RESEARCH PAPER 98/30
2 MARCH 1998

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 edition includes a brief overview of the economic background to the Budget (17 March 1998).

This month's article: Presentation of Labour Market Statistics

Jane Dyson (Editor)

ECONOMIC POLICY & STATISTICS SECTION

HOUSE OF COMMONS LIBRARY

Recent Library Research Papers include:

98/15	The NHS White Papers	26.01.98
98/16	Traffic Congestion [including the *Road Traffic Reduction (United Kingdom Targets) Bill 1997/98* Bill 11]	28.01.98
98/17	Economic Indicators	03.02.98
98/18	*Employment of Children Bill 1997/98* Bill 13	03.02.98
98/19	Regulating Energy Utilities	02.02.98
98/20	Statistics of National Lottery Awards: December 1997	04.02.98
98/21	The *Energy Efficiency Bill 1997/98* Bill 12	04.02.98
98/22	Unemployment by Constituency - January 1998	11.02.98
98/23	Unemployment by Constituency: Welfare-to-Work Groups - January 1998	11.02.98
98/24	The *Human Rights Bill [HL]*, Bill 119 of 1997-98	13.02.98
98/25	The *Human Rights Bill [HL]*, Bill 119 of 1997-98: privacy and the press	13.02.98
98/26	The *Human Rights Bill [HL]*, Bill 119 of 1997-98: Churches and Religious organisations	13.02.98
98/27	The *Human Rights Bill [HL]*, Bill 119 of 1997-98: Some constitutional and legislative aspects	13.02.98
98/28	The Iraq Crisis	16.02.98
98/29	Voting Systems - The Government's Proposals	23.02.98

CONTENTS

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	Bryn Morgan	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	Graham Vidler	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.*

II The Economic Background to the March Budget

Most commentators share view that the UK economy is somewhere near to its cyclical peak. The National Institute starts its latest analysis of the UK economy with the following comments:

> By almost any criteria 1997 turned out to be a very good year for the British economy…real growth was faster than the rate of consumer price inflation. Unemployment fell very sharply..around 350,000 mostly full time jobs were created…the balance of payments showed a surplus on current account of an estimated £4 billion…Personal sector wealth also benefited from increases in house prices of about 10 per cent and a rise in equity prices of around 20 per cent.[1]

The next line reveals the crux of the current debate:

> Economic success of this type cannot continue for long.

Differences in attitude reflect varying views about the economy's current direction. Some commentators feel that the economy is growing too strongly, with a lack of spare capacity that will ultimately lead to an upsurge in inflation. Supporters of this view conclude that the Monetary Policy Committee [MPC] has not yet raised interest rates sufficiently and that the Chancellor did not do enough to rein in consumer demand in the July 1997 Budget. Others feel that the economy has already passed its peak, inflation is on track to meet the government's target and hence there is a call for only a light touch on the tiller of economic policy instruments. Those commentators arguing for further interest rate rises cite the strength of the service sector of the economy, the buoyancy of house prices and the overhang of consumer windfalls from the financial sector conversions, as factors underpinning a booming economy. Those arguing for no change point to the weakness of manufacturing, the impact of the strong pound - reducing imported inflation and reducing exports – and, an as yet unquantified, fallout from problems in Asia.

These conflicting arguments find voice in the latest published assessment of the economy from the MPC, in the minutes of the meeting of 7-8 January 1998. It too sees arguments both ways in its concluding remarks:

> Views about the appropriate level of interest rates ranged across a spectrum. At one end was the view that it was desirable for interest rates to be raised now. Four reasons were advanced for this view. First, doubts had arisen about the forecast for inflation published in the November Inflation Report. Inflation outturns in recent months had been above the Bank's central projections, and the central projection contained in the November Report had been significantly below the average of independent forecasts. It seemed likely that the relationship between output growth and inflation over the next two years would be less

[1] *National Institute Economic Review*, January 1998, p.9

> favourable than had been assumed in the November forecast. The economy was likely to slow down, but not quickly enough to hit the inflation target two years or so ahead. Second, it seemed implausible that any substantial output gap remained to be closed and it was possible that output was already significantly above trend. Third, recent pay settlements and reports of skill shortages were a matter of concern, and suggested that earnings growth might rise to a level incompatible with the inflation target before capacity pressures had eased. An immediate move in interest rates would send a clear and early signal to the labour market of the MPC's determination to achieve the inflation target. Fourth, concerns were expressed about the buoyancy of asset prices.
>
> Another view was that, although those arguments had much force, there was still considerable uncertainty about their implications for future inflation and therefore a strong case for waiting another month until a full analysis could be made of the extent of any required rise in interest rates. That analysis would be better carried out in the context of the forecast round for the February Inflation Report.
>
> A third view was that there was little or no presumption that interest rates should rise. Recent developments in Asia, as well as signs of slowing demand growth at home, suggested the possibility of an earlier turning point in GDP growth than that implied by the central projection in the November Inflation Report. It was difficult to measure the size of the output gap and, in any case, its calculated sign did not represent a clear policy signal for an open and slowing economy when its level was low. Moreover, there were clearly risks in both directions. The developments in Asia, in particular, might have significantly more serious downside effects than those projected by either the IMF or the OECD.

For the first time on record the MPC did not come to a unanimous decision with respect to the movement of interest rates. In a split vote the Bank representatives, plus one outsider voted one way (for no increase) while the remaining three 'outsiders' voted against. The repo rate was thus left unchanged.

One of the imponderables affecting the overall judgement of economists at present is the scale of the impact of the Asian crisis. The MPC monitored the effect as events unfolded. In January it commented:

> The Committee discussed the implications of the East Asian developments. The world economic outlook was plainly different from six months ago. Improved prospects in the US and continental Europe might to some extent offset reduced demand from Asia, but it was too early to judge. There was anecdotal evidence that returns from the growth of markets in Asia and other developing regions had helped UK exporters to maintain trade with continental Europe by cutting margins following sterling's appreciation in 1996. Demand from Asia had also been an important source of growth in exports for the G7 as a whole in recent years. It was possible that a slowdown in Asian markets would combine with sterling's continuing appreciation to bring about a fall in net exports in 1998, as expected – or possibly more than expected – in the November Inflation Report.

The impact of problems in Asia was, therefore, seen as being significant rather than catastrophic. Since then, however, the impact has been reduced even further following the downgrading of the impact of any wealth effect and the diminishing likelihood of any global financial panic. The primary linkage is still spoken of as being trade and since trade with

Asia accounts for only about 11% of total UK exports and 3% of GDP, even a 10% fall in Asian exports will lead to UK GDP being some 0.3% lower.

The OECD carried out some simulations on the impact of 'Asian turbulence' on the world economy in its latest short-term forecast:

Potential impact of South East Asian financial turbulence on the OECD area
Percentage deviation from baseline

	Real GDP		Net Exports		Inflation	
	1997	1998	1997	1998	1997	1998
United States	-0.3	-0.7	-0.1	-0.3	0.0	-0.3
Japan	-0.6	-1.4	-0.2	-0.5	0.0	-0.9
European Union	-0.3	-0.8	-0.2	-0.5	0.0	-0.3
Korea, Australia, New Zealand	-0.5	-1.4	-0.3	-0.7	-0.1	-0.5
Total OECD	-0.3	-0.9	-0.2	-0.5	0.0	-0.5

Source: OECD Economic Outlook December 1997

To summarise, the main focus of debate at present is whether the UK economy is heading towards the top of the growth cycle, or whether it is coming down. The worst case scenario has it that the economy is already slowing and an unnecessary tightening of monetary and fiscal policy leads to an uncompetitive exchange rate which hits manufacturing and exports even further. The optimistic scenario is that the economy is already slowing down (the impact of windfalls has unwound, tight fiscal policies put downward pressure on domestic demand), the MPC does not raise interest rates, sterling falls which gives some support to manufacturing export demand. Thus the economy has a soft landing with growth more evenly split between the various sectors. A summary of recent forecasts for the UK economy are shown in the table overleaf:

UK Economic Forecasts
1998

	Averages (a)		February range	
	February	January	Lowest	Highest
GDP growth (per cent)	2.3	2.4	1.5	3.2
Inflation-RPI (Q4:per cent)	3.0	3.1	2.1	4.3
Claimant unemployment (Q4:mn)	1.30	1.31	0.99	1.50
Current account (£bn)	-6.2	-6.2	-14.6	0.5
PSBR (1998-99: £bn)	3.3	3.3	-3.2	10.0

Note: (a) Forecasts made in the 3 months to February and January respectively.

Source: HM Treasury, forecasts for the UK Economy, February 1998

For further information on this subject contact Tim Edmonds on ext. 2883

III Presentation of Labour Market Statistics

On 3 February 1998 the Government announced a new approach to the presentation of UK labour market statistics. To help people understand these changes, the Office for National Statistics (ONS) will be organising a series of seminars on the subject. A seminar will be held at the House of Commons for MPs and their staff on Tuesday 10 March at 9.30am in Conference Room C, 1 Parliament Street.

From April 1998, one press release a month will be published, making use of all available statistics. The press release will include figures showing the number of people in employment, the numbers unemployed and seeking work, and the number who are economically inactive.

Greater weight than previously will be given to figures from the Labour Force Survey (LFS). The LFS is a sample survey of 60,000 households (about 150,000 individuals) undertaken each quarter. The survey includes a very wide range of questions, which cover individuals' demographic characteristics, their educational qualifications, and their labour market position. The results are then grossed up and weighted to be representative of the country as a whole.

The LFS uses the International Labour Organisation (ILO) definition of unemployment. This comprises people who are unemployed, would like a job, have looked for work in the four weeks prior to the survey and are available to start work in the two weeks following the survey, or are waiting to start a job already obtained. This definition is used by the European Commission's statistical office (Eurostat) and by the OECD, and therefore lends itself to international comparisons.

