



# Economic Indicators, March 2010

RESEARCH PAPER 10/20 02 March 2010

This Research Paper series summarises the main economic indicators currently available for the UK, along with comparisons with other major OECD countries.

- Estimated economic growth in the fourth quarter of 2009 was revised upwards to 0.3% from the preliminary estimate of 0.1%.
- Unemployment fell, but the Jobseekers' Allowance claimant count rose and employment fell.
- Inflation rose sharply in January to 3.5%, compared with a target of 2%.

This month's article: **The budget deficit and the economic cycle**

Daniel Harari (editor)

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## Research Paper 10/20

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## Summary

This month's figures showed a mixed picture. Growth in Q4 2009 was unexpectedly revised upwards to 0.3% from 0.1%. However, that followed contraction in Q3 2009 that was worse than previously estimated (page 1). Both manufacturing (0.8%) and services (0.5%) showed quarter-on-quarter growth (page 4). Inflation (CPI) rose to 3.5% in January 2010, well above the Bank of England's 2% target (page 7). There was conflicting news in the labour market: unemployment (ILO) fell, but the claimant count rose (page 11) and employment fell (page 10). Finally, the Nationwide house price index showed its first fall in prices in 10 months and the number of mortgage approvals dropped sharply (page 21).

### GDP Growth

page 1

(% change quarter-on-quarter)

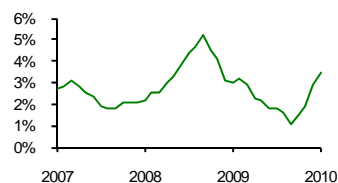


GDP expanded by 0.3% in Q4 2009 compared with Q3. That was an upward revision of the preliminary estimate of 0.1%. However, estimates of growth in Q3 2009 were revised downwards, meaning the economy is estimated to have contracted by 5.0% in 2009, not 4.8%.

### Inflation (CPI)

page 7

(% change on year ago)

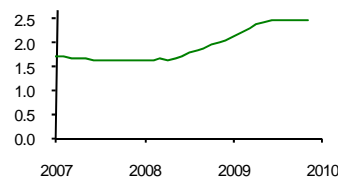


In the year to January, CPI inflation rose to 3.5%, up from 2.9% in December. The increase in VAT and higher oil prices compared with a year ago were the main causes of the increase.

### Unemployment

page 11

(total, millions, ILO definition)

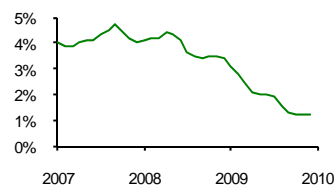


ILO unemployment fell by 3,000 to 2.46 million during the three months ending in December 2009. However, compared with a year ago unemployment was 0.45 million higher.

### Average Earnings

page 9

(% change on year ago)



Average earnings growth excluding bonuses was 1.2% in December compared with a year ago, unchanged from November, and the lowest since the series began in 2001.

### Manufacturing Output

page 5

(% change on year ago)



Manufacturing output was up by 0.9% in December on a month-on-month basis, following a 0.2% increase in November. Output in December was still down 1.9% compared with a year ago.

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Next issue: 6 April

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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### Weekly email alert

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### Sources and glossary

A guide to sources is provided in section 4. Economic terms, symbols and abbreviations used in the publication are described in the glossary in section 5.

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## 2 The budget deficit and the economic cycle

### *Introduction*

Reducing the budget deficit will be a major priority over the next few years. This article looks at the cyclical and structural elements of the deficit. It also considers the implications for the deficit of the economy growing more slowly than assumed by the Treasury.

A distinction is often drawn between the “cyclical” and “structural” elements of the budget deficit:

- **Cyclical** elements of the deficit refer to the effect of the economic cycle on the level of government borrowing. In a recession, government borrowing tends to increase as tax receipts are reduced and spending on unemployment benefit increases. The reverse happens when the economy is growing strongly. These effects are sometimes known as the economy’s “automatic stabilisers”.
- **Structural** elements of the deficit refer to underlying or persistent elements of government borrowing which are unrelated to the economic cycle. The structural deficit is measured by cyclically-adjusted measures of borrowing.

The distinction is important as the “headline” borrowing figures may mask underlying trends unless the economy’s position in the economic cycle is taken into consideration. It should be pointed out, however, that estimating how much of the deficit is cyclical and how much is structural is far from easy. This requires an assessment of where the economy is in the economic cycle. It can be difficult to determine where the economy is in relation to its “trend” level of output. This is particularly the case when the economy is coming out of recession as it requires a calculation of how much of the lost output is purely cyclical and how much is permanent. These problems mean that estimates of the structural deficit need to be treated with a degree of caution.

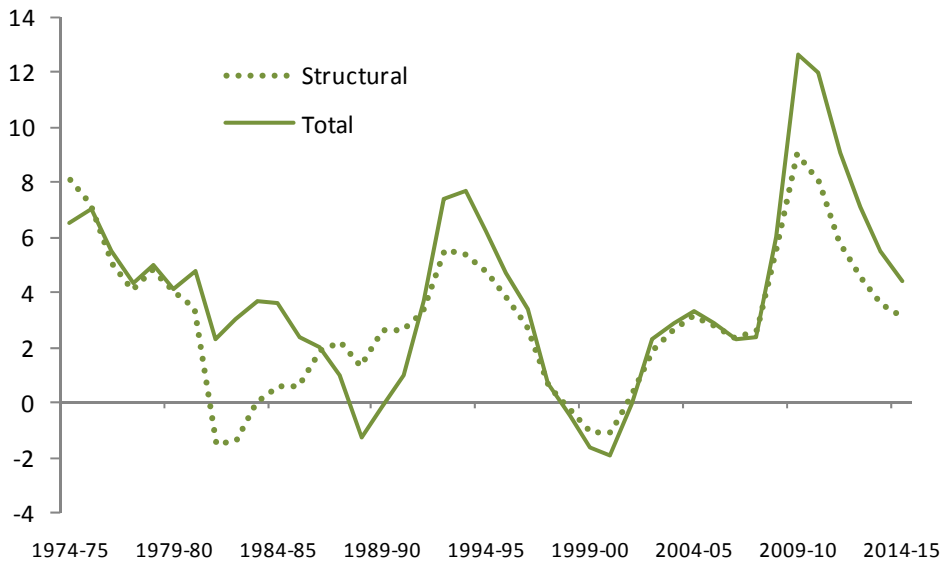
### *The structural deficit*

Chart 1 below shows the structural and overall level of the deficit. The chart shows that over the last thirty-five years the structural deficit has, at times, been both higher and lower than the overall deficit. In a boom, one would expect the overall deficit to be lower than the structural deficit, as the cyclical effects work to reduce the level of borrowing. This happened in the late 1980s when the government ran a small overall budget surplus which masked a structural budget deficit of 2.6% of GDP. By contrast, in the recession of the early 1980s, the headline budget deficit was around 3% of GDP but the structural budget was in surplus as a result of the tight fiscal policy in place at the time.

The relative stability of the economy over recent years meant that the cyclical effect on the deficit has been small and structural effects have dominated. The structural deficit has thus been similar to the headline figure. In 2009/10, both the cyclical and structural elements increased sharply as a result of the financial crisis and the combination of cyclical and permanent effects it has had on the economy.



**Chart 1: The structural budget deficit moves broadly in line with the overall deficit**  
**Public sector net borrowing and cyclically-adjusted PSNB, % GDP**



The Treasury forecasts that the structural deficit will be 9.0% of GDP in 2009/10 before falling to 3.1% in 2014/15 (see chart 2 below). The structural element thus accounts for around 70% of the overall deficit (12.6% of GDP) in 2009/10. The structural deficit is large because the financial crisis is assumed to have had a *permanent* negative effect on the economy's productive potential. In its forecasts for the public finances, the Treasury has assumed that the financial crisis reduced the trend level of output in the economy by around 5% between 2007 and 2010.<sup>3</sup> The crisis is also assumed to have led to a permanent loss of tax revenue from the financial and housing sectors of the economy.<sup>4</sup>

**Chart 2: The Treasury forecasts that the structural deficit will fall**  
**Cyclically-adjusted public sector net borrowing, % GDP**



<sup>3</sup> HM Treasury, 2009 Pre-Budget Report, p167

<sup>4</sup> HM Treasury, 2009 Pre-Budget Report, para 2.53

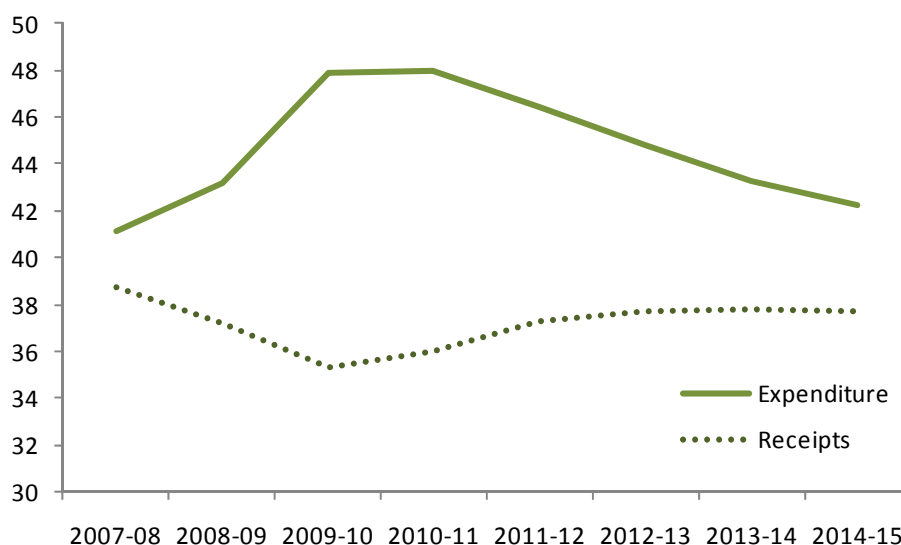
The Treasury Committee commented on the Treasury's forecast for the structural deficit in its report on the Pre-Budget Report:

Some economists consider the structural deficit forecast is overly optimistic, many are concerned about the large uncertainties surrounding this forecast in particular and some doubt whether sufficient attention has been given to the structural deficit existing before the recession. Future Budgets and PBRs should attempt to quantify the downside risks around the structural deficit forecast.<sup>5</sup>

### ***The deficit and economic growth***

The economic cycle clearly has a significant effect on the level of government borrowing, through its effect on benefit payments and tax revenue. Chart 3 below shows how government expenditure has increased and tax revenues fallen during the recession.<sup>6</sup>

**Chart 3: The economic cycle has a large effect on government spending and receipts**  
***Total managed expenditure and current receipts, % GDP***



An important issue is, therefore, the extent to which the recovery will help to reduce government borrowing and the likely impact on the deficit if growth is less strong than forecast.

The Treasury uses slightly more cautious assumptions for its public finance forecasts compared with its main economic forecast. The public finance forecasts assume that the trend rate of growth of the economy is  $\frac{1}{4}\%$  lower than the Treasury's neutral view. In the Pre-Budget Report, the Treasury assumes growth of 2% in 2010/11 followed by  $3\frac{1}{4}\%$  in the following four financial years.<sup>7</sup>

We can compare the Treasury's forecasts for growth over the next few years with recoveries from previous recessions (see chart 4 below).<sup>8</sup> After the recession of the early 1980s, the economy grew at an average of 3.7% between 1982/83 and 1988/89. Between 1993/94 and 2000/01, the economy grew by 3.4% on average. The Treasury's forecasts for growth over the coming years are broadly in with these earlier periods of recovery.

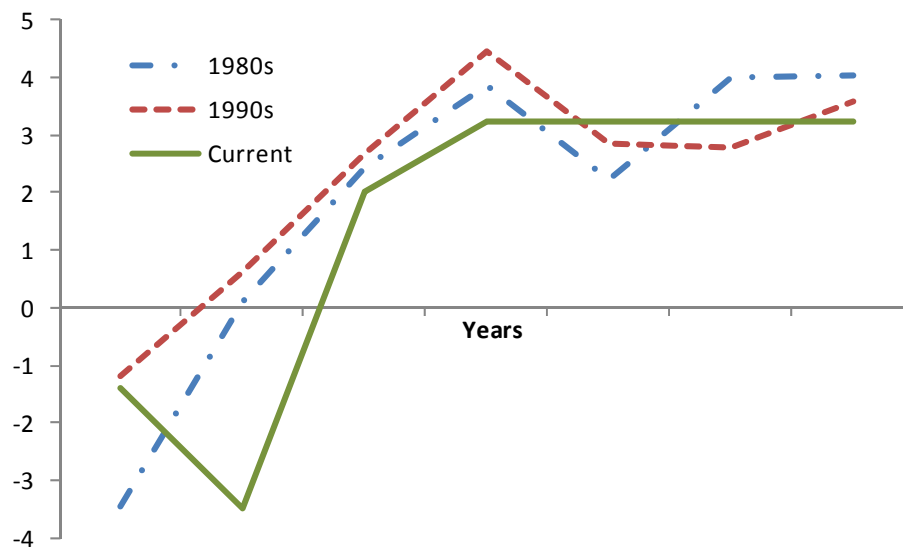
<sup>5</sup> Treasury Committee, Pre-Budget Report 2009, HC 180, 6 January 2009, para 53

<sup>6</sup> HM Treasury, 2009 Pre-Budget Report forecasts

<sup>7</sup> HM Treasury, 2009 Pre-Budget Report Table B1, p165

<sup>8</sup> For each period of recession and recovery, the chart starts from the first financial year of negative growth.

