



RESEARCH PAPER 02/42

1 JULY 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: Housing market overheating**

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	Ian Townsend	3977
Industries	Grahame Allen	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	Ian Townsend	3977
Trade	Patsy Richards	4904
Transport	Paul Bolton	6789
Unemployment	Dominic Webb	2464
Wages & earnings	Dominic Webb	2464

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## II Housing market overheating

Many commentators have suggested that the current rate of house price inflation is unsustainable and that it will be followed, inevitably, by future declines in house prices of a similar magnitude to those in the early 1990s. This article investigates these claims by looking at recent market specific and general economic indicators and comparing them to these indicators prior to the last slump.

### A. 1980s boom and 1990s bust

The previous ‘boom’ in house prices took place against the background of a strongly growing economy. Real gross domestic product (GDP) growth averaged 4.5% per annum between 1987 and 1989. It also followed a period of dramatic change in the mortgage finance market. Deregulation of financial markets, the abolition of the recommended mortgage rate and the aggressive entry of banks and other financial institutions in the mortgage market, which had been previously been dominated by building societies, meant that more people had wider access to cheaper credit of all types, including mortgages, than ever before.

As competition for homebuyer custom increased, traditional barriers to home ownership started to crumble. The size of homebuyers’ deposits required by lenders decreased. The interest rates charged by lenders above the base rate was reduced and the ratio of mortgage advance to potential homebuyers’ income started to rise. People increased their debt liabilities on the assumptions of a continued growth in earnings and house prices. In his March 1988 budget, the then Chancellor, Nigel Lawson, announced that dual relief for joint property holders would be abolished the following August. This prompted a further increase in house buying activity. Given a housing stock fixed in the short-term, this led to an increase in the price of houses. Between 1987 and 1989 the average price of a house increased by £24,000 or 52% from just over £46,000 in 1987 to just over £70,000 in 1989; an average increase of just over 21% a year.

Then the unpredictable happened. Iraq invaded Kuwait in 1990 which led to higher oil prices globally and a negative shock to the UK economy. Inflation, the annual percentage change in the RPI, rose to 9.5% in 1990 and the base interest rate, already high, hit 15%. Unemployment, which in April 1990 was half its level in January 1987, started to rise.<sup>1</sup> The unemployment rate, which had been falling steadily since March 1986, began to rise back towards 10%. The growth in annual earnings slowed and the growth in real GDP fell to -1.4% in 1991.

The knock on effect of these factors was a fall in house prices. The annual percentage change in average house prices fell from an increase of 21% in 1989 to minus 4% in 1992. The actual average price of houses fell by 6% over the same period. The volume of housing transactions also fell from just under two million in 1988 to just over a million in 1992.<sup>2</sup> In

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<sup>1</sup> NS, *Annual Abstract of Statistics*, 2002

<sup>2</sup> *Inland Revenue Statistics*, various dates

these circumstances many homeowners found themselves in the uncomfortable position of having negative equity in their property. This is where the outstanding balance of the mortgage exceeds the value of the house. Some homeowners who, due to either a general decline in economic conditions or a change in personal circumstances, such as unemployment, could not afford to pay their mortgages, were forced to try to sell their homes in an already depressed housing market.<sup>3</sup> Many homeowners who were unable to sell ultimately found that their houses were repossessed. At the depth of the property crash, lenders were repossessing homes at the rate of more than 1,500 a week.<sup>4</sup>

## B. Is the bubble about to burst again?

The question has been fuelled by recent rises in house prices. Between 1999 and 2001, average house prices increased by an average of just over 11% a year compared to an average 2.1% in the previous nine years. Latest figures from the Nationwide suggest that house prices rose by 3.4% during April 2002, the highest ever monthly rise, by 2.1% in May and by 17.9% in the previous 12 months.<sup>5</sup> However, economic conditions now are not the same as they were prior to the last housing market ‘slump’.

### Averages of particular indicators

	1987-1989	1999-2001
<u>Growth rates</u>		
House prices	21.0%	11.4%
RPI	5.6%	2.1%
Real GDP	4.0%	2.4%
Unemployment rate	7.6%	3.7%
Average earnings	8.5%	4.5%
<u>Levels</u>		
Base rate	12%	5%
Ratio of house prices to earnings	4.5	4.5

Source: House of Commons Library

Although average house prices increased by 11.4% a year between 1999 and 2001, this is almost half the average 21% a year increase in the three years before the last housing market

<sup>3</sup> It has been estimated that around 8% or 1.5 million households suffered from negative equity. Source Andrew Henley, *The Economics of the Crazy British Housing Market*, University of Wales Aberystwyth, 10 November 1999

<sup>4</sup> Peter Axon, Beware the famine as the feast is nearly over, *Birmingham Post*, 18 May 2002

<sup>5</sup> Nationwide, *Monthly House Price Review*, May 2002 available on their web site as at 20 June 2002: [www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm](http://www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm)

‘slump’. Also, average house prices, after taking inflation into account, have only just recovered to their 1990 level.

House buying activity is now lower than it was in the late 1980s. The number of housing transactions in 2000 was just over a third, or about 0.6 million, less than the total in 1988.<sup>6</sup> This could be due to the demographics of the country changing. There are now 0.5 million fewer 18-29 year olds, the traditional first time buyer age-range, than in the late 1980s. Existing homeowners are also reducing the number of times they move, preferring instead to improve their current homes.<sup>7</sup>

The base interest rate has averaged 5% between 1999 and 2001, well below the 12% average in the three years between 1987 and 1989. Currently, the base rate stands at 4%, the lowest rate for over thirty years compared to a high of 15% in October 1989. Since 1993 inflation, the annual percentage change in the RPI, has remained relatively low and stable, averaging 2.1% between 1999 and 2001 compared to an average of 5.6% in the three years prior to the last housing market ‘slump’.

This is unlikely to change in the near future. Since the Bank of England was given independence in 1997, with a remit to maintain price stability, inflation has averaged 2.5% and is presently closer to 1%. However, low inflation also has a ‘hidden’ downside for the majority of homebuyers and especially for first time buyers. Low inflation means that the costs of a mortgage are only slowly eroded as a percentage of disposable income over time.

General economic activity is not as pronounced now as it was before the last house price crash. Notwithstanding the recent global slowdown, real GDP is growing at a relatively stable rate of around 2.4% per annum, closer to its long-term growth path than in the late 1980s. The average unemployment rate in the last three years has averaged just under half the average rate between 1987 and 1989 and there are now three million more people employed than in the early 1990s.<sup>8</sup>

All this said the key indicator when looking at house market overheating is the ratio of house prices to earnings. This is a simple proxy for the ability of homeowners to pay for their homes. At 4.5 the ratio of average house prices to average earnings was the same between 1987 and 1989 as the estimated ratio between 1999 and 2001. This could suggest that homeowners’ ability, or lack of ability, to pay their mortgages is the same now as it was prior to the last housing market ‘slump’.

However, the ratio as defined above is not the only proxy used by house market analysts. Each tends to have their favourite definition of this variable that gives a different outcome. Figures from the Office of the Deputy Prime Minister suggest that the ratio of house prices to

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<sup>6</sup> *Inland Revenue Statistics*, various dates

<sup>7</sup> Nationwide, *Monthly House Price Review*, April 2002 available on their web site as at 22 May 2002: [www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm](http://www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm)

<sup>8</sup> David Smith, House price bubble is not ready to burst, *Sunday Times*, 5 May 2002



income is higher now than in the 1980s at 3.4 in the third quarter of 2001, falling to 3.3 in the fourth quarter, compared to 3.2 in 1988.<sup>9</sup> The Halifax measure of the ratio suggests that the ratio now is 3.7, “only just above its long-run average, and 25% below the peak of 5.02 reached in May 1989”.<sup>10</sup>

The Nationwide have looked at how many years of take home pay it would take to purchase a typical UK property. They found that “Currently this stands at 5½, which compares favourably with the overheating towards the end of the eighties when it took 7-years”.<sup>11</sup> The amount of disposable household income, i.e. wages less direct taxation, taken up by interest payments is half the amount now (8%)<sup>12</sup> than it was early 1990s (15%).<sup>13</sup> Others suggest mortgage payments account for just under a quarter of disposable income now compared to almost three-fifths at the end of the 1980s.<sup>14</sup>

The above analysis would suggest that we are quite a way from seeing house prices fall dramatically and the scourge of 1990s negative equity and mass repossessions occurring once again. However, no one can accurately predict what will happen in the future. It takes an extremely brave, or foolish, economist to predict when a downturn will occur in any market. The most likely outcome is a gradual easing of house price growth in the short-term, barring any unforeseen negative shocks to the economy.

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Economic Policy and Statistics Section

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<sup>9</sup> Office of the Deputy Prime Minister, *Housing Statistics 2001*, December 2001

<sup>10</sup> David Smith, House price bubble is not ready to burst, *Sunday Times*, 5 May 2002

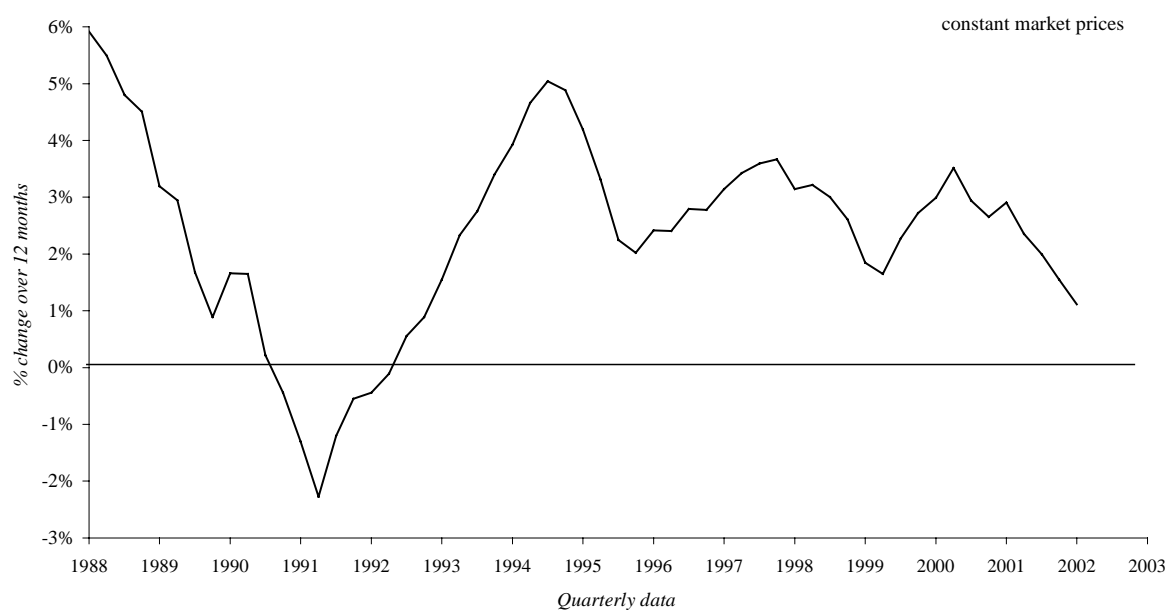
<sup>11</sup> Alex Bannister, Nationwide, *Monthly House Price Review*, April 2002 available on their web site as at 20 June 2002: [www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm](http://www.nationwide.co.uk/hpi/hpindex/monthlymenu.htm)

