



# Economic Indicators, January 2011

RESEARCH PAPER 11/04 11 January 2011

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

- Latest data from the labour market show the unemployment rate rising to 7.9% in the three months to October, the first quarterly increase since April.
- The number of people in employment fell during the same period, with the number of people in full-time employment still lower compared with a year ago.
- These figures, together with tax increases and above-target inflation, make for an uncertain economic outlook in 2011.

This month's articles:

- **The VAT increase**
- **Eurozone debt crises**

Daniel Harari (editor)

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## Research Paper 11/04

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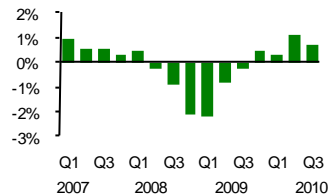
## Summary

Latest data from the labour market show the unemployment rate rising to 7.9% in the three months to October, the first quarterly increase since April ([see page 11](#)). The number of people in employment fell during the same period, with the number of people in full-time employment still lower compared with a year ago ([page 10](#)). These figures, together with tax increases and above-target inflation, make for an uncertain economic outlook in 2011.

### GDP Growth

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(% change quarter-on-quarter)

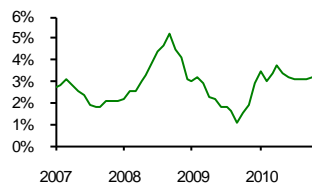


Quarterly GDP growth figures in 2010 were revised slightly lower to 0.7% in Q3 (from 0.8%) and 1.1% in Q2 (from 1.2%).

### Inflation (CPI)

[page 7](#)

(% change on year ago)

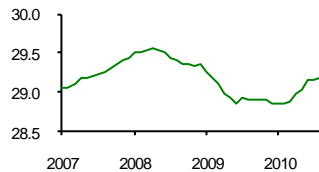


The rate of CPI inflation rose to 3.3% in the year to November, up from 3.2% in October. Inflation has been at least 3% in every month of 2010 for which data has been released.

### Employment

[page 10](#)

(total, millions)

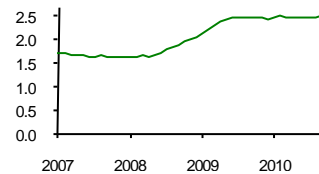


In the three months to October the number of people employed fell by 33,000 to 29.1 million.

### Unemployment

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(total, millions, ILO definition)

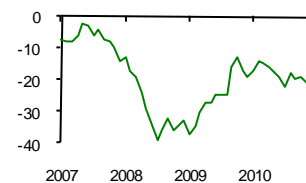


ILO unemployment rose by 35,000 to just over 2.5 million in the three months to October. The unemployment rate increased to 7.9% from 7.8%.

### Consumer Confidence

[page 19](#)

(GfK NOP survey, % balance expecting improvement/deterioration)



The GfK NOP survey shows consumer confidence was lower in December 2010 than it was a year ago.

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Next issue: 1 February

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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## 2 The VAT increase

### 2.1 VAT at 20%

After many years when the main rate of VAT was left unchanged, it has been altered three times in recent years. The rate of VAT increased to 20% on 4 January 2011. It was cut from 17.5% to 15% between 1 December 2008 and 31 December 2009, as a key part of the Labour Government's fiscal stimulus policy. The rate was then restored to 17.5%. Prior to this, the last change was in the 1991 Budget which increased VAT from 15% to 17.5%.

Just over half of spending is on goods on which VAT is paid at the full rate. 4% of spending is on goods where the lower rate of 5% VAT applies. The Budget did not change the rate of VAT on domestic fuel and power which remains at 5%. The remainder of spending is on items where no VAT is paid, including food, children's clothes, domestic passenger transport and books.<sup>3</sup>

VAT is the third largest tax in the UK: in 2010/11, it is forecast to raise £85 billion or 15% of total government revenue. Only income tax (£151 billion) and national insurance (£99 billion) raise more revenue. The next largest is corporation tax (£44 billion). Changes to these three taxes are the main options if the government wishes to raise large amounts of money, unless it wants to look at more radical, and controversial, reforms to the structure of the tax system, such as tax reliefs. The VAT increase is forecast to raise £12.1 billion in 2011/12. A penny increase in the standard rate of income tax raises only £3.9 billion.

The Government justified the VAT increase on the grounds that it was necessary to cut the budget deficit which reached £156 billion in 2009/10. It also argued that increasing other taxes on individuals or companies would harm incentives. Speaking in a debate on the Finance Bill, Danny Alexander, chief secretary to the Treasury, said

Given that the structural deficit is some £12 billion larger than the previous Government told us, we have to make difficult choices - whether to fill the black hole with yet more spending cuts or increase taxes. Further spending cuts would have made it impossible for the Government to protect the country's most essential services in the spending review. The only other option would have been to raise taxes on companies or on personal income, reducing the rewards for work at a time when hard work and endeavour must lead the recovery. The VAT rise is unavoidable. As I said in the Budget debate, it is Labour's inheritance tax.<sup>4</sup>

It is worth pointing out, however, that the Government chose to cut other taxes (and introduce some other tax increases), notably the increase in the personal allowance which cost £3.5 billion and the increase in the threshold for employer's national insurance contributions which cost £3.1 billion. As a result, while the increase in VAT raises £12 billion, the total discretionary increase in tax is around only £6 billion.

The Institute for Fiscal Studies has also cast doubt on the argument that increasing VAT is better for work incentives than increasing income tax. Its 2010 Green Budget said:

Note that both increasing the rate and broadening the base of VAT would weaken work incentives just as increases in income tax would. This is because the attractiveness of working, as opposed to not working, or working an extra hour presumably depends on

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<sup>3</sup> HM Treasury, Tax-benefit reference manual 2009/10 edition, p89

<sup>4</sup> HC Deb 6 July 2010 cc201-02

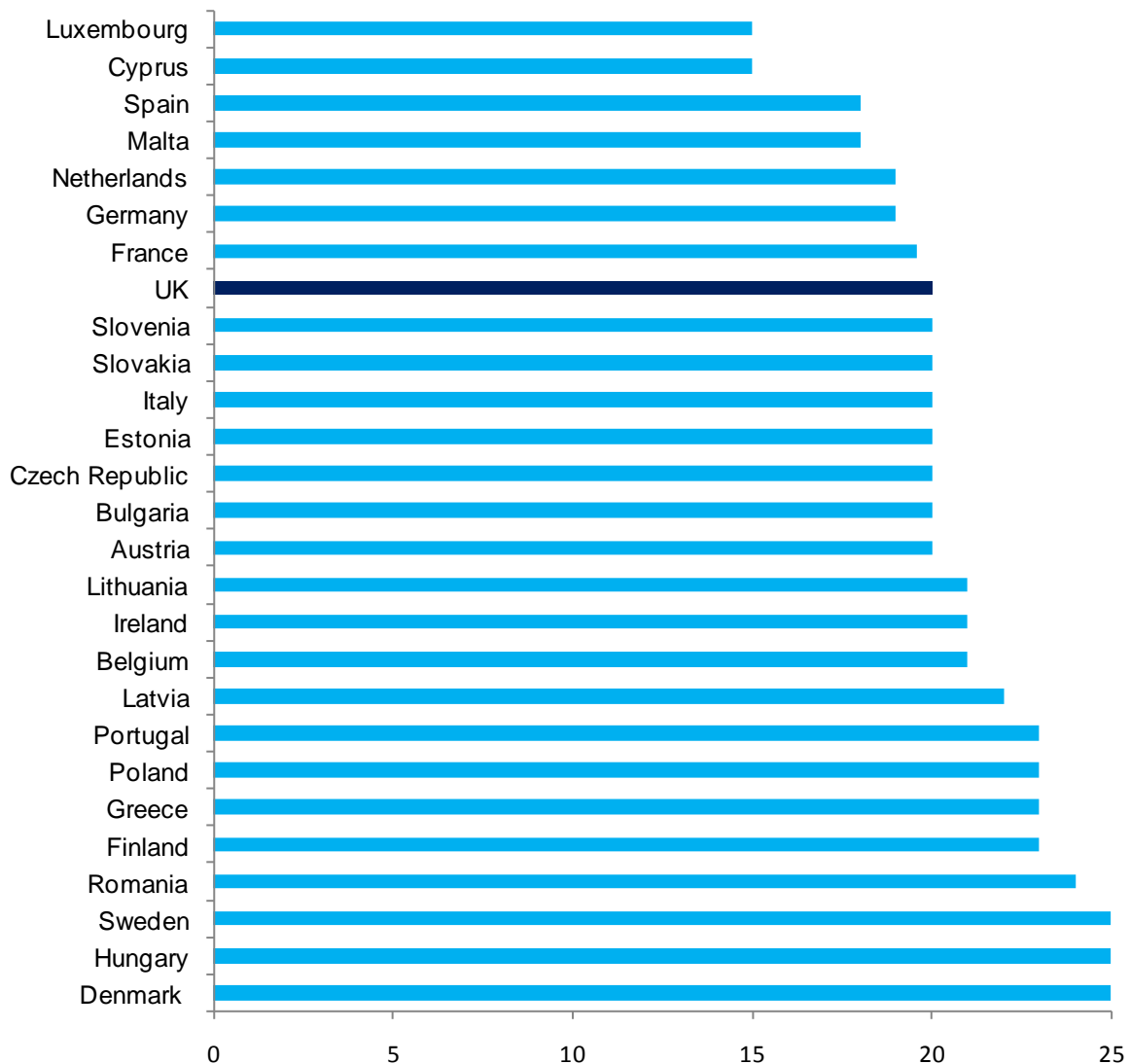


the amount of goods and services that can be bought with the wage earned. In this way, a uniform income tax and a uniform consumption tax will have very similar effects.<sup>5</sup>

## 2.2 International comparisons

In the Budget, the Government said that the main rate of VAT would remain below the EU average.<sup>6</sup> Rates of VAT in the EU range from 15% in Cyprus and Luxembourg to 25% in Denmark, Hungary and Sweden. Seven other member states have a rate of 20% (see chart below). A number of other European countries, including Latvia, Poland, Portugal and Slovakia increased their rate of VAT this year. Spain and Greece increased VAT last year and Ireland has announced plans to increase it in two stages to 23% in 2014.

**Main VAT rates (%) in EU countries**



Dominic Webb  
Economic Policy and Statistics Section

<sup>5</sup> IFS, *The IFS Green Budget*, February 2010, p146

<sup>6</sup> HM Treasury, *Budget*, June 2010, para 1.44

### 3 Eurozone debt crises

“It is out of the question to resort to the IMF” (George Papandreou, Greek Prime Minister, 11 Dec 2009)

“We certainly haven’t looked to Europe... Ireland can stand alone” (Batt O’Keefe, Irish Minister for Trade, Enterprise and Innovation, 14 Nov 2010)

“We have heard reports like this [of a possible bail-out of Portugal] several times over the past year... Portugal is doing everything it needs to do, and that will continue” (José Sócrates, Portuguese Prime Minister, 8 Jan 2011)

Seven months after the Greek bail-out, concerns about the debt burden of peripheral eurozone economies remain. Recent developments in Portugal have followed a pattern now familiar from the experiences of Ireland and Greece: a loss of confidence in the capacity of government to meet its obligations to creditors, signalled by increasing yields on public debt and downgrading by ratings agencies, followed by rumours and official denials of a requirement for international assistance, and finally the agreement of EU and IMF loans worth almost half of annual GDP. Portugal has not yet applied for assistance, but with government bond yields rising, market expectations that it may do so could prove self-fulfilling.

