bn (2018Q4)
19 Jul	Public Sector Net Borrowing (PSNB) (Jun)	ONS	2019Q2	£7.2bn deficit (Jun 2019), compared with £3.3bn deficit (Jun 2018).
19 Jul	Public Sector Net Borrowing (PSNB) (FY2019, year-to-date)	ONS	FY2019	£17.9bn deficit (Apr-Jun 2019), compared with £13.5bn deficit (Apr-Jun 2018).
19 Jul	Public sector finances, public sector net debt (PSND) (end-Jun)	ONS	2019Q2	£1,818.1bn (end-Jun 2019, 83.1% of GDP), compared with £1,791.1bn (end-Jun 2018, 84.6% of GDP)
29 Jul	Unsecured credit (Jun)	BoE	2019Q2	Growth rate (YOY): 5.5% (Jun), 5.7% (May)
29 Jul	Secured on dwellings (Jun)	BoE	2019Q2	Growth rate (YOY): 3.1% (Jun), 3.2% (May)
29 Jul	Mortgage approvals for house purchase (Jun)	BoE	2019Q2	66,400 (Jun), 65,647 (May), compared with 65,247 (average of previous 6 months)
29 Jul	Net bank lending to non-financial businesses (Jun), of which:	BoE	2019Q2	Growth rate (YOY): 4.4% (Jun), 4.2% (May)
29 Jul	• Large businesses	BoE	2019Q2	Growth rate (YOY): (6.4% Jun), 6.3% (May)
29 Jul	• SMEs	BoE	2019Q2	Growth rate (YOY): 0.8% (Jun), 0.5% (May)
1 Aug	Manufacturing PMI (Jul)	Markit-CIPS	2019Q3	Index: 48.0 (Jul), 48.0 (Jun)
2 Aug	Construction PMI (Jul)	Markit-CIPS	2019Q3	Index: 45.3 (Jul), 43.1 (Jun)
5 Aug	Services PMI (Jul)	Markit-CIPS	2019Q3	Index: 51.4 (Jul), 50.2 (Jun)
9 Aug	GDP, monthly (Jun)	ONS	2019Q2	GDP (Jun): flat (MOM), 1.0% (YOY)
9 Aug	GDP: industrial breakdown (Jun)	ONS	2019Q2	Production: -0.1% (MOM); Manufacturing output: -0.2% (MOM); Construction: -0.7% (MOM); Services: flat (MOM)
9 Aug	GDP, quarterly, 2019Q2	ONS	2019Q2	GDP: -0.2% (QOQ), 1.2% (YOY)
9 Aug	GDP: industrial breakdown (2019Q2)	ONS	2019Q2	Production: -1.4% (QOQ); Manufacturing output: -2.3% (QOQ); Construction: -1.3% (QOQ); Services: 0.1% (QOQ)
9 Aug	GDP: expenditure breakdown (2019Q2)	ONS	2019Q2	Household consumption: 0.5% (QOQ); GGFC: 0.7% (QOQ); GFCF: -1.0% (QOQ), within which business investment -0.5% (QOQ). Inventories: -£4.0bn (2019Q2),

