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Economic Indicators

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: International Comparisons of Productivity.

Jane Hough (Editor)

ECONOMIC POLICY & STATISTICS SECTION

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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	Extn
Balance of payments	Tim Edmonds/Bob Twigger	2883/4904
Construction	Eshan Karunatileka/Tim Edmonds	3977/2883
EC finance	Mick Hillyard/Jane Hough	4324/2464
Employment	Eshan Karunatileka/Tim Edmonds	3977/2883
Energy	Graham Vidler	4313
Financial services	Eshan Karunatileka/Jane Hough	3977/2464
Housing	Bryn Morgan	3851
Incomes	Bob Twigger/Tim Edmonds	4904/2883
Industries	Tim Edmonds/Eshan Karunatileka	2883/3977
National accounts-GDP etc	Bob Twigger/Tim Edmonds	4904/2883
Overseas aid	Mick Hillyard/Tim Edmonds	4324/2883
Prices	Bob Twigger/Tim Edmonds	4904/2883
Production	Eshan Karunatileka/Tim Edmonds	3977/2883
Public expenditure	Bob Twigger/Tim Edmonds	4904/2883
Taxation	Bob Twigger/Tim Edmonds	4904/2883
Trade	Mick Hillyard/Tim Edmonds	4324/2883
Transport	Graham Vidler	4313
Unemployment	Jane Hough/Bob Twigger	2464/4904
Wages & earnings	Tim Edmonds/Eshan Karunatileka	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*.

II International Comparisons of Productivity

In the last month or so there has been a renewed interest in comparing levels of productivity in different countries.¹ A number of studies have recently been published that have received a significant degree of attention in both media and political circles. These studies include work published by the National Institute for Economic and Social Research (NIESR);² the management consultants McKinsey,³ and also the Institute for Fiscal Studies.⁴ This article concentrates on the results of the NIESR study, which compares the UK with the USA, France, Germany and Japan.

There are three main measures of productivity. The most often-cited measure is that of labour productivity. This is usually defined as output per hour or alternatively output per worker. Of course, labour is not the only input into the production process: capital is a vital component too.⁵ It is also possible to measure the productivity of capital, defined in the NIESR study in terms of output per unit of capital. These two measures can then be combined into a third measure, termed 'total factor productivity' (TFP).

Compared to France, Germany, the USA and Japan, labour productivity in the UK is relatively unfavourable in most sectors of the economy. In manufacturing, the UK remains behind its major competitors: Germany and Japan have labour productivity levels around 20 per cent higher than the UK, France 44 per cent higher and the USA 60 per cent higher. There were three sectors where the gap between the UK and her competitors was relatively narrow: mining and oil & gas extraction (reflecting the growth of North Sea oil and gas production, coupled with the decline of the coal-mining industry), construction and transport & communications.⁶ In all three sectors the UK's relative position has improved in recent years. These sectors are still quite small, however; combined, they only account for 15 per cent of output and 11 per cent of total employment.⁷

In 1995 capital intensity (capital per hour worked) in the UK was very much below the other four countries in agriculture, manufacturing, construction, distribution, miscellaneous personal services and non-market services. For example, in 1995 capital intensity in the UK manufacturing industry was at least 40 per cent lower than in the other countries covered in the study.⁸ The UK's capital position was only favourable in comparison to all other

¹ Competitiveness is a broader concept than productivity that also reflects exchange rates and quality factors.

² *Britain's Relative Productivity Performance 1950-1996: Estimates by Sector*, Mary O'Mahony, National Institute of Economic and Social Research; October 1998.

³ *Driving Productivity and Growth in the UK Economy*; McKinsey Global Institute, 1998

⁴ *Productivity and the Role of Government*; Rachel Griffith and Helen Simpson, Institute for Fiscal Studies, November 1998.

⁵ Although now of less relevance, traditional economic theory identifies land (or natural resources) as the third major input to the productive process.

⁶ NIESR, table I.5

⁷ NIESR, table I.1

⁸ NIESR, table I.8

countries in the mining sector. In financial and business services it was favourable in comparison to all countries except Germany, and in transport & communications it was favourable only in comparison to Japan.⁹ Thus the UK's deficiency in capital intensity is a feature of almost all sectors.

The UK's deficit in terms of total factor productivity (TFP) is not as great as it is for labour productivity. Comparisons for the utilities sector particularly, but also for manufacturing, construction and distribution show the UK in a rather better light on this broader measure. For example, manufacturing TFP was only around 5 per cent higher in Germany and Japan than in the UK.¹⁰ For the economy as a whole, in 1995, the USA and Germany both had levels of TFP 12 per cent higher than the UK; TFP in France was 21 per cent higher than in the UK, but in Japan it was 20 per cent **lower**.

The NIESR study continues by looking at the contributions to differences in productivity made by various other factors. These are discussed briefly below:

- On comparisons of skill levels between countries, the study acknowledges that the UK suffers from a skills gap relative to other countries. The gap is most pronounced in higher level qualifications when comparing the UK and the USA, and in intermediate (vocational) skills when comparing the UK and Germany. The study concludes that the UK's "skills deficiency is apparent in all sectors of the economy".
- However, the NIESR study suggests that the contribution to the UK's deficit in labour productivity played by the skills gap is relatively small; the role played by the relative shortage of physical capital is far more important.
- In 1995 the UK enjoyed a relative advantage on unit labour costs most noticeably in comparison to Japan; more modestly so with France and Germany, but not with the USA. The strength of sterling since 1995 is likely to have eroded this advantage though.

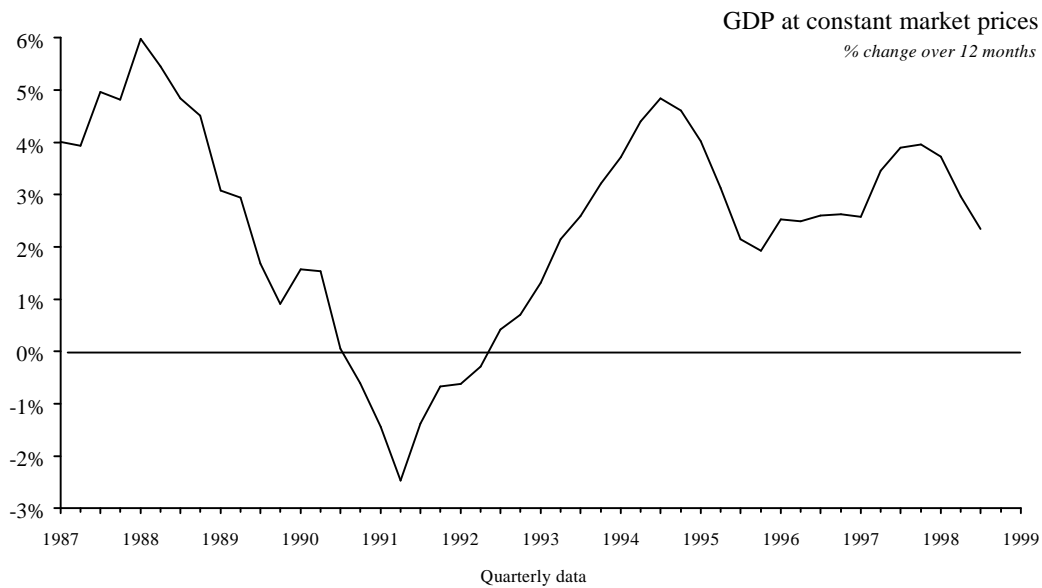
Taken all together, the results of the study would seem to suggest, in crude terms, that the UK's relatively poor position on total factor productivity is partly a result of a skills gap, but perhaps more importantly because the UK is not a particularly capital-intensive economy. What capital there is is being utilised efficiently, but relatively low levels of capital intensity are, if anything, holding back labour productivity. This is evidenced by the fact that labour productivity is relatively low, capital intensity is relatively low, but the differences in total factor productivity are more modest.

For further information on this subject contact: Jane Hough on ext. 2464.

⁹ NIESR, table I.8

¹⁰ NIESR, table I.11

A 1. Gross Domestic Product



Gross Domestic Product
seasonally adjusted

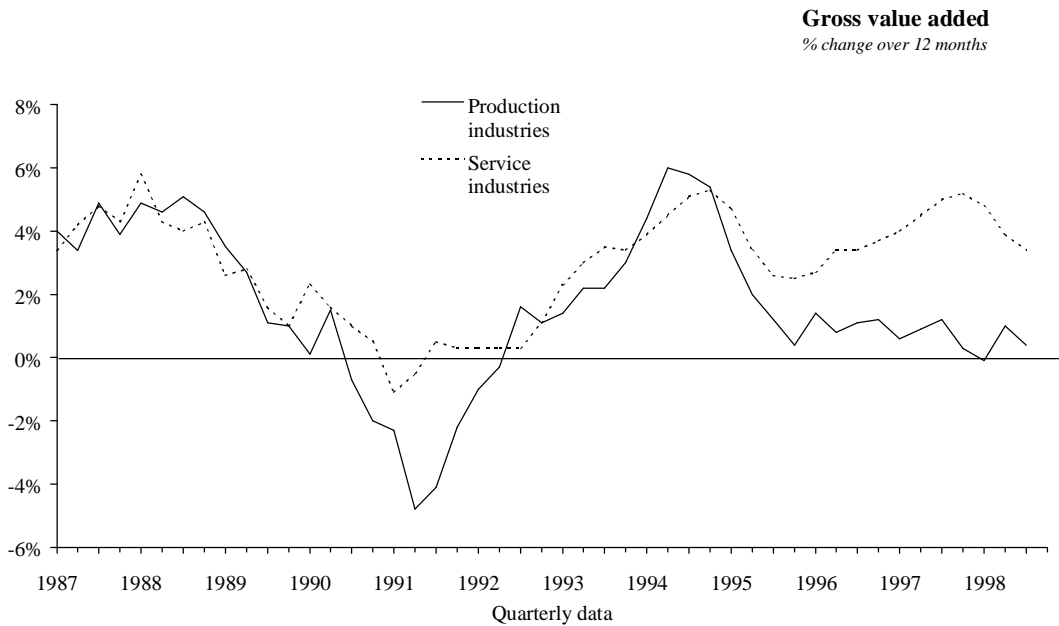
	GDP at current market prices <i>£ billion</i>	GDP at constant market prices <i>12 month change</i>	HH consumption at constant market prices <i>12 month change</i>	Non-Oil GVA at constant basic prices <i>12 month change</i>
1995	712.5	2.8%	1.6%	2.6%
1996	754.6	2.6%	3.7%	2.5%
1997	802.0	3.5%	4.4%	3.6%
1997 Q2	198.5	3.5%	4.6%	3.5%
Q3	203.2	3.9%	4.4%	3.8%
Q4	205.0	4.0%	4.9%	3.9%
1998 Q1	206.9	3.7%	4.2%	3.6%
Q2	209.3	3.0%	2.8%	2.9%
Q3 (prov)	211.9	2.3%	2.8%	2.4%

