



RESEARCH PAPER 99/8  
1 FEBRUARY 1999

# 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: Economic and Monetary Union: the first month

Jane Hough (Editor)

ECONOMIC POLICY & STATISTICS SECTION

HOUSE OF COMMONS LIBRARY

**Recent Library Research Papers include:**

<b>98/113</b>	Voting Systems: The Government's Proposals (3 <sup>rd</sup> revised edition)	14.12.98
<b>98/114</b>	Cuba and the Helms-Burton Act	14.12.98
<b>98/115</b>	The <i>Greater London Authority Bill: A Mayor and Assembly for London</i> Bill 7 of 1998-99	11.12.98
<b>98/116</b>	The <i>Greater London Authority Bill: Transport Aspects</i> Bill 7 of 1998-99	10.12.98
<b>98/117</b>	Water Industry Bill (revised edition) Bill 1 [1998/99]	10.12.98
<b>98/118</b>	The <i>Greater London Authority Bill: Electoral and Constitutional Aspects</i> Bill 7 of 1998-99	11.12.98
<b>98/119</b>	Unemployment by Constituency - November 1998	16.12.98
<b>98/120</b>	Defence Statistics 1998	22.12.98
<b>99/1</b>	The <i>Local Government Bill: Best Value and Council Tax Capping</i> Bill No 5 of 1998-99	08.01.99
<b>99/2</b>	Unemployment by Constituency - December 1998	13.01.99
<b>99/3</b>	Tax Credits Bill Bill 9 of 1998-9	18.01.99
<b>99/4</b>	The <i>Sexual Offences (Amendment) Bill: 'Age of consent' and abuse of a</i> position of trust [Bill 10 of 1998-99]	21.01.99
<b>99/5</b>	The <i>House of Lords Bill: 'Stage One' Issues</i> Bill 34 of 1998-99	28.01.99
<b>99/6</b>	The <i>House of Lords Bill: Options for 'Stage Two'</i> Bill 34 of 1998-99	28.01.99
<b>99/7</b>	The <i>House of Lords Bill: Lords reform and wider constitutional reform</i> Bill 34 of 1998-99	28.01.99

*Research Papers are available as PDF files:*

- *to members of the general public on the Parliamentary web site,*  
*URL: <http://www.parliament.uk>*
- *within Parliament to users of the Parliamentary Intranet,*  
*URL: <http://hcl1.hclibrary.parliament.uk>*

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Users of the printed version of these papers will find a pre-addressed response form at the end of the text.

## CONTENTS

<b>I</b>	<b>Contacts for further information</b>	<b>5</b>
<b>II</b>	<b>Economic &amp; Monetary Union: the first month</b>	<b>6</b>
<b>III</b>	<b>Subject pages</b>	<b>10</b>
	<b>A. Growth &amp; Output</b>	<b>10</b>
	1. GDP	10
	2. GDP by Industry	11
	3. Investment	12
	4. Productivity	13
	<b>B. Prices &amp; Wages</b>	<b>14</b>
	1. Retail Prices	14
	2. Average Earnings	15
	<b>C. Labour Market</b>	<b>16</b>
	1. Employment	16
	2. Unemployment: National	17
	3. Unemployment: Regional	18
	<b>D. Finances &amp; Government Borrowing</b>	<b>19</b>
	1. Interest Rates	19
	2. Exchange Rates	20
	3. Public Sector Net Cash Requirement	21
	4. Money Supply	22
	<b>E. International Trade</b>	<b>23</b>
	1. International Trade	23
	2. Trade in Goods	24

<b>F.</b>	<b>Other Indicators</b>	<b>25</b>
1.	Housing	25
2.	New Registration of Cars	26
3.	Retail Sales	27
<b>G.</b>	<b>International Comparisons</b>	<b>28</b>
1.	Growth	28
2.	Unemployment	29
3.	Prices	30
4.	Interest Rates	31

## I      **Contacts for further information**

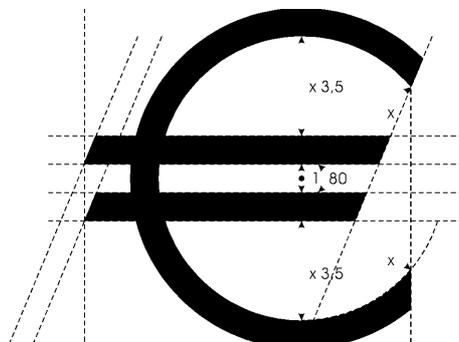
Members and their staff requiring further information are encouraged to talk to the statistician specialising in the relevant area. The statisticians dealing with the subjects covered by this Research Paper are shown below. (After 6pm there is a statistician on duty until the rise of the House who can 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	Eshan Karunatileka /Tim Edmonds	3977/2883
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	Eshan Karunatileka /Tim Edmonds	3977/2883

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

## II Economic & Monetary Union: the first month

The euro has arrived!



