



RESEARCH PAPER 06/52
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Economic Indicators, November 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:

The UK and Foreign Direct Investment

Next publication date: **1 December 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 V.

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	Grahame Allen	3977
EC finance	Ed Potton	2883
GDP	Dominic Webb	4324
Employment	Edward Beale	2464
Financial services	Ed Potton	2883
Housing	Gavin Berman	3851
Incomes	Julien Anseau	4310
Industries	Ed Potton	2883
National accounts	Dominic Webb	4324
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Prices & interest rates	Dominic Webb	4324
Public expenditure	Dominic Webb	4324
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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

At its October meeting, the Bank of England's Monetary Policy Committee (MPC) voted to maintain interest rates at 4.75% for the second month in a row. Notably, the two newest members of the MPC, Professor Tim Besley and Andrew Sentance, voted against maintaining interest rates at this level, preferring an increase of 25 basis points. There is increased speculation among economists that the MPC may raise rates in November to 5.00% following comments by the Governor Mervyn King that the fall in inflation in September may not last for long despite recent falls in the cost of oil. In particular, Mr King highlighted recent increases in labour supply, and to what extent this could allow a faster expansion of total money demand without upward pressure on inflation. CPI annual inflation fell in September to 2.4%, however the RPI (the former headline measure) rose to 3.6%, its highest level since June 1998, further fuelling speculation of an imminent rate rise.

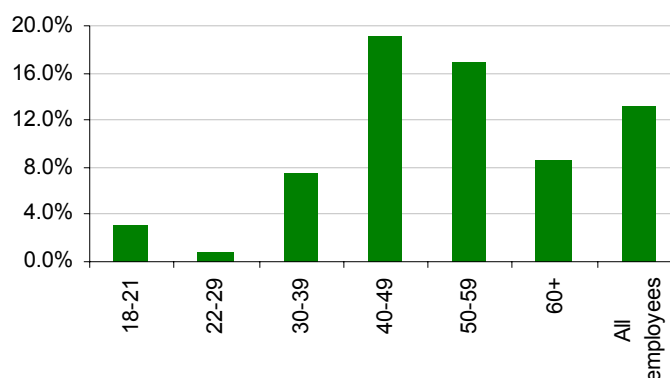
Preliminary estimates of the chained volume measure of GDP show that the UK economy grew by 0.7% in Q3 2006, compared with the previous quarter. The annual growth rate of 2.8% in Q3 2006 is the highest rate in two years.

Labour market

The ILO UK unemployment level rose to a five year high in the three months June to August 2006 to 1.7 million (5.5% of the economically active population). However, the employment level also rose to an all-time high of 29 million, partially driven by the continued inflow of migrant workers from the ten countries which acceded to the EU in 2004. Notably, a study published by the National Institute of Economic and Social Research estimated that immigration in 2005/06 contributed 1.0% to GDP, while the inflow from the new EU Member States accounted for 0.2% of GDP.

The [Annual Survey of Hours and Earnings](#) was published in October. Based on median hourly earnings of full-time male and female employees, females were paid 13.3% less than their male counterparts in April 2006, compared with 13.7% in April 2005 (see chart for gender pay gaps by age band).

Gender pay gap by age band, median gross hourly earnings of full-time employees, UK, 2006



[Source: ONS, Annual Survey of Hours and Earnings, April 2006]

Foreign Direct Investment (FDI)

UNTADE's [World Investment Report 2006](#) found that the UK attracted \$165 billion in FDI in 2005, more than any other country. Overall, global inflows of FDI rose by 29% to \$916 billion. FDI is the subject of this month's *Economic Indicators* article on page iii of this paper.

Research and Development (R&D)

The DTI's [2006 R&D Scoreboard](#) showed that, in 2005/06, £19.2 billion was spent on R&D performed within UK businesses compared with £17.0 billion in 2004/05 – a rise of 13%.

III The UK and Foreign Direct Investment

A. Introduction

Levels of foreign direct investment (FDI) and inward investment are frequently cited and analysed for their effect on an economy. Flows of investment between countries has risen rapidly over recent years, but has not yet reached the levels seen in 2000.

Recent statistics have shown that the UK had the highest levels of FDI inflows in the world in 2005 (\$165 billion); however, these levels were dominated by a number of mergers and acquisitions (M&As). This article defines what FDI is, provides recent statistical data on world FDI with commentary, before focusing on the UK and some of the indicators that are available. The article intends to provide some background to recent coverage of the UK's FDI inflows as well as provide sources for further information.

B. What is FDI?

FDI, also known as (international) direct investment, forms part of the capital account of the balance of payments. 'Direct Investment' is defined as an investment that adds to, deducts from, or acquires a lasting interest in an enterprise operating in an economy other than that of the investor where the purpose is to have an 'effective voice' in the management of the enterprise.⁴ In FDI statistics an effective voice is measured as 10% of the share capital of a company; any investment below this is counted as 'portfolio' investment under balance of payments statistics and not included FDI.

It should be noted that FDI is a financial concept and is not the same as capital expenditure on fixed assets (although an investment may include this).⁵ FDI statistics are normally recorded on a 'net' basis, meaning disinvestments by companies are included. FDI covers a range of forms of investment. The examples given below relate to outward investment, but reverse of these for the UK would be inward investment:

- A UK company establishes a branch or subsidiary in a foreign country, injecting start-up capital. This is often known as a 'greenfield' investment.
- A UK company buys or sells (in full or in part) the equity of an existing foreign company. This is often known as M&A activity.
- A UK company puts additional capital into an existing foreign subsidiary or allows it to retain profits rather than return them to the parent company.

FDI statistics measure two different concepts – stocks and flows. Investment stocks measure the total book value of investments by a country and not a simple sum of investment over time. They are therefore subject to changes in valuation in company

⁴ Definition taken from Office for National Statistics (ONS), [First Release: Foreign Direct Investment 2004](#), 'Background notes'.

⁵ *Ibid.*

accounts, as well as exchange rate fluctuations. Flows measure annual levels of net investment, and can vary significantly year on year.

FDI data should be used with caution; a significant proportion of FDI flows can be accounted for by large multinational M&As. An example of this is the Vodafone acquisition of Mannesmann in 2000 that had a significant effect on flows between the UK and Germany. More recently, in 2005 a transaction involving Shell between the Netherlands and the UK made up 45% of UK inflows. Therefore large flows do not necessarily indicate significant greenfield investments, they can be large M&A transactions, and high flows may be dominated by just a few transactions.

1. Benefits of Inward Investment

A foreign investment in an existing business or a greenfield investment can have benefits for an economy. An investment in a 'greenfield' factory or business may create new jobs as well as supply chain jobs in a region. In the UK, foreign firms sometimes use factories as European bases (for example Nissan in Sunderland), so factories often supply a wider economy. FDI is also thought to improve productivity through the introduction of new working practices and transfers of technology (that can also spread to indigenous firms). While in the short term the creation of jobs does not always occur with FDI relating to an existing business, in the longer term the investment can often lead to further investment and expansion, as well as providing similar productivity benefits.

C. World FDI flows

International FDI flows have made headlines in the last year, predominantly due to the high inflows for the UK. There are two main statistical sources quoted for international flows. The OECD published some flow data for the previous year in June, with an article covering OECD countries and selected non-OECD countries, such as China.⁶ UNCTAD publish world FDI flows annually in early autumn covering the previous year in the *World Investment Report (WIR)*.⁷ This provides information on a wider group of countries and contains a large amount of data as well as commentary. Both sources base their figures on national statistical sources. This part of the article concentrates on the UNCTAD data published in October 2006.⁸

Overall world inflows of FDI rose 29% in 2005 to \$916 billion from \$711 billion in 2004. This remained well short of the record high of \$1,410 billion in 2000.

Flows into developed countries made up 59% of total world inflows in 2005, with the total \$542 billion growing by 37% compared with 2004. Developing countries made up 36% of total world inflows in 2005, growing by 21% on 2004.

Table 1 shows FDI inflows to major world economies, both developed and developing, since 1970, as well as inward stocks in 2005. In 2005 the UK had the highest level of inflows (\$165 billion), followed by the US (\$99 billion), China (\$72 billion), France (\$64 billion) and

⁶ OECD, *Trends and recent developments in Foreign Direct Investment*, 28 June 2006

⁷ UNCTAD, *World Investment Report 2006*, October 2006. Data in this section of the article has been taken from this source.

⁸ Mainly annex tables B1 and B2

the Netherlands (\$44 billion). Looking at stocks of inward FDI, the US has the highest level of stocks at \$1,626 billion, followed by the UK (\$817 billion), France (\$601 billion), Hong Kong (\$533 billion) and Germany (\$503 billion).

Table 1 - Inward world FDI flows 1970-2005

(Millions of US dollars)

	1970	1980	1990	2000	2003	2004	2005	<i>Inward Stocks 2005</i>
Developed economies, of which:	9,491	46,635	164,808	1,133,683	358,539	396,145	542,312	7,117,110
France	621	3,328	9,041	43,250	42,498	31,371	63,576	600,821
Germany	770	342	2,962	198,276	29,202	-15,113	32,663	502,790
Italy	624	577	6,345	13,375	16,415	16,815	19,971	219,868
United Kingdom	1,488	10,123	30,461	118,764	16,778	56,214	164,530	816,716
<i>(European Union total)</i>	5,158	21,494	90,499	696,083	253,728	213,726	421,899	4,499,128
Canada	1,823	5,807	7,582	66,791	7,615	1,533	33,822	356,858
United States	1,260	16,918	48,422	314,007	53,146	122,377	99,443	1,625,749
Developing economies, of which:	3,926	8,614	36,731	266,823	175,138	275,032	334,285	2,756,992
Brazil	392	1,910	989	32,779	10,144	18,146	15,066	201,183
Mexico	312	2,099	2,633	17,588	14,184	18,674	18,055	209,564
China	..	57	3,487	40,715	53,505	60,630	72,406	317,873
Hong Kong, China	50	710	3,275	61,924	13,624	34,032	35,897	532,956
India	45	79	237	3,585	4,585	5,474	6,598	45,274
Singapore	93	1,236	5,575	16,484	10,376	14,820	20,083	186,926
South-East Europe and the Commonwealth of Independent States (CIS), of which:	..	24	75	9,062	24,192	39,577	39,679	255,713
Russian Federation	..	..	..	2,714	7,958	15,444	14,600	132,491
World	13,417	55,272	201,614	1,409,568	557,869	710,755	916,277	10,129,739

Source: UNCTAD, *World Investment Report 2006* data available at: <http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1>

Table 2 below looks at outward flows of FDI.⁹ Developed countries made up 83% of world FDI outflows, with developing countries only contributing 15%. Countries within the EU alone made up 71% of outflows in 2005.

Looking at the top outward investors in 2005, the Netherlands was the top investor (\$119 billion), followed by France (\$116 billion), the UK (\$101 billion), Japan (\$47 billion) and Germany (\$47 billion). In previous years the US has normally featured at the top of this list.

In terms of stocks, the US holds the highest outward stocks of FDI in the world at \$2,051 billion, followed by the UK (\$1,238 billion), Germany (\$967 billion), France (\$853 billion) and the Netherlands (\$641 billion).

⁹ The UNCTAD report notes that the differences between total inflows and outflows are due to differences in data reporting and collection methods in countries.

Table 2 - Outward world FDI flows 1970-2005*(Millions of US dollars)*

	1970	1980	1990	2000	2003	2004	2005	Outward Stocks 2005
Developed economies, of which:	14,100	50,403	216,886	1,097,521	514,806	686,262	646,206	9,271,932
France	365	3,137	26,924	177,449	53,147	57,006	115,668	853,159
Germany	1,070	4,699	24,235	56,557	6,174	1,883	45,634	967,298
Italy	114	740	7,614	12,316	9,071	19,262	39,671	293,480
United Kingdom	1,678	7,881	17,948	233,371	62,187	94,862	101,099	1,237,997
<i>(European Union total)</i>	5,063	23,872	121,238	813,137	286,106	334,915	554,802	5,475,025
Canada	931	4,098	5,237	44,675	21,516	43,254	34,083	399,363
United States	7,590	19,230	30,982	142,626	129,352	222,437	-12,714	2,051,284
Japan	355	2,385	48,024	31,558	28,800	30,951	45,781	386,581
Developing economies, of which:	49	3,421	12,708	143,757	35,566	112,833	117,463	1,273,612
China	..	..	830	916	-152	1,805	11,306	46,311
South-East Europe and the Commonwealth of Independent States (CIS), of which:	..	..	35	3,187	10,731	13,973	15,056	126,345
Russian Federation	..	..	..	3,177	9,727	13,782	13,126	120,417
World	14,149	53,825	229,630	1,244,465	561,104	813,068	778,725	10,671,889

Source: UNCTAD, *World Investment Report 2006* data available at: <http://www.unctad.org/Templates/Page.asp?intItemID=3277&lang=1>

These data, especially relating to outflows and stocks, illustrate the importance of developed countries in considering FDI flows - it remains the case with FDI that the flows are often between developed countries. FDI is not necessarily a transfer from developed to developing countries; often investment occurs between like countries such as between EU Member States and the US. However, it is also clear that flows to developing countries have been growing in recent years and this is expected to continue to grow in the coming years.

1. Prospects for world flows

The release of the FDI statistics from UNCTAD came with a warning regarding rising protectionism within some countries, especially developing states. The report attempts to measure changes in national policy that affect international investment. Whilst most of the measures observed improved the position for investing companies, there was also an increase in the number of measures which were unfavourable to increased investment. The report provides the example of measures introduced by Bolivia and Venezuela to protect national resources. The figures do not include the debates over industry protection that have occurred in the US and the EU recently.¹⁰

However, the report still notes that in the short term it expects FDI to continue to rise, but notes 'geopolitical uncertainty', high oil prices, interest rates and inflationary pressures remain risks to the growth.¹¹

A recent report from the *Economist Intelligence Unit (EIU)* on world investment prospects was covered by the *Financial Times* and estimates world inflows will rise to \$1,200 billion in 2006 (a 22% rise), with growth slowing in the following years; the report expects inflows to reach the 2000 high in 2010.¹²

¹⁰ *Ibid.*, p.23-5

¹¹ *Ibid.*, p.xxii

¹² "US to retain appeal for foreign investors", *Financial Times*, 6 September 2006

D. The UK and FDI

Looking at the UK specifically, FDI flows in 2005 were dominated by M&A activity. As mentioned above, approximately \$74 billion of the inflows to the UK in 2005 came from the Netherlands as a result of the merger of Shell Transport and Trading with Royal Dutch Petroleum. Other large investments that took place in 2005 include the purchase of Allied Domecq by French investors and the purchase of Excel PLC by Deutsche Post AG.¹³ In the first half of 2006 M&A activity has been even stronger than in the first half of 2005 according to statistics published by ONS.¹⁴ The most notable transaction was the purchase of BAA by the Ferrovial Consortium for a reported £10.1 billion. This type of activity is not unique to recent years; the flows in 2000 were dominated by similar activity, most notably the purchase of the German company Mannesman by Vodafone.

