



Economic Indicators, September 2011

RESEARCH PAPER 11/65 06 September 2011

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

- Weak data over the past month has raised concerns over the health of the UK economy.
- Surveys pointed to declining demand in the manufacturing and services sectors, while a sharp fall in new orders was recorded in the construction sector.
- Unemployment rose over the most recent quarter, and the ONS left unchanged, at 0.2%, its initial estimate of GDP growth in Q2 2011 (compared with Q1 2011).
- Weak economic data in the US and eurozone economies only add to the increasingly pessimistic outlook for the UK.

This month's articles:

- **Global economic developments over the summer**
- **The 50% rate of income tax**

Daniel Harari (editor)

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Research Paper 11/65

Contributing Authors: Daniel Harari (editor),
Economic Policy and Statistics section

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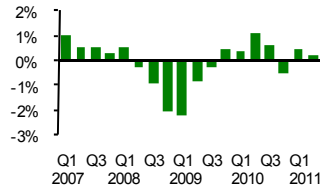
Summary

Weak data over the past month has raised concerns over the health of the UK economy. Surveys pointed to declining demand in the manufacturing and services sectors, while a sharp fall in new orders was recorded in the construction sector. Unemployment rose over the most recent quarter, and the ONS left unchanged, at 0.2%, its initial estimate of GDP growth in Q2 2011 (compared with Q1 2011). Weak economic data in the US and eurozone economies only add to the increasingly pessimistic outlook for the UK.

GDP growth

[page 1](#)

(% change quarter-on-quarter)

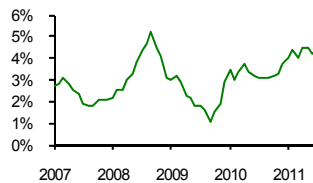


Quarterly GDP expanded by 0.2% in Q2 2011 compared with Q1 2011. This followed growth of 0.5% in Q1 2011.

Inflation (CPI)

[page 7](#)

(% change on year ago)

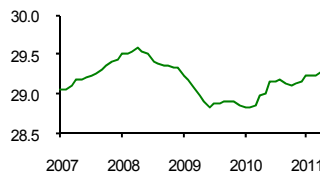


The rate of CPI inflation was 4.4% in the year to July, up from 4.2% in June. The Bank of England target is 2%.

Employment

[page 10](#)

(total, millions)

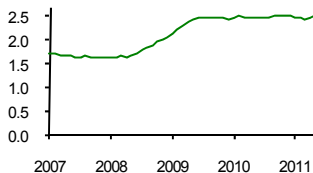


In the three months to June, the number of people employed rose by 25,000 to 29.27 million.

Unemployment

[page 11](#)

(total, millions, ILO definition)

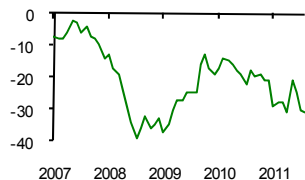


ILO unemployment fell by 38,000 to 2.49 million in the three months to June. The unemployment rate also increased from 7.7% to 7.9%.

Consumer Confidence

[page 19](#)

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



The GfK NOP survey showed consumer confidence falling in August 2011 to its equal lowest level (with April 2011) since February 2009.

Next issue: 4 October

Editor: Daniel Harari

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1 Introduction to *Economic Indicators*

Economic Indicators Research Papers are usually published on the first Tuesday of the month. Individual indicator pages are updated more frequently and are made available through the Library's intranet both under the relevant subject page headings, and collectively on the *Economic Indicators* subject page.¹

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If you have any comments or suggestions about *Economic Indicators* please contact the editor, Daniel Harari, on x2464.

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Sources and glossary

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

Contacts

Members and their staff are encouraged to talk to Library subject specialists. A comprehensive guide is available in *Using the Library*.² Researchers are not able to discuss pages with members of the public. For enquiries in these subject areas please contact the following specialists:

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² <http://intranet.parliament.uk/Documents/intranet/offices-departments/assets/using-the-commons-library.pdf>

2 Global economic developments over the summer

Are Western economies faced with the prospect of a double-dip recession? Are they already in the midst of one? Did they ever even leave the first?

A gloomy summer of bad economic news means these questions are once again being hotly debated (chart 1)

Double-dip or not, the latest GDP figures suggest that, more than three years after the start of the global economic downturn, it will be some time yet before the output of many Western economies reaches pre-crisis levels (chart 2). The second quarter of 2011 saw the lowest growth for two years in the eurozone, with particularly weak figures for France and Germany, which had hitherto been performing strongly (see page 2). The gloomy outlook has not been relieved by more timely survey-based data: business and consumer confidence (charts 3 and 4; also see page 19) both fell in August to levels not seen since the depths of the recession.

Compounding matters is the perception that authorities in the eurozone and the US are hamstrung by political divisions over how to respond to their debt burden and restore growth

In the eurozone, a Franco-German summit on 16 August to discuss measures to combat the region's sovereign debt crisis resulted in a subtle strengthening in the terminology of the intended approach, from economic governance to *government*, but the hints of practical action that markets were hoping for – an increase in the fund to support countries in debt crisis, and proposals for common eurozone bonds – were not forthcoming. The closer integration such measures imply appears to be happening too slowly for the markets, but too quickly for national legislatures: political resistance to the idea of core eurozone countries assuming the liabilities of the indebted periphery threatens to hold up crisis response and prevention policy at every turn.

In the US, meanwhile, agreement to raise the debt ceiling may have averted default, but many important details remain unresolved; future showdowns between the President and Congress and policy gridlock look likely, as the country's economic inertia is matched by political paralysis. This political dimension underpinned Standard and Poors' rationale for downgrading its rating of US sovereign debt:-

the political brinkmanship of recent months highlights what we see as America's governance and policymaking becoming less stable, less effective, and less predictable than what we had previously believed

Chart 1: use of the phrase 'double dip recession' in major world newspapers, 2011
number of occurrences, per month

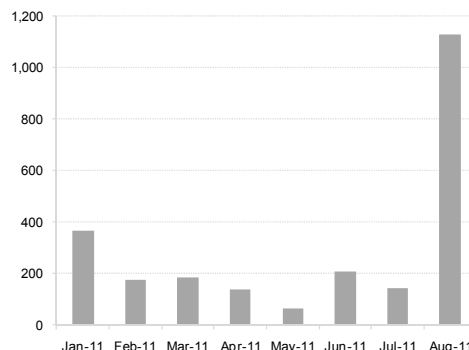


Chart 2: GDP relative to peak
indexed, peak GDP=100

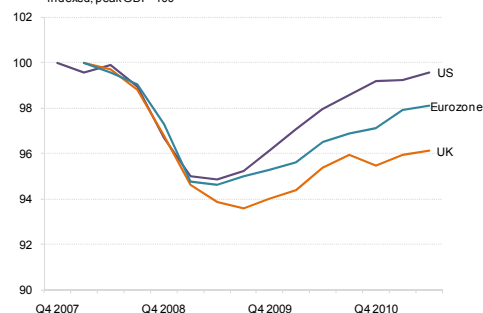


Chart 3: Business confidence (manufacturing sector purchasing managers index)
Diffusion index: values below 50 indicate majority of respondents report a deterioration in trading conditions compared with previous month

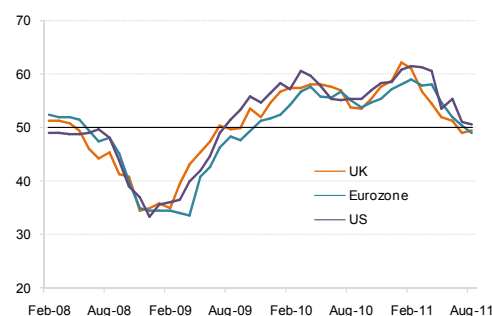
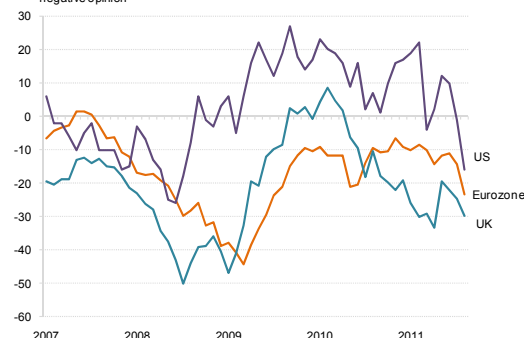
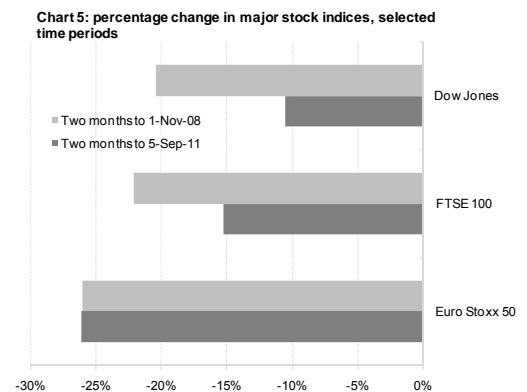


Chart 4: Consumer confidence (opinion of general economic situation over next 12 months)
Balance: values less than zero indicate majority of respondents expressed negative opinion



This worsening economic outlook and uncertainty over future policy has led to signs of risk aversion among investors and placed stress on the financial sector

In recent weeks, stock markets have seen their most dramatic falls since the collapse of Lehman Brothers (chart 5), with European bank shares particularly badly hit. This is partly due to their exposure to eurozone private and sovereign debt, lending which in light of recent developments looks more risky, and partly because the fears of a systemic banking crisis have placed stress on the interbank funding markets. The stress is reflected in deposit flight from financial institutions across Europe and banks' increased use of the ECB's deposit facility.³ In response, the new IMF chief Christine Lagarde recently called for 'substantial mandatory recapitalisation' of European banks, whilst the chief executive of Deutsche Bank stated that some institutions may not survive a cut in the value of their sovereign debt holdings.



Sources for charts: Factiva, OECD.stat, Markit PMI press releases; Institute for Supply Management; Bloomberg

The fall in share values was mirrored by a rise in the sovereign bond prices of major economies (i.e. a fall in bond yields). In the US and UK, bond yields fell to historic lows: in a bond auction on 1 September, the UK sold ten-year government bonds at a rate of 2.8%, as compared with 3.9% five months' ago. Governments may find cold comfort in the fall in borrowing costs, though: these developments are not so much a sign of increased confidence in debt sustainability as a signal that investors anticipate a low-growth, low-inflation environment in the future.

Leaving aside the issue of authorities' will to action, policy options are limited

The opportunity to use fiscal policy to compensate for flagging demand in the private sector is more constrained than it was in 2008. In the eurozone, market sensitivity to the sovereign debt outlook may mean there is little scope for reconsideration of existing austerity plans, particularly in the countries of the eurozone periphery where growth prospects are weakest. Any requirements for the public sector to recapitalise banks would further limit options. In the UK, debate rages on the merits of a 'Plan B' for fiscal policy, involving higher spending in the event of further economic difficulty.

On the monetary policy side, the ECB is caught in a bind between its imperative to control prices across the eurozone (inflation has been above its target level for nine months) and the need to stimulate economic activity by lowering interest rates. The Bank of England faces a similar dilemma, but with its base rate at 0.5%, conventional monetary policy is already near its limit and inflationary pressure is anyway more significant in the UK. In the US, two rounds of quantitative easing have increased liquidity to banks, but many commentators argue that this has failed to find its way beyond the financial sector and into the real economy due to risk aversion and a shortage of creditworthy borrowers.

Though they are sharply divided on the appropriate response, most commentators agree that Europe and the US are on the brink of another round of economic contraction. Much will depend on whether policy gridlock persists in the US, and on whether perceptions of sovereign debt sustainability in Italy and Spain continue to deteriorate. If so, this could worsen existing risk aversion, weaken demand and raise unemployment, tipping Europe and the US over the precipice.

