



# Economic Indicators, April 2012

RESEARCH PAPER 12/16 03 April 2012

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

- Revised national accounts data show GDP contracted by 0.3% in Q4 2011, compared with the previous quarter (revised down from -0.2%). For the year as a whole, the economy expanded by 0.7% in 2011, down from 2.1% in 2010.
- Real household disposable incomes fell for the second year in succession in 2011; the 1.2% decline was the largest annual decline since 1977.
- Leading indicators for early 2012 are more positive, with the services sector growing in January and the purchasing managers index for the manufacturing sector at a 10-month high.

This month's articles:

- **Why is the cost of UK government borrowing so low?**
- **Local pay in the public sector**

Daniel Harari (editor)

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## Research Paper 12/16

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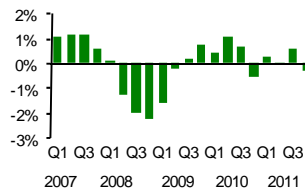
## Summary

Revised national accounts data show GDP contracted by 0.3% in Q4 2011, compared with the previous quarter (revised down from -0.2%). For the year as a whole, the economy expanded by 0.7% in 2011, down from 2.1% in 2010. Real household disposable incomes fell for the second year in succession in 2011; the 1.2% decline was the largest annual decline since 1977 (see below). Leading indicators for early 2012 are more positive, with the services sector growing in January and the purchasing managers index for the manufacturing sector at a 10-month high.

### GDP growth

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(% change quarter-on-quarter)



Quarterly GDP fell by a revised 0.3% in Q4 2011 compared with Q3 2011. This followed an increase in GDP of 0.6% in Q3 2011. GDP is 4.1% below its pre-recession peak of Q1 2008.

### Inflation (CPI)

[page 7](#)

(% change on year ago)

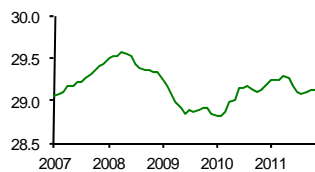


The annual rate of CPI inflation was 3.4% in February compared with a year ago, down from 3.6% in January. The Bank of England target is 2%.

### Employment

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(total, millions)

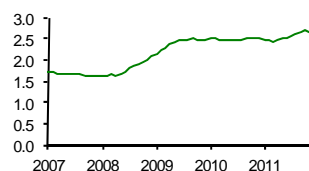


Compared with the previous quarter, the number of people employed rose by 9,000 to 29.12 million in the three months to January.

### Unemployment

[page 11](#)

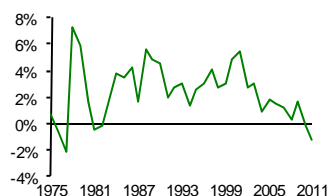
(total, millions, ILO definition)



Compared with the previous quarter, ILO unemployment rose by 28,000 to 2.67 million in the three months to January. The unemployment rate also increased, from 8.3% to 8.4%.

### Real Household Disposable Income

(Annual % change on previous year)



Real household disposable income decreased by 1.2% in 2011, the largest annual fall since 1977. This follows on from a 0.2% decrease in 2010.

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Next issue: 1 May

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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## 2 Why is the cost of UK government borrowing so low?

*“Our commitment to reduce the deficit is keeping interest rates low... There have been times the Treasury has been borrowing money more cheaply than at any previous time in [its] 400 year history. Few countries in Europe could say that. This reflects the confidence investors have in Britain’s ability to pay its way.”*

The Chancellor of the Exchequer’s Budget 2012 Statement

### 2.1 In recent years it has become cheaper for the UK government to borrow money

In recent years the interest rates some eurozone governments, such as Italy and Spain, must pay to borrow money from financial markets have sharply increased. This has occurred because investors have become more concerned about the prospects for their economies and their government’s ability to service their debt.

At the same time, a different picture has emerged for other countries such as Germany and the UK, where the costs to the government of borrowing money have been falling over the past few years.

The level of government debt is one factor that determines the cost of borrowing: if investors believe that the size of government debt is becoming unsustainably high, they will require higher interest rates to compensate them for the heightened risk that their loan to the government will not be repaid.

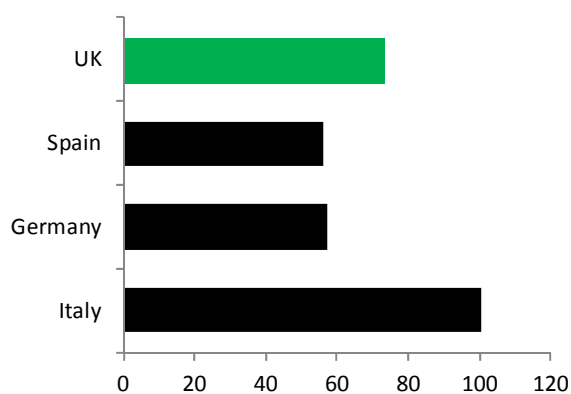
However, national debt size is clearly not the only factor that affects the government’s cost of borrowing. As shown in the charts opposite, the UK government’s debt as a share of GDP is greater than that of Spain, but the UK can borrow at much lower interest rates than in Spain.

### 2.2 Deficits and economic growth

The size of the deficit, the difference between annual government receipts and expenditure, is relevant to borrowing costs, as a deficit adds to total government debt. The UK government deficit (8.3% of GDP in 2011/12) is high relative to many other European countries, although it is forecast to fall over the next few years.

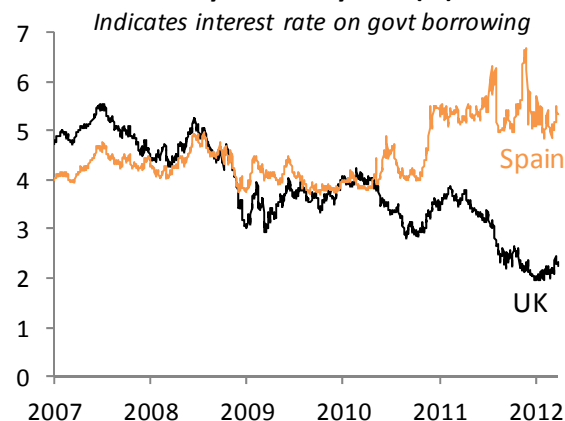
The credibility of proposals to reduce the deficit is an important determinant of investors’ confidence in UK government debt and, in turn, the interest rate it can borrow at. Simply reducing government spending can help reduce the deficit, but is unlikely to be enough without growth in the economy, which leads to increased tax revenues. The IMF is forecasting the UK economy to grow by 0.6% in 2012 and by 2.0% in 2013; in contrast it expects the Spanish economy to contract by 1.7% in 2012 and by 0.3% in 2013.

**Net Government Debt as a % of GDP, 2011**



Source: IMF

**10-year bond yields (%)**



Source: Bloomberg



### 2.3 Risk aversion: Is Britain a “safe haven”?

How countries' borrowing costs and economic prospects compare to each other is also important. David Miles, a member of the Bank of England's Monetary Policy Committee has suggested that ongoing concerns about some countries' indebtedness have changed people's perceptions and willingness to take risks.<sup>3</sup> Concerns over the ability of some eurozone countries to repay their debts has arguably increased demand for debt issued by countries that are seen to be “safe havens” – including the UK and Germany – thereby reducing government borrowing costs for these countries. Furthermore, investors have become more risk averse since the financial crisis and are showing a greater inclination to put their money in relatively low-risk assets such as German and UK government debt. This has led to increases in the price of these bonds, which, in turn, lowers the interest rate governments must pay.

### 2.4 What is the impact of monetary policy?

*“Research carried out at the Bank suggests that the first round of asset purchases [Quantitative Easing] might have decreased gilt yields by around 100 basis points [or 1%-point].”*

David Miles, member of the Monetary Policy Committee, Bank of England

The Bank of England's Quantitative Easing (QE) programme, involving the purchase of government bonds, is likely to be another driver of low rates, as it provides a source of increased demand for UK government debt. A Bank of England report in autumn 2011 concluded that the programme had led to a fall in interest rates on UK government bonds of around 1 percentage point.<sup>4</sup>

More generally, countries which are able to issue debt in their own currency are in a different position to those in a monetary union. Some countries in the eurozone are arguably more vulnerable to being forced into default by investors in the event of a loss of confidence. In countries such as the UK, investors may see the value of debt fall due to inflation, but the likelihood of a forced default is lower.

Greater national control of monetary policy also means that the UK government can cut back on public spending, while relying on the Bank of England to loosen monetary policy with the aim of helping economic growth to recover.

### 2.5 A combination of factors

It is clear from interest rates on government bonds that investors have more confidence in the UK government's ability to repay debts compared to some other countries. It is unlikely that this is due to deficit-cutting alone. Actions by the Bank of England, as well as the relatively worse position of some other countries in terms of prospects for growth and ability to service debt are also likely contributors to the UK government's low cost of borrowing.

Nida Broughton, Economic Policy and Statistics section

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<sup>3</sup> [Speech by David Miles at the pro.Manchester Business Conference](#), 1 March 2012

<sup>4</sup> Bank of England, [“The United Kingdom's Quantitative Easing Policy”](#), Quarterly Bulletin 2011 Q3

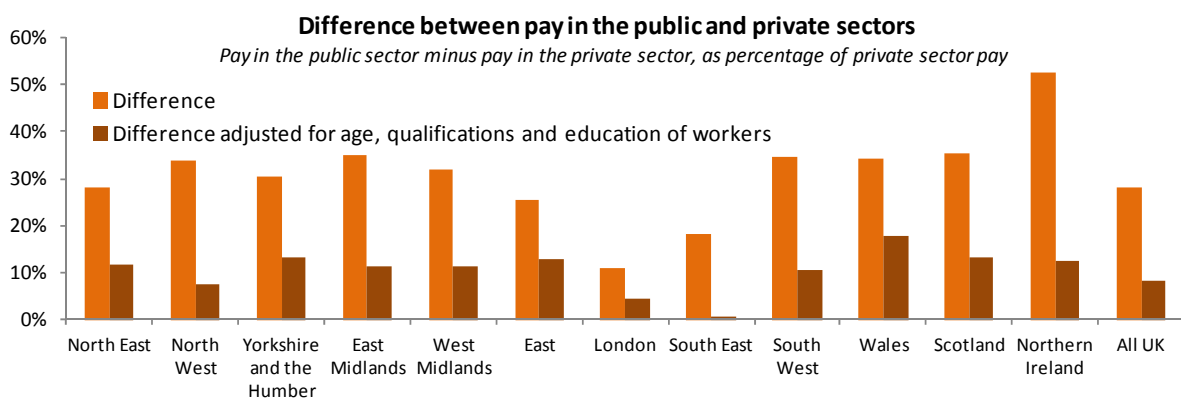
### 3 Local pay in the public sector

The Government is examining whether public sector pay can be made more responsive to local pay rates across the UK.

The current focus of this work is the civil service and certain workforces covered by the public sector pay review bodies – senior civil servants in Great Britain, prison staff and teachers in England and Wales, and NHS workers (except doctors and dentists) in England.<sup>5</sup>

#### 3.1 What are the differences between public and private sector pay in each region?

Public and private sector pay vary across the regions and countries of the UK, with pay in London higher than elsewhere. Public sector pay is on average higher than private sector pay in each country and region. This is partly because different jobs are done in the public and private sectors, with different staff – when factors such as qualifications of workers are taken into account, the gap between the two sectors narrows.<sup>6</sup>



#### 3.2 Why should pay be local?

Employers must pay enough to recruit and retain adequate levels of appropriately qualified and experienced staff in their organisations. Paying below these levels can lead to vacancies or lower quality services. Paying above these levels is economically inefficient – the additional money spent could instead have been used in other ways, for example hiring

<sup>5</sup> OME, [Call for evidence on how to make pay more market-facing in local areas for certain groups of public sector workers](#). This initiative affects only workers whose terms and conditions are set by the UK government; the [Scottish](#) and [Welsh](#) governments have expressed concerns about more localised public sector pay.

<sup>6</sup> ONS, [Annual Survey of Hours and Earnings 2011](#) for levels and raw differences (figures based on pay for full-time workers), and separate [Institute for Fiscal Studies analysis](#) of adjusted differences for 2009-11. The IFS predict that the difference between the public and private sector for men will fall to close to zero over the next few years, while the difference for women will fall to levels seen before the economic crisis.

more staff or paying off debt.

