



RESEARCH PAPER 07/23
1 MARCH 2007

Economic Indicators, March 2007

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The series also includes an article on a topical issue.

This month's article:

Background to the 2007 Budget

Next publication date: **1 May 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:

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
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International development	Edward Beale	2464
Prices & interest rates	Dominic Webb	4324
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Taxation	Richard Cracknell	4632
Trade	Grahame Allen	3977
Transport	Ross Young	4313
Unemployment	Edward Beale	2464
Wages & earnings	Edward Beale	2464

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

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

² http://hcl1.hcllibrary.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

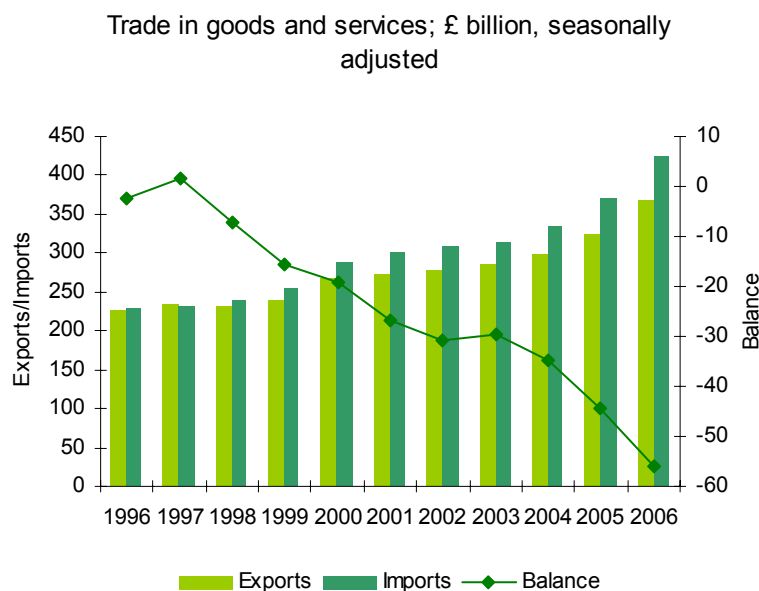
At its February meeting, the Bank of England's (BoE) Monetary Policy Committee (MPC) voted to maintain interest rates at 5.25%. The minutes of the meeting showed that the Committee voted 7-2 in favour of maintaining the rate, with Tim Besley and Andrew Sentance preferring an increase in the rate to 5.50%.

CPI inflation fell to 2.7% in February following the rise to 3.0% in January. The BoE's quarterly Inflation Report, published in February, showed that the central projection for CPI inflation was for it to fall back below the 2.0% target during 2007 before moving back up to target in 2008. Regarding GDP, the MPC's central projection is for continued steady growth of around 3.0% in 2007 and 2008. Compared with a year earlier, GDP growth was 3.0% in Q4 2006.

The Chancellor will make his Budget speech to the House of Commons on 21st March 2007. The article on page iii of this research paper provides a background to the 2007 Budget.

Trade

The UK's deficit on trade in goods and services in Q4 2006 widened to £13.5 billion from a £12.7 billion deficit in the previous quarter. The deficit on trade in goods and services is provisionally estimated to have widened in December to £4.9 billion, from a deficit of £4.5 billion in November. The December figures meant the annual trade deficit on goods and services in 2006 was the biggest since figures began in 1946 at £55.8 billion (compared with £44.6 billion in 2005).



Labour market

The working age employment rate was 74.5% in the three months to December 2006, unchanged on the previous three months. During the same period, the number of people unemployed in the UK as a proportion of the economically active population fell by 0.1 of a percentage point to 5.5%. The number of people claiming Jobseeker's Allowance in the UK also fell by 13,500 to 925,800 in January 2007 compared with the previous month.

A report published by PriceWaterhouseCoopers (PWC) found that the flow of migrant workers into the UK following EU enlargement in May 2004 had boosted economic growth and helped keep inflation low. John Hawksorth, chief economist at PWC, commented that the migrant workers were not displacing British-born workers in the labour market; rather they had "filled important skills gaps in the UK labour market" (*The Guardian*, 26 February 2007, p26). However, the report warned that the "Treasury does not seem to be making any allowance for the possible demands on public spending from the additional migrants factored into its GDP growth and revenue projections".

III Background to the 2007 Budget

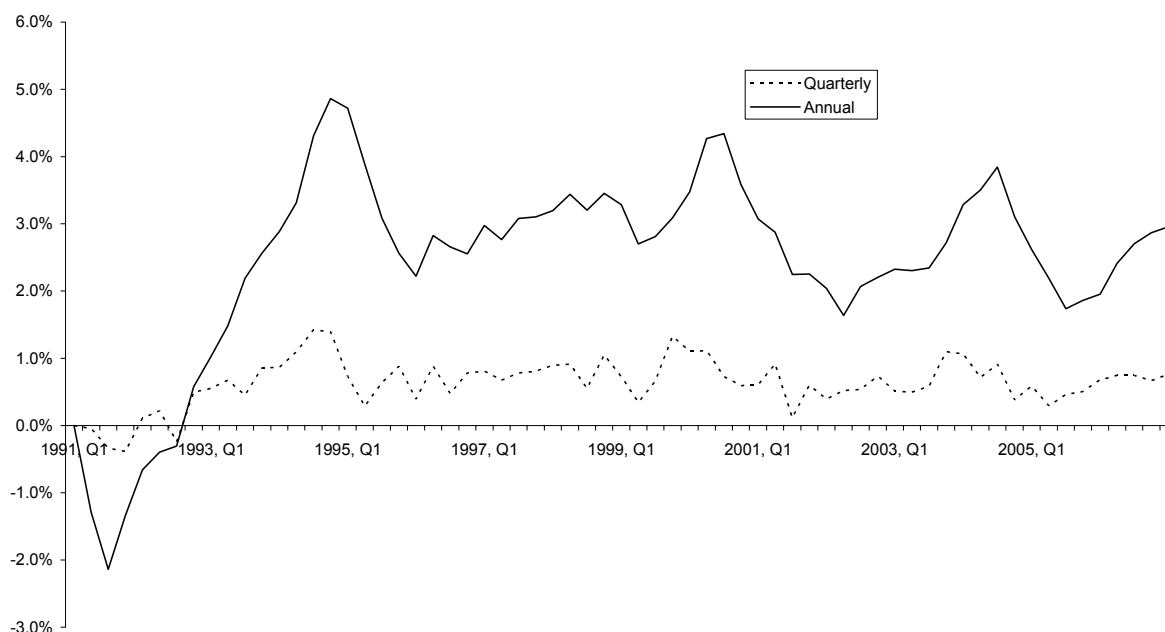
A. Introduction

The Treasury announced on 22 February that the 2007 Budget will take place on 21 March.⁴ This article sets out the economic background to the Budget and looks at the state of the public finances, including the forthcoming Comprehensive Spending Review (CSR) and progress towards the Gershon efficiency targets.

B. The economy

The economy grew by 2.7% in 2006. This is in line with the Treasury's 2006 Pre-Budget Report (PBR) forecast of 2.75% and slightly above the 2006 Budget forecast of 2 to 2.5%. The chart below shows real gross domestic product (GDP) growth since 1991.

Chart 1: Real GDP growth



Looking ahead, the Treasury is forecasting growth of 2.75% to 3.25% this year and 2.5% to 3% in 2008.⁵ This is slightly more optimistic than the average independent forecast (see table 1 below).

⁴ HC Deb 22 February 2007 c57WS

⁵ HM Treasury, *Pre-Budget Report 2006*, December 2006, Cm 6984, Table A10

Table 1
Forecasts of real GDP growth (%)

	2007	2008
Budget 2006	2.75 to 3.25	2.75 to 3.25
Pre-Budget Report 2006	2.75 to 3.25	2.5 to 3
Average independent forecast	2.5	2.3

Sources: HM Treasury, Budget 2006, Pre-Budget Report 2006
 HM Treasury, Comparison of independent forecasts, February 2007

The Treasury revised its trend growth assumption upwards in the 2006 PBR:

In the light of new evidence published since Budget 2006, the Treasury has reviewed its trend output growth projections. Analysis of the new evidence, set out in *Trend growth: new evidence and prospects* published alongside the Pre-Budget Report, provides the basis for upward revision to the contribution of net inward migration to working-age population growth post-2006 by a $\frac{1}{4}$ percentage point a year compared with the contribution assumed at the time of Budget 2006. This is a demographic rather than cyclical effect, and so can be properly reassessed before the end of the cycle. Recent new data on output, productivity and employment reinforce confidence in the Treasury's post-2001 projections for the other components of trend output growth. So the Treasury has revised the neutral estimate of trend output growth for the post-2006 period in line with the $\frac{1}{4}$ percentage point upward revision to working-age population growth. Instead of falling to $2\frac{1}{2}$ per cent a year, for the 2006 Pre-Budget Report the trend output growth projection will continue at the same $2\frac{3}{4}$ per cent rate as since 2001.⁶

The trend growth rate affects assessment of the output gap and thus the dating of the cycle. This in turn affects compliance with the Treasury's fiscal rules (see below). This change was audited by the National Audit Office (NAO) which found it "reasonable and cautious" but also noted that only limited consultation was possible due to the market sensitive nature of the assumption.⁷ The Treasury Committee noted that the change was based on migration statistics of "questionable quality" and that "any significant error in this assumption will have implications for the Government's assessment of its compliance with its fiscal rules."⁸

Inflation has risen over the course of 2006. On the CPI measure, it was 1.9% in January 2006 but reached 3.0% in December, reflecting high energy prices. This is the highest level since the series began in 1997 and a full percentage point above the Bank of England's inflation target. CPI inflation fell back to 2.7% in January. RPI inflation has also been high compared with recent years: 4.4% in December before declining to 4.2% in January. The Treasury forecast is for CPI inflation to return to its target level of 2% by Q4 2007, in line with independent forecasts.

The Bank of England has raised interest rates by a quarter point on three occasions since August. The financial markets expect at least one further increase in interest rates later this year. Reporting on the publication of the minutes of the Monetary Policy Committee's February meeting, the *Financial Times* said:

⁶ HM Treasury, *Pre-Budget Report 2006*, December 2006, Cm 6984, para A.34

⁷ NAO, *Audit of Assumptions for the 2006 Pre-Budget Report*, HC 124, 6 December 2006, p9

⁸ Treasury Committee, *The 2006 Pre-Budget Report*, HC 115, 25 January 2007, p15

Following the minutes' release, the City lengthened slightly the odds on further rises in interest rates, although it still expects another 0.25 basis point increase in the spring.⁹

The 2006 PBR changed the date of the economic cycle over which the fiscal rules are assessed. The end date of the cycle was changed from 2008-09 to 2006-07. This is the third time since July 2005 that the Treasury has altered its view of the timing of the economic cycle. The Treasury Committee has recommended that more information on the start and end dates of the cycle should be given in future Budget and Pre-Budget reports.¹⁰

C. The public finances

The Government's fiscal policy objectives are:

- over the medium term, to ensure sound public finances and that spending and taxation impact fairly within and between generations; and
- over the short term, to support monetary policy and, in particular, to allow the automatic stabilisers to help smooth the path of the economy.¹¹

These objectives are met through adherence to the two fiscal rules:

- 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.¹²

1. The golden rule

The golden rule is measured by the average current budget surplus¹³ over the economic cycle. The Government's view is that the current economic cycle runs from 1997-98 to 2006-07. Its view on the timing of the cycle has changed a number of times in recent years. The table below shows the Government's forecasts for the current budget. The table shows that on the basis of the Treasury's forecast of a current budget deficit of £7.9 billion in 2006-07, the golden rule will be met: over the cycle the average surplus is 0.1% of GDP.

⁹ "MPC voted 7-2 to hold rates for fear of 'excessive tightening'", *Financial Times*, 22 February 2007

¹⁰ Treasury Committee, *The 2006 Pre-Budget Report*, HC 115, 25 January 2007, para 32

¹¹ HM Treasury, *Pre-Budget Report 2006*, December 2006, Cm 6984, para 2.6

¹² *ibid.* para 2.7

¹³ The current budget surplus is the difference between current receipts and current expenditure including depreciation.

Table 2
The golden rule: current budget surplus

	Annual £ billion	Annual % GDP	Average over cycle % GDP
1997-98	-1.2	-0.1	-0.1
1998-99	10.6	1.2	0.5
1999-00	21.4	2.3	1.1
2000-01	23.9	2.5	1.5
2001-02	10.4	1.0	1.4
2002-03	-11.7	-1.1	1.0
2003-04	-18.6	-1.6	0.6
2004-05	-18.9	-1.6	0.3
2005-06	-15.2	-1.2	0.1
2006-07	-7.9	-0.6	0.1

Source: HM Treasury

Note: 2006-07 figures are Treasury forecasts

Outturn data for the current budget are available up to January 2007. These show that over the financial year to date, there is a deficit on the current budget of £8.1 billion compared to £14.5 billion over the same period in 2005-06. If this trend is extrapolated for the remaining two months of the financial year, the current budget deficit would be £8.5 billion in 2006-07. This is higher than the £7.9 billion deficit forecast in the PBR but still low enough to ensure the golden rule is met. An article in the *Financial Times* said that:

But the final level of borrowing in 2006-07 was still unclear yesterday because there were large anomalies in the January public finance figures between central government and other parts of the public sector. It is also possible that the monthly numbers were distorted by the civil service strike in January and other one-off factors.¹⁴

Looking further ahead, the Treasury is forecasting a steadily reducing deficit before a return to current budget surplus 2008-09. The IFS forecast is similar, with slightly higher deficits in the near term but larger surpluses further ahead.