<sup>12</sup> NS, *Family Spending: A report on the 2000-2001 Family Expenditure Survey*, 2002

<sup>13</sup> Peter Axon, Beware the famine as the feast is nearly over, *Birmingham Post*, 18 May 2002

<sup>14</sup> Alex Bannister, 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	859.4	6.0%		2.9%
1999	902.5	5.0%		2.4%
2000	950.4	5.3%		3.1%
2001	988.0	4.0%		1.9%
2001 Q1	243.8	4.7%		2.9%
Q2	247.1	4.3%		2.4%
Q3	246.7	3.0%		2.0%
Q4	250.4	3.8%		1.5%
2002 Q1	254.9	4.6%		1.1%

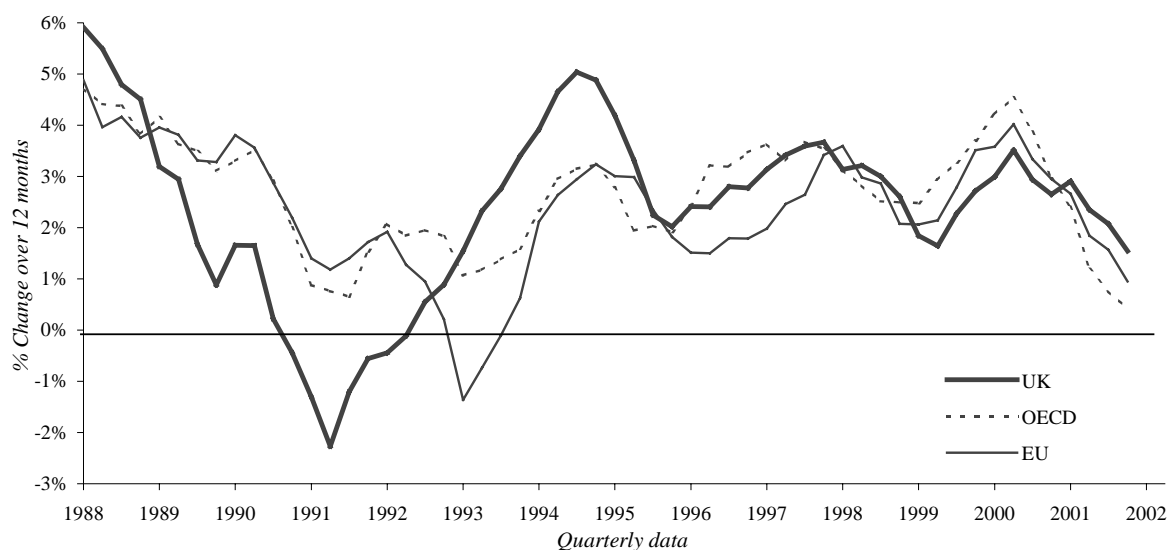
Source: NS database series YBHA & AMBI

- Gross domestic product (GDP) at 1995 market prices is estimated to have risen by 0.1% in the first quarter of 2002. The same GDP growth as in the previous quarter. For the year as a whole the economy is estimated to have grown by 1.9% in 2001.
- Output in manufacturing fell by 2.3% over the course of 2001. The decline was attributable in part to poor figures from the communications and electrical sectors. Services sector output is estimated to have grown by 3.4% over the year.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 1.7% in 2002 and 2.8% in 2003.

CONTACT Tim Edmonds, x2883

Next update: 26 July

## A 2. GDP - International Comparisons



### GDP at constant market prices

% change on year

	1998	1999	2000	2001	2000 Q4	2001 Q1	2001 Q2	2001 Q3	2001 Q4
USA	4.3%	4.1%	4.2%	1.1%	0.4%	0.4%	0.3%	0.1%	-0.3%
Japan	-1.0%	0.7%	2.3%	-0.5%	-0.7%	0.7%	0.1%	-0.7%	0.4%
Canada	4.2%	5.3%	3.5%	1.1%	1.2%	0.3%	0.5%	0.2%	-0.2%
United Kingdom	2.9%	2.2%	3.0%	2.2%	0.7%	0.4%	0.7%	0.4%	0.9%
Germany	2.0%	1.8%	3.0%	0.5%	0.1%	0.2%	0.4%	0.0%	-0.2%
France	3.5%	3.0%	4.2%	1.9%	0.7%	0.8%	0.4%	0.3%	0.4%
Italy	1.8%	1.6%	2.8%	1.8%	0.4%	0.8%	0.9%	0.0%	0.2%
Euro zone	3.0%	2.6%	3.5%	1.7%	0.5%	0.6%	0.5%	0.2%	0.3%
G7	2.7%	2.9%	3.7%	1.0%	0.2%	0.5%	0.4%	-0.1%	0.0%
OECD	2.7%	3.2%	3.9%	1.0%	0.4%	0.4%	0.3%	0.0%	0.1%

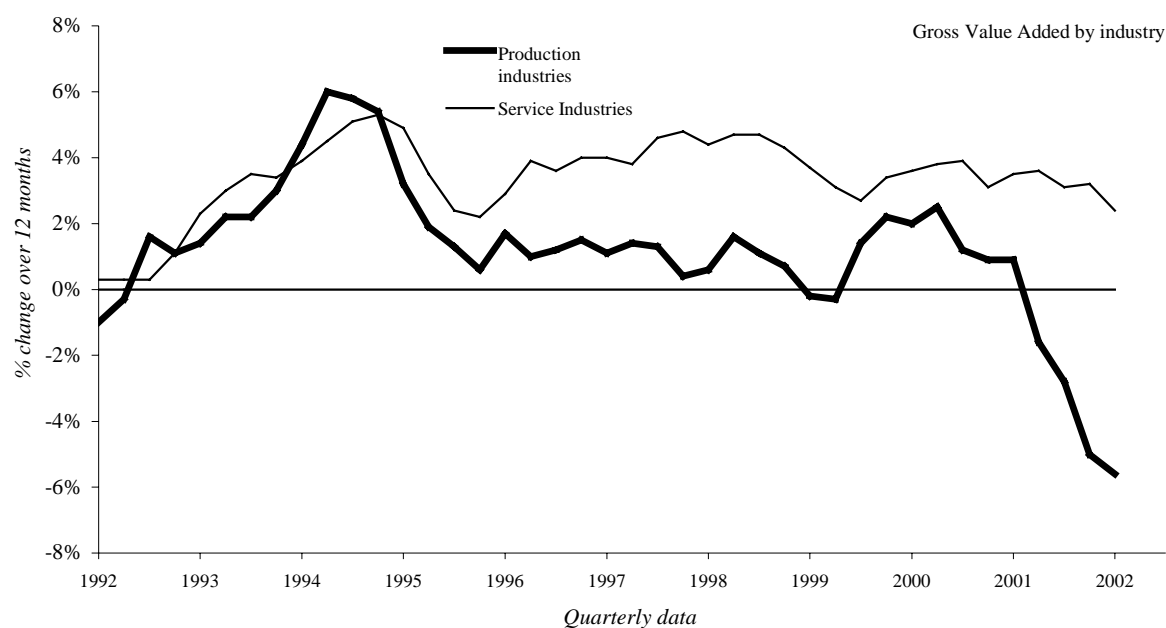
Source: OECD, Main Economic Indicators, June 2002

- The latest data give clear confirmation of the economic slowdown in the world economy. Growth in the G7 as a whole only averaged 1% in 2001. Japan contracted and Germany barely grew at all. Only France and the UK grew at anything like trend rates.
- 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. Growth in the US was negative in the last quarter of 2001, however, recent data for the first quarter of 2002 (1.6%) is more supportive of a recovery.
- In November 2001 the OECD expected 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-July

### A 3. Gross Domestic Product by Industry



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

	Production industries			Agriculture, hunting & fishing	Construction
	Total	Manufac- turing	Services		
1998	1.0%	0.8%	4.5%	1.7%	1.2%
1999	0.8%	0.3%	3.2%	3.2%	0.8%
2000	1.7%	2.0%	3.6%	-3.2%	1.8%
2001	-2.1%	-2.3%	3.4%	-11.6%	3.6%
2001 Q1	0.9%	1.5%	3.5%	-11.0%	-0.5%
Q2	-1.6%	-1.4%	3.6%	-12.0%	3.0%
Q3	-2.8%	-3.2%	3.1%	-13.2%	5.7%
Q4	-5.0%	-6.1%	3.2%	-10.2%	6.3%
2002 Q1	-5.6%	-6.5%	2.4%	-2.5%	7.3%

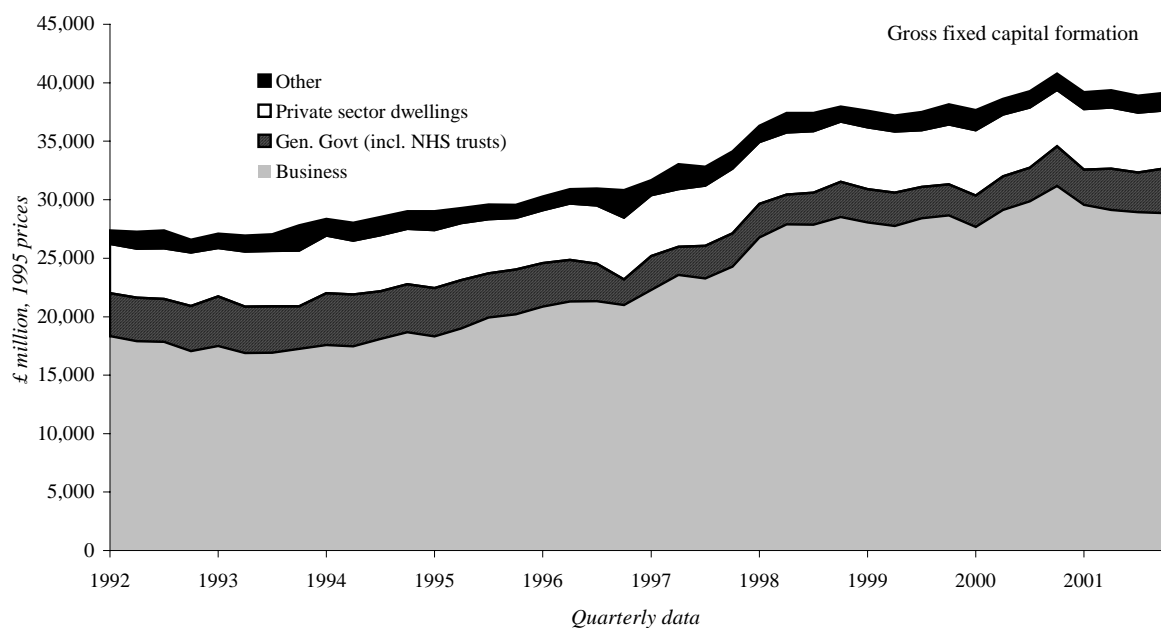
*Source: NS database series ERID, ERIT, GDRN, GDQV, GDQW, ERIE, ERIU, GDSI, GDRQ, GDRR*

