

# NIESR

## Monthly GDP Tracker

Growth Ahead of General Election

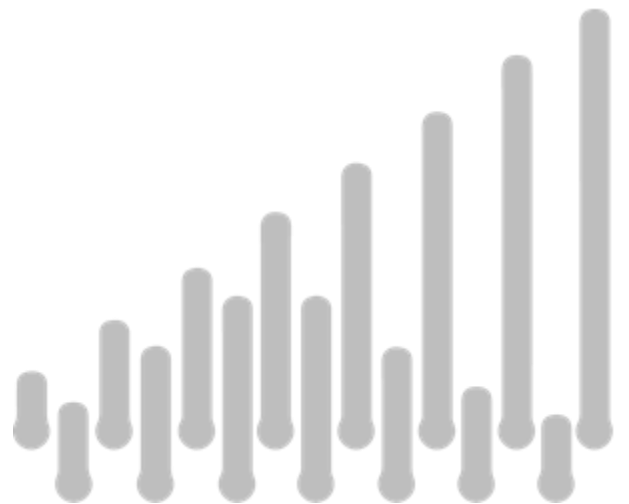
Hailey Low

12<sup>th</sup> June 2024

*“Today’s subdued GDP figures signal that the UK remains fragile on its route to a sustained economic recovery. However, the broader perspective remains an economy grappling with stagnation as low productivity and high economic inactivity curtail growth potential. Structural reforms and policies to boost public and private investment should be the focus for the next government, to enter a new era of higher economic growth.”*

**Hailey Low**

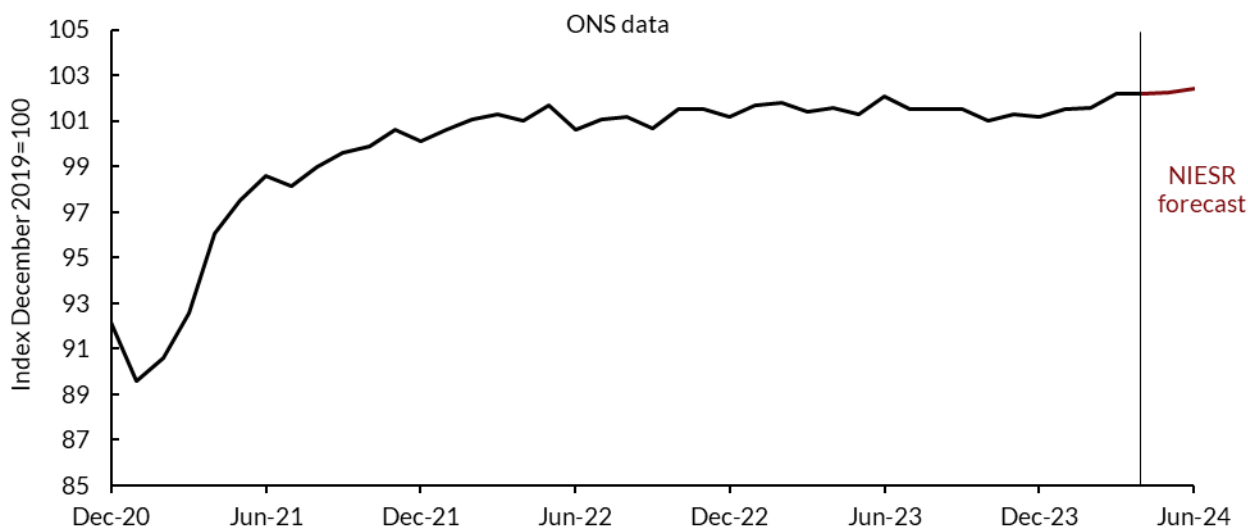
**Associate Economist, NIESR**



### Main points

- Monthly GDP flatlined in April, following a 0.4 per cent growth in March. This monthly figure was supported by growth in Services which was offset by falls in both production and construction. GDP grew by 0.7 per cent in the three months to April, driven mainly by Services and Production, in line with our forecast published last month.
- These GDP figures provide some respite and set the stage ahead of the general election. However, the elephant in the room remains – poor productivity growth, falling living standards, elevated economic inactivity and low investment are all holding back economic growth. As shown in figure 1 below, the economy flatlined following the initial stages of the post-pandemic recovery. Fostering robust and sustained economic growth should remain a top priority for whichever party forms the next government.
- In line with the uptick observed in the PMIs across all sectors, we forecast that GDP will continue its momentum, growing by 0.1 per cent in May relative to April. This is driven by growth mainly in Services, particularly Distributions, Hotels and Restaurants. Indeed, the S&P Global/CIPS UK Composite PMI reported an optimistic balance of 53.0 in May while business confidence increased on the back of improving economic prospects. In line with this positive sentiment, we now forecast GDP to grow by 0.5 per cent in the second quarter of 2024, driven mainly by the growth in Service.