**Chart 4: Treasury's forecast for the recovery is similar to previous recoveries**  
**Real GDP growth (financial years)**



Nevertheless, the rate of growth assumed by the Treasury is still optimistic compared with independent forecasters, as shown in the table below. The Treasury's forecasts are for financial years while those of the independent forecasters are for calendar years. The Treasury assumes growth of 3¼% from 2011/12 onwards while the average independent forecast is for growth of less than 3% in every year up to 2014.<sup>9</sup>

Table 1

**Treasury growth forecasts more optimistic than independent forecasters**  
*Real GDP growth (%)*

	HM Treasury	Average independent forecast	
2010/11	2.0	2010	1.1
2011/12	3.25	2011	2.1
2012/13	3.25	2012	2.4
2013/14	3.25	2013	2.7
2014/15	3.25	2014	2.5

Sources: HM Treasury, 2009 Pre-Budget Report, Table B1, p165  
 Forecasts for the UK economy February 2010, p23

What are the implications for the deficit of a slower recovery? The Institute for Fiscal Studies presents alternative forecasts for the public finances based on three alternative outlooks for the economy produced by Barclays. Barclays' "central" economic scenario is shown below. While Barclays assume the economy will grow slightly faster in 2010/11 than the Treasury, growth in the following years is slower.

<sup>9</sup> The independent forecasts shown in the table are the medium term forecasts in the February 2010 edition of the Treasury's *Forecasts for the UK economy*. This publication also shows a forecast of 1.4% for 2010 based on a wider range of independent forecasts (see p3).

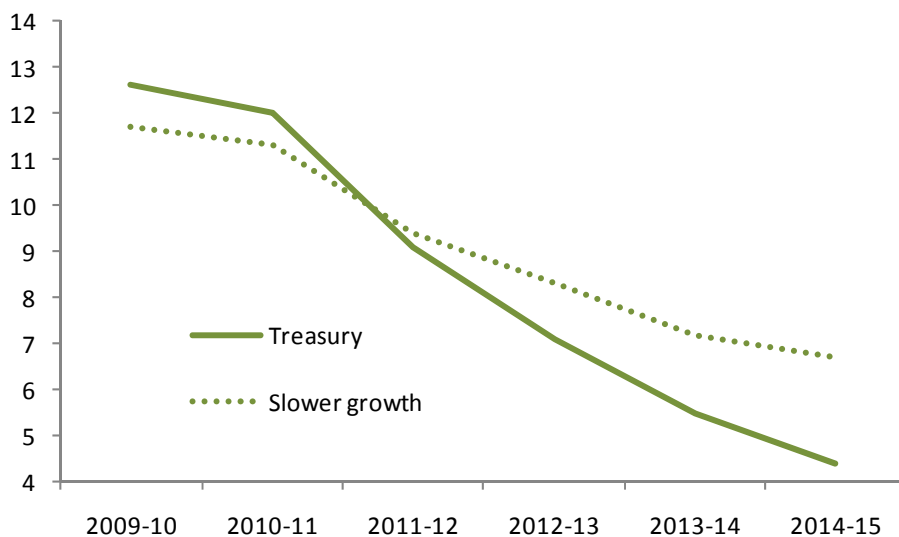
Table 2  
**The Treasury is more optimistic than Barclays about growth**  
*Real GDP growth (%)*

	HM Treasury	Barclays central scenario
2009/10	-3.50	-3.25
2010/11	2.00	2.25
2011/12	3.25	2.25
2012/13	3.25	1.25
2013/14	3.25	1.50
2014/15	3.25	1.75

Sources: HM Treasury, 2009 Pre-Budget Report, Table B1  
 IFS, Green Budget 2010, Tables 6.7, p125

Using the Barclays assumptions for growth leads to a higher forecast for the budget deficit (see chart 5 below). Under these assumptions, borrowing would fall at a much slower rate reaching 6.7% of GDP in 2014/15 – much higher than the 4.4% forecast by the Treasury. Moreover, under the Barclays’ scenario, borrowing in 2013/14 would be 7.2% of GDP. This would breach the requirement of the Fiscal Responsibility Act that the deficit in 2013/14 is less than half its 2009/10 level. To prevent such a breach from occurring, the government would need to tighten fiscal policy more than currently planned.

**Chart 5: Slower growth means higher borrowing**  
*Public sector net borrowing forecasts, % GDP*

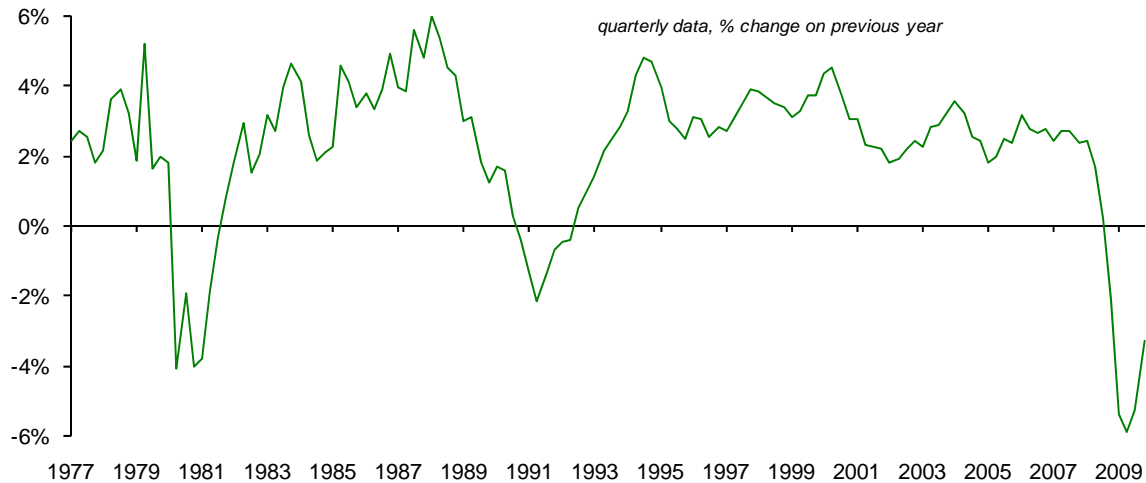


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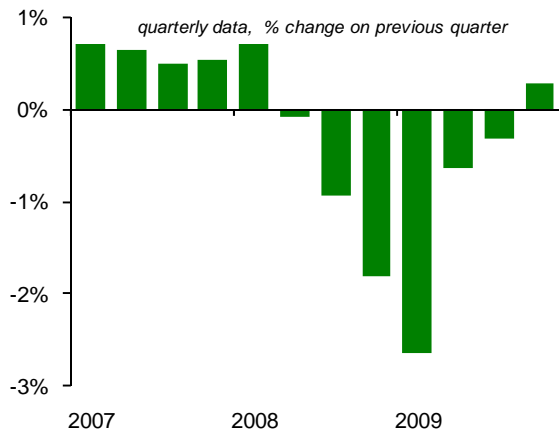
## A1: Gross Domestic Product

The economy grew by 0.3% in Q4 2009, the first quarter of positive growth since Q1 2008. In February 2010, HM Treasury's average of independent economic forecasts of GDP growth for 2009 was -4.7%, and for 2010 was 1.4%.

### Real GDP Growth since 1977



### Real GDP Growth since 2007



### Gross Domestic Product

£ billion & %; seasonally adjusted

	Current prices		Real GDP (inflation-adjusted)	
	£ billion	% change on year	% change on quarter	% change on year
2007	1,399	5.5	...	2.6
2008	1,448	3.5	...	0.5
2009	1,396	-3.6	...	-5.0
2008 Q4	359.3	1.2	-1.8	-2.1
2009 Q1	348.8	-4.0	-2.6	-5.4
Q2	346.0	-4.9	-0.6	-5.9
Q3	348.9	-3.5	-0.3	-5.3
Q4	352.8	-1.8	0.3	-3.3

Source: ONS, series: YBHA, ABMI

- The economy grew by 0.3% in Q4 of 2009, compared with Q3 of 2009. This compares with a decline of 0.3% in Q3 2009, compared with Q2 2009.
- The contraction in the economy of -2.6% between Q4 2008 and Q1 of 2009 was the largest percentage fall in quarterly GDP since Q2 of 1958 (also -2.6%).
- In Q4 2009, GDP fell by 3.3% compared with the same period a year ago, compared with a 5.3% decline recorded in Q3.
- Total output of the economy fell by 6.2% during the recession.

**Contact:** Grahame Allen, x3977

**Updates:** HM Treasury, [Forecasts for the UK Economy](#), 17 Mar  
ONS, [Quarterly National Accounts](#), 30 Mar

## A2: GDP: International Comparisons

Among G7 countries, France, Germany and Japan emerged from recession (with quarter on quarter growth) in Q2 2009, followed by the US, Canada, Italy (and the eurozone as a whole) in Q3 2009, and the UK in Q4 2009.

In Q4 2009, revised UK growth of 0.3% compared with a return to contraction in Italy (of 0.2%) and unchanged GDP in Germany. The eurozone saw growth of 0.1%, France 0.6%, the US 1.4%, while the G7 as a whole expanded by 1.0% (all-OECD figures are not yet available).

On an annual basis, the US economy grew 0.1% in Q4 2009, compared with annual contractions of 3.3% in the UK, 2.4% in Germany, and 0.3% in France.

### Real GDP, % changes

	2008		change on prev. year			change on prev. quarter				
	2008	2009	Q2 09	Q3 09	Q4 09	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
US	0.4	-2.4	-3.8	-2.6	0.1	-1.4	-1.6	-0.2	0.6	1.4
Japan	-1.2	-5.0	-5.9	-4.9	-0.9	-3.0	-3.2	1.3	0.0	1.1
UK	0.5	-5.0	-5.9	-5.3	-3.3	-1.8	-2.6	-0.6	-0.3	0.3
Germany	1.3	-5.0	-5.8	-4.8	-2.4	-2.4	-3.5	0.4	0.7	0.0
France	0.4	-2.2	-2.7	-2.3	-0.3	-1.5	-1.4	0.3	0.2	0.6
Eurozone	0.5	-4.0	-4.8	-4.0	-2.1	-1.9	-2.5	-0.1	0.4	0.1
G7	0.2	..	-4.5	-3.5	-0.8	-1.8	-2.2	0.0	0.4	1.0
OECD	0.6	..	-4.5	-3.4	..	-1.9	-2.2	0.1	0.6	..

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

The European Commission's [February 2010 interim forecasts](#) are for 0.6% UK growth in 2010 (down from 0.9% as forecast in [November 2009](#)), with quarter-on-quarter growth of 0.2% in Q1 and Q2 2010, followed by 0.3% in Q3 and 0.4% in Q4. Annual growth of 1.2% in France and Germany, and 0.7% across the eurozone are also forecast for 2010, although Spain is expected to contract 0.6%.

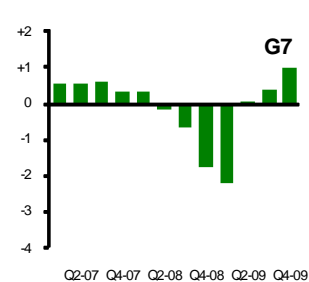
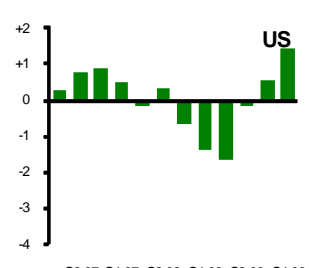
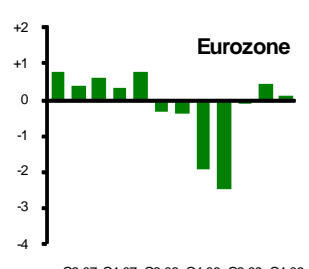
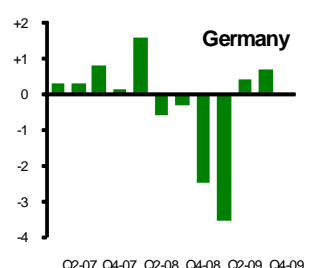
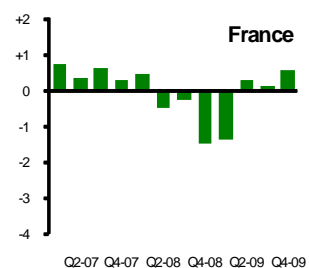
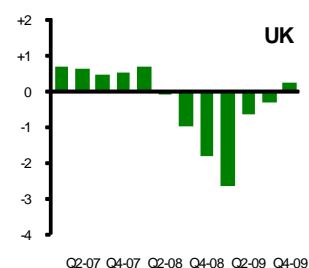
The IMF's [January 2010 forecasts](#) suggested a slower contraction of the world economy in 2009 (by 0.8%, compared with 1.1% forecast in [October 2009](#)), followed by 3.9% growth in 2010 (up from 3.1% previously). Its forecast for UK growth in 2010 was raised to 1.3%. This compared with 1.0% growth expected in Italy (and the eurozone as a whole), 1.4% in France and 1.5% in Germany. Japan was expected to grow 1.7% and the US by 2.7% in 2010, while 10% growth was forecast for China (7.7% for India).

The November 2009 [OECD Economic Outlook](#) forecast 1.9% growth in 2010, revising up its June 2009 forecast for 0.7% growth in 2010.

