RESEARCH PAPER 08/82
04 NOVEMBER 2008

Economic Indicators, November 2008

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 articles on topical issues.

This month's article(s):

- **Employment in financial services**
- **Fiscal rules and the public finances**

Next publication date: 2 December 2008

Bryn Morgan (editor)

ECONOMIC POLICY AND STATISTICS SECTION

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ISSN 1368-8456

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A guide to sources is provided in section V.

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Many of the economic terms used in the publication are described in the glossary. Symbols and abbreviations used in the paper are also described here.

Contacts

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

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Employment	Edward Beale	2464
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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 Oriel Room of the Main Library (extn. 3666).

II Overview: November 2008

This month's edition of Economic Indicators includes two topical articles. The first looks at employment in the financial services industry, including regional and constituency figures, and looks at some of the forecasts of the impact of the financial crisis on employment. The second looks at the fiscal rules and the public finances, particularly in light of the Chancellor's recent Mais lecture.

Key indicators from this month's paper include:

Output

- Provisional figures show that UK GDP fell by 0.3% in the third quarter of 2008 compared with the previous quarter (see indicator A1). This is the first quarter of negative growth the second quarter of 1992. The average forecast for growth over the whole of 2008 is now 1.1%. For 2009 it is 0.1% compared with 1.8% as recently as April.
- The IMF published its latest World Economic Outlook. It forecasts negative growth in the UK in 2009 of 0.1%. Italy and Germany also have negative growth forecasts.

Prices

- Annual CPI inflation rose to 5.2% in September (indicator B1).
- Eurozone inflation is estimated at 3.2% in October, a third consecutive monthly fall.
- The price of a barrel of Brent Crude has fallen back to stand at $60.48 on 3 November, a fall of 59% from the July peak of $146.08.

Labour market

- The number of unemployed claimants rose for the 8th consecutive month, to 944,700 in September, an increase of 14% since September 2007. On the ILO definition, the number of unemployed in June to August was 1.8 million, a rate of 5.7% and an increase of 146,000 over the same period of 2007 (indicator C2).

Financial markets

- Sterling has fallen by 21% against the dollar since 23 July. On 3 November it stood at $1.58. Against the euro, sterling was 7.6% below its value at the start of the year. (indicator D3)
- Stock markets have fluctuated significantly over the past few months. In October the FTSE 100 reached daily closes as high as 4,980.75 (3 October) and as low as 3,852.60 (27 October). At the close on 3 November it stood at 4,443.50.

Interest rates

- In a coordinated action on 8 October, the Bank of England, Federal Reserve, European Central Bank and others cut their interest rates. The UK rate was cut by 50 basis points to 4.50%. A further cut is expected following this week's meeting of the MPC.
- The Federal Reserve made a further cut of 50 basis points on 29 October taking the rate to 1.00% and Japan followed with a 20 basis point cut to 0.30% on 31 October.
- The UK 3-month LIBOR rate, which was 6.31% at the start of October, had fallen to 5.78% by 3 November.

III Articles

A. Employment in Financial Services

This article looks at employment levels in UK financial services and the likely impact of the recent global economic downturn. While employment in financial services exists across the UK (for example in Bank and Building Society branches), it is heavily concentrated in London, a number of other financial services centres such as Scotland, Manchester and West Yorkshire, as well as areas with the headquarters of specific institutions. In particular, this article examines the regional distribution of employment in financial services across the UK, and the parliamentary constituencies where it is most concentrated.

1. Employment by region

The latest data available from the Labour Force Survey (LFS) covering a breakdown of employment by industry and region shows that financial services accounts for 4.5% of overall employment in the UK, and 8.1% of employment in London.

The table below shows employment in financial services and all other industries by region and the proportion of total employment that relates to financial services.[4] This table is based on those of working age and in employment and is taken from the April-June 2008 LFS. Please note that the data is based on the main job of those in employment and the region shown is the region of residence not workplace.[5] This is sample based data and data is rounded to the nearest thousand.

Financial services employment by region, April-June 2008
not seasonally adjusted, on a residence basis, working age employment

	Financial Intermediation	All Other Employment	Financial Intermediation as a % of total
North East	29,000	1,076,000	2.6
North West	117,000	2,921,000	3.8
Yorkshire and the Humber	85,000	2,261,000	3.6
East Midlands	53,000	1,990,000	2.6
West Midlands	79,000	2,268,000	3.4
Eastern	166,000	2,491,000	6.3
London	292,000	3,322,000	8.1
South East	181,000	3,819,000	4.5
South West	102,000	2,310,000	4.2
Wales	39,000	1,254,000	3.0
Scotland	95,000	2,347,000	3.9
Northern Ireland	23,000	735,000	3.1
United Kingdom	1,260,000	26,794,000	4.5

Source: ONS, Labour Force Survey

4 Data on employment in financial services is based on the statistical classification of *Financial Intermediation* and includes: the central bank, banks and building societies, other financial leasing and lending activities, investment trusts, unit trusts, venture and development capital companies, insurance and pension funding (except compulsory social security), administration of financial markets, fund management, security brokering and other activities auxiliary to financial intermediation, insurance and pension funding. See ONS, *UK Standard Industrial Classification of Economic Activities 2003*, p39-40

5 Using residence based figures can have a significant impact on regions with high levels of commuting.

It is clear from the table that certain regions rely more heavily on financial services: London and the East are key regions, and clearly London, the South East, the South West and the East have higher levels than regions in the midlands and the north of England. Equally, Scotland has more financial services employment than Wales and Northern Ireland.

Further analysis is possible of employment in financial services by looking at the region and sub-region of work.[6] For example, LFS data shows that financial services accounts for the employment of 273,000 people working in central London (18.6% of the total), compared with 79,000 in Inner London (7.6%) and 46,000 in Outer London (3.0%). Other sub-regions with high levels of employment in financial services on this basis include Greater Manchester (4.8%) and West Yorkshire (5.2%). Financial Services employment in the East of England falls to 4.0% when using region of work rather than residence, while the South East falls to 3.7%. Commuting is clearly an issue when looking at these statistics.

Using a different data set (the Annual Business Survey – ABI), which looks at employee jobs rather than total employment (the main exclusion is the self employed and HM Armed Forces), it is possible to identify parliamentary constituencies with particularly high levels of financial services employment. The table overleaf shows the 23 constituencies which in 2006 had 10% or more of total employee jobs in financial intermediation. Please note that employee jobs can include people with more than one job and the measure is workplace based rather than residence based.

The Poplar and Canning Town constituency (covering the Canary Wharf area) has the largest proportion of jobs relating the financial services, followed, unsurprisingly, by the Cities of London and Westminster. Subsequent constituencies can be picked out due to certain companies or clusters, for example, Halifax and three Edinburgh constituencies (South West, East, and North and Leith). These figures should be interpreted with some caution as constituencies can be relatively small geographical areas and it is likely that in many cases the employees reside in nearby or neighbouring constituencies. This is clearly the case for city constituencies although other workers in supporting and dependent industries may live in the constituency.

Further information on employment in specific constituencies is available from the website NOMIS: https://www.nomisweb.co.uk.

6 Using an LFS variable that splits out major urban areas in a region, such as Greater Manchester, Merseyside and parts of London. Central London is the area bordered by the major mainline train stations.

Financial Intermediation Employee Jobs, by Constituency, 2006
rounded figures, excludes Northern Ireland constituencies, workplace based data

	Employee Jobs	% of total Employee jobs
Poplar and Canning Town	54,000	42.1
Cities of London and Westminster	160,000	19.2
Halifax	9,000	18.4
Reigate	9,000	18.2
Newcastle upon Tyne North	5,000	17.9
Bournemouth East	5,000	16.1
Bethnal Green and Bow	12,000	15.7
City of Chester	9,000	14.3
Norwich South	13,000	14.3
Edinburgh South West	7,000	14.2
Bootle	4,000	12.7
Bristol West	13,000	12.4
Pudsey	5,000	12.0
South Swindon	7,000	11.6
Bromley and Chislehurst	6,000	11.5
Edinburgh East	8,000	11.4
Manchester Central	20,000	11.0
Sunderland South	3,000	10.9
Edinburgh North and Leith	11,000	10.5
Tatton	5,000	10.4
Glasgow Central	21,000	10.4
Leeds Central	21,000	10.1
Mid Sussex	4,000	10.1

Source: ONS, ABI

2. Recent Developments and Forecasts

There has speculation that the recent economic downturn, which was initially concentrated in global financial markets, would impact on financial services more than other industries. As shown in the data above, financial services is concentrated in certain parts of the UK, and therefore a downturn in the industry may have more effect in these areas. While official employment data does not yet show a strong downward trend in financial services employment, information on job losses and forecasts do indicate a fall in employment in the next two years.

There is significant evidence of recent and forthcoming job cuts in the sector. The collapse of Lehman Brothers' is an example, although some ex-Lehman staff have been retained by purchasers of parts of the business. HSBC announced the loss of 500 jobs in London in September, while according to the *Financial Times* "…Many investment banks have quietly trimmed their workforces or imposed hiring bans this year as they responded to the market slowdown".[7] Recent reports have also noted falling vacancies in the City according to recruitment agencies.[8] While the overwhelming emphasis in articles on employment in the City has been on falling recruitment, it has still been noted that a selection of financial services firms, such as European insurance groups, are still recruiting.

7 "HSBC cuts 1,100 staff from its investment bank", *Financial Times*, 26 September 2008
8 "There's a lot less fat to cut this time round", *Financial Times*, 23 October 2008

Relocation possibilities away from London to cut costs have also been raised; in September it was reported that Goldman Sachs was considering opening an office employing 'several hundred' staff in Manchester or Leeds. Deutsche Bank already plans to open an office employing 250 people in Birmingham.[9] However a number of recent bank mergers and acquisitions are likely to affect regions outside London and the South East with companies such as HBOS (merger with Lloyds TSB) and Alliance and Leicester and Bradford and Bingley (takeover by Santander) having significant operations outside London and potentially facing job cuts. In addition mergers may mean a reduction in the number of high street banks in the long run. 1,500 jobs have been lost at Northern Rock since the Government takeover in 2007.[10]

GLA Economics forecast in their Autumn 2008 publication *London's Economic Outlook* that the output of financial services in London would grow by 0.2% in 2008 before contracting by 4.5% and 2.5% in 2009 and 2010 respectively. Employment in financial services is forecast to fall by 0.2%, 4.0% and 1.0% in 2008, 2009 and 2010 respectively.[11] Other forecasts for London indicate a similar trend. The Centre for Economics and Business Research (CEBR) have recently estimated that City of London employment will fall by 28,000 this year and 34,000 in 2009, reducing City employment levels to the same as in 1998.[12] Equally forecasts by Oxford Economics contained in a recent City of London report indicated that employment in financial services in London would be 338,000 in 2008, falling to 306,000 in 2011, but still not recovering by 2018 – 325,000 in 2014 and 328,000 in 2018.[13] However, at the same time employment in other sectors is expected to increase with overall employment in London rising from 4.7 million in 2008 to 5.1 million by 2018.

3. Further Information

- Labour Market data – Nomis website: https://www.nomisweb.co.uk . Data on total claimant count unemployment is published in *Unemployment By Constituency* (next edition 12 November 2008): http://www.parliament.uk/commons/lib/research/rp2008/rp08-078.pdf
- City of London Research and Statistics : http://www.cityoflondon.gov.uk/Corporation/LGNL_Services/Business/Business_support_and_advice/Economic_information_and_analysis/research_statistics.htm
- International Financial Services London: http://www.ifsl.org.uk/output/Reports.aspx, particularly their report on the economic contribution of financial services (http://www.ifsl.org.uk/output/ReportItem.aspx?NewsID=48) and the guide to sources of statistics (http://www.ifsl.org.uk/output/ReportItem.aspx?NewsID=133).
- GLA Economics - http://www.london.gov.uk/mayor/economic_unit/
- British Bankers' Association - http://www.bba.org.uk
- News on Financial Services companies: http://www.ft.com/companies/financials

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9 "Regions stand to gain from bank shake-out", *Financial Times*, 17 September 2008
10 Northern Rock Q3 Trading Statement, 14 October 2008
11 GLA Economics, *London's Economic Outlook*, Autumn 2008, p38
12 "Job losses in London and NY", Financial Times, 15 October 2008
13 City of London, *London's Place in the UK Economy 2008-09*, October 2008, p104

B. Fiscal rules and the public finances

There has been much interest in the public finances following the Chancellor's recent speech on the fiscal rules and the publication of figures for the first half of the current financial year. This article considers the fiscal rules and the state of the public finances.

1 The fiscal rules

When the Labour government came to power, it introduced two fiscal rules: the "golden rule" and the "sustainable investment rule." The golden rule said that the government would only borrow to invest, over the course of an economic cycle. The sustainable investment rule required public debt to be kept below 40% of GDP. These were designed to ensure sound public finances.

There have been some criticisms of these rules. Deciding when the economic cycle starts and finishes is necessary for determining compliance with the golden rule. This is not a precise science and the Government has changed its view on the timing of the cycle on more than one occasion. The sustainable investment rule has been attacked for giving the Government an incentive to keep liabilities off balance sheet.

In the Mais Lecture, delivered on 29 October 2008, the Chancellor announced the scrapping of these rules. The Chancellor said that the Government's "core objective" was to help the economy through the current difficult times. He said that sticking to the fiscal rules in a "rigid" manner would be "perverse" and would exacerbate "an already difficult situation". He said:

> the fiscal rules we adopted over ten years ago – which target debt and promote investment – enabled us to triple public investment, at the same time as cutting debt to one of the lowest levels among the world's major economies. But to apply these rules rigidly in today's changed conditions would be perverse. We must respond to the challenges and uncertainty we face today – supporting the economy now and maintaining public investment – while at the same time ensuring that we live within our means in the medium term.[14]

The Government has said that it will support the economy and that it is able to do this because the public finances start from a strong position with public debt low as a share of national income and low compared with other countries.[15] The Government has said that borrowing and debt will be restored to sustainable levels, once the current economic turmoil is over. The Pre-Budget Report will set out the Government's plans for keeping the public finances on a sustainable path.

The Conservatives have attacked large increases in public spending:

> George Osborne, the shadow chancellor, said a short-term spending increase of 1 per cent of gross domestic product would mean an increase in taxes in the medium term by the equivalent of almost 4p on income tax.
>
> "That's not just a tax bombshell, it's a cruise missile aimed at the heart of recovery," Mr Osborne said in a speech to the London School of Economics.

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[14] Speech by the Chancellor of the Exchequer at the Cass Business School, London, 29 October 2008 [Mais lecture].

