



RESEARCH PAPER 02/13
1 MARCH 2002

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: London Underground - Public Private Partnership (PPP)

Grahame Allen

ECONOMIC POLICY AND 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	Patsy Richards	4904
Construction	Dominic Webb	2464
EC finance	Tim Edmonds	2883
Employment	Dominic Webb	2464
Financial services	Grahame Allen	4324
Housing	Gavin Berman	3851
Incomes	Patsy Richards	4904
Industries	Dominic Webb	4324
National accounts–GDP etc	Tim Edmonds	2883
Overseas aid	Patsy Richards	4904
Prices & interest rates	Grahame Allen	4324
Production	Tim Edmonds	2883
Public expenditure	Tim Edmonds	2883
Taxation	Patsy Richards	4904
Trade	Patsy Richards	4904
Transport	Paul Bolton	6789
Unemployment	Dominic Webb	2464
Wages & earnings	Dominic Webb	2464

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

II London Underground - Public Private Partnership (PPP)

For some time now there has been a general consensus that the London Underground (the Tube) needs increased funding for modernisation and to clear a 'backlog' of investment projects, estimated to amount to some £1.2 billion.¹ Under the proposed Public Private Partnership (PPP) for the Tube, two private sector infrastructure companies (Infracos) called Metronet and Tube Lines are expected to help realise over £16 billion of investment in the Tube over the next 15 years.²

In a recent statement to the House on the future of the London Underground, the Secretary of State for Transport, Local Government and the Regions, Stephen Byers, announced that the Board of London Regional Transport was "...minded to proceed' with its plans for the modernisation of the Tube."³ Mr Byers' statement followed the publication of an independent report by Ernst & Young about the way that the value for money assessment of the proposed Tube PPP had been carried out by London Underground Ltd (LUL).⁴

One of the main issues looked at in the report are the adjustments to the Public Sector Comparator (PSC)⁵ base costs and the underlying Infrastructure Service Charge (ISC) for the Tube carried out by LUL.⁶ The Tube PSC describes the conventionally procured alternative to the PPP and has been used to identify whether a PPP is the best available option for modernising the Tube. The Tube ISC is the amount of annual service charge that will be paid to the private sector Infracos under the PPP, assuming that the contracted levels of service are achieved.

The adjustments have been applied to the Tube PSC and ISC to ensure that comparisons of these options are carried out on a like-for-like basis. Adjusting the PSC, or ISC, to reflect the transfer of project risk to the private sector is standard practice with all types of PPPs where a PSC is required. Public sector managers estimate the risks transferred to the private sector through a PPP, quantify it under Treasury guidance,⁷ and adjust the PSC accordingly. The corresponding ISC will be adjusted to include the risk premium required by the private sector to compensate them for this transfer. The rest of this article summarises the main elements of the adjustments that have been made to the Tube PSC and ISC.

¹ Select Committee on Transport, Local Government and the Regions, *London Underground*, 30 January 2002, HC 387-I 2001-02, para 4.

² HC Deb 7 February 2002 c1126-c1128

³ *ibid.*

⁴ Ernst & Young, *London Underground PPPs Value for Money Review Independent Review for the Secretary of State for Transport, Local Government and the Regions*, 5 February 2002

⁵ For further information on PSCs see: HC Library Standard Note, *What is a public sector comparator (PSC)?* SN/EP/1017, 13 December 2001

⁶ LUL, *Public Private Partnership - Final Assessment Report*, available on the LUL web site as at 28 February 2002: www.thetube.com/content/unblock/pppreport/

⁷ Treasury Taskforce, *How to construct a Public Sector Comparator*, Technical Note No 5, available on the OGC web site as at 28 February 2002: www.ogc.gov.uk/pfi/series_3/technote5/5tech_contents.html

A. Public Sector Comparator (PSC)

Three types of adjustment were carried out on the Tube PSC by LUL; *cost risk adjustments*, *performance risk adjustments* and *efficiency adjustments*.

1. Cost risk adjustments

LUL have, through a series of technical workshops and consultation exercises, quantified three types of risk categories under this heading:⁸

Inflation uncertainty adjustments – Under the proposed PPP, the Infracos will take on the risk that inflation over the 30 year contract period will be above that assumed when estimating the annual service payments to the private sector Infracos. In line with estimates of specific industry price differentials from Ove Arup, LUL adjusted the PSC base costs upwards by £400 million or 3% to reflect a similar transfer of risk to a public sector Infraco.

Cost over-run adjustments – These are the risks that outturn base costs will rise above their budgeted levels due to unforeseen circumstances. An LUL workshop looked at outturn costs of over 200 LUL investment projects as well as cost over-runs for other relevant construction industry projects. The workshop also assessed the risks and efficiencies associated with maintenance and other costs over-runs by looking at each class of asset. The resulting adjustment to the PSC base costs was to uplift them by £1,700 million or 11%.

Cost estimating adjustment – This is an adjustment to reflect the risk that the original estimates of the base cost used to calculate the PSC by LUL were inefficient. The resulting adjustment to the PSC base costs was to uplift them by £200 million or 1.4%.

2. Performance risk adjustments

Performance risks include risk such as:

- a project does not meet the desired specifications;
- the amount of time taken to deliver a project over-runs the original estimate; or
- service standards are below what are expected.

The difficulty LUL has had delivering public service projects in the past makes this type of risk especially relevant to the proposed Tube PPP.⁹ Through information gained from the technical workshops held by LUL, it was decided that the level of service performance of the Tube under a public sector Infraco, the public sector option, would be worse than under the private sector Infracos. The performance risk adjustment simply measures the cost, or

⁸ Ernst & Young, *London Underground PPPs Value for Money Review Independent Review for the Secretary of State for Transport, Local Government and the Regions*, 5 February 2002

⁹ For example, the Jubilee Line Extension was delivered almost 2 years late and £1.4 billion over budget. Source: Ove Arup, *The Jubilee Line extension: end-of-commission report by the Secretary of State's Agent*, July 2000

disbenefits, to society of the estimated under-performance of a public sector Infraco when compared to the performance requirements of the PPP.

LUL calculated the economic cost of these disbenefits as lost customer hours (worth between £3-£9 an hour) for four components; capability, availability, ambience and service points. As a result of these calculations the final performance adjustment made to the PSC was an uplift of £1,400 million or 9% of the base costs.

3. Efficiency adjustments

These adjustments reflect the efficiency gains a public sector Infraco would be expected to make over the period of the contract through improvements in managing costs and risk.

At the technical workshops held by LUL, the likely efficiencies that could be forthcoming were estimated by looking at past efficiency gains achieved by LUL and the expected efficiency gains by the private sector Infracos under the requirements of the PPP. These produced estimates that a public sector Infraco would be able to make efficiency gains in investment and maintenance costs totalling £600 million or 4% of the base cost. The PSC was adjusted downwards accordingly.

The final adjustments made to the PSC base costs had the net effect of uplifting the PSC to £18,000 million. This is best shown graphically:

Public sector option	Public Private Partnership option
Final PSC: £17,981m	Final PPP: £15,352m
Performance adjustments + £1,356m	Other adjustments +£147m
Cost risk adjustments + £2,291m	Performance payments +£2,073m
PSC Base cost £14,931m	Underlying Infrastructure Service Charge (ISC) £14,320m
Efficiency adjustments -£597m	Financial adjustments - £408m
	Performance adjustments -£780m

B. Infrastructure Service Charge (ISC)

To further aid comparison between the public and PPP options, adjustments were also made to the underlying Infrastructure Service Charge (ISC) to reflect *performance payments*, *performance adjustments*, *financial adjustments* and *other adjustments*. These are shown graphically above and are explained below.

1. Performance payments

This adjustment to the ISC reflects differences between the expected level of performance, as specified in the proposed Tube PPP contracts, and the level of performance the private sector Infracos have proposed. The private sector Infracos have proposed a level of performance, as detailed in their bids, above the contracted level, uplifting the ISC by £2,100 million or 14%.

2. Performance adjustments

Like the performance risk adjustments to the PSC base costs, the performance adjustments to the ISC simply measure the benefits to society of the proposed performance of the private sector Infracos, when compared to the performance requirements of the PPP contracts. Accordingly, the ISC was reduced by £780 million or 5%.

3. Financial adjustments

This adjustment reflects the differences in the inflation assumptions used to calculate annual costs in the ISC and PSC. The PPP estimates of the annual costs include the effects of inflation in the first year of the contract, while the PSC estimate doesn't. The resulting adjustment to the ISC was to reduce it by £408 million or 3%.

4. Other adjustments

These include two major adjustments to the ISC that were required to reflect the additional responsibilities taken on by the private sector Infracos that are not included in the PSC. These are Metronet's costs for managing the proposed King's Cross station link with the Channel Tunnel Rail Link and the absorption of the Northern Line Train Service Private Finance Initiative (PFI) by Tube Lines, the leasing contract for which runs for less than the 30 years of the PPP. The ISC was uplifted by £147 million or 1% to reflect these extra responsibilities.

Concluding remarks

The adjustments to the PSC base costs and underlying ISC suggest that modernising the Tube through the traditional procurement process would cost over £2.5 billion more than if the project was carried out under the proposed PPP, thereby providing greater value for public

money. However, as the Ernst & Young report concluded: “London Underground’s recommendations that the PPP proposals deliver value for money is a subjective one...”¹⁰.

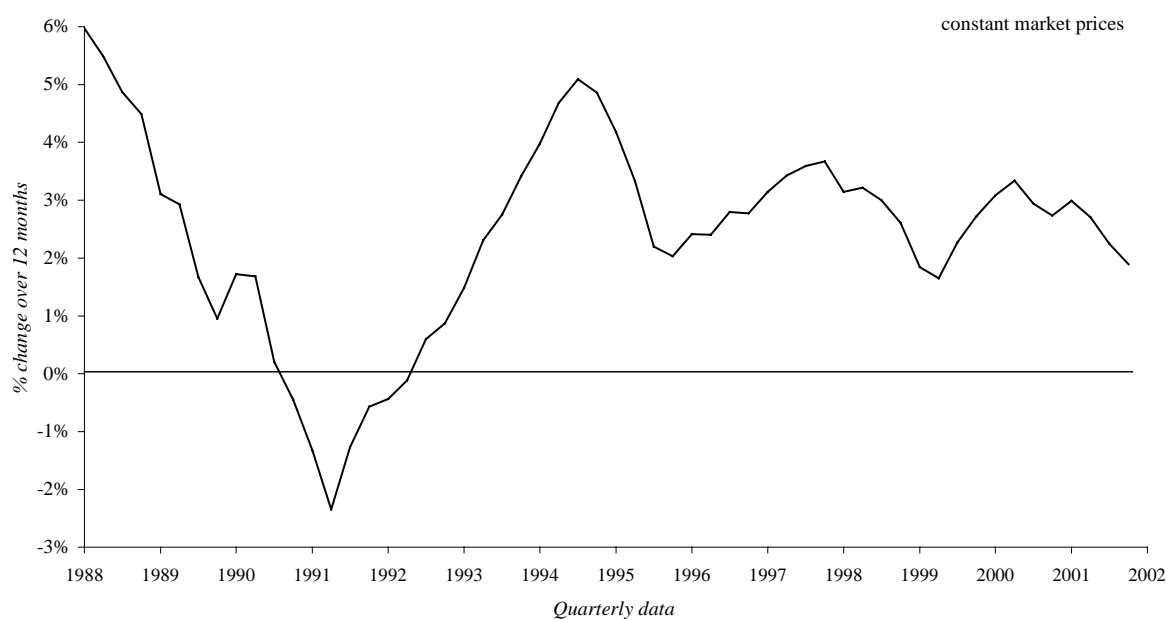
Final and complete versions of the contract documents for the Tube PPP are presently with the Mayor of London and Transport for London, under the terms of the *Greater London Authority Act 1999*, until 8 March 2002. The final decision on whether to proceed with the Tube PPP will be taken after this period of consultation.