Statistics from the monthly count of unemployed claimants (those people claiming Jobseeker's Allowance or National Insurance credits) will continue to be published alongside figures from the LFS. **There will be no changes to the definition of unemployment.**

The package of changes includes the following:

- LFS data will be released on a monthly basis (as opposed to the present quarterly publication). Figures will be an average of the latest three months' data;
- Measures of the number of people without work, who want a job but are not unemployed according to the ILO definition (e.g. because they have not searched for work in the four weeks prior to the survey) will be strengthened;

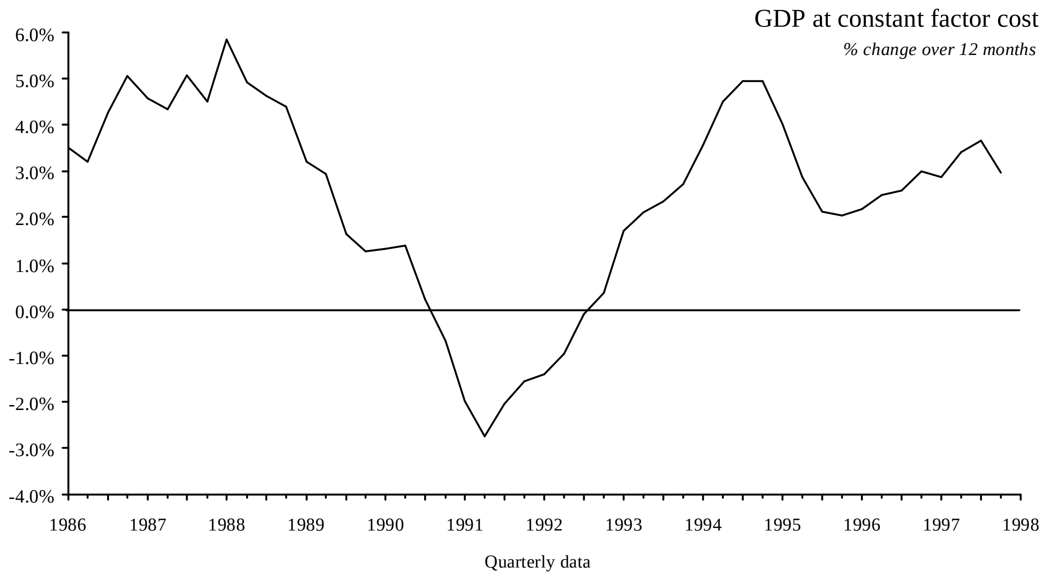
- Statistics for employment in the whole of the economy (not just the manufacturing sector) and for ILO unemployment will now be published monthly;
- LFS data will now be presented for the UK, rather than for Great Britain;
- LFS data will be incorporated into the series of regional labour market press releases;
- New indicators relating to jobs and businesses will be published;
- Improvements will be made to earnings data, reducing the need for revisions.

The size and structure of the LFS will not change. At the present time the sampling is done on a continuous basis. The results are published four times a year and represent an average of the position over the thirteen weeks in each quarter. **There is no overlap in the periods the data refer to**: spring data include all the households sampled in March, April and May; summer data include all households sampled in June, July and August and so on.

From April onwards LFS data will be published every month. They will still represent an average of the position over a thirteen-week period, but this time there **will** be an overlap in the periods the data refer to. Data published in May will be an average of the sampling undertaken in January to March; data published in June will be an average of the sampling undertaken in February to April and so on. Publication will be approximately six weeks after the end of the thirteen-week period. It is vital, when interpreting the figures, that although data are **published** monthly, they are not monthly data: they are averages for a thirteen-week period.

For further information on this subject contact Jane Dyson on ext. 2464

A 1. Gross Domestic Product



Gross Domestic Product
seasonally adjusted

	GDP at constant factor cost *12 month change*	Non-Oil GDP at constant factor cost *12 month change*	GDP at current market prices *£ billion*	GDP at current factor cost *£ billion*
1995	2.8%	2.7%	704.2	608.1
1996	2.6%	2.5%	741.8	642.8
1997	3.2%	3.3%	787.9	679.1
1996 Q3	2.6%	2.5%	186.1	161.3
Q4	3.0%	2.9%	189.8	164.7
1997 Q1	2.9%	2.9%	192.5	166.0
Q2	3.4%	3.6%	195.6	168.5
Q3	3.7%	3.7%	198.9	171.4
Q4	3.0%	3.1%	200.9	173.1

Source: ONS Database; ONS first release (98)42

- Revised estimates for the fourth quarter of 1997 suggest that gross domestic product (GDP) grew by 0.4% to a level 3.0% higher than in the fourth quarter of 1996. Estimates for 1997 as a whole suggest a growth rate of 3.2% compared with 2.6% in 1996.

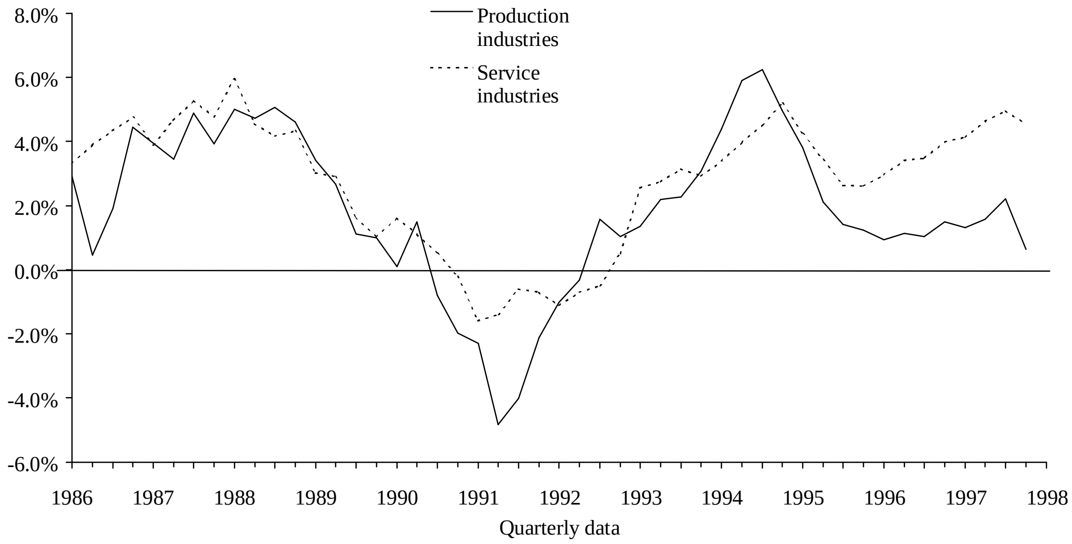
- Output excluding oil and gas extraction grew by 0.5% in the fourth quarter of 1997 to a level 3.1% higher than in the fourth quarter of 1996. On this basis, the economy has grown by 17.1% since the bottom of the recession in the first quarter of 1992.

- The latest Treasury average of independent economic forecasts suggests that GDP growth will slow to 2.3% in 1998 and 2.0% in 1999.

Next update: 13 March

A 2. GDP by Industry

Output
% change over 12 months



Gross domestic product
% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac-turing			
1995	2.2%	1.7%	3.1%	-1.4%	-0.7%
1996	1.1%	0.3%	3.6%	-1.6%	1.3%
1997	1.4%	1.6%	4.5%	-2.7%	2.4%
1996 Q3	1.0%	0.4%	3.5%	-1.1%	1.9%
Q4	1.5%	0.7%	4.0%	-2.3%	2.9%
1997 Q1	1.3%	1.5%	4.1%	-5.8%	2.8%
Q2	1.6%	2.1%	4.6%	-0.2%	3.4%
Q3	2.2%	1.6%	5.0%	-3.0%	2.3%
Q4	0.7%	1.0%	4.5%	-1.6%	1.3%

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

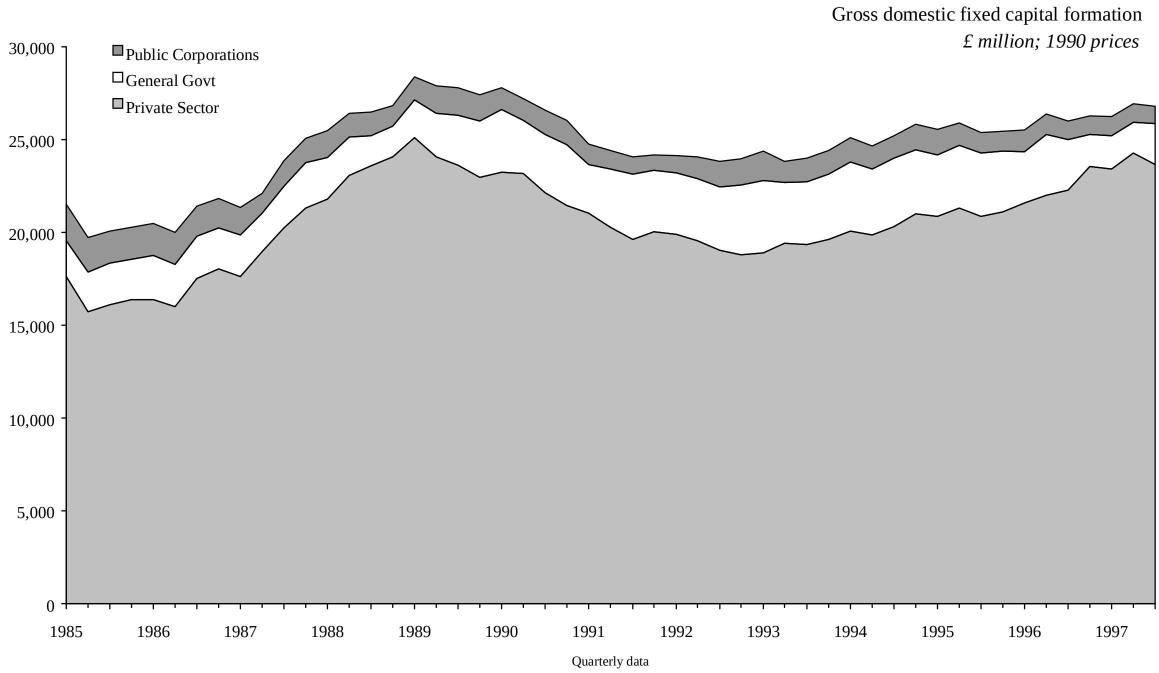
- Since 1995, output has grown faster in service sector than in other parts of the economy and is currently growing at an annual rate of around 4½%. Growth of industrial production fell sharply in the last quarter of 1997 to an annual rate of around ¾%. This partly reflected falling output in the mining & quarrying and electricity, gas & water sectors which, in turn, reflected lower oil and gas extraction and reduced energy consumption as a result of November's mild weather.

