(BN) U.K.’s Bigger-Than-Forecast Slump Pressures Cameron: Econom
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U.K.’s Bigger-Than-Forecast Slump Pressures Cameron: Economy
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By Scott Hamilton and Jennifer Ryan

July 25 (Bloomberg) -- The U.K. economy shrank the most since 2009 in the second quarter and more than economists forecast, increasing pressure on Prime Minister David Cameron to abandon Britain’s biggest budget squeeze since World War II.

Gross domestic product fell 0.7 percent from the first quarter, when it dropped 0.3 percent, the Office for National Statistics said in London today. Economists forecast a 0.2 percent decline, according to the median of 36 estimates in a Bloomberg News survey. Second-quarter data were hurt by record rainfall and an extra public holiday which may have masked an underlying better performance, the ONS said.

Signs of a deepening recession may add to calls for the government to do more to boost growth even after the Bank of England started a credit-easing program and increased emergency bond purchases. The International Monetary Fund said last week Chancellor of the Exchequer George Osborne might have to ease his fiscal squeeze and the central bank should expand stimulus further if efforts to kick-start the economy fail to deliver.

“It is looking very unlikely that growth on average for this year can get on the right side of zero -- more likely a small contraction,” said Alan Clarke, an economist at Scotiabank in London. “Can the coalition government or the BOE do anything about the rain or lost working days? No, but that won’t stop claims that austerity is to blame and the BOE should do more.”

Pound Falls

The pound weakened versus 13 of its 16 major peers and erased its gain against the dollar after the data were published. It was little changed percent at $1.5497 as of 12:01 p.m. in London, having earlier risen as much as 0.3 percent.

Ross Walker, an economist at Royal Bank of Scotland Group Plc in London, said in an interview that without effects from the queen’s Diamond Jubilee holiday last month and the wettest second quarter on record, “the economy is broadly flat.” Barclays Plc estimated one-off factors cut April-June growth by 0.5 percentage point, “setting the scene for a strong rebound.”

The statistics office said the GDP report includes estimates for June that are based on the impact of previous jubilee holidays in 1977 and 1992.

The ONS won’t be able to quantify the impact of the public holiday and weather until statisticians have “further experience against which to judge," said Joe Grice, the statistics office's chief economist. There is greater-than-usual scope for revisions of the number released today, he said at a press conference.

Performance Assessment

"The underlying performance of the economy was probably somewhat better than the headline figure of minus 0.7 percent would suggest," Grice said.

Today's report also showed that manufacturing fell 1.4 percent in the second quarter from the previous three months. Within services, transport, storage and communication dropped 1.4 percent. The biggest drag on the economy was from construction.

Separate data from the Confederation of British Industry today showed manufacturing confidence weakened in July as export prospects worsened. The quarterly gauge of factory optimism fell to minus 6 from 22 in April and the measure of confidence in exports fell to minus 3 from 29, the London-based employers' group said in an e-mailed report.

The U.K. is the first of the Group of Seven nations to report GDP data for the second quarter. U.S. growth probably cooled to a 1.4 percent annual rate in the period from 1.9 percent in the prior quarter, according to a Bloomberg survey. The Commerce Department will publish the data July 27.

IMF's View

The IMF said this month that "further monetary stimulus is required" in Britain and the government should consider "scaling back" its fiscal tightening if growth doesn't build momentum by early 2013.

Concerns are also growing about global growth. The IMF said in a report today that China's slowing economy faces significant downside risks and relies too much on investment. While the economy "seems to be undergoing a soft landing," achieving it is a key challenge, the IMF said.

Germany's Ifo institute in Munich said its business climate index, based on a survey of 7,000 executives, dropped to 103.3 from 105.2 in June. That's the third straight drop and the lowest reading since March 2010. Economists predicted a decline to 104.5, according to a Bloomberg News survey.

The latest slump in U.K. GDP leaves output 4.5 percent below its peak in the first quarter of 2008. It has fallen 0.9 percent since the third quarter of 2010, just after Cameron's coalition government came to power. Cameron and Chancellor of the Exchequer George Osborne have been criticized by the opposition Labour Party for compounding Britain's economic troubles with the fiscal squeeze.

Osborne's View

"We all know the country has deep-rooted economic problems

and these disappointing figures confirm that," Osborne said.
"We're dealing with our debts at home and the debt crisis abroad."

The Bank of England's Monetary Policy Committee expanded its bond-purchase program of so-called quantitative easing by 50 billion pounds ($78 billion) to 375 billion pounds on July 5. Officials said they may review the merits of cutting the benchmark interest rate, currently at a record-low 0.5 percent, once they assess the impact of their new Funding for Lending program.

Today's GDP report "shows the U.K. economy is still very fragile and proactive policy measures will continue to be needed to put in place," David Tinsley, an economist at BNP Paribas SA in London, said in a telephone interview. "So we're still looking for 50 billion pounds of QE in November, supplemented with a 25 basis point rate cut."

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--With assistance from Mark Evans and Svenja O'Donnell in London. Editors: Craig Stirling, Eddie Buckle

To contact the reporters on this story:

Scott Hamilton in London at +44-20-7673-2976 or

shamilton8@bloomberg.net;

Jennifer Ryan in London at +44-20-7073-3492 or

jryan13@bloomberg.net

To contact the editor responsible for this story:

Craig Stirling at +44-20-7673-2841 or

cstirling1@bloomberg.net