RESEARCH PAPER 09/30
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# Economic Indicators, April 2009

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This month's article:

**The London Summit: background and outcomes**

Next publication date: 5 May 2009

Bryn Morgan (editor)

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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 The London Summit: background and outcomes

## A. Summary

In 2009 the UK holds the rotating presidency of the G20, the Group of 20 major developed and developing countries. The Government hosted a leaders' summit, on 2 April 2009 at the ExCeL Centre in London's Docklands. This was only the second ever such summit following one in Washington, DC held in November 2008.

This article, a summarised version of Library Standard Note SN/EP/5028, gives a background to the G20, the 2008 Washington Summit and the London Summit, and summarises the main outcomes.

Despite reports of splits in the G20 in the run-up to the London Summit it concluded with a communiqué, agreed by all countries present, covering the wide range of issues on the meeting's agenda.

The most prominent outcome was a package totalling $1,100 billion, mostly related to the International Monetary Fund and other international institutions. The fact that much of this had been previously announced was criticised: the *Financial Times* put 'new commitments' at below $100 billion, noting that much of the package was not specifically due to the G20 summit. One unexpected announcement was for a one-off increase in IMF resources (known as Special Drawing Rights), which has been referred to as quantitative easing on a global scale (see Library notes on quantitative easing (SN/EP/4997) and the UK policy responses to the financial crisis (SN/BT/4968) for more details).

The G20 also made announcements on tax havens and financial regulation. However, other areas that had been identified as important prior to the Summit – boosting international trade and combating protectionism, and ensuring continued global fiscal stimulus – saw less movement.

The G20 also agreed to meet again in September 2009 in New York to review progress on its commitments. Other important meetings this year include: the IMF/World Bank spring meetings in Washington (25-26 April) and their annual meetings in Istanbul (6-7 October); the G8 Summit in La Maddalena, Italy (July); and the G20 finance Ministers meeting in Scotland (November).

## B. The G20

The G20, the Group of 20 major developed and developing countries, had received relatively little attention until the announcement of the a summit to be held in Washington, DC on 15 November 2008.

Previously, the G20 had held annual meetings of member countries' finance ministers and central bank governors. Also, a different 'G20' had, until recently, had greater prominence: a coalition of major developing countries that have formed a negotiating group at the World Trade Organisation (WTO).[4] The two G20 groups have some shared membership.

[4] Note: Some have suggested that the two are distinguished by the 'finance' G20 being represented as 'G-20', and the WTO group as 'G20'. However, this usage has not been adopted widely and so G20 has been used.

The emergence of China and India as new global economic powers, and to a lesser extent Brazil, often grouped together with Russia as the 'the BRICs', has led to calls for their increased involvement in international fora, particularly alongside countries in the G8 group of developed countries and in the International Financial Institutions (IFIs): the International Monetary Fund (IMF) and World Bank. Calls have grown over successive recent G8 summits to formalise the involvement of China and India, and other major developing countries including South Africa, which have been increasingly involved in aspects of G8 summits.

The G20 website (www.g20.org) lists the group's members as (G8 countries in bold):[5] Argentina, Australia, Brazil, **Canada**, China, **France**, **Germany**, India, Indonesia, **Italy**, **Japan**, Mexico, **Russia**, Saudi Arabia, South Africa, South Korea, Turkey, **United Kingdom**, **United States**, and also the **European Union.** The European Central Bank as an 'institutional member', along with the IMF and World Bank.

The 19 countries (the EU being the 20th member) in the G20 are not the world's largest economies, and the London Summit was attended by a larger group than the G20. Three countries are in the G20 but outside of the top 20 economies (based on 2007 World Bank GDP statistics): South Africa (ranking 24th in the world), Saudi Arabia (28th) and Argentina (30th). While Spain (with the world's 8th largest economy) and the Netherlands (16th largest) are not G20 members, they attended the Washington Summit. Both were also invited to attend the London Summit.

## C. The 2008 Washington Summit & follow-up

The Washington Summit took place in November 2008. Some had envisaged the meeting as a form of "Bretton Woods II", named after the Bretton Woods conference held in 1944 that led to the creation of the IMF and the World Bank, to establish a new global framework.

### 1. Summit declaration

The Washington Summit concluded with a communiqué, issued alongside an 'action plan' targeted at G20 finance ministers. The Government summarised the statement as follows:[6]

> Their Summit Declaration points to the search for higher yields without an adequate appreciation of risks as one of the root causes of the crisis. The development of increasingly complex and opaque financial products and excessive leverage combined to create vulnerabilities in the system. They also point to a number of underlying factors, including inconsistent and insufficiently coordinated macroeconomic policies, and inadequate structural reforms, which led to unsustainable global macroeconomic outcomes. Together, these developments ultimately resulted in severe market disruption.
>
> The Summit Declaration sets out a broad policy response, based on closer macroeconomic cooperation, in order to restore growth, avoid negative spillovers and support emerging market economies and developing countries. G20 countries will:
>
> - take whatever further actions are necessary to stabilise the financial system;

5 http://www.g20.org/97.aspx, see also "G20: Economic snapshot", *BBC News Online*, 3 March 2009
6 UK Government, *The road to the London Summit: The plan for recovery*, Feb 2009, p67

- recognise the importance of monetary policy support, as deemed appropriate to domestic conditions;
- use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability;
- re-affirm the importance of the development assistance commitments already made;
- help emerging and developing economies gain access to finance in current difficult financial conditions, including through liquidity facilities and programme support. Leaders stressed the International Monetary Fund's (IMF) important role in crisis response;
- encourage the World Bank and other Multilateral Development Banks to use their full capacity in support of their development agenda, and welcome the recent introduction of new facilities by the World Bank in the areas of infrastructure and trade finance; and
- ensure that the IMF, World Bank and other Multilateral Development Banks have sufficient resources to continue playing their role in overcoming the crisis.

In addition to these actions, leaders agreed to implement reforms to strengthen financial markets and regulatory regimes so as to avoid future crises.

## D. The London Summit

The London Summit was held at the ExCeL Centre in Docklands, at an estimated cost of around £19 million including "policing and contingency costs".[7]

### 1. Who attended?

As noted above, a number of invitees to the summit were not G20 country heads of state or government, and it was officially billed as the 'London Summit', rather than a G20 summit.

In the run-up to the meeting, the official website listed 22 countries from which heads of state/government had been invited to attend. This comprised 19 individual G20 members plus the European Union, with the Czech Republic being invited as the current holders of the EU's Presidency, as well as Spain and the Netherlands (both attended the Washington Summit). The list of heads of state and government below is based the summit website list:[8]

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[7] HC Deb 18 March 2009 c1186-7

[8] http://www.londonsummit.gov.uk/en/summit-aims/faqs/general-questions/who-will-attend, 2 April 2009

| | | |
|---|---|---|
| **Argentina** | Her Excellency Cristina Fenandez de Kirchner | President |
| **Australia** | The Honourable Kevin Rudd | Prime Minister |
| **Brazil** | His Excelency Luiz Innacio Lula da Silva | President |
| **Canada** | The Right Honourble Stephen Harper, PC | Prime Minister |
| **China** | His Excellency Hu Jintao | President |
| **France** | His Excellency Mr Nicolas Sarkozy | President |
| **Germany** | Her Excellency Dr Angela Merkel | Chancellor |
| **India** | His Excellency Dr Manmohan Singh | Prime Minister |
| **Indonesia** | His Excellency General TNI (Ret) Dr H Susilo Bambang Yudhoyono | President |
| **Italy** | His Excellency Silvio Berlusconi | Prime Minister |
| **Japan** | His Excellency Taro Aso | Prime Minister |
| **Mexico** | His Excellency Felipe Calderon Hinojosa | President |
| **Republic of Korea** | His Excellency Lee Myung-bak | President |
| **Russia** | His Excellency Dmitry A Medvedev | President |
| **Saudi Arabia** | King Abdullah bin Abdul Aziz Al Saud GCB GCMG | Custodian of the Two Holy Mosques |
| **South Africa** | His Excellancy Kgalema Motlanthe | President |
| **Turkey** | His Excellency Recep Tayyip Erdogan | Prime Minister |
| **United Kingdom** | Rt Hon Gordon Brown MP | Prime Minister |
| **United States** | The Honorable Barack Obama | President |
| **Spain** | His Excellency José Luis Rodríguez Zapatero | Prime Minister |
| **Netherlands** | His Excellency Dr Jan Peter Bakenende | Prime Minister |

In addition, the following were also invited to "ensure balanced regional representation":[9]

- representing the EU, the President of the EU Commission, José Manuel Barosso, and President of the European Council and Prime Minister of the Czech Republic, Mirek Topolanek;
- the Chair of the New Partnership for Africa's Development (NEPAD; www.nepad.org), currently Meles Zenawi, the Prime Minister of Ethiopia;
- the Chair of the Association of South East Asian Nations (ASEAN; www.aseansec.org), currently held by Thailand, represented by Prime Minister Abhisit Vejjajiva.

The Prime Minister also invited leaders of certain global institutions "to contribute to specific parts of the agenda",[10] listed as:

| | | |
|---|---|---|
| **United Nations** | His Excellency Ban Ki-moon | Secretary General |
| **World Bank** | The Honourable Robert Zoellick | President |
| **International Monetary Fund** | Mr Dominique Strauss-Kahn | Managing Director |
| **World Trade Organisation** | Mr Pascal Lamy | Director General |
| **Financial Stability Forum** | Professor Mario Draghi | Chairman |

## 1.1 Government's aims

The Government's *Road to the London Summit* document stated:[11]

> At the London Summit, governments and international financial institutions will come together to agree the need for a comprehensive package of measures, coordinated globally, to address the causes and consequences of the crisis. By working together, and coordinating their actions, each country will maximise the impact for themselves and each other.

The Summit website says "countries need to come together to enhance global coordination in order to help restore global economic growth", making three commitments:[12]

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9 http://www.londonsummit.gov.uk/en/summit-aims/faqs/general-questions/who-will-attend, 2 April 2009
10 *ibid.*
11 UK Government, *The road to the London Summit: The plan for recovery*, Feb 2009, pp7-8

> First, to take whatever action is necessary to stabilise financial markets and enable families and businesses to get through the recession.
>
> Second, to reform and strengthen the global financial and economic system to restore confidence and trust.
>
> Third, to put the global economy on track for sustainable growth.
>
> […] The world's leading economies can come together and lay the foundations not just for a sustainable economic recovery, but also for a genuinely new era of international economic partnership – a global deal, in which all countries have a part to play and all will see the benefits.

The Government also outlined the "concrete commitments" that G20 leaders could make "which would go a long way to putting in place the building blocks for a global deal":[13]

- review the global impact and effectiveness of measures taken so far to **stimulate global demand**, both by national authorities and by the global financial institutions, and consider the implications for the future;
- immediate action to substantially **increase the IMF's resources** so that it can increase its lending capacity to support countries suffering from reductions in capital flows, supporting the objective of stimulating demand;
- immediate action consistent across countries and with clear exit strategies to support domestic and international **lending** by ensuring that banks are adequately capitalised and can raise the funds needed, by dealing with banks' impaired assets and, where appropriate, through direct government or central bank lending;
- all countries to **renounce protectionism**, with a transparent mechanism to monitor commitments and measures to increase access to trade finance;
- **reform of financial regulation** – closing regulatory gaps, enhancing corporate governance and coordinating regulation of global financial markets in order to create a global financial sector that serves the needs of the wider economy;
- **an international early warning system**, with a strengthened role for the IMF in order to help promote balanced growth;
- **reform of the international financial institutions**, increasing their resources, encouraging greater access to IMF resources and strengthening the voice and participation of emerging and developing countries; and
- **honour commitments to increase development assistance**, to protect the poorest from the impact of the crisis.

## 2. Finance ministers meeting, March 2009

G20 Finance ministers met in Surrey on 13/14 March for the main preparation meeting for the Summit, with the four working groups presenting reports. A communiqué was issued,[14] summarised as follows by the Summit website:[15]

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12 Aims from http://www.londonsummit.gov.uk/en/summit-aims/

13 UK Government, *The road to the London Summit: The plan for recovery*, Feb 2009, pp7-8, p74 (also at http://www.londonsummit.gov.uk/en/summit-aims/global-deal/)

- A commitment to fight all forms of protectionism and maintain open trade
- A pledge to deliver the scale of sustained effort necessary to restore growth
- A promise that central banks will maintain expansionary policies as long as is needed
- A recognition of the urgent need to increase the resources of the International Monetary Fund
- Action to restore bank lending through measures such as liquidity support, recapitalisation and dealing with impaired assets
- Appropriate regulation and oversight of all systemically important financial institutions, markets and instruments – and registration of hedge funds or their managers
- Stronger regulation reinforced by macro-prudential oversight to prevent the build-up of systemic risk
- Changes to international banking regulations to ensure they dampen rather than amplify economic cycles
- Supervisory colleges, with strengthened international cooperation to prevent and resolve crises
- Regulatory oversight of all credit rating agencies whose ratings are used for regulatory purposes
- Identification of non-cooperative jurisdictions – and a tool-box of effective counter-measures
- Sound practice principles for compensation
- Enhancement of the governance of international financial institutions to strengthen their effectiveness and legitimacy - including open, merit-based selection processes for their heads.

## 3. Outcomes

The most prominent outcomes from the Summit were a package totalling $1.1 trillion, mostly related to the IMF and other international bodies, as well announcements on tax havens, and on financial regulation. However, the *Financial Times* noted that: "Close inspection showed some of the $1,100 billion pledged included re-announcements and half-done deals."[16] It said that new commitments were below $100 billion and most of which "were in train without the G20 summit".[17]

Other areas that had been identified as important prior to the Summit were boosting international trade and combating protectionism, and ensuring continued global fiscal stimulus. Less movement was seen on these latter points.

14 http://www.g20.org/Documents/2009_communique_horsham_uk.pdf

15 http://www.londonsummit.gov.uk/en/summit-aims/summit-progress/, see also http://www.londonsummit.gov.uk/en/summit-aims/timeline-events/finance-ministers and communiqué: http://www.londonsummit.gov.uk/resources/en/PDF/finance-communique-140309

16 "G20 leaders hail crisis fightback", *Financial Times*, 3 April 2009, p1

The full communiqué and two annexes, declarations on strengthening the financial system and delivering resources through the international financial institutions are available from the G20 website. The Chancellor of the Exchequer made a statement on the outcomes to the House of Commons on 2 April.[18]

Prior to the summit there had been discussion about whether and where the G20 would meet again. In the event, the G20 agreed in its communiqué to meet again in 2009 "to review progress" on its commitments."[19] This would be in New York in September to coincide with the opening of the UN General Assembly.[20]

Other notable meetings this year include:

- IMF/WB spring and annual meetings on 22 April 2009
- the July G8 Summit in La Maddalena
- G20 Finance Ministers, Scotland, November 2009

### *a. IMF & international institutions*

The prominence of the International Monetary Fund in the summit outcomes led its Managing Director to state: "The IMF is back".[21] The communiqué states:[22]

> The agreements we have reached today, to treble resources available to the IMF to $750 billion, to support a new SDR allocation of $250 billion, to support at least $100 billion of additional lending by the MDBs, to ensure $250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy.

$850 billion would be available from the international financial institutions "to support growth in emerging market and developing countries by helping to finance counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, balance of payments support, debt rollover, and social support."[23]

Some $250 billion would come from "immediate financing" from individual countries, including $100 billion each from Japan and the EU and a reported $40 billion from China.[24,25]

The more unexpected announcement was of a general $250 billion allocation of Special Drawing Rights (SDRs), the Fund's unit of account, which is based on a basket of four major currencies, the US dollar, the pound sterling, the euro and the Japanese yen.[26] This would effectively increase the reserves of all Fund member countries, primarily to the countries with the largest economies, but with $100 billion going "directly to emerging market and

[17] "Large numbers serve to hid big divisions", *Financial Times*, 3 April 2009, p4 The increase in Special Drawing Rights is not included in this,
[18] HC Deb 2 April 2009 c1136
[19] London Summit communiqué, 2 April 2009, para 28
[20] "New York to host next G20", *Financial Times*, 2 April 2009
[21] "G20 increases IMF firepower, boosts funds", *Reuters*, 2 April 2009
[22] London Summit communiqué, 2 April 2009, para 5
[23] London Summit communiqué, 2 April 2009, para 17
[24] "G20 leaders hail crisis fightback", *Financial Times*, 3 April 2009
[25] "G20 increases IMF firepower, boosts funds", *Reuters*, 2 April 2009
[26] See http://www.imf.org/external/np/exr/facts/sdr.htm for more details on SDRs

developing countries". The IMF's Managing Director has said that around $90 billion would go to developing countries, and reportedly they "would be allowed to increase their SDR share by using those of another country which may not need them." This would "increase global liquidity",[27] and has been called "the equivalent of quantitative easing on a global scale".[28]

On IMF reform, the G20 committed to implementing changes agreed in April 2008 to IMF quota and 'voice' (representation and decision-making) reforms, and bring forward the next review of IMF quotas, completing this by January 2011.[29]

The G20 committed to implementing World Bank reforms agreed in October 2008, and sought "further recommendations" at upcoming meetings on reforms and timetables, which would be agreed by the World Bank Spring Meetings in 2010.