### Real Growth Forecasts (% change)

	EC (Feb '10)	IMF (Jan '10)			OECD (Nov '09)	
	2010	2009	2010	2011	2009	2010
UK	0.6	-4.8	1.3	2.7	-4.7	1.2
France	1.2	-2.3	1.4	1.7	-2.3	1.4
Germany	1.2	-4.8	1.5	1.9	-4.9	1.4
Eurozone	0.7	-3.9	1.0	1.6	-4.0	0.9
US	..	-2.5	2.7	2.4	-2.5	2.5
Japan	..	-5.3	1.7	2.2	-5.3	1.8
<b>OECD</b>	..	..	..	..	<b>-3.5</b>	<b>1.9</b>
China	..	8.7	10.0	9.7	8.3	10.2
India	..	5.6	7.7	7.8	6.1	7.3
<b>World</b>	..	<b>-0.8</b>	<b>3.9</b>	<b>4.3</b>	<b>-1.7</b>	<b>3.4</b>

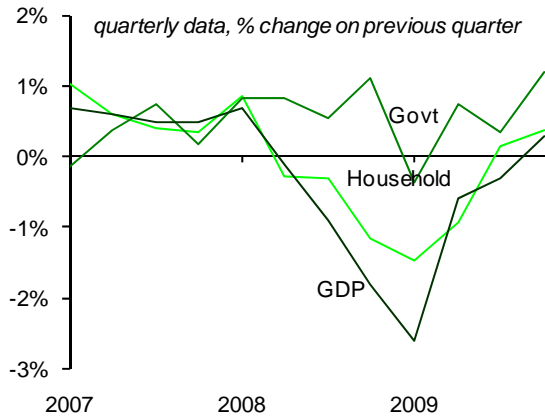
Sources: EC, Feb 10; IMF, WEO update, Jan 10; OECD, *Economic Outlook*, Nov 09 flashfile



### A3: Components of GDP

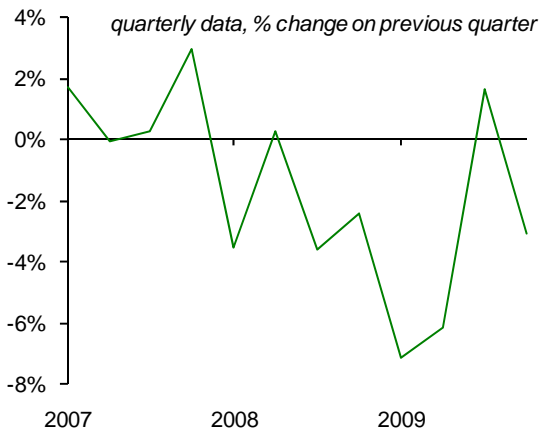
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 63% of the total in 2009. Government consumption accounted for 24% and gross fixed capital formation for 15%.

#### Household consumption, government consumption and GDP



- Government consumption has been the main element of demand supporting the economy recently. It is 2.0% higher than a year ago, while household consumption is 1.9% lower.
- Household consumption increased by 0.4% in 2009 Q4. This is the largest increase since 2008, Q1.
- Inventories (stocks held by companies to meet future demand) play an important role in the economic cycle. The rate at which companies are running down their holdings of inventories decreased in 2009 Q4.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- GFCF decreased by 3.1% in 2009 Q4 and is 14.2% below its level a year earlier.
- Business investment fell by 5.8% in Q4 2009 and is 24.1% below its level of a year ago.

#### Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2008 (annual % change)	0.9%	2.6%	-3.5%	1.1%	-0.5%	0.5%
2009 (annual % change)	-3.1%	2.0%	-14.6%	-10.9%	-12.1%	-5.0%
2009 Q1	-1.5%	-0.3%	-7.2%	-7.4%	-6.7%	-2.6%
2009 Q2	-0.9%	0.8%	-6.1%	-1.6%	-2.8%	-0.6%
2009 Q3	0.1%	0.4%	1.6%	0.1%	1.3%	-0.3%
2009 Q4	0.4%	1.2%	-3.1%	3.7%	4.1%	0.3%

Source: ONS series ABJR, NMRY, NPQT, IKBK, IKBL and ABMI

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

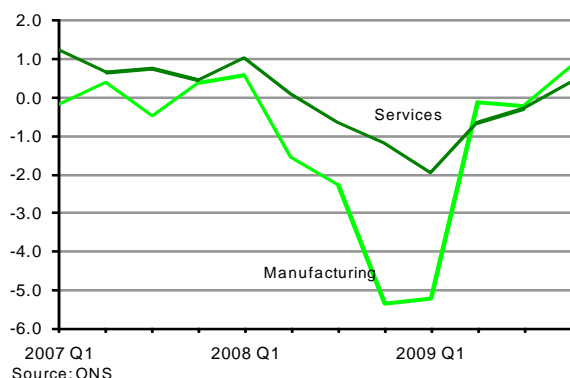
Update: ONS, [Quarterly national accounts](#), 30 Mar

## A4: Output and Employment by Industry

In Q4 2009 output in the manufacturing industry rose by 0.8% compared to the previous quarter and fell by 4.8% compared to the same quarter a year ago. Output in the services sector rose by 0.5% compared to the last quarter and fell by 2.5% compared to the same quarter a year ago.

In the quarter to September 2009, the number of jobs in the manufacturing sector fell by 1.5% compared to the previous quarter and by 7.9% compared to the same quarter a year ago. The number of jobs in the service sector fell by 0.1% over the last quarter and by 0.9% compared to the same quarter a year ago.

**Manufacturing and Services, quarterly growth**



**GVA growth by industry, % changes**

seasonally adjusted, chained volume measures at basic prices

	Manu- facturing	Constru- ction	Services		
			Total	Retail and hotels	Busin- ess
2007	0.6	2.7	3.5	3.1	5.5
2008	-2.9	-0.8	1.4	-1.1	2.4
2009	-10.5	-9.3	-3.6	-4.4	-4.7
Quar Change	0.8	-1.0	0.5	1.6	0.3
Ann Change	-4.8	-4.1	-2.5	0.7	-4.5

Notes: Changes: Ann compares to Q4 08, Quar to Q3 09  
Retail: Wholesale and retail, repairs, hotels, restaurants  
Business: Business services and finance

Source: ONS, series CKYY, GDQB, GDQS, GDQE, GDQN

- The output levels of UK industry are measured here by gross value added (GVA).
- Over the last year the manufacturing sector has seen greater falls in growth than the services sector.
- Although on an annual basis the service sector has declined by 2.5% to Q4 2009, the business services and finance sector have fallen by more (-4.5%).
- In 2007, services accounted for 76% of gross value added, manufacturing for 12%, other production industries (mining & quarrying, and electricity, gas & water supply) for 4%, construction for 6% and agriculture, hunting and fishing for 1%.
- The table and chart below show workforce jobs by industry in the UK. Workforce jobs are a measure of jobs not employment and as such people who hold two jobs or more will be counted twice or more.
- On an annual basis, the highest percentage fall in jobs has been in the construction sector (-8.2%).
- Over the last four quarters the number of jobs has fallen in both the manufacturing and services sectors.

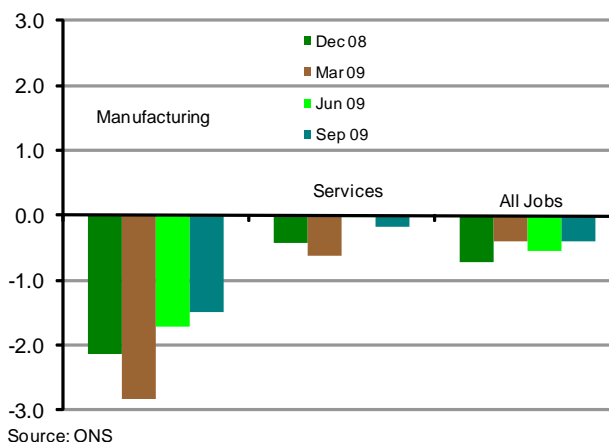
**Workforce jobs by industry, 2006-2009**

seasonally adjusted, SIC 2003

	Manufa- cturing	Constru- ction	Retail and hotels	Busin- ess	Public admin	All Jobs
Sept 2007	3,195	2,246	7,015	6,708	7,958	31,598
Sept 2008	3,084	2,281	6,973	6,583	8,049	31,510
Dec 2008	3,018	2,278	6,888	6,481	8,066	31,286
Mar 2009	2,933	2,231	6,849	6,476	8,153	31,160
June 2009	2,883	2,162	6,817	6,404	8,201	30,987
Sep 2009	2,840	2,095	6,830	6,375	8,237	30,861
Quar Change	-1.5	-3.1	0.2	-0.5	0.4	-0.4
Ann change	-7.9	-8.2	-2.1	-3.2	2.3	-2.1

Notes: Changes: Ann compares to Sept 08, Quar to June 09  
Retail and 'business' as in table above  
Public admin: Education, health and public admin

**Quarterly percentage change in jobs by industry, SA**



**Contact:** Ed Potton, x2883

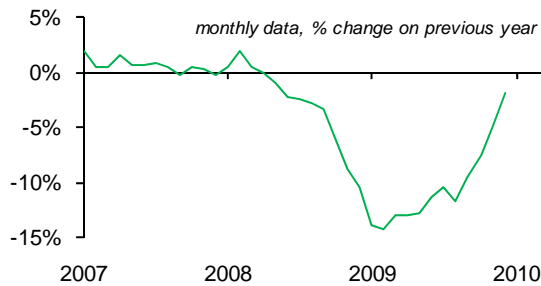
**Update:** ONS, [Quarterly National Accounts - Q4](#), 30 Mar



## A5: Manufacturing (Including Automotives)

Monthly manufacturing output data from the ONS, as well monthly vehicle production and new car registration data from the Society of Motor Manufacturers and Traders (SMMT), are covered below.

### Manufacturing Output

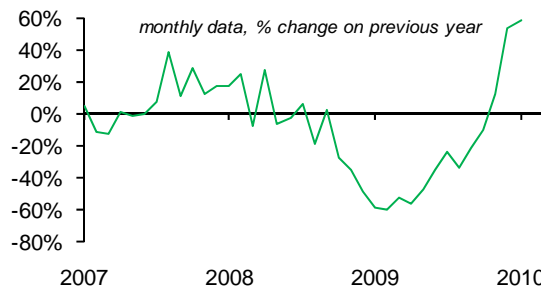


	Index Value (2005=100)	% change over month	% change over 12 months
2008	99.2	...	-2.9
2009	88.8	...	-10.5
2009 Sep	88.8	+1.6	-9.5
Oct	88.8	0.0	-7.6
Nov	89.0	+0.2	-4.9
Dec	89.8	+0.9	-1.9

Source: ONS, series CKYY

- Manufacturing output was up by 0.9% month-on-month in December, compared with 0.2% in November. Output was down 1.9% in the year to December. In 2009 output fell by 10.5% compared with 2008.
- Industrial production, which in addition to manufacturing includes mining and quarrying, and electricity, gas and water supply, was 0.5% higher during December but 3.6% lower than a year ago.

### Vehicle Production

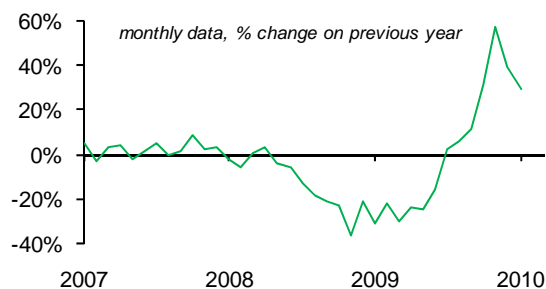


	Number '000s	% change over 12 months
2008	1,650	-5.8
2009	1,090	-33.9
2009 Jan	70	-58.8
Nov	122	+12.5
Dec	93	+54.0
2010 Jan	110	+58.2

Source: SMMT, not seasonally adjusted

- Supported by the scrappage scheme, vehicle (car plus commercial vehicle) production has recovered since early 2009, and rose by 58% in January compared with a year ago.
- In 2009, 1.09 million vehicles were produced in the UK, down by 33.9% compared with 2008. Out of the total, 261,000 or 24% were for the UK market and 829,000 or 76% were for export.

### New Car Registrations



	Number '000s	% change over 12 months
2008	2,132	-11.3
2009	1,994	-6.5
2009 Jan	112	-30.9
Nov	158	+57.6
Dec	151	+38.9
2010 Jan	145	+29.8

Source: SMMT, not seasonally adjusted

- New registrations of cars rose by 29.8% in January compared with a year ago. According to the SMMT, the scrappage scheme has stimulated growth in demand. Up to 7 February, 346,826 orders have been placed under the scheme, with funding available for up to 400,000 by the end of March 2010.
- New car registrations fell by 6.4% in 2009 to 2 million, the lowest level since 1995.

**Contact:** Daniel Harari, x2464

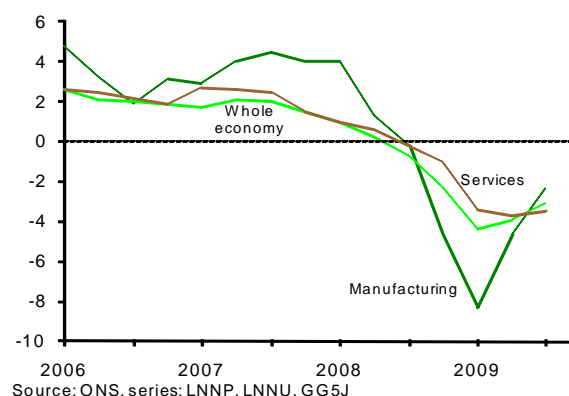
**Update:** ONS, [Index of Production](#), 10 Mar  
SMMT, [Vehicle Production](#), late Mar  
SMMT, [New Car Registrations](#), 4 Mar

## A6: Productivity

Productivity is a measure of the level of output in an economy and the inputs required to produce it. Three measures are commonly used: output (or GDP) per worker, output per job and output per hour (worked). Data covering the UK economy is published every three months, with international comparisons updated biannually.

- Productivity across the whole economy, measured by output per worker, is estimated to have fallen by 0.3% in 2008 compared with growth of 1.9% in 2007.
- Output per worker fell by 3.1% in Q3 2009 compared to the same quarter a year ago. Output and employment levels have been falling in the economy in the last year.
- Manufacturing output per job fell by 2.4% in Q3 2009 compared to the same quarter a year ago; output per job in the service sector fell by 3.5% over the same period.
- Comparing Q3 2009 with Q2 2009, manufacturing output per job increased by 1.2%, services output per job fell by 0.3% while output per job for the whole economy grew by 0.2%.