- Manufacturing output fell by 0.4% between the third and fourth quarters of 1997 highlighting concerns about the impact on the sector of the appreciation of Sterling.

- 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%.

Next update: 9 March

A 3. Investment



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

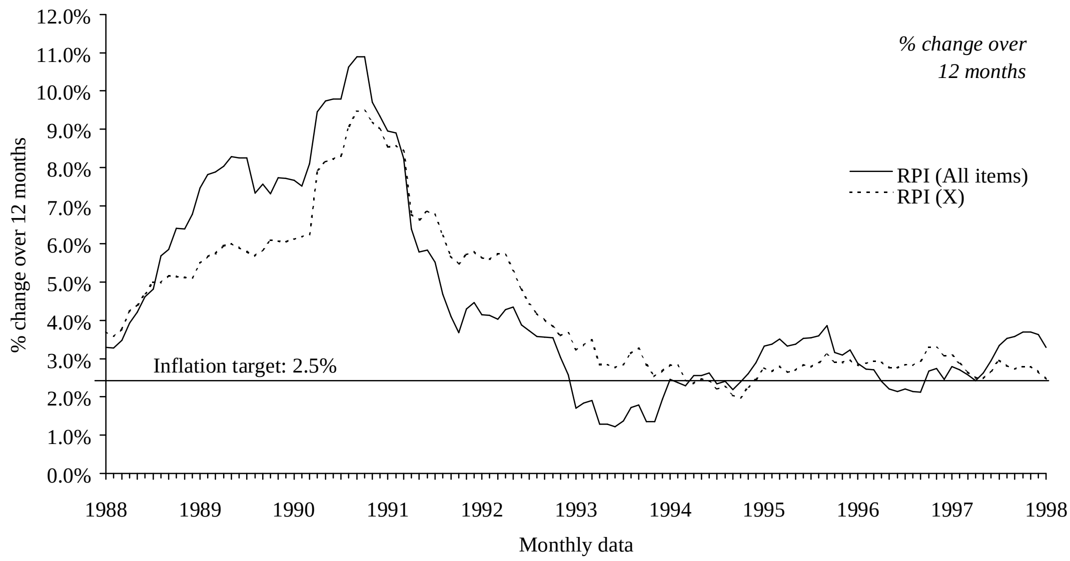
	Vehicles, Ships & Aircraft	Plant & Machinery	Other New (1) Building & Works	Dwellings	Total
1994	9,874	33,705	36,828	20,371	100,778
1995	9,450	36,352	36,125	20,322	102,249
1996	9,727	37,083	37,205	20,106	104,121
1996 Q3	2,376	9,313	9,328	4,963	25,980
Q4	2,442	8,989	9,505	5,335	26,271
1997 Q1	2,994	8,852	9,461	4,912	26,219
Q2	2,723	9,628	9,495	5,086	26,932
Q3	2,561	9,650	9,463	5,123	26,797

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.
- 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.
- The revised estimate of capital expenditure by manufacturing industries show the third quarter was 4% lower than the previous quarter and 20% than the third quarter of 1996.

Next update: 16 March

B 1. Retail Prices



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

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.

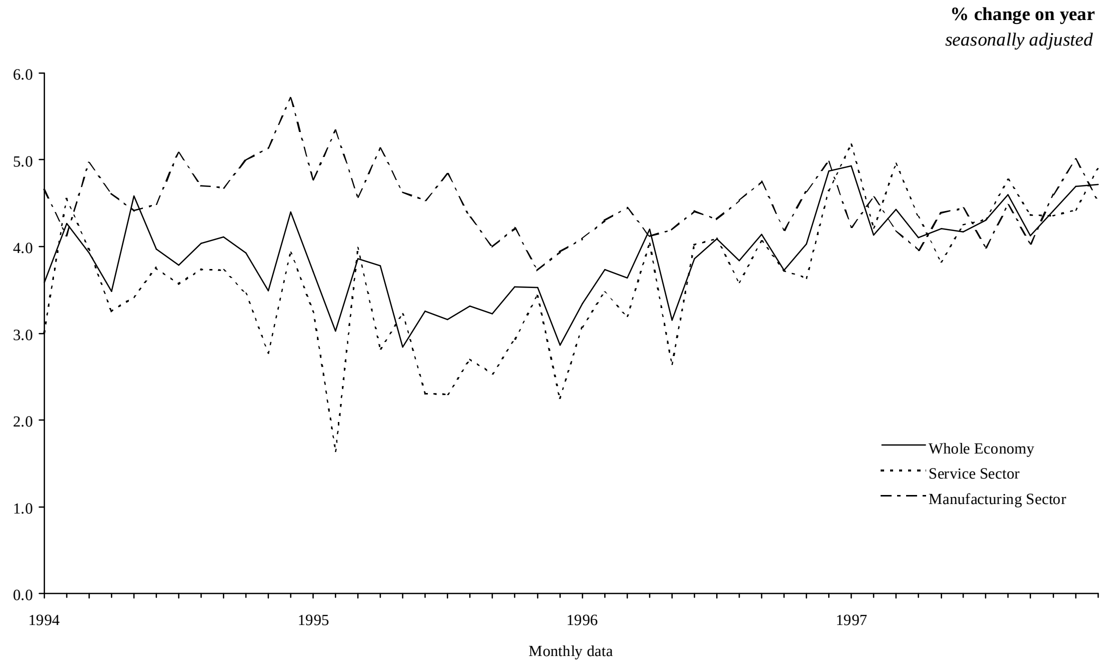
- Inflation has been at or above the target level since the beginning of 1995, but has remained within one percentage point of the target. In January 1998 the RPI(X) inflation rate was 2.5% - exactly on target.

- Independent forecasts suggest that RPI(X) will be rising at 2.7% in the fourth quarter of this year.

- As measured by the all items RPI, inflation fell from 3.6% in December 1997 to 3.3% in January 1998. The decrease was partly attributable to the record-breaking impact on clothing and footwear prices of the January sales.

Next update: 17 March

B 2. Average Earnings



Average earnings
All employees; Great Britain

	% change on year seasonally adjusted	underlying
1996 Dec	4.9%	4 3/4%
1997 Jan	4.9%	4 3/4%
Feb	4.1%	4 1/2%
Mar	4.4%	4 1/2%
Apr	4.2%	4 1/2%
May	4.2%	4 1/4%
Jun	4.2%	4 1/4%
Jul	4.3%	4 1/2%
Aug	4.6%	4 1/4%
Sep	4.1%	4 1/4%
Oct	4.4%	4 1/2%
Nov	4.8%	4 3/4%
Dec	4.7%	4 3/4%

Sources: ONS database (Series DNHS)
ONS Labour Market Statistics (98)34

- Average earnings growth fell slightly to 4.7 per cent in December 1997. The underlying rate, which takes into account staged agreements and bonuses, remained at 4 3/4 per cent.

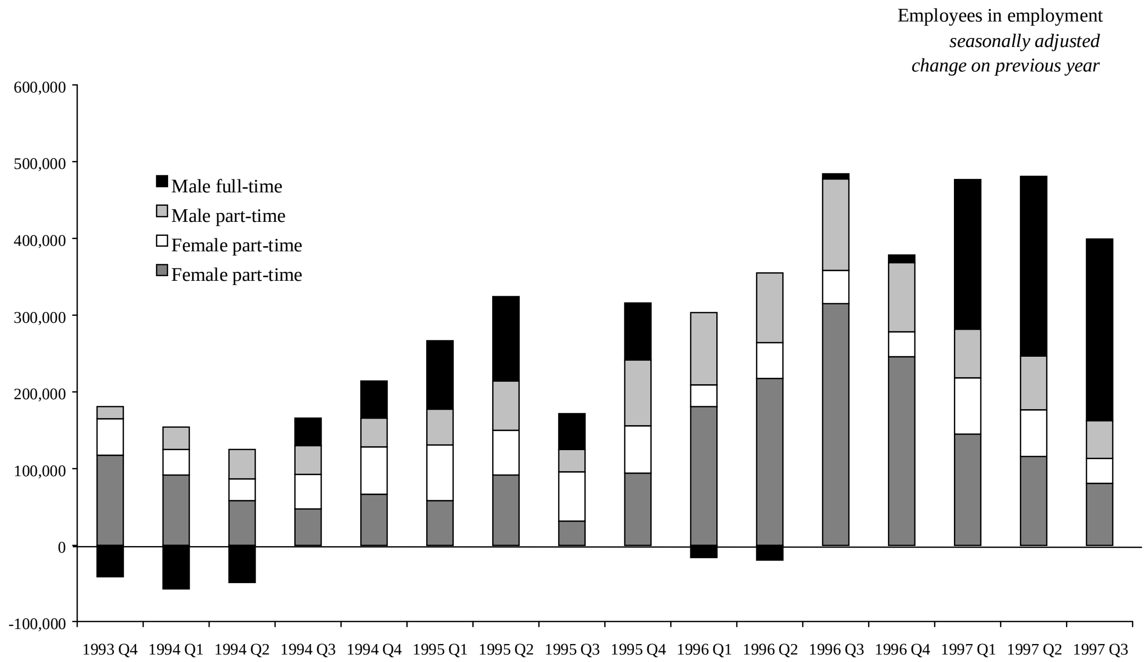
- Independent forecasts suggest that average earnings will increase by 4.8 per cent in 1998, and by 4.5 per cent in 1999.

- December 1997 estimates show average gross earnings for full-time employees at £20,036 per year. For male full-time employees, the average was £22,230; for female full-time employees the average was £16,276.

- In its February 1998 *Inflation Report*, the Bank of England reiterated the point that a 'nominal earnings growth higher than 4 1/2% a year and unit labour costs rising more quickly than 2 1/2% could not be sustained in the long run, unless domestically generated inflation were higher than 2½%'.

