



# Economic Indicators, December 2010

RESEARCH PAPER 10/80 07 December 2010

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

- Quarterly GDP growth of 0.8% in Q3 was confirmed, with broad gains across all sectors of the economy.
- Consumer spending in Q3 increased by only 0.3%, compared with a 0.7% rise in Q2, while government expenditure increased by 0.4% compared with a 1.0% rise in Q2.
- Exports rose by 2.2% in Q3; with imports increasing by only 0.7%, net trade provided a large positive contribution to overall GDP growth, raising hopes that the economy is starting to rebalance.

This month's articles:

- **Quantitative Easing – how does it work?**
- **Businesses and recession**

Daniel Harari (editor)

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## Research Paper 10/80

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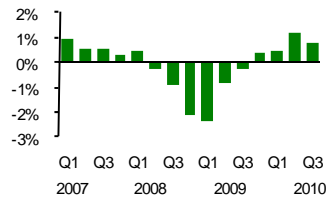
## Summary

Quarterly GDP growth of 0.8% in Q3 was confirmed, with broad gains across all sectors of the economy (see page 4). However, despite the positive GDP figures so far this year the demand outlook is uncertain. Consumer spending in Q3 increased by only 0.3%, compared with a 0.7% rise in Q2, while government expenditure increased by 0.4% compared with a 1.0% rise in Q2. A more positive development was the rise in exports of 2.2% in Q3; with imports increasing by only 0.7%, net trade provided a large positive contribution to overall GDP growth, raising hopes that the economy is starting to rebalance (page 3).

### GDP Growth

page 1

(% change quarter-on-quarter)

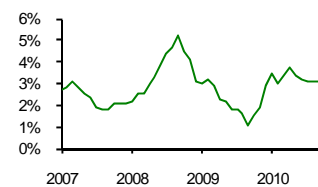


Quarterly GDP growth in Q3 2010 was 0.8%. This followed growth of 1.2% in Q2.

### Inflation (CPI)

page 7

(% change on year ago)

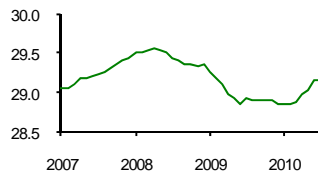


The rate of CPI inflation was 3.2% in the year to October, up from 3.1% in September. Inflation has been at least 3% in every month so far this year.

### Employment

page 10

(total, millions)

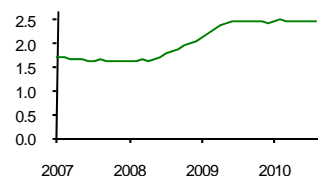


In the three months to September the number of people employed rose by 167,000 to 29.2 million.

### Unemployment

page 11

(total, millions, ILO definition)

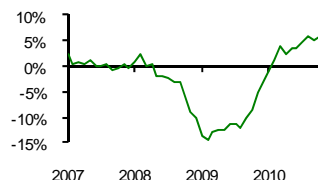


ILO unemployment has remained steady at around 2.5 million over the past year. The unemployment rate was 7.7% in the three months to September.

### Manufacturing Output

page 5

(% change on year ago)



In October, manufacturing output was 5.8% higher than a year ago, continuing the recent period of strong growth in the sector.

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Next issue: 11 January

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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## 2 Quantitative Easing – how does it work?

Quantitative Easing (QE) is designed to boost economic activity. When the policy was first introduced in the UK, the Bank of England believed that there was a substantial risk of inflation undershooting its 2% target (measured by the Consumer Prices Index). Under normal circumstances, monetary policy in the UK operates through the interest rate set by the Monetary Policy Committee (MPC) of the Bank. However, interest rates were reduced to 0.5% in March 2009, leaving little scope for further cuts. With a fall in economic activity, a risk of deflation and conventional monetary policy constrained in this way, the Bank turned to the unconventional policy of QE.

### 2.1 How does QE work?

The Bank of England has the ability to ‘create’ money. Once literally printing money, this now happens electronically. The Bank can then use this money to fund purchases of financial assets. This increased supply of money in the economy should boost spending. For example, if the Bank buys an asset from a pension fund, the pension fund could then use this additional money to buy goods and services – thereby directly boosting demand in the economy – or it could buy other financial assets, thus increasing the prices of these assets and indirectly leading to increased spending.<sup>3</sup>

### 2.2 QE in action

On 5 March 2009, the Bank announced that it would undertake a policy of QE. The Bank said that it would purchase £75 billion of assets using money which it would create.<sup>4</sup> In May 2009, the Bank announced a £50 billion increase in the value of assets it would purchase, taking the total to £125 billion. In August, the figure was increased to £175 billion and in November to £200 billion. Since December 2009, the MPC has voted to leave the amount of QE unchanged.

The UK is not the first country to experiment with QE. The Bank of Japan (BoJ), the originator of modern QE policy, lowered its policy interest rate to zero in February 2001 and then used QE the following month. It only ended both QE and its zero interest rate policy in 2006. Unlike QE policy in the UK, the size of the bond-buying operation became the policy tool used by the BoJ to target the level of private sector banks’ reserves. The BoJ hoped this would unblock banks’ apparent lack of appetite for lending to businesses and individuals.

However, no one economy has embraced the QE like the US. The Federal Reserve, the US Central Bank, has announced it is to undertake a second round of QE (QE2), buying \$600 billion of US government debt (Treasuries) before June 2011. Some have suggested that this total could eventually reach \$1.5 trillion.<sup>5</sup> QE2 follows the Fed’s first round of QE, introduced from early 2009, which saw the Fed purchase \$1.75 trillion of debt in sectors such as housing (where it purchased mortgage-backed securities and the debt of government-sponsored enterprises such as Fannie Mae and Freddie Mac).<sup>6</sup>

### 2.3 Does QE work?

In the US, it has been estimated that should the Fed buy \$1.5 trillion of debt under QE2 this will raise US GDP growth in 2011 by 0.3% compared to economic growth without QE2.<sup>7</sup> However, it is debatable whether QE had a positive impact on the Japanese economy in the

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<sup>3</sup> Bank Of England website: [How Asset Purchases Work](#), 7 December 2010

<sup>4</sup> Bank of England News Release, [Bank of England reduces Bank Rate by 0.5 percentage points to 0.5% and announces £75 billion asset purchase programme](#), 5 March 2009

<sup>5</sup> “The Fed’s big announcement”, *The Economist*, 6 November 2010

<sup>6</sup> “Japan’s sobering experience of quantitative easing”, *The Economist*, 17 October 2009

<sup>7</sup> “Down the slipway”, *The Economist*, 6 November 2010



early 2000s. Although QE coincided with a long period of economic expansion, some commentators suggest that this recovery in economic activity was associated not with an increase in banks' lending to businesses, but instead with businesses' increased spending from their own reserves and day-to-day cash flow.<sup>8</sup>

One thing that is clear is that QE in Japan inflated a 'bond bubble', which, when it burst, destabilised Japan's financial markets, risking the economic recovery. Shigenori Shiratsuka, one of the BoJ's senior economists, concluded that QE could only be a temporary policy response. The use of QE to restore liquidity to financial markets only works in that it buys time for private sector banks to restructure their balance-sheets. Central bank interventions in private markets also risk distorting these same markets and "the longer QE persists, the more such distortions become apparent".<sup>9</sup>

In the UK, the Bank of England suggests that it will be some time before the full impact of QE on the UK economy will be known, but that the MPC will pay "close attention to the growth rate of broad money, the cost and availability of corporate borrowing, measures of inflation and inflation expectations, and developments in nominal spending growth".<sup>10</sup> However, inflation fell to 1.1% in September 2009 but subsequently increased to 3.7% in April 2010, suggesting that QE may have been successful - at least in overcoming the apparent risk of deflation.

There is also some evidence that QE has reduced the cost of long-term borrowing by a percentage point.<sup>11</sup> Although QE may have reduced the cost of borrowing for banks, this has not been passed on to businesses and individuals requiring credit. Criteria for lending, such as the amount of security required, have also become more rigorous. This has been most apparent in the collapse of mortgage approvals due to relatively high mortgage rate differentials (cost of borrowing) and stricter lending criteria employed by mortgage lenders.

## 2.4 More QE in the UK?

With CPI inflation above 3% and a return to economic growth, it is unlikely that the Bank and Chancellor will look to a second round of QE to boost economic activity in the near future (only one member of the MPC is in favour of QE2). When QE was first mooted as a policy option by the previous government, the Conservatives described the policy as a "leap in the dark"<sup>12</sup> and the now Chancellor was quoted as saying it was "the last resort of desperate governments when all other policies have failed".<sup>13</sup>

Grahame Allen  
Economic Policy and Statistics Section

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<sup>8</sup> "Quantitative easing: Lessons from Japan", *Financial Times*, 17 December 2008

<sup>9</sup> "Japan's sobering experience of quantitative easing", *The Economist*, 17 October 2009

<sup>10</sup> Bank Of England website: [Assessing the Impact of Asset Purchases](#), 7 December 2010

<sup>11</sup> M. Joyce et al., [The financial market impact of quantitative easing](#), Bank Working Paper 393, July 2010

<sup>12</sup> "Quantitative easing is a 'leap in the dark' ", Conservative Party News story, 5 March 2009

<sup>13</sup> "No plan to print money", BBC website, 8 January 2009

### 3 Businesses and recession

Recent weeks have seen the publication of various official business statistics publications, including ONS *Business Demography 2009* and BIS *Small and Medium-sized Enterprise (SME) Statistics 2009*. Owing to the time lags in producing these statistics, it is only now that a full picture of the impact of the recession on UK businesses is becoming clear.

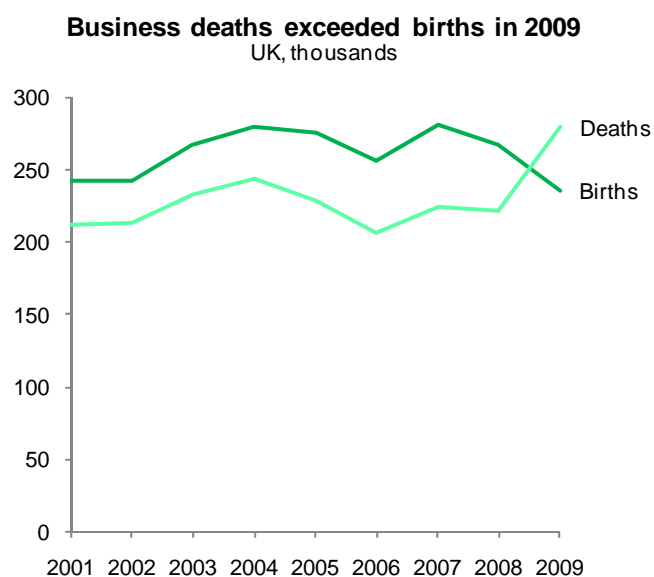
#### 3.1 Business start-up and failures

ONS has published *Business Demography* statistics back to 2001. Business deaths (279,000) exceeded business births (236,000) for the first time in 2009.

There were more business deaths than births in each region of the UK in 2009. However, this does not mean that the recession had an even impact across the country. London had the highest business death rate, but also the highest birth rate. Conversely, Northern Ireland had the lowest business death and birth rates.

These data are also available for local authority areas. 23 areas, concentrated in London and Scotland, had more business births than deaths in 2009. Chief among these was the City of London, which saw 330 more business births than deaths over the year.

There was also considerable variation by industry. There were more births than deaths in 2009 in three broad sectors: professional, scientific & technical; education; and health. Business administration and support services had both the highest birth rate and the highest death rate. The lowest birth rate was recorded in production (manufacturing plus mining/quarrying and utility supply).



