

UK GDP Growth up 0.5% in Q1 but worries remain

The first National Statistics estimate of UK GDP growth shows the economy up 0.5% in Q1 on the back of weather related contraction in Q4 2010. A 0.9% increase in services output – representing some two-thirds of GDP- is the biggest contributor to growth.

Overall the state of the economy remains weak with only manufacturing showing consistent quarter-on-quarter growth.

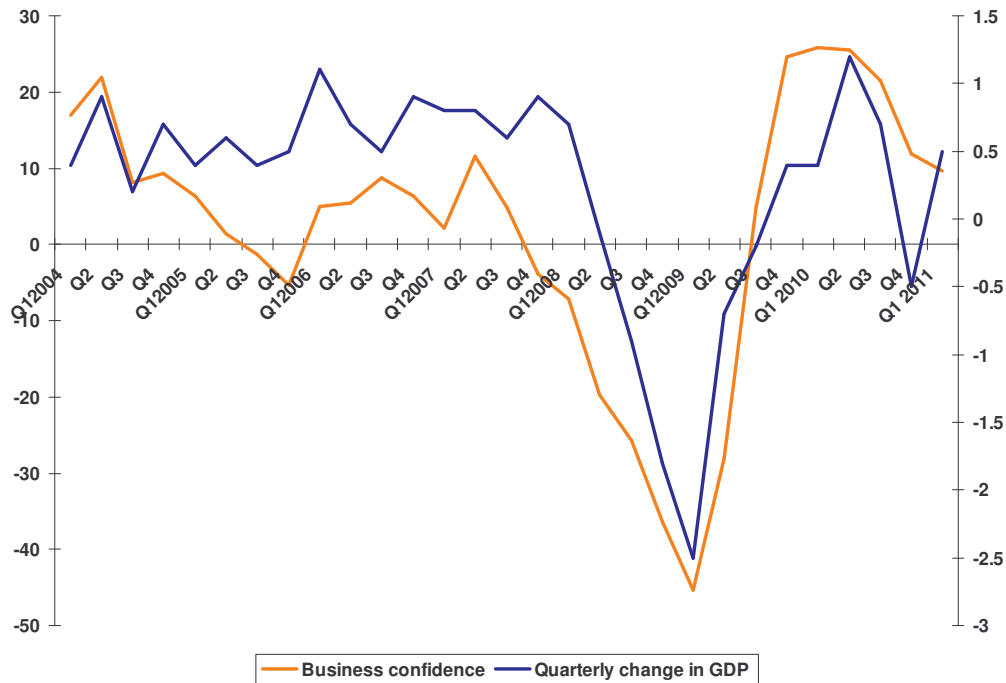
With consumer confidence at recession levels (and expected to stay at same in the coming months) and business confidence down on a year ago, the forecast for GDP growth remains decidedly dull and gloomy in Q2.

Business optimism will help to improve conditions but only if new jobs are created.

Last year the ICAEW Business Confidence Index reached a record high in its 6-year history but has fallen back sharply. The optimism gap has narrowed between the more and less optimistic respondents.

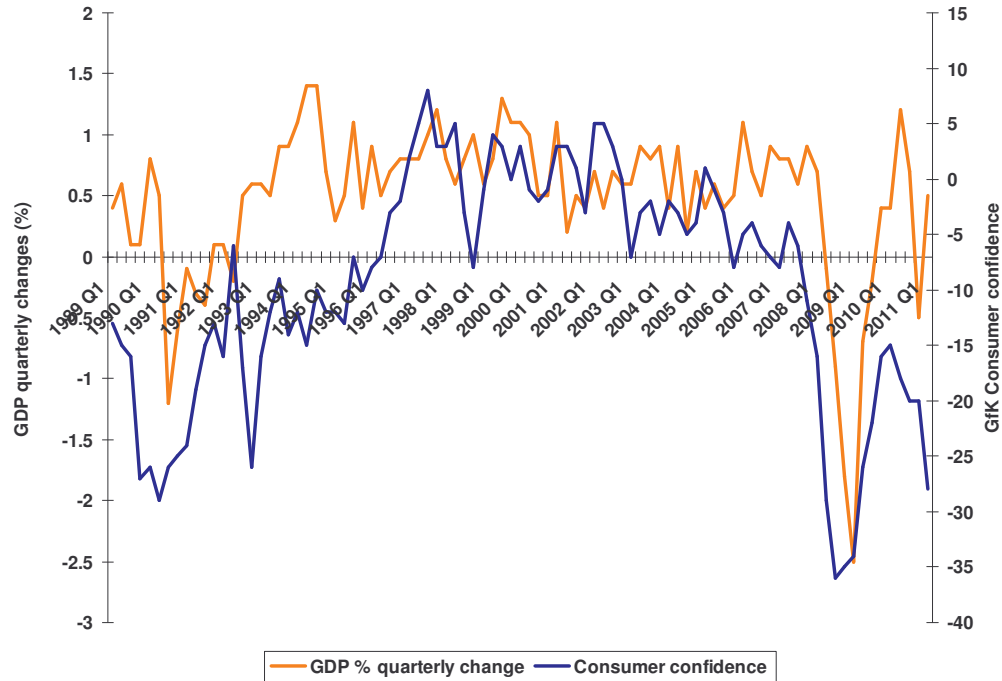
Compared to consumer confidence in recent quarters it is far more correlated with GDP growth.

Chart 1: Business confidence and GDP growth, Q1 2004-Q1 2011



Source: National Statistics / ICAEW / JGFR

Chart 2: UK Consumer Confidence and GDP Growth, Q1 1989 – Q1 2011



Source: National Statistics / GfK NOP / European Commission / JGFR

The pattern emerging in Figure 2 suggests that a repeat of 1993-1997 may be underway when consumer confidence collapsed and remained weak but GDP rose as the economy rebalanced towards manufacturing and export led growth.

Tomorrow's consumer confidence data will reveal whether the warm spring weather and a Royal Wedding to celebrate will cheer up the nation and lift the prevailing mood of austerity.

To discuss our consumer research data series contact John Gilbert on 0208 944 7510 / 07740 027968 or email j.gilbert@jgfr.co.uk