



RESEARCH PAPER 03/33  
1 APRIL 2003

# 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: Changes to National Insurance Contributions, April 2003**

Ian Townsend - Editor

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	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	Ian Townsend	4904
Trade	Patsy Richards	3977
Transport	Ross Young	4313
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 Changes to National Insurance Contributions, April 2003

The Chancellor announced in the 2002 Budget that employers, employees and the self-employed would pay an additional 1% in National Insurance Contributions (NICs) from April 2003. This article looks at some of the issues around this increase, and the effect on various hypothetical earners.

### Background to the NIC changes

National Insurance was introduced as a flat rate in July 1948, becoming partially earnings related in 1961. In 1975 graduated contributions were replaced by percentage rates, and the present classes introduced: Class 1 for employees (**primary**) and employers (**secondary**), Classes 2 and 4 for the self-employed, and Class 3 for flat-rate voluntary contributions. This article concentrates on employee (Class 1 primary) and employer (Class 1 secondary) contributions, which account for nearly 98% of all NIC receipts.<sup>1</sup>

A number of changes were made to the structure of both Class 1 primary and secondary contributions following the recommendations of the Taylor Report in the three years 1999 to 2001. As the Chancellor, Gordon Brown, explained in his 1998 Budget speech, the purpose of these was a “simpler, fairer and more employment-friendly national insurance system.”<sup>2</sup>

### NICs in 2002/03

In the 2002/03 tax year, employees pay 10% NICs on weekly earnings between the primary threshold (or PT, set at £89 per week) and the upper earnings limit (UEL) of £585 per week.<sup>3</sup> Employers contribute 11.8% on all earnings above the secondary threshold (ST, also set at £89 per week), although their contributions are not limited by the upper earnings limit.

### NICs from April 2003

The 2002 Budget Statement outlined the Government’s intention to increase employee, employer and self-employed NICs by one percentage point each, to raise revenue for additional NHS funding. The full NIC structure for 2003-04 was announced at the time of the 2002 Pre-Budget Report.<sup>4</sup>

From April 2003 employees will make an 11% contribution above the primary threshold, which is frozen at the 2002/03 level of £89 per week, up to the upper earnings limit which

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<sup>1</sup> Figure based on Government Actuary’s Department estimates for 2000/01.

<sup>2</sup> HC Deb 18 March 1998 c1104; for further details, refer to Library Research Paper 02/32, *The National Insurance Contributions Bill*, 8 May 2002

<sup>3</sup> These equate to £4,628 and £30,420 per annum (assuming constant earnings throughout the year). These rates assume the employee is not contracted out of the state second pension, which attracts lower contributions in a contracted out rebate, applied to earnings between the lower earnings limit (LEL) and the upper earnings limit (1.6% for employees; 3.5% for employers).

<sup>4</sup> For a full outline of all rates, limits and thresholds for 2003/04, see HC Deb 27 November 2002 c25-28WS

has been raised to £595 per week in line with inflation. However, the 1% increase will also apply to all earnings above the upper earnings limit, effectively creating a new NIC ‘band’ of 1% on earnings in excess of £595 per week (£30,940 per annum). The table below compares the rates and bands for the two years:

#### Employee (primary) Class 1 contributions

2002/03		2003/04	
£/wk	%	£/wk	%
up to 75 (LEL)	0	up to 77 (LEL)	0
89 (PT) to 585	10	89 (PT) to 595	11
Above 585	0	Above 595	1

As regards employers’ contributions, the contribution rate on all earnings above the secondary threshold, which since April 2001 has been aligned with the primary threshold for employees contributions, will rise by 1% to 12.8%. The table below compares the relevant bands and rates:

#### Employer (secondary) Class 1 contributions

2002/03		2003/04	
£/wk	%	£/wk	%
up to 75 (LEL)	0	up to 77 (LEL)	0
89 (PT) to 585	11.8	89 (PT) to 595	12.8
Above 585	11.8	Above 595	12.8

### Effects of the NIC changes

#### (i) Macroeconomic effects

The changes will result in additional revenue for the Exchequer – the 1% increases are expected to raise around £7.9bn in 2003-04, with a smaller amount coming from freezing the primary and secondary thresholds and the lower profits limit (for self-employed NICs):

#### Additional Revenue from NIC changes (2003/04)

Change	£ (bn)
1% on Employee Contributions (Class 1 Primary)	3.6
1% on Employer Contributions (Class 1 Secondary)	3.9
1% on Self-Employed Contributions	0.5
All 1% increases	7.9
(Freezing of PT, ST, Lower Profits Limit & Income Tax Personal Allowance*	0.7 )

Note: \* - not part of NICs changes, IFS have estimated a total of £8.2bn for all NIC changes (see IFS, *Green Budget 2003*, Jan 2003, p54)

Source: *National Insurance Contributions Bill: regulatory impact assessment*, May 2002, para 8-9

The *National Insurance Contributions Act 2002* made provision for the extra receipts raised by these changes to be added to NIC receipts that are already earmarked for the NHS, in effect roughly doubling the amount going to the NHS from NICs.<sup>5</sup>

<sup>5</sup> Coverage of debate around the NIC changes can be found in the Library Research Paper 02/32, *National Insurance Contributions Bill*, 2002; <http://www.parliament.uk/commons/lib/research/rp2002/rp02-032.pdf>

The Government has stated that independent analysis has shown that the employment impact of the increase is “likely to be close to nil”.<sup>6</sup> A recent article from the Bank of England attempts to predict the effects based on the experience of changes to employers’ contributions in 1999, although as the article itself states those changes were intended to be revenue neutral, whereas the April 2003 NICs changes will raise additional revenue.<sup>7</sup>

Economic theory suggests that a ‘tax on jobs’ will reduce the demand for workers and a ‘tax on earnings’ will reduce the attraction of working. Hence one might expect the NIC changes to affect both the supply of and demand for labour. The impact will depend on the magnitude of any changes and the responsiveness of the labour market, both employee and employer, to them. For example, the extent to which workers accept lower wages to compensate employers for their higher non-wage costs.

The Bank’s article goes on to note the difficulty of obtaining reliable empirical evidence in this complex area, but suggests that, in the long run, wages absorb payroll tax changes.<sup>8</sup>

As the responsiveness, or ‘elasticity’, of supply of and demand for labour are not known, the exact split between reduced real wages and employment cannot be calculated. However, the article notes that increases in employer NICs may not reduce employment levels, rather hours employed, “possibly by encouraging employers to increase the share of part-timers in the workforce”, and with reference to empirical studies in the manufacturing sector suggests that “[...] real wages respond more than employment in heads and hours to payroll changes.”<sup>9</sup>

Changes in real wages can result from either changes in nominal wages or the price level. In a low inflation environment employers will find it difficult to raise prices and remain competitive. One might therefore expect greater changes in nominal wages than when inflation is running at a higher level.

(ii) *Effects on individuals*

Although one can illustrate the effects of the April 2003 NICs changes for a given wage, the final impact on an individual will also depend on any changes to income tax, tax credits and benefits, particularly the Working Tax Credit and Child Tax Credit for those on lower incomes, which take effect from April 2003. The calculations shown below also assume that the employee is not contracted out of the state second pension, and is therefore liable to the full rate of Class 1 NICs.

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<sup>6</sup> HC Deb 27 February 2003 c385

<sup>7</sup> Bank of England, “Estimating the impact of changes in employers’ National Insurance Contributions on wages, prices and employment”, *Quarterly Bulletin Winter 2002*, Vol 42 No 4, pp384-389

<sup>8</sup> *ibid.*, p385

<sup>9</sup> *ibid.*, p389



In order to show the full effects of the changes, one must compare contributions that would be made in 2003/04 under both the old and the new regimes for earnings in 2003/04.<sup>10</sup>

The average earner, based on data from the *New Earnings Survey*, in the UK will see an increase of around £210 in their total contributions over the course of the year, compared with 2002/03.<sup>11</sup> As employer NICs will also rise by 1% over the same tranche of income, their contributions for the average employee increase by the same amount.<sup>12</sup>

The table below shows the annual increase in contributions for a range of weekly incomes.

### NIC increase, April 2003

Gross Earnings in 2003/04		Annual Increase in NICs			
		£s		% of total pay*	
£ per week	£ per year	Employee	Employer	Employee	Employer
50	2,600	-	-	-	-
75	3,900	-	-	-	-
100	5,200	5.72	5.72	0.1%	0.1%
125	6,500	18.72	18.72	0.3%	0.3%
150	7,800	31.72	31.72	0.4%	0.4%
175	9,100	44.72	44.72	0.5%	0.5%
200	10,400	57.72	57.72	0.6%	0.6%
225	11,700	70.72	70.72	0.6%	0.6%
250	13,000	83.72	83.72	0.6%	0.6%
300	15,600	109.72	109.72	0.7%	0.7%
450	23,400	187.72	187.72	0.8%	0.8%
500	26,000	213.72	213.72	0.8%	0.8%
600	31,200	317.72	265.72	1.0%	0.9%
700	36,400	369.72	317.72	1.0%	0.9%
800	41,600	421.72	369.72	1.0%	0.9%
900	46,800	473.72	421.72	1.0%	0.9%
1,000	52,000	525.72	473.72	1.0%	0.9%
1,500	78,000	785.72	733.72	1.0%	0.9%
2,000	104,000	1,045.72	993.72	1.0%	1.0%

Note: Increase calculated as difference between the 2002/03 (without indexation of primary/secondary threshold and upper earnings limit) and 2003/04 NICs regimes; Figures have been rounded

The annual increase in employer contributions on a given wage falls below employee contributions around a weekly wage of around £585 per week (the upper earnings limit for 2002/03). The annual increase is greater for employees than employers because prior to April 2003 employees paid nothing on earnings above the upper earnings limit, whereas

<sup>10</sup> Note that these calculations assume that the Primary Threshold and UEL had been held constant and not increased in line with inflation. Had the latter occurred, the changes would have been slightly smaller.

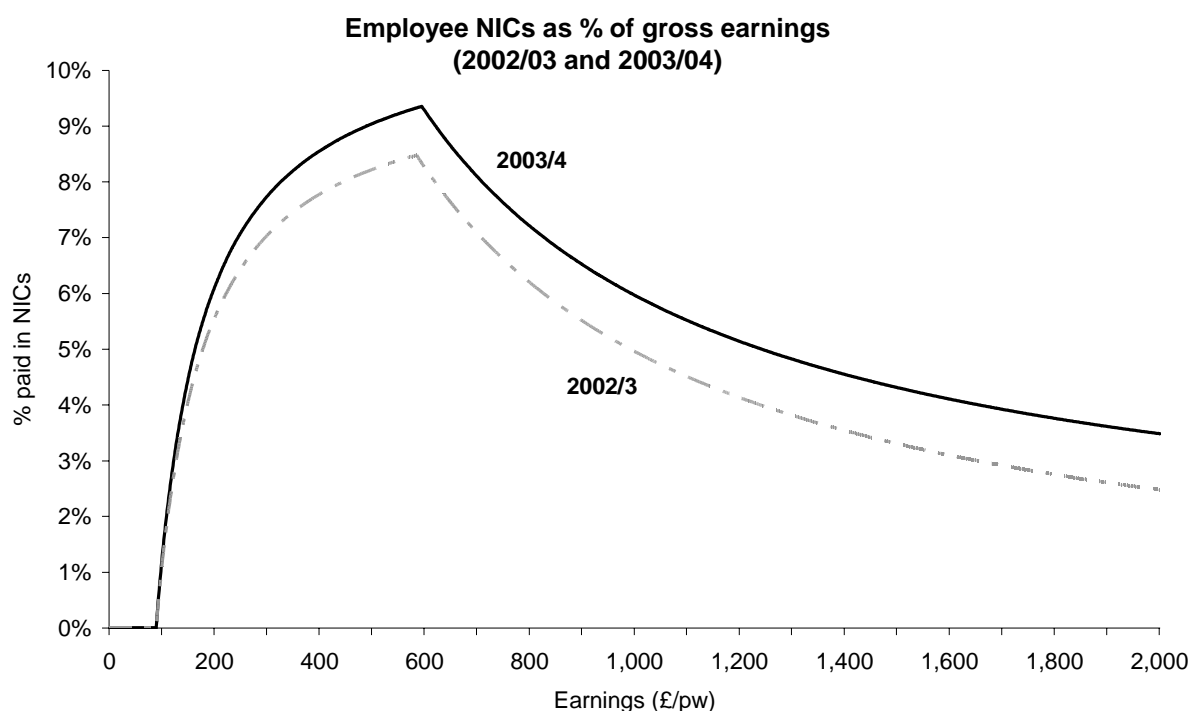
<sup>11</sup> Latest UK average earnings data for April 2002 (£24,498, from National Statistics, *New Earnings Survey 2002*, Table UK1); calculation assumes rise in average earnings of 3.7% to April 2003 (based on October 2002 Average Earnings Index, *National Statistics*, series LNNC). If one instead compares the probable default for 2003/04, i.e. indexation of the PT and UEL, the increase is around £220.

<sup>12</sup> Because the wage cited is beneath the 2002/03 and 2003/04 upper earnings limits.

employer contributions were not limited, and paid at the full rate above this point. Therefore, although employers actually pay more in total NICs, the additional employee contribution on earnings above this level is greater than that for an employer.

For the average earner, the increase in NIC payable as a proportion of gross earnings is just over 0.8%. By comparison, for those with gross weekly earnings of £100 the increase is around 0.1%, rising to 1% for those earning around £35,000 a year and above.

