RESEARCH PAPER 00/21
1 MARCH 2000

Economic Indicators

This Research Paper summarises some of the main economic indicators currently available for the UK and gives comparisons with other major OECD countries on selected indicators.

This month's article: The Economic Background to the March 2000 Budget

Laura Bardgett

ECONOMIC POLICY & STATISTICS SECTION

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CONTENTS

I Contacts for further information

Members and their staff requiring further information are encouraged to talk to the statistician specialising in the relevant area. The statisticians dealing with the subjects covered by this Research Paper are shown below. (After 6pm there is a statistician on duty until the rise of the House who can be contacted via the Oriel Room of the Main Library - extn 3666)

Subject	Statistician	Extn
Balance of payments	Tim Edmonds/Bob Twigger	2883/4904
Construction	Laura Bardgett/Tim Edmonds	3977/2883
EC finance	Mick Hillyard/Laura Bardgett	4324/3977
Employment	Andrew Presland/Bob Twigger	2464/4904
Energy	Joseph Hicks/Grahame Allen	2454/6969
Financial services	Laura Bardgett/Tim Edmonds	3977/2883
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Incomes	Laura Bardgett/Bob Twigger	3977/4904
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National accounts-GDP etc	Bob Twigger/Tim Edmonds	4904/2883
Overseas aid	Mick Hillyard/Laura Bardgett	4324/3977
Prices	Bob Twigger/Tim Edmonds	4904/2883
Production	Bob Twigger/Laura Bardgett	4904/3977
Public expenditure	Bob Twigger/Tim Edmonds	4904/2883
Taxation	Bob Twigger/Tim Edmonds	4904/2883
Trade	Mick Hillyard/Bob Twigger	4324/4904
Transport	Paul Bolton/Graham Vidler	6789/4310
Unemployment	Andrew Presland/Bob Twigger	2464/4904
Wages & earnings	Andrew Presland/Bob Twigger	2464/4904

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II The Economic Background to the March 2000 Budget

In the corresponding Paper last year there were two main questions over the future of the UK economy. First, had the Monetary Policy Committee cut interest rates quickly enough to prevent the economy from slowing too rapidly or declining too far? The hard and soft ‘landing’ debate. Secondly, would the US economy maintain its resilience and recover from problems in Asia and Russia? In particular could the US economy continue its remarkable unbroken record of low inflationary growth?

The answer to both questions proved to be positive. Although a period of negative growth appeared possible at one stage (real GDP growth touched zero in the last quarter of 1998) far from a 'hard' landing, parts of the UK economy have experienced strong growth. Wages and earnings growth has been strong; the labour market is now very tight with, taking into account the number of workers between jobs, arguably, as many vacancies nationwide as there are unemployed people.[1] Asset prices have risen especially for domestic property. Against that, some sectors of the economy, such as farming have had particular problems, and manufacturing generally has struggled to cope with the consequences of a high value of sterling.

The American economy too has, managed to shrug off the major disturbances that threatened its continued prosperity in 1999. Furthermore, so far, it has managed to avoid an inflationary reaction to its own high growth levels of recent years. In a recent commentary on what it describes as the 'white-hot' economy, economists at Morgan Stanley describe US economic growth in the following terms:

> First, the facts: Measuring America’s growth excess is fuzzy logic at best. Over the 1996-99 interval, real GDP increased at a 4.1% average annual rate. That’s anywhere from 0.5 to 1.0 percentage point faster than the pace academic economists would currently equate with the US economy’s inflation-stable (NAIRU) growth rate; the 6% annualised growth pace in the second half of 1999 is all the more disconcerting in this regard. At the same time, there can be no mistaking the impacts of an increasingly powerful wealth effect; according to estimates presented by Fed Chairman Greenspan, the wealth effect has generated about 1.0 percentage point of GDP growth over the past five years. Nor can there be any doubt of the role that information technology (IT) has played in spurring the excesses of both GDP growth and wealth effects. Our estimates suggest that IT has accounted for around 25% of total GDP growth over the past five years. Moreover, since the end of 1997, IT has accounted for more than 90% of the wealth effect; indeed, over that period, the tech piece of the S&P 500 has risen about 270%, whereas the non-tech portion has increased just 9%.[2]

As was mentioned above, there is evidence that a broadly successful UK economy hides two separate economies that have had very different experiences over the last year. The table below gives data on the performance of the manufacturing, distribution and business services

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1 Wage fears escalate as jobless hits 20-year low,: The Independent, 20 Jan 2000

2 Source:Morgan Stanley Dean Witter, *Global Economic Forum* 24 February 2000

sectors of the economy over the past two and coming three years according to the forecast of the National Institute. Earnings data covering the past three years is also included for manufacturing and services.

UK Output & Earnings 1997=100

	Output per sector		
	Manufacturing	Distribution	Business services
1997	100.0	100.0	100.0
1998	100.3	102.1	106.9
1999	100.1	103.7	110.3
2000	102.5	107.0	114.1
2001	104.6	110.7	118.0
2002	107.1	114.9	122.5

Source: National Institute Economic Review, Jan 2000
ONS Labour Market Statistics Press release February 2000

This table makes clear how well the general service sector of the economy has done and, by contrast, how poorly manufacturing has performed. Business services' output, including the financial sector, has grown three times more quickly and distribution twice as fast as manufacturing.

The strength of sterling is the most frequently cited reason for the troubles afflicting manufacturing. For example Nick Reilly, Chairman and Managing Director of Vauxhall Motors said, in January 2000, after demand for manufacturing goods had risen for the first time in two years that:

> Manufacturers have taken another step towards recovery. But we should not overstate the extent of the revival because domestic prices and employment continue to fall while investment plans remain weak. Companies are having to run much harder to stand still. Many firms are hanging on by their finger tips and the two-speed economy remains very much in evidence. Exports are stabilising but this is being driven by a rise in world demand. The strength of sterling is still holding back firms as they battle to compete.[3]

However, there is now considerable evidence to suggest that within the last quarter manufacturing has done significantly better. The increase in the Purchasing Managers' Index (PMI) in December 1999 suggested that manufacturing activity grew at its fastest rate since November 1996. Component indices of the PMI reveal that new orders grew at the highest rate for six months. The National Institute commented that:

> Manufacturing output grew very strongly in the third quarter of 1999 and early indications are that the fourth quarter was also very good. This suggests that

3 CBI News Release, 27 January 2000

manufacturing industry is now beginning to recover from the exchange rate-induced slowdown witnessed in the second half of the 1990s.[4]

The Monetary Policy Committee too argued, in the minutes of its latest committee meeting, that:

There had been some signs in the latter part of 1999 that the sectoral split in activity was becoming somewhat more balanced. Services sector growth had fallen slightly between Q3 and Q4, and manufacturing production as a whole had been picking up.[5]

Finally one should note the result of the latest *CBI Monthly Trends Enquiry:*

The total orders balance rose to -11 in February (from -14 in January). That was the highest since April 1998. There was also an improvement in the export orders balance, which rose to -25 (from -30 in January). Although that meant the balance was still deep in negative territory, it was at its highest since June 1997.[6]

The other issue that has dominated debate leading up to the Budget has been the improved state of public finances. The Institute for Fiscal Studies (IFS) notes that:

The Chancellor is in the fortunate position of having to deal with a very healthy fiscal position. To a large extent, this reflects the government's commitment to put the public finances on a sustainable footing in its first Budget in 1997.[7]

The table below illustrates the movement in the main fiscal aggregates since last year's budget.

Forecasts for Government Borrowing in 1990/00
£ billions

Forecast	Budget March 99	Pre-Budget Report Nov 99	'Green Budget' Jan 00	Difference between Jan 00 and Mar 99
Current Receipts	345.0	352.1	351.7	6.7
Total managed expenditure	349.2	349.9	346.3	-2.9
Net borrowing*	2.8	-3.5	-6.8	9.6
Surplus on current budget*	2.4	9.5	12.8	10.4
Net public sector debt % of GDP	*41%*	*38%*	*38%*	*-3%*

*Note: * excluding windfall tax and associated expenditure*

Source: IFS Green Budget, January 2000

4 *National Institute Economic Review*, January 2000, p 21
5 MPC Minutes *February 2000*
6 Op cit February 2000
7 IFS *Green Budget*, January 2000

The figures for the 'Green Budget' are derived from an annual exercise conducted by the IFS. According to the IFS the reasons behind the improvement are:

- The outturn in 1998/99 was better than expected. Public sector borrowing turned out £1.8 billion lower than forecast in the Budget, largely due to higher receipts which raised the baseline for 1999/00 and future years.
- GDP growth has been stronger than forecast. The 1999 Budget forecast was for growth of just 1%, the outturn is likely to be 2¼%. Higher growth leads to lower expenditure on benefits and higher receipts from income and expenditure taxes.
- Not only has GDP growth been stronger but also the higher than expected household spending component of that growth has had a particularly beneficial effect on government revenues.

The Chancellor has various options to deal with the substantial surplus at his disposal. Some measures to reduce revenue or increase expenditure were announced in the 1999 Budget and are included in the Pre-Budget assessment. These included the ending of the automatic escalators on tobacco and road fuel and the abolition of television licences for people over 75 years of age. Taken together the first year 'cost' of the pre-announced measures is just over £2 billion.

If the Chancellor decides to 'give-away' the remaining surplus, changes to achieve this by affecting the main tax rates are shown below:

Revenue effects of main tax changes
£ millions

	Yield in 2000/01 (full year)
Income tax	
Change starting rate by 1p	390
Change basic rate by 1p	2,650
Change all personal allowances by 10%	2,700
Increase all main allowances, starting and basic rate limits by 10%	4,400
Corporation tax	
Change main rate by 1 percentage point	1,100
National insurance contributions	
Change class 1 employee rate by 1 percentage point	2,700
Change class 1 employer rate by 1 percentage point	3,100

Source: Treasury Tax Ready Reckoner & Tax Reliefs

The main alternative to cutting taxation would be an increase in public expenditure. However, there are arguments to suggest that the Chancellor may not want to disburse the whole amount of his surplus at this time. First, forecasts of public sector finances are susceptible to large errors. Both receipts and expenditures are difficult to predict accurately and, given the demand-led nature of some of their components, they can change fairly rapidly as economic conditions change. Furthermore, one of the Government's fiscal rules is that it plans to run a balanced budget over the course of the economic cycle. Predicting and identifying both the start and end of a cycle, and the current position within that cycle, has, in the past proved to be very difficult. These uncertainties, taken together, could be used as an argument for continued prudence with public finance and be a justification for only minor tax and expenditure changes. Lastly, the new public expenditure framework, encompassed by the Comprehensive Spending Review, is designed to fix the level of much public spending for a three-year period with no annual review. If current surpluses were used to consolidate government finances now then this could form the basis of a more generous CSR settlement in the new round covering the years 20012/02 to 2003/04.

One other argument against large tax cuts or extensive increases in public expenditure is the trade-off between monetary and fiscal policy. With growth in the UK generally regarded as being at, or above, its trend, or sustainable, rate any expansionary move by the Chancellor would increase the likelihood of the MPC raising interest rates to curb incipient inflation. Since the exchange rate is sensitive to movements in relative interest rate movements, higher rates would impact disproportionately on the traded goods sector and thus re-ignite claims of a two speed economy and unbalanced economic and regional growth.

The average of a range of forecasts for the UK economy is shown below.