The amount that employers need to pay to recruit and retain staff varies from place to place. This may depend of the costs of living: prices – notably house prices – vary across the UK. In addition, some places may be more or less attractive to live in – with, for example, better or worse schools. The state of the labour market in an area is also important – it may be easier to attract people to a job at a given level of pay if unemployment is high. Localised pay reflects these local factors.

### **3.3 What are the potential problems with local public sector pay?**

There are a number of possible problems with localised pay. One is the increased time and cost associated with a greater number, or complexity, of pay negotiations. Another is the difficulty of controlling the total pay bill if there are a large number of different local pay schemes to manage. Boundary effects can also be an issue where areas with noticeably different pay are close to each other – staff can then commute to get higher pay, creating vacancies in one area at the expense of another.

The way that increasing localisation of pay is received may depend on how having different pay in different places is described. Many existing pay structures are seen as providing *higher* pay in certain areas, for example London, than in others. Much of the current debate appears to relate to having *lower* public sector pay in certain areas, which, while reflecting the same underlying concept, may be more difficult for people to accept – especially if its introduction leads to real-terms pay decreases for some staff.

### **3.4 Is local pay in the public sector good for the private sector?**

It has been argued that the private sector would benefit from more localised pay in areas where private sector firms compete for workers with the public sector.<sup>7</sup> If localisation meant that public sector pay fell in a particular area, it could make it less expensive for private sector employers to compete with the public sector to hire staff there. Of course the converse is also true – if localisation of pay meant that public sector pay rose in a particular area, it could make it more expensive for the private sector to hire staff there.

All other things being equal, where public sector workers are paid less, they will have less money to spend in their local areas – potentially having an impact on local economies. Where they are paid more, this would mean they have more to spend in their areas. Greater localisation of pay therefore has the potential to exaggerate economic differences between areas, if it leads to lower public sector pay in poorer areas and higher pay in richer areas.

### **3.5 How do pay systems work at the moment and how might these change?**

Many national public sector organisations already have some form of additional pay for London workers, and some have systems of special pay allowances for occupations and locations where it is difficult to hire or keep staff.

A few public sector organisations have more pay differentiation, with a system of pay zones. For example, the Department for Work and Pensions has four zones – national, inner London, outer London, and a ‘specified location pay zone’, which covers a range of towns, mostly in the East or South East. Criteria used to decide whether towns are included include staff turnover rates, recruitment and retention difficulties, and poor levels of performance.<sup>8</sup> It has been suggested that this zone model – which allows local pay differences within a relatively simple structure – could be suitable for more of the public sector.

Lorna Booth, Economic Policy and Statistics section

<sup>7</sup> CBI response to Office of Manpower Economics call for evidence on market-facing pay in local areas

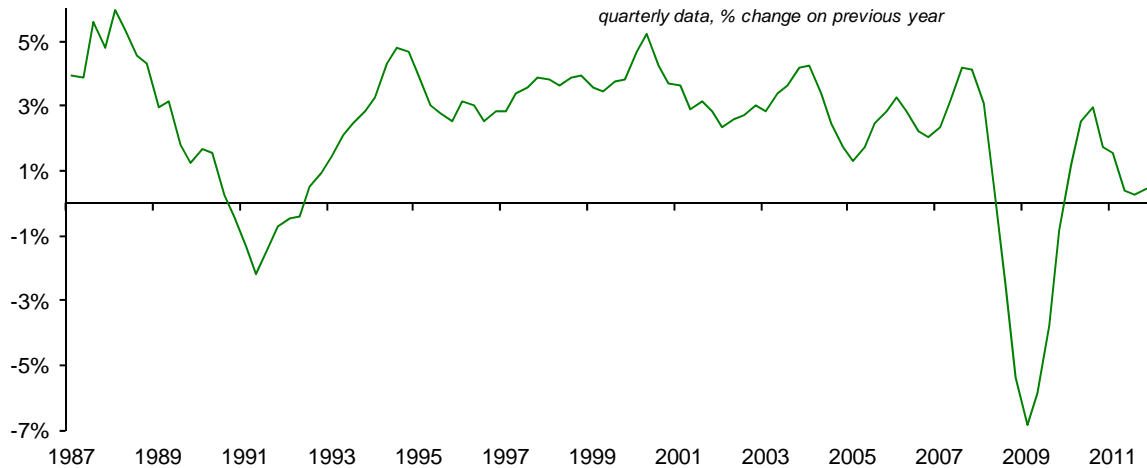
<sup>8</sup> Income Data Services, *Pay and benefits in the public services 2012*



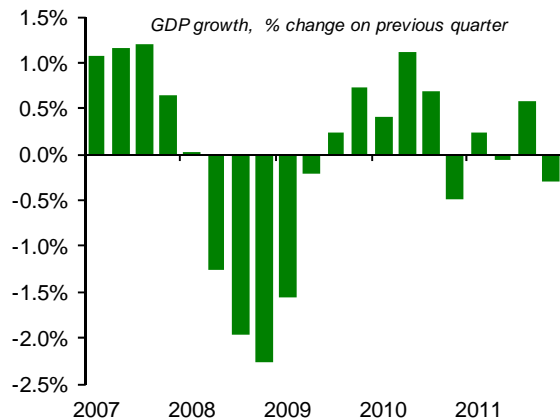
## A1: Gross Domestic Product

The economy grew by an estimated -0.3% in Q4 2011 falling from 0.6% in Q3 2011. In March, HM Treasury's average of independent economic forecasts of GDP growth for 2012 was 0.5% and 1.7% for 2013. The Office for Budget Responsibility's (OBR) central forecasts from March 2012 are 0.8% growth for 2012 and 2.0% 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
2009	1,394	-2.8	...	-4.4
2010	1,464	5.0	...	2.1
2011	1,508	3.0	...	0.7
2010 Q4	370.1	4.9	-0.5	1.7
2011 Q1	373.8	3.8	0.2	1.5
Q2	374.9	2.8	-0.1	0.4
Q3	378.4	2.6	0.6	0.3
Q4	380.5	2.8	-0.3	0.5

Source: ONS, series: YBHA, ABMI

- The economy grew by an estimated 0.3% in Q4 2011 (revised down from -0.2%) compared with Q3 2011. This compares with a rise of 0.6% in Q3 2011 (revised up from 0.5%) compared with Q2 2011.
- In Q4 2011, real GDP was an estimated 0.8% higher than a year earlier but GDP (to 2011 Q4) remains 4.1% below its pre-recession (Q1 2008) level.
- The economy grew by an estimate of 0.8% in 2011 compared to 2.1% in 2010.
- The recession was shorter than previously thought, with the economy returning to growth in Q3 2009 rather than Q4. The revisions also show that the recession was deeper than previously estimated but that the initial 'bounce-back' was stronger.

**Contact:** Grahame Allen, x3977

**Updates:** ONS, [National Accounts](#) 25 Apr  
HMT, [Comparison of Independent Forecasts](#), 18 Apr

## A2: GDP: International Comparisons

With the exception of the US, France and Canada, all the G7 countries saw a contraction in output in Q4 2011. The UK economy contracted by 0.3% in Q4 2011, following 0.6% growth in Q3 2011. The eurozone contracted in Q4 2011 for the first time since 2009, by 0.3%. The US grew by 0.7% in Q4 2011, following growth of 0.5% in Q3 2011.

### Real GDP (% changes)

	change on prev. year				change on prev. quarter			
	11Q1	11Q2	11Q3	11Q4	11Q1	11Q2	11Q3	11Q4
US	2.2	1.6	1.5	1.6	0.1	0.3	0.5	0.7
Japan	-0.1	-1.7	-0.5	-0.6	-1.8	-0.3	1.7	-0.2
UK	1.5	0.4	0.3	0.5	0.2	-0.1	0.6	-0.3
Germany	4.6	2.9	0.7	0.5	1.3	0.3	0.6	-0.2
France	2.2	1.6	0.6	0.1	0.9	-0.1	0.3	0.2
Eurozone	2.4	1.6	0.4	0.4	0.8	0.1	0.1	-0.3
G7	2.1	1.2	1.2	1.1	0.1	0.2	0.6	0.3
OECD	2.5	1.7	1.7	..	0.3	0.3	0.6	..

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

In [January 2012](#), the IMF lowered their 2012 forecast for world growth by 0.7 percentage points to 3.3%. 2012 growth forecasts for the UK were lowered by 1.0 percentage points, for the eurozone by 1.6 percentage points, and for the US were unrevised.

Among major emerging markets, China's and India's IMF growth forecast for 2012 was revised downward by 0.8 and 0.5 percentage points respectively. The 2012 forecast for Brazil was reduced by 0.6 percentage points.

The European Commission's [February interim forecast](#) left the forecast for UK in 2012 unchanged from November, at 0.6%. The eurozone economies saw further downward revisions: France and Germany are now expected to grow 0.4% and 0.6% in 2012.

The [OECD's November forecast](#) also saw major downward revisions from June, particularly for the UK and eurozone. Compared with the last forecast in June, 2012 growth has been revised down from 1.8% to 0.5% in the UK and from 2.0% to 0.2% in the eurozone.

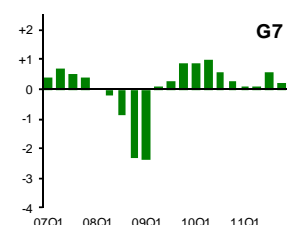
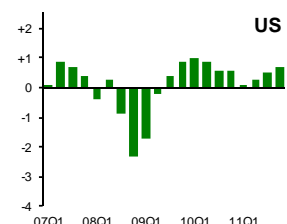
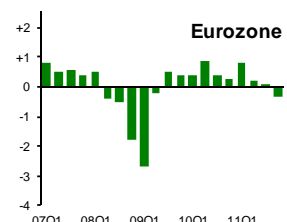
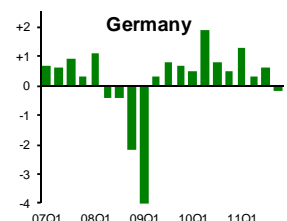
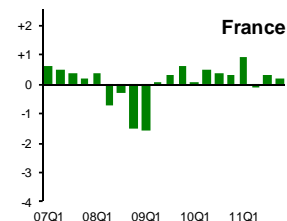
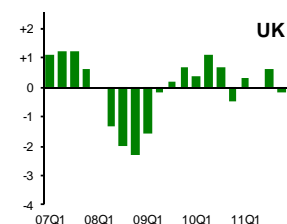
### Real growth forecasts (% changes, year-on-year)

	IMF (Jan 11)		EC (Nov 11) <sup>a</sup>		OECD (Nov 11)	
	2012	2013	2012	2013	2012	2013
UK	0.6	2.0	0.6	1.5	0.5	1.8
France	0.2	1.0	0.4	1.4	0.3	0.4
Germany	0.3	1.5	0.6	1.5	0.6	1.9
Eurozone	-0.5	0.8	-0.3	1.3	0.2	1.4
US	1.8	2.2	1.5	1.3	2.0	2.5
Japan	1.7	1.6	1.8	1.0	2.0	1.6
<b>OECD</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>1.6</b>	<b>2.3</b>
China	8.2	8.8	..	..	8.5	9.5
India	7.0	7.3	..	..	7.5	8.4
Brazil	3.0	4.0	..	..	3.2	3.9
<b>World</b>	<b>3.3</b>	<b>3.9</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>

<sup>a</sup> 2012 forecasts for UK, France, Germany and Eurozone are from February 2012

Sources: IMF, September WEO; EC EEF and Interim EEF; OECD, Economic Outlook 90

### Quarter-on-quarter growth rates



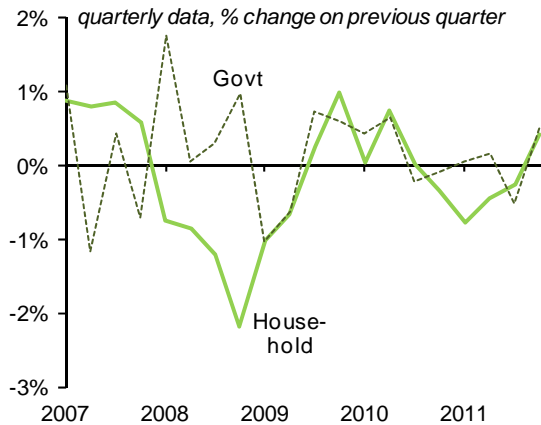
Contact: Gavin Thompson, x2042

Update: OECD [Main Economic Indicators](#), 10 Apr 2012  
EC [Economic Forecast](#), May 2012  
IMF [World Economic Outlook](#), Apr 2012

### A3: Components of GDP

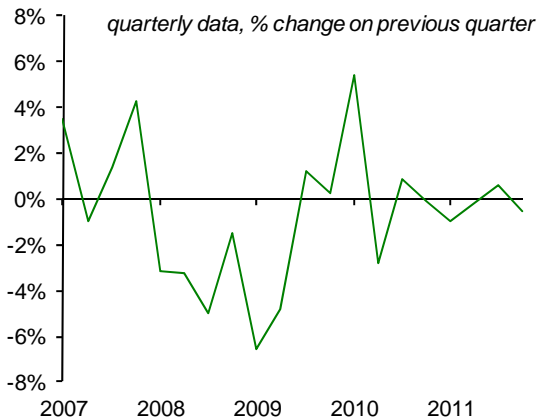
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 62% of the total in 2011. Government consumption accounted for 23% and gross fixed capital formation for 14%.

