Compendium

National accounts at a glance

A summary of recent trends and movements within the UK economy.

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1 . Introduction

This section of the UK National Accounts, The Blue Book: 2020 edition provides an examination of recent trends for a range of information contained in a number of the subsequent Blue Book chapters. All UK data referred to in this section are consistent with Blue Book 2020.

2 . Gross domestic product and the headline economy

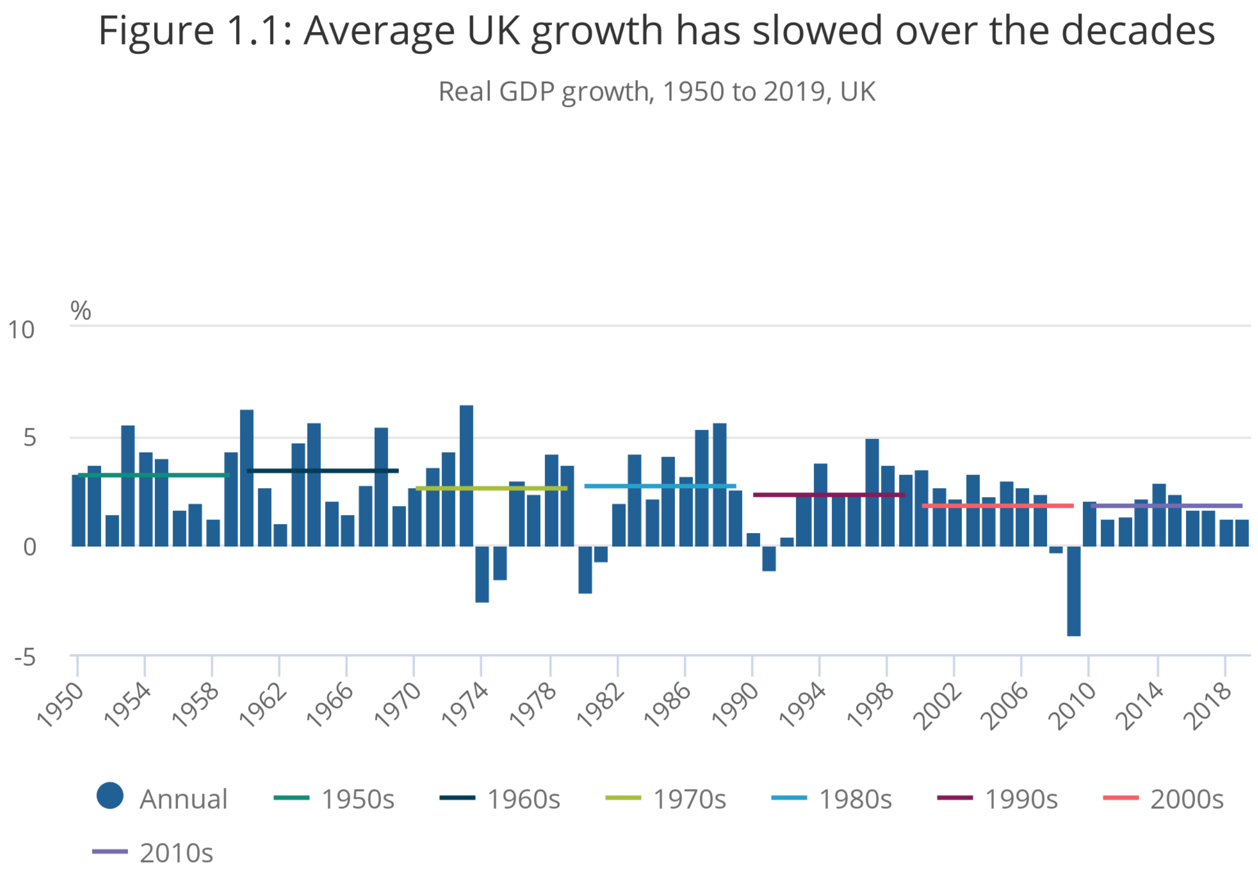
This section provides information on the headline economy, including the latest estimates of UK gross domestic product (GDP), which records how much output was produced in any given year.

The UK economy increased by 1.3% in 2019 in volume terms, the same rate as in the previous year. There has been a slowing of late as 2018 and 2019 are the weakest rates of annual GDP growth in the UK since 2011. In nominal terms, GDP grew 3.4% in 2019, a slight easing from 3.5% in the previous year.

Figure 1.1 shows how the UK economy has evolved over time by looking at annual GDP growth in the UK between 1950 and 2019. The UK’s average 10-year growth rate has slowed over the past several decades. In the 1950 to 1959 decade, the average growth rate was 3.2%. In the latest decade from 2010 to 2019, this growth rate had nearly halved to 1.8%. This slowing can also be seen within the latest decade. The average growth rate in the first half of the 2010s was 2.0%, slowing to 1.7% in the second half of the 2010s. Over the last five years, UK GDP growth slowed from 2.4% in 2015 to 1.3% in 2019.

Figure 1.1: Average UK growth has slowed over the decades

Real GDP growth, 1950 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Notes:

1. Bars show annual UK growth rate whilst lines refer to the average annual growth rate for that decade.

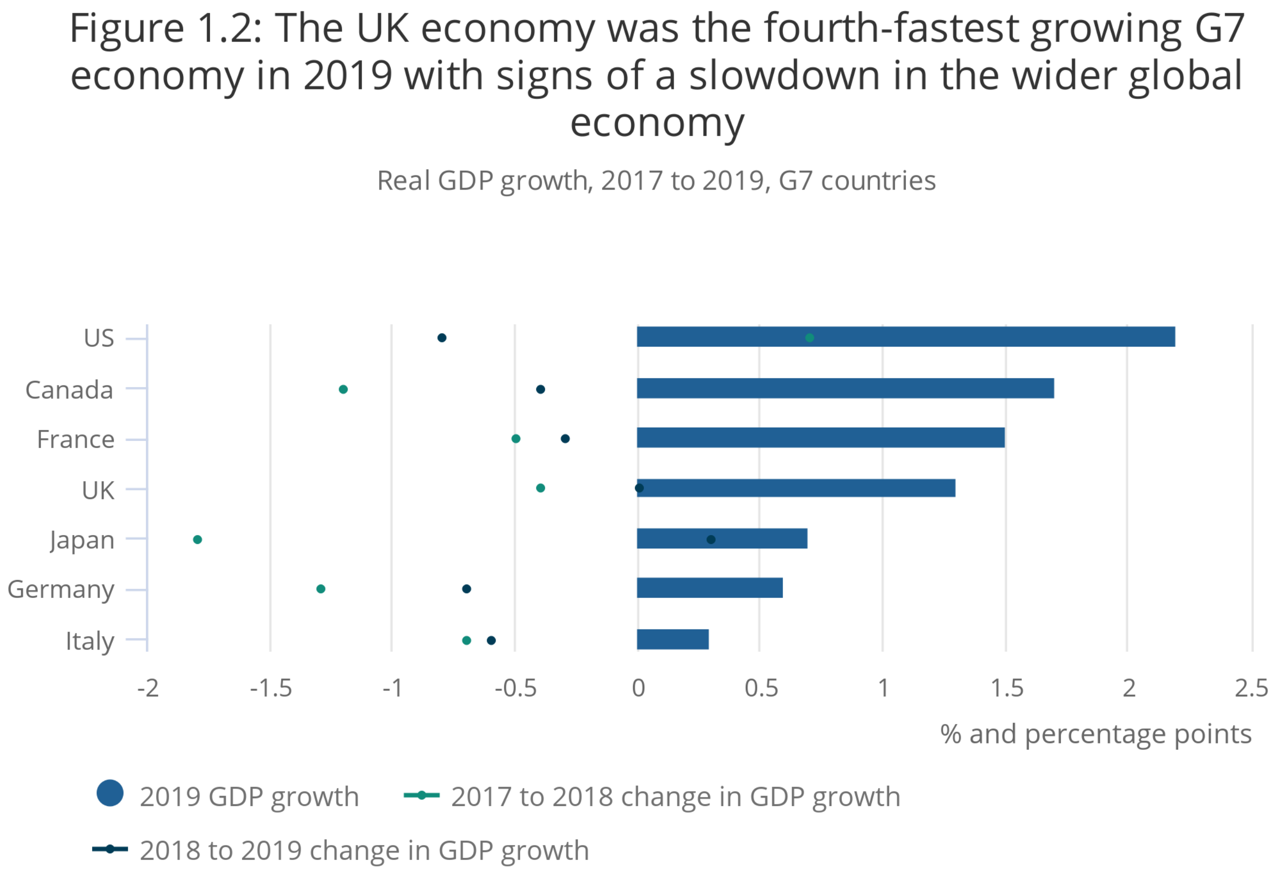
At the same time, there have been signs of a slowdown in the global economy in recent years. Figure 1.2 shows how the UK economy has fared compared with other G7 countries in the last few years.