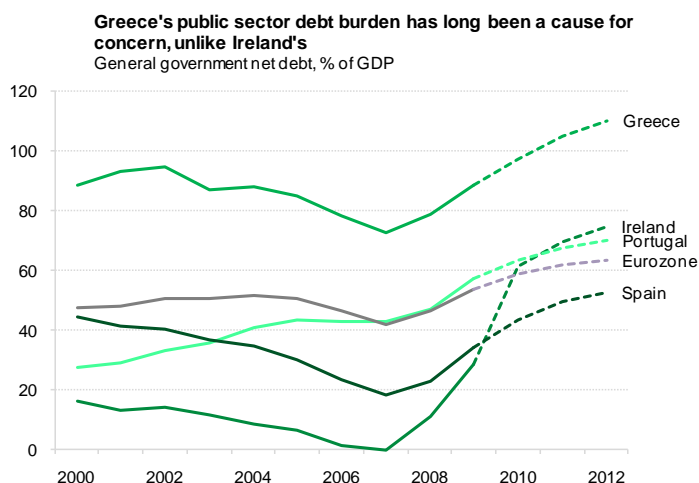
#### 3.1 IMF and EU bailouts come with strict conditions attached

In Greece’s case, the assistance package agreed in May 2010 was financed through bilateral loans from eurozone countries worth €80bn, and a loan of €30bn from the IMF. By the time the Irish crisis reached a head in November, the European approach had been formalised somewhat, with both eurozone and other EU countries contributing through two separate funding mechanisms together worth €500bn. In Ireland’s case, €22.5bn was provided by the IMF and €40bn from the European mechanisms. Both loan agreements came with stringent conditions directing the level, timing and method of public deficit reduction, and contained specific measures to reform the institutions that played a role in the crises.

The assistance packages have been designed to reduce or eliminate the need for governments to finance their spending on the open market for a few years, where interest rates may be prohibitively high. The creation of the €500bn European mechanisms, and the proposals to create a permanent eurozone bail-out fund from 2013, are intended to signal that Europe stands ready to support beleaguered Member States, thereby fostering confidence and preventing domino-effect contagion. The continued speculation over the possibility of bail-out in Portugal, Spain and Belgium suggests this latter objective has not yet been achieved.

#### 3.2 Greece’s problem stemmed from excessive levels of government debt

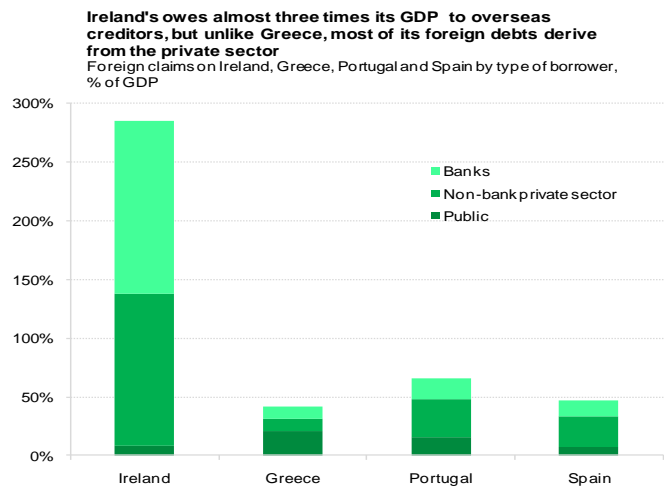
Though the symptoms and medicine in the Irish and Greek cases were similar, the underlying illnesses were rather different. For over 30 years, Greece ran public sector deficits (excesses of government spending over revenue), with total public debt reaching 75% of GDP by 1999. On joining the euro in 2000, lower interest rates stimulated further government borrowing, some of which it concealed with the assistance of



investment banking firms.<sup>7</sup> The loss of market confidence was driven almost entirely by concerns over levels of public indebtedness, especially to foreign creditors.

### 3.3 Ireland had high levels of private debt, particularly among its banks

Ireland's public sector finances over this period were much healthier: in 2007, public debt was just 12% of GDP, compared with the 38% in the UK and 80% in Greece. Even post-crisis, the total size of Ireland's public debt in relation to GDP is expected to be lower than the UK over the next four years. Its problems were brought about not by public sector profligacy but by a private banking crisis resulting from an explosion in privately-held debt. From 2000, the Irish economy became increasingly reliant on a property and construction bubble. Rapidly rising house prices and increasing speculative activity in the property market were financed by cheap loans, many from domestic banks; these, in turn were funded by extensive borrowing from abroad.



Once the property bubble started to implode in Ireland, confidence in domestic banks collapsed, and they struggled to obtain funds on the open market to cover their obligations. A government guarantee of banking liabilities in September 2008 transferred this position of insolvency to the state, which began to experience its own problems once Ireland entered a deep recession and tax revenues fell dramatically.

### 3.4 Portugal has public and private debt problems, and slow economic growth

If Ireland's crisis had its roots in the over-expansion of private credit, and Greece's in unsustainable levels of public borrowing, Portugal lies somewhere between these extremes. Both the public debt burden and private sector indebtedness are high, but neither approach the levels observed respectively in Greece or Ireland (see charts). Another concern for Portugal is its apparent lack of competitiveness: unlike other eurozone economies, including Greece and Ireland, Portugal did not see rapid economic growth or foreign investment during the 2000s, and its labour market has been described as 'the most sclerotic in Europe'; these factors raise doubts as to whether it will be able to grow its way out of its debt burden.

### 3.5 Prospects

It is likely that speculation over further bail-out will be arrested only when clear signs of sustained economic recovery are seen. Some commentators believe that the harsh austerity measures imposed by the loan agreements jeopardise this prospect, and that the debt positions of Ireland and Greece are fundamentally unsustainable.<sup>8</sup> Together with IMF support, it is expected that the existing European mechanisms will be large enough to finance assistance packages to Portugal and Spain without further replenishment; further bail-outs beyond these countries will raise serious questions about the future of the eurozone in its current form.

Gavin Thompson  
Economic Policy and Statistics Section

<sup>7</sup> For more details, see Goldman Sachs *Viewpoints*, 21 Feb 2010

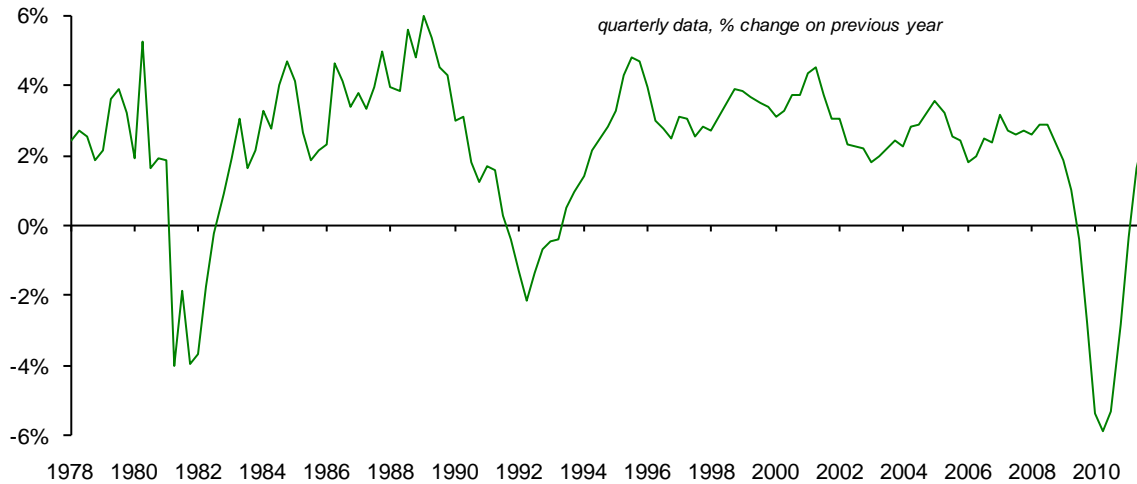
<sup>8</sup> See, for instance, FT *Why the Irish crisis is such a huge test for the eurozone*, 30 Nov 2010



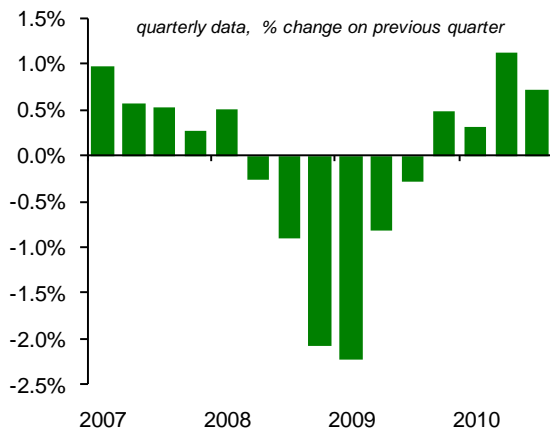
## A1: Gross Domestic Product

The economy grew by a revised 0.7% in Q3 2010, following growth of 1.1% in Q2 2010. In December 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	1,395	-3.5	...	-4.9
2009 Q3	348.1	-3.7	-0.3	-5.3
Q4	352.6	-1.7	0.5	-2.8
2010 Q1	358.9	2.6	0.3	-0.3
Q2	362.6	5.3	1.1	1.6
Q3	365.9	5.1	0.7	2.7

Source: ONS, series: YBHA, ABMI

- The economy grew by a revised 0.7% in Q3 of 2010, compared with Q2 of 2010. This compares with growth of 1.1% in Q2 2010 compared with Q1 2010.
- The contraction in the economy of -2.2% between Q4 2008 and Q1 of 2009 was the largest percentage fall in quarterly GDP since Q3 of 1987 (-2.2%).
- In Q3 2010, GDP rose by 2.7% compared with the same period a year ago, compared with a 1.6% in Q2 2010, compared with the same period a year ago.
- Total output of the economy fell by (a revised) 6.4% during the recession.

**Contact:** Grahame Allen, x3977

**Updates:** ONS, [UK output, income & expenditure](#), ONS, 25 Jan  
HM Treasury, [Forecasts for the UK Economy](#), 19 Jan

## 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 0.7% in Q3 2010, while the US grew 0.6%. Germany grew 0.7% in Q3 (from a record 2.3% in Q2), while the eurozone as a whole grew 0.3%. The G7 grew 0.6%.

### Real GDP, % changes

	change on prev. year						change on prev. quarter				
	2009	09Q3	09Q4	10Q1	10Q2	10Q3	09Q3	09Q4	10Q1	10Q2	10Q3
US	-2.6	-2.7	0.2	2.4	3.0	3.2	0.4	1.2	0.9	0.4	0.6
Japan	-5.2	-6.2	-1.8	5.5	3.5	5.0	-0.3	1.4	1.7	0.7	1.1
UK	-5.0	-5.3	-2.8	-0.3	1.6	2.7	-0.3	0.5	0.3	1.1	0.7
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	1.2	1.6	1.7	0.2	0.6	0.2	0.6	0.3
Eurozone	-4.0	-4.0	-2.0	0.8	2.0	1.9	0.4	0.2	0.4	1.0	0.3
G7	-3.6	-3.8	-0.9	2.4	2.9	3.3	0.2	1.0	0.9	0.7	0.6
OECD	-3.4	-3.5	-0.6	2.5	3.2	3.3	0.5	0.9	0.8	0.9	0.6

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.

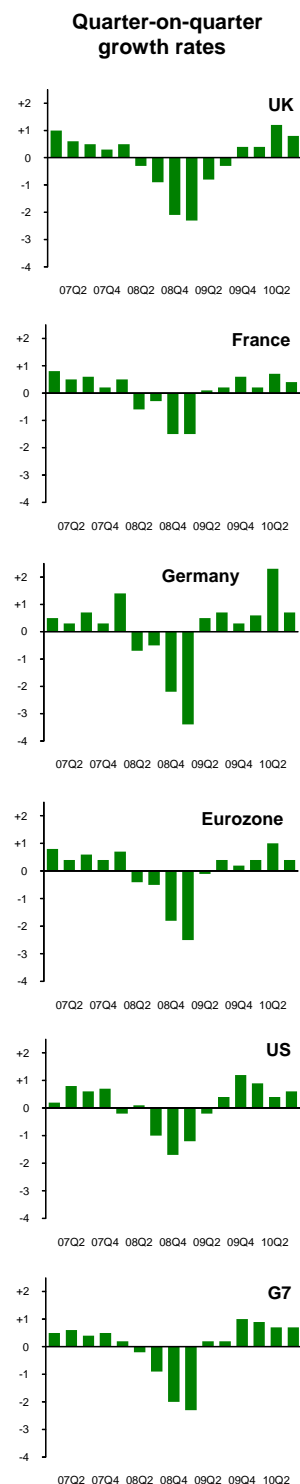
The European Commission's **November forecasts** revised up the May forecast for UK 2010 growth from 1.2% to 1.8%, and for France from 1.3% to 1.6%. Germany's forecast more than tripled (1.2% to 3.7%).

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	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



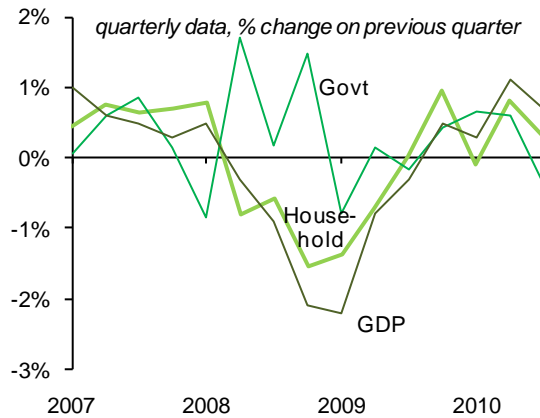
Contact: Gavin Thompson, x2042

Update: [OECD.Stat](#) (Main Economic Indicators)

### A3: Components of GDP

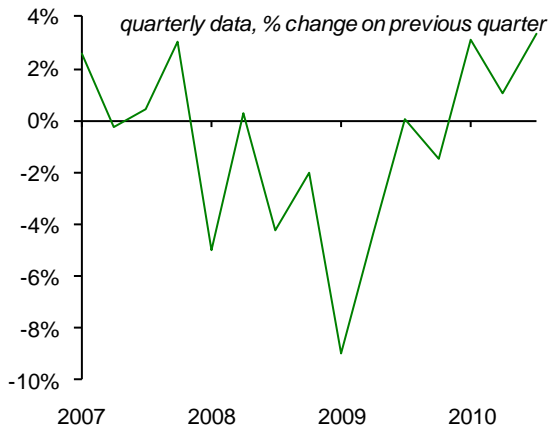
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 63% of the total in 2009. Government consumption accounted for 23% and gross fixed capital formation for 15%.

#### Household consumption, government consumption and GDP



- In Q3, 2010, household consumption increased by 0.3%. Government consumption decreased by 0.4%.
- Over the past year, government consumption has increased by 1.3% compared with 2.0% for household consumption.
- Exports increased by 1.5% in Q3, 2010 while imports increased by 1.7%.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- In Q3, 2010 GFCF grew by 3.4%.
- In Q3, 2010, companies increased their stocks for the first time since Q3, 2008. This contributed nearly half the growth seen in the quarter.

#### 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)	-3.3%	1.0%	-15.4%	-10.1%	-11.9%	-4.9%
2009 Q4	1.0%	0.4%	-1.5%	3.7%	4.1%	0.5%
2010 Q1	-0.1%	0.7%	3.1%	-0.9%	2.1%	0.3%
2010 Q2	0.8%	0.6%	1.0%	3.1%	2.0%	1.1%
2010 Q3	0.3%	-0.4%	3.4%	1.5%	1.7%	0.7%

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 83% of total workforce jobs (September 2010).

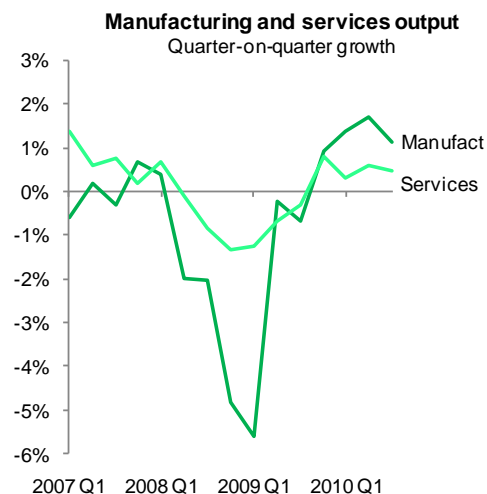
### Output

#### 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	-10.7%	-10.7%	-3.2%	-4.7%
2010 Q1	1.4%	-2.6%	0.1%	-0.1%
2010 Q2	3.3%	6.8%	1.4%	1.7%
2010 Q3	5.2%	9.5%	2.2%	2.7%
<i>Quarter-on-quarter</i>				
2010 Q1	1.4%	-0.6%	0.3%	0.3%
2010 Q2	1.7%	7.0%	0.6%	1.1%
2010 Q3	1.1%	3.9%	0.5%	0.7%

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 5.2% in the year to Q3 2010. Construction output rose by 9.5%
- Services output rose by 2.2% in the year to Q3 2010, with output in the business services and finance sector growing by 2.4%.

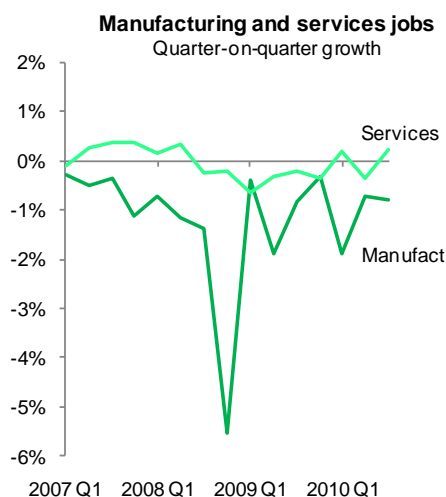
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008 Q3	-4.3%	1.1%	0.6%	0.2%
2009 Q3	-8.5%	-10.9%	-1.4%	-2.7%
2010 Q2	-3.7%	-3.6%	-0.8%	-1.0%
2010 Q3	-3.7%	-1.3%	-0.3%	-0.6%
<i>Quarter-on-quarter</i>				
2010 Q2	-0.7%	2.3%	-0.4%	-0.1%
2010 Q3	-0.8%	-0.8%	0.2%	0.0%
<i>Thousands</i>				
2010 Q3	2,494	2,080	25,374	30,703

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 September 2010). Numbers of service sector jobs have been steadier.
- Numbers of jobs in the construction sector fell in Q3 having risen in Q2.
- The public administration, health and education workforce rose by 0.9% in the year to September 2010.

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

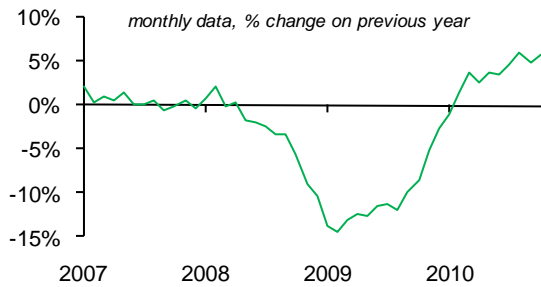
**Update:** *GDP Preliminary Estimate*, ONS, 25 January



## 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

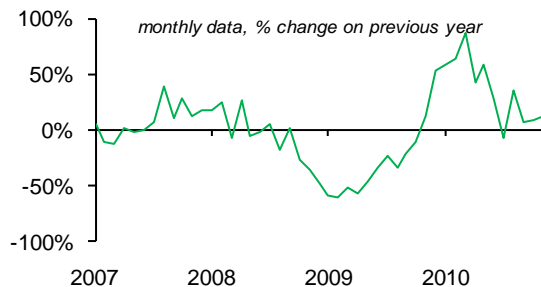


	Index Value (2005=100)	% change over month	% change over 12 months
2008	97.6	...	-2.9
2009	87.1	...	-10.7
2010 Jul	90.7	+0.4	+4.7
Aug	91.1	+0.4	+6.0
Sep	91.3	+0.2	+4.9
Oct	91.8	+0.6	+5.8

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

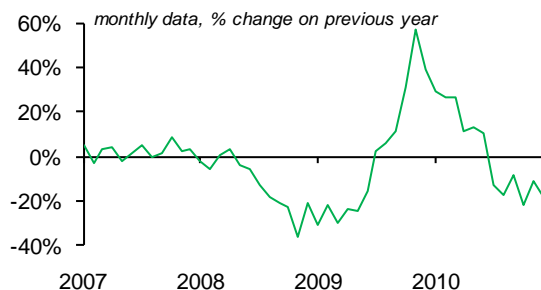


	Number '000s	% change over 12 months
2008	1,650	-5.8
2009	1,090	-33.9
2009 Nov	122	+12.5
2010 Sep	138	+6.6
Oct	124	+8.9
Nov	137	+11.8

Source: SMMT, not seasonally adjusted

- 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.
- UK vehicle production was 137,000 in November 2010, 12% higher than in November 2009.

### New Car Registrations



	Number '000s	% change over 12 months
2009	1,994	-6.4
2010	2,031	+1.8
2009 Dec	151	+38.9
2010 Oct	131	-22.2
Nov	140	-11.5
Dec	124	-18.0

Source: SMMT, not seasonally adjusted

- New car registrations rose by 1.8% in 2010 to 2.0 million. However, registrations in each of the last sixth months of 2010 were lower than the same months in 2009. This is partly attributable to the closure of the government scrappage scheme.
- There were 18% fewer new registrations of cars in December 2010 than in December 2009.

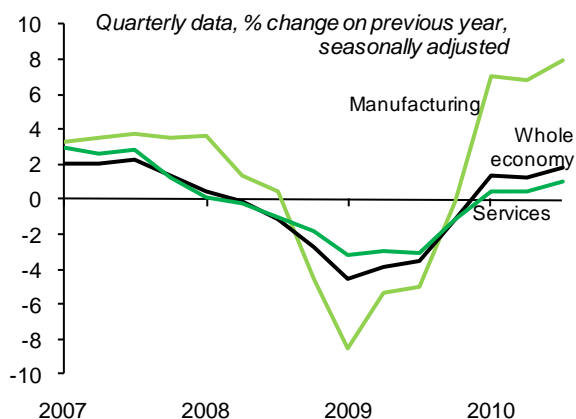
**Contact:** Adam Mellows-Facer, x4904

**Update:** ONS, [Index of Production](#), 13 Jan  
SMMT, [Vehicle Production](#), mid Jan  
SMMT, [New Car Registrations](#), early Feb

## 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 1.7% in Q3 2010 compared to the same quarter a year ago.
- Manufacturing output per job grew by 8.0% in Q3 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 Q3 2010 with Q2 2010, manufacturing output per job increased by 0.8%, services output per job was unchanged while output per job for the whole economy grew by 0.2%.