Grahame Allen

Economic Policy and Statistics Section

¹⁰ Op Cit.

A 1. Gross Domestic Product



Gross Domestic Product

seasonally adjusted

	GDP at current market prices		GDP at 1995 market prices
	£ billion	12 month change	12 month change
1998	859.8	6.0%	3.0%
1999	901.3	4.8%	2.1%
2000	944.7	4.8%	3.0%
2001(provisional)	967.7	2.4%	2.4%
2000 Q4	240.2	4.2%	2.7%
2001 Q1	243.2	5.1%	3.0%
Q2	246.9	5.0%	2.7%
Q3	249.1	4.7%	2.2%
(provisional) Q4	249.7	3.9%	1.9%

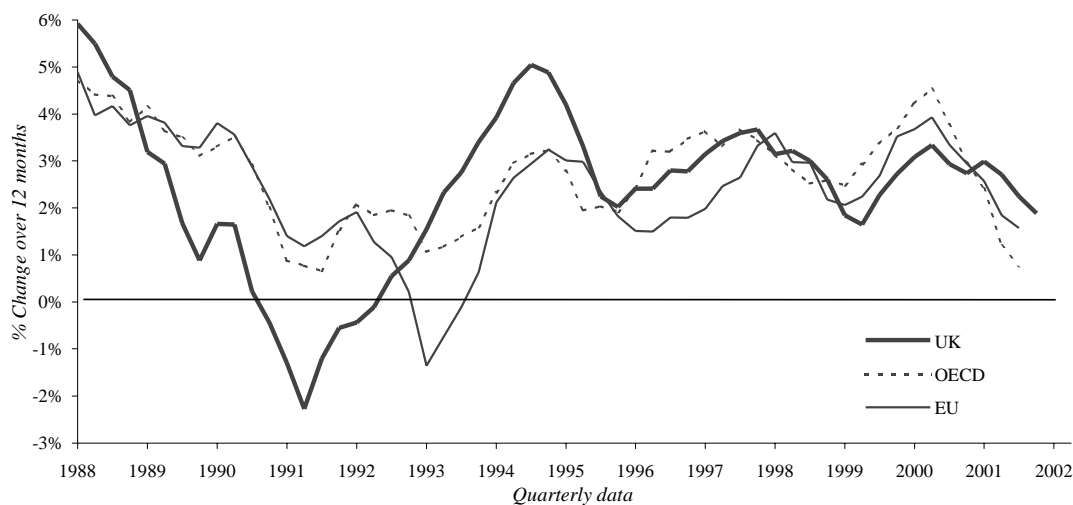
Source: NS database series YBHA & AMBI

- Gross domestic product (GDP) at 1995 market prices is estimated to have risen by 0.5% between the second and third quarters of 2001. Preliminary estimates for Q4 are that GDP grew by 0.2%. For the year as a whole the economy is estimated to have grown by 2.4% in 2001.
- Output of manufacturing fell in the latest quarter by 1.6%: the third successive quarterly decline. The latest decline was attributable in part to poor figures from the communications sector. Services are estimated to have grown by 0.6%, down from the previous quarter. Growth fell particularly in the transport sector possibly reflecting events in America. Overall output of the production industries fell by 0.8% in the last quarter.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 2.4% in 2001 and 1.9% in 2002.

CONTACT Tim Edmonds, x2883

Next update: 26 April

A 2. GDP - International Comparisons



GDP at constant market prices

% change on year

	1997	1998	1999	2000	2000 Q3	2000 Q4	2000 Q1	2001 Q2	2001 Q3
USA	4.4%	4.3%	4.1%	4.2%	0.4%	0.4%	0.3%	0.1%	-0.3%
Japan	1.7%	-1.0%	0.8%	1.5%	-0.7%	0.7%	0.1%	-0.7%	0.4%
Canada	4.2%	4.0%	5.1%	4.4%	1.2%	0.3%	0.5%	0.2%	-0.2%
United Kingdom	3.5%	2.9%	2.2%	2.9%	0.7%	0.4%	0.7%	0.4%	0.9%
Germany	1.4%	2.0%	1.8%	3.0%	0.1%	0.2%	0.4%	0.0%	-0.2%
France	2.0%	3.5%	3.0%	3.3%	0.7%	0.8%	0.4%	0.3%	0.4%
Italy	2.0%	1.8%	1.6%	2.9%	0.4%	0.8%	0.9%	0.0%	0.2%
Euro zone	2.6%	2.9%	2.7%	3.4%	0.5%	0.6%	0.5%	0.2%	0.3%
G7	3.2%	2.8%	2.9%	3.3%	0.2%	0.5%	0.4%	-0.1%	0.0%
OECD	3.5%	2.7%	3.1%	3.8%	0.4%	0.4%	0.3%	0.0%	0.1%

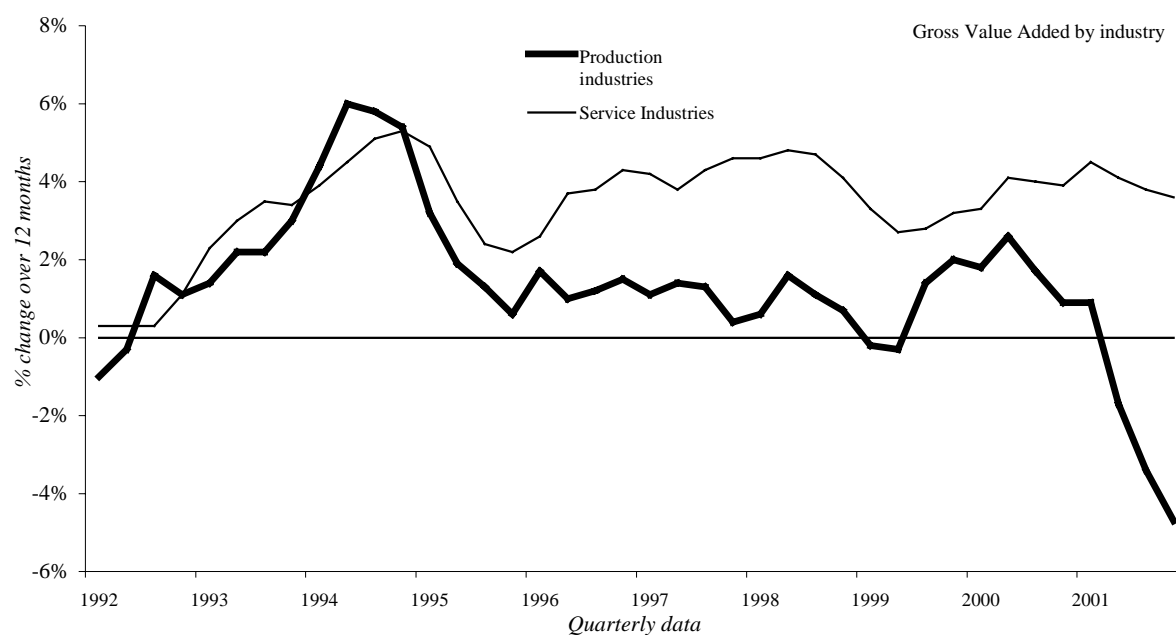
Source: OECD, Main Economic Indicators, January 2002

- The latest data give clear confirmation of the economic slowdown in the world economy. Four of the seven major economies in the world are now experiencing negative growth. Interest rates worldwide have fallen sharply in response to the terrorist attack in America and the slowdown. This represents the current best hope for restoring economic confidence.
- The latest estimates of Japanese GDP suggest that the economy remains very weak. The economy has barely grown over the past few years and the outlook remains very bleak. The latest prediction from the Bank of Japan is that GDP growth for the year would be negative and price deflation would persist for a further four years.
- In November 2001 the OECD expect growth in 2002 to be 0.7% in the USA, -0.7% in Japan and 1.5% in the EU15. Its forecast for the UK was 1.7%.

CONTACT Tim Edmonds, x2883

Next update: Mid-March

A 3. Gross Domestic Product by Industry



Gross value added at 1995 basic prices

% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac- turing			
1998	1.0%	0.8%	4.5%	1.7%	1.2%
1999	0.8%	0.3%	3.0%	2.3%	0.8%
2000	1.8%	1.9%	3.8%	-2.5%	1.8%
2001	-2.2%	-2.3%	4.0%	-5.2%	3.1%
2000 Q4	0.9%	1.9%	3.9%	-4.8%	0.0%
2001 Q1	0.9%	1.5%	4.5%	-4.6%	-0.8%
Q2	-1.7%	-1.4%	4.1%	-6.1%	3.0%
Q3	-3.4%	-3.6%	3.8%	-5.3%	5.9%
Q4	-4.7%	-5.6%	3.6%	-4.8%	4.4%

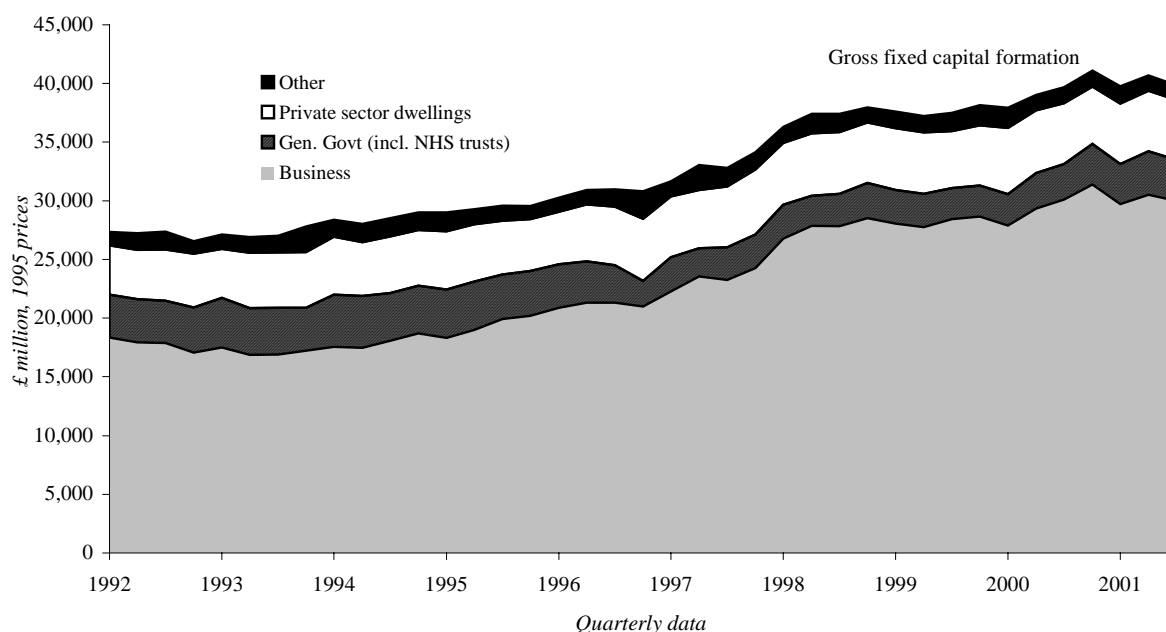
Source: NS database series ERID, ERIT, GDRN, GDQV, GDQW, ERIE, ERIU, GDSI, GDRQ, GDRR

- Since 1998 output has grown faster in the service sector than in other parts of the economy and is currently growing at an annual rate of around 3.6%. Between the third and fourth quarters of 2001, output in the service sector rose by 0.7%.
- Manufacturing output fell by 1.7% between the third and fourth quarters of 2001. Between 1998 and 2001, manufacturing output fell by 0.1%.
- In 2000 services accounted for 70% of GVA, manufacturing for 19%, other production industries (mining & quarrying and electricity gas & water supply) for 5%, construction for 5% and agriculture etc. for 1%.

