



## GDP and the national accounts: 2014 revisions

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A new way of measuring UK GDP was introduced in 2014 by the Office for National Statistics (ONS) who say these revisions are “the most wide-ranging in more than a decade”. A complete series of new GDP data was published on 30 September 2014.

Over the period 1998-2013, average annual real GDP growth has been revised up by 0.1%-points from 1.9% to 2.0%. In more recent years, the revisions have been larger. Over the five years from 2008-2012 growth was revised up in every year, by an annual average of 0.5 %-points (growth in 2013 was unrevised). As a result, the severe 2008-2009 recession was a little shallower than previously thought, with the fall in GDP from its pre-recession peak level to the depth of recession now estimated at 6.0% instead of 7.2%.

The revised figures also show that the recovery from the recession was stronger, with GDP estimated to have returned to its pre-recession GDP peak almost a year earlier than previously estimated – in Q3 2013 instead of Q2 2014.

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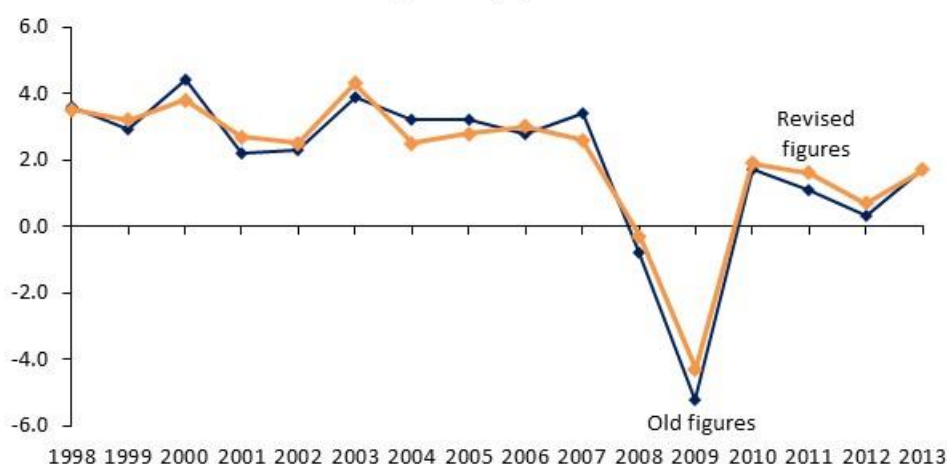
## 1 What's changed?

A new way of measuring UK GDP was introduced in 2014 by the Office for National Statistics (ONS). This involves measurement improvements and new international guidance on what counts as economic output. The ONS says these revisions are “the most wide-ranging in more than a decade”.<sup>1</sup> More detail on these changes can be found in [section 6](#) of this note. On 30 September 2014, the ONS published for the first time a complete series of GDP, and national accounts more broadly, up to Q2 2014 based on this new methodology.

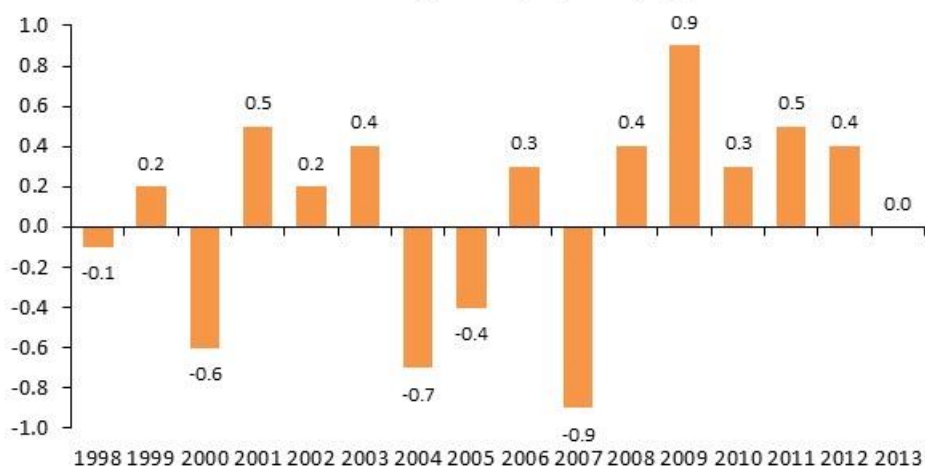
## 2 Changes to annual GDP growth

Over the period 1998-2013, average annual real GDP growth has been revised up by 0.1%-points from 1.9% to 2.0%.<sup>2</sup> Despite this overall average revision being small, there are some large differences in individual years. For instance, GDP growth in 2007 is revised down from 3.4% to 2.6%, while it is revised up from -5.2% to -4.3% in 2009. Over the five years from 2008-2012 growth was revised up in every year, by an annual average of 0.5 %-points. Growth in 2013, however, was unrevised.

