

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: 2019 edition provides an examination of recent trends and important movements 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 2019.

We have exceptionally not fully reconciled 2017 annual gross domestic product (GDP) estimates in Blue Book 2019. Instead, we have produced an indicative balance to allow further time for final quality assurance of the estimates. As such, there remains a statistical discrepancy in the income measure of GDP for 2017. The reference year and last base year for all chained volume measure estimates remains as 2016.

2 . Gross domestic product (GDP) and the headline economy

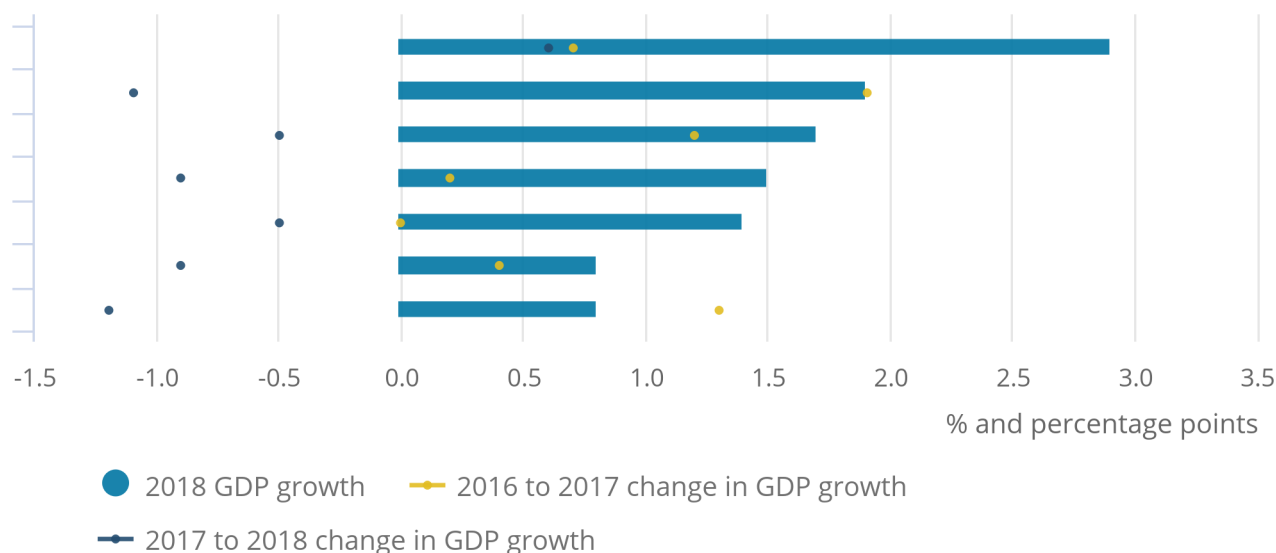
This section provides information on the headline economy, including the latest estimates of UK gross domestic product (GDP), which records how much output was produced in the UK in any given year. The UK economy grew by 1.4% in 2018 in volume terms, easing from 1.9% in 2017 and marking the slowest rate of annual GDP growth since 2009. In nominal terms, GDP grew 3.3% in 2018, an easing from the 3.8% growth in 2017.

There have also been signs of a slowdown in the global economy. Figure 1.1 shows how the UK economy has fared compared with other G7 countries in the last few years. In 2017, the UK was the only advanced economy not to experience a pickup in its rate of growth. The UK was the second slowest growing G7 economy that year, in line with Japan but ahead of Italy. This loss in momentum became more global in 2018 with every G7 country – except the United States – experiencing a slowdown in their economy.

The latest estimates show that the UK was only the fifth fastest growing advanced economy in 2018, ahead of Italy and Japan. The latest [Interim Economic Outlook \(PDF, 532KB\)](#) produced by the Organisation for Economic Co-operation and Development (OECD) attributes the global slowdown to “high policy uncertainty, ongoing trade tensions and a further erosion of business and consumer confidence”. This chimes with the latest [World Economic Outlook](#) produced by the International Monetary Fund (IMF), which states that trade tensions dent sentiment and slow investment, posing a risk to the global outlook.

