



Economic Indicators, June 2012

RESEARCH PAPER 12/32 06 June 2012

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

- The revised estimate of quarterly GDP showed that the economy had contracted by 0.3% in Q1 2012, following a 0.3% decline in Q4 2011.
- A major contributor to the contraction in GDP was the construction sector, in which output decreased by 4.8%.
- Several surveys of sentiment among manufacturing businesses have reported big falls in confidence in the past month.
- Meanwhile, some labour market indicators have been more positive, with employment rising by 105,000 in the most recent quarter, the biggest quarterly rise since March 2011.

This month's articles:

- **Making a drachma out of a crisis**
- **Driving the recovery? The motor industry in the UK**

Chris Rhodes (guest editor)

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Research Paper 12/32

Contributing Authors: Chris Rhodes (guest editor),
Economic Policy and Statistics section

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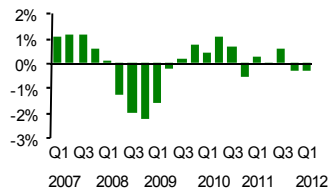
Summary

The revised estimate of quarterly GDP showed that the economy had contracted by 0.3% in Q1 2012, following a 0.3% decline in Q4 2011. A major contributor to the contraction in GDP was the construction sector, in which output decreased by 4.8%. Several surveys of sentiment among manufacturing businesses have reported big falls in confidence in the past month. Meanwhile, some labour market indicators have been more positive, with employment rising by 105,000 in the most recent quarter, the biggest quarterly rise since March 2011.

GDP growth

[page 1](#)

(% change quarter-on-quarter)

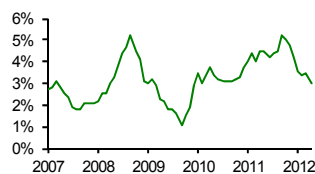


GDP fell by 0.3% (revised down from 0.2%) in Q1 2012 compared with Q4 2011. There was a 0.3% decline in GDP in Q4 2011. GDP is 4.4% below its pre-recession peak in Q1 2008.

Inflation (CPI)

[page 7](#)

(% change on year ago)

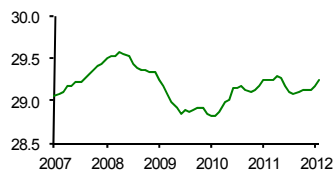


The annual rate of CPI inflation was 3.0% in April compared with a year ago, down from 3.5% in March. The Bank of England target is 2%.

Employment

[page 10](#)

(total, millions)

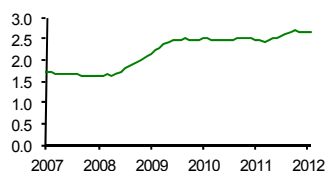


Compared with the previous quarter, the number of people employed rose by 105,000 to 29.23 million in the three months to March.

Unemployment

[page 11](#)

(total, millions, ILO definition)

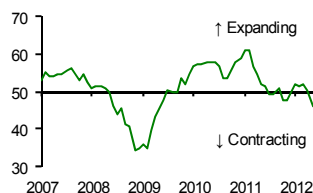


Compared with the previous quarter, ILO unemployment fell by 45,000 to 2.63 million in the three months to March. The unemployment rate also decreased, from 8.3% to 8.2%.

Manufacturing Purchasing Managers' Index

[page 5](#)

(Markit/CIPS UK Manufacturing PMI, 50=no change)



This measure of manufacturing confidence fell by 4.3 points in May 2012, the second largest fall in its 20 year history. The index is now at its lowest level for three years.

Next issue: 3 July

Guest editor: Chris Rhodes

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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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Sources and glossary

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¹ <http://hcl1.hclibrary.parliament.uk/wdw/subject/EI.asp>

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

2 Making a drachma out of a crisis

Greece’s drawn-out economic crisis has led to it receiving loans and officially-sanctioned debt write-off from the IMF and eurozone. The terms of these ‘bailouts’ include strict conditions on fiscal policy and economic reform that Greece has struggled to meet in the face of a worsening recession and growing public opposition.

A Syriza problem

The legislative elections in Greece on 6 May 2012 left its parliament divided evenly between groups of parties that support the terms of the loans agreement and those that oppose it. In particular, the Syriza party, which placed second in the elections, is strongly opposed to the agreement, describing the attached conditions as ‘barbaric’. The party refused to engage in negotiations with the ‘pro-bailout’ Pasok and New Democracy parties, despite the Pasok leader Evangelos Venizelos proposing a ‘progressive disengagement’ from the loan conditions. Dimar (also known as the Democratic Left) was unwilling to enter into a coalition without the participation of Syriza, leaving the parties irreconcilably polarised and unable to form a majority government.³ A new vote has been called for 17 June.

The indecisive result in Greece, and the strong vote (70%) for parties opposed to the terms of the bailout, has once again called into question the country’s future in the euro, and the sustainability of externally-imposed measures that, at least in the short-term, are economically damaging and lacking in public support. The results left senior eurozone leaders in a bind, since they firstly had to be seen to respect the election results; secondly to be seen to believe in the cohesiveness of the currency union; and thirdly to take a non-negotiable stance on the bailout conditions.

The response has been to play on Greeks’ desire to remain in the euro, despite their aversion to the bailout conditions (see chart 1). Opinion polls suggest this may have had an effect: there was a surge in support for Syriza after the 6 May elections, but more recent polls show New Democracy gaining ground (see chart 2). In the end, the fact of victory is likely to be more important than the margin, since the winning party gets a 50-seat bonus in the 300-strong parliament.

Chart 1: percentage of Greeks who want to...

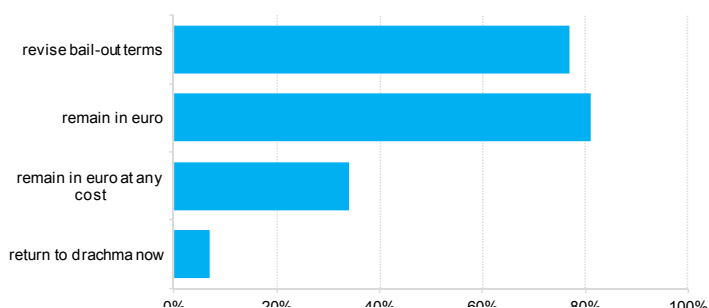
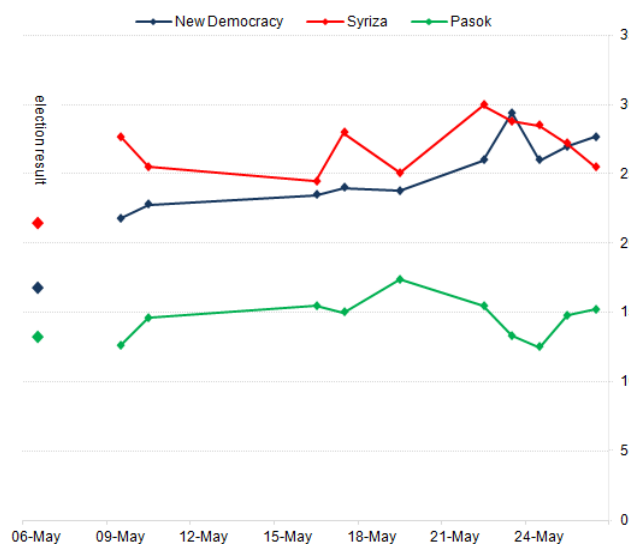


Chart 2: Greek opinion poll results for 17 June election
percent expressing support for three major parties (by law, no more polls will be published after 3 June)



³ Of the remaining parties, KKE (Communist) is opposed to the bailout, along with Independent Greeks (moderate right) and Golden Dawn (extreme right).

Acropolis now?

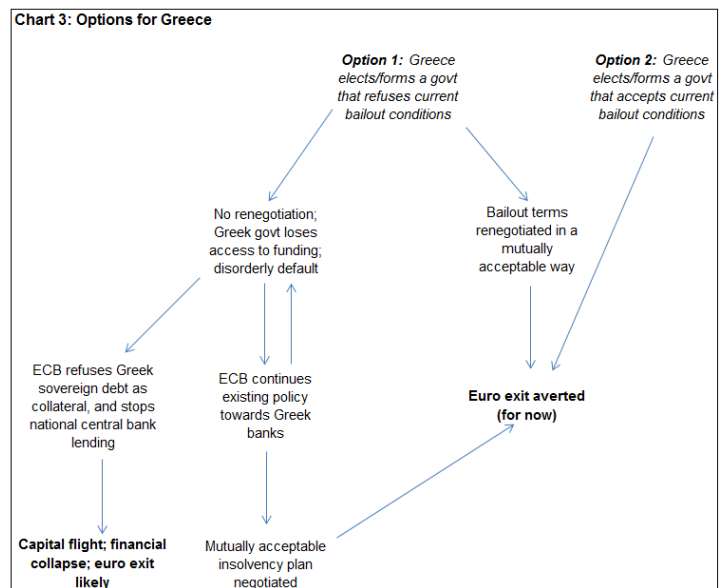
If a majority coalition of ‘pro-bailout’ parties (i.e. New Democracy and Pasok) can be formed after the 17 June elections, a disorderly default and the possible exit of Greece from the euro area may be averted, at least in the short term. However, a renegotiation of the bailout may well occur even if Greece elects a government that supports the conditions as they stand. With the pace of Greece’s economic contraction reaching 7.5% over the past year and unemployment at 22%, the case for delaying austerity is growing. Even the IMF itself has suggested that the terms of the bail-out may be too harsh, or in its own words:-

...that demand effects from the implementation of structural reforms, as well as weaker economic prospects in Europe, called for a longer adjustment period (thus also allowing a more accommodative fiscal policy in the near term).

