



RESEARCH PAPER 07/83
4 DECEMBER 2007

Economic Indicators, December 2007

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 articles:

The Burden of Taxation: 2007 update
Household Debt

Next publication date: **7 January 2008**

Bryn Morgan (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 Tuesday** of the month. In months when the House is not sitting, we will now produce a paper, although without a highlights page or articles. Also, 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	Bryn Morgan	4904
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Prices & interest rates	Dominic Webb	4324
Public expenditure	Dominic Webb	4324
Taxation	Bryn Morgan	4904
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.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

UK

At its November meeting seven members of the Bank of England's MPC voted to maintain interest rates at 5.75%. However, David Blanchflower and Deputy Governor Sir John Gieve voted for an immediate quarter point cut.

There has been much debate regarding whether the MPC will choose to cut rates at their meeting this week, particularly following the publication of the Bank's quarterly inflation report in November which forecast for growth to slow sharply over the next year. The report also showed inflation falling well below its 2% target in two years' time if UK interest rates were held at 5.75% but on target if the market expectations of the interest rate are born out (ie the Bank cuts rates twice in 2008).

Inflation, as measured by the CPI, rose to 2.1% in October from 1.8% in September, this rise was driven by the rising price of petrol and oil which increased by 2.7% on the month.

The most recent survey of house prices to be released reinforced the view that growth in UK house prices was slowing; Nationwide data showing the biggest monthly fall in 12 years (0.8%), while the annual rate of house price inflation was 6.9% in November.

European Union

Eurozone unemployment stood at 7.2% in October (seasonally adjusted), while the overall rate for the EU27 countries was 7.0%. On this basis the highest standardised unemployment rate for a Member State was Slovakia (11.2%) while the lowest rate was in Denmark (2.9%). The latest standardised estimate for the UK showed unemployment at 5.2% in August on a seasonally adjusted basis.

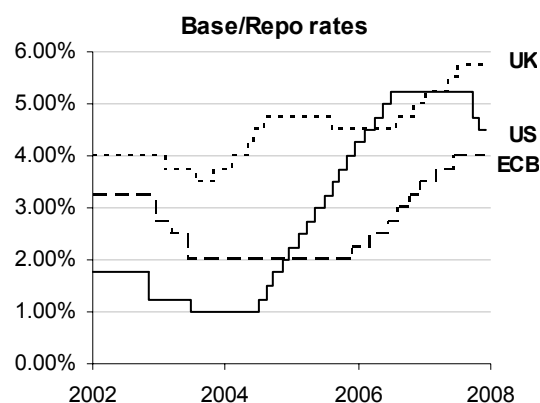
However, provisional estimates show that annual inflation in the eurozone in November is 3.0% compared with 2.6% in October (and 1.7% in August). This is the highest annual change since May 2001. Meanwhile, provisional estimates of GDP growth in the third quarter of 2007 stood at 0.7% for the eurozone and 0.8% for the EU27 on the previous quarter. This compares with quarterly growth of 0.3% and 0.5% respectively in the second quarter of 2007.

The Governing Council of the European Central Bank is due to meet this week, however analysts are predicting that the ECB base rate will remain at 4.00%.

United States

In the US, provisional GDP estimates published by Eurostat indicate growth stood at 1.2% in the third quarter of 2007 compared with 0.9% in the second quarter of 2007. The third quarter annual rate was 2.8% compared with 3.2% in the UK and 2.9% in the EU.

The US Federal Reserve's Open Market Committee is due to meet again on 11 December. In contrast, to the recent relative stability of the Bank of England's and ECB's base rates, the US Federal Reserve cut the fund's rate by a half point in September and a further quarter point in October to 4.50% (see chart) following the recent shocks in the US credit markets.



III The Burden of Taxation: 2007 update

This short article summarises the latest taxation statistics. A full update of the Research Paper *The Burden of Taxation* will be published in January 2008.⁴

The 'burden of taxation' is an expression of the proportion of income which is paid in taxes. A tax burden is simply a ratio of tax paid to income received. Such a calculation can be made at the national level, using an aggregate measure of tax receipts compared with total national income within a given time period, or at the micro level for individuals or families, i.e. the amount of personal/household income paid as tax. This article will look at both of these.

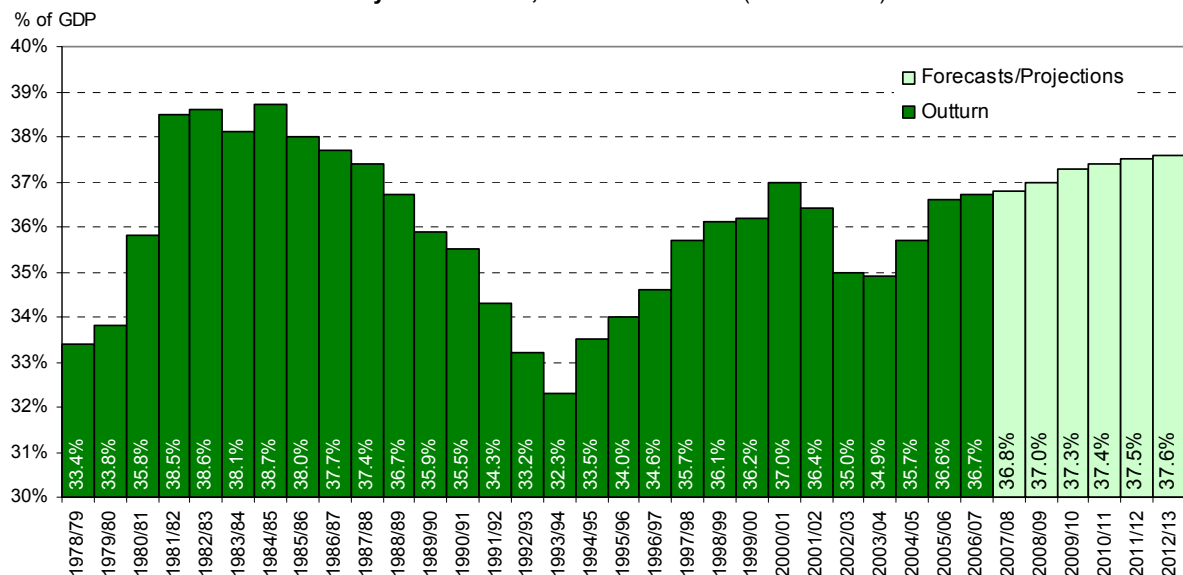
A. UK Tax Burden

There are two main ways of expressing the UK's tax burden ratio: the public finances basis, used by the Treasury in Budget documentation, and the national accounts basis, based on data from the Office for National Statistics.

For public finances purposes the Treasury presents the tax burden in terms of the aggregate measure of 'net taxes and social security contributions' (NTSSC) expressed as a proportion of GDP. NTSSC is a measure of net cash payments to UK government, and includes the majority of revenues: all HM Revenue and Customs tax receipts, vehicle excise duties, oil royalties, business rates, council tax and some 'other taxes' and royalties.

Chart 1 shows the trend in the UK tax burden since 1978/79 as well as the latest projections:

Chart 1: Net taxes & social security contributions, 1978/79 to 2012/13 (as % of GDP)



⁴ The latest edition is was published in October 2005:
RP05/68 *The Burden of Taxation*, <http://www.parliament.uk/commons/lib/research/rp2005/rp05-068.pdf>

This clearly shows the tax burden increasing in the early part of the 1980s before declining steadily from 1984/85. From 1994/95, the tax burden began to increase. It fell in the first years of the 21st Century, but is projected to increase to 37.6% by 2012/13.

The tax burden will fluctuate both because of changes to the parameters and structure of the tax system and also because of changes in the relevant taxbases; other things being equal, increased personal incomes, or corporate profits will increase revenues as a proportion of GDP. In the past, the Treasury has estimated that the long-term effect of a 1% rise in output relative to trend could be an approximate 0.2% increase in the ratio of total tax receipts to GDP.⁵

1. Tax receipts

Table 1 shows tax receipts broken down by tax for 2000/01 and 2007/08. It clearly shows that there has been little change in the share of most taxes in the total. National Insurance contributions have increased from 17% to 19% of the total.

Table 1

Tax receipts by tax: 2000/01 to 2007/08

	£ billion		% of total	
	2000/01 outturn	2007/08 estimate	2000/01 outturn	2007/08 estimate
Income Tax (net)	105.2	149.6	29%	29%
National Insurance Contributions	60.6	96.5	17%	19%
VAT	58.5	81.4	16%	16%
Corporation Tax	32.4	46.3	9%	9%
Fuel duties	22.6	24.9	6%	5%
Council Tax	14.3	23.7	4%	5%
Business rates	16.4	21.9	5%	4%
Stamp duties	8.2	15.1	2%	3%
Other taxes and duties	41.2	57.4	11%	11%
Total	359.4	516.8	100%	100%

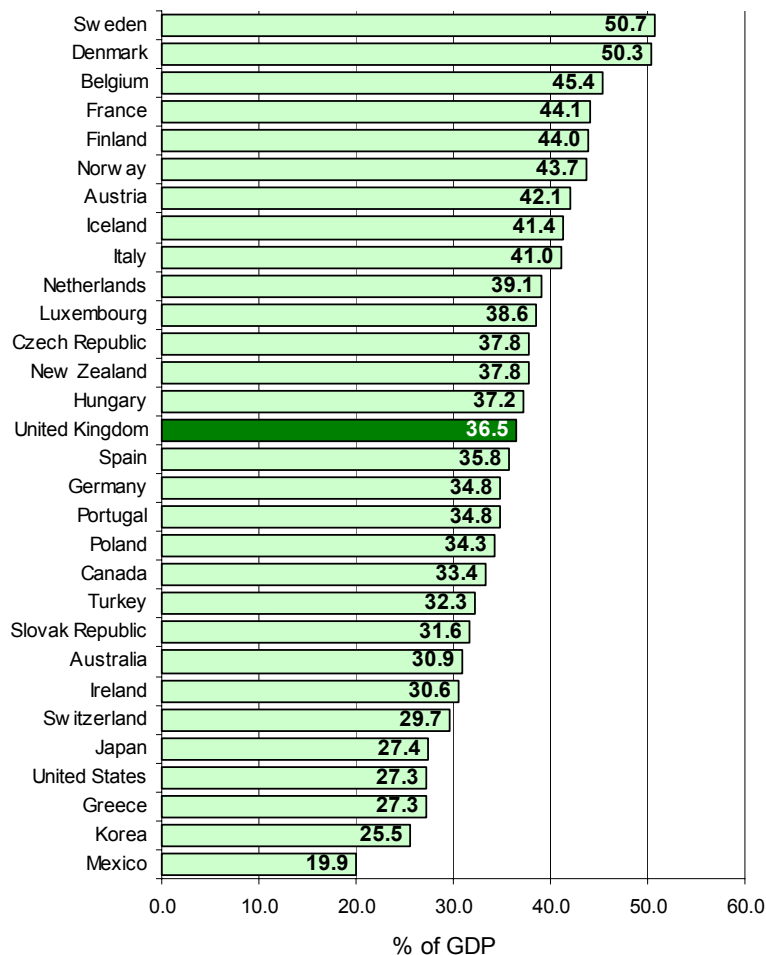
Source: *Public Finances Databank*, HM Treasury, Table C4

⁵ HM Treasury, *Fiscal Policy: Public Finances and the Cycle*, March 1999, p26

B. International comparisons

The OECD has recently published updated international comparisons of tax burdens. These show that in 2005, the UK's tax burden of 36.5% was ranked 15th highest of 30 OECD countries. Sweden was highest with 50.7%; Mexico was overall with 19.9% and Ireland was the lowest EU country with 30.6%.⁶

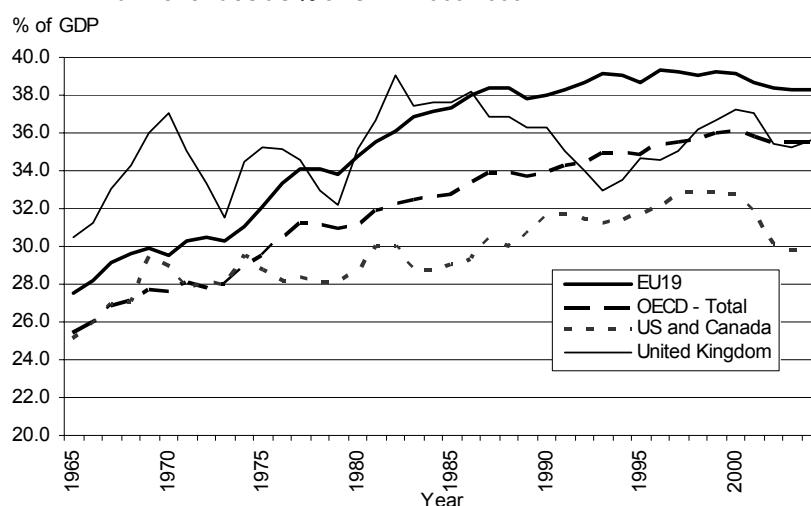
Chart 2: Tax revenue as % of GDP: OECD countries: 2005



The chart below compares the trend in the weighted average tax burden for the whole OECD, EU countries in the OECD, North America with that in the UK. Until the early 1990s the UK burden was above the OECD average, since that it has fluctuated around the average. The EU figure is above the OECD as a whole, and North America is below it.

⁶ OECD, *Revenue Statistics 1965-2006 - 2007 Edition*, 2007

Chart 3: Tax revenues as % of GDP: 1965-2005: selected OECD countries



C. Personal tax burdens

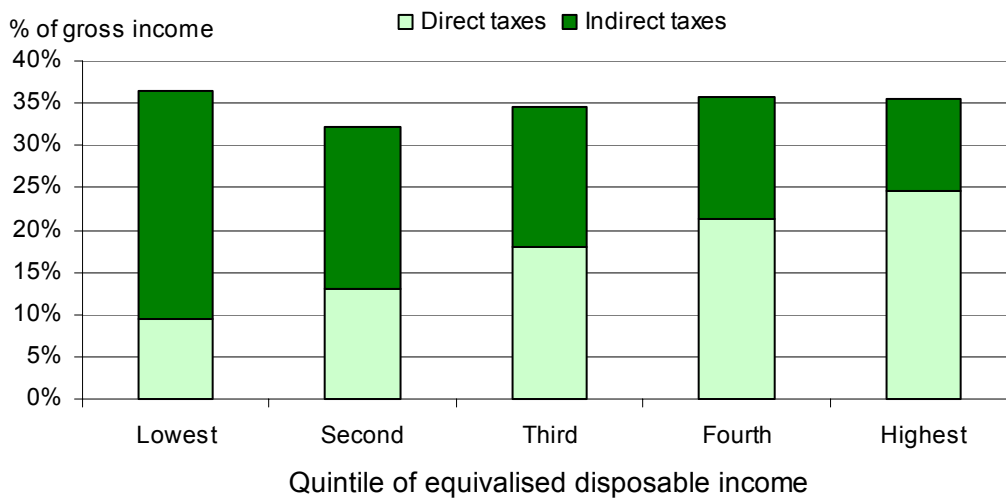
Tax burden by income

The Office for National Statistics publishes an annual article showing the effects of taxes and benefits on incomes. This uses data taken from the Expenditure and Food Survey.

One particularly useful part of this analysis shows the proportion of income that is paid as direct and indirect taxes.

Chart 4 shows the position for 2005/06. It is clear that **direct** taxes are progressive, in that the upper quintile (the 20% of households with the highest equivalised gross income) pays a higher percentage of income in direct tax (25%) than the lowest quintile (9%). This reflects the personal allowance, which takes those on very low incomes out of the tax system altogether, and a progressive rate structure, rising with incomes, from the 10% starting rate to the 40% higher rate. **Indirect** taxes are regressive, accounting for 27% of the gross income of the lowest quintile compared with only 11% for the highest quintile.

