



RESEARCH PAPER 05/74  
1 NOVEMBER 2005

# Economic Indicators, November 2005

This Research Paper series summarises the main economic indicators currently available for the UK, along with comparisons with other major OECD countries for selected indicators.

The series also includes an article on a topical issue.

This month's article:

**The outlook for the UK economy**

Next publication date: **1 December 2005**

Edward Beale (editor)

ECONOMIC POLICY AND STATISTICS SECTION

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## I Introduction to *Economic Indicators*

*Economic Indicators* research papers are published in sitting time on the **first working day** of the month. In months where the paper is not published, individual indicators are updated and made available through the subject pages of the Library's intranet as standard notes. Indicator pages are listed both under the relevant subject page headings, and collectively on the *Economic Indicators* subject page.<sup>1</sup> A guide to sources is provided in section IV.

### Discard previous issues

Upon receipt of each issue users should discard the previous issue as it may contain statistics which are no longer the most current, or which have been revised.

### Glossary

Some economic terms used in this publication may be unfamiliar to readers. Many of these terms are described in the glossary at the end of this publication. Symbols and abbreviations used in this publication are also described here.

### Contacts

Members and their staff requiring detailed information are encouraged to talk to the researchers specialising in the relevant area. A comprehensive guide to the subject coverage of specialists in the Library's Research Service is available in *Who Does What in Research*.<sup>2</sup> Researchers are not able to discuss pages with members of the public. For enquiries in these subject areas please contact the following researchers:

<b>Subject</b>	<b>Statistician</b>	<b>tel. extn.</b>
Balance of payments	Ian Townsend	3977
EC finance	Ed Potton	2883
GDP	Dominic Webb	4324
Employment	Edward Beale	2464
Financial services	Ed Potton	2883
Housing	Gavin Berman	3851
Incomes	Ian Townsend	3977
Industries	Ed Potton	2883
National accounts	Dominic Webb	4324
International development	Bryn Morgan	4904
Prices & interest rates	Dominic Webb	4324
Public expenditure	Dominic Webb	4324
Taxation	Bryn Morgan	4904
Trade	Ian Townsend	3977
Transport	Ross Young	4313
Unemployment	Edward Beale	2464
Wages & earnings	Edward Beale	2464

Members and their staff and are also free to contact the named persons on each indicator page for updates during normal hours.<sup>3</sup>

<sup>1</sup> <http://hcl1.hcllibrary.parliament.uk/wdw/subject/EI.asp>

<sup>2</sup> <http://hcl1.hcllibrary.parliament.uk/wdw/subject/wdwir.asp>

<sup>3</sup> After 6pm there is a statistician on duty until the rise of the House who can be contacted via the Oriol Room of the Main Library (extn. 3666).

## II Monthly highlights

This month saw all nine members of the MPC vote to keep interest rates on hold at 4.5% despite the downward revision of GDP growth estimates in September which showed the slowest four quarter growth rate (1.5% to quarter two 2005) since 1993. Notably, following the first rate cut in August since July 2003, minutes of the September and October meetings show a potential further rate cut was not even discussed. Preliminary estimates released in October showed that GDP rose by 0.4% in the third quarter of 2005, down from 0.5% in the previous quarter. The four quarter annual growth rate was up to 1.6% in quarter three. This month's article discusses prospects for the UK economy in more detail.

### Prices

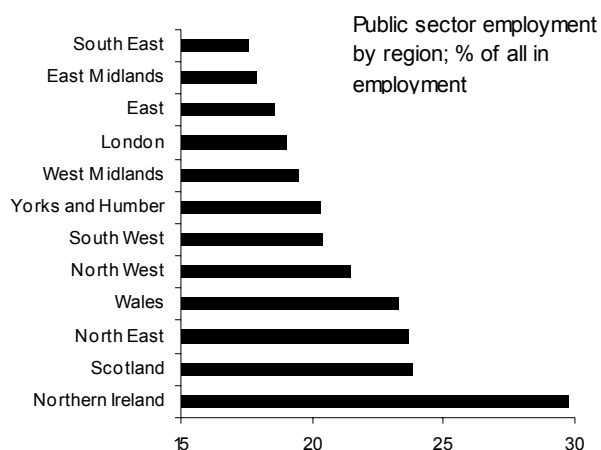
At 2.5% CPI inflation is at its highest level since the Government adopted it as the headline measure in December 2003. Notably, the CPI and the previous headline measure of inflation, the Retail Price Index excluding mortgage interest payments (RPIX), are now equal; as recently as March 2004 the RPIX was one percentage point higher. Economists have speculated that, with the prospect of continued high oil prices contributing to high inflation expectations in the short term, the MPC are likely to wait until the November inflation report before considering any adjustments to monetary policy, with any further rate cut unlikely until the New Year.

### Retain sales

Concerns over inflation are in contrast to weak consumer demand. The three-monthly growth in retail sales volumes in September was the lowest since May this year (at 0.4%) whilst the annual growth is the lowest since the beginning of 1996 (at 1.0%). However, month-on-month sales rose 0.7%, up from 0.2% in August (Source: ONS).

### Public Sector Employment

A new ONS publication, *Public Sector Employment Trends 2005*, was published in October. This showed that public sector employment in the UK as a proportion of total employment was 20.4% in June 2005. This was still below the June 1992 figure of 23.1% but above the low point of 19.2% in June 1999. The report also contained public sector employment statistics by region of the UK (see chart).



### Recent publications

Since the last edition of Economic Indicators prior to the summer recess, the Economic Policy and Statistics section has published some research papers that may be of interest to readers:

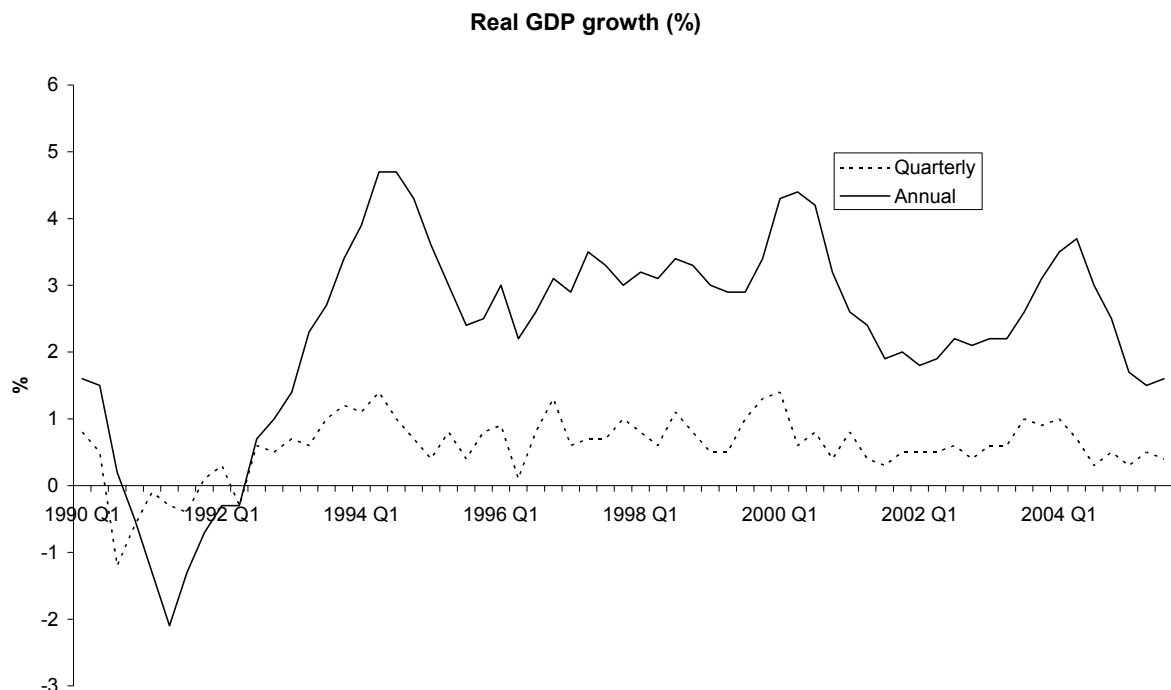
- 05/61 [Employment and Training Programmes for the Unemployed Volume I: Recent developments and the New Deal programmes](#)
- 05/62 [Employment and Training Programmes for the Unemployed Volume II: Other programmes and pilots](#)
- 05/68 [The Burden of Taxation 2005](#)

### III The outlook for the UK economy

This article considers the recent performance of the UK economy and its future prospects. The focus is on economic growth, productivity and the public finances. The Treasury's current forecasts, from the March 2005 Budget, are compared with current independent forecasts. The Treasury is expected to revise its economic forecasts in the Pre-Budget Report in the next few weeks.

#### A. Economic growth

The economy has grown relatively slowly over recent months. The *Financial Times*, commenting on the latest GDP estimates, said that the economy had grown below trend for five consecutive quarters to Q3 2005.<sup>4</sup> The chart and table below show annual and quarterly growth of real GDP.



<sup>4</sup> "Economic growth remains weak", *Financial Times*, 22-23 October 2005.

<b>Real GDP growth (%)</b>		
	Quarterly (a)	Annual (b)
2004 Q1	1.0	3.5
2004 Q2	0.7	3.7
2004 Q3	0.3	3.0
2004 Q4	0.5	2.5
2005 Q1	0.3	1.7
2005 Q2	0.5	1.5
2005 Q3	0.4	1.6

Source: ONS (series IHYQ and IHYR)

Notes: (a) growth compared with previous quarter

(b) growth compared with same quarter in previous year

Retail sales have also been weak. The latest annual figures showed the slowest growth in retail sales volumes since 1996<sup>5</sup>, although the figures for September were better than anticipated following discounting by retailers.<sup>6</sup>

The Bank of England has considered whether official figures may be under-estimating the growth of the economy. Employment figures, for example, have not shown a similar downturn. This point was made by Mervyn King, governor of the Bank of England, in evidence to the House of Lords Economic Affairs Committee on 25 October:

Mervyn King, the governor of the Bank of England, insisted yesterday that "the wheels (were) not coming off" the economy, although it was now driving along a "slightly bumpier road".

Giving evidence to the House of Lords economic affairs committee, he repeated his view that official figures might be understating the rate of economic growth, but added that there were no signs of higher inflation showing up yet in wage demands.<sup>7</sup>

The Chancellor will present updated economic forecasts in the Pre-Budget report. In the Budget in March, the Treasury forecast real GDP growth of 3 to 3½% this year and 2½% to 3% for 2006. These are now regarded by most commentators as too optimistic. The average independent forecast is currently 1.8% for this year and 2.2% for 2006.<sup>8</sup> The Chancellor has hinted that his growth forecast will be revised downwards, citing the oil price as a reason:

"The world is coming to terms with an oil shock as big as that in the 1970s," he said. "It will be seen in all the major industrialised economies over the next few months. You will find that growth in the G7 [club of wealthy nations] has been downgraded."

He warned the effects of higher oil prices are "more considerable than previously thought because of the scale of the rise - it has doubled", and added: "That is something that is obviously having an effect on costs."

He told ministers at the IMF that "the UK is likely to see growth at or slightly

<sup>5</sup> Seasonally adjusted retail sales volume, July – September 2005 compared with same period in 2004.

<sup>6</sup> "High street sales bounce back after price cuts", *Financial Times*, 21 October 2005

<sup>7</sup> "King denies wheels coming off economy", *Financial Times*, 26 October 2005

<sup>8</sup> HM Treasury, *Forecasts for the UK economy*, October 2005



below our cautious view of trend". The Treasury's cautious view of trend is 2.5% growth for this year, and there was a strong hint that growth could be only 2%.<sup>9</sup>

Some have argued that the Chancellor is putting too much emphasis on oil. For example:

John Butler, an economist at HSBC, said oil could not be blamed for the slowdown so far this year. "The reason growth has been slower is because consumers have reacted to slower house price rises and higher levels of debt."

However, by the end of the year, he predicts higher oil prices and the knock-on effects in the form of higher electricity and gas bills will chop around 1% off the disposable income of households.<sup>10</sup>

Even at the time of the Budget, the Treasury was more optimistic than independent forecasters whose average forecast was 2.6% growth this year and 2.3% in 2006.<sup>11</sup> The Treasury's forecasting record was, however, praised in an article in the *Financial Times* in June:

A comparison of past performance shows, however, that the chancellor is right in asserting that the Treasury's growth forecasts have outperformed the consensus.

[...]

[T]he absolute average difference between the Treasury's Budget forecasts of economic growth for one year ahead against the actual outturn was 0.7 percentage points, while that of the consensus was 0.9 points.

But this is not a huge difference and the gap is smaller when the comparison is made with some individual forecasters, such as the IMF and the London-based National Institute for Economic and Social Research.<sup>12</sup>

The chart below shows how independent growth forecasts have become more pessimistic during the year, especially in the case of forecasts for 2005. In the early part of the year, independent forecasters were forecasting growth of around 2.5%. From July onwards, however, the forecast has been reduced in each successive month, falling to 1.8% by October. The forecast for 2006 has been more stable, fluctuating between 2.2% and 2.4%.

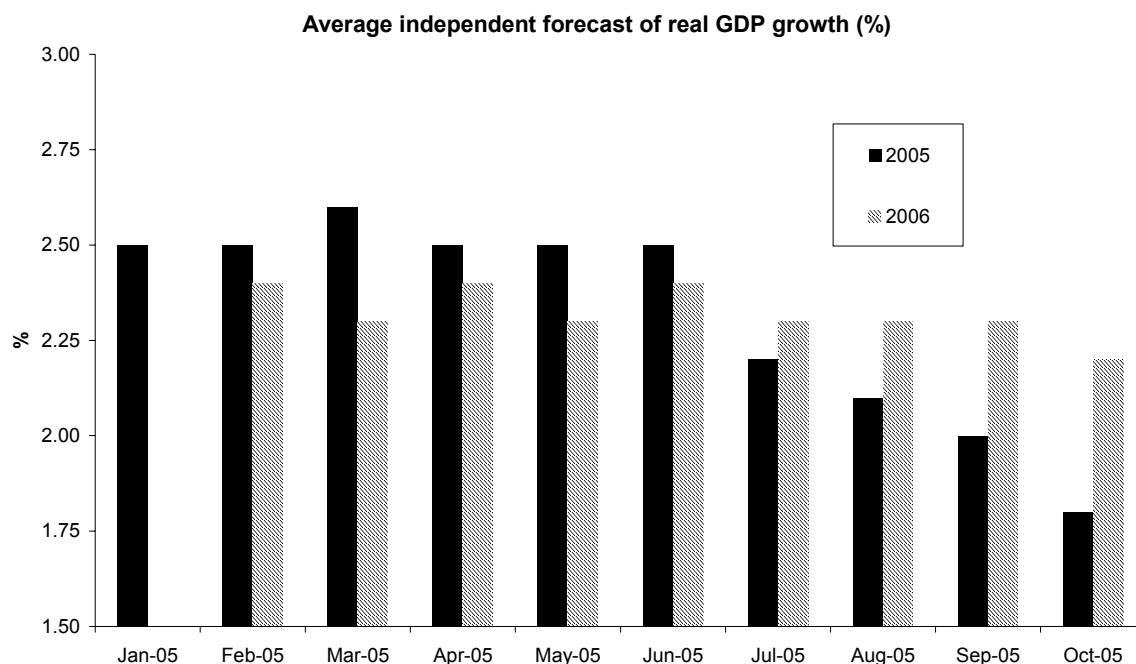
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<sup>9</sup> "Brown is forced to backtrack over growth forecasts", *Daily Telegraph*, 24 September 2005

<sup>10</sup> *Ibid.*

<sup>11</sup> HM Treasury, *Forecasts for the UK economy*, March 2005

<sup>12</sup> "Chancellor's optimism over growth proves to be justified", *Financial Times*, 1 June 2005



Independent forecasters expect private consumption to grow more slowly than GDP. Government consumption and fixed investment are projected to grow more rapidly than GDP. The table below shows the current average independent forecast for the main components of GDP for 2005. The table also shows how independent forecasts for the components of GDP have changed since March and compares them with the Treasury's forecast.

