

# **Economic Indicators**

**Research Paper 97/125**

**1 December 1997**



This Research Paper summarises some of the main economic indicators currently available for the UK and gives comparisons with other major OECD countries on selected indicators.

This month's article: Measures of Inflation.

**Jane Dyson (Editor)**  
**Economic Policy & Statistics Section**

**House of Commons Library**

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## I Contacts for further information

Members and their staff requiring further information are encouraged to talk to the statistician specialising in the relevant area. The statisticians dealing with the subjects covered by this Research Paper are shown below. (After 6pm there is a statistician on duty until the rise of the House who can be contacted via the Oriel Room of the Main Library - extn 3666)

Subject	Statistician	Phone 219-
Balance of payments	Tim Edmonds/Bob Twigger	2883/4904
Construction	Tim Edmonds	2883/3977
EC finance	Mick Hillyard/Jane Dyson	4324/2464
Employment	Tim Edmonds	3977/2883
Energy	Graham Vidler	2454
Financial services	Bob Twigger/Tim Edmonds	4904/2883
Housing	Adrian Crompton/Bryn Morgan	6789/3851
Incomes	Bob Twigger	4904/3977
Industries	Tim Edmonds	2883/3977
National Accounts-GDP etc	Bob Twigger/Tim Edmonds	4904/2883
Overseas aid	Mick Hillyard/Bob Twigger	4324/4904
Prices	Bob Twigger/Tim Edmonds	4904/2883
Production	Bob Twigger/Tim Edmonds	4904/2883
Public expenditure	Bob Twigger/Tim Edmonds	4904/2883
Taxation	Bob Twigger	4904/3977
Trade	Mick Hillyard/Bob Twigger	4324/4904
Transport	Adrian Crompton/Graham Vidler	6789/2454
Unemployment	Jane Dyson/Bob Twigger	2464/4904
Wages & earnings	Tim Edmonds	2883/3977

A comprehensive guide to the subject coverage of specialists in the Research Division is available from the Library - *Who Does What in Research*.

# Measures of Inflation

Inflation is one of the most important economic indicators in the United Kingdom. Inflation can be defined as: "...a process of continuously rising prices, or, equivalently, of a continuously falling value of money."<sup>1</sup> Inflation tends to disadvantage those on fixed incomes; it imposes costs on the economy (e.g. the cost of revising prices); and volatile inflation rates cause uncertainty that may adversely affect investment decisions.

Since there are many different ways of measuring prices, there are also many different measures of inflation. This note briefly describes four measures of prices that are both widely quoted and important from a policy perspective.

### 1. The Retail Prices Index - RPI

The RPI measures the impact of changing prices on the vast majority of UK households.<sup>2</sup> The RPI attempts to be representative of the full range of goods and services – essentials as well as necessities - and the Office for National Statistics collects information about the prices of over 600 different goods and services. The degree to which a price change affects a household depends on its pattern of spending. For example, those that do not smoke are not affected by increases in tobacco prices. In order to produce an overall estimate of price changes, the changes in the individual components of the RPI are 'weighted' together using information about spending patterns drawn from the *Family Expenditure Survey*.<sup>3</sup> Bread prices, for example, have a weight of 6 parts-per-thousand in the overall index. The Retail Prices Index Advisory Committee (which includes members from outside government) reports to the Chancellor of the Exchequer on the construction of the RPI.

As well as providing the 'headline rate of inflation' each month, the RPI has a number of administrative uses such as; the up-rating of social security benefits, the calculation of returns on indexed-linked gilts and national savings certificates, the revalorisation of income tax allowances and the calculation of capital gains tax liabilities.

### 2. Underlying inflation – 'RPI(X)'

Since 1992, a centrepiece of UK economic policy has been a target for the rate of inflation. The measure of inflation used for the target is the RPI excluding mortgage interest payments - RPI(X). If the Bank of England raises interest rates in order to reduce inflationary pressures, the short-run effect is to increase the headline RPI as mortgage costs rise. This makes the RPI unsuitable as a target. Excluding mortgage interest payments avoids this problem. The current inflation target is a year-on-year increase in RPI(X) of 2½ percent.

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<sup>1</sup> Laidler & Parkin, "Inflation: a survey", *Economic Journal*, Vol. 85 1975 p.741

<sup>2</sup> Households with the top 4% of incomes and pensioners mainly dependent on state benefits are excluded.

<sup>3</sup> A more detailed description of the construction of the RPI appears in the May 1997 edition of the ONS's monthly publication *Retail Prices Index: data for...*

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### 3. Harmonised index of consumer price - HICP

One of the convergence criteria against which applicants for Economic and Monetary Union will be assessed relates to levels of inflation. The Maastricht Treaty specified that: "Inflation shall be measured by means of the consumer price index on a comparable basis, taking into account differences in national definitions."<sup>4</sup> Since the Treaty was ratified, the EU and the National Statistical Institutes have developed harmonised consumer prices indices that provide a common basis for comparison. The resulting harmonised indices of consumer prices - HICPs – have been published since March 1997. Work is continuing on a number of issues such as the treatment of owner-occupiers' costs and prices in the health and education sectors.

The HICP for the UK differs from the RPI in a number of respects: it covers the whole population; it excludes RPI components such as owner-occupiers' housing costs and the council tax but includes personal computers, new cars and air fares which are not in the RPI; there are also technical differences in the way in which component indices are aggregated and in the treatment of changes in quality. Although the HICP provides an improved basis for international comparisons it does not replace the RPI, which remains the best measure of UK consumer price inflation.

### 4. GDP deflator

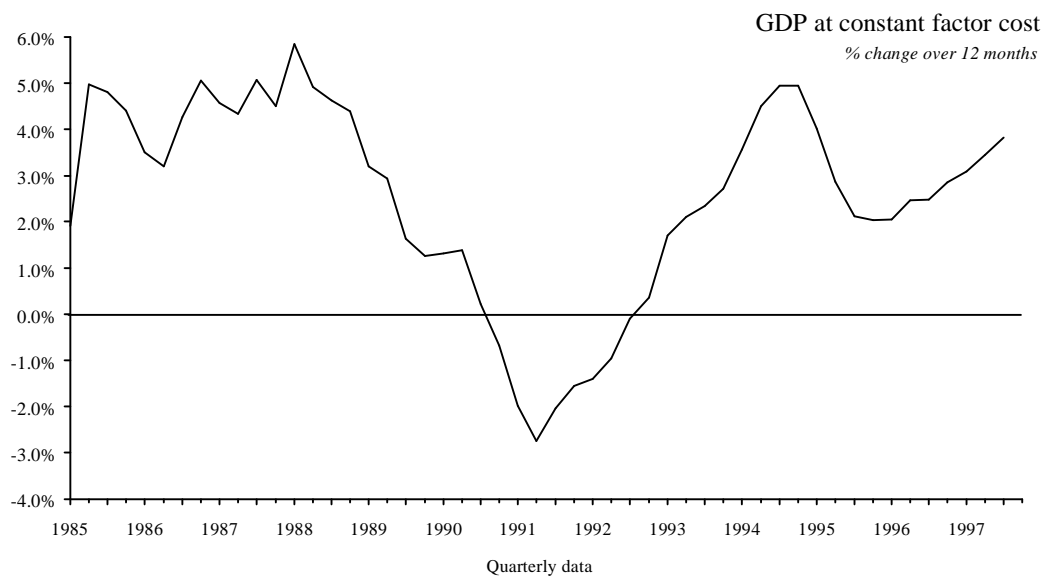
The RPI only relates to changes in consumer prices. There are other prices in the economy such as wages and the cost of capital goods. The GDP deflator provides a measure of economy-wide inflation. The GDP deflator is the ratio of expenditure-based GDP at current (i.e. cash) market prices to the equivalent measure at constant prices. Because of its indirect calculation it is often described as the *implied* GDP deflator. The GDP deflator is often used to revalue public expenditure data into constant prices.

*For further information on this subject contact: Bob Twigger on 219 4904*

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<sup>4</sup> Source: Protocol on the convergence criteria referred to in article 109j of the Treaty

## A 1. Gross Domestic Product



Gross Domestic Product; seasonally adjusted

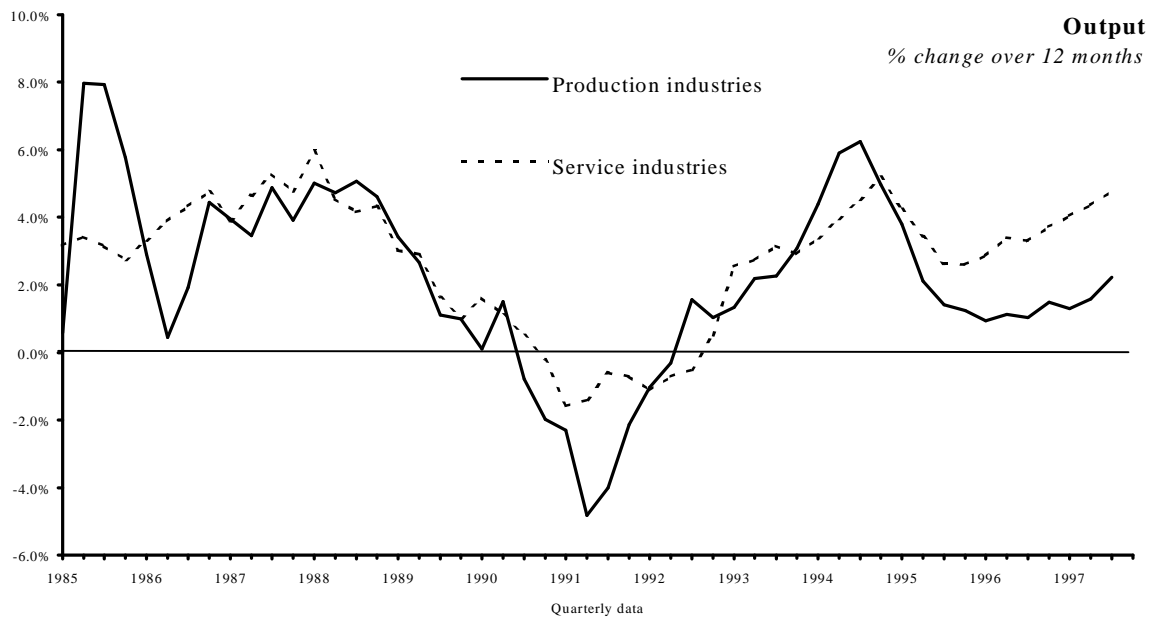
	GDP at constant factor cost <i>12 month change</i>	Non-Oil GDP at constant factor cost <i>12 month change</i>	GDP at current market prices <i>£ billion</i>	GDP at current factor cost <i>£ billion</i>
1994	4.5%	4.1%	669.1	580.1
1995	2.8%	2.7%	704.2	608.1
1996	2.5%	2.4%	742.3	642.9
1996 Q2	2.5%	2.3%	183.7	159.2
1996 Q3	2.5%	2.4%	186.2	161.3
1996 Q4	2.9%	2.8%	190.1	164.7
1997 Q1	3.1%	3.1%	192.3	166.5
1997 Q2	3.5%	3.6%	195.3	168.4
1997 Q3	3.8%	3.9%	198.0	170.7

Source: ONS Database; ONS first release (97)331 dated 20 November 1997

- Latest estimates for the third quarter of 1997 suggest that gross domestic product (GDP) grew by 0.9% to a level 3.8% higher than in the third quarter of 1996. The year-on-year growth rate is now at its highest level since the first quarter of 1995.
- Output excluding oil and gas extraction grew by 0.8% in the third quarter of 1997 to a level 3.9% higher than in the third quarter of 1996. On this basis, the economy has grown by 16.5% since the bottom of the recession in the first quarter of 1992.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will slow from 3.5% in 1997 to 2.4% in 1998.