Figure 1.1: The UK economy was the fifth-fastest growing G7 economy in 2018 with signs of a slowdown in the wider global economy

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Source: Office for National Statistics and Organisation for Economic Co-operation and Development (OECD)

Notes:

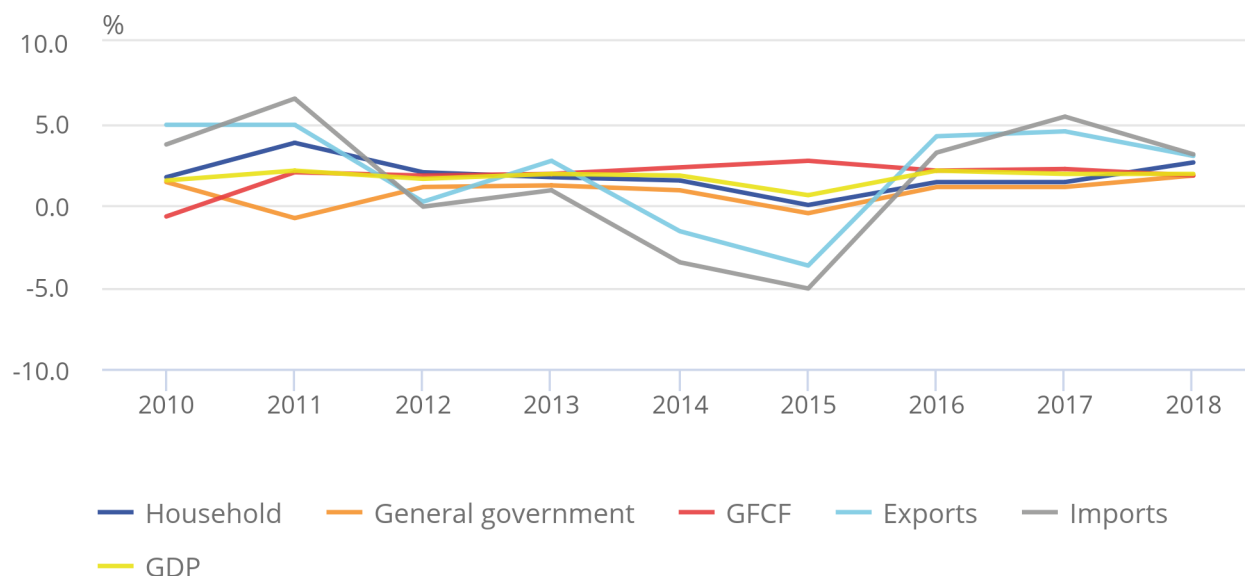
1. Change in growth calculated from rounded estimates.
2. Data are calculated from quarterly estimates taken from OECD and are correct at point of compilation.

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 2018, the implied GDP deflator grew by 1.9%, in line with the growth rate in the previous year. This was slightly stronger than the five-year average of 1.7%. Reflecting these price movements, nominal GDP growth in the UK economy was 3.3% in 2018, below its five-year average annual growth rate of 3.7%.

The increase in the implied GDP deflator in 2018 reflected strengthening price growth in the implied deflators for households and the general government (Figure 1.2). However, this was offset by falls in the implied deflators of the other expenditure components, namely gross fixed capital formation (GFCF), exports and imports. In particular, there were notable drops in the growth rates of both the implied export and import deflators in 2018. Following a strong increase of 5.4% in 2017, growth in UK nominal import prices eased to 3.1% in 2018, while nominal export price growth slowed from 4.5% in 2017 to 3.0% in 2018.

Figure 1.2: Increases in the household and general government implied deflator growth rates in 2018 were offset by declines in the implied deflator growth rates of GFCF, exports and imports

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Source: Office for National Statistics