Old and revised annual real GDP growth (%)



Revisions to estimates of real GDP growth (%-points) by year

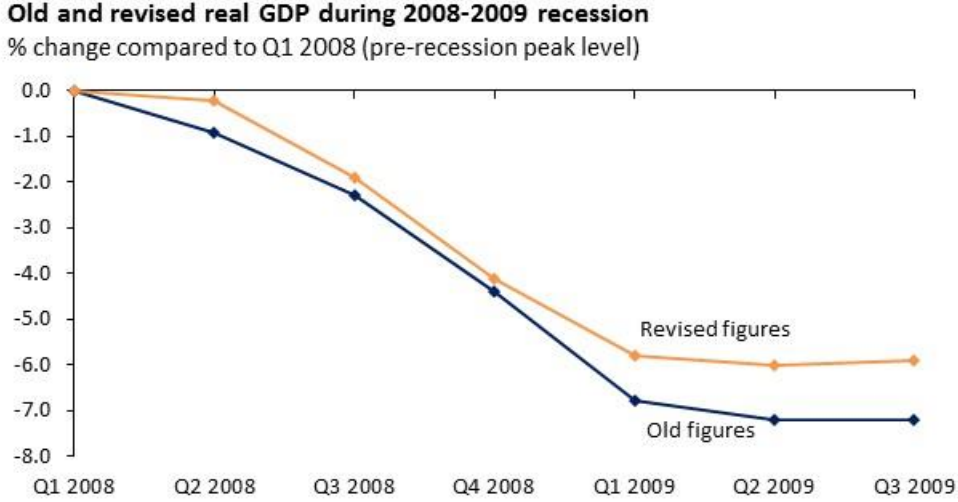


<sup>1</sup> ONS, “[Economic Review – September 2014](#)”, 2 September 2014, p2

<sup>2</sup> All data in this note, unless otherwise noted, are from ONS, Quarterly National Accounts [Q2 2014](#) and [Q1 2014](#); and ONS, “[National Accounts articles, Impact of Upcoming Improvements on Estimates of Real and Nominal Annual and Quarterly GDP, 1997 to 2012](#)”, 3 Sep 2014

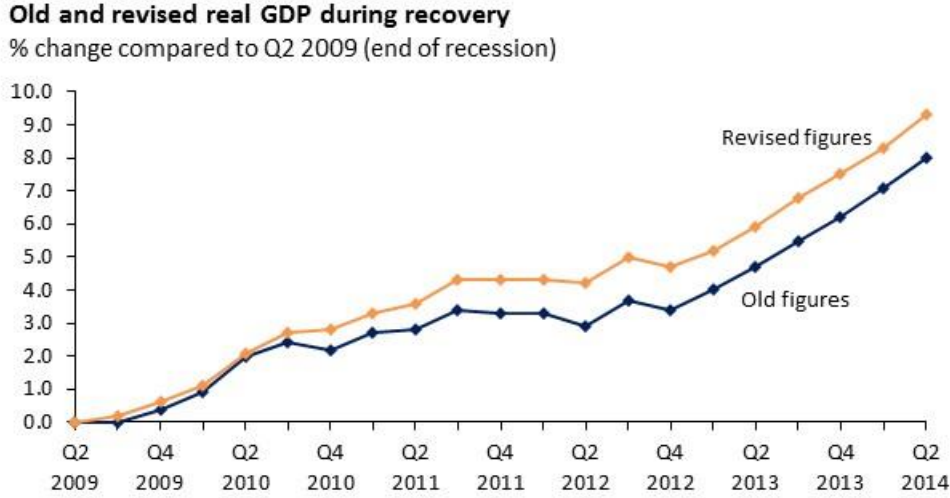
### 3 2008-2009 recession less severe

Revisions to quarterly GDP show that the 2008-2009 recession was a little less severe than previously thought. The fall in GDP from its pre-recession peak level to the depth of recession is now estimated at 6.0% instead of 7.2%. This is still the largest post-war recession but is now thought to be only slightly deeper than the early 1980s recession which saw GDP fall by 5.6%.