In 2018, all G7 countries except the United States experienced a slowdown. A similar pattern was observed in 2019 – this time Japan was the exception, while the UK's rate of growth was unchanged compared with the previous year. In terms of relative performance, the UK economy was the fourth-fastest growing G7 economy in 2019 ahead of Japan, Germany and Italy.

This weakening in the global economy is partly attributable to rising global trade tensions, such as those between the United States and China. According to the International Monetary Fund (IMF) World Economic Outlook published in January 2020, "trade policy uncertainty, geopolitical tensions, and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity—especially manufacturing and trade—in the second half of 2019".

Figure 1.2: The UK economy was the fourth-fastest growing G7 economy in 2019 with signs of a slowdown in the wider global economy

Real GDP growth, 2017 to 2019, G7 countries



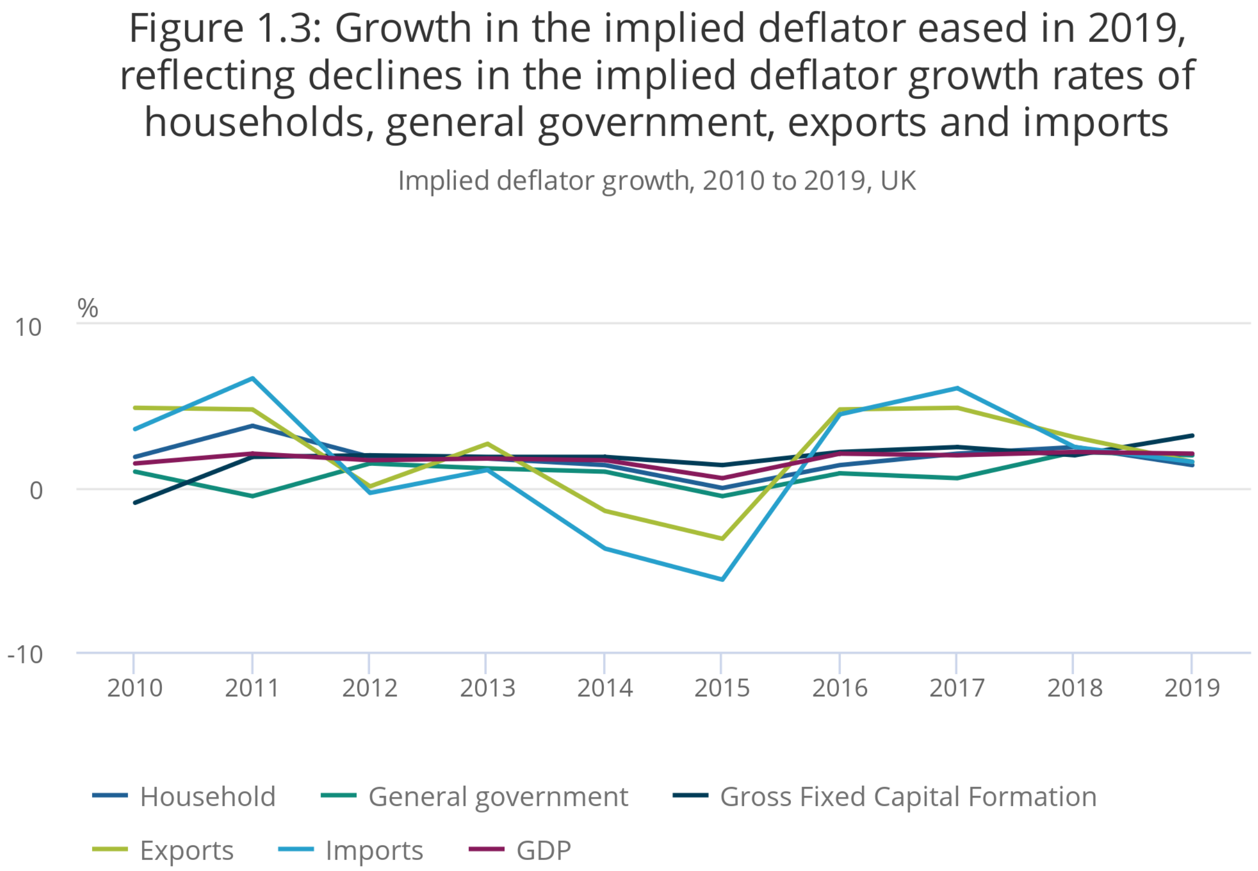
Source: Office for National Statistics – UK National Accounts

The implied GDP deflator represents the broadest measure of inflation in the domestic economy, reflecting changes in the price of all goods and services that comprise GDP. This includes the price movements in private and government consumption, investment and the relative price of exports and imports.

In 2019, the implied GDP deflator grew by 2.1%, a slight easing from the previous year though above the five-year average of 1.8%. Reflecting these price movements, nominal GDP growth in the UK economy was 3.4% in 2019, slightly below its five-year average annual growth rate of 3.5%. The easing in 2019 reflects a slowing in the growth of the implied deflators for households, general government, exports and imports (Figure 1.3).

Figure 1.3: Growth in the implied deflator eased in 2019, reflecting declines in the implied deflator growth rates of households, general government, exports and imports