Conversely, a Syriza-led ‘anti-bailout’ coalition may be formed. Ultimately, Greece’s future in the euro if it rejects the terms of its current loans agreement will be a political and economic, rather than a legal one. On the one hand, EU Member States may ‘blink’ and agree to relax the terms of the agreement in a way that is acceptable to the Syriza party; on the other, they may refuse and stop disbursements of loans under the existing arrangement. With Greece unable to service its debts, it would default in a ‘disorderly’ way at some point before the end of June.

Even if this political trigger was activated and Greece defaulted, it does not necessarily follow that the country needs to leave the euro. Greece’s exit from the euro would occur at the point where the European Central Bank (ECB) refuses to lend to Greek banks and stops Greece’s national central bank from doing the same. Without the support of the ECB, Greece’s relationship with the euro would be similar to that of Montenegro’s, which uses the currency without being part of the currency union and (hence) without access to ECB support. Denied access to emergency central bank credit to fund day-to-day operations, Greece’s banks would quickly be brought to the brink of collapse. The pressure on the Greek government to prevent this by imposing capital controls and redenominating to a new currency would likely be overwhelming.

There are other options for the ECB, however. If it is willing to continue lending to Greek banks, or to allow the Greek national central bank to do so, then Greece can be kept in the euro area. A mutually acceptable plan to deal with its sovereign insolvency would quickly have to be negotiated and agreed, however. If it seems unlikely that other eurozone members would want Greece stay in the euro having again repudiated the terms of its loans agreements, it is worth bearing in mind the costs attached to Greek exit from the euro not just for Greece itself, but for the euro area and the wider EU. These costs, and the wider consequences of Greece’s exit from the eurozone, are discussed in the Library Standard Note [The eurozone crisis – rescuing Greece](#).



Gavin Thompson, Economic Policy and Statistics Section

3 Driving the recovery? The motor industry in the UK

Car manufacturing in the United Kingdom appears to be going through something of a revival. In May 2012, General Motors announced it would invest £125 million to build the next generation Astra at Ellesmere Port. Vehicle production is rising and in the first quarter of 2012 the UK became a net exporter of cars for the first time in almost 40 years.

However, the recent industry success stories can be easily contrasted with a narrative of decline since the 1970s. Car production in the UK reached its peak in 1972. There are no longer any wholly British owned mass car manufacturers operating in the UK.

So what is the role of the car manufacturing industry in the UK, and is it experiencing growth or decline?

3.1 Contribution to the economy

Car manufacturing only accounts for a small proportion of UK economic output. In 2010, vehicle manufacturing contributed just £6.5 billion, or 0.7% of total UK gross value added (GVA), and 4.5% of manufacturing's total GVA. The 2009 recession caused the GVA of the industry to drop by almost 50%, but it rebounded again in 2010.

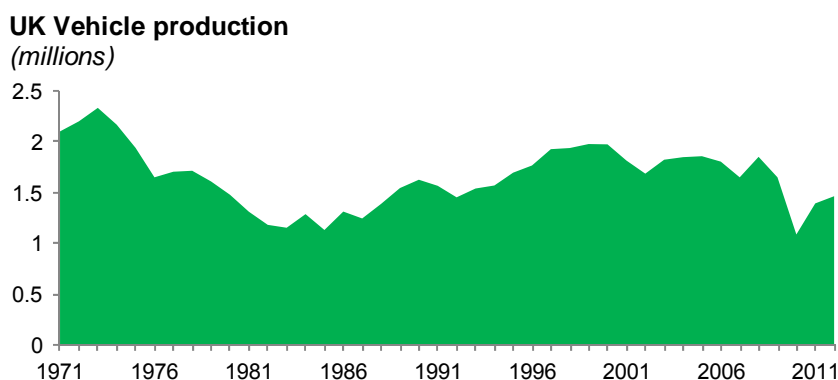
Employment in car manufacturing is also relatively small. In 2010, 127,000 people were employed in this industry, amounting to 0.5% of total UK employment. In the West Midlands, site of several large car manufacturing facilities, this figure rises to 1.5% of total employment.

Although the direct contribution of the industry is fairly low, that of the supply chain and the vehicle retail trade is much higher. The Society of Motor Manufacturers and Traders (SMMT) estimates that every job in the vehicle assembly line supports 7.5 elsewhere in the economy and the supply chain is worth about £4.5 to £5 billion annually.

3.2 Car production

Car production peaked in 1972 and fell through the rest of the 1970s before picking up again in the mid 1980s and early 1990s. This was largely due to foreign investment. For example, Nissan opened their first European plant in Sunderland in 1986.

The recent recession knocked car manufacturing hard, with total production falling by over 30% in 2009. Although there has been a recovery, production in 2011 remained at 16% below 2007 levels.



1971-1980 - Mitchell, *British Historical Statistics*, 1988, p148
1981-2011 - SMMT Press Notices

3.3 Overseas investment

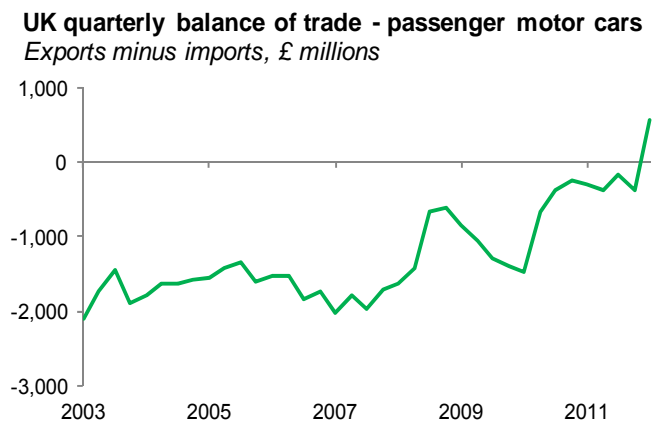
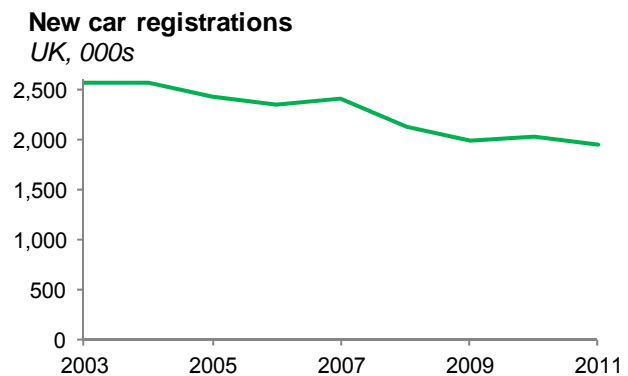
There are now no British owned mass car manufacturers operating in the UK. Yet, as in the 1980s, the UK has again been successful in attracting foreign investment. The UK is home to seven foreign volume car manufacturers, with other companies specialising in commercial or luxury brands. A number of motor companies have made recent decisions which have favoured the UK. Honda's operations in Japan have been hit by recent natural disasters and as a result, they are planning to almost double production at their Swindon plant this year. Toyota has decided to add 1,500 jobs to its Burnaston plant and GM will be producing the next generation Astra at Ellesmere Port.

3.4 And demand

New vehicle registrations in the UK are at a ten year low. Any respite given by the car scrappage scheme appears to have come to an end, and it has been argued that such schemes in any case do little but bring forward purchases that would have been made anyway.

However, the UK's geographical closeness to Europe and the weakness of the pound have provided a boost to demand for UK built cars. In 2011, of the 1.34 million passenger cars produced in the UK, 1.15 million of them (84%) were for export. In 2012, 18% of exports were to Russia and China where emerging luxury car markets have increased demand for UK built models. But over a third of car exports from the UK were to Eurozone countries.

The value of the cars exported by the UK was worth more than those imported in the first quarter of 2012, providing a trade surplus of £561 million. This is the first quarterly trade surplus since 1976.



3.5 Could reliance on exports to Europe put the industry into reverse?

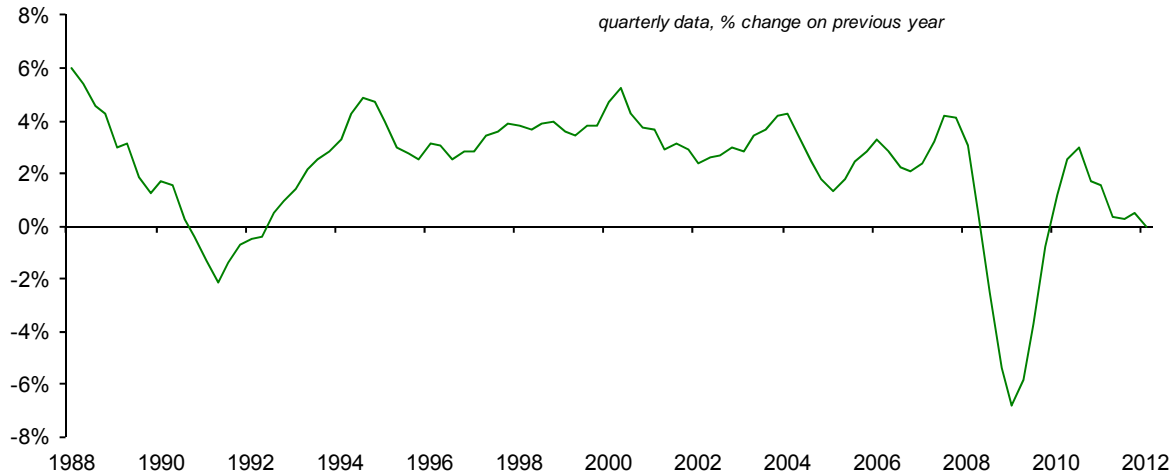
The country's reputation as an efficient and high quality car manufacturer and its proximity to European markets appear have kept the industry alive. With the industry's reliance on the Eurozone there may be fears any renaissance will be short lived. However, Oxford Economics predicts that motor vehicle and parts production "will expand by 1.3% this year despite the sharp contraction in its key export market of continental Europe". They also forecast further growth from 2014 onwards as investment plans come to fruition. As the SMMT has commented, "sustained investment is delivering desirable products to markets around the world" and the UK remains one of the most competitive locations for global automotive companies.