Gavin Thompson, Economic Policy and Statistics Section

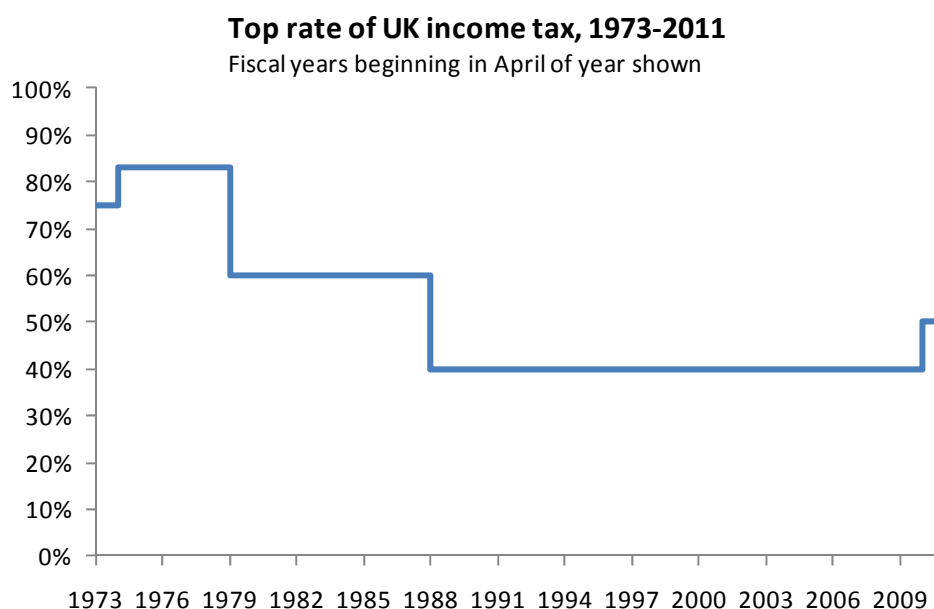
³ The deposit facility provides a safe place for banks to park funds. Use of this facility (in preference to lending the funds on to other financial institutions) is an indication of the (un)willingness of banks to lend to each other, and hence of stress in financial markets.

3 The 50% rate of income tax

A new 50% rate of income tax on incomes over £150,000 was announced in the 2009 Budget and came into effect in April 2010. The 2008 Pre-Budget Report had announced a new rate of 45% from April 2011. The rate was increased to 50% and the implementation date brought forward by a year in the 2009 Budget. The then Government argued that the tax would “pay for additional support for people now and ... invest in the future”. The new tax rate was also justified on the grounds of fairness: “that those who have gained the most should contribute more”.

3.1 Trends in the top rate of income tax

Before the increase to 50%, the top rate of income tax had been 40%, unchanged since 1988/89. The increase to 50% was the first time the top rate of tax had been increased since 1974 and reversed a long period when the trend was either downwards or stable (see chart below). The top rate reached 83% in the 1970s and was cut to 60% in 1979 and then to 40% in 1988.



3.2 Government policy

The Coalition Agreement made no specific reference to the 50% rate, although there was a general reference to making the tax system simpler and more competitive. The Agreement said that increasing the personal allowance would take priority over other tax cuts. The new Government’s first Budget said that the 50% rate of income tax would remain “for the time being”. In this year’s Budget statement, the Chancellor said that “the 50% tax rate would do lasting damage to our economy if it were to become permanent” and asked HM Revenue and Customs to examine how much revenue it generates. This has led to speculation that the 50% rate might be cut later in this Parliament.

3.3 The significance of the 50% rate of income tax

The 50% rate of tax received a great deal of attention when it was first introduced and the Chancellor’s announcement of a review has again raised the profile of this tax. In some ways this is surprising. Very small numbers of people pay the 50% rate: HMRC estimates around 300,000 or 1% of all income taxpayers. While there is a debate about how much money is raised by the tax, even the highest estimates put the yield at around £3 billion. This is a relatively small figure compared with total income tax receipts of around £150 billion and

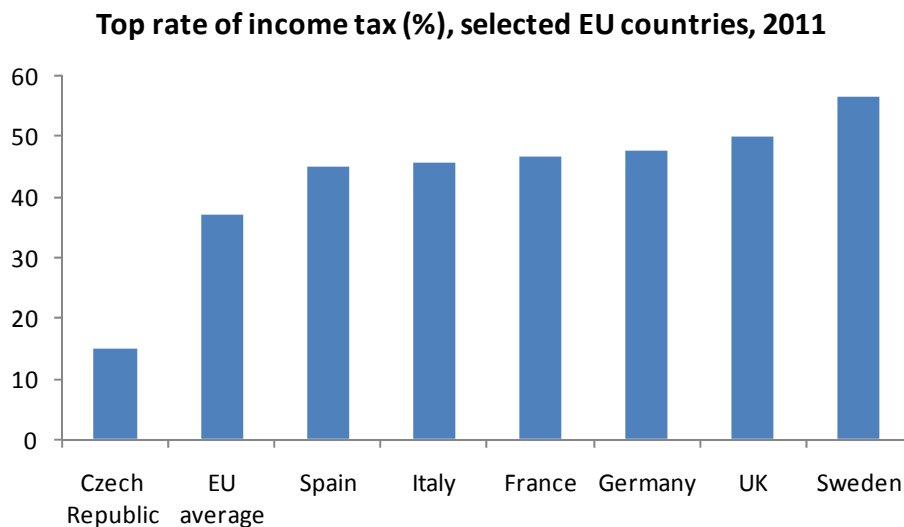
a forecast budget deficit of £122 billion in 2011/12. Critics of the 50% rate argue that it is by no means clear that it will raise extra revenue. The IFS have pointed out there are a variety of ways in which people might reduce their taxable income in response to the 50% rate, such as working less, retiring earlier, moving abroad or contributing more to a pension or charity.

3.4 International comparisons

The UK's 50% top rate of tax is among the highest in the EU. The chart below is a snapshot of rates in 2011 and therefore does not take into account any changes planned for the future. Also, looking at a single rate gives only a partial picture of the tax system. The threshold at which the rate starts to be paid is also important.

In 2011, only four EU countries had a higher top rate: Belgium, Denmark, the Netherlands, and Sweden. The chart below compares the UK's top rate to other major EU economies. While France, Germany, Italy and Spain all have lower top rates of tax, in all these countries the top rate was 45% or higher in 2011.

Seven EU countries have higher top rates of income tax compared with pre-crisis (2007) rates. Besides the UK, these are Greece, Spain, France, Italy, Luxembourg and Portugal. In all these countries, the increase has been 5 percentage points or less – considerably lower than in UK. These changes contrast with the general downward trend over the past 16 years. The UK is unusual in having a higher top rate of income tax in 2011 compared with 1995. Portugal is the only other EU country where this is the case.

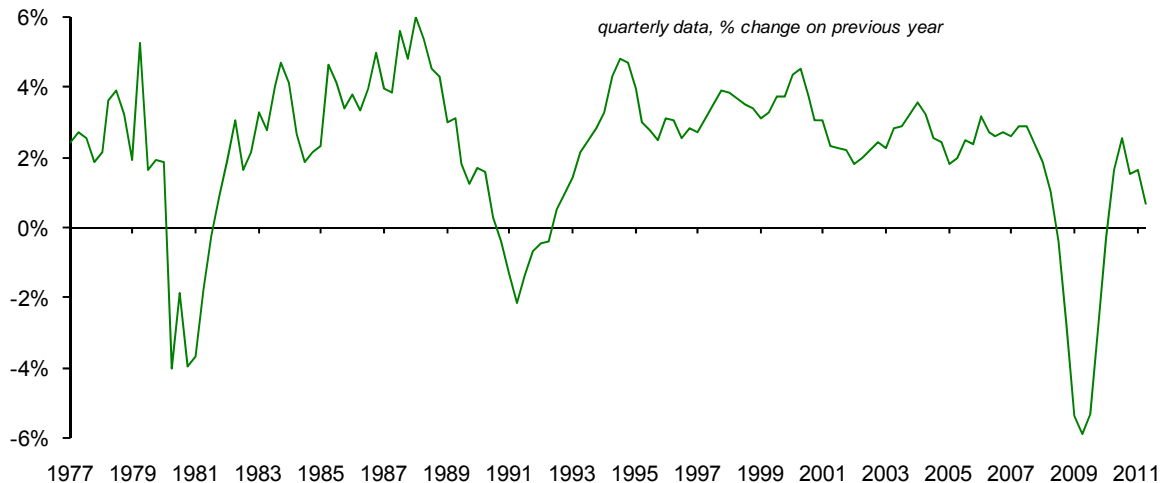


Dominic Webb, Economic Policy and Statistics Section

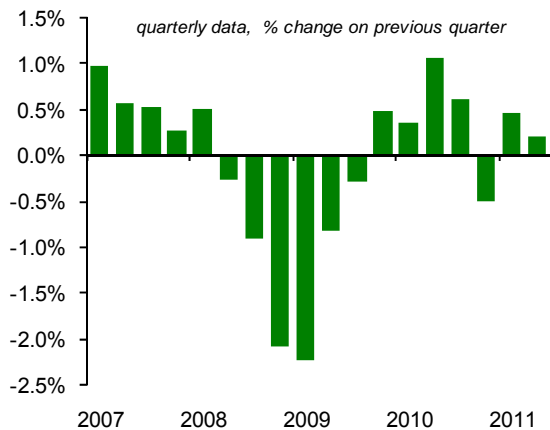
A1: Gross Domestic Product

The economy grew by 0.2% in Q2 2011, following a rise of 0.5% in Q1 2011. In August 2011, HM Treasury's average of independent economic forecasts of GDP growth for 2011 was 1.3% and for 2012 was 2.0%. The Office for Budget Responsibility's (OBR) central forecasts from March 2011 are for 1.7% growth in 2011, 2.5% for 2012 and 2.9% for 2013.

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
2008	1,446	2.9	...	-0.1
2009	1,395	-3.5	...	-4.9
2010	1,455	4.3	...	1.4
2010 Q2	362.6	5.3	1.1	1.6
Q3	364.9	4.8	0.6	2.5
Q4	369.2	4.7	-0.5	1.5
2011 Q1	375.3	4.6	0.5	1.6
Q2	...	...	0.2	0.7

Source: ONS, series: YBHA, ABMI

- The economy grew by 0.2% in Q2 2011 compared with Q1 2011. This compares with a rise of 0.5% in Q1 2011 compared with Q4 2010.
- Manufacturing shrank by 0.5% in Q2 2011 compared with the previous quarter, while services and construction both grew by a preliminary estimate of 0.5%.
- In Q1 2011, real GDP was 0.7% higher than a year earlier but GDP remains 3.9% below its pre-recession (Q1 2008) level.

Contact: Grahame Allen, x3977

Updates: ONS, [Quarterly national accounts](#), 5 October
HMT, [Comparison of Independent Forecasts](#), 21 Sep

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 by 0.2% in Q2 2011, following growth of 0.5% in Q1 2011. The US grew by 0.3% in Q2 2011 (growth in Q1 was revised down from 0.4% to 0.1%). Growth in the eurozone as a whole was 0.2% in Q2 2011: in Germany, the figure was 0.1%, and in France GDP did not grow. The eurozone figures are the weakest for two years.

Real GDP, % changes

	change on prev. year					change on prev. quarter				
	10Q2	10Q3	10Q4	11Q1	11Q2	10Q2	10Q3	10Q4	11Q1	11Q2
US	3.3	3.5	3.1	2.2	1.6	0.9	0.6	0.6	0.1	0.3
Japan	3.3	4.8	2.5	-0.7	-0.9	-0.1	1.0	-0.6	-0.9	-0.3
UK	1.6	2.5	1.5	1.6	0.7	1.1	0.6	-0.5	0.5	0.2
Germany	4.0	4.0	3.7	4.6	2.7	1.9	0.8	0.5	1.3	0.1
France	1.5	1.6	1.4	2.1	1.6	0.5	0.4	0.3	0.9	0.0
Eurozone	2.0	2.0	2.0	2.5	1.7	0.9	0.4	0.3	0.8	0.2
G7	3.0	3.4	2.8	1.9	1.3	0.8	0.6	0.3	0.2	0.2
OECD	3.3	3.3	3.0	2.4	..	1.0	0.6	0.5	0.3	..

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

In **June 2011**, the IMF lowered their 2011 forecast for world growth by 0.1 percentage points to 4.3%. 2011 growth forecasts for the UK were lowered by 0.2 percentage points, for the US by 0.3 percentage points, and for Japan by 2.1 percentage points. Germany, France and the euro area as a whole saw upward revisions of 0.4, 0.7 and 0.5 percentage points respectively.

Among major emerging markets, China's and India's IMF growth forecast for 2011 was left unchanged. The 2011 forecast for Brazil was reduced by 0.4 percentage points.