Implied deflator growth, 2010 to 2019, UK



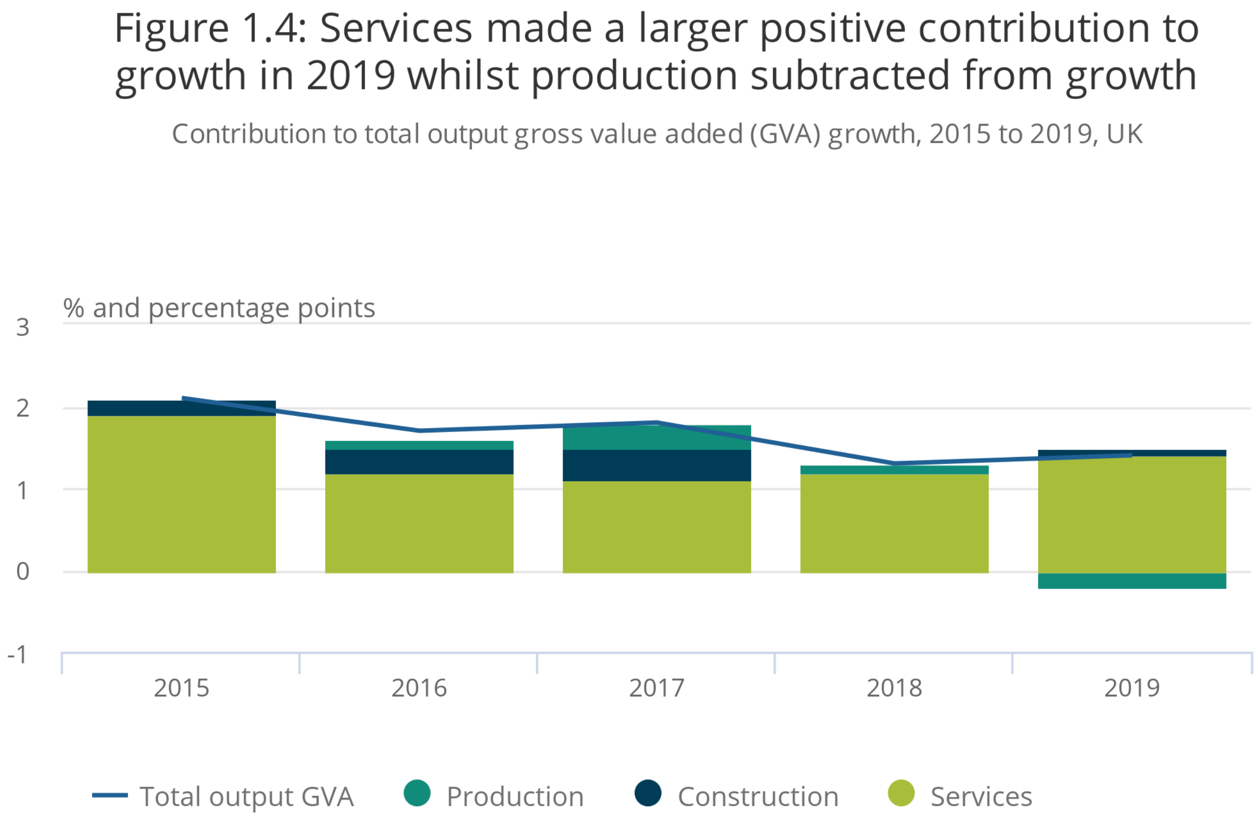
Source: Office for National Statistics – UK National Accounts

3 . Industrial analysis

Growth in total output gross value added (GVA) picked up slightly from 1.3% in 2018 to 1.4% in 2019, driven by stronger growth in services output (Figure 1.4). Meanwhile, there was a contraction in production output in 2019 whilst construction output grew by 1.8% following no growth in 2018.

Figure 1.4: Services made a larger positive contribution to growth in 2019 whilst production subtracted from growth

Contribution to total output gross value added (GVA) growth, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Notes:

1. Chart shows contribution to total output GVA growth.

2. Components contributions may not sum to total because of rounding.

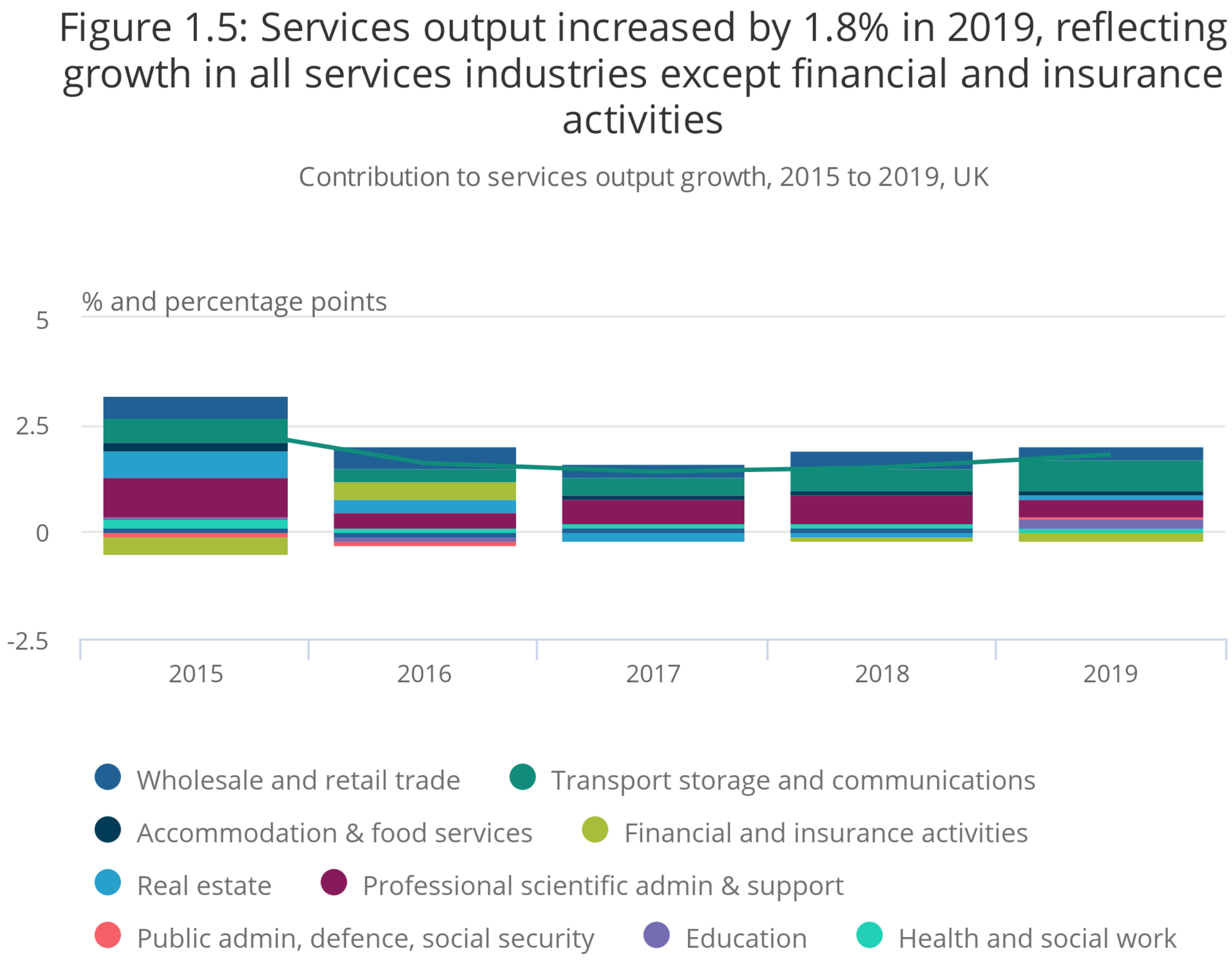
Looking back over the last five years, there has been a general slowing in services growth. Services output grew by 2.5% in 2015, slowing considerably to 1.6% in 2016 and hovering around this rate in subsequent years.

This slowdown was mainly driven by the real estate, and professional scientific admin and support industries. Whilst these two industries accounted for nearly 60% of services growth in 2015, by 2019 their contribution to services growth was less than a third. According to the Quarter 2 2016 Bank of England Agents' Summary of Business Conditions (PDF, 471KB), major business decisions were being delayed during the pre-referendum period, which was "reflected in a slowing of M&A {mergers and acquisitions}, IPO {initial public offerings}, and commercial real estate investment activity."

Following growth of 1.6% in 2018, services output increased by 1.8% in 2019, reflecting growth in all services industries except financial and insurance activities (Figure 1.5). Of note, the transport, storage and communications industry grew by 5.1% in 2019 whilst output in the wholesale and retail trade industry grew by 2.5%.

Figure 1.5: Services output increased by 1.8% in 2019, reflecting growth in all services industries except financial and insurance activities

Contribution to services output growth, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Between 2015 and 2017, there was a sharp rise in the rate of production growth, increasing from 0.3% in 2015 to 1.8% in 2017. This was primarily driven by manufacturing, which went from being a drag on growth in 2015 to making a large positive contribution to growth in 2017. By 2017, manufacturing growth was accounting for over 90% of growth in production. This partly reflected strength in manufacturing exports, which was supported by sterling's depreciation following the EU referendum in 2016 and stronger demand in important international markets.

