



RESEARCH PAPER 03/57  
1 JULY 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: The RPI to HICP - a new inflation measure for the UK**

Ian Townsend

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 |
| EC finance              | Edward Potton  | 2883 |
| GDP                     | Grahame Allen  | 4324 |
| Employment              | Dominic Webb   | 2464 |
| Financial services      | Grahame Allen  | 4324 |
| Housing                 | Gavin Berman   | 3851 |
| Incomes                 | Ian Townsend   | 3977 |
| Industries              | Edward Potton  | 2883 |
| National accounts       | Grahame Allen  | 4324 |
| Overseas aid            | Patsy Richards | 4904 |
| Prices & interest rates | Grahame Allen  | 4324 |
| Public expenditure      | Grahame Allen  | 4324 |
| 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 The RPI to HICP - a new inflation measure for the UK

In his April 2003 Budget speech the Chancellor said that there was a case in principle for the UK adopting a new domestic measure of inflation, the Harmonised Index of Consumer Prices (HICP) in place of the Retail Prices Index (RPI), which “has served us well.”<sup>1</sup> In his statement on economic and monetary union of 9 June 2003 the Chancellor reiterated that adopting the HICP would provide a better quality target for domestic inflation in preparation for joining the euro, and that a new target using this measure would be set at the time of the next pre-Budget report.<sup>2</sup> This article compares the alternative indices and the UK and eurozone inflation targets.

### The RPI

The Office for National Statistics (ONS - the official UK statistics office) produces a range of consumer price measures, but the RPI is the oldest. Changes in prices were first collected systematically in 1914 in anticipation of increases due to the effects of war. After 1916 the checks were expanded from food only to include clothing, fuel and other family essentials.<sup>3</sup>

Today, the RPI is a constantly evolving measure of the price of a ‘basket of goods’ that includes the mundane - bread, milk - and the modern - takeaway lattes, DIY materials.<sup>4</sup> Changing patterns of spending, which are used to weight the prices collected, are assessed using the Expenditure and Food Survey (previously the Family Expenditure Survey). An *ad hoc* RPI Advisory Committee considers major methodological questions but it has been convened infrequently of late.<sup>5</sup> The RPI is a relatively well known and accepted indicator, since the regular changes to the basket have become an indicator of changing lifestyles.<sup>6</sup>

The RPI itself is also known as the ‘all-items’ RPI or the ‘headline’ inflation indicator.<sup>7</sup> It can be disaggregated to provide price indices for individual goods. The other main measure, RPI(X), is known as the ‘underlying’ rate of inflation and is the headline RPI less mortgage interest payments. RPI(Y) is also used but is less well known, and it is the headline RPI minus mortgage interest payments and indirect taxes.

Many state benefits including the basic state pension are uprated each April in line with the all-items RPI for the 12 months leading up to the preceding September.<sup>8</sup> Income - related benefits are uprated using the Rossi index, which is the all-items RPI less rents, mortgage

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<sup>1</sup> HC Deb 9 April 2003 c273

<sup>2</sup> HC Deb 9 June 2003 cc407-415

<sup>3</sup> National Statistics, “ONS and the inflation target”, *Economic Trends* 577, December 2001

<sup>4</sup> Office for National Statistics, *Retail Prices Index (RPI): Price Indicators used in 2003*, 17 March 2003

<sup>5</sup> National Statistics, *Retail Prices Index Technical Manual* available on the National Statistics website; see [http://www.statistics.gov.uk/downloads/theme\\_economy/RPI\\_TECHNICAL\\_MANUAL.pdf](http://www.statistics.gov.uk/downloads/theme_economy/RPI_TECHNICAL_MANUAL.pdf), although this is currently under revision (source: ONS, pers. comm.).

<sup>6</sup> For example “Latte the new benchmark for lifestyle; The inflation barometer changes tack,” *The Herald*, 18 March 2003; “Petticoat slips from inflation index,” *The Telegraph*, 18 March 2003

<sup>7</sup> Inflation is generally quoted as the per cent change in the index over the previous 12 months.

<sup>8</sup> Although a 2.5 per cent minimum has now been set for the basic state pension uprating.

interest payments, council tax and depreciation costs. During his statement on economic and monetary union, the Chancellor said he could “confirm that pensions and benefits and index-linked gilts will be calculated on exactly the same basis as now.”<sup>9</sup>

### **The UK’s inflation target**

In 1992, money supply targets were supplanted by an inflation target for the first time, and the Bank of England’s *Inflation Report* was first published in 1993. The RPI assumed still greater importance when RPI(X) was adopted in May 1997 as the measure for the inflation target for the Monetary Policy Committee (MPC) of the newly independent Bank of England.

Under the *Bank of England Act 1998* the Bank has a duty to maintain price stability and, subject to that, support the Government’s economic policy. Each year the Chancellor sets the inflation target, which is currently 2.5 per cent for RPI(X) inflation over the previous twelve months. The MPC is expected to achieve that rate of inflation, and has operational freedom to do this by setting interest rates. If inflation moves away from the target by more than one percentage point in either direction the Governor of the Bank must write (normally on the same day as publication of the data) to the Chancellor setting out the reasons and the measures the MPC intends to take.<sup>10</sup>

A major feature of the MPC is its transparency, since it publishes the minutes of its meetings. At the June 2003 meeting - the last to be chaired by Governor Eddie George - six members voted in favour of maintaining the official short term interest rate at its current value of 3.75 per cent while three members voted for a reduction of 0.25 percentage points.<sup>11</sup>

### **The HICP and eurozone inflation target**

The harmonised index of consumer prices (HICP) is a measure designed to provide comparability between the inflation rates of EU member states rather than relying on domestic price indices (such as the RPI) which vary in coverage and definition. As the Chancellor has noted, it represents best international practice and as such is used by every other G7 nation but Japan, as well as by the UK’s neighbours in Europe.<sup>12</sup>

Eurostat, the European Union statistical office, developed the HICP as a requirement of the Maastricht Treaty.<sup>13</sup> The first official annual rate for the HICP appeared in January 1997. Since January 1999, the HICP has been used by the European Central Bank (ECB) as the target measure of inflation for the eurozone.

<sup>9</sup> HC Deb 9 June 2003 c414

<sup>10</sup> Chancellor’s latest remit letter for the Monetary Policy Committee, April 2003; see also Library research paper 01/59, *The Monetary Policy Committee: theory & performance*, 26 June 2001, <http://www.parliament.uk/commons/lib/research/rp2001/rp01-059.pdf>

<sup>11</sup> Minutes of latest meeting 4 and 5 June 2003; see <http://www.bankofengland.co.uk/mpc/mpc0306.pdf>

<sup>12</sup> HC Deb 9 April 2003 c273

<sup>13</sup> As set out in Council Regulation (EC) 2494/95 of October 1995, see National Statistics website, <http://www.statistics.gov.uk/cci/nugget.asp?id=381>

As with the Bank of England, the main objective of the ECB<sup>14</sup> is to maintain price stability. In 1998 the Governing Council of the ECB adopted the following definition: “Price stability is defined as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term.”<sup>15</sup>

In May 2003 the Governing Council clarified this saying that it would aim to maintain inflation rates ‘close to’ 2 per cent over the medium term.<sup>16</sup> So while the UK’s target is to keep the RPI(X) at no more than one percentage point either side of 2.5 per cent, the ECB has an asymmetrical target of simply keeping the HICP *below* (but close to) 2 per cent. The ECB does not publish minutes of the meetings leading to its decisions.<sup>17</sup>

*Economic Indicators* Indicator B2 (see bullet points on page 7) considers the HICP as the European measure of inflation, and HICP inflation rates for the UK and Member States have been published by National Statistics alongside the RPI in its monthly release of consumer price indices for some time.<sup>18</sup> The National Statistics press releases also outline the main reasons why the RPI and HICP have changed each month.

### **The difference between the RPI and HICP**

In many ways the two indices are similar, but the main differences are as follows:

- In the HICP, the geometric mean is used to aggregate the prices at the most basic level whereas the RPI uses arithmetic means (see below).
- A number of RPI series are excluded from the HICP, most particularly those relating to housing costs (e.g. council tax) and in particular to owner occupiers’ housing costs (e.g. mortgage interest payments, house depreciation, and buildings insurance).
- The coverage of the HICP indices is based on the international classification system (COICOP, classification of individual consumption by purpose), which differs from the RPI groupings.
- The HICP includes series for university accommodation fees, foreign students’ university tuition fees, unit trust and stockbrokers’ charges, none of which are included in the RPI.
- The HICP weights are based on expenditure by all private households, foreign visitors to the UK and residents of institutional households. In the RPI, weights are based on expenditure by private households only, excluding the highest income households, institutional households and pensioner households mainly dependent on state benefits.

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<sup>14</sup> Strictly speaking the ‘Eurosystem’; the ECB and the National Central Banks of the Member States which have adopted the euro; the others have observer status, and all together make up the European System of Central Banks.

<sup>15</sup> ECB, “A stability-oriented monetary policy strategy for the ESCB,” *Press Release*, 13 October 1998

<sup>16</sup> ECB, “The ECB’s monetary policy strategy,” *Press Release*, 8 May 2003

<sup>17</sup> “The European Central Bank has announced a cut in European interest rates, to 2%. Is it too little, too late?,” *The Economist*, 5 June 2003

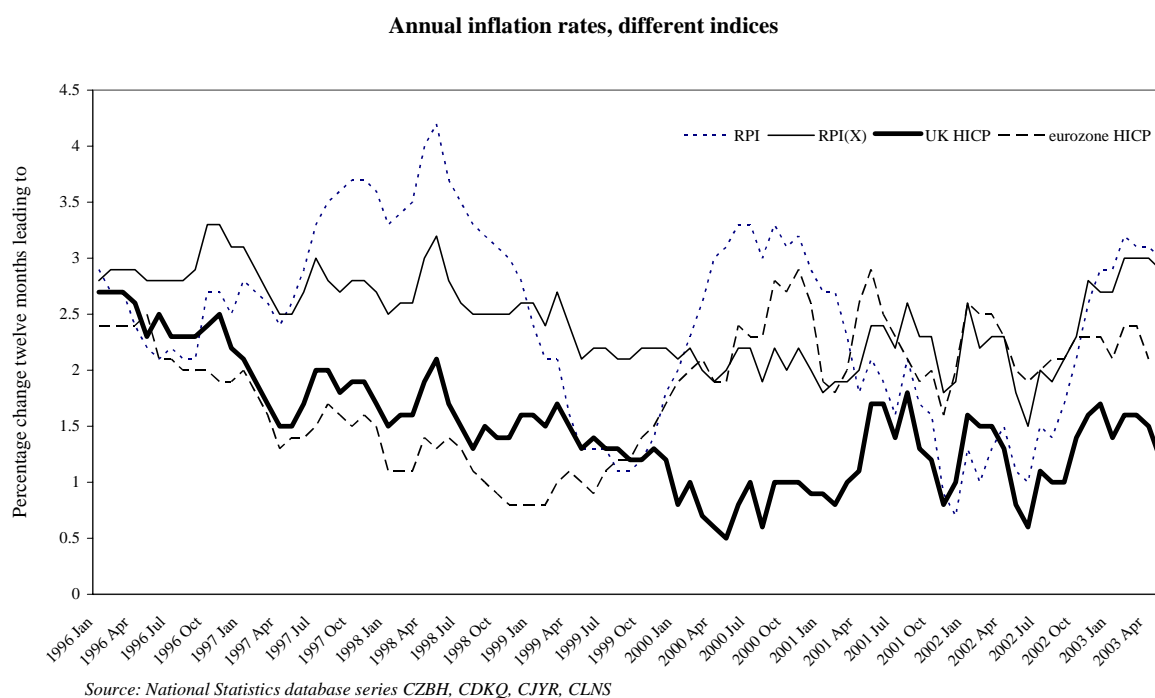
<sup>18</sup> National Statistics, *Consumer Price Indices May 2003*, 17 June 2003

<http://www.statistics.gov.uk/pdfdir/cpi0603.pdf>



There are other differences related to the treatment of spending on insurance, second hand cars and personal computers. But the most significant are the treatment of housing costs – currently accounting for a minus 1.26 percentage point difference – and the use of different means. Rather than using a simple arithmetic mean, geometric means are sometimes preferred when values are multiplied up to give a total. When considering the number of people buying an item at a given price the HICP allows for consumer behaviour by assuming that the number of people buying a product will fall if the price rises, as consumers switch to other brands. Using a geometric mean produces a lower result - currently 0.44 percentage points.<sup>19</sup>

Because of this half a percentage or so and the other differences, notably the housing effect which has increased over recent years, the HICP will produce a ‘different’ inflation rate. Apart from one period in the early 1990s, RPI(X) has consistently delivered a higher inflation figure than HICP.<sup>20</sup> The chart shows how RPI(X) ‘smoothes’ the all-items RPI, and how the UK’s inflation rate measured by the HICP remains low in comparison and, since around the end of 1999, below the eurozone average HICP rate:



In the year to May 2003 RPI(X) inflation was running at 2.9 per cent compared to 3.0 per cent in April, while the UK inflation rate as measured by the HICP stood at 1.2 per cent,

<sup>19</sup> *ibid.* and the Office for National Statistics notes on HICP, 10 June 2003; see <http://www.statistics.gov.uk/cci/nugget.asp?id=181>

<sup>20</sup> “Inflation targets,” *Financial Times*, 11 June 2003, p20

down from 1.5 per cent in April.<sup>21</sup> The provisional eurozone average for May 2003 was 1.9 per cent, down from 2.1 per cent in April.<sup>22</sup>

In June the ECB cut the eurozone interest rate from 2.5 to 2.0 per cent while the MPC left the sterling interest rate on 3.75% (although the minutes show the committee was split on the issue and felt it finely balanced). A 1.75 percentage point difference between the two official short term interest rates is ‘no small matter’ according to the *Financial Times*.<sup>23</sup> However, longer term interest rates are much closer, and short term interest rates may be expected to converge.