CONTACT Dominic Webb, x2464

Next update: 27 March

A 4. Investment



Gross fixed capital formation

£ million; 1995 prices; seasonally adjusted

	Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
1997	12,794	53,737	38,362	22,671	4,103	131,667
1998	16,033	66,611	39,546	22,746	4,156	149,092
1999	14,413	68,223	41,757	22,069	4,004	150,466
2000	15,704	72,792	42,399	22,756	4,115	157,766
2000 Q3	3,856	18,534	10,645	5,612	1,036	39,683
2000 Q4	4,146	19,422	11,025	5,475	1,043	41,111
2001 Q1	3,505	18,639	10,926	5,632	1,039	39,741
2001 Q2	4,407	18,112	11,551	5,622	1,009	40,701
2001 Q3	3,992	17,868	11,467	5,531	1,001	39,859

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

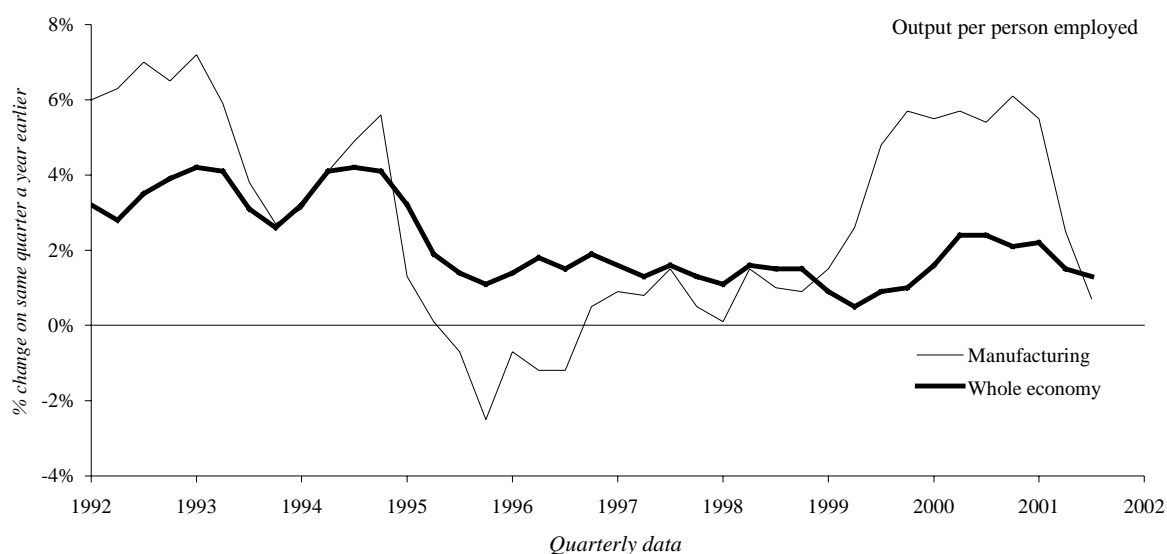
Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations (other than NHS trusts) on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

- Total business investment fell in the fourth quarter of 2001 by 3.2% in real terms compared with the previous quarter and is now at the same level as two years ago. Manufacturing investment rose by 1.6% over the quarter but service sector investment fell by 5.1%.
- Total GFCF in the fourth quarter of 2001 rose by 1.4% in real terms compared with the previous quarter but was 9% below the level of a year before. Declines in real investment were recorded in most categories of investment except for construction, a 46% increase (possibly affected by the weather in 2000).

CONTACT Tim Edmonds, x2883

Next update: 26 March

A 5. 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
1997	1.4	0.5	0.9	3.2	1.8	1.5
1998	0.8	-0.2	0.8	3.2	1.8	1.5
1999	0.3	-3.1	3.7	2.1	1.1	0.9
2000	1.9	-3.6	5.7	3.1	0.9	2.1
2000 Q3	1.7	-3.6	5.4	3.1	0.7	2.4
2000 Q4	1.9	-3.9	6.1	2.8	0.7	2.1
2001 Q1	1.5	-3.9	5.5	3.2	1.0	2.2
2001 Q2	-1.4	-3.9	2.5	2.5	0.9	1.5
2001 Q3	-3.6	-4.3	0.7	2.0	0.6	1.3

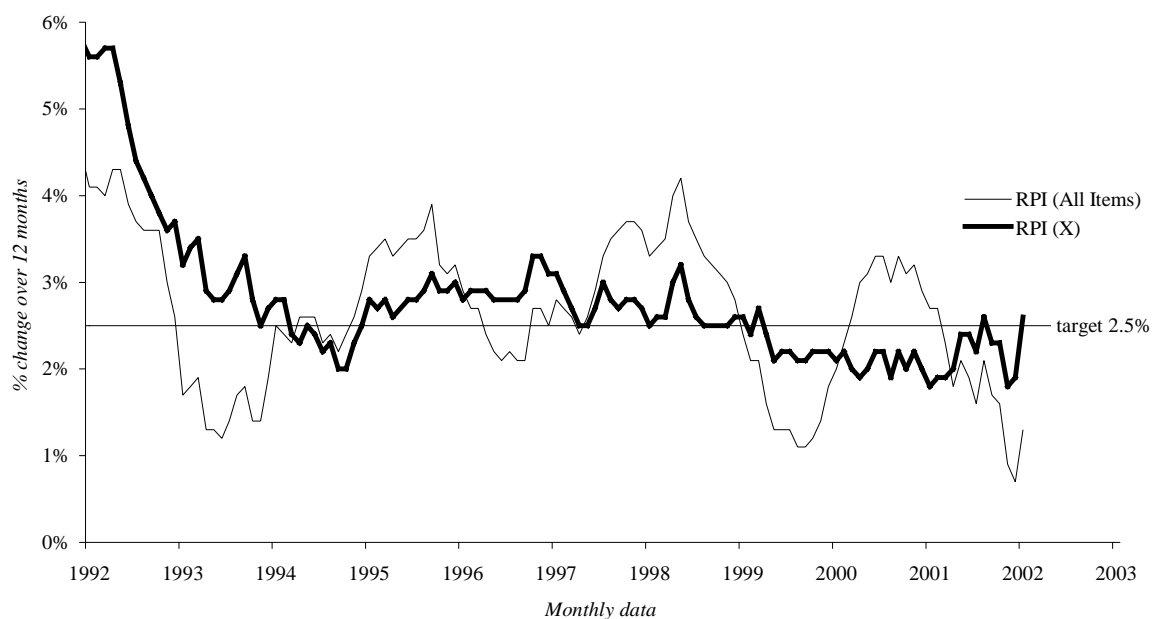
Source: NS database series ERIU, LNNS, LNNU, GDPR, LNNO, LNNP, ERIT, LNOK, LNNX, ABMM, LNNM, LNNN

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 2.1% in 2000 compared to 0.9% in 1999 and 1.5% in 1998.
- Productivity growth in manufacturing fell sharply from 2.5% per annum in 2001 Q2 to 0.7% in 2001 Q3. This is mainly due to the reversal in manufacturing output growth; contracting at an annual rate of 3.6% in 2001 Q3. Manufacturing employment is currently declining by around 4% per annum.
- For the economy as a whole, taking steady output growth and modest employment growth together, productivity growth has averaged 1.8% per annum over the last eight quarters.

CONTACT Dominic Webb, x2464

Next update: 28 March

B 1. Retail Prices Index



Retail Prices Index

% 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
2000		3.0	2.1
2001		1.8	2.1
2001	Jan	2.7	1.8
	Feb	2.7	1.9
	Mar	2.3	1.9
	Apr	1.8	2.0
	May	2.1	2.4
	Jun	1.9	2.4
	Jul	1.6	2.2
	Aug	2.1	2.6
	Sep	1.7	2.3
	Oct	1.6	2.3
	Nov	0.9	1.8
	Dec	0.7	1.9
2002	Jan	1.3	2.6

Source: NS database (series CZBH, CDKQ)

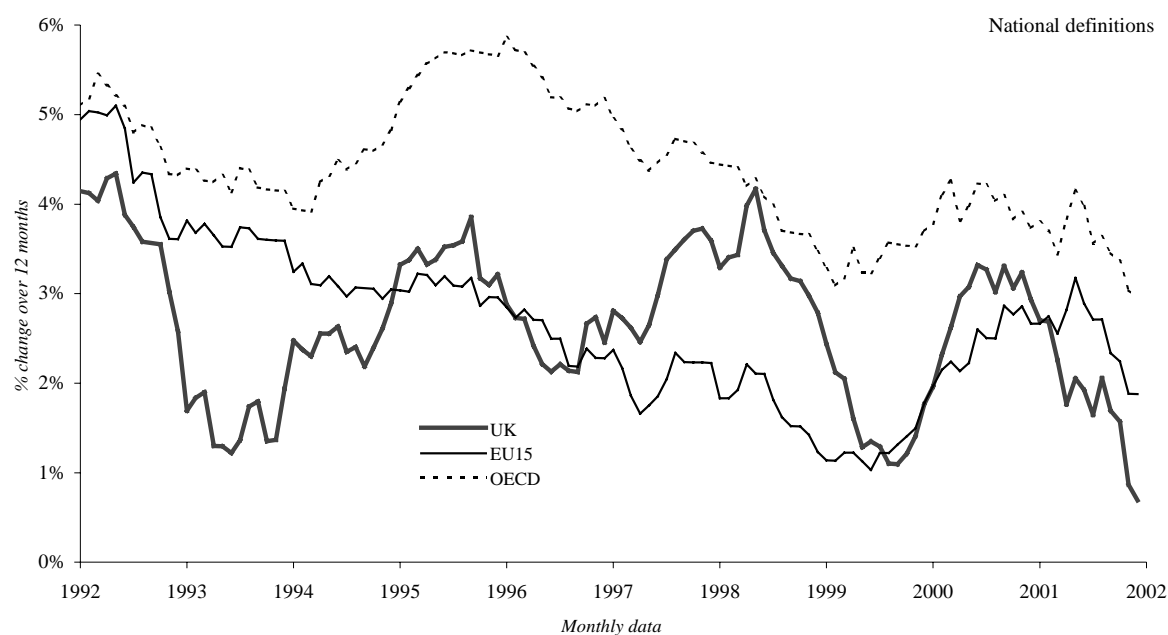
The current inflation target is 2.5%: if RPI (X) diverges from this target by more than 1 percentage point, the Governor of the Bank of England is required to send a letter to the Chancellor explaining the reasons for the divergence.

- The average annual increase in headline inflation (RPI) for 2001 was 1.8%, down from 3.0% in 2000. The annual average increase in underlying inflation (RPI (X)) was 2.1% - the lowest since 1976, the earliest date for which this series is available.
- In the year to January 2002 the headline rate of inflation was 1.3%, up from 0.7% in December. The underlying rate of inflation also rose to 2.6%.
- Upward effects on the headline rate in January came mainly from changes in motoring costs. In particular, petrol pump prices were higher this January while they fell last January. Seasonal food prices were also higher as prices for fresh vegetables increased.
- Downward pressure on headline inflation came from changes in non-seasonal food prices and fares and other travel costs.