[15] Ibid

> The opposition party supported the "automatic stabilisers" of increased borrowing stemming directly from a recession. But Mr Osborne yesterday said monetary policy - lower interest rates - should be allowed to "do the heavy lifting in stimulating demand" rather than trying to boost it through the public purse. "Tackling recession with big spending does not work," he said.[16]

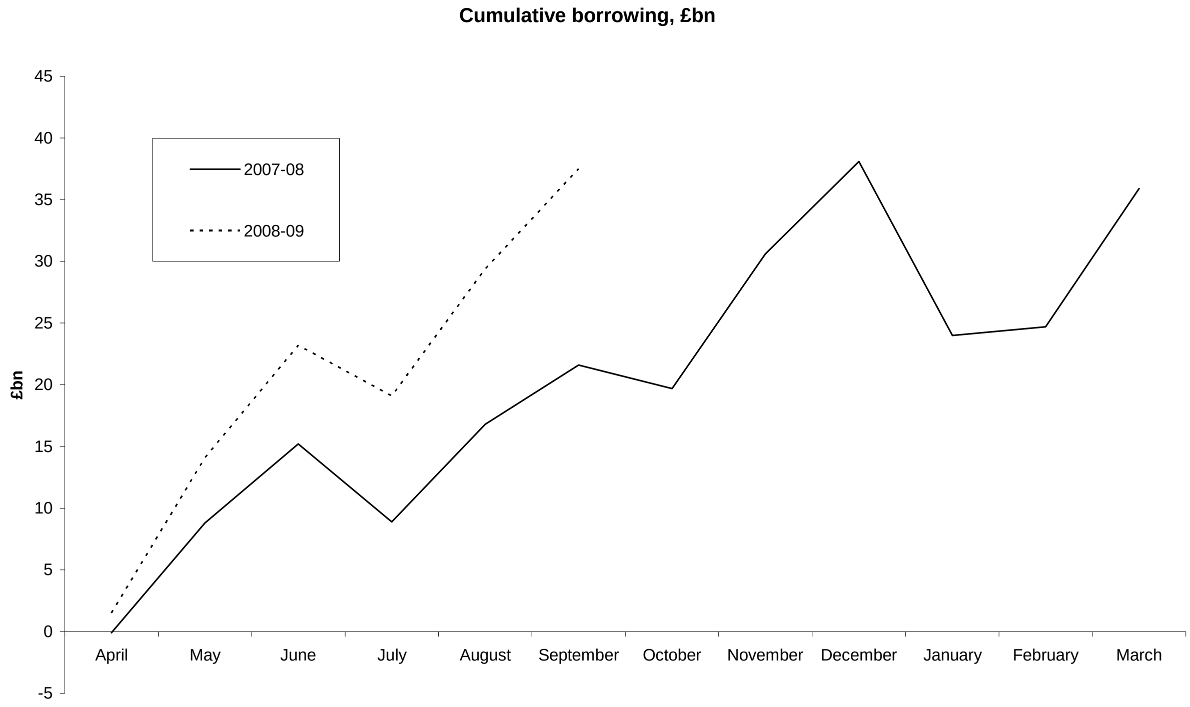
The Institute for Fiscal Studies (IFS) has argued that the fiscal rules were not designed to cope with a crisis on the current scale but that, nevertheless, the underlying state of the public finances gives cause for concern:

> Extraordinary circumstances call for extraordinary measures. Mr Brown's fiscal rules were never designed to cope with a meltdown in the banking system and it would be ridiculous to suggest that adhering to them should take priority over the need to stabilise the financial system. The costs of failing to do so would probably be even larger.
>
> But even in the absence of the current turmoil, the underlying level of debt was already perilously close to the Government's ceiling. Mr Brown did not leave his successor as Chancellor with the fiscal room to cope with even a modest economic slowdown, let alone the problems we currently face. To that extent the Government failed to learn the lessons of the last slowdown.[17]

2 Government borrowing

In 2007/08, public sector net borrowing was £35.8 billion. In March's Budget, the Treasury forecast net borrowing of £43 billion (2.9% of GDP) in 2008/09 before falling to £38 billion (2.5% of GDP) in 2009/10. Figures for the first six months of this financial year indicate that borrowing has already reached £37.6 billion - much higher than the Budget forecast. This is illustrated in the chart below which shows cumulative net borrowing over the current financial year compared with last year.

[16] "Tories critical of recession policy", *Financial Times*, 1 November 2008
[17] "Costly dangers of the unclenched fiscal fist", *The Times*, 13 October 2008 [by Carl Emmerson of the IFS]



One reason for the higher level of borrowing is slow growth in government receipts. Over the first six months of this financial year, central government current receipts have grown by 2.0% in nominal terms compared with a Budget forecast of 4.9%. The slowdown in the economy is a major factor behind this. The Budget's public finance forecasts assumed that the economy would grow by 1¾% in 2008/09. There was, however, no growth in 2008, Q2 and the economy shrank in 2008, Q3. Independent forecasters expect growth of 1.1% this year and 0.1% in 2009.[18] Looking forward, certain benefit payments next year will be higher than the Government anticipated as they are linked to September's Retail Prices Index which increased by 5%, above the 3¼% assumed in the Budget. The IFS estimates that this could add £3 billion to benefit spending.[19]

In addition, borrowing this year will be increased by the fiscal measures announced by the Government since the Budget. These include changes to personal taxation announced following the arguments over the 10p income tax rate, suspension of the planned increase in fuel duties and the one year suspension of stamp duty on sales of certain residential properties. According to the IFS, these three measures will increase borrowing this year by £4 billion.[20] The Office for National Statistics has yet to announce how the £37 billion bank recapitalisation will be treated for the purposes of the public finances. An article in the *Guardian* suggested that there might be no effect on borrowing this year if it is classified as a financial transaction where the Government receives bank shares.[21]

Many commentators now expect that government borrowing will be much higher than forecast in the Budget. For example, the IFS has suggested that if current trends were to continue, borrowing could be £64 billion this year, nearly 50% higher than forecast in the

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18 HM Treasury, Forecasts for the UK economy, October 2008.
19 IFS Press release, Poorest households face highest average inflation rates*,* 14 October 2008
20 "Costly dangers of the unclenched fiscal fist", *The Times*, 13 October 2008 [by Carl Emmerson of the IFS]
21 "How the bank crisis hits Britain's public finances", *Guardian*, 14 October 2008

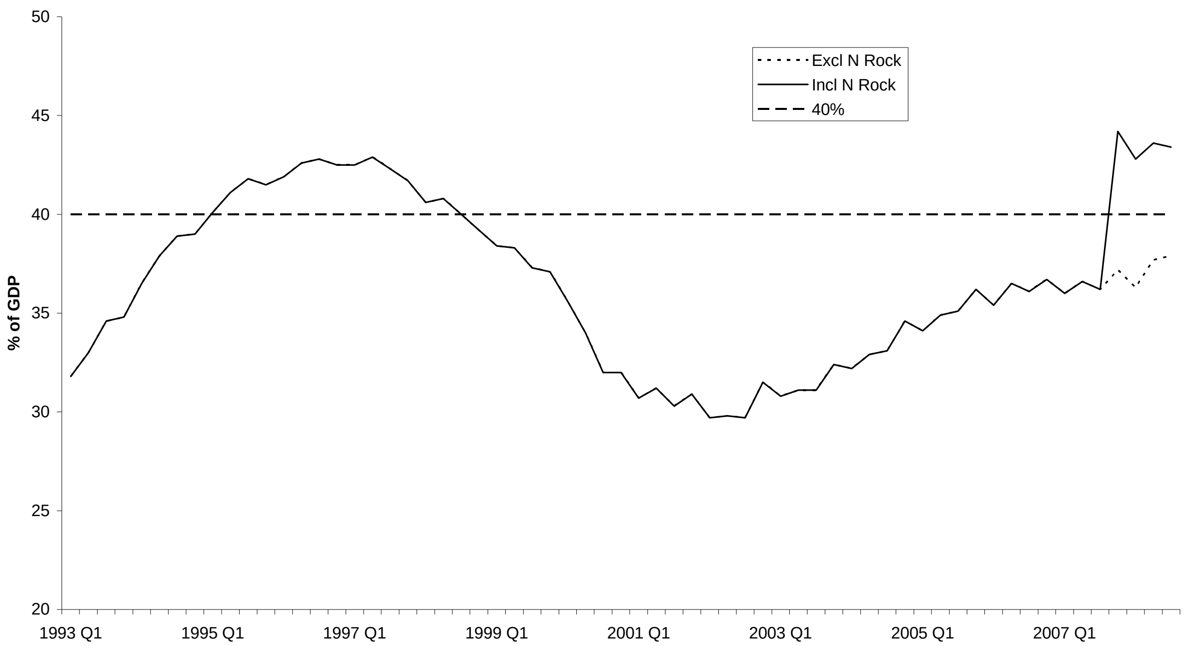
Budget.[22] The National Institute of Economic and Social Research forecast borrowing of £66 billion in 2008/09 (4.5% of GDP) before peaking at 6.1% of GDP in 2010/11.[23] The European Commission's recent forecasts see a deficit of 6.0% of GDP in 2009/10 and 6.5% in 2010/11.[24] While these are high levels of borrowing, they are below the levels seen in the early 1990s when borrowing reached 7.7% of GDP (see table at the end of this article). The Treasury will update its forecasts in the Pre-Budget Report, expected in the next few weeks.

3 Government debt

In 2007/08, public sector net debt was 36.3% of GDP (£527 billion). The 2008 Budget forecast that net debt would reach 38.5% of GDP this year before peaking at 39.8% of GDP in 2010/11. The ONS has decided that Northern Rock should be included in the measure of government debt increasing it to 43.4% of GDP in September 2008 (see chart below).

If Bradford and Bingley and the £37 billion cost of the bank rescue package are included, debt could increase to over £700 billion or approaching 50% of GDP. The Government has said, however, that its investments in the banks are temporary, so the level of debt is better judged by excluding these exceptional factors. Even excluding Northern Rock, Bradford and Bingley and the recapitalisation of the banks, the IFS has concluded that debt is likely to exceed 40% of GDP next year.[25]

Public sector net debt as % of GDP



[22] IFS Press Release, IFS analysis of today's public finance figures, 20 October 2008

[23] National Institute of Economic and Social Research, National Institute Economic Review No 206, October 2008, p114.

[24] European Commission, Economic Forecast Autumn 2008, p117. These figures are on a slightly different basis to the other figures. European Commission forecasts are for the general government budget balance which excludes public corporations.

[25] IFS Press Release, IFS analysis of today's public finance figures, 20 October 2008

4 International comparisons

The table below shows international comparisons of the public finances. The OECD forecast that the UK will have the second largest budget deficit of the G7 countries at 3.8% of GDP in 2008.[26] The structural deficit, which adjusts for the economic cycle, shows a similar picture.

International comparisons of public finances, 2008 **% GDP**

	Budget deficit (a)	Structural Budget Deficit (b)	Debt (c)
Canada	0.2	-0.2	22.6
France	3.0	3.3	35.6
Germany	0.5	0.9	43.2
Italy	2.5	1.5	90.7
Japan	1.4	1.6	86.8
United Kingdom	**3.8**	**3.6**	**32.9**
United States	5.5	5.2	48.0
Euro area	1.1	1.0	43.2
Total OECD	2.5	2.8	42.4

Source: OECD Economic Outlook, June 2008

(a) general goverment financial balance
(b) cyclically-adjusted general government balance
(c) general government net financial liabilities

Turning to government debt, the OECD forecast that the UK will have the second lowest debt of the G7, with only Canada being lower.[27]

The IFS has recently published an analysis which compares the state of public finances with other countries (and historically). This concluded:

> Turning to the international context, we are entering the current recession with one of the largest structural budget deficits in the industrial world and a debt level that may be among the smallest in the G7, but which is larger than that of most industrial countries. We have done less to reduce our structural budget deficit and less to reduce our debt than most other industrial countries since Labour came to office.[28]

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[26] The OECD figures are from the June 2008 edition of Economic Outlook.

[27] There is a significant difference between the OECD debt figures and those produced by the Treasury. Different definitions are used for the two series. The difference in debt on these two measures fluctuates over time and the OECD notes that net debt measures are not always entirely comparable across countries. These figures are, nevertheless, used by commentators such as the IFS.

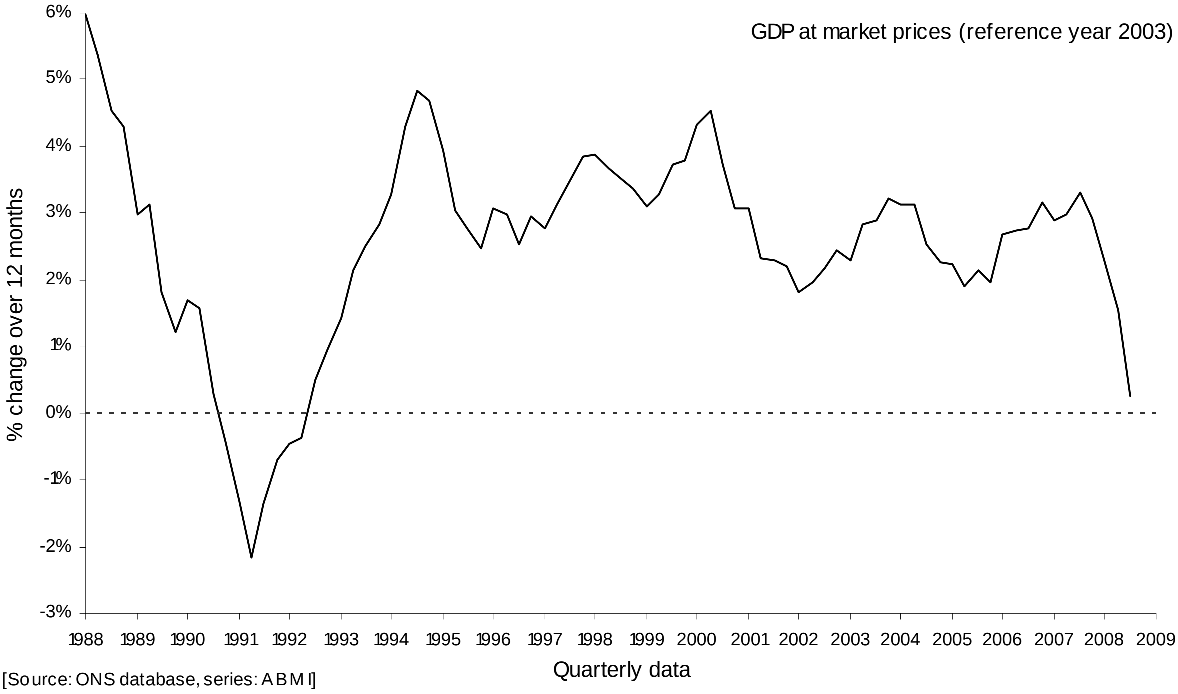
[28] IFS, The UK public finances: ready for recession? (Briefing Note 79), October 2008.