Figure 1 - UK Monthly GDP

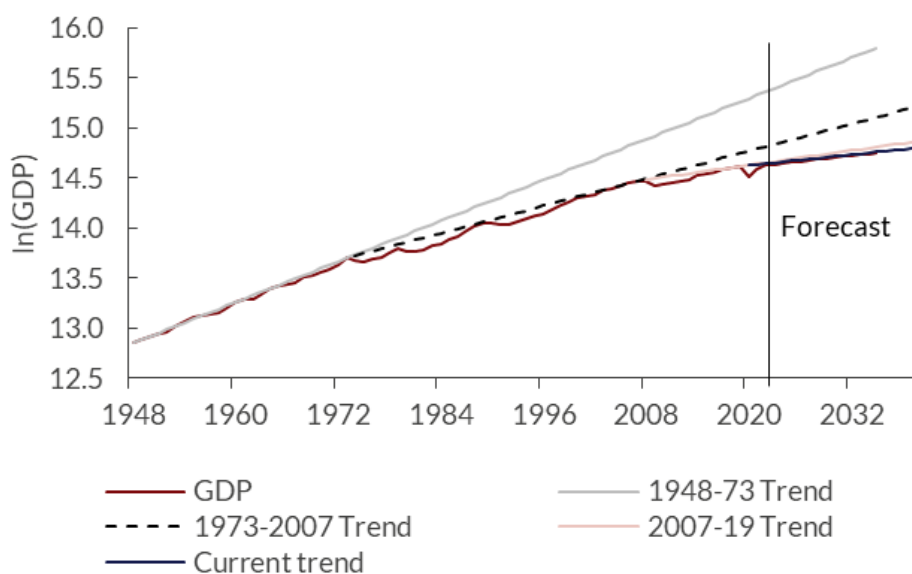


### Economic setting

Compared to our previous GDP tracker, published in May, the outturn for growth in April was slight below our forecast of 0.1 per cent, following a growth of 0.4 per cent in March. This growth figure was supported an increase in output in the Services sectors, offset by falls in Production and Construction. Taken together with the 0.6 per cent growth in Q1, it suggests that the shallow technical recession experienced in the second half of 2023 is behind us. Based on this momentum, alongside higher-frequency data, we now forecast GDP to grow by 0.5 per cent in the second quarter of 2024.

Looking at the bigger picture, real GDP grew by 0.7 per cent in the three months to April relative to the previous three-month period. These numbers remain broadly consistent with the longer-term trend of low, but stable economic growth in the United Kingdom (Figure 1). However, growth over the past five months in general has been encouraging and set a positive mood ahead of the general election on 4<sup>th</sup> July. But looking back at the longer-term picture, GDP growth has been near zero since early 2022 and GDP per head remains lower than its pre-Covid levels. This outlook for economic growth is low by historical standards. (Figure 2) That said, it is pertinent for the next government to set out policies that enables the economy to grow sustainably and realise its potential. These policies and reforms are set out in our [General Election Briefings](#).

Figure 2- UK GDP growth trends

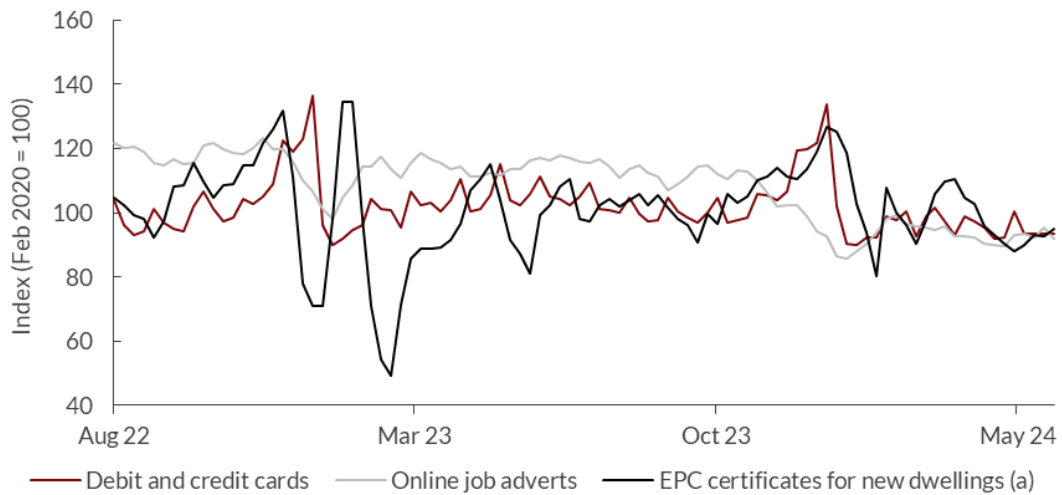


Source: ONS, NIESR calculations

To further contextualise the near-term outlook for GDP, figure 3 compares spending and hiring indicators to pre-pandemic levels, while figure 4 records recent trends in PMIs. High frequency credit and debit card spending as well as housebuilding indicators have been on a gradually upwards path throughout the first quarter of this year. At the same time, the services PMI continues to suggest growth in the service sector, albeit at a softer pace: it recorded 52.9 in May compared to April’s 55.0. Further, the recent ONS retail sales data suggest that April retail sales volumes fell by 2.3 per cent following a fall of 0.2 per cent in March. This fall is consistent

with April being a wet weather month. The S&P Global/CIPS UK Composite PMI – which combines comparable services and manufacturing indices – fell marginally from 54.1 in April to 53.0 in May. Taken together, these early indicators suggest that although GDP growth was subdued in 2023, we can be cautiously optimistic that GDP will continue to grow in 2024, though factors like geopolitics and the general election uncertainty pose some downside risk.

