



# Economic Indicators, September 2010

RESEARCH PAPER 10/57 7 September 2010

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

- The ONS revised Q2 GDP growth upward from 1.1% to 1.2%, the fastest quarterly increase in national output since 2001.
- Household consumption increased by 0.7% in Q2 after falling in Q1, while government consumption rose by 0.3%, down from a 1.5% rise in Q1.
- The manufacturing sector continues to perform strongly with growth in output outpacing that of the services sector in Q2, although this follows a 10% contraction in output during the recession.

This month's article(s):

- **The North-South divide**
- **Comparing UK Unemployment Internationally**

Daniel Harari (editor)

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## Research Paper 10/57

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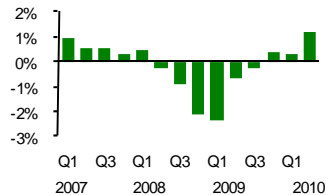
## Summary

The ONS revised Q2 GDP growth upward from 1.1% to 1.2%, the fastest quarterly increase in national output since 2001 (see page 1). Household consumption increased by 0.7% in Q2 after falling in Q1, while government consumption rose by 0.3%, down from a 1.5% rise in Q1 (page 3). The manufacturing sector continues to perform strongly with growth in output outpacing that of the services sector in Q2, although this follows a 10% contraction in output during the recession (page 4).

### GDP Growth

page 1

(% change quarter-on-quarter)

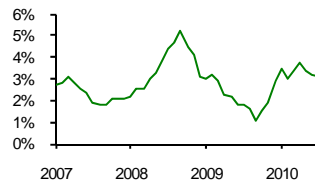


GDP growth was revised up to 1.2% in Q2 2010 compared with Q1. This is the fastest rate of quarterly growth since early 2001.

### Inflation (CPI)

page 7

(% change on year ago)

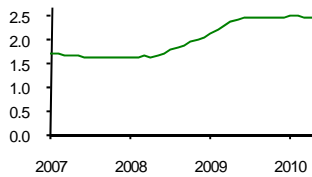


CPI inflation fell to 3.1% in the year to July from 3.2% in June. Inflation has been at least 3% in every month so far this year.

### Unemployment

page 11

(total, millions, ILO definition)



ILO unemployment has remained steady at around 2.5 million over the past year. The unemployment rate was 7.8% in the three months to June.

### Manufacturing Output

page 5

(% change on year ago)



Manufacturing output increased by 4.1% in June compared with a year ago, down slightly from 4.3% in May which was its fastest rate of growth since December 1994. This follows a deep contraction in output during the recession.

### House Prices

page 21

(Nationwide, % change on year ago)



The recovery in house prices since early 2009 has stalled, with the Nationwide index showing house prices in August up 3.9% on a year ago, down from over 10% earlier this year.

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Next issue: 5 October

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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### Sources and glossary

A guide to sources is provided in section 5. Economic terms, symbols and abbreviations used in the publication are described in the glossary in section 6.

### Contacts

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## 2 The North-South Divide

Is there an economic North-South divide in England, and has it been exacerbated by the economic downturn? This article looks at some key regional indicators.

### 2.1 Gross Value Added (GVA)

A popular measure of economic disparities between regions is GVA (GDP excluding taxes and subsidies) per head.

In simple terms there is a clear disparity: GVA per head in the four southernmost regions of England was £24,400 per head in 2008 (the latest data available), compared with £17,300 in the five northernmost regions.

However, this masks considerable regional variation. London's GVA per head was 65% above the England average in 2008 and double that in the North East. Second was the South East, just 3% above the England average. All the other regions were below average, though northern regions had lower GVA per head than the remaining regions in the south.

Examining trends in GVA per head, the concept of a widening North-South divide looks like something of an oversimplification. Growth in GVA per head in the five northern regions has fallen slowly from 87% to 83% of the England average. In contrast, London has well outstripped the average in recent years. The remaining regions of the south have remained steady just below the average. Is the divide therefore more between London and the rest of England?

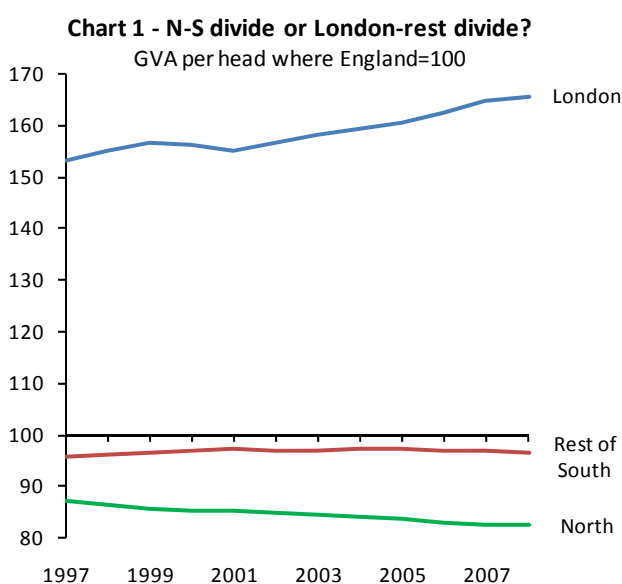
There are some clear measurement issues with the GVA data. GVA is calculated on a workplace basis, while per head figures are calculated based on resident populations. This causes problems in areas such as London where many workers are non-resident commuters.

Other indicators contradict the conclusion that London's economic performance far exceeds that of the other English regions. Unemployment is one example.

**Table 1 - GVA per head by region, 2008**

	£	% England
North East	15,887	76%
North West	17,555	84%
Yorkshire & the Humber	17,096	81%
East Midlands	18,041	86%
West Midlands	17,463	83%
<b>North of England</b>	<b>17,350</b>	<b>83%</b>
East of England	19,473	93%
London	34,786	165%
South East	21,688	103%
South West	18,782	89%
<b>South of England</b>	<b>24,360</b>	<b>116%</b>
<b>England</b>	<b>21,020</b>	<b>100%</b>

Source: ONS, *Regional GVA Statistical Bulletin* (workplace based)





## 2.2 Unemployment

Again at the most basic level, unemployment data suggest a North-South divide. The ILO unemployment rate in the five northernmost regions of England in April-June 2010 was 8.4%, compared with 7.2% in the four southern most regions.

However, unemployment in London was 9.3%, well above the England total of 7.7% and second only to the North East (9.4%).

But what of the impact of the economic downturn on the regions? Examining changes in the unemployment rate over the past two years gives a yet more mixed picture. Again, London ranks second, its ILO unemployment rising by 2.6%-pts over the period, behind only Yorkshire & the Humber (3.1%-pts).

The other northern regions have seen lower than average increases in unemployment, albeit often from a high base. Over the two year period, ILO unemployment rose by 1.6%-pts in the North West, 1.8%-pts in the East Midlands and 1.9%-pts in the North East, compared with an England total of 2.2%-pts. Overall, employment rose by more in the four southernmost regions of England (2.3%-pts) than in the five northernmost regions (2.1%-pts).

## 2.3 The future of 'the divide'

There are no official projections of regional economic performance, though many independent forecasters expect stronger performance in the south of England than the north over the next decade. Much speculation has focused on the greater reliance on the public sector in northern regions, both in terms of employment and economic output and the consequent impact of public sector cuts (see [Standard Note SN/EP/5625](#)).

In any such analysis, it is important to be aware of the limits of regional analysis. While there are clear economic differences between the English regions, there is also an enormous amount of variation in economic performance and prospects between local areas *within* regions. These are lost in simple north-south comparisons.

**Chart 2 - High unemployment in London**

ILO unemployment rate, Apr-Jun 2010



**Chart 3 - Unemployment increases 2008-2010**

% pt change in Apr-Jun ILO unemployment rate



### 3 Comparing UK Unemployment Internationally

How does the rise in UK unemployment since the global recession began compare with other large developed economies? This article examines recent trends in unemployment internationally.

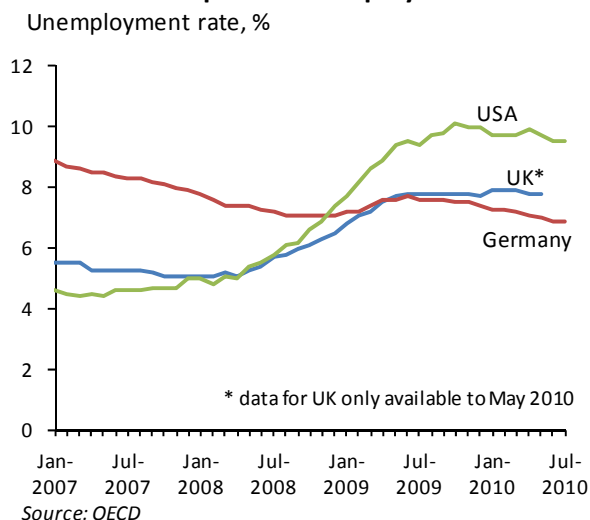
#### 3.1 Impact of recession

The global recession which began in 2008 led to sharp falls in output, particularly in developed economies. In the UK, GDP fell by 6.4% during the recession which ended in late 2009. At the same time, unemployment rose across the world. However, the degree to which unemployment rates increased varied greatly between countries. The United States for instance has experienced a particularly large increase in joblessness since the beginning of the recession, with its unemployment rate rising from under 5% to nearly 10%. This is the largest increase of any G7 country.

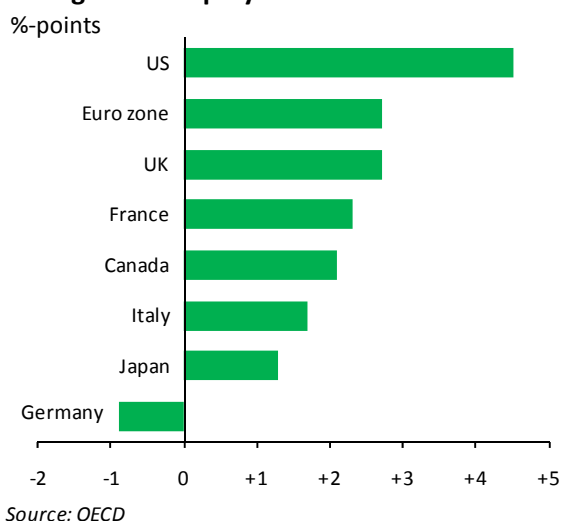
The UK also experienced a rise, but not to same degree as in the US, despite suffering a deeper recession in terms of lost output. The UK unemployment rate increased by almost 3%-pts to 8%. The euro zone, which started with a higher unemployment rate, saw a similar increase in terms of %-pts.

In Germany, unemployment remained stable throughout the recession, even falling slightly. It now has a lower unemployment rate than the UK for the first time since 1995. How did Germany's economy avoid job losses in the face of its deepest recession since the Second World War?

**Recession's impact on unemployment rates**



**Change in unemployment rate since Jan 2008**



One possible reason is that, along with a number of other countries including Italy, France and Japan, Germany massively expanded its short-time work (STW) programme. These schemes attempt to prevent job losses by reducing hours worked instead. The reduction in an employee's wage associated with STW is mitigated by a supplementary payment from the government (paid via the employer).

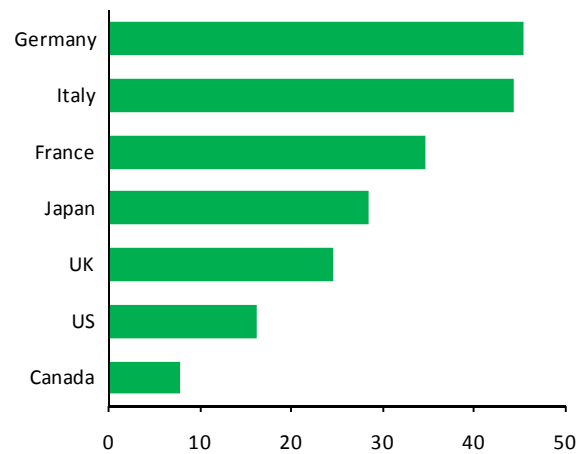
STW programmes work best when the drop in economic demand is temporary. They can also be costly and may subsidise jobs that would not have been cut anyway. Although it is still uncertain as to how effective these programmes are in stopping jobs being lost during a downturn, the [OECD](#) has said that evidence suggests that "STW schemes have played an important role in preserving jobs during the crisis".