Source: ONS Database series YBHA, AMBI, ABJR & GDPS; ONS first release (98)391

- Gross domestic product (GDP) at market prices is estimated to have grown by 0.4% in the third quarter of 1998 to a level 2.3% higher than in the third quarter of 1997. GDP growth has slowed since the first three quarters of 1997 when quarter-on-quarter growth rates were 1.0% or above. The lower growth in the year to the third quarter of 1998 is largely a reflection of deteriorating net exports.
- Gross value added (GVA) at basic prices excluding oil and gas extraction is estimated to have grown by 0.5% in the third quarter of 1998 to a level 2.4% higher than in the third quarter of 1997.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will slow to 2.6% in 1998 and 0.9% in 1999.

Next update: 21 December

A 2. Gross Value Added by Industry



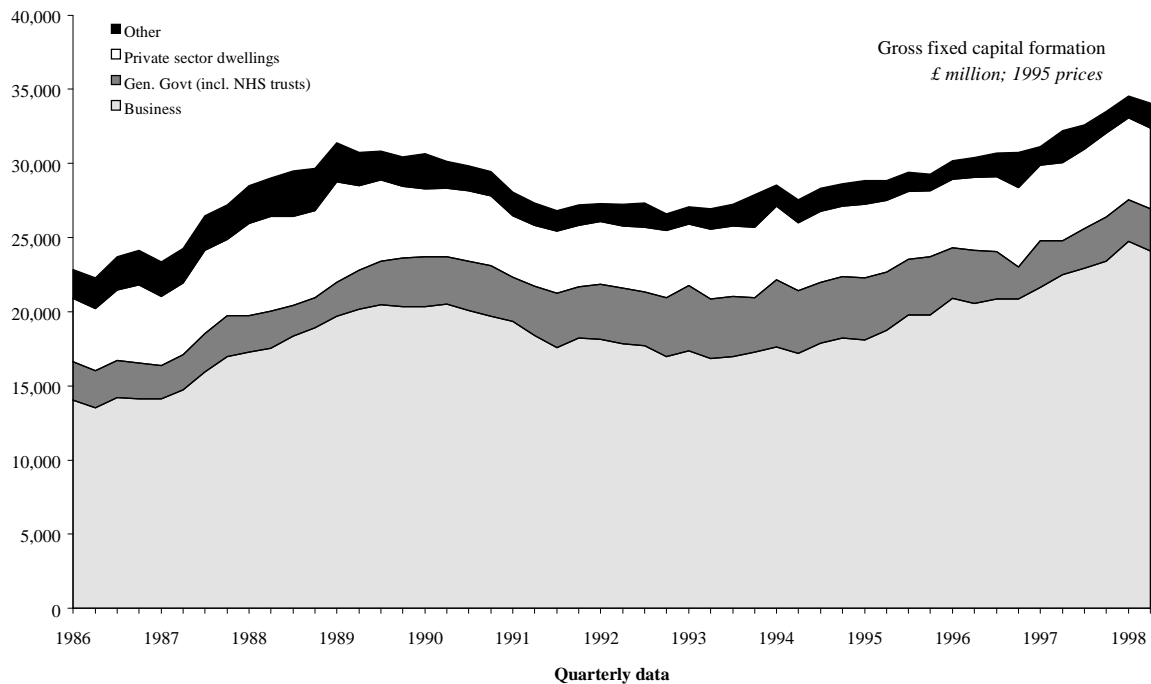
Gross value added at 1995 basic prices
% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac- turing			
1995	1.7%	1.5%	3.3%	0.0%	-0.8%
1996	1.1%	0.4%	3.3%	2.0%	1.5%
1997	0.7%	1.0%	4.7%	0.7%	2.3%
1997 Q2	0.9%	1.3%	4.5%	3.6%	3.1%
Q3	1.2%	1.3%	5.0%	0.6%	1.8%
Q4	0.3%	0.6%	5.2%	1.5%	2.0%
1998 Q1	-0.1%	0.2%	4.8%	1.4%	4.4%
Q2	1.0%	0.7%	3.9%	0.2%	0.4%
Q3	0.4%	0.1%	3.4%	2.0%	0.0%

Sources: ONS database (ERID, ERIT, GDRN, GDQV, GDQW, ERIE, ERIU, GDRQ, GDRR & GDSI)

- Since 1995, output has grown faster in the service sector than in other parts of the economy and is currently growing at an annual rate of around 3½%. Industrial production rose by ½% in the year to 1998 Q3 compared with a rise of 1% in the year to 1998 Q2. This slowdown partly reflects weaker performance of the manufacturing sector.
- Data for manufacturing output suggest considerable variation in the experience of different industrial sectors. In the year to the third quarter of 1998, the output of engineering & allied industries rose by 4.0% and the chemicals & man-made fibres sector saw a modest increase of 0.3%. However, other sectors experienced declining output. For example output of the textiles, leather & clothing sector fell by 7.9% over this period and output of basic metals & metal products fell by 2.6%.
- In 1997 manufacturing accounted for 21% of GVA, other production industries (mining & quarrying and electricity gas & water supply) for 5%, agriculture, etc. for 2%, construction for 5% and services for 68%.

A 3. Investment



Gross fixed capital formation
£ million; 1995 prices; seasonally adjusted

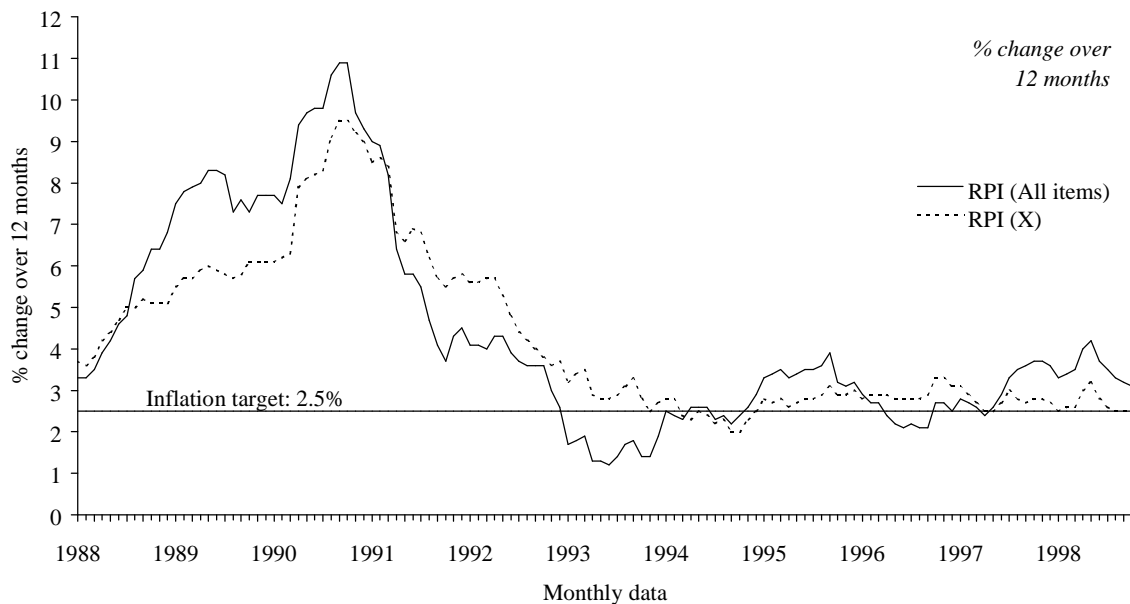
	Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
1995	11,055	44,464	35,314	21,588	3,939	116,360
1996	11,777	49,124	34,825	22,154	4,162	122,042
1997	13,938	52,080	35,961	23,254	4,232	129,465
1997 Q3	3,412	13,196	9,147	5,831	1,042	32,628
Q4	3,302	13,891	9,243	6,107	963	33,506
1998 Q1	3,904	14,121	9,600	5,985	928	34,538
Q2	3,349	14,197	9,471	6,070	965	34,052
Q3	-	-	-	-	-	34,892

Source: ONS database (series DLWJ, DLWO, DLWT, DFDV, EQDO, NPQT, DLWL)

- Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets.
- Figures show that total GFCF in 1997 (at 1995 prices) is estimated to have risen 6% compared with 1996, which in turn was 5% higher than the level recorded in 1995. However, GFCF in 1997 was still 6% below the peak (£122,158 million) reached in 1989.
- Total investment rose 2½% in the 1998 Q3 compared with the previous quarter and 7% compared with the same quarter in the previous year.