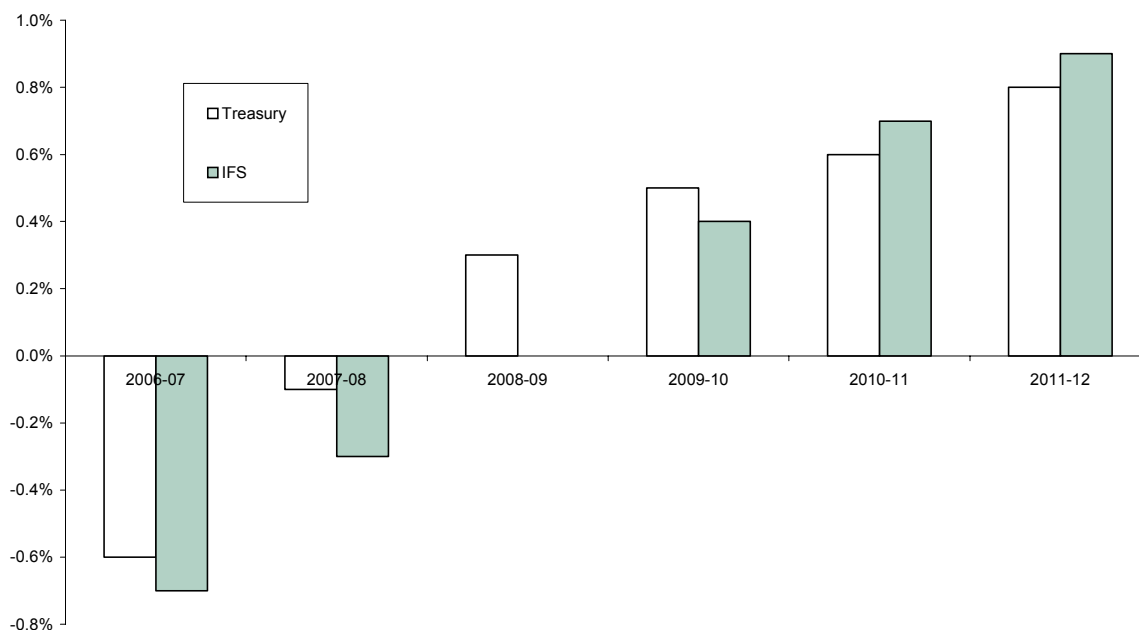
Table 3
Current budget surplus, % GDP

	Treasury	IFS
2006-07	-0.6%	-0.7%
2007-08	-0.1%	-0.3%
2008-09	0.3%	0.0%
2009-10	0.5%	0.4%
2010-11	0.6%	0.7%
2011-12	0.8%	0.9%

Sources: HM Treasury, Pre-Budget Report Table B9

IFS, Green Budget 2007, Table 5.6

¹⁴ "Brown's public finance forecast at risk", *Financial Times*, 21 February 2007

Chart 2: Forecasts of current budget surplus (% GDP)

Various commentators have called for changes to the operation of the golden rule, in particular to make it more forward-looking. For example, in its Green Budget, the IFS said:

Fourth, the Treasury should no longer seek to meet the golden rule over a specific dated economic cycle. Instead, it should say that it is aiming for a target level for the total or cyclically adjusted current budget balance over an appropriate time horizon. (The former has the added attraction of avoiding the need to calculate an estimate of the output gap that may be suspected of political manipulation.)¹⁵

The Treasury Committee said:

There is a tension between fiscal planning, which is a forward-looking process, and the assessment of whether or not the golden rule stands to be met in the present cycle, which is primarily a backwards-looking exercise. We recommend that the Treasury review the golden rule and consider the merits of whether that rule could be made more forward-looking and its application less dependent on estimates of the dating of the economic cycle. We further recommend that the Treasury clarify in its response to this Report whether the last year of the economic cycle will count as the first year of the next economic cycle, for the purposes of judging whether the golden rule has been met.¹⁶

2. Sustainable investment rule

The sustainable investment rule requires public sector net debt to be maintained below 40% of GDP. The table below shows outturn data and Treasury and IFS forecasts for net debt as

¹⁵ IFS, *The IFS Green Budget 2007*, p55

¹⁶ Treasury Committee, *The 2006 Pre-Budget Report*, HC 115, 25 January 2007, para 35

a percentage of GDP. Debt has been below 40% of GDP since 1998-99 and is forecast by both the Treasury and the IFS to remain below 40% up to 2011-12. On both forecasts, debt is higher than it has been over the past few years.

Table 4
Sustainable investment rule
Public sector net debt, % GDP

		Treasury	IFS
1997-98	Outturn	41.6	
1998-99		39.3	
1999-00		36.6	
2000-01		31.7	
2001-02		30.7	
2002-03		32.0	
2003-04		33.1	
2004-05		34.9	
2005-06		36.5	
2006-07	Forecasts	37.5	37.6
2007-08		38.2	38.4
2008-09		38.6	39.1
2009-10		38.7	39.3
2010-11		38.7	39.1
2011-12		38.5	38.9

Sources: HM Treasury, Public finances databank,
IFS Green Budget, Table 5.6

3. Comprehensive Spending Review

The Government has announced that a CSR will report this year. This is widely expected to take place in July although in evidence to the Treasury Select Committee in January, the Chief Secretary did not give a specific date. He said it may well be in the summer and that “it really needs to be by October”.¹⁷

The spending review will set out the Government’s plans for 2008-09, 2009-10 and 2010-11. Some departments have already reached early spending review settlements with the Treasury.¹⁸ Public spending is expected to grow much more slowly over the period covered by the 2007 CSR than it has done in recent years. In 1996-97, public spending was equivalent to 40.8% of GDP. This fell to 37.1% in 1999-00 before increasing steadily to 42.5% in 2006-07 and 2007-08. This is the highest level since 1995-96.

¹⁷ Treasury Committee, *Comprehensive Spending Review: Emerging Issues*, Uncorrected Transcript of oral evidence given on 30 January 2007

¹⁸ See Standard Note, [The 2007 Comprehensive Spending Review](#) (SN/EP/4053)

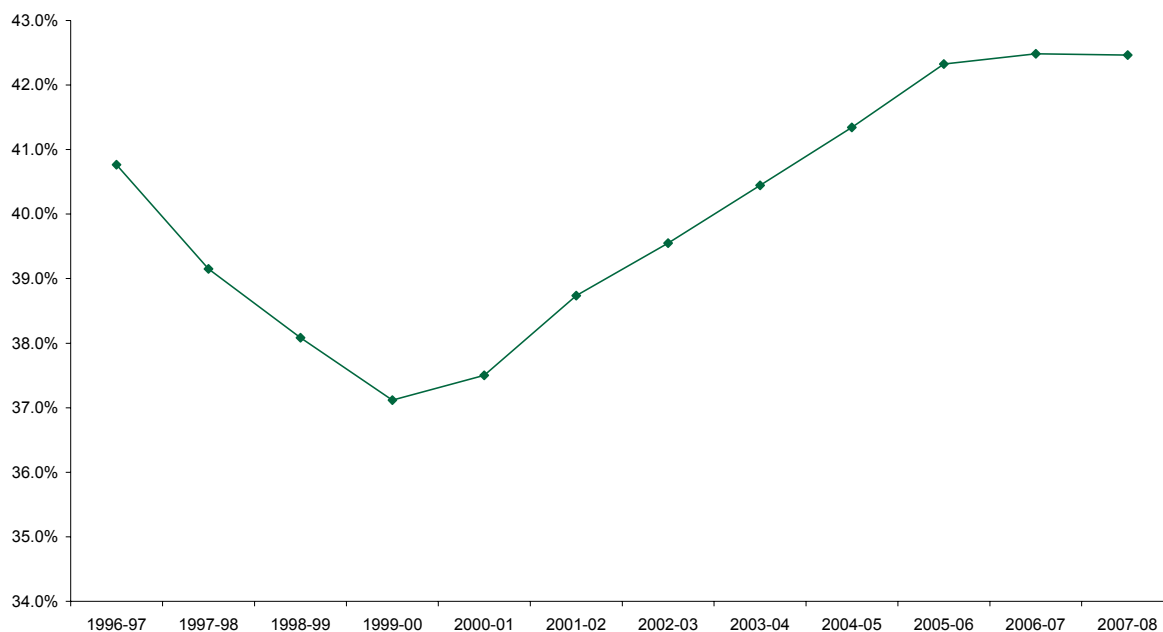
Table 5
Public Expenditure

	Current prices £ billion	05/06 prices £ billion (a)	% change real terms	% GDP
1996-97	316	392		40.8
1997-98	323	389	-0.7%	39.2
1998-99	332	390	0.3%	38.1
1999-00	342	395	1.1%	37.1
2000-01	362	412	4.4%	37.5
2001-02	390	433	5.2%	38.7
2002-03	421	454	4.7%	39.6
2003-04	456	478	5.3%	40.4
2004-05	491	500	4.7%	41.3
2005-06	525	525	4.9%	42.3
2006-07 (b)	555	540	3.0%	42.5
2007-08 (b)	585	555	2.7%	42.5

Sources: HM Treasury, Public Finances Databank (B1) and GDP deflator

Notes (a) calculated using GDP deflator
(b) PBR 2006 forecasts

Chart 3: Public spending (% GDP)



The PBR set out provisional plans for public spending to grow on average by 2% a year in real terms over the spending review period. This is slower than the projected growth of the economy so public spending would fall to 41.9% of GDP by 2010-11.¹⁹

The IFS commented:

¹⁹ IFS, *The IFS Green Budget 2007*, p127

It is clear that if Mr Brown's assumption of 2.0% a year real growth in public spending for the 2007 CSR is retained, then this will be a lower rate of increase than that planned, delivered or set to be delivered over any of the four previous Labour spending reviews.²⁰

The IFS argue that the 2007 CSR will involve difficult choices for the Government:

keeping to these spending plans would require difficult choices to be both made and delivered. Under a plausible scenario for debt interest payments, for growth in underlying social security benefit and tax credit expenditure and for spending on overseas aid, the combined budgets of health and education would be able to grow by 4.1% a year in real terms, as long as there were a real freeze across the budgets of all other departments. Such an increase would be lower than the 6.4% set to occur over previous Labour spending reviews from April 1999 to March 2008. It would also require other areas of spending – including defence and environmental protection – to receive no increase in their budgets, and it would not make any additional funds available for further progress towards the government's challenging 2010–11 child poverty target.²¹

The Government have already announced planned efficiency savings for the spending review period. The 2006 PBR announced a "baseline savings ambition" of 3% a year across local and central government over the CSR period.²² The focus will be on cashable savings which will release resources.

In July 2006, the Chancellor announced that administrative budgets would be cut in real terms, releasing resources for front-line services.²³ The 2006 PBR announced 5% real annual reductions in administration budgets across departments over the CSR period. This compares with a nominal freeze in administration budgets in the 2004 Spending Review period. Ministry of Defence administration costs will also be brought into the administration budget control regime. The Government has also said that all central departments will receive guidance to ensure tighter controls over consultancy fees. Tougher rules will avoid incentives to contract out civil service work where this does not represent value for money.

4. Gershon efficiency savings

Progress towards the Gershon efficiency targets is usually announced in the Budget and in the PBR. Sir Peter Gershon's review, published alongside the 2004 Spending Review, identified annual efficiency savings of £21.5 billion to be achieved across central and local government. He also identified scope for a net reduction of 70,600 civil service posts.

The 2006 PBR stated that annual efficiency gains of £13.3 billion had been made by September 2006.²⁴ The Government has, however, been criticised for a lack of transparency in reporting progress towards the Gershon targets. For example, the Treasury Committee's report on the 2006 PBR said:

²⁰ *ibid.* p129

²¹ *ibid.* p151

²² HM Treasury, *Pre-Budget Report 2006*, December 2006, Cm 6984, para 6.26

²³ HC Deb 13 July 2006 c1470

²⁴ HM Treasury, *Pre-Budget Report 2006*, December 2006, Cm 6984, para 6.18

We welcome the steps taken by the Office of Government Commerce, in consultation with the National Audit Office, to establish a new framework for assessing and reporting efficiency gains, but we continue to believe that the quality and consistency of reporting could be improved.²⁵

The Treasury Committee noted that progress was being made towards the targets. The Committee did, however, express concerns that there may have been insufficient allowance for the risks of efficiency savings leading to a reduction in the quality of public services. It recommended that the Treasury undertake research into this issue and publish it no later than the 2007 PBR.²⁶

The NAO published a second report on the efficiency programme in February 2007. Its previous report concluded that all reported efficiency gains should be treated as provisional. The 2007 report found that “good progress in addressing measurement issues has been made.”²⁷ Nevertheless, the NAO found that only £3.5 billion of the claimed £13.3 billion savings fairly represent efficiencies made, £6.7 billion were found to represent efficiency but have some measurement issues and uncertainties and £3.1 billion may represent efficiency but the measures used either do not yet demonstrate it or may be substantially incorrect.²⁸

An article in the *Financial Times* before December’s PBR said:

In the chancellor's pre-Budget report on Wednesday, Gordon Brown will boast of the government's success in its Gershon efficiency review - but the billions of claimed savings will be the subject of intense debate.

[...]