Lucinda Maer, Economic Policy and Statistics Section

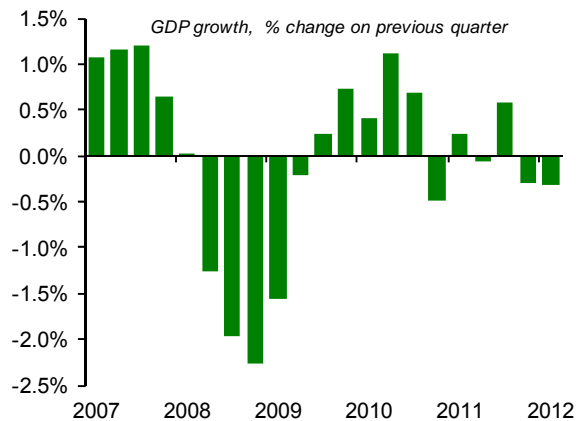
A1: Gross Domestic Product

The economy contracted by an estimated -0.3% in Q1 2012, the same as in Q4 2011. In May, HM Treasury's average of independent economic forecasts of GDP growth for 2012 was 0.4% (downgraded from 0.6% in the April edition) 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 1988



Real GDP Growth since 2007



Gross Domestic Product

seasonally adjusted

| | Current prices £ billion | % change on year | Real GDP (inflation-adjusted) | |
|---------|-----------------------------|---------------------|----------------------------------|---------------------|
| | | | % 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 |
| 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 |
| 2012 Q1 | 380.8 | 1.9 | -0.3 | 0.0 |

Source: ONS, series: YBHA, ABMI

- The UK economy is now technically back-in recession. The economy contracted by an estimated -0.3% in Q1 2012 compared with Q4 2011. This compares with a fall of -0.3% in Q4 2011 compared with Q3 2011.
- In Q1 2012, real GDP was estimated to have remained unchanged on a year earlier. GDP remains more than 4% below its pre-2008/09 recession level (Q1 2008).
- In Q1 2012, output of the production industries decreased by an estimated 0.4%, construction sector output decreased by 4.8% (revised down from 3.0%) and output of the service industries increased by 0.1%.

Contact: Grahame Allen, x3977

Updates: ONS, [National Accounts](#) 28 June
HMT, [Comparison of Independent Forecasts](#), 20 June

A2: GDP: International Comparisons

UK output contracted by 0.3% in Q1 2012, while US output expanded by 0.5% over the same period. In the eurozone as a whole, there was no growth in Q1 2012, though Germany saw its output expand by 0.5%

Real GDP (% changes)

| | change on prev. year | | | | change on prev. quarter | | | |
|----------|----------------------|------|------|------|-------------------------|------|------|------|
| | 11Q2 | 11Q3 | 11Q4 | 12Q1 | 11Q2 | 11Q3 | 11Q4 | 12Q1 |
| US | 1.6 | 1.5 | 1.6 | 2.1 | 0.3 | 0.5 | 0.7 | 0.5 |
| Japan | -1.7 | -0.5 | -0.5 | 2.6 | -0.3 | 1.9 | 0.0 | 1.0 |
| UK | 0.4 | 0.3 | 0.5 | -0.1 | -0.1 | 0.6 | -0.3 | -0.3 |
| Germany | 2.9 | 2.7 | 2.0 | 1.2 | 0.3 | 0.6 | -0.2 | 0.5 |
| France | 1.7 | 1.5 | 1.2 | 0.3 | 0.0 | 0.3 | 0.1 | 0.0 |
| Eurozone | 1.6 | 1.3 | 0.7 | -0.1 | 0.1 | 0.1 | -0.3 | 0.0 |
| G7 | 1.2 | 1.2 | 1.1 | .. | 0.2 | 0.6 | 0.3 | .. |
| OECD | 1.7 | 1.7 | 1.4 | .. | 0.3 | 0.6 | 0.2 | .. |

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

In [April 2012](#), the IMF raised their 2012 forecast for world growth by 0.2 percentage points to 3.5%. 2012 growth forecasts for the UK were raised by 0.2 percentage points, for the eurozone by 0.2 percentage points, and for the US by 0.3 percentage points.

Among major emerging markets, China's and Brazil's growth forecast for 2012 were left unrevised, while India's was revised downward by 0.1 percentage points.

The European Commission's [May forecast](#) revised down February forecasts of UK growth in 2012 by 0.1 percentage points to 0.5%. Most eurozone economies saw only slight revisions: France and Germany's growth forecasts were revised up by 0.1 percentage points each to 0.5% and 0.7% respectively.

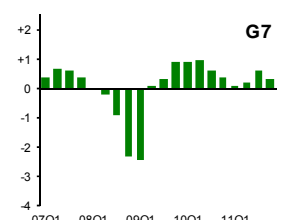
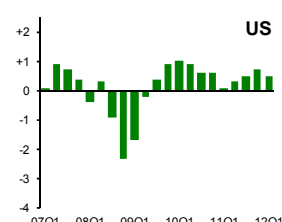
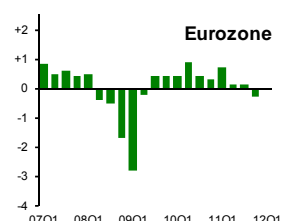
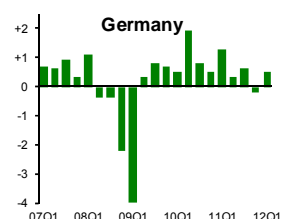
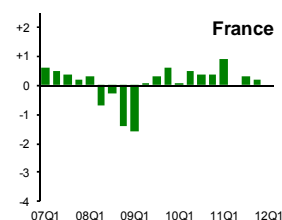
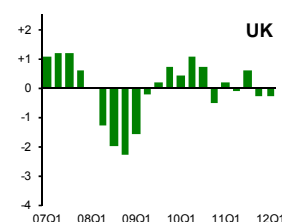
The [OECD's November forecast](#) also saw major downward revisions from June, particularly for the UK and eurozone. Compared with the last forecast in June, 2012 growth has been revised down from 1.8% to 0.5% in the UK and from 2.0% to 0.2% in the eurozone.

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

| | IMF (Apr 12) | | EC (May 12) | | OECD (Nov 11) | |
|--------------|--------------|------------|-------------|------|---------------|------------|
| | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 |
| UK | 0.8 | 2.0 | 0.5 | 1.7 | 0.5 | 1.8 |
| France | 0.5 | 1.0 | 0.5 | 1.3 | 0.3 | 0.4 |
| Germany | 0.6 | 1.5 | 0.7 | 1.7 | 0.6 | 1.9 |
| Eurozone | -0.3 | 0.9 | -0.3 | 1.0 | 0.2 | 1.4 |
| US | 2.1 | 2.4 | 2.0 | 2.1 | 2.0 | 2.5 |
| Japan | 2.0 | 1.7 | 1.9 | 1.7 | 2.0 | 1.6 |
| OECD | .. | .. | .. | .. | 1.6 | 2.3 |
| China | 8.2 | 8.8 | .. | .. | 8.5 | 9.5 |
| India | 6.9 | 7.3 | .. | .. | 7.5 | 8.4 |
| Brazil | 3.0 | 4.1 | .. | .. | 3.2 | 3.9 |
| World | 3.5 | 4.1 | .. | .. | .. | .. |

Sources: IMF, April WEO; EC EEF; OECD, Economic Outlook 90

Quarter-on-quarter growth rates



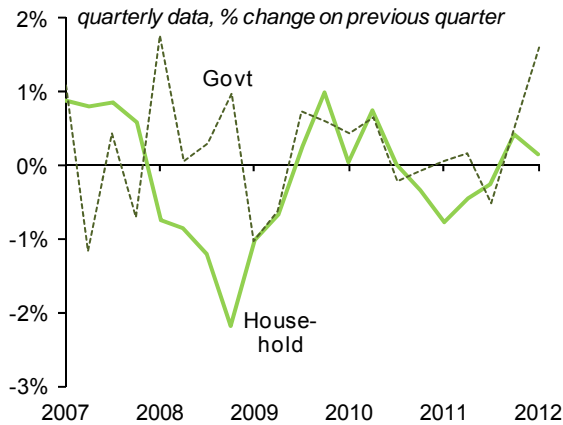
Contact: Gavin Thompson, x2042

Update: OECD [Main Economic Indicators](#), 11 Jun 2012
 EC [Economic Forecast](#), September 2012
 IMF [World Economic Outlook update](#), Jun 2012