The ONS provide a breakdown of direct investment by country of origin (inflows) and destination country (outflows) for the UK. The most recent data available is for 2004.¹⁵ 2005 data is currently scheduled to be released on 12 December 2006, with a more detailed breakdown of data and further analysis (*MA4 Business Monitor*) scheduled to be published in the week commencing 5 February 2007. These releases also contain data on earnings relating to FDI.

In 2004, the largest investor (measured by inflows) in the UK was Germany, followed by Switzerland, the Netherlands, France and Belgium. In 2004 the US recorded net disinvestment in the UK, but in previous years the US has recorded high levels of investment. Table 3 below shows stocks of direct investment in the UK by country and lists the top ten countries, ranked for 2004. The US and the EU are the largest inward investors in the UK.

Table 3 - Direct investment position in the UK by country
£ million, book values of net liabilities

		1995	2004
1	US	55,129	121,408
2	Netherlands	17,173	48,064
3	Germany	8,854	44,278
4	France	8,289	41,432
5	Australia	7,021	16,615
6	Switzerland	7,523	13,573
7	Canada	2,652	12,611
8	Japan	5,542	12,233
9	Luxembourg	1,170	6,604
10	Ireland	686	5,954
	EU	43,709	166,592
	World	128,885	366,534

Source: ONS, MA4: Business monitor, Foreign Direct Investment – 2004

¹³ UNCTAD, *Op cit.* Annex table A.I.7

¹⁴ ONS, *First Release Mergers and acquisitions involving UK companies - 2nd quarter 2006*, 1 August 2006 (next release for Q3 due 7 November 2006)

¹⁵ *Op cit.*, *First Release: Foreign Direct Investment 2004* and also ONS, *MA4: Business monitor, Foreign Direct Investment – 2004*, January 2005

In 2004, the top destination for UK outflows of FDI was the US, followed by Bermuda, Hong Kong, the Netherlands and South Africa. Table 4 below shows UK direct investment stocks abroad by country, with the top ten destinations ranked for 2004. Once again the totals are dominated by the US and the EU, with the emerging economies of China and India at 28th and 30th place respectively. However, as these economies grow, it is expected that the position of these countries, along with other rapidly developing countries, will rise in the coming years.

Table 4 - UK Direct investment position abroad by country

£ million, book values of net liabilities

		1995	2004
1	US	62,159	148,569
2	Netherlands	29,906	134,232
3	Luxembourg	117	80,524
4	Ireland	4,587	33,875
5	France	12,913	30,918
6	Australia	11,365	21,139
7	Hong Kong	4,033	19,210
8	UK Offshore Islands	-	15,287
9	Germany	9,215	11,861
10	Italy	2,698	11,637
28	China	174	1,887
30	India	498	1,674
	EU	73,375	348,291
	World	196,687	656,794

Note: UK Offshore Islands part of UK for 1995 data

Source: ONS, MA4: Business monitor, Foreign Direct Investment – 2004

UK Trade and Investment (UKTI)¹⁶ is responsible for promoting the UK as an investment destination as well as assisting UK companies to invest abroad. Regional Development Agencies (RDAs) and inward investment organisations of the devolved administrations work with UKTI to encourage investment in their areas.

UKTI publish data on inward investment ‘projects’ (that have been reported to them), and provide a breakdown of the type of investments involved. According to its latest annual report, 1,220 investments (or projects) occurred in the UK in the year 2005/06. These projects created 34,077 jobs and safeguarded a further 55,789 jobs. Of the 1,220 projects, 508 were ‘new’ investments, 337 projects were expansions, while 375 projects related to M&A activity. Further information, particularly on the sectors attracting investment, is available from UKTI’s report.¹⁷

Regional assistance has been used as an incentive to encourage overseas companies to invest in particular areas within Great Britain. There are no special grants for overseas companies investing in the UK, but they are able to apply for the normal forms of assistance available to UK businesses. Up to March 2004, the main form of aid provided in Great

¹⁶ For further information see: <https://www.uktradeinvest.gov.uk/ukti/appmanager/ukti/splash>

¹⁷ UKTI, *UK Inward Investment 2005/06*, July 2006

Britain was Regional Selective Assistance (RSA). These grants may be paid to overseas companies who have been operating in the UK for many years, as well as those investing in the UK for the first time. With effect from 1 April 2004, Selective Finance for Investment (SFI) has replaced RSA in England. Grants are restricted in most cases to assisted areas, and are only available for capital projects that safeguard or create employment – grants are not available for funding running costs.

Data on RSA and SFI grants to foreign companies by region are available in the annual report for the Industrial Development Act 1982.¹⁸ In 2005/06, 42 SFI (in England) applications for grants were accepted, with a value of £26.3 million. The projects were set to create 2,641 jobs and safeguard 2,755. In Scotland, there were 33 applications accepted for RSA grants, worth £24.1 million, creating 1,738 jobs and safeguarding 790. Finally, in Wales, 24 applications were accepted for RSA grants, worth £62.8 million, creating 3,705 jobs and safeguarding a further 1,470 jobs.¹⁹

E. Further Information

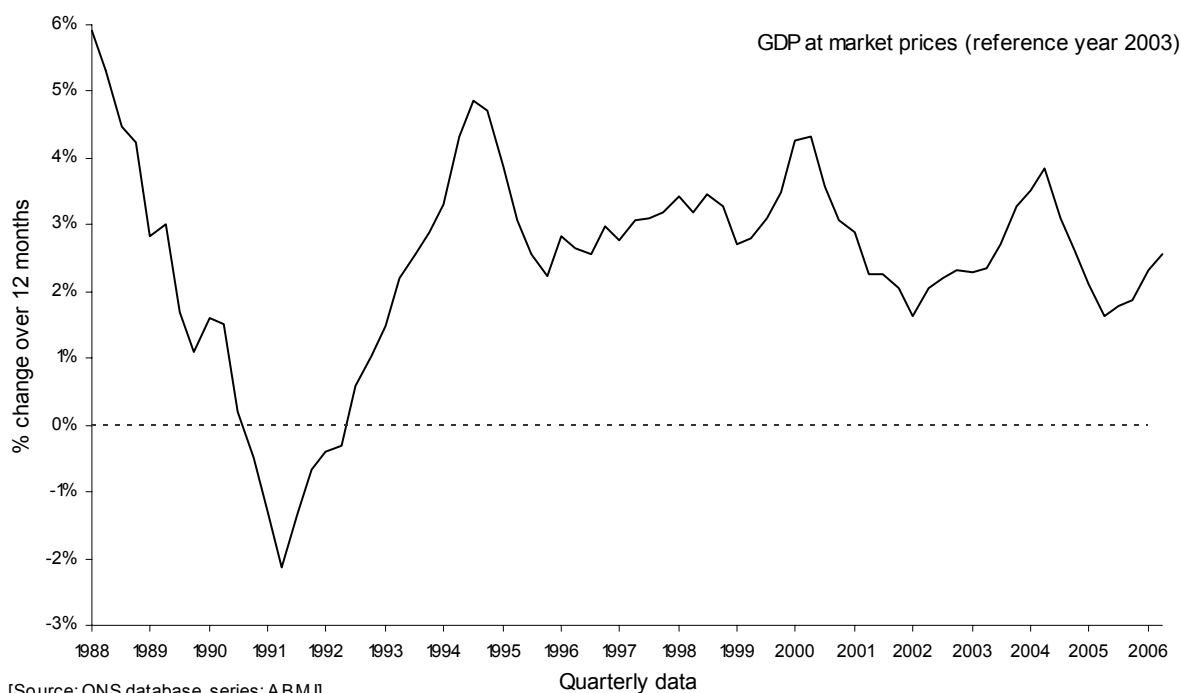
- UNCTAD, *World Investment Report 2006*, October 2006. The UNCTAD website also contains country factsheets and a database (see: www.unctad.org/wir)
- OCED web pages on Direct Investment:
http://www.oecd.org/statisticsdata/0,2643,en_2649_34863_1_119656_1_1_1,00.html
(This contains a link to the use article *Trends and Recent Developments in Foreign Direct Investment 2006* published in June 2006 which becomes chapter one of the annual *International Investment Perspectives*. This publication as well the investment database is available (through the Library intranet ONLY) on [SourceOECD](#)).
- Office for National Statistics, *Foreign Direct Investment 2004 First Release*, 13 December 2005 (next published 12 December 2006) and *MA4: Business monitor, Foreign Direct Investment – 2004*, January 2005 (next published week commencing 5 February 2007)
- Office for National Statistics, *UK Balance of Payments: The Pink Book 2006*. Chapters 8 and 10 consider the international investment position (including portfolio and other investments)
- UKTI, *UK Inward Investment 2005/06*, July 2006
- Eurostat, *Statistics in Focus: Increased FDI flows for the EU in 2005*, 10 October 2006 and *European Union foreign direct investment - Yearbook 2006*, 27 October 2006

Ed Potton
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¹⁸ [Industrial Development Act 1982: Annual Report for the year ended 31 March 2006](#), HC 1292, 28 June 2006

¹⁹ See appendix 1 table 6 and appendix 2 table 4

A1: Gross Domestic Product



Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

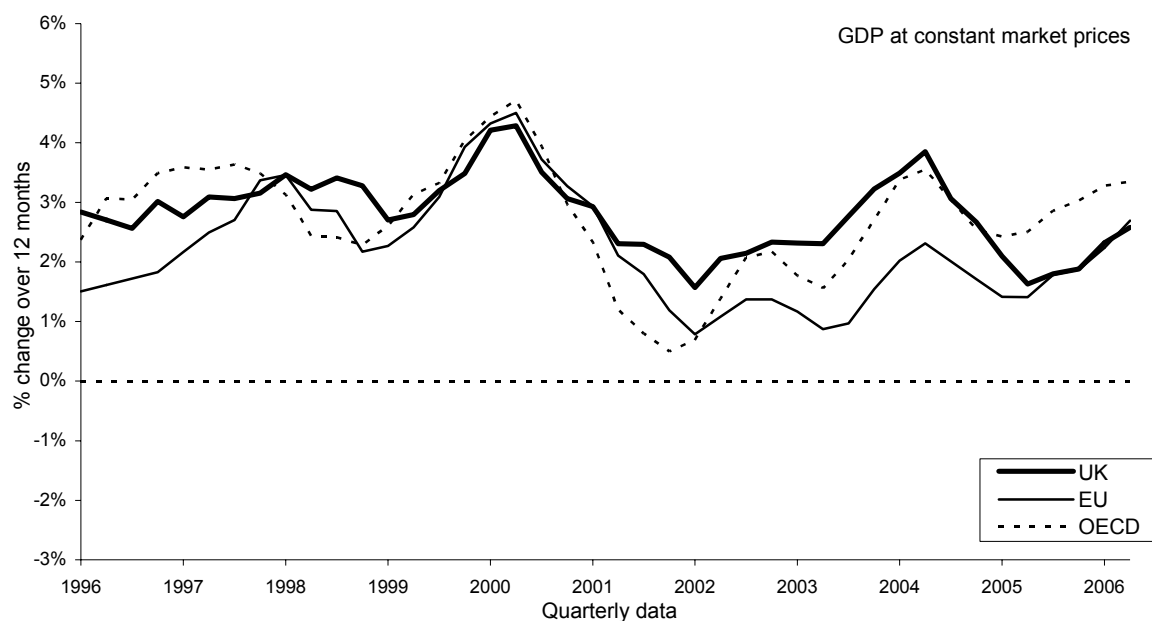
	Current		Chained volume (reference year 2003)
	£ billion	% change on year	% change on year
2003	1,110.3	5.9	2.7
2004	1,176.5	6.0	3.3
2005	1,224.5	4.1	1.9
2005 Q2	304.4	3.8	1.6
Q3	306.4	3.5	1.8
Q4	312.2	3.9	1.9
2006 Q1	313.9	4.1	2.3
Q2	319.1	4.8	2.6
Q3	..	..	2.8

Source: ONS database, series: YBHA, ABMI

- The UK economy is estimated to have grown by 1.9% in 2005, compared with 3.3% in 2004.
- The chained volume measure of gross domestic product (GDP) at market prices was 0.7% higher in Q2 2006 than in the previous quarter (Q1 2006). Compared with the same quarter in the previous year (Q2 2006 on Q2 2005) this measure of GDP was 2.6% higher. Preliminary estimates for Q3 2006 are for GDP growth of 2.8% year on year (0.7% quarter on quarter).
- In October 2006, the HM Treasury's average of independent economic forecasts of GDP growth in 2006 was 2.6%, unchanged from September. The average growth forecast for 2007 was 2.4% in October 2006, unchanged from September.

Contact: Ian Townsend, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 15 Nov;
ONS, *UK output, income & expenditure*, 24 Nov

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

% changes

	% change on year				% change quarter on quarter				
	2002	2003	2004	2005	2005			2006	
					Q2	Q3	Q4	Q1	Q2
USA	1.6	2.4	3.9	3.2	0.8	1.0	0.4	1.4	0.6
Japan	0.1	1.8	2.3	2.6	1.1	0.5	1.0	0.8	0.2
Canada	3.0	2.0	3.0	2.9	0.8	0.8	0.7	0.9	0.5
United Kingdom	2.1	2.6	3.3	1.9	0.4	0.5	0.7	0.6	0.7
Germany	0.0	-0.2	1.3	0.9	0.3	0.5	0.3	0.7	1.0
France	0.8	1.2	2.3	1.2	-0.1	0.7	0.3	0.4	1.2
Italy	0.3	0.1	1.1	-0.1	0.7	0.3	0.0	0.7	0.5
Eurozone	1.0	0.8	2.0	1.3	0.4	0.7	0.4	0.7	0.9
G7	1.1	1.9	3.0	2.4	0.6	0.8	0.5	1.1	0.6
OECD	1.6	1.9	3.2	2.7	0.7	0.9	0.6	1.0	0.8

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

- The latest data shows that all of the largest economies in the OECD recorded positive growth in the second quarter of 2006. Notably, Italy recorded slight negative growth in 2005 overall.

