RESEARCH PAPER 04/35
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Economic Indicators

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The series also includes an article on a topical issue.

This month's article:

Offshoring

Ian Townsend (editor)

ECONOMIC POLICY AND STATISTICS SECTION

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[1] 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).

II Offshoring

In recent months, an apparently new trend of 'offshoring' has emerged as a major political issue in both the UK and the US. Offshoring can be thought of as outsourcing overseas: moving certain business functions from developed countries to other, often developing, countries, either to other firms or within the same company.

Offshoring has become a major issue in the US presidential election. In the UK, the relocation of service-sector jobs, particularly of functions performed by call-centres clustered in regions that suffered from the decline of manufacturing in the past, to other countries has prompted fears of higher, localised levels of unemployment. So far the offshoring effect has been felt greatest in financial services and IT.

However, advocates of offshoring highlight the potential economic benefits, both to the UK and to developing countries, such as India and China, with the promise of faster economic development.

The economic argument

Economic theory suggests that international trade can be 'win-win': mutually advantageous to the parties involved. The law of comparative advantage suggests that economies should specialise in those products that they are relatively more efficient at producing. This international specialisation leads to a more efficient global allocation of resources, improving growth and economic development across the board.

Developments in international telecommunications and the ability to transfer large amounts of data quickly via the internet have made the outsourcing of services overseas a realistic and increasingly attractive option:

> The logical conclusion to the global connectivity offered by the internet and almost-free voice calls is that any task not requiring a physical presence can be performed by the cheapest – or best – location for any particular domain. Society is witnessing the death of distance every day.[2]

The economic benefits of liberalised international trade in goods are now widely accepted, with today's consumers in developed countries familiar with goods produced in Far Eastern countries. Until recently, though, service industries were protected from liberalisation by the practical constraints of distance and technology.

Low labour costs are a key attraction. The National Outsourcing Association put salaries in India at some 70% lower than in the UK. Though these savings are offset in part by increased overheads, such as telecommunications costs, the overall saving is put at 30-40%.[3]

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2 Mark Kobayashi-Hillary, "Why we're all going to India", *The Observer*, 4 April 2004, Business section, p10
3 "Outsourcing: the benefits don't always add up", *Independent*, 31 October 2003

However, the success of Asian economies in securing offshored work relies also on the increasingly skilled, and English speaking, labour in those countries.

Although countries may suffer short-term job losses as production is shifted to countries with competitive advantage, in the longer term the 'losing' economy should benefit. As the US President's Council of Economic Advisers argued

> The benefits from new forms of trade, such as in services, are no different from the benefits from traditional trade in goods. Outsourcing of professional services is a prominent example of a new type of trade. The gains from trade that take place over the Internet or telephone lines are no different than the gains from trade in physical goods transported by ship or plane. When a good or service is produced at lower cost in another country, it makes sense to import it rather than to produce it domestically.[4]

Research by McKinsey's Global Institute report found that a dollar invested abroad creates $1.45-$1.47, of which around $1.12-$1.14 is returned to the US, concluding that offshoring was "as beneficial to the US as it is to the destination country, probably more so."[5] The report also outlined four main areas of benefit for the country outsourcing work:

- Reduced costs, leading to savings that can be reinvested or passed on to consumers;
- Creating demand for US products (especially high tech items) in destination countries;
- Repatriated earnings - several providers serving the US market are incorporated there, so earnings are repatriated back to the US;
- By redeploying those who lose their jobs to more productive work, additional value will be generated in the economy.

The report also suggests that given "large surpluses generated from offshoring, programs to address the impact on workers are feasible. This will help create win-win solutions and ensure that everyone benefits from a more competitive and healthier global economy."[6]

Despite the putative benefits, offshoring is likely to cause political and economic strains because, according to *The Economist*, "the sheer scale of service-sector employment within an advanced economy arouses anxiety, unwarranted though it may be, about how disruptive the new forces of competition will be."[7]

Fears for the UK service sector

Announcements of outsourcing of jobs overseas by UK companies have received much publicity. Some high profile examples include:

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4 *The Economic Report of the President*, Testimony before the US Congressional Joint Economic Committee, 10 February 2004; http://www.whitehouse.gov/cea/economic_report_20040210.html

5 McKinsey's Global Institute, *Offshoring: Is it a Win-Win Game?*, August 2003; summary available from http://www.mckinsey.com/knowledge/mgi/offshore/

6 *ibid.*

7 "The new jobs migration", *The Economist*, 21 February 2004, p11

- Experian, the credit reference company to close its call centres providing services to third parties, blaming "the loss of some of its biggest contracts to offshore companies";[8]
- Axa, the insurer, to cut up to 230 staff, and Abbey, the bank, to cut 400 jobs, as they move some of their operations abroad;[9]
- Norwich Union to move 2,000 back-office and 350 call centre jobs to India;[10]
- Lloyds TSB to close a Newcastle call centre and transfer 750 jobs to India;[11]
- HSBC to transfer 4,000 jobs to Asia by 2006;[12]
- Barclays to cut 150 UK jobs to take advantage of cheaper Indian labour.[13]

According to the *Financial Times*, more than 50,000 jobs have been transferred to India by British firms in the last two years.[14]

Estimates of jobs affected by offshoring in coming years vary. *The Economist* and Oxford Economic Forecasting (OEF) both see massive job losses as unlikely in the near future. The OEF concluded that, "Overall, the impact of 'offshoring' on the UK economy in terms of output, employment and productivity should all be positive."[15]

The trade union Amicus has predicted that 200,000 call-centre jobs will disappear by 2010, and the TUC has estimated that between 150,000 and 750,000 UK jobs will be affected, based on ILO estimates.[16] Deloitte has predicted that 2 million out of 13 million Western insurance and banking jobs could be relocated to India by 2008.[17]

It is not only the private sector that has been touched by offshoring. A great deal of concern was provoked by the decision to award the contract to run the National Rail Inquiries Service to a group that will see half of the 50,000 calls a day handled in Bangalore and Mumbai.[18] There has also been interest in the outsourcing of NHS modernisation work to India, and also in the offshoring of some Scottish Parliament IT functions to Bangalore-based Wipro Technologies.[19]

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8 "Experian to shed 850 staff", *The Guardian*, 21 April 2004, p17
9 "Axa and Abbey cut 600 jobs in switch to India", *Daily Mail*, 15 January 2004, p39
10 "Blair warns jobs exodus part of new order", *Financial Times*, 3 December 2003
11 "Outsourcing: the benefits don't always add up", *Independent*, 31 October 2003
12 *ibid.*
13 "Jobs drain turns into source of opportunity", *Financial Times*, 3 December 2003
14 "Blair warns jobs exodus part of new order", *Financial Times*, 3 December 2003
15 Oxford Economic Forecasting, "'Offshoring': How big an issue?", *Economic Outlook April 2004*, p15
16 TUC, *Global Offshoring: Submission to the DTI (Summary)*, 8 March 2004; http://www.tuc.org.uk/economy/tuc-7732-f0.cfm
17 "Profits of loss", *The Guardian*, 25 November 2003
18 "Half of rail inquiry calls go to India in £100m deal", *The Independent*, 5 February 2004, p7
19 "UK backs India outsourcing", *BBC News Online*, 4 February, 2004; http://news.bbc.co.uk/1/world/south_asia/3457641.stm; and "Offshore savings are a sure thing", *The Guardian*, 25 February 2004, 'epublic' section, p16

UK Government response

In December 2003, the Department of Trade and Industry announced a consultation on the issues raised by offshoring and possible policy options,[20] with responses to be reflected in the Trade and Investment White Paper due in summer 2004.[21]

The DTI also commissioned a 'Sector Competitiveness Study' on the relative competitiveness of the estimated 5,500 UK call centres, employing almost 400,000 workers, to "identify any appropriate actions which need to be taken by industry or Government in response to the increasingly global market for call centre services."[22] A report is due in early May.[23]

The following written answer provides a useful summary of the Government's approach:

> This Government believe that, as UK based companies are operating in an increasingly competitive, global marketplace, they have the freedom to choose where to locate in order to maximise their competitive advantage. The Government are continuing to create a competitive environment in the UK where an educated and skilled work force, better infrastructure and access to European and world markets has made this country the leading country for Foreign Direct Investment in Europe and second in the world only to the United States […]
>
> The UK is a trading nation. Our economic long-term interest must be based on our ability to innovate to produce high value-added goods and services which need a highly skilled work force, high calibre managers, forward looking unions and knowledgeable consumers. A protectionist approach would damage the interests of the UK. Figures on the potential for outsourcing do not take account of the fact that the UK could gain jobs in some sectors as a result of increased competition for services […which…] could see us gain more jobs then we lose.[24]

On concerns about the offshoring of UK jobs, the Secretary of State for Trade and Industry, Patricia Hewitt, said:

> I am very clear that the loss of any jobs, including call centre jobs, is devastating for the workers concerned, and for their families. That is especially true for communities that were devastated years ago by the loss of manufacturing jobs. However, I am also clear that we can protect people in this country without resorting to […] protectionism […] We will go on growing call centre jobs and other good jobs in our country by competing on quality and skills, not on costs.[25]

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20 DTI, *Services and Offshoring: The Impact of Increasing International Competition in Services*, 5 December 2003; http://www.dti.gov.uk/ewt/offshoring.doc

21 HC Deb 21 April 2004 535W

22 HC Deb 4 March 2004 1058W, and DTI press notice, "Study into off-shoring of UK call centre jobs", 5 December 2003; http://www.gnn.gov.uk/gnn/national.nsf/0/B0A32EE2CA0EBFF680256DF30042E97A?opendocument

23 HC Deb 21 April 2004 535W

24 HC Deb 23 October 2003 c666-7W

25 HC Deb 22 January 2004 c1451

The consultation document also noted that:

> Disproportionate negative employment consequences can obviously have negative knock-on effects on other government priorities, for example in terms of enhancing regional employment prospects and increasing the labour market participation of women. There may also be negative consequences in terms of uncertainty and insecurity, whether real or perceived.[26]

The Government sees its role as assisting those in the UK that lose out when jobs are shifted overseas:

> […] when workers are displaced in Britain they should be able to look for support to a Government who are investing in innovation, business creation and skills.[27]

The Trade and Industry Select Committee is also currently looking at competition in services, and in particular call centres, from low-cost economies as part of its inquiry into the knowledge driven economy.[28]

Offshoring: potential issues

Offshoring, widely known as 'business process outsourcing' (BPO) in India, has clear benefits to the developing country's economy, and is expected to bring in $4 billion to the country from abroad brought this year alone.[29] The share from the UK is put at 'at least one tenth'. Indian companies are also note that they offer not only cheap, but also often better services.

However, critics point out possible problems associated with offshoring, in particular poor customer service and 'accent training', a lack of understanding, very high staff turnover, rising wages as well as data protection concerns, and potentially risks from 'cyberterrorism'. A recent *Economist* article summarised these:

> There have recently been a few reports of 'insourcing' - of western firms taking back services previously outsourced to India. Both the two most publicised cases - Dell, a computer firm, and Lehman Brothers, an investment bank - involved call-centre help-desks and affected only part of their Indian operations […]
>
> A disgruntled Pakistani remote worker who threatened to circulate medical records on the internet revived another fear, about confidentiality. All this points to an even bigger worry, that the quality of service will suffer in the rush to expand capacity. Staff turnover in call-centres is running at 35-40% a year even at some of the top firms, and more at lesser employers […]

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26 DTI, *Services and Offshoring*, 2003, op. cit., p8
27 HC Deb 26 February 2004 c402
28 "MPs intervene in call centre jobs exodus", *The Independent*, 18 August 2003; see uncorrected evidence from inquiry oral evidence sessions at http://www.publications.parliament.uk/pa/cm/cmtrdind.htm
29 "A lift from India", *The Economist*, 6 March 2004, p37

> Wage rates are also showing a healthy rise - of about 10% a year, on some estimates - which is denting the fat margins that firms have become used to. There are other cost pressures too: the appreciation of the rupee against the dollar over the past two years; and the inadequacy of Indian infrastructure. [30]

A further example of the 'inshoring' phenomenon is the decision of Kays and Great Universal to bring 250 jobs back from Bangalore, due to complaints about poor standard and staff 'ill-equipped to deal with British queries.'[31]

Concerns over the security of personal data have led to calls for the European Commission to prevent unauthorised access to details when they are processed abroad. The *Evening Standard* reported that "organised gangs had offered a year in wages to call centre staff in return for access to UK credit card details."[32]

The emergence of trade, and offshoring in particular, as a major political issue in the US presidential race has also raised fears of greater protectionism in countries that would be most likely to benefit. In part, the adverse reaction to offshoring led to the US Senate recently supporting a measure prohibiting outsourcing of work on government contracts.[33] However, the measure will not become law until the Department of Commerce can demonstrate that it would not be economically harmful. The *Economist* commented that this was a "[…] curious case of a government guaranteeing not to deliver value-for-money to taxpayers."[34]

However, in a recent speech President Bush said:

> Instead of building barriers to trade, we must break down those barriers. The old policy of economic isolationism is a recipe for economic disaster [...] America has moved beyond that tired defeatist mindset and we're not going back.[35]

This was coupled with support for retraining, and acceptance that the administration had 'a responsibility to help'. The Senate has introduced legislation to extend retraining and assistance programmes to those in the service sector affected by their jobs being moved abroad.