A3: Components of GDP

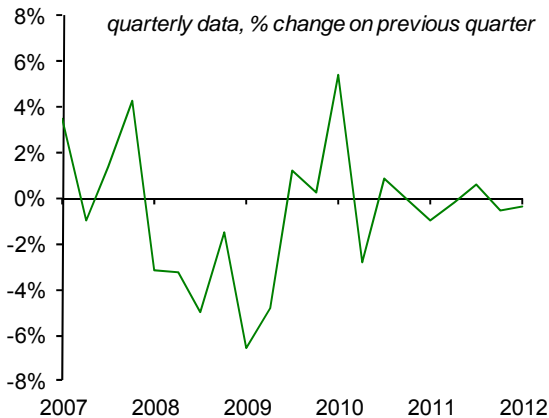
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 62% of the total in 2011. Government consumption accounted for 23% and gross fixed capital formation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

Household consumption and government consumption



- In Q1 2012, household consumption rose by 0.1% in real terms compared with Q4 2011.
- Government consumption increased by 1.6% in Q1 2012, the largest rise since Q1 2008.
- Exports rose by 0.1% while imports increased by 0.4% in Q1 2012.
- A sharp decline in stockbuilding, resulted in GDP falling by 0.3% in Q1 2012.

Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- In Q1 2012 GFCF decreased by 0.3%. In 2011 as a whole it fell by 1.2%.
- Business investment, a component of overall GFCF, increased by 3.6% in Q1 2012.

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 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% |
| 2012 Q1 | 0.1% | 1.6% | -0.3% | 0.1% | 0.4% | -0.3% |

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

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

Update: ONS, [Quarterly National Accounts](#), 28 June

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).

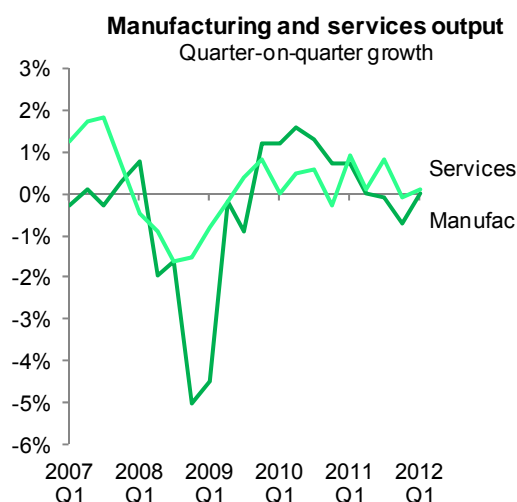
Output

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 Q3 | 1.2% | -0.1% | 1.5% | 0.3% |
| 2011 Q4 | -0.2% | 1.0% | 1.8% | 0.4% |
| 2012 Q1 | -0.8% | -2.3% | 1.0% | -0.1% |
| <i>Quarter-on-quarter</i> | | | | |
| 2011 Q3 | -0.1% | 0.5% | 0.8% | 0.6% |
| 2011 Q4 | -0.7% | -0.2% | -0.1% | -0.3% |
| 2012 Q1 | 0.0% | -4.8% | 0.1% | -0.3% |

Source: ONS Series L2KX, L2N8, L2NC, YBEZ



- Revised estimates suggest manufacturing output was flat in the first quarter of 2012. Services output rose by 0.1%. Construction output fell by 4.8% compared with a decrease of 0.2% in Q4 of 2011.
- 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 0.3% in Q1 2012.

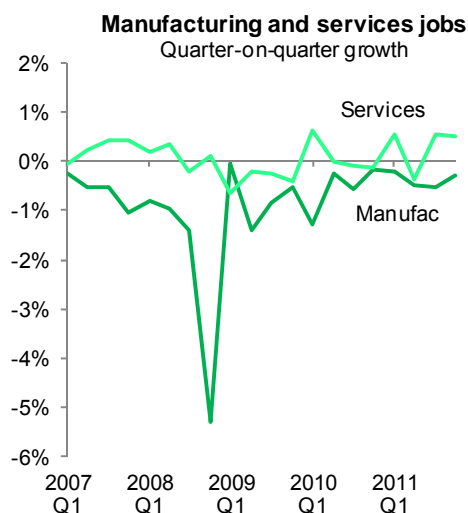
Employment

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.

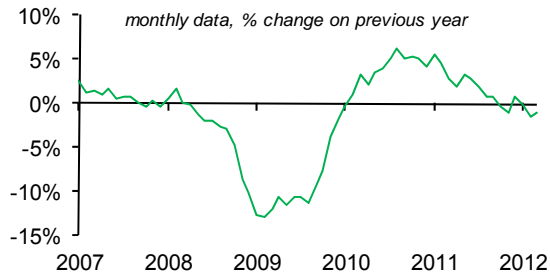
Contact: Lucinda Maer, x3841

Update: ONS, [Quarterly National Accounts](#), 28 June

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

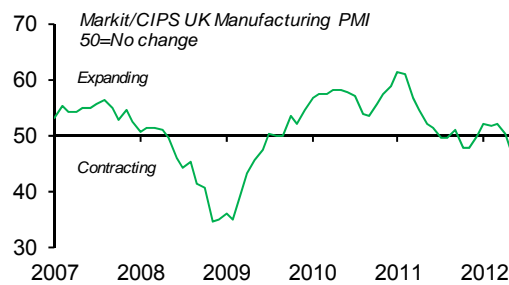


| | Index Value (2008=100) | % change over month | % change over 12 months |
|----------|---------------------------|------------------------|----------------------------|
| 2010 | 93.7 | ... | 3.7 |
| 2011 | 95.6 | ... | 2.0 |
| 2011 Dec | 95.7 | +1.1 | +0.9 |
| 2012 Jan | 95.4 | -0.3 | -0.1 |
| Feb | 94.4 | -1.1 | -1.5 |
| Mar | 95.2 | +0.9 | -0.9 |

Source: ONS, series K22A

- Manufacturing output grew by 0.9% in March 2012 compared with February 2012. Manufacturing output fell by 0.9% in March 2012 compared to March 2011.
- Total industrial production (including mining and utilities) fell by 0.3% in March 2012 compared with February 2012. Total production was 2.6% lower in February 2012 than in February 2011.

Manufacturing Purchasing Managers' Index

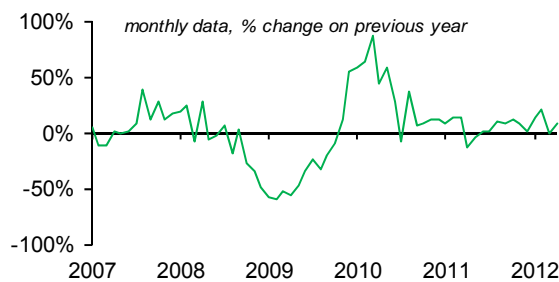


| | | Index | Monthly change |
|------|-----|-------|----------------|
| 2010 | May | 58.0 | ... |
| 2011 | May | 52.0 | ... |
| 2012 | Feb | 51.5 | -0.5 |
| 2012 | Mar | 51.9 | +0.4 |
| | Apr | 50.2 | -1.7 |
| | May | 45.9 | -4.3 |

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

- The Markit/CIPS UK Manufacturing PMI fell to 45.9 in May 2012 from 50.2 in April (where 50.0 is no change), its lowest level for 3 years. The 4.3 point fall is the index's second steepest in its 20 year history.
- Markit/CIPS said that companies were scaling back on production and employment as inflows of new work fell steeply amid rising uncertainty among both domestic and overseas clients.

Vehicle Production



| | | Number '000s | % change over 12 months |
|------|-----|-----------------|----------------------------|
| 2010 | | 1,393 | +27.8 |
| 2011 | | 1,465 | +5.1 |
| 2011 | Apr | 95 | -13.0 |
| 2012 | Feb | 148 | +21.4 |
| | Mar | 145 | -1.5 |
| | Apr | 103 | +8.8 |

Source: SMMT, not seasonally adjusted

- UK vehicle production was 103,000 in April 2012, 8.8% higher than in April 2011. The SMMT says that production figures had been boosted by strong export demand and that "sustained investment is delivering desirable products to markets around the world".
- 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](#), 12 June
Markit/CIPS [UK Manufacturing PMI](#), 2 July
SMMT, [Vehicle Production](#), mid June

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.