Chart 4: Direct and indirect taxes as % of gross income: by quintile: 2005/06



There are problems in using this analysis to look at trends as definitions vary from year to year. However, the share of taxes paid by the highest quintile has increased. The top quintile of households contributed 52% of direct taxes in 2005/06, compared with 49% in 1995/96. This reflects both an increased direct tax burden, but also an increase in the relative share of income of this group. There has been little change in the indirect tax burden for this group.

D. Further reading

There are three Library Standard notes on this subject looking in more detail at the UK tax burden, individual tax burdens and international comparisons. These are available on request or on the Library's intranet site on the taxation subject page.

Bryn Morgan
Economic Policy and Statistics Section

IV Household Debt

A. What is the level of outstanding household debt?

Official statistics on borrowing by individuals are only available at a national level and presented under three headings:

- **Secured lending** – where loans are secured against property; more commonly seen as the level of mortgage borrowing;
- **Unsecured lending** – not secured against property, including lending such as that on personal loans, credit cards and store cards. More commonly known as consumer credit; and,
- **Total lending to individuals** – the sum of secured and unsecured lending.

It is worth noting that the level of unsecured borrowing recorded at the end of each month includes all outstanding debt on credit cards. It takes no account of non-interest bearing debt, that is, those people who use their credit cards as a form of easy payment, clearing the balance each month. Therefore, the level of net unsecured lending outstanding overstates the actual level of borrowing.

The table below shows the level of debt outstanding in October of each year since 1997. Total borrowing is now £1,391 billion. 84% of total borrowing outstanding is accounted for by secured lending or mortgages. While consumer credit has grown strongly over the period 1997-2007, it has not grown as strongly as mortgages, which have been driven by rising house prices. Outstanding amounts on credit cards have actually fallen over the last two years.

Total net lending outstanding, 1997-2007

£ billions, monthly data, seasonally adjusted

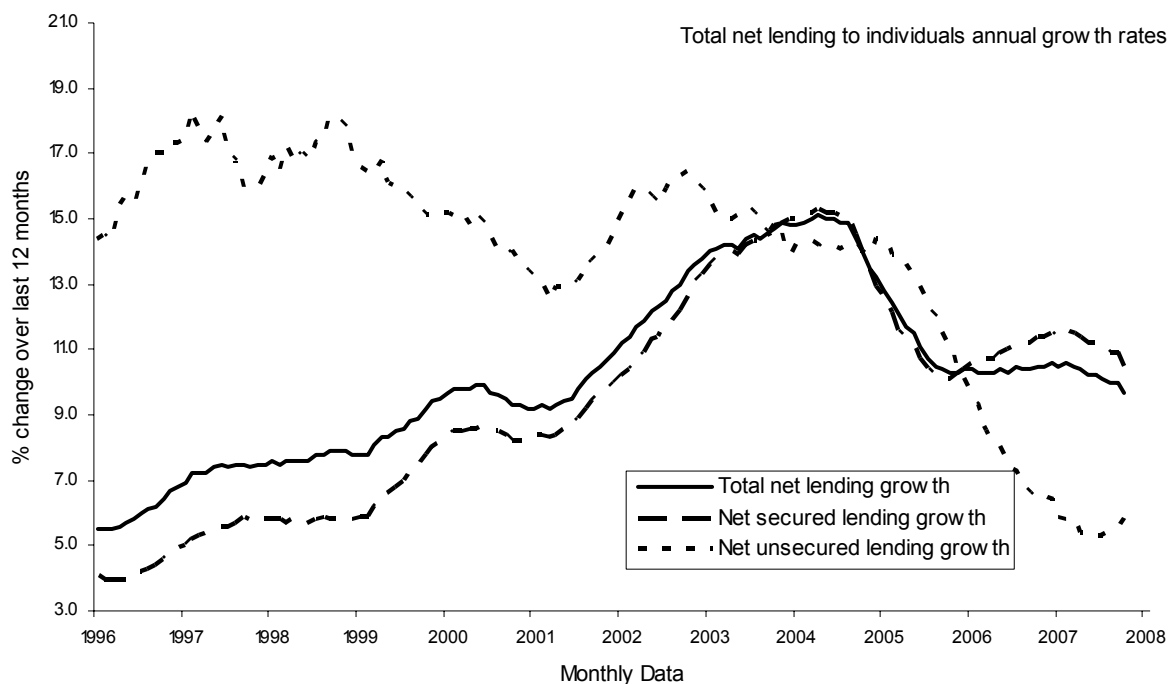
		Secured		Unsecured		Total
		Total	Total	of which: Credit Cards	Other Consumer Credit	
1997	Oct	427.1	88.3	17.7	70.5	515.4
1998	Oct	451.7	103.9	21.8	82.1	555.6
1999	Oct	487.5	118.6	31.0	87.6	606.0
2000	Oct	528.6	132.5	36.8	95.7	661.1
2001	Oct	580.7	146.7	40.4	106.3	727.4
2002	Oct	659.1	165.8	46.2	119.6	824.9
2003	Oct	754.9	179.1	48.0	131.0	933.9
2004	Oct	859.9	195.4	53.7	141.7	1,055.4
2005	Oct	948.0	210.0	57.7	152.3	1,158.0
2006	Oct	1,056.7	212.4	55.4	157.0	1,269.1
2007	Oct	1,169.3	222.1	54.4	167.7	1,391.3
% change since 1997		173.8	151.6	206.5	137.8	170.0
% change since 2002		77.4	33.9	17.8	40.2	68.7
% change since 2006		10.7	4.6	-1.7	6.8	9.6

Note: Series are subject to adjustment following transfers with non-resident companies

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

B. Is the rate of borrowing growth falling?

Net borrowing by individuals is still going up each month, but the rate of growth has slowed in recent years, particularly for unsecured lending. Until the middle of 2003, unsecured lending had been growing at a higher rate than secured lending, as shown in the chart below. The growth rate of secured lending continued to increase until mid-2004, and growth rates of all forms of lending fell during 2005. While the rate of growth in unsecured lending has continued to fall, total net lending growth was relatively stable in 2006 and 2007, but has fallen slightly in recent months.



C. How many mortgages are there, and are people borrowing more?

The total number of mortgages outstanding stood at 11.81 million midway through 2007.⁷

In 2006, the top five mortgage lenders (by gross amounts lent) were (lending and market share in brackets): HBOS (£73.2 billion, 21.2%), Abbey (£32.6 billion, 9.4%), Northern Rock (£29.0 billion, 8.4%), Lloyds TSB (£27.6 billion, 8.0%) and Nationwide (£21.1 billion, 6.1%).⁸ (Footnote: CML statistics, Table MM10, Nationwide figures relates to year ending April 2006)

The *Council of Mortgage Lenders* (CML) publish data on mortgage lending on a quarterly basis. The table below provides an analysis of the affordability of mortgage lending.

⁷ Council of Mortgage Lenders (CML), table AP1, www.cml.org.uk.

⁸ CML, table MM10, www.cml.org.uk. Nationwide figures relate to year ending April 2006

Affordability of mortgage lending, 2001-2007

	Estimated number of loans, '000s	Estimated value of loans, £million	Median advance, £	Average income of borrowers, £	Median percentage advance, %	Median advance: income ratio	Median interest payments as % of advance
2001 (a)	1,314	100,256	62,790	27,190	82	2.42	12.9
2002 (a)	1,397	119,170	70,000	29,236	80	2.57	11.6
2003 (a)	1,252	123,974	82,000	30,700	75	2.74	11.3
2004 (a)	1,245	137,555	93,460	32,913	72	2.88	13.9
2005	1,020	128,625	107,474	36,887	78	2.95	15.3
2006	1,126	158,148	118,529	39,317	80	3.07	15.6
2006 Q1	228	30,166	112,000	37,932	80	3.00	15.0
Q2	292	40,267	116,900	38,978	80	3.04	15.2
Q3	306	44,030	120,549	40,000	79	3.08	15.7
Q4	301	43,685	123,000	40,000	80	3.13	16.3
2007 Q1	238	35,189	123,599	40,000	80	3.13	16.7
Q2	273	41,188	126,180	41,000	80	3.16	17.6
Q3	280	44,205	130,000	42,000	80	3.17	18.3

Notes: (a) Figures prior to 2005 are based on a prior survey and are not strictly comparable to 2005 onwards
Affordability calculations use averages of individual cases
Median used for average calculations
Based on survey data

Source: Council of Mortgage Lenders, Table ML4, downloaded 2 Dec 2007, www.cml.org.uk

The table shows that the average advance has been increasing over the last six years, reflecting the rise in house prices. However, the average percentage advance has been stable over the period, decreasing up to 2004 before increasing in 2005 and 2006. The decrease may perhaps reflect high levels of re-mortgaging alongside decreasing numbers of first time buyers; the average percentage advance for first time buyers has consistently been running between 87% and 90% for the last six years.⁹ However, income multiples have been rising over the period, as have interest payments as a percentage of the advance.

A significant slowdown in mortgage approvals was reported in September and October 2007 compared to the summer months. In October 2007, 92,000 mortgages were approved, compared to 136,000, 126,000 and 115,000 in June, July and August respectively. In October 2006 there were 129,000 mortgage approvals. Whilst approvals by banks, building societies and specialist lenders have all fallen since the summer, the reduction has been greater for Banks and Specialist Lenders.¹⁰

The Bank of England's November 2007 inflation report noted that following the recent problems in credit markets, lending to 'sub-prime' has been reduced or even suspended by some lenders. It estimates that the 'adverse credit'¹¹ market accounts for 5-6% of gross mortgage advances.¹²

D. What has happened to household financial liabilities?

An alternative way of calculating the level of borrowing per household is to use data published in the UK's Economic Accounts¹³ showing borrowing by households and non-profit

⁹ Council of Mortgage Lenders, table ML2, www.cml.org.uk

¹⁰ Bank of England, series VTVR, VTVS, VTVT, VTVU. 'Specialist Lenders' relates to lenders other than Banks or Building Societies.

¹¹ The definition of the 'adverse credit' markets varies from the US 'sub-prime' market.

¹² Bank of England, *Inflation Report*, November 2007, p17

¹³ See:

<http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=1904&Pos=1&ColRank=1&Rank=272>

institutions serving households (NPISHs)¹⁴. This data has been used to answer Parliamentary Questions on household borrowing in the past.¹⁵

These national accounts data also provide data on total financial household assets and liabilities which is shown in the table below. The table includes a column showing unsecured debt per person 16 and over. The data shows that whilst financial liabilities have risen over the last decade, financial assets have risen more. It should be noted that just over half of total financial assets relate to pension and life assurance funds; financial assets do not include housing equity.

Household Financial Assets and Liabilities 1995-2007

£ billion

	Total Unsecured Debt	Total loans secured against dwellings	Total Financial Liabilities	Total Financial Assets	Net financial assets(+) / liabilities (-)	Unsecured debt by person (16 and over) (£)
1995	77.5	389.7	528.9	1,964.7	1,435.7	1,714.4
1996	80.1	408.3	550.1	2,087.9	1,537.8	1,766.2
1997	88.4	429.7	586.7	2,478.8	1,892.1	1,943.2
1998	97.4	455.9	625.1	2,659.9	2,034.7	2,133.2
1999	109.2	492.9	675.6	3,141.7	2,466.1	2,381.2
2000	124.3	535.1	734.8	3,130.0	2,395.2	2,696.4
2001	140.9	590.2	810.7	2,929.4	2,118.7	3,035.6
2002	157.7	669.4	923.1	2,699.0	1,775.8	3,377.7
2003	163.5	772.9	1,046.9	2,939.9	1,892.9	3,479.4
2004	183.4	875.9	1,172.0	3,152.1	1,980.1	3,874.5
2005	194.1	938.3	1,249.4	3,563.0	2,313.6	4,065.5
2006	205.0	1,046.4	1,370.2	3,801.8	2,431.6	4,257.6
2007 Q1	207.9	1,068.0	1,397.5	3,894.0	2,496.5	4,289.2
2007 Q2	209.8	1,096.4	1,427.5	3,938.7	2,511.1	4,319.7

Notes: Figures are in nominal terms, population used is for the UK aged 16 and over
This table shows the financial account of households only

Source: National Statistics, *United Kingdom Economic Accounts*, Table A64

E. Is insolvency increasing?

Bankruptcy statistics are published on a quarterly basis by the Insolvency Service. The next set of data is due to be published on 1 February 2008.¹⁶ The release contains data covering company liquidations as well as individual insolvencies. Data is published for all parts of the UK but presented separately for Scotland and Northern Ireland (one table covers England and Wales).

Insolvency in England and Wales covers bankruptcy orders, which are made when the Court is satisfied there is no prospect of the debt being paid, and Individual Voluntary Arrangements (IVAs) and deeds of arrangement which enable debtors to come to an

¹⁴ NPISHs are legal entities which are principally engaged in the production of non-market services for households and whose main resources are voluntary contributions by householders. For example: charities, relief and aid organisations, educational establishments, trade unions, professional associations, political parties and religious organisations and sports clubs and associations.

¹⁵ For example see HC Deb 8 Nov 2006 c1542-3W

¹⁶ See <http://www.insolvency.gov.uk/otherinformation/statistics/insolv.htm>

agreement with their creditors. In Scotland the measures are termed as sequestration (bankruptcy) and protected trust deeds. Protected trust deeds have a similar role as IVAs, but there are differences in their administration.

Individual Insolvencies, 1998-2007

Not seasonally adjusted

		England and Wales			Scotland		
		Total	Bankruptcy Orders	IVAs	Total	Sequestrations	Protected Trust
1998		24,549	19,647	4,902	4,465	3,016	1,449
1999		28,806	21,611	7,195	5,339	3,195	2,144
2000		29,528	21,550	7,978	5,766	2,965	2,801
2001		29,775	23,477	6,298	6,827	3,048	3,779
2002		30,587	24,292	6,295	8,389	3,215	5,174
2003		35,604	28,021	7,583	8,780	3,328	5,452
2004		46,650	35,898	10,752	9,321	3,297	6,024
2005		67,584	47,291	20,293	11,846	4,965	6,881
2006		107,288	62,956	44,332	13,638	5,430	8,208
2006	Q1	23,939	16,283	7,656	3,111	1,241	1,870
	Q2	26,722	15,489	11,233	3,544	1,305	2,239
	Q3	28,083	15,418	12,665	3,601	1,528	2,073
	Q4	28,544	15,766	12,778	3,382	1,356	2,026
2007	Q1	29,236	17,937	11,299	3,471	1,505	1,966
	Q2	27,327	16,489	10,838	3,498	1,606	1,892
	Q3 p	26,252	15,600	10,652	3,527	1,545	1,982
Annual % change 2006		58.7	33.1	118.5	15.1	9.4	19.3
Annual % change Q3 2007		-6.5	1.2	-15.9	-2.1	1.1	-4.4

Notes: p - provisional
IVAs include deeds of arrangement

Source: Insolvency Service, Q3 Insolvencies 2007:
<http://www.insolvency.gov.uk/otherinformation/statistics/200711/index.htm>

The table shows that while insolvency proceedings increased significantly in 2006 compared to 2005, the levels of insolvency have fallen in the last two quarters in England and Wales, while all parts of Great Britain have shown a small reduction in action in Q3 2007 compared to the same quarter a year previously.

F. How is rising debt affecting the economy?

Household borrowing has risen in the last decade, along with house prices. While rising house prices has been driving the growth in mortgage lending, other consumer borrowing has also been rising. Home-owning households have benefited generally from rising net wealth at the same time as incurring higher levels of mortgages.

