



RESEARCH PAPER 00/9  
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# 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: A New Climate for Inflation**

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ECONOMIC POLICY & STATISTICS SECTION

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## 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	Patsy Richards	4310
Financial services	Laura Bardgett/Tim Edmonds	3977/2883
Housing	Bryn Morgan	3851
Incomes	Laura Bardgett/Bob Twigger	3977/4904
Industries	Laura Bardgett/Tim Edmonds	3977/2883
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	Patsy Richards	4310
Unemployment	Andrew Presland/Bob Twigger	2464/4904
Wages & earnings	Andrew Presland/Bob Twigger	2464/4904

A comprehensive guide to the subject coverage of specialists in the Research Service is available from the Library - *Who Does What in Research*.

## II A New Climate for Inflation

Inflation in the UK is measured by movements in the Retail Price Index (or derivatives thereof). The index includes separate indices for both goods and services. These indices are currently showing completely different things. Services are currently rising at an annual rate of nearly 4%, whereas inflation in goods, by contrast, is virtually zero. Several explanations have been put forward to account for this. One is that Internet shopping has had a profound impact on consumer shopping habits and has exerted downward pressure on prices of goods. This short article looks at research into the possible scale of the 'Internet effect' and at other 'structural' changes that may affect inflation in the UK.

Electronic, or Internet, shopping is barely out of the news at present. Legislation is currently before the House to facilitate it.<sup>1</sup> Tesco's recently announced that it intended to create 7,000 new jobs, in 200 new online stores to cope with its intended expansion of direct shopping.<sup>2</sup> The supermarket chain says that it now has 250,000 registered e-customers: and that sales are running at a rate of £125 million a year. As well as the online offshoots of established companies, a host of Internet-only retailers (e-tailers) now exist to sell not only a range of products but also to offer advice on everything from mortgages to the cheapest utility provider. The impact and possibilities of electronic shopping and business are gradually becoming clearer.

Economists familiar with the story of the Bridgewater Canal, which was built by James Brindley for the Duke of Bridgewater to transport coal from his mines at Worsley to Manchester, and, once completed, cut the cost of coal in Manchester in half, have started to ask whether the impact of the Internet will be anywhere near as dramatic. A particularly extensive piece of research in this vein has recently been undertaken by economists from Barclays Capital, and it is this work that is summarised in the rest of this article.<sup>3</sup>

The general thrust of the work was to examine the difference in prices between high street retailers and e-tailers and assume that at least some of the current differences will disappear as a result of competitive pressures. In the survey the Internet price includes the cost, if any, of delivery. It should be pointed out that the Internet is not the only force acting upon retail prices. Other forces specifically identified in the report are the 'Asda/Wal-Mart' effect, the price constraints applied by utility regulators and the impending report by the competition commission into car prices.

When they looked on the Internet the Barclays researchers found evidence of substantial price differentials in a wide range of goods, but particularly in the categories of leisure and electrical goods as the table on the following page shows.

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<sup>1</sup> *The Electronic Communications Bill* [Bill 4 of 1999-2000]

<sup>2</sup> *Financial Times* 20 January 2000

<sup>3</sup> *The great e-scape*, Barclays Capital, December 1999

### Internet Price Comparisons

Goods	Average Prices		% Price difference
	Retail	Internet	
<i>Television</i>			
Portable	£149.99	£129.25	-14%
Large screen	£339.99	£295.25	-13%
Wide screen	£850.82	£734.50	-14%
Video	£271.42	£233.71	-14%
Fridge-freezers	£467.45	£412.29	-12%
Vacuum cleaners	£214.95	£181.84	-15%
<i>Books</i>			
Top 10 paperbacks	£8.09	£6.31	-22%

*Source: Barclays*

With respect to the impact of the Internet on the RPI three factors are important.

- The extent of the price differential.
- The relative importance of those goods sold via the Internet on the basket of goods that make up the RPI.
- The extent of Internet shopping generally.

The table shows that savings on some goods are substantial. However, groups of items such as leisure electrical goods and household appliances do not make up a significant proportion of consumer expenditure. In terms of the RPI 'electrical appliances' and 'audio-visual equipment' each account for only 1% of the index. By comparison, food accounts for nearly 13% and housing costs nearly 20%. Lastly, the extent of Internet shopping is still limited. Most surfing appears to take place at work (!) and this is unlikely to change until a far larger number of households are connected to the Net.

In summing up Barclays conclude:

The implication of this is that the impact of the Internet on the RPI over the next few years will come largely via the retaliatory/pre-emptive price cuts it forces high street retailers to make, through fear of losing customers to the Internet.

In our view, it's extremely unlikely that high street prices will fall to Internet levels over the next two years. We expect around a quarter of the current differential to be removed. If that were to take place in one year this would cut inflation by 0.2%. In reality, though, the reductions will be phased in - probably by an equal amount each year.

So is the hype just that? One should point out that a reduction of inflation even by as little as 0.1% is welcome. For example, every 1% reduction in inflation reduces the Exchequer cost of the statutory social security benefits uprating by over £800 million.<sup>4</sup> For individuals even such a small rate of inflation would reduce the value of savings by 6% over 30 years. The factor that might persuade one to take the Internet more seriously though is that the forecast risks seem to be on the upside. The figures here are based upon a low level of Internet usage and, consequently, a low level of narrowing of prices (only a quarter of the differential is closed). On current trends it is highly likely that Internet shopping is going to grow quickly, if only because of the generational impact of computer literate children growing into the consumers of tomorrow. More widespread use will inevitably lead to a further narrowing of price differentials and hence at least two of the factors with an important impact on the RPI are set to turn far more positively than they are now.

So if the impact of the Internet is likely to be small, at least in the short term, what of the other, structural, factors impinging on inflation: the Wal-Mart effect, the utilities' regulators actions and the expected announcement of changes to the selling of new cars by the Competition Commission?

The American company Wal-Mart is the world's largest retailer. When it acquired Asda in 1999 it was expected that the American's policy of intense price competition would be introduced in the UK too. The Wal-Mart effect, as it has come to be called, was modelled in much the same way as the Internet effect. The price of a basket of goods bought at Asda and Tesco/Sainsbury was compared. Barclays then assumed that half of the price differential would be whittled away and then applied these reductions according to the weighting of the goods in the RPI. This had a far more substantial effect on the RPI. First, more of the price differential was assumed away. Secondly, items such as food and toiletries form a much larger component of the RPI index. For example, as was stated above, food accounts for nearly 13% of expenditure and even the relatively narrow group of 'chemists goods' is twice as important as audio-visual equipment.

Details of the price effect of the utility regulators are taken from published statements made by the regulators and then applied to the current inflation forecast. Regulator induced price falls could see water charges falling by over 11%, electricity prices by 3.5% and gas by 5%.

The Competition Commission's Report into the selling of new cars is expected shortly. It is expected that its recommendations will lead to reductions in the cost of buying new cars from franchised showrooms. This reduction is assumed, by Barclays, to be 10% over two years. The current slowdown in the sale of new cars in the UK appears to indicate that UK consumers have reached similar conclusions.

The combined effect of all these influences is shown in the table on the following page.

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<sup>4</sup> HC Deb 1 November 1999 c44-5W



### **Contribution to UK Inflation**

	Year	
	2000	2001
Internet Effect	-0.1%	-0.1%
Wal-Mart Effect	-0.2%	-0.2%
Utilities price restraint	-0.3%	0.0%
Car price effect	-0.3%	-0.3%
<b>Total reduction in inflation</b>	<b>-0.8%</b>	<b>-0.7%</b>

*Source: Barclays*

If translated into fact, together these figures give a substantial downward influence on prices, at a time when the RPI is currently already below 2%. One should note, however, that in the short term it is not the much heralded Internet that is the important feature, rather it is the immediate impact of non-market forces in the shape of the regulators and the Competition Commission that is shaping the forecast.

## A 1. Gross Domestic Product



Gross Domestic Product  
*seasonally adjusted*

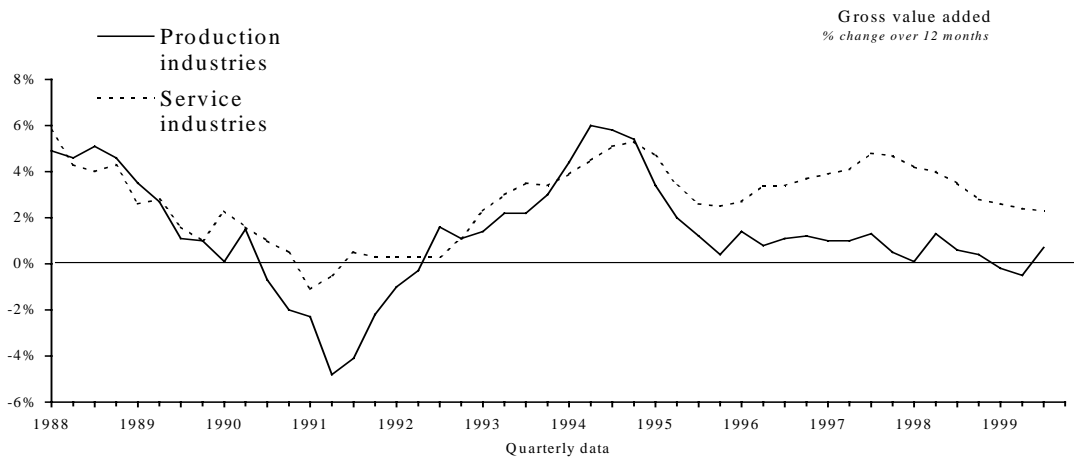
	GDP at current market prices <i>£ billion</i>	GDP at constant market prices <i>12 month change</i>	HH consumption at constant market prices <i>12 month change</i>	Non-Oil GVA at constant basic prices <i>12 month change</i>
1997	803.9	3.5%	4.0%	3.5%
1998	847.4	2.2%	3.2%	2.6%
1999 (prov)	..	1.9%	..	1.8%
1998 Q4	215.3	1.5%	2.3%	1.8%
1999 Q1	216.7	1.4%	3.4%	1.5%
Q2	220.8	1.6%	3.3%	1.5%
Q3	223.2	1.9%	3.5%	1.8%
Q4 (prov)	..	2.7%	..	2.6%