Output per job, quarterly data, annual percentage change seasonally adjusted



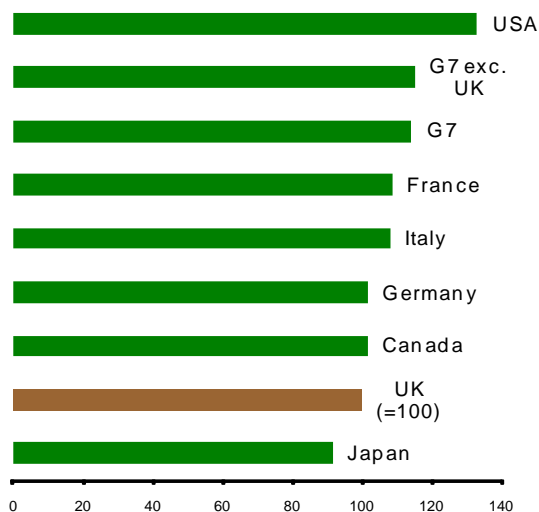
### Productivity growth, seasonally adjusted

	Manufacturing		Services		Whole Economy		
	Output per job	Output per hour	Output per job	Output per hour	Output per worker	Output per job	Output per hour
<i>Annual % change</i>							
2007	3.9	3.5	..	..	1.9	1.8	1.8
2008	0.1	0.2	..	..	-0.3	-0.5	0.0
2008 Q3	-0.2	0.4	-0.2	0.5	-0.4	-0.7	-0.1
Q4	-4.7	-4.2	-1.0	-0.6	-2.0	-2.3	-1.7
2009 Q1	-8.3	-5.5	-3.4	-0.9	-4.0	-4.4	-1.9
Q2	-4.7	-3.0	-3.7	-3.5	-3.5	-3.9	-3.2
Q3	-2.4	-1.3	-3.5	-2.4	-3.1	-3.1	-1.6
<i>Latest quarterly % change</i>	1.2	1.3	-0.3	0.3	-0.1	0.2	0.7

Source: ONS

- International comparisons of productivity are presented as an index where the UK=100 for each year.
- In 2008, based on GDP per worker, the UK had higher levels of productivity than Japan, around the same levels as Germany and Canada, and lower levels than Italy, France, the US and the G7 average.
- Based on GDP per hour, in 2008 the UK had higher levels of productivity than Japan, around the same levels as Italy and Canada, and lower levels than Germany, France, the US and the G7 average.
- Since 1997 UK productivity has improved compared to all but one G7 country. UK GDP per worker has increased by around 20% between 1997 and 2008, compared to 21% for the US, 17% for the G7 average, 14% for Japan, 11% for Canada and France, 10% for Germany and no change for Italy.

GDP per worker, 2008, index where UK=100



Contact: Ed Potton, x2883

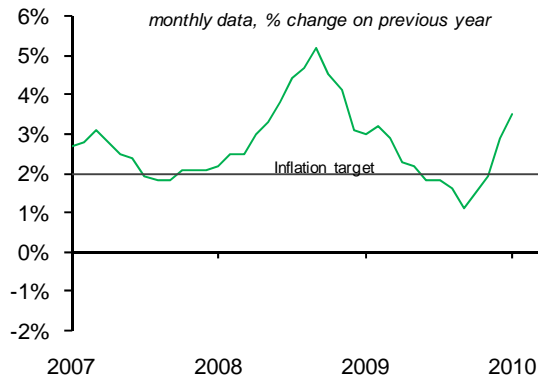
Update: ONS, [Productivity](#), 31 Mar

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.5% in January, up from 2.9% in December, and above the Bank of England's 2% target.

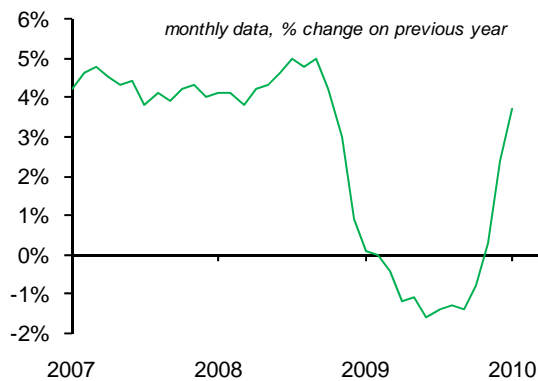
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side.

### Consumer Prices Index (CPI)



- The CPI annual inflation rate rose 0.6 percentage points in January to 3.5%. The increase in VAT and higher oil prices compared with a year ago were the main causes of the increase.
- As CPI inflation was over one percentage point above the 2% target, Mervyn King, the Bank of England governor, was required to write a letter to the Chancellor. In it he said the MPC's latest forecasts suggest that "inflation will more likely than not to fall back to the target in the second half of this year".

### Retail Prices Index (RPI)

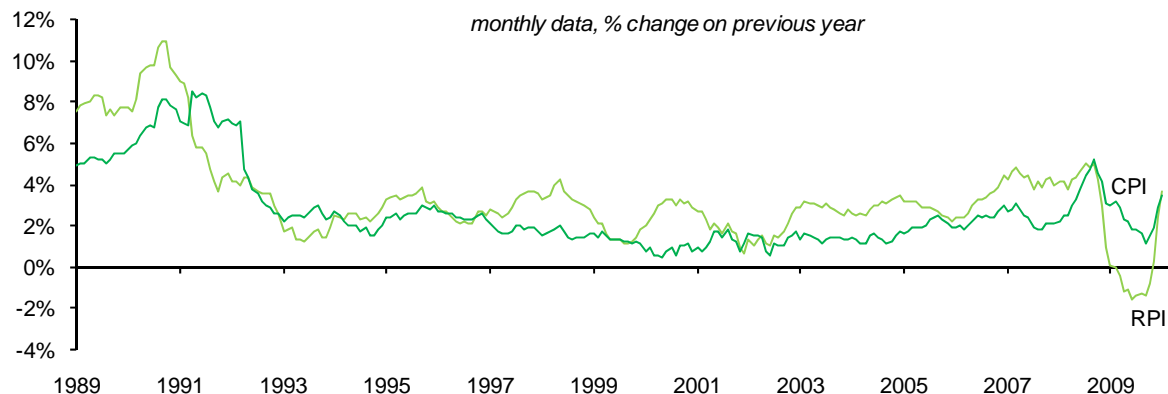


### Price Indices

		% change on a year ago	
		CPI	RPI
2007		2.3	4.3
2008		3.6	4.0
2009		2.2	-0.5
2009	Aug	1.6	-1.3
	Sep	1.1	-1.4
	Oct	1.5	-0.8
	Nov	1.9	0.3
	Dec	2.9	2.4
2010	Jan	3.5	3.7

Source: ONS database, series: D7G7, CDKQ

### CPI and RPI since 1989



## B2: Inflation: International

UK inflation, measured by the Consumer Prices Index (CPI), remained positive throughout the downturn. That is in contrast with many other major economies, including the US, France and Germany, which saw deflation (negative inflation).

Inflation in the EU (and in some other European countries) is measured by the standard Harmonised Index of Consumer Prices (HICP). Methodologies used for calculating inflation in other countries differ from this standard to a varying degree. For example, the US CPI is based on prices in urban areas only and, unlike the HICP, includes the costs of owner-occupied housing. Care should therefore be taken in making direct comparisons.

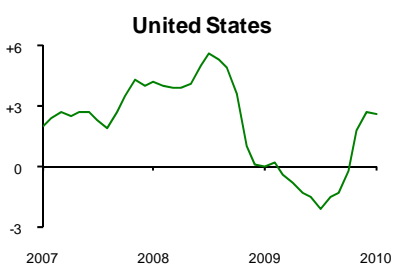
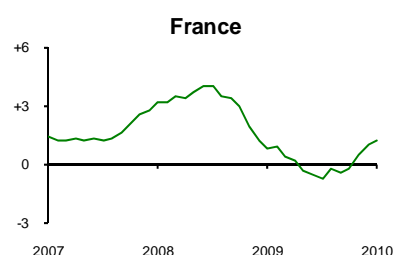
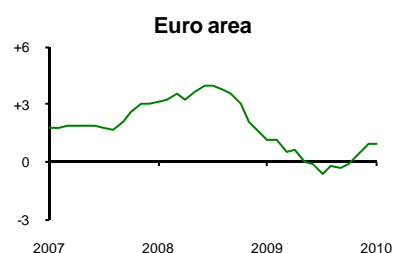
- In the year to January, UK inflation (CPI) was 3.4%, the highest in the G7 and the third highest in the EU behind Hungary and Poland. The Bank of England's target is 2%.
- Euro-area inflation was 1.0% (HICP) in the year to January 2009. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- Having been negative between February and October 2009, annual inflation in the United States rose sharply to 2.7% in December before slowing slightly in January.
- Iceland (10.6%) and Ireland (-2.4%, both HICP) continue to be inflation rate outliers.

### Inflation rates: selected countries

Annual % change in consumer prices

	2008	2009	Nov 09	Dec 09	Jan 10
<b>HICP</b>					
UK	3.6	2.2	1.9	2.8	3.4
Euro area	3.3	0.3	0.5	0.9	1.0
EU	3.7	1.0	1.0	1.5	1.7
France	3.2	0.1	0.5	1.0	1.2
Germany	2.8	0.2	0.3	0.8	0.8
Iceland	12.8	16.3	12.4	11.3	10.6
Ireland	3.1	-1.7	-2.8	-2.6	-2.4
Italy	3.5	0.8	0.8	1.1	1.3
Spain	4.1	-0.3	0.4	0.9	1.1
<b>National defs</b>					
Canada	2.4	0.3	1.0	1.3	1.9
Japan	1.4	-1.4	-1.9	-1.7	-1.3
United States	3.8	-0.4	1.8	2.7	2.6
G7	3.2	-0.1	1.0	1.7	1.8
OECD	3.7	0.5	1.3	1.9	2.1
Brazil	5.7	4.9	4.2	4.3	..
China	5.9	..	-0.4	0.8	..
India	8.3	..	13.5	..	..
Russia	14.1	11.7	9.1	8.8	..

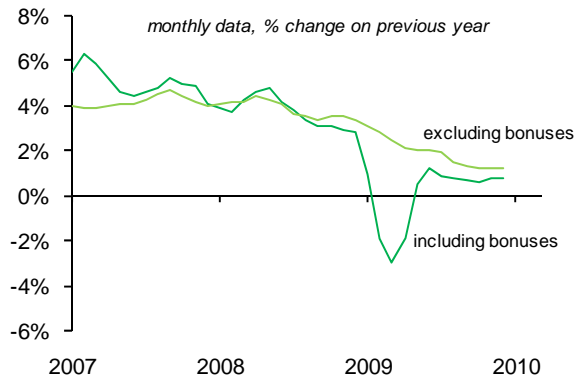
Source: OECD Consumer Prices Release



### B3: Average Earnings

ONS recently replaced the Average Earnings Index with Average Weekly Earnings as its headline measure of earnings growth. The data on this page have been changed to reflect this. Average weekly earnings (three-month average including bonuses) for the whole economy rose by 0.8% in December compared with a year ago. Excluding bonuses, they were 1.2% higher.

#### Average Earnings, Whole Economy



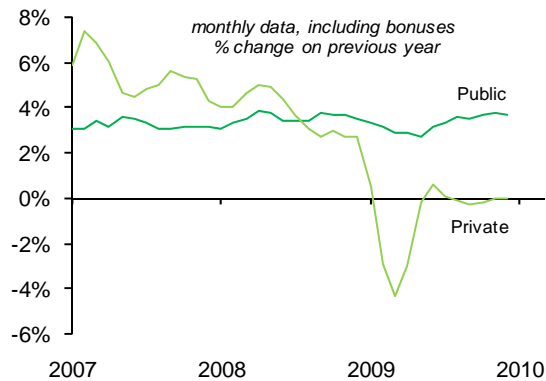
#### Average Earnings, Including Bonuses

% change on year; seas. adj.; Great Britain

	Private	Public	Manuf.	Serv.	Total
2006 Dec	5.2	2.9	3.3	5.0	4.8
2007 Dec	4.3	3.2	3.6	3.9	4.1
2008 Dec	2.7	3.5	2.8	3.3	2.8
2009 Jul	0.1	3.3	0.1	1.0	0.9
Aug	-0.1	3.6	0.7	0.8	0.8
Sep	-0.3	3.5	0.9	0.7	0.7
Oct	-0.2	3.7	1.6	0.7	0.6
Nov	0.0	3.8	1.7	1.0	0.8
Dec	0.0	3.7	2.2	0.8	0.8

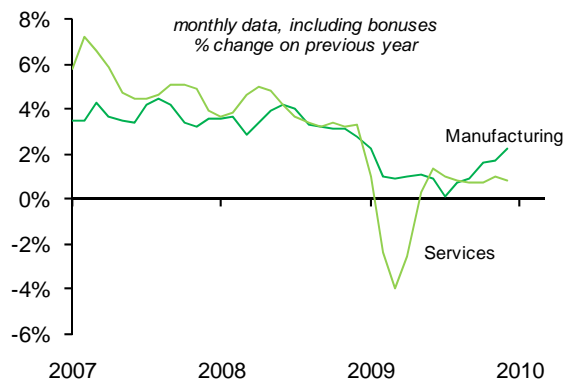
Source: ONS, data shows latest 3-month period

#### Average Earnings in the Public and Private Sectors



- Average total pay in the public sector rose by 3.7% in December, compared with no change in the private sector.
- Average weekly earnings in December in the public sector were £457 compared with £448 in the private sector.
- In 2009, headline (including bonuses) earnings in the public sector averaged an increase of 3.3%, while the private sector averaged a 1.0% decrease.

#### Average Earnings in Services and Manufacturing

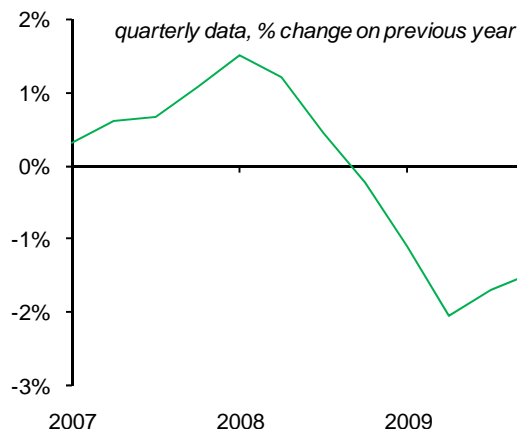


- Average total pay growth in the manufacturing sector was 2.2% in December, compared with 0.8% in the services sector.
- Average weekly earnings in December in the manufacturing sector were £516 compared with £436 in the services sector.
- In 2009, headline (including bonuses) earnings in the services sector averaged a decrease of 0.3% compared with a 1.2% increase in the manufacturing sector.