UK Economic Forecasts*

Forecast for 2000

	Averages		February range	
	February	January	Lowest	Highest
GDP growth (per cent)	3.1	3.0	2.0	4.0
Inflation-RPI (per cent)	3.0	2.9	1.8	4.3
Claimant unemployment (mn)	1.1	1.1	1.0	1.4
Current account (£bn)	-14.3	-14.0	-28.9	-7.6
PSNB (1999-00 £bn)	-6.4	-5.8	-15.2	0.0

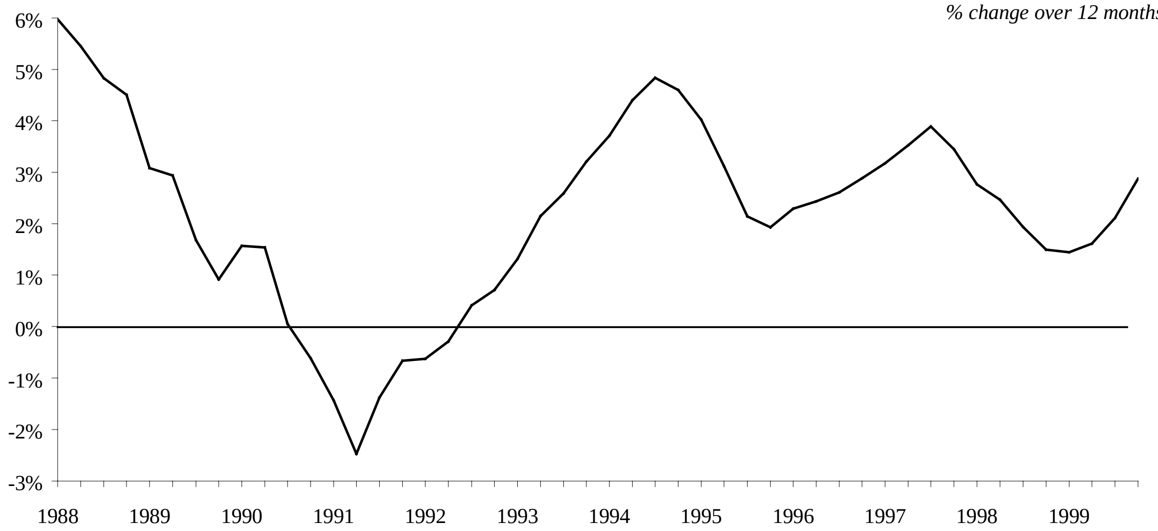
Note:* Independent & City averages, based on forecasts made in last three months

Source:HM Treasury, Forecasts for the UK Economy, February 2000

For further information contact Tim Edmonds on ext. 2883

A 1. Gross Domestic Product

GDP at constant market prices
% change over 12 months



Gross Domestic Product
seasonally adjusted

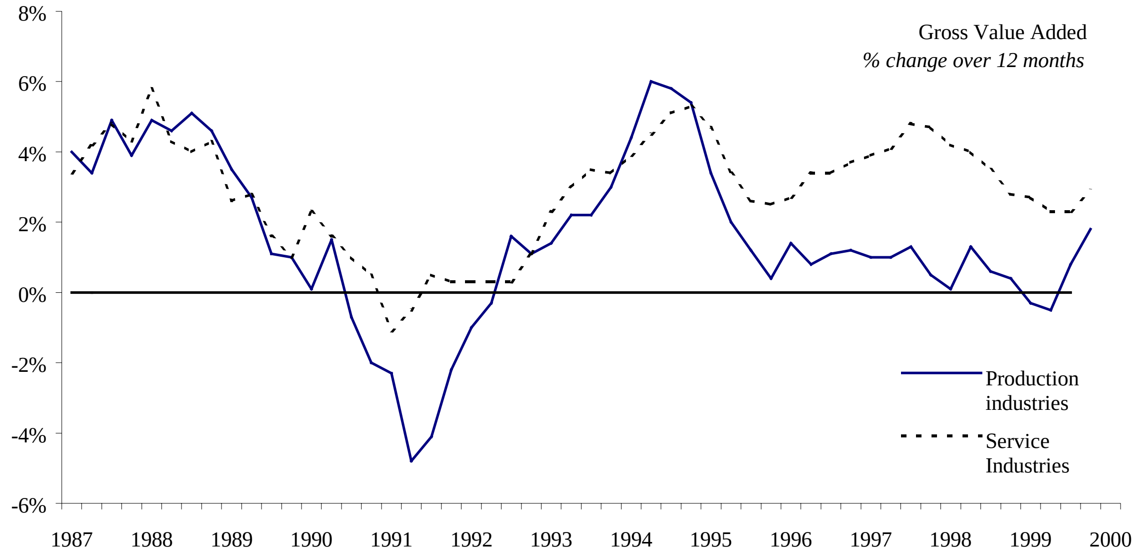
	GDP at current market prices *£ billion*	GDP at constant market prices *12 month change*	HH consumption at constant market prices *12 month change*	Non-Oil GVA at constant basic prices *12 month change*
1997	803.9	3.5%	4.0%	3.5%
1998	847.4	2.2%	3.2%	2.6%
1999	888.1	2.0%	4.0%	1.9%
1998 Q4	215.3	1.5%	2.3%	1.8%
1999 Q1	217.1	1.4%	3.7%	1.6%
Q2	220.9	1.6%	3.9%	1.4%
Q3	223.9	2.1%	4.1%	1.9%
Q4	226.3	2.9%	4.5%	2.6%

Source: ONS Database series YBHA, AMBI, ABJR, GDPT & GDPU

- Gross domestic product (GDP) at 1995 market prices is estimated to have risen by 0.8% in the fourth quarter of 1999 to a level 2.9% above the same quarter in 1998. The growth rate for the calendar year 1999 is estimated at 2.0%. The quarterly rate of GDP growth has increased sharply since the fourth quarter of 1998 when the economy was close to stagnation.
- In the year to the fourth quarter of 1999 net trade continued to exert a significant negative impact on GDP growth despite a 5.3% increase in export volumes. The year-on-year growth rate of 2.9% represented a positive contribution of 4.0 percentage points from the growth of domestic expenditure offset by a negative contribution of 1.3 percentage points from the net trade effect. The balance (+0.2 percentage points) represented an increase in the statistical discrepancy.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 3.1% in 2000 and 2.6% in 2001.

Next update: 27 March

A 2. Gross Value Added by Industry



Gross value added at 1995 basic prices
% changes on year; seasonally adjusted

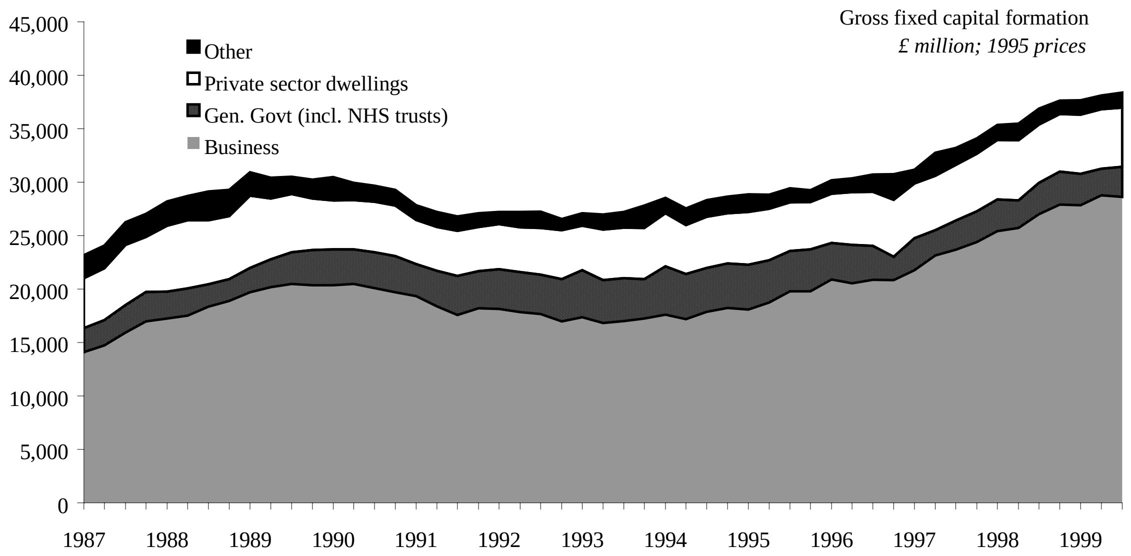
	Production industries Total	Production industries Manufac-turing	Services	Agriculture, hunting & fishing	Construction
1997	1.0%	1.3%	4.4%	1.5%	3.2%
1998	0.6%	0.3%	3.6%	-1.4%	1.3%
1999	0.5%	-0.1%	2.6%	2.8% ..	0.2% ..
1998 Q3	0.6%	0.3%	3.5%	-1.4%	0.6%
Q4	0.4%	-0.5%	2.8%	-1.0%	-1.3%
1999 Q1	-0.3%	-1.2%	2.7%	3.5%	-3.2%
Q2	-0.5%	-1.2%	2.3%	2.1%	0.6%
Q3	0.8%	0.3%	2.3%	2.5%	1.4%
Q4	1.8%	1.9%	2.9%	3.3%	2.2%

Sources: ONS database ERID, ERIT, GDRN, GDQV, GDQW, ERIE, ERIU,GDSI, GDRQ, GDRR

- Since 1995 output has generally grown faster in the service sector than in other parts of the economy and is currently growing at an annual rate of around 3%. Between the third and fourth quarters of 1999 output in the service sector rose by 0.9%.
- Manufacturing output fell in the third and fourth quarters of 1998 and the first quarter of 1999. However output strengthened significantly in the second half of 1999 and in the three months to December was 0.7% higher than in the previous three months and 1.9% higher than in the same period in 1998. In the fourth quarter of 1999 output rose by 1.2% in the agriculture sector and by 0.7% in the construction sector.
- In 1998 manufacturing accounted for 20% of GVA, other production industries (mining & quarrying and electricity gas & water supply) for 4%, agriculture etc. for 1%, construction for 5% and services for 70%.

Next updates: 8 & 27 March

A 3. Investment



Gross fixed capital formation
£ million; 1995 prices; seasonally adjusted

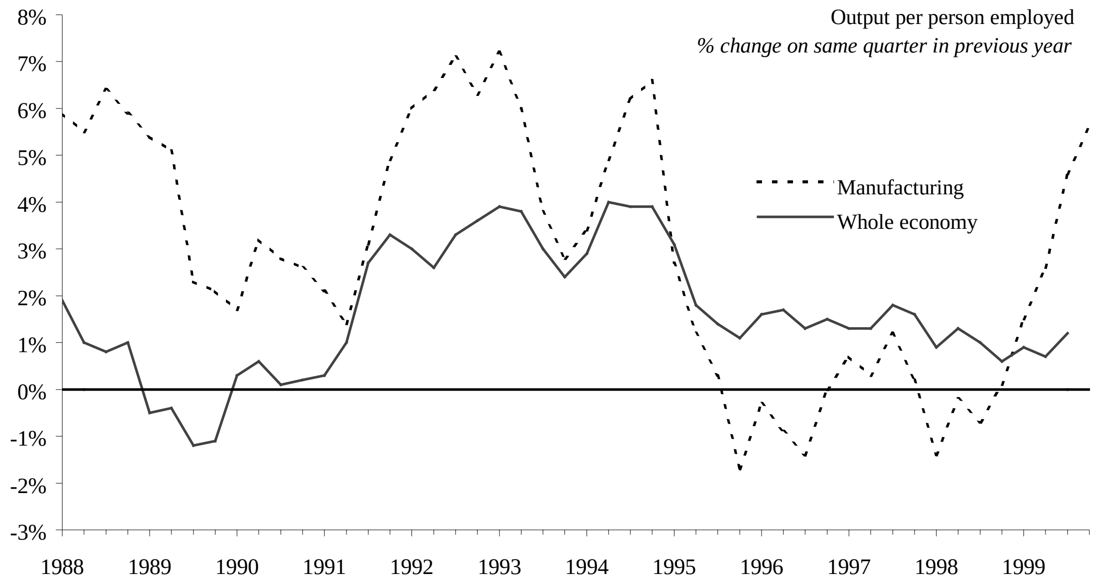
		Transport Equipment	Other Machinery & Equipment	Dwellings	Other Buildings & Structures	Intangible Fixed Assets	Total
1996		11,777	49,124	22,154	34,825	4,162	122,042
1997		12,982	54,241	22,669	37,251	4,103	131,246
1998		14,308	62,846	23,791	39,853	4,575	145,373
1998	Q3	3,510	15,932	10,318	5,920	1,212	36,892
	Q4	3,661	16,356	10,670	5,778	1,171	37,636
1999	Q1	3,924	16,280	10,672	5,914	885	37,675
	Q2	3,975	16,404	10,830	5,961	944	38,114
	Q3	3,693	16,810	10,945	5,959	987	38,394
	Q4	..	..	..	..	..	38,806

Source: ONS database series DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets.
- Total investment rose by 1.1% in real terms in the fourth quarter of 1999 to a level 3.1% above the same period in 1998.
- Business investment is GFCF by the private sector and public corporations (other than NHS trusts) on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings. Provisional estimates show that business investment rose by 1.2% in real terms in the fourth quarter of 1999 compared with the previous quarter and 3.8% above the level for the fourth quarter in 1998.