Certainly from outside government, the validity of the savings claims are almost impossible to check.²⁹

D. Links to further information

HM Treasury, Budget 2006

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

HM Treasury, Pre-Budget Report 2006

http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr06/prebud_pbr06_index.cfm

HM Treasury, Public Finances Databank

²⁵ Treasury Committee, *The 2006 Pre-Budget Report*, HC 115, 25 January 2007, para 47

²⁶ *ibid.* para 51

²⁷ National Audit Office, *The Efficiency Programme: A Second Review of Progress*, HC 156-I, 8 February 2007, p6

²⁸ *ibid.*

²⁹ “Billions in savings but ‘no one believes in them’”, *Financial Times*, 4 December 2006

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

HM Treasury, *Forecasts for the UK economy: A comparison of independent forecasts*
http://www.hm-treasury.gov.uk/economic_data_and_tools/forecast_for_the_uk_economy/data_forecasts_index.cfm

House of Commons Treasury Committee, *The 2006 Pre-Budget Report*, HC 115, 25 January 2007)
<http://pubs1.tso.parliament.uk/pa/cm200607/cmselect/cmtreasy/115/11502.htm>

IFS, *The IFS Green Budget 2007*
<http://www.ifs.org.uk/budgets/gb2007/index.php>

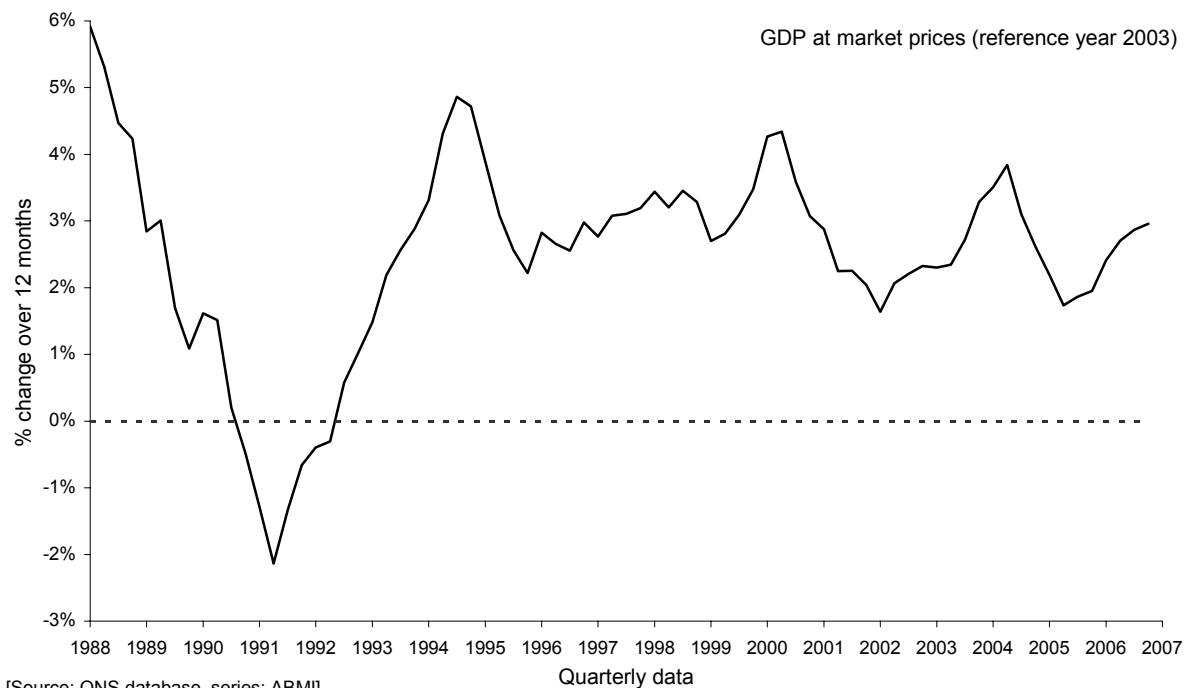
IFS Public finance bulletins
<http://www.ifs.org.uk/press.php?view=pubfin>

National Audit Office, *The Efficiency Programme: A Second Review of Progress*, HC 156-I, 8 February 2007
http://www.nao.org.uk/publications/nao_reports/06-07/0607156i.pdf

ONS Public sector finances
<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805>

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	1,225.3	4.1	1.9
2006	1,288.2	5.1	2.7
2005 Q4	312.5	4.0	2.0
2006 Q1	315.1	4.4	2.4
Q2	318.7	4.7	2.7
Q3	324.8	5.9	2.9
Q4	329.6	5.5	3.0

Source: ONS database, series: YBHA, ABMI

- The UK economy is estimated to have grown by 2.7% in 2006, compared with 1.9% in 2005.
- The chained volume measure of gross domestic product (GDP) at market prices was 0.8% higher in Q4 2006 than in the previous quarter (Q3 2006). Compared with the same quarter in the previous year (Q4 2006 on Q4 2005) this measure of GDP was 3.0% higher.
- In February 2007, HM Treasury's average of independent economic forecasts of GDP growth in 2006 was 2.7%, up from 2.6% in January. The average growth forecast for 2007 was 2.5% in February 2007, unchanged from January 2007.

Contact: Grahame Allen, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 21 Mar;
ONS, *UK output, income & expenditure*, 28 Mar

A2: GDP: International Comparisons



GDP at constant market prices

% changes

	% change on year				% change quarter on quarter				
	2002	2003	2004	2005	2005		2006		
					Q3	Q4	Q1	Q2	Q3
USA	1.6	2.4	3.9	3.2	1.0	0.4	1.4	0.6	0.5
Japan	0.2	1.5	2.7	1.9	0.7	0.6	0.6	0.3	0.2
Canada	2.9	1.8	3.3	2.9	0.8	0.7	0.9	0.5	0.4
United Kingdom	2.1	2.6	3.3	2.0	0.5	0.7	0.7	0.8	0.6
Germany	0.0	-0.2	1.3	0.9	0.5	0.3	0.8	1.1	0.6
France	1.0	1.2	2.3	1.2	0.7	0.2	0.6	1.1	0.0
Italy	0.3	0.1	1.1	-0.1	0.4	0.0	0.8	0.6	0.3
Eurozone	0.9	0.9	2.0	1.4	0.7	0.4	0.8	0.9	0.5
G7	1.2	1.8	3.1	2.3	0.8	0.5	1.0	0.6	0.4
OECD	1.7	1.9	3.2	2.6	0.9	0.5	1.1	0.7	0.5

Source: OECD, *Main Economic Indicators*, Feb 2007

- The latest data shows that the majority of the largest economies in the OECD recorded positive growth in the third quarter of 2006. Notably, France did not record any growth during this quarter.
- Recent growth in the eurozone has been weaker than growth in all OECD countries and the G7, although growth in all three fell in the third quarter of 2006.
- UK growth is forecast to be 2.6% in 2007 compared with 2.4% in the US and 2.0% in Japan. Overall OECD growth is forecast to be 2.5% in 2007.

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

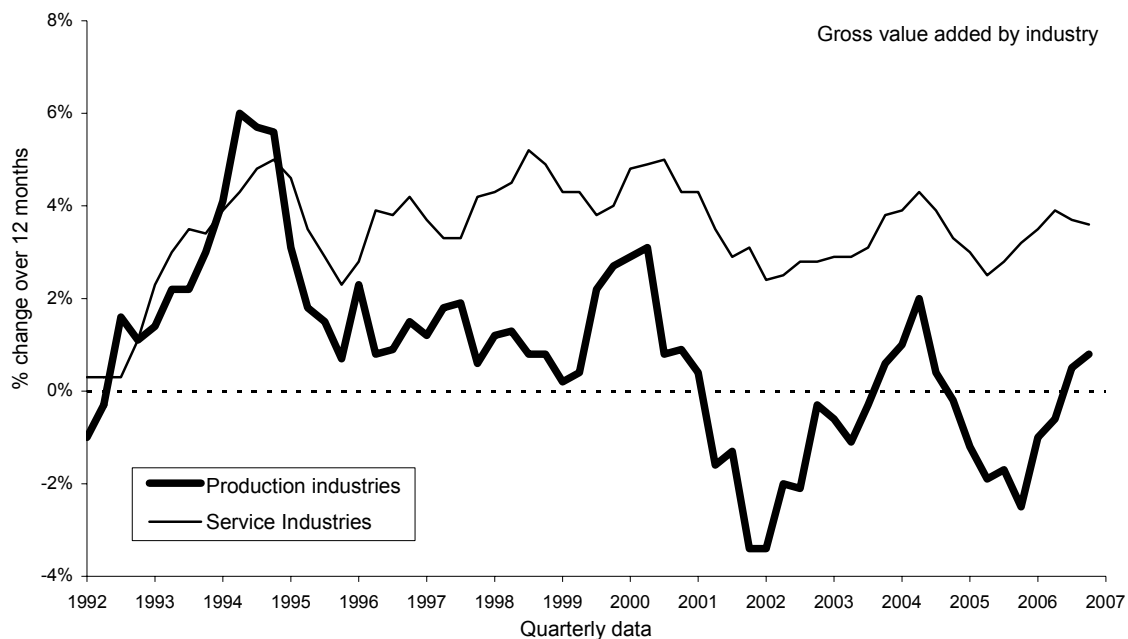
Source: OECD, *Economic Outlook*, Nov 2006

Contact: Edward Beale, x2464

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

A3: Gross Domestic Product by Industry

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



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

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 3.6%. Between the third quarter of 2006 and the fourth quarter of 2006 annual output growth in the service sector decreased by 0.1%.

Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufacturing			
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	-1.1	2.9	2.4	1.5
2006	-0.1	1.3	3.7	-1.8	1.1
2005 Q4	-2.5	-2.0	3.2	1.8	-0.6
2006 Q1	-1.0	-0.4	3.5	-0.6	-0.2
Q2	-0.6	1.2	3.9	-2.9	-0.1
Q3	0.5	1.9	3.7	-1.9	1.9
Q4	0.8	2.6	3.6	-1.8	3.0

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

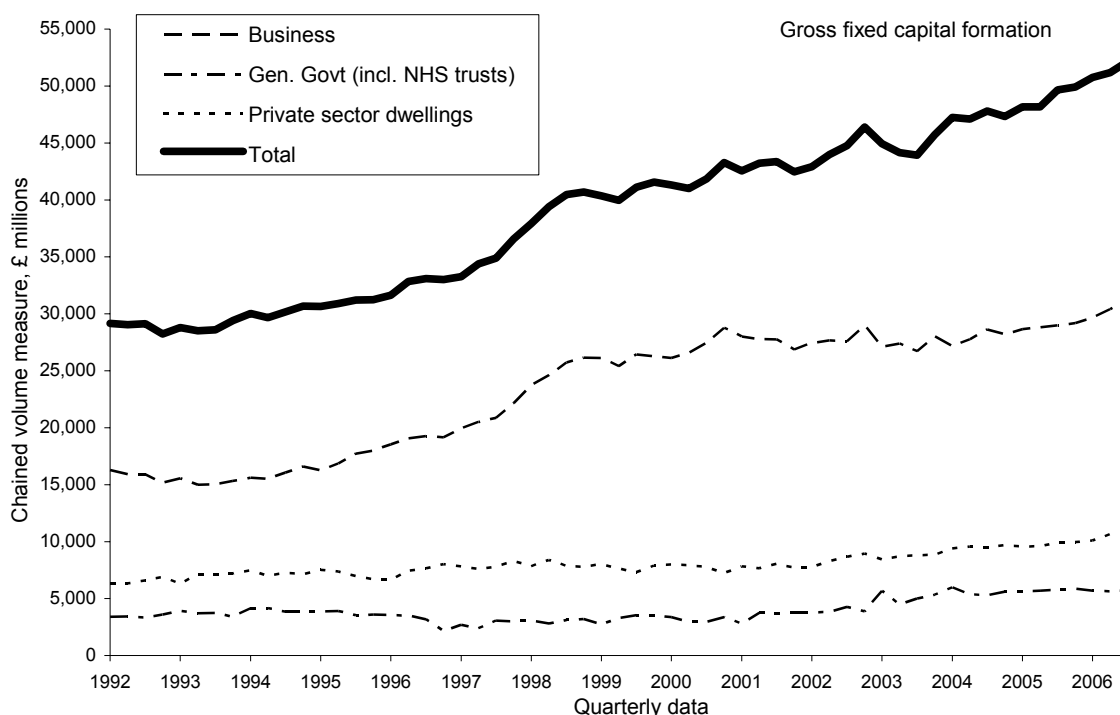
- Manufacturing output increased by 2.6% in the fourth quarter of 2006 compared with the same quarter in 2005, and manufacturing output increased by 1.3% overall in 2006.
- In 2004, services accounted for 75% of gross value added, manufacturing for 14%, other production industries (mining & quarrying, 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—Q4*, 28 Mar

A4: Investment

Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings. The graph excludes the effect of the exceptional transfer of nuclear reactors as this distorts the figures.



[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	14,906	59,626	72,108	42,701	6,573	195,913
2005 Q3	3,828	14,821	18,424	10,941	1,649	49,663
Q4	3,749	15,200	18,413	10,891	1,665	49,917
2006 Q1	3,498	15,627	18,787	11,147	1,687	50,745
Q2	3,884	15,596	18,358	11,641	1,711	51,190
Q3	3,848	16,141	18,668	11,768	1,751	52,176

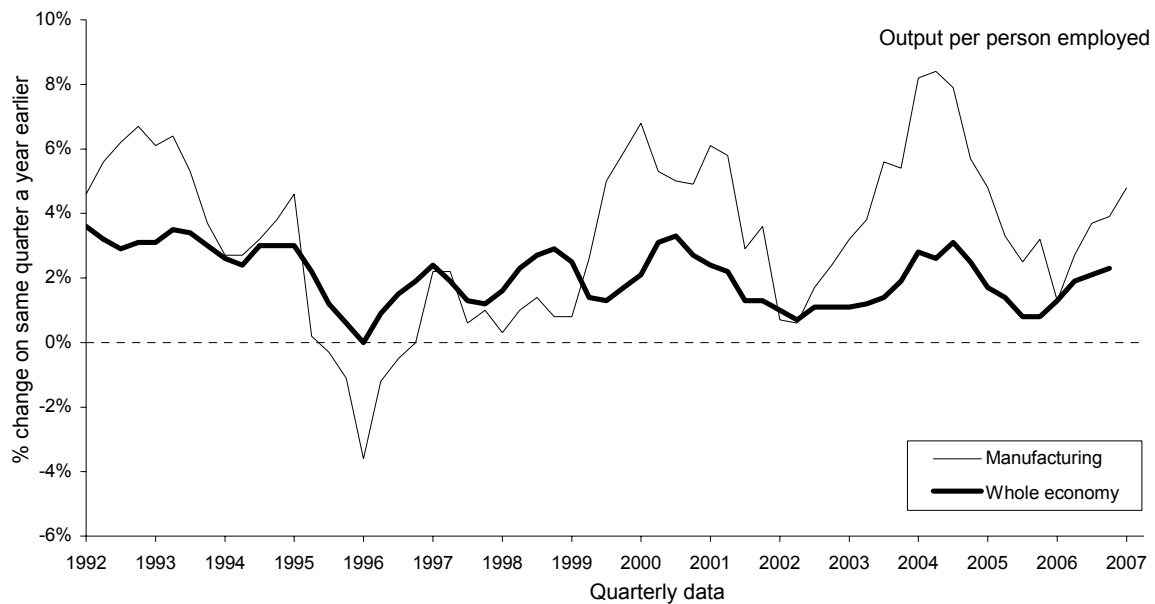
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment increased by 3.3% in Q4 2006 compared with the previous quarter, and increased by 11.1% compared with Q4 2005 on a seasonally adjusted basis.
- Total manufacturing investment decreased by 4.5% in Q4 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*, 27 Mar