#### 3.2 Survival rates

*Business Demography* statistics also includes business survival rates. A business born in 2004 had a less than 50% chance of still existing five years later. The one year survival rate of businesses born in 2008 was the lowest recorded. However, despite the recession, 92% of new businesses in 2008 lasted a full year.

There was considerable variation in the one-year survival rate by region: 81% of 2008 business births in Northern Ireland survived a year, compared with 94% in Wales.

#### Business survival rates: UK

	Percentage survival by birth year				
	2004	2005	2006	2007	2008
One year	94.2	94.3	96.5	95.5	92.0
Two year	78.7	79.8	80.7	81.2	
Three year	65.3	64.7	66.2		
Four year	54.7	53.9			
Five year	46.8				

Source: ONS *Business Demography 2009*

The lowest one-year survival rates by industry were in finance and insurance. Just 75% of new companies in the sector in 2008 survived a year. That compares with 96% in education.

Looking over a longer time period, just 35% of hotel and catering companies born in 2004 were still in operation five years later. That compares with 59% in the health sector.

### 3.3 The importance of small business

One of the overriding themes from BIS over recent months has been the importance of small businesses or Small and Medium-sized Enterprises (SMEs) to economic growth. They have been described as “vital”, “crucial”, “critical” and the “engine of growth”.

Definitions of what constitutes a small business or SME differ. They are variously classified by numbers of employees, turnover or total balance sheet. BIS [SME Statistics](#) defines an SME as an enterprise with fewer than 250 employees. On this definition:

- There were 4.8 million SMEs in the UK at the start of 2009.
- SMEs accounted for 99.9% of all private sector UK enterprises. Small businesses (defined as fewer than 50 employees) accounted for 99.3% of the total.
- The total includes 3.6 million enterprises with no employees: sole proprietorships and partnerships comprising only the self-employed owner-manager(s), and companies comprising only one employee director.
- SMEs employed a total of 13.6 million people, equivalent to 59.8% of private sector employment. Businesses with fewer than 50 employees accounted for 48.2% of private sector employment.
- Combined SME turnover was £1,589 billion, 49.0% of total private sector turnover. At a time when the UK was in recession, SME turnover in 2009 was estimated to be £88 billion (5.8%) higher than in 2008.

#### Sources of business statistics

There are several official business statistics publications. These tend to use different definitions of what constitutes a business.

ONS [Business Demography](#) contains statistics of VAT and/or PAYE registered business births and deaths by year together with business survival rates. These estimates are available by local authority.

ONS [UK Business: Activity, Size and Location](#) contains the most recent available data for stocks of VAT and/or PAYE registered businesses (March 2010), including data by industry, business size and parliamentary constituency.

BIS [Small and Medium-sized Enterprise \(SME\) Statistics](#) contains estimates of the number, employment and turnover of businesses by size. It uses a broad definition of an enterprise, encompassing the smallest businesses.

The ONS [Annual Business Survey](#) (formerly the *Annual Business Inquiry*) enables the production of detailed business statistics by industry and/or local area.

In addition, there are large numbers of small business surveys such as the Federation of Small Business [Voice of Small Business Index](#). Eurostat and the OECD are among the sources for international comparisons.

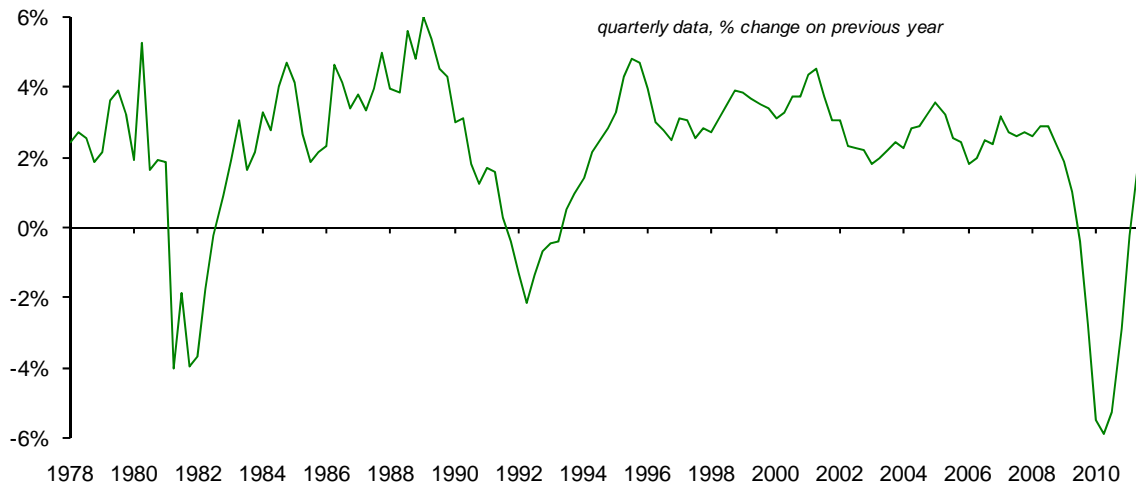
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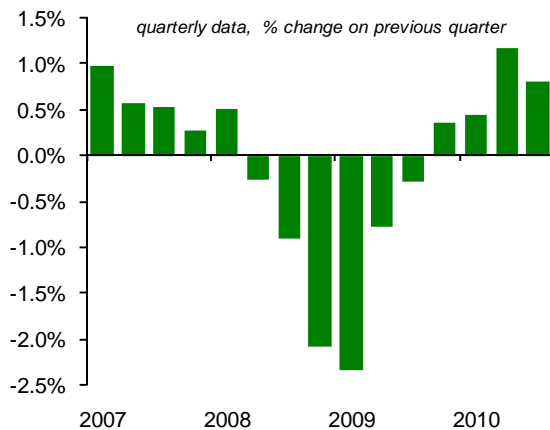
## A1: Gross Domestic Product

The economy grew by an estimated 0.8% in Q3 2010, following growth of 1.2% in Q2 2010. In November 2010, HM Treasury's average of independent economic forecasts of GDP growth for 2010 was 1.7%, and for 2011 was 1.9%. The Office for Budget Responsibility's (OBR) central forecasts from November 2010 are for 1.8% growth in 2010 and 2.1% 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	...	-5.0
2009 Q3	347.4	-3.9	-0.3	-5.4
Q4	351.6	-2.0	0.4	-3.0
2010 Q1	359.3	2.9	0.4	-0.3
Q2	364.1	5.7	1.2	1.7
Q3	367.8	5.9	0.8	2.8

Source: ONS, series: YBHA, ABMI

- The economy grew by an estimated 0.8% in Q3 of 2010, compared with Q2 of 2010. This compares with growth of 1.2% in Q2 2010 compared with Q1 2010.
- 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 Q3 2010, GDP rose by 2.8% compared with the same period a year ago, compared with a 1.7% in Q2 2010, compared with the same period a year ago.
- Total output of the economy fell by (a revised) 6.5% during the recession.

**Contact:** Grahame Allen, x3977

**Updates:** ONS, [UK output, income & expenditure, ONS](#), 22 Dec  
HM Treasury, [Forecasts for the UK Economy](#), 15 Dec

## A2: GDP: International Comparisons

France, Germany and Japan were the first G7 countries to emerge from recession (in Q2 2009), followed by the US, Canada, Italy and the eurozone in Q3 2009, and the UK in Q4 2009.

The UK economy grew 0.8% in Q3 2010, while the US grew 0.5%. Germany grew 0.7% in Q3 (from a record 2.3% in Q2), while the eurozone as a whole grew 0.4%. The G7 grew 0.6%.

### Real GDP, % changes

	2009	change on prev. year					change on prev. quarter				
		09Q3	09Q4	10Q1	10Q2	10Q3	09Q3	09Q4	10Q1	10Q2	10Q3
US	-2.6	-2.7	0.2	2.4	3.0	3.1	0.4	1.2	0.9	0.4	0.5
Japan	-5.2	-4.9	-1.3	4.7	2.7	4.1	-0.4	1.0	1.6	0.4	0.9
UK	-5.0	-5.4	-3.0	-0.3	1.7	2.8	-0.3	0.4	0.4	1.2	0.8
Germany	-4.7	-4.4	-2.0	2.1	3.9	3.9	0.7	0.3	0.6	2.3	0.7
France	-2.6	-2.7	-0.5	1.1	1.6	1.8	0.2	0.6	0.2	0.7	0.4
Eurozone	-4.0	-4.0	-2.0	0.8	1.9	1.9	0.4	0.2	0.3	1.0	0.4
G7	-3.6	-3.6	-0.8	2.2	2.8	3.1	0.2	0.9	0.9	0.7	0.6
OECD	-3.4	-3.4	-0.6	2.4	3.1	..	0.5	0.9	0.8	0.9	..

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

In **October 2010**, the IMF raised their **July forecast** for 2010 world growth by 0.2 points to 4.8%, and lowered their 2011 forecast slightly.

Similarly, UK growth in 2010 was revised up ½ a %-point to 1.7% from 1.2%, with 2011 growth revised down 0.1 of a %-point. The 2010 forecasts were also raised for France (0.2 %-points), Germany (1.9 %-points) and the eurozone (0.7 %-points). The forecast for the US was revised downwards by 0.7 %-point to 2.6%. Japan's growth is expected to be 2.8% this year, up 0.4 %-points.

Among major emerging markets, China's growth forecast was unchanged for both 2010 and 2011 at 10.5% and 0.6% respectively. The forecasts for 2010 growth in were up 0.3 %-points to 9.7%, for India, and up 0.4 %-points to 7.5% for Brazil.

The European Commission's **November forecasts** revised up the May forecast for UK 2010 growth from 1.2% to 1.8%, and for France from 1.3% to 1.6%. Germany's forecast more than tripled (1.2% to 3.7%).

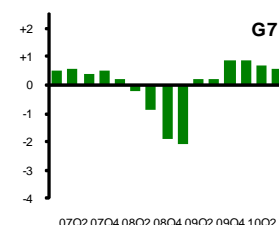
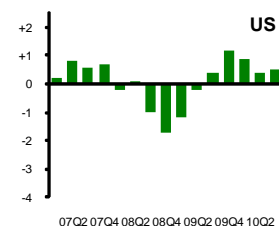
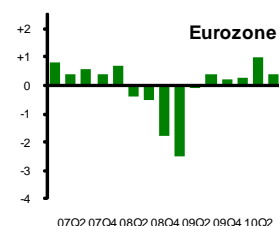
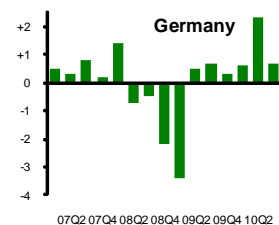
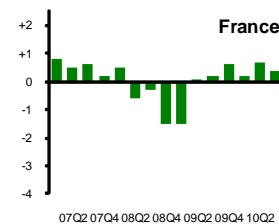
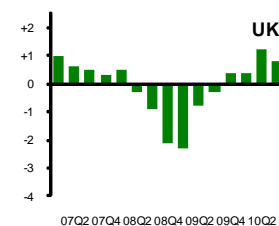
OECD **November forecasts** revised OECD-wide growth up by 0.1 percentage points to 2.8% in 2010 and down by 0.5 percentage points to 2.3% in 2011. UK forecasts were revised up by 0.5 percentage points for 2010, but down by 0.8 percentage points, from 2.5% to 1.7% in 2011. The US also saw significant downward revisions for both 2010 and 2011.