CONTACT Grahame Allen, x4324

Next update: 19 March

B 2. Prices - International Comparisons



Consumer Price Index (national definitions)

% change over 12 months

	USA	Japan	Canada	UK	Germany	France	Italy	OECD	EU15
1998	1.6	0.7	1.0	3.4	1.0	0.8	2.0	4.1	1.8
1999	2.1	-0.3	1.7	1.6	0.6	0.5	1.7	3.4	1.2
2000	3.4	-0.7	2.7	2.9	1.9	1.7	2.5	4.1	2.5
2001	2.8	-0.7	2.5	1.8	2.5	1.6	2.8	3.6	2.5
2001 July	2.7	-0.8	1.3	1.6	-4.5	2.5	2.9	3.6	2.7
August	2.7	-0.7	1.0	2.1	-2.3	3.7	2.8	3.6	2.7
September	2.6	-0.8	0.8	1.7	-5.5	4.0	2.6	3.5	2.3
October	2.6	-0.8	0.7	1.6	-8.2	3.4	2.5	3.4	2.2
November	2.8	-1.0	0.5	0.9	-10.5	2.8	2.4	3.0	1.9
December	2.7	-1.2	0.1	0.7	-4.6	3.8	2.4	3.0	1.9

Source: OECD Hotfile

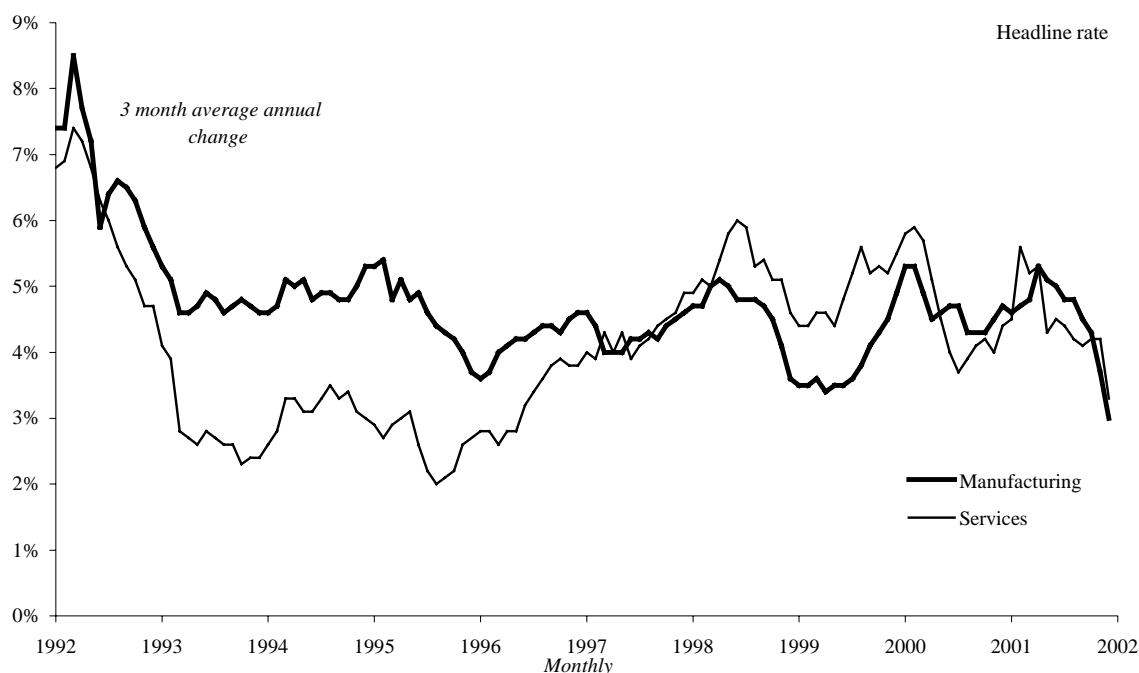
Under the terms of the Maastricht Treaty, harmonised indices of consumer prices (rather than data compiled on national definitions as in the table) are used to assess price stability in Member States.

- On a harmonised basis the annual inflation rate for the twelve eurozone countries was 2.1% in December 2001. (Greece joined the euro-zone in January 2001.)
- The inflation rates for the three Member States not in the eurozone were (on a harmonised basis) Denmark: 2.1%, Sweden: 3.2% and the UK 1.0%.
- Within the EU, inflation rates ranged from 5.1% in the Netherlands to 0.9% in Luxembourg.
- Eurozone annual inflation is expected to rise to 2.5 % in January 2002, according to the latest Eurostat flash estimate.

CONTACT Patsy Richards, x4904

Next update: late March

B 3. Average Earnings Index



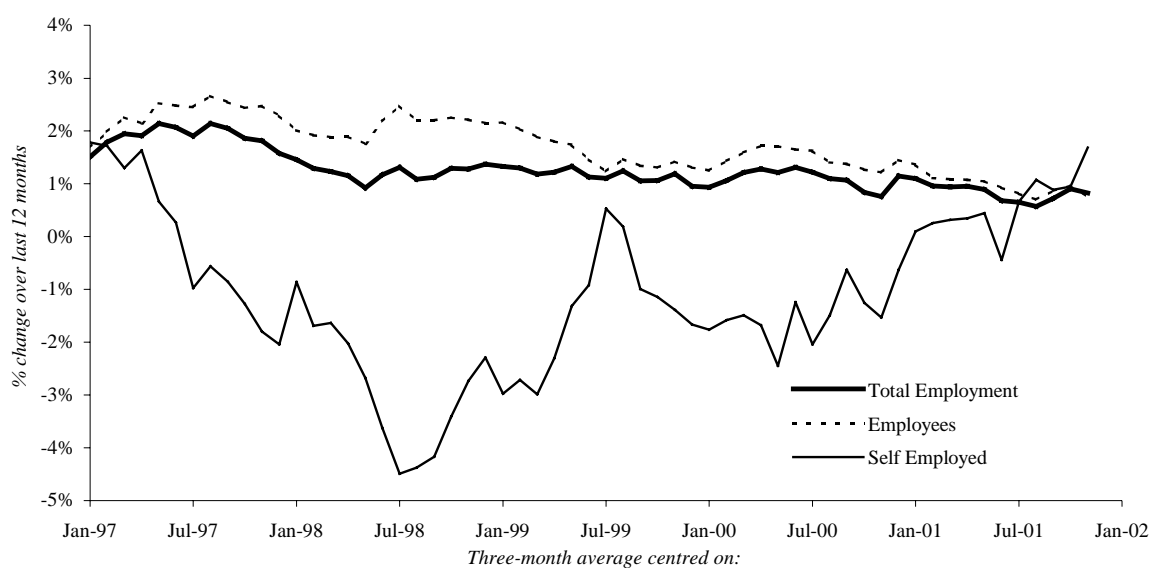
Average Earnings, Great Britain seasonally adjusted

		headline rate (% change on year)		
		Whole Economy	Private Sector	Public Sector
1997	Dec	4.8	5.3	2.6
1998	Dec	4.5	4.8	3.6
1999	Dec	5.3	5.7	3.9
2000	Dec	4.5	4.5	3.9
2001	Jan	4.5	4.6	3.9
	Feb	5.3	5.7	3.6
	Mar	5.0	5.3	3.6
	Apr	5.2	5.4	4.3
	May	4.5	4.3	5.3
	Jun	4.7	4.6	5.5
	Jul	4.6	4.4	5.6
	Aug	4.5	4.2	5.7
	Sep	4.3	4.0	5.7
	Oct	4.3	4.0	5.7
	Nov	4.1	3.8	5.4
	Dec	3.3	2.9	5.2

Source: NS database Series LNNC, LNND, LNNE

- Headline average earnings growth in the service sector fell to 3.3% in December compared with 4.2% in November while manufacturing earnings growth slowed from 3.7% in November to 3.0% in December.
- December's headline rate of earnings growth, 3.3%, is below the level which many economists regard, given the current level of productivity growth, as the maximum consistent with the Chancellor's inflation target of 2.5%.
- The headline rate of growth in average earnings for the whole economy in December was 3.3%, down from 4.1% in November.
- Headline earnings growth in the private sector was 2.9% in December compared to 5.2% in the public sector.
- Earnings are currently growing more slowly than a year ago (the headline rate in December 2000 was 4.5%).

C 1. Employment



Employment structure in the UK

000s; seasonally adjusted

Three month average centred on		Total in Employment	Employees	Self Employed	Unpaid Family Workers	Govt Training
1997	Nov	27,117	23,466	3,329	110	212
1998	Nov	27,464	23,985	3,238	97	145
1999	Nov	27,790	24,326	3,193	105	167
2000	Nov	28,001	24,622	3,144	102	132
2001	Feb	28,101	24,670	3,181	99	151
2001	May	28,175	24,760	3,171	97	153
2001	Aug	28,152	24,751	3,180	95	136
2001	Nov	28,232	24,808	3,197	104	123
<i>Changes:</i>						
<i>Last three months</i>		0.3%	0.2%	0.5%	9.5%	-9.6%
<i>Last year</i>		0.8%	0.8%	1.7%	2.0%	-6.8%

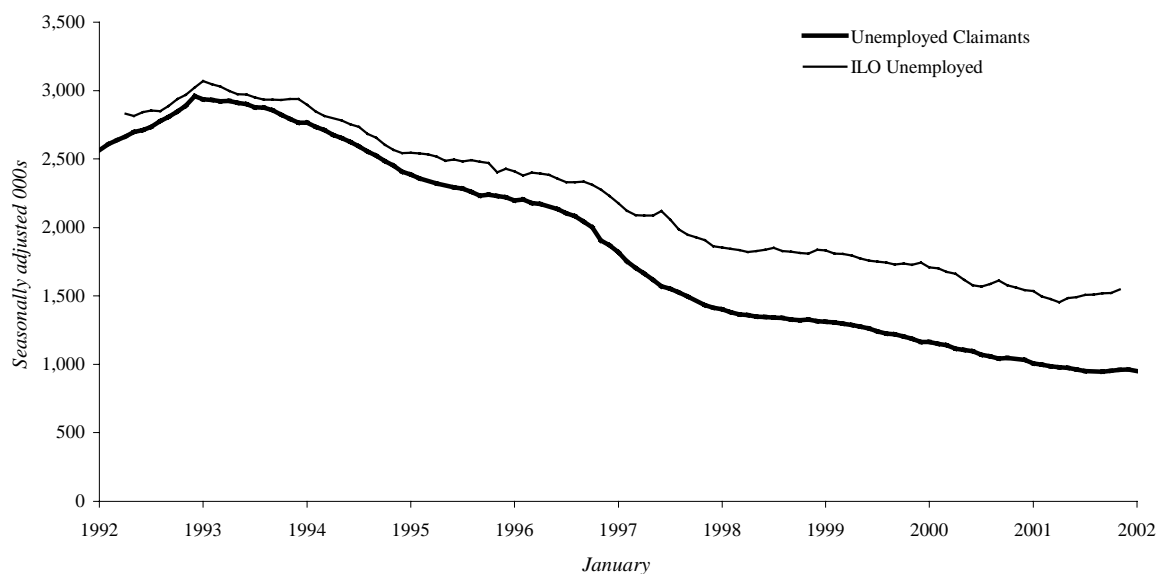
Source: National Statistics First Release Labour Market Statistics 13 February 2002

- Total employment, at 28.2 million in the period October-December 2001, was little changed from a year previously. The working age employment rate of 74.6% was also unchanged from the year before, and slightly (0.1%) up on the previous three month period.
- Workforce jobs fell by 45,000 over the quarter to September, but were still 116,000 higher than a year previously. Over the year production industry workforce jobs fell by 154,000 but this was compensated for by a rise of 229,000 in service sector jobs.
- 7.0 million people were in part time employment in October-December 2001, of whom 5.6 million were women, and some 3.2 million people were self employed.