The new structure for 2003/04 means that employee NICs will continue to rise with earnings, as opposed to being capped by the upper earnings limit, the new 1% rate above this threshold means that the average rate of contribution faced by employees (that is total contributions as a percentage of gross earnings) tails-off at a slightly slower rate than for 2002/03, as shown in the graph below:



A recent survey found that the majority of employees, some 60%, were not aware of how the NIC changes would affect their pay packet.<sup>13</sup> A similar number did not believe that their employer would offer a pay rise to cover the increase. In the light of these results the Chief Economist at KPMG, Andrew Smith, stated:

[...] a 1% hit may not sound like huge amount to people but it is likely to contribute to a significant slowdown in consumption growth this year. The fact that the majority of the population is unaware of the effect of the change suggests that many have yet to adjust their behaviour. The choice consumers will inevitably face is between borrowing to compensate - which might not prove so attractive as the housing market slows - or having to curtail their spending plans.

For employers the figures are broadly similar, although the Government has estimated that on average employers' pay costs will increase by around 0.7% of their total pay bill.<sup>14</sup>

### NIC changes for the self-employed, 2003/04

In 2002/03, self-employed persons pay Class 4 contributions at 7% on annual profits between £4,615 (the personal non-aged income tax allowance) and the upper profits limit (UPL) of £30,420. A flat-rate Class 2 contribution of £2 per week is also payable.<sup>15</sup>

The Class 4 rate will rise by 1% to 8% in 2003/04, with the 1% applying to profits above the upper profits limit, up rated to £30,940, not previously subject to NICs: The contribution rate under Class 2 will be unchanged at £2 per week.

#### Self-Employed Class 4 contributions

2002/03		2003/04	
£/yr	%	£/yr	%
below 4,615	0	below 4,615	0
4,615 to 30,420 (UPL)	7	4,615 to 30,940 (UPL)	8
Above 30,420	0	Above 30,940	1

#### Example:

A self-employed person with profits of £35,000 in 2003/04 will contribute an additional £340 in National Insurance Contributions in 2003/04, compared with the 2002/03 structure:

	Class 2	(£)	Class 4	(£)	Total (£)
2002/03	£2 per week	104.00	7% on (£30,420 - £4,615)	1,806.35	<b>1,910.35</b>
2003/04	£2 per week	104.00	8% on (£30,940 - £4,615), and 1% on (£35,000 - £30,940)	2,146.60	<b>2,250.60</b>
				<b>Increase =</b>	<b>340.25</b>

#### (iii) Distributional effects

In their 2003 *Green Budget*, the Institute for Fiscal Studies examined the impact of the changes to the NICs system across the income distribution.<sup>16</sup>

<sup>13</sup> KPMG, *Tax Press Release*, 11 March 2003, see <http://www.kpmg.co.uk/kpmg/uk/press/detail.cfm?pr=1622>

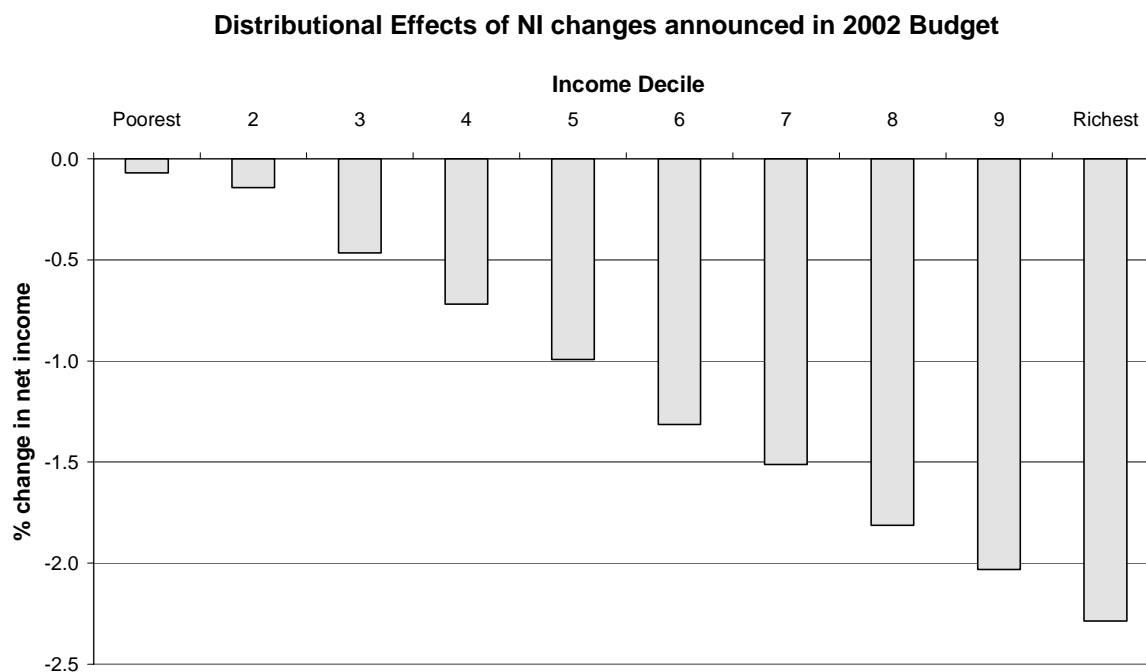
<sup>14</sup> See for example HC Deb 2 May 2002 c916W; The figure is lower than that for the average earner due to the concentration of earners at the lower end of the earnings distribution.

<sup>15</sup> Those eligible for the small earnings exception certificate, i.e. profits below £4'095 for the 2003/04 tax year, are exempted from Class 2 contributions.

<sup>16</sup> IFS, *Green Budget 2003*, January 2003, Figure 5.2, p60

The graph below is based upon the IFS data and shows the effects on net income of the 1% increases for employers, employees and the self-employed for each decile of the income distribution, i.e. 10% bands, from the poorest 10% to the richest 10%:

This shows that every decile sees a reduction in its net income, although this increases as one moves up the income distribution, varying from almost negligible effects for the lowest decile up to a fall of around 2.3% on average for those in the highest income decile.



Source: IFS, *Green Budget 2003*, Figure 5.2 based on IFS Tax & Benefit model (TAXBEN) using data from the Family Resources Survey 2000-01

### Future changes?

There has been some speculation as to whether there will be further alignment of the income tax and National Insurance systems, following alignment of the starting threshold for employee and employer contributions with the personal tax allowance in April 2001 and the introduction of uncapped National Insurance Contributions from April 2003. As the IFS have pointed out,<sup>17</sup> although changes have led to greater similarities between the two systems, significant differences remain, for example:

- NICs are assessed on a weekly basis, compared with the annual assessment of income tax – for those with fairly constant earnings throughout the year this is of little impact, but for those with irregular or seasonal earnings this can have a substantial difference.
- NICs are levied on earnings, whereas income tax is levied on earned and unearned income, e.g. that from savings, pensions and investments.
- The earnings of the self-employed (profit) are subject to lower NICs than those of employees, whereas they are treated exactly the same for income tax purposes.

<sup>17</sup> For further information, see IFS (2003), op. cit., pp56-7

- Pensioners are not subject to National Insurance contributions.

It could be argued that the 1% employee contribution rate above the upper earnings limit raised the possibility for future increases in this rate: the IFS have noted that a 1% increase above the upper earnings limit (and the UPL for the self-employed) could raise some £0.8 billion, whereas removing any distinction between earnings below and above the upper earnings limit, as is the case for employer contributions, could raise some £8.3 billion.<sup>18</sup> Another option would be to align the thresholds for the highest NIC and income tax rates:

At present, the higher-rate threshold is higher than the National Insurance UEL. This causes a dip in the effective tax rate for income between £595 and £675 per week [...] for which it is hard to find an economic rationale. Aligning the UEL and the higher-rate threshold would correct this anomaly, and would be consistent with previous changes (such as the alignment of the NI thresholds with the income tax personal allowance). Indeed, the Chancellor moved in this direction by increasing the UEL by more than inflation in both April 2000 and April 2001, thus reducing the gap to the higher-rate threshold.

An alignment could be achieved either by raising the UEL to match the higher-rate threshold (so that income currently between the two would be subject to ‘standard’ NICs and basic-rate income tax, like the income below it) or by lowering the higher-rate threshold to match the UEL (so that income currently between the two would be subject to ‘additional’ NICs and higher rate income tax, like the income above it). Either reform would be extremely progressive – the richest 10 per cent would provide two-thirds of the revenue, while the bottom half of the income distribution would be virtually unaffected – but they would raise very different amounts of revenue: increasing the UEL to the higher-rate threshold would raise around £1 billion, while reducing the higher-rate threshold to the UEL would raise a little over £2 billion.<sup>19</sup>

When questioned in February 2003 about future alignment of the two systems, the Paymaster General, Dawn Primarolo, stated:

There are no plans for the structural alignment of Tax and National Insurance. The Revenue, however, continues to [...] look for opportunities to align the tax and National Insurance rules at a practical level while having regard to the need to protect the individual’s benefit entitlement.<sup>20</sup>

She also stated that there are no plans to align the upper earnings limit with the higher rate of income tax.<sup>21</sup>

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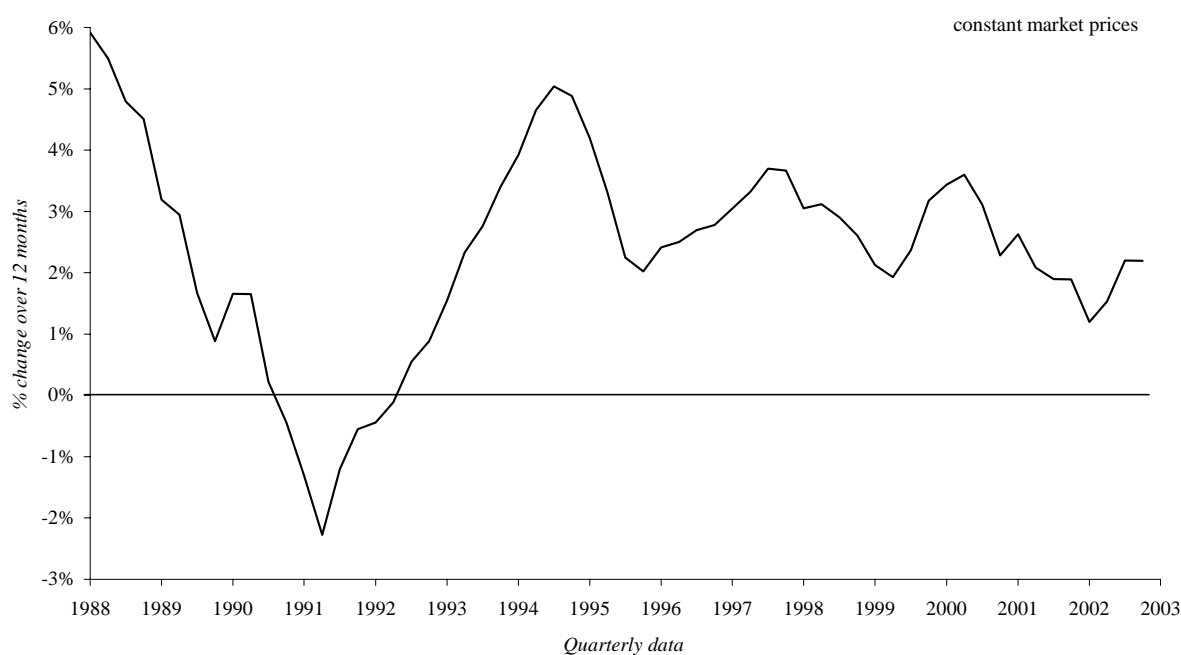
<sup>18</sup> IFS (2003), op. cit., p61

<sup>19</sup> *ibid.*, pp61-62; for graphs of the distributional impact of such changes see IFS presentation by Stuart Adam, *Income tax and National Insurance*, slides 11,13, 15, see <http://www.ifs.org.uk/gb2003/stuart/stuart.shtml>

<sup>20</sup> HC Deb 10 February 2003 c612W

<sup>21</sup> *ibid.*

## 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
1999	902.5	5.0%	2.4%
2000	950.4	5.3%	3.1%
2001	993.1	4.5%	2.1%
2002	1043.3	5.1%	1.8%
2001 Q4	252.7	4.7%	1.9%
2002 Q1	255.9	4.4%	1.2%
Q2	258.7	4.6%	1.6%
Q3	262.5	5.8%	2.2%
Q4	266.2	5.3%	2.2%

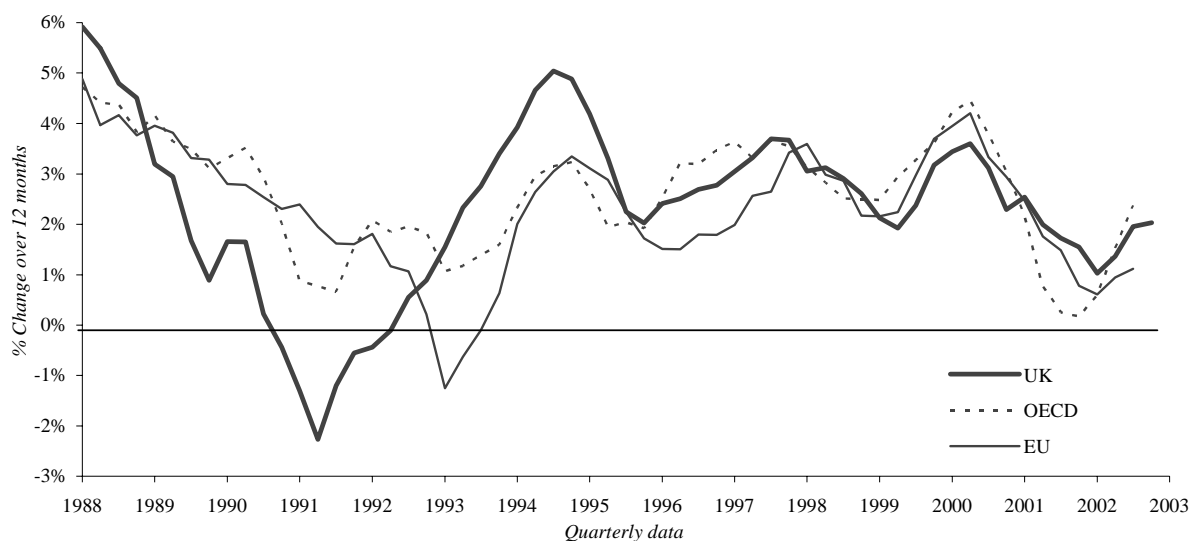
Source: NS database series YBHA & ABMI

- Gross domestic product (GDP) at 1995 market prices is estimated to have risen by 0.4% in the fourth quarter of 2002, significantly down on growth in the previous quarter. For 2002, the economy is estimated to have grown by 1.8%, marginally higher than that forecast in the November 2002 Pre Budget Report.
- In 2002 Q4 output in manufacturing is estimated to have fallen by 1%. Part of this is due to a Jubilee-influenced rise in Q3. The most significant falls came from transport equipment industries, due to weak motor vehicle production in Q4 and high tech goods.
- Services sector quarterly output grew by only 0.5% compared with 1.1% in the previous quarter.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 2.0% in 2003 and 2.4% in 2004.