#### Household consumption and government consumption



- In Q4 2011, household consumption rose by 0.4% in real terms compared with Q3. This followed four consecutive quarters of falling consumption.
- Government consumption increased by 0.5% in Q4 2011, the largest rise since Q2 2010.
- Exports rose by 1.6% while imports increased by 0.9% in Q4 2011.
- Sharp declines in stockbuilding and investment (below), resulted in GDP falling by 0.3% in Q4 2011.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- In Q4 2011 GFCF decreased by 0.6%. In 2011 as a whole it fell by 1.2%.
- Business investment, a component of overall GFCF, fell by 3.3% in Q4 2011. In 2011 overall, however, it rose slightly by 1.2%.

#### Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2010 (annual % change)	1.2%	1.5%	3.1%	7.4%	8.6%	2.1%
2011 (annual % change)	-1.2%	0.1%	-1.2%	4.6%	1.2%	0.7%
2010 Q3	0.0%	-0.2%	0.9%	0.6%	3.0%	0.7%
2010 Q4	-0.3%	-0.1%	0.0%	4.1%	1.2%	-0.5%
2011 Q1	-0.8%	0.1%	-0.9%	1.4%	-1.7%	0.2%
2011 Q2	-0.4%	0.2%	-0.1%	-2.2%	-0.6%	-0.1%
2011 Q3	-0.3%	-0.5%	0.6%	0.0%	0.2%	0.6%
2011 Q4	0.4%	0.5%	-0.6%	1.6%	0.9%	-0.3%

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

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

Update: ONS, [Second estimate of GDP](#), 24 May

## A4: Output and employment by industry

In 2010 (the latest National Accounts data), services accounted for 78% of UK Gross Value Added (GVA), manufacturing 10%, other production (mining & quarrying, and utilities) 5%, construction 7% and agriculture, hunting and fishing 1%. The services sector accounts for 83% of total workforce jobs (Q4 2011).

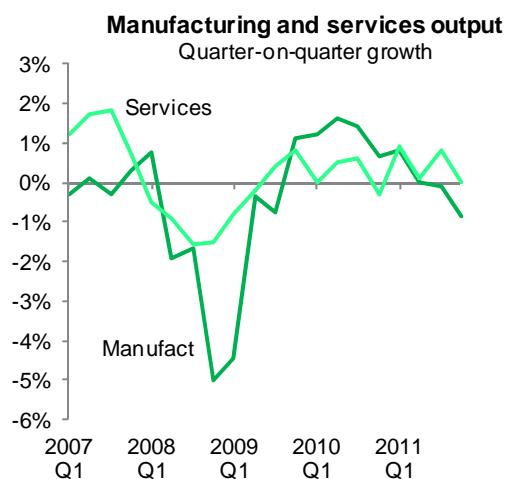
### Output

#### GVA growth by industry

Seasonally adjusted, chained volume measures at basic prices

	Manufacturing	Construction	Services	Total GDP
<i>Annual % changes</i>				
2010	3.7%	8.2%	1.4%	2.1%
2011	2.0%	2.8%	1.6%	0.7%
2011 Q2	2.7%	2.4%	1.3%	0.3%
2011 Q3	1.2%	-0.1%	1.5%	0.3%
2011 Q4	-0.2%	1.0%	1.6%	0.4%
<i>Quarter-on-quarter</i>				
2011 Q2	0.0%	2.3%	0.1%	-0.1%
2011 Q3	-0.1%	0.5%	0.8%	0.6%
2011 Q4	-0.7%	-0.2%	-0.1%	-0.3%

Source: ONS Series L2KX, L2N8, L2NC, YBEZ



- Manufacturing output fell by 0.7% in the fourth quarter of 2011. Services output fell by 0.1%, while construction output fell by 0.2% in Q4 2011 compared with an increase of 0.5% in Q3.
- Manufacturing output rose by 2.0% in 2011 and services by 1.6%. Construction output grew by 2.8%.
- Output in the business services and finance sector fell by 0.1% in Q4 2011, following a 1.3% rise in Q3 2011. Total output in the production industries decreased by 1.3% in Q4 2011, with mining and quarrying falling by 2.6%.

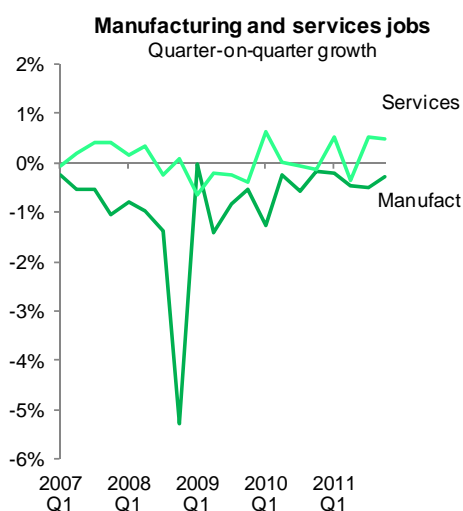
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	Total
<i>Annual % changes</i>				
2009 Q4	-2.8%	-7.3%	-1.5%	-2.0%
2010 Q4	-2.2%	-6.3%	0.4%	-0.1%
2011 Q3	-1.3%	-1.6%	0.6%	0.3%
2011 Q4	-1.5%	0.9%	1.2%	0.9%
<i>Quarter-on-quarter</i>				
2011 Q3	-0.5%	-0.8%	0.5%	0.6%
2011 Q4	-0.3%	0.2%	0.5%	0.4%
<i>Thousands</i>				
2011 Q4	2,514	2,055	26,160	31,537

Source: ONS series JWR7, JWS2, JWT8, DYDC



- The number of manufacturing jobs has continued to fall. In Q4 2011, the manufacturing workforce fell by 0.3% on the previous quarter.
- The number of jobs in the construction sector increased by 0.2% in Q4 2011, while the services workforce grew by 0.5%.
- The public administration, health and education workforce fell by 2.3% in the year to Q4 2011.

Contact: Lucinda Maer, x3841

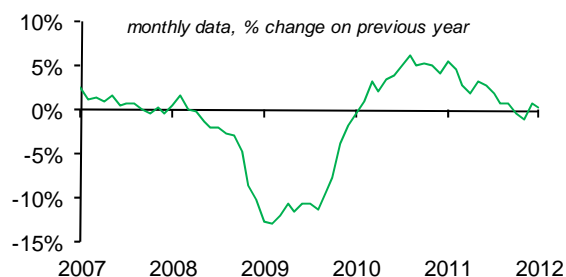
Update: ONS, [Preliminary GDP Estimates](#), 25 April 2012



## 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

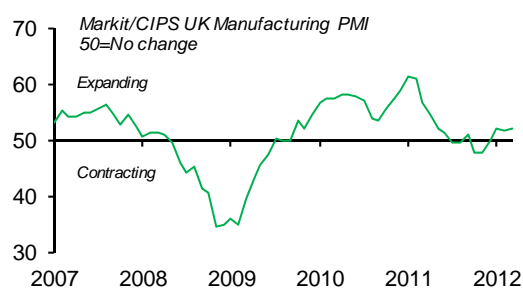


	Index Value (2008=100)	% change over month	% change over 12 months
2010	93.7	...	3.7
2011	95.6	...	2.0
2011 Oct	94.7	-0.9	-0.4
Nov	94.6	-0.1	-1.0
Dec	95.7	+1.1	+0.9
2012 Jan	95.8	+0.1	+0.3

Source: ONS, series K22A

- Manufacturing output grew by 0.1% in January 2012 compared with December 2011. Manufacturing output grew by 0.3% in January 2012 compared to January 2011.
- Total industrial production (including mining and utilities) fell by 0.4% in January 2012 compared with December 2011. Total production was 3.8% lower in January 2012 than in January 2011.

### Manufacturing Purchasing Managers' Index

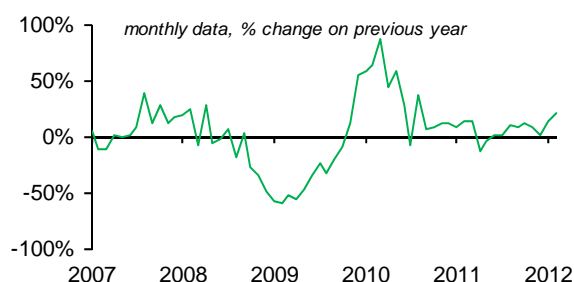


	Index	Monthly change
2010 Mar	57.3	...
2011 Mar	56.7	...
2011 Dec	49.7	+2.0
2012 Jan	52.0	+2.3
Feb	51.5	-0.5
Mar	52.1	+0.6

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

- The Markit/CIPS UK Manufacturing PMI rose to 52.1 in March 2012 from 51.5 in February (where 50.0 is no change), a ten-month high for the index.
- Markit/CIPS described recent data as “a positive start to 2012 for UK manufacturing”, but also noted that input costs reached a seven-month high driven by high oil and metal prices.

### Vehicle Production



	Number '000s	% change over 12 months
2010	1,393	+27.8
2011	1,465	+5.1
2011 Feb	122	+13.4
Dec	104	+1.2
2012 Jan	137	+14.2
Feb	148	+21.4

Source: SMMT, not seasonally adjusted

- UK vehicle production was 148,000 in February 2012, 21.4% higher than in February 2011. The SMMT said that vehicle production had maintained the trend of strong export-led growth.
- In 2011, 1.47 million vehicles were produced in the UK, up by 5.1% compared with 2010.

**Contact:** Lucinda Maer, x3841

**Update:** ONS, [Index of Production](#), 5 April  
Markit/CIPS [UK Manufacturing PMI](#), 1 May  
SMMT, [Vehicle Production](#), mid April

## A6: Productivity

Productivity is a measure of the efficiency of production in an economy. It is usually expressed as a ratio of units of output to units of input.

In measuring labour productivity, three measures are commonly used: output (or GDP) per worker, output per job and output per hour worked. The latter is the purest measure of productivity, as it adjusts for changes in working hours such as more part-time working.

UK data are published every three months, with international comparisons updated biannually.

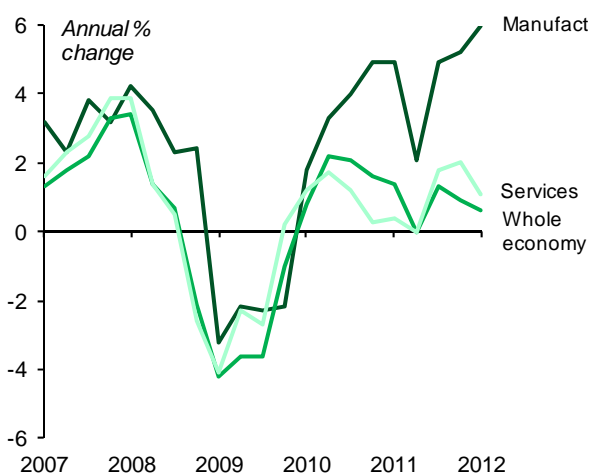
### UK productivity by sector

- Productivity across the whole UK economy, measured by output per hour, is estimated to have risen by 0.6% in the year to 2011 Q4. It fell by 0.7% in the last quarter of 2011 alone.
- Productivity in terms of output per hour is similar to levels early in the recession (2008 Q3). However, hours worked are below pre-recession levels.

#### Output per hour, seasonally adjusted

	Manufact.	Services	Whole economy
<i>Annual % change</i>			
2009	-1.3	-0.9	-1.9
2010	4.3	0.9	1.9
2011	4.6	1.2	0.7
2010 Q3	4.9	0.3	1.6
Q4	4.9	0.4	1.4
Q1	2.1	0.0	0.0
2011 Q2	4.9	1.8	1.3
Q3	5.2	2.0	0.9
Q4	6.0	1.1	0.6
<i>Latest q-on-q % change</i>			
	0.7	-1.0	-0.7

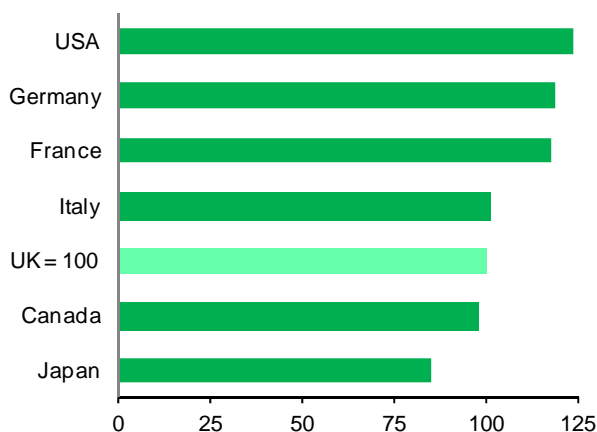
Source: ONS series LZVD, DJK8, DJQ3



- Manufacturing productivity has grown faster than that in the service sector. Output per hour in manufacturing grew 6.0% between 2010 Q4 and 2011 Q4, compared with 1.1% in services.

### International comparisons

#### GDP per hour, 2010, index where UK=100



- International comparisons of productivity are presented as an index where the UK=100.
- In 2010, based on GDP per hour, the UK came fifth of the G7 countries, with the USA top and Japan bottom. UK productivity was 10% below the G7 average.
- On a per hour worked basis the productivity gap between the UK and the USA in 2010 was at its widest since 1995.

Contact: Adam Mellows-Facer, x4904

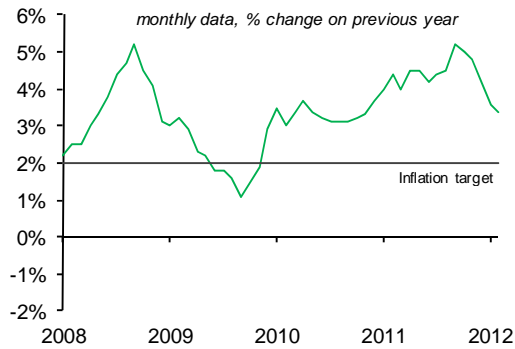
Update: ONS, [Labour Productivity](#), 29 Jun

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.4% in February, down from 3.6% in January but above the Bank of England's 2% target for the twenty-seventh successive month.

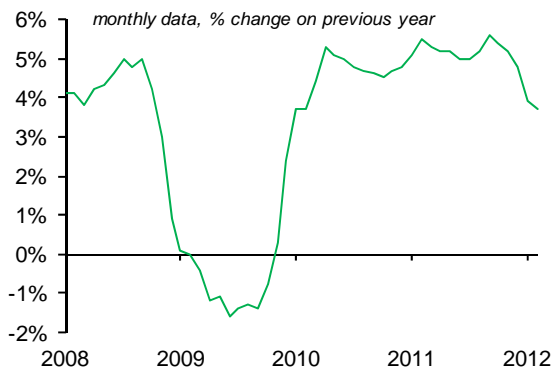
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side.

### Consumer Prices Index (CPI)



- The CPI annual inflation rate was 3.4% in February, down from 3.6% in January. The February figure is the lowest rate since November 2010 (3.3%) and the fifth consecutive month the annual rate has fallen.
- The largest downward pressures to this change came from lower domestic electricity and gas bills compared with last year.
- The RPI (all items) measure of annual inflation was 3.7% in February, down from 3.9% in January.

### Retail Prices Index (RPI)

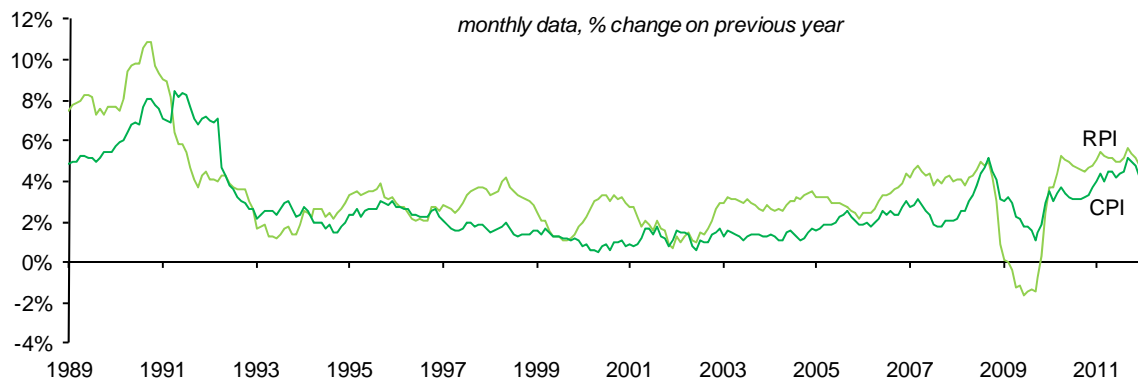


### Price Indices

		% change on a year ago	
		CPI	RPI
2009		2.2	-0.5
2010		3.3	4.6
2011		4.5	5.2
2011	Sep	5.2	5.6
	Oct	5.0	5.4
	Nov	4.8	5.2
	Dec	4.2	4.8
2012	Jan	3.6	3.9
	Feb	3.4	3.7

Source: ONS database, series: D7G7, CZBH

### CPI and RPI since 1990



Contact: Grahame Allen, x3977

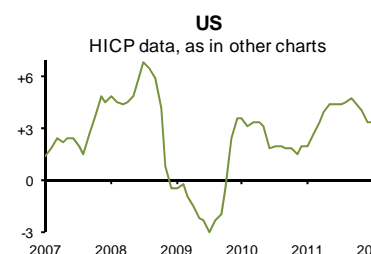
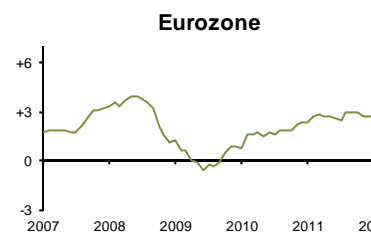
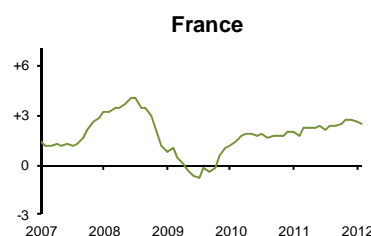
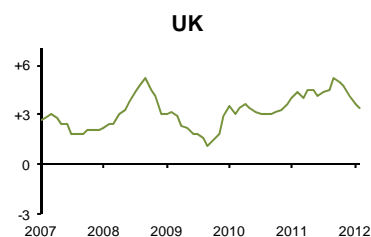
Update: ONS, [Consumer Price Indices](#), 17 Apr

## 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 February, UK inflation was 3.4%, down from 3.6% in January. This is the eighth-highest rate in the EU. The Bank of England's UK inflation target is 2%.
- The flash estimate of eurozone inflation was 2.6% in March 2012, down from 2.7% in February. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- Sweden had the lowest annual inflation rate in the EU in February, at 1.0%. The highest rate was in Hungary, at 5.8%.
- HICP annual inflation in the US in January was 3.3%, down from 3.4% in December. Using its national definition, US inflation was 2.9% in February, unchanged from the January figure.



### Inflation rates: selected countries

Annual % change in consumer prices

	2009	2010	2011	Nov-11	Dec-11	Jan-12	Feb-12
<b>HICP (ONS/Eurostat)</b>							
UK	2.2	3.3	4.5	4.8	4.2	3.6	3.4
Eurozone	0.3	1.6	2.7	3.0	2.7	2.7	2.7
EU	1.0	2.1	3.1	3.3	3.0	2.9	3.0
France	0.1	1.7	2.3	2.7	2.7	2.6	2.5
Germany	0.2	1.2	2.5	2.8	2.3	2.3	2.5
Greece	1.3	4.7	3.1	2.8	2.2	2.1	1.7
Italy	0.8	1.6	2.9	3.7	3.7	3.4	3.4
Spain	-0.2	2.0	3.1	2.9	2.4	2.0	1.9
US	-0.8	2.4	..	4.0	3.4	3.3	:
<b>National definitions (OECD)</b>							
Canada	0.3	1.8	2.9	2.9	2.3	2.5	..
Japan	-1.3	-0.7	-0.3	-0.5	-0.2	0.1	..
US	-0.4	1.6	3.2	3.4	3.0	2.9	2.9
G7	-0.1	1.4	2.6	2.8	2.5	2.5	..
OECD	0.5	1.9	2.9	3.1	2.9	2.8	..
Brazil	4.9	5.0	6.6	6.6	6.5	6.2	5.8
China	-0.7	3.3	5.4	4.2	4.1	4.5	..
India	10.9	12.0	8.9	9.3	6.5	5.3	..
Russia	11.7	6.9	8.4	6.8	6.1	4.1	..

Source: ONS, Eurostat & stat.OECD database

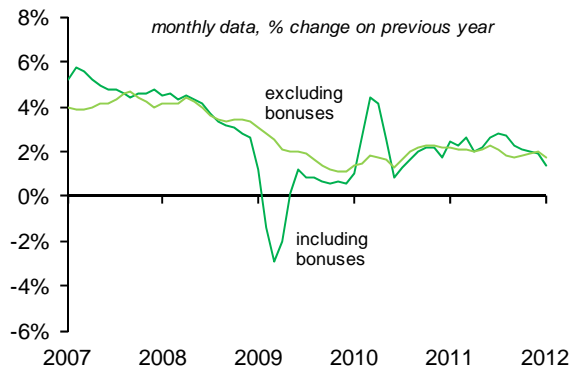
**Contact:** Gavin Thompson, x2042

**Updates:** OECD, [Main Economic Indicators](#), 10 Apr 2012  
Eurostat, [HICP full release](#), 17 Apr 2012  
Eurostat, [Flash estimate \(Apr\)](#), 30 Apr 2012

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 1.4% in January compared with a year ago, down from 1.9% in December. Average weekly earnings excluding bonuses rose by 1.7% in the three months to January compared with a year ago, down from 2.0% in December. Inflation as measured by the CPI was 3.6% in January 2012.

#### Average Earnings, Whole Economy



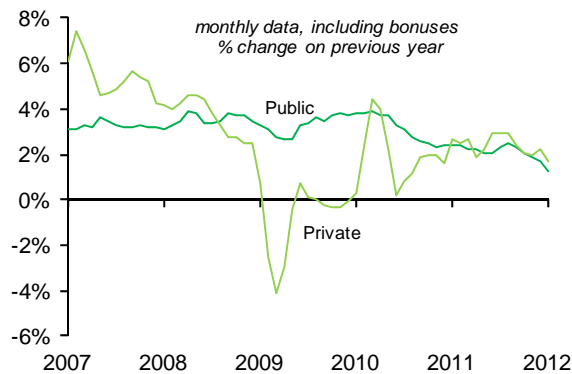
#### Average Earnings, Including Bonuses

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

	Private	Public	Manuf.	Serv.	Total
2009 Jan	0.7	3.3	2.3	1.2	1.2
2010 Jan	0.3	3.8	3.0	1.0	1.0
2011 Jan	2.7	2.4	2.2	3.0	2.4
2011 Aug	2.9	2.5	1.7	3.0	2.7
Sep	2.4	2.3	1.6	2.5	2.3
Oct	2.1	2.1	1.3	2.3	2.1
Nov	2.0	1.9	1.7	2.1	2.0
Dec	2.2	1.7	1.5	2.2	1.9
2012 Jan	1.7	1.3	1.5	1.6	1.4

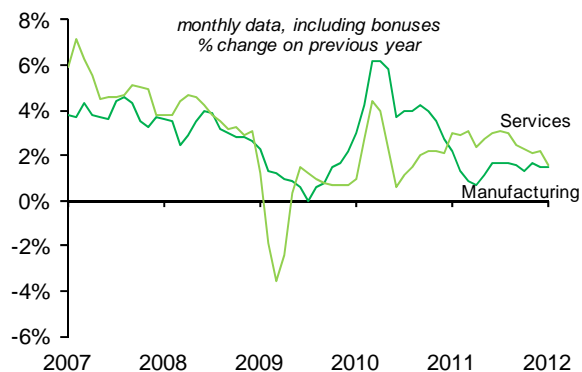
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 1.7% in January, compared with an increase of 1.3% in the public sector. Excluding financial services, public sector earnings rose by 0.7%.
- Average weekly earnings (including bonuses) in January in the public sector were £476 compared with £458 in the private sector.
- In 2011, headline (including bonuses) earnings in the private sector averaged a rise of 2.5%, while the public sector averaged a 2.1% increase.