Next update: 24 March

A 4. Productivity



Productivity
% changes on year; seasonally adjusted

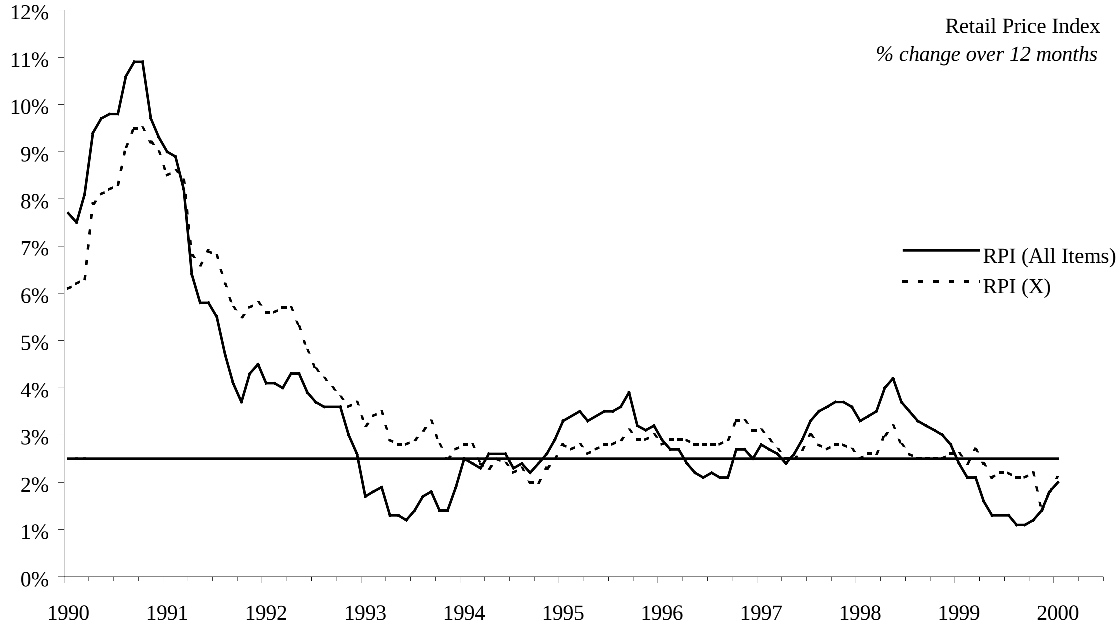
		Manufacturing			Whole Economy		
		Output	W'force in employment	Output per head	Output	W'force in employment	Output per head
1996		0.4	1.0	1.5	2.6	-0.7	1.1
1997		1.3	1.8	1.6	3.4	0.7	0.6
1998		0.3	1.5	0.9	2.6	-0.6	0.9
1998	Q4	-0.5	-0.6	0.1	1.9	1.1	0.6
1999	Q1	-1.2	-2.7	1.5	1.6	0.6	0.9
	Q2	-1.2	-3.7	2.6	1.6	0.8	0.7
	Q3	0.3	-4.2	4.6	1.8	0.7	1.2
	Q4	1.9	-3.5	5.6	2.6	..	..

Source: ONS Database Series ETIR, LNNM, LNNN, GDPQ, LNNX, LNOK

- Output per head in the third quarter of 1999 was 1.2% higher compared to a year earlier.
- In the manufacturing sector, the fourth quarter saw positive output growth of 1.9%. This was accompanied by the continuing decline in manufacturing employment. The result is that annual productivity growth in manufacturing is gathering pace, and stands at 5.6% for the fourth quarter.
- For the economy as a whole, the slight fall in the rate of employment growth and the rise in overall output growth to 1.8% means that the annual rate of productivity growth reached 1.2% in 1999 Q3.

Next update: 15 March

B 1. Retail Prices



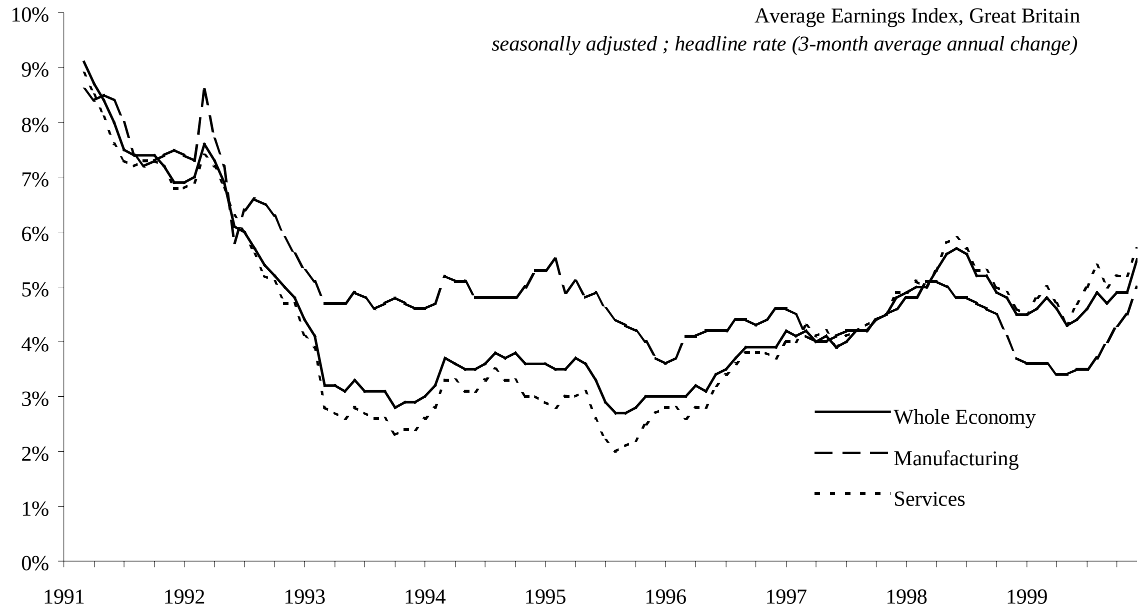
		% change on previous year	
		RPI	RPI (X)
		All Items	Excluding mortgage interest
1997		3.1	2.8
1998		3.4	2.6
1999		1.5	2.3
1999	Jan	2.4	2.6
	Feb	2.1	2.4
	Mar	2.1	2.7
	Apr	1.6	2.4
	May	1.3	2.1
	Jun	1.3	2.2
	Jul	1.3	2.2
	Aug	1.1	2.1
	Sep	1.1	2.1
	Oct	1.2	2.2
	Nov	1.4	1.4
	Dec	1.8	1.8
2000	Jan	2.0	2.1

Source: ONS Series CHAW, CZBH, CHMK, CDKQ

- The current inflation target is 2.5%: if RPI(X) diverges from this target by more than 1 percentage point, the Governor of the Bank of England is required to send a letter to the Chancellor explaining the reasons for the divergence.
- The average annual increase in headline inflation for 1999 was 1.5%, a drop from 3.4% in 1998
- In the year to January 2000 the headline rate of inflation rose to 2.0%, up from 1.8% in December 1999.
- The main upward effect on the all items RPI came from increases in housing costs. This was mainly due to the increase in mortgage interest payments.
- Price changes for seasonal foods, particularly fresh vegetables also added to the upward pressure.
- Offsetting downward pressure came from price changes in non-seasonal food.

Next update: 21 March

B 2. Average Earnings



Average Earnings, Great Britain
seasonally adjusted

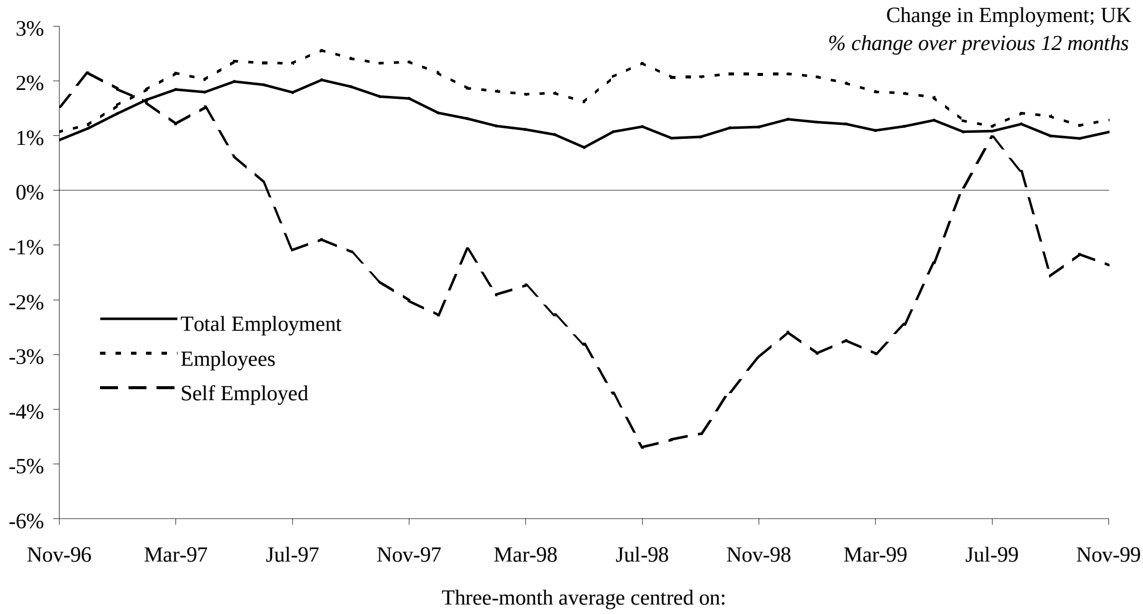
		headline rate (% change on year)		
		Whole Economy	Private Sector	Public Sector
1998	Dec	4.5	4.7	3.6
1999	Jan	4.5	4.6	3.6
	Feb	4.6	4.8	3.8
	Mar	4.8	5.0	4.1
	Apr	4.6	4.7	4.3
	May	4.3	4.2	4.5
	Jun	4.4	4.3	4.8
	Jul	4.6	4.6	4.6
	Aug	4.9	5.0	4.3
	Sep	4.7	4.8	3.9
	Oct	4.9	5.1	3.9
	Nov	4.9	5.2	3.9
	Dec	5.5	5.8	3.9

Source: ONS database Series LNNC, LNND, LNNE

- Publication of the Average Earnings Index was suspended in November 1998 because of problems identified with the reliability of the data; it was re-published in March 1999. Work to improve the quality of the data is continuing.
- The headline rate of growth in average earnings for December was 0.6 percentage points above the level reached in November. The separate figure for the private sector also increased whereas that for the public sector remained unchanged. Manufacturing and service industries both showed a rise in the rate of earnings growth. The increases are attributable partly to special payments over the Millennium period.
- Commenting on the latest earnings data, the Employment Minister, Tessa Jowell, said "wage responsibility across public and private sectors is essential".
- The headline rate of earnings growth is currently above 4½%, the level which many economists regard as the maximum consistent with meeting the inflation target of 2½%. This could provide pressure for the Bank of England to increase interest rates in forthcoming months.