Next update: 18 March

C 1. Employment



seasonally adjusted; thousands

	Employees in employment	Self employed	HM Forces	Work related govt-supported training	Workforce in employment
1994 Sep	21,828	3,302	246	289	25,664
1995 Sep	21,999	3,325	228	222	25,773
1996 Sep	22,484	3,367	218	189	26,257
Dec	22,567	3,361	216	190	26,344
1997 Mar	22,687	3,355	214	175	26,431
Jun	22,803	3,342	210	167	26,522
Sep	22,882	3,327	210	176	26,595
Changes: September 1996 to 1997					
000s	398	-40	-8	-13	338
%	1.8%	-1.2%	-3.7%	-6.9%	1.3%

Source: ONS First Release: Labour Market Statistics (ONS (98)34)

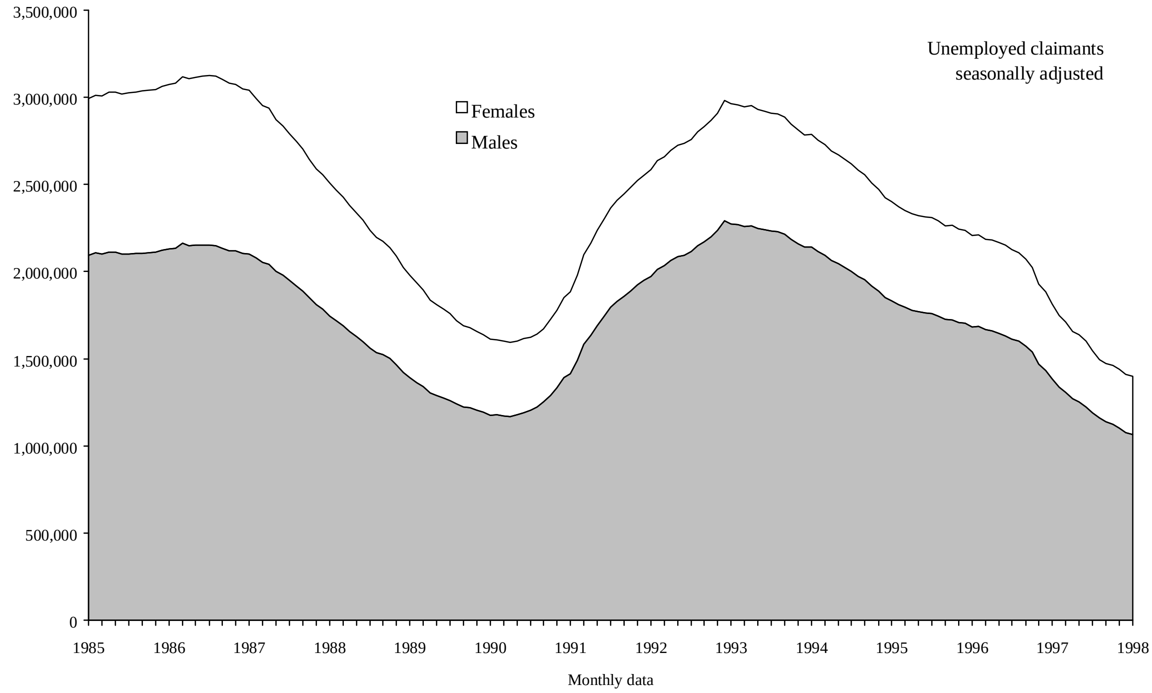
- The number in employment has continued to grow during 1997, although the rate of growth has slowed slightly in the year to September. Employment has now been growing steadily since the end of 1993, with the largest increases being in male part-time employment. In the year to September 1997 the number of male part-time employees grew by almost 49,000 – an increase of 3.7% on the previous year.

- Monthly data for manufacturing employment in Great Britain suggest that the growth in employment may be slowing, with a fall of 20,000 employees between June and September 1997.

- Manufacturing industries accounted for 18% of all employees in September 1997 while service industries accounted for 76%. In September 1997, 46% of the workforce in employment were female.

Next update: 18 March

C 2. Unemployment: National



seasonally adjusted

	Unemployed Claimants in the UK	
	Number	% of workforce
1995	2,308,200	9.3
1996	2,104,000	8.2
1997	1,582,800	7.5
1997 Jan	1,814,500	6.5
Feb	1,748,100	6.2
Mar	1,710,800	6.1
Apr	1,654,400	5.9
May	1,637,300	5.8
Jun	1,599,800	5.7
Jul	1,545,200	5.5
Aug	1,495,400	5.3
Sep	1,473,800	5.2
Oct	1,463,200	5.2
Nov	1,439,900	5.1
Dec	1,410,800	5.0
1998 Jan	1,398,500	5.0

Source: ONS (Nomis database)

- The number of unemployed claimants in the UK on a seasonally adjusted and consistent basis is now the lowest since July 1980.

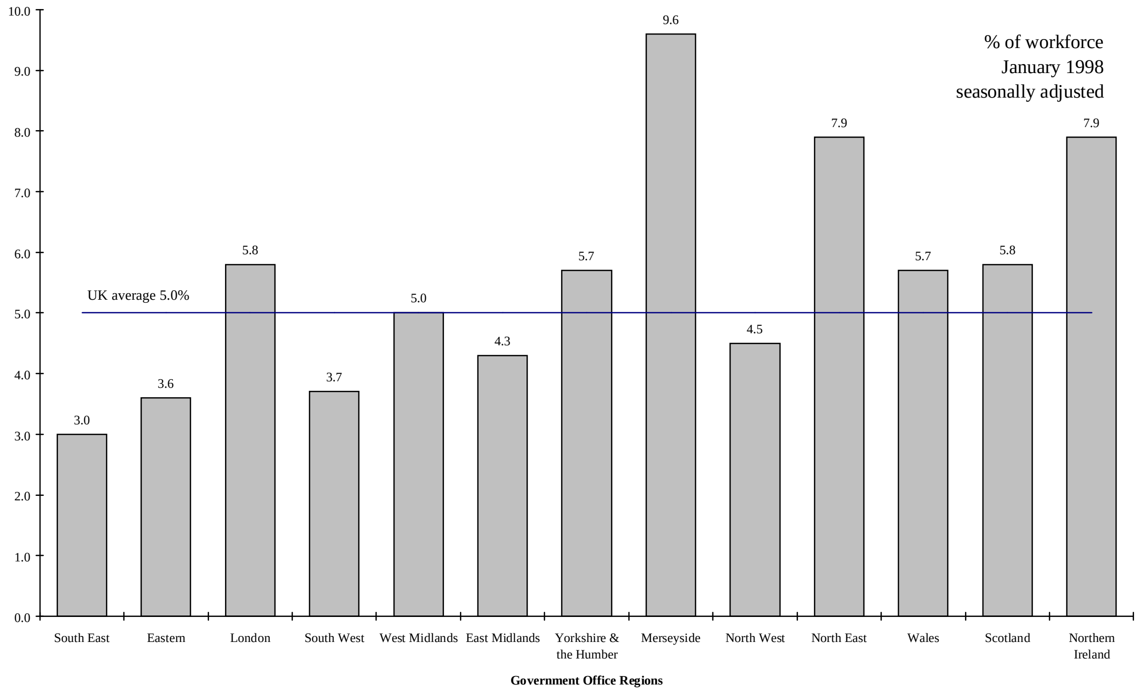
- The claimant unemployment rate is now less than half the level it stood at in the peak of the recession – 5% of the workforce now, compared to 10.5% in December 1992.

- The claimant unemployment rate for is 6.8% for men and 2.7% for women.

- The number of people unemployed according to the ILO definition in Great Britain is nearly half a million higher than on the claimant count definition (1,847,000 compared to 1,399,000 in autumn 1997).

Next update: 18 March

C 3. Unemployment: Regional



	% change January 1997 to 1998
South East	-31.4%
Eastern	-28.6%
London	-25.2%
South West	-30.1%
West Midlands	-21.2%
East Midlands	-25.9%
Yorkshire & the Humber	-17.8%
Merseyside	-18.3%
North West	-24.0%
North East	-12.9%
Wales	-21.4%
Scotland	-18.6%
Northern Ireland	-14.6%
UK	-23.1%

Source: ONS (NOMIS Database)

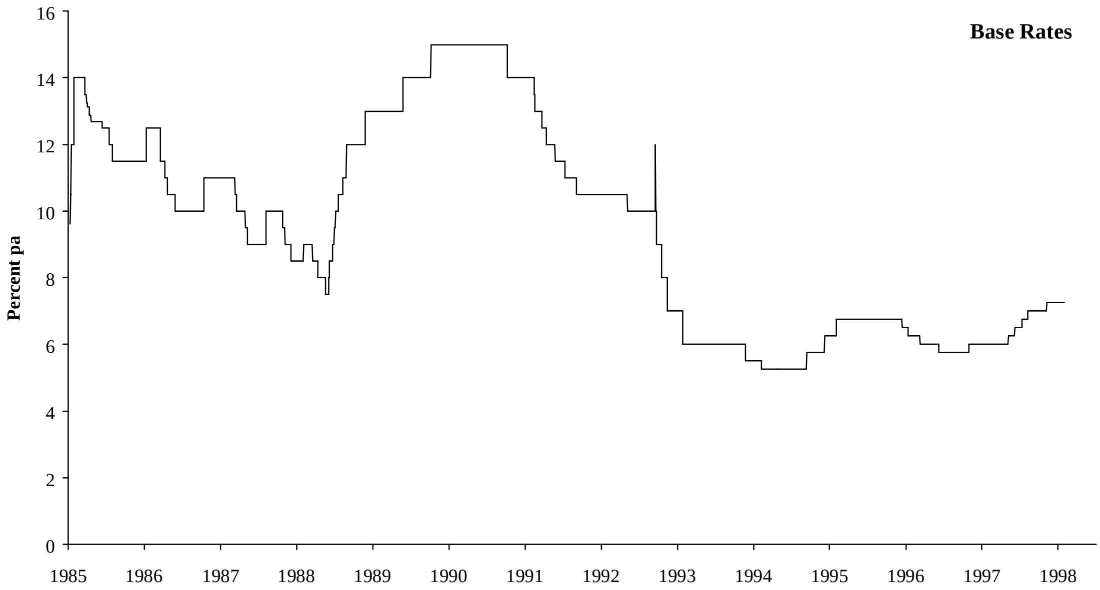
- Regional claimant unemployment rates range from just 3.0% of the workforce in the South East to 9.6% in Merseyside.