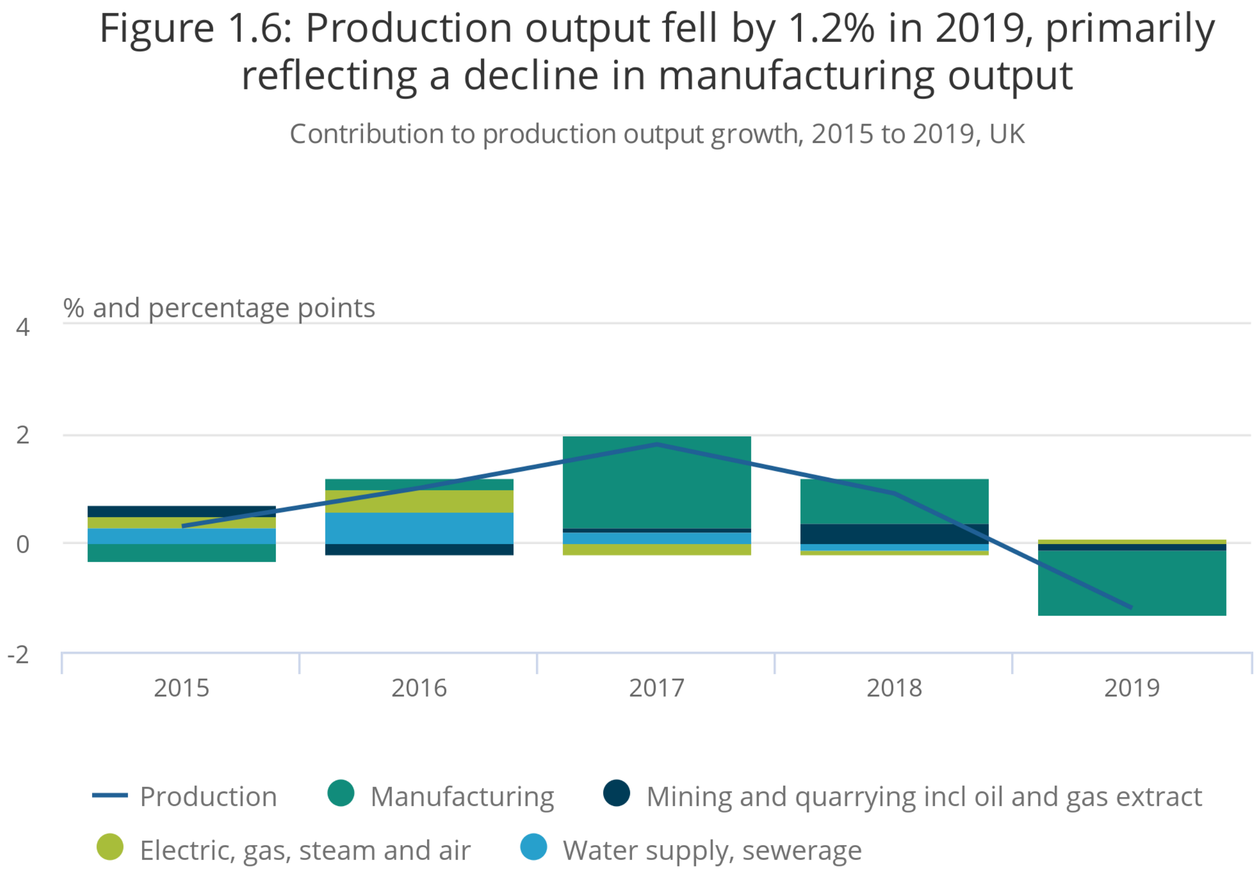
However, since then, there has been a reversal in the path of production growth. Between 2017 and 2018, the rate of growth in production output halved from 1.8% to 0.9%, largely reflecting a slowdown in manufacturing. According to the Quarter 4 2018 Bank of England Agents' Summary of Business Conditions, there was an easing in the growth of manufacturing exports, reflecting "a combination of a waning boost from sterling's 2016 depreciation and weaker demand for diesel cars, rail and marine goods, notably from Asia".

Production growth was volatile in the first half of 2019, mainly driven by manufacturing. This was consistent with activity being brought forward ahead of the UK's original intended EU departure date at the end of March, followed by a decline in activity in the second quarter exacerbated by partial car plant shutdowns in April. Similar impacts were seen in the manufacturing industry ahead of the second intended EU departure date in October, although to a lesser degree.

On an annual basis, production output fell by 1.2% in 2019, primarily driven by a contraction in manufacturing output (Figure 1.6). This decline may partially reflect relatively weaker global GDP growth, as global trade tensions weighed on economic activity. Meanwhile, mining and quarrying, and water supply and sewerage production also fell compared with 2018. Electricity, gas, steam and air conditioning was the only production sub-industry that grew in 2019, growing by 1.0% following two consecutive years of decline.

Figure 1.6: Production output fell by 1.2% in 2019, primarily reflecting a decline in manufacturing output

Contribution to production output growth, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Notes:

1. Chart shows contribution to annual production output growth.

2. Components contributions may not sum to total because of rounding.

Construction growth has also slowed in recent years. Growth in construction output was 3.8% in 2015, strengthening to 6.1% in 2017. However, construction output showed no growth in 2018, and whilst it did return to growth in 2019, the 1.8% growth rate was markedly lower than its five-year average growth rate of 3.2% between 2015 and 2019.