- Recent growth in the eurozone has been weaker than growth in all OECD countries and the G7. However, eurozone growth in the second quarter of 2006 rose to 0.9% compared with 0.7% in the previous quarter. In contrast, growth in both the G7 countries and all OECD countries fell to 0.6% and 0.8% respectively in the second quarter of 2006.

OECD growth forecasts

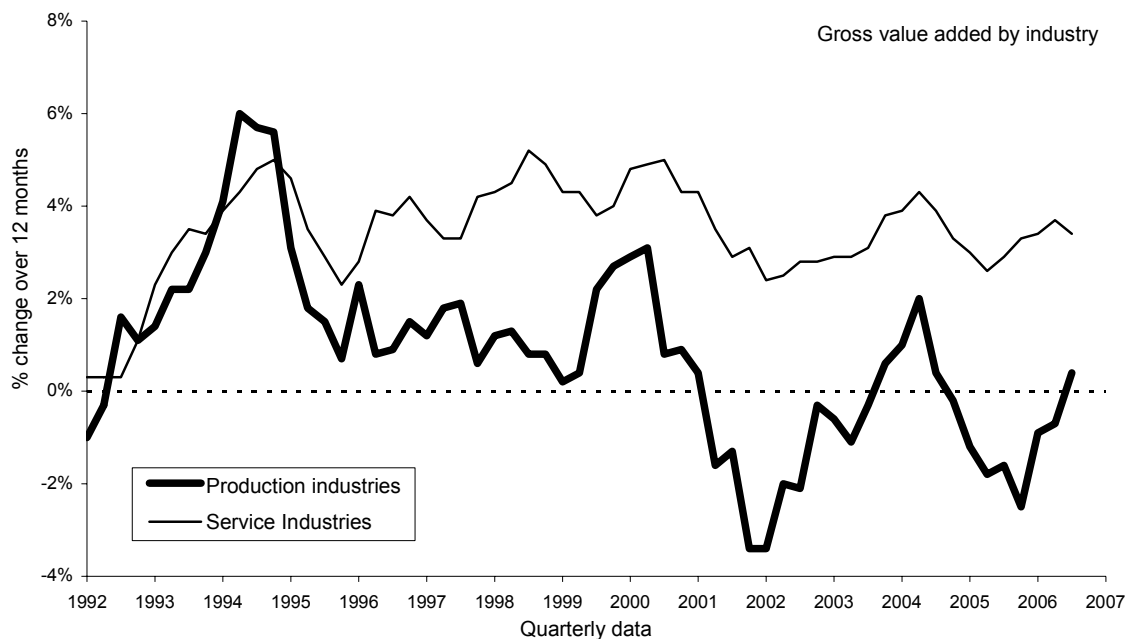
% change on year

	2005	2006	2007
USA	3.5	3.6	3.1
Japan	2.7	2.8	2.2
United Kingdom	1.8	2.4	2.9
Eurozone	1.4	2.2	2.1
OECD	2.8	3.1	2.9

Source: OECD, *Economic Outlook*, May 2005**Contact:** Edward Beale, x2464**Update:** OECD, *Main Economic Indicators*, mid-Nov

A3: Gross Domestic Product by Industry

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



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

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 3.4%. Between the second quarter of 2006 and the third quarter of 2006 annual output growth in the service sector decreased 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	-1.9	-2.6	2.6	12.3	3.6
2003	-0.3	0.2	3.2	-2.1	4.7
2004	0.8	2.0	3.9	-1.0	4.0
2005	-1.8	-1.0	2.9	2.3	1.5
2005 Q3	-1.6	-0.5	2.9	1.9	0.6
Q4	-2.5	-2.1	3.3	1.7	-0.4
2006 Q1	-0.9	-0.4	3.4	0.5	-0.2
Q2	-0.7	1.0	3.7	-2.0	-0.1
Q3	0.4	1.5	3.4	-1.2	1.7

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

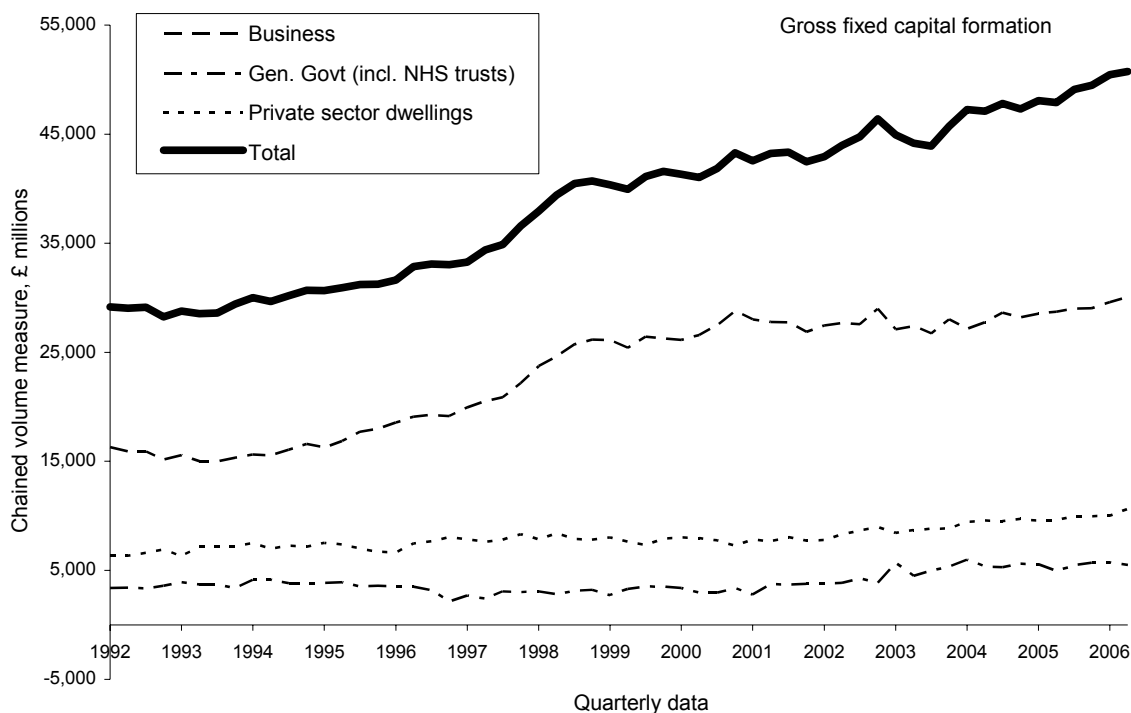
- Manufacturing output increased by 1.5% in the third quarter of 2006 compared with the same quarter in 2005, but manufacturing output decreased by 1.0% overall in 2005.
- In 2004, services accounted for 75% of gross value added, manufacturing for 14%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883

Update: ONS, UK output, income and expenditure – Q3, 24 Nov

A4: Investment

Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings. The total figures in shown in the graph are not the sum of the individual series shown.



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

Gross fixed capital formation

£ million; Chained volume measures, reference year 2003; seasonally adjusted

	Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2002	16,728	56,614	62,088	36,800	5,676	178,066
2003	15,592	54,441	64,355	38,462	5,901	178,751
2004	14,706	58,817	68,135	41,541	6,294	189,492
2005	14,917	59,091	71,238	42,801	6,556	194,603
2005 Q2	3,685	14,807	17,292	10,493	1,632	47,910
Q3	3,842	14,608	18,024	10,995	1,645	49,114
Q4	3,743	15,017	18,139	10,931	1,661	49,491
2006 Q1	3,490	15,699	18,490	11,098	1,683	50,459
Q2	3,880	15,371	18,145	11,655	1,707	50,758

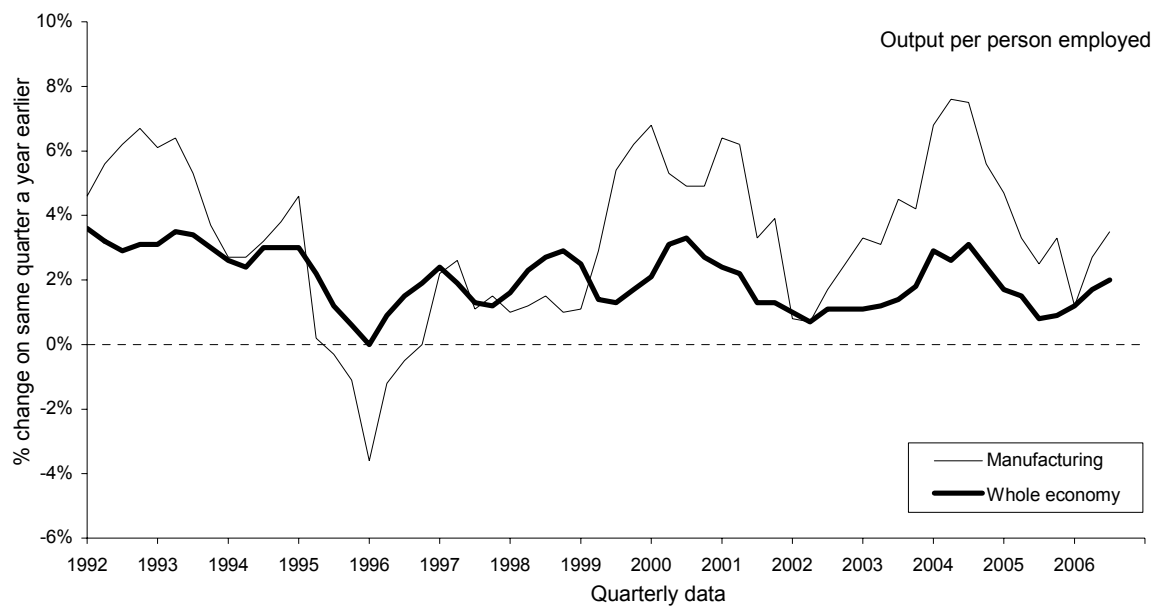
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment increased by 1.6% in Q2 2006 compared with the previous quarter, and increased by 4.8% compared with Q2 2005 on a seasonally adjusted basis.
- Total manufacturing investment fell by 6.4% in Q2 2006 compared with the previous quarter while investment in private sector services increased by 2.9% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324

Update: ONS, *Business Investment*, 23 Nov

A5: Productivity



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

Productivity

% changes on year; seasonally adjusted

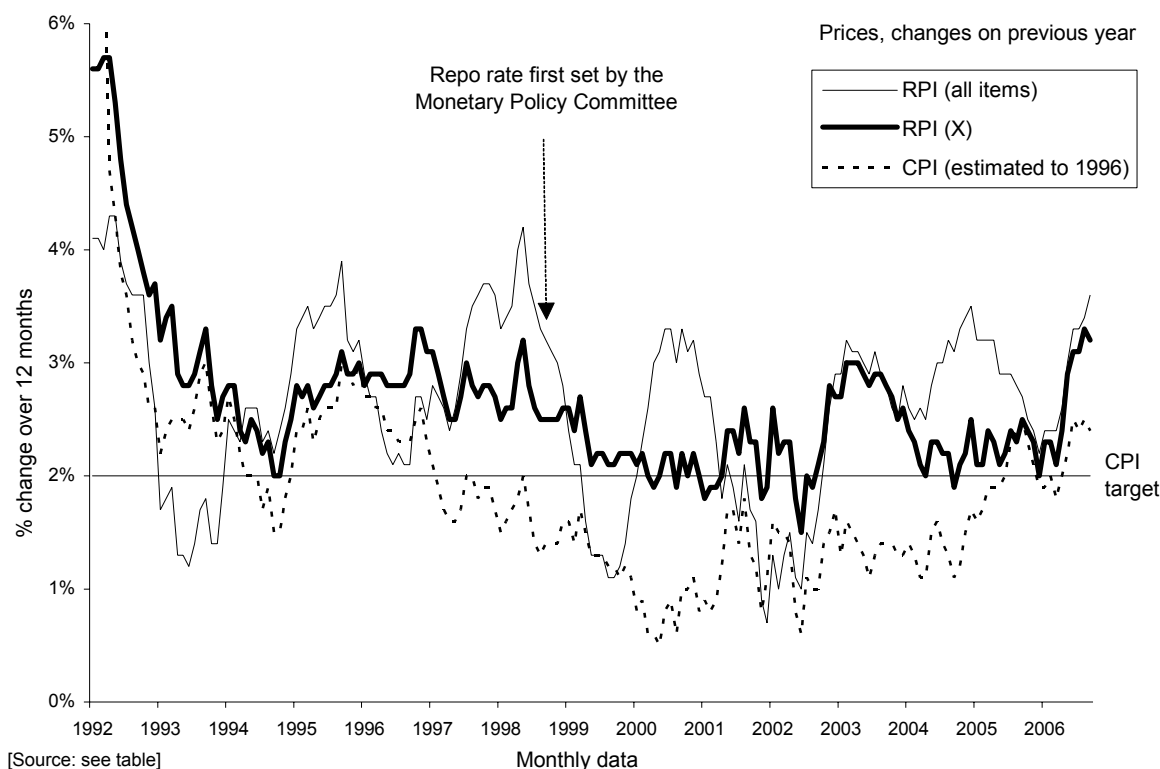
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2002	-2.6	-4.5	2.0	1.8	0.7	1.0
2003	0.2	-4.3	4.7	2.7	0.9	1.8
2004	2.0	-4.1	6.3	3.3	0.8	2.5
2005	-1.0	-3.4	2.5	2.0	0.9	1.1
2005 Q2	-1.4	-3.8	2.5	1.8	0.9	0.8
Q3	-0.5	-3.7	3.3	2.0	1.2	0.9
Q4	-2.1	-3.2	1.2	2.0	0.8	1.2
2006 Q1	-0.4	-2.9	2.7	2.4	0.6	1.7
Q2	1.0	-2.4	3.5	2.6	0.7	2.0
Q3	1.5	..	..	2.7	..	..

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 1.1% in 2005 compared with 2.5% in 2004 and 1.8% in 2003.
- In 2005, manufacturing output decreased by 1.0% and employment in manufacturing fell by 3.4%, while manufacturing output per head rose by 2.5%.
- Productivity growth in manufacturing increased from 2.7% per annum in Q1 2006 to 3.5% per annum in Q2 2006, while whole economy productivity growth increased from 1.7% per annum in Q1 2006 to 2.0% per annum in Q2 2006.
- For the economy as a whole, productivity growth has averaged 1.5% per annum over the last eight quarters.