### 3.2 Long-term unemployment

The greater the length of time spent out of work, the more difficult it is to find employment as individuals lose skills and become detached from the labour market. Therefore, levels of long-term unemployment are often seen as an indicator of the structural health of a country's labour market. Looking at the G7 advanced economies in 2009, it is noticeable that the three largest euro zone economies have the highest prevalence of long-term unemployment (over 12 months) at between one-third and one-half of all those out of work. Canada and the US have the lowest rates, with the UK third-lowest. (Figures based on OECD data.)

#### Long-term unemp still high in euro zone

Unemp 12 months or more as % of total, 2009



Source: OECD

### 3.3 Forecasts

With an economic recovery underway in most countries, can we expect unemployment rates to fall over the next few years?

Latest OECD forecasts from May indicate that unemployment is expected to decline, but only relatively gradually, in the majority of G7 countries by 2011. The US and Canada are predicted to see the largest declines, with smaller falls in Japan and France. Germany and Italy are forecast to see an increase in their unemployment rate, while the OECD forecasts it to remain steady in the UK.

#### Unemployment forecasts for G7

OECD forecasts, %

	2010	2011
Canada	7.9	7.2
France	9.8	9.5
Germany	7.6	8.0
Italy	8.7	8.8
Japan	4.9	4.7
UK	8.1	7.9
US	9.7	8.9
Euro zone	10.1	10.1
Total OECD	8.5	8.2

Source: OECD, Economic Outlook, May 2010

### 3.4 Updates

Statistics on international comparisons of unemployment are a regular feature in *Economic Indicators* and can be found every month on [page 13](#).

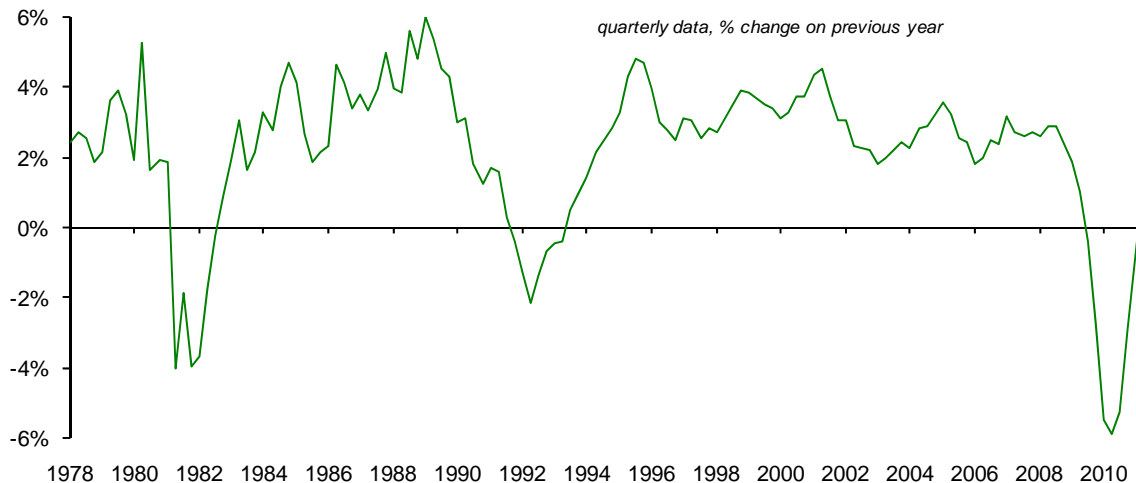
Daniel Harari, Economic Policy and Statistics Section



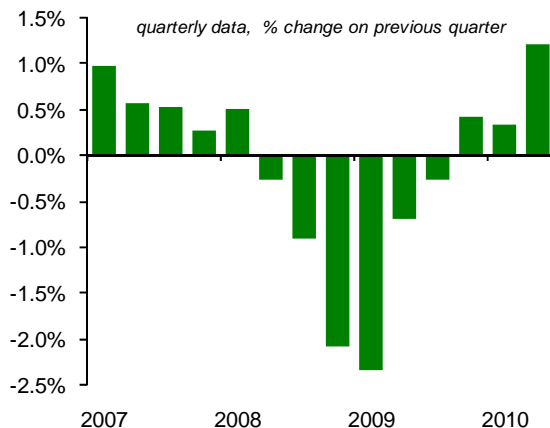
## A1: Gross Domestic Product

The economy grew by 1.2% in Q2 2010, following growth of 0.3% in Q1 2010. In August 2010, HM Treasury's average of independent economic forecasts of GDP growth for 2010 was 1.5%, and for 2011 was 2.0%. The interim Office for Budget Responsibility's (OBR) central forecasts from the June 2010 Budget are for 1.2% growth in 2010 and 2.6% for 2011.

### 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	1,405	5.8	...	2.7
2008	1,446	2.9	...	-0.1
2009	1,393	-3.7	...	-4.9
2009 Q2	344.6	-5.1	-0.7	-5.9
Q3	347.4	-3.9	-0.3	-5.3
Q4	351.4	-2.1	0.4	-2.9
2010 Q1	358.6	2.7	0.3	-0.2
Q2	364.9	5.9	1.2	1.7

Source: ONS, series: YBHA, ABMI

- The economy grew by 1.2% in Q2 of 2010, compared with Q1 of 2010. This compares with growth of 0.3% in Q1 2010 compared with Q4 2009.
- The contraction in the economy of -2.3% between Q4 2008 and Q1 of 2009 was the largest percentage fall in quarterly GDP since Q3 of 1979 (-2.4%).
- In Q2 2010, GDP rose by 1.7% compared with the same period a year ago, compared with a 0.2% decline recorded in Q1 2010.
- Total output of the economy fell by (a revised) 6.4% during the recession.

**Contact:** Grahame Allen, x3977

**Updates:** HM Treasury, [Forecasts for the UK Economy](#), 15 Sep  
ONS, [Quarterly National Accounts](#), 28 Sep

## 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.

The UK economy grew 1.2% in Q2 2010, while initial estimates of 0.6% growth in the US were revised down to 0.4%.

Germany grew by 2.2% in the same period, more than double the growth rate in France (0.6%), while the eurozone as a whole grew 1.0%. Greece's economy continued to contract (by 1.5% in Q2 2010), while Spain grew by 0.2% (see [Eurostat release](#)). Japan's economy grew by 0.1%.

### Real GDP, % changes

	2009	change on prev. year					change on prev. quarter				
		09Q2	09Q3	09Q4	10Q1	10Q2	09Q2	09Q3	09Q4	10Q1	10Q2
US	-2.6	-4.1	-2.7	0.2	2.4	3.0	-0.2	0.4	1.2	0.9	0.4
Japan	-5.2	-5.9	-4.9	-1.3	4.4	1.9	2.5	-0.3	1.0	1.1	0.1
UK	-4.9	-5.9	-5.3	-2.9	-0.2	1.7	-0.7	-0.3	0.4	0.3	1.2
Germany	-4.7	-5.5	-4.4	-2.0	2.0	3.7	0.5	0.7	0.3	0.5	2.2
France	-2.6	-3.1	-2.7	-0.5	1.2	1.7	0.1	0.3	0.6	0.2	0.6
Eurozone	-4.0	-4.9	-4.0	-2.0	0.8	1.9	-0.1	0.4	0.2	0.3	1.0
G7	-3.6	-4.7	-3.6	-0.8	2.2	2.6	0.2	0.3	0.9	0.8	0.6
OECD	-3.4	-4.6	-3.4	-0.6	2.4	2.6	0.3	0.5	0.9	0.7	0.5

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

The IMF's [July 2010 growth forecasts](#) revised world output growth in 2010 up from 4.2% in its [April forecasts](#) to 4.6%. Although the IMF highlighted the downside risks, it left its 2011 forecast unchanged.

Forecast growth in 2010 in the UK and France was revised down 0.1 of a percentage point, with the 2011 forecasts for the UK and France down 0.4 and 0.2 of a percentage point respectively. By contrast, Germany is now expected to expand more quickly this year (1.4% compared with 1.2% previously) but more slowly next year (1.6% compared with 1.7%).

The IMF was more positive on US growth: 3.3% (up from 3.1%) in 2010, and 2.9% (up from 2.6%) in 2011. China's growth is now expected to reach 10.5% this year (up from 10%), but revised down 0.3 percentage points for 2011. India's growth forecast is up to 9.4% from 8.8% this year, but unchanged for 2011.

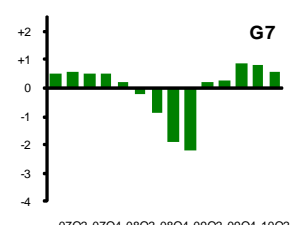
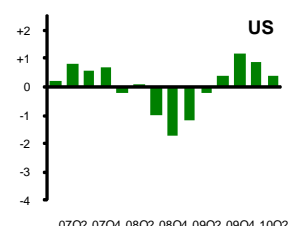
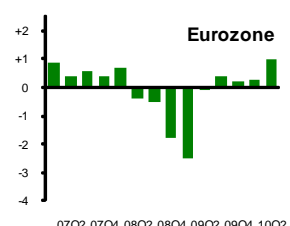
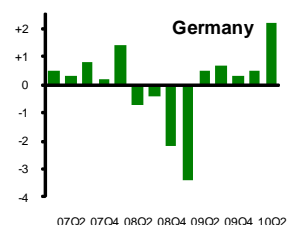
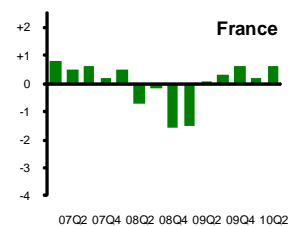
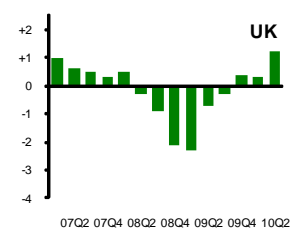
### Real Growth Forecasts (% changes)

	IMF (Jul)		cf. Apr (% pts)		OECD (May)		EC (May)	
	2010	2011	2010	2011	2010	2011	2010	2011
UK	1.2	2.1	-0.1	-0.4	1.3	2.5	1.2	2.1
France	1.4	1.6	-0.1	-0.2	1.7	2.1	1.3	1.5
Germany	1.4	1.6	+0.2	-0.1	1.9	2.1	1.2	1.6
Eurozone	1.0	1.3	0.0	-0.2	1.2	1.8	0.9	1.5
US	3.3	2.9	+0.2	+0.3	3.2	3.2	2.8	2.5
Japan	2.4	1.8	+0.5	-0.2	3.0	2.0	2.1	1.5
<b>OECD</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>2.7</b>	<b>2.8</b>	<b>..</b>	<b>..</b>
China	10.5	9.6	+0.5	-0.3	11.1	9.7	..	..
India	9.4	8.4	+0.6	0.0	8.3	8.5	..	..
<b>World</b>	<b>4.6</b>	<b>4.3</b>	<b>+0.4</b>	<b>0.0</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>

Sources: IMF, WEO update Jul '10; OECD, EO87, May '10; EC, May '10; WB, Global Economic Prospects 2010

The IMF's UK forecast is lower than the OECD's from [May 2010](#) (1.3% this year, and 2.5% in 2011), and similarly for France, Germany, the eurozone, and Japan. Its forecasts for the US and India for 2010 are higher than the OECD's.

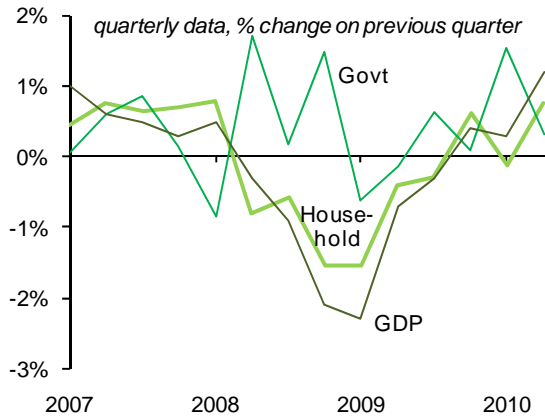
### Quarter-on-quarter growth rates



### A3: Components of GDP

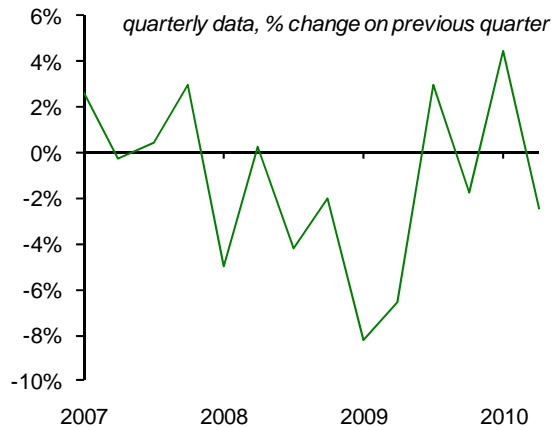
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 63% of the total in 2009. Government consumption accounted for 24% and gross fixed capital formation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

#### Household consumption, government consumption and GDP



- In Q2, 2010, household consumption increased by more than government consumption (0.7% vs 0.3%).
- Over the past year, government consumption has increased by 2.6% compared with 1.0% for household consumption.
- Inventories (stocks held by companies to meet future demand) play an important role in the economic cycle. Companies increased their holdings of inventories in Q2, 2010 for the first time since Q3, 2008.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- GFCF growth has fluctuated considerably in recent quarters. In Q2, 2010 GFCF fell by 2.4% compared with growth of 4.5% in Q1.

#### Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2008 (annual % change)	0.6%	1.6%	-5.0%	1.0%	-1.2%	-0.1%
2009 (annual % change)	-3.4%	1.2%	-15.0%	-10.6%	-12.4%	-4.9%
2009 Q3	-0.3%	0.6%	3.0%	0.7%	1.3%	-0.3%
2009 Q4	0.6%	0.1%	-1.7%	4.0%	4.4%	0.4%
2010 Q1	-0.1%	1.5%	4.5%	-1.7%	1.6%	0.3%
2010 Q2	0.7%	0.3%	-2.4%	1.1%	0.9%	1.2%

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

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

Update: ONS, [UK Quarterly national accounts](#), 28 Sep

## A4: Output and employment by industry

In 2008, services accounted for 77% of UK Gross Value Added (GVA), manufacturing 12%, other production industries (mining & quarrying, and utilities) 5%, construction 6% and agriculture, hunting and fishing 1%. The services sector accounts for 83% of total workforce jobs.

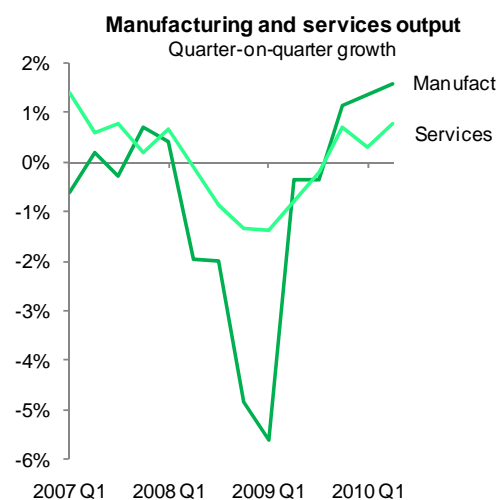
### Output

#### GVA growth by industry

Seasonally adjusted, chained volume measures at basic prices

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008	-2.9%	-0.8%	0.5%	-0.1%
2009	-10.6%	-11.0%	-3.3%	-4.7%
2009 Q4	-5.2%	-6.5%	-1.7%	-2.4%
2010 Q1	1.8%	-1.2%	0.0%	0.1%
2010 Q2	3.8%	7.7%	1.6%	1.8%
<i>Quarter-on-quarter</i>				
2009 Q4	1.2%	-1.5%	0.7%	0.6%
2010 Q1	1.4%	-1.7%	0.3%	0.3%
2010 Q2	1.6%	8.5%	0.8%	1.1%

Source: ONS series CKYY, GDQB, GDQS, CGCE



- Following sharp falls in manufacturing output in 2008 and 2009, it is now growing at a faster rate than services. Construction rebounded strongly in Q2 2010.
- Manufacturing output rose by 3.8% in the year to Q2 2010. Construction output rose by 7.7%
- Services output rose by 1.6% in the year to Q2 2010, with output in the business services and finance sector growing by 1.5%.

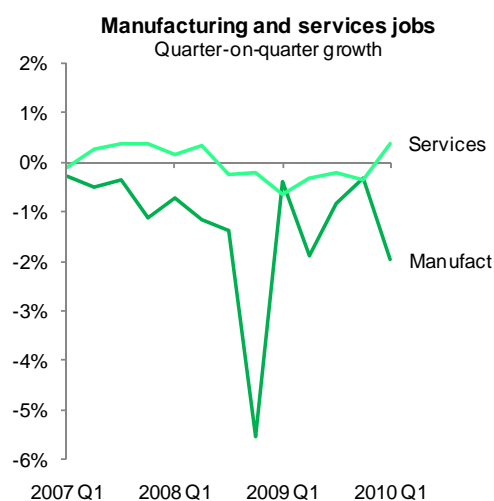
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008 Q1	-2.7%	-0.4%	1.2%	0.7%
2009 Q1	-8.3%	-1.5%	-0.8%	-1.5%
2009 Q4	-3.4%	-8.4%	-1.5%	-2.2%
2010 Q1	-4.9%	-10.3%	-0.5%	-1.6%
<i>Quarter-on-quarter</i>				
2009 Q4	-0.3%	0.0%	-0.4%	-0.4%
2010 Q1	-2.0%	-3.0%	0.4%	0.0%
<i>Thousands</i>				
2010 Q1	2,530	2,045	25,463	30,766

Source: ONS series JWR7, JWS2, JWT8, DYDC



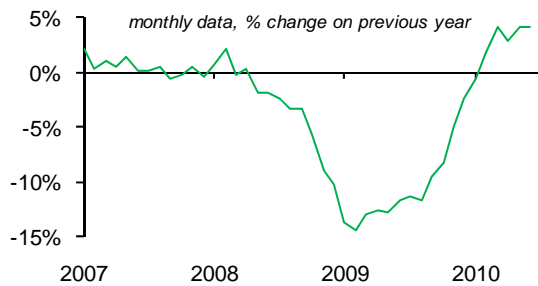
- The employment picture is different, with numbers of manufacturing jobs continuing to fall sharply (4.9% in the year to March 2010). Numbers of service sector jobs have been steadier and grew in the last quarter.
- Numbers of jobs in the construction sector fell by more than 10% in the year to March 2010.
- The public administration, health and education workforce rose by 2.3% in the year to March 2010.



## 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

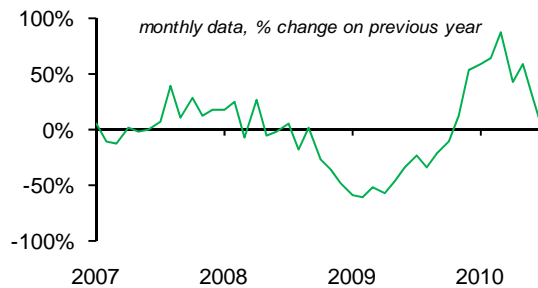


	Index Value (2005=100)	% change over month	% change over 12 months
2008	97.6	...	-2.9
2009	87.3	...	-10.6
2010 Mar	90.8	+2.3	+4.1
Apr	90.1	-0.8	+3.0
May	90.4	+0.3	+4.3
Jun	90.7	+0.3	+4.1

Source: ONS, series CKYY

- Manufacturing output was up by 4.1% in the year to June 2010, down slightly on the 4.3% in the year to May. In 2009 output fell by 10.6%.
- Industrial production, which in addition to manufacturing includes mining and quarrying, and electricity, gas and water supply, was up by 1.3% compared with a year ago, down from 2.4% in May.

### Vehicle Production

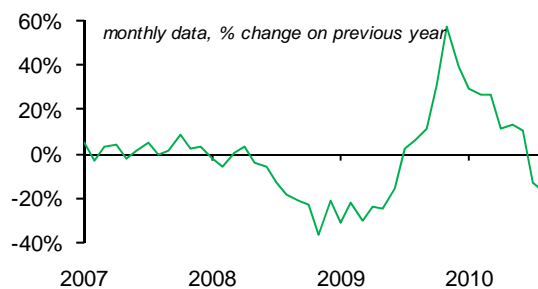


	Number '000s	% change over 12 months
2008	1,650	-5.8
2009	1,090	-33.9
2009 Jul	116	-23.7
2010 May	115	+58.9
Jun	129	+28.3
Jul	108	-7.3

Source: SMMT, not seasonally adjusted

- Fewer vehicles were produced in July 2010 than July 2009, the first fall since October 2009. The Government's scrappage scheme ended in April 2010.
- 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 Aug	67	+6.0
2010 Jun	195	+10.8
Jul	136	-13.2
Aug	55	-17.5

Source: SMMT, not seasonally adjusted

- There were 17.5% fewer new registrations of cars in August 2010 than in August 2009, a month the SMMT described as "scrappage fuelled".
- New car registrations fell by 6.4% in 2009 to 2 million, the lowest level since 1995.

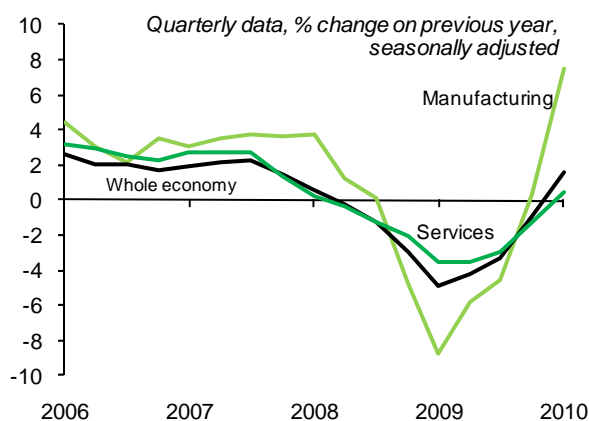
**Contact:** Adam Mellows-Facer, x4904

**Update:** ONS, [Index of Production](#), 8 Sep  
SMMT, [Vehicle Production](#), late Sep  
SMMT, [New Car Registrations](#), 6 Oct

## 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 by sector, output per job



Source: ONS, series: LNNP, LNNU, GG5J

- Productivity across the whole economy, measured by output per worker, is estimated to have fallen by 3.1% in 2009 compared with a fall of 0.8% in 2008.
- Output per worker rose by 1.3% in Q1 2010 compared to the same quarter a year ago.
- Manufacturing output per job grew by 7.5% in Q1 2010 compared to the same quarter a year ago, as output in the sector increased while employment fell. Output per job in the service sector rose by 0.4% over the same period.
- Comparing Q1 2010 with Q4 2009, manufacturing output per job increased by 3.7%, services output per job grew by 0.3% while output per job for the whole economy grew by 0.6%.

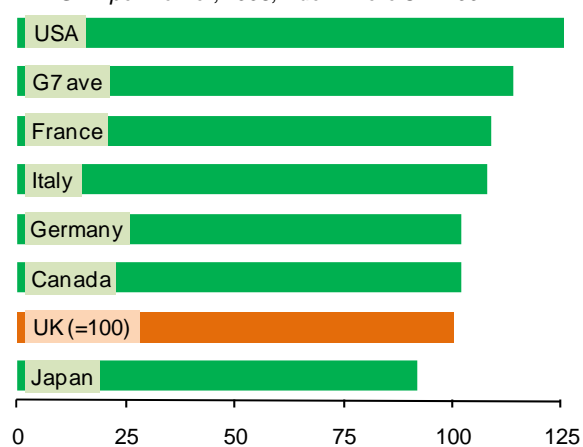
### Productivity growth, seasonally adjusted

Annual % change	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
2008	0.1	0.3	..	..	-0.8	-1.0	-0.5
2009	-4.8	-1.3	..	..	-3.1	-3.4	-1.8
2009 Q1	-8.7	-6.8	-3.5	-0.8	-4.4	-4.9	-2.3
Q2	-5.8	-4.1	-3.5	-3.2	-3.8	-4.2	-3.5
Q3	-4.6	-3.5	-3.0	-1.7	-3.3	-3.3	-1.8
Q4	0.3	1.6	-1.3	-0.4	-0.9	-0.9	0.2
2010 Q1	7.5	5.1	0.4	0.0	1.3	1.6	1.2
Latest quarterly % change	3.7	1.1	0.3	0.2	0.6	0.6	0.3

Source: ONS

### International comparisons

GDP per worker, 2008, index where UK=100



- International comparisons of productivity are presented as an index where the UK=100.
- 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.
- From 1997 to 2008 UK productivity improved by 20%, a larger improvement compared to all but one G7 country (USA, 21% increase). It increased by 17% for the G7 average, 14% for Japan, 11% for Canada and France, 10% for Germany and no change for Italy.
- 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.