#### **Forecasts of GDP and its components for 2005**

% change	Independent	Independent	HM Treasury
	March	October	March
GDP	2.6	1.8	3 to 3.5
Private consumption	2.2	1.7	2.25 to 2.75
Government consumption	3.1	2.1	...
Fixed investment	4.1	2.9	6 to 6.25
Exports	4.7	4.0	6 to 6.5
Imports	5.0	3.7	6 to 6.5

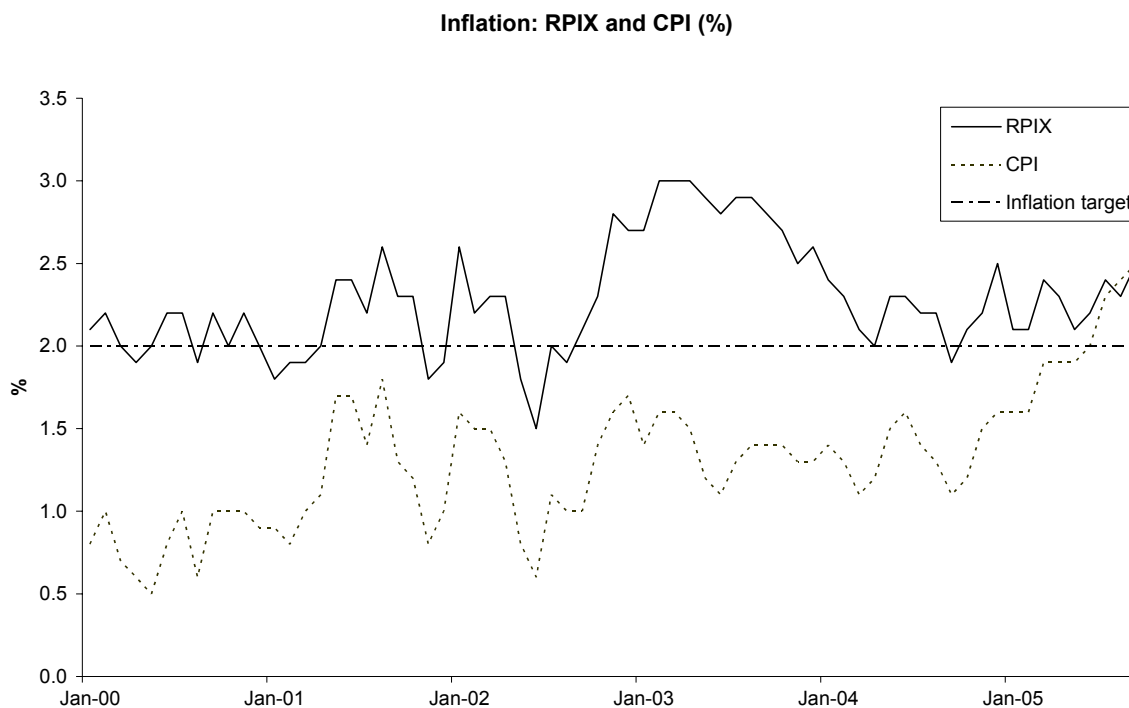
Source: HM Treasury, Forecasts for the UK Economy: A comparison of independent forecasts, March and October 2005. HM Treasury, Budget 2005 (March)

## **B. Inflation and interest rates**

Inflation has crept up over recent months. Measured by the Consumer Prices Index (CPI - the measure used for the Bank of England's inflation target), it is currently 2.5% compared with only 1.1% a year ago. The chart below shows CPI inflation and inflation measured by RPIX (the Retail Prices Index, excluding mortgage interest payments). After a period when CPI inflation was much lower than RPIX – as recently as March last year there was a full percentage point difference between the two measures – the two have converged. When the measure used for the Bank of England's inflation target was changed from RPIX to the CPI, the target was lowered from 2.5% to 2%. The 2003 Pre-Budget Report said:

The new target is 0.5 percentage points below the previous RPIX-based target, reflecting differences in the way that CPI and RPIX inflation are measured. The level of the new target is set to be consistent with the old target in two years' time, the typical forecast horizon for monetary policy purposes.<sup>13</sup>

The average independent forecast for CPI inflation is 2.3% for 2005 (Q4) falling to 1.9% in 2006 (Q4).<sup>14</sup>



The Bank of England base rate currently stands at 4.5%. Since August's cut of 0.25%, the Monetary Policy Committee voted unanimously to keep rates on hold at both its September and October meetings. This possibly suggests that another change is unlikely in the short term. Recent comments by Mervyn King have been interpreted as suggesting an interest rate cut early next year may be a possibility:

Amid near-certainty in the City that the Bank will hold rates next month despite slowing growth, Mervyn King kept alive hopes for a reduction by the spring when he struck a more soothing tone on inflation risks than in other recent comments.

In testimony to the Lords Economic Affairs Committee, Mr King said that underlying price pressures not caused by the soaring cost of oil, and which accounted for about half the recent pick-up in inflation, had "eased", while pay growth remained tame.

He emphasised that the Bank "would be concerned if earnings growth picked up". But he noted that, "we have so far seen earnings growth remain relatively stable".

Charlie Bean, the Bank's chief economist, added to the slightly more dovish tone

<sup>13</sup> HM Treasury, *Pre-Budget Report*, December 2003, Cm 6042, para 2.8

<sup>14</sup> HM Treasury, *Forecasts for the UK economy*, October 2005

when he also said that a recent jump in producer price inflation triggered by soaring energy costs looked like it would prove "temporary".<sup>15</sup>

Some commentators, such as Oxford Economic Forecasting and the Royal Bank of Scotland expect a quarter point cut early next year.

### C. Productivity Performance

Recent years have delivered strong productivity performance both in the economy overall and in sectors such as manufacturing. However, recent quarters have shown a sharp slowdown in productivity growth, with overall output per worker slowing to an annual growth rate of 0.5% in Q2 of 2005, compared to 2.8% in the same quarter in 2004.<sup>16</sup> The *Financial Times* reported that using the output per worker measure, quarterly growth was at the lowest level since spring 1991 (Q1 1991), and noted the following view on the reasons for the decline:

[...] The Office for National Statistics does not provide a complete breakdown of productivity but Michael Saunders, of Citigroup, estimated the figures on the basis of the national accounts published yesterday. He found a steep decline in private sector productivity growth and falling productivity levels in the public sector for four years in a row.

Mr Saunders said: "The chances are that private sector firms will respond to this slowdown in productivity growth with a slowdown in hiring, which will keep unemployment drifting up".

"In the government sector, however, there is little chance of a near-term pick up in productivity growth unless the government gets far more serious about reforms to the delivery of public services," he added.<sup>17</sup>

The table below shows annual productivity growth since 1990 and on a quarterly basis for the last six quarters.

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<sup>15</sup> "King offers hope of interest rate cut by the spring", *Financial Times*, 26 October 2005

<sup>16</sup> Office for National Statistics First Release, *Productivity: 2<sup>nd</sup> Quarter 2005*, 29 September 2005. <http://www.statistics.gov.uk/pdfdir/pro0905.pdf>

<sup>17</sup> "Growth in output per worker at 14-year low", *Financial Times*, 30 September 2005

**UK Productivity Growth 1990-2005***Annual percentage change*

		Output per worker	Output per hour	Manufacturing: Output per filled job
1990		0.3	..	2.5
1991		2.0	..	2.8
1992		3.7	..	6.2
1993		3.6	..	4.5
1994		3.7	3.0	3.6
1995		1.5	1.4	-1.2
1996		1.7	1.7	0.1
1997		1.4	1.4	1.6
1998		2.4	2.6	1.2
1999		1.7	2.2	4.4
2000		2.9	3.8	6.2
2001		1.1	1.0	3.5
2002		0.9	1.8	1.5
2003		1.5	2.0	5.1
2004		2.0	2.5	5.8
2004	Q1	2.2	2.8	7.2
2004	Q2	2.8	3.7	6.8
2004	Q3	2.0	2.7	4.8
2004	Q4	1.1	0.9	4.3
2005	Q1	0.6	0.4	2.7
2005	Q2	0.5	0.3	2.3

Source: Office for National Statistics, series A4YN, LZVD, LNNU

A joint PSA of the Treasury and the DTI<sup>18</sup> is to improve productivity growth over the economic cycle compared to France, Germany, and the US. Figures published by *National Statistics* show that since 1997 UK productivity measured as both output per worker and output per hour has improved compared to France, Germany and the US. However, the UK still lags behind the US and France in productivity performance and figures published in September 2005 show that the gap in productivity performance between the UK and these two countries increased in 2004.<sup>19</sup>

**D. Public finances**

The Chancellor's two fiscal rules are:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other

<sup>18</sup> DTI, *Departmental Report 2005*, Chapter 2, part 2.6

<sup>19</sup> Office for National Statistics First Release, *International Comparisons of Productivity*, 12 September 2005. OECD also publish data on international comparisons of productivity. Further information is available from the [OECD web pages on productivity](#).

things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.<sup>20</sup>

The golden rule requires the current budget to be balanced over the economic cycle. Earlier this year, the Treasury announced that it had revised its view of the timing of the current economic cycle. Previously, its view had been that the cycle started in 1999/00. Following revisions to GDP statistics, it now believes the cycle started two years earlier in 1997/98. There was a small deficit in 1997/98 and a larger surplus in 1998/99, giving the Chancellor more leeway to meet the golden rule.

In the Budget, the Treasury forecast a deficit on the current budget of 0.5% of GDP in 2005-06 (£6 billion). The Institute for Fiscal Studies (IFS) forecast a current budget deficit of £13.4 billion in their Green Budget in January. The IFS have calculated that over the first six months of this financial year, the current budget deficit is 17.4% lower than the same period last year. If this were to be the case over the year as a whole, the current deficit will be £15.6 billion. On this basis, the golden rule would be met.<sup>21</sup>

On the wider measure of public sector net borrowing, the Treasury's Budget forecast is more optimistic than the current average independent forecast, as shown in the table below.

**Treasury and independent forecasts of public sector net borrowing**

£ billion	2005/06	2006/07
Treasury (Budget - March 2005)	32	29
Average independent forecast (October)	39.3	39.0

Sources: HM Treasury, Budget 2005 Table C4  
 HM Treasury, Forecasts for the UK Economy, A comparison of independent forecasts, October 2005

One area which has received attention is the government's revenue forecasts. In 2004/05 central government current receipts were £418.1 billion.<sup>22</sup> The 2005 Budget forecast receipts of £453.6 billion in 2005/06<sup>23</sup> – an increase of 8.5% over the previous year. Over the first six months of the current financial year, central government current receipts are up by 7.2%.<sup>24</sup> The IFS have commented on the outturn for corporation tax receipts, compared to the Budget forecast:

<sup>20</sup> HM Treasury, *Budget 2004*, HC 301, March 2004, para 2.7

<sup>21</sup> IFS, *IFS analysis of today's public finance figures*, 20 October 2005.  
[http://www.ifs.org.uk/press.php?publication\\_id=3459](http://www.ifs.org.uk/press.php?publication_id=3459)

<sup>22</sup> ONS First Release, *Public Sector Finances September 2005*, Table PSF3.  
<http://www.statistics.gov.uk/pdfdir/psf1005.pdf>

<sup>23</sup> HM Treasury, Budget 2005, HC 372, Table C23. [http://www.hm-treasury.gov.uk/budget/budget\\_05/budget\\_report/bud\\_bud05\\_report.cfm](http://www.hm-treasury.gov.uk/budget/budget_05/budget_report/bud_bud05_report.cfm)

<sup>24</sup> ONS First Release, *Public Sector Finances September 2005*, Table PSF3.  
<http://www.statistics.gov.uk/pdfdir/psf1005.pdf>

Corporation tax receipts for the first half of 2005 were 16.1% higher than those for the same months last year. The Budget forecast implies that Corporation tax receipts will grow by 28.4% over the whole of 2005–06, well above the trend to date.<sup>25</sup>

## **E. Concluding comments**

Independent forecasts for GDP growth have changed considerably since the Treasury presented its most recent forecasts in the Budget in March. The Treasury will present its revised forecasts in the Pre-Budget Report. The extent of revisions to its growth forecasts will have implications for its view of the outlook for the public finances.

Dominic Webb and Ed Potton  
Economic Policy and Statistics Section

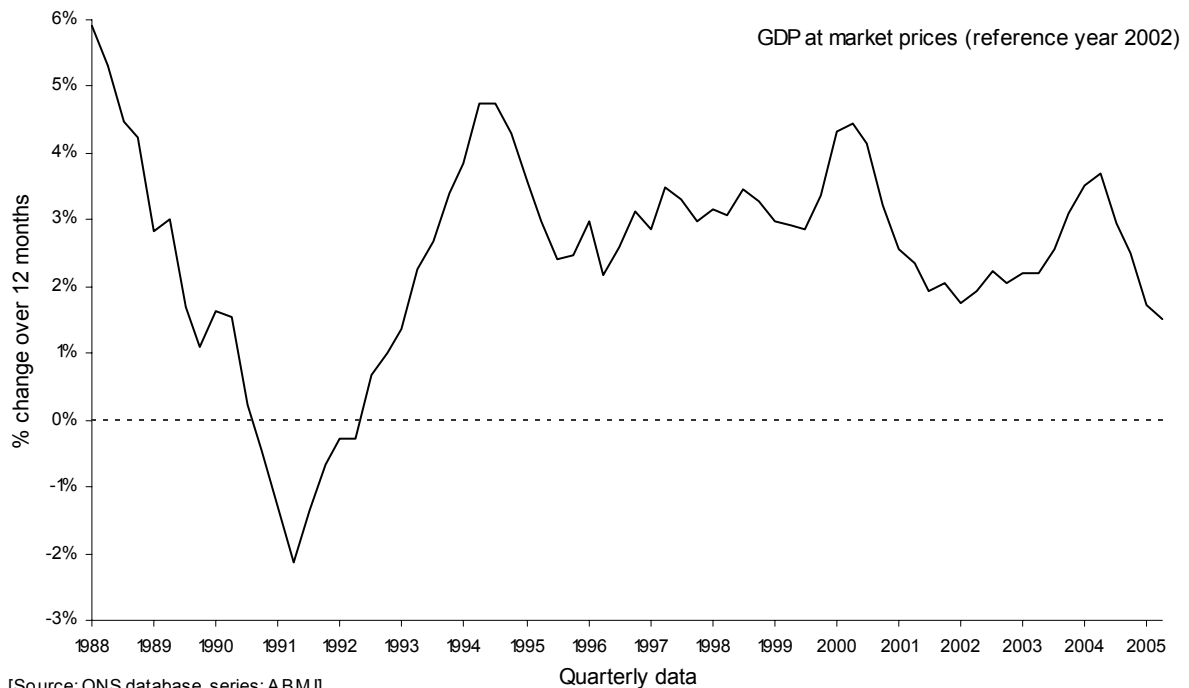
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<sup>25</sup> IFS, *IFS analysis of today's public finance figures*, 20 October 2005.  
[http://www.ifs.org.uk/press.php?publication\\_id=3459](http://www.ifs.org.uk/press.php?publication_id=3459)





## A1: Gross Domestic Product



### Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

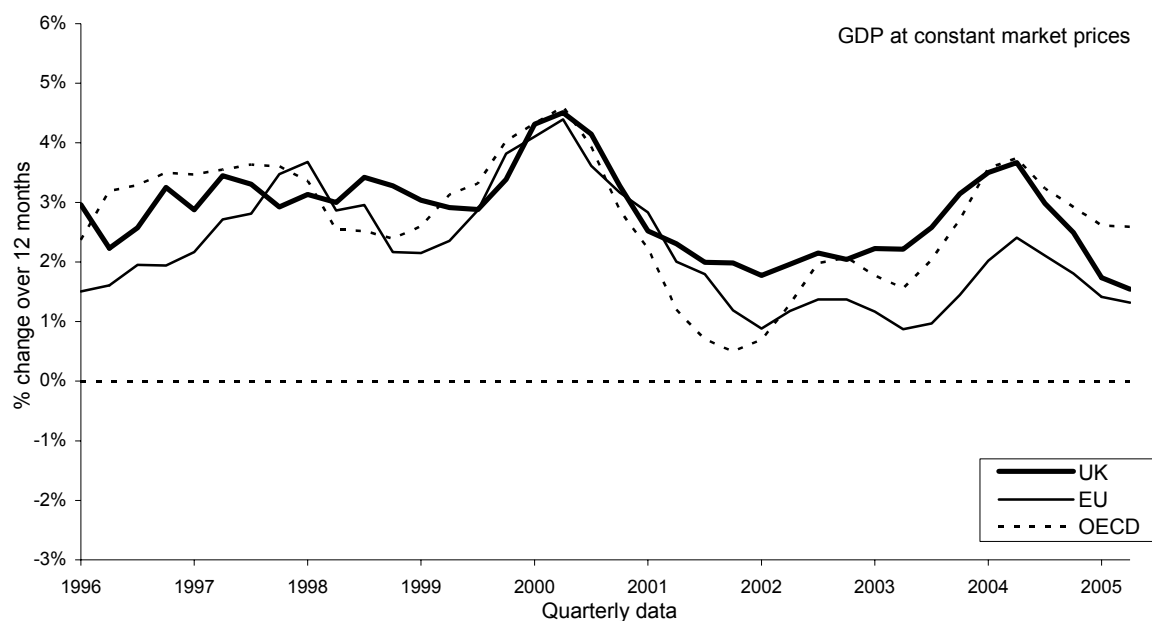
	Current		Chained volume (reference year 2002)	
	£ billion	% change on year	% change on year	
2001	996.8	4.5	2.2	
2002	1,048.5	5.2	2.0	
2003	1,105.9	5.5	2.5	
2004	1,163.9	5.2	3.2	
2004 Q1	285.9	5.7	3.5	
Q2	289.2	5.5	3.7	
Q3	292.4	4.8	3.0	
Q4	296.4	5.0	2.5	
2005 Q1	298.2	4.3	1.7	
Q2	..	..	1.5	

Source: ONS database, series: YBHA, ABMI

- The UK economy is estimated to have grown by 3.2% in 2004, compared with 2.5% in 2003.
- Latest data show that the chained volume measure of gross domestic product (GDP) at market prices in Q2 2005 rose by 1.0% on the previous quarter, and on the same measure GDP was 1.5% higher in Q2 2005 than compared with Q2 2004.
- HM Treasury's average of independent economic forecasts of GDP growth in 2005 was 1.8% in October 2005 compared with 2.0% in September 2005. The average growth forecast for 2006 was 2.2% in October 2005, having been 2.3% in September 2005.

