



RESEARCH PAPER 06/59
1 DECEMBER 2006

Economic Indicators, December 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 Pre-Budget Report

Next publication date: **1 February 2007**

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:

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| Employment | Edward Beale | 2464 |
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| 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

At its November meeting, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise interest rates by 0.25 of a percentage point to 5.00%. Two members of the MPC, the Deputy Governor Rachel Lomax and David Blanchflower, voted against increasing rates, preferring to leave the rate unchanged from October. Since Rachel Lomax joined the MPC in July 2003, she has only voted against the majority three times (on the two occasions prior to her latest vote, these were both to oppose a reduction in the rate). The minutes of the meeting noted that the majority of members believed that CPI inflation would exceed the 2% target in the medium-term if rates were maintained at 4.75%.

Following this rise in interest rates, the Bank's November Inflation Report, forecast for inflation to return to its target rate of 2% more rapidly than was forecast in the August report. Latest inflation figures showed the headline CPI annual rate at 2.4% in October, unchanged from the previous month, while the RPI rose to 3.7% from 3.6% in September.

Unemployment in the UK rose in the three months to September to 5.6% of the economically active population. Having reached an all-time high of 29,015,000 in the three months to August, the employment rate fell back slightly in the latest quarter to 28,986,000 (74.5% of the working age population).

The November Inflation Report also forecast that Gross Domestic Product (GDP) growth would remain around 3% for the next two years. Latest estimates for the UK economy show that the chained volume measure of GDP at market prices rose by 0.7% in Q3 2006 compared with the previous quarter (Q2 2006). The OECD published its latest edition of the publication *Economic Outlook* in November, revising down 2006 growth forecasts for the US by 0.3% to 3.3%. In contrast the forecast for the UK growth in 2006 was revised up by 0.2% to 2.6%.

OECD growth forecasts

| | % change on year | | |
|----------------|------------------|------|------|
| | 2006 | 2007 | 2008 |
| USA | 3.3 | 2.4 | 2.7 |
| Japan | 2.8 | 2.0 | 2.0 |
| United Kingdom | 2.6 | 2.6 | 2.8 |
| Eurozone | 2.6 | 2.2 | 2.3 |
| OECD | 3.2 | 2.5 | 2.7 |

Source: OECD, *Economic Outlook*, Nov 2006

US\$ exchange rate



[Source: Bank of England]

The pound rose to \$1.967 against the dollar at the London market close on 30 November, the highest level since "Black Wednesday" in September 1992 when the UK left the Exchange Rate Mechanism. It was reported in the media that Mervyn King, while speaking to the Treasury Select Committee, commented that although the strong pound made it more difficult for UK exporters, overall the UK's export market was stable.

The Chancellor will make his Pre-Budget Report (PBR) speech to the House of Commons on 6 December. The Leitch Review of Skills will be published alongside the PBR.

III Background to the 2006 Pre-Budget Report

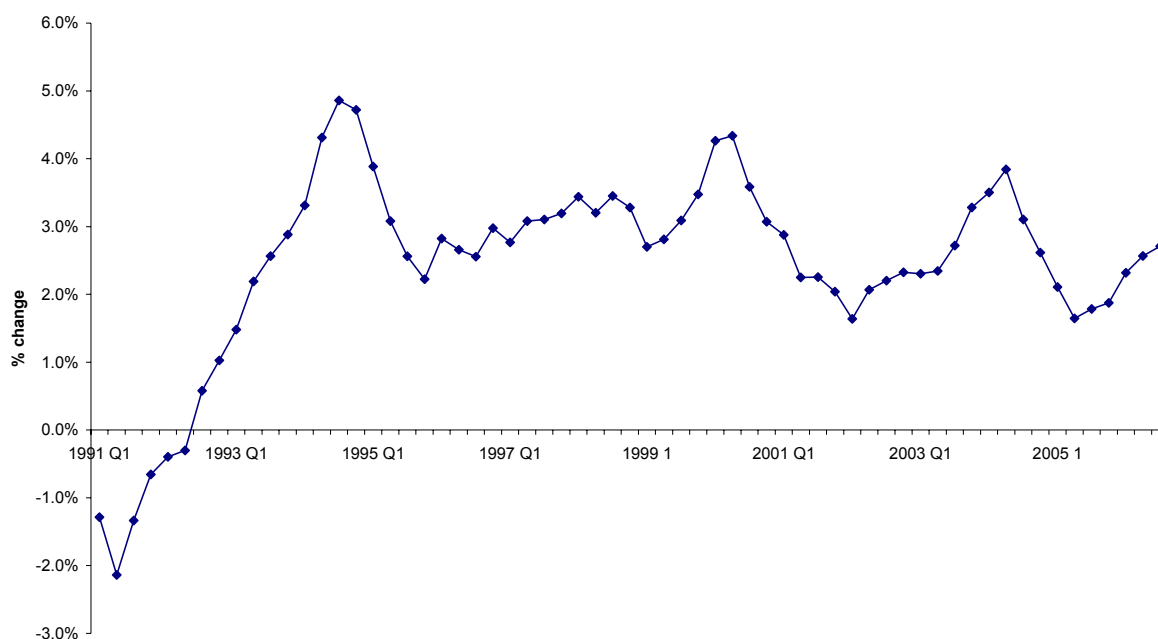
A. Introduction

The 2006 Pre-Budget Report (PBR) statement will take place on Wednesday 6 December.⁴ It will be Gordon Brown's tenth PBR. It will update the Treasury's forecasts for the economy and the public finances. The Government's detailed spending plans for 2008/09 to 2010/11 will be set out in next year's Comprehensive Spending Review. Public spending is widely expected to grow more slowly over this period than in recent years.

B. The economy

The economy grew in real terms by 1.9% in 2005 and has now seen 57 consecutive quarters of growth. Over the first three quarters of 2006, the economy grew by 2.5% compared with the same period a year earlier. In the 2006 Budget, the Chancellor forecast real GDP growth this year of 2 to 2.5%.⁵ It looks likely that the economy may outperform this. The average independent forecast for GDP growth in 2006 is 2.6%.⁶ Turning to 2007, the Chancellor forecast growth of 2.75 to 3.25%. The average independent forecast is 2.4%. Chart 1 below show GDP growth over recent years. Table 4 in the Appendix gives data since 1990. It also gives data on inflation and unemployment.

Chart 1: Real GDP growth



A recent article in the *Financial Times* Lex column discussed the scope for a revision to the Treasury's view of trend economic growth. This suggested that the forecast 2.5% for trend growth in 2007 looks low. Growth of the labour force accounts for 0.4 percentage points of

⁴ HC Deb 16 November 2006 c1WS

⁵ HM Treasury, *Budget 2006*, Table 2.2

⁶ HM Treasury, *Forecasts for the UK economy, A comparison of independent forecasts*, November 2006

this which may be an underestimate given the boost to employment from immigration. The article comments:

Overall, a trend growth rate of 2.75 per cent is reasonable - and would be very handy. Statistical revisions made over the summer had left the Treasury's bullish estimate of the output gap looking vulnerable. Higher trend growth would offset this, helping Mr Brown to keep his sums intact and avoid an unpopular fiscal tightening.⁷

C. The public finances

1. Receipts

The Budget forecast for central government current receipts in 2006-07 was £480.9 billion.⁸ This is an increase (in nominal terms) of 6.4% compared with the outturn of £451.9 billion in 2005/06. Over the financial year to date, central government receipts are up by 6.5% compared with the same period last year.⁹ The Treasury thus appears to be on target to hit its receipts forecast. However, given that economic growth has been faster in 2006 than predicted, this raises the question of why receipts are not higher. Commenting on the public finance figures released on 20 November, Gemma Tetlow of the Institute for Fiscal Studies (IFS) said:

"Today's figures show strong growth in receipts – in particular Income Tax and Capital Gains Tax – bringing growth over the year to date in line with the Budget projection. This suggests that the Chancellor will not revise downwards his forecast for receipts in the Pre-Budget Report in two weeks' time, which would be the first time that this has not happened since the December 2000 Pre-Budget Report. Current spending by central government continues to grow faster than forecast at the time of the Budget despite very low growth in spending on benefits and tax credits in October 2006. The Pre-Budget Report has never revised the in-year projection for spending. Taken together, these suggest that the Chancellor's forecasts for both the current budget and Public Sector Net Borrowing will be similar to, or slightly lower than, the £7.0bn deficit and £35.8bn borrowing that the Budget forecast.

What is likely to be of more interest in the Pre-Budget Report than these headline measures of borrowing is the Treasury's assessment of the relationship between the performance of the economy and the public finances. It appears that the economy is growing more quickly this year than the Treasury expected at Budget time. This may be contributing to the buoyancy of tax revenues and flattering the strength of the public finances because the economy might already be closer to trend than previously thought. If this is the case, it could prompt the Treasury to predict that the economic cycle will end more quickly than it had previously estimated, which would make the golden rule harder to meet over the current cycle. But, at the same time, some economists believe that extra spare capacity has been generated in the economy by higher than expected inward migration. In addition to boosting the underlying strength of the public finances, this might prompt the Treasury to push the end date of the cycle back, both of which would make the golden rule easier to achieve over the current cycle."¹⁰

⁷ "UK trend growth" [Lex column], *Financial Times*, 30 November 2006

⁸ Table C24

⁹ IFS, *IFS analysis of today's public finance figures*, 20 November 2006

¹⁰ *Ibid.*

An article in the *Financial Times* said:

More troubling for Mr Brown is that the economy has grown faster than expected in 2006 while the public finances are at best on track to meet the Budget forecasts, implying that the structural position is worse than expected. With economic growth having been revised significantly higher in the summer, Mr Brown will also struggle to convince people that there is lots of spare capacity for the economy to grow further without triggering inflation.¹¹

The Independent noted, however, that City bonuses are forecast to reach record levels which is likely to boost tax revenues in the new year.¹²

2. The fiscal rules

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.¹³

3. The current budget surplus and the golden rule

The golden rule requires that the current budget, expressed as a percentage of GDP, be balanced over the economic cycle. The current budget deficit was £15.1 billion in 2005/06. In the Budget, the Chancellor forecast a current budget deficit of £7 billion for 2006/07. Figures for the first seven months of the current financial year show the deficit is £8.7 billion. This is 24% lower than the equivalent period last year. While this is an improvement, if this trend were to continue for the rest of the year, the deficit would be over £11 billion (ie higher than the Treasury forecast). An article in the *Financial Times* referred to this issue:

Mr Brown still has much ground to make up if he is to hit his current budget forecast of £7bn for the full financial year. Last year, borrowing increased in the remaining five months of the financial year with the out-turn currently estimated at £15bn. This year, the Treasury must reduce borrowing further in the rest of the financial year if the forecasts are to be met.¹⁴

Public sector net borrowing was £37.5 billion in 2005-06. In the Budget, the Treasury forecast a slight fall to £36 billion in 2006/07 and £30 billion in 2007/08. This borrowing forecast is lower than the average independent forecast of £38.5 billion and £37.3 billion for these two years respectively.¹⁵ Over the year to date, net borrowing has increased by 11% compared to the same period in 2005/06.

¹¹ "Oil company tax keeps Brown on track", *Financial Times*, 21 November 2006

¹² "Brown boosted by public finances cash surplus", *The Independent*, 21 November 2006

¹³ HM Treasury, *Pre-Budget Report 2005*, Cm 6701, para 2.7

¹⁴ "Oil company tax keeps Brown on track", *Financial Times*, 21 November 2006

¹⁵ HM Treasury, *Forecasts for the UK economy, A comparison of independent forecasts*, November 2006

In the 2005 PBR, the Treasury announced its revised view that the current cycle will end in 2008/09 rather than 2005/06. In July 2005, the Treasury announced that it had altered its view of the starting date of the cycle from 1999/00 to 1997/98.¹⁶ The current budget surplus is shown in the Table 1 and Chart 2 below. Surpluses early in the cycle are followed by deficits since 2002/03. The Treasury is forecasting a deficit of 0.6% of GDP for 2006/07 before returning to surplus. Over the cycle, as defined by the Treasury, the golden rule is met on Treasury forecasts: the average annual current balance is +0.1% of GDP.

