

Article

GDP and the Labour Market: Q4 2014 Quarterly Update

We take a look at the developments in gross domestic product (GDP) and the labour market in Quarter 4 (Oct to Dec) 2014. Results show that the UK economy grew by 0.5% in the final quarter of 2014, resulting in a growth rate of 2.6% for 2014 as a whole - the strongest calendar year rate of growth since 2007. This improvement in economic outlook for businesses resulted in an increase in employment.

Contact:
Tanya Flower
macro@ons.gsi.gov.uk

Release date:
18 February 2015

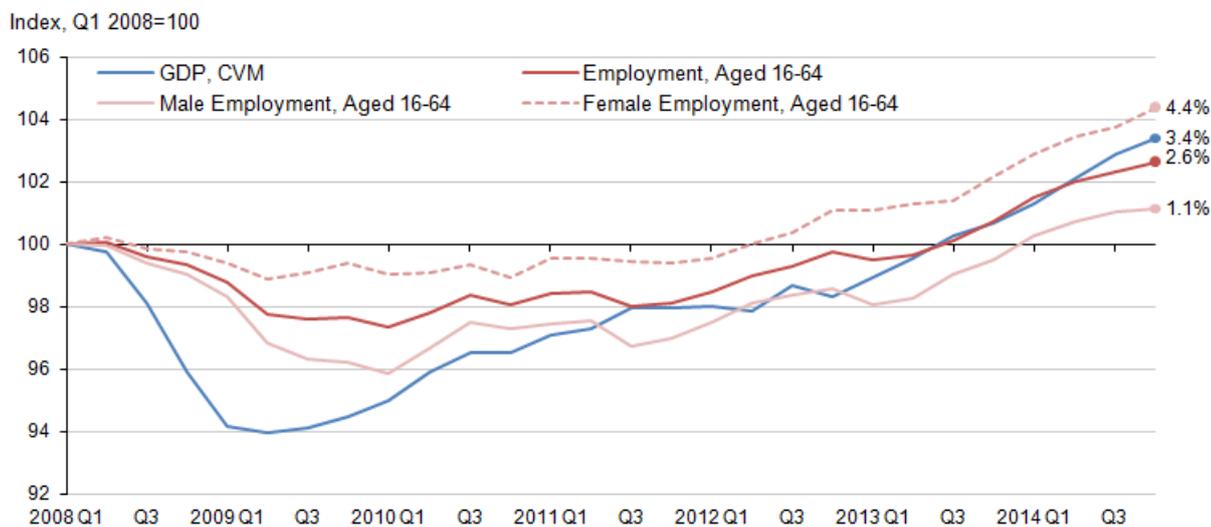
Next release:
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1 . Q4 2014 quarterly update

Figure 1: Index of GDP (chained volume measure) and employment since Q1 2008, seasonally adjusted, Q1 2008 = 100