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## A 2. GDP by Industry



Gross domestic product  
% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac- turing			
1994	5.3%	4.7%	4.3%	-0.6%	3.9%
1995	2.2%	1.7%	3.1%	-1.4%	-0.7%
1996	1.1%	0.3%	3.4%	-1.8%	1.2%
1996 Q2	1.1%	-0.2%	3.4%	-3.7%	0.6%
1996 Q3	1.0%	0.4%	3.3%	-1.6%	1.9%
1996 Q4	1.5%	0.7%	3.7%	-2.3%	2.8%
1996 Q1	1.3%	1.6%	4.0%	-4.9%	2.7%
1997 Q2	1.6%	2.2%	4.4%	0.1%	3.5%
1997 Q3	2.2%	1.7%	4.8%	-1.6%	2.6%

Sources: ONS database (series DVZI, DVZK, CKCE, CKAP, DVJO)

- Since 1995, output has grown faster in service sector than in other parts of the economy and is currently growing at an annual rate of nearly 5%. After rising sharply in 1994, output growth in the manufacturing and construction sectors slowed markedly in 1995 and 1996. Growth in these sectors has, however, been more buoyant in the first three quarters of 1997.
- In the year to the second quarter of 1997, a number of industries in the service sector experienced substantial increases in output. For example, post & telecommunication +11.4%; real estate, renting & business activities +9.2%; and financial intermediation (banks, building societies, etc.) +8.7%.
- In 1996 manufacturing accounted for 21% of GDP, other production industries (mining & quarrying and electricity gas & water supply) for 5%, agriculture, etc. for 2%, construction for 5% and services for 67%.

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### A 3. Investment



Gross domestic fixed capital formation  
£ million; 1990 prices; seasonally adjusted

	Vehicles, Ships & Aircraft	Plant & Machinery	Other New (1) Building & Works	Dwellings	Total
1994	9,874	33,705	36,828	20,371	100,778
1995	9,450	36,352	36,125	20,322	102,249
1996	9,728	37,074	37,379	19,909	104,090
1996 Q3	2,349	9,121	9,363	4,886	25,719
1996 Q4	2,394	9,250	9,438	5,285	26,367
1997 Q1	3,010	8,977	9,588	4,922	26,497
1997 Q2	2,926	9,465	9,546	5,088	27,025
1997 Q3	-	-	-	-	26,706

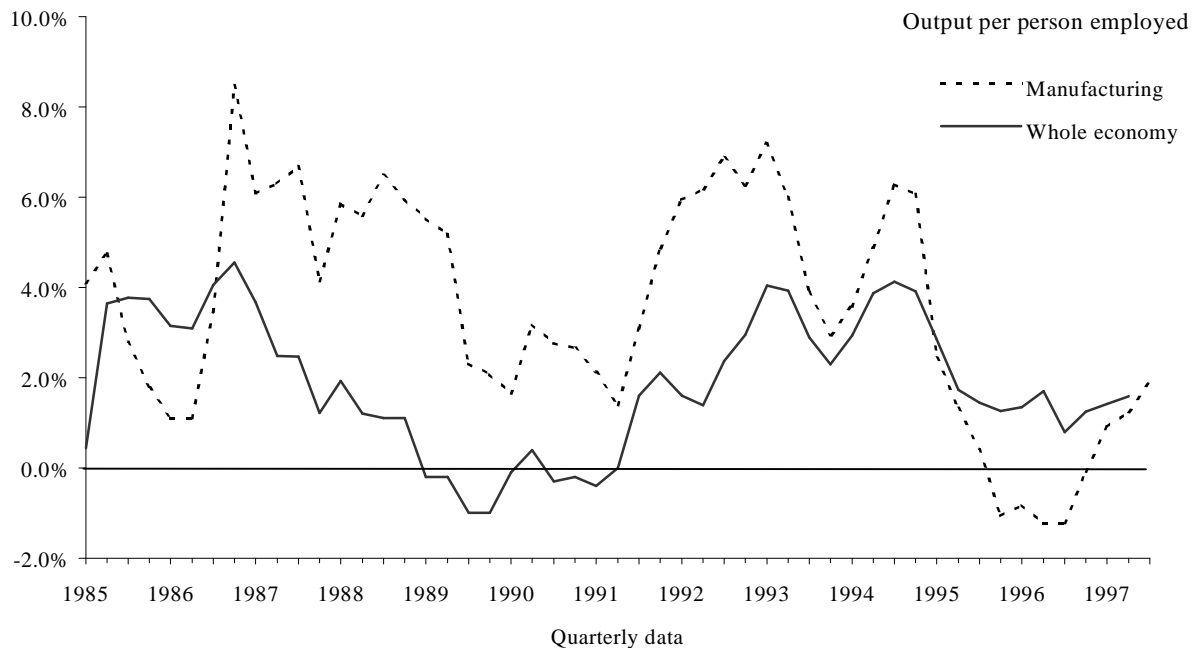
Notes: (1) including transfer of costs of land and buildings

Source: ONS database (Series DEBP, DEBO, DFCV, DFEA, DFEC, DECU)

- Gross Domestic Fixed Capital Formation (GDFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets.
- New data and re-assessment of previous data have resulted in large upward revisions in GDFCF. In 1996 total GDFCF (at 1990 prices) is estimated to have risen by 1.8% compared with 1995, which in turn was 1.5% higher than the level in 1994. However, GDFCF in 1996 was still 6.6% below the peak (£111.5 billion) in 1989.
- In the second quarter of 1997, total GDFCF rose by just under 2% compared with the previous quarter and 2.5% compared with the second quarter of 1996.

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## A 4. Productivity



% change on year ; seasonally adjusted

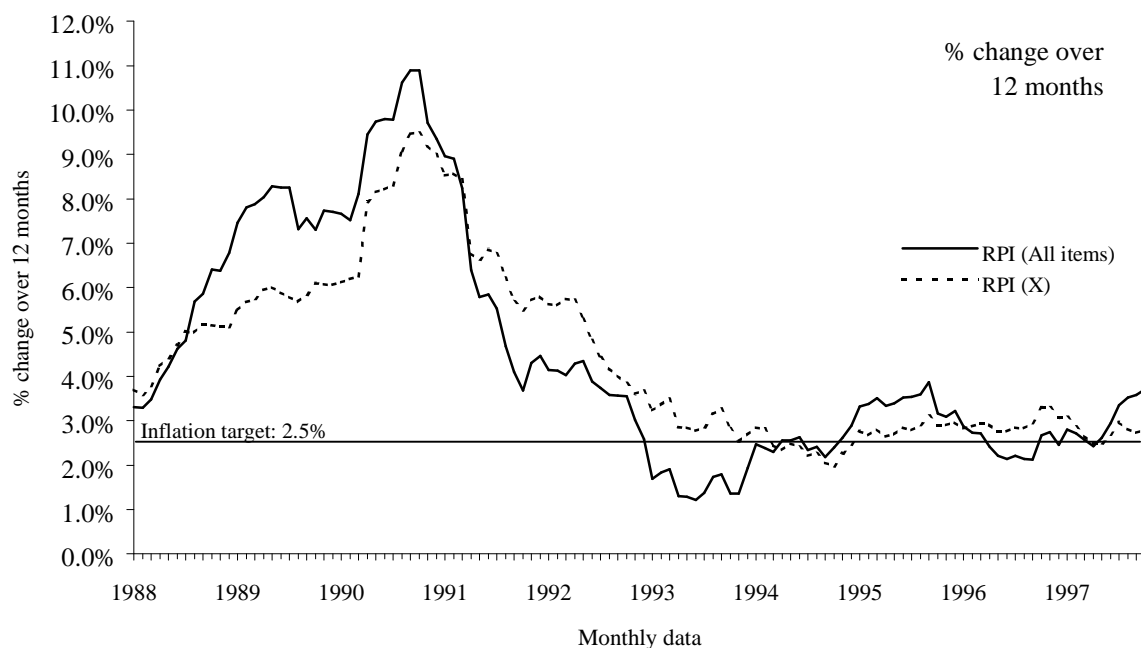
	Manufacturing			Whole Economy		
	Output	W'force in employment	Output per head	Output	W'force in employment	Output per head
1994	4.7%	-0.5%	5.1%	4.5%	0.9%	3.7%
1995	1.7%	1.0%	0.8%	2.8%	0.8%	1.9%
1996	0.3%	1.1%	-0.9%	2.5%	1.3%	1.2%
1996 Q3	0.4%	1.7%	-1.2%	2.5%	1.6%	0.8%
Q4	0.7%	0.7%	-0.1%	2.9%	1.7%	1.2%
1997 Q1	1.6%	0.7%	0.9%	3.1%	1.7%	1.4%
Q2	2.2%	0.8%	1.2%	3.5%	1.9%	1.7%
Q3	1.6%	-0.2%	1.9%	3.8%	..	..

Source: ONS database (series DVZK, DMWB, DMOB, CAOP, DMBC, DMBE)

- Growth in output per head has slowed considerably since 1994. This is because output growth has fallen from the rapid rates experienced in 1994, while employment growth has picked up.
- The data for 1997 show signs of an improvement in productivity growth, although rates remain well below the levels seen in the late 1980s and early 1990s.
- Manufacturing productivity growth has been positive in the first three quarters of 1997, after five quarters of falling productivity. This is the result of faster output growth in the first half of the year and falling manufacturing employment in the third quarter.

