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## Economy continues to contract

Against expectations, the UK economy again contracted in the third quarter of 2009. The figures released today by the Office of National Statistics show a decrease in Gross Domestic Product (GDP) of 0.4% compared to Q2. This equates to a year on year fall of 5.2%, marginally better than the 5.5% annual decline recorded in Q2. GDP is a measure of total economic activity and is one of the key indicators of economic performance. The UK economy has now contracted for six successive quarters for the first time since records began in 1955.

It was widely believed that the latest statistics would show a growth of 0.2% in the third quarter. However, a drop in the value of the services sector contributed significantly to the unexpected drop. Service industries account for 76% of the economy and shrank 0.2% in quarter 3, in contrast to the modest growth that was anticipated. Distribution, hotels and restaurants contributed most to the fall, recording a 1% fall compared to a 0.4% decrease in the previous quarter. Production output fell by 0.7%, with construction output decreasing by 1.1%. Within the production figures, agriculture, forestry and fishing output decreased by 1.6% although this represented a slowdown on the previous quarter.

Q3 GDP figures will be revised at the end of November, and will again be the focus of much attention. Figures have historically tended to be revised upwards as more data becomes available, although this hasn't necessarily been the case of late.

Other key indicators continue to be monitored closely by business analysts. For example, the unemployment rate increased to 7.9 per cent for the three months to August 2009. Even after the recession officially ends, we are likely to see unemployment continue to rise in the UK given the lag that typically occurs between economic recovery and increased job opportunities. This will impact on the speed of recovery of demand for goods and services.

Nonetheless, the economic recovery is likely to be even slower than many were predicting, given this latest data shows the UK has not yet returned to growth and lags behind our European neighbours. The figures are likely to add pressure on the Bank of England to extend the quantitative easing programme as a way of stimulating the economy.

**GDP quarterly growth**  
(Office of National Statistics)