Conclusion

Although trend towards outsourcing of jobs to India and other developing countries can be seen as an inevitable, unavoidable and overall beneficial aspect of globalisation, there remain

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30 "The remote future", *The Economist*, 21 February 2004
31 "Catalogue giants shut their Indian call centre", *Daily Mail*, 23 January 2004, p23
32 "Fear over India call centre fraud", *BBC News Online*, 5 April, 2004; http://news.bbc.co.uk/1/hi/business/3593885.stm
33 "Senate votes to stop outsourcing", *BBC News Online*, 5 March 2004; http://news.bbc.co.uk/1/hi/business/3535893.stm
34 "Smile, these are good times. Truly.", *The Economist*, 13 March 2004, p49
35 "Bush takes outsourcing battle to US heartland", *Financial Times*, 11 March 2004, p11

significant issues regarding those workers and regions that are likely to suffer in the short term.

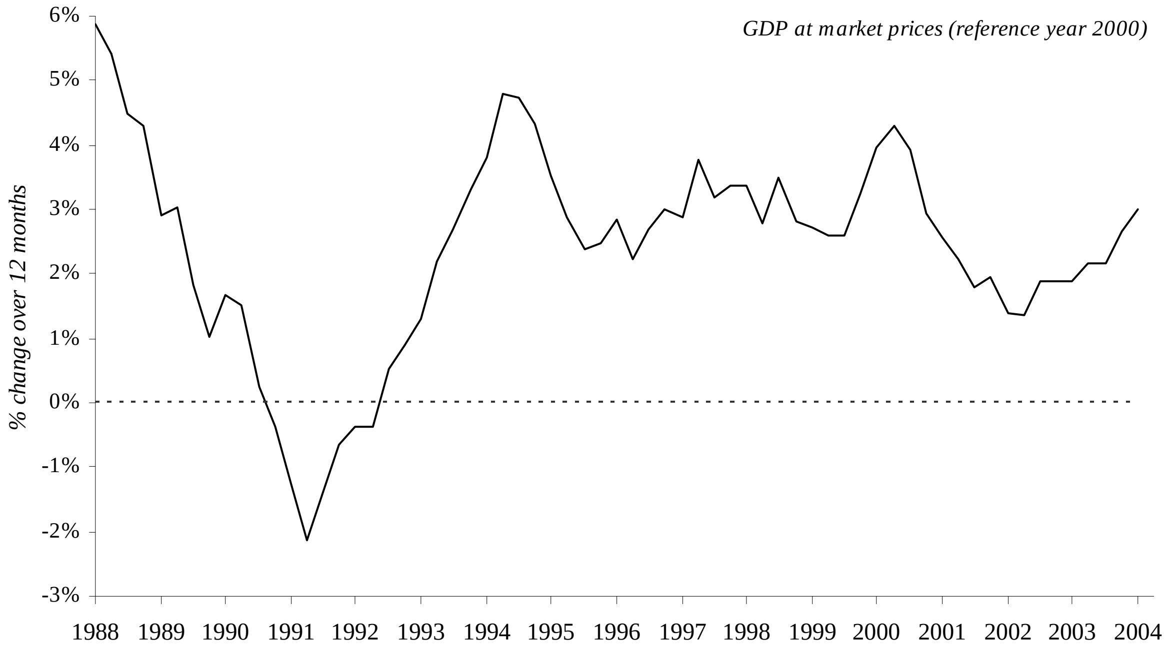
Certainly, offshoring will see employment patterns change, with consequent effects on individuals, but as *The Economist* has noted: “Adequate private and public investment in skills and lifelong education is paramount in this new world, and is where attention should be focusing.”[36]

More detail on UK Government policy in this area will be available when the DTI publishes the Trade and Investment White Paper this summer.

Ian Townsend
Economic Policy and Statistics Section

36 *ibid*.

A1: Gross Domestic Product



[Source: NS database, series: ABMI]

Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

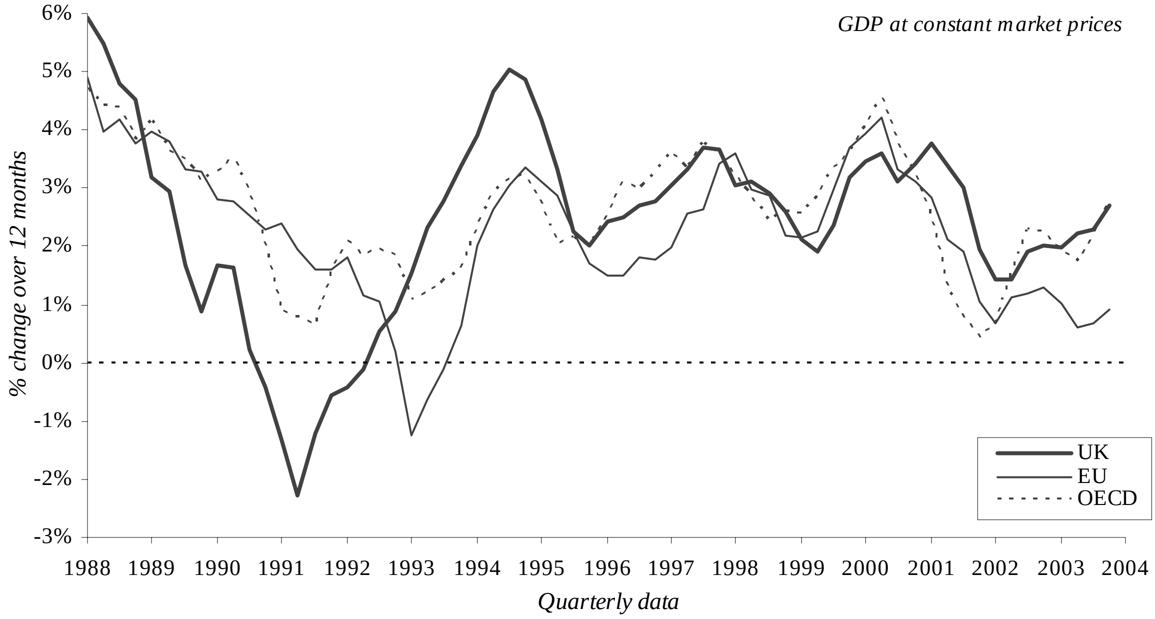
	Current		Reference year 2000
	£ billion	*annual % change*	*annual % change*
2000	951.3	5.2	3.8
2001	994.0	4.5	2.1
2002	1,043.3	5.0	1.6
2003	1,099.4	5.4	2.2
2002 Q4	265.8	5.4	1.9
2003 Q1	269.9	5.4	1.9
Q2	272.3	5.3	2.2
Q3	276.6	5.3	2.2
Q4	280.6	5.6	2.7
2004 Q1	..	..	3.0

Source: NS database, series: YBHA, ABMI

- Following downward revisions to last month's figures, the economy is now estimated to have grown by 2.2% in 2003 (previous estimate 2.3%), compared to a revised 1.6% for 2002.
- In Q1 2004 the preliminary estimate shows that the chained volume measure of gross domestic product (GDP) at market prices rose by 0.8% on the previous quarter, and the percentage change on Q1 2003 is estimated at 3.0%.
- The latest Treasury average of independent economic forecasts of GDP growth is of 3.1% in 2004, and 2.6% in 2005.

Contact: Bryn Morgan, x4904 **Update:** NS, *UK output, income & expenditure: First Release*, 26 May

A2: GDP: International Comparisons



[Source: OECD, *Main Economic Indicators*, April 2004]

GDP at constant market prices

% changes

	% change on year				% change quarter on quarter				
					2002	2003			
	2000	2001	2002	2003	Q4	Q1	Q2	Q3	Q4
USA	3.6	0.5	2.2	3.2	0.8	0.5	0.8	2.0	1.1
Japan	2.9	0.4	-0.3	2.6	0.0	0.6	0.8	0.6	1.5
Canada	5.2	1.9	3.3	1.7	0.4	0.7	-0.3	0.3	1.0
United Kingdom	3.8	2.1	1.6	2.2	0.4	0.3	0.6	0.8	1.0
Germany	2.8	0.9	0.2	-0.2	-0.1	-0.2	-0.2	0.2	0.2
France	4.1	2.2	1.1	0.2	-0.3	0.0	-0.3	0.4	0.5
Italy	3.1	1.7	0.4	0.3	0.4	-0.3	-0.1	0.4	0.0
Eurozone	3.5	1.8	0.9	..	0.0	0.1	-0.1	0.4	..
G7	3.6	0.9	1.4	2.1	0.2	0.3	0.5	1.2	0.9
OECD	3.9	1.0	1.7	..	0.2	0.3	0.5	1.1	..

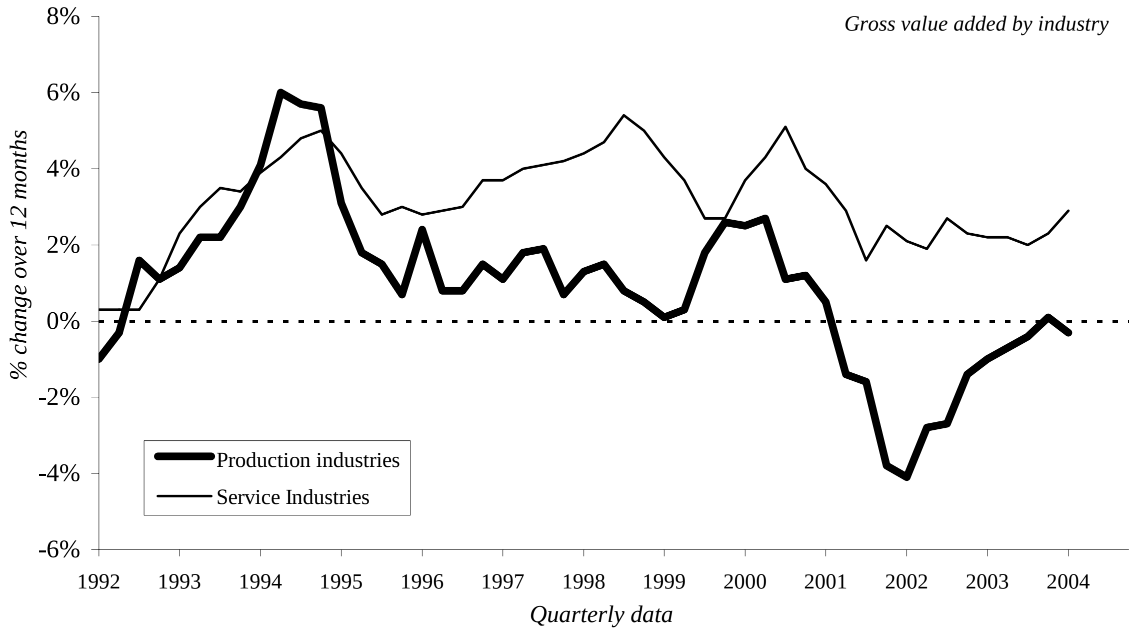
Source: OECD, *Main Economic Indicators*, April 2004

- The latest data shows that the largest economies continued to record positive growth in the last quarter of 2003.
- Recent growth in the euro zone has been weaker than growth in OECD countries and the G7. Growth in the third quarter of 2003 was just 0.4%.
- The OECD are currently forecasting: euro zone growth of 0.5% in 2003, 1.8% in 2004, and 2.5% in 2005; in the US, 2.9% in 2003, 4.2% in 2004, and 3.8% in 2005; and in Japan, 2.7% in 2003, 1.8% in 2004, and 1.8% in 2005. Its latest growth forecast for the UK is 1.9% in 2003, 2.7% in 2004, and 2.9% in 2005.

Contact: Jessica Yonwin, x2464 **Update:** OECD, *Main Economic Indicators*, 12 May

A3: Gross Domestic Product by Industry

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.



[Source: NS database, series: ERIE, GDSI]

- Since 1999, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 2.9%. Between the third quarter of 2003 and the fourth quarter of 2003 output growth in the service sector increased by 0.6%.

Gross value added at 2000 basic prices

% changes on year; seasonally adjusted

	Production industries			Agriculture, hunting	
	Total	Manufacturing	Services	& fishing	Construction
2000	1.9	2.4	4.3	-0.6	1.3
2001	-1.6	-1.3	2.6	-10.1	3.4
2002	-2.7	-3.6	2.2	12.4	4.8
2003	-0.5	0.2	2.2	-2.6	5.0
2002 Q4	-1.4	-2.2	2.3	10.0	4.5
2003 Q1	-1.0	-1.3	2.2	-3.1	1.6
Q2	-0.7	0.6	2.2	-2.5	5.5
Q3	-0.4	0.0	2.0	-3.3	6.5
Q4	0.1	1.3	2.3	-1.7	6.3
2003 Q1	-0.3	..	2.9	..	..

