



# Economic Indicators, October 2012

RESEARCH PAPER 12/55 02 October 2012

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

- The ONS revised its estimate of GDP in the second quarter, from a 0.5% contraction to a 0.4% fall compared with the previous quarter. GDP has declined for three successive quarters. Household consumption, which makes up around two-thirds of GDP, was down by 0.2%.
- The contrast with more positive labour market data continues, with employment rising by 240,000 and unemployment relatively flat in the three months to July 2012 compared with the previous quarter.

This month's articles:

- **More with less – competitiveness and productivity**
- **Was it a golden summer for the economy?**

Lorna Booth (editor)

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## Research Paper 12/55

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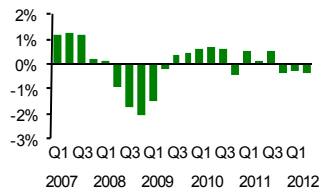
## Summary

The ONS revised its estimate of GDP in the second quarter, from a 0.5% contraction to a 0.4% fall compared with the previous quarter. GDP has declined for three successive quarters. Household consumption, which makes up around two-thirds of GDP, was down by 0.2%. The contrast with more positive labour market data continues, with employment rising by 240,000 and unemployment relatively flat in the three months to July 2012 compared with the previous quarter.

### GDP growth

[page 1](#)

(% change quarter-on-quarter)



The economy contracted by an estimated 0.4% in Q2 2012. This follows a 0.3% decline in GDP in Q1 2012. GDP remains 4.1% below its pre-recession level in Q1 2008.

### Inflation (CPI)

[page 7](#)

(% change on year ago)

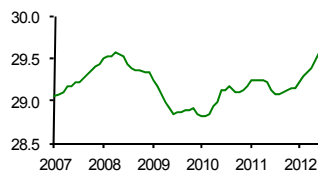


The annual rate of CPI inflation was 2.5% in August compared with a year ago, down from 2.6% in July. The Bank of England target is 2%.

### Employment

[page 10](#)

(total, millions)

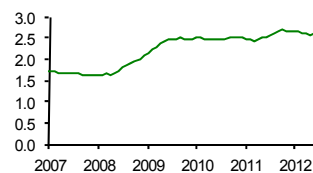


Compared with the previous quarter, the number of people employed rose by 236,000 to 29.56 million in the three months to July.

### Unemployment

[page 11](#)

(total, millions, ILO definition)



Compared with the previous quarter, ILO unemployment fell by 7,000 to 2.59 million in the three months to July. The unemployment rate remained at 8.1%.

### Gold price

[page 16](#)

(\$ per ounce)



The price of gold has been increasing over recent months and was \$1771/ounce on 1 October.

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Next issue: 6 November

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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

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### Sources and glossary

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

### Contacts

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## 2 More with less – competitiveness and productivity

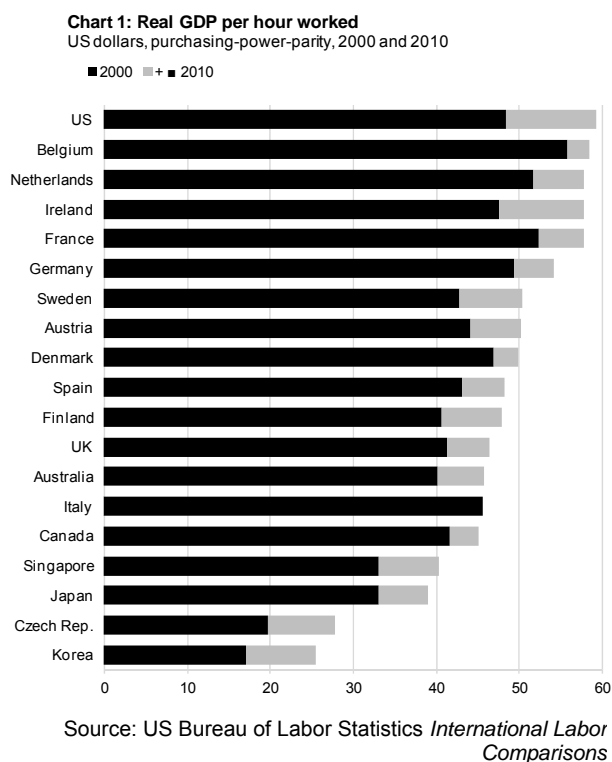
“Each nation is like a big corporation competing in the global marketplace”

*Bill Clinton, 1994*

Many economists would beg to differ. But detecting and analysing changes in the relative economic performance of countries is seen as increasingly important. There is a broad consensus that the problems in the eurozone stemmed from a divergence of competitiveness within the currency union, generating a build-up of private and public debt in the periphery. Meanwhile, hopes for the UK's recovery are pinned partly on export growth, something, it is said, that will require improvements in our productivity and competitiveness.

However, because the term has no single definition or measurement, discussions about competitiveness are fraught with conceptual ambiguity. And the terms ‘productivity’ and ‘competitiveness’ are deployed so loosely and interchangeably in public debate that the relationship and distinction between the two is unclear. This article attempts to distinguish productivity both from ‘classical’ measures of competitiveness based on relative prices, and from broader definitions that also take into account the particular features of countries’ economic and institutional environments.

Unlike competitiveness, productivity is a well-defined concept, albeit one that is difficult to measure with accuracy: it refers to how efficiently productive inputs (labour and capital) are used to produce outputs (goods and services). At a general level, the main challenge in measuring productivity involves aggregating inputs and outputs in a meaningful way; in effect, finding a unit of account by which inputs and outputs can be added up. Chart 1 shows how labour productivity, measured by output per hour worked, has changed in selected economies, including the UK, since 2000.<sup>3</sup>



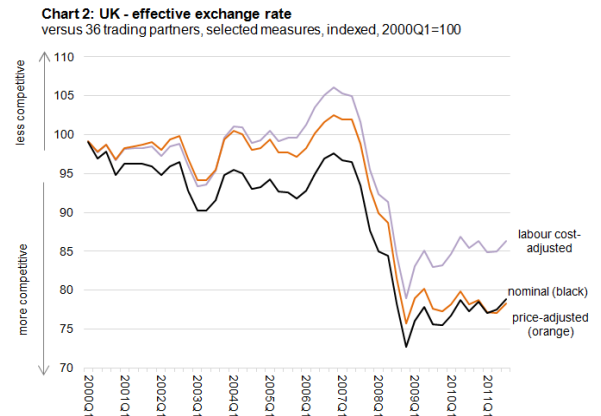
Productivity growth is directly linked to living standards since, other things being equal, a rise in productivity implies a rise in GDP per capita. In linking productivity with competitiveness, then, some economists would stop here, pointing out that a country with a high GDP per capita must be competitive in the sense that its economy is capable of generating a high level of welfare for its citizens.

But developments in productivity on their own tell us little about a country's ability to compete in export markets. In order to make the link between productivity and export competitiveness, some account must be taken of how the relative costs of output are changing between countries. A country with rising (labour) productivity may at the same time be experiencing currency appreciation or rising labour costs which, depending on developments in other countries, may be causing its price competitiveness to fall.

<sup>3</sup> Although this is the most commonly used measure of productivity, and has the advantage of being relatively easy to measure, it is not straightforward to interpret. Changes may be driven by a number of factors, many of which have little to do with the innate qualities or efforts of employees. Other things being equal, an increase in capital or developments in technology will both increase the amount of output for a given labour input, thereby raising observed labour productivity.



Typically, these factors are taken into account using a real effective exchange rate (REER). This measures the value of a country's currency against a basket of others (weighted according to the volume of trade that takes place), adjusted for some measure of the cost of output. In Chart 2, the UK's nominal effective exchange rate, and its REER adjusted for prices and unit labour costs is shown. The price-adjusted REER takes into account differences in the rate of consumer price inflation between trading partners, while the labour cost-adjusted REER takes into account differences in the cost of labour per unit of output.<sup>4</sup> The chart shows

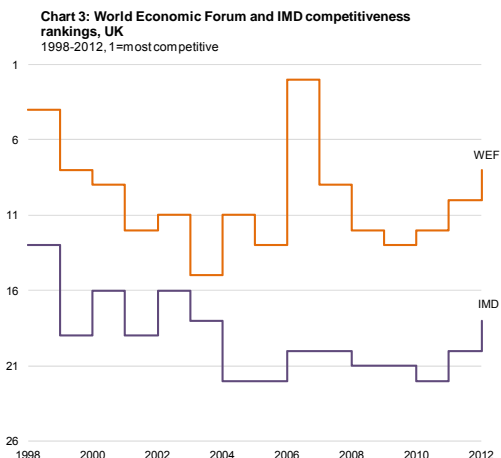


Source: Eurostat database

that the price competitiveness gain that the UK experienced following the depreciation of sterling following the financial crisis was partially offset by relatively faster increases in unit labour costs than its principal trading partners.

The focus on export competitiveness as a meaningful variable to guide policy has been criticised in certain quarters. Statistically, developments in the real exchange rate have been shown to be relatively unimportant in determining living standards.<sup>5</sup> What matters for long-run growth is domestic productivity, and indeed, a country looking to improve its competitiveness by deliberately undervaluing its real exchange rate may actually experience a fall in living standards as imports become more expensive.<sup>6</sup>

The definition of competitiveness as a reflection of export performance has its roots in classical economics, and particularly the theory of comparative advantage. But since the 1980s, some have argued for broader definitions of competitiveness that encompass, for instance, countries' legal, regulatory and infrastructural environments, the skills of their workforce etc. This was motivated partly by increased mobility of capital and labour, so that countries were better understood to be competing not only to sell their output abroad, but also to attract foreign investment and skills.



Sources: IMD *World Competitiveness Yearbook* and World Economic Forum *Global Competitiveness Report* (various edns.)

The two major proponents of this broader conception have been the World Economic Forum and the International Institute for Management Development, which each produce annual rankings of countries according to 'competitiveness indices', composed of hundreds of underlying indicators. The UK's global rankings according to these are shown in Chart 3. Though they distil a huge amount of data, as with 'crude' export competitiveness measures there is no clear relationship between countries' performance and their future growth in living standards.<sup>7</sup> As the WEF concedes, "despite its enormous importance, the determinants of the growth rate of a country remain one of economies' biggest mysteries." Where competitiveness fits in, and how exactly it relates to productivity and living standards, remains uncertain.

Gavin Thompson, Economic Policy and Statistics

<sup>4</sup> The cost of labour per unit of output (or 'unit labour cost') rises over time if labour costs are increasing at a faster rate than labour productivity.

<sup>5</sup> See, for instance, [IMF Working Paper WP/12/107](#)

<sup>6</sup> Krugman, P. (1994) *Competitiveness – a dangerous obsession*

<sup>7</sup> See, for instance, Research Institute of the Finnish Economy, [What do competitiveness comparisons tell us?](#)

### 3 Was it a golden summer for the economy?

"By spreading happiness and good cheer the Games have made us all feel better. And, who knows, the impact on confidence may give the economy a boost. But ultimately the games cannot alter the underlying economic situation we face".

*Mervyn King, Governor of the Bank of England.*

Many including the Governor of the Bank of England hoped that the Olympics would provide a boost to the UK economy. Oxford Economics estimated that £11.9 billion could be spent on 2012 Games-related construction between 2005 and 2017. Olympic ticket sales are expected to add around 0.1% in GDP in Q3 2012. But are there any other signs that the six-week Olympic summer period – running from 27 July to 9 September – might have boosted the economy in the short-term?