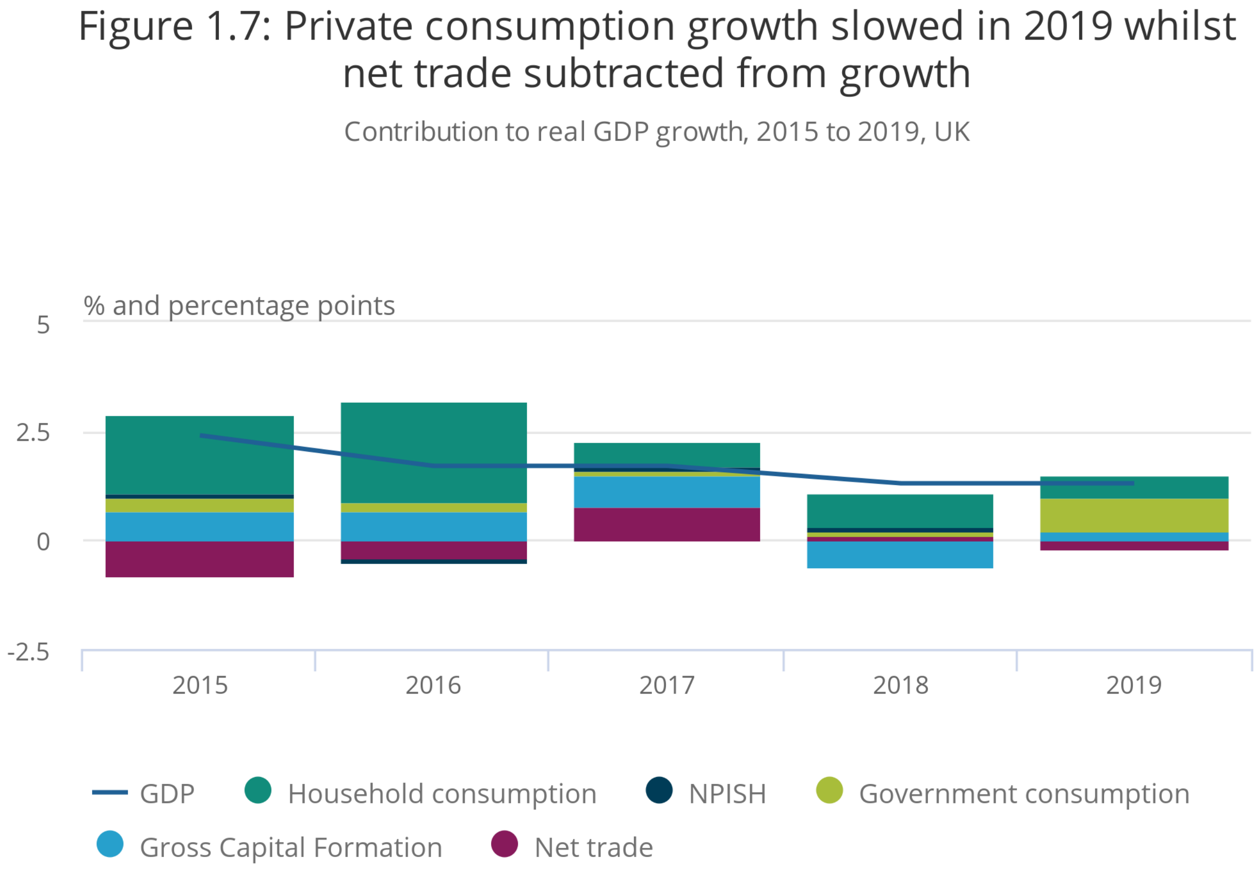
4 . Spending in the UK economy

Figure 1.7 shows how UK gross domestic product (GDP) has evolved over the last five years by looking at the contributions to real UK GDP growth by expenditure component.

Household consumption growth slowed from 1.3% in 2018 to 0.8% in 2019, representing the slowest rate of growth since 2012. Gross capital formation made a positive contribution to growth in 2019, a reversal from the previous year, while net trade went from making a positive contribution to growth in 2018 to being a drag on growth in 2019.

Figure 1.7: Private consumption growth slowed in 2019 whilst net trade subtracted from growth

Contribution to real GDP growth, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Notes:

1. Chart shows contribution to annual real GDP growth.
2. Components contributions may not sum to total because of rounding. The statistical discrepancy is also not displayed.

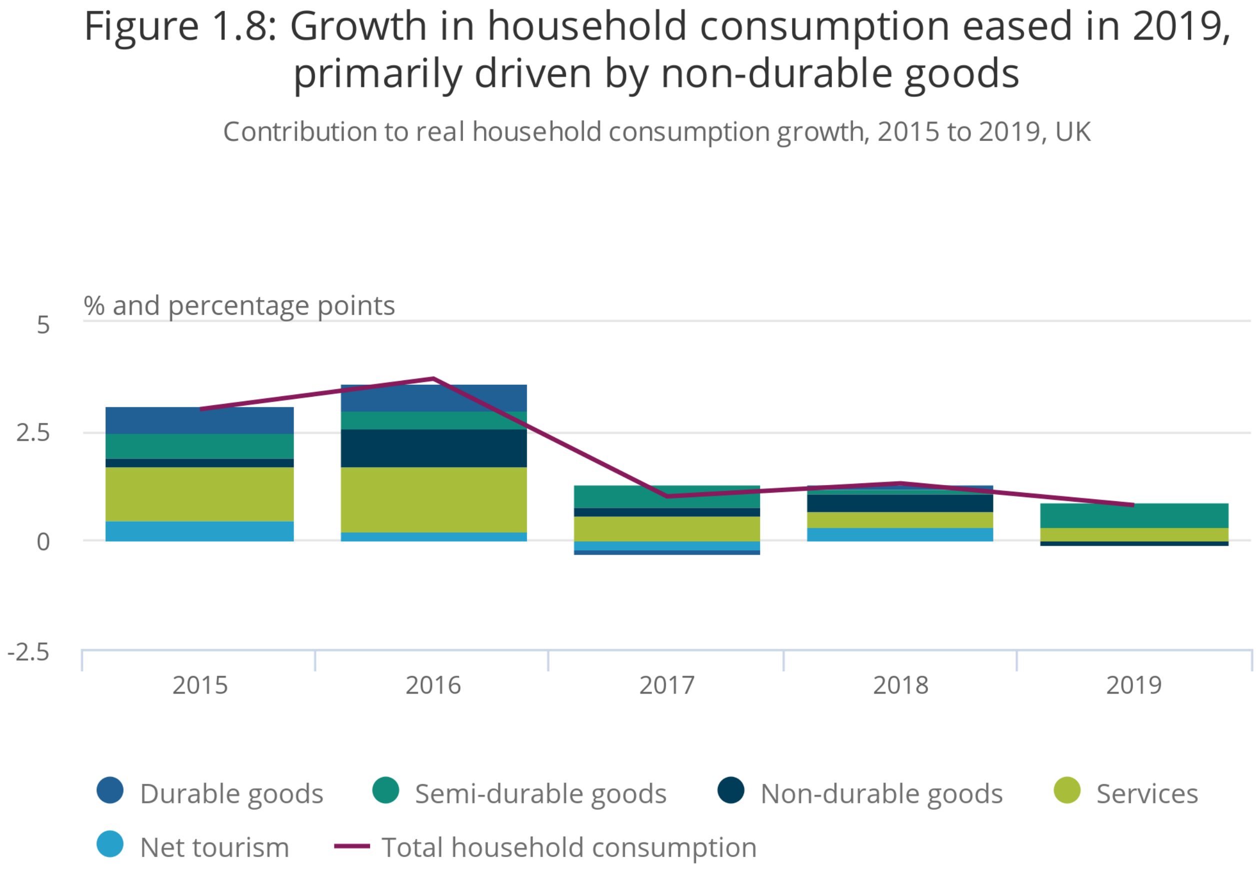
Figure 1.8 shows growth in household consumption broken down by type of good. Durable goods are goods that can be repeatedly or continuously used over a period of more than a year, for example, a washing machine. Non-durable goods and services can only be consumed or used once, a good example being food. Semi-durable is used to describe those goods that are used continuously or repeatedly over a period of a year, but tend to have a shorter lifespan and significantly lower purchaser price than durable goods. An example of a semi-durable good is an item of clothing.

The slowdown in household consumption in 2019 was primarily driven by non-durable goods, as shown in Figure 1.8. This is reflected in official retail sales figures, which showed a decline in sales in food stores at the end of 2019. The slowdown in real household consumption in 2019 is echoed in the Quarter 4 2019 Bank of England Agents' Summary of Business Conditions, which noted muted growth in consumer services as well as weak sales of big-ticket items such as new cars and household goods.

In other external survey evidence, although the GfK Consumer Confidence figures in December showed a slight increase in consumer sentiment at the end of 2019, the overall Consumer Confidence Index score remained in negative territory. The report noted that "the Overall Index Score has failed to break into positive territory for the past four years due to confusion and uncertainty about the future direction of the UK".

Figure 1.8: Growth in household consumption eased in 2019, primarily driven by non-durable goods

Contribution to real household consumption growth, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

Government consumption increased by 4.1% in 2019, reflecting higher spending on health and education. This represents a considerable strengthening from the previous year when government consumption grew by 0.6% and marks the highest annual growth rate in the volume of government expenditure since 2002.

Gross fixed capital formation (GFCF) increased by 1.5% in 2019, reflecting growth in business investment and government investment. Business investment grew by 1.1% in 2019 following a decline of 2.5% in 2018.

However, the quarterly path shows that business investment fell in the final quarter of 2019, likely reflecting how the heightened uncertainty about the future trading relationship with the European Union weighed on investment intentions. Previous analysis has highlighted how business investment at this point in the cycle was subdued compared with comparative points in previous cycles, as external evidence pointed to the effects of heightened economic uncertainty. For example, the Quarter 4 2019 Bank of England Agents' Summary of Business Conditions reported that "investment intentions remained depressed by slower global growth and political uncertainty" whilst the Quarter 4 2019 Decision Maker's Panel stated that "the share of firms reporting that Brexit was an important source of uncertainty for their business remained elevated in November".