Next update: 15 March

C 1. Employment



Employment Structure in the UK
thousands; seasonally adjusted

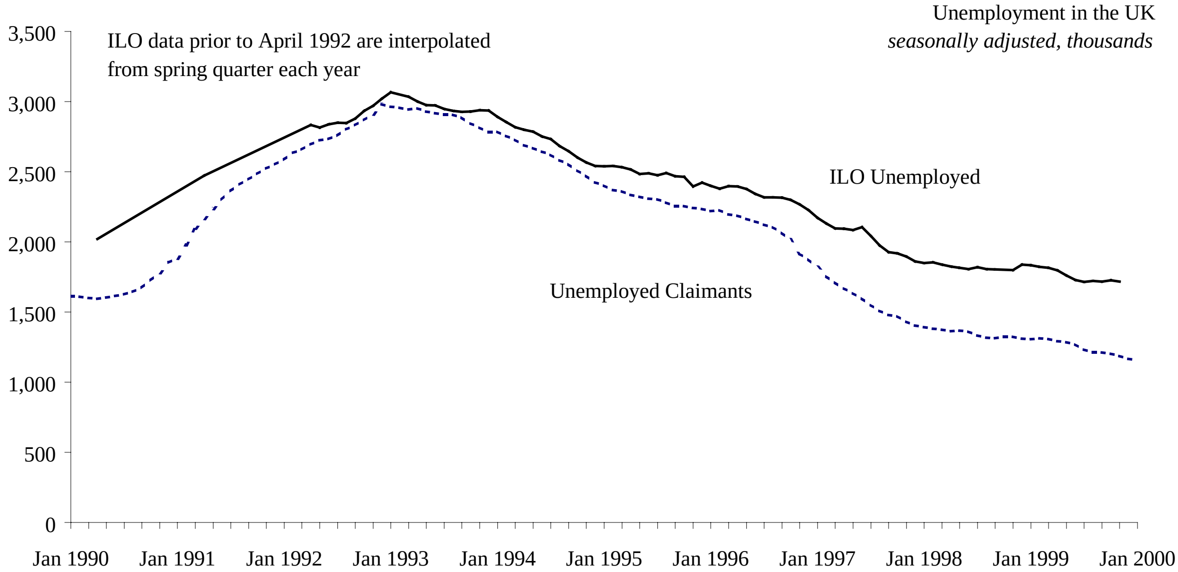
		Total in Employment	Employees	Self Employed	Unpaid Family Workers	Govt Training
1995	Oct-Dec	26,288	22,569	3,322	132	265
1996	Oct-Dec	26,530	22,809	3,373	122	227
1997	Oct-Dec	26,976	23,345	3,305	111	215
1998	Oct-Dec	27,289	23,840	3,204	97	148
1999	Jan-Mar	27,351	23,901	3,198	101	152
	Apr-Jun	27,394	23,931	3,203	97	162
	Jul-Sep	27,504	24,051	3,195	100	159
	Oct-Dec	27,580	24,147	3,160	104	169
Changes:						
1998 Oct-Dec		291	307	-44	7	21
1999 Oct-Dec		*1.1%*	*1.3%*	*-1.4%*	*7.2%*	*14.2%*

Source: Labour Force Survey (ONS)

- Employment has once again increased over the latest rolling three-month period, setting a new record of 27.58 million.
- Compared to a year previously, employment was 291,000 (1.1%) higher in the October-December 1999 period. The pace at which employment is increasing has remained constant over the last year, at around 1% per annum.
- The number of people who are self-employed is decreasing. It is now 44,000 (1.4%) lower than a year previously, and is 35,000 lower than in the previous three-month period.

Next update: 15 March

C 2. Unemployment: National



ILO Unemployment in the UK
seasonally adjusted

		thousands	rate (%)
1997	Jan-Mar	2,129	7.4
	Apr-Jun	2,084	7.2
	Jul-Sep	1,976	6.8
	Oct-Dec	1,895	6.6
1998	Jan-Mar	1,854	6.4
	Apr-Jun	1,814	6.3
	Jul-Sep	1,807	6.2
	Oct-Dec	1,799	6.2
1999	Jan-Mar	1,822	6.2
	Apr-Jun	1,760	6.0
	Jul-Sep	1,721	5.9
	Oct-Dec	1,718	5.9

Source: Labour Force Survey (ONS)

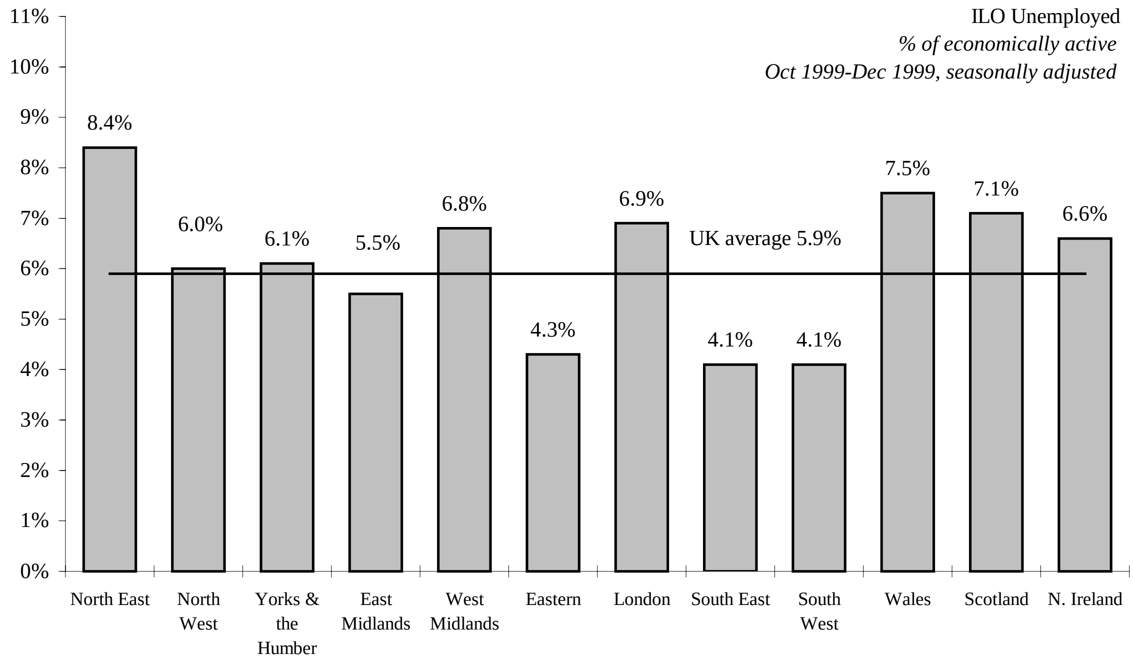
- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- The latest LFS estimates show that over the period October to December 1999, the level of ILO unemployment in the UK was 1,718,000. This was a decrease of 3,000 from the July to September period. As measured by the monthly claimant count, unemployment fell in January 2000 by 9,800 to stand at 1,157,900.

- Since the New Deal for the Young Unemployed started in January 1998, 404,200 people have joined the scheme. Of those leaving the scheme, 135,350 had moved into ‘sustained jobs’ up to the end of December, ie excluding those who had returned to claim Jobseekers’ Allowance (JSA) within three months of starting employment. Of these, 85% had moved into an unsubsidised job. Since the New Deal for the Long-Term Unemployed started in July 1998, 216,000 people have joined the scheme. Up to the end of December 1999, 28,550 people leaving the scheme had entered ‘sustained jobs’, with 21,950 people (77%) going into unsubsidised jobs.

Next update: 15 March

C 3. Unemployment: Regional



ILO Unemployment, Oct-Dec 1999
change on same period in previous year
seasonally adjusted

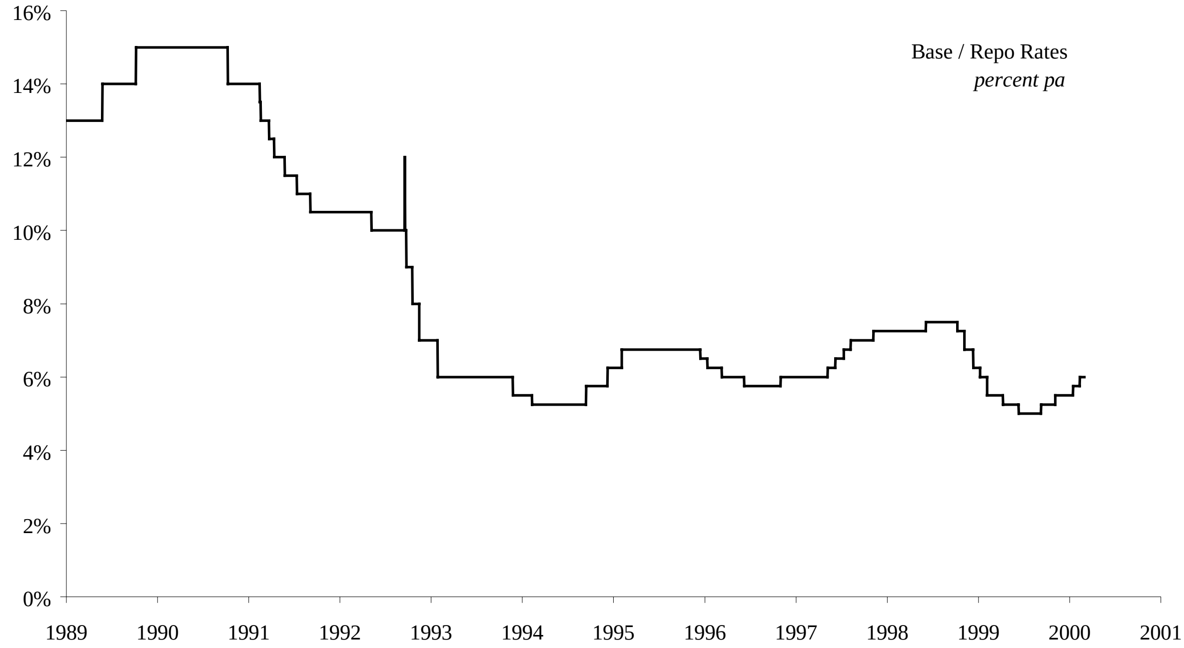
North East	-11	-10%
North West & Merseyside	-33	-14%
Yorkshire & the Humber	-22	-13%
East Midlands	16	16%
West Midlands	4	2%
East	-1	-1%
London	-19	-7%
South East	3	2%
South West	-6	-5%
Wales	4	4%
Scotland	-15	-8%
Northern Ireland	-1	-2%
UK	-75	-4%

Source: ONS, First Release (00) 8

- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).
- At present the trend in unemployment is varying considerably between regions. Comparing the period October to December 1999 with the same period a year earlier, unemployment fell in eight regions, and increased in four.
- The most rapid fall in unemployment occurred in the North West, where it was 14% lower in October to December 1999 than in the same period a year earlier. The most rapid increase in unemployment occurred in the East Midlands, where it was up 16% on the previous year. The North East has the highest unemployment rate, at 8.4% of the economically active population. The lowest unemployment rate was 4.1% in the South East and South West of England.