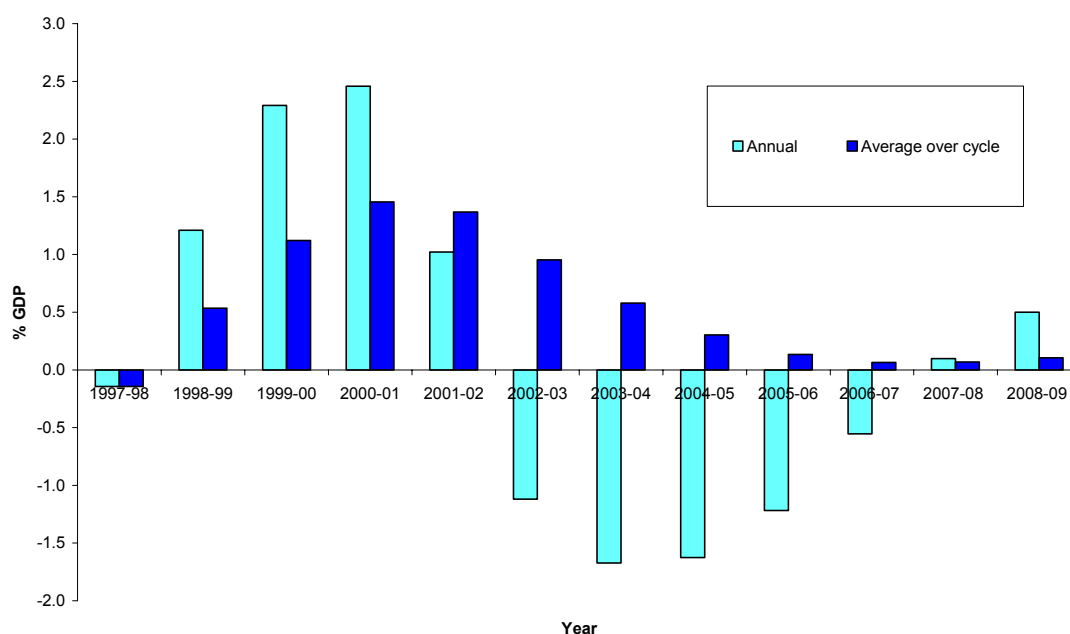
Table 1
The golden rule: current budget surplus

| | Annual £bn | Annual % GDP | Average over economic cycle % GDP |
|-------------|---------------|-----------------|---|
| 1997-98 | -1.2 | -0.1 | -0.1 |
| 1998-99 | 10.5 | 1.2 | 0.5 |
| 1999-00 | 21.1 | 2.3 | 1.1 |
| 2000-01 | 23.7 | 2.5 | 1.5 |
| 2001-02 | 10.3 | 1.0 | 1.4 |
| 2002-03 | -11.9 | -1.1 | 1.0 |
| 2003-04 | -18.9 | -1.7 | 0.6 |
| 2004-05 | -19.3 | -1.6 | 0.3 |
| 2005-06 | -15.1 | -1.2 | 0.1 |
| 2006-07 (a) | -7 | -0.6 | 0.1 |
| 2007-08 (a) | 1 | 0.1 | 0.1 |
| 2008-09 (a) | 7 | 0.5 | 0.1 |

Source: HM Treasury

Note: (a) HM Treasury forecasts from 2006 Budget

Chart 2: Current budget surplus



¹⁶ For further information, see Standard Note [The golden rule and the economic cycle](#) (SN/EP/3730)

4. 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.¹⁷ The Treasury forecast that net debt will increase from around 36.5% of GDP in 2005/06 to around 38% by the end of the cycle.

Table 2

The sustainable investment rule: public sector net debt

| | £bn | % GDP |
|-------------|-------|-------|
| 1997-98 | 352.9 | 41.6 |
| 1998-99 | 351.6 | 39.3 |
| 1999-00 | 345.4 | 36.6 |
| 2000-01 | 312.4 | 31.7 |
| 2001-02 | 317.1 | 30.6 |
| 2002-03 | 349.3 | 32.0 |
| 2003-04 | 384.7 | 33.2 |
| 2004-05 | 424.5 | 35.0 |
| 2005-06 | 462.7 | 36.5 |
| 2006-07 (a) | 493 | 37.5 |
| 2007-08 (a) | 530 | 38.1 |
| 2008-09 (a) | 560 | 38.3 |

Source: HM Treasury

Note: (a) HM Treasury forecasts from 2006 Budget

5. Efficiency savings

The Government's target is to achieve annual savings of £21.5 billion and a gross reduction of 84,000 civil service posts by 2008. Progress to date is shown in Table 3. Further details will be provided in the PBR.¹⁸ There have been criticisms of the way data on efficiency gains is presented. In July, the Public Accounts Committee said "announcements of efficiency gains have lacked analysis to support the claims being made" and called for more information to be provided.¹⁹ The Government said that information was published in departmental reports, autumn performance reports and alongside the Budget and PBR.²⁰

Table 3

Efficiency gains

| | Efficiency gains £bn | Workforce reductions | | Relocations |
|---------------|-------------------------|----------------------|--------|-------------|
| | | Net | Gross | |
| Budget 2006 | 6.4 | 33,237 | 40,391 | 6,640 |
| November 2006 | 13.3 | 45,551 | 54,963 | 10,574 |

Source: HM Treasury

¹⁷ HM Treasury, *Pre-Budget Report 2005*, Cm 6701, para 2.8

¹⁸ HM Treasury Press Release, *Efficiency gains doubled to £13 billion since Budget*, 23 November 2006

¹⁹ Committee of Public Accounts, *Progress in improving government efficiency*, 55th Report 2005-06, HC 978

²⁰ *Treasury Minutes on the Fifty-fifth, Fifty-seventh, Sixtieth and Sixty-third Reports from the Committee of Public Accounts 2005-06*, November 2006, Cm 6959

D. Appendix 1: Economic and public finance data since 1990

Table 4
Economic indicators, 1990-2005

| | Real GDP growth | Inflation (RPI) | Unemployment, Q4 |
|------|-----------------|-----------------|------------------|
| 1990 | 0.7% | 9.5% | 7.5% |
| 1991 | -1.4% | 5.9% | 9.5% |
| 1992 | 0.2% | 3.7% | 10.4% |
| 1993 | 2.3% | 1.6% | 10.2% |
| 1994 | 4.3% | 2.4% | 9.0% |
| 1995 | 2.9% | 3.5% | 8.3% |
| 1996 | 2.8% | 2.4% | 7.8% |
| 1997 | 3.0% | 3.1% | 6.5% |
| 1998 | 3.3% | 3.4% | 6.1% |
| 1999 | 3.0% | 1.5% | 5.8% |
| 2000 | 3.8% | 3.0% | 5.2% |
| 2001 | 2.4% | 1.8% | 5.2% |
| 2002 | 2.1% | 1.7% | 5.1% |
| 2003 | 2.7% | 2.9% | 4.9% |
| 2004 | 3.3% | 3.0% | 4.7% |
| 2005 | 1.9% | 2.8% | 5.1% |

Source: ONS (series ABMI, CZBH and MGSX)

Table 5
Government borrowing and debt

| | Current budget surplus | | Net borrowing | | Net debt |
|-------------|------------------------|-------|---------------|-------|----------|
| | £bn | % GDP | £bn | % GDP | % GDP |
| 1990-91 | 1.9 | 0.3 | 5.8 | 1.0 | 26.2 |
| 1991-92 | -11.9 | -2.0 | 22.6 | 3.8 | 27.4 |
| 1992-93 | -35.2 | -5.7 | 46.7 | 7.6 | 32.0 |
| 1993-94 | -41.7 | -6.4 | 51.1 | 7.8 | 37.3 |
| 1994-95 | -33.5 | -4.8 | 43.3 | 6.3 | 40.8 |
| 1995-96 | -24.6 | -3.4 | 34.7 | 4.7 | 42.7 |
| 1996-97 | -21.7 | -2.8 | 27.2 | 3.5 | 43.6 |
| 1997-98 | -1.2 | -0.1 | 6.4 | 0.8 | 41.6 |
| 1998-99 | 10.5 | 1.2 | -4.0 | -0.5 | 39.3 |
| 1999-00 | 21.1 | 2.3 | -16.3 | -1.8 | 36.6 |
| 2000-01 | 23.7 | 2.5 | -19.9 | -2.1 | 31.7 |
| 2001-02 | 10.3 | 1.0 | 0.9 | 0.1 | 30.6 |
| 2002-03 | -11.9 | -1.1 | 24.9 | 2.3 | 32.0 |
| 2003-04 | -18.9 | -1.7 | 34.1 | 3.0 | 33.2 |
| 2004-05 | -19.3 | -1.6 | 39.2 | 3.3 | 35.0 |
| 2005-06 | -15.1 | -1.2 | 37.5 | 3.0 | 36.5 |
| 2006-07 (a) | -7 | -0.6 | 35.8 | 2.8 | 37.5 |
| 2007-08 (a) | 1 | 0.1 | 29.6 | 2.2 | 38.1 |
| 2008-09 (a) | 7 | 0.5 | 25.0 | 1.7 | 38.3 |
| 2009-10 (a) | 10 | 0.7 | 23.6 | 1.6 | 38.4 |
| 2010-11 (a) | 12 | 0.8 | 23.5 | 1.5 | 38.4 |

Source: HM Treasury, Public Finances Databank

Note (a) Budget 2006 forecasts

E. Appendix 2: Links to further information

HM Treasury

Budget 2006: http://www.hm-treasury.gov.uk/budget/budget_06/bud_bud06_index.cfm

Pre-Budget Report 2005:

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

2007 Comprehensive Spending Review 2007:

http://www.hm-treasury.gov.uk/spending_review/spend_csr07/spend_csr07_index.cfm

Public Finances Databank

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

Forecasts for the UK Economy: A comparison of independent forecasts, November 2006

<http://www.hm-treasury.gov.uk/media/E63/98/forcomp151106.pdf>

ONS

ONS First Release, *Public Sector Finances*, October 2006

<http://www.statistics.gov.uk/pdfdir/psf1106.pdf>

IFS

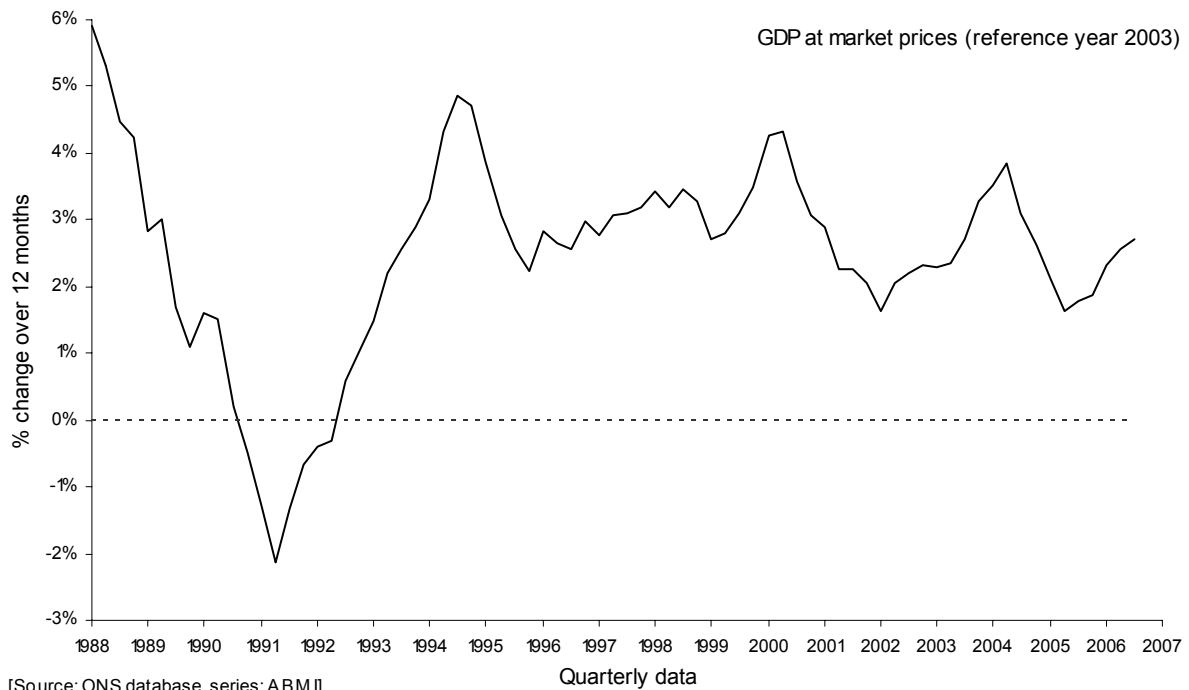
Green Budget 2006

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

Public finances bulletin November 2006: http://www.ifs.org.uk/pr/pubfin_nov06.pdf

Dominic Webb
Economic Policy and Statistics Section

A1: Gross Domestic Product



Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

| | Current prices | | 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 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 | 324.4 | 5.9 | 2.7 |

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 Q3 2006 than in the previous quarter (Q2 2006). Compared with the same quarter in the previous year (Q3 2006 on Q3 2005) this measure of GDP was 2.7% higher.
- In November 2006, the HM Treasury's average of independent economic forecasts of GDP growth in 2006 was 2.6%, unchanged from October. The average growth forecast for 2007 was 2.4% in November 2006, unchanged from October.