Appendix Table
Public sector finance statistics

	Net borrowinng		Public sector net debt (b)	
	£ billion	% GDP	£ billion	% GDP
1989/90	-1.0	-0.2	152.2	27.7
1990/91	5.8	1.0	151.3	26.2
1991/92	22.6	3.7	166.1	27.4
1992/93	46.7	7.4	201.9	31.8
1993/94	51.0	7.7	249.8	36.5
1994/95	43.3	6.2	290.0	40.1
1995/96	34.7	4.7	322.1	41.9
1996/97	27.1	3.4	347.2	42.5
1997/98	5.8	0.7	352.0	40.6
1998/99	-4.5	-0.5	350.7	38.4
1999/00	-15.5	-1.6	344.4	35.6
2000/01	-18.3	-1.9	311.1	30.7
2001/02	-0.2	0.0	314.3	29.7
2002/03	25.0	2.3	346.0	30.8
2003/04	33.1	2.9	381.5	32.2
2004/05	39.6	3.3	422.1	34.1
2005/06	37.8	3.0	460.9	35.4
2006/07	30.4	2.3	497.9	36.0
2007/08	35.8	2.5	526.9	36.3
2008/09 (a)	43	2.9	581	38.5

Source: HM Treasury
Notes: (a) 2008-09 figures are Budget 2008 forecasts
(b) debt figures exclude Northern Rock

A1: Gross Domestic Product



[Source: ONS database, series: ABMI]

Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

		Current prices		Chained volume (reference year 2003)	
		£ billion	% change	% change	
		On year		On year	Quarter on quarter
2004		1,200.6	5.3	2.8	..
2005		1,252.5	4.3	2.1	..
2006		1,321.9	5.5	2.8	..
2007		1,401.0	6.0	3.0	..
2007	Q3	353.4	6.1	3.3	0.8
	Q4	356.6	5.6	2.9	0.5
2008	Q1	362.2	5.7	2.3	0.3
	Q2	363.7	4.4	1.5	0.0
	Q3	..	..	0.3	-0.5

Source: ONS database, series: YBHA, ABMI

- Compared with the same quarter in the previous year (Q3 2008 on Q3 2007) the chained volume measure of gross domestic product (GDP) at market prices is estimated to be 0.3% higher. However, compared with the previous quarter, GDP fell by 0.5%. This is the first quarter on quarter period of negative growth since 1992 Q2.
- In October 2008, HM Treasury's average of independent economic forecasts of GDP growth for 2008 was 1.1%, down from 1.2% in September and 1.8% in January. The average growth forecast for 2009 was 0.1% in October. When forecasts for 2009 were first published in February 2008, the average was for growth of 2.0%.

Contact: Grahame Allen, x3977 **Updates:** HM Treasury, *Forecasts for the UK Economy*, 19 Nov; ONS, *Quarterly National Accounts*, 29 Jan 2009

A2: GDP: International Comparisons

[Source: OECD, *Main Economic Indicators*]

GDP at constant market prices
% changes

	% change on year				% change quarter on quarter					
					2007				2008	
	2004	2005	2006	2007	Q1	Q2	Q3	Q4	Q1	Q2
USA	3.6	2.9	2.8	2.0	0.0	1.2	1.2	0.0	0.2	0.7
Japan	2.7	1.9	2.4	2.1	0.9	-0.3	0.2	0.6	0.7	-0.7
Canada	3.1	2.9	3.1	2.7	1.0	1.0	0.6	0.2	-0.2	0.1
United Kingdom	2.8	2.1	2.8	3.0	0.9	0.8	0.8	0.5	0.3	0.0
Germany	1.2	0.8	3.0	2.5	0.4	0.4	0.6	0.3	1.3	-0.5
France	2.5	1.9	2.2	2.2	0.6	0.6	0.7	0.4	0.4	-0.3
Italy	1.5	0.6	1.8	1.5	0.3	0.1	0.1	-0.4	0.5	-0.3
Eurozone	1.9	1.8	3.0	2.6	0.7	0.5	0.6	0.4	0.7	-0.2
G7	2.9	2.3	2.7	2.2	0.4	0.7	0.8	0.1	0.4	0.1
OECD	3.3	2.7	3.1	2.7	0.6	0.8	0.8	0.4	0.5	0.1

Source: OECD, *Main Economic Indicators* , August 2008 (via OECD Stats browser)

- Of the OECD countries displayed in the table above, Japan, Germany, France, and Italy all recorded negative growth in Q2 2008, while UK GDP was unchanged in Q2.
- Annual UK GDP growth was 3.0% in 2007, compared with 2.0% in the US and 2.6% in the Eurozone.
- The OECD's forecast for UK growth is 1.8% in 2008, compared with 1.2% in the US and 1.7% in Japan, and overall OECD growth of 1.8%.
- In October, the IMF revised its growth forecasts. Negative growth is projected for 2008 Q4 compared with 2007 Q4 for the UK (-1.0%), Ireland (-3.3%), France and Italy (both -0.1%).

OECD growth forecasts
% change on year

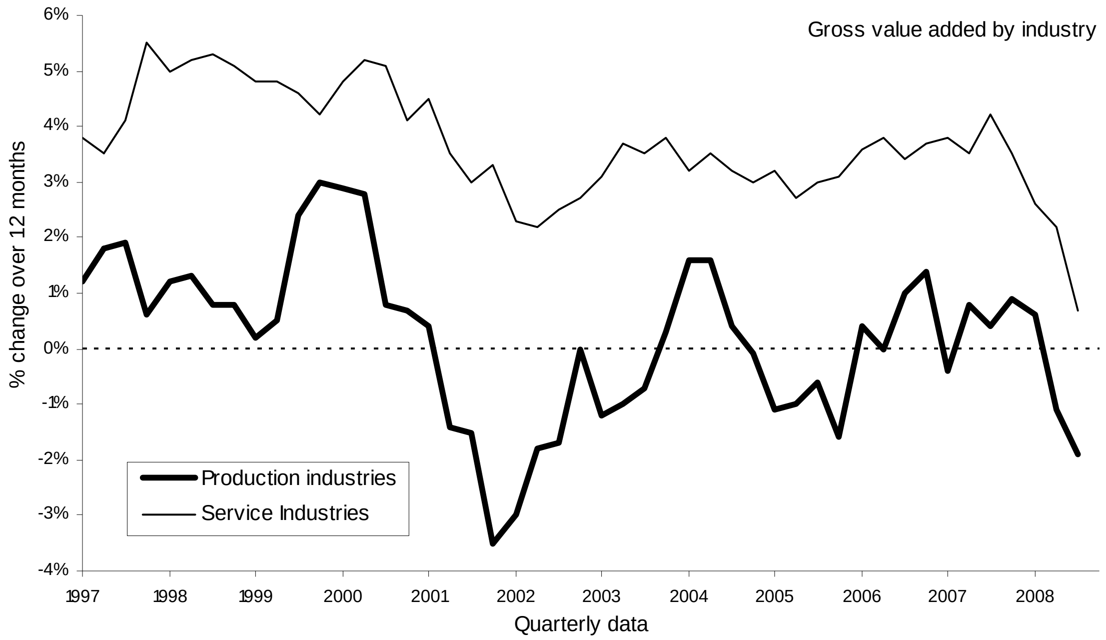
	2007	2008	2009
USA	2.2	1.2	1.1
Japan	2.1	1.7	1.5
United Kingdom	3.0	1.8	1.4
Eurozone	2.6	1.7	1.4
OECD	2.7	1.8	1.7

Source: OECD, *Economic Outlook* , Jun 2008

Contact: Ian Townsend, x2042 **Update:** OECD, *Main Economic Indicators*, mid-Nov

A3: Gross Domestic Product by Industry

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



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

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 0.7%. Between the second and third quarter of 2008 annual output growth in the service sector decreased by 1.5 percentage points.

Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries			Agriculture,	
	Total	Manufacturing	Services	hunting & fishing	Construction
2005	-1.1	-0.2	3.0	5.3	1.0
2006	0.7	1.8	3.6	2.7	1.0
2007	0.4	0.6	3.7	-0.9	2.9
2007 Q3	0.4	0.3	4.2	-2.3	2.9
Q4	0.9	0.3	3.5	0.8	2.7
2008 Q1	0.6	1.1	2.6	1.5	3.5
Q2	-1.1	-0.9	2.2	1.8	2.0
Q3	-1.9	-1.6	0.7	2.6	0.7

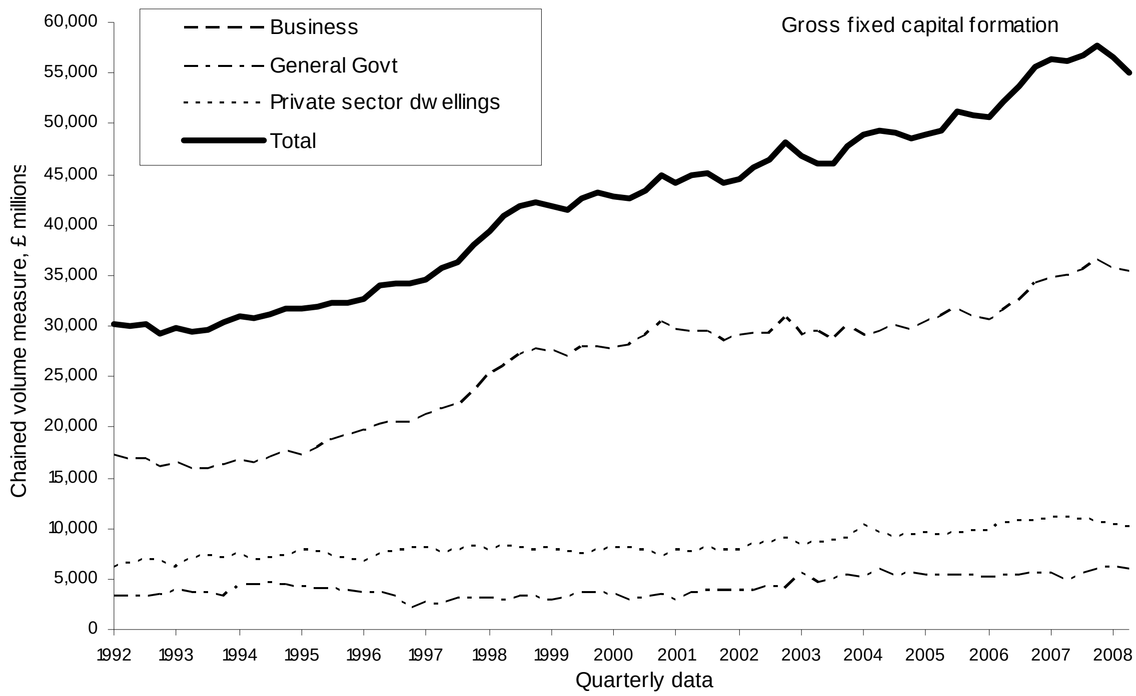
Source: ONS database, series: ERID, ERIE, ERIT, ERIU, GDQV, GDQW, GDRN, GDRQ, GDRR, GDSI

- Manufacturing output decreased by 1.6% in the third quarter of 2008 compared with the same quarter in 2007, and manufacturing output increased by 0.6% overall in 2007.
- In 2006, services accounted for 76% of gross value added, manufacturing for 13%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883 **Update:** ONS, *UK Output, income & expenditure–Q3*, 26 Nov

A4: Investment

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

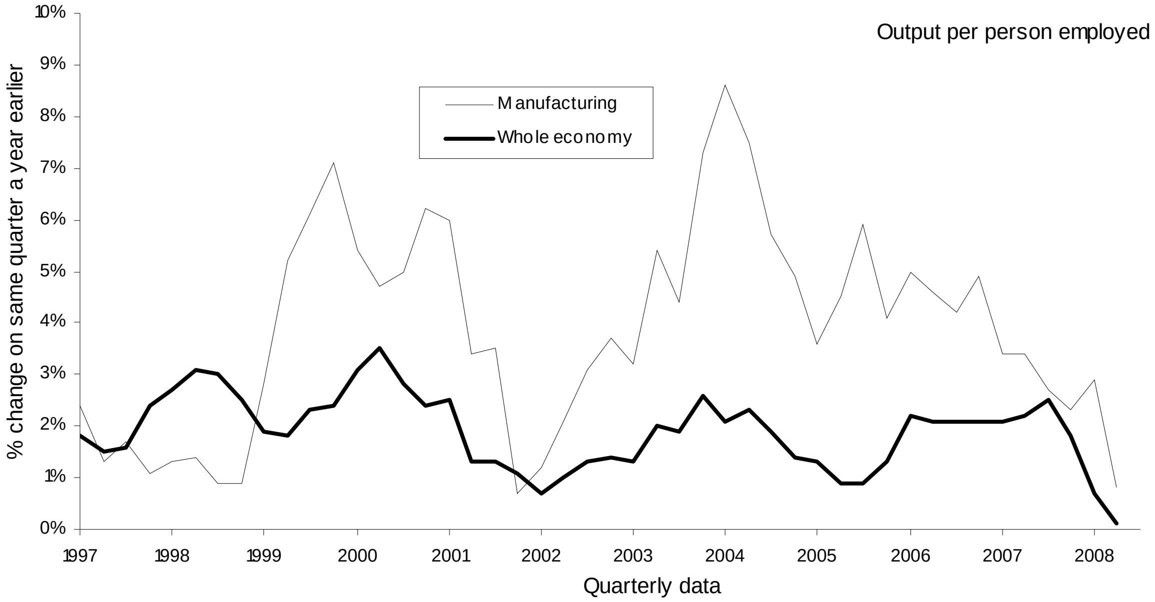
		Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2004		14,092	61,479	64,480	41,598	14,134	195,782
2005		14,675	62,192	67,371	41,872	14,077	200,187
2006		14,799	65,116	71,787	45,466	14,978	212,146
2007		15,223	71,903	77,413	47,543	15,105	227,188
2007	Q2	3,858	17,425	19,129	12,069	3,728	56,209
	Q3	3,813	17,789	19,556	11,842	3,764	56,764
	Q4	3,626	18,629	20,088	11,633	3,781	57,758
2008	Q1	3,678	17,281	20,504	11,306	3,840	56,609
	Q2	3,570	17,672	18,873	11,070	3,846	55,031

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

- Total business investment decreased by 1.0% in Q2 2008 compared with the previous quarter, and increased by 1.2% compared with Q2 2007 on a seasonally adjusted basis.
- Total manufacturing investment decreased by 4.5% in Q2 2008 compared with the previous quarter while investment in private sector services decreased by 1.5% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324 **Update:** ONS, *Business Investment,* 25 Nov

A5: Productivity



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

Productivity

% changes on year; seasonally adjusted

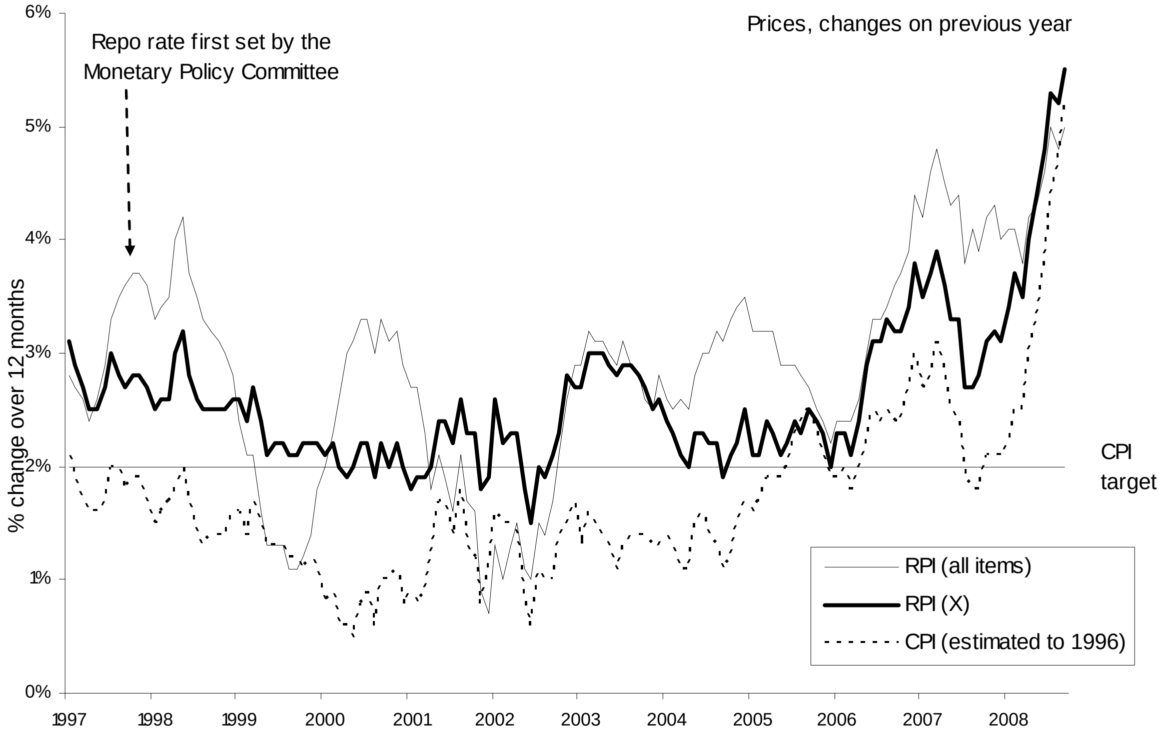
		Manufacturing			Whole Economy		
		Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2005		-0.2	-4.5	4.6	2.1	1.0	1.1
2006		1.8	-2.7	4.7	2.9	0.8	2.1
2007		0.6	-2.2	2.9	3.0	0.8	2.2
2007	Q2	1.0	-2.4	3.4	3.0	0.7	2.2
	Q3	0.3	-2.3	2.7	3.4	0.8	2.5
	Q4	0.3	-1.9	2.3	3.0	1.1	1.8
2008	Q1	1.1	-1.7	2.9	2.3	1.5	0.7
	Q2	-0.9	-1.7	0.8	1.6	1.4	0.1
	Q3	-1.6	..	..	0.3	..	..