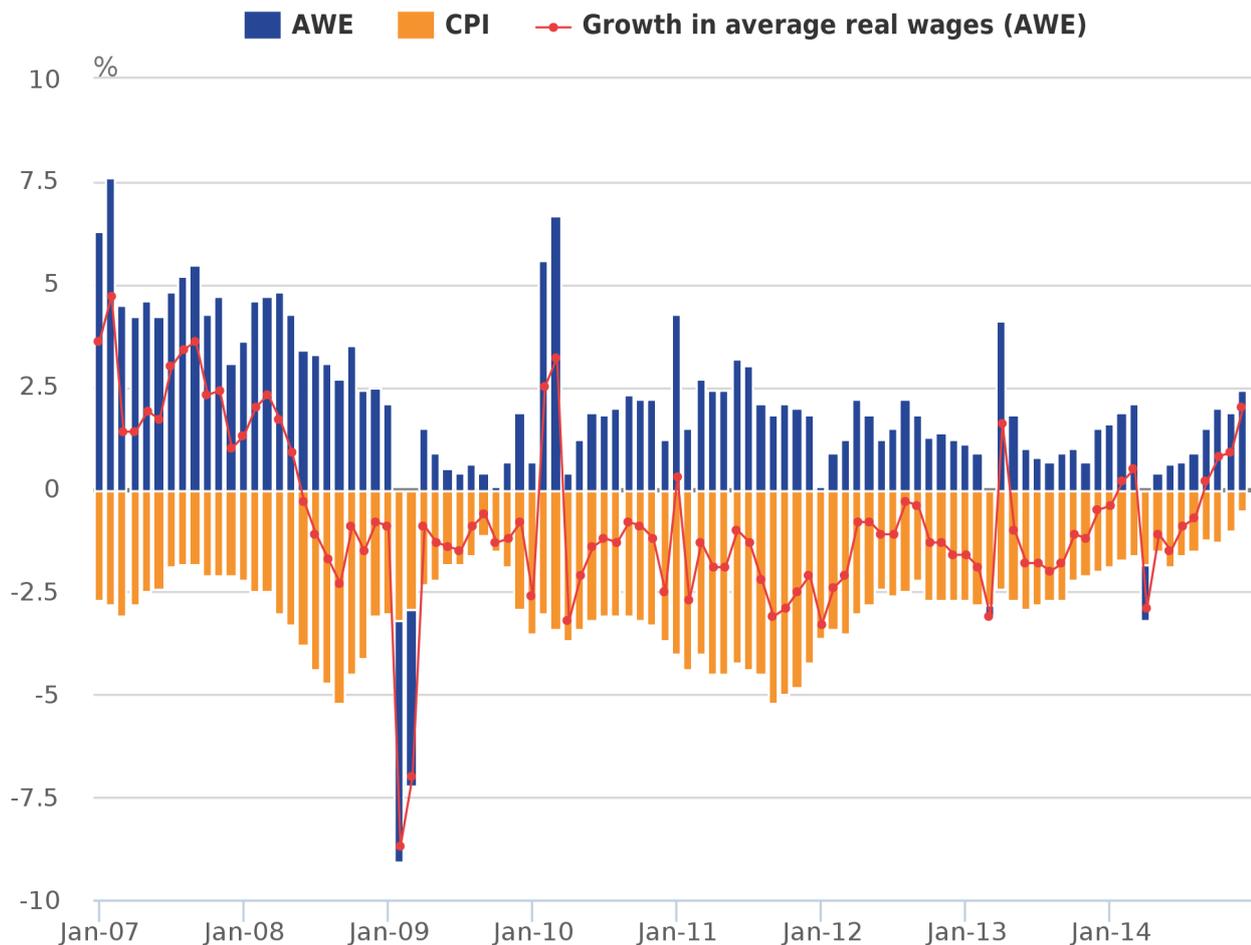


Source: Office for National Statistics

The UK economy grew by 0.5% in the final quarter of 2014, resulting in a growth rate of 2.6% for 2014 as a whole - the strongest calendar year rate of growth since 2007. The economy is now 3.4% above its pre-downturn level of output in Q1 2008 (Figure 1). The services industry continued to be the main driver of growth in output, contributing 0.6 percentage points to the quarterly GDP growth rate. A slowdown in the construction industry weakened the overall picture, with construction output falling by 1.8% on the quarter resulting in a negative contribution of 0.1 percentage points.

The improvement in economic outlook for businesses has fed through to an increase in employment. Figure 1 shows that employment of those aged between 16 and 64 is now 2.6% above its pre-downturn peak, while the employment rate now stands at a joint record high of 73.2% for Q4 2014. Looking at the employment rate split by gender, the increase in employment in Q4 was driven by an increase in the rate of female employment, which now stands at a record high of 68.5%, compared with 78.0% for men.

Figure 2: Contributions to average annual real wage growth: nominal wages and CPI inflation, %



Source: Office for National Statistics

Notes:

1. CPI is the rate of Consumer Prices Index inflation. It is shown as negative here to demonstrate the impact it has on real wages. AWE (Average Weekly Earnings) is the growth rate of total nominal wages. The real wage series is the AWE series deflated by the CPI.

The resulting fall in labour market slack, with unemployment falling by 0.3 percentage points on the quarter to 5.7% in Q4 2014, could be one of the drivers of an increase in real wages in late 2014. In Q4 2014, regular pay (excluding bonuses) was 1.7% higher than a year earlier and total pay (including bonuses) was 2.1% higher. The rate of Consumer Prices Index (CPI) inflation was 0.5% for the 12 months to December 2014. Figure 2 plots single-month growth rates of total pay as a comparison against CPI. It shows that this recent rise in real wages owes as much to lower rates of inflation as it does to stronger nominal wage growth.

Looking at wage growth split by industry, performance continues to be mixed. The construction industry saw an increase of 3.2% in total pay for Q4 2014 compared to the same period a year earlier. However, hourly real wages in construction remain below their pre-downturn peak ([Economic Review - February 2015](#)), and have fallen by more than in other industries such as manufacturing.

Source: Office for National Statistics

2. Background notes

1. Notes

GDP data is from the "[Gross Domestic Product: Preliminary Estimate - Q4 2014](#)" published on 27th January 2015.

Labour Market data is from the "[Labour Market Statistics - February 2015](#)" published on 18th February 2015.

2. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk