



RESEARCH PAPER 06/12
1 MARCH 2006

Economic Indicators, March 2006

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

The series also includes an article on a topical issue.

This month's article:

Background to the 2006 Budget

Next publication date: **2 May 2006**

Edward Beale (editor)

ECONOMIC POLICY AND STATISTICS SECTION

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I Introduction to *Economic Indicators*

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

Discard previous issues

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

Glossary

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

Contacts

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

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

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

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

² http://hcl1.hclibrary.parliament.uk/general_pdf/usingthelibrary.pdf

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

II Monthly highlights

For the second month in a row the members of the MPC voted 8 to 1 to keep the Bank of England (BoE) base rate at 4.5% at their February meeting. The minutes of the meeting stated that there "was some concern that a reduction in interest rates at this stage would provide further support to the housing market and consumption at a time when GDP growth was already strengthening". Following the BoE's latest inflation report many commentators have suggested that there is unlikely to be any imminent change in the base rate, with the BoE predicting that inflation would remain close to its 2% target over the next couple of years. The report also forecast that growth would recover in 2006 rising towards 3.0%, a pace sustained through 2007. Recent ONS figures showed that in Q4 2005, GDP growth increased by 0.6% on the previous quarter, while an upward revision of growth in Q3 2005 increased the annual estimate from 1.7% to 1.8%; however this is still the lowest annual growth rate for 13 years.

Public finances

ONS public finance figures showed a record monthly budget surplus in January of £12.6 billion. This was primarily driven by an increase in corporate and income tax receipts. Net borrowing was £29.8 billion in the ten months to January (compared with £30.0 billion during the same period last year); a figure that commentators suggest puts the Chancellor on track to meet his net borrowing target of £37.0 billion in 2005/06. This is covered in more detail in the article *Background to the 2006 Budget* on page iii of this paper.

Business Investment and productivity

Official figures indicated that the volume of business investment fell by 1.0% to £28.2 billion in Q4 2005 compared with the previous quarter, representing the largest decline for over two years (although this figure was 0.3% higher than the same quarter in 2004).

Comparisons of productivity per worker among G7 countries were released in February by ONS. Output per worker in the UK in 2004 was lower than the USA, France, and the G7 average, although it was higher than Japan (see chart).



Labour market

The BoE's inflation report questioned whether the recent sharp increases in energy prices will result in higher earnings growth (as seen historically with oil-price shocks). However, average earnings growth was 3.6% in December 2005, compared with 4.4% a year earlier. The inflation report suggested the inflow of migrant workers from new EU member countries, with 345,000 registering for work between May 2004 and December 2005, has had a key role in restraining upward pressures on labour costs. This inflow also pushed the growth of the working-age population up to its highest annual rate in over 20 years. A survey by the BoE shows that migrant workers are particularly prominent in two sectors; agriculture, and hotels and restaurants.

Finally, the number of people claiming Jobseeker's Allowance fell to 904,200 in January after 11 consecutive months of increases.

III Background to the 2006 Budget

The Chancellor will present the 2006 Budget on Wednesday 22 March.⁴ This will be Gordon Brown's tenth Budget.

A. The economic outlook

Real GDP grew by 1.8% in 2005, considerably slower than the 3.2% growth rate achieved in 2004. Nevertheless, the economy has grown for 54 consecutive quarters and growth is expected to pick up both this year and next. Real GDP growth is shown in the chart and table below.

Chart 1: Real GDP growth: % change on same quarter in previous year

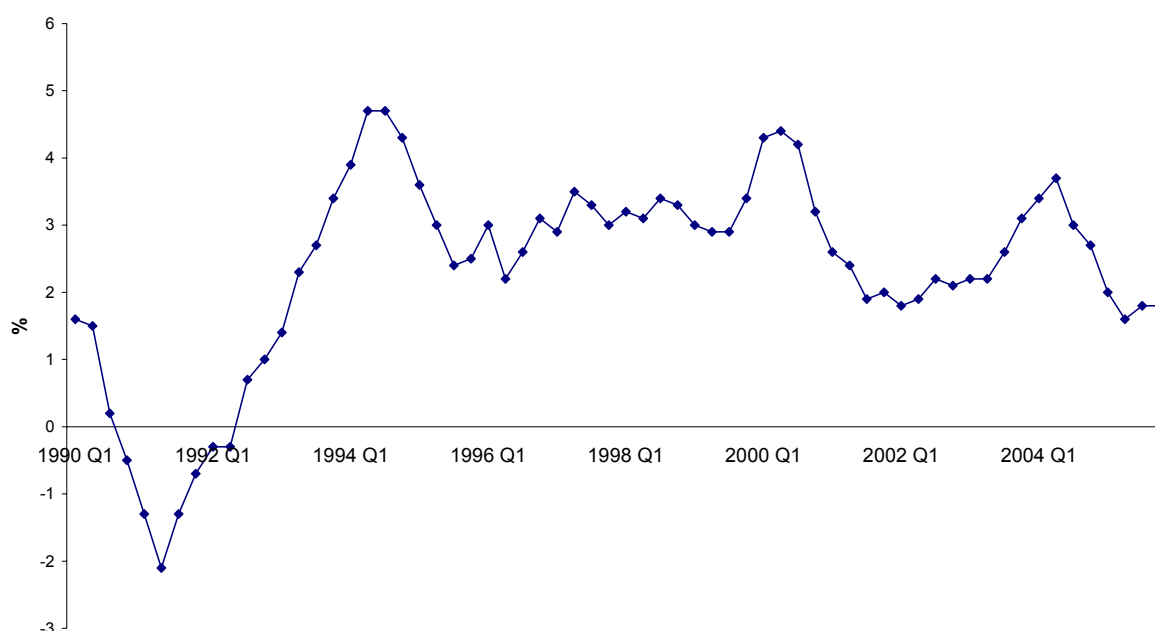


Table 1
Real GDP growth: 2000-05
Annual % change

2000	4.0%
2001	2.2%
2002	2.0%
2003	2.5%
2004	3.2%
2005	1.8%

Source: ONS (based on series ABMI)

In the 2005 Pre-Budget Report (PBR), the Treasury reduced its forecast of economic growth in 2005 to 1.75% down from the 3 to 3.5% projected in the 2005 Budget. The PBR forecasts

⁴ This was announced on 16 February. See HC Deb 16 February 2006 c113WS

growth of 2 to 2.5% this year and 2.75 to 3.25% in both 2007 and 2008. The average independent forecast is for growth of 2.1% in 2006 and 2.5% in 2007.⁵

The National Institute of Economic and Social Research forecast growth of 2.3% in 2006, up from 1.8% in 2005, with the increase being driven by strengthening investment, government consumption and consumer spending.⁶ This growth rate is still below trend.

B. The public finances

The Government's two fiscal rules are:

- the golden rule: over the economic cycle, the Government will borrow only to invest and not to fund current spending; and
- the sustainable investment rule: public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40 per cent of GDP over the economic cycle.⁷

1. The golden rule

The golden rule requires that the current budget, expressed as a percentage of GDP, be balanced over the economic cycle. In the 2005 PBR, the Treasury announced that it had changed its view on the timing of the end point of the cycle. Its view is now that the current cycle will end in 2008/09 rather than 2005/06 as it had previously thought. In July 2005, the Treasury announced that it had altered its view of the starting date of the cycle from 1999/00 to 1997/98.⁸ Treasury and IFS forecasts for the current budget are shown in the table below. The chart shows the Treasury forecast.

The Treasury forecast a deficit of 0.9% of GDP in 2005/06, falling to 0.3% in 2006/07 before returning to balance in 2007/08. The IFS forecast is for larger deficits in 2006/07 and 2007/08 before a return to balance in 2008/09.⁹

⁵ HM Treasury, *Forecasts for the UK Economy, A comparison of independent forecasts*, February 2006. <http://www.hm-treasury.gov.uk/media/696/19/200602forcomp.pdf>

⁶ National Institute of Economic and Social Research, *National Institute Economic Review*, January 2006, p3

⁷ HM Treasury, *Pre-Budget Report 2005*, Cm 6701, para 2.7

⁸ For further information, see Standard Note [The golden rule and the economic cycle](#) (SN/EP/3730)

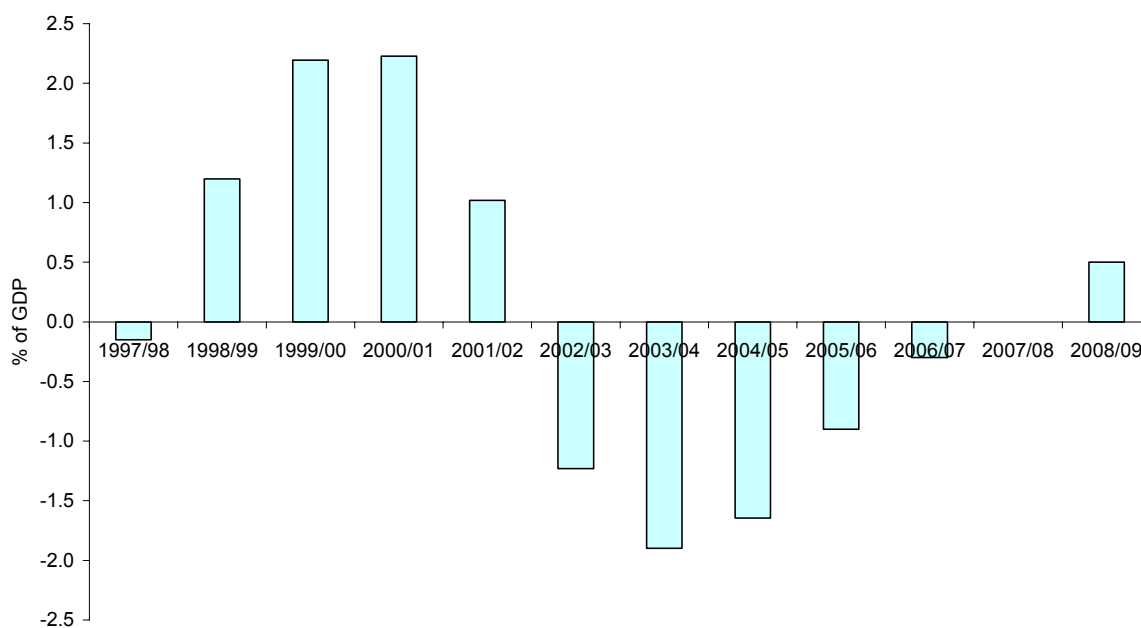
⁹ On 20 February 2006, the Office for National Statistics announced that London and Continental Railways would be reclassified from the private sector to the public sector (see <http://www.statistics.gov.uk/pdfdir/clcr0206.pdf>). The effect of this is to reduce the current budget surplus by a cumulative 0.18% of GDP between 1998/99 and 2005/06. This revision is reflected in the outturn figures in the table above but not in the forecasts which were made before the reclassification.

Table 2
Current budget surplus

	Outturn £ billion	Treasury £ billion	IFS £ billion	Outturn % of GDP	Treasury % of GDP	IFS % of GDP
1997/98	-1.2			-0.2		
1998/99	10.4			1.2		
1999/00	20.2			2.2		
2000/01	21.5			2.2		
2001/02	10.3			1.0		
2002/03	-13.1			-1.2		
2003/04	-21.3			-1.9		
2004/05	-19.4			-1.6		
2005/06		-10.6	-10.5		-0.9	-0.9
2006/07		-4.0	-7.4		-0.3	-0.6
2007/08		0.0	-5.6		0.0	-0.4
2008/09		7.0	0.5		0.5	0.0

Sources: HM Treasury, Pre-Budget Report 2005
IFS, Green Budget 2006

Chart 2: Current budget surplus: outturn and Treasury forecast



On the basis of the Treasury's view of the economic cycle, 1997/98 to 2008/09, the golden rule would be met using the Treasury's forecasts. The golden rule would be narrowly broken on the basis of the IFS forecasts with the average surplus being -0.02% of GDP in the last year of the cycle. The table below compares the average surplus over the cycle on the basis of both the Treasury and IFS forecasts. If the Treasury's view of the cycle at the time of the 2005 Budget (ie 1999/00 to 2005/06) is used, the golden rule would just be broken with an average surplus over the cycle of -0.03% of GDP.

Table 3
Compliance with the golden rule

<i>Average current budget surplus since 1997-98</i>		
<i>% of GDP</i>		
	Treasury	IFS
1997/98	-0.2	-0.2
1998/99	0.5	0.5
1999/00	1.1	1.1
2000/01	1.4	1.4
2001/02	1.3	1.3
2002/03	0.9	0.9
2003/04	0.5	0.5
2004/05	0.2	0.2
2005/06	0.1	0.1
2006/07	0.1	0.0
2007/08	0.0	-0.0
2008/09	0.1	-0.0

Sources: HM Treasury and IFS

In this year's Green Budget, the IFS argue that there is a case for a "modest" increase in taxation:

In the last two Green Budgets, we have argued that the Treasury should publish less optimistic forecasts for tax revenues, and that some combination of fresh tax increases and tougher public spending plans worth about £11–13 billion would be needed to deliver the improvement in the public finances that the Chancellor was looking for. The Pre- Budget Report went a considerable way in this direction, if we assume that the Chancellor is willing to adopt and deliver the figures he has pencilled in for the period of the next spending review. These would cut public spending as a share of national income by the equivalent of £8½ billion in today's terms, on top of the £3 billion tax increase announced in the PBR. In the wake of a further downgrade of the Treasury's public finance forecasts in the PBR, we still see a reasonable case for some further modest increase in taxation of around £2½ billion to restore the caution the Chancellor was looking for in the last Budget and to increase his chances of meeting his fiscal rules.¹⁰

January's public finance figures were encouraging for the Treasury. Central government current receipts were 14.4% higher in January 2006 compared with January 2005. Corporation tax receipts increased by more than 50% compared with the previous January.¹¹ While this partly reflected a change in the timing of North Sea corporation tax introduced in the 2005 Budget, the underlying increase was still strong. The *Financial Times* commented:

The amount of tax paid by businesses soared in January thanks to strong profits made by North Sea oil companies and the financial services industry, lifting Gordon Brown's hopes of hitting his forecast for government borrowing.

