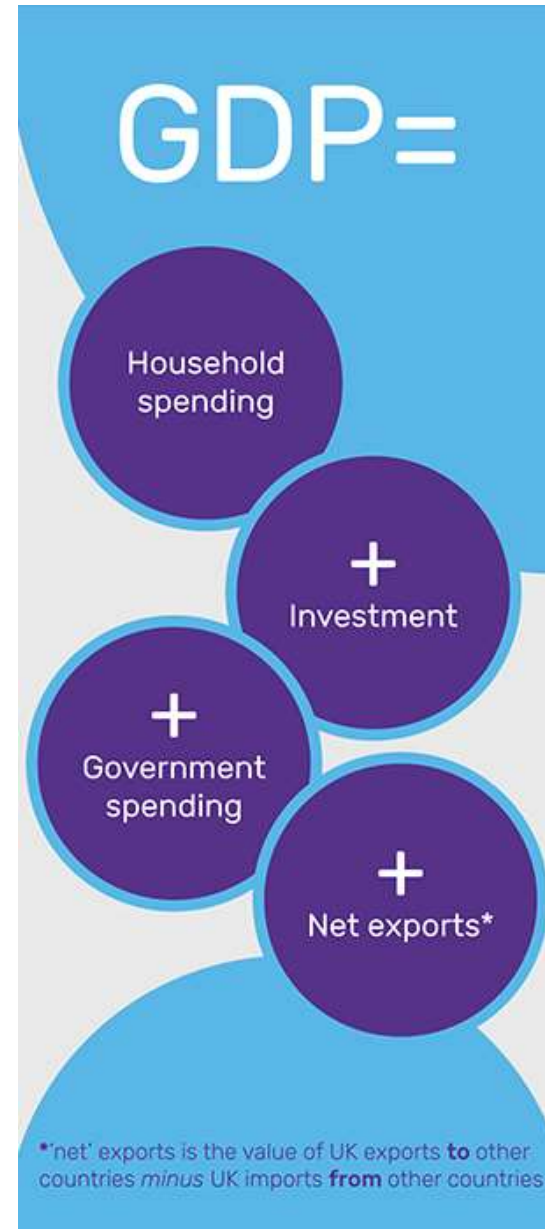


## **Gross Domestic Product – GDP**

- How it is calculated
- Why it is important
- How data is gathered
- Comparisons between countries
- An apparent anomaly

## How it's Calculated



## **Why it's important**

Gross domestic product or GDP is a measure of the size and health of a country's economy over a period of time (usually one quarter or one year).

It is also used to compare the size of different economies at a different point in time.

## How data is gathered

Each quarter, the Office for National Statistics (ONS) collects data from thousands of UK companies.

GDP is calculated three ways, adding up:

- All the money spent on goods and services, minus the value of imports, plus exports
- The money earned through wages and profits
- The value of goods and services produced

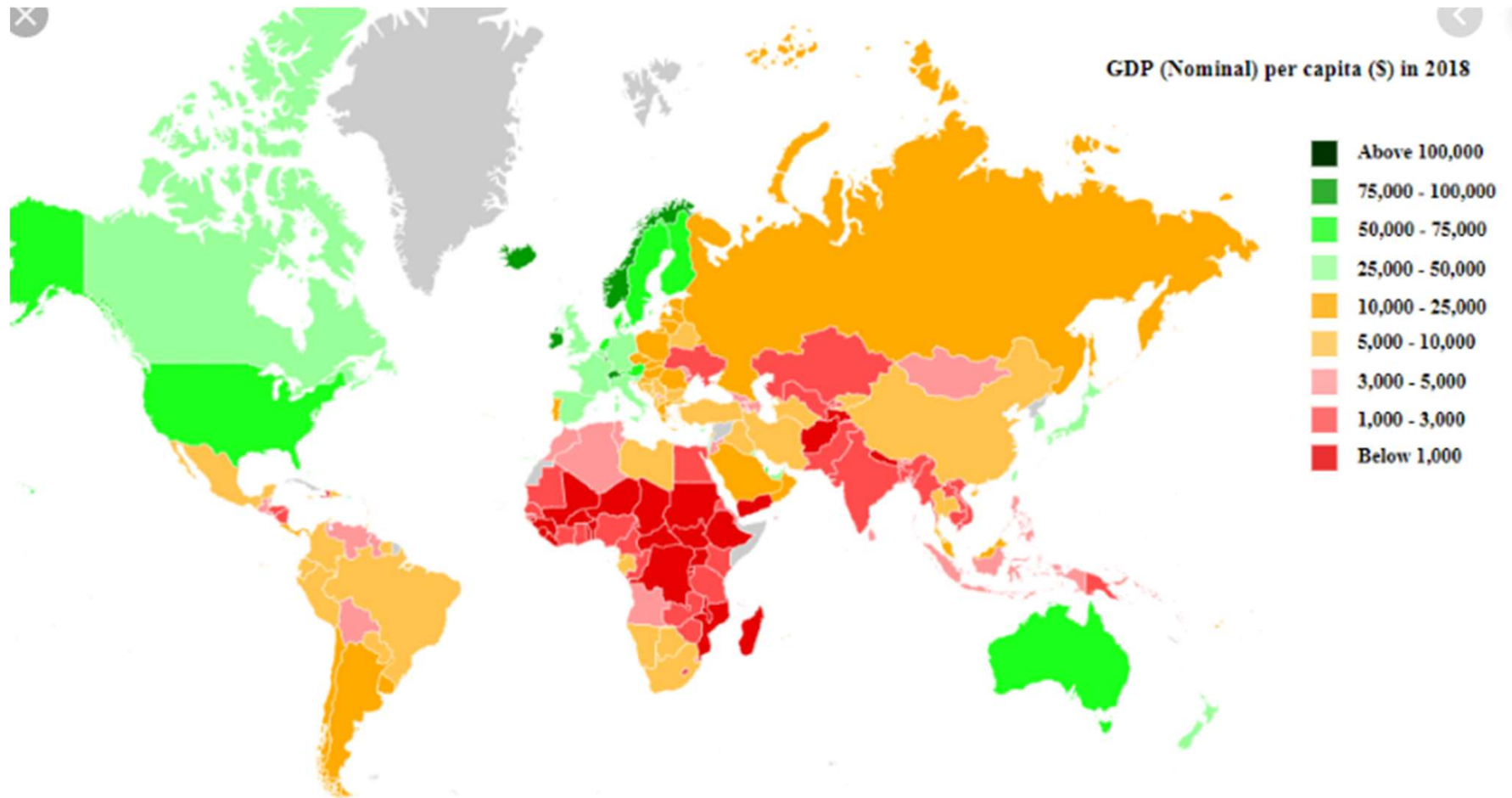
These are known as the expenditure, income and output measures of GDP, respectively. All three different methods of calculating GDP should, in theory, give the same number