Contact: Ed Potton, x2883

Update: ONS, *Productivity*, 22 Dec

B1: Prices

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

- In the year to September, the consumer prices index (CPI) showed inflation at 2.4%, down from 2.5% in August.
- The largest upward effect on the CPI came from operation of personal transport equipment, where prices for fuels and lubricants fell this year compared with increases a year ago. A large downward effect on the CPI annual rate came from furniture, household equipment and routine maintenance.
- The former headline (all items RPI) rate of inflation was 3.6% in September, up from 3.4% in August. The underlying RPI(X) fell to 3.2% in September.
- The largest upward effect on the RPI came from housing, mainly due to the mortgage interest payments component. The largest downward effect came from motoring expenditure.

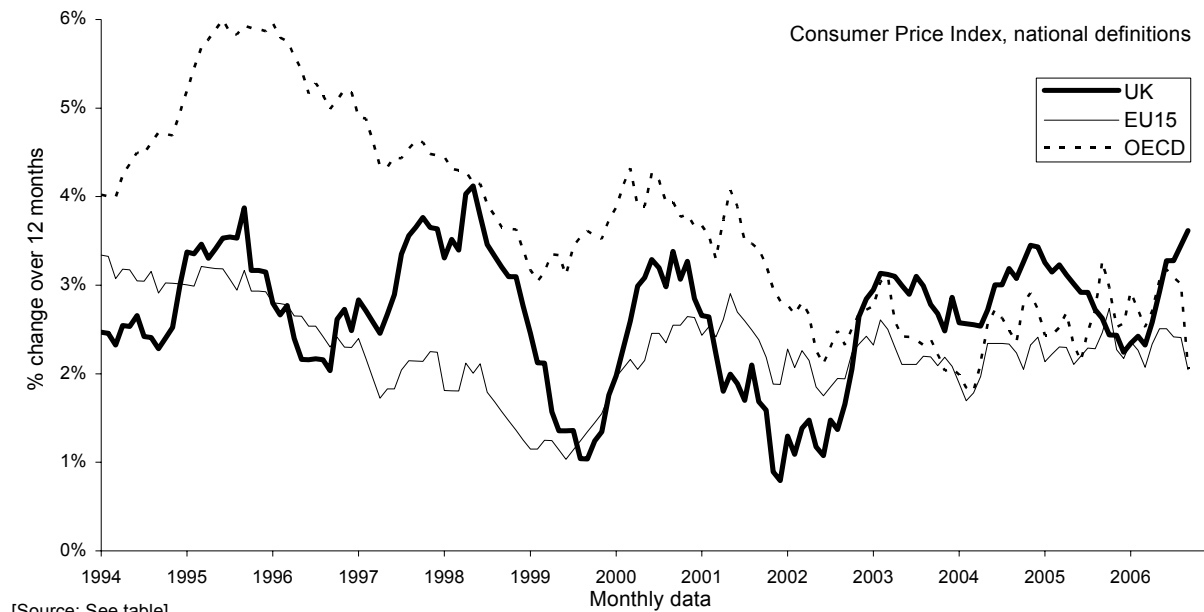
Price Indices

% 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 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
Feb	2.0	2.4	2.3
Mar	1.8	2.4	2.1
Apr	2.0	2.6	2.4
May	2.2	3.0	2.9
Jun	2.5	3.3	3.1
Jul	2.4	3.3	3.1
Aug	2.5	3.4	3.3
Sep	2.4	3.6	3.2

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 2.1% in September, a fall of 1.7 percentage points from August. The rate for 2005 was 3.4%, the highest since 2000.
- For all OECD countries the average inflation rate also fell, by 0.9 points to 2.1%.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) fell 0.4 points to 2.0%.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
2002	1.7	-0.9	2.2	1.7	2.5
2003	2.2	-0.2	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	2.6
2006 Apr	3.5	-0.1	2.4	2.6	2.7
May	4.2	0.1	2.8	2.9	3.1
Jun	4.2	0.5	2.6	3.3	3.2
Jul	4.1	0.3	2.3	3.3	3.1
Aug	3.8	0.9	2.1	3.4	3.0
Sep	2.1	0.6	0.7	3.6	2.1

Source: OECD, Consumer Prices, Nov 2006

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
2006 Apr	2.0	2.3	2.3	2.0	2.4
May	2.4	2.1	2.3	2.2	2.5
Jun	2.2	2.0	2.4	2.5	2.5
Jul	2.2	2.1	2.3	2.4	2.4
Aug	2.1	1.8	2.3	2.5	2.3
Sep	1.5	1.0	2.4	..	1.7

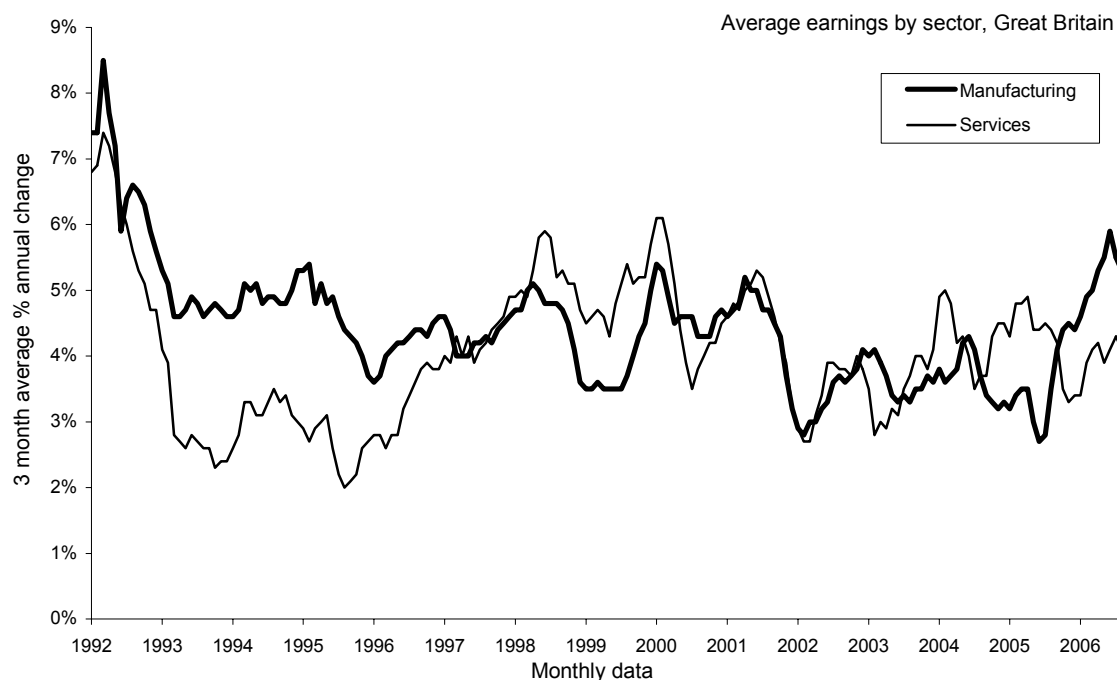
Source: Eurostat, Euro-Indicators news release, 16 Oct 2006

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

- Eurozone annual inflation fell to 1.7% in September. The flash eurozone estimate for October shows a fall of 0.2 percentage points to 1.6%.
- The HICP inflation rates for the EU15 Member States not in the eurozone were Denmark (1.5%) and Sweden (1.2%). The UK rate in September is not yet available.
- The eurozone countries with the highest HICP annual inflation rates were Greece (3.1%), Spain (2.9%) and Italy (2.4%). The lowest rate was in Finland (0.8%).

Contact: Alex Adcock, x3793

Updates: OECD, consumer prices release, 5 Dec
Eurostat, *Euro-indicators news release*, 16 Nov

B3: Average Earnings Index

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

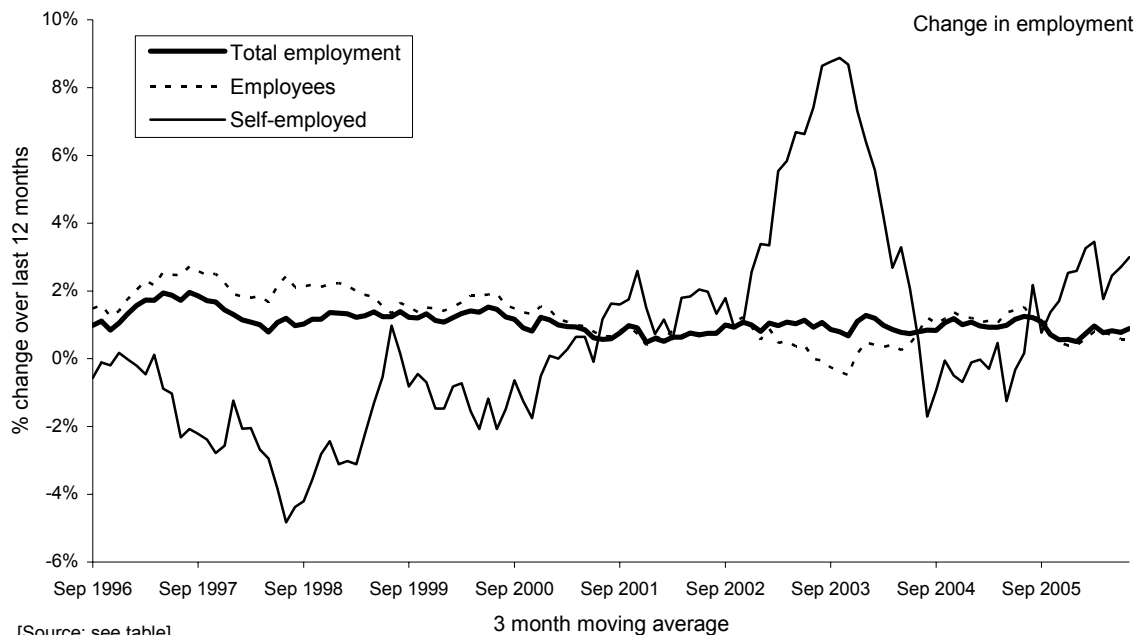
- The headline rate of growth in average earnings for the whole economy in August was 4.2%, down from 4.4% in July.
- Headline average earnings growth in manufacturing was 5.3% in August, down from 5.5% in July. Earnings growth in the service sector fell to 4.1% in August from 4.3% the previous month.
- Headline earnings growth in the private sector was 4.4% in August, compared with 3.7% in the public sector. Earnings growth in both the private and public sectors fell compared with July, from 4.6% and 3.8% respectively.
- Earnings are currently growing at the same rate as they were a year ago (the headline rate in August 2005 was also 4.2%).
- In the year to August, 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
2002 Aug	3.8	3.8	3.4
2003 Aug	3.5	3.0	5.5
2004 Aug	3.9	3.8	4.2
2005 Aug	4.2	4.2	4.3
Sep	4.2	4.1	4.2
Oct	3.7	3.6	4.1
Nov	3.5	3.3	4.1
Dec	3.6	3.4	4.4
2006 Jan	3.6	3.4	4.4
Feb	4.1	4.1	4.3
Mar	4.1	4.2	4.2
Apr	4.3	4.5	3.8
May	4.1	4.2	3.6
Jun	4.3	4.5	3.4
Jul	4.4	4.6	3.8
Aug	4.2	4.4	3.7

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

C1: Employment



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
2002 Jul	27,884	24,348	3,346	93	97
2003 Jul	28,180	24,367	3,609	101	102
2004 Jul	28,404	24,557	3,628	87	132
2005 Jul	28,759	24,930	3,634	86	109
2005 Oct	28,755	24,869	3,692	92	102
2006 Jan	28,835	24,924	3,730	86	95
2006 Apr	28,895	25,002	3,711	87	95
2006 Jul	29,015	25,077	3,743	105	89

Changes (%):

on last 3 months	0.4	0.3	0.9	20.5	-6.0
on last year	0.9	0.6	3.0	22.0	-18.2

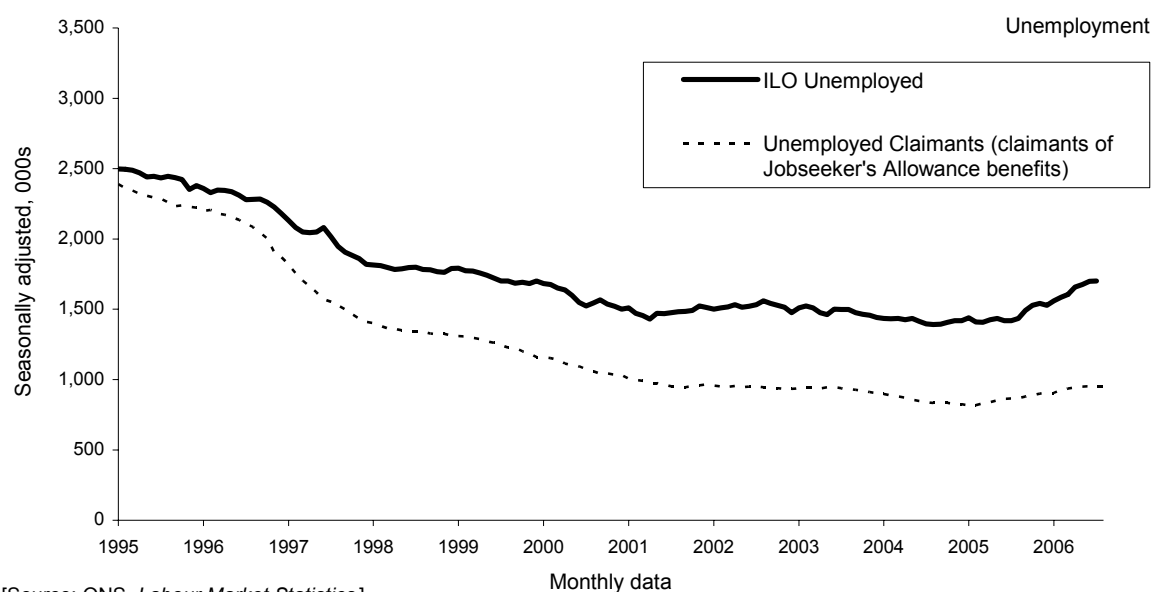
Source: ONS, *Labour Market Statistics*, 18 Oct 2006

- Total employment was 29.0 million in the period June to August 2006, 0.9% higher than a year earlier. The working age employment rate of 74.6% was 0.1% higher than the previous quarter and 0.1% lower than a year earlier.
- The number of workforce jobs increased by 65,000 between March and June 2006 and was 248,000 higher than a year earlier. Over the year to June, the number of production industry workforce jobs fell by 47,000. The number of service sector jobs rose by 256,000.
- 7.4 million people were in part-time employment in the period June to August 2006, of whom 5.7 million were women. 3.7 million people were self-employed.