Next update: 15 March

D 1. Interest Rates



UK Base/Repo Rates

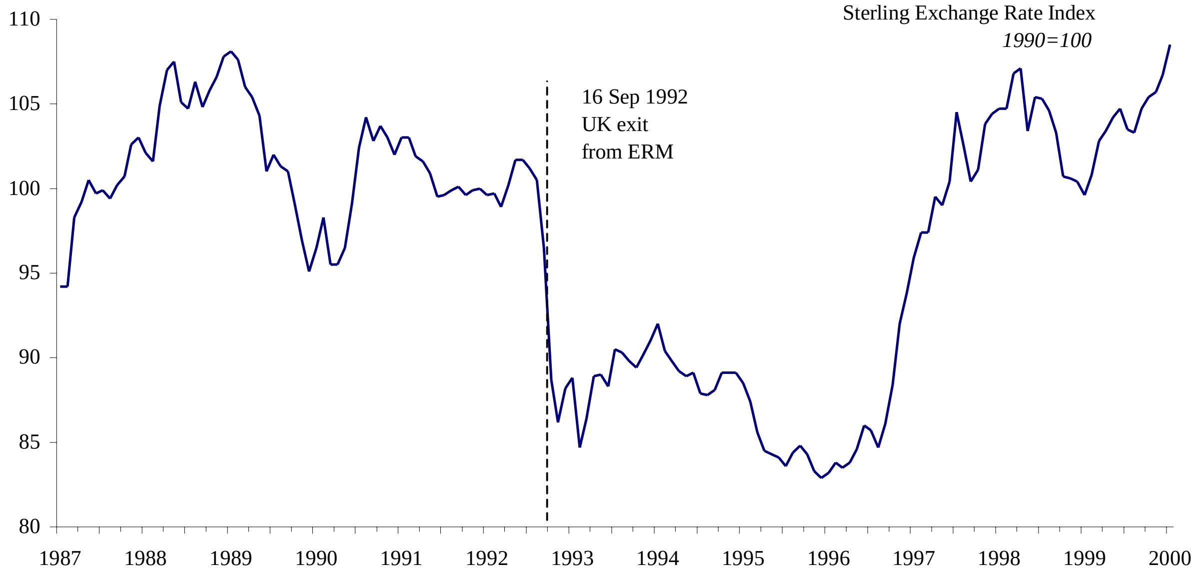
per cent per annum

Date of change		New rate
1994	Dec 7	6.25
1995	Feb 2	6.75
	Dec 13	6.50
1996	Jan 11	6.25
	Mar 8	6.00
	Jun 6	5.75
	Oct 30	6.00
1997	May 6	6.25
	Jun 6	6.50
	Jul 10	6.75
	Aug 7	7.00
	Nov 6	7.25
1998	Jun 4	7.50
	Oct 8	7.25
	Nov 5	6.75
	Dec 10	6.25
1999	Jan 7	6.00
	Feb 4	5.50
	Apr 8	5.25
	June 10	5.00
	Sep 8	5.25
	Nov 4	5.50
2000	Jan 13	5.75
	Feb 10	6.00

Source:Bank of England

- The interest rate increase on 6 June 1997 was the first time when interest rates were set by the independent Monetary Policy Committee of the Bank of England rather than by the Chancellor.
- The MPC next meets on 8 March
- The ½ percentage point cuts in November and December 1998 and in February 1999, were the largest changes in rates yet made by the MPC.
- The latest Bank inflation forecast predicts a central probability range of between 2½% to 3% inflation in the medium term. The Committee felt that the upside risks to this forecast were from the strong growth of domestic demand and the likelihood of a medium term decline in sterling. Eight members of the Committee voted for the increase.

D 2. Exchange Rates



Sterling Exchange Rates

		DM		US$		Yen		ECU/Euro	
		Rate	% change on year	Rate	% change on year	Rate	% change on year	Rate	% change on year
1994		2.48	-0.1%	1.533	2.1%	156.40	-6.2%	1.292	0.6%
1995		2.26	-8.9%	1.578	3.0%	148.37	-5.1%	1.221	-5.5%
1996		2.35	4.0%	1.562	-1.1%	170.00	14.6%	1.247	2.1%
1997		2.84	20.9%	1.638	4.9%	198.12	16.5%	1.450	16.3%
1998		2.91	2.6%	1.657	1.2%	216.75	9.4%	1.477	1.9%
1999	..	..		1.618		183.94		1.519	
1999	Nov	..	..	1.621	-2.4%	169.69	-15.1%	1.571	..
	Dec	..	..	1.613	-3.4%	165.70	-15.3%	1.595	..
2000	Jan	..	..	1.640	-0.6%	172.89	-7.6%	1.620	13.8%

Source: ONS database series AJFH, AJFA, AJFO, AJHW, THAP

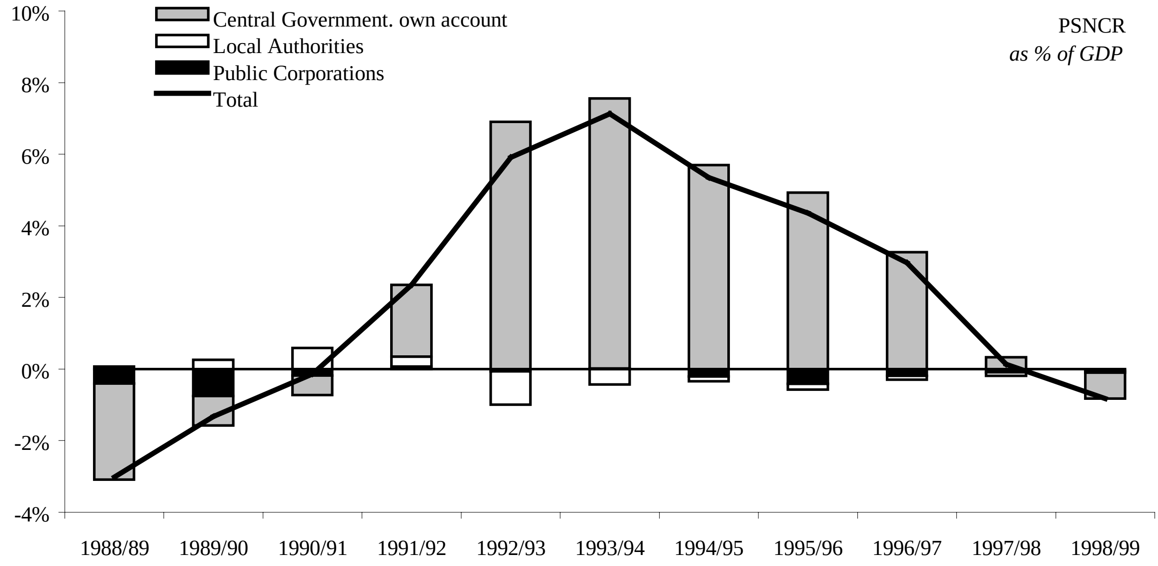
- The US dollar remains a popular currency with the markets. Both the ¼ per cent rise in the Federal Funds Reserve Rate and the expectation of further rate rises to contain strong growth has combined to maintain its value. Continued strong economic growth data combined with a benign inflation outlook has increased the US currency's popularity even more.

- Despite a brief period when the euro regained parity with the dollar, it would appear as though it has yet to find a stable base. On 28 February the currency sustained its steepest fall in its 14-month history falling to an all time low of 93.6 cents. A lack of supportive comment by either the ECB's Council or the European Finance Ministers at their latest meeting, has contributed to the feeling of 'drift' in the currency. Since January 1999 it has fallen by almost 14% against sterling and by 17.7% against the US dollar.

- The pound was worth €1.6444 at the London market close on 28 February 2000, compared to a launch rate of €1.4169 on 31 December 1998.

- Series for the ECU and the participating currencies in EMU are no longer officially published.

D 3. Public Sector Net Cash Requirement



Public Sector Net Cash Requirement

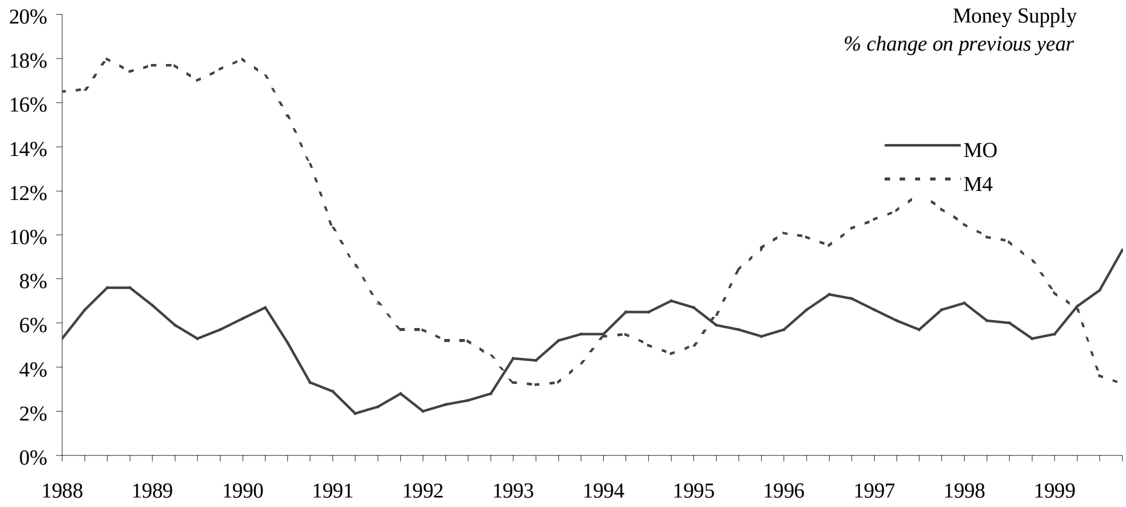
	PSNCR		PSNCR excl privatisation receipts	
	£ billion	as a % of GDP	£ billion	as a % of GDP
1996/97	22.7	3.0%	27.2	3.5%
1997/98	1.1	0.1%	2.9	0.4%
1998/99	-7.0	-0.8%	-7.0	-0.8%
1998 Q4	-3.8	-1.7%	-2.8	-1.7%
1999 Q1	-5.8	-2.7%	-3.8	-2.7%
Q2	5.3	2.4%	-5.8	2.4%
Q3	-3.2	-1.4%	5.3	-1.4%
Q4	1.9	0.8%	-3.2	0.8%

Source: ONS Database Series RURQ, RURS, YBHA

- The public sector net cash requirement was previously known as the public sector borrowing requirement (PSBR).
- The PSNCR (including privatisation receipts) for the 1998/99 financial year was a negative (i.e. a repayment) £7.0 billion compared with +£1.1 billion in 1997/98. Excluding privatisation receipts, the PSNCR for 1998/99 was –£7.0 billion compared with +£2.9 billion in 1997/98.
- The PSNCR for the first ten months of the 1999/00 financial year was £13.1 billion, exactly the same as the first ten months of 1998/99.

Next update: 20 Marc

D 4. Money Supply



Money stock
seasonally adjusted

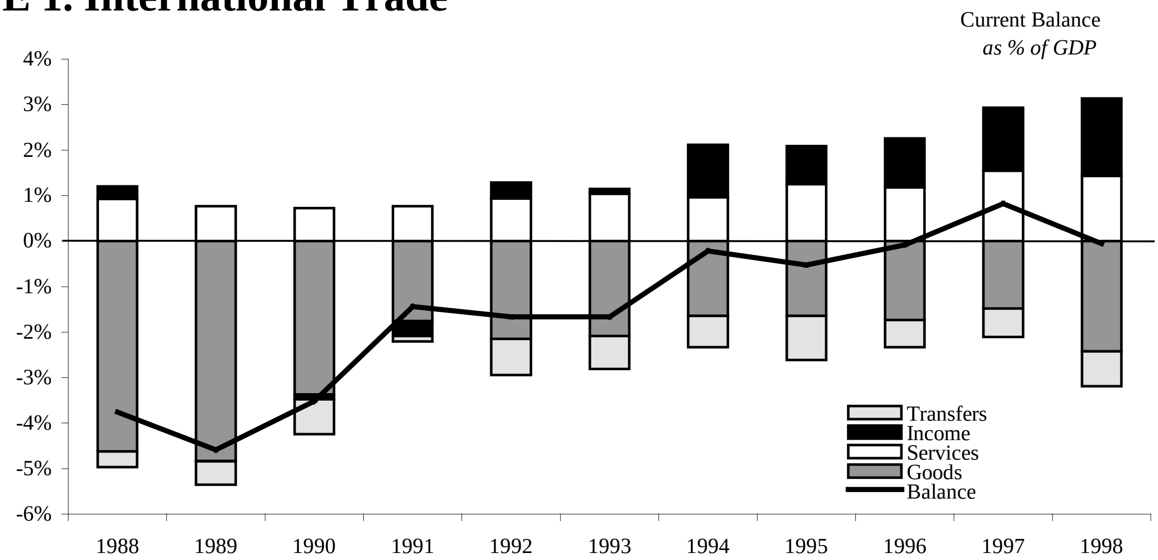
		MO		M4	
		3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1999	Feb	8.5	5.2	5.0	7.3
	Mar	7.8	5.6	4.8	7.0
	Apr	5.8	6.0	7.9	7.5
	May	9.3	6.9	7.2	7.0
	Jun	9.8	7.4	3.5	5.5
	Jul	10.5	7.6	-2.3	3.6
	Aug	9.4	7.7	-1.3	4.3
	Sep	7.3	7.2	-0.1	2.9
	Oct	6.1	7.4	3.3	3.1
	Nov	8.4	8.8	2.2	3.2
	Dec	23.6	11.8	5.4	3.4
2000	Jan	29.8	12.7	1.8	2.6
	Feb (prov)	6.7	8.5	..	..