A 14 per cent increase in revenues last month compared with January 2005 was driven by a 52 per cent jump in corporation tax revenues, official figures showed. As a

¹⁰ IFS, *The IFS Green Budget 2006*, January 2006, p109. <http://www.ifs.org.uk/budgets/gb2006/index.php>

¹¹ Public sector finance figures for February will be published by the Office for National Statistics on 20 March, <http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805>

result, the public sector ran a surplus of £12.6bn last month: the highest monthly surplus since the £12.5bn recorded in January 2000.

For the financial year, Mr Brown is still expected to have to borrow about £37bn. But the buoyant figures for January, the most important month for tax receipts, have put him on track to hit his recently downgraded borrowing forecast for the first time in five years.¹²

The changes to the dating of the cycle have led to calls for greater independent scrutiny of compliance with the golden rule and greater emphasis on looking forward in setting fiscal policy. In their report on the 2005 PBR, the Treasury Select Committee said:

Mr Chote [director of the IFS] did not believe that the changes to the estimated start date and the expected end of the current cycle had “done anything to help the credibility of the framework”. Our predecessors noted calls for an “independent scrutineer” of the fiscal rules.¹³

The Committee recommended:

Although the golden rule has proved of considerable value to date, there is a risk that, as the final years of the current economic cycle are approached, too much emphasis is placed on immaterial or technical matters rather than the rule being used to assess whether Government policy has been broadly appropriate and fair over the medium term. The golden rule’s focus should be on ensuring that fiscal policy is sustainable on a forward-looking basis, rather than encouraging changes to tax levels or spending now as a consequence of data revisions relating to levels of growth several years ago. There may be merit in seeking to supplement the golden rule with a rule or statement of policy that governs fiscal policy during the period when it seems likely that the economy is passing from one cycle to another.¹⁴

The IMF, while acknowledging the important role of the fiscal rules and the remarkable macroeconomic stability of the UK, said recently:

... the current form of the golden rule requires a precise dating of the cycle. Not only is this difficult, but the adjustments in the definition of the cycle have proved an unhelpful distraction from the more important considerations of what a sustainable fiscal policy is and how it should be achieved. And assuming the broad stability in economic performance continues, dating cycles will become even less meaningful and more difficult. Therefore, once the current budget has moved back into balance, the government should consider an implementation of the golden rule that replaces the constraint now coming from measuring performance over the cycle with expanded NAO audits.¹⁵

¹² “Surge in business tax buoys Brown”, *Financial Times*, 21 February 2006

¹³ Treasury Select Committee, *The 2005 Pre-Budget Report*, HC 739, 25 January 2005, para 54. <http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/739/739.pdf>

¹⁴ para 55

¹⁵ IMF, *United Kingdom - 2005 Article IV Consultation, Concluding Statement of the IMF Mission*, 19 December 2005, para 10. <http://www.imf.org/external/np/ms/2005/121905.htm>

The Treasury has rejected calls for greater independence:

Mounting demands for an independent body to take over the dating of the economic cycle used to gauge Gordon Brown's "golden rule" for the Government's finances were sharply rebuffed by the Treasury last night.

The Chancellor came under fire this week for flattering the public finances with his second change this year to the estimated length of the present economic cycle.

Experts have stepped up calls for its dating to be handed to an impartial institution.

The Treasury's most senior economist defended its assessment of the golden rule.

Jon Cunliffe, the Treasury Second Permanent Secretary, told the Commons Treasury Committee that it was essential for the dating of the cycle to be kept under Treasury control, since it had to link it to other aspects of financial planning.

"I think it's very important that all of the stages of the process which are interdependent stay with the one authority and that authority remains accountable," he said.¹⁶

The Chancellor asked the National Audit Office (NAO) to assess whether the Treasury's new judgement on the timing of the end point of the previous cycle was reasonable and cautious. The NAO published its assessment alongside the PBR.¹⁷ The NAO said that while dating the economic cycle is an "uncertain process", the Treasury's approach was reasonable. The NAO report said:

Though there are many uncertainties, there are reasonable grounds to date the end of the previous cycle to 1997.¹⁸

The NAO recommended that the Treasury should consider "more systematically than previously" estimates of the output gap using other techniques. It also recommended that in future the Treasury presents a formal assessment of the views of external organisations and how they have influenced the Treasury's view. Finally, the NAO recommended that the Treasury should continue to publish details of the indicators it used to establish the points when the economy is on-trend and provide a full description of how it reached its conclusions about the economic cycle.

The PBR also said that the NAO will be asked to audit the end date of the current and future cycles "once the Treasury has made a firm judgement".¹⁹

2. The sustainable investment rule

The Government has made it clear that net debt will be maintained below 40% of GDP in every year of the current economic cycle.²⁰ In the PBR, the Treasury forecast that net debt

¹⁶ "Treasury rebuffs call for neutral body to set the economic cycle", *The Times*, 8 December 2005

¹⁷ National Audit Office, *Audit of Assumptions for the 2005 Pre-Budget Report*, HC 707, 5 December 2005. http://www.hm-treasury.gov.uk/media/F5D/46/pbr05_ nao_508.pdf

¹⁸ para 77

¹⁹ HM Treasury, *Pre-Budget Report 2005*, Cm 6701, para 2.31

²⁰ HM Treasury, *Pre-Budget Report 2005*, Cm 6701, para 2.8

would increase from around 35% of GDP in 2004/05 to around 38% by the end of the cycle. In the Green Budget, the IFS forecast slightly higher debt reaching around 39% of GDP by 2008/09. The Treasury and IFS projections are in the table below.

Table 4
Public Sector Net Debt *% of GDP*

	Outturn	Treasury	IFS
1997/98	41.5		
1998/99	39.2		
1999/00	36.4		
2000/01	31.4		
2001/02	30.4		
2002/03	31.8		
2003/04	33.2		
2004/05	35.1		
2005/06		36.5	36.5
2006/07		37.4	37.6
2007/08		37.9	38.6
2008/09		38.2	39.2

Sources: ONS, Public sector finances, January 2006
 HM Treasury, Pre-Budget Report 2005, Table B10
 IFS Green Budget

Note: outturns include effect of reclassification of London and Continental Railways to the public sector

On 20 February 2006, the Office for National Statistics announced that London and Continental Railways (LCR)²¹ would be reclassified from the private sector to the public sector.²² The effect of this decision is to increase public sector net debt by about £5 billion (0.4% of GDP). This revision is reflected in the outturn figures in the table above but not in the forecasts which were made before the reclassification. The reclassification of LCR will take the government closer to the 40% limit on net debt as a percentage of GDP.

C. Links to further information

HM Treasury, Budget 2005

http://www.hm-treasury.gov.uk/budget/budget_05/bud_bud05_index.cfm

HM Treasury, Pre-Budget Report 2005,

http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr05/prebud_pbr05_index.cfm

HM Treasury, *Forecasts for the UK economy, A comparison of independent forecasts*, February 2006

http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm

²¹ LCR is the company building the Channel Tunnel Rail Link. It also owns the UK operator of Eurostar.

²² ONS Press Release, *Classification of London and Continental Railways*, 20 February 2006.
<http://www.statistics.gov.uk/pdfdir/clcr0206.pdf>

HM Treasury, Public Finances databank

http://www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pubsec_finance/psf_statistics.cfm

House of Commons Treasury Committee, *The 2005 Pre-Budget Report*, HC 739, January 2006

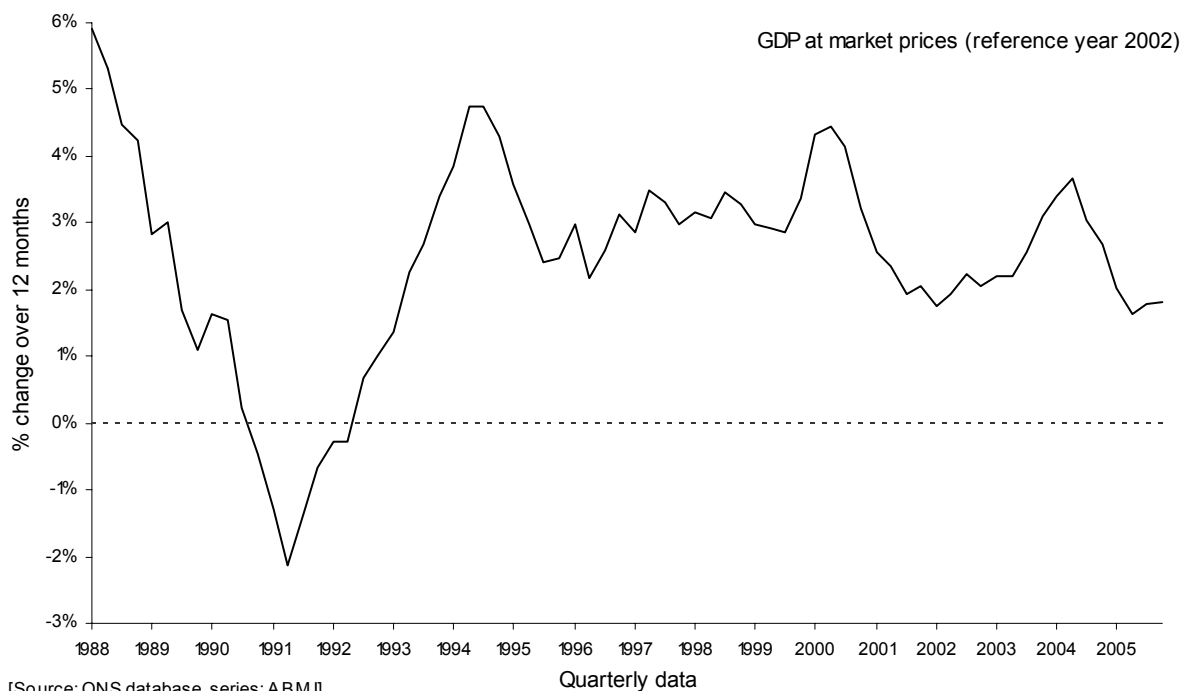
<http://www.publications.parliament.uk/pa/cm200506/cmselect/cmtreasy/739/73902.htm>

IFS Green Budget

<http://www.ifs.org.uk/budgets/gb2006/index.php>

Dominic Webb
Economic Policy and Statistics Section

A1: Gross Domestic Product



Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

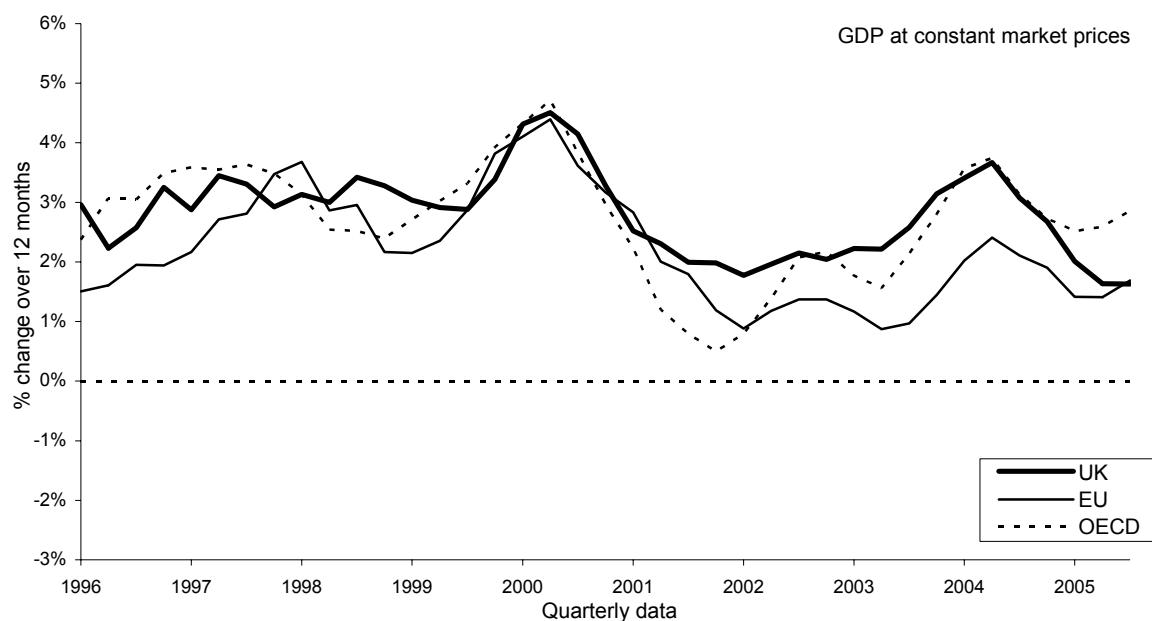
	Current		Chained volume (reference year 2002)
	£ billion	% change on year	% change on year
2002	1,048.5	5.2	2.0
2003	1,105.9	5.5	2.5
2004	1,164.9	5.3	3.2
2005	1,211.2	4.0	1.8
2004 Q4	297.4	5.3	2.7
2005 Q1	298.0	4.4	2.0
Q2	301.7	4.2	1.6
Q3	303.2	3.7	1.8
Q4	308.3	3.7	1.8

Source: ONS database, series: YBHA, ABMI

- The UK economy is estimated to have grown by 1.8% in 2005, compared with 3.2% in 2004.
- The **chained volume** measure of gross domestic product (GDP) at market prices was 0.6% higher in Q4 2005 than in the previous quarter (Q3 2005). Compared with the same quarter in the previous year (Q4 2005 on Q4 2004) this measure of GDP was 1.8% higher.
- HM Treasury's average of independent economic forecasts of GDP growth in 2006 was 2.1% in February 2006, unchanged from January 2006. The average growth forecast for 2007 was 2.5% in February 2006.

Contact: Ian Townsend, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 15 Mar;
ONS, *National Accounts Q4 2005*, 29 Mar

A2: GDP: International Comparisons[Source: OECD, *Main Economic Indicators*, Feb 2006]**GDP at constant market prices**

% changes

	% change on year				% change quarter on quarter				
	2001	2002	2003	2004	2004		2005		
					Q3	Q4	Q1	Q2	Q3
USA	0.8	1.6	2.6	4.3	1.0	0.8	0.9	0.9	1.0
Japan	0.4	0.1	1.8	2.3	0.1	-0.1	1.4	1.1	0.3
Canada	1.8	3.0	2.0	3.0	0.9	0.5	0.5	0.8	1.0
United Kingdom	2.2	2.1	2.5	3.2	0.4	0.5	0.3	0.4	0.4
Germany	1.2	0.1	-0.2	1.7	-0.1	-0.1	0.6	0.2	0.7
France	2.1	1.2	1.0	2.3	0.1	0.7	0.3	0.2	0.6
Italy	1.8	0.4	0.2	1.3	0.4	-0.4	-0.6	0.8	0.3
Eurozone	1.9	1.0	0.9	2.0	0.2	0.3	0.3	0.5	0.6
G7	1.1	1.2	1.9	3.2	0.6	0.5	0.8	0.7	0.7
OECD	1.2	1.6	2.0	3.3	0.6	0.6	0.7	0.7	0.8

Source: OECD, *Main Economic Indicators*, Feb 2006

- The latest data shows that all of the largest economies recorded positive growth in the third quarter of 2005.