Switching the UK inflation target to match that of the eurozone is not expected to make a large difference to interest rates since these were set on the assumption that the house price effect would be fairly short-lived in any case. However, the depreciation of sterling influenced the MPC when it decided not to cut rates in June, and the MPC thought that house price inflation was perhaps slowing less rapidly than projected.<sup>24</sup> Inflationary pressures may be on the horizon, as a recent *Financial Times* article notes:<sup>25</sup>

Finally, the exchange rate gives a strong reason against believing short-term rates will converge quickly. During the years of the strong pound, the UK borrowed disinflation from abroad. Now is the time to pay it back. Unless domestic demand slackens swiftly, this could mean a sustained period of inflationary pressure.

How significant this problem will be is uncertain. In its inflation report, the Bank reports the belief of the Monetary Policy Committee that "there will be more sluggish adjustment of prices than in the past following the recent depreciation". But inflation in the service sector was 4.2 per cent in the year to April, while goods price inflation was close to zero. The strength of sterling must be a large part of the explanation for this discrepancy. Moreover, on a trade-weighted basis, the sterling index has only reversed about a half of its rise since 1995. The currency could well fall further. Even if it does not do so, inflation in goods prices is likely to rise. Overall inflation will then rise, unless service inflation swiftly falls.

Patsy Richards  
Economic Policy and Statistics Section

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<sup>21</sup> Office for National Statistics, *Consumer Price Indices May 2003*, Press Release, 17 June 2003

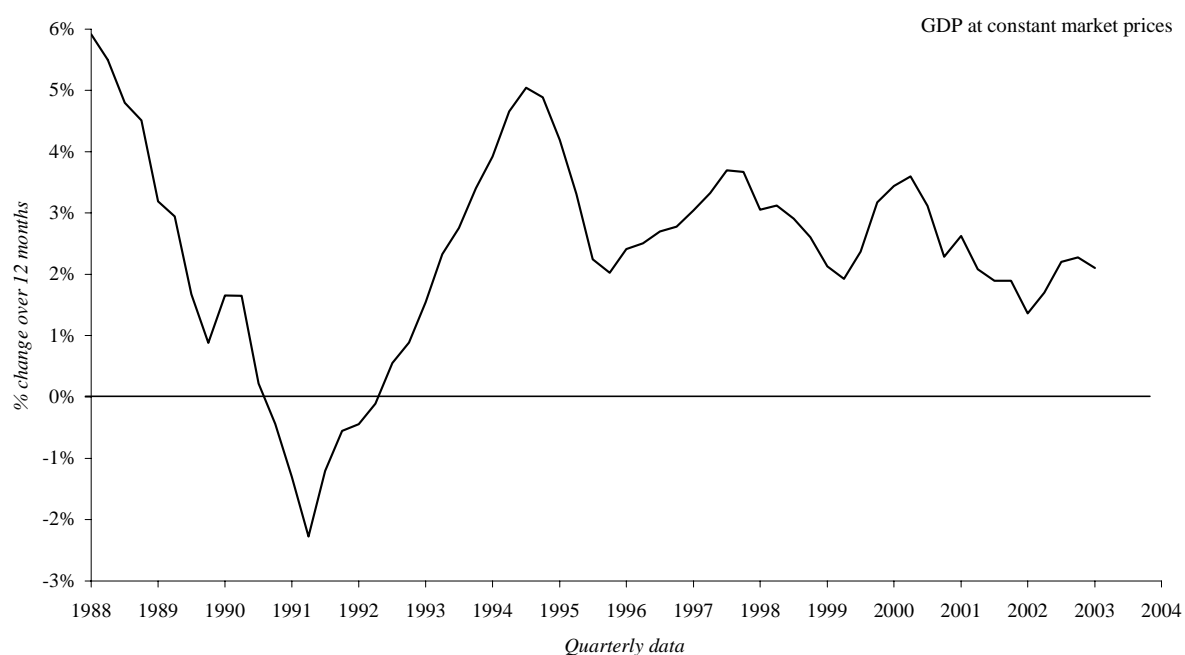
<sup>22</sup> Eurostat, “May 2003 Euro-zone annual inflation down to 1.9%”, News Release 69/2003, 18 June 2003

<sup>23</sup> “Divergence justifies reticence on Euro entry,” *Financial Times*, 9 June 2003 p21

<sup>24</sup> Minutes of latest MPC meeting, 4 and 5 June 2003, see <http://www.bankofengland.co.uk/mpc/mpc0306.pdf>

<sup>25</sup> “Divergence justifies reticence on Euro entry,” *Financial Times*, 9 June 2003 p21

## A 1. Gross Domestic Product



### Gross Domestic Product

*seasonally adjusted*

|         | GDP (at current market prices) |                        | GDP (at 1995 market prices) |
|---------|--------------------------------|------------------------|-----------------------------|
|         | <i>£ billion</i>               | <i>12 month change</i> | <i>12 month change</i>      |
| 1999    | 902.5                          | 5.0%                   | 2.4%                        |
| 2000    | 950.4                          | 5.3%                   | 3.1%                        |
| 2001    | 993.1                          | 4.5%                   | 2.1%                        |
| 2002    | 1043.6                         | 5.1%                   | 1.9%                        |
| 2002 Q1 | 256.0                          | 4.5%                   | 1.4%                        |
| Q2      | 258.8                          | 4.6%                   | 1.8%                        |
| Q3      | 262.2                          | 5.8%                   | 2.3%                        |
| Q4      | 266.6                          | 5.5%                   | 2.3%                        |
| 2003 Q1 | 268.5                          | 4.9%                   | 2.1%                        |

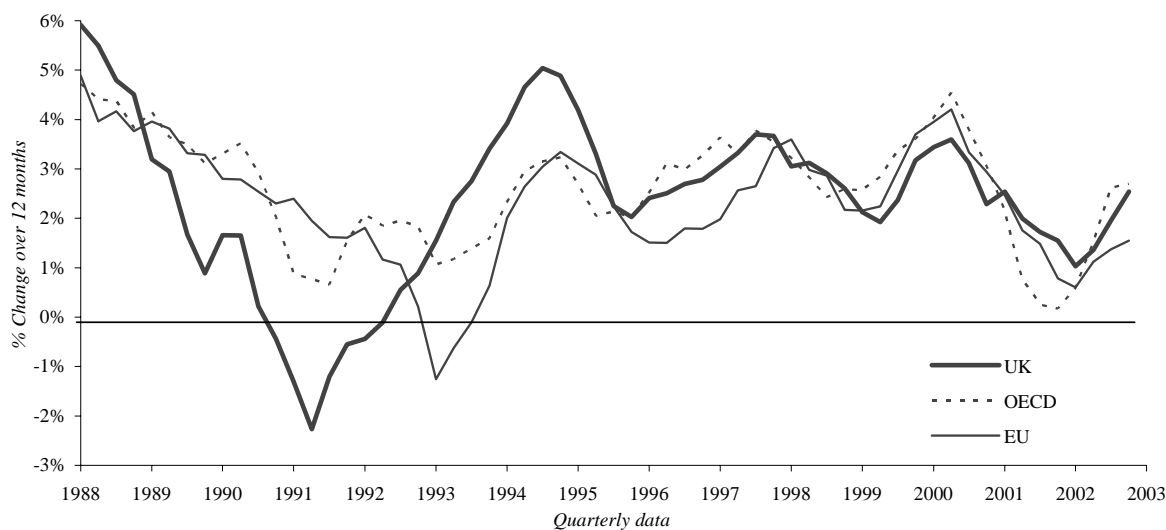
*Source: NS database series YBHA & ABMI*

- Gross domestic product (GDP) at 1995 market prices is estimated to have risen by 0.1% in the first quarter of 2003, one fifth of the growth recorded in the previous quarter. For 2002, the economy is estimated to have grown by 1.9%, marginally higher than that forecast in the November 2002 Pre Budget Report.
- In 2003 Q1 output in manufacturing is estimated to have risen by 0.1%. The most significant increase came from transport equipment industries.
- Services sector quarterly output grew by 0.4% compared with 0.5% in the previous quarter.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 1.8% in 2003 and 2.4% in 2004.

CONTACT Grahame Allen, x4324

*Next update: 25 July*

## A 2. GDP: International Comparisons



### GDP at constant market prices

|                | % change on year |      |      |      | % change quarter on quarter |         |         |         |         |
|----------------|------------------|------|------|------|-----------------------------|---------|---------|---------|---------|
|                | 1999             | 2000 | 2001 | 2002 | 2002 Q1                     | 2002 Q2 | 2002 Q3 | 2002 Q4 | 2003 Q1 |
| USA            | 4.1%             | 3.7% | 0.2% | 2.5% | 1.2%                        | 0.3%    | 1.0%    | 0.4%    | 0.5%    |
| Japan          | 0.1%             | 2.9% | 0.4% | 0.2% | 0.1%                        | 1.2%    | 0.7%    | 0.5%    | 0.0%    |
| Canada         | 5.5%             | 3.4% | 1.1% | 3.3% | 1.4%                        | 0.9%    | 0.6%    | 0.4%    | 0.6%    |
| United Kingdom | 2.4%             | 3.1% | 2.1% | 1.8% | 0.1%                        | 0.6%    | 1.1%    | 0.4%    | 0.1%    |
| Germany        | 2.0%             | 2.8% | 0.6% | 0.2% | 0.4%                        | 0.1%    | 0.4%    | -0.1%   | -0.2%   |
| France         | 3.4%             | 4.1% | 2.2% | 1.2% | 0.7%                        | 0.5%    | 0.3%    | -0.1%   | 0.3%    |
| Italy          | 1.6%             | 3.2% | 1.8% | 0.4% | 0.0%                        | 0.3%    | 0.3%    | 0.4%    | -0.1%   |
| Euro zone      | 3.1%             | 3.6% | 1.6% | 0.9% | 0.3%                        | 0.4%    | 0.3%    | 0.1%    | ..      |
| G7             | 2.9%             | 3.6% | 0.7% | 1.6% | 0.7%                        | 0.5%    | 0.8%    | 0.3%    | 0.3%    |
| OECD           | 3.2%             | 3.8% | 0.9% | 1.9% | 0.8%                        | 0.7%    | 0.7%    | 0.4%    | ..      |

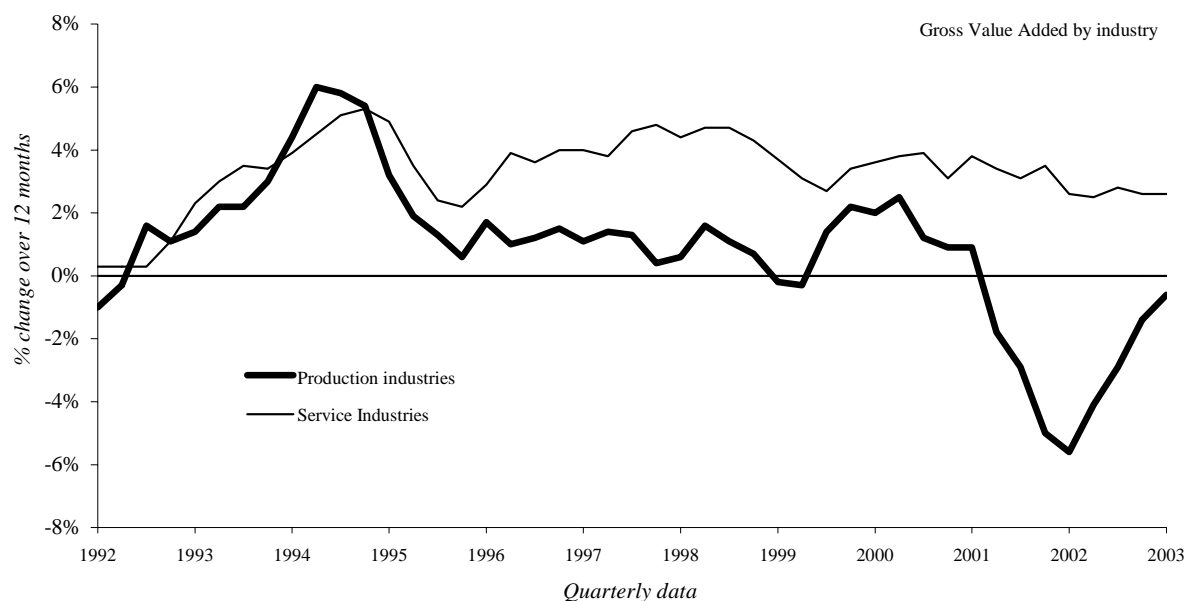
Source: OECD, Main Economic Indicators, June 2003

- 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 2002 and first of 2003.
- Recent growth in the EU has been described in the latest EU Commission document as 'meagre'. Annual growth to the last quarter of 2002 in the EU was just 0.2%, and negative growth was recorded in Germany for the latest quarter. Euro zone growth for 2003 is forecast at just 1% for 2003 and 2.3% in 2004.
- 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 2.5% in the USA, 1.0% in Japan and 1.2% in the EU15. Its latest forecast for the UK is 2.1%.