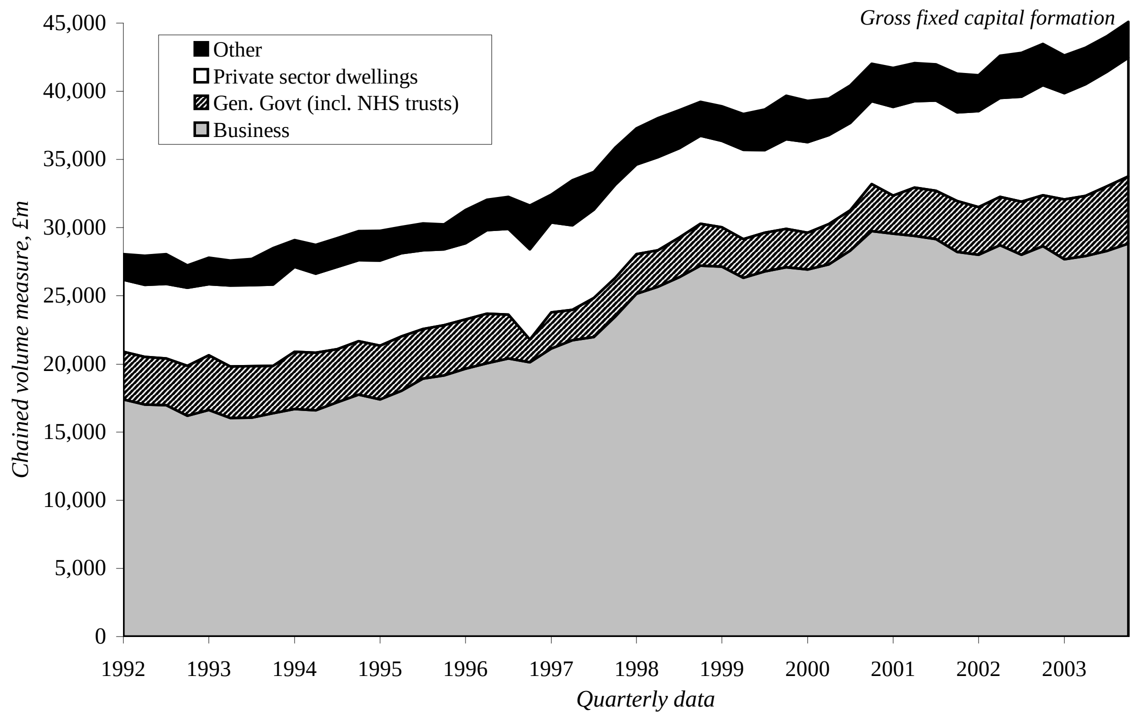
Source: NS database, series: ERID, ERIE, ERIT, ERIU, GDQV, GDQW, GDRN, GDRQ, GDRR, GDSI

- Manufacturing output increased by 1.3% in the fourth quarter of 2003, and increased by 0.2% overall in 2003.
- In 2002, services accounted for 72% of gross value added, manufacturing for 17%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883 **Update:** NS, *UK Output, Income and Expenditure*, 26 May

A4: Investment

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.



[Source: NS database: series DFEA, DFTI, DLWH, DLWI, NPEL]

Gross fixed capital formation

£ million; Chained volume measures, reference year 2000; seasonally adjusted

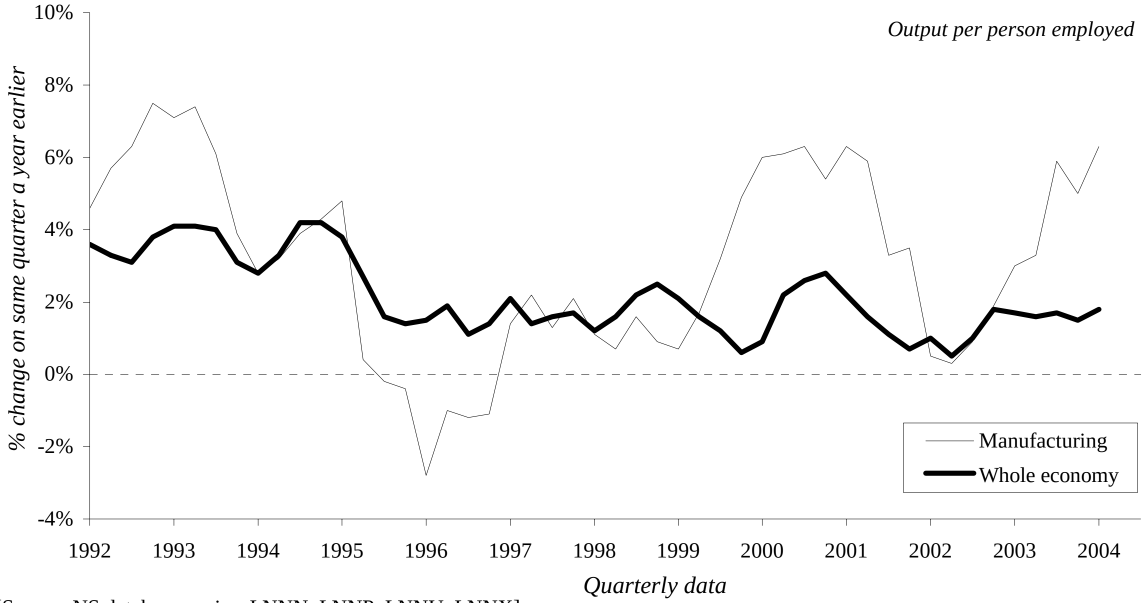
		Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2000		13,444	62,698	52,708	27,394	4,966	161,210
2001		15,296	65,290	53,524	27,999	4,923	167,032
2002		16,140	61,846	53,858	32,825	5,399	170,068
2003		15,519	59,928	57,187	36,631	5,662	174,927
2002	Q4	4,214	15,157	13,697	8,986	1,427	43,481
2003	Q1	4,045	14,936	13,643	8,603	1,394	42,621
	Q2	3,756	14,721	14,245	9,063	1,408	43,193
	Q3	3,895	14,922	14,417	9,370	1,424	44,028
	Q4	3,823	15,349	14,882	9,595	1,436	45,085

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

- Total business investment increased by 1.9% in Q4 2003 compared with the previous quarter and by 0.7% compared with Q4 2002.
- Total manufacturing investment increased by 5.5% in Q4 2003 compared with the previous quarter, while private sector service sector investment increased by 2.2%.

Contact: Dominic Webb, x4324 **Updates:** NS, *Business Investment*, 25 May

A5: Productivity



[Source: NS database, series: LNNN, LNNP, LNNU, LNNX]

Productivity

% changes on year; seasonally adjusted

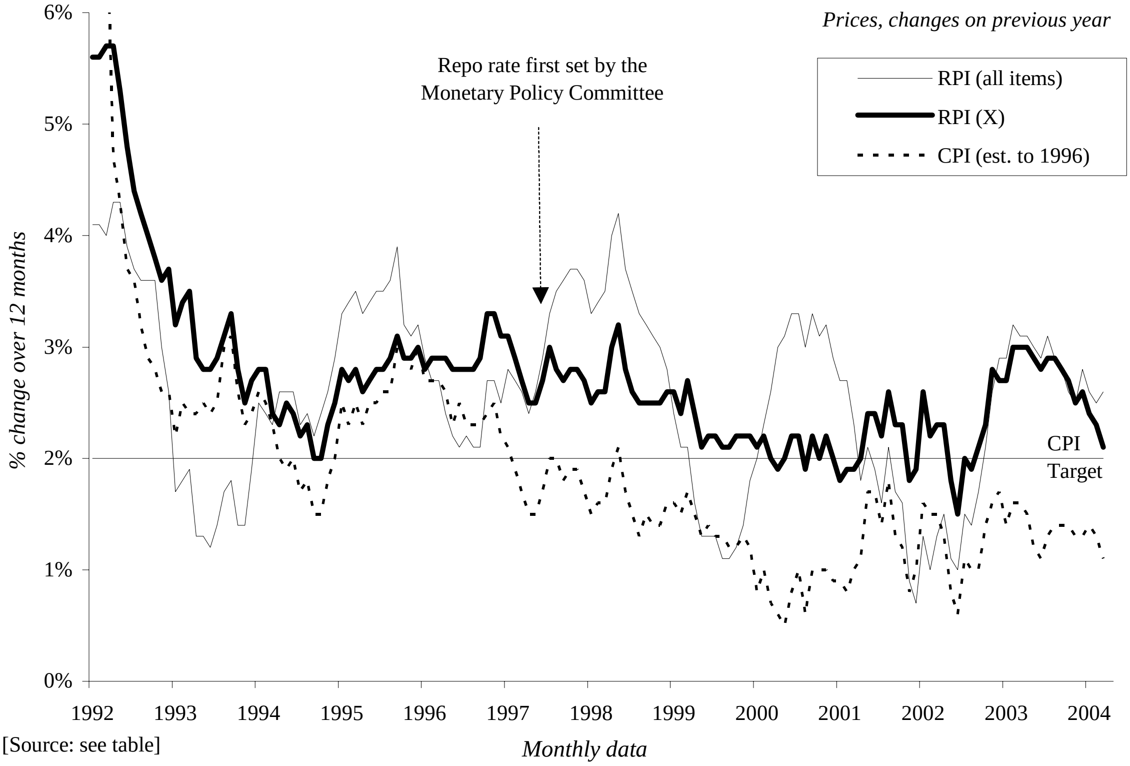
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2000	2.4	-3.4	6.0	3.8	1.4	2.5
2001	-1.3	-4.5	3.3	1.9	0.7	1.1
2002	-3.6	-5.0	1.5	1.2	0.0	1.3
2003	0.2	-4.7	5.2	1.8	0.1	1.7
2002 Q4	-2.2	-5.0	3.0	1.7	-0.1	1.7
2003 Q1	-1.3	-4.4	3.3	1.4	-0.2	1.6
Q2	0.6	-5.0	5.9	1.7	0.1	1.7
Q3	0.0	-4.8	5.0	1.7	0.2	1.5
Q4	1.3	-4.6	6.3	2.0	0.3	1.8

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

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 1.7% in 2003 compared to 1.3% in 2002 and 1.1% in 2001.
- In 2003, manufacturing output increased by 0.2% and employment in manufacturing fell by 4.7% while manufacturing output per head rose by 5.2%.
- Productivity growth in manufacturing increased from 5.0% per annum in Q3 2003 to 6.3% per annum in Q4 2003 while whole economy productivity growth increased from 1.5% per annum in Q3 2003 to 1.8% per annum in Q4 2003.
- For the economy as a whole, productivity growth has averaged 1.5% per annum over the last eight quarters.

Contact: Ed Potton, x2883 **Update:** NS, *Productivity*, 1 Jul

B1: Prices



[Source: see table]

On 10 December 2003 the Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side. The previous target was 2.5% measured by RPI(X).

- In the year to March 2004 the consumer prices index (CPI) showed inflation at 1.1%, down from 1.3% in February.
- The largest downward effect on the CPI was from transport. Further large downward effects came from furniture, household equipment and routine maintenance, food and non-alcoholic beverages, and clothing and footwear. The largest upward effect was from recreation and culture, with smaller effects from housing, water, electricity, gas and other fuels, and restaurants and hotels.
- The former headline (all items RPI) rate of inflation rose to 2.6% from 2.5% in February. The underlying rate RPI(X) fell to 2.1% from 2.3% the month before.
- The largest upward effect on the RPI was from housing. The downward effects were similar to those affecting the CPI.

Price Indices

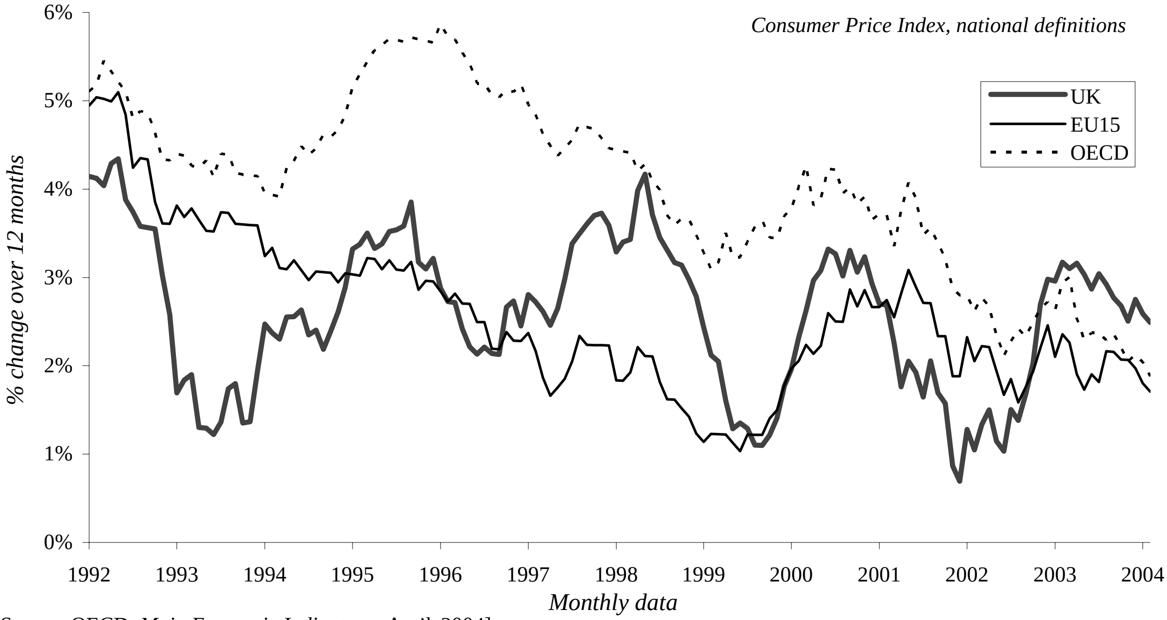
% change over 12 months

		CPI (was HICP)	RPI (all items)	RPI (X)
2000		0.8	3.0	2.1
2001		1.2	1.8	2.1
2002		1.3	1.7	2.2
2003		1.4	2.9	2.8
2003	Mar	1.6	3.1	3.0
	Apr	1.5	3.1	3.0
	May	1.2	3.0	2.9
	Jun	1.1	2.9	2.8
	Jul	1.3	3.1	2.9
	Aug	1.4	2.9	2.9
	Sep	1.4	2.8	2.8
	Oct	1.4	2.6	2.7
	Nov	1.3	2.5	2.5
	Dec	1.3	2.8	2.6
2004	Jan	1.4	2.6	2.4
	Feb	1.3	2.5	2.3
	Mar	1.1	2.6	2.1

Source: NS database, series: CZBH, CDKQ, CJYR

Contact: Jessica Yonwin, x2464 **Update:** NS, *Consumer Price Indices: First release*, 18 May

B2: Prices: International Comparisons



[Source: OECD, *Main Economic Indicators,* April 2004]

The OECD compiles inflation rates based on national consumer price measures. While these are not strictly comparable they indicate that:

- Inflation in the United States fell to 1.7% in February 2004, from 1.9% in January.
- For all OECD countries the average inflation rate fell to 1.9% in February, from 2.0% the month before.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) fell to 1.7% in February from 1.9% in January.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
2000	3.4	-0.7	2.7	2.9	4.0
2001	2.8	-0.7	2.6	1.8	3.4
2002	1.5	-1.0	2.2	1.6	2.6
2003	2.3	-0.2	2.8	2.9	2.4
2003 Sep	2.3	-0.2	2.1	2.8	2.4
Oct	2.0	0.0	1.6	2.7	2.2
Nov	1.8	-0.5	1.6	2.5	2.0
Dec	1.9	-0.4	2.0	2.8	2.1
2004 Jan	1.9	-0.3	1.2	2.6	2.0
Feb	1.7	0.0	0.7	2.5	1.9

Source: OECD, *Main Economic Indicators* , Apr 2004

Eurozone inflation

harmonised indices (HICPs); % change over 12 months

	France	Germany	Italy	UK	Eurozone
2000	1.8	1.4	2.6	0.8	2.1
2001	1.8	1.9	2.3	1.2	2.3
2002	1.9	1.3	2.6	1.3	2.3
2003	2.2	1.1	2.8	1.4	2.1
2003 Oct	2.3	1.1	2.8	1.4	2.0
Nov	2.5	1.3	2.8	1.3	2.2
Dec	2.4	1.1	2.5	1.3	2.0
2004 Jan	2.2	1.2	2.2	1.4	1.9
Feb	1.9	0.8	2.4	1.3	1.6
Mar	1.9	1.1	2.3	1.1	1.7

Source: Eurostat, *Euro-Indicators news release* , 16 April 2004

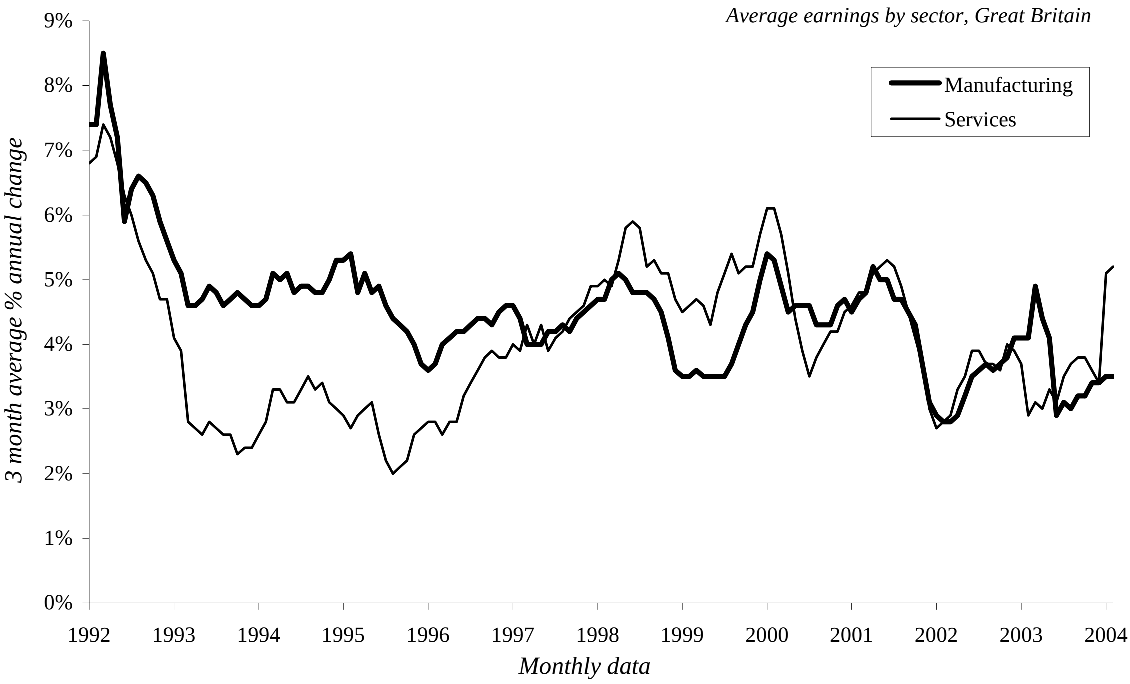
The EU has developed harmonised indices of consumer prices (HICPs) designed for international comparison, to monitor prices within the eurozone:

- Eurozone annual inflation rose from 1.6% in February to a provisional 1.7% in March 2004.
- The HICP inflation rates for the Member States not in the eurozone were Denmark (0.4%), Sweden (0.4%) and the UK (1.1%).
- In March the eurozone countries with the highest HICP annual inflation rates were Greece (2.9%) and Italy (2.3%). The lowest rates were in Finland (-0.4%) and Belgium (1.0%).

Contact: Bryn Morgan, x4904

Updates: OECD, *Main Economic Indicators*, 12 May
Eurostat, *Euro-indicators news release*, 18 May

B3: Average Earnings Index



[Source: NS database, series: LNNG, LNNH]

- The headline rate of growth in average earnings for the whole economy in February was 4.9%, down from 4.7% in January.
- Headline average earnings growth in manufacturing was 3.5% in February (the same as in January) while earnings growth in the service sector increased to 5.2% compared with 5.1% in January.
- Headline earnings growth in the private sector was 5.1% in February, compared to 4.2% in the public sector.
- Earnings are currently growing faster than a year ago (the headline rate in February 2003 was 3.1%).

Average Earnings, Great Britain

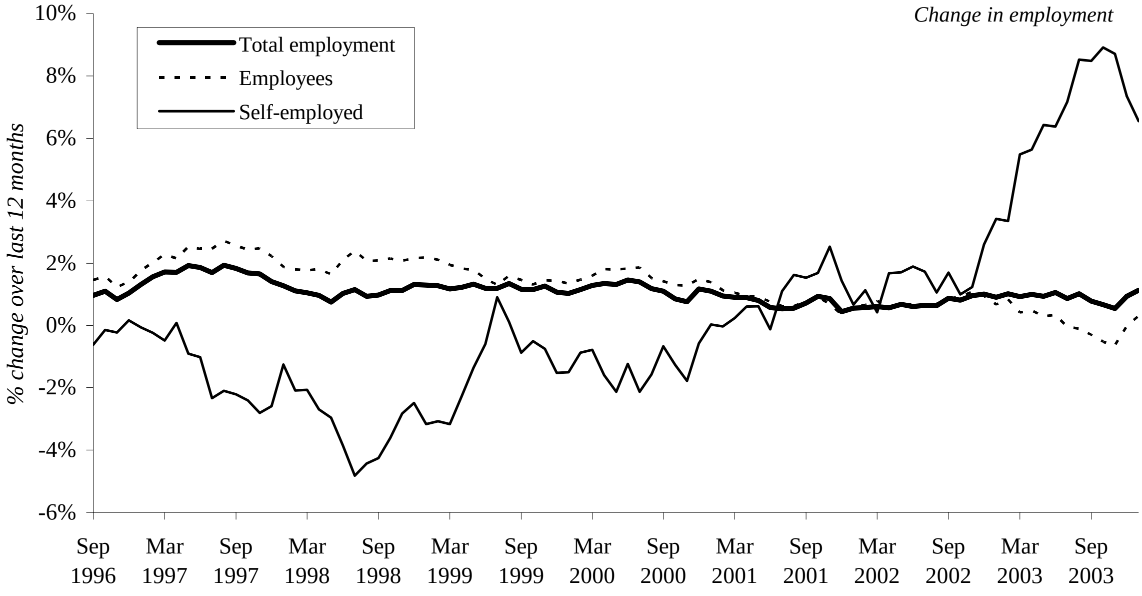
% change on year, seasonally adjusted

		Headline rate		
		Whole Economy	Private Sector	Public Sector
2000	Feb	5.9	6.3	4.3
2001	Feb	4.8	4.9	3.6
2002	Feb	2.8	2.4	4.7
2003	Feb	3.1	2.6	5.1
	Mar	3.3	2.9	5.2
	Apr	3.3	2.8	5.1
	May	3.4	3.0	4.9
	Jun	3.0	2.4	5.1
	Jul	3.3	2.9	5.1
	Aug	3.4	2.9	5.6
	Sep	3.6	3.1	5.6
	Oct	3.6	3.2	5.4
	Nov	3.6	3.2	4.8
	Dec	3.4	3.2	4.4
2004	Jan	4.7	4.8	4.2
	Feb	4.9	5.1	4.2

Source: NS database, series: LNNC, LNND, LNNE

Contact: Jessica Yonwin, x2464 **Update:** NS, *Labour Market Statistics*, 12 May

C1: Employment



[Source: see table]

Employment structure in the UK

3-month average centred on month; '000s & % changes; seasonally adjusted

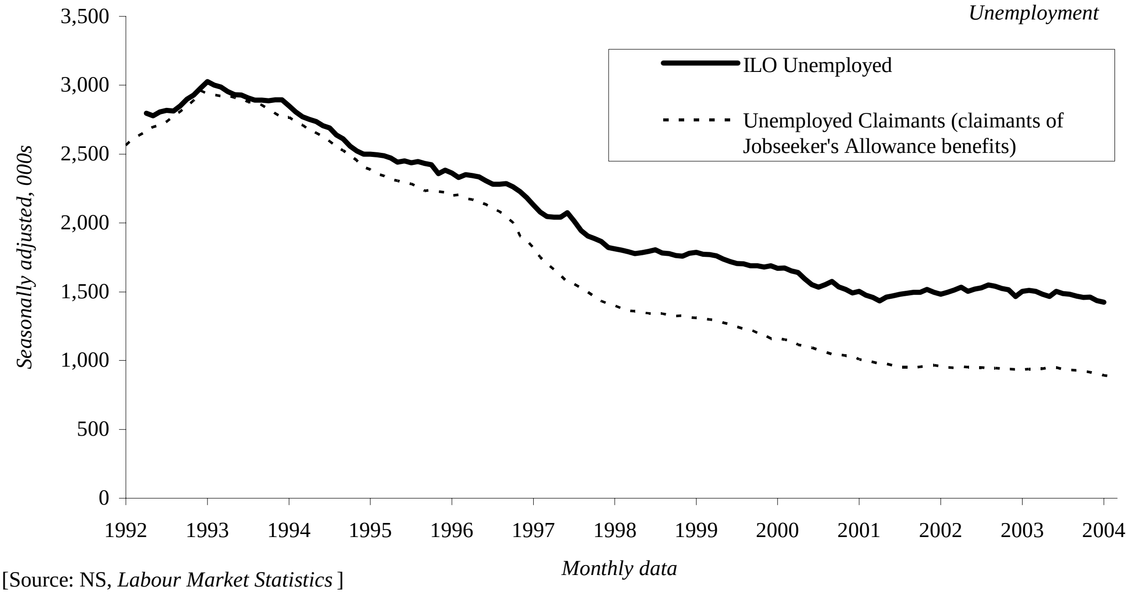
	Total in employment	Employees	Self-employed	Unpaid Family Workers	Government Training
2000 Jan	27,306	23,764	3,281	110	152
2001 Jan	27,607	24,093	3,282	97	135
2002 Jan	27,761	24,241	3,304	101	114
2003 Jan	28,012	24,404	3,417	91	101
2003 Apr	28,095	24,394	3,521	88	92
2003 Jul	28,103	24,313	3,588	100	102
2003 Oct	28,147	24,297	3,643	98	109
2004 Jan	28,330	24,479	3,641	108	103
Changes (%):					
on last 3 months	0.7	0.7	-0.1	9.8	-5.5
on last year	1.1	0.3	6.6	18.9	1.6

Source: National Statistics, *First Release Labour Market Statistics,* 16 April 2004

- Total employment was 28.3 million in the period December 2003 to February 2004, 1.1% higher than a year previously. The working age employment rate of 74.9% was 0.4% higher than the previous quarter and 0.3% higher than a year earlier.
- The number of workforce jobs increased by 114,000 between September and December 2003 and was 367,000 higher than a year previously. Over the year to December, the number of production industry workforce jobs fell by 95,000. Service sector jobs rose by 319,000.
- 7.4 million people were in part-time employment in the period December 2003 to February 2004, of whom 5.7 million were women. Some 3.6 million people were self-employed.

Contact: Alex Adcock, x3793 **Updates:** NS, *Labour Market Statistics*, 12 May

C2: Unemployment: National



[Source: NS, *Labour Market Statistics*]

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 December 2003 to February 2004, the level of ILO unemployment in the UK was 1,426,000. This was a decrease of 33,000 from the period September to November 2003.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 4,000 between February and March 2004 to 882,000.

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

- 1,082,000 people had joined the scheme by the end of December 2003. Of those leaving the scheme 480,000 had moved into jobs up to the end of December, of which 380,000 (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.

- 360,000 people joined the original (pre-April 2001) scheme. Of these, 77,000 had entered jobs of which 61,000 (80%) were sustained. 314,000 people had started on the enhanced scheme by the end of December 2003. Of these, 97,000 people had entered jobs of which 75,000 (78%) were sustained.