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

- Gross domestic product (GDP) at 1995 market prices is provisionally estimated to have risen by 0.8% in the fourth quarter of 1999 to a level 2.7% above the same quarter in 1998. The growth rate for the calendar year 1999 is provisionally estimated at 1.9%. 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 third quarter of 1999 net trade continued to exert a significant negative impact on GDP growth despite a sharp increase in export volumes in the third quarter. The year-on-year growth rate of 1.9% represented a positive contribution of 2.7 percentage points from the growth of domestic expenditure offset by a negative contribution of 0.7 percentage points from the net trade effect. The balance (-0.1 percentage points) represented a decrease in the statistical discrepancy.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 3.0% in 2000 and 2.6% in 2001.

Next update: 28 February

## A 2. Gross Value Added by Industry



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

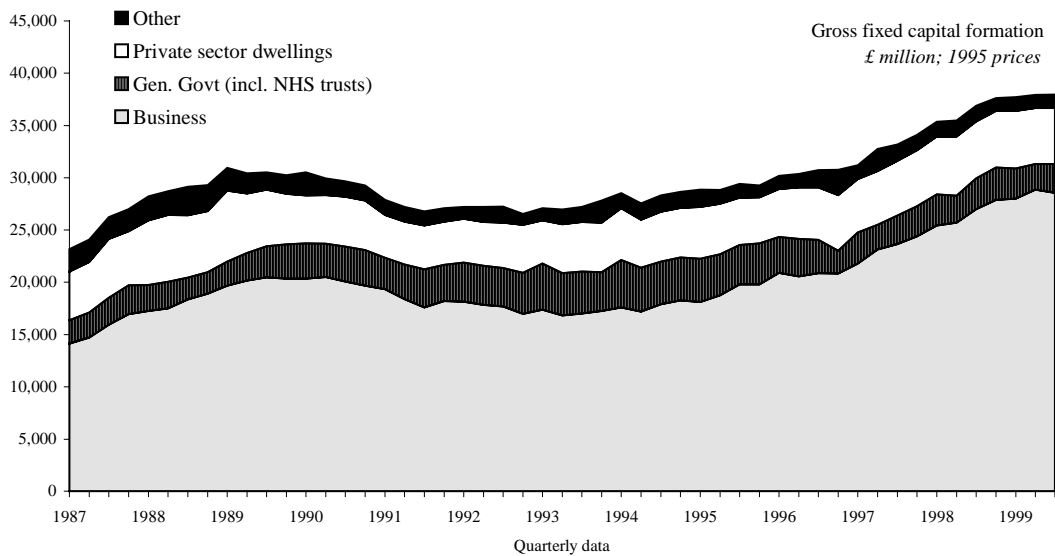
	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac- turing			
1997	1.0%	1.3%	4.4%	1.5%	3.2%
1998	0.6%	0.3%	3.6%	-1.4%	1.3%
1999 (prov)	.. ..	..	2.5%	..	..
1998 Q3	0.6%	0.3%	3.5%	-1.4%	0.6%
Q4	0.4%	-0.5%	2.8%	-1.0%	-1.3%
1999 Q1	-0.2%	-1.2%	2.6%	3.2%	-3.1%
Q2	-0.5%	-1.2%	2.4%	1.6%	0.5%
Q3	0.7%	0.2%	2.3%	1.9%	1.4%
Q4 (prov)	..	..	2.9%	..	..

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%. Provisional estimates suggest that 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 November was 1.1% higher than in the previous three months and 1.5% higher than in the same period in 1998. In the third quarter of 1999 output was stable in the agriculture sector but rose in the energy extraction, energy supply and construction sectors.
- 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: 11 & 28 February

### 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	5,920	10,318	1,212	36,892
Q4	3,661	16,356	5,778	10,670	1,171	37,636
1999 Q1	3,924	16,285	5,893	10,560	1,070	37,732
Q2	3,974	16,408	5,773	10,794	991	37,940
Q3	3,659	16,815	5,767	10,869	871	37,981

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 0.1% in real terms in the third quarter of 1999 to a level 3% 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 fell by 1% in real terms in the third quarter of 1999 compared with the previous quarter but was 5.8% above the level for the third quarter in 1998.

Next update: 28 February

## A 4. Productivity



		% change on year seasonally adjusted			% change 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	0.2	-4.2	4.6	1.8	0.7	1.2
	Q4	..	..	..	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 third quarter saw positive output growth for the first time this year. This was accompanied by the accelerating rate of decline in manufacturing employment. The result is that annual productivity growth in manufacturing is gathering pace, and stands at 4.6 per cent for the third quarter.
- The slight fall in the rate of employment growth in 1999 Q3 for the economy as a whole means that the annual rate of productivity growth reached 1.2%.

Next update: 16 February

## B 1. Retail Prices



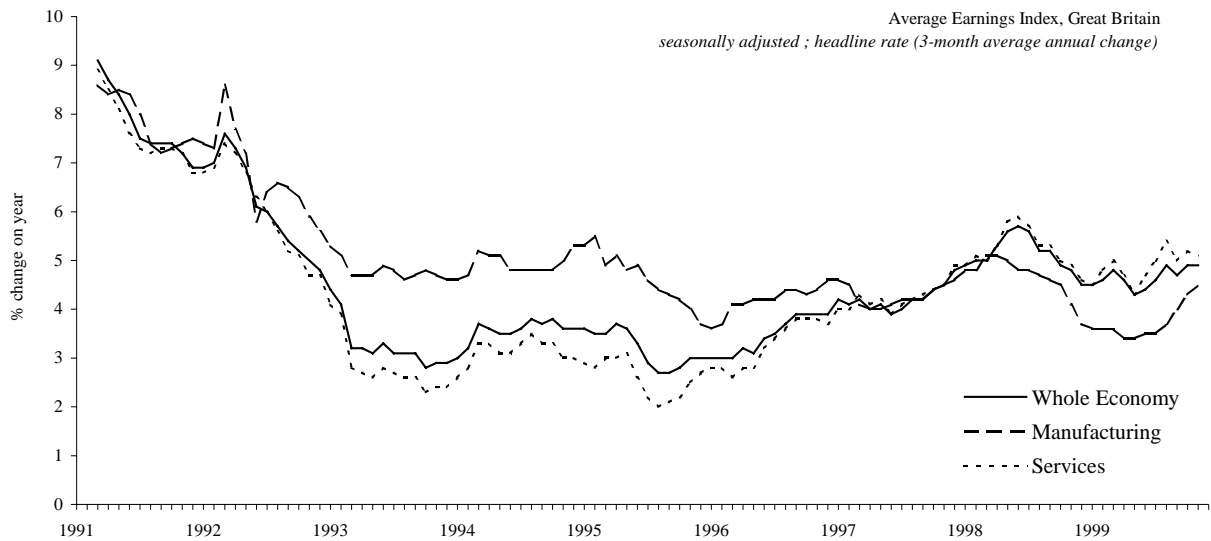
	<i>% change on previous year</i>	
	Retail Prices Index	
	All-items	excl. mortgage interest (RPI(X))
1997	3.1	2.8
1998	3.4	2.6
1999	1.5	2.3
1998 Dec	2.8	2.6
1999 Jan	2.4	2.6
Feb	2.1	2.4
Mar	2.1	2.7
Apr	1.6	2.4
May	1.3	2.1
Jun	1.3	2.2
Jul	1.3	2.2
Aug	1.1	2.1
Sep	1.1	2.1
Oct	1.2	2.2
Nov	1.4	1.4
Dec	1.8	1.8

Source: ONS Database Series CZBH, 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 December 1999 the headline rate of inflation rose to 1.8 per cent, up from 1.4 per cent in November 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.
- Increases in motoring costs also contributed to upward pressures, with the rise in crude oil prices reflected in the cost of petrol.
- The largest downward pressure came from the price change of tobacco, as price increases in December 1998 fell out of the 12-month comparison.