## C1: Employment

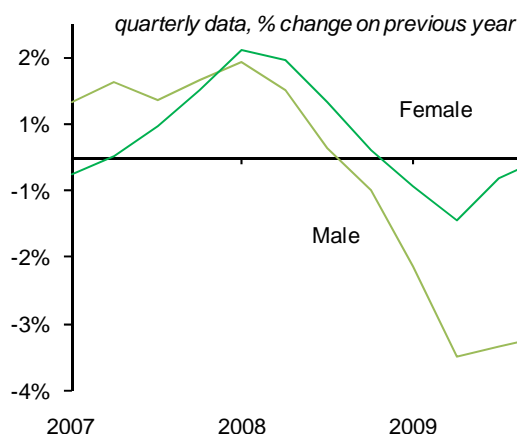
Total employment in the three months to December 2009 was 428,000 (1.5%) lower than a year earlier and 12,000 lower than the previous quarter.

### Total employment



- Employment is 2.2% lower than its peak of 29.6 million in April 2008.
- Over the past year, employment among 16-24 year olds has fallen by 7.8%. This is more than any other age group (see table below).
- Employment of women aged 60 and over has increased by 6.8% over the last year.

### Male and female employment



- Male employment was 15.4 million in the three months to December 2009, compared with female employment of 13.5 million.
- Over the past year, male employment has fallen by 2.7% while female employment is unchanged.
- Full-time employment has fallen by 2.7% over the past year while part-time employment has increased by 2.1%.

### Employment by age

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

	Total	16-24	25-49	50-59(f)/ 64(m)	60+(f)/ 65+(m)
Nov-07	29,398	4,233	17,329	6,581	1,255
Nov-08	29,333	4,107	17,296	6,588	1,342
Feb-09	29,170	3,984	17,245	6,592	1,350
May-09	28,925	3,918	17,069	6,567	1,372
Aug-09	28,917	3,825	17,102	6,589	1,400
Nov-09	28,905	3,786	17,135	6,573	1,410
% change on previous 3 months	-0.0	-1.0	+0.2	-0.2	+0.7
% change on previous year	-1.5	-7.8	-0.9	-0.2	+5.1

Source: ONS

Note: 60+(f)/65+(m) refers to the state retirement age for females and males, respectively

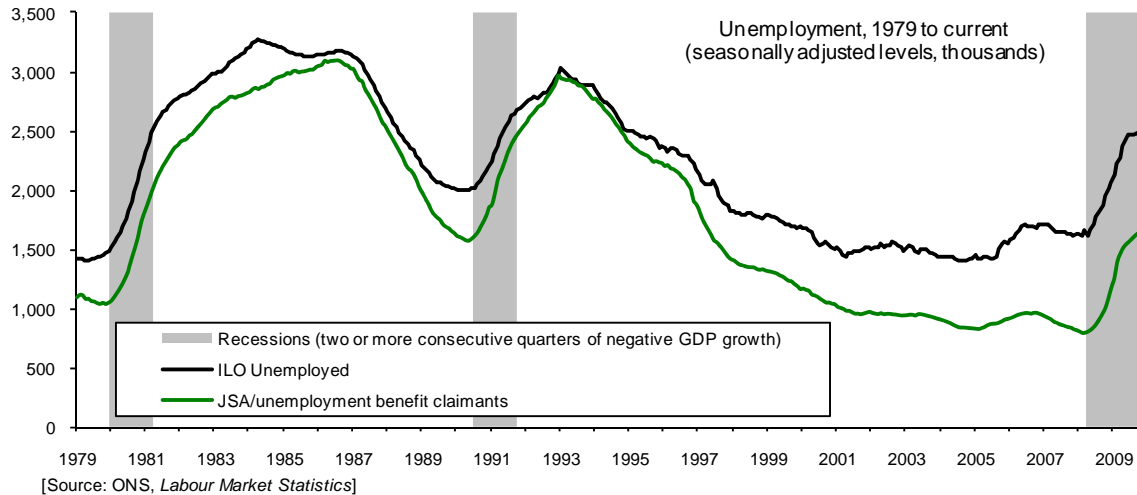
**Contact:** Dominic Webb, x4324

**Update:** ONS, [Labour Market Statistics](#), 17 Mar

## C2: Unemployment: National

The Office for National Statistics uses 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).

- **ILO unemployment in October to December 2009 was 2,457,000 (7.8% of all economically active) – down by 3,000 from the previous quarter (UK, seasonally adjusted).**

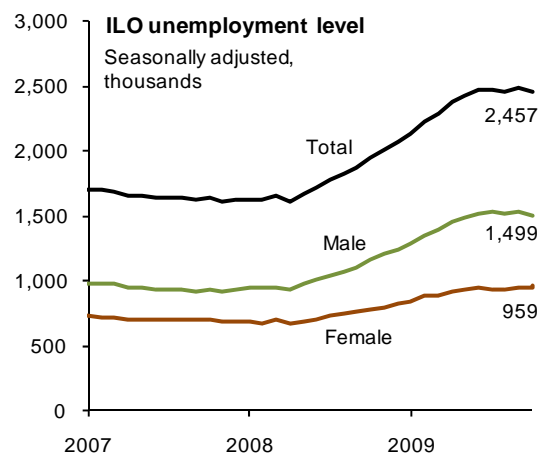


### ILO unemployment (survey period Oct-Dec 2009)

- The number of people unemployed for more than 12 months stood at 663,000, a year-on-year increase of 205,000;
- The unemployment level among 16- to 24-year-olds was 923,000, 19.6% of the economically active population in the age group (see table below).

### Jobseekers' Allowance (JSA) claimant count

The seasonally adjusted monthly JSA claimant count increased by 23,500 between December 2009 and January 2010 to 1,635,600.



### ILO Unemployment in the UK

seasonally adjusted

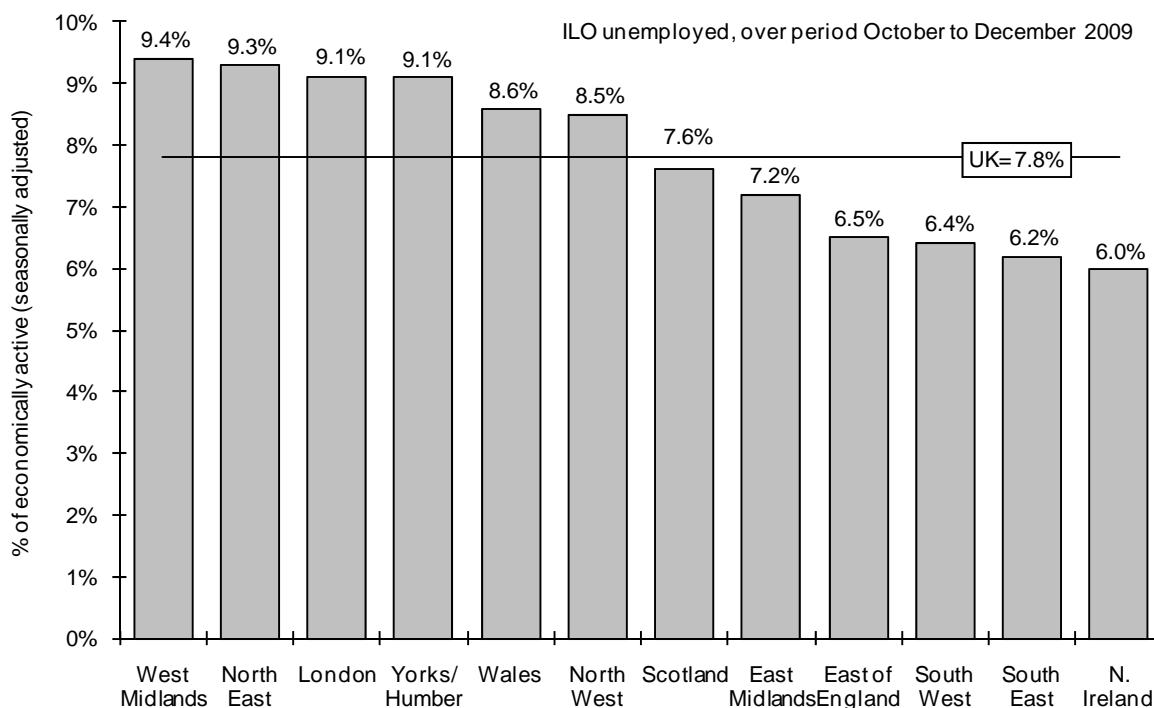
	Total		16 to 24		25 to 49		50 to 59(f)/64(m)		60+(f)/65+(m)	
	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)
Oct-Dec 2004	1,423	4.7	598	12.5	615	3.5	190	2.9	19	1.8
Oct-Dec 2005	1,566	5.2	665	14.0	675	3.8	203	3.1	23	2.0
Oct-Dec 2006	1,705	5.5	698	14.2	773	4.3	210	3.1	23	1.9
Oct-Dec 2007	1,613	5.2	687	14.0	693	3.8	214	3.1	19	1.5
Oct-Dec 2008	2,009	6.4	817	16.6	882	4.9	278	4.0	32	2.3
Jan-Mar 2009	2,231	7.1	877	18.0	1,008	5.5	314	4.5	33	2.4
Apr-Jun 2009	2,431	7.8	925	19.1	1,133	6.2	338	4.9	35	2.5
Jul-Sep 2009	2,461	7.8	936	19.7	1,151	6.3	337	4.9	37	2.5
<b>Oct-Dec 2009</b>	<b>2,457</b>	<b>7.8</b>	<b>923</b>	<b>19.6</b>	<b>1,139</b>	<b>6.2</b>	<b>356</b>	<b>5.1</b>	<b>39</b>	<b>2.7</b>
% change on quarter	-0.2		-1.4		-1.0		+5.6		+5.4	
% change on year	+22.3		+13.0		+29.1		+28.1		+21.9	

Source: ONS, Labour Market Statistics.

Notes: Rates are percentages of economically active in the relevant age group. Levels might not sum due to rounding. 60+(f)/65+(m) refers to the respective state retirement ages for females and males.

**Contact:** Roderick McInnes, x3793 **Updates:** ONS, [Labour Market Statistics](#), 17 Mar

### C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

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

- Over the period October to December 2009 the West Midlands had the highest unemployment rate, 9.4% of the economically active population. The lowest rate over the same period was 6.0%, in Northern Ireland.
- A comparison of October to December 2009 with the same period a year earlier shows that the largest percentage rise in the regional unemployment level occurred in Scotland (+46%). The North West showed the smallest percentage increase (+8%) over the period.

#### ILO Unemployment, October to December 2009

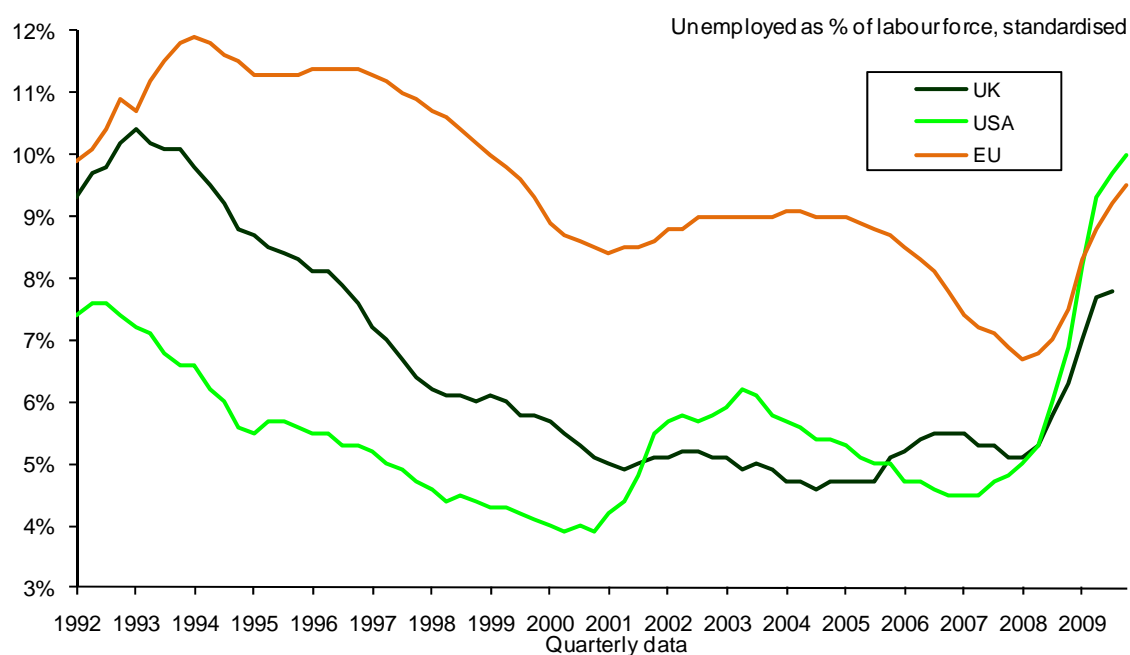
change on same period in previous year; seasonally adjusted

	Number (rounded)	%
North East	+11,000	+10
North West	+22,000	+8
Yorkshire & the Humber	+65,000	+37
East Midlands	+21,000	+14
West Midlands	+38,000	+18
East of England	+27,000	+16
London	+76,000	+26
South East	+54,000	+24
South West	+42,000	+32
Wales	+21,000	+21
Scotland	+65,000	+46
Northern Ireland	+6,000	+14

Source: ONS, *Labour Market Statistics*



## C4: Unemployment: International Comparisons



### Unemployment

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

	2007	2008	2009	2008				2009			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Canada	6.0	6.1	8.3	5.9	6.0	6.1	6.5	7.8	8.4	8.5	8.4
France	8.3	7.9	9.4	7.6	7.6	7.9	8.3	8.9	9.3	9.6	10.0
Germany	8.4	7.3	7.5	7.6	7.4	7.1	7.1	7.3	7.6	7.6	7.5
Italy	6.2	6.8	7.8	6.5	6.8	6.8	7.0	7.4	7.5	7.8	8.3
Japan	3.9	4.0	5.1	3.9	4.0	4.0	4.0	4.5	5.2	5.5	5.1
UK	5.3	5.6	..	5.1	5.3	5.8	6.3	7.0	7.7	7.8	..
USA	4.6	5.8	9.3	5.0	5.3	6.0	6.9	8.2	9.3	9.7	10.0
Eurozone	7.5	7.6	9.4	7.2	7.4	7.6	8.0	8.8	9.3	9.6	9.9
G7	5.5	5.9	8.0	5.4	5.6	6.0	6.5	7.3	8.0	8.3	8.5
OECD	5.8	6.1	8.3	5.7	5.9	6.2	6.7	7.6	8.3	8.6	8.8

Source: OECD, Harmonised Unemployment Rates, February 2010

- Using standardised definitions, the UK unemployment rate in Q3 2009 (the latest quarter for which all data are available) was 7.8%, below the eurozone rate (9.6%) and below the G7 and OECD rates (8.3% and 8.6% respectively).
- Between Q3 2008 and Q3 2009 Germany had the smallest rise in unemployment among G7 countries: 0.5 percentage points. The UK and US unemployment rates rose by 2.0 percentage points and 3.7 percentage points respectively over the same period.
- The most recent forecasts published by the OECD (*Economic Outlook no. 86 preliminary version, November 2009*) suggest the UK unemployment rate will be 8.0% in 2009, 9.3% in 2010 and 9.5% in 2011. The respective forecasts for the eurozone are 9.4%, 10.6% and 10.8%, and for the OECD as a whole 8.2%, 9.0% and 8.8%.