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## B 1. Retail Prices



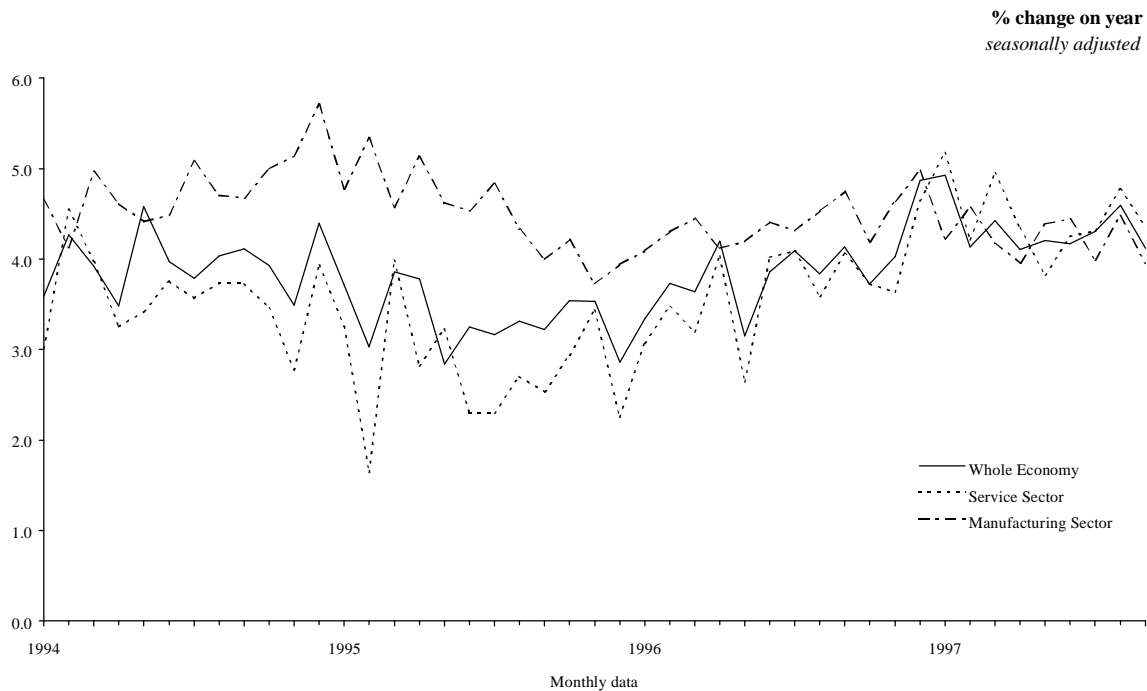
<u>% change on previous year</u>		
<u>Retail Prices Index</u>		
	<u>All-items</u>	<u>All-items excluding mortgage interest (RPI(X))</u>
1994	2.4%	2.3%
1995	3.5%	2.9%
1996	2.4%	3.0%
1996 Oct	2.7%	3.3%
1996 Nov	2.7%	3.3%
1996 Dec	2.5%	3.1%
1997 Jan	2.8%	3.1%
1997 Feb	2.7%	2.9%
1997 Mar	2.6%	2.7%
1997 Apr	2.4%	2.5%
1997 May	2.6%	2.5%
1997 Jun	2.9%	2.7%
1997 Jul	3.3%	3.0%
1997 Aug	3.5%	2.8%
1997 Sep	3.6%	2.7%
1997 Oct	3.7%	2.8%

Source: ONS Database (series CHAW, CHMK)

- The current target for RPI(X) is 2.5%; if inflation diverges from this target by more than 1 percentage point, the Governor of the Bank of England is required to send a written account to the Chancellor.
- Inflation has been at or above the target level since the beginning of 1995, but has remained within one percentage point of the target.
- Independent forecasts suggest that RPI(X) will fall to 2.5% in the fourth quarter of this year.
- As measured by the all items RPI, inflation rose from 3.6% in September 1997 to 3.7% in October 1997. The main factors behind the increase were rising housing costs and food prices.

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## B 2. Average Earnings

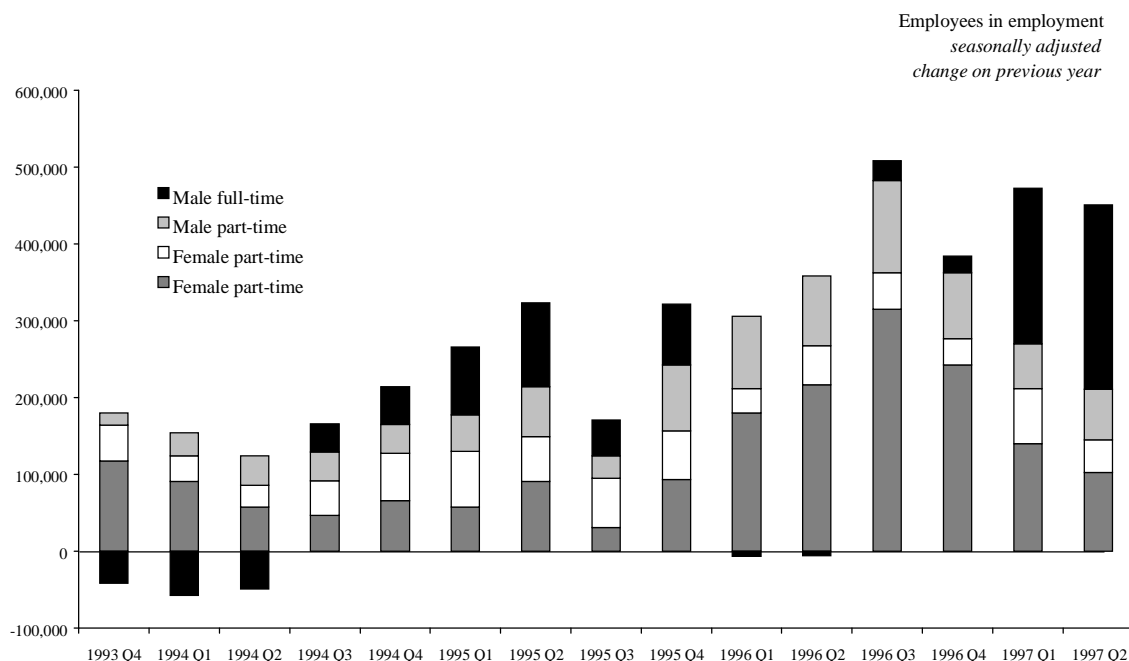


Average earnings <i>All employees; Great Britain</i>		
	% change on year	
	seasonally adjusted	underlying
Sep 1996	4.1%	4%
Oct 1996	3.7%	4%
Nov 1996	4.0%	4 <sup>1</sup> / <sub>4</sub> %
Dec 1996	4.9%	4 <sup>3</sup> / <sub>4</sub> %
Jan 1997	4.9%	4 <sup>3</sup> / <sub>4</sub> %
Feb 1997	4.1%	4 <sup>1</sup> / <sub>2</sub> %
Mar 1997	4.4%	4 <sup>1</sup> / <sub>2</sub> %
Apr 1997	4.1%	4 <sup>1</sup> / <sub>2</sub> %
May 1997	4.2%	4 <sup>1</sup> / <sub>4</sub> %
Jun 1997	4.2%	4 <sup>1</sup> / <sub>4</sub> %
Jul 1997	4.3%	4 <sup>1</sup> / <sub>2</sub> %
Aug 1997	4.6%	4 <sup>1</sup> / <sub>2</sub> %
Sep 1997	4.1%	4 <sup>1</sup> / <sub>4</sub> %

Sources: ONS database (Series DNHS)  
ONS Labour Market Statistics (97) 321

- Average earnings growth fell to 4.1 per cent in September 1997. The underlying rate, which takes into account staged agreements and bonuses also dropped, to 4<sup>1</sup>/<sub>4</sub> per cent.
- Independent forecasts suggest that average earnings will increase by 4.5 per cent in 1997, and by 4.8 per cent in 1998.
- September 1997 estimates show average gross earnings for full-time employees at £19,157 per year. For male full-time employees, the average was £21,299; for female full-time employees the average was £15,491.
- In its November 1997 *Inflation Report*, the Bank of England commented that ‘any increase in the current growth rate of nominal earnings would be difficult to reconcile with the inflation target of 2<sup>1</sup>/<sub>2</sub>%’.

## C 1. Employment



*seasonally adjusted; thousands*

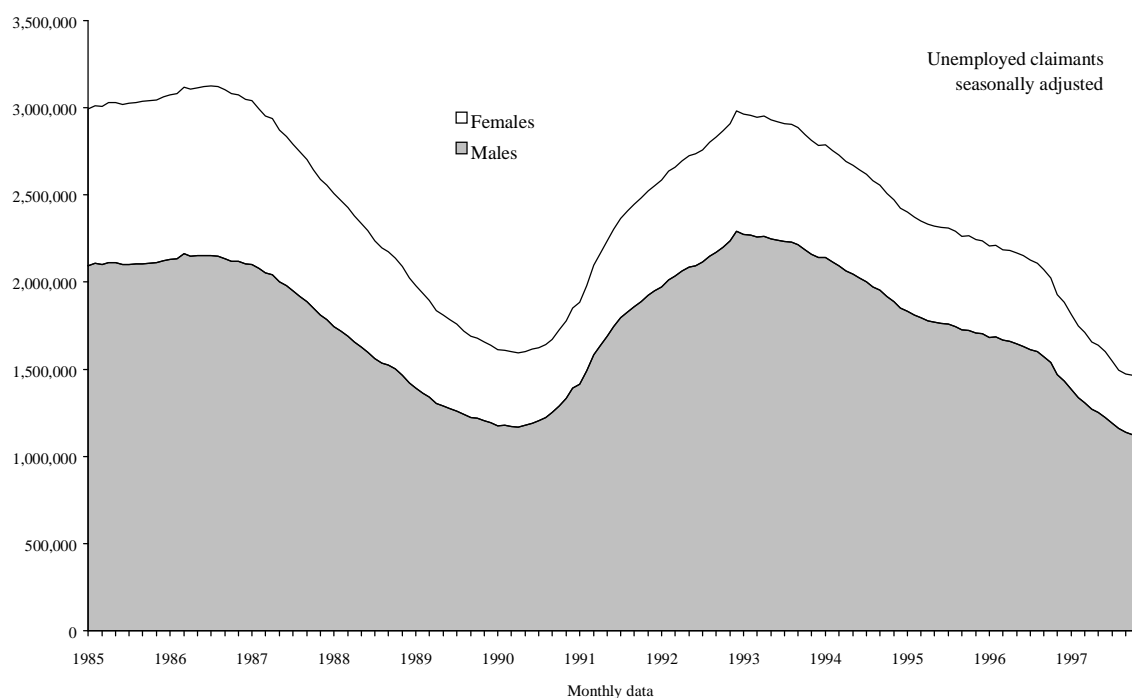
	Employees in employment	Self employed	HM Forces	Work related govt-supported training	Workforce in employment
Jun-94	21,663	3,302	250	302	25,517
Jun-95	21,987	3,357	230	225	25,800
Jun-96	22,340	3,291	221	181	26,034
Sep-96	22,507	3,367	218	189	26,281
Dec-96	22,580	3,361	216	188	26,344
Mar-97	22,695	3,355	214	178	26,442
Jun-97	22,792	3,338	210	167	26,507
Changes: June 1996 to 1997					
000s	452	47	-11	-14	473
%	2.0%	1.4%	-5.0%	-7.7%	1.8%

Source: ONS First Release: Labour Market Statistics (ONS (97) 321)

- The number in employment continued to grow in the first half of 1997, rising by almost half a million in the year to June. Employment has now been growing steadily since the end of 1993, with the largest increases being in female part-time employment. In the year to June 1997 the number of male full-time employees also grew significantly – by 240,000.
- Monthly data for manufacturing employment in Great Britain suggest that the growth in employment may be slowing, with a fall of 30,000 employees between June and September 1997.
- Manufacturing industries accounted for 18% of all employees in June 1997; service industries accounted for 76%. In June 1997, 46% of the workforce in employment were female.