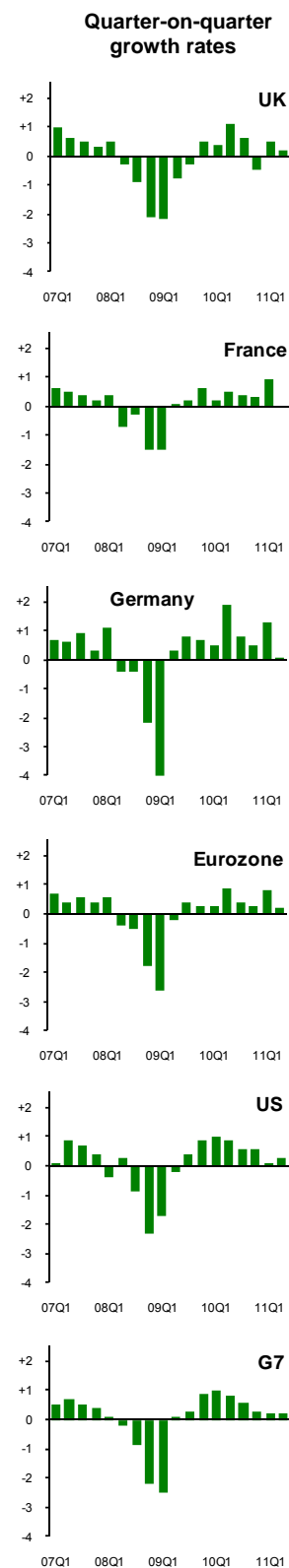
The European Commission's **May forecasts** revised down the February forecast for UK 2011 growth down from 2.0% to 1.7%.

OECD **May forecasts** for OECD-wide growth in 2011 and 2012 were unchanged from November. The US saw an upward revision of 2011 growth from 2.2% to 2.6%. The UK's 2011 growth forecast was revised down slightly, from 1.5% to 1.4%, and the 2012 forecast was revised down from 2.0% to 1.8%. Since May 2010, the UK's 2011 forecast has been revised downwards three times, by 1.1 percentage points in total.

Real growth forecasts (% changes)

	IMF (Jun 11)			EC (May 11)		OECD (May 11)	
	2011	2012	2013	2011	2012	2011	2012
UK	1.5	2.3	2.5	1.7	2.1	1.4	1.8
France	2.1	1.9	2.0	1.8	2.0	2.2	2.1
Germany	3.2	2.0	1.9	2.6	1.9	3.4	2.5
Eurozone	2.0	1.7	1.8	1.6	1.8	2.0	2.0
US	2.5	2.7	2.7	2.6	2.7	2.6	3.1
Japan	-0.7	2.9	2.5	0.5	1.6	-0.9	2.2
OECD	..	..	..	..	..	2.3	2.8
China	9.6	9.5	9.5	..	..	9.0	9.2
India	8.2	7.8	8.2	..	..	8.5	8.6
Brazil	4.1	3.6	4.1	..	..	4.1	4.5
World	4.3	4.5	4.5	..	..	..	..

Sources: IMF, WEO June update; EC EEF; OECD, Economic Outlook 89



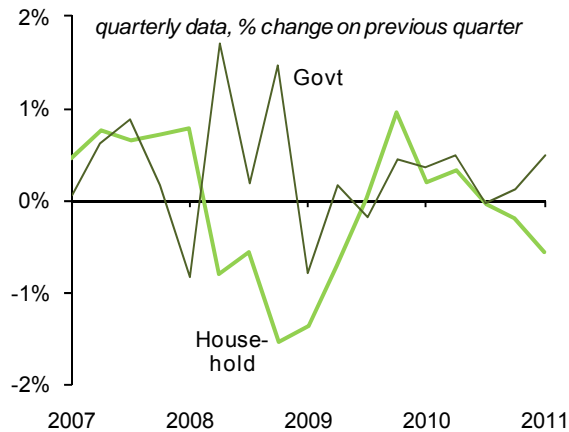
Contact: Gavin Thompson, x2042

Update: OECD [Main Economic Indicators](#), 12 Sep 2011
 EC [Economic Forecast](#), Sep 2011
 IMF [World Economic Outlook](#), Oct 2011

A3: Components of GDP

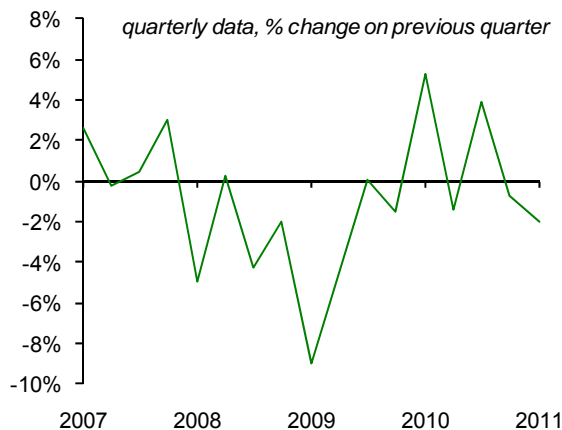
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 63% of the total in 2010. Government consumption accounted for 23% and gross fixed capital formation for 15%.

Household consumption and government consumption



- ONS have not yet released data on the components of GDP for Q2 2011. This will be published on 5 October.
- In Q1 2011, household consumption fell by 0.6% in real terms. This is the largest fall since Q2 2009.
- Government consumption increased by 0.5% in Q1 2011.
- Net trade made a significant contribution to growth in Q1 2011: exports increased by 2.4% while imports fell by 2.4%.

Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- In Q1 2011 GFCF fell by 2.0%.
- In Q1 2011, GFCF was 0.2% lower than a year earlier.

Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2009 (annual % change)	-3.3%	1.0%	-15.4%	-10.1%	-11.9%	-4.9%
2010 (annual % change)	0.9%	1.0%	3.7%	5.2%	8.8%	1.4%
2010 Q2	0.3%	0.5%	-1.4%	3.0%	2.1%	1.1%
2010 Q3	0.0%	0.0%	3.9%	1.5%	1.7%	0.6%
2010 Q4	-0.2%	0.1%	-0.7%	2.1%	2.8%	-0.5%
2011 Q1	-0.6%	0.5%	-2.0%	2.4%	-2.4%	0.5%
2011 Q2	..	..	..	..	..	0.2%

Source: ONS series ABJR, NMR Y, NPQT, IKBK, IKBL and ABMI

Note: (a) gross fixed capital formation

A4: Output and employment by industry

In 2009 (the latest National Accounts data), services accounted for 79% of UK Gross Value Added (GVA), manufacturing 11%, other production (mining & quarrying, and utilities) 4%, construction 6% and agriculture, hunting and fishing 1%. The services sector accounts for 83% of total workforce jobs (Q1 2011).

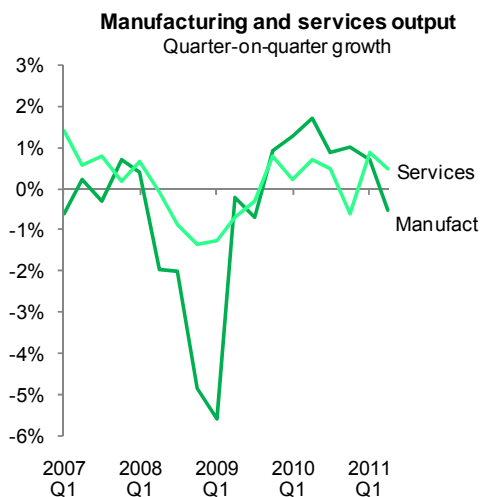
Output

GVA growth by industry

Seasonally adjusted, chained volume measures at basic prices

	Manufacturing	Construction	Services	Total GDP
<i>Annual % changes</i>				
2009	-10.7%	-10.7%	-3.2%	-4.9%
2010	3.6%	7.1%	1.1%	1.4%
2010 Q4	4.9%	9.8%	0.6%	1.5%
2011 Q1	4.3%	5.2%	1.4%	1.6%
2011 Q2	2.0%	-1.4%	1.2%	0.7%
<i>Quarter-on-quarter</i>				
2010 Q4	1.0%	-2.1%	-0.6%	-0.5%
2011 Q1	0.7%	-3.4%	0.9%	0.5%
2011 Q2	-0.5%	0.5%	0.5%	0.2%

Source: ONS series CKYY, GDQB, GDQS, YBEZ



- Manufacturing output fell by 0.5% in the second quarter of 2011, the first fall in seven quarters. Services output rose by 0.5%, while construction returned to growth after two quarters of sharp contraction.
- Manufacturing output rose by 2.0% in the year to Q2 2011 and services by 1.2%. Construction output fell by 1.4%.
- Output in the business services and finance sector grew by 0.8% in the year to Q2 2011.

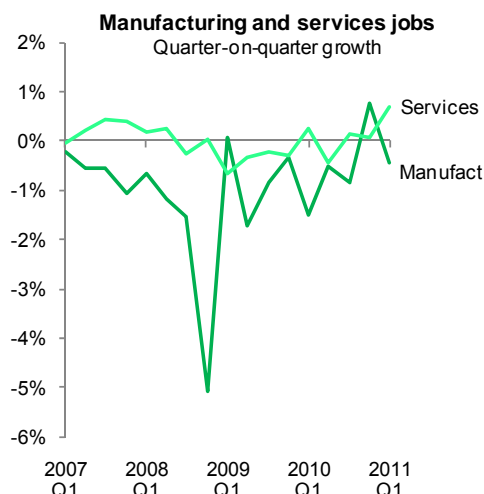
Employment

Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	GDP
<i>Annual % changes</i>				
2009 Q1	-7.6%	0.1%	-0.6%	-1.1%
2010 Q1	-4.3%	-9.3%	-0.6%	-1.4%
2010 Q4	-2.1%	-2.3%	0.1%	0.0%
2011 Q1	-1.1%	-0.2%	0.5%	0.4%
<i>Quarter-on-quarter</i>				
2010 Q4	0.7%	-0.4%	0.1%	0.2%
2011 Q1	-0.4%	-1.1%	0.7%	0.4%
<i>Thousands</i>				
2011 Q1	2,543	2,105	25,896	31,354

Source: ONS series JWR7, JWS2, JWT8, DYDC

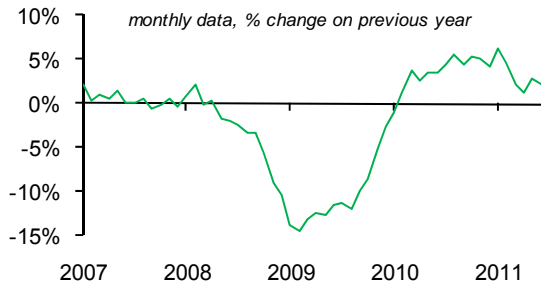


- The employment picture has been different, with numbers of manufacturing jobs continuing to fall, with the exception of a rise in Q4 2010. In Q1 2011, the manufacturing workforce fell by 0.4%.
- Numbers of jobs in the construction sector fell in Q1, while the services workforce rose.
- The public administration, health and education workforce fell by 0.5% in the year to Q1 2011.

A5: Manufacturing

ONS produces a monthly index of manufacturing output data. The Markit/Chartered Institute of Purchasing & Supply (CIPS) UK Manufacturing Purchasing Managers' Index is a top leading indicator of manufacturing output. The Society of Motor Manufacturers and Traders (SMMT) publishes monthly vehicle production statistics.

Manufacturing Output

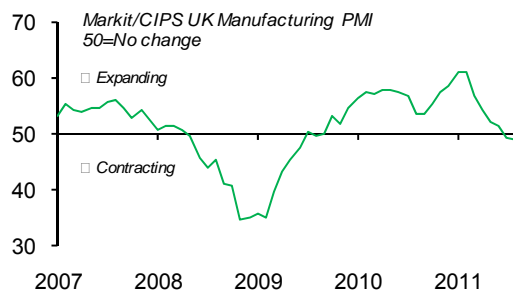


	Index Value (2005=100)	% change over month	% change over 12 months
2009	87.2	...	-10.7
2010	90.3	...	3.6
2011 Mar	92.4	+0.2	+2.2
Apr	90.9	-1.6	+1.2
May	92.5	+1.8	+2.8
Jun	92.2	-0.4	+2.1

Source: ONS, series CKYY

- Manufacturing output fell by 0.4% in June 2011, following a 1.8% rise in May 2011. Manufacturing output was 2.1% higher in June 2011 than June 2010, the seventeenth consecutive month on a year ago rise.
- Total industrial production (including mining and utilities) remained flat between May 2011 and June 2011. Total production was 0.3% lower in June 2011 than in June 2010.

Manufacturing Purchasing Managers' Index

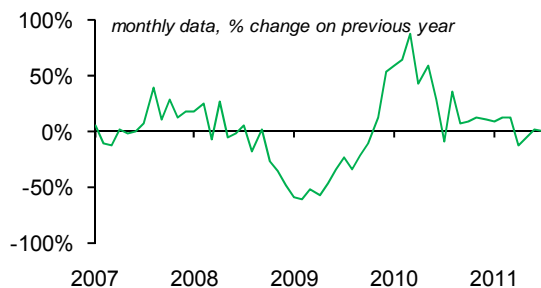


		Index	Monthly change
2009	Aug	49.7	...
2010	Aug	53.7	...
2011	May	52.0	-2.4
	Jun	51.4	-0.6
	Jul	49.4	-2.0
	Aug	49.0	-0.4

Source: Markit/CIPS UK Manufacturing PMI
Data as originally published

- The Markit/CIPS UK Manufacturing PMI fell to 49.0 in August 2011 (where 50.0 is no change). The index is at its lowest for 26 months.
- The decline in the index is attributed to a fall in new orders and a slowing of export growth.