**Contact:** Roderick McInnes, x3793

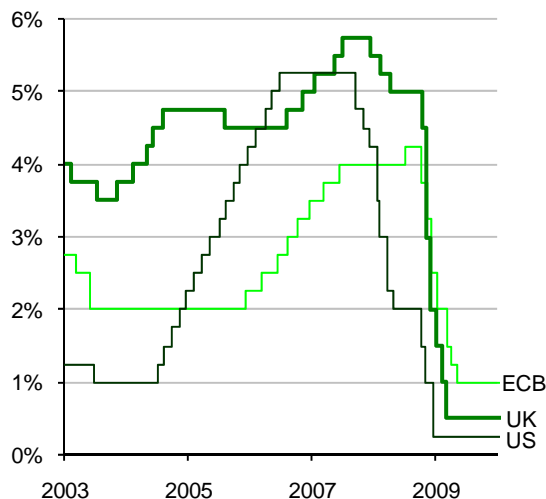
**Updates:** OECD, *Harmonised Unemployment Rates*, Mar  
OECD, *Economic Outlook*, Jul

## D1: Interest Rates and the Money Supply

In consecutive monthly meetings from October 2008 to March 2009, the Bank of England cut the official Base Rate from 4.50% to 0.50%, the lowest in the Bank’s 315-year history. It has remained at that level since then.

In March 2009, with little room for further cuts in interest rates, the Bank initiated an asset purchase or ‘quantitative easing’ (QE) programme. The Bank has created money which it has used to purchase assets in an effort to stimulate demand and meet its 2% inflation target. Money supply growth has, however, remained weak.

### Official interest rates



### UK Base/Repo rate changes

% per annum

Date	New rate	Date	New rate
2001 Oct 4	4.50	2007 Jan 11	5.25
Nov 8	4.00	May 10	5.50
2003 Feb 6	3.75	Jul 5	5.75
Jul 10	3.50	Dec 6	5.50
Nov 6	3.75	2008 Feb 7	5.25
2004 Feb 5	4.00	Apr 10	5.00
May 6	4.25	Oct 8	4.50
Jun 10	4.50	Nov 6	3.00
Aug 5	4.75	Dec 4	2.00
2005 Aug 4	4.50	2009 Jan 8	1.50
2006 Aug 3	4.75	Feb 5	1.00
Nov 9	5.00	Mar 5	0.50

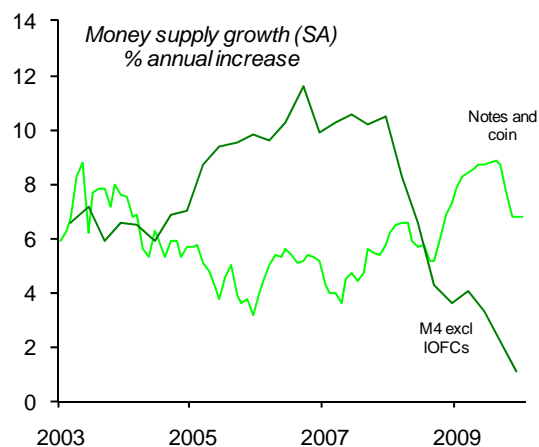
Source: Bank of England

- The European Central Bank’s official interest rate has been 1% since 7 May 2009.
- The US Federal Reserve’s target range for the federal funds rate has been 0-0.25% since 16 December 2008.

### Asset purchase programme (quantitative easing)

- On 5 March 2009, the Bank of England announced that it would undertake a policy of “quantitative easing”. The Bank said that it would purchase £75 billion of assets using money which it would create. This total was increased to £125 billion in May 2009, £175 billion in August 2009 and £200 billion in November 2009.
- The Bank of England has now purchased £200 billion worth of assets using created reserves. 99% of the purchases by value have been gilts (UK Government securities). No further purchases are scheduled.

### Money supply



- In its February 2010 *Inflation Report*, the Bank of England noted that money supply growth has been weak, but less so than it would have been in the absence of the asset purchase programme.
- Annual growth in M4 excluding intermediate other financial corporations (a measure monitored by the Bank of England Monetary Policy Committee) was 1.1% in Q4 2009. That is the lowest recorded for this measure (series runs from Q4 1998) and compares with 11.6% in Q3 2006.
- The value of notes and coins in circulation outside the Bank of England rose by 6.8% in the year to January 2010.

**Contact:** Adam Mellows-Facer, x4904    **Updates:** Monetary policy: 4 Mar (UK) 4 Mar (ECB) 16 Mar (US)  
Bank of England [Monetary & Financial Stats](#), 29 Mar

## D2: Public Finances

The Treasury forecasts that public borrowing will be £178 billion in 2009/10, equivalent to 12.6% of GDP.

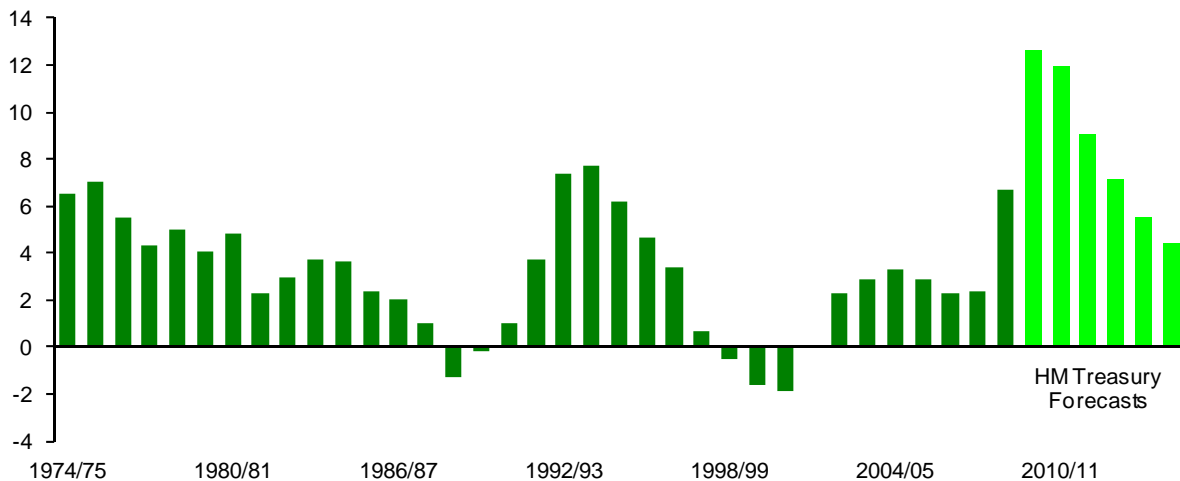
- The Government borrowed £4.3 billion in January 2010, the first time there has been a deficit in January since records began in 1993. January is usually a strong month for government revenue.
- The Treasury forecasts that government borrowing will fall to 12.0% of GDP in 2010/11 and to 4.4% of GDP by 2014/15.
- The Government has introduced a Fiscal Responsibility Act which will require the Chancellor to halve the deficit within four years.

	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	617	43.8
2009/10	178	12.6	799	55.6
2010/11	176	12.0	986	65.4
2011/12	140	9.1	1,139	71.7
2012/13	117	7.1	1,270	75.4
2013/14	96	5.5	1,379	77.1
2014/15	82	4.4	1,483	77.7

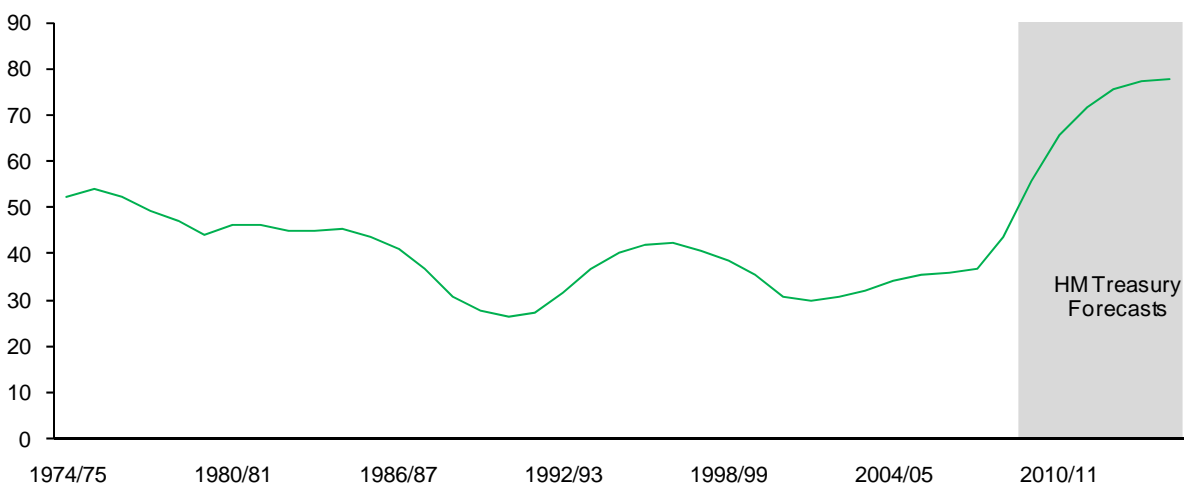
Source: ONS, HM Treasury forecasts

Note: figures exclude financial sector interventions

### Public sector net borrowing (% of GDP)



### Public sector net debt (% of GDP)



### D3: Financial Indicators

The leading share index in the UK, the FTSE 100, tracks share-price movements in the country's 100 largest companies (by market capitalisation). It began in 1984 and hit an all-time high of 6,930 in December 1999. It approached those highs again in 2007, before falling sharply in 2008 and early 2009.

The price of oil nearly tripled in the 18 months to July 2008, reaching an all time high above \$145/barrel. A steep decline then followed to below \$40 by the end of 2008, before recovering in 2009.

The price of Gold hit an all-time high above \$1200/ounce in December 2009.

*Data from Monday 1 March 2010*

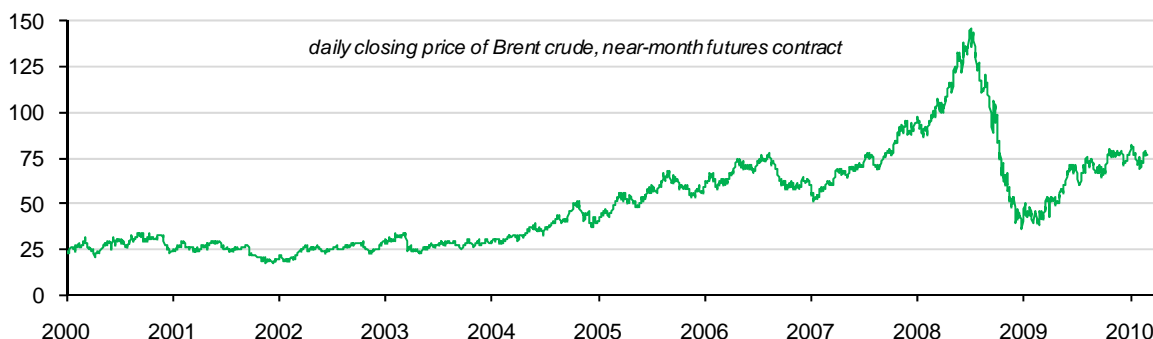
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
01 Mar 2010	5,405.9	76.9	1,118.7
%change over:			
1-month	+3%	+5%	+3%
12-months	+41%	+66%	+18%
%change from:			
cyclical peak	-20%	-47%	-8%
date	15 Jun '07	03 Jul '08	03 Dec '09
cyclical trough	+54%	+111%	+57%
date	03 Mar '09	24 Dec '08	24 Oct '08

Note: Oil is Brent near-month futures price  
Source: *Financial Times*

#### FTSE-100 Index



#### Oil price (\$ per barrel)



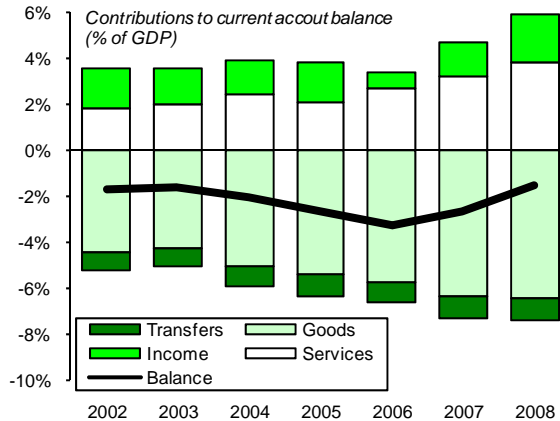
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2008 was £22.0 billion, equivalent to -1.5% of GDP. The surplus on income and services widened between 2007 and 2008. Data for 2009 show that the surplus on services trade narrowed while the deficit on goods trade and the deficit on goods and services together narrowed.