**Contact:** Ian Townsend, x3977

**Updates:** HM Treasury, *Forecasts for the UK Economy*, 16 Nov; ONS, *UK Output, Income & Expenditure*, 25 Nov; *GDP Preliminary Estimate (Q4 2005)*, 25 Jan 2006

**A2: GDP: International Comparisons**

[Source: OECD, *Main Economic Indicators*, Oct 2005]

**GDP at constant market prices**

% changes

	% change on year				% change quarter on quarter				
					2004			2005	
	2001	2002	2003	2004	Q2	Q3	Q4	Q1	Q2
USA	0.8	1.6	2.6	4.3	0.8	1.0	0.8	0.9	0.9
Japan	0.2	-0.3	1.4	2.7	-0.5	-0.1	0.2	1.3	0.9
Canada	1.8	3.0	2.0	3.0	1.2	0.9	0.5	0.5	0.8
United Kingdom	2.2	2.1	2.5	3.2	0.7	0.3	0.5	0.3	0.5
Germany	1.2	0.1	-0.2	1.7	0.2	-0.1	-0.1	0.8	0.0
France	2.1	1.2	1.0	2.3	0.8	0.1	0.7	0.4	0.1
Italy	1.8	0.4	0.2	1.3	0.3	0.4	-0.4	-0.6	0.7
Eurozone	1.9	1.0	0.8	2.1	0.5	0.3	0.2	0.3	0.4
G7	1.0	1.2	1.9	3.2	0.6	0.6	0.5	0.8	0.6
OECD	1.1	1.6	1.9	3.4	0.7	0.6	0.6	0.7	0.6

Source: OECD, *Main Economic Indicators*, Oct 2005

- The latest data shows that all of the largest economies recorded positive growth in the second quarter of 2005.
- Recent growth in the eurozone has been weaker than growth in OECD countries and the G7. However, eurozone growth in the second quarter of 2005 did increase to 0.4%. In contrast, growth in both the G7 and all OECD countries fell on the previous month to 0.6%.

**OECD growth forecasts**

% change on year

	2004	2005	2006
USA	4.4	3.6	3.3
Japan	2.6	1.5	1.7
United Kingdom	3.1	2.4	2.4
Eurozone	1.8	1.2	2.0
OECD	3.4	2.6	2.8

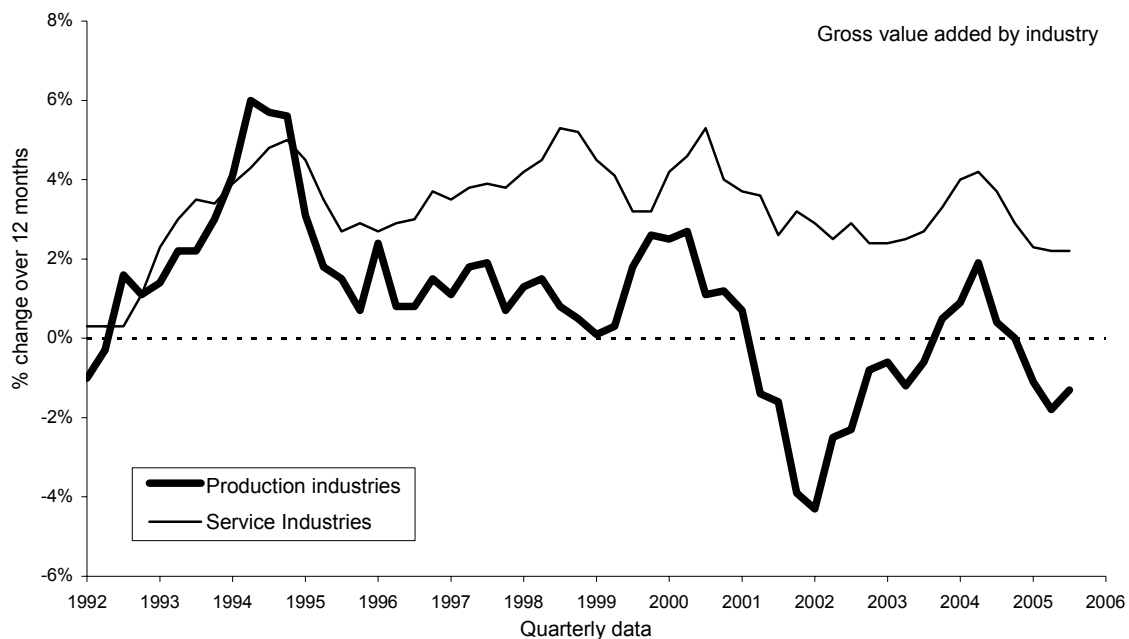
Source: OECD, *Economic Outlook*, Jun 2005

**Contact:** Edward Beale, x2464

**Update:** OECD, *Main Economic Indicators*, mid-Nov

### 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: ONS database, series: ERIE, GDSI]

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 2.2%. Between the second quarter of 2005 and the third quarter of 2005 annual output growth in the service sector was unchanged.

#### Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufacturing			
2001	-1.6	-1.3	3.3	-9.1	1.8
2002	-2.5	-3.1	2.7	12.3	3.8
2003	-0.5	0.1	2.7	-1.7	5.2
2004	0.8	1.9	3.7	1.1	3.4
2004 Q3	0.4	1.5	3.7	0.9	1.8
Q4	0.0	1.2	2.9	1.1	1.8
2005 Q1	-1.1	-0.1	2.3	-0.3	1.7
Q2	-1.8	-1.1	2.2	1.5	2.2
Q3	-1.3	-0.1	2.2	0.0	2.0

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

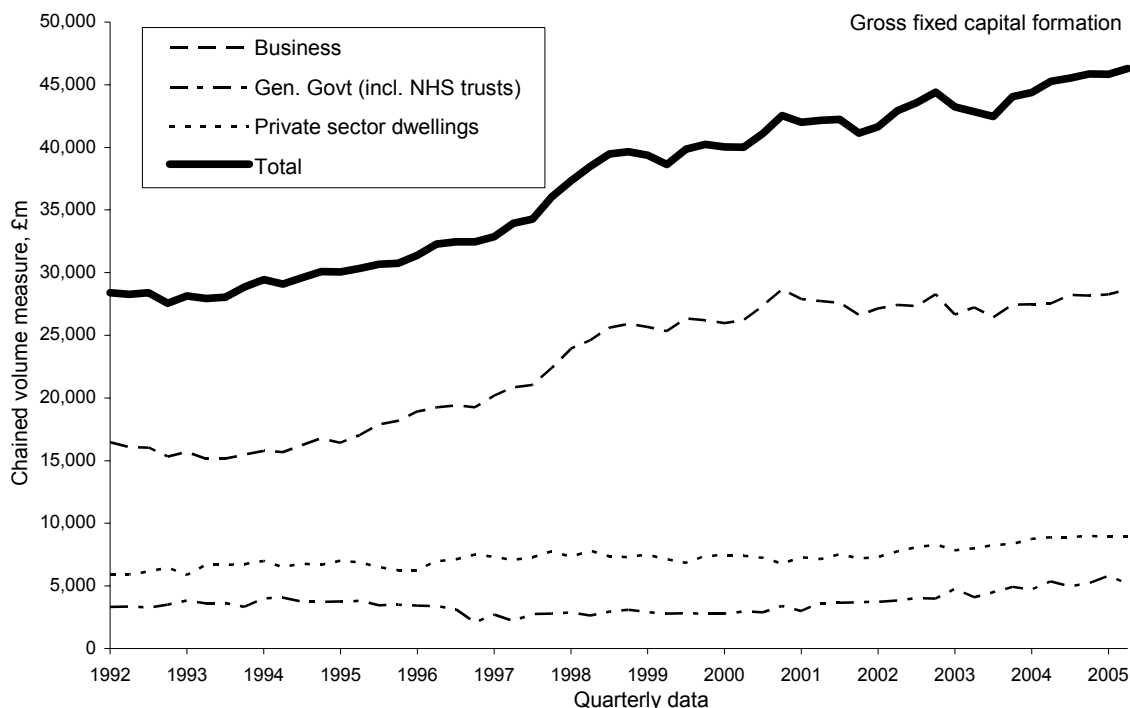
- Manufacturing output decreased 0.1% in the third quarter of 2005 compared with the same quarter in 2004, and manufacturing output increased by 1.9% overall in 2004.
- In 2003, services accounted for 73% of gross value added, manufacturing for 16%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.

**Contact:** Ed Potton, x2883

**Update:** ONS, *Output, Income and Expenditure* – Q3, 25 Nov

## 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 on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings. The total figures in shown in the graph are not the sum of the individual series shown.



[Source: ONS database: series DFEA, DLWF, NPEL, NPQT]

### Gross fixed capital formation

£ million; Chained volume measures, reference year 2002; seasonally adjusted

	Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2001	14,786	57,545	57,928	32,006	5,047	167,563
2002	16,214	56,421	59,836	34,499	5,588	172,558
2003	14,669	54,104	61,934	36,056	5,810	172,573
2004	14,248	57,091	64,629	38,879	6,196	181,043
2004 Q2	3,688	14,158	16,156	9,747	1,537	45,286
2004 Q3	3,609	14,197	16,362	9,790	1,562	45,520
2004 Q4	3,444	14,439	16,536	9,855	1,589	45,863
2005 Q1	3,512	14,468	16,534	9,730	1,599	45,843
2005 Q2	3,474	14,669	16,815	9,714	1,615	46,287

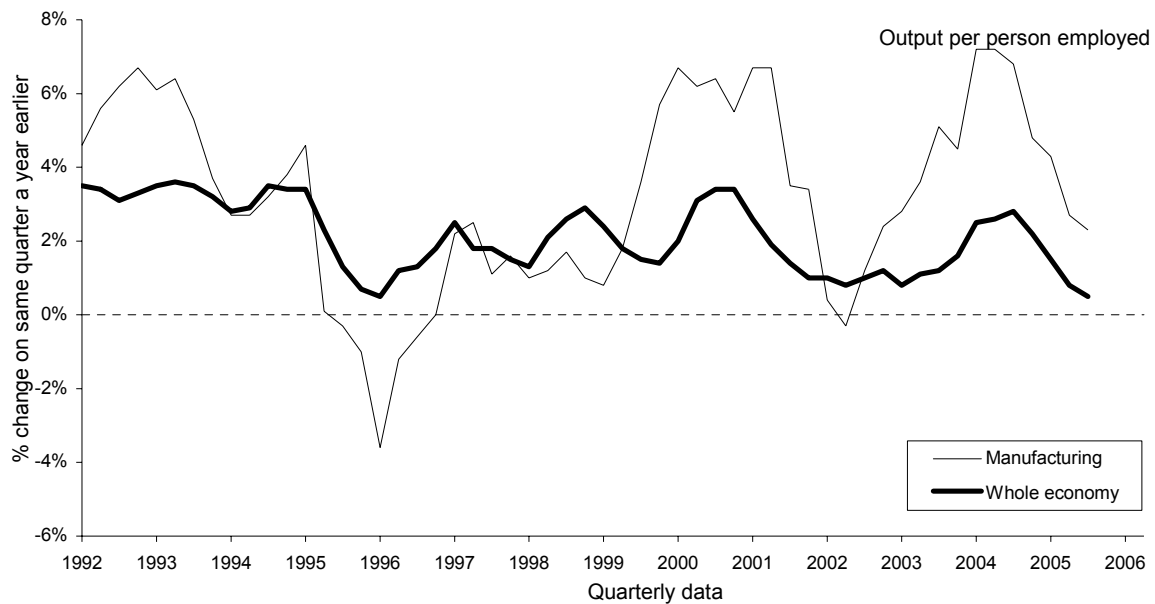
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment increased by 1.5% in Q2 2005 compared with the previous quarter, and by 4.2% compared with Q2 2004 on a seasonally adjusted basis.
- Total manufacturing investment increased by 5.4% in Q2 2005 compared with the previous quarter, while investment in private sector services increased by 0.1% on a seasonally adjusted basis.

**Contact:** Dominic Webb, x4324

**Updates:** ONS, *Business Investment*, 24 Nov

## A5: Productivity



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

### Productivity

% changes on year; seasonally adjusted

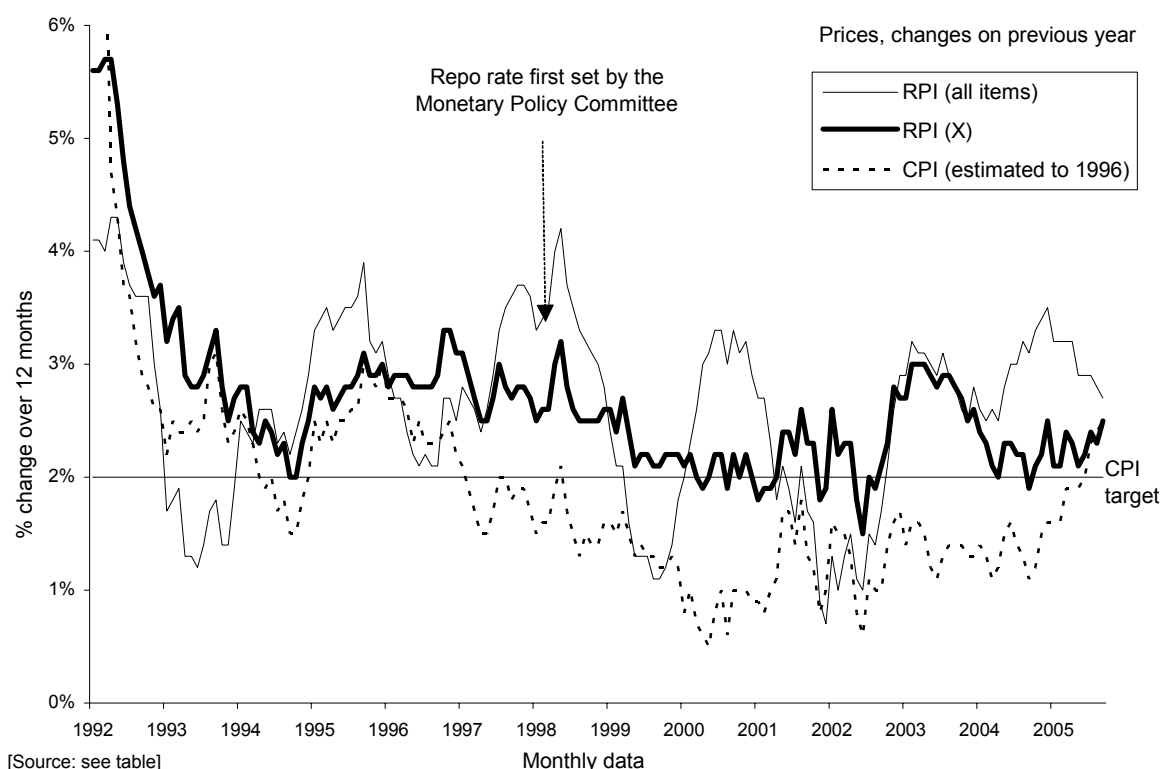
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2001	-1.3	-4.7	3.5	2.0	0.7	1.3
2002	-3.1	-4.5	1.5	1.7	0.7	0.9
2003	0.1	-4.8	5.1	2.5	0.9	1.6
2004	1.9	-3.7	5.8	3.0	0.7	2.3
2004 Q1	2.2	-4.7	7.2	3.5	0.8	2.6
Q2	2.9	-3.7	6.8	3.7	0.8	2.8
Q3	1.5	-3.2	4.8	2.9	0.6	2.2
Q4	1.2	-2.9	4.3	2.3	0.8	1.5
2005 Q1	-0.1	-2.7	2.7	1.6	0.8	0.8
Q2	-1.1	-3.3	2.3	1.4	0.9	0.5

Source: ONS 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 2.3% in 2004 compared with 1.6% in 2003 and 0.9% in 2002.
- In 2004, manufacturing output increased by 1.9% and employment in manufacturing fell by 3.7%, while manufacturing output per head rose by 5.8%.
- Productivity growth in manufacturing decreased from 2.7% per annum in Q1 2005 to 2.3% per annum in Q2 2005, while whole economy productivity growth decreased from 0.8% per annum in Q1 2005 to 0.5% per annum in Q2 2005.
- For the economy as a whole, productivity growth has averaged 1.8% per annum over the last eight quarters.