ILO Unemployment in the UK
seasonally adjusted

		'000s	rate (%)
1997	Sep - Nov	1,882	6.6
1998	Dec - Feb	1,810	6.4
	Mar - May	1,779	6.2
	Jun - Aug	1,795	6.3
	Sep - Nov	1,762	6.1
1999	Dec - Feb	1,786	6.2
	Mar - May	1,754	6.1
	Jun - Aug	1,696	5.9
	Sep - Nov	1,687	5.8
2000	Dec - Feb	1,677	5.8
	Mar - May	1,633	5.6
	Jun - Aug	1,519	5.2
	Sep - Nov	1,533	5.3
2001	Dec - Feb	1,508	5.2
	Mar - May	1,428	4.9
	Jun - Aug	1,474	5.1
	Sep - Nov	1,490	5.1
2002	Dec - Feb	1,497	5.1
	Mar - May	1,539	5.2
	Jun - Aug	1,525	5.2
	Sep - Nov	1,525	5.2
2003	Dec - Feb	1,502	5.1
	Mar - May	1,485	5.0
	Jun - Aug	1,487	5.0
	Sep - Nov	1,459	4.9
2004	Dec - Feb	1,426	4.8

Source: NS *Labour Market Statistics*

Contact: Alex Adcock, x3793 **Update:** NS, *Labour Market Statistics*, 12 May; *New Deal*, 16 Jun

C3: Unemployment: Regional

[Source: NS, *Labour Market Statistics*]

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 December 2003 to February 2004 London had the highest unemployment rate, 6.8% of the economically active population. The lowest rate over the same period was 3.1% in the South West region.

- A comparison of December 2003 to February 2004 with the same period a year earlier shows that the largest fall (23%) in unemployment occurred in the Eastern region. The East Midlands and Yorkshire & the Humber experienced the largest rise (5%) in unemployment over the same period.

ILO Unemployment, December 2003 - February 2004

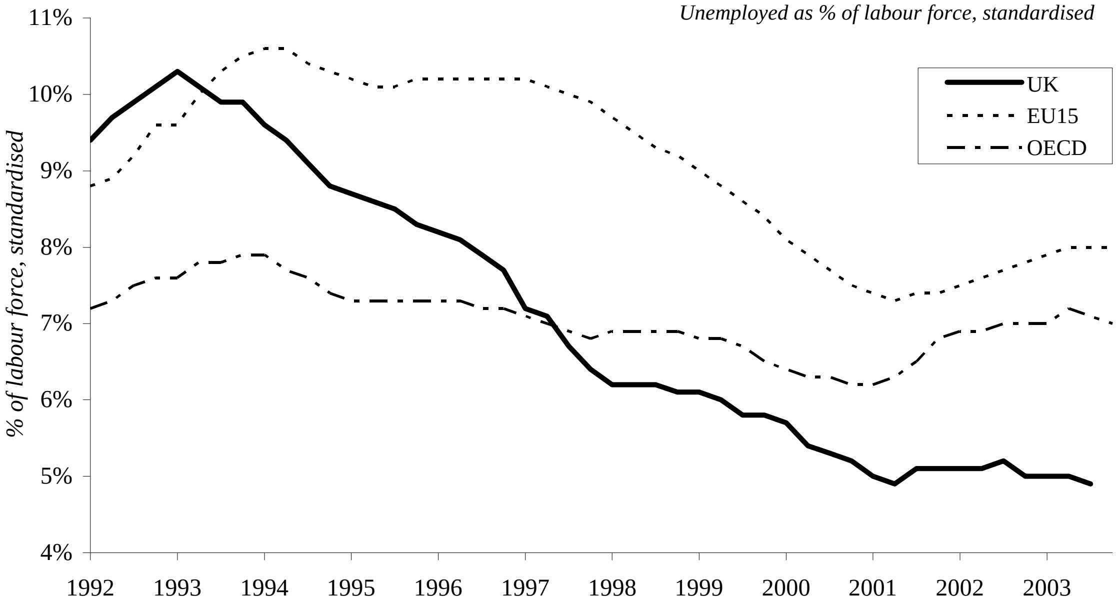
change on same period in previous year, seasonally adjusted

	Number (rounded)	*%*
North East	-7,000	*-9*
North West & Merseyside	-8,000	*-5*
Yorkshire & the Humber	6,000	*5*
East Midlands	5,000	*5*
West Midlands	-14,000	*-9*
Eastern	-28,000	*-23*
London	0	*0*
South East	-1,000	*-1*
South West	-13,000	*-14*
Wales	-1,000	*-2*
Scotland	-11,000	*-7*
Northern Ireland	-3,000	*-7*

Source: NS, *Labour Market Statistics* , 16 Apr 2004

Contact: Alex Adcock, x3793 **Update:** NS, *Labour Market Statistics*, 12 May

C4: Unemployment: International Comparisons



[Source: see table]

Unemployment

Unemployed as % of labour force (standardised); seasonally adjusted

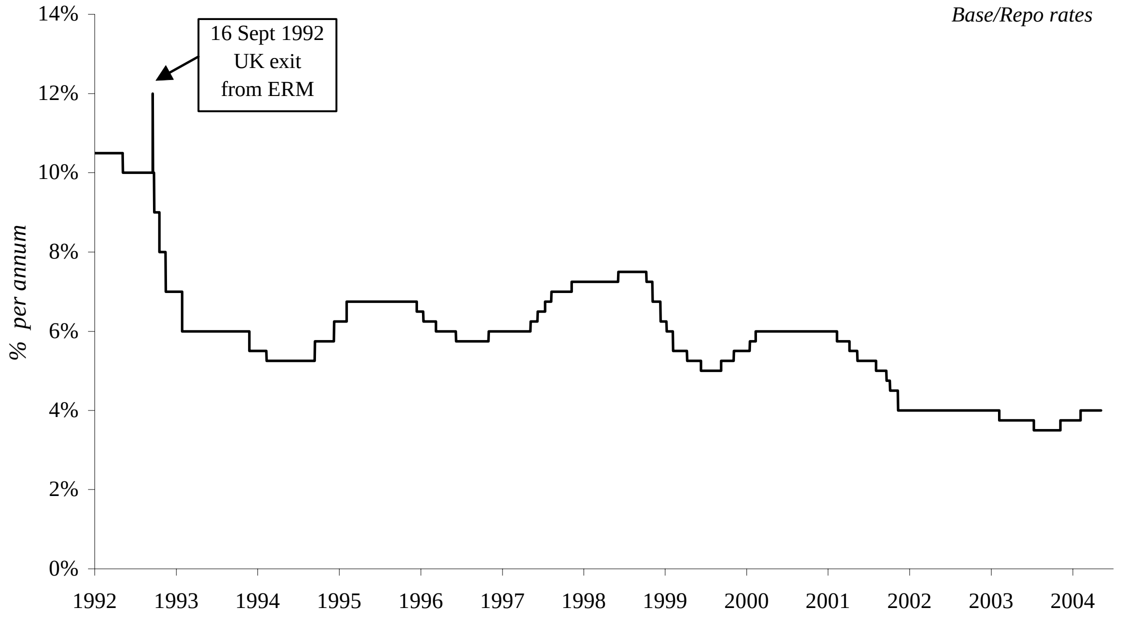
					2002				2003			
	2000	2001	2002	2003	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	4.0	4.7	5.8	6.0	5.7	5.8	5.7	5.9	5.8	6.1	6.1	5.9
Japan	4.7	5.0	5.4	5.3	5.3	5.4	5.4	5.4	5.4	5.4	5.2	5.1
Canada	6.8	7.2	7.7	7.6	7.9	7.6	7.5	7.6	7.5	7.7	7.9	7.5
UK	5.4	5.0	5.1	..	5.1	5.1	5.2	5.0	5.0	5.0	4.9	..
Germany	7.8	7.8	8.6	9.3	8.3	8.5	8.7	8.9	9.2	9.3	9.3	9.2
France	9.3	8.5	8.8	9.4	8.6	8.7	8.9	9.0	9.2	9.3	9.4	9.5
Italy	10.4	9.4	9.0	..	9.1	9.0	9.0	8.9	8.9	8.7	8.5	..
Eurozone	8.5	8.0	8.4	8.8	8.2	8.3	8.5	8.6	8.7	8.8	8.8	8.8
G7	5.6	5.9	6.5	6.6	6.4	6.5	6.5	6.6	6.6	6.7	6.7	6.5
OECD	6.3	6.5	6.9	7.1	6.9	6.9	7.0	7.0	7.0	7.2	7.1	7.0

.. - not available
Source: OECD, *Main Economic Indicators* , March 2004

- Using standardised definitions, the UK unemployment rate for 2002 was 5.1%, significantly below the eurozone average (8.4%) and below the G7 and OECD rates (6.5% and 6.9% respectively).
- Between Q2 and Q3 2003 the largest rise in unemployment among G7 countries was in Canada, where it rose by 0.2 of a percentage point. The largest falls (0.2 of a percentage point) were in Italy and Japan. The unemployment rate in all the G7 nations taken together was unchanged.
- The most recent forecasts published by the OECD (*Economic Outlook*, December 2003) suggest the UK unemployment rate will be 5.0% in 2003, 4.9% in 2004 and 4.8% in 2005. The respective forecasts for the Euro zone are 8.8%, 9.0% and 8.7%. For the OECD as a whole the respective forecasts are 7.1%, 7.0% and 6.7%.

Contact: Alex Adcock, x3973 **Updates:** OECD, *Main Economic Indicators*, 12 May
OECD, *Economic Outlook*, Jun

D1: Interest Rates



[Source: Bank of England]

Interest rates were first set by the independent Monetary Policy Committee (MPC) of the Bank of England in June 1997, rather than by the Chancellor.

The Chancellor confirmed on 10 December 2003 the new inflation target of 2% measured by the annual increase in the Consumer Price Index (CPI, formerly HICP). If inflation deviates by more than 1%, an explanatory open letter will be sent to the Chancellor.

- On 5 February 2004, the MPC voted to increase the base rate by 0.25%, following a 0.25% rise in November 2003, which was the first interest rate rise since February 2000. The rate has not been changed since.
- Minutes of the April meeting noted that: the effective sterling exchange rate was slightly higher on the month; mixed news about the international economy; and strong growth in Asian economies. On the domestic front, it noted continued fast house price growth, strengthening labour market and slightly lower than expected inflation.
- The latest Bank *Quarterly Inflation Report* (February 2004) noted the continued global recovery and weakness of the dollar. Although annual inflation (on the new CPI measure) was below the 2% target in December, it is projected to 'move up to the target'.

The MPC next meets on 6 May, with minutes due on 19 May. The next *Quarterly Inflation Report* will be released on 12 May.

UK Base/Repo Rates

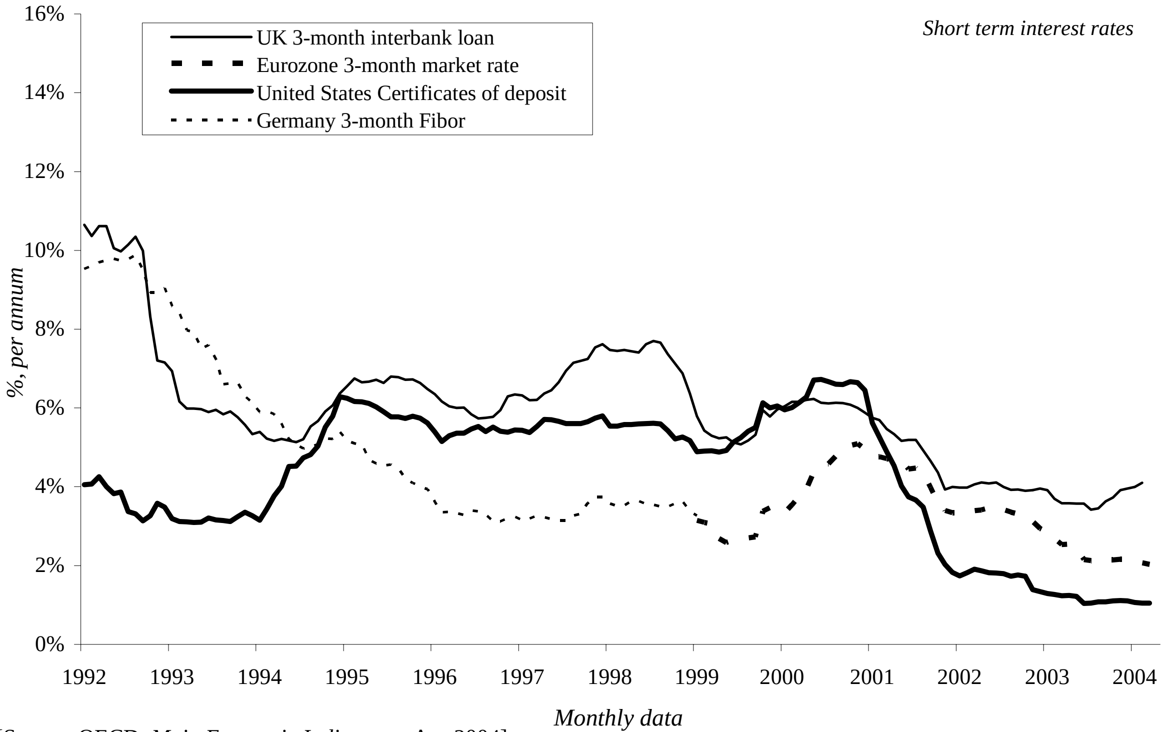
% per annum

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
	Jun 10	5.00
	Sep 8	5.25
	Nov 4	5.50
2000	Jan 13	5.75
	Feb 10	6.00
2001	Feb 8	5.75
	Apr 5	5.50
	May 10	5.25
	Aug 2	5.00
	Sep 18	4.75
	Oct 4	4.50
	Nov 8	4.00
2003	Feb 7	3.75
	Jul 10	3.50
	Nov 6	3.75
2004	Feb 5	4.00

Source: Bank of England

Contact: Ian Townsend, x3977 **Update:** *Decision (Minutes)* 6 (19) May; $^{1}/_{4}$*ly Report*, 12 May

D2: Interest Rates: International Comparisons



[Source: OECD, *Main Economic Indicators* , Apr 2004]

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 UK was the first to increase base rates:

- The Bank of England's Monetary Policy Committee reduced the UK Repo rate seven times during 2001. A cut of 0.25% on 6 February 2003 was followed by another 0.25% cut on 10 July 2003. This cut was reversed on 6 November 2003, with a 0.25% increase to 3.75%. A further increase of 0.25% was announced on 5 February 2004, but the rate has been left unchanged since.
- The European Central Bank (ECB) reduced the minimum lending rate four times during 2001, by 0.25% in May and August and twice by 0.5% (in September and November). A 0.5% cut on 6 March 2003 was followed by another 0.5% point cut on 5 June 2003. Since then the rate has remained at 2%.
- The US Federal Reserve cut the US Federal Funds Rate by 0.5% eight times during 2001, and again in November 2002, with a further 0.25% cut on 25 June 2003. The Federal Open Market Committee decided to leave the rate at 1% at its latest meeting on 16 March.