- Recent growth in the eurozone has been weaker than growth in OECD countries and the G7. However, eurozone growth in the third quarter of 2005 did increase to 0.6%. Growth in the G7 countries remained unchanged at 0.7% in the third quarter of 2005, while growth in all OECD countries rose to 0.8%.

OECD growth forecasts

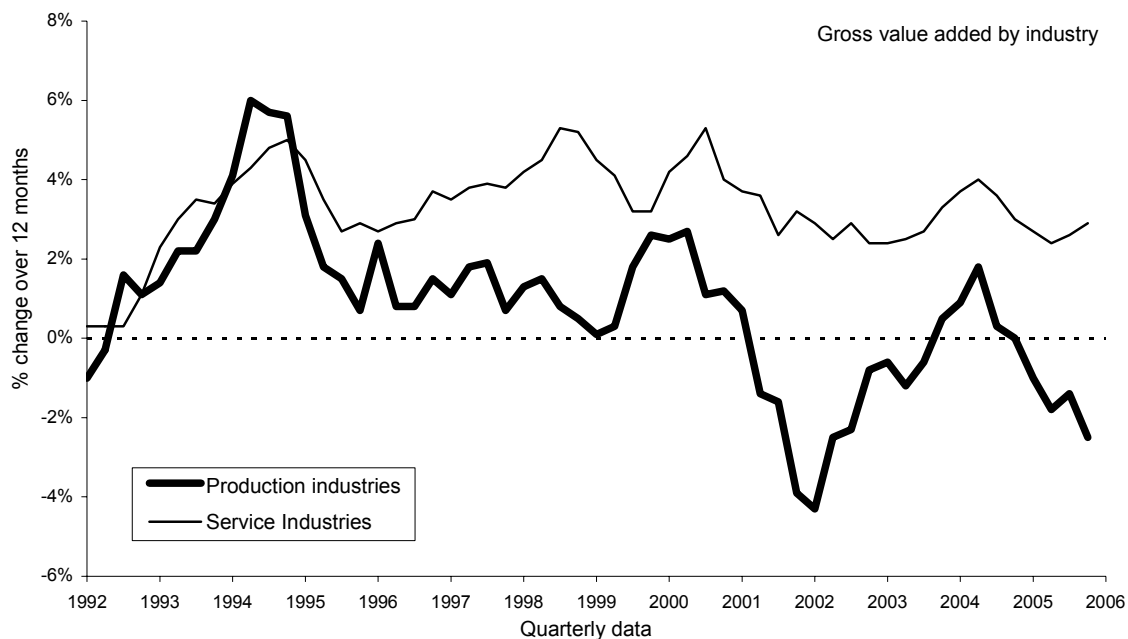
% change on year

	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-Mar

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 2.9%. Between the third quarter of 2005 and the fourth quarter of 2005 annual output growth in the service sector increased by 0.3%.

Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufacturing			
2002	-2.5	-3.1	2.7	12.3	3.8
2003	-0.5	0.1	2.7	-1.7	5.2
2004	0.7	1.9	3.6	1.0	3.3
2005	-1.7	-0.8	2.6	-0.8	1.5
2004 Q4	0.0	1.3	3.0	0.4	1.8
2005 Q1	-1.0	0.0	2.7	-1.6	1.6
Q2	-1.8	-1.2	2.4	0.9	1.8
Q3	-1.4	-0.1	2.6	-1.1	1.4
Q4	-2.5	-2.0	2.9	-1.3	1.0

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

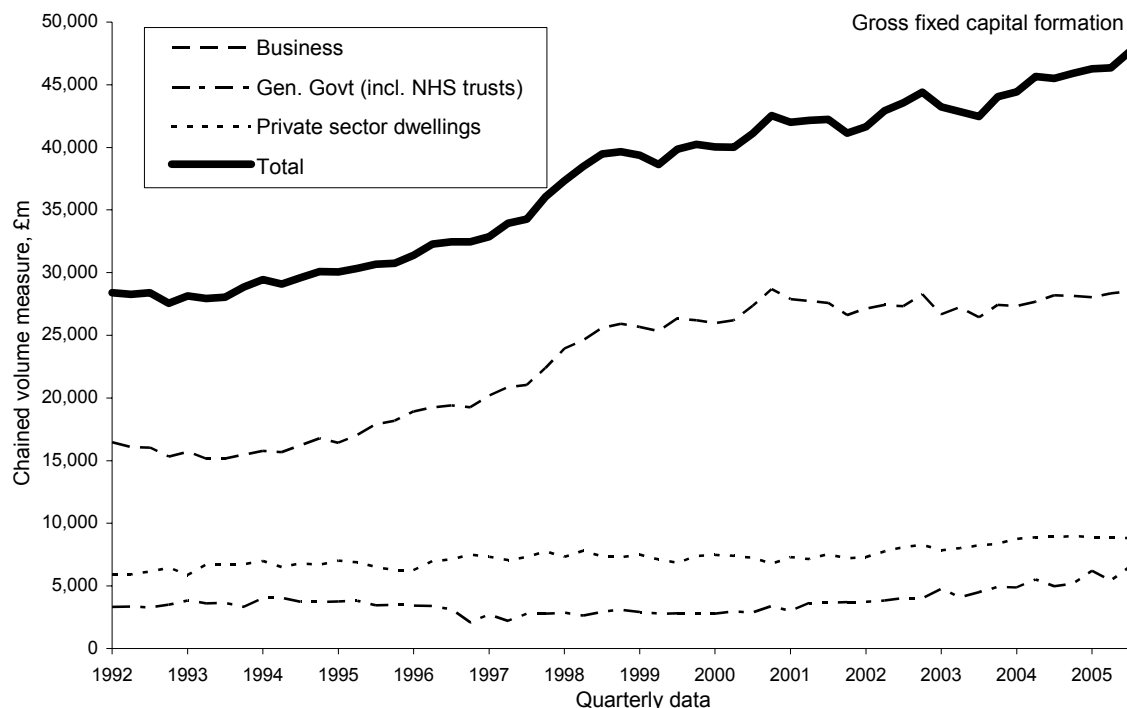
- Manufacturing output decreased 2.0% in the fourth quarter of 2005 compared with the same quarter in 2004, and manufacturing output decreased by 0.8% overall in 2005.
- In 2004, services accounted for 73% of gross value added, manufacturing for 15%, other production industries (mining & quarrying, and 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 –Q4*, 29 Mar

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	14,257	57,512	64,662	38,879	6,196	181,506
2004 Q3	3,566	14,360	16,239	9,783	1,562	45,510
Q4	3,445	14,528	16,510	9,832	1,589	45,904
2005 Q1	3,484	14,447	17,095	9,645	1,599	46,269
Q2	3,488	14,437	17,104	9,695	1,615	46,339
Q3	3,618	14,864	17,697	9,851	1,625	47,655

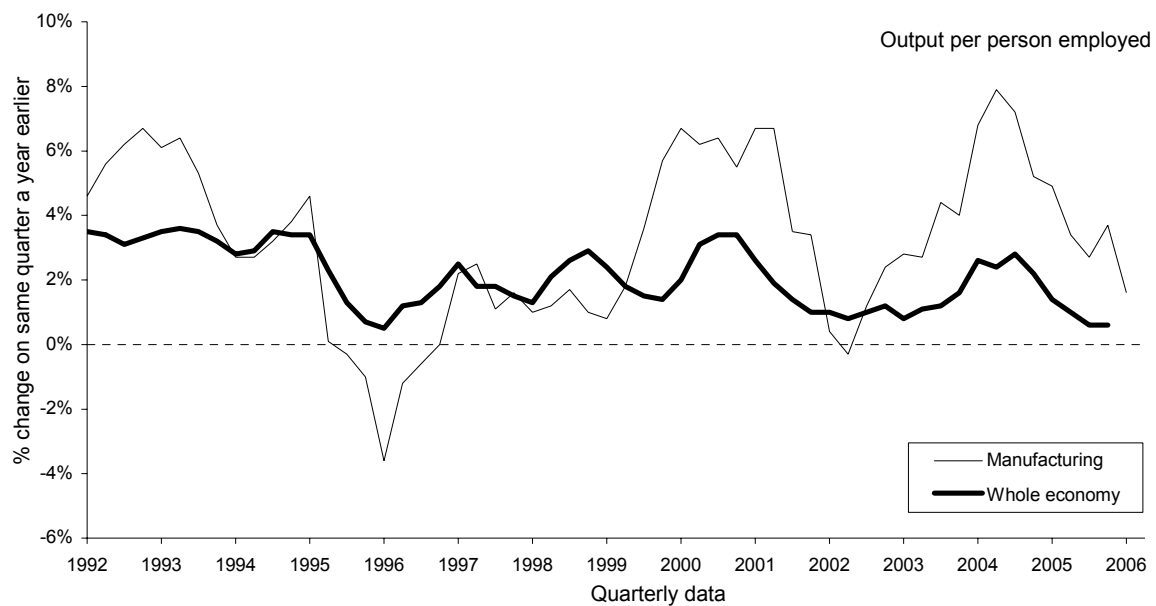
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment is provisionally estimated to have fallen by 1.0% in Q4 2005 compared with the previous quarter, and to have increased by 0.3% compared with Q4 2004 on a seasonally adjusted basis.
- Total manufacturing investment is provisionally estimated to have fallen by 6.9% in Q4 2005 compared with the previous quarter while investment in private sector services increased by 2.5% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324

Updates: ONS, *Business Investment*, 28 Mar

A5: Productivity



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

Productivity

% changes on year; seasonally adjusted

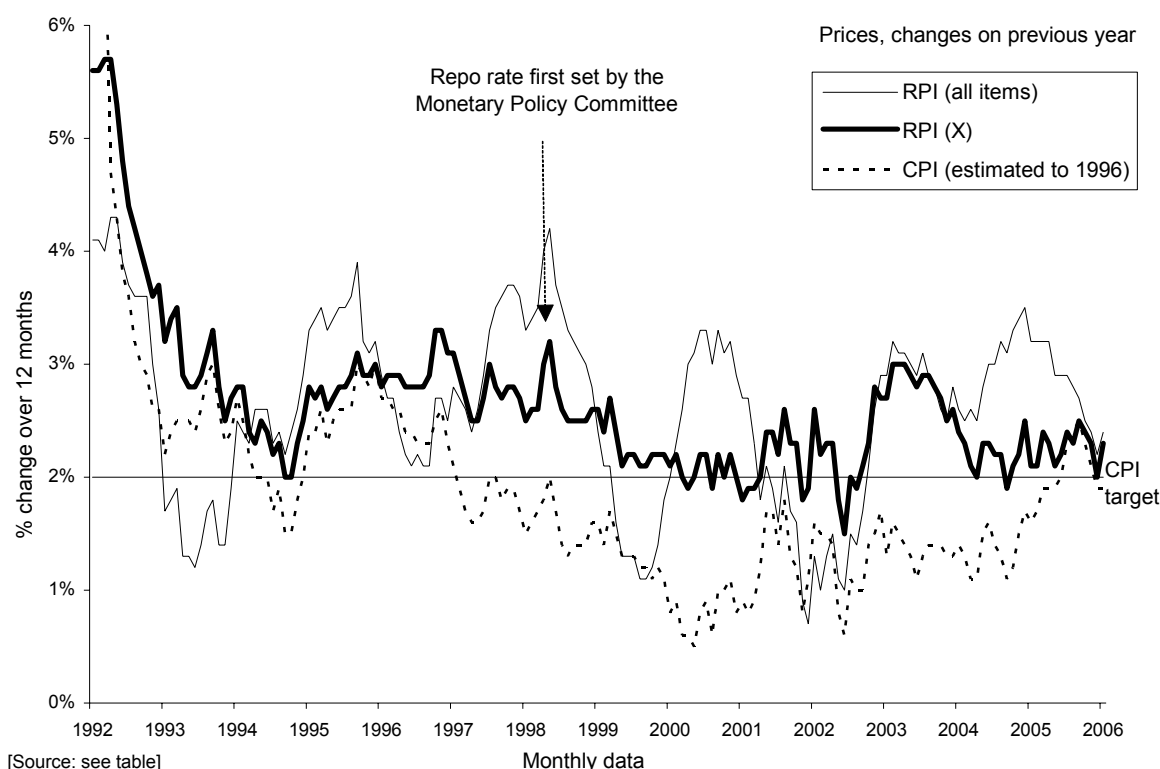
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2001	-1.3	-4.7	3.5	2.0	0.7	1.3
2002	-3.1	-4.5	1.5	1.7	0.7	0.9
2003	0.1	-4.2	4.5	2.5	0.9	1.6
2004	1.9	-4.2	6.2	3.0	0.8	2.2
2005	-0.8	-3.5	2.8	1.8	..	..
2004 Q3	1.3	-3.7	5.2	2.8	0.7	2.2
Q4	1.3	-3.4	4.9	2.3	0.9	1.4
2005 Q1	0.0	-3.2	3.4	1.9	0.9	1.0
Q2	-1.2	-3.8	2.7	1.5	1.0	0.6
Q3	-0.1	-3.7	3.7	1.7	1.1	0.6
Q4	-2.0	-3.5	1.6	1.7	..	..

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

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 2.2% 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 4.2%, while manufacturing output per head rose by 6.2%.
- Productivity growth in manufacturing increased from 2.7% per annum in Q2 2005 to 3.7% per annum in Q3 2005, while whole economy productivity growth was unchanged at 0.6% per annum in Q3 2005 compared with Q2 2005.
- For the economy as a whole, productivity growth has averaged 1.7% per annum over the last eight quarters.