A5: Productivity



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

Productivity

% changes on year; seasonally adjusted

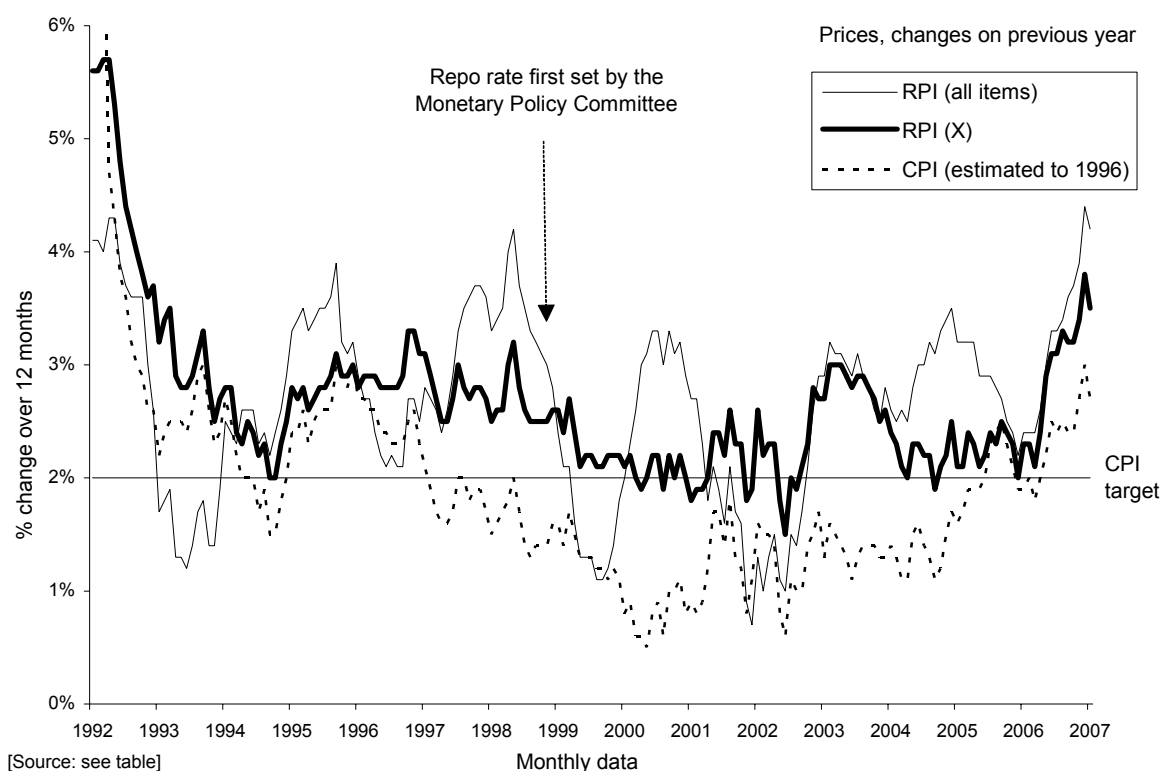
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2003	0.2	-5.2	5.7	2.7	0.9	1.8
2004	2.0	-4.4	6.7	3.3	0.8	2.5
2005	-1.1	-3.6	2.5	2.0	0.9	1.1
2006	1.3	-2.3	3.7	2.7
2005 Q3	-0.7	-3.7	3.2	1.9	1.1	0.8
Q4	-2.0	-3.3	1.3	2.0	0.7	1.3
2006 Q1	-0.4	-3.0	2.7	2.4	0.5	1.9
Q2	1.2	-2.4	3.7	2.8	0.7	2.1
Q3	1.9	-1.9	3.9	3.0	0.6	2.3
Q4	2.6	-2.1	4.8	3.0

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 1.1% and employment in manufacturing fell by 3.6%, while manufacturing output per head rose by 2.5%.
- Productivity growth in manufacturing increased from 3.6% per annum in Q2 2006 to 3.7% per annum in Q3 2006, while whole economy productivity growth increased from 2.1% per annum in Q2 2006 to 2.3% per annum in Q3 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*, 29 Mar

B1: Prices

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

- In the year to January, the consumer prices index (CPI) showed inflation at 2.7%, down from 3.0% in December.
- The largest downward effect on the CPI came from transport costs. A further large downward contribution came from food and non-alcoholic beverages. Small upward contributions on the CPI annual rate came from alcohol and tobacco, and restaurants and hotels.
- The former headline (all items RPI) rate of inflation was 4.2% in January, down from 4.4% in December. The underlying RPI(X) also fell from 3.8% in December to 3.5% in January.
- The largest downward effect on the RPI came from household goods. The largest upward effect came from housing due to rising mortgage interest payments.

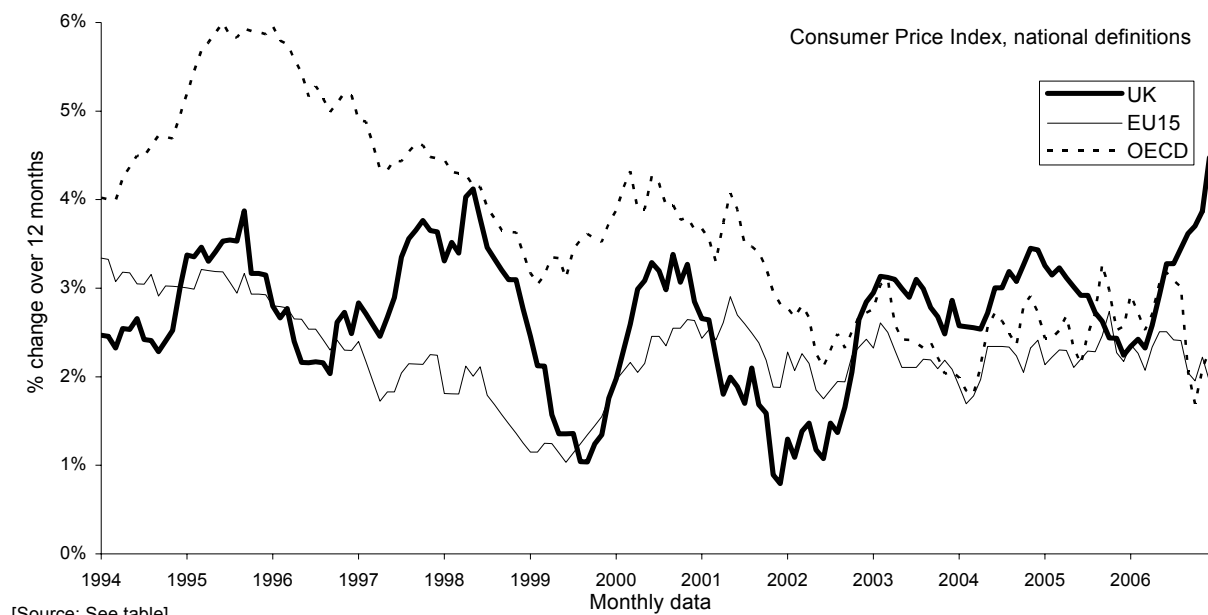
Price Indices

% change over 12 months

	CPI (was HICP)	RPI (all items)	RPI (X)
2003	1.4	2.9	2.8
2004	1.3	3.0	2.2
2005	2.1	2.8	2.3
2006	2.3	3.2	2.9
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
Nov	2.7	3.9	3.4
Dec	3.0	4.4	3.8
2007 Jan	2.7	4.2	3.5

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 2.5% in December, a rise of 0.5 percentage points from November. The rate for 2006 was 3.2%, 0.2 points down on 2005.
- For all OECD countries the average inflation rate also rose, by 0.3 points to 2.3%.
- By this measure, the EU15 average inflation rate (not shown in the table, but in the chart above) rose 0.1 points to 2.3%.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
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	3.3	0.3	2.0	3.2	2.6
2006 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
Oct	1.3	0.4	0.9	3.7	1.7
Nov	1.9	0.3	1.4	3.9	2.1
Dec	2.5	0.3	1.7	4.5	2.3

Source: OECD, Consumer Prices, Feb 2007

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 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
Nov	1.6	1.5	2.0	2.7	1.9
Dec	1.7	1.4	2.1	3.0	1.9
2007 Jan	1.4	1.8	1.9	2.7	1.8

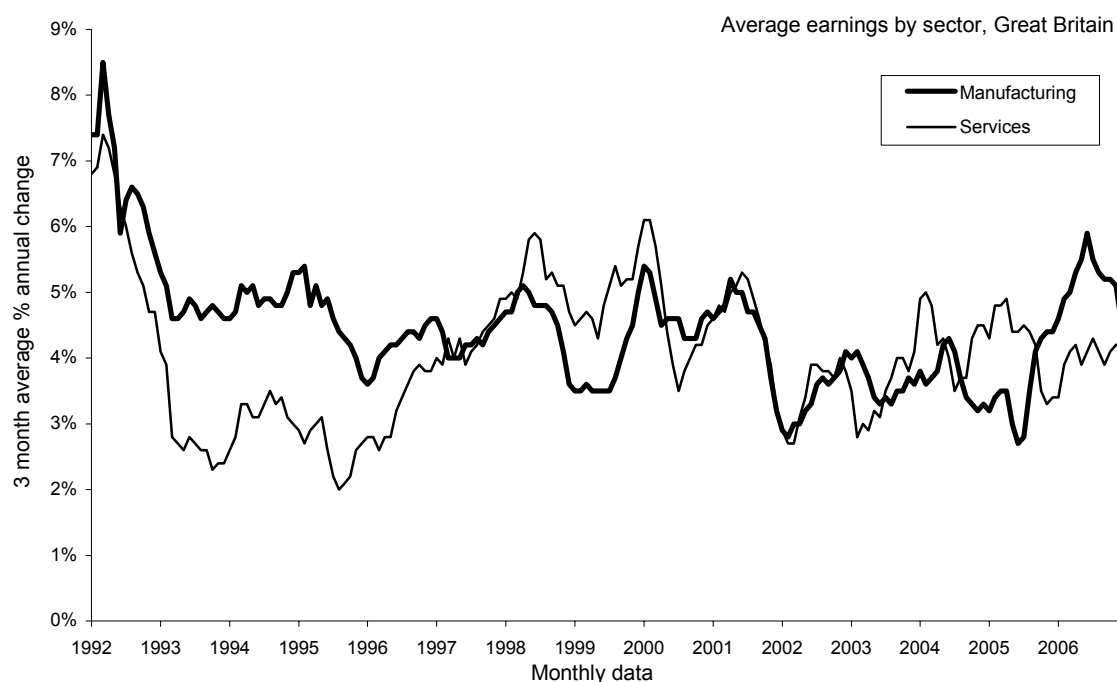
Source: Eurostat, Euro-Indicators news release, 28 Feb 2007

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

- Eurozone annual inflation was 1.8% in January.
- The HICP inflation rates for the EU15 Member States not in the eurozone were 1.8% in Denmark, 1.6% in Sweden and 2.7% in the UK.
- The eurozone countries with the highest HICP annual inflation rates were Greece (3.0%), and Ireland (2.9%). The lowest rate was in the Netherlands (1.0%).

Contact: Alex Adcock, x3793

Updates: OECD, consumer prices release, 7 Mar
Eurostat, *Euro-indicators news release*, 15 Mar

B3: Average Earnings Index

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

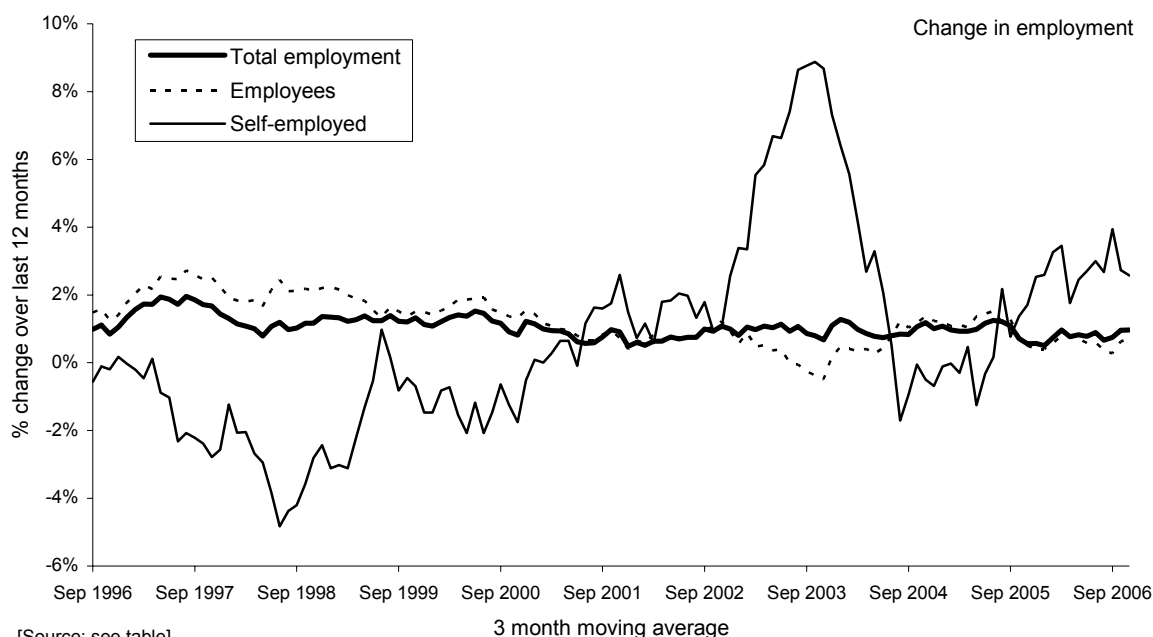
- The headline rate of growth in average earnings for the whole economy in December was 4.0%, down from 4.1% in October.
- Headline average earnings growth in manufacturing was 4.5% in December, down from 5.1% in October. Earnings growth in the service sector was 4.2% in December, unchanged from the previous month.
- Headline earnings growth in the private sector was 4.1% in December, compared with 3.2% in the public sector. Earnings growth in the public sector was unchanged from October in contrast to private sector earnings growth which fell from 4.3% in October.
- Earnings are currently growing at a faster rate than they were a year ago (the headline rate in December 2005 was 3.6%).
- In the year to December, the consumer price index showed inflation below the rate of earnings growth at 3.0%. 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 Dec	3.9	3.6	4.7
2003 Dec	3.9	3.9	4.4
2004 Dec	4.4	4.3	4.6
2005 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
Oct	4.1	4.2	3.3
Nov	4.1	4.3	3.2
Dec	4.0	4.1	3.2