Contact: Dominic Webb, x4324

Update: ONS, *Labour Market Statistics*, 15 Nov

C2: Unemployment: National



[Source: ONS, *Labour Market Statistics*]

Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS). This data has been revised to take account of the 2001 Census results.

- The latest LFS estimates show that over the period June to August 2006, the level of ILO unemployment in the UK was 1,702,000 (seasonally adjusted). This was an increase of 276,000 from the period June to August 2005.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 10,000 between August and September 2006 to 962,000.

The New Deal for Young People started in January 1998.

- 1,087,000 individuals had joined the scheme by the end of May 2006. Of those leaving the scheme up to the end of November 2005, 666,000 had moved into jobs, of which 566,000 (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 25 plus started in June 1998 and an enhanced scheme was introduced in April 2001.

- Overall 635,000 individuals had joined the scheme by the end of May 2006. Of those leaving the scheme up to the end of November 2005 260,000 had entered jobs, of which 214,000 (82%) were sustained.

ILO Unemployment in the UK seasonally adjusted

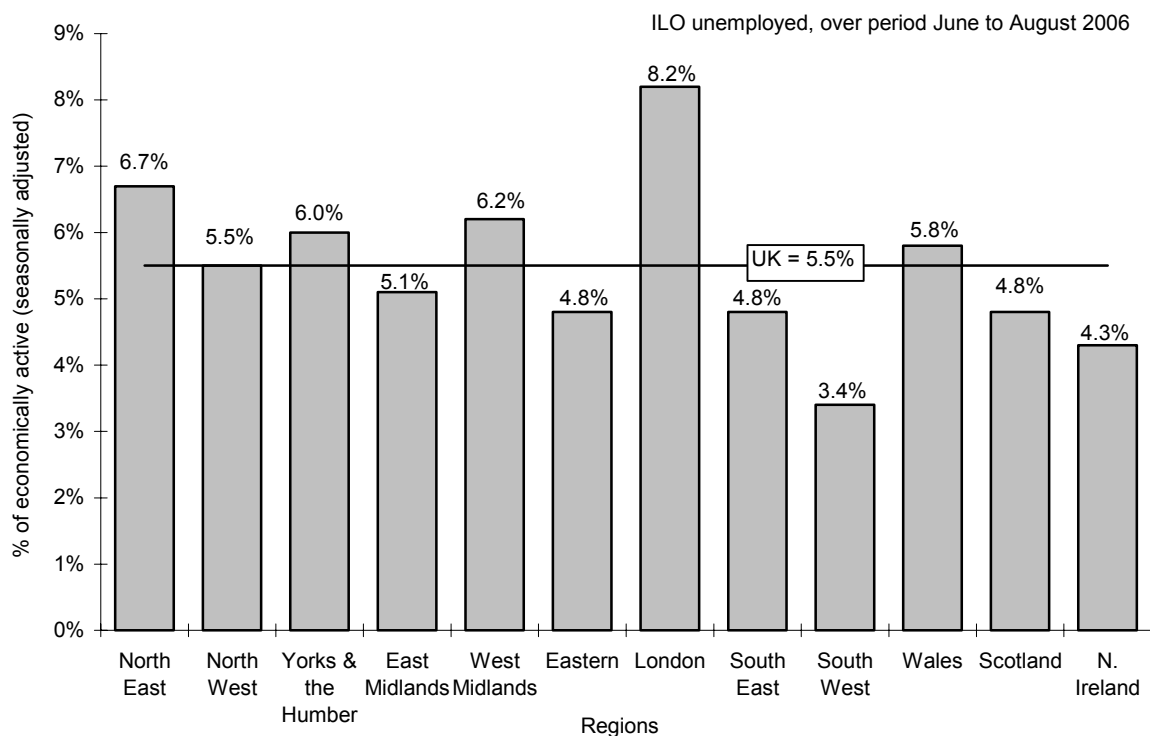
		'000s	rate (%)
2000	Mar - May	1,638	5.6
	Jun - Aug	1,523	5.2
	Sep - Nov	1,537	5.3
2001	Dec - Feb	1,511	5.2
	Mar - May	1,431	4.9
	Jun - Aug	1,477	5.1
2002	Sep - Nov	1,493	5.1
	Dec - Feb	1,500	5.1
	Mar - May	1,533	5.2
2003	Jun - Aug	1,532	5.2
	Sep - Nov	1,529	5.2
	Dec - Feb	1,511	5.1
2004	Mar - May	1,476	5.0
	Jun - Aug	1,498	5.0
	Sep - Nov	1,464	4.9
2005	Dec - Feb	1,434	4.8
	Mar - May	1,426	4.8
	Jun - Aug	1,402	4.7
2006	Sep - Nov	1,408	4.7
	Dec - Feb	1,439	4.8
	Mar - May	1,425	4.7
2006	Jun - Aug	1,426	4.7
	Sep - Nov	1,534	5.1
	Dec - Feb	1,574	5.2
	Mar - May	1,657	5.4
	Jun - Aug	1,702	5.5

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793

Updates: ONS, *Labour Market Statistics*, 15 Nov
New Deal, Nov

C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

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

- Over the period June to August 2006 the London region had the highest unemployment rate, 8.2% of the economically active population. The lowest rate over the same period was 3.4%, in the South West region.
- A comparison of June to August 2006 with the same period a year earlier shows that the largest fall (9%) in unemployment occurred in the South West region. The West Midlands region showed the largest increase (38%) over the period.

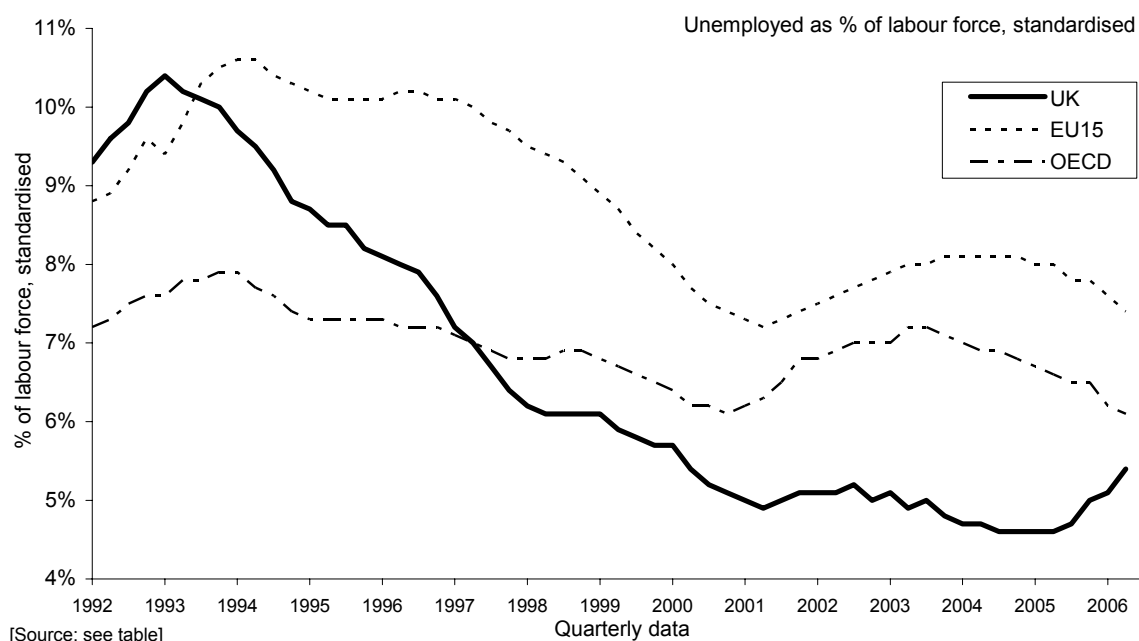
ILO Unemployment, June to August 2006

change on same period in previous year;
seasonally adjusted

	Number (rounded)	%
North East	3,000	4
North West & Merseyside	31,000	20
Yorkshire & the Humber	40,000	36
East Midlands	16,000	16
West Midlands	46,000	38
Eastern	22,000	19
London	72,000	28
South East	45,000	28
South West	-9,000	-9
Wales	20,000	32
Scotland	-10,000	-7
Northern Ireland	-1,000	-3

Source: ONS, *Labour Market Statistics*

C4: Unemployment: International Comparisons



Unemployment

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

	2004	2005	2004				2005				2006	
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
USA	5.5	5.1	5.7	5.6	5.5	5.4	5.2	5.1	5.0	5.0	4.7	4.7
Japan	4.7	4.4	4.9	4.6	4.8	4.5	4.6	4.3	4.3	4.5	4.2	4.1
Canada	7.2	6.8	7.3	7.2	7.1	7.1	7.0	6.8	6.8	6.5	6.4	6.2
UK	4.7	4.7	4.7	4.7	4.6	4.6	4.6	4.6	4.7	5.0	5.1	5.4
Germany	9.5	9.5	9.4	9.5	9.7	9.6	9.7	9.6	9.2	9.3	8.8	8.3
France	9.6	9.7	9.6	9.5	9.5	9.6	9.7	9.9	9.8	9.6	9.4	9.1
Italy	8.0	7.7	8.2	8.1	7.9	7.9	7.8	7.7	7.6	7.6	7.4	..
Eurozone	8.9	8.6	8.9	8.9	8.9	8.8	8.8	8.7	8.5	8.4	8.1	7.9
G7	6.3	6.1	6.4	6.3	6.3	6.3	6.2	6.1	6.0	6.0	5.8	5.6
OECD	6.9	6.6	7.0	6.9	6.9	6.8	6.7	6.6	6.5	6.5	6.2	6.1

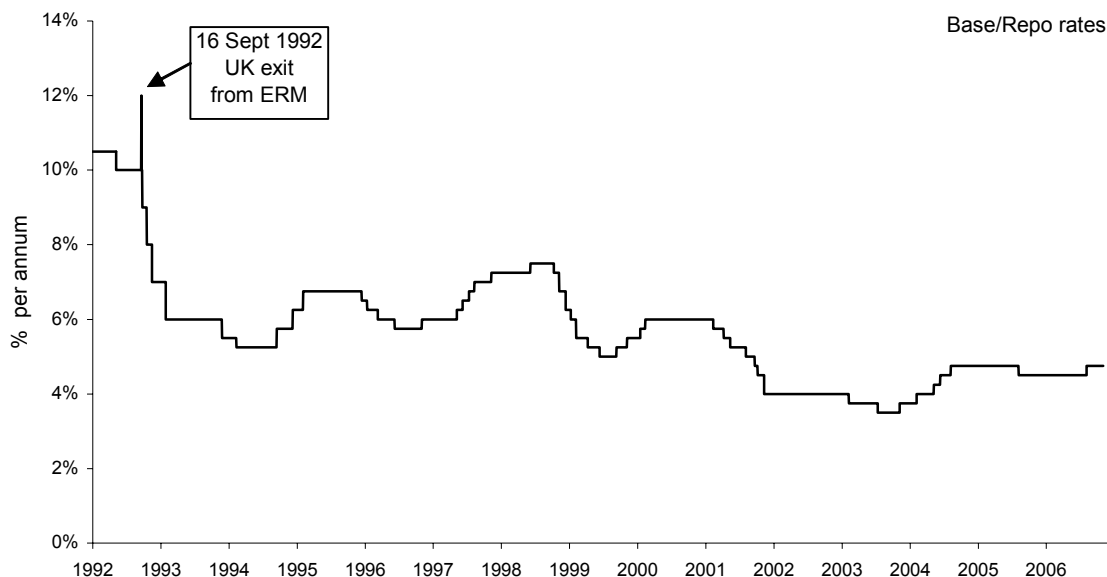
Source: OECD, *Main Economic Indicators*, October 2006

- Using standardised definitions, the UK unemployment rate for 2005 was 4.7%, significantly below the eurozone average (8.6%) and below the G7 and OECD rates (6.1% and 6.6% respectively).
- Between Q1 2005 and Q1 2006 (the latest period for which all data are available) the largest fall in unemployment among G7 countries was in Germany, where it fell by 0.9 of a percentage point. There was a rise in unemployment (0.5 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*, May 2006) suggest the UK unemployment rate will be 5.3% in 2006 and 5.2% in 2007. The respective forecasts for the eurozone are 8.2% and 7.9%. For the OECD as a whole the respective forecasts are 6.2% and 6.0%.

Contact: Alex Adcock, x3973

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

D1: Interest Rates



[Source: Bank of England]

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

- **There was no change in the rate after the MPC's meeting on 5 October. At the MPC's October meeting, seven members voted to maintain the rate at 4.75%. The two newest members, Andrew Sentance and Tim Besley voted for an increase of 0.25 percentage points.**

The minutes of the September meeting note that:

- For most members the decision was finely balanced.
- Some members wanted to assess the impact of the August increase before taking further action. An immediate rise in interest rates might encourage a further increase in market interest rate expectations.
- The dissenters pointed to above-trend growth since August.