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 2.2% in 2007 compared with 2.1% in 2006 and 1.1% in 2005.
- In 2007, manufacturing output increased by 0.6% and employment in manufacturing fell by 2.2%, while manufacturing output per head rose by 2.9%.
- Productivity growth in manufacturing was 0.8% per annum in Q2 2008 compared to 2.9% per annum in the previous quarter, while whole economy productivity growth decreased from 0.7% per annum in Q1 2008 to 0.1% per annum in Q2 2008.
- For the economy as a whole, productivity growth has averaged 1.7% per annum over the last eight quarters. Figures on this page are based on output per job.

Contact: Ed Potton, x2883 **Update:** ONS, *Productivity*, 23 Dec

B1: Prices



[Source: see table]

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

- In the year to September, the consumer prices index (CPI) showed inflation at 5.2%, up from 4.7% in August. This is the fifth month in a row in which the CPI has been more than 1 percentage point greater than the inflation target.
- The largest upward effect on the CPI came from housing and household services due to rises in average gas and electricity bills this year. There were further large upward contributions from recreation and culture, clothing and footwear, and transport costs.
- The largest downward contribution to the CPI annual rate came from food and non-alcoholic beverages.
- The former headline (all items RPI) rate of inflation was 5.0% in September, up from 4.8% in August. The underlying RPI(X) also rose to 5.5% in September from 5.2% in August.
- The largest upward effect on the RPI came from fuel and light. The largest downward effect came from food.

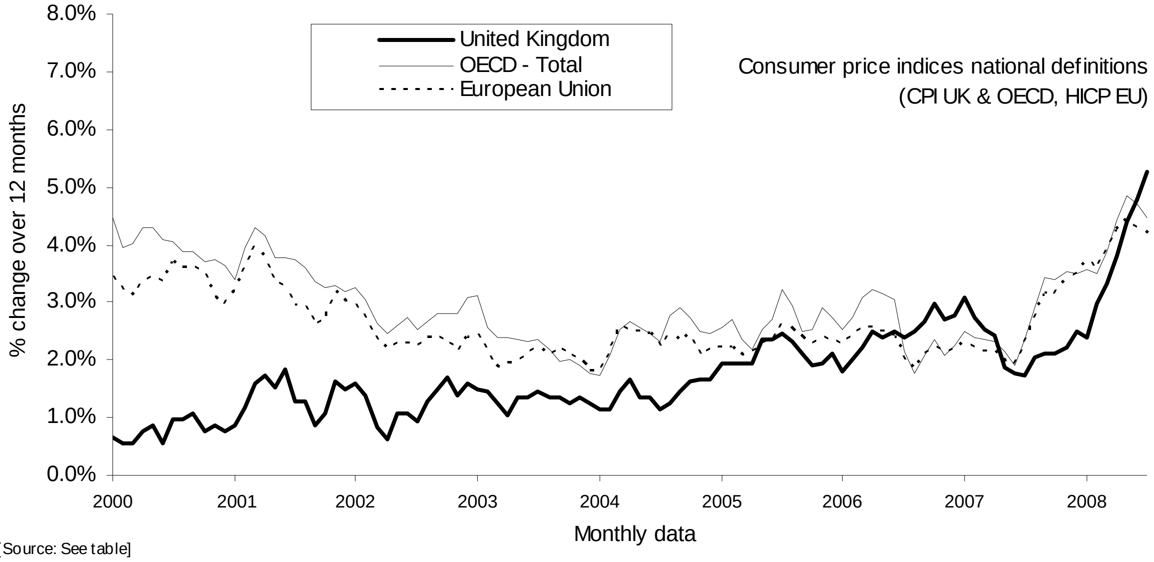
Price Indices
% change over 12 months

		CPI (was HICP)	RPI (all items)	RPI (X)
2004		1.3	3.0	2.2
2005		2.1	2.8	2.3
2006		2.3	3.2	2.9
2007		2.3	4.3	3.2
2007	Sep	1.8	3.9	2.8
	Oct	2.1	4.2	3.1
	Nov	2.1	4.3	3.2
	Dec	2.1	4.0	3.1
2008	Jan	2.2	4.1	3.4
	Feb	2.5	4.1	3.7
	Mar	2.5	3.8	3.5
	Apr	3.0	4.2	4.0
	May	3.3	4.3	4.4
	Jun	3.8	4.6	4.8
	Jul	4.4	5.0	5.3
	Aug	4.7	4.8	5.2
	Sep	5.2	5.0	5.5

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

Contact: Edward Beale, x2464 **Update:** ONS, *Consumer Price Indices: First release*, 18 Nov

B2: Prices: International Comparisons



[Source: See table]

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 4.9% in September, a decrease of half of a percentage point from August;
- The average annual inflation rate for all OECD countries in September was 4.5%, down from 4.7% in August (the 4.8% rate in July was the highest rate of inflation in the OECD since November 1997);
- The EU's average inflation rate, based on harmonised indices of consumer prices (in the chart above, but not in the table), was 4.2% in September.

Consumer Price Indices
national definitions; % change over 12 months

		USA	Japan	Canada	UK	OECD
2004		2.7	-0.0	1.9	1.3	2.4
2005		3.4	-0.3	2.2	2.0	2.4
2006		3.2	0.2	2.0	2.3	2.6
2007		2.9	0.1	2.1	2.3	2.7
2008	Apr	3.9	1.7	0.8	3.0	3.5
	May	4.2	2.2	1.3	3.3	3.9
	Jun	5.0	3.1	2.0	3.8	4.4
	Jul	5.6	3.4	2.3	4.4	4.8
	Aug	5.4	3.5	2.1	4.8	4.7
	Sep	4.9	3.4	2.1	5.2	4.5

Source: OECD, Consumer Prices Release

EU/Eurozone inflation
harmonised indices (HICPs); % change over 12 months

		France	Germany	Italy	UK	Eurozone
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		1.6	2.3	2.0	2.3	2.1
2008	Apr	3.4	2.6	3.6	3.0	3.3
	May	3.7	3.1	3.7	3.3	3.7
	Jun	4.0	3.4	4.0	3.8	4.0
	Jul	4.0	3.5	4.0	4.4	4.0
	Aug	3.5	3.3	4.2	4.7	3.8
	Sep	3.3	3.0	3.9	5.2	3.6

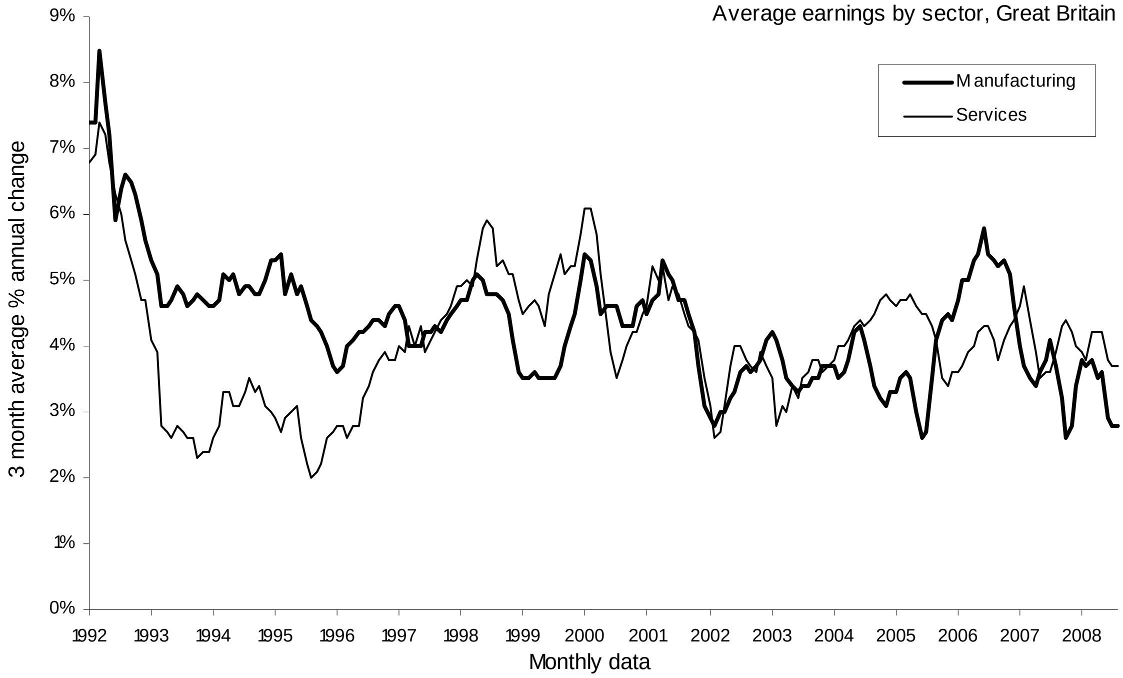
Source: Eurostat, Euro-Indicators news release, Oct 2008

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

- Eurozone annual inflation was 3.6% in September.
- The preliminary (flash) estimate for October 2008 indicates that annual inflation in the eurozone was 3.2%, down 0.4 percentage points on the previous month's figure of 3.6%.
- The monthly HICP inflation rates in August for the EU15 Member States not in the eurozone were 4.5% in Denmark, 4.2% in Sweden and 5.2% in the UK.
- The eurozone countries with the highest monthly HICP annual inflation rates in August were Slovenia (5.6%), Belgium (5.5%) and Cyprus (5.0%). The lowest rates were in the Netherlands (2.8%) and Germany (3.0%).

Contact: Ian Townsend, x2042 **Updates:** Eurostat, *Euro-indicators news release*, 14 Nov
OECD, *Consumer prices release*, 2 Dec

B3: Average Earnings Index



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

- The headline rate of growth in average earnings for the whole economy in August was 3.4%, down from 3.5% in July.
- Headline average earnings growth in manufacturing was 2.8% in August, unchanged from July. Earnings growth in the service sector was also unchanged from the previous month at 3.7%.
- Headline earnings growth in the private sector was 3.4% in August, compared with 3.5% in the public sector. Earnings growth in the private sector was down from 3.5% in July, while earnings growth in the public sector was up from 3.5% in July.
- Earnings are currently growing at a slower rate than they were a year ago (the headline rate in August 2007 was 3.8%).
- In the year to August, the consumer price index showed inflation above the rate of earnings growth at 4.7%.

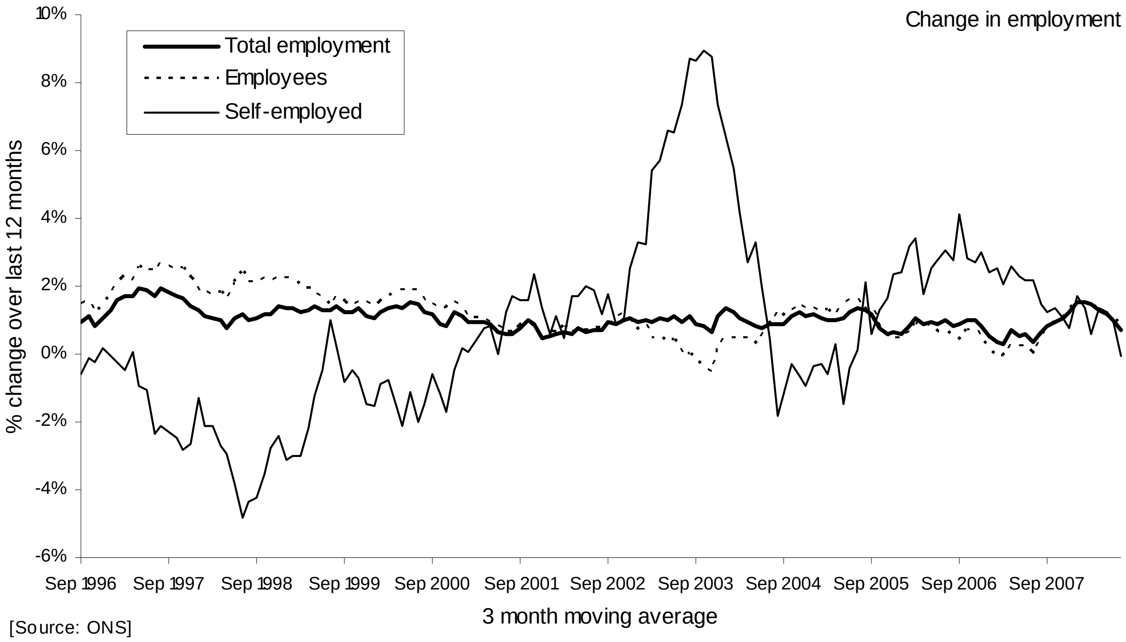
Average Earnings, Great Britain
% change on year; seasonally adjusted

		Headline rate		
		Whole Economy	Private Sector	Public Sector
2004	Aug	4.5	4.5	4.2
2005	Aug	4.1	4.1	4.7
2006	Aug	4.2	4.3	3.6
2007	Aug	3.8	4.0	2.9
	Sep	4.1	4.4	3.0
	Oct	4.1	4.3	3.2
	Nov	4.1	4.2	3.3
	Dec	3.9	4.0	3.3
2008	Jan	3.9	4.0	3.4
	Feb	3.7	3.7	3.7
	Mar	4.0	3.9	3.8
	Apr	4.0	3.9	3.9
	May	3.9	3.9	3.5
	Jun	3.5	3.6	3.2
	Jul	3.5	3.5	3.3
	Aug	3.4	3.4	3.5