Also, the G20 agreed to end the current convention by which the Managing Director of the IMF is led by a European, and the President of the World Bank is from the US, and for future appointments to be made "through an open, transparent, and merit-based selection process".[30]

Additional loans of "at least $100 billion" and up to $300 billion over three years will be made available by the Multilateral Development Banks (MDBs), the World Bank and regional equivalents.

Further details are available in the declaration on delivering resources through the international financial institutions, while the IMF has published a useful explanatory note.[31]

### *b. Developing countries*

In its report on preparations for the G20 summit, the World Bank predicted that the global economy and world trade will shrink for the first time in 60 years, and that the weakest countries would be the hardest hit. In the next two years alone, the developing world could face a financing gap of $270 billion (€200 billion), which could grow to up to $700 billion (€520 billion). This could push 53 million more people into poverty in 2009 (using the $2 per day poverty line).[32] The Overseas Development Institute (ODI) estimated that the financial crisis could cost 90 million lives and increase the number of people suffering from hunger to over one billion.[33]

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27 *ibid.*, para 19

28 "Large numbers serve to hid big divisions", *Financial Times*, 3 April 2009, p4. The communiqué also refers to "urgent ratification of the Fourth Amendment". This refers to a special one-time allocation to double SDRs, requiring an amendment to the IMF's Articles of Agreement which was approved in September 1997, particularly to give members that have joined since the last allocation in 1981 to have SDRs. This can only come into effect with a double majority of 60% of Fund members and 85% of total IMF votes. As the IMF states "Approval by the United States, with 16.75 percent of total votes, would put the amendment into effect." (see http://www.imf.org/external/np/exr/facts/sdr.htm).

29 Quotas determine a country's maximum financial commitment to the IMF and its voting power. They are based broadly on a country's relative size in the world economy.

30 This follows a commitment made in the March 2009 G20 finance ministers' communiqué (http://www.londonsummit.gov.uk/resources/en/PDF/finance-communique-140309, para 8)

31 http://www.imf.org/external/np/exr/facts/finfac.htm

32 World Bank, *Swimming against the tide: how developing countries are coping with the global crisis*, March 2009

33 ODI, *A development charter for the G20*, March 2009

The G20 Communiqué included a number of measures relating to developing countries:

> 25. We are determined not only to restore growth but to lay the foundation for a fair and sustainable world economy. We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential. To this end:
>
> - we reaffirm our historic commitment to meeting the Millennium Development Goals and to achieving our respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments, especially to sub-Saharan Africa;
> - the actions and decisions we have taken today will provide $50 billion to support social protection, boost trade and safeguard development in low income countries, as part of the significant increase in crisis support for these and other developing countries and emerging markets;
> - we are making available resources for social protection for the poorest countries, including through investing in long-term food security and through voluntary bilateral contributions to the World Bank's Vulnerability Framework, including the Infrastructure Crisis Facility, and the Rapid Social Response Fund;
> - we have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide $6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring Meetings;
> - we have agreed to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings; and
> - we call on the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

Reaction to the measures was mixed. Meles Zenawi, Chair of NEPAD and Prime Minister of Ethiopia, was reported as being pleased with progress, particularly on the acceptance of his proposal to sell some IMF gold reserves to finance the $50 billion support package.[34] Oxfam also welcomed the recovery package but said:[35]

> But we must ensure that poor countries get their fair share - that Uganda benefits as well as Ukraine. And we have deep concerns about how central the IMF has become in this crisis. The fund has been given a blank cheque but its reform remains no more than a promise.

### *c. Tax havens (Antony Seely, BTS)*

Recently it has been widely reported that several countries, including the UK, were keen to see action against tax havens as part of a final agreement.[36] In his statement to the House

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34 "African leader hails G20 progress", *Financial Times*, 3 April 2009

35 Oxfam, "Reaction to G20 Summit", 2 April 2009

36 See for example, "G20 urge to crack down on tax havens", *Financial Times*, 4 March 2009; Stephen Timms (Financial Secretary to the Treasury), "Our pledge on tax abuse", *The Guardian*, 18 February 2009

on the outcome of the G20 summit, the Chancellor noted that leaders had agreed to "take action to protect the world's financial system—and, therefore, our public finances—by cracking down on tax havens", going on to note that "the OECD has today published a list of countries assessed by the global forum against the international standard for exchange of tax information." In answer to a question on the issue, Mr Darling added, "over the next few weeks and months, it will be important as we move to the next stage that we bring pressure to bear on those countries, using whatever sanctions are thought appropriate, to ensure that we end these tax havens."[37]

As the OECD explain, this 'international standard' requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes. It also provides for extensive safeguards to protect the confidentiality of the information exchanged.[38] In the last few weeks a number of countries and jurisdictions have stated that they had implemented, or would implement, this standard.[39] In his statement, Mr Darling argued that "we now have an environment in which it is far easier to take action":

> It is interesting to note that in the past few weeks, when countries have known that they might be named and shamed, there has been a flurry of activity as countries have said, "We've decided we're going to sign up to international obligations." That shows that action works.[40]

Following the summit, the *Financial Times* reported that the OECD's blacklist "is likely to prove controversial although most of the offshore financial centres that have been the target of criticism are contained in a second list. This named 38 countries that have promised greater transparency but not yet signed agreements, ranging from countries such as Panama that apparently committed itself to greater transparency years ago to jurisdictions such as Singapore and Switzerland, which have only recently announced plans to become more transparent."[41]

There appears to have been a general welcome to this part of the G20 communiqué,[42] though prior to the G20 meeting there was some criticism that too much attention was being paid to this issue, compared to more divisive matters – such as the best way to tackle world economic recession.[43] There has also been some concern as to the method chosen to tackle tax havens. Writing in the *Guardian*, the commentator and campaigner, Richard Murphy, made the following point:

> The [OECD] black list is likely to be based on a jurisdiction signing sufficient numbers of what are called Tax Information Exchange Agreements (TIEA). The problem with these accords is that it is incredibly difficult to make an information request under them, and the tax haven can quite easily refuse the request … There is a deterrent effect in knowing this is possible, but automatic information exchange would be vastly

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37 HC Deb 2 April 2009 c1137,1148

38 OCED press notice, *Following G20 OECD delivers on tax pledge*, 2 April 2009. The OECD's progress report is available at: http://www.oecd.org/document/57/0,3343,en_2649_34487_42496569_1_1_1_1,00.html

39 "Brown hails 'beginning of end' for tax havens", *Financial Times*, 14/15 March 2009

40 HC Deb 2 April 2009 c1144

41 "Leaders see an end to era of financial secrecy", *Financial Times*, 3 April 2009

42 "Blacklisted tax havens face sanctions", *Daily Telegraph*, 3 April 2009

43 In an editorial last month, the *Financial Times* argued that "the regulation of tax havens or bankers' pay" were "minutiae", compared with the need to achieve consensus on how to end the recession ("Leader: A survival plan for global capitalism", 8 March 2009).

> better, with all data on income earned by residents of one state in another state being automatically sent to their home tax jurisdictions … This opportunity has not yet been grasped.[44]

### *d. Financial regulation (Tim Edmonds, BTS)*

Point 4 of the official communiqué said that: "We have today therefore pledged to do whatever is necessary to: repair the financial system to restore lending; [and] strengthen financial regulation to rebuild trust".

Two working groups had been set up in November 2008 to look at "Enhancing Sound Regulation and Strengthening Transparency" (WG1) and "Reinforcing International Cooperation and Promoting Integrity in financial Markets" (WG2). WG1 was largely composed of government representatives from delegate countries whereas WG2 was dominated by Central Bank representatives. Both included representatives from pan – national bodies such as the World Bank, IMF and the Financial Stability Forum (FSF). Both produced reports for the summit. WG1 made 25 recommendations, WG2 41 'action plans'.

The overarching recommendations of WG1 were:

- To supplement micro-prudential regulation with "a macro-prudential overlay", requiring "improved coordination methods between …financial authorities".
- Regulation should be widened to include all "systemically important institutions, markets and instruments".
- Pro-cyclical capital and liquidity 'buffers' should be raised "once conditions … have recovered".
- International standards should be harmonised "to ensure a … coherent international framework".
- Improved regulation to include compensation practice; safer derivatives trading; limiting volatility caused by accounting practices; and greater oversight of credit ratings agencies.

The main focus of WG2 was the promotion of the 'college of supervisors', an idea which had been put forward already by the FSF in April 2008 and which has already been implemented in the UK since February 2007.[45] Many of the FSF's other proposals involve aspects of information sharing and consultation between national regulators and administrators.

The other important point to emerge from the communiqué was the expansion of the FSF into the Financial Stability Board, which would henceforth include all G20 members.

### *e. Trade & protectionism*

There have been fears that various tariff and non-tariff measures have demonstrated a trend towards protectionism, dubbed by one commentator "murky protectionism".[46] The World

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44 "Comment: G20: Goodbye to tax havens – almost", *The Guardian*, 2 April 2009

45 Speech by Callum McCarthy, Chairman, FSA, 24 March 2007

46 Richard Baldwin & Simon J. Evenett, The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20, Centre for Economic Policy Research, March 2009

Trade Organisation has warned of a 9% fall in world trade in 2009,[47] and of 'significant slippage' towards protectionism.[48] Research by the World Bank found that 17 of the G20 had imposed protectionist trade measures despite their commitment to the contrary at the Washington G20 summit in November 2008.[49]

The final London Summit statement includes a renewed commitment to completing the Doha Round of World Trade Organisation talks that have made little substantive progress since July 2006, but includes no timetable. The Italian Prime Minister, Silvio Berlusconi has since said that on Doha the G20 "decided we will look more closely at the issue and fix a meeting at La Maddalena [the July G8 Summit] to make a final decision."[50]

On avoiding protectionist measures, it appears to commit the G20 to "rectify promptly" those measures implemented since the Washington Summit, while they also extended their commitment against protectionism until the end of 2010.[51] The G20 also tasks the WTO with monitoring trade developments on a quarterly basis, as well as making $250 billion over the next two years available for trade finance support via national export credit agencies and the multilateral development banks.[52]

### *f. Further fiscal stimulus*

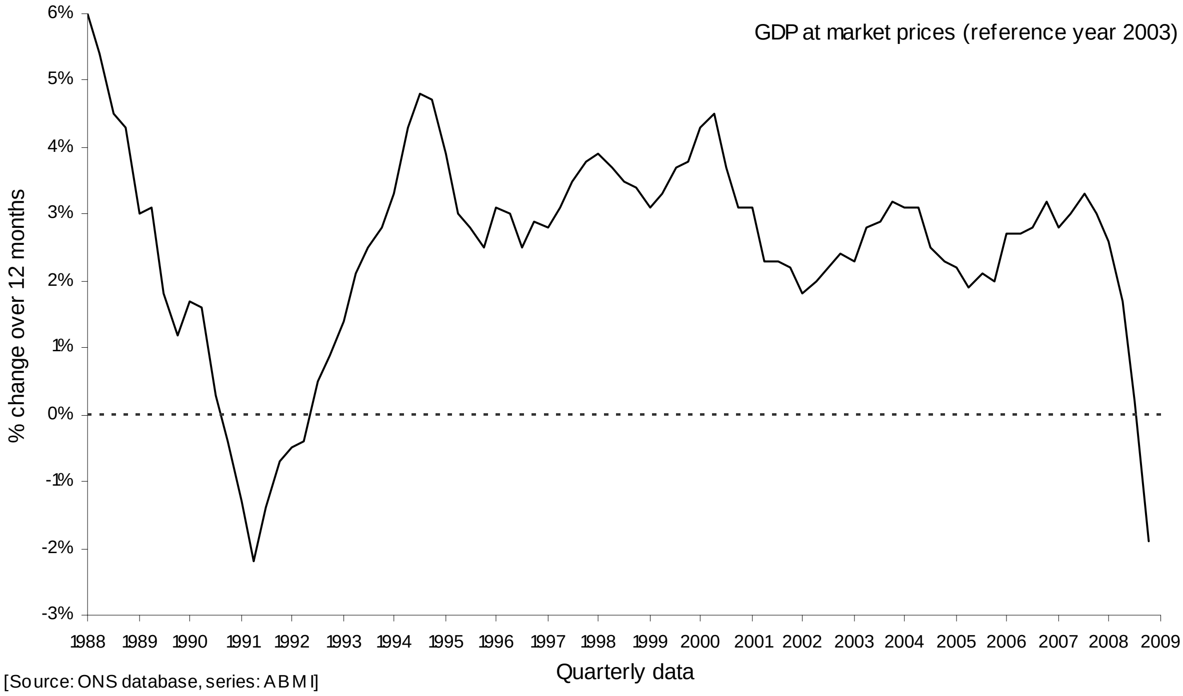
There were public disagreements among the G20 before the Summit. France and Germany said that they would not consider any further fiscal stimuli at this stage, and the Governor of the Bank of England argued that the UK was not in a position to consider further stimulus at this time.[53]

The G20 lauded the stimulus undertaken so far by G20 countries, which it valued at $5 trillion to the end of 2010, and which it expected to boost global output by 4%.[54] However, the issue of further stimuli was effectively put back until meetings later in 2009.