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## C 2. Unemployment: National



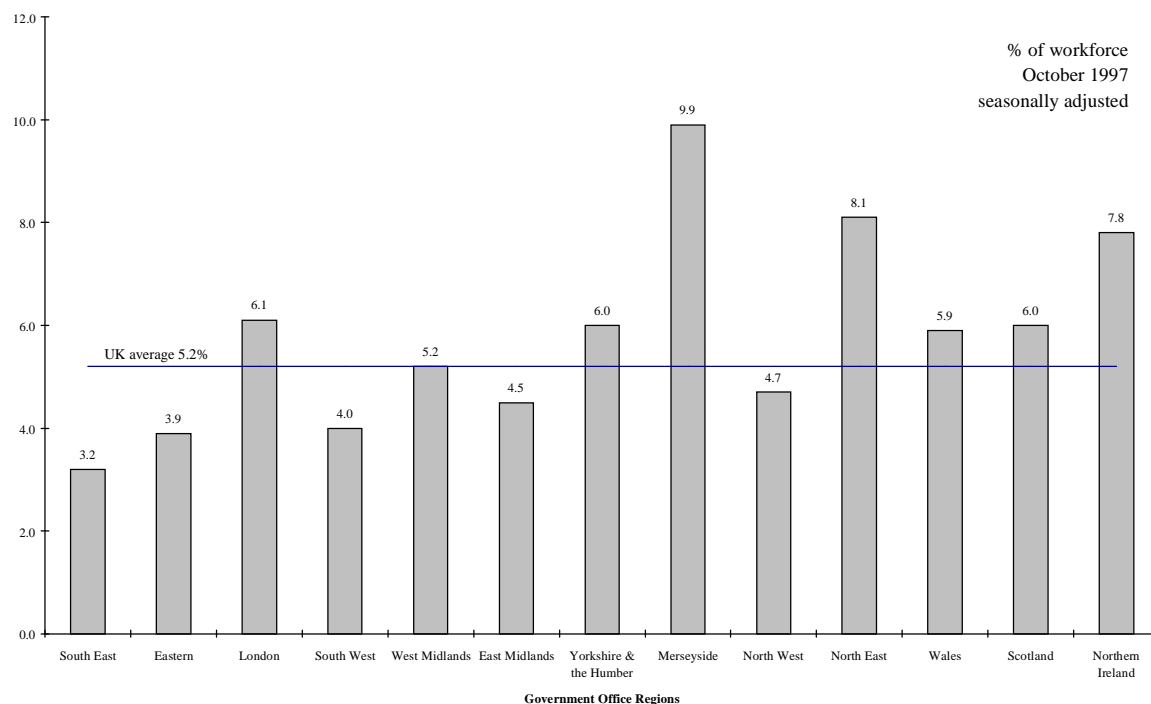
<i>seasonally adjusted</i>		
<u>Unemployed Claimants in the UK</u>		
	Number	% of workforce
1994	2,619,300	9.3
1995	2,308,200	8.2
1996	2,104,000	7.5
Oct-96	2,025,200	7.2
Nov-96	1,929,800	6.9
Dec-96	1,883,100	6.7
Jan-97	1,814,500	6.5
Feb-97	1,748,100	6.2
Mar-97	1,710,800	6.1
Apr-97	1,654,400	5.9
May-97	1,637,300	5.8
Jun-97	1,599,800	5.7
Jul-97	1,545,200	5.5
Aug-97	1,495,400	5.3
Sep-97	1,473,800	5.2
Oct 97	1,464,300	5.2

Source: ONS (Nomis database)

- The number of unemployed claimants in the UK on a seasonally adjusted and consistent basis is now the lowest since September 1980.
- The claimant unemployment rate is now only half the level it stood at in the peak of the recession – 5.2% of the workforce now, compared to 10.5% in December 1992.
- The claimant unemployment rate for is 7.2% for men and 2.7% for women.
- The number of people unemployed according to the ILO definition is half a million higher than on the claimant count definition (1,997,000 compared to 1,487,000 in summer 1997).

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### C 3. Unemployment: Regional



#### % change October 1996 to 1997

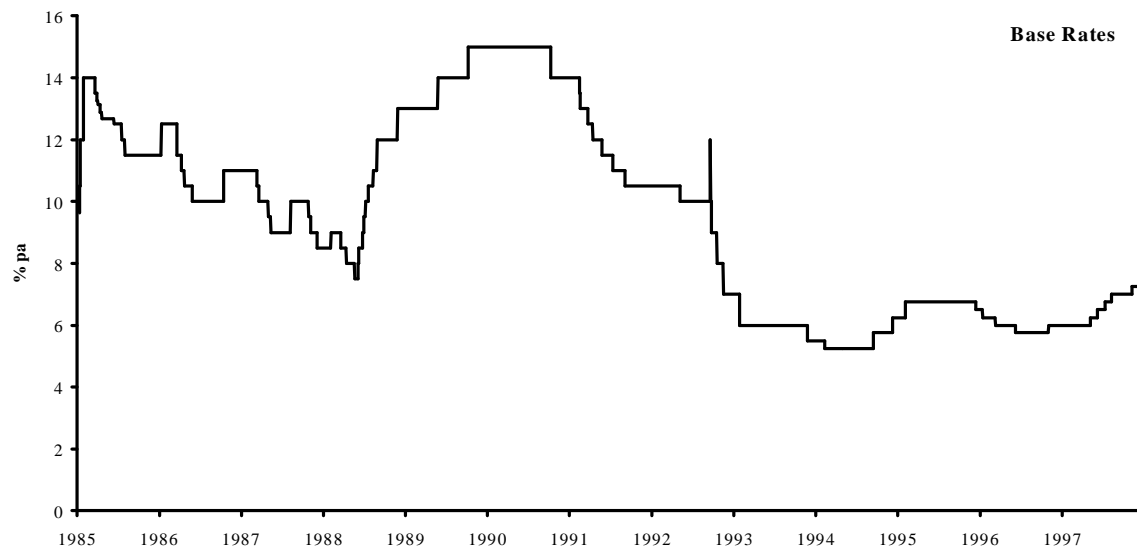
South East	-36.5%
Eastern	-32.9%
London	-28.7%
South West	-33.1%
West Midlands	-26.6%
East Midlands	-30.6%
Yorkshire & the Humber	-22.3%
Merseyside	-21.8%
North West	-28.7%
North East	-19.8%
Wales	-26.3%
Scotland	-22.3%
Northern Ireland	-26.8%
UK	-27.7%

- Regional claimant unemployment rates range from just 3.2% of the workforce in the South East to 9.9% in Merseyside.
- ILO unemployment rates, taken from the Summer 1997 Labour Force Survey, remain somewhat higher than figures from the claimant count.
- Merseyside still has the highest unemployment rate on the ILO measure: 12.4%, followed by London (11.5%) and the North East (10.7%). These figures are not seasonally adjusted.

Source: ONS (NOMIS Database)

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## D 1. Interest Rates

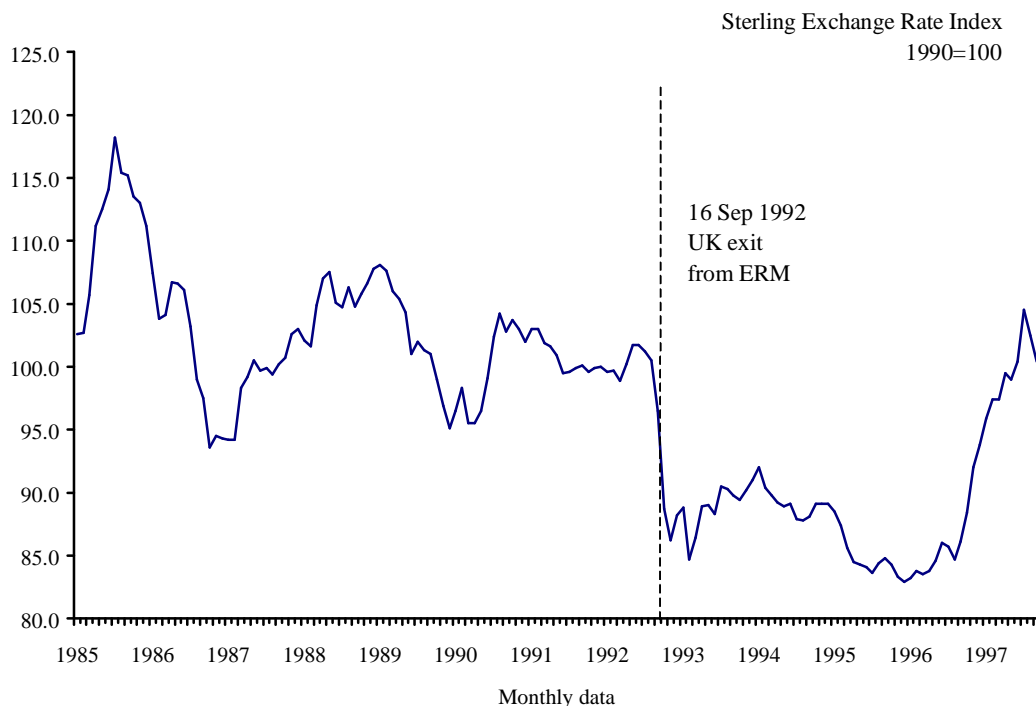


<i>per cent per annum</i>		
Date of change		New rate
1991	27-Feb	13.00
	22-Mar	12.50
	12-Apr	12.00
	24-May	11.50
	12-Jul	11.00
	4-Sep	10.50
1992	5-May	10.00
	16-Sep	12.00
	17-Sep	10.00
	22-Sep	9.00
	16-Oct	8.00
1993	13-Nov	7.00
	26-Jan	6.00
	23-Nov	5.50
1994	8-Feb	5.25
	12-Sep	5.75
	7-Dec	6.25
1995	2-Feb	6.75
	13-Dec	6.50
1996	11-Jan	6.25
	8-Mar	6.00
	6-Jun	5.75
	30-Oct	6.00
1997	6-May	6.25
	6-Jun	6.50
	10-Jul	6.75
	7-Aug	7.00
	6-Nov	7.25

- The interest rate increase on 6<sup>th</sup> June 1997 was the first occasion when interest rates were set by the independent Monetary Policy Committee of the Bank of England rather than by the Chancellor.
- The Monetary Policy Committee next meets on 3<sup>rd</sup> & 4<sup>th</sup> December.
- A sequence of five monthly ¼ per cent point rises in base rates (now termed the Bank's repo rate) ended in August.
- At the time of the August increase the Committee said: "the appreciation of the exchange rate over the past year is putting severe pressure on businesses exposed to international competition. Nevertheless... the Committee judges that today's rise is necessary to put the economy on track for achieving the inflation target of 2½% looking two years ahead. Although the present strength of sterling reflects in large part factors outside the influence of UK monetary policy, upward pressures on the exchange rate should be reduced by the perception that interest rates have reached a level consistent with the inflation target."
- A rate of 15.0% p.a. was announced on 16<sup>th</sup> September 1992 but was cancelled before becoming effective.