Source: Bank of England, Bankstats, February 2000, Bank of England press notice dated 28 February 2000

- M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank. M4 is a broad measure of money consisting of the private sector's holdings of cash, and sterling deposits held by the private sector at both banks and building societies.
- The high levels of M0 growth in December and January partly reflect the increased note circulation for the millennium holiday.
- There are now no formal targets for money supply growth.

Next updates: 6, 20 & 29 March

E 1. International Trade



Current Account Balances
seasonally adjusted; £ million

		Trade in goods and services			Income	Transfers			Current
		goods	services	total	(total)	Cent. Govt	other	total	Balance
1997		-11,910	12,414	504	11,170	892	-5,943	-5,051	6,623
1998		-20,537	12,185	-8,352	14,380	-366	-6,144	-6,510	-482
1999		-26,320	10,878	-15,442	..	..	..	..	..
1998	Q4	-6,032	2,746	-3,286	3,880	-522	-1,937	-2,459	-1,865
1999	Q1	-7,336	2,415	-4,921	2,412	905	-1,856	-951	-3,460
	Q2	-6,140	2,959	-3,181	1,185	552	-1,334	-782	-2,778
	Q3	-5,393	2,843	-2,550	1,453	421	-1,777	-1,356	-2,453
	Q4	-7,451	2,661	-4,790	..	..	..	..	..

Source: ONS database Series BOKI, IKBJ, IKBD, HBOJ, FNSV, FNTC, HBOP
ONS First Release: UK Trade ONS (2000) 69

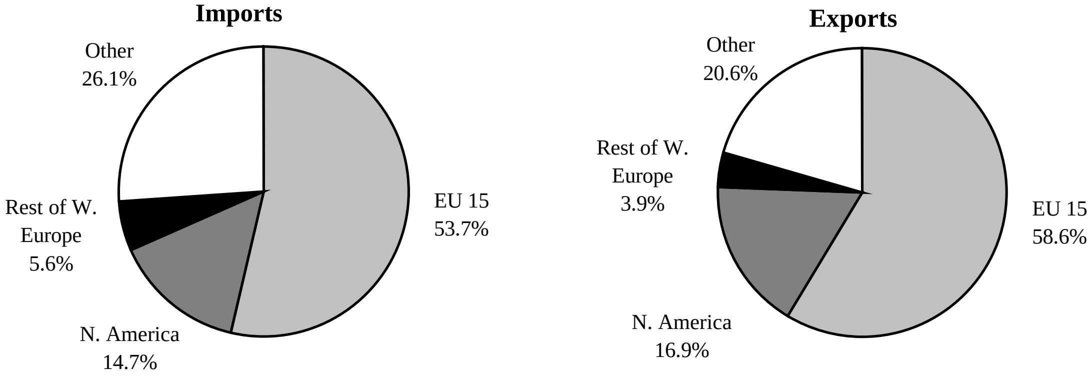
- Trade: the last five quarterly figures include some of the largest quarterly trade deficits ever recorded. Not surprisingly such deficits are not being offset by the surpluses in the trade of services, leading to a generally weak UK trading position.
- Income: This includes income from overseas investment and wages, etc earned by people working abroad. In 1998 the surplus in income - £14.4 billion - more than offset the trade deficit -£8.4 billion.
- Transfers: These are composed of Central Government transfers (mostly to the EU budget) and other transfers (e.g. gilts in cash or kind received by private individuals from abroad)
- Current Account Balance: The current account showed an overall deficit of £480 million in 1998, compared with a surplus of £6,600 million in 1997. The forecast in the Pre-Budget Report suggests that the current account will be in deficit by £12¼ billion in 1999 and £10¼ billion in 2000.

Next update: 24 March

E 2. Trade in Goods

Shares of trade in goods by area: 1999

Balance of Payments Basis



Export and import volume indices and trade in goods balances
seasonally adjusted; Balance of Payments basis

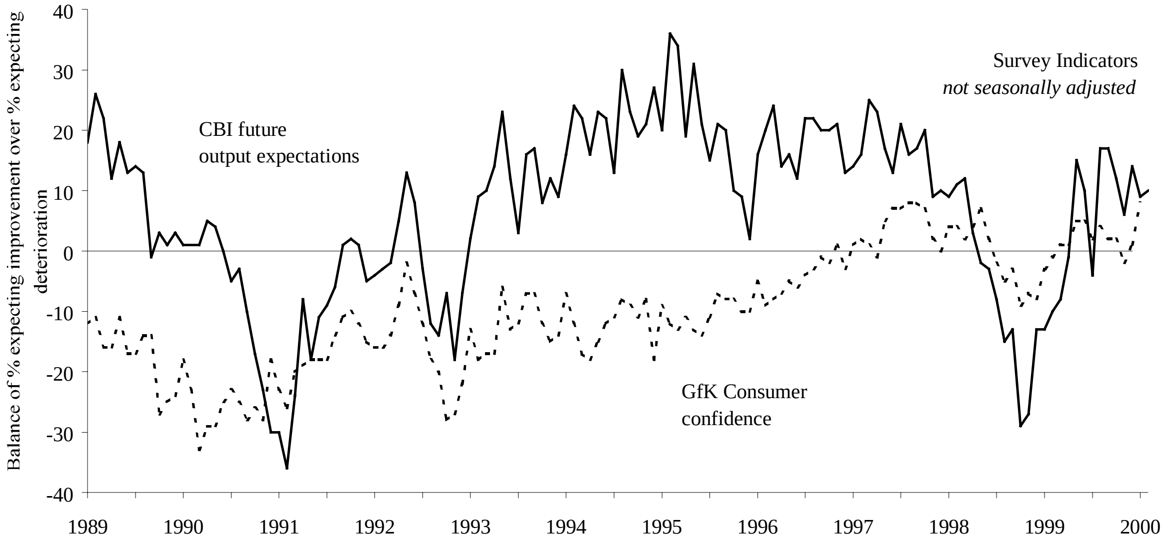
	Volume Index 1995=100		Trade in Goods (£m)		
	Exports	Imports	Exports	Imports	Balance
1997	116.5	119.0	171,783	183,693	-11,910
1998	118.0	129.1	164,092	184,629	-20,537
1999	120.6	137.8	164,889	191,209	-26,320
1998 Q4	117.0	131.8	39,911	45,943	-6,032
1999 Q1	114.5	133.2	39,052	46,388	-7,336
Q2	117.5	133.7	40,195	46,335	-6,140
Q3	126.7	141.1	43,486	48,879	-5,393
Q4	123.1	143.2	42,156	49,607	-7,451

Source: ONS Series BQKU, BQKV, BOKG, BOKH, BOKI and ONS First Release: UK Trade ONS (2000) 69

- The deficit for 1999 is estimated at a record £26,300 million, which compares unfavourably with the 1997 deficit in trade in goods of £11,900 million.
- During 1999(Q4) exports rose by 5.1% in value terms and imports by 6.4% compared with the same quarter in 1998. In volume terms, exports rose 5.2% and imports by 8.6% in 1999 (Q4) compared with the same quarter in 1998.
- The UK's deficit on trade in goods in December is provisionally estimated at £2,700 million, compared with £2,500 million in November and £2,200 million in September.
- EU and Non-EU trade: The deficit in trade in goods with non-EU countries for 1999 as a whole is provisionally estimated at a record £20,300 million significantly higher than the £15,200 million recorded in 1998, which was previously the highest annual deficit. The UK's trade position continues to be affected by the slowdown in Asian markets. In volume terms, exports to non-EU countries during 1999(Q4) rose 7.1% compared with 1998(Q4), (imports rose 13.9% over the same period) but fell 5.1% when compared with 1999(Q3) (imports rose 2.3% over the same period). In the three months to December, exports to the EU rose 4.1% compared with the same period a year previously while imports rose 4.2% over the same period.
- Trends: The latest estimate of volume trends shows the UK trade deficit is widening.

Next update: 24 March

F 1. Survey Indicators



Output Expectations and Consumer Confidence

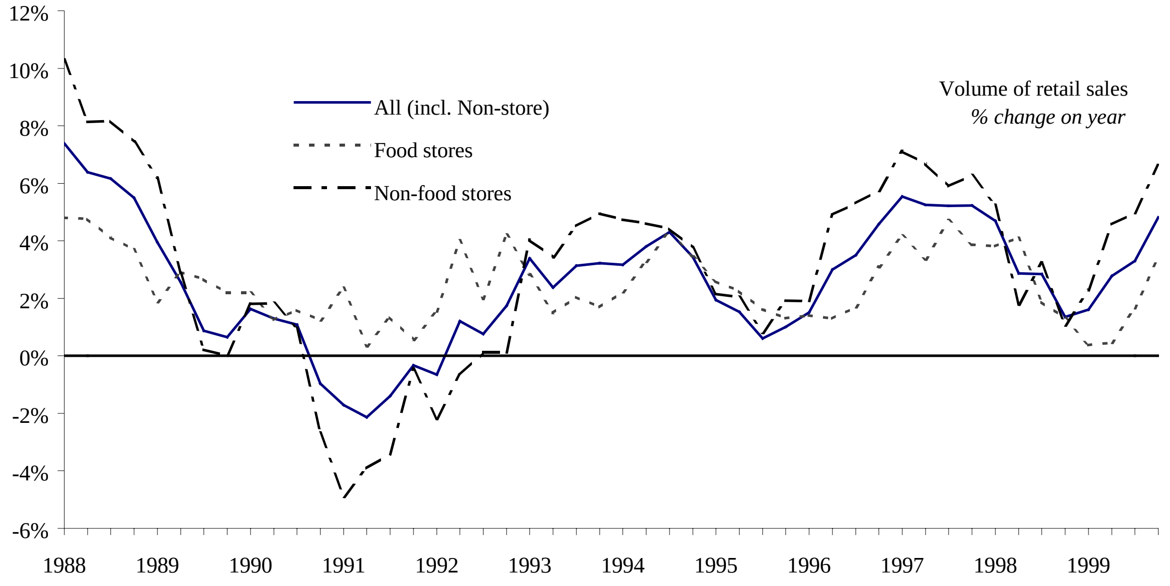
		alance of % expecting improvement over % expecting deterioration	
		CBI Industrial Trends Survey: future output expectations	Consumer confidence GfK
1999	Feb	-10	-1
	Mar	-8	1
	Apr	-1	1
	May	15	5
	Jun	10	5
	Jul	-4	2
	Aug	17	4
	Sep	17	2
	Oct	12	2
	Nov	6	-2
	Dec	14	1
	Jan	9	8
2000	Feb	10	..