Next update: 15 February

## B 2. Average Earnings



Average Earnings, Great Britain  
seasonally adjusted

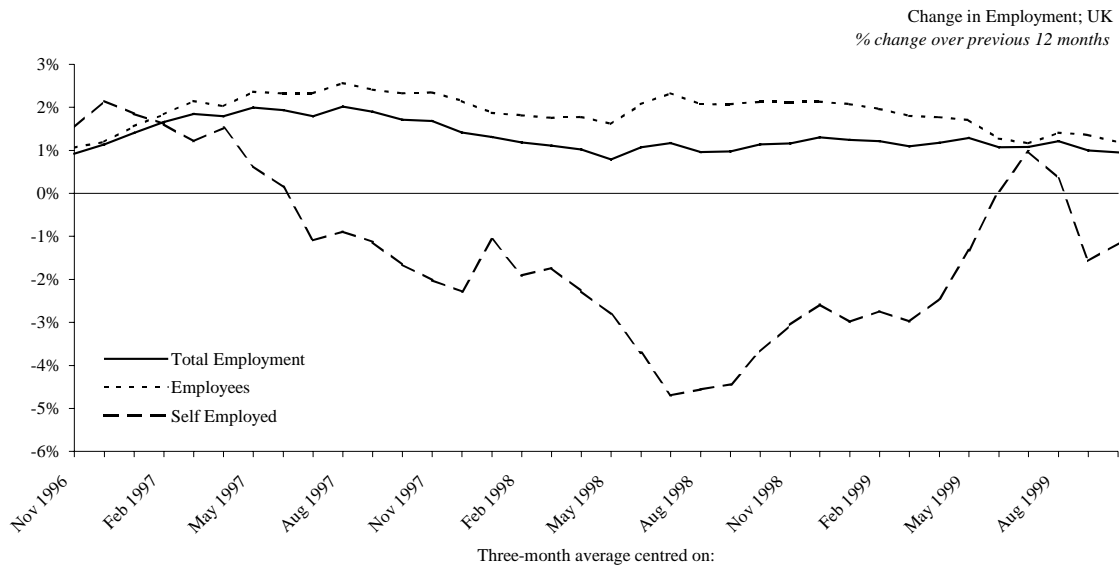
	headline rate (% change on year)		
	Whole Economy	Private Sector	Public Sector
1998 Nov	4.8	5.1	3.7
Dec	4.5	4.7	3.6
1999 Jan	4.5	4.6	3.6
Feb	4.6	4.8	3.8
Mar	4.8	5.0	4.1
Apr	4.6	4.7	4.3
May	4.3	4.2	4.5
Jun	4.4	4.3	4.8
Jul	4.6	4.6	4.6
Aug	4.9	5.0	4.3
Sep	4.7	4.8	3.9
Oct	4.9	5.1	3.9
Nov	4.9	5.1	3.9

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 November remained at the level reached in October. Separate figures for the private and public sectors also remained unchanged. Manufacturing industry showed a continued rise in the rate of earnings growth whereas the rate of service industries showed a small fall.
- Commenting on the latest earnings data, the Employment Minister, Tessa Jowell, said "stability and steady growth require wage responsibility across public and private sectors".
- 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: 16 February

## C 1. Employment



Employment Structure in the UK  
*thousands; seasonally adjusted*

		Total in Employment	Employees	Self Employed	Unpaid Family Workers	Govt Training
1995	Sep-Nov	26,199	22,444	3,341	133	269
1996	Sep-Nov	26,501	22,722	3,369	120	233
1997	Sep-Nov	26,956	23,270	3,331	125	219
1998	Sep-Nov	27,263	23,753	3,183	103	168
	Dec-Feb	27,342	23,858	3,211	101	143
1999	Mar-May	27,362	23,910	3,188	102	159
	Jun-Aug	27,462	23,928	3,222	94	168
	Sep-Nov	27,522	24,076	3,133	106	164
Changes:						
	1998 Sep-Nov to	259	323	-50	3	-4
	1999 Sep-Nov	1.0%	1.4%	-1.6%	2.9%	-2.4%

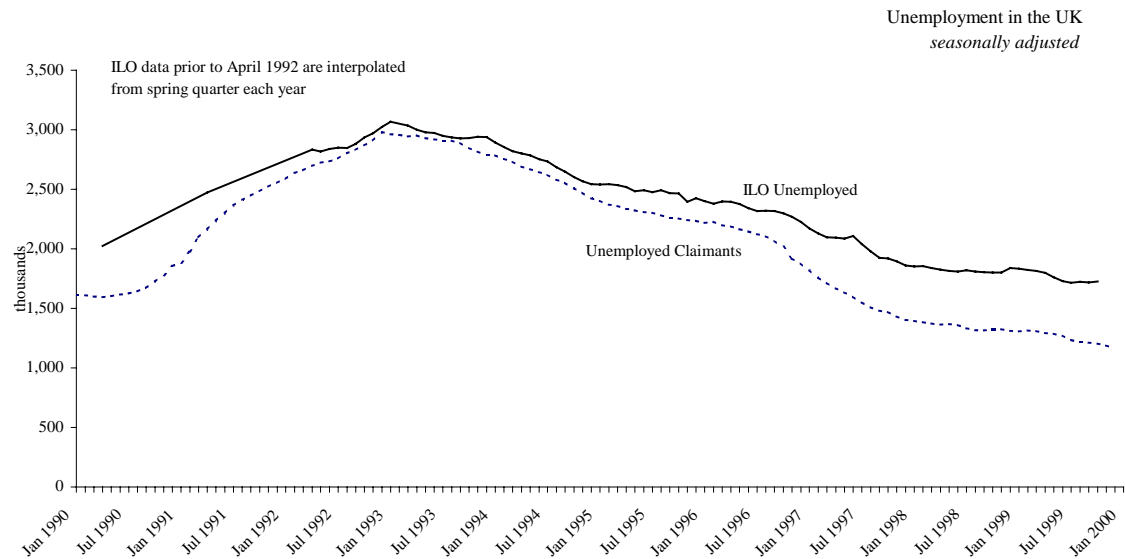
*Source: Labour Force Survey (ONS)*

- Employment has once again increased over the latest rolling three-month period, setting a new record of just over 27.52 million.
- Compared to a year previously, employment was 259,000 (1.0%) higher in the July-September 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 50,000 (1.6%) lower than a year previously, and is 89,000 lower than in the previous three-month period.

*Next update: 16 February*



## C 2. Unemployment: National



ILO Unemployment in the UK  
*seasonally adjusted*

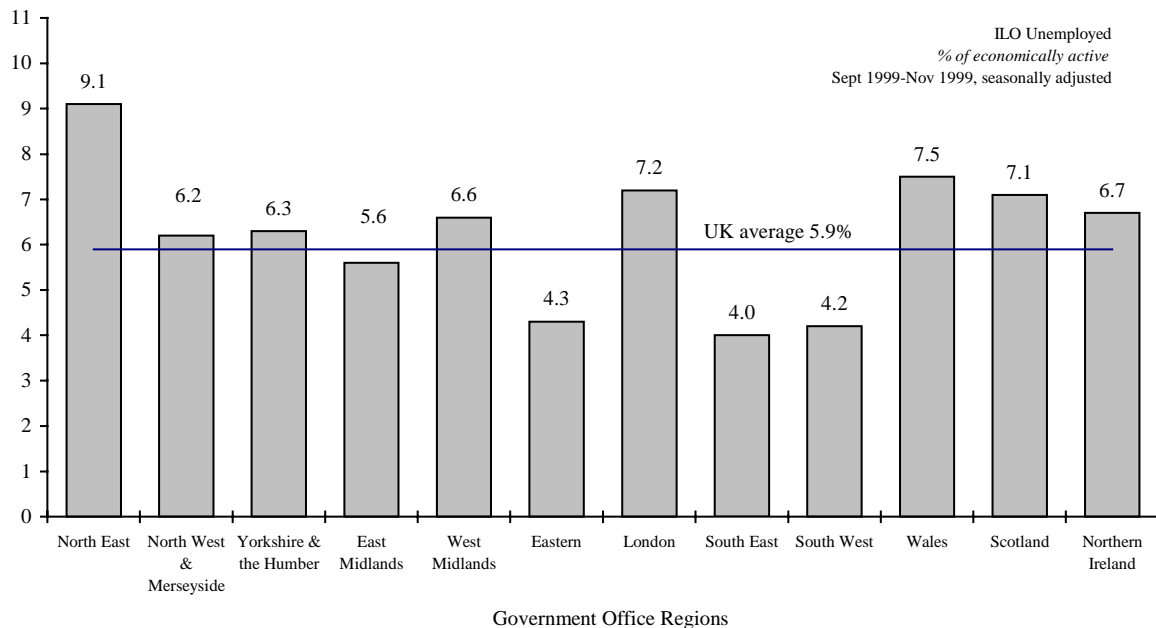
	thousands	rate (%)
1997 Jan-Mar	2,129	7.4
Apr-Jun	2,084	7.2
Jul-Sep	1,976	6.8
Oct-Dec	1,895	6.6
1998 Jan-Mar	1,854	6.4
Apr-Jun	1,814	6.3
Jul-Sep	1,807	6.2
Oct-Dec	1,799	6.2
1999 Jan-Mar	1,822	6.2
Apr-Jun	1,760	6.0
Jul-Sep	1,721	5.9
Aug-Oct	1,716	5.9
Sep-Nov	1,726	5.9

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 September to November 1999, the level of ILO unemployment in the UK was 1,726,000. This was an increase of 10,000 from the August to October period. As measured by the monthly claimant count, unemployment fell in December 1999 by 21,900 to stand at 1,164,000.
- Since the New Deal for the Young Unemployed started in January 1998, 391,500 people have joined the scheme. Of those leaving the scheme, 133,450 had moved into 'sustained jobs' up to the end of November, ie excluding those who had returned to claim Jobseekers' Allowance (JSA) within three months of starting employment. 85% of these jobs were unsubsidised. Since the New Deal for the Long-Term Unemployed started in July 1998, 209,500 people have joined the scheme. Up to the end of November 1999, 27,770 people leaving the scheme had entered 'sustained jobs', of which 21,390 (77%) were unsubsidised and 6,380 (23%) were subsidised.