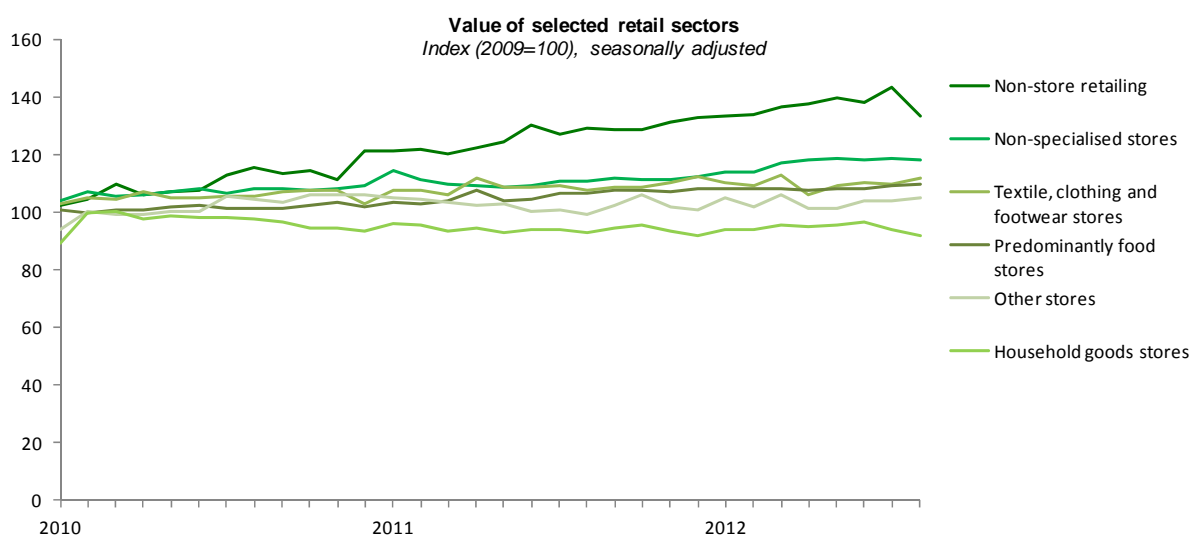
#### 3.1 Has the Olympics boosted consumer confidence?

It appears that the Olympics did not have the desired effect on levels of consumer confidence. Data from the GfK consumer confidence survey showed that the net level of overall consumer confidence in July, August and September was at much the same level it has been over the rest of the last year.

#### 3.2 Did we buy more?

The *Sunday Trading (London Olympic Games and Paralympic Games) Act* led to a temporary eight-week suspension of restrictions surrounding Sunday trading for large stores from 22 July to 9 September. The Government hoped that this would show that the UK is 'open for business', offering tourists the chance to spend more money in the UK, and suggested that this had the potential for a considerable economic impact.

In August 2012 – the month at the heart of the Olympic period – the value of retail sales increased by 3.0% compared to the year before (with a 0.2% rise on July 2012). The volume of retail sales rose less quickly, with a 2.7% increase year on year (volumes fell by 0.2% on July). The figures are however broadly in line with longer-term trends.



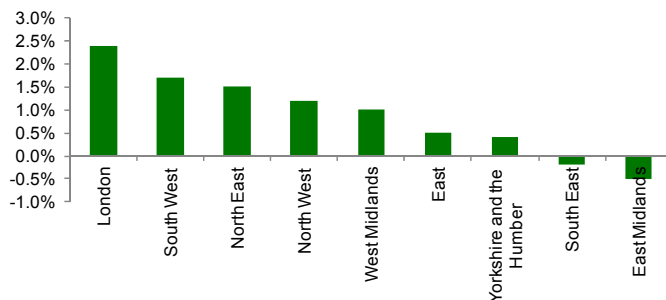
There is some indication of an Olympic effect in certain sectors. Department stores (non-specialised stores), textile, clothing and footwear stores (potentially including some sports clothes) and 'other stores' (including stores selling sporting goods and toys) saw an increase in sales in August 2012 compared with the previous year. Feedback from 'other stores' suggests that sales were boosted by an increase of sales of football shirts due to the start of the new season and Euro 2012 but also because of increased sales due to the Olympics.

However, not all retail sectors have reported an Olympic bounce. In August 2012, the value of internet sales as a proportion of all retailing fell by 0.9%-points month-on-month, to 8.1% of all retail sales (except automotive fuel). Online retailers suggested that this fall might be linked to consumers watching the Olympics coverage rather than visiting online shops.

### 3.3 Was there a bounce in employment?

The Olympics also offered the potential for a boost in employment in the UK, including in temporary jobs across the Olympic period.

% change in employment between Feb-Apr 2012 and May-Jul 2012  
Seasonally adjusted



In the three months to July 2012, the employment rate for people aged 16-64 was 71.2% in the UK, an increase of 0.8% on a year ago. In total, there were 29.56 million people in employment, up 236,000 from the three months to April and up 431,000 on a year earlier.

Early evidence suggests that this increase could – in part – be due to an Olympic effect. Of the 236,000 increase in employment across the

UK in the three months to July, 91,000 was due to an increase in employment in London.

It is still too early to make a full judgement on the effect the Olympics had on the economy. The August retail data give a mixed picture, but do not suggest a large effect on sales, although the heightened interest in sport may have impacted on some sectors. Data on the labour market in London does suggest that the Olympics may have had an effect on the levels of employment, with an increase in the number of people in work. Consumer confidence has however not moved.

The release of a wider set of data over the next few months will allow us to see if the “cheer of the Games” did have a wider effect on the economy or if the Governor was right, and that ultimately the Games didn’t change the underlying economic situation.

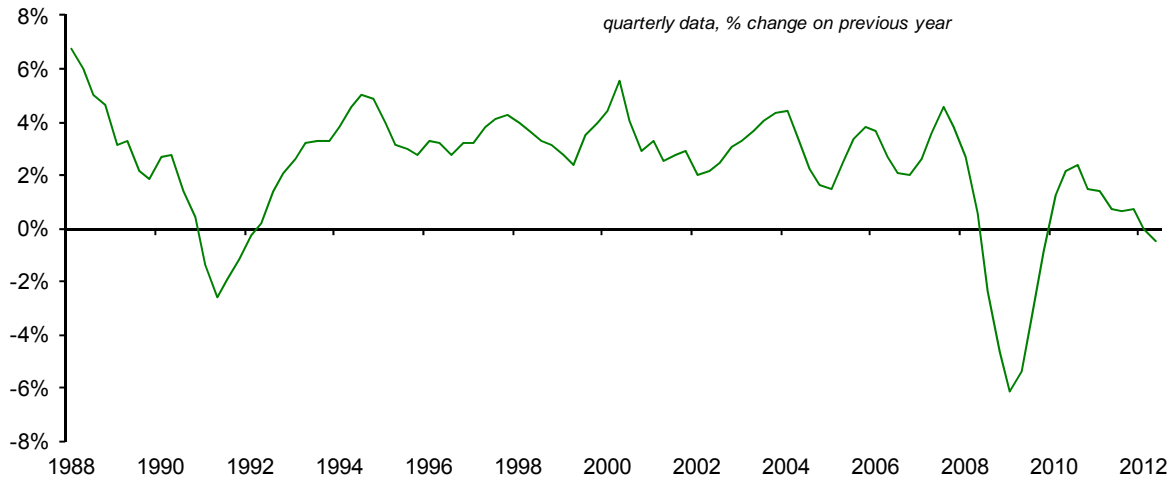
Aliyah Dar, Economic Policy and Statistics



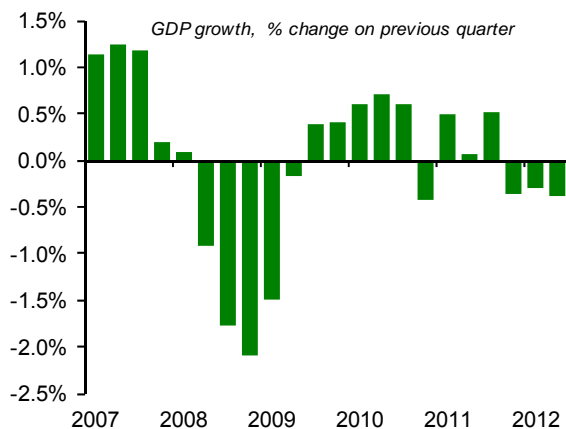
## A1: Gross Domestic Product

The economy contracted by an estimated 0.4% in Q2 2012, revised from the previous estimate of a contraction of 0.5%. In September, HM Treasury's average of independent economic forecasts of GDP growth for 2012 was -0.3% (downgraded from -0.2% in the August edition) and 1.2% 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		Real GDP (inflation-adjusted)	
	£ billion	% change on year	% change on quarter	% change on year
2009	1,402	-2.7	...	-4.0
2010	1,467	4.6	...	1.8
2011	1,516	3.4	...	0.8
2011 Q1	377.1	4.4	0.5	1.4
Q2	378.6	3.7	0.1	0.7
Q3	380.7	3.2	0.5	0.6
Q4	382.8	3.1	-0.4	0.7
2012 Q1	382.8	1.5	-0.3	-0.1
Q2	386.7	2.1	-0.4	-0.5

Source: ONS, series: YBHA, ABMI

- The UK economy is still in recession and has contracted for three quarters in a row. In Q2 2012, real GDP was estimated to be 0.5% below what it was in Q2 2011. GDP remains 4.1% below its pre-recession level (Q1 2008).
- In Q2 2012, output of the production industries decreased by an estimated 0.7%, construction sector output decreased by 3.0%, manufacturing output decreased by 0.8%, and output of the service industries decreased by 0.1%, compared with Q1 2012, in chained volume measures.
- The ONS suggested that the extra bank holiday for the Jubilee in June 2012 and the bad weather between April and June 2012 may have "added additional uncertainty" to the estimate for Q2 2012.

**Contact:** Grahame Allen, x3977

**Updates:** HMT, [Comparison of Independent Forecasts](#), 17 Oct  
ONS, [GDP: Preliminary Estimate - Q3 2012](#), 25 Oct

## A2: GDP: International Comparisons

UK output contracted by 0.4% in Q2 2012, while US output expanded by 0.4% over the same period. In the eurozone as a whole, output contracted by 0.2% in Q2 2012, though Germany saw its output expand by 0.3%

### Real GDP (% changes)

	change on prev. year				change on prev. quarter			
	11Q3	11Q4	12Q1	12Q2	11Q3	11Q4	12Q1	12Q2
US	1.6	2.0	2.4	2.3	0.3	1.0	0.5	0.4
Japan	-0.7	-0.6	2.8	3.6	1.8	0.1	1.3	0.3
UK	0.5	0.6	-0.2	-0.5	0.6	-0.4	-0.3	-0.4
Germany	2.7	1.9	1.2	1.0	0.4	-0.1	0.5	0.3
France	1.5	1.2	0.3	0.3	0.3	0.0	0.0	0.0
Eurozone	1.3	0.7	0.0	-0.4	0.1	-0.3	0.0	-0.2
G7	1.2	1.3	1.7	1.7	0.6	0.4	0.4	0.2
OECD	1.7	1.5	1.7	..	0.5	0.4	0.5	..

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

In [July 2012](#), the IMF lowered their 2012 forecast for world growth by 0.1 percentage points to 3.5%. 2012 growth forecasts for the UK were lowered by 0.6 percentage points and for the US by 0.1 percentage points. The 2012 forecast for the eurozone was left unchanged.

Major emerging markets also saw downward revisions to their 2012 growth forecast: China's was revised down by 0.2 percentage points, India's by 0.7 percentage points and Brazil's by 0.6 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.

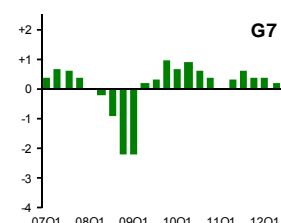
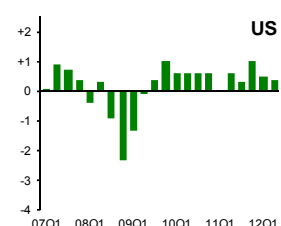
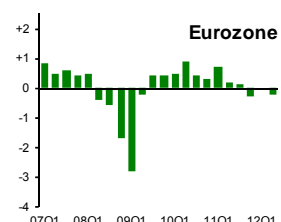
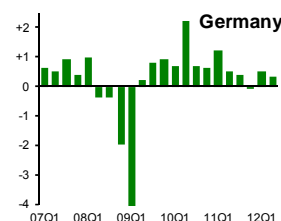
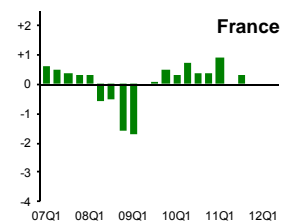
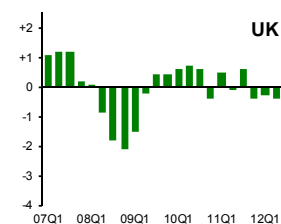
The [OECD's May forecast](#) made only slight revisions to its November projections for most major economies. However, eurozone growth in 2012 was revised down from 0.2% to -0.1%, and for 2013 from 1.4% to 0.9%.