Contact: Ed Potton, x2883

Update: ONS, *Productivity*, 30 Mar

B1: Prices

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

- In the year to January 2006, the consumer prices index (CPI) showed inflation at 1.9%. This was unchanged from December 2005.
- The largest downward effect on the CPI came from furniture, household equipment and routine maintenance. The largest upward effect on the CPI annual rate came from transport, due to large upward contributions from fuels and lubricants and also passenger transport by air.
- The former headline (all items RPI) rate of inflation was 2.4% in January compared with 2.2% in December. The underlying RPI(X) rose to 2.3% in January from 2.0% in November.
- The largest upward effect on the RPI came from motoring expenditure, due to the cost of petrol and oil. A further large upward effect came from fares and other travel costs, mainly due to air fares falling by less than a year ago.

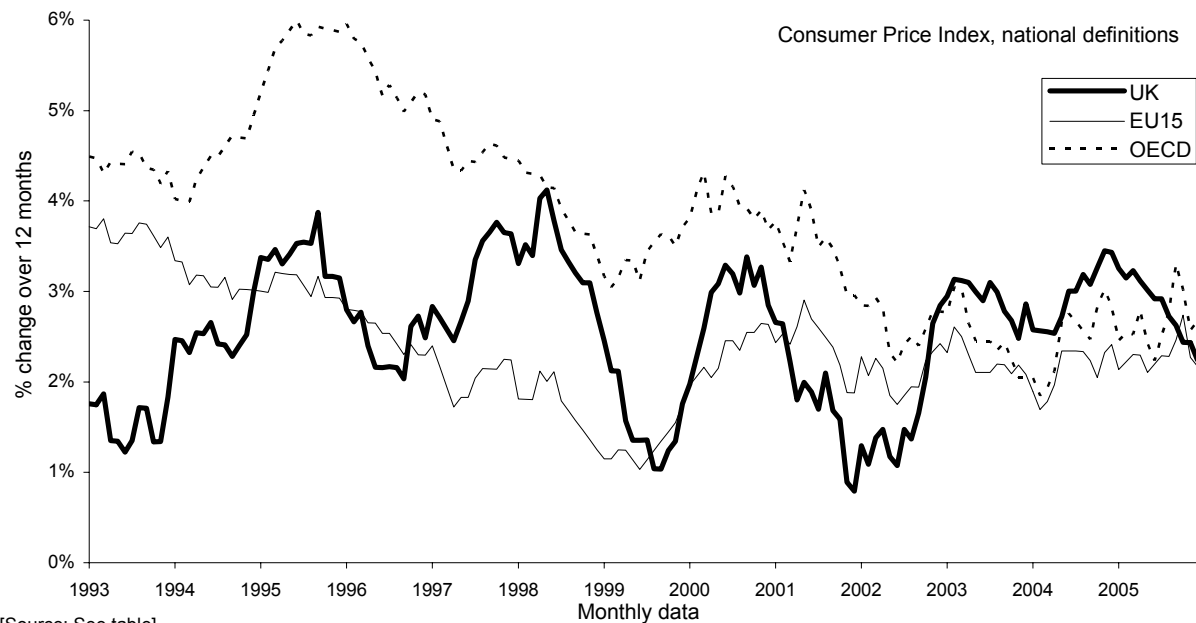
Price Indices

% change over 12 months

	CPI (was HICP)	RPI (all items)	RPI (X)
2002	1.3	1.7	2.2
2003	1.4	2.9	2.8
2004	1.3	3.0	2.2
2005	2.1	2.8	2.3
2005 Jan	1.6	3.2	2.1
Feb	1.7	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
Nov	2.1	2.4	2.3
Dec	1.9	2.2	2.0
2006 Jan	1.9	2.4	2.3

Source: ONS database, series: D7G7, CDKQ, CJYR

B2: Prices: International Comparisons



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

- Inflation in the United States was 3.4% in December, a fall of 0.1 points. The rate for 2005 was 3.4%, the highest since 2000.
- For all OECD countries the average inflation rate also increased by 0.1 points, to 2.7% in December.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) fell to 2.2%.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
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	3.4	-0.3	2.3	2.8	2.7
2005 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
Oct	4.3	-0.7	2.6	2.4	3.0
Nov	3.5	-0.8	2.0	2.4	2.6
Dec	3.4	-0.1	2.1	2.2	2.7

Source: OECD, Main Economic Indicators, Feb 2006

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

- Eurozone annual inflation increased to 2.4% in January. The flash estimate for February is 2.3%.
- The HICP inflation rates for the EU15 Member States not in the eurozone were Denmark (2.0%), Sweden (1.1%) and the UK (1.9%).
- In January, the eurozone countries with the highest HICP annual inflation rates were Spain (4.2%), Luxembourg (4.1%) and Greece (3.0%). The lowest rate was in Finland (1.1%).

Eurozone inflation

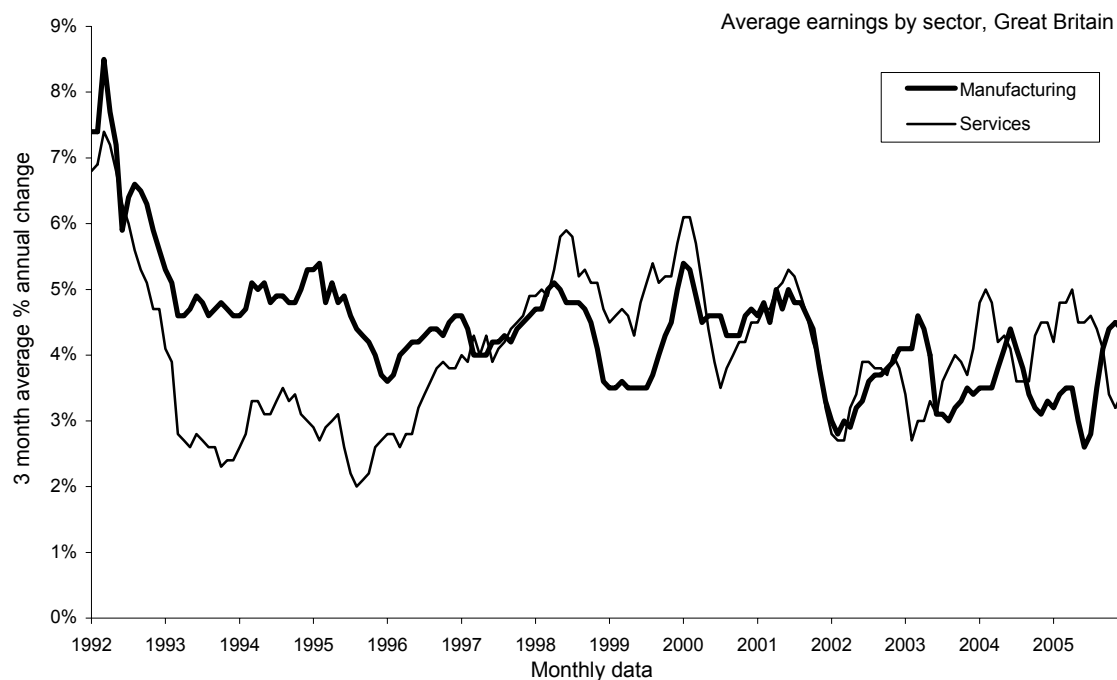
harmonised indices (HICPs); % change over 12 months

	France	Germany	Italy	UK	Eurozone
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	1.8	2.3	1.3	2.1
2005	1.9	1.9	2.2	2.1	2.2
2005 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	2.3	2.6	2.3	2.5
Nov	1.8	2.2	2.4	2.1	2.3
Dec	1.8	2.1	2.1	1.9	2.2
2006 Jan	2.3	2.1	2.2	1.9	2.4

Source: Eurostat, Euro-Indicators news release, 28 Feb 2006

Contact: Bryn Morgan, x4904

Updates: OECD, *Main Economic Indicators*, mid-Mar
Eurostat, *Euro-indicators news release*, 16 Mar

B3: Average Earnings Index

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

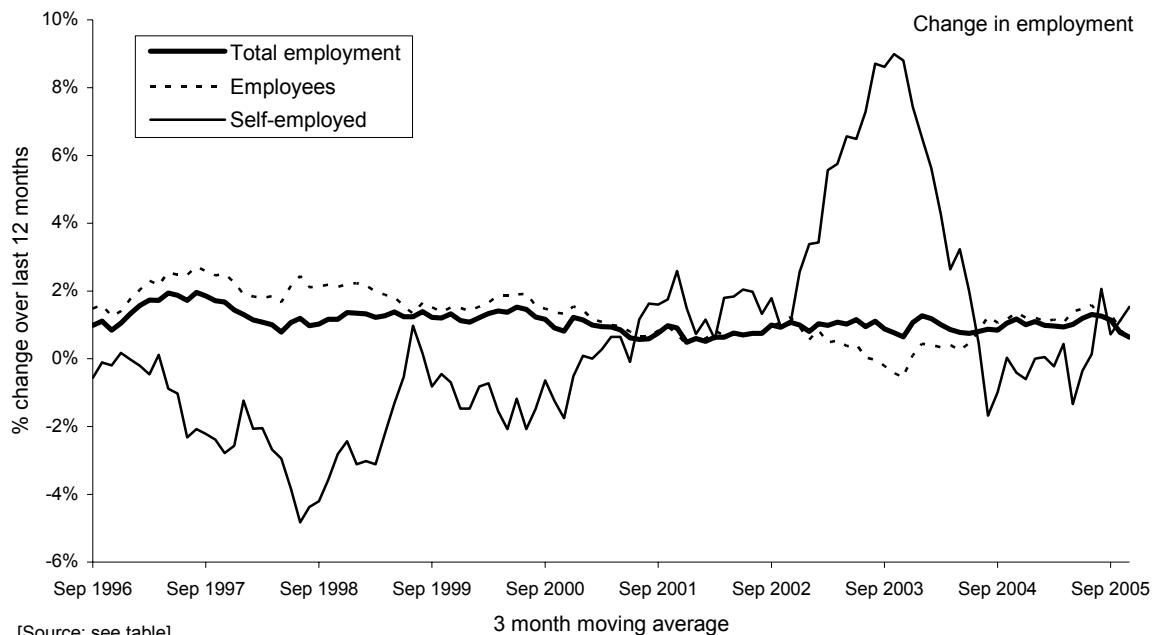
- The headline rate of growth in average earnings for the whole economy in December was 3.6%, up from 3.4% in November.
- Headline average earnings growth in manufacturing was 4.4% in December, down from 4.5% in November. Earnings growth in the service sector increased from 3.2% in November to 3.4% in December.
- Headline earnings growth in the private sector was 3.3% in December, compared with 4.4% in the public sector. Earnings growth in the private sector was unchanged from the previous month. Earnings growth in the public sector rose from 4.2% in November.
- Earnings are currently growing at a slower rate than they were a year ago (the headline rate in December 2004 was 4.4%).
- In the year to December, the consumer price index showed inflation below the rate of earnings growth at 1.9%. 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 Dec	3.3	2.9	5.2
2002 Dec	3.9	3.6	4.7
2003 Dec	3.8	3.9	4.4
2004 Dec	4.4	4.3	4.7
2005 Jan	4.2	4.1	4.6
Feb	4.5	4.5	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	4.1	4.2
Oct	3.6	3.5	4.1
Nov	3.4	3.3	4.2
Dec	3.6	3.3	4.4

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

C1: Employment



[Source: see table]

Employment structure in the UK

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

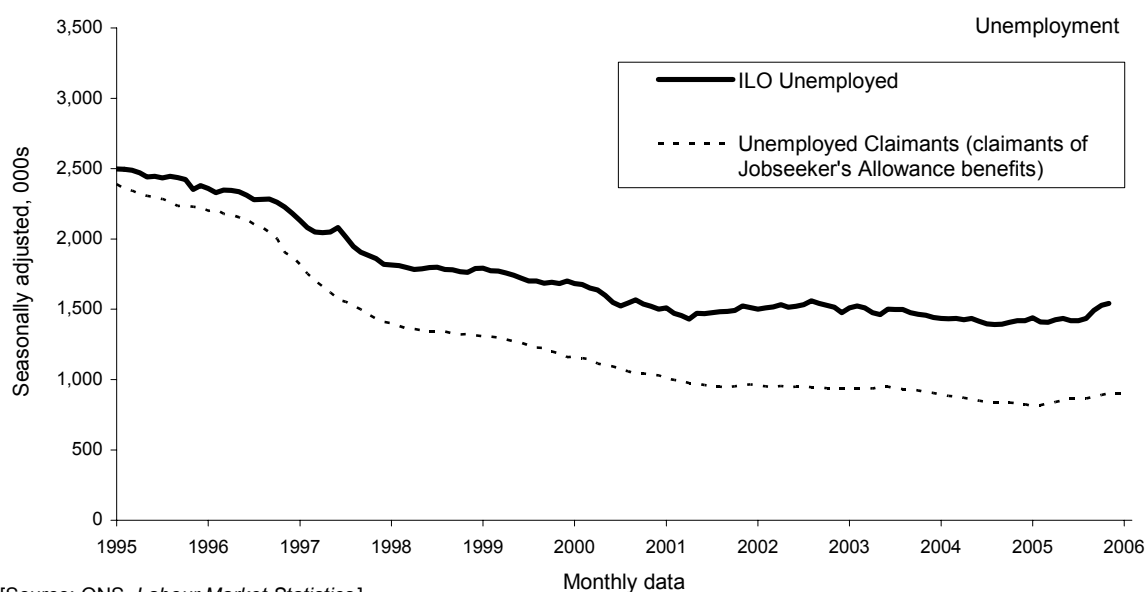
	Total in employment	Employees	Self-employed	Unpaid Family Workers	Government Training
2001 Nov	27,774	24,225	3,329	103	118
2002 Nov	28,074	24,521	3,363	94	96
2003 Nov	28,254	24,388	3,659	99	108
2004 Nov	28,586	24,720	3,644	97	126
2005 Feb	28,679	24,819	3,630	104	126
2005 May	28,698	24,860	3,621	101	116
2005 Aug	28,825	24,965	3,660	93	107
2005 Nov	28,769	24,869	3,700	90	109
Changes (%):					
on last 3 months	-0.2	-0.4	1.1	-3.2	2.0
on last year	0.6	0.6	1.5	-6.8	-12.9

Source: ONS, *Labour Market Statistics*, 15 Feb 2006

- Total employment was 28.8 million in the period October to December 2005, 0.6% higher than a year previously. The working age employment rate of 74.5% was 0.4% lower than the previous quarter and 0.4% lower than a year earlier.
- The number of workforce jobs increased by 9,000 between June and September 2005 and was 261,000 higher than a year previously. Over the year to September, the number of production industry workforce jobs fell by 129,000. The number of service sector jobs rose by 307,000.
- 7.3 million people were in part-time employment in the period October to December 2005, of whom 5.6 million were women. 3.7 million people were self-employed.