International Interest Rates

% per annum, as at 30 April 2004

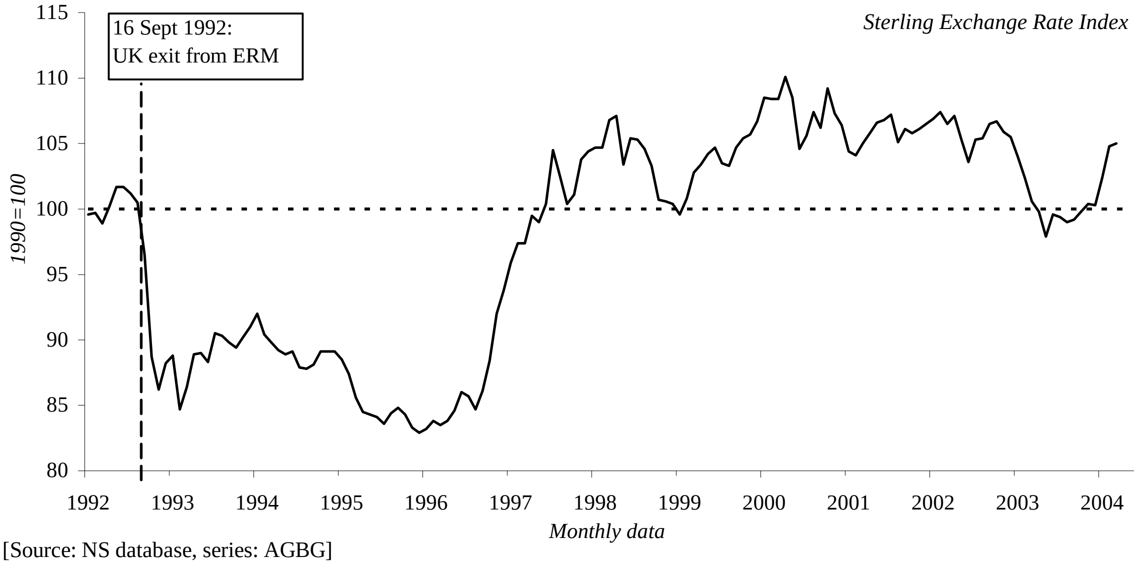
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	4.00	4.98	$4\ ^{7}/_{16} - 4\ ^{11}/_{32}$
Eurozone	2.00	n/a	$2\ ^{1}/_{16} - 2\ ^{1}/_{32}$
United States	1.00	4.50	$1\ ^{5}/_{32} - 1\ ^{1}/_{16}$
Japan	0.00	1.54	$^{1}/_{32} - -^{3}/_{32}$
Switzerland	0.00-0.75	2.65	$^{9}/_{32} - ^{3}/_{16}$

Source: *Financial Times* , 3 May 2004 (Companies & Markets, p27)

Contact: Ian Townsend, x3977 **Updates:** *Base rates*: 4 May (US Fed Res); 6 May (MPC & ECB), *Short-term interest* rates: OECD, *MEI*, 12 May

D3: Exchange rates

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



[Source: NS database, series: AGBG]

- The large fall in the SERI following the UK exit from the ERM indicated a relative improvement in the competitiveness of the UK. Compared with December 2003, the SERI increased by 4.5 points in February 2004, suggesting that the UK was relatively less competitive at the end of February 2004 than at the end of last year.

The table shows sterling exchange rates for three major currencies: the US dollar, Japanese yen and the euro. The pound was worth €1.479 at the London market close on 30 April 2004, compared to a launch rate of €1.4168 on 31 December 1998.

Sterling Exchange Rates

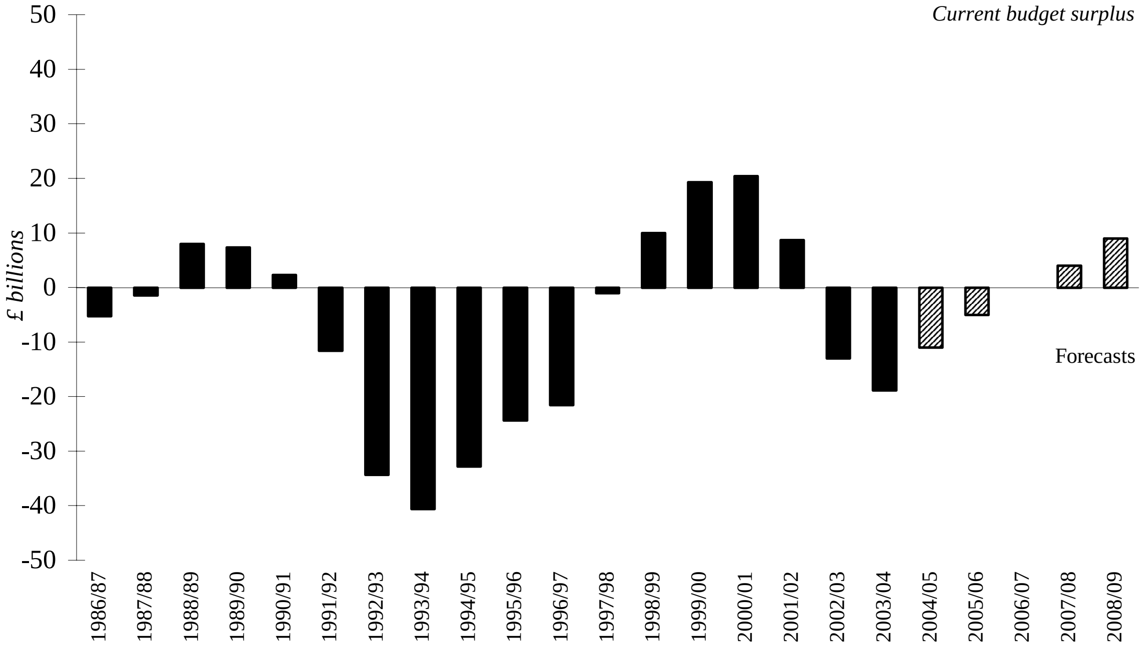
rates and % changes

		US Dollar ($)		Yen (¥)		Euro (€)	
		Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
2000		1.516	-6.3	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
2003		1.635	8.8	189.3	0.8	1.446	-9.1
2003	Mar	1.584	11.3	187.8	0.8	1.465	-9.7
	Apr	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
	Jun	1.661	11.7	196.5	7.3	1.423	-8.3
	Jul	1.624	4.5	192.7	5.0	1.428	-8.9
	Aug	1.595	3.7	189.4	3.5	1.429	-9.1
	Sep	1.613	3.7	185.3	-1.5	1.434	-9.6
	Oct	1.679	7.8	183.8	-4.7	1.433	-9.7
	Nov	1.690	7.5	184.5	-3.4	1.443	-8.1
	Dec	1.751	10.4	188.7	-2.4	1.425	-8.5
2004	Jan	1.823	12.8	193.8	0.9	1.445	-5.1
	Feb	1.867	16.4	199.2	3.7	1.477	-0.8
	Mar	1.827	15.4	198.2	5.5	1.489	1.6

Source: NS database, series: AUSS, AJFO, THAP

Contact: Ian Townsend, x3977 **Updates:** *SERI*, end May; *Sterling Exchange Rates*, daily

D4: Public Finances



[Source: NS database, series: ANMU]

The Government's policy is to balance the current budget over the span of the economic cycle, i.e. surpluses to match deficits (the golden rule). The graph shows the last two completed cycles, Q2 1986 to mid 1997, and mid 1997 to mid 1999. Figures from 2004/05 onwards are taken from the 2004 Budget..

- There was a £7.2 billion surplus on the current budget in Q1 2004 compared to a £5.1 billion surplus in the same quarter of 2003.

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

- The public sector net cash requirement (PSNCR - the new aggregate replacing the PSBR) was £476 million in Q1 2004 compared with £-1.0 billion in the same quarter of 2003. For the full 2003/04 financial year the PSNCR was £39.9 billion, compared with £22.5 billion in 2002/03.

Public Sector Net Debt

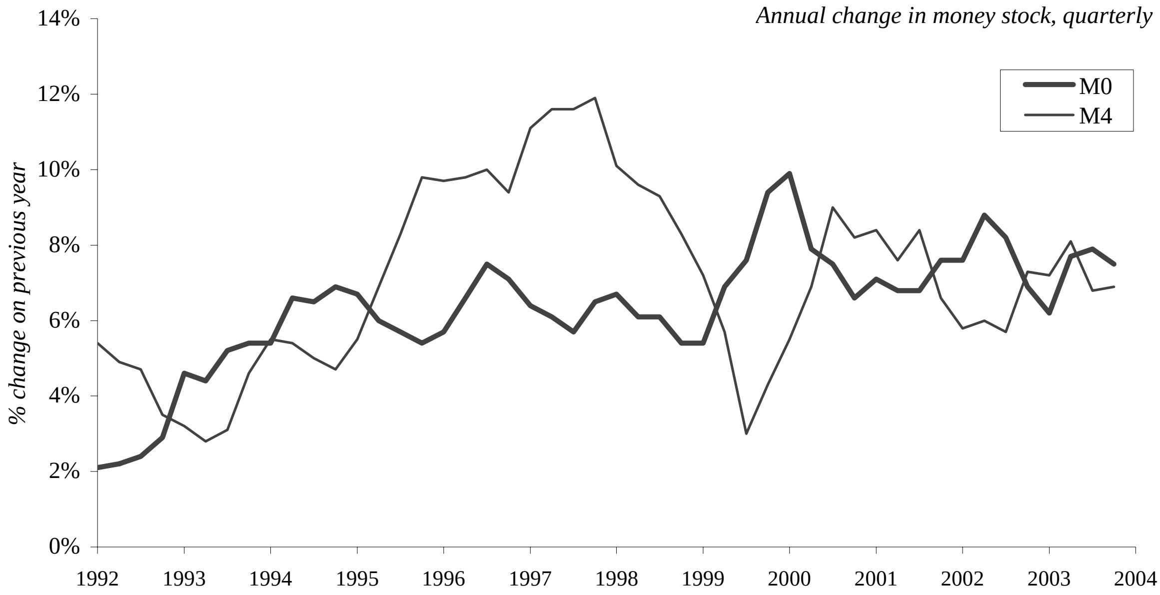
£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2000/01	306.9	31.2
2001/02	311.2	30.2
2002/03	334.1	30.8
2003/04	375.4	32.7
2003 Q1	334.1	30.8
Q2	349.9	31.8
Q3	355.2	31.9
Q4	374.8	33.1
2004 Q1	375.4	32.7

Source: NS database, series: RUTN, RUTO

Contact: Dominic Webb, x4324 **Update:** NS, *Public Sector Finances: First Release*, 21 May

D5: Money Supply



[Source: see table]

Money stock

% change, seasonally adjusted

		M0		M4	
		3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2003	March	8.0	6.6	5.0	7.4
	April	13.3	8.2	10.6	8.3
	May	13.2	8.7	10.2	8.5
	June	10.4	6.2	9.7	8.1
	July	7.1	8.0	5.3	7.3
	August	5.2	7.9	3.2	6.4
	September	6.6	7.7	3.9	6.6
	October	5.3	7.2	4.8	6.3
	November	5.8	8.0	9.3	6.9
	December	3.9	7.2	9.1	6.9
2004	January	5.1	7.6	12.6	8.3
	February	3.4	6.8	9.5	8.0
	March	7.6	7.1	8.2	7.7

Source: Bank of England, *Bankstats* , Series: VQMY, VQMX, VQKA, VQJW

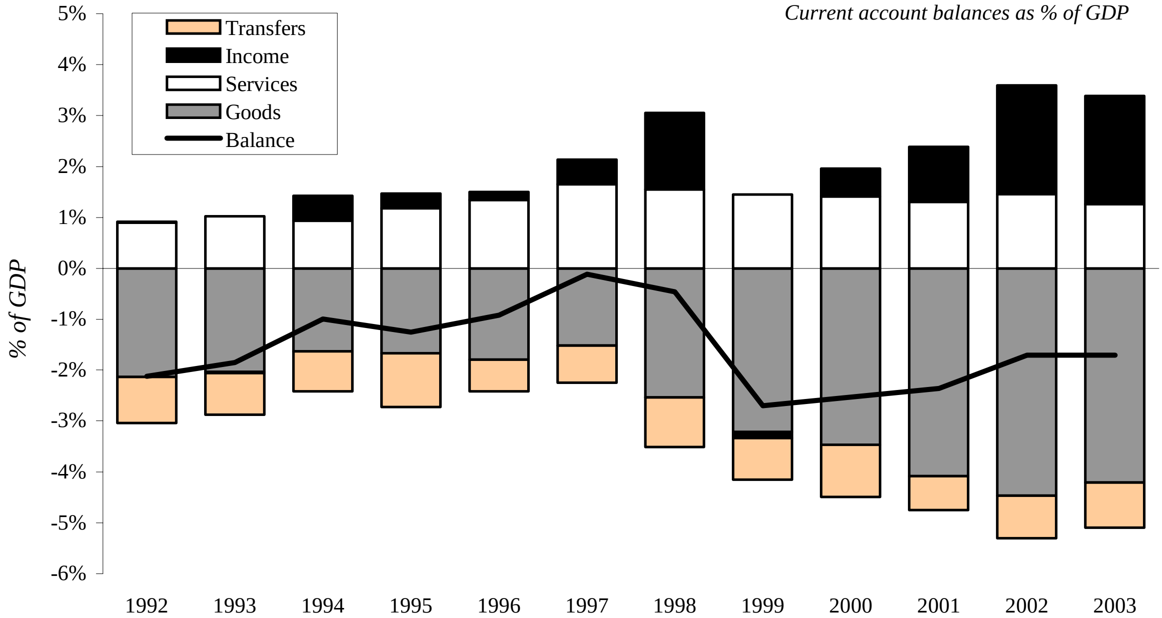
M0 comprises notes and coins in circulation outside the Bank of England plus bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 7.7% in the 12 months to March. The 12-month seasonally adjusted M0 growth rate was 7.1% in February 2004, compared to 6.6% in February 2003.