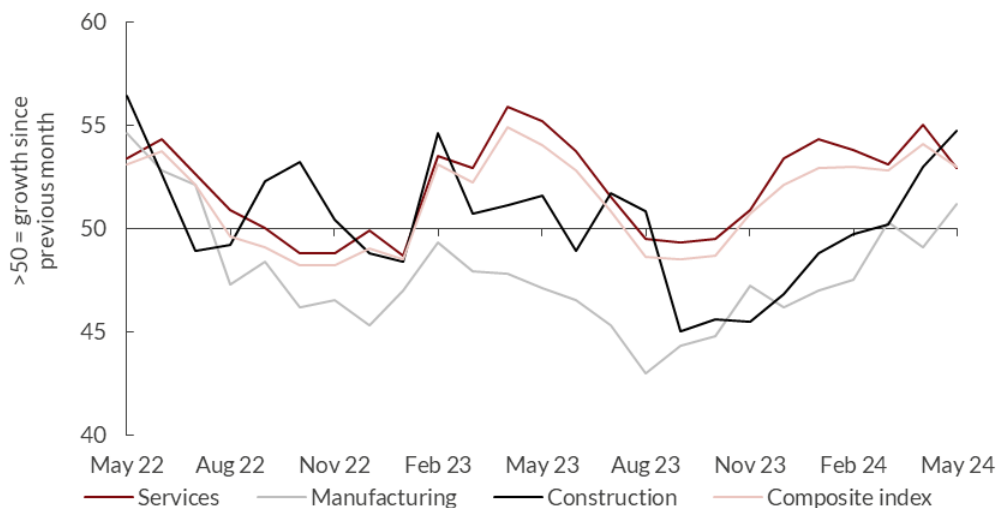
**Figure 3 – Spending and hiring indicators (weekly indices)**



Notes: (a) England and Wales. Debit and credit cards (CHAPS based): Index February 2020 = 100, a backward looking seven-day rolling average, non-seasonally adjusted, nominal prices. Job adverts: Index February 2020 = 100, weekly average. EPC certificates: Index February 2020 = 100, four-week rolling average, adjusted for timing of holidays.

Source: ONS, BoE, Adzuna, MHCLG, NIESR

**Figure 4 – Recent trends in PMIs**

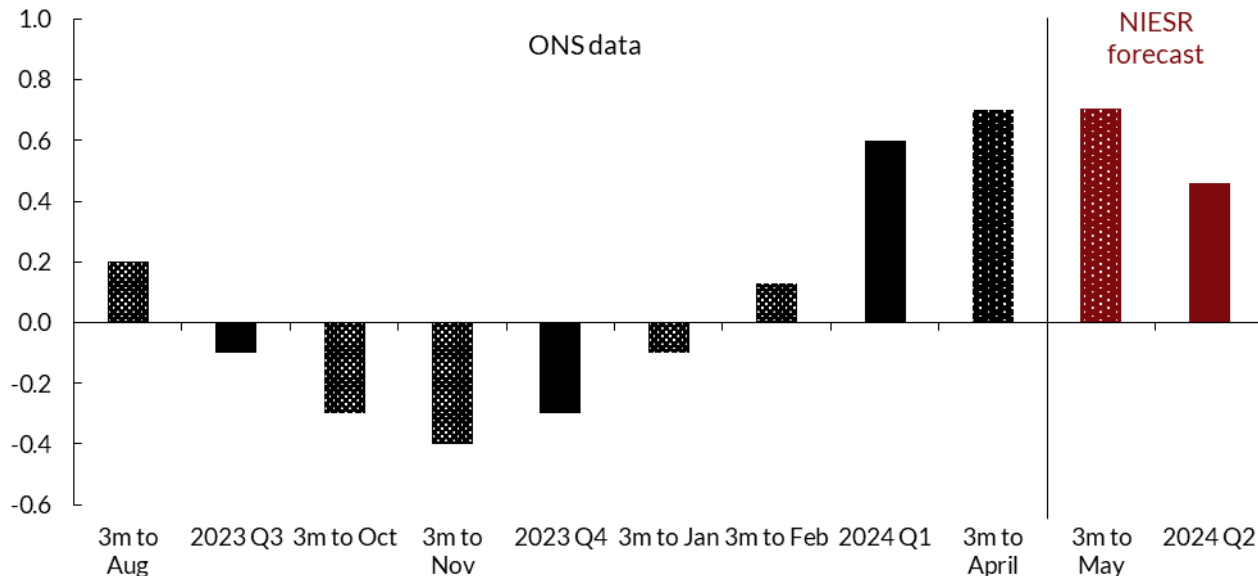


Sources: Refinitiv Datastream, S&P

## News in latest ONS data

The monthly GDP data for April were marginally weaker than what we were expecting in last month’s Tracker, coming out flatlined compared to our forecast of 0.1 growth. GDP grew by 0.7 per cent in the three months to April, in line with our outlook in May (Figure 5).

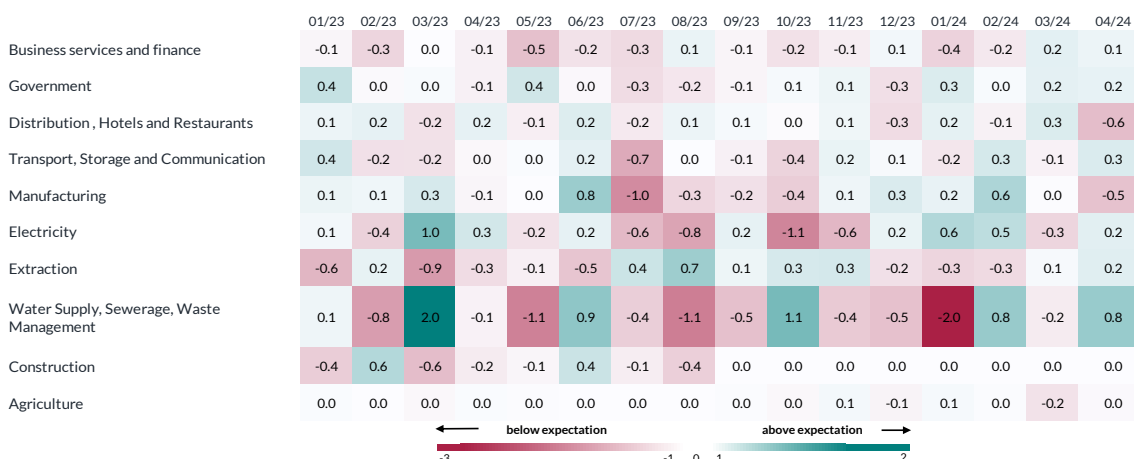
**Figure 5 - UK GDP growth (3 months on previous 3 months, per cent)**



Sources: ONS, NIESR forecasts

Figure 6 shows a heat map of the data surprises across sectors in the monthly data, relative to last month’s GDP Tracker, highlighting the sectors where the surprises are large relative to the volatility of the output data.