Vehicle Production



		Number '000s	% change over 12 months
2009		1,090	-33.9
2010		1,393	+27.8
2010	Jul	106	-8.3
2011	May	109	-4.9
	Jun	130	+1.5
	Jul	107	+0.7

Source: SMMT, not seasonally adjusted

- UK vehicle production was 107,000 in July 2011, 0.7% higher than in July 2010. The SMMT pointed to strong demand from export markets.
- In 2010, 1.39 million vehicles were produced in the UK, up by 27.8% compared with 2009.

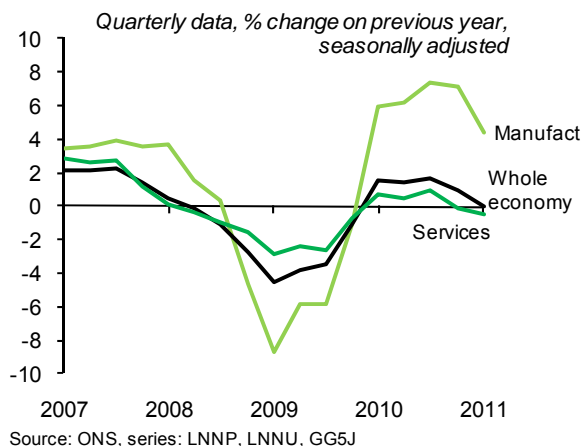
Contact: Lucinda Maer, x3841

Update: ONS, [Index of Production](#), 7 Sep
Markit/CIPS [UK Manufacturing PMI](#), 3 Oct
SMMT, [Vehicle Production](#), mid Sep

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



- Productivity across the whole economy, measured by output per worker, is estimated to have risen by 1.3% in 2010, following a fall of 3.1% in 2009.
- Output per worker rose by 0.3% in Q1 2011 compared to the same quarter a year ago, a slower rate of growth than in Q4 2010 (0.9%).
- Manufacturing output per job grew by 4.4% in Q1 2011 compared with the same quarter a year ago, as output in the sector continued to increase faster than employment. Output per job in the services sector fell by 0.5% over the same period.
- Comparing Q1 2011 with Q4 2010, manufacturing output per job increased by 0.9%, services output per job was unchanged while output per job for the whole economy fell by 0.1%.

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
2009	-5.4	-3.7	..	..	-3.1	-3.2	-1.8
2010	6.7	4.1	..	..	1.3	1.4	1.0
2010 Q1	6.0	3.2	0.7	0.5	1.2	1.5	0.9
Q2	6.2	4.2	0.5	1.1	1.4	1.4	1.5
Q3	7.4	5.1	1.0	1.1	1.6	1.7	1.3
Q4	7.2	4.0	-0.1	0.4	0.9	0.9	0.4
2011 Q1	4.4	2.2	-0.5	0.2	0.3	0.0	0.3
Latest quarterly % change	0.9	-0.3	0.0	0.3	0.1	-0.1	0.4

Source: ONS

International comparisons



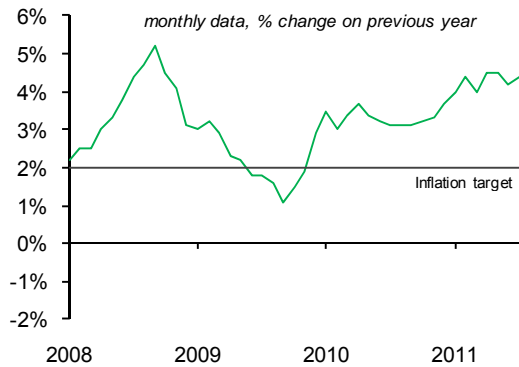
- International comparisons of productivity are presented as an index where the UK=100.
- In 2009, based on GDP per worker, the UK had higher levels of productivity than Japan, around the same levels as Canada and Germany, and lower levels than the US and the G7 average.
- Based on GDP per hour, in 2009 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 4.4% in July, up from 4.2% in June and above the Bank of England's 2% target for the twentieth 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.

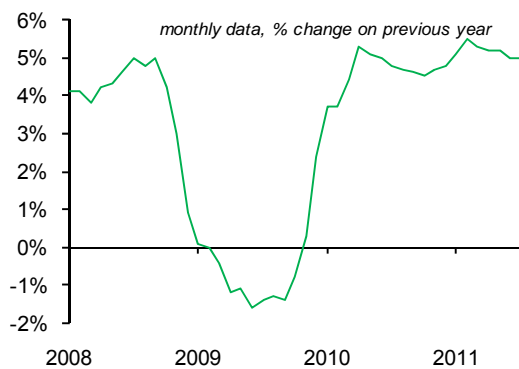
Consumer Prices Index (CPI)



The CPI annual inflation rate was 4.4% in July, up from 4.2% in June.

- The main contributor to the CPI annual inflation rate came from rises in the cost of transport (contributing 1.25% of the 4.4% rate) where fuels and lubricants rose by 15.1% over the year and air transport by 12.5%.
- The RPI (all items) measure of inflation was 5.0% in July, the same as in June, continuing to ease from its high of 5.5% in February (the highest rate since July 1991).

Retail Prices Index (RPI)



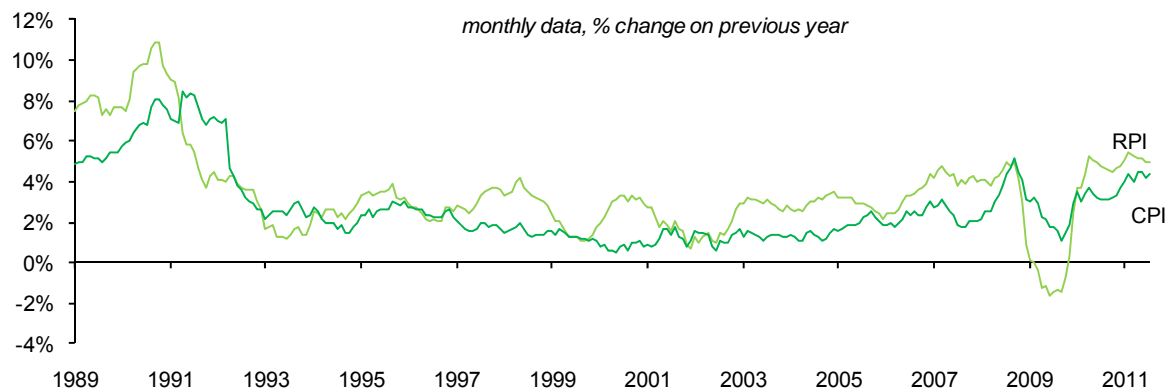
Price Indices

% change on a year ago

		CPI	RPI
2008		3.6	4.0
2009		2.2	-0.5
2010		3.3	4.6
2011	Feb	4.4	5.5
	Mar	4.0	5.3
	Apr	4.5	5.2
	May	4.5	5.2
	Jun	4.2	5.0
	Jul	4.4	5.0

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 compared 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.

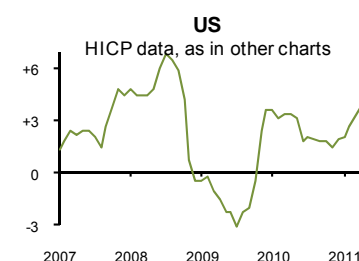
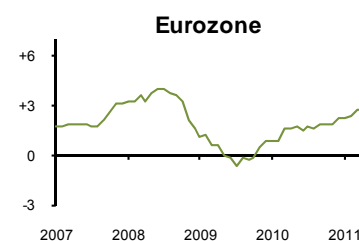
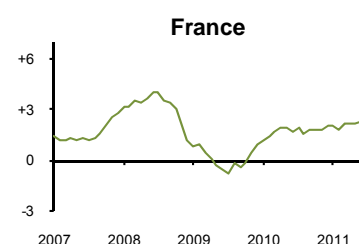
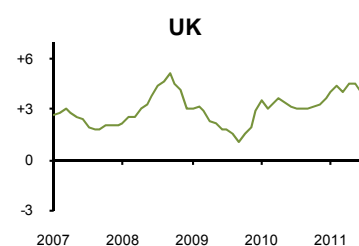
- In the year to July, UK inflation was 4.4%, up from 4.2% in June. The Bank of England's UK inflation target is 2%.
- The flash estimate of eurozone inflation in August was 2.5%, unchanged from July. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- The highest rate in the EU in July was 5.3% in Estonia. Ireland had the lowest annual inflation rate in the EU at 1.0%.
- HICP annual inflation in the US in June was 4.4%, up from 3.9% in April, when the last figure was published. Using its national definition, US inflation was 3.6% in June.

Inflation rates: selected countries

Annual % change in consumer prices

	2009	2010	May-11	Jun-11	Jul-11
HICP (ONS/Eurostat)					
UK	2.2	3.3	4.5	4.2	4.4
Eurozone	0.3	1.7	2.7	2.7	2.5
EU	1.0	2.1	3.2	3.1	2.9
France	0.1	1.7	2.2	2.3	2.1
Germany	0.2	1.2	2.4	2.4	2.6
Greece	1.3	4.7	3.1	3.1	2.1
Italy	0.8	1.6	3.0	3.0	2.1
Spain	-0.2	2.0	3.4	3.0	3.0
US	1.0	2.1	:	4.4	:
National definitions (OECD)					
Canada	0.3	1.8	3.7	3.1	..
Japan	-1.4	-0.7	0.3	0.2	..
US	-0.4	1.6	3.6	3.6	..
G7	-0.1	1.4	2.9	2.9	..
OECD	0.5	1.9	3.2	3.1	..
Brazil	4.9	5.0	6.6	6.7	6.9
China	-0.7	3.3	5.5	6.4	..
India	10.9	12.0	8.7	8.6	..
Russia	11.7	6.9	9.6	9.4	..

Source: ONS, Eurostat & stat.OECD database



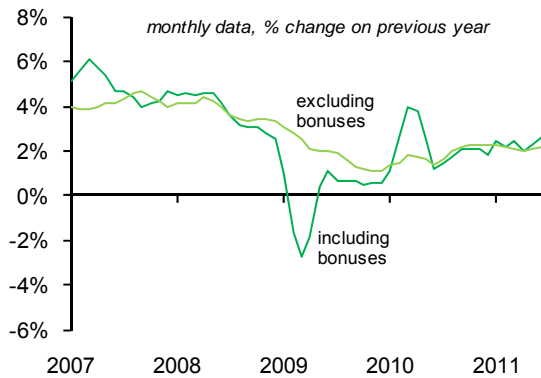
Contact: Gavin Thompson, x2042

Updates: OECD, [Main Economic Indicators](#), 12 Sep
Eurostat, [HICP full release](#), 15 Sep
Eurostat, [Flash estimate \(Sep\)](#), 30 Sep

B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 2.6% in June compared with a year ago, up from 2.3% in May. Average weekly earnings excluding bonuses were more stable rising 2.2% in the three months to June compared with a year ago, up from 2.1% in May. Inflation as measured by the CPI was 4.2% in June 2011 (the latest CPI inflation figure is 4.4% for July).

Average Earnings, Whole Economy



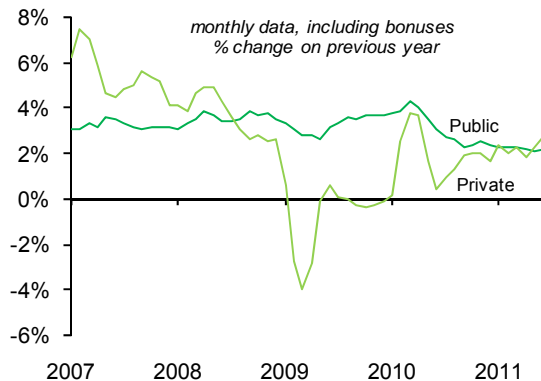
Average Earnings, Including Bonuses

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

		Private	Public	Manuf.	Serv.	Total
2008	Jun	4.3	3.4	4.0	4.2	4.1
2009	Jun	0.6	3.2	0.6	1.5	1.1
2010	Jun	0.4	3.1	3.8	0.9	1.2
2011	Jan	2.4	2.3	2.1	2.8	2.4
	Feb	2.0	2.3	1.2	2.4	2.2
	Mar	2.3	2.3	0.9	2.7	2.4
	Apr	1.8	2.2	0.6	2.3	2.0
	May	2.3	2.1	1.0	2.8	2.3
	Jun	2.8	2.2	1.6	3.0	2.6

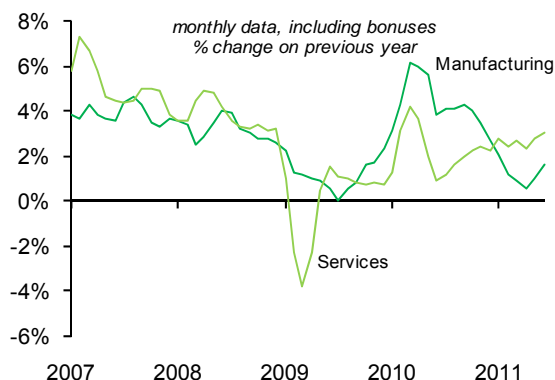
Source: ONS, data shows latest 3-month period

Average Earnings in the Public and Private Sectors



- Average total pay (including bonuses) in the private sector rose by 2.8% in June, compared with an increase of 2.2% in the public sector. Excluding financial services, public sector earnings rose by 1.6%.
- Average weekly earnings (including bonuses) in June in the public sector were £476 compared with £458 in the private sector.
- In 2010, headline (including bonuses) earnings in the public sector averaged a rise of 2.9%, while the private sector averaged a 2.1% increase.