Contact: Ed Potton, x2883

Update: ONS, *Productivity*, 23 Dec

**B1: Prices**

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 September, the consumer prices index (CPI) showed inflation at 2.5%. This was up from 2.4% in August.
- The largest upward effect on the CPI came from transport. This is mainly due to the increased cost of fuels and lubricants; petrol prices rose by 4.6 pence per litre on average in September, reflecting the rise in crude oil prices. A further large upward effect came from recreation and culture. The largest downward effects on the CPI annual rate came from clothing and footwear.
- The former headline (all items RPI) rate of inflation was 2.7% in September compared with 2.9% in August. The underlying RPI(X) rose to 2.5% in September from 2.3% in August.
- The largest downward effect on the RPI came from housing costs, largely due mortgage interest payments and depreciation. The largest upward effect came from motoring expenditure.

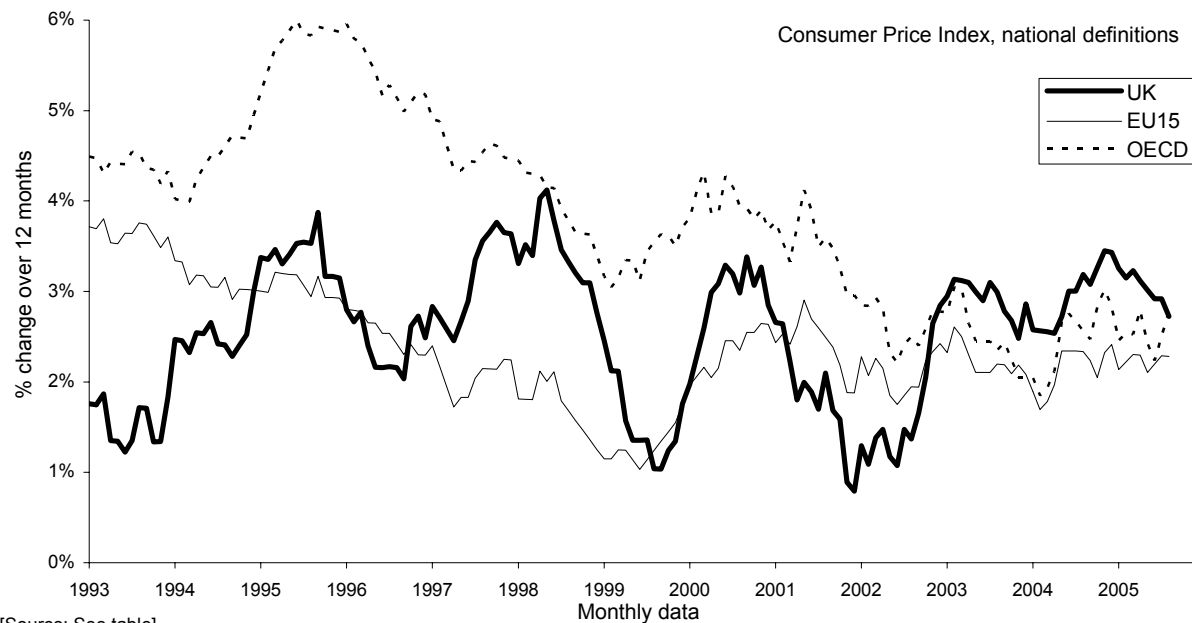
**Price Indices**

% change over 12 months

	CPI (was HICP)	RPI (all items)	RPI (X)
2001	1.2	1.8	2.1
2002	1.3	1.7	2.2
2003	1.4	2.9	2.8
2004	1.3	3.0	2.2
2004 Sep	1.1	3.1	1.9
Oct	1.2	3.3	2.1
Nov	1.5	3.4	2.2
Dec	1.6	3.5	2.5
2005 Jan	1.6	3.2	2.1
Feb	1.6	3.2	2.1
Mar	1.9	3.2	2.4
Apr	1.9	3.2	2.3
May	1.9	2.9	2.1
Jun	2.0	2.9	2.2
Jul	2.3	2.9	2.4
Aug	2.4	2.8	2.3
Sep	2.5	2.7	2.5

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

## B2: Prices: International Comparisons



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 was 3.7% in August, up more than one percentage point in the last two months.
- For all OECD countries the average inflation rate also increased, to 2.8% in August 2005.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) remained at 2.3%.

### Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
2001	2.8	-0.7	2.5	1.8	3.5
2002	1.7	-0.9	2.2	1.7	2.6
2003	2.2	-0.3	2.8	2.9	2.5
2004	2.7	0.0	1.9	3.0	2.4
2005 Mar	3.2	-0.2	2.3	3.2	2.5
Apr	3.5	0.0	2.5	3.1	2.8
May	2.8	0.2	1.6	3.0	2.4
Jun	2.5	-0.5	1.6	2.9	2.2
Jul	3.2	-0.3	2.0	2.9	2.5
Aug	3.7	-0.3	2.5	2.7	2.8

Source: OECD, Main Economic Indicators, Oct 2005

### Eurozone inflation

harmonised indices (HICPs); % change over 12 months

	France	Germany	Italy	UK	Eurozone
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	1.0	2.8	1.4	2.1
2004	2.3	1.7	2.3	1.3	2.1
2005 Apr	2.0	1.4	2.2	1.9	2.1
May	1.7	1.6	2.3	1.9	2.0
Jun	1.8	1.8	2.2	2.0	2.1
Jul	1.8	1.9	2.2	2.3	2.2
Aug	2.0	1.9	2.2	2.4	2.2
Sep	2.4	2.6	2.2	2.5	2.6

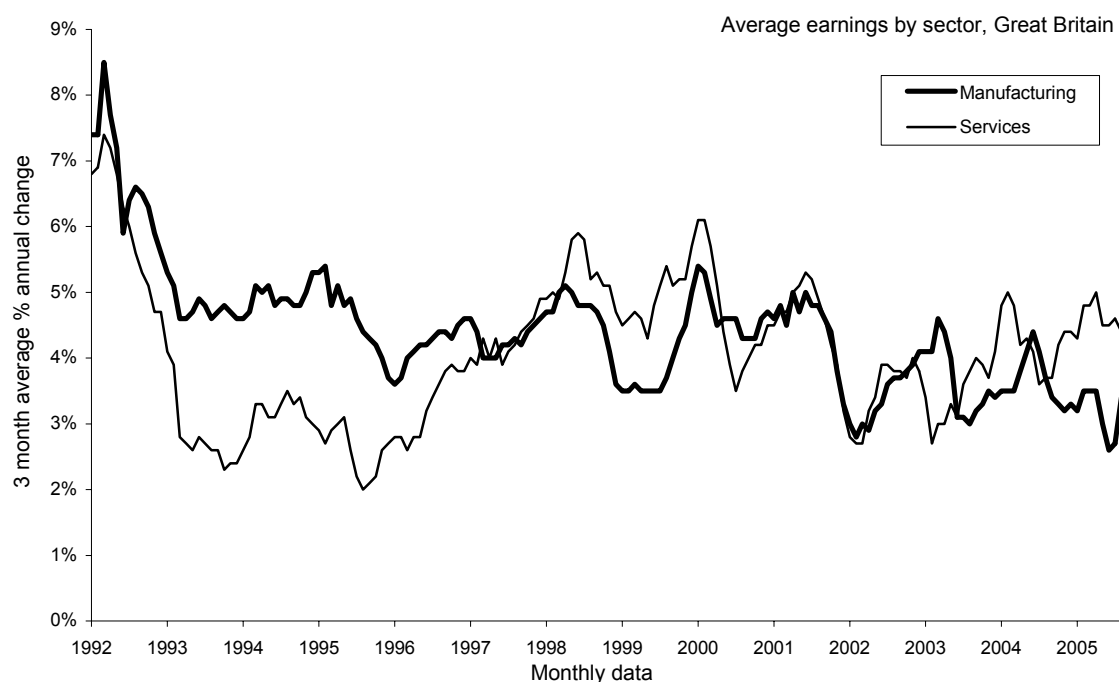
Source: Eurostat, Euro-Indicators news release, 16 Oct 2005

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

- Eurozone annual inflation rose to 2.6% in September 2005, the highest since March 2002. The "flash" estimate for September is 2.5%.
- The HICP inflation rates for the EU15 Member States not in the eurozone were Denmark (2.4%), Sweden (1.1%) and the UK (2.5%).
- In September, the eurozone countries with the highest HICP annual inflation rates were Luxembourg (4.7%), Greece and Spain (both 3.8%). The lowest rate was in Finland (1.1%).

**Contact:** Bryn Morgan, x4904

**Updates:** OECD, *Main Economic Indicators*, mid-Nov  
Eurostat, *Euro-indicators news release*, 18 Nov

**B3: Average Earnings Index**

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

- The headline rate of growth in average earnings for the whole economy in August was 4.2%, unchanged from the previous month.
- Headline average earnings growth in manufacturing was 3.4% in August, up from 2.7% in July. Earnings growth in the service sector fell from 4.6% in July to 4.4% in August.
- Headline earnings growth in the private sector was 4.1% in August, compared with 4.3% in the public sector. Earnings growth in the private sector was up from 3.9% in the previous month. Earnings growth in the public sector fell from 5.5% in July.
- Earnings are currently growing at a faster rate than they were a year ago (the headline rate in August 2004 was 3.9%).
- In the year to August, the consumer price index showed inflation below the rate of earnings growth at 2.4%.

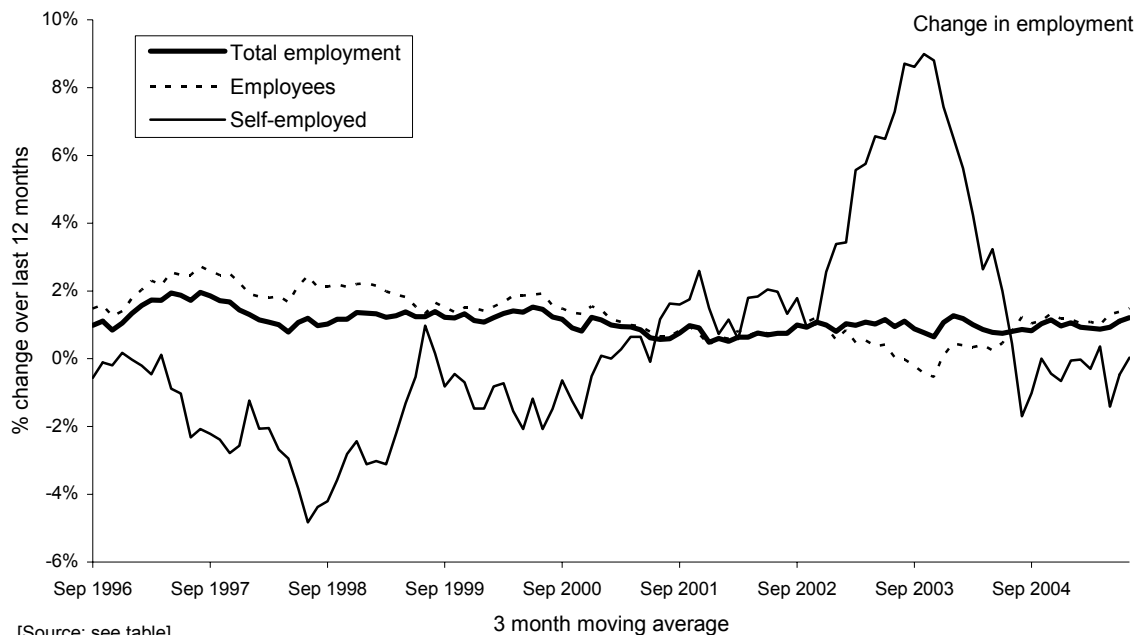
**Average Earnings, Great Britain**  
% change on year; seasonally adjusted

	Headline rate		
	Whole Economy	Private Sector	Public Sector
2001 Aug	4.9	4.8	5.6
2002 Aug	3.8	3.8	3.4
2003 Aug	3.5	3.0	5.6
2004 Aug	3.9	3.8	4.2
Sep	3.8	3.7	4.2
Oct	4.2	4.1	4.6
Nov	4.2	4.2	4.7
Dec	4.3	4.2	4.7
2005 Jan	4.2	4.1	4.6
Feb	4.6	4.6	4.6
Mar	4.5	4.6	4.5
Apr	4.6	4.6	4.6
May	4.1	3.8	5.6
Jun	4.1	3.7	5.6
Jul	4.2	3.9	5.5
Aug	4.2	4.1	4.3

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



## 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
2001 Jul	27,714	24,191	3,295	95	133
2002 Jul	27,921	24,369	3,360	95	98
2003 Jul	28,186	24,376	3,605	104	101
2004 Jul	28,414	24,572	3,621	90	130
2004 Oct	28,536	24,662	3,648	95	131
2005 Jan	28,680	24,810	3,642	103	125
2005 Apr	28,656	24,800	3,638	102	116
2005 Jul	28,759	24,938	3,622	90	108

#### Changes (%):

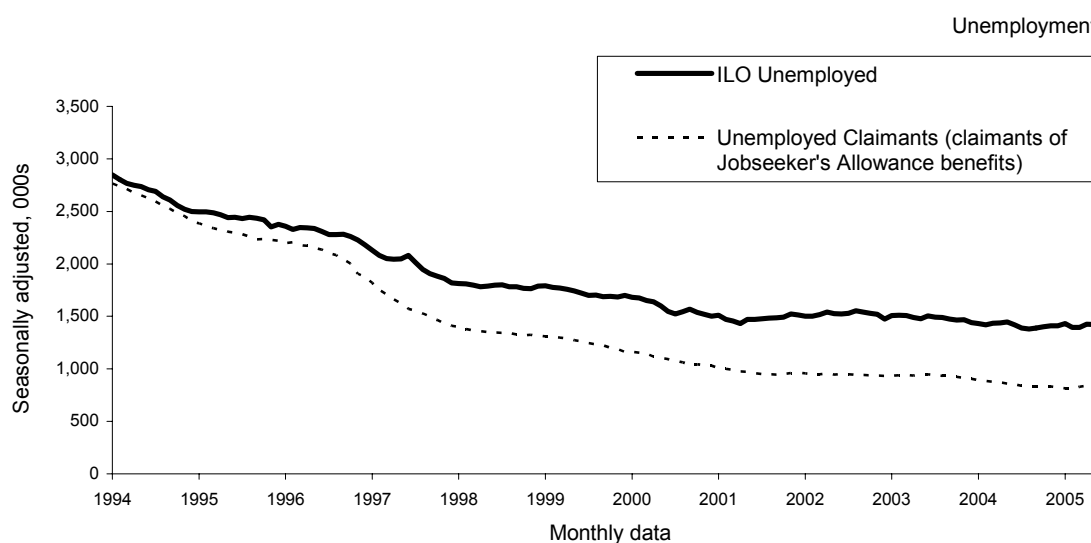
on last 3 months	0.4	0.6	-0.4	-11.5	-6.4
on last year	1.2	1.5	0.0	0.2	-16.9

Source: ONS, *Labour Market Statistics*, 12 Oct 2005

- Total employment was 28.8 million in the period June to August 2005, 1.2% higher than a year previously. The working age employment rate of 74.8% was 0.1% higher than the previous quarter and 0.2% higher than a year earlier.
- The number of workforce jobs fell by 49,000 between March and June 2005 and was 150,000 higher than a year previously. Over the year to June, the number of production industry workforce jobs fell by 131,000. The number of service sector jobs rose by 211,000.
- 7.3 million people were in part-time employment in the period June to August 2005, of whom 5.7 million were women. 3.6 million people were self-employed.