CONTACT Grahame Allen, x4324

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,<br>hunting<br>& fishing | Construction |
|---------|-----------------------|--------------------|----------|--------------------------------------|--------------|
|         | Total                 | Manufac-<br>turing | Services |                                      |              |
| 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%                 | -4.1%              | 2.6%     | 9.7%                                 | 7.5%         |
| 2002 Q1 | -5.6%                 | -6.4%              | 2.6%     | 7.6%                                 | 7.2%         |
| Q2      | -4.1%                 | -5.1%              | 2.5%     | 9.3%                                 | 7.0%         |
| Q3      | -2.9%                 | -2.9%              | 2.8%     | 11.9%                                | 7.9%         |
| Q4      | -1.4%                 | -1.8%              | 2.6%     | 10.0%                                | 7.9%         |
| 2003 Q1 | -0.6%                 | -0.7%              | 2.6%     | 0.0%                                 | 2.8%         |

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

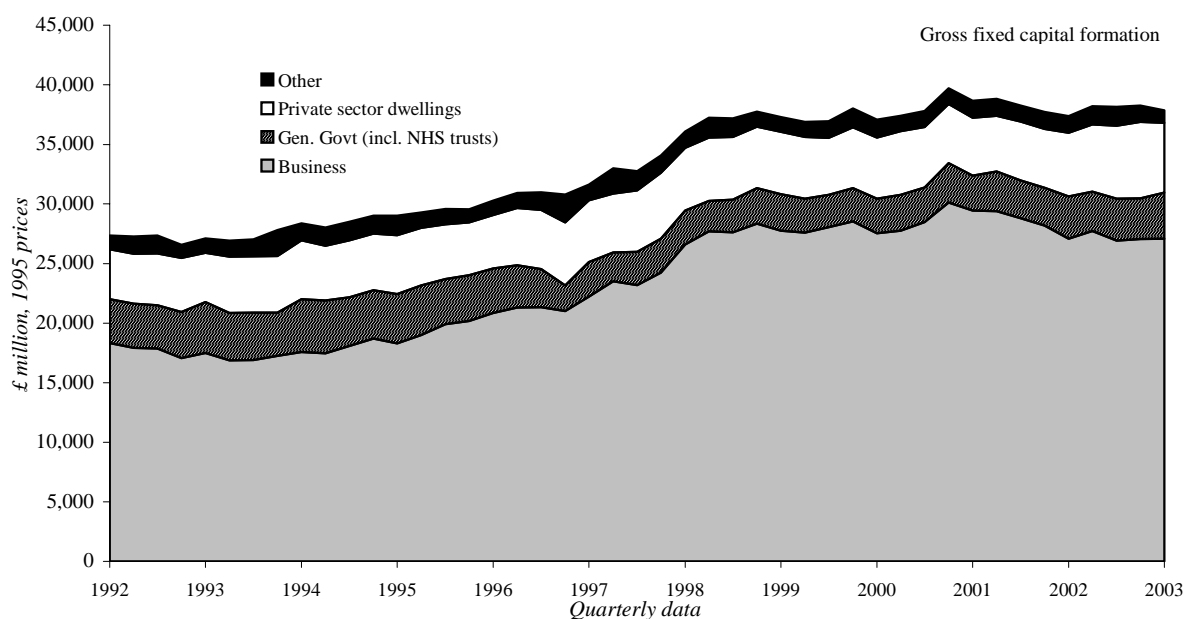
GDP by industry is measured by gross value added (GVA). GVA measures the value of output of an industry less the value of intermediate inputs used by that industry.

- 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 fourth quarter of 2002 and the first quarter of 2003, output in the service sector rose by 0.4%.
- Manufacturing output rose by 0.1% between the fourth quarter of 2002 and the first quarter of 2003, but fell by 4.1% 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 Ed Potton, x2883

Next update: 25 July

## A 4. Investment



### Gross fixed capital formation

£ million; 1995 prices; seasonally adjusted

|         | Transport<br>Equipment | Other Machinery<br>& Equipment | Other Buildings<br>& Structures | Dwellings | Intangible<br>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    | 14,679                 | 72,474                         | 40,625                          | 21,169    | 4,521                      | 153,468 |
| 2002    | 15,235                 | 66,010                         | 40,955                          | 25,169    | 4,635                      | 152,004 |
| 2002 Q1 | 3,713                  | 16,649                         | 10,185                          | 5,736     | 1,082                      | 37,365  |
| Q2      | 3,762                  | 17,128                         | 10,163                          | 6,008     | 1,158                      | 38,219  |
| Q3      | 3,858                  | 16,163                         | 10,401                          | 6,557     | 1,171                      | 38,150  |
| Q4      | 3,902                  | 16,070                         | 10,206                          | 6,868     | 1,224                      | 38,270  |
| 2003 Q1 | 3,798                  | 15,977                         | 10,528                          | 6,306     | 1,239                      | 37,848  |

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

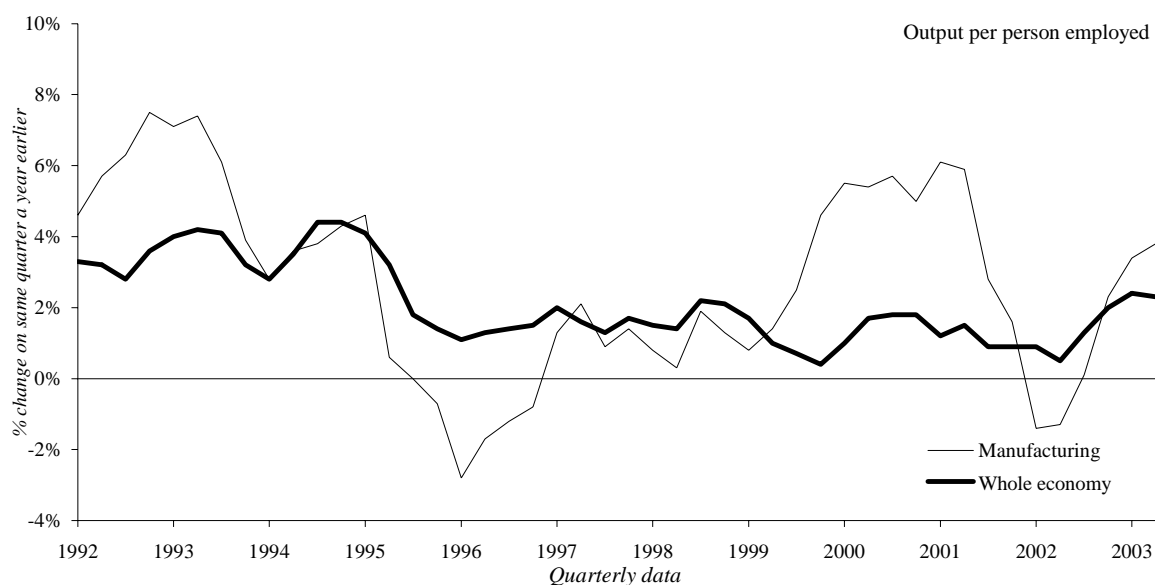
Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations (other than NHS trusts) on transport equipment, other machinery and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

- Total business investment (seasonally adjusted) was unchanged in the first quarter of 2003 compared with the fourth quarter of 2002 and with the first quarter of 2002.
- Manufacturing investment (seasonally adjusted) increased by 8.2% over the first quarter of 2003 while service sector investment fell by 1.4%.

CONTACT Dominic Webb, x2883

Next update: 21 August

## A 5. Productivity



### Productivity

% changes on year; seasonally adjusted

|         | Manufacturing |                         |                 | Whole Economy |                         |                 |
|---------|---------------|-------------------------|-----------------|---------------|-------------------------|-----------------|
|         | Output        | Workforce in employment | Output per head | Output        | Workforce 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          | -4.4                    | 2.2             | 1.8           | 0.7                     | 1.1             |
| 2002    | -4.1          | -5.1                    | 1.1             | 1.5           | -0.1                    | 1.5             |
| 2002 Q1 | -6.4          | -5.2                    | -1.3            | 0.9           | 0.3                     | 0.5             |
| 2002 Q2 | -5.1          | -5.2                    | 0.1             | 1.2           | -0.1                    | 1.3             |
| 2002 Q3 | -2.9          | -5.0                    | 2.3             | 1.8           | -0.2                    | 2.0             |
| 2002 Q4 | -1.8          | -5.0                    | 3.4             | 2.0           | -0.3                    | 2.4             |
| 2003 Q1 | -0.7          | -4.4                    | 3.8             | 1.9           | -0.4                    | 2.3             |

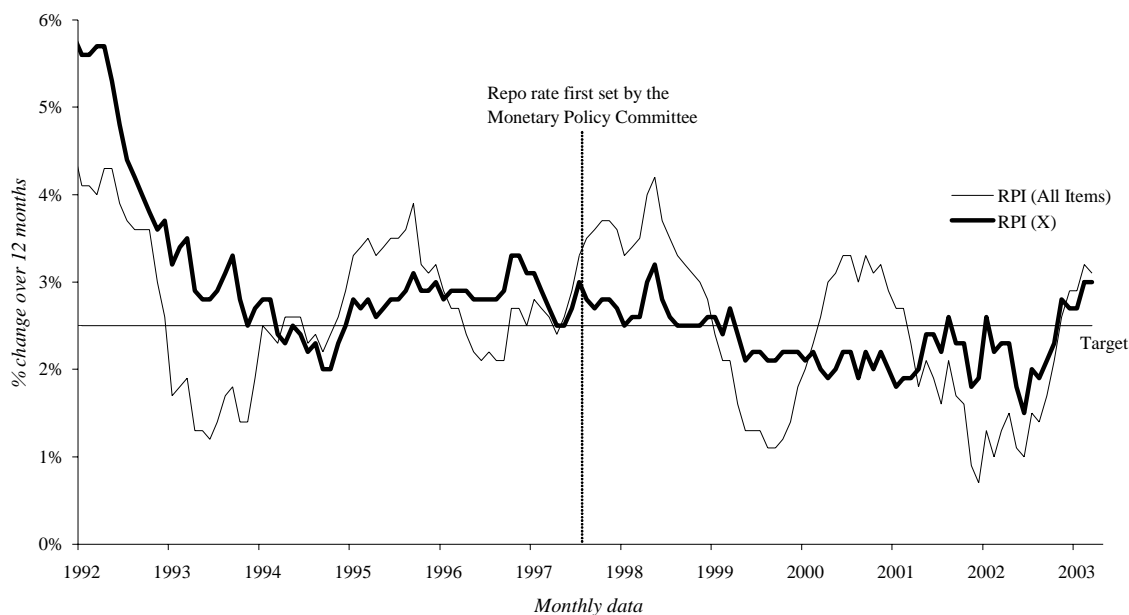
Source: NS database series ERIU, LNNS, LNNU, GDPR, LNNO, LNNP, ERIT, LNOK, LNNX, ABMM, LNNM, LNNN

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 1.5% in 2002 compared to 1.1% in 2001 and 1.6% in 2000.
- In 2002, manufacturing output fell by 4.1% and employment in manufacturing fell by 5.1% while manufacturing output per head rose by 1.1%.
- Productivity growth in manufacturing rose from 3.4% per annum in 2002 Q4 to 3.8% per annum in 2003 Q1 while whole economy productivity growth fell from 2.4% per annum to 2.3% per annum in 2003 Q1.
- For the economy as a whole, productivity growth has averaged 1.4% per annum over the last eight quarters.

CONTACT Ed Potton, x2883

Next update: Late July

## B 1. Retail Prices Index



### Retail Prices Index

% change on previous year

|              | RPI<br>All Items | RPI (X)<br>Excluding mortgage<br>interest |
|--------------|------------------|---|
| 1999         | 1.5              | 2.3                                       |
| 2000         | 3.0              | 2.1                                       |
| 2001         | 1.8              | 2.1                                       |
| 2002         | 1.7              | 2.2                                       |
| 2002 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                                       |
| March        | 3.1              | 3.0                                       |
| April        | 3.1              | 3.0                                       |
| May          | 3.0              | 2.9                                       |

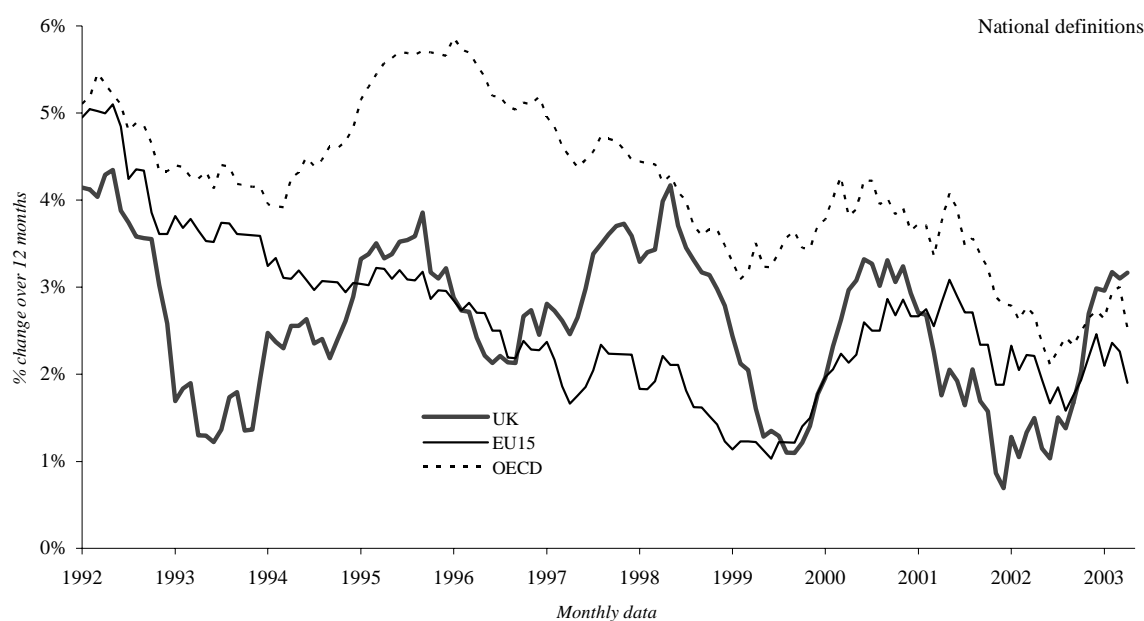
Source: NS database (series CZBH, CDKQ)

The current inflation target is 2.5%: if RPI (X) diverges from this by more than 1 percentage point, the Governor of the Bank of England must send a letter to the Chancellor. A new target will be set later this year (see the article at the start of this research paper).

- 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 May 2003 the headline rate of inflation fell to 3.0%, from 3.1% in April. The underlying rate of inflation fell to 2.9% in May from 3.0% in April.
- The largest downward effect on the all-items 12 month rate came from motoring expenditure, with crude oil price falls feeding through. House prices rose less than last year.
- Upward pressures came from food, especially seasonal food. Another large effect came from household goods and furniture and furnishings, which rose more than last year.



## 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 | 1.5     | 1.7    | 2.5   | 4.0  | 2.4  |
| 2001          | 2.8 | -0.7  | 2.6    | 1.8 | 2.0     | 1.6    | 2.8   | 3.4  | 2.4  |
| 2002          | 1.5 | -1.0  | 2.2    | 1.6 | 1.4     | 1.9    | 2.5   | 2.5  | 2.1  |
| 2002 November | 2.2 | -0.4  | 4.3    | 2.7 | 0.2     | 2.2    | 2.8   | 2.6  | 2.2  |
| 2002 December | 2.3 | -0.3  | 3.8    | 3.0 | 1.0     | 2.3    | 2.8   | 2.7  | 2.5  |
| 2003 January  | 2.6 | -0.4  | 4.5    | 3.0 | 0.1     | 2.0    | 2.8   | 2.6  | 2.1  |
| 2003 February | 3.0 | -0.2  | 4.7    | 3.2 | 0.3     | 2.6    | 2.6   | 2.9  | 2.4  |
| 2003 March    | 3.1 | -0.1  | 4.3    | 3.1 | 0.3     | 2.5    | 2.7   | 3.0  | 2.3  |
| 2003 April    | 2.2 | -0.1  | 3.0    | 3.2 | -0.2    | 2.0    | 2.7   | 2.5  | 1.9  |

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 in May was 1.9%, down from 2.1% in April and compared to 2.0% a year earlier.
- The inflation rates for the Member States not in the eurozone were (on a harmonised basis) Denmark 2.1%, Sweden 2.0% and the UK 1.2%.
- In May 2003 the eurozone countries with the highest annual inflation rates were, on a harmonised basis, Ireland (3.9%), Greece (3.5%) and Portugal (3.7%). The lowest rates were in Germany (0.6%) and Belgium and Austria (both 0.9%).

CONTACT Patsy Richards, x4904

Next update: July

### B 3. Average Earnings Index



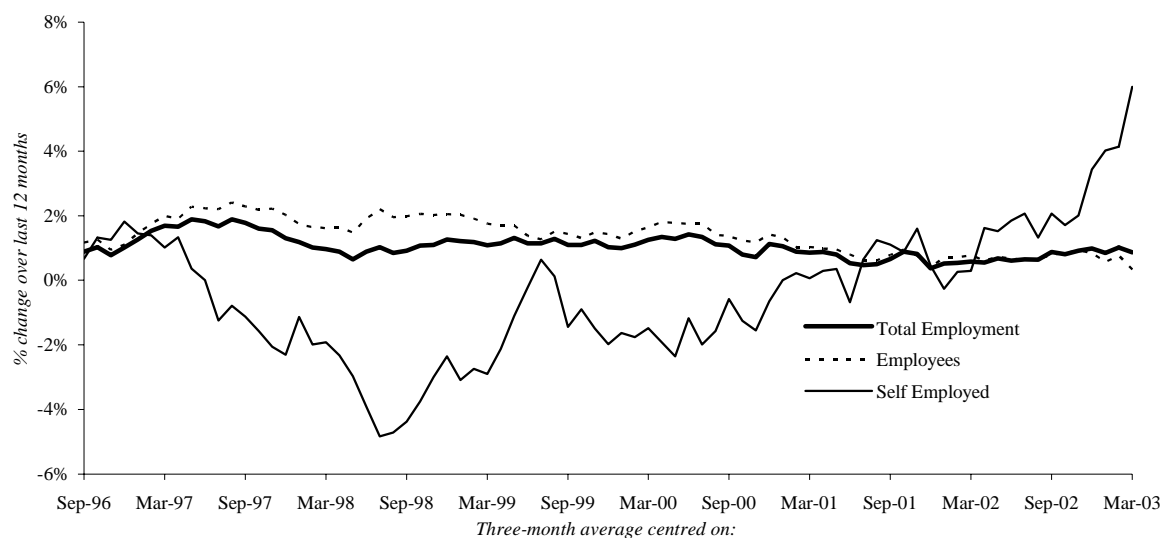
#### Average Earnings, Great Britain seasonally adjusted

|      |     | Headline rate (% change on year) |                |               |
|------|-----|----------------------------------|----------------|---------------|
|      |     | Whole Economy                    | Private Sector | Public Sector |
| 1999 | Apr | 4.5                              | 4.5            | 4.4           |
| 2000 | Apr | 4.8                              | 5.0            | 4.1           |
| 2001 | Apr | 5.2                              | 5.3            | 4.3           |
| 2002 | Apr | 3.4                              | 3.3            | 4.2           |
|      | May | 3.7                              | 3.6            | 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           |
| 2003 | Nov | 3.8                              | 3.7            | 4.3           |
|      | Dec | 3.7                              | 3.4            | 4.6           |
|      | Jan | 3.6                              | 3.2            | 5.0           |
|      | Feb | 3.1                              | 2.6            | 5.1           |
|      | Mar | 3.4                              | 3.0            | 5.1           |
|      | Apr | 3.2                              | 2.7            | 5.2           |

Source: NS database Series LNNC, LNND, LNNE

- The headline rate of growth in average earnings for the whole economy in April was 3.2%, a decrease on March's figure of 3.4%.
- April'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 4.5% in April (compared with 4.9% in March) while earnings growth in the service sector fell to 2.9% compared with 3.1% in March.
- Headline earnings growth in the private sector was 2.7% in April, compared to 5.2% in the public sector.
- Earnings are currently growing more slowly than a year ago (the headline rate in April 2002 was 3.4%).

## 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 |
|--------------------------------|-----|---------------------|-----------|---------------|-----------------------|---------------|
| 1999                           | Mar | 26,894              | 23,517    | 3,121         | 101                   | 154           |
| 2000                           | Mar | 27,232              | 23,904    | 3,075         | 110                   | 142           |
| 2001                           | Mar | 27,467              | 24,150    | 3,077         | 95                    | 145           |
| 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           |
| 2003                           | Jan | 27,866              | 24,418    | 3,271         | 90                    | 87            |
| <i>Changes:</i>                |     |                     |           |               |                       |               |
| <i>Last three months</i>       |     | 0.2%                | -0.1%     | 2.8%          | -0.2%                 | -12.5%        |
| <i>Last year</i>               |     | 0.9%                | 0.3%      | 6.0%          | -5.2%                 | -19.4%        |

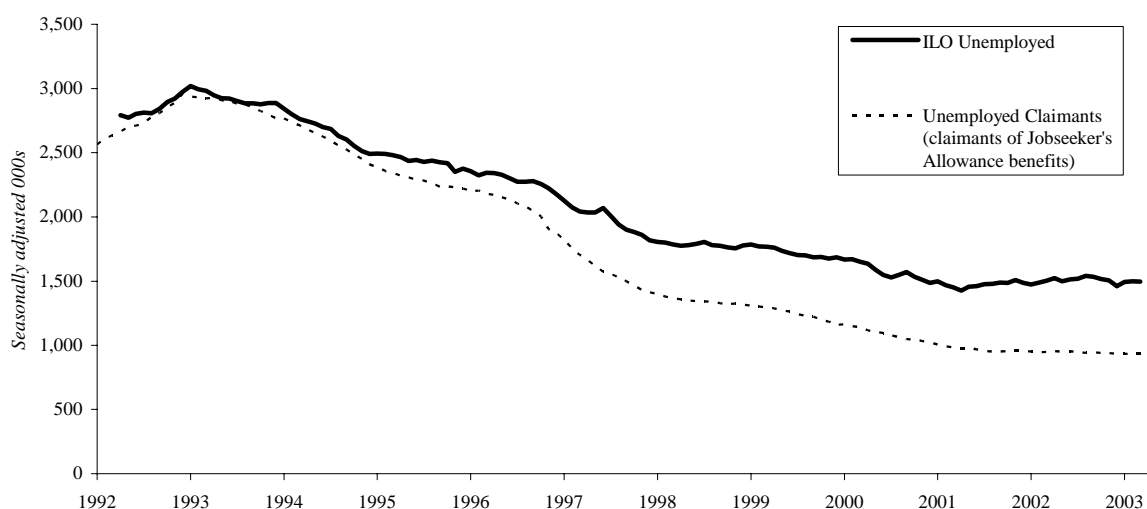
Source: National Statistics First Release Labour Market Statistics 11 June 2003

- Total employment was 27.9 million in the period February to April 2003, 0.9% higher than a year previously. The working age employment rate of 74.6% was the same as the previous quarter and 0.2% higher than a year earlier.
- The number of workforce jobs increased by 45,000 between December 2002 and March 2003 and was 88,000 higher than a year previously. Over the year to March, production industry workforce jobs fell by 136,000. Service sector jobs rose by 208,000 and other industries increased by 17,000.
- 7.2 million people were in part time employment in the period February to April 2003, of whom 5.7 million were women. Some 3.3 million people were self employed.