Next update: 16 February

### C 3. Unemployment: Regional



ILO Unemployment, Sept-Nov 1999  
change on same period in previous year  
seasonally adjusted

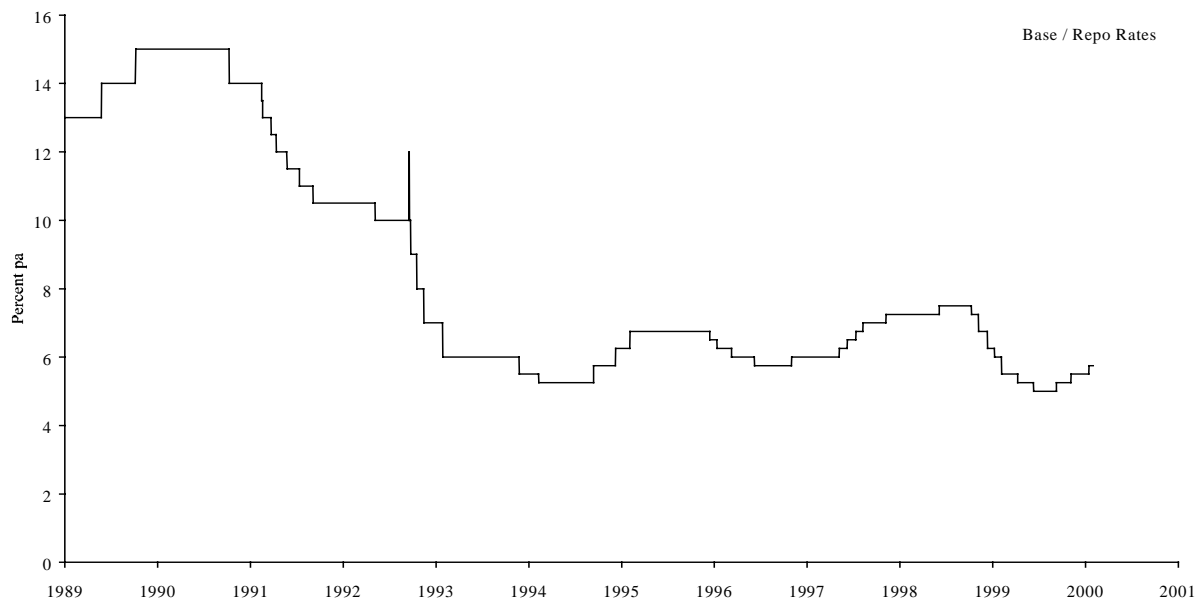
	thousands	%
North East	1	1%
North West & Merseyside	-23	-10%
Yorkshire & the Humber	-13	-8%
East Midlands	12	11%
West Midlands	2	1%
East	-7	-6%
London	-7	-3%
South East	-12	-7%
South West	-10	-9%
Wales	5	5%
Scotland	-18	-9%
Northern Ireland	-6	-11%
UK	-75	-4%

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 September to November 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 Northern Ireland, where it was 11% lower in September to November 1999 than in the same period a year earlier. The most rapid increase in unemployment occurred in the East Midlands, where it was up 11% on the previous year. The North East has the highest unemployment rate, at 9.1% of the economically active population. The lowest unemployment rate was 4.0% in the South East of England.

Next update: 16 February

## D 1. Interest Rates



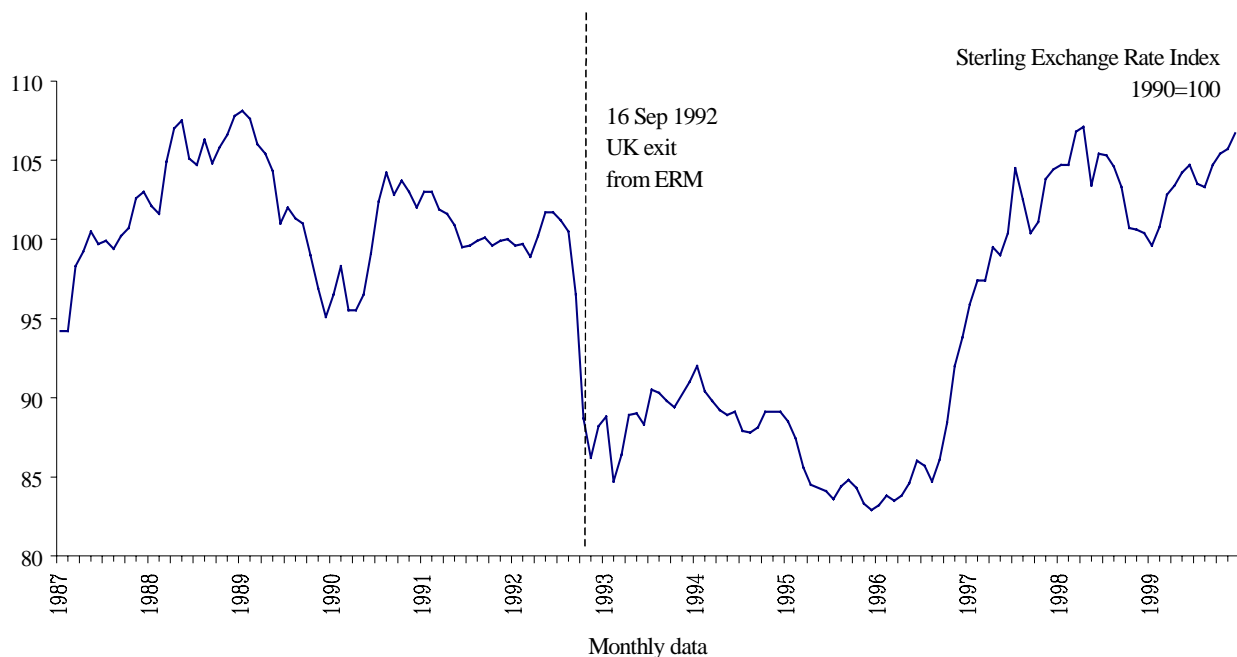
### UK Base/Repo Rates *per cent per annum*

Date of change	New rate	
1994	Sep 12	5.75
	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
	Jan 13	5.75

*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 (MPC) of the Bank of England rather than by the Chancellor.
- The MPC next meets on 9<sup>th</sup> & 10<sup>th</sup> of February.
- The ½ percentage point cuts in the repo rate in November and December 1998 and in February 1999 were the largest changes in rates yet made by the MPC.
- Strong economic growth and increases in wealth, labour income and household borrowing were factors cited by the MPC to justify the latest increase in rates. Continued evidence of economic recovery is maintaining expectations of further increases in forthcoming months.

## D 2. Exchange Rates



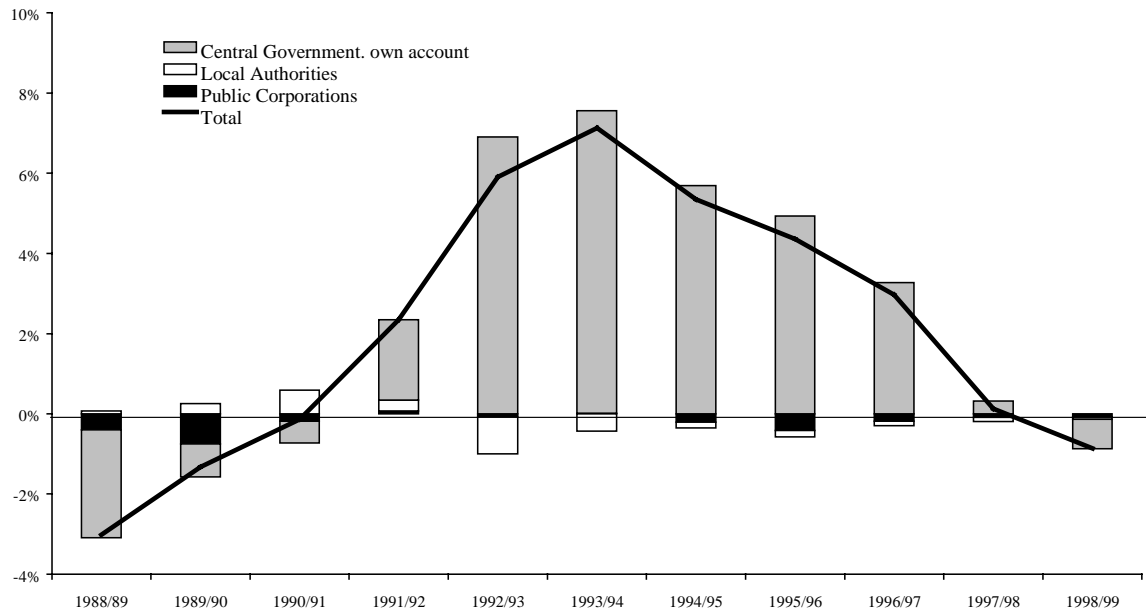
Sterling Exchange Rates								
	DM		US\$		Yen		ECU/Euro	
	Rate	% change on year	Rate	% change on year	Rate	% change on year	Rate	% change on year
1993	2.48	-9.7%	1.50	-15.0%	166.73	-25.5%	1.28	-5.7%
1994	2.48	-0.1%	1.53	2.1%	156.40	-6.2%	1.29	0.6%
1995	2.26	-8.9%	1.58	3.0%	148.37	-5.1%	1.22	-5.5%
1996	2.35	4.0%	1.56	-1.1%	170.00	14.6%	1.25	2.1%
1997	2.84	20.9%	1.64	4.9%	198.12	16.5%	1.45	16.3%
1998	2.91	2.6%	1.66	1.2%	216.75	9.4%	1.48	1.9%
1999 Oct	..	..	1.66	-2.2%	175.66	-14.3%	1.55	..
1999 Nov	..	..	1.62	-2.4%	169.69	-15.1%	1.57	..
1999 Dec	..	..	1.61	-3.4%	165.70	-15.3%	1.60	..