Contact: Grahame Allen, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 20 Dec;
ONS, *UK output, income & expenditure*, 21 Dec

A2: GDP: International Comparisons



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

| | 2006 | 2007 | 2008 |
|----------------|------|------|------|
| USA | 3.3 | 2.4 | 2.7 |
| Japan | 2.8 | 2.0 | 2.0 |
| United Kingdom | 2.6 | 2.6 | 2.8 |
| Eurozone | 2.6 | 2.2 | 2.3 |
| OECD | 3.2 | 2.5 | 2.7 |

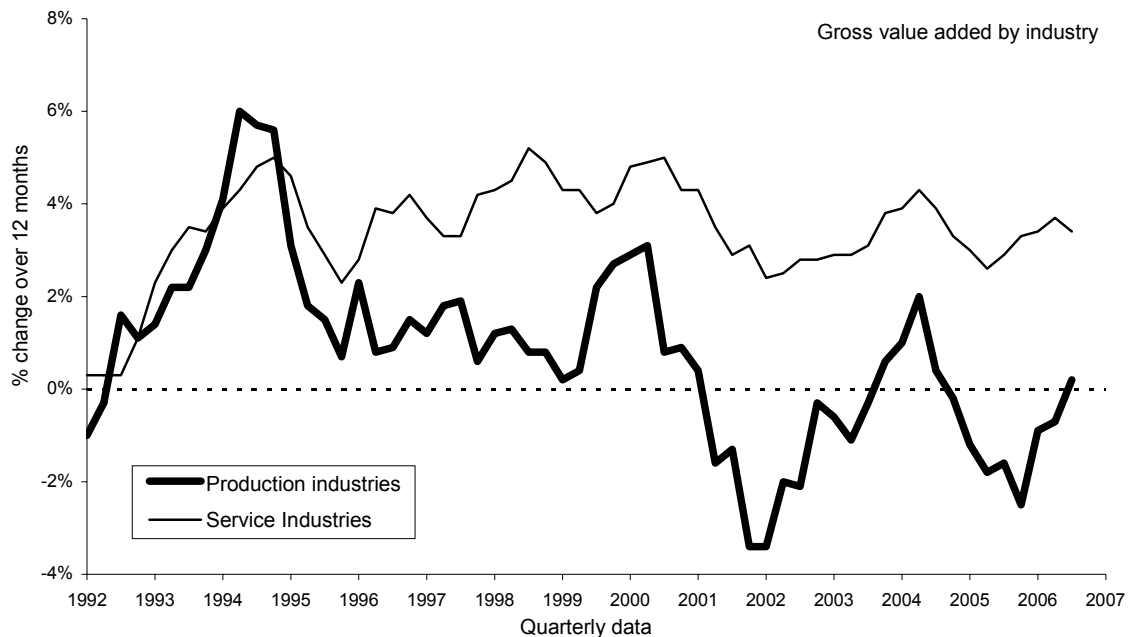
Source: OECD, *Economic Outlook*, Nov 2006

Contact: Edward Beale, x2464

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

A3: Gross Domestic Product by Industry

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



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

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 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 | 0.2 | 1.4 | 3.4 | -1.1 | 1.7 |

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

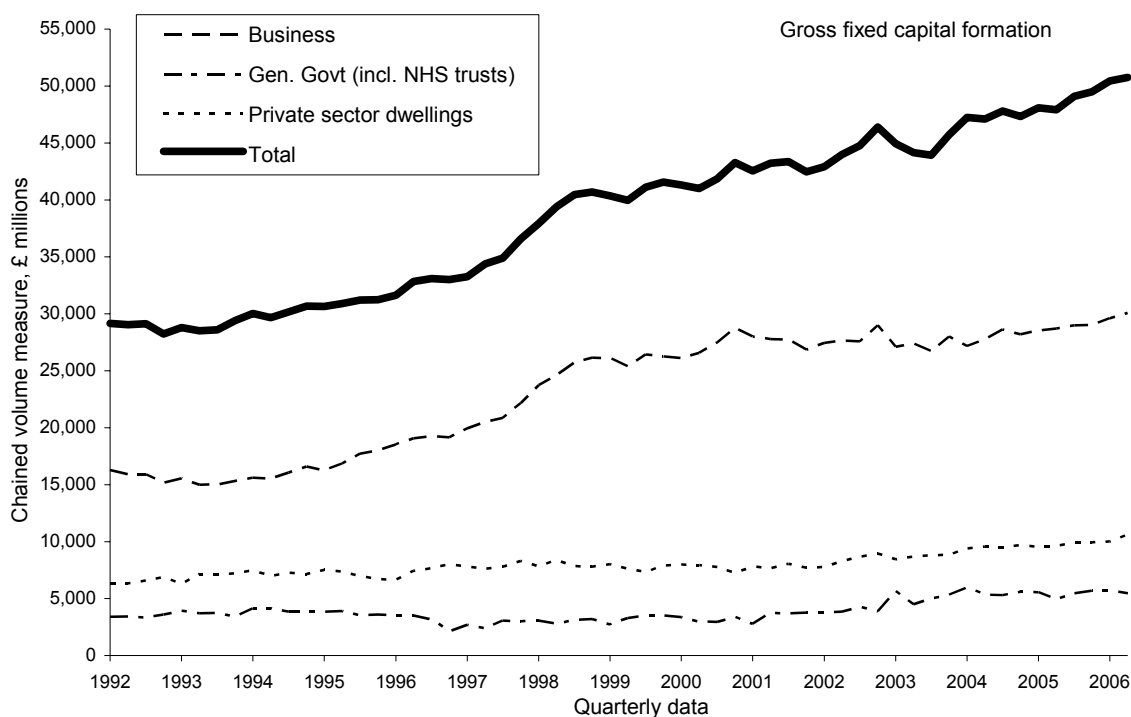
- Manufacturing output increased by 1.4% in the third quarter of 2006 compared with the same quarter in 2005, but manufacturing output decreased by 1.0% overall in 2005.
- In 2004, services accounted for 75% of gross value added, manufacturing for 14%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883

Update: ONS, *Quarterly National Accounts* – Q3, 21 Dec

A4: Investment

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



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

Gross fixed capital formation

£ million; Chained volume measures, reference year 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 |

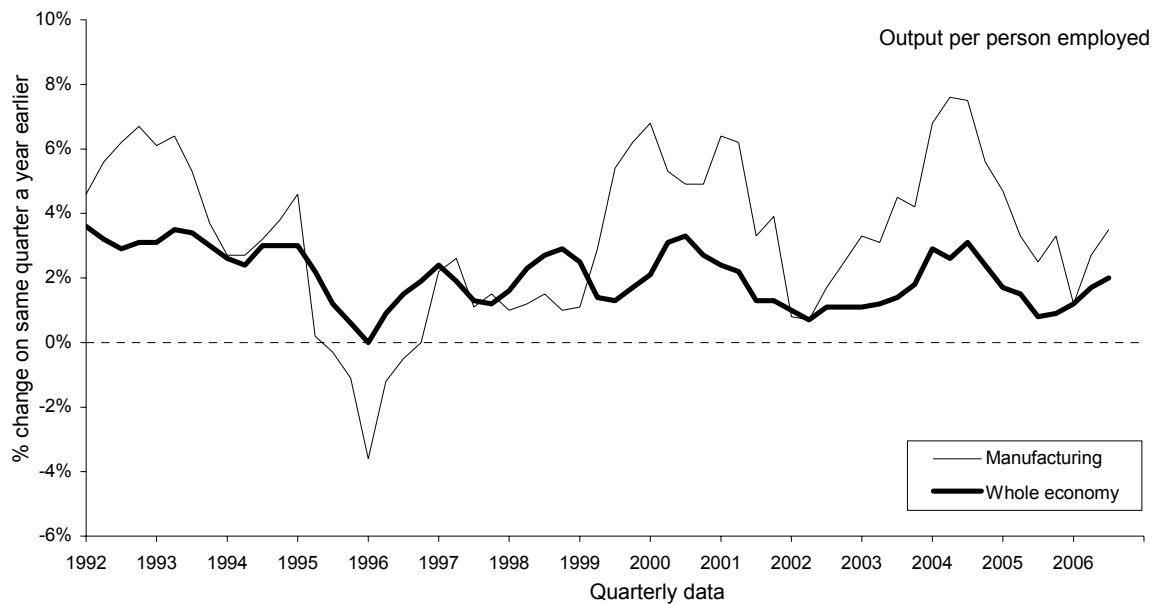
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment increased by 3.1% in Q3 2006 compared with the previous quarter, and increased by 6.9% compared with Q3 2005 on a seasonally adjusted basis.
- Total manufacturing investment increased by 1.7% in Q3 2006 compared with the previous quarter while investment in private sector services increased by 2.4% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324

Update: ONS, *Business Investment*, 20 Dec

A5: Productivity



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

Productivity

% changes on year; seasonally adjusted

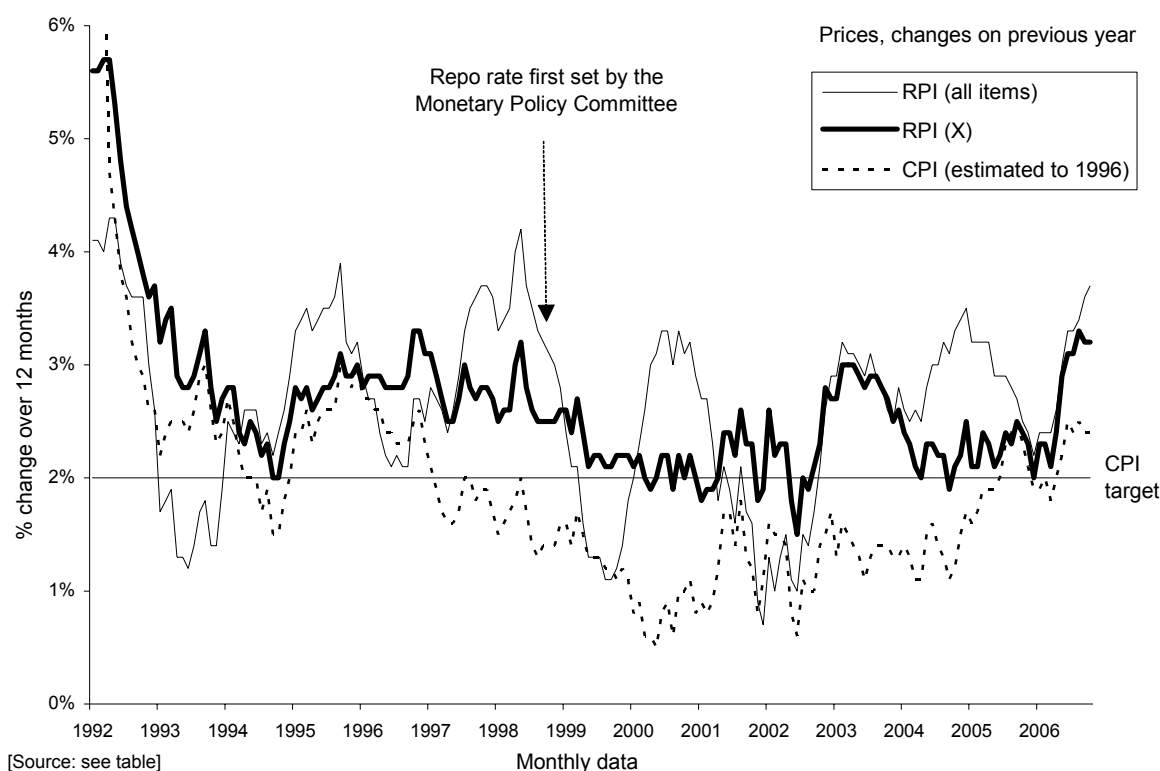
| | Manufacturing | | | Whole Economy | | |
|---------|---------------|-------------------------|-----------------|---------------|-------------------------|-----------------|
| | Output | Workforce in employment | Output per head | Output | Workforce in employment | Output per head |
| 2002 | -2.6 | -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 | 1.4 | -2.0 | 3.5 | 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 October, the consumer prices index (CPI) showed inflation at 2.4%, unchanged from September.
- The largest upward effect on the CPI came from education, due to university tuition fees. The largest downward effect on the CPI annual rate came from transport costs.
- The former headline (all items RPI) rate of inflation was 3.7% in October, up from 3.6% in September. The underlying RPI(X) remained at 3.2% in October.
- The largest upward effect on the RPI came from household services, again due to university tuition fees. The largest downward effect came from motoring expenditure.