### Real growth forecasts (% changes)

	IMF (Oct)		Oct cf. Jul (% pts)		EC (Nov)	OECD (Nov)			Nov cf. May (% pts)	
	2010	2011	2010	2011		2010	2011	2012	2010	2011
UK	1.7	2.0	+0.5	-0.1	1.8	1.8	1.7	2.0	0.5	-0.8
France	1.6	1.6	+0.2	0.0	1.6	1.6	1.6	2.0	-0.1	-0.5
Germany	3.3	2.0	+1.9	+0.4	3.7	3.5	2.5	2.2	1.6	0.4
Eurozone	1.7	1.5	+0.7	+0.2	1.7	1.7	1.7	2.0	0.5	-0.1
US	2.6	2.3	-0.7	-0.6	2.7	2.7	2.2	3.2	-0.5	-1.0
Japan	2.8	1.5	+0.4	-0.3	3.5	3.7	1.7	1.3	0.7	-0.3
<b>OECD</b>	..	..	..	..	..	<b>2.8</b>	<b>2.3</b>	<b>2.8</b>	0.1	-0.5
China	10.5	9.6	0.0	0.0	..	10.5	9.7	9.7	-0.6	0.0
India	9.7	8.4	+0.3	0.0	..	9.1	8.2	8.5	0.1	0.0
Brazil	7.5	4.1	+0.4	-0.1	..	7.5	4.3	5.0	-1.0	0.0
<b>World</b>	<b>4.8</b>	<b>4.2</b>	<b>+0.2</b>	<b>-0.1</b>	..	..	..	..	..	..

Sources: IMF, WEO Oct/Jul; EC EEF; OECD, Economic Outlook 88, November

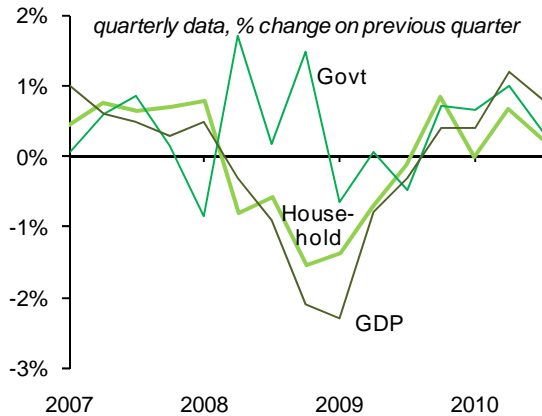
### Quarter-on-quarter growth rates



### A3: Components of GDP

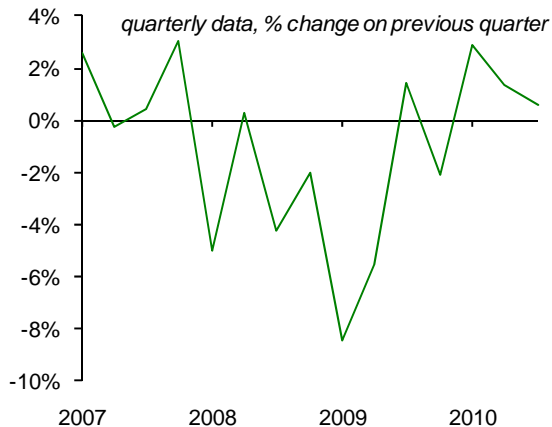
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 61% of the total in 2009. Government consumption accounted for 23% and gross fixed capital formation for 14%.

#### Household consumption, government consumption and GDP



- In Q3, 2010, household consumption increased by 0.3%. Government consumption increased by 0.4%.
- Over the past year, government consumption has increased by 2.8% compared with 1.8% for household consumption.
- Exports increased by more than imports in Q3, 2010. Net trade accounted for half of the growth seen in the quarter.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- GFCF growth has fluctuated considerably in recent quarters. In Q3, 2010 GFCF grew by 0.6% compared with growth of 1.4% in Q2.

#### 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%	1.0%	-15.1%	-11.1%	-12.3%	-5.0%
2009 Q4	0.8%	0.7%	-2.0%	3.7%	4.5%	0.4%
2010 Q1	0.0%	0.7%	2.9%	-0.7%	2.0%	0.4%
2010 Q2	0.7%	1.0%	1.4%	2.3%	2.4%	1.2%
2010 Q3	0.3%	0.4%	0.6%	2.2%	0.7%	0.8%

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

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

Update: ONS, [UK output, income and expenditure](#), 25 Feb

## 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 82% of total workforce jobs (June 2010).

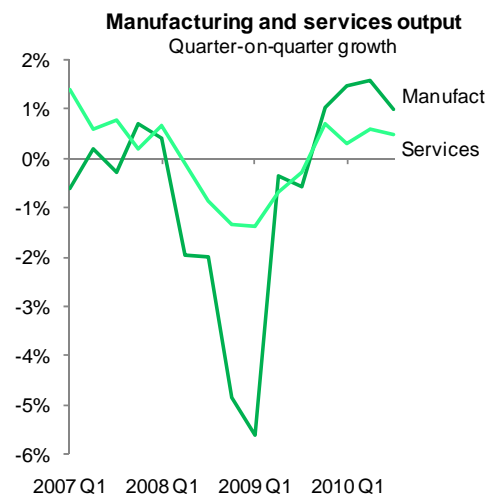
### Output

#### 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	-10.8%	-10.5%	-3.3%	-4.8%
2010 Q1	1.6%	-2.2%	0.0%	-0.1%
2010 Q2	3.6%	9.8%	1.3%	1.7%
2010 Q3	5.3%	11.0%	2.1%	2.8%
<i>Quarter-on-quarter</i>				
2010 Q1	1.5%	-0.8%	0.3%	0.3%
2010 Q2	1.6%	9.4%	0.6%	1.1%
2010 Q3	1.0%	4.0%	0.6%	0.8%

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 continued to perform strongly in Q3 2010.
- Manufacturing output rose by 5.3% in the year to Q3 2010. Construction output rose by 11.0%
- Services output rose by 2.1% in the year to Q3 2010, with output in the business services and finance sector growing by 0.3%.

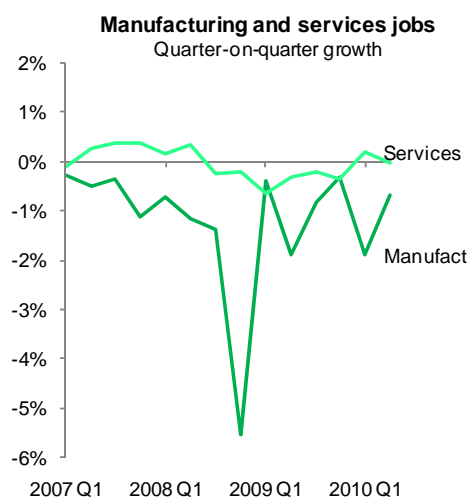
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008 Q2	-3.3%	-0.9%	1.2%	0.7%
2009 Q2	-8.9%	-5.4%	-1.4%	-2.5%
2010 Q1	-4.8%	-10.0%	-0.7%	-1.7%
2010 Q2	-3.7%	-3.3%	-0.4%	-0.6%
<i>Quarter-on-quarter</i>				
2010 Q1	-1.9%	-2.8%	0.2%	-0.1%
2010 Q2	-0.7%	2.6%	0.0%	0.2%
<i>Thousands</i>				
2010 Q2	2,515	2,103	25,408	30,801

Source: ONS series JWR7, JWS2, JWT8, DYDC



- The employment picture is different, with numbers of manufacturing jobs continuing to fall sharply (3.7% in the year to June 2010). Numbers of service sector jobs have been steadier.
- Numbers of jobs in the construction sector rose in the last quarter but are still down over the year.
- The public administration, health and education workforce rose by 1.6% in the year to June 2010.

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

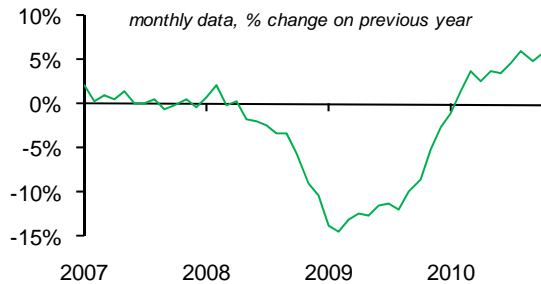
**Update:** [Quarterly National Accounts](#), ONS, 22 December



## 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

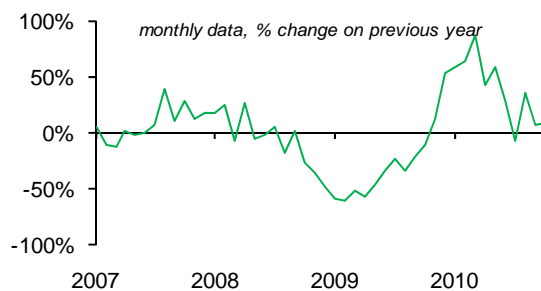


	Index Value (2005=100)	% change over month	% change over 12 months
2008	97.6	...	-2.9
2009	87.1	...	-10.7
2010 Jul	90.7	+0.4	+4.7
Aug	91.1	+0.4	+6.0
Sep	91.3	+0.2	+4.9
Oct	91.8	+0.6	+5.8

Source: ONS, series CKYY

- Manufacturing output was up by 5.8% in the year to October 2010 and by 0.6% in October alone. In 2009 output fell by 10.7%.
- Industrial production, which in addition to manufacturing includes mining and quarrying, and electricity, gas and water supply, was up by 3.3% compared with a year ago, down from 4.1% in August.

### Vehicle Production

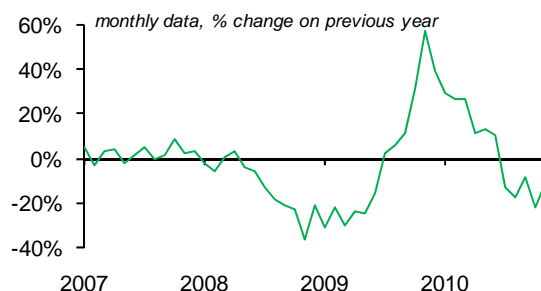


	Number '000s	% change over 12 months
2008	1,650	-5.8
2009	1,090	-33.9
2009 Oct	114	-10.1
2010 Aug	84	+36.1
Sep	138	+6.6
Oct	124	+8.8

Source: SMMT, not seasonally adjusted

- UK vehicle production was 124,000 in October 2010, 9% higher than in October 2009.
- 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	-6.4
2009 Nov	158	+57.6
2010 Sep	335	-8.9
Oct	131	-22.2
Nov	140	-11.5

Source: SMMT, not seasonally adjusted

- There were 12% fewer new registrations of cars in November 2010 than in November 2009. The SMMT states that this was better than expected once volumes under the now ceased scrappage scheme are taken into account.
- New car registrations fell by 6.4% in 2009 to 2 million, the lowest level since 1995.

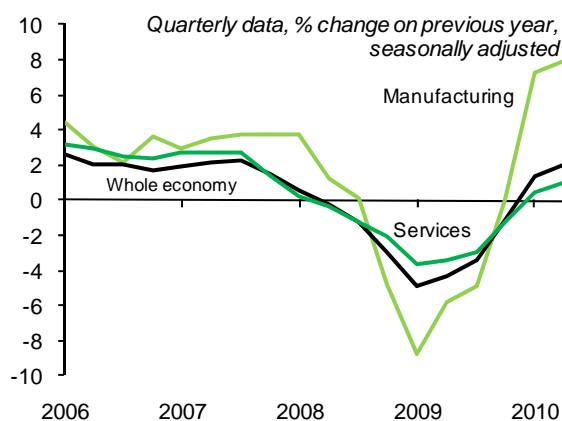
**Contact:** Adam Mellows-Facer, x4904

**Update:** ONS, [Index of Production](#), 13 Jan  
SMMT, [Vehicle Production](#), late Dec  
SMMT, [New Car Registrations](#), 7 Jan

## 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 3.2% in 2009 compared with a fall of 0.8% in 2008.
- Output per worker rose by 1.4% in Q2 2010 compared to the same quarter a year ago.
- Manufacturing output per job grew by 7.9% in Q2 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 1.0% over the same period.
- Comparing Q2 2010 with Q1 2010, manufacturing output per job increased by 2.2%, services output per job grew by 0.3% while output per job for the whole economy grew by 0.5%.