Next update: 21 December

B 1. Retail Prices



<i>% change on previous year</i>		
Retail Prices Index		
	All-items	excl. mortgage interest (RPI(X))
1995	3.5	2.9
1996	2.4	3.0
1997	3.1	2.8
Oct	3.7	2.8
Nov	3.7	2.8
Dec	3.6	2.7
1998 Jan	3.3	2.5
Feb	3.4	2.6
Mar	3.5	2.6
Apr	4.0	3.0
May	4.2	3.2
Jun	3.7	2.8
Jul	3.5	2.6
Aug	3.3	2.5
Sep	3.2	2.5
Oct	3.1	2.5

Source: ONS Database (series CZBH, CDKQ)

- The current inflation target is 2.5%: if RPI(X) diverges from this target by more than 1 percentage point, the Governor of the Bank of England is required to send a letter to the Chancellor explaining the reasons for the divergence.
- Inflation has been at or above the target level of 2.5% since the beginning of 1995. After increasing during the first half of 1998, RPI(X) has been on a downward trends since June. It has now been exactly on the 2.5% target for three consecutive months. The rate of increase of headline inflation fell marginally in October, from 3.2% to 3.1%.
- Housing costs continue to provide a large part of the upward pressure within the RPI. In the twelve months up to October 1998, housing costs increased by 8.4%.
- However, the rate of inflation of clothing and footwear products has been zero or negative for most of 1998. The prices of such products fell by 1.1% in the twelve months up to October. Clothing and footwear retailers seem to have been discounting the prices of goods aggressively this autumn.

Next update: 15 December

B 2. Average Earnings

The Office for National Statistics suspended publication of the average earnings index on 2 November 1998 because of problems identified with the reliability of the series.

The Director of ONS, Dr Tim Holt, said:

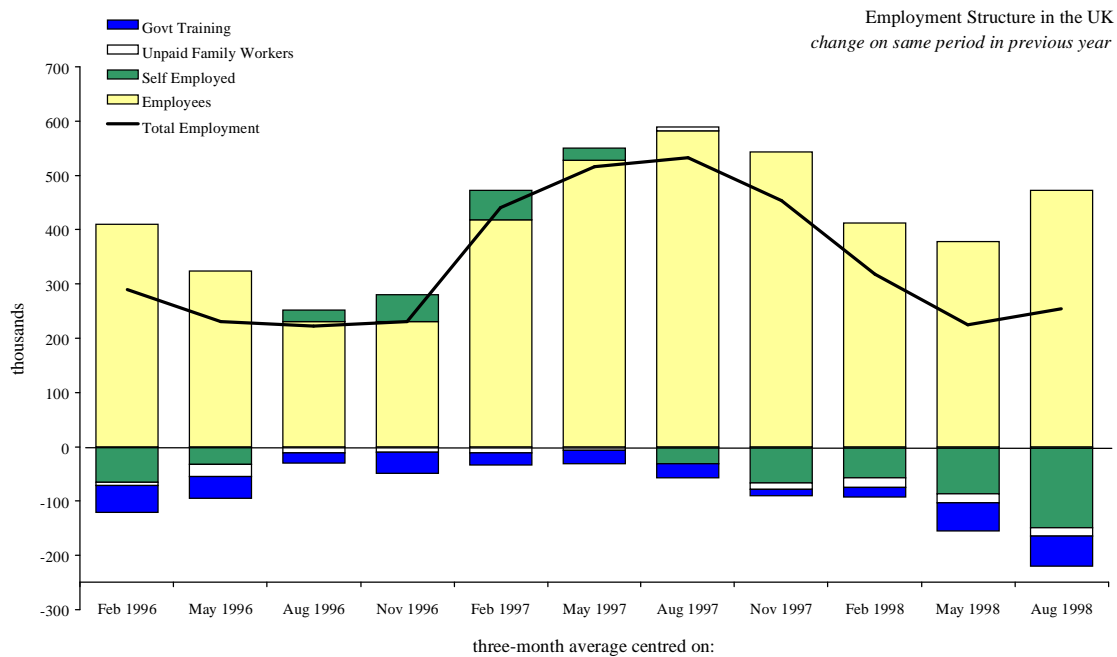
Public confidence in this particular series has clearly been dented. We have put substantial work in hand which will not be completed in time for the next scheduled release of the series. In the circumstances we judged it in the best interest of our users to halt publication until we can give the re-based series a clean bill of health - with defects corrected if any are found. We have announced this decision now so as to give all our users as much advance warning as possible.

Our primary concern is to restore confidence in the reliability of the average earnings series. Users need reassurance and we would prefer to publish when we can respond to all the concerns they have expressed. We shall do that as quickly as possible.

The Chancellor of the Exchequer has initiated an independent review of the average earnings index, led by Martin Weale (the director of the National Institute of Economic and Social Research). This is expected to take between four and six weeks.

ONS has also commissioned Professor Ray Chambers (from Southampton University) to quality assure the work put into producing the average earnings index. The findings of both the review and work undertaken by Professor Chambers will be made public.

C 1. Employment



Employment Structure in the UK
thousands; seasonally adjusted

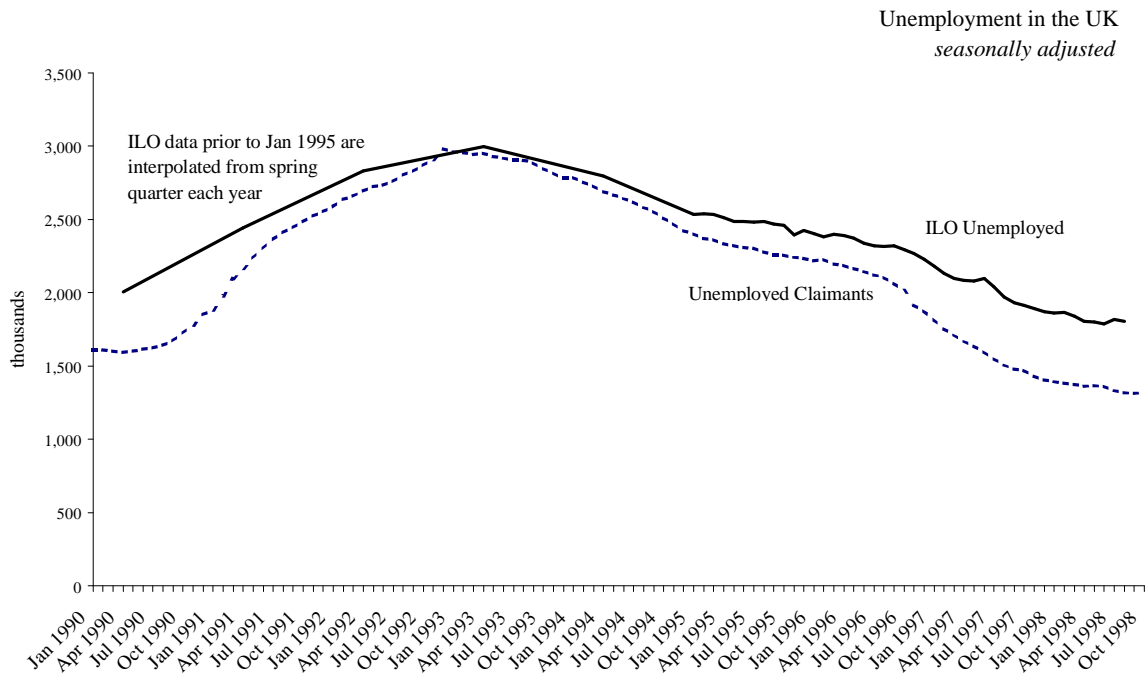
		Total in Employment	Employees	Self Employed	Unpaid Family Workers	Govt Training
1995	Jul-Sep	26,157	22,430	3,335	129	263
1996	Jul-Sep	26,379	22,660	3,357	118	244
1997	Jul-Sep	26,911	23,242	3,325	125	219
	Oct-Dec	26,982	23,350	3,308	111	212
	Jan-Mar	27,020	23,423	3,297	95	205
1998	Apr-Jun	27,041	23,516	3,255	99	170
	Jul-Sep	27,165	23,715	3,176	109	164
Changes:						
1997 Jul-Sep to		254	473	-149	-16	-55
1998 Jul-Sep		0.9%	2.0%	-4.5%	-12.8%	-25.1%

Source: Labour Force Survey (ONS)

- Total employment has continued to increase in the latest rolling three-month period; compared to a year previously, employment was 254,000 (0.9%) higher in the July-September 1998 period. However, the pace at which employment is increasing has halved over the last year (previously it increased by 2.0% in the year to July-September 1997).
- The number of people working part-time is virtually unchanged from the level a year previously, currently standing at 6.5 million. The proportion of those working part-time who said that they could not find a full-time job has fallen slightly over the year to July-September 1998: from 12.2% to 11.4%.
- In July-September 1998 the average actual weekly hours of work were 38.5 for full-time employees (40.6 for men and 34.1 for women) and 15.2 for part-time employees (14.9 for men and 15.3 for women).