Contact: Daniel Harari, x2464

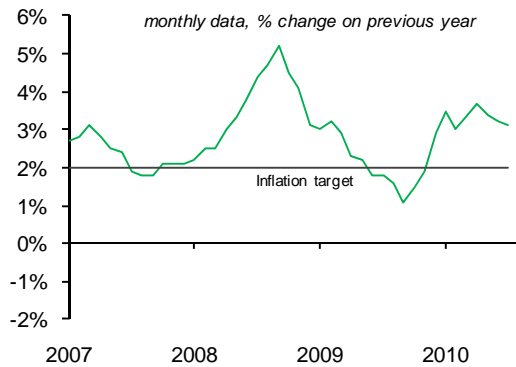
Update: ONS, [Productivity](#), 29 Sep

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.1% in July, down from 3.2% in June and still above the Bank of England's 2% target.

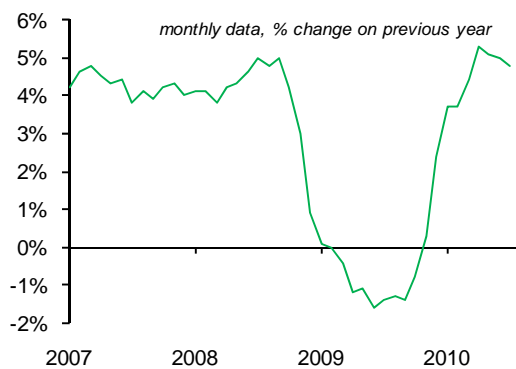
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side.

### Consumer Prices Index (CPI)



- The CPI annual inflation rate continued to fall, by 0.1 percentage points in July to 3.1%.
- Downward pressure on inflation came from transport, in particular second hand car prices and fuel and lubricants while there was upward pressure from food and non-alcoholic beverages, in particular vegetables.
- The RPI (all items) measure of inflation fell to 4.8% in June, continuing to fall from its highest level, since July 1991, of 5.3% in April.

### Retail Prices Index (RPI)



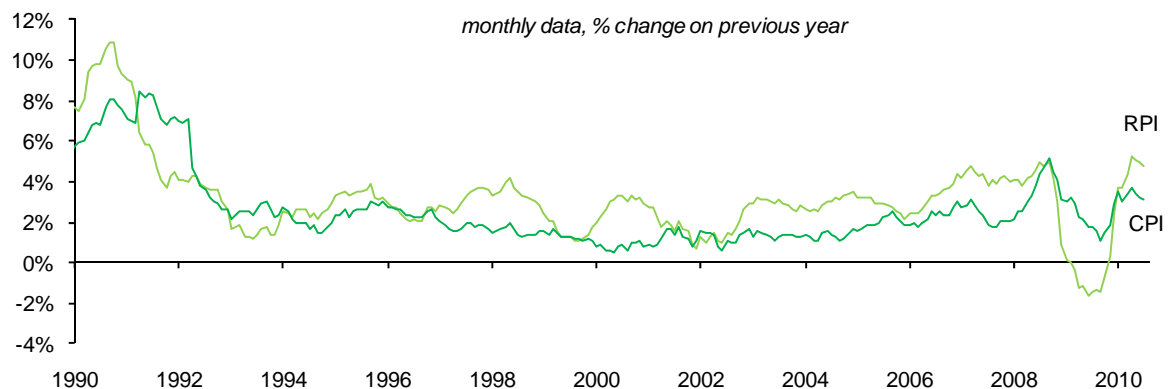
### Price Indices

% change on a year ago

		CPI	RPI
2007		2.3	4.3
2008		3.6	4.0
2009		2.2	-0.5
2010	Feb	3.0	3.7
	Mar	3.4	4.4
	Apr	3.7	5.3
	May	3.4	5.1
	Jun	3.2	5.0
	Jul	3.1	4.8

Source: ONS database, series: D7G7, CDKQ

### CPI and RPI since 1990



## B2: Inflation: International

UK inflation, measured by the Consumer Prices Index (CPI), remained positive throughout the recession. That contrasts with other major economies, including the US, France and Germany, which saw deflation (negative inflation, or falling prices).

Inflation in the EU and some other European countries (and now the US) can be measured using the standard Harmonised Index of Consumer Prices (HICP). This is used for the CPI in the UK. National inflation calculations methods differ from this standard to varying degrees. For example, the US' CPI is based on prices in urban areas only, and unlike the HICP includes costs of owner-occupied housing. Care should therefore be taken when making comparisons between national measures.

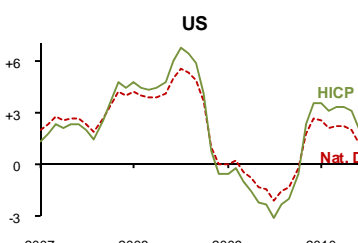
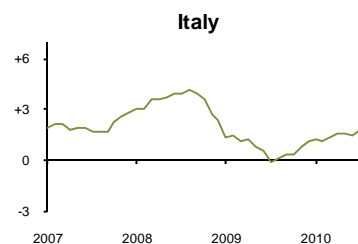
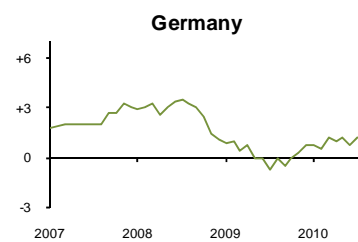
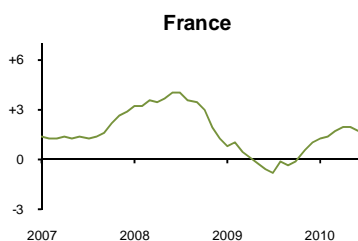
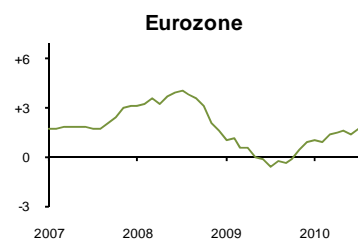
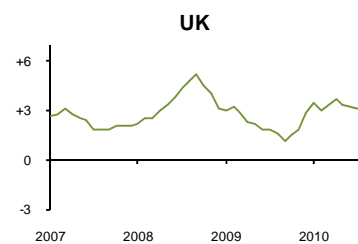
- In the year to July, UK inflation (CPI/HICP) was 3.1%, down from 3.2% in June. The Bank of England's UK inflation target is 2%. This rate was the fifth highest rate in the EU (the highest being 7.1% in Romania, followed by 5.5% in Greece).
- Eurozone inflation was 1.7% (HICP) in the year to July 2010, up from 1.4% in June, although the initial 'flash' estimate for August is down to 1.6%. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- The highest rate in Europe is outside the EU (7.6% in Turkey), and the third highest – after Romania in the EU – is in Iceland (6.2%). Prices fell in Ireland (-1.2%) and Latvia (-0.7%) (all HICP).
- HICP annual inflation in the US in June was 1.8%, down from 3.1% in May. July data are not available. Using national definitions, US inflation was 1.1% in June.

### Inflation rates: selected countries

Annual % change in consumer prices

	2008	2009	May 10	Jun 10	Jul 10
<b>HICP (Eurostat/ONS)</b>					
UK	3.6	2.2	3.4	3.2	3.1
Eurozone	3.3	0.3	1.6	1.4	1.7
EU	3.7	0.3	2.0	1.9	2.1
France	3.2	0.1	1.9	1.7	1.9
Germany	2.8	0.2	1.2	0.8	1.2
Greece	4.2	1.3	5.3	5.2	5.5
Italy	3.5	0.8	1.6	1.5	1.8
Spain	4.1	-0.2	1.8	1.5	1.9
US	4.4	-0.8	3.1	1.8	..
<b>National definitions (OECD)</b>					
Canada	2.4	0.3	1.4	1.0	1.8
Japan	1.4	-1.4	-0.9	-0.7	-0.9
US	3.8	-0.4	2.0	1.1	1.2
G7	3.2	-0.1	1.6	1.0	1.2
OECD	3.7	0.5	2.0	1.5	1.6
Brazil	5.7	4.9	5.2	4.8	4.6
China	5.9	-0.7	2.8	..	..
India	8.3	10.9	13.9	13.7	..
Russia	14.1	11.7	6.0	5.8	..

Source: ONS, Eurostat & stat.OECD database



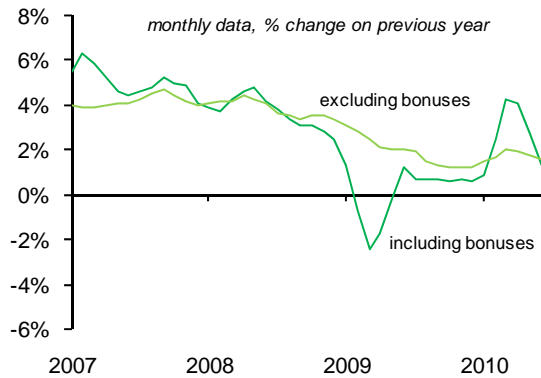
**Contact:** Ian Townsend, x2042

**Updates:** Eurostat, [HICP \(Aug\) full release](#), 15 Sep  
Eurostat, [Flash estimate \(Sep\)](#), 30 Sep  
OECD, [Consumer prices release](#), 5 Oct

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 1.3% in June compared with a year ago. This was lower than the increase of 2.7% in May. Average weekly earnings excluding bonuses were 1.6% higher in the three months to June compared with a year ago, down from a rise of 1.8% in May.

#### Average Earnings, Whole Economy



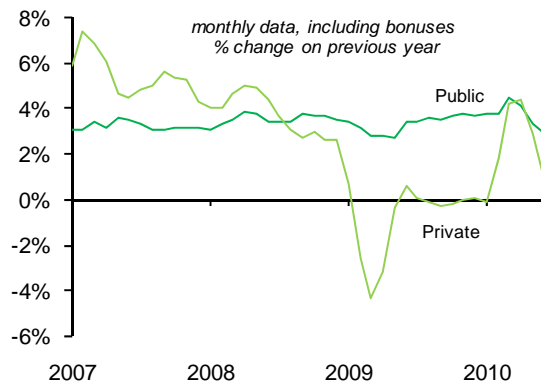
#### Average Earnings, Including Bonuses

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

	Private	Public	Manuf.	Serv.	Total
2007 Jun	4.5	3.5	3.4	4.5	4.4
2008 Jun	4.4	3.4	4.2	4.2	4.2
2009 Jun	0.6	3.4	0.8	1.5	1.2
2010 Jan	-0.1	3.8	3.2	0.5	0.9
Feb	1.8	3.8	4.3	2.0	2.5
Mar	4.2	4.5	6.1	4.1	4.3
Apr	4.4	4.1	5.6	4.4	4.1
May	2.9	3.3	4.9	2.9	2.7
Jun	0.8	2.9	2.9	1.3	1.3

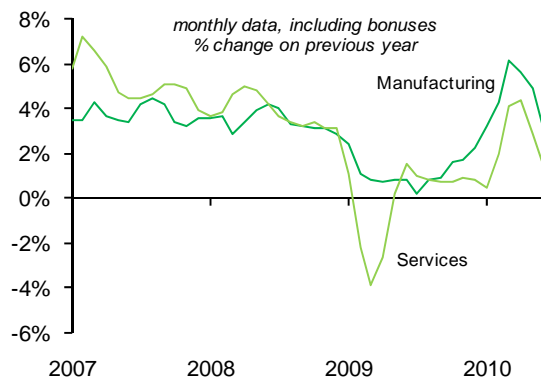
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 0.8% in June, compared with an increase of 2.9% in the public sector. Excluding financial services, public sector earnings rose by 1.4%.
- Average weekly earnings (including bonuses) in June in the public sector were £470 compared with £451 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 0.9% decrease.

#### Average Earnings in Services and Manufacturing

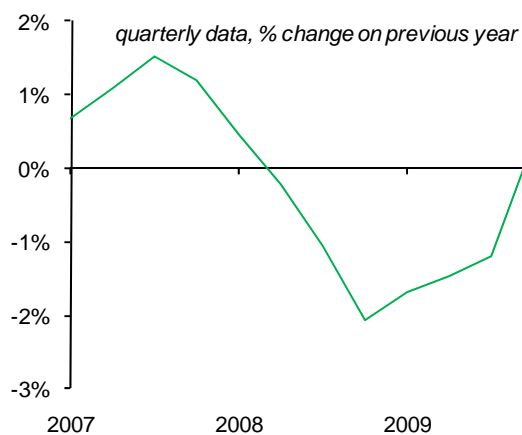


- Average total pay growth (including bonuses) in the manufacturing sector was 2.9% in June, compared with 1.3% in the services sector.
- Average weekly earnings (including bonuses) in June in the manufacturing sector were £519 compared with £442 in the services sector.
- In 2009, headline (including bonuses) earnings in the services sector averaged a decrease of 0.2% compared with a 1.2% increase in the manufacturing sector.