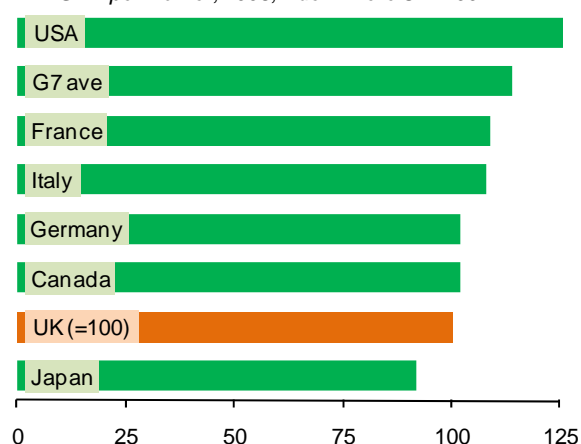
### Productivity growth, seasonally adjusted

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	0.2	..	..	-0.8	-1.0	-0.5
2009	-4.9	-3.4	..	..	-3.2	-3.5	-2.0
2009 Q2	-5.8	-4.1	-3.4	-3.1	-3.9	-4.3	-3.5
Q3	-4.9	-3.8	-3.0	-1.7	-3.4	-3.4	-2.0
Q4	0.0	1.2	-1.3	-0.4	-1.1	-1.1	0.0
2010 Q1	7.3	5.0	0.4	0.1	1.1	1.4	0.9
Q2	7.9	5.7	1.0	0.7	1.4	2.0	1.4
Latest quarterly % change	2.2	2.2	0.3	-0.4	0.5	0.7	0.2

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

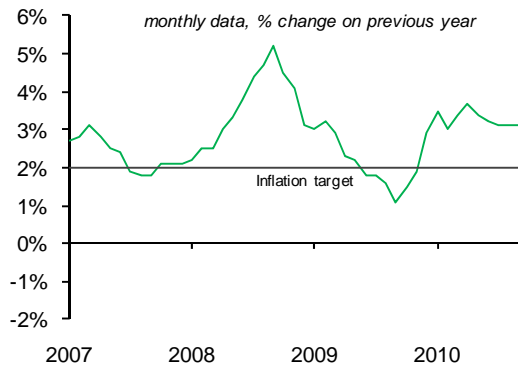
Update: ONS, [Productivity](#), 23 Dec

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.2% in October, slightly higher than in September and above the Bank of England's 2% target for the eleventh successive month.

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.

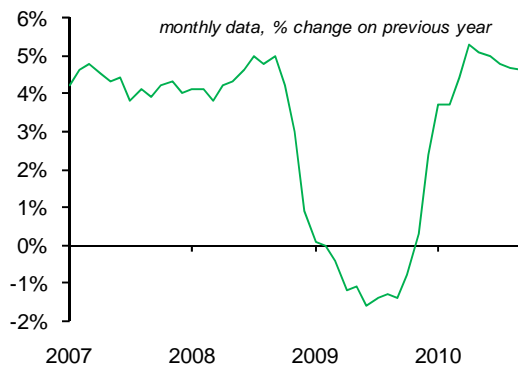
### Consumer Prices Index (CPI)



The CPI annual inflation rate was slightly higher in October at 3.2%, following three months in succession at 3.1%.

- Upward pressure on inflation came from recreation and culture (especially games, toys and hobbies) and transport (in particular fuel and lubricants), while there was downward pressure from furniture and furnishings.
- The RPI (all items) measure of inflation fell to 4.5% in October, continuing to fall from its highest level, since July 1991, of 5.3% in April.

### Retail Prices Index (RPI)



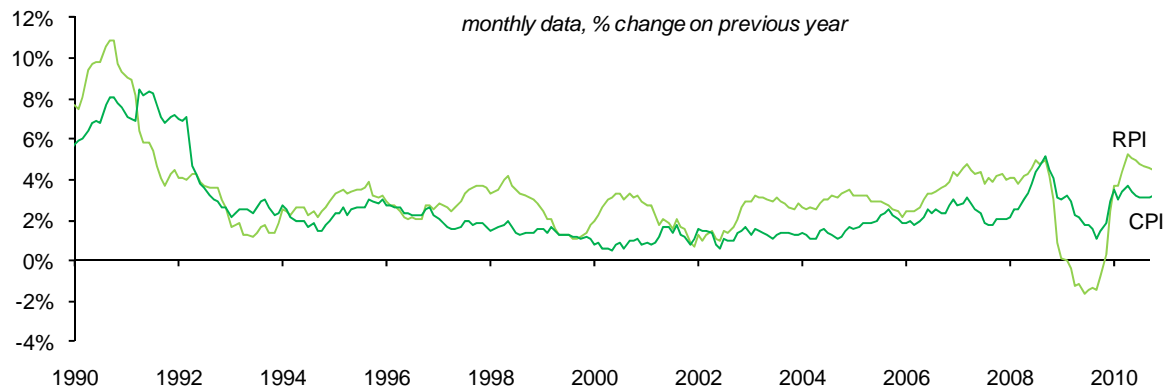
### Price Indices

% change on a year ago

		CPI	RPI
2007		2.3	4.3
2008		3.6	4.0
2009		2.2	-0.5
2010	May	3.4	5.1
	Jun	3.2	5.0
	Jul	3.1	4.8
	Aug	3.1	4.7
	Sep	3.1	4.6
	Oct	3.2	4.5

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. Other major economies, including the US, France and Germany, saw deflation (negative inflation, or falling prices).

Inflation in the EU, 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' national measure 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.

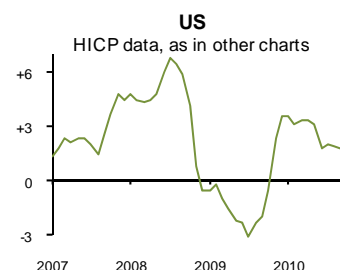
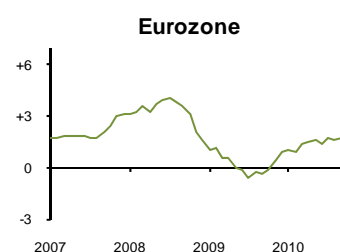
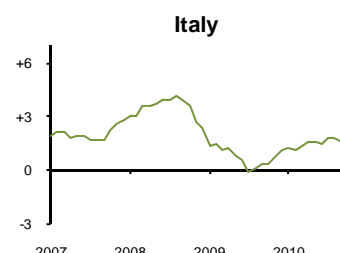
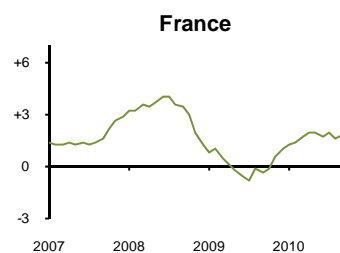
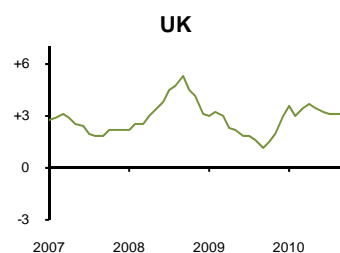
- In the year to October, UK inflation was 3.2%, up from 3.1% in September. The Bank of England's UK inflation target is 2%. This rate was the 7<sup>th</sup> highest in the EU.
- The flash estimate of Euro zone inflation in November was 1.9% in November, unchanged from October. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- The highest rate in the EU is 7.9% in Romania. Ireland is the only EU country with lower prices than a year ago (-0.8%).
- HICP annual inflation in the US in September was 1.8%, down from 1.9% in August. Using its national definition, US inflation was lower 1.2% in October, up from 1.1% in September and August.

### Inflation rates: selected countries

Annual % change in consumer prices

	2008	2009	Aug 10	Sep 10	Oct 10
<b>HICP (Eurostat/ONS)</b>					
UK	3.6	2.2	3.1	3.1	3.2
Eurozone	3.3	0.3	1.6	1.8	1.9
EU	3.7	0.3	2.0	2.2	2.3
France	3.2	0.1	1.6	1.8	1.8
Germany	2.8	0.2	1.0	1.3	1.3
Greece	4.2	1.3	5.6	5.7	5.2
Italy	3.5	0.8	1.8	1.6	2.0
Spain	4.1	-0.2	1.8	2.1	2.3
US	4.4	-0.8	1.9	1.8	..
<b>National definitions (OECD)</b>					
Canada	2.4	0.3	1.7	1.9	..
Japan	1.4	-1.4	-0.9	-0.6	..
US	3.8	-0.4	1.1	1.1	1.2
G7	3.2	-0.1	1.1	1.2	..
OECD	3.7	0.5	1.6	1.7	..
Brazil	5.7	4.9	4.5	4.7	5.2
China	5.9	-0.7	3.2	..	..
India	8.3	10.9	9.9	9.8	..
Russia	14.1	11.7	6.1	7.0	..

Source: ONS, Eurostat & stat.OECD database



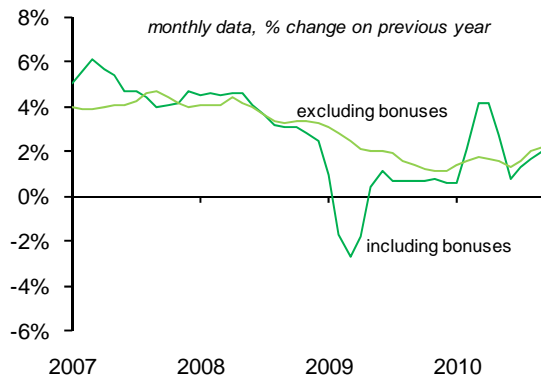
**Contact:** Gavin Thompson, x2042

**Updates:** Eurostat, [HICP full release](#), 16 Dec  
Eurostat, [Flash estimate \(Dec\)](#), 31 Dec  
OECD, [Main Economic Indicators](#), 13 Dec

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 2.0% in September compared with a year ago, up from a 1.7% increase in August. Average weekly earnings excluding bonuses were 2.2% higher in the three months to September compared with a year ago, up from a rise of 2.0% in August.

#### Average Earnings, Whole Economy



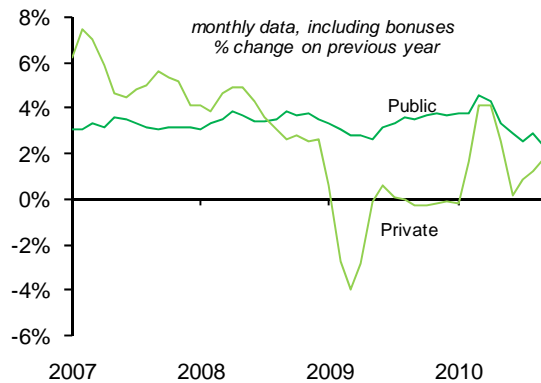
#### Average Earnings, Including Bonuses

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

	Private	Public	Manuf.	Serv.	Total
2007 Sep	5.6	3.1	4.3	5.0	4.0
2008 Sep	2.6	3.9	3.0	3.2	3.1
2009 Sep	-0.3	3.5	0.9	0.8	0.7
2010 Apr	4.1	4.3	6.2	4.1	4.2
May	2.5	3.3	5.8	2.6	2.7
Jun	0.2	2.9	3.7	0.7	0.8
Jul	0.9	2.5	4.0	1.2	1.3
Aug	1.2	2.9	4.0	1.6	1.7
Sep	1.8	2.3	4.2	2.0	2.0

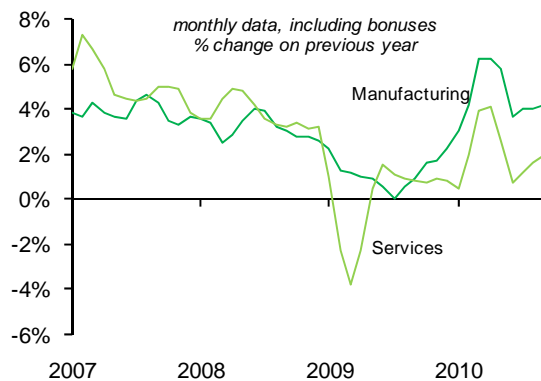
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 1.8% in September, compared with an increase of 2.3% in the public sector. Excluding financial services, public sector earnings rose by 1.9%.
- Average weekly earnings (including bonuses) in September in the public sector were £467 compared with £448 in the private sector.
- In 2009, headline (including bonuses) earnings in the public sector averaged an increase of 3.2%, while the private sector averaged a 0.9% decrease.