# What's not captured in GDP statistics?

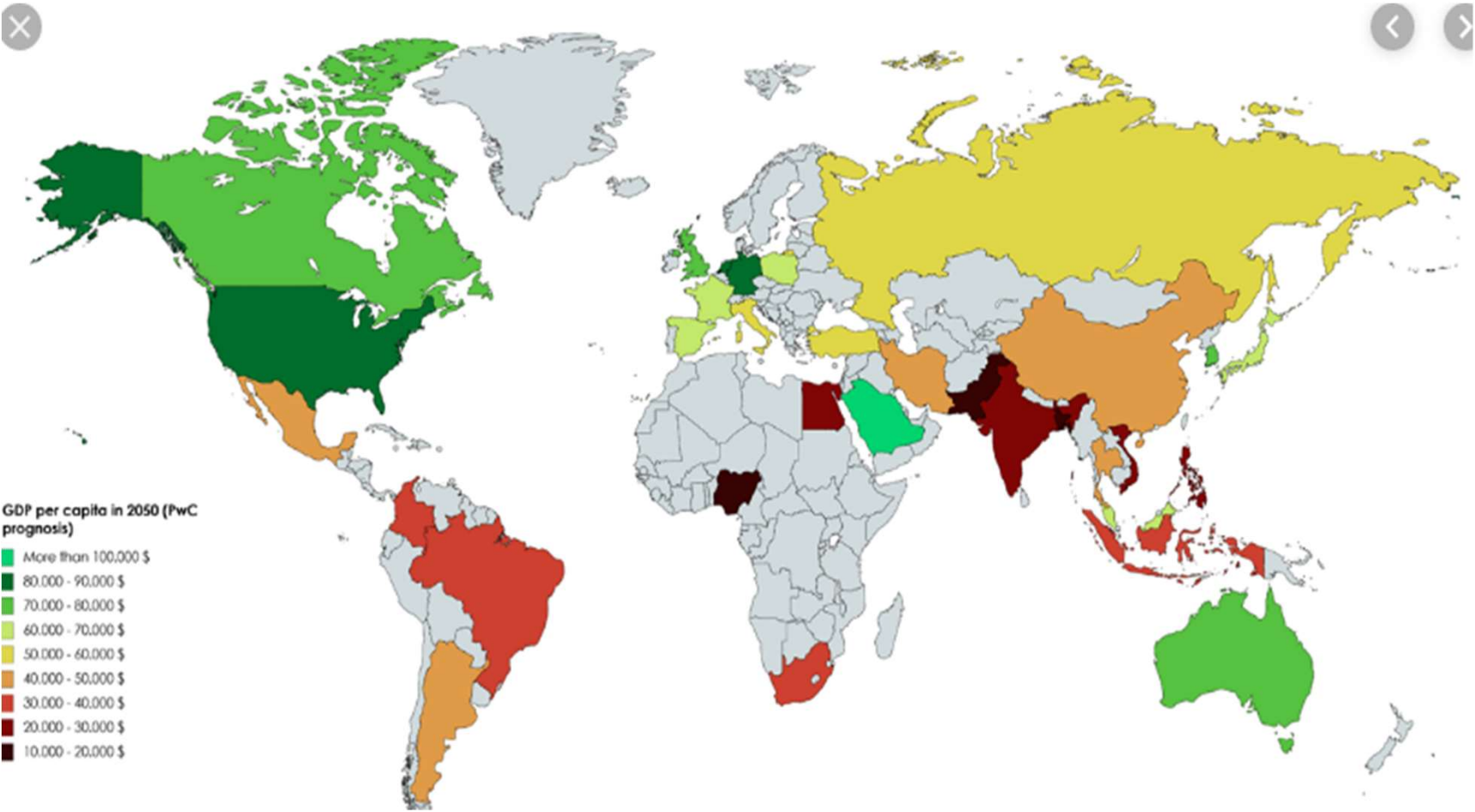
GDP growth, however, is not the whole story when gauging how well economies are doing.