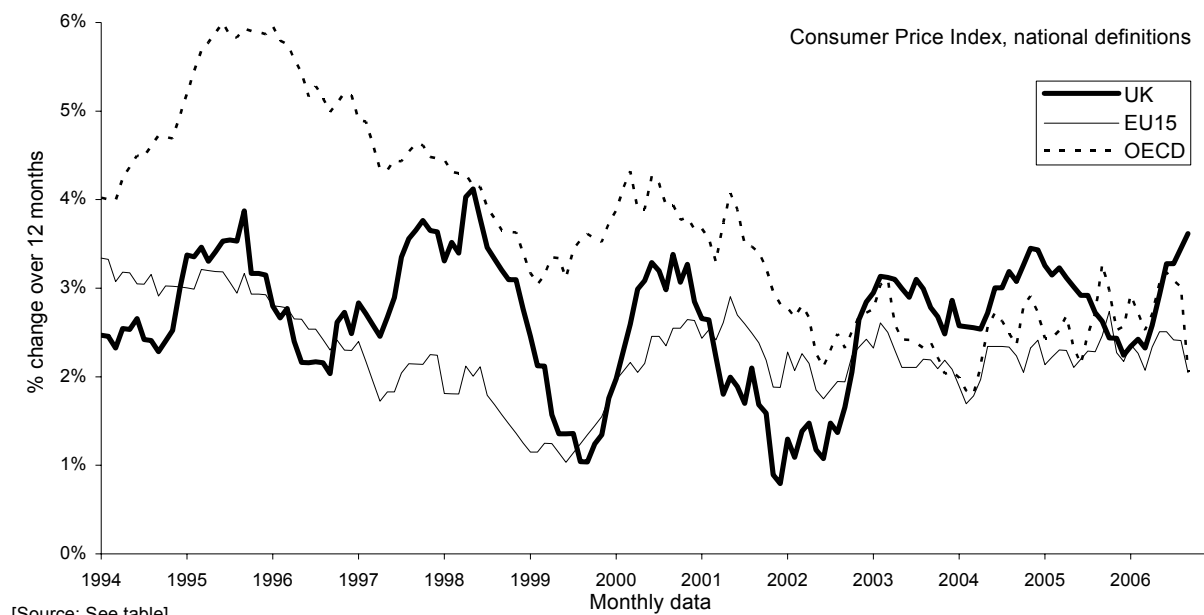
Price Indices

% 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 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 |
| Oct | 2.4 | 3.7 | 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 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 | 2.4 | 1.7 |
| Oct | 1.2 | 1.1 | 1.9 | 2.4 | 1.6 |

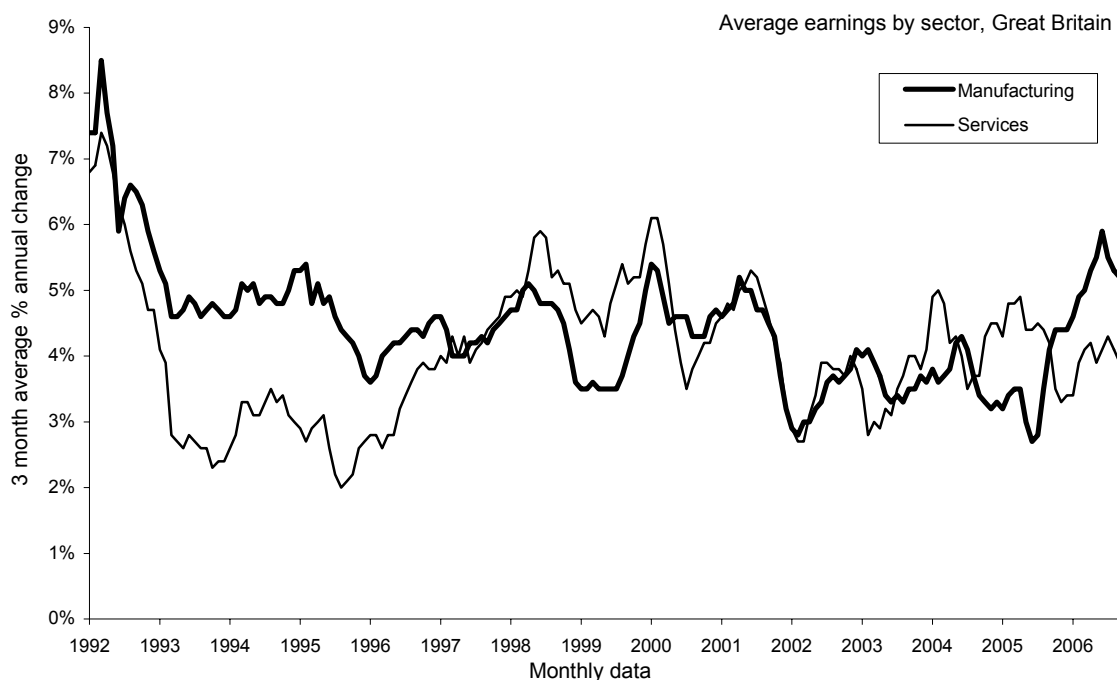
Source: Eurostat, Euro-Indicators news release, 16 Nov 2006

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 1.6% in October.
- The HICP inflation rates for the EU15 Member States not in the eurozone were 1.4% in Denmark, 1.2% in Sweden and 2.5% in the UK .
- The eurozone countries with the highest HICP annual inflation rates were Greece (3.1%), Spain and Portugal (both 2.4%). The lowest rate was in Luxemburg (0.6%).

Contact: Alex Adcock, x3793

Updates: OECD, consumer prices release, 5 Dec
Eurostat, *Euro-indicators news release*, 15 Dec

B3: Average Earnings Index

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

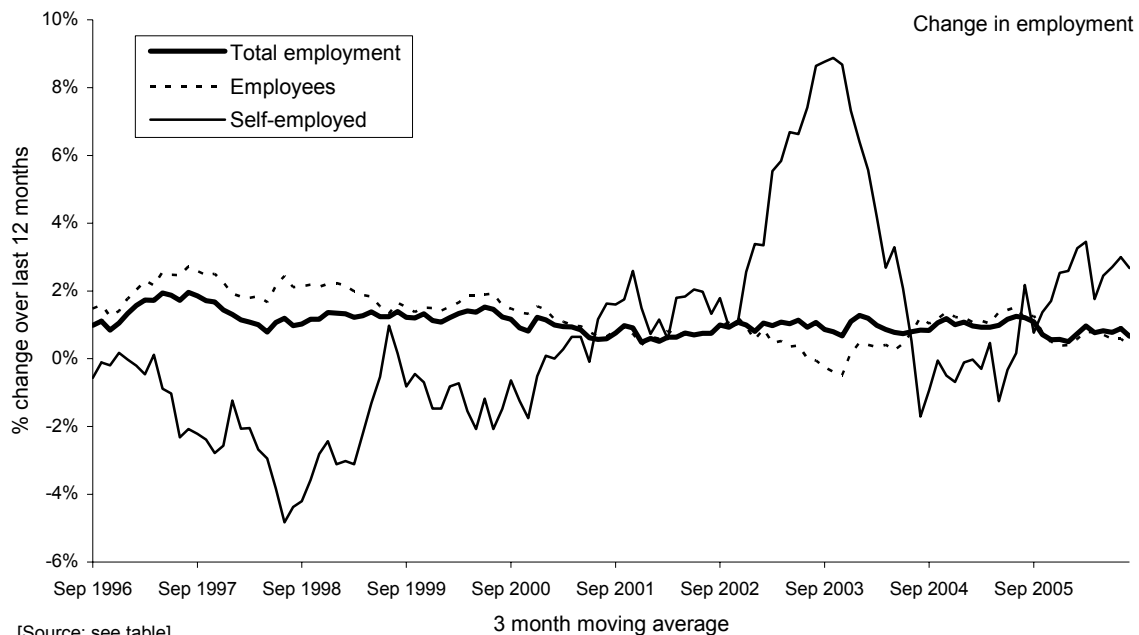
- The headline rate of growth in average earnings for the whole economy in September was 3.9%, down from 4.2% in August.
- Headline average earnings growth in manufacturing was 5.2% in September, down from 5.3% in August. Earnings growth in the service sector fell to 3.9% in September from 4.1% the previous month.
- Headline earnings growth in the private sector was 4.0% in September, compared with 3.5% in the public sector. Earnings growth in both the private and public sectors fell compared with August, from 4.3% and 3.6% respectively.
- Earnings are currently growing at a slower rate than they were a year ago (the headline rate in September 2005 was 4.2%).
- In the year to September, the consumer price index showed inflation below the rate of earnings growth at 2.4%. 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 Sep | 3.8 | 3.8 | 3.6 |
| 2003 Sep | 3.7 | 3.3 | 5.6 |
| 2004 Sep | 3.9 | 3.8 | 4.2 |
| 2005 Sep | 4.2 | 4.1 | 4.2 |
| Oct | 3.7 | 3.6 | 4.1 |
| Nov | 3.5 | 3.3 | 4.2 |
| 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 | 4.3 | 3.6 |
| Sep | 3.9 | 4.0 | 3.5 |

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 Aug | 27,912 | 24,366 | 3,355 | 94 | 97 |
| 2003 Aug | 28,212 | 24,353 | 3,645 | 108 | 107 |
| 2004 Aug | 28,450 | 24,649 | 3,583 | 89 | 129 |
| 2005 Aug | 28,794 | 24,936 | 3,661 | 90 | 107 |
| 2005 Nov | 28,758 | 24,861 | 3,699 | 90 | 108 |
| 2006 Feb | 28,887 | 24,966 | 3,740 | 88 | 93 |
| 2006 May | 28,930 | 25,023 | 3,719 | 93 | 94 |
| 2006 Aug | 28,986 | 25,026 | 3,759 | 104 | 97 |

Changes (%):

| | | | | | |
|------------------|-----|-----|-----|------|------|
| on last 3 months | 0.2 | 0.0 | 1.1 | 11.4 | 3.3 |
| on last year | 0.7 | 0.4 | 2.7 | 15.0 | -9.1 |

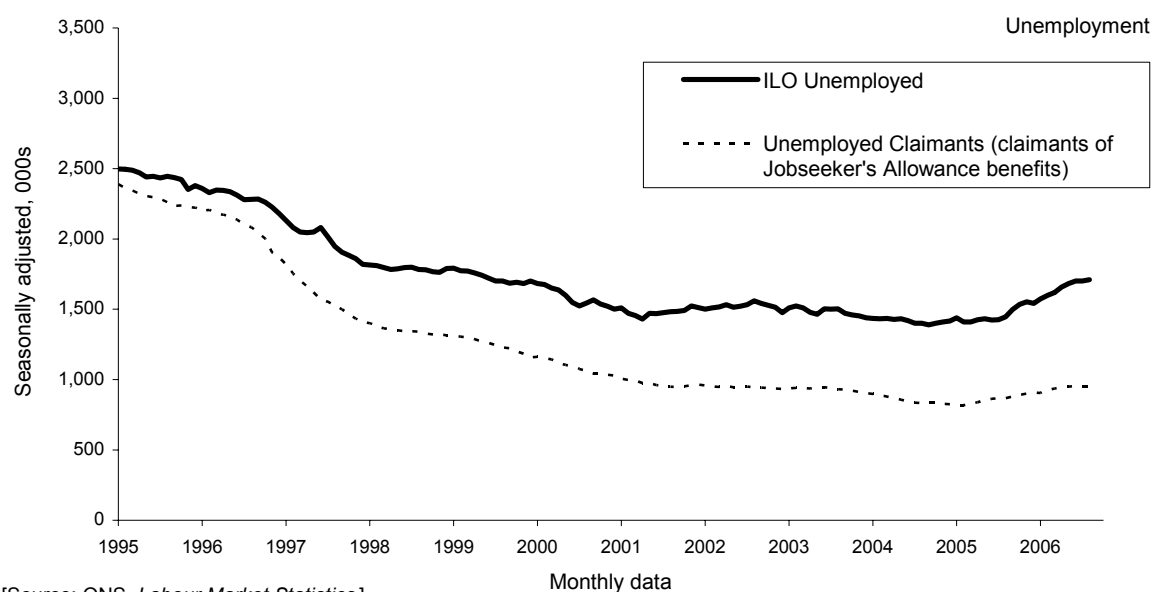
Source: ONS, *Labour Market Statistics*, 15 Nov 2006

- Total employment was 29.0 million in the period July to September 2006, 0.7% higher than a year earlier. The working age employment rate of 74.5% was 0.1 percentage points lower than the previous quarter and 0.3 percentage points 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 July to September 2006, of whom 5.7 million were women. 3.8 million people were self-employed.