Indicators suggest that current levels of financial distress by households are limited. For example, the most recent Bank of England Inflation Report contains details of their annual survey on household finances (carried out in September) and they note that:

"[...] Overall, there has been a rise in the proportion of households with high debts since the beginning of this decade. But so far, relatively few households report difficulties servicing

those debts. Some households may nevertheless be particularly sensitive to future changes in income or the value of their houses."¹⁷

As noted in section E above, while there has been a rise in insolvency proceedings in the last three years, the level of insolvencies appears to be relatively stable, but at a higher level. However, PWC recently noted that the recent fall in IVAs may be at least partly down to a hold-up between banks and insolvency providers regarding fees.¹⁸

With the economy appearing to slow, and the current problems in the credit markets, household borrowing appears to be slowing. Along with a recent monthly fall in the level of house prices, mortgage approvals have been falling, while the growth in consumer credit has been slowing for some time.

The *Inflation Report* notes that, a tightening of lending by financial institutions may have a downward impact on consumer spending, while some households may react to increased uncertainty in financial markets by increasing saving. However, it notes that there are also indications that households remain confident of their own personal position and that households with significant housing equity may continue to use this as collateral for additional borrowing. However, certain groups of households are more vulnerable to tighter credit conditions.¹⁹

Recent press coverage of debt in the UK has included noting: a fall in the number of successful credit card applications;²⁰ increasing mortgage rates and fees; a fall in the savings ratio;²¹ and higher mortgage costs once fixed term deals come to an end.²²

G. Further Information

- Bank of England: *Inflation Report*, November 2007:
<http://www.bankofengland.co.uk/publications/inflationreport/ir07nov.pdf>
- Bank of England: Lending to Individuals:
<http://www.bankofengland.co.uk/statistics/li/2007.htm>
- CML Statistics: <http://www.cml.org.uk/cml/statistics>
- BERR, Overindebtedness pages:
<http://www.dti.gov.uk/consumers/consumer-finance/over-indebtedness/index.html>
- Department for Communities and Local Government, Housing Statistics:
<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/>
- Consumer Credit Counselling Service (CCCS) Statistical Yearbook:
<http://www.cccs.co.uk/research/2007/Stats%20Yearbook%202006.pdf>
- PWC Report, *Precious Plastic 2008*:
<http://www.ukmediacentre.pwc.com/Content/Detail.asp?ReleaseID=2532&NewsAreaID=2>

Edward Potton
Economic Policy and Statistics Section

¹⁷ Bank of England, *Inflation Report*, November 2007, p21

¹⁸ PriceWaterhouseCoopers (PWC), *Precious Plastic 2008*

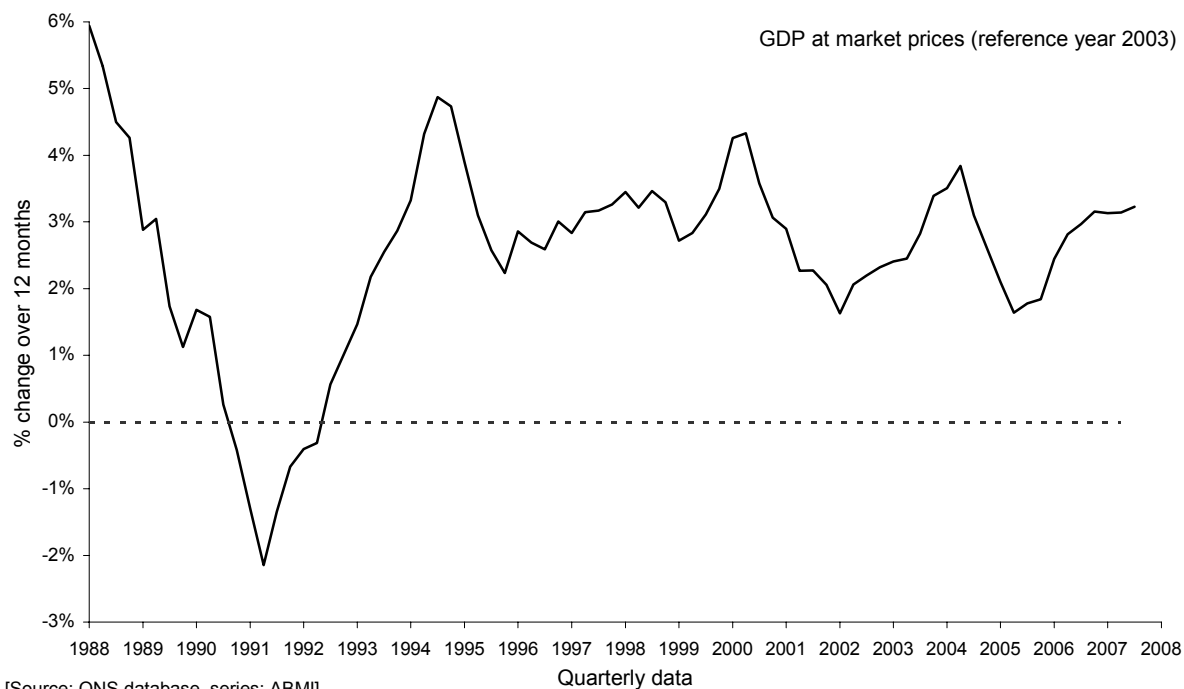
¹⁹ Ibid., p19-20

²⁰ "Credit card users hurt by squeeze", *The Times*, 6 November 2007

²¹ "Britons' savings rate drops to lowest level since 1960", *The Times*, 30 June 2007

²² "Mortgage rises put strain on indebted consumers", *Financial Times*, 26 November 2007

A1: Gross Domestic Product



Gross Domestic Product at market prices

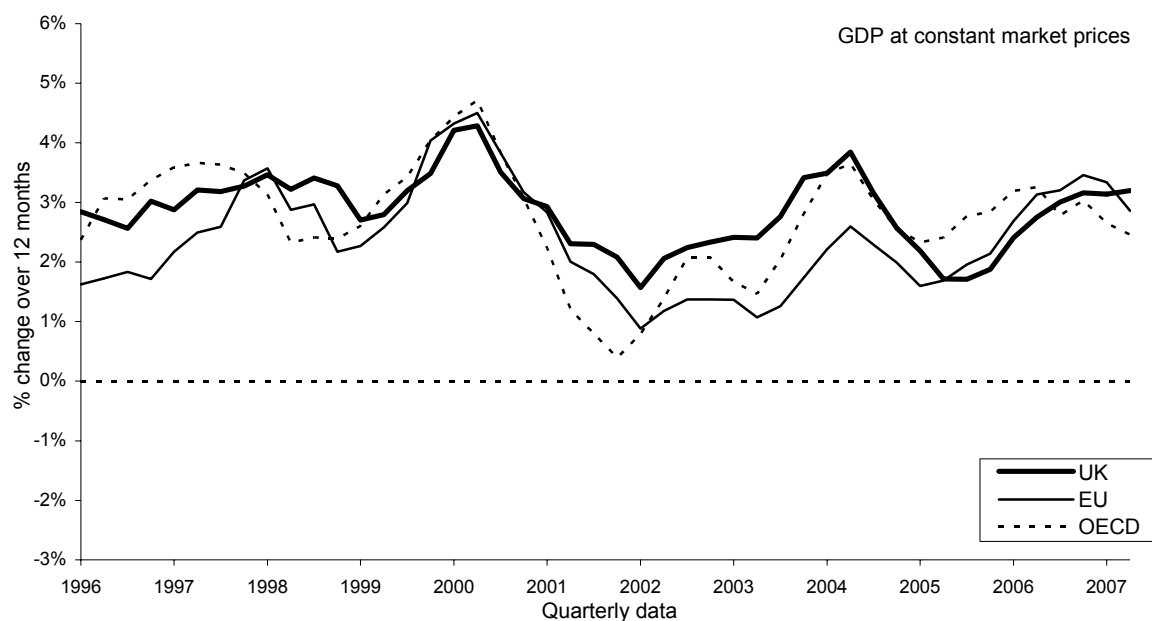
£ billion & %; seasonally adjusted

	Current prices		Chained volume (reference year 2003)
	£ billion	% change on year	% change on year
2003	1,118.2	5.9	2.8
2004	1,184.3	5.9	3.3
2005	1,234.0	4.2	1.8
2006	1,301.9	5.5	2.8
2006 Q3	329.0	6.6	3.0
Q4	332.9	6.0	3.2
2007 Q1	337.9	6.2	3.1
Q2	344.3	7.0	3.1
Q3	348.5	5.9	3.2

- The UK economy is estimated to have grown by 2.8% in 2006, compared with 1.8% in 2005.
- The chained volume measure of gross domestic product (GDP) at market prices was 0.7% higher in Q3 2007 than in the previous quarter (Q2 2007). Compared with the same quarter in the previous year (Q3 2007 on Q3 2006) this measure of GDP was 3.2% higher.
- In November 2007, HM Treasury's average of independent economic forecasts of GDP growth in 2007 was 3.0% up from the October forecast of 2.9%. The average growth forecast for 2008 was 2.0% in November, the same as in October.

Contact: Grahame Allen, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 19 Dec; ONS, *UK output, income & expenditure*, 20 Dec

A2: GDP: International Comparisons

[Source: OECD, *Main Economic Indicators*, Nov 2007]

GDP at constant market prices

% changes

	% change on year				% change quarter on quarter				
					2006			2007	
	2003	2004	2005	2006	Q2	Q3	Q4	Q1	Q2
USA	2.4	3.6	3.1	2.9	0.6	0.3	0.5	0.2	0.9
Japan	1.5	2.7	1.8	2.3	0.6	-0.2	1.4	0.7	-0.3
Canada	1.8	3.1	3.1	2.7	0.3	0.3	0.3	0.9	0.8
United Kingdom	2.8	3.3	1.8	2.8	0.8	0.7	0.9	0.8	0.8
Germany	-0.2	1.1	0.8	2.8	1.3	0.8	0.9	0.6	0.3
France	1.1	2.5	1.7	1.9	0.9	0.1	0.4	0.6	0.3
Italy	0.1	1.2	0.1	1.8	0.6	0.3	1.1	0.3	0.2
Eurozone	0.8	1.8	1.5	2.9	1.0	0.5	0.8	0.8	0.3
G7	1.8	3.0	2.2	2.6	0.7	0.3	0.7	0.4	0.5
OECD	1.9	3.2	2.5	3.1	0.8	0.4	0.8	0.6	0.6

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

- Of the OECD countries displayed in the table above, Japan was the only country to record negative growth in Q2 2007. Annual UK GDP growth was 2.8% in 2006 compared with overall OECD growth of 3.1%.
- Historic annual growth in the eurozone has been weaker than growth in all OECD countries and the G7. However, in 2006 eurozone growth was 2.9%, higher than G7 growth of 2.6%.
- UK growth is forecast to be 2.7% in 2007 compared with 2.1% in the US and 2.4% in Japan. Overall OECD growth is forecast to be 2.7% in 2007.

OECD growth forecasts

	% change on year		
	2006	2007	2008
USA	3.3	2.1	2.5
Japan	2.2	2.4	2.1
United Kingdom	2.8	2.7	2.5
Eurozone	2.8	2.7	2.3
OECD	3.2	2.7	2.7

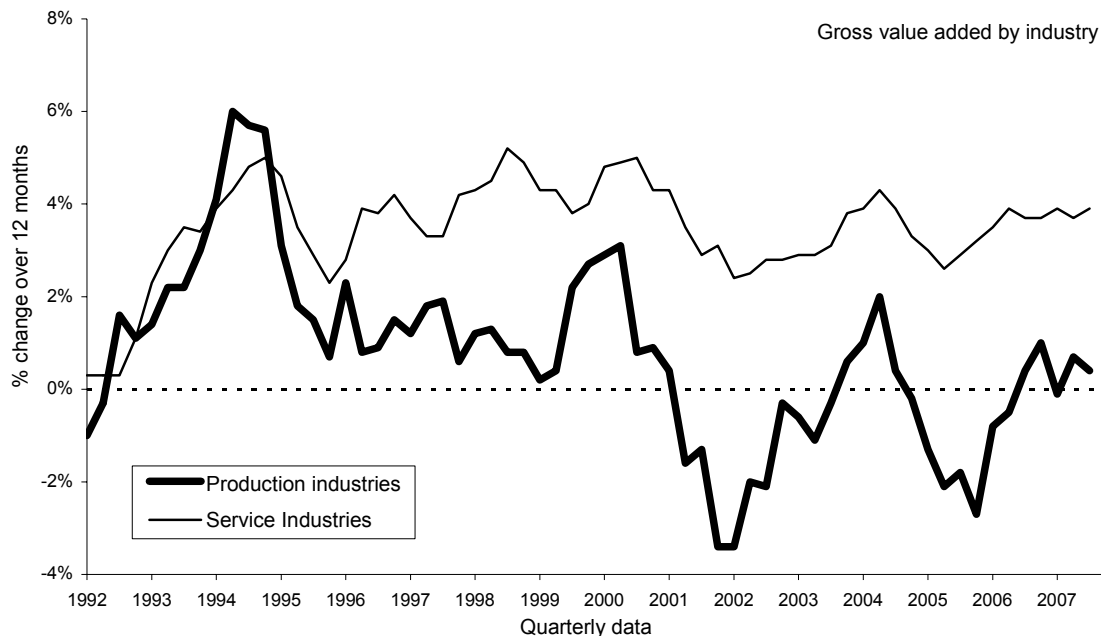
Source: OECD, *Economic Outlook*, May 2007

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 3.9%. Between the second quarter of 2007 and the third quarter of 2007 annual output growth in the service sector increased by 0.2%.

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	-2.0	-1.2	2.9	4.4	1.5
2006	0.0	1.3	3.7	2.8	1.1
2006 Q3	0.4	1.8	3.7	2.7	1.9
Q4	1.0	2.7	3.7	1.3	3.1
2007 Q1	-0.1	1.0	3.9	2.1	2.7
Q2	0.7	1.1	3.7	1.8	3.5
Q3	0.4	0.4	3.9	0.8	3.4

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

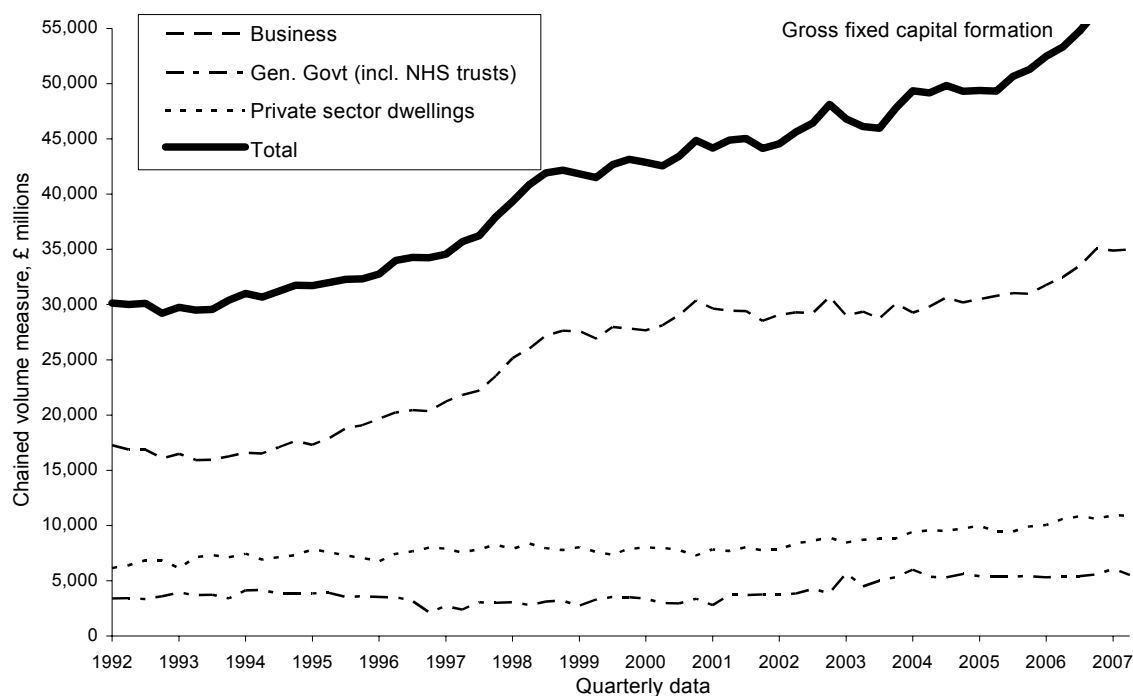
- Manufacturing output increased by 0.4% in the third quarter of 2007 compared with the same quarter in 2006, and manufacturing output increased by 1.3% overall in 2006.
- In 2005, services accounted for 75% of gross value added, manufacturing for 14%, other production industries (mining & quarrying, and electricity, gas & water supply) for 5%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883