## D 2. Exchange Rates



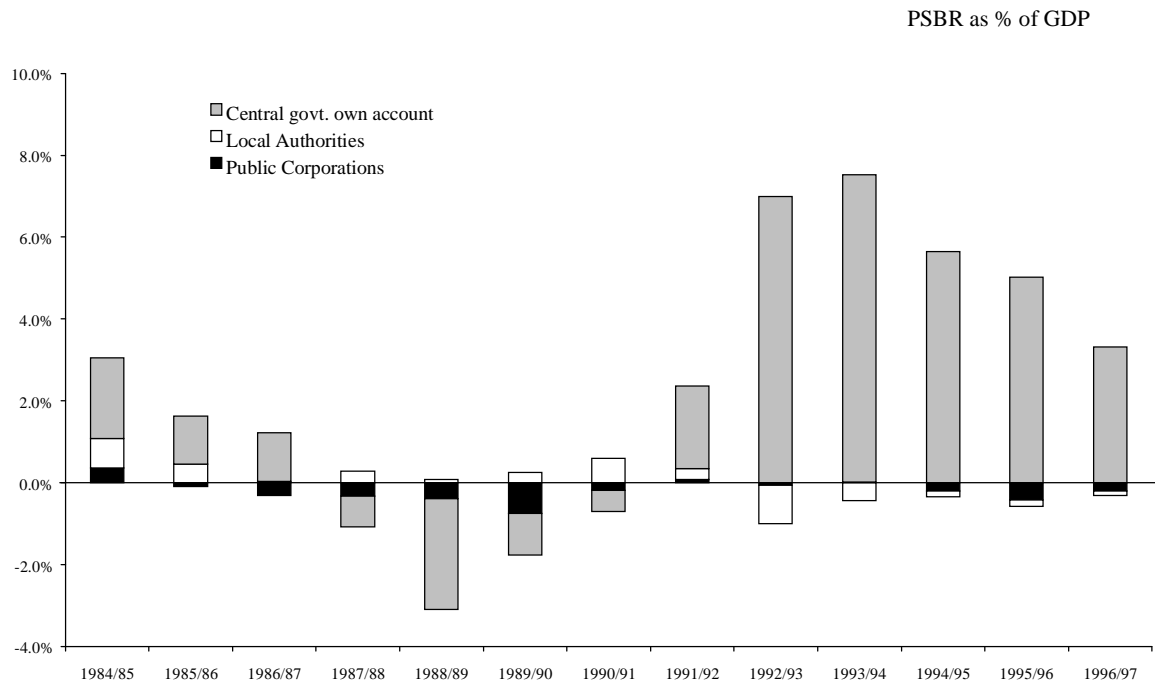
	Exchange Rates							
	DM		US\$		Yen		ECU	
	Rate	% year on change	Rate	% year on change	Rate	% year on change	Rate	% year on change
1992	2.75	-5.9%	1.77	-0.1%	223.72	-5.8%	1.36	-4.6%
1993	2.48	-9.7%	1.50	-15.0%	166.73	-25.5%	1.28	-5.7%
1994	2.48	-0.1%	1.53	2.1%	156.40	-6.2%	1.29	0.6%
1995	2.26	-8.9%	1.58	3.0%	148.37	-5.1%	1.22	-5.5%
1996	2.35	4.0%	1.56	-1.1%	170.00	14.6%	1.25	2.1%
Aug 97	2.95	28.4%	1.60	3.4%	188.88	13.0%	1.50	22.7%
Sep 97	2.86	21.9%	1.60	2.7%	193.49	13.0%	1.46	17.8%
Oct-97	2.87	18.3%	1.63	2.9%	197.50	10.8%	1.46	15.3%

Sources: ONS database (series AJFH, AJFA, AJFO, AJHW)

### Developments in November

- After a month (September) when some of the huge appreciation in sterling's value was lost, expectations and hopes (by some) that this was the start of a long correction were misplaced. Not only did sterling decline no further, it regained a lot of its previous strength against, in particular, European currencies. Two possible reasons for this are, first, a favourable market reaction to the Chancellor's statement on the possible time scale for UK participation in EMU. Secondly, the unexpected increase in interest rates at the start of November.
- Outside Europe, the main feature, there have been substantial falls in the value of the currencies of South East Asian countries. In a phenomenon that has been dubbed the 'Asian contagion' successive 'Tiger' economies have, to varying degrees, seen collapses in currency values, falls in asset prices (land and shares) and crises in the domestic banking system. As a consequence the US\$ has declined since traders assume that the US Fed would loosen monetary conditions to prevent complete collapse of the region's

### D 3. PSBR



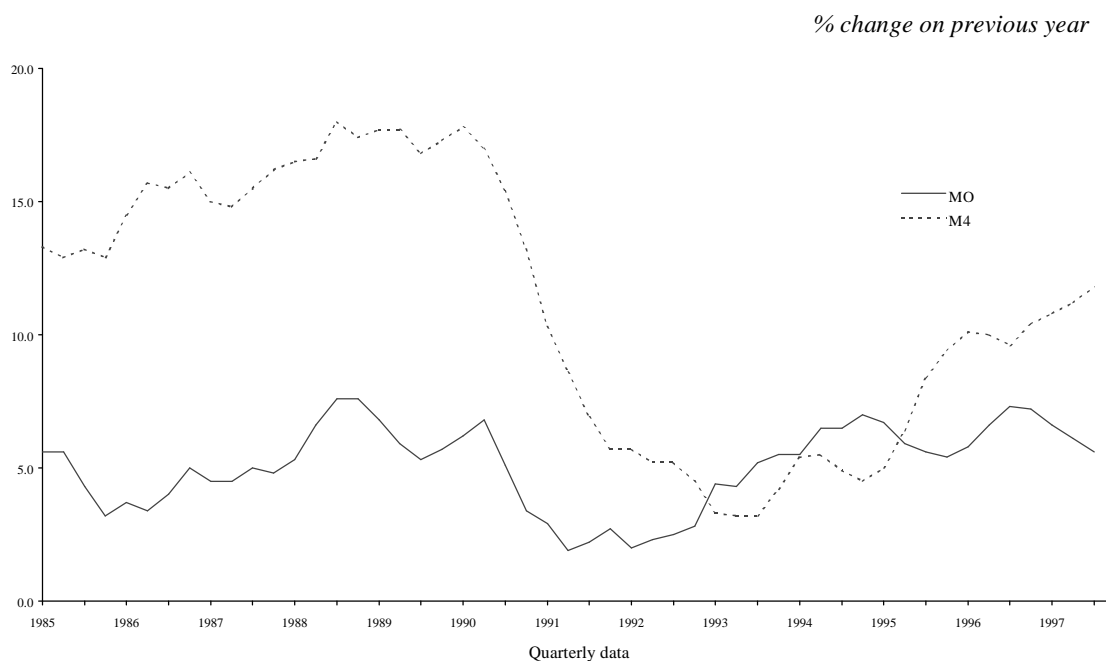
	Public Sector Borrowing Requirement			
	PSBR		PSBR excl privatisation receipts	
	£ billion	As a % of GDP	£ billion	As a % of GDP
1994/95	35.9	5.3%	42.3	6.2%
1995/96	31.7	4.4%	34.1	4.8%
1996/97	22.6	3.0%	27.0	3.6%
1996 Q3	5.8	3.1%	8.1	4.3%
1996 Q4	0.6	0.3%	1.1	0.6%
1997 Q1	6.3	3.3%	6.5	3.4%
1997 Q2	8.2	4.2%	9.3	4.8%
1997 Q3	0.4	n.a.	1.0	n.a.

Source: ONS Database Series ABEN, ABII, CAOB

- The PSBR (including privatisation receipts) for the first seven months of 1997/98 was £2.6 billion compared with £11.2 billion in the same period of 1996/97. Excluding privatisation receipts, the PSBR for the first seven months of 1997/98 was £4.3 billion compared with £15.2 billion in the same period of 1996/97.
- In the November 1997 Pre-Budget Report the Government forecast a PSBR of £9.5 billion for 1997/98, or £11.9 billion if the proceeds from the windfall tax are excluded. Independent forecasters are predicting a PSBR of £10.7 billion.
- There were no privatisation proceeds in October 1997.

Next update: 16 December

## D 4. Money Supply



*Money stock  
seasonally adjusted*

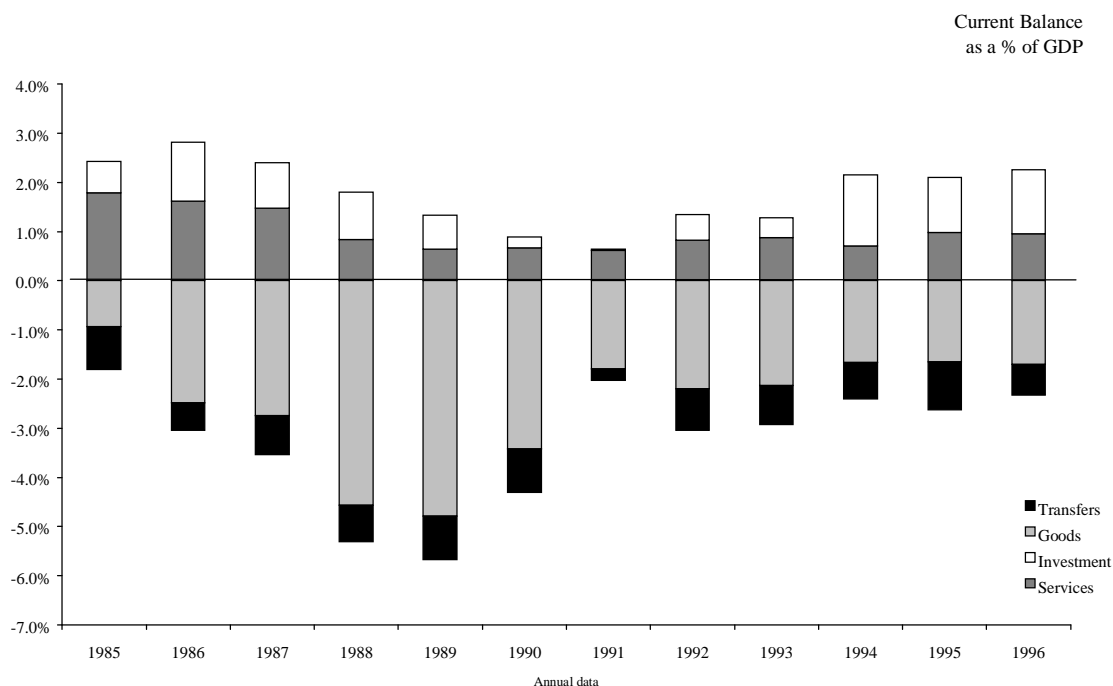
	M0		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1996 October	5.7	7.2	13.3	10.6
1996 November	5.4	7.4	13.6	10.9
1996 December	8.3	7.0	8.3	9.6
1997 January	7.2	7.1	10.1	10.0
1997 February	4.7	6.4	11.1	11.2
1997 March	4.2	6.4	16.9	11.1
1997 April	3.9	5.9	11.2	10.5
1997 May	4.8	6.1	11.4	11.3
1997 June	6.8	6.2	10.8	11.6
1997 July	6.4	5.8	13.1	11.9
1997 August	5.0	5.0	10.5	11.6
1997 September	5.4	6.1	10.7	11.6
1997 October	8.3	6.4	9.3	10.9

*Source: Bank of England press notice dated 20 November 1997*

- M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank. M4 is a broad measure of money consisting of the private sector's holdings of cash, and sterling deposits held by the private sector at both banks and building societies.
- There are now no formal targets for money supply growth. As part of the decision to make the Bank of England operationally independent, the Government has given the Monetary Policy Committee (MPC) the discretion over whether to employ targets or monitoring ranges for money supply growth. The MPC has decided that, at present, it will not reinstate the monitoring ranges that lapsed in May 1997.