Average Earnings in Services and Manufacturing

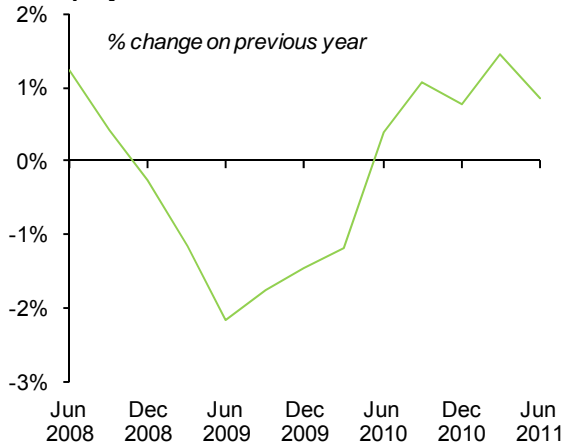


- Average total pay growth (including bonuses) in the manufacturing sector was 1.6% in June, compared with 3.0% in the services sector.
- Average weekly earnings (including bonuses) in June in the manufacturing sector were £530 compared with £448 in the services sector.
- In 2010, headline (including bonuses) earnings in the services sector averaged a rise of 2.3% compared with a 4.2% increase in the manufacturing sector.

C1: Employment

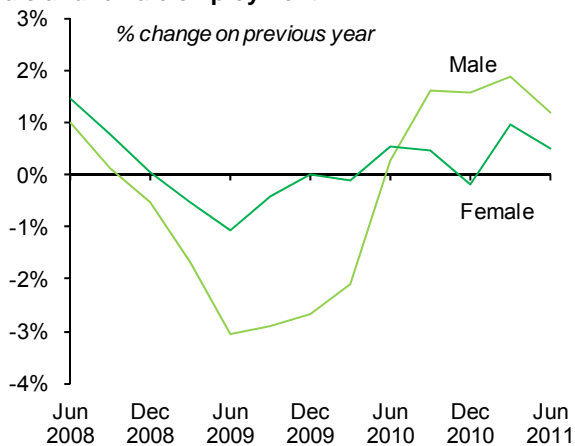
Employment increased by 25,000 over the quarter to June 2011, to 29.27 million. Employment is now 1.0% lower than its pre-recession peak of 29.56 million in the three months to April 2008.

Total employment



- Employment increased by 0.9% or 251,000 over the last year.
- Over the last year, employment has risen for 25-49 year olds, 50-64 year olds and over 65 year olds.
- For 16-24 year olds, employment has fallen by 55,000 or 1.4% over the last year.

Male and female employment



- The number of men in employment increased by 49,000 over the last quarter, whilst the number of women in employment was fell by 24,000 over the quarter.
- The number of people employed in the public sector fell by 24,000 in Quarter 1 2011. The number of people employed in the private sector increased by 104,000 over the same period.

Employment by age group

3-month period: '000s & % changes; seasonally adjusted

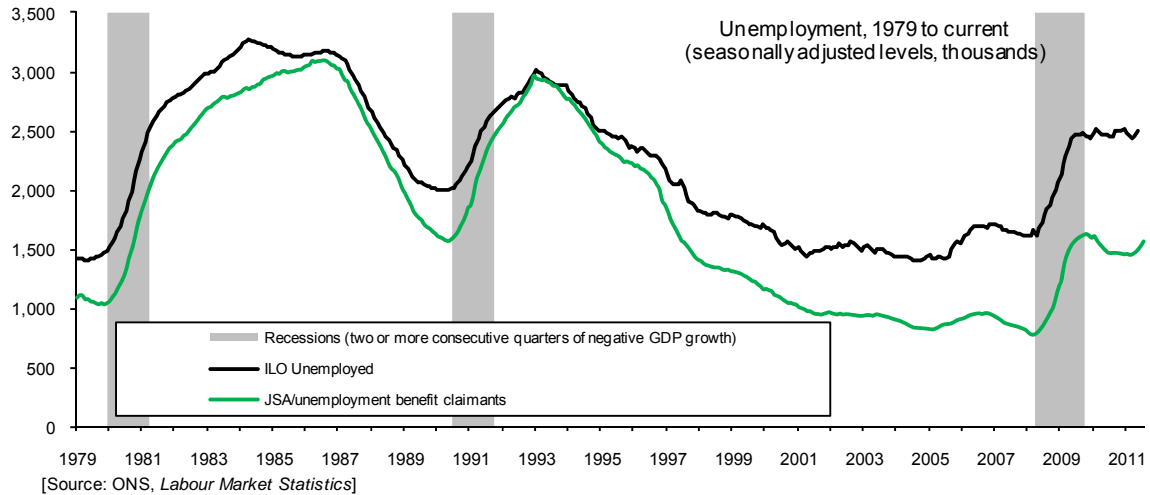
	Total	16-24	25-49	50-64	65+
Apr-Jun 2009	28,900	3,880	17,050	7,243	727
Apr-Jun 2010	29,014	3,804	17,136	7,254	820
Jul-Sep 2010	29,178	3,823	17,173	7,331	851
Oct-Dec 2010	29,122	3,735	17,207	7,302	878
Jan-Mar 2011	29,240	3,728	17,269	7,358	885
Apr-Jun 2011	29,265	3,749	17,260	7,376	881
% change on previous 3 months	+0.1	+0.6	-0.1	+0.2	-0.5
% change on previous year	+0.9	-1.4	+0.7	+1.7	+7.4

Source: ONS

C2: Unemployment: National

The Office for National Statistics uses the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- **ILO unemployment in April to June 2011 was 2,494,000 (7.9% of all economically active) – up 38,000 from the previous quarter (UK, seasonally adjusted).**

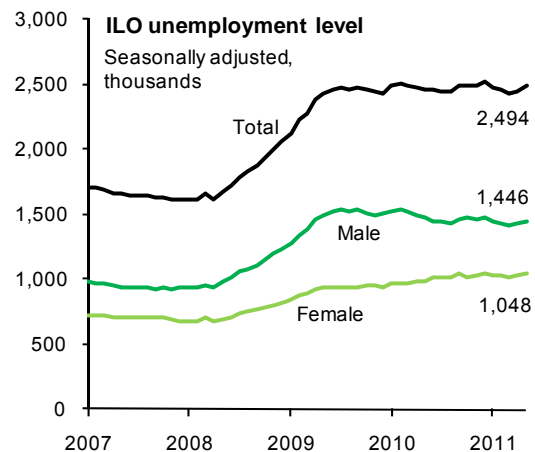


ILO unemployment (April to June 2011)

- There were 838,000 people unemployed for more than 12 months, down 12,000 from the previous quarter;
- The unemployment level among 16- to 24-year-olds was 949,000, up 14,000 on the previous quarter. (See table below.)

Jobseeker's Allowance (JSA) claimant count

The seasonally-adjusted monthly JSA claimant count increased by 37,100 between June 2011 and July 2011 to 1,564,000.



ILO Unemployment in the UK

seasonally adjusted

	Total		16 to 24		25 to 49		50 to 64		65 and over	
	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)
Apr-Jun 2006	1,686	5.5	695	14.3	755	4.2	221	3.1	14	2.3
Apr-Jun 2007	1,655	5.4	715	14.7	690	3.8	232	3.2	17	2.7
Apr-Jun 2008	1,674	5.4	713	14.5	723	4.0	223	3.0	14	2.0
Apr-Jun 2009	2,435	7.8	925	19.2	1,140	6.3	350	4.6	21	2.8
Apr-Jun 2010	2,462	7.8	924	19.5	1,150	6.3	370	4.8	19	2.2
Jul-Sep 2010	2,451	7.7	904	19.1	1,155	6.3	371	4.8	20	2.3
Oct-Dec 2010	2,492	7.9	965	20.5	1,141	6.2	366	4.8	20	2.3
Jan-Mar 2011	2,455	7.7	935	20.0	1,124	6.1	380	4.9	17	1.8
Apr-Jun 2011	2,494	7.9	949	20.2	1,160	6.3	367	4.7	17	1.9
% change on quarter	+1.6		+1.5		+3.2		-3.4		+0.2	
% change on year	+1.3		+2.7		+0.9		-0.7		-10.3	

Source: ONS, Labour Market Statistics.

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

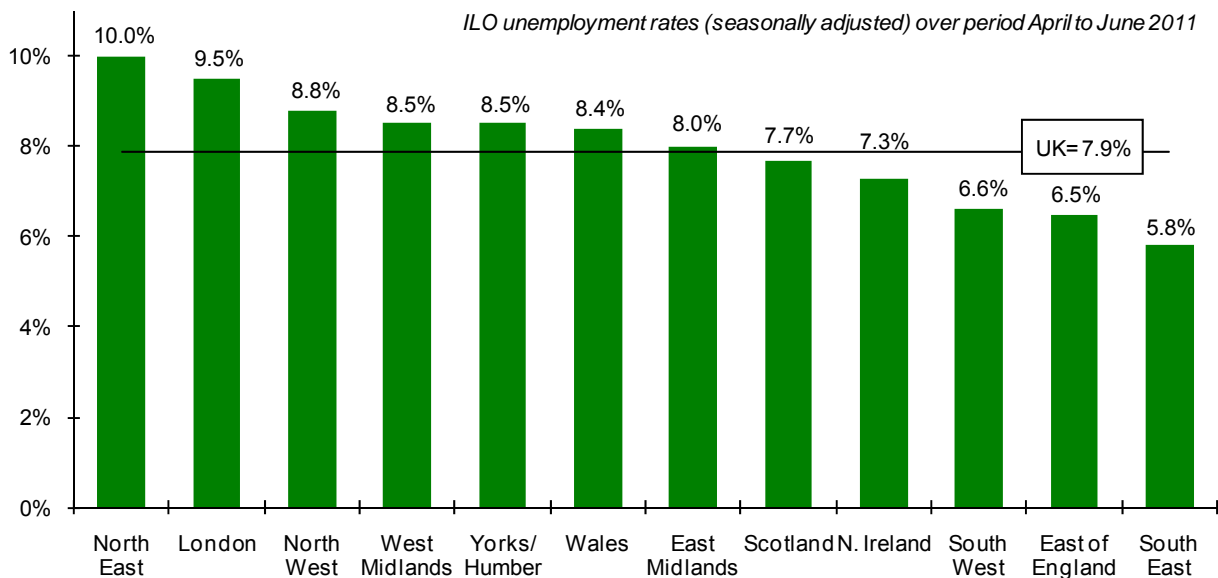
Contact: Lorna Booth, x2883

Update: ONS, [Labour Market Statistics](#), 14 Sep

C3: Unemployment: Regional

The Office for National Statistics uses the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- Over the period April to June 2011, the North East had the highest unemployment rate, at 10.0% of the economically active population, followed by London (at 9.5%). The lowest rate over the same period was 5.8% in the South East.



- The largest increase in unemployment over the last quarter was in the North West (+35,000) and London (+22,000). The largest decrease over the last quarter was in the West Midlands (-30,000).
- The seasonally-adjusted JSA claimant count increased in every region and country in July 2011 compared with the previous month.