- ILO unemployment rates, taken from the Autumn 1997 Labour Force Survey, remain somewhat higher than figures from the claimant count.

- Merseyside still has the highest unemployment rate on the ILO measure: 10.0%, followed by London (9.5%) and the Northern Ireland (8.8%). These figures are not seasonally adjusted.

Next update:18 March

D 1. Interest Rates



per cent per annum

Date of change		New rate
1991	Feb 27	13.00
	Mar 22	12.50
	Apr 12	12.00
	May 24	11.50
	Jul 12	11.00
	Sep 4	10.50
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

- 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.

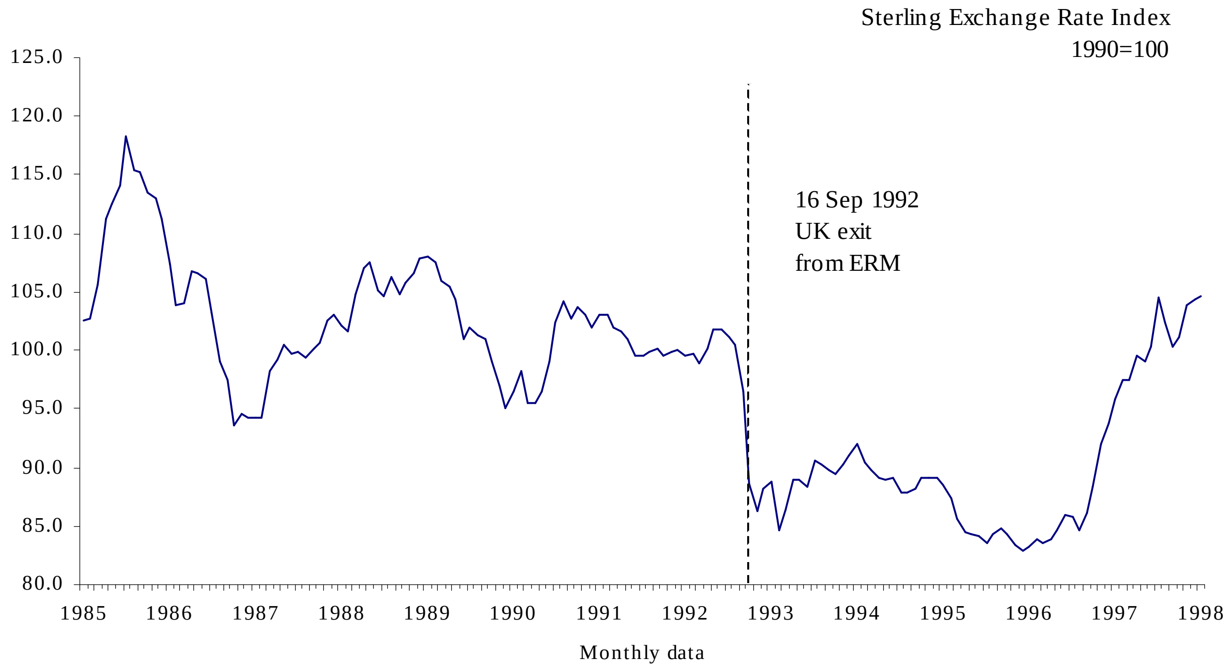
- The Monetary Policy Committee next meets on 8-9 of April.

- 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.” The January meeting, when it decided to leave rates unchanged, was the first time since its inception that the Committee had not reached a unanimous conclusion.

- 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	% 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%
1997	2.84	20.9%	1.64	4.9%	198.12	16.5%	1.45	16.3%
Nov	2.93	16.4%	1.69	1.6%	211.78	13.5%	1.48	13.0%
Dec	2.95	14.2%	1.66	-0.3%	215.14	13.4%	1.49	11.4%
1998 Jan	2.97	11.7%	1.64	-1.4%	211.80	8.4%	1.50	9.8%

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

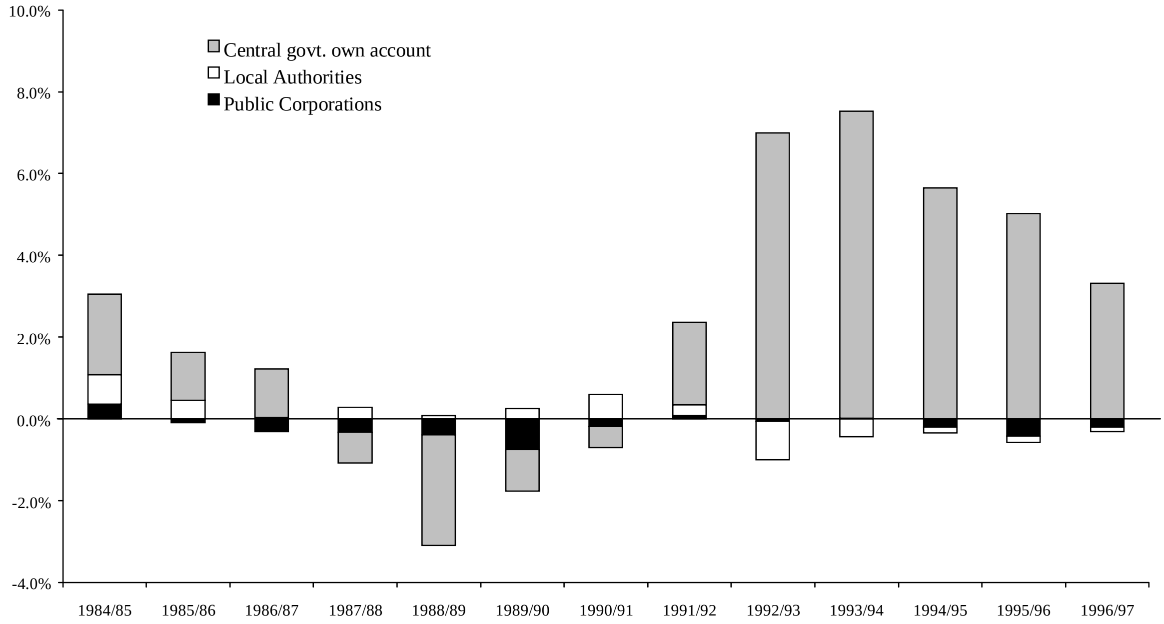
Recent Developments

- Sterling has maintained its upward trend against other currencies. A small part of this is due to the decline in Asian currencies – Asia accounts for about 11% of UK trade. Also significant is the advanced position in the state of the UK business cycle compared with the rest of Europe. Sterling receives support because markets believe that there may yet be one more interest rate rise to come. By contrast, on the continent, lower levels of activity justify a more relaxed monetary policy. Recent output figures show rapidly rising levels of activity in Europe and hence this support may therefore be reaching its effective end.

- Outside Europe, there has been some recovery in the currencies of SE Asia following the announcement of international rescue plans. Expected interest rate rises in the US have been delayed, halting some of the dollar's rise, mainly due to the assessment of the significant impact that 'Asia' is expected to have on the US economy.

D 3. PSBR

PSBR as % of GDP



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 Q4	8.7	0.3%	10.5	0.6%
1997 Q1	9.9	3.3%	11.3	3.4%
1997 Q2	5.8	4.2%	8.1	4.7%
1997 Q3	0.6	0.0%	1.1	0.4%
1997 Q4	6.3	-1.0%	6.5	-1.0%

Source: ONS Database Series ABEN, ABII, CAOB

- The PSBR (including privatisation receipts) for the first ten months of 1997/98 was a negative (ie debt repayment took place) £4.2 billion compared with £10.6 billion in the same period of 1996/97. Excluding privatisation receipts, the PSBR for the first ten months of 1997/98 was a negative £2.5 billion compared with £14.8 billion in the same period of 1996/97.

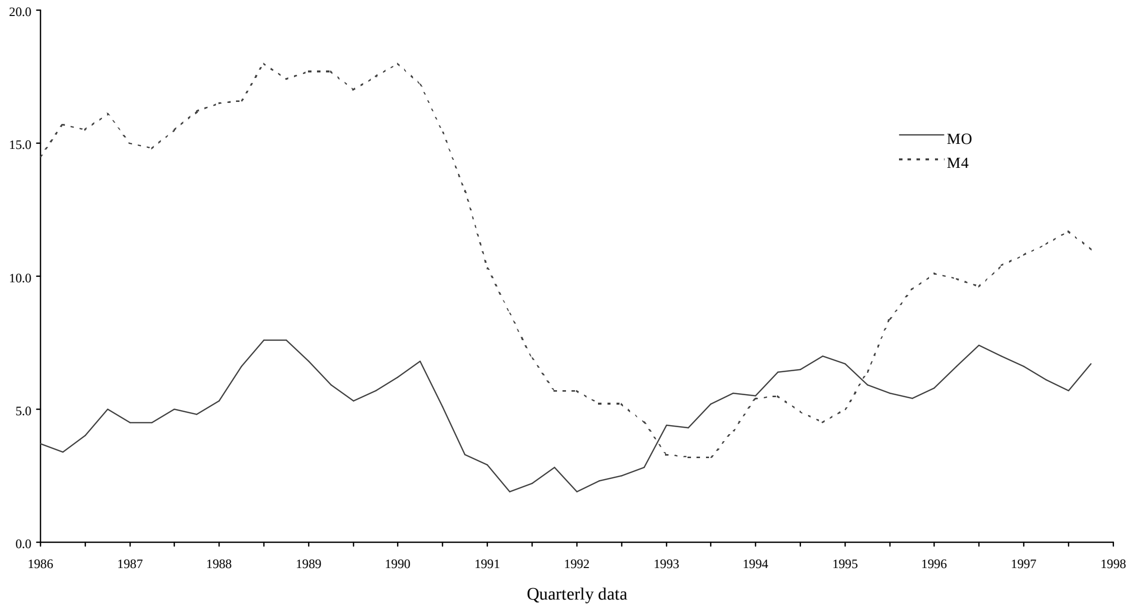
- In the November 1997 Pre-Budget Report the Government forecast a PSBR of £9.5 billion for 1997/98, or £11.9 billion if the proceeds from the windfall tax are excluded. Independent forecasters are predicting a PSBR of £8.4 billion for 1997/98.