CONTACT Dominic Webb, x2464

Next update: 16 July

## C 2. Unemployment: National



### ILO Unemployment in the UK seasonally adjusted

|                | 000s  | rate (%) |
|----------------|-------|----------|
| 1997 May - Jul | 2,067 | 7.3      |
| Aug - Oct      | 1,899 | 6.7      |
| 1998 Nov - Jan | 1,814 | 6.4      |
| Feb - Apr      | 1,784 | 6.3      |
| May - Jul      | 1,787 | 6.3      |
| Aug - Oct      | 1,771 | 6.2      |
| 1999 Nov - Jan | 1,773 | 6.2      |
| Feb - Apr      | 1,764 | 6.2      |
| May - Jul      | 1,712 | 6.0      |
| Aug - Oct      | 1,681 | 5.9      |
| 2000 Nov - Jan | 1,681 | 5.8      |
| Feb - Apr      | 1,645 | 5.7      |
| May - Jul      | 1,545 | 5.3      |
| Aug - Oct      | 1,568 | 5.4      |
| 2001 Nov - Jan | 1,484 | 5.1      |
| Feb - Apr      | 1,451 | 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      |
| Feb - Apr      | 1,495 | 5.1      |

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 February to April 2003, the level of ILO unemployment in the UK was 1,495,000. This was an increase of 36,000 from the period November 2002 to January 2003 .
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 10,000 between April and May 2003 to 951,000.

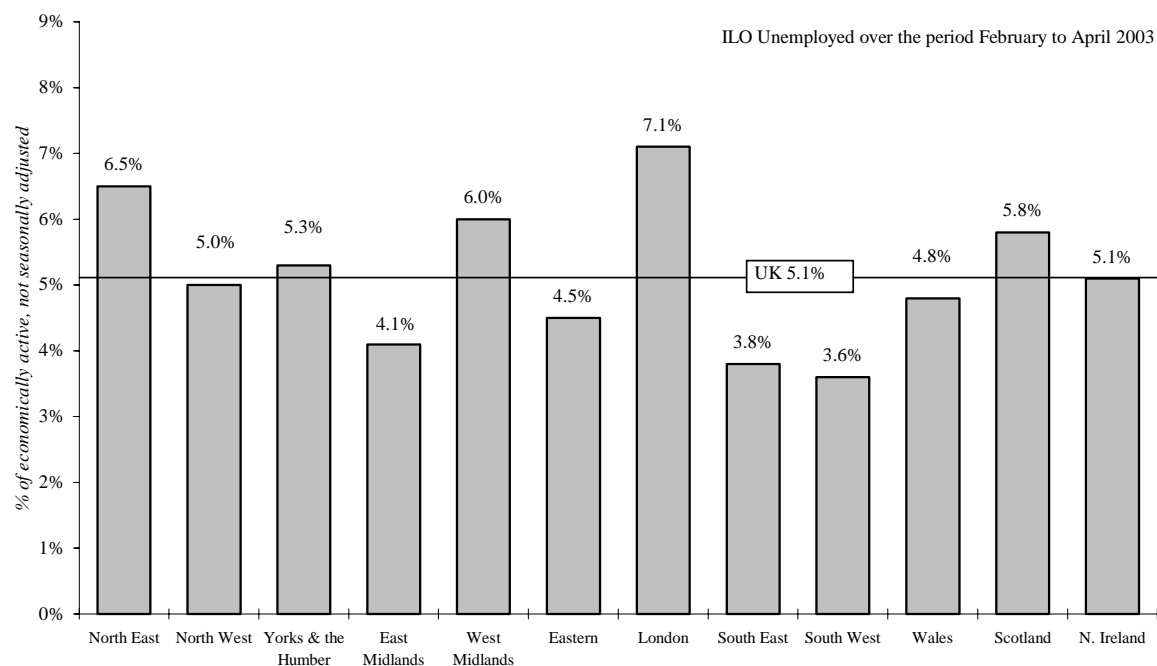
The New Deal for the Young Unemployed started in January 1998.

- 955,000 people had joined the scheme by the end of March 2003. Of those leaving the scheme 428,000 had moved into jobs up to the end of March, of which 337,000 (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 March 2003, 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. 237,000 people had started on the enhanced scheme. Of these, 68,000 people had entered jobs of which 53,000 (78%) were sustained.

### C 3. Unemployment: Regional



#### ILO Unemployment, February to April 2003 change on same period in previous year seasonally adjusted

|                         | 000s | %    |
|-------------------------|------|------|
| North East              | -7   | -9%  |
| North West & Merseyside | -23  | -13% |
| Yorkshire & the Humber  | 6    | 5%   |
| East Midlands           | -12  | -12% |
| West Midlands           | 9    | 6%   |
| Eastern                 | 24   | 24%  |
| London                  | 12   | 5%   |
| South East              | 2    | 1%   |
| South West              | 10   | 12%  |
| Wales                   | -10  | -13% |
| Scotland                | -22  | -13% |
| Northern Ireland        | -2   | -5%  |

Source: National Statistics, 11 June 2003

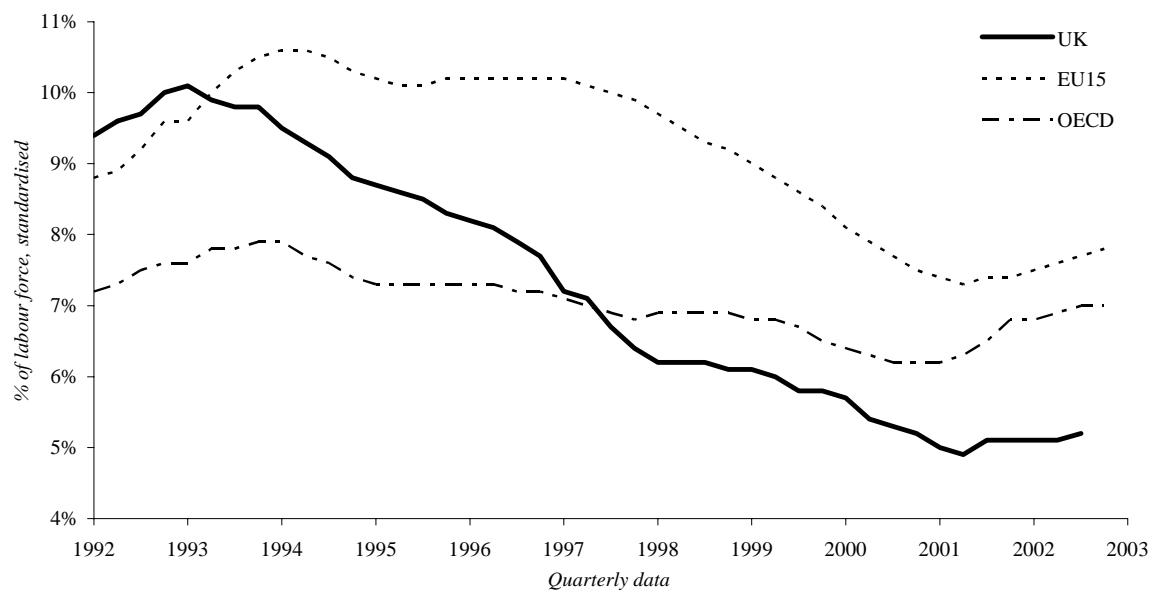
Since April 1998, National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- Over the period February to April 2003 the London region had the highest unemployment rate, 7.1% of the economically active population. The lowest rate over the same period was 3.6% in the South West region.
- A comparison of the February to April 2003 with the same period a year earlier shows that the largest fall (13%) in unemployment occurred in the North West & Merseyside, Scotland and Wales. The Eastern region experienced the largest rise (24%) in unemployment over the same period.

CONTACT Alex Adcock, x3793

Next update: 16 July

## C 4. Unemployment: International Comparisons



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

|           | 1999 | 2000 | 2001 | 2002 | 2002 | 2002 | 2002 | 2002 | 2003 |
|-----------|------|------|------|------|------|------|------|------|------|
|           |      |      |      |      | Q1   | Q2   | Q3   | Q4   | Q1   |
| USA       | 4.2  | 4.0  | 4.7  | 5.8  | 5.6  | 5.9  | 5.8  | 5.9  | 5.8  |
| Japan     | 4.7  | 4.7  | 5.0  | 5.4  | 5.3  | 5.4  | 5.4  | 5.4  | 5.4  |
| Canada    | 7.6  | 6.8  | 7.2  | 7.7  | 7.8  | 7.6  | 7.6  | 7.6  | 7.4  |
| UK        | 5.9  | 5.4  | 5.0  | 5.1  | 5.1  | 5.1  | 5.2  | 5.0  | ..   |
| Germany   | 8.4  | 7.8  | 7.8  | 8.6  | 8.3  | 8.5  | 8.6  | 8.8  | 9.2  |
| France    | 10.7 | 9.3  | 8.5  | 8.7  | 8.6  | 8.7  | 8.8  | 8.9  | 9.0  |
| Italy     | 11.3 | 10.4 | 9.4  | 9.0  | 9.0  | 9.0  | 9.0  | 8.9  | ..   |
| Euro zone | 9.4  | 8.5  | 8.0  | 8.4  | 8.2  | 8.3  | 8.4  | 8.5  | 8.7  |
| G7        | 6.1  | 5.6  | 5.9  | 6.5  | 6.4  | 6.5  | 6.5  | 6.6  | 6.6  |
| OECD      | 6.7  | 6.3  | 6.5  | 6.9  | 6.8  | 6.9  | 7.0  | 7.0  | 7.0  |

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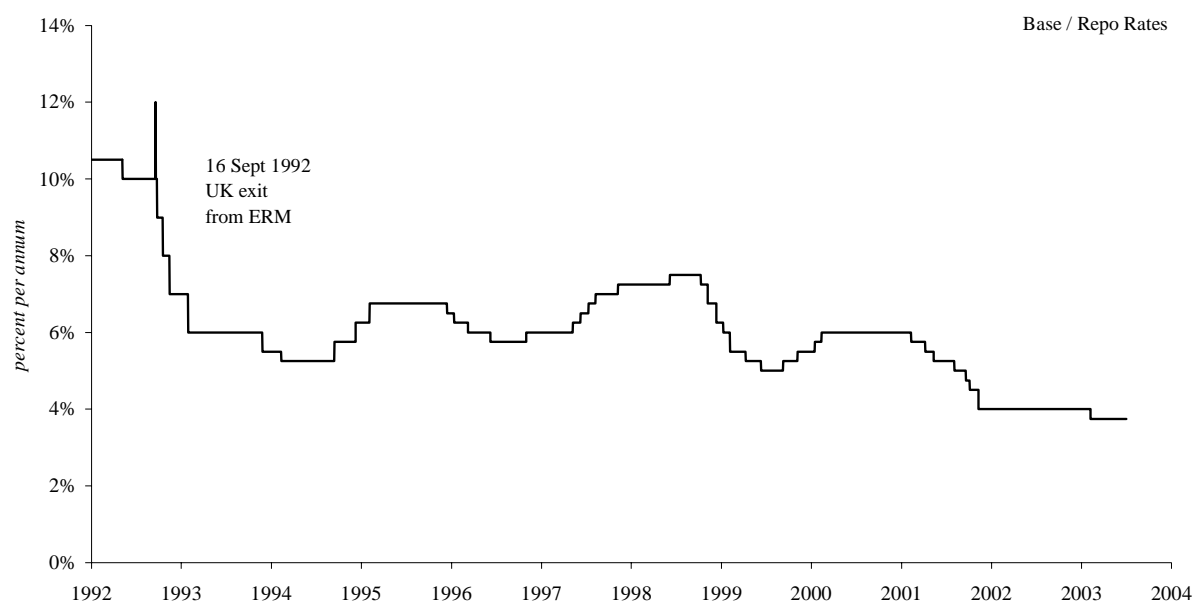
Source: OECD Main Economic Indicators, June 2003

- Using standardised definitions, the UK unemployment rate for 2002 was 5.1%, significantly below the Euro-zone average (8.4%) and below the G7 and OECD rates (6.5% and 6.9% respectively).
- Between Q3 and Q4 2002 the unemployment rate rose or remained the same in all G7 countries except Italy and the UK, where it fell 0.1 and 0.2 percentage points respectively. The unemployment rate in all the G7 nations taken together rose by 0.1 of a percentage point.
- The most recent forecasts published by the OECD (*Economic Outlook, June 2003*) suggest the UK unemployment rate will be 5.2% of the labour force in 2004. In 2004 the unemployment rate is expected to be 8.6% for the Euro zone and 6.9% for the OECD as a whole.