Next update: 16 December

C 2. Unemployment: National



ILO Unemployment in the UK
seasonally adjusted

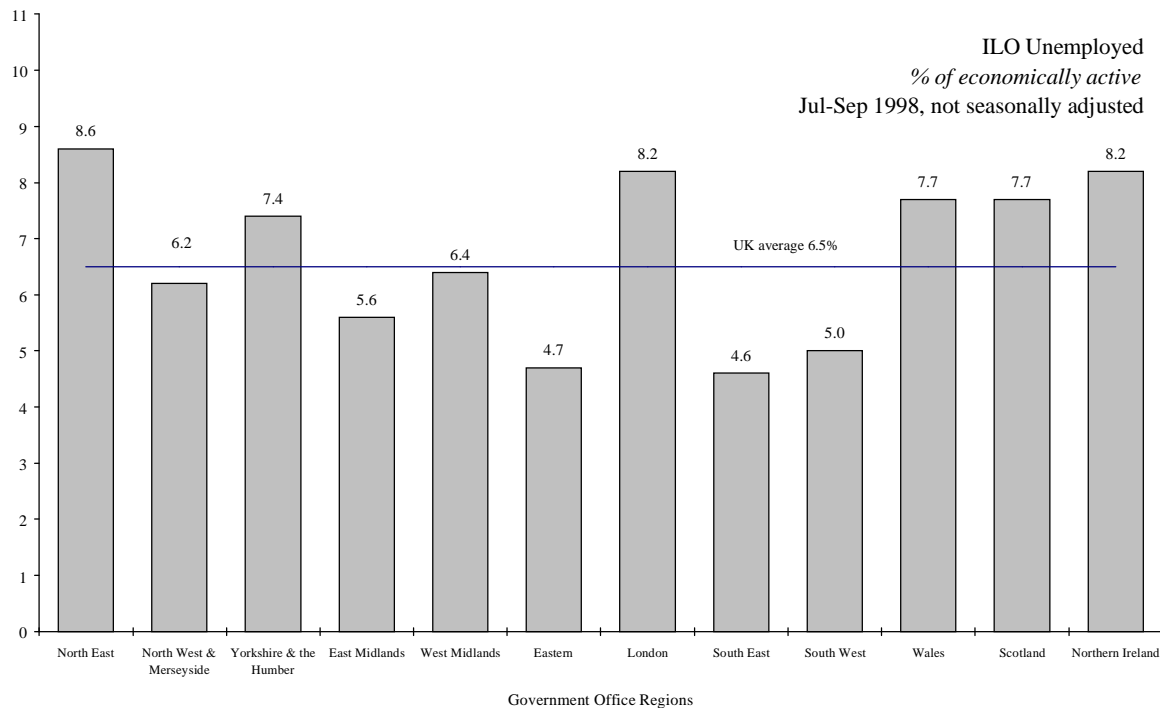
		thousands	rate (%)
1995	Jul-Sep	2,487	8.7
	Oct-Dec	2,396	8.3
1996	Jan-Mar	2,383	8.3
	Apr-Jun	2,373	8.3
	Jul-Sep	2,315	8.1
	Oct-Dec	2,266	7.9
1997	Jan-Mar	2,134	7.4
	Apr-Jun	2,082	7.2
	Jul-Sep	1,971	6.8
	Oct-Dec	1,893	6.6
1998	Jan-Mar	1,864	6.5
	Apr-Jun	1,802	6.2
	Jul-Sep	1,804	6.2

Source: Labour Force Survey(O NS)

- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure. In the UK this is obtained from the Labour Force Survey (LFS).
- The latest LFS estimates show that over the period July to September 1998, the level of ILO unemployment in the UK was 1,804,000. This is a marginal increase of 2,000 from the previous three-month period. The unemployment rate of 6.2% is unchanged from the previous three-month period. As measured by the monthly claimant count, unemployment increased in October by 7,000 to stand at 1,319,000. The claimant count last rose in May 1998.
- Since the New Deal for the Young Unemployed started in January, over 167,000 people have joined the scheme. Up to the end of September, 30,000 of those leaving the Gateway had moved into employment (70% of which went into unsubsidised employment).

Next update: 16 December

C 3. Unemployment: Regional



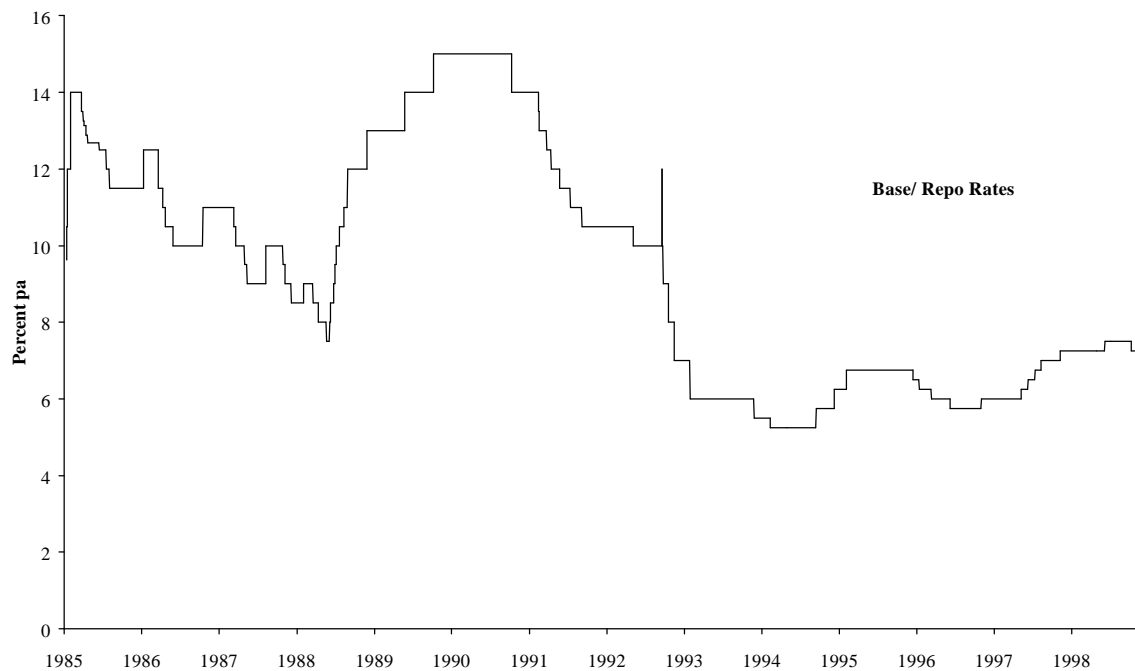
ILO Unemployment, Jul-Sep 1998
change on same period in previous year

	thousands	%
North East	-6	-6%
North West & Merseyside	-18	-10%
Yorkshire & the Humber	-6	-3%
East Midlands	9	8%
West Midlands	-29	-15%
Eastern	-31	-19%
London	-49	-14%
South East	-8	-4%
South West	-6	-5%
Wales	-1	-1%
Scotland	-17	-8%
Northern Ireland	-5	-8%
UK	-169	-8%

Source: ONS First Release (98) 377

- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure. In the UK this is obtained from the Labour Force Survey (LFS).
- Unemployment is still in a downward trend in most regions. However, the rate at which unemployment is falling varies between the regions; in recent months, the Eastern region, the West Midlands and London have seen the most pronounced falls in unemployment.
- In the three-month period of July to September, unemployment in the East Midlands increased by approximately 9,000 compared to a year ago.

D 1. Interest Rates



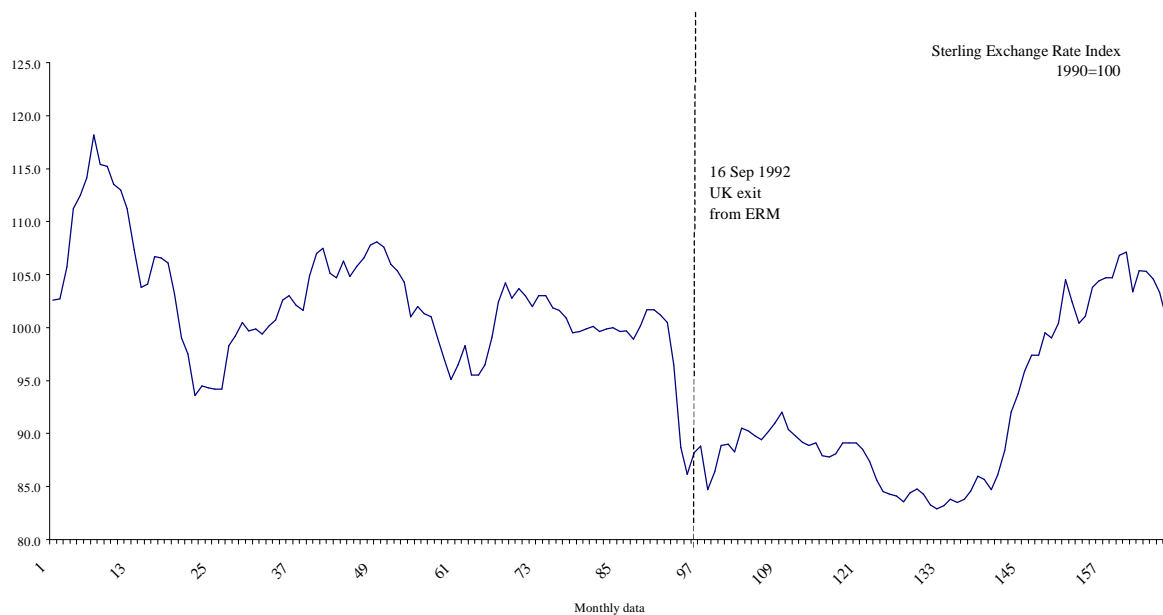
UK Base/Repo Rates *per cent per annum*

Date of change	New rate	
1992	May 5	10.00
	Sep 16	12.00
	Sep 17	10.00
	Sep 22	9.00
	Oct 16	8.00
	Nov 13	7.00
1993	Jan 26	6.00
	Nov 23	5.50
1994	Feb 8	5.25
	Sep 12	5.75
	Dec 7	6.25
1995	Feb 2	6.75
	Dec 13	6.50
1996	Jan 11	6.25
	Mar 8	6.00
	Jun 6	5.75
	Oct 30	6.00
1997	May 6	6.25
	Jun 6	6.50
	Jul 10	6.75
	Aug 7	7.00
	Nov 6	7.25
1998	Jun 4	7.50
	Oct 8	7.25
	Nov 5	6.75

Source: Bank of England

- The interest rate increase on 6 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 9-10 of December.
- The ½ percentage point cut in the repo rate (previously called the Bank's base rate) in November was the largest change in rates yet made by the MPC.
- According to the accompanying announcement, the Committee were persuaded to cut rates because of worsening UK survey evidence. Eight members voted for a ½% point cut, one voted for a ¾% point cut.
- A rate of 15.0% p.a. was announced on 16 September 1992 but was cancelled before becoming effective.