Update: ONS, *Quarterly National Accounts*—Q3, 20 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 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
2003	15,592	54,441	64,355	38,462	13,850	186,700
2004	14,706	58,817	68,135	41,541	14,457	197,655
2005	14,908	58,839	70,493	42,337	14,077	200,654
2006	15,368	63,810	77,016	45,932	14,960	217,085
2006 Q2	3,917	15,433	18,849	11,455	3,651	53,305
Q3	3,798	16,185	19,183	11,836	3,764	54,766
Q4	4,183	16,760	20,255	11,539	3,818	56,553
2007 Q1	4,000	17,478	19,977	11,830	3,885	57,170
Q2	3,919	16,926	20,042	11,880	3,868	56,635

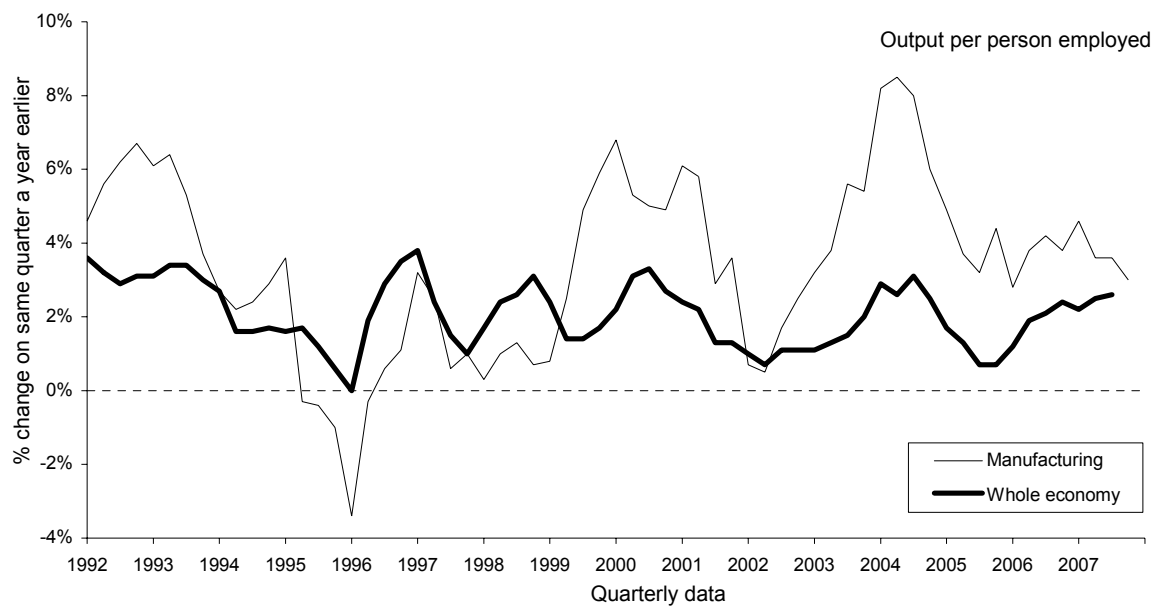
Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment was unchanged in Q3 2007 compared with the previous quarter, and increased by 4.6% compared with Q3 2006 on a seasonally adjusted basis.
- Total manufacturing investment increased by 0.1% in Q3 2007 compared with the previous quarter while investment in private sector services decreased by 0.7% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324

Update: ONS, *Business Investment*, 19 Dec

A5: Productivity



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

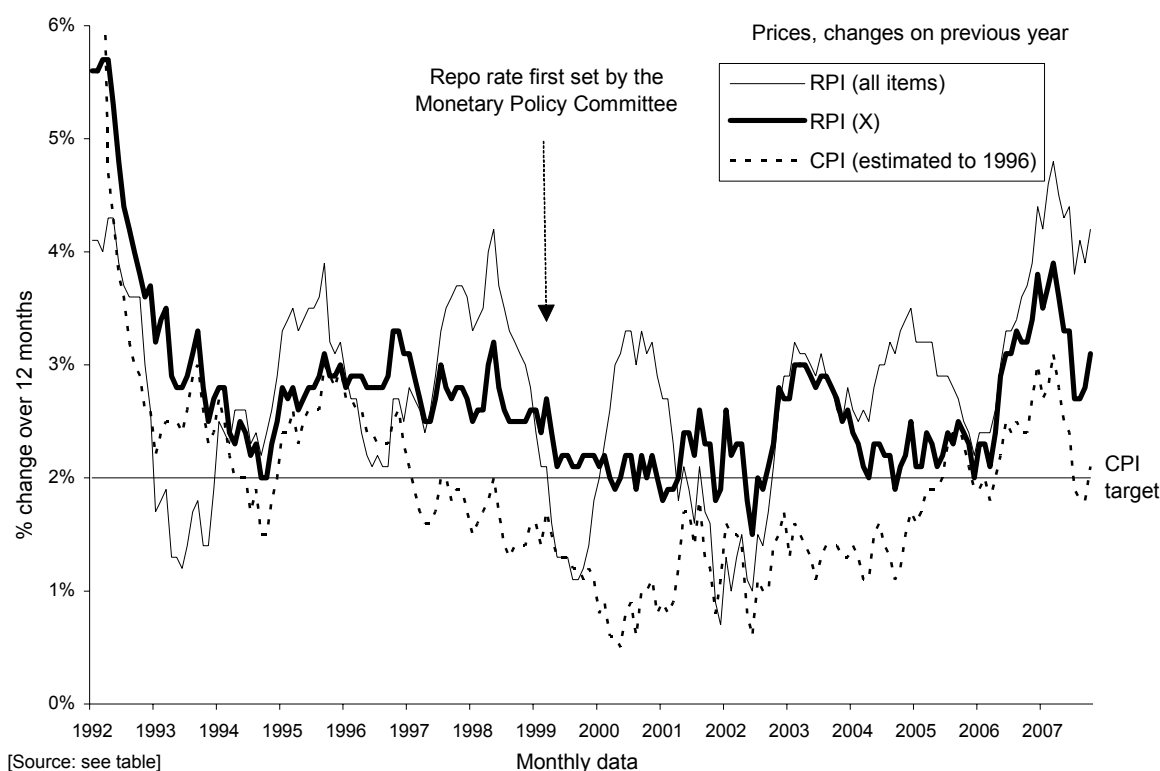
Productivity

% changes on year; seasonally adjusted

	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2004	2.0	-4.5	6.8	3.3	0.8	2.5
2005	-1.2	-4.5	3.5	1.9	0.9	1.0
2006	1.3	-2.6	4.2	2.8	0.7	2.1
2006 Q2	1.2	-2.9	4.2	2.8	0.7	2.1
Q3	1.8	-1.9	3.8	3.0	0.6	2.4
Q4	2.7	-1.9	4.6	3.2	0.9	2.2
2007 Q1	1.0	-2.5	3.6	3.1	0.7	2.5
Q2	1.1	-2.4	3.6	3.2	0.6	2.6
Q3	0.4	-2.5	3.0	3.2

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

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 2.1% in 2006 compared with 1.0% in 2005 and 2.5% in 2004.
- In 2006, manufacturing output increased by 1.3% and employment in manufacturing fell by 2.6%, while manufacturing output per head rose by 4.2%.
- Productivity growth in manufacturing remained at 3.6% per annum in Q2 2007 compared with the previous quarter, while whole economy productivity growth increased from 2.5% per annum in Q1 2007 to 2.6% per annum in Q2 2007.
- For the economy as a whole, productivity growth has averaged 2.0% per annum over the last eight quarters.

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 2.1%, up from 1.8% in September.
- The largest upward effect on the CPI came from transport costs, mainly due to increase in the cost of fuels and lubricants. Another large upward effect came from food and non-alcoholic beverages.
 The largest downward contribution on the CPI annual rate came from housing and household services, mainly due to falls in the cost of gas and electricity bills.
- The former headline (all items RPI) rate of inflation was 4.2% in October, up from 3.9% in September. The underlying RPI(X) rose to 3.1% in October from 2.8% in September.
- The largest upward effect on the RPI came from motoring expenditure, again due to the cost of petrol. The largest downward effect came from the cost of fuel and light.

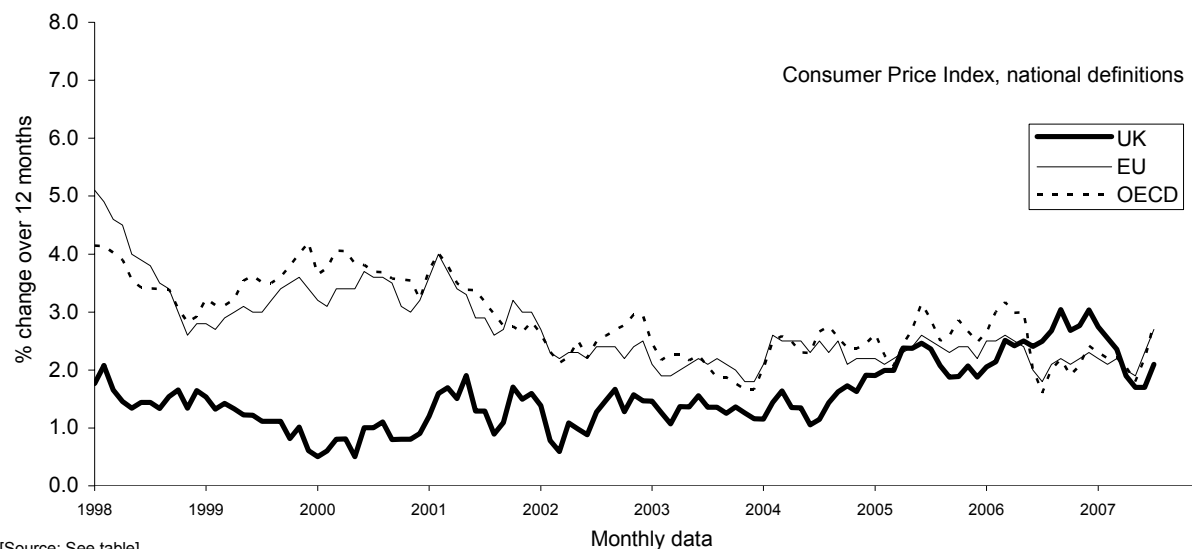
Price Indices

% 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 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
Feb	2.8	4.6	3.7
Mar	3.1	4.8	3.9
Apr	2.8	4.5	3.6
May	2.5	4.3	3.3
Jun	2.4	4.4	3.3
Jul	1.9	3.8	2.7
Aug	1.8	4.1	2.7
Sep	1.8	3.9	2.8
Oct	2.1	4.2	3.1

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

B2: Prices: International Comparisons



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

- Inflation in the United States was 3.5% in October, an increase of 0.7 percentage points over September.
- The average for all OECD countries the average inflation rate increased to 2.8%.
- By this measure, the EU average inflation rate (not shown in the table, but in the chart above), also increased, to 2.7%.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
2003	2.2	-0.3	2.8	1.4	2.4
2004	2.7	0.0	1.9	1.3	2.2
2005	3.4	-0.3	2.3	2.1	2.6
2006	3.3	0.3	2.0	2.3	2.5
2007 May	2.7	0.0	2.2	2.6	2.2
Jun	2.7	-0.2	2.2	2.4	2.2
Jul	2.4	0.0	2.2	1.9	2.0
Aug	2.0	-0.2	1.7	1.7	1.8
Sep	2.8	-0.2	2.5	1.7	2.2
Oct	3.5	0.3	2.4	2.1	2.8

Source: OECD, Consumer Prices Release

Eurozone inflation

harmonised indices (HICPs); % change over 12 months

	France	Germany	Italy	UK	Eurozone
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	1.9	1.8	2.2	2.3	2.2
2007 May	1.2	2.0	1.9	2.5	1.9
Jun	1.3	2.0	1.9	2.4	1.9
Jul	1.2	2.0	1.7	1.9	1.8
Aug	1.3	2.0	1.7	1.8	1.7
Sep	1.6	2.7	1.7	1.8	2.1
Oct	2.1	2.7	2.3	2.1	2.6

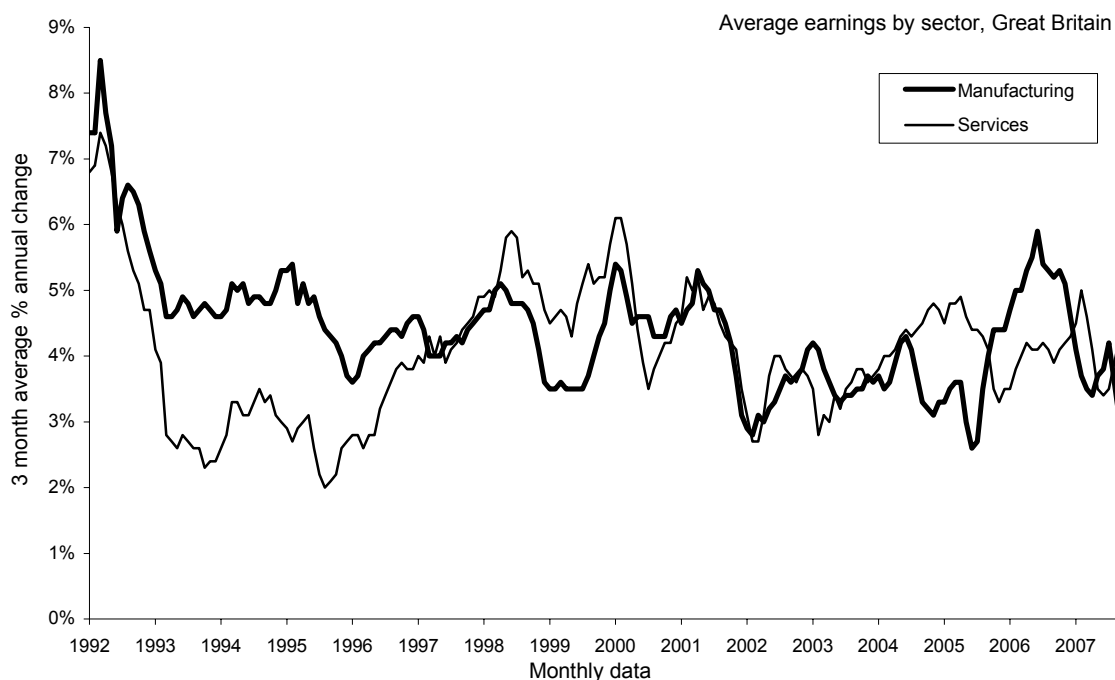
Source: Eurostat, Euro-Indicators news release, Nov 2007

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

- In October 2007, Eurozone annual inflation increased to 2.6%. The "flash" estimate for November is 3.0%.
- The HICP inflation rates for the EU15 Member States not in the eurozone were 1.8% in Denmark, 1.9% in Sweden and 2.1% in the UK.
- The eurozone countries with the highest HICP annual inflation rates were Slovenia (5.1%), Luxembourg and Spain (3.6%). The lowest rates were in the Netherlands (1.6%) and Finland (1.8%).