## C1: Employment

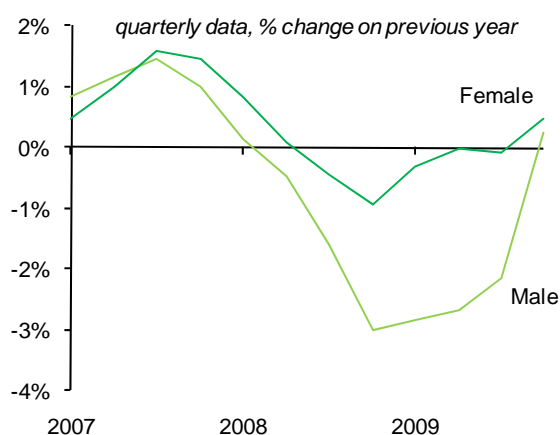
Total employment in the three months to June 2010 was 104,000 (0.4%) higher than a year earlier and 184,000 (0.6%) higher than the previous quarter.

### Total employment



- Employment is 1.8% lower than its peak of 29.6 million in April 2008.
- Over the past year, employment among 16-24 year olds has fallen by 2.3%. This is more than any other age group (see table below).
- Employment of those aged 65 and over has increased by 13.1% over the last year.

### Male and female employment



- Male employment was 15.5 million in the three months to June 2010, compared with female employment of 13.5 million.
- Over the past year, male employment has increased by 0.2% while female employment increased by 0.5%.
- Full-time employment has fallen by 0.8% over the past year while part-time employment has increased by 3.5%.

### Employment by age

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

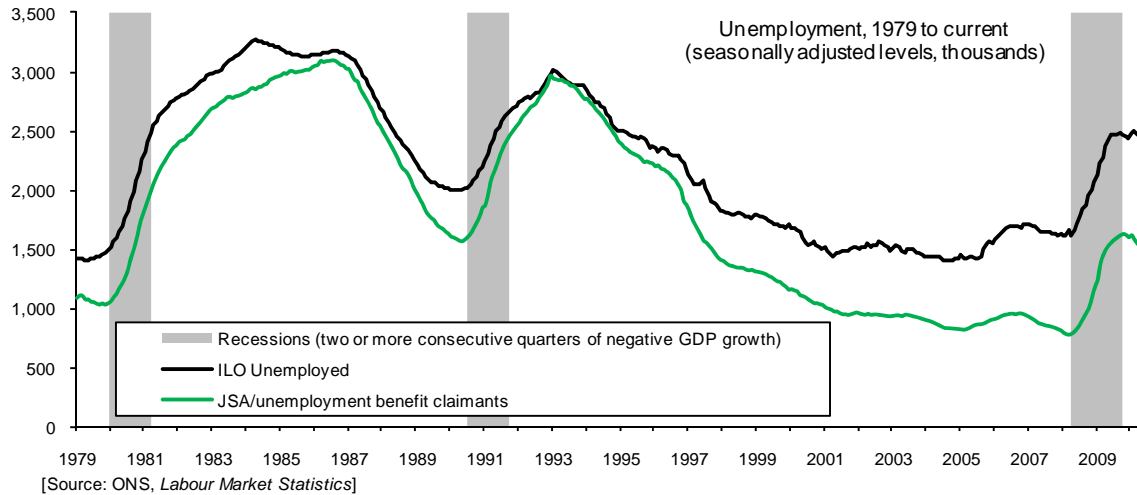
	Total	16-24	25-49	50-64	65+
May-08	29,529	4,198	17,409	7,229	694
May-09	28,919	3,911	17,062	7,218	727
Aug-09	28,903	3,826	17,095	7,230	753
Nov-09	28,903	3,782	17,138	7,213	770
Feb-10	28,839	3,759	17,046	7,251	782
May-10	29,023	3,820	17,139	7,240	823
% change on previous 3 months	+0.6	+1.6	+0.5	-0.2	+5.2
% change on previous year	+0.4	-2.3	+0.5	+0.3	+13.1

Source: ONS

## 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 April to June 2010 was 2,457,000 (7.8% of all economically active) – down by 49,000 from the previous quarter (UK, seasonally adjusted).**

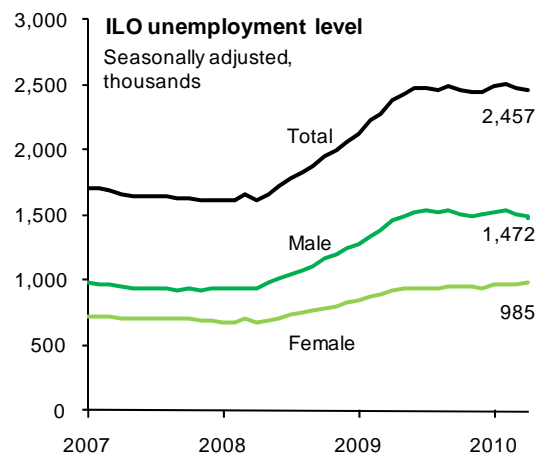


### ILO unemployment (period Apr-Jun 2010)

- The number of people unemployed for more than 12 months stood at 796,000, a year-on-year increase of 248,000;
- The unemployment level among 16- to 24-year-olds was 920,000, 19.4% of the economically active population in the age group (see table below).

### Jobseeker's Allowance (JSA) claimant count

The seasonally adjusted monthly JSA claimant count decreased by 3,800 between June and July 2010 to 1,461,200.



### ILO Unemployment in the UK

seasonally adjusted

	Total		16 to 24		25 to 49		50 to 64		65 and over	
	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)
Apr-Jun 2005	1,435	4.8	610	12.8	619	3.5	196	2.8	11	1.8
Apr-Jun 2006	1,682	5.5	694	14.3	753	4.2	221	3.1	14	2.2
Apr-Jun 2007	1,650	5.4	712	14.6	689	3.8	232	3.2	17	2.7
Apr-Jun 2008	1,668	5.3	711	14.5	720	4.0	223	3.0	14	2.0
Apr-Jun 2009	2,433	7.8	925	19.1	1,135	6.2	351	4.6	21	2.8
Jul-Sep 2009	2,465	7.9	937	19.7	1,154	6.3	350	4.6	25	3.2
Oct-Dec 2009	2,452	7.8	922	19.6	1,135	6.2	372	4.9	23	2.9
Jan-Mar 2010	2,506	8.0	937	20.0	1,177	6.5	367	4.8	25	3.1
<b>Apr-Jun 2010</b>	<b>2,457</b>	<b>7.8</b>	<b>920</b>	<b>19.4</b>	<b>1,146</b>	<b>6.3</b>	<b>372</b>	<b>4.9</b>	<b>19</b>	<b>2.2</b>
% change on quarter	-2.0		-1.8		-2.6		+1.4		-24.0	
% change on year	+1.0		-0.5		+1.0		+6.0		-9.5	

Source: ONS, Labour Market Statistics.

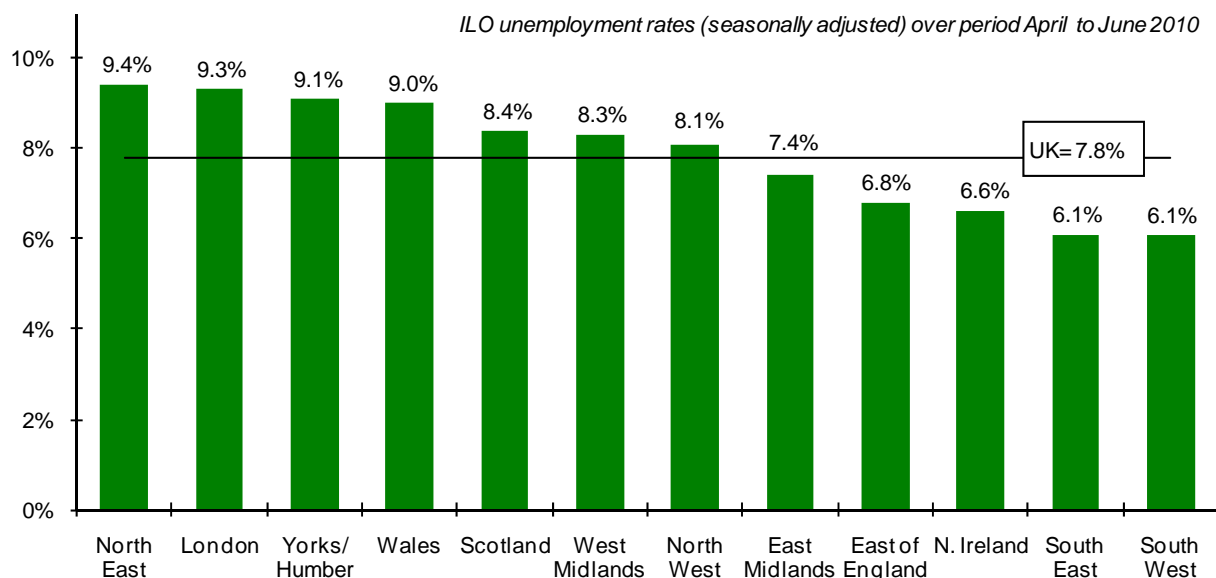
Notes: Rates are percentages of economically active in the relevant age group. Levels might not sum due to rounding.

**Contact:** Roderick McInnes, x3793 **Updates:** ONS, [Labour Market Statistics](#), 15 Sep

### C3: Unemployment: Regional

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).

- Over the period April to June 2010 the North East had the highest unemployment rate, 9.4% of the economically active population. The lowest rate over the same period was 6.1%, in the South East and South West.



- Seven regions have seen falls in their unemployment level since the previous quarter. The largest falls were in the West Midlands and the North West (see table below).
- Over the year, four regions have seen a fall in their unemployment level. The biggest falls were in the West Midlands (down by 66,000) and the North West (down by 16,000).
- The seasonally adjusted JSA claimant count fell in most regions in July 2010 compared with the previous month. It was unchanged in the North East and rose in the East of England, Scotland and Northern Ireland.

#### Key regional labour market statistics *seasonally adjusted*

	ILO unemployment				JSA claimant count	
	Apr - June 2010		Change in level		July 2010	
	Level (000s)	Rate (%)(a)	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	120	9.4	+1	-1	79.9	0.0
North West	276	8.1	-20	-16	179.2	-1.1
Yorkshire & Humber	244	9.1	-15	+11	142.9	-1.1
East Midlands	170	7.4	+3	+1	98.6	-0.7
West Midlands	221	8.3	-27	-66	159.4	-1.1
East of England	203	6.8	+7	+10	108.8	+0.3
London	383	9.3	+12	+24	213.2	-0.6
South East	268	6.1	-13	+10	135.1	-1.4
South West	165	6.1	-1	-5	80.9	-0.3
Wales	130	9.0	-4	+19	71.0	-0.3
Scotland	223	8.4	+7	+34	135.4	+1.7
Northern Ireland	55	6.6	-1	+3	56.8	+0.8

Source: ONS, *Labour Market Statistics*

Note: (a) Rates are percentages of economically active population in the region.

**Contact:** Roderick McInnes, x3793      **Update:** ONS, [Labour Market Statistics](#), 15 Sep



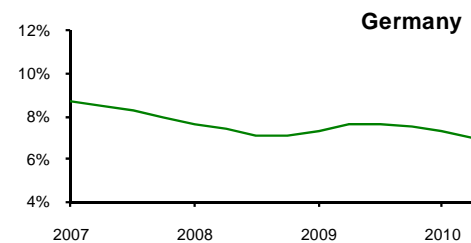
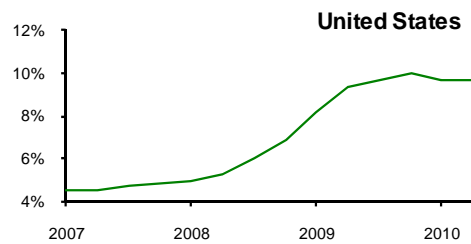
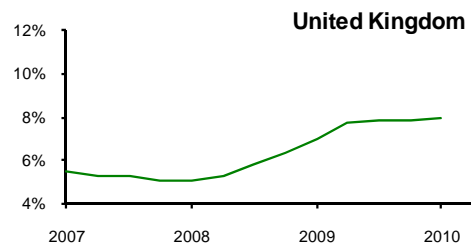
## C4: Unemployment: International Comparisons

The OECD produces harmonised unemployment rates for OECD members based on the ILO definition of unemployment.