*Next update: 1 December*

## E 1. International Trade



Current Account Balances  
*seasonally adjusted; £ million*

	Trade in Goods	Trade in services	Investment Income	Transfers	Current Balance
1994	-11,129	4,776	9,667	-4,969	-1,655
1995	-11,582	6,877	7,920	-6,887	-3,672
1996	-12,657	7,142	9,652	-4,631	-435
1996 Q3	-3,162	1,916	1,846	-1,024	-424
1996 Q4	-2,604	2,101	2,131	-1,108	520
1997 Q1	-2,494	2,241	2,700	-1,143	1,304
1997 Q2	-2,997	2,077	2,358	-951	487
1997 Q3	-2,568	2,120	-	-	-

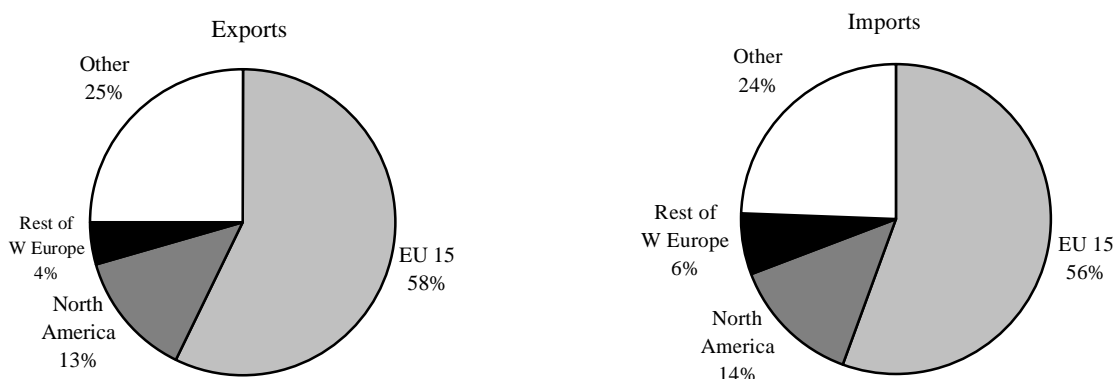
Source: ONS databas (Series AIMA, AIMC, AIMD, AIME, AIMF)

- In addition to figures for trade in goods, the ONS is now publishing figures for trade in services on a monthly basis. The UK's balance on trade in goods and services in September is provisionally estimated as a deficit of £552 million compared with a surplus of £64 million in August.
- The estimated deficit in goods and services (£448 million) for the third quarter is less than half the figure (£920 million) recorded for the deficit in the second quarter.
- The current account was in surplus by £0.9 billion in the second quarter of 1997 compared with a surplus of £1.4 billion in the first quarter. The lower current account surplus was due to a rise of £0.3 billion in the deficit on trade in goods and services and a fall of £0.3 billion in the surplus on investment income. These deteriorations more than offset a fall of £0.2 billion in the deficit on transfers.
- The second quarter surplus of £0.9 billion was composed of a deficit of £1.9 billion with the EU and a surplus of £2.8 billion with non-EU countries.

Next update: 22 December

## E 2. Trade in Goods

**Shares of visible trade by area: 1996**  
Balance of Payment Basis



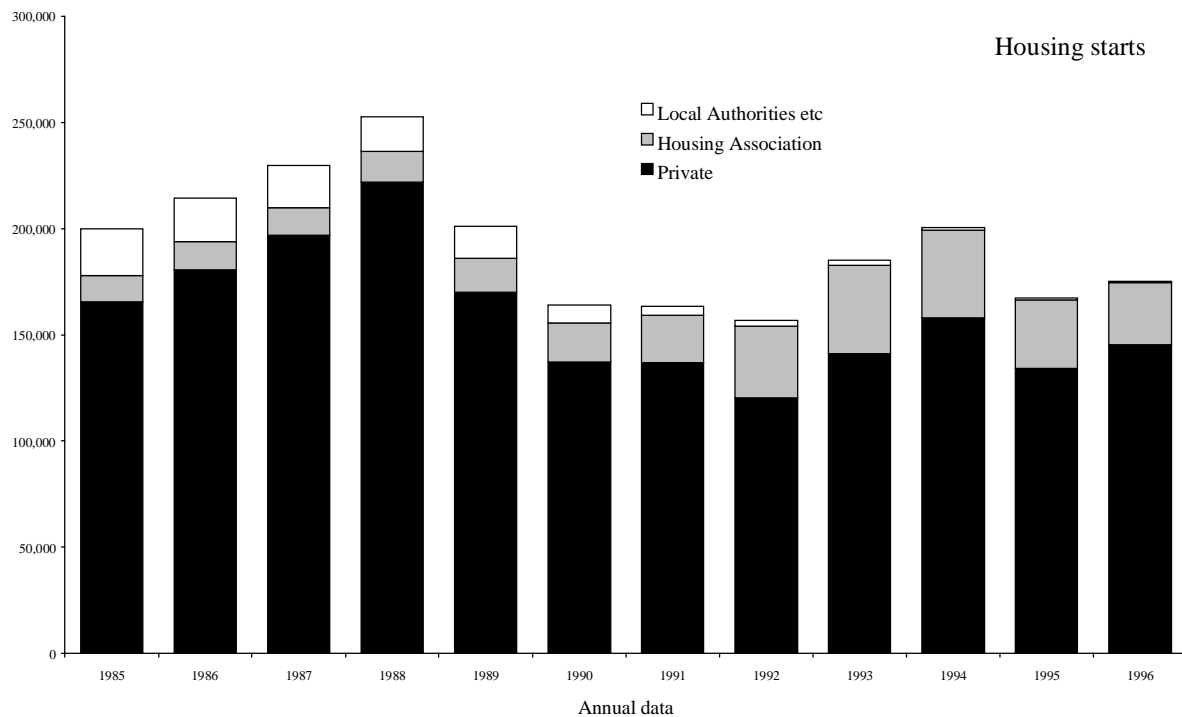
Export and import volume indices and trade in goods balances  
*seasonally adjusted; Balance of Payment basis*

	Volume Index 1990=100		Trade in Goods Balance (£m)		
	Exports	Imports	Exports	Imports	Balance
1994	118.5	109.4	134,664	145,793	-11,129
1995	127.7	114.3	153,077	164,659	-11,582
1996	136.8	124.5	166,921	179,578	-12,657
1996 Q3	137.2	124.7	41,831	44,993	-3,162
1996 Q4	140.0	126.1	42,348	44,952	-2,604
1997 Q1	143.3	126.9	42,122	44,616	-2,494
1997 Q2	148.3	133.2	42,664	45,661	-2,997
1997 Q3	150.4	135.6	43,196	45,764	-2,568

Source: ONS database (Series: CGTR, CGTS, CGKG, CGHK, AIMA)  
First Release, UK Trade, ONS(97) 339, 26 November 1997

- **EU:** In the third quarter of 1997, the deficit with EU countries increased to £1,245 million from £1,211 million in the second quarter. A rise in exports in value terms to the Irish Republic was offset by falls in exports to Belgium. The UK deficit on trade in goods with EU members for 1996 was £4.1 billion, marginally higher than the 1995 figure. In 1996 the other members of the enlarged European Union (EU 15) received 58% of UK exports and supplied 56% of all UK imports.
- **Non EU:** In the third quarter of 1997, the deficit with the non-EU countries narrowed to £1.3 billion from £1.8 billion in the previous quarter. The main growth in UK exports in value terms has come from countries outside the EU, particularly Oil Exporting Countries and Western Europe. Imports from countries outside the EU have been static with small rises in imports from Rest of World and Oil Exporting Countries contrasting with a drop in imports from other Western Europe.
- In the third quarter of 1997, the volume of exports rose 1.4 per cent while imports rose 1.8 per cent on the level in the previous quarter. In 1996 as a whole, the volume of exports rose by 7 per cent and imports by 8.9 per cent compared with 1995. Latest estimates of trends show both export and import volumes rising slightly.
- In the third quarter of 1997 the surplus on trade in oil was £1,016 million compared with a surplus of £918 million in the previous quarter.

## F 1. Housing



### House prices

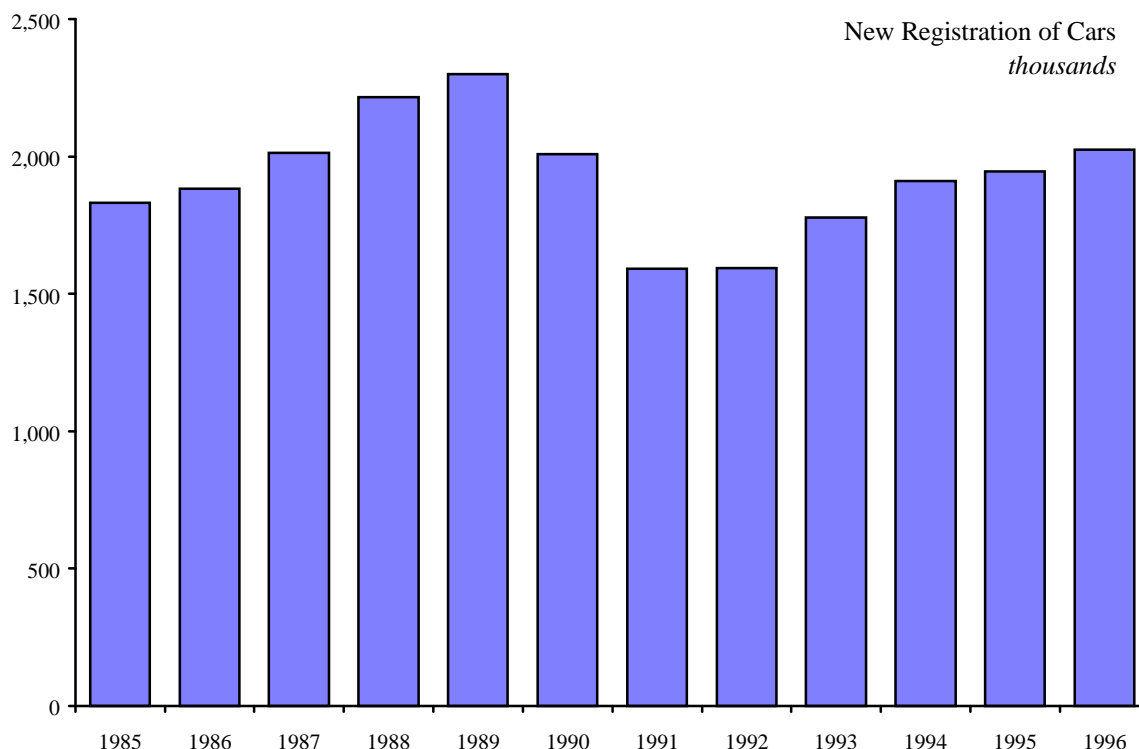
	All Houses	New Houses	Existing Houses	First time buyers
<b>Standardised average price (£)</b>				
1995	41,700	48,600	61,100	45,300
1996	43,600	49,500	64,000	47,100
1996 Q3	43,800	49,600	64,500	47,400
1997 Q2	46,500	50,100	68,700	50,000
1997 Q3	46,700	50,800	68,900	50,100
<b>% change over same period last year</b>				
1995	-1.7%	0.3%	-1.9%	-1.1%
1996	4.5%	1.8%	4.8%	3.9%
1996 Q3	5.4%	2.6%	5.5%	5.0%
1997 Q2	6.7%	-0.2%	7.2%	6.7%
1997 Q3	6.6%	2.5%	6.9%	5.8%

