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Economic Indicators, December 2005

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The series also includes an article on a topical issue.

This month's article:

Trade Justice, the WTO Doha Round and Hong Kong 2005

Next publication date: **1 February 2006**

Edward Beale (editor)

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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.[1] A guide to sources is provided in section IV.

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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

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Members and their staff and are also free to contact the named persons on each indicator page for updates during normal hours.[3]

1 http://hcl1.hclibrary.parliament.uk/wdw/subject/EI.asp
2 http://hcl1.hclibrary.parliament.uk/wdw/subject/wdwir.asp
3 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).

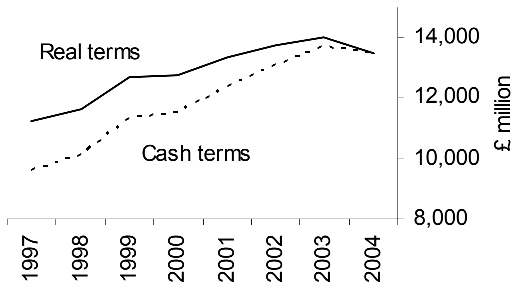
II Monthly highlights

At their November meeting all nine members of the MPC voted to keep the Bank of England base rate at 4.50%. November also saw the publication of the Bank of England's quarterly inflation report. In particular this noted that the prospects for inflation depended "crucially" on the response of wages to the recent pickup in inflation. However the report went on to state that so far wage growth has remained broadly stable (earnings growth fell marginally to 4.1% in October from 4.2% in August) and that there is little evidence that inflation expectations have risen. Under the MPC's central projection, Consumer Price Index (CPI) inflation will remain above the Government's 2.0% target in the short-term, it then dips below the target during 2006 (as higher energy prices drop out of the annual comparison) before moving back up to meet the target in 2007. CPI inflation fell for the first time in over a year to 2.3% in October from 2.5% in September.

In terms of growth, the latest data show that the chained volume measure of gross domestic product (GDP) at market prices in Q3 2005 rose by 0.4% on the previous quarter, and was 1.7% higher compared with Q3 2004. The central projection in November's inflation report is for annual GDP growth to rise in the short to medium term (although at a slower rate than projected in the August report), reflecting a recovery of domestic demand and foreign trade.

Expenditure on Research and Development (R&D)
In 2004, £13.5 billion was spent on R&D performed within UK businesses – a fall of 3.4% in real terms compared with the 2003 total. Total R&D Expenditure in 2004 represented approximately 1.1% of GDP (compared with 1.2% in 2003).

R&D expenditure, 1997-2004



Individual insolvencies
Figures released by the Department of Trade and Industry showed that there were 17,562 individual insolvencies in England and Wales in the Q3 2005 on a seasonally adjusted basis; the highest level since records began. This was an increase of 11.6% on the previous quarter and an increase of 46.0% on the same period a year ago.

Internet sales
Experimental statistics released by the Office for National Statistics (ONS) indicated that the value of internet sales by businesses rose to £71.1 billion in 2004, an increase of 81% on the 2003 figure of £39.3 billion. The *2004 e-commerce Survey of Businesses* also found that, in the same period, internet purchases rose by 65.0% from £37.9 billion to £62.4 billion, and the value of internet sales to households rose to £18.1 billion from £10.8 billion in 2003, a rise of 67.6%.

ONS independence
Following a review of the Framework for National Statistics, the Chancellor Gordon Brown announced in November that the Government would publish plans in the New Year to legislate to make the ONS and the governance and publication of official statistics independent of Government.

Pre-Budget Report
The Chancellor will present the 2005 Pre-Budget Report on 5 December. Readers may be interested in Library Standard Note SN/EP/3812, *Background to the 2005 Pre-Budget Report* (Library standard notes are available to Members of Parliament and their personal staff on the Library intranet).

III Trade Justice, the WTO Doha Round and Hong Kong 2005

This month's article looks at why 2005 has been an important year for trade and development, discussing the Make Poverty History campaign and the Doha Round of world trade talks. It summarises the Doha negotiations so far, then outlines recent developments particularly in the key area of agriculture. It also looks at the effects of the expected 'downgrading' of expectations for the Hong Kong World Trade Organisation (WTO) Ministerial in December.

A. Introduction

The UK has held the presidencies of the G8 throughout 2005 and the EU during the second half of the year. Its G8 agenda focuses on Africa, on sustainable development and poverty reduction. The Make Poverty History campaign has raised public awareness of debt, aid and trade issues confronting developing countries in Africa and elsewhere. In the UK, these presidencies have seen 2005 identified as a key year from a political perspective to address these issues.

The UN Millennium Review Summit from 14-16 September 2005 looked at progress towards the Millennium Development Goals (MDGs).[4] The eighth MDG, on a global partnership for development, calls for an "open, rule-based, predictable, non-discriminatory trading and financial system" and attention to the special needs of Least Developed Countries (LDCs).

While the July Gleneagles summit saw agreement reached on debt relief and development aid, the trade element was to be addressed in the Doha 'Development' Round of World Trade Organisation (WTO) talks, focusing on reaching agreement at the Sixth WTO Ministerial Conference at Hong Kong from 13-18 December 2005. With EU Member States represented at the WTO as a single trading bloc, the UK's EU Presidency agenda emphasised the importance of a 'pro-development outcome' at Hong Kong and in the Doha Round generally.

Current indications are that, due to persistent divisions between WTO Members in the negotiations, particularly in the key area of agriculture, Hong Kong will not now see the comprehensive agreement that had been hoped for. Nevertheless, trade ministers have espoused continued ambition for the Doha Round, and hope that Hong Kong will still see meaningful progress, even if this is not as much as had been previously hoped.

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4 *Millennium Development Goals Report 2005*, UN, 2005; *The UK's Contribution to Achieving the Millennium Development Goals*, HM Government, 2005

B. Trade in 2005

Make Poverty History (MPH) describes itself as a "unique UK alliance of charities, trade unions, campaigning groups and celebrities who are mobilising around key opportunities in 2005 to drive forward the struggle against poverty and injustice."[5] In summary, its aims are "trade justice, drop the debt, more and better aid".

These 'key opportunities' are the UK's 2005 G8 Presidency, with presidency of the G7 Finance Ministers, and its EU Presidency in the second half of 2005.[6] In November 2004, Gordon Brown said 2005 was "not only a year where there is a calendar for action on development but [also a] make or break year for the world community."[7]

The main G8 event in 2005 was the July Gleneagles Summit.[8] Preceded by the Make Poverty History March in Edinburgh on 2 July and the Live 8 concerts, the G8 reached agreement on increased aid and relief on debts owed to the World Bank, IMF and African Development Bank. On trade, the G8's communiqué reiterated commitment to a successful Doha Round of World Trade Organisation (WTO) talks, specifically a successful Ministerial Conference at Hong Kong in December 2005.

While NGOs and commentators were divided over the practical impact of the G8's aid and debt deals, the lack of concrete commitments on trade saw attention shift to trade.

1. Free vs. fair trade

There is no settled definition of 'fair trade' or 'trade justice'. Campaigners such as the Trade Justice Movement (TJM), with over 70 member organisations, and the MPH campaign, are against free trade and 'forced trade liberalisation'. TJM argues: "To end poverty and protect the environment we need Trade Justice not free trade."[9]

Most countries have trade barriers of some kind (quotas, tariffs or government subsidies). International trade negotiations, either on a bilateral basis or through the World Trade Organisation, have sought to liberalise trade by gradually lowering trade barriers.

Classical trade theory suggests that trade barriers reduce the efficient allocation of resources and production. Free trade allows countries to exploit their comparative advantages in producing goods and providing services, increasing overall economic output and welfare. Goods and services should therefore be cheaper under free trade, and economic growth boosted accordingly.

While trade liberalisation may in theory lead to benefits for all countries, many argue that it can damage the economies of developing countries: domestic economies face adjustment

5 The MPH manifesto from http://www.makepovertyhistory.org/whatwewant/index.shtml; a Department for International Development response is at http://www.dfid.gov.uk/aboutdfid/make-poverty-history.asp.

6 The BOND (British Overseas NGOs for Development) MPH EU Manifesto is at: http://www.bond.org.uk/eu/presidency/index.htm

7 Speech by Rt Hon Gordon Brown MP, 24 November 2004; http://www.hm-treasury.gov.uk/newsroom_and_speeches/press/2004/press_94_04.cfm

8 UK 2005 G8 website: http://www.g8.gov.uk and Gleneagles Summit website: http://www.perthshireg8.com/ UK 2005 G7 pages from http://www.hm-treasury.gov.uk/otherhmtsites/g7/g7_home.cfm.

9 http://www.tradejusticemovement.org.uk/about.shtml; see also http://www.tjm.org.uk/about/statement.shtml

when trade barriers are reduced, making their own goods and services less competitive, and this may impact on unemployment and dislocation. Assuming that trade liberalisation does or at least can encourage economic growth, which increases wealth, the main issues are how the benefits are to be distributed and how the losers can be compensated.

These considerations are central to the goals of the Trade Justice Movement. According to the head of the UN Development Programme, globalisation, which was viewed by some as an 'unequalising process' seen in the 20th Century, has the potential to become an 'equalising process' in the 21st Century.[10] TJM demands can be seen as an attempt to ensure this happens.

Developed countries have come under criticism for exercising protectionism while espousing the benefits of free trade. Agricultural tariffs and subsidies, including the EU's Common Agricultural Policy, as well as US and Japanese policies, are seen as most damagingly protectionist for poor country farmers. The TJM website states:[11]

> Too often, Northern governments have failed to practice what they preach on trade issues. They argue for free trade, yet erect barriers against imports from developing countries. They argue for rules, yet abuse anti-dumping or health and safety legislation to unfairly restrict imports. They support development, but then deter countries from processing their own products by tariff escalation. A new and pro-poor trade regime requires a change of mentality among the rich and powerful.

ActionAid argue that developing countries are forced to liberalise by the IMF, World Bank and WTO which requires membership before cases can be taken against trading practices that are against WTO rules. Trade justice would mean:[12]

> […] developing country governments would be able to freely choose the best policies unimpeded by WTO restrictions. Governments would be able to intervene in their national economies to protect vulnerable farmers and promote national industries. This could include raising taxes on goods coming into the country, giving concessional loans to business, and even cutting taxes on goods coming into the country but in a selected and targeted way.
>
> Trade justice also means that rich countries stop their harmful practices: dumping (selling goods below the cost of production) farm goods in poor countries and regulating their multinational companies effectively.
>
> No country has ever become a 'developed country' by pursuing free trade policies from the outside. Rich countries have used the 'trade justice' approach to get where they are today.

The MPH manifesto states that:[13]

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10 Kemal Davies, cited in "The south's rise is hindered at home", *Financial Times*, 17 November 2005, p19

11 http://www.tjm.org.uk/about/statement.shtml

12 *Trade & the WTO: An introduction*, ActionAid, 19 October 2005; See also "Stop Forced Liberalisation: The Trade Justice Movement's 2005 Challenge to the UK Government", *TJM Policy Briefing*, June 2005;

13 http://www.makepovertyhistory.org/docs/manifesto.pdf; It also calls for the World Bank and International Monetary Fund to stop "forcing poor countries to open their markets"; for the EU to "drop its demand that former European colonies open their markets and give more rights to big companies"; for countries to be able to regulate foreign investment; and for making companies accountable for their social/environmental impacts.

> We need trade justice **not** free trade. This means the EU single-handedly putting an end to its damaging agricultural export subsidies **now**; it means ensuring poor countries can feed their people by protecting their own farmers and staple crops; it means ensuring governments can effectively regulate water companies by keeping water out of world trade rules; and it means ensuring trade rules do not undermine core labour standards.

On trade justice, the MPH has called for three changes:[14]

- Rules allowing (particularly poor country) governments to chose "the best solutions to end poverty and protect the environment", which "will not always be free trade policies";
- An end to export subsidies "that damage the livelihoods of poor rural communities around the world"; and
- Legislation to "stop big business profiting at the expense of people and the environment".

Also, Oxfam's *Make Trade Fair* campaign is "part of the global call to action against poverty", focusing on the World Trade Organisation and the ongoing Doha Round of trade talks (see part C), highlighting the perceived inequities in trade arrangements and developed countries' agricultural subsidies, and advocating fair trade over free trade.[15]

In 2005, trade justice campaigns have raised the political profile of trade issues. There have been a number of Parliamentary debates on trade and development,[16] and an early-day motion supporting the main aims has so far received 273 signatures.[17] According to TJM, a mass trade justice lobby of Parliament on 2 November 2005 was attended by over 8,000 campaigners.[18]

A recent comment article in the *Financial Times* put the opposing view, that trade liberalisation may be in the interests of developing countries.[19] Martin Wolf makes a number of arguments. In particular he points to evidence linking the openness of economies in trade terms with income levels. He also argues that protection is a tax on trade, and that competitive exports depend on competitively priced imports.

He concludes:

> This is not an argument for every country to be asked to make binding commitments within the World Trade Organisation or to be forced by the international financial institutions to liberalise. It is, however, an argument against the campaigners' general condemnation of international obligations.
>
> These campaigners for trade justice are, no doubt, well intentioned. But their opposition to trade liberalisation by developing countries and, still more, their hostility

[14] From Make Poverty History page on trade: http://www.makepovertyhistory.org/whatwewant/trade.shtml
[15] Oxfam's Make Trade Fair campaign: http://www.maketradefair.com/
[16] For example, Fair Trade (HC Deb 8 June 2005 cc126-182WH) and Trade & development (HC Deb 16 Nov 2005 cc235- 256WH)
[17] EDM 679 of 2005/06; EDM 857 of 2005/06, focusing on agricultural issues and the Doha Round, has 99 signatures [both at 30 November]. An EDM from November 2004 calling for the UK to make poverty history in 2005 received 454 signatures (EDM 9 of 2004/05).
[18] HTTP://WWW.TJM.ORG.UK/NEWS/LOBBY021105.SHTML
[19] "The fighters for trade justice have misread the battlefield", *Financial Times*, 23 November 2005, p19

> to any international pressure upon them to liberalise is misguided. The belief that developing countries should do whatever their rulers prefer, unconstrained by outside pressures, is a mistake. Sovereignty is indeed a good; unbridled sovereignty is not.

Various estimates have been produced on the potential gains from liberalisation. In his recent Guildhall speech the Prime Minister said that a one per cent increase in Africa's share of world trade would bring a benefit of $70 billion, three times the aid increase agreed at Gleneagles. A recent World Bank study[20] found that there are some long-term benefits from liberalisation with an estimated 127 million (out of a total of 1.1 billion) people lifted out of poverty (defined a living on less than $1 per day) from full liberalisation of agriculture and goods trade. However, the near-term poverty impacts are more mixed and only substantial tariff cuts will lead to a measurable impact on poverty. Also, the author has said that the main message of the report is that the poverty impacts of liberalisation are less than the Bank thought in the past.[21]

2. UK Government's position

The UK Government's approach to international trade issues follow on from positions outlined in two white papers: DfID's *Eliminating World Poverty: Making Globalisation Work for the Poor*,[22] and the DTI's *Making Globalisation a Force for Good*.[23] The latter states that the Government's view is that:[24]

> […] as a long-term objective, the removal of trade barriers is just as important for developing countries as for developed. The evidence shows that those countries which have achieved the biggest reductions in poverty in recent years have been those which have been open to international trade.
>
> However, while trade openness can lead to economic growth, it is not a sufficient condition in itself. […] there are examples of poorer countries which have opened up their markets but have not experienced trade growth. And in some countries, small and vulnerable local producers have been badly hit.