**Figure 6 - Surprises in monthly data**



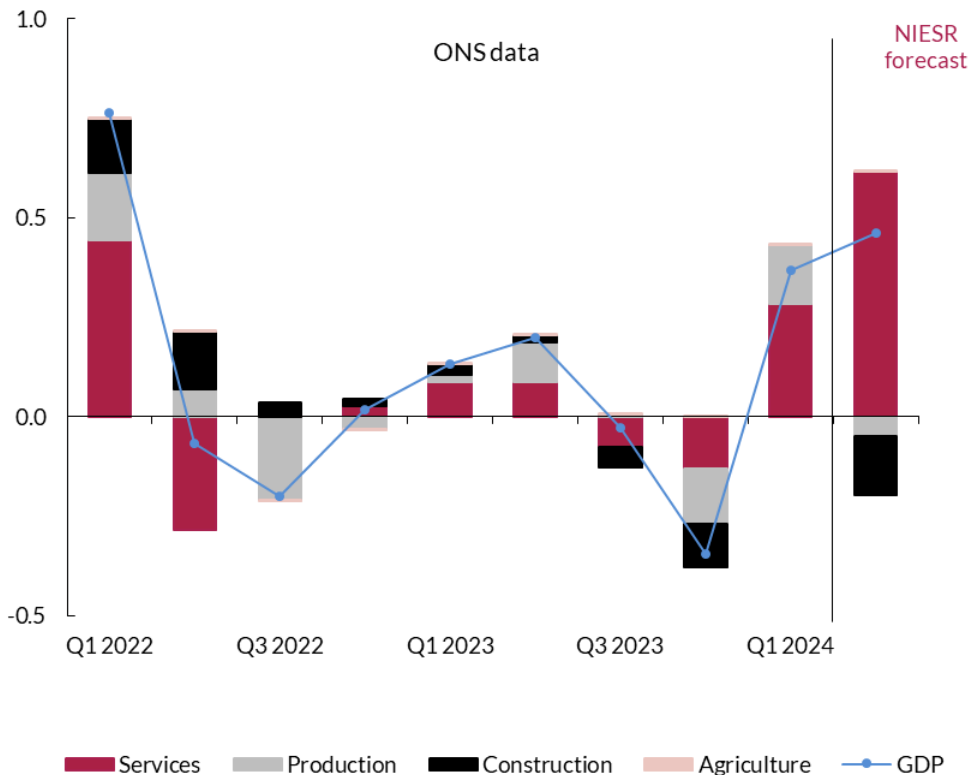
Note: Cells show forecast errors as a fraction of the standard deviation of errors for each series.

For more information on our forecast estimates relative to ONS data, please see the ‘Health Warning’ section below.

### Sectoral detail

GDP grew by 0.7 per cent in the three months to April, driven by Services (Figure 7). Our forecast for the second quarter of 2024 sees stronger contribution continuing from the Services sector, which is expected to remain the main driver of growth given it contributes 80 per cent of GDP.

Figure 7 - Contributions to quarterly GDP growth (percentage points)