There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324 **Update:** Bank of England, *Bankstats*, 2 June

E1: International Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

	Trade in goods & services			Income	Transfers			Current
	Goods	Services	Total	(total)	Central Gov.	Other	Total	Balance
2000	-32,976	13,426	-19,550	5,208	-5,550	-4,202	-9,752	-24,094
2001	-40,620	13,000	-27,620	10,723	-2,593	-4,013	-6,606	-23,503
2002	-46,630	15,181	-31,449	22,310	-5,641	-3,033	-8,674	-17,813
2003	-46,249	13,847	-32,402	23,385	-6,769	-2,974	-9,743	-18,760
2002 Q4	-13,277	3,868	-9,409	7,976	-1,889	-605	-2,494	-3,927
2003 Q1	-11,003	3,393	-7,610	8,231	-1,593	-839	-2,432	-1,811
Q2	-10,832	3,431	-7,401	4,740	-1,894	-886	-2,780	-5,441
Q3	-11,824	3,436	-8,388	4,523	-1,682	-733	-2,415	-6,280
Q4	-12,590	3,587	-9,003	5,891	-1,600	-516	-2,116	-5,228

Source: NS database, series: BOKI, FNSV, FNTC, HBOJ, HBOP, IKBD, IKBJ, IKBP

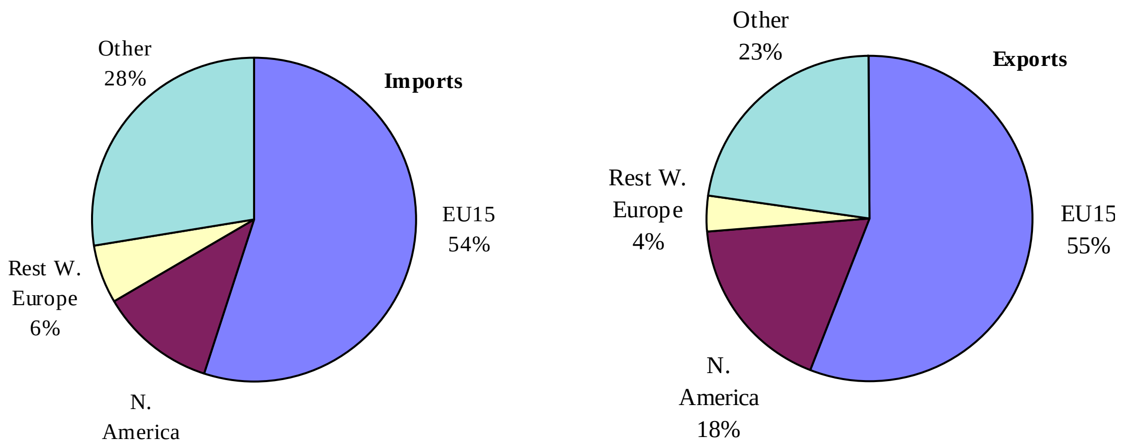
- The UK's current account was substantially revised in 2003, largely through the measurement of VAT missing trader intra-Community fraud increasing import figures for trade in goods. The resultant deficit narrowed between 1996 and 1998, but increased in all years from 1999 onwards.
- The annual current account for 2003 was in deficit by £18.8 billion, compared with a revised deficit for 2002 of £17.8 billion.
- The current account was in deficit by £5.2 billion in Q4 2003, compared with a revised deficit of £6.3 billion (previously £8.1 billion) in Q3. The decrease in the deficit was due to a higher surplus on investment income and a lower current transfers deficit more than offsetting the widening trade deficit. The increased investment income surplus was mainly due to higher direct investment earnings from abroad.

Contact: Bryn Morgan, x4904 **Updates:** NS, *UK Balance of Payments: First Release*, 30 Jun

E2: Trade in Goods

Shares of UK trade in goods by area, 2003

(Balance of Payments basis)



[Source: NS database, series: ENOF, HBZQ, HCJD, HCII, HDII, HCHW, ENOS, HCRB, HBTS, HDJQ, HCPC, HCIF]

Export & import volume indices & trade in goods balances

Index & £ millions; Balance of Payments basis; seasonally adjusted

	Volume index (2000=100)		Trade in goods (£m)		
	Exports	Imports	Exports	Imports	Balance
2000	100.0	100.0	187,936	220,912	-32,976
2001	102.7	105.4	190,050	230,670	-40,620
2002	100.9	109.7	186,517	233,147	-46,630
2003	100.1	110.7	187,703	233,952	-46,249
2002 Q4	96.4	110.1	44,521	57,798	-13,277
2003 Q1	101.8	111.3	47,777	58,780	-11,003
Q2	99.4	108.4	46,500	57,332	-10,832
Q3	98.6	109.7	46,283	58,107	-11,824
Q4	100.6	113.5	47,143	59,733	-12,590

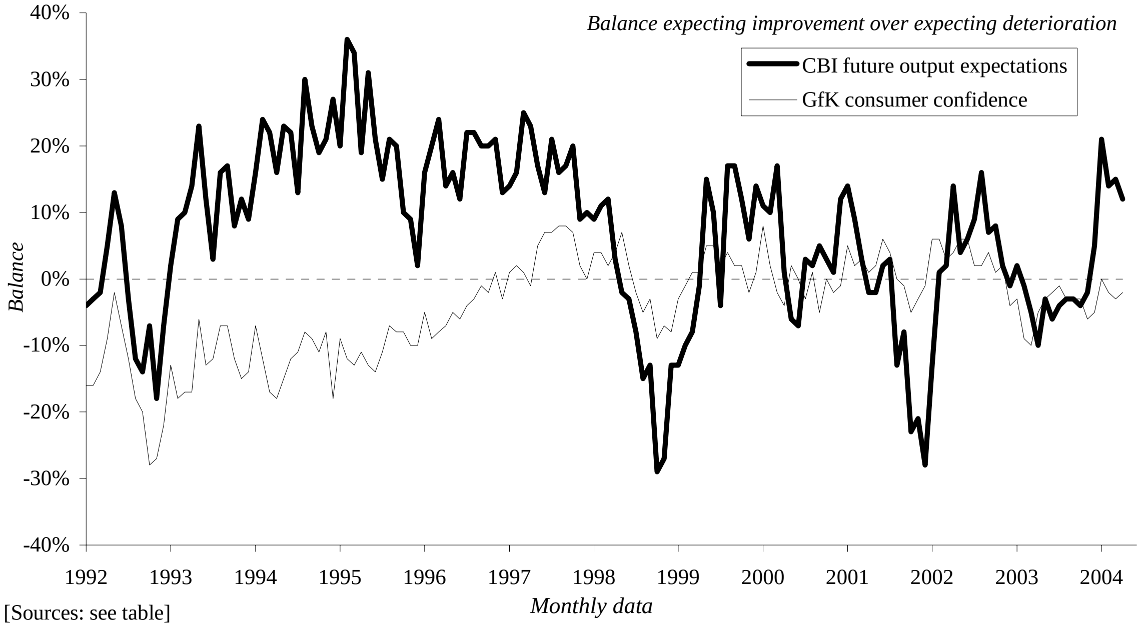
Source: NS database, series: BOKG, BOKH, BOKI, BQKU, BQKV

- In February 2004 the balance on trade in goods is provisionally estimated at a deficit of £4.2 billion compared with a revised deficit of £5.5 billion in January. In January, total exports of goods rose 2½% on the previous month to £14.9 billion, while goods imports fell 4½% to £19.2 billion.
- The deficit on trade in goods with EU countries for February was £2.2 billion, compared to £2.1 billion for January. The deficit with non-EU countries was £2.1 billion in January compared with a revised deficit of £3.4 billion in January.
- The latest estimate of the trend suggests that the whole world goods deficit is widening. The trends in the value of trade in goods show exports falling and imports rising.

Contact: Bryn Morgan, x4904 **Update:** NS, *UK Trade: First Release*, 12 May

F1: Survey indicators

The survey indicators shown here are expressed in terms of a balance of 'the percentage of respondents expecting the situation to improve' over 'the percentage expecting things to worsen':



[Sources: see table]

The CBI carries out monthly and quarterly *Industrial Trends* Surveys:

- The balance of expectations for future output from the CBI's monthly survey was 12 in April 2004. This was down from March's level, but substantially higher than the same month last year.
- The CBI's quarterly indicator of overall business confidence in manufacturing, looking at current optimism compared with three months previously, fell to 12 in April 2004, from 17 in January 2004.

Martin Hamblin GfK's *Consumer Confidence Barometer* is a composite measure of a range of consumer attitudes, including: forward expectations of the general economic situation and households' financial positions, perceptions of how these have changed over the last 12 months, and views on making major household purchases.

- April's results show that the overall index rose one point to -2 from its March level of -3.
- Consumers' optimism for the general economic situation over the next twelve months is unchanged. There was a rise in consumers' opinion regarding the climate for making major purchases and expectations regarding future personal finances have remained consistent.

Output Expectations/Consumer Confidence

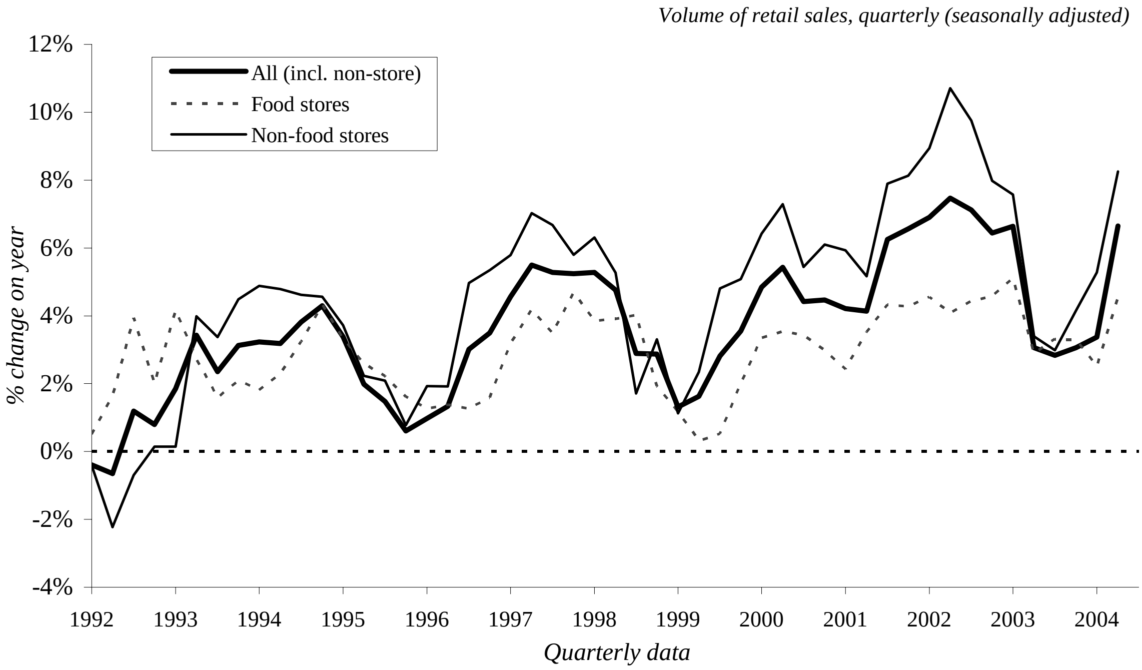
Balance of % expecting improvement over % expecting deterioration

		Future output expectations (CBI)	Consumer confidence (GfK)
2003	Apr	-10	-5
	May	-3	-3
	Jun	-6	-2
	Jul	-4	-1
	Aug	-3	-3
	Sep	-3	-3
	Oct	-4	-3
	Nov	-2	-6
	Dec	5	-5
2004	Jan	21	0
	Feb	14	-2
	Mar	15	-3
	Apr	12	-2

Sources: CBI, *Industrial Trends Survey* (monthly), from NS database, series: ETCU; Martin Hamblin GfK, *Consumer Confidence Survey* on behalf of the Euopean Commission

Contact: Jessica Yonwin, x3977 **Updates:** CBI, *Industrial Trends* (Monthly), 27 May; Martin Hamblin GfK, *Consumer Confidence*, 27 May

F2: Retail Sales



[Source: NS database, series: EAPS, EAPT, EAPV]

- The *volume* of retail sales grew by 1.9% in the three months from January to March compared with the previous three month period, and was 6.6% higher than a year previously (seasonally adjusted).
- Retail sales volumes in March 2004 were 6.4% higher than in March 2003 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 8.3% in January to March compared to the same quarter a year earlier. In predominantly food stores, sales volumes grew by 4.6% over the same period (seasonally adjusted).