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

	IMF (Jul 12)		EC (May 12)		OECD (May 12)	
	2012	2013	2012	2013	2012	2013
UK	0.2	1.4	0.5	1.7	0.5	1.9
France	0.3	0.8	0.5	1.3	0.6	1.2
Germany	1.0	1.4	0.7	1.7	1.2	2.0
Eurozone	-0.3	0.7	-0.3	1.0	-0.1	0.9
US	2.0	2.3	2.0	2.1	2.4	2.6
Japan	2.4	1.5	1.9	1.7	2.0	1.5
<b>OECD</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>1.6</b>	<b>2.2</b>
China	8.0	8.5	..	..	8.2	9.3
India	6.1	6.5	..	..	7.1	7.7
Brazil	2.5	4.6	..	..	3.2	4.2
<b>World</b>	<b>3.5</b>	<b>3.9</b>	<b>..</b>	<b>..</b>	<b>..</b>	<b>..</b>

Sources: IMF Jul 2012 WEO update; EC EEF; OECD Economic Outlook No.91

### Quarter-on-quarter growth rates



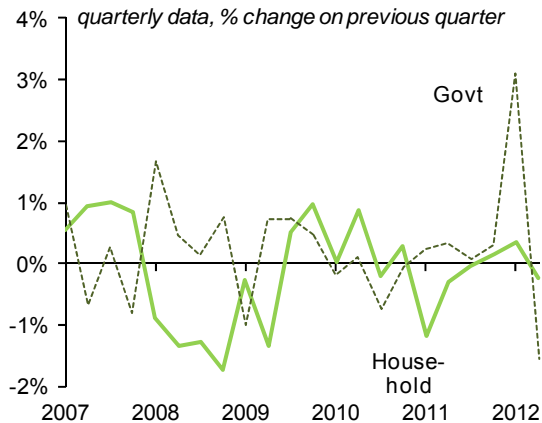
Contact: Gavin Thompson, x2042

Update: OECD [Main Economic Indicators](#), 8 Oct 2012  
EC [Economic Forecast](#), 7 Nov 2012  
IMF [World Economic Outlook](#), Oct 2012

### A3: Components of GDP

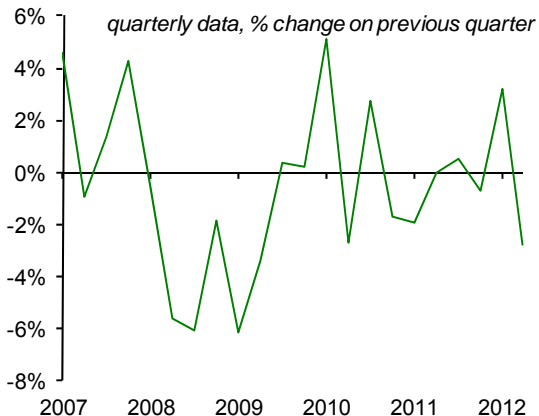
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 62% of the total in 2011. Government consumption accounted for 22% and investment for 14%.

#### Household consumption and government consumption



- In Q2 2012, household consumption fell by 0.2% in real terms compared with Q1 2012.
- Government consumption fell by 1.6% in Q2 2012.
- Exports fell by 1.1% while imports rose by 1.4% in Q2 2012.
- GDP fell by 0.4% in Q2 2012, revised from an earlier estimate of a fall of 0.5%.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- In Q2 2012 GFCF fell by 2.7%, the biggest quarterly fall since Q2 2010. The main reason was a fall in investment in dwellings.
- Business investment, a component of overall GFCF, increased by 0.9% in Q2 2012.

#### Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2010 (annual % change)	1.3%	0.4%	3.5%	6.4%	8.0%	1.8%
2011 (annual % change)	-1.1%	0.2%	-2.4%	4.5%	0.5%	0.9%
2011 Q1	-1.2%	0.2%	-1.9%	1.6%	-2.5%	0.5%
2011 Q2	-0.3%	0.3%	0.0%	-2.3%	-0.5%	0.1%
2011 Q3	0.0%	0.1%	0.5%	0.0%	0.3%	0.5%
2011 Q4	0.2%	0.3%	-0.7%	3.0%	1.6%	-0.4%
2012 Q1	0.3%	3.1%	3.2%	-1.6%	-0.1%	-0.3%
2012 Q2	-0.2%	-1.6%	-2.7%	-1.1%	1.4%	-0.4%

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](#), 27 November

## 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 (Q1 2012).

### Output

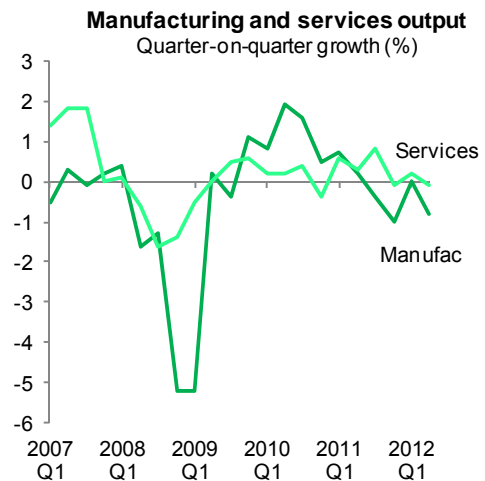
#### GVA growth by industry

Seasonally adjusted, chained volume measures at basic prices

	Manufacturing	Construction	Services	Total GDP
<i>Annual % changes</i>				
2010	3.8	7.9	1.1	1.8
2011	2.0	2.6	1.2	0.9
2011 Q4	-0.5	1.4	1.6	0.7
2012 Q1	-1.2	-4.6	1.2	-0.1
2012 Q2	-2.2	-9.0	0.8	-0.5
<i>Quarter-on-quarter % changes</i>				
2011 Q4	-1.0	0.2	-0.1	-0.4
2012 Q1	0.0	-5.9	0.2	-0.3
2012 Q2	-0.8	-3.0	-0.1	-0.4

Source: ONS Series L2KX, L2N8, L2NC, YBEZ

- Manufacturing output fell by 0.8% in the second quarter of 2012. Services fell by 0.1%. Construction output fell by 3.0%, following a 5.9% fall in Q1.
- The ONS suggested that the extra bank holiday for the Jubilee and the bad weather may have had an impact in some sectors.
- Manufacturing output rose by 2.0% in 2011 and services by 1.2%. Construction output grew by 2.6%.
- Output in the business services and finance sector was unchanged in Q2 2012.



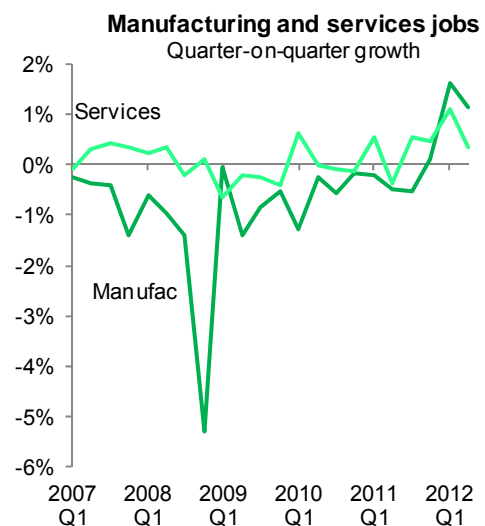
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	Total
<i>Annual % changes</i>				
2010 Q2	-2.8%	-6.3%	0.0%	-0.5%
2011 Q2	-1.4%	-4.4%	0.0%	-0.5%
2012 Q1	0.7%	0.3%	1.8%	1.6%
2012 Q2	2.4%	-1.2%	2.5%	2.3%
<i>Quarter-on-quarter</i>				
2012 Q1	1.6%	-0.8%	1.1%	1.0%
2012 Q2	1.1%	-1.7%	0.3%	0.3%
<i>Thousands</i>				
2012 Q2	2,594	1,996	26,528	31,935

Source: ONS series JWR7, JWS2, JWT8, DYDC



- The number of manufacturing jobs has risen. In Q2 2012, the manufacturing workforce grew by 1.1% on the previous quarter and was 2.4% higher than a year earlier.
- The number of jobs in the construction sector decreased by 1.7% in Q2 2012, while the services workforce grew by 0.3%.
- The public administration, health and education workforce fell by 1.4% in the year to Q2 2012.

**Contact:** Lucinda Maer, x3841

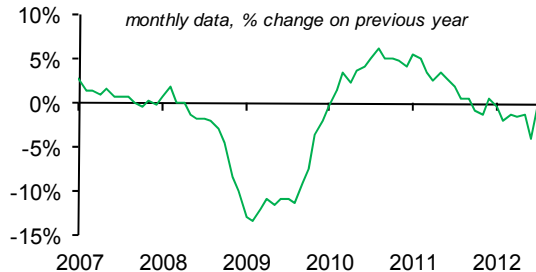
**Update:** ONS, [Workforce Jobs](#), 17 October 2012



## 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 leading indicator of manufacturing output. The Society of Motor Manufacturers and Traders (SMMT) publishes monthly vehicle production statistics.

### Manufacturing Output

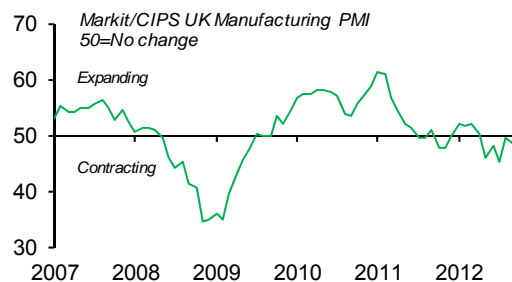


	Index Value (2009=100)	% change over month	% change over 12 months
2010	103.8	...	3.8
2011	106.0	...	2.1
2012 Apr	104.2	-1.0	-1.4
May	105.7	+1.4	-1.2
Jun	102.6	-2.9	-3.9
Jul	105.9	+3.2	-0.5

Source: ONS, series K22A

- Manufacturing output increased by 3.2% in July 2012 compared with June 2012. Manufacturing output fell by 0.5% in July 2012 compared to July 2011.
- Total industrial production (including mining and utilities) increased by 2.9% compared with June 2012. Total production was 0.8% lower in July 2012 than in July 2011.
- The ONS urged caution when using the June 2012 figures due to changes in public holidays that month.

### Manufacturing Purchasing Managers' Index

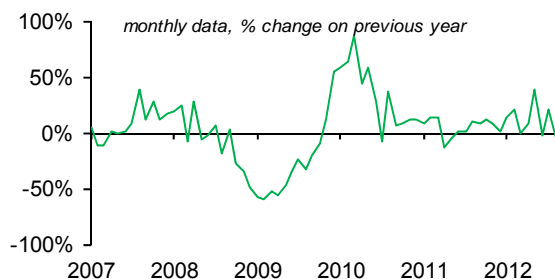


		Index	Monthly change
2010	Sep	53.5	...
2011	Sep	50.8	...
2012	Jun	48.2	+2.3
	Jul	45.2	-3.0
	Aug	49.6	+4.4
	Sep	48.4	-1.2

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

- The Markit/CIPS UK Manufacturing PMI fell to 48.4 in September from 49.6 in August (where 50.0 is no change).
- The index has been below 50 for five successive months. The average PMI in Q3 2012 is its lowest since Q2 2009.

### Vehicle Production



		Number '000s	% change over 12 months
2010		1,393	+27.8
2011		1,465	+5.1
2011	Aug	93	+10.6
2012	Jun	128	-2.2
	Jul	129	+20.2
	Aug	86	-7.0

Source: SMMT, not seasonally adjusted

- UK vehicle production was 86,000 in August 2012, 7.0% lower than August 2011. SMMT said that volumes were traditionally low and variable in August. Continued weak demand in Europe was a concern but new investment and strong demand from better performing global markets should ensure growth in output.
- 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](#), 9 Oct  
Markit/CIPS [UK Manufacturing PMI](#), 1 Nov  
SMMT, [Vehicle Production](#), mid Oct

## 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.

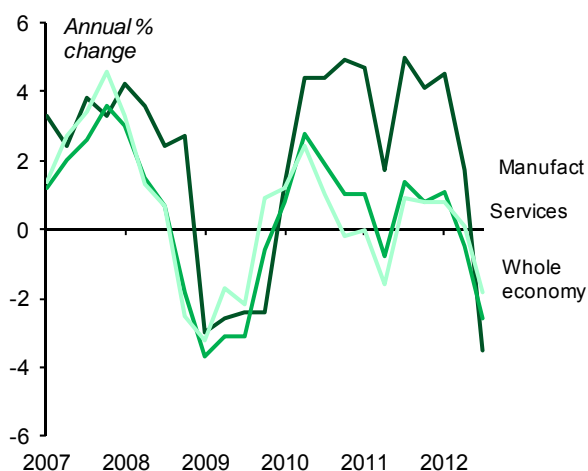
### UK productivity by sector

- Productivity across the whole UK economy, measured by output per hour, is estimated to have fallen by 2.6% over the last year and by 0.9% 2012 Q1 to 2012 Q2.
- Output per hour in manufacturing fell by 3.5% between 2011 Q2 and 2012 Q2; this is the largest fall since 2008 Q4. Services productivity fell by 1.8%, the largest fall since 2009 Q2.