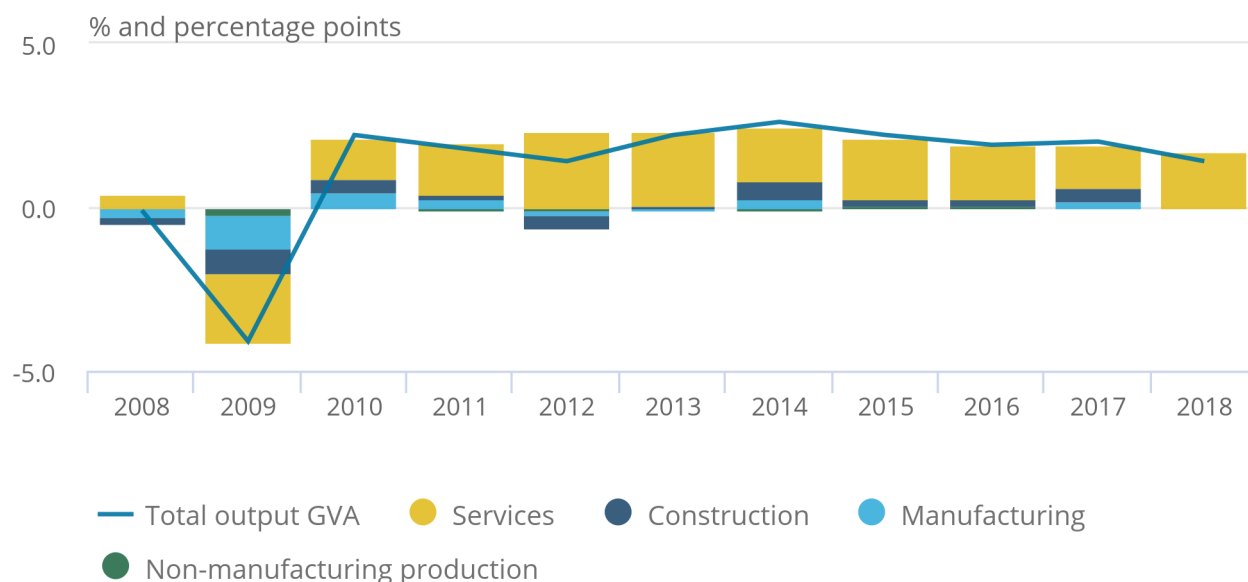
3 . Industrial analysis

Growth in the output approach to measuring gross domestic product (GDP) eased from 2.0% to 1.4% in 2018 (Figure 1.3), largely reflecting the slowdown in the manufacturing industry. Following growth of 2.2% in 2017, manufacturing output growth eased to 0.4% in 2018. These movements are likely a reflection of the strength in global GDP growth in 2017 and the subsequent slowdown in the global economy in 2018.

Following five consecutive years of expansion, construction output fell by 0.4% in 2018. Meanwhile, services continued to provide a boost to output growth for the ninth year running. Output in the services industry increased by 2.1% in 2018, a strengthening from the growth seen in the previous two years.

Figure 1.3: The contribution of manufacturing to growth fell in 2018, while services increased its contribution to growth

Figure 1.3: The contribution of manufacturing to growth fell in 2018, while services increased its contribution to growth



Source: Office for National Statistics

Notes:

1. Chart shows contribution to annual real GDP growth.
2. Components contributions may not sum to total due to rounding.

The strengthening in services output is mainly the result of professional scientific admin and support, which grew 4.2% in 2018. Strong growth in wholesale and retail trade and transport, storage and communications also played a role, with growth in the former strengthening from 2.5% in 2017 to 3.1% in 2018.

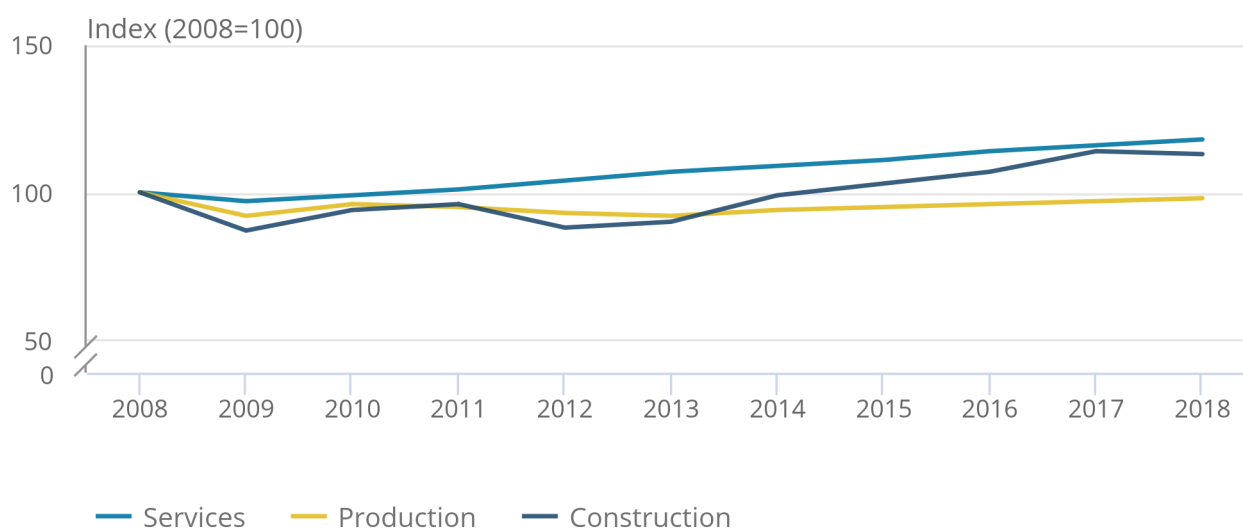
Figure 1.4 illustrates the relative performance of the industries of the UK economy a decade on from the financial crisis in 2008, showing how much higher or lower output is relative to their 2008 levels. Services output initially fell in 2009, reflecting decreases in output in distribution, hotels and restaurants, transport storage and communications, and business services and finance. However, services output has grown steadily every year since, with 18% growth over the last 10 years.