CONTACT Patsy Richards, x4904

Next update: 20 March

C 2. Unemployment: National



ILO Unemployment in the UK seasonally adjusted

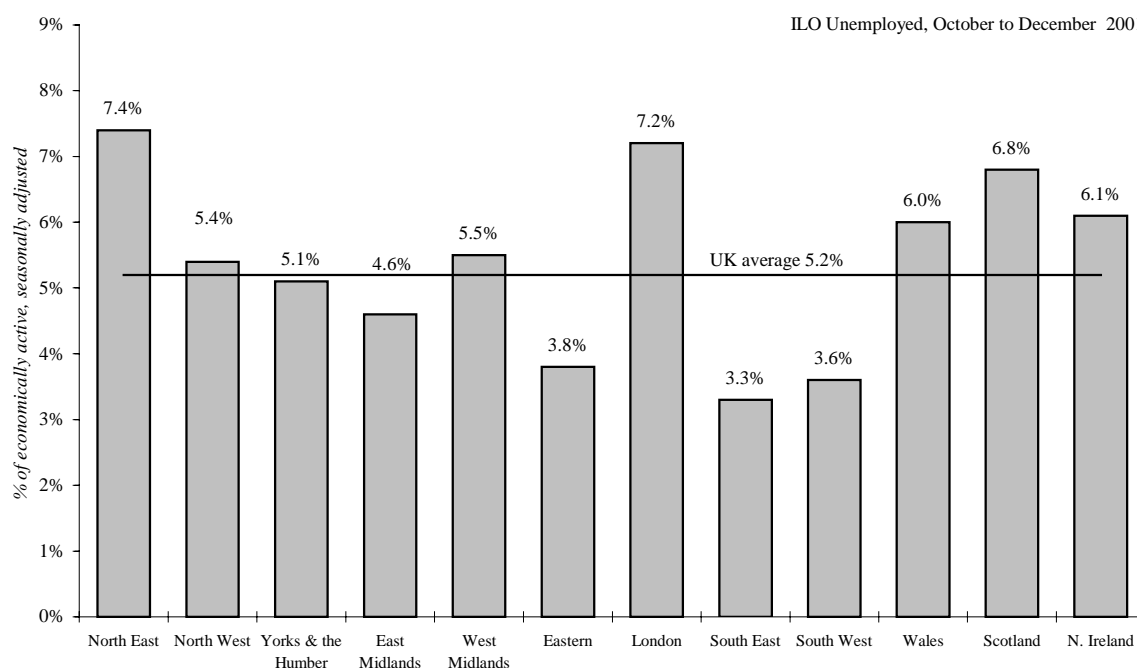
		000s	rate (%)
1997	Jul - Sep	1,988	6.8
	Oct - Dec	1,908	6.6
1998	Jan - Mar	1,845	6.4
	Apr - Jun	1,827	6.3
	Jul - Sep	1,828	6.3
1999	Oct - Dec	1,808	6.2
	Jan - Mar	1,810	6.2
	Apr - Jun	1,774	6.0
2000	Jul - Sep	1,745	5.9
	Oct - Dec	1,728	5.9
	Jan - Mar	1,702	5.8
2001	Apr - Jun	1,618	5.5
	Jul - Sep	1,587	5.4
	Oct - Dec	1,561	5.3
2002	Jan - Mar	1,497	5.1
	Apr - Jun	1,484	5.0
	Jul - Sep	1,511	5.1
	Oct - Dec	1,546	5.2

Source: Labour Force Survey (NS)

ILO data before April 1992 are interpolated from spring quarter each year. Since April 1998, 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 2001, the level of ILO unemployment in the UK was 1,546,000. This was an increase of 35,000 from the July to September 2001 period. Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 11,000 between December 2001 and January 2002 to stand at 951,000.
- The New Deal for the Young Unemployed started in January 1998 and 741,000 people had joined the scheme by the end of December 2001. Of those leaving the scheme, 272,000 had moved into 'sustained jobs' up to the end of December, i.e. those who had not returned to claim Jobseekers' Allowance (JSA) within three months of starting employment. Of these, 251,000 (92%) had moved into an unsubsidised job.
- The New Deal for the Long-Term Unemployed started in July 1998 for those claiming JSA for more than 2 years. The enhanced scheme was launched in April 2001 and eligibility extended to those claiming JSA for 18 months. By the end of December 2001 353,000 people had joined the pre-April 2001 scheme. 62,000 had entered sustained jobs of which 49,000 (79%) were unsubsidised. 92,000 people have started on the enhanced scheme since April 2001.

C 3. Unemployment: Regional



ILO Unemployment, October to December 2001 change on same period in previous year seasonally adjusted

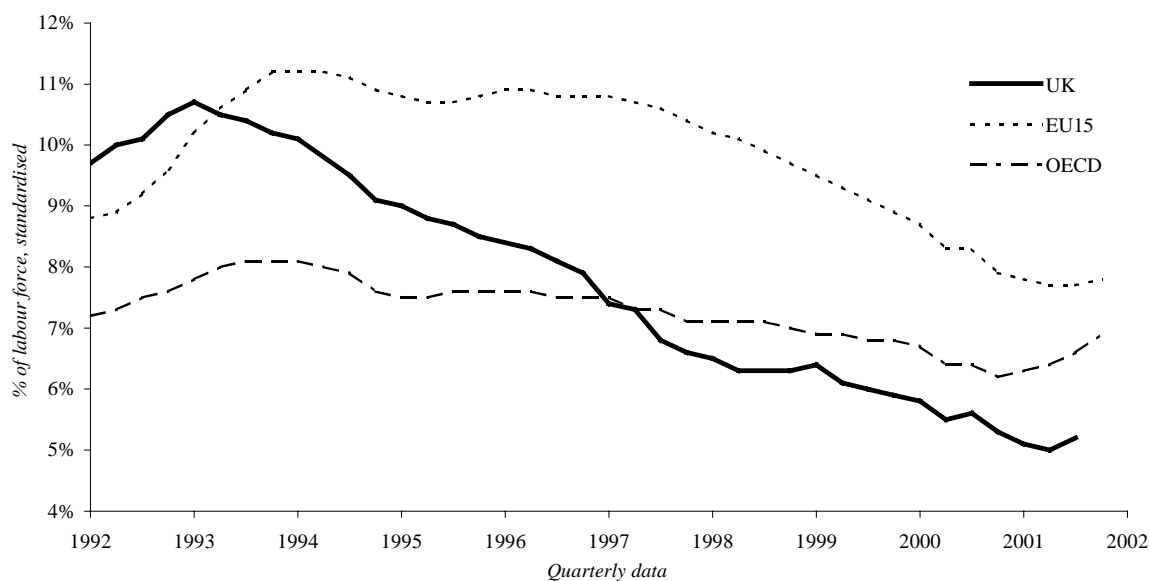
	000s	%
North East	-8	-8%
North West & Merseyside	4	2%
Yorkshire & the Humber	-27	-18%
East Midlands	-1	-1%
West Midlands	-12	-8%
Eastern	10	10%
London	16	6%
South East	1	1%
South West	-7	-7%
Wales	-2	-2%
Scotland	11	7%
Northern Ireland	-1	-2%
UK	-15	-1%

Source: National Statistics, First Release 13 February 2001

Since April 1998, 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).

- A comparison of the period October to December 2001 with the same period a year earlier shows that the largest fall in unemployment occurred in the Yorkshire and Humber region where it fell 18%. The Eastern region experienced the largest rise (10%) in unemployment over the same period.
- Over this period the North East region had the highest unemployment rate of the economically active population at 7.4%. The lowest rate over the same period was 3.3% in the South East region of England.

C 4. Unemployment - International Comparisons



Unemployed as % of labour force
standardised; seasonally adjusted

	1999	2000	2001	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
USA	4.2	4.0	4.8	4.0	4.2	4.5	4.8	5.6
Japan	4.7	4.7	5.0	4.8	4.7	4.9	5.1	5.5
Canada	7.6	6.8	7.2	6.9	7.0	7.0	7.2	7.7
UK	6.1	5.5	..	5.3	5.1	5.0	5.2	..
Germany	8.8	7.9	7.9	7.9	7.8	7.8	7.9	8.0
France	11.2	9.6	9.0	9.2	9.0	8.9	9.0	9.2
Italy	11.3	10.5	..	10.0	9.7	9.5	9.4	..
Euro zone	10.0	8.9	8.5	8.6	8.5	8.4	8.4	8.5
G7	6.1	5.7	6.0	5.6	5.7	5.8	6.0	6.4
OECD	6.8	6.4	6.5	6.3	6.3	6.4	6.6	6.9

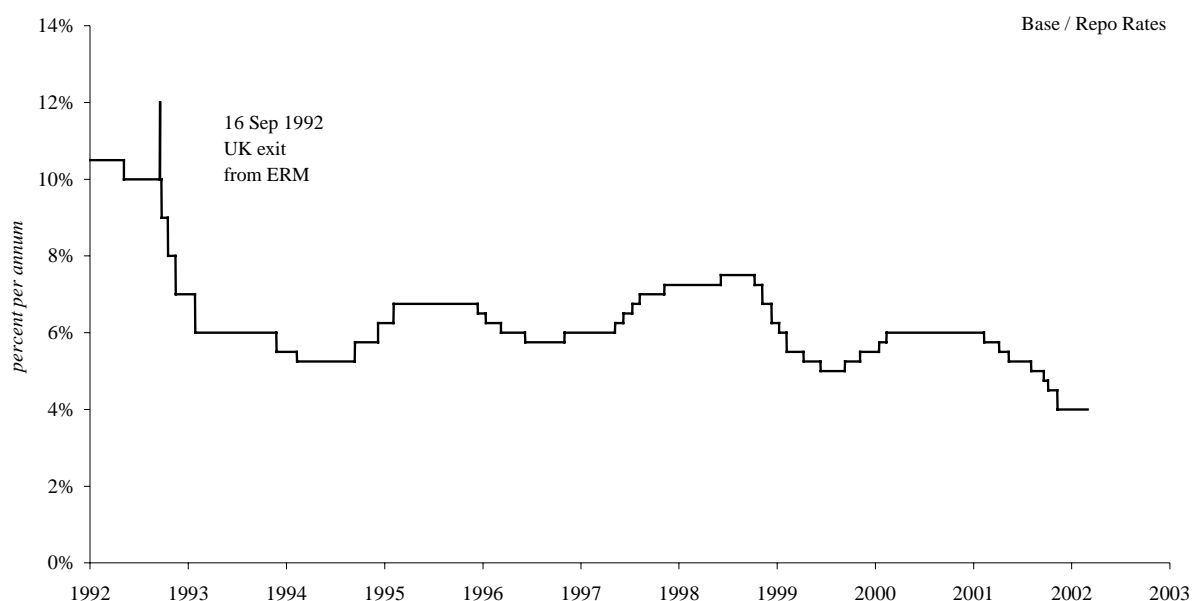
Source: OECD

- Using standardised definitions, the UK unemployment rate for 2000 was 5.5%, significantly below the Euro-zone (8.9%) average and slightly below the G7 and OECD rates (5.7% and 6.4% respectively).
- From Q3 to Q4 2001 the unemployment rate rose in all G7 countries (figures for Italy and the UK are as yet unavailable).
- The most recent forecasts published by the OECD (December 2001 *Economic Outlook*) suggest the UK (non-standardised) unemployment rate will rise to around five and a half percent of the labour force in 2003. In 2003 the unemployment rate for the Euro zone is expected to be 8.8% and for the OECD as a whole 7.0%.