Ian Townsend
Economic Policy and Statistics Section

[47] "World trade 2008, prospects for 2009", *WTO press release* 554, 23 March 2009
[48] Bridges Weekly Trade News Digest , Volume 13, Number 12, 1 April 2009
[49] "Trade protection: incipient but worrisome trends", *World Bank Trade Notes No. 37*, March 2009
[50] "What they said, what they meant; Analysis", *The Times*, 3 April 2009, pp6-7
[51] London Summit communiqué, 2 April 2009, para 22
[52] *ibid.*, para 22
[53] "Brown snubbed over tax", *The Sunday Times*, 29 March 2009, p1
[54] London Summit communiqué, 2 April 2009, para 6; A useful analysis of existing stimulus packages was published by the IMF prior to the March 2009 G20 finance Ministers meeting "Global Economic Policies and Prospects", IMF, March 2009. Also, the Brookings Institute have produced an interactive map of policies: http://www.brookings.edu/reports/2009/03_g20_stimulus_prasad.aspx

# A1: Gross Domestic Product




[Source: ONS database, series: ABMI]

**Gross Domestic Product at market prices**

£ billion & %; seasonally adjusted

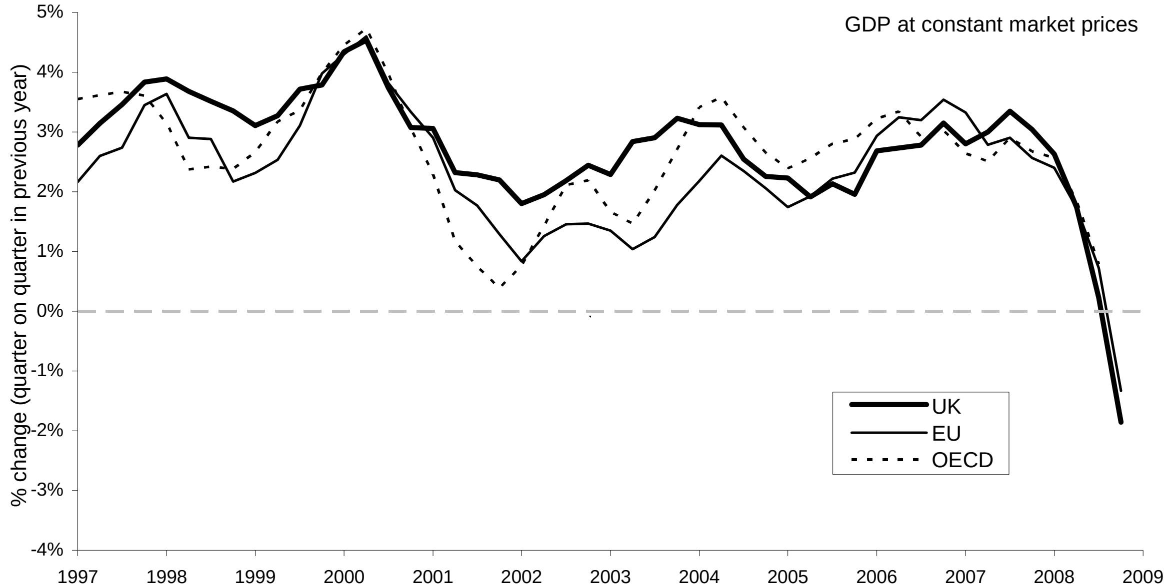
| | Current prices | | Chained volume (reference year 2003) | |
|---|---|---|---|---|
| | £ billion | % change | % change | |
| | On year | | On year | Quarter on quarter |
| 2005 | 1,252.5 | 4.3 | 2.1 | .. |
| 2006 | 1,321.9 | 5.5 | 2.8 | .. |
| 2007 | 1,400.5 | 6.0 | 3.0 | .. |
| 2008 | 1,442.9 | 3.0 | 0.7 | .. |
| 2007 Q4 | 357.6 | 5.9 | 3.0 | 0.9 |
| 2008 Q1 | 361.0 | 5.2 | 2.6 | 0.3 |
| Q2 | 363.1 | 4.4 | 1.7 | 0.0 |
| Q3 | 361.2 | 2.6 | 0.2 | -0.7 |
| Q4 | 357.6 | 0.0 | -1.9 | -1.6 |

Source: ONS database, series: YBHA, IHYQ, IHYR

- The UK economy is now in recession with two successive quarters of negative growth in Q3 and Q4 2008. The economy was last in recession in 1991.
- The economy contracted by 1.6% in Q4 2008 compared with the previous quarter. This is the largest fall in quarterly GDP since Q2 1980.
- In March 2009, HM Treasury's average of independent economic forecasts of GDP growth for 2009 was -3.1%, down from -2.7% in February.

**Contact:** Grahame Allen, x3977 **Updates:** HM Treasury, *Forecasts for the UK Economy*, 15 Apr
ONS, *Quarterly National Accounts*, 24 Apr

## A2: GDP: International Comparisons




[Source: OECD, *Main Economic Indicators*]

**GDP at constant market prices**

% change on previous period

| | | | | | 2007 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| US | 2.9 | 2.8 | 2.0 | 1.1 | 0.0 | 1.2 | 1.2 | 0.0 | 0.2 | 0.7 | -0.1 | -1.6 |
| Japan | 1.9 | 2.0 | 2.4 | -0.7 | 0.9 | -0.1 | 0.2 | 1.1 | 0.2 | -0.9 | -0.6 | -3.3 |
| Canada | 2.9 | 3.1 | 2.7 | 0.5 | 1.0 | 1.0 | 0.6 | 0.2 | -0.2 | 0.1 | 0.2 | -0.8 |
| United Kingdom | 2.1 | 2.8 | 3.0 | 0.7 | 0.8 | 0.9 | 0.8 | 0.6 | 0.4 | 0.0 | -0.7 | -1.5 |
| Germany | 0.8 | 3.0 | 2.5 | 1.3 | 0.4 | 0.4 | 0.6 | 0.3 | 1.5 | -0.5 | -0.5 | -2.1 |
| France | 1.9 | 2.2 | 2.2 | 0.8 | 0.5 | 0.6 | 0.7 | 0.4 | 0.4 | -0.3 | 0.1 | -1.2 |
| Italy | 0.6 | 1.8 | 1.5 | .. | 0.2 | 0.1 | 0.1 | -0.3 | 0.4 | -0.6 | -0.6 | -1.8 |
| Eurozone | 1.8 | 3.0 | 2.6 | 0.7 | 0.7 | 0.4 | 0.6 | 0.4 | 0.7 | -0.3 | -0.2 | -1.5 |
| G7 | 2.3 | 2.6 | 2.2 | .. | 0.3 | 0.7 | 0.8 | 0.2 | 0.4 | 0.1 | -0.3 | -1.9 |
| OECD | 2.6 | 3.1 | 2.7 | .. | 0.5 | 0.8 | 0.9 | 0.5 | 0.4 | 0.1 | -0.2 | .. |

Source: OECD, *Main Economic Indicators* (via OECD.Stat website)

- The economies of all G7 countries contracted in Q4 2008 compared with the previous quarter, with the largest contraction (3.3%) seen in Japan, the US contracting by 1.6% and the UK by 1.5%.
- Annual growth in 2008 was 0.7% in the UK (down from 3.0% in 2007), while the US economy grew by 1.1% (down from 2.0% in 2007) and Japan's economy contracted (by 0.7%)
- In March 2009, the OECD revised its growth forecasts and is expecting contractions in the US, Japan, the UK, the Eurozone and the OECD as a whole (where a slight contraction is also expected in 2010).
- In January 2009 the IMF revised its growth forecasts downwards for advanced and developing economies and expects a contraction of 2.8% in the UK (1.6% in the US). More recently, it said that the global economy would contract by between 0.5% and 1.0% in 2009 (cf. its January forecast of 0.5% growth).

**OECD's growth forecasts** (annual % change)

| | 2008 | 2009 | 2010 |
|---|---|---|---|
| US | 1.1 | -4.0 | 0.0 |
| Japan | -0.6 | -6.6 | -0.5 |
| United Kingdom | 0.7 | -3.7 | -0.2 |
| Eurozone | 0.7 | -4.1 | -0.3 |
| **OECD** | **0.9** | **-4.3** | **-0.1** |
| India | 6.0 | 4.3 | 5.8 |
| China | 9.0 | 6.3 | 8.5 |

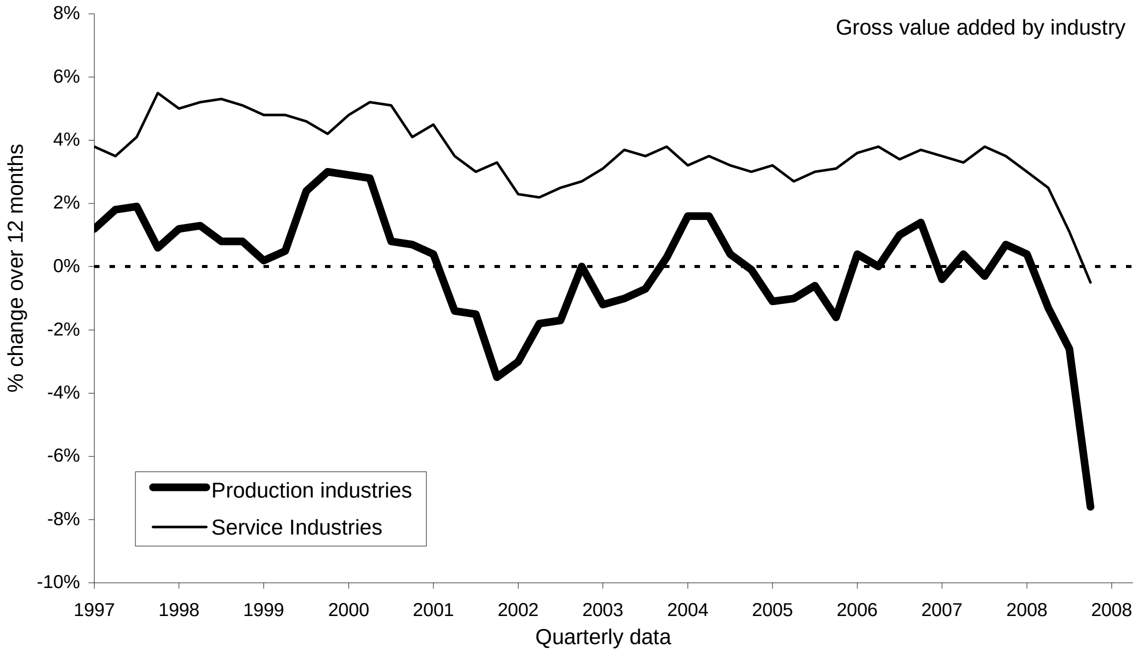
Source: OECD, Interim *Economic Outlook*, 31 Mar 2008

**Contact:** Ian Townsend, x2042

**Update:** OECD, *Main Economic Indicators*, 10 Apr
IMF, *World Economic Outlook*, 22 April (provisional)

## 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, but is currently declining at an annual rate of 0.5%. Between the third and fourth quarter of 2008 annual output growth in the service sector decreased by 1.6 percentage points.

**Gross value added at current basic prices**

% changes on year; seasonally adjusted

| | Production industries | | | Agriculture, hunting & | |
|---|---|---|---|---|---|
| | Total | Manufacturing | Services | fishing | Construction |
| 2006 | 0.7 | 1.8 | 3.6 | 2.7 | 1.0 |
| 2007 | 0.1 | 0.2 | 3.5 | -4.4 | 2.5 |
| 2008 | -2.7 | -2.6 | 1.5 | 0.1 | 0.3 |
| 2007 Q4 | 0.7 | 0.0 | 3.5 | -3.6 | 2.7 |
| 2008 Q1 | 0.4 | 0.8 | 3.0 | -0.9 | 3.6 |
| Q2 | -1.3 | -1.1 | 2.5 | 0.4 | 2.5 |
| Q3 | -2.6 | -2.4 | 1.1 | 1.1 | 0.8 |
| Q4 | -7.6 | -7.8 | -0.5 | -0.2 | -5.6 |

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

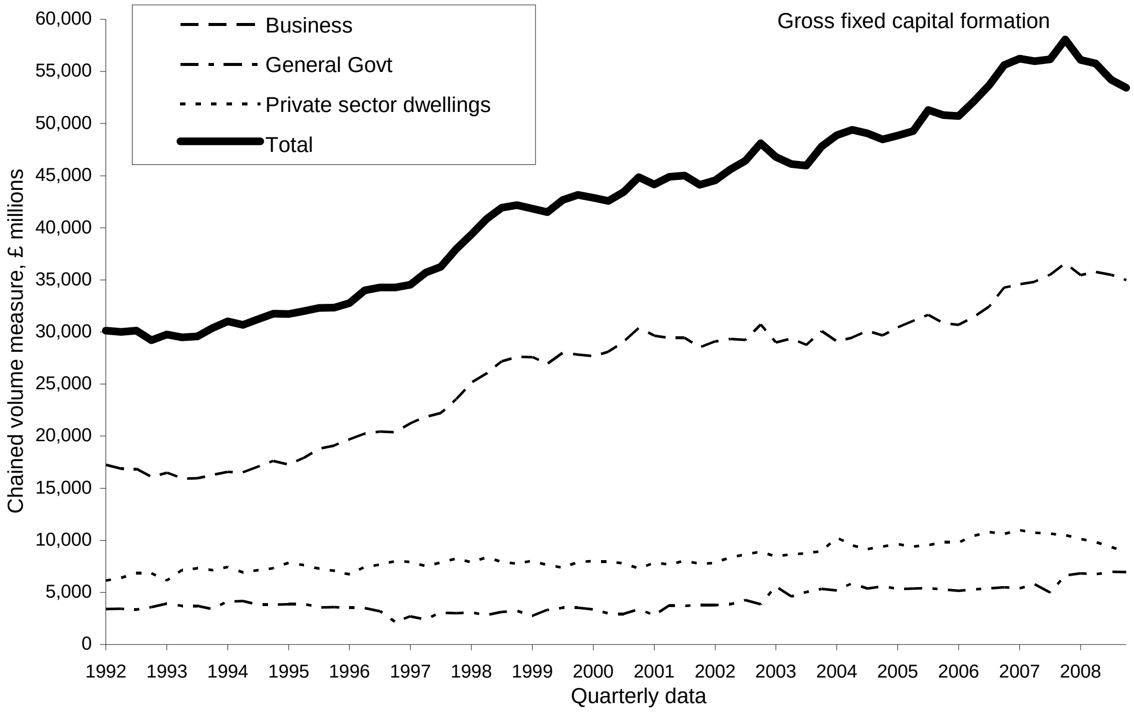
- Manufacturing output decreased by 7.8% in the fourth quarter of 2008 compared with the same quarter in 2007, and manufacturing output decreased by 2.6% overall in 2008.

- In 2007, 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, *Quarterly National Accounts–Q4*, 24 Apr

## 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

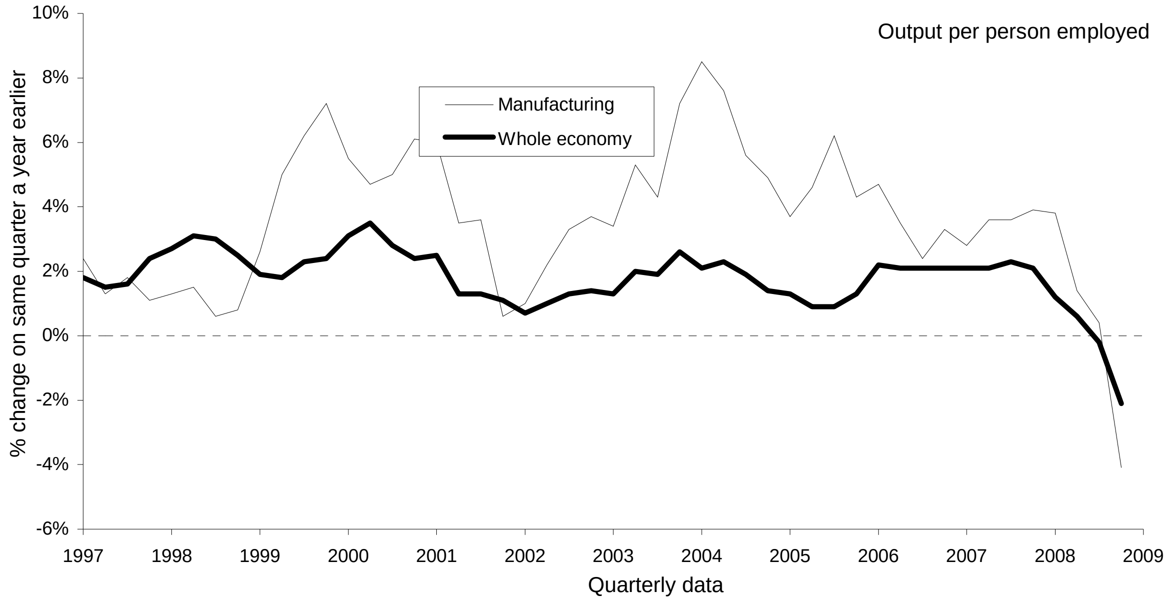
| | | Transport Equipment | Other Machinery & Equipment | Other Buildings & Structures | Dwellings | Intangible Fixed Assets | Total |
|---|---|---|---|---|---|---|---|
| 2005 | | 14,675 | 62,192 | 67,371 | 41,872 | 14,077 | 200,187 |
| 2006 | | 14,799 | 65,116 | 71,787 | 45,466 | 14,978 | 212,146 |
| 2007 | | 15,211 | 72,252 | 77,578 | 46,306 | 15,123 | 226,469 |
| 2008 | | 14,188 | 70,473 | 77,573 | 41,770 | 15,520 | 219,524 |
| 2007 | Q4 | 3,665 | 18,791 | 20,479 | 11,358 | 3,787 | 58,079 |
| 2008 | Q1 | 3,669 | 17,168 | 20,398 | 11,017 | 3,852 | 56,104 |
| | Q2 | 3,721 | 17,765 | 19,689 | 10,744 | 3,853 | 55,772 |
| | Q3 | 3,380 | 17,973 | 18,868 | 10,102 | 3,877 | 54,200 |
| | Q4 | 3,418 | 17,567 | 18,618 | 9,907 | 3,938 | 53,448 |

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

- Total business investment decreased by 1.5% in Q4 2008 compared with the previous quarter.