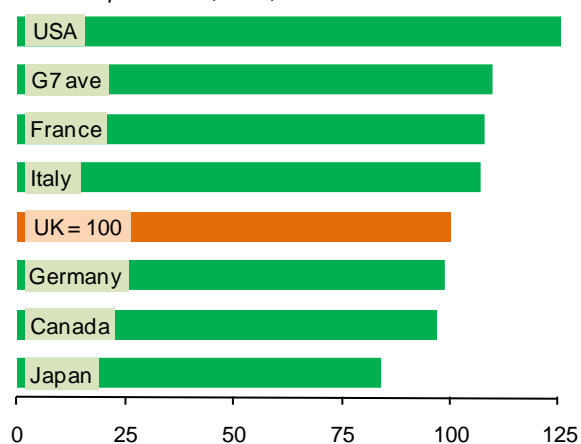
### Productivity growth, seasonally adjusted

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	0.2	0.2	..	..	-0.8	-0.9	-0.5
2009	-4.8	-3.4	..	..	-3.2	-3.3	-1.9
2009 Q3	-5.0	-3.7	-3.1	-1.7	-3.3	-3.5	-1.9
Q4	-0.1	1.2	-1.1	-0.2	-1.0	-1.1	0.1
2010 Q1	7.0	4.8	0.5	0.2	1.1	1.4	0.9
Q2	6.8	5.2	0.4	0.9	1.4	1.3	1.4
Q3	8.0	6.2	1.0	0.9	1.7	1.8	1.4
Latest quarterly % change	0.8	1.1	0.0	0.1	0.1	0.2	0.3

Source: ONS

### International comparisons

GDP per worker, 2009, index where UK=100



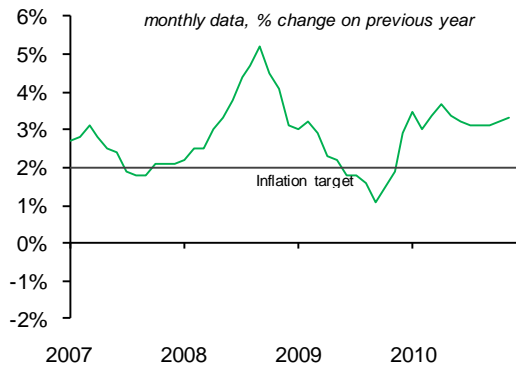
- International comparisons of productivity are presented as an index where the UK=100.
- In 2009, based on GDP per worker, the UK had higher levels of productivity than Japan, around the same levels as Germany, and lower levels than the US and the G7 average.
- Based on GDP per hour, in 2009 the UK had higher levels of productivity than Japan, around the same levels as Italy, and lower levels than Germany, France, the US and the G7 average.

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.3% in November, slightly higher than in October and above the Bank of England's 2% target for the twelfth 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.

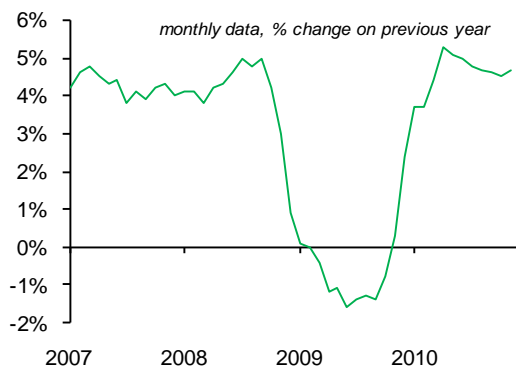
### Consumer Prices Index (CPI)



The CPI annual inflation rate was slightly higher in November at 3.3% rising from 3.2% in October.

- Upward pressure on inflation came from transport (especially fuel and lubricants) and food and non-alcoholic beverages (in particular vegetables).
- The RPI (all items) measure of inflation rose to 4.7% in November, reversing the trend that has seen it fall from its highest level (since July 1991) of 5.3% in April.

### Retail Prices Index (RPI)



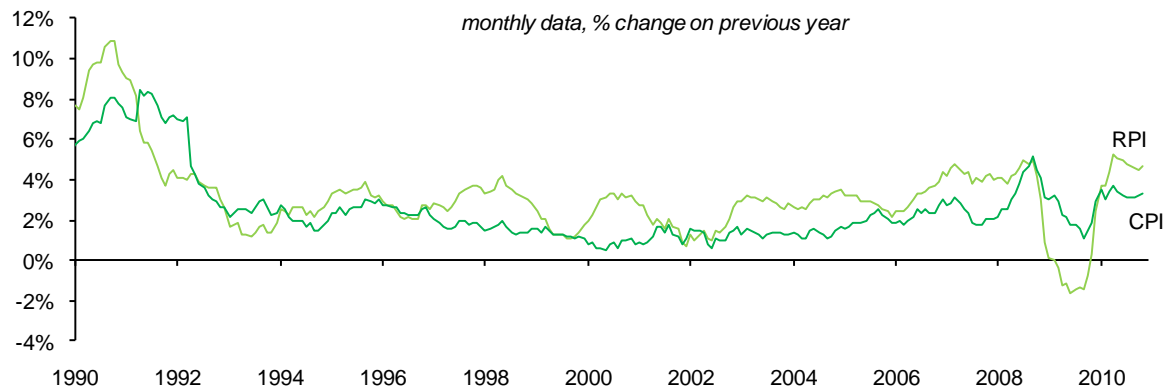
### Price Indices

% change on a year ago

		CPI	RPI
2007		2.3	4.3
2008		3.6	4.0
2009		2.2	-0.5
2010	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
	Nov	3.3	4.7

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 the US, can be measured using the standard Harmonised Index of Consumer Prices (HICP), or the CPI as it is known 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 and harmonised measures.

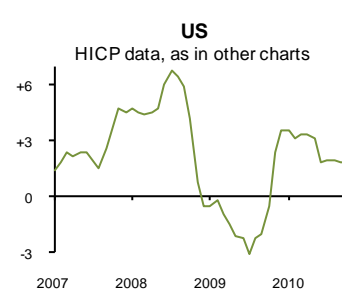
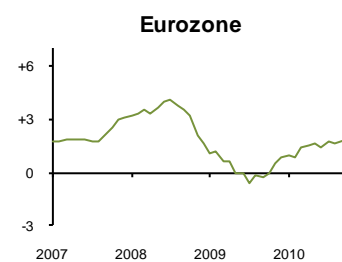
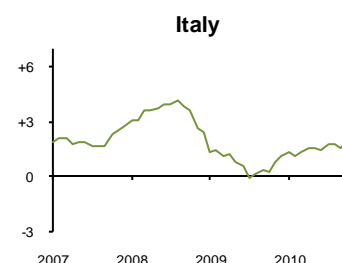
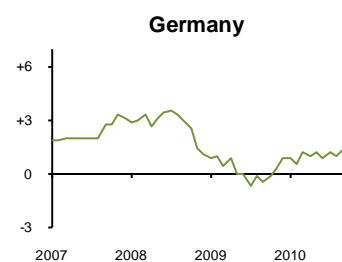
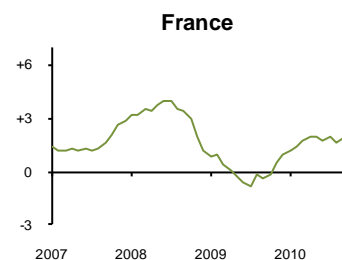
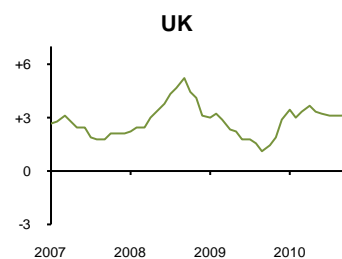
- In the year to November, UK inflation was 3.3%, up from 3.2% in October and 3.1% in September. The Bank of England's UK inflation target is 2%. This rate was the 7<sup>th</sup> highest in the EU.
- The flash estimate of Euro zone inflation in December was 2.2% in November, up 0.3% points from October. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- The highest rate in the EU in November was 7.7% in Romania. Ireland is the only EU country with lower prices than a year ago (-0.8%).
- HICP annual inflation in the US in October was 1.8%, unchanged from September. 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	Sep 10	Oct 10	Nov 10
<b>HICP (Eurostat/ONS)</b>					
UK	3.6	2.2	3.1	3.2	3.3
Eurozone	3.7	1.0	1.8	1.9	1.9
EU	10.6	1.0	2.2	2.3	2.3
France	3.2	0.1	1.8	1.8	1.8
Germany	2.8	0.2	1.3	1.3	1.6
Greece	4.2	1.3	5.7	5.2	4.8
Italy	3.5	0.8	1.6	2.0	1.9
Spain	4.1	-0.2	2.1	2.3	2.2
US	4.4	-0.8	1.8	1.8	..
<b>National definitions (OECD)</b>					
Canada	2.4	0.3	1.9	2.4	2.0
Japan	1.4	-1.4	-0.6	0.2	0.1
US	3.8	-0.4	1.1	1.2	1.1
G7	3.2	-0.1	1.2	1.3	1.3
OECD	3.7	0.5	1.7	1.9	1.8
Brazil	5.7	4.9	4.7	5.2	5.6
China	5.9	-0.7	3.4	..	..
India	8.3	10.9	9.8	9.7	8.3
Russia	14.1	11.7	7.0	7.5	8.1

Source: ONS, Eurostat & stat.OECD database



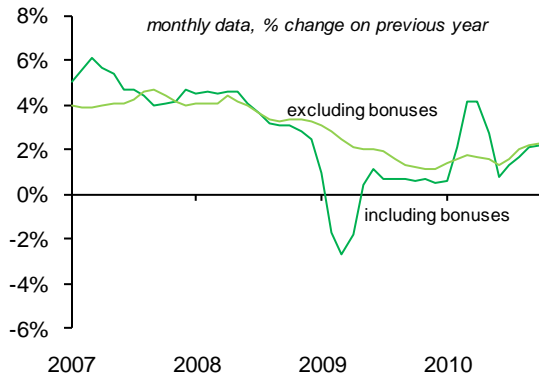
**Contact:** Gavin Thompson, x2042

**Updates:** Eurostat, [HICP full release](#), 14 Jan  
Eurostat, [Flash estimate \(Dec\)](#), 31 Jan  
OECD, [Main Economic Indicators](#), 1 Feb

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 2.2% in October compared with a year ago, up from a 2.1% increase in September. Average weekly earnings excluding bonuses were 2.3% higher in the three months to October compared with a year ago, up from a rise of 2.2% in September.