Key labour market statistics for countries and regions, *seasonally adjusted*

	ILO unemployment				JSA claimant count	
	Apr - Jun 2011		Change in level		July 2011	
	Level (000s)	Rate (%) ^(a)	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	126	10.0	-4	+6	86.8	+2.7
North West	300	8.8	+35	+23	193.0	+3.9
Yorkshire & Humber	223	8.5	-21	-23	156.7	+4.6
East Midlands	187	8.0	+10	+15	106.1	+2.8
West Midlands	224	8.5	-30	+3	167.8	+4.1
East of England	197	6.5	+10	-4	114.7	+3.6
London	406	9.5	+22	+22	231.2	+4.0
South East	260	5.8	+5	-8	139.8	+3.5
South West	175	6.6	-1	+11	85.8	+2.6
Wales	122	8.4	+10	-5	77.0	+2.1
Scotland	209	7.7	+1	-15	144.7	+2.6
Northern Ireland	63	7.3	+2	+7	60.4	+0.6

Source: ONS, *Labour Market Statistics*

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

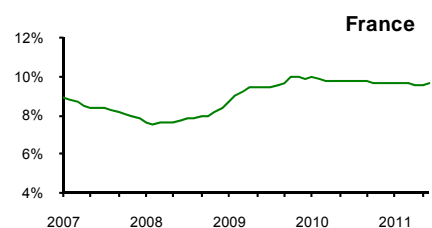
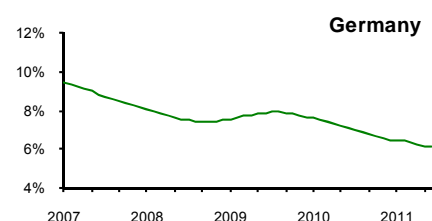
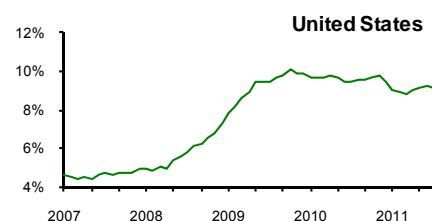
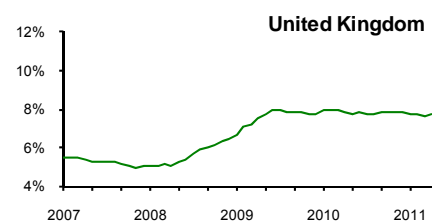
Contact: Lorna Booth, x2883

Update: ONS, *Labour Market Statistics*, 14 Sep

C4: Unemployment: International Comparisons

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

- Using harmonised definitions, UK unemployment in Q1 2011 was 7.7%, below the euro zone and OECD rates (10.0% and 8.2% respectively), and in line with the G7 average.
- Between Q1 2010 and Q1 2011, unemployment fell across the G7 countries. Germany saw the largest fall, of 1.2 percentage-points, and the UK saw the smallest decrease, of 0.2 percentage points. More recently, in Q2 2011, German unemployment fell still further, to 6.1%, whilst US unemployment rose to 9.1%.
- Outside the G7, Spain has the highest harmonised unemployment rate among the 33 OECD member states (20.6% in Q1 2011), having risen particularly sharply over the last four years (up from 8.1% in Q1 2007). The Irish Republic has also seen a sharp rise over the same period (up from 4.5% to 14.8% in Q1 2011). This compares with a 2.3 percentage point rise in unemployment in the OECD as a whole over the past four years (from 5.9% to 8.2%) and a 2.1 percentage-point rise in the euro zone (from 7.9% to 10.0%) over the same period.
- The lowest unemployment rate in the OECD in Q1 2011 was in Norway (3.3%).
- The most forecasts published by the OECD ([Economic Outlook no. 89, May 2011](#)) suggested the UK unemployment rate would be 8.1% in 2011 and 8.3% in 2012. The respective forecasts for the euro zone were 9.7% and 9.3%, and for the OECD as a whole 7.9% and 7.4%.



Unemployment

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

	2008	2009	2010	2010				2011	
				Q1	Q2	Q3	Q4	Q1	Q2
Canada	6.1	8.3	8.0	8.2	8.0	8.0	7.7	7.7	7.5
France	7.8	9.5	9.8	9.9	9.8	9.8	9.7	9.7	9.6
Germany	7.6	7.7	7.1	7.5	7.2	6.9	6.6	6.4	6.1
Italy	6.8	7.8	8.4	8.5	8.5	8.3	8.3	8.1	8.0
Japan	4.0	5.1	5.1	5.0	5.1	5.0	5.0	4.7	4.6
UK	5.7	7.6	7.8	7.9	7.8	7.7	7.8	7.7	..
US	5.8	9.3	9.6	9.7	9.6	9.6	9.6	8.9	9.1
Euro zone	7.7	9.6	10.2	10.1	10.2	10.1	10.1	10.0	9.9
G7	5.9	8.1	8.2	8.3	8.2	8.1	8.1	7.7	7.7
OECD	6.1	8.4	8.6	8.7	8.6	8.6	8.5	8.2	8.2

Source: OECD, Harmonised Unemployment Rates

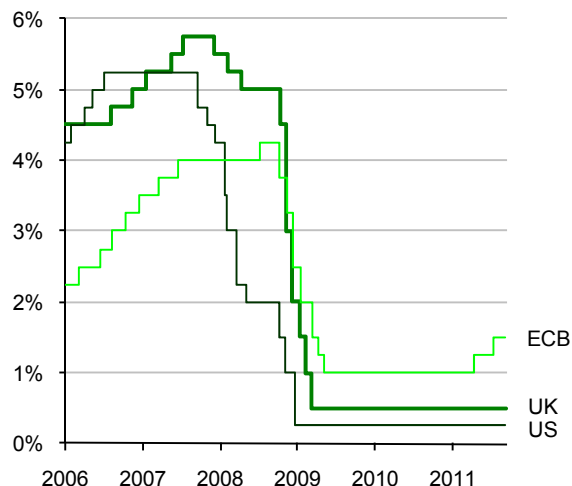
Contact: Gavin Thompson, x2042 Updates: OECD, [Harmonised Unemployment Rates](#), 12 Sep

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

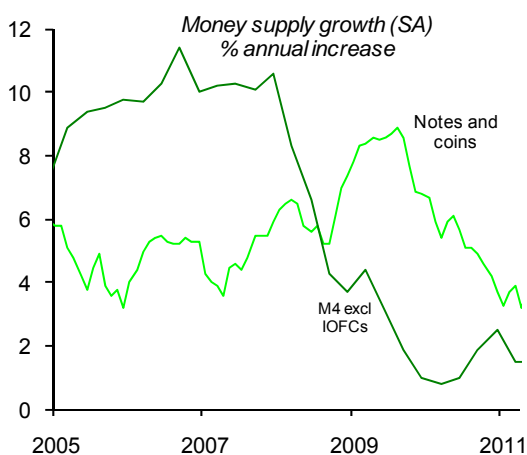
Source: Bank of England

- In July 2011, the European Central Bank’s official interest rate was raised to 1.50%. The ECB has raised rates twice in the last four months. April’s rate rise was the first since July 2008.
- 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.

Money supply



- In its May 2010 *Inflation Report*, the Bank of England noted that money supply growth has been weak, but less so than it would have been in the absence of the asset purchase programme.
- Annual growth in M4 excluding intermediate other financial corporations (a measure monitored by the Bank of England Monetary Policy Committee) was 1.5% in Q2 2011, unchanged from Q1.
- The value of notes and coins in circulation outside the Bank of England rose by 3.9% in the year to June 2011.

Contact: Chris Rhodes, x2454

Updates: Monetary policy: [8 Sep](#) (UK)
Bank of England, [Monetary and Financial Statistics](#), 29 Sep

D2: Public Finances

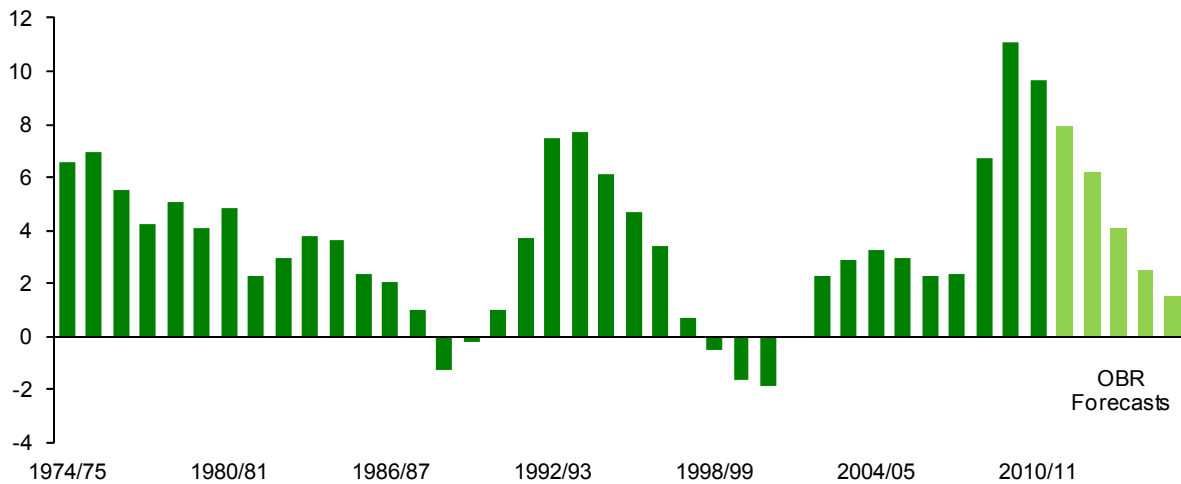
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £122 billion in 2011/12, equivalent to 7.9% of GDP.

- Between April and July 2011, the Government borrowed £40.1 billion, 7% lower than the same period a year ago.
- Borrowing in July 2011 was £20 million compared with £3.5 billion in July 2010.
- According to the OBR, July is usually a good month for government receipts. While borrowing in July 2011 was lower than the previous two years, in the past July has often seen a surplus.

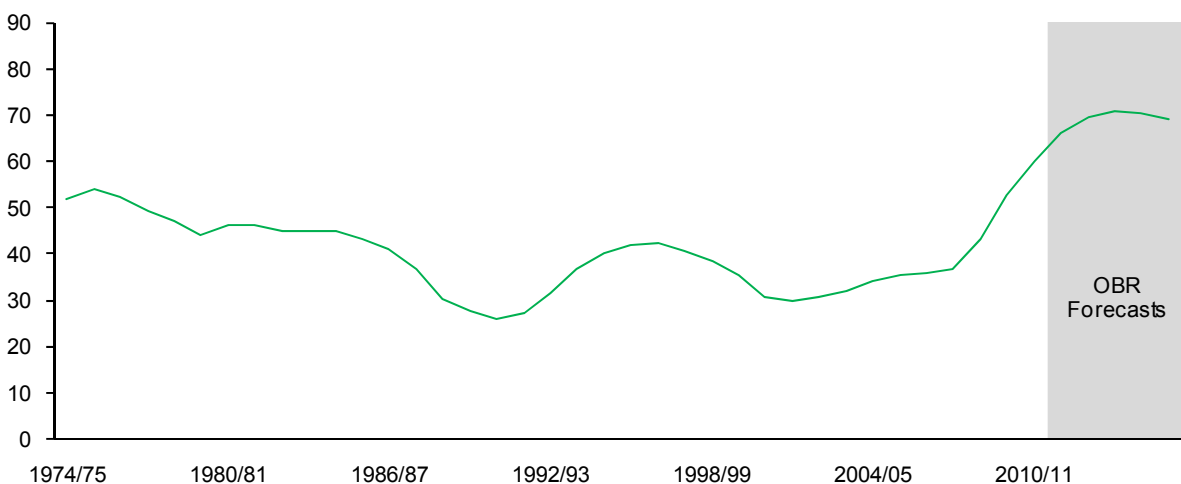
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	607	43.3
2009/10	157	11.1	760	52.8
2010/11	143	9.7	905	60.2
2011/12	122	7.9	1,046	66.1
2012/13	101	6.2	1,164	69.7
2013/14	70	4.1	1,251	70.9
2014/15	46	2.5	1,314	70.5
2015/16	29	1.5	1,359	69.1

Source: ONS, OBR. Excludes financial sector interventions

Public sector net borrowing (% of GDP)



Public sector net debt (% of GDP)



Contact: Dominic Webb, x4324

Update:- ONS, [Public sector finances](#), 21 Sept 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. It fell sharply in August 2011, falling by 17% in four weeks.

The price of oil reached an all time high above \$145/barrel in July 2008. Then followed a steep decline, after which prices have recovered, and have been above \$100/barrel since February 2011.

The price of gold exceeded \$1,800/ounce for the first time, in August 2011.