**Contact:** Dominic Webb, x4324

**Updates:** ONS, *Labour Market Statistics*, 16 Nov

**C2: Unemployment: National**

[Source: ONS, *Labour Market Statistics*]

Since April 1998, the Office for 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 June to August 2005, the level of ILO unemployment in the UK was 1,417,000 (seasonally adjusted). This was a decrease of 21,000 from the period June to August 2004.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 8,000 between August and September 2005 to 876,000.

The New Deal for Young People started in January 1998.

- 976,000 individuals had joined the scheme by the end of May 2005. Of those leaving the scheme 632,000 had moved into jobs up to the end of May, of which 537,000 (85%) were 'sustained', i.e. those who had not returned to claim Jobseekers' Allowance (JSA) within three months of starting employment.

The New Deal 25plus started in June 1998 and an enhanced scheme was introduced in April 2001.

- Overall 584,000 individuals had joined the scheme by the end of May 2005. Of these, 244,000 had entered jobs of which 200,000 (82%) were sustained.

### ILO Unemployment in the UK seasonally adjusted

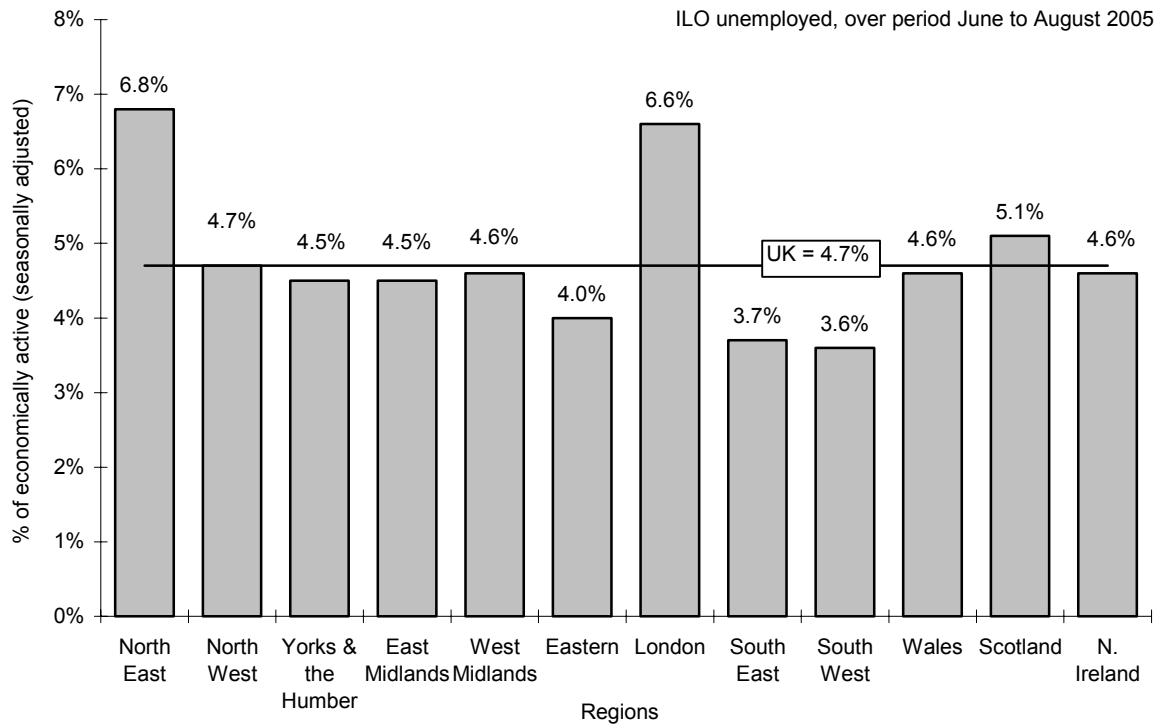
		'000s	rate (%)
1999	Mar - May	1,759	6.1
	Jun - Aug	1,701	5.9
	Sep - Nov	1,692	5.8
2000	Dec - Feb	1,682	5.8
	Mar - May	1,638	5.6
	Jun - Aug	1,523	5.2
2001	Sep - Nov	1,537	5.3
	Dec - Feb	1,511	5.2
	Mar - May	1,431	4.9
2002	Jun - Aug	1,477	5.1
	Sep - Nov	1,493	5.1
	Dec - Feb	1,500	5.1
2003	Mar - May	1,533	5.2
	Jun - Aug	1,532	5.2
	Sep - Nov	1,529	5.2
2004	Dec - Feb	1,511	5.1
	Mar - May	1,476	5.0
	Jun - Aug	1,498	5.0
2005	Sep - Nov	1,464	4.9
	Dec - Feb	1,434	4.8
	Mar - May	1,426	4.8
2005	Jun - Aug	1,396	4.7
	Sep - Nov	1,408	4.7
	Dec - Feb	1,439	4.8
2005	Mar - May	1,424	4.7
	Jun - Aug	1,417	4.7

Source: ONS, *Labour Market Statistics*

**Contact:** Alex Adcock, x3793

**Update:** ONS, *Labour Market Statistics*, 16 Nov  
*New Deal*, Jan 2006

### C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

Since April 1998, the Office for 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 June to August 2005 the North East region had the highest unemployment rate, 6.8% of the economically active population. The lowest rate over the same period was 3.6%, in the South West region.
- A comparison of June to August 2005 with the same period a year earlier shows that the largest fall (11%) in unemployment occurred in Scotland and the West Midlands region. The East Midlands region showed the largest increase (20%) over the period.

#### ILO Unemployment, June to August 2005

change on same period in previous year;  
seasonally adjusted

	Number (rounded)	%
North East	10,000	14
North West & Merseyside	13,000	9
Yorkshire & the Humber	4,000	4
East Midlands	17,000	20
West Midlands	-15,000	-11
Eastern	12,000	12
London	-15,000	-6
South East	4,000	3
South West	4,000	5
Wales	1,000	2
Scotland	-17,000	-11
Northern Ireland	2,000	6

Source: ONS, *Labour Market Statistics*

## C4: Unemployment: International Comparisons



### Unemployment

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

	2001	2002	2003	2004	2004				2005	
					Q1	Q2	Q3	Q4	Q1	Q2
USA	4.7	5.8	6.0	5.5	5.6	5.6	5.5	5.4	5.3	5.1
Japan	5.0	5.4	5.3	4.7	4.9	4.6	4.8	4.5	4.6	4.3
Canada	7.2	7.7	7.6	7.2	7.3	7.2	7.1	7.1	7.0	6.8
UK	5.0	5.1	5.0	4.7	4.7	4.8	4.6	4.6	4.6	..
Germany	7.4	8.2	9.1	9.6	9.4	9.5	9.7	9.6	9.7	9.6
France	8.4	8.9	9.5	9.7	9.6	9.6	9.7	9.7	9.7	9.8
Italy	9.1	8.6	8.4	8.0	8.2	8.1	7.9	8.0	7.8	..
Eurozone	7.9	8.3	8.7	8.9	8.9	8.9	8.9	8.8	8.8	8.8
G7	5.8	6.5	6.6	6.3	6.4	6.4	6.3	6.3	6.2	6.1
OECD	6.4	6.9	7.1	6.9	7.0	6.9	6.9	6.8	6.7	6.6

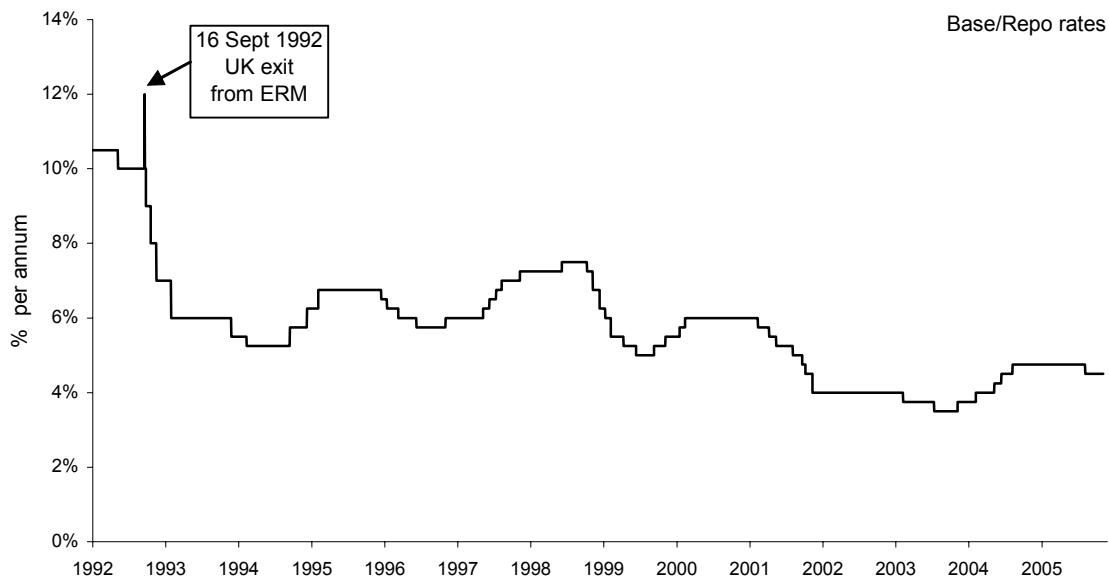
Source: OECD, *Main Economic Indicators*, Oct 2005

- Using standardised definitions, the UK unemployment rate for 2004 was 4.7%, significantly below the eurozone average (8.9%) and below the G7 and OECD rates (6.3% and 6.9% respectively).
- Between Q1 2004 and Q1 2005 (the latest period for which all data are available) the largest fall in unemployment among G7 countries was in Italy, where it fell by 0.4 of a percentage point. The largest rise in unemployment (0.3 of a percentage point) was in Germany. The unemployment rate in all the G7 nations taken together fell by 0.2 of a percentage point.
- The most recent forecasts published by the OECD (*Economic Outlook*, June 2005) suggest the UK unemployment rate will be 4.9% in 2005 and 5.2% 2006. The respective forecasts for the eurozone are 9.0% and 8.7%. For the OECD as a whole the respective forecasts are 6.7% and 6.4%.

**Contact:** Alex Adcock, x3973

**Updates:** OECD, *Main Economic Indicators*, 10 Nov  
OECD, *Economic Outlook*, Dec

## D1: Interest Rates



[Source: Bank of England]

From June 1997 interest rates have been set by the independent Monetary Policy Committee (MPC) of the Bank of England rather than by the Chancellor.

- **On 6 October 2005, the MPC voted unanimously to maintain the base rate at 4.50%.** The decision to maintain rates had also been unanimous in September.

The minutes of September's meeting note:

- Financial markets were attaching only a relatively small probability to a further reduction in the Bank's official repo rate during 2005, although markets continued to expect another quarter-point rate cut in the first half of 2006.
- Sterling had weakened by more than 4% against the dollar over the last month.
- GDP growth in the United Kingdom had been left unrevised at 0.5% in Q2, but revisions had meant that the four-quarter growth rate was now estimated at 1.5%, the lowest for twelve years.

### UK Base/Repo rate changes

% per annum

Date	New rate	Date	New rate
1997 May 6	6.25	2001 Feb 8	5.75
Jun 6	6.50	Apr 5	5.50
Jul 10	6.75	May 10	5.25
Aug 7	7.00	Aug 2	5.00
Nov 6	7.25	Sep 18	4.75
1998 Jun 4	7.50	Oct 4	4.50
Oct 8	7.25	Nov 8	4.00
Nov 5	6.75	2003 Feb 7	3.75
Dec 10	6.25	Jul 10	3.50
1999 Jan 7	6.00	Nov 6	3.75
Feb 4	5.50	2004 Feb 5	4.00
Apr 8	5.25	May 6	4.25
Jun 10	5.00	Jun 10	4.50
Sep 8	5.25	Aug 5	4.75
Nov 4	5.50	2005 Aug 4	4.50
2000 Jan 13	5.75		
Feb 10	6.00		

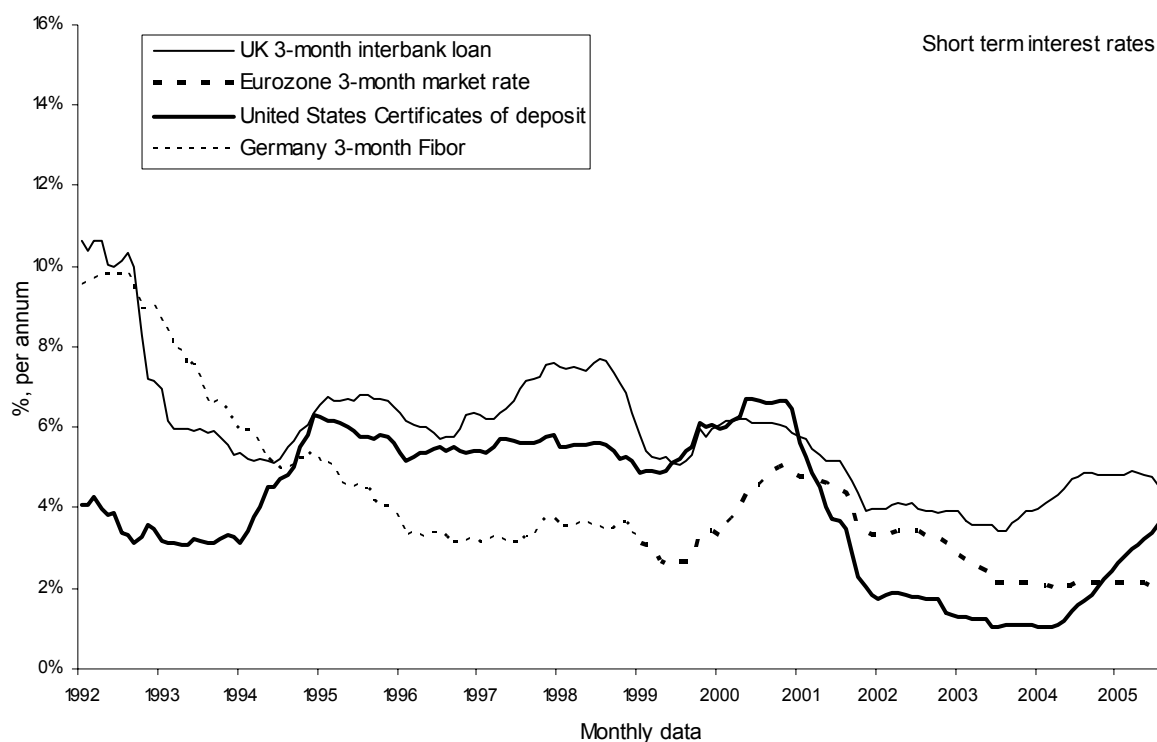
Source: Bank of England

The central projection from the latest Bank *Quarterly Inflation Report* (August 2005) was for inflation to rise above the 2% target in the near term but then dip as the impact of higher oil prices is removed and pressures on capacity decrease. Inflation then rises above target again as output growth picks up. If interest rates were maintained at their current rate of 4.5% rather than moving in line with market yields, inflation is lower towards the end of the projection.

**Contact:** Bryn Morgan, x4904

**Update:** *Next Decision*, 10 Nov; *Minutes*, 23 Nov  
*Quarterly Inflation Report*, 16 Nov

## D2: Interest Rates: International Comparisons



Interest rates in the UK were cut by 0.25 points on 4 August 2005, the first change since August 2004. The Euro rate has not changed since June 2003. The US Federal Reserve has increased the federal funds rate at eleven consecutive meetings.

- The Bank of England's Monetary Policy Committee increased the UK Repo rate four times in 2004, by 0.25% on 5 February 2004, 6 May 2004, 10 June 2004 and 5 August 2004 before the cut in August 2005, with the current rate being 4.50% (see Indicator D1).
- The current European Central Bank (ECB) interest rate is 2%, and has now been at this level since June 2003. The 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.
- On 20 September 2005 the US Federal Reserve increased the federal funds rate by 0.25% to 3.75%, following increases of 0.25% at its previous ten meetings on: 9 August, 30 June, 3 May, 22 March, 2 February 2005, and 14 December, 10 November, 21 September, 10 August and 30 June 2004.