### Current Account



- On a **quarterly** basis, the current account deficit was estimated at £4.7 billion in Q3 2009, widening from a Q2 2009 deficit of £4.4 billion. Between Q2 2009 and Q3 2009 the surplus on services widened while the deficit on goods narrowed.
- The **annual** current account deficit with EU27 countries in 2008 was £5.6 billion, compared with a deficit with non-EU countries of £16.4 billion. On a **quarterly** basis, the deficit with EU27 countries was £1.6 billion in Q3 2009 (£2.0 billion deficit in Q2 2009). With non-EU countries, the current account was in deficit by £3.1 billion in Q3 2009 (£2.4 billion deficit in Q2 2009).

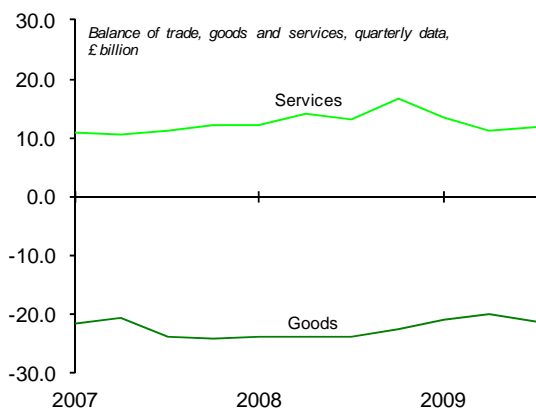
### Current Account Balances

£ millions; seasonally adjusted

	Goods		Balance	Services Balance	Goods and Services Balance	Income	Transfers	Current Account Balance
	Exports	Imports						
2007	-68,789	24,611	-89,754	44,807	-44,947	20,775	-13,538	-37,710
2008	-77,399	31,005	-93,381	55,142	-38,239	30,293	-14,029	-21,975
2009	-87,425	36,464	-81,901	48,077	-33,824	..	..	..
2008 Q4	-20,143	8,559	-22,310	16,444	-5,866	1,940	-2,973	-6,899
2009 Q1	-20,845	8,956	-20,928	13,142	-7,786	9,640	-3,942	-2,015
Q2	-20,094	9,112	-19,808	11,388	-8,420	8,181	-4,202	-4,375
Q3	-23,187	9,345	-19,889	11,812	-8,077	6,721	-3,557	-4,703
Q4	-23,299	9,051	-21,276	11,735	-9,541	..	..	..

Source: ONS database, series: BQKU, BQKV, BOKG, BOKH, BOKI, FNSV, FNTC, HBOJ, HBOP, IKBD, IKBJ, IKBP

### Trade in Goods and Services



- The estimated deficit on goods trade in December was £7.3 billion, wider than the November deficit of £6.8 billion.
- The monthly trade surplus on services was £4.0 billion in December, up slightly from the November surplus of £3.9 billion.
- The overall monthly deficit on goods and services combined in December was £3.3 billion, up from £2.9 billion in November.
- The goods deficit with the EU27 was £3.73 billion in December (compared with £3.67 billion in November), while the deficit with non-EU countries was £3.6 billion (compared with £3.1 billion in November).

Contact: Grahame Allen, x3977

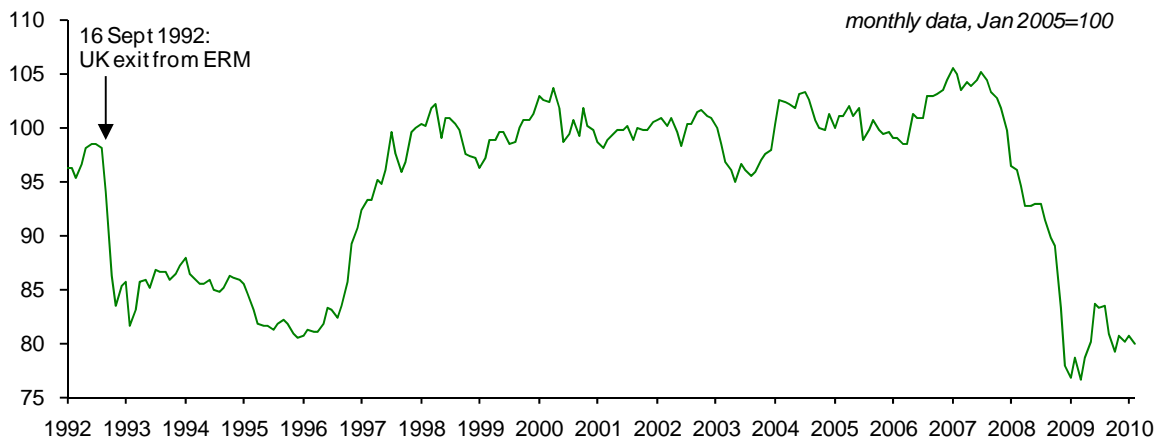
Updates: ONS, [UK Balance of Payments](#), 30 Mar; ONS, [UK Trade](#), 9 Mar

## E2: Exchange rates

The *Sterling Exchange Rate Index* (SERI) measures sterling's value against a 'basket' of currencies, 'trade-weighted' (based on currencies' relative importance in UK trade).

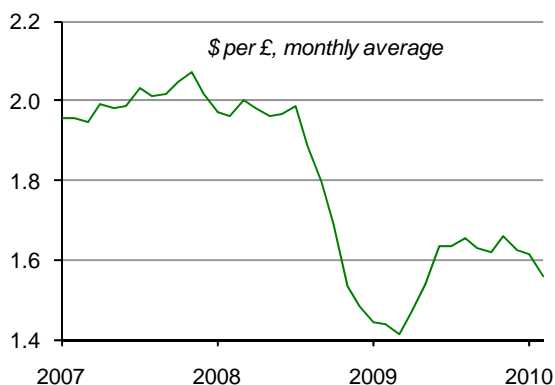
The SERI fell 0.8% over February 2010, after a 0.7% rise in January. It is now 4.3% above its lowest point in March 2009 (since 1980, when the series began), and down 23.9% from its July 2007 peak. Compared with the previous year, the Index was up 1.8% in February.

### Sterling Exchange Rate Index (SERI)



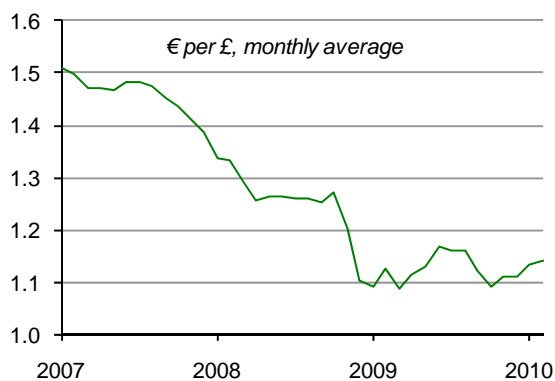
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- In February, the pound fell against the dollar and rose against the euro.
- At the 1 March London market close, the pound sterling was worth \$1.49, having fallen \$1.50 for the first time in 10 months. The [FT reported](#) this was due to "fiscal and political fears" about the UK, and the possibility of a hung parliament.
- The pound was worth €1.11 at the 1 March close, compared with the all-time low of €1.02 (on 30 December 2008), and the launch rate of €1.48 on 31 December 1998.
- Concerns over the fiscal position of Greece, a member of the euro zone, has led to a depreciation of the euro.

### €/£ Exchange Rate



### Sterling Exchange Rates

average rates in period and % changes

	US Dollar (\$)		Euro (€)	
	Rate	% change on year	Rate	% change on year
2008	1.85	-7.5%	1.26	-13.9%
2009	1.57	-15.5%	1.12	-10.8%
2009 Feb	1.44	-26.6%	1.13	-15.4%
Nov	1.66	8.2%	1.11	-7.6%
Dec	1.62	9.3%	1.11	0.8%
2010 Jan	1.62	11.8%	1.13	3.7%
Feb	1.56	8.4%	1.14	1.3%

Source: Bank of England, Bankstats database

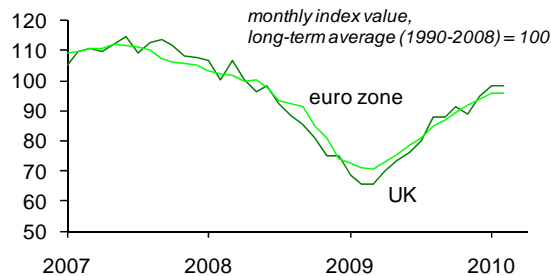
**Contact:** Ian Townsend, x2042

**Updates:** Bank of England, [SERI & monthly rates](#), 2 Apr; Financial Times, [Sterling Exchange Rates](#) (daily)

## F1: Business and Consumer Confidence

Confidence surveys, with information generally released ahead of official statistical data, can indicate changes to the economic outlook as well as turning points in the economic cycle.

### European Commission Economic Sentiment Indicator

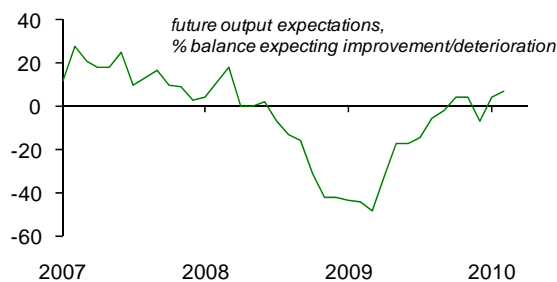


		UK Index	monthly change	change on year ago
2008	Feb	100.2	...	...
2009	Feb	65.6	...	...
	Nov	88.9	-2.4	+14.0
	Dec	95.0	+6.1	+20.0
2010	Jan	98.2	+3.2	+29.7
	Feb	98.3	+0.1	+32.7

Source: European Commission

- The European Commission conducts regular harmonised surveys for different sectors (manufacturing, services, retail, construction and consumers) of all EU member states' economies.
- The overall UK sentiment index has been rising since April 2008, reaching 98.3 in February (up slightly on January).

### CBI Industrial Trends Survey



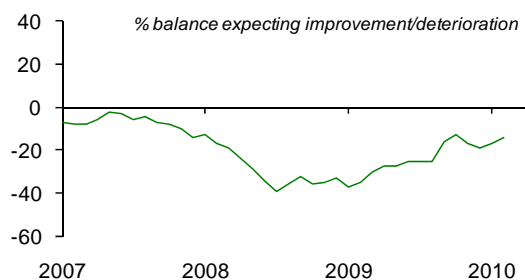
balance (as a %) of those expecting an improvement minus those expecting a deterioration

		Future output expectations	monthly change	change on year ago
2008	Feb	+11	...	...
2009	Feb	-44	...	...
	Dec	-7	-11	+35
2010	Jan	+4	+11	+47
	Feb	+7	+3	+51

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in February were +7% of firms expecting output to rise rather than fall over the next three months. This is the strongest figure since March 2008.

### GfK NOP Consumer Confidence Survey



balance (as a %) of those expecting an improvement minus those expecting a deterioration

		Consumer Conf. Index	monthly change	change on year ago
2008	Feb	-17	...	...
2009	Feb	-35	...	...
	Dec	-19	-2	+14
2010	Jan	-17	+2	+20
	Feb	-14	+3	+21

Source: GfK NOP, *Consumer Confidence*

- 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 stood at -14 in February, up 3 points on January, and 21 points higher than a year ago.

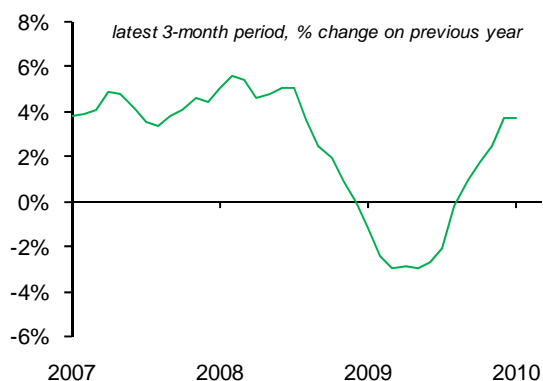
**Contact:** Ian Townsend, x2042

**Update:** CBI, *Industrial Trends*, 18 Mar  
EC, *Economic Sentiment Indicator*, 29 Mar  
GfK NOP, *Consumer Confidence*, 31 Mar

## F2: Retail Sales

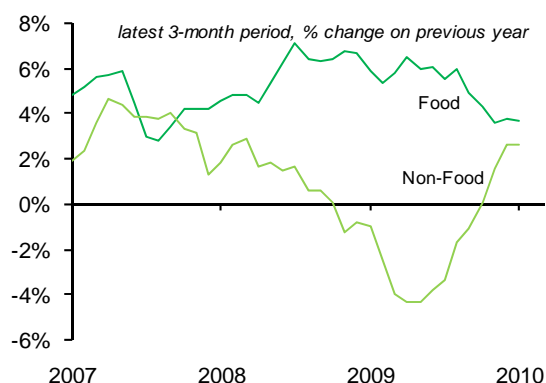
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI; however, this page only uses data and information from the ONS.

### Value of Retail Sales



- From January, total retail sales now include the sale of automotive fuel. This change has been reflected in the charts and data on this page.
- The seasonally-adjusted value of retail sales in the three months to January was 3.7% higher than a year ago, the same as in December.
- The value of retail sales in January alone was down by 1.3% compared with December, the largest monthly decline since July 2008. The ONS said that poor weather in January had had a “significant impact” on retail sales.
- The estimated total value of sales in January was £21.9 billion (non-seasonally-adjusted).

### Value of Food & non-Food Store Sales



- The value of sales in food stores in the three months to January was 3.7% higher than a year ago.
- The value of sales in non-food stores in the three months to January was 2.6% higher than a year ago.
- Sales in household goods stores fell by 0.3% in the three months to January.
- Sales in clothing and footwear stores rose by 1.6% in the three months to January.