Source: ONS Database Series ETBA, ETBU

- Survey indicators – including those shown here – are often expressed in the form of a balance of the percentage of respondents who expected the situation to improve in the immediate future over the percentage who expected things to worsen.
- The balance of expectations from the CBI monthly Industrial Trends Survey for future output levels in manufacturing remains positive. Low levels of excess stock means that any increase in demand will be reflected in higher output.
- The GfK consumer confidence indicator is a composite measure of forward expectations of the general economic situation and households' financial positions; perceptions of how these have changed over the last 12 months, and also views on major household purchases.
- Consumer confidence rose to a positive balance of 8% in January, the highest figure since September 1997

Next update: late February

F 2. Retail Sales



Value of Sales
not seasonally adjusted; % change on year

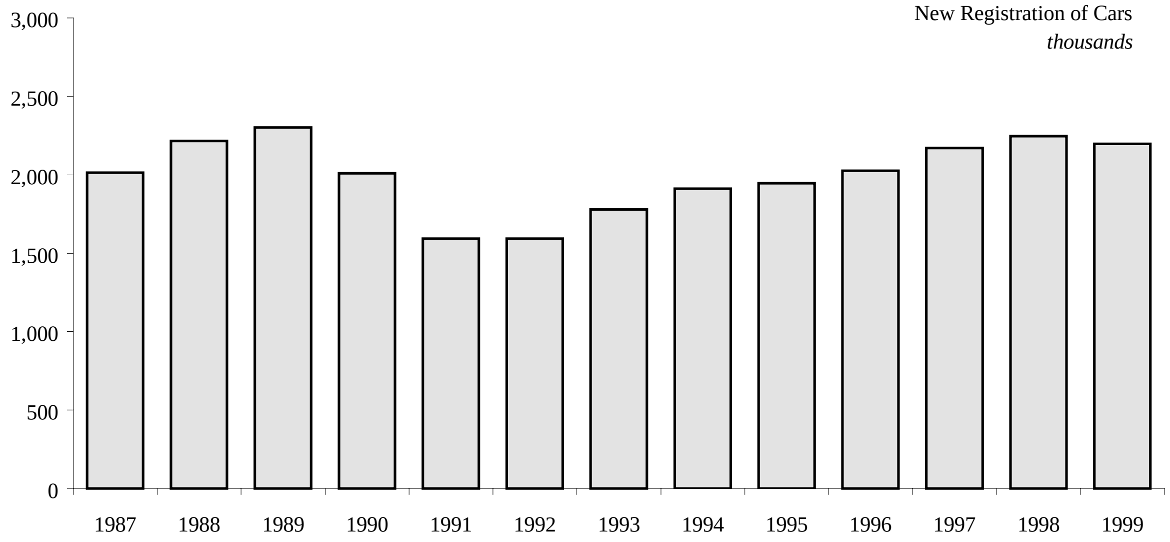
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food
1997	4%	8%	10%	7%
1998	4%	3%	6%	4%
1999	3%	3%	5%	3%
1998 Q4	4%	-1%	2%	2%
1999 Q1	5%	3%	5%	3%
Q2	1%	3%	3%	4%
Q3	2%	4%	6%	3%
Q4	3%	4%	7%	2%

Source: ONS database Series EAWN, EAWO, EAWP, EAWQ

- In the three months November to January, the volume of retail sales grew by 1.8% over the previous three-month period, reaching a level 5.3% higher than a year previously. Sales in the single month of January were 5.1% higher than a year ago.
- Growth in retail sales volumes were stronger in predominantly food stores (2.1% over November to January compared to the previous three months) than in non-food stores (1.8%). Sales volumes are growing particularly strongly in household goods stores (10.1% higher in November to January than a year earlier).
- In January 2000, the non-seasonally adjusted value of retail sales was 4.8% higher than a year earlier. The average weekly value of retail sales in January was £3,670 million. For November to January the growth in the value of retail sales was strongest in the household goods sector (7% higher than previous year). In the both the food, drink & tobacco sector and the clothing & footwear sector, growth in the value of retail sales was 4%.

Next update: 17 February

F 3. New Registrations of Cars



New Registrations of Cars
not seasonally adjusted

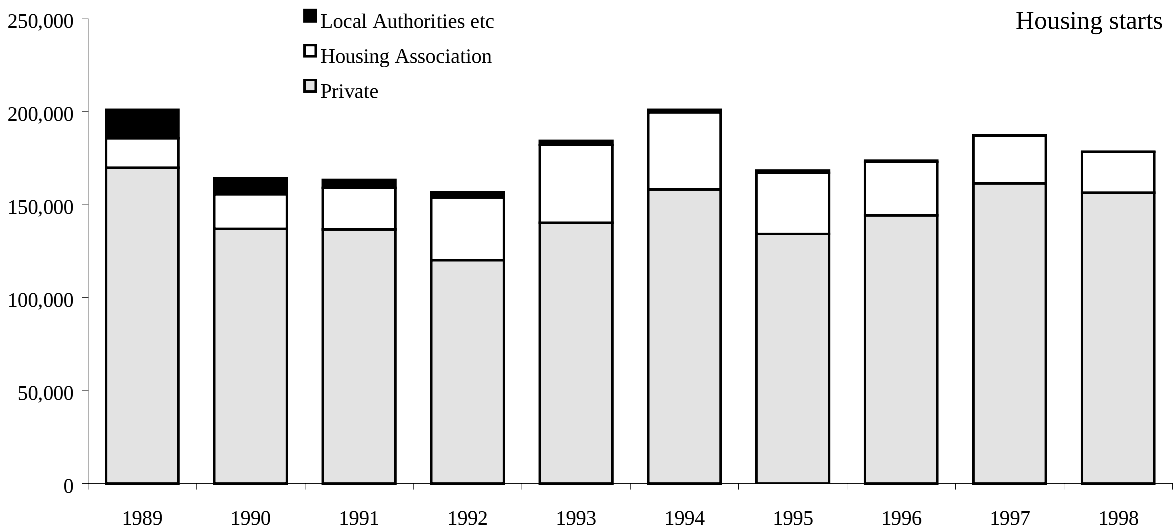
		Numbers thousands	Change over 12 months
1995		1,945	1.8%
1996		2,026	4.1%
1997		2,171	7.2%
1998		2,247	3.5%
1999		2,198	-2.2%
2000 (forecast)		2,200	0.1%
2001 (forecast)		2,210	0.5%
1999	September	387	136.9%
	October	150	-3.6%
	November	143	-5.9%
	December	85	-12.2%
2000	January	185	1.8%

- Figures from the SMMT show that the number of new registrations of cars totalled 2.2 million in 1999, a fall of 2.2% from the previous year. The market has been distorted by the introduction of the twice-yearly change in the registration prefix.
- The SMMT forecasts no significant change in new registrations in 2000 and an increase of 2.3% in 2001.
- In January 2000 new registrations of cars were up by 1.8% compared with the same month last year to 184,040 units.
- The market share of British-built cars fell from 32.0% in 1998 to 28.4% in 1999 following a 13.2% fall in registrations. In January registrations of British-built cars rose by 1.5 per cent but the market share fell from 28.8 to 28.7 per cent.

Source: SMMT "Monthly Statistical Review", Jan 2000

Next update: late March

F 4. Housing



House prices
Standardised average price (£)

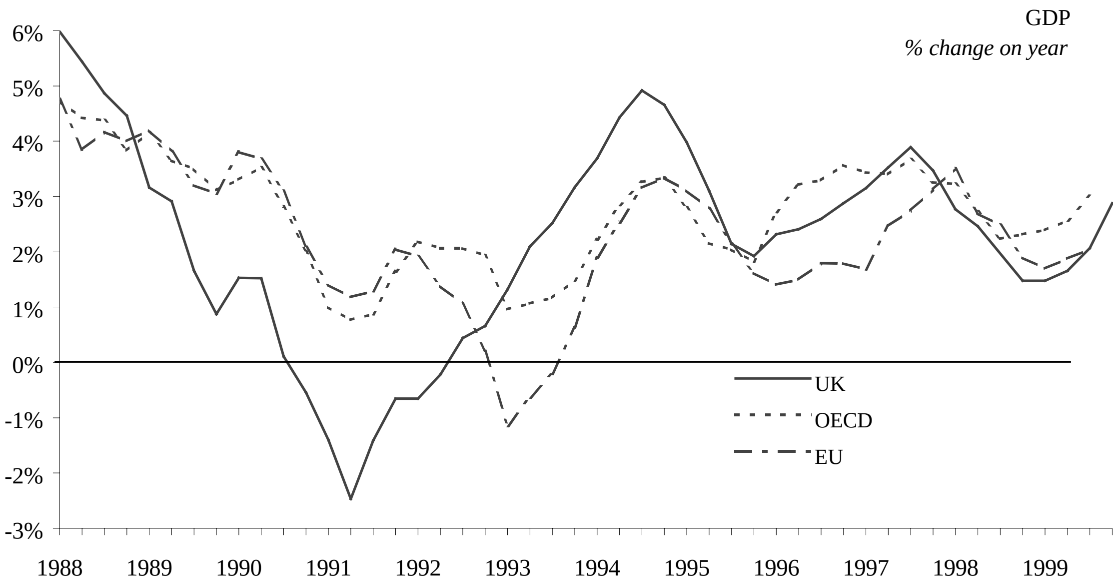
	All Houses	New Houses	Existing Houses	First time buyers
1998 Q4	72,900	75,900	72,800	52,800
1999 Q1	72,900	76,200	72,500	53,300
Q2	76,500	77,500	76,600	54,900
Q3	79,300	81,600	79,400	57,400
Q4	81,400	86,300	81,400	57,700
% change over same period last year				
1998 Q4	5.3%	4.0%	5.5%	5.6%
1999 Q1	4.4%	1.3%	3.9%	6.2%
Q2	5.4%	0.8%	5.7%	4.8%
Q3	8.8%	7.5%	9.1%	8.7%
Q4	11.7%	13.7%	11.8%	9.3%

Source: Halifax House Price Index: Fourth Quarter 1999

- In the latest DETR press release it is provisionally estimated that 177,400 dwellings were started in 1999 in Great Britain compared with 177,300 in 1998. In the last three months of 1999 39,400 dwellings were started and there were 45,700 completions. Both figures were 6% up on the same period the previous year.
- According to the Halifax Monthly Index, house prices in the United Kingdom rose by 2.6% in January (seasonally adjusted). On an annual basis, house price inflation rose to 16.0%.
- According to the Halifax Quarterly Index the largest regional annual house price increase in the fourth quarter of 1999 was in Greater London (28.9%). Yorkshire and Humberside had the lowest rate (4.0%) together with Northern Ireland.