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

Contact: Edward Beale, x2464 **Update:** ONS, *Labour Market Statistics*, 12 Nov

C1: Employment



[Source: ONS]

Employment structure in the UK

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

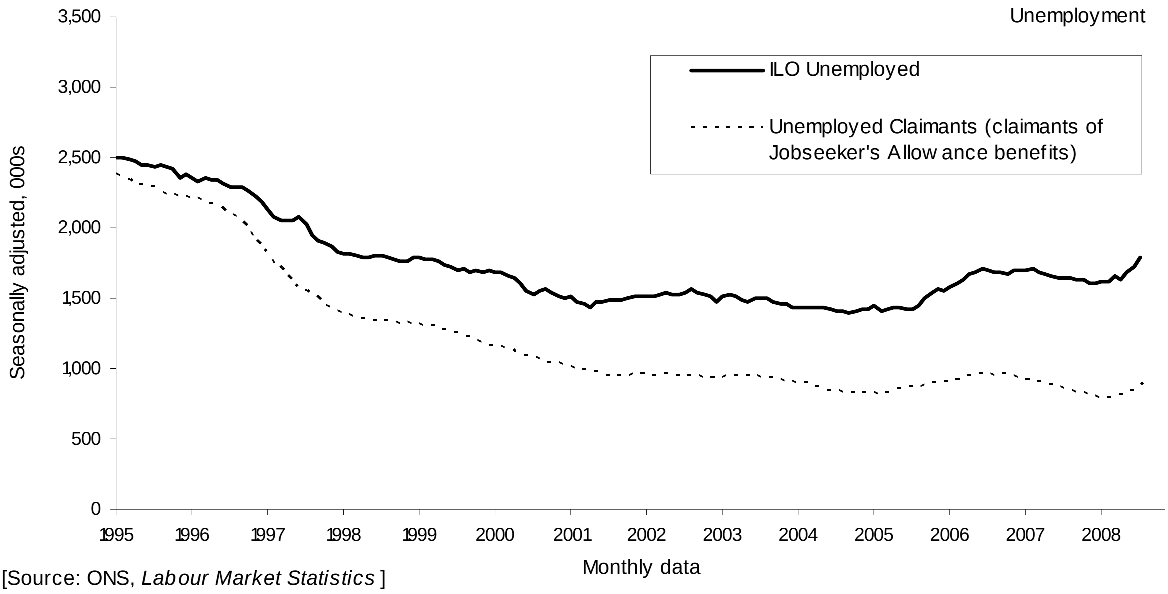
	Total in employment	Employees	Self-employed	Unpaid Family Workers	Government Training
2004 Jul	28,434	24,595	3,619	86	133
2005 Jul	28,822	25,006	3,623	84	109
2006 Jul	29,109	25,182	3,734	104	89
2007 Jul	29,220	25,186	3,815	103	116
2007 Oct	29,368	25,332	3,825	103	108
2008 Jan	29,494	25,415	3,854	108	118
2008 Apr	29,541	25,463	3,843	116	119
2008 Jul	29,419	25,411	3,812	88	108
Changes (%):					
on last 3 months	-0.4	-0.2	-0.8	-24.0	-8.9
on last year	0.7	0.9	-0.1	-14.9	-6.8

Source: ONS

- Total employment in the period June to August 2008 was 199,000 higher than a year earlier but 122,000 lower than the previous quarter. This is the largest quarterly fall in employment since the early 1990s.
- Over the year to June, the number of manufacturing industry workforce jobs fell by 47,000. The number of service sector jobs rose by 160,000 over the year.
- 7.5 million people were in part-time employment in the period June to August 2008, of whom 5.7 million were women. 3.8 million people were self-employed.

Contact: Dominic Webb, x4324 **Update:** ONS, *Labour Market Statistics*, 12 Nov

C2: Unemployment: National



[Source: ONS, *Labour Market Statistics*]

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

- The latest LFS estimates show that over the period June to August 2008, the level of ILO unemployment in the UK was 1,792,000 (seasonally adjusted). This was an increase of 146,000 from the same period a year earlier.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, increased by 35,000 between August and September 2008 to 939,900.

The New Deal for Young People started in January 1998.

- By May 2008, there had been 1,844,000 starts under the scheme. By February 2008, 1,727,000 spells had resulted in 805,000 sustained jobs (47%) 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 May 2008, there had been 1,123,000 starts under the scheme. By February 2008, 672,000 spells had resulted in 289,000 sustained jobs (43%).

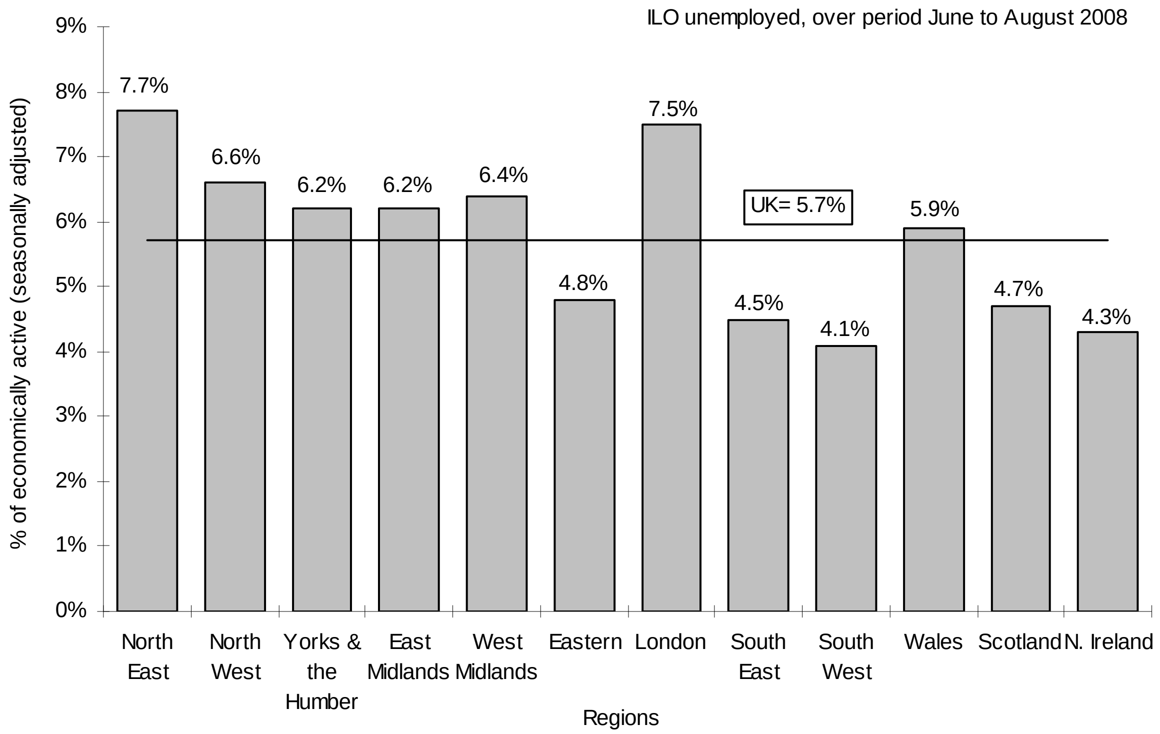
ILO Unemployment in the UK
seasonally adjusted

		'000s	(%)
Jun-Aug	2002	1,537	5.2
Sep-Nov		1,531	5.2
Dec-Feb	2003	1,515	5.1
Mar-May		1,485	5.0
Jun-Aug		1,503	5.1
Sep-Nov		1,462	4.9
Dec-Feb	2004	1,434	4.8
Mar-May		1,435	4.8
Jun-Aug		1,407	4.7
Sep-Nov		1,411	4.7
Dec-Feb	2005	1,444	4.8
Mar-May		1,435	4.8
Jun-Aug		1,426	4.7
Sep-Nov		1,543	5.1
Dec-Feb	2006	1,578	5.2
Mar-May		1,666	5.4
Jun-Aug		1,693	5.5
Sep-Nov		1,675	5.4
Dec-Feb	2007	1,702	5.5
Mar-May		1,673	5.4
Jun-Aug		1,646	5.3
Sep-Nov		1,633	5.3
Dec-Feb	2008	1,614	5.2
Mar-May		1,628	5.2
Jun-Aug		1,792	5.7

Source: ONS, *Labour Market Statistics*

Contact: Roderick McInnes, x3793 **Updates:** ONS, *Labour Market Statistics*, 12 Nov
DWP, *New Deal*, Nov

C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

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

- Over the period June to August 2008 the North East had the highest unemployment rate, 7.7% of the economically active population. The lowest rate over the same period was 4.1%, in the South West.

- A comparison of June to August 2008 with the same period a year earlier shows that the largest fall (7%) in unemployment occurred in the Eastern region. The North East showed the largest increase (32%) over the period.

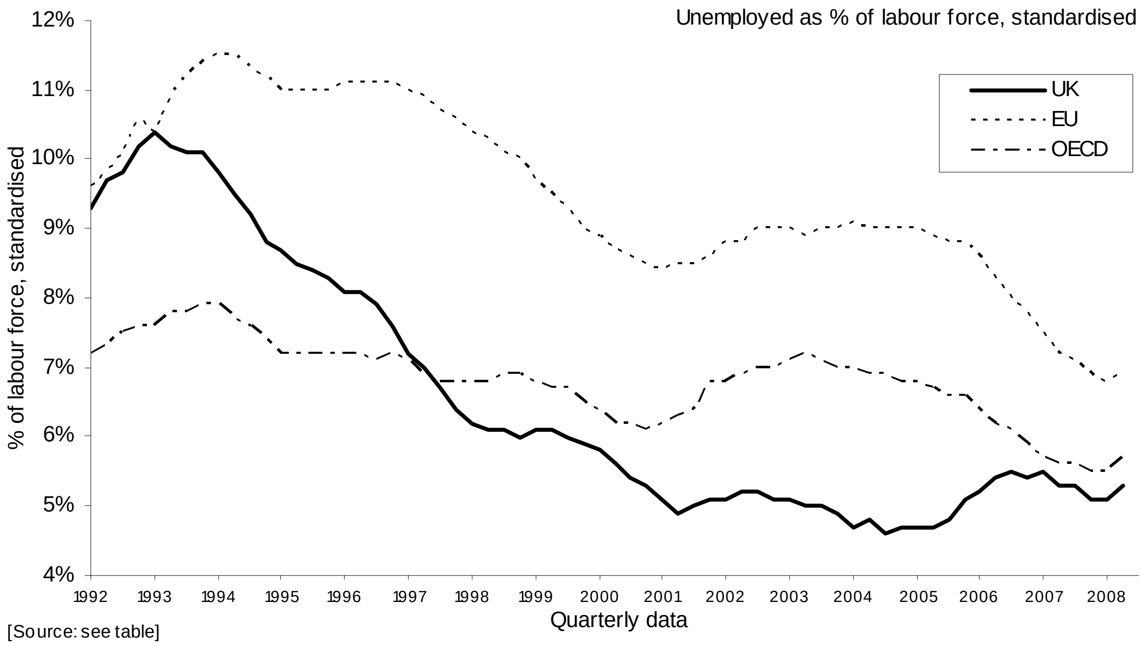
ILO Unemployment,
June to August 2008
change on same period in previous year; seasonally adjusted

	Number (rounded)	%
North East	+23,000	*+32*
North West & Merseyside	+19,000	*+9*
Yorkshire & the Humber	+16,000	*+11*
East Midlands	+22,000	*+18*
West Midlands	-6,000	*-3*
Eastern	-11,000	*-7*
London	+61,000	*+25*
South East	0	*0*
South West	+3,000	*+3*
Wales	+11,000	*+15*
Scotland	+2,000	*+2*
Northern Ireland	+5,000	*+17*

Source: ONS, *Labour Market Statistics*

Contact: Roderick McInnes, x3793 **Update:** ONS, *Labour Market Statistics*, 12 Nov

C4: Unemployment: International Comparisons



[Source: see table]

Unemployment

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

			2006				2007				2008		
	2006	2007	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Canada	6.3	6.0	6.4	6.2	6.4	6.2	6.1	6.1	6.0	5.9	5.9	6.1	6.1
France	9.2	8.3	9.6	9.2	9.1	8.9	8.8	8.4	8.1	7.9	7.7	7.6	..
Germany	9.8	8.4	10.5	10.0	9.6	9.2	8.7	8.5	8.3	8.0	7.6	7.4	..
Italy	6.8	6.2	7.3	6.8	6.6	6.5	6.1	6.0	6.2	6.3	6.7	6.8	..
Japan	4.1	3.9	4.2	4.1	4.1	4.1	4.0	3.8	3.8	3.8	3.9	4.0	..
UK	5.4	5.3	5.2	5.4	5.5	5.4	5.5	5.3	5.3	5.1	5.1	5.3	..
USA	4.6	4.6	4.7	4.7	4.7	4.4	4.5	4.5	4.7	4.8	4.9	5.3	6.0
Eurozone	8.2	7.4	8.7	8.3	8.1	7.9	7.6	7.4	7.4	7.3	7.2	7.4	..
G7	5.8	5.4	6.0	5.8	5.8	5.6	5.5	5.2	5.4	5.4	5.5	5.6	..
OECD	6.1	5.6	6.4	6.2	6.1	5.9	5.7	5.6	5.6	5.5	5.5	5.7	..

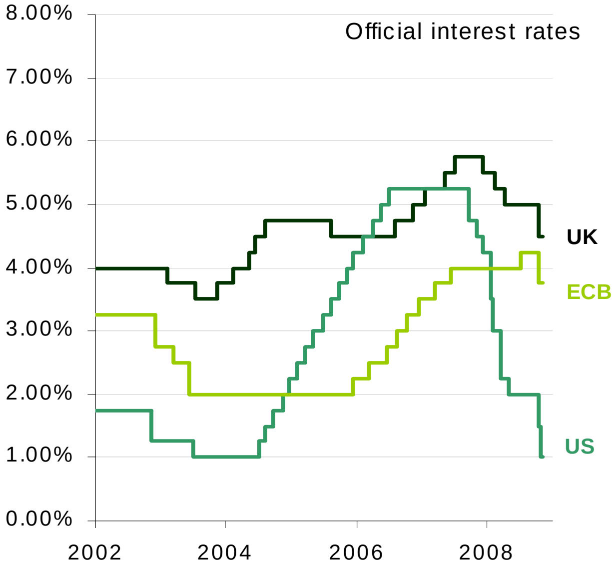
Source: OECD, Standardised Unemployment Rate, October 2008

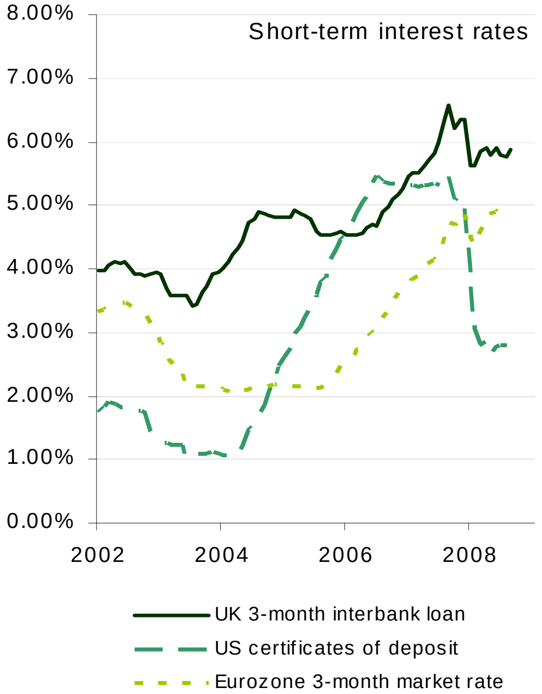
- Using standardised definitions, the UK unemployment rate for 2007 was 5.3%, significantly below the eurozone average (7.4%) and below the G7 and OECD rates (5.4% and 5.6% respectively).
- Between Q2 2007 and Q2 2008 (the latest quarter for which all data are available) Germany had the largest fall in unemployment among G7 countries: 1.1 percentage points.
- The most recent forecasts published by the OECD (*Economic Outlook*, June 2008) suggest the UK unemployment rate will be 5.5% in 2008 and 5.8% in 2009. The respective forecasts for the eurozone are 7.2% and 7.4% and for the OECD as a whole 5.7% and 6.0%.