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	2006 Aug 3	4.75
Feb 10	6.00		

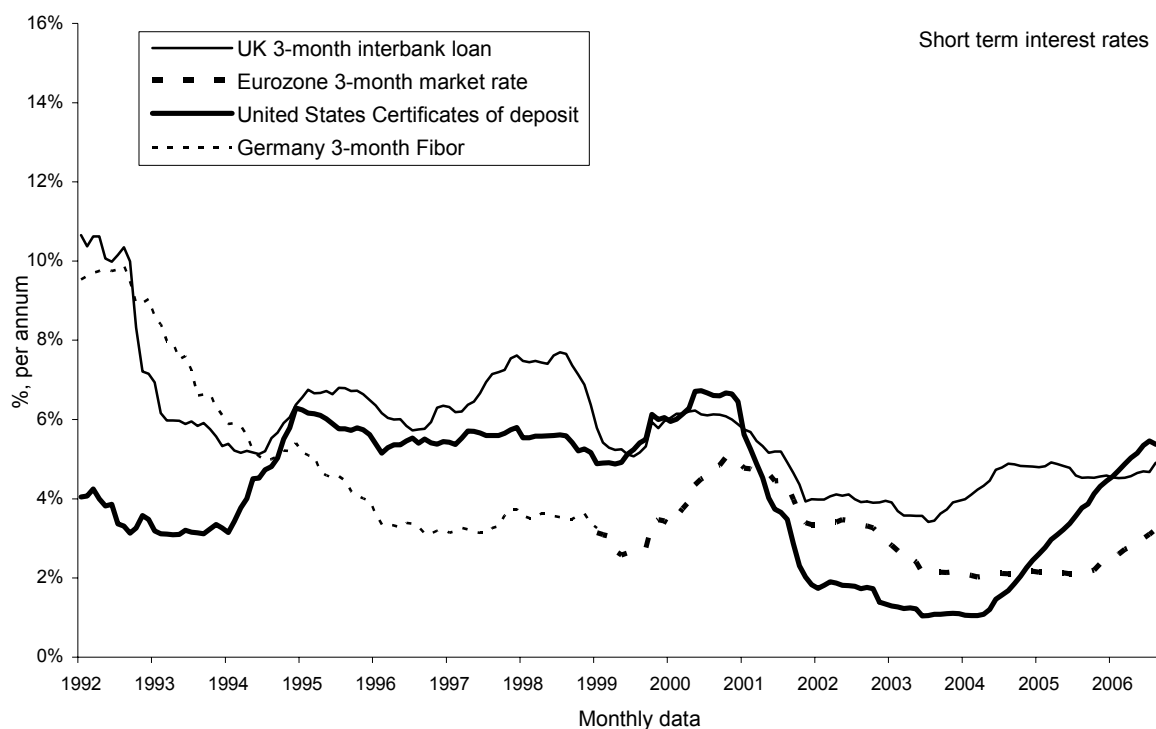
Source: Bank of England

The central projection from the latest Bank *Quarterly Inflation Report* (August 2006) was for inflation to rise in the near term but to fall back to around the 2% target once energy and import price inflation ease. The projection is higher than the previous report in May, particularly in the near term. The report noted that output growth would continue to grow at a rate close to its long-term average rate. Equity prices had fallen and sterling had appreciated. Both household spending and business investment had picked up.

Contact: Dominic Webb, x4324

Updates: *Next Decision*, 9 Nov; *Minutes*, 22 Nov
Quarterly Inflation Report, 15 Nov

D2: Interest Rates: International Comparisons



[Source: OECD, *Main Economic Indicators*]

Short term interest rates in the UK rose in September 2006 to 4.98%, the highest since July 2001. The rate for the eurozone was 3.34%, the highest since August 2002.

- The Bank of England's Monetary Policy Committee increased the UK Repo rate by 0.25 points on 3 August 2006 to 4.75% (see Indicator **D1**). The October and September 2006 meetings did not result in a change.
- The European Central Bank (ECB) interest rate increased by 25 basis points on 5 October, to 3.25%. This followed 25 point increases on 3 August, 8 June, 2 March 2006 and 1 December 2005. The rate had previously been 2.00% since June 2003. The ECB reduced the minimum lending rate four times during 2001, by 0.25 points in May and August and twice by 0.5 points (in September and November). A 0.5 point cut on 6 March 2003 was followed by another 0.5 point cut on 5 June 2003.
- At its August, September and October meetings, the US Federal Reserve maintained the federal funds rate at 5.25%. The rate had been increased by 0.25 points at its previous seventeen meetings on: 29 June, 10 May, 28 March, 31 January 2006, 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 26 November 2006

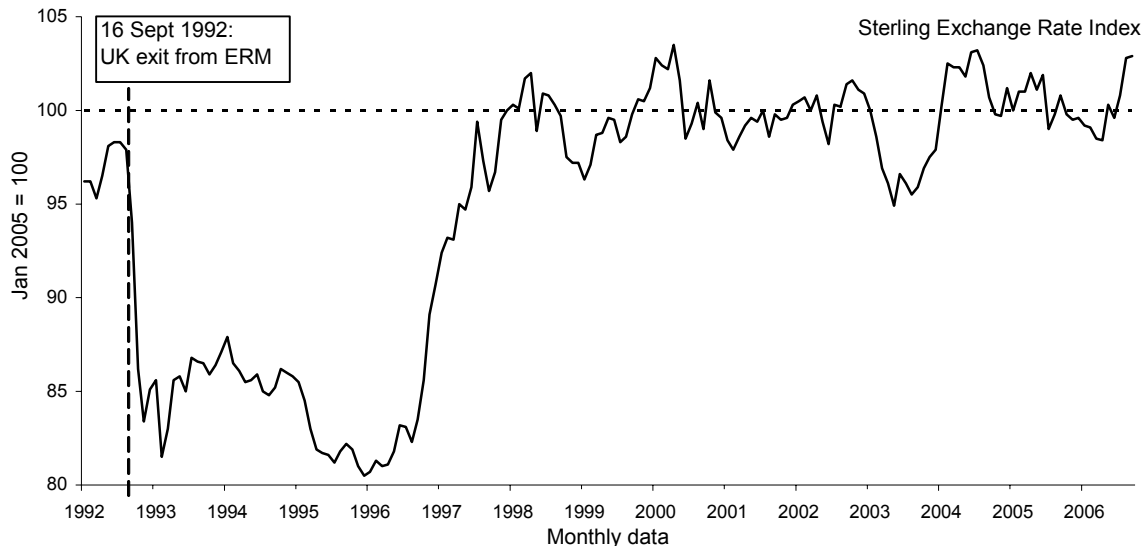
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	4.75	4.71	$5 \frac{5}{32} - 5 \frac{3}{32}$
Eurozone	3.25	n/a	$3 \frac{17}{32} - 3 \frac{1}{2}$
United States	5.25	4.78	$5 \frac{13}{32} - 5 \frac{5}{16}$
Japan	0.25	1.80	$1 \frac{15}{32} - 3 \frac{3}{8}$
Switzerland	1.25-2.25	2.57	$1 \frac{7}{8} - 1 \frac{13}{16}$

Source: *Financial Times*, 26 Nov 2006 (*Companies & Markets*, p37)

Contact: Edward Beale, x2464 **Updates:** *Short-term interest rates:* OECD, MEI, mid-Nov;
Base rates: 9 Nov (UK MPC), 2 Nov (ECB), 12 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: BK67]

- 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 increased by 3.3 points in September 2006, suggesting that the UK was relatively less competitive at the end of September 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 €1.494 at the London market close on 31 October 2006, compared with a launch rate of €1.476 on 31 December 1998.

Sterling Exchange Rates

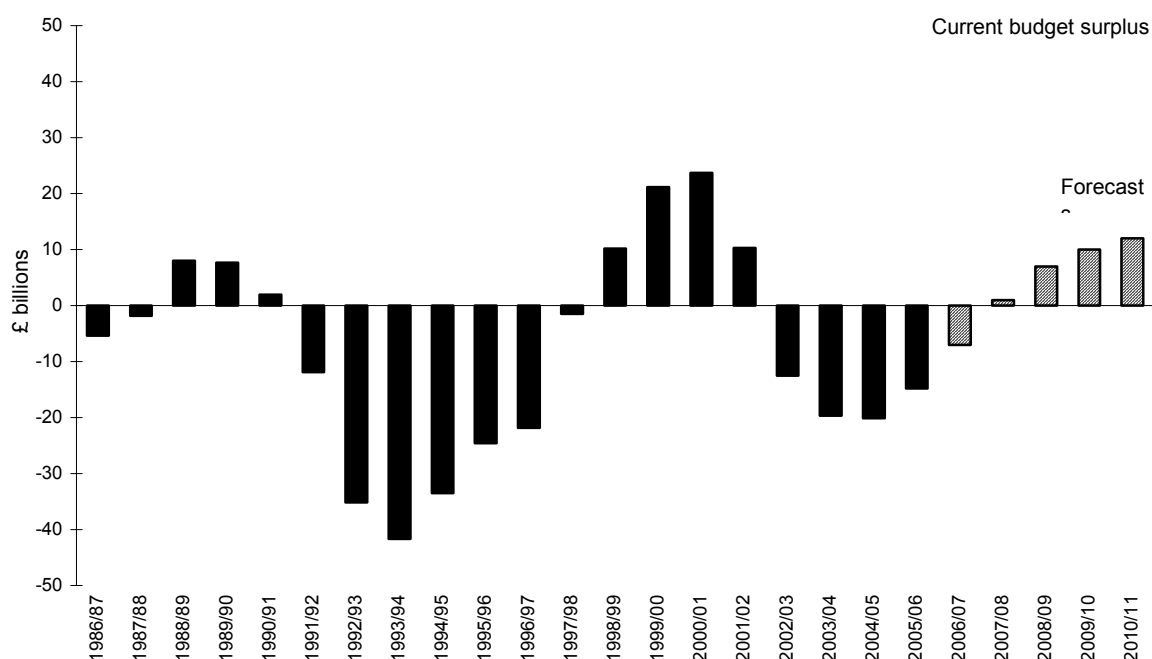
rates and % changes

	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 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
Feb	1.747	-7.4	206.0	4.0	1.464	1.0
Mar	1.744	-8.6	204.5	2.0	1.450	0.4
Apr	1.769	-6.7	206.8	1.7	1.440	-1.7
May	1.870	0.9	208.8	5.6	1.464	0.2
Jun	1.843	1.4	211.2	6.9	1.456	-2.6
Jul	1.845	5.4	213.4	8.9	1.454	0.0
Aug	1.894	5.6	219.5	10.6	1.479	1.3
Sep	1.885	4.2	220.8	9.9	1.481	0.3

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

Contact: Edward Beale, x2464

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

D4: Public Finances

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

The Government's "golden rule" requires it to balance the current budget over the economic cycle. In July 2005, the Treasury 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 2006 Budget.

- There was a £2.0 billion deficit on the current budget in Q3 2006 compared with a £3.0 billion deficit in the same quarter of 2005.

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. Improvements to the way Private Finance Initiative schemes are included in the public finance statistics mean public sector net debt has increased by 0.4% of GDP.

- The public sector net cash requirement (PSNCR - the new aggregate replacing the PSBR) was £5.5 billion in Q3 2006 compared with £8.2 billion in the same quarter of 2005. In 2005/06, the PSNCR was £40.0 billion compared with £38.6 billion in 2004/05.

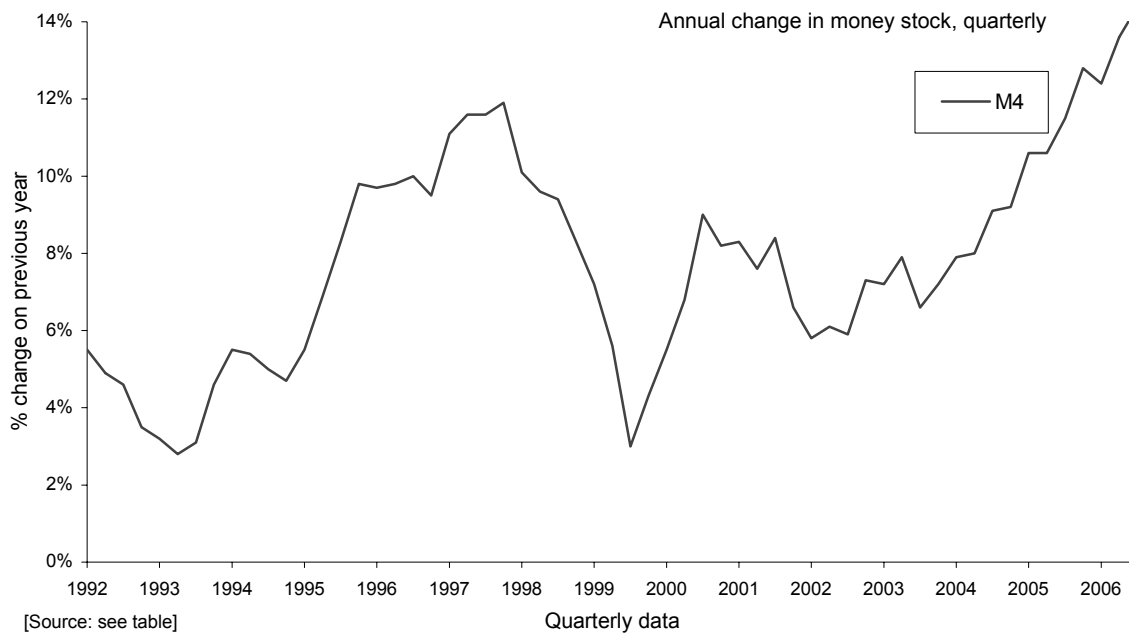
Public Sector Net Debt

£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2002/03	349.3	32.0
2003/04	384.8	33.2
2004/05	424.5	35.0
2005/06	462.7	36.5
2005 Q3	446.7	36.1
Q4	466.8	37.3
2006 Q1	462.7	36.5
Q2	484.0	37.8
Q3	486.7	37.6

Source: ONS database, series: RUTN, RUTO

D5: Money Supply



Money stock

% change; seasonally adjusted

	Notes and coin		M4	
	3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2005 Sep	5.0	3.9	12.0	11.4
Oct	3.5	3.6	11.6	11.8
Nov	3.4	3.9	14.8	12.3
Dec	-1.3	2.5	15.5	12.8
2006 Jan	5.5	4.0	13.2	12.2
Feb	7.1	4.5	12.7	12.4
Mar	14.4	5.1	11.6	12.2
Apr	7.6	5.4	13.8	12.9
May	5.4	5.4	12.2	11.7
Jun	5.2	5.7	14.7	13.4
Jul	4.9	5.4	13.9	13.1
Aug	4.3	5.0	15.4	13.7
Sep	2.7	5.1	16.2	14.5

