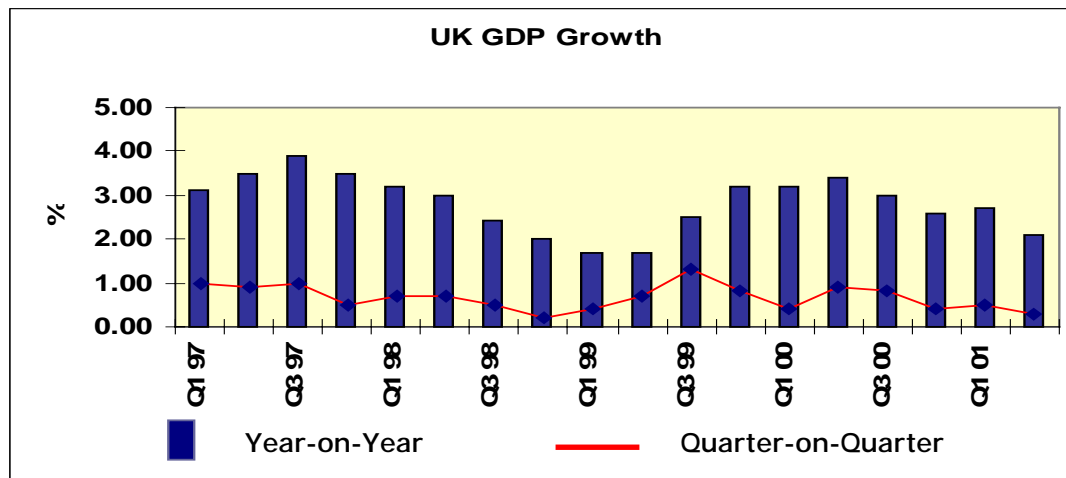




UK GDP Show Further Easing in Economic Activity



GDP at Constant Market Prices			Total Service Industries	
<i>Index 1995= 100</i>	% Change on		% Change on	
<i>Seasonally adjusted</i>	Previous Quarter	A Year Earlier	Previous Quarter	A Year Earlier
2000 Q2	0.9	3.4	1.0	3.5
Q3	0.8	3.0	1.1	3.6
Q4	0.4	2.6	0.7	3.3
2001 Q1	0.5	2.7	0.9	3.7
Q2	0.3	2.1	0.6	3.4

Source: Office for National Statistics (ONS)

According to preliminary estimates UK economic activity slowed considerably in the three months to June. GDP increased by 0.3% to give a year-on-year growth rate of 2.1%. Both numbers were in line with expectations but constitute the weakest growth rate for two and a half years. In the previous three months, the economy expanded by 0.5%, or 2.7% y-on-y.

The slowdown in the economy was driven by a sharp downturn in industrial production. This was entirely due to a decline in manufacturing. As industrial production data for the three months are still not released, composite growth data on this sector were not available. With the global economy still weak and sterling strong, this sector is expected to remain weak for at least the next quarter. The services sector continues to post a reasonably strong growth rate but the pace of activity is easing. Growth in this sector (which accounts for about 2/3 of overall GDP) was 0.6% or 3.4% y-on-y. This was down from 3.7% in the previous three months and is the weakest outturn for more than a year. Growth in the distribution, hotels and restaurant categories was relatively strong. Elsewhere, in transport and communications, business services and finances and in government and other personal services, growth is estimated to have been weaker than in the previous quarter. The key risk for the economy going forward is the extent to which services can withstand the slowdown in the manufacturing sector.

The numbers are unlikely to prompt any interest rate change for the BoE at August's policy meeting. Despite the easing in the pace of economic activity, the minutes of the July BoE policy meeting reveal that only one member, Sushil Wadhvani, voted in favour of easing rates again. The divergence of statements at that meeting do suggest that the committee is uncertain about the outlook for the economy. The MPC said that it is "prepared to adjust rates in either direction in the light of new information".

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