D 2. Exchange Rates



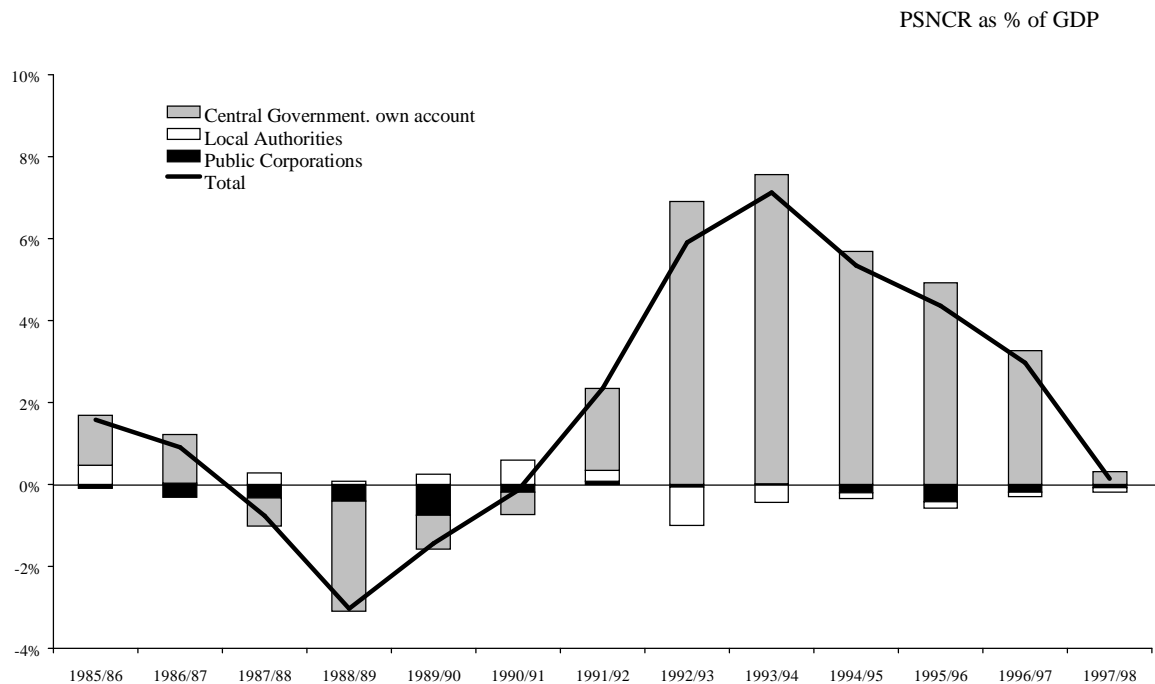
	Exchange Rates							
	DM		US\$		Yen		ECU	
	Rate	% change on year	Rate	% change on year	Rate	% change on year	Rate	% change on year
1992	2.75	-5.9%	1.77	-0.1%	223.72	-5.8%	1.36	-4.6%
1993	2.48	-9.7%	1.50	-15.0%	166.73	-25.5%	1.28	-5.7%
1994	2.48	-0.1%	1.53	2.1%	156.40	-6.2%	1.29	0.6%
1995	2.26	-8.9%	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%
1997	2.84	20.9%	1.64	4.9%	198.12	16.5%	1.45	16.3%
1998 Aug	2.92	-1.0%	1.63	1.7%	236.34	25.1%	1.48	-1.3%
1998 Sept	2.86	-0.1%	1.68	4.9%	226.19	16.9%	1.45	-0.4%
1998 Oct	2.78	-3.1%	1.70	4.1%	205.02	3.8%	1.41	-3.4%

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

Recent Developments

- Sterling has remained broadly unaffected by the interest rate cut (½% point) decided upon by the Monetary Policy Committee at its November meeting. Although its size came as a surprise to the market a cut had been expected and interest rate reductions in Europe, and the expectation that 'euroland' interest rates may converge at a lower rate when they come into effect in January, meant that sterling fell very little as a consequence.
- Outside Europe, currency levels have stabilised compared to the wild gyrations seen earlier this year. Some stability has been provided by the latest rescue/reflation package announced by the Japanese government.

D 3. Public Sector Net Cash Requirement

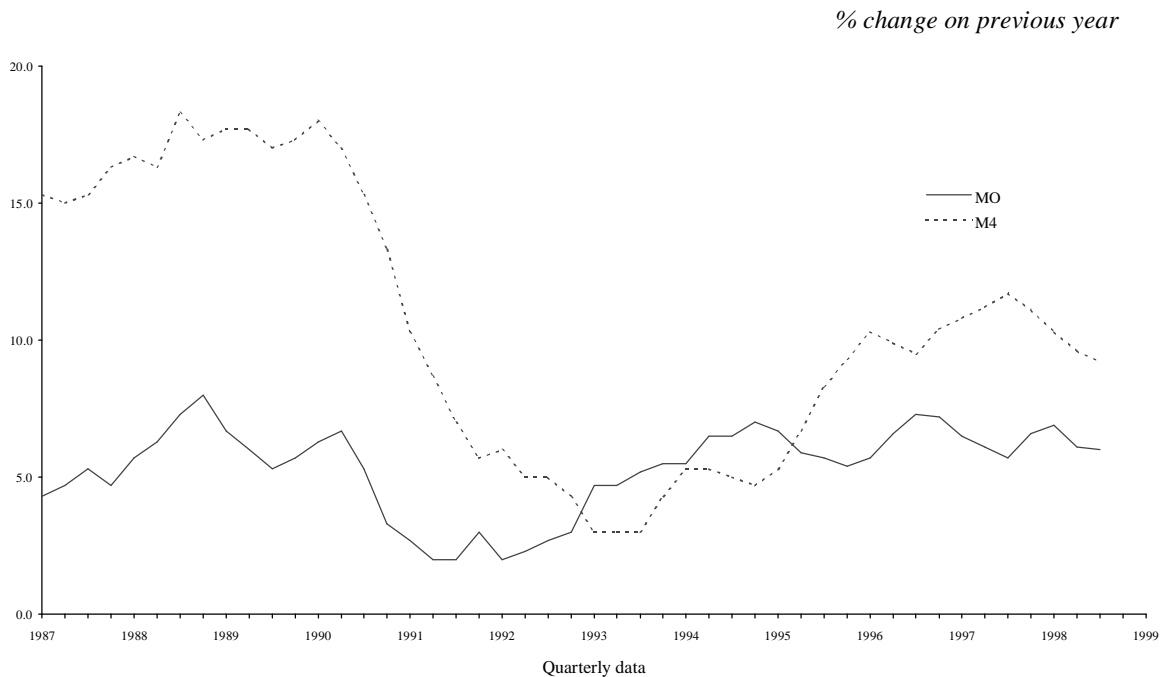


	Public Sector Net Cash Requirement			
	PSNCR		PSNCR excl privatisation receipts	
	£ billion	As a % of GDP	£ billion	As a % of GDP
1995/96	31.5	4.4%	33.9	4.7%
1996/97	22.7	3.0%	27.2	3.6%
1997/98	1.1	0.1%	2.9	0.4%
1997 Q3	0.7	0.3%	1.3	0.6%
1997 Q4	-2.4	-1.2%	-2.4	-1.2%
1998 Q1	-5.2	-2.5%	-5.2	-2.5%
1998 Q2	5.4	2.6%	5.5	2.6%
1998 Q3	-2.8	-1.3%	-2.8	-1.3%

Source: ONS Database Series RURQ, RURS, YBHA

- The public sector net cash requirement was previously known as the public sector borrowing requirement (PSBR).
- The PSNCR (including privatisation receipts) for the 1997/98 financial year was £1.1 billion compared with £22.7 billion in 1996/97. Excluding privatisation receipts, the PSNCR for 1997/98 was £2.9 billion compared with £27.2 billion in 1996/97.
- In the first seven months of 1998/99 the PSNCR was a negative £5.3 billion. (ie net debt repayment). Privatisation proceeds during the period were £70 million. This can be compared to a PSNCR of £1.8 billion for the same period in 1997/98.
- No privatisation proceeds were received in October 1998.

D 4. Money Supply



Money stock
seasonally adjusted

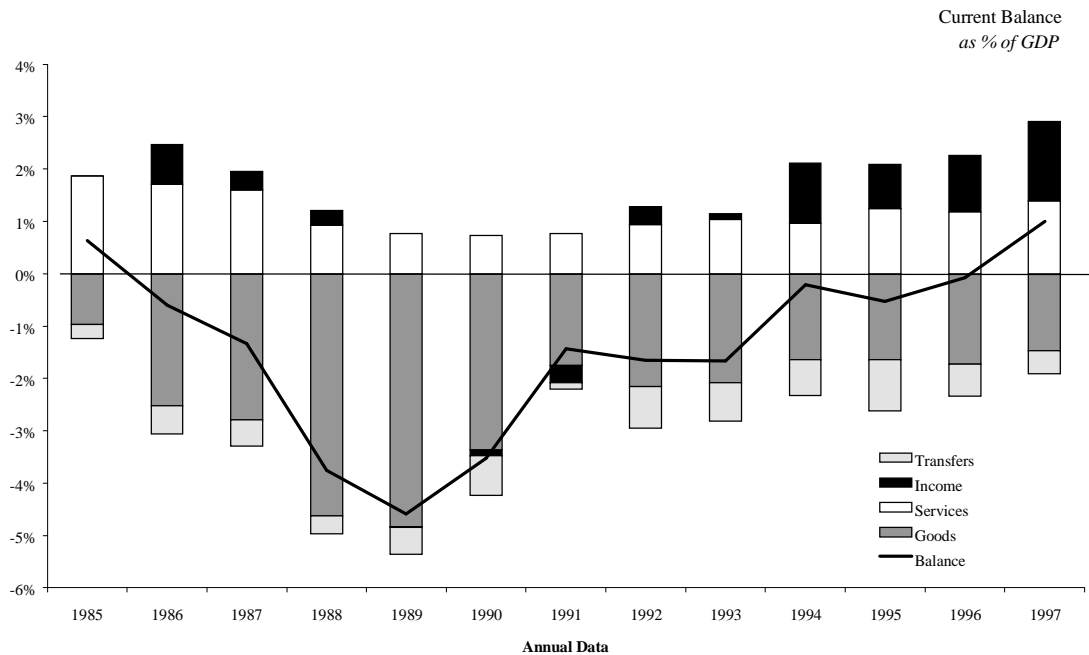
	MO		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1997 Oct	8.1	6.4	10.1	10.9
Nov	11.4	6.8	8.7	10.6
Dec	9.5	6.7	10.1	11.7
1998 Jan	7.2	6.9	9.4	10.7
Feb	5.0	7.1	10.2	10.4
Mar	4.6	6.6	7.8	9.7
Apr	3.9	6.7	9.9	10.4
May	3.2	6.3	8.2	9.5
Jun	2.8	5.4	9.1	9.3
Jul	3.8	5.7	10.7	10.0
Aug	5.1	6.1	8.4	8.9
Sep	6.8	5.9	9.4	9.1
Oct	7.1	5.5	6.5	9.1

Source: Bank of England, *Monetary Statistics*, November 1998

- 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.
- Provisional figures suggest that M0 grew by 0.4% in November. This suggests a 12-month growth rate of 4.8% and an annualised 3-month growth rate of 6.1% (all figures seasonally adjusted).
- There are now no formal targets for money supply growth.

