

Britain fails to exit recession

Third-quarter GDP shrinks unexpectedly; sterling tumbles, gilt prices surge

David Milliken and Christina Fincher

LONDON — Reuters Published on Friday, Oct. 23, 2009 6:44AM EDT

Britain's economy contracted unexpectedly in the third quarter of this year, squashing hopes of an end to the downturn and instead making the current recession the longest on record, official data showed on Friday.

The Office for National Statistics said British gross domestic product fell by 0.4 per cent between July and September, meaning the economy has contracted for six successive quarters for the first time since records began in 1955.

This was much worse than analysts' expectations of a 0.2 per cent rise. Not a single analyst out of the 35 polled by [Reuters](#) before the data had expected a negative reading.

"Third quarter GDP is awful, with no positive news within the report," said James Knightley, economist at ING. "More worryingly from sterling's perspective is the fact that the UK may be the only major economy to have contracted in the third quarter."

With an election due by next June, the length of the downturn will be an embarrassment to Prime Minister Gordon Brown's ruling Labour Party, particularly as Germany and France are already out of recession.

Markets reacted predictably to the data with sterling falling by more than a cent against the dollar and gilt futures surging as traders bet the [Bank of England](#) was likely to keep monetary policy loose for longer.

Year-on-year, output shrank by 5.2 per cent, only marginally better than the record 5.5 per cent annual fall registered in the second quarter. The quarterly decline between April and June was unrevised at 0.6 per cent.

The government has forecast growth will resume by the end of the year and is counting on a stronger rebound in the coming years than most independent forecasters.

The ONS said there had been a peak-to-trough GDP fall of 5.9 per cent during the current recession, compared to 6.0 per cent between the second quarter of 1979 and the first quarter of 1981 — a period when there were some quarters of growth.

Analysts had been pinning their hopes for recovery on months of survey evidence that had pointed to a sharp rise in confidence and activity in the services sector, which makes up three quarters of Britain's economy.

"What is most striking is the still-weak contribution from the services sector," said Stephen Lewis, economist at Monument Securities.

Services contracted by 0.2 per cent over the quarter, with the distribution, hotels and catering sub-sector leading the decline with a 1.0 per cent quarterly drop.

Economists had already expected industrial output to be weak, following a sharp monthly drop in August, and the GDP data bore this out. [Industrial production](#) fell by 0.7 per cent over the quarter, taking its annual decline to 10.4 per cent.

<http://www.theglobeandmail.com/report-on-business/crash-and-recovery/britain-fails-to-exit-recession/article1335182/>