**Contact:** Dominic Webb, x4324 **Update:** ONS, *Business Investment,* May

## A5: Productivity




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

**Productivity**

% changes on year; seasonally adjusted

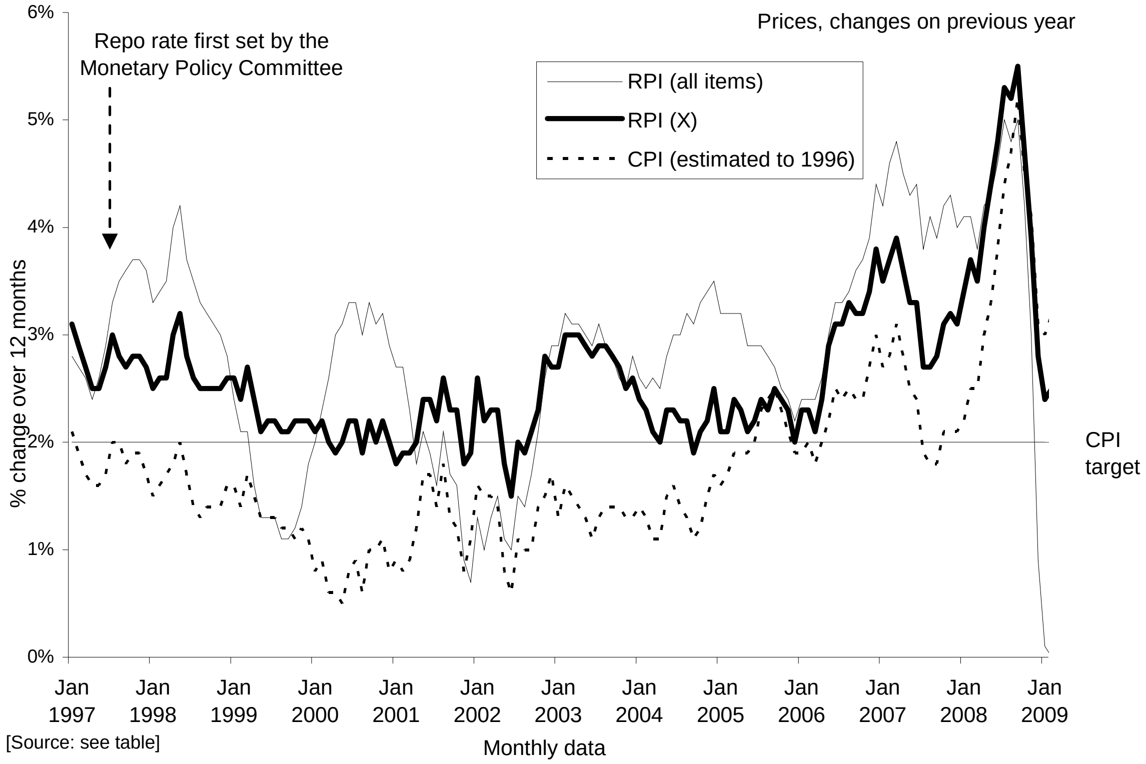
| | Manufacturing | | | Whole Economy | | |
|---|---|---|---|---|---|---|
| | Output | Workforce in employment | Output per head | Output | Workforce in employment | Output per head |
| 2006 | 1.8 | -1.6 | 3.5 | 2.9 | 0.8 | 2.1 |
| 2007 | 0.2 | -3.1 | 3.5 | 2.9 | 0.8 | 2.2 |
| 2008 | -2.6 | -3.1 | 0.3 | 0.7 | 1.0 | -0.2 |
| 2007 Q4 | 0.0 | -3.7 | 3.9 | 2.9 | 1.0 | 2.1 |
| 2008 Q1 | 0.8 | -2.9 | 3.8 | 2.6 | 1.4 | 1.2 |
| Q2 | -1.1 | -2.5 | 1.4 | 1.9 | 1.3 | 0.6 |
| Q3 | -2.4 | -2.8 | 0.4 | 0.5 | 0.8 | -0.2 |
| Q4 | -7.8 | -3.8 | -4.1 | -2.0 | 0.1 | -2.1 |

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 fallen by 0.2% in 2008 compared with growth of 2.2% in 2007 and 2.1% in 2006.
- In 2008, manufacturing output fell by 2.6% and employment in manufacturing fell by 3.1%, while manufacturing output per head rose by 0.3%.
- Productivity growth in manufacturing was -4.1% per annum in Q4 2008 compared to +0.4% per annum in the previous quarter, while whole economy productivity growth fell from -0.2% per annum in Q3 2008 to -2.1% per annum in Q4 2008.
- For the economy as a whole, productivity growth has averaged 1.0% per annum over the last eight quarters. Figures on this page are based on output per job.

**Contact:** Ed Potton, x2883 **Update:** ONS, *Productivity*, 1 Jul

## B1: Prices




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 February, the consumer prices index (CPI) showed inflation at 3.2%, up from 3.0% in January. This follows four consecutive months of falling inflation.
- The largest upward pressure on the CPI came from food and non-alcoholic beverages, and in particular, vegetables. Upward price pressures in the recreation and culture category, as well as in transport, also boosted inflation.
- Downward pressure on the CPI came from statistical effects surrounding household utility bills.
- The former headline rate – RPI, all items – of inflation was 0.0% in February, down from 0.1% in January. It was the first time since March 1960 that prices had not risen over the previous 12 months.
- The underlying RPI(X) – RPI excluding mortgage interest payments – inflation rate rose slightly to 2.5% in February from 2.4% in January.

**Price Indices**

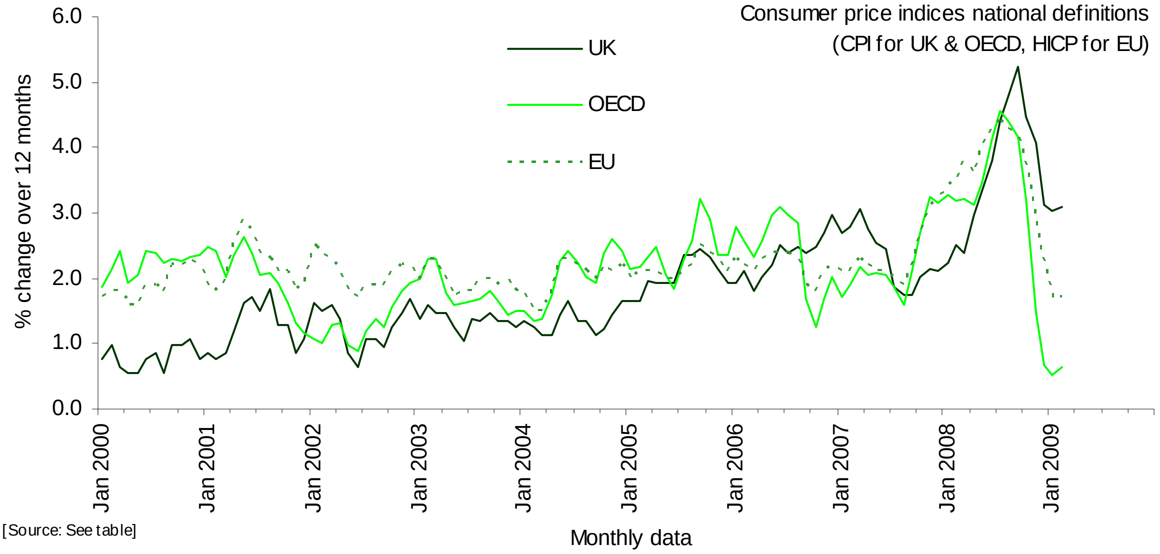
% change over 12 months

| | | CPI (was HICP) | RPI (all items) | RPI (X) |
|---|---|---|---|---|
| 2005 | | 2.1 | 2.8 | 2.3 |
| 2006 | | 2.3 | 3.2 | 2.9 |
| 2007 | | 2.3 | 4.3 | 3.2 |
| 2008 | | 3.6 | 4.0 | 4.3 |
| 2008 | 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 |
| | Oct | 4.5 | 4.2 | 4.7 |
| | Nov | 4.1 | 3.0 | 3.9 |
| | Dec | 3.1 | 0.9 | 2.8 |
| 2009 | Jan | 3.0 | 0.1 | 2.4 |
| | Feb | 3.2 | 0.0 | 2.5 |

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

**Contact:** Daniel Harari, x2464 **Update:** ONS, *Consumer Price Indices: First release*, 21 Apr

## 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 0.2% in February 2009, an increase of 0.2 percentage points from January;
- The average annual inflation rate for all OECD countries in February was 1.3% the same as in January;
- The EU's average inflation rate, based on harmonised indices of consumer prices (shown in the chart above, but not in the table), was 1.7% in February.

**Consumer Price Indices**

national definitions; % change over 12 months

| | | USA | Japan | Canada | UK | OECD |
|---|---|---|---|---|---|---|
| 2005 | | 3.4 | -0.3 | 2.2 | 2.0 | 2.6 |
| 2006 | | 3.2 | 0.2 | 2.0 | 2.3 | 2.6 |
| 2007 | | 2.9 | 0.1 | 2.1 | 2.3 | 2.5 |
| 2008 | | 3.8 | 1.4 | 2.4 | 3.6 | 3.7 |
| 2008 | Sep | 4.9 | 2.1 | 3.4 | 5.2 | 4.5 |
| | Oct | 3.7 | 1.7 | 2.6 | 4.5 | 3.7 |
| | Nov | 1.1 | 1.0 | 2.0 | 4.1 | 2.2 |
| | Dec | 0.1 | 0.4 | 1.2 | 3.1 | 1.5 |
| 2009 | Jan | 0.0 | 0.0 | 1.1 | 3.0 | 1.3 |
| | Feb | 0.2 | -0.1 | 1.4 | 3.1 | 1.3 |

Source: OECD, Consumer Prices Release

**EU/Eurozone inflation**

harmonised indices (HICPs); % change over 12 months

| | France | Germany | Italy | UK | Eurozone |
|---|---|---|---|---|---|
| 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 | 3.2 | 2.8 | 3.5 | 3.6 | 3.3 |
| 2008 Sep | 3.3 | 3.0 | 3.9 | 5.2 | 3.6 |
| Oct | 3.0 | 2.5 | 3.6 | 4.5 | 3.2 |
| Nov | 1.9 | 1.4 | 2.7 | 4.1 | 2.1 |
| Dec | 1.2 | 1.1 | 2.4 | 3.1 | 1.6 |
| 2009 Jan | 0.8 | 0.9 | 1.4 | 3.0 | 1.1 |
| Feb | 1.0 | 1.0 | 1.5 | 0.0 | 1.2 |

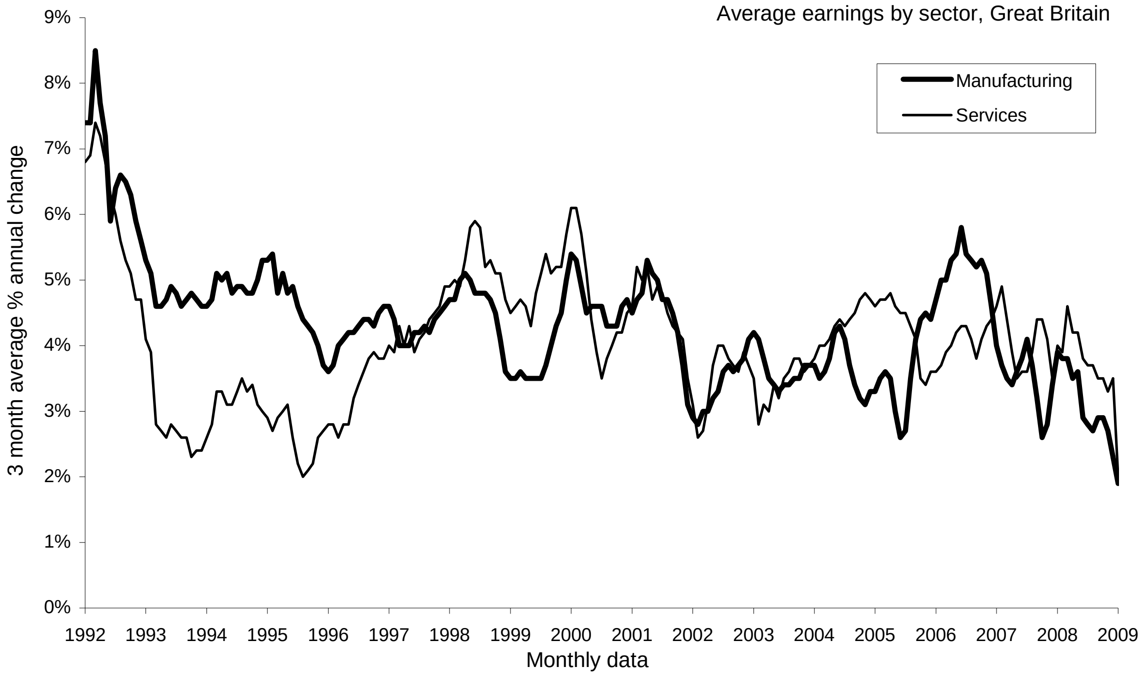
Source: Eurostat database, Mar 2009

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

- Eurozone annual inflation was 1.2% in February 2009. The "flash" estimate for March is 0.6%
- The monthly HICP inflation rates in February for the EU15 Member States not in the eurozone were 1.7% in Denmark, 2.2% in Sweden and 3.2% in the UK.
- The eurozone countries with the highest monthly HICP annual inflation rates in February were Malta (3.5%) and Finland (2.7%). The lowest rates were in Ireland and Portugal (both 0.1%).

**Contact:** Bryn Morgan, x4904 **Updates:** OECD, *Consumer prices release*, 9 Apr
Eurostat, *Euro-indicators news release*, 16 Apr

## B3: Average Earnings Index




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

- The headline rate of growth in average earnings for the whole economy in January was 1.8%, down from 3.1% from December. This is the lowest figure since the series began in 1991 and was mainly due to a steep fall in bonuses in private sector service companies.
- Headline average earnings growth in manufacturing was 1.9% in January, down from 2.3% in December. Earnings growth in the service sector was 2.0%, down from 3.5% in the previous month.
- Headline earnings growth in the private sector was 1.4% in January, compared with 4.0% in the public sector. Earnings growth in the private sector was down from 3.1% from December, while earnings growth in the public sector was unchanged from the previous month.
- Earnings are currently growing at a slower rate than they were a year ago (the headline rate in January 2008 was 3.7%).
- In the year to January, the consumer price index showed inflation at 3.0%, above the rate of earnings growth.

**Average Earnings, Great Britain**

% change on year; seasonally adjusted

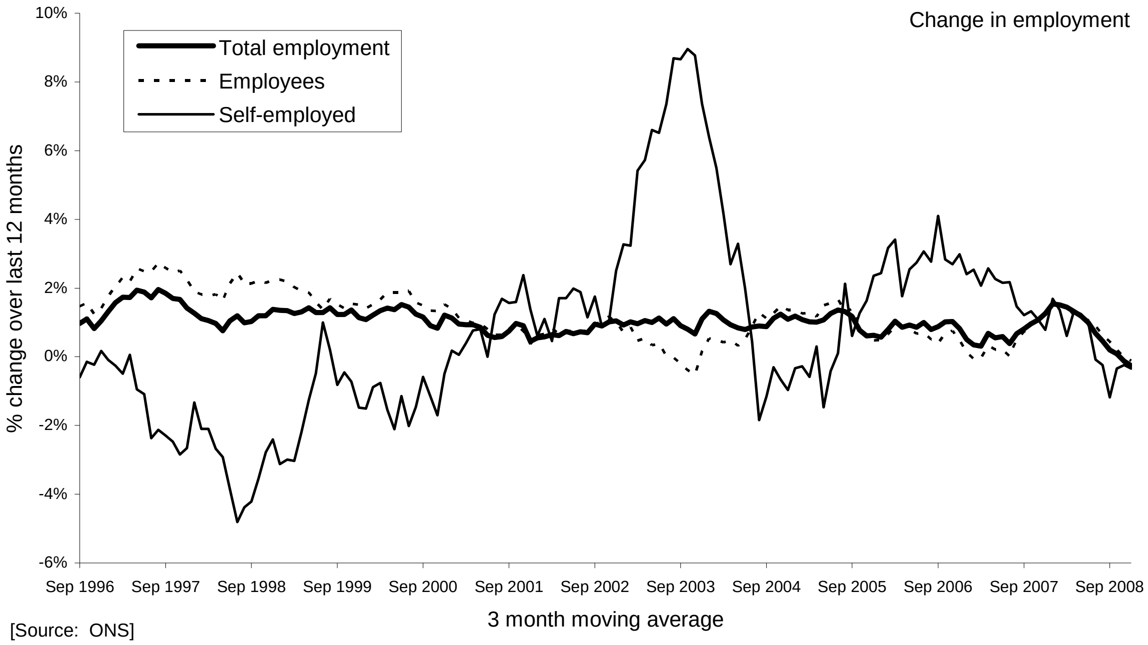
| | | Headline rate | | |
|---|---|---|---|---|
| | | Whole Economy | Private Sector | Public Sector |
| 2004 | Jan | 3.8 | 3.7 | 4.2 |
| 2005 | Jan | 4.4 | 4.4 | 4.6 |
| 2006 | Jan | 3.7 | 3.6 | 4.4 |
| 2007 | Jan | 4.3 | 4.6 | 3.2 |
| 2008 | Jan | 4.0 | 4.1 | 3.4 |
| | Feb | 3.9 | 3.8 | 3.7 |
| | Mar | 4.3 | 4.3 | 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 |
| | Sep | 3.3 | 3.1 | 3.9 |
| | Oct | 3.3 | 3.2 | 3.8 |
| | Nov | 3.1 | 2.9 | 4.0 |
| | Dec | 3.1 | 2.9 | 4.0 |
| 2009 | Jan | 1.8 | 1.4 | 4.0 |

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

Notes: Data includes bonuses and shows latest 3-month period compared with the same period a year ago.

