News story: Gross Domestic Product (GDP): What it means and why it matters

GDP is the size of the economy at a point in time

GDP measures the total value of all of the goods made, and services provided, during a specific period of time.

Goods are things such as your new washing machine, or the milk that you buy. Services include the haircut from your hairdresser, or repairs done by your plumber.

It’s only final goods and services that are sold to you and me that matter for GDP though. So if some tyres roll off a production line and are sold to a car manufacturer, the value of the tyres isn’t included in GDP, it is reflected in the value of the car.

The amount you pay, or the market value of that good or service, is what’s important as these are added together to get GDP.

UK GDP includes goods and services produced in the UK

Gross Domestic Product means that GDP is only measuring things that are produced within the borders of the UK.

This is important, because if a British company is producing cars in China, they’re not contributing towards UK GDP.

Sometimes people use the phrase Real GDP

This is because GDP can be expressed in nominal or real terms. Real GDP takes the value of goods and services produced in the UK, but it takes into account changing prices to remove the effect of rising prices over time, otherwise known as inflation.

Real GDP is otherwise known as the ‘constant price’ measure of GDP.

Nominal GDP still measures the value of all the goods and services produced in the UK, but at the time they are produced.

It is otherwise known as the ‘current price’ measure of GDP.

There’s more than one way of measuring GDP

Just imagine trying to add together the value of everything made in the UK – that’s no easy feat, which is why there is more than one way of measuring GDP.

GDP is calculated three ways, adding up:

- all the money spent on goods and services
- 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.

In the UK, we get a new GDP figure every 3 months

So if the GDP figure is higher than it was in the previous 3 months – the economy is growing.

If it's lower – the economy is getting smaller.

The Office for National Statistics (ONS) is responsible for calculating the GDP figure for the UK. Naturally it collects a lot of data from a lot of different sources to do this. It surveys tens of thousands of UK firms working in manufacturing, services, retail and construction, as well as using a wealth of administrative data.

You might have heard people refer to the first or second estimate of GDP

The ONS calculates GDP using each of the expenditure, income and output measures of GDP. The first estimate is just the output measure, with expenditure and income measures added from the second estimate.

The UK is one of the fastest countries in the world to compile the first estimate, although to do this it doesn't have all the data it needs for a complete picture.

At this point, the ONS has only gathered about 40% of the information it needs – so this can be revised at the second and third estimates, when they have gathered more information. GDP can also be revised at a later date due to changes in the methods for estimating it, or to incorporate less frequent data.

GDP matters because it shows how healthy the economy is

Rising GDP means the economy is growing, and the resources available to people in the country – goods and services, wages and profits – are increasing.