CONTACT Tim Edmonds, x2883

Next update: 25 April

## A 2. GDP: International Comparisons



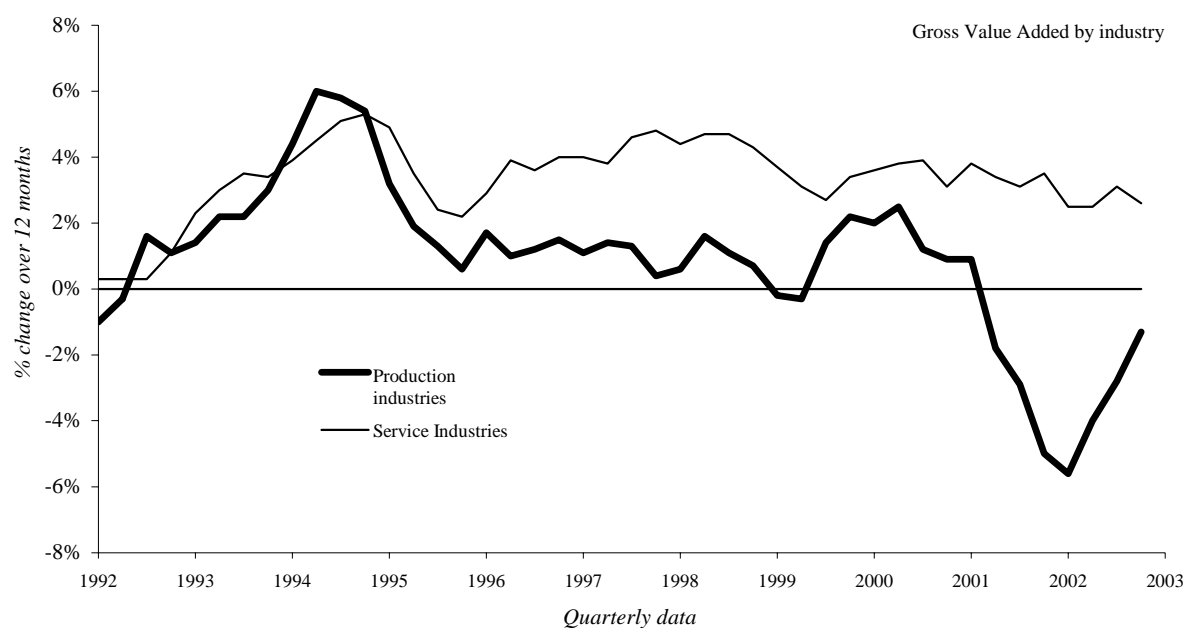
### GDP at constant market prices

	% change on year				% change quarter on quarter				
	1999	2000	2001	2002	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
USA	4.1%	3.7%	0.2%	2.5%	0.7%	1.2%	0.3%	1.0%	0.4%
Japan	0.1%	2.9%	0.4%	0.3%	-0.4%	0.1%	1.2%	0.7%	0.6%
Canada	5.3%	3.5%	1.1%	3.3%	0.7%	1.5%	1.1%	0.9%	0.4%
United Kingdom	2.4%	3.1%	1.9%	1.6%	0.3%	0.2%	0.6%	0.9%	0.3%
Germany	2.0%	2.8%	0.6%	0.2%	-0.4%	0.4%	0.1%	0.4%	-0.1%
France	3.3%	4.0%	1.9%	1.1%	-0.3%	0.7%	0.5%	0.3%	0.3%
Italy	1.6%	3.2%	1.8%	0.4%	-0.1%	0.0%	0.3%	0.3%	0.4%
Euro zone	2.8%	3.5%	1.4%	na	-0.2%	0.4%	0.3%	0.3%	na
G7	2.9%	3.5%	0.7%	1.6%	0.3%	0.8%	0.5%	0.8%	0.3%
OECD	3.1%	3.9%	0.8%	na	0.3%	0.7%	0.6%	0.8%	na

Source: OECD, Main Economic Indicators, March 2003

- The latest data suggest that the world economic slowdown is far from over with the recovery of growth in 2002 Q3 in the US and UK not persisting in the final quarter of the year.
- Forecast growth in the euro zone has been described in the latest EU Commission document as 'optimistic'. Annual growth to the third quarter of 2002 in the euro-zone was just 0.3%, and in Germany negative growth was recorded in the latest quarter. The main threats to the international economic system include falling equity prices and reduced investment plans and concerns over the duration and cost of the military conflict in Iraq.
- In its latest forecast the OECD has downgraded its growth estimates for virtually all countries and regions for 2002 and 2003. They are currently predicting growth of 2.2% in the USA, -0.5% in Japan and 1.1% in the EU15. Its forecast for the UK was 1.7%.

### 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	Manufacturing			
1999	0.8%	0.3%	3.2%	3.2%	0.8%
2000	1.7%	2.0%	3.6%	-3.2%	1.8%
2001	-2.2%	-2.4%	3.5%	-10.6%	3.6%
2002	-3.5%	-4.0%	2.7%	3.5%	7.5%
2001 Q4	-5.0%	-6.1%	3.5%	-7.4%	6.3%
2002 Q1	-5.6%	-6.3%	2.5%	2.4%	7.2%
Q2	-4.0%	-5.0%	2.5%	3.8%	7.0%
Q3	-2.8%	-2.8%	3.1%	5.3%	7.8%
Q4	-1.3%	-1.7%	2.6%	2.6%	7.9%

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

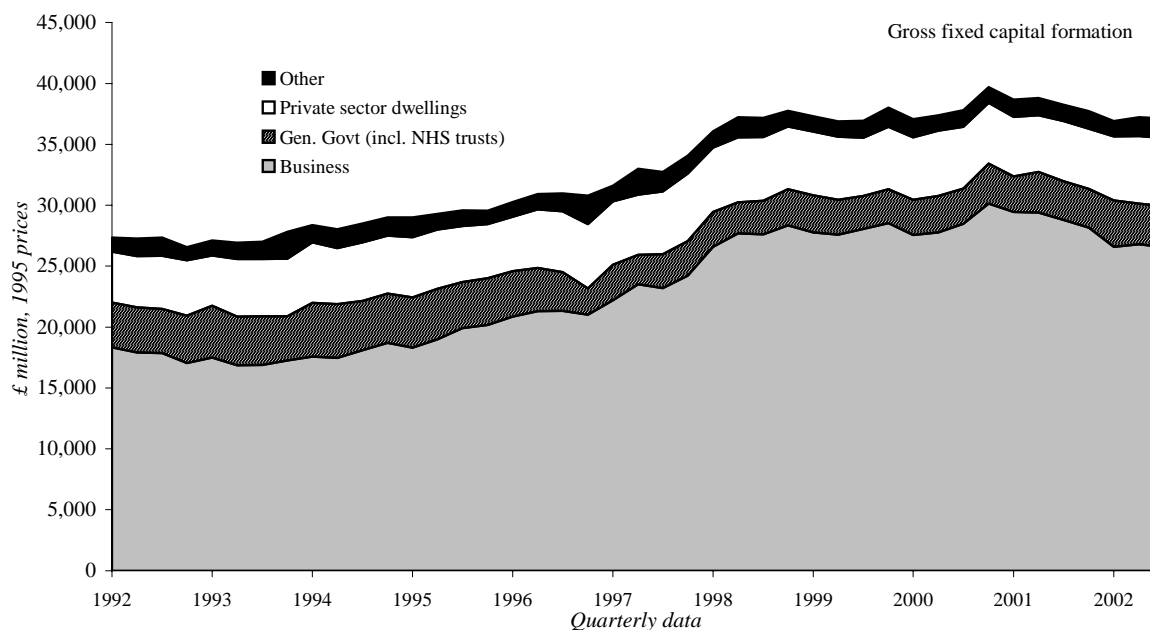
- Since 1999, output has grown faster in the service sector than in production industries and is currently growing at an annual rate of 2.6%. Between the third and fourth quarters of 2002, output in the service sector rose by 0.5%.
- Manufacturing output fell by 1.0% between the third and fourth quarters of 2002 and fell by 4.0% in 2002.
- In 2001, services accounted for 71% of gross value added, manufacturing for 18%, other production industries (mining & quarrying, and electricity, gas & water supply) for 5%, construction for 5% and agriculture, hunting and fishing for 1%.

CONTACT Dominic Webb, x2464

Next update: 7 April



## 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
1999	14,154	68,367	40,699	21,826	4,097	149,143
2000	12,640	72,753	40,145	22,070	4,378	151,986
2001	14,635	72,405	40,563	21,035	4,522	153,160
2002	14,291	75,213	40,333	20,853	4,757	155,447
2001 Q4	3,766	17,321	10,094	5,378	1,171	37,730
2002 Q1	3,549	16,542	10,042	5,660	1,112	36,905
Q2	3,587	16,514	10,031	5,958	1,147	37,237
Q3	3,800	15,875	10,254	5,996	1,215	37,140
Q4	3,753	15,869	10,301	6,102	1,285	37,310

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

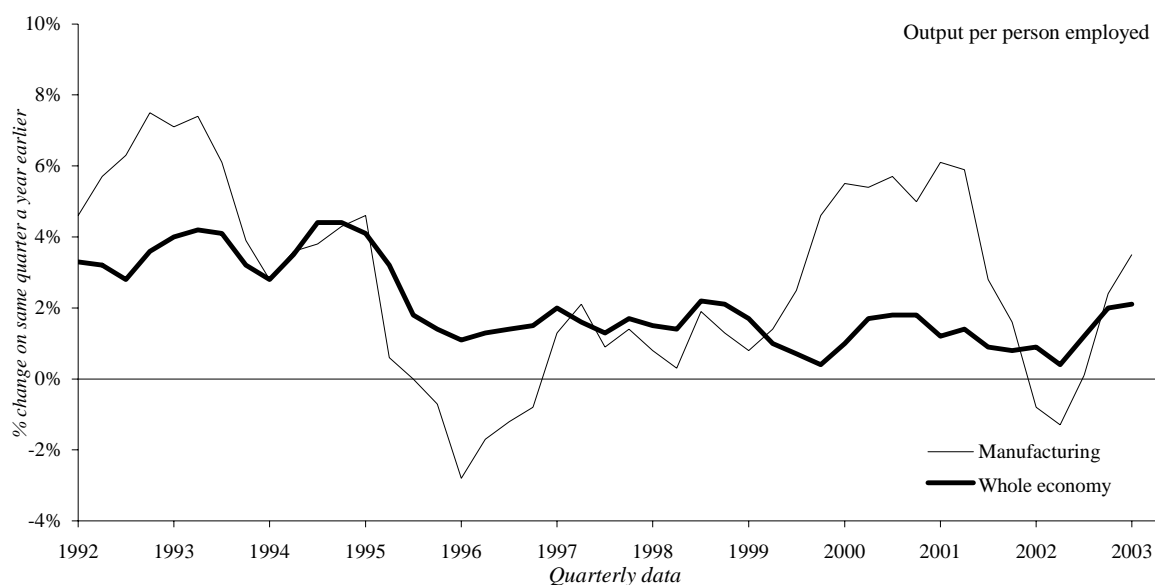
Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations (other than NHS trusts) on transport equipment, other machinery and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

- Total business investment (seasonally adjusted) grew by 0.4% in the fourth quarter of 2002 in real terms compared with the previous quarter and is now about 10% below its 1999 level.
- Manufacturing investment fell by 0.7% over the fourth quarter and service sector investment remained flat.