Next updates: 11 & 18 December & 4 January

E 1. International Trade



Current Account Balances
seasonally adjusted; £ million

	Trade in Goods	Trade in services	Total Trade	Total income	Central Gov transfers	Other transfers	Current Balance
1995	-11,724	8,915	-2,809	5,976	50	-6,962	-3,745
1996	-13,086	8,897	-4,189	8,111	1,698	-6,220	-600
1997	-11,792	11,160	-632	12,168	1,287	-4,817	8,006
Q3	-2,670	2,881	211	3,027	134	-1,298	2,074
Q4	-3,995	2,940	-1,055	3,228	788	-979	1,982
1998 Q1	-4,485	3,119	-1,366	2,813	-201	-1,743	-497
Q2	-4,284	3,259	-1,025	2,483	243	-1,101	600
Q3	-5,244	3,147	-2,097	-	-	-	-

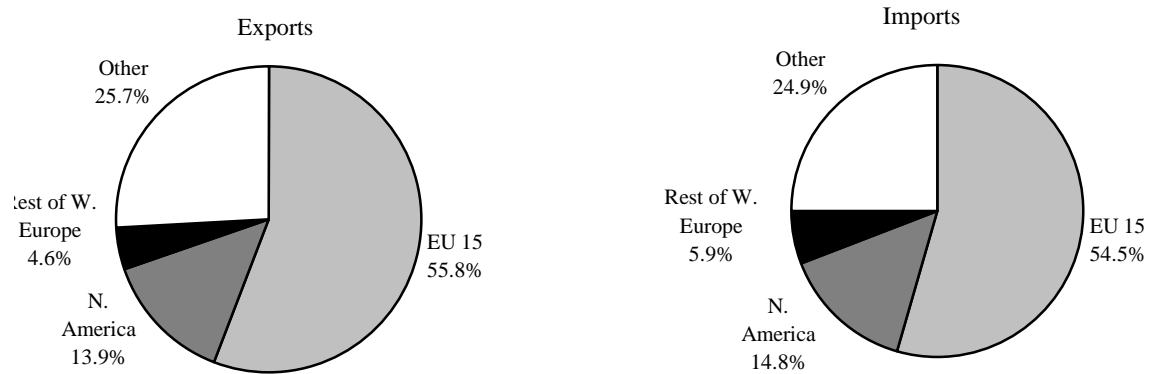
Source: ONS database (Series BOKI, IKBJ, IKBD, HBOJ, FNSV, FNTC, HBOP)

- **Trade in Goods:** Successive quarterly figures show large deficits continuing, indicating a very weak UK trading position.
- **Trade in Services:** In the third quarter of 1998 the surplus in services fell slightly to £3,147 million from £3,259 million in the previous quarter. For 1997 as a whole, the surplus in services was £11,160 million, which is £630 million short of offsetting the deficit on goods for the year.
- **Central Government Transfers:** These include taxes and social security contributions received by non-resident workers, businesses and transfers with international organisations, including the EU. In the first two quarters of 1998 the balance switched from a deficit of £201 million to a surplus of £243 million.
- **Current Account:** The current account showed an overall surplus of £600 million in the second quarter of 1998, compared with a deficit of nearly £500 million in the previous quarter.

Next update: 21 December

E 2. Trade in Goods

Shares of visible trade by area: 1997 Balance of Payment Basis



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

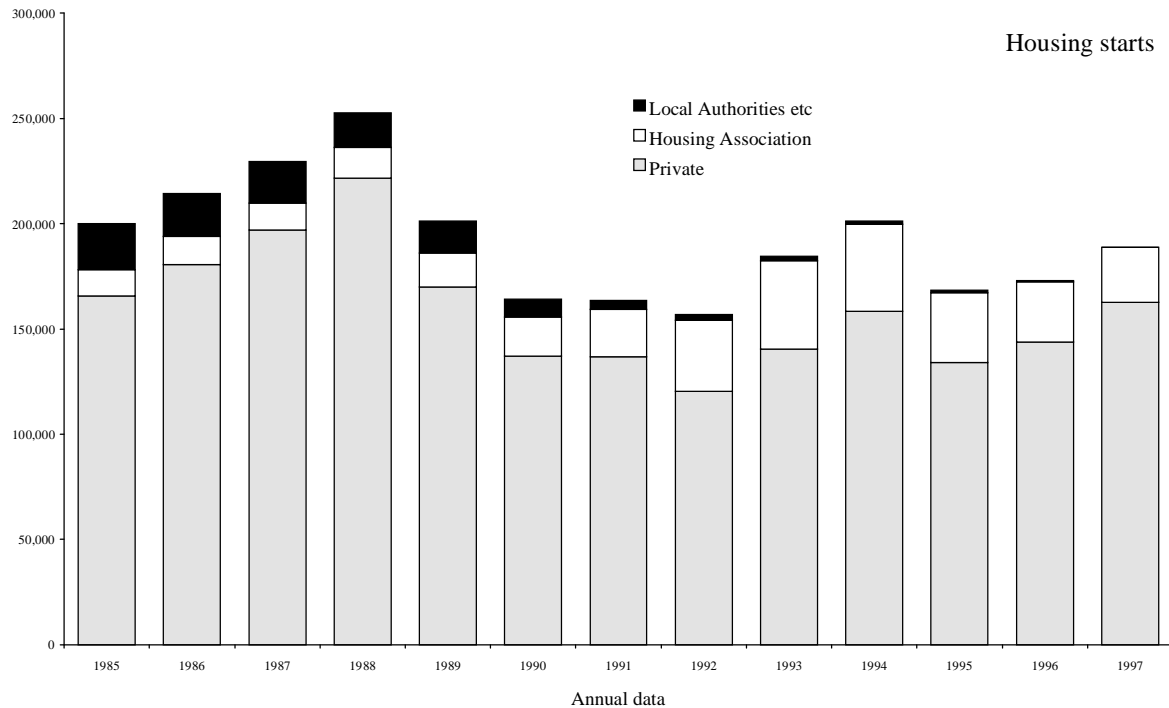
	Volume Index 1995=100		Trade in Goods (£m)		
	Exports	Imports	Exports	Imports	Balance
1995	100.0	100.0	153,725	165,449	-11,724
1996	107.7	109.1	167,403	180,489	-13,086
1997	116.5	119.0	171,798	183,590	-11,792
1997 Q3	118.2	119.7	43,245	45,915	-2,670
1997 Q4	118.6	123.6	43,035	47,030	-3,995
1998 Q1	116.6	123.3	40,896	45,381	-4,485
1998 Q2	118.3	125.3	41,107	45,391	-4,284
1998 Q3	117.4	130.0	40,739	45,983	-5,244

Source: ONS database (Series: BQKU, BQKV, BOKG, BOKH, BOKI)

First Release: UK Trade (ONS(98) 395)

- 1997 as a whole:** The deficit in Trade in Goods is estimated at £11,800 million. The deficit with EU countries in 1997 fell to £4,000 million from £4,200 million in the previous year. The deficit with non-EU countries fell to £7,700 million in 1997 from £8,900 million in 1996.
- Recent monthly data:** The UK's balance on trade in goods in September is provisionally estimated at £2,502 million, which is reported as being the largest monthly deficit since records began.
- 1998, third quarter:** The deficit in trade in goods in Q3 was £5,244 million; the largest quarterly deficit since 1990 Q2. In value terms, exports were 5.8% lower compared with the same quarter in 1997 whereas imports were largely unchanged. Compared with the previous quarter, export volumes of goods were little changed whereas imports rose 4%.
- EU and Non-EU trade:** The deficit in trade in goods with non-EU countries in 1998 Q3 is provisionally estimated at £4,132 million whereas the deficit with EU countries for the same period was £1,112 million. Exports to non-EU countries in the Q3 1998 fell by 9.1% whereas exports to the EU increased by 5.7% compared with the same quarter in 1997. Imports from non-EU countries and the EU rose 10.2% and 7.3% respectively over the same period.
- Trends:** The latest estimate of volume trends shows the UK trade balance is widening.