#### Output per hour, seasonally adjusted

	Manufact.	Services	Whole economy
<i>Annual % change</i>			
2009	-1.5	-0.5	-1.5
2010	4.6	0.8	1.7
2011	3.8	0.3	0.6
Q1	1.7	-1.6	-0.8
2011 Q2	5.0	0.9	1.4
Q3	4.1	0.8	0.8
Q4	4.5	0.8	1.1
Q1	1.7	0.1	-0.5
2012 Q2	-3.5	-1.8	-2.6
<i>Latest q-on-q % change</i>			
	-0.8	-1.5	-0.9

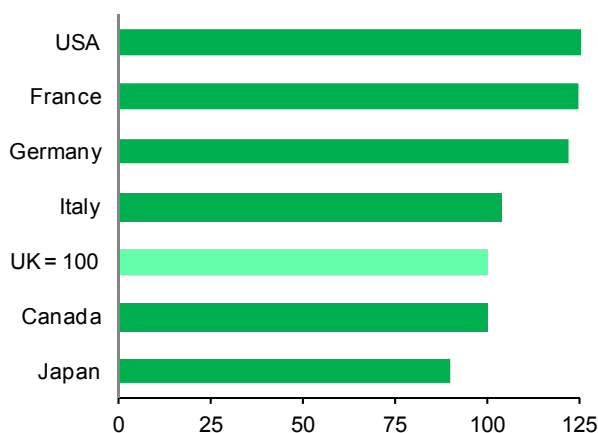
Source: ONS series LZVD, DJK8, DJQ3



- Within manufacturing, output per hour in Chemicals and Pharmaceuticals fell the most, by 15.6% between 2011 Q2 and 2012 Q2. Output per hour in Machinery & Equipment increased by 8.8% over the same period.

### International comparisons

#### GDP per hour, 2011, index where UK=100



- International comparisons of productivity are presented as an index where the UK=100.
- In 2011, based on GDP per hour, the UK came fifth of the G7 countries, with the USA top and Japan bottom. UK productivity was 15% below the G7 average, the widest productivity gap since 1995.
- On a per hour worked basis the productivity gap between the UK and the USA in 2011 was at its widest since 1992.

Contact: Grahame Allen, x3977

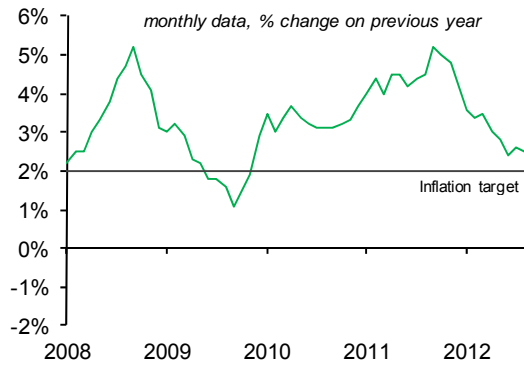
Update: ONS, [Labour Productivity](#), 3 Jan 2013  
 ONS, [International Comparisons](#), Feb 2013

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 2.5% in August, down from 2.6% in July and above the Bank of England's 2% target for the thirty-third successive month.

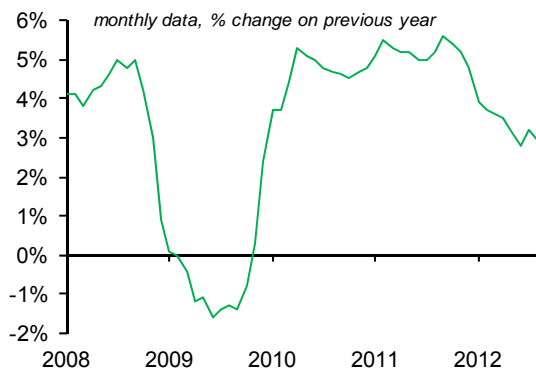
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI).

### Consumer Prices Index (CPI)



- The CPI annual inflation rate was 2.5% in August, down from 2.6% in July (July had been the first rise in CPI inflation since March 2012).
- The main upward pressure came from housing & household services, particularly gas and rent, where charges, overall, rose by 13.4% and 3.4% respectively over the twelve months to August.
- The RPI (all items) measure of annual inflation was 2.9% in August, down from 3.2% in July (July had been the first rise in RPI inflation since it peaked at 5.6% in Sept 2011).

### Retail Prices Index (RPI)



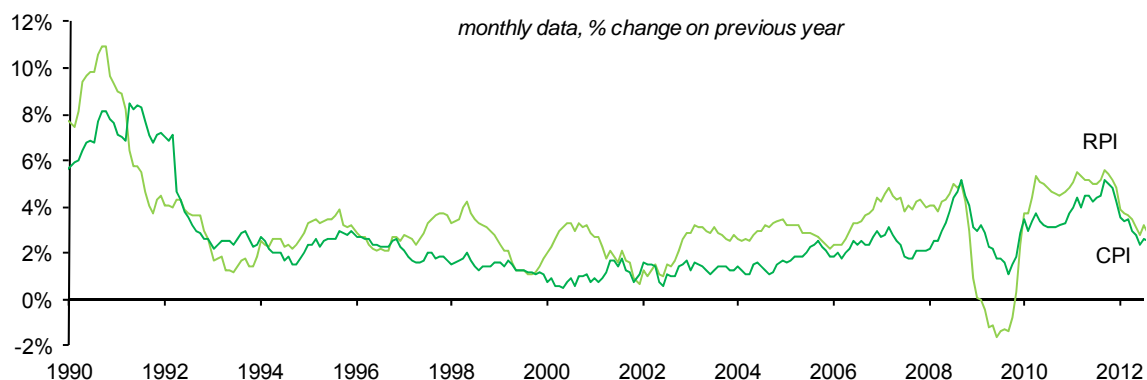
### Price Indices

% change on a year ago

	CPI	RPI
2009	2.2	-0.5
2010	3.3	4.6
2011	4.5	5.2
2012		
Mar	3.5	3.6
Apr	3.0	3.5
May	2.8	3.1
Jun	2.4	2.8
Jul	2.6	3.2
Aug	2.5	2.9

Source: ONS database, series: D7G7, CZBH

### CPI and RPI since 1990

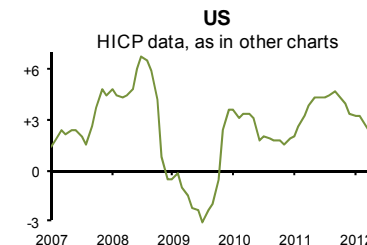
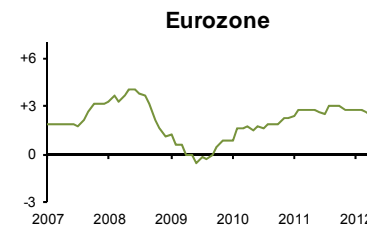
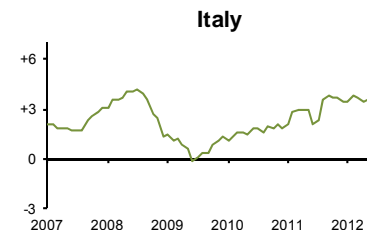
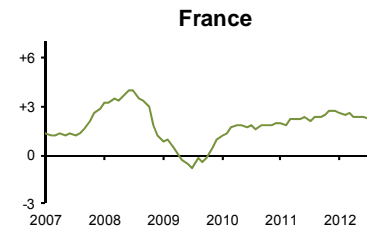


## B2: Inflation: International

UK inflation, measured by the Consumer Prices Index (CPI), remained positive throughout the recession. Other major economies, including the US, France and Germany, saw deflation (negative inflation, or falling prices).

Inflation in the EU, some other European countries, and the US, can be compared using the standard Harmonised Index of Consumer Prices (HICP), or the CPI as it is known in the UK. National inflation calculations methods differ from this standard to varying degrees. For example, the US' national measure is based on prices in urban areas only, and unlike the HICP includes costs of owner-occupied housing. Care should therefore be taken when making comparisons between national and harmonised measures.

- In the year to August, UK inflation was 2.5%, down from 2.6% in July. The Bank of England's UK inflation target is 2%.
- The flash estimate of eurozone inflation in the year to September 2012 was 2.7%, up from 2.6% in August. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- Sweden had the lowest annual inflation rates in the EU in August, at 0.9%. The highest rate was in Hungary, at 6.0%.
- HICP annual inflation in the US in the year to July was 1.4%, down from 1.5% in June. Using its national definition, US inflation in the year to July was 1.4%, down from 1.7% in June.



### Inflation rates: selected countries

Annual % change in consumer prices

	2009	2010	2011	May-12	Jun-12	Jul-12	Aug-12
<b>HICP (ONS/Eurostat)</b>							
UK	2.2	3.3	4.5	2.8	2.4	2.6	2.5
Eurozone	0.3	1.6	2.7	2.4	2.4	2.4	2.6
EU	1.0	2.1	3.1	2.5	2.5	2.5	2.7
France	0.1	1.7	2.3	2.3	2.3	2.2	2.4
Germany	0.2	1.2	2.5	2.2	2.0	1.9	2.2
Greece	1.3	4.7	3.1	0.9	1.0	0.9	1.2
Italy	0.8	1.6	2.9	3.5	3.6	3.6	3.3
Spain	-0.2	2.0	3.1	1.9	1.8	2.2	2.7
US	1.0	2.1	3.1	1.5	1.5	1.4	:
<b>National definitions (OECD)</b>							
Canada	0.3	1.8	2.9	1.2	1.5	1.3	..
Japan	-1.3	-0.7	-0.3	0.2	-0.2	-0.4	..
US	-0.4	1.6	3.2	1.7	1.7	1.4	..
G7	-0.1	1.4	2.6	1.7	1.6	1.4	..
OECD	0.5	1.9	2.9	2.1	2.0	1.9	..
Brazil	4.9	5.0	6.6	5.0	4.9	5.2	5.2
China	-0.7	3.3	5.4	3.0	2.2	1.8	2.0
India	10.9	12.0	8.9	10.2	10.1	9.8	..
Russia	11.7	6.9	8.4	3.6	4.3	5.6	..

Source: ONS, Eurostat & stat.OECD database

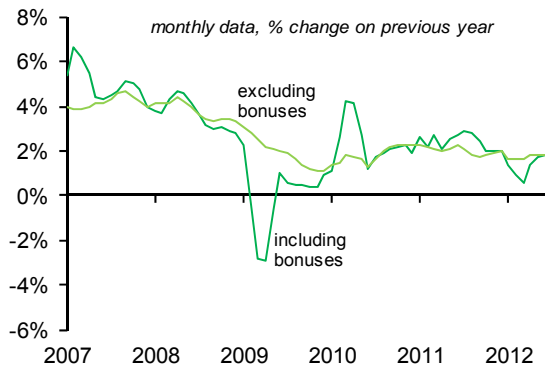
**Contact:** Gavin Thompson, x2042

**Updates:** ONS [Consumer Prices bulletin](#) (UK), 16 Oct 2012  
Eurostat, [HICP full release](#), 16 Oct 2012  
Eurostat, [Flash estimate](#) (Oct), 31 Oct 2012

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 1.5% in July compared with a year ago, down from 1.8% in June. Average weekly earnings excluding bonuses rose by 1.9% in the three months to July compared with a year ago, down 0.1 percentage points on June. Inflation as measured by the CPI was 2.6% in July 2012.