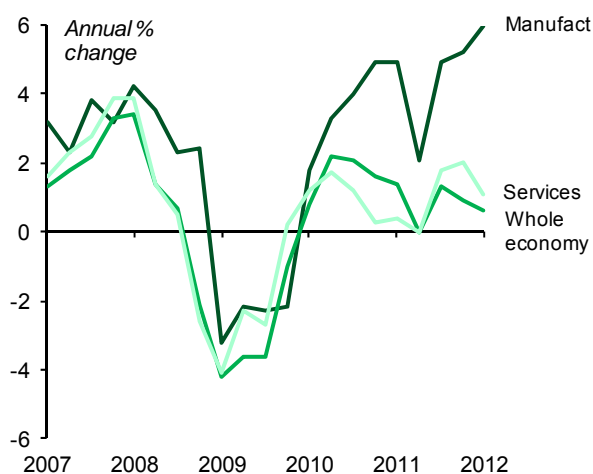
UK productivity by sector

- 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 |

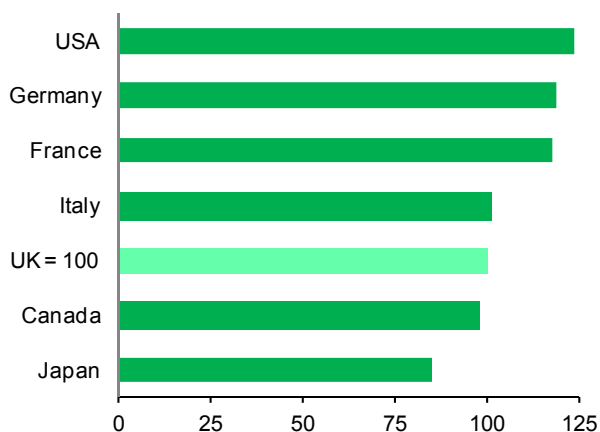
Source: ONS series LZVD, DJK8, DJQ3



- 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

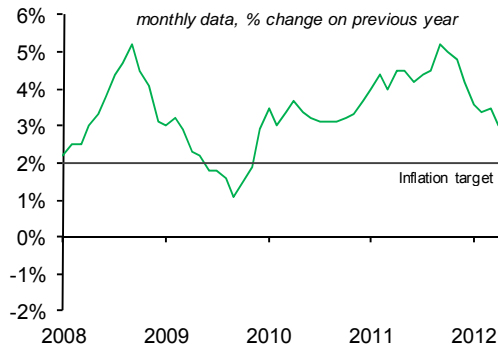
Update: ONS, [Labour Productivity](#), 29 Jun

B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.0% in April, down from 3.5% in March and above the Bank of England's 2% target for the twenty-ninth successive month.

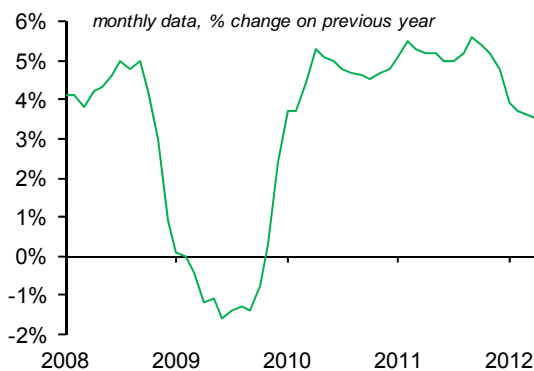
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side.

Consumer Prices Index (CPI)



- The CPI annual inflation rate was 3.0% in April, down from 3.5% in March. This continues the downward trend in CPI inflation (following the first rise in inflation in March since August 2011).
- The largest downward pressures to this change came from transport (particularly air and sea transport due to the timing of Easter bank holidays).
- The RPI (all items) measure of annual inflation was 3.5% in April, down (for the eighth consecutive month) from 3.6% in March.

Retail Prices Index (RPI)

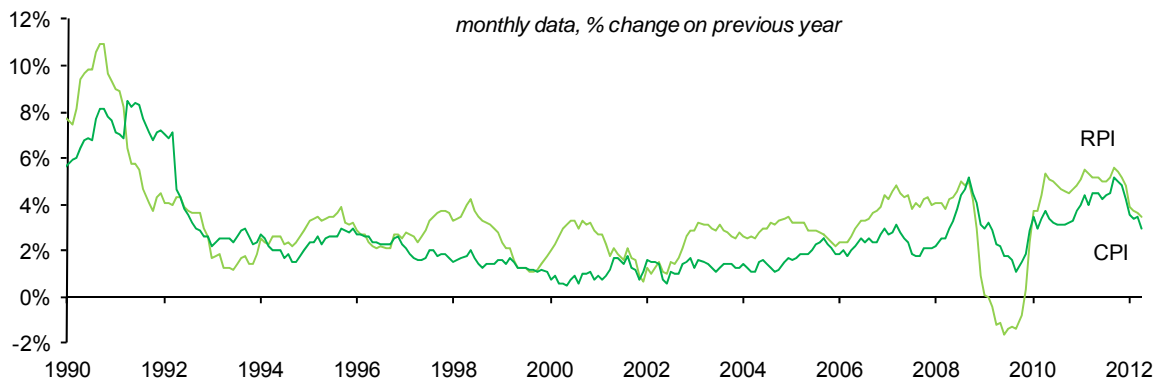


Price Indices

| | | % change on a year ago | |
|------|-----|------------------------|------|
| | | CPI | RPI |
| 2009 | | 2.2 | -0.5 |
| 2010 | | 3.3 | 4.6 |
| 2011 | | 4.5 | 5.2 |
| 2011 | Nov | 4.8 | 5.2 |
| | Dec | 4.2 | 4.8 |
| 2012 | Jan | 3.6 | 3.9 |
| | Feb | 3.4 | 3.7 |
| | Mar | 3.5 | 3.6 |
| | Apr | 3.0 | 3.5 |

Source: ONS database, series: D7G7, CZBH

CPI and RPI since 1990



Contact: Grahame Allen, x3977

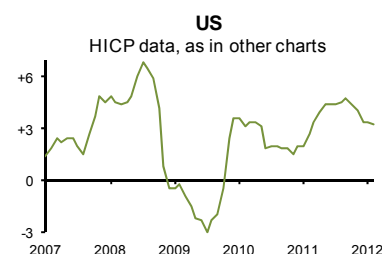
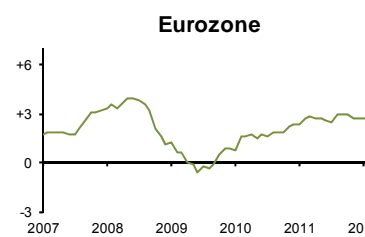
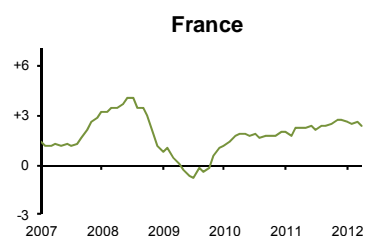
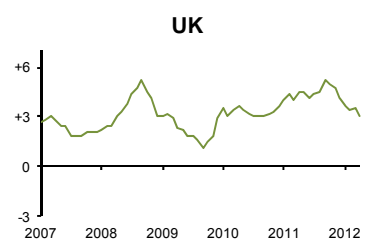
Update: ONS, [Consumer Price Indices](#), 19 June

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 April, UK inflation was 3.0%, down from 3.5% in March and the lowest level for over two years. The Bank of England's UK inflation target is 2%.
- The flash estimate of eurozone inflation in the year to May 2012 was 2.4%, down from 2.6% in April. 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 April, at 1.0%. The highest rate was in Hungary, at 5.6%.
- HICP annual inflation in the US in February was 3.2%, down from 3.3% in January. Using its national definition, US inflation was 2.3% in April, down from 2.7% in March.



Inflation rates: selected countries

Annual % change in consumer prices

| | 2009 | 2010 | 2011 | Jan-12 | Feb-12 | Mar-12 | Apr-12 |
|------------------------------------|------|------|------|--------|--------|--------|--------|
| HICP (ONS/Eurostat) | | | | | | | |
| UK | 2.2 | 3.3 | 4.5 | 3.6 | 3.4 | 3.5 | 3.0 |
| Eurozone | 0.3 | 1.6 | 2.7 | 2.7 | 2.7 | 2.7 | 2.6 |
| EU | 1.0 | 2.1 | 3.1 | 2.9 | 2.9 | 2.9 | 2.7 |
| France | 0.1 | 1.7 | 2.3 | 2.6 | 2.5 | 2.6 | 2.4 |
| Germany | 0.2 | 1.2 | 2.5 | 2.3 | 2.5 | 2.3 | 2.2 |
| Greece | 1.3 | 4.7 | 3.1 | 2.1 | 1.7 | 1.4 | 1.5 |
| Italy | 0.8 | 1.6 | 2.9 | 3.4 | 3.4 | 3.8 | 3.7 |
| Spain | -0.2 | 2.0 | 3.1 | 2.0 | 1.9 | 1.8 | 2.0 |
| US | 1.0 | 2.1 | 3.1 | 3.3 | 3.2 | : | : |
| National definitions (OECD) | | | | | | | |
| Canada | 0.3 | 1.8 | 2.9 | 2.5 | 2.6 | 1.9 | 2.0 |
| Japan | -1.3 | -0.7 | -0.3 | 0.1 | 0.3 | 0.5 | 0.5 |
| US | -0.4 | 1.6 | 3.2 | 2.9 | 2.9 | 2.7 | 2.3 |
| G7 | -0.1 | 1.4 | 2.6 | 2.5 | 2.5 | 2.4 | 2.1 |
| OECD | 0.5 | 1.9 | 2.9 | 2.8 | 2.8 | 2.7 | 2.5 |
| Brazil | 4.9 | 5.0 | 6.6 | 6.2 | 5.8 | 5.2 | 5.1 |
| China | -0.7 | 3.3 | 5.4 | 4.5 | 3.2 | 3.6 | 3.4 |
| India | 10.9 | 12.0 | 8.9 | 5.3 | 7.6 | 8.6 | 10.2 |
| Russia | 11.7 | 6.9 | 8.4 | 4.1 | 3.7 | 3.7 | 3.6 |

Source: ONS, Eurostat & stat.OECD database

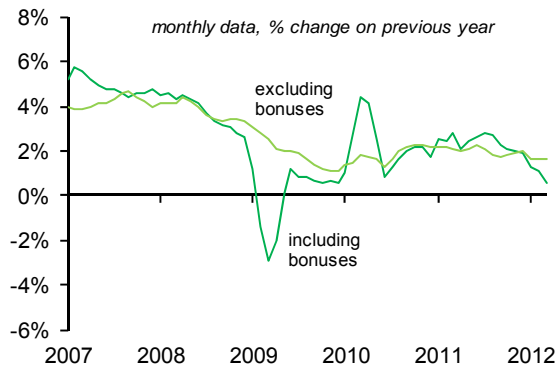
Contact: Gavin Thompson, x2042

Updates: OECD, [Main Economic Indicators](#), 11 Jun 2012
Eurostat, [HICP full release](#), 14 Jun 2012
Eurostat, [Flash estimate \(May\)](#), 29 Jun 2012

B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 0.6% in March compared with a year ago, down from 1.1% in February. Average weekly earnings excluding bonuses rose by 1.6% in the three months to March compared with a year ago, unchanged from February. Inflation as measured by the CPI was 3.5% in March 2012.