- 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 2%. Between the fourth quarter of 2001 and first quarter of 2002, output in the service sector rose by 0.2%.
- Manufacturing output fell by 1.1% between the fourth quarter of 2001 and first quarter of 2002 and by 2.3% in 2001.
- 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: 10 July*

## 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
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
2001	15,895	70,691	43,434	22,367	4,179	156,566
2000 Q4	4,135	19,282	10,984	5,345	1,043	40,789
2001 Q1	3,527	18,488	10,429	5,696	1,044	39,184
Q2	4,444	17,207	11,021	5,635	1,055	39,362
Q3	4,054	17,153	11,052	5,583	1,029	38,871
Q4	3,870	17,843	10,932	5,453	1,051	39,149

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

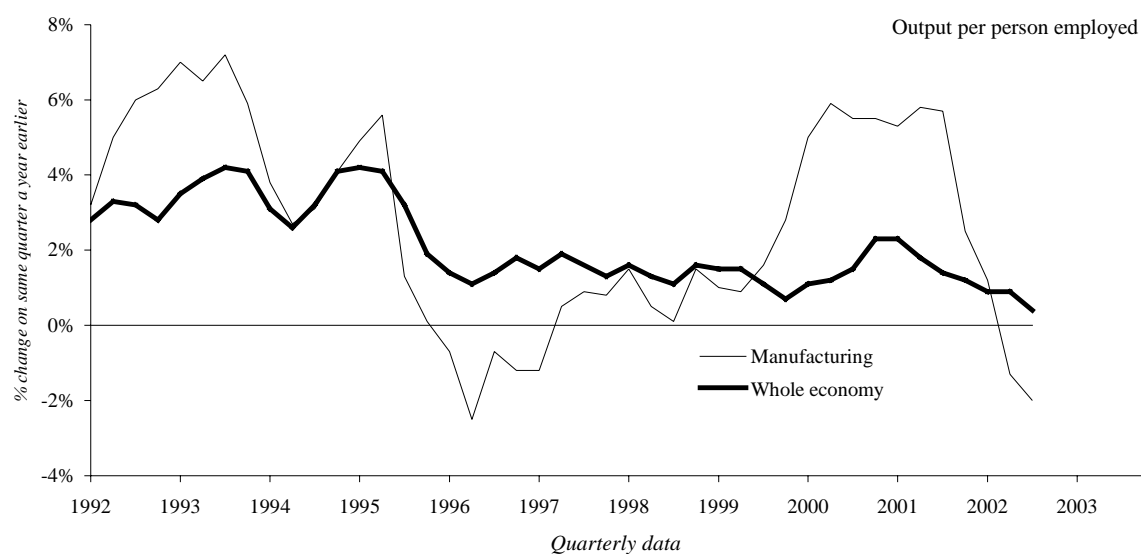
Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations (other than NHS trusts) on transport equipment, other machinery and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

- Total business investment (seasonally adjusted) fell in the first quarter of 2002 by 3.1% in real terms compared with the previous quarter and is now at the same level as three years ago.
- Manufacturing investment fell by 5.8% over the quarter and service sector investment fell by 1.9%.
- Total GFCF in the fourth quarter of 2001 rose by 0.7% in real terms compared with the previous quarter but was 4% below the level of a year before. Declines in real investment were recorded in most categories of investment except for construction.

CONTACT Tim Edmonds, x2883

Next update: 22 August

## 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
1998	0.8	-0.2	0.8	3.2	1.8	1.5
1999	0.3	-3.3	3.9	2.1	1.1	1.0
2000	1.9	-3.4	5.5	3.1	1.0	2.0
2001	-2.3	-4.2	1.9	2.0	0.7	1.3
2001 Q1	1.5	-3.8	5.7	2.4	0.9	1.4
2001 Q2	-1.4	-3.9	2.5	2.0	0.8	1.2
2001 Q3	-3.2	-4.3	1.2	1.5	0.5	0.9
2001 Q4	-6.1	-4.8	-1.3	1.2	0.3	0.9
2002 Q1	-6.5	-4.8	-2.0	0.6	0.2	0.4

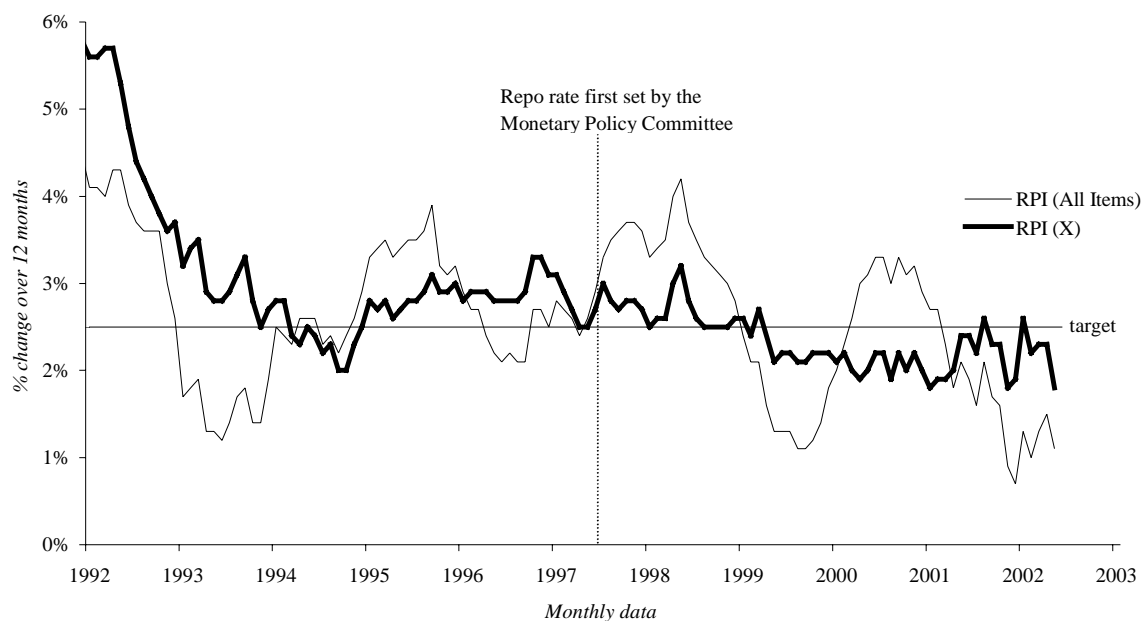
Source: NS database series ERIU, LNNS, LNNU, GDPR, LNNO, LNNP, ERIT, LNOK, LNNX, ABMM, LNNM, LNNN

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 1.3% in 2001 compared to 2.0% in 2000 and 1.0% in 1999.
- Productivity growth in manufacturing fell from -1.3% per annum in 2001 Q4 to -2.0% in 2002 Q1. Manufacturing output is currently falling at a rate of about 6% a year while employment in manufacturing is falling at around 5% a year.
- For the economy as a whole, productivity growth has averaged 1.5% per annum over the last eight quarters.

CONTACT Grahame Allen, x4324

Next update: 30 September 2002

## 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	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
	Feb	1.0	2.2
	Mar	1.3	2.3
	Apr	1.5	2.3
	May	1.1	1.8

Source: NS database (series CZBH, CDKQ)

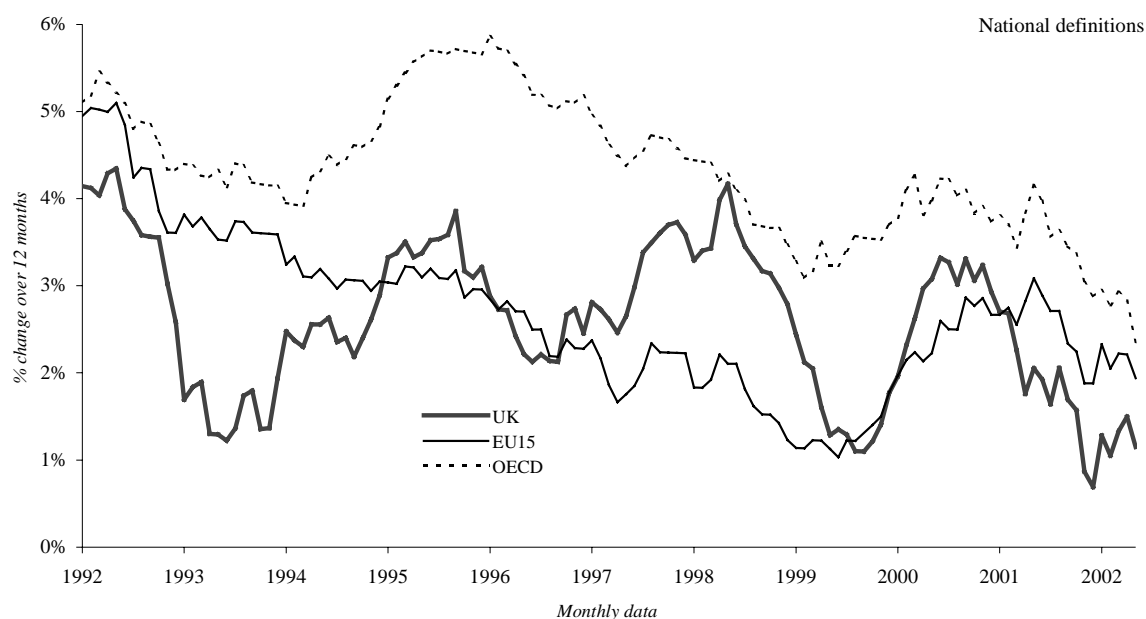
The current inflation target is 2.5%: if RPI (X) diverges from this target by more than 1 percentage point, the Governor of the Bank of England is required to send a letter to the Chancellor explaining the reasons for the divergence.

- 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 May 2002 the headline rate of inflation was 1.1%, down from 1.5% in April. The underlying rate of inflation also fell to 1.8%.
- Downward effects on the headline rate in May came mainly from changes in food prices. Both seasonal and non-seasonal food prices rose less than the previous year. Leisure goods prices fell especially books and newspapers, audio-visual equipment and gardening prices.
- Upward pressure in May came mainly from changes in housing costs. In particular, mortgage interest payments rose slightly compared to last year after the reduction in the Bank's interest rate in April 2001.