1 January 1999 saw the start of the third stage of Economic & Monetary Union (EMU). Eleven countries, Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain, irrevocably tied their currencies to the new currency, the euro. The official exchange rates are shown in the table below:

### Euro currency rates

#### One euro equals:

13.7603	Austrian schillings
40.3399	Belgian francs
1.95583	German d'marks
5.94573	Finnish markkas
6.55957	French francs
0.787564	Irish pounds
1936.27	Italian lire
40.3399	Luxembourg francs
2.20371	Netherlands guilders
200.482	Portuguese escudos
166.386	Spanish pesetas

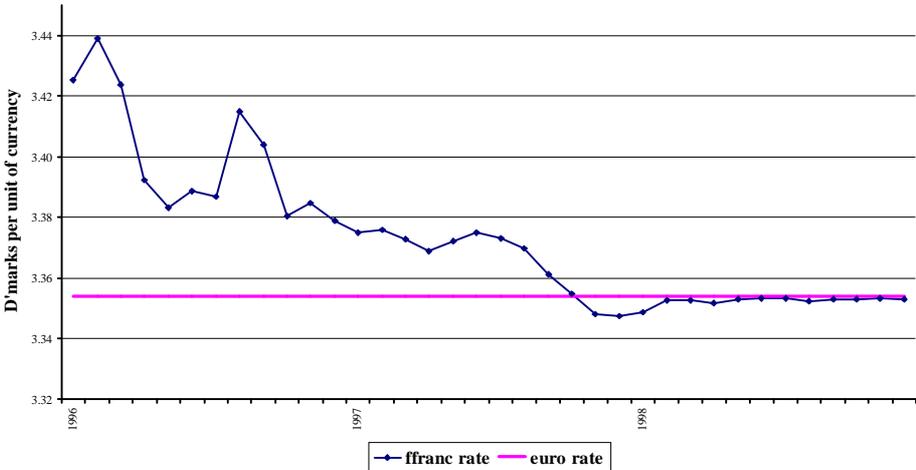
*Source: European Commission*

The rates are shown to six significant figures as required in the regulations. Conversions between currencies should be calculated by first converting into the euro and then out of it to the second currency. This is required to avoid rounding errors etc. There are therefore, no official cross rates although these can be calculated unofficially.

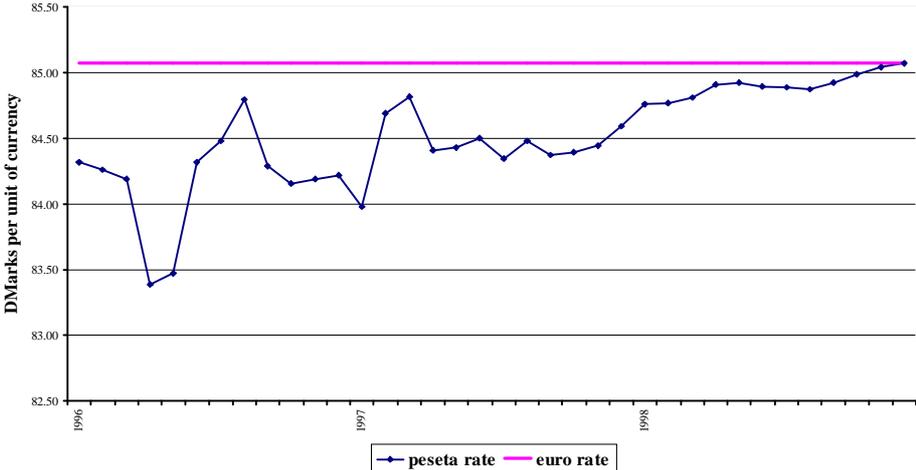
The charts on the following page demonstrate the convergence that has taken place between some of the main participating currencies over the last two years. The charts compare the 'irrevocably fixed' euro rate (extended back two years) against the average,

monthly, market rate for the deutschemark against the French franc, the peseta and the lira.