#### Average Earnings in Services and Manufacturing

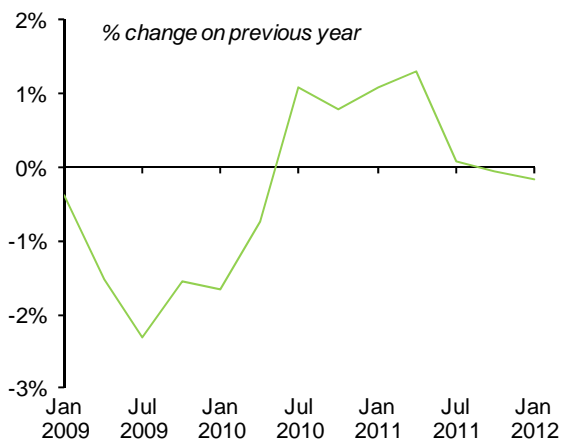


- Average total pay growth (including bonuses) in the manufacturing sector was 1.5% in January, compared with 1.6% in the services sector.
- Average weekly earnings (including bonuses) in January in the manufacturing sector were £535 compared with £446 in the services sector.
- In 2011, headline (including bonuses) earnings in the services sector averaged a rise of 2.7% compared with a 1.4% increase in the manufacturing sector.

## C1: Employment

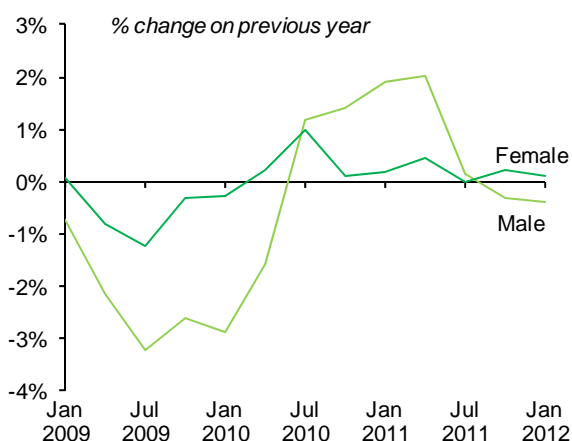
Employment rose by 9,000 over the quarter to January 2012, to 29.12 million. Employment is now 1.5% lower than its pre-recession peak of 29.56 million in the three months to April 2008.

### Total employment



- Employment has fallen by 44,000 over the last year.
- In the past year, employment among 16-24 year olds has fallen by 3.7%.
- In the past year, employment among people aged over 65 has fallen by 3.1%.
- The number of employees (which excludes self-employed people) fell by 118,000 over the past year.
- The number of self-employed people increased by 101,000 over the past year.

### Male and female employment



- The number of men in employment fell by 61,000 over the last year to 15.57 million.
- The number of women in employment increased by 18,000 over the last year to 13.54 million
- The number of people employed in the public sector fell by 37,000 in the three months to December 2011, to 5.94 million.
- The number of people employed in the private sector increased by 45,000 in the three months to December 2011, to 23.17 million.

### Employment by age group

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

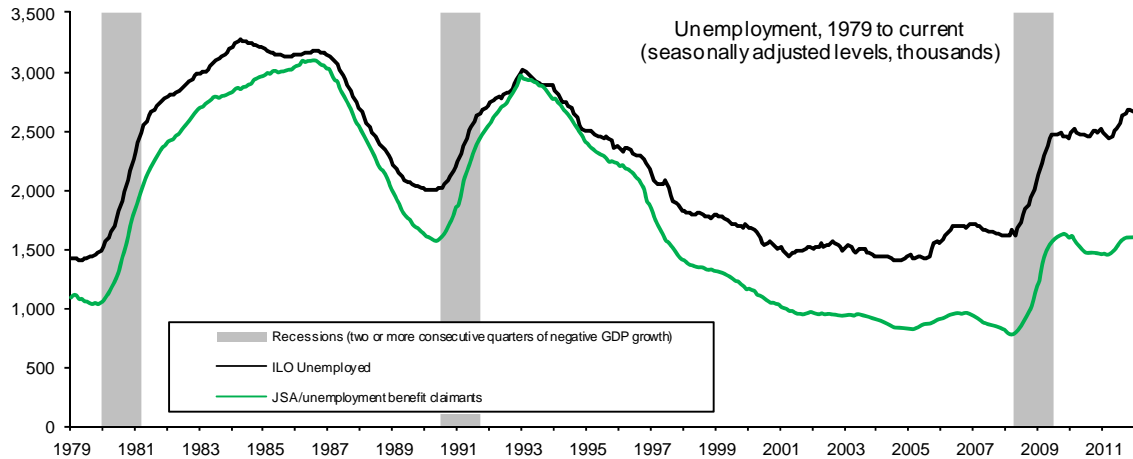
	Total	16-24	25-49	50-64	65+
Nov-Jan 2010	28,842	3,732	17,101	7,242	767
Nov-Jan 2011	29,159	3,736	17,193	7,333	898
Feb-Apr 2011	29,239	3,747	17,236	7,368	887
May-Jul 2011	29,169	3,692	17,241	7,373	862
Aug-Oct 2011	29,107	3,631	17,213	7,404	859
Nov-Jan 2012	29,115	3,599	17,225	7,421	870
% change on previous 3 months	+0.0	-0.9	+0.1	+0.2	+1.3
% change on previous year	-0.1	-3.7	+0.2	+1.2	-3.1

Source: ONS

## C2: Unemployment: National

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

- **ILO unemployment in November 2011 to January 2012 was 2,666,000 (8.4% of all economically active)** – up 28,000 from the previous quarter. (UK, seasonally adjusted.)



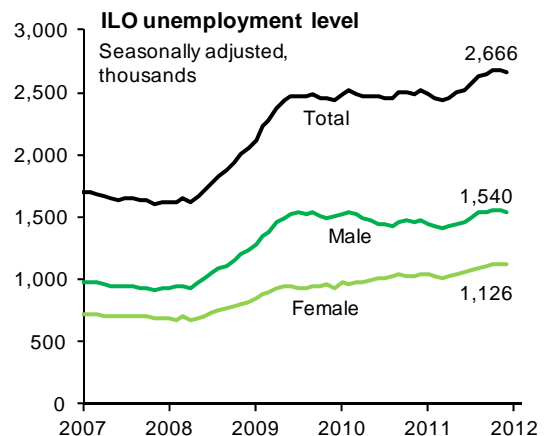
[Source: ONS, *Labour Market Statistics*]

### ILO unemployment (November 2011 to January 2012)

- There were 855,000 people unemployed for more than 12 months, down 12,000 from the previous quarter;
- The unemployment level among 16- to 24-year-olds was 1,042,000, up 16,000 on the previous quarter. (See table below.)

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

The seasonally-adjusted monthly JSA claimant count increased by 7,200 between January and February 2012 to 1,611,900.



### 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	(%)
Nov-Jan 2007	1,704	5.5	701	14.3	765	4.3	227	3.1	11	1.7
Nov-Jan 2008	1,619	5.2	683	13.9	705	3.9	220	3.0	11	1.5
Nov-Jan 2009	2,059	6.6	826	16.8	919	5.0	299	4.0	15	2.2
Nov-Jan 2010	2,435	7.8	913	19.6	1,131	6.2	368	4.8	24	3.1
Nov-Jan 2011	2,518	7.9	974	20.7	1,153	6.3	371	4.8	20	2.2
Feb-Apr 2011	2,430	7.7	895	19.3	1,137	6.2	381	4.9	18	1.9
May-Jul 2011	2,510	7.9	973	20.8	1,157	6.3	360	4.7	21	2.3
Aug-Oct 2011	2,638	8.3	1,027	22.0	1,203	6.5	379	4.9	30	3.4
<b>Nov-Jan 2012</b>	<b>2,666</b>	<b>8.4</b>	<b>1,042</b>	<b>22.5</b>	<b>1,195</b>	<b>6.5</b>	<b>405</b>	<b>5.2</b>	<b>23</b>	<b>2.6</b>
% change on quarter	+1.0		+1.5		-0.6		+6.9		-22.2	
% change on year	+5.9		+7.0		+3.6		+9.2		+17.2	

Source: ONS, *Labour Market Statistics*.

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

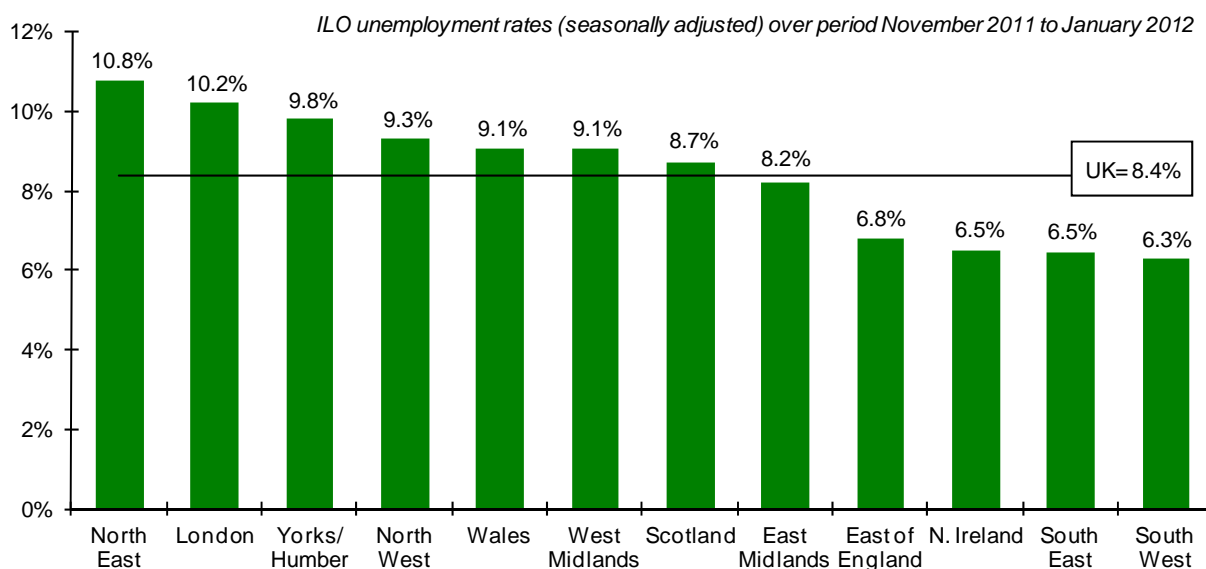
Contact: Lorna Booth, x2883

Update: ONS, *Labour Market Statistics*, 18 Apr 2012

### 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 November 2011 to January 2012, the North East had the highest unemployment rate, at 10.8% of the economically active population. The lowest rate over the same period was 6.3% in the South West.



- The largest increase in unemployment over the last quarter was in the North West (+16,000) and largest decrease was in the East of England (-10,000).
- The seasonally-adjusted JSA claimant count increased in eleven regions and countries, and decreased in one in February, compared with January 2012.