CONTACT Grahame Allen, x4324

Next update: 16 July

## 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	0.7	0.6	0.6	1.6	3.4	1.2
2000	3.4	-0.7	2.7	3.8	2.0	1.6	2.5	4.1	2.5
2001	2.8	-0.7	2.6	1.8	2.4	1.7	2.7	3.6	2.5
2001 December	2.3	-1.2	0.7	0.7	1.7	1.4	2.4	2.9	1.9
2002 January	1.1	-1.4	1.3	1.3	2.1	2.2	2.4	2.9	2.3
February	1.1	-1.6	1.5	1.0	1.7	2.0	2.5	2.8	2.0
March	1.5	-1.2	1.8	1.3	1.8	2.1	2.5	2.9	2.2
April	1.6	-1.1	1.7	1.5	1.6	2.0	2.4	2.8	2.2
May	1.2	..	1.0	1.1	1.1	1.4	2.3	2.3	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.

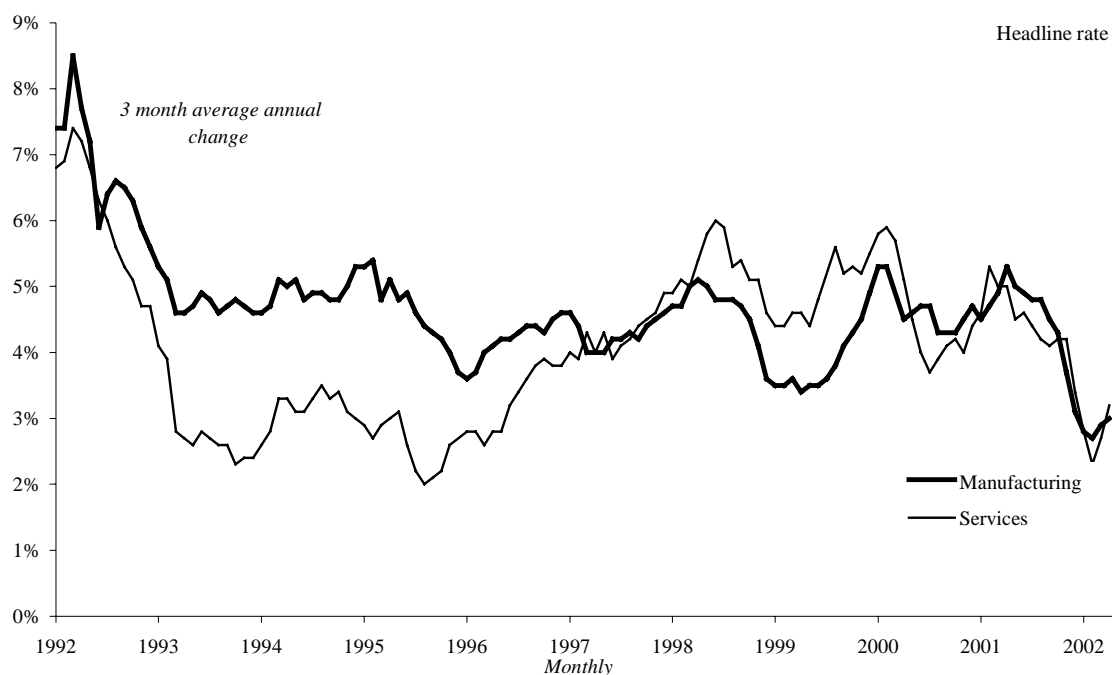
- In May 2002 the annual inflation rate (harmonised basis) for the twelve eurozone countries fell to 2.0% from 2.4% in April 2002 and 3.3% a year earlier.
- The inflation rates for the Member States not in the eurozone were (on a harmonised basis) Denmark: 1.9% and Sweden: 1.7%, while figures for the UK were unavailable at the time on a harmonised basis.
- In May 2002 the eurozone states with the highest annual inflation rates were (on a harmonised basis) Ireland (5.0%), Greece and the Netherlands (3.8% each). The lowest rates were in Germany (1.0%) Luxembourg (1.3%) and Belgium (1.4%).

CONTACT Patsy Richards, x4904

Next update: July



### B 3. Average Earnings Index



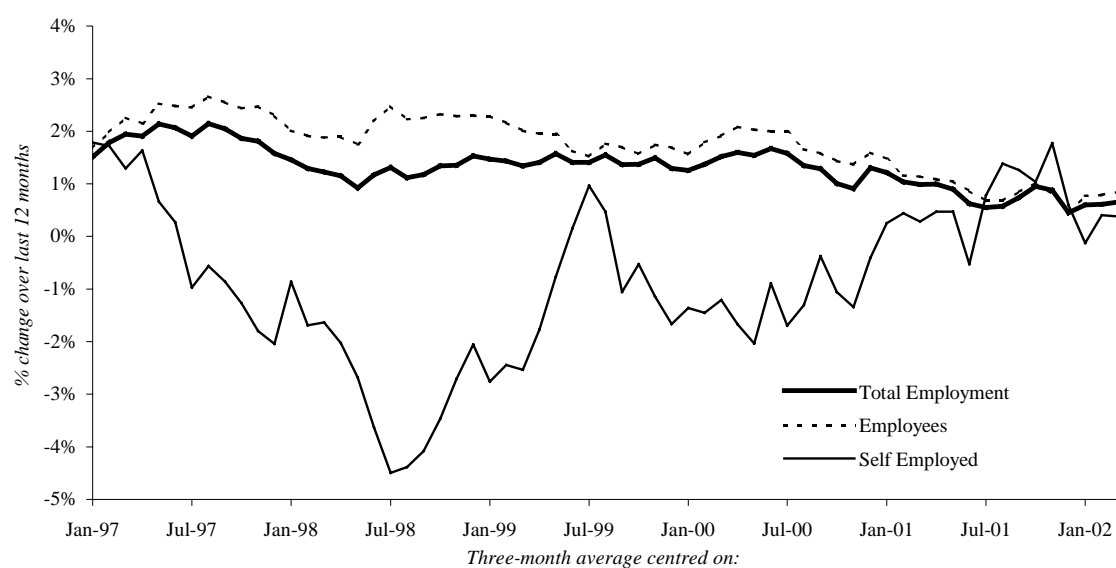
#### Average Earnings, Great Britain seasonally adjusted

		headline rate (% change on year)		
		Whole Economy	Private Sector	Public Sector
1998	Apr	5.3	6.0	2.6
1999	Apr	4.5	4.5	4.4
2000	Apr	5.0	5.2	4.1
2001	Apr	5.0	5.1	4.4
	May	4.6	4.5	5.2
	Jun	4.8	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
2002	Dec	3.4	3.0	5.2
	Jan	2.9	2.5	4.9
	Feb	2.5	2.0	4.7
	Mar	2.9	2.6	4.5
	Apr	3.3	3.1	4.1

Source: NS database Series LNNC, LNND, LNNE

- Headline average earnings growth in the service sector rose to 3.2% in April compared with 2.7% in March while manufacturing earnings growth increased from 2.9% in March to 3.0% in April.
- February's headline rate of earnings growth for the whole economy, 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 April was 3.3%, down from 2.9% in March.
- Headline earnings growth in the private sector was 3.1% in April compared to 4.1% in the public sector.
- Earnings are currently growing more slowly than a year ago (the headline rate in April 2001 was 5.0%).

## 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
1998	Mar	27,226	23,627	3,311	99	189
1999	Mar	27,591	24,102	3,227	103	159
2000	Mar	28,011	24,564	3,188	112	147
2001	Mar	28,288	24,844	3,197	97	150
2001	Jun	28,312	24,869	3,200	97	146
2001	Sep	28,349	24,923	3,214	95	116
2001	Dec	28,384	24,948	3,201	108	126
2002	Mar	28,472	25,054	3,209	97	112
<i>Changes:</i>						
<i>Last three months</i>		0.3%	0.4%	0.3%	-10.9%	-11.2%
<i>Last year</i>		0.6%	0.8%	0.4%	-0.8%	-25.3%

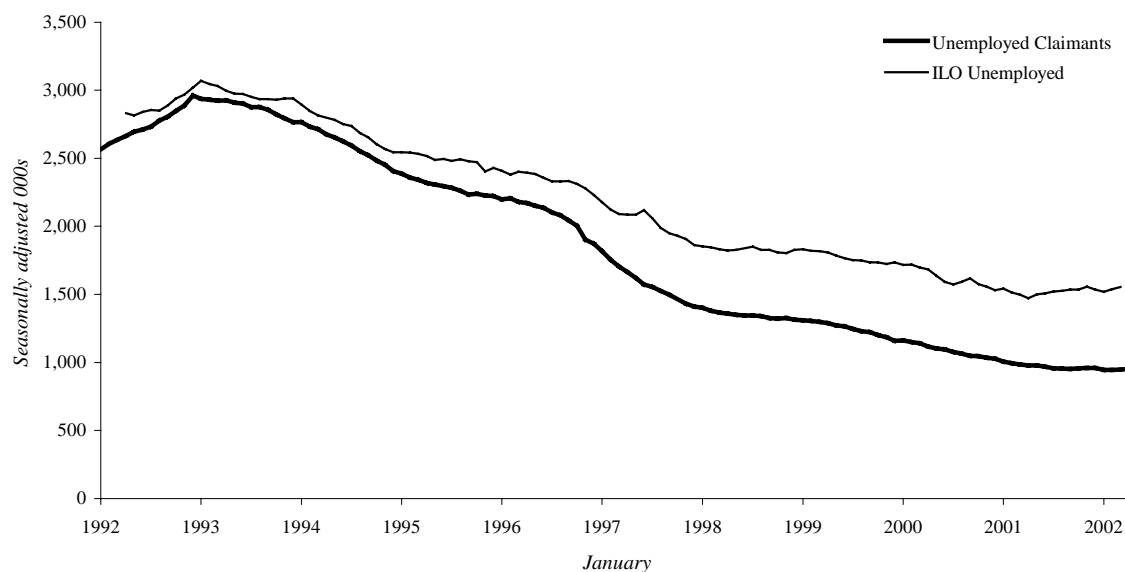
Source: National Statistics First Release Labour Market Statistics 14 June 2002

- Total employment was 28.5 million in the period February 2002 to April 2002, 0.6% higher than a year previously. The working age employment rate of 74.6% was little changed from the previous quarter and 0.2% lower than a year earlier.
- Workforce jobs rose by 32,000 over the quarter and were 67,000 higher than a year previously. Over the year to March production industry workforce jobs fell by 164,000. Service sector jobs rose by 164,000 and other industries by 67,000.
- 7.1 million people were in part time employment in January 2002-March 2002, of whom 5.6 million were women. Some 3.2 million people were self employed.