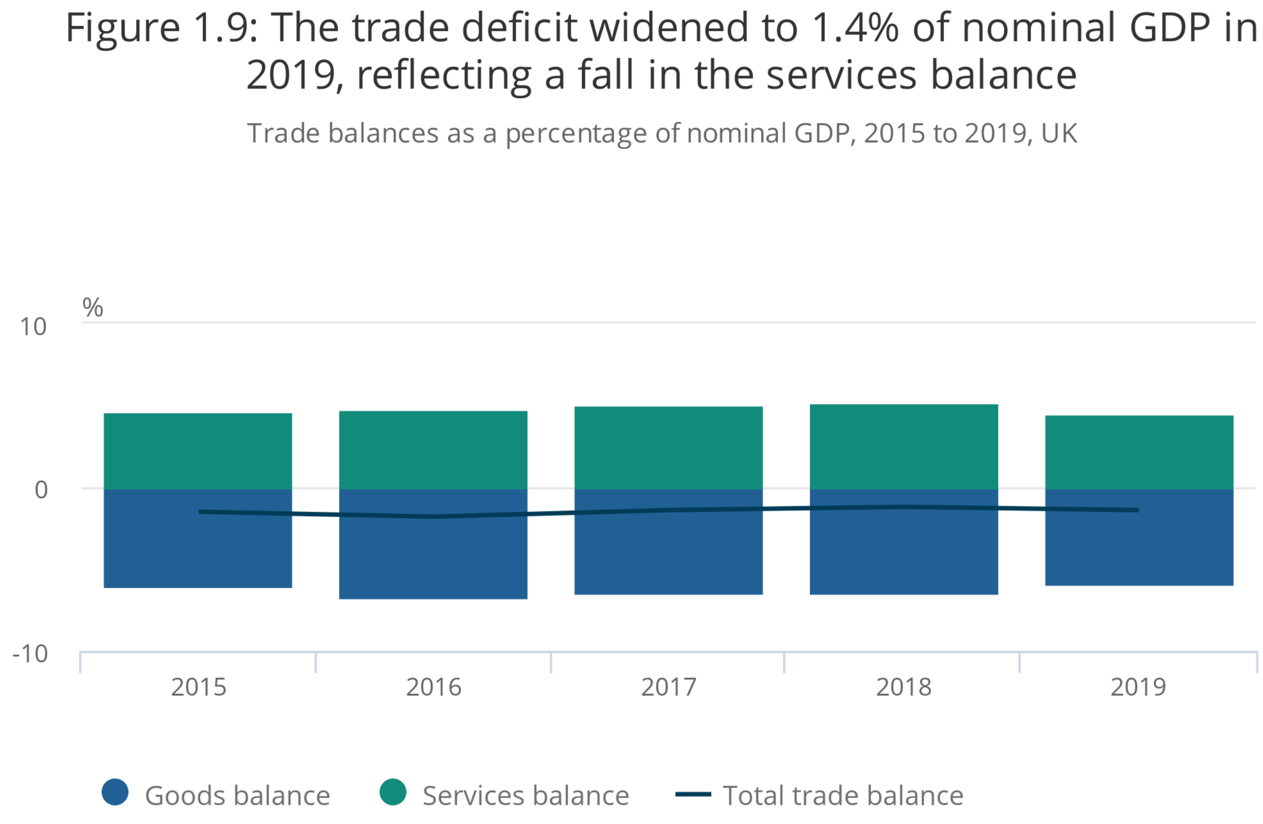
Looking at the quarterly path of inventories throughout 2019, there is some evidence to suggest that stockbuilding took place as part of EU exit contingency planning. Alignment and balancing adjustments are typically applied to the inventories component to help balance the different approaches to GDP. However, when these adjustments are removed, there is some evidence that stockpiling took place in the first quarter (Jan to Mar) of 2019 as there was an increase of £6.1 billion in stocks held by UK companies in the run-up to the UK's original exit date from the EU at the end of March.

Following this period of pronounced stockpiling in the first quarter, businesses appeared to run down their stock levels in the second and third quarters of 2019. In Quarter 4 (Oct to Dec) 2019, stocks held by UK companies increased by £1.0 billion, indicating that stockpiling also took place in late 2019 ahead of the second planned EU exit date in October, though to a lesser extent than in the first quarter.

Net trade was the only expenditure component to contribute negatively to real GDP growth in 2019. Import volumes grew by 3.3% in 2019, whilst export volumes grew by 2.8%. The UK trade deficit widened from 1.2% of nominal GDP in 2018 to 1.4% in 2019. While the goods deficit fell in 2019, there was a relatively larger fall in the services surplus, as shown in Figure 1.9. Monthly data on UK imports from the EU suggest that activity was being brought forward in preparation for the UK's intended departure date from the EU on 31 October 2019. In particular, increases in trade in goods imports from the EU in September and October were followed by falls in November and December. This pattern is consistent with that seen in advance of the UK's original departure date at the end of March 2019, albeit less pronounced.

Figure 1.9: The trade deficit widened to 1.4% of nominal GDP in 2019, reflecting a fall in the services balance

Trade balances as a percentage of nominal GDP, 2015 to 2019, UK



Source: Office for National Statistics – UK National Accounts

5 . Institutional sector accounts

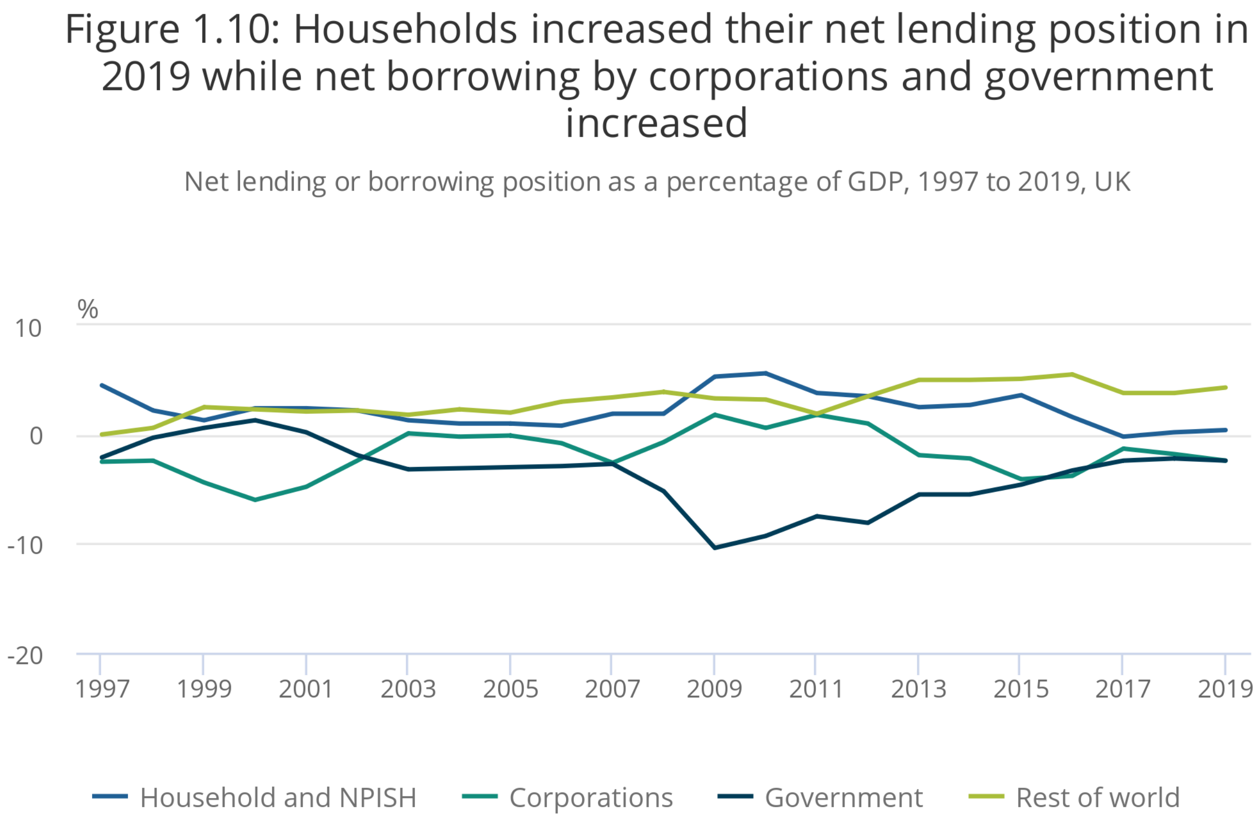
The income and expenditure of each sector implies a net lending or borrowing position for households, non-profit institutions serving households (NPISH), corporations, government and the rest of the world. By definition, these flows must sum to zero in fully supply and use balanced years – for each pound that is borrowed by one sector, there must be a pound that is lent by another.