Average Earnings, Whole Economy



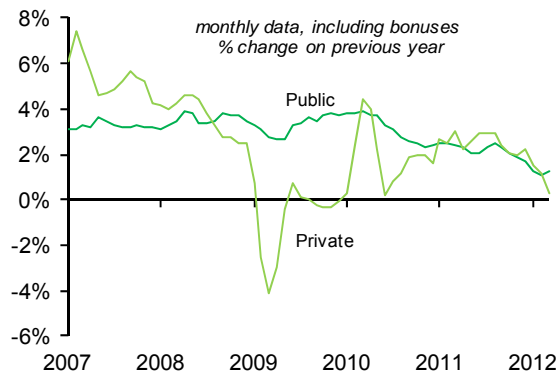
Average Earnings, Including Bonuses

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

| | Private | Public | Manuf. | Serv. | Total |
|----------|---------|--------|--------|-------|-------|
| 2009 Mar | -4.1 | 2.8 | 1.2 | -3.6 | -2.9 |
| 2010 Mar | 4.4 | 3.9 | 6.2 | 4.4 | 4.4 |
| 2011 Mar | 3.0 | 2.4 | 1.0 | 3.4 | 2.8 |
| 2011 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 | 1.5 | 1.3 | 1.4 | 1.5 | 1.3 |
| Feb | 1.2 | 1.1 | 1.4 | 1.2 | 1.1 |
| Mar | 0.3 | 1.3 | 0.5 | 0.6 | 0.6 |

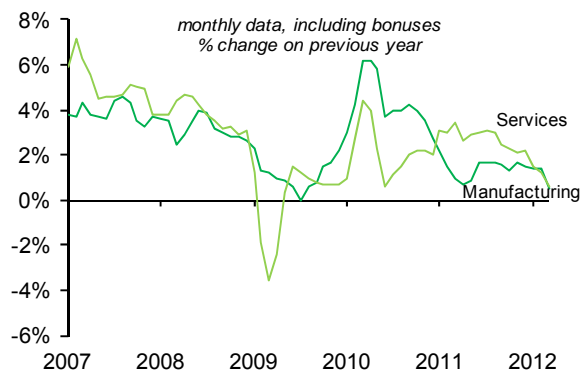
Source: ONS, data shows latest 3-month period

Average Earnings in the Public and Private Sectors



- Average total pay (including bonuses) in the private sector rose by 0.3% in March, compared with an increase of 1.3% in the public sector. Excluding financial services, public sector earnings rose by 0.6%.
- Average weekly earnings (including bonuses) in March in the public sector were £481 compared with £460 in the private sector.
- In 2011, headline (including bonuses) earnings in the private sector averaged a rise of 2.6%, while the public sector averaged a 2.1% increase.

Average Earnings in Services and Manufacturing

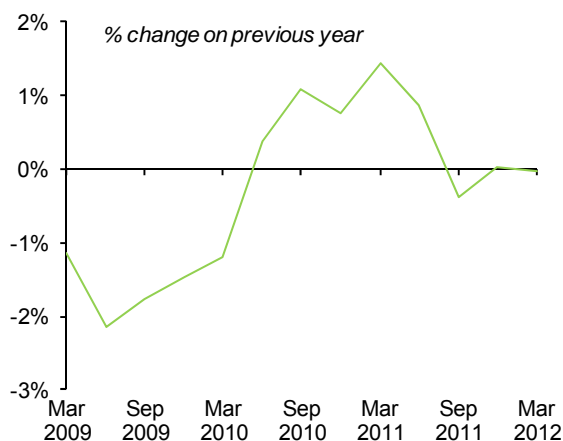


- Average total pay growth (including bonuses) in the manufacturing sector was 0.5% in March, compared with 0.6% in the services sector.
- Average weekly earnings (including bonuses) in March in the manufacturing sector were £541 compared with £450 in the services sector.
- In 2011, headline (including bonuses) earnings in the services sector averaged a rise of 2.8% compared with a 1.4% increase in the manufacturing sector.

C1: Employment

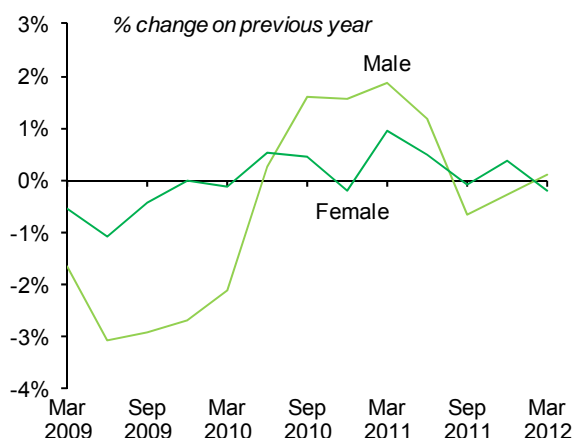
Employment rose by 105,000 over the quarter to March 2012, to 29.23 million. This was the biggest quarterly rise in employment since the three months to March 2011. Employment is now 1.1% lower than its pre-recession peak of 29.56 million in the three months to April 2008.

Total employment



- In the past year, employment among 16-24 year olds has fallen by 95,000 or 2.5%.
- In the past year, employment rose among all other age groups featured in the table below.
- The number of self-employed people rose by 89,000 over the quarter, to 4.16 million, the highest level since comparable records began in 1992.
- The number of people employed part-time rose by 118,000 over the quarter, whilst the number of people employed full-time fell by 13,000.

Male and female employment



- The number of men in employment increased by 80,000 over the last quarter to 15.67 million.
- The number of women in employment increased by 24,000 over the last quarter to 13.56 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

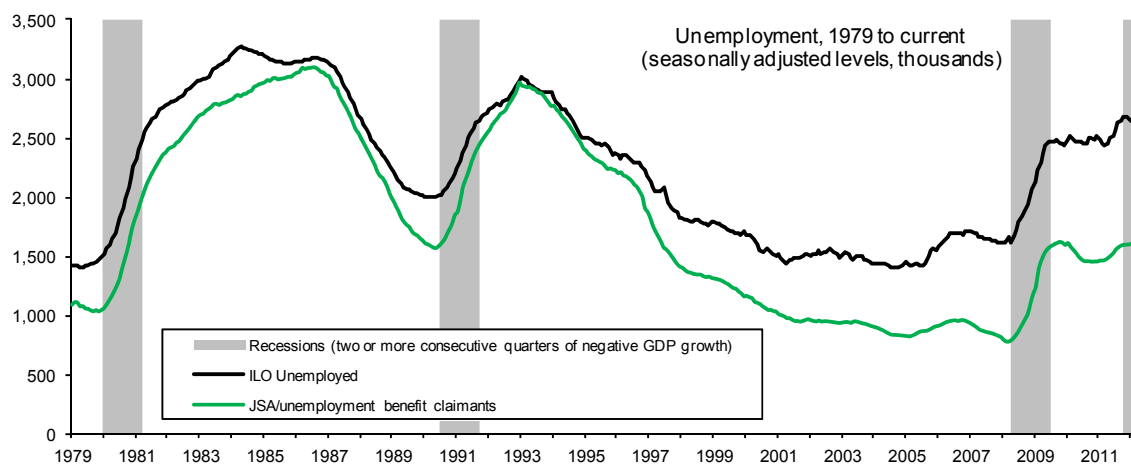
| | Total | 16-24 | 25-49 | 50-64 | 65+ |
|-------------------------------|--------|-------|--------|-------|------|
| Jan-Mar 2010 | 28,825 | 3,738 | 17,033 | 7,272 | 780 |
| Jan-Mar 2011 | 29,240 | 3,728 | 17,269 | 7,358 | 885 |
| Apr-Jun 2011 | 29,265 | 3,749 | 17,260 | 7,376 | 881 |
| Jul-Sep 2011 | 29,069 | 3,620 | 17,214 | 7,386 | 849 |
| Oct-Dec 2011 | 29,129 | 3,631 | 17,219 | 7,404 | 875 |
| Jan-Mar 2012 | 29,233 | 3,633 | 17,270 | 7,440 | 891 |
| % change on previous 3 months | +0.4 | +0.1 | +0.3 | +0.5 | +1.8 |
| % change on previous year | -0.0 | -2.5 | +0.0 | +1.1 | +0.6 |

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 January to March 2012 was 2,625,000 (8.2% of all economically active) – down 45,000 from the previous quarter. (UK, seasonally adjusted.)**



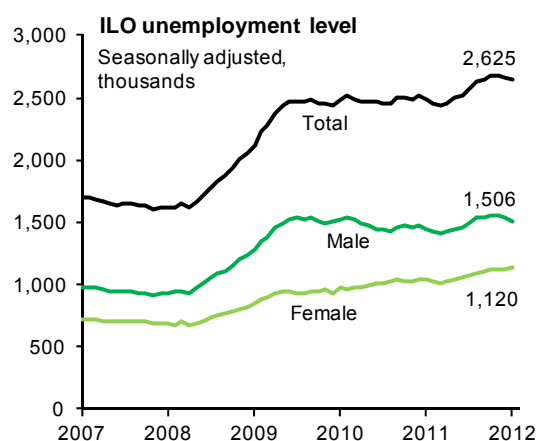
[Source: ONS, *Labour Market Statistics*]

ILO unemployment (January to March 2012)

- There were 887,000 people unemployed for more than 12 months, up 27,000 from the previous quarter, and the highest figure since 1996.
- The unemployment level among 16- to 24-year-olds was 1,020,000, down 17,000 on the previous quarter. (See table below.)