#### Average Earnings, Whole Economy



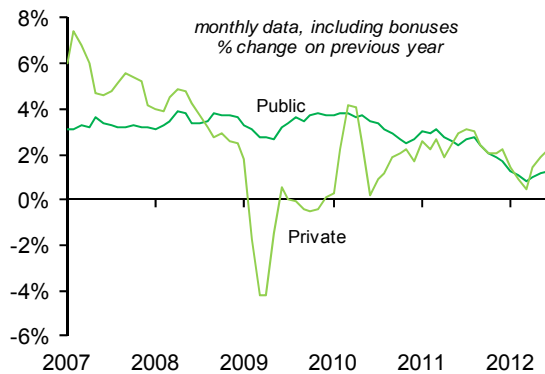
#### Average Earnings, Including Bonuses

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

		Private	Public	Manuf.	Serv.	Total
2009	Jul	0.0	3.4	0.0	0.8	0.6
2010	Jul	0.9	3.4	4.3	1.6	1.7
2011	Jul	3.1	2.7	1.7	3.3	2.9
2012	Feb	0.9	1.1	1.4	1.0	0.9
	Mar	0.5	0.8	0.8	0.6	0.6
	Apr	1.4	1.0	1.4	1.4	1.4
	May	1.9	1.2	1.6	1.7	1.7
	Jun	2.2	1.3	2.7	1.7	1.8
	Jul	1.8	1.2	2.6	1.3	1.5

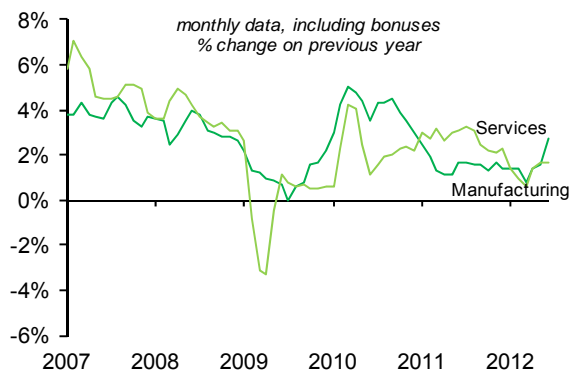
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 1.8% in the three months to July, compared with 1.2% in the public sector. Excluding financial services, public sector earnings rose by 2.0%.
- Average weekly earnings (including bonuses) in July in the public sector were £485 compared with £468 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

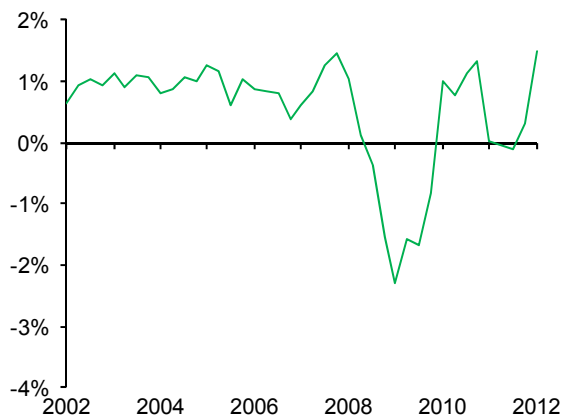


- Average total pay growth (including bonuses) in the manufacturing sector was 2.6% in the three months to July, compared with 1.3% in the services sector.
- Average weekly earnings (including bonuses) in July in the manufacturing sector were £545 compared with £456 in the services sector.
- In 2011, 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

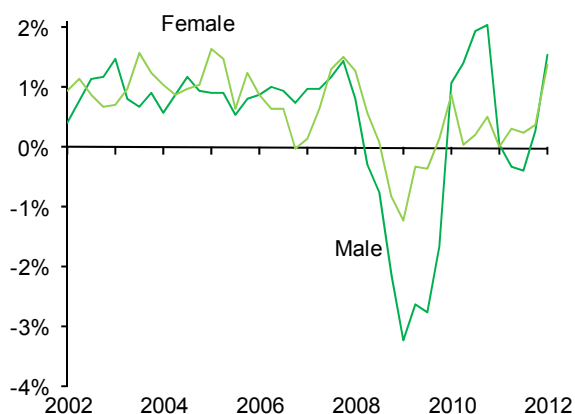
Employment rose by 236,000 over the quarter to July 2012, to 29.56 million. This is the highest number of people in employment since the pre-recession peak of 29.57 million in the three months to May 2008.

### Total employment (% change on previous year)



- Over the past year, employment rose among all age groups featured in the table below. It also rose over the last quarter for all the age groups below.
- The number of self-employed people rose by 52,000 over the quarter, to 4.22 million. The number of employees rose by 144,000 over the same period, to 25.07 million.
- The number of people employed part-time rose by 134,000 over the quarter, to 8.12 million.
- The number of people employed full-time rose by 102,000 to 21.44 million.

### Employment by gender (% change on previous year)



- The number of men in employment increased by 109,000 over the last quarter to 15.85 million.
- The number of women in employment increased by 128,000 over the last quarter to 13.71 million.
- Excluding reclassified FE workers, public sector employment fell by 39,000 in the three months to June 2012, to 5.66 million or 19.2% of all employment.
- Excluding reclassified FE workers, private sector employment increased by 275,000 in the three months to June 2012, to 23.90 million or 80.8% of all employment.

### Employment by age group

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

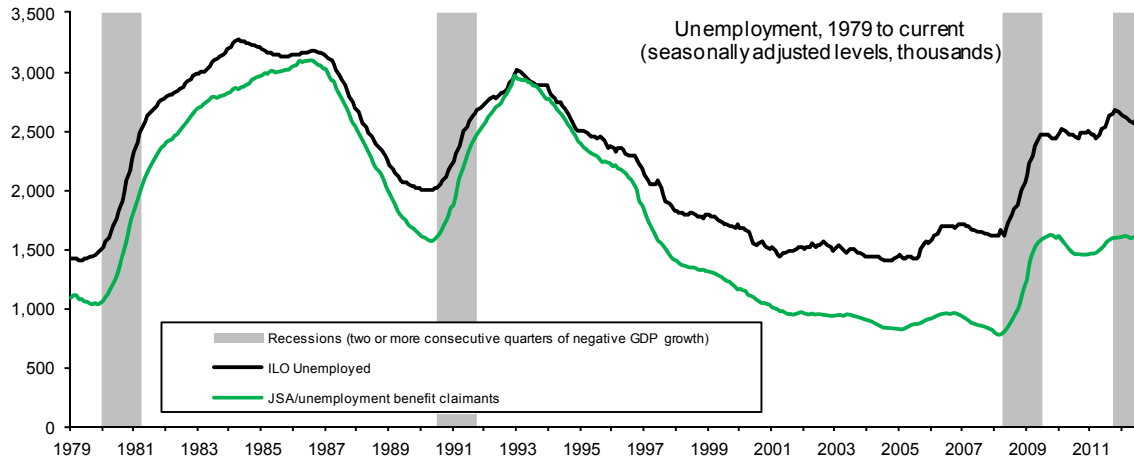
	Total	16-24	25-49	50-64	65+
May-Jul 2010	29,118	3,809	17,131	7,313	864
May-Jul 2011	29,130	3,675	17,226	7,369	859
Aug-Oct 2011	29,102	3,635	17,205	7,402	860
Nov-Jan 2012	29,141	3,618	17,234	7,424	867
Feb-Apr 2012	29,324	3,641	17,308	7,468	907
May-Jul 2012	29,560	3,699	17,405	7,501	955
% change on previous 3 months	+0.8	+1.6	+0.6	+0.4	+5.4
% change on previous year	+1.5	+0.7	+1.0	+1.8	+11.2

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 May to July 2012 was 2,592,000 (8.1% of all economically active) – down 7,000 from the previous quarter. (UK, seasonally adjusted.)**



[Source: ONS, *Labour Market Statistics*]

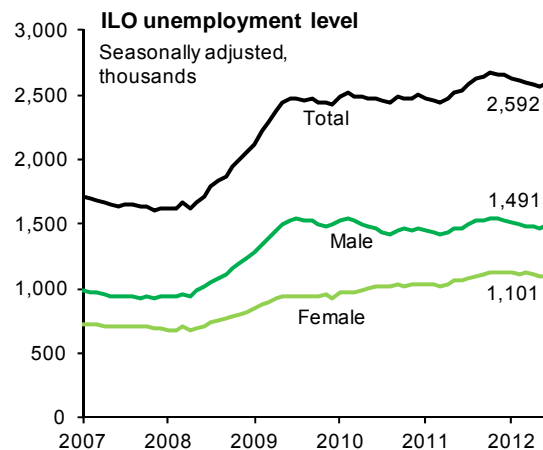
### ILO unemployment (May to July 2012)

There were 904,000 people unemployed for more than 12 months, an increase of 22,000 on the previous quarter when there were 882,000 in this group.

The unemployment level among 16- to 24-year-olds was 1,017,000, up 7,000 on the previous quarter. (See table below.)

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

The seasonally-adjusted monthly JSA claimant count decreased by 15,000 between July and August 2012 to 1,570,500.



### 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	(%)
May-Jul 2007	1,643	5.3	711	14.6	685	3.8	232	3.2	15	2.4
May-Jul 2008	1,719	5.5	727	14.8	747	4.1	232	3.1	13	1.8
May-Jul 2009	2,469	7.9	944	19.8	1,151	6.3	351	4.6	23	3.0
May-Jul 2010	2,475	7.8	923	19.5	1,154	6.3	379	4.9	19	2.2
May-Jul 2011	2,531	8.0	980	21.0	1,165	6.3	364	4.7	22	2.5
Aug-Oct 2011	2,637	8.3	1,026	22.0	1,200	6.5	383	4.9	30	3.3
Nov-Jan 2012	2,652	8.3	1,038	22.3	1,188	6.4	402	5.1	24	2.7
Feb-Apr 2012	2,599	8.1	1,010	21.7	1,167	6.3	394	5.0	27	2.9
<b>May-Jul 2012</b>	<b>2,592</b>	<b>8.1</b>	<b>1,017</b>	<b>21.6</b>	<b>1,162</b>	<b>6.3</b>	<b>390</b>	<b>4.9</b>	<b>23</b>	<b>2.3</b>
% change on quarter	-0.3		+0.7		-0.5		-1.1		-15.3	
% change on year	+2.4		+3.8		-0.3		+7.2		+5.9	

Source: ONS, *Labour Market Statistics*.

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

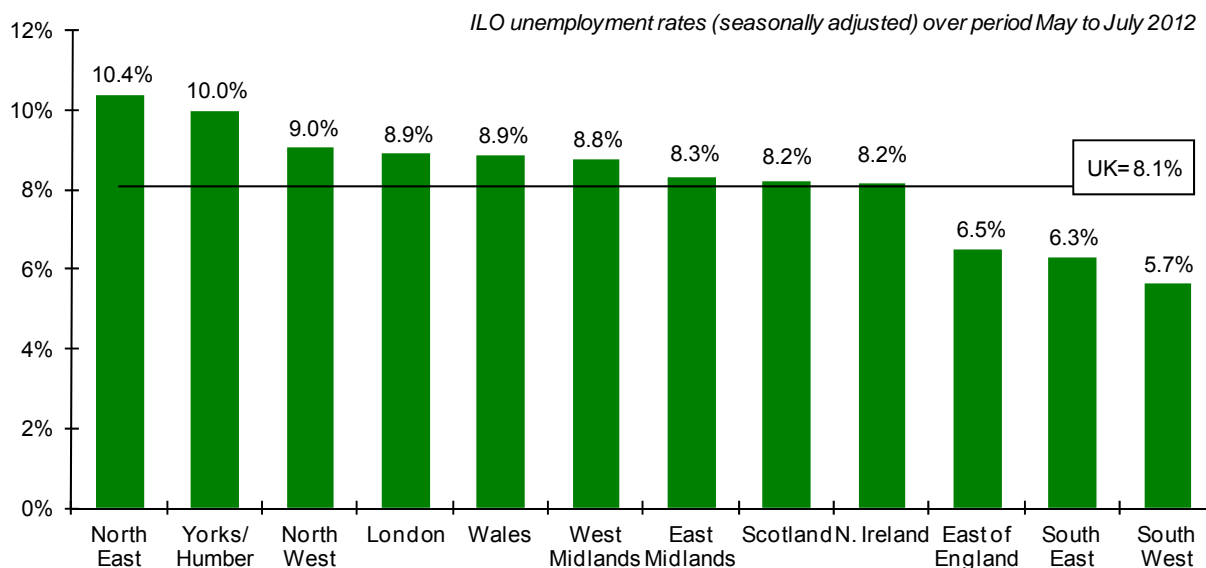
Contact: Lorna Booth, x2883

Update: ONS, *Labour Market Statistics*, 17 October 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 May to July 2012, the North East had the highest unemployment rate, at 10.4% of the economically active population. The lowest rate over the same period was 5.7% in the South West.