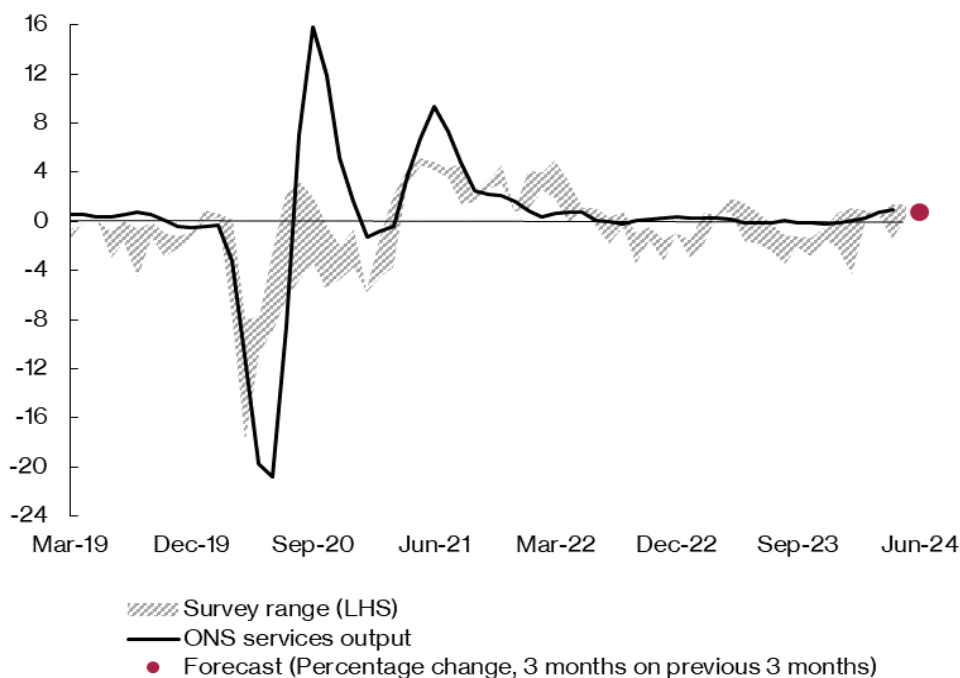
Sources: ONS, NIESR forecasts

### Services (80 per cent of GDP)

The survey balances point to optimistic prospects for the services sector in the first quarter of 2024, as shown by the survey indicators in figures 4 and 8. The S&P Global/CIPS UK Services PMI reported a balance of 52.9 in May – a slight loss of momentum, down from 55.0 in April, overall pointing to expanding business activity. Survey respondents cited strong sales performance driven by new orders from the domestic market as the main factor supporting service sector growth. This uplift is domestically concentrated, as export demand is still seeing subdued growth, where difficulties in business transactions with EU customer was one of the factors. That said, business optimism for the year-ahead remains high, as companies look towards lower interest rates and improvements in the domestic market.

Based on recent developments, we forecast UK service sector activity to grow by 0.8 per cent in the second quarter of 2024 relative to the previous quarter.

**Figure 8** - ONS service sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)



Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series.  
 Source: ONS, CBI, Markit, Bank of England Agents, EC, NIESR calculations.

### Construction (6 per cent of GDP)

The S&P Global/CIPS UK Construction PMI survey continues to record a sustained expansion as it rose to 54.7 in May from 53.0 in April – the fastest pace in 2 years – moving further above the neutral 50 (which indicates expanding output) following a long period of contraction. That this occurred while interest rates remain at their peak is optimistic for the interest-sensitive construction sector. This growth was broad-based as all three categories (Housing Activity, Civil Engineering and Commercial Activity) saw output increase, where housing projects increased for the first time since a year-and-a-half.

Our forecast for the second quarter of this year sees the construction sector at a turning point as economic conditions are expected to improve with a reduction in interest rates expected later in the year against the backdrop of increased business confidence,

### Production (14 per cent of GDP)

We forecast production sector output to contract by 0.4 per cent in second quarter of 2024, though output in this sector is volatile and difficult to predict with accuracy on a quarterly basis. The production sector comprises manufacturing; mining and quarrying (which includes oil and gas extraction); electricity, gas, steam and air conditioning; and water supply and sewerage. The largest of these sectors are manufacturing, accounting for 10 per cent of GDP, and mining and quarrying, accounting for 1 per cent of GDP.

## Manufacturing

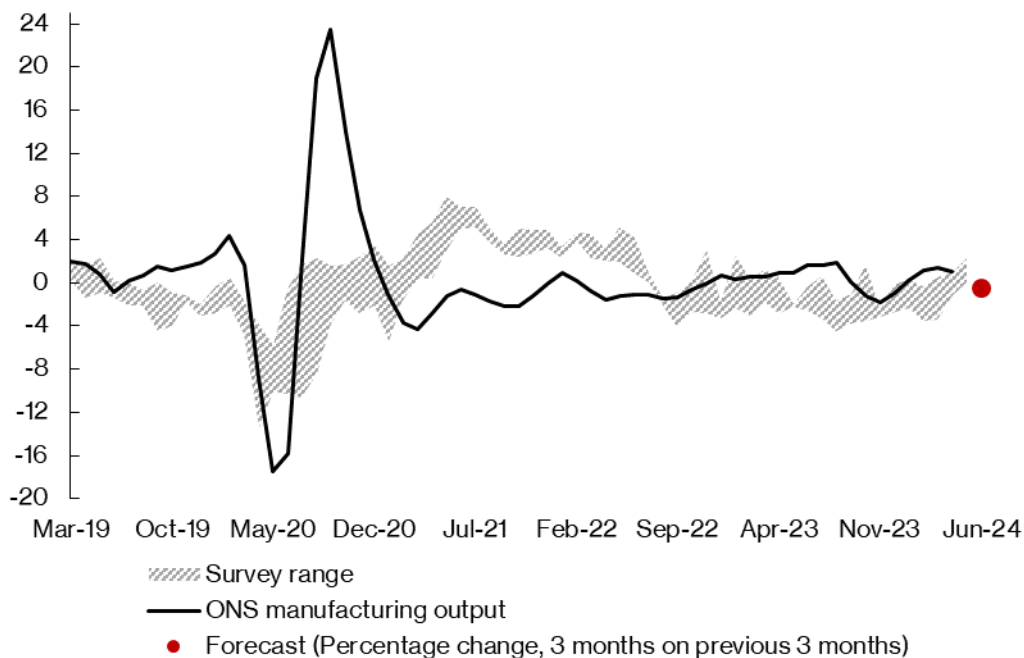
The S&P Global/CIPS UK manufacturing PMI rebounded back to growth to 51.2 in May after falling to 49.1 in April. The rebound saw levels of production and new businesses rising at the quickest rate since early-2022. It was also the first time in over two years where growth was seen concurrently in output and new orders for all main sub-industries and company sizes. Survey respondents suggested that average input costs increased for the fifth consecutive month, though at a slower pace compared to April. Similarly to the Services sector, the upturn was driven by the domestic market instead of non-domestic demand. That said, overseas demand continues to see signs of stabilising after remaining weak for several months. Nonetheless, as a result of strengthening in the domestic market, business optimism rose to a 27-month high.

We expect to see this sector contract by 0.5 per cent in the second quarter of 2024 relative to the previous quarter.

## Mining and quarrying

Mining and quarrying (extraction) is a small but erratic component of industrial production that can have an influence on overall GDP growth. We forecast this sector to grow by 0.5 per cent in the second quarter of 2024.