**Contact:** Daniel Harari, x2464 **Update:** ONS, *Labour Market Statistics*, 22 Apr

# C1: Employment




[Source: ONS]

**Employment structure in the UK**

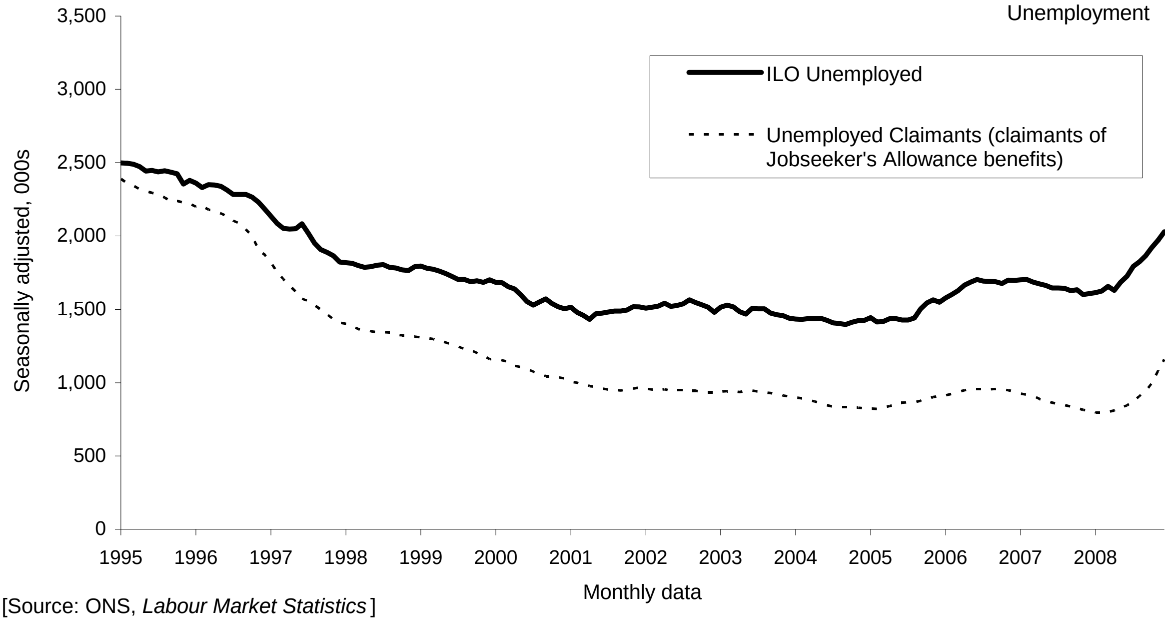
3-month average centred on month; '000s & % changes; seasonally adjusted

| | Total in employment | Employees | Self-employed | Unpaid Family Workers | Government Training |
|---|---|---|---|---|---|
| 2004 Dec | 28,671 | 24,844 | 3,607 | 98 | 123 |
| 2005 Dec | 28,850 | 24,962 | 3,692 | 91 | 105 |
| 2006 Dec | 29,087 | 25,079 | 3,802 | 100 | 106 |
| 2007 Dec | 29,454 | 25,403 | 3,832 | 108 | 110 |
| 2008 Mar | 29,506 | 25,445 | 3,828 | 113 | 119 |
| 2008 Jun | 29,491 | 25,442 | 3,835 | 101 | 113 |
| 2008 Sep | 29,377 | 25,395 | 3,782 | 96 | 104 |
| 2008 Dec | 29,379 | 25,373 | 3,819 | 89 | 98 |
| *Changes (%):* | | | | | |
| on last 3 months | 0.0 | -0.1 | 1.0 | -6.9 | -5.8 |
| on last year | -0.3 | -0.1 | -0.3 | -17.4 | -11.1 |

- Total employment in the three months to January 2009 was 75,000 lower than a year earlier but 2,000 higher than the previous quarter.
- Over the year to December 2008, the number of manufacturing industry workforce jobs fell by 128,000. The number of service sector jobs fell by 232,000 over the year.
- 7.5 million people were in part-time employment in the three months to January 2009, of whom 5.7 million were women. 3.8 million people were self-employed.

**Contact:** Dominic Webb, x4324 **Update:** ONS, *Labour Market Statistics*, 22 April

# 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 November 2008 to January 2009, the level of ILO unemployment in the UK was 2,029,000 (seasonally adjusted). This was an increase of 421,000 from the same period a year earlier.
- Seasonally adjusted unemployment as measured by the monthly claimant count increased by 138,400 between January and February 2009 to 1,391,100.

The New Deal for Young People started in January 1998.

- By November 2008, there had been 1,927,000 starts under the scheme. By August, 1,809,000 spells had resulted in 835,000 sustained jobs (46%) 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 November 2008, there had been 1,173,000 starts under the scheme. By August 2008, 732,000 spells had resulted in 305,000 sustained jobs (42%).

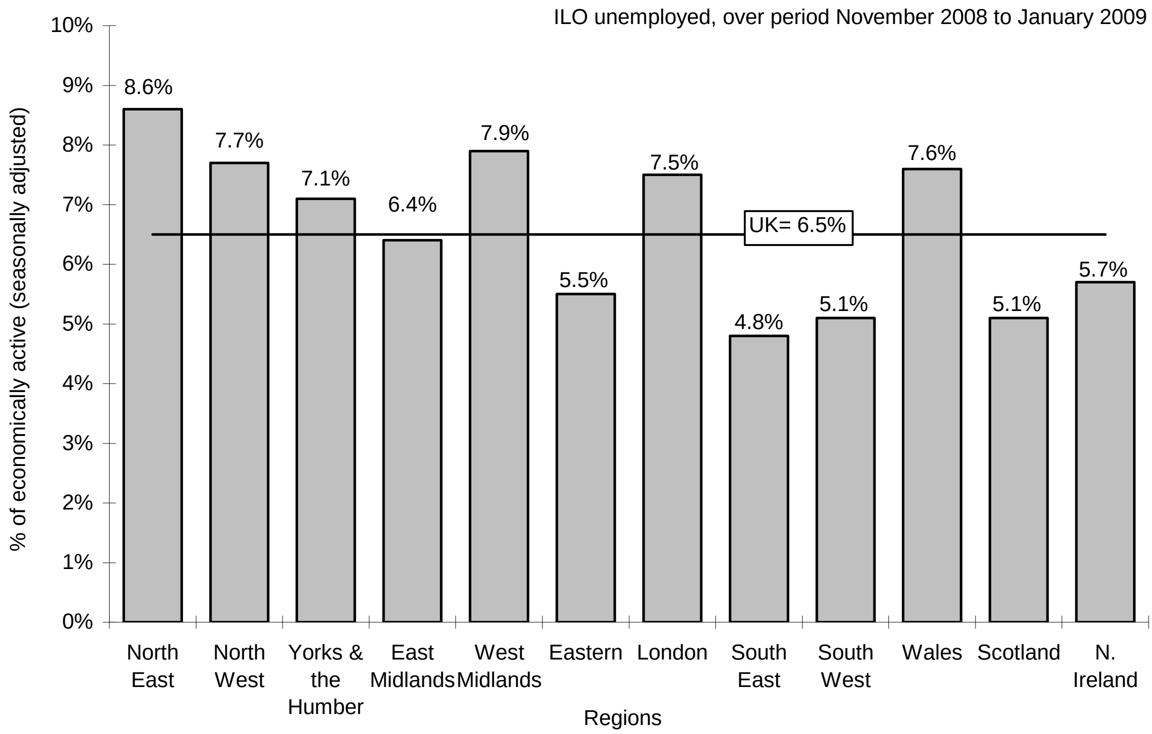
**ILO Unemployment in the UK**
seasonally adjusted

| | | '000s | rate (%) |
|---|---|---|---|
| Nov-Jan | 2003 | 1,479 | 5.0 |
| Feb-Apr | 2003 | 1,517 | 5.1 |
| May-Jul | 2003 | 1,506 | 5.1 |
| Aug-Oct | 2003 | 1,474 | 5.0 |
| Nov-Jan | 2004 | 1,440 | 4.8 |
| Feb-Apr | 2004 | 1,437 | 4.8 |
| May-Jul | 2004 | 1,425 | 4.8 |
| Aug-Oct | 2004 | 1,398 | 4.7 |
| Nov-Jan | 2005 | 1,425 | 4.7 |
| Feb-Apr | 2005 | 1,417 | 4.7 |
| May-Jul | 2005 | 1,426 | 4.7 |
| Aug-Oct | 2005 | 1,503 | 5.0 |
| Nov-Jan | 2006 | 1,549 | 5.1 |
| Feb-Apr | 2006 | 1,627 | 5.3 |
| May-Jul | 2006 | 1,704 | 5.5 |
| Aug-Oct | 2006 | 1,689 | 5.5 |
| Nov-Jan | 2007 | 1,696 | 5.5 |
| Feb-Apr | 2007 | 1,686 | 5.5 |
| May-Jul | 2007 | 1,646 | 5.3 |
| Aug-Oct | 2007 | 1,626 | 5.3 |
| Nov-Jan | 2008 | 1,608 | 5.2 |
| Feb-Apr | 2008 | 1,656 | 5.3 |
| May-Jul | 2008 | 1,727 | 5.5 |
| Aug-Oct | 2008 | 1,864 | 6.0 |
| Nov-Jan | 2009 | 2,029 | 6.5 |

Source: ONS, *Labour Market Statistics*

**Contact:** Roderick McInnes, x3793 **Updates:** ONS, *Labour Market Statistics*, 22 Apr
DWP, *New Deal*, May

# C3: Unemployment: Regional




[Source: ONS, *Labour Market Statistics* ]

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

- Over the period November 2008 to January 2009 the North East had the highest unemployment rate, 8.6% of the economically active population. The lowest rate over the same period was 4.8%, in the South East.
- A comparison of November 2008 to January 2009 with the same period a year earlier shows that the largest percentage rise in regional unemployment occurred in Wales (+58%). Scotland showed the smallest increase (+2%) over the period.

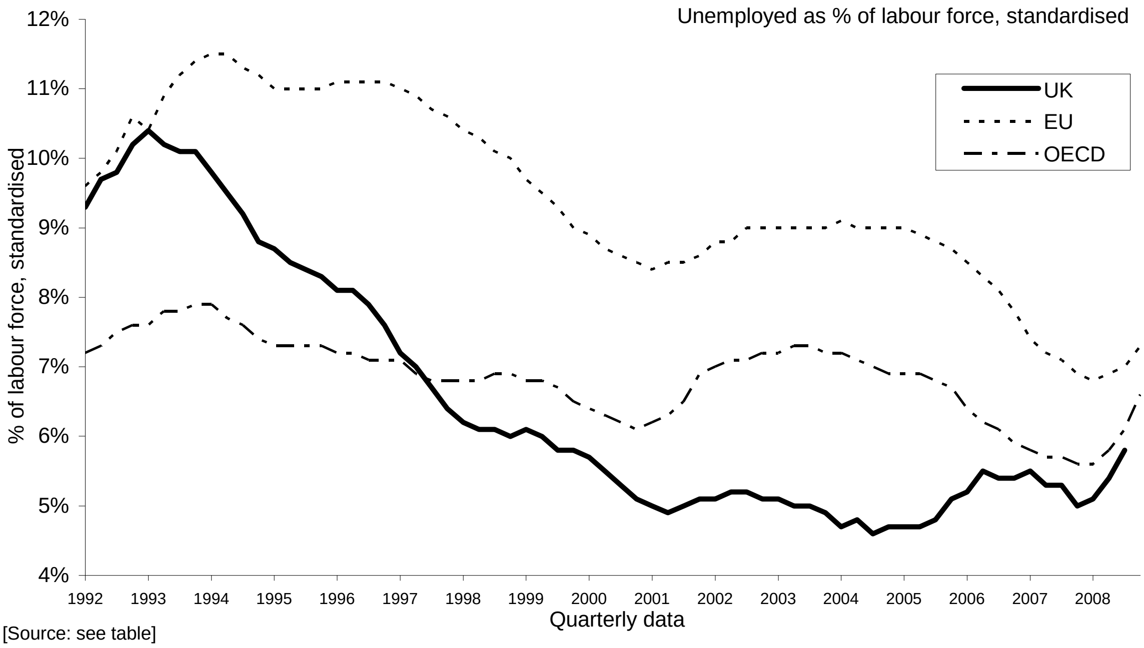
**ILO Unemployment,**
**November 2008 to January 2009**
change on same period in previous year; seasonally adjusted

| | Number (rounded) | *%* |
|---|---|---|
| North East | +34,000 | *+45* |
| North West & Merseyside | +62,000 | *+31* |
| Yorkshire & the Humber | +56,000 | *+43* |
| East Midlands | +23,000 | *+19* |
| West Midlands | +61,000 | *+41* |
| Eastern | +36,000 | *+28* |
| London | +33,000 | *+12* |
| South East | +22,000 | *+12* |
| South West | +41,000 | *+42* |
| Wales | +40,000 | *+58* |
| Scotland | +3,000 | *+2* |
| Northern Ireland | +10,000 | *+28* |

Source: ONS, *Labour Market Statistics*

**Contact:** Roderick McInnes, x3793 **Update:** ONS, *Labour Market Statistics*, 22 Apr

# C4: Unemployment: International Comparisons




[Source: see table]

**Unemployment**

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

| | | | | 2007 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Canada | 6.3 | 6.0 | 6.1 | 6.2 | 6.1 | 6.0 | 5.9 | 5.9 | 6.1 | 6.1 | 6.4 |
| France | 9.2 | 8.3 | 7.8 | 8.7 | 8.4 | 8.2 | 7.8 | 7.6 | 7.7 | 7.7 | 8.1 |
| Germany | 9.9 | 8.4 | 7.3 | 8.8 | 8.5 | 8.3 | 8.0 | 7.6 | 7.4 | 7.2 | 7.2 |
| Italy | 6.8 | 6.1 | .. | 6.0 | 5.9 | 6.2 | 6.4 | 6.7 | 6.8 | 6.7 | .. |
| Japan | 4.1 | 3.9 | 4.0 | 4.0 | 3.8 | 3.8 | 3.8 | 3.9 | 4.0 | 4.0 | 4.0 |
| UK | 5.4 | 5.3 | .. | 5.5 | 5.3 | 5.3 | 5.0 | 5.1 | 5.4 | 5.8 | .. |
| USA | 4.6 | 4.6 | 5.8 | 4.5 | 4.5 | 4.7 | 4.8 | 4.9 | 5.4 | 6.0 | 6.9 |
| Eurozone | 8.3 | 7.5 | 7.6 | 7.7 | 7.5 | 7.5 | 7.3 | 7.3 | 7.4 | 7.5 | 7.9 |
| G7 | 5.8 | 5.4 | 5.9 | 5.5 | 5.3 | 5.4 | 5.4 | 5.4 | 5.7 | 6.0 | 6.4 |
| OECD | 6.2 | 5.7 | 6.0 | 5.8 | 5.7 | 5.7 | 5.6 | 5.6 | 5.8 | 6.1 | 6.6 |

Source: OECD, Standardised Unemployment Rates, March 2009

- 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 5.7% respectively).