Contact: Dominic Webb, x4324

Updates: ONS, *Labour Market Statistics*, 15 Mar

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 October to December 2005, the level of ILO unemployment in the UK was 1,541,000 (seasonally adjusted). This was an increase of 123,000 from the period October to December 2004.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 2,000 between December 2005 and January 2006 to 904,000.

The New Deal for Young People started in January 1998.

- 1,026,000 individuals had joined the scheme by the end of November 2005. Of those leaving the scheme up to the end of August 646,000 had moved into jobs, of which 550,000 (85%) were 'sustained', i.e. those who had not returned to claim Jobseeker's 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 609,000 individuals had joined the scheme by the end of November 2005. Of those leaving the scheme up to the end of August 251,000 had entered jobs, of which 206,000 (82%) were sustained.

ILO Unemployment in the UK seasonally adjusted

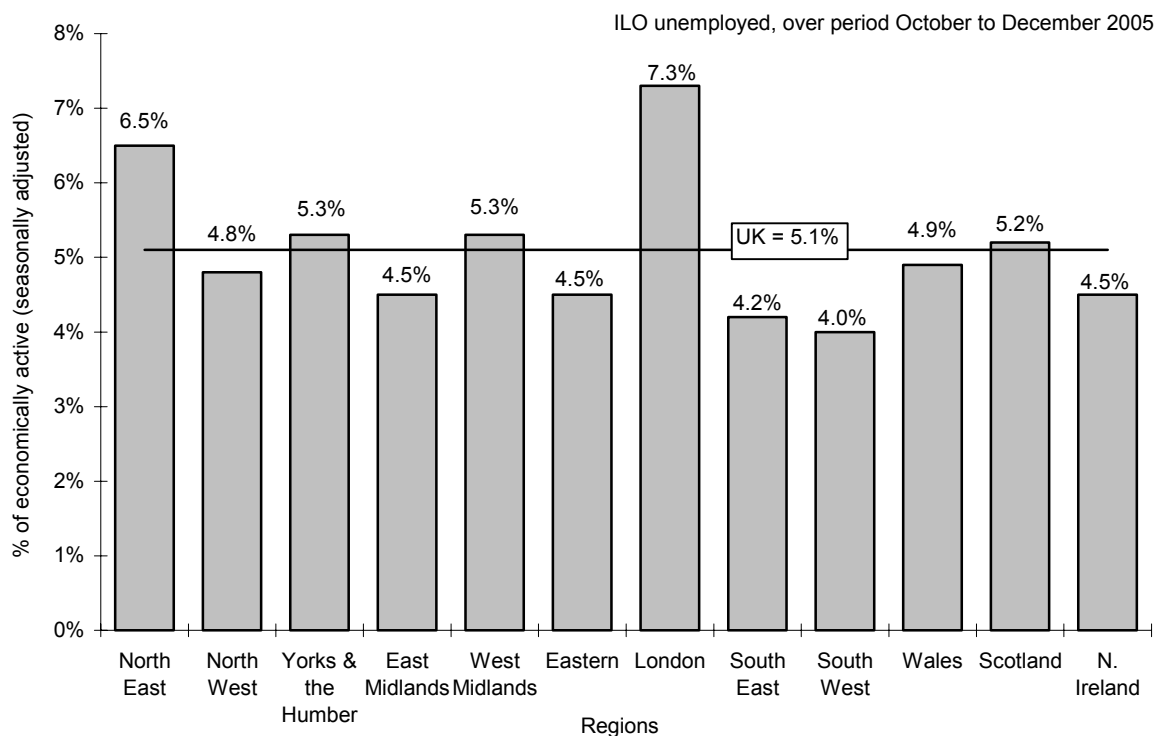
		'000s	rate (%)
1999	Jul - Sep	1,702	5.9
	Oct - Dec	1,684	5.8
2000	Jan - Mar	1,675	5.8
	Apr - Jun	1,599	5.5
	Jul - Sep	1,545	5.3
2001	Oct - Dec	1,521	5.2
	Jan - Mar	1,472	5.1
	Apr - Jun	1,472	5.0
2002	Jul - Sep	1,483	5.1
	Oct - Dec	1,523	5.2
	Jan - Mar	1,511	5.2
2003	Apr - Jun	1,515	5.2
	Jul - Sep	1,561	5.3
	Oct - Dec	1,514	5.1
2004	Jan - Mar	1,524	5.1
	Apr - Jun	1,463	4.9
	Jul - Sep	1,499	5.0
2005	Oct - Dec	1,458	4.9
	Jan - Mar	1,432	4.8
	Apr - Jun	1,434	4.8
2006	Jul - Sep	1,392	4.7
	Oct - Dec	1,418	4.7
	Jan - Mar	1,409	4.7
2007	Apr - Jun	1,435	4.8
	Jul - Sep	1,434	4.7
	Oct - Dec	1,541	5.1

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793

Update: ONS, *Labour Market Statistics*, 15 Mar
New Deal, Apr

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 October to December 2005 the London region had the highest unemployment rate, 7.3% of the economically active population. The lowest rate over the same period was 4.0%, in the South West region.
- A comparison of October to December 2005 with the same period a year earlier shows that the largest fall (8%) in unemployment occurred in Scotland. The South East region showed the largest increase (21%) over the period.

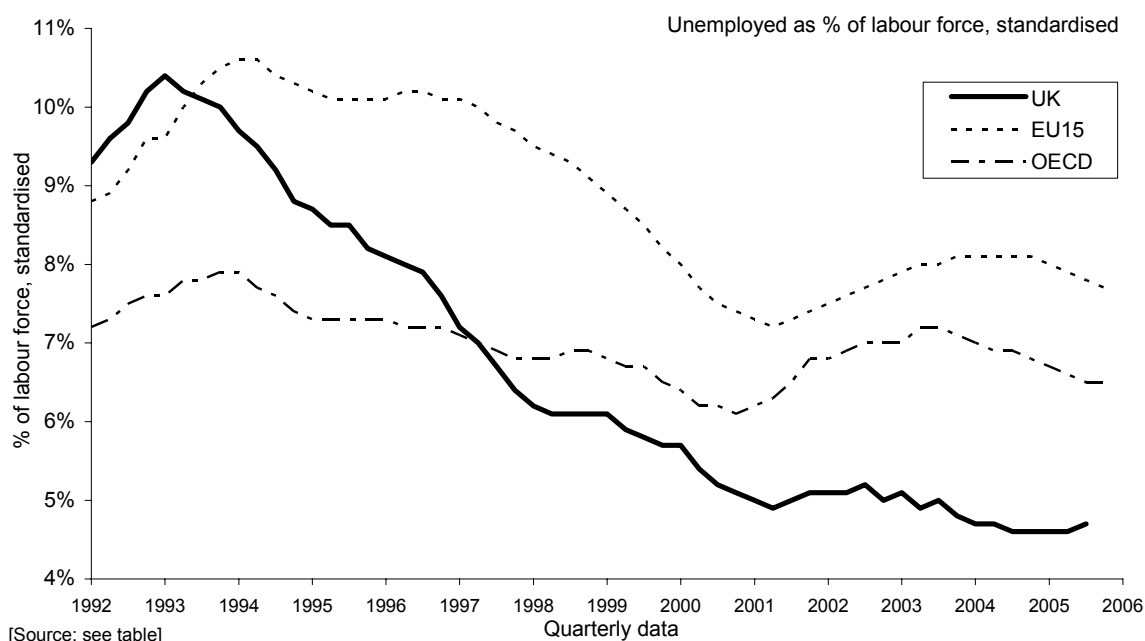
ILO Unemployment, October to December 2005

change on same period in previous year;
seasonally adjusted

	Number (rounded)	%
North East	2,000	3
North West & Merseyside	5,000	3
Yorkshire & the Humber	19,000	16
East Midlands	11,000	12
West Midlands	12,000	9
Eastern	19,000	17
London	11,000	4
South East	31,000	21
South West	16,000	19
Wales	10,000	17
Scotland	-12,000	-8
Northern Ireland	-1,000	-3

Source: ONS, *Labour Market Statistics*

C4: Unemployment: International Comparisons



Unemployment

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

	2002	2003	2004	2004				2005			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USA	5.8	6.0	5.5	5.7	5.6	5.5	5.4	5.2	5.1	5.0	5.0
Japan	5.4	5.3	4.7	4.9	4.6	4.8	4.5	4.6	4.3	4.3	4.5
Canada	7.7	7.6	7.2	7.3	7.2	7.1	7.1	7.0	6.8	6.8	6.5
UK	5.1	4.9	4.7	4.7	4.7	4.6	4.6	4.6	4.6	4.7	..
Germany	8.2	9.1	9.5	9.4	9.5	9.6	9.6	9.7	9.6	9.2	9.3
France	8.9	9.5	9.6	9.7	9.5	9.5	9.6	9.7	9.6	9.5	9.3
Italy	8.6	8.4	8.0	8.2	8.1	7.9	8.0	7.8	7.6	7.5	..
Eurozone	8.3	8.7	8.9	8.9	8.9	8.9	8.8	8.8	8.6	8.4	8.3
G7	6.5	6.6	6.3	6.4	6.3	6.3	6.3	6.2	6.1	5.9	5.9
OECD	6.9	7.1	6.9	7.0	6.9	6.9	6.8	6.7	6.6	6.5	6.5

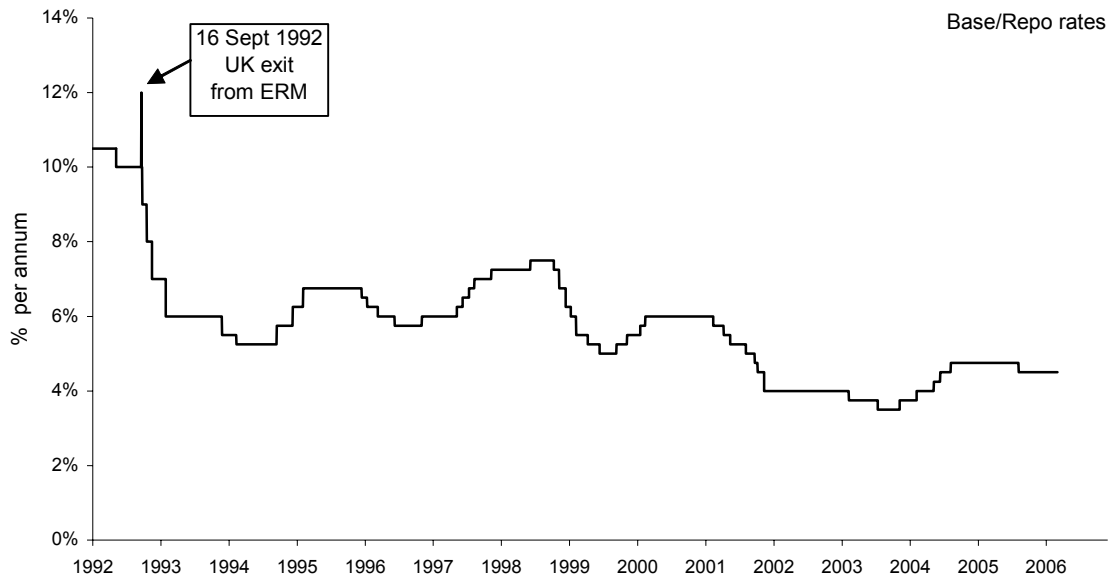
Source: OECD, *Main Economic Indicators*, Feb 2006

- 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 Q3 2004 and Q3 2005 (the latest period for which all data are available) the largest fall in unemployment among G7 countries was in Japan and the USA, where it fell by 0.5 of a percentage point. There was a rise in unemployment (0.1 of a percentage point) in the UK. The unemployment rate in all the G7 nations taken together fell by 0.4 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% in 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*, 10 Mar
OECD, *Economic Outlook*, Jun

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 9 February 2006, the MPC voted to maintain the base rate at 4.50%.** One member voted for a reduction of 0.25 points in the base rate, the other eight voted to maintain the rate.

The minutes of February's meeting note:

- Sterling money market instruments implied that interest rate expectations were broadly flat over the next year or so.
- Service sector growth had picked up significantly but manufacturing output fell by 1% in Q4 2005.
- The recent slackening of employment growth and the rise in unemployment could weigh on future consumer spending growth but housing market activity and prices continued to point to a pickup in the housing market.

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		

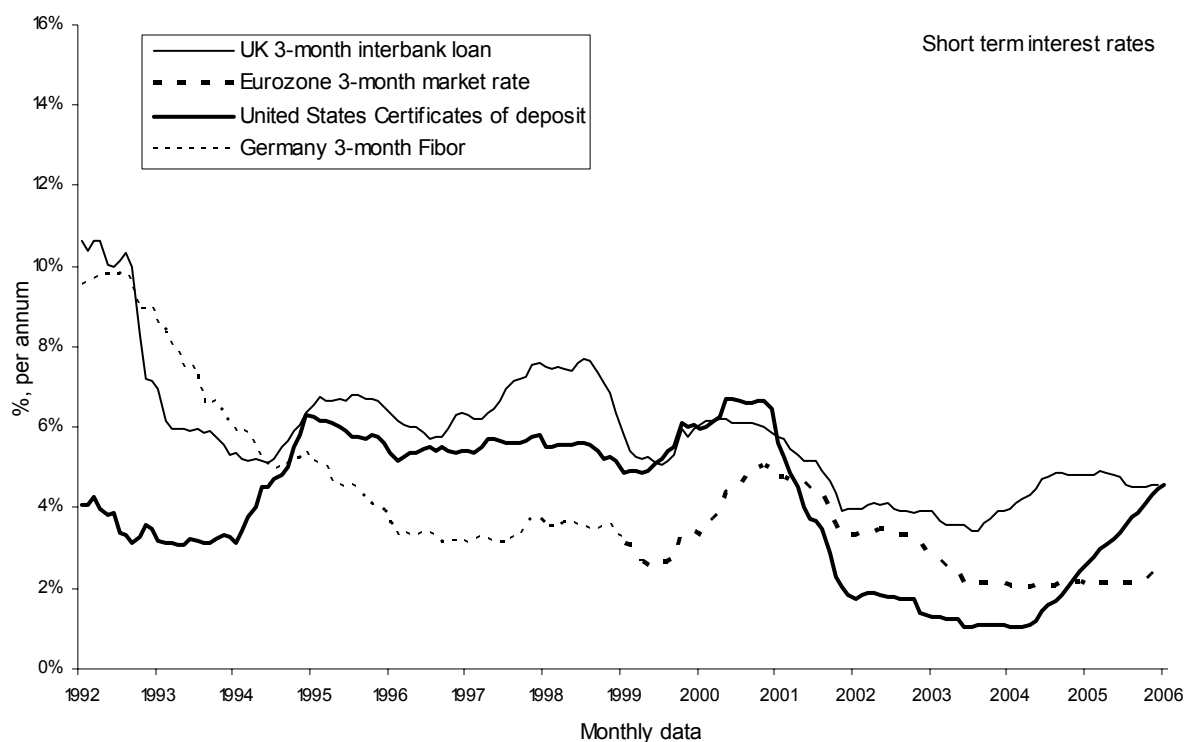
Source: Bank of England

The central projection from the latest Bank *Quarterly Inflation Report* (February 2006) was for inflation to remain around the 2% target over the forecast period. The report noted that output growth recovered towards the end of 2005, and that consumer spending had revived, although business investment growth appeared lacklustre. The pace of expansion in the United Kingdom's major export markets remained firm. The central projection on GDP growth is for it to move above its historical average before easing back in the second half of the projection.