#### Average Earnings in Services and Manufacturing

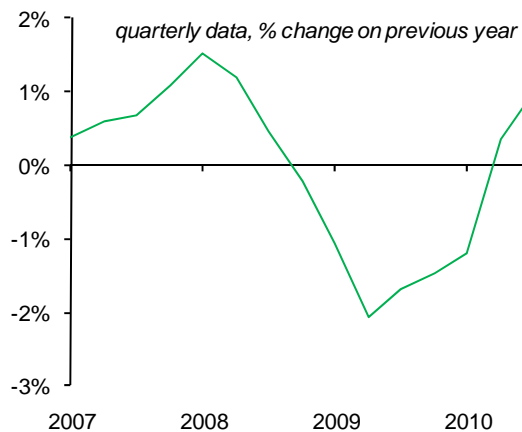


- Average total pay growth (including bonuses) in the manufacturing sector was 4.2% in September, compared with 2.0% in the services sector.
- Average weekly earnings (including bonuses) in September in the manufacturing sector were £525 compared with £440 in the services sector.
- In 2009, headline (including bonuses) earnings in the services sector averaged a decrease of 0.2% compared with a 1.3% increase in the manufacturing sector.

## C1: Employment

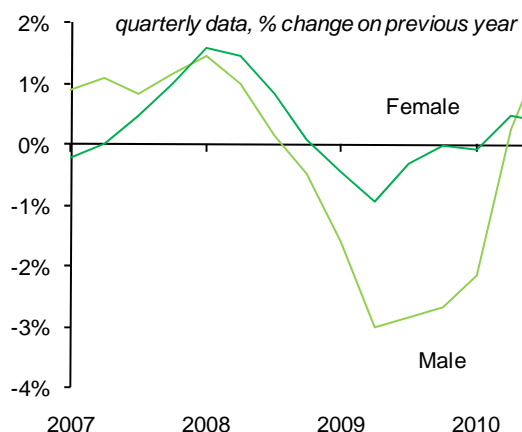
Employment in the three months to September 2010 was 167,000 higher than the previous quarter, mainly due to an increase in part-time employment.

### Total employment



- Employment is 1.3% lower than its peak of 29.6 million in April 2008.
- Over the past year, employment has increased for all age groups except for 16-24 year olds. Employment for this age group has decreased by 0.6% (see table below).
- Employment of those aged 65 and over has increased by 13% over the last year.

### Male and female employment



- Over the past year, male employment has increased by 1.5% while female employment increased by 0.4%.
- Full-time employment has fallen by 0.2% over the past year while part-time employment has increased by 4.2%.
- Over the past quarter, the number of public sector jobs has fallen by 22,000 while the number of private sector jobs has increased by 308,000,

### Employment by age

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

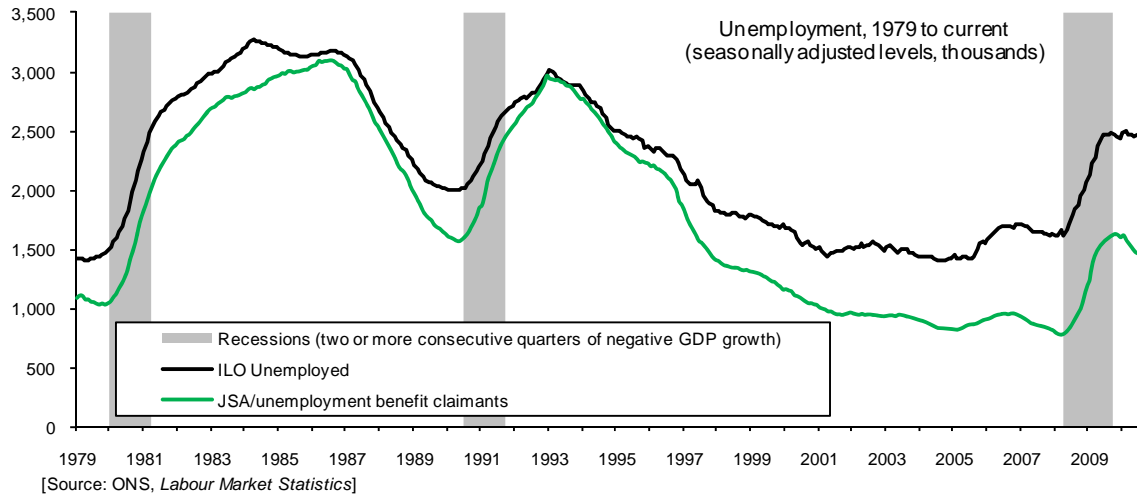
	Total	16-24	25-49	50-64	65+
Aug 2008	29,399	4,178	17,320	7,211	690
Aug 2009	28,903	3,866	17,062	7,234	757
Nov 2009	28,903	3,782	17,138	7,210	770
Feb 2010	28,839	3,759	17,046	7,239	782
May 2010	29,023	3,820	17,139	7,253	823
Aug 2010	29,189	3,844	17,177	7,291	850
% change on previous 3 months	+0.6	+0.6	+0.2	+1.1	+3.4
% change on previous year	+1.0	-0.6	+0.7	+1.2	+13.0

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 July to September 2010 was 2,448,000 (7.7% of all economically active) – down by 9,000 from the previous quarter (UK, seasonally adjusted).**

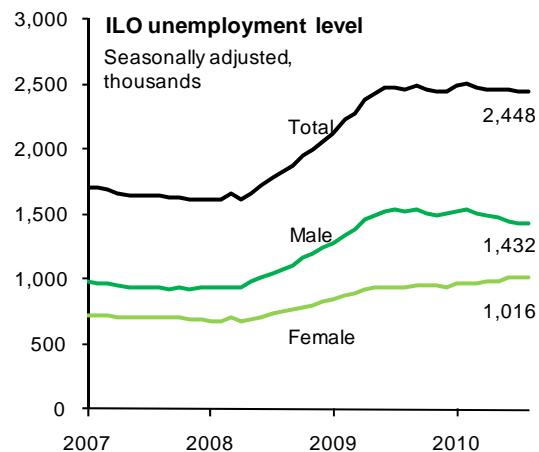


### ILO unemployment (period July-Sept 2010)

- The number of unemployed women increased by 31,000 compared with the previous quarter, whereas the number of unemployed men decreased by 40,000;
- The unemployment level among 16- to 24-year-olds was 899,000, down 2.3% on the previous quarter (see table below).

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

The seasonally-adjusted monthly JSA claimant count decreased by 3,700 between September and October 2010 to 1,465,400.



### ILO Unemployment in the UK

	Total		16 to 24		25 to 49		50 to 64		65 and over	
	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)
Jul-Sep 2005	1,437	4.7	608	12.8	614	3.4	201	2.8	15	2.5
Jul-Sep 2006	1,694	5.5	701	14.3	746	4.1	232	3.2	16	2.4
Jul-Sep 2007	1,648	5.3	707	14.4	698	3.9	231	3.2	12	1.8
Jul-Sep 2008	1,833	5.9	761	15.4	803	4.4	251	3.4	19	2.6
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
Apr-Jun 2010	2,457	7.8	920	19.4	1,146	6.3	372	4.9	19	2.2
<b>Jul-Sep 2010</b>	<b>2,448</b>	<b>7.7</b>	<b>899</b>	<b>19.0</b>	<b>1,156</b>	<b>6.3</b>	<b>373</b>	<b>4.9</b>	<b>20</b>	<b>2.3</b>
% change on quarter	-0.4		-2.3		+0.9		+0.3		+5.3	
% change on year	-0.7		-4.1		+0.2		+6.6		-20.0	

Source: ONS, Labour Market Statistics.

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

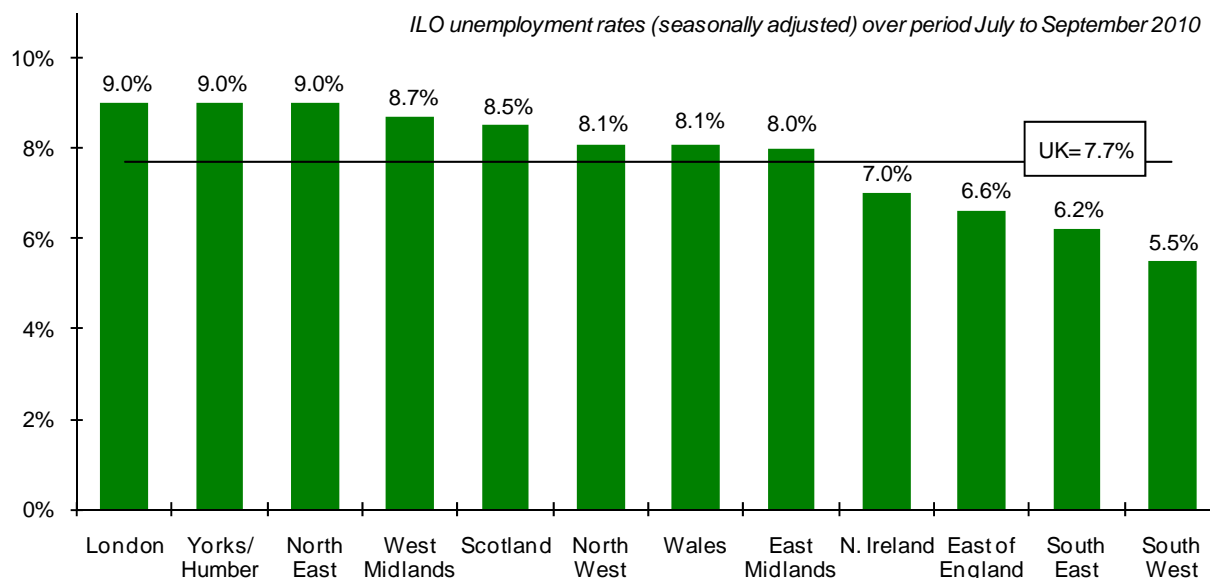
Contact: Lorna Booth, x2883

Updates: ONS, [Labour Market Statistics](#), 15 Dec

### 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 July to September 2010, London, Yorkshire and Humber and the North East all had the highest unemployment rate, at 9.0% of the economically active population. The lowest rate over the same period was 5.5%, in the South West.



- The largest increases in unemployment over the last quarter were in the East and West Midlands and the South East. The largest decrease was in the South West (17,000). (See table below.)
- The seasonally-adjusted JSA claimant count fell in six regions and countries and rose in six in October 2010 compared with the previous month.