CONTACT Patsy Richards, x4904

Next update: Mid-March

D 1. Interest Rates



UK Base/Repo Rates

% per annum

Date of change	New rate	
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
2001	Feb 8	5.75
	Apr 5	5.50
	May 10	5.25
	Aug 2	5.00
	Sept 18	4.75
	Oct 4	4.50
	Nov 8	4.00

Source: Bank of England

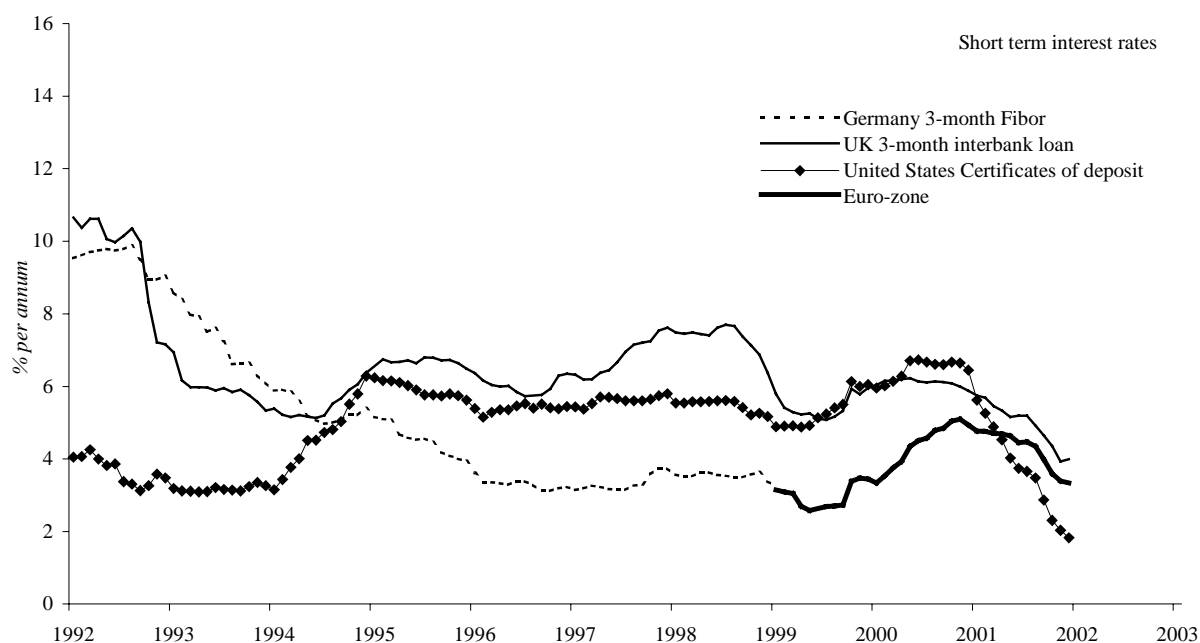
The ¼% interest rate increase on 6 June 1997 signified the first time that interest rates were set by the independent Monetary Policy Committee (MPC) of the Bank of England rather than by the Chancellor.

- The ¼ percentage point cut announced in February 2001 was the first interest rate cut since February 2000. Since then, interest rates have fallen by a further 1.75% to 4.00% today.
- The ½ percentage point cuts in November and December 1998, February 1999 and the latest cut in November 2001, were the largest changes in rates yet made by the MPC.
- The latest Bank Inflation Report forecasts that inflation will fall towards 2% early in 2002 before increasing towards the target rate thereafter. In its February meeting, the MPC felt that immediate risks to output growth and inflation were weak due to the uncertainty of a recovery in the global economy and the easing of domestic labour market pressures.
- The MPC next meets on 6 & 7 March, the minutes of which are expected to be published on 20 March 2002.

CONTACT Grahame Allen, x4324

Next update 7 March

D 2. Interest Rates - International Comparisons



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.

International Interest Rates

As at 28 February 2002

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	4.99	4
United States	4.91	1 ²⁷ / ₃₂
Switzerland	3.50	1 ²³ / ₃₂
Japan	1.48	² / ₃₂
Euro-zone	..	3 ⁵ / ₁₆

Source: *Financial Times*, 1 March 2002

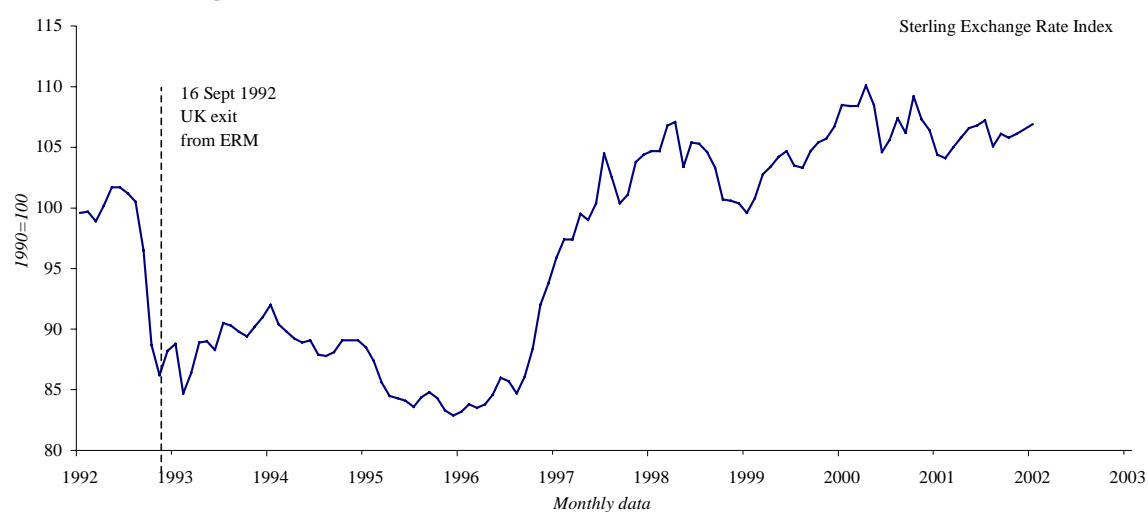
There is, as yet, no equivalent euro-zone government bond rate quoted. In future, a suitable comparator may be the rate on bonds issued by institutions like the European Investment Bank. Further details will be published on this page when they become available.

- The main development on the international stage has been the action of the main Central Banks in cutting their interest rates. The US Federal Reserve cut rates by $\frac{1}{2}\%$ eight times during 2001, the last cut of $\frac{1}{4}\%$ was announced on 11 December. The MPC responded by reducing the UK Repo rate by $\frac{1}{4}\%$ six times and $\frac{1}{2}\%$ once during 2001.
- The ECB has not followed the lead of the Fed or the MPC on a like for like basis, as might have been expected. They reduced interest rates twice during 2001, by $\frac{1}{4}\%$ in May and August and twice by $\frac{1}{2}\%$ on 18 September and 9 November. Another cut by the ECB seems unlikely in the short-term due demand and output growth in the euro-zone being weak.

CONTACT Grahame Allen, x4324

Next update: Early March

D 3. Exchange Rates



Sterling Exchange Rates

	US\$		Yen		ECU/Euro	
	Rate	% change on year	Rate	% change on year	Rate	% change on year
1997	1.638	4.9%	198.1	16.5%	1.450	16.3%
1998	1.657	1.2%	216.8	9.4%	1.477	1.9%
1999	1.618	-2.4%	183.9	-15.1%	1.519	2.9%
2000	1.515	-6.4%	163.3	-11.2%	1.642	8.1%
2001	1.440	-5.0%	174.8	7.1%	1.609	-2.0%
2001 January	1.477	-10.0%	172.5	-0.2%	1.575	-2.9%
February	1.453	-9.2%	168.9	-3.6%	1.578	-3.0%
March	1.445	-8.5%	175.4	4.4%	1.590	-2.9%
April	1.435	-9.4%	177.5	6.1%	1.608	-3.9%
May	1.426	-5.4%	173.7	6.4%	1.630	-2.1%
June	1.401	-7.1%	171.4	7.1%	1.643	3.5%
July	1.414	-6.3%	176.1	7.9%	1.643	2.4%
August	1.437	-3.7%	174.4	8.2%	1.596	-3.2%
September	1.464	2.0%	173.5	13.2%	1.606	-2.5%
October	1.452	0.0%	176.1	11.9%	1.602	-5.7%
November	1.436	0.7%	175.7	13.1%	1.617	-3.0%
December	1.441	-1.5%	183.6	12.0%	1.615	-0.9%
2002 January	1.423	-3.6%	190.0	10.2%	1.622	3.1%

Source: ONS database series AJFA, AJFO, AJHX, THAP

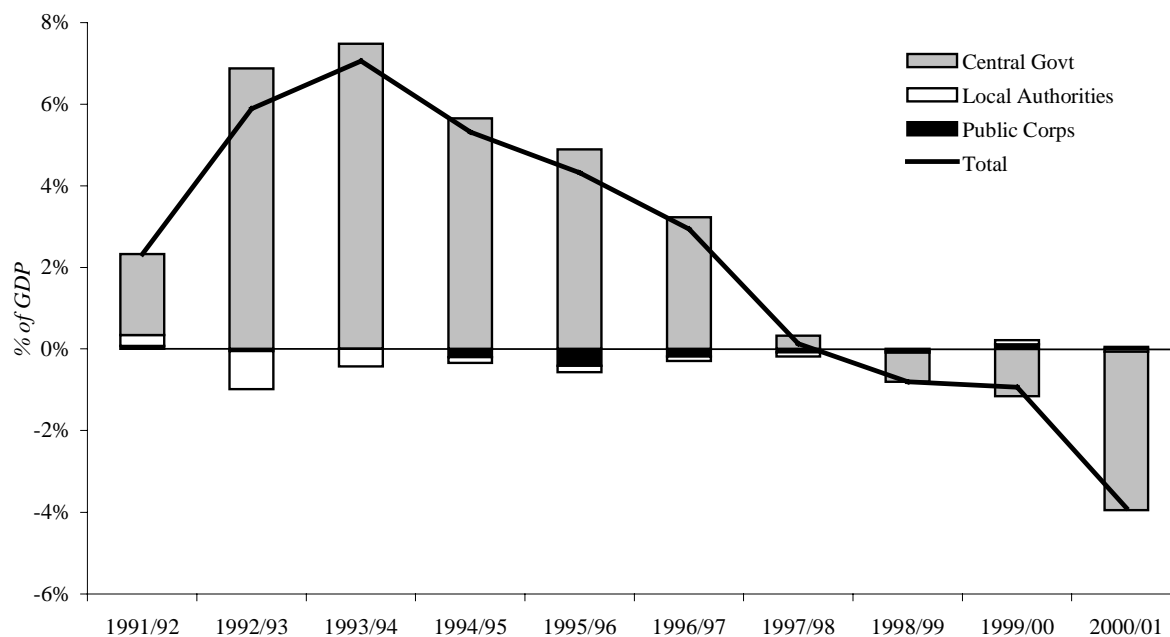
The Sterling Exchange Rate Index (SERI) measures the value of Sterling against a trade-weighted 'basket' of other currencies. The weights used to calculate the index measure a currencies relative importance to UK trade in manufacturing.

- The large fall in the SERI following the UK exit from the ERM indicates a relative improvement in UK competitiveness. The SERI increased by just over 2 points in 2001 suggesting that the UK was relatively less competitive at the end of 2001 than at the beginning of the year.
- The pound was worth euro 1.6340 at the London market close on 28 February 2002, compared to a launch rate of euro 1.4168 on 31 December 1998.
- Series for the ECU and the participating currencies of the euro zone are no longer officially published.

CONTACT Grahame Allen, x4324

Next update: Mid-March

D 4. 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
1997/98	1.1	0.1%	2.9	0.3%
1998/99	-7.0	-0.8%	-6.9	-0.8%
1999/00	-8.6	-0.9%	-8.1	-0.9%
2000/01	-37.2	-3.9%	-37.1	-3.9%
2000 Q4	3.7	1.5%	3.7	1.5%
2001 Q1	-12.5	-5.2%	-12.5	-5.2%
2001 Q2	6.3	2.6%	6.3	2.6%
2001 Q3	-6.0	-2.4%	-5.3	-2.2%
2001 Q4	9.7	na	9.7	na

Source: NS Database Series RURQ, RURS, YBHA, BKTL

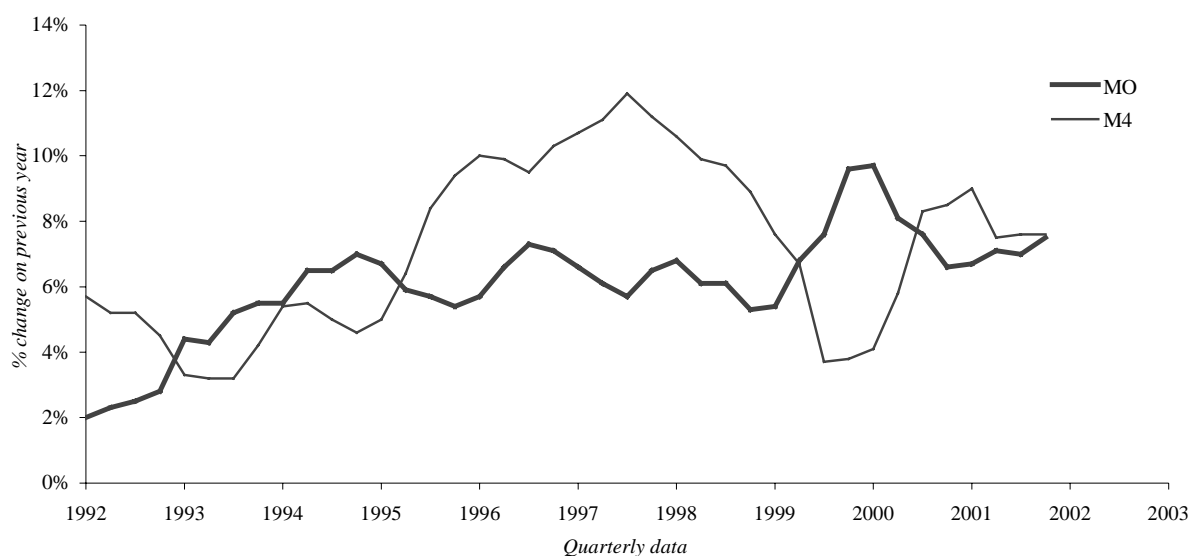
The public sector net cash requirement was previously known as the public sector borrowing requirement (PSBR).