The path of construction was relatively volatile in the first five years following the financial crisis in 2008, though this has been more stable in recent years. Following five consecutive years of expansion, construction output fell by 0.4% in 2018. Overall, construction output is 13% higher than its 2008 level.

Production is the only industry where output is below its 2008 level, though production output is higher than the trough in 2009. The lack of recovery in the production industries is seen in both manufacturing and non-manufacturing. In the manufacturing industry, output is broadly in line with where it was in 2008. Turning to non-manufacturing, electric, gas, steam and air, and mining and quarrying have fallen since 2008 by 5% and 31% respectively. Water supply and sewerage is the only production area to have surpassed its 2008 level, with growth of 15% over the last ten years.

Figure 1.4: Services output has grown steadily since 2009 while the path of construction has been more volatile over the last ten years

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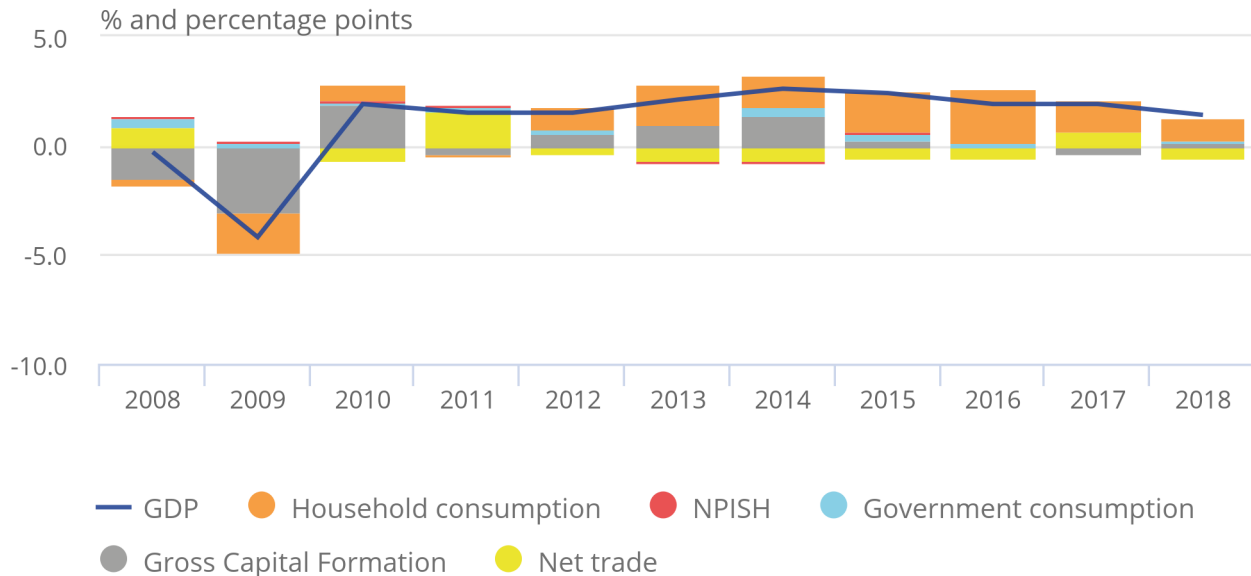
Source: Office for National Statistics

4 . Spending in the UK economy

Figure 1.5 shows how UK gross domestic product (GDP) has evolved over the last 10 years by looking at the contributions to real UK GDP growth by expenditure component. Household consumption growth slowed from 2.3% in 2017 to 1.6% in 2018, representing the slowest rate of growth since 2012. Gross capital formation made a positive contribution to growth in 2018, a reversal from the previous year, while net trade went from making a positive contribution in 2017 to being a drag on growth in 2018.

Figure 1.5: Private consumption growth slowed in 2018

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Source: Office for National Statistics

Notes:

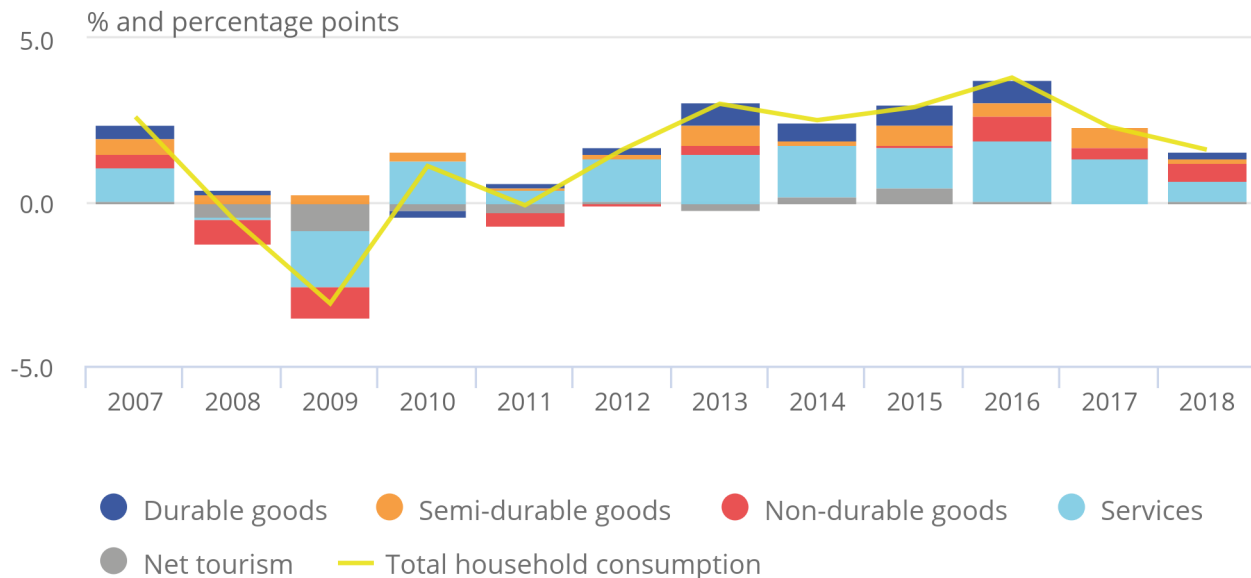
1. Chart shows contribution to annual real GDP growth.
2. Components contributions may not sum to total due to rounding. The statistical discrepancy is also not displayed.

The slowdown in real household consumption in 2018 is echoed in the Quarter 4 (Oct to Dec) 2018 [Bank of England Agents' Summary of Business Conditions \(PDF, 1.4MB\)](#), which noted that “uncertainty related to Brexit and subdued housing market activity weighed on demand”. The [GfK Consumer Confidence](#) figures in December found that consumers were much less confident at the end of the year, with its reading at the lowest for more than five years.

Analysis by type of good shows that the slowdown in household consumption is primarily driven by services (Figure 1.6). The slowdown in spending on services in 2017 continued in 2018, with growth of 1.0% in 2018 representing the slowest rate in seven years. This trend is also noted in the [Bank of England Agents' Summary of Business Conditions \(PDF, 1.4MB\)](#) which highlighted muted growth in consumer services.

Figure 1.6: The slowdown in household consumption continued in 2018, primarily driven by services

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Source: Office for National Statistics

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1. Chart shows contribution to annual real household consumption growth.
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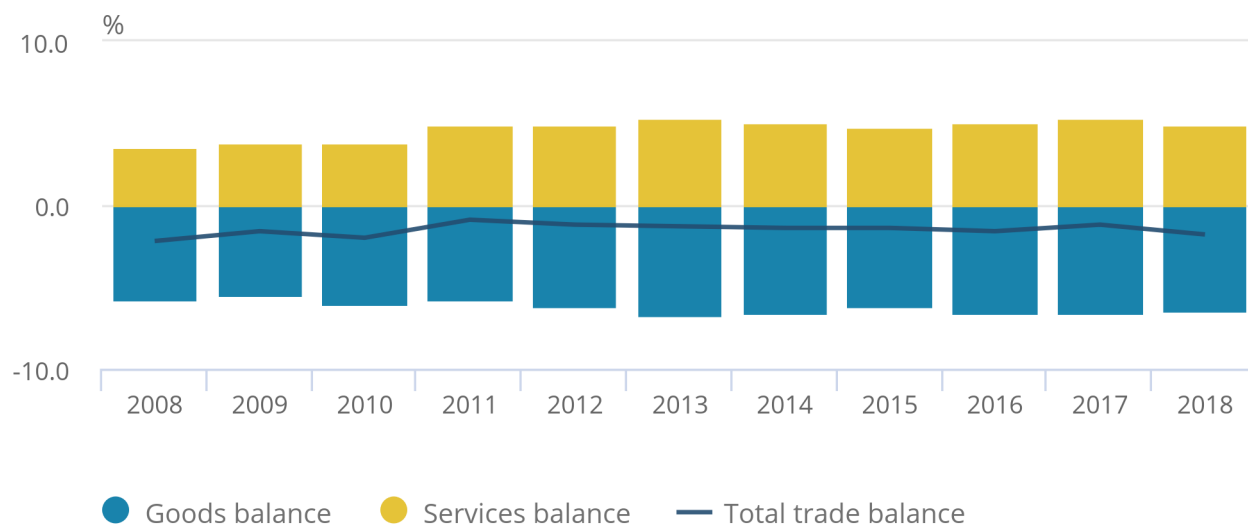
Business investment fell by 0.4% in 2018, reflecting four consecutive quarters of decline throughout 2018. The [Bank of England Inflation Report \(PDF, 4.2MB\)](#) stated that the weakness in business investment appears to “primarily reflect Brexit and associated uncertainty”. Similarly, the 2018 Quarter 4 [Decision Makers' Panel](#) highlighted EU exit as one of the top sources of uncertainty for UK businesses.