Contact: Roderick McInnes, x3973 **Updates:** OECD, *Standardised Unemployment Rates*, 7 Nov
OECD, *Economic Outlook*, Dec

D1: Interest Rates

- The Bank of England, Federal Reserve, European Central Bank, and others, cut rates in a coordinated move on 8 October. The UK official bank rate was cut from 5.00% to 4.50%. The minutes show that the MPC voted unanimously for this cut.
- The announcement of the Monetary Policy Committee's vote came after a special meeting a day earlier than planned.
- The Federal Reserve cut its rates by a further 50 basis points to 1.00% on 29 October.
- The Bank of Japan cut its rate by 20 basis points on 31 October.





UK Base/Repo rate changes

% per annum

Date		New rate	Date		New rate
2000	Jan 13	5.75	2004	Jun 10	4.50
	Feb 10	5.50		Aug 5	4.75
2001	Feb 8	5.25	2005	Aug 4	4.50
	Apr 5	5.00	2006	Aug 3	4.75
	May 10	4.75		Nov 9	5.00
	Aug 2	4.50	2007	Jan 11	5.25
	Sep 18	4.00		May 10	5.50
	Oct 4	3.75		Jul 5	5.75
	Nov 8	3.50		Dec 6	5.50
2003	Feb 6	3.75	2008	Feb 7	5.25
	Jul 10	4.00		Apr 10	5.00
	Nov 6	4.25		Oct 8	4.50

Source: Bank of England

International interest rates

% per annum, at 31 October 2008

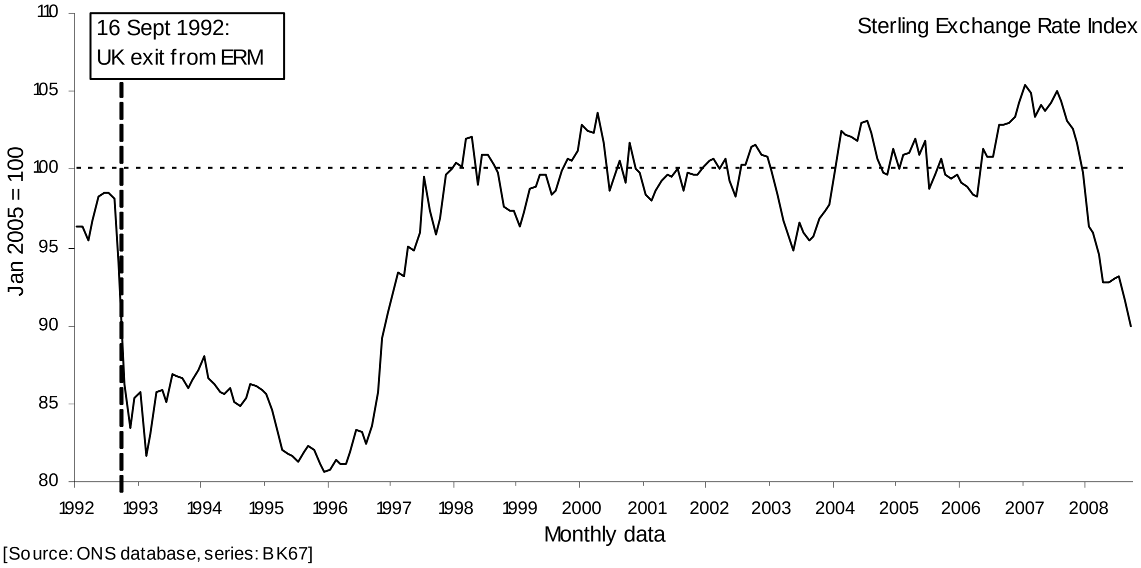
	Official rate	*Since*	Yield 10yr Govt bonds	3-month market rate
United Kingdom	4.50	*9/10/08*	4.53	6.00 - 5.50
Eurozone	3.75	*9/10/08*	n/a	4.98 - 4.77
United States	1.00	*29/10/08*	3.96	3.73 - 2.73
Japan	0.30	*31/10/08*	1.49	2.10 - 1.48
Switzerland	2.00 - 3.00	*9/10/08*	2.78	3.30 - 2.30

Source: *Financial Times, 3 November 2008 (Companies & Markets, p.30)*

Contact: Bryn Morgan, x4904 **Updates:** Short-term interest rates: OECD, MEI, mid-Nov; Base rates: 6 Nov (UK MPC), 6 Nov (ECB), 16 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]

- Compared with December 2007, the SERI fell by 9.9 points in September 2008, suggesting that the UK was relatively more competitive at the end of September than at the end of the previous year.

The table shows sterling exchange rates for three major currencies: the US dollar, Japanese yen and the euro. The pound was worth €1.242 at the London market close on 3 November 2008, compared with a launch rate of €1.476 on 31 December 1998. The pound was worth $1.583 at the market close on 3 November 2008.

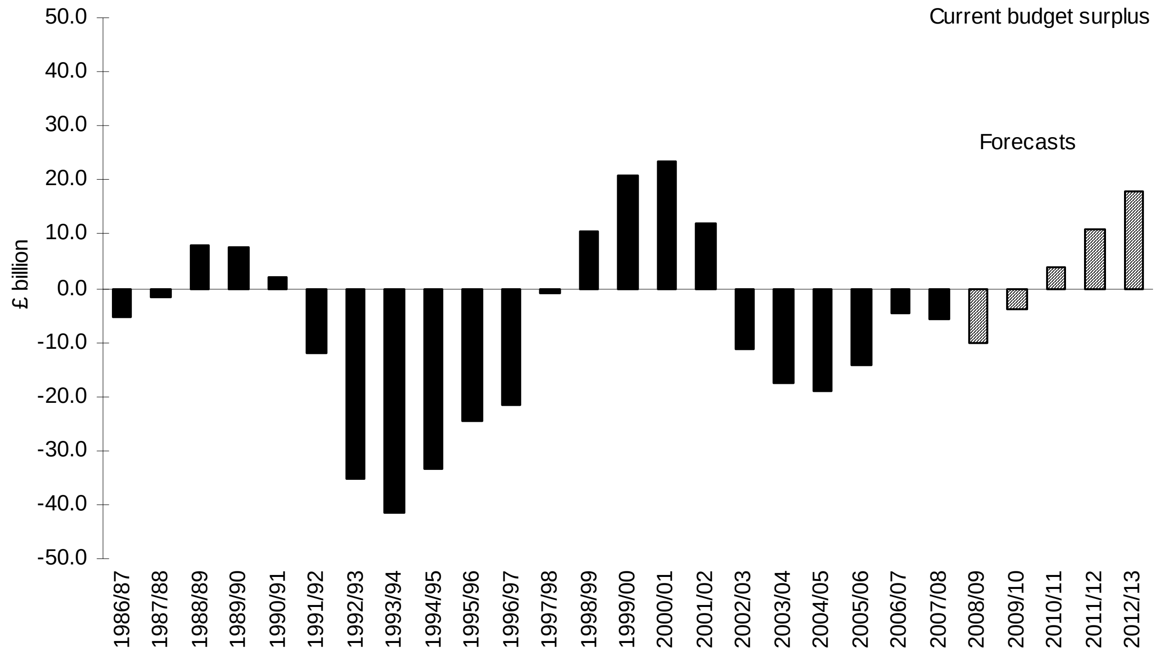
Sterling Exchange Rates
rates and % changes

		US Dollar ($)		Yen (¥)		Euro (€)	
		Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
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	0.6	214.3	8.2	1.467	-0.5
2007		2.002	10.0	235.6	17.7	1.462	-0.1
2007	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
	Nov	2.070	8.3	229.6	2.4	1.411	-4.9
	Dec	2.019	2.8	226.8	-1.4	1.386	-6.7
2008	Jan	1.970	0.6	212.2	-10.1	1.338	-11.2
	Feb	1.964	0.3	210.3	-10.8	1.332	-11.0
	Mar	2.003	2.9	202.0	-11.6	1.290	-12.3
	Apr	1.982	-0.5	203.4	-14.1	1.258	-14.5
	May	1.964	-1.0	205.0	-14.5	1.263	-13.9
	Jun	1.966	-1.0	210.2	-13.7	1.264	-14.7
	Jul	1.988	-2.3	212.4	-14.0	1.262	-14.9
	Aug	1.889	-6.1	206.5	-12.0	1.261	-14.6
	Sep	1.799	-10.9	191.8	-17.4	1.253	-13.7

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

Contact: Edward Beale, x2464 **Updates:** ONS, *SERI*, mid-Nov; *Sterling Exchange Rates*, daily

D4: Public Finances



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

The Government's "golden rule" requires it to balance the current budget over the economic cycle. The Treasury have yet to reach a final view about the end point of the cycle. The chart shows outturns for the current budget balance and Treasury forecasts from the 2008 Budget. Net borrowing in total was £35.8bn in 2007/08 and is forecast by the Treasury to reach £43bn in 2008/09. Many commentators expect this to be revised upwards in the Pre-Budget Report in the autumn. Net borrowing was £14.3bn in 2008, Q3 compared with £6.3bn in 2007, Q3.

The Government's other fiscal rule requires it to keep public sector net debt below 40% of GDP in each and every year of the current economic cycle. The table shows net debt including Northern Rock. The Government have said that the rule will be assessed looking at debt excluding Northern Rock. On this basis, debt was 37.9% of GDP in Q3, 2008.

The Office for National Statistics has not yet announced how the Government's measures to recapitalise banks will be reflected in public finance statistics.

For more details on the fiscal rules and public finances, see this months article on page vii.

Public Sector Net Debt and Borrowing

£ billion & %

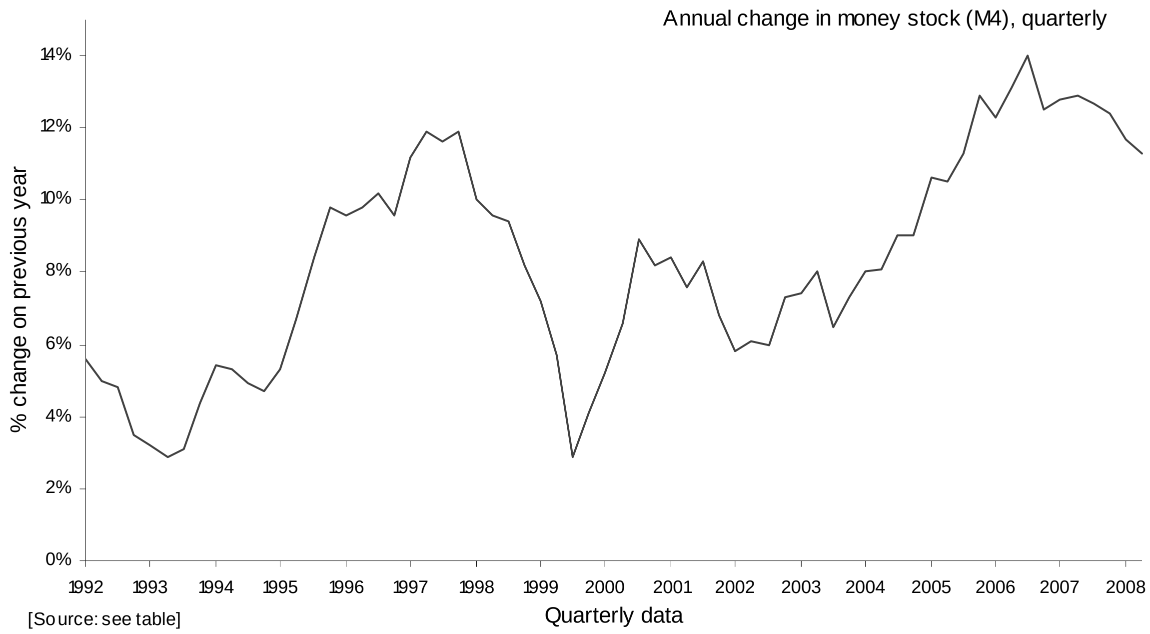
	Net Debt		Net borrowing
	£ billion	% GDP	£ billion
2004/05	422.1	34.1	39.6
2005/06	460.9	35.4	37.8
2006/07	497.9	36.0	30.4
2007/08	621.3	42.8	35.8
2007 Q3	514.5	36.2	6.3
Q4	634.0	44.2	16.6
2008 Q1	621.3	42.8	-2.2
Q2	641.7	43.6	23.2
Q3	645.3	43.4	14.3

Source: ONS database, series: RUTN, RUTO, -ANNX

Note: debt figures include Northern Rock from October 2007

Contact: Dominic Webb, x4324 **Update:** ONS, *Public sector finances,* 20 Nov

D5: Money Supply



[Source: see table]

Money stock
% change; seasonally adjusted

		Notes and coin		M4	
		3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2007	Sep	5.9	5.4	12.9	12.7
	Oct	7.4	5.4	9.6	11.9
	Nov	6.2	5.4	6.6	11.8
	Dec	4.6	5.8	9.7	12.4
2008	Jan	5.9	6.3	15.0	13.1
	Feb	7.6	6.6	13.8	12.2
	Mar	8.8	6.7	10.6	11.7
	Apr	6.4	6.7	6.6	11.0
	May	4.6	5.9	7.6	10.1
	Jun	3.6	5.7	12.4	11.4
	Jul	3.5	5.8	13.7	11.2
	Aug	2.0	5.1	18.4	11.5
	Sep	3.4	5.1	16.9	12.4

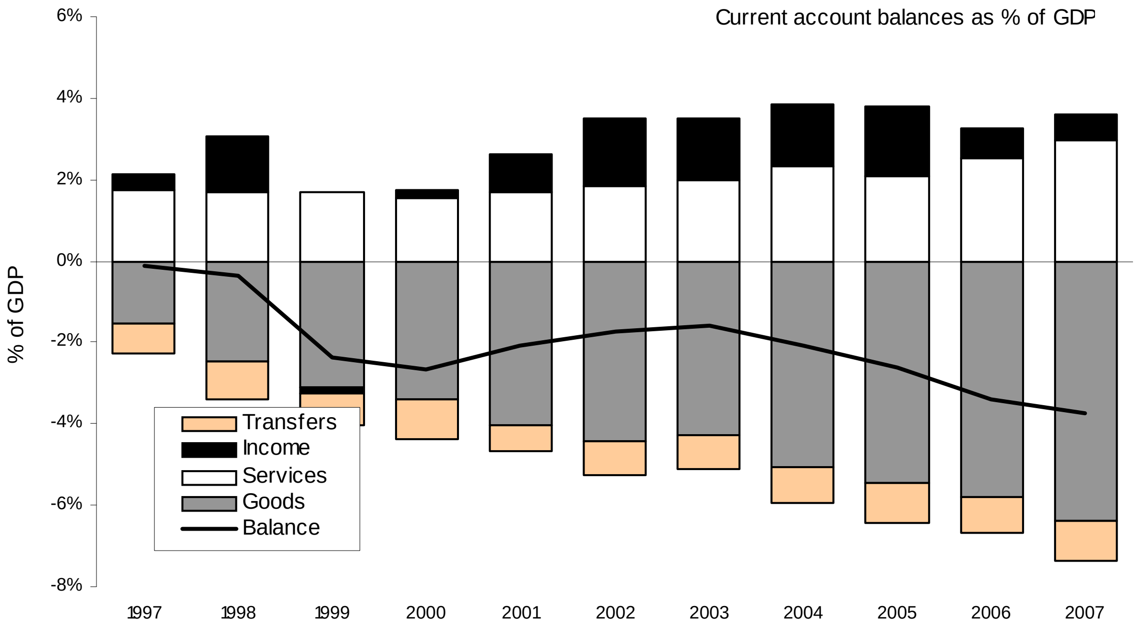
Source: Bank of England, *Monetary and Financial Statistics* October 2008, Tables A1.11 and A2.11

The table above shows sterling notes and coin in circulation outside the Bank of England. The table also shows 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.