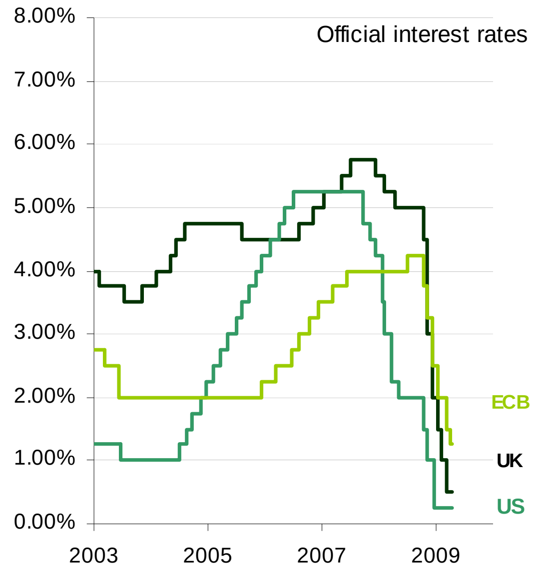
- Between Q3 2007 and Q3 2008 (the latest quarter for which all data are available) Germany had the largest fall in unemployment among G7 countries: 1.1 percentage points.

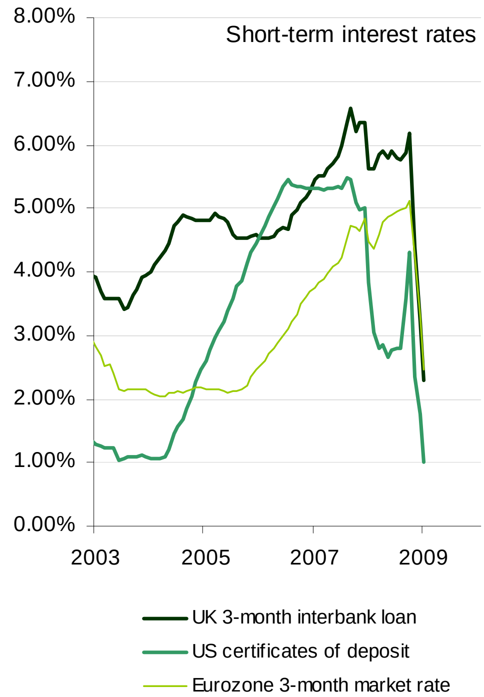
- The most recent forecasts published by the OECD (*Economic Outlook,* December 2008) suggest the UK unemployment rate will be 5.5% in 2008, 6.8% in 2009 and 8.2% in 2010. The respective forecasts for the eurozone are 7.4%, 8.6% and 9.0% and for the OECD as a whole 5.9%, 6.9% and 7.2%.

**Contact:** Roderick McInnes, x3793 **Updates:** OECD, *Standardised Unemployment Rates*, 10 Apr
OECD, *Economic Outlook*, Jun

## D1: Interest Rates

- On 5 March, the Bank of England's Monetary Policy Committee cut the official bank rate by 50 basis points to 0.50%. This follows cuts of 50 basis points on 8 January and 5 February, 100 basis points in December 2008 and 150 basis points in November 2008. The rate is now the lowest in the Bank of England's 315-year history.
- The European Central Bank reduced its rate for main refinancing operations by 25 basis points to 1.25% at its latest meeting on 3 April. Previously, it had cut the rate by 50 basis points on 15 January and 3 April
- The Federal Reserve decided, on 16 December 2008, to establish a target range for its federal funds rate of between 0% and 0.25%. It retained this target at its latest meeting on 17 March. Previously, the target had been 1.00%.
- The Bank of Japan cut its rate by 20 basis points to 0.10% on 19 December 2008.




**UK Base/Repo rate changes**

% per annum

| Date | | New rate | Date | | New rate |
|---|---|---|---|---|---|
| 2000 | Jan 13 | 4.50 | 2007 | Jan 11 | 5.25 |
| | Feb 10 | 4.00 | | May 10 | 5.50 |
| 2001 | Feb 8 | 3.75 | | Jul 5 | 5.75 |
| | Apr 5 | 3.50 | | Dec 6 | 5.50 |
| | May 10 | 3.75 | 2008 | Feb 7 | 5.25 |
| | Aug 2 | 4.00 | | Apr 10 | 5.00 |
| | Sep 18 | 4.25 | | Oct 8 | 4.50 |
| | Oct 4 | 4.50 | | Nov 6 | 3.00 |
| | Nov 8 | 4.75 | | Dec 4 | 2.00 |
| 2003 | Feb 6 | 4.50 | 2009 | Jan 8 | 1.50 |
| | Jul 10 | 4.75 | | Feb 5 | 1.00 |
| | Nov 6 | 5.00 | | Mar 5 | 0.50 |

Source: Bank of England

**International interest rates**

% per annum, at 3 April 2009

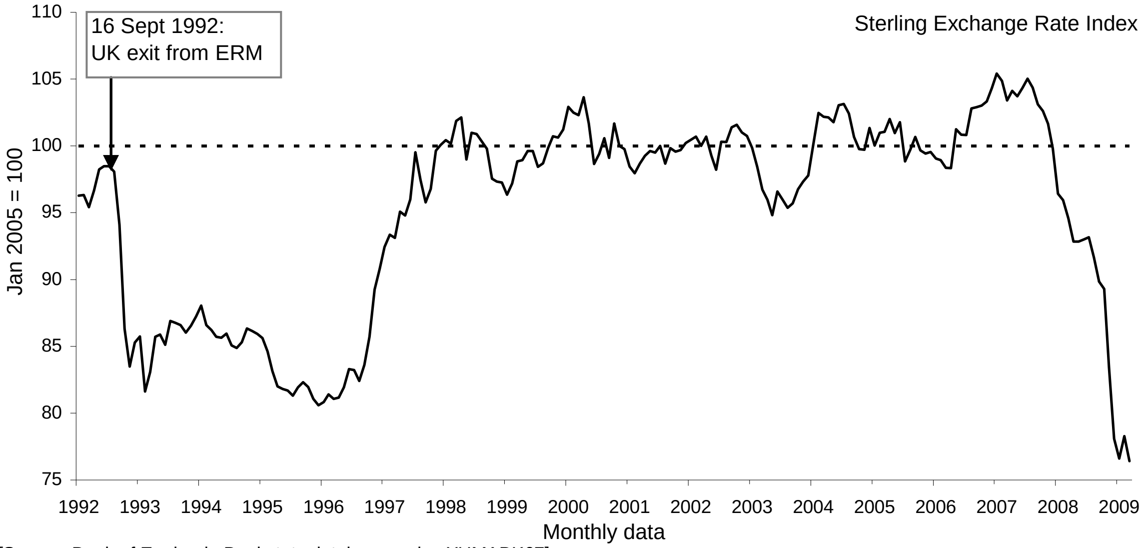
| | Official rate | *Since* | Yield 10yr Govt bonds | 3-month market rate |
|---|---|---|---|---|
| United Kingdom | 0.50 | *5/3/09* | 3.36 | 1.75 - 1.35 |
| Eurozone | 1.25 | *2/4/09* | n/a | 1.66 - 1.41 |
| US | 0.00 - 0.25 | *16/12/08* | 2.78 | 1.59 - 1.31 |
| Japan | 0.10 | *19/12/08* | 1.43 | 1.15 - 0.63 |
| Switzerland | 0.00 - 0.75 | *12/3/09* | 2.23 | 0.82 - 0.55 |

Source: *Financial Times, 6 April 2009 (Companies & Markets, p.25)*

**Contact:** Bryn Morgan, x4904 **Updates:** Short-term interest rates: OECD, MEI, mid-Mar; Base rates: 9 Apr (UK MPC), 7 May (ECB), 29 Apr (US)

## D3: Exchange rates

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




[Source: Bank of England, Bankstats database series XUMABK67]

- In March 2009 the SERI fell 2.4% on the previous month, having increased slightly (2.2%) in February compared with January (when it had been at its lowest monthly level since 1980 when the series began). The SERI was down 19.2% in March year-on-year, and is down 27.3% from its July 2007 peak.

Sterling exchange rates for three major currencies – the US dollar, Japanese yen and the euro – are shown in the table below. The pound was worth €1.087 at the London market close on 1 Apr 2009, compared with an all-time low of €1.020 on 30 December 2008 (and the 31 December 1998 launch rate of €1.476). The pound was worth $1.438 at the market close on 1 Apr 2009.

**Sterling Exchange Rates**

rates and % changes

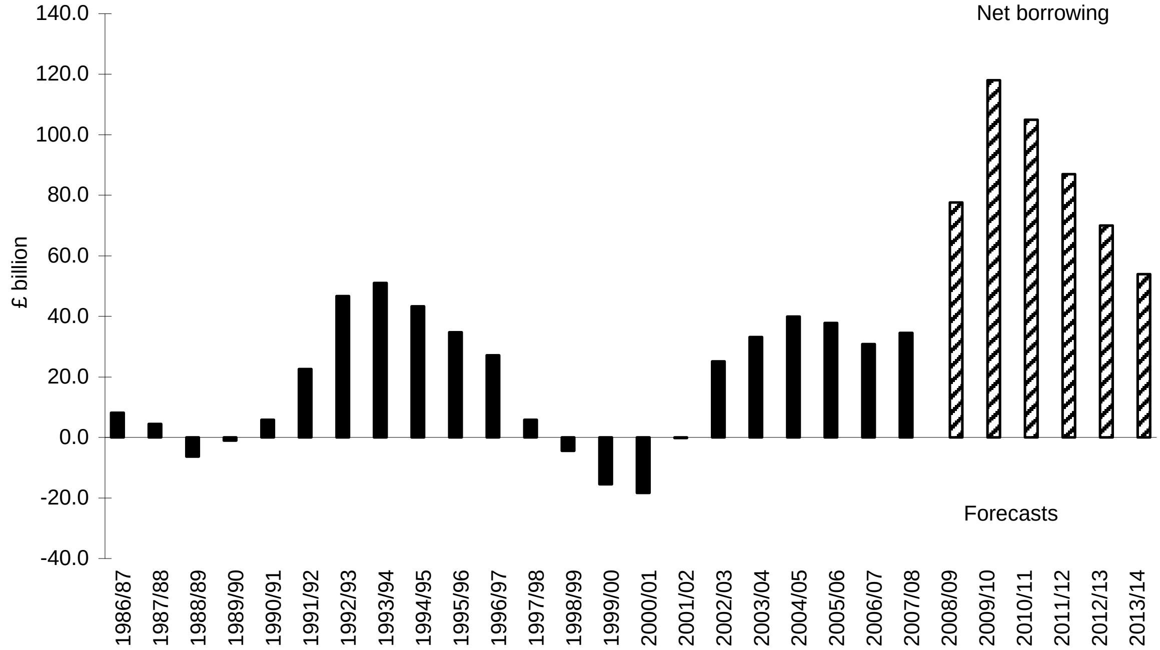
| | | US Dollar ($) | | Yen (¥) | | Euro (€) | |
|---|---|---|---|---|---|---|---|
| | | Rate | change on yr (%) | Rate | change on yr (%) | Rate | change on yr (%) |
| 2005 | | 1.819 | -0.7 | 200.2 | 1.0 | 1.463 | -0.7 |
| 2006 | | 1.843 | 0.6 | 214.3 | 8.2 | 1.467 | -0.5 |
| 2007 | | 2.002 | 10.1 | 235.7 | 17.8 | 1.462 | -0.1 |
| 2008 | | 1.853 | 0.5 | 192.4 | -10.2 | 1.259 | -14.2 |
| 2008 | 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 |
| | Oct | 1.690 | -17.3 | 169.3 | -28.5 | 1.272 | -11.5 |
| | Nov | 1.534 | -25.9 | 148.6 | -35.3 | 1.204 | -14.6 |
| | Dec | 1.486 | -26.4 | 135.6 | -40.2 | 1.104 | -20.3 |
| 2009 | Jan | 1.445 | -26.6 | 130.4 | -38.5 | 1.092 | -18.4 |
| | Feb | 1.441 | -26.6 | 133.8 | -36.4 | 1.126 | -15.4 |
| | Mar | 1.417 | -29.2 | 138.7 | -31.3 | 1.087 | -15.7 |

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

**Contact:** Ian Townsend, x2042

**Updates:** *Financial Times,* Sterling Exchange Rates, daily
*Bank of England,* SERI & monthly rates, 2 May

## D4: Public Finances




[Source: ONS database, series: -ANNX; HM Treasury]

The chart shows outturns and Treasury forecasts for public sector net borrowing. Net borrowing was £34.5 billion in 2007/08.

The Pre-Budget Report (PBR) forecast net borrowing of £77.6 billion in 2008/09 (up from a 2008 Budget forecast of £42.5 billion). This is equivalent to 5.3% of GDP. For 2009/10, the PBR forecast net borrowing of £118 billion (8.0% of GDP).

Public sector net debt was equivalent to 50.2% of GDP in Q4, 2008. Excluding the effects of the government's interventions in the financial sector, net debt was 40.7% (or £594.1 billion).

ONS has announced that Royal Bank of Scotland plc and the Lloyds Banking Group plc will be classified as being in the public sector from October 2008. This is because, in the ONS' view, the government has the ability to control the corporate policy of these banks.

While ONS has yet to reach a conclusion about how this will affect public sector net debt, it has indicated that it could add between £1 trillion and £1.5 trillion (70-100% of GDP). Some commentators believe this overstates the true impact on the public finances as the banks' long-term assets are not taken into account.

