

GDP

GDP, or Gross Domestic Product, is arguably the most important of all economic statistics as it attempts to capture the state of the economy in one number.

Quite simply, if the GDP measure is up on the previous three months, the economy is growing. If it is negative it is contracting.

And two consecutive three-month periods of contraction mean an economy is in recession.

What is GDP?

GDP can be measured in three ways:

- **Output measure:** This is the value of the goods and services produced by all sectors of the economy; agriculture, manufacturing, energy, construction, the service sector and government
- **Expenditure measure:** This is the value of the goods and services purchased by households and by government, investment in machinery and buildings. It also includes the value of exports minus imports
- **Income measure:** The value of the income generated mostly in terms of profits and wages.

In theory all three approaches should produce the same number.

In the UK the Office for National Statistics (ONS) publishes one single measure of GDP which, apart from the first estimate, is calculated using all three ways of measuring.

Usually the main interest in the UK figures is in the quarterly change in GDP in real terms, that is after taking into account changes in prices (inflation).

How is GDP calculated?

Calculating a GDP estimate for all three measures is a huge undertaking every three months.

The output measure alone - which is considered the most accurate in the short term - involves surveying tens of thousands of UK firms.

The main sources used for this are ONS surveys of manufacturing and service industries.

Information on sales is collected from 6,000 companies in manufacturing, 25,000 service sector firms, 5,000 retailers and 10,000 companies in the construction sector.

Data is also collected from government departments covering activities such as agriculture, energy, health and education.

New GDP figures are released every three months, but they get revised in the interim. Why?

Researchers gather information from thousands of businesses from hairdressers to farmers

The UK produces the earliest estimate of GDP of the major economies, around 25 days after the quarter in question.

This provides policymakers with an early, or "flash", estimate of the real growth in economic activity. It is quick, but only based on the output measure.

At that stage only about 40% of the data is available, so this figure is revised as more information comes in.

They are two subsequent revisions at monthly intervals. But this isn't the end.

Revisions can be made as much as 18 months to two years after the first "flash" estimate. The ONS publishes more information on how this is done [on its website](#).

What is GDP used for?

GDP is the principal means of determining the health of the UK economy and is used by the Bank of England and its Monetary Policy Committee (MPC) as one of the key indicators in setting interest rates.

So, for example, if prices are rising too fast, the Bank would be expected to increase interest rates to try to control them. But it may hold off if GDP growth is sluggish, as higher rates could damage the recovery. That is the situation at the moment.

The Treasury also uses GDP when planning economic policy. When an economy is contracting, tax receipts tend to fall, and the government adjusts its tax and spending plans accordingly.

UK GDP is used internationally by the various financial bodies such as OECD, IMF, and the World Bank to compare the performance of different economies.

The European Union also uses GDP estimates as a basis for determining different countries' contributions to the EU budget.

The information in this article was provided by the Office for National Statistics.