F 1. Housing



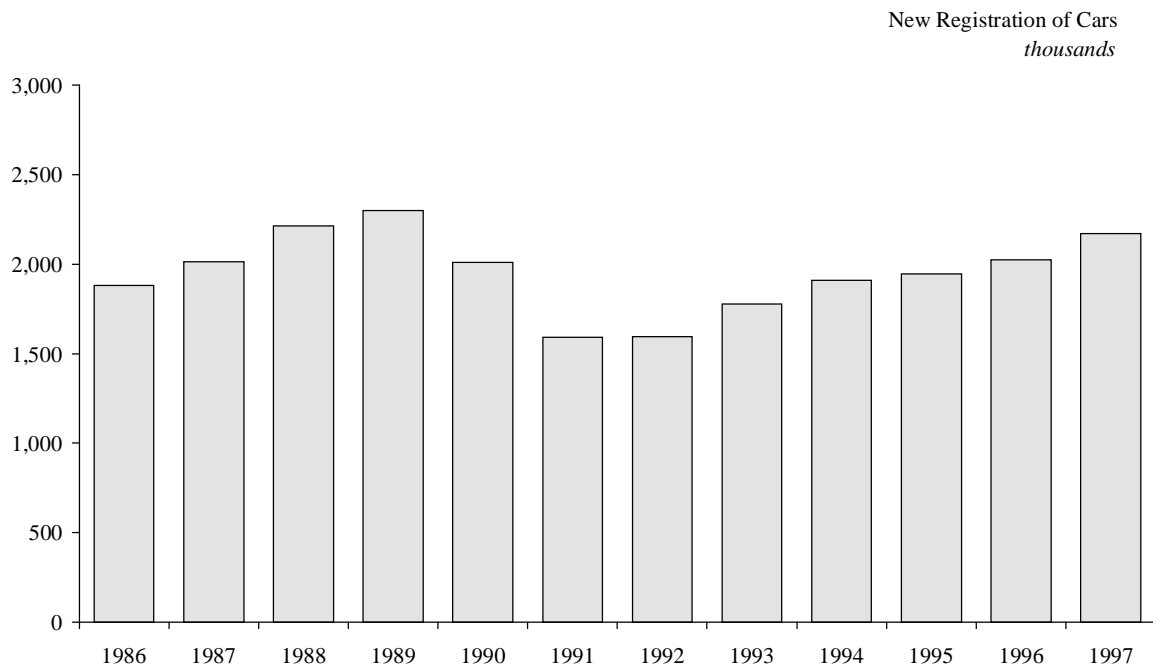
	House prices			
	All Houses	New Houses	Existing Houses	First time buyers
Standardised average price (£)				
1996	43,600	49,500	64,000	47,100
1997	46,300	50,800	68,300	49,700
1998 Q1	47,200	53,600	69,800	50,200
1998 Q2	49,100	54,800	72,500	52,400
1998 Q3	49,300	54,100	72,800	52,800
% change over same period last year				
1996	4.6%	1.9%	4.7%	4.0%
1997	6.2%	2.6%	6.7%	5.5%
1998 Q1	4.9%	6.8%	5.3%	3.9%
1998 Q2	5.6%	9.4%	5.5%	4.8%
1998 Q3	5.6%	6.5%	5.7%	5.4%

Source: *Halifax House Price Index: Third Quarter 1998*

- Provisional estimates for the three months ending in September 1998 show that the seasonally adjusted total starts were 5% lower when compared with the previous three months while private enterprise starts were unchanged.
- The Halifax Quarterly Index shows that house prices in the United Kingdom increased by 5.4% in the year to the third quarter in 1998 which compared with an annual increase of 4.8% to the second quarter in 1998. The largest increase of 16.2% occurred in Northern Ireland followed by Greater London and the South East which recorded respective increases of 9.9% and 9.4%. No regions recorded falls.
- The Halifax Monthly Index also shows that house prices in the UK as a whole rose by 0.3% between August and September on a seasonally adjusted basis.

Next update: 10 December

F 2. New Registrations of Cars



New Registrations of Cars
not seasonally adjusted

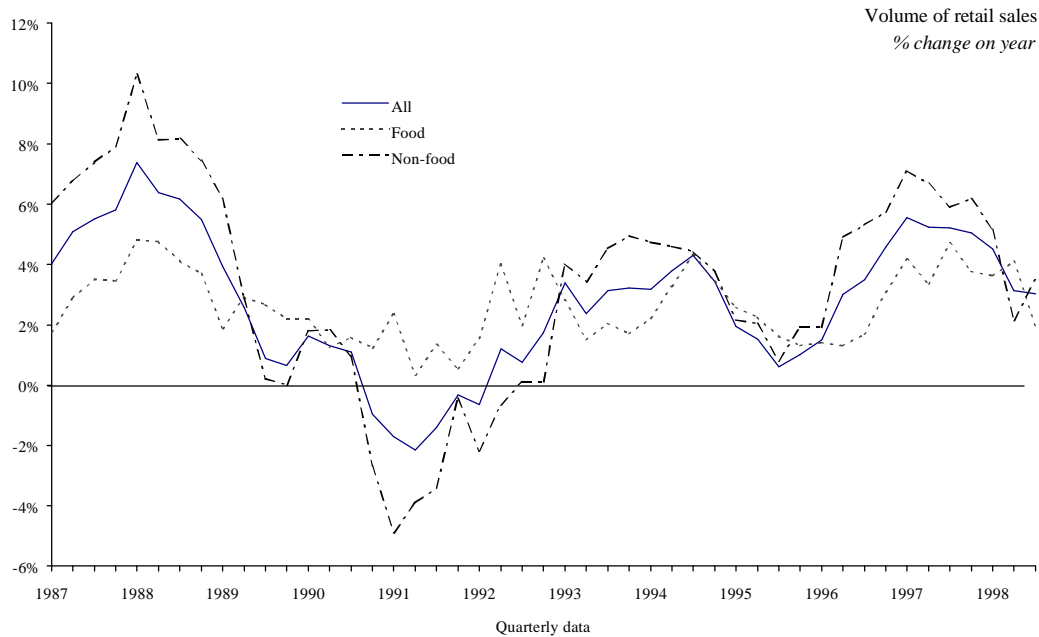
	Numbers thousands	Change over 12 months
	1,911	7.5%
1995	1,945	1.8%
1996	2,026	4.1%
1997	2,171	7.2%
1998 (forecast)	2,210	1.8%
1999 (forecast)	2,050	-7.2%
2000 (forecast)	2,000	-2.4%
1998 Jul	38	5.6%
Aug	505	-4.0%
Sep	163	1.2%
Oct	155	-1.3%

Source: SMMT "Monthly Statistical Review", Oct 1998

- Figures from the SMMT show that the number of new registrations of cars exceeded 2 million in 1996 and 1997, representing year on year changes of 4.1% and 7.2% respectively. The figure for 1997 is the third highest annual level after 1989 when new car registrations hit a peak of 2.3 million units.
- The SMMT is forecasting a rise in new registrations for 1998 of 1.8% followed by a fall of 7.2% in 1999 and by 2.4% in 2000.
- 155,263 cars were registered in October 1998, representing a 1.3% fall on the figure for October 1997.
- The share of the UK market taken by imported vehicles increased to 69.8% in

Next update: 28 December

F 3. Retail Sales



Value of Sales
not seasonally adjusted; % change on year

	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food
1995	5.3%	2.0%	3.1%	3.1%
1996	4.0%	5.0%	9.0%	5.0%
1997	3.8%	7.6%	10.1%	6.7%
1997 Q3
Q4
1998 Q1	2.9%	5.5%	9.0%	4.0%
Q2	4.7%	2.8%	6.4%	4.8%
Q3	1.9%	3.7%	7.1%	4.7%

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

- The pace of growth of retail sales has slowed in recent months and this deceleration is becoming more evident
- The recent slowdown has been due to a pronounced fall in the growth of non-food sales, particularly clothing, although over the course of the last year, sales from non-food stores have generally been more buoyant than food sales.
- The non-seasonally adjusted *value* of retail sales in October was 1.8% higher than a year previously.

G 1. International Comparisons - Growth



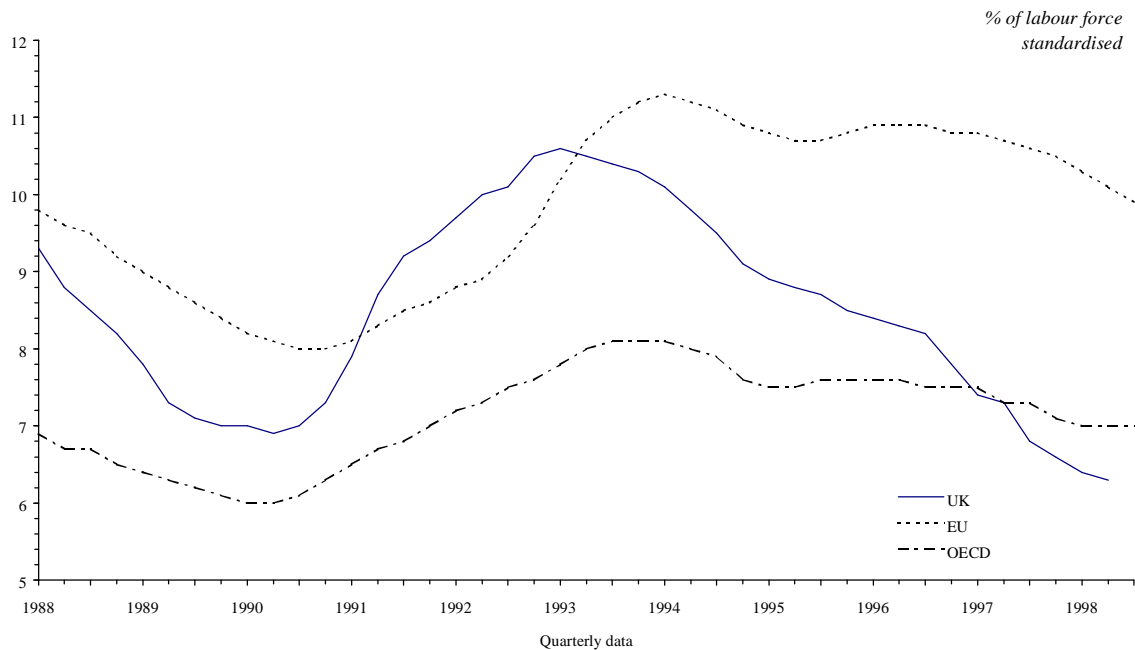
	GDP at constant market prices % change on year						
	1995	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
USA	2.3%	3.4%	3.9%	3.8%	4.1%	3.6%	3.4%
Japan	1.4%	3.9%	0.9%	-0.4%	-3.7%	-1.7%	n.a.
Canada	2.2%	1.2%	3.7%	4.0%	3.7%	3.1%	n.a.
United Kingdom	2.8%	2.6%	3.5%	4.0%	3.7%	3.0%	2.3%
Germany	1.2%	1.4%	2.3%	2.3%	3.4%	2.5%	n.a.
France	2.1%	1.5%	2.3%	3.1%	3.6%	3.1%	n.a.
Italy	2.9%	0.7%	1.5%	2.7%	2.5%	1.2%	n.a.
EU15	2.3%	1.8%	2.7%	3.3%	3.6%	2.8%	n.a.
G7	2.1%	2.7%	2.9%	2.8%	2.5%	2.3%	n.a.
OECD	2.1%	2.9%	3.2%	3.2%	3.0%	2.6%	n.a.