Contact: Dominic Webb, x4324

Update: ONS, *Labour Market Statistics*, 13 Dec

C2: Unemployment: National



[Source: ONS, *Labour Market Statistics*]

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

- The latest LFS estimates show that over the period July to September 2006, the level of ILO unemployment in the UK was 1,711,000 (seasonally adjusted). This was an increase of 263,000 from the period July to September 2005.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, rose by 1,000 between September and October 2006 to 961,000.

The New Deal for Young People started in January 1998.

- 1,118,000 individuals had joined the scheme by the end of August 2006. Of those leaving the scheme up to the end of May 2006, 694,000 had moved into jobs, of which 590,000 (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 649,000 individuals had joined the scheme by the end of August 2006. Of those leaving the scheme up to the end of May 2006 272,000 had entered jobs, of which 223,000 (82%) were sustained.

ILO Unemployment in the UK seasonally adjusted

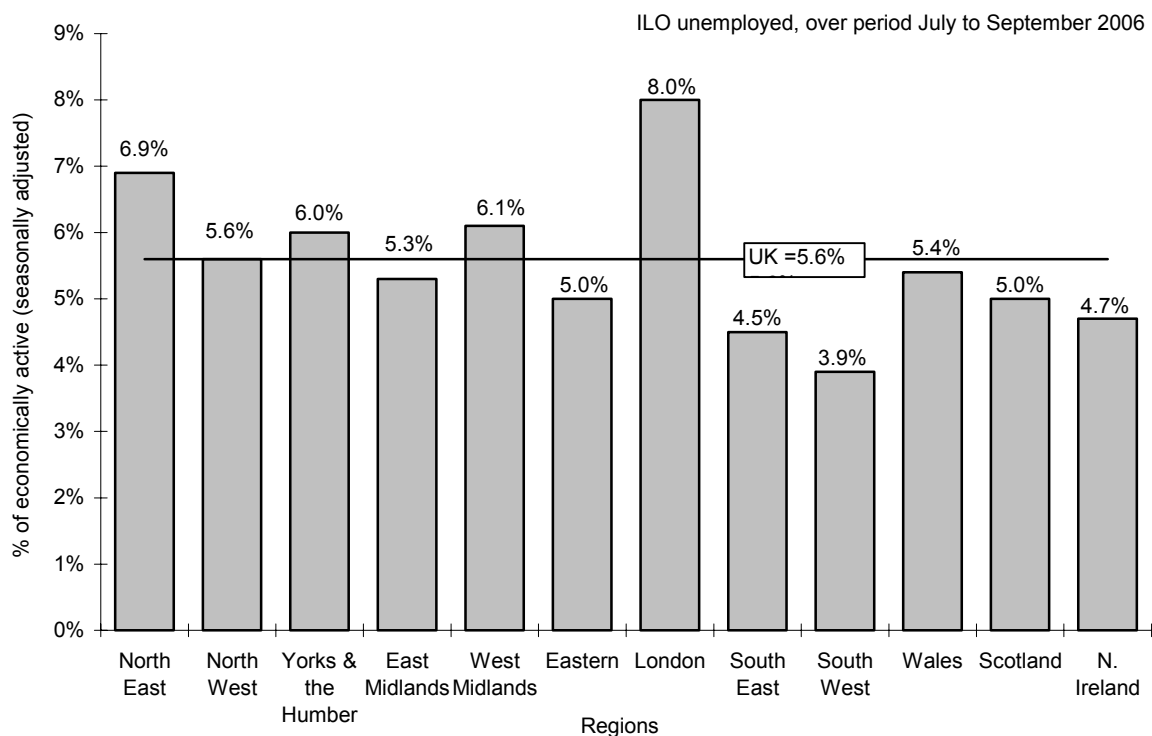
| | | '000s | rate (%) |
|------|-----------|-------|----------|
| 2000 | Apr - Jun | 1,599 | 5.5 |
| | Jul - Sep | 1,545 | 5.3 |
| | Oct - Dec | 1,521 | 5.2 |
| 2001 | Jan - Mar | 1,472 | 5.1 |
| | Apr - Jun | 1,472 | 5.0 |
| | Jul - Sep | 1,483 | 5.1 |
| 2002 | Oct - Dec | 1,523 | 5.2 |
| | Jan - Mar | 1,511 | 5.2 |
| | Apr - Jun | 1,515 | 5.2 |
| 2003 | Jul - Sep | 1,561 | 5.3 |
| | Oct - Dec | 1,514 | 5.1 |
| | Jan - Mar | 1,523 | 5.1 |
| 2004 | Apr - Jun | 1,464 | 4.9 |
| | Jul - Sep | 1,504 | 5.1 |
| | Oct - Dec | 1,453 | 4.9 |
| 2005 | Jan - Mar | 1,432 | 4.8 |
| | Apr - Jun | 1,433 | 4.8 |
| | Jul - Sep | 1,400 | 4.7 |
| 2006 | Oct - Dec | 1,411 | 4.7 |
| | Jan - Mar | 1,411 | 4.7 |
| | Apr - Jun | 1,433 | 4.8 |
| 2006 | Jul - Sep | 1,447 | 4.8 |
| | Oct - Dec | 1,554 | 5.1 |
| | Jan - Mar | 1,599 | 5.2 |
| 2006 | Apr - Jun | 1,683 | 5.5 |
| | Jul - Sep | 1,711 | 5.6 |

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793

Updates: ONS, *Labour Market Statistics*, 13 Dec
New Deal, Feb 2007

C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

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

- Over the period July to September 2006 the London region had the highest unemployment rate, 8.0% of the economically active population. The lowest rate over the same period was 3.9%, in the South West region.
- A comparison of July to September 2006 with the same period a year earlier shows that the only fall (8%) in unemployment occurred in Scotland. Yorkshire and the Humber showed the largest increase (35%) over the period.

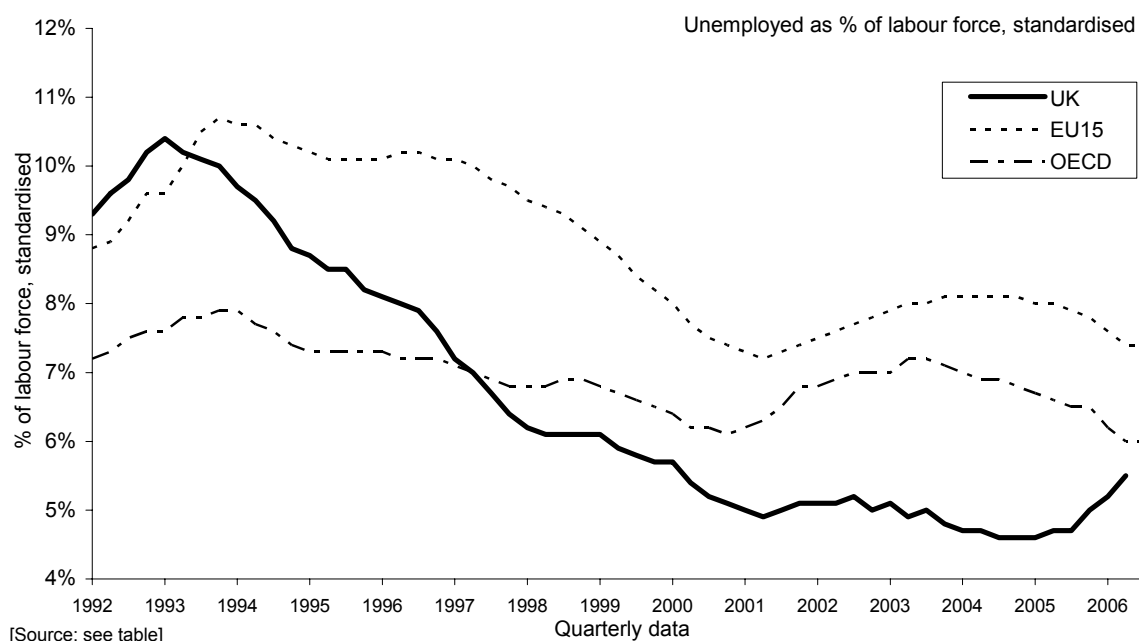
ILO Unemployment, July to September 2006

change on same period in previous year;
seasonally adjusted

| | Number (rounded) | % |
|-------------------------|------------------|----|
| North East | 5,000 | 6 |
| North West & Merseyside | 39,000 | 26 |
| Yorkshire & the Humber | 39,000 | 35 |
| East Midlands | 21,000 | 21 |
| West Midlands | 41,000 | 33 |
| Eastern | 24,000 | 20 |
| London | 61,000 | 23 |
| South East | 24,000 | 14 |
| South West | 5,000 | 5 |
| Wales | 12,000 | 18 |
| Scotland | -11,000 | -8 |
| Northern Ireland | 3,000 | 9 |

Source: ONS, *Labour Market Statistics*

C4: Unemployment: International Comparisons



Unemployment

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

| | 2003 | 2004 | 2005 | 2005 | | | | 2006 | | |
|----------|------|------|------|------|-----|------|-----|------|-----|-----|
| | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| USA | 6.0 | 5.5 | 5.1 | 5.2 | 5.1 | 5.0 | 5.0 | 4.7 | 4.7 | 4.7 |
| Japan | 5.3 | 4.7 | 4.4 | 4.6 | 4.3 | 4.3 | 4.5 | 4.2 | 4.1 | 4.1 |
| Canada | 7.6 | 7.2 | 6.8 | 7.0 | 6.8 | 6.8 | 6.5 | 6.4 | 6.2 | 6.4 |
| UK | 4.9 | 4.7 | 4.8 | 4.6 | 4.7 | 4.7 | 5.0 | 5.2 | 5.5 | .. |
| Germany | 9.1 | 9.6 | 9.6 | 9.7 | 9.7 | 9.5 | 9.3 | 8.8 | 8.3 | 8.5 |
| France | 9.5 | 9.6 | 9.9 | 9.7 | 9.9 | 10.0 | 9.8 | 9.6 | 9.3 | 9.0 |
| Italy | 8.4 | 8.0 | 7.7 | 7.8 | 7.7 | 7.5 | 7.8 | 7.2 | 6.8 | .. |
| Eurozone | 8.7 | 8.9 | 8.6 | 8.8 | 8.7 | 8.6 | 8.5 | 8.1 | 7.8 | 7.8 |
| G7 | 6.6 | 6.3 | 6.1 | 6.2 | 6.1 | 6.0 | 6.0 | 5.8 | 5.6 | 5.7 |
| OECD | 7.1 | 6.9 | 6.6 | 6.7 | 6.6 | 6.5 | 6.5 | 6.2 | 6.0 | 6.0 |

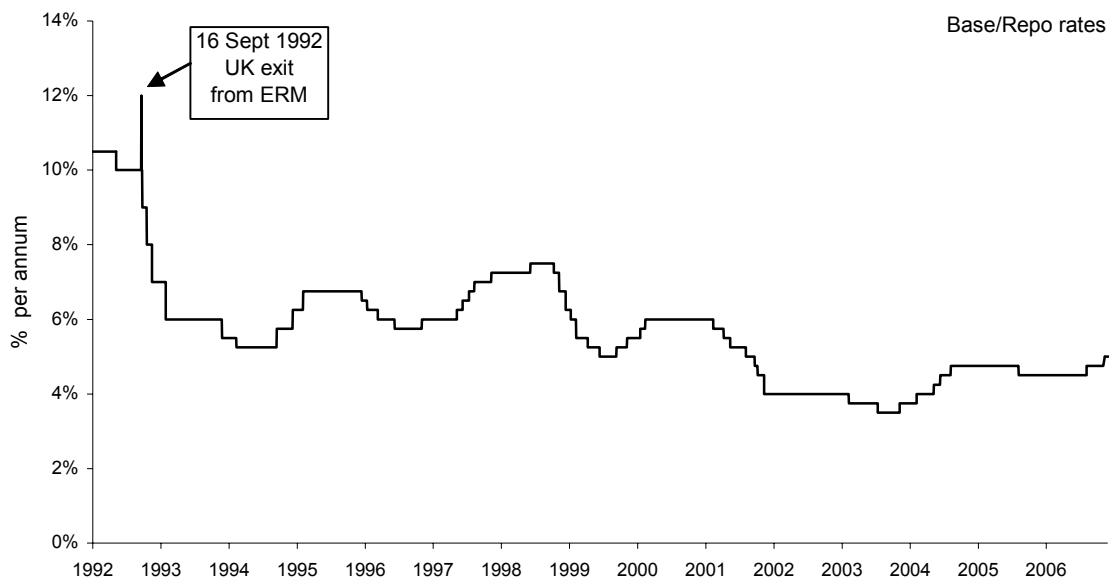
Source: OECD, *Main Economic Indicators*, November 2006

- Using standardised definitions, the UK unemployment rate for 2005 was 4.8%, significantly below the eurozone average (8.6%) and below the G7 and OECD rates (6.1% and 6.6% respectively).
- Between Q2 2005 and Q2 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 1.4 of a percentage point. There was a rise in unemployment (0.8 of a percentage point) in the UK. The unemployment rate in all the G7 nations taken together fell by 0.5 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*, 8 Dec
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.