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

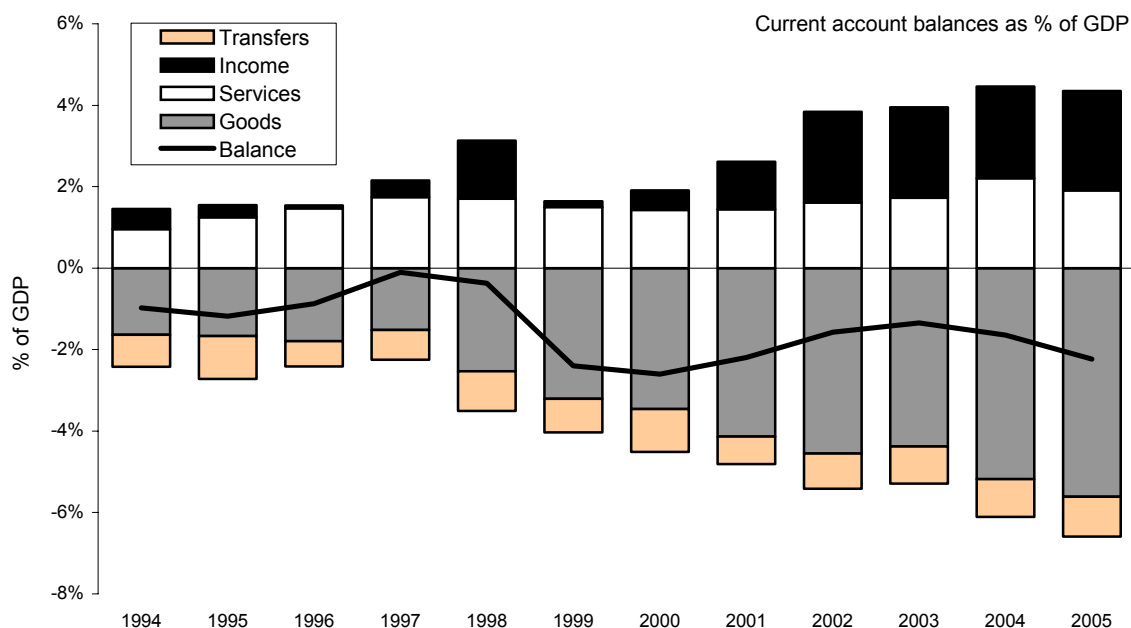
The Bank of England no longer publishes data on M0 following the introduction of new money market arrangements in 2006 (see Bank of England *Quarterly Bulletin*, Autumn 2005 for details). The table above now shows sterling notes and coin in circulation outside the Bank of England. M4 is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 rose by 14.5% in the 12 months to September 2006. The 12-month seasonally adjusted growth rate of notes and coins was 5.1% in September 2006, compared with 3.9% in September 2005.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

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

E1: UK Overseas Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

	Trade in goods/services			Income (total)	Transfers			Current Account Balance
	Goods	Services	Total		Central Gov.	Other	Total	
2002	-47,705	16,830	-30,875	23,443	-5,633	-3,448	-9,081	-16,513
2003	-48,607	19,162	-29,445	24,646	-6,976	-3,146	-10,122	-14,921
2004	-60,893	25,918	-34,975	26,596	-8,304	-2,645	-10,949	-19,328
2005	-68,676	23,377	-45,299	29,935	-9,336	-2,691	-12,027	-27,391
2005 Q2	-15,839	6,658	-9,181	10,159	-2,224	-332	-2,556	-1,578
Q3	-18,099	4,108	-13,991	6,375	-2,223	-803	-3,026	-10,642
Q4	-18,590	6,796	-11,794	4,903	-2,294	-748	-3,042	-9,933
2006 Q1	-21,182	6,873	-14,309	8,632	-2,348	-704	-3,052	-8,729
Q2	-19,826	6,442	-13,384	8,996	-2,026	-572	-2,598	-6,986

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

- **Annually**, the current account deficit in 2005 was £27.4 billion, equivalent to -2.2% of GDP. The surplus on income widened between 2004 and 2005 and the services surplus narrowed, while the deficits on goods trade and transfers widened.
- On a **quarterly** basis, the current account deficit was £7.0 billion in Q2 2006, narrowing from the Q1 2006 deficit of £8.7 billion. Between Q1 2006 and Q2 2006 the surplus on income widened while the surplus on services narrowed slightly. Over the same period the deficits on goods and transfers narrowed.
- In 2005 the **annual** current account deficit with EU25 countries was £33.1 billion, compared with a surplus with non-EU countries of £5.7 billion. On a **quarterly** basis, the deficit with EU countries was £5.0 billion in Q2 2006 (compared with £8.2 billion in Q1 2006). With non-EU countries, the current account was in deficit by £2.0 billion in Q2 2006 (compared with a £0.6 billion deficit in Q1 2006).

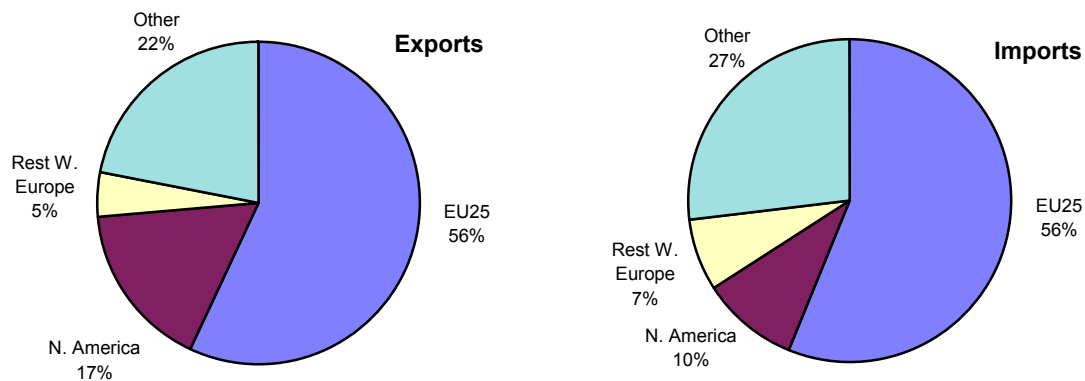
Contact: Ian Townsend, x3977

Updates: ONS, *UK Balance of Payments Q2 2006*, 21 Dec;
UK Trade (goods only), 10 Oct

E2: UK Overseas Trade in Goods

Shares of UK trade in goods by area, 2005

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 (2003=100)		Trade in goods (£m)		
	Exports	Imports	Exports	Imports	Balance
2002	100.3	98.2	186,524	234,229	-47,705
2003	100.0	100.0	188,320	236,927	-48,607
2004	101.5	106.9	190,877	251,770	-60,893
2005	110.9	114.8	211,694	280,370	-68,676
2005 Q2	109.7	112.4	51,956	67,795	-15,839
Q3	113.4	117.3	54,264	72,363	-18,099
Q4	117.7	120.8	56,433	75,023	-18,590
2006 Q1	131.3	133.5	62,688	83,870	-21,182
Q2	140.7	139.2	67,076	86,902	-19,826

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

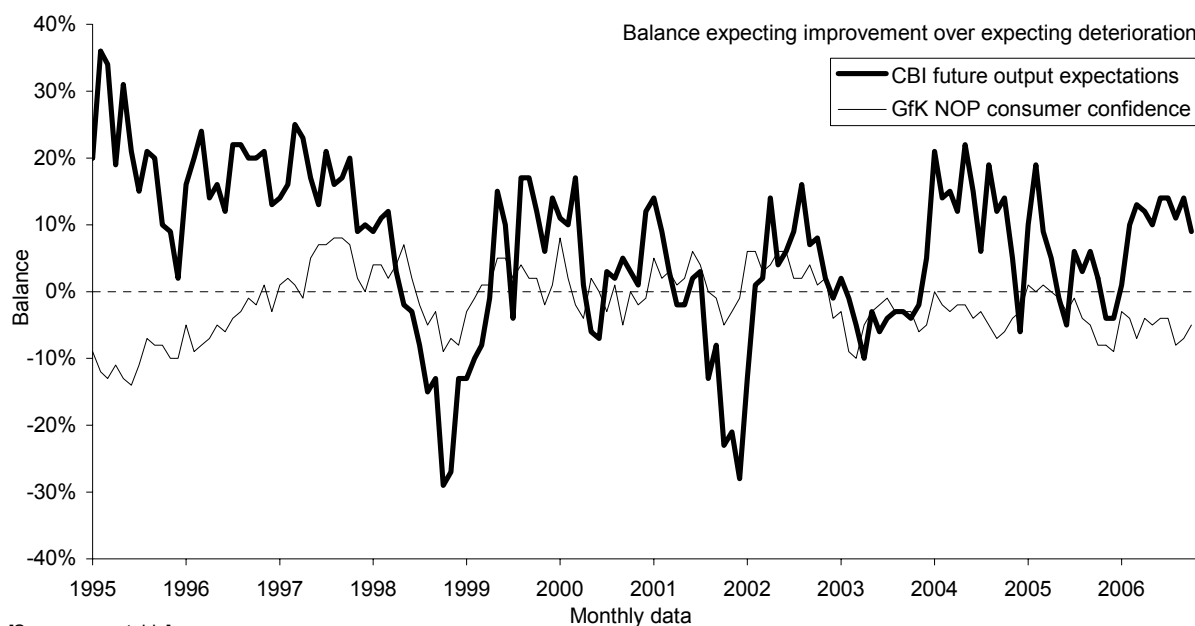
- In August 2006 the total value of UK goods exports was £19.3 billion and the total value of UK goods imports was £26.1 billion. As a result, the estimated deficit on goods trade was £6.7 billion, slightly lower than the July 2006 level of £6.8 billion.
- Geographical breakdowns of UK trade with EU and non-EU countries are still being affected by VAT Missing Trader Intra-Community (MTIC) – or ‘carousel’ – fraud. These issues make EU/non-EU breakdowns difficult to interpret. However, the latest estimates suggest that the goods deficit with the EU25 was £2.5 billion in August 2006 (unchanged from July 2006), while the deficit with non-EU countries was £4.2 billion (compared with £4.3 billion in July 2006).
- The UK’s monthly surplus on trade in **services** was £2.3 billion, compared with a £2.4 billion surplus in July.
- The UK’s overall monthly deficit on **goods and services combined** in August 2006 was £4.4 billion, unchanged from July.

Contact: Ian Townsend, x3977

Update: ONS, *UK Trade*, 9 Nov

F1: Survey indicators

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



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

- The balance of expectations for future output from the CBI's monthly survey was +9 in October 2006, down from +14 in September;
- This month's quarterly report noted that "Momentum in the UK manufacturing sector faded over the past three months as overseas demand levelled out and the decline in domestic orders accelerated".
- The balance of manufacturing firms reporting orders above or below normal fell from -5% in September 2006 to -20% in October, the lowest level since the beginning of 2006.

GfK NOP's *Consumer Confidence Barometer* measures 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 was up two points in October 2006 to -5, 3 points higher than in October 2005.
- Three of the five measures under the headline index increased. Perceptions of consumers' financial situation fell slightly, while the outlook for household finances for the next year improved slightly. Consumers' views of the general economic situation of the country over the last year improved, as did expectations for the general economic situation in the next year.
- The good time to make major purchases and good time to save indexes both fell slightly.

Output Expectations & Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

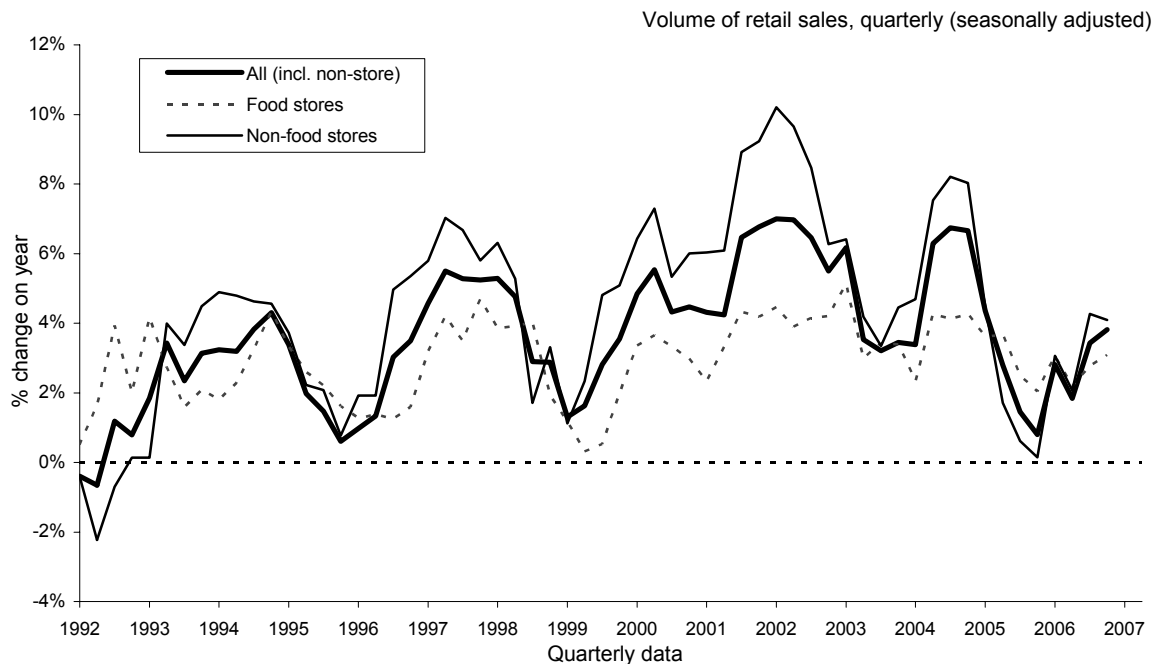
		Future output expectations (CBI)	Consumer confidence (GfK)
2005	Oct	+2	-8
	Nov	-4	-8
	Dec	-4	-9
2006	Jan	+1	-3
	Feb	+10	-4
	Mar	+13	-7
	Apr	+12	-4
	May	+10	-5
	Jun	+14	-4
	Jul	+14	-4
	Aug	+11	-8
2006	Sep	+14	-7
	Oct	+9	-5

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

Contact: Ian Townsend, x3977

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

F2: Retail Sales



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

- The *volume* of retail sales in the three months from July to September was 0.8% higher compared with the previous three month period, and was 3.8% higher than a year previously (seasonally adjusted).
- Retail sales volumes in September 2006 were 3.2% higher than in September 2005 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 4.1% in July to September compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 3.2% 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	6.7	4.7	4.7
2003	3.7	1.8	4.5	0.9	2.7
2004	3.5	3.6	5.1	6.2	4.4
2005	3.4	2.6	-1.6	-0.8	0.8
2005 Q3	1.7	0.0	-4.2	-0.9	0.0
Q4	3.1	3.5	-0.7	1.4	1.5
2006 Q1	0.9	0.0	-3.4	2.9	0.0
Q2	3.3	3.5	3.6	1.8	3.5
Q3	5.1	5.3	4.4	0.9	3.5

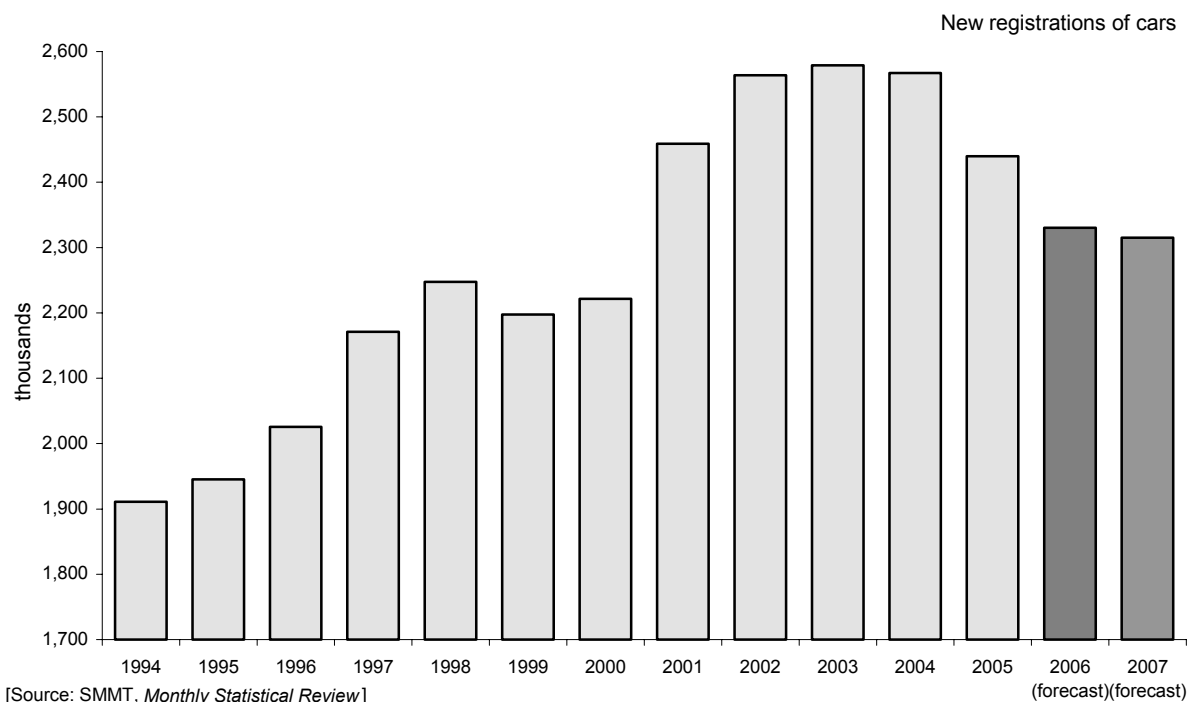
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in September 2006 was £4,710 million, a 3.9% increase from September 2005 (non-seasonally adjusted).

