

United Kingdom

After registering the largest contraction on record in 2009, at 4.9 percent, the U.K. economy responded by posting growth of 1.3 percent last year. Economic expansion was registered for four consecutive quarters starting with the fourth quarter of 2009. However, the recovery is sputtering as the United Kingdom closed out 2010 with a 0.5-percent decline in economic activity in the fourth quarter of 2010.

As with its euro zone neighbours, gains were most vigorous in trade. Real exports of goods and services advanced 5.3 percent in 2010 after retracting 10.1 percent in 2009. Goods led the increase, up 10.7 percent, while U.K. services exports slipped 2.3 percent. Overall, exports added 1.4 percentage points to economic growth in 2010.

For imports, the rebound was somewhat larger than that observed for exports. Real imports climbed 8.5 percent last year after posting an 11.9-percent decline the year before. Again, goods led the way, up 11.2 percent, while services imports nudged ahead 1.1 percent. The increase in imports, which are a subtraction from GDP, removed 2.4 percentage points from real growth last year.

On the domestic front, household final consumption rose by 0.8 percent during 2010 in contrast to a 3.3-percent decline the previous year. Expenditures on durables led the way, up 2.9 percent, followed by non-durables (1.3 percent), and services (0.5 percent), while semi-durables experienced a reduction of 0.4 percent. The upturn in consumer spending added 0.5 percentage point to real GDP growth.

General government spending also advanced by 0.8 percent in 2010, contributing 0.2 percentage point to growth for the year.

Gross fixed capital formation increased by 3.0 percent in 2010, after having fallen by 15.4 percent in 2009. This expansion added 0.5 percentage point to real output growth in 2010.

Inventories also posted a small net addition in 2010 of nearly £2.6 billion in constant 2006 sterling pounds in contrast to a £16.0 billion drawdown a year earlier.

In the United Kingdom, growth is projected at 1.7 percent in 2011 as front-loaded fiscal consolidation dampens domestic demand. However, the rate of expansion is expected to pick up to 2.3 percent in 2012.

Decomposition of Per-Capita GDP Growth

Economists often use a nation's per-capita real GDP as an indicator of the standard of living of its citizens. Using a method called growth accounting, per-capita real GDP growth can be decomposed into

three key components, which are analyzed to determine their individual effects: labour productivity; labour force participation rate; and the employment rate. The relationship between these components is described by the following equation:

$$\begin{aligned} \% \text{ Change in GDP Per Capita} &= \% \text{ Change in Labour Productivity} \\ &+ \% \text{ Change in Labour Force Participation Rate} \\ &+ \% \text{ Change in Employment Rate} \end{aligned}$$