- To begin with, some things have a lot of value but are not captured in GDP because no money changes hands. Caring for an elderly relative would be one example of this.
- As Einstein once said, “Not all that can be counted counts”.
- GDP also doesn't tell us anything about how evenly income is split across the population. Growth could mean everyone becoming better off or just the richest segment getting even richer. In practice it usually lies somewhere between the two.
- If UK GDP rose by 2% next year, but the population grew by 4%, then average income per person would actually have fallen.
- Finally, there are things which raise GDP that don't make the country better off.
  - War is one example (a lot of money is spent, so GDP goes up).
  - If a large chunk of the Amazon rainforest was cut down you'd get a sharp rise in GDP from the sales of timber but at huge environmental cost.

# Comparison between Countries - 2018

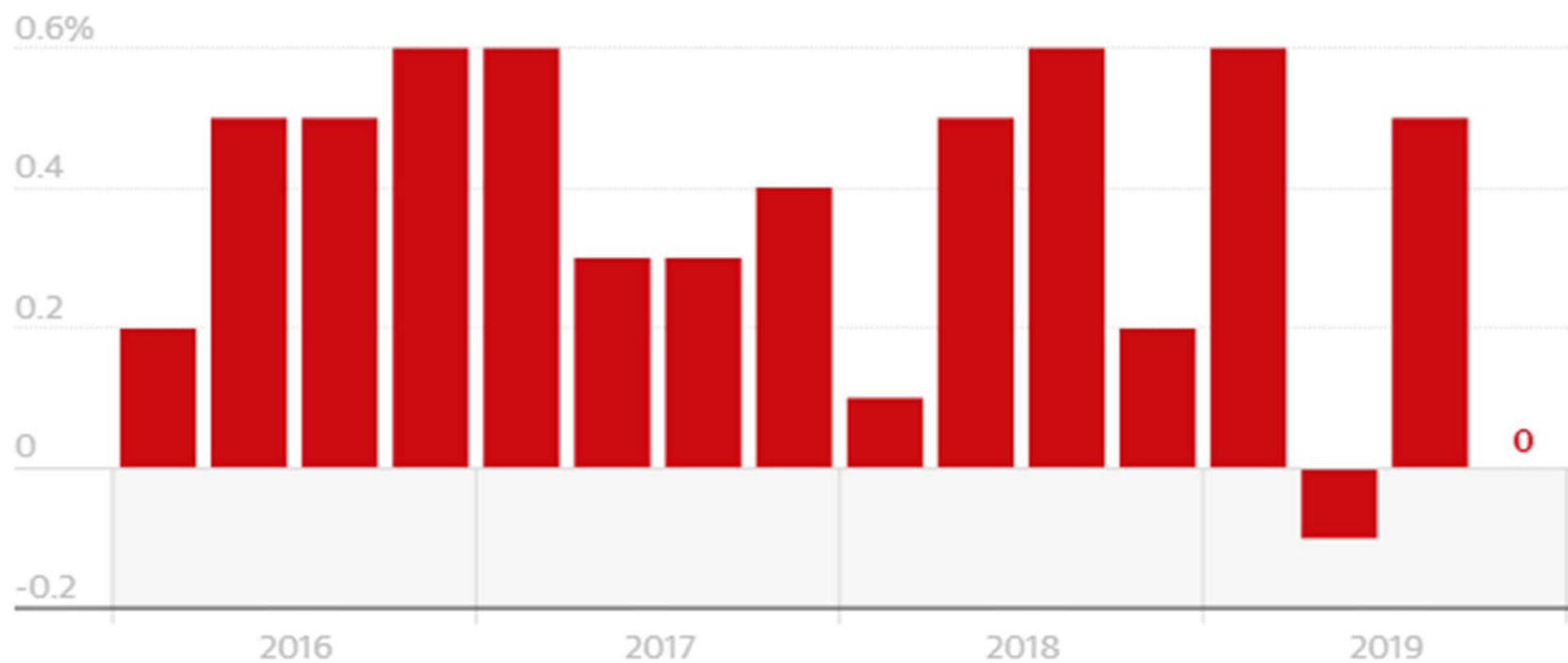


# Comparison between Countries - 2050



## UK GDP was flat in the final quarter of 2019

Quarter-on-quarter growth







In 2008/09, the economy went into deep recession. This led the Bank of England to cut interest rates from 5% to 0.5%.

## OECD downgrades growth forecasts

Economic growth (GDP) expected to slow down in 2020

■ Growth in 2019 ■ Growth forecast for 2020