Source: Halifax House Price Index: Third Quarter 1997

- Seasonally adjusted total starts in July-September 1997 were 3% higher than in the previous three months and also 3% higher than in July-September 1996.
- According to the Halifax House Price Index, in the third quarter of 1997, prices rose fastest in the South East (2.3%). Compared with the same quarter of 1996, prices had risen most in Greater London (16.7%) and slowest in Scotland (0.8%).
- The Halifax Monthly Index for October shows a seasonally adjusted 0.4% increase in prices over September and a 5.4% increase over October 1996.

Next update: Prices - 2 December  
Starts - 4 December

## F 2. New Registrations of Cars



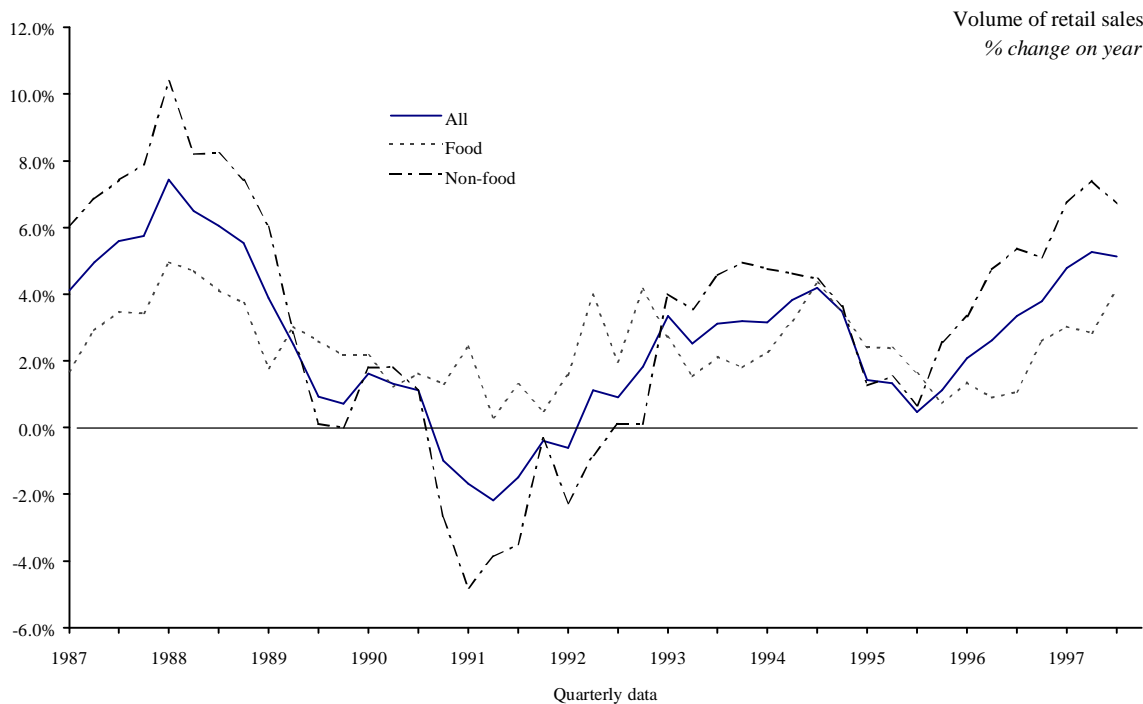
New Registrations of Cars  
*not seasonally adjusted*

	Numbers thousands	Change over 12 months
1992	1,594	0.1%
1993	1,778	11.6%
1994	1,911	7.5%
1995	1,945	1.8%
1996	2,026	4.1%
1997 (forecast)	2,100	3.7%
1998 (forecast)	2,080	-1.0%
Jul-97	36	-7.9%
Aug-97	526	9.6%
Sep-97	161	16.4%
Oct-97	157	1.3%
1997 Year to date	1,934	6.7%

Source: SMMT "Monthly Statistical Review", Oct. 1997

- Figures from the SMMT show that the number of new registrations of cars exceeded 2 million in 1996, a rise of 4.1% on the level in 1995 and the highest level since 1989.
- The SMMT is forecasting a further increase of 3.7% in 1997 followed by a 1% fall in 1998.
- 156,706 cars were registered in October 1997, an increase of 1.3% on the figure for October 1996 and the highest October market ever recorded.
- Growth was 6.7% higher in the year to October compared with the same period in 1996. All sales types of cars showed higher registration figures for the year to date.
- Registration of imported cars rose 10.5% in October. This pushed their market share to 67.8% for the month and 66.4% for the year to date.

### F 3. Retail Sales



Value of Sales  
*not seasonally adjusted; % change on year*

	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food
1994	4%	6%	5%	5%
1995	5%	3%	3%	3%
1996	5%	4%	8%	5%
1996 Q4	2%	5%	10%	4%
1997 Q1	4%	6%	9%	8%
1997 Q2	2%	8%	13%	5%
1997 Q3	4%	6%	10%	7%
1997 Aug-Oct	4%	7%	9%	6%

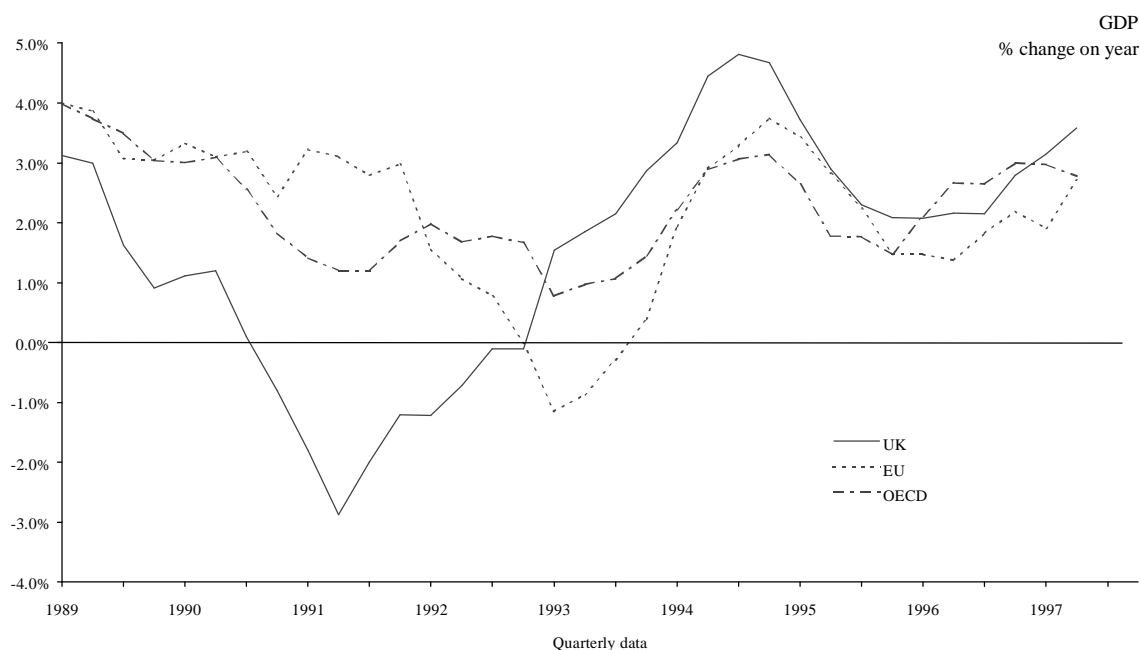
Source: ONS database (series EAWN, EAWO, EAWP, EAWQ)

- Retail sales continue to show strong growth. In volume terms, sales in the three months to October 1997 were 5.1 per cent higher than in the same period of 1996. Retail sales in October were 2.8 per cent higher than in September. However, this reflects the low level of sales in September, which may have been the result of special factors such as the funeral of Diana Princess of Wales (when most shops were closed for half a day) and unseasonably warm weather.
- Since late-1995, sales from predominately non-food stores have been growing at a faster rate than those from predominately food stores.
- Unadjusted data on the value of sales shows sales continue to suggest strong growth in sales of household goods, possibly a continuing reflection of additional spending from windfall gains (see table above).