### International interest rates

% per annum, as at 31 October 2005

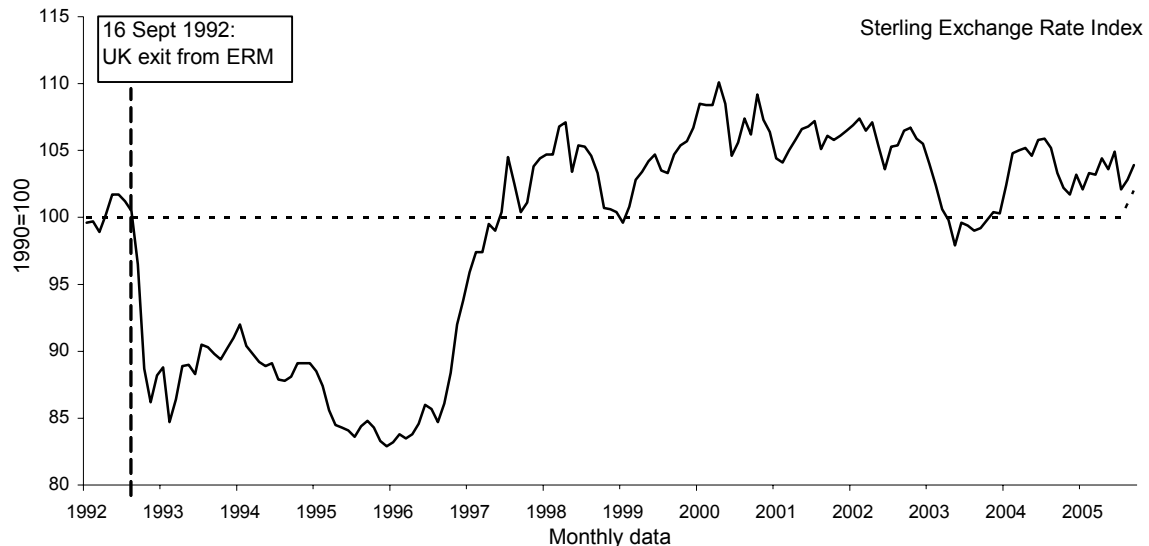
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	4.50	4.33	$4 \frac{9}{16} - 4 \frac{17}{32}$
Eurozone	2.00	n/a	$2 \frac{9}{32} - 2 \frac{1}{8}$
United States	3.75	4.56	$4 \frac{9}{32} - 4 \frac{3}{16}$
Japan	0.00	1.56	$\frac{1}{16} - \frac{1}{32}$
Switzerland	0.25-1.25	2.13	$\frac{7}{8} - \frac{13}{16}$

Source: *Financial Times*, 1 Nov 2005 (Companies & Markets, p39)

**Contact:** Bryn Morgan, x4904      **Updates:** *Short-term interest rates:* OECD, *MEI*, mid-Nov;  
*Base rates:* 10 Nov (UK MPC), 3 Nov (EU), 1 Nov (US)

### 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: ONS 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 2004, the SERI increased by 0.7 points in September, suggesting that the UK was relatively less competitive at the end of December 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 €1.478 at the London market close on 31 October 2005, compared with a launch rate of €1.476 on 31 December 1998.

#### Sterling Exchange Rates

rates and % changes

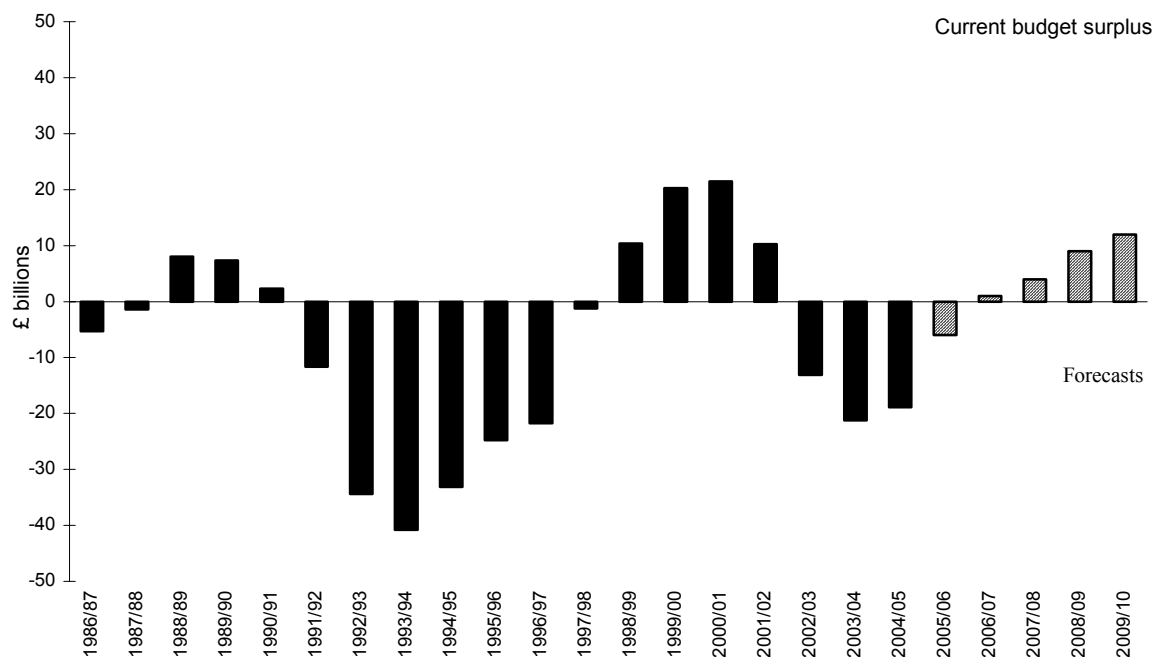
	US Dollar (\$)		Yen (¥)		Euro (€)	
	Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
2001	1.440	-5.0	174.9	7.0	1.609	-2.0
2002	1.503	4.3	187.8	7.4	1.591	-1.1
2003	1.635	8.8	189.3	0.8	1.446	-9.1
2004	1.832	12.1	198.1	4.6	1.474	2.0
2004 Sep	1.792	11.1	197.3	6.5	1.468	2.4
Oct	1.807	7.6	196.5	7.0	1.446	0.8
Nov	1.860	10.1	194.8	5.6	1.431	-0.8
Dec	1.928	10.1	200.2	6.1	1.440	1.1
2005 Jan	1.876	2.9	194.0	0.1	1.433	-0.8
Feb	1.887	1.1	198.1	-0.5	1.450	-1.9
Mar	1.908	4.4	200.5	1.2	1.444	-3.0
Apr	1.896	5.3	203.3	4.8	1.465	-2.5
May	1.854	3.7	197.7	-1.5	1.461	-1.9
Jun	1.818	-0.5	197.6	-1.1	1.495	-0.7
Jul	1.751	-5.0	196.0	-2.8	1.455	-3.2
Aug	1.794	-1.5	198.5	-1.2	1.459	-2.3
Sep	1.808	0.9	200.9	1.8	1.476	0.6

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

**Contact:** Edward Beale, x2464

**Updates:** ONS, SERI, mid-Nov; Sterling Exchange Rates, daily

## D4: Public Finances



[Source: ONS database, series: ANMU; HM Treasury]

The Government's "golden rule" requires it to balance the current budget over the economic cycle. In July 2005, the Treasury's revised its view of the starting point of the cycle to 1997/98 (from 1999/00). It expects the cycle to end in 2005/06. The chart shows outturns for the current budget balance and Treasury forecasts from the 2005 Budget.

- There was a £1.8 billion deficit on the current budget in Q3 2005 compared with a £5.9 billion deficit in the same quarter of 2004.

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 £8.2 billion in Q3 2005 compared with £7.3 billion in the same quarter of 2004. In 2004/05, the PSNCR was £38.6 billion compared with £39.5 billion in 2003/04.

### Public Sector Net Debt

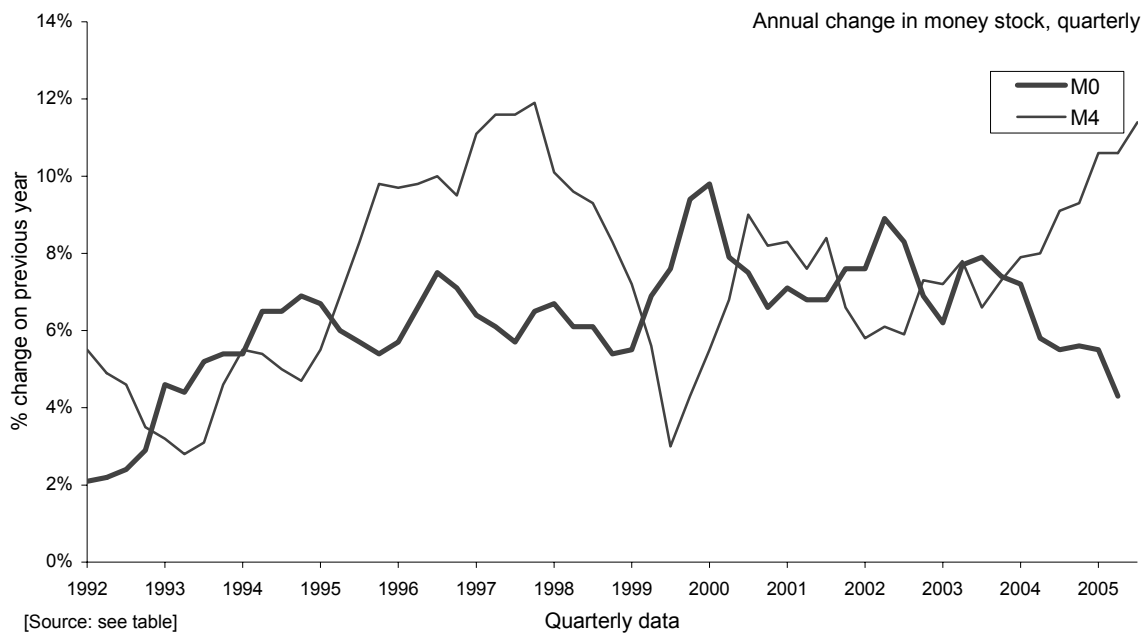
£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2001/02	311.7	30.1
2002/03	342.4	31.4
2003/04	377.3	32.8
2004/05	416.7	34.6
2004 Q3	396.4	33.7
Q4	419.0	35.3
2005 Q1	416.7	34.6
Q2	432.5	35.5
Q3	440.0	35.5

Source: ONS database, series: RUTN, RUTO



## D5: Money Supply



### Money stock

% change; seasonally adjusted

	M0		M4	
	3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2004 Sep	3.8	5.8	8.1	9.0
Oct	6.4	5.8	9.0	9.7
Nov	6.4	5.2	7.9	9.0
Dec	4.3	5.8	10.4	9.0
2005 Jan	4.4	5.6	11.6	9.4
Feb	5.5	5.9	12.5	9.7
Mar	4.1	5.1	13.6	10.6
Apr	2.5	4.8	11.3	10.6
May	1.8	4.3	14.6	11.2
Jun	2.9	3.8	10.3	10.6
Jul	6.2	4.8	12.3	11.0
Aug	10.9	6.1	5.2	10.0
Sep	10.4	5.4	10.5	11.2

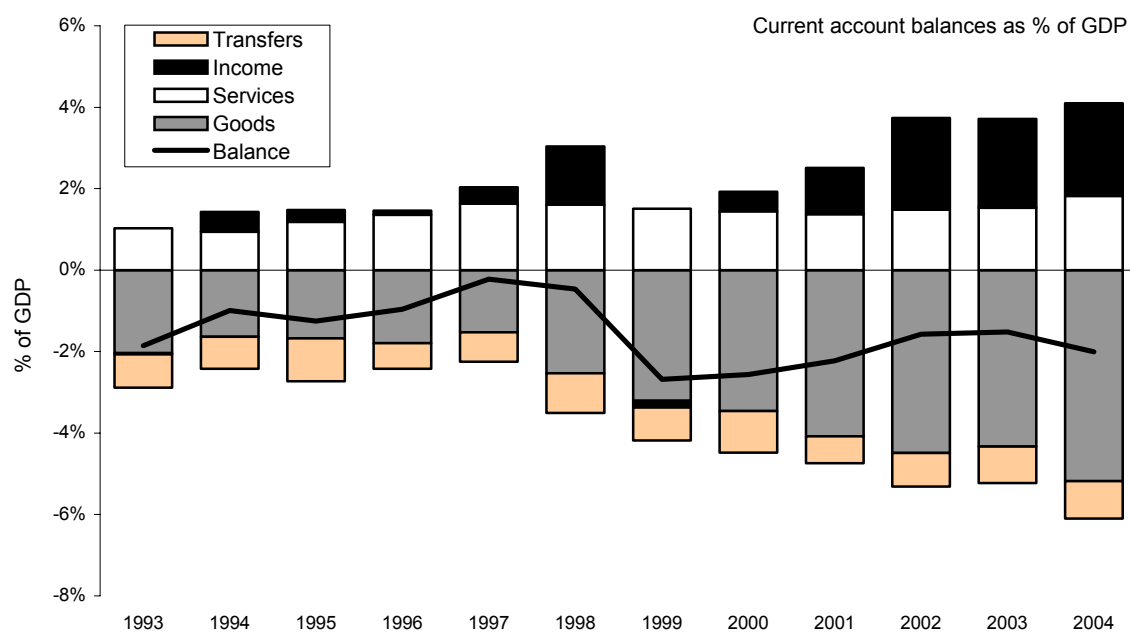
Source: Bank of England, *Bankstats*, October 2005 Tables A1.1 and A2.1.1

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 11.2% in the 12 months to September. The 12-month seasonally adjusted M0 growth rate was 5.4% in September, compared with 5.8% in September 2004.
- There are now no formal targets for money supply growth.

**Contact:** Dominic Webb, x4324

**Update:** Bank of England, *Bankstats*, 29 Nov

**E1: UK Overseas Trade**

[Source: see table]

**Current Account Balances**

£ millions; seasonally adjusted

	Trade in goods/services			Income (total)	Transfers			Current Account Balance
	Goods	Services	Total		Central Gov.	Other	Total	
2001	-40,648	13,703	-26,945	11,371	-2,593	-4,018	-6,611	-22,185
2002	-47,087	15,536	-31,551	23,679	-5,633	-2,982	-8,615	-16,487
2003	-47,864	16,882	-30,982	24,192	-6,971	-2,990	-9,961	-16,751
2004	-60,260	21,232	-39,028	26,464	-8,278	-2,477	-10,755	-23,319
2004 Q2	-15,048	5,322	-9,726	6,676	-1,906	-489	-2,395	-5,445
Q3	-15,595	5,009	-10,586	4,358	-2,147	-629	-2,776	-9,004
Q4	-16,101	5,419	-10,682	9,438	-2,194	-675	-2,869	-4,113
2005 Q1	-15,735	4,615	-11,120	7,272	-2,729	-759	-3,488	-7,336
Q2	-14,590	4,812	-9,778	9,228	-2,194	-306	-2,500	-3,050

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

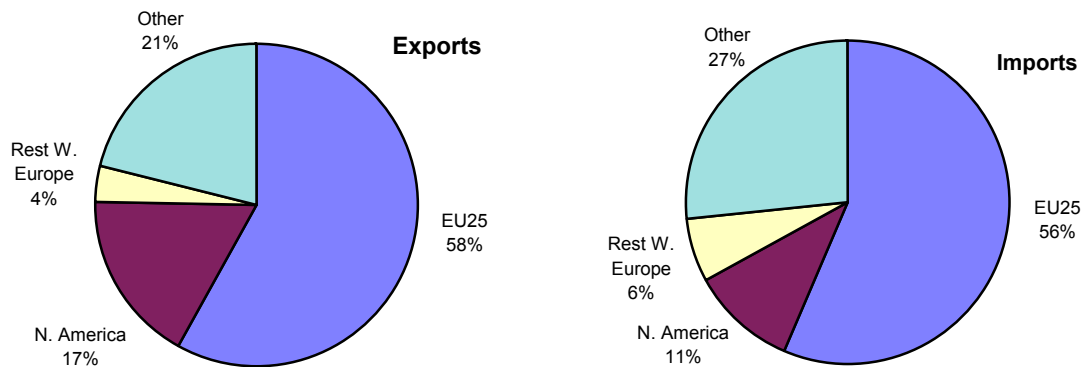
- The current account deficit in 2004 was £23.3 billion, compared with a £16.8 billion deficit in 2003. The surpluses on services and income widened between 2003 and 2004, while the deficits on trade in goods and transfers also widened. The surplus on services trade widened by £4.4 billion, and the deficit on trade in goods widened by £12.4 billion, between 2003 and 2004.
- On a quarterly basis, the current account deficit was £3.1 billion in Q2 2005, £4.2 billion narrower than in Q1 2005. Over the same period the surplus on income and services widened, while the deficits on trade in goods and transfers both narrowed. The surplus on services trade widened by £0.2 billion, and the deficit on trade in goods narrowed by £1.1 billion, between Q1 2005 and Q2 2005.
- The current account deficit with EU25 countries was £4.8 billion in Q2 2005, compared with £6.7 billion in Q1 2005. The current account with non-EU countries was in surplus by £1.8 billion in Q2 2005, having been £0.6 billion in deficit in Q1 2005.