**Figure 9** - ONS manufacturing sector growth (3 months on previous 3 months, per cent) compared with swathe of business survey balances (standardised)



Note: The shaded swathe shows the highest and lowest values each month of a range of business survey balances that have been standardised so that they have the same mean and standard deviation as the quarterly growth of the ONS series.  
Source: ONS, CBI, Markit, Bank of England Agents, EC, NIESR calculations.



**Table 1 - Summary Table of GDP growth (2019=100)**

2019=100	GDP index	Index of Services	Index of Services - Components				Index of Production	Index of Production - Components				Index of Construction	Agriculture
			Business services and finance	Government and other services	Distribution, Hotels and Restaurants	Transport, Storage and Communications		Manufacturing	Electricity, gas, steam and air conditioning	Mining and Quarrying	Water Supply, Sewerage and Waste Management		
Apr-23	102.4	103.6	104.9	102.0	99.5	108.4	94.8	101.5	63.2	65.9	104.9	106.1	85.6
May-23	102.0	103.5	104.5	102.4	98.9	108.3	93.9	100.9	60.1	66.1	102.9	105.8	85.5
Jun-23	102.8	103.8	104.4	103.1	99.6	108.8	96.4	104.1	61.3	65.3	104.4	107.5	85.6
Jul-23	102.3	103.4	104.3	102.8	99.3	106.9	95.4	102.8	61.7	65.3	103.4	107.0	85.8
Aug-23	102.3	103.5	104.3	103.1	99.4	106.9	95.0	102.1	62.2	67.2	101.8	104.8	85.9
Sep-23	102.3	103.5	104.0	103.8	99.2	106.7	94.8	101.7	63.9	65.3	103.1	104.8	86.0
Oct-23	101.9	103.2	104.0	103.1	99.2	105.8	93.5	100.4	60.8	64.1	103.7	104.8	86.1
Nov-23	102.1	103.4	103.9	103.5	99.6	106.6	94.0	101.2	60.7	64.5	102.6	104.8	86.1
Dec-23	102.0	103.3	104.4	102.9	98.3	107.1	94.6	102.0	61.4	63.8	102.1	104.8	86.1
Jan-24	102.3	103.7	104.4	103.6	99.6	106.9	94.1	101.7	61.2	62.9	99.8	104.8	86.0
Feb-24	102.6	104.0	104.6	103.8	98.8	108.6	95.0	103.0	61.5	62.4	100.7	104.8	85.6
Mar-24	103.0	104.5	105.2	104.2	100.1	108.4	95.2	103.3	60.9	63.0	100.6	104.8	85.5
Apr-24	103.0	104.7	105.6	104.8	98.3	110.0	94.4	101.9	61.3	63.5	101.9	104.8	85.6
May-24	103.1	104.9	105.8	104.9	99.0	110.4	94.4	102.3	60.4	63.0	101.8	104.8	85.8
Jun-24	103.2	105.1	106.0	105.0	99.1	110.6	94.5	102.4	60.6	62.8	101.9	104.8	86.0

Percentage change, 3 months on previous 3 months

Apr-23	0.2	0.1	0.2	0.7	-1.0	0.1	0.5	1.0	0.5	-3.9	-0.3	1.2	0.1
May-23	-0.1	-0.1	-0.3	0.9	-1.0	-0.7	0.4	0.9	-1.1	-1.8	-0.6	0.3	0.0
Jun-23	0.0	-0.2	-0.5	0.7	-0.1	-0.5	0.8	1.6	-3.1	-0.7	-1.8	0.3	0.0
Jul-23	0.0	-0.1	-0.6	0.8	0.0	-0.6	0.7	1.7	-3.7	-1.6	-1.8	0.1	0.0
Aug-23	0.3	0.0	-0.4	0.8	0.5	-0.6	1.2	1.9	-1.4	-0.1	-1.6	0.2	0.2
Sep-23	-0.1	-0.2	-0.4	0.7	0.0	-1.5	0.0	0.0	1.7	0.3	-1.2	-0.9	0.4
Oct-23	-0.2	-0.2	-0.3	0.6	0.0	-1.4	-0.8	-1.2	2.1	-0.1	-0.7	-1.8	0.4
Nov-23	-0.4	-0.2	-0.4	0.5	-0.1	-1.1	-1.6	-1.8	0.1	-2.0	-0.1	-1.5	0.3
Dec-23	-0.3	-0.2	-0.1	-0.1	-0.3	-0.3	-1.1	-1.0	-2.6	-2.7	0.0	-0.7	0.2
Jan-24	0.0	0.1	0.1	0.0	-0.1	0.4	-0.2	0.2	-1.9	-2.7	-1.3	0.0	0.1
Feb-24	0.2	0.3	0.5	0.0	-0.4	1.1	0.5	1.1	-0.7	-2.5	-2.2	0.0	-0.2
Mar-24	0.6	0.7	0.6	0.7	0.5	1.4	0.8	1.4	0.4	-2.1	-2.4	0.0	-0.5
Apr-24	0.7	0.9	0.9	0.9	-0.1	2.0	0.7	1.1	0.2	-1.2	-0.4	0.0	-0.6
May-24	0.7	1.0	1.0	1.2	0.2	1.9	0.1	0.3	-0.8	0.2	0.6	0.0	-0.3
Jun-24	0.5	0.8	1.0	1.0	-0.7	2.2	-0.4	-0.5	-0.7	0.5	1.5	0.0	0.1