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 Nov	28,074	24,521	3,363	94	96
2003 Nov	28,263	24,402	3,655	99	107
2004 Nov	28,597	24,738	3,637	97	125
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
2006 Nov	29,036	25,039	3,794	101	102

Changes (%):

on last 3 months	0.2	0.1	0.9	-2.4	4.4
on last year	1.0	0.7	2.6	12.5	-6.2

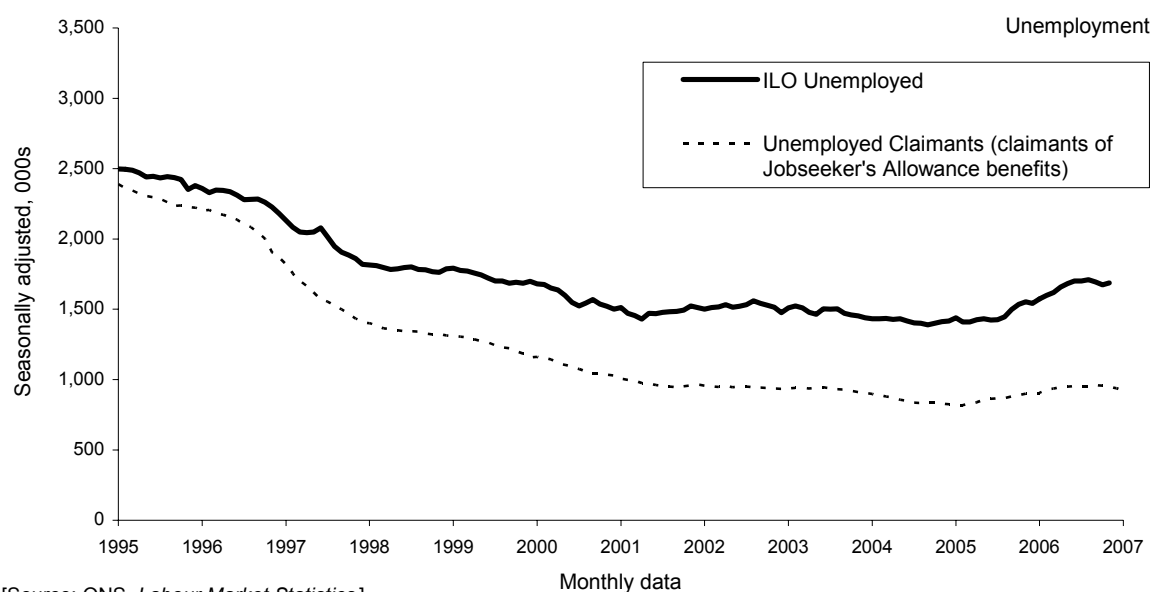
Source: ONS, *Labour Market Statistics*, 14 Feb 2007

- Total employment was 29.0 million in the period October to December 2006, 1.0% higher than a year earlier. The working age employment rate of 74.5% was the same as the previous quarter and 0.1 percentage points higher than a year earlier.
- The number of workforce jobs increased by 54,000 between June and September 2006 and was 292,000 higher than a year earlier. Over the year to September, the number of production industry workforce jobs fell by 30,000. The number of service sector jobs rose by 279,000.
- 7.5 million people were in part-time employment in the period October to December 2006, of whom 5.8 million were women. 3.8 million people were self-employed.

Contact: Dominic Webb, x4324

Update: ONS, *Labour Market Statistics*, 14 Mar

C2: Unemployment: National



[Source: ONS, *Labour Market Statistics*]

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

- The latest LFS estimates show that over the period October to December 2006, the level of ILO unemployment in the UK was 1,687,000 (seasonally adjusted). This was an increase of 133,000 from the period October to December 2005.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 14,000 between December 2006 and January 2007 to 926,000.

The New Deal for Young People started in January 1998.

- 1,145,000 individuals had joined the scheme by the end of November 2006. Of those leaving the scheme up to the end of August 2006, 710,000 had moved into jobs, of which 604,000 (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 667,000 individuals had joined the scheme by the end of November 2006. Of those leaving the scheme up to the end of August 2006, 278,000 had entered jobs, of which 228,000 (82%) were sustained.

ILO Unemployment in the UK seasonally adjusted

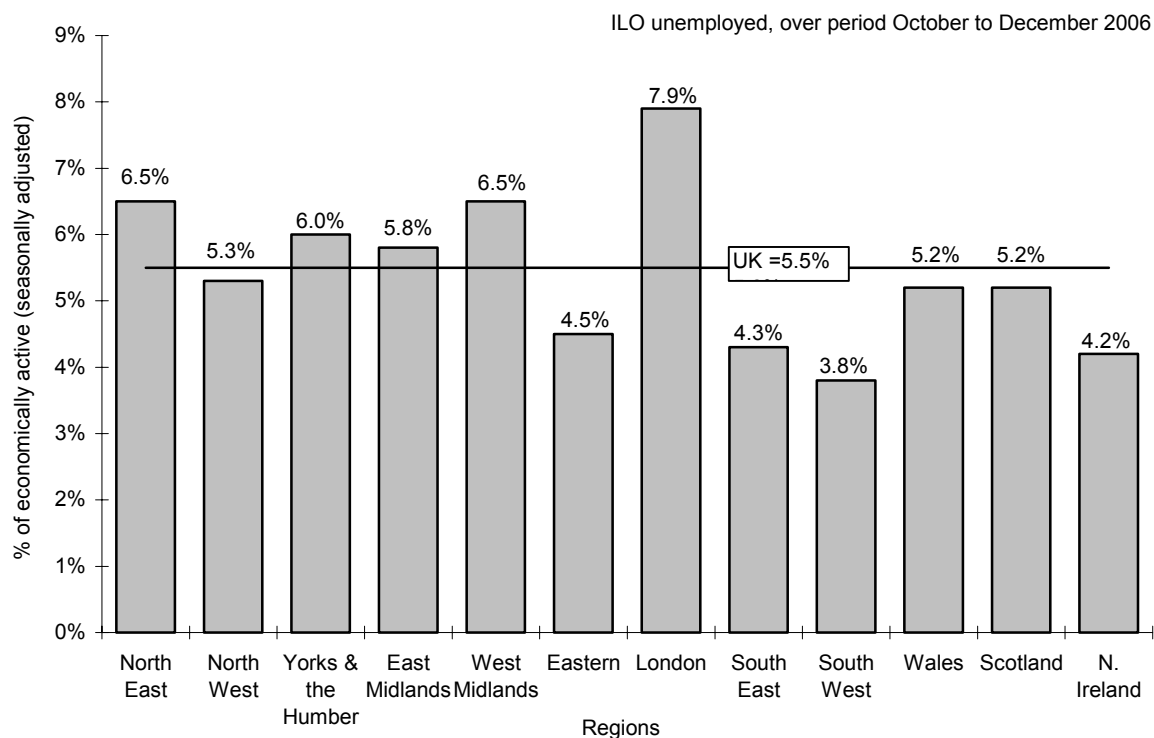
		'000s	rate (%)
2000	Jul - Sep	1,545	5.3
	Oct - Dec	1,521	5.2
2001	Jan - Mar	1,472	5.1
	Apr - Jun	1,472	5.0
	Jul - Sep	1,483	5.1
2002	Oct - Dec	1,523	5.2
	Jan - Mar	1,511	5.2
	Apr - Jun	1,515	5.2
2003	Jul - Sep	1,561	5.3
	Oct - Dec	1,514	5.1
	Jan - Mar	1,523	5.1
2004	Apr - Jun	1,464	4.9
	Jul - Sep	1,504	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
2007	Jul - Sep	1,447	4.8
	Oct - Dec	1,554	5.1
	Jan - Mar	1,599	5.2
	Apr - Jun	1,683	5.5
	Jul - Sep	1,711	5.6
	Oct - Dec	1,687	5.5

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793

Updates: ONS, *Labour Market Statistics*, 14 Mar
New Deal, 16 May

C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

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

- Over the period October to December 2006 the London region had the highest unemployment rate, 7.9% of the economically active population. The lowest rate over the same period was 3.8%, in the South West region.
- A comparison of October to December 2006 with the same period a year earlier shows that the highest fall (6%) in unemployment occurred in Northern Ireland. The East Midlands and West Midlands regions showed the largest increase (26%) over the period.

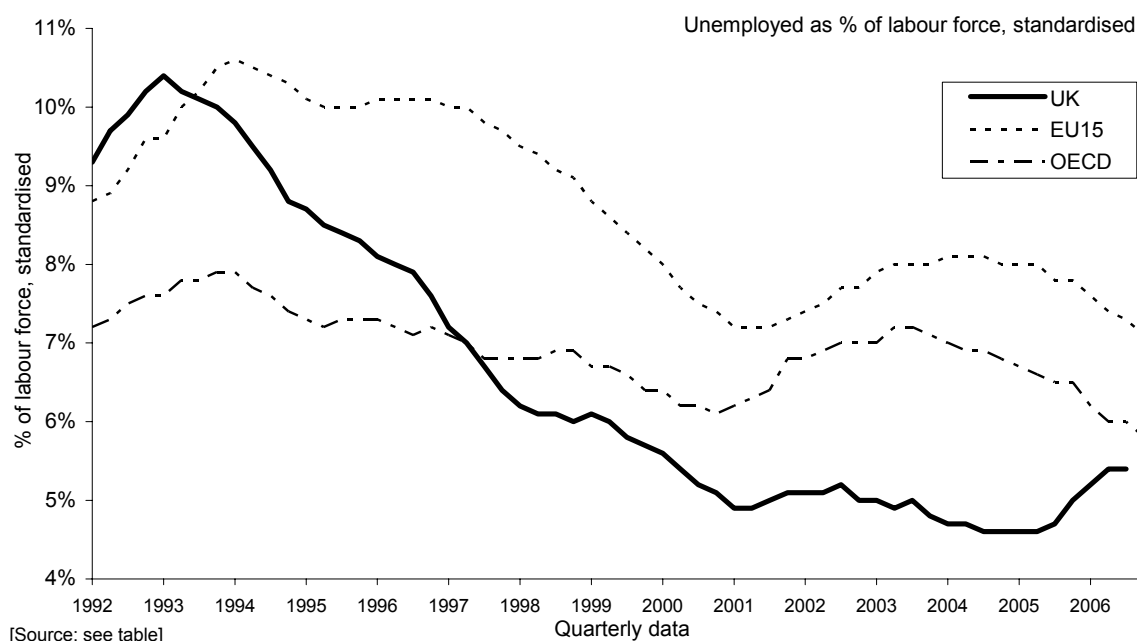
ILO Unemployment, October to December 2006

change on same period in previous year;
seasonally adjusted

	Number (rounded)	%
North East	2,000	3
North West & Merseyside	16,000	10
Yorkshire & the Humber	15,000	11
East Midlands	27,000	26
West Midlands	36,000	26
Eastern	-2,000	-2
London	27,000	9
South East	7,000	4
South West	-2,000	-2
Wales	6,000	9
Scotland	3,000	2
Northern Ireland	-2,000	-6

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	5.3	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	6.9	6.7	6.5	6.4	6.2	6.4
UK	4.9	4.7	4.8	4.6	4.6	4.7	5.0	5.2	5.4	5.4
Germany	9.1	9.5	9.5	9.7	9.7	9.1	9.3	8.8	8.3	8.4
France	9.4	9.6	9.6	9.6	9.7	9.7	9.6	9.5	9.2	8.9
Italy	8.4	8.0	7.7	7.9	7.7	7.7	7.5	7.3	6.8	6.7
Eurozone	8.7	8.8	8.6	8.8	8.7	8.4	8.4	8.2	7.8	7.7
G7	6.6	6.3	6.1	6.2	6.1	6.0	6.0	5.8	5.6	5.6
OECD	7.1	6.9	6.6	6.7	6.6	6.5	6.5	6.2	6.0	6.0

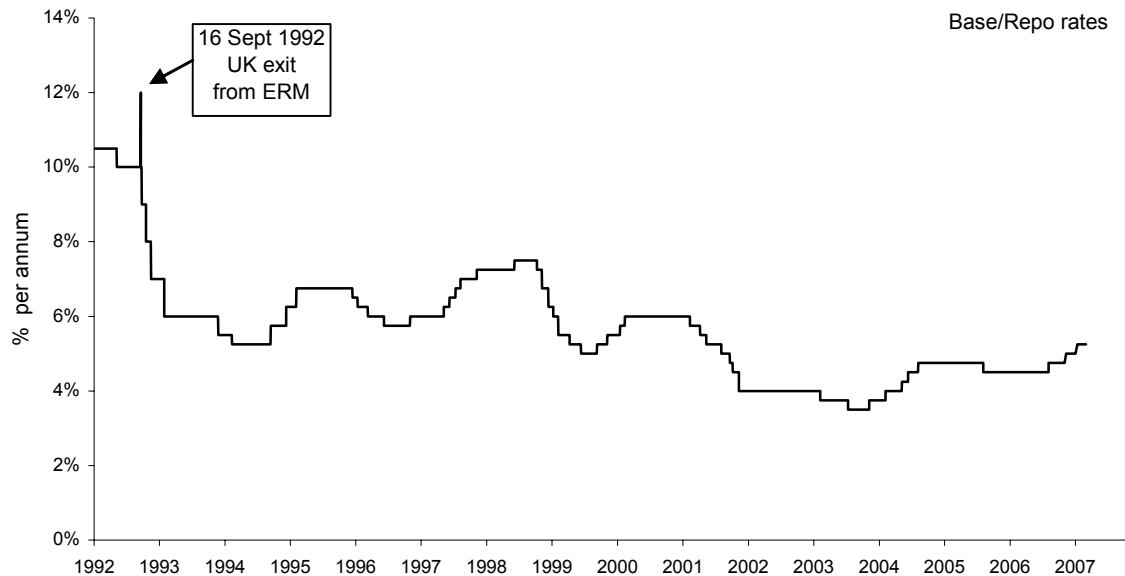
Source: OECD, *Main Economic Indicators*, February 2007

- 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 Q3 2005 and Q3 2006 (the latest period for which all data are available) the largest fall in unemployment among G7 countries was in Italy, where it fell by one percentage point. There was a rise in unemployment (0.7 of a percentage point) in the UK. The unemployment rate in all the G7 nations taken together fell by 0.4 of a percentage point.
- The most recent forecasts published by the OECD (*Economic Outlook, Preliminary Edition*, November 2006) suggest the UK unemployment rate will be 5.5% in 2006 and 5.7% in 2007. The respective forecasts for the eurozone are 7.9% and 7.4%. For the OECD as a whole the respective forecasts are 6.0% and 5.8%.