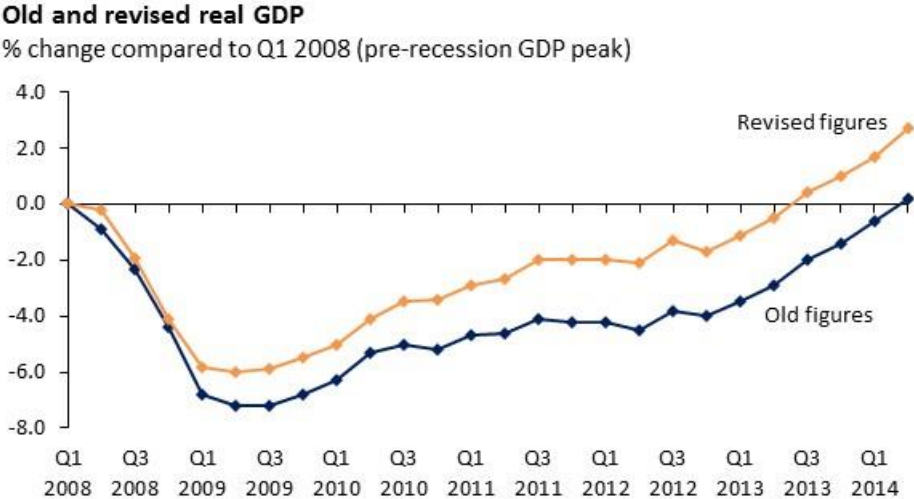


### 4 Recovery from recession stronger

The revised figures also show that economic growth since the end of the recession in Q2 2009 has been higher than previously estimated: the new data show real GDP rose by 9.3% up to Q2 2014, compared with a rise of 8.0% on the old figures. Most of the difference occurs after the middle of 2010, with an average upward revision of 0.1%-points in quarterly growth.

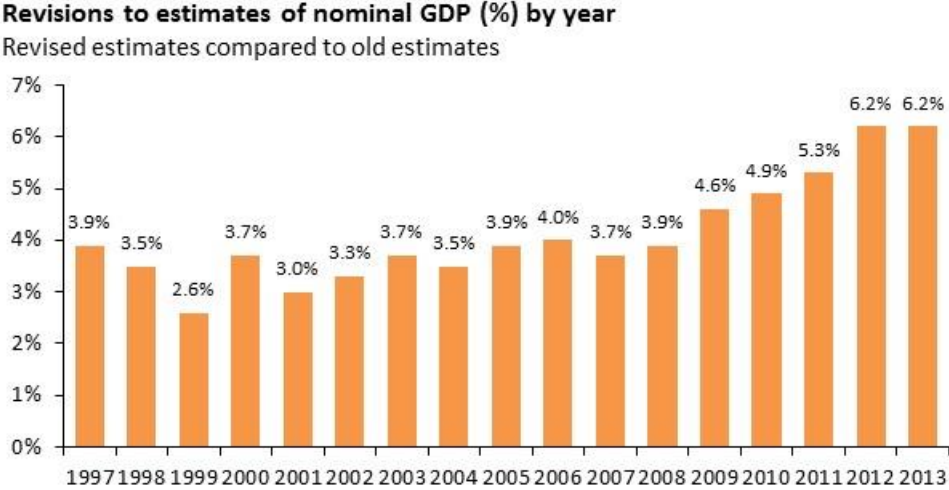


GDP returned to its pre-recession peak almost a year earlier than previously estimated – in Q3 2013 instead of Q2 2014.



**5 Size of the economy (nominal GDP) revised higher**

The new measurement system also impacts the cash level of GDP (or nominal GDP). Over the period 1997-2013, annual nominal GDP is now estimated to be 4.1% higher than before. However, in more recent years the revision is greater: the average annual upward revision was 5.4% between 2009 and 2013. In 2013, the level of nominal GDP is now estimated to be £1,713 billion compared to £1,613 billion under the old measurement system – an increase of £100 billion or 6.2%.



**6 What are these changes and why are they being made?**

This new methodology is seen as a more accurate and internationally-comparable way of calculating GDP. Some of the changes relate to new European standards of measuring GDP – called the European System of Accounts 2010 (ESA10)<sup>3</sup> – which were introduced in 2014 in the EU and which the ONS is legally required to follow. This is so that GDP data is comparable across the EU. Gross National Income (GNI), which is closely related to GDP, is

<sup>3</sup> ONS, [ESA10 / BPM6 Programme](#) [accessed 10 September 2014]

used in the calculation of Member States' EU budget contributions and in determining where EU structural funds are distributed.

These new standards are also being introduced in other parts of the world via the global equivalent UN System of National Accounts 2008 (SNA2008).<sup>4</sup> All EU countries moved to this new standard by October 2014, with other countries, including the US in July 2013, having done so previously.<sup>5</sup>

In addition, some other methodological changes are being made by the ONS. These generally involve improvements to the way certain areas of economic activity, such as investment, and how price deflators are measured.

In terms of real GDP growth, the changes due to the new international standards (ESA10) had more of an impact, raising annual GDP growth by 0.11%-points on average between 1997 and 2012, while the other changes reduced growth by 0.02%-points.