**Contact:** Ian Townsend, x3977**Updates:** ONS, *UK Trade*, 9 Nov; *UK Balance of Payments Q2 2005*, 22 Dec

## E2: UK Overseas Trade in Goods

### Shares of UK trade in goods by area, 2004

Balance of Payments basis



[Source: ONS database, series: LGCK, HBZQ, HCJD, HCII, HDII, HCHW, LGDC, HCRB, HBTS, HDJQ, HCPC, HCIF]

### Export & import volume indices & trade in goods balances

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

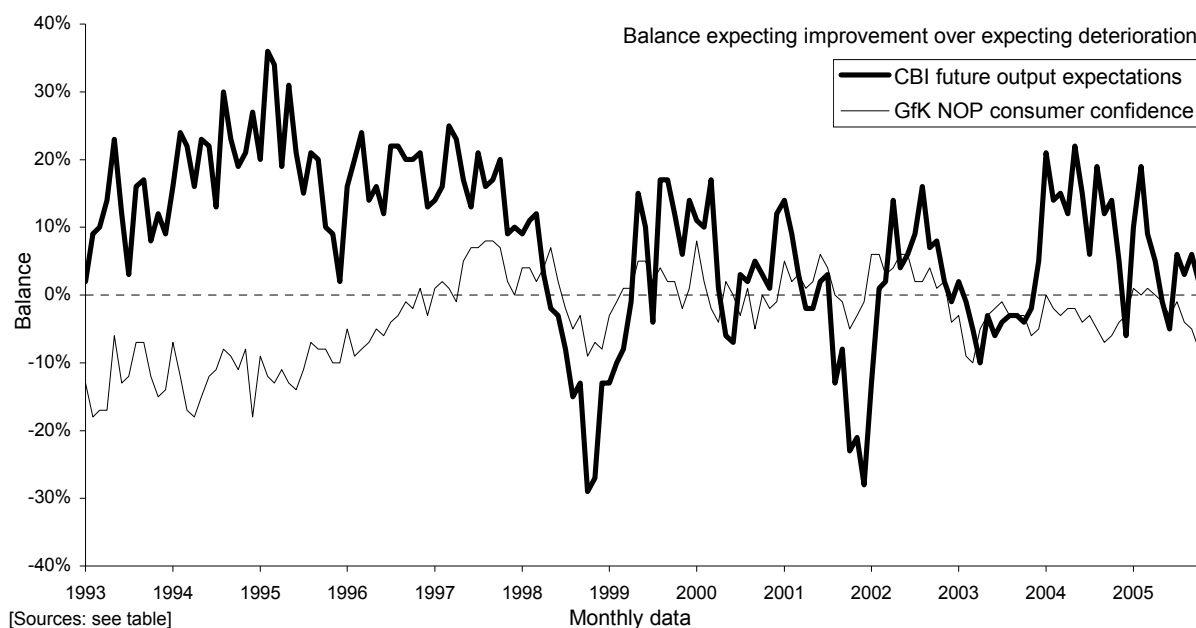
	Volume index (2002=100)		Trade in goods (£m)		
	Exports	Imports	Exports	Imports	Balance
2001	101.7	95.9	190,055	230,703	-40,648
2002	100.0	100.0	186,511	233,598	-47,087
2003	99.7	102.0	188,615	236,479	-47,864
2004	101.5	108.9	190,950	251,210	-60,260
2004 Q2	100.7	108.2	47,044	62,092	-15,048
Q3	102.4	110.0	48,228	63,823	-15,595
Q4	103.2	112.2	49,494	65,595	-16,101
2005 Q1	102.1	110.2	49,129	64,864	-15,735
Q2	109.0	112.9	52,056	66,646	-14,590

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

- In August 2005, the total value of UK goods exports was £17.8 billion, and goods imports £23.4 billion. The UK's deficit on goods only is estimated at £5.6 billion, compared with £5.5 billion in July 2005.
- EU/non-EU breakdowns for goods trade are still being affected by VAT Missing Trader Intra-Community Fraud. The latest monthly estimates suggest that the deficit with the EU was £2.5 billion in August 2005 compared with £2.9 billion in July 2005. On a quarterly basis, the goods deficit with the EU25 was £8.3 billion in Q2 2005, while the deficit with non-EU25 countries was £6.3 billion.
- The UK's deficit on **goods and services** trade in August 2005 was £5.3 billion, a widening of the deficit compared with £3.9 billion in July 2005 (because of a downward adjustment of £1.4 billion due to claims paid out by Lloyd's of London related to Hurricane Katrina). The trade in **services** balance was in surplus by £0.3bn in August 2005.

## 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':



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

- The balance of expectations for future output from the CBI's monthly survey fell to +2 in October 2005. October's quarterly results showed that manufacturers' orders and output had fallen faster than expected over the previous three months.
- A balance of -14% of firms saw new orders decrease over the previous three months.
- Cost pressures for manufacturers have increased but they have been unable to pass these increases on to customers; a balance of -1% expected to cut prices.

GfK NOP'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, and views on making major household purchases.

- The overall index fell by three points in October and is now at its lowest level since March 2003.
- The climate for making major purchases fell by seven points to +2. The perception of the general economic situation fell by 6 points to -24 and perceptions of the development of personal finances over the next 12 months fell by three points to +7.

### Output Expectations/Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

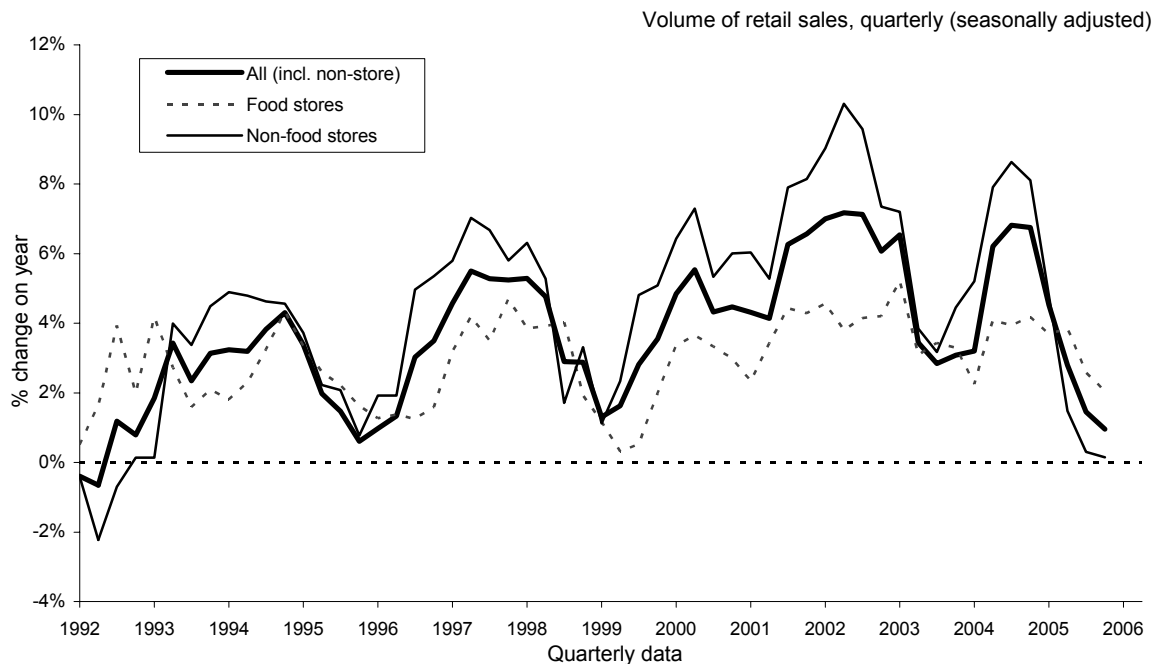
	Future output expectations (CBI)	Consumer confidence (GfK)
2004 Oct	+14	-6
Nov	+5	-4
Dec	-6	-3
2005 Jan	+10	+1
Feb	+19	0
Mar	+9	+1
Apr	+5	0
May	-1	-1
Jun	-5	-3
Jul	+6	-1
Aug	+3	-4
Sep	+6	-5
Oct	+2	-8

Sources: CBI, *Industrial Trends Survey* (monthly), from ONS database, series: ETCU; GfK NOP, *Consumer Confidence Survey* on behalf of the European Commission

**Contact:** Bryn Morgan, x4904

**Updates:** CBI, *Industrial Trends* (Monthly), late Nov; GfK NOP, *Consumer Confidence*, 30 Nov

## F2: Retail Sales



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

- The *volume* of retail sales in the three months from July to September was 0.4% higher compared with the previous three month period, and was 1.0% higher than a year previously (seasonally adjusted).
- Retail sales volumes in September 2005 were 0.7% higher than in September 2004 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 0.1% in July to September compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 2.1% 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
2001	5.0	6.0	7.0	6.0	6.0
2002	3.8	2.8	7.5	6.6	4.7
2003	3.7	1.8	4.3	-1.8	2.7
2004	3.5	3.6	2.5	9.0	4.4
2004 Q3	3.6	2.8	4.4	9.5	4.5
Q4	4.1	5.2	-1.4	5.1	3.0
2005 Q1	3.6	3.1	2.6	-2.8	1.8
Q2	3.4	1.8	-2.6	-3.4	0.0
Q3	1.7	1.8	-3.4	0.0	0.9

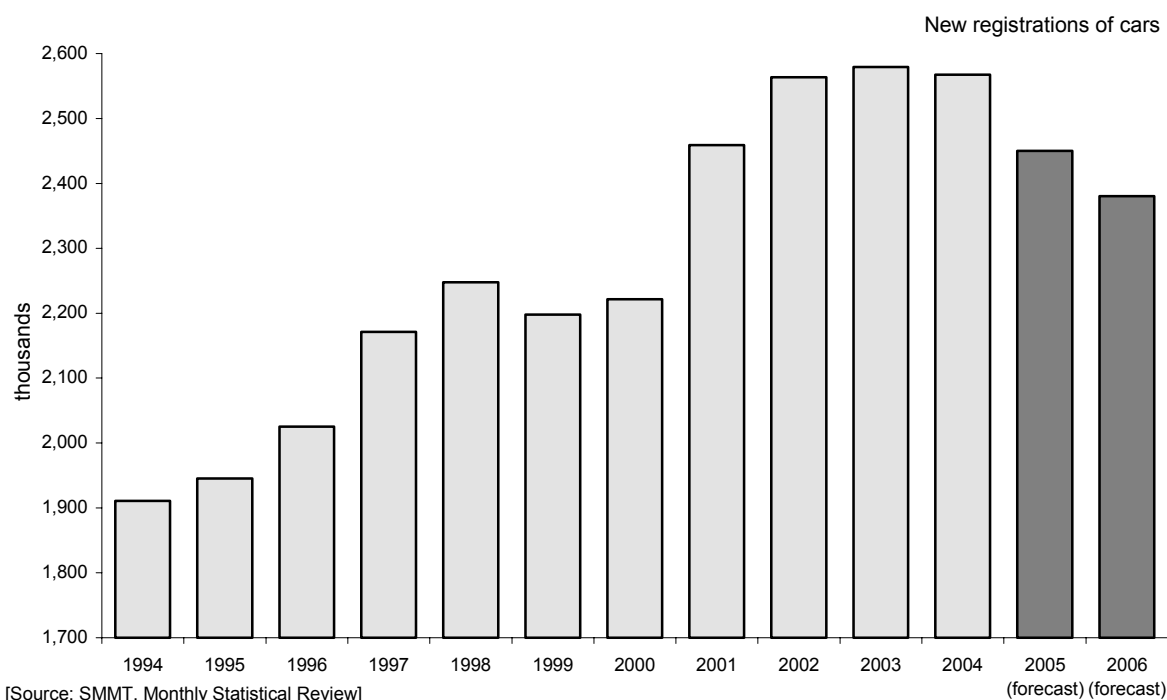
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in September 2005 was £4,570 million, 0.1% lower than in September 2004 (non-seasonally adjusted).

**Contact:** Ed Potton, x2883

**Update:** ONS, *Retail Sales: First Release*, 17 Nov

### F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 2.3% in August 2005, compared with the previous August's figure, to 83,066 units.

- The number of new registrations of cars was just under 2.6 million units in 2004, a fall of 0.5% on the previous year.
- New registrations of cars are forecast to fall by 4.6% in 2005 and a further 2.9% in 2006.
- There were 14,189 registrations of British-built cars in August, equivalent to 17.1% of the market. The number of British built registrations increased 0.9% on the previous August's figure. In 2004 as a whole, there were 464,000 registrations of British-built cars, a decrease of 10.9% from the previous year's figure and equivalent to 18.1% of the market.

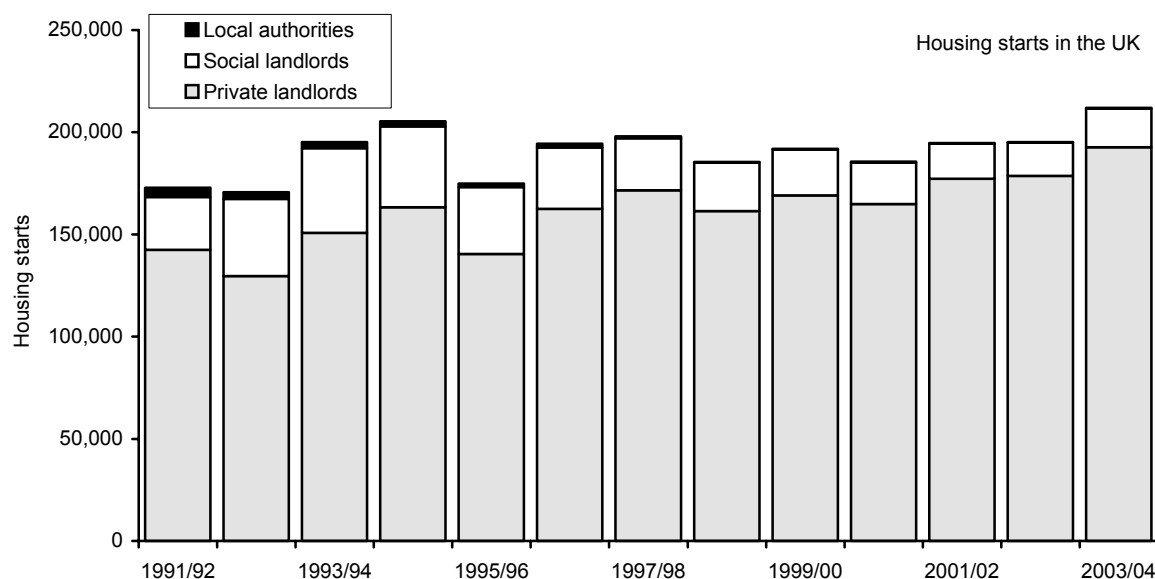
#### New Registrations of Cars

000s & % change; not seasonally adjusted

	Number ( <sup>'000s</sup> )	Change over 12 months
2003	2,579	0.6
2004	2,567	-0.5
2005 (forecast)	2,450	-4.6
2006 (forecast)	2,380	-2.9
2004 Aug	85	-4.9
Sep	431	-2.0
Oct	171	-5.9
Nov	172	1.8
Dec	144	-7.1
2005 Jan	181	-8.2
Feb	77	-15.7
Mar	443	-5.1
Apr	179	-4.0
May	188	-3.4
Jun	228	-4.8
Jul	175	-6.6
Aug	83	-2.3

Source: SMMT, *Monthly Statistical Review*

## F4: House-building & Prices



[Source: ODPM, Housebuilding Statistics, table 201, May 2005]

The latest revised data on housing starts and completions from the Office of the Deputy Prime Minister (ODPM) show that there were 57,702 dwelling starts in the UK in Q1 2004, compared with 52,884 in Q1 2003. In Q1 2004 there were 43,000 completions compared with 43,089 in Q1 2003 (all data are not seasonally adjusted).