#### Average Earnings, Whole Economy



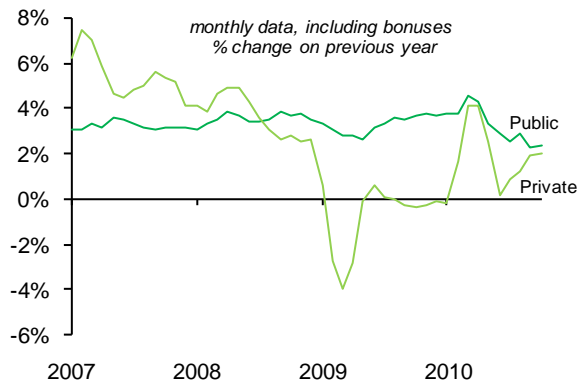
#### Average Earnings, Including Bonuses

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

	Private	Public	Manuf.	Serv.	Total
2007 Oct	5.4	3.2	3.5	5.0	4.1
2008 Oct	2.8	3.7	2.8	3.4	3.1
2009 Oct	-0.4	3.7	1.6	0.7	0.6
2010 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	1.9	2.3	4.3	2.0	2.1
Oct	2.0	2.4	4.0	2.2	2.2

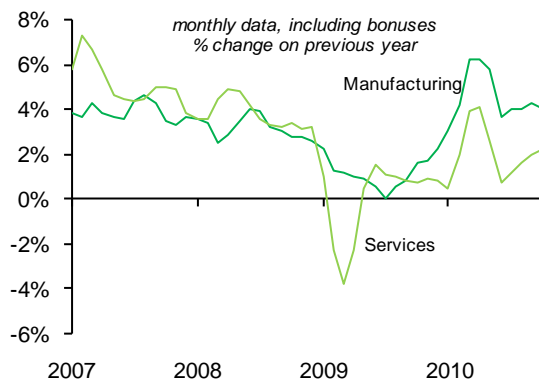
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 2.0% in October, compared with an increase of 2.4% in the public sector. Excluding financial services, public sector earnings rose by 2.2%.
- Average weekly earnings (including bonuses) in October in the public sector were £469 compared with £449 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

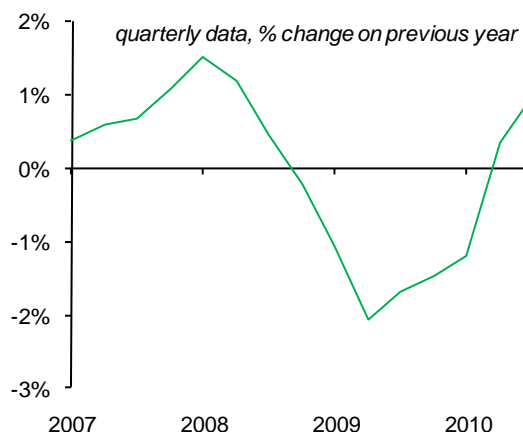


- Average total pay growth (including bonuses) in the manufacturing sector was 4.0% in October, compared with 2.2% in the services sector.
- Average weekly earnings (including bonuses) in October in the manufacturing sector were £526 compared with £441 in the services sector.
- In 2009, headline (including bonuses) earnings in the services sector averaged a decrease of 0.2% compared with a 1.2% increase in the manufacturing sector.

## C1: Employment

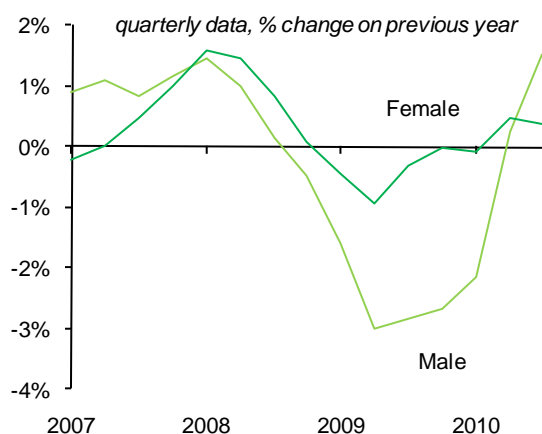
Employment in the three months to October 2010 was 33,000 lower than the previous quarter. The employment rate for 16-64 was 70.6%. This was 0.1 percentage points down on the quarter, the first quarterly fall in the employment rate since the three months to April 2010.

### Total employment



- Employment is 1.5% lower than its peak of 29.6 million in April 2008.
- Over the past year, employment has increased for all age groups.
- Employment of those aged 65 and over has increased by 11.8% over the last year.

### Male and female employment



- Over the past year, male employment has increased by 1.4% while female employment increased by 0.1%.
- Full-time employment has fallen by 0.2% over the past year while part-time employment has increased by 3.3%.
- Over the past quarter, the number of public sector jobs has fallen by 77,000 while the number of private sector jobs has increased by 296,000.

### Employment by age

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

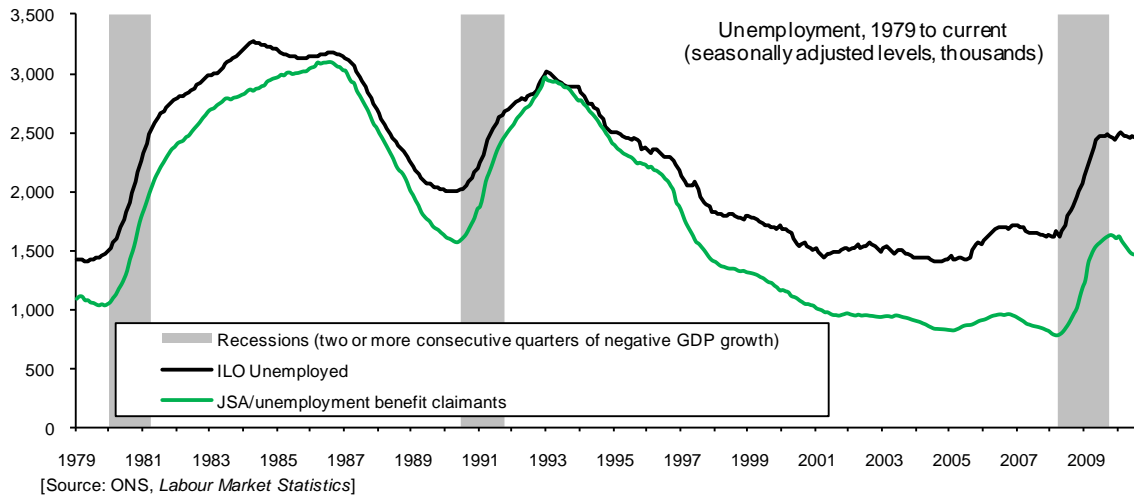
	Total	16-24	25-49	50-64	65+
Sep 2008	29,351	4,143	17,295	7,220	694
Sep 2009	28,906	3,783	17,152	7,212	758
Dec 2009	28,861	3,751	17,115	7,225	770
Mar 2010	28,872	3,797	17,040	7,244	791
Jun 2010	29,158	3,851	17,163	7,280	864
Sep 2010	29,125	3,813	17,176	7,292	844
% change on previous 3 months	-0.1	-1.0	+0.1	+0.2	-2.3
% change on previous year	+0.8	+0.8	+0.1	+1.1	+11.3

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 August to October 2010 was 2,502,000 (7.9% of all economically active) – up by 35,000 from the previous quarter (UK, seasonally adjusted).**

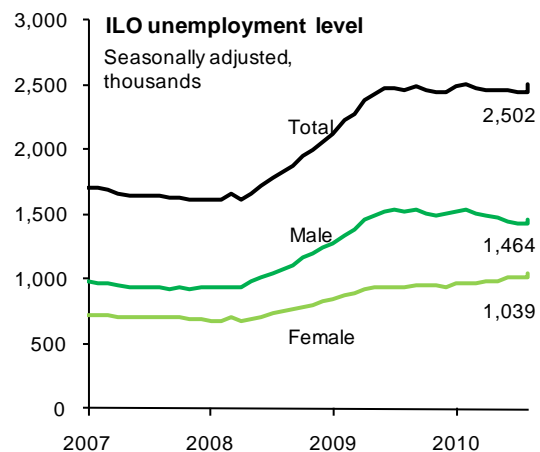


### ILO unemployment (period August-October 2010)

- There were 839,000 people unemployed for more than 12 months, the highest level since 1997;
- The number of unemployed women increased to 1.04 million, the highest level since 1988;
- The unemployment level among 16- to 24-year-olds was 943,000, up 3.1% on the previous quarter (see table below).

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

The seasonally-adjusted monthly JSA claimant count decreased by 1,200 between October and November 2010 to 1,462,700.



### 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	(%)
Aug-Oct 2005	1,501	4.9	652	13.7	628	3.5	207	2.9	14	2.3
Aug-Oct 2006	1,694	5.5	693	14.2	759	4.2	231	3.2	12	1.8
Aug-Oct 2007	1,632	5.3	696	14.2	697	3.9	227	3.1	12	1.9
Aug-Oct 2008	1,876	6.0	780	15.8	815	4.5	261	3.5	20	2.8
Aug-Oct 2009	2,485	7.9	944	20.0	1,155	6.3	359	4.7	26	3.4
Nov-Jan 2010	2,443	7.8	916	19.6	1,131	6.2	371	4.9	25	3.1
Feb-Apr 2010	2,475	7.9	923	19.6	1,171	6.4	358	4.7	23	2.8
May-Jul 2010	2,467	7.8	915	19.2	1,158	6.3	375	4.9	19	2.1
<b>Aug-Oct 2010</b>	<b>2,502</b>	<b>7.9</b>	<b>943</b>	<b>19.8</b>	<b>1,164</b>	<b>6.3</b>	<b>376</b>	<b>4.9</b>	<b>19</b>	<b>2.2</b>
% change on quarter	+1.4		+3.1		+0.6		+0.3		+0.0	
% change on year	+0.7		-0.1		+0.8		+4.7		-26.9	

Source: ONS, Labour Market Statistics.

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

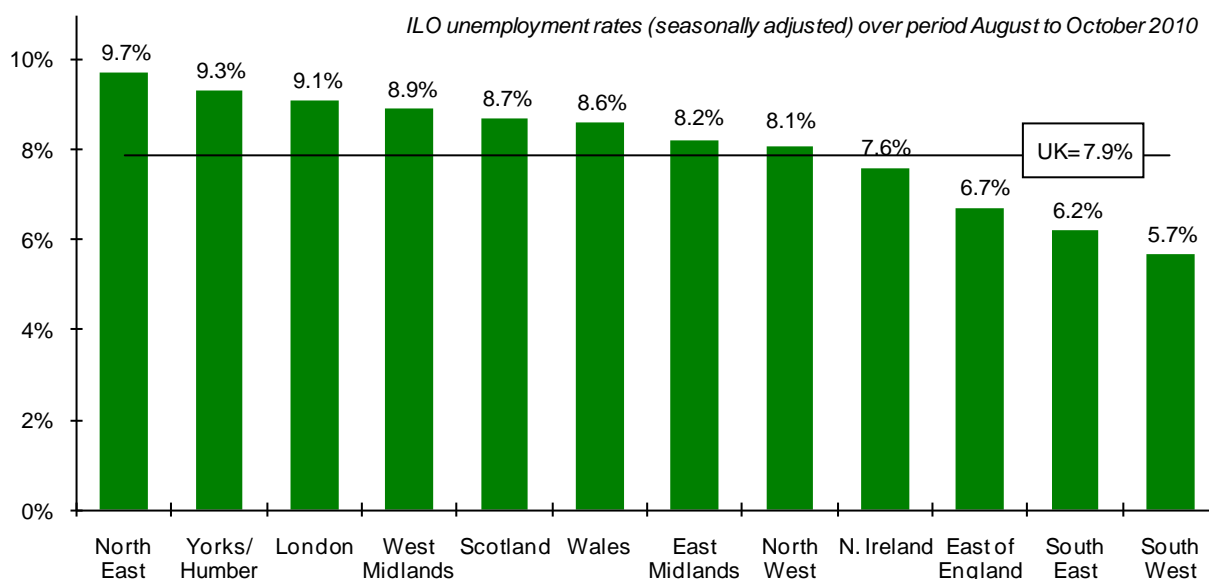
Contact: Lorna Booth, x2883

Updates: ONS, [Labour Market Statistics](#), 19 Jan

### 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 August to October 2010, the North East had the highest unemployment rate, at 9.7% of the economically active population, followed by Yorkshire and Humber at 9.3%. The lowest rate over the same period was 5.7%, in the South West.