- Using harmonised definitions, the UK unemployment rate in Q1 2010 (the latest quarter for which all data are available) was 7.9%, below the Eurozone rate (9.9%) and below the G7 and OECD rates (8.3% and 8.7% respectively).

(The ONS headline estimate of ILO unemployment in the UK for Q1 2010 was 8.0%. This measure is not directly comparable with OECD harmonised rates.)

- Between Q2 2009 and Q2 2010 Germany saw a 0.6 percentage-point fall in its unemployment rate (from 7.6% to 7.0%); Canada was the other G7 country to see a fall (-0.4 percentage points). The US unemployment rate rose by 0.4 percentage points over the same period.
- Outside the G7, Spain has the highest harmonised unemployment rate among the 31 OECD member states (19.8% in Q2 2010), having risen particularly sharply over the last three years (up from 8.0% in Q2 2007). The Irish Republic has also seen a sharp rise over the same period (up from 4.6% to 13.1%). This compares with a 2.9 percentage point rise in unemployment in the OECD as a whole (from 5.7% to 8.6%) and a 2.5 percentage point rise in the Eurozone (from 7.5% to 10.0%) over the same period.
- The most recent forecasts published by the OECD ([Economic Outlook no. 87, May 2010](#)) suggested the UK unemployment rate would be 8.1% in 2010 and 7.9% in 2011. The respective forecasts for the eurozone were 10.1% and 10.1%, and for the OECD as a whole 8.5% and 8.2%.



### Unemployment

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

	2007	2008			2009				2010				
		2008	2009	Q1	Q2	Q3	Q4	Q1	Q2				
Canada	6.0	6.1	8.3	5.9	6.0	6.1	6.5	7.8	8.4	8.5	8.4	8.2	8.0
France	8.4	7.8	9.4	7.6	7.7	7.8	8.2	9.0	9.4	9.6	9.8	9.9	9.9
Germany	8.4	7.3	7.5	7.6	7.4	7.1	7.1	7.3	7.6	7.6	7.5	7.3	7.0
Italy	6.2	6.7	7.8	6.5	6.8	6.7	6.9	7.4	7.6	8.0	8.3	8.4	8.6
Japan	3.9	4.0	5.1	3.9	4.0	4.0	4.1	4.5	5.1	5.4	5.2	4.9	5.2
UK	5.3	5.6	7.6	5.1	5.3	5.8	6.3	7.0	7.7	7.8	7.8	7.9	..
USA	4.6	5.8	9.3	5.0	5.3	6.0	6.9	8.2	9.3	9.7	10.0	9.7	9.7
Eurozone	7.5	7.6	9.4	7.2	7.4	7.6	8.0	8.8	9.3	9.7	9.8	9.9	10.0
G7	5.5	5.9	8.0	5.4	5.6	6.0	6.5	7.3	8.1	8.3	8.5	8.3	8.3
OECD	5.8	6.1	8.3	5.7	5.8	6.2	6.7	7.6	8.3	8.6	8.7	8.7	8.6

Source: OECD, Harmonised Unemployment Rates, August 2010

Contact: Roderick McInnes, x3793

Updates:

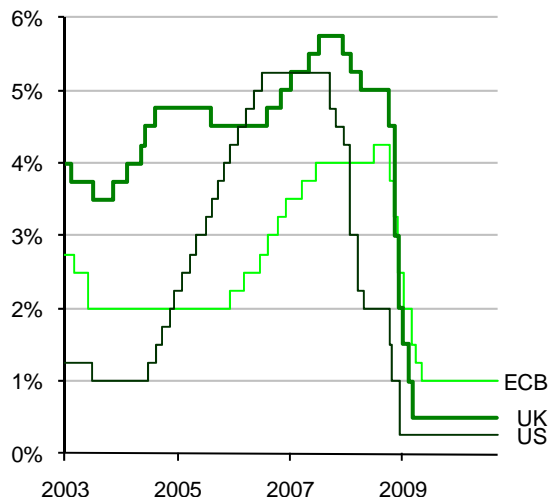
OECD, [Harmonised Unemployment Rates](#), Sep  
OECD, [Economic Outlook](#), Dec

## 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

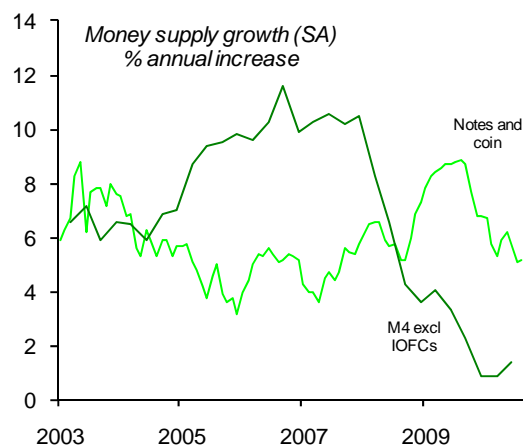
Source: Bank of England

- 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 May 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 1.4% in Q2 2010, up from 0.9% in Q1. This was the second consecutive quarterly rise since the record low of 0.7% in Q4 2009.
- The value of notes and coins in circulation outside the Bank of England rose by 5.2% in the year to August 2010.

**Contact:** Adam Mellows-Facer, x4904    **Updates:** Monetary policy: 9 Sep(UK) 7 Oct (ECB) 21 Sep (US)  
Bank of England [Monetary & Financial Stats](#), 29 Sep

## D2: Public Finances

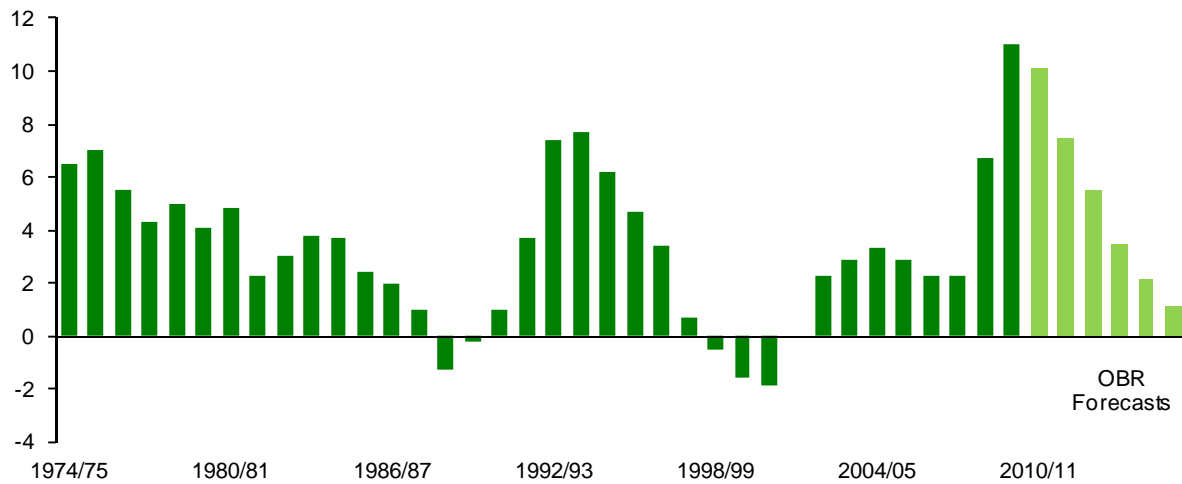
The newly-created Office for Budget Responsibility (OBR) forecasts that public borrowing will be £149 billion in 2010/11, equivalent to 10.1% of GDP.

- The Government borrowed £154.7 billion in 2009/10 (11.0% of GDP). Over the first four months of 2010/11, borrowing was £44.9 billion, £2.6 billion lower than the same period in 2009/10.
- The OBR's Budget forecast for borrowing in 2010/11 is £149 billion. The OBR forecast that government debt will be £932 billion in 2010/11.
- These figures exclude the effect of government intervention in the banking industry.

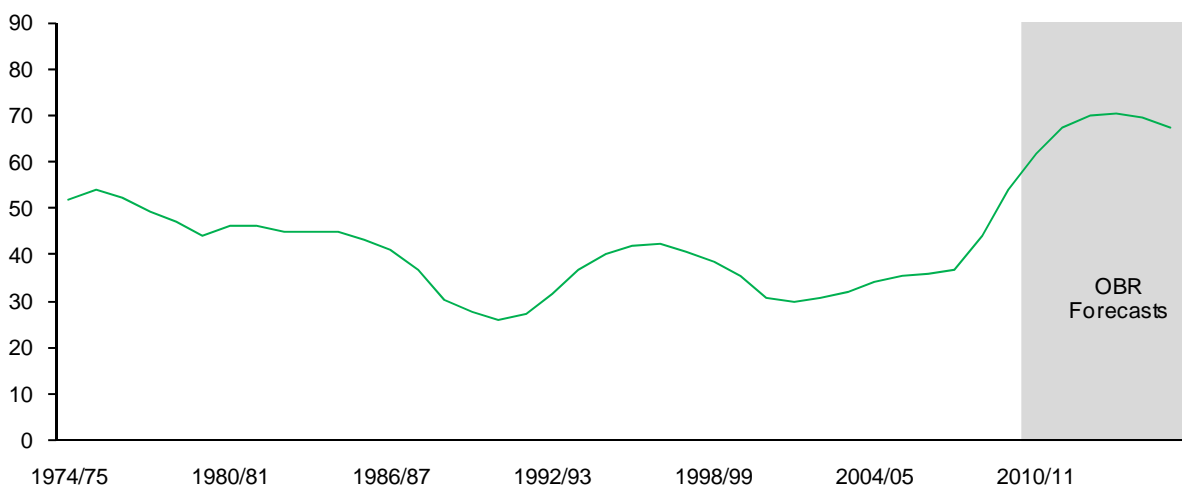
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	617	44.1
2009/10	155	11.0	772	53.9
2010/11	149	10.1	932	61.9
2011/12	116	7.5	1,059	67.2
2012/13	89	5.5	1,162	69.8
2013/14	60	3.5	1,235	70.3
2014/15	37	2.1	1,284	69.4
2015/16	20	1.1	1,316	67.4

Source: ONS, OBR

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



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



Contact: Dominic Webb, x4324

Update: ONS, [Public sector finances](#), 21 Sep

### 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 recently hit an all-time high of over \$1250/ounce in mid-June 2010.

*Data from Friday 3 September 2010*

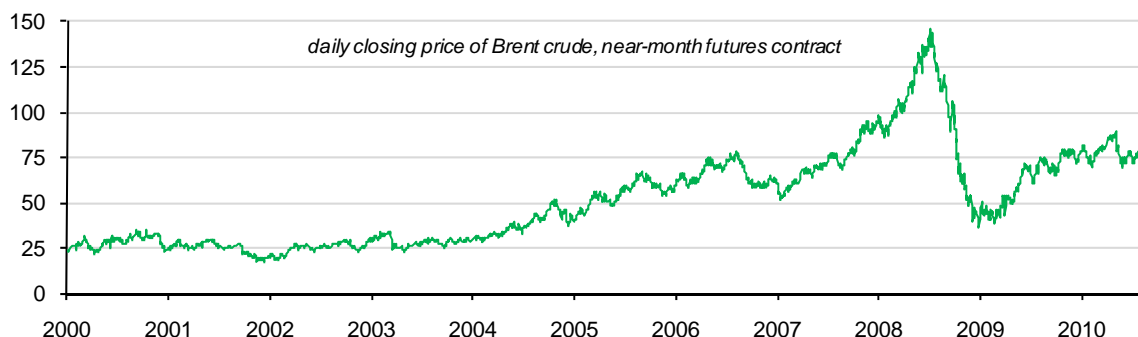
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
06 Sep 2010	5,439.2	76.9	1,248.5
%change over:			
1-month	+1%	-7%	+6%
12-months	+13%	+15%	+28%
%change from:			
cyclical peak	-19%	-47%	-0.7%
date	15 Jun '07	03 Jul '08	21 Jun '10
cyclical trough	+55%	+111%	+76%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



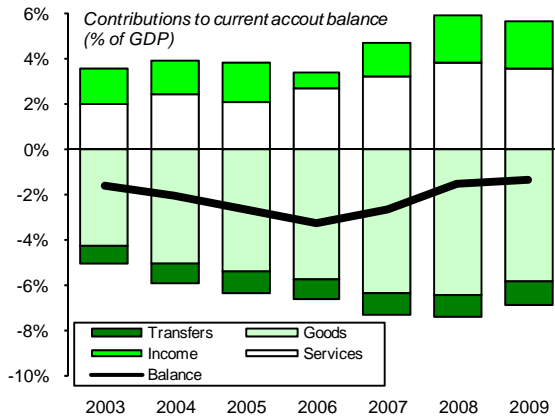
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2009 was £15.5 billion, equivalent to -1.1% of GDP. The surplus on income widened between 2008 and 2009 while on services it narrowed. The deficit in goods also narrowed, resulting in the current account deficit narrowing in 2009 compared with 2008.