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

	ILO unemployment				JSA claimant count	
	July - Sept 2010		Change in level		October 2010	
	Level (000s)	Rate (%) <sup>(a)</sup>	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	116	9.0	-4	-4	81.3	+0.1
North West	278	8.1	+1	-14	180.5	-0.5
Yorkshire & Humber	236	9.0	-8	+7	144.6	-0.5
East Midlands	182	8.0	+12	+11	97.0	-1.2
West Midlands	233	8.7	+13	-35	157.6	-1.1
East of England	199	6.6	-4	+7	109.4	+0.1
London	374	9.0	-10	+4	214.9	+0.2
South East	278	6.2	+11	+7	133.2	-1.5
South West	148	5.5	-17	-26	82.0	+0.3
Wales	117	8.1	-12	-8	71.1	-0.5
Scotland	229	8.5	+6	+33	135.2	+0.5
Northern Ireland	58	7.0	+3	+1	58.6	+0.4

Source: ONS, *Labour Market Statistics*

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

**Contact:** Lorna Booth, x2883

**Update:** ONS, *Labour Market Statistics*, 15 Dec



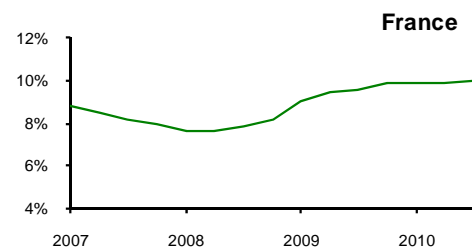
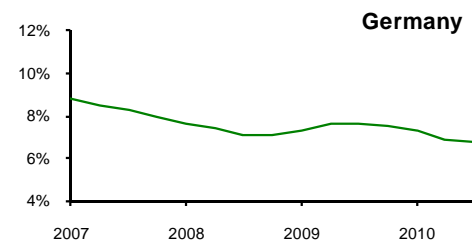
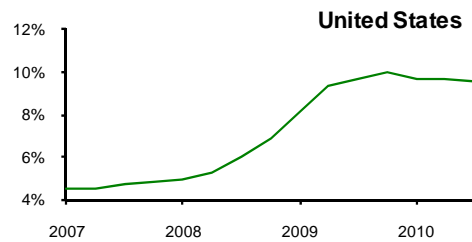
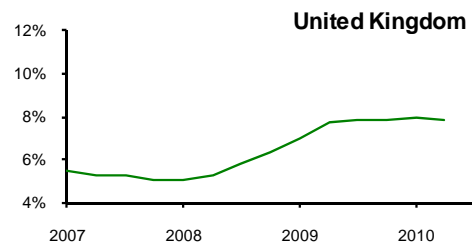
## C4: Unemployment: International Comparisons

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

- Using harmonised definitions, the UK unemployment rate in Q2 2010 (the latest quarter for which all data are available) was 7.8%, below the euro zone rate (10.0%) and below the G7 and OECD rates (8.2% and 8.6% respectively).

Apart from the UK, Q3 2010 unemployment data is available in most other OECD countries.

- Between Q3 2009 and Q3 2010 Germany saw a 0.8 percentage-point fall in its unemployment rate (from 7.6% to 6.8%); Canada saw the second-largest fall among G7 countries (-0.5 percentage points). The US unemployment rate fell by 0.1 percentage points over the same period. France saw the largest rise (+0.4 percentage points).
- Outside the G7, Spain has the highest harmonised unemployment rate among the 33 OECD member states (20.6% in Q3 2010), having risen particularly sharply over the last three years (up from 8.3% in Q3 2007). The Irish Republic has also seen a sharp rise over the same period (up from 4.5% to 13.9%). This compares with a 2.8 percentage point rise in unemployment in the OECD as a whole (from 5.7% to 8.5%) and a 2.5 percentage-point rise in the euro zone (from 7.5% to 10.0%) over the same period.
- The lowest unemployment rate in the OECD in Q3 was in South Korea (3.6%).
- 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 euro zone 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	2009				2010		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Canada	6.0	6.1	8.3	7.8	8.4	8.5	8.4	8.2	8.0	8.0
France	8.3	7.8	9.5	9.0	9.4	9.6	9.9	9.9	9.9	10.0
Germany	8.4	7.3	7.5	7.3	7.6	7.6	7.5	7.3	6.9	6.8
Italy	6.2	6.8	7.8	7.4	7.6	8.0	8.3	8.4	8.4	8.2
Japan	3.9	4.0	5.1	4.5	5.1	5.4	5.2	4.9	5.2	5.1
UK	5.3	5.6	7.6	7.0	7.7	7.8	7.8	7.9	7.8	..
USA	4.6	5.8	9.3	8.2	9.3	9.7	10.0	9.7	9.7	9.6
Euro zone	7.5	7.6	9.4	8.8	9.4	9.7	9.9	9.9	10.0	10.0
G7	5.4	5.9	8.0	7.3	8.1	8.3	8.5	8.3	8.2	8.1
OECD	5.8	6.1	8.3	7.6	8.3	8.6	8.7	8.6	8.6	8.5

Source: OECD, Harmonised Unemployment Rates, October 2010

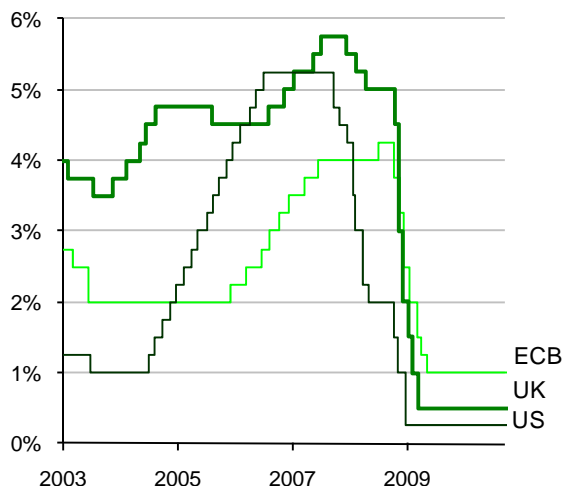
**Contact:** Gavin Thompson, x2042      **Updates:** OECD, [Economic Outlook](#), 22 Dec  
 OECD, [Harmonised Unemployment Rates](#), Dec

## 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

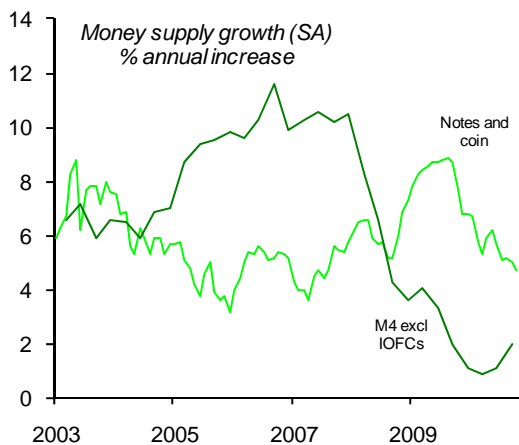
Source: Bank of England

- 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 currently scheduled, although there has been recent speculation that purchases may begin again.

### 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 2.0% in Q3 2010, up from the record low of 0.9% in Q1 2010.
- The value of notes and coins in circulation outside the Bank of England rose by 4.7% in the year to October 2010.

Contact: Chris Rhodes, x2454

Updates: Monetary policy: [9 Dec \(UK\)](#); [14 Dec \(US\)](#)  
Bank of England, [Monetary and Financial Statistics](#), 04 Jan

## D2: Public Finances

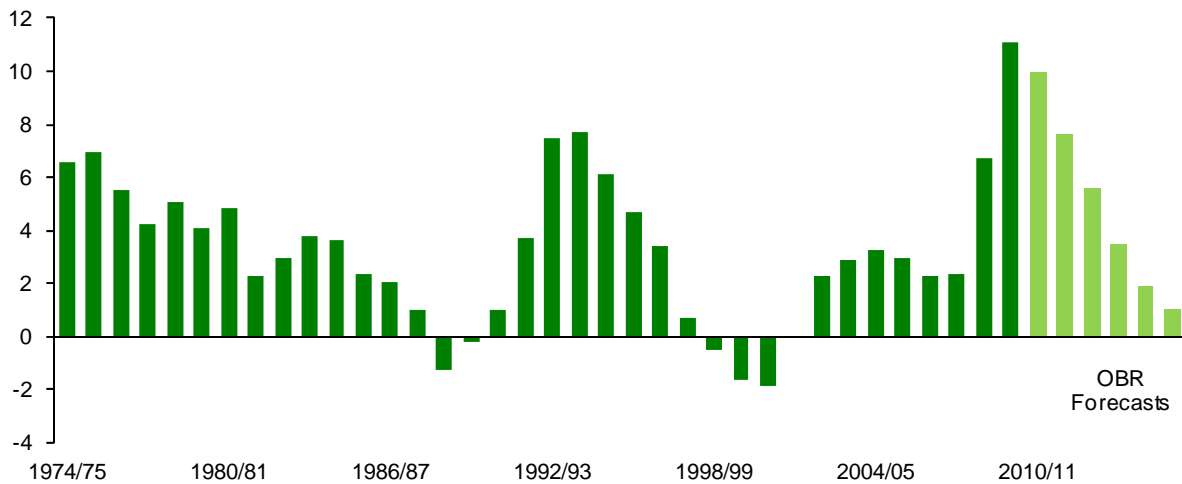
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £148.5 billion in 2010/11, equivalent to 10.0% of GDP.

- The Government borrowed £156 billion in 2009/10 (11.1% of GDP). Over the first seven months of 2010/11, borrowing was £81.6 billion, £5.9 billion (or 6.7%) lower than the same period in 2009/10.
- In November, the OBR forecast that borrowing would fall to 10.0% of GDP in 2010/11 and to 1.0% of GDP by 2015/16.
- The OBR forecast that debt would fall as a share of GDP in 2014/15.

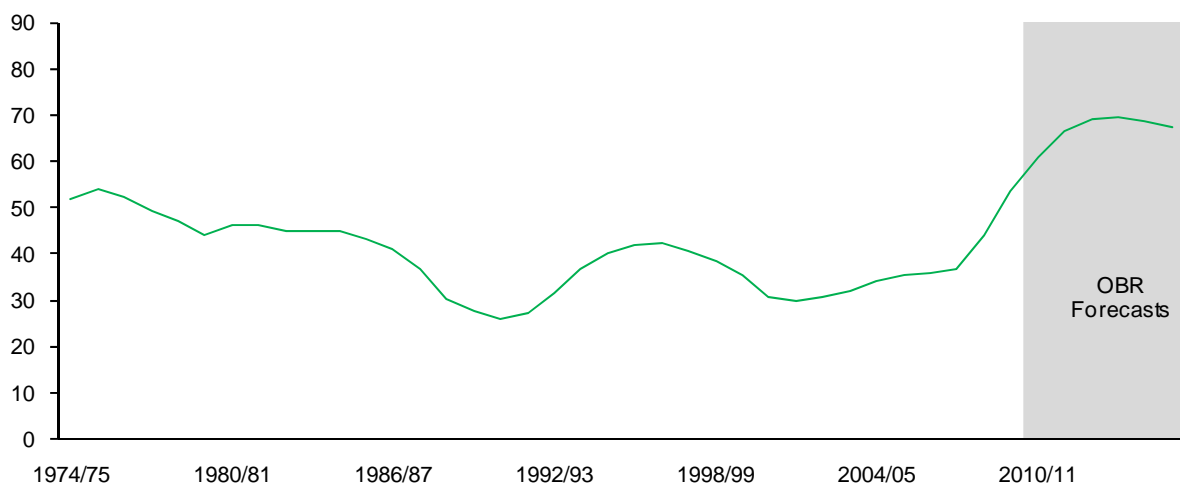
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	617	44.1
2009/10	156	11.1	772	53.6
2010/11	149	10.0	923	60.8
2011/12	117	7.6	1,052	66.3
2012/13	91	5.6	1,157	69.1
2013/14	60	3.5	1,232	69.7
2014/15	35	1.9	1,284	68.8
2015/16	18	1.0	1,320	67.2