Contact: Ed Potton, x2883

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

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 0.7% in September 2006, compared with the previous September's figure, to 413,991 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 4.5% in 2006 and a further 0.6% in 2007.
- There were 57,039 registrations of British-built cars in September, equivalent to 13.8% of the market. The number of British built registrations decreased by 19.9% on the previous September'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.

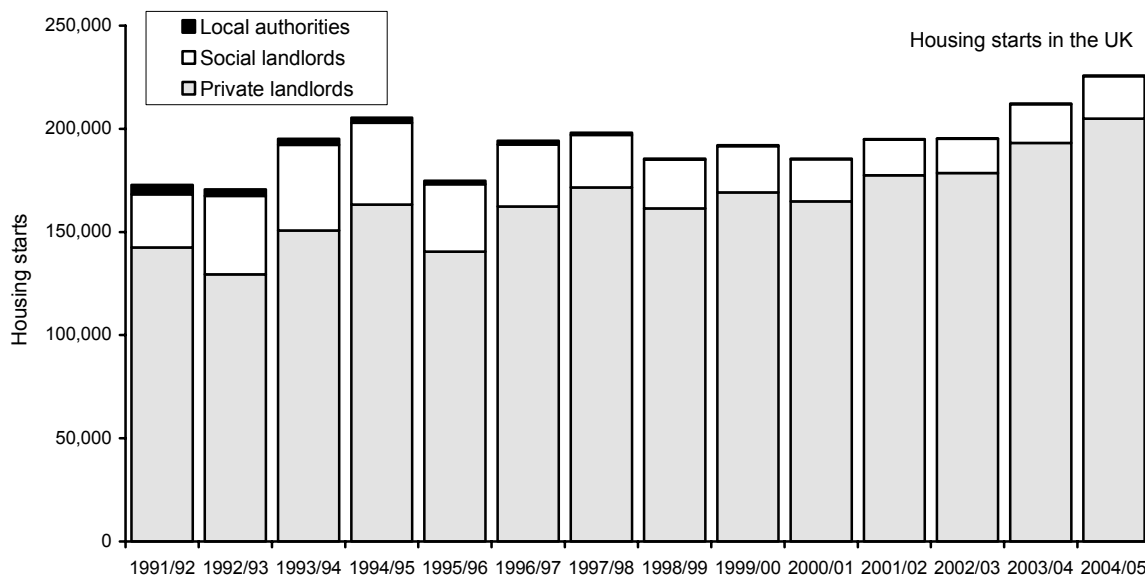
New Registrations of Cars

000s & % change; not seasonally adjusted

	Number (^{'000s})	Change over 12 months
2004	2,567	-0.5
2005	2,440	-5.0
2006 (forecast)	2,330	-4.5
2007 (forecast)	2,315	-0.6
2005 Sep	417	-3.2
Oct	152	-10.8
Nov	158	-7.9
Dec	157	8.7
2006 Jan	157	-13.3
Feb	76	-1.4
Mar	436	-1.6
Apr	163	-9.1
May	190	1.1
Jun	219	-3.6
Jul	168	-4.1
Aug	78	-6.1
Sep	414	-0.7

Source: SMMT, *Monthly Statistical Review*

F4: House-building & Prices



[Source: DCLG, *Housebuilding Statistics*, table 2e (and table 201)]

Data on housing starts and completions from the Department for Communities and Local Government (DCLG, the former Office of the Deputy Prime Minister) show that there were 55,891 dwelling starts in the UK in Q1 2005, compared with 58,024 in Q1 2004. In Q1 2005 there were 46,354 completions compared with 42,932 in Q1 2004 (all data are not seasonally adjusted; more recent data are available for England, Scotland and Wales, but not Northern Ireland).

The Halifax *House Price Index* data shows that (seasonally adjusted data):

- **Monthly** UK house prices rose 1.0% in September 2006, compared with 1.3% in August 2006.
- **Annual** house prices were 8.0% higher in September than in the same month in 2005 (compared with 8.2% in August 2006).
- **Quarterly** house prices rose 2.6% in Q2 2006, on Q1 2006, compared with 4.5% in Q1 2006 on Q4 2005.
- Regionally, the Halifax data show that in Q3 2006 **annual** house price inflation was highest in Northern Ireland (30.0%) and lowest in Wales (2.9%), while all-UK prices rose by 8.0%. (not seasonally adjusted; regions are not aligned with the regions used by the DCLG, below).

Standardised average house prices

£s & %; non-seasonally adjusted

	All houses	New houses	Existing houses	First time buyers
<i>average house prices, £</i>				
2005 Q3	167,808	163,459	168,718	125,064
Q4	169,445	163,293	170,389	127,922
2006 Q1	170,748	168,352	172,110	128,422
Q2	179,840	173,944	181,067	135,440
Q3	179,425	176,094	182,434	135,812
<i>% change over same period in previous year</i>				
2005 Q3	3.0	0.7	2.8	6.9
Q4	5.1	3.2	4.8	8.4
2006 Q1	6.2	7.5	6.3	8.0
Q2	9.4	8.8	9.4	11.8
Q3	0.7	7.7	8.1	8.6

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

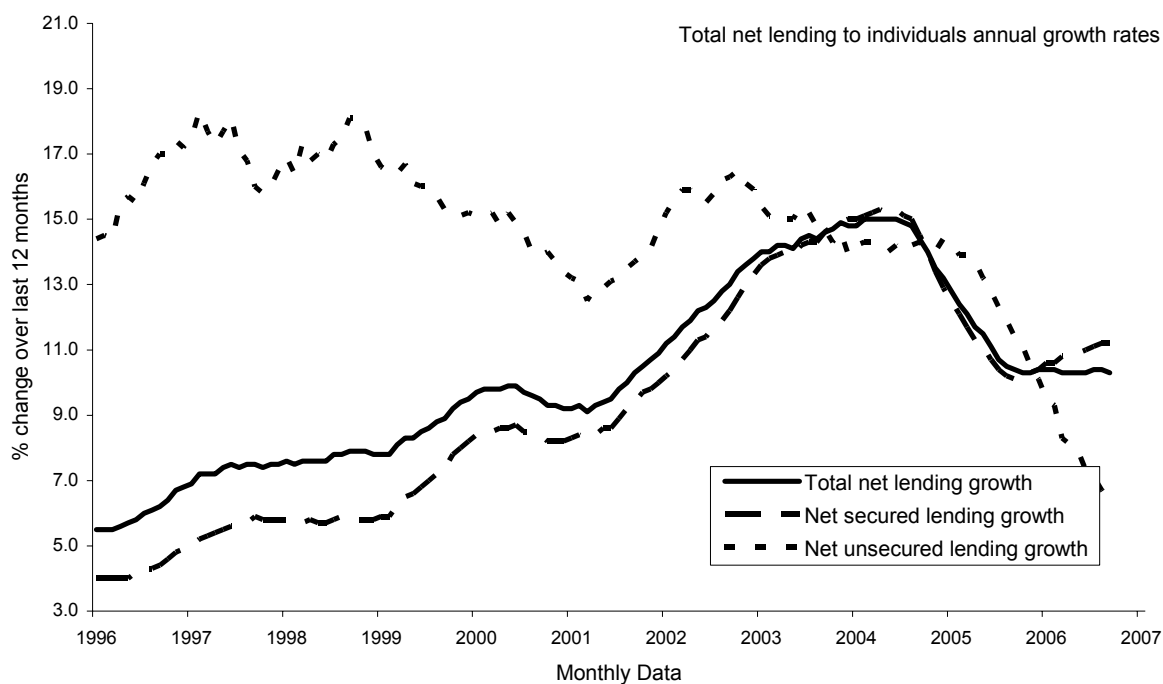
The DCLG's house price index is based on completions (the Halifax index is based on mortgage approvals). All figures are not seasonally adjusted:

- The average UK house price in August 2006 was £197,631, up from a revised £194,454 in July 2006. **Annual** house price inflation in August was 7.7%, up from 6.0% in July 2006.
- Regionally, **annual** house price inflation in June 2006 was highest in Northern Ireland (25.9%) and lowest in the West Midlands (5.9%).

Contact: Ian Townsend, x3977

Updates: Halifax *House Prices*, early Nov; DCLG, *House Prices*, 13 Nov; *House-building*, 16 Nov

F5: Consumer borrowing



[Source: Bank of England]

Net lending to individuals

£ millions and % changes on year; seasonally adjusted

	Net Lending Outstanding			Net Lending Growth Rates		
	Secured	Unsecured	Total	Secured	Unsecured	Total
2002 Sep	651,348	163,915	815,263	12.2	16.3	13.0
2003 Sep	745,046	177,601	922,647	14.6	14.7	14.6
2004 Sep	852,401	194,064	1,046,466	14.5	14.3	14.4
2005 Sep	939,962	209,146	1,149,108	10.1	11.4	10.4
Dec	965,448	210,718	1,176,166	10.4	10.1	10.4
2006 Mar	990,950	211,096	1,202,046	10.8	8.3	10.3
Jun	1,015,717	211,468	1,227,185	11.0	7.3	10.3
Sep	1,045,696	211,972	1,257,668	11.2	6.3	10.3

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

- Total net outstanding lending to individuals was £1,258 billion at the end of September 2006 (seasonally adjusted).
- Total net lending to individuals grew by 0.8% in September 2006 compared with the previous month, and grew by 10.3% on an annual basis (all seasonally adjusted); 0.1% lower than the annual rate in August 2006.
- Of the £9.9 billion increase in net lending in September 2006, £8.9 billion was mortgage borrowing and £0.9 billion was consumer credit (seasonally adjusted).

V Indicator sources

The table gives details of sources used in this paper. Office for National Statistics (ONS) releases are available from 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> ; www.statistics.gov.uk/statbase/Product.asp?vlnk=406 <i>Quarterly National Accounts</i> www.statistics.gov.uk/statbase/Product.asp?vlnk=818 <i>UK output, income & expenditure</i> ; www.statistics.gov.uk/statbase/Product.asp?vlnk=1129 HM Treasury, <i>Forecasts for the UK Economy</i> ; 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> ; 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; europa.eu.int/comm/eurostat/Public/datashop/print-catalogue/EN?catalogue=Eurostat
B3	Average Earnings Index	ONS, <i>Labour Market Statistics</i> release; www.statistics.gov.uk/statbase/Product.asp?vlnk=1944 , or ONS Database
C1	Employment	ONS Database & ONS, <i>Labour Market Statistics</i> release; 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; www.statistics.gov.uk/statbase/Product.asp?vlnk=1944 , and <i>Labour Market Statistics First Release Historical Supplement</i> (via Virtual Bookshelf); www.statistics.gov.uk/OnlineProducts/LMS_FR_HS.asp Commentary: Department for Work and Pensions (DWP) <i>Quarterly Working Age Statistics for New Deal for Young People & Long-term Unemployed</i> (table 6); www.dwp.gov.uk/asd/ndyp.asp
C3	Unemployment: Regional	Data: ONS, <i>Labour Market Statistics</i> release; 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, www.bankofengland.co.uk/Links/setframe.html ; Monetary Policy Committee minutes: www.bankofengland.co.uk/mpc/minutes.htm ; Quarterly Inflation Report: 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, www.bankofengland.co.uk/Links/setframe.html ; European Central Bank, www.ecb.int/mopo/html/index.en.html ; US Federal Reserve, 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> , www.statistics.gov.uk/StatBase/Product.asp?vlnk=3764 or <i>Public Sector Finances</i> , 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; 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> ; www.statistics.gov.uk/STATBASE/Product.asp?vlnk=1118
E2	Trade in Goods	Data: ONS Database; Commentary: ONS, <i>UK Trade</i> ; 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; www.cbi.org.uk/ndbs/press.nsf/awprdate?OpenView&Start=1&ExpandView , or ONS Database Consumer Confidence: GfK NOP; 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	Department for Communities and Local Government (DCLG, formerly Office of the Deputy Prime Minister) UK Housing Starts: table 201; www.odpm.gov.uk/index.asp?id=1156032 ; DCLG House building statistics: statistical release; www.odpm.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_housing_023765.hcsp Halifax House Price data: housing research page; www.hbosplc.com/economy/HousingResearch.asp DCLG Experimental House Prices: statistical release; www.odpm.gov.uk/index.asp?id=1156181
F5	Consumer Debt	Bank of England Lending to Individuals www.bankofengland.co.uk ; Database: 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
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics

Definitions²⁰

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 between the value of goods and services produced and the cost of raw materials and other inputs which

²⁰ Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

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.