The UK's G8 Africa agenda – also influenced by the recommendations of the UK-sponsored Commission for Africa,[25] which reported in March 2005 – was based on policies outlined in the white papers, as is its stance on the Doha Round.

In a statement responding to the MPH manifesto, Secretary of State for International Development Hilary Benn said:[26]

> On trade, our priority will be ensuring that the World Trade Organisation (WTO) Ministerial in Hong Kong in December agrees measures that will benefit the poorest countries. We will be pressing for agreement to increase market access for poor

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20 *Poverty Impacts of a WTO Agreement: Synthesis and Overview*, Hertel and Winters, World Bank, 2005

21 "Impact on poverty is disputed but can be real", *Financial Times*, 16 November 2005, p17

22 DfID, *Eliminating World Poverty: Making Globalisation Work for the Poor*, White Paper on International Development, December 2000;

23 DTI, *Making Globalisation a Force for Good*, White Paper on Trade and Investment, July 2004; http://www.dti.gov.uk/ewt/whitepaper.htm

24 *ibid.* part 3, p82

25 See chapter 8 on trade (http://www.commissionforafrica.org/english/report/thereport/english/11-03-05_cr_chapter_8.pdf); for a summary of the conclusions and further information see SN/EP/3440.

26 http://www.dfid.gov.uk/aboutdfid/make-poverty-history.asp

> countries, real cuts in OECD agricultural subsidies and recognition of the need to allow poor countries to manage their trade liberalisation to fit with their poverty goals. At the G8 and the EU we will press for action to simplify and harmonise their rules of origin so that developing countries can benefit from preference schemes and build their export competitiveness by being allowed to buy inputs from the best price suppliers. We will be working with the EU to ensure that the regional Economic Partnership Agreements it is negotiating with the African, Caribbean and Pacific (ACP) put development first. And we will call on developed countries to help developing countries build heir capacity to trade, so that they can maximise the gains of the Doha Development Round.

More recently DfID Minister Gareth Thomas stated that:[27]

> The UK Government are committed to the development of an open and rules-based international trading system that fulfils its potential to contribute to the reduction of poverty in poorer countries. […]
> In the long-term the removal of trade barriers, if managed properly, can help developing countries can gain better access to developed country markets and more competitively priced inputs. However, the agenda is broad. We must not only reduce barriers to trade such as subsidies and import tariffs but also invest in developing countries capacities to trade. To do this we are providing additional development assistance to poor countries to help them undertake this investment and give them the time and space to adjust to trade reforms.

He has also stated that:[28]

> We are committed to supporting governments in developing countries to make their own decisions about how to develop their economies and provide services to their people, based on evidence of what works best to reduce poverty. DFID will not make aid conditional on specific policy decisions by partner governments or attempt to impose policy choices on them, including in sensitive economic areas such as privatisation or trade liberalisation.

3. Trade at the Gleneagles Summit

In the lead up to Gleneagles, and at the summit itself, the trade element of the Africa agenda received comparatively less attention than aid and debt relief. While there are some trade issues on which the G8 can act unilaterally, it is the multilateral WTO rather than the G8 that is the primary forum for progress on trade issues.[29]

While the G8 countries reached agreements on aid and debt relief,[30] the summit communiqué called on WTO Members to reach a deal at Hong Kong to complete the Doha Round by the end of 2006:[31]

> An ambitious and balanced conclusion to the Doha Round is the best way to make trade work for Africa and increase African countries' integration into the global

27 HC Deb 16 November 2005 cc1248-9W
28 HC Deb 14 November 2005 c872W
29 Russia is a G8 member, but has been negotiating accession to the WTO since 1993.
30 For further information see see SN/EP/1769 (aid) and SN/EP/1365 (on debt).
31 http://www.fco.gov.uk/Files/kfile/PostG8_Gleneagles_Communique.pdf, para 21 (and also para 35)

> economy. The Hong Kong Ministerial in December will be a critical step towards a successful outcome to the DDA [Doha Development Agenda] in 2006.

In a separate statement on trade and the Doha Development Agenda (DDA),[32] the G8 underscored their commitment to 'substantially reducing' trade-distorting domestic support and improve market access, agreed to set a 'credible end date' for agricultural export subsidies,[33] as well as reiterating their commitment to duty/quota-free market access for products from Least Developed Countries (LDCs). The statement also advocated trade-related capacity-building and infrastructural projects in African countries (particularly in LDCs), and improved access to preference schemes for developing countries through reform of 'rules of origin'.

One commentary called the trade elements of the communiqué meagre, consisting mainly of "generalities reflecting commitments already adopted in other documents".[34]

MPH declared that the G8 had "not met the challenge of trade justice as clearly set out by Make Poverty History … What we have asked for is action not words … The challenge of trade justice remains."[35] One NGO, the World Development Movement, said that:[36]

> The G8 countries made no significant unilateral commitments to change their damaging trade policies sending a clear message that they will only consider taking action if poor countries liberalise in return. The G8 push to get poor countries to liberalise has even extended as far as offering 'aid for trade' bribes – giving poor countries some extra aid money in return for liberalisation.
>
> […] "The G8's approach on trade seems to be 'Ask not what we can do for the poor, but what the poor can do for us'.

Oxfam's Make Poverty History co-ordinator, Adrian Lovett, has said that trade is "the unfinished business", and the "big focus for the rest of 2005":[37]

> We all know that unless we make trade fair, any gains on debt and aid will be lost. The World Trade Organisation meeting in Hong Kong in December is the last big chance for a leap forward in 2005.

However, some commentators saw the apparent lack of major progress at Gleneagles as a bad omen for Hong Kong: in an editorial *The Guardian* saw it "shaping up to be a rerun of the Cancún trade talks that ended in such acrimony".[38]

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32 http://www.fco.gov.uk/Files/kfile/PostG8_Gleneagles_Trade.pdf
33 The UK advocates a date of 2010, to be agreed at Hong Kong.
34 ICSTD, "Meagre Trade Harvest at G-8", *Bridges Monthly* Jun/July 2005, p23; Note: 'other documents' refers to the Doha Declaration and the July 2004 Agreement.
35 "Detailed statement in response to G8 communiqué", *Make Poverty History Press Release*, 8 July 2005
36 "G8 condemn Africa to miss Millennium Development Goals", *WDM Press Release*, 8 July 2005
37 http://www.oxfam.co.uk/what_you_can_do/campaign/mph/askadrian.htm
38 "Something to celebrate", *The Guardian*, 9 July 2005, p25

C. The WTO & the Doha 'Development' Round

1. Introduction

After the failure to begin a new round of trade talks at the Seattle WTO Ministerial in 1999, a new round – directed by the Doha Development Agenda, or DDA – was launched at the Doha Ministerial in Qatar in November 2001.[39] This would be the first round of multilateral trade talks since the Uruguay Round that led to WTO's creation in 1995. Putting development at the heart of the new round was seen as a response to the perception of pro-developed country bias in Uruguay Round agreements.

The Doha Round is a 'single undertaking', that is nothing is agreed until everything is agreed. Key among the many negotiating areas in the Round are: agriculture, industrial products (Non-Agricultural Market Access, or NAMA), services (the General Agreement on Trade in Services), and rules (anti-dumping, subsidies and regional trade agreements). Consideration of developing countries, and 'special and differential treatment' (S&D), would be a thread running through each area of negotiations.[40]

Along with the other EU Member States, the UK is represented at the WTO and in WTO negotiations by the European Commission, with the EU Trade Commissioner, Peter Mandelson acting as chief negotiator, operating on the basis of a mandate agreed by the Member States.

As regards the UK's position, DfID Minister Gareth Thomas has said that:[41]

> A pro-development outcome from the Doha development round would result in improved participation by developing countries in the world trading system, particularly through substantially increased market access, the dismantling of trade distorting subsidies by industrialised countries and an end to export subsidies.

2. Overview of progress so far

Progress in the Doha Round has been slow. Initial attempts to reach an agreement on the Doha Round at the September 2003 Cancún Ministerial failed, with the talks breaking down acrimoniously. There followed a ten-month impasse that was unbroken until an interim agreement was reached in Geneva in July 2004.[42]

Negotiations continued throughout the first half of 2005, with a number of 'mini-ministerials' of small groups of WTO Members to try and move the negotiations on. The broad consensus through much of 2005 was that an agreement was needed by the end of the year to prevent the Round from collapsing. This is mainly because the ability of the US President to present trade agreements to Congress without amendment (Trade Promotion Authority) expires on 1 July 2007, and is thought unlikely to be renewed amidst protectionist sentiment

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[39] Doha Declaration,14 November 2001 [http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm]

[40] For general Doha Round progress see SN/EP/2605, with detailed standard notes on agriculture (SN/SC/2997), services (SN/EP/1433), special and differential treatment (SN/EP/3739), and industrial products (SN/EP/3786, forthcoming). All Library standard notes mentioned in this article are available for Members of Parliament and their personal staff through the intranet (see appendix).

[41] HC Deb 16 November 2005 c254-5WH

[42] See http://www.wto.org/english/tratop_e/dda_e/dda_package_july04_e.htm.

among legislators. The end of 2006 is therefore viewed as the ultimate deadline, giving a full year after Hong Kong to negotiate the details.

However, a July 2005 deadline for an agreement on ‘first approximations’, an outline deal enabling broad agreement at the Hong Kong Ministerial in December 2005, was missed. This was largely ascribed to continuing deadlock over agriculture, with few signs of major progress in other areas of the Round.

Following the WTO’s summer break, the focus shifted towards agreeing ‘full modalities’ – a framework agreement with agreed formulae for tariff reductions, etc. – at Hong Kong. There was a flurry of activity in early October, with offers on agriculture from the US and the EU. However, these offers have not seen the impasse broken and a deal on full modalities at Hong Kong now seems unlikely.

3. Agriculture & the Doha Round

The agricultural talks are seen as the ‘gateway issue’ that could unlock the rest of the Doha Round. Progress in other areas has been limited partly because certain developing countries are demanding progress on agricultural trade liberalisation and subsidies.

a. The European Commission strategy

The Uruguay Round of trade talks was not completed until the EU and the US eventually reached an agreement on farm trade, which was accepted by other countries as a basis for settlement. A similar manoeuvre was attempted earlier in the Doha Round, but this was undermined by the failure of the Cancún Ministerial which broke down without agreement. The collapse took place before agricultural trade was discussed, but it had an impact. Developing countries felt that they had nothing to gain in selling farm produce to the EU, and they did not see why they should open their service industries to competition from developed countries.

The EU always finds WTO negotiations on agricultural trade problematic. The European Commission first needs to reach agreement amongst Member States on the Common Agricultural Policy (CAP). It then presents that agreement to other countries as the basis for a broader trade deal. Yet if it made further concessions in negotiations, it might have to return to Member States for a further amendment to the CAP.

The European Commission strategy is clear. After several attempts, in 2003 they succeeded in persuading Member States to accept the decoupling of support from the level of output. The result means that farmers receive the same level of support regardless of the level of production. However, this makes it easier to meet WTO conditions as there are fewer direct subsidies on production. The European Commission succeeded in gaining a broad acceptance for this Single Farm Payment on those terms. In order to gain acceptance from Member States, they agreed that the farm budget would be largely guaranteed until 2013.

The Commission can now do two things. First, it can offer to abolish export subsidies – if other countries do the same – since they are no longer needed in a CAP relying upon income support rather than payments related to production and the consequent subsidised export of surplus stock. Second, the Commission can now make concessions on market access. It hopes that Member States will accept a reduction in tariffs and quotas on food because EU farmers will still receive their incomes even if they cannot produce goods to sell profitably at prices that would allow competition against imports.

b. The October 2005 proposals

In October 2005, detailed proposals for reductions in domestic support and import tariffs were tabled by the United States,[43] the EU,[44] and the Brazilian-led G20 group of developing countries.[45]

The US offered a 60% reduction in trade-distorting Amber Box[46] support over the next five years. It would also cap Blue Box support at 2.5% of the value of agricultural production. On market access, the US offered to cut tariffs by between 55% and 90%, depending on the size of the tariff. The EU proposed a 70% reduction in the level of Amber Box support. Import tariffs would be cut by 24.5% on average. The G20 compromise deal suggested an average tariff cut of 54%.

It is often difficult to interpret these figures. *Agra Europe* points out that the EU Amber Box offer is less impressive than it sounds because actual EU Amber Box spending has never come near to the existing ceiling.

Critical responses from WTO Members saw the EU submit a second, revised offer on 28 October 2005, a compromise between the original EU proposal and the US plan.[47] The main change to the offer is a higher average cut in the tariffs across all bands, with cuts of up to 60% for the highest tariffs. *Agra Europe* commented:

> According to the Commission's calculations, this would mean an average cut of 46% [...] This would be a considerable increase on the proposal tabled by the EU two weeks ago […] According to the US, these figures would then have given an average tariff cut of just 24.5%, although the French claimed the average cut was closer to 35% [...] by any measure, however, these figures are still a long way short of the US's demands to cut the highest agricultural tariffs by 90%, and the G-20's proposal to make reductions of up to 75%.[48]

The revised offer, like the EU's initial offer, was made explicitly conditional on progress in the services and industrial products (NAMA) talks, and it also set out the EU's criteria for success in these other areas.

c. French Resistance to the EU proposals

France fears that the proposals could undermine the recent CAP reform. An emergency EU Foreign Ministers meeting on 18 October 2005 discussed the Commission's negotiating mandate for the Doha Round. While the Council agreed the mandate had not been

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43 See HTTP://WWW.USTR.GOV/ASSETS/DOCUMENT_LIBRARY/FACT_SHEETS/2005/ASSET_UPLOAD_FILE919_8128.PDF
44 *Statement of EU conditional negotiating proposals*, European Commission, 10 October 2005
45 See http://www.g-20.mre.gov.br/proposals.asp
46 Under WTO rules, 'Red Box' subsidies are forbidden, 'Amber Box' should be reduced and 'Green Box' are permitted. For more detail see: http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm
47 European Commission, "Making Hong Kong a Success : Europe's Contribution", 28 October 2005
48 "EU tables last-ditch offer to save WTO talks from disarray", *Agra Europe*, 28 October 2005 EP/2

exceeded, the Commission agreed to improve communication with Member States in the run up to Hong Kong.[49] However, France remained dissatisfied:[50]

> Since the Commission was not able to demonstrate in detail that its mandate had not been exceeded, as we France and other partners are arguing at this crucial stage of the negotiations, it was demanded that the technical discussions should continue and that a new meeting should be held as soon as possible. Fourteen Member States supported this demand.

French criticism of the Commission's approach is clear:[51]

> On internal support: the Commission recognised that the room for manoeuvre was no very small, taking account of the offers made by the EU negotiator a week earlier at Zurich. A majority of Member States accept this analysis.
>
> On export competition: the commission indicated its wish to obtain a balance ("parallélisme") between the efforts of the various developed countries participating in the negotiations. Nevertheless it implicitly showed its lack of ambition in pleading for "realism". However, this balance is an essential condition, anticipated by the agreement of 2004 for the restoration to equilibrium of the negotiations wanted yesterday by a majority of Member States.
>
> On the essential subject of market access, France indicated yesterday…its very grave concern. The technical discussions did not enable the Commission experts to convince those sent from the French ministry. The Commission was content to argue on general principles, without statistical arguments, against the precise technical evaluations made by the French on different sensitive products (tomatoes, chicken meat, beef, butter and sugar).