CONTACT Tim Edmonds, x2883

Next update: 22 May

## 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	-0.3	1.0	3.3	1.5	1.8
1999	0.3	-3.2	3.5	2.2	1.3	0.8
2000	2.0	-3.4	5.6	3.1	1.4	1.6
2001	-2.4	-4.5	2.3	1.7	0.7	0.9
2002	-4.0	-5.1	1.1	1.4	0.0	1.6
2001 Q4	-6.1	-5.4	-0.8	1.2	0.4	0.9
2002 Q1	-6.4	-5.2	-1.3	0.6	0.4	0.4
Q2	-5.0	-5.2	0.1	1.0	-0.1	1.2
Q3	-2.8	-5.0	2.4	1.5	-0.2	2.0
Q4	-1.5	-4.8	3.5	1.7	-0.3	2.1

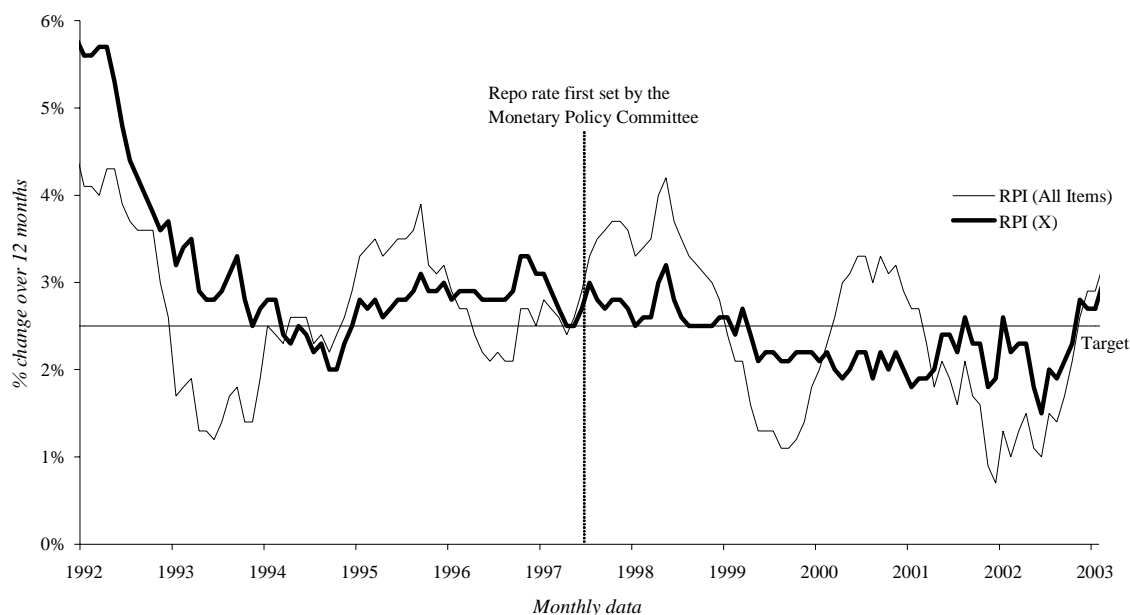
Source: NS database series ERIU, LNNS, LNNU, GDPR, LNNO, LNNP, ERIT, LNOK, LNNX, ABMM, LNNM, LNNN

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 1.6% in 2002 compared to 0.9% in 2001 and 1.6% in 2000.
- In 2002, manufacturing output fell by 4.0% and employment in manufacturing fell by 5.0% while manufacturing output per head rose by 1.1%.
- Productivity growth in manufacturing rose from 2.4% per annum in 2002 Q3 to 3.5% per annum in 2002 Q4 while whole economy productivity growth rose from 2.0% per annum to 2.1% per annum in 2002 Q4.
- For the economy as a whole, productivity growth has averaged 1.2% per annum over the last eight quarters.

CONTACT Grahame Allen, x4324

Next update: Late April

## B 1. Retail Prices Index



### Retail Prices Index

% change on previous year

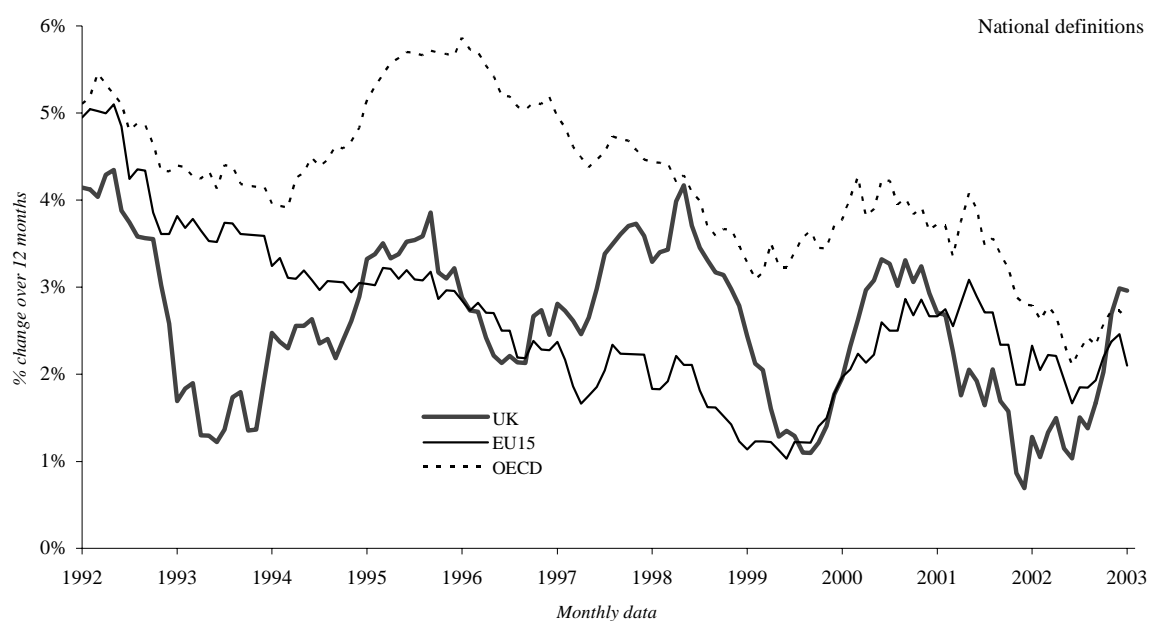
	RPI All Items	RPI (X) Excluding mortgage interest
1999	1.5	2.3
2000	3.0	2.1
2001	1.8	2.1
2002	1.7	2.2
2002 February	1.0	2.2
March	1.3	2.3
April	1.5	2.3
May	1.1	1.8
June	1.0	1.5
July	1.5	2.0
August	1.4	1.9
September	1.7	2.1
October	2.1	2.3
November	2.6	2.8
December	2.9	2.7
2003 January	2.9	2.7
February	3.2	3.0

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 2002 was 1.7%, down from 1.8% in 2001. The annual average increase in underlying inflation (RPI(X)) was 2.2%, up from 2.1% in 2001.
- In the year to February 2003 the headline rate of inflation rose to 3.2%, from 2.9% in December and January. The underlying rate of inflation rose from 2.7% in January to 3.0% in February.
- The biggest upward effect on the headline rate in February came from clothing and footwear. The second largest upward effect was from food, due to price changes for seasonal food.
- There was a small downward effect from leisure services where there was little overall change in the cost of foreign holidays this year compared to last.

## B 2. Prices: International Comparisons



### Consumer Price Index (national definitions)

% change over 12 months

	USA	Japan	Canada	UK	Germany	France	Italy	OECD	EU15
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	4.0	2.5
2001	2.8	-0.7	2.5	1.8	2.5	1.6	2.8	3.5	2.5
2002	1.5	-1.0	2.2	1.6	1.3	1.9	2.5	2.5	2.0
2002 August	1.8	-0.9	2.6	1.4	1.1	1.8	2.4	2.4	1.8
September	1.5	-0.7	2.3	1.7	1.0	1.8	2.6	2.3	1.9
October	2.1	-0.9	3.2	2.0	1.3	1.9	2.7	2.6	2.2
November	2.2	-0.4	4.3	2.7	1.1	2.2	2.8	2.7	2.4
December	2.3	-0.3	3.8	3.0	1.1	2.3	2.8	2.7	2.5
2003 January	2.6	-0.4	4.5	3.0	..	2.0	2.8	2.6	2.1

Source: OECD Main Economic Indicators

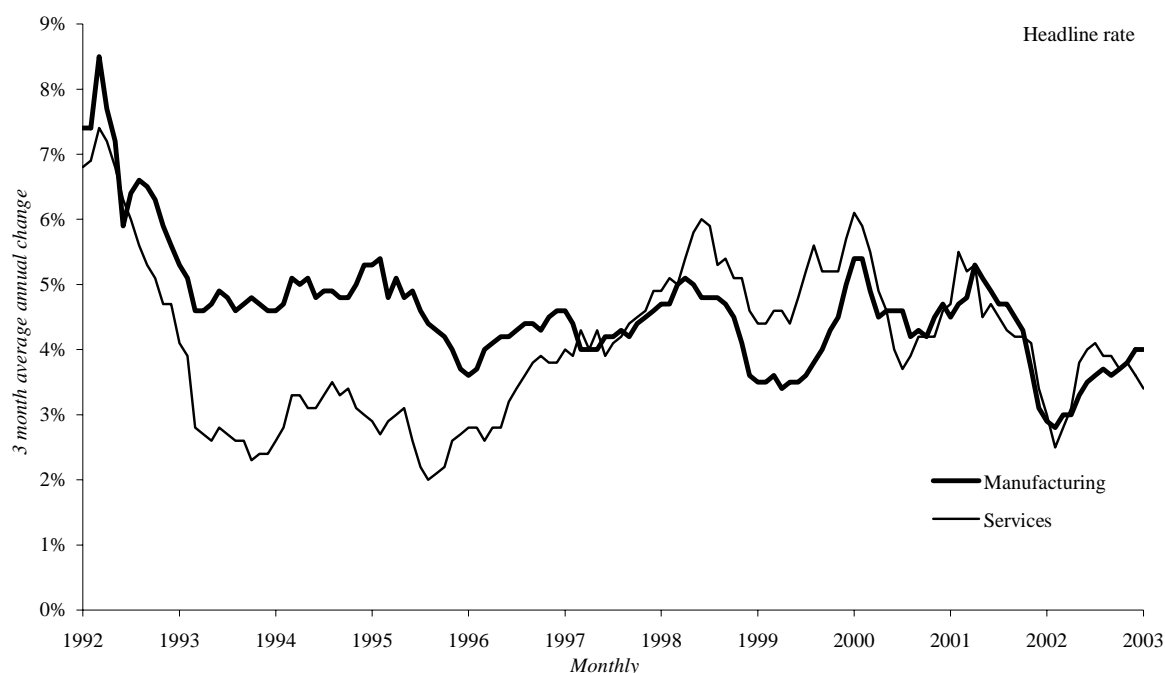
Under the terms of the Maastricht Treaty, harmonised indices of consumer prices (rather than data compiled on national definitions as in the table) are used to assess price stability in Member States.

- The provisional annual inflation rate (harmonised basis) for the twelve eurozone countries rose from 2.2% in January 2003 to 2.4% in February, compared to 2.5% a year earlier.
- The inflation rates for the Member States not in the eurozone were (on a harmonised basis) Denmark 2.9% and Sweden 3.3%. Data for the UK were unavailable at the time of publication of these European figures, but national sources put the UK at 1.6%.
- In February 2003 the eurozone states with the highest annual inflation rates were, on a harmonised basis, Ireland (5.1%), Greece (4.2%) and Portugal (4.1%). The lowest rates were in Germany (1.3%) and Belgium (1.6%).

CONTACT Patsy Richards, x4904

Next update: April

## B 3. Average Earnings Index



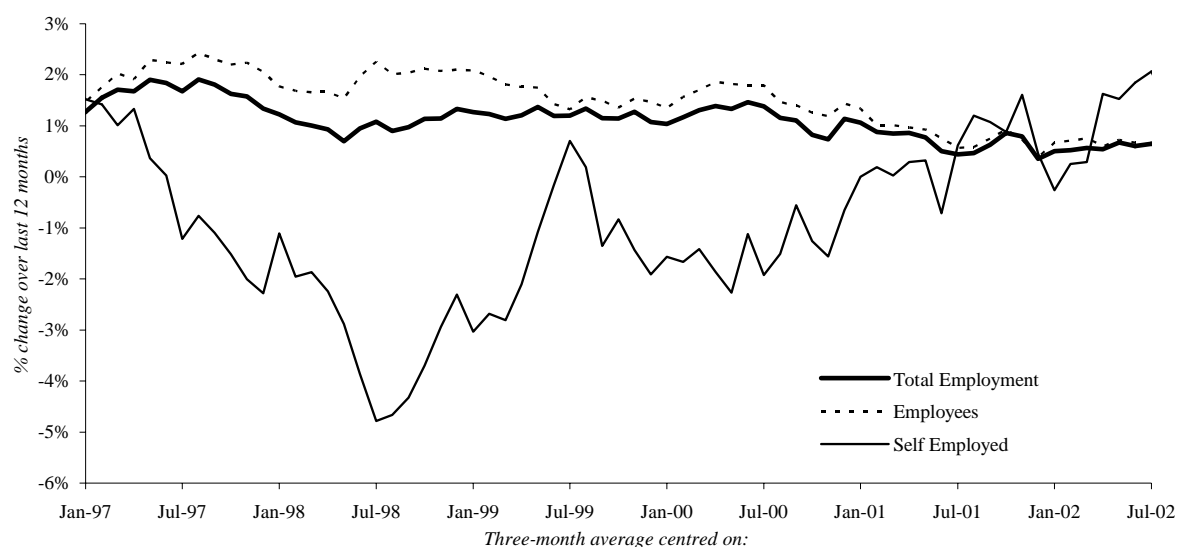
### Average Earnings, Great Britain seasonally adjusted

		Headline rate (% change on year)		
		Whole Economy	Private Sector	Public Sector
1999	Jan	4.3	4.5	3.7
2000	Jan	5.9	6.3	4.0
2001	Jan	4.6	4.7	3.9
2002	Jan	3.0	2.7	4.8
	Feb	2.6	2.2	4.7
	Mar	3.0	2.6	4.5
	Apr	3.3	3.1	4.1
	May	3.8	3.8	3.8
	Jun	3.9	4.0	3.5
	Jul	3.9	4.0	3.6
	Aug	3.8	3.9	3.4
	Sep	3.8	3.8	3.6
	Oct	3.7	3.6	3.7
	Nov	3.8	3.7	4.3
	Dec	3.7	3.5	4.6
2003	Jan	3.6	3.2	5.0

Source: NS database Series LNNC, LNND, LNNE

- The headline rate of growth in average earnings for the whole economy in January was 3.6%, a slight decrease on December's figure of 3.7%.
- January's headline rate of earnings growth for the whole economy 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%.
- Headline average earnings growth in manufacturing was 4.0% in January (the same as in December) while earnings growth in the service sector fell to 3.4% compared with 3.6% in December.
- Headline earnings growth in the private sector was 3.2% in January, compared to 5.0% in the public sector.
- Earnings are currently growing more quickly than a year ago (the headline rate in January 2002 was 3.0%).