- Seasonally adjusted M4 grew by 12.4% in the 12 months to September 2008. The 12-month seasonally adjusted growth rate of notes and coins was 5.1% in September 2008.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324 **Update:** Bank of England, *Monetary & Financial Stats*, 1 Dec

E1: UK Overseas Trade



[Source: see table]

Current Account Balances

£ millions; seasonally adjusted

		Trade in goods/services				Transfers			Current Account Balance
		Goods	Services	Total	Income (total)	Central Gov.	Other	Total	
2004		-60,900	28,146	-32,754	17,830	-8,048	-2,228	-10,276	-25,200
2005		-68,589	25,875	-42,714	21,872	-9,343	-2,506	-11,849	-32,691
2006		-76,312	33,108	-43,204	10,097	-9,502	-2,422	-11,924	-45,031
2007		-89,252	41,772	-47,480	8,606	-9,817	-3,877	-13,694	-52,568
2007	Q2	-20,286	9,899	-10,387	1,056	-2,064	-1,017	-3,081	-12,412
	Q3	-23,448	10,482	-12,966	58	-2,032	-937	-2,969	-15,877
	Q4	-24,050	11,473	-12,577	8,168	-3,510	-1,028	-4,538	-8,947
2008	Q1	-23,197	11,094	-12,103	10,486	-2,465	-1,410	-3,875	-5,492
	Q2	-23,140	11,113	-12,027	4,516	-2,119	-1,357	-3,476	-10,987

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

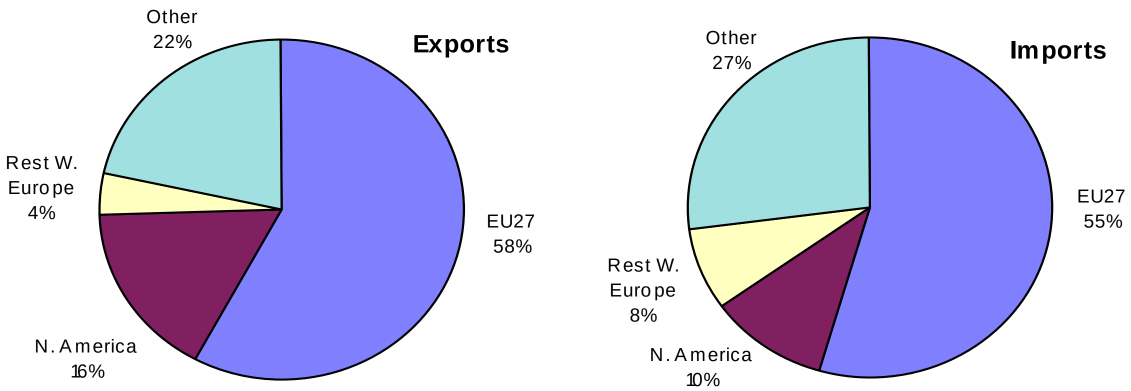
- **Annually**, the current account deficit in 2007 was £52.6 billion, equivalent to -3.8% of GDP. The surplus on income narrowed between 2006 and 2007 and the services surplus widened, while the deficits on goods trade and transfers widened.
- On a **quarterly** basis, the current account deficit was estimated at £11.0 billion in Q2 2008, widening from the Q1 2008 deficit of £5.5 billion. Between Q1 2008 and Q2 2008 the surplus on services widened while the deficit on goods narrowed slightly.
- In 2007 the **annual** current account deficit with EU27 countries was £39.5 billion, compared with a deficit with non-EU countries of £13.0 billion. On a **quarterly** basis, the deficit with EU countries was £6.7 billion in Q2 2008 (compared with £7.85 billion in Q1 2008). With non-EU countries, the current account was in deficit by £4.3 million in Q2 2008 (compared with a surplus of £2.4 billion in Q1 2008).

Contact: Grahame Allen, x3977 **Updates:** ONS, *UK Balance of Payments*, 23 Dec; *UK Trade*, 9 Oct

E2: UK Overseas Trade in Goods

Shares of UK trade in goods by area, 2007

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
2004	101.5	106.9	190,874	251,774	-60,900
2005	111.0	114.6	211,608	280,197	-68,589
2006	125.2	127.5	243,635	319,947	-76,312
2007	110.2	122.1	220,703	309,955	-89,252
2007 Q2	110.1	118.9	54,653	74,939	-20,286
Q3	111.9	125.3	55,883	79,331	-23,448
Q4	110.1	124.2	56,873	80,923	-24,050
2008 Q1	111.5	122.2	60,042	83,239	-23,197
Q2	112.6	121.7	64,035	87,175	-23,140

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

- In August, the provisionally estimated total value of UK goods exports was £21.3 billion and the total value of UK goods imports was £29.5 billion. As a result, the estimated deficit on goods trade was £8.20 billion, slightly lower than the July level of £8.24 billion.

- Geographical breakdowns of UK trade with EU and non-EU countries are 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 August (compared with £3.5 billion in July), while the deficit with non-EU countries was £5.2 billion (compared with £4.8 billion in July).

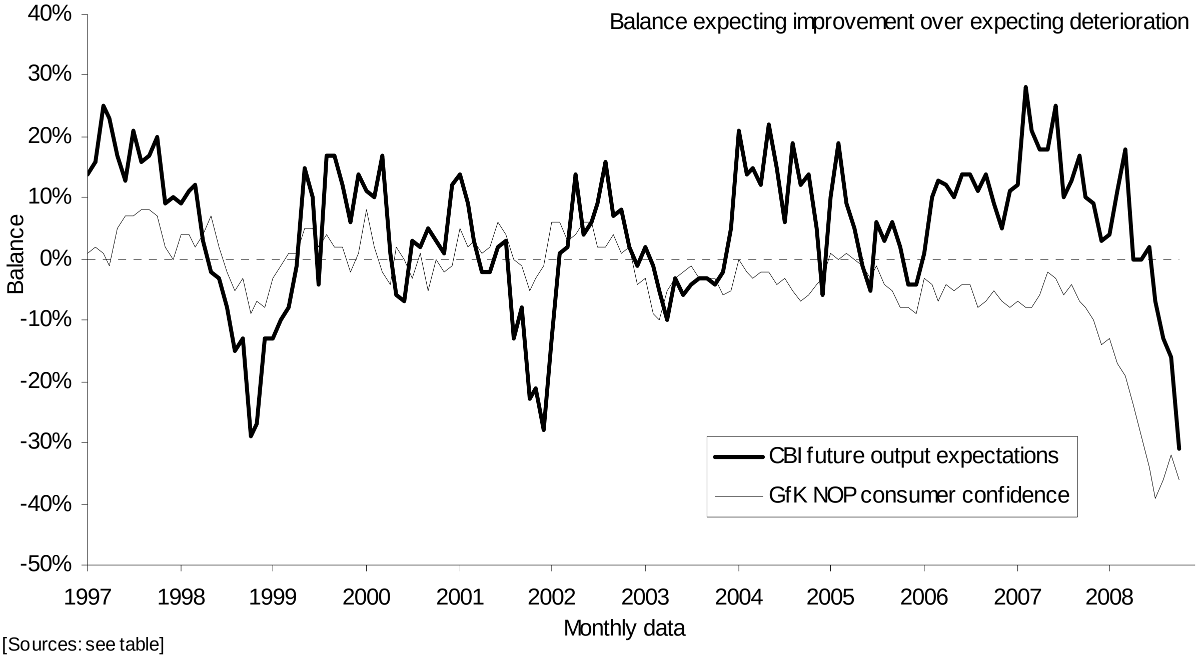
- The UK's monthly surplus on trade in **services** was £3.46 billion in August, slightly lower than the July total of £3.48 billion.

- The UK's overall monthly deficit on **goods and services combined** in August was £4.74 billion, down from £4.76 billion in July.

Contact: Grahame Allen, x3977 **Update:** ONS, *UK Trade*, 11 Nov

F1: Survey indicators

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



[Sources: see table]

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

- Manufacturers' expectations of output over the next three months were pessimistic in October. A balance of 31% of firms thought output would decrease over the next three months. A balance of 29% of firms reported falling output in the quarter to October, the lowest score for ten years.
- A balance of 38% of survey respondents reported falling domestic orders, and 19% reported falling export orders.
- Both domestic and export orders are expected to fall in the next quarter.

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 back to the August level after a small increase in September.
- Confidence in now being a good time to make major purchases dropped eleven points to -43, the lowest since this measure was first recorded in 1982.
- There was a small improvement in the expectations for the general economic situation over the next 12 months, and expectations for respondents' personal financial situation were better (-12) than for the general situation (-37).

Output Expectations & Consumer Confidence

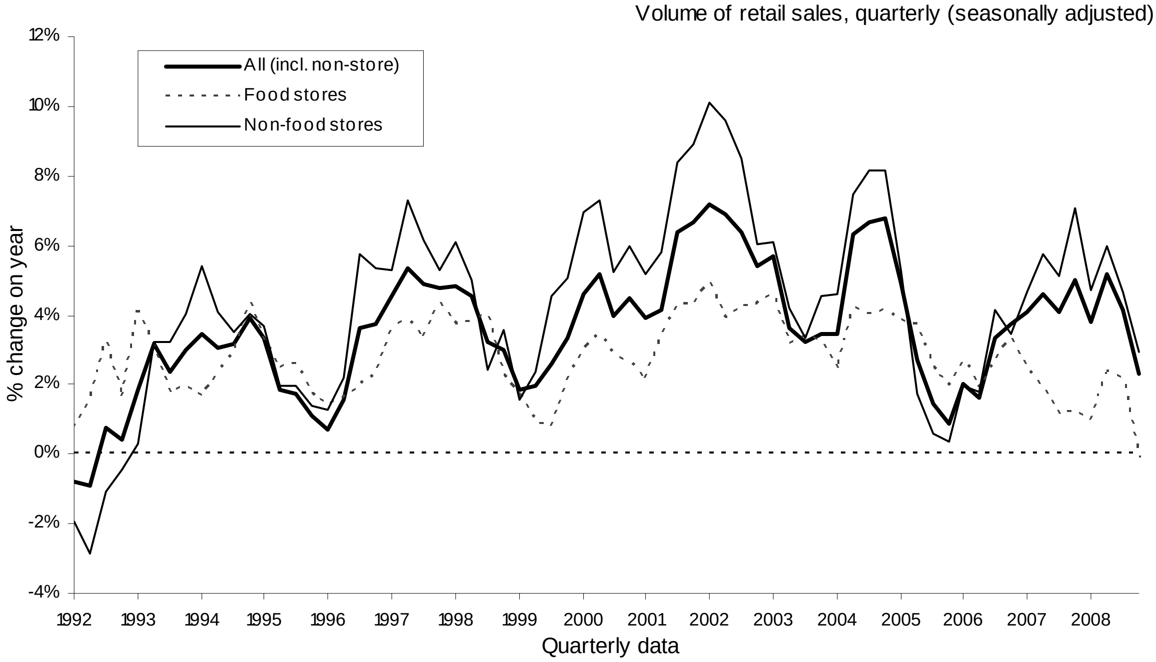
Balance of % expecting improvement over % expecting deterioration

		Future output expectations (CBI)	Consumer confidence (GfK)
2007	Oct	+10	-8
	Nov	+9	-10
	Dec	+3	-14
2008	Jan	+4	-13
	Feb	+11	-17
	Mar	+18	-19
	Apr	0	-24
	May	0	-29
	Jun	+2	-34
	Jul	-7	-39
	Aug	-13	-36
	Sep	-16	-32
	Oct	-31	-36

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*, 28 Nov; CBI, *Industrial Trends* (Monthly), mid Nov

F2: Retail Sales



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

- The total *volume* of retail sales in the three month period July-September 2008 was 0.1% lower than in the previous three months, and was 2.2% higher than in the same three-month period in the previous year (seasonally adjusted).
- Total weekly retail sales volumes in September 2008 were 1.0% higher than in September 2007. The volume of retail sales fell by 1.0% between August and September 2008 (all seasonally adjusted).
- Retail sales volumes in stores selling primarily food fell by 1.1% in July-September 2008 compared with the same three months a year earlier. For predominantly non-food retailing stores sales increased by 0.6% over the same period (all seasonally adjusted).