### Current Account



- On a **quarterly** basis, the current account deficit was estimated at £9.6 billion in Q1 2010, widening from a Q4 2009 surplus of £0.5 billion. Between Q4 2009 and Q1 2010 the surplus on services narrowed while the deficit on goods widened.
- The **annual** current account deficit with EU27 countries in 2009 was £14.4 billion, compared with a deficit with non-EU countries of £1.1 billion. On a **quarterly** basis, the deficit with EU27 countries was £8.8 billion in Q1 2010 (£3.9 billion deficit in Q4 2009). With non-EU countries, the current account was in deficit by £0.9 billion in Q1 2010 (£4.4 billion surplus in Q4 2009).

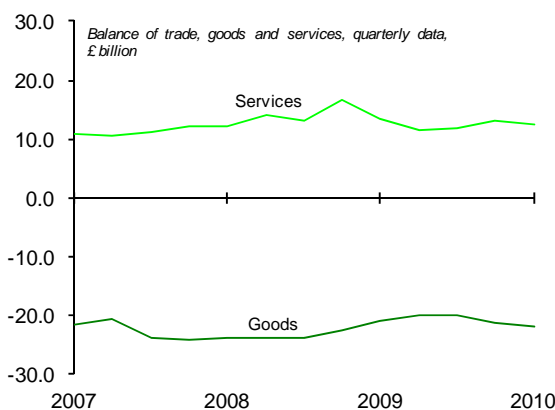
### Current Account Balances

£ millions; seasonally adjusted

	Goods		Balance	Services	Goods and Services	Income	Transfers	Current Account Balance
	Exports	Imports		Balance	Balance			
2007	-68,789	24,611	-89,754	46,798	-42,956	20,020	-13,546	-36,482
2008	-77,399	31,005	-93,116	55,356	-37,760	28,035	-14,051	-23,776
2009	-87,425	36,464	-81,789	49,852	-32,023	31,282	-14,765	-15,506
2008 Q1	-20,143	8,559	-21,113	13,134	-7,844	8,052	-3,781	-3,573
Q2	-20,845	8,956	-19,869	11,606	-8,362	2,821	-3,996	-9,537
Q3	-20,094	9,112	-19,768	12,031	-7,790	8,507	-3,634	-2,917
Q4	-23,187	9,345	-21,039	13,081	-8,027	11,902	-3,354	521
2010 Q1	-23,299	9,051	-21,854	12,524	-9,133	3,842	-4,337	-9,628

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 June was £7.4 billion, narrower than the May deficit of £8.0 billion.
- The monthly trade surplus on services was an estimated £4.1 billion in June, down from the May surplus of £4.2 billion.
- The overall monthly deficit on goods and services combined in June was £3.3 billion, down from £3.8 billion in May.
- The goods deficit with the EU27 was £3.1 billion in June (compared with £3.5 billion in May), while the deficit with non-EU countries was £4.3 billion (compared with £4.5 billion in May).

Contact: Grahame Allen, x3977

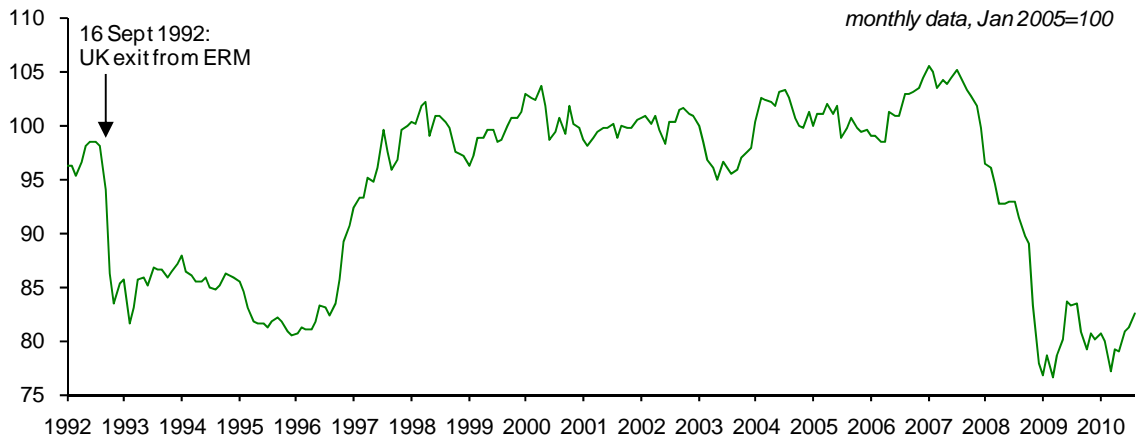
Updates: ONS, [UK Trade](#), 9 Sep;  
ONS, [UK Balance of Payments](#), 28 Sep

## 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).

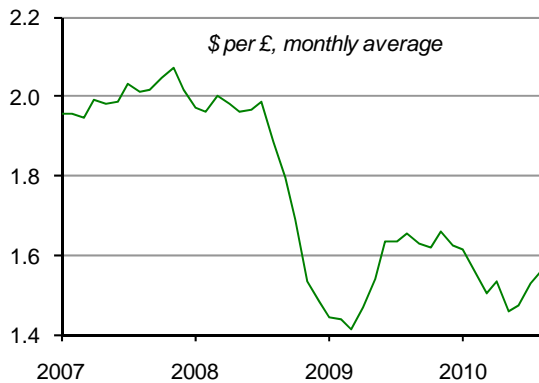
The SERI rose 1.6% in August 2010, building on rises in June and July. Compared with last year, the SERI was down 1.1%. It is now 7.6% above its March 2009 level, when it was at its lowest point since 1980 (when the series began), while being 21.5% down from its July 2007 peak.

### Sterling Exchange Rate Index (SERI)



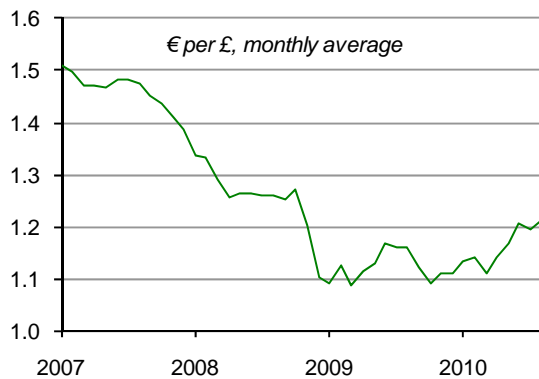
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- In August, the pound continued to strengthen against the dollar. At the 2 September market close the pound stood at \$1.54 dollars.
- Sterling rose against the euro in May and June, amid concerns over Greece and other eurozone economies. It fell slightly against the euro in July, but recovered to June's level (€1.21) in August.
- At the 2 September market close the pound stood at €1.20. This compares with an all-time low of €1.02 (on 30 December 2008), and a launch rate of €1.48 on 31 December 1998.

### €/£ Exchange Rate



### Sterling Exchange Rates

average rates in period and % changes

		US Dollar (\$)		Euro (€)	
		% change		% change	
		Rate	on year	Rate	on year
2008		1.85	-7.5%	1.26	-13.9%
2009		1.57	-15.5%	1.12	-10.8%
2009	Aug	1.65	-12.4%	1.16	-8.1%
2010	May	1.46	-5.2%	1.17	3.5%
	Jun	1.48	-9.8%	1.21	3.4%
	Jul	1.53	-6.5%	1.20	2.9%
	Aug	1.57	-5.3%	1.21	4.6%

Source: Bank of England, Bankstats database

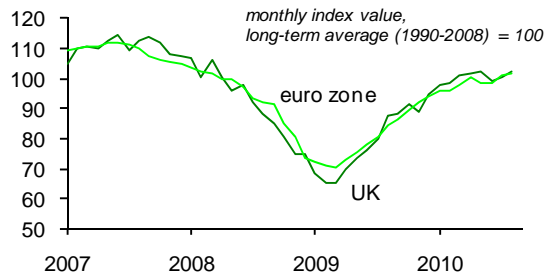
Contact: Ian Townsend, x2042

Updates: Financial Times, [sterling exchange rates](#) (daily)  
Bank of England, [SERI & monthly rates](#), 2 Oct

## 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

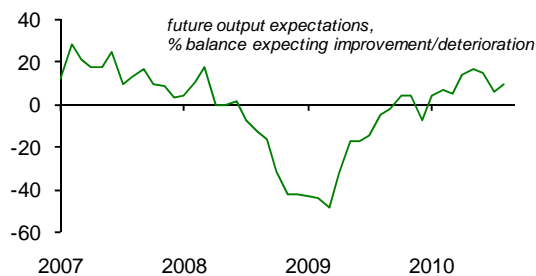


	UK Index	monthly change	change on year ago
2008 Aug	88.6	...	...
2009 Aug	87.7	...	...
2010 Jun	99.4	-3.0	+23.5
Jul	100.8	+1.4	+21.0
Aug	102.3	+1.5	+14.6

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 rose 1.5 points in August to stand almost 15 points higher than a year ago.

### CBI Industrial Trends Survey



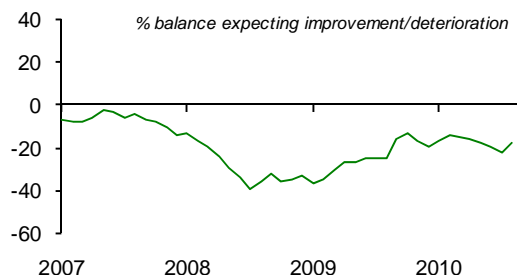
balance (as a %) of those expecting an improvement minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2008 Aug	-13	...	...
2009 Aug	-5	...	...
2010 Jun	+15	-2	+32
Jul	+6	-9	+20
Aug	+10	+4	+15

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in August were +10% of firms expecting output to rise rather than fall over the next three months. This was up 4 points on July's +6%, and 15 points higher than a year ago.

### 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 Aug	-36	...	...
2009 Aug	-25	...	...
2010 Jun	-19	-1	+6
Jul	-22	-3	+3
Aug	-18	+4	+7

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.
- Overall confidence rose 4 points in August, and is 7 points higher than it was a year ago.

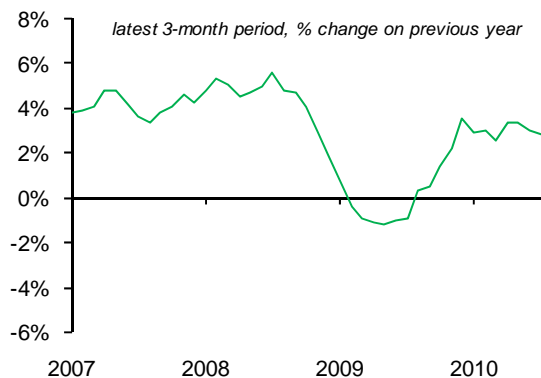
**Contact:** Ian Townsend, x2042

**Update:** CBI, [Industrial Trends](#), 16 Sep  
EC, [Economic Sentiment Indicator](#), 29 Sep  
GfK NOP, [Consumer Confidence](#), 30 Sep

## F2: Retail Sales

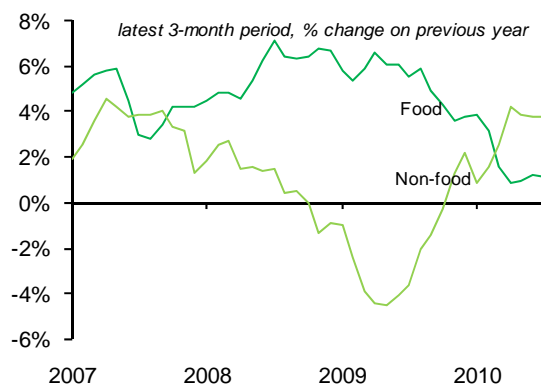
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI; however, this page only uses data and information from the ONS.