Contact: Alex Adcock, x3973

Updates: OECD, *Main Economic Indicators*, 9 Mar
OECD, *Economic Outlook*, Jun

D1: Interest Rates



[Source: Bank of England]

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

- **Interest rates were left unchanged at 5.25% at the MPC's meeting on 8 February. Seven MPC members voted to maintain rates while two voted for an increase of 0.25 percentage points.**

The minutes of the February meeting note that:

- Most members thought that the balance of risks to inflation and growth warranted leaving the Bank Rate unchanged. There was time to assess the impact of past decisions to see if the upside or downside risks were becoming clearer.
- Others put more weight on the increase in near-term inflation expectations and evidence of firms' willingness to increase prices.

UK Base/Repo rate changes

% per annum

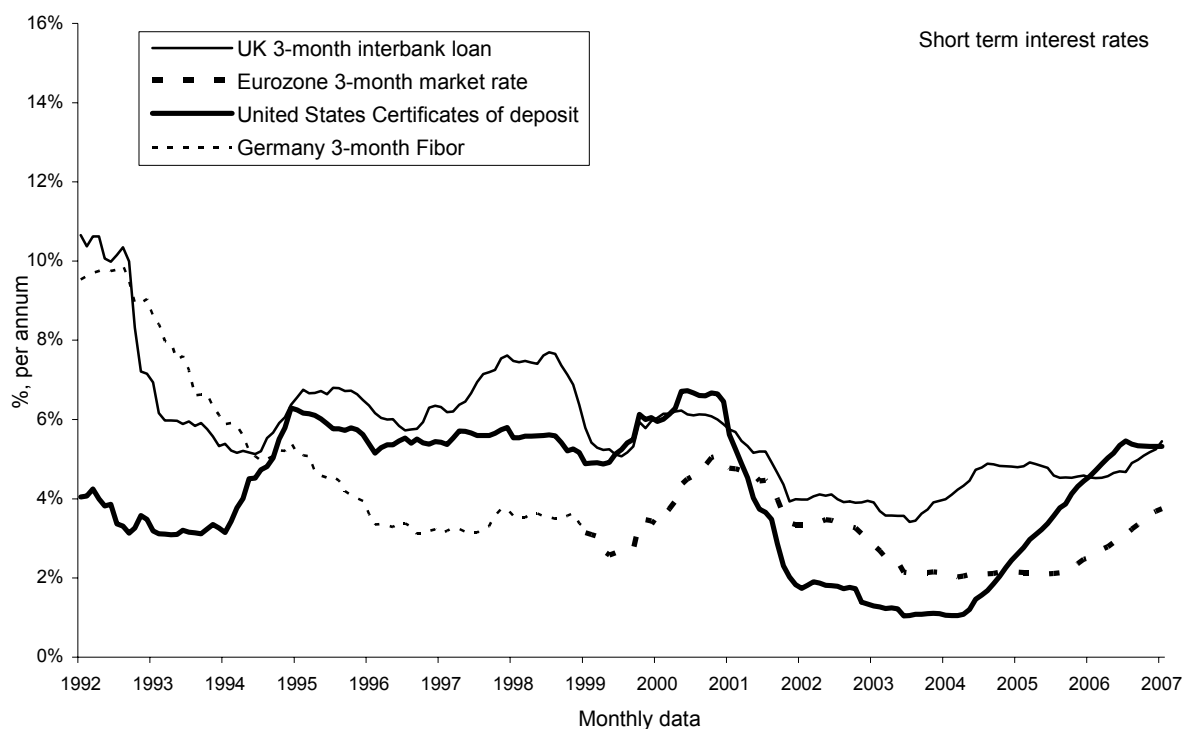
Date	New rate	Date	New rate
1997 May 6	6.25	2001 Apr 5	5.50
Jun 6	6.50	May 10	5.25
Jul 10	6.75	Aug 2	5.00
Aug 7	7.00	Sep 18	4.75
Nov 6	7.25	Oct 4	4.50
1998 Jun 4	7.50	Nov 8	4.00
Oct 8	7.25	2003 Feb 7	3.75
Nov 5	6.75	Jul 10	3.50
Dec 10	6.25	Nov 6	3.75
1999 Jan 7	6.00	2004 Feb 5	4.00
Feb 4	5.50	May 6	4.25
Apr 8	5.25	Jun 10	4.50
Jun 10	5.00	Aug 5	4.75
Sep 8	5.25	2005 Aug 4	4.50
Nov 4	5.50	2006 Aug 3	4.75
2000 Jan 13	5.75	Nov 9	5.00
Feb 10	6.00	2007 Jan 11	5.25
2001 Feb 8	5.75		

The central projection from the latest Bank *Quarterly Inflation Report* (February 2007) was for inflation to fall back towards its 2% target over the next year. This reflects falling energy costs and lower import prices. Over the medium term, inflation settles at around 2%. There is little change in the medium-term outlook compared with November's *Inflation Report* but there is greater volatility in the short term forecast. The Bank expects GDP to grow in line with its average over the last ten years. It noted that there was limited spare capacity in the economy and that there are signs that businesses are more confident in their ability to raise prices.

Contact: Dominic Webb, x4324

Updates: *Next Decision*, 8 Mar; *Minutes*, 21 Mar
Quarterly Inflation Report, 16 May

D2: Interest Rates: International Comparisons



[Source: OECD, *Main Economic Indicators*]

Short term interest rates in the UK rose in January 2007 to 5.45%, the highest since March 2001. The rate for the eurozone was 3.75%, the highest since September 2001.

- The Bank of England's Monetary Policy Committee maintained the UK Repo rate at 5.25% at its meeting on 8 February 2007. This followed the 0.25 point increase at its previous meeting on 11 January 2007 (see Indicator **D1**).
- The Governing Council maintained the European Central Bank (ECB) interest rate at 3.50% at its meeting on 8 February 2007. This followed 0.25 point increases on 7 December, 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, October, December 2006 and January 2007 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 1 February 2007

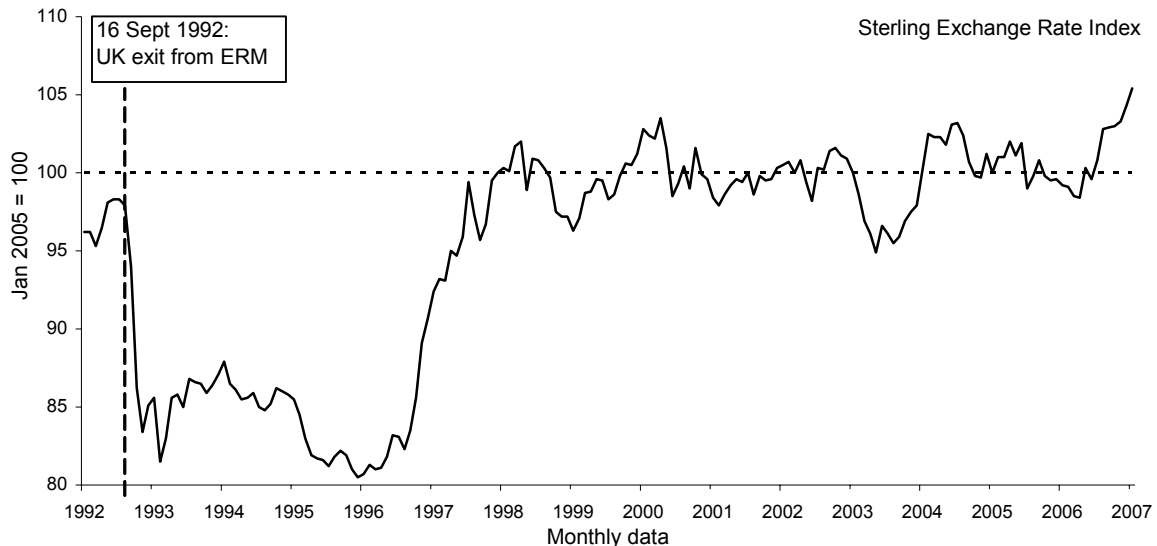
	Official rate	Yield on 10 yr Government bonds	3-month rate market rate
United Kingdom	5.25	4.80	$5\frac{1}{2} - 5\frac{7}{16}$
Eurozone	3.50	n/a	$3\frac{7}{8} - 3\frac{25}{32}$
United States	5.25	4.56	$5\frac{11}{32} - 5\frac{1}{4}$
Japan	0.25	1.64	$1\frac{1}{16} - 2\frac{1}{32}$
Switzerland	1.25-2.25	2.54	$2\frac{1}{4} - 2\frac{5}{32}$

Source: *Financial Times*, 1 Mar 2007 (*Companies & Markets*, p39)

Contact: Edward Beale, x2464 **Updates:** *Short-term interest rates:* OECD, *MEI*, 9 Mar;
Base rates: 8 Mar (UK MPC), 8 Mar (ECB), 21 Mar (US)

D3: Exchange rates

The *Sterling Exchange Rate Index* (SERI) measures the value of sterling against a trade-weighted 'basket' of other currencies. The weights used in this index measure currencies' relative importance to UK trade in manufacturing:



[Source: ONS database, series: 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 2006, the SERI increased by 1.1 points in January 2007, suggesting that the UK was relatively less competitive at the end of January 2007 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 28 February 2007, compared with a launch rate of €1.476 on 31 December 1998.

Sterling Exchange Rates

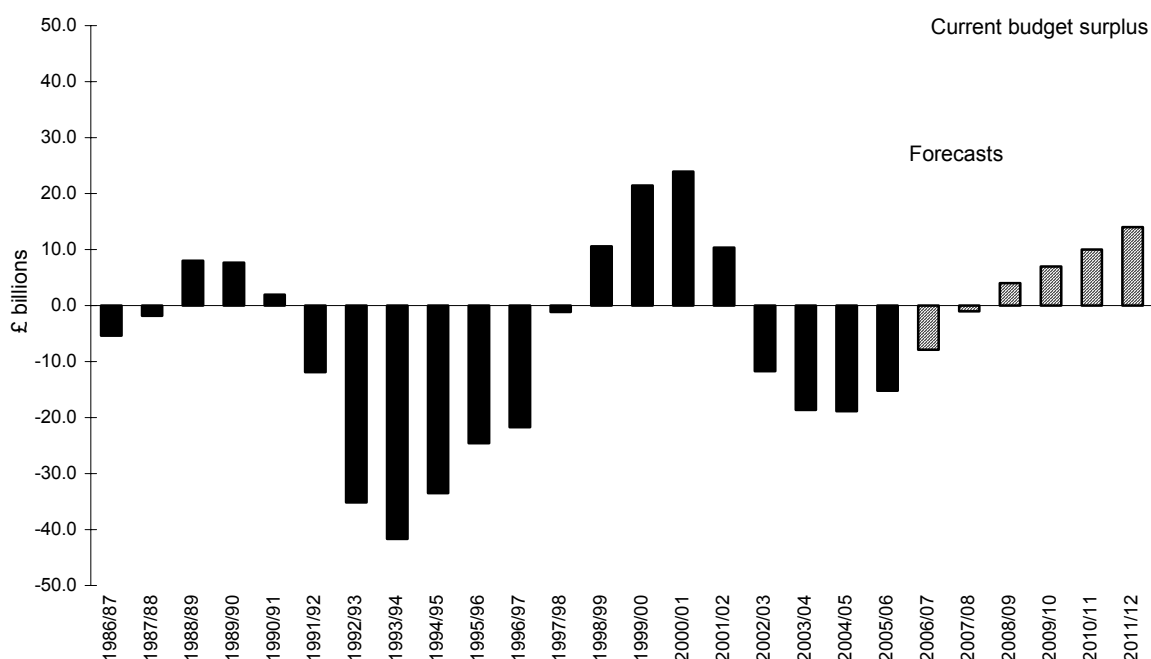
rates and % changes

	US Dollar (\$)		Yen (¥)		Euro (€)	
	Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
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
2006	1.843	1.3	214.3	7.1	1.467	0.3
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
Nov	1.912	10.3	224.2	9.2	1.483	0.8
Dec	1.963	12.4	230.1	11.1	1.486	0.9
2007 Jan	1.959	10.8	235.9	15.6	1.508	3.4

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

Contact: Edward Beale, x2464

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

D4: Public Finances

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

The Government's "golden rule" requires it to balance the current budget over the economic cycle. The Treasury's view is that the cycle runs from 1997/98 to 2006/07. The Treasury has altered its view of dating of the economic cycle on several occasions. The chart shows outturns for the current budget balance and Treasury forecasts from the 2006 Pre-Budget Report.

- There was a £8.8 billion deficit on the current budget in Q4 2006 compared with a £12.3 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.

- The public sector net cash requirement (PSNCR - the new aggregate replacing the PSBR) was £12.1 billion in Q4 2006 compared with £19.3 billion in the same quarter of 2005. In 2005/06, the PSNCR was £40.0 billion compared with £38.6 billion in 2004/05.