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 Dec

### 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 \$1,410/ounce.

*Data from Thursday 02 December 2010*

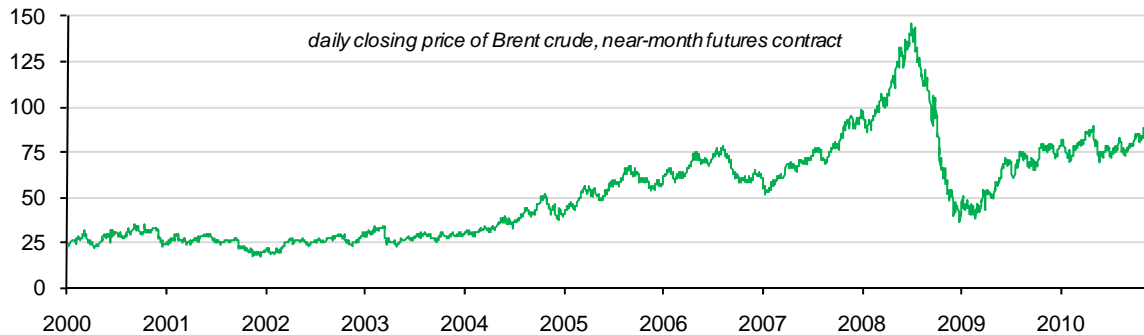
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
02 Dec 2010	5,767.6	90.7	1,387.9
%change over:			
1-month	+0%	+6%	+2.7%
12-months	+8%	+16%	+15%
%change from:			
cyclical peak	-14%	-38%	-2%
date	15 Jun '07	03 Jul '08	12 Nov '10
cyclical trough	+64%	+149%	+95%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



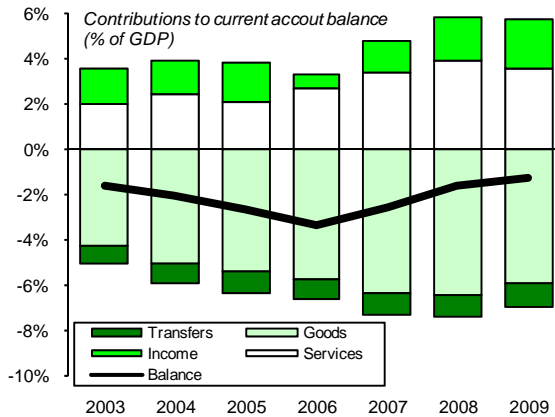
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2009 was £17.6 billion, equivalent to -1.3% 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 £7.4 billion in Q2 2010, narrowing from a Q1 2010 deficit of £11.3 billion. Between Q1 2010 and Q2 2010 the surplus on services narrowed while the deficit on goods widened.
- The **annual** current account deficit with EU27 countries in 2009 was £15.8 billion, compared with a deficit with non-EU countries of £1.8 billion. On a **quarterly** basis, the deficit with EU27 countries was £9.3 billion in Q2 2010 (£11.2 billion deficit in Q1 2010). With non-EU countries, the current account was in surplus by £2.0 billion in Q2 2010 (£0.1 billion deficit in Q1 2010).

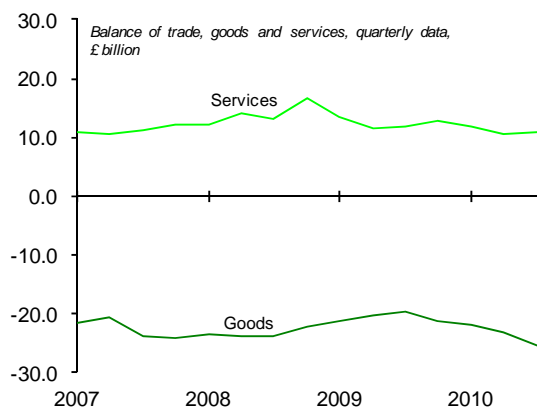
### Current Account Balances

£ millions; seasonally adjusted

	Goods		Balance	Services Balance	Goods and Services Balance	Income	Transfers	Current Account Balance
	Exports	Imports						
2007	220,858	310,612	-89,754	46,798	-42,956	20,020	-13,546	-36,482
2008	252,086	345,202	-93,116	55,356	-37,760	28,035	-14,051	-23,776
2009	227,658	310,011	-82,353	49,277	-33,076	30,139	-14,673	-17,610
2009 Q3	56,630	76,347	-19,717	11,945	-7,772	8,526	-3,527	-2,773
Q4	60,714	82,046	-21,332	12,832	-8,500	10,982	-3,280	-798
2010 Q1	62,315	84,290	-21,975	11,970	-10,005	2,858	-4,151	-11,298
Q2	65,507	88,657	-23,150	10,521	-12,629	9,326	-4,080	-7,383
Q3	66,401	91,608	-25,207	10,926	-14,281	..	..	..

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

### Trade in Goods and Services



- The estimated deficit on goods trade in September was £8.2 billion, narrower than the August deficit of £8.5 billion.
- The monthly trade surplus on services was an estimated £3.7 billion in September, up slightly from the August surplus of £3.6 billion.
- The overall monthly deficit on goods and services combined in September was £4.6 billion, down from £4.9 billion in August.
- The goods deficit with the EU27 was £3.6 billion in September (compared with £3.8 billion in August), while the deficit with non-EU countries was £4.6 billion (compared with £4.7 billion in August).

Contact: Grahame Allen, x3977

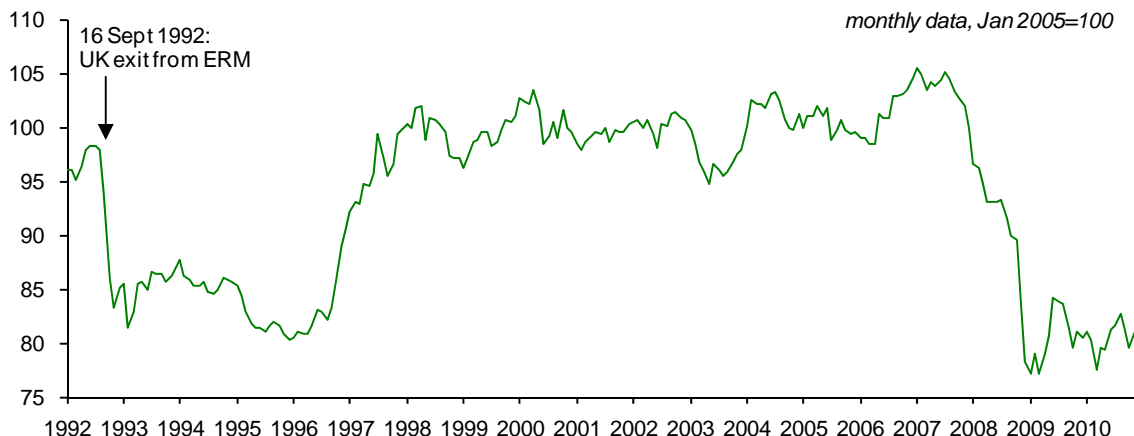
Updates: ONS, [UK Trade](#), 9 Dec;  
ONS, [UK Balance of Payments](#), 22 Dec

## 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).

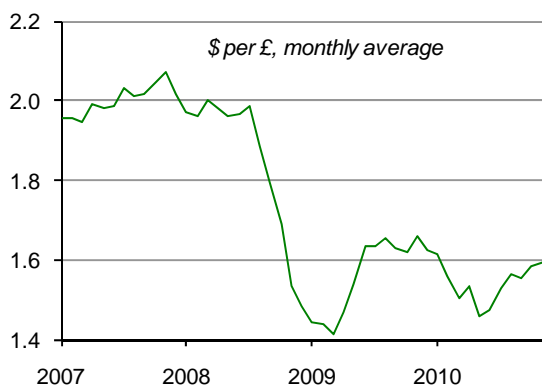
The SERI rose 1.9% in November 2010, after two consecutive monthly falls. Compared with last year, the SERI was unchanged. It is now 5.1% above its March 2009 level, when it was at its lowest point since the series began in 1980, and 23% down from its July 2007 peak.

### Sterling Exchange Rate Index (SERI)



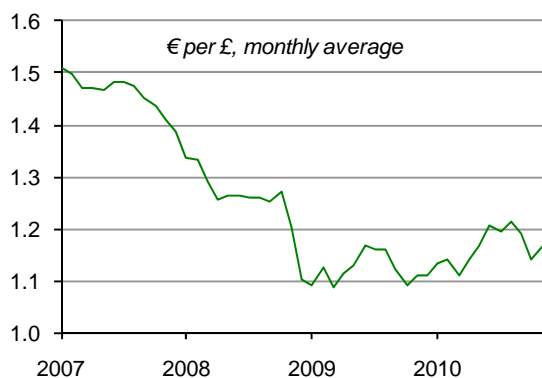
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- In November, the pound was stronger against the dollar than in October. At 2<sup>nd</sup> December market close the pound stood at \$1.56 dollars, below the November average.
- Sterling also rose three cents against the euro in November, compared with October, amid concerns over the eurozone economies.
- At the 2<sup>nd</sup> December market close the pound stood at €1.18. 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 (€)	
	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 Nov	1.66	8.2%	1.11	-7.6%
2010 Aug	1.57	-5.3%	1.21	4.6%
Sep	1.56	-4.6%	1.19	6.1%
Oct	1.59	-2.1%	1.14	4.4%
Nov	1.60	-3.8%	1.17	5.2%

Source: Bank of England, Bankstats database

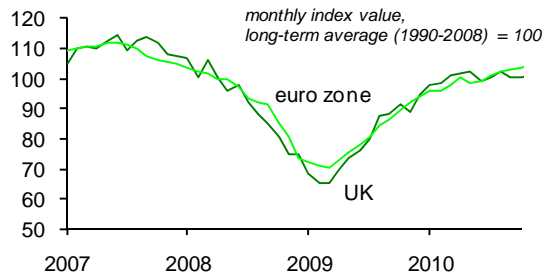
Contact: Gavin Thompson x2042

Updates: Financial Times, [sterling exchange rates](#) (daily)  
Bank of England, [SERI & monthly rates](#), 3 Jan

## 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

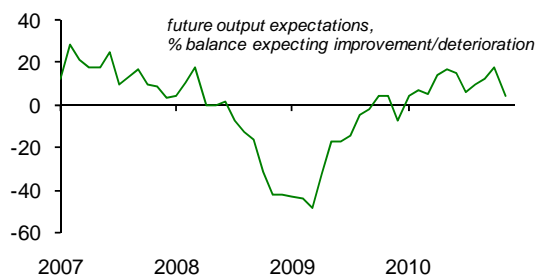


	UK Index	monthly change	change on year ago
2008 Nov	74.9	...	...
2009 Nov	88.9	...	...
2010 Sep	100.2	-2.1	+12.1
Oct	100.5	+0.3	+9.2
Nov	101.0	+0.5	+12.1

Source: European Commission

- The European Commission conducts regular harmonised surveys for different sectors (manufacturing, services, retail, construction and consumers) of EU member states' economies.
- The overall UK sentiment index rose by 0.5 points in November. The overall EU sentiment index rose by 1.3 points, boosted by strong positive readings from Germany.