CONTACT Dominic Webb, x2464

Next update: 17 July

## C 2. Unemployment: National



### ILO Unemployment in the UK seasonally adjusted

	000s	rate (%)
1997 May - Jul	2,120	7.3
Aug - Oct	1,948	6.7
1998 Nov - Jan	1,863	6.4
Feb - Apr	1,833	6.3
May - Jul	1,838	6.3
Aug - Oct	1,825	6.2
1999 Nov - Jan	1,827	6.2
Feb - Apr	1,818	6.2
May - Jul	1,766	6.0
Aug - Oct	1,734	5.9
2000 Nov - Jan	1,734	5.9
Feb - Apr	1,697	5.7
May - Jul	1,593	5.4
Aug - Oct	1,617	5.4
2001 Nov - Jan	1,531	5.1
Feb - Apr	1,497	5.0
May - Jul	1,508	5.1
Aug - Oct	1,535	5.1
2002 Nov - Jan	1,535	5.1
Feb - Apr	1,554	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 February to April 2002, the level of ILO unemployment in the UK was 1,554,000. This was an increase of 19,000 from the November 2001 to January 2002 period. Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 6,000 between April and May 2002 to stand at 945,000.

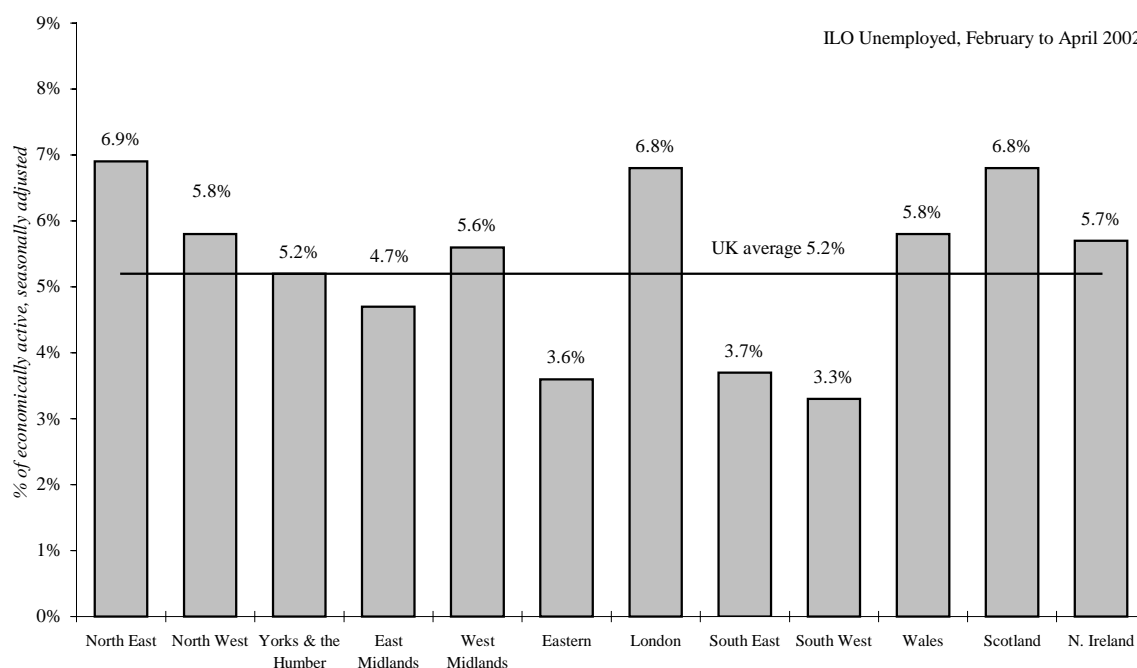
The New Deal for the Young Unemployed started in January 1998.

- 784,000 people had joined the scheme by the end of March 2002. Of those leaving the scheme 362,000 had moved into jobs up to the end of January, of which 284,000 (78%) were 'sustained', i.e. those who had not returned to claim Jobseekers' Allowance (JSA) within three months of starting employment.

The enhanced New Deal for the Long-Term Unemployed started in April 2001.

- By the end of March 2002, 353,000 people had joined the pre-April 2001 scheme. Of these, 73,000 had entered jobs of which 61,000 (83%) were sustained. 118,000 people had started on the enhanced scheme. Of these, 28,000 people had entered jobs of which 23,000 (81%) were sustained.

### C 3. Unemployment: Regional



#### ILO Unemployment, February to April 2002

*change on same period in previous year  
seasonally adjusted*

	000s	%
North East	-8	-9%
North West & Merseyside	17	10%
Yorkshire & the Humber	-5	-4%
East Midlands	5	5%
West Midlands	7	5%
Eastern	-5	-5%
London	17	7%
South East	22	16%
South West	-10	-11%
Wales	-4	-5%
Scotland	25	17%
Northern Ireland	-3	-6%
UK	57	4%

Source: National Statistics, First Release 14 June 2002

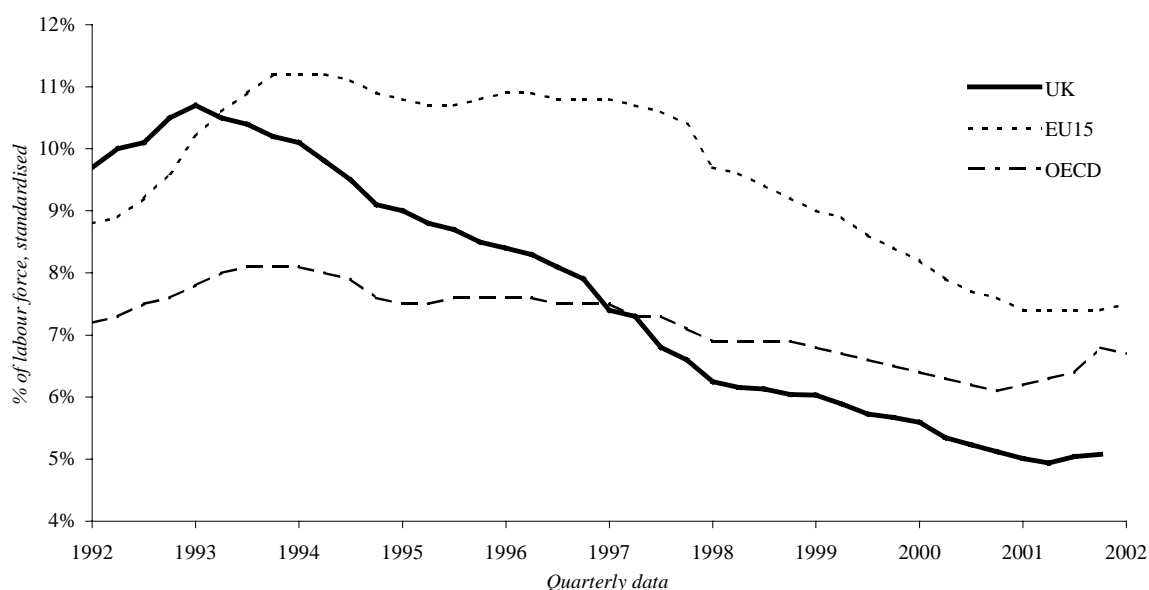
Since April 1998, National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- A comparison of the period February to April 2002 with the same period a year earlier shows that the largest fall in unemployment occurred in the South West region where it fell 11%. Scotland experienced the largest rise (17%) in unemployment over the same period.
- Over this period the North East region had the highest unemployment rate (6.9%) of the economically active population. The lowest rate over the same period was 3.3% in the South East region of England.

CONTACT Alex Adcock, x3793

Next update: 17 July

## C 4. Unemployment - International Comparisons



**Unemployed as % of labour force**  
standardised; seasonally adjusted

	1998	1999	2000	2001	2001 Q1	2001 Q2	2001 Q3	2001 Q4
USA	4.5	4.2	4.0	4.8	4.2	4.5	4.8	5.6
Japan	4.1	4.7	4.7	5.0	4.8	4.9	5.1	5.4
Canada	8.3	7.6	6.8	7.2	7.0	7.0	7.2	7.7
UK	6.2	5.8	5.3	5.0	5.0	4.9	5.0	5.1
Germany	9.3	8.6	7.9	7.9	7.8	7.8	7.9	8.0
France	11.4	10.7	9.3	8.6	8.6	8.6	8.6	8.8
Italy	11.6	11.2	10.5	9.4	9.9	9.6	9.3	9.0
Euro zone	10.3	9.5	8.5	8.1	8.1	8.0	8.0	8.1
G7	6.3	6.1	5.7	5.9	5.6	5.8	6.0	6.4
OECD	6.9	6.7	6.2	6.4	6.2	6.3	6.4	6.8

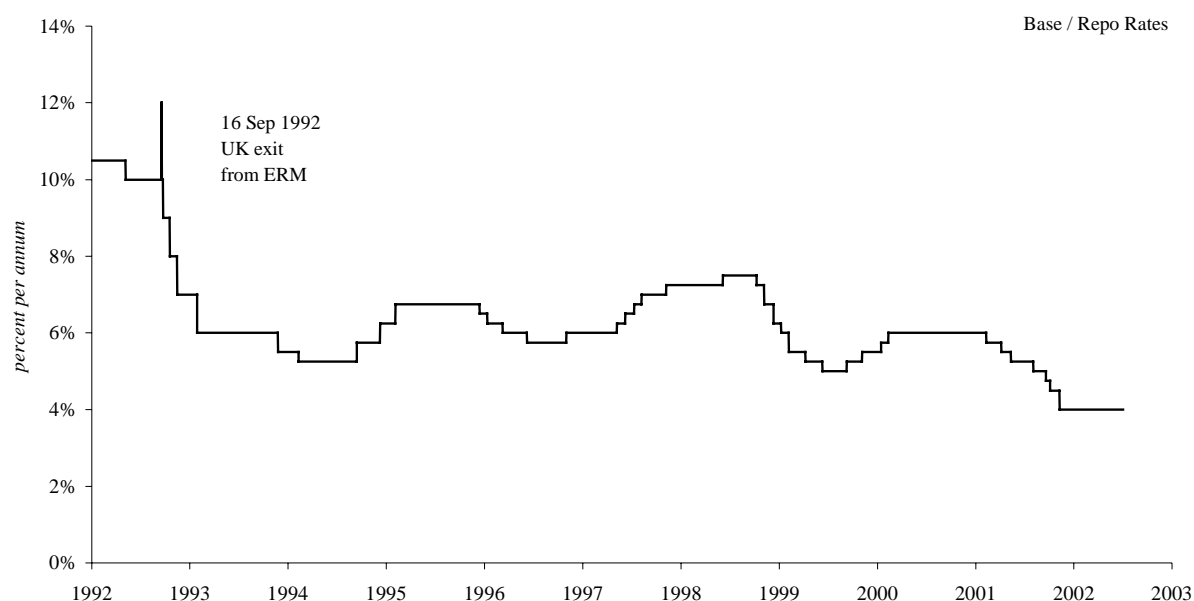
Source: OECD Hotfile

- Using standardised definitions, the UK unemployment rate for 2001 was 5.0%, significantly below the Euro-zone (8.1%) average and slightly below the G7 and OECD rates (5.9% and 6.4% respectively).
- The most recent forecasts published by the OECD (June 2002 *Economic Outlook*) suggest the UK (non-standardised) unemployment rate will rise to 5.3% of the labour force in 2003. In 2003 the unemployment rate for the Euro zone is expected to be 8.1% and for the OECD as a whole 6.7%.