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. The Japanese Yen continues its appreciation despite the Bank of Japan's intervention in the foreign exchange markets.
- The dollar's strength has contributed to the renewed decline in the worldwide value of the euro. Despite a ½ per cent rise in interest rates announced by the ECB in November, the euro has fallen below the crucial 1\$ parity level. With no immediate sign of intervention by the ECB most analysts expect the currency to remain weak. Since January 1999 it has fallen by 14.5% against sterling and by 15.8% against the US dollar.
- The pound was worth €1.6527 at the London market close on January 28 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

PSNCR as % of GDP



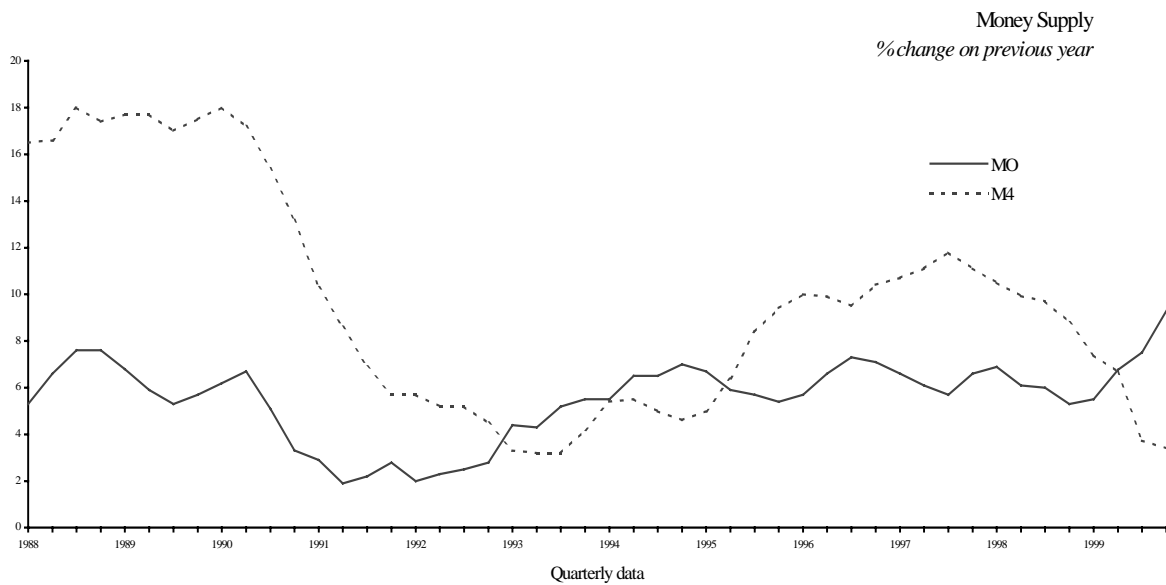
	Public Sector Net Cash Requirement			
	PSNCR		PSNCR excl privatisation receipts	
	£ billion	As a % of GDP	£ billion	As a % of GDP
1996/97	22.7	3.0%	27.2	3.5%
1997/98	1.1	0.1%	2.9	0.4%
1998/99	-7.0	-0.8%	-7.0	-0.8%
1998 Q3	-2.8	-1.3%	-2.8	-1.3%
1998 Q4	-3.8	-1.7%	-3.8	-1.7%
1999 Q1	-5.8	-2.7%	-5.9	-2.7%
1999 Q2	5.3	2.4%	5.8	2.6%
1999 Q3	-3.2	-1.4%	-3.2	-1.5%

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 nine months of the 1999/00 financial year was £4.3 billion, £5.4 billion more than over the same period of 1998/99.

Next update: 18 February

## D 4. Money Supply



Money stock  
*seasonally adjusted*

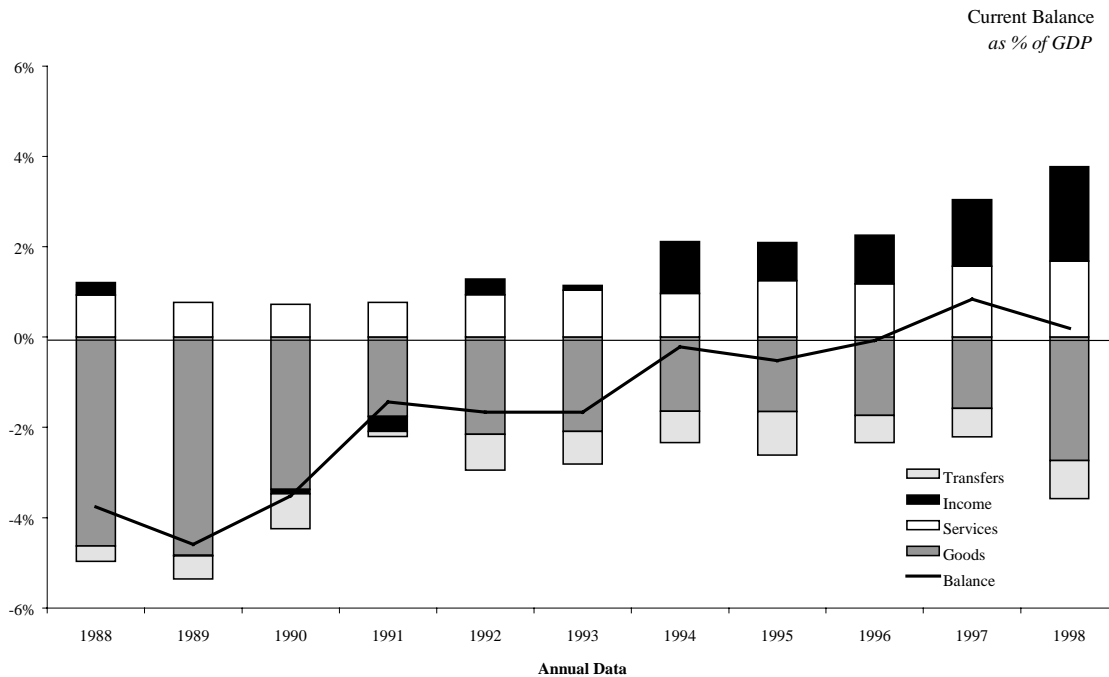
	M0		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1999 Jan	7.1	5.7	3.4	7.8
Feb	6.1	5.2	4.3	7.4
Mar	5.8	5.6	3.7	7.0
Apr	6.5	6.0	7.8	7.5
May	8.9	6.9	7.3	7.0
Jun	8.8	7.4	3.7	5.5
Jul	8.2	7.6	-2.0	3.7
Aug	9.3	7.7	-0.9	4.4
Sep	8.6	7.2	0.4	3.1
Oct	8.3	7.4	4.0	3.2
Nov	8.7	8.8	3.1	3.4
Dec (prov)	14.6	11.7	6.8	3.6
2000 Jan (prov)	17.5	12.7	n.a.	n.a.

Source: Bank of England press notices dated 21 & 31 January 1999

- 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: 7, 18, 29 February

## 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
1996		-13,086	8,897	-4,189	8,111	1,698	-6,220	-4,522	-600
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
1998	Q3	-5,531	3,314	-2,217	4,817	-50	-1,111	-1,161	1,439
	Q4	-6,032	2,746	-3,286	3,880	-522	-1,937	-2,459	-1,865
1999	Q1	-7,472	2,403	-5,069	2,412	905	-1,856	-951	-3,608
	Q2	-6,353	3,067	-3,286	1,185	552	-1,334	-782	-2,883
	Q3	-5,867	2,975	-2,892	1,453	421	-1,777	-1,356	-2,795

Source: ONS database Series BOKI, IKB1, IKBD, HBOJ, FNSV, FNTC, HBOP

ONS First Release: UK Trade ONS (99) 456

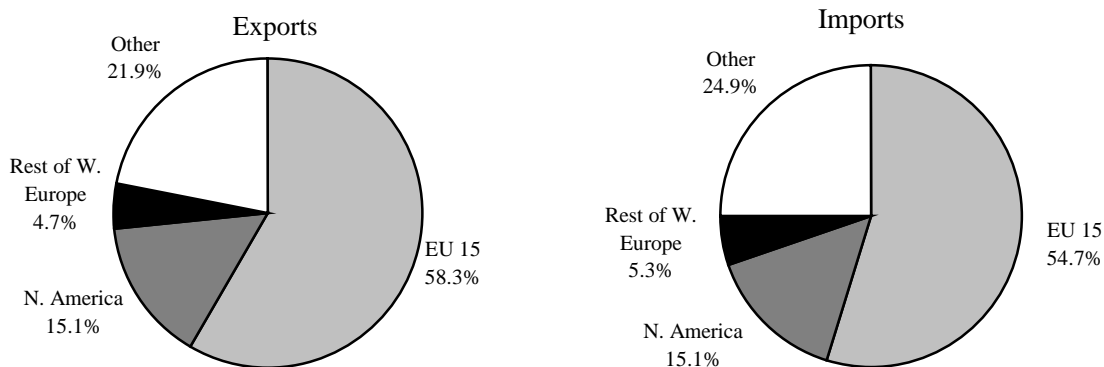
- **Trade:** Successive quarterly figures continue to show large, although narrowing, deficits in the trade in goods, which are not offset by the surpluses in the trade of services. This indicates a very weak UK trading position, with 1999 Q1 being the worst on record.
- **Income:** This includes income 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: 23 February