### Value of Retail Sales



- The seasonally-adjusted value of retail sales in the three months to July was 2.8%, the second consecutive fall.
- The value of retail sales in July alone was up by 1.1% compared with June. That compares with no change between May and June.
- The estimated total value of sales in July was £24.9 billion (non-seasonally-adjusted)

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



- The value of sales in food stores in the three months to July was 1.1% higher than a year ago, remaining close to record low levels.
- By contrast, the value of sales in non-food stores in the three months to July was 3.8% higher than a year ago
- Sales in household goods stores were 2.1% higher than a year ago.
- Sales in clothing and footwear stores were up by 4.0% in the three months to June.

### Value of Retail Sales

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

	Food Stores	Non-Food Stores				All retailing total
		Clothing & Footwear	Household goods	Other	Total	
2008	6.0	0.3	-2.2	6.1	0.9	<b>4.1</b>
2009	5.2	0.8	-5.1	-3.4	-1.8	<b>0.6</b>
2010 Mar	1.6	4.0	0.3	0.8	2.5	<b>2.6</b>
Apr	0.9	5.8	3.8	1.8	4.2	<b>3.4</b>
May	1.0	5.6	3.5	1.2	3.9	<b>3.4</b>
Jun	1.2	5.5	2.7	0.4	3.8	<b>3.0</b>
Jul	1.1	4.0	2.1	1.9	3.8	<b>2.8</b>

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



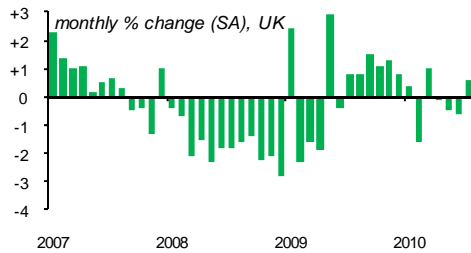
### F3: Housing Market

House prices on the Nationwide index fell by 0.9% in August following a 0.5% decline in July. Prices were 3.9% higher in August compared with a year ago. Contrastingly, the Halifax index rose by 0.6% in July 2010, following a 0.6% decline in June. By this measure, the year-on-year rate of increase was 4.8% in July, down from 5.0% in June.

Numbers of mortgage approvals and housing starts have recovered since the recession but still remain well below pre-recession levels.

#### House price indices

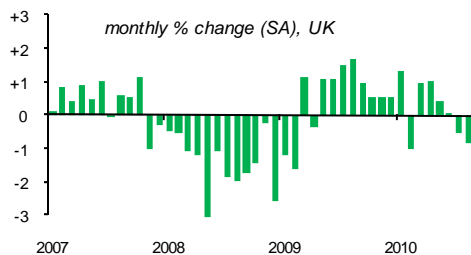
##### Halifax house price index



Latest monthly data  
UK, seasonally adjusted

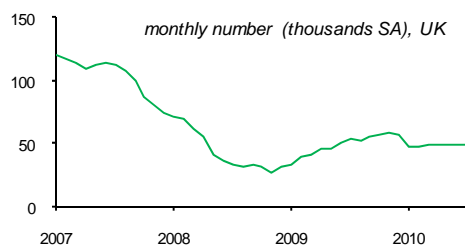
	Halifax	Nationwide
Latest data	Jul-10	Aug-10
Change in month	+0.6%	-0.9%
Change in year	+4.8%	+3.9%
Peak date	Aug-07	Jul-07
Change since peak	-16.1%	-9.0%
Trough date	Apr-09	Feb-09
Change since trough	+8.3%	+10.4%

##### Nationwide house price index



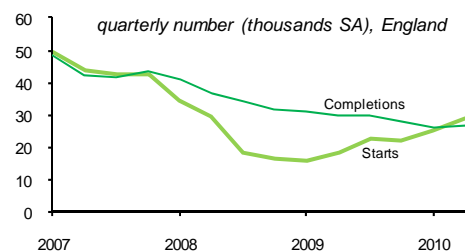
- The recovery in house prices since early 2009 has stalled, with recent data showing year-on-year growth slowing on both the Halifax and Nationwide measures.
- There is considerable regional variation. In Q2 2010 prices fell by 5% in Northern Ireland but rose by 13% in London and the South West compared with a year earlier (Nationwide data).

#### 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 48,722 mortgage approvals in July 2010, with numbers remaining relatively low following a sharp fall in January.

#### House-building



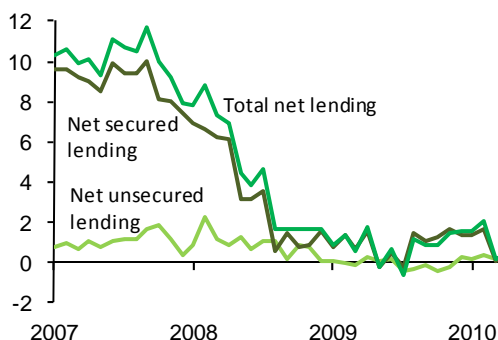
- There were 28,590 house building starts in England in Q2 2010, up from 25,300 in Q1 2010. This is 10,000 higher than the figure for Q2 2009, but still only just over half the 50,000 starts in Q1 2007.
- The number of dwelling completions rose slightly in Q2 2010, after falling in each of the previous nine quarters, but is still almost 40% lower than they were three years ago.

**Contact:** Daniel Harari, x2464

**Updates:** Halifax [House Price Index](#), early Sep;  
Nationwide [House Price Index](#), end Sep;  
Bank of England, [Lending to Individuals](#), 29 Sep;  
DCLG, [House-building](#), 18 Nov

## F4: Household debt

### Monthly net lending, £bn



Source: Bank of England

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

- Total net lending to individuals grew by £0.3 billion in July. This compares with an increase of £0.5 billion in June. Monthly net lending peaked in October 2003 at £12.0 billion.
- Monthly net unsecured lending rose by £0.2 billion in July 2010.
- Monthly net secured lending (mortgages) rose by £0.1 billion in July 2010, down from £0.5 billion in June.

### Net outstanding lending to individuals

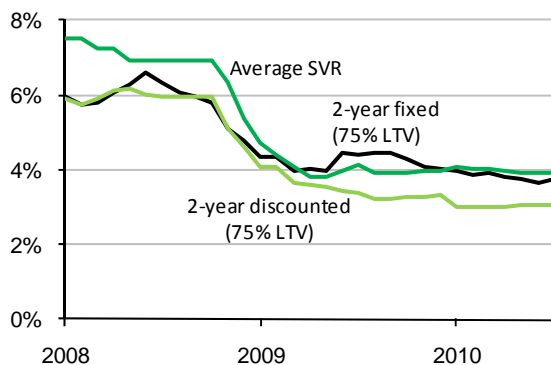
£ billions; seasonally adjusted

	Secured	Unsecured	Total
2006 Jul	1,025	212	1,237
2007 Jul	1,140	215	1,356
2008 Jul	1,218	236	1,454
2009 Jul	1,228	230	1,458
2010 Jan	1,237	225	1,463
Apr	1,238	221	1,459
Jul	1,239	217	1,456

Source: Bank of England, series: LPMVTXK, LPMVZRI, LPMVTXC

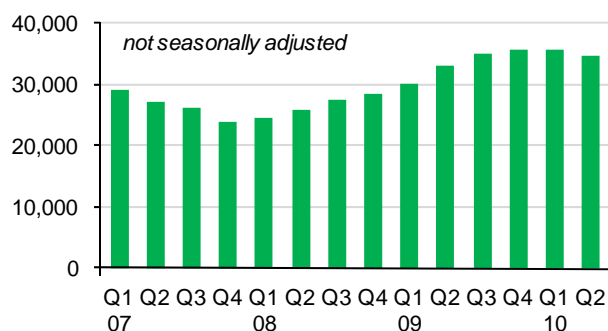
- Total net outstanding lending to individuals was £1,456 billion at the end of July 2010.
- Secured lending (mortgages) is the largest form of lending at £1,239 billion, 85% of total lending outstanding.
- Unsecured lending outstanding (including credit cards) was £217 billion at the end of July 2010.
- Total net outstanding lending was down 0.1% in July compared with a year ago. Secured lending increased by 0.9% in July compared with July 2009, while unsecured lending fell by 5.6%.

### Current average mortgage interest rates



- 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 July was 3.92%, 2.9 percentage points lower than in July 2008.
- The average fixed and discounted rates offered (75% LTV) in July were 3.77% and 3.05% respectively (2.58 and 2.92 percentage points lower than in July 2008).

### Individual insolvencies, England and Wales



Source: Insolvency Service

- Q2 2010 provisional data indicates there were 34,743 individual insolvencies (bankruptcy orders, Individual Voluntary Arrangements (IVAs) or debt relief orders) in England and Wales (not seasonally adjusted), a 5.0% increase on Q2 2009. This was made up of 14,982 bankruptcies, 13,466 IVAs and 6,295 Debt Relief Orders.
- In Scotland in Q2 2010 there were 5,378 individual insolvencies, a fall of 15% on Q2 2009.
- In Northern Ireland in Q2 2010 there were 636 individual insolvencies, a rise of 13.6% on Q2 2009.

**Contact:** Daniel Harari, x2464

**Update:** Bank of England, [Lending to Individuals](#), 29 Sep  
Insolvency Service, [Insolvency Statistics](#), 5 Nov

## 5 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>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</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> (full document 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>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</i>
A4	<b>Output and Employment by Industry</b>	ONS releases: <i>Preliminary GDP estimates</i> ; <i>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</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>Inflation</b>	ONS, <i>Consumer Price Indices</i>
B2	<b>Inflation: International</b>	CPI: OECD, <i>Main Economic Indicators</i> ( <a href="#">link to user defined table</a> ); EU data: Eurostat <a href="#">news release</a> and <a href="#">database</a>
B3	<b>Average Earnings Index</b>	ONS, <i>Average Weekly Earnings</i> and <i>Labour Market Statistics</i>
C1	<b>Employment</b>	ONS, <i>Employment</i> and <i>Labour Market Statistics</i>
C2	<b>Unemployment: National</b>	ONS, <i>Labour Market Statistics</i> release and <i>Labour Market Statistics First Release Historical Supplement</i>
C3	<b>Unemployment: Regional</b>	ONS, <i>Labour Market Statistics</i> and <i>Regional Labour Market Statistics</i>
C4	<b>Unemployment: International Comparisons</b>	Data: OECD, <i>Main Economic Indicators</i> Commentary: OECD, <i>Economic Outlook</i> (full document via <a href="http://www.sourceoecd.org">www.sourceoecd.org</a> )

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> 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> ; Forecasts of budget balance: HM Treasury, <a href="#">Pre-Budget Report</a> , table B2 or <a href="#">Budget Red Book</a> , table C2.
D3	<b>Financial Indicators</b>	<a href="#">Financial Times, Markets Data</a>
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, <a href="#">Bankstats</a> 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>	Bank of England: <a href="#">Lending to Individuals</a> ; Department for Communities and Local Government (DCLG) UK Housing Starts: <a href="#">table 201</a> ; Halifax house price data: <a href="#">housing research page</a> ; Nationwide house price data: <a href="#">data page</a>
F4	<b>Household Debt</b>	Bank of England: <a href="#">Lending to Individuals</a> ; The Insolvency Service: <a href="#">Insolvency Statistics</a>

## 6 Glossary

### Symbols and abbreviations

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

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

**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 (JSA) 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:** 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.

**Current/constant prices:** 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.

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.

**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 do not want a job, those who want a job but have not been seeking work in the last four weeks and those who want a job and are seeking work but not available to start work.

**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 – Real GDP:** Also known as constant price or chained volume measure, this is a measure used to indicate change in the actual quantity of goods and services produced, by adjusting for inflation.

**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.

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

**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, which enable comparisons to be made across countries. The UK's CPI measure uses HICP methodology.

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

**Money supply:** The total amount of money in an economy at a given time.

**The Public Sector Net Borrowing (PSNB):** 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 PSNB. 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 methodology and coverage. For example, the RPI includes housing costs such as mortgage interest payments while the CPI doesn't.

**Seasonally adjusted:** Estimates in which the element of variability due to seasonal influences, which may distort the data, has been removed.

**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 goods and services.

**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 [cont]

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 total 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.