## 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	Dec	26,848	23,457	3,144	104	143
1999	Dec	27,137	23,803	3,084	101	149
2000	Dec	27,447	24,146	3,064	98	139
2001	Dec	27,544	24,238	3,078	106	122
2002	Mar	27,625	24,336	3,086	95	108
2002	Jun	27,653	24,334	3,136	90	93
2002	Sep	27,759	24,412	3,156	92	98
2002	Dec	27,815	24,442	3,184	90	100
<i>Changes:</i>						
<i>Last three months</i>		0.2%	0.1%	0.9%	-2.5%	1.7%
<i>Last year</i>		1.0%	0.8%	3.4%	-15.3%	-18.5%

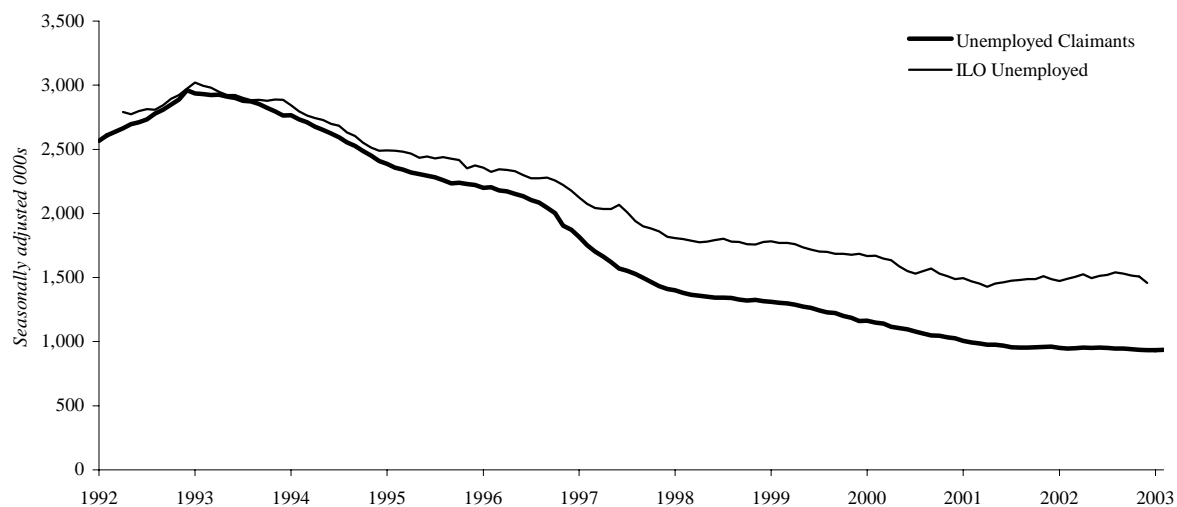
Source: National Statistics First Release Labour Market Statistics 19 March 2003

- Total employment was 27.8 million in the period November 2002 to January 2003, 1.0% higher than a year previously. The working age employment rate of 74.6% was 0.1% higher than the previous quarter and 0.3% higher than a year earlier.
- The number of workforce jobs increased by 47,000 between September and December and was 45,000 higher than a year previously. Over the year to December, production industry workforce jobs fell by 160,000. Service sector jobs rose by 255,000 and other industries fell by 49,000.
- 7.1 million people were in part time employment in the period November 2002 to January 2003, of whom 5.6 million were women. Some 3.2 million people were self employed.

CONTACT Dominic Webb, x2464

Next update: 16 April

## C 2. Unemployment: National



### ILO Unemployment in the UK seasonally adjusted

	000s	rate (%)
1997 May - Jul	2,068	7.3
Aug - Oct	1,900	6.7
1998 Nov - Jan	1,817	6.4
Feb - Apr	1,787	6.3
May - Jul	1,791	6.3
Aug - Oct	1,776	6.2
1999 Nov - Jan	1,777	6.2
Feb - Apr	1,769	6.2
May - Jul	1,717	6.0
Aug - Oct	1,686	5.9
2000 Nov - Jan	1,685	5.8
Feb - Apr	1,649	5.7
May - Jul	1,548	5.4
Aug - Oct	1,571	5.4
2001 Nov - Jan	1,486	5.1
Feb - Apr	1,452	5.0
May - Jul	1,462	5.1
Aug - Oct	1,488	5.1
2002 Nov - Jan	1,487	5.1
Feb - Apr	1,505	5.2
May - Jul	1,513	5.2
Aug - Oct	1,532	5.2
2003 Nov - Jan	1,459	5.0

Source: Labour Force Survey (NS)

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). This data has been revised to take account of the 2001 Census results.

- The latest LFS estimates show that over the period November 2002 to January 2003, the level of ILO unemployment in the UK was 1,459,000. This was a decrease of 73,000 from the period August to October 2002.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 3,000 between January and February 2003 to 935,000.

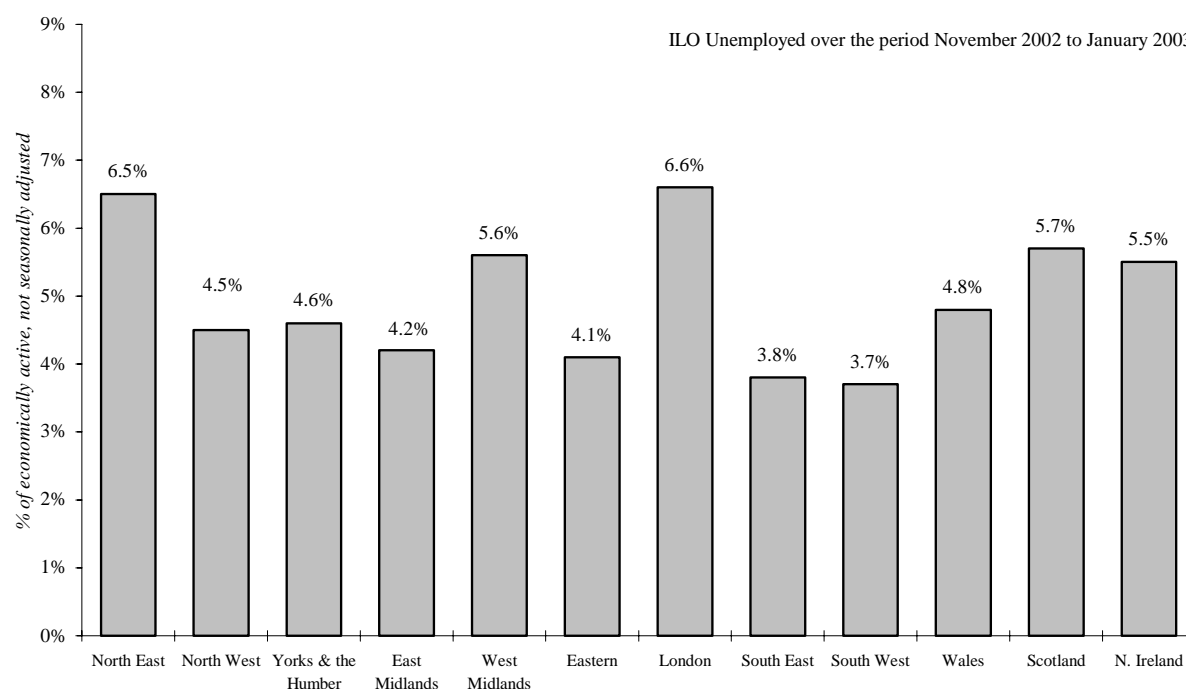
The New Deal for the Young Unemployed started in January 1998.

- 909,000 people had joined the scheme by the end of December 2002. Of those leaving the scheme 414,000 had moved into jobs up to the end of December, of which 326,000 (79%) 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 December 2002, 360,000 people had joined the original (pre-April 2001) scheme. Of these, 77,000 had entered jobs of which 61,000 (80%) were sustained. 208,000 people had started on the enhanced scheme. Of these, 59,000 people had entered jobs of which 46,000 (78%) were sustained.

### C 3. Unemployment: Regional



#### ILO Unemployment, November 2002 to January 2003

*change on same period in previous year  
not seasonally adjusted*

	000s	%
North East	-10	-12%
North West & Merseyside	-20	-12%
Yorkshire & the Humber	-11	-9%
East Midlands	3	3%
West Midlands	5	3%
Eastern	10	9%
London	-16	-6%
South East	22	15%
South West	2	2%
Wales	-5	-7%
Scotland	-23	-14%
Northern Ireland*	-2	-4%

Sources:

National Statistics; \*DETI statistics Research Branch  
19 March 2003

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). This data has not been revised to take account of the 2001 Census results and UK data for comparison are not available.

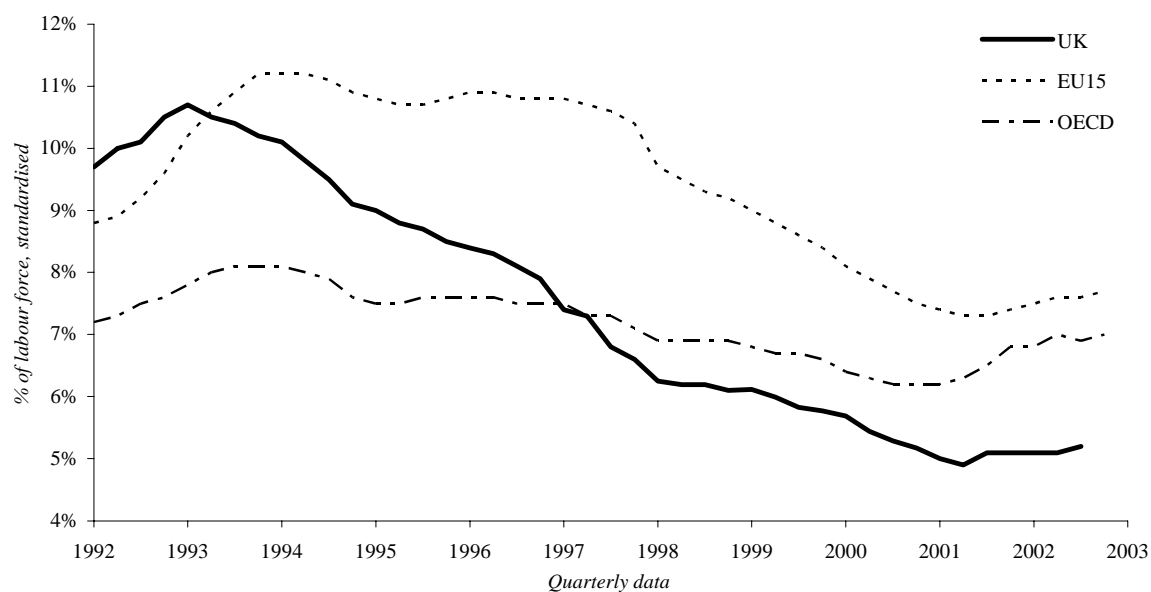
- Over the period November 2002 to January 2003 the London region had the highest unemployment rate, 6.6% of the economically active population. The lowest rate over the same period was 3.7% in the South West region.
- A comparison of the period November 2002 to January 2003 with the same period a year earlier shows that the largest fall in unemployment occurred in Scotland where it fell 14%. The South East experienced the largest rise (15%) in unemployment over the same period.