Next update: 3 March and 13 April

G 1. International Comparisons - Growth



GDP at constant market prices
% change on year

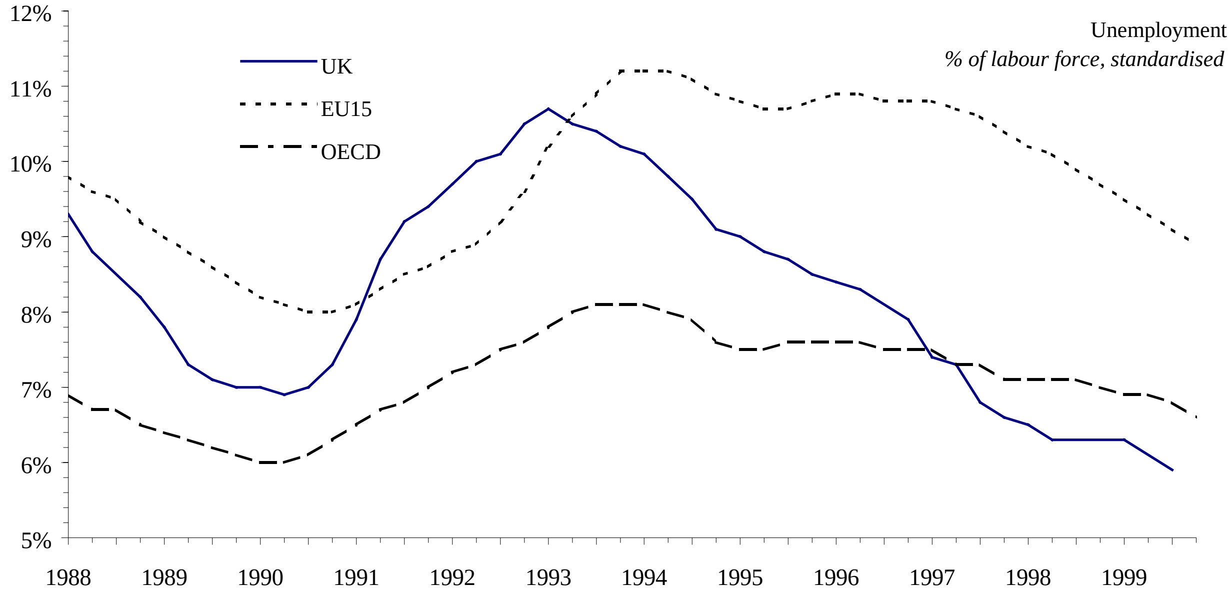
	1997	1998	1999	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
USA	4.4%	4.3%	4.1%	4.6%	3.9%	3.8%	4.2%	4.3%
Japan	1.5%	-2.5%	..	-3.0%	-0.5%	0.7%	1.0%	..
Canada	3.9%	3.1%	..	2.8%	3.1%	3.6%	4.1%	..
United Kingdom	3.5%	2.2%	2.0%	1.5%	1.4%	1.6%	2.1%	2.9%
Germany	1.4%	2.2%	..	1.2%	0.8%	0.9%	1.3%	..
France	2.0%	3.4%	..	2.9%	2.5%	2.3%	2.9%	..
Italy	1.5%	1.3%	..	0.2%	0.9%	0.8%	1.2%	..
EU15	2.5%	2.7%	..	1.9%	1.7%	1.9%	2.1%	..
G7	3.2%	2.4%	..	2.1%	2.3%	2.5%	2.8%	..
OECD	3.4%	2.6%	..	2.3%	2.4%	2.6%	3.0%	..

Source: OECD, *Main Economic Indicators*, February 2000; ONS - CSDB database

- The latest statistics suggest that economic growth in Europe is running at around 2% per annum. Growth in the UK is likely to be below the EU average in 1998 and 1999 having been above average in each year 1993 to 1997.
- The US economy is continuing to grow strongly. Over the 12 years 1987 to 1999 the average annual growth rate was 3.2%. The Japanese economy is starting to grow after a sharp recession in 1998.
- In December 1999 the OECD expected growth in 2000 to be 3.1% in the USA, 1.4% in Japan and 2.8% in the EU15.

Next update: mid-March

G 2. International Comparisons - Unemployment



Unemployed as % of labour force
standardised; seasonally adjusted

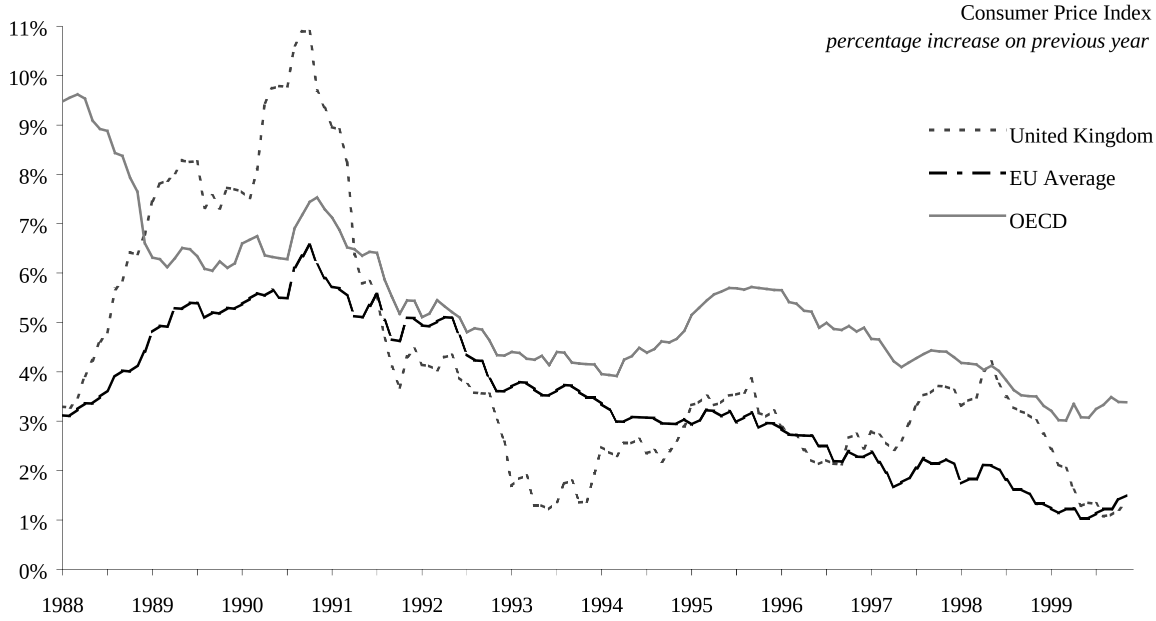
	1997	1998	1999	1999 Q1	1999 Q2	1999 Q3	1999 Q4
USA	4.9	4.5	4.2	4.3	4.3	4.2	4.1
Japan	3.4	4.1	4.7	4.6	4.8	4.7	4.6
Canada	9.1	8.3	7.6	7.8	7.8	7.6	7.0
United Kingdom	7.0	6.3	..	6.3	6.1	5.9	..
Germany	9.9	9.4	9.1	9.1	9.1	9.2	9.1
France	12.3	11.7	11.0	11.4	11.2	11.0	10.5
Italy	11.7	11.9	..	11.6	11.4	11.2	..
EU 15	10.6	9.9	9.2	9.5	9.3	9.1	8.9
G7	6.6	6.4	6.2	6.3	6.3	6.2	6.0
OECD	7.4	7.1	6.8	6.9	6.9	6.8	6.6

Source: OECD Quarterly Labour Force Statistics/standardised unemployment rates at www.oecd.org

- Using standardised definitions, the UK unemployment rate was significantly below the EU average in 1999 Q3 and slightly below both the OECD and G7 averages.
- The unemployment rate in the euro-zone (the eleven Member States participating in the single currency) stood at 9.7% in December 1999 – nearly a percentage point higher than the rate of 8.9% for the EU15 as a whole.
- The latest forecasts published by the OECD in December 1999 suggest that unemployment rates for both the G7 and the UK will remain broadly flat in 2000 and 2001. The unemployment rate for the EU as a whole is expected to fall to 8.8% in 2000 and 8.4% in 2001.

Next update: mid March

G 3. International Comparisons - Prices



Consumer Price Index (national definitions)

% change over 12 months

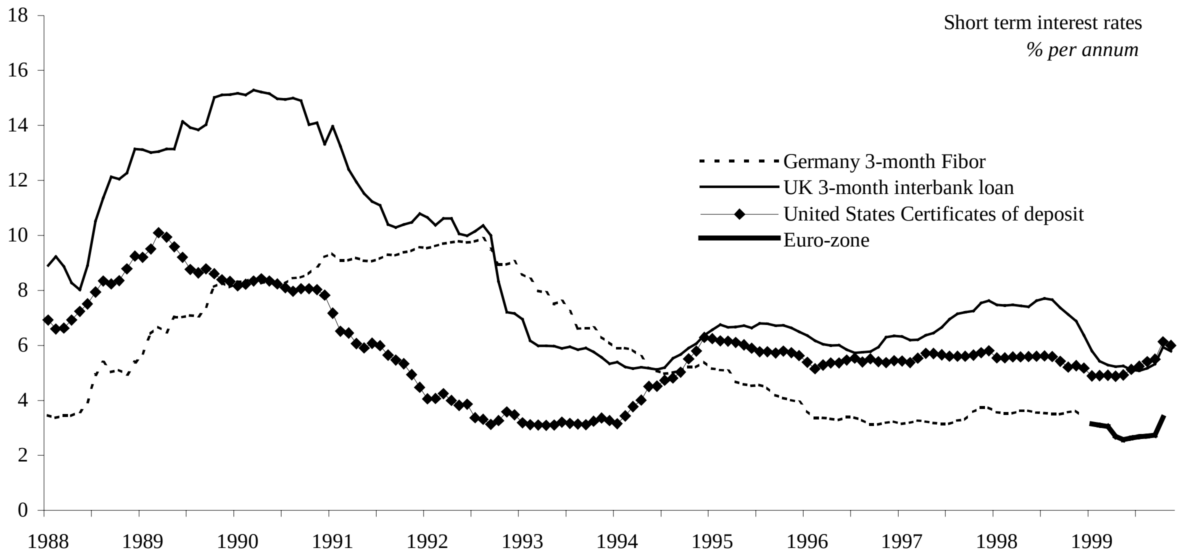
		USA	Japan	Canada	UK	Germany	France	Italy	OECD	EU15
1996		2.9	0.1	1.6	2.5	1.5	2.1	3.8	5.1	2.5
1997		2.4	1.8	1.6	3.1	1.7	1.1	1.8	4.2	2.0
1998		1.5	0.6	1.0	3.4	1.0	0.7	1.7	3.7	1.7
1999	Jun	2.0	-0.3	1.5	1.4	0.4	0.3	1.4	3.1	1.0
	Jul	2.1	-0.1	1.8	1.3	0.6	0.4	1.7	3.2	1.1
	Aug	2.3	0.3	2.1	1.1	0.7	0.5	1.7	3.3	1.2
	Sep	2.6	-0.2	2.6	1.1	0.7	0.7	1.8	3.5	1.2
	Oct	2.6	-0.7	2.3	1.2	0.8	0.8	2.0	3.4	1.4
	Nov	2.6	-1.2	2.2	1.4	1.0	0.9	2.0	3.4	1.5

Source: OECD Main Economic Indicators

- Under the terms of the Maastricht Treaty, harmonised indices of consumer prices (rather than data compiled on national definitions) are used to assess price stability in each Member State. On a harmonised basis the average inflation rate for the eleven EU countries participating in the single currency was 1.6% in October 1999. The UK's inflation rate on this basis was 1.4%.
- The inflation rates for the other three Member States not participating in the Single Currency were (on a harmonised basis) Denmark: 3.0% and Sweden: 0.9% in November 1999 and Greece: 2.7% in December 1999.
- Harmonised inflation rates in the EU in October ranged from 3.0% in Denmark to just 0.9% in in Austria.

Next update: late February

G 4. International Comparisons - Interest Rates



International Interest Rates
as at 28 February 2000

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	5.36	6
United States	6.51	$6\ ^{1}/_{32}$
Switzerland	3.76	$2\ ^{15}/_{32}$
Japan	1.76	$^{3}/_{32}$
Euro-zone	..	$3\ ^{5}/_{8}$

Source: Financial Times, 29 February 2000

- The European Central Bank (ECB) set its first repo rate at 3% in January 1999 when Stage III of EMU started. The current level of 3-month market rates within EMU is shown as the 'euro-zone' rate in the table.
- There is, as yet, no equivalent euro-zone government bond rate quoted. In future, a suitable comparator may be the rate on bonds issued by institutions like the European Investment Bank. Further details will be published on this page when they become available.
- February saw a round of interest rate rises world wide. On the 2nd the Federal Reserve raised two of its key rates by ¼ percentage point to 5.75%. Then on the 3rd the ECB raised rates by ¼ percentage point to 3.25%. On the 10th the Bank of England raised interest rates by ¼ percentage point. Only the Bank of Japan, of the world's major central banking authorities, has not raised rates