Contact: Bryn Morgan, x4904

Updates: OECD, consumer prices release, 8 Jan 2008
Eurostat, *Euro-indicators news release*, 14 Dec

B3: Average Earnings Index

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

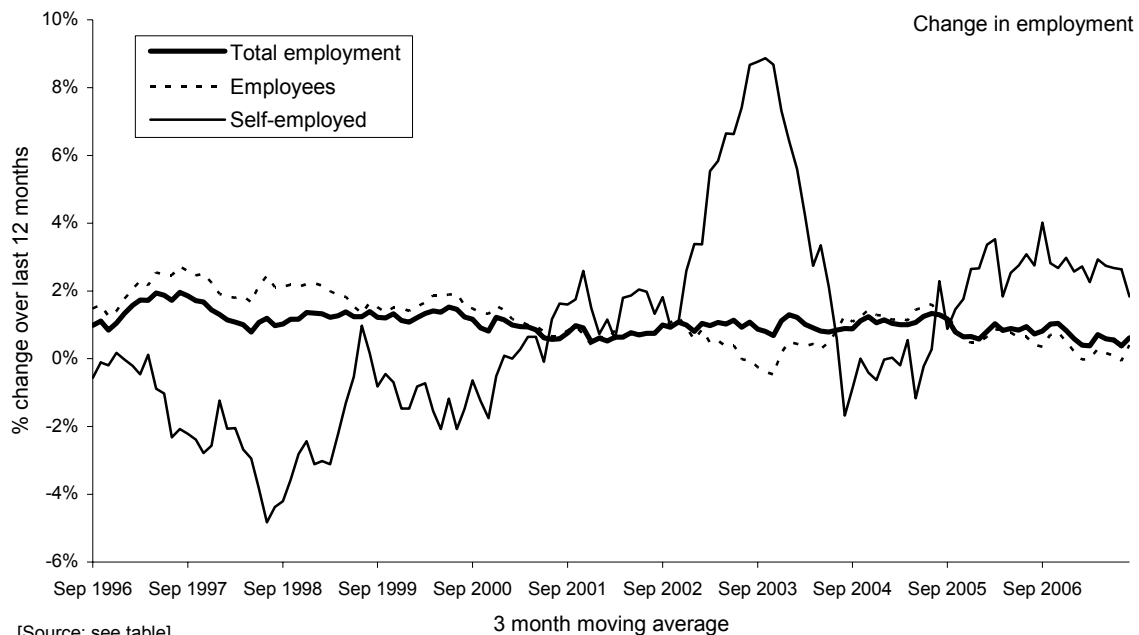
- The headline rate of growth in average earnings for the whole economy in September was 4.1%, up from 3.7% in August.
- Headline average earnings growth in manufacturing was 3.0% in September, down from 3.6% in August. Earnings growth in the service sector was 4.3% in September, up from 3.9% in the previous month.
- Headline earnings growth in the private sector was 4.3% in September, compared with 3.0% in the public sector. Earnings growth in both the private and public sectors was up compared with August from 4.0% and 2.9% respectively.
- Earnings are currently growing at a faster rate than they were a year ago (the headline rate in September 2006 was 3.9%).
- In the year to September, the consumer price index showed inflation below the rate of earnings growth at 1.8%. 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
2003 Sep	3.6	3.1	5.6
2004 Sep	4.5	4.5	4.2
2005 Sep	4.1	4.0	4.6
2006 Sep	3.9	4.0	3.5
Oct	4.0	4.2	3.2
Nov	4.1	4.3	3.2
Dec	4.1	4.3	3.2
2007 Jan	4.3	4.5	3.2
Feb	4.6	4.9	3.2
Mar	4.4	4.8	3.1
Apr	4.0	4.1	3.0
May	3.5	3.6	3.1
Jun	3.4	3.4	3.1
Jul	3.5	3.7	2.8
Aug	3.7	4.0	2.9
Sep	4.1	4.3	3.0

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
2003 Aug	28,214	24,353	3,646	108	107
2004 Aug	28,466	24,662	3,585	89	129
2005 Aug	28,834	24,970	3,667	90	107
2006 Aug	29,044	25,075	3,768	104	98
2006 Nov	29,102	25,095	3,804	101	102
2007 Feb	29,053	25,001	3,850	104	99
2007 May	29,154	25,108	3,829	103	114
2007 Aug	29,223	25,175	3,837	100	111

Changes (%):

on last 3 months	0.2	0.3	0.2	-3.0	-2.2
on last year	0.6	0.4	1.8	-4.0	14.0

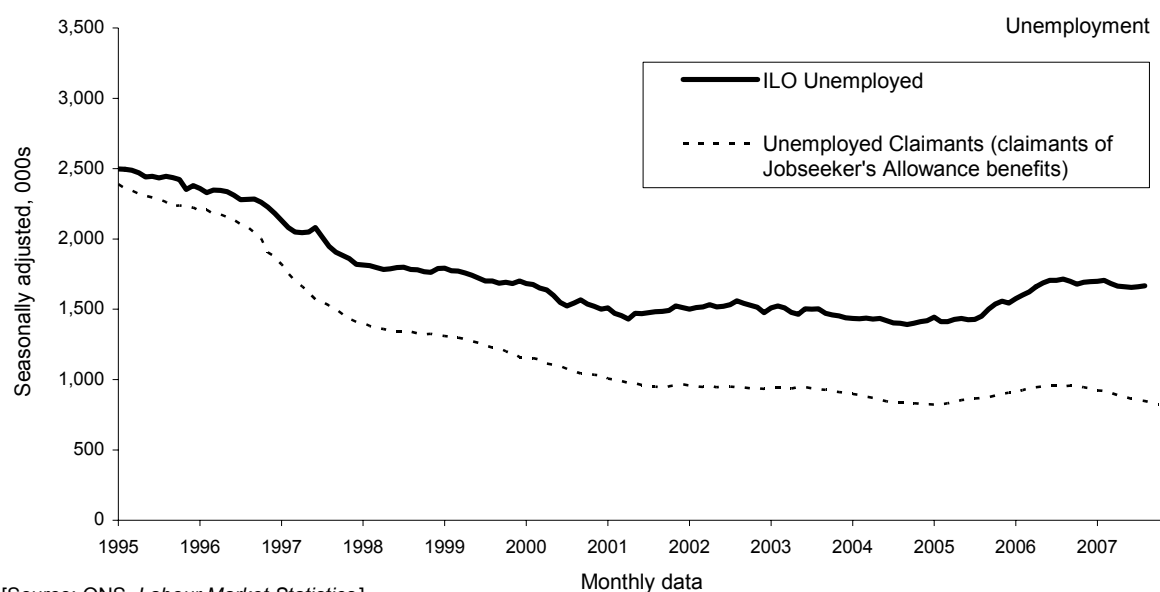
Source: ONS, *Labour Market Statistics*, 14 Nov 2007

- Total employment was 29.2 million in the period July to September 2007, 0.6% higher than a year earlier. The working age employment rate of 74.4% was unchanged from the previous quarter and 0.1 percentage points lower than a year earlier.
- The number of workforce jobs increased by 87,000 between March and June 2007 and was 280,000 higher than a year earlier. Over the year to June, the number of production industry workforce jobs fell by 39,000. The number of service sector jobs rose by 241,000 over the year.
- 7.4 million people were in part-time employment in the period July to September 2007, of whom 5.7 million were women. 3.8 million people were self-employed.

Contact: Dominic Webb, x4324

Update: ONS, *Labour Market Statistics*, 12 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 2007, the level of ILO unemployment in the UK was 1,677,000 (seasonally adjusted). This was a decrease of 47,000 from the period July to September 2006.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, fell by 9,900 between September and October 2007 to 824,800.

The New Deal for Young People started in January 1998.

- By August 2007, there had been 1,725,000 starts under the scheme. By May 2007, 1,587,000 spells had been completed, 633,000 (40%) of which resulted in sustained employment i.e. where the individual 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.

- By August 2007, there had been 1,034,000 starts under the scheme. By May 2007, 577,000 spells had been completed of which 159,000 (28%) resulted in sustained employment.

ILO Unemployment in the UK seasonally adjusted

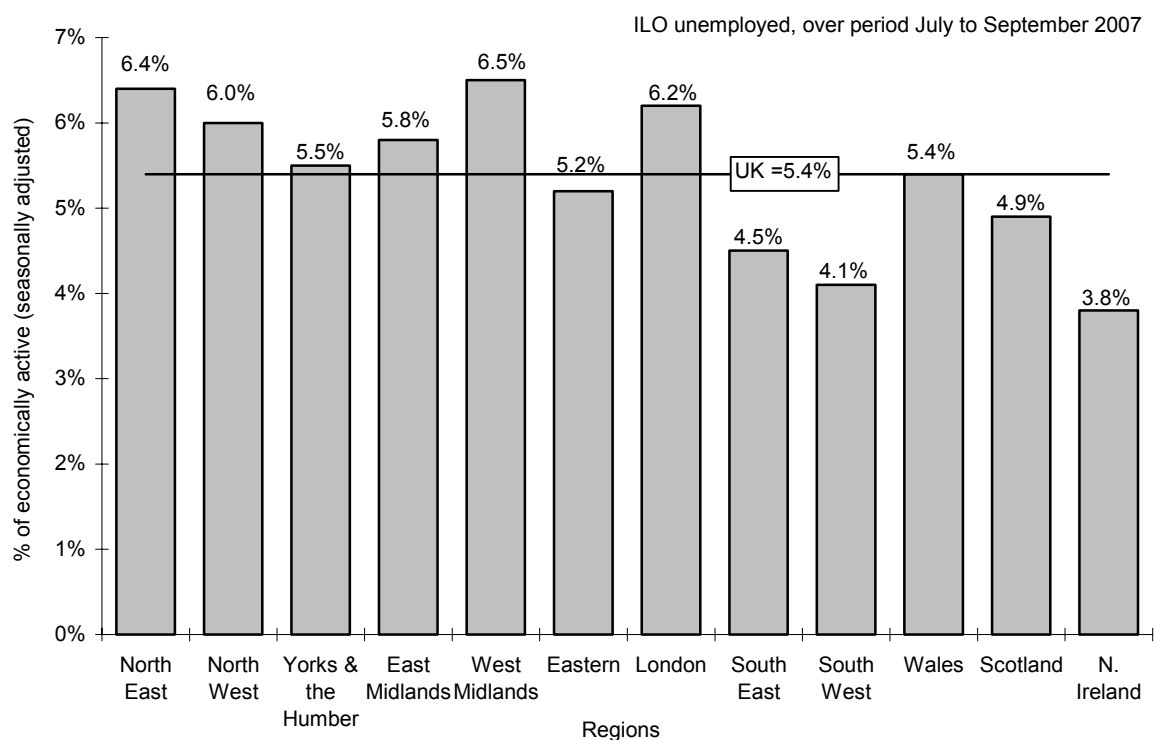
		'000s	rate (%)
2001	Jul - Sep	1,483	5.1
	Oct - Dec	1,523	5.2
2002	Jan - Mar	1,512	5.2
	Apr - Jun	1,516	5.2
	Jul - Sep	1,561	5.3
2003	Oct - Dec	1,514	5.1
	Jan - Mar	1,523	5.1
	Apr - Jun	1,464	4.9
2004	Jul - Sep	1,504	5.1
	Oct - Dec	1,453	4.9
	Jan - Mar	1,433	4.8
2005	Apr - Jun	1,434	4.8
	Jul - Sep	1,402	4.7
	Oct - Dec	1,413	4.7
2006	Jan - Mar	1,413	4.7
	Apr - Jun	1,435	4.8
	Jul - Sep	1,450	4.8
2007	Oct - Dec	1,557	5.1
	Jan - Mar	1,602	5.2
	Apr - Jun	1,687	5.5
2007	Jul - Sep	1,714	5.6
	Oct - Dec	1,691	5.5
	Jan - Mar	1,705	5.5
2007	Apr - June	1,660	5.4
	Jul - Sep	1,667	5.4

Source: ONS, *Labour Market Statistics*

Contact: Alex Adcock, x3793

Updates: ONS, *Labour Market Statistics*, 12 Dec
New Deal, 13 Feb 2008

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 2007 the West Midlands region had the highest unemployment rate, 6.5% of the economically active population. The lowest rate over the same period was 3.8%, in Northern Ireland.
- A comparison of July to September 2007 with the same period a year earlier shows that the highest fall (22%) in unemployment occurred in London. The East Midlands region showed the largest increase (8%) over the period.

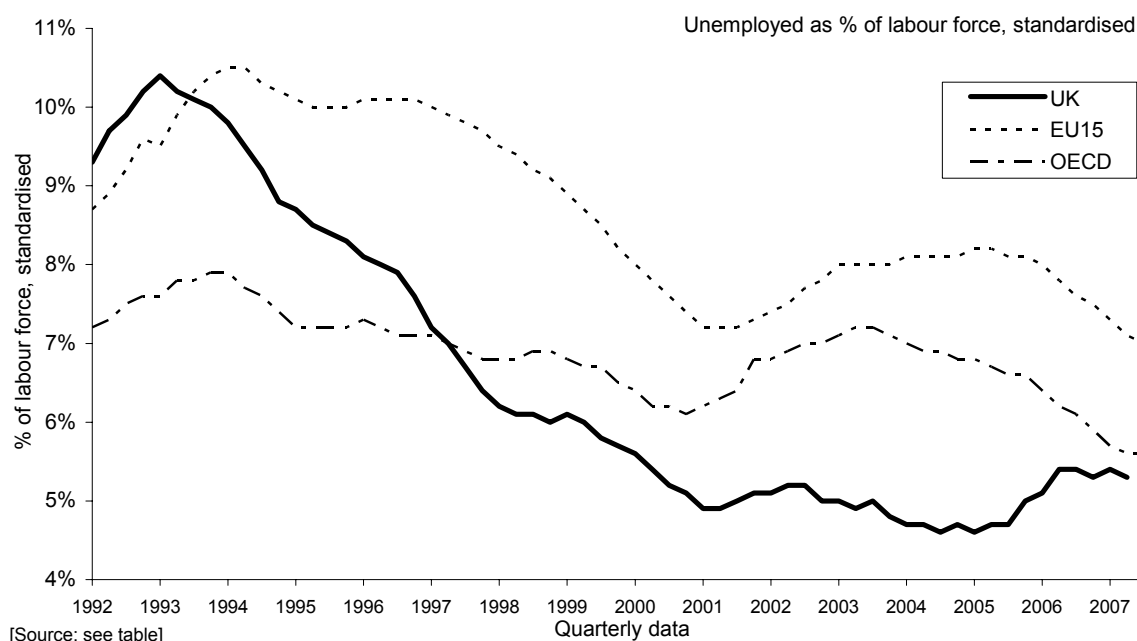
ILO Unemployment, July to September 2007

change on same period in previous year;
seasonally adjusted

	Number (rounded)	%
North East	-5,000	-6
North West & Merseyside	13,000	7
Yorkshire & the Humber	-14,000	-9
East Midlands	10,000	8
West Midlands	10,000	6
Eastern	7,000	5
London	-68,000	-22
South East	2,000	1
South West	6,000	6
Wales	-1,000	-1
Scotland	-2,000	-2
Northern Ireland	-7,000	-19

Source: ONS, *Labour Market Statistics*

C4: Unemployment: International Comparisons



Unemployment

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

	2005	2006	2006				2007		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3
USA	5.1	4.6	4.7	4.7	4.7	4.5	4.5	4.5	4.7
Japan	4.4	4.1	4.2	4.1	4.1	4.1	4.0	3.8	3.8
Canada	6.8	6.3	6.4	6.2	6.4	6.2	6.1	6.1	6.0
UK	4.8	5.3	5.1	5.4	5.4	5.3	5.4	5.3	..
Germany	10.6	9.8	10.4	10.0	9.6	9.2	8.7	8.5	8.2
France	9.7	9.5	9.7	9.6	9.4	9.3	9.0	8.8	8.6
Italy	7.7	6.8	7.3	6.8	6.6	6.5	6.2	5.9	..
Eurozone	8.9	8.3	8.7	8.4	8.1	8.0	7.7	7.5	7.4
G7	6.2	5.8	6.0	5.9	5.8	5.6	5.5	5.2	5.4
OECD	6.7	6.1	6.4	6.2	6.1	5.9	5.7	5.6	5.6