Percentage change, month on same month in previous year

Apr-23	0.6	0.6	1.5	0.9	-3.0	2.2	-0.9	0.8	-1.6	-16.5	-3.0	2.9	-0.3
May-23	-0.4	-0.1	-0.1	0.7	-2.8	1.1	-2.1	-0.4	-4.9	-16.5	-3.2	0.3	-0.7
Jun-23	1.4	1.1	0.4	2.9	-1.4	2.6	1.5	4.0	-3.8	-15.5	-3.4	4.6	-0.7
Jul-23	0.4	0.2	0.1	2.2	-1.7	-1.3	1.0	3.5	-2.5	-19.5	-2.5	2.8	-0.6
Aug-23	0.3	0.1	-0.3	2.3	-1.4	-1.5	1.1	2.6	-0.8	-7.9	-4.2	0.2	-0.2
Sep-23	0.8	0.7	0.0	2.7	0.0	-0.7	1.1	2.6	0.6	-12.6	-2.6	0.3	0.4
Oct-23	-0.4	-0.5	-0.8	1.4	-1.6	-2.3	-0.7	0.2	-1.8	-11.6	-0.4	-0.4	0.5
Nov-23	-0.2	-0.3	-0.8	1.7	-1.1	-1.8	0.0	1.6	-1.9	-13.4	-3.0	-0.7	0.7
Dec-23	0.0	0.2	-0.5	2.7	-1.6	-0.6	0.5	2.0	-3.8	-7.3	-3.3	-1.4	0.7
Jan-24	0.0	-0.2	-0.6	1.9	-0.5	-2.5	0.1	1.4	-3.6	-2.8	-6.0	0.4	0.6
Feb-24	0.0	0.0	-0.7	2.0	-1.1	-0.9	1.0	2.6	-1.6	-8.2	-3.8	-2.1	0.0
Mar-24	0.7	1.0	0.2	2.2	1.7	0.4	0.5	2.4	-5.6	-4.4	-5.9	-1.9	-0.1
Apr-24	0.6	1.1	0.7	2.7	-1.2	1.5	-0.4	0.4	-3.0	-3.6	-2.9	-1.2	0.0
May-24	1.0	1.3	1.2	2.4	0.1	1.9	0.5	1.4	0.5	-4.7	-1.0	-0.9	0.4
Jun-24	0.4	1.2	1.6	1.9	-0.5	1.7	-2.0	-1.6	-1.2	-3.9	-2.4	-2.5	0.5

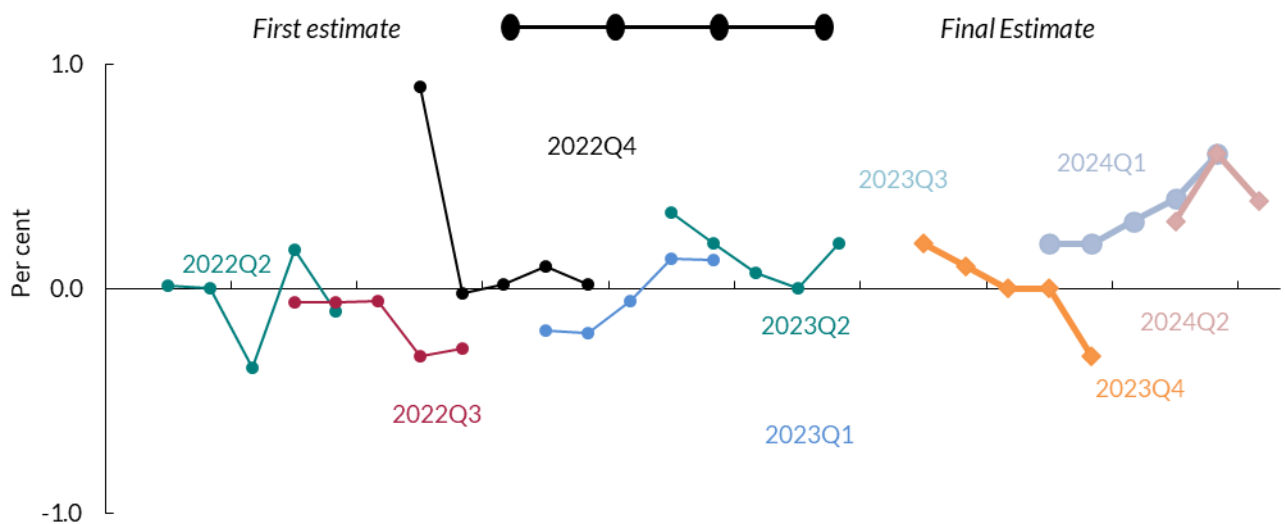
Percentage change, month on previous month