- The largest increase in unemployment over the last quarter was in Yorkshire and the Humber (+23,000). The largest decrease was in London (-22,000).
- The seasonally-adjusted JSA claimant count increased in one country, and decreased in eleven regions and countries in August, compared with July 2012.

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

	ILO unemployment				JSA claimant count	
	May - July 2012		Change in level		August 2012	
	Level (000s)	Rate (%) <sup>(a)</sup>	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	134	10.4	-11	-4	93.5	-0.2
North West	316	9.0	-8	+27	198.4	-2.2
Yorkshire & Humber	272	10.0	+23	+28	164.9	-0.7
East Midlands	193	8.3	+5	+6	108.6	-0.9
West Midlands	237	8.8	+16	-1	163.8	-1.2
East of England	201	6.5	-9	+4	113.6	-1.3
London	377	8.9	-22	-32	216.6	-5.5
South East	283	6.3	-6	+24	138.2	-1.4
South West	153	5.7	-9	-24	88.6	-0.9
Wales	132	8.9	+1	+9	79.3	-0.2
Scotland	223	8.2	+4	+16	141.9	-0.6
Northern Ireland	71	8.2	+10	+7	63.1	+0.1

Source: ONS, *Labour Market Statistics*

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

**Contact:** Lorna Booth, x2883

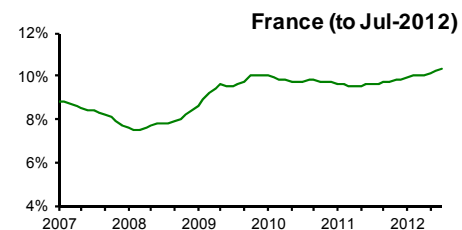
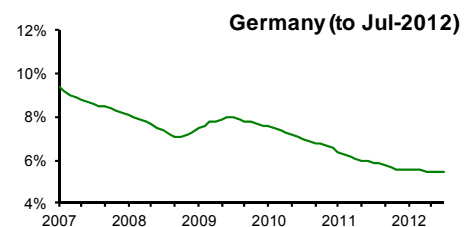
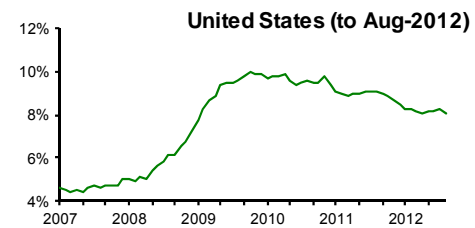
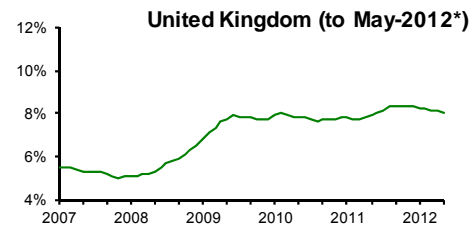
**Update:** ONS, *Labour Market Statistics*, 17 October 2012



## 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 in Q2 2012 was 7.9%, down from 8.1% on the previous quarter. This is below the rate of France and Italy (10.1% and 10.6% respectively), but above that of Germany (5.5%).
- In the US, unemployment fell from 8.3% to 8.2% between Q1 2012 and Q2 2012. Compared with a year ago unemployment is 0.8%-points lower. More recent monthly data show unemployment to have fallen to 8.1% in August 2012.
- In the eurozone, unemployment rose from 10.9% to 11.3% between Q1 2012 and Q2 2012, driven by rising unemployment in France, Italy and Spain.
- Spain has the highest harmonised unemployment rate among the 33 OECD member states (24.7% in Q2 2012), having risen particularly sharply over the last four years (up from 8.1% in Q1 2007). Ireland has also seen a sharp rise over the same period (up from 4.5% to 14.7% in Q2 2012). This compares with a 2.1 percentage point rise in unemployment in the OECD as a whole since the start of 2007 (from 5.8% to 7.9%) and a 3.0 percentage-point rise in the euro zone (from 7.9% to 10.9%) over the same period.
- Norway has the lowest unemployment rate in the OECD (3.2%).
- The most recent forecasts published by the OECD ([Economic Outlook no. 91, May 2012](#)) suggested the UK unemployment rate would be 8.6% in 2012 (an downward revision of 0.2 percentage points from the November 2011 forecast), and 9.0% in 2013. The respective forecasts for the euro zone were 10.8% in 2012 and 11.1% in 2013, and for the OECD as a whole 8.0% and 7.9%.



\* latest figure refers to quarterly survey conducted over Apr-Jun 2012

### Unemployment

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

	2009	2010	2011	2010		2011				2012	
				Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Canada	8.3	8.0	7.4	8.0	7.7	7.7	7.5	7.3	7.5	7.4	7.3
France	9.5	9.8	9.7	9.7	9.7	9.6	9.6	9.6	9.8	10.0	10.1
Germany	7.8	7.1	5.9	6.9	6.7	6.3	6.0	5.8	5.7	5.6	5.5
Italy	7.8	8.4	8.5	8.3	8.3	8.0	8.0	8.5	9.2	10.0	10.6
Japan	5.1	5.1	4.6	5.0	5.0	4.8	4.6	4.4	4.5	4.5	4.4
UK	7.6	7.8	8.0	7.7	7.8	7.7	7.9	8.3	8.3	8.1	7.9
US	9.3	9.6	9.0	9.5	9.6	9.0	9.0	9.1	8.7	8.3	8.2
Euro zone	9.6	10.1	10.2	10.1	10.1	9.9	9.9	10.2	10.6	10.9	11.2
G7	8.1	8.2	7.7	8.1	8.1	7.7	7.7	7.7	7.6	7.5	7.5
OECD	8.4	8.6	8.2	8.3	8.2	8.0	7.9	8.0	8.0	7.9	7.9

Source: OECD, Harmonised Unemployment Rates

Contact: Gavin Thompson, x2042

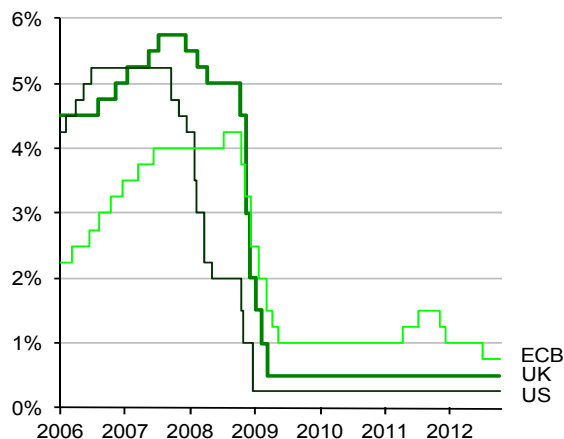
Updates: OECD, [Harmonised Unemployment Rates](#), 8 Oct

## 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 continuing weak economic data, QE was increased in October 2011, February 2012 and July 2012 to a total of £375 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

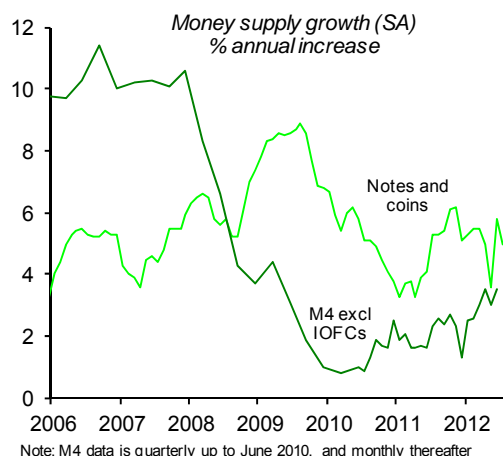
Source: Bank of England

- From November 2011, the European Central Bank's official interest rate was lowered in three steps from 1.50% to 0.75%. The current rate of 0.75% is a record low for the ECB rate.
- 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. From an initial £75 billion, QE was increased to £200 billion by November 2009. QE was again increased by £75 billion in October 2011, £50 billion in February 2012 and £50 billion in July 2012, to a total of £375 billion. In August 2012, the Bank announced that "inflation was still slightly above 2% but likely to remain close to the target in the coming months" and that therefore QE would remain at £375 billion.
- The majority (over 99%) of assets purchased by the Bank of England through QE have been gilts (UK Government securities).

### Money supply



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

- In its August 2012 *Inflation Report*, the Bank of England said that although money supply growth "remains subdued", it grew faster than nominal GDP in Q1 (1.8%) for the first time since 2009.
- Annual growth in M4 excluding intermediate other financial corporations (a measure monitored by the Bank of England Monetary Policy Committee) was 3.5% in Q2, up from 3.0% in Q1.
- The value of notes and coins in circulation outside the Bank of England rose by 5.0% in July 2012 compared with a year ago, down from 5.8% in June 2012.

Contact: Chris Rhodes, x2454

Updates: [Monetary policy meeting](#): 4 Oct (UK), Bank of England, [Monetary and Financial Statistics](#), 3 Oct

## D2: Public Finances

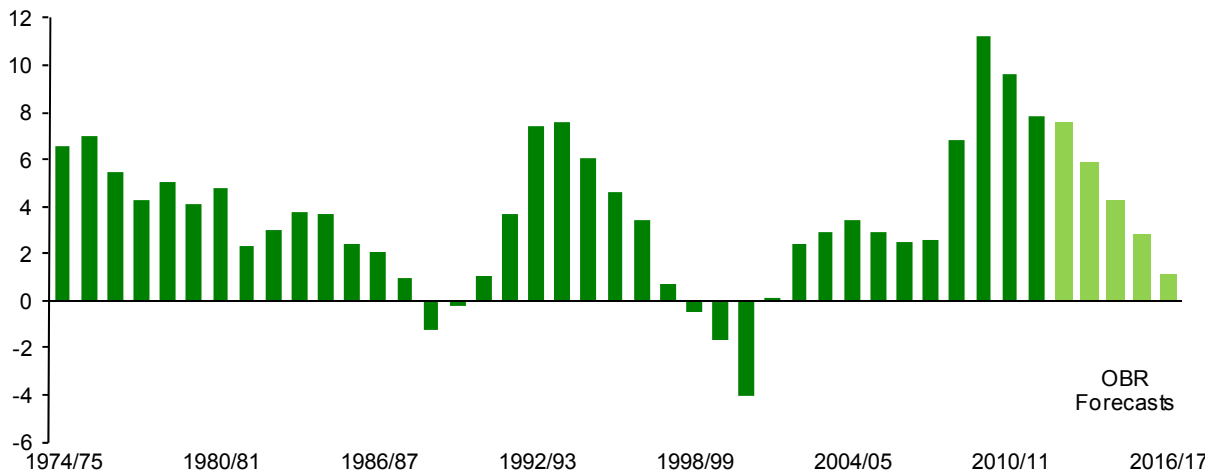
The independent Office for Budget Responsibility (OBR) forecasts that public borrowing will be £120 billion in 2012/13, equivalent to 7.6% of GDP.

- Public sector net borrowing was £14.4 billion in August 2012, the same as in August 2011.
- Public sector net debt was £1,039.5 billion at the end of August 2012, 66.1% of GDP. At the end of August 2011 net debt was £955.8 billion, 62.7% of GDP.
- Excluding the effects of the £28 billion Royal Mail pension transfer, borrowing so far in 2012/13 was £59 billion. Borrowing for the same period in 2011/12 was £48.4 billion.
- Borrowing for 2011/12 was £119 billion, less than the OBR's forecast of £126 billion.