According to several media reports, President Chirac apparently warned EU ministers at the Hampton Court meeting on 27 October 2005 that he would prefer to block the trade discussions than see EU farmers lose out.[52]

Under EC law, the European Commission negotiates trade agreements on behalf on Member States, on the basis of a mandate agreed by the Member States, and then presents the conclusions to them.[53] However, after the Uruguay Round, the European Commission delayed presenting the agreement to EU Ministers for several months until a form of words had been found that satisfied French concerns.

There have been reports of threats of a possible French veto of a Doha deal that might threaten the CAP. This would be a politically difficult decision for a Member State to take, and it is likely that a group of Member States would need to object. While the French position has its supporters it is unclear how many would oppose a Doha deal. However, the

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49 "France left isolated as Mandelson wins backing for world trade talks strategy", *The Guardian*, 19 October 2005, p29 and GAERC Conclusions: http://www.fco.gov.uk/Files/kfile/GAERC_18Oct.pdf, p6. The UK Minister for Trade and Investment, Ian Pearson, subsequently affirmed that it believes the EU offers to be "within the remit of the negotiating mandate" (in HC Deb 15 November 2005, c1111W).

50 French Agriculture Ministry Press Release, *Groupe technique réuni à Genève le 19 octobre 2005 sur le volet agricole des négociations de l'OMC*, 19 October 2005

51 *ibid.*

52 "EU tables last-ditch offer to save WTO talks from disarray", *Agra Europe*, 28 October 2005 EP/2

53 In this case this would be subject to unanimity among Member States, as the Doha Round covers areas not covered by Qualified Majority Voting (QMV).

French position appears to have made it harder for the European Commission to make further concessions. Indeed, the Commission's second offer has been described as non-negotiable, although Peter Mandelson is quoted as suggesting movement might be possible if the "momentum of the negotiation were to accelerate".[54]

4. Prospects for Hong Kong

It had been hoped that Hong Kong would see a broad agreement – 'full modalities' – reached, however recent indications are that this is now unlikely.

After an intensive three-day period of negotiations from 7-9 November 2005, WTO Members remain too far apart on the main issues for an agreement at Hong Kong. Key developing countries (such as Brazil) are asking for more concessions on agriculture than the EU currently feels able to offer, under internal pressure from some Member States. At the same time, key developing countries are not acceding to EU demands for progress in non-agricultural areas of the Round – particularly services and industrial products – before any further concessions on agriculture are considered.

NGOs have objected to the linkage and implicit reciprocity from developing countries in the EU position. In evidence to the International Development Committee, Peter Hardstaff (representing the Trade Justice Movement and Head of Policy, World Development Movement) said:[55]

> Europe is telling the developing world that in return for the political and perceived economic pain that we will go through with further agriculture reform, in return they must implement policies that will cause them infinitely more difficulty in terms of their development prospects. That kind of deal is fundamentally anti-development. The real problem that we face in the run-up to Hong Kong is the idea that, in return for something that we should have done a long time ago that will probably be of benefit to our environment, hopefully consumers and the wider public, we are asking them to do something that will undermine their development prospects in the future. This is where we have a major problem in terms of Europe's approach in the WTO.

Amidst fears that the Hong Kong Ministerial could suffer a Cancún-style collapse, expectations have been 'recalibrated'. While Ministerial meetings of the General Agreement on Trade in Tariffs (the precursor to the WTO) during the Uruguay Round ended without agreement (Brussels in 1990 and Montreal in 1988), some commentators have suggested that after Seattle and Cancún a "similar collapse in Hong Kong could spell the end, not just of the Doha round, but of the WTO as an effective negotiating forum."[56]

The various negotiating groups are now looking to prepare their draft texts for Hong Kong. There will be further meetings in weeks leading up to Hong Kong, and it is not presently clear what the meeting will now look to achieve.

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54 "EU 'will not budge on farm deal'", *BBC News,* 21 November 2005 [http://news.bbc.co.uk/1/hi/business/4456624.stm]

55 International Development Committee, "Making poverty history? The promises of Gleneagles", UNCORRECTED TRANSCRIPT OF ORAL EVIDENCE (to be published as HC 418-ii), 25 October 2005, Q88; from http://www.publications.parliament.uk/pa/cm/cmintdev.htm

56 "World trade talks: In the rough", *The Economist*, 5 November 2005

Concerns remain that downscaling Hong Kong's importance could jeopardise the completion of the round by its ultimate deadline of the end of 2006. It is expected that Hong Kong will attempt to draw together that which has been agreed so far, reaching 'partial modalities', perhaps two-thirds of the way towards the full modalities hoped for, which would themselves have been two-thirds of the way towards a final Doha Round agreement.

However, the UK Government are still expressing ambition for the development outcomes of the Doha Round. The DfID Minister Gareth Thomas said on 16 November 2005 that: "We will continue to seek an ambitious outcome for the round and recognise the importance of the Hong Kong ministerial talks in that process as a galvanising meeting to secure the progress that we want."[57] He continued:[58]

> [...] we need to maintain our levels of ambition, particularly in the face of the pessimism that is out there. The fact that some European member states have expressed concerns about how far Commissioner Mandelson has gone in the negotiations implies that there is a serious offer on the table from the European Union. We want to see further progress in the talks, particularly in relation to the concerns of poorer countries about, for example, special products in agriculture and a special safeguard mechanism.

In his annual Guildhall foreign policy speech on 14 November 2005, the Prime Minister spoke of the opportunities of the DDA to "tackle some of the most fundamental injustices at the heart of world trade" and "create the conditions in which millions of people will have a chance to escape poverty".[59] He called on leaders to reach agreement at Hong Kong:

> [...] the EU and the US must go further, within the negotiations, on agriculture. We must reduce trade distorting subsidies; we must see a credible end date for export subsidies; we must put an ambitious limit on the number of sensitive products that can be afforded extra protection. In return Brazil, India and others must move on cuts in industrial tariffs, services liberalization, with proper flexibility for developing countries that need to sequence their commitments in line with their development needs.

A critical Oxfam report stated that "calling the current negotiations a 'development round' sounds like a cynical joke to many African governments and citizens."[60] TJM member NGOs are also continuing to urge trade ministers to reach a deal at Hong Kong that would complete the 'unfinished business' of trade. The TJM's *Vote for Trade Justice* campaign is asking concerned people to fill out campaign ballot cards, vote online or by text message to this end.[61] Also, 10 December 2005 will be 'White Band Day III' aimed at "reminding world leaders that we are still watching and waiting for them to make poverty history." Prior to Hong Kong, MPH and TJM will present the Prime Minister with the collected votes for trade justice.[62]

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57 HC Deb 16 November 2005 c254WH
58 HC Deb 16 November 2005 c254-5WH
59 Full text of the speech is at http://www.number10.gov.uk/output/Page8524.asp.
60 "Africa and the Doha Round: Fighting to Keep Development Alive", *Oxfam Briefing Paper* 80, November 2005, p3
61 See http://www.tjm.org.uk/action.shtml
62 *ibid.*

Negotiators from the EU, the US, Brazil, India, and Japan agreed at a 22 November 2005 meeting that a 'road map' should be agreed at Hong Kong, with a high-level summit early in 2006 needed to reach a detailed agreement to complete the Round by the end of 2006.[63] There is speculation that this second meeting – dubbed 'Hong Kong II' – could take place in March 2006. In a statement after the meeting, the EU Trade Commissioner said:[64]

> We want Hong Kong to be more than treading water. It should lock in the progress made since the Framework Agreement of 2004 and put in place, as far as possible, a springboard for advance in 2006. I am happy with the cooperation achieved at today's meeting, where ambition has been mixed with realism.

In a speech to the European Parliament trade committee, the Commissioner said:[65]

> The reason the WTO cannot afford a failure in Hong Kong is that this process is not just about trade. It is about maintaining the credibility of a multilateral organisation, it is about demonstrating that multilateralism can still play a key role in modern international politics, it is about proving that 149 members can make progress together in their mutual interest.

He went on to call for agreement on a trade and development package: duty/quota-free market access for LDC products, a special and differential treatment package on LDC flexibilities, amendments to trips on generic drugs and an aid-for-trade package, to compensate countries losing out from the short-term effects of trade liberalisation. These areas have been identified as potential 'early harvests' from the Doha Round.

A draft Ministerial Text was published by the WTO on 26 November. This highlighted how much work was required to conclude successfully the round in 2006. The declaration asks Ministers to set a new date for reaching the interim deal that was the objective of Hong Kong. At the time of writing it remains unclear what Hong Kong will achieve, but over the coming weeks the prospects for a Doha Round agreement in 2006 will become much clearer.

Ian Townsend
Trade Specialist
Economic Policy & Statistics section

Christopher Barclay
Agriculture specialist
Science & environment section

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[63] ICTSD, "Five Ministers Aiming for Doha Round Road Map in Hong Kong", *BRIDGES Weekly*, Vol 9 No 40, 23 November 2005

[64] See http://europa.eu.int/comm/trade/issues/newround/doha_da/pr221105_en.htm

[65] *Doha: Goals for Hong Kong: Speech by Peter Mandelson at the European Parliament Trade Committee (INTA),* 23 November 2005

D. Appendix: Further Resources

Library briefings on aspects of the Doha Rounds and trade and development can be accessed via the intranet, from the Library home page, select 'A-Z subject pages' > 'T' > 'Trade'.

Trade glossaries

Trade terms glossary:	trade-info.cec.eu.int/doclib/docs/2005/october/tradoc_125637.pdf
DfID's A-Z of trade issues:	www.dfid.gov.uk/aboutdfid/organisation/intertradedept-az.asp

Key UK/Foreign Government/International websites

Department of Trade & Industry	www.dti.gov.uk
Department for International Development	www.dfid.gov.uk
EU presidency	www.eu2005.gov.uk
G8 presidency	www.g8.gov.uk
European Commission DG Trade	europa.eu.int/comm/trade/index_en.htm
EU Trade Commissioner	europa.eu.int/comm/commission_barroso/mandelson/index_en.htm
US Trade Representative	www.ustr.gov
WTO	www.wto.org
Doha Round page	www.wto.org/english/tratop_e/dda_e/dda_e.htm
Hong Kong page	www.wto.org/english/thewto_e/minist_e/min05_e/min05_e.htm
Official HK Ministerial website	www.wtomc6.gov.hk/eng/home/ewelcome.html
World Bank	www.worldbank.org, see *Global Economic Prospects 2006* www.worldbank.org/prospects/gep2006

Also, the House of Commons Trade and Industry Committee is investigating the European Commission's negotiating strategy for Hong Kong, and the International Development Committee running an inquiry into *Making Trade Work for Development: the WTO Hong Kong Ministerial.*

Selected NGO reports/links

ActionAid trade research page: www.actionaid.org.uk/797/our_research.html

Christian Aid trade reports page: www.christianaid.org.uk/indepth/trade.htm

Consumers International WTO/Hong Kong page: www.consumersinternational.org/wto, including *Putting consumers at the heart of trade, October 2005*

ELDIS Trade Policy Resource Guide; www.eldis.org/trade/index.htm

International Centre for Trade & Sustainable Development (ICTSD) weekly trade briefing; www.ictsd.org/weekly/index.htm (Hong Kong Ministerial: www.ictsd.org/ministerial/hongkong/index.htm)

Make Poverty History WTO page: www.makepovertyhistory.org/worldtradeorganisation.shtml

Maurseth, P. "Trade and development: a selective review", Norwegian Institute for International Affairs (NUPI), 2005

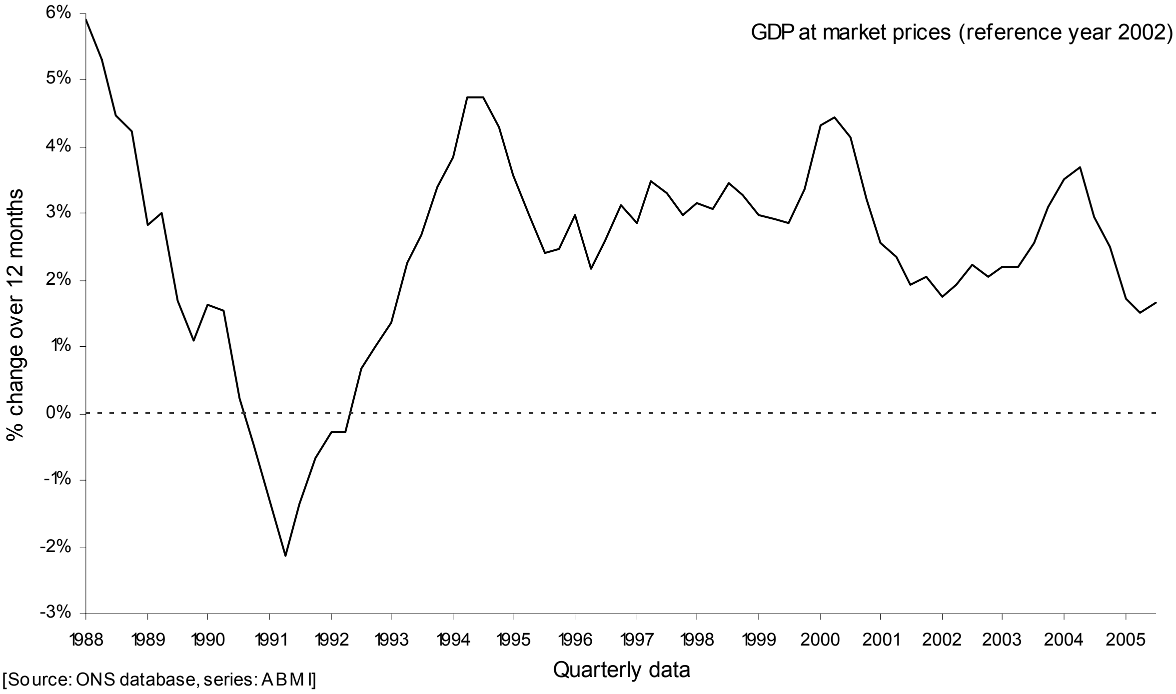
Overseas Development Institute *WTO/Hong Kong portal*; www.odi.org.uk/wto_portal/index.html, and *The Doha Development Agenda: Impacts on Trade & Poverty*, 2004

Oxfam, "Africa and the Doha Round: Fighting to Keep Development Alive", *Briefing Paper* 80, November 2005

Oxfam, "Making Trade Work for Development in 2005: What the EU Should Do", *Briefing Paper* 75, May 2005;

Singleton, A. "Trade Justice Or Free Trade?", Globalization Institute, 2005

A1: Gross Domestic Product



[Source: ONS database, series: ABMI]

Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

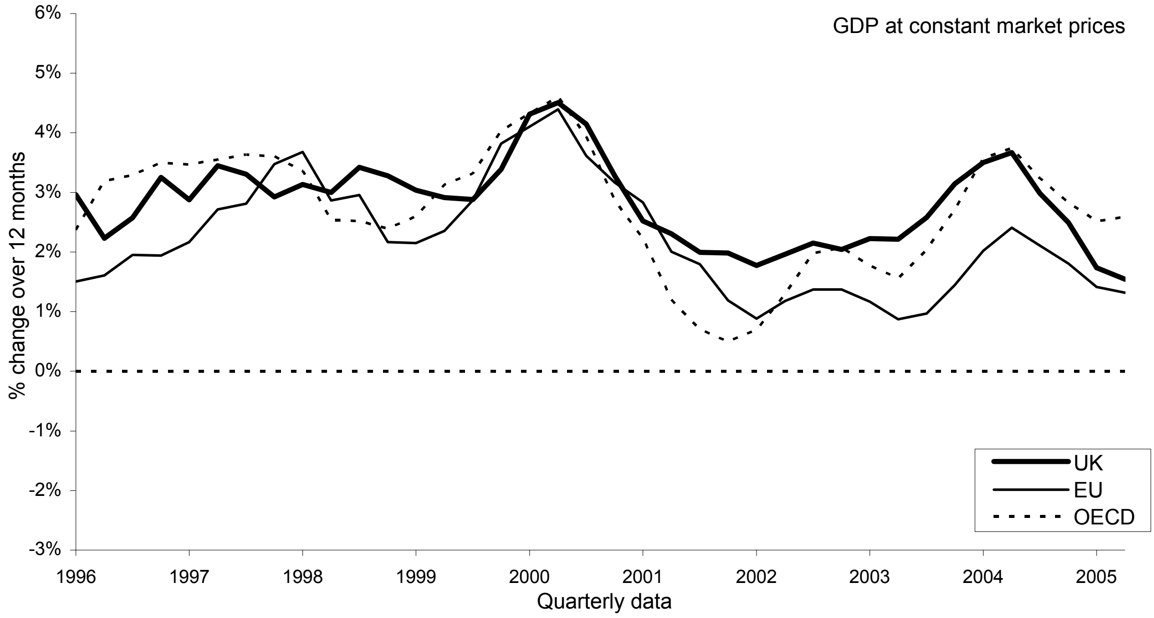
	Current		Chained volume (reference year 2002)
	£ billion	% change on year	% change on year
2001	996.8	4.5	2.2
2002	1,048.5	5.2	2.0
2003	1,105.9	5.5	2.5
2004	1,163.9	5.2	3.2
2004 Q3	292.4	4.8	3.0
Q4	296.4	5.0	2.5
2005 Q1	298.2	4.3	1.7
Q2	301.3	4.2	1.5
Q3	304.2	4.0	1.7

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 Q3 2005 rose by 0.4% on the previous quarter, and on the same measure GDP was 1.7% higher in Q3 2005 compared with Q3 2004.
- HM Treasury's average of independent economic forecasts of GDP growth in 2005 was 1.7% in November 2005 compared with 1.8% in October 2005. The average growth forecast for 2006 was 2.1% in November 2005, having been 2.2% in October 2005.

Contact: Ian Townsend, x3977 **Updates:** HM Treasury, *Forecasts for the UK Economy*, 21 Dec; ONS, *UK Output, Income & Expenditure*, 22 Dec; *GDP Preliminary Estimate (Q4 2005)*, 25 Jan 2006

A2: GDP: International Comparisons



[Source: OECD, *Main Economic Indicators* , Nov 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	0.7

Source: OECD, *Main Economic Indicators* , Nov 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 the G7 countries fell compared with the previous quarter to 0.6%, while growth in all OECD countries was unchanged at 0.7%.

OECD growth forecasts
% change on year

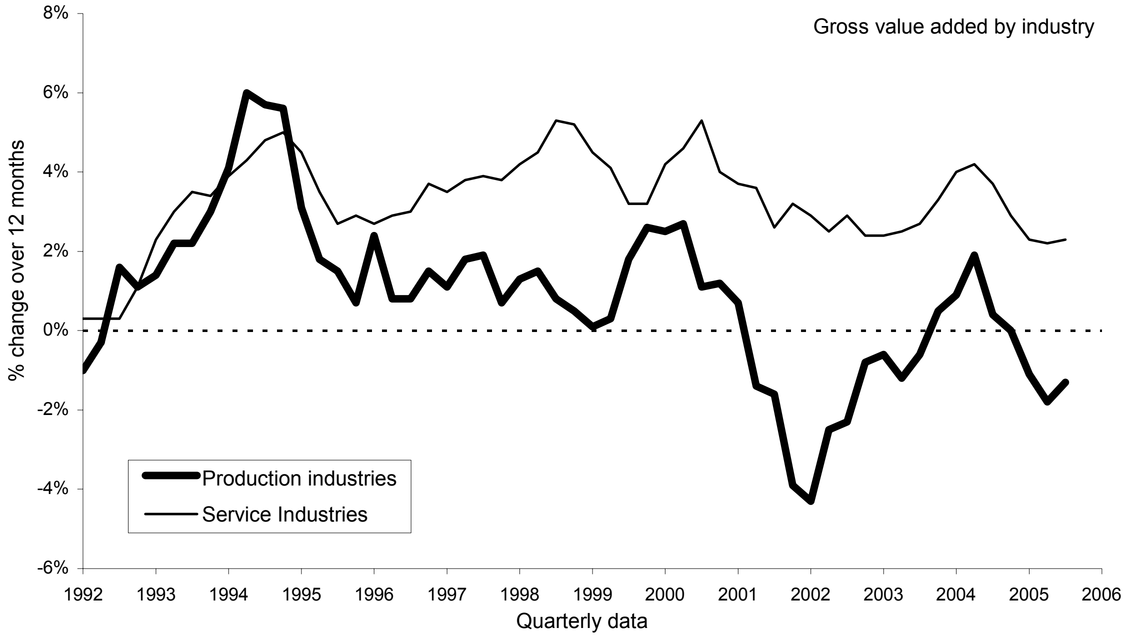
	2005	2006	2007
USA	3.6	3.5	3.3
Japan	2.4	2.0	2.0
United Kingdom	1.7	2.4	2.7
Eurozone	1.4	2.1	2.2
OECD	2.7	2.9	2.9

Source: OECD, *Economic Outlook* , Nov 2005

Contact: Edward Beale, x2464 **Update:** OECD, *Main Economic Indicators*, mid-Dec

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 2.3%. Between the second quarter of 2005 and the third quarter of 2005 annual output growth in the service sector increased by 0.1%.

Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries				
	Total	Manufacturing	Services	Agriculture, hunting & fishing	Construction
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	2.3	0.1	2.0

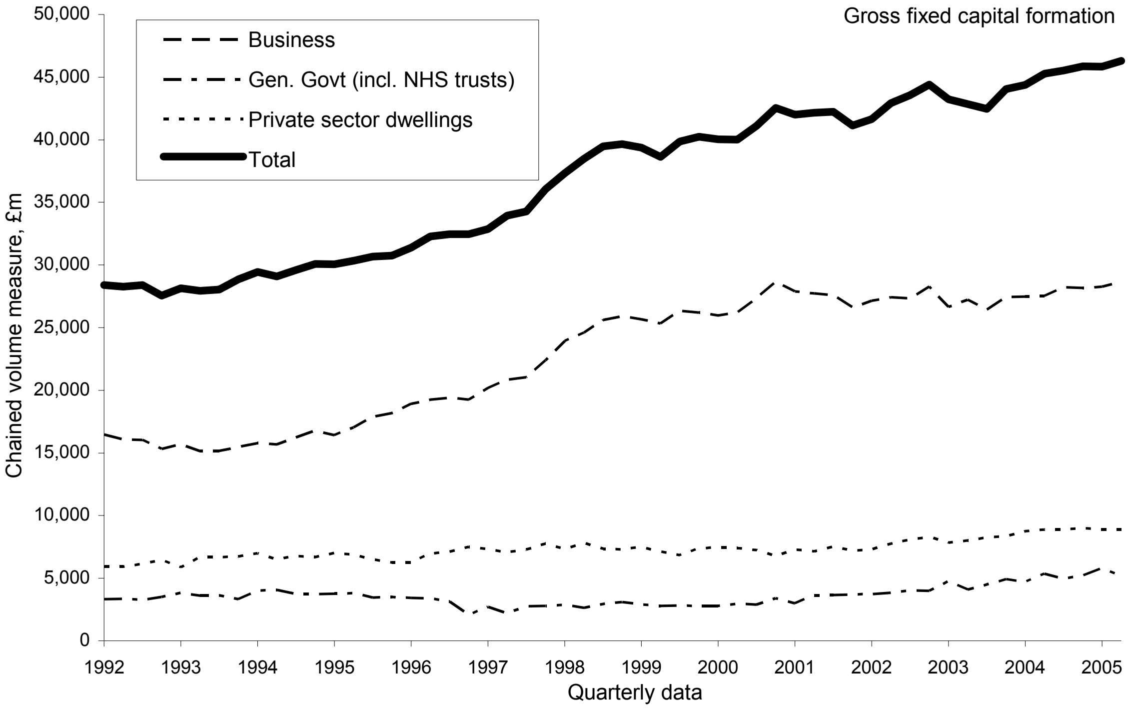
Source: ONS database, series: ERID, ERIE, ERIT, ERIU, GDQV, GDQW, GDRN, GDRQ, GDRR, GDSI

- 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 2004, services accounted for 73% of gross value added, manufacturing for 15%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 7% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883 **Update:** ONS, *Quarterly National Accounts – Q3*, 22 Dec

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

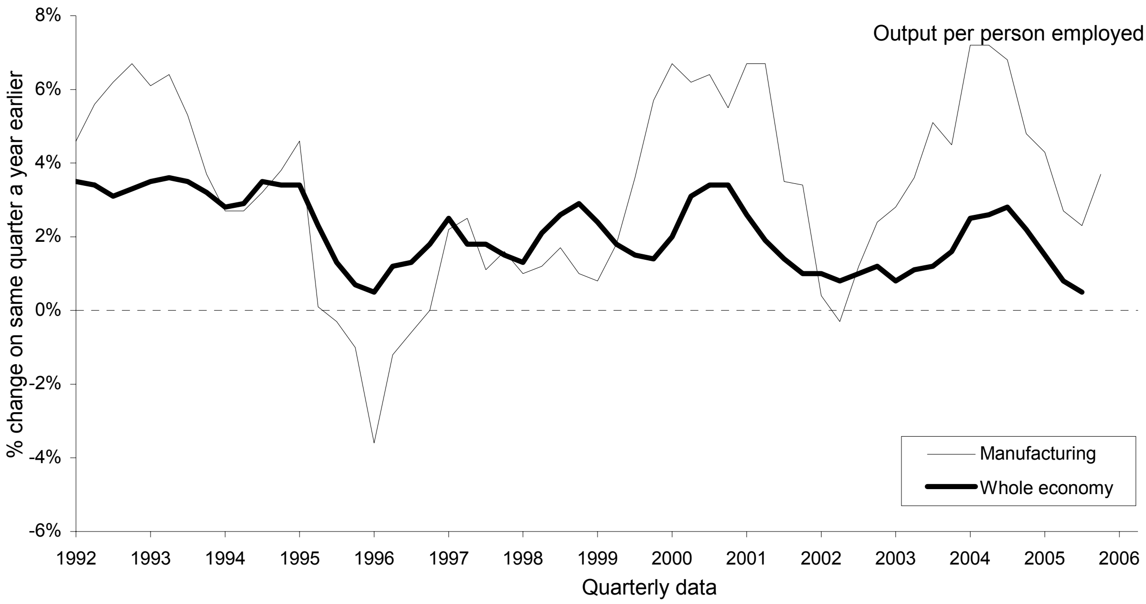
		Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2001		14,786	57,545	57,928	32,006	5,047	167,563
2002		16,214	56,421	59,836	34,499	5,588	172,558
2003		14,669	54,104	61,934	36,056	5,810	172,573
2004		14,248	57,091	64,629	38,879	6,196	181,043
2004	Q2	3,688	14,158	16,156	9,747	1,537	45,286
	Q3	3,609	14,197	16,362	9,790	1,562	45,520
	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
	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 0.3% in Q3 2005 compared with the previous quarter, and by 1.9% compared with Q3 2004 on a seasonally adjusted basis.
- Total manufacturing investment decreased by 1.6% in Q3 2005 compared with the previous quarter, while investment in private sector services increased by 0.3% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324 **Updates:** ONS, *Business Investment,* 21 Dec

A5: Productivity



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

Productivity
% changes on year; seasonally adjusted

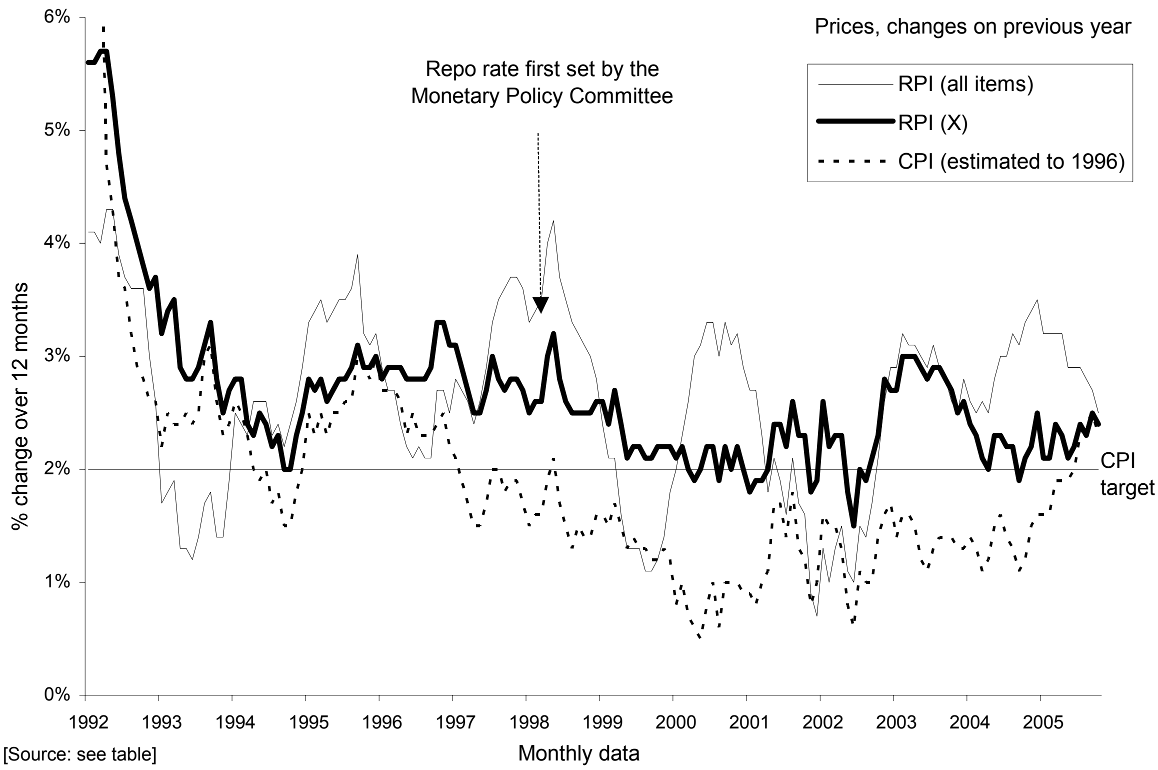
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2001	-1.3	-4.7	3.5	2.0	0.7	1.3
2002	-3.1	-4.5	1.5	1.7	0.7	0.9
2003	0.1	-4.8	5.1	2.5	0.9	1.6
2004	1.9	-3.7	5.8	3.0	0.7	2.3
2004 Q2	2.9	-3.7	6.8	3.7	0.8	2.8
Q3	1.5	-3.2	4.8	2.9	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
Q3	-0.1	-3.6	3.7	1.6	..	..