CONTACT Alex Adcock, x3973

Next update: Late July

## 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

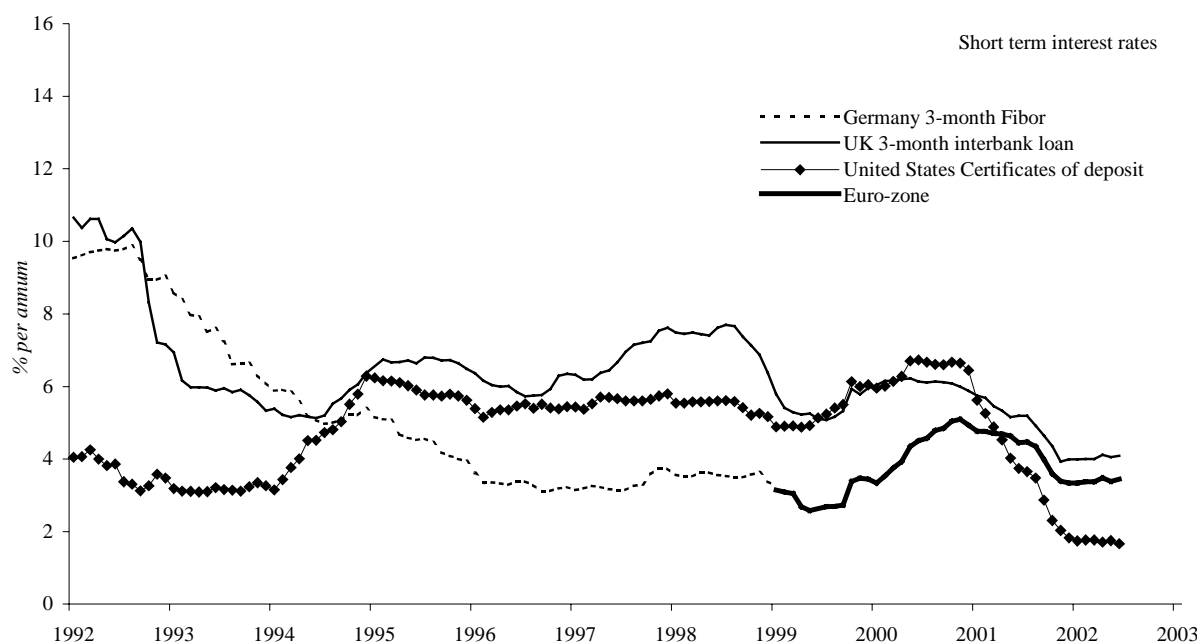
The  $\frac{1}{4}$ % interest rate increase on 6 June 1997 signified the first time that interest rates were set by the independent Monetary Policy Committee (MPC) of the Bank of England rather than by the Chancellor.

- The  $\frac{1}{4}$  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  $\frac{1}{2}$  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 rise towards, but remain below, the target rate throughout 2002. In its June meeting, the MPC felt that there was uncertainty over the strength of world recovery. There were also signals that interest rates would rise sooner rather than later.
- The MPC next meets on 3 July. It is expected that the minutes will be published on 17 July 2002.

CONTACT Grahame Allen, x4324

Next update 4 July

## 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 30 April 2002

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	5.01	3 <sup>15</sup> / <sub>16</sub>
United States	4.83	1 <sup>7</sup> / <sub>32</sub>
Switzerland	3.21	1 <sup>7</sup> / <sub>32</sub>
Japan	1.25	<sup>3</sup> / <sub>32</sub>
Euro-zone	..	3 <sup>7</sup> / <sub>16</sub>

Source: *Financial Times*, 1 May 2002

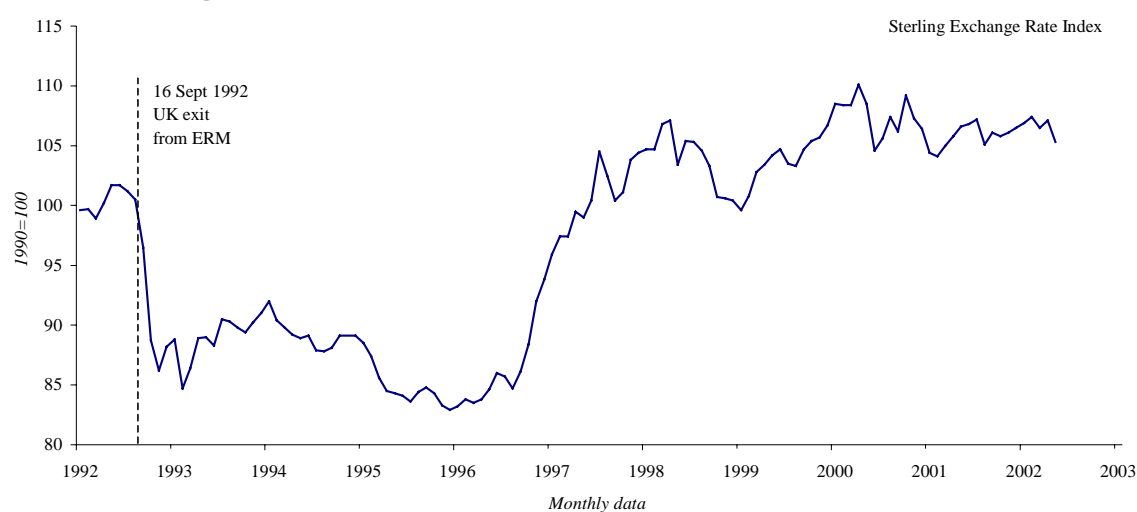
There is, as yet, no equivalent euro-zone government bond rate quoted. In future, a suitable comparator may be the rate on bonds issued by institutions like the European Investment Bank. Further details will be published on this page when they become available.

- 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 ½% eight times during 2001, the last cut of ¼% was announced on 11 December. The MPC responded by reducing the UK Repo rate by ¼% six times and ½% 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 ¼% in May and August and twice by ½% on 18 September and 9 November. Another cut by the ECB seems unlikely in the short-term due to demand and output growth in the euro-zone being weak.

CONTACT Grahame Allen, x4324

Next update: Early August

### 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 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%
February	1.423	-2.1%	190.1	12.6%	1.635	3.6%
March	1.423	-1.6%	186.3	6.2%	1.622	2.0%
April	1.443	0.6%	188.5	6.2%	1.628	1.2%
May	1.460	2.4%	184.3	6.1%	1.591	-2.4%

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.

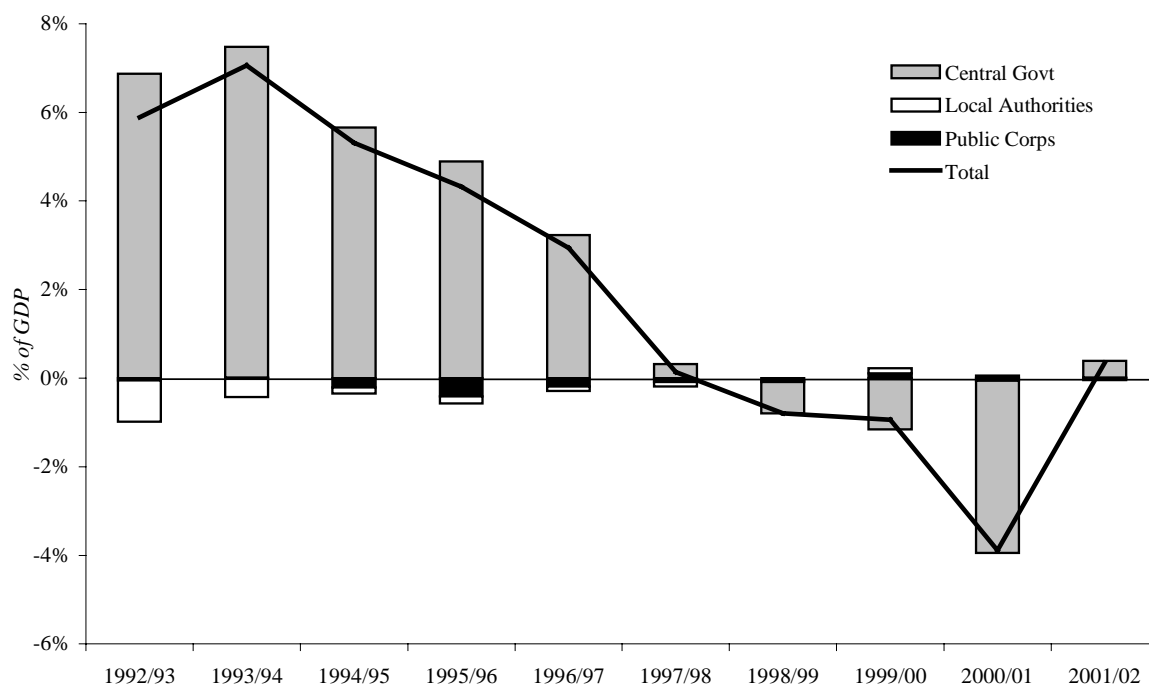
- The large fall in the SERI following the UK exit from the ERM indicated a relative improvement in UK competitiveness. The SERI increased by just over 2 points in 2001 suggesting that the UK was relatively less competitive at the end of 2001 than at the beginning of the year.
- The SERI has fallen by 1.6 points since the beginning of 2002 suggesting that the UK was relatively more competitive at the end of May 2002 than at the beginning of the year.
- The pound was worth euro 1.5432 at the London market close on 28 June 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: July



## 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
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%
2001/02	3.5	0.3%	4.2	0.4%
2001 Q1	-12.5	-5.2%	-12.6	-5.2%
2001 Q2	6.3	2.6%	6.3	2.6%
2001 Q3	-6.1	-2.5%	-5.4	-2.2%
2001 Q4	9.5	3.7%	9.5	3.7%
2002 Q1	-6.1	-2.3%	-6.1	-2.3%

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

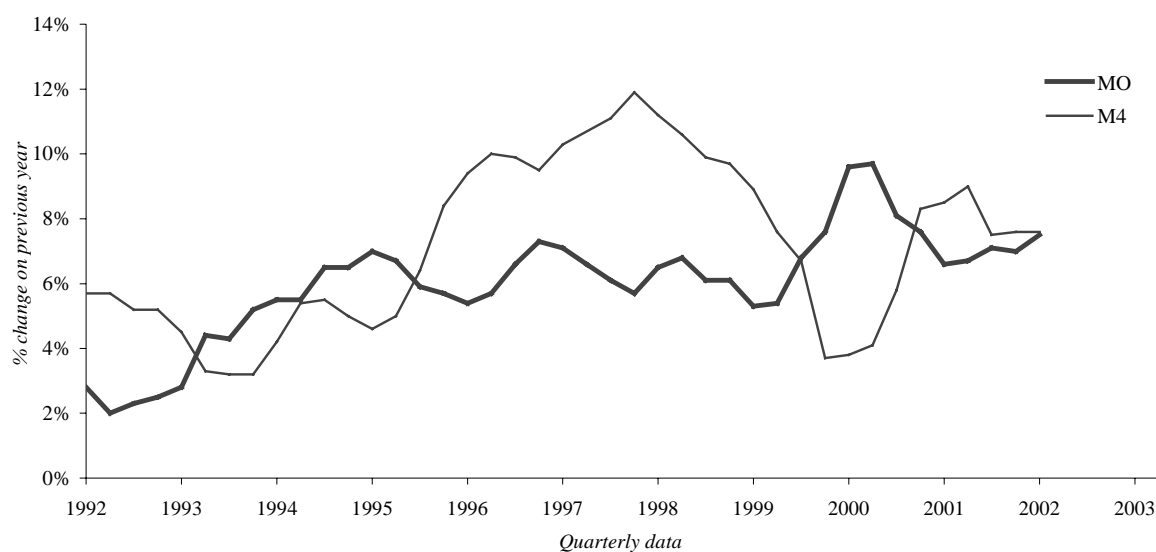
The public sector net cash requirement was previously known as the public sector borrowing requirement (PSBR).