- The PSNCR (including privatisation receipts) for the 2000/01 financial year was -£37.2 billion (i.e. a surplus) compared with -£8.6 billion in the 1999/00 financial year. Excluding privatisation receipts, the PSNCR for 2000/01 was -£37.1 billion compared with -£8.1 billion in 1999/00.
- The PSNCR for the 2001/02 financial year is officially forecast at £6 billion (0.6% of GDP) excluding windfall tax receipts and associated spending. City estimates are that the out turn may be £3 billion instead.

CONTACT Tim Edmonds, x2883

Next update: 20 March

D 5. Money Supply



Money stock seasonally adjusted

	M0		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
2001 January	9.8	4.1	9.9	9.6
February	10.9	8.3	9.4	9.2
March	6.7	8.4	7.6	8.2
April	4.1	7.4	4.3	7.7
May	2.0	6.7	5.0	7.3
June	3.1	6.7	6.6	7.5
July	5.1	7.1	7.3	7.8
August	8.1	7.3	10.0	7.0
September	8.6	6.3	10.3	8.0
October	8.5	7.0	10.5	8.0
November	8.4	7.7	7.4	8.0
December	8.3	7.9	1.9	6.6
2002 January	10.1	7.9	1.6	6.0

Source: Bank of England

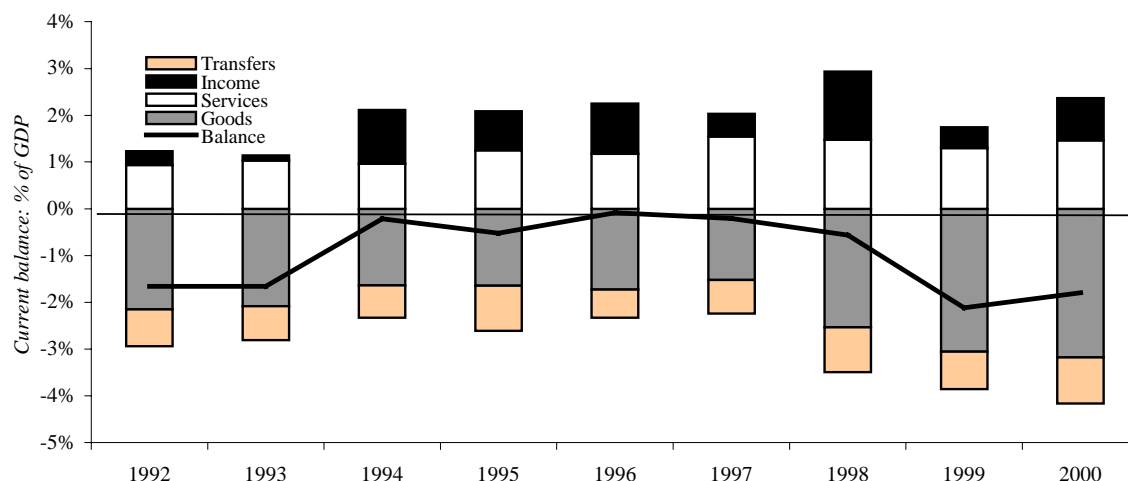
M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 6.0% in the 12 months to January 2002. The twelve-month growth rate of seasonally adjusted M0 rose by 7.9% in January 2002 compared to 7.9% in December 2001.
- There are now no formal targets for money supply growth.

CONTACT Grahame Allen, x4324

Next update: Early March

E 1. International Trade



Current Account Balances

seasonally adjusted; £ million

	Trade in goods and services			Income (total)	Transfers			Current Balance
	goods	services	total		Cent. Govt	other	total	
1997	-12,342	12,528	186	3,906	-3,087	-2,725	-5,812	-1,720
1998	-21,813	12,666	-9,147	12,558	-4,844	-3,381	-8,225	-4,814
1999	-27,524	11,660	-15,864	4,019	-3,749	-3,497	-7,246	-19,091
2000	-30,023	13,779	-16,244	8,576	-5,552	-3,785	-9,337	-17,005
2000 Q3	-7,895	3,874	-4,021	2,941	-1,304	-1,180	-2,484	-3,564
2000 Q4	-7,922	3,187	-4,735	2,177	-1,841	-911	-2,752	-5,310
2001 Q1	-7,903	3,647	-4,256	4,281	-783	-1,292	-2,075	-2,050
2001 Q2	-9,302	4,184	-5,118	3,277	-1,237	-1,496	-2,733	-4,574
2001 Q3	-7,994	2,589	-5,405	3,465	792	-880	-88	-2,028

Source: National Statistics First Release Balance of Payments 20 December 2001

Estimates have been revised from Q1 2000 to include new data on trade in services, foreign direct investment and insurance and pension funds. This has resulted in a revision of the current account deficit for 2000 from £18.4 billion to £17.0 billion.

- The Q3 2001 current account deficit was £2.0 billion, down from a record deficit of £4.6 billion in Q2. This was partly due to a lower goods deficit and a reduced current transfers deficit, which fell to £0.1 billion in Q3 compared to a record £2.7 billion in Q2, because of lower payments to EU institutions, and higher receipts.
- A lower trade in services surplus (£2.6 billion compared to a record £4.2 billion in Q2) partly offset the lower trade in goods deficit. The surplus on trade in services decreased because exports of insurance services fell by £1 billion, mainly due to increased claims related to September 11. Imports of transportation services also fell.

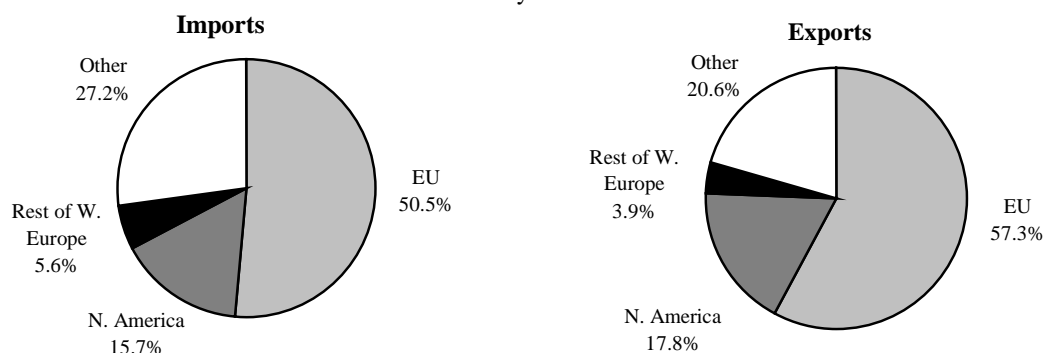
CONTACT Patsy Richards x4904

Next update: 27 March

E 2. Trade in Goods

Shares of trade in goods by area: 2001

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
1998	118.2	131.1	164,056	185,869	-21,813
1999	123.3	141.3	166,198	193,722	-27,524
2000	137.6	158.3	188,085	218,108	-30,023
2001	140.0	163.8	190,632	224,264	-33,632
2000 Q4	142.5	164.5	49,204	57,126	-7,922
2001 Q1	146.1	169.0	50,166	58,186	-8,020
Q2	141.7	165.6	48,644	57,801	-9,157
Q3	137.5	160.5	46,694	54,792	-8,098
Q4	134.6	159.9	45,128	53,485	-8,357

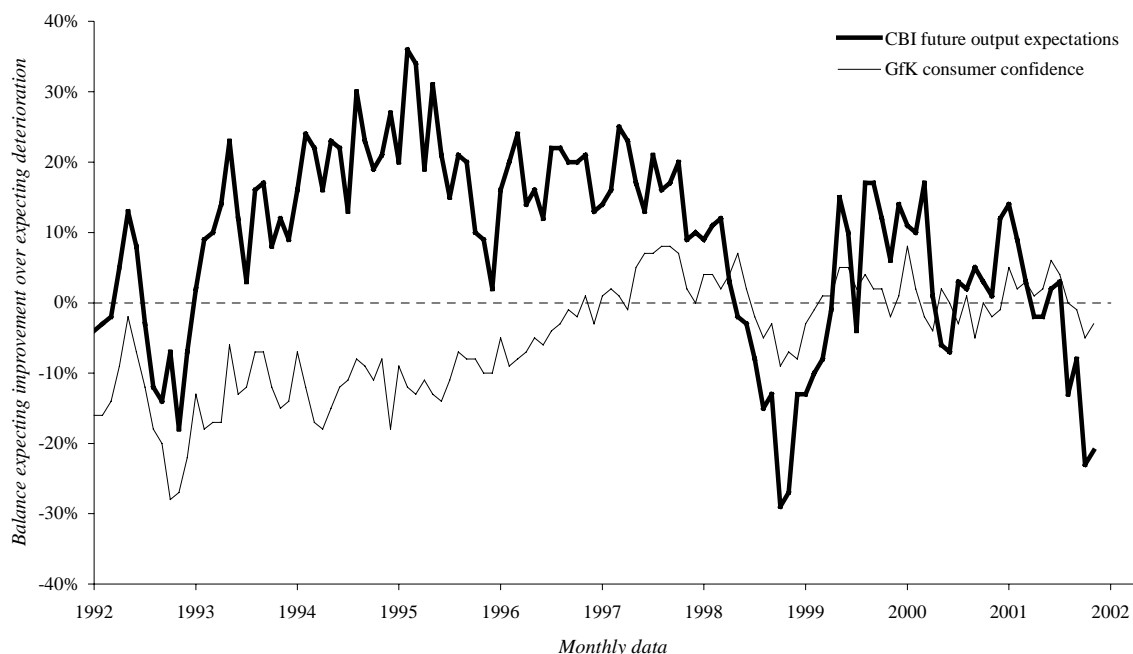
Source: National Statistics Database 25 February 2002

- For the year 2001 as a whole, the deficit on trade in goods is provisionally estimated as a record £33.6 billion, compared to a £30.0 billion deficit in 2000.
- In the year 2001 total exports rose by one and a half per cent to £190.6 billion while imports rose by three per cent to £224.3 billion.
- The deficit on trade in goods with EU countries for the year 2001 was an estimated £5.3 billion, and with non-EU countries £28.3 billion.
- The UK deficit on trade in goods for December 2001 is an estimated £3.2 billion, compared to £2.8 billion for November 2001. Total exports of goods fell by four and a half per cent in December to £14.3 billion.