Apr-23	0.1	0.1	-0.1	0.0	1.1	0.4	0.1	0.6	-2.0	0.0	-1.9	-0.7	0.0
May-23	-0.3	-0.1	-0.4	0.4	-0.6	-0.1	-0.9	-0.6	-4.9	0.3	-1.9	-0.3	-0.1
Jun-23	0.8	0.3	-0.1	0.7	0.7	0.5	2.7	3.2	2.0	-1.2	1.5	1.6	0.1
Jul-23	-0.5	-0.4	-0.1	-0.3	-0.3	-1.7	-1.0	-1.2	0.7	0.0	-1.0	-0.5	0.2
Aug-23	0.0	0.1	0.0	0.3	0.1	0.0	-0.4	-0.7	0.8	2.9	-1.5	-2.0	0.1
Sep-23	0.0	0.0	-0.3	0.7	-0.2	-0.2	-0.2	-0.4	2.7	-2.8	1.3	0.0	0.1
Oct-23	-0.4	-0.3	0.0	-0.7	0.0	-0.8	-1.4	-1.3	-4.9	-1.8	0.6	0.0	0.1
Nov-23	0.2	0.2	-0.1	0.4	0.4	0.8	0.5	0.8	-0.2	0.6	-1.1	0.0	0.0
Dec-23	-0.1	-0.1	0.5	-0.6	-1.3	0.5	0.6	0.8	1.2	-1.1	-0.5	0.0	0.0
Jan-24	0.3	0.4	0.0	0.7	1.3	-0.2	-0.5	-0.3	-0.3	-1.4	-2.3	0.0	-0.1
Feb-24	0.2	0.3	0.2	0.2	-0.8	1.6	1.0	1.3	0.5	-0.8	0.9	0.0	-0.5
Mar-24	0.4	0.5	0.6	0.4	1.3	-0.2	0.2	0.3	-1.0	1.0	-0.1	0.0	-0.1
Apr-24	0.0	0.2	0.4	0.6	-1.8	1.5	-0.9	-1.4	0.7	0.8	1.3	0.0	0.1
May-24	0.1	0.2	0.2	0.1	0.7	0.3	0.0	0.4	-1.5	-0.8	-0.1	0.0	0.2
Jun-24	0.2	0.2	0.2	0.1	0.0	0.3	0.1	0.1	0.3	-0.4	0.0	0.0	0.3

### Health warning

The NIESR GDP Tracker provides a rolling monthly forecast for GDP growth. Our first estimate of growth for any particular quarter starts in the first month of that quarter and is then updated each month until the first official release in the second month of the following quarter. So, for example, our first estimate of growth in the first quarter of 2020 was published in January and then updated four times (in February, March, April, and May) before the ONS published its first estimate for the first quarter of 2020 in May 2020. In other words, we publish four estimates of GDP for any particular quarter before the official release and change them as new evidence becomes available. Figure 9 shows how our short-term forecasts for recent quarters have changed as new information has become available.

**Figure 10 - Evolution of the NIESR quarterly GDP forecast (3 months on previous 3 months, per cent)**



NIESR’s short-term predictions of monthly GDP growth are based on bottom-up analysis of recent trends in the monthly sub-components of GDP. These predictions are constructed by aggregating statistical model forecasts of ten sub-components of GDP. The statistical models that have been developed make use of past trends in the data as well as survey evidence to build short-term predictions of the sub-components of monthly GDP. These provide a statistically based guide to current trends based on the latest available data. Each month these predictions are updated as new ONS data and new surveys become available. Table 2 shows the growth in each sector in the most recent three-month period, compared with the previous three months, against the forecast for each in our previous GDP Tracker.

**Table 2** - 3-month-on-3-month growth to April (per cent)

	GDP	Index of Services	Index of Production	Manufacturing	Mining and Quarrying	Index of Construction
Forecast	0.7	0.9	0.8	1.5	-1.6	0.0
Outturn	0.7	0.9	0.7	1.1	-1.2	0.0

It is important to stress that the timelier NIESR guide to quarterly GDP growth is less reliable than the subsequent ONS data releases as its data content is lower, particularly for estimates of the current quarter which in some months will be based only on forecasts rather than hard data. To mitigate this issue, NIESR provides a guide to average errors based on past performance. NIESR also provides clear guidance on how the latest news has caused its estimates of GDP growth in the current and preceding quarter to change and thereby quantify how the short-term outlook is being affected by recent data releases (see, e.g., Figure 6).

As the bottom-up methodology for producing estimates of GDP growth for the current and preceding quarters is still relatively new, we do not yet have a long track record of estimates produced by this approach. To check how our methodology would work in real time we went back to late 2016 to produce judgement-free forecasts of GDP growth in future months based on the monthly data series available for the components in November 2016 (this was the earliest vintage then available on the ONS website) and in each subsequent three months. These are shown in Table 3, which has been updated to include estimates since we started producing the GDP Tracker in July 2018. We calculate the forecast quarter-on-quarter growth rates for the current quarter and compare these to the ONS first estimates of quarterly growth. The average absolute error for the quarters considered was 0.22 percentage points. The largest error was for the second quarter of 2020 when our GDP tracker in May pointed to growth of -22.8 per cent, 2.4 percentage points lower than the ONS first estimate of GDP growth.

**Table 3 - Forecast Error Analysis: Quarterly GDP growth (per cent)**

Quarter	ONS first estimate	ONS latest estimate	NIESR nowcast*	Error in NIESR nowcast**	ONS latest – first
2016Q4	0.6	0.7	0.7	-0.1	0.1
2017Q1	0.3	0.6	0.6	-0.3	0.3
2017Q2	0.3	0.3	0.4	-0.1	0.0
2017Q3	0.4	0.3	0.4	0.0	-0.1
2017Q4	0.5	0.4	0.4	0.1	-0.1
2018Q1	0.1	0.0	0.5	-0.4	-0.1
2018Q2	0.4	0.5	0.0	0.4	0.1
2018Q3	0.6	0.6	0.5	0.1	0.0
2018Q4	0.2	0.2	0.4	-0.2	0.0
2019Q1	0.5	0.6	0.2	0.3	0.1
2019Q2	-0.2	-0.2	0.3	-0.5	0.0
2019Q3	0.3	0.4	0.2	0.1	0.1
2019Q4	0.0	0	0.2	-0.2	0.0
2020Q1	-2.0	-2.1	0.2	-2.2	-0.1
2020Q2	-20.4	-20.4	-22.8	2.4	0.0
2020Q3	15.5	16.1	15.0	0.5	0.6
2020Q4	1.0		-2.2	3.2	
2021Q1			-3.8		
Average absolute error				0.22	0.08

**Notes for Editors:**

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