Contact: Bryn Morgan, x4904

Update: *Next Decision*, 9 Mar; *Minutes*, 22 Mar
Quarterly Inflation Report, 10 May

D2: Interest Rates: International Comparisons



Interest rates in the UK were cut by 0.25 points to 4.50% on 4 August 2005, the first change since August 2004. The Euro rate was increased by 0.25 points on 1 December 2005. The US Federal Reserve has increased the federal funds rate at fourteen 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 European Central Bank (ECB) interest rate was increased to 2.25% on 1 December 2005. It had previously stood at 2.00% 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 31 January 2006 the US Federal Reserve increased the federal funds rate by 0.25% to 4.50%, following increases of 0.25% at its previous thirteen meetings on: 13 December, 1 November, 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 28 February 2006

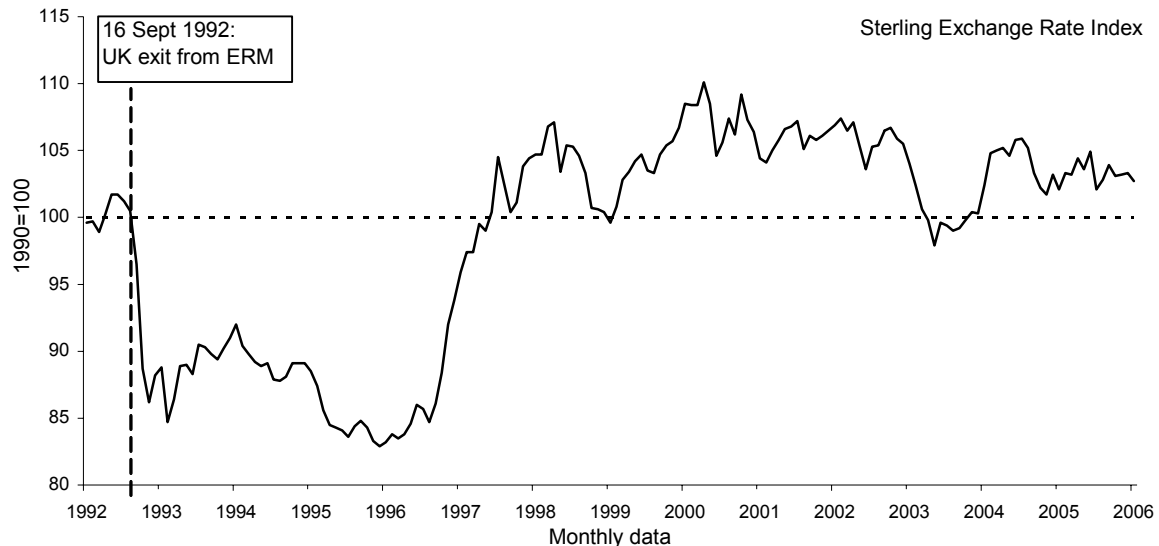
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	4.50	4.19	$4 \frac{9}{16} - 4 \frac{1}{2}$
Eurozone	2.25	n/a	$2 \frac{11}{16} - 2 \frac{5}{8}$
United States	4.50	4.55	$4 \frac{27}{32} - 4 \frac{25}{32}$
Japan	0.00	1.59	$\frac{3}{32} - \frac{1}{32}$
Switzerland	0.50-1.50	2.23	$1 \frac{5}{32} - 1 \frac{1}{8}$

Source: *Financial Times*, 1 Mar 2006 (Companies & Markets, p37)

Contact: Bryn Morgan, x4904 **Updates:** *Short-term interest rates:* OECD, MEI, mid-Mar;
Base rates: 9 Mar (UK MPC), 2 Mar (EU), 28 Mar (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 2005, the SERI fell by 0.6 points in January 2006, suggesting that the UK was relatively more competitive at the end of January than at the end of the previous year.

The table shows sterling exchange rates for three major currencies: the US dollar, Japanese yen and the euro. The pound was worth €1.469 at the London market close on 28 February 2006, compared with a launch rate of €1.476 on 31 December 1998.

Sterling Exchange Rates

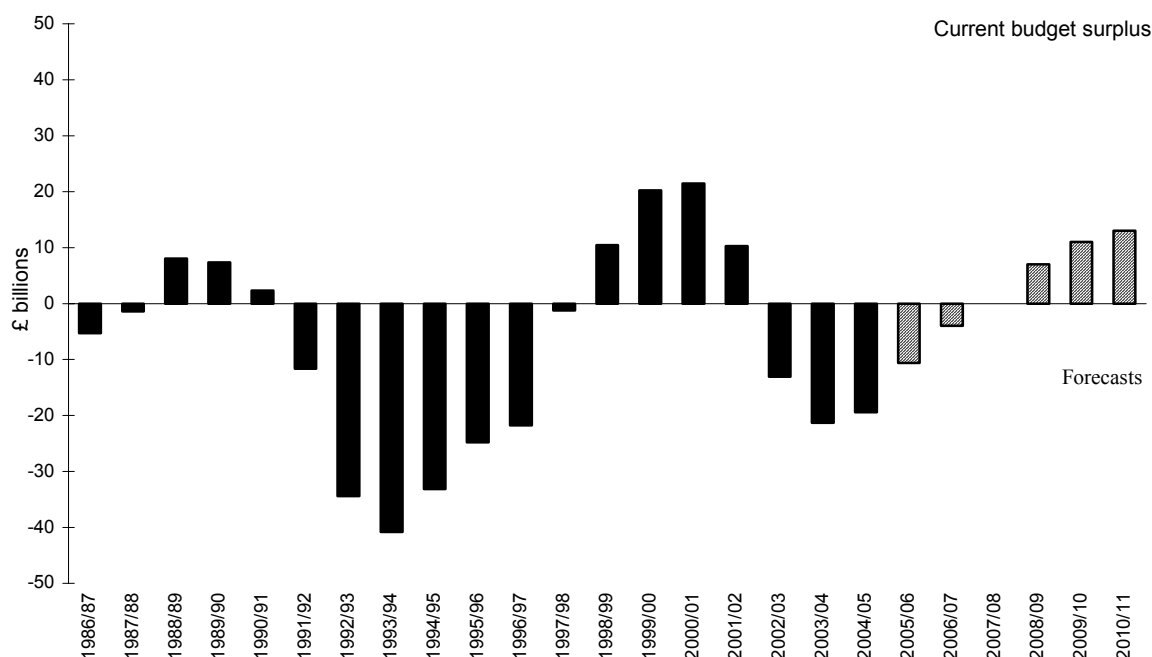
rates and % changes

	US Dollar (\$)		Yen (¥)		Euro (€)	
	Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
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
2005	1.820	-0.7	200.1	1.0	1.463	-0.7
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
Nov	1.734	-6.8	205.4	5.5	1.472	2.9
Dec	1.746	-9.4	207.0	3.4	1.473	2.2
2006 Jan	1.768	-5.8	204.1	5.2	1.458	1.8

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

Contact: Edward Beale, x2464

Updates: ONS, SERI, mid-Mar; 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 revised its view of the starting point of the cycle to 1997/98 (from 1999/00). In the 2005 Pre-Budget Report, the Treasury revised its view of the end point of the cycle to 2008/09 (from 2005/06). The chart shows outturns for the current budget balance and Treasury forecasts from the 2005 Pre-Budget Report.

- There was a £10.0 billion deficit on the current budget in Q4 2005 compared with a £9.6 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. Net debt has increased by 0.4% of GDP following the ONS's decision to reclassify London and Continental Railways to the public sector.

- The public sector net cash requirement (PSNCR - the new aggregate replacing the PSBR) was £19.2 billion in Q4 2005 compared with £22.3 billion in the same quarter of 2004. In 2004/05, the PSNCR was £38.8 billion compared with £39.7 billion in 2003/04.

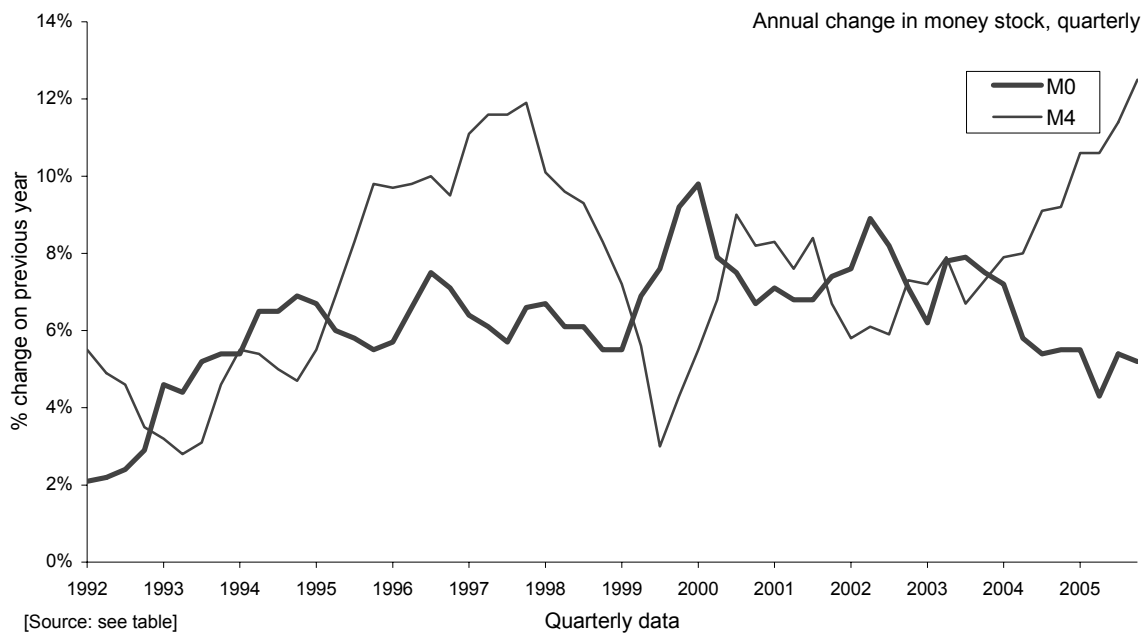
Public Sector Net Debt

£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2001/02	314.6	30.4
2002/03	346.3	31.8
2003/04	381.5	33.2
2004/05	421.0	35.1
2004 Q4	423.2	35.6
2005 Q1	421.0	35.1
Q2	436.7	36.1
Q3	444.6	36.3
Q4	464.6	37.5

Source: ONS database, series: RUTN, RUTO

D5: Money Supply



Money stock

% change; seasonally adjusted

	M0		M4	
	3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2005 Jan	4.4	5.6	11.4	9.4
Feb	5.4	5.9	12.4	9.7
Mar	4.1	5.1	14.0	10.6
Apr	2.7	4.8	11.1	10.6
May	1.9	4.3	14.6	11.3
Jun	2.9	3.8	10.1	10.5
Jul	6.0	4.8	12.8	11.0
Aug	10.5	6.1	5.4	9.9
Sep	10.4	5.4	11.3	11.2
Oct	8.1	5.3	10.8	11.5
Nov	4.4	5.5	15.8	12.0
Dec	1.4	4.6	14.9	12.6
2006 Jan	9.2	6.5	12.4	11.8

Source: Bank of England, *Bankstats*, February 2006, Tables A1.1 and A2.1.1

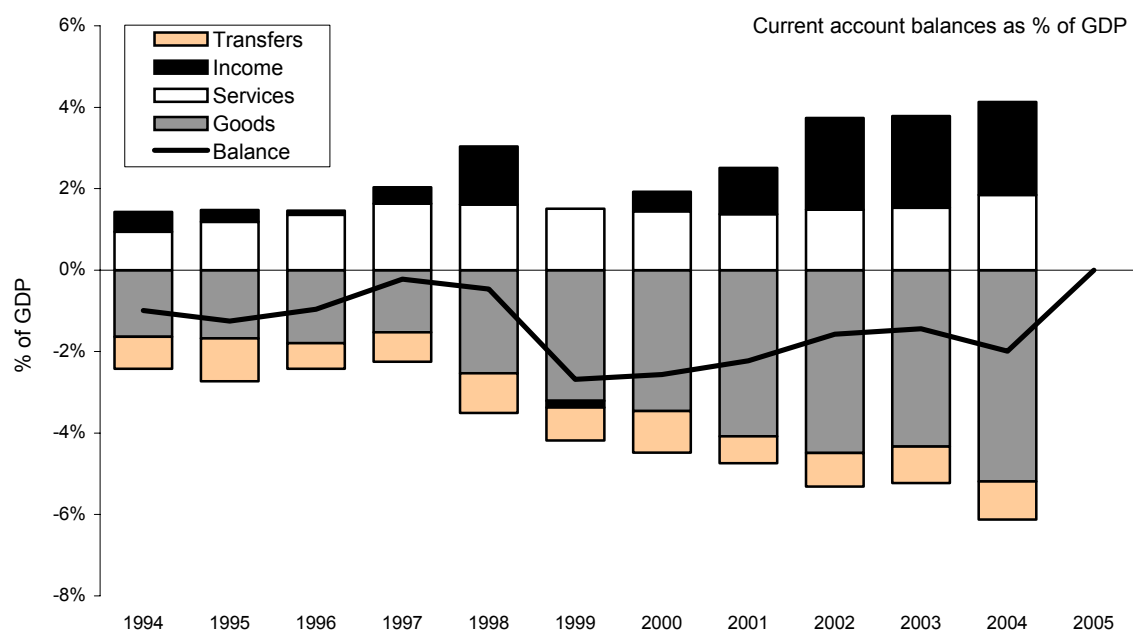
M0 comprises notes and coins in circulation outside the Bank of England plus bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 11.8% in the 12 months to January. The 12-month seasonally adjusted M0 growth rate was 6.5% in January, compared with 5.6% in January 2005.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

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

E1: UK Overseas Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

	Trade in goods/services			Income (total)	Transfers			Current Account Balance
	Goods	Services	Total		Central Gov.	Other	Total	
2001	-40,648	13,703	-26,945	11,371	-2,593	-4,018	-6,611	-22,185
2002	-47,087	15,536	-31,551	23,679	-5,633	-2,982	-8,615	-16,487
2003	-47,864	16,882	-30,982	24,995	-6,971	-2,990	-9,961	-15,948
2004	-60,414	21,436	-38,978	26,721	-8,300	-2,640	-10,940	-23,197
2005	-65,520	17,871	-47,649	..	..	..	..	..
2004 Q3	-15,404	5,198	-10,206	3,995	-2,154	-648	-2,802	-9,013
Q4	-16,237	5,426	-10,811	9,861	-2,197	-735	-2,932	-3,882
2005 Q1	-15,623	5,144	-10,479	7,498	-2,741	-831	-3,572	-6,676
Q2	-15,488	5,000	-10,488	10,952	-2,195	-370	-2,565	-1,360
Q3	-17,235	2,867	-14,368	6,928	-2,164	-860	-3,024	-10,215
Q4	-17,174	4,860	-12,314	..	..	..	..	..