- Privatisation proceeds worth £1.8 million were received in January 1998.

Next update:17 March

D 4. Money Supply

% change on previous year



Money stock
seasonally adjusted

	MO		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1997 Jan	7.1	7.1	9.9	10.0
Feb	5.4	6.3	11.2	11.2
Mar	4.3	6.4	15.3	11.1
Apr	4.1	5.9	11.1	10.5
May	5.0	6.1	11.3	11.4
Jun	7.0	6.3	10.8	11.6
Jul	6.7	5.8	13.0	11.9
Aug	5.3	5.1	10.4	11.6
Sep	5.3	6.2	10.5	11.6
Oct	8.0	6.5	9.1	10.8
Nov	11.9	6.9	9.3	10.5
Dec	11.0	6.7	9.8	11.6
1998 Jan (prov)	7.7	6.9	7.7	10.1

Sources: ONS database; Bank of England press notice dated 19 February 1998

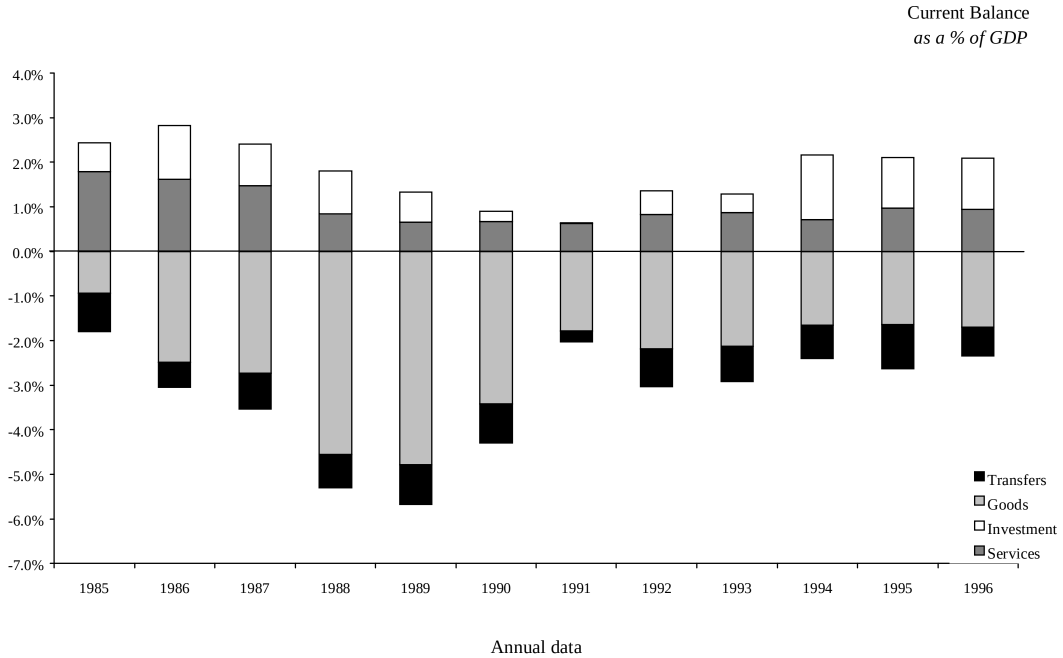
- M0 comprises notes and coins in circulation outside the Bank of England *plus* bankers' operational deposits with the Bank. M4 is a broad measure of money consisting of the private sector's holdings of cash, and sterling deposits held by the private sector at both banks and building societies.

- Provisional estimates for January 1998 show M0 growing at an annual rate of 6.9% and M4 at an annual rate of 10.1%.

- 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: 2 March

E 1. International Trade



Current Account Balances
seasonally adjusted; £ million

	Trade in Goods	Trade in services	Investment Income	Transfers	Current Balance
1995	-11,582	6,877	7,920	-6,887	-3,672
1996	-12,657	6,970	8,546	-4,725	-1,866
1997	-12,979	9,480	..	..	..
Q4	-2,604	1,988	2,048	-1,135	297
1997 Q1	-2,787	2,320	3,026	-1,214	1,345
Q2	-3,126	2,549	2,897	-1,007	1,313
Q3	-2,844	2,314	2,153	-1,426	197
Q4	-4,222	2,297	..	..	..

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

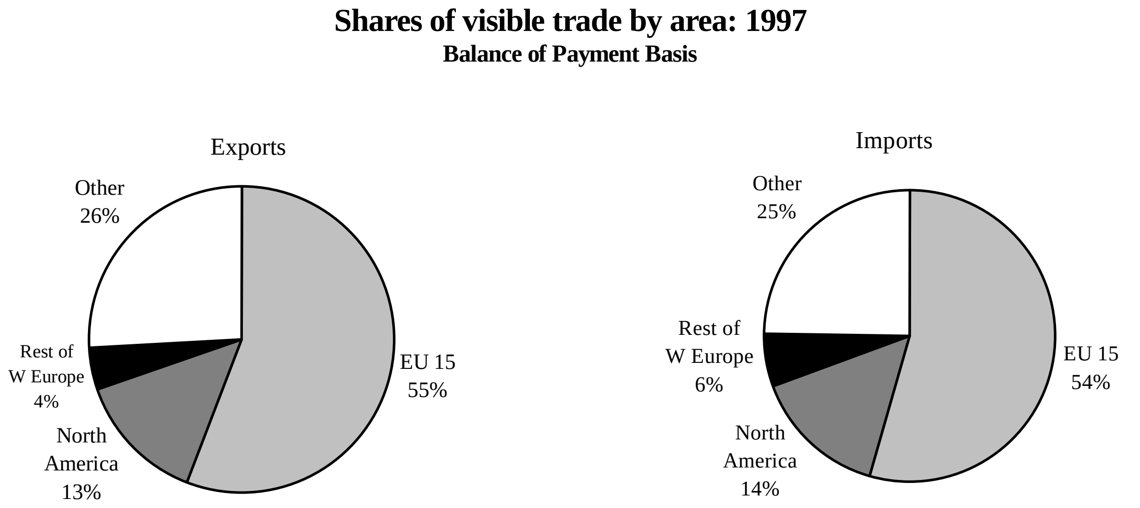
- In addition to figures for trade in goods, the ONS is publishing figures for trade in services on a monthly basis. Figures for other elements of the current account are published on a quarterly basis.

- In the fourth quarter of 1997 the estimated deficit in goods and services increased to £1.9 billion from £530 million in the previous quarter. For 1997 as a whole, the deficit on goods and services fell to £3.499 million from £5,687 million in 1996.

- The current account as a whole was in surplus by £197 million in the third quarter of 1997 compared with a surplus of £1,313 million in the second quarter.

- The deficit on transfers rose in the third quarter to £1,426 million from £1,007 million in the previous quarter. Between the two quarters the deficit on transfers with the EU increased from £528 million to £845 million.

E 2. Trade in Goods



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
1995	127.7	114.3	153,077	164,659	-11,582
1996	136.8	124.5	166,921	179,578	-12,657
1997	147.7	135.6	170,145	183,124	-12,979
1996 Q4	140.0	126.5	42,348	44,952	-2,604
1997 Q1	143.1	129.1	42,026	44,813	-2,787
1997 Q2	147.9	136.2	42,450	45,576	-3,126
1997 Q3	150.1	137.1	43,010	45,854	-2,844
1997 Q4	149.6	140.0	42,659	46,881	-4,222

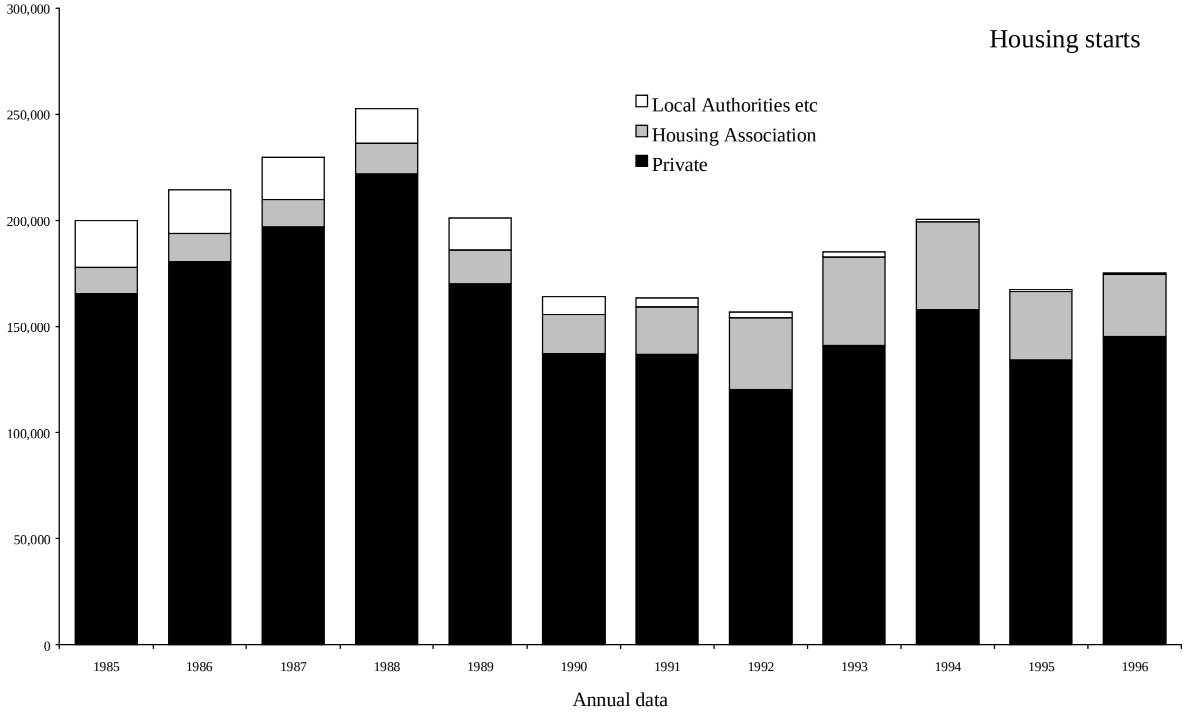
Source: ONS database (Series: CGTR, CGTS, CGKG, CGHK, AIMA)
First Release: UK Trade (ONS(98) 26)

- ***1997 as a whole:*** The deficit in 1997 is provisionally estimated at £13 billion. The deficit with EU countries in 1997 increased to £5,042 million from £4,108 million in the previous year. The deficit with non-EU countries fell to £7.937 million in 1997 from £8,549 million in 1996. For 1997 as a whole, exports to EU countries fell one per cent (while those to non-EU countries rose six per cent) and imports from EU countries were little changed (while those from non-EU countries rose four and a half per cent). In 1997 the other members of the European Union (EU 15) received 55% of UK exports and supplied 54% of all UK imports.