Jobseeker's Allowance (JSA) claimant count

The seasonally-adjusted monthly JSA claimant count decreased by 13,700 between March and April 2012 to 1,590,300.



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 | (%) |
| Jan-Mar 2007 | 1,701 | 5.5 | 711 | 14.5 | 745 | 4.1 | 231 | 3.2 | 14 | 2.2 |
| Jan-Mar 2008 | 1,618 | 5.2 | 686 | 14.0 | 702 | 3.9 | 218 | 2.9 | 13 | 1.8 |
| Jan-Mar 2009 | 2,225 | 7.1 | 874 | 18.0 | 1,005 | 5.5 | 327 | 4.3 | 19 | 2.6 |
| Jan-Mar 2010 | 2,511 | 8.0 | 943 | 20.1 | 1,180 | 6.5 | 362 | 4.7 | 25 | 3.1 |
| 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 |
| Jul-Sep 2011 | 2,622 | 8.3 | 1,016 | 21.9 | 1,196 | 6.5 | 383 | 4.9 | 27 | 3.1 |
| Oct-Dec 2011 | 2,671 | 8.4 | 1,038 | 22.2 | 1,207 | 6.6 | 399 | 5.1 | 26 | 2.9 |
| Jan-Mar 2012 | 2,625 | 8.2 | 1,020 | 21.9 | 1,182 | 6.4 | 394 | 5.0 | 29 | 3.2 |
| % change on quarter | -1.7 | | -1.7 | | -2.0 | | -1.4 | | +10.0 | |
| % change on year | +6.9 | | +9.2 | | +5.2 | | +3.6 | | +74.4 | |

Source: ONS, *Labour Market Statistics*.

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

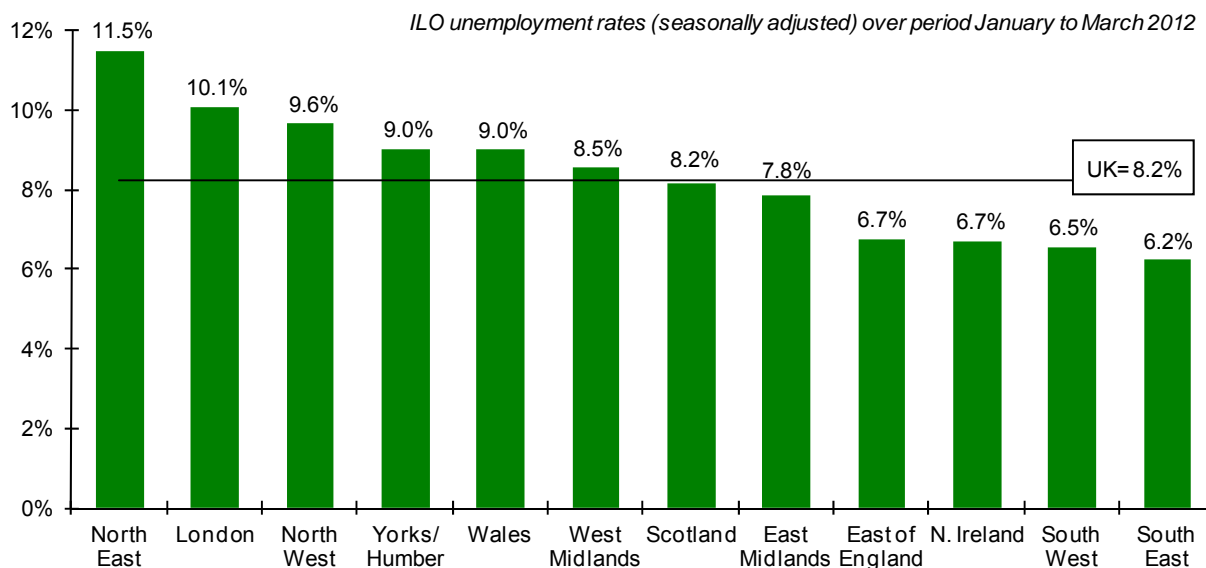
Contact: Lorna Booth, x2883

Update: ONS, *Labour Market Statistics*, 20 Jun 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 January to March 2012, the North East had the highest unemployment rate, at 11.5% of the economically active population. The lowest rate over the same period was 6.2% in the South East.



- The largest increases in unemployment over the last quarter were in the North West (+11,000) and South West (+10,000) and the largest decrease was in Yorkshire and Humber (-24,000).
- The seasonally-adjusted JSA claimant count increased in two regions and countries, and decreased in ten in April, compared with March 2012.

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

| | ILO unemployment | | | | JSA claimant count | |
|--------------------|------------------|----------------|----------------------|------------------------|--------------------|------------------------------------|
| | Jan - Mar 2012 | | Change in level | | April 2012 | |
| | Level (000s) | Rate (%)(a) | qtr-on-qtr (000s) | year-on-year (000s) | Level (000s) | change since prev. month (000s) |
| North East | 148 | 11.5 | +6 | +18 | 92.6 | +0.4 |
| North West | 329 | 9.6 | +11 | +64 | 201.4 | -1.5 |
| Yorkshire & Humber | 241 | 9.0 | -24 | -4 | 163.7 | -0.5 |
| East Midlands | 182 | 7.8 | -6 | +5 | 109.3 | -1.1 |
| West Midlands | 228 | 8.5 | -19 | -27 | 164.2 | -2.4 |
| East of England | 207 | 6.7 | -6 | +20 | 115.6 | -1.7 |
| London | 426 | 10.1 | -1 | +42 | 229.8 | -2.9 |
| South East | 279 | 6.2 | +1 | +24 | 140.1 | -2.7 |
| South West | 175 | 6.5 | +10 | -1 | 89.6 | -0.8 |
| Wales | 132 | 9.0 | -1 | +20 | 79.5 | -0.3 |
| Scotland | 221 | 8.2 | -10 | +13 | 142.0 | -0.9 |
| Northern Ireland | 57 | 6.7 | -5 | -4 | 62.5 | +0.7 |

Source: ONS, *Labour Market Statistics*

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

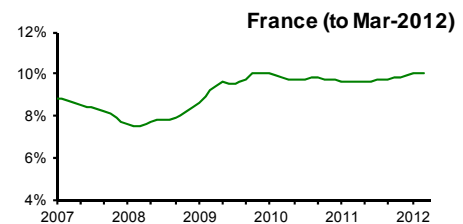
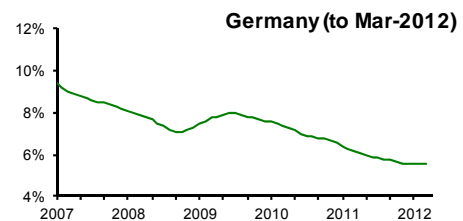
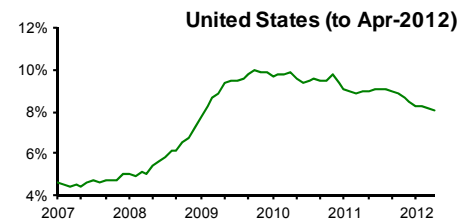
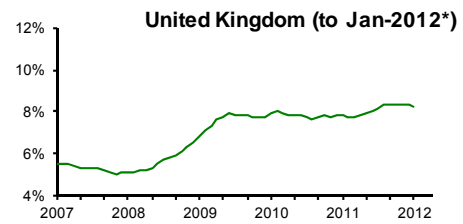
Contact: Lorna Booth, x2883

Update: ONS, *Labour Market Statistics*, 20 June 2012

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 was 8.4% in Q4 2011, up from 8.2% in Q3 2011. UK unemployment in Q4 was below that of France and Italy but above that of Germany.
- In the US, unemployment fell from 8.7% to 8.3% between Q4 2011 and Q1 2012, continuing its sharp decline of the previous quarter. Compared with a year ago unemployment is 0.7%-points lower.
- Outside the G7, Spain has the highest harmonised unemployment rate among the 33 OECD member states (23.1% in Q4 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 14.6% in Q4 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 2.2 percentage-point rise in the euro zone (from 7.9% to 10.1%) over the same period.
- The lowest unemployment rate in the OECD in Q4 2011 was in Norway (3.3%).
- 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 Nov-Jan 2012