CONTACT Alex Adcock, x3793

Next update: 16 April



## C 4. Unemployment: International Comparisons



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

	1999	2000	2001	2002	2001 Q4	2002 Q1	2002 Q2	2002 Q3	2002 Q4
USA	4.2	4.0	4.8	5.8	5.6	5.6	5.9	5.7	5.9
Japan	4.7	4.7	5.0	5.4	5.4	5.3	5.3	5.4	5.4
Canada	7.6	6.8	7.2	7.7	7.7	7.8	7.6	7.6	7.6
UK	5.9	5.4	5.0	n/a	5.1	5.1	5.1	5.2	n/a
Germany	8.4	7.7	7.7	8.2	7.9	8.0	8.2	8.3	8.4
France	10.7	9.3	8.5	8.7	8.5	8.6	8.7	8.8	8.8
Italy	11.3	10.4	9.4	n/a	9.2	9.0	9.0	9.0	n/a
Euro zone	9.4	8.5	8.0	8.3	8.0	8.1	8.2	8.3	8.5
G7	6.1	5.7	5.9	6.5	6.4	6.3	6.5	6.5	6.5
OECD	6.7	6.3	6.5	6.9	6.8	6.8	7.0	6.9	7.0

n/a: not yet available

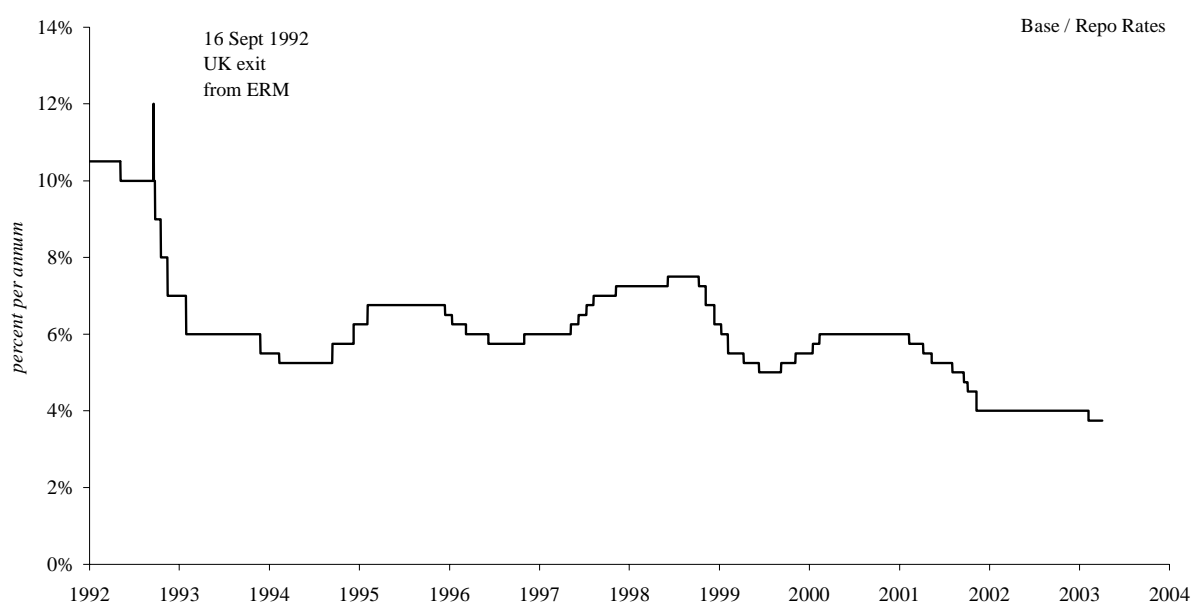
Source: OECD Main Economic Indicators

- Using standardised definitions, the UK unemployment rate for 2001 was 5.0%, significantly below the Euro-zone (8.0%) average and below the G7 and OECD rates (5.9% and 6.5% respectively).
- Between Q2 2002 and Q3 2002 the unemployment rate rose or remained the same in all G7 countries except USA where it fell 0.2 of a percentage point. The unemployment rate in all the G7 nations taken together did not change.
- The most recent forecasts published by the OECD (November 2002 *Economic Outlook*) suggest the UK (non-standardised) unemployment rate will be 4.9% of the labour force in 2004. In 2004 the unemployment rate is expected to be 8.3% for the Euro zone and 6.7% for the OECD as a whole.

CONTACT Alex Adcock, x3973

Next update: April

## 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
2000	Jan 4	5.50
	Jan 13	5.75
2000	Feb 10	6.00
	Feb 8	5.75
2001	Apr 5	5.50
	May 10	5.25
	Aug 2	5.00
	Sept 18	4.75
	Oct 4	4.50
	Nov 8	4.00
	2003	Feb 6

Source: Bank of England

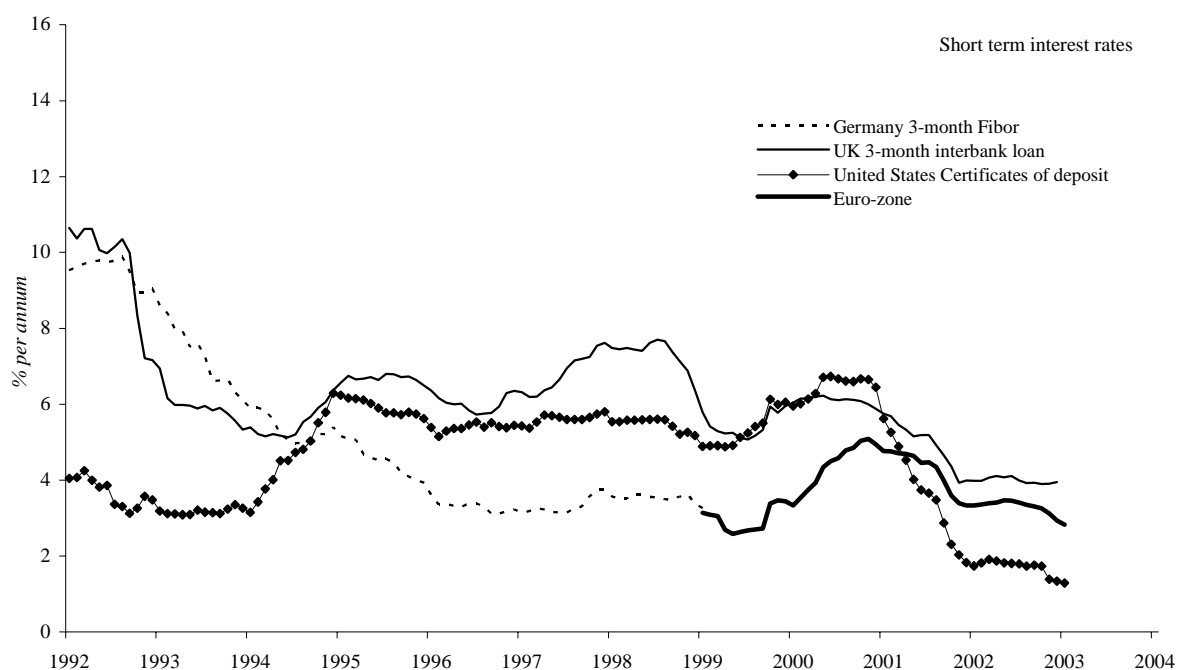
The ¼% interest rate increase on 6 June 1997 signified the first time that interest rates were set by the independent Monetary Policy Committee (MPC) of the Bank of England rather than by the Chancellor.

- The ¼ percentage point cut announced in February 2003 was the first interest rate cut since November 2001. The ½ percentage point cuts in November and December 1998, February 1999 and November 2001 were the largest changes in rates yet made by the MPC.
- The latest Bank Inflation Report forecasts that inflation is likely to remain above the target rate throughout 2003.
- In its March meeting, the MPC felt that the outlook for the economy had deteriorated slightly with output and demand growth being lower.
- The MPC suggested that higher than expected oil prices, a fall in exchange rates and cooling in the housing market were the main reasons for maintaining the present rate.
- The MPC next meets on 9 April. It is expected that the minutes will be published on 23 April 2003.

CONTACT Grahame Allen, x4324

Next update 10 April

## D 2. Interest Rates: International Comparisons



The main developments on the international stage have been the action of the main Central Banks in cutting their official rates and the negative effects on economic activity stemming from the high degree of worldwide uncertainty.

### International Interest Rates (% p.a.)

As at 31 March 2003

	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	3.75	4.30	3 <sup>19</sup> / <sub>32</sub>
United States	1.25	3.82	1 <sup>1</sup> / <sub>4</sub>
Switzerland	0.75-1.75	2.28	<sup>9</sup> / <sub>32</sub>
Japan	-0.01	0.69	<sup>-1</sup> / <sub>32</sub>
Euro-zone	2.50	..	2 <sup>15</sup> / <sub>32</sub>

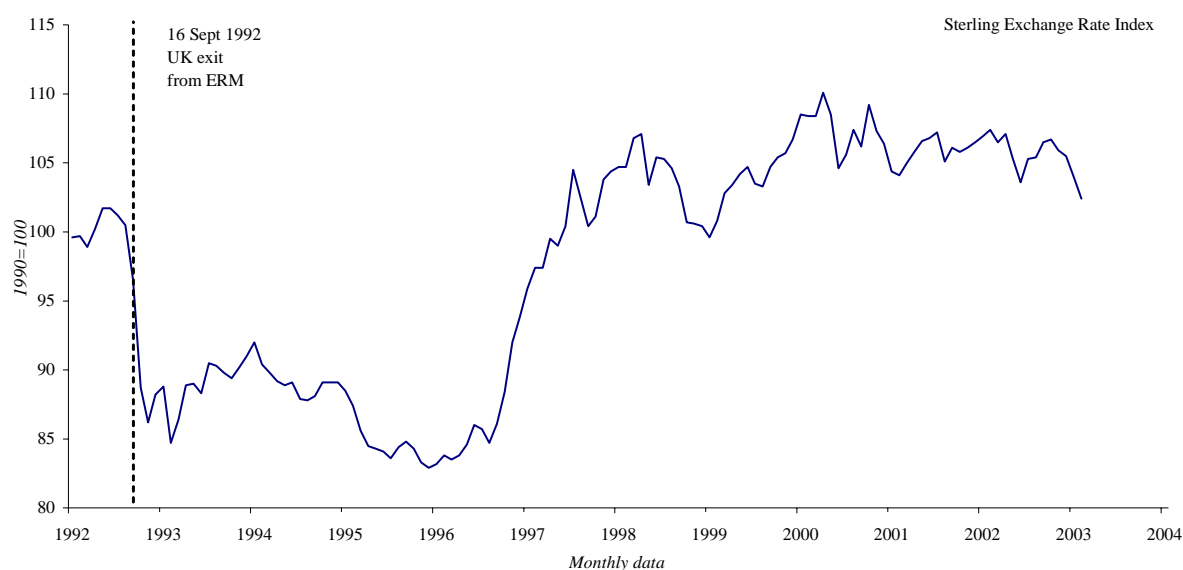
Source: Financial Times, 1 April 2003

- The US Federal Reserve cut the US Federal Funds Rate by  $\frac{1}{2}\%$  eight times during 2001. A further cut of  $\frac{1}{2}\%$  was announced on 6 November 2002.
- The Monetary Policy Committee (MPC) responded by reducing the UK Repo rate by  $\frac{1}{4}\%$  six times and  $\frac{1}{2}\%$  once during 2001. The latest cut of  $\frac{1}{4}\%$  was announced on 6 February 2003.
- The ECB did not follow the lead of the Fed or the MPC on a like for like basis, as might have been expected. They reduced the minimum lending rate four times during 2001, by  $\frac{1}{4}\%$  in May and August and twice by  $\frac{1}{2}\%$  in September and November. The latest cut of  $\frac{1}{4}\%$  was announced on 6 March 2003.
- A further cut by the ECB seems unlikely in the short-term due to expectations of improved demand and output growth in the euro-zone towards the end of 2003.

CONTACT Grahame Allen, x4324

Next update: Early April

### D 3. Exchange Rates



**Sterling Exchange Rates**

	US\$		Yen		ECU/Euro	
	Rate	% change on year	Rate	% change on year	Rate	% change on year
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%
2002	1.504	4.4%	187.9	7.5%	1.591	-1.1%
2002 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	1.459	2.3%	184.3	6.1%	1.591	-2.4%
June	1.486	6.1%	183.1	6.8%	1.552	-5.6%
July	1.555	10.0%	183.5	4.2%	1.567	-4.7%
August	1.538	7.0%	183.0	4.9%	1.572	-1.5%
September	1.556	6.3%	188.1	8.4%	1.586	-1.2%
October	1.557	7.3%	192.9	9.5%	1.587	-1.0%
November	1.572	9.5%	191.0	8.7%	1.569	-2.9%
December	1.586	10.1%	193.4	5.3%	1.557	-3.6%
2003 January	1.617	13.6%	192.1	1.1%	1.522	-6.2%
February	1.609	13.0%	192.1	1.1%	1.492	-8.7%

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

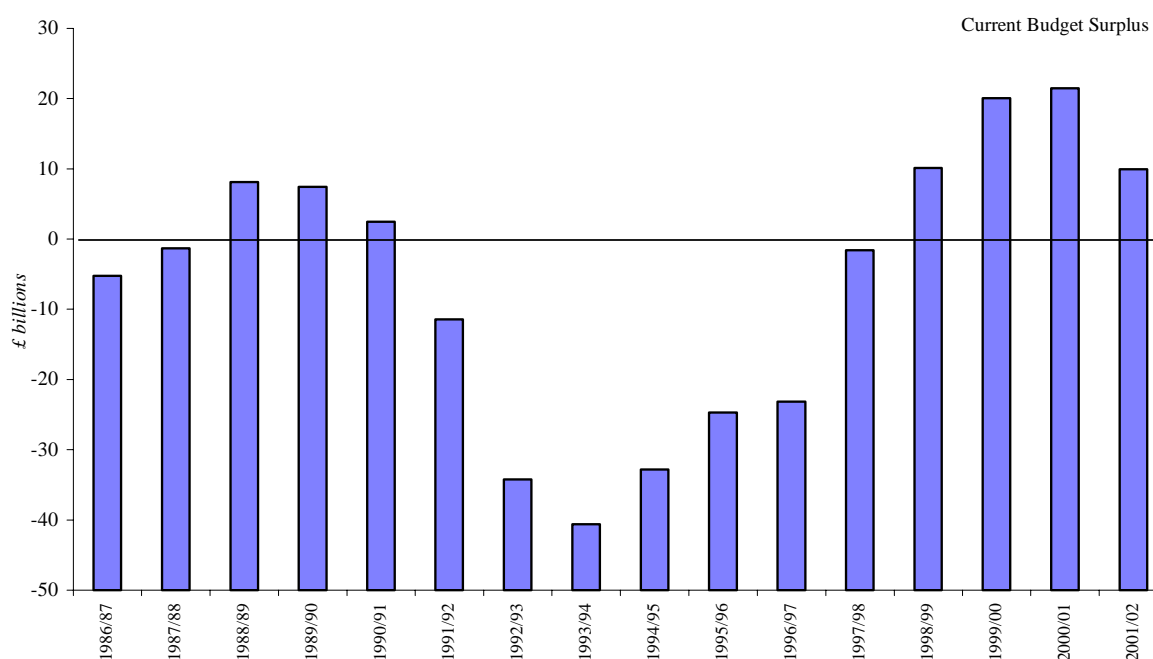
The Sterling Exchange Rate Index (SERI) measures the value of Sterling against a trade-weighted 'basket' of other currencies. The weights used to calculate the index measure currencies relative importance to UK trade in manufacturing.