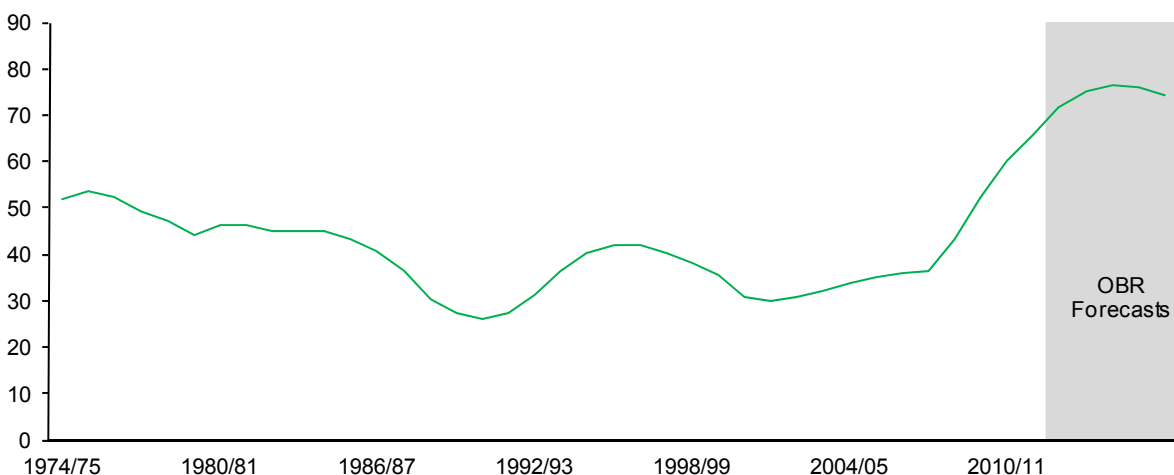
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2009/10	159	11.2	761	52.5
2010/11	142	9.6	903	60.0
2011/12	119	7.8	1020	65.6
2012/13	120	7.6	1,159	71.9
2013/14	98	5.9	1,272	75.0
2014/15	75	4.3	1,365	76.3
2015/16	52	2.8	1,437	76.0
2016/17	21	1.1	1,479	74.3

Source: ONS, OBR. Excludes financial sector interventions

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



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



### 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. During the second half of 2011, it rose steadily. It fell in the early months of 2012 due to renewed fears about the Eurozone but has recovered since then.

The price of oil reached an all time high above \$145/barrel in July 2008. The price fell below \$100/barrel in early June 2009 for the first time since February 2011, but has returned to above \$100 again.

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

Data from 01 Oct 2012

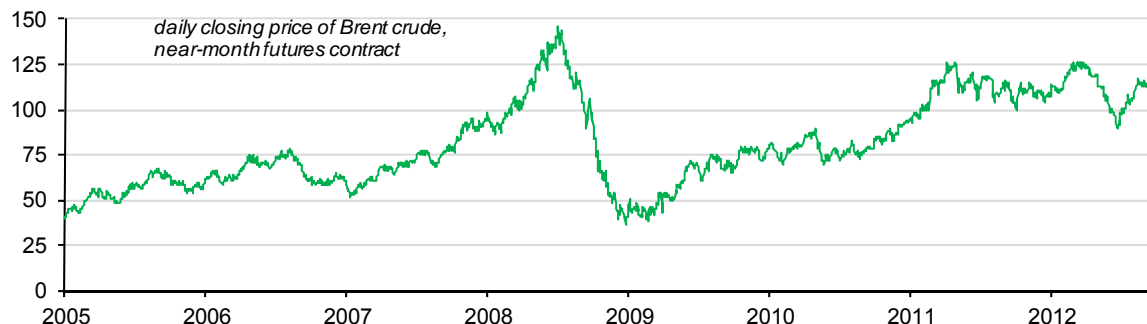
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
01 Oct 2012	5,820.5	112.2	1,771.2
%change over:			
1-month	+1%	-0.3%	+6%
12-months	+10%	+5%	+9%
%change from:			
cyclical peak	-14%	-23%	-7%
date	15 Jun '07	03 Jul '08	23 Aug '11
cyclical trough	+66%	+208%	+149%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



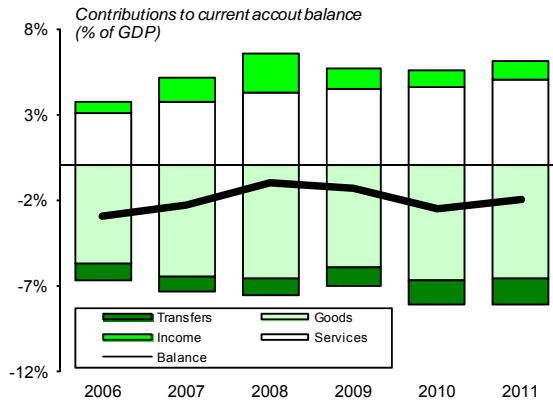
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2011 was £29.0 billion, equivalent to -1.9% of GDP. That compared with £37.3 billion (revised down from £48.6 billion) or -2.5% of GDP in 2010. This change can principally be attributed to an increase in the UK's trade in services surplus (from £67 billion in 2010 to £76 billion in 2011).

### Current Account



- On a **quarterly** basis, the current account deficit was £20.8 billion in Q2 2012, widening from £15.4 billion in Q1 2012. The surplus on services rose to £17.9 billion while the deficit on goods rose to £28.0 billion.
- The **annual** current account deficit with EU27 countries in 2011 was £45.6 billion, compared with a surplus with non-EU countries of £17.6 billion. On a **quarterly** basis, the deficit with EU27 countries fell to £19.5 billion in Q2 2012. With non-EU countries, the current account surplus fell to £1.3 billion.

### Current Account Balances

£ millions; seasonally adjusted

	Goods	Services	Goods and Services		Income	Transfers	Current Account Balance	
	Balance	Balance	Exports	Imports				
2010	-98,509	67,007	447,885	479,387	-31,502	14,628	-20,410	-37,284
2011	-100,014	76,305	492,880	516,589	-23,709	16,849	-22,142	-29,002
2011 Q2	-24,807	18,547	122,409	128,669	-6,260	8,054	-4,824	-3,030
Q3	-27,751	19,793	123,127	131,085	-7,958	2,763	-5,802	-10,997
Q4	-24,702	18,998	125,665	131,369	-5,704	3,120	-5,872	-8,456
2012 Q1	-25,415	17,302	123,268	131,381	-8,113	-1,918	-5,335	-15,366
Q2	-28,059	17,942	121,118	131,235	-10,117	-5,150	-5,500	-20,767

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

### Trade in Goods and Services



- The estimated deficit on goods trade in July was £7.1bn, narrowing from £10.1bn in June.
- The monthly trade surplus on services was an estimated £5.6bn in July, down slightly from the June surplus of £5.7bn.
- The overall monthly deficit on goods and services combined in July was £1.5bn, narrowing from £4.3bn in June.
- The goods deficit with the EU27 was £4.3bn in July, down from £5.0bn in June, while the deficit with non-EU countries was £2.9bn in July (a record month for exports), down from £5.1bn in June.

Contact: Grahame Allen, x3977

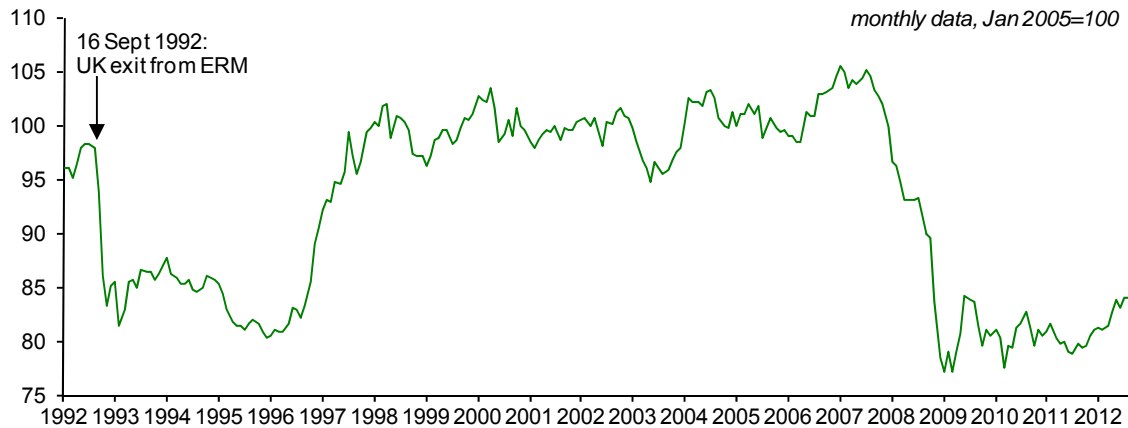
Updates: ONS, [UK Trade](#), 9 Oct;  
ONS, [UK Balance of Payments](#), 21 Dec

## E2: Exchange rates

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

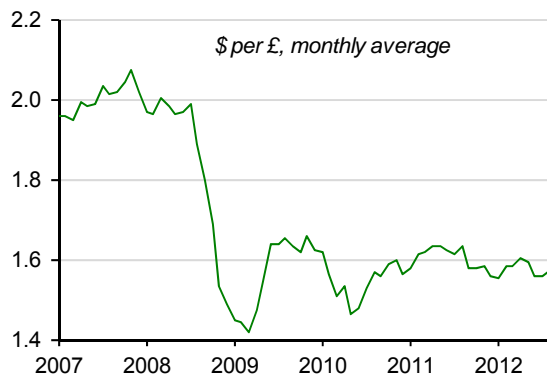
The SERI rose by 0.3% in September, following an increase of 0.1% in August. Compared with the same period last year, the SERI was 6.3% higher. It is now 9.3% above its March 2009 level, when it was at its lowest point since the series began in 1980. However, sterling is still 20.1% down from its pre-recession July 2007 peak.

### Sterling Exchange Rate Index (SERI)



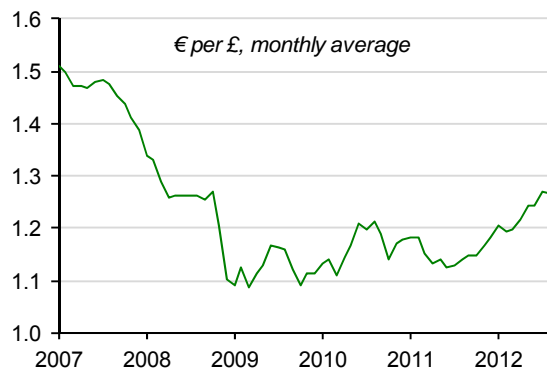
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- On average in August, the pound was 4 cents higher against the dollar compared with August. At the 1 October market close the pound stood at \$1.61, the September average.
- Sterling was on average 2 cents higher against the Euro in September compared with August.
- At the 1 October market close the pound stood at €1.25, the September 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 Sep	1.58	1.3%	1.15	-3.6%
2012 Jul	1.56	-3.4%	1.27	12.2%
Aug	1.57	-3.8%	1.27	11.0%
Sep	1.61	2.1%	1.25	9.2%

Source: Bank of England, Bankstats database

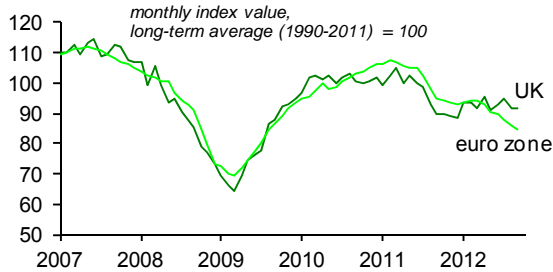
Contact: Aliyah Dar, x5919

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

## 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

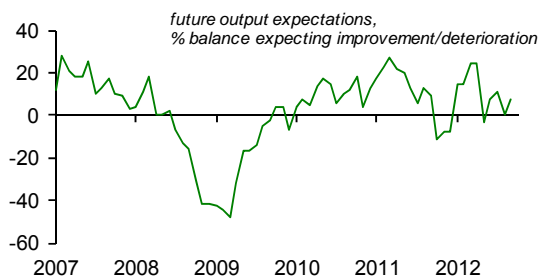


	UK Index	monthly change	change on year ago
2010 Sep	100.5	...	...
2011 Sep	89.8	...	...
2012 Jul	94.6	+1.7	-4.2
2012 Aug	91.5	-3.1	-1.7
2012 Sep	91.9	+0.4	+2.1

Source: European Commission

- The European Commission conducts regular harmonised surveys for different sectors (manufacturing, services, retail, construction and consumers) of EU member states' economies.
- Between August and September 2012 the overall UK sentiment index increased by 0.4 points to 91.9. The euro zone index decreased by 1.1 points to 85.0, its lowest level since 2009.