Value of Retail Sales

% change on year; non-seasonally adjusted

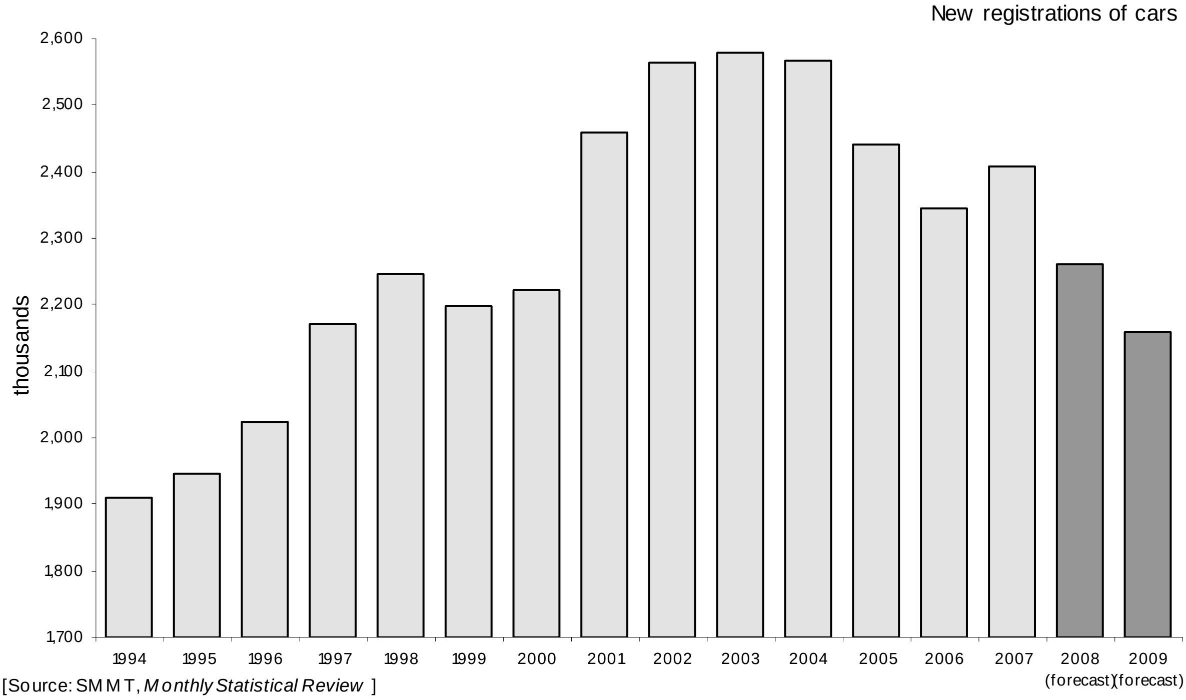
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
2005	3.1	2.2	-1.5	-1.5	0.9
2006	3.5	3.5	2.5	1.3	2.8
2007	2.2	3.9	5.6	4.4	3.6
2007 Q3	1.2	5.2	6.4	4.6	3.6
Q4	0.9	1.0	3.2	5.1	2.3
2008 Q1	2.7	2.9	1.4	15.4	5.0
Q2	3.1	0.5	-2.4	13.3	3.8
Q3	6.7	3.4	-5.8	14.1	3.5

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

- On a monthly basis, the average weekly *value* of retail sales in September 2008 was £5.0 billion, a 3.0% increase from September 2007 (non-seasonally adjusted).
- The quarterly growth figures for the value of 'other non-food' in the table above is partly affected by changes in the categorisation of some products by reporting retailers.

Contact: Ian Townsend, x2042 **Update:** ONS, *Retail Sales: First Release*, 20 Nov

F3: New Car Registrations



[Source: SMMT, *Monthly Statistical Review*]

Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 21.2% in September 2008, compared with the previous September's figure, to 330,295 units (excluding taxi registrations).

- The number of new registrations of cars was just over 2.4 million units in 2007.
- New registrations of cars are forecast to fall by 6.1% in 2008 and then fall by a further 4.4% in 2009.
- In 2007 as a whole, there were 338,893 registrations of British-built cars, a decrease of 1.2% from the previous year's figure and equivalent to 14.1% of the market.
- In 2007 1,534,567 cars were produced in the UK; 23% or 349,108 of these were for the UK market, while 77% or 1,185,459 were for export.

New Registrations of Cars

000s & % change; not seasonally adjusted

			Number ('000s)	Change over 12 months
2007			2,407	2.5
2008	(forecast)		2,260	-6.1
2009	(forecast)		2,160	-4.4
2007	Sep		420	1.4
	Oct		167	8.6
	Nov		159	2.3
	Dec		138	3.2
2008	Jan		166	0.0
	Feb		70	-5.4
	Mar		452	0.5
	Apr		176	3.2
	May		179	-3.6
	Jun		209	-6.2
	Jul		154	-13.0
	Aug		63	-18.6
	Sep	(a)	330	-21.2

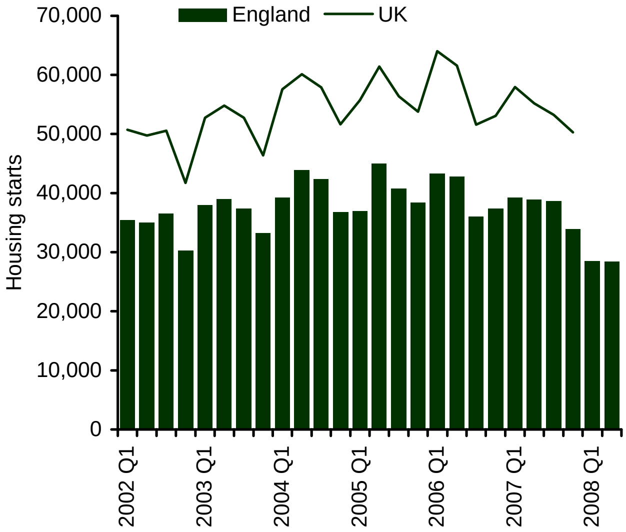
Source: SMMT, *Monthly Statistical Review and website*

Note: (a) data includes registrations of taxis, except for latest month. Latest % change relates to cars only.

Contact: Ed Potton, x2883 **Update:** SMMT, *New Car Registrations*, 6 Nov

F4: Housebuilding and prices

Housing starts in the UK



[Source: DCLG, Live table 208]

% change on same quarter of previous year

	England	UK
2005 Q4	+4%	+4%
2006 Q1	+17%	+15%
2006 Q2	-5%	+0%
2006 Q3	-12%	-9%
2006 Q4	-3%	-1%
2007 Q1	-10%	-9%
2007 Q2	-9%	-10%
2007 Q3	+7%	+3%
2007 Q4	-9%	-5%
2008 Q1	-27%	..
2008 Q2	-27%	..

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

- **Monthly** UK house prices fell by 1.3% in September compared with 1.8% in August and 1.7% in June.
- **Annual** house prices in September were 12.4% lower on an annual basis.
- **Quarterly** house prices were 12.4% lower in quarter 3 of 2008 compared with the same quarter of 2007.
- Regionally, the Halifax data show that in Q3 2008 house prices fell in all regions compared with Q3 2007. The largest falls were in Northern Ireland, where prices fell 23%, and London and Wales where prices fell 17%. (data not seasonally adjusted; regions are not aligned with regions used by the DCLG below).

Standardised average house prices

£s & %; non-seasonally adjusted

		All houses	New houses	Existing houses	First time buyers
average house prices, £					
2007	Q3	200,600	187,800	201,900	151,000
	Q4	196,000	198,900	195,500	148,000
2008	Q1	191,900	196,000	191,600	147,800
	Q2	187,000	198,000	185,500	144,300
	Q3	175,800	184,900	174,200	136,700
% change over same period in previous year					
2007	Q3	+10.7	+6.7	+10.7	+11.2
	Q4	+5.2	+14.0	+3.9	+4.9
2008	Q1	+1.1	+3.9	+0.4	+4.1
	Q2	-6.1	+4.2	-7.4	-5.0
	Q3	-12.4	-1.6	-13.7	-9.5

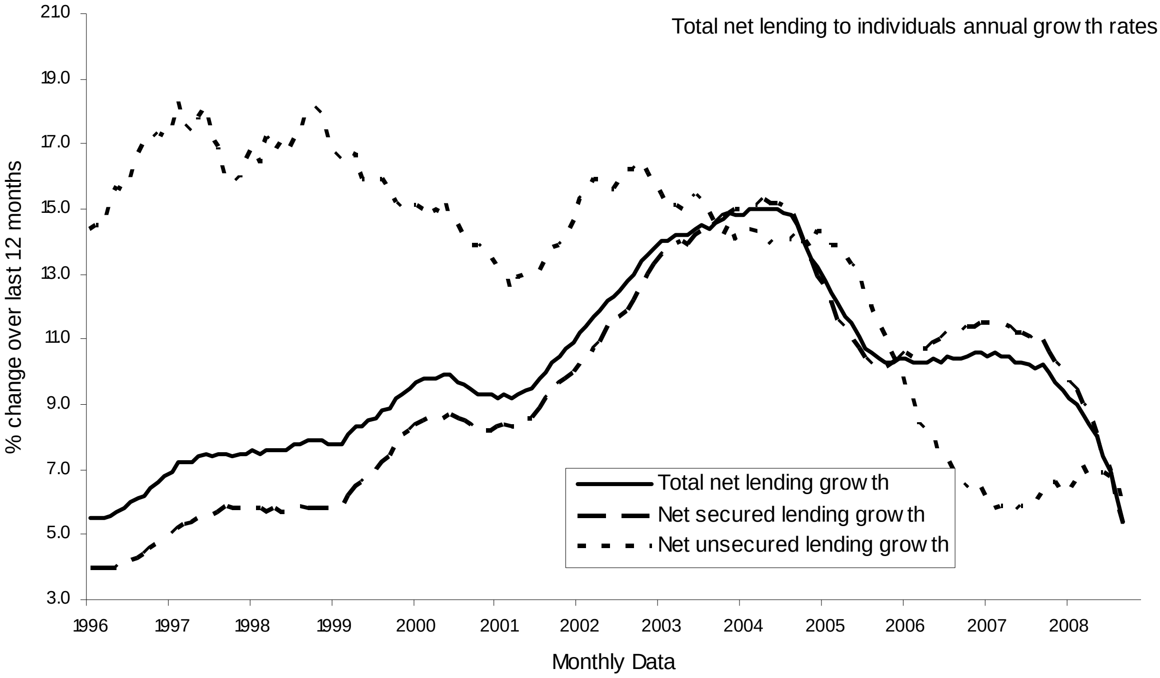
Source: HBOS, *Halifax House Price Index*

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 house price in the UK in stood at £211,410 in August 2008, down 2.7% from July. **Annual** house price inflation in July was -3.6%.
- Regionally, **annual** house price inflation in August was highest in Scotland (1.3%) and lowest in Northern Ireland (-18.6%).

Contact: Bryn Morgan, x4904 **Updates:** Halifax *House Prices*, early Nov; DCLG, *House Prices*, 11 Nov; *House-building*, 20 Nov

F5: Consumer borrowing



[Source: Bank of England]

Net lending to individuals

£ millions and % changes on year; seasonally adjusted

		Net Lending Outstanding			Net Lending Growth Rates		
		Secured	Unsecured	Total	Secured	Unsecured	Total
2004	Sep	852,514	194,014	1,046,528	14.5	14.3	14.5
2005	Sep	940,158	209,139	1,149,297	10.2	11.4	10.4
2006	Sep	1,046,989	212,212	1,259,201	11.2	6.6	10.4
2007	Sep	1,163,697	217,698	1,381,395	11.0	6.3	10.2
	Dec	1,185,549	221,295	1,406,844	10.1	6.3	9.4
2008	Mar	1,199,644	230,892	1,430,536	9.0	7.1	8.7
	Jun	1,212,203	231,683	1,443,886	7.5	6.9	7.4
	Sep	1,219,445	237,605	1,457,050	5.3	6.0	5.4

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

- Total net outstanding lending to individuals was £1,457 billion at the end of September 2008 (seasonally adjusted).
- Total net lending to individuals grew by 0.2% in September 2008 compared with the previous month, and grew by 5.4% on an annual basis (all seasonally adjusted); the annual growth rate is 0.7 percentage points lower than in August 2008.
- Of the £2.4 billion increase in net lending in September 2008, £2.2 billion was mortgage borrowing and £0.3 billion was consumer credit (seasonally adjusted).

Contact: Ed Potton, x2883 **Update:** Bank of England, *Lending to Individuals*, 1 Dec

IV 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 (coloured text is a hyperlink to the source)
A1	**Gross Domestic Product**	Office for National Statistics (ONS), releases: *Preliminary GDP Estimates*; *Quarterly National Accounts*; *UK output, income & expenditure*; HM Treasury, *Forecasts for the UK Economy*
A2	**GDP: ICs**	**Gross Domestic Product:** Organisation for Economic Co-operation and Development (OECD), *Main Economic Indicators*; **Growth Forecasts:** OECD, *Economic Outlook*
A3	**GDP by Industry**	ONS, *UK Output, income and expenditure*, *Quarterly National Accounts/GDP preliminary estimate* releases HM Treasury, *Forecasts for the UK economy*
A4	**Investment**	ONS Database & ONS, *Business Investment* release
A5	**Productivity**	ONS, *Productivity* release
B1	**Prices**	ONS, *Consumer Price Indices* release
B2	**Prices: International Comparisons**	**CPI:** OECD, *Main Economic Indicators;* **EU data:** Eurostat news release and database
B3	**Average Earnings Index**	ONS Database & ONS, *Labour Market Statistics* release
C1	**Employment**	ONS Database & ONS, *Labour Market Statistics* release
C2	**Unemployment: National**	ONS, *Labour Market Statistics* release and *Labour Market Statistics First Release Historical Supplement* (via Virtual Bookshelf); **Commentary:** Department for Work and Pensions (DWP) *Quarterly Working Age Statistics for New Deal for Young People & Long-term Unemployed* (table 6);
C3	**Unemployment: Regional**	ONS, *Labour Market Statistics* release
C4	**Unemployment: International Comparisons**	**Data:** OECD, *Main Economic Indicators* **Commentary:** OECD, *Main Economic Indicators* & *Economic Outlook*
D1	**Interest Rates**	**UK:** Bank of England, Monetary Policy Committee decisions & minutes.
		US: Federal Reserve, Federal Open Market Committee decisions **ECB:** European Central Bank news releases **Short term interest rates (graph):** OECD; *Main Economic Indicators*; **International interest rates:** *Financial Times*, Companies & Analysis section, "Currencies, Bonds & Interest Rates" page
D3	**Exchange Rates**	**Effective and sterling exchange rates:** ONS Database; **Euro spot rate:** *Financial Times*

Indicator		Source details (coloured text is a hyperlink to the source)
D4	**Public Finances**	**Data:** ONS, *Public Sector Accounts* or *Public Sector Finances*; ONS database **Forecasts of budget surplus:** HM Treasury, *Pre-Budget Report*, table B2 or *Budget Red Book*, table C2.
D5	**Money Supply**	**Bank of England:** Bankstats, tables A 1.1 and A 2.2.1; and ONS Database.
E1	**International Trade**	**Data:** ONS Database; **Commentary:** ONS, *Balance of Payments*
E2	**Trade in Goods**	**Data:** ONS Database; **Commentary:** ONS, *UK Trade*;
F1	**Survey Indicators**	**Future Output Expectations/Quarterly Business Confidence:** Confederation of Business Industry (CBI), *Economic and Business Outlook* and *Quarterly Industrial Trends Survey* press releases; **Consumer Confidence:** GfK NOP *Consumer Confidence Barometer*;
F2	**Retail Sales**	ONS, *Retail Sales* release
F3	**New Car Registrations**	Society of Motor Manufacturers and Traders, *Monthly Statistical Review* (in Library holdings)
F4	**Housing**	**Department for Communities and Local Government (DCLG, formerly Office of the Deputy Prime Minister) UK Housing Starts:** table 201; **DCLG House building statistics**: statistical release; **Halifax House Price data:** housing research page; **DCLG Experimental House Prices:** statistical release
F5	**Consumer Debt**	**Bank of England** *Lending to Individuals and* database:

V 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

Definitions[29]

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**

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

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 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.