Source: OECD, *Main Economic Indicators*, November 1998; ONS - CSDB database

- The latest statistics suggest that economic growth is slowing in both Europe and North America. The Japanese economy is contracting.
- The European Commission's Autumn 1998 Forecast suggests that growth in the EU 15 will be 2.9% in 1998 and 2.4% in 1999. While the UK grew faster than the EU average in each calendar year 1993 to 1997, the reverse is expected to be true in 1998 and 1999, when the UK is forecast to grow by 2.5% and 1.3% (the lowest in the EU) respectively. The fastest growing EU economy is expected to be Ireland, which is forecast to grow by 11.4% in 1998 and 8.2% in 1999. The USA is forecast to grow by 3.3% in 1998 and by 2.1% in 1999. The Japanese economy is expected to contract by 2.5% in 1998 and grow by just 0.6% in 1999.

Next update: late December

G 2. International Comparisons - Unemployment



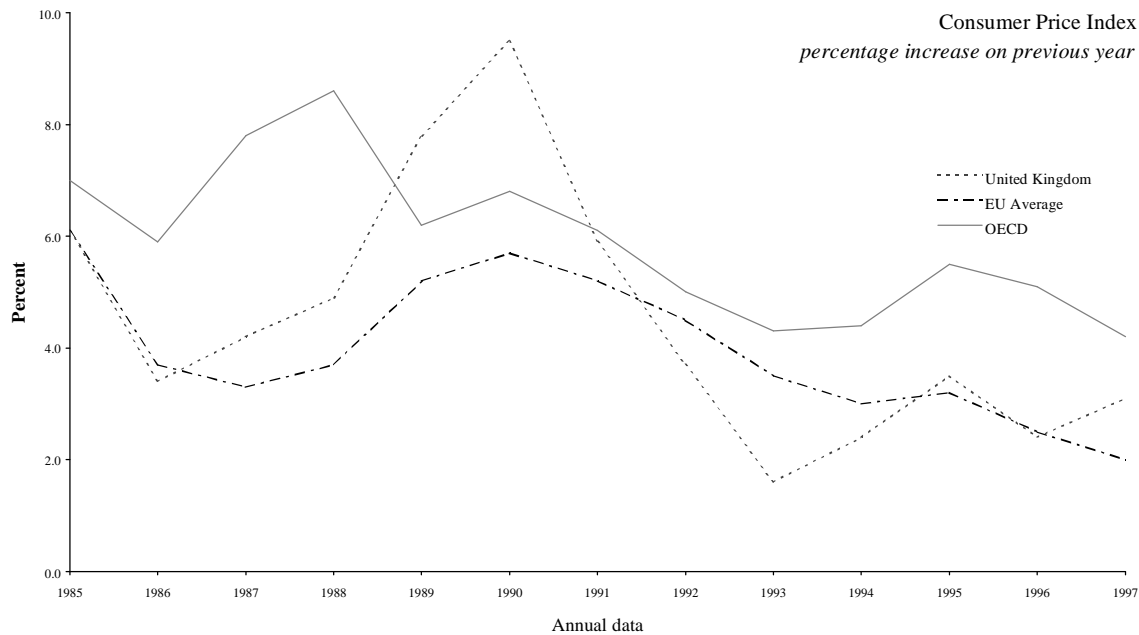
	Unemployed as % of labour force <i>standardised; seasonally adjusted</i>						
	1995	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
USA	5.6	5.4	4.9	4.7	4.7	4.4	4.6
Japan	3.1	3.4	3.4	3.5	3.6	4.2	4.3
Canada	9.5	9.7	9.2	8.9	8.6	8.4	8.3
United Kingdom	8.7	8.2	7.0	6.6	6.4	6.3	..
Germany	8.2	8.9	10.0	10.3	10.0	9.8	9.5
France	11.7	12.4	12.4	12.3	12.1	11.9	11.9
Italy	11.9	12.0	12.1	12.1	12.1	12.3	..
EU 15	10.7	10.9	10.7	10.5	10.3	10.1	9.9
G7	6.8	6.8	6.6	6.5	6.5	6.4	6.5
OECD	7.5	7.6	7.3	7.1	7.0	7.0	7.0

Source: OECD Main Economic Indicators

- Using standardised definitions, the UK unemployment rate was significantly below the EU average in 1998 Q2 and was also marginally lower than the G7 average.
- Other countries with unemployment rates below that of the UK in 1998 Q2 were: Austria (4.5%), Denmark (4.6%), Luxembourg (2.2%), Norway (3.5%), Portugal (4.8%) and the Netherlands (4.0%).
- The unemployment rate for the EU15 now stands at under 10% for the first time in six years.

Next update: mid Dec

G 3. International Comparisons – Prices



Consumer Price Index (national definitions)
% change over 12 months

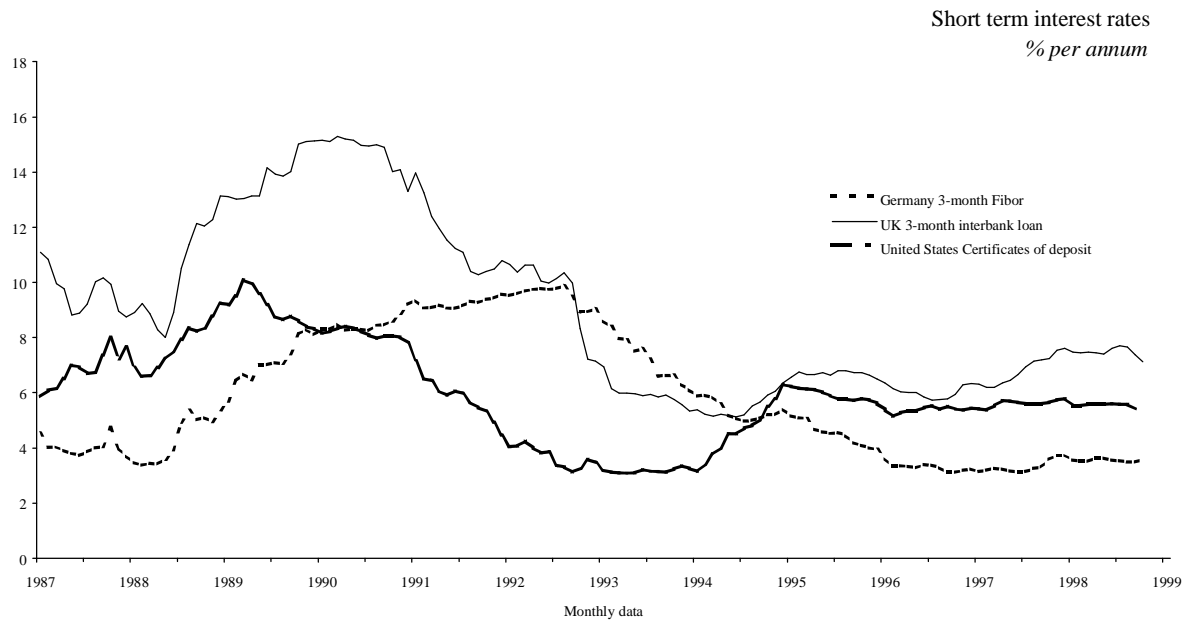
	1996	1997	Aug 1998	Sep 1998	Oct 1998
United States	2.9%	2.4%	1.6%	1.5%	1.5%
Japan	0.1%	1.8%	-0.3%	-0.2%	..
Canada	1.6%	1.6%	0.9%	0.7%	..
UK	2.5%	3.1%	3.3%	3.2%	..
Germany	1.5%	1.7%	0.8%	0.8%	0.7%
France	2.0%	1.2%	0.7%	0.5%	0.5%
Italy	3.8%	1.8%	1.9%	1.8%	1.7%
OECD	5.1%	4.2%	3.3%	3.2%	..
EU 15	2.5%	2.0%	1.7%	1.6%	..

Source: OECD Main Economic Indicators / Hot File

- Under the terms of the Maastricht Treaty, harmonised indices of consumer prices (and not data compiled on national definitions) are used to assess price stability in each Member State. On a harmonised basis the average inflation rate for the eleven EU countries participating in the Single Currency was 1.0% in September. The UK's inflation rate on this basis stood at 1.5%.
- The inflation rates for the other three Member States not participating in the Single Currency for September 1998 were Greece: 5.0%, Denmark: 1.1% and Sweden: -0.1%.

Next update: mid November (OECD data)
23 December (harmonised EU data)

G 4. International Comparisons - Interest Rates



International Interest Rates as at 27 November 1998

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	4.76	$6\frac{7}{16}$
United States	4.86	$5\frac{1}{4}$
Germany	3.99	$3\frac{19}{32}$
Japan	1.11	$\frac{9}{16}$
France	4.07	$3\frac{1}{2}$
Italy	4.20	$3\frac{5}{8}$

Source: *Financial Times*, 30 November 1998

- UK interest rates remain above key European rates reflecting the movement of continental rates towards the rate expected to be announced by the European Central Bank in January 1999 when Stage III of EMU starts.
- The Federal Reserve reduced rates in the United States on 15 October by a quarter of a percentage point.
- Japanese interest rates remain very low in an effort to boost the Japanese economy. The Bank of Japan also wants to manage the Yen's appreciation against the dollar. In view of this, Japanese interest rates are likely to remain at this level for some time, unless the economy recovers strongly from recession.