- ***1997, Fourth Quarter:*** In the fourth quarter the deficit in goods was £4.2 billion compared with a deficit of £2.8 billion in the previous quarter. Export volumes fell by 0.3% during the fourth quarter compared with the previous quarter. Provisional figures for December show export volumes increased five per cent and imports increased half per cent on the previous month. The figure for export volumes is somewhat surprising given the reported difficulties that UK exporters face during the course of 1997.

- The latest estimate of trend suggests that the deficit in goods is widening, with exports flat and imports rising.

F 1. Housing



House prices

Standardised average price (£)	All Houses	New Houses	Existing Houses	First time buyers
1996	43,600	49,500	64,000	47,100
1997	46,300	50,800	68,300	49,700
1996 Q4	44,400	49,000	65,300	48,200
1997 Q3	46,700	50,800	68,900	50,100
1997 Q4	46,800	52,000	69,000	50,000
% change over same period last year				
1996	4.6%	1.9%	4.7%	4.0%
1997	6.2%	2.6%	6.7%	5.5%
1996 Q4	7.5%	0.4%	7.9%	7.8%
1997 Q3	6.6%	2.4%	6.8%	5.7%
1997 Q4	5.4%	6.1%	5.7%	3.7%

Source: Halifax House Price Index: Fourth Quarter 1997

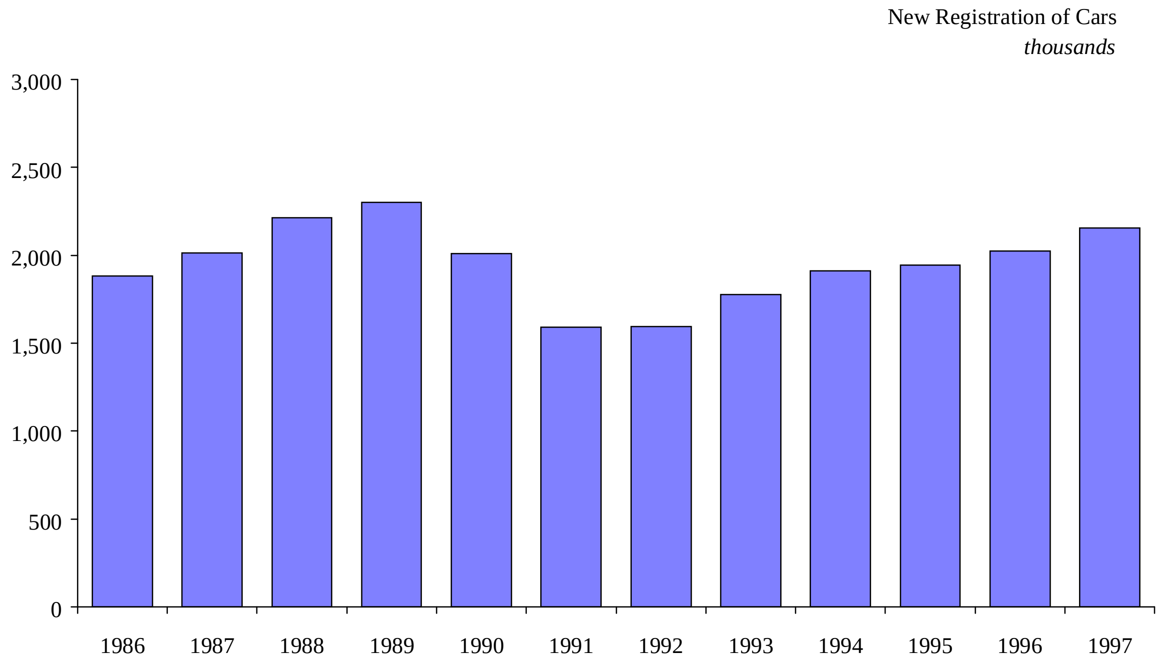
- Provisional estimates for the final quarter (October-December) in 1997 show that the seasonally adjusted total starts were 6% higher than in the previous three months.

- Using the Halifax Quarterly Index, house prices in the United Kingdom increased by 5.4% in the year to the fourth quarter in 1997. This compared with a rise of 6.6% in the year to the third quarter. The largest increase was in Greater London (15.2%), whilst two regions recorded slight falls: Scotland had a fall in prices of 1.9% and Yorkshire & Humberside a fall of 1.4%.

- Using the Halifax Monthly Index, house prices in the UK as a whole **fell** by 0.2% between November and December on a seasonally adjusted basis. This followed a rise of 0.9% between October and November. On an annual basis, house price inflation slowed to 4.3% in December 1997 from the 6.1% pa reported in November.

Next update: 5 March

F 2. New Registrations of Cars



New Registrations of Cars
not seasonally adjusted

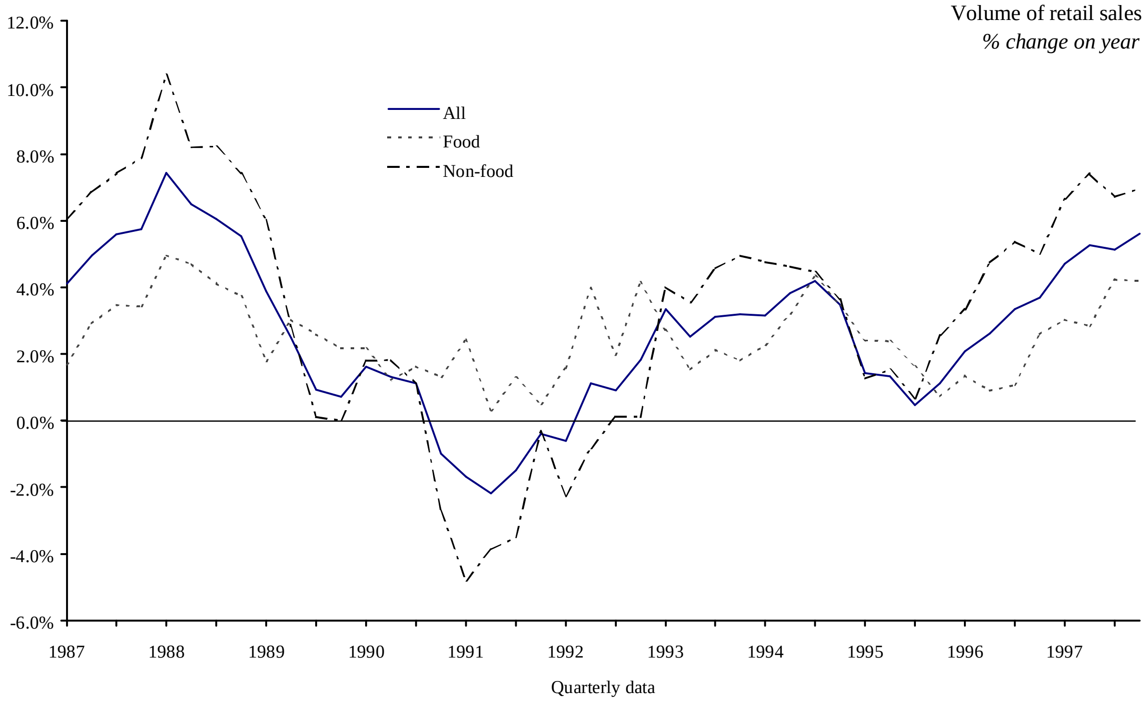
	Numbers thousands	Change over 12 months
1993	1,778	11.6%
1994	1,911	7.5%
1995	1,945	1.8%
1996	2,025	4.1%
1997 (provisional)	2,171	7.2%
1998 (forecast)	2,100	-3.3%
1999 (forecast)	2,050	-2.4%
1997 Sep	161	16.4%
Oct	157	1.3%
Nov	152	12.6%
Dec	85	9.0%

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

- 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 and 1988.
- The SMMT is forecasting declines for 1998 and 1999 of 3.3% and 2.4% respectively.
- 84,634 cars were registered in December 1997, an increase of 9% on the figure for December 1996.
- Importers took 65% of the market in December, taking their market share for the year as a whole to a record high of 66.2%

Next update: 28 February

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%	3%	3%
1996	5%	4%	8%	5%
1997	4%	9%	11%	6%
1996 Q4	2%	5%	10%	4%
1997 Q1	4%	6%	9%	8%
Q2	2%	8%	13%	5%
Q3	4%	6%	10%	7%
Q4	5%	9%	9%	6%

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

- Retail sales continue to show strong growth. In volume terms, sales in the final quarter of 1997 were 5.5 per cent higher than in the same period of 1996.
- 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.