**Public Sector Net Debt and Borrowing**

£ billion & %

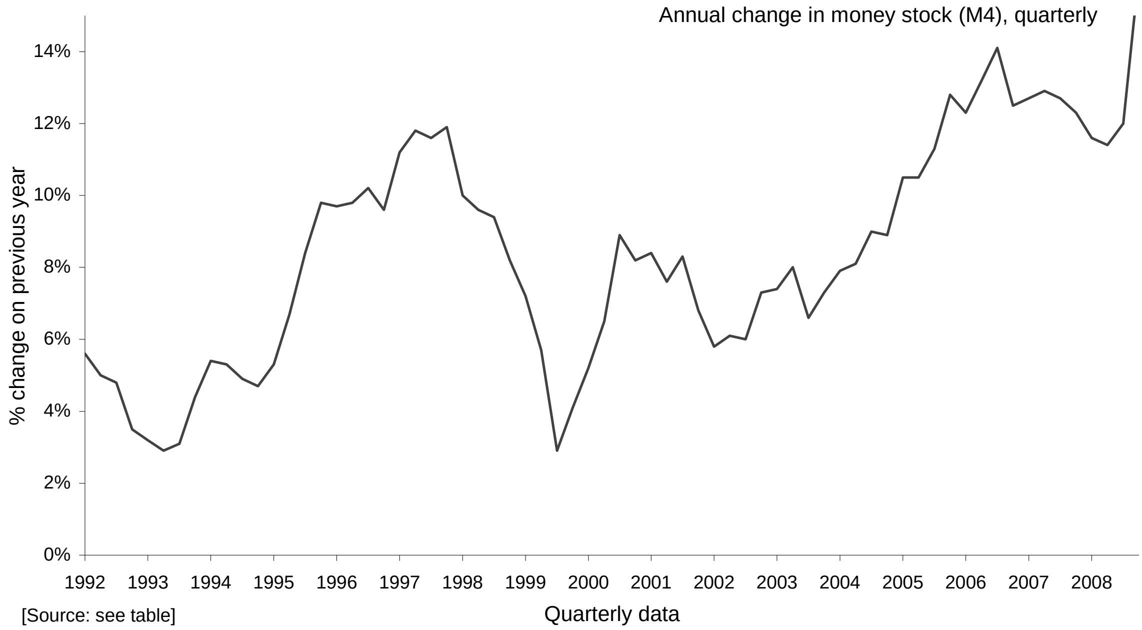
| | Net Debt | | Net borrowing |
|---|---|---|---|
| | £ billion | % GDP | £ billion |
| 2004/05 | 422.1 | 34.1 | 39.9 |
| 2005/06 | 461.6 | 35.4 | 37.8 |
| 2006/07 | 497.9 | 36.0 | 30.9 |
| 2007/08 | 621.2 | 43.0 | 34.5 |
| 2007 Q4 | 634.0 | 44.1 | 15.1 |
| 2008 Q1 | 621.2 | 43.0 | -1.0 |
| Q2 | 641.4 | 44.4 | 22.2 |
| Q3 | 696.1 | 47.8 | 14.1 |
| Q4 | 733.7 | 50.2 | 32.6 |

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

Note: debt figures include financial sector interventions

**Contact:** Dominic Webb, x4324 **Update:** ONS, Public sector finances, 22 Apr

## D5: Money Supply



[Source: see table]

**Money stock and M4 lending**
annual % change; seasonally adjusted

| | | Notes and coin | M4 lending to private non-financial corporations |
|---|---|---|---|
| 2008 | Feb | 6.5 | 15.7 |
| | Mar | 6.7 | 14.2 |
| | Apr | 6.6 | 14.2 |
| | May | 5.9 | 13.4 |
| | Jun | 5.7 | 13.4 |
| | Jul | 5.8 | 11.1 |
| | Aug | 5.1 | 10.2 |
| | Sep | 5.2 | 8.5 |
| | Oct | 6.0 | 6.9 |
| | Nov | 6.9 | 4.9 |
| | Dec | 7.3 | 3.8 |
| 2009 | Jan | 7.8 | 5.0 |
| | Feb | 8.3 | 3.6 |

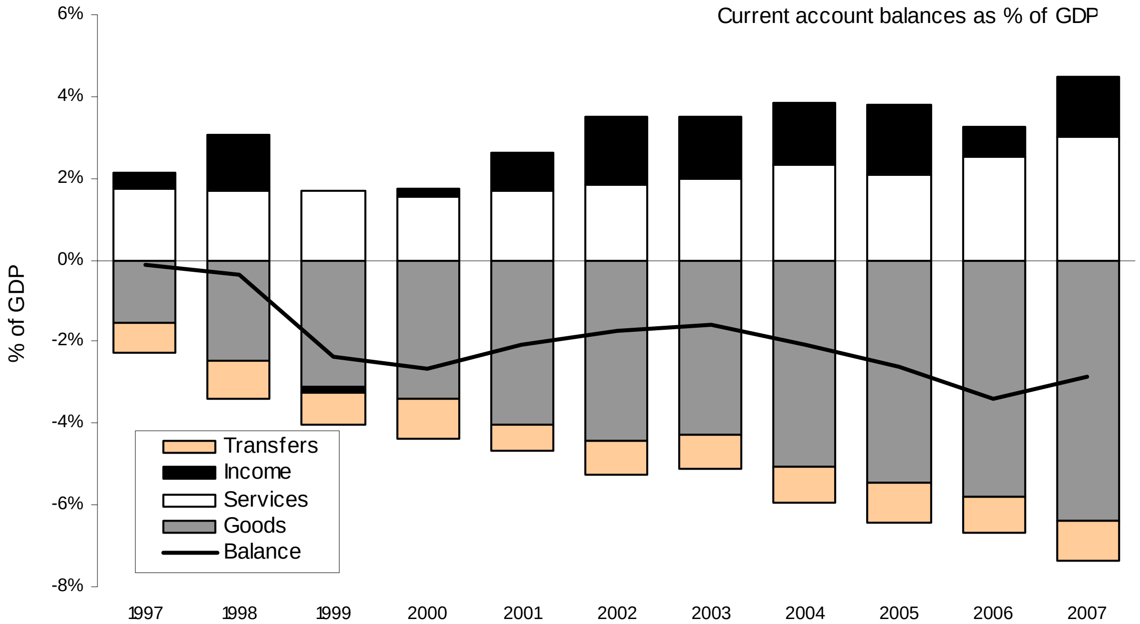
Source: Bank of England, *Monetary and Financial Statistics* March 2008, Tables A1.1.1 and A4.3

The table above shows sterling notes and coin in circulation outside the Bank of England. The table also shows M4 lending which measures lending by the banking sector to private non-financial corporations. The figures exclude the effects of securitisations and loan transfers.

- M4 lending to private non-financial corporations grew by 3.6% in the 12 months to February 2009 compared with 15.7% in February 2008.
- There are now no formal targets for money supply growth.

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

# E1: UK Overseas Trade




[Source: see table]

**Current Account Balances**

£ millions; seasonally adjusted

| | Trade in goods/services | | | | Transfers | | | Current |
|---|---|---|---|---|---|---|---|---|
| | Goods | Services | Total | Income (total) | Central Gov. | Other | Total | Account Balance |
| 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 | -89,754 | 42,457 | -47,297 | 20,572 | -9,736 | -3,866 | -13,602 | -40,327 |
| 2008 | -92,876 | 48,878 | -43,998 | 33,129 | -8,993 | -4,631 | -13,624 | -24,493 |
| 2007 Q4 | -23,966 | 11,572 | -12,394 | 10,883 | -3,361 | -1,054 | -4,415 | -5,926 |
| 2008 Q1 | -23,243 | 11,486 | -11,757 | 12,566 | -2,712 | -1,373 | -4,085 | -3,276 |
| Q2 | -23,303 | 11,966 | -11,337 | 9,404 | -2,244 | -1,237 | -3,481 | -5,414 |
| Q3 | -23,619 | 10,699 | -12,920 | 8,077 | -2,115 | -1,204 | -3,319 | -8,162 |
| Q4 | -22,711 | 14,727 | -7,984 | 3,082 | -1,922 | -817 | -2,739 | -7,641 |

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

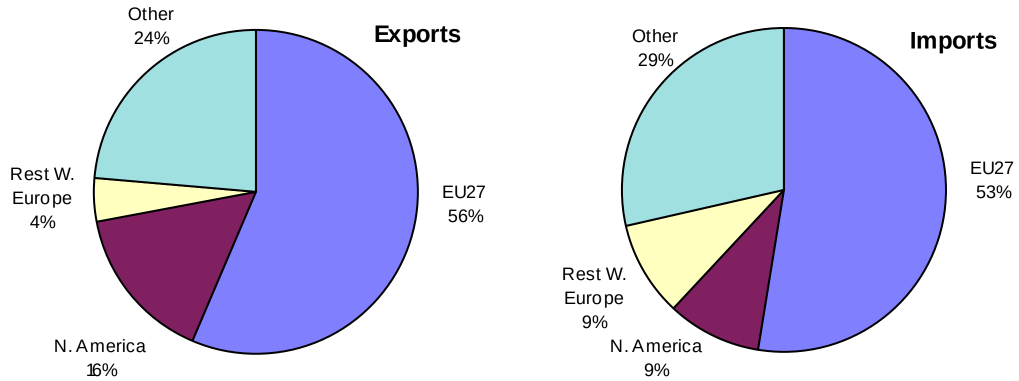
- **Annually**, the current account deficit in 2008 was £24.5 billion, equivalent to -1.7% of GDP. The surplus on income and services widened between 2007 and 2008. Data for 2008 shows that the deficit on goods trade widened while the deficit on goods and services trade together narrowed.
- On a **quarterly** basis, the current account deficit was estimated at £7.7 billion in Q4 2008, narrowed from the Q3 2008 deficit of £8.2 billion. Between Q3 2008 and Q4 2008 the surplus on services widened while the deficit on goods narrowed.
- In 2008 the **annual** current account deficit with EU27 countries was £3.1 billion, compared with a deficit with non-EU countries of £21.4 billion. On a **quarterly** basis, the surplus with EU countries was £3.2 billion in Q4 2008 (compared with £2.7 billion in Q3 2008). With non-EU countries, the current account was in deficit by £10.9 million in Q4 2008 (compared with a deficit of £10.8 billion in Q3 2008).

**Contact:** Grahame Allen, x3977 **Updates:** NS, *UK Balance of Payments*, 30 Jun; *UK Trade*, 9 Apr

## E2: UK Overseas Trade in Goods

**Shares of UK trade in goods by area, 2008**

*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 |
| 2005 | 111.0 | 114.6 | 211,608 | 280,197 | -68,589 |
| 2006 | 125.2 | 127.5 | 243,635 | 319,947 | -76,312 |
| 2007 | 110.4 | 122.3 | 220,858 | 310,612 | -89,754 |
| 2008 | 110.6 | 119.8 | 251,088 | 343,964 | -92,876 |
| 2007 Q4 | 110.8 | 124.9 | 57,238 | 81,204 | -23,966 |
| 2008 Q1 | 112.8 | 123.4 | 60,698 | 83,941 | -23,243 |
| Q2 | 112.3 | 121.6 | 64,194 | 87,497 | -23,303 |
| Q3 | 112.7 | 121.3 | 65,618 | 89,237 | -23,619 |
| Q4 | 104.5 | 112.9 | 60,578 | 83,289 | -22,711 |

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

- In January, the provisionally estimated total value of UK goods exports was £18.8 billion and the total value of UK goods imports was £26.5 billion. As a result, the estimated deficit on goods trade was £7.7 billion, higher than the December level of £7.2 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 £2.0 billion in January (compared with £2.9 billion in December), while the deficit with non-EU countries was £5.7 billion (compared with £4.3 billion in December).

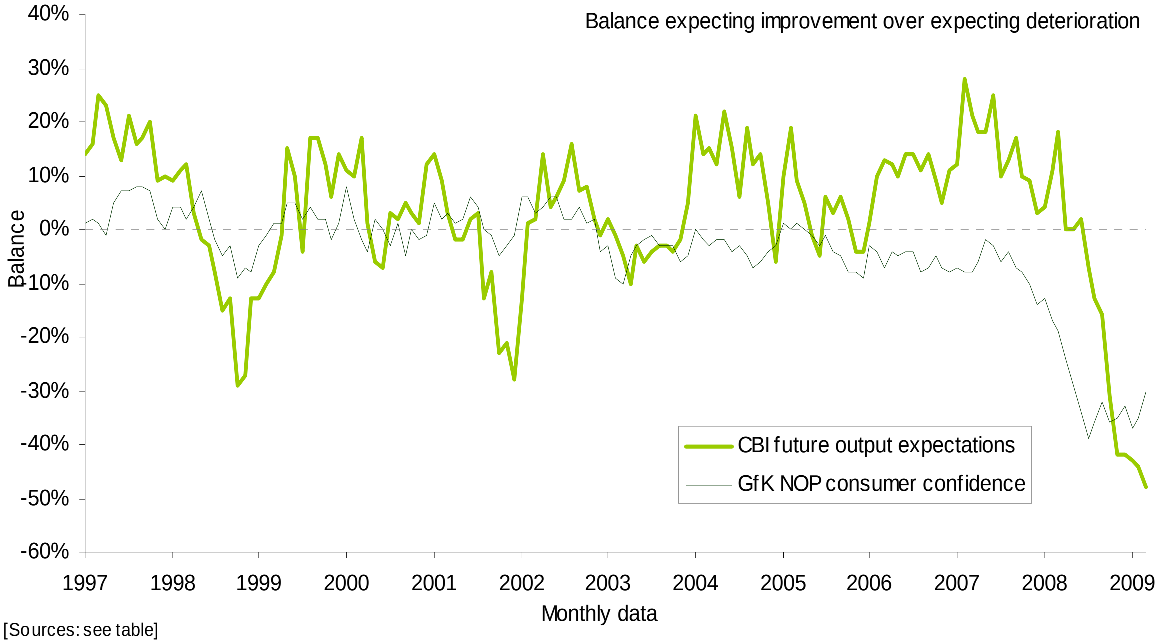
- The UK's monthly surplus on trade in **services** was £4.2 billion in January, higher than the December total of £4.0 billion.

- The UK's overall monthly deficit on **goods and services combined** in January was £3.6 billion, up from £3.2 billion in December.

**Contact:** Grahame Allen, x3977 **Update:** ONS, *UK Trade*, 9 Apr

## 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:

- In March, manufacturers' expectations of output over the next three months equalled the lowest since September 1980: a balance of 48% of firms thought output would decrease rather than increase over the next three months.
- A balance of 58% of respondents said that total order book levels were below normal (up from 56% in February 2009), the lowest since January 1992 (when it was 60%).
- A balance of 51% of firms reported export orders books below normal, the lowest since October 1998 (-55%).

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 rose five points in March to stand at -30, the highest level since May 2008;
- Within this, the "general economic situation over the next 12 months" measure was up 9 points (to -31), and the "personal finance over the next 12 months" measure was up 2 points (at -6);
- the "now is a good time to save" increased by 2 points, but is 48 points lower than in March 2008.

### Output Expectations & Consumer Confidence

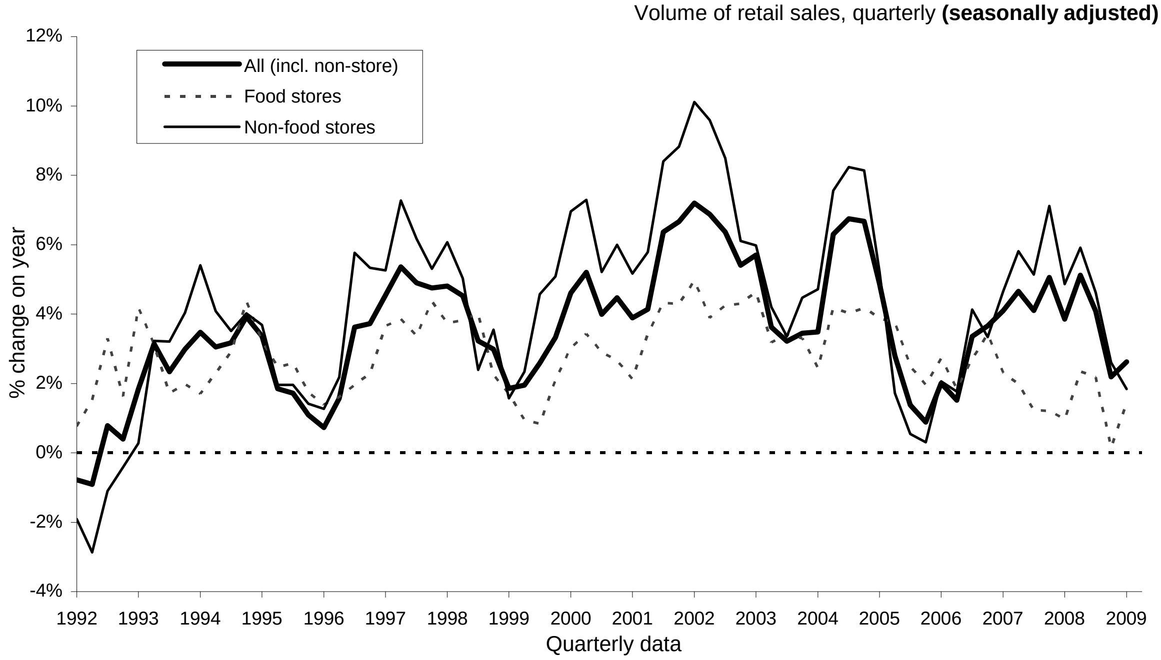
Balance of % expecting improvement over % expecting deterioration

| | | Future output expectations (CBI) | Consumer confidence (GfK) |
|---|---|---|---|
| 2008 | 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 |
| | Nov | -42 | -35 |
| | Dec | -42 | -33 |
| 2009 | Jan | -43 | -37 |
| | Feb | -44 | -35 |
| | Mar | -48 | -30 |

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

**Contact:** Ian Townsend, x2042 **Updates:** CBI, *Industrial Trends* (Monthly), mid Apr
GfK NOP, *Consumer Confidence*, end Apr

## F2: Retail Sales




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

- The total *volume* of retail sales in the three month period December 2008 to February 2009 was up 2.0% compared with the previous three months, and 3.0% higher than in the same three-month period in the previous year (seasonally adjusted), "due to the strength in volume of retail sales in December and January."
- Total weekly retail sales volumes in February 2009 were 0.4% higher than in the same month a year previously, while the volumes fell by 1.9% in February compared with the previous month (all seasonally adjusted).
- Retail sales volumes in stores selling primarily food increased by 0.3% in the three months December 2008 to February 2009 compared with the same three months a year earlier. For predominantly non-food retailing stores sales increased by 3.5% over the same period (all seasonally adjusted).