- The largest increases in unemployment over the last quarter were in the East Midlands (+19,000) and West Midlands (+12,000). The largest decrease was in the South West (-8,000). (See table below.)
- The seasonally-adjusted JSA claimant count fell in six regions and countries and rose in five in November 2010 compared with the previous month.

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

	ILO unemployment				JSA claimant count	
	Aug - Oct 2010		Change in level		November 2010	
	Level (000s)	Rate (%) <sup>(a)</sup>	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	124	9.7	+6	+1	80.9	-0.2
North West	279	8.1	+2	-6	178.9	-1.0
Yorkshire & Humber	244	9.3	+1	+6	144.3	+0.1
East Midlands	188	8.2	+19	+17	96.8	-0.2
West Midlands	238	8.9	+12	-33	157.9	-0.1
East of England	202	6.7	-2	+7	108.6	-0.3
London	376	9.1	-4	-1	216.3	+0.9
South East	276	6.2	+3	-5	131.7	-1.1
South West	154	5.7	-8	-20	82.0	+0.3
Wales	125	8.6	+4	+0	71.2	+0.0
Scotland	234	8.7	-5	+45	135.6	+0.3
Northern Ireland	63	7.6	+6	+9	58.5	+0.1

Source: ONS, *Labour Market Statistics*

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

**Contact:** Lorna Booth, x2883

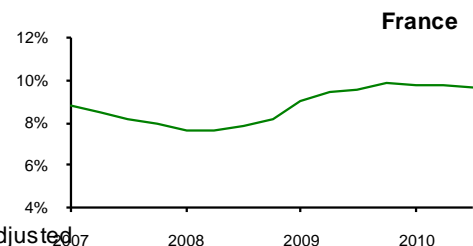
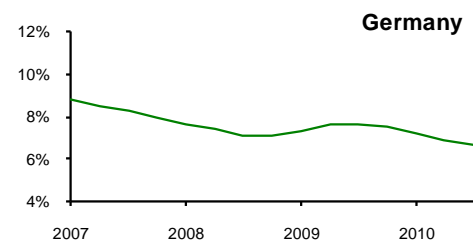
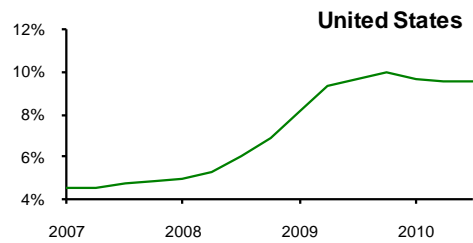
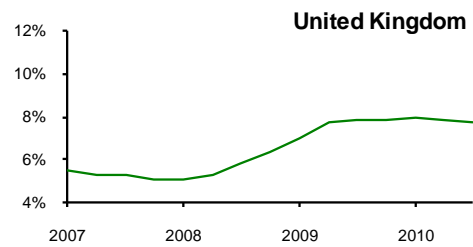
**Update:** ONS, *Labour Market Statistics*, 19 Jan



## 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 Q3 2010 was 7.7%, below the euro zone rate (10.0%) and below the G7 and OECD rates (8.1% and 8.5% respectively).
- Between Q3 2009 and Q3 2010 Germany saw a 0.9 percentage-point fall in its unemployment rate (from 7.6% to 6.7%); 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. Italy saw the largest rise (+0.3 percentage points).
- Outside the G7, Spain has the highest harmonised unemployment rate among the 33 OECD member states (20.5% 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 13.7%). 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. 88, Oct 2010](#)) suggested the UK unemployment rate would be 7.9% in 2010 and 7.8% in 2011. The respective forecasts for the euro zone were 9.9% and 9.6%, and for the OECD as a whole 8.3% and 8.1%.



### Unemployment

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

	2007	2008	2009	2010	2009				2010			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Canada	6.0	6.1	8.3	8.0	7.8	8.4	8.5	8.4	8.2	8.0	8.0	7.7
France	8.3	7.8	9.5	..	9.0	9.4	9.6	9.9	9.8	9.8	9.7	..
Germany	8.4	7.3	7.5	..	7.3	7.6	7.6	7.5	7.2	6.9	6.7	..
Italy	6.2	6.8	7.8	..	7.4	7.6	8.0	8.3	8.4	8.4	8.3	..
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	7.7	..
USA	4.6	5.8	9.3	9.6	8.2	9.3	9.7	10.0	9.7	9.6	9.6	9.6
Euro zone	7.5	7.6	9.4	..	8.8	9.4	9.7	9.9	10	10	10	..
G7	5.4	5.9	8.0	..	7.3	8.1	8.3	8.5	8.2	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, January 2011

Contact: Gavin Thompson, x2042

Updates:

OECD, [Economic Outlook](#), Apr 2011

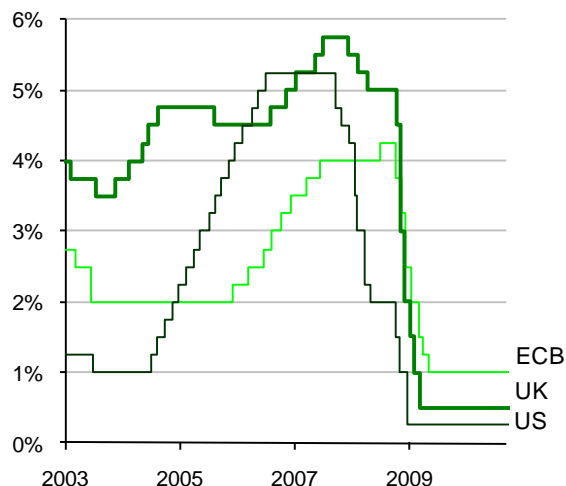
OECD, [Harmonised Unemployment Rates](#), 14 Feb 2011

## 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	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

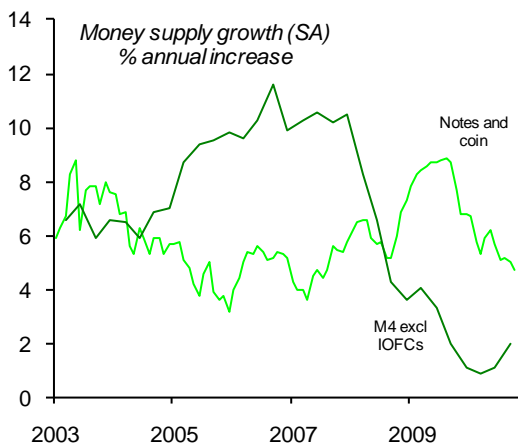
Source: Bank of England

- 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 3.7% in the year to December 2010.

Contact: Chris Rhodes, x2454

Updates: Monetary policy: [13 Jan \(UK\)](#); [13 Jan \(EU\)](#)  
Bank of England, [Monetary and Financial Statistics](#), 01 Feb

## D2: Public Finances

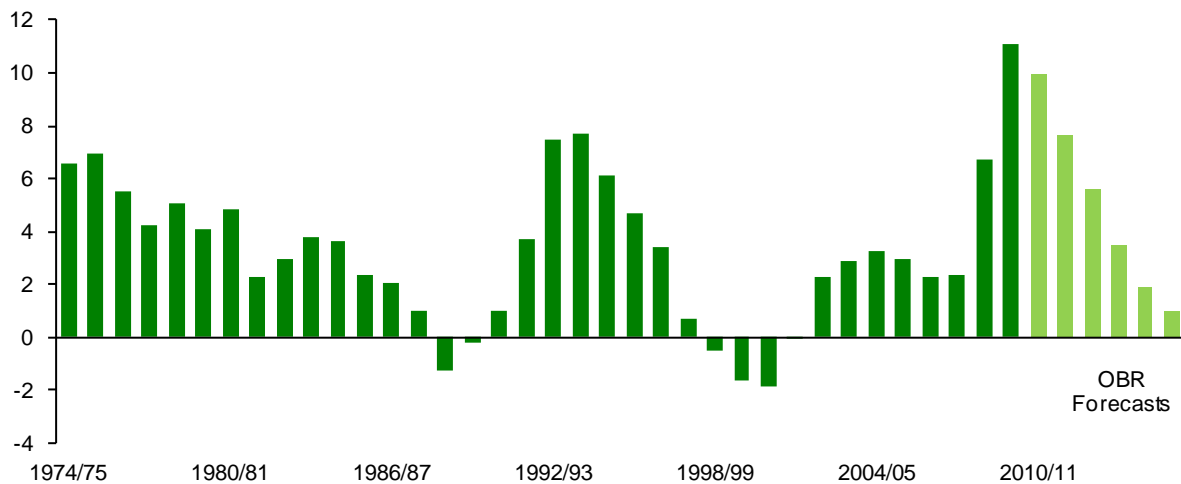
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £148.5 billion in 2010/11, equivalent to 10.0% of GDP.

- The Government borrowed £156 billion in 2009/10 (11.1% of GDP). Over the eight months of 2010/11, borrowing was £104.4 billion, £0.7 billion (or 0.7%) 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.

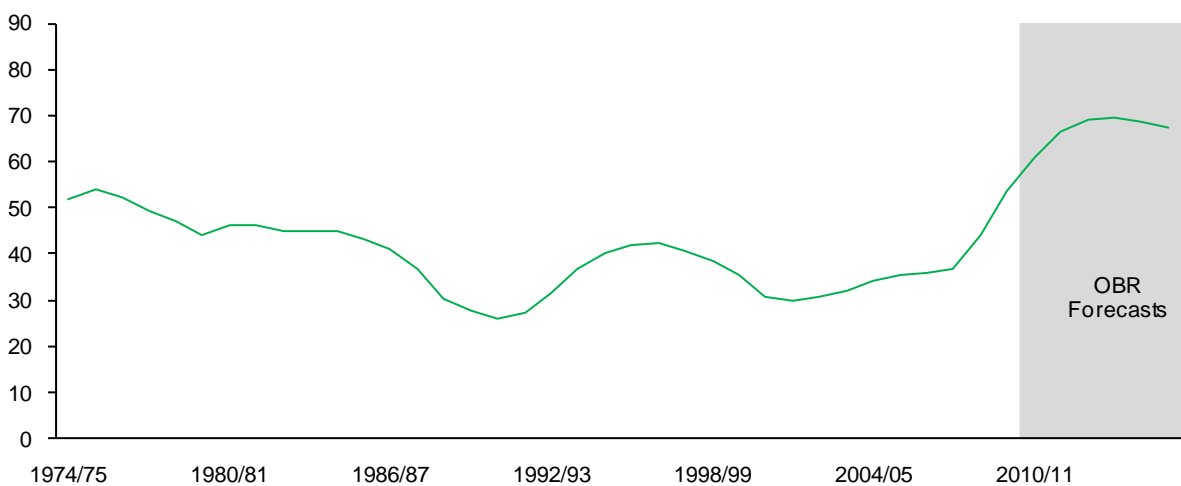
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	617	44.1
2009/10	156	11.1	772	53.6
2010/11	149	10.0	923	60.8
2011/12	117	7.6	1,052	66.3
2012/13	91	5.6	1,157	69.1
2013/14	60	3.5	1,232	69.7
2014/15	35	1.9	1,284	68.8
2015/16	18	1.0	1,320	67.2

Source: ONS, OBR

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



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



Contact: Dominic Webb, x4324

Update: ONS, [Public sector finances](#), 25 Jan 2011

### 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 hit an all-time high of 6,930 in December 1999. It approached those highs again in 2007, before falling sharply in 2008. In January 2011, it exceeded 6,000 for the first time since June 2008

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

The price of gold hit an all-time high of \$1,423/ounce in December 2010.