CONTACT Alex Adcock, x3973

Next update: 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     |
| 1999           | Dec 10  | 6.25     |
|                | Jan 7   | 6.00     |
|                | Feb 4   | 5.50     |
|                | Apr 8   | 5.25     |
|                | June 10 | 5.00     |
| 2000           | Sep 8   | 5.25     |
|                | Nov 4   | 5.50     |
|                | Jan 13  | 5.75     |
| 2001           | 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     |
| 2003           | Nov 8   | 4.00     |
|                | Feb 6   | 3.75     |

Source: Bank of England

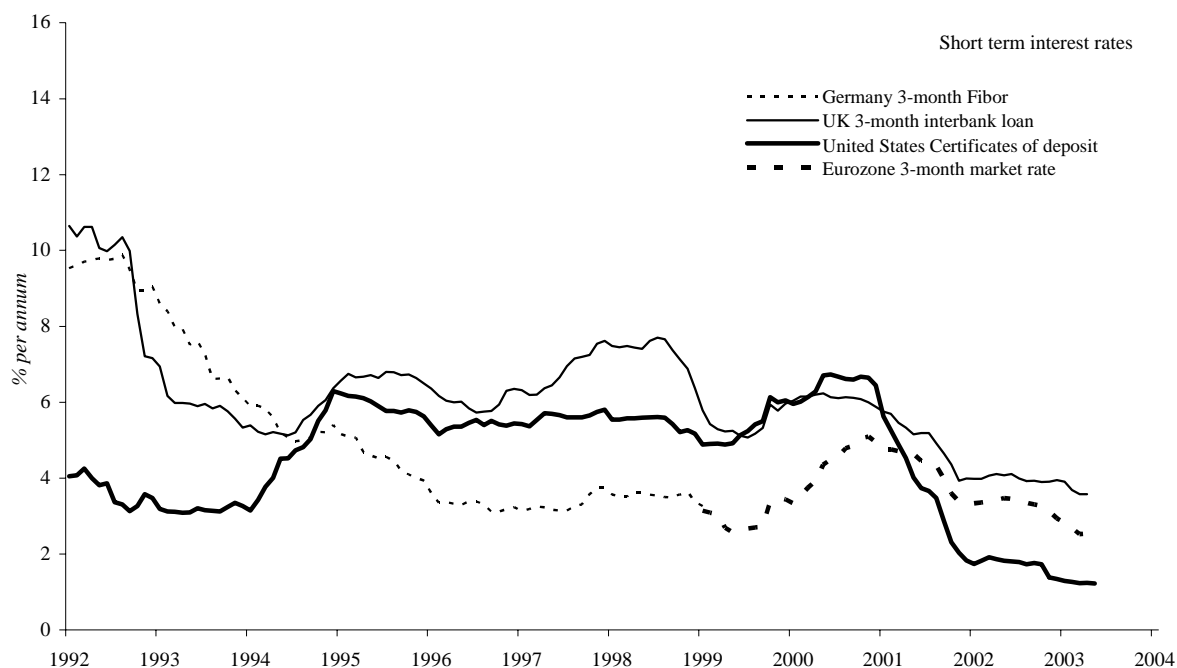
The ¼% interest rate increase on 6 June 1997 signified the first time that interest rates were set by the independent Monetary Policy Committee (MPC) of the Bank of England rather than by the Chancellor.

- 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 June meeting, the MPC felt that the upside and downside risks to the economy were finely balanced. They suggested that a slight deterioration in the global outlook, mainly due to the euro zone, a less rapid fall than expected in consumption growth and a slower cooling in the housing market than expected were the main reasons for maintaining the present rate.
- The MPC next meets on 9 July. It is expected that the minutes will be published on 23 July 2003.

CONTACT Grahame Allen, x4324

Next update: 10 July

## D 2. Interest Rates: International Comparisons



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

as at 30 June 2003

|                | Official rate | Yield on 10 yr Government bonds | 3-month rate market rate |
|----------------|---------------|---------------------------------|--------------------------|
| United Kingdom | 3.75          | 4.18                            | $3 \frac{9}{16}$         |
| United States  | 1.00          | 3.53                            | $1 \frac{1}{8}$          |
| Switzerland    | 0.00-0.75     | 2.41                            | $\frac{9}{32}$           |
| Japan          | 0.00          | 0.81                            | $-\frac{3}{32}$          |
| Eurozone       | 2.00          | n/a                             | $2 \frac{1}{8}$          |

Source: Financial Times, 1 July 2003, Companies & Markets p43

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.

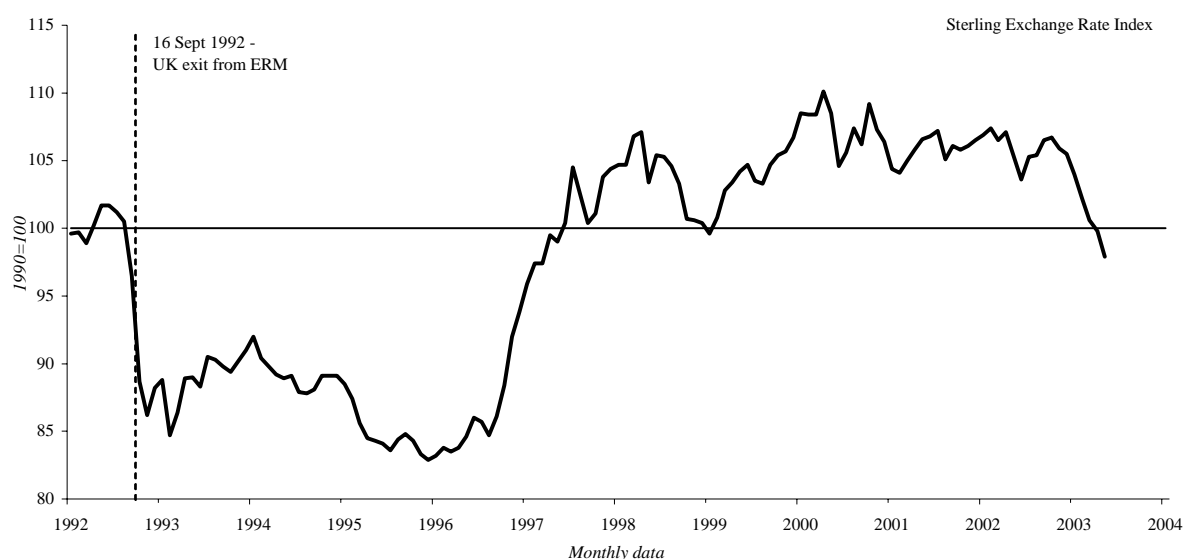
- The US Federal Reserve cut the US Federal Funds Rate by  $\frac{1}{2}\%$  eight times during 2001, with a further  $\frac{1}{2}\%$  point cut in November 2002 and a further  $\frac{1}{4}\%$  cut on 25 June 2003.
- The Bank of England's Monetary Policy Committee (MPC) reduced the UK Repo rate by  $\frac{1}{4}\%$  six times and  $\frac{1}{2}\%$  once during 2001. The most recent 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). A  $\frac{1}{2}\%$  cut on 6 March 2003 was followed by another  $\frac{1}{2}\%$  point cut on 5 June 2003.

CONTACT Ian Townsend, x3977

Next update: Early July



### D 3. Exchange Rates



**Sterling Exchange Rates**

|           | US Dollar |                  | Yen   |                  | Euro  |                  |
|-----------|-----------|------------------|-------|------------------|-------|------------------|
|           | Rate      | % change on year | Rate  | % change on year | Rate  | % change on year |
| 1999      | 1.618     | -2.4%            | 184.0 | -15.1%           | 1.519 | 2.0%             |
| 2000      | 1.515     | -6.4%            | 163.4 | -11.2%           | 1.642 | 8.1%             |
| 2001      | 1.440     | -5.0%            | 174.9 | 7.0%             | 1.609 | -2.0%            |
| 2002      | 1.503     | 4.3%             | 187.8 | 7.4%             | 1.591 | -1.1%            |
| 2002      |           |                  |       |                  |       |                  |
| 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     | 12.9%            | 192.1 | 1.1%             | 1.522 | -6.2%            |
| February  | 1.605     | 12.8%            | 191.6 | 0.8%             | 1.489 | -8.9%            |
| March     | 1.584     | 11.3%            | 187.8 | 0.8%             | 1.465 | -9.7%            |
| April     | 1.575     | 9.1%             | 188.8 | 0.2%             | 1.451 | -10.9%           |
| May       | 1.623     | 11.2%            | 190.4 | 3.3%             | 1.403 | -11.8%           |

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

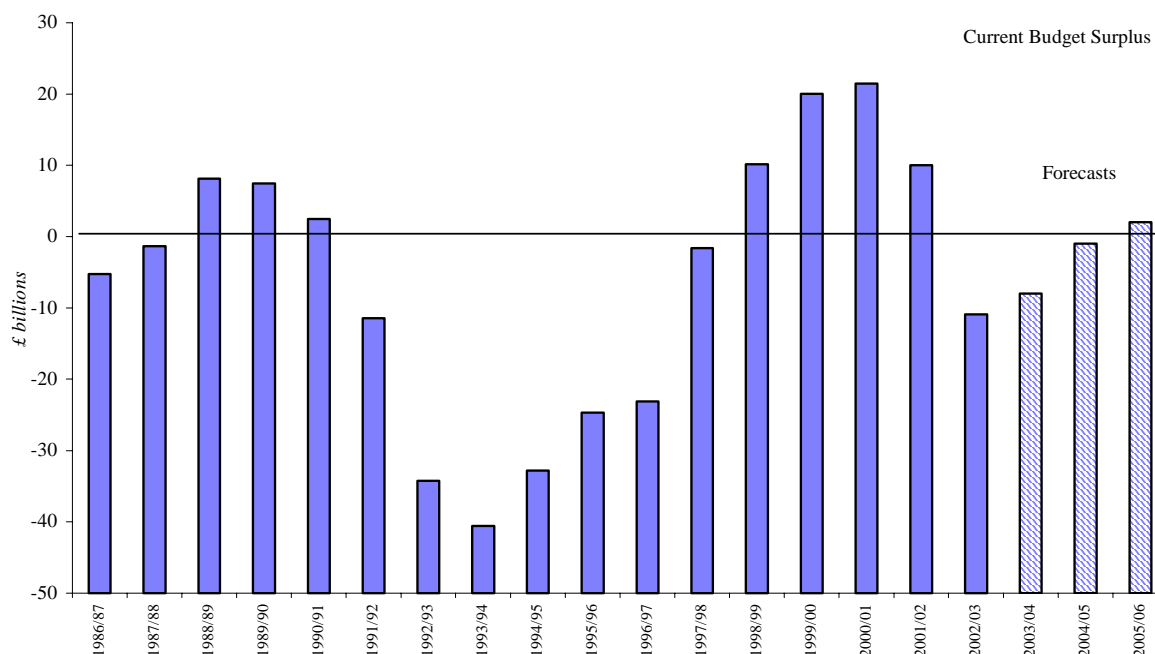
The Sterling Exchange Rate Index (SERI) measures the value of Sterling against a trade-weighted 'basket' of other currencies. The weights used to calculate the index measure currencies relative importance to UK trade in manufacturing.

- The large fall in the SERI following the UK exit from the ERM indicated a relative improvement in the competitiveness of the UK. Since December 2002, the SERI has decreased by 7.1 points suggesting that the UK was relatively more competitive at the end of May than at the beginning of the year.
- The pound was worth euro 1.4368 at the London market close on 30 June 2003, compared to a launch rate of euro 1.4168 on 31 December 1998.

