What is the UK's GDP?

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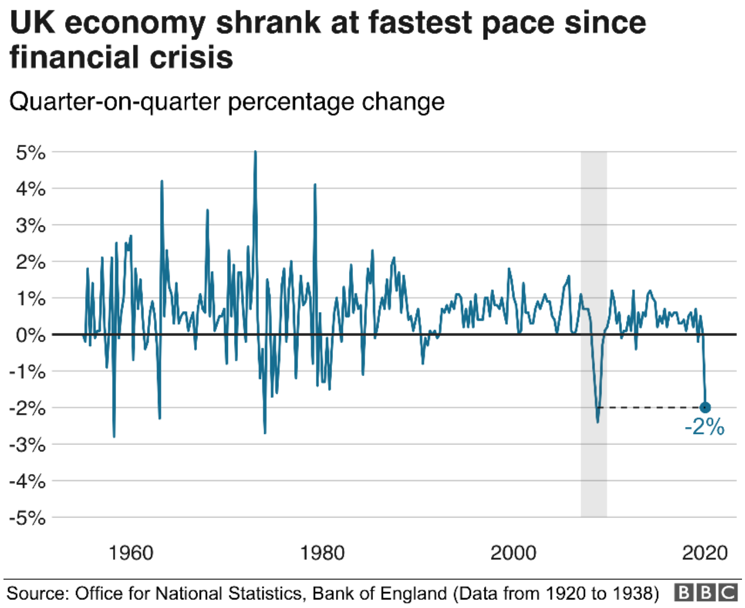
The UK's GDP shrank by 2% in the first three months of 2020, compared with the last three months of 2019, according to the Office for National Statistics (ONS). But what exactly is GDP, and how is it measured in the UK?

What is GDP?

Gross domestic product (GDP) is the sum (measured in pounds) of the value of goods and services produced in the economy.

But the measurement most people focus on is the percentage change - the growth of the country's economy over a period of time, typically a quarter (three months) or a year. It's been used since the 1940s.



The most important percentage change is given in ***real terms*** - it strips out the effect of rising prices or inflation. If the GDP measure is up on the previous three months, the economy is growing, e.g. Q4 in 2018 to Q1 in 2019. That generally means more wealth and more new jobs. If it is negative, the economy is shrinking, e.g. Q1 in 2020.Two consecutive three-month periods of shrinking meets the most widely accepted definition of a **recession.** Has the UK had a recession since 2012?

Given the latest figures and current events, how likely is it that the UK falls into a recession?

How is it measured?

GDP can be measured in three ways:

- **Output measure**: This is the total value of the goods and services produced by all sectors of the economy: agriculture, manufacturing, energy, construction, the service sector and government

- **Expenditure measure:** The value of the goods and services bought by households and by government, investment in machinery and buildings. This also includes the value of exports minus imports

- **Income measure**: The value of the income generated mostly in terms of profits and wages.

In the UK, the ONS publishes one single measure of GDP, which is calculated using all three ways of measuring. But early estimates - such as Friday's figures - mainly use the output measure. It collects data from thousands of UK companies to use in its calculations.

What is it used for?

It's the main way of determining the *health* of the UK economy. The Bank of England uses it as one of the key indicators in setting interest rates. So, for example, if prices are rising too fast, the Bank of England could increase interest rates to try to control them – **see later**. But it might not change interest rates if GDP growth is slow.

The Treasury (Government department responsible for the economy) uses GDP when planning economic policy. When an economy is shrinking, the amount the government gets from taxes tends to fall and the government adjusts its tax and spending plans accordingly. UK GDP is also used internationally by financial bodies such as the World Bank and the International Monetary Fund to compare growth between different countries.

Why is it often changed later?

The UK produces one of the earliest estimates of GDP of the major economies, about 40 days after the quarter in question. This provides the government with an early estimate of the real growth in economic activity. It is quick but mainly based on the output measure. At that stage, only about 60% of the data is available, so this figure is revised as more information comes in. *Is it a good idea to publish so early?*

Revisions can be made later as more information becomes available or when definitions change. The ONS publishes more information on how this is done **on its website**.

What are its limitations?

GDP growth doesn't tell the whole story.

There are lots of things the statistics might not take into account:

- **Hidden economy:** Unpaid work isn't captured in official figures, such as caring for an elderly relative or housewife or househusband

- **Inequality:** GDP growth doesn't tell us how income is split or spread across a population. A rising GDP could result from the richest segment of society getting richer, rather than everyone becoming better off

Plus, GDP is only one way to think about a country's development.

Just because GDP is increasing, it doesn't mean that a citizen's standard of living is improving. For example, in times of war, GDP will often increase because more money is being spent on munitions.

Different countries have developed alternative measures to determine a country's health.

In 2010, **the ONS started measuring wellbeing** and **happiness** alongside economic growth. It looks at health, relationships, education and skills, as well as personal finances and the environment.

New Zealand's Prime Minister, Jacinda Arden, recently released the country's first "wellbeing budget", prioritising health and life satisfaction rather than economic growth.