				+£5.7bn (2019Q1). Net contribution of net trade (KP): +£17.2bn; exports -£5.1bn (QOQ), imports -£22.2bn (QOQ)
9 Aug	UK trade in goods & services (2019Q2)	ONS	2019Q2	Trade deficit: narrowed by £16.0bn (QOQ) to £4.3bn.
9 Aug	UK trade in goods (2019Q2)	ONS	2019Q2	Goods deficit: narrowed by £16.6bn (QOQ) to £30.4bn.
9 Aug	UK trade in services (2019Q2)	ONS	2019Q2	Services surplus: fell £0.6bn to £26.2bn.
9 Aug	NIESR GDP tracker	NIESR	2019Q2	GDP change: -0.2% (QOQ) in 2019Q2, +0.2% (QOQ) in 2019Q3.
13 Aug	Employment (3 months to Jun)	ONS	2019Q2	+115k (QOQ), +425k (YOY)
13 Aug	Unemployment (3 months to Jun)	ONS	2019Q2	+31k (QOQ), -33k (YOY)
13 Aug	Unemployment rate (3 months to Jun)	ONS	2019Q2	3.9%; 4.0% (3 months to Jun, 2018)
13 Aug	Vacancies (3 months to Jul)	ONS	2019Q3	Total vacancies: 820k, -20k (QOQ), -20k (YOY)
13 Aug	Earnings (3 months to Jun), nominal	ONS	2019Q2	3.7% (YOY, total pay, including bonuses), 3.9% (YOY, regular pay, excluding bonuses)
13 Aug	Earnings (3 months to Jun), real	ONS	2019Q2	1.8% (YOY, total pay, including bonuses), 1.9% (YOY, regular pay, excluding bonuses)
13 Aug	Productivity (output per hour) (2019Q2), flash estimate	ONS	2019Q2	-0.2% (QOQ), -0.6% (YOY)
13 Aug	Productivity (output per worker) (2019Q2), flash estimate	ONS	2019Q2	-0.5% (QOQ), -0.1% (YOY)
14 Aug	CPIH (Jul)	ONS	2019Q3	YOY inflation: 1.9% (Jun), 1.9% (May)
14 Aug	CPI (Jul)	ONS	2019Q3	YOY inflation: 2.0% (Jun), 2.0% (May)
14 Aug	PPI (output) (Jul)	ONS	2019Q3	YOY inflation: 1.6% (Jun), 1.9% (May)
14 Aug	PPI (input) (Jul)	ONS	2019Q3	YOY inflation: -0.3% (Jun), 1.4% (May)
14 Aug	Crude oil prices (Jul)	ONS	2019Q3	-10.7 (MOM), -11.6% (YOY)
14 Aug	Sterling effective exchange rate index (ERI) (Jul)	ONS	2019Q3	-1.4 (MOM), -2.6% (YOY)
14 Aug	House prices (Jun, official)	ONS	2019Q2	YOY growth: 0.9% (Jun), 0.9% (May)
14 Aug	House prices (Jun, official)	ONS	2019Q2	+0.7% (MOM, non-seasonally adjusted), +0.1% (MOM, seasonally adjusted)
15 Aug	Retail sales (Jul)	ONS	2019Q3	Volume: +0.2% (MOM), 3.3% (YOY)
15 Aug	Retail sales (3 months to Jul)	ONS	2019Q3	Volume: 0.5% (QOQ), 3.2% (YOY)

Table 3 Employment and vacancies, by industry, not seasonally adjusted

	Employment (thousands)		Vacancies	
	2019Q2	**Change (YOY)**	**2019Q2**	**Change (YOY)**
Total	32,750, see note	+430	820	-20
Agriculture, forestry, fishing	350	0	…	…
Mining, energy, water supply	555	-30	10	0
Manufacturing	3,020	130	55	-5
Construction	2,360	30	25	0
Wholesale, retail, repair of motor vehicles	4,045	-180	130	0
Transport, storage	1,595	-30	40	0
Accommodation, food services	1,770	-20	90	0
Information, communication	1,340	25	45	-5
Financial services, insurance	1,280	0	30	-5
Real estate activities	400	50	10	0
Professional, scientific, technical services	2,520	95	80	5
Administration, support	1,560	-10	50	-10
Public administration, defence, social security	2,100	45	20	0
Education	3,425	200	50	0
Human health, social work	4,335	110	140	5
Other services, including arts & recreation	1,900	40	40	-5

Source: *ONS*, "Vacancies and jobs in the UK: August 2019", 13 August 2019.
Note total employment includes those working outside UK & those who did not state an industry and is, therefore, greater than the sum of the individual industries.
There are rounding errors.