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



[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 October, the consumer prices index (CPI) showed inflation at 2.3%. This was down from 2.5% in September.
- The largest downward effect on the CPI came from miscellaneous goods and services, largely due to financial services. A further large downward effect came from food and non-alcoholic beverages. The largest upward effect on the CPI annual rate came from transport services.
- The former headline (all items RPI) rate of inflation was 2.5% in October compared with 2.7% in September. The underlying RPI(X) fell to 2.4% in October from 2.5% in September.
- The largest downward effect on the RPI came from housing costs, largely due to depreciation. Further downward effects came from food and also motoring expenditure.

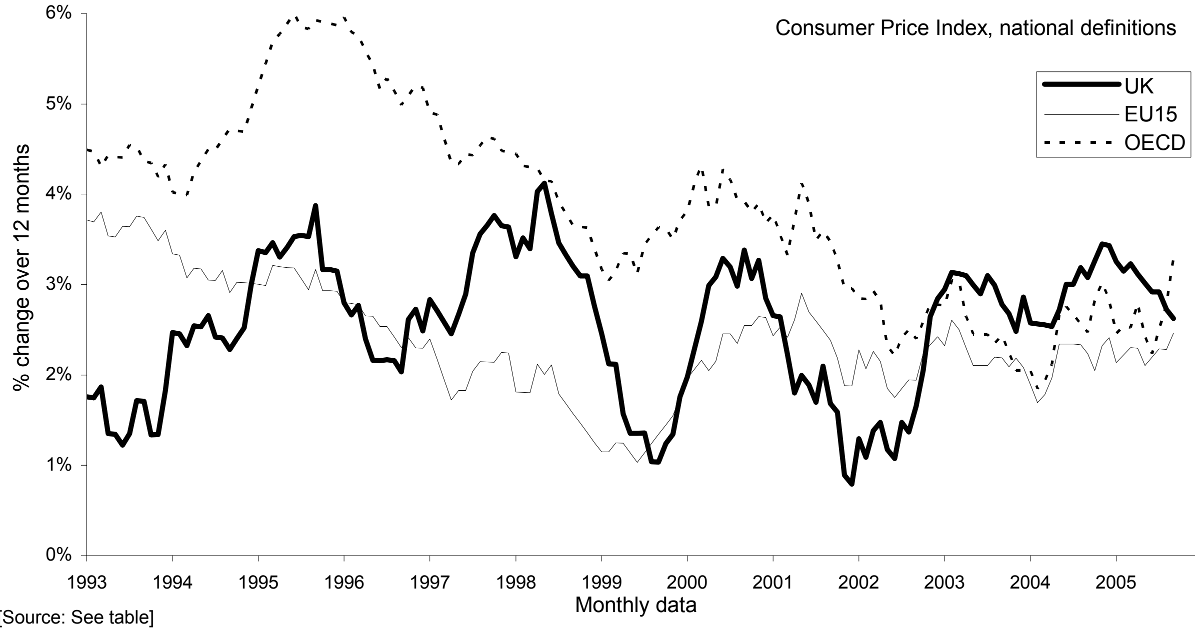
Price Indices
% change over 12 months

		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	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
	Oct	2.3	2.5	2.4

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

Contact: Edward Beale, x2464 **Update:** ONS, *Consumer Price Indices: First release*, 13 Dec

B2: Prices: International Comparisons



[Source: See table]

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	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
	Sep	4.6	-0.3	3.4	2.6	3.3

Source: OECD, Main Economic Indicators, Nov 2005

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 4.6% in September, up more than two percentage points in the last four months.
- For all OECD countries the average inflation rate also increased, to 3.3% in September 2005.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) increased to 2.5%.

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	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
	Oct	2.0	2.4	2.6	2.3	2.5

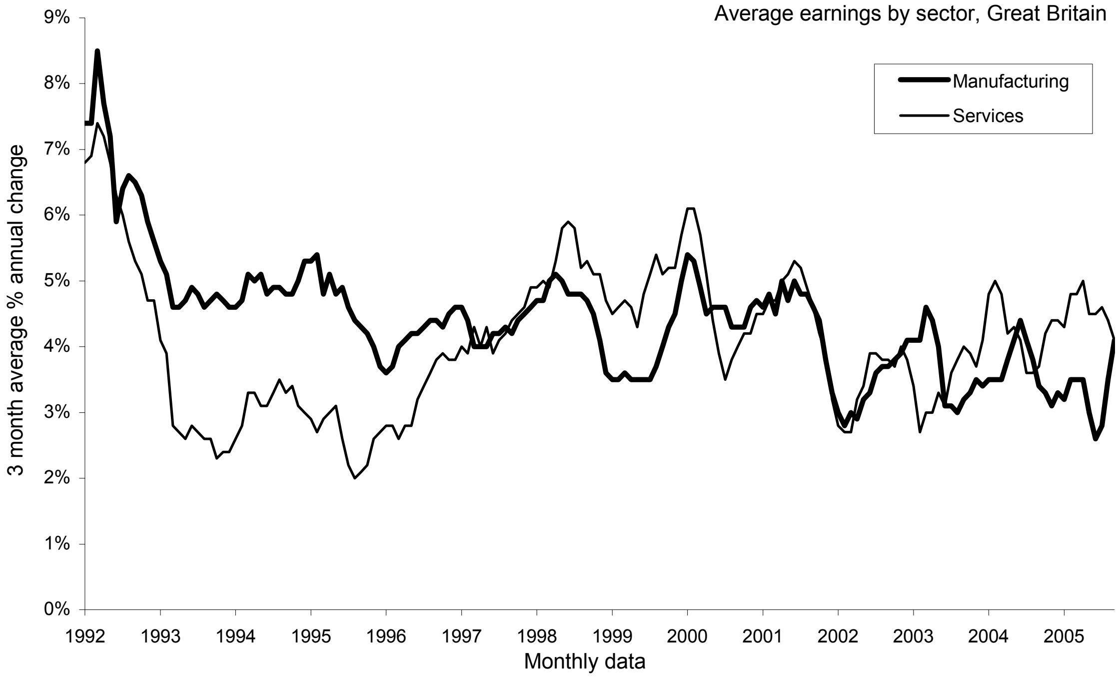
Source: Eurostat, Euro-Indicators news release, 16 Nov 2005

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

- Eurozone annual inflation fell back to 2.5% in October. The September figure of 2.6% was the highest since March 2002. The flash-estimate for November 2005 is 2.4%
- The HICP inflation rates for the EU15 Member States not in the eurozone were Denmark (1.9%), Sweden (0.9%) and the UK (2.3%).
- In October, the eurozone countries with the highest HICP annual inflation rates were Luxembourg (5.0%), Greece (3.7%) and Spain (3.5%). The lowest rate was in Finland (0.8%).

Contact: Bryn Morgan, x4904 **Updates:** OECD, *Main Economic Indicators*, mid-Dec
Eurostat, *Euro-indicators news release*, 16 Dec

B3: Average Earnings Index



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

- The headline rate of growth in average earnings for the whole economy in September was 4.1%, down from 4.2% in August.
- Headline average earnings growth in manufacturing was 4.1% in September, up from 3.5% in August. Earnings growth in the service sector fell from 4.4% in August to 4.1% in September.
- Headline earnings growth in the private sector was 4.0% in September, compared with 4.2% in the public sector. Earnings growth in the private sector was down from 4.1% in the previous month. Earnings growth in the public sector also fell from 4.3% in August.
- Earnings are currently growing at a faster rate than they were a year ago (the headline rate in September 2004 was 3.8%).
- In the year to September, the consumer price index showed inflation below the rate of earnings growth at 2.5%. Earnings growth of 4.5% is thought to be consistent with the Government's inflation target of 2.0%.

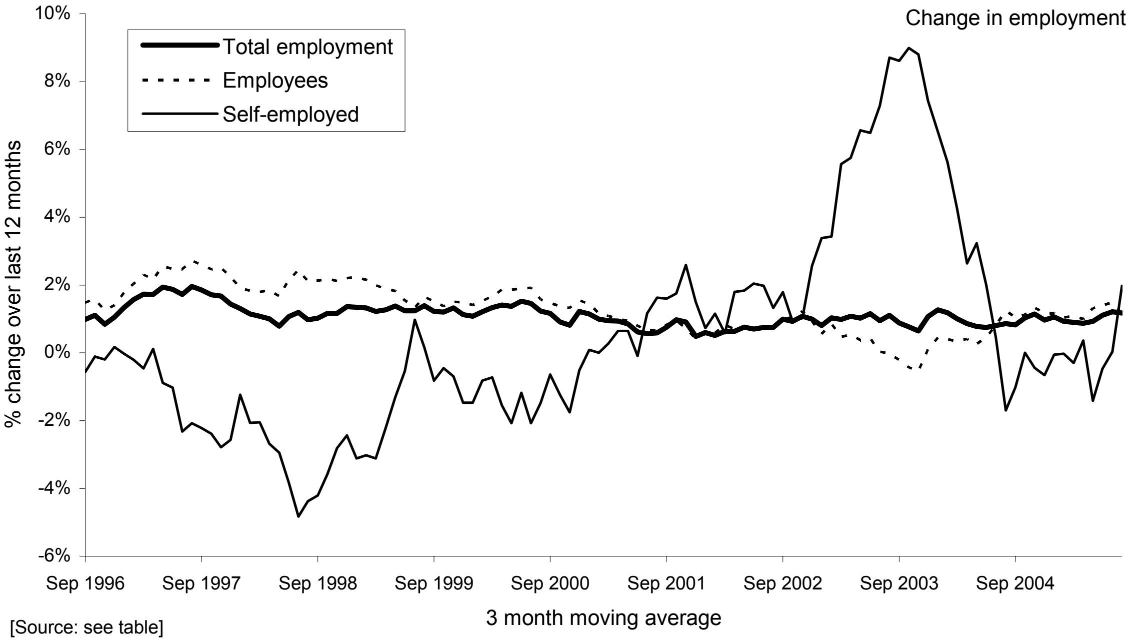
Average Earnings, Great Britain
% change on year; seasonally adjusted

		Headline rate		
		Whole Economy	Private Sector	Public Sector
2001	Sep	4.6	4.4	5.7
2002	Sep	3.8	3.8	3.6
2003	Sep	3.7	3.3	5.6
2004	Sep	3.8	3.8	4.2
	Oct	4.2	4.1	4.6
	Nov	4.3	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
	Sep	4.1	4.0	4.2

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

Contact: Edward Beale, x2464 **Update:** ONS, *Labour Market Statistics*, 14 Dec

C1: Employment



[Source: see table]

Employment structure in the UK

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

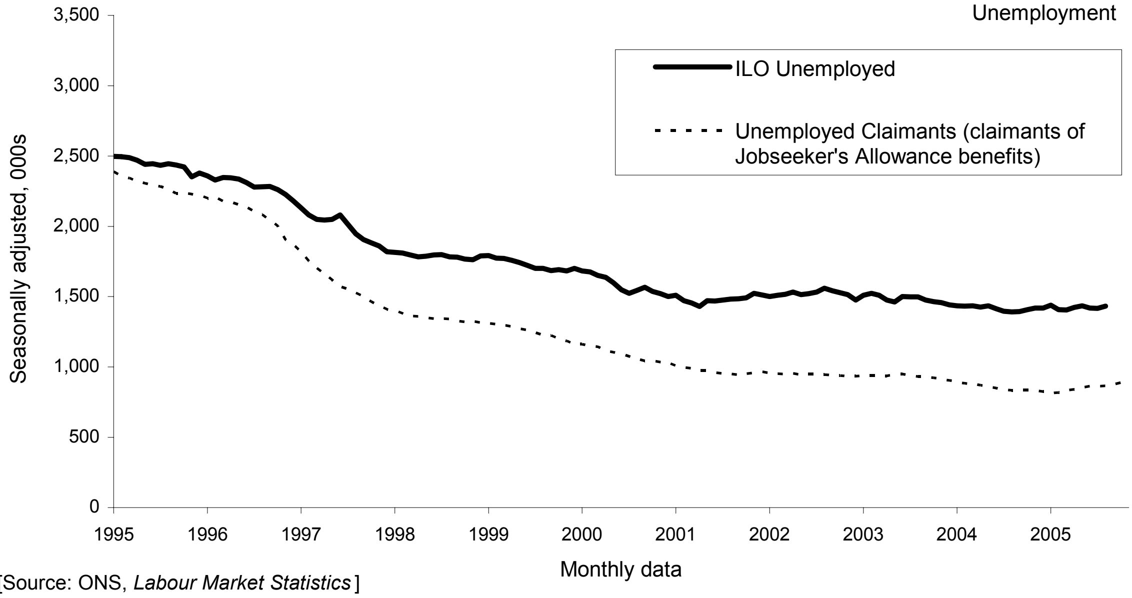
	Total in employment	Employees	Self-employed	Unpaid Family Workers	Government Training
2001 Aug	27,705	24,177	3,311	95	122
2002 Aug	27,912	24,366	3,355	94	97
2003 Aug	28,222	24,360	3,647	108	107
2004 Aug	28,465	24,660	3,585	91	128
2004 Nov	28,577	24,712	3,643	97	126
2005 Feb	28,663	24,806	3,627	104	126
2005 May	28,675	24,841	3,618	100	116
2005 Aug	28,798	24,942	3,656	93	107
Changes (%):					
on last 3 months	0.4	0.4	1.1	-7.5	-7.4
on last year	1.2	1.1	2.0	2.7	-16.4

Source: ONS, *Labour Market Statistics,* 16 Nov 2005

- Total employment was 28.8 million in the period July to September 2005, 1.2% higher than a year previously. The working age employment rate of 74.9% was 0.2% higher than the previous quarter and 0.1% 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 July to September 2005, of whom 5.7 million were women. 3.7 million people were self-employed.

Contact: Dominic Webb, x4324 **Updates:** ONS, *Labour Market Statistics*, 14 Dec

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 July to September 2005, the level of ILO unemployment in the UK was 1,433,000 (seasonally adjusted). This was an increase of 41,000 from the period July to September 2004.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 12,000 between September and October 2005 to 890,000.

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.