## E 2. Trade in Goods

### Shares of trade in goods by area: 1998

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
1996	107.7	109.1	167,403	180,489	-13,086
1997	116.5	119.0	171,783	183,693	-11,910
1998	118.0	129.1	164,092	184,629	-20,537
1998 Q3	118.5	131.2	41,006	46,537	-5,531
Q4	117.0	131.8	39,911	45,943	-6,032
1999 Q1	114.5	133.4	39,012	46,484	-7,472
Q2	117.5	134.0	40,174	46,527	-6,353
Q3	126.7	141.5	43,440	49,127	-5,687

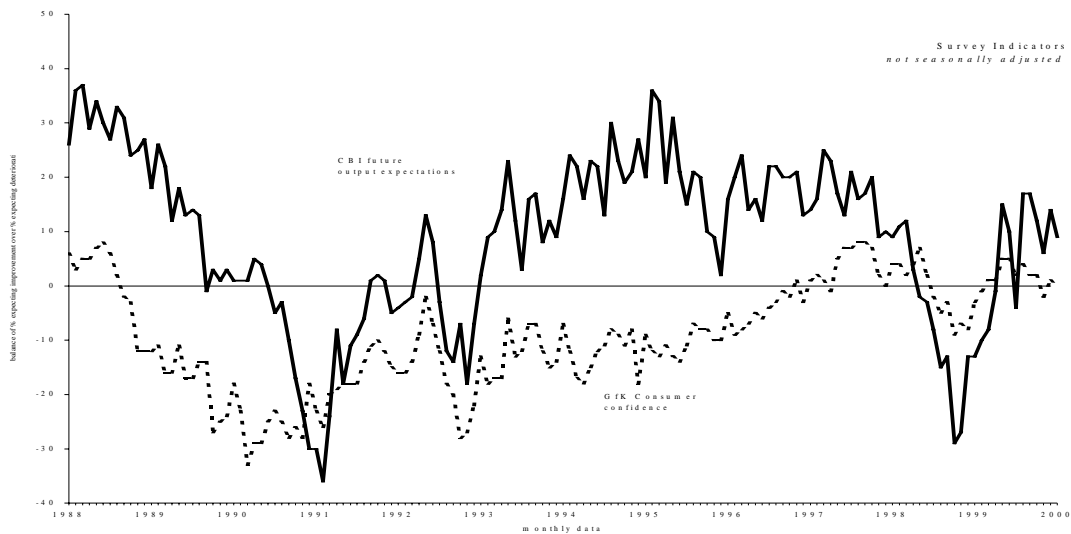
Source: ONS database Series BQKU, BQKV, BOKG, BOKH, BOKI  
ONS First Release: UK Trade ONS (2000) 32

- The three largest quarterly deficits in trade in goods were recorded between 1998(Q4) to 1999(Q2), producing a cumulative deficit for the three-quarters of £19,900 million. The deficit for 1999, excluding December, is estimated at some £22,000 million. The deficit for 1998 as a whole is was the largest annual deficit since 1989 (£24,700 million).
- During the 1999(Q3) exports rose by 5.9% in value terms and imports by 5.6% compared with the same quarter in 1998. In volume terms, exports rose 6.9% and imports by 7.9% in 1999 (Q3) compared with the same quarter in 1998.
- The UK's deficit on trade in goods in November is provisionally estimated at £2,500 million, compared with £2,300 million in October and £1,511 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 £20,428 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 7.8% compared with 1998(Q4), (imports rose 14.7% over the same period) but fell 4.3% when compared with 1999(Q3) (imports rose 3% over the same period). In the three months to November, exports to the EU rose 5.9% compared with the same period a year previously while imports rose 3.5% over the same period.
- Trends: The latest estimate of volume trends shows the UK trade deficit is narrowing.

Next update: 23 February



## F 1. Survey Indicators



### Output Expectations and Consumer Confidence

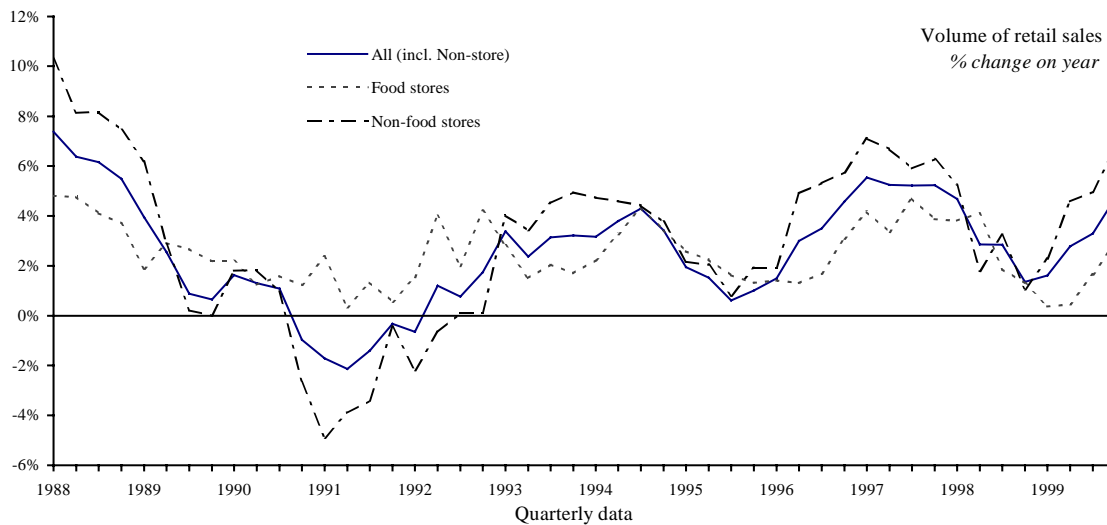
	Balance of % expecting improvement over % expecting deterioration	
	CBI Industrial Trends Survey: future output expectations	Consumer confidence GK
1999 Jan	-13	-3
Feb	-10	-1
Mar	-8	1
Apr	-1	1
May	15	5
Jun	10	5
Jul	-4	2
Aug	17	4
Sep	17	2
Oct	12	2
Nov	6	-2
Dec	14	1
2000 Jan	9	..

Source: ONS Database Series EITBA, EITBU

- 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 just shows a positive balance, though the negative value in November indicates that this is relatively fragile.
- In the case of manufacturers, rising world demand means that exports have stabilised, despite the downward effect of the strong pound.

*Next update: late February*

## F 2. Retail Sales



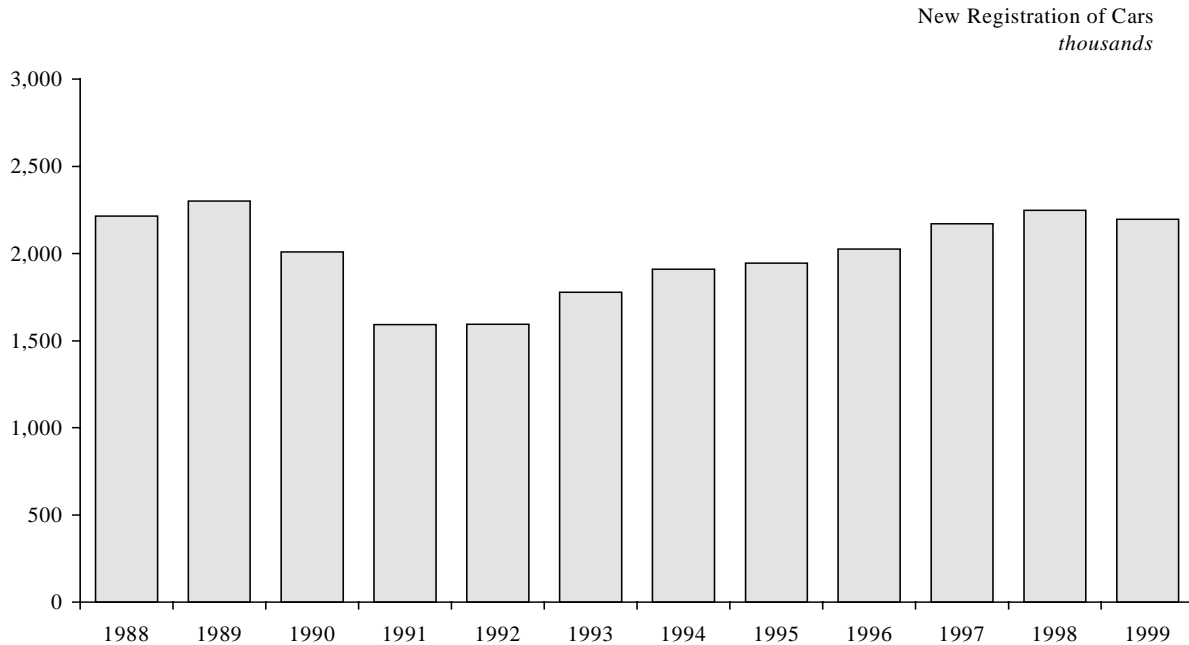
	Value of Sales <i>not seasonally adjusted; % change on year</i>			
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food
1997	4%	8%	10%	7%
1998	4%	3%	6%	4%
1999	3%	3%	6%	3%
1998 Q4	4%	-1%	2%	2%
1999 Q1	5%	3%	5%	3%
Q2	1%	3%	3%	4%
Q3	2%	4%	6%	3%
Q4	2%	4%	7%	3%

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

- In the three months October to December 1999, the volume of retail sales grew by 1.3% over the previous three-month period, reaching a level 4.7% higher than a year previously. Sales in the single month of December were 5.3% higher than a year ago.
- Growth in retail sales volumes were stronger in predominantly non-food stores (6.6% over October to December compared to the previous three months) than in food stores (3.0%). Sales volumes are growing particularly strongly in household goods stores (10.2% higher in October to December than a year earlier).
- In December 1999, the non-seasonally adjusted value of retail sales was 4.3% higher than a year earlier. The average weekly value of retail sales in December was £5,120 million. For the fourth quarter of 1999 the growth in the value of retail sales was strongest in the household goods sector (7% higher than 1998 Q4). In the food, drink & tobacco sector and the clothing & footwear sector, growth in the value of retail sales was 2% and 4% respectively.