- **Interest rates were raised by 0.25 percentage points to 5.0% at the MPC's meeting on 9 November. At the MPC's November meeting, seven members voted to increase the rate to 5.0%. Rachel Lomax and David Blanchflower voted to maintain the rate at 4.75%.**

The minutes of the November meeting note that:

- A busy period for pay settlements was approaching and there was a risk that workers might seek large wage increases given the current level of RPI inflation.
- Strong growth in nominal demand.
- One member pointed to slack in the labour market while another emphasised the downside risks to demand.

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 | Nov 9 | 5.00 |

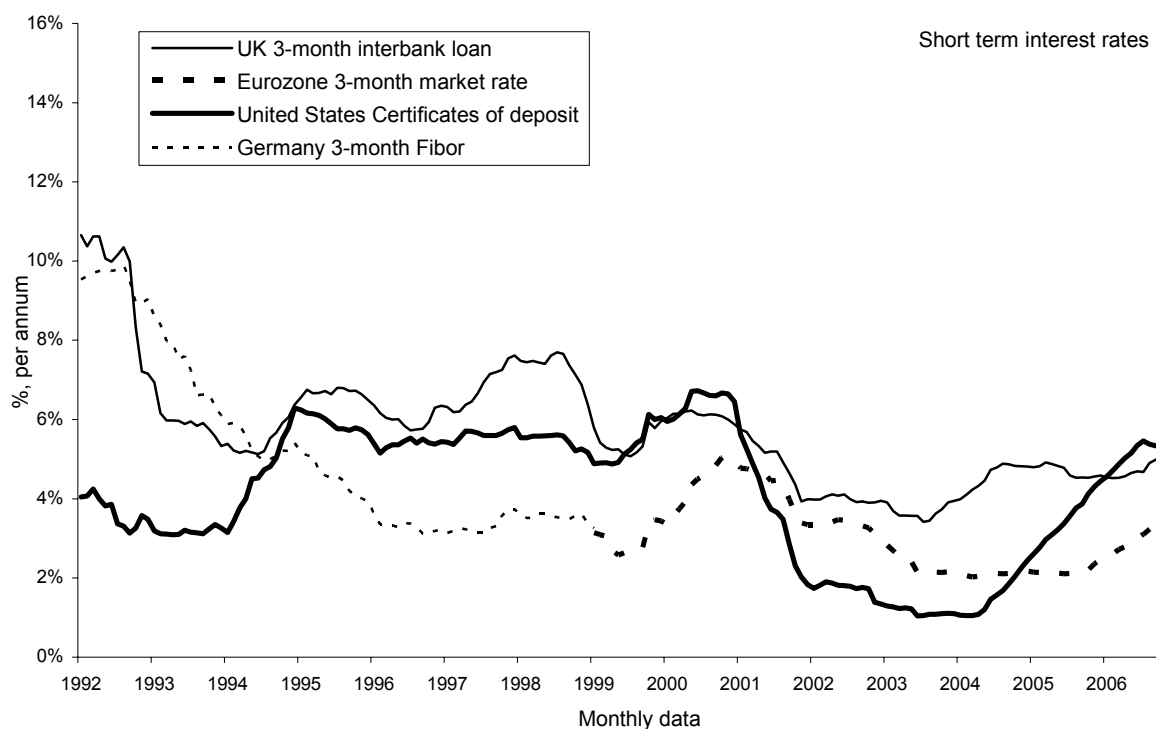
Source: Bank of England

The central projection from the latest Bank *Quarterly Inflation Report* (November 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 similar to the previous report in August. The recent steady growth of GDP is expected to continue. Short-term market interest rates had risen and sterling had appreciated. While household spending had been volatile, it had grown moderately. Business investment had continued to recover.

Contact: Dominic Webb, x4324

Updates: *Next Decision*, 7 Dec; *Minutes*, 20 Dec
Quarterly Inflation Report, 14 Feb

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 9 November 2006 to 5.00% (see Indicator D1). The October and September 2006 meetings did not result in a change.
- The Governing Council held the European Central Bank (ECB) interest rate at 3.25% at its meeting on 2 November. This followed 25 point increases on 5 October, 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 13 November 2006

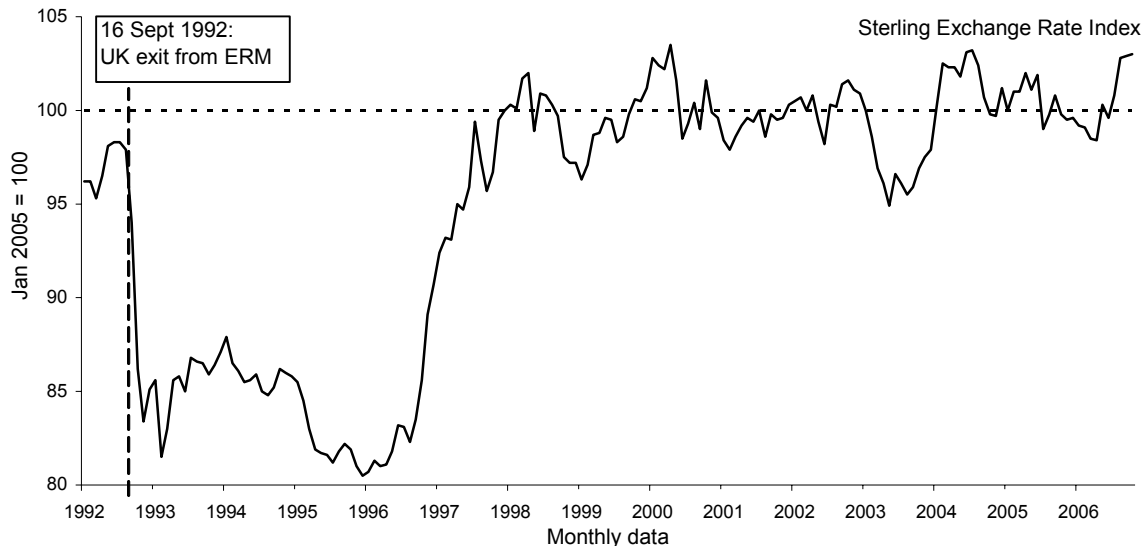
| | Official rate | Yield on 10 yr Government bonds | 3-month rate market rate |
|----------------|---------------|------------------------------------|-------------------------------------|
| United Kingdom | 5.00 | 4.54 | $5 \frac{3}{16} - 5 \frac{5}{32}$ |
| Eurozone | 3.25 | n/a | $3 \frac{19}{32} - 3 \frac{17}{32}$ |
| United States | 5.25 | 4.63 | $5 \frac{3}{8} - 5 \frac{9}{32}$ |
| Japan | 0.25 | 1.71 | $\frac{15}{32} - \frac{13}{32}$ |
| Switzerland | 1.25-2.25 | 2.34 | $1 \frac{7}{8} - 1 \frac{13}{16}$ |

Source: *Financial Times*, 13 Nov 2006 (*Companies & Markets*, p30)

Contact: Edward Beale, x2464 **Updates:** *Short-term interest rates:* OECD, MEI, mid-Dec;
Base rates: 7 Dec (UK MPC), 7 Dec (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 3.4 points in October 2006, suggesting that the UK was relatively less competitive at the end of October 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 €1.484 at the London market close on 30 November 2006, compared with a launch rate of €1.476 on 31 December 1998.

Sterling Exchange Rates

rates and % changes

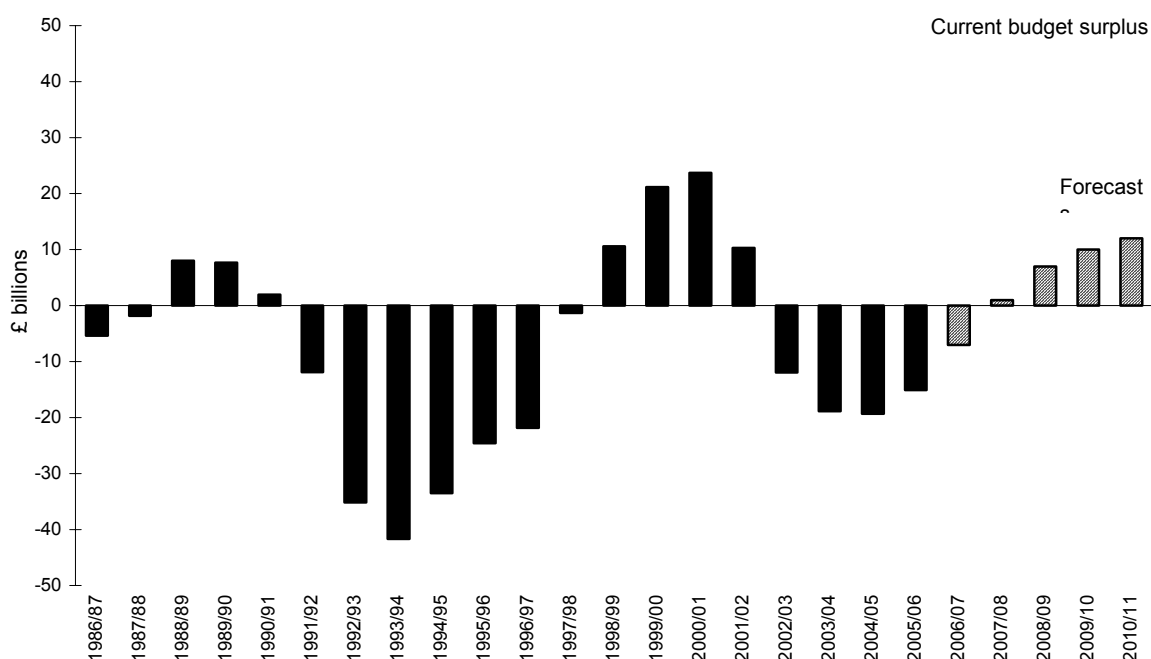
| | US Dollar (\$) | | Yen (¥) | | Euro (€) | |
|----------|----------------|------------------|---------|------------------|----------|------------------|
| | Rate | change on yr (%) | Rate | change on yr (%) | Rate | change on yr (%) |
| 2002 | 1.503 | 4.3 | 187.8 | 7.4 | 1.591 | -1.1 |
| 2003 | 1.635 | 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 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 |
| Oct | 1.876 | 6.3 | 222.6 | 9.8 | 1.487 | 1.3 |

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

Contact: Edward Beale, x2464

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

D4: Public Finances



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

The Government's "golden rule" requires it to balance the current budget over the economic cycle. In July 2005, the Treasury 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 £1.2 billion deficit on the current budget in Q3 2006 compared with a £3.3 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 £5.4 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.