- The PSNCR (including privatisation receipts) for the 2001/02 financial year was £3.2 billion compared with -£37.2 billion surplus in the 2000/01 financial year. Excluding privatisation receipts, the PSNCR for 2001/02 was £3.9 billion compared with -£37.1 billion in 2000/01.
- The PSNCR for the 2002/03 financial year is officially forecast at £13.8 billion (1.3% of GDP) excluding windfall tax receipts and associated spending.

CONTACT Tim Edmonds, x2883

Next update: 18 July

## 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 May	3.4	6.8	5.1	7.3
June	4.5	6.9	6.2	7.5
July	5.8	7.3	6.9	7.8
August	9.1	7.5	9.5	7.0
September	9.2	6.5	9.8	7.9
October	8.6	7.0	10.2	7.9
November	8.2	7.8	7.1	7.9
December	8.3	7.9	1.7	6.5
2002 January	10.4	8.0	1.9	5.8
February	8.1	7.1	3.8	6.6
March	6.8	7.3	4.3	5.7
April	5.7	8.1	4.1	6.0
May	9.6	9.3	3.0	6.0

Source: Bank of England

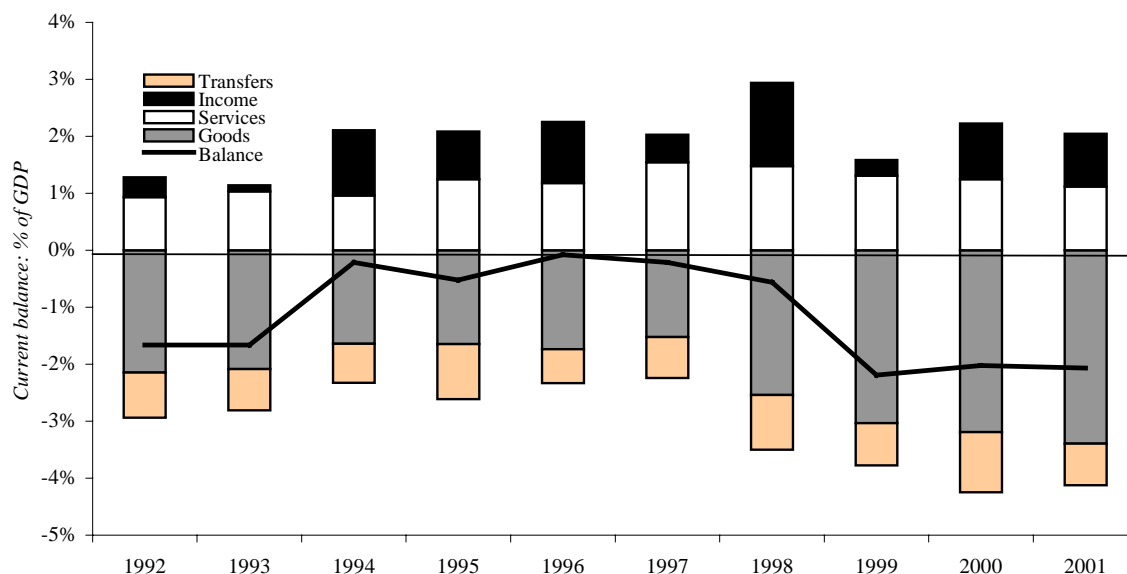
M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 6.0% in the 12 months to May 2002. The twelve-month growth rate of seasonally adjusted M0 rose by 9.3% in May 2002 compared to 8.1% in April 2002.
- There are now no formal targets for money supply growth.

CONTACT Ian Townsend, x3977

Next update: Early July

## 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	
1998	-21,813	12,666	-9,147	12,558	-4,844	-3,381	-8,225	-4,814
1999	-27,372	11,794	-15,578	2,536	-3,940	-2,747	-6,687	-19,729
2000	-30,326	11,838	-18,488	9,312	-5,552	-4,480	-10,032	-19,208
2001	-33,534	11,073	-22,461	9,162	-2,491	-4,663	-7,154	-20,453
2001 Q1	-7,959	3,120	-4,839	2,554	-834	-1,182	-2,016	-4,301
Q2	-9,061	3,650	-5,411	1,979	-1,321	-1,344	-2,665	-6,097
Q3	-8,107	1,154	-6,953	3,559	754	-953	-199	-3,593
Q4	-8,407	3,149	-5,258	1,070	-1,090	-1,184	-2,274	-6,462
2002 Q1	-7,917	3,022	-4,895	1,686	-1,008	-1,399	-2,407	-5,616

Source: National Statistics First Release Balance of Payments 28 June 2002

- The revised annual current account deficit for 2001 is £20.5 billion, compared to a £19.2 billion deficit the year before.
- A deficit of £5.6 billion was recorded in Q1 2002, compared to £6.5 billion in Q4 2001. The decrease in the current account deficit was mainly due to a lower trade deficit and a higher income surplus.
- The surplus on trade in services was £3.0 billion in the first quarter, down slightly from Q4 2001 (£3.1 billion). The deficit on travel services continued to grow, to a record £3.7 billion in Q1 2002.

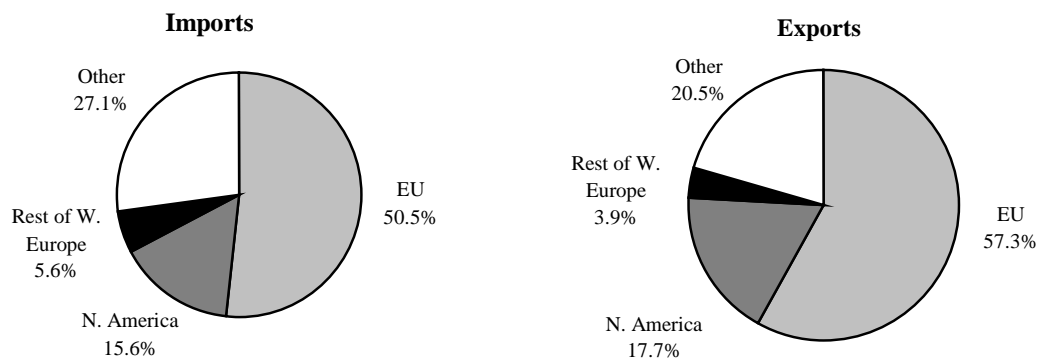
CONTACT Patsy Richards x4904

Next update: 27 September

## 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	141.2	166,166	193,538	-27,372
2000	137.5	158.3	187,936	218,262	-30,326
2001	140.6	164.1	191,644	225,178	-33,534
2001 Q1	146.1	168.3	50,032	57,991	-7,959
Q2	142.6	166.2	49,050	58,111	-9,061
Q3	137.9	160.3	46,818	54,925	-8,107
Q4	135.9	161.6	45,744	54,151	-8,407
2002 Q1	133.9	162.1	45,616	53,533	-7,917

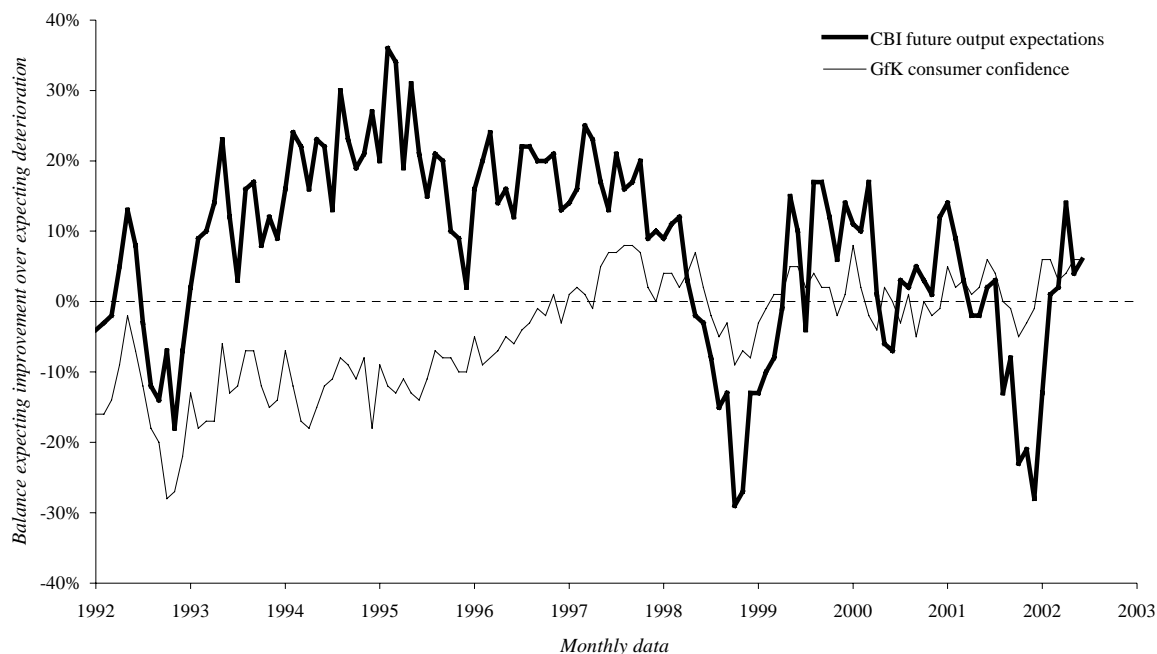
Source: National Statistics Database

- In April 2002 the deficit on trade in goods was provisionally estimated at £2.4 billion compared with a deficit of £2.8 billion in March. The revised goods trade deficit for the year 2001 was £33.5 billion, compared to a £30.3 billion deficit in 2000.
- In April total exports of goods rose 2.5% to £15.5 billion while imports rose by 0.5% to £18.0 billion.
- The deficit on trade in goods with EU countries for April was an estimated £1.2 billion compared to £2.5 billion in the previous three months, and the deficit with non-EU countries £6.5 billion.
- The latest estimate of trends suggests that the whole world goods deficit is narrowing, and the trends in the value of trade show both imports and exports falling in recent months.