Data from 01 September 2011

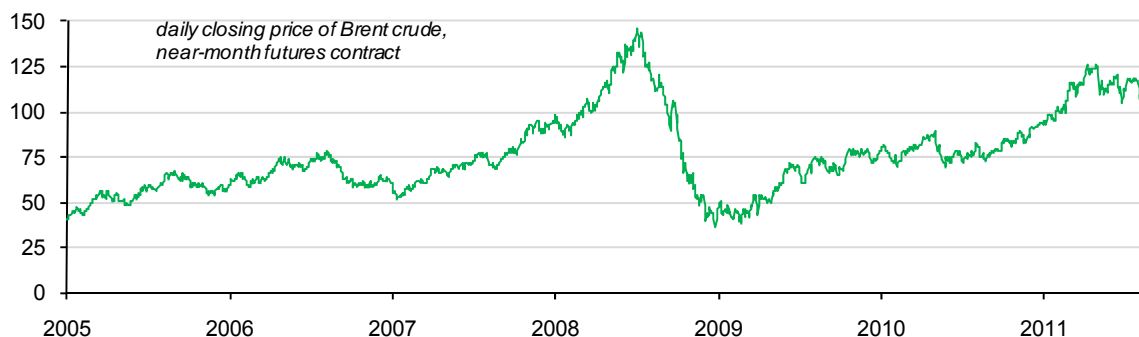
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
01 Sep 2011	5,418.7	114.3	1,824.5
% change over:			
1-month	-6%	-2%	+12%
12-months	+1%	+50%	+46%
% change from:			
cyclical peak	-20%	-22%	at high
date	15 Jun '07	03 Jul '08	23 Aug '11
cyclical trough	+54%	+214%	+157%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

FTSE-100 Index



Oil price (\$ per barrel)



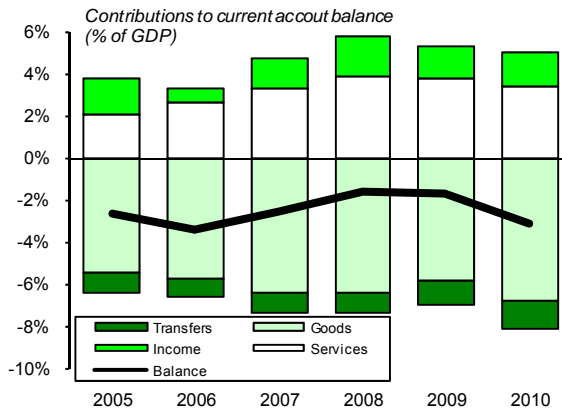
Gold price (\$ per ounce)



E1: UK Balance of Trade

Annually, the current account deficit in 2010 was £46.3 billion, equivalent to -3.2% of GDP. The surplus on services narrowed between 2009 and 2010, while the deficit in goods and surplus on income widened, resulting in the current account deficit widening in 2010 compared with 2009.

Current Account



- On a **quarterly** basis, the current account deficit was £9.4 billion in Q1 2011, narrowing from a Q4 2010 deficit of £13.0 billion (the second largest quarterly deficit on record). The surplus on services widened and the deficit on goods narrowed.
- The **annual** current account deficit with EU27 countries in 2010 was £53.4 bn, compared with a surplus with non-EU countries of £7.1 bn.
- On a **quarterly** basis, the deficit with EU27 countries was £15.0 billion in Q1 2011 (£16.9 billion deficit in Q4 2010). With non-EU countries, the current account was in surplus by £5.7 billion in Q1 2011 (£4.0 billion surplus in Q4 2010).

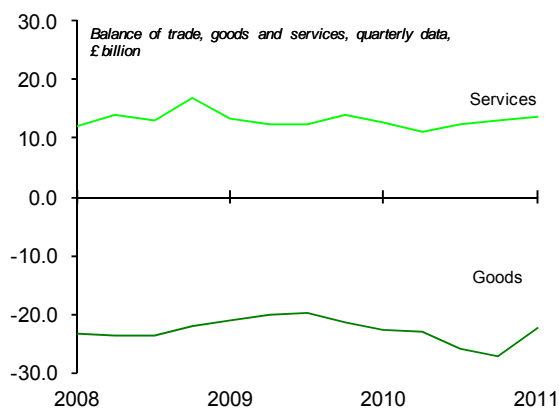
Current Account Balances

£ millions; seasonally adjusted

	Goods		Balance	Services Balance	Goods and Services Balance	Income	Transfers	Current Account Balance
	Exports	Imports						
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
2010	265,272	364,088	-98,816	49,515	-49,301	22,858	-19,823	-46,266
2010 Q1	62,341	85,051	-22,710	12,743	-9,967	4,034	-4,416	-10,349
Q2	66,243	89,322	-23,079	11,280	-11,799	5,180	-4,326	-10,945
Q3	66,768	92,602	-25,834	12,524	-13,310	6,216	-1,922	-12,016
Q4	69,920	97,113	-27,193	12,968	-14,225	7,428	-6,159	-12,956
2011 Q1	74,647	96,875	-22,228	13,771	-8,457	4,585	-5,482	-9,354

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

Trade in Goods and Services



- The estimated deficit on goods trade in June was £8.9 billion, wider than the May deficit of £8.5 billion.
- The monthly trade surplus on services was an estimated £4.38 billion in June, down from the May surplus of £4.42 billion.
- The overall monthly deficit on goods and services combined in June was £4.5 billion, widening from £4.0 billion in May.
- The goods deficit with the EU27 was £3.2 billion in June (compared with £3.4 billion in May), while the deficit with non-EU countries was £5.7 billion (compared with £5.1 billion in May).

Contact: Grahame Allen, x3977

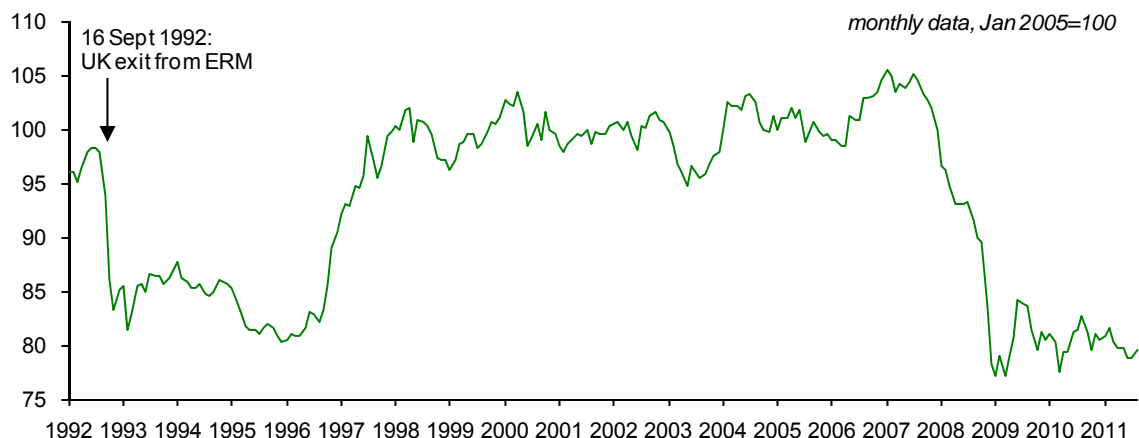
Updates: ONS, [UK Trade](#), 13 Sep;
ONS, [UK Balance of Payments](#), 5 Oct

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).

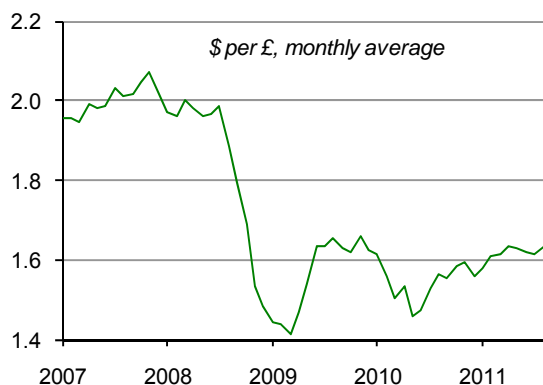
The SERI rose 1.4% in August, having fallen by 0.1% in July. Compared with the same period last year, the SERI was 3.7% lower. It is now 3.3% above its March 2009 level, when it was at its lowest point since the series began in 1980, and 24.6% down from its July 2007 peak.

Sterling Exchange Rate Index (SERI)



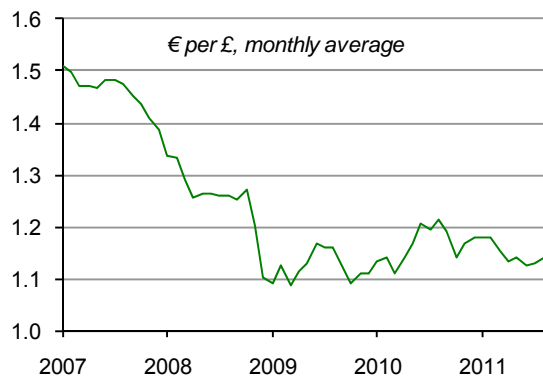
[Source: Bank of England, Bankstats database, XUMABK67]

US\$/£ Exchange Rate



- In August, the pound was on average two cents stronger against the dollar compared with July. At the 1 September market close the pound stood at \$1.61, two cents below the August average (\$1.63).
- Sterling was on average one cent stronger against the Euro in August, compared with July.
- At the 1 September market close the pound stood at €1.13, one cent below the August average of €1.14. 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%
2010 Aug	1.57	-5.3%	1.21	4.6%
2011 Jun	1.62	9.8%	1.13	-6.8%
Jul	1.61	5.5%	1.13	-5.4%
Aug	1.63	4.4%	1.14	-5.9%

Source: Bank of England, Bankstats database

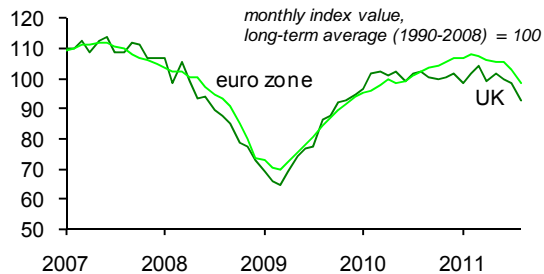
Contact: Gavin Thompson x2042

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

F1: Business and Consumer Confidence

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

European Commission Economic Sentiment Indicator

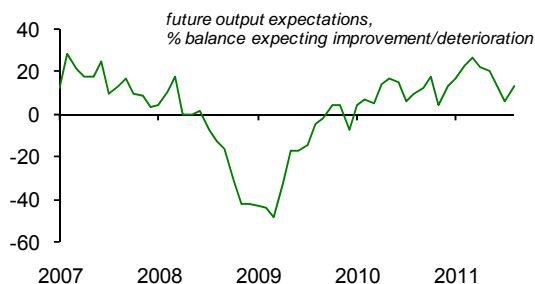


	UK Index	monthly change	change on year ago
2009 Aug	86.6	...	...
2010 Aug	102.7	...	...
2011 Jun	99.9	-2.2	+0.4
Jul	98.5	-1.4	-3.1
Aug	92.9	-5.6	-9.8

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 decreased by 5.6 points to 92.9 in August 2011. The overall Euro area sentiment index decreased by 4.7 points in August to 98.3.

CBI Industrial Trends Survey



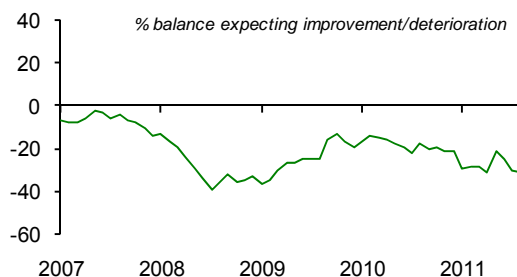
balance (as a %) of those expecting an improvement minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2009 Aug	-5	...	...
2010 Aug	+10	...	...
2011 Jun	+13	-7	-2
Jul	+6	-7	+0
Aug	+13	+7	+3

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in August 2011 were +13% of firms expecting output to rise rather than fall over the next three months. This is up 7 percentage points on July 2011, when it was +6%, but is the same as it was in June.

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
2009 Aug	-25	...	...
2010 Aug	-18	...	...
2011 Jun	-25	-4	-6
Jul	-30	-5	-8
Aug	-31	-1	-13

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.
- At -31, overall confidence was 1 point lower in August 2011 than in July and the lowest level since April 2011.

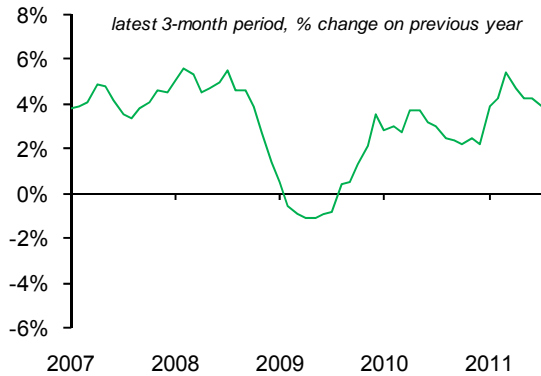
Contact: Lorna Booth, x2883

Update: CBI, [Industrial Trends](#), 22 Sep
EC, [Economic Sentiment Indicator](#), 29 Sep
GfK NOP, [Consumer Confidence](#), 30 Sep

F2: Retail Sales

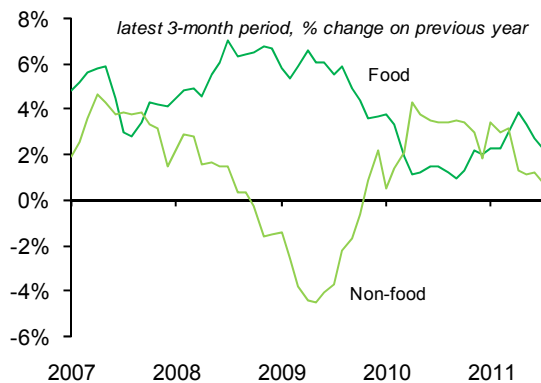
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI. This page uses official data from the Office for National Statistics.