Value of Retail Sales

% change on year, non-seasonally adjusted

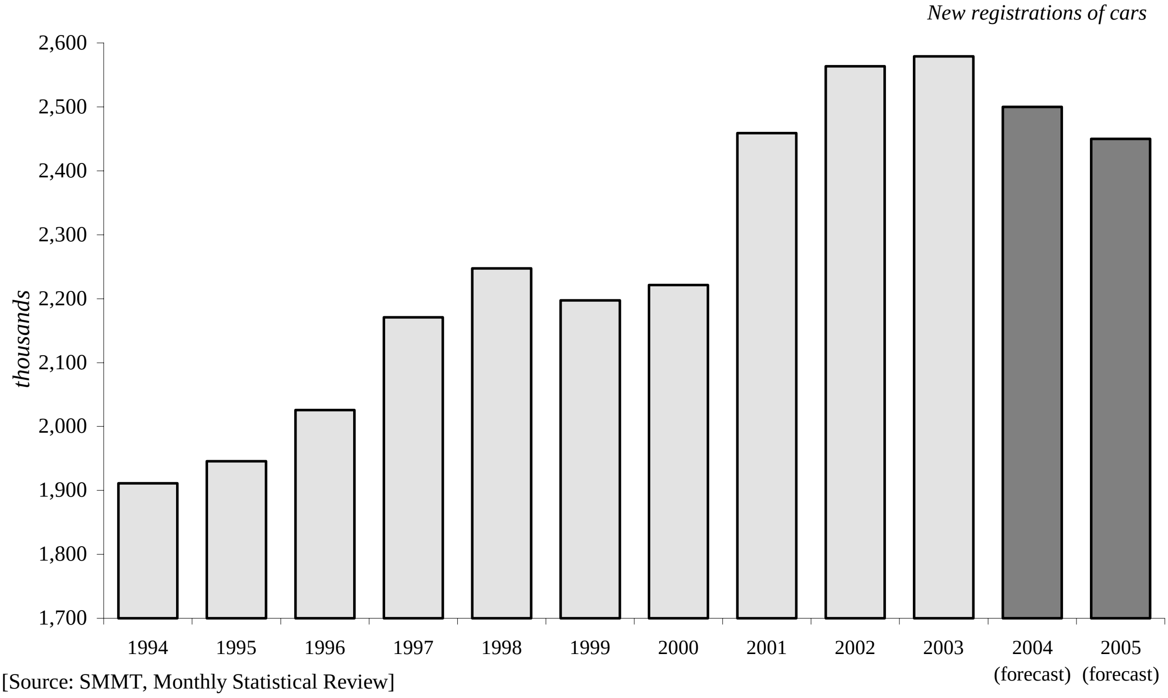
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
2000	4.2	4.2	6.4	3.1	3.1
2001	5.0	6.0	6.0	6.0	6.0
2002	3.8	2.8	8.5	6.6	4.7
2003	3.7	2.8	4.3	-0.9	2.7
2003 Q1	1.9	1.1	1.8	0.0	2.0
Q2	3.7	7.0	2.8	-2.8	1.9
Q3	4.7	2.8	3.7	-2.8	2.8
Q4	3.4	1.5	6.7	0.0	3.1
2004 Q1	3.8	3.2	8.1	8.0	4.8

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

- The average weekly *value* of retail sales in March 2004 was £4,430 million, 5.3% higher than in March 2003 (non-seasonally adjusted).

Contact: Ed Potton, x2883 **Update:** NS, *Retail Sales: First Release*, 20 May

F3: New Car Registrations



[Source: SMMT, Monthly Statistical Review]

Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations increased by 6.6% in March 2004, compared with the previous March's figure, to 466,955 units.

- The number of new registrations of cars was around 2.6 million units in 2003, a rise of 0.6% on the previous year and the highest annual total ever.
- New registrations of cars are forecast to fall by 3.1% in 2004, and by a further 2.0% in 2005.
- There were 90,165 registrations of British-built cars in March, equivalent to 19.3% of the market. The number of British built registrations decreased 7.2% on the previous March's figure. In 2003 as a whole, there were 521,000 registrations of British-built cars, a decrease of 10.6% from the previous year's figure and equivalent to 20.2% of the market.

New Registrations of Cars

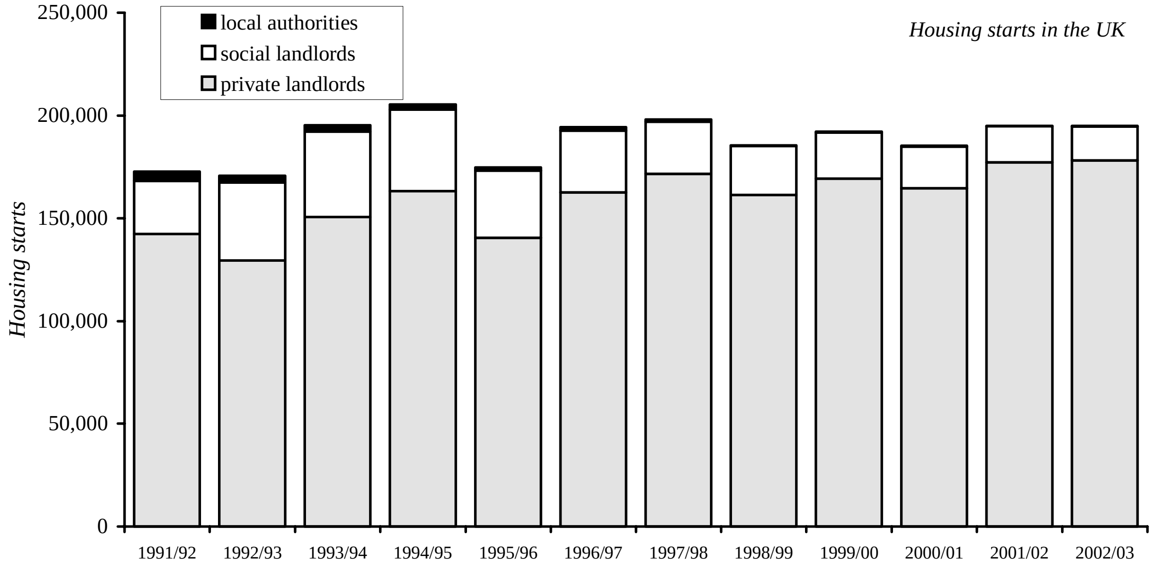
000s & % change, not seasonally adjusted

		Number ('000s)	Change over 12 months
2002		2,564	4.3
2003		2,579	0.6
2004	(forecast)	2,500	-3.1
2005	(forecast)	2,450	-2.0
2003	Mar	438	3.4
	Apr	194	-7.0
	May	200	-4.1
	Jun	240	15.8
	Jul	197	0.6
	Aug	89	2.4
	Sep	439	1.5
	Oct	182	-1.4
	Nov	169	-1.5
	Dec	155	7.5
2004	Jan	198	5.8
	Feb	91	3.8
	Mar	467	6.6

Source: SMMT, *Monthly Statistical Review*

Contact: Ed Potton, x2883 **Update:** SMMT, *Monthly Statistical Review*, late May

F4: House-building & Prices



[Source: ODPM, *Housebuilding* , table 201]

The Office of the Deputy Prime Minister (ODPM) now publishes quarterly housing starts and completions data. This is because of the volatility of monthly data published previously.

- The latest available UK-wide data for housing starts are for Q2 2003, with 54,108 dwellings started in the UK in that quarter, compared with 49,870 in same quarter in 2002. The latest available completion data is for Q1 2003, which saw 42,477 completions, compared with 42,103 in Q1 2002 (non-seasonally adjusted).

The Halifax *House Price Index* shows that:

- UK house prices rose by 2.2% in March 2004, with annual house price inflation running at 18.5%.
- On a quarterly basis, UK house prices rose by 5.1% in Q1 2004 compared with the previous quarter, following an increase of 4.6% in Q4 2003 on Q3 2003 (all seasonally adjusted)

Halifax data gives a regional breakdown (note: these regions are not aligned with Government Office Regions used below):

- This puts annual house price inflation in Q1 2004 at its highest in the North (36.0%) and lowest in the South East (7.3%), compared 18.5% in the same quarter across the UK as a whole (all non-seasonally adjusted data).

Standardised average house prices

£s & %, non-seasonally adjusted

		All houses	New houses	Existing houses	First time buyers
2003	Q1	123,637	126,847	124,405	86,653
	Q2	130,545	129,334	131,643	92,528
	Q3	135,204	134,419	136,602	95,964
	Q4	140,130	141,715	141,390	99,019
2004	Q1	146,465	143,613	147,881	104,354
% change over same period in previous year					
2003	Q1	23.4	22.2	23.3	20.5
	Q2	21.9	17.3	22.1	20.3
	Q3	18.6	16.7	18.4	19.5
	Q4	15.4	15.2	15.1	17.0
2004	Q1	18.5	13.2	18.9	20.4

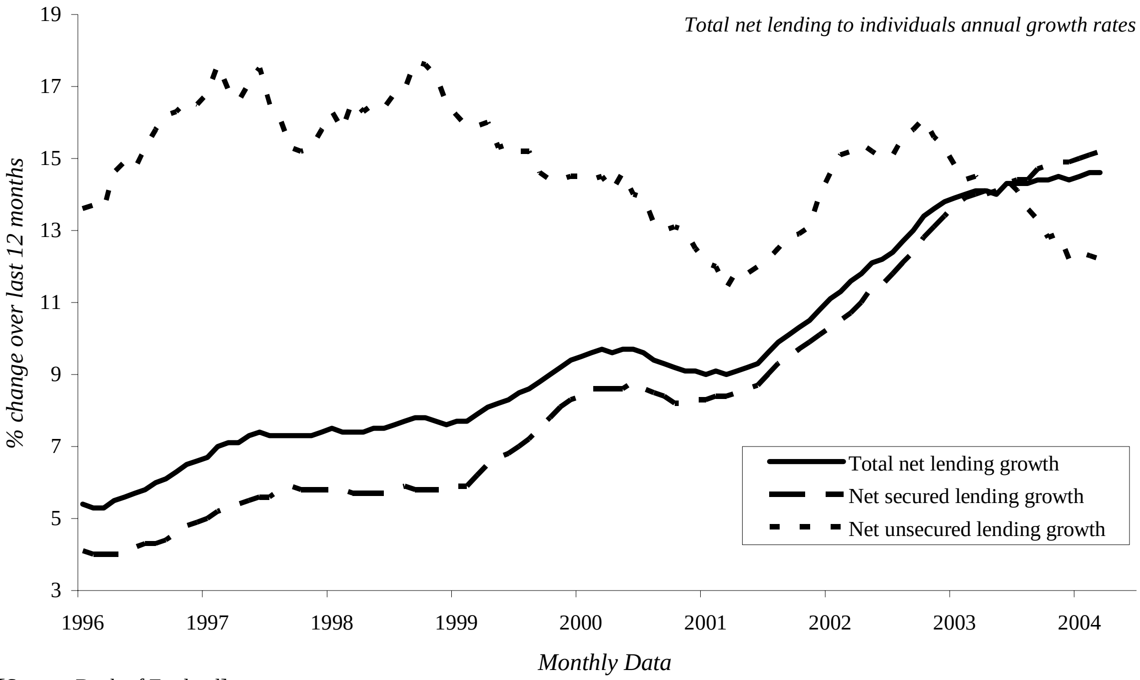
Source: HBOS, *Halifax House Price Index* (historical data)

The ODPM now publishes, **currently in experimental form only**, its own house price index based on completions (cf. Halifax index, which is based on mortgage approvals):

- The average UK house price in February 2004 was £160,937, down from £163,645 in January 2004. Annual house price inflation was 9.8% in February, compared with 9.7% in January. Regionally, annual house price inflation in February was highest in the North East (26.8%) and lowest in the South East and the South West (both 4.4%). Note that all of these figures are not seasonally adjusted.

Contact: Ian Townsend, x3977 **Updates:** Halifax, *House Prices*, early May; ODPM, *House Prices*, 10 May; ODPM, *Housebuilding*, 21 May

F5: Consumer borrowing



[Source: Bank of England]

Net lending to individuals

£ millions and % changes on year; seasonally adjusted

	Net Lending Outstanding			Net Lending Growth Rates		
	Secured	Unsecured	Total	Secured	Unsecured	Total
2000 Mar	504,201	119,139	623,339	8.6	14.5	9.7
2001 Mar	547,155	129,024	676,179	8.4	11.4	9.0
2002 Mar	607,207	144,259	751,466	10.7	15.2	11.6
2003 Mar	696,787	160,192	856,979	14.0	14.5	14.1
Jun	719,355	164,359	883,714	14.3	14.4	14.3
Sep	745,008	167,611	912,619	14.7	13.3	14.4
Dec	772,580	169,481	942,061	14.9	12.2	14.4
2004 Mar	800,158	173,542	973,699	15.1	12.3	14.6

Source: Bank of England, series: VTYI, VTYO, VTYC, VTXK, VTRI, VZXC

- Total net outstanding lending to individuals was £974 billion at the end of March 2004.
- Total net lending to individuals grew by 1.1% in March 2004 compared to the previous month, and grew by 14.6% on an annual basis (all seasonally adjusted). This represents an increase in growth of 0.2% compared to the annualised rates for February 2004.
- Of the £11 billion increase in net lending in March 2004, £9.3 billion was mortgage borrowing and £1.7 billion was consumer credit.
- Secured lending statistics were revised upwards from July 2002 onwards following a review of 'other specialist lenders' data.

Contact: Ed Potton, x2883 **Update:** Bank of England, *Lending to Individuals*, 2 Jun