*Data from Thursday 6 January 2011*

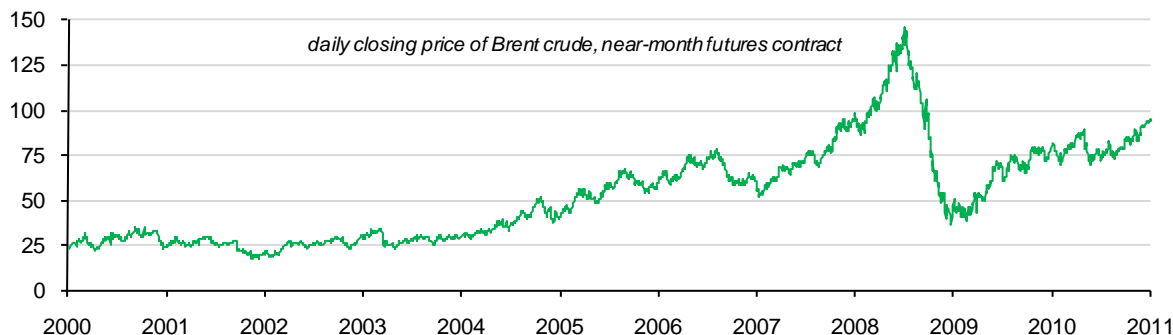
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
06 Jan 2011	6,019.5	94.5	1,378.2
%change over:			
1-month	+4%	+3%	-2.6%
12-months	+9%	+15%	+23%
%change from:			
cyclical peak	-11%	-35%	-3%
date	15 Jun '07	03 Jul '08	07 Dec '10
cyclical trough	+71%	+160%	+94%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



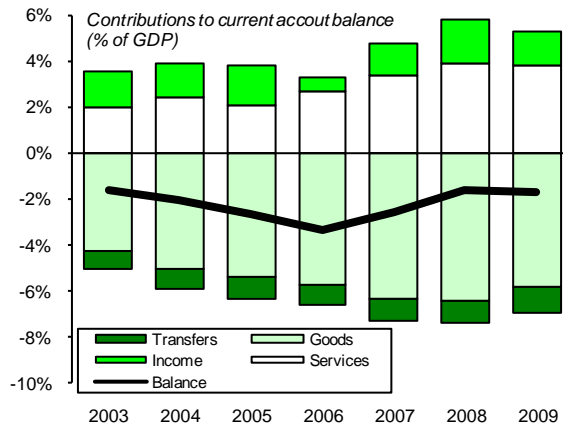
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2009 was £23.9 billion, equivalent to -1.7% of GDP. The surplus on services and income narrowed between 2008 and 2009. The deficit in goods also narrowed, resulting in the current account deficit widening slightly in 2009 compared with 2008.

### Current Account



- On a **quarterly** basis, the current account deficit was estimated at £9.6 billion in Q3 2010, widening from a Q2 2010 deficit of £5.2 billion. Between Q2 2010 and Q3 2010 the surplus on services and the deficit on goods widened.
- The **annual** current account deficit with EU27 countries in 2009 was £14.3 billion, compared with a deficit with non-EU countries of £9.6 billion. On a **quarterly** basis, the deficit with EU27 countries was £12.8 billion in Q3 2010 (£7.0 billion deficit in Q2 2010). With non-EU countries, the current account was in surplus by £3.2 billion in Q3 2010 (£1.8 billion surplus in Q2 2010).

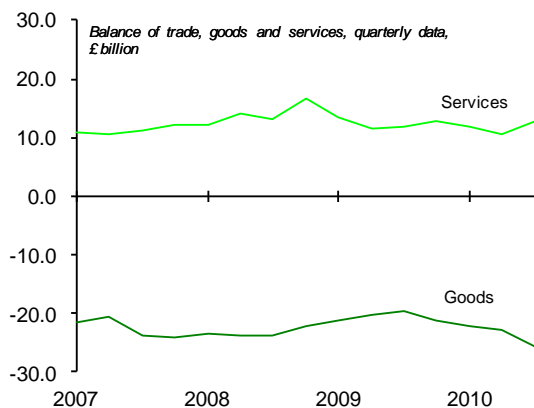
### Current Account Balances

£ millions; seasonally adjusted

	Goods		Balance	Services	Goods and Services	Income	Transfers	Current Account Balance
	Exports	Imports		Balance	Balance			
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	227,645	310,010	-82,365	52,678	-29,687	20,552	-14,719	-23,854
2009 Q3	56,712	76,425	-19,713	12,574	-7,139	5,912	-3,416	-4,643
Q4	60,627	81,923	-21,296	13,870	-7,426	7,608	-3,322	-3,140
2010 Q1	62,466	84,688	-22,222	12,669	-9,553	4,073	-4,291	-9,771
Q2	65,963	88,657	-22,694	11,727	-10,967	9,866	-4,119	-5,220
Q3	66,178	91,909	-25,731	13,101	-12,630	7,540	-4,478	-9,568

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 October was £8.5 billion, wider than the September deficit of £8.4 billion.
- The monthly trade surplus on services was an estimated £4.6 billion in October, down slightly from the September surplus of £4.6 billion.
- The overall monthly deficit on goods and services combined in October was £3.9 billion, up from £3.8 billion in September.
- The goods deficit with the EU27 was £3.5 billion in October (compared with £3.8 billion in September), while the deficit with non-EU countries was £5.0 billion (compared with £4.5 billion in September).

Contact: Grahame Allen, x3977

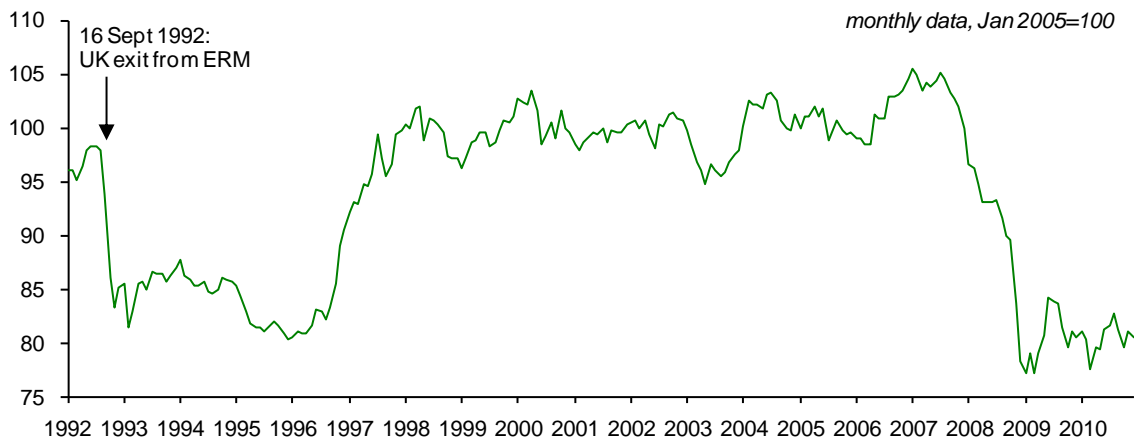
Updates: ONS, [UK Trade](#), 12 Jan;  
ONS, [UK Balance of Payments](#), 29 Mar

## E2: Exchange rates

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

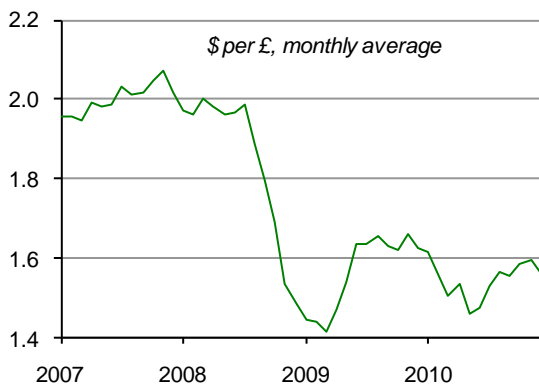
The SERI fell 0.5% in December, following a rise of 1.9% in November. Compared with the same period last year, the SERI was unchanged. It is now 4.5% above its March 2009 level, when it was at its lowest point since the series began in 1980, and 24% down from its July 2007 peak.

### Sterling Exchange Rate Index (SERI)



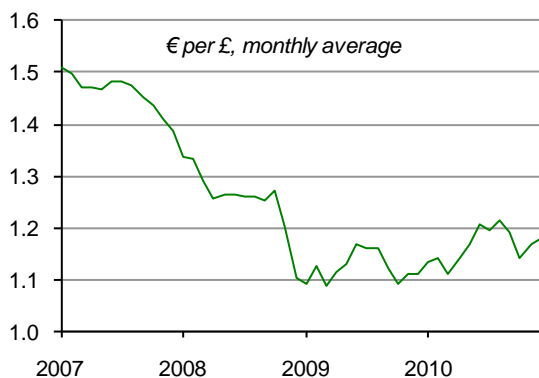
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- In December, the pound was on average four cents weaker against the dollar than in November. At 6 January market close the pound stood at \$1.55 dollars, slightly below the December average of \$1.56.
- Sterling rose one cent against the euro in December, compared with November, following a three cent rise in the previous month.
- At the 6 January market close the pound stood at €1.19. 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%
2010	1.55	-1.3%	1.17	3.8%
2009 Dec	1.62	9.3%	1.11	0.8%
2010 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%
Dec	1.56	-3.9%	1.18	6.1%

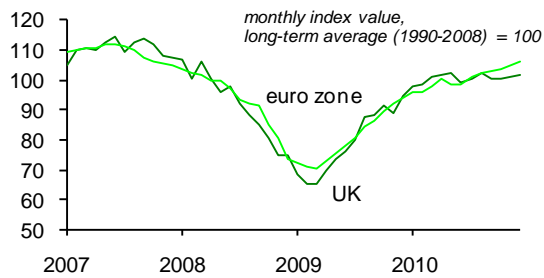
Contact: Gavin Thompson x2042

Updates: Financial Times, [sterling exchange rates](#) (daily)  
Bank of England, [SERI & monthly rates](#), 1 Feb

## 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

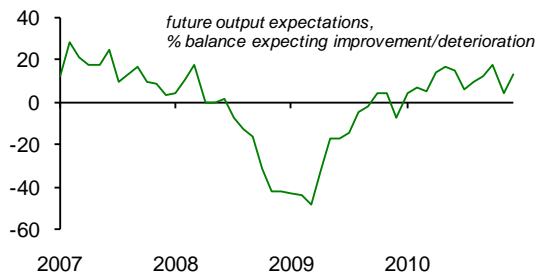


	UK	monthly	change on
	Index	change	year ago
2008 Dec	75.0	...	...
2009 Dec	95.0	...	...
2010 Oct	100.5	+0.3	+9.2
Nov	101.0	+0.5	+12.1
Dec	101.7	+0.7	+6.7

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 0.7 points in December. The overall EU sentiment index rose by 1.1 points, boosted by strong positive readings from France, the Netherlands and Germany.