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

- The current account deficit in 2004 was £23.2 billion, compared with a £15.9 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 latest data suggest that between 2004 and 2005 the surplus on services trade widened by £3.6 billion, while the deficit on trade in goods also widened by £5.1 billion.
- On a quarterly basis, the current account deficit was £10.2 billion in Q3 2005 (the highest since records began in 1955), £8.9 billion wider than in Q2 2005. Over the same period, the surpluses on income and services narrowed, while the deficits on trade in goods and transfers both widened. The latest data suggest that between Q3 2005 and Q4 2005 the surplus on services trade widened by £2.0 billion, and the deficit on trade in goods narrowed slightly.
- The current account deficit with EU25 countries was £7.5 billion in Q3 2005, compared with £5.8 billion in Q2 2005. The current account with non-EU countries was in surplus by £2.7 billion in Q3 2005, having been £4.4 billion in deficit in Q2 2005.

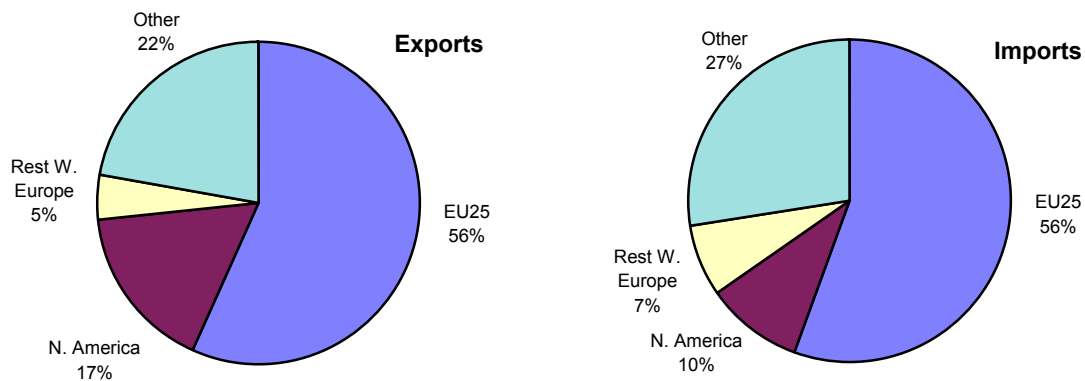
Contact: Ian Townsend, x3977

Updates: ONS, *UK Trade*, 9 Mar; *UK Balance of Payments Q4 2005*, 29 Mar

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
2002	100.0	100.0	186,511	233,598	-47,087
2003	99.7	102.0	188,615	236,479	-47,864
2004	101.0	108.6	190,933	251,347	-60,414
2005	108.6	114.6	209,308	274,828	-65,520
2004 Q4	102.4	112.0	49,406	65,643	-16,237
2005 Q1	102.8	110.0	49,331	64,954	-15,623
Q2	108.5	113.7	51,810	67,298	-15,488
Q3	110.5	117.0	53,451	70,686	-17,235
Q4	112.4	117.8	54,716	71,890	-17,174

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

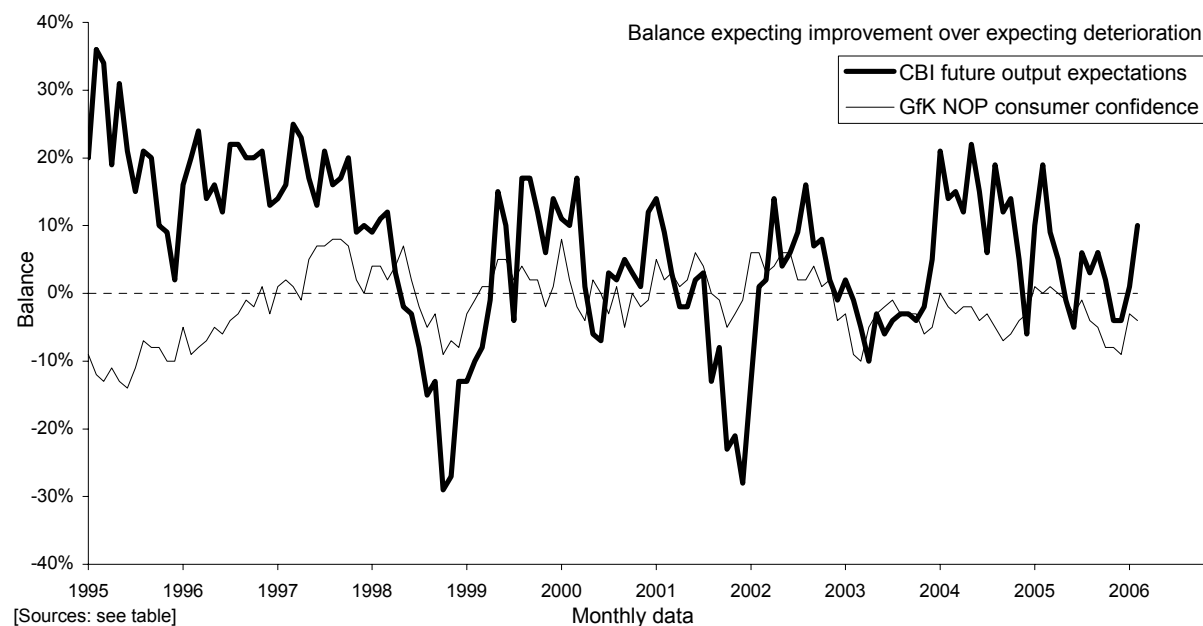
- In December 2005 the total value of UK goods exports was £18.6 billion, and goods imports £24.6 billion, giving a deficit on goods of £6.1 billion (compared with £6.0 billion in November 2005).
- Geographical breakdowns (EU/non-EU) for goods trade are still being affected by VAT Missing Trader Intra-Community Fraud (see latest ONS release for details). The latest monthly estimates suggest that the goods deficit with the EU25 was £3.0 billion in December 2005 (compared with £2.9 billion in November 2005), whereas the deficit with non-EU25 countries was £3.2 billion (compared with £3.0 billion in November 2005).
- On a monthly basis UK trade in **services** was in surplus by £1.7 billion in December 2005 (compared with £1.5 billion in November 2005).
- The UK's overall deficit on **goods and services** combined trade was £4.4 billion in December 2005 (compared with £4.5 billion in November 2005).

Contact: Ian Townsend, x3977

Update: ONS, *UK Trade (Jan 2006)*, 9 Mar

F1: Survey indicators

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



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

- The balance of expectations for future output from the CBI's quarterly survey was +10 in February 2006. This is the highest balance for a year and is 9 points above January 2006.
- A balance of -17% of firms had export orders below normal, a fall of 7 points. However, on overall orders, the balance improved from -28% in January to -18%.

GfK NOP's *Consumer Confidence Barometer* is a composite measure of a range of consumer attitudes, including: forward expectations of the general economic situation and households' financial positions, and views on making major household purchases.

- The overall index fell by one point in February to -4. The fall in February was driven by a fall in the major purchases measure.
- Perceptions of the general economic situation in the country fell by 3 points to -27. Perceptions of the situation over the next 12 months increased by one point to -14.
- The index for future personal finances increased by two points to +12 and the "now is a good time to save" index remained at +30.

Output Expectations/Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

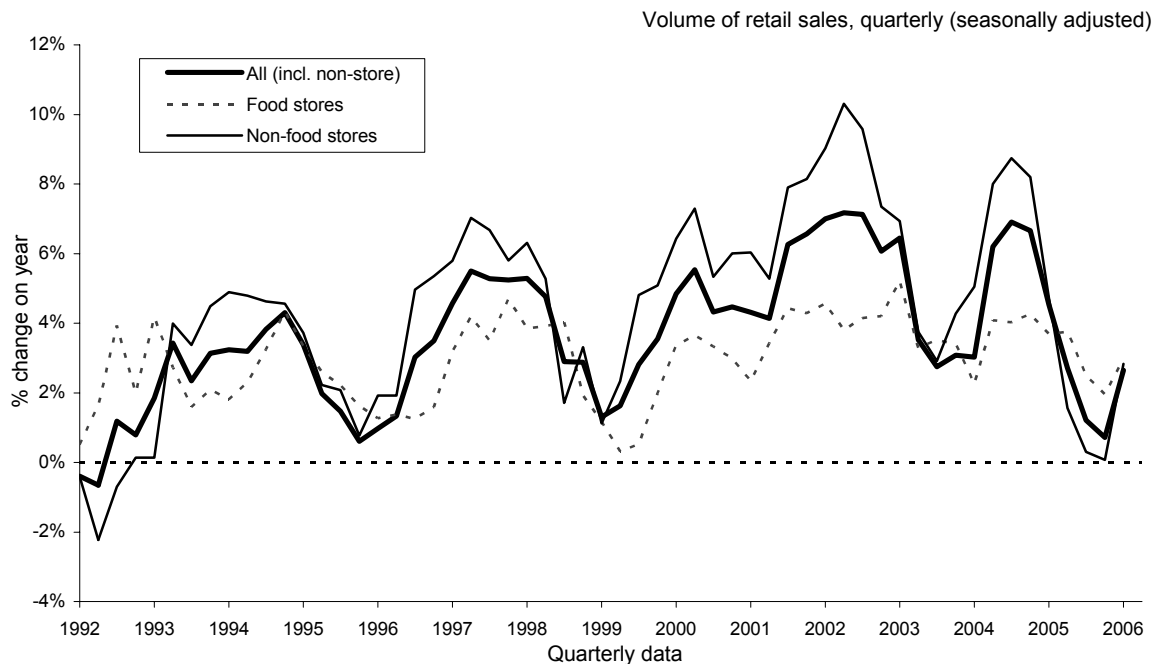
	Future output expectations (CBI)	Consumer confidence (GfK)
2005 Feb	+19	0
Mar	+9	+1
Apr	+5	0
May	-1	-1
Jun	-5	-3
Jul	+6	-1
Aug	+3	-4
Sep	+6	-5
Oct	+2	-8
Nov	-4	-8
Dec	-4	-9
2006 Jan	+1	-3
Feb	+10	-4

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 Mar; GfK NOP, *Consumer Confidence*, 31 Mar

F2: Retail Sales



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

- The *volume* of retail sales in the three months from November to January was 1.3% higher compared with the previous three month period, and was 2.6% higher than a year previously (seasonally adjusted).
- Retail sales volumes in January 2006 were 1.4% higher than in January 2005 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 3.1% in November to January compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 2.5% 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
2002	3.8	2.8	5.6	8.5	4.7
2003	3.7	2.8	4.4	-0.9	2.7
2004	3.5	3.6	4.2	7.0	4.4
2005	2.6	2.6	-1.6	-1.6	0.8
2004 Q4	4.1	3.7	0.7	2.8	3.0
2005 Q1	3.6	3.1	1.7	-2.8	1.8
Q2	3.4	1.8	-3.5	-4.3	0.9
Q3	1.7	0.9	-4.2	-0.9	0.0
Q4	3.1	3.5	-1.4	0.7	2.2

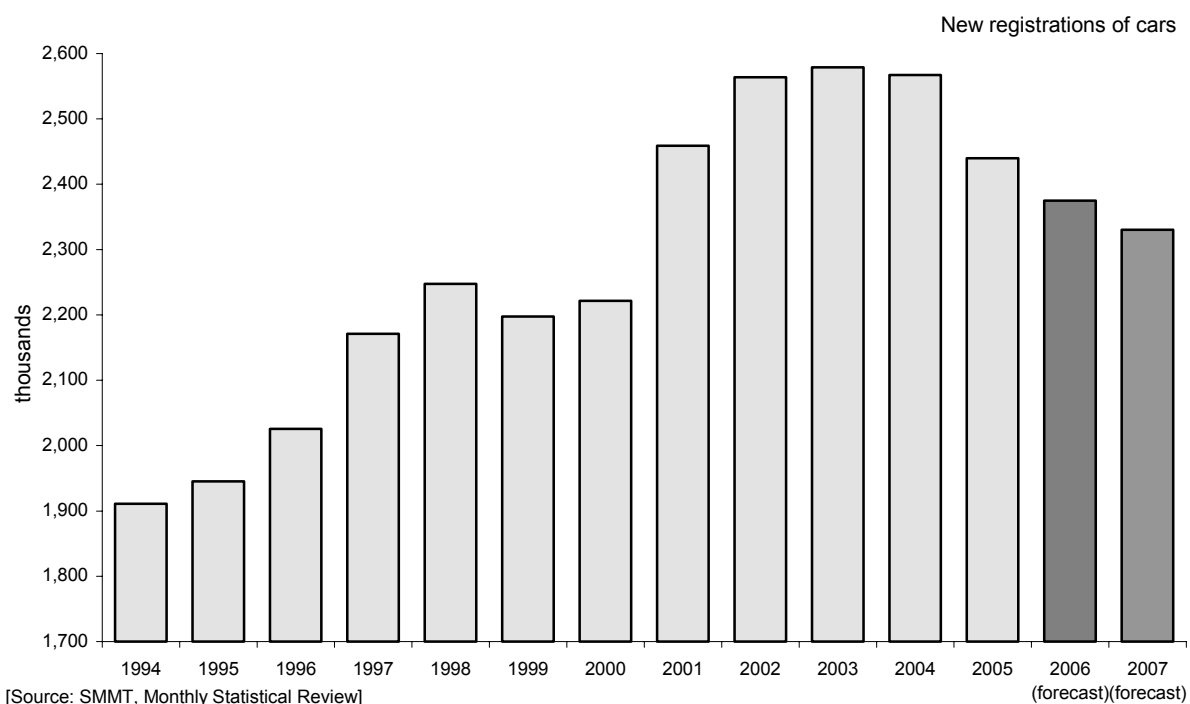
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in January 2006 was £4,350 million, unchanged from January 2005 (non-seasonally adjusted).