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

	ILO unemployment				JSA claimant count	
	Nov 2011 - Jan 2012		Change in level		February 2012	
	Level (000s)	Rate (%) <sup>(a)</sup>	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	138	10.8	-11	+11	91.4	+0.7
North West	317	9.3	+16	+53	203.6	+1.8
Yorkshire & Humber	261	9.8	+9	+16	164.2	+0.6
East Midlands	187	8.2	+5	+5	111.1	+1.1
West Midlands	241	9.1	-1	-22	168.4	-0.4
East of England	208	6.8	-10	+24	118.2	+0.9
London	433	10.2	+11	+37	236.5	+0.2
South East	287	6.5	+14	+7	143.3	+0.7
South West	169	6.3	-8	-0	91.1	+0.1
Wales	134	9.1	+1	+10	79.9	+0.7
Scotland	234	8.7	+6	+18	142.8	+0.6
Northern Ireland	56	6.5	-4	-11	61.4	+0.2

Source: ONS, *Labour Market Statistics*

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

**Contact:** Lorna Booth, x2883

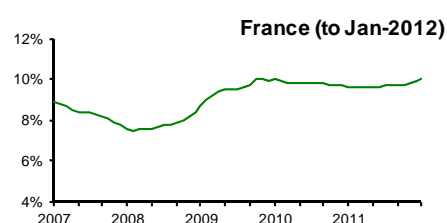
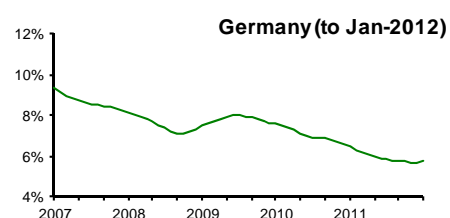
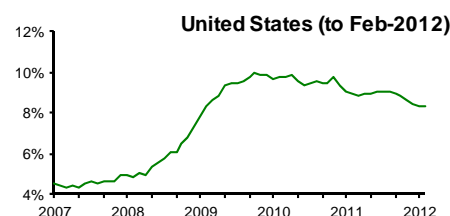
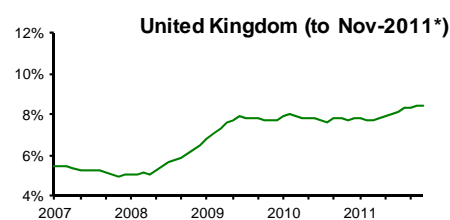
**Update:** ONS, *Labour Market Statistics*, 18 April 2012



## C4: Unemployment: International Comparisons

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

- In the UK, harmonised rates for Q4 2011 are not yet available. Based on national figures, UK unemployment was 8.4% in Q4 2011.
- Using harmonised definitions, UK unemployment was 8.2% in Q3 2011, up from 7.9% in Q2 2011 and the sharpest increase across the G7 countries. UK unemployment in Q3 was below the euro zone and OECD rates (10.2% and 8.2% respectively), but above the G7 average.
- In the US, unemployment rose from 9.0% to 9.1% between Q2 and Q3 2011, before falling back sharply in Q4 to 8.7%. More recent data shows US unemployment continuing to decline: the rate for February 2012 was 8.3%.
- Outside the G7, Spain has the highest harmonised unemployment rate among the 33 OECD member states (22.2% in Q3 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 14.4% in Q3 2011). This compares with a 2.3 percentage point rise in unemployment in the OECD as a whole since the start of 2007 (from 5.9% to 8.2%) and a 2.3 percentage-point rise in the euro zone (from 7.9% to 10.2%) over the same period.
- The lowest unemployment rate in the OECD in Q3 2011 was in Norway (3.2%).
- The most recent forecasts published by the OECD ([Economic Outlook no. 90, November 2011](#)) suggested the UK unemployment rate would be 8.8% in 2012 (an upward revision of 0.7 percentage points from the May 2011 forecast), and 9.1% in 2013. The respective forecasts for the euro zone were 10.3% in 2012 and 2013, and for the OECD as a whole 8.1% and 7.9%.



\* latest figure refers to quarterly survey conducted over Oct-Dec 2011

### Unemployment

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

	2009	2010	2011	2010				2011			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Canada	8.3	8.0	7.4	8.2	8.0	8.0	7.7	7.7	7.5	7.2	7.4
France	9.5	9.8	..	9.9	9.8	9.8	9.7	9.6	9.6	9.7	9.8
Germany	7.8	7.1	..	7.5	7.1	6.9	6.7	6.3	6.0	5.8	5.7
Italy	7.8	8.4	..	8.5	8.6	8.2	8.2	8.1	8.2	8.4	8.7
Japan	5.1	5.1	..	5.1	5.1	5.0	5.0	4.8	4.6	4.4	4.5
UK	7.6	7.8	..	7.9	7.8	7.7	7.8	7.7	7.9	8.2	..
US	9.3	9.6	9.0	9.8	9.6	9.5	9.6	9.0	9.0	9.1	8.7
Euro zone	9.6	10.1	..	10.1	10.2	10.1	10.1	10.0	10.0	10.2	10.5
G7	8.1	8.2	..	8.4	8.3	8.1	8.1	7.7	7.7	7.7	7.6
OECD	8.4	8.6	..	8.8	8.6	8.5	8.5	8.2	8.2	8.2	8.2

Source: OECD, Harmonised Unemployment Rates

Contact: Gavin Thompson, x2042

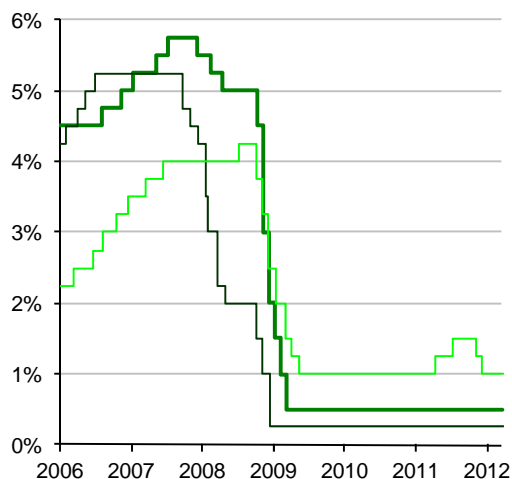
Updates: OECD, [Harmonised Unemployment Rates](#), 10 Apr

## 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 since the Bank was founded in 1694. The rate has remained at 0.50% since March 2009.

With little room for further cuts in interest rates, the Bank initiated an asset purchase or 'quantitative easing' (QE) programme in March 2009. In the face of gloomy economic data that suggested UK inflation would "undershoot the 2% target in the medium term", QE was increased in October 2011 by £75 billion and in February 2012 by a further £50 billion, to a total of £325 billion.

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

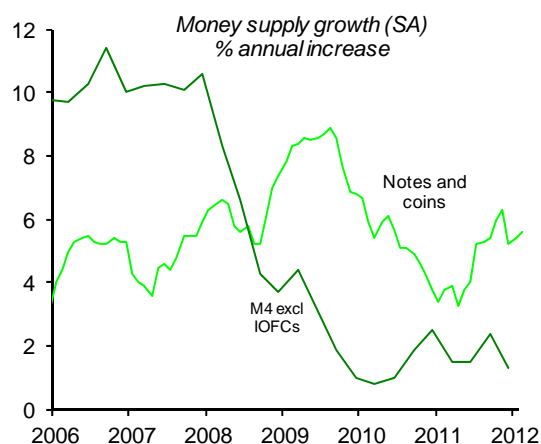
Source: Bank of England

- From November 2011, the European Central Bank's official interest rate was lowered in two steps from 1.50% to 1.00%. This follows rate rises in April and August 2011. The rise in April 2011 was the first since 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 "quantitative easing" or 'QE'. From this initial £75 billion, the programme was increased to £200 billion by November 2009. Due to "the weak near-term growth outlook and associated downward pressure" on the economy, it was increased by £75 billion in October 2011 and by a further £50 billion in February 2012, to a total of £325 billion.
- Of the £200 billion of assets purchased by the Bank of England in the first phase of QE, 99% by value were gilts (UK Government securities).

### Money supply



- In its November 2011 *Inflation Report*, the Bank of England noted that money supply growth "has remained subdued over the past year", 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 1.3% in Q4 2011, down from 2.4% in Q3 2011.
- The value of notes and coins in circulation outside the Bank of England rose by 5.6% in the year to February 2012.

Contact: Chris Rhodes, x2454

Updates: Monetary policy: [5 Apr \(UK\)](#)  
Bank of England, [Monetary and Financial Statistics](#), 4 Apr

## D2: Public Finances

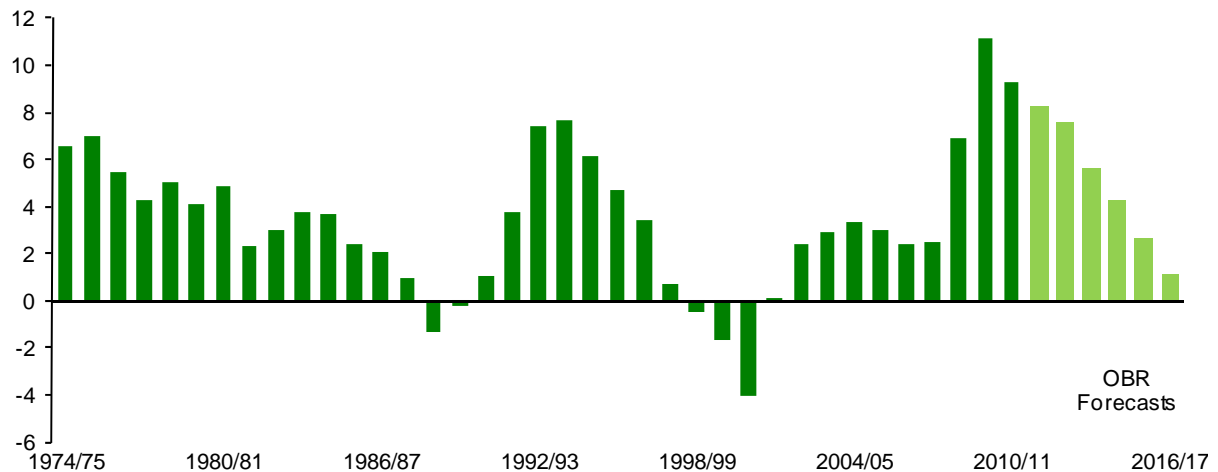
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £120 billion in 2012/13, equivalent to 7.6% of GDP.

- The OBR issued revised forecasts in March 2012, these are very similar to their previous forecasts published in November 2011.
- The OBR forecast public sector net debt to peak at 76.3% of GDP in 2014/15 and to fall to 74.3% by 2016/17.
- The 2012/13 borrowing figures exclude the impact of transferring the Royal Mail pension scheme to the public sector.

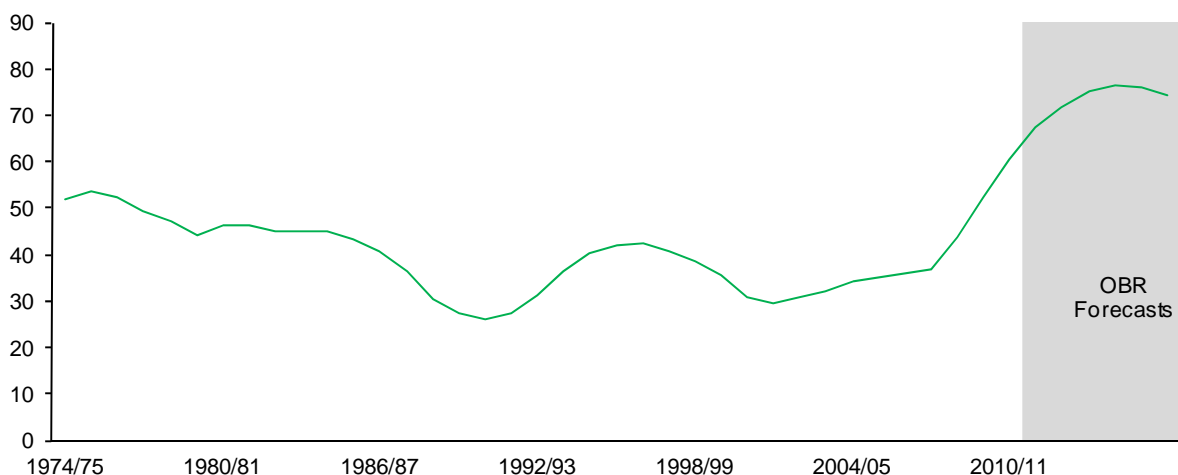
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2009/10	157	11.2	760	52.5
2010/11	137	9.3	905	60.5
2011/12	126	8.3	1,039	67.3
2012/13	120	7.6	1,159	71.9
2013/14	98	5.6	1,272	75.0
2014/15	75	4.3	1,365	76.3
2015/16	52	2.7	1,437	76.0
2016/17	21	1.1	1,479	74.3

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, 24 Apr

### 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, but returned to around the 6,000-level.

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, but has since fallen.