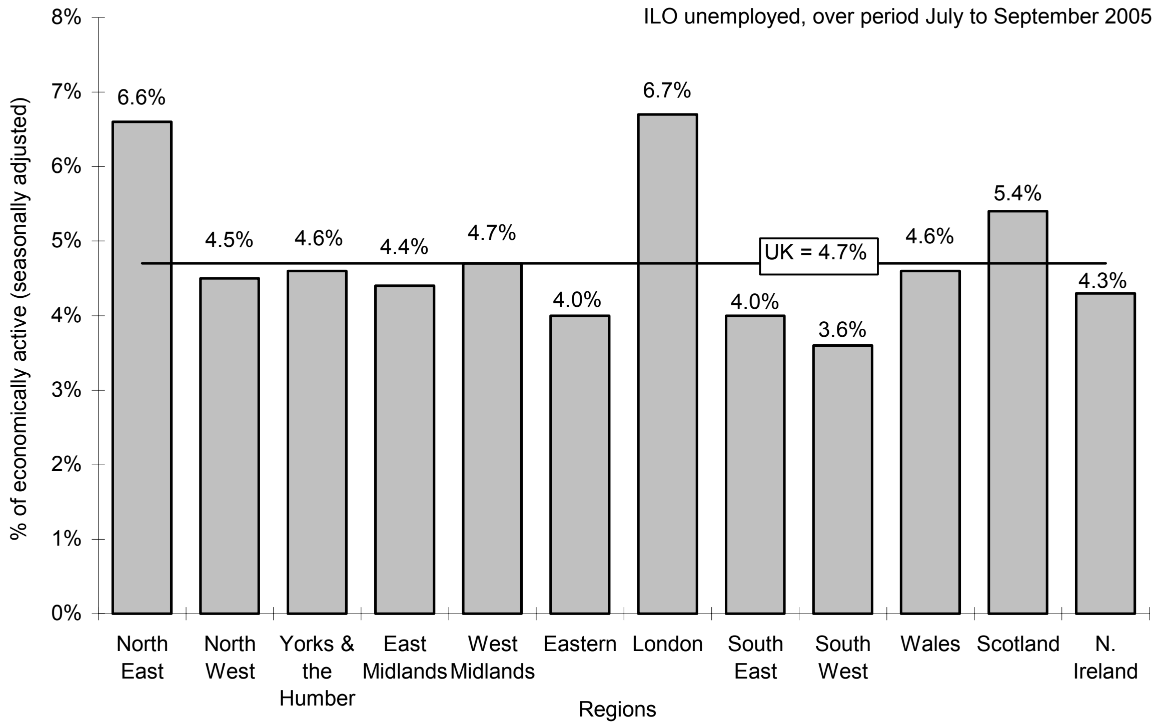
ILO Unemployment in the UK
seasonally adjusted

		'000s	rate (%)
1999	Apr - Jun	1,743	6.0
	Jul - Sep	1,702	5.9
	Oct - Dec	1,684	5.8
2000	Jan - Mar	1,675	5.8
	Apr - Jun	1,599	5.5
	Jul - Sep	1,545	5.3
	Oct - Dec	1,521	5.2
2001	Jan - Mar	1,472	5.1
	Apr - Jun	1,472	5.0
	Jul - Sep	1,483	5.1
	Oct - Dec	1,523	5.2
2002	Jan - Mar	1,511	5.2
	Apr - Jun	1,515	5.2
	Jul - Sep	1,561	5.3
	Oct - Dec	1,514	5.1
2003	Jan - Mar	1,524	5.1
	Apr - Jun	1,463	4.9
	Jul - Sep	1,499	5.0
	Oct - Dec	1,458	4.9
2004	Jan - Mar	1,432	4.8
	Apr - Jun	1,434	4.8
	Jul - Sep	1,392	4.7
	Oct - Dec	1,418	4.7
2005	Jan - Mar	1,408	4.7
	Apr - Jun	1,434	4.8
	Jul - Sep	1,433	4.7

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793 **Update:** ONS, *Labour Market Statistics*, 14 Dec
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 July to September 2005 the London region had the highest unemployment rate, 6.7% of the economically active population. The lowest rate over the same period was 3.6%, in the South West region.

- A comparison of July to September 2005 with the same period a year earlier shows that the largest fall (11%) in unemployment occurred in Northern Ireland. The Eastern region showed the largest increase (15%) over the period.

ILO Unemployment, July to September 2005

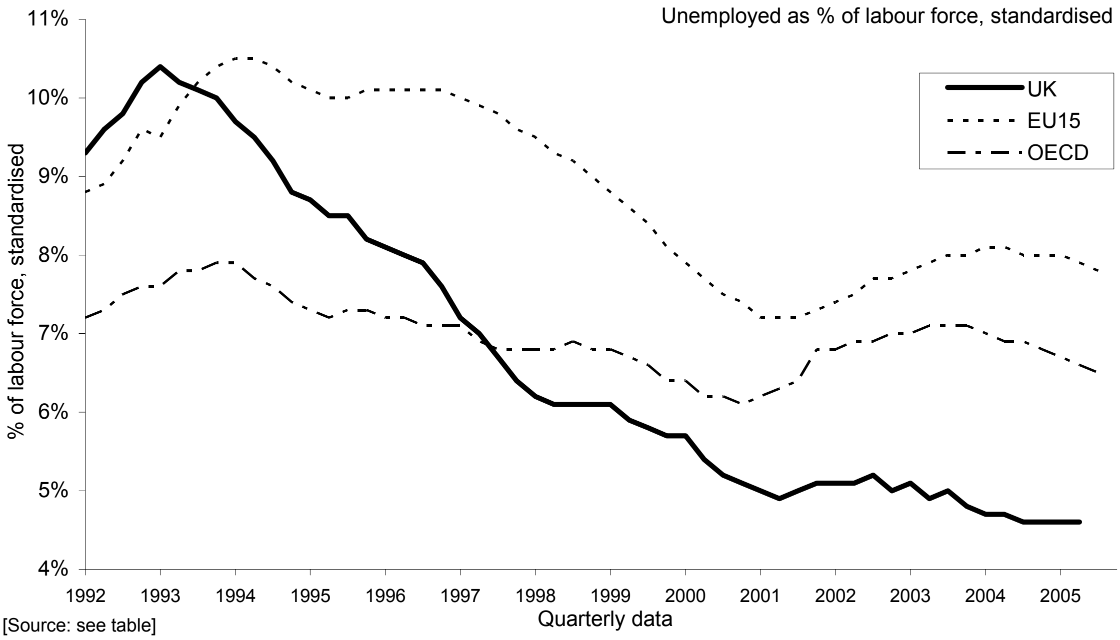
change on same period in previous year; seasonally adjusted

	Number (rounded)	%
North East	9,000	*13*
North West & Merseyside	3,000	*2*
Yorkshire & the Humber	1,000	*1*
East Midlands	11,000	*13*
West Midlands	-8,000	*-6*
Eastern	15,000	*15*
London	-14,000	*-5*
South East	15,000	*10*
South West	11,000	*14*
Wales	-3,000	*-4*
Scotland	5,000	*4*
Northern Ireland	-4,000	*-11*

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793 **Update:** ONS, *Labour Market Statistics*, 14 Dec

C4: Unemployment: International Comparisons



[Source: see table]

Unemployment

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

					2004				2005		
	2001	2002	2003	2004	Q1	Q2	Q3	Q4	Q1	Q2	Q3
USA	4.7	5.8	6.0	5.5	5.6	5.6	5.5	5.4	5.3	5.1	5.0
Japan	5.0	5.4	5.3	4.7	4.9	4.6	4.8	4.5	4.6	4.3	4.3
Canada	7.2	7.7	7.6	7.2	7.3	7.2	7.1	7.1	7.0	6.8	6.8
UK	5.0	5.1	4.9	4.7	4.7	4.7	4.6	4.6	4.6	4.6	..
Germany	7.4	8.2	9.1	9.5	9.4	9.5	9.7	9.6	9.7	9.7	9.2
France	8.4	8.9	9.5	9.6	9.6	9.5	9.5	9.5	9.6	9.6	9.4
Italy	9.1	8.6	8.4	8.0	8.2	8.1	7.9	8.0	7.8	7.7	..
Eurozone	7.9	8.3	8.7	8.9	8.9	8.9	8.8	8.8	8.8	8.7	8.5
G7	5.8	6.5	6.6	6.3	6.4	6.3	6.3	6.3	6.2	6.1	5.9
OECD	6.4	6.9	7.1	6.9	7.0	6.9	6.9	6.8	6.7	6.6	6.5

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

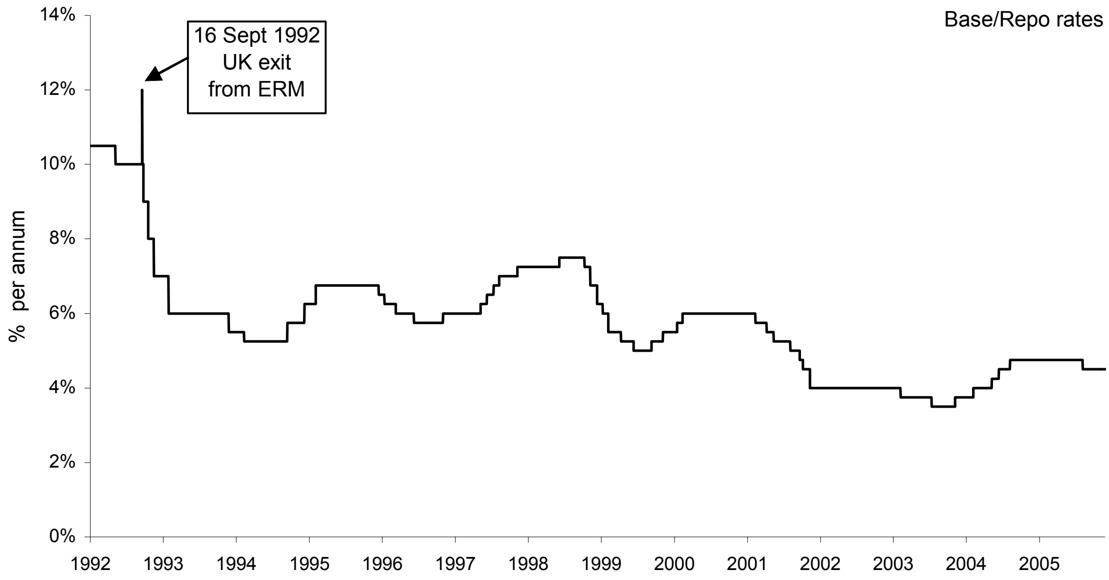
- Using standardised definitions, the UK unemployment rate for 2004 was 4.7%, significantly below the eurozone average (8.9%) and below the G7 and OECD rates (6.3% and 6.9% respectively).

- Between Q2 2004 and Q2 2005 (the latest period for which all data are available) the largest fall in unemployment among G7 countries was in the USA, where it fell by 0.5 of a percentage point. The largest rise in unemployment (0.2 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*, *Preliminary Edition*, November 2005) suggest the UK unemployment rate will be 4.8% in 2005 and 5.1% 2006. The respective forecasts for the eurozone are 8.7% and 8.4%. For the OECD as a whole the respective forecasts are 6.5% and 6.3%.

Contact: Alex Adcock, x3973 **Updates:** OECD, *Main Economic Indicators*, 9 Dec
OECD, *Economic Outlook*, Jun 2006

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

The minutes of November's meeting note:

- There had been a significant upward movement in short-term market interest rate expectations over the past month, both in the United Kingdom and internationally.
- There was considerable uncertainty about the impact of higher energy prices on inflation, both in the recent past and in the immediate future.
- The preliminary estimate for GDP growth in the United Kingdom was 0.4% in Q3. This had been a little weaker than expected at the time of the August Inflation Report.

UK Base/Repo rate changes
% per annum

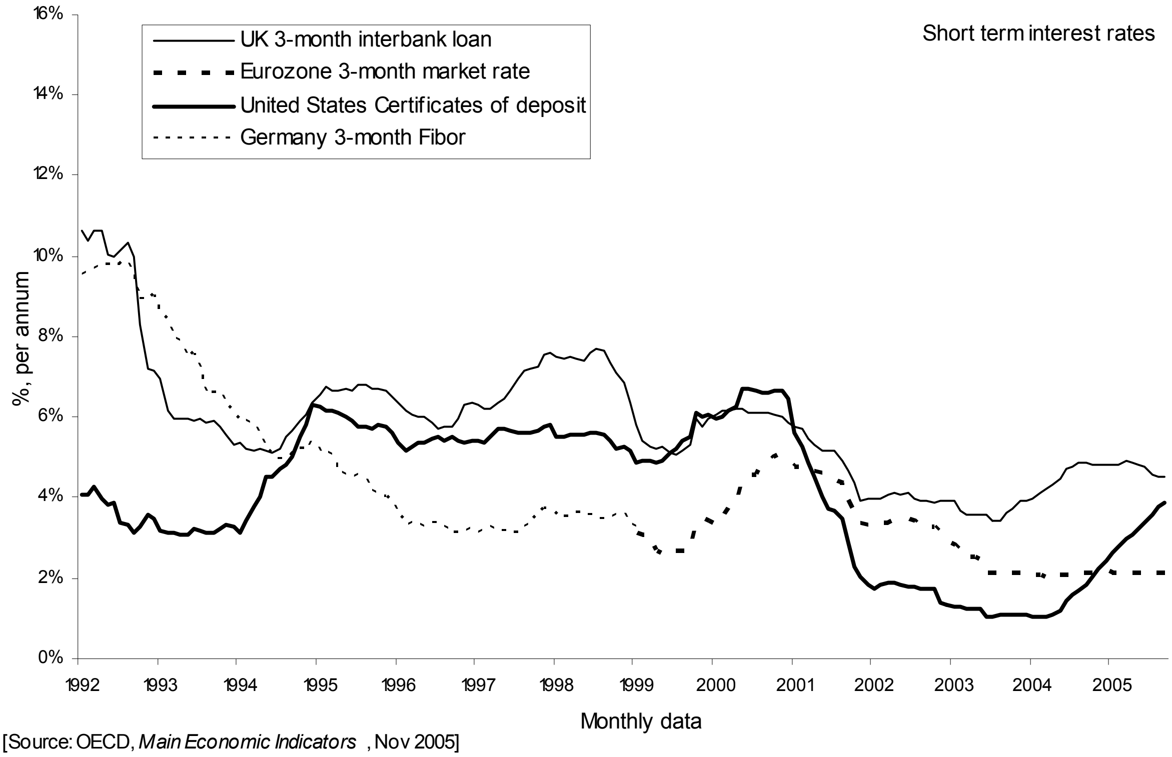
Date		New rate	Date		New rate
1997	May 6	6.25	2001	Feb 8	5.75
	Jun 6	6.50		Apr 5	5.50
	Jul 10	6.75		May 10	5.25
	Aug 7	7.00		Aug 2	5.00
	Nov 6	7.25		Sep 18	4.75
1998	Jun 4	7.50		Oct 4	4.50
	Oct 8	7.25		Nov 8	4.00
	Nov 5	6.75	2003	Feb 7	3.75
	Dec 10	6.25		Jul 10	3.50
1999	Jan 7	6.00		Nov 6	3.75
	Feb 4	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* (November 2005) was for inflation to remain 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. However, the report notes that the prospects for inflation depend crucially on the response of wages to the pickup in inflation.