Net trade was the only expenditure component to contribute negatively to real GDP growth in 2018, possibly reflecting the impact of a global slowdown on trade. Import volumes grew 0.7% in 2018 while export volumes fell 0.9% – the first decline since 2009 when export volumes fell 7.8%.

The UK trade deficit widened from 1.2% of nominal GDP in 2017 to 1.8% of nominal GDP in 2018. Figure 1.7 shows that while the goods deficit decreased slightly in 2018, there was a relatively larger fall in the services balance. The decrease in the services balance was driven by a 6.6% increase in the nominal value of services imports, offsetting the 2.0% growth in the nominal value of services exports.

Figure 1.7: The trade deficit widened to 1.8% of nominal GDP in 2018 because of a fall in the services balance

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Source: Office for National Statistics

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.

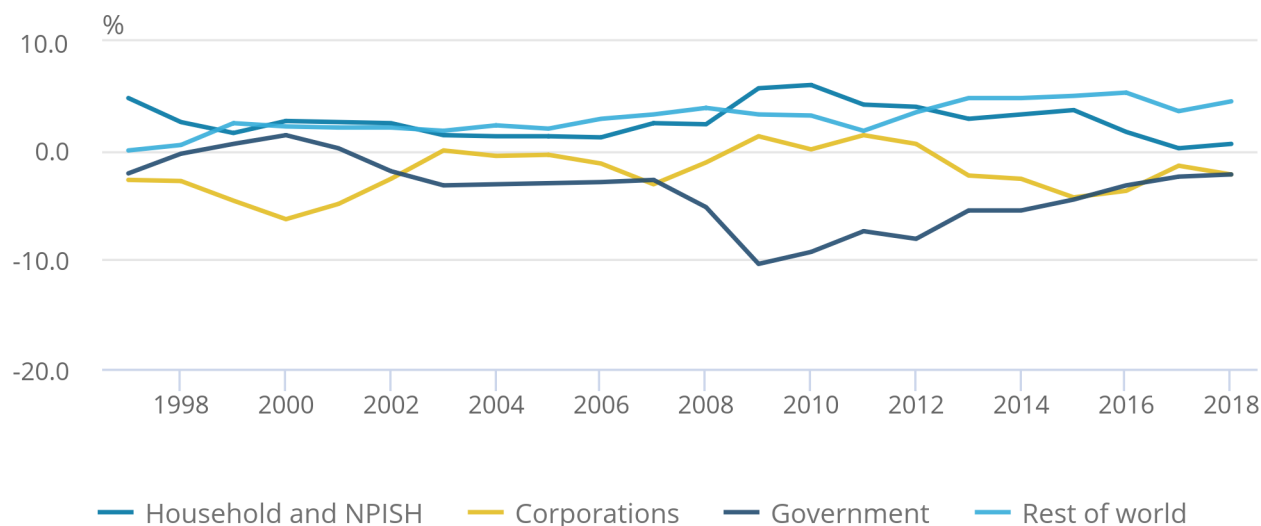
Figure 1.8 shows the net lending and borrowing position for each sector in the UK and from the rest of the world. The rest of the world continues to be a net lender to the UK, financing the overall net borrowing position of the domestic sectors. Corporations and government are net borrowers, while households are net lenders.

In 2018, households and non-profit institutions serving households (NPISH) were a net lender of 0.6% of gross domestic product (GDP). This is a reflection of the 0.7% net lending position of households in 2018, up from 0.1% in 2017. 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 2.2% of GDP in 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 2018, their net borrowing position was 2.2% of GDP. UK net borrowing from the rest of the world increased to 4.5% of GDP in 2018 compared with 3.6% of GDP in 2017.