### Value of Retail Sales

annual data and latest 3-month period, % change on previous year; seasonally adjusted

		Food Stores	Non-Food Stores			Total	All retailing total
			Clothing & Footwear	Household goods	Other		
2008		6.0	0.3	-1.9	6.1	1.0	3.2
2009		5.2	0.9	-4.6	-3.4	-1.6	-0.3
2009	Sep	4.9	-0.3	-1.8	-3.5	-1.1	1.0
	Oct	4.3	0.0	0.1	-2.6	0.1	1.8
	Nov	3.6	1.3	1.8	-0.4	1.6	2.5
	Dec	3.8	1.6	3.1	2.0	2.6	3.7
2010	Jan	3.7	1.6	-0.3	4.4	2.6	3.7

Source: ONS, series: IEAU, IEBJ, IEBM, IEBA, IEAX, J5BY

Contact: Daniel Harari, x2464

Update: ONS, [Retail Sales](#), 25 Mar



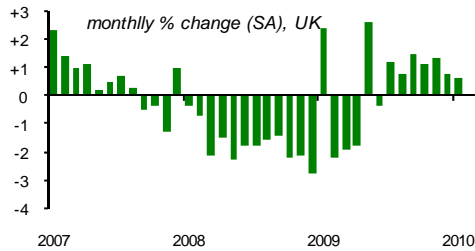
## F3: Housing Market

Having increased for nine consecutive months, house prices according to the Nationwide index fell by 1.0% in February 2010. This is not necessarily the start of a new trend: it might be explained by the snowy weather and the expiration of the stamp duty 'holiday'.

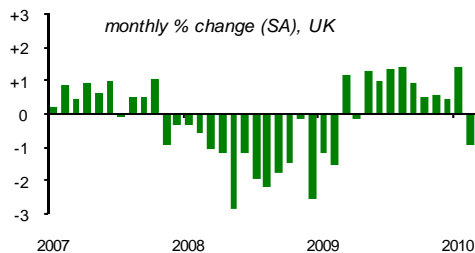
Concern has been expressed that recent increases in prices reflect supply constraints rather than healthy wider conditions. Numbers of mortgage approvals and housing starts remain well below pre-recession levels.

### House price indices

#### Halifax house price index



#### Nationwide house price index

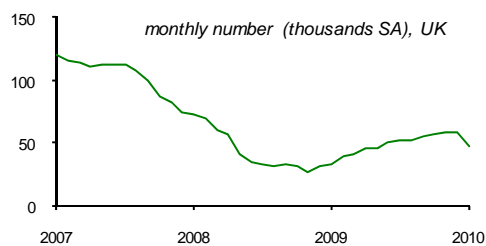


Latest monthly data  
UK, seasonally adjusted

	Halifax	Nationwide
Latest data	Jan-10	Feb-10
Change in month	+0.6%	-1.0%
Change in year	+3.6%	+9.2%
Peak date	Aug-07	Jul-07
Change since peak	-14.9%	-10.1%
Trough date	Apr-09	Feb-09
Change since trough	+9.9%	+9.3%

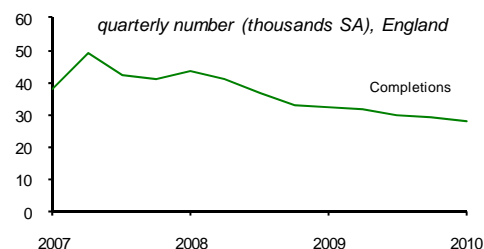
- On the Halifax index, prices are now at a similar level to those in October 2008. According to Nationwide they have recovered to September 2008 levels.
- There is considerable regional variation. Over 2009, prices fell by 7% in Northern Ireland but rose by 7% in London (Nationwide data). Prices rose by more in the south of England than the north over the year.

### Mortgage approvals



- Bank of England data on the number of mortgages approved to finance house purchases are a leading indicator of house sales.
- There were 48,000 mortgage approvals in February 2010, 17% down on the previous month. Again, the effect of one-off factors is not clear.

### House-building



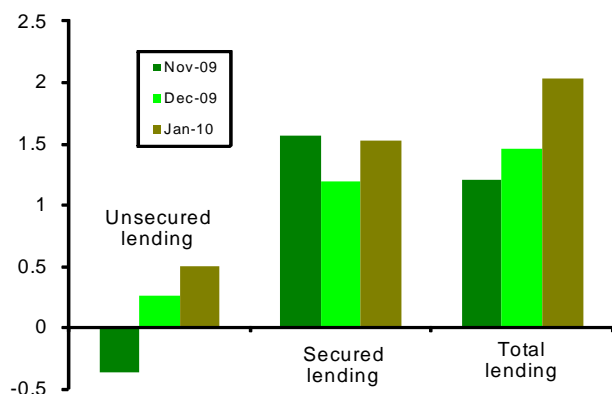
- There were nearly 22,000 dwelling starts in England in Q4 2009. The DCLG has withdrawn previous housing starts data while they are revised to ensure consistency with current data collection methods.
- The number of dwelling completions has fallen in each of the last eight quarters for which data are available.

**Contact:** Adam Mellows-Facer, x4904

**Updates:** Halifax [House Price Index](#), early Mar;  
Nationwide [House Price Index](#), early Apr;  
Bank of England, [Lending to Individuals](#), 29 Mar;  
DCLG, [House-building](#), 20 May

## F4: Household debt

### Monthly Net Lending, last three months, £ bn



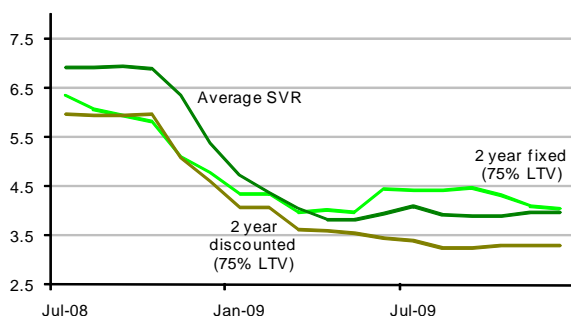
### Net outstanding lending to individuals

£ billions; seasonally adjusted

	Secured	Unsecured	Total
2006 Jan	974	212	1,186
2007 Jan	1,087	213	1,300
2008 Jan	1,188	228	1,416
2009 Jan	1,226	233	1,459
Apr	1,227	232	1,459
Jul	1,228	230	1,459
Oct	1,231	228	1,459
2010 Jan	1,237	225	1,463

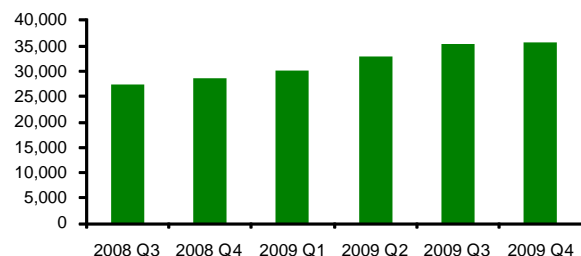
Source: Bank of England, series: VTXK, VZRI, VTXC

### Current average mortgage interest rates



Source: Bank of England

### Individual Insolvencies, England and Wales (nsa)



Source: Insolvency Service

Data on lending to individuals is published on a monthly basis and is seasonally adjusted.

- Total net lending to individuals grew by £2.0 billion in January 2010. Monthly net lending peaked in October 2003 at £12.0 billion.
- Monthly net unsecured lending grew by £500 million, the highest rise since November 2008.
- Monthly net secured lending (mortgages) rose by £1.5 billion in January 2010.
- The annualised three-month growth rate for net lending was 1.3% in January 2010, an increase of 0.4 percentage points from December 2009.

- Total net outstanding lending to individuals was £1,463 billion at the end of January 2010.
- Secured lending (mortgages) is the largest form of lending at £1,237 billion, 85% of total lending outstanding.
- Unsecured lending outstanding (including credit cards) was £225 billion.
- Secured lending outstanding is 40% higher in January 2010 compared to the same month in 2005. Unsecured lending has risen by 12% in the same period.
- A number of adjustments were made to this series in January 2010.

- Average interest rates offered by banks and building societies have fallen sharply since late 2008 (all Bank of England data).
- The average Standard Variable Rate (SVR) in January 2010 was 4.08%, 3.43 percentage points lower than in January 2008.
- The average fixed and discounted rates offered (75% LTV) in January 2010 were 3.97% and 2.99% respectively (2.00 and 2.94 percentage points lower than in January 2008)

- Q4 2009 provisional data indicates there were 35,574 individual insolvencies (bankruptcy orders, IVAs or debt relief orders) in England and Wales (not seasonally adjusted), a 24.9% increase on Q4 2008. This was made up of 17,007 bankruptcies, 13,219 IVAs and 5,348 Debt Relief Orders.
- In Scotland in Q4 2009 there were 5,678 individual insolvencies, a fall of 2.7% on Q4 2008.
- In Northern Ireland in Q4 2009 there were 574 individual insolvencies, a rise of 29.6% on Q4 2008.

Contact: Ed Potton, x2883

Update: Bank of England, [Lending to Individuals](#), 29 Mar  
Insolvency Service, [Q1 Insolvency Statistics](#), 7 May

## 4 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](http://www.statistics.gov.uk/press_release/CurrentReleases.asp).

Indicator		Source details
A1	<b>Gross Domestic Product</b>	ONS releases: <i>Preliminary GDP Estimates</i> ; <i>Quarterly National Accounts</i> ; <i>UK output, income &amp; expenditure</i> ; HM Treasury, <i>Forecasts for the UK Economy</i>
A2	<b>GDP: International Comparisons</b>	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), <i>Main Economic Indicators</i> , via Stat.OECD database ( <a href="#">link to user defined table</a> ) Growth Forecasts: OECD, <i>Economic Outlook</i> (via <a href="http://www.sourceoecd.org">www.sourceoecd.org</a> ), IMF <i>World Economic Outlook database and updates</i> European Commission's <a href="#">growth forecasts</a>
A3	<b>Components of GDP</b>	ONS releases: <i>Preliminary GDP Estimates</i> ; <i>Quarterly National Accounts</i> ;
A4	<b>Output and Employment by Industry</b>	ONS releases: <i>Preliminary GDP Estimates</i> ; <i>Quarterly National Accounts</i> ; <i>UK output, income &amp; expenditure</i>
A5	<b>Manufacturing (Including Automotives)</b>	ONS, <i>Index of Production</i> SMMT, <i>Vehicle Production</i> SMMT, <i>New Car Registrations</i>
A6	<b>Productivity</b>	ONS, <i>Productivity</i>
B1	<b>Prices</b>	ONS, <i>Consumer Price Indices</i>
B2	<b>Prices: International Comparisons</b>	CPI: OECD, <i>Main Economic Indicators</i> ; EU data: Eurostat <a href="#">news release</a> and <a href="#">database</a>
B3	<b>Average Earnings Index</b>	ONS, <i>Labour Market Statistics</i>
C1	<b>Employment</b>	ONS, <i>Labour Market Statistics</i>
C2	<b>Unemployment: National</b>	ONS, <i>Labour Market Statistics release</i> and <i>Labour Market Statistics First Release Historical Supplement</i> (via Virtual Bookshelf); Commentary: Department for Work and Pensions (DWP) <i>Quarterly Working Age Statistics for New Deal for Young People &amp; Long-term Unemployed</i> (table 6);
C3	<b>Unemployment: Regional</b>	ONS, <i>Labour Market Statistics</i>
C4	<b>Unemployment: International Comparisons</b>	Data: OECD, <i>Main Economic Indicators</i> Commentary: OECD, <i>Main Economic Indicators &amp; Economic Outlook</i>

Indicator		Source details
D1	<b>Interest Rates and the Money Supply</b>	UK: Bank of England, Monetary Policy Committee <a href="#">decisions &amp; minutes</a> US: Federal Reserve, <a href="#">Federal Open Market Committee decisions</a> ECB: <a href="#">European Central Bank news releases</a> Short term interest rates (graph): OECD; <i>Main Economic Indicators</i> ; Bank of England: <a href="#">Bankstats</a> , tables A 1.1 and A 2.2.1; and ONS Database.
D2	<b>Public Finances</b>	Data: ONS, <a href="#">Public Sector Accounts</a> or <a href="#">Public Sector Finances</a> ; ONS database Forecasts of budget balance: HM Treasury, <i>Pre-Budget Report</i> , table B2 or <i>Budget Red Book</i> , table C2.
D3	<b>Financial Indicators</b>	<i>Financial Times</i>
E1	<b>UK Balance of Trade</b>	ONS, <a href="#">Balance of Payments</a> ONS, <a href="#">UK Trade</a>
E2	<b>Exchange Rates</b>	Sterling effective exchange rates and sterling-dollar/euro rates: Bank of England, <i>Bankstats</i> database ( <a href="#">annual</a> and <a href="#">monthly</a> )
F1	<b>Business and Consumer Confidence</b>	European Commission: <a href="#">Economic Sentiment Indicator</a> Future Output Expectations/Quarterly Business Confidence: Confederation of Business Industry (CBI), <a href="#">Economic and Business Outlook and Quarterly Industrial Trends Survey</a> press releases; Consumer Confidence: GfK NOP <a href="#">Consumer Confidence Barometer</a>
F2	<b>Retail Sales</b>	ONS, <a href="#">Retail Sales</a>
F3	<b>Housing Market</b>	Department for Communities and Local Government (DCLG, formerly Office of the Deputy Prime Minister) UK Housing Starts: <a href="#">table 201</a> ; DCLG House building statistics: <a href="#">statistical release</a> ; Halifax House Price data: <a href="#">housing research page</a> ; DCLG Experimental House Prices: <a href="#">statistical release</a>
F4	<b>Household Debt</b>	Bank of England <a href="#">Lending to Individuals</a> ; Insolvency Service, <a href="#">Q3 Insolvency Statistics</a>

## 5 Glossary

### Symbols and abbreviations

..	Figure(s) not yet available
<b>CBI</b>	Confederation of British Industry
<b>ILO</b>	International Labour Organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics

### Definitions<sup>1</sup>

**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.

**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 *[cont.]*

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

transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

**Gross Value Added (GVA):** The difference between output and intermediate consumption for any given sector/industry. That is the difference between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production. GVA is used to measure the productivity of sectors/industries and economies.

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

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

**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