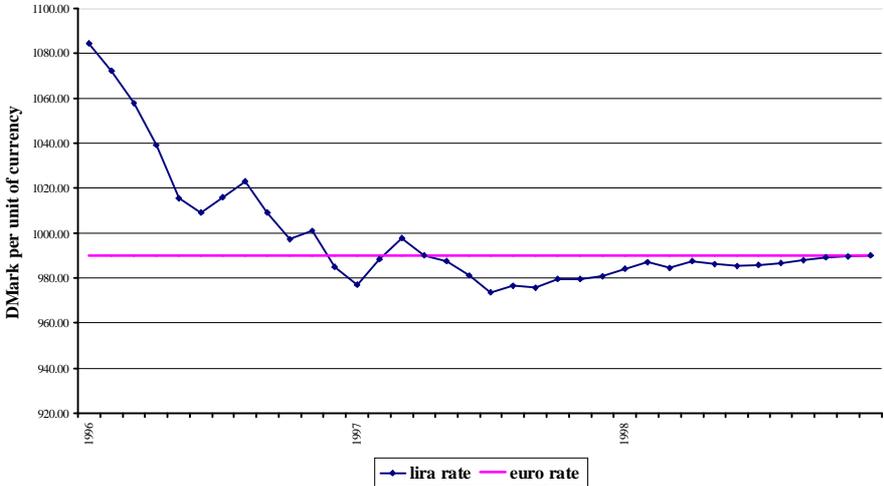
Deutschemark- Franc rate



Deutschemark - Peseta Rate



Deutschemark- Lire Rate



The charts show that, in the case of the deutschemark-ffranc and the deutschemark-lira rates, the market exchange rates have been close to the final, irrevocable, euro parity for several months before the start of EMU. However, they also highlight the degree of volatility between the currencies over the longer period. This raises the question as to why this happened in the first place and what will happen in the future now that such adjustments are no longer possible? In particular for a country such as Spain, the euro rate is a very recent level for their currency and the consequences are as yet untried.

In some respects the start of Stage Three was something of a non-event. For an event of such potential significance – possibly only the post-war Bretton Woods accord comes close in terms of importance - there was very little to report. The experience of City firms was that the changeover had gone more smoothly than had been expected. Private sector banks and the Bank of England were able to send their staff home early as all procedures worked properly. According to Reuters the massive redenomination exercise, covering more than one billion bonds, securities, contracts etc was completed seven hours ahead of schedule. One City commentator was quoted as saying that “we had a few glitches where we took a few minutes to think about what to do, but I can’t even think of anything I would describe as a problem”.<sup>1</sup>

The main technological challenge was whether the new banking payments system would operate efficiently. Named TARGET, the system links up national payments systems in all member states and allows settlements between institutions to be made gross at any time during the day. Unlike previous systems which netted off claims at the end of the day the new system permits gross payments at any time. The fact that settlements are made gross means that there is a greater need of liquidity in each of the fifteen markets and, hence, a higher possibility that one sector could fail and thus derail the whole system. In fact there were few problems. On the first Monday TARGET announced a three and a half-hour extension time to process payments and on the following day another one-hour extension was announced to cope with problems that had occurred at the Portuguese ‘hub’. Since then the system has operated within its normal parameters.

The currency too has survived its first scare. Conflicting news about the economies of the United States and Germany lead to a fall in the euro of over one US cent on 8 January. The euro has fallen against both sterling and the US dollar since its opening day. The euro began life at 1.1743 to the dollar and 0.7058 to the pound. Its value had fallen to \$1.1562 and £0.6975 respectively by 26 January.

Politically the success of the launch appears to have encouraged the governments of Denmark, Sweden and Greece to favour a more positive role towards EMU. Both of the Scandinavian countries’ leaders have made pro-EMU comments and there are reports that the Swedes may bring forward the date of their referendum on EMU entry.<sup>2</sup>

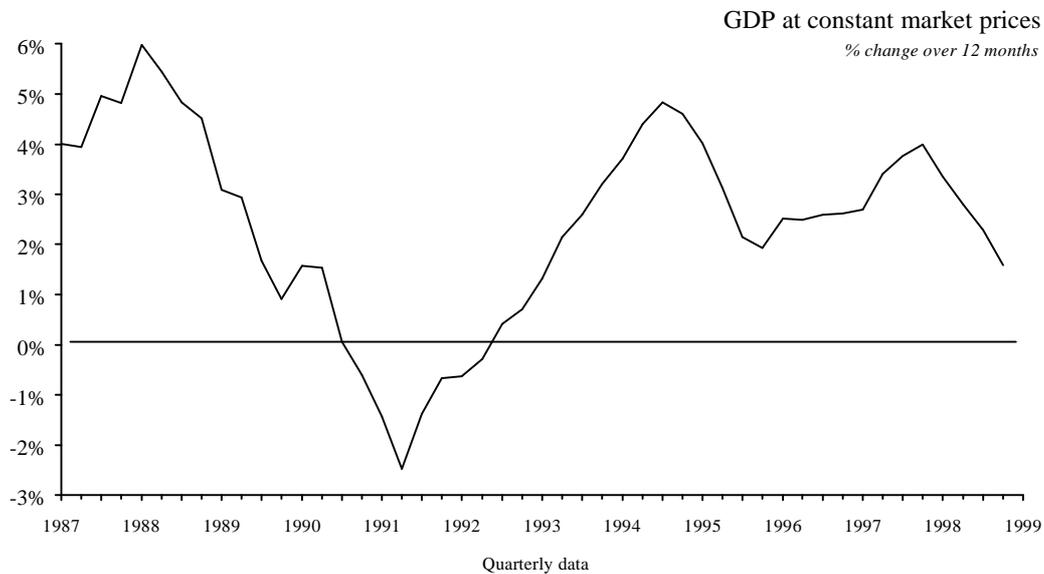
---

<sup>1</sup> *Financial Times*, Smooth conversion, 7 January 1999

<sup>2</sup> *Financial Times*, Sweden may bring forward Referendum, 9 January 1999