However, just over half of the revisions to nominal GDP levels from 1997-2012 are due to the changes in international standards. The biggest contributors, irrespective of why they are being changed, to the change in nominal GDP in 2012 are:

- **Research and development (£26 billion)** – for the first time [R&D spending](#) will count towards GDP, under the new international measurement system. It used to be counted as 'intermediate consumption', consumed or used up in the production process. It will now count as investment.
- **Non-profit institutions serving households (£23 billion)** – [this sector](#) includes charities and most universities. The change stems from the ONS updating its source for this data.
- **Financial Intermediaries Services Indirectly Measured or FISIM (£9 billion)** – this measures the difference in interest rates that a financial institution pays out (like bank deposits) and that it receives via loans. A new way of calculating this will add to nominal GDP.<sup>6</sup>
- **Illegal activities (£8 billion)** – covering [illegal drugs and prostitution](#). This has not been previously included in GDP in the UK. (For more on this see section 7 below.)
- **Pensions (£8 billion)** – this involves a new way of treating the funding of defined benefit pensions schemes (from being valued on a cash basis to an actuarial basis).<sup>7</sup>

Other changes include changes to the way production of houses and major improvements for personal use are calculated (£6.8 billion in 2012) and the inclusion of weapons as investment (3.8 billion).

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<sup>4</sup> UN, [System of National Accounts 2008 - 2008 SNA](#) [accessed 10 September 2014]

<sup>5</sup> For example, see the US Bureau of Economic Analysis blog, "[Changes to How the U.S. Economy is Measured Roll Out July 31](#)", 23 July 2013

<sup>6</sup> ONS, "[Changes to the UK National Accounts: Financial Intermediation Services Indirectly Measured \(FISIM\)](#)", 29 May 2014

<sup>7</sup> ONS, "[Developments to the Treatment of Pensions in the National Accounts](#)", 28 April 2014

## 7 What have drugs and prostitution got to do with GDP?

The fact that illegal drugs and prostitution are going to be included in the measurement of UK economic activity for the first time generated a lot of media attention.<sup>8</sup> But why are they being included?

As mentioned above in [section 6](#), the ONS changed the way GDP is calculated partly in order to meet new European national accounting standards. These new standards include the requirement to include prostitution and illegal drugs in the calculation of GDP. The ONS has explained how the issue is viewed as purely statistical in nature:

The standards are set by national accounting experts from around the world so as to reflect reality rather than to make moral judgements.<sup>9</sup>

The international standards state that the treatment of illegal actions that fit the character of a market transaction – where there is mutual agreement between both parties – should be recorded in GDP. In fact, this requirement to include certain illegal activities in GDP dates back to the 1990s,<sup>10</sup> but while some EU countries did include them in GDP many didn't (including the UK). More recently the EU's statistics agency formally requested these activities to be included in GDP estimates by September 2014 as part of the broader changes to measuring GDP mentioned above.<sup>11</sup>

In November 2013, the ONS released a note explaining what would be included in the annual national accounts in autumn 2014.<sup>12</sup> In May 2014, the ONS published an article explaining how it has gone about measuring illegal drugs and prostitution and what effect their inclusion would have on GDP.<sup>13</sup> In 2012, these illegal activities contributed £8.4 billion towards nominal GDP (0.5% of the total).

## 8 Further information

- ONS, [“Economic Review: October 2014”](#) and [“Economic Review: September 2014”](#) – provide an overview of the changes and the impact on GDP and its components.
- ONS, [“Impact of changes in the National Accounts and economic commentary for Q2 2014”](#), 30 Sep 2014
- ONS, [list of all documents released](#) relating to the 2014 national accounts revisions
- *Financial Times*, [“UK economy bigger than thought at 2.7% ahead of pre-crisis peak”](#), 30 Sep 2014
- Commons Library blog post, [“GDP: a brief guide”](#), 24 July 2014 – explains what GDP is and how it is measured

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<sup>8</sup> See for example: [“Drugs and prostitution to be included in UK national accounts”](#), Guardian, 29 May 2014; [“Prostitution and drug dealing add £10billion to the economy under bizarre rules which mean crime boom is good news for Osborne”](#), Daily Mail, 29 May 2014

<sup>9</sup> ONS Statement, [“Inclusion of certain illegal activities in the National Accounts”](#), 10 February 2014

<sup>10</sup> See the [European System of Accounts 1995](#), the most recent version prior to ESA2010

<sup>11</sup> See [EU Regulation 549/2013](#), 21 May 2013

<sup>12</sup> ONS, [“Content of Blue Book and Pink Book 2014”](#), November 2013

<sup>13</sup> ONS, [“Changes to National Accounts: Inclusion of Illegal Drugs and Prostitution in the UK National Accounts”](#), 29 May 2014