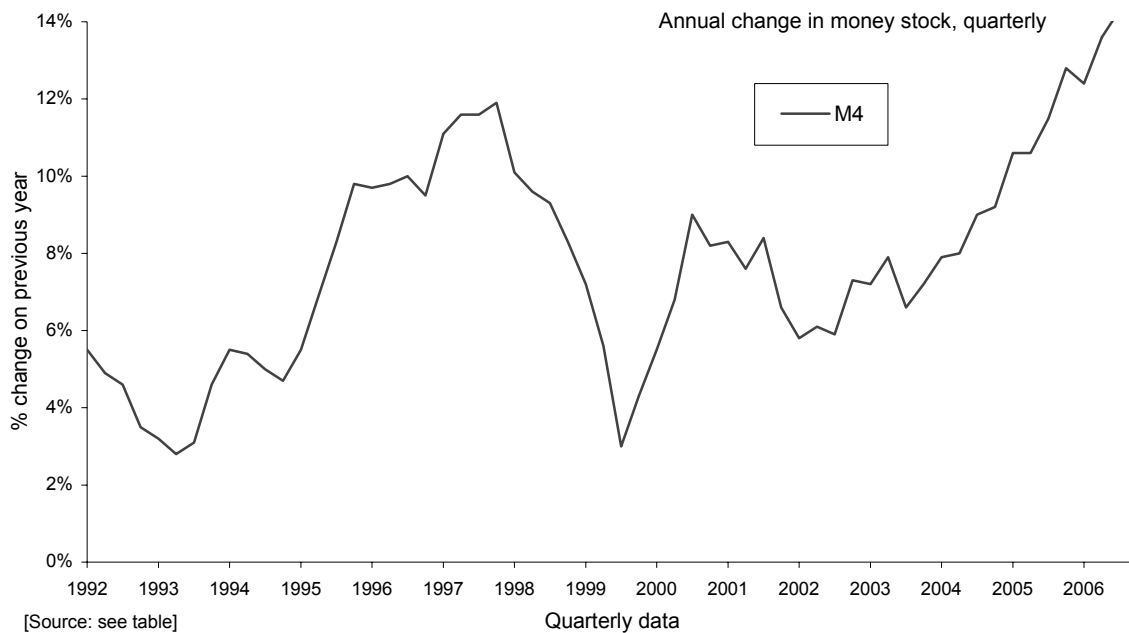
Public Sector Net Debt

£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2002/03	349.1	32.0
2003/04	384.4	33.1
2004/05	424.0	34.9
2005/06	463.7	36.5
2005 Q4	467.1	37.3
2006 Q1	463.7	36.5
Q2	485.6	37.7
Q3	488.8	37.5
Q4	503.1	38.0

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
2006 Jan	6.4	4.0	13.7	12.2
Feb	7.5	4.5	12.5	12.4
Mar	13.3	5.1	11.5	12.2
Apr	7.3	5.4	13.8	12.9
May	5.1	5.4	12.1	11.7
Jun	5.1	5.7	14.5	13.4
Jul	4.7	5.4	13.5	13.1
Aug	4.4	5.0	14.7	13.7
Sep	2.7	5.1	15.5	14.4
Oct	3.4	5.4	14.9	14.0
Nov	3.8	5.2	12.9	13.1
Dec	1.3	5.5	9.8	12.8
2007 Jan	2.3	4.4	9.9	13.0

Source: Bank of England, *Monetary and Financial Statistics*, February 2007, Tables A1.1 .1 and A2.1.1

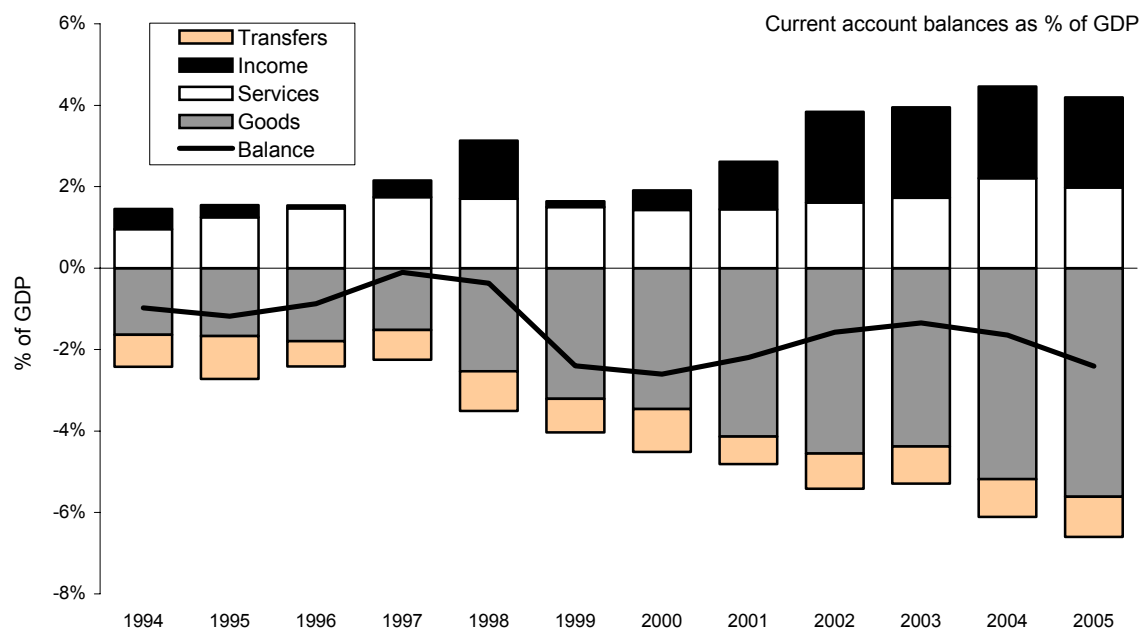
The Bank of England no longer publishes data on M0 following the introduction of new money market arrangements in 2006 (see Bank of England *Quarterly Bulletin*, Autumn 2005 for details). The table above now shows sterling notes and coin in circulation outside the Bank of England. M4 is a broad measure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

- Seasonally adjusted M4 rose by 13.0% in the 12 months to January 2007. The 12-month seasonally adjusted growth rate of notes and coins was 4.4% in January 2007, compared with 4.0% in January 2006.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

Update: Bank of England, *Monetary & Financial Stats*, 29 Mar

E1: UK Overseas Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

	Trade in goods/services			Income (total)	Transfers			Current Account Balance
	Goods	Services	Total		Central Gov.	Other	Total	
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	-68,783	24,190	-45,406	27,159	-9,481	-2,601	-12,082	-29,516
2005 Q3	-18,055	4,469	-13,947	6,567	-2,271	-753	-3,024	-10,043
Q4	-18,778	6,995	-11,982	3,975	-2,329	-732	-3,061	-10,869
2006 Q1	-21,189	7,658	-13,531	6,632	-2,373	-684	-3,057	-10,242
Q2	-22,699	6,602	-16,097	8,806	-2,137	-606	-2,743	-8,264
Q3	-19,854	7,169	-12,685	6,556	-2,481	-174	-2,655	-9,429
Q4	-20,581	7,091	-13,490

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

- **Annually**, the current account deficit in 2005 was £29.5 billion, equivalent to -2.4% 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 £9.4 billion in Q3 2006, widening from the revised Q2 2006 deficit of £8.2 billion. Between Q2 2006 and Q3 2006 the surplus on income narrowed while the surplus on services widened slightly. Over the same period the deficit on goods and transfers narrowed.
- In 2005 the **annual** current account deficit with EU25 countries was £39.6 billion, compared with a surplus with non-EU countries of £10.0 billion. On a **quarterly** basis, the deficit with EU countries was £6.6 billion in Q3 2006 (compared with £9.0 billion in Q2 2006). With non-EU countries, the current account was in deficit by £2.8 billion in Q3 2006 (compared with a £0.7 billion surplus in Q2 2006).

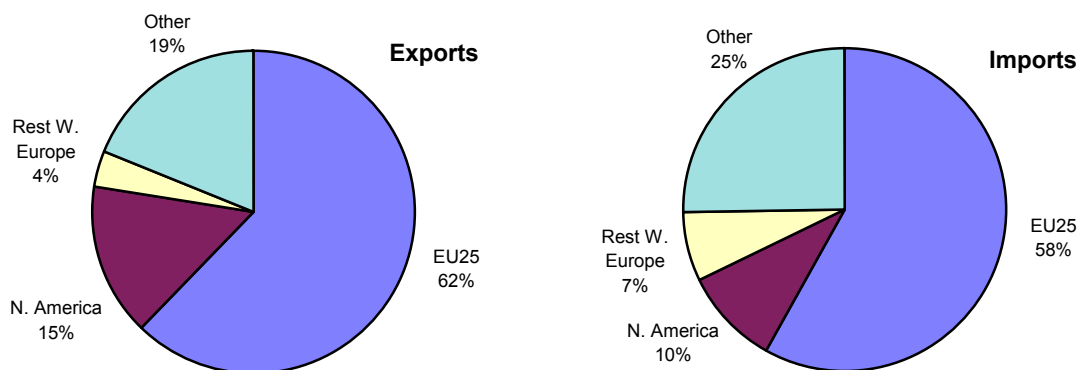
Contact: Grahame Allen, x3977

Updates: ONS, *UK Balance of Payments Q4 2006*, 28 March 2007; *UK Trade*, 13 March 2007

E2: UK Overseas Trade in Goods

Shares of UK trade in goods by area, 2006

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
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	211,616	280,399	-68,783
2006	127.6	131.2	243,857	328,180	-84,323
2005 Q4	118.3	121.4	56,634	75,412	-18,778
2006 Q1	135.1	136.3	64,288	85,477	-21,189
Q2	140.1	143.2	66,551	89,250	-22,699
Q3	119.2	122.6	57,482	77,336	-19,854
Q4	116.0	122.6	55,536	76,117	-20,581

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

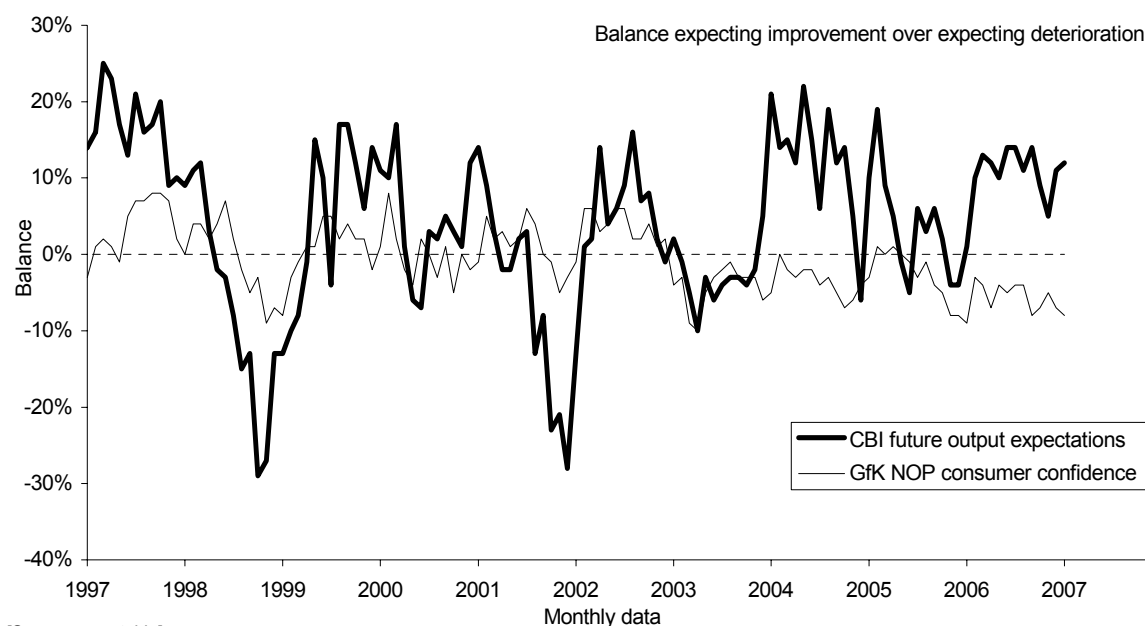
- In December 2006 the estimated total value of UK goods exports was £18.4 billion and the total value of UK goods imports was £25.5 billion. As a result, the estimated deficit on goods trade was £7.1 billion, higher than the November 2006 level of £6.9 billion.
- Geographical breakdowns of UK trade 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 £2.8 billion in December (compared with £2.5 billion in November 2006), while the deficit with non-EU countries was £4.3 billion (compared with £4.4 billion in November 2006).
- The UK’s monthly surplus on trade in **services** was £2.2 billion in December 2006 compared with £2.4 billion in November 2006.
- The UK’s overall monthly deficit on **goods and services combined** in December 2006 was £4.9 billion, up from £4.5 billion in November.

Contact: Grahame Allen, x3977

Update: ONS, *UK Trade*, 13 Mar

F1: Survey indicators

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



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

- The balance of expectations for future output from the CBI's monthly survey was +12 in January 2007, up from +11 in December 2006.
- January's quarterly report noted that "the rate of increase in manufacturers' domestic output prices has picked up markedly" which reflected "the largest quarterly rise in total orders in almost three years, and the fastest growth in output volumes since 1995".
- The balance of manufacturing firms reporting orders above or below normal improved from -9% in January to +5% in February 2007.

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 decreased 1 point in February 2007 to -8, 4 points lower than in February 2006.
- Three of the five measures under the headline index fell. Perceptions of consumers' financial situation in the last 12 months increased. The outlook for household finances for the next year increased slightly. Consumers' views of the general economic situation of the country over the last year dropped. There was a small fall in expectations for the general economic situation in the next year. There was a large rise in the major purchases index.