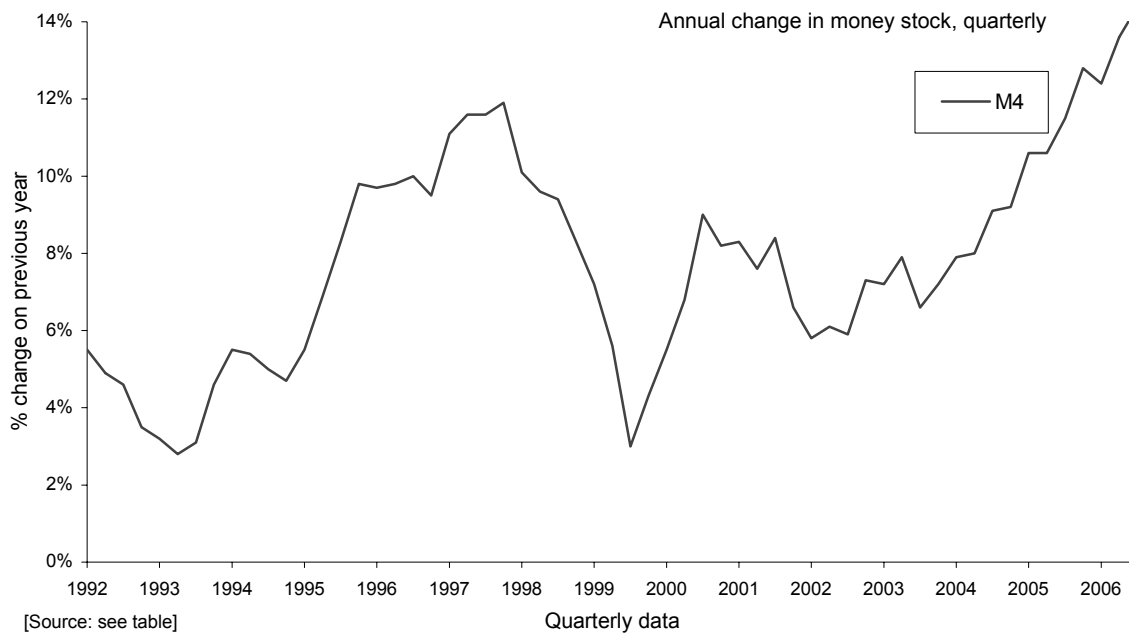
Public Sector Net Debt

£ billion & %

| | Public Sector Net Debt | |
|---------|------------------------|---------------|
| | £ billion | as a % of GDP |
| 2002/03 | 349.3 | 32.0 |
| 2003/04 | 384.7 | 33.2 |
| 2004/05 | 424.5 | 35.0 |
| 2005/06 | 462.7 | 36.5 |
| 2005 Q3 | 446.8 | 36.1 |
| Q4 | 466.9 | 37.3 |
| 2006 Q1 | 462.7 | 36.5 |
| Q2 | 484.1 | 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 Oct | 3.3 | 3.6 | 11.6 | 11.8 |
| Nov | 3.1 | 3.9 | 14.8 | 12.3 |
| Dec | -1.5 | 2.5 | 15.5 | 12.8 |
| 2006 Jan | 5.6 | 4.0 | 13.1 | 12.2 |
| Feb | 7.1 | 4.5 | 12.7 | 12.4 |
| Mar | 14.3 | 5.1 | 11.6 | 12.2 |
| Apr | 7.6 | 5.4 | 13.8 | 12.9 |
| May | 5.4 | 5.4 | 12.1 | 11.6 |
| Jun | 5.4 | 5.7 | 14.5 | 13.4 |
| Jul | 5.1 | 5.4 | 13.8 | 13.1 |
| Aug | 4.6 | 5.0 | 15.3 | 13.7 |
| Sep | 2.9 | 5.1 | 16.2 | 14.4 |
| Oct | 3.6 | 5.5 | 15.6 | 14.1 |

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

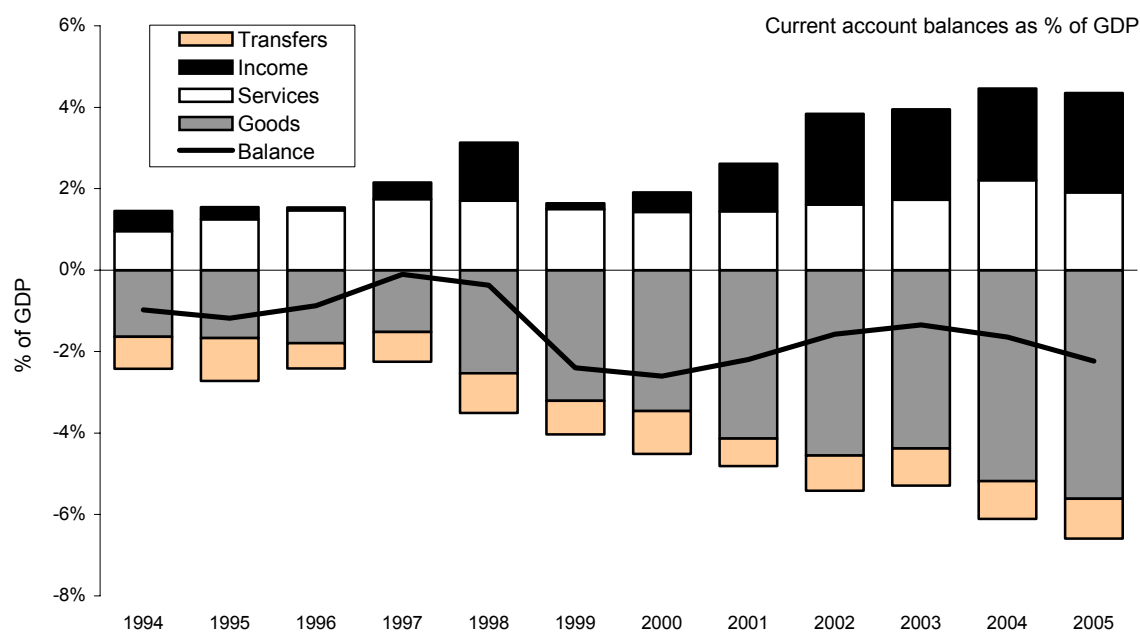
The Bank of England no longer publishes data on M0 following the introduction of new money market arrangements in 2006 (see Bank of England *Quarterly Bulletin*, Autumn 2005 for details). The table above now shows sterling notes and coin in circulation outside the Bank of England. M4 is a broad measure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

- Seasonally adjusted M4 rose by 14.1% in the 12 months to October 2006. The 12-month seasonally adjusted growth rate of notes and coins was 5.5% in October 2006, compared with 3.6% in October 2005.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

Update: Bank of England, *Bankstats*, 4 Jan 2007

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 |
| Q3 | -20,471 | 7,141 | -13,330 | .. | .. | .. | .. | .. |

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).

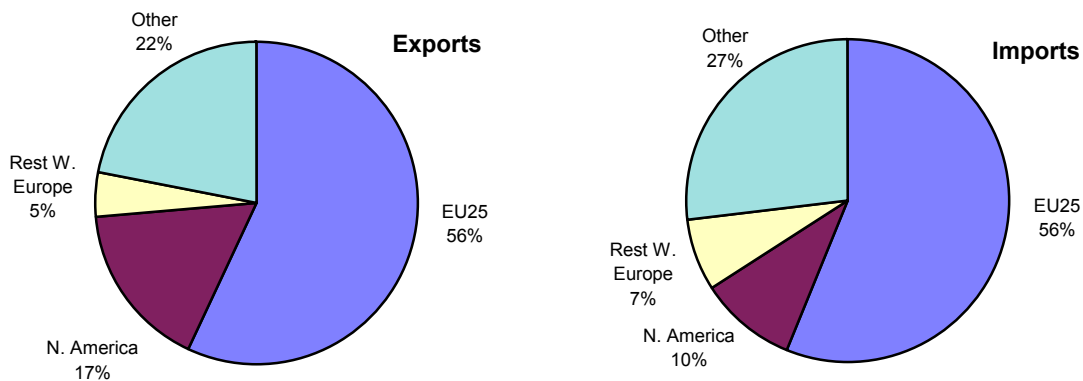
Contact: Grahame Allen, x3977

Updates: ONS, *UK Balance of Payments Q2 2006*, 21 Dec;
UK Trade (goods only), 11 Dec

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 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 |
| Q3 | 117.7 | 123.7 | 57,424 | 77,895 | -20,471 |

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

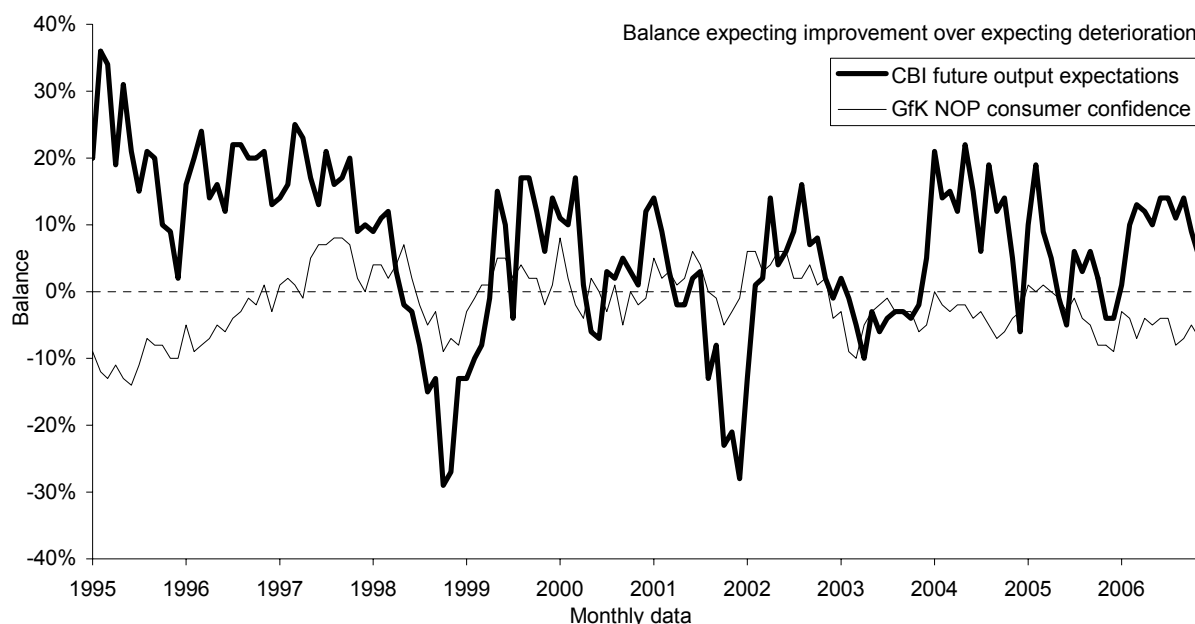
- In September 2006 the estimated total value of UK goods exports was £19.2 billion and the total value of UK goods imports was £25.7 billion. As a result, the estimated deficit on goods trade was £6.6 billion, lower than the August 2006 level of £6.9 billion.
- Geographical breakdowns of UK trade with 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 £2.7 billion in September (compared with £2.6 billion August 2006), while the deficit with non-EU countries was £3.9 billion (compared with £4.2 billion in August 2006).
- The UK’s monthly surplus on trade in **services** was £2.5 billion, compared with a £2.3 billion surplus in August.
- The UK’s overall monthly deficit on **goods and services combined** in September 2006 was £4.1 billion, down from £4.5 billion in August.

Contact: Grahame Allen, x3977

Update: ONS, *UK Trade*, 11 Dec

F1: Survey indicators

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



[Sources: see table]

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

- The balance of expectations for future output from the CBI’s monthly survey was +5 in November 2006, down from +9 in October.
- October’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 improved from -20% in October to -6% in November 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 dropped 2 points in November 2006 to -7, 1 point higher than in November 2005.
- Four of the five measures under the headline index fell. Perceptions of consumers’ financial situation increased. The outlook for household finances for the next year fell slightly. Consumers’ views of the general economic situation of the country over the last year and expectations for the general economic situation in the next year fell.
- The good time to make major purchases index fell, while the good time to save index remained the same.