Figure 1.10 shows the net lending and borrowing position for each sector in the UK and from the rest of the world. The rest of the world continues to be a net lender to the UK, financing the overall net borrowing position of the domestic sectors. Corporations and government are net borrowers, while households are net lenders.

The net lending position of households was 1.0% in 2019, up from 0.6% in 2018. Following the financial crisis, the government budget deficit widened to 10.4% of GDP in 2009. This deficit has narrowed over the last decade, reaching 2.4% of GDP in 2019, though government net borrowing increased relative to 2018. The corporate sector experienced a pickup in capital investment following the financial crisis, with corporates going from being net lenders to net borrowers since 2013. In 2019, their net borrowing position was 2.4% of GDP. UK net borrowing from the rest of the world increased to 4.3% of GDP in 2019 compared with 3.8% of GDP in 2018.

Figure 1.10: Households increased their net lending position in 2019 while net borrowing by corporations and government increased

Net lending or borrowing position as a percentage of GDP, 1997 to 2019, UK



Source: Office for National Statistics – UK National Accounts

The increase in the net borrowing position of corporations in 2019 reflects an increase in net borrowing by private non-financial corporations (PNFCs). This was mainly driven by a fall in net reinvested earnings on foreign direct investment as businesses across several industries withdrew capital from their overseas interests. Additionally, PNFCs increased their gross capital formation in 2019, reflecting stockpiling activity in early and late 2019 as part of EU exit contingency planning.

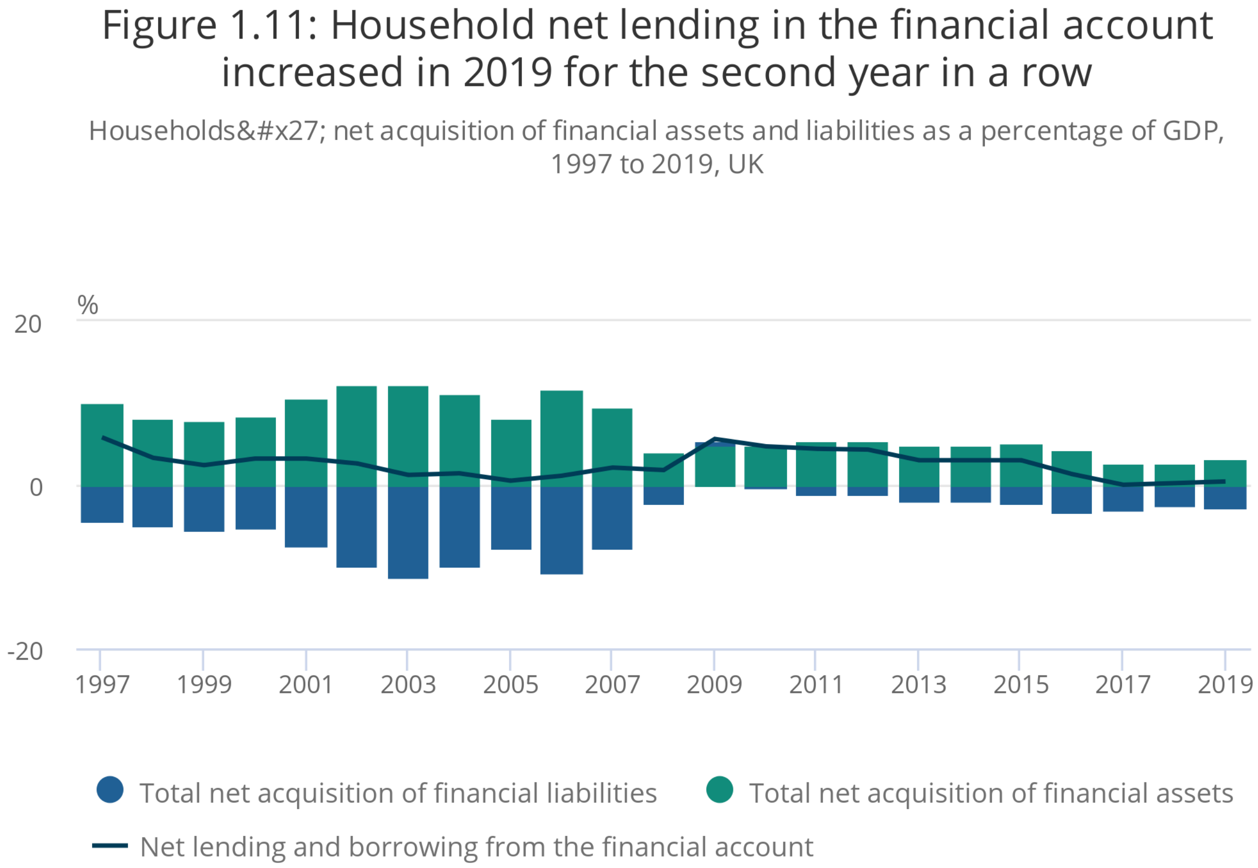
The increase in household net lending in 2019 reflects the 3.1% growth in gross household disposable income (GHDI). This increase is reflected in official labour market data, which show that real wages in 2019 were above their pre-financial crisis peak.

With nominal household expenditure growth of 2.2% in 2019 – a slowing compared with the 3.7% increase in 2018 – the relatively stronger growth in GHDI helped boost gross savings by households in 2019. Gross saving in the household sector increased by £11.3 billion in 2019, with the households' saving ratio increasing from 6.2% in 2018 to 6.8% in 2019.

Households increased their net acquisition of financial liabilities in 2019, (Figure 1.11). However, the increase in their net acquisition of financial assets more than offset this, leaving a net lending position of 0.4% of GDP in the financial account of the household sector in 2019.