- The large fall in the SERI following the UK exit from the ERM indicated a relative improvement in UK competitiveness. The SERI has decreased by 3.1 points in 2003 suggesting that the UK was relatively more competitive at the end of February than at the beginning of the year.
- The pound was worth euro 1.4493 at the London market close on 31 March 2003, 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: Early April

## D 4. Public Finances



### Public Sector Net Debt

	Public Sector Net Debt	
	£ billion	as a % of GDP
1998/99	348.5	40.1%
1999/00	340.9	37.3%
2000/01	306.8	31.9%
2001/02	311.4	31.0%
2001 Q3	308.1	31.4%
2001 Q4	318.7	32.1%
2002 Q1	311.4	31.0%
2002 Q2	318.1	31.3%
2002 Q3	320.2	31.1%

Source: NS Database Series AMNU, RUTN & YBHA

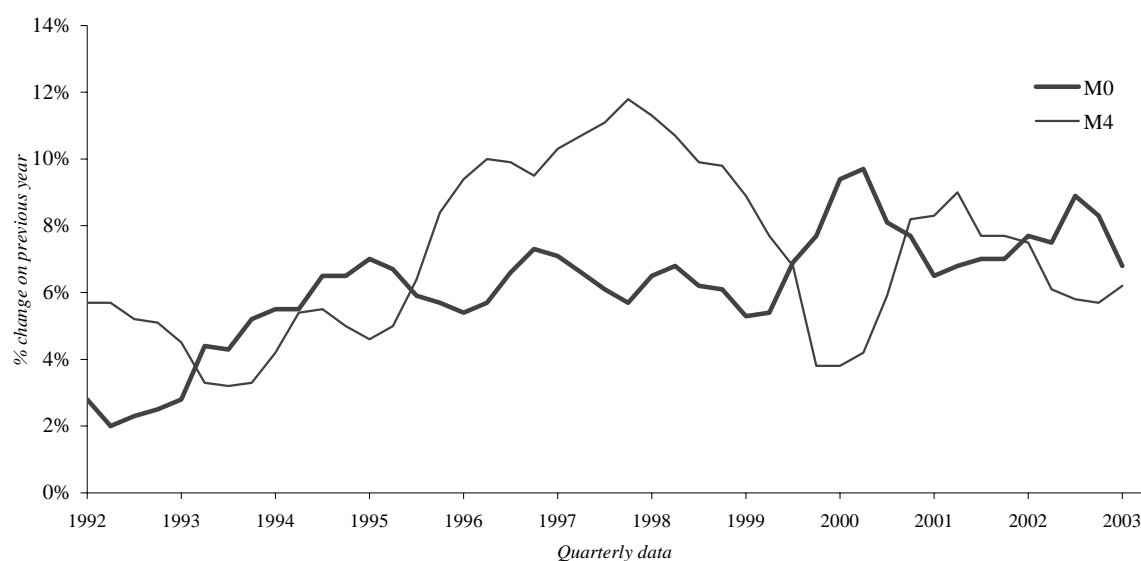
The Government's policy is to balance, i.e. surpluses in one year to match deficits in another, the current budget over the span of the economic cycle. The graph shows the last two completed cycles, 1986Q2 to mid 1997 and mid 1997 to mid 1999. Data for 2002/03 and subsequent years are projections based on the Pre-Budget Report.

- The surplus on the current budget was a negative £5.6 billion in the fourth quarter of 2002 compared to £1.2 billion in the same quarter of the previous year.

The Government's policy is to keep public sector net debt below 40% of GDP. In the table net debt is expressed as a percentage of GDP in the current period and the preceding three quarters.

- The public sector net cash requirement (the new aggregate replacing the PSBR) was £15.7 billion in the fourth quarter of 2002 compared to £9.5 billion in the same quarter of the previous year.

## D 5. Money Supply



### Money stock seasonally adjusted

	M0		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
2002 February	7.3	7.3	4.7	6.6
March	4.9	7.2	5.1	5.7
April	4.6	7.9	4.4	5.8
May	9.7	9.1	3.5	5.8
June	13.2	9.5	7.1	5.9
July	8.7	8.5	6.7	5.8
August	6.2	8.4	8.1	5.7
September	2.9	8.1	7.6	5.5
October	6.1	8.1	8.5	5.5
November	3.4	6.6	7.6	6.0
December	1.2	5.4	8.7	7.1
2003 January	1.2	5.1	6.6	6.5
February	5.5	6.2	7.6	6.7

Source: Bank of England

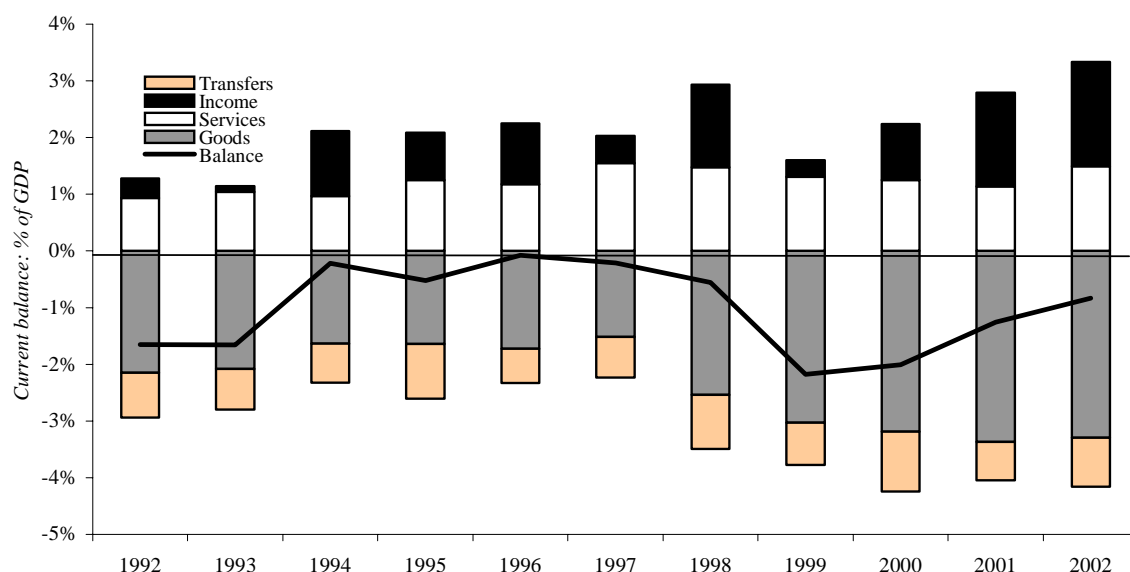
M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 6.7% in the 12 months to February 2003. The 12-month seasonally adjusted M0 growth rate was 6.2% in February 2003, compared to 5.1% in January 2002.
- There are now no formal targets for money supply growth.

CONTACT Ian Townsend, x3977

Next update: 1 May

## 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	
1999	-27,372	11,794	-15,578	2,609	-3,940	-2,747	-6,687	-19,656
2000	-30,326	11,838	-18,488	9,400	-5,552	-4,480	-10,032	-19,120
2001	-33,510	11,300	-22,210	16,404	-2,600	-4,079	-6,679	-12,485
2002	-34,394	15,522	-18,872	19,233	-5,742	-3,305	-9,047	-8,686
2001 Q4	-8,703	3,693	-5,010	2,746	-1,050	-986	-2,036	-4,300
2002 Q1	-8,131	3,328	-4,803	5,316	-1,017	-1,388	-2,405	-1,892
Q2	-6,502	3,385	-3,117	2,983	-1,377	-1,150	-2,527	-2,661
Q3	-8,890	3,881	-5,009	5,569	-1,546	-79	-1,625	-1,065
Q4	-10,871	4,928	-5,943	5,365	-1,802	-688	-2,490	-3,068

Source: National Statistics database

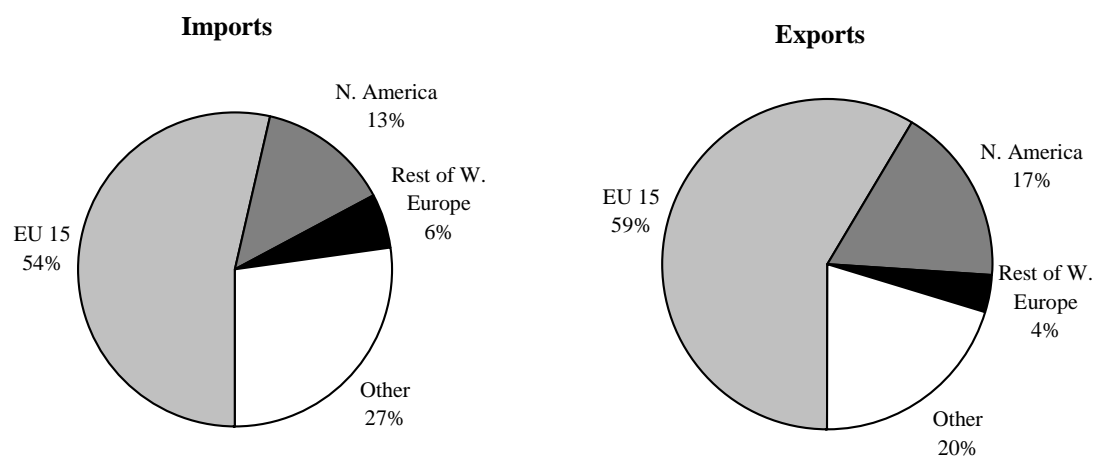
- The current account deficit for 2002 was an estimated £8.7 billion compared to a revised deficit of £12.5 billion for 2001. A record annual deficit on trade in goods was more than offset by record surpluses on trade in services and income.
- The current account was in deficit by £3.1 billion in Q4 2002, compared to a revised deficit of £1.1 billion in the previous quarter. The increase was due mainly to higher deficits on trade in goods and current transfers, partly offset by a higher surplus on trade in services.
- The surplus on trade in services was a record £4.9 billion in Q4 2002, up from £3.9 billion in Q3 2002. The surplus rose to a record £15.5 billion for the year 2002 compared to £11.3 billion in 2001, mainly accounted for by increases in exports of insurance and other business services.

CONTACT Patsy Richards x4904

Next update: 27 June

## E 2. Trade in Goods

**Shares of trade in goods by area: 2002**  
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
1999	123.3	141.2	166,166	193,538	-27,372
2000	137.5	158.3	187,936	218,262	-30,326
2001	139.4	163.3	190,050	223,560	-33,510
2002	136.8	165.2	185,848	220,242	-34,394
2001 Q4	135.2	162.3	45,621	54,324	-8,703
2002 Q1	135.2	163.2	45,927	54,058	-8,131
Q2	142.9	165.9	49,188	55,690	-6,502
Q3	138.5	165.5	46,587	55,477	-8,890
Q4	130.5	166.2	44,146	55,017	-10,871

Source: National Statistics Database

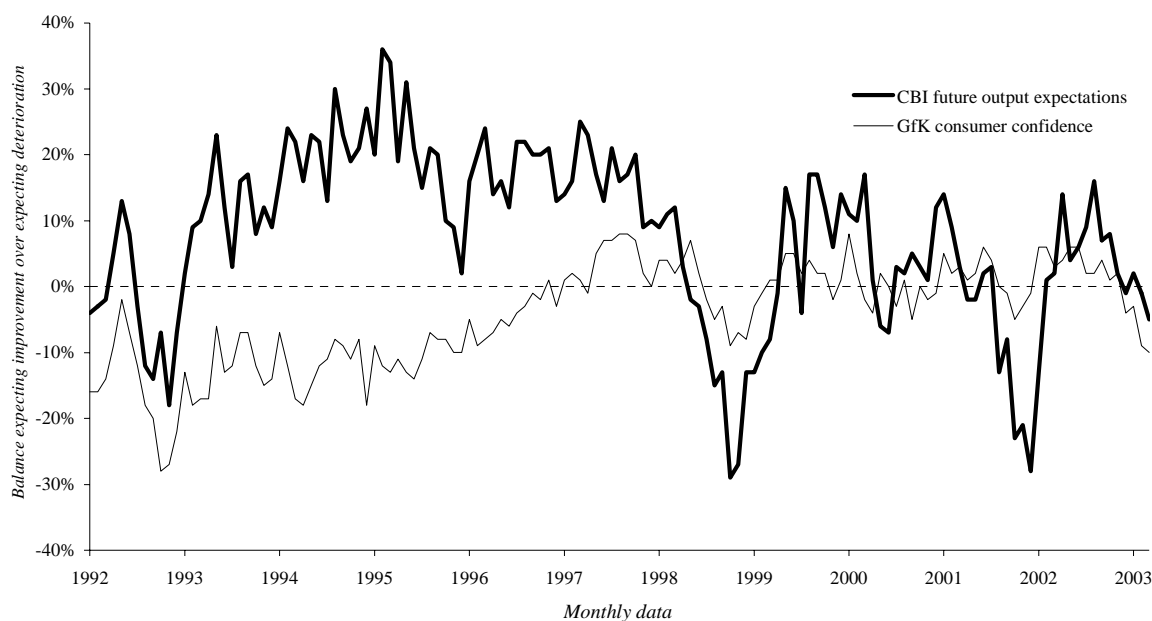
- The goods trade deficit for the year 2002 as a whole is estimated as £34.4 billion, compared to a £33.5 billion deficit in 2001.
- In January 2003 the deficit on trade in goods was provisionally estimated at £3.3 billion compared with a deficit of £3.0 billion for December 2002. In January total exports of goods rose 4.5% on the previous month to £15.4 billion, while goods imports rose 5.0% to £18.8 billion.
- The deficit on trade in goods with EU countries for 2002 is now estimated at £9.1 billion compared to £5.4 billion in 2001, while the deficit with non-EU countries was £25.2 billion compared to £28.1 billion the year before.
- The latest estimate of trend suggests that the UK trade deficit is widening and that the whole world goods deficit is widening. The trends in the value of trade show exports falling and imports flat in recent months.