Data from 2 April 2012

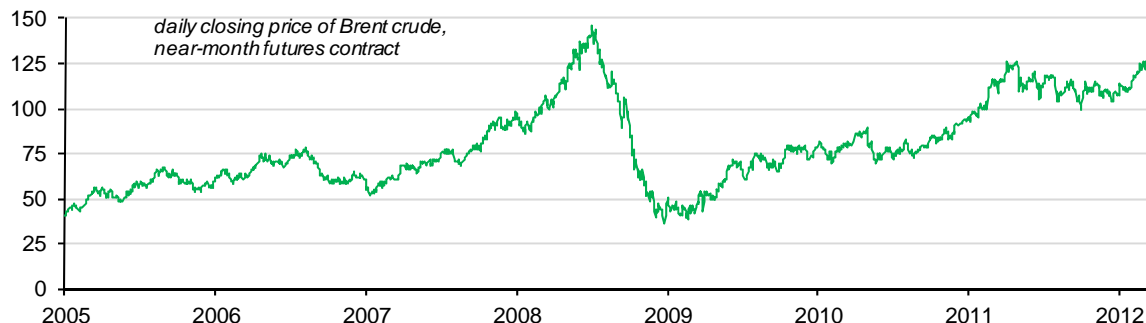
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
02 Apr 2012	5,874.9	125.4	1,668.4
%change over:			
1-month	-0.6%	+1%	-3%
12-months	-2%	+4%	+17%
%change from:			
cyclical peak	-13%	-14%	-12%
date	15 Jun '07	03 Jul '08	23 Aug '11
cyclical trough	+67%	+245%	+135%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



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



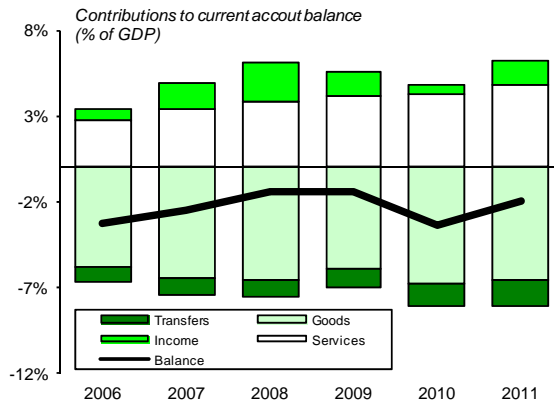
Contact: Chris Rhodes, x2454

Update: Page updated on a weekly basis

## E1: UK Balance of Trade

Annually, the current account deficit in 2011 was £29.0 billion, equivalent to -1.9% of GDP. That compared with £48.6 billion (-3.3% of GDP) in 2010. This change can principally be attributed to an increase in the UK's income (from £8.6 billion in 2010 to £21.0 billion in 2011) and services surplus (from £61.8 billion in 2010 to £71.9 billion in 2011).

### Current Account



- On a **quarterly** basis, the current account deficit was £8.5 billion in Q4 2011, narrowing from £10.5 billion in Q3 2011. The surplus on services fell to £17.2 billion while the deficit on goods fell to £24.2 billion.
- The **annual** current account deficit with EU27 countries in 2011 was £41.2 billion, compared with a surplus with non-EU countries of £12.2 billion. On a **quarterly** basis, the deficit with EU27 countries fell to £12.0 billion in Q4 2011. With non-EU countries, the current account surplus rose to £3.5 billion.

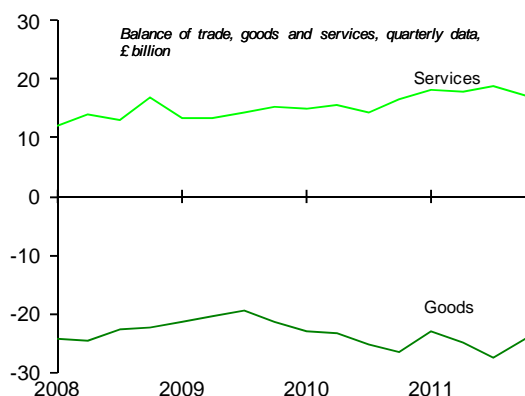
### Current Account Balances

£ millions; seasonally adjusted

	Goods	Services	Goods and Services		Income	Transfers	Current Account Balance	
	Balance	Balance	Exports	Imports				Balance
2010	-98,514	61,776	440,880	477,618	-36,738	8,583	-20,411	-48,566
2011	-99,678	71,853	487,309	515,134	-27,825	21,013	-22,166	-28,978
2010 Q4	-26,605	16,752	115,702	125,555	-9,853	1,989	-6,238	-14,102
2011 Q1	-22,917	18,074	120,645	125,488	-4,843	3,929	-5,649	-6,563
Q2	-24,905	17,770	121,193	128,328	-7,135	8,440	-4,754	-3,449
Q3	-27,614	18,846	122,051	130,819	-8,768	4,047	-5,794	-10,515
Q4	-24,242	17,163	123,420	130,499	-7,079	4,597	-5,969	-8,451

Source: ONS database, series: BOKI, IKBD, IKBH, IKBI, IKBJ, HBOJ, HBOP

### Trade in Goods and Services



- The estimated deficit on goods trade in January was £7.5bn, wider than the December figure of £7.2bn.
- The monthly trade surplus on services was an estimated £5.8bn in January, down slightly from the December surplus of £6.0 bn.
- The overall monthly deficit on goods and services combined in January was £1.8bn, widening from £1.2bn in December.
- The goods deficit with the EU27 was £3.9bn in January, up from £3.6bn in December, while the deficit with non-EU countries was £3.7bn, up slightly from £3.6bn in December.

Contact: Grahame Allen, x3977

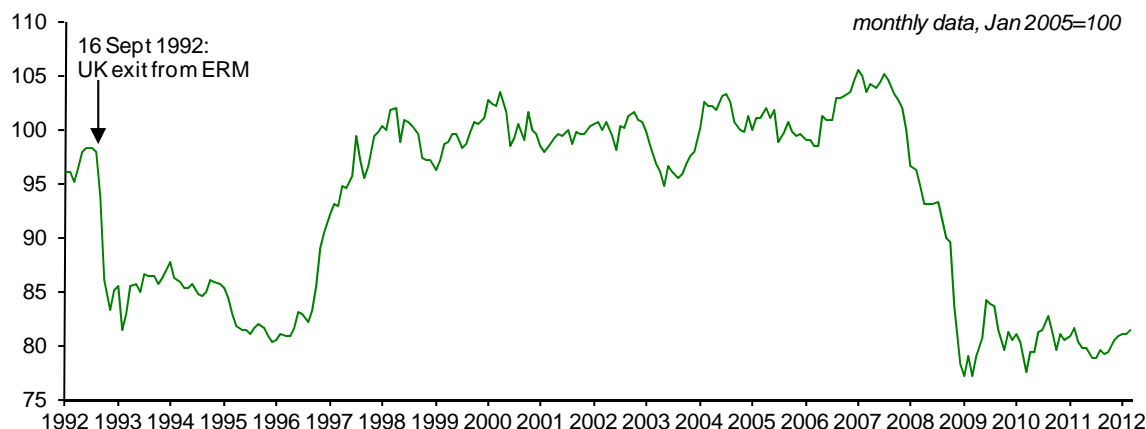
Updates: ONS, [UK Trade](#), 12 Apr;  
ONS, [UK Balance of Payments](#), 28 Jun

## 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).

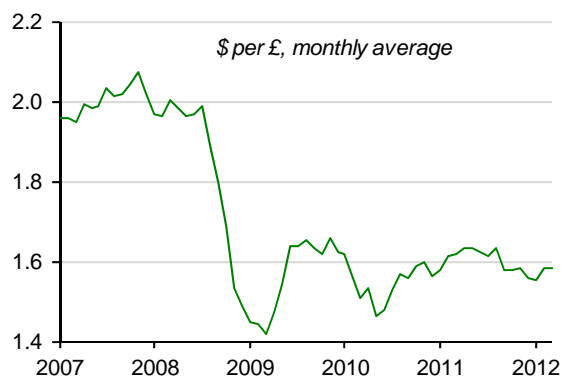
The SERI rose by 0.5% in March, having fallen by 0.1% in February. Compared with the same period last year, the SERI was 1.4% higher. It is now 5.6% above its March 2009 level, when it was at its lowest point since the series began in 1980. However, sterling is still 22.9% down from its pre-recession July 2007 peak.

### Sterling Exchange Rate Index (SERI)



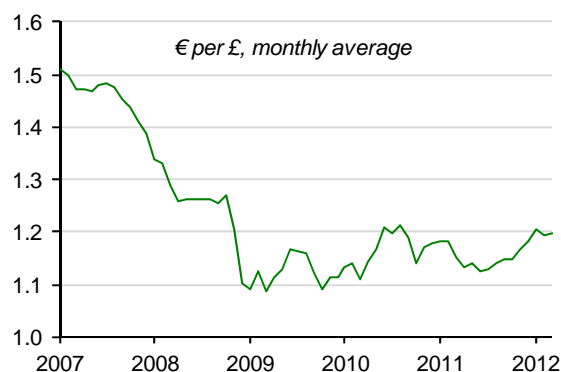
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- On average in March, the pound was unchanged against the dollar compared with February. At the 2 April market close the pound stood at \$1.60, two cents stronger when compared to the March average.
- Sterling was on average 1 cent stronger against the Euro in March, compared with February.
- At the 2 April market close the pound stood at €1.20, unchanged from the March average. 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
2009	1.57	-15.5%	1.12	-10.8%
2010	1.55	-1.3%	1.17	3.8%
2011	1.60	3.7%	1.15	-1.2%
2011 Mar	1.62	7.3%	1.15	3.9%
2012 Jan	1.55	-1.8%	1.20	1.8%
Feb	1.58	-2.0%	1.19	1.1%
Mar	1.58	-2.1%	1.20	3.9%

Source: Bank of England, Bankstats database

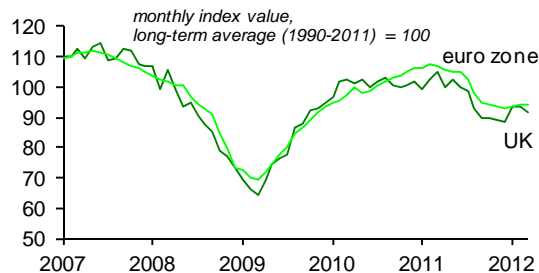
Contact: Aliyah Dar, x5919

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

## 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

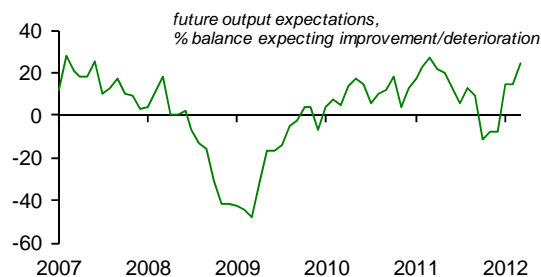


	UK Index	monthly change	change on year ago
2010 Mar	102.6	...	...
2011 Mar	105.0	...	...
2012 Jan	93.6	+5.0	-5.5
2012 Feb	93.9	+0.3	-8.4
2012 Mar	91.4	-2.5	-13.6

Source: European Commission

- The European Commission conducts regular harmonised surveys for different sectors (manufacturing, services, retail, construction and consumers) of EU member states' economies.
- Between February and March 2012 the overall UK sentiment index decreased by 2.5 points to 91.4. The euro zone sentiment index decreased marginally, by 0.1 points, to 94.4.

### CBI Industrial Trends Survey



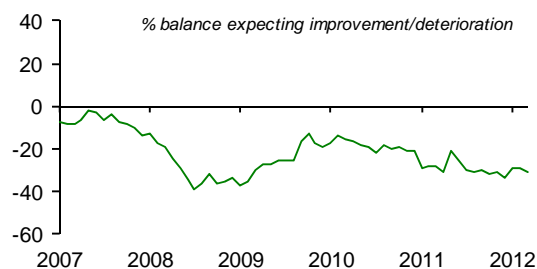
balance (as a %) of those expecting an improvement  
minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2010 Mar	+5	...	...
2011 Mar	+27	...	...
2012 Jan	+15	+23	-2
2012 Feb	+15	+0	-8
2012 Mar	+24	+9	-3

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- In March 2012, more manufacturers thought that output would rise over the next three months than thought it would fall – the difference was +24% of firms. In February 2012 the difference was less, +15% of firms.

### 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
2010 Mar	-15	...	...
2011 Mar	-28	...	...
2012 Jan	-29	+4	0
2012 Feb	-29	0	-1
2012 Mar	-31	-2	-3

Source: GfK NOP for EC, *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 consumer confidence in March 2012 was down 2 points compared with February. It has been at much the same level for the last eight months.