Contact: Bryn Morgan, x4904 **Update:** *Next Decision*, 8 Dec; *Minutes*, 21 Dec
Quarterly Inflation Report, 15 Feb 2006

D2: Interest Rates: International Comparisons



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

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, although an increase is expected to be announced after the 1 December meeting of the ECB Governing Council. The US Federal Reserve has increased the federal funds rate at twelve 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 1 November 2005 the US Federal Reserve increased the federal funds rate by 0.25% to 4.00%, following increases of 0.25% at its previous eleven meetings on: 20 September, 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 30 November 2005

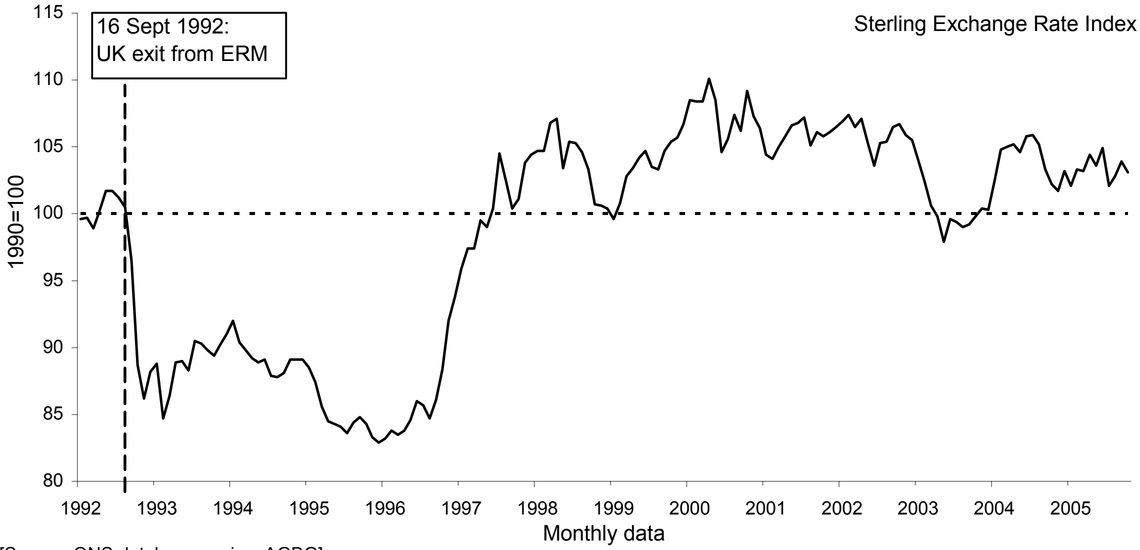
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	4.50	4.20	$4\,{}^{9}/_{32}$ - $4\,{}^{17}/_{32}$
Eurozone	2.00	n/a	$2\,{}^{1}/_{2}$ - $2\,{}^{13}/_{32}$
United States	4.00	4.51	$4\,{}^{7}/_{16}$ - $4\,{}^{3}/_{8}$
Japan	0.00	1.44	${}^{1}/_{16}$ - ${}^{-1}/_{32}$
Switzerland	0.25-1.25	2.21	1 - ${}^{31}/_{32}$

Source: *Financial Times* , 1 Dec 2005 (Companies & Markets, p43)

Contact: Bryn Morgan, x4904 **Updates:** *Short-term interest rates*: OECD, *MEI*, mid-Dec;
Base rates: 8 Dec (UK MPC), 1 Dec (EU), 13 Dec (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 fell by 0.1 points in October, suggesting that the UK was relatively more competitive at the end of October 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 €1.468 at the London market close on 30 November 2005, compared with a launch rate of €1.476 on 31 December 1998.

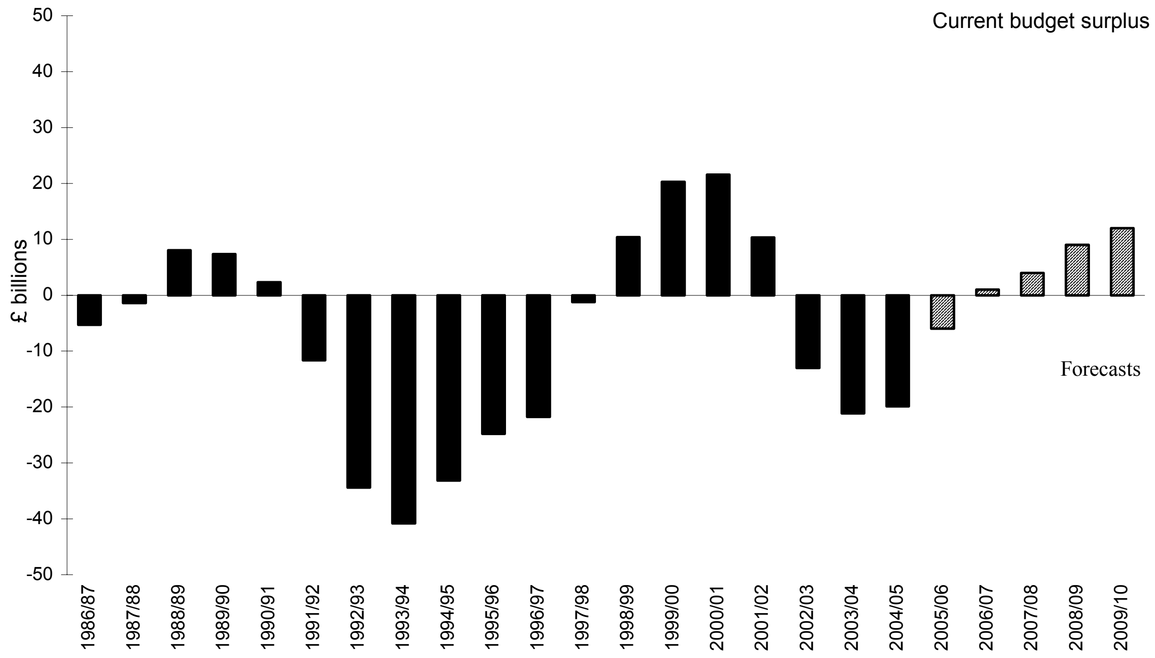
Sterling Exchange Rates
rates and % changes

	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 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
Oct	1.764	-2.4	202.6	3.1	1.467	1.5

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

Contact: Edward Beale, x2464 **Updates:** ONS, *SERI*, mid-Dec; *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 £2.2 billion deficit on the current budget in Q3 2005 compared with a £6.0 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 £8.4 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

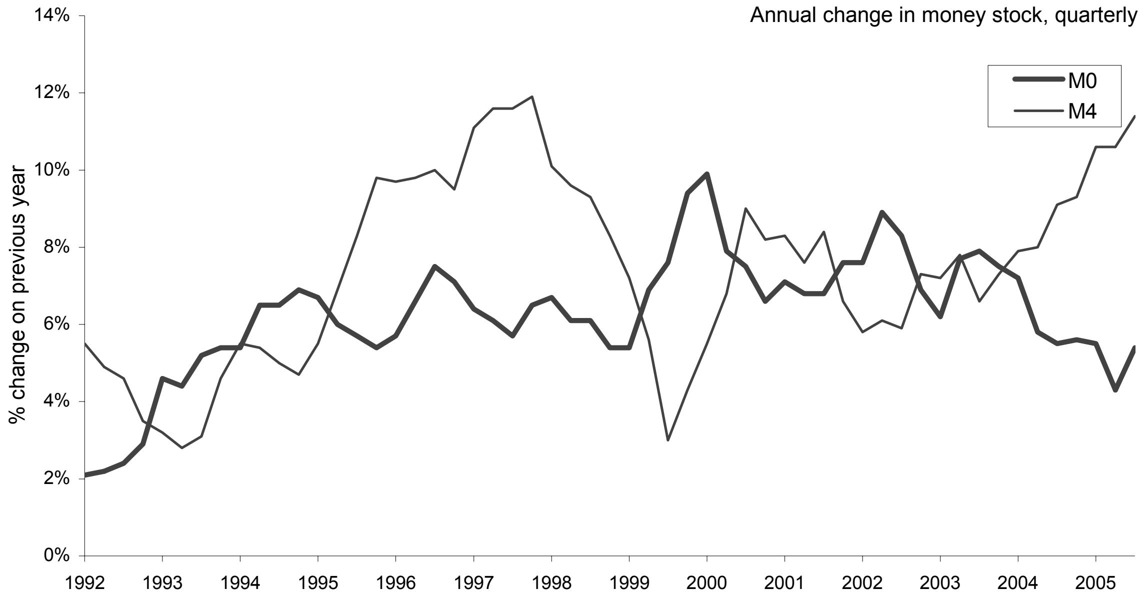
£ billion & %

		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	432.3	35.5
	Q3	440.0	35.5

Source: ONS database, series: RUTN, RUTO

Contact: Dominic Webb, x4324 **Update:** ONS, *Public Sector Finances: First Release*, 20 Dec

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
2004	Oct	6.4	5.8	8.7	9.7
	Nov	6.5	5.2	7.4	9.0
	Dec	4.3	5.8	10.0	9.0
2005	Jan	4.4	5.6	11.8	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	10.7
	May	1.8	4.3	14.7	11.2
	Jun	2.9	3.8	10.3	10.6
	Jul	6.1	4.8	12.5	11.1
	Aug	10.8	6.1	5.7	10.0
	Sep	10.4	5.4	11.2	11.3
	Oct	8.0	5.2	10.9	11.6

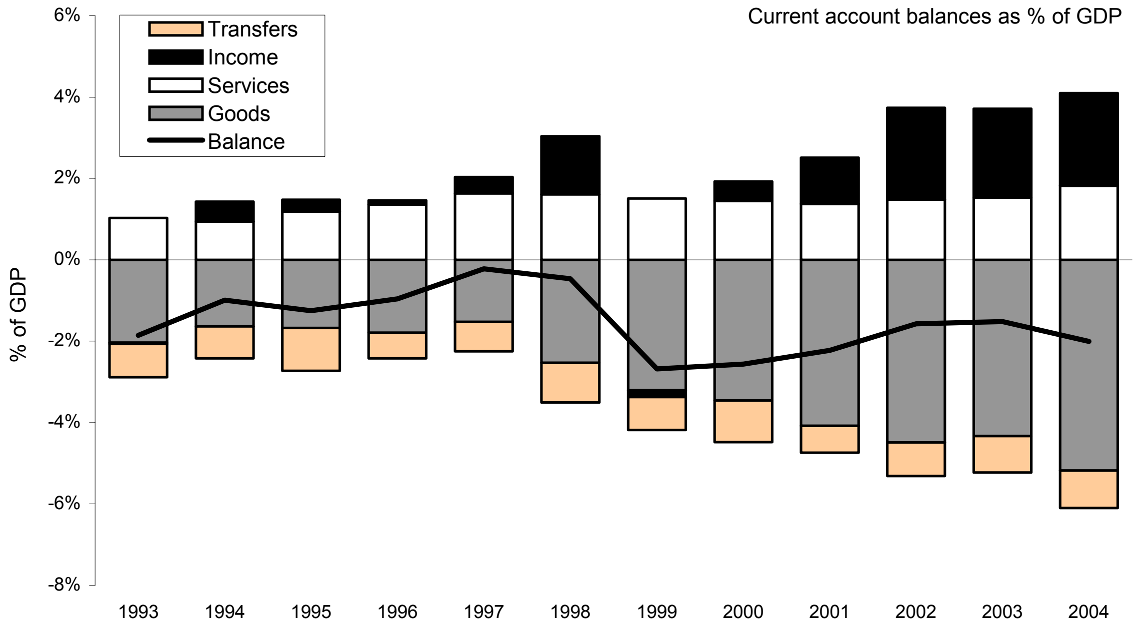
Source: Bank of England, *Bankstats,* November 2005 Tables A1.1 and A2.1.1

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 11.6% in the 12 months to October. The 12-month seasonally adjusted M0 growth rate was 5.2% in October, compared with 5.8% in October 2004.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324 **Update:** Bank of England, *Bankstats*, 4 Jan 2006

E1: UK Overseas Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

	Trade in goods/services				Transfers			Current
	Goods	Services	Total	Income (total)	Central Gov.	Other	Total	Account Balance
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
Q3	-16,707	3,430	-13,277	..	..	..	..	..

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

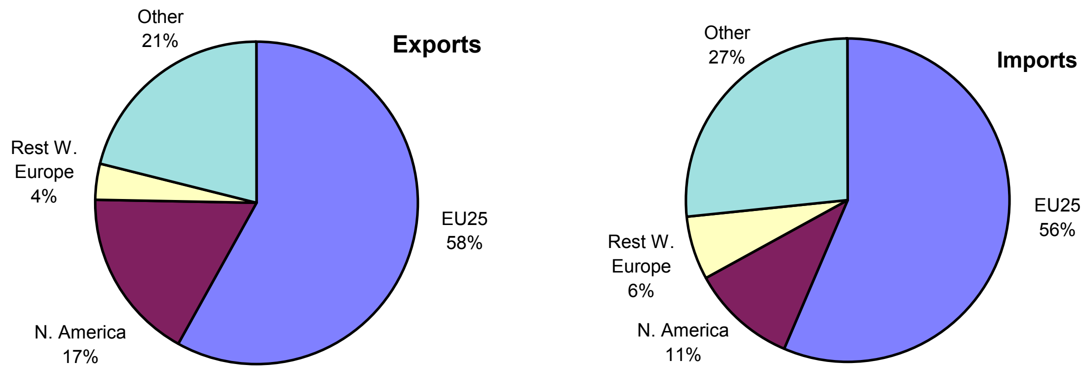
- The current account deficit in 2004 was £23.3 billion, compared with a £16.8 billion deficit in 2003. The surpluses on services and income widened between 2003 and 2004, while the deficits on trade in goods and transfers also widened. The surplus on services trade widened by £4.4 billion, and the deficit 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. Initial data for Q3 2005 suggest that the goods deficit has widened by £2.1 billion and that the services surplus has narrowed by £1.4 billion.
- 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 Dec; *UK Balance of Payments Q3 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 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
Q3	110.5	116.3	53,176	69,883	-16,707

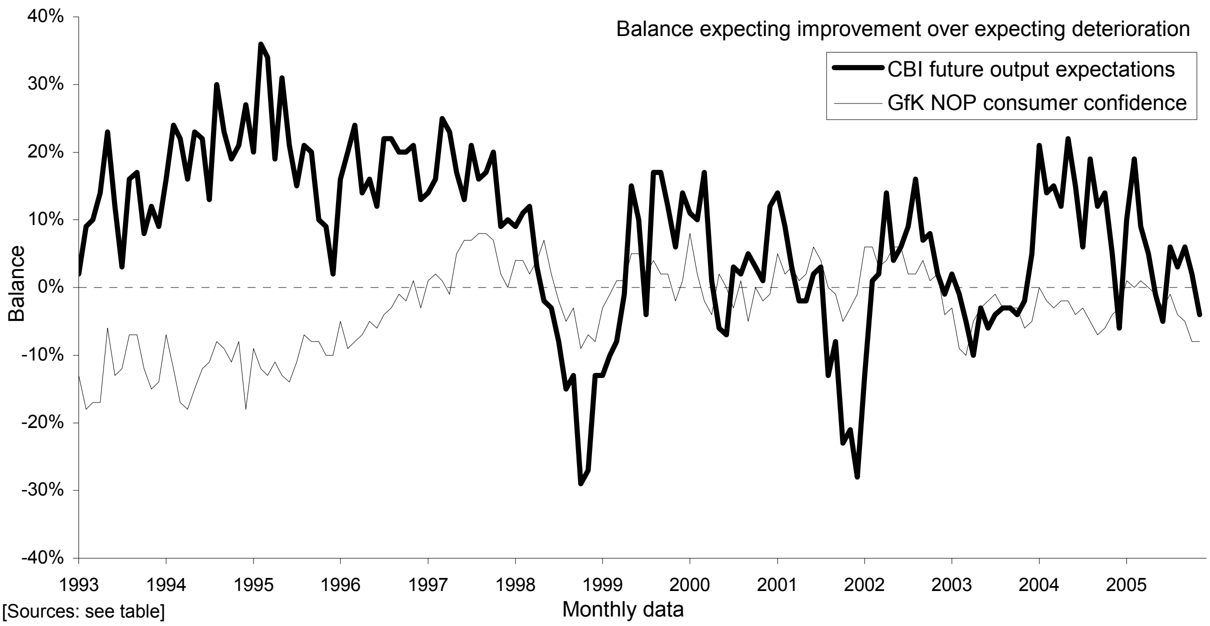
Source: ONS database, series: BQKU, BQKV, BOKG, BOKH, BOKI

- In September 2005, the total value of UK goods exports was £18.1 billion, and goods imports £23.5 billion. The UK's deficit on goods is estimated at £5.4 billion, compared with £5.9 billion in August 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 £3.1 billion in September 2005, compared with £2.8 billion in August 2005. On a quarterly basis, the goods deficit with the EU25 was £8.8 billion in Q3 2005, while the deficit with non-EU25 countries was £8.0 billion.
- The UK’s deficit on **goods and services** trade in September 2005 was £3.9 billion, a narrowing of the deficit compared with £5.3 billion in August 2005 (recent services data have been affected by insurance claims related to Hurricane Katrina). The trade in **services** balance was in surplus by £1.6bn in September 2005.