Next update: 17 February

### F 3. New Registrations of Cars



New Registrations of Cars  
*not seasonally adjusted*

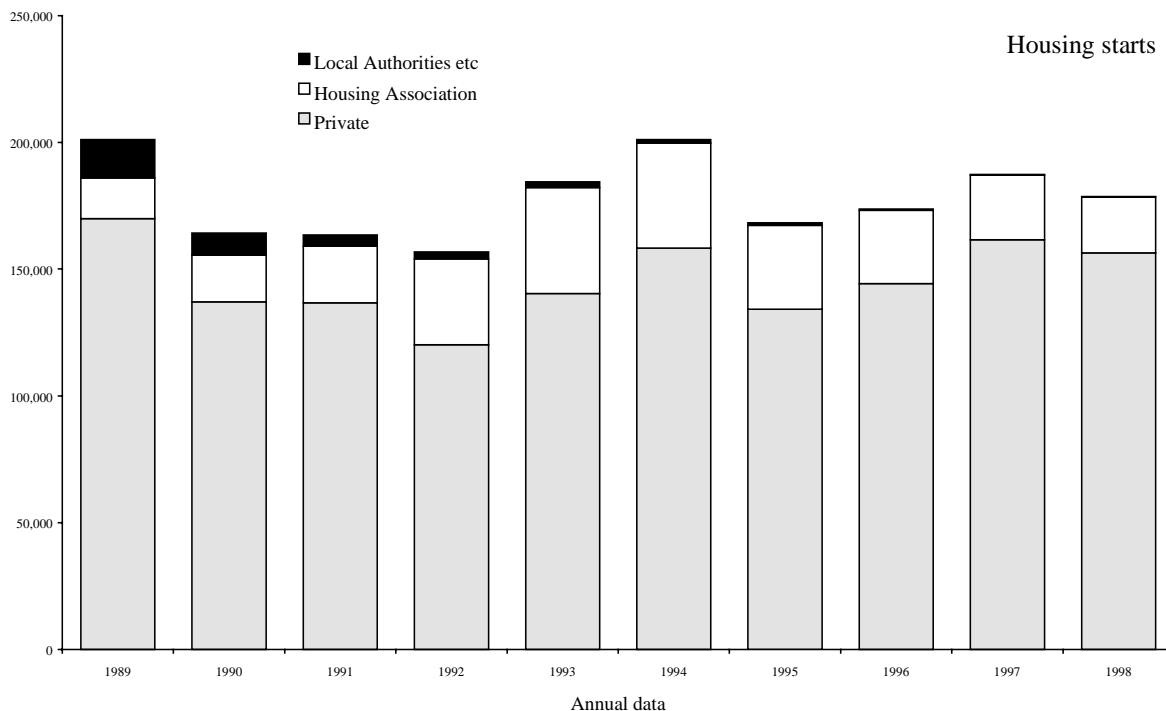
	Numbers thousands	Change over 12 months
1995	1,945	1.8%
1996	2,026	4.1%
1997	2,171	7.2%
1998	2,247	3.5%
1999 (forecast)	2,200	-2.1%
2000 (forecast)	2,200	0.0%
2001 (forecast)	2,250	2.3%
1999 June	196	15.7%
July	167	341.5%
August	74	-85.3%
September	387	136.9%
October	150	-3.6%

Source: SMMT "Monthly Statistical Review", Oct 1999

- Figures from the SMMT show that the number of new registrations of cars totalled 2.2 million in 1999, the fourth highest annual total. 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 December 1999 new registrations of cars fell by 12.2% compared with the same month last year to 84,582 units. Registrations over the year fell 2.2% to 2.2 million units compared to 1998.
- The market share of British-built cars fell from 32.0% to 28.4% over the year following a 13.2% fall in registrations.

*Next update: late February*

## F 4. Housing



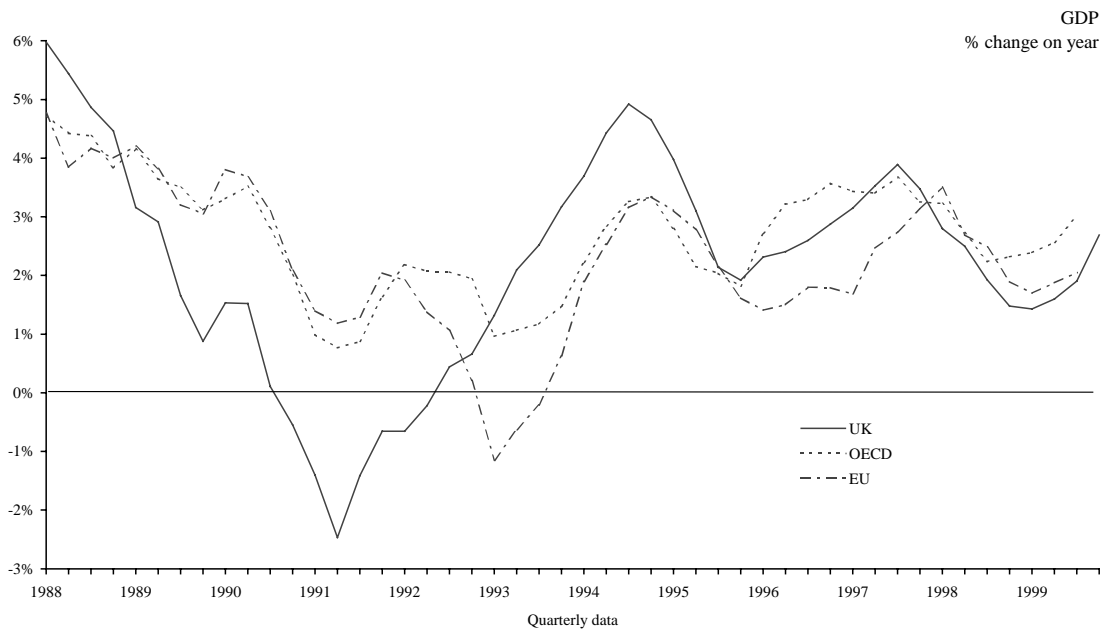
	House prices			
	All Houses	New Houses	Existing Houses	First time buyers
<b>Standardised average price (£)</b>				
1998 Q4	72,900	75,900	72,800	52,800
1999 Q1	72,900	76,200	72,500	53,300
1999 Q2	76,500	77,500	76,600	54,900
1999 Q3	79,300	81,600	79,400	57,400
1999 Q4	81,400	86,300	81,400	57,700
<b>% change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

Source: Halifax House Price Index: Fourth Quarter 1999

- According to the latest DETR press release, in the three months September to November total housing starts rose by 6% and total completions fell by 5% compared with the previous three months. Private enterprise starts rose by 8% while completions fell by 4%.
- The Halifax Monthly Index shows that house prices in the United Kingdom rose by 2.6% in December (seasonally adjusted). On an annual basis, house price inflation rose to 13.6%.
- The Halifax Quarterly Index gives information about regional variations in house price inflation. In the fourth quarter of 1999, the largest annual increase occurred in Greater London (28.9%) followed by the South East (19.1%). Yorkshire and Humberside and Northern Ireland had the lowest annual rates of house price inflation (4.0%) in the fourth quarter of 1999.