Unemployment

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

| | 2009 | 2010 | 2011 | 2010 | | | 2011 | | | | 2012 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|
| | | | | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 |
| Canada | 8.3 | 8.0 | 7.4 | 8.0 | 8.0 | 7.7 | 7.7 | 7.5 | 7.2 | 7.4 | 7.4 |
| France | 9.5 | 9.8 | 9.7 | 9.7 | 9.8 | 9.7 | 9.6 | 9.6 | 9.7 | 9.8 | 10.0 |
| Germany | 7.8 | 7.1 | 5.9 | 7.2 | 6.9 | 6.7 | 6.3 | 6.0 | 5.8 | 5.6 | 5.6 |
| Italy | 7.8 | 8.4 | 8.5 | 8.5 | 8.3 | 8.3 | 8.1 | 8.2 | 8.4 | 9.1 | 9.6 |
| Japan | 5.1 | 5.1 | 4.6 | 5.1 | 5.0 | 5.0 | 4.8 | 4.6 | 4.4 | 4.5 | 4.6 |
| UK | 7.6 | 7.8 | 8.0 | 7.8 | 7.7 | 7.8 | 7.7 | 7.9 | 8.2 | 8.3 | .. |
| US | 9.3 | 9.6 | 9.0 | 9.6 | 9.5 | 9.6 | 9.0 | 9.0 | 9.1 | 8.7 | 8.3 |
| Euro zone | 9.6 | 10.1 | 10.2 | 10.2 | 10.1 | 10.1 | 10.0 | 10.0 | 10.2 | 10.5 | 10.8 |
| G7 | 8.1 | 8.2 | 7.7 | 8.2 | 8.1 | 8.1 | 7.7 | 7.7 | 7.7 | 7.6 | 7.5 |
| OECD | 8.4 | 8.6 | 8.2 | 8.6 | 8.5 | 8.5 | 8.2 | 8.2 | 8.2 | 8.2 | 8.2 |

Source: OECD, Harmonised Unemployment Rates

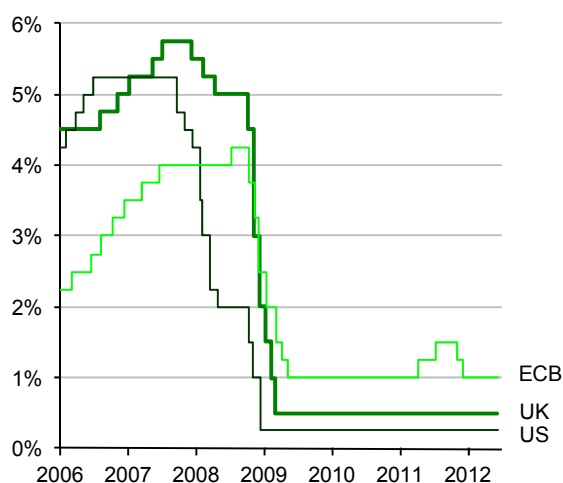
Contact: Gavin Thompson, x2042 Updates: OECD, [Harmonised Unemployment Rates](#), 11 Jun

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 |
| 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 |

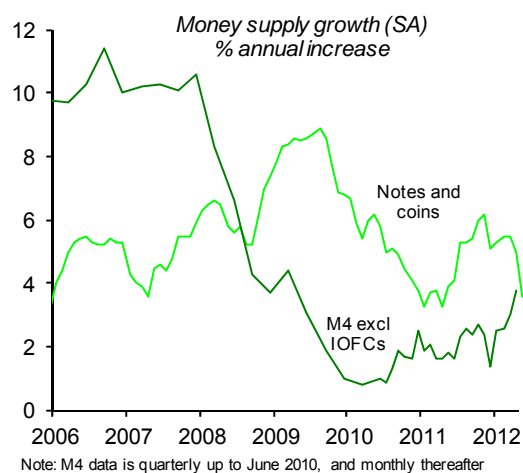
Source: Bank of England

- 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



Note: M4 data is quarterly up to June 2010, and monthly thereafter

- In its May 2012 *Inflation Report*, the Bank of England noted that money supply growth "has been volatile in recent quarters", and that the impact of the asset purchase programme on money supply is "necessarily uncertain."
- Annual growth in M4 excluding intermediate other financial corporations (a measure monitored by the Bank of England Monetary Policy Committee) was 3.8% in April, up from 3.0% in March and 2.6% in February.
- The value of notes and coins in circulation outside the Bank of England rose by 3.6% in May 2012 compared with a year ago, the smallest percentage rise since April 2011.

Contact: Chris Rhodes, x2454

Updates: Monetary policy meeting: [7 June](#) (UK), Bank of England, [Monetary and Financial Statistics](#), 4 July

D2: Public Finances

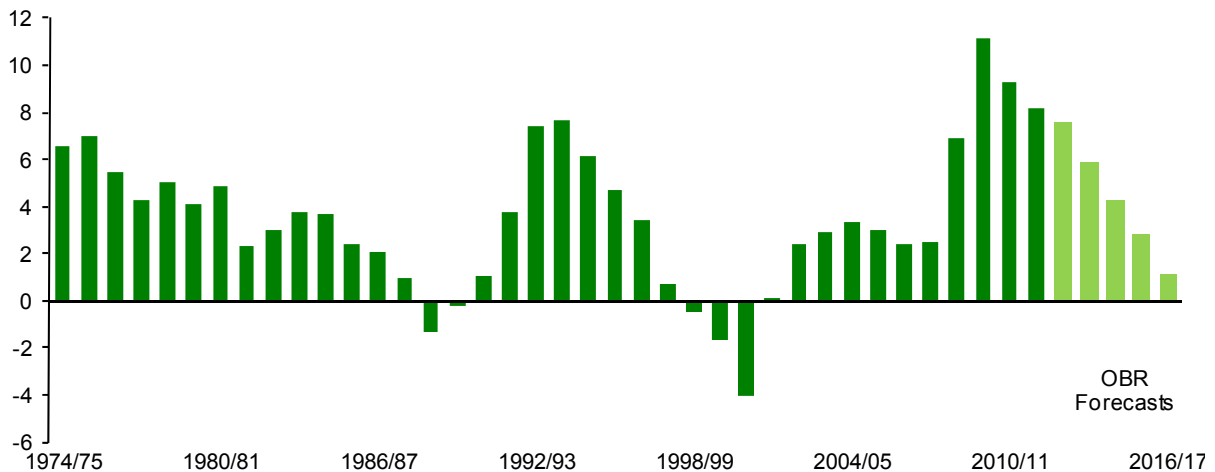
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £120 billion in 2012/13, equivalent to 7.6% of GDP.

- Net debt at the end of 2011/12 was £1022.6 billion, equivalent to 66% of GDP.
- 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.
- A large one-off transfer to Government of £28 billion, as part of the transfer of the Royal Mail Pension Plan, has resulted in a net surplus of £16.5 billion in April 2012. This is excluded from the borrowing figures in the table.

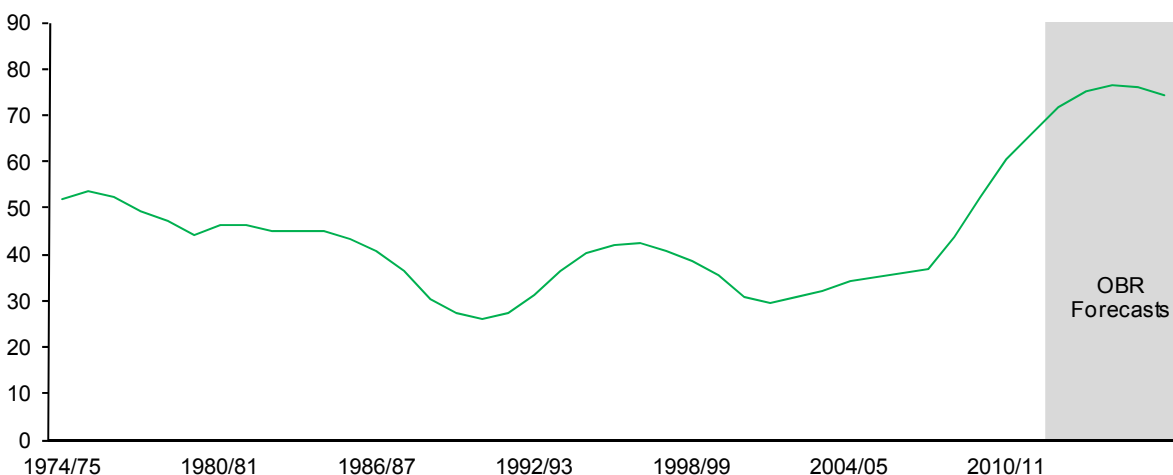
| | Net borrowing | | Net debt | |
|---------|---------------|-------|-----------|-------|
| | £ billion | % GDP | £ billion | % GDP |
| 2009/10 | 157 | 11.2 | 760 | 52.5 |
| 2010/11 | 137 | 9.3 | 905 | 60.5 |
| 2011/12 | 124 | 8.2 | 1,023 | 66.0 |
| 2012/13 | 120 | 7.6 | 1,159 | 71.9 |
| 2013/14 | 98 | 5.9 | 1,272 | 75.0 |
| 2014/15 | 75 | 4.3 | 1,365 | 76.3 |
| 2015/16 | 52 | 2.8 | 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](#), 26 June 2012