Contact: Ian Townsend, x3977 **Update:** ONS, *UK Trade (October)*, 9 Dec

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 fell to -4 in November 2005. This follows four months where there was a small balance expecting increases in output.
- A balance of -13% of firms saw export orders below normal.
- 42% of firms reported overall order books below normal, with only 17% above normal. This balance of -25% has remained largely unchanged since spring.

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 remained the same as October and is at its lowest level since March 2003.
- Perceptions of the general economic situation in the country have decreased by 3 points to -29. Perceptions of the situation over the next 12 months are at -19
- The climate for making major purchases increased by 3 points to +5 while perceptions of the development of personal finances over the next 12 months increased by one points to +8.

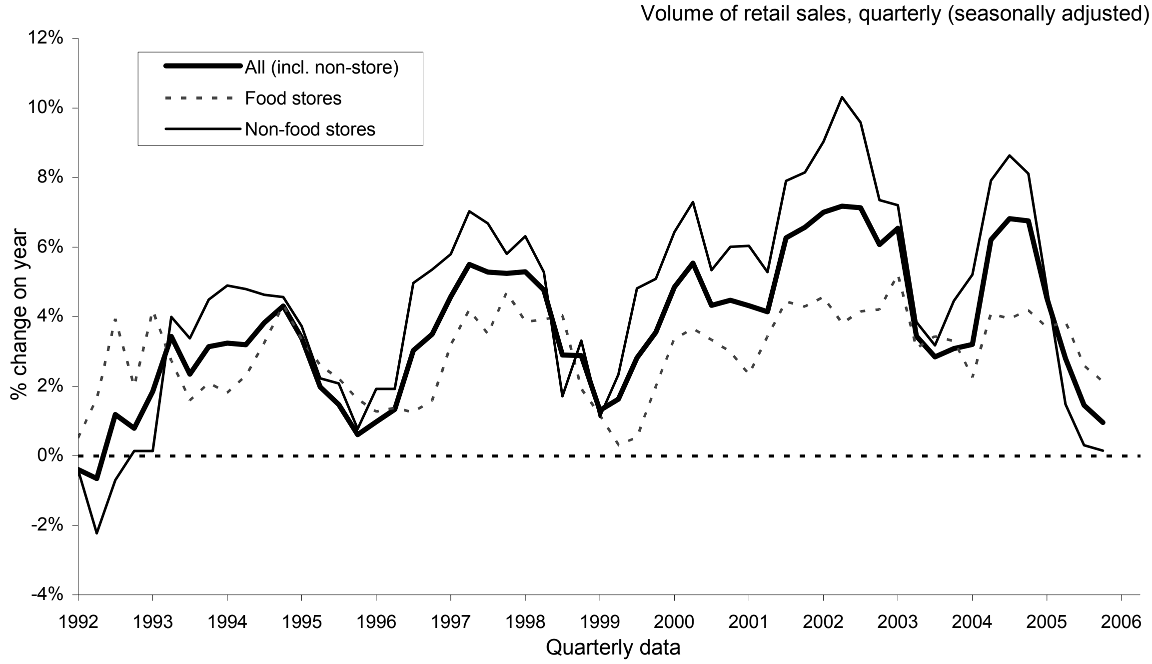
Output Expectations/Consumer Confidence
Balance of % expecting improvement over % expecting deterioration

		Future output expectations (CBI)	Consumer confidence (GfK)
2004	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
	Nov	-4	-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 Dec; GfK NOP, *Consumer Confidence*, 29 Dec

F2: Retail Sales



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

- The *volume* of retail sales in the three months from August to October was 0.7% higher compared with the previous three month period, and was 1.1% higher than a year previously (seasonally adjusted).
- Retail sales volumes in October 2005 were 1.5% higher than in October 2004 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 0.5% in August to October compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 1.9% over the same period (seasonally adjusted).

Value of Retail Sales

% change on year; non-seasonally adjusted

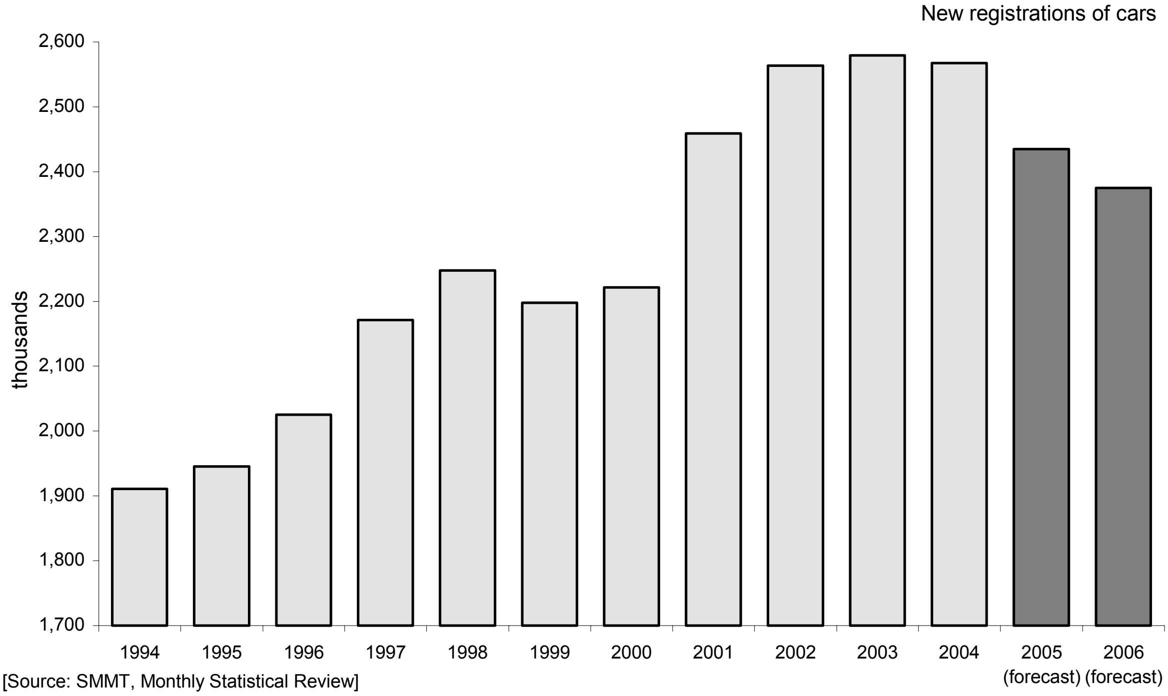
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
2001	5.0	6.0	7.0	6.0	6.0
2002	3.8	2.8	7.5	6.6	4.7
2003	3.7	1.8	4.3	-1.8	2.7
2004	3.5	3.6	2.5	9.0	4.4
2004 Q3	3.6	2.8	4.4	9.5	4.5
Q4	4.1	5.2	-1.4	5.1	3.0
2005 Q1	3.6	3.1	2.6	-2.8	1.8
Q2	3.4	1.8	-2.6	-3.4	0.0
Q3	1.7	1.8	-3.4	0.0	0.9

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

- The average weekly *value* of retail sales in October 2005 was £4,780 million, 0.3% higher than in October 2004 (non-seasonally adjusted).

Contact: Ed Potton, x2883 **Update:** ONS, *Retail Sales: First Release*, 15 Dec

F3: New Car Registrations



[Source: SMMT, Monthly Statistical Review]

Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 10.8% in October 2005, compared with the previous October's figure, to 152,497 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 5.2% in 2005 and a further 2.5% in 2006.
- There were 24,650 registrations of British-built cars in October, equivalent to 16.2% of the market. The number of British built registrations decreased 18.8% on the previous October'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

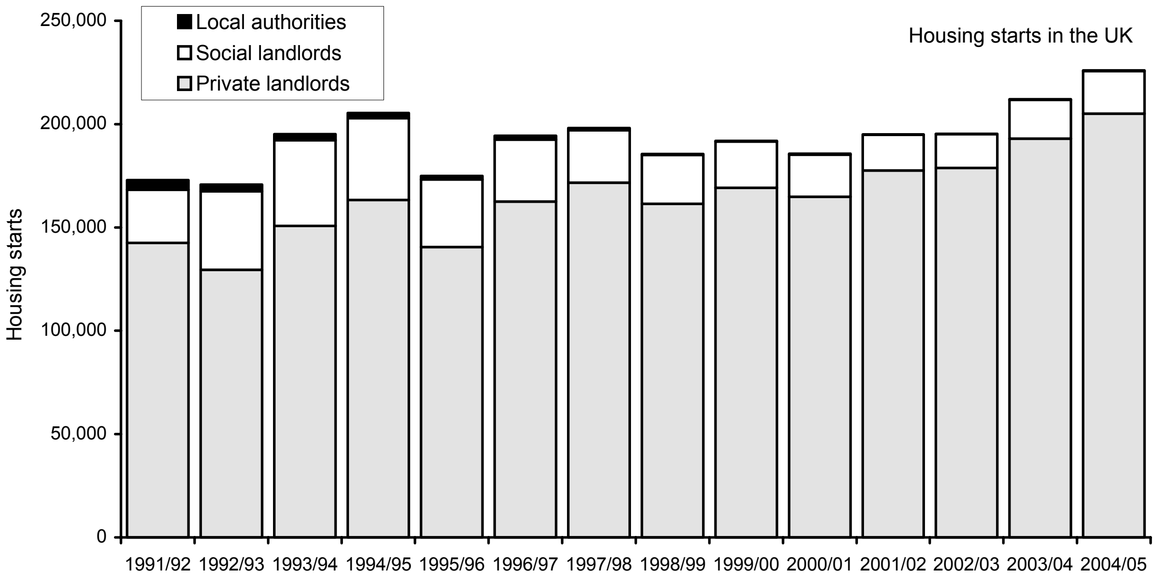
000s & % change; not seasonally adjusted

		Number ('000s)	Change over 12 months
2003		2,579	0.6
2004		2,567	-0.5
2005	(forecast)	2,435	-5.2
2006	(forecast)	2,375	-2.5
2004	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
	Sep	417	-3.2
	Oct	152	-10.8

Source: SMMT, *Monthly Statistical Review*

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

F4: House-building & Prices



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

The latest revised data on housing starts and completions from the Office of the Deputy Prime Minister (ODPM) show that there were 55,681 dwelling starts in the UK in Q1 2005, compared with 57,804 in Q1 2004. In Q1 2005 there were 46,230 completions compared with 43,017 in Q1 2004 (all data are not seasonally adjusted).

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

- UK house prices remained unchanged in October 2005, compared with a rise of 1.1% in September 2005. **Annual** house price inflation was 3.9%.
- 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	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	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

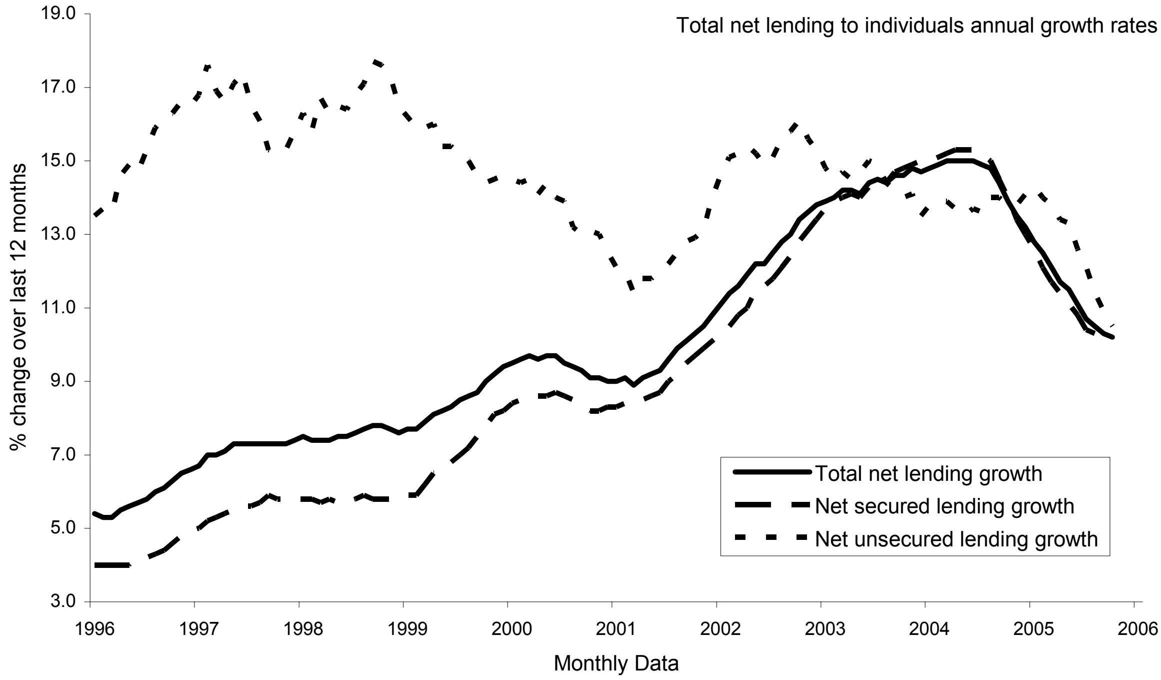
Source: HBOS, *Halifax House Price Index* (historical data)

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 September 2005 was £186,723, effectively unchanged from August 2005. **Annual** house price inflation in September 2005 was 3.3%, compared with 2.8% in August 2005.
- Regionally, **annual** house price inflation in September 2005 was highest in Northern Ireland (16.7%) and lowest in the South West, with a fall in prices of 0.6%.

Contact: Ian Townsend, x3977 **Updates:** Halifax, *House Prices*, Dec; ODPM, *House Prices*, 12 Dec, *House-building*, Feb 2006

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 Oct	580,449	137,474	717,923	9.7	12.9	10.3
2002 Oct	658,966	154,524	813,490	12.8	16.1	13.4
2003 Oct	754,564	165,610	920,174	14.8	14.0	14.6
2004 Oct	858,828	179,632	1,038,460	14.0	13.8	13.9
Jan	882,303	184,008	1,066,311	12.6	14.3	12.8
2005 Apr	902,746	186,926	1,089,672	11.4	13.4	11.7
Jul	924,319	189,631	1,113,950	10.4	12.1	10.7
Oct	946,905	191,406	1,138,310	10.2	10.5	10.2

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

- Total net outstanding lending to individuals was £1,138 billion at the end of October 2005 (seasonally adjusted).
- Total net lending to individuals grew by 0.8% in October 2005 compared with the previous month, and grew by 10.2% on an annual basis (all seasonally adjusted). This represents a reduction of 0.1% compared with the annualised rates for September 2005.
- Of the £8.9 billion increase in net lending in October 2005, £7.6 billion was mortgage borrowing and £1.3 billion was consumer credit (seasonally adjusted).

Contact: Ed Potton, x2883 **Update:** Bank of England, *Lending to Individuals*, 4 Jan 2006

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.

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

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

VI Glossary

Symbols and abbreviations

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

Definitions[66]

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

66 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 at market prices = GDP at basic prices + transport prices paid separately + non deductible taxes on expenditure - 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.