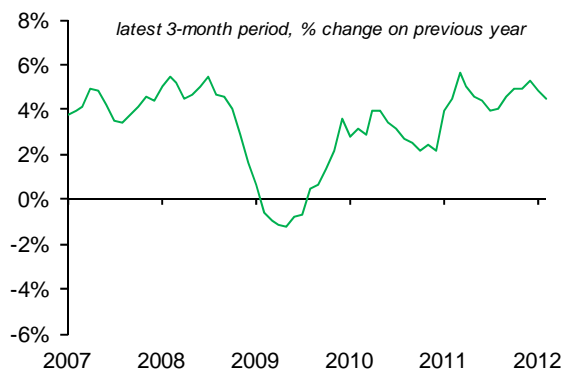
**Contact:** Lorna Booth, x2883

**Update:** CBI, [Industrial Trends](#), 25/26 Apr  
EC, [Economic Sentiment Indicator](#), 26 Apr  
GfK NOP, [Consumer Confidence](#), 27 Apr

## F2: Retail Sales

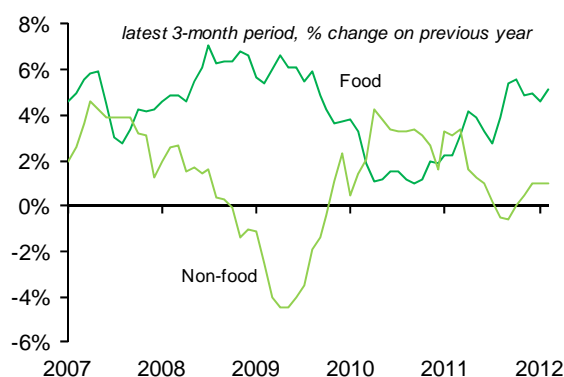
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI. This page uses official data from the Office for National Statistics.

### Value of Retail Sales



- The annual increase in the value of retail sales in the three months to February 2012 was 4.5%, a decrease on January's 4.8%.
- The value of retail sales in February 2012 alone showed an increase of 3.2% compared with January 2012.
- The value of retail sales in February 2012 alone showed an increase of 3.2% compared with February 2011.

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



- The value of sales in food stores in the three months to February rose by 5.1% on the same period last year.
- The annual rate of increase in the value of sales in non-food stores was 1.0% in the three months to February 2012.
- Sales in household goods stores were 0.8% lower than a year ago.
- The value of non-store sales (includes internet) increased by 8.6% in February 2012 compared to February 2011.

### 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	
2010	1.6	5.4	-3.4	2.0	2.6	<b>2.7</b>
2011	4.2	3.5	-2.5	0.4	1.2	<b>5.0</b>
2011 Oct	5.6	1.8	-2.0	-1.9	0.0	<b>4.9</b>
Nov	4.9	1.8	-0.5	-1.5	0.5	<b>4.9</b>
Dec	5.0	5.0	-0.2	-3.0	1.0	<b>5.3</b>
2012 Jan	4.6	5.6	-0.5	-2.6	1.0	<b>4.8</b>
Feb	5.1	5.3	-0.8	-2.1	1.0	<b>4.5</b>

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

Contact: Lucinda Maer, x3841

Update: ONS, [Retail Sales](#), 20 April 2012



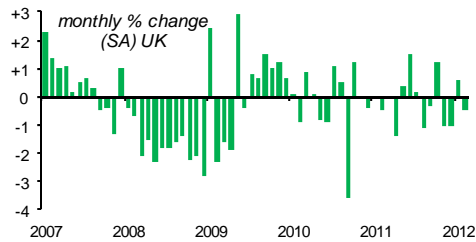
## F3: Housing Market

House prices on the Nationwide index fell by 1.0% in March, after a 0.4% rise in February. Prices were 0.9% lower in March compared with a year ago. House prices on the Halifax index fell by 0.5% in February after rising by 0.6% in January. Prices were 1.6% lower than a year ago on this measure.

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

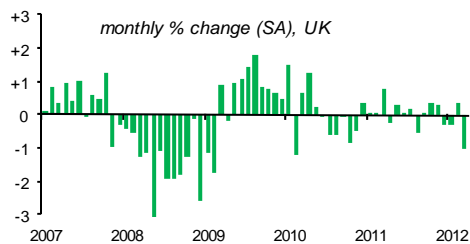
#### Halifax house price index



Latest monthly data  
UK, seasonally adjusted

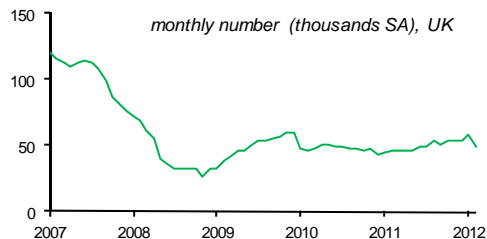
	Halifax	Nationwide
Latest data	Feb-12	Mar-12
Change in month	-0.5%	-1.0%
Change in year	-1.6%	-0.9%
Peak date	Aug-07	Oct-07
Change since peak	-19.8%	-11.9%
Trough date	Apr-09	Feb-09
Change since trough	+3.5%	+9.2%

#### Nationwide house price index



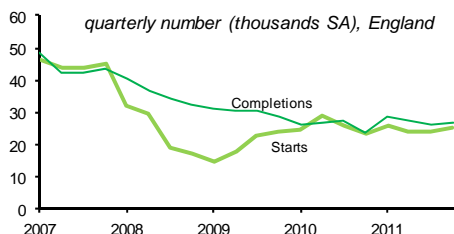
- The recovery in house prices since early 2009 has been tepid. In early 2012 the average house price on the Halifax and Nationwide measures was around £160,000.
- There is considerable regional variation. In Q1 2012 prices rose by 2.3% in London but fell by 8.6% in Northern Ireland compared with a year 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 48,986 mortgage approvals in January. The number of approvals has remained generally flat since early 2010.

### House-building



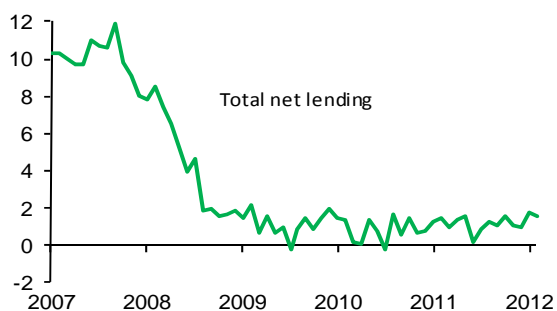
- There were 25,240 house building starts in England in Q4 2011, up 6% from 23,880 in Q3 2011. This is over 50% above the low of 14,470 in Q1 2009, but still well below the 46,190 starts in Q1 2007.
- The number of dwelling completions also rose to 26,730 in Q4 2011, up from 26,180 in Q3 2011.

**Contact:** Aliyah Dar, x5919

**Updates:** Halifax [House Price Index](#), early Apr;  
Nationwide [House Price Index](#), early May;  
Bank of England, [Lending to Individuals](#), 2 May;  
DCLG, [House-building](#), 17 May

## 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 £1.6 billion in February 2012. This compares with January's figure of £1.8 billion.
- Monthly net unsecured lending grew by £0.4 billion in February, compared with £0.2 billion in January.
- Monthly net secured lending (mortgages) grew by £1.2 billion in February, compared with £1.6 billion in January.

### Net outstanding lending to individuals

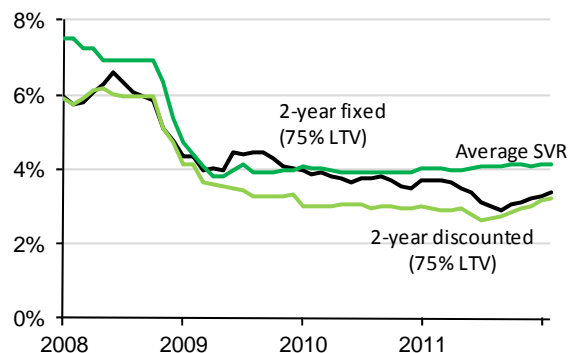
£ billions; seasonally adjusted

	Secured	Unsecured	Total
2008 Feb	1,194	230	1,424
2009 Feb	1,227	220	1,447
2010 Feb	1,239	223	1,461
2011 Feb	1,241	212	1,452
2011 Aug	1,242	209	1,452
2011 Nov	1,244	207	1,452
2012 Feb	1,249	208	1,457

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

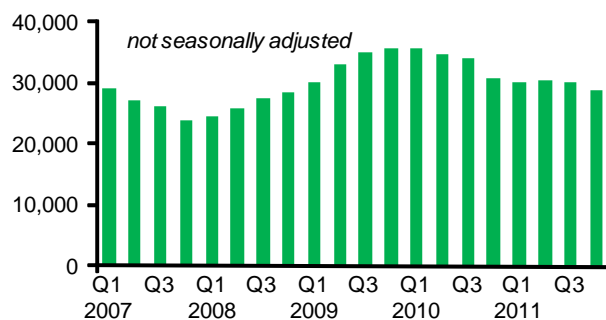
- Total net outstanding lending to individuals was £1,457 billion at the end of February, 0.4% higher than a year earlier.
- Secured lending (mortgages) is the largest form of lending accounting for 86% of the total.
- Unsecured lending outstanding (including credit cards) was £208 billion at the end of February.

### 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 February was 4.12%, compared with 4.05% a year previously.
- The average fixed and discounted rates offered (75% LTV) in February were 3.37% and 3.23% respectively, compared with 3.70% and 2.96% a year ago.

### Individual insolvencies, England and Wales



Source: Insolvency Service

- Q4 2011 provisional data indicates there were 28,973 individual insolvencies in England and Wales (not seasonally adjusted), a 5.6% decrease on Q4 2010.
- In Scotland in Q4 2011 there were 4,664 individual insolvencies, an increase of 1.6% on Q4 2010.
- In N Ireland in Q4 2011 there were 747 individual insolvencies, a rise of 28.4% on Q4 2010.

**Contact:** Dominic Webb, x4324

**Update:** Bank of England, [Lending to Individuals](#), 2 May  
Insolvency Service, [Insolvency Statistics](#), 4 May

## 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	<b>Gross Domestic Product</b>	ONS releases: <a href="#">GDP Preliminary Estimate</a> ; <a href="#">Second Estimate of GDP</a> ; <a href="#">Quarterly national accounts</a> HM Treasury, <a href="#">Forecasts for the UK Economy</a>
A2	<b>GDP: International Comparisons</b>	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), <a href="#">Main Economic Indicators</a> , via Stat.OECD database ( <a href="#">link to user defined table</a> ) Growth Forecasts: OECD, <a href="#">Economic Outlook</a> (full document via <a href="http://www.sourceoecd.org">www.sourceoecd.org</a> ); IMF <a href="#">World Economic Outlook database and updates</a> European Commission's <a href="#">growth forecasts</a>
A3	<b>Components of GDP</b>	ONS releases: <a href="#">Second Estimate of GDP</a> ; <a href="#">Quarterly national accounts</a>
A4	<b>Output and Employment by Industry</b>	ONS releases: <a href="#">GDP Preliminary Estimate</a> ; <a href="#">Second Estimate of GDP</a> ; <a href="#">Quarterly national accounts</a>
A5	<b>Manufacturing</b>	ONS, <a href="#">Index of Production</a> Markit/CIPS <a href="#">UK Manufacturing Purchasing Managers Index</a> SMMT, <a href="#">Vehicle Production</a>
A6	<b>Productivity</b>	ONS, <a href="#">Labour Productivity</a>
B1	<b>Inflation</b>	ONS, <a href="#">Consumer Price Indices</a>
B2	<b>Inflation: International</b>	CPI: OECD, <a href="#">Main Economic Indicators</a> ( <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, <a href="#">Labour Market Statistics</a>
C1	<b>Employment</b>	ONS, <a href="#">Labour Market Statistics</a>
C2	<b>Unemployment: National</b>	ONS, <a href="#">Labour Market Statistics</a>
C3	<b>Unemployment: Regional</b>	ONS, <a href="#">Labour Market Statistics</a> and <a href="#">Regional Labour Market Statistics</a>
C4	<b>Unemployment: International Comparisons</b>	Data: OECD, <a href="#">Main Economic Indicators</a> Commentary: OECD, <a href="#">Economic Outlook</a> (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 finances</a> ; Forecasts of budget balance: <a href="#">Office for Budget Responsibility</a> .
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="#">UK 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 press releases</a> ; Consumer Confidence: GfK NOP <a href="#">Consumer Confidence Index</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.