CONTACT Ian Townsend, x3977

Next update: Early July

## D 4. Public Finances



### Public Sector Net Debt

|         | Public Sector Net Debt |               |
|---------|------------------------|---------------|
|         | £ billion              | as a % of GDP |
| 1999/00 | 340.9                  | 37.3%         |
| 2000/01 | 306.8                  | 31.9%         |
| 2001/02 | 311.4                  | 31.0%         |
| 2002/03 | 333.0                  | 31.5%         |
| 2001 Q4 | 311.4                  | 31.0%         |
| 2002 Q1 | 318.1                  | 31.3%         |
| 2002 Q2 | 320.2                  | 31.1%         |
| 2002 Q3 | 336.4                  | 32.2%         |
| 2003 Q1 | 333.0                  | 31.5%         |

Source: NS Database Series AMNU, RUTN & YBHA

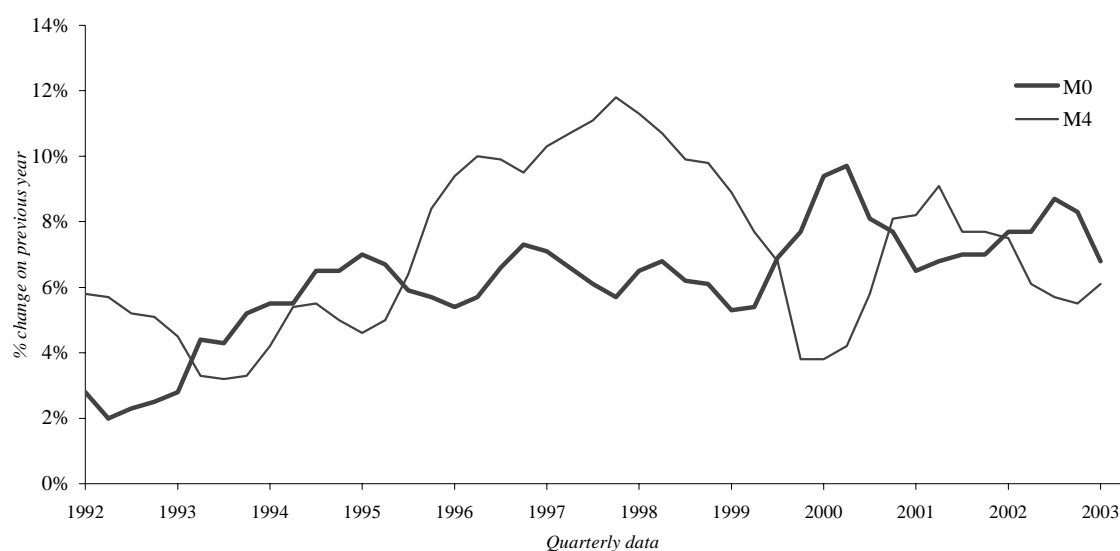
The Government's policy is to balance, i.e. surpluses in one year to match deficits in another, the current budget over the span of the economic cycle. The graph shows the last two completed cycles, 1986 Q2 to mid 1997, and mid 1997 to mid 1999. Data for 2003/04 and subsequent years are projections based on the 2003 Budget Report.

- There was a £2.4 billion surplus on the current budget in the first quarter of 2003 compared to £11.1 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 four quarters.

- The public sector net cash requirement (the new aggregate replacing the PSBR) was £3.3 billion in the first quarter of 2003 compared to -£7.7 billion in the same quarter of the previous year. For the full 2002/3 financial year the PSNCR was £21.5 billion compared to £2.8 billion in 2001/2.

## D 5. Money Supply



### Money stock

seasonally adjusted

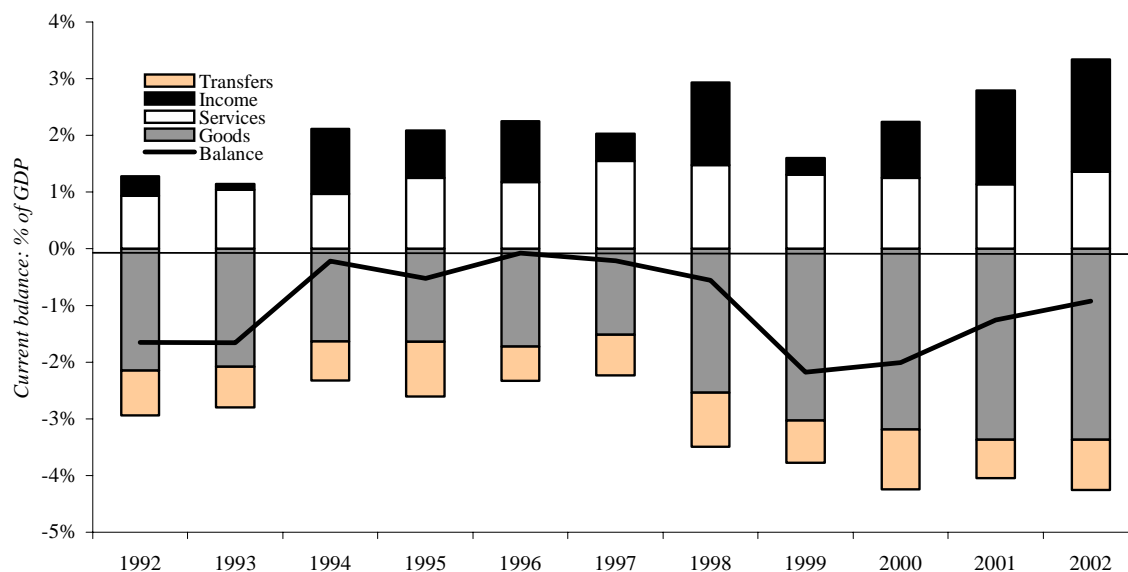
|              | M0                            |                     | M4                            |                     |
|--------------|-------------------------------|---------------------|-------------------------------|---------------------|
|              | 3 month change annualised (%) | 12 month change (%) | 3 month change annualised (%) | 12 month change (%) |
| 2002 May     | 6.1                           | 8.5                 | 3.0                           | 5.8                 |
| June         | 11.4                          | 9.5                 | 6.6                           | 5.8                 |
| July         | 9.3                           | 8.5                 | 6.6                           | 5.7                 |
| August       | 9.1                           | 8.5                 | 7.9                           | 5.6                 |
| September    | 3.4                           | 8.1                 | 7.5                           | 5.3                 |
| October      | 6.4                           | 8.2                 | 8.4                           | 5.4                 |
| November     | 3.8                           | 6.7                 | 7.7                           | 5.9                 |
| December     | 2.1                           | 5.5                 | 9.0                           | 7.1                 |
| 2003 January | 2.2                           | 5.2                 | 7.1                           | 6.5                 |
| February     | 6.2                           | 6.3                 | 8.1                           | 6.7                 |
| March        | 9.0                           | 6.4                 | 6.0                           | 7.3                 |
| April        | 17.1                          | 8.6                 | 10.3                          | 8.1                 |
| May          | 12.7                          | 7.9                 | 9.4                           | 8.3                 |

Source: Bank of England, National Statistics series EUAC, EUAD; VQMY, VQMX, VQKA, VQJW

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 8.3% in the 12 months to May. The 12-month seasonally adjusted M0 growth rate was 7.9% in May, compared to 8.5% in May 2002.
- There are now no formal targets for money supply growth.

## E 1. International Trade



### Current Account Balances

seasonally adjusted; £ million

|         | Trade in goods and services |          |         | Income<br>(total) | Transfers  |        |         | Current<br>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    | -35,182                     | 14,159   | -21,023 | 20,646            | -5,783     | -3,464 | -9,247  | -9,624             |
| 2002 Q1 | -8,486                      | 3,481    | -5,005  | 4,284             | -1,051     | -1,389 | -2,440  | -3,161             |
| Q2      | -6,609                      | 2,821    | -3,788  | 2,929             | -1,395     | -1,201 | -2,596  | -3,455             |
| Q3      | -8,830                      | 3,440    | -5,390  | 5,793             | -1,524     | -131   | -1,655  | -1,252             |
| Q4      | -11,257                     | 4,417    | -6,840  | 7,640             | -1,813     | -743   | -2,556  | -1,756             |
| 2003 Q1 | -9,014                      | 2,771    | -6,243  | 11,147            | -1,515     | -947   | -2,462  | 2,442              |

Source: National Statistics database

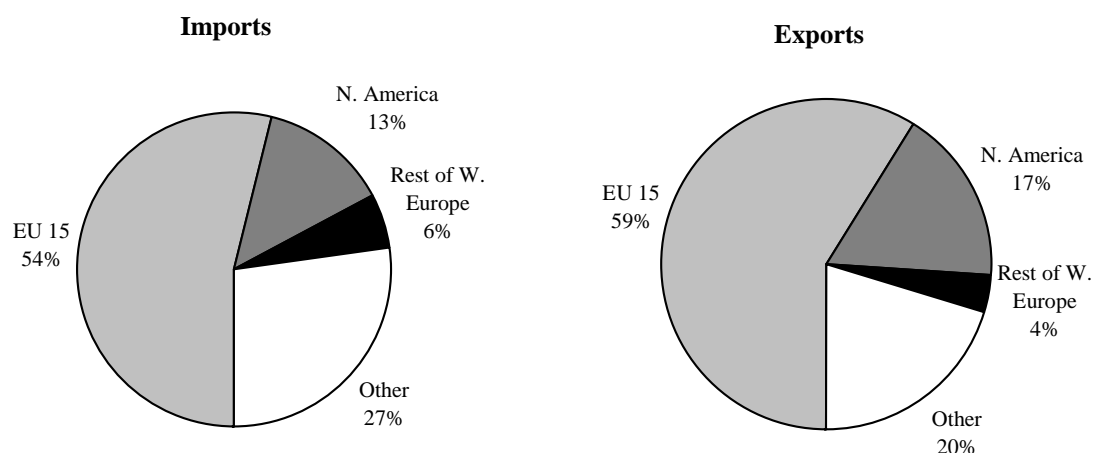
- The revised current account deficit for 2002 was an estimated £9.6 billion compared to a deficit of £12.5 billion for 2001. A record annual deficit on trade in goods was more than offset by record surpluses on trade in services and income.
- The current account was in surplus by £2.4 billion in Q1 2003, compared to a revised deficit of £1.8 billion in the previous quarter. The surplus was due mainly to a high income figure, but the details are not yet available.
- The surplus on trade in services fell to £2.8 billion in Q1 2003, down from a revised £4.4 billion in Q4 2002. The revised surplus on services for the year 2002 was £14.2 billion, 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 | 137.0                 | 165.9   | 186,170             | 221,352 | -35,182 |         |
| 2002 | Q1                    | 135.1   | 163.7               | 45,803  | 54,289  | -8,486  |
|      | Q2                    | 143.3   | 166.7               | 49,307  | 55,916  | -6,609  |
|      | Q3                    | 138.8   | 165.9               | 46,733  | 55,563  | -8,830  |
|      | Q4                    | 130.9   | 167.4               | 44,327  | 55,584  | -11,257 |
| 2003 | Q1                    | 135.9   | 167.2               | 46,969  | 55,983  | -9,014  |

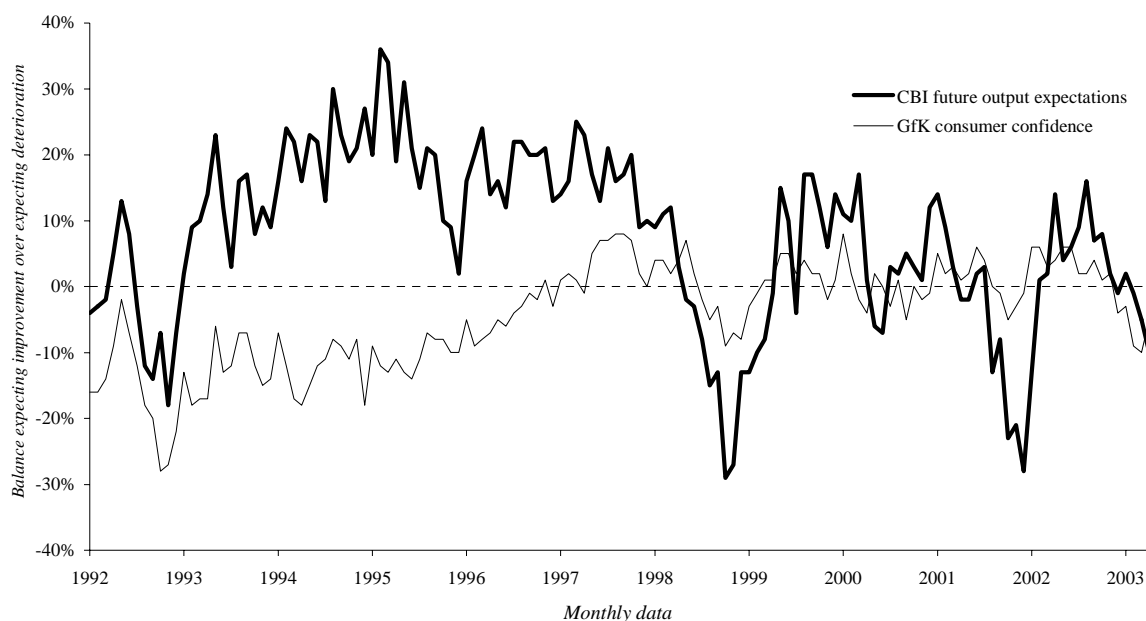
Source: National Statistics Database

- The goods trade deficit for the year 2002 as a whole is estimated as £35.2 billion, compared to a £33.5 billion deficit in 2001.
- In April 2003 the deficit on trade in goods is provisionally estimated at £3.1 billion compared with a revised deficit of £3.4 billion for March. In April total exports of goods rose 1.0% on the previous month to £15.4 billion, while goods imports fell 0.5% to £18.5 billion.
- The deficit on trade in goods with EU countries for April was £1.7 billion, compared to £1.0 billion in March. The deficit with non-EU countries fell to £1.4 billion, from £2.3 billion in March.
- The latest estimate of trend suggests that the UK trade deficit and the whole world goods deficit are widening. The trends in the value of trade show exports falling and imports flat in recent months.