CONTACT Patsy Richards, x4904

Next update: 11 March

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 GfK
2001	Jan	14	5
	Feb	9	2
	Mar	3	3
	Apr	-2	1
	May	-2	2
	Jun	2	6
	Jul	3	4
	Aug	-13	0
	Sep	-8	-1
	Oct	-23	-5
	Nov	-21	-3
	Dec	-28	-1
2002	Jan	-13	6

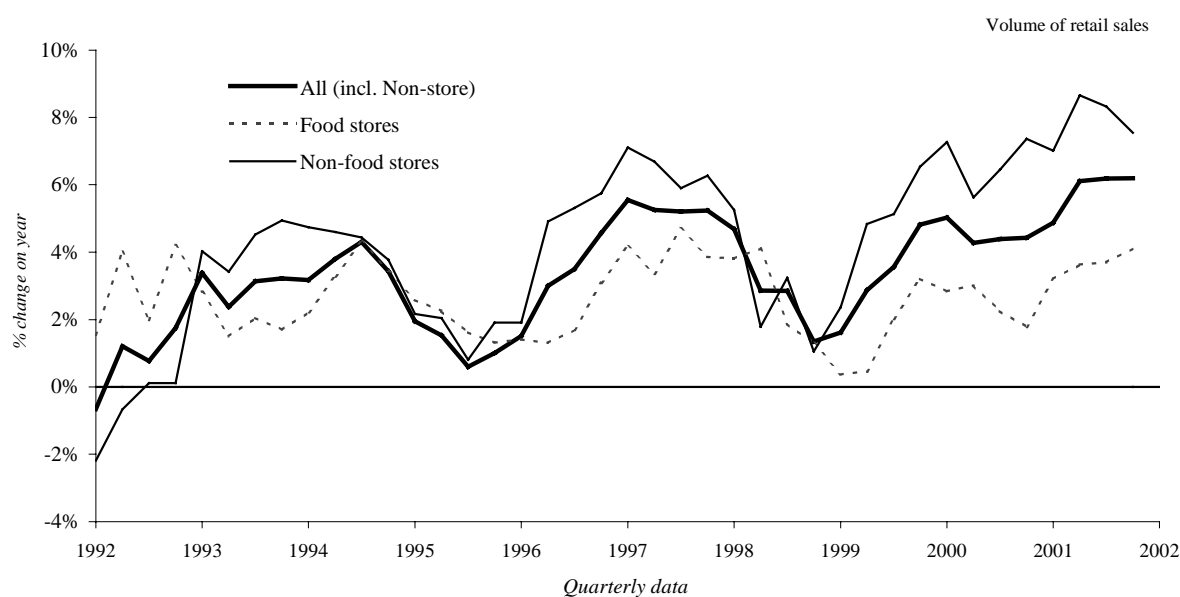
Source: NS database (series ETBA, ETCU)

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 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.

- After declining sharply over the second half of 2001 the balance of expectations from the CBI's monthly Industrial Trends Survey for future output has now regained the confidence level that existed pre September 11th.
- The CBI's indicator of overall business confidence in manufacturing (for which figures are only available on a quarterly basis) rose from a three-year low in October 2001 of -54 to -31 in Jan 2002.
- Within the overall GfK consumer confidence indicator the 'household finance' indicator stood at its highest level since records began in 1982.

F 2. Retail Sales



Value of Retail Sales

not seasonally adjusted; % change on year

	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
1998	3.7%	2.7%	5.8%	3.6%	3.6%
1999	2.7%	3.4%	4.7%	2.6%	3.4%
2000	3.5%	2.5%	7.5%	2.5%	4.2%
2001	5.9%	5.7%	4.9%	8.2%	6.4%
2000 Q4	4.0%	3.3%	7.6%	3.5%	4.3%
2001 Q1	5.4%	3.9%	2.9%	6.4%	5.3%
Q2	7.7%	5.1%	4.6%	9.6%	6.7%
Q3	7.0%	7.6%	6.7%	8.5%	6.7%
Q4	6.9%	3.9%	5.9%	8.8%	6.9%

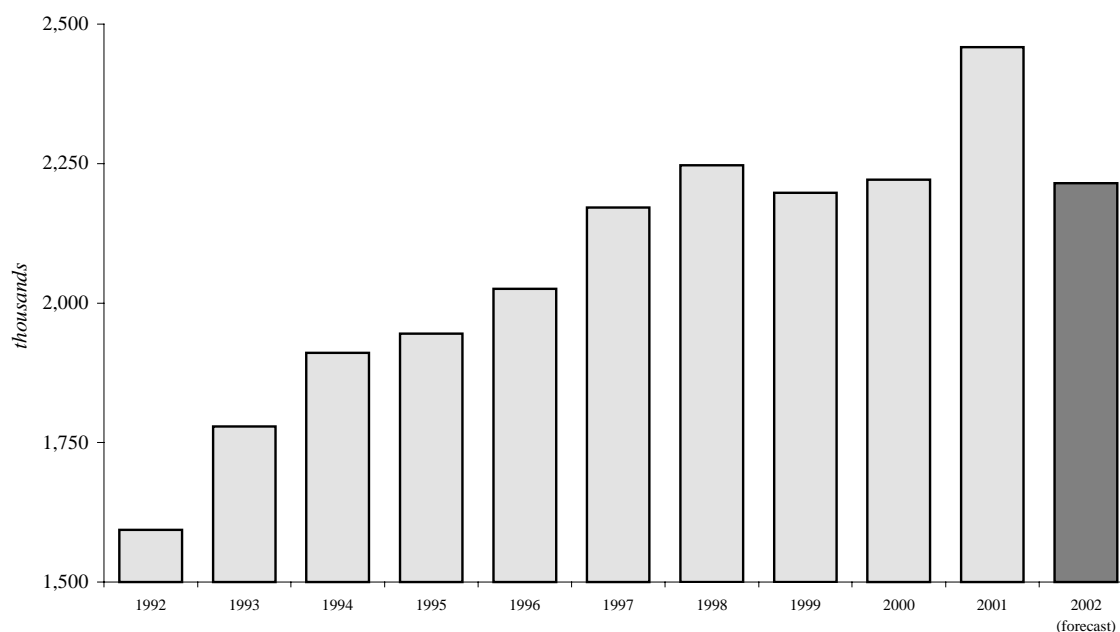
Source: NS database Series EAWN, EAWO, EAWP, EAWQ, EAWM

- In November to January, the *volume* of retail sales grew by 0.9% compared with the previous three months, reaching a level 5.6% higher than the previous year.
- Seasonally adjusted retail sales volume in January 2002 were 4.2% higher than in January 2001.
- Retail sales volumes in predominantly non-food stores increased by 7.0% in the period November to January, compared to a year earlier. In predominantly food stores, sales volumes grew by 3.3% over the same period. Sales growth was particularly strong in household goods stores.
- In January, the average weekly value of retail sales was £4,000 million, 5.5% higher than in January 2001 (based on non-seasonally adjusted data).

CONTACT Dominic Webb, x2464

Next update: 21 March

F 3. New Registrations of Cars



New Registrations of Cars

not seasonally adjusted

	Number (000s)	Change over 12 months
1997	2,171	7.2%
1998	2,247	3.5%
1999	2,198	-2.2%
2000	2,222	1.1%
2001	2,459	10.7%
2002 (forecast)	2,215	-9.9%
<hr/>		
2001		
January	188	1.5%
February	79	7.3%
March	408	1.5%
April	180	7.0%
May	199	2.3%
June	215	11.4%
July	173	11.6%
August	77	6.4%
September	443	25.4%
October	185	20.7%
November	184	13.4%
December	126	17.3%
2002		
January	205	9.3%

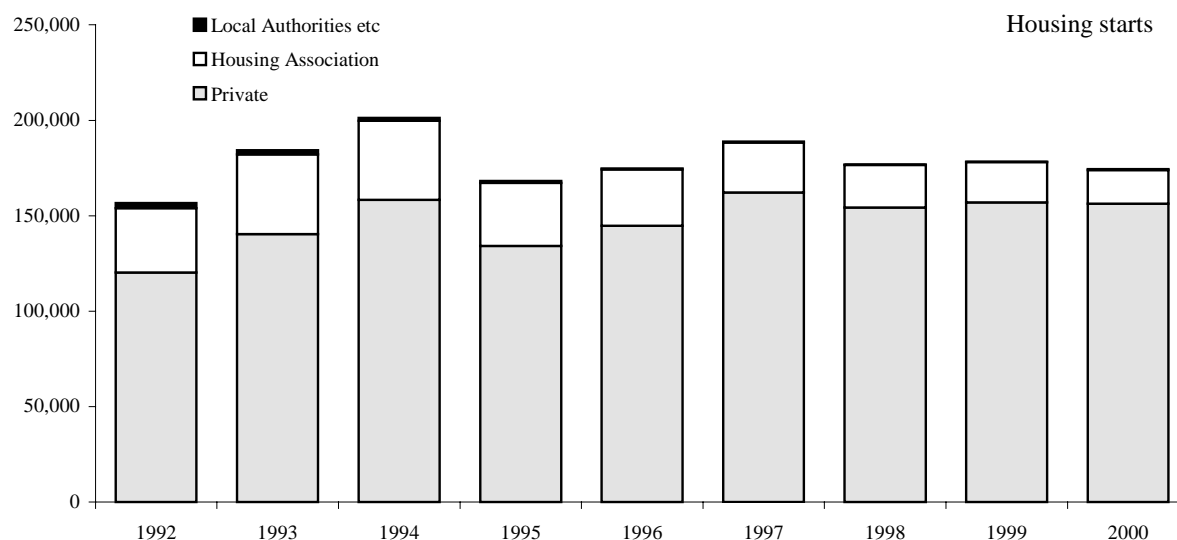
Source: SMMT "Monthly Statistical Review", January 2002

- Figures from the Society of Motor Manufacturers and Traders show that new car registrations in January 2002 rose 9.3% over the previous year's figure.
- The number of new registrations of cars was 2.5 million units in 2001, a rise of 10.7% on the previous year and the highest total ever.
- Registrations of British-built cars increased by 1.5% in January from the previous January's figure to 52,000 units, or 25.3% of the market. In 2001, registrations of British-built cars declined 5.6% from the previous year's figure to 594,000 units, or 24.2% of the market.
- New registrations of cars are forecast to fall by 9.9% in 2002

CONTACT Dominic Webb, x2464

Next update: Late March

F 4. Housing



House prices

Standardised average price (£)

	All Houses	New Houses	Existing Houses	First time buyers
2000 Q4	86,000	91,600	86,000	61,100
2001 Q1	86,200	88,600	86,600	61,800
Q2	91,800	95,000	92,400	65,500
Q3	94,200	99,200	94,900	67,000
Q4	96,100	100,100	96,700	68,600
<i>% change over same period last year</i>				
2000 Q4	5.7%	6.1%	5.7%	5.9%
2001 Q1	3.1%	2.1%	3.6%	1.5%
Q2	7.7%	7.0%	8.3%	6.5%
Q3	9.8%	4.8%	10.7%	9.5%
Q4	11.7%	9.3%	12.4%	12.3%

Source: Halifax House Price Index: Fourth Quarter 2001

- According to the latest DTLR press release, it is provisionally estimated that 10,000 dwellings were started in Great Britain in December 2001, compared with 9,000 in December 2000. There were 15,000 completions, the same number as in December 2000. In the latest three months 40,000 dwellings were started, an increase of 14% on the same three month period a year ago. There were 44,000 completions, the same number as in the same period a year earlier.
- According to the Halifax Monthly Index, house prices in the United Kingdom rose by 1.6% in January from December (seasonally adjusted). On an annual basis, house price inflation rose to 16.8% in January from 15.5% in December.
- According to the Halifax Quarterly Index, UK house prices rose by 2.6% in Q4 of 2001 following a 3.0% rise in Q3. Regionally, annual house price inflation was highest in East Anglia (19.8%) and lowest in Scotland (5.2%).

CONTACT Alex Adcock, x3793

Next update: 7 March