### CBI Industrial Trends Survey



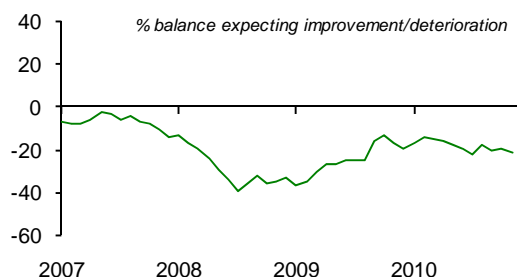
balance (as a %) of those expecting an improvement  
minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2008 Nov	-42	...	...
2009 Nov	+4	...	...
2010 Sep	+12	+2	+14
Oct	+18	+6	+14
Nov	+4	-14	+0

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in November were +4% of firms expecting output to rise rather than fall over the next three months. This was down 14 points on October's +18% and the lowest since January 2010.

### 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 Nov	-35	...	...
2009 Nov	-17	...	...
2010 Sep	-20	-2	-4
Oct	-19	+1	-6
Nov	-21	-2	-4

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 fell 2 points in November. Confidence is 4 points lower than a year ago, but still 14 points higher than two years ago.

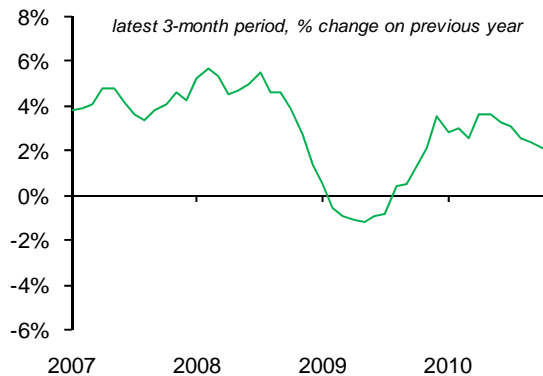
**Contact:** Lorna Booth, x2883

**Update:** CBI, [Industrial Trends](#), mid-Dec  
EC, [Economic Sentiment Indicator](#), 6 Jan  
GfK NOP, [Consumer Confidence](#), 21 Dec

## F2: Retail Sales

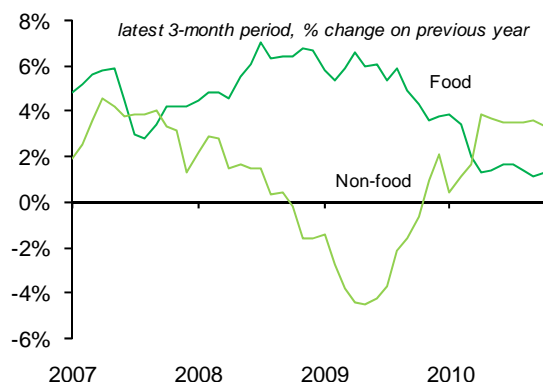
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI; however, this page only uses data and information from the ONS.

### Value of Retail Sales



- The rate of annual increase in the value of retail sales continued to slow in the three months to October to 2.1%, the fifth consecutive monthly fall in the rate of increase.
- The value of retail sales in October alone was up by 0.8% compared with September. That compares with no change between August and September
- The estimated total value of sales in October was £25.2 billion (non-seasonally-adjusted).

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



- The value of sales in food stores in the three months to October was 1.3% higher than a year ago, slightly up on September's record low.
- By contrast, the value of sales in non-food stores in the three months to October was 3.3% higher than a year ago.
- Sales in household goods stores were 3.9% lower than a year ago.
- Sales in clothing and footwear stores were up by an annual rate of 5.8% in the three months to October.

### 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 Jun	1.7	5.5	0.9	1.1	3.5	<b>3.3</b>
Jul	1.7	4.6	0.6	2.0	3.5	<b>3.1</b>
Aug	1.4	4.5	-0.5	2.9	3.5	<b>2.6</b>
Sep	1.1	5.7	-2.7	4.4	3.6	<b>2.4</b>
Oct	1.3	5.8	-3.9	4.6	3.3	<b>2.1</b>

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



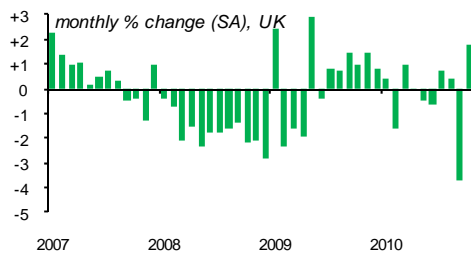
## F3: Housing Market

House prices on the Nationwide index fell by 0.3% in November, the fourth month in the past five that prices have declined. Prices were up by 0.4% compared with a year ago, the lowest annual increase since September 2009. The Halifax index showed a rise in house prices of 1.8% in October; however, this follows a 3.7% decline in the previous month, which was the largest monthly fall in the index since it began in 1983. Prices were unchanged compared with a year ago.

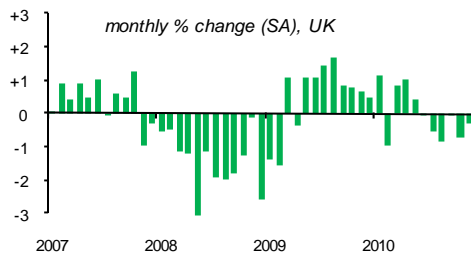
Numbers of mortgage approvals and housing starts have increased since the recession but still remain well below pre-recession levels.

### House price indices

#### Halifax house price index



#### Nationwide house price index

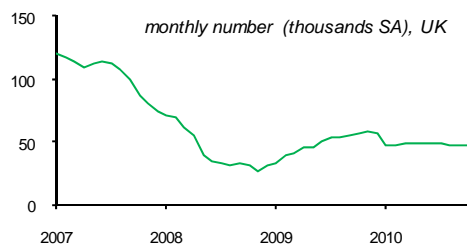


Latest monthly data  
UK, seasonally adjusted

	Halifax	Nationwide
Latest data	Oct-10	Nov-10
Change in month	+1.8%	-0.3%
Change in year	0.0%	+0.4%
Peak date	Aug-07	Jul-07
Change since peak	-17.4%	-9.9%
Trough date	Apr-09	Feb-09
Change since trough	+6.6%	+9.1%

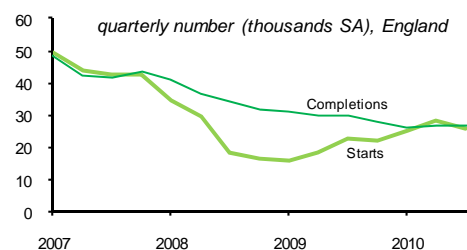
- The recovery in house prices since early 2009 has stalled, with recent data showing year-on-year growth slowing on both the Halifax and Nationwide measures.
- There is considerable regional variation. In Q3 2010 prices fell by 11% in Northern Ireland but rose by 9% in London compared with a year earlier (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 47,185 mortgage approvals in October 2010, with numbers remaining flat in 2010 following a sharp fall in January.

### House-building



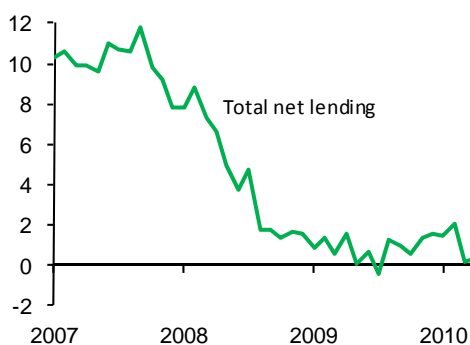
- There were 25,870 house building starts in England in Q3 2010, down from 28,460 in Q2 2010. This is 10,000 higher than the low of 15,510 in Q1 2009, but still only just over half the 50,000 starts in Q1 2007.
- The number of dwelling completions fell slightly to 26,470 in Q3 2010 and is still almost 40% lower than it was three years ago.

**Contact:** Daniel Harari, x2464

**Updates:** Halifax [House Price Index](#), first week of Dec;  
Nationwide [House Price Index](#), early Jan;  
Bank of England, [Lending to Individuals](#), 4 Jan;  
DCLG, [House-building](#), 17 Feb

## F4: Household debt

### Monthly net lending, £bn



Source: Bank of England

### Net outstanding lending to individuals

£ billions; seasonally adjusted

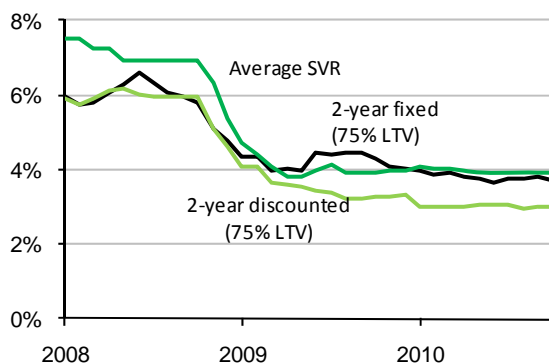
	Secured	Unsecured	Total
2006 Oct	1,057	213	1,270
2007 Oct	1,172	220	1,392
2008 Oct	1,223	234	1,457
2009 Oct	1,231	228	1,459
2010 Apr	1,238	221	1,459
Jul	1,238	217	1,456
Oct	1,236	216	1,452

Source: Bank of England, series: LPMVTKX, LPMVZRI, LPMVTC

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

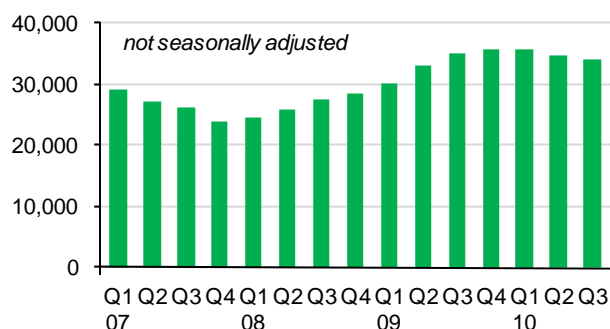
- Total net lending to individuals grew by £1.3 billion in October. This compares with an increase of £0.2 billion in September. Monthly net lending peaked in October 2003 at £12.0 billion.
- Monthly net unsecured lending rose by £0.3 billion in October 2010.
- Monthly net secured lending (mortgages) rose by £1.0 billion in October 2010, compared with a £0.2 billion increase in September.

### Current average mortgage interest rates



- Total net outstanding lending to individuals was £1,452 billion at the end of October 2010.
- Secured lending (mortgages) is the largest form of lending at £1,236 billion, 85% of total lending outstanding.
- Unsecured lending outstanding (including credit cards) was £216 billion at the end of Oct. 2010.
- Total net outstanding lending was 0.5% lower in October compared with a year ago. Secured lending was 0.5% higher, while unsecured lending was 5.5% lower.
- 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 October was 3.91%, 3.00 percentage points lower than in October 2008.
- The average fixed and discounted rates offered (75% LTV) in September were 3.68% and 3.02% respectively (2.14 and 2.96 percentage points lower than in October 2008).

### Individual insolvencies, England and Wales



Source: Insolvency Service

- Q3 2010 provisional data indicates there were 33,935 individual insolvencies (bankruptcy orders, Individual Voluntary Arrangements (IVAs) or debt relief orders) in England and Wales (not seasonally adjusted), a 3.7% decrease on Q3 2009. This was made up of 13,907 bankruptcies, 12,960 IVAs and 7,068 Debt Relief Orders.
- In Scotland in Q3 2010 there were 5,168 individual insolvencies, a fall of 10.5% on Q3 2009.
- In Northern Ireland in Q3 2010 there were 551 individual insolvencies, a rise of 45% on Q3 2009.

**Contact:** Dominic Webb, x2464

**Update:** Bank of England, [Lending to Individuals](#), 4 Jan  
Insolvency Service, [Insolvency Statistics](#), 4 Feb

## 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</a> , <a href="#">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.