Contact: Ed Potton, x2883

Update: ONS, *Retail Sales: First Release*, 16 Mar

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations increased by 8.7% in December 2005, compared with the previous December's figure, to 156,866 units.

- The number of new registrations of cars was just over 2.4 million units in 2005, a fall of 5.0% on the previous year.
- New registrations of cars are forecast to fall by 2.7% in 2006 and a further 1.9% in 2007.
- There were 21,030 registrations of British-built cars in December, equivalent to 13.4% of the market. The number of British built registrations decreased 6.4% on the previous December's figure. In 2005 as a whole, there were 415,648 registrations of British-built cars, a decrease of 10.4% from the previous year's figure and equivalent to 17.0% of the market.

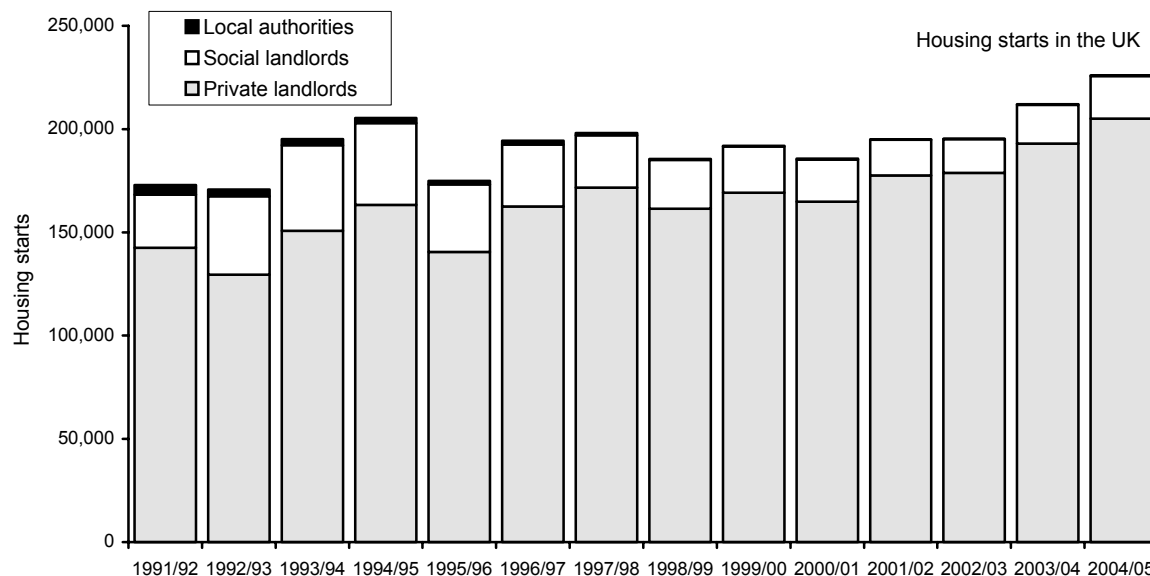
New Registrations of Cars

000s & % change; not seasonally adjusted

	Number (^{'000s})	Change over 12 months
2004	2,567	-0.5
2005	2,440	-5.0
2006 (forecast)	2,375	-2.7
2007 (forecast)	2,330	-1.9
<hr/>		
2004 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
Nov	158	-7.9
Dec	157	8.7

Source: SMMT, Monthly Statistical Review

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:

- **Monthly** UK house prices fell by 0.4%, compared with a 1.0% increase in December 2005. House prices were 5.1% higher than in the same month a year previously.
- On a **quarterly** basis, UK house prices rose by 5.1% in Q4 2005, compared with 15.1% in Q4 2004 (all seasonally adjusted).

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

- In Q4 2005, **annual** house price inflation was highest in Scotland (14.8%) and lowest in the South West (a fall of 1.9%), compared with 5.1% across the UK as a whole (seasonally adjusted).

Standardised average house prices

£s & %; non-seasonally adjusted

		All houses	New houses	Existing houses	First time buyers
2004	Q4	161,288	158,248	162,542	118,033
2005	Q1	160,724	156,647	161,913	118,863
2005	Q2	164,413	159,942	165,467	121,115
2005	Q3	167,808	163,459	168,718	125,064
2005	Q4	169,445	163,293	170,389	127,922

% change over same period in previous year

2004	Q4	15.1	11.7	15.0	19.2
2005	Q1	9.7	9.1	9.5	13.9
2005	Q2	3.7	2.6	3.6	7.6
2005	Q3	3.0	0.7	2.8	6.9
2005	Q4	5.1	3.2	4.8	8.4

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

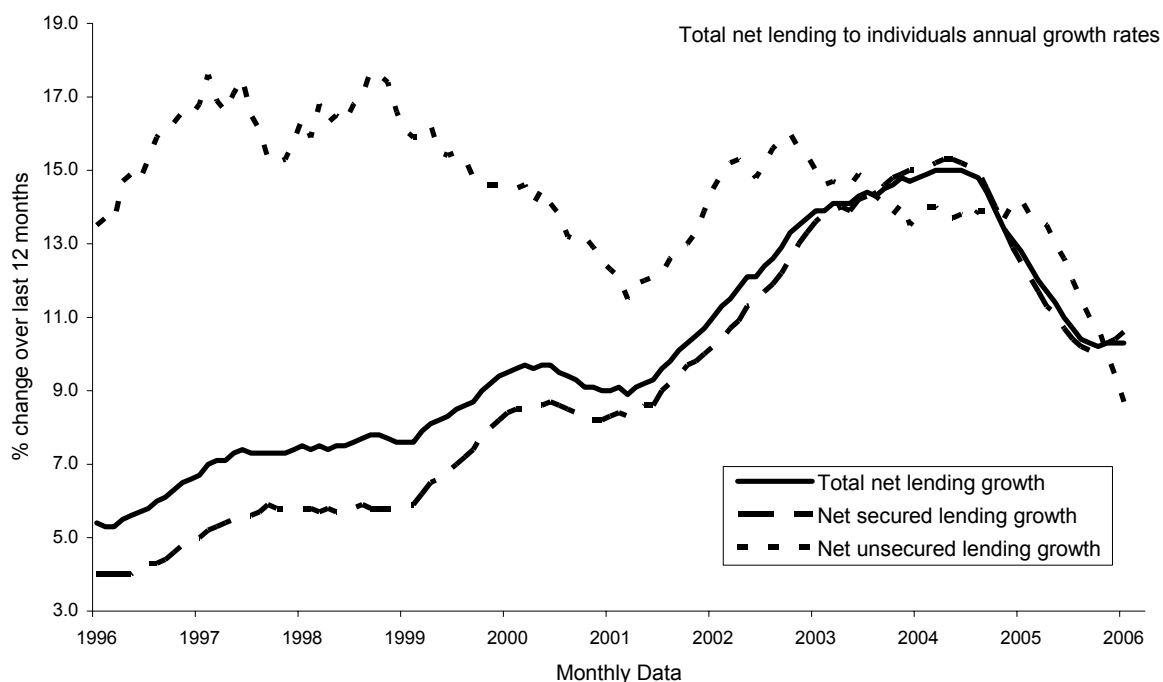
The ODPM publishes a house price index based on completions, whereas the Halifax index is based on mortgage approvals. All figures are not seasonally adjusted:

- The average UK house price in December 2005 was £185,788, a small decrease compared with £185,848 in November 2005. **Annual** house price inflation in December 2005 was 2.9%, compared with 2.2% in November 2005.
- Regionally, **annual** house price inflation in December 2005 was highest in Northern Ireland (12.9%) and lowest in the East of England, with prices falling by 1.4% in both regions.

Contact: Ian Townsend, x3977

Updates: ODPM, *House-building*, due; Halifax, *House Prices*, early Mar; ODPM, *House Prices*, 13 Mar

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
2002 Jan	595,856	142,070	737,927	10.2	14.5	11.0
2003 Jan	682,417	157,778	840,195	13.6	15.0	13.9
2004 Jan	782,665	167,627	950,292	15.0	13.8	14.8
2005 Jan	882,812	183,946	1,066,758	12.5	14.2	12.8
Apr	902,964	186,858	1,089,822	11.3	13.5	11.7
Jul	924,633	189,367	1,114,001	10.4	12.0	10.7
Oct	947,797	191,112	1,138,909	10.1	10.7	10.2
2006 Jan	974,582	193,183	1,167,765	10.6	8.7	10.3

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

- Total net outstanding lending to individuals was £1,168 billion at the end of January 2006 (seasonally adjusted).
- Total net lending to individuals grew by 0.9% in January 2005 compared with the previous month, and grew by 10.3% on an annual basis (all seasonally adjusted). This represents no change compared with the annualised rates for December 2005.
- Of the £10.5 billion increase in net lending in December 2005, £9.2 billion was mortgage borrowing and £1.3 billion was consumer credit (seasonally adjusted).

Contact: Ed Potton, x2883

Update: Bank of England, *Lending to Individuals*, 29 Mar

V Indicator sources

The table gives details of sources used in this paper. Office for National Statistics (ONS) releases are available from http://www.statistics.gov.uk/press_release/CurrentReleases.asp.

Indicator		Source details
A1	Gross Domestic Product	Office for National Statistics (ONS), releases: <i>Preliminary GDP Estimates</i> ; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=406 <i>Quarterly National Accounts</i> http://www.statistics.gov.uk/statbase/Product.asp?vlnk=818 <i>UK output, income & expenditure</i> ; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1129 HM Treasury, <i>Forecasts for the UK Economy</i> ; http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm
A2	GDP: ICs	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), <i>Main Economic Indicators</i> ; Growth Forecasts: OECD, <i>Economic Outlook</i>
A3	GDP by Industry	ONS, <i>UK Output, income and expenditure, Quarterly National Accounts/GDP preliminary estimate</i> releases HM Treasury, <i>Forecasts for the UK economy</i> ; http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm
A4	Investment	ONS Database & ONS, <i>Business Investment</i> release
A5	Productivity	ONS, <i>Productivity</i> release
B1	Prices	ONS, <i>Consumer Price Indices</i> release
B2	Prices: International Comparisons	CPI: OECD, <i>Main Economic Indicators</i> ; 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, <i>Labour Market Statistics</i> release; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944 , or ONS Database
C1	Employment	ONS Database & ONS, <i>Labour Market Statistics</i> release; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944 Commentary: ONS, <i>Labour Market Statistics</i> release
C2	Unemployment: National	ONS, <i>Labour Market Statistics</i> release; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944 , and <i>Labour Market Statistics First Release Historical Supplement</i> (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, <i>Labour Market Statistics</i> release; http://www.statistics.gov.uk/statbase/Product.asp?vlnk=1944
C4	Unemployment: International Comparisons	Data: OECD, <i>Main Economic Indicators</i> Commentary: OECD, <i>Main Economic Indicators & Economic Outlook</i>

Indicator		Source details
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
D2	Interest Rates: International Comparisons	Short term interest rates (graph): OECD; <i>Main Economic Indicators</i> ; International interest rates: <i>Financial Times</i> , 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: <i>Financial Times</i>
D4	Public Finances	Data: ONS, <i>Public Sector Accounts</i> , http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=3764 or <i>Public Sector Finances</i> , http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805 , National Statistics Database; Forecasts of budget surplus: HM Treasury, <i>Pre-Budget Report</i> , table B2 or <i>Budget Red Book</i> , 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, <i>Balance of Payments</i> ; http://www.statistics.gov.uk/STATBASE/Product.asp?vlnk=1118
E2	Trade in Goods	Data: ONS Database; Commentary: ONS, <i>UK Trade</i> ; http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=1119
F1	Survey Indicators	Future Output Expectations/Quarterly Business Confidence: Confederation of Business Industry (CBI), <i>Economic and Business Outlook</i> and <i>Quarterly Industrial Trends Survey</i> press releases; http://www.cbi.org.uk/ndbs/press.nsf/awprdate?OpenView&Start=1&ExpandView , or ONS Database Consumer Confidence: GfK NOP; http://www.gfknop.co.uk
F2	Retail Sales	ONS, <i>Retail Sales</i> release
F3	New Car Registrations	Society of Motor Manufacturers and Traders, <i>Monthly Statistical Review</i> (in Library holdings)
F4	Housing	Office of the Deputy Prime Minister (ODPM) UK Housing Starts: table 201; http://www.odpm.gov.uk/index.asp?id=1156032 ; ODPM House building statistics: statistical release; http://www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_023765.hcsp Halifax House Price data: housing research page; http://www.hbosplc.com/economy/HousingResearch.asp ODPM Experimental House Prices: statistical release; http://www.odpm.gov.uk/index.asp?id=1156181
F5	Consumer Debt	Bank of England Lending to Individuals http://www.bankofengland.co.uk ; 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

Definitions²³

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

²³ Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

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

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

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

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

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

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

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

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

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

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

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

Sterling Exchange Rate Index (SERI): This measures the value of sterling against a trade-weighted 'basket' of other currencies. The weights

used in this index measure currencies' relative importance to UK trade in manufacturing.

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

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

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

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

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

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