CONTACT Patsy Richards, x4904

Next update: 9 April



## 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	
2002	Mar	2	3	
	Apr	14	4	
	May	4	6	
	Jun	6	6	
	Jul	9	2	
	Aug	16	2	
	Sep	7	4	
	Oct	8	1	
	Nov	2	2	
	Dec	-1	-4	
	2003	Jan	2	-3
		Feb	-1	-9
Mar		-5	-10	

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.

- The balance of expectations from the CBI's monthly Industrial Trends Survey for future output has fallen by 4 percentage points to -5 in March 2003.
- The CBI's indicator of overall business confidence in manufacturing, which looks at current optimism compared with four months previously, for which figures are only published quarterly, remained at October 2002's level (-19) in January 2003.

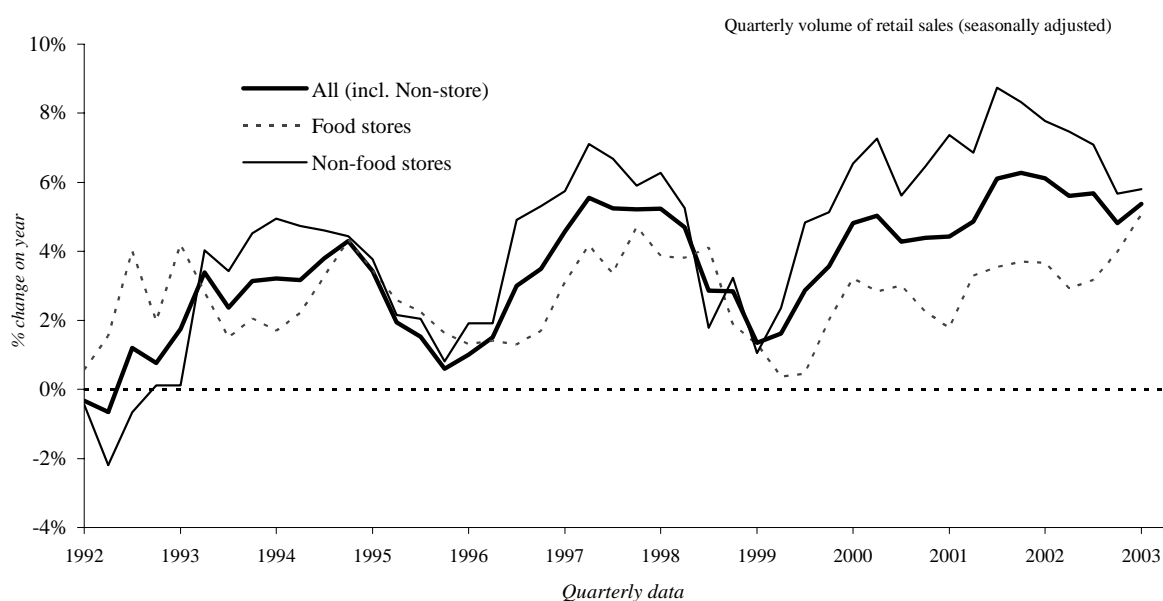
The GfK consumer confidence index is a composite measure of forward expectations of the general economic situation and households' financial positions; perceptions of how these have changed over the last 12 months, and also views on major household purchases.

- March's results show the overall index has fallen by a further 1 point since last month to -10, the lowest level since December 1995. Expectations for both the general economic situation and the future of personal finances have fallen slightly since February, as has likelihood of consumers saving over the next 12 months.

CONTACT Ian Townsend, x3977

Next update: 28 April

## 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
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%
2002	3.2%	3.8%	5.3%	5.3%	3.8%
2001 Q4	6.9%	-10.3%	5.9%	8.1%	6.9%
2002 Q1	5.1%	15.9%	8.5%	4.3%	5.8%
Q2	2.4%	4.9%	6.6%	4.8%	3.9%
Q3	3.3%	3.3%	4.9%	4.7%	3.9%
Q4	1.4%	1.4%	3.3%	6.9%	3.2%

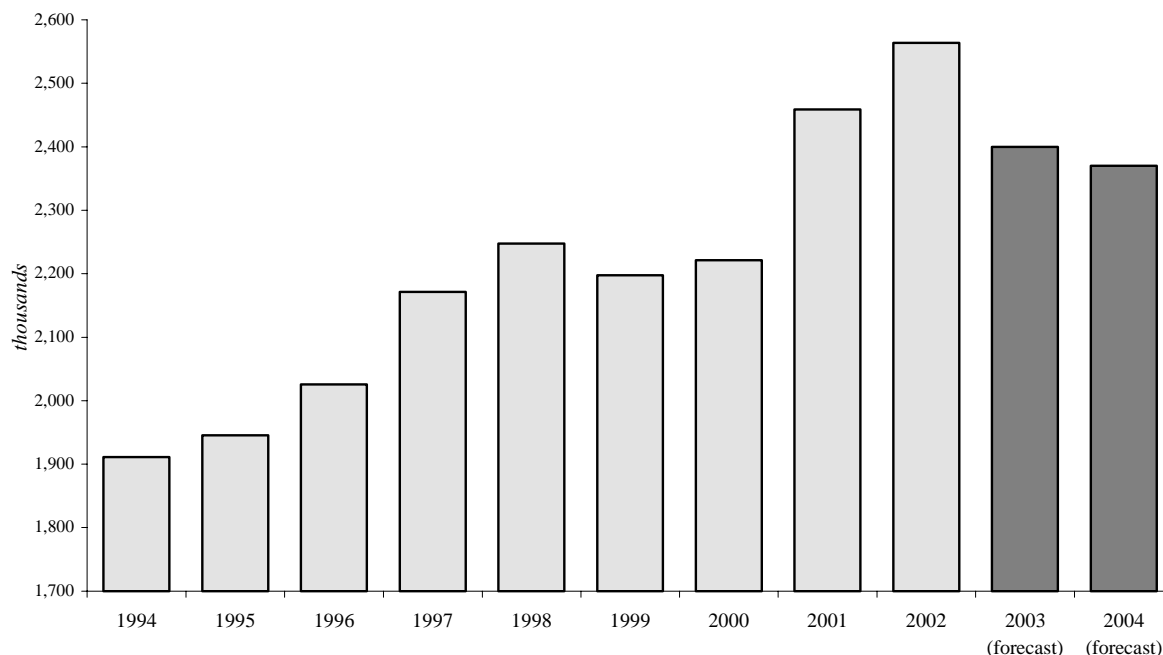
Source: NS database Series EAWN, EAWO, EAWP, EAWQ, EAWM

- In Quarter 4 of 2002 the *volume* of retail sales grew by 1.6% compared with Q3 2002, reaching a level 5.4% higher than Q4 2001 (seasonally adjusted).
- Retail sales volumes in February 2003 were 3.2% higher than in February 2002 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 5.8% in Q4 2002 compared to the same quarter a year earlier. In predominantly food stores, sales volumes grew by 5.1% over the same period. Sales growth was particularly strong in textile, clothing and footwear stores, at 8.5% (all seasonally adjusted data).
- The average weekly *value* of retail sales in February 2003 was just under £4,160 million, 2.6% higher than in February 2002 (non-seasonally adjusted).

CONTACT Ian Townsend, x3977

Next update: 29 April

### F 3. New Registrations of Cars



#### New Registrations of Cars

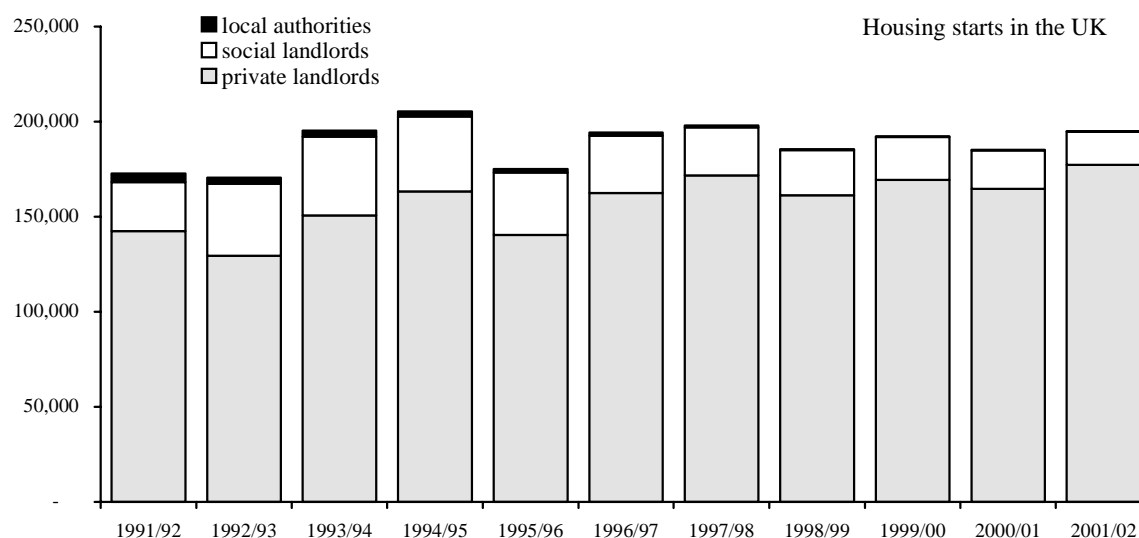
not seasonally adjusted

	Number (000s)	Change over 12 months
2000	2,222	1.1%
2001	2,459	10.7%
2002	2,564	4.3%
2003 (forecast)	2,400	-6.4%
2004 (forecast)	2,370	-1.3%
<hr/>		
2002		
February	94	18.1%
March	424	3.8%
April	209	16.1%
May	209	5.1%
June	207	-3.7%
July	196	13.1%
August	87	12.8%
September	433	-2.4%
October	184	-0.6%
November	172	-6.8%
December	145	14.3%
January	187	-9.1%
2003		
February	88	-5.8%

Source: SMMT "Monthly Statistical Review"

- Figures from the Society of Motor Manufacturers and Traders show that new car registrations in February 2003 fell by 5.8% compared with the previous February's figure to 88,000 units.
- The number of new registrations of cars was around 2.6 million units in 2002, a rise of 4.3% on the previous year and the highest annual total ever.
- There were 17,000 registrations of British-built cars in February, equivalent to 19.3% of the market. This is a fall of 18.6 per cent on the previous February's figure. In 2002 as a whole, there were 583,000 registrations of British-built cars, a decrease of 1.9% from the previous year's figure and equivalent to 22.7% of the market.
- New registrations of cars are forecast to fall by 6.4% in 2003 and by a further 1.3% in 2004.

## F 4. Housing



### House prices

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

	All Houses	New Houses	Existing Houses	First time buyers
2001 Q4	96,100	100,100	96,700	68,600
2002 Q1	100,200	103,800	100,900	71,900
Q2	107,100	110,200	107,900	76,900
Q3	114,000	115,200	115,400	80,300
Q4	121,400	123,000	122,800	84,600
<i>% change over same period in previous year</i>				
2001 Q4	11.7%	9.3%	12.4%	12.2%
2002 Q1	16.2%	17.2%	16.4%	16.4%
Q2	16.7%	16.1%	16.8%	17.4%
Q3	21.0%	16.1%	21.6%	20.0%
Q4	26.4%	22.9%	27.0%	23.5%

*Sources: ODPM & Halifax House Price Index*

- The latest ODPM press release provisionally estimates that just under 16,000 dwellings were started in Great Britain in January 2003, compared with just under 15,000 in January 2002. January 2003 saw just over 12,000 completions, down from just over 13,000 in the same month in the previous year. In the latest three months just over 40,000 dwellings were started, up 3% on the same three-month period a year ago. There were just over 45,000 completions in the latest three months, up 8% on the same three months in the previous year (all based on non-seasonally adjusted figures).

Note: The ODPM plans to publish quarterly figures on housing starts and completions from the 2003/04 financial year, which provide better trend assessment given to the variability of monthly figures.

- According to the Halifax Monthly Index, house prices in the United Kingdom rose by 1.7% in February 2003. On an annual basis, house price inflation was running at 23%.
- The Halifax Quarterly Index shows that UK house prices rose by 7.4% in the fourth quarter of 2002 following a 6.7% rise in the third quarter of 2002 (all seasonally adjusted figures). Regionally in Q4 annual house price inflation was highest in the East Midlands (42.0%) and lowest in Northern Ireland (5.8%) compared with a UK-wide figure of 26.4% (all non-seasonally adjusted figures).

CONTACT Ian Townsend, x3977

*Next update: 10 April*