### CBI Industrial Trends Survey



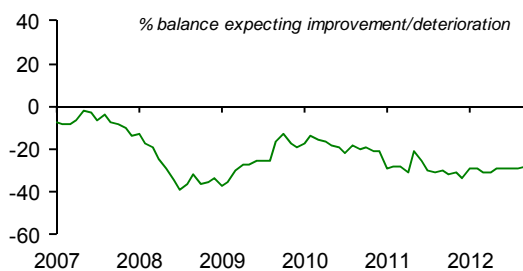
balance (as a %) of those expecting an improvement minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2010 Sep	+12	...	...
2011 Sep	+9	...	...
2012 Jul	+11	+4	+5
2012 Aug	0	-11	-13
2012 Sep	+7	+7	-2

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- In September 2012, more manufacturers thought that output would rise over the next three months than thought it would fall – the difference was 7% of firms. This is up from +0% of firms in August.

### 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 Sep	-20	...	...
2011 Sep	-30	...	...
2012 Jul	-29	0	+1
2012 Aug	-29	0	+2
2012 Sep	-28	+1	+2

Source: GfKNOP 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.
- Overall consumer confidence was -28 in September 2012. It has been at much the same level for the last year.

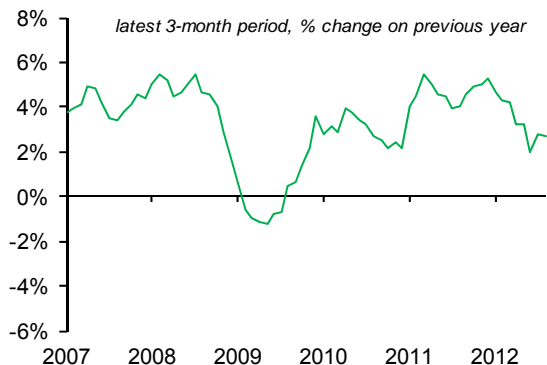
**Contact:** Lorna Booth, x2883

**Update:** CBI, [Industrial Trends](#), 24 Oct  
EC, [Economic Sentiment Indicator](#), 30 Oct  
GfK NOP, [Consumer Confidence](#), 31 Oct

## F2: Retail Sales

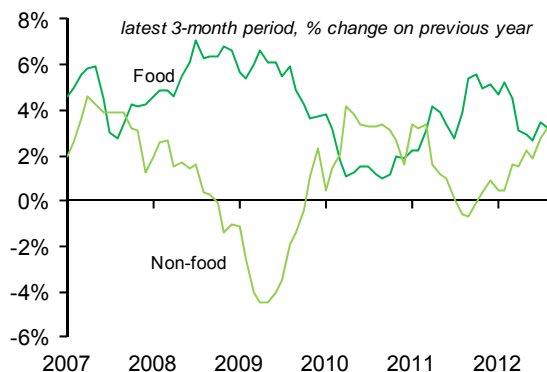
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI. This page uses official data from the Office for National Statistics.

### Value of Retail Sales



- The annual increase in the value of retail sales in the three months to August 2012 was 2.7%.
- The value of retail sales in August 2012 alone showed an increase of 0.2% compared with July 2012.
- The value of retail sales in August 2012 alone was 3.0% higher than in August 2011.
- Internet sales are now estimated to account for 8.1% of all retail sales values, excluding automotive fuel.

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



- The value of sales in food stores in the three months to August rose by 3.2% on the same period last year.
- The annual rate of increase in the value of sales in non-food stores was 3.3%.
- The ONS commented that feedback from online retailers suggested that sales were lower as consumers watched the Olympics instead of shopping online. Meanwhile stores selling textiles, clothing and footwear (including sports clothes) saw an increase in sales, as did other stores (which includes stores selling sporting goods and toys).

### 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	-3.5	2.0	2.6	<b>2.7</b>
2011	4.2	3.4	-2.7	0.4	1.1	<b>5.0</b>
2012 Apr	3.1	1.0	0.6	-0.1	1.5	<b>3.2</b>
May	2.9	0.8	1.7	0.3	2.2	<b>3.2</b>
Jun	2.7	-0.9	1.9	0.6	1.9	<b>2.0</b>
Jul	3.5	1.0	1.9	1.8	2.8	<b>2.8</b>
Aug	3.2	2.0	0.8	3.9	3.3	<b>2.7</b>

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



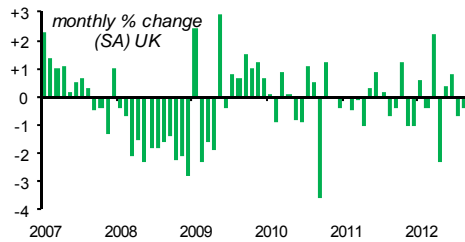
### F3: Housing Market

House prices on the Nationwide index fell by 0.4% in September 2012 after rising by 1.1% in September. Prices were 1.4% lower in September compared with a year ago on this measure. House prices on the Halifax index fell by 0.4% in August 2012 following a 0.7% decline in August. Prices are now 1.1% 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

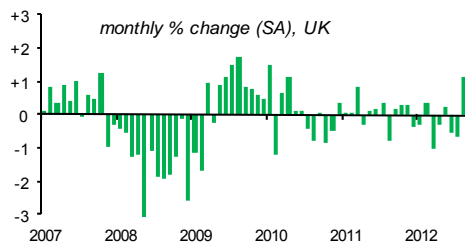
##### Halifax house price index



Latest monthly data  
UK, seasonally adjusted

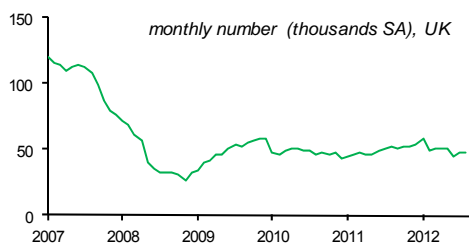
	Halifax	Nationw ide
Latest data	Aug-12	Sep-12
Change in month	-0.4%	-0.4%
Change in year	-1.1%	-1.4%
Peak date	Aug-07	Oct-07
Change since peak	-19.7%	-12.4%
Trough date	Apr-09	Feb-09
Change since trough	+3.6%	+8.6%

##### Nationwide house price index



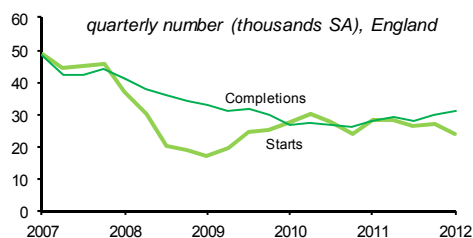
- The recovery in house prices since early 2009 has been tepid. In mid-2012 the average house price on the Halifax and Nationwide measures was just over £160,000.
- There is considerable regional variation. In Q3 2012 prices rose by 2% in London but fell by 9% in Northern Ireland compared with a year 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 47,665 mortgage approvals in August a 0.2% rise on July. The number of approvals has remained generally flat since early 2010.

#### House-building



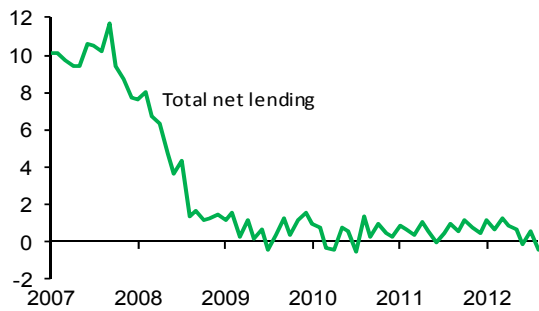
- There were 21,540 house building starts in England in Q2 2012, down 9.6% from 23,820 in Q1 2012. This is above the low of 14,470 in Q1 2009, but still well below the 46,190 starts in Q1 2007.
- There were 29,470 dwelling completions in Q2 2012, down from 31,350 in Q1 2012.

**Contact:** Aliyah Dar, x5919

**Updates:** Halifax [House Price Index](#), early Oct;  
Bank of England, [Lending to Individuals](#), 29 Oct;  
Nationwide [House Price Index](#), early Nov;  
DCLG, [House-building](#), 15 Nov;

## F4: Household debt

### Changes in monthly net lending, £bn

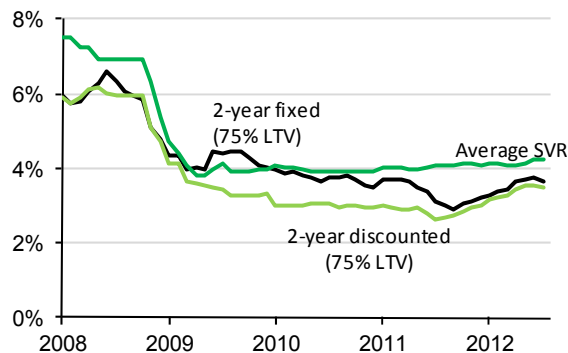


Source: Bank of England

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

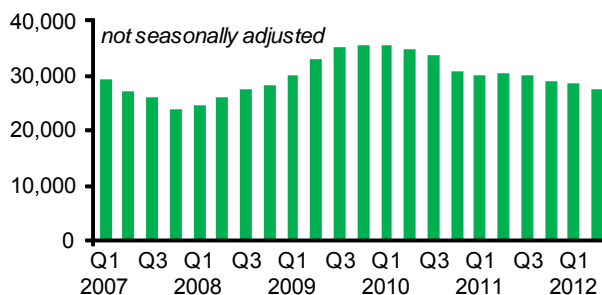
- Total net lending to individuals (excluding student loans) fell by £0.4 billion in August 2012. This compares with an increase of £0.6 billion in July.
- Monthly net unsecured lending fell by £0.1 billion in August, compared with a decrease of £0.2 billion in July.
- Monthly net secured lending (mortgages) fell by £0.3 billion in August, compared with an increase of £0.9 billion in July.

### 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 August was 4.27%, compared with 4.10% a year previously.
- The average fixed mortgage rate was 3.69% in August (3.00% a year ago). The average discounted rate was 3.54% in August (2.69% a year ago). These figures are for a loan to value ratio of 75%.

### Individual insolvencies, England and Wales



Source: Insolvency Service

- There were 27,390 individual insolvencies in England and Wales in Q2 2012, a 10.2% decrease on a year earlier. These figures are not seasonally adjusted and are a provisional estimate.
- In Scotland in Q2 2012 there were 5,601 individual insolvencies, an increase of 5.3% on Q2 2011.
- In N Ireland in Q2 2012 there were 796 individual insolvencies, a rise of 5.9% on Q2 2011.

**Contact:** Dominic Webb, x4324

**Update:** Bank of England, [Lending to Individuals](#), 29 Oct  
Insolvency Service, [Insolvency Statistics](#), 2 Nov

## 5 Indicator sources

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

Indicator		Source details
A1	<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>	<i>Financial Times</i> , <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, <i>Bankstats</i> 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.  $GDP \text{ at market prices} = GDP \text{ at basic prices} + \text{transport prices paid separately} + \text{non deductible taxes on expenditure} - \text{subsidies received}$ .

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

**The Public Sector Net Borrowing (PSNB):** This measures the public sector's accumulation of debt net of liquid financial assets. Its approximate stock equivalent is net public sector debt.

**Public Sector Net Debt:** This is approximately the stock analogue of the PSNB. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets such as bank deposits and foreign exchange reserves.

**Retail Prices Index (RPI):** A domestic indicator of inflation. It measures the average change from month to month in the prices of goods and services purchased in the UK. It is similar to the CPI, but differs in terms of methodology and coverage. For example, the RPI includes housing costs such as mortgage interest payments while the CPI doesn't.

**Seasonally adjusted:** Estimates in which the element of variability due to seasonal influences, which may distort the data, has been removed.

**Sterling Exchange Rate Index (SERI):** This measures the value of sterling against a trade-weighted 'basket' of other currencies. The weights used in this index measure currencies' relative importance to UK trade in goods and services.

**UK Base/Repo rate:** The rate at which the Bank of England lends to discount houses by buying their bills. The base rate is usually the minimum rate at which banks are prepared to lend money. The high street bank base rate follows that set by the Bank of England, and it acts as the benchmark for [cont]

other interest rates, including mortgages and personal loans.

**Unemployment:** The ILO definition includes all people who are: out of work, want a job, have actively sought work in the previous four weeks and are available to start work within the next fortnight; or are out of work and have accepted a job that they are waiting to start in the next fortnight.

**Unemployment rate:** The number of unemployed persons expressed as a percentage of the total economically active population.

**Volume/value of retail sales:** The volume of retail sales is the total takings adjusted for inflation and the value of retail sales is the total actual takings.

**Workforce jobs:** The sum of employee jobs, self-employment jobs, those in HM Forces and government-supported trainees.