Figure 1.11: Household net lending in the financial account increased in 2019 for the second year in a row

Households' net acquisition of financial assets and liabilities as a percentage of GDP, 1997 to 2019, UK

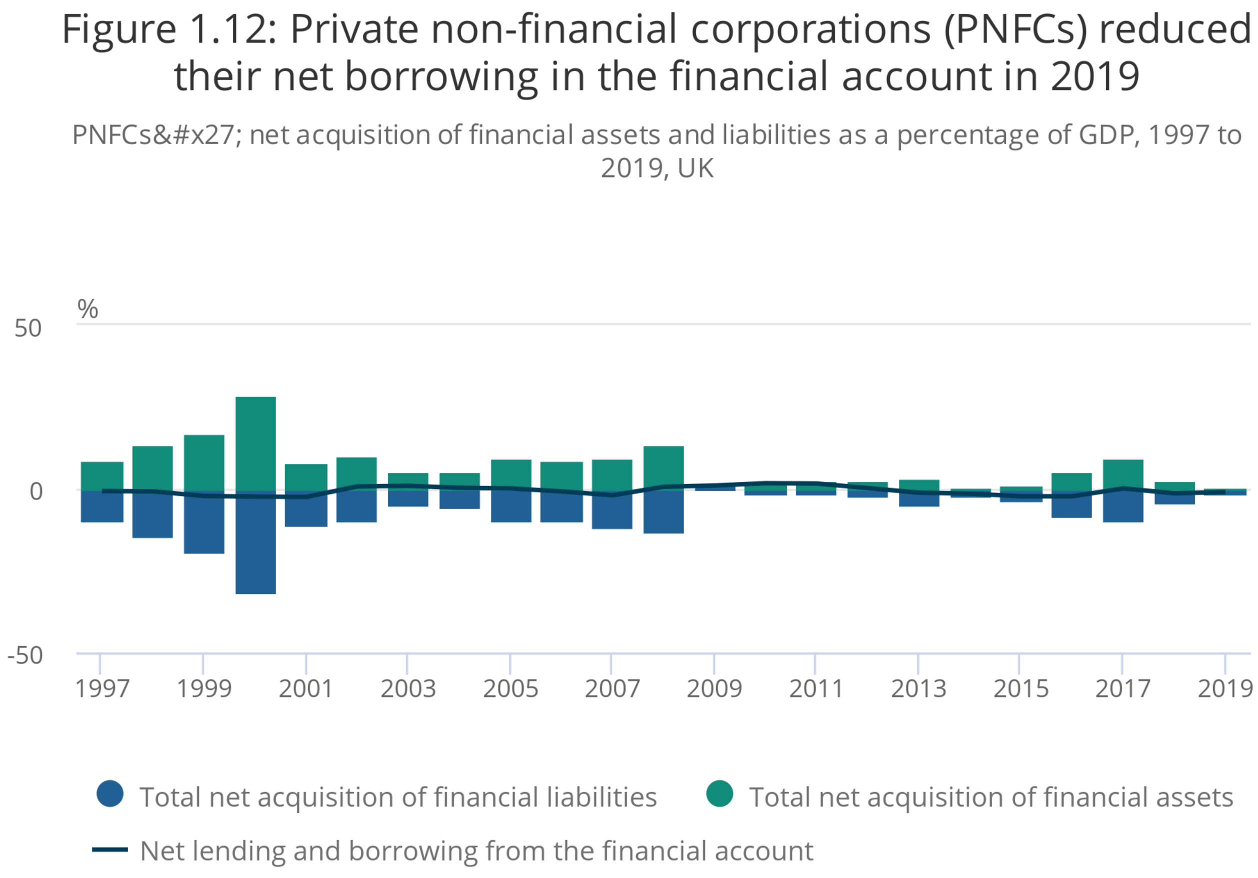


Source: Office for National Statistics – UK National Accounts

Private non-financial corporations' (PNFCs) net borrowing in the financial account was 1.0% of GDP in 2019 (Figure 1.12). Although PNFCs reduced their net acquisition of assets in 2019, they also decreased their net acquisition of financial liabilities, with an overall effect of reducing their net borrowing position relative to the previous year.

Figure 1.12: Private non-financial corporations (PNFCs) reduced their net borrowing in the financial account in 2019

PNFCs' net acquisition of financial assets and liabilities as a percentage of GDP, 1997 to 2019, UK



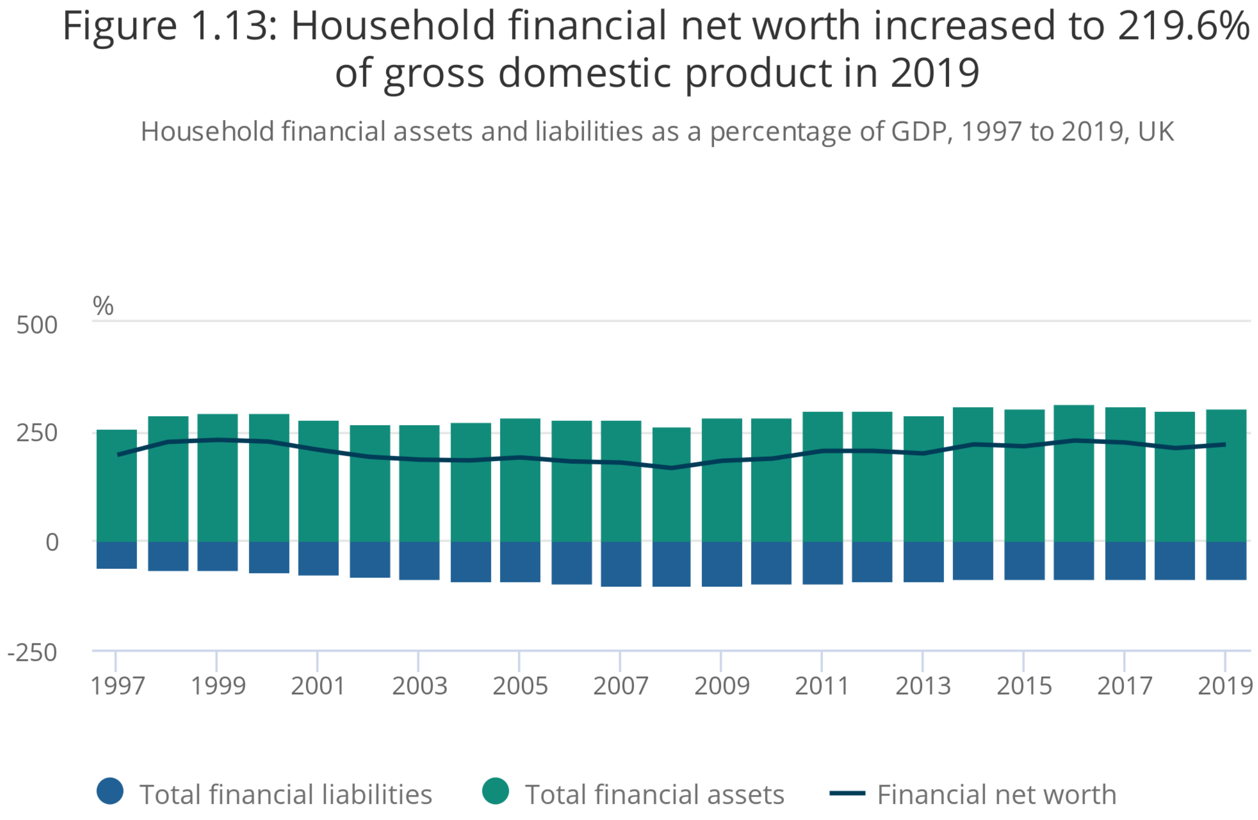
Source: Office for National Statistics – UK National Accounts

From a financial balance sheet position, household financial assets increased in value to £6.8 trillion – or 305.6% of GDP – in 2019 (Figure 1.13). Meanwhile, the value of household financial liabilities increased to £1.9 trillion in 2019, though this fell as a share of GDP compared with the previous year.

Household financial liabilities as a percentage of GDP have been on a steady decline since 2009, falling from 101.0% of GDP in 2009 to 86.1% in 2019. With the increase in the value of household financial assets offsetting the increase in the value of household financial liabilities in 2019, household financial net worth as a share of GDP rose to 219.6% of GDP in 2019.

Figure 1.13: Household financial net worth increased to 219.6% of gross domestic product in 2019

Household financial assets and liabilities as a percentage of GDP, 1997 to 2019, UK



Source: Office for National Statistics – UK National Accounts