Figure 1.8: Households increased their net lending position in 2018 while corporations' net borrowing increased

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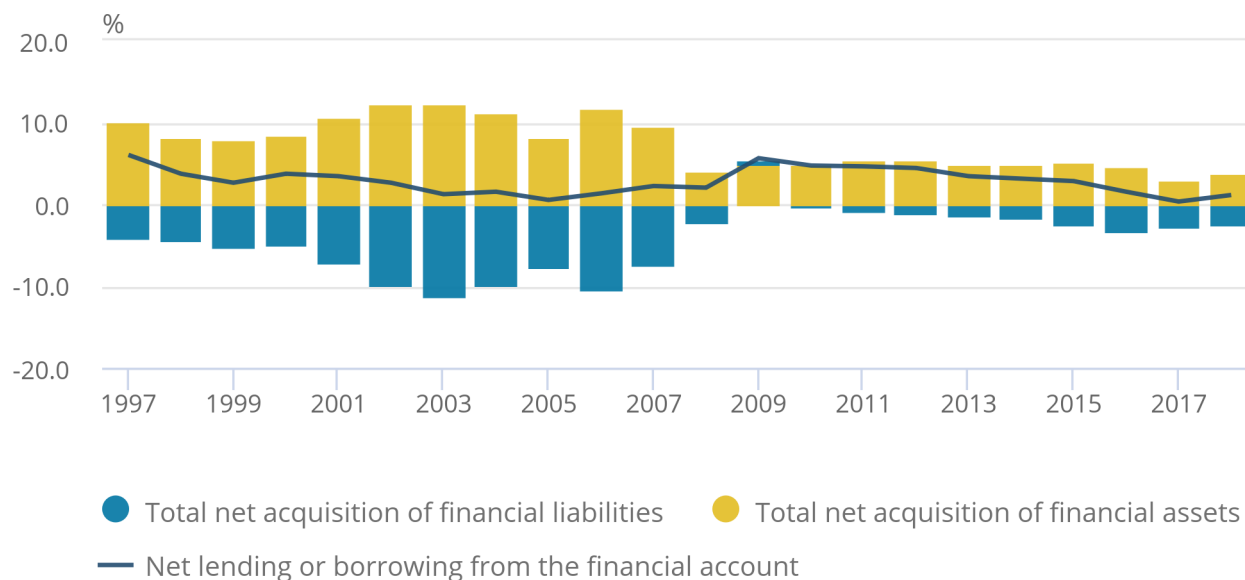


Source: Office for National Statistics

Household net lending in the financial account as a percentage of GDP increased in 2018, the first increase since 2009. As Figure 1.9 shows, households reduced their net acquisition of financial liabilities for the second year in a row. At the same time, households markedly increased their net acquisition of financial assets, leaving a net lending position of 1.1% of GDP in the financial account of the household sector in 2018.

Figure 1.9: Household net lending in the financial account increased in 2018 for the first time since 2009

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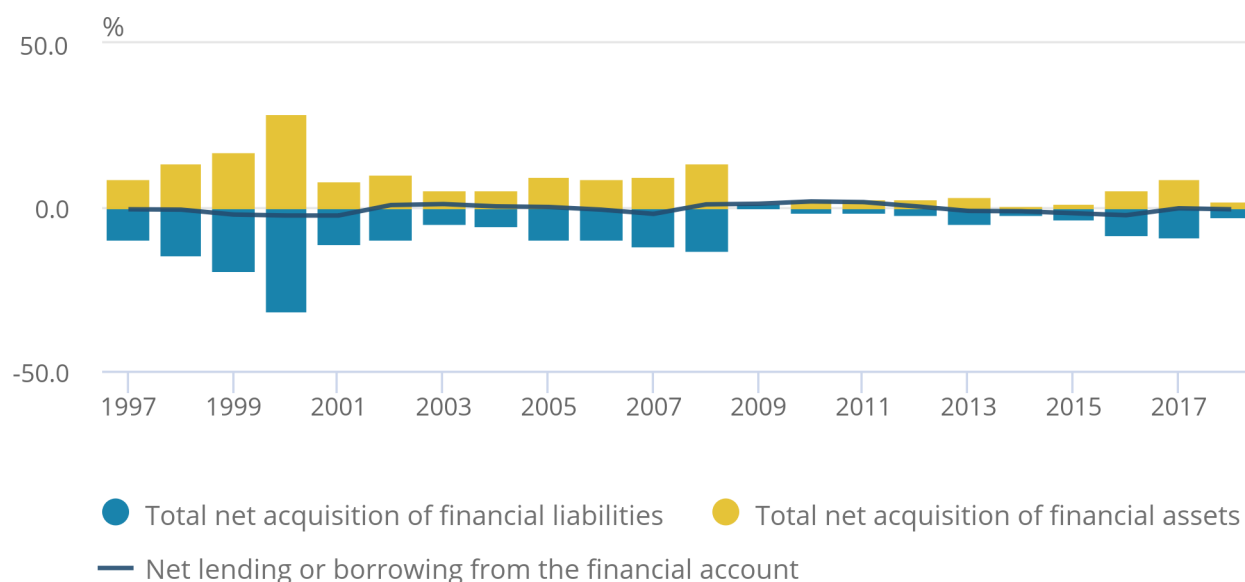
Source: Office for National Statistics