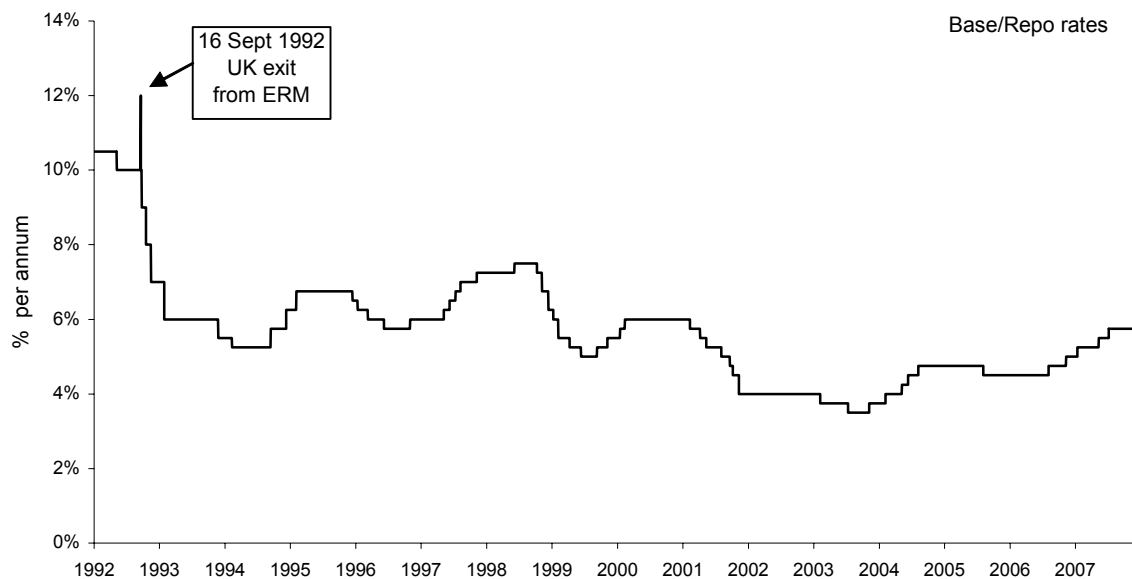
Source: OECD, *Main Economic Indicators*, November 2007

- Using standardised definitions, the UK unemployment rate for 2006 was 5.3%, significantly below the eurozone average (8.3%) and below the G7 and OECD rates (5.8% and 6.1% respectively).
- Between Q2 2006 and Q2 2007 (the latest quarter for which all data are available) the largest fall in unemployment among G7 countries was in Germany where it fell by 1.5 percentage points. The smallest falls in unemployment were in Canada and the UK.
- The most recent forecasts published by the OECD (*Economic Outlook*, Preliminary Edition May 2007) suggest the UK unemployment rate will be 5.5% in 2007 and 5.5% in 2008. The respective forecasts for the eurozone are 7.1% and 6.7% and for the OECD as a whole 5.6% and 5.5%.

Contact: Alex Adcock, x3973

Updates: OECD, *Main Economic Indicators*, 7 Dec
OECD, *Economic Outlook*, Dec

D1: Interest Rates



[Source: Bank of England]

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

- **The MPC voted to keep the interest rate at 5.75% at its November meeting.**

The minutes of the October meeting note that:

- The Committee voted 7-2 in favour of no change in the interest rate. Two members voted for a 25 basis point cut.
- Members generally agreed that there had been some slowing in UK activity, although this was not yet shown in official output data.
- There were some risks to inflation arising from rises in food, energy and commodity prices.
- Few market participants expected an immediate cut in interest rates, although the market has priced in a 25 basis point cut by February and another later in 2008.
- An immediate cut had risks attached if the slowdown in activity was muted and if it was misinterpreted by markets.

UK Base/Repo rate changes

% per annum

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

The central projection from the latest Bank *Quarterly Inflation Report* (November 2007) is for inflation to rise above the 2% target next year, assuming the Bank Rate is reduced in line with market yields. This reflects rising energy costs and a depreciation of sterling. It then eases back, settling at the target. This inflation path forecast is higher for 2008 than predicted in the August Report.

The Bank expects GDP to slow to below its long-term average as consumer spending and business investment decelerate. Growth then recovers because of lower interest rates and a depreciation of sterling. Compared with the August forecast, the slowdown in the first year is sharper.

Contact: Bryn Morgan, x4904

Updates: *Next Decision*, 6 Dec; *Minutes*, 19 Dec
Quarterly Inflation Report, Feb 2008

D2: Interest Rates: International Comparisons

- The US Federal Reserve cut the funds rate by 25 basis points on 18 September to 4.50%. This followed at 50 basis point cut in September.
- At its latest meeting on 8 November, the Bank of England's Monetary Policy Committee maintained the UK repo rate at 5.75%. (see Indicator D1)
- The Governing Council kept the European Central Bank (ECB) interest rate for main refinancing operations at 4.00% at its meeting on 8 November.

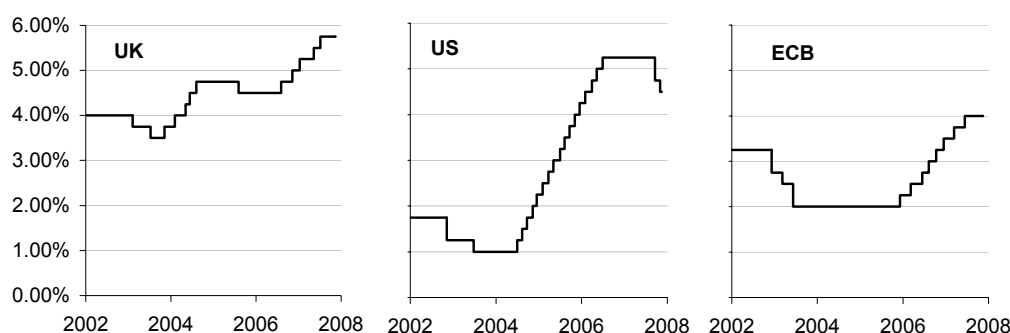
Trends in official rates over the past 5 years are shown in the charts below.

International interest rates

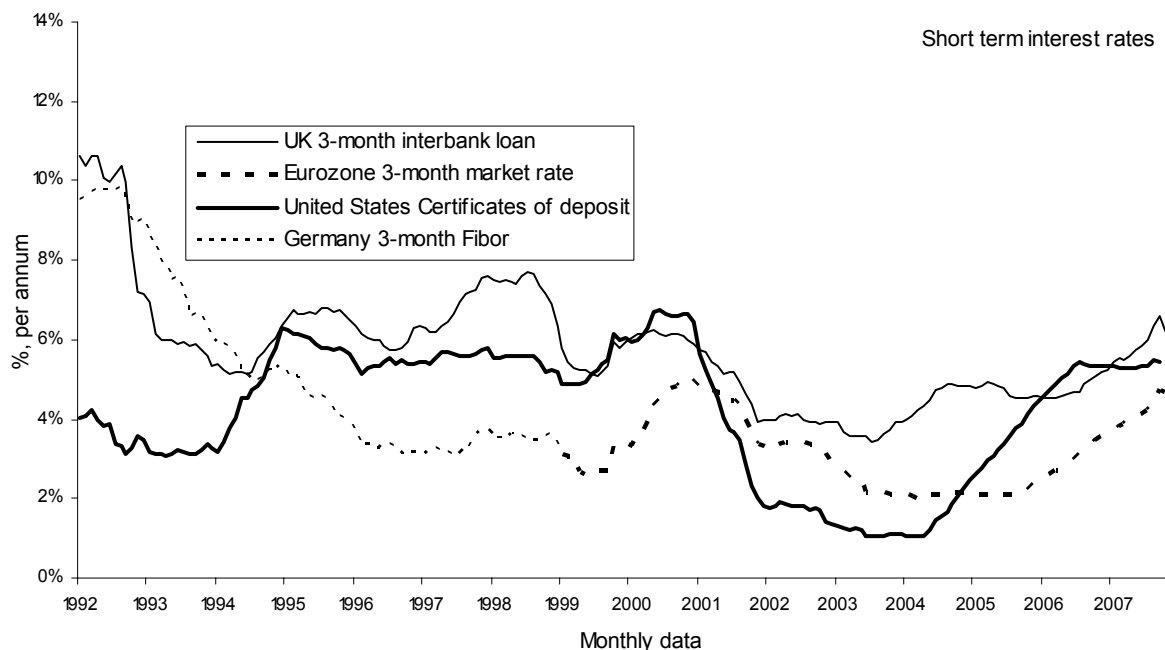
% per annum, at 3 December 2007

	Official rate	Yield 10 yr Government bonds	3-month rate market rate
United Kingdom	5.75	4.62	6.62 - 6.51
Eurozone	4.00	n/a	4.86 - 4.76
United States	4.50	3.89	5.28 - 5.18
Japan	0.50	1.45	0.93 - 0.86
Switzerland	2.00-3.00	2.86	2.67 - 2.60

Source: *Financial Times*, 4 December 2007 (Companies & Markets, p39)



The UK 3-month interbank rate fell to 6.21% in October 2007, although it has since risen again, to stand at 6.62% at 3 December.



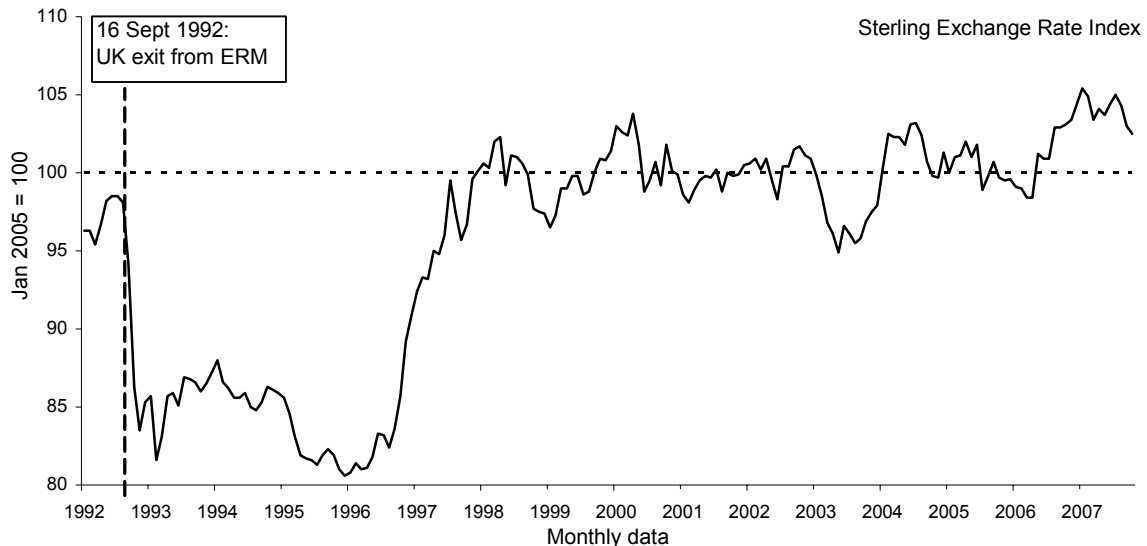
[Source: OECD, *Main Economic Indicators*]

Contact: Bryn Morgan, x4904

Updates: Short-term interest rates: OECD, MEI, mid-Dec
Base rates: 6 Dec (UK MPC), 6 Dec (ECB), 11 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 2006, the SERI fell by 1.9 points in October 2007, suggesting that the UK was relatively more competitive at the end of October 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 €1.401 at the London market close on 30 November 2007, compared with a launch rate of €1.476 on 31 December 1998. The pound continued to remain high against the dollar at the market close at \$2.058.

Sterling Exchange Rates

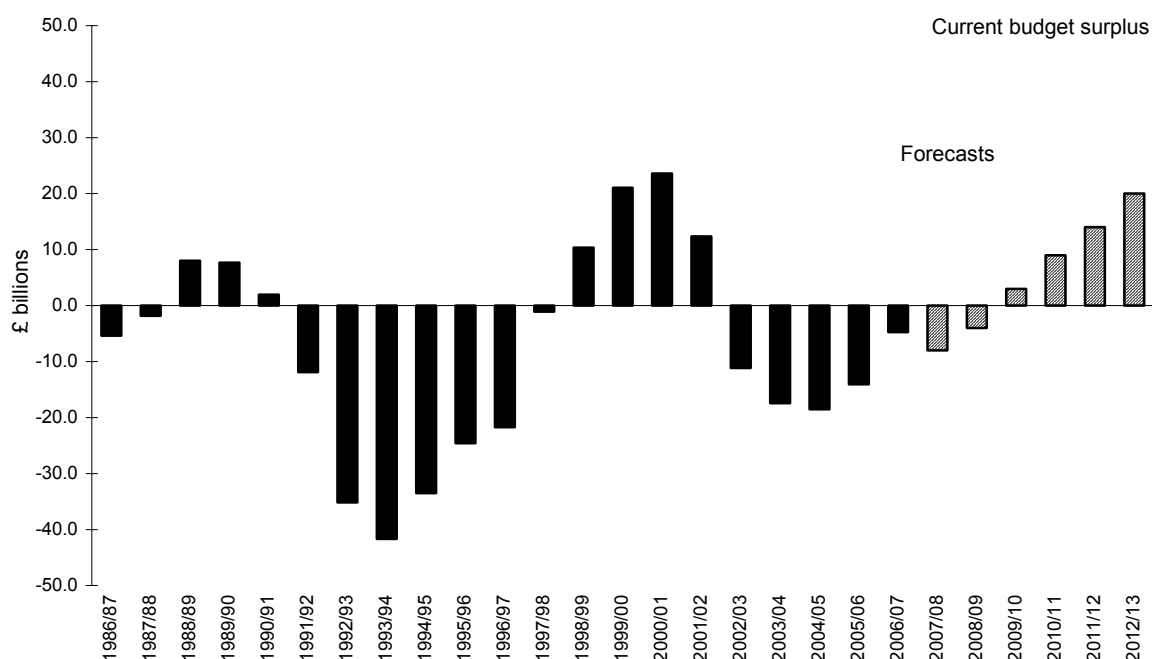
rates and % changes

	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	1.842	1.2	214.3	7.1	1.467	0.3
2006 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
Feb	1.958	12.1	235.9	14.5	1.497	2.3
Mar	1.947	11.7	228.4	11.7	1.470	1.4
Apr	1.991	12.6	236.7	14.4	1.471	2.2
May	1.984	6.1	239.6	14.8	1.468	0.3
Jun	1.986	7.8	243.7	15.4	1.481	1.7
Jul	2.034	10.3	247.1	15.8	1.482	1.9
Aug	2.011	6.2	234.8	7.0	1.476	-0.2
Sep	2.019	7.1	232.2	5.2	1.452	-2.0
Oct	2.045	9.0	236.9	6.5	1.437	-3.4

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. The Treasury's provisional view is that the cycle ran from 1997/98 to 2006/07 and on this basis the golden rule is met. The Treasury has altered its view of the dating of the economic cycle on several occasions. The chart shows outturns for the current budget balance and Treasury forecasts from the 2007 Pre-Budget Report.

- There was a £2.7 billion deficit on the current budget in Q3 2007 compared with a £1.0 billion deficit in the same quarter of 2006.

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 aggregate replacing the PSBR) was £784 million in Q3 2007 compared with £5.5 billion in the same quarter of 2006. In 2006/07, the PSNCR was £35.1 billion compared with £40.0 billion in 2005/06.