Next update: 3 February &  
13 April

## G 1. International Comparisons - Growth



GDP at constant market prices  
% change on year

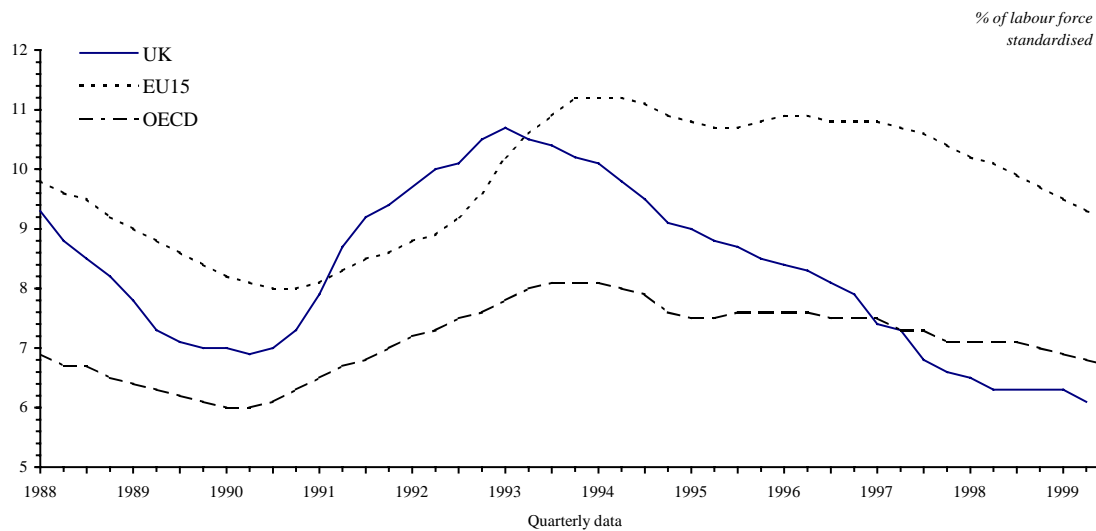
	1997	1998	1999	1998 Q4	1999 Q1	1999 Q2	1999 Q3	1999 Q4
USA	4.4%	4.3%	..	4.6%	3.9%	3.8%	4.2%	..
Japan	1.5%	-2.5%	..	-3.0%	-0.5%	0.7%	1.0%	..
Canada	3.9%	3.1%	..	2.8%	3.1%	3.6%	4.1%	..
United Kingdom	3.5%	2.2%	1.9%	1.5%	1.4%	1.6%	1.9%	2.7%
Germany	1.4%	2.2%	..	1.2%	0.8%	0.9%	1.3%	..
France	2.0%	3.4%	..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

Source: OECD, *Main Economic Indicators*, January 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 10 years 1988 to 1998 the average annual growth rate was 3.0%. 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-February*

## G 2. International Comparisons – Unemployment

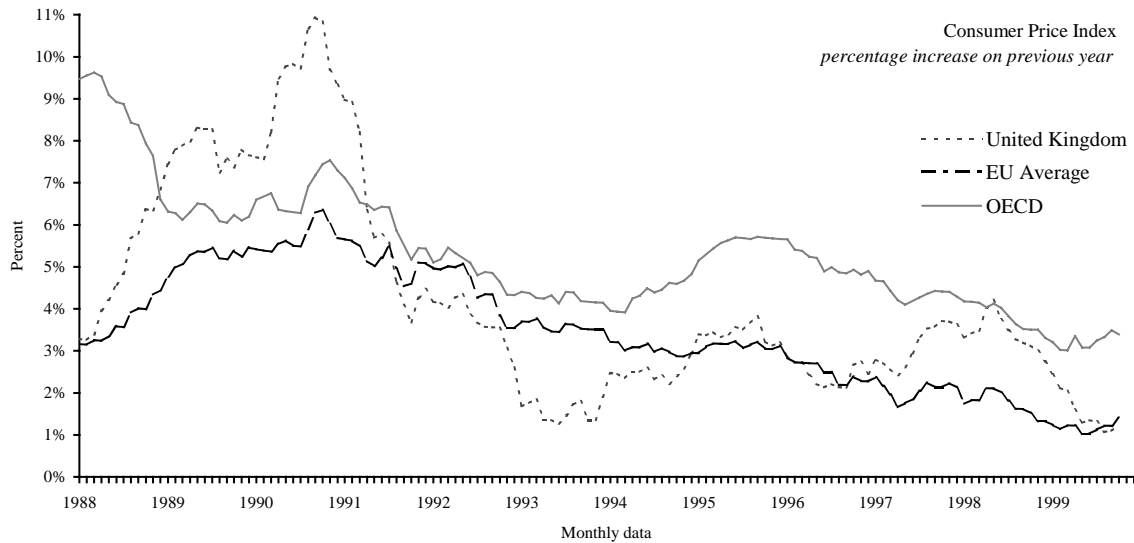


	Unemployed as % of labour force <i>standardised; seasonally adjusted</i>						
	1996	1997	1998	1998 Q4	1999 Q1	1999 Q2	1999 Q3
USA	5.4	4.9	4.5	4.4	4.3	4.3	4.2
Japan	3.4	3.4	4.1	4.4	4.6	4.8	4.7
Canada	9.7	9.2	8.4	8.0	7.8	8.0	7.6
United Kingdom	8.2	7.0	6.3	6.3	6.3	6.1	..
Germany	8.9	9.9	9.4	9.2	9.0	9.1	9.2
France	12.4	12.3	11.7	11.6	11.4	11.3	11.2
Italy	11.7	11.7	11.9	12.4	12.3	11.8	11.2
EU 15	10.8	10.6	9.9	9.7	9.5	9.3	9.2
G7	6.8	6.6	6.4	6.3	6.3	6.3	6.2
OECD	7.7	7.4	7.1	7.0	6.9	6.8	6.7

Source: *OECD Main Economic Indicators / Hotfile*

- Using standardised definitions, the UK unemployment rate was significantly below the EU average in 1999 Q2 and marginally below both the OECD and G7 averages.
- The unemployment rate in the euro-zone (the eleven Member States part

### 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 May	2.2	-0.4	1.5	1.3	0.4	0.4	1.5	3.1	1.0
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

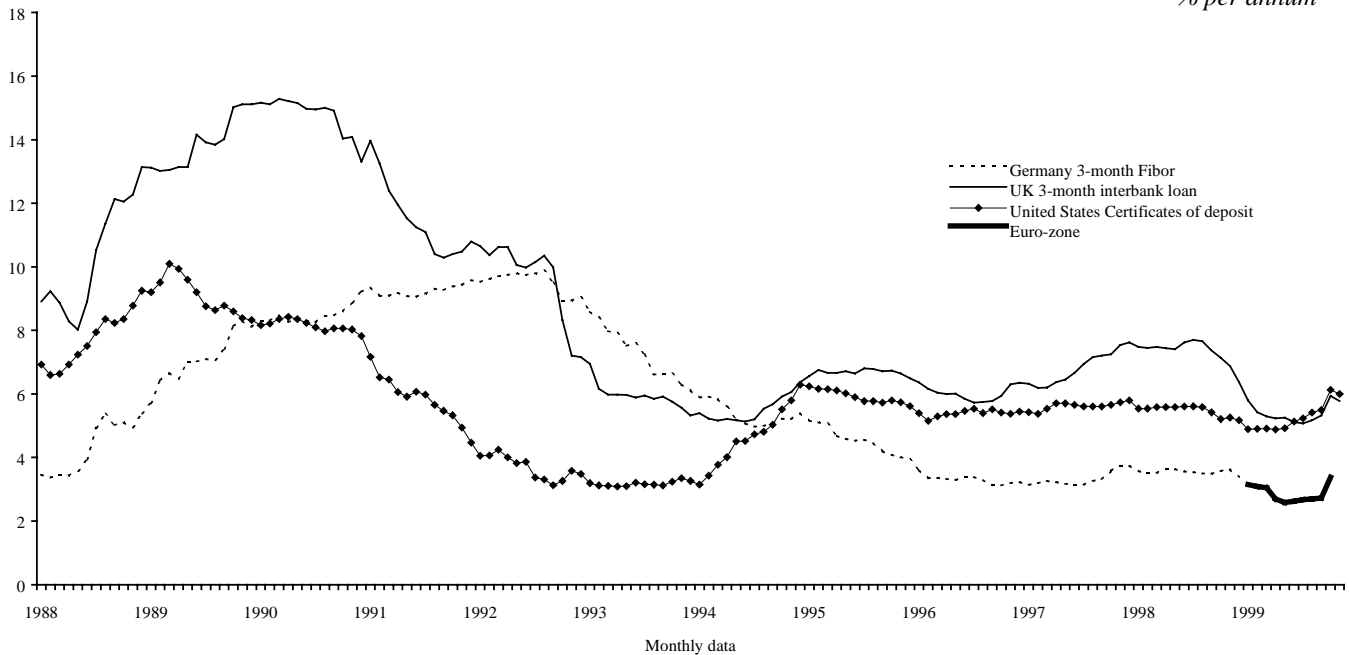
Source: OECD Main Economic Indicators

- Under the terms of the Maastricht Treaty, harmonised indices of consumer prices (and not 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 1.4% in October 1999. The UK's inflation rate on this basis was 1.2%.
- 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 October 1999 and Greece: 2.6% in November 1999
- Harmonised inflation rates in the EU in October ranged from 3.0% in Denmark to just 0.8% in France, Germany and in Austria.

Next update: late February

## G 4. International Comparisons - Interest Rates

Short term interest rates  
% per annum



International Interest Rates as at 28 January 2000

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	5.85	$6\frac{5}{32}$
United States	6.78	$6\frac{14}{32}$
Switzerland	3.73	$1\frac{30}{32}$
Japan	1.58	$\frac{3}{32}$
Euro-zone	..	$3\frac{12}{32}$

Source: *Financial Times*, 30 January 2000

- The European Central Bank 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.
- With the exception of Japan, international interest rates have generally risen as the relevant monetary authorities respond to renewed growth and economic activity in their domestic economies. In November, the Federal Reserve raised rates by  $\frac{1}{4}$  percentage point and the ECB raised rates by  $\frac{1}{2}$  a percentage point. UK rates were last raised, by  $\frac{1}{4}$  percentage point, in January 2000.