Output Expectations & Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

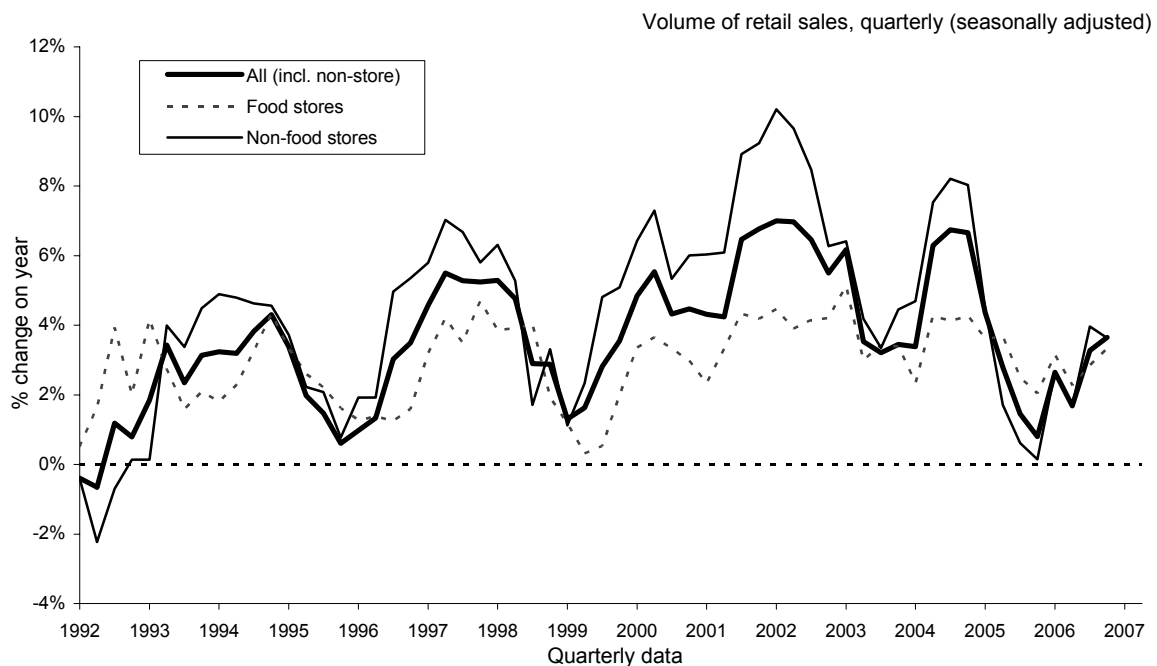
| | | Future output expectations (CBI) | Consumer confidence (GfK) |
|------|-----|----------------------------------|---------------------------|
| 2005 | Nov | -4 | -8 |
| | Dec | -4 | -9 |
| 2006 | Jan | +1 | -3 |
| | Feb | +10 | -4 |
| | Mar | +13 | -7 |
| | Apr | +12 | -4 |
| | May | +10 | -5 |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

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

Contact: Grahame Allen, x3977

Updates: GfK NOP, *Consumer Confidence*, 4 Jan 2007; CBI, *Industrial Trends* (Monthly), 29 Dec

F2: Retail Sales



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

- The *volume* of retail sales in the three months from August to October was 0.6% higher compared with the previous three month period, and was 3.7% higher than a year previously (seasonally adjusted).
- Retail sales volumes in October 2006 were 4.0% higher than in October 2005 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 3.9% in August to October compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 2.7% 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 | 2.8 | -0.7 | 2.1 | 1.5 |
| 2006 Q1 | 0.9 | 0.0 | -3.4 | 1.9 | 0.0 |
| Q2 | 3.3 | 3.5 | 3.6 | 1.8 | 3.5 |
| Q3 | 5.1 | 4.4 | 4.4 | 0.9 | 3.5 |

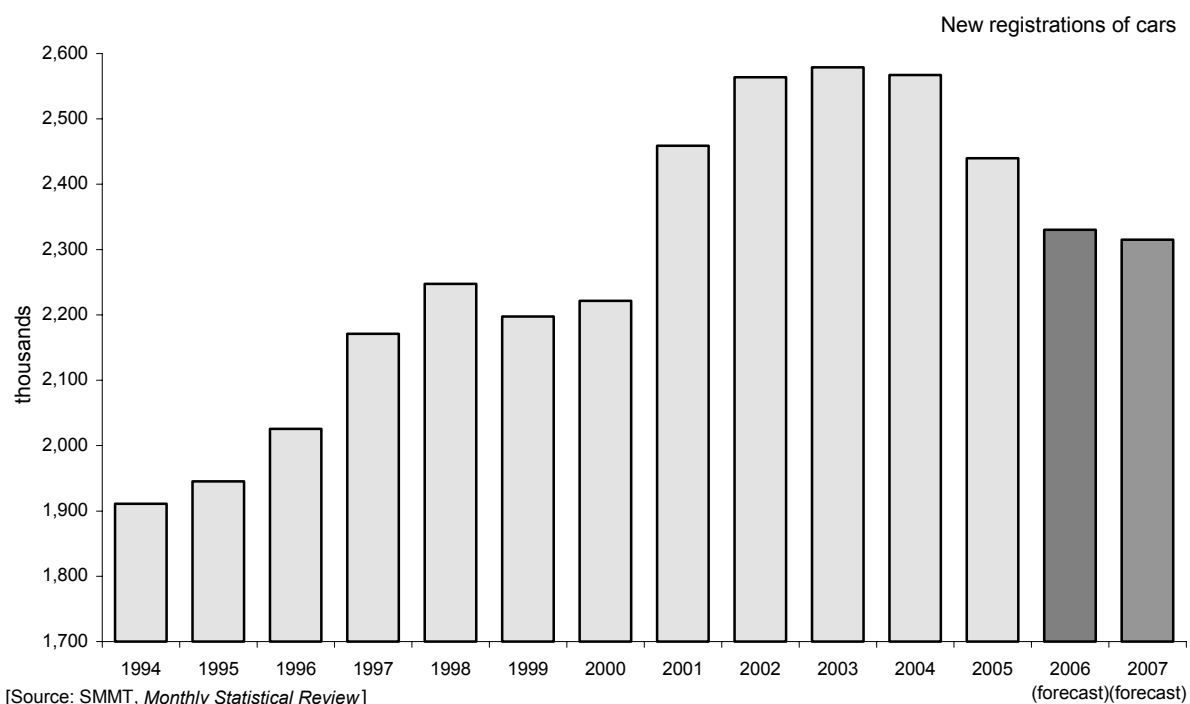
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in October 2006 was £4,940 million, a 3.9% increase from October 2005 (non-seasonally adjusted).

Contact: Ed Potton, x2883

Update: ONS, *Retail Sales: First Release*, 14 Dec

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations increased by 0.9% in October 2006, compared with the previous October's figure, to 153,851 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 19,552 registrations of British-built cars in October, equivalent to 12.7% of the market. The number of British built registrations decreased by 20.8% on the previous October'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.

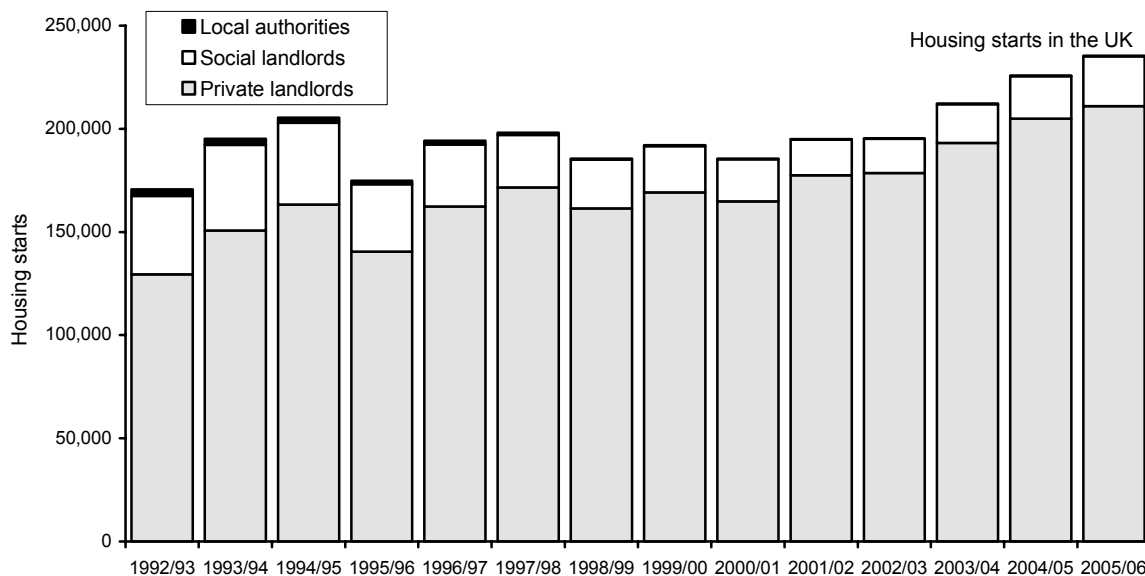
New Registrations of Cars

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 |
| <hr/> | | |
| 2005 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 |
| Oct | 154 | 0.9 |

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 64,531 dwelling starts in the UK in Q1 2006, compared with 55,901 in Q1 2005. In Q1 2006 there were 50,489 completions compared with 46,395 in Q1 2005 (all data are not seasonally adjusted; more recent data are available for England, Northern Ireland and Wales, but not Scotland).

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

- **Monthly** UK house prices rose 1.7% in October 2006, compared with 1.0% in September 2006.
- **Annual** house prices were 8.6% higher in October than in the same month in 2005 (compared with 8.0% in September 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)

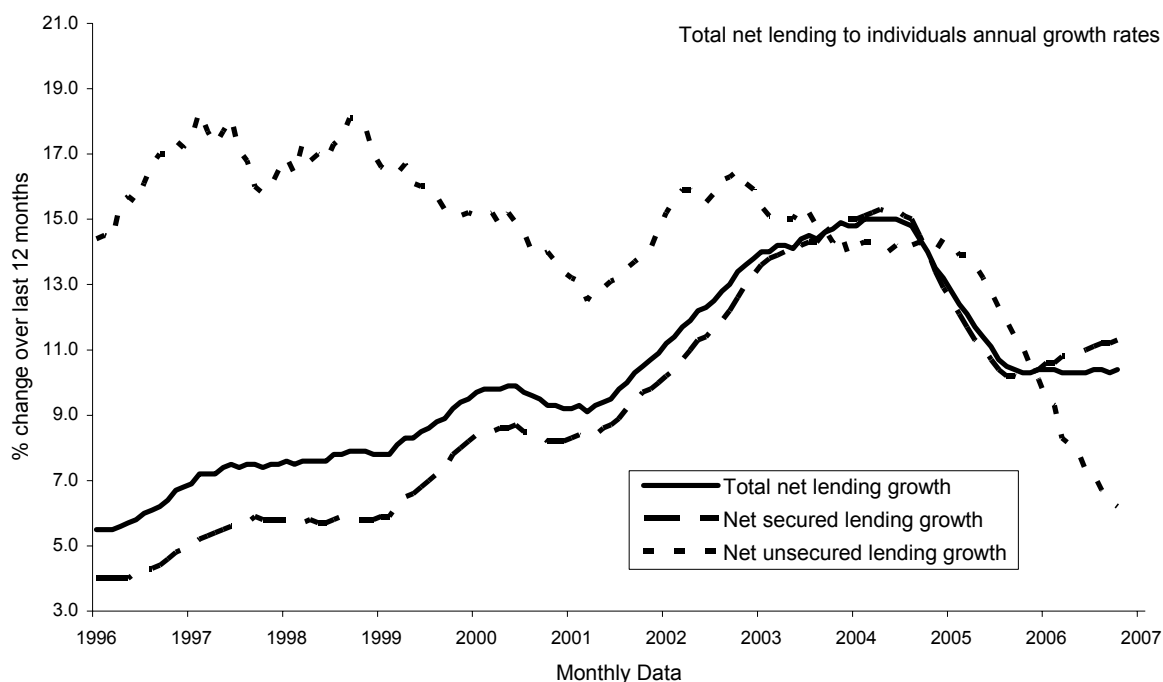
The DCLG's house price index is based on completions (the Halifax index is based on mortgage approvals). All figures are not seasonally adjusted:

- The average UK house price in September 2006 was £198,552, up from a revised £197,631 in August 2006. **Annual** house price inflation in September 2006 was 8.0%, up from 7.7% in August 2006.
- Regionally, **annual** house price inflation in September 2006 was highest in Northern Ireland (23.6%) and lowest in the East Midlands (5.1%).

Contact: Grahame Allen, x3977

Updates: Halifax *House Prices*, early Dec; DCLG, *House Prices*, 11 Dec; *House-building*, 17 Feb 2007

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 Oct | 659,024 | 165,825 | 824,849 | 12.6 | 16.5 | 13.4 |
| 2003 Oct | 754,783 | 179,047 | 933,830 | 14.8 | 14.3 | 14.7 |
| 2004 Oct | 859,904 | 195,462 | 1,055,366 | 14.0 | 14.1 | 14.0 |
| 2005 Oct | 947,982 | 209,982 | 1,157,964 | 10.1 | 11.1 | 10.3 |
| Jan | 974,451 | 211,462 | 1,185,913 | 10.6 | 9.5 | 10.4 |
| 2006 Apr | 999,805 | 211,507 | 1,211,312 | 10.8 | 8.1 | 10.3 |
| Jul | 1,025,138 | 211,632 | 1,236,769 | 11.1 | 7.2 | 10.4 |
| Oct | 1,055,947 | 212,228 | 1,268,175 | 11.3 | 6.2 | 10.4 |

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

- Total net outstanding lending to individuals was £1,268 billion at the end of October 2006 (seasonally adjusted).
- Total net lending to individuals grew by 0.9% in October 2006 compared with the previous month, and grew by 10.4% on an annual basis (all seasonally adjusted); 0.1% higher than the annual rate in September 2006.
- Of the £10.9 billion increase in net lending in October 2006, £9.8 billion was mortgage borrowing and £1.1 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) Quarterly Working Age Statistics for New Deal for Young People & Long-term Unemployed (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 |

Definitions²¹

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

²¹ 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.