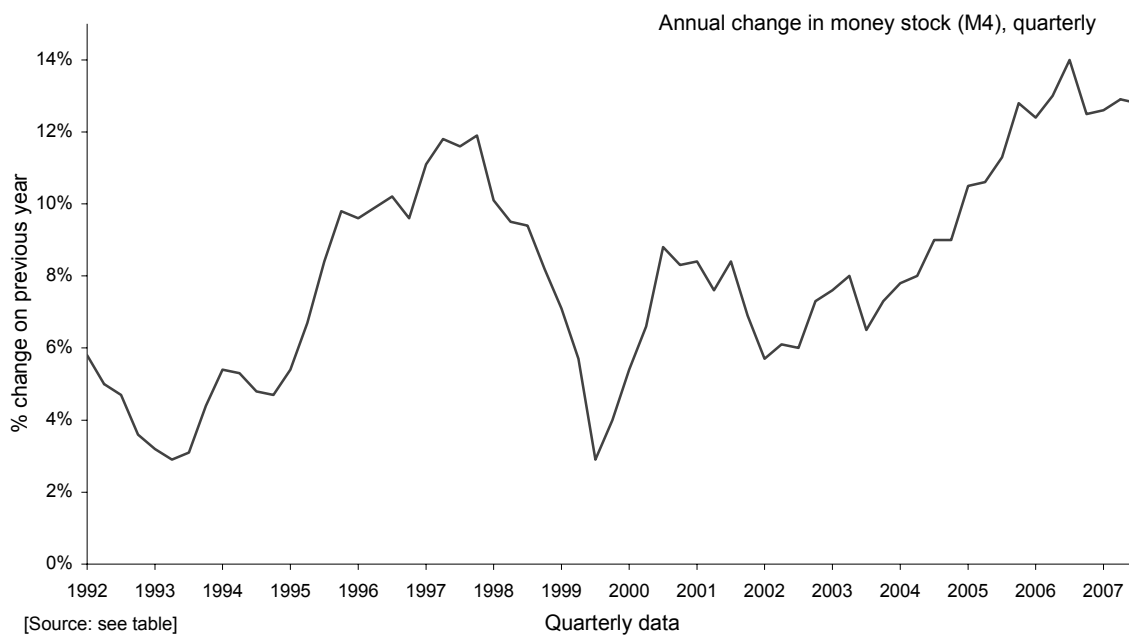
Public Sector Net Debt

£ billion & %

	Public Sector Net Debt	
	£ billion	as a % of GDP
2003/04	382.8	32.8
2004/05	423.5	34.7
2005/06	463.2	36.1
2006/07	500.3	36.8
2006 Q3	488.0	36.9
Q4	502.5	37.5
2007 Q1	500.3	36.8
Q2	515.4	37.3
Q3	516.8	36.8

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 Oct	2.8	5.4	14.6	13.6
Nov	3.3	5.2	13.7	12.7
Dec	1.9	5.0	10.7	12.5
2007 Jan	2.3	4.2	10.5	12.7
Feb	3.4	4.1	11.9	12.5
Mar	7.1	4.1	12.5	12.6
Apr	5.5	3.7	14.0	12.9
May	7.1	4.6	15.0	13.9
Jun	7.4	4.8	13.8	12.9
Jul	6.7	4.3	12.8	13.0
Aug	4.7	4.6	13.4	13.5
Sep	5.3	5.4	14.0	12.7
Oct	7.1	5.4	10.0	11.8

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

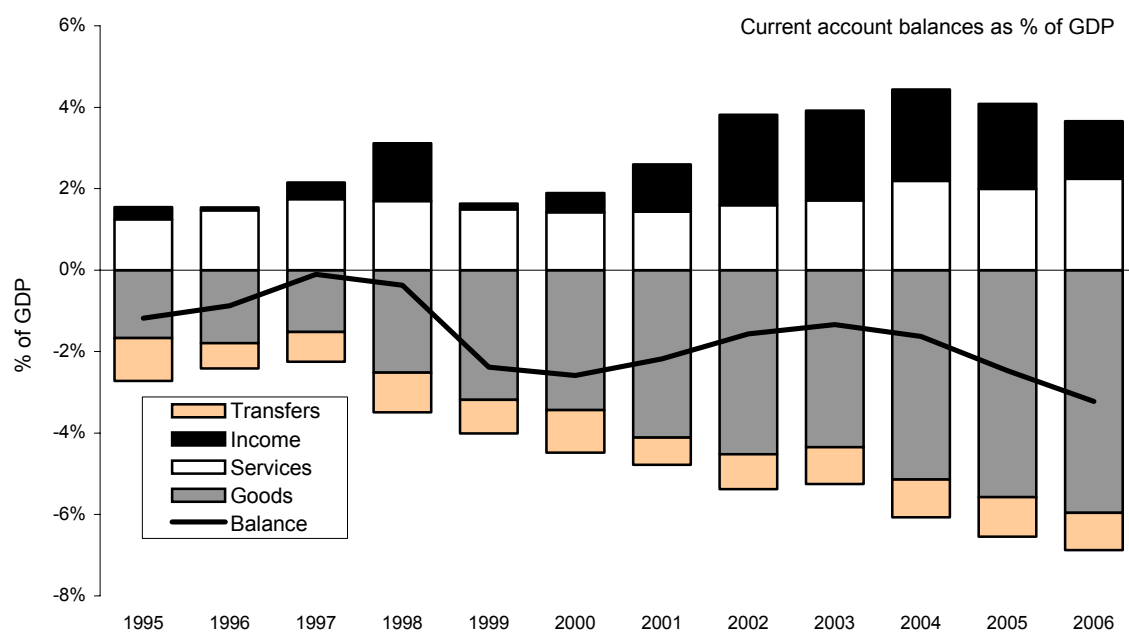
The Bank of England no longer publishes data on M0 following the introduction of new money market arrangements in 2006 (see Bank of England *Quarterly Bulletin*, Autumn 2005 for details). The table above now shows sterling notes and coin in circulation outside the Bank of England. M4 is a broad measure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

- Seasonally adjusted M4 rose by 11.8% in the 12 months to October 2007. The 12-month seasonally adjusted growth rate of notes and coins was 5.4% in October 2007, compared with 5.4% in October 2006.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

Update: Bank of England, *Monetary & Financial Stats*, Jan 2008

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	
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	-68,789	24,611	-44,178	25,734	-9,429	-2,579	-12,008	-30,452
2006	-77,563	29,194	-48,369	18,395	-9,483	-2,459	-11,942	-41,916
2006 Q3	-19,555	6,925	-12,630	4,034	-2,133	-288	-2,421	-11,017
Q4	-20,171	7,899	-12,272	1,937	-3,042	-797	-3,839	-14,174
2007 Q1	-20,605	8,248	-12,357	4,873	-2,198	-944	-3,142	-10,626
Q2	-20,346	8,888	-11,458	5,270	-2,006	-860	-2,866	-9,054
Q3	-22,257	8,234	-14,023

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

- **Annually**, the current account deficit in 2006 was £41.9 billion, equivalent to -3.2% of GDP. The surplus on income narrowed between 2005 and 2006 and the services surplus widened, while the deficits on goods trade widened, transfers narrowed slightly.
- On a **quarterly** basis, the current account deficit was estimated at £9.1 billion in Q2 2007, narrowing from the Q1 2007 deficit of £10.6 billion. Between Q2 2007 and Q3 2007 the surplus on services narrowed, while the deficit on goods widened.
- In 2006 the **annual** current account deficit with EU27 countries was £28.4 billion, compared with a deficit with non-EU countries of £13.5 billion. On a **quarterly** basis, the deficit with EU countries was £8.1 billion in Q2 2007 (compared with £8.2 billion in Q1 2007). With non-EU countries, the current account was in deficit by £0.9 billion in Q2 2007 (compared with £2.4 billion in Q1 2007).

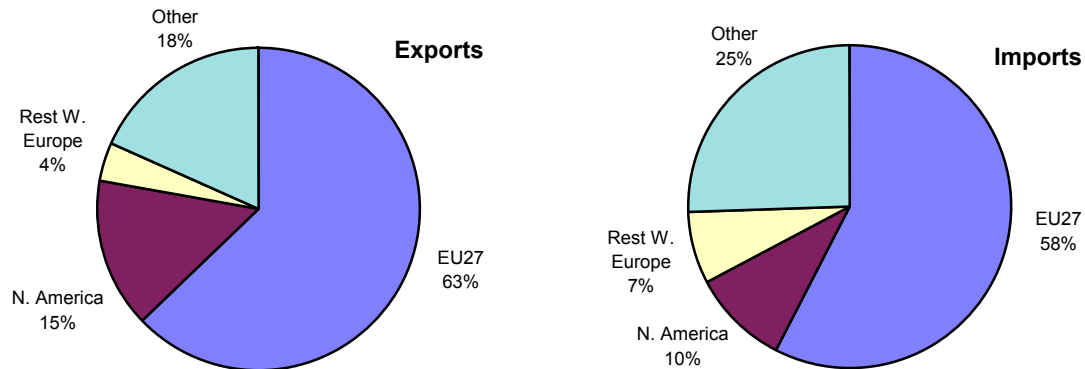
Contact: Grahame Allen, x3977

Updates: ONS, *UK Balance of Payments*, 20 Dec; *UK Trade*, 11 Dec

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 & £ million; 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	111.0	114.7	211,608	280,397	-68,789
2006	125.9	128.3	244,661	322,224	-77,563
2006 Q3	114.3	120.5	56,673	76,228	-19,555
Q4	113.0	119.8	54,780	74,951	-20,171
2007 Q1	110.3	119.4	53,882	74,487	-20,605
Q2	109.3	118.6	54,306	74,652	-20,346
Q3	114.2	125.1	56,739	78,996	-22,257

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

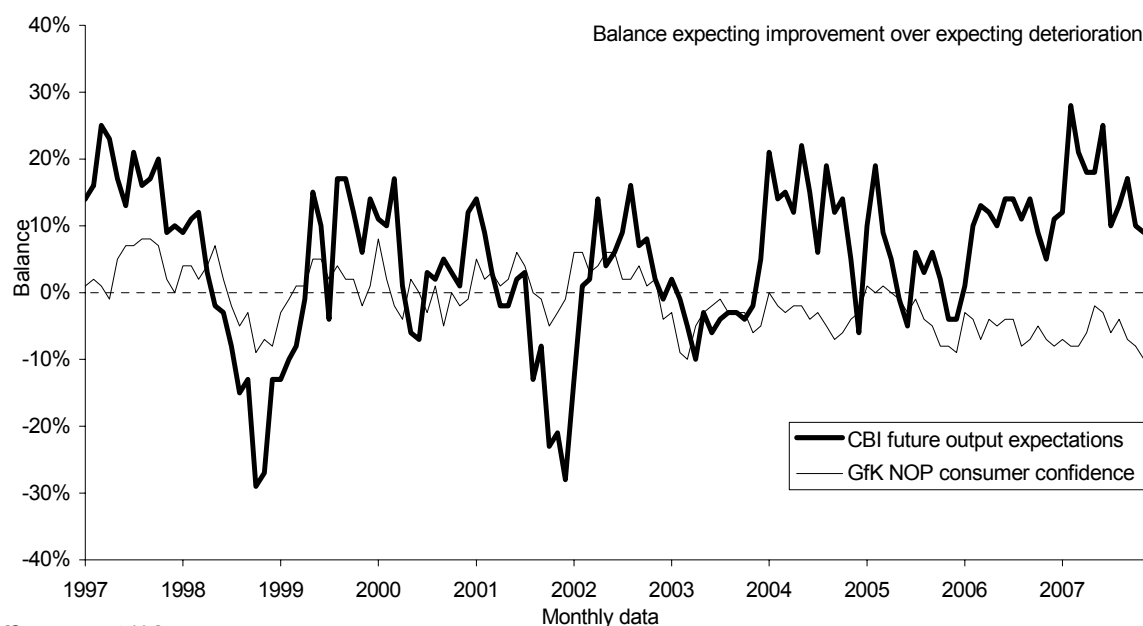
- In September 2007, the provisionally estimated total value of UK goods exports was £18.9 billion and the total value of UK goods imports was £26.6 billion. As a result, the estimated deficit on goods trade was £7.8 billion, below the August level of £6.9 billion.
- Geographical breakdowns of UK trade 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 EU27 was £3.0 billion in September (compared with £3.0 billion in August), while the deficit with non-EU countries was £4.7 billion (compared with £4.0 billion in August).
- The UK’s monthly surplus on trade in **services** was £2.7 billion in September compared with £2.7 billion in August.
- The UK’s overall monthly deficit on **goods and services combined** in September was £5.1 billion, down from £4.2 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 +9% in November 2007. This is the lowest figure since November 2006.
- A balance of +8% of firms thought that order books were above normal. Export demand was also holding up well.
- The balance of manufacturers expecting prices to rise over the next quarter was the joint second highest since 1995 (+21%).
- Export order volumes have held up well, with a balance of 6% of firms reporting growth.

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 fell by two points in November to stand at -10, the lowest since March 2003.
- All five measures on the index showed a decrease in November.
- The outlook for major purchases (-7) is at its lowest since December 1995.
- The index for the general economic situation over the next 12 months fell by four points to -21. However, this was only one point lower than last November.

Output Expectations & Consumer Confidence

Balance of % expecting improvement over % expecting deterioration

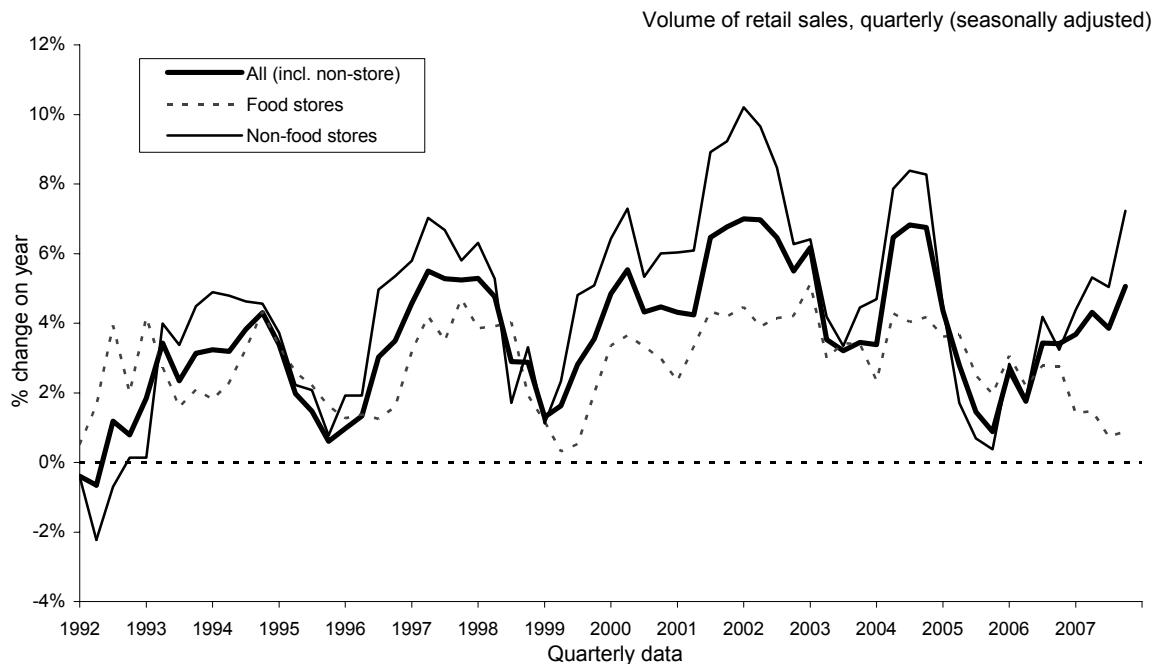
		Future output expectations (CBI)	Consumer confidence (GfK)
2006	Nov	+5	-7
	Dec	+11	-8
2007	Jan	+12	-7
	Feb	+28	-8
	Mar	+21	-8
	Apr	+18	-6
	May	+18	-2
	Jun	+25	-3
	Jul	+10	-6
	Aug	+13	-4
	Sep	+17	-7
Oct	+10	-8	
Nov	+9	-10	