Output Expectations & Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

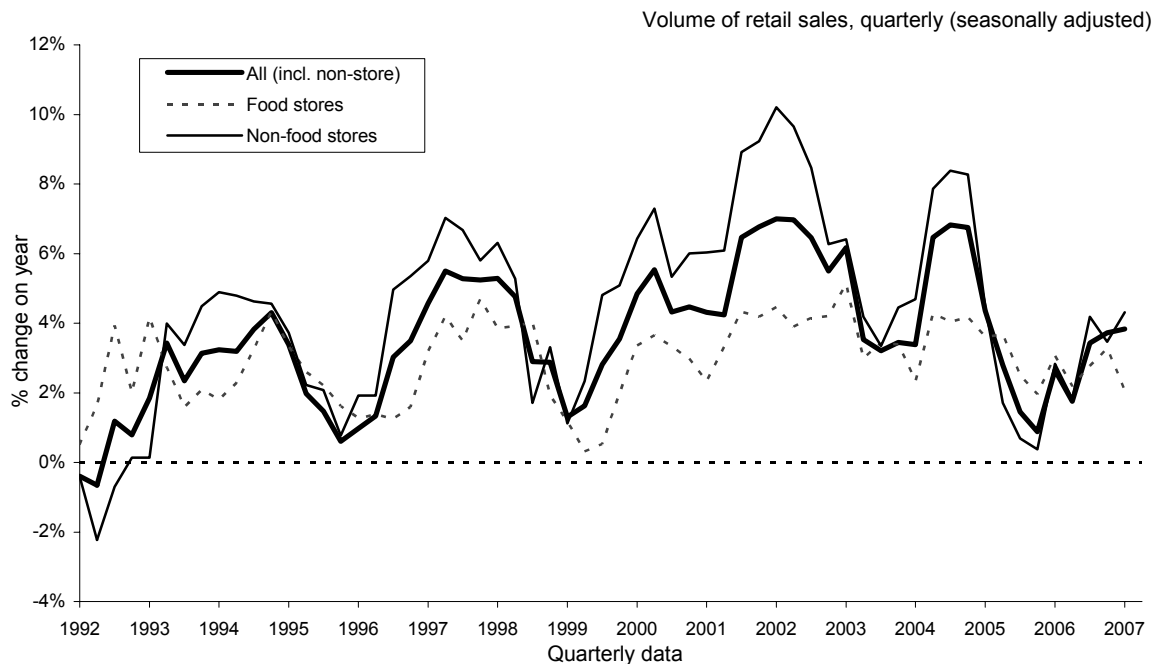
		Future output expectations (CBI)	Consumer confidence (GfK)
2006	Jan	+1	-3
	Feb	+10	-4
	Mar	+13	-7
	Apr	+12	-4
	May	+10	-5
	Jun	+14	-4
	Jul	+14	-4
	Aug	+11	-8
	Sep	+14	-7
	Oct	+9	-5
	Nov	+5	-7
	Dec	+11	-8
2007	Jan	+12	-7

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*, 27 Mar; CBI, *Industrial Trends* (Monthly), 21 Mar

F2: Retail Sales



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

- The *volume* of retail sales in the three months from November to January was 0.9% higher compared with the previous three month period, and was 3.5% higher than a year previously (seasonally adjusted).
- Retail sales volumes in January 2007 were 3.2% higher than in January 2006 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 3.6% in November to January compared with the same quarter a year earlier. In predominantly food stores, sales volumes grew by 2.1% over the same period (seasonally adjusted).

Value of Retail Sales

% change on year; non-seasonally adjusted

	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
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	-1.7	0.8
2006	3.3	3.4	2.5	1.7	2.5
2005 Q4	3.1	3.5	-1.4	0.7	1.5
2006 Q1	0.9	0.0	-2.5	1.9	0.0
Q2	3.3	3.5	3.6	0.9	3.5
Q3	5.1	4.3	4.4	0.0	3.5
Q4	4.6	5.5	5.0	2.8	4.3

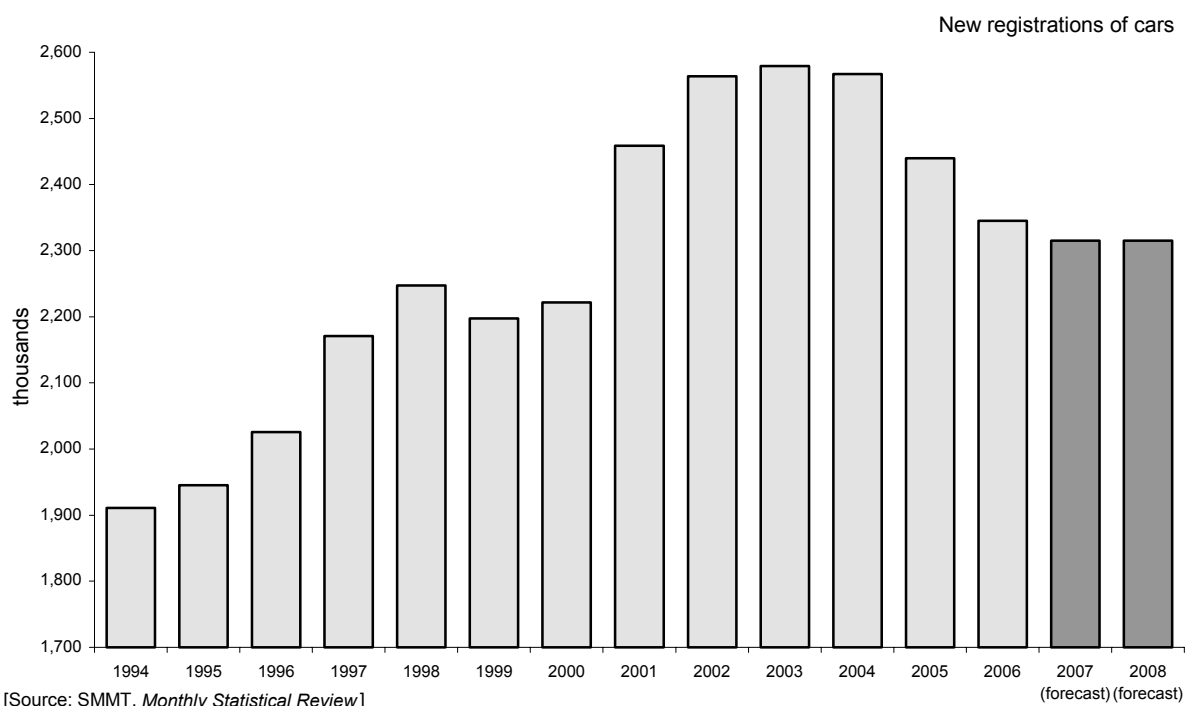
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in January 2007 was £4,430 million, a 2.8% increase from January 2006 (non-seasonally adjusted).

Contact: Ed Potton, x2883

Update: ONS, *Retail Sales: First Release*, 22 Mar

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations increased by 5.2% in January 2007, compared with the previous January's figure, to 165,603 units.

- The number of new registrations of cars was just under 2.35 million units in 2006, a fall of 3.9% on the previous year.
- New registrations of cars are forecast to fall by 1.3% in 2007 and remain at the same level in 2008.
- There were 22,520 registrations of British-built cars in January, equivalent to 13.6% of the market. The number of British built registrations decreased by 9.2% on the previous January's figure. In 2006 as a whole, there were 343,267 registrations of British-built cars, a decrease of 17.4% from the previous year's figure and equivalent to 14.6% of the market.

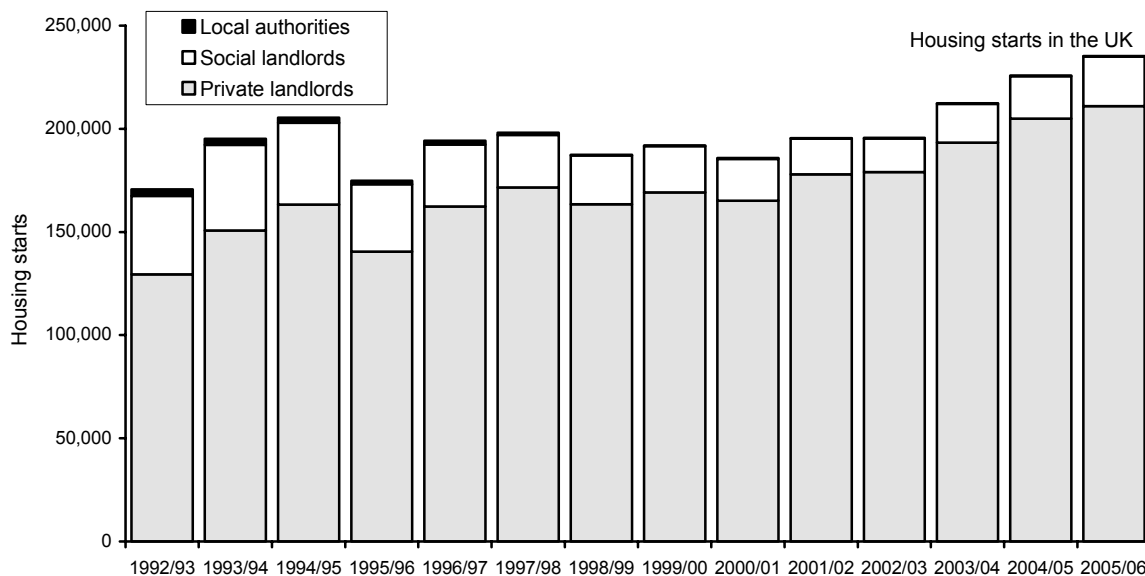
New Registrations of Cars

000s & % change; not seasonally adjusted

	Number (^{'000s})	Change over 12 months
2005	2,440	-5.0
2006	2,345	-3.9
2007 (forecast)	2,315	-1.3
2008 (forecast)	2,315	0.0
<hr/>		
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
Nov	155	-2.0
Dec	134	-14.7
2007 Jan	166	5.2

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 64,492 dwelling starts in the UK in Q1 2006, compared with 55,898 in Q1 2005. In Q1 2006 there were 50,549 completions compared with 46,392 in Q1 2005 (all data are not seasonally adjusted; more recent data are available for England, Northern Ireland and Wales and Scotland).

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

- **Monthly** UK house prices rose by 1.3% in January 2007, compared with a fall of 0.9% in December 2006.
- **Annual** house prices were 9.9% higher in January 2007 than in the same month in 2006 (compared with 9.9% in December 2006).
- **Quarterly** house prices rose 2.7% in Q4 2006, on Q3 2006, compared with 0.8% in Q3 2006 on Q2 2006.
- Regionally, the Halifax data show that in Q4 2006 **annual** house price inflation was highest in Northern Ireland (52.9%) and lowest in the North (3.1%), while all-UK prices rose by 9.9% (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 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	181,278	176,094	182,434	135,812
Q4	186,242	174,481	188,266	141,118
<i>% change over same period in previous year</i>				
2005 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	8.0	7.7	8.1	8.6
Q4	9.9	6.9	10.5	10.3

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

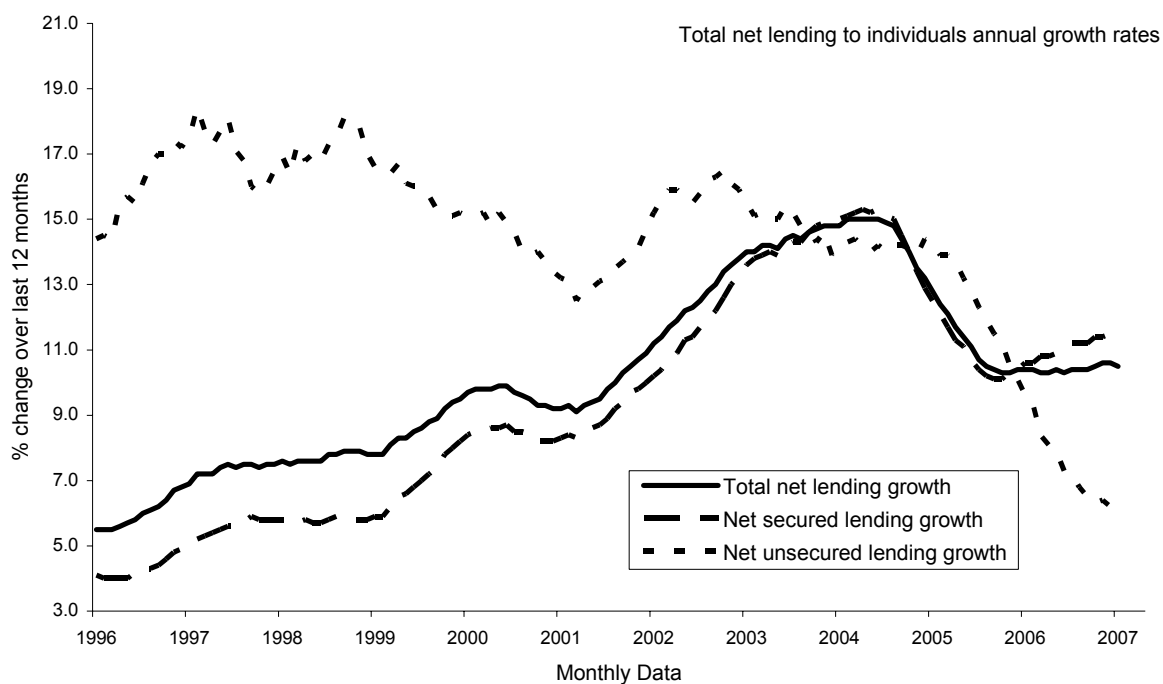
The DCLG's house price index is based on completions (the Halifax index is based on mortgage approvals). All figures are not seasonally adjusted:

- The average UK house price in December 2006 was £201,090, up from £199,238 in November 2006. **Annual** house price inflation in December 2006 was 9.9%, up from 8.8% in November 2006.
- Regionally, **annual** house price inflation in December 2006 was highest in Northern Ireland (39.9%) and lowest in the East Midlands (6.1%).

Contact: Grahame Allen, x3977

Updates: Halifax *House Prices*, early Mar; DCLG, *House Prices*, 12 Mar; *House-building*, 17 May

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 Dec	682,314	169,719	852,032	13.6	15.5	14.0
2003 Dec	782,524	181,847	964,371	15.0	14.2	14.8
2004 Dec	882,539	200,435	1,082,975	12.5	14.3	12.8
2005 Dec	974,035	211,642	1,185,677	10.6	9.6	10.4
Mar	999,646	211,659	1,211,306	10.8	8.1	10.3
2006 Apr	1,025,224	211,742	1,236,966	11.2	7.2	10.4
Sep	1,056,547	212,325	1,268,872	11.4	6.3	10.5
Dec	1,086,723	212,843	1,299,565	11.5	6.0	10.5

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

- Total net outstanding lending to individuals was £1,300 billion at the end of January 2007 (seasonally adjusted).
- Total net lending to individuals grew by 0.8% in January 2007 compared with the previous month, and grew by 10.5% on an annual basis (all seasonally adjusted); this is a 0.1% decrease on the annual growth rate for December 2006.
- Of the £10.6 billion increase in net lending in January 2007, £9.6 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

Definitions³⁰

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

³⁰ 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.