The increase in household net lending in 2018 reflects the 5.3% growth in gross household disposable income (GHD). This growth in GHD was stronger than the 2.5% increase in the household consumption deflator in 2018, with the result that real household disposable income (RHDI) increased by 2.7% in 2018, compared with 1.4% growth in 2017. With nominal household expenditure growth of 4.2% in 2018, the relatively stronger 5.3% growth in GHD helped boost gross savings by households in 2018. Gross saving in the household sector increased by £15.5 billion in 2018 following a £22.9 billion drop in 2017, with the households' saving ratio rising from 5.3% in 2017 to 6.1% in 2018.

Private non-financial corporations' (PNFCs) net borrowing in the financial account was 0.7% of GDP in 2018 (Figure 1.10). Although PNFCs reduced their net acquisition of financial liabilities in 2018, they also decreased their net acquisition of financial assets – the first decrease following three consecutive years of increase – increasing their net borrowing position from the previous year.

Figure 1.10: Following three consecutive years of increase, private non-financial corporations (PNFCs) decreased their net acquisition of financial assets in 2018

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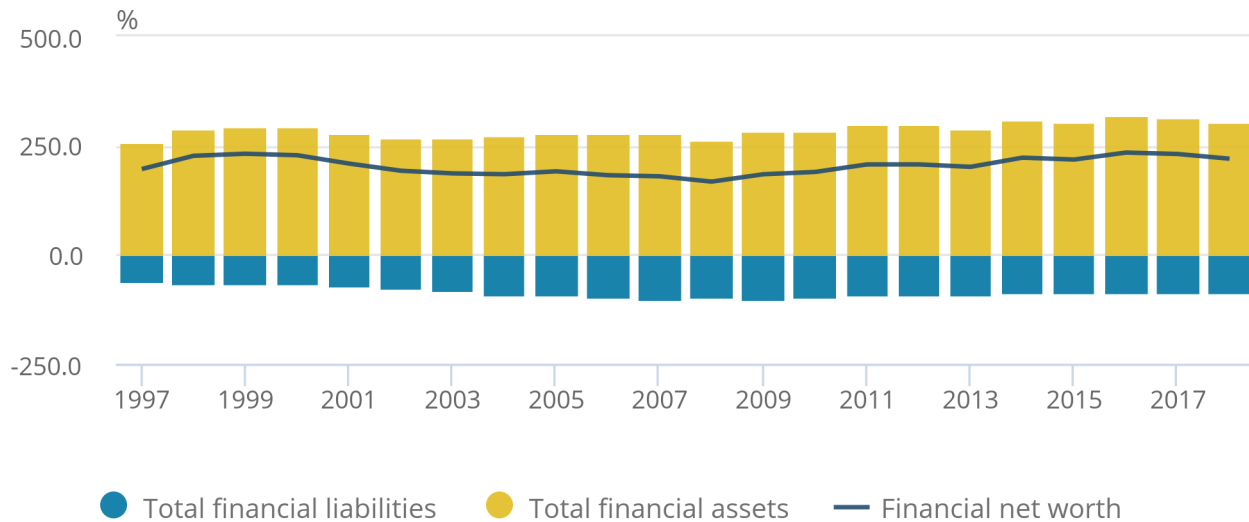


Source: Office for National Statistics

From a financial balance sheet position, household financial assets decreased in value to £6.5 trillion – or 305.0% of GDP – in 2018 (Figure 1.11). Meanwhile, the value of household financial liabilities increased to £1.8 trillion, though this remained unchanged from the previous year as a share of GDP. Household financial liabilities as a percentage of GDP have been on a steady decline since 2009, falling from 99.5% of GDP to 85.4% in 2018. With the concurrent fall in the value of household financial assets and rise in the value of household financial liabilities, household financial net worth as a share of GDP fell to 219.6% of GDP in 2018.

Figure 1.11: Household financial net worth fell to 219.6% of gross domestic product in 2018

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Source: Office for National Statistics