CONTACT Patsy Richards, x4904

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 | GfK Consumer Confidence Index |
|----------|--|-------------------------------|
| 2002 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                           |
| Apr      | -10  | -5                            |
| May      | -3   | -3                            |
| Jun      | -6   | -2                            |

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 3 percentage points from May's level, to -6 in June 2003.
- The CBI's quarterly indicator of overall business confidence in manufacturing, which looks at current optimism compared with four months previously, fell from -19 in January 2003 to -27 in April 2003.

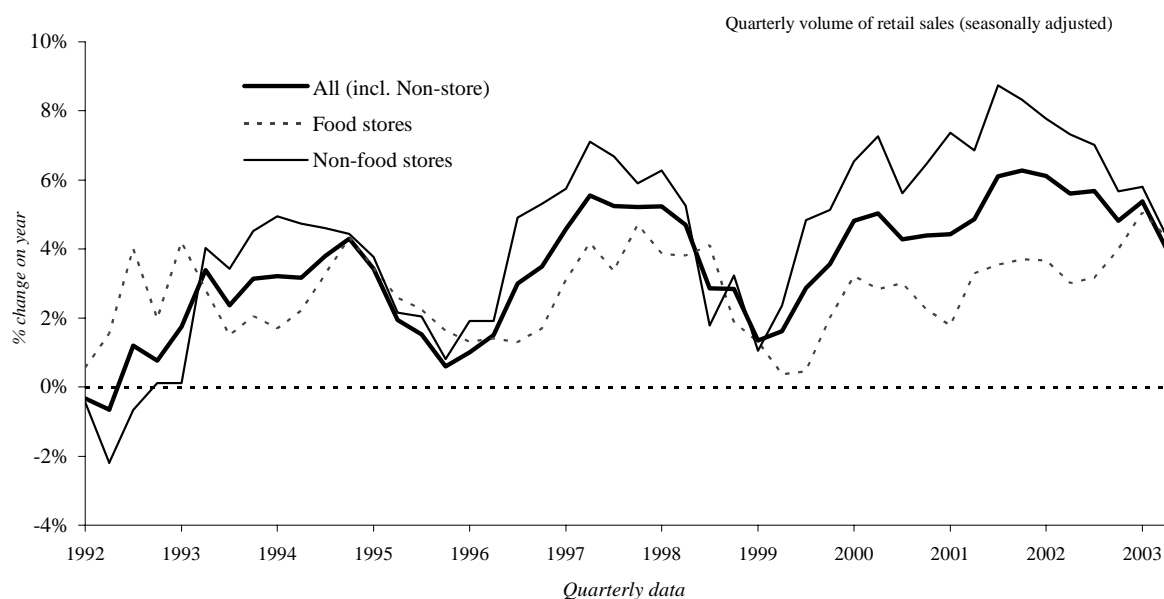
The GfK Consumer Confidence Index is a composite measure of a variety of measures of consumer attitudes. These include forward expectations of the general economic situation and households' financial positions, perceptions of how these have changed over the last 12 months, and also views on major household purchases.

- The results for June show that the overall index has risen by a point since last month to -2, the highest level since November 2002.
- Expectations for the general economic situation fell by one point on May's level, although expectations for future personal finances rose by one point.

CONTACT Ian Townsend, x3977

Next update: 22 July

## F 2. Retail Sales



**Value of Retail Sales**  
not seasonally adjusted; % change on year

|         | Food, drink<br>& tobacco | Clothing &<br>footwear | Household<br>goods | Other<br>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%  |
| 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%  |
| 2003 Q1 | 4.0%                     | 4.0%                   | 2.6%               | 2.5%              | 3.1%  |

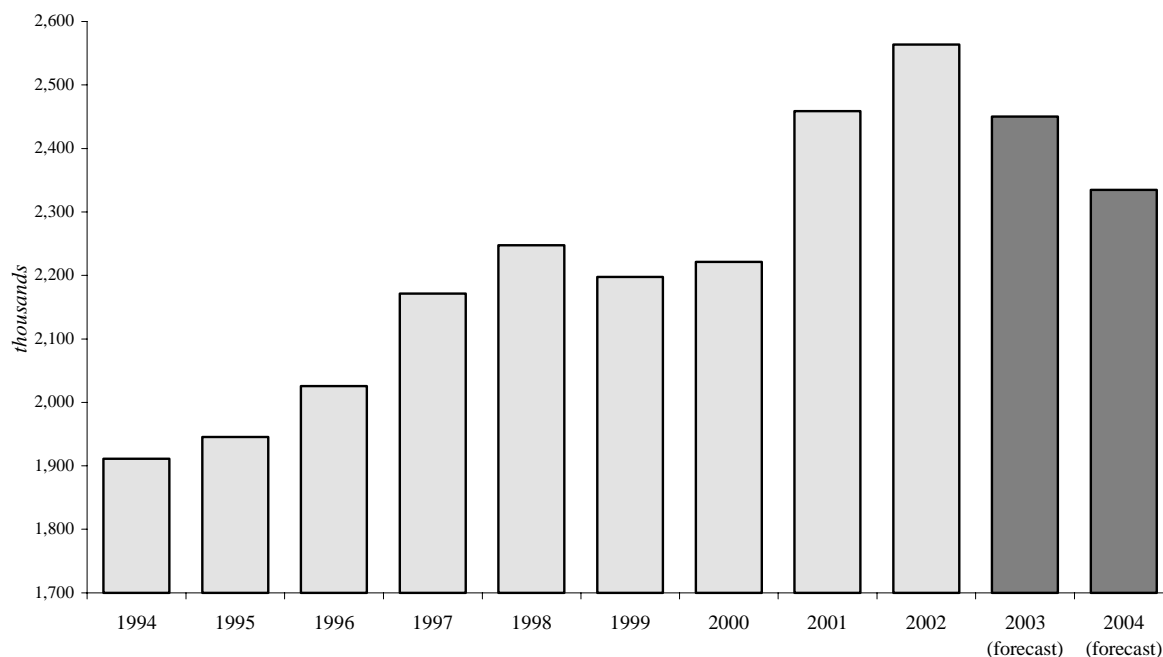
Source: NS database Series EAWN, EAWO, EAWP, EAWQ, EAWM

- The *volume* of retail sales grew by 0.5% for March to May compared with the previous three months, and 3.4% higher than a year previously (seasonally adjusted).
- Retail sales volumes in May 2003 were 3.1% higher than in May 2002 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 2.4% in March to May compared to the same quarter a year earlier. In predominantly food stores, sales volumes grew by 4.8% over the same period (non-seasonally adjusted).
- The average weekly *value* of retail sales in May 2003 was £4,370 million, 2.5% higher than in May 2002 (non-seasonally adjusted).

CONTACT Ed Potton, x2883

Next update: 24 July

### F 3. New Registrations of Cars



#### New Registrations of Cars

not seasonally adjusted

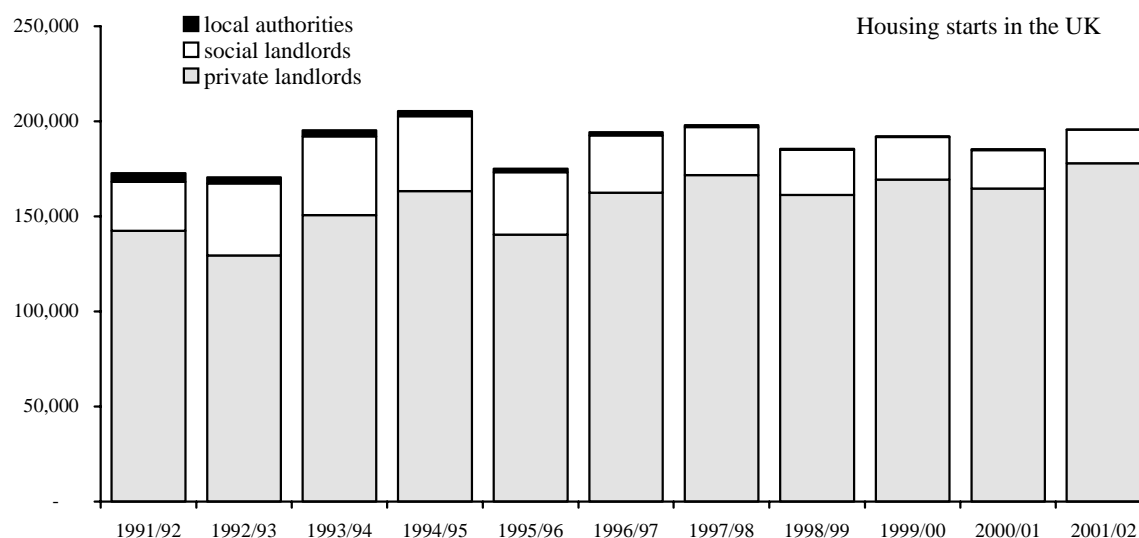
|                 | Number<br>(000s) | Change over<br>12 months |
|-----------------|------------------|--------------------------|
| 2001            | 2,459            | 10.7%                    |
| 2002            | 2,564            | 4.3%                     |
| 2003 (forecast) | 2,450            | -4.4%                    |
| 2004 (forecast) | 2,335            | -4.7%                    |
|                 |                  |                          |
| 2002            |                  |                          |
| 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%                    |
| 2003            |                  |                          |
| January         | 187              | -9.1%                    |
| February        | 88               | -5.8%                    |
| March           | 438              | 3.4%                     |
| April           | 194              | -7.0%                    |
| May             | 200              | -4.1%                    |

Source: SMMT "Monthly Statistical Review"

- Figures from the Society of Motor Manufacturers and Traders show that new car registrations decreased by 4.1% in May 2003 compared with the previous May's figure to 200,000 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 39,000 registrations of British-built cars in May, equivalent to 19.5% of the market. This is a fall of 15.8% on the previous May'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 4.4% in 2003 and by a further 4.7% in 2004.



## F 4. Housing



### House prices

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

|   | All Houses | New Houses | Existing Houses | First time buyers |
|---|------------|------------|-----------------|-------------------|
| 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            |
| 2003 Q1   | 123,600    | 126,800    | 124,400         | 86,700            |
| <i>% change over same period in previous year</i> |            |            |                 |                   |
| 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%             |
| 2003 Q1   | 23.4%      | 22.2%      | 23.3%           | 20.5%             |

Sources: ODPM & Halifax House Price Index

The Office of the Deputy Prime Minister has discontinued monthly figures for housing starts and completions due to the variations in the monthly data. Releases will now be on a quarterly basis with the first release (for Q2 2003) due in August. In the interim, the most recent available data covers March 2003.

- An estimated that 17,000 dwellings were started and 15,000 completed in Great Britain in March 2003, compared with 18,300 and 13,300 respectively in March 2002 (non-seasonally adjusted).
- In the three months to March 2003, there were 49,400 starts and 43,300 completions in GB. The same three-month period a year previously saw 46,600 starts and 41,600 completions (seasonally adjusted).

The Halifax House Price Index states that UK house prices rose by 1.5% in May 2003, with house price inflation (on an annual basis) running at 22.7%.

- The Halifax's Quarterly Index shows that UK house prices rose by 2.4% in Q1 2003 compared with Q4 2002, following a 7.5% Q4 2002 on Q3 2002 (all based on seasonally adjusted figures).
- The first quarter of 2003 saw regional annual house price inflation at its highest in the East Midlands (33.9%) and lowest in Northern Ireland, which saw a fall of 0.6%. These figures compare with the UK-wide figure of 23.4% (all based on non-seasonally adjusted figures).

CONTACT Ian Townsend, x3977

*Next update: 14 August*