

Recession and recovery

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The UK is out of recession. Are we safe from return? And when will output recover to pre-recession levels?

Following six consecutive quarters of negative growth, the UK economy finally moved out of recession in the last quarter of 2009. The economy had moved into technical recession in the third quarter of 2008 as GDP fell for a second successive quarter.

At the height of the recession, GDP fell by 2.6% in a single quarter (Q1 2009) – the same percentage by which the economy expanded during the whole of 2007.

The recession was the 'deepest' recession (in terms of lost output) in the UK since quarterly data were first published in 1955. Actual growth in 2009 saw the sharpest fall in GDP (-5.0%) in a calendar year since official figures began in 1949 and the highest fall since 1931, excluding the recession following the Second World War. The slowdown affected all sectors of the economy, though manufacturing and construction were particularly affected.

A GLOBAL DOWNTURN

The downturn in economic activity was felt across the world, with many countries, including all G7 economies, falling into recession during 2008. So far, GDP has failed to return to pre-recession levels in all of the G7 countries.

The UK was in recession longer than the other G7 economies and was the last to exit. However, Japan (8.7%), Italy (6.9%) and Germany (6.8%) suffered greater total contractions in GDP than the UK's 6.4% and both Japan and Italy have since suffered a further quarter of negative growth. The possibility remains that some EU Member States may experience a 'double-dip', returning to recession after a short period of slow growth.

The UK recession was longer than in other G7 countries - but not as deep as some

Quarter-on-quarter growth, OECD data

	2007Q2	2007Q3	2007Q4	2008Q1	2008Q2	2008Q3	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4
UK	0.6%	0.5%	0.5%	0.7%	-0.1%	-0.9%	-1.8%	-2.6%	-0.7%	-0.3%	0.4%
Canada	1.0%	0.5%	0.3%	-0.2%	0.1%	0.1%	-1.0%	-1.8%	-0.9%	0.2%	1.2%
France	0.4%	0.7%	0.3%	0.5%	-0.4%	-0.2%	-1.5%	-1.3%	0.3%	0.2%	0.6%
Germany	0.3%	0.8%	0.1%	1.6%	-0.6%	-0.3%	-2.4%	-3.5%	0.4%	0.7%	0.0%
Italy	0.2%	0.1%	-0.5%	0.4%	-0.6%	-0.9%	-2.2%	-2.7%	-0.5%	0.5%	-0.3%
Japan	0.2%	-0.1%	0.4%	0.7%	-1.1%	-1.3%	-2.7%	-3.6%	1.5%	-0.1%	0.9%
US	0.8%	0.9%	0.5%	-0.2%	0.4%	-0.7%	-1.4%	-1.7%	-0.2%	0.6%	1.4%

COULD THE UK RETURN TO RECESSION?

Following two successive quarters of (albeit relatively slow) economic growth, the UK economy looks less likely than it once did to suffer a 'double-dip' recession. Government borrowing, though still high, is lower than previously forecast. Although unemployment has risen to around two-and-a-half million, this is lower than some predictions of three million or more. Despite some downward shocks, the FTSE 100 has risen strongly over the past year, and the housing market has shown increasing strength

However, the recovery remains far from secure. Though unemployment seems to have stabilised, employment has continued to fall. The impacts of possible tax rises and cuts to public expenditure are not fully known. Inflation is running well above the 2% target. The Bank of England's base rate may yet have to rise as a consequence.

THE RETURN OF LOST OUTPUT

Output lost during the recession will not be recouped for some time yet. The latest Treasury forecasts are for growth of between 1% and 1½% in 2010, between 3% and 3½% in 2011 and between 3¼ and 3¾% in 2012. However, the latest *average of independent forecasts* suggests that the economy will grow by 1.3% in 2010, 2.1% in 2011 and 2.4% in 2012.

Treasury forecasts suggest GDP may return to the pre-recession level in the second quarter of 2012; the latest *average of independent forecasts* suggests the first quarter of 2013. Regardless, it will be a long time yet before the UK economy recovers to its pre-recession position.