*Next update: 17 December*



## G 1. International Comparisons - Growth



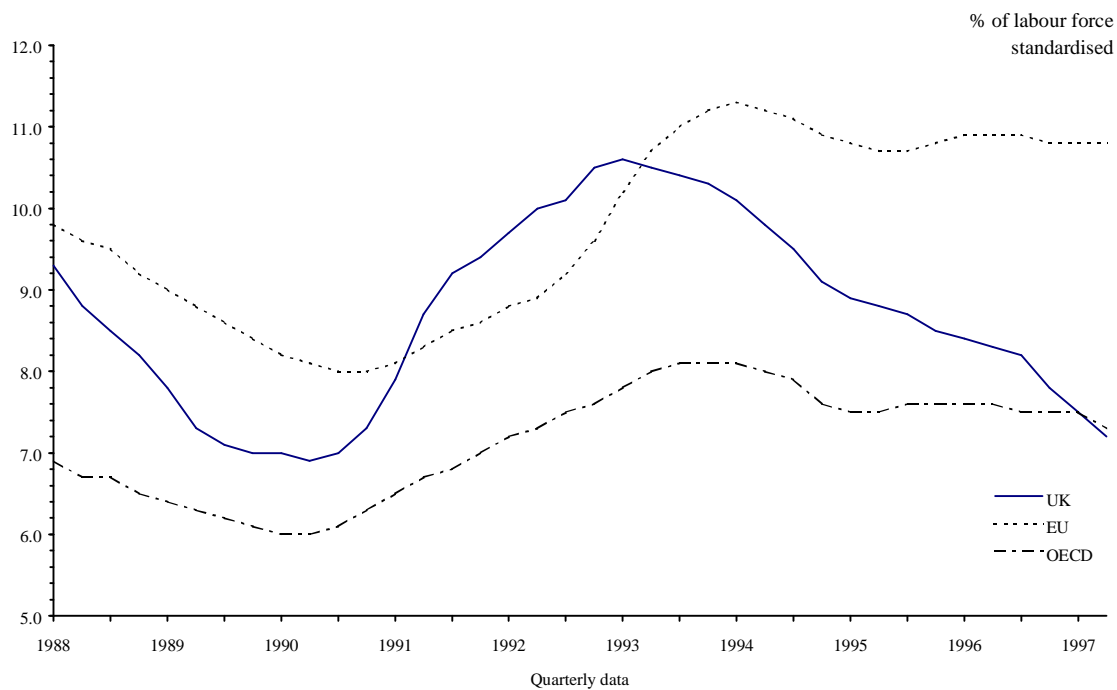
	GDP at constant market prices % change on year						
	1994	1995	1996	1996 Q4	1997 Q1	1997 Q2	1997 Q3
USA	3.5%	2.0%	2.7%	3.2%	4.0%	3.4%	4.0%
Japan	0.7%	1.3%	3.5%	2.9%	2.3%	-0.4%	n.a.
Canada	4.1%	2.3%	1.5%	2.2%	2.9%	3.7%	n.a.
United Kingdom	4.3%	2.8%	2.3%	2.8%	3.1%	3.6%	4.0%
Germany	2.8%	1.8%	1.4%	2.1%	2.6%	2.0%	n.a.
France	2.8%	2.1%	1.5%	2.2%	1.2%	2.4%	n.a.
Italy	2.2%	2.9%	0.8%	0.3%	-0.6%	1.9%	n.a.
EU15	3.0%	2.4%	1.7%	2.2%	1.9%	2.7%	n.a.
OECD	2.8%	2.0%	2.6%	3.0%	3.0%	2.8%	n.a.

Source: OECD Main Economic Indicators, November 1997

- In year to the second quarter of 1997 the UK economy grew by 3.6%. This was the second highest growth rate among the G7 countries (after Canada) and above the averages for both the EU15 and the OECD as a whole.
- Since the beginning of 1993 the UK has consistently grown at a faster rate than the EU average. This partly reflects an earlier recovery from the recession.
- The forecasts in the June 1997 edition of the OECD's *Economic Outlook* suggest that with the exception of Japan, all the G7 countries will see higher growth in 1997 than in 1996.

Next update: late December

## G 2. International Comparisons - Unemployment



Unemployed as % of labour force  
*standardised; seasonally adjusted*

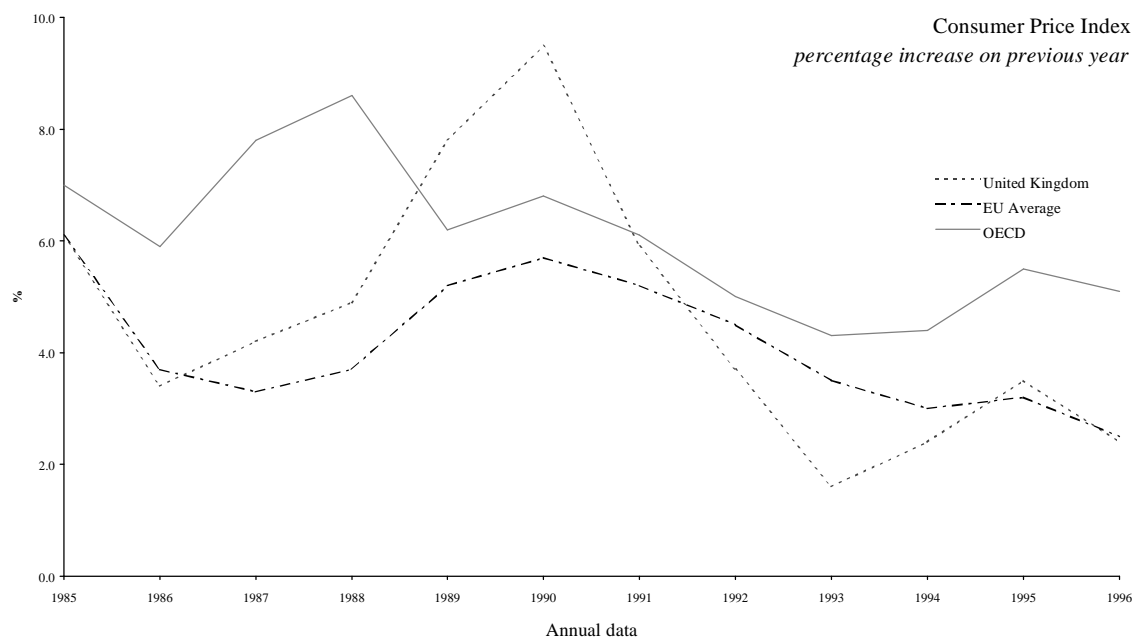
	1994	1995	1996	1996 Q4	1997 Q1	1997 Q2	1997 Q3
USA	6.1	5.6	5.4	5.3	5.3	4.9	4.9
Japan	2.9	3.1	3.4	3.3	3.3	3.4	3.4
Canada	10.4	9.5	9.7	9.9	9.6	9.4	9.0
United Kingdom	9.6	8.8	8.2	7.8	7.5	7.2	7.1
Germany	8.4	8.2	8.9	9.1	9.5	9.6	9.9
France	12.3	11.7	12.4	12.6	12.5	12.6	12.6
Italy	11.4	11.9	12.0	12.0	12.2	12.5	na
EU 15	11.1	10.8	10.9	10.8	10.8	10.7	10.6
G7	7.1	6.8	6.8	6.8	6.8	6.6	6.6
OECD	7.9	7.5	7.6	7.5	7.5	7.3	7.2

Source: OECD Main Economic Indicators

- Using standardised definitions, the UK unemployment rate was significantly below the EU average but a little above the average for G7 countries.
- Other countries with unemployment rates below that of the UK were: Austria (4.5%), Denmark (6.2%), Luxembourg (3.8%), Norway (4.1%) and Portugal (6.2%).

Next update: mid December

### G 3. International Comparisons – Prices



Harmonised Index of Consumer Prices  
*% change over 12 months*

	1996	Jul 97	Aug 97	Sep 97
United States (a)	3.0	2.2	2.2	2.2
Japan (a)	0.1	1.9	2.1	2.4
Canada (a)	1.5	1.8	1.8	1.6
United Kingdom	2.5	2.0	2.0	1.8
Germany	1.2	1.5	1.7	1.6
France	2.1	1.1	1.6	1.5
Italy	4.0	1.7	1.6	1.6
EU 15	2.4	1.7	1.8	1.8
OECD (a)	5.1	4.2	4.3	4.4

Notes: (a) National CPI data

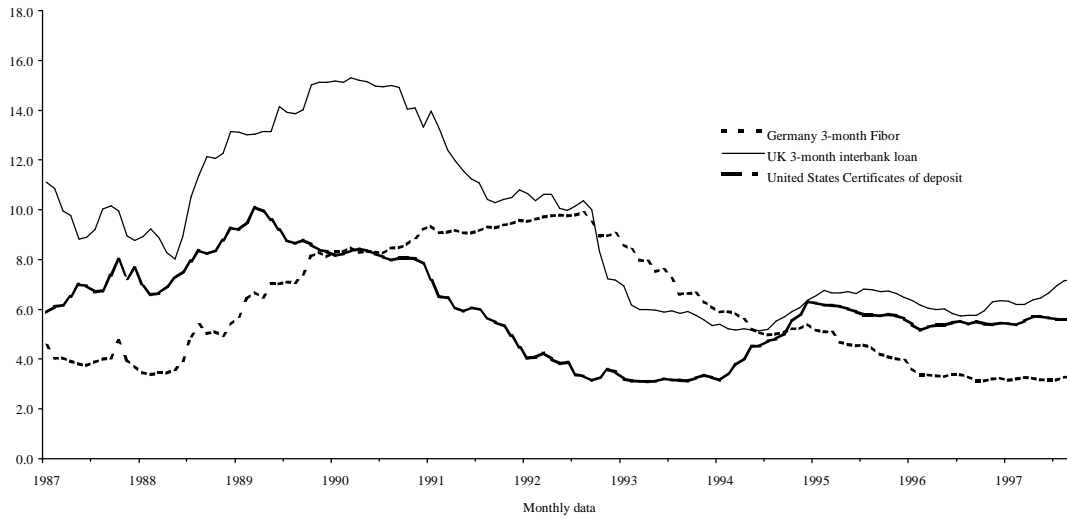
Sources: Eurostat Press Release 74/97; OECD Main Economic Indicators

- The EU inflation rate has increased slightly in recent months, although it remains lower than it was this time last year.
- Inflation rates in all EU Member States are now less than 5% pa. Greece has the highest inflation rate: 4.9% pa.
- Seven Member States (Belgium, Denmark, Germany, Luxembourg, the Netherlands, Finland and Sweden) have seen an increase in their annual inflation rate over the last year.

Next update: mid November

## G 4. International Comparisons - Interest Rates

Short term interest rates



Short-Term Interest Rates as at 27 November 1997

	3-month rate (% pa)
London	$7\frac{21}{32}$
New York	$5\frac{7}{8}$
Frankfurt	$3\frac{3}{4}$
Tokyo	$7\frac{7}{32}$
Paris	$3\frac{5}{8}$
Milan	$6\frac{1}{16}$
Brussels	$3\frac{3}{4}$

Source: *Financial Times*, 28 November 1997

- UK interest rates remain well above key European rates reflecting the relative buoyancy of the UK economy compared to some parts of Europe.
- Expectations of a significant rise in rates in the United States remain confounded. The Chairman of the Federal Reserve commented that the turmoil in the world's stock markets in late October were "...a salutary event in terms of its implications for the macroeconomy", suggesting no early change in US policy.
- Japanese interest rates are for all practical purposes at their lowest level. The government has already introduced several huge fiscal stimuli to the Japanese economy and the Bank of Japan wants to prevent the Yen from appreciating against the dollar. In view of this, Japanese interest rates are likely to remain at this level for some time, unless the economy, which is no longer

**Recent Library Research Papers have been:**

<b>97/115</b>	Bank of England Bill [Bill 62 of 1997/98]	10.11.97
<b>97/116</b>	Unemployment by Constituency - October 1997	12.11.97
<b>97/117</b>	Unemployment by Constituency: Welfare-to-Work Groups, October 1997	12.11.97
<b>97/118</b>	Welfare-to-Work: The New Deal	12.11.97
<b>97/119</b>	Student grants, loans and tuition fees	13.11.97
<b>97/120</b>	The European Parliamentary Elections Bill [Bill 65 of 1997/98]	19.11.97
<b>97/121</b>	The UK Tourism Industry	17.11.97
<b>97/122</b>	Wild Mammals (Hunting with Dogs) Bill [Bill 7 1997/98]	19.11.97
<b>97/123</b>	By-elections since the 1997 general election	24.11.97
<b>97/124</b>	EMU: a question of economics	25.11.97