The latest Halifax *House Price Index* data show that:

- UK house prices rose by 1.2% in September 2005, compared with 1.9% in August 2005. **Annual** house price inflation was 3.0%.
- On a quarterly basis, UK house prices rose by 1.8% in Q3 2005, compared with 0.2% in Q2 2005 (all seasonally adjusted).

Regionally (NB: regions not aligned with Government Office Regions used by the ODPM below), the Halifax data show that:

- In Q3 2005, **annual** house price inflation was highest in Northern Ireland (22.2%) and lowest in the South West (a fall of 1.5%), compared with 3.0% across the UK (seasonally adjusted).

### Standardised average house prices

£s & %; non-seasonally adjusted

	All houses	New houses	Existing houses	First time buyers
2004 Q2	158,580	155,841	159,784	112,588
Q3	162,903	162,335	164,044	116,983
Q4	161,288	158,248	162,542	118,033
2005 Q1	160,724	156,647	161,913	118,863
Q2	164,413	159,942	165,467	121,115
Q3	167,808	163,459	168,718	125,064

% change over same period in previous year

2004 Q2	21.5	20.5	21.4	21.7
Q3	20.5	20.8	20.1	21.9
Q4	15.1	11.7	15.0	19.2
2005 Q1	9.7	9.1	9.5	13.9
Q2	3.7	2.6	3.6	7.6
Q3	3.0	0.7	2.8	6.9

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

The ODPM publishes a house price index based on completions (the Halifax index is based on mortgage approvals), which is currently in experimental form only (all figures are not seasonally adjusted):

- The average UK house price in August 2005 was £186,208, effectively unchanged from July 2005. **Annual** house price inflation in August 2005 was 2.8%, compared with 4.0% in July 2005.
- Regionally, **annual** house price inflation in August 2005 was highest in Northern Ireland (11.9%) and lowest in the South East, with a fall in prices of 0.4%.

**Contact:** Ian Townsend, x3977

**Updates:** Halifax, *House Prices*, Nov; ODPM, *House Prices*, 21 Nov, *House-building*, 10 Nov

## 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
2001 Sep	575,823	136,098	711,921	9.5	12.8	10.1
2002 Sep	651,362	152,783	804,145	12.4	15.8	13.0
2003 Sep	744,987	164,229	909,216	14.7	14.3	14.6
2004 Sep	851,514	178,339	1,029,854	14.5	14.0	14.4
Dec	875,039	182,072	1,057,111	13.0	14.1	13.2
2005 Mar	895,173	186,386	1,081,559	11.7	13.8	12.1
Jun	917,690	188,963	1,106,653	10.8	12.6	11.1
Sep	939,456	190,759	1,130,215	10.2	10.9	10.3

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

- Total net outstanding lending to individuals was £1,130 billion at the end of September 2005 (seasonally adjusted).
- Total net lending to individuals grew by 0.8% in September 2005 compared with the previous month, and grew by 10.3% on an annual basis (all seasonally adjusted). This represents a reduction of 0.2% compared with the annualised rates for August 2005.
- Of the £9.0 billion increase in net lending in September 2005, £7.7 billion was mortgage borrowing and £1.2 billion was consumer credit (seasonally adjusted).



## V Indicator sources

Details of sources used in this paper are given in the table. Office for National Statistics (ONS) releases can be accessed from the ONS website:

[http://www.statistics.gov.uk/press\\_release/CurrentReleases.asp](http://www.statistics.gov.uk/press_release/CurrentReleases.asp).

Indicator		Source details
A1	<b>Gross Domestic Product</b>	Office for National Statistics (ONS), <i>UK output, income &amp; expenditure or Quarterly National Accounts</i> releases
A2	<b>GDP: ICs</b>	<b>Gross Domestic Product:</b> Organisation for Economic Co-operation and Development (OECD), <i>Main Economic Indicators</i> ; <b>Growth Forecasts:</b> OECD, <i>Economic Outlook</i>
A3	<b>GDP by Industry</b>	ONS, <i>UK Output, income and expenditure, Quarterly National Accounts/GDP preliminary estimate</i> releases HM Treasury, <i>Forecasts for the UK economy</i> ; <a href="http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm">http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm</a>
A4	<b>Investment</b>	ONS Database & ONS, <i>Business Investment</i> release
A5	<b>Productivity</b>	ONS, <i>Productivity</i> release
B1	<b>Prices</b>	ONS, <i>Consumer Price Indices</i> release
B2	<b>Prices: International Comparisons</b>	<b>CPI:</b> OECD, <i>Main Economic Indicators</i> ; <b>HICP:</b> National Statistics Database; <b>Eurozone data:</b> Eurostat; <a href="http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat">http://europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat</a>
B3	<b>Average Earnings Index</b>	ONS, <i>Labour Market Statistics</i> release; <a href="http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944">http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944</a> , or ONS Database
C1	<b>Employment</b>	ONS Database & ONS, <i>Labour Market Statistics</i> release; <a href="http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944">http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944</a> <b>Commentary:</b> ONS, <i>Labour Market Statistics</i> release
C2	<b>Unemployment: National</b>	ONS, <i>Labour Market Statistics</i> release; <a href="http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944">http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944</a> , and <i>Labour Market Statistics First Release Historical Supplement</i> (via Virtual Bookshelf); <a href="http://www.statistics.gov.uk/OnlineProducts/LMS_FR_HS.asp">http://www.statistics.gov.uk/OnlineProducts/LMS_FR_HS.asp</a> <b>Commentary:</b> Department for Work and Pensions (DWP) <i>Quarterly Working Age Statistics for New Deal for Young People &amp; Long-term Unemployed</i> (table 6); <a href="http://www.dwp.gov.uk/asd/ndyp.asp">http://www.dwp.gov.uk/asd/ndyp.asp</a>
C3	<b>Unemployment: Regional</b>	<b>Data:</b> ONS, <i>Labour Market Statistics</i> release; <a href="http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944">http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944</a>
C4	<b>Unemployment: International Comparisons</b>	<b>Data:</b> OECD, <i>Main Economic Indicators</i> <b>Commentary:</b> OECD, <i>Main Economic Indicators &amp; Economic Outlook</i>
D1	<b>Interest Rates</b>	<b>Base rate:</b> Bank of England, <a href="http://www.bankofengland.co.uk/Links/setframe.html">http://www.bankofengland.co.uk/Links/setframe.html</a> ; <b>Monetary Policy Committee minutes:</b> <a href="http://www.bankofengland.co.uk/mpc/minutes.htm">http://www.bankofengland.co.uk/mpc/minutes.htm</a> ; <b>Quarterly Inflation Report:</b> <a href="http://www.bankofengland.co.uk/inflationreport/index.htm">http://www.bankofengland.co.uk/inflationreport/index.htm</a>

Indicator		Source details
D2	<b>Interest Rates: International Comparisons</b>	<b>Short term interest rates (graph):</b> OECD; <i>Main Economic Indicators</i> ; <b>International interest rates:</b> <i>Financial Times</i> , Companies & Analysis section, "Currencies, Bonds & Interest Rates" page; <b>Rates:</b> Bank of England, <a href="http://www.bankofengland.co.uk/Links/setframe.html">http://www.bankofengland.co.uk/Links/setframe.html</a> ; European Central Bank, <a href="http://www.ecb.int/mopo/html/index.en.html">http://www.ecb.int/mopo/html/index.en.html</a> ; US Federal Reserve, <a href="http://www.federalreserve.gov/fomc">http://www.federalreserve.gov/fomc</a>
D3	<b>Exchange Rates</b>	<b>Effective and sterling exchange rates:</b> ONS Database; <b>Euro spot rate:</b> <i>Financial Times</i>
D4	<b>Public Finances</b>	<b>Data:</b> ONS, <i>Public Sector Accounts</i> , <a href="http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=3764">http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=3764</a> or <i>Public Sector Finances</i> , <a href="http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805">http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805</a> , National Statistics Database; <b>Forecasts of budget surplus:</b> HM Treasury, <i>Pre-Budget Report</i> , table B2 or <i>Budget Red Book</i> , table C2.
D5	<b>Money Supply</b>	<b>Bank of England:</b> Bankstats, tables A 1.1 and A 2.2.1; <a href="http://www.bankofengland.co.uk/mfsd/current/ms/index.htm">http://www.bankofengland.co.uk/mfsd/current/ms/index.htm</a> , and ONS Database.
E1	<b>International Trade</b>	<b>Data:</b> ONS Database <b>Commentary:</b> ONS, <i>Balance of Payments</i> release
E2	<b>Trade in Goods</b>	<b>Data:</b> ONS Database <b>Commentary:</b> ONS, <i>UK Trade</i> release
F1	<b>Survey Indicators</b>	<b>Future Output Expectations/Quarterly Business Confidence:</b> Confederation of Business Industry (CBI), <i>Economic and Business Outlook</i> and <i>Quarterly Industrial Trends Survey</i> press releases; <a href="http://www.cbi.org.uk/ndbs/press.nsf/awprdate?OpenView&amp;Start=1&amp;ExpandView">http://www.cbi.org.uk/ndbs/press.nsf/awprdate?OpenView&amp;Start=1&amp;ExpandView</a> , or ONS Database <b>Consumer Confidence:</b> GfK NOP; <a href="http://www.martinhamblin-gfk.com/library/news_events.asp">http://www.martinhamblin-gfk.com/library/news_events.asp</a>
F2	<b>Retail Sales</b>	ONS, <i>Retail Sales</i> release
F3	<b>New Car Registrations</b>	Society of Motor Manufacturers and Traders, <i>Monthly Statistical Review</i> (in Library holdings)
F4	<b>Housing</b>	<b>Housing Starts in UK:</b> from Office of the Deputy Prime Minister (ODPM) housing homepage; <a href="http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/sectionh_omepage/odpm_housing_page.hcsp">http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/sectionh_omepage/odpm_housing_page.hcsp</a> ; <b>House building:</b> ODPM, <i>House Building statistical release</i> <a href="http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_023765.hcsp">http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_023765.hcsp</a> <b>Experimental House Prices:</b> ODPM, news releases; <a href="http://www.odpm.gov.uk/pns/newslst.cgi">http://www.odpm.gov.uk/pns/newslst.cgi</a> <b>Halifax House Price data:</b> HBOS website, Housing research homepage <a href="http://www.hbosplc.com/economy/HousingResearch.asp">http://www.hbosplc.com/economy/HousingResearch.asp</a>
F5	<b>Consumer Debt</b>	Bank of England Release <i>Lending to Individuals</i> <a href="http://www.bankofengland.co.uk">http://www.bankofengland.co.uk</a> ; Bank of England Database: <a href="http://www.bankofengland.co.uk/mfsd/index.htm">http://www.bankofengland.co.uk/mfsd/index.htm</a>

## VI Glossary

### Symbols and abbreviations

..	Figure(s) not yet available
<b>CBI</b>	Confederation of British Industry
<b>ILO</b>	International Labour Organisation
<b>ODPM</b>	Office of the Deputy Prime Minister
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics

### Definitions<sup>26</sup>

**Average Earnings Index:** Measures changes in gross wages and salaries paid to employees, including overtime payments. Excludes employers' insurance contributions, holiday pay, benefits in kind and bonuses which are not part of regular pay.

**Balance of payments:** A country's financial position, with other countries of the world, comprising two parts:

- **Current account:** the balance of imports and exports of goods and services, income and transfers combined;
- **Capital account:** the difference between a country's capital invested in other countries, and the capital invested by other countries in it.

Technically, the two parts always balance. A Balance of payments deficit normally refers to a **current account deficit**.

**Balance of trade:** The difference between a country's exports and imports of either goods only or goods and services combined. Trade in financial services account for around a third of UK exports, and thus partially offsets trade in goods deficits.

**Basic prices:** Prices excluding taxes and subsidies on products.

**Claimant count:** The number of people claiming Jobseeker's Allowance benefits.

**Consumer Prices Index (CPI):** This is the headline UK domestic measure of inflation. It measures the average change from month to month in the prices of consumer goods and services purchased in the UK.

**Current account balance/deficit:** The difference between receipts/payments due to transactions in goods, services, income and transfers between the UK and all other countries. A **current account deficit** means that total payments exceed total receipts; in the reverse case, the current account is in surplus.

**Current budget:** Measures the balance of public sector current account revenue over public sector current expenditure. It is the measure for assessing progress against **the golden rule**. This states that, on average over the economic cycle, the Government should borrow only to invest and not to fund current expenditure.

HM Treasury has stated that progress against the golden rule will be measured by averaging the surplus on current budget, when expressed as a percentage of GDP, over each year of the economic cycle. To meet the rule, this average should be positive.

**Constant/current prices:** Constant prices refer to volume measures whose values are derived by applying to current quantities, prices for a specific base period. They allow figures to be represented so that the effects of inflation are removed. The values for each time period are expressed in terms of the prices in a particular base period.

Current prices are the actual or estimated recorded monetary value over a defined period for a group of industries or products. They show the value for each item expressed in terms of the prices of that period.

**Economically active:** Those aged 16 and over who are either in employment or unemployed.

**Economically inactive:** Those aged 16 and over who are neither in employment nor unemployed. This includes those who want a job but have not been seeking work in the last four weeks, those who want a job and are seeking work but not available to start work, and those who do not want a job.

**Employment:** The number of people with jobs as estimated by the Labour Force Survey (LFS). This includes all people aged 16 or over who did paid work, those who had a job that they were temporarily away from, those on government supported training and employment programmes, and those doing unpaid family work during the survey period. The employment rate refers to the number of people employed as a percentage of the working age population as measured by the LFS.

**Exchange rate:** The rate at which one currency is traded against another.

**Gross Domestic Product (GDP):** The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production (intermediate consumption) but before deducting consumption of fixed capital (depreciation).

**Gross Domestic Product – chained volume measure:** Also known as *constant price* or *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced.

**Gross Fixed Capital Formation (GFCF):** 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 on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

**Gross Value Added (GVA):** The difference between output and intermediate consumption for any given sector/industry. That is the difference

<sup>26</sup> Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production. GVA is used to measure the productivity of sectors/industries and economies.

**Harmonised Indices of Consumer Prices (HICP):** Harmonised indices of consumer prices for Member States of the European Union.

**Market prices:** The prices actually paid by the purchaser for goods and services, including transport costs, trade margins and taxes.  $GDP \text{ at market prices} = GDP \text{ at basic prices} + \text{transport prices paid separately} + \text{non deductible taxes on expenditure} - \text{subsidies received}$ .

**Money supply:** The total amount of money in an economy at a given time. In the UK the main measures of money supply are:

- M0 which 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 which is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

**New Deal for Young Persons (NDYP):** A Government employment programme designed to help the long-term unemployed between the ages of 18-24 back into sustained employment through the provision of training, education, work experience, and job-search support.

**New Deal for 25 plus (ND25+):** A Government employment programme designed to help the long-term unemployed aged 25 and over back into sustained employment through the provision of training, education, work experience, and job-search support.

**The Public Sector Net Cash Requirement (PSNCR):** This measures the public sector's accumulation of debt net of liquid financial assets. Its approximate stock equivalent is net public sector debt.

**Public Sector Net Debt:** This is approximately the stock analogue of the PSNCR. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets such as bank deposits and foreign exchange reserves.

**Retail Prices Index (RPI):** A domestic indicator of inflation. It measures the average change from month to month in the prices of goods and services purchased in the UK. It is similar to the CPI, but differs in terms of coverage and methodology. **RPI(X)** excludes mortgage interest payments.

**Seasonally adjusted:** Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

**Sterling Exchange Rate Index (SERI):** This 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.

**Sustained employment:** In terms of the New Deal programmes, sustained employment is classified as a job from which the participant does not return to claim Jobseeker's Allowance (JSA) or transfer to another option within 13 weeks. It includes those who have been in employment for less than 13 weeks but have not yet returned to JSA.

**UK Base/Repo rate:** The rate at which the Bank of England lends to discount houses by buying their bills. The base rate is usually the minimum rate at which banks are prepared to lend money. The high street bank base rate follows that set by the Bank of England, and it acts as the benchmark for other interest rates, including mortgages and personal loans.

**Unemployment:** The ILO definition includes all people who are: out of work, want a job, have actively sought work in the previous four weeks and are available to start work within the next fortnight; or are out of work and have accepted a job that they are waiting to start in the next fortnight.

**Unemployment rate:** The number of unemployed persons expressed as a percentage of the economically active population.

**Volume/value of retail sales:** The volume of retail sales is the total takings adjusted for inflation and the value of retail sales is the total actual takings.

**Workforce jobs:** The sum of employee jobs, self-employment jobs, those in HM Forces and government-supported trainees.