### CBI Industrial Trends Survey



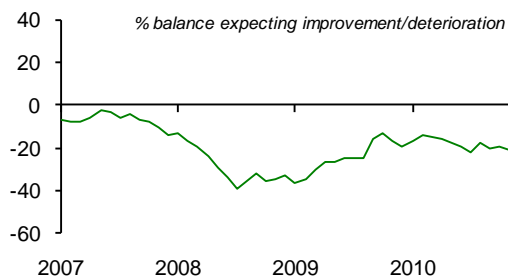
balance (as a %) of those expecting an improvement  
minus those expecting a deterioration

	Future output	monthly	change on
	expectations	change	year ago
2008 Dec	-42	...	...
2009 Dec	-7	...	...
2010 Oct	+18	+6	+14
Nov	+4	-14	+0
Dec	+13	+9	+20

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in December were +13% of firms expecting output to rise rather than fall over the next three months. This was up 9 points on November's +4%, but down from +18% in October.

### GfK NOP Consumer Confidence Survey



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

	Consumer	monthly	change on
	Conf. Index	change	year ago
2008 Dec	-33	...	...
2009 Dec	-19	...	...
2010 Oct	-19	+1	-6
Nov	-21	-2	-4
Dec	-21	0	-2

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 was unchanged in December. Confidence is 2 points lower than a year ago, but still 12 points higher than two years ago.

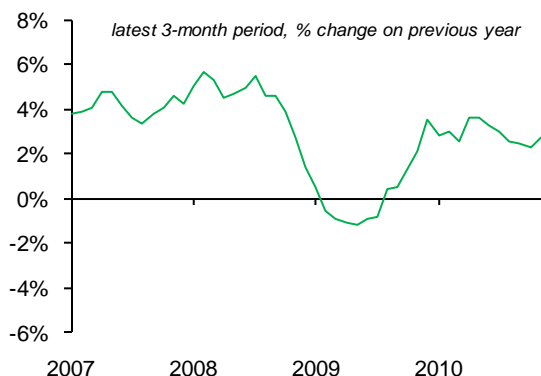
**Contact:** Lorna Booth, x2883

**Update:** CBI, [Industrial Trends](#), mid-Jan  
EC, [Economic Sentiment Indicator](#), 27 Jan  
GfK NOP, [Consumer Confidence](#), 28 Jan

## F2: Retail Sales

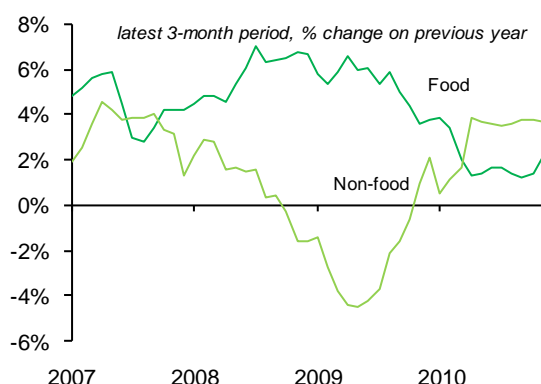
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI; however, this page only uses data and information from the ONS.

### Value of Retail Sales



- The rate of annual increase in the value of retail sales rose in the three months to November to 2.7%, following five consecutive monthly falls in the rate of increase.
- The value of retail sales in November alone was up by 1.0% compared with October, in seasonally adjusted terms.
- The estimated total value of sales in November was £27.9 billion (non-seasonally-adjusted).

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



- The value of sales in food stores in the three months to November was 2.2%, a sharp rise from recent record lows.
- The annual rate of increase of the value of sales in non-food stores has been steady at just below 4% in recent months.
- Sales in household goods stores were 4.9% lower than a year ago.
- Sales in clothing and footwear stores were up by an annual rate of 7.6% in the three months to November.

### 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 Jul	1.7	4.8	0.5	1.9	3.5	<b>3.0</b>
Aug	1.4	4.7	-0.5	3.0	3.6	<b>2.6</b>
Sep	1.2	6.2	-2.7	4.7	3.8	<b>2.5</b>
Oct	1.4	6.7	-4.0	5.6	3.8	<b>2.3</b>
Nov	2.2	7.6	-4.9	5.7	3.7	<b>2.7</b>

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



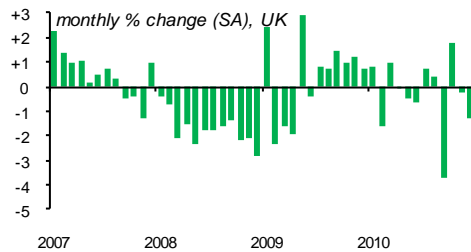
## F3: Housing Market

House prices on the Halifax index fell by 1.3% in December, following a 0.2% decline in November. Prices were 3.4% lower compared with a year ago, the largest annual decrease since September 2009. In contrast, the Nationwide index showed a 0.4% rise in house prices in December, although this follows two months of declines. Prices were 0.4% higher than a year ago on this measure.

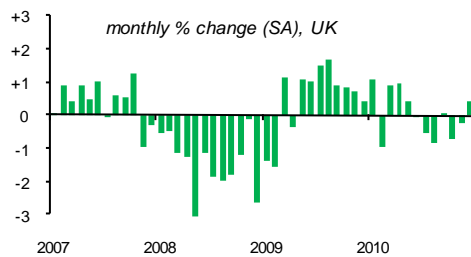
Numbers of mortgage approvals and housing starts have increased since the recession but still remain well below pre-recession levels.

### House price indices

#### Halifax house price index



#### Nationwide house price index

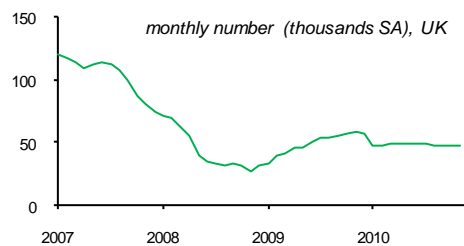


#### Latest monthly data UK, seasonally adjusted

	Halifax	Nationwide
Latest data	Dec-10	Dec-10
Change in month	-1.3%	+0.4%
Change in year	-3.4%	+0.4%
Peak date	Aug-07	Jul-07
Change since peak	-18.6%	-9.5%
Trough date	Apr-09	Feb-09
Change since trough	+5.0%	+9.7%

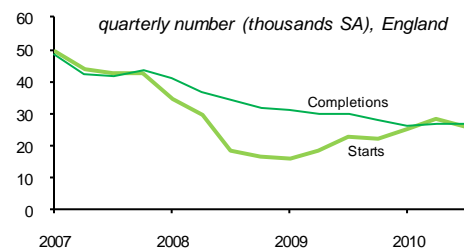
- The recovery in house prices since early 2009 has stalled, with recent data showing year-on-year growth slowing on both the Halifax and Nationwide measures.
- There is considerable regional variation. In Q4 2010 prices fell by 9% in Northern Ireland but rose by 4% in East Anglia compared with a year 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 48,019 mortgage approvals in November 2010, with numbers remaining flat in 2010 following a sharp fall in January.

### House-building



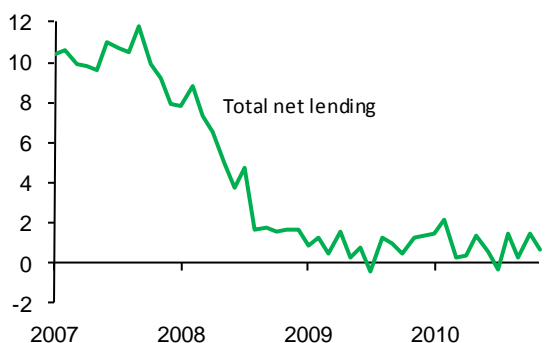
- There were 25,870 house building starts in England in Q3 2010, down from 28,460 in Q2 2010. This is 10,000 higher than the low of 15,510 in Q1 2009, but still only just over half the 50,000 starts in Q1 2007.
- The number of dwelling completions fell slightly to 26,470 in Q3 2010 and is still almost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

**Contact:** Daniel Harari, x2464

**Updates:** Halifax [House Price Index](#), early Feb;  
Nationwide [House Price Index](#), early Feb;  
Bank of England, [Lending to Individuals](#), 1 Feb;  
DCLG, [House-building](#), 17 Feb

## 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 £0.7 billion in November. This compares with an increase of £1.5 billion in October. Monthly net lending peaked in October 2007 at £12.0 billion.
- Monthly net unsecured lending fell by £0.1 billion in November 2010.
- Monthly net secured lending (mortgages) rose by £0.8 billion in November 2010, compared with a £1.2 billion increase in October.

### Net outstanding lending to individuals

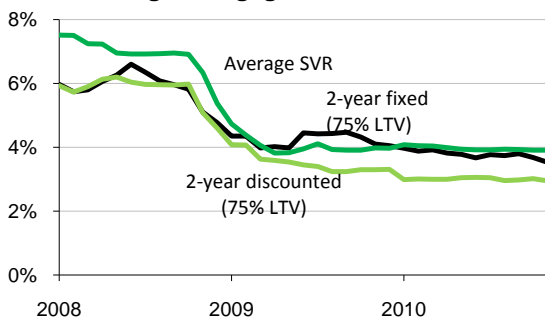
£ billions; seasonally adjusted

	Secured	Unsecured	Total
2006 Nov	1,067	213	1,280
2007 Nov	1,180	221	1,400
2008 Nov	1,225	234	1,459
2009 Nov	1,232	227	1,460
2010 May	1,239	219	1,458
Aug	1,240	216	1,456
Nov	1,240	214	1,454

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

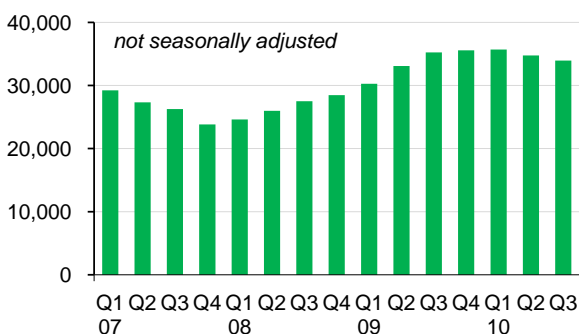
- Total net outstanding lending to individuals was £1,454 billion at the end of November 2010.
- Secured lending (mortgages) is the largest form of lending at £1,240 billion, 85% of total lending outstanding.
- Unsecured lending outstanding (including credit cards) was £214 billion at the end of Nov. 2010.
- Total net outstanding lending was 0.4% lower in November compared with a year ago. Secured lending was 0.6% higher, while unsecured lending was 5.9% lower.

### 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 November was 3.91%, 2.43 percentage points lower than in November 2008.
- The average fixed and discounted rates offered (75% LTV) in November were 3.53% and 2.95% respectively (1.57 and 2.13 percentage points lower than in November 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](#), 1 Feb  
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 release</i> 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.  $\text{GDP at market prices} = \text{GDP at basic prices} + \text{transport prices paid separately} + \text{non deductible taxes on expenditure} - \text{subsidies received}$ .

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

**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.