Next update: 9 March

G 1. International Comparisons - Growth

GDP at constant market prices
% change on year

	1995	1996	1997	1997 Q1	1997 Q2	1997 Q3	1997 Q4
USA	2.0%	2.7%	3.8%	4.0%	3.4%	3.9%	3.8%
Japan	1.4%	3.9%	n.a.	2.8%	-0.2%	1.1%	n.a.
Canada	2.2%	1.2%	n.a.	2.9%	4.0%	3.9%	n.a.
United Kingdom	2.8%	2.3%	3.5%	3.1%	3.6%	3.9%	3.2%
Germany	1.8%	1.4%	n.a.	2.5%	2.1%	2.4%	n.a.
France	2.1%	1.5%	n.a.	1.3%	2.5%	2.7%	n.a.
Italy	2.9%	0.8%	n.a.	-0.6%	2.1%	2.1%	n.a.
EU15	2.4%	1.8%	n.a.	1.9%	2.8%	2.7%	n.a.
OECD	2.0%	2.7%	n.a.	3.0%	2.9%	3.2%	n.a.

Source: OECD Main Economic Indicators, February 1998

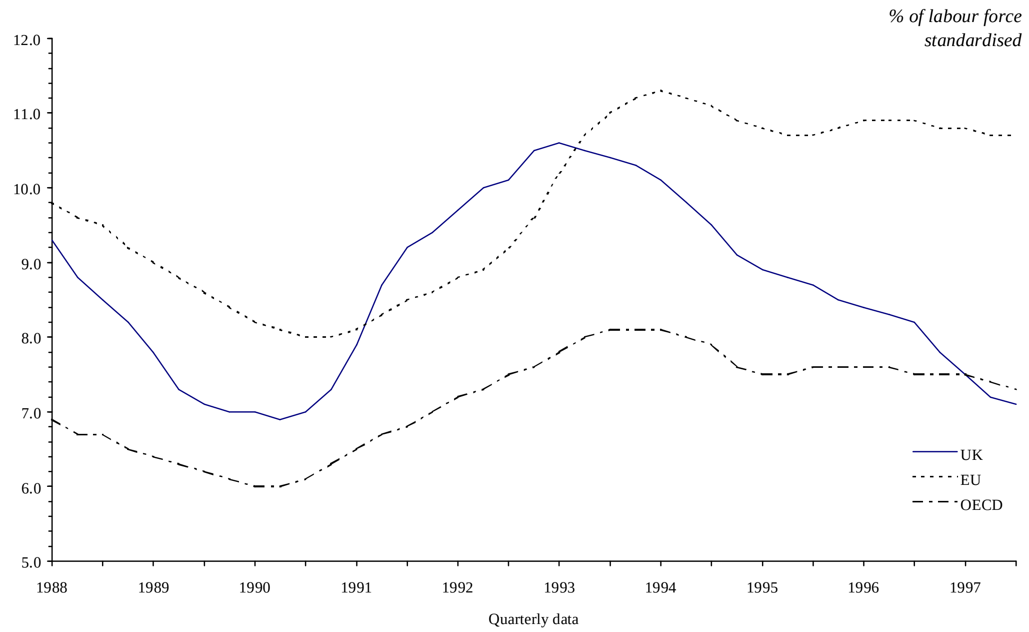
- In year to the third quarter of 1997 the UK economy grew by 3.9%. Jointly with Canada and the USA, this was the highest growth rate among the G7 countries. Growth in the UK was also above the average for both the EU15 and the OECD as a whole.

- 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 December 1997 edition of the OECD's *Economic Outlook* suggest that growth in the UK is likely to fall below the EU average in 1998 and 1999.

Next update: late March

G 2. International Comparisons - Unemployment



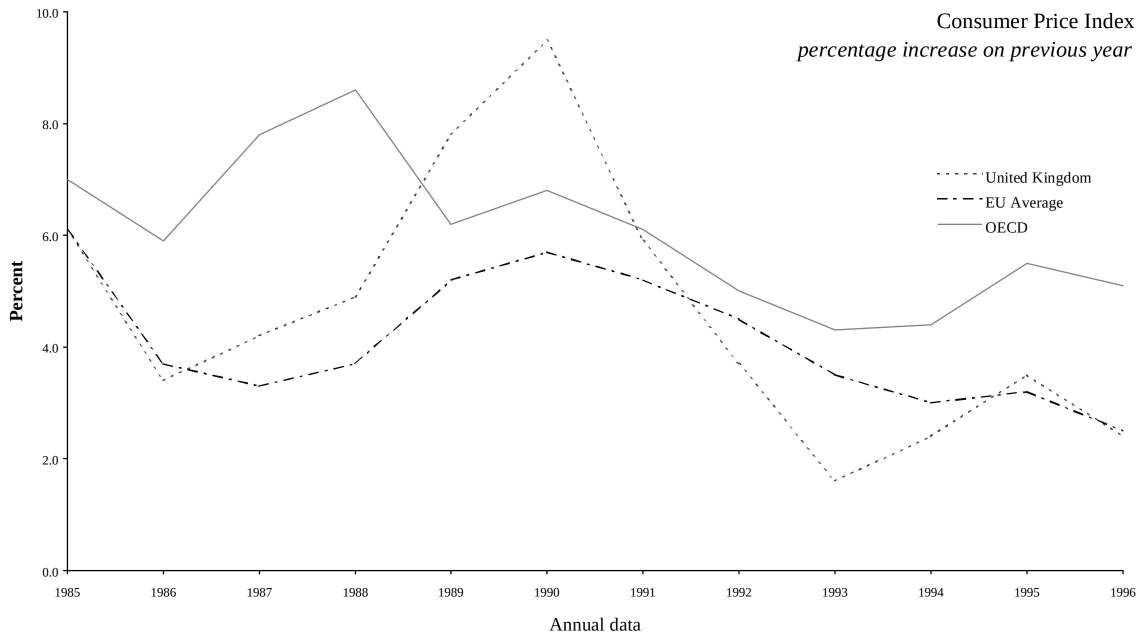
Unemployed as % of labour force
standardised; seasonally adjusted

	1995	1996	1997	1997 Q1	1997 Q2	1997 Q3	1997 Q4
USA	5.6	5.4	4.9	5.3	4.9	4.9	4.7
Japan	3.1	3.4	3.4	3.3	3.4	3.4	3.5
Canada	9.5	9.7	9.2	9.6	9.4	9.0	8.9
United Kingdom	8.8	8.2	..	7.5	7.2	7.1	..
Germany	8.2	8.9	..	9.4	9.6	9.8	..
France	11.7	12.4	..	12.5	12.6	12.6	..
Italy	11.9	12.0	..	12.2	12.1	12.1	..
EU 15	10.8	10.9	..	10.8	10.7	10.7	..
G7	6.8	6.8	..	6.8	6.6	6.6	..
OECD	7.5	7.6	..	7.5	7.4	7.3	..

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 (3.7%), Norway (4.1%) and Portugal (6.2%), New Zealand (6.8%) and the Netherlands (5.3%).

G 3. International Comparisons – Prices



Consumer Price Index
% change over 12 months

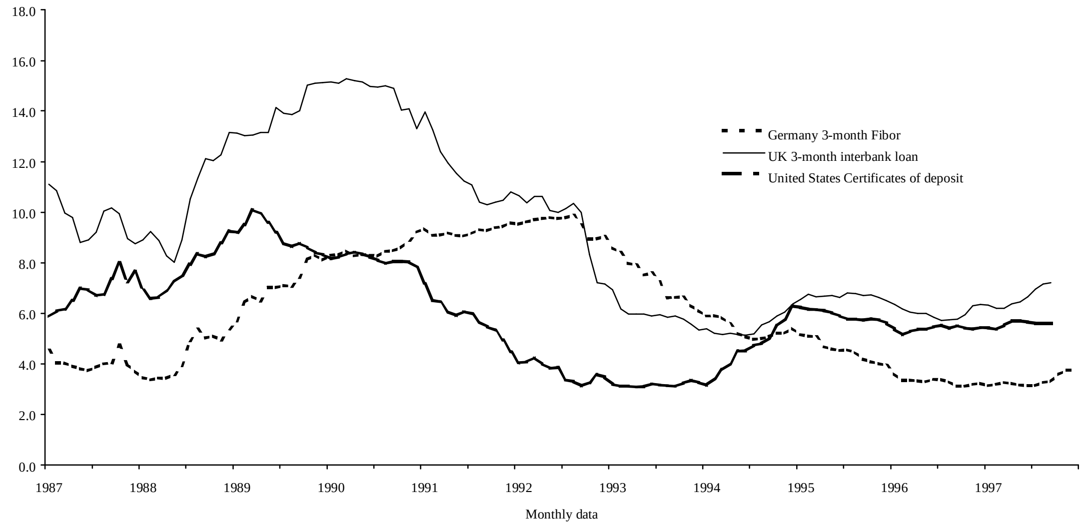
	1997	Oct 1997	Nov 1997	Dec 1997
United States	2.4%	2.1%	1.8%	1.7%
Japan	1.8%	2.5%	2.1%	1.8%
Canada	1.6%	1.5%	0.9%	0.7%
OECD	4.3%	4.4%	4.3%	4.2%
UK	3.1%	3.8%	3.7%	3.6%
Germany	1.7%	1.8%	1.9%	1.7%
France	1.2%	1.0%	1.3%	1.1%
Italy	1.8%	1.6%	1.6%	1.6%
EU 15	2.0%	2.0%	2.2%	2.0%

Source: 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.
- Of all the EU Member States, Greece remains the country with the highest rate of inflation, currently 4.8%.
- 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.

G 4. International Comparisons - Interest Rates

Short term interest rates



Short-Term Interest Rates as at 26 February 1998

	3-month rate (% pa)
London	7 1/4
New York	5 19/32
Frankfurt	3 15/32
Tokyo	17/32
Paris	3 17/32
Milan	6
Brussels	3 21/32

Source: Financial Times, 27 February 1998

- UK interest rates remain well above key European rates reflecting the relative buoyancy of the UK economy compared to other parts of Europe. Recent data, however, suggests that this gap may be diminishing as continental Europe now seems to be growing much faster and UK growth shows signs of levelling off.

- Expectations of a significant rise in rates in the United States have been downgraded due to the significant impact that the drop in demand from Asia is having on the US manufacturing sector.

- Japanese interest rates are for all practical purposes at their lowest level. The government is expected to introduce a further fiscal stimulus 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 in recession, grows strongly.