**Value of Retail Sales**

% change on year; non-seasonally adjusted

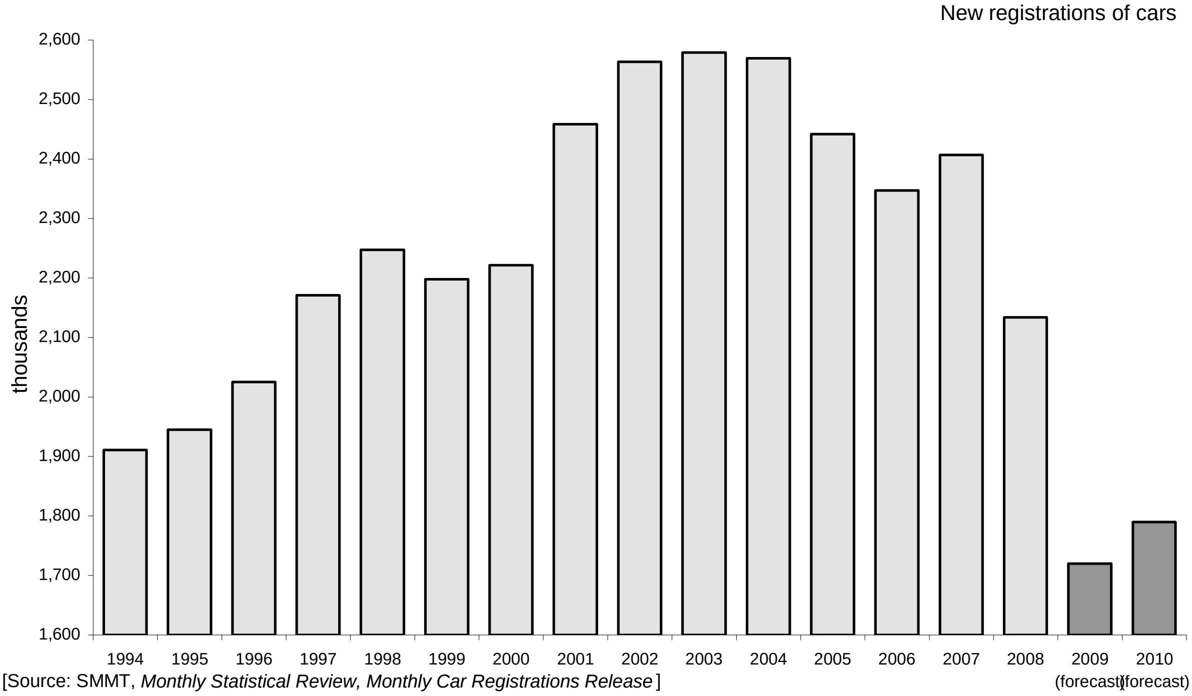
| | Food, drink & tobacco | Clothing & footwear | Household goods | Other non-food | Total |
|---|---|---|---|---|---|
| 2006 | 3.5 | 3.5 | 2.5 | 1.3 | 2.8 |
| 2007 | 2.2 | 3.9 | 5.6 | 4.3 | 3.6 |
| 2008 | 3.4 | 0.9 | -3.0 | 10.1 | 3.1 |
| 2007 Q4 | 0.9 | 1.0 | 3.2 | 5.1 | 2.3 |
| 2008 Q1 | 2.7 | 2.5 | 1.5 | 15.6 | 5.0 |
| Q2 | 3.1 | 0.1 | -2.3 | 13.5 | 3.7 |
| Q3 | 3.9 | 1.9 | -4.9 | 11.8 | 3.5 |
| Q4 | 4.4 | 0.6 | -5.7 | 3.0 | 1.2 |

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

- On a monthly basis, the average weekly *value* of retail sales in February 2009 was £4.8 billion, a 0.4% decrease from the same month in the previous year (non-seasonally adjusted).
- NOTE: 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*, 24 Apr

# F3: New Car Registrations




[Source: SMMT, *Monthly Statistical Review, Monthly Car Registrations Release*]

Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 30.5% in March 2009, compared with the previous March's figure, to 313,912 units (excluding taxi registrations).

- The number of new registrations of cars was just over 2.1 million units in 2008.
- New registrations of cars fell by 11.3% in 2008. They are forecast to fall by a further 19.4% in 2009, before rising by 4.1% in 2010.
- In 2008 as a whole, 13.6% of new car registrations related to British-built cars.
- In 2008 1,446,619 cars were produced in the UK; 25% or 364,593 of these were for the UK market, while 75% or 1,082,026 were for export.

**New Registrations of Cars**

000s & % change; not seasonally adjusted

| | | | Number ('000s) | Change over 12 months |
|---|---|---|---|---|
| 2008 | | | 2,134 | -11.3 |
| 2009 | (forecast) | | 1,720 | -19.4 |
| 2010 | (forecast) | | 1,790 | 4.1 |
| | | | | |
| 2008 | 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 | | 331 | -21.2 |
| | Oct | | 128 | -23.1 |
| | Nov | | 100 | -36.8 |
| | Dec | | 109 | -21.1 |
| 2009 | Jan | (a) | 112 | -30.9 |
| | Feb | (a) | 54 | -21.9 |
| | Mar | (a) | 314 | -30.5 |

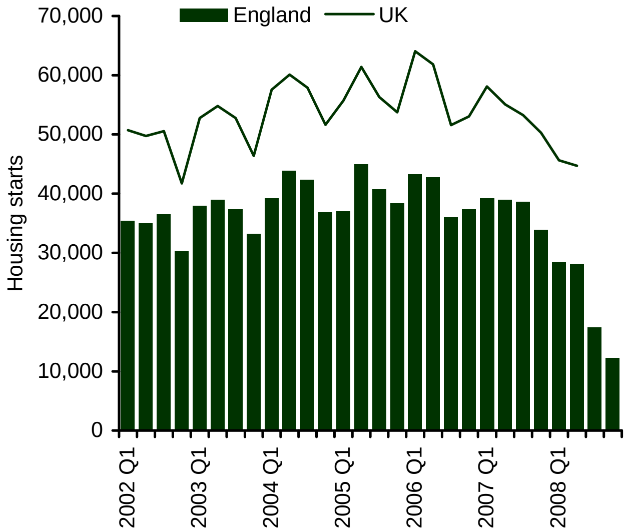
Source: SMMT, *Monthly Statistical Review and website*

Note: (a) data includes registrations of taxis, except for latest three months.

**Contact:** Ed Potton, x2883 **Update:** SMMT, *New Car Registrations*, 7 May

# F4: Housebuilding and prices

Housing starts in the UK




[Source: DCLG, Tables 211,213] Quarter

% change on same quarter of previous year

| | England | UK |
|---|---|---|
| 2006 Q2 | -5% | +1% |
| 2006 Q3 | -12% | -8% |
| 2006 Q4 | -3% | -1% |
| 2007 Q1 | -10% | -9% |
| 2007 Q2 | -9% | -11% |
| 2007 Q3 | +7% | +3% |
| 2007 Q4 | -9% | -5% |
| 2008 Q1 | -27% | -22% |
| 2008 Q2 | -28% | -19% |
| 2008 Q3 | -55% | .. |
| 2008 Q4 | -64% | .. |

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

- **Monthly** Seasonally adjusted UK house prices fell by 1.9% in March 2009. This compares with a 2.3% fall in February.
- **Annual** house prices in March were 17.5% lower on an annual basis.
- **Quarterly** house prices were 2.7% lower in quarter 1 of 2009 compared with quarter 4 of 2008. [detailed Q1 2009 has not yet been published]
- Regionally, the Halifax data show that in Q4 2008 house prices fell in all regions compared with Q4 2007. The largest falls were in Northern Ireland, where prices fell 32%, and Wales and the North where prices fell 19%. (data not seasonally adjusted; regions are not aligned with regions used by the DCLG below – Q4 data not yet available).

**Standardised average house prices**

£s & %; non-seasonally adjusted

| | | All houses | New houses | Existing houses | First time buyers |
|---|---|---|---|---|---|
| average house prices, £ | | | | | |
| 2007 | 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 |
| | Q4 | 164,200 | 171,200 | 163,100 | 127,200 |
| % change over same period in previous year | | | | | |
| 2007 | 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 |
| | Q4 | -16.2 | -13.9 | -16.6 | -14.1 |

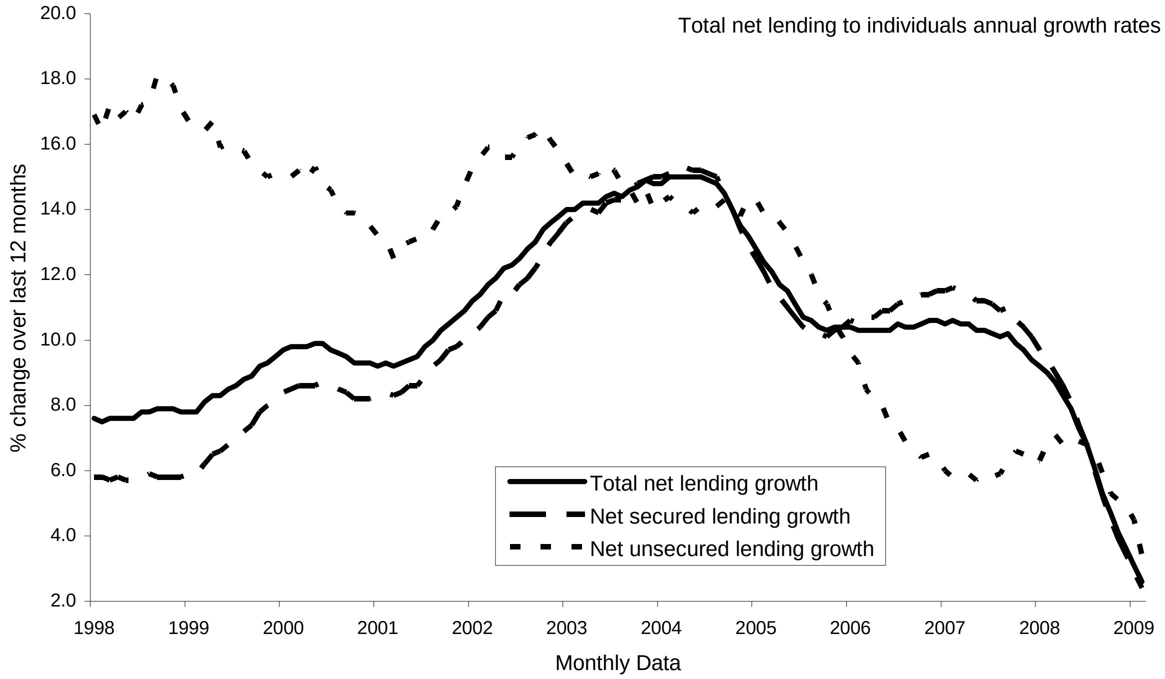
Source: HBOS, *Halifax House Price Index*

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 stood at £195,724 in January 2009. Prices were 11.5% lower than in January 2008.
- Regionally, house prices in January 2009 were lower than January 2008 in all regions, with the largest fall of 14.3% in Northern Ireland. In England, the largest fall was in the East Midlands (14.1%).

**Contact:** Bryn Morgan, x4904 **Updates:** Halifax *House Prices*, early May; DCLG, *House Prices*, 15 Apr 2009; *House-building*, 21 May 2009

# 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 |
| 2005 Feb | 888,581 | 201,814 | 1,090,396 | 12.1 | 13.9 | 12.4 |
| 2006 Feb | 981,701 | 211,498 | 1,193,200 | 10.5 | 9.3 | 10.3 |
| 2007 Feb | 1,096,408 | 213,352 | 1,309,761 | 11.6 | 5.8 | 10.6 |
| 2008 Feb | 1,194,635 | 229,435 | 1,424,070 | 9.4 | 6.8 | 9.0 |
| May | 1,209,390 | 231,539 | 1,440,929 | 8.1 | 7.0 | 7.9 |
| Aug | 1,217,584 | 236,164 | 1,453,748 | 6.0 | 6.6 | 6.1 |
| Nov | 1,223,855 | 233,384 | 1,457,239 | 3.9 | 5.1 | 4.1 |
| 2009 Feb | 1,226,582 | 231,667 | 1,458,249 | 2.4 | 3.4 | 2.6 |

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

- Total net outstanding lending to individuals was £1,458 billion at the end of February 2009 (seasonally adjusted).
- Total net lending to individuals grew by 0.05% in February 2009 compared with the previous month, and grew by 2.6% on an annual basis (all seasonally adjusted); the annual growth rate is 0.5 percentage points lower this month than in January 2009.
- Of the £0.7 billion increase in net lending in February 2009, £1.4 billion was mortgage borrowing while consumer credit fell by £0.7 billion (seasonally adjusted).
- In Q4 2008 there were 29,444 individual insolvencies (bankruptcy orders or IVAs) in England and Wales (seasonally adjusted). This was an 8.2% increase on the last quarter and an 18.5% increase on Q4 2007.

**Contact:** Ed Potton, x2883 **Update:** Bank of England, *Lending to Individuals*, 1 May
Insolvency Service, *Q1 Insolvency Statistics*, 1 May

# 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:<br>*Preliminary GDP Estimates*;<br>*Quarterly National Accounts*;<br>*UK output, income & expenditure*;<br>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<br>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;*<br>**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);<br>**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*<br>**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<br>**ECB:** European Central Bank news releases<br>**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<br>**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;<br>**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;<br>**DCLG House building statistics**: statistical release;<br>**Halifax House Price data:** housing research page;<br>**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**[55]

**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

[55] Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

are used up in production. GVA is used to measure the productivity of sectors/industries and economies.

**Harmonised Indices of Consumer Prices (HICP):** Harmonised indices of consumer prices for Member States of the European Union.

**Market prices:** The prices actually paid by the purchaser for goods and services, including transport costs, trade margins and taxes. GDP at market prices = GDP at basic prices + transport prices paid separately + non deductible taxes on expenditure - subsidies received.

**Money supply:** The total amount of money in an economy at a given time. In the UK the main measures of money supply are:

- M0 which comprises notes and coins in circulation outside the Bank of England plus bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate.
- M4 which is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

**New Deal for Young Persons (NDYP):** A Government employment programme designed to help the long-term unemployed between the ages of 18-24 back into sustained employment through the provision of training, education, work experience, and job-search support.

**New Deal for 25 plus (ND25+):** A Government employment programme designed to help the long-term unemployed aged 25 and over back into sustained employment through the provision of training, education, work experience, and job-search support.

**The Public Sector Net Cash Requirement (PSNCR):** This measures the public sector's accumulation of debt net of liquid financial assets. Its approximate stock equivalent is net public sector debt.

**Public Sector Net Debt:** This is approximately the stock analogue of the PSNCR. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets such as bank deposits and foreign exchange reserves.

**Retail Prices Index (RPI):** A domestic indicator of inflation. It measures the average change from month to month in the prices of goods and services purchased in the UK. It is similar to the CPI, but differs in terms of coverage and methodology. **RPI(X)** excludes mortgage interest payments.

**Seasonally adjusted:** Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

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

**Sustained employment:** In terms of the New Deal programmes, sustained employment is classified as a job from which the participant does not return to claim Jobseeker's Allowance (JSA) or transfer to another option within 13 weeks. It includes those who have been in employment for less than 13 weeks but have not yet returned to JSA.

**UK Base/Repo rate:** The rate at which the Bank of England lends to discount houses by buying their bills. The base rate is usually the minimum rate at which banks are prepared to lend money. The high street bank base rate follows that set by the Bank of England, and it acts as the benchmark for other interest rates, including mortgages and personal loans.

**Unemployment:** The ILO definition includes all people who are: out of work, want a job, have actively sought work in the previous four weeks and are available to start work within the next fortnight; or are out of work and have accepted a job that they are waiting to start in the next fortnight.

**Unemployment rate:** The number of unemployed persons expressed as a percentage of the economically active population.

**Volume/value of retail sales:** The volume of retail sales is the total takings adjusted for inflation and the value of retail sales is the total actual takings.

**Workforce jobs:** The sum of employee jobs, self-employment jobs, those in HM Forces and government-supported trainees.