Value of Retail Sales



- The rate of annual increase in the value of retail sales in the three months to July 2011 was 3.9%, a continued slowing from March's post-recession peak.
- The value of retail sales in July alone was up by 0.8% compared with June (in seasonally adjusted terms).
- The estimated total value of sales in July was £26 billion (non-seasonally-adjusted).

Value of Food & non-Food Store Sales



- The value of sales in food stores in the three months to July rose by 2.2% compared with the previous year, a continuation of recent slowing.
- The annual rate of increase in the value of sales in non-food stores was 0.7% in the three months to July, the lowest since January 2010.
- Sales in household goods stores were 4.2% lower than a year ago.
- Sales in clothing and footwear stores were up by an annual rate of 2.8% in the three months to July.
- Non-store sales (includes internet) were up by 16.1% in the year to the three months to July.

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	
2009	5.2	0.9	-5.3	-3.6	-1.9	0.6
2010	1.6	5.5	-3.4	2.3	2.7	2.6
2011 Mar	3.0	2.0	-2.3	6.6	3.2	5.4
Apr	3.9	1.6	-5.0	4.2	1.3	4.7
May	3.3	1.9	-5.3	4.0	1.1	4.3
Jun	2.7	2.9	-4.1	2.8	1.2	4.3
Jul	2.2	2.8	-4.2	1.3	0.7	3.9

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

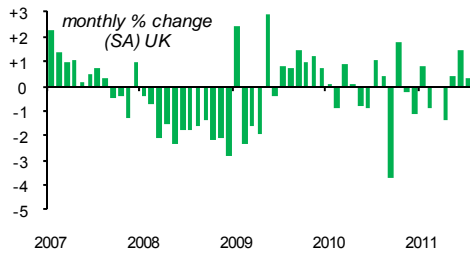
F3: Housing Market

House prices on the Nationwide index fell by 0.6% in August. Prices were 0.4% lower in August compared with a year ago. House prices on the Halifax index increased by 0.3% in July compared with a month ago. This follows a 1.5% rise in June. Prices were 2.1% lower than a year ago on this measure.

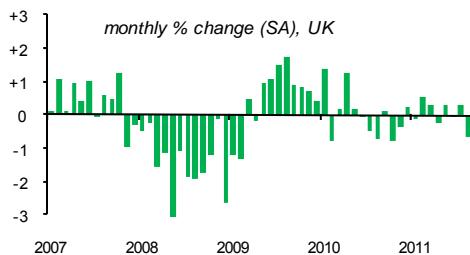
After recovering in 2009, numbers of mortgage approvals have remained generally flat since early 2010, at below half of pre-recession levels. Housing starts have increased since the recession but still remain well below pre-recession levels.

House price indices

Halifax house price index



Nationwide house price index

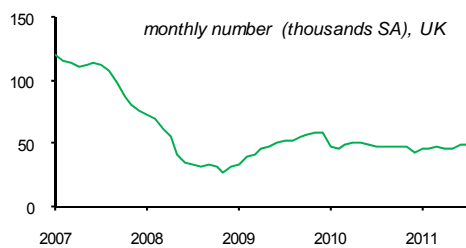


Latest monthly data
UK, seasonally adjusted

	Halifax	Nationwide
Latest data	Jul-11	Aug-11
Change in month	+0.3%	-0.6%
Change in year	-2.1%	-0.4%
Peak date	Aug-07	Jul-07
Change since peak	-17.8%	-9.0%
Trough date	Apr-09	Feb-09
Change since trough	+6.0%	+9.8%

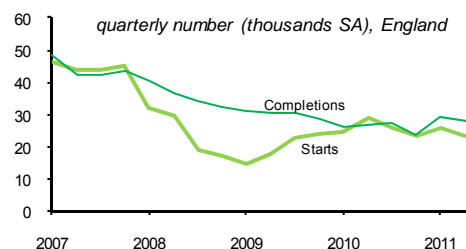
- The recovery in house prices since early 2009 has stalled, with recent data showing prices falling in year-on-year terms on both the Halifax and Nationwide measures.
- There is considerable regional variation. In Q2 2011 prices rose by 6% in London and 5% in Wales but fell by 1% in East Anglia and Northern Ireland 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 49,239 mortgage approvals in July, a rise of 2% compared with June. The number of approvals has remained generally flat since early 2010.

House-building



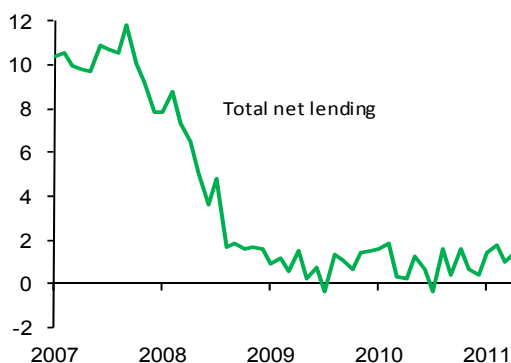
- There were 23,400 house building starts in England in Q2 2011, down 9% from 25,680 in Q1 2011. This is over 50% above the low of 14,470 in Q1 2009, but still well below the 46,190 starts in Q1 2007.
- The number of dwelling completions also fell to 27,750 in Q2 2011, down from 29,020 in Q1 2011.

Contact: Daniel Harari, x2464

Updates: Nationwide [House Price Index](#), early Sep;
Bank of England, [Lending to Individuals](#), 29 Sep;
Halifax [House Price Index](#), early Oct;
DCLG, [House-building](#), 17 Nov

F4: Household debt

Monthly net lending, £bn



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

- Total net lending to individuals grew by £0.9 billion in July 2011. This compares with an increase of £0.4 billion in June.
- Monthly net unsecured lending increased by £0.2 billion in July 2011.
- Monthly net secured lending (mortgages) grew by £0.7 billion in July 2011. It was unchanged in June.

Net outstanding lending to individuals

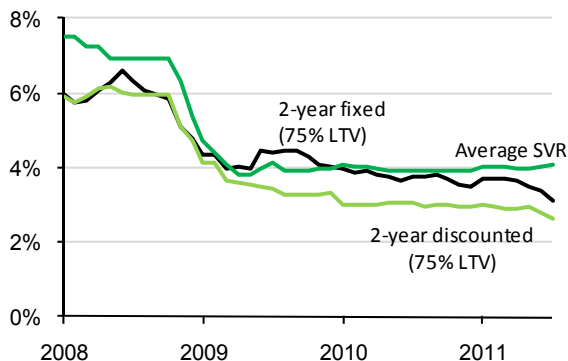
£ billions; seasonally adjusted

	Secured	Unsecured	Total
2007 Jul	1,140	215	1,356
2008 Jul	1,218	236	1,454
2009 Jul	1,228	230	1,459
2010 Jul	1,239	217	1,456
2011 Jan	1,240	212	1,452
2011 Apr	1,241	211	1,452
2011 Jul	1,242	209	1,451

- Total net outstanding lending to individuals was £1,451 billion at the end of July 2011, 0.4% lower than in July 2010.
- Secured lending (mortgages) is the largest form of lending accounting for 86% of the total.
- Unsecured lending outstanding (including credit cards) was £209 billion at the end of July 2011.

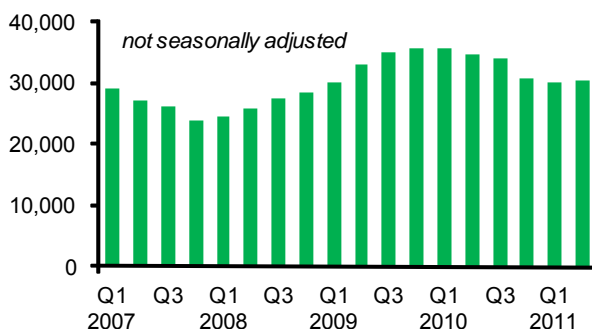
Source: Bank of England, series: LPMVTXK, LPMVZRI, LPMVTXC

Current average mortgage interest rates



- Average interest rates offered by banks and building societies have fallen sharply since late 2008.
- The average Standard Variable Rate (SVR) in July 2011 was 4.08%, 0.05 percentage points higher than the previous month.
- The average fixed and discounted rates offered (75% LTV) in July 2011 were 3.14% and 2.61% respectively.

Individual insolvencies, England and Wales



Source: Insolvency Service

- Q2 2011 provisional data indicates there were 30,513 individual insolvencies in England and Wales (not seasonally adjusted), a 12.2% decrease on Q2 2010.
- In Scotland in Q1 2011 there were 4,262 individual insolvencies, a fall of 18.0% on Q1 2010.
- In N Ireland in Q1 2011 there were 692 individual insolvencies, a rise of 24.9% on Q1 2010.

Contact: Dominic Webb, x4324

Update: Bank of England, [Lending to Individuals](#), 29 Sep
Insolvency Service, [Insolvency Statistics](#), 4 Nov

5 Indicator sources

The table gives details of sources used in this paper. Office for National Statistics (ONS) releases are available from <http://www.ons.gov.uk/ons/release-calendar/index.html>.

Indicator		Source details
A1	Gross Domestic Product	ONS releases: GDP Preliminary Estimate ; Second Estimate of GDP ; Quarterly national accounts HM Treasury, Forecasts for the UK Economy
A2	GDP: International Comparisons	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), Main Economic Indicators , via Stat.OECD database (link to user defined table) Growth Forecasts: OECD, Economic Outlook (full document via www.sourceoecd.org); IMF World Economic Outlook database and updates European Commission's growth forecasts
A3	Components of GDP	ONS releases: Second Estimate of GDP ; Quarterly national accounts
A4	Output and Employment by Industry	ONS releases: GDP Preliminary Estimate ; Second Estimate of GDP ; Quarterly national accounts
A5	Manufacturing	ONS, Index of Production Markit/CIPS UK Manufacturing Purchasing Managers Index SMMT, Vehicle Production
A6	Productivity	ONS, Labour Productivity
B1	Inflation	ONS, Consumer Price Indices
B2	Inflation: International	CPI: OECD, Main Economic Indicators (link to user defined table); EU data: Eurostat news release and database
B3	Average Earnings Index	ONS, Labour Market Statistics
C1	Employment	ONS, Labour Market Statistics
C2	Unemployment: National	ONS, Labour Market Statistics
C3	Unemployment: Regional	ONS, Labour Market Statistics and Regional Labour Market Statistics
C4	Unemployment: International Comparisons	Data: OECD, Main Economic Indicators Commentary: OECD, Economic Outlook (full document via www.sourceoecd.org)

Indicator		Source details
D1	Interest Rates and the Money Supply	UK: Bank of England, Monetary Policy Committee decisions & minutes US: Federal Reserve, Federal Open Market Committee decisions ECB: European Central Bank news releases Bank of England: Bankstats , tables A 1.1 and A 2.2.1; and ONS Database.
D2	Public Finances	Data: ONS, Public sector finances ; Forecasts of budget balance: Office for Budget Responsibility .
D3	Financial Indicators	<i>Financial Times</i> , Markets Data
E1	UK Balance of Trade	ONS, UK Balance of Payments ONS, UK Trade
E2	Exchange Rates	Sterling effective exchange rates and sterling-dollar/euro rates: Bank of England, <i>Bankstats</i> database (annual and monthly)
F1	Business and Consumer Confidence	European Commission: Economic Sentiment Indicator Future Output Expectations/Quarterly Business Confidence: Confederation of Business Industry (CBI), Economic and Business Outlook and Quarterly Industrial Trends Survey press releases ; Consumer Confidence: GfK NOP Consumer Confidence Index
F2	Retail Sales	ONS, Retail Sales
F3	Housing Market	Bank of England: Lending to Individuals ; Department for Communities and Local Government (DCLG) UK Housing Starts: table 201 ; Halifax house price data: housing research page ; Nationwide house price data: data page
F4	Household Debt	Bank of England: Lending to Individuals ; The Insolvency Service: Insolvency Statistics

6 Glossary

Symbols and abbreviations

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

Definitions¹

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.