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Next update: 9 July

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

Source: NS database Series ETCU & ETBA

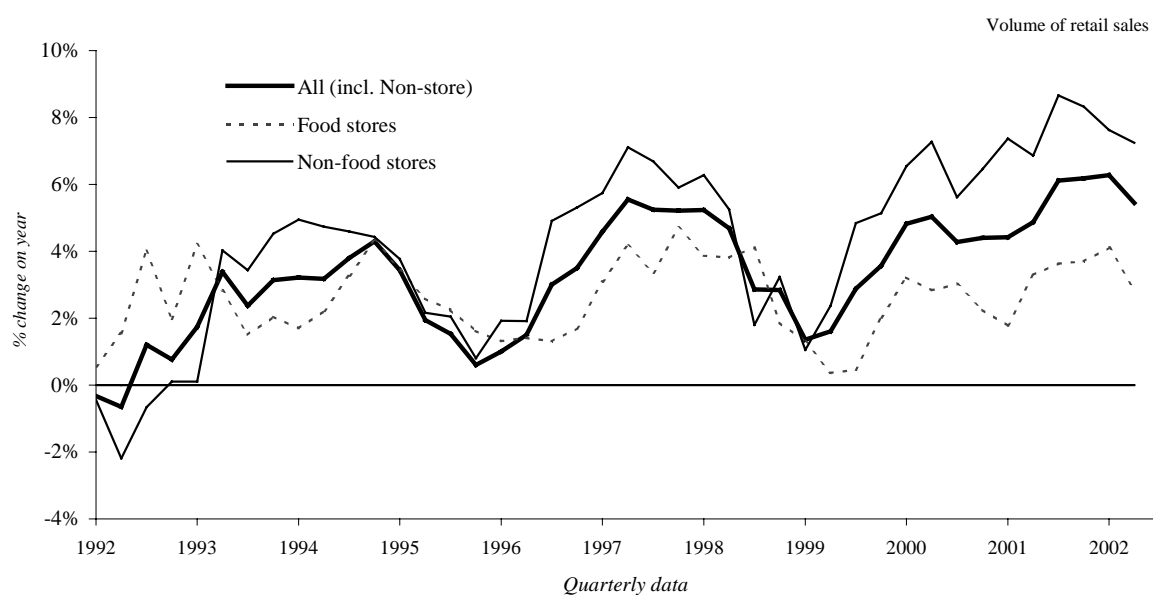
Survey indicators – including those shown here – are often expressed in the form of a balance of the percentage of respondents who expected the situation to improve in the immediate future over the percentage who expected things to worsen.

- 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 in the first half of 2001.
- The CBI’s indicator of overall business confidence in manufacturing (for which figures are only available on a quarterly basis) rose from -31 in January 2001 to 21 in April 2002.

The GfK consumer confidence index 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.

- The GfK consumer confidence survey place before the recent increase in stock market volatility. Expectations for the future of personal finances and the general economic situation fell, although expectations of saving have risen.

## 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%
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%	4.5%	5.9%	8.1%	6.9%
2002 Q1	5.1%	6.5%	8.5%	4.3%	5.8%

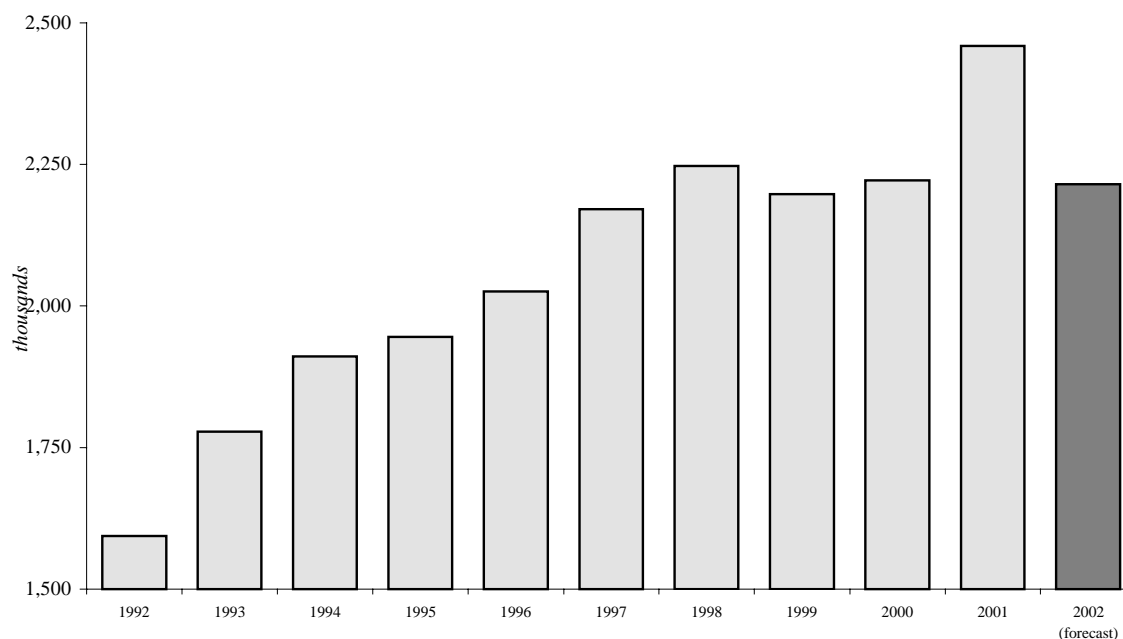
Source: NS database Series EAWN, EAWO, EAWP, EAWQ, EAWM

- In March to May, the *volume* of retail sales grew by 1.9% compared with December to February, reaching a level 6% higher than the March to May 2001.
- Seasonally adjusted retail sales volume in May 2002 were 5.4% higher than in May 2001.
- Retail sales volumes in predominantly non-food stores increased by 8.1% in March to May compared to the same three months a year earlier. In predominantly food stores, sales volumes grew by 2.9% over the same period. Sales growth was particularly strong in clothing and footwear stores, at 13.3%.
- The average weekly *value* of retail sales in May 2002 was £4,260 million, 3.3% higher than in May 2001 (all based on non-seasonally adjusted data).

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Next update: 25 July

### F 3. New Registrations of Cars



#### New Registrations of Cars

not seasonally adjusted

	Number (000s)	Change over 12 months
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%
2001		
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%
February	94	18.1%
March	424	3.8%
April	209	16.1%

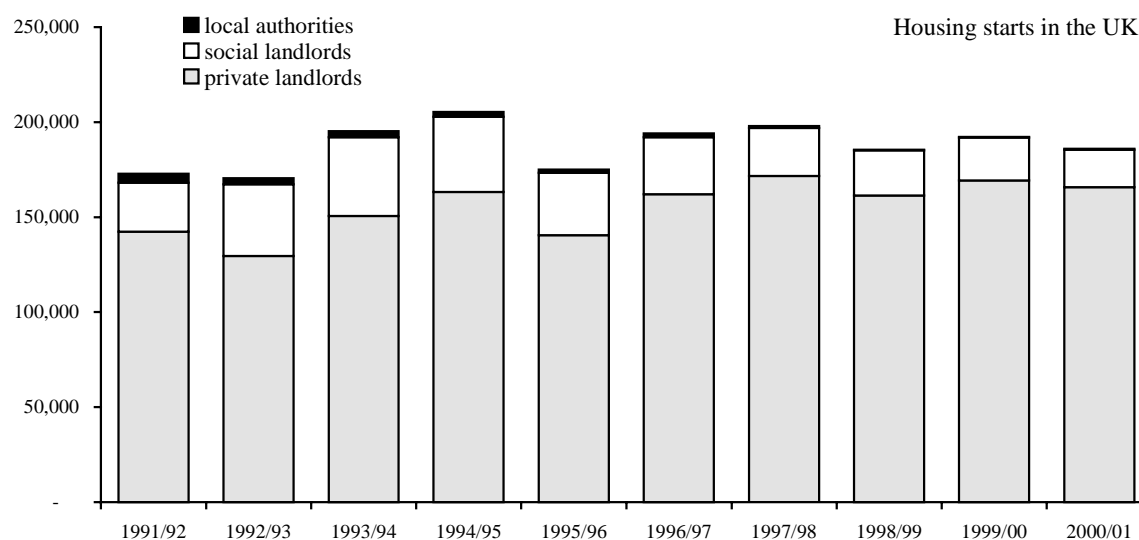
Source: SMMT "Monthly Statistical Review", April 2002

- Figures from the Society of Motor Manufacturers and Traders show that new car registrations in April 2002 rose 16.1% over the previous year's figure to 108,000 units, a new record for the April market.
- 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 14.4% in April from the previous April's figure to 47,000 units, or 22.4% of the market. In the year to date, there have been 228,000 registrations of British-built cars, an increase of 5.4% from the previous year's figure and equivalent to 24.4% of the market.
- New registrations of cars are forecast to fall by 2.4% in 2002

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Next update: July

## F 4. Housing



### House prices

*Standardised average price (£), non-seasonally adjusted*

	All Houses	New Houses	Existing Houses	First time buyers
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
2002 Q1	100,200	103,800	100,900	71,900
<i>% change over same period last year</i>				
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%
2002 Q1	16.2%	17.2%	16.5%	16.3%

*Sources: ODPM & Halifax House Price Index*

- According to the latest ODPM press release, responsibility for this area was recently passed from the former DTLR, it is provisionally estimated that 18,000 dwellings were started in Great Britain in April 2002, compared with 14,000 in April 2001. April 2002 saw 15,000 completions, compared with 13,000 the previous year. In the latest three months 52,000 dwellings were started, a 19% increase on the same three-month period a year ago. There were 40,000 completions, up 7% on the same three months in the previous year.
- According to the Halifax Monthly Index, house prices in the United Kingdom rose by 4.2% in May. On an annual basis, house price inflation rose to 18.5%. The Halifax Quarterly Index shows that UK house prices rose by 4.9% in the first quarter of 2002 following a 2.9% rise in the last quarter of 2001 (all seasonally adjusted figures).
- Regionally in this quarter, annual house price inflation was highest in the South West (21.9%) and lowest in Northern Ireland, a fall of 2.7% (non-seasonally adjusted figures).

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*Next update: 4 July*