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

Contact: Bryn Morgan, x4904

Updates: GfK NOP, *Consumer Confidence*, 31 Dec; CBI, *Industrial Trends* (Monthly), end-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 1.4% higher compared with the previous three month period, and was 5.1% higher than a year previously (seasonally adjusted).
- Retail sales volumes in October 2007 were 4.4% higher than in October 2006 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 6.9% in August to October compared with the same quarter a year earlier. In stores selling mainly food, sales volumes grew by 1.7% 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
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
2006 Q3	5.1	3.5	4.4	0.0	3.5
Q4	3.8	5.5	5.7	2.8	4.3
2007 Q1	4.3	6.0	6.1	1.9	4.5
Q2	3.2	5.0	6.1	5.4	4.2
Q3	0.8	5.9	6.8	5.3	3.4

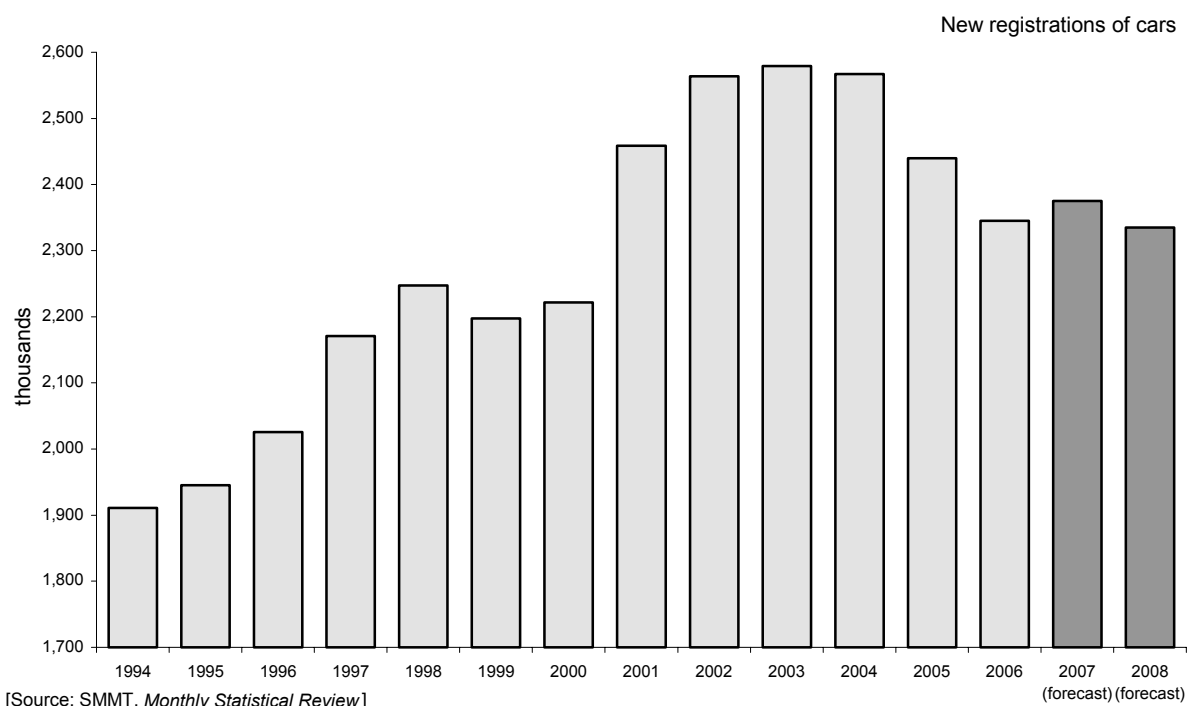
Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAWM

- The average weekly *value* of retail sales in October 2007 was £5.1 billion, a 3.2% increase from October 2006 (non-seasonally adjusted).

Contact: Ed Potton, x2883

Update: ONS, *Retail Sales: First Release*, 21 Dec

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations increased by 1.3% in September 2007, compared with the previous September's figure, to 419,290 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 rise by 1.3% in 2007 and then fall by 1.7% in 2008.
- There were 63,493 registrations of British-built cars in September, equivalent to 15.1% of the market. The number of British built registrations increased by 11.3% on the previous September'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.

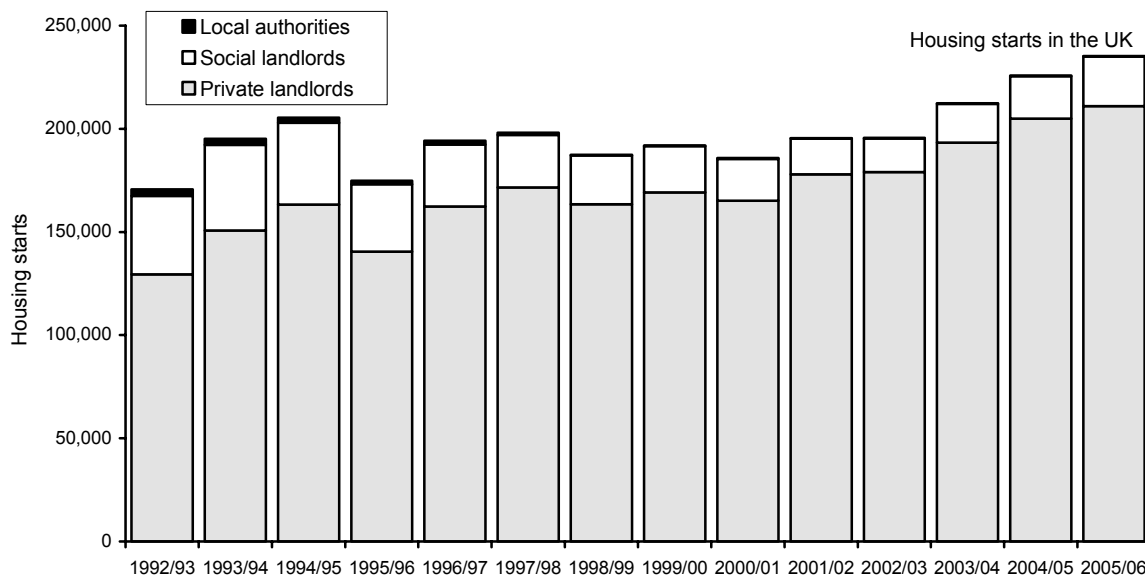
New Registrations of Cars

000s & % change; not seasonally adjusted

	Number (^{'000s})	Change over 12 months
2005	2,440	-5.0
2006	2,345	-3.9
2007 (forecast)	2,375	1.3
2008 (forecast)	2,335	-1.7
<hr/>		
2006 Sep	414	-0.7
Oct	154	0.9
Nov	155	-2.0
Dec	134	-14.7
2007 Jan	166	5.2
Feb	74	-3.2
Mar	449	3.1
Apr	170	4.3
May	186	-2.2
Jun	223	1.5
Jul	176	4.9
Aug	78	-0.4
Sep	419	1.3

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 show that there were 42,229 dwelling starts in England in Q3 2007, compared with 40,154 in Q3 2006. In Q3 2007 there were 38,308 completions compared with 37,623 in Q3 2006 (all data are not seasonally adjusted).

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

- **Monthly** UK house prices fell by 0.5% in October 2007, compared with a fall of 0.6% in September.
- **Annual** house prices were 8.9% higher in October 2007 than in the same month in 2006 (compared with 10.7% higher in September 2007).
- **Quarterly** house prices rose 0.9% in Q3 2007, on Q2 2007, compared with 2.3% in Q2 2007 on Q1 2007.
- Regionally, the Halifax data show that in Q3 2007 **annual** house price inflation was highest in Northern Ireland (29.1%) and lowest in the West Midlands (4.7%), while all-UK prices rose by 10.7% (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>				
2006 Q3	181,278	176,094	182,434	135,812
Q4	186,242	174,481	188,266	141,118
2007 Q1	189,681	188,670	190,863	141,945
Q2	199,021	190,085	200,234	151,923
Q3	200,623	187,842	201,894	150,999
<i>% change over same period in previous year</i>				
2006 Q3	8.0	7.7	8.1	8.6
Q4	9.9	6.9	10.5	10.3
2007 Q1	11.1	12.1	10.9	10.5
Q2	10.7	9.3	10.6	12.2
Q3	10.7	6.7	10.7	11.2

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

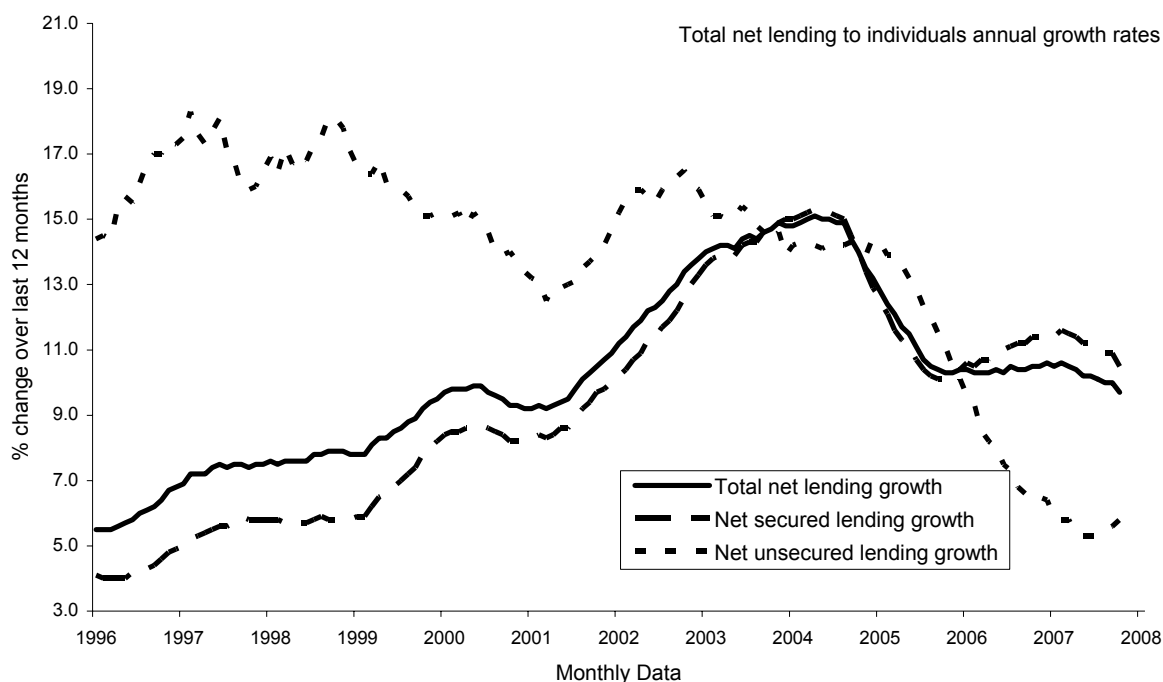
The DCLG's house price index is based on completions (the Halifax index is based on mortgage approvals). All figures are not seasonally adjusted:

- The average UK house price in September 2007 stood at £220,111, up from £219,369 in August 2007. **Annual** house price inflation in September 2007 was 10.8 per cent, down from 11.3 per cent in August 2007
- Regionally, **annual** house price inflation in August was highest in Northern Ireland (42.7%) and lowest in the West Midlands (5.0%).

Contact: Grahame Allen, x3977

Updates: *Halifax House Prices*, 6 Dec; DCLG, *House Prices*, 10 Dec; *House-building*, 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
2003 Oct	754,865	179,059	933,924	14.8	14.3	14.7
2004 Oct	859,949	195,430	1,055,379	14.0	14.0	14.0
2005 Oct	948,029	209,978	1,158,007	10.1	11.1	10.3
2006 Oct	1,056,688	212,385	1,269,074	11.4	6.4	10.5
2007 Jan	1,086,330	212,846	1,299,176	11.4	5.9	10.5
Apr	1,112,713	213,387	1,326,100	11.4	5.4	10.4
Jul	1,140,004	214,620	1,354,624	11.1	5.3	10.1
Oct	1,169,265	222,078	1,391,343	10.5	5.8	9.7

Note: Net secured lending outstanding was adjusted (and increased) by £4.8 billion in September 2007
 Net unsecured lending outstanding was adjusted (and increased) by £0.5 billion in September 2007

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

- Total net outstanding lending to individuals was £1,391 billion at the end of October 2007 (seasonally adjusted).
- Total net lending to individuals grew by 0.6% in October 2007 compared with the previous month, and grew by 9.7% on an annual basis (all seasonally adjusted); the annual growth rate is 0.3 percentage points lower than in September 2007.
- Of the £8.8 billion increase in net lending in October 2007, £7.3 billion was mortgage borrowing and £1.4 billion was consumer credit (seasonally adjusted).

Contact: Ed Potton, x2883

Update: Bank of England, *Lending to Individuals*, 4 Jan

VI 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

VII 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

Definitions²³

Average Earnings Index: Measures changes in gross wages and salaries paid to employees, including overtime payments. Excludes employers' insurance contributions, holiday pay, benefits in kind and bonuses which are not part of regular pay.

Balance of payments: A country's financial position, with other countries of the world, comprising two parts:

- **Current account:** the balance of imports and exports of goods and services, income and transfers combined;
- **Capital account:** the difference between a country's capital invested in other countries, and the capital invested by other countries in it.

Technically, the two parts always balance. A Balance of payments deficit normally refers to a **current account deficit**.

Balance of trade: The difference between a country's exports and imports of either goods only or goods and services combined. Trade in financial services account for around a third of UK exports, and thus partially offsets trade in goods deficits.

Basic prices: Prices excluding taxes and subsidies on products.

Claimant count: The number of people claiming Jobseeker's Allowance benefits.

Consumer Prices Index (CPI): This is the headline UK domestic measure of inflation. It measures the average change from month to month in the prices of consumer goods and services purchased in the UK.

Current account balance/deficit: The difference between receipts/payments due to transactions in goods, services, income and transfers between the UK and all other countries. A **current account deficit** means that total payments exceed total receipts; in the reverse case, the current account is in surplus.

Current budget: Measures the balance of public sector current account revenue over public sector current expenditure. It is the measure for assessing progress against **the golden rule**. This states that, on average over the economic cycle, the Government should borrow only to invest and not to fund current expenditure.

HM Treasury has stated that progress against the golden rule will be measured by averaging the

surplus on current budget, when expressed as a percentage of GDP, over each year of the economic cycle. To meet the rule, this average should be positive.

Constant/current prices: Constant prices refer to volume measures whose values are derived by applying to current quantities, prices for a specific base period. They allow figures to be represented so that the effects of inflation are removed. The values for each time period are expressed in terms of the prices in a particular base period.

Current prices are the actual or estimated recorded monetary value over a defined period for a group of industries or products. They show the value for each item expressed in terms of the prices of that period.

Economically active: Those aged 16 and over who are either in employment or unemployed.

Economically inactive: Those aged 16 and over who are neither in employment nor unemployed. This includes those who want a job but have not been seeking work in the last four weeks, those who want a job and are seeking work but not available to start work, and those who do not want a job.

Employment: The number of people with jobs as estimated by the Labour Force Survey (LFS). This includes all people aged 16 or over who did paid work, those who had a job that they were temporarily away from, those on government supported training and employment programmes, and those doing unpaid family work during the survey period. The employment rate refers to the number of people employed as a percentage of the working age population as measured by the LFS.

Exchange rate: The rate at which one currency is traded against another.

Gross Domestic Product (GDP): The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production (intermediate consumption) but before deducting consumption of fixed capital (depreciation).

Gross Domestic Product – chained volume measure: Also known as *constant price* or *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced.

Gross Fixed Capital Formation (GFCF): Expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

Gross Value Added (GVA): The difference between output and intermediate consumption for any given sector/industry. That is the difference between the value of goods and services produced and the cost of raw materials and other inputs which

²³ 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.