Clearly it is too soon to say if EMU is beneficial to its participants. All that one can say now is that the technical and operational phase appears to have been completed successfully.

## A 1. Gross Domestic Product



Gross Domestic Product  
*seasonally adjusted*

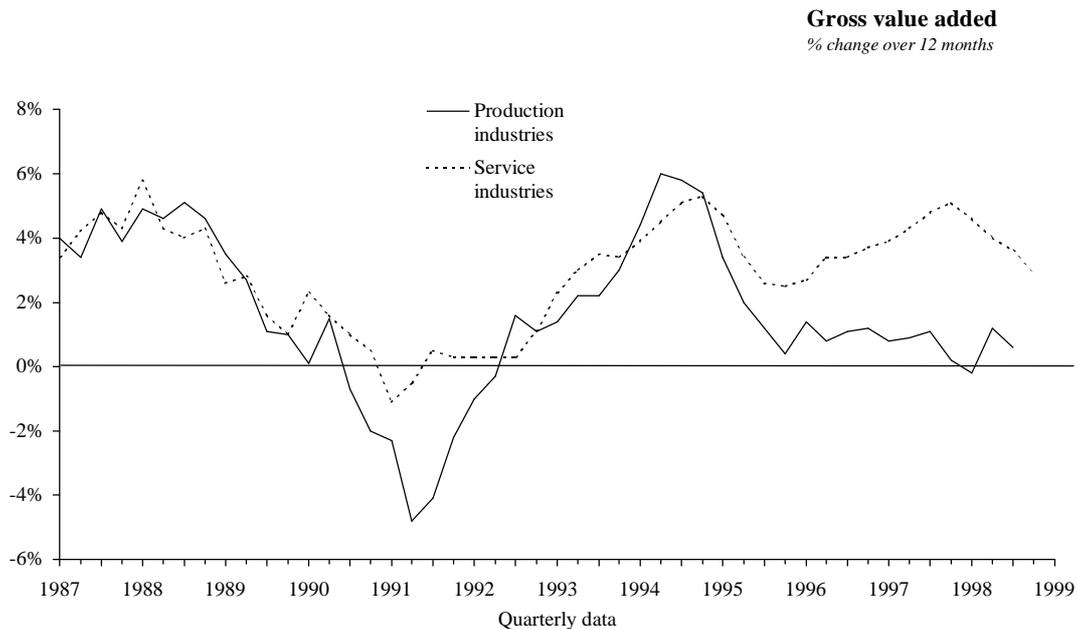
	GDP at current market prices <i>£ billion</i>	GDP at constant market prices <i>12 month change</i>	HH consumption at constant market prices <i>12 month change</i>	Non-Oil GVA at constant basic prices <i>12 month change</i>
1996	754.6	2.6%	3.7%	2.5%
1997	801.3	3.5%	4.0%	3.5%
1998 (prov)	n.a.	2.5%	n.a.	2.8%
Q3	202.8	3.8%	4.1%	3.7%
Q4	204.6	4.0%	4.3%	3.8%
1998 Q1	206.3	3.4%	3.7%	3.4%
Q2	208.8	2.8%	2.8%	3.0%
Q3	211.1	2.3%	2.6%	2.6%
Q4 (prov)	n.a.	1.6%	n.a.	2.0%

Source: ONS Database series YBHA, AMBI, ABJR & GDPS; ONS first release (99)27

- Gross domestic product (GDP) at market prices is provisionally estimated to have grown by 0.2% in the fourth quarter of 1998 to a level 1.6% higher than in the fourth quarter of 1997. GDP growth has slowed significantly since 1997 when quarter-on-quarter growth rates were around 1.0%. Gross value added (GVA) at basic prices excluding oil and gas extraction is provisionally estimated to have grown by 0.3% in the fourth quarter of 1998 to a level 2.0% higher than in the fourth quarter of 1997.
- Household spending on both durable and non-durable goods fell in real terms the third quarter of 1998. There was, however, a significant increase in spending on services.
- The latest Treasury average of independent economic forecasts suggests that GDP growth will be 0.6% in 1999 and 1.8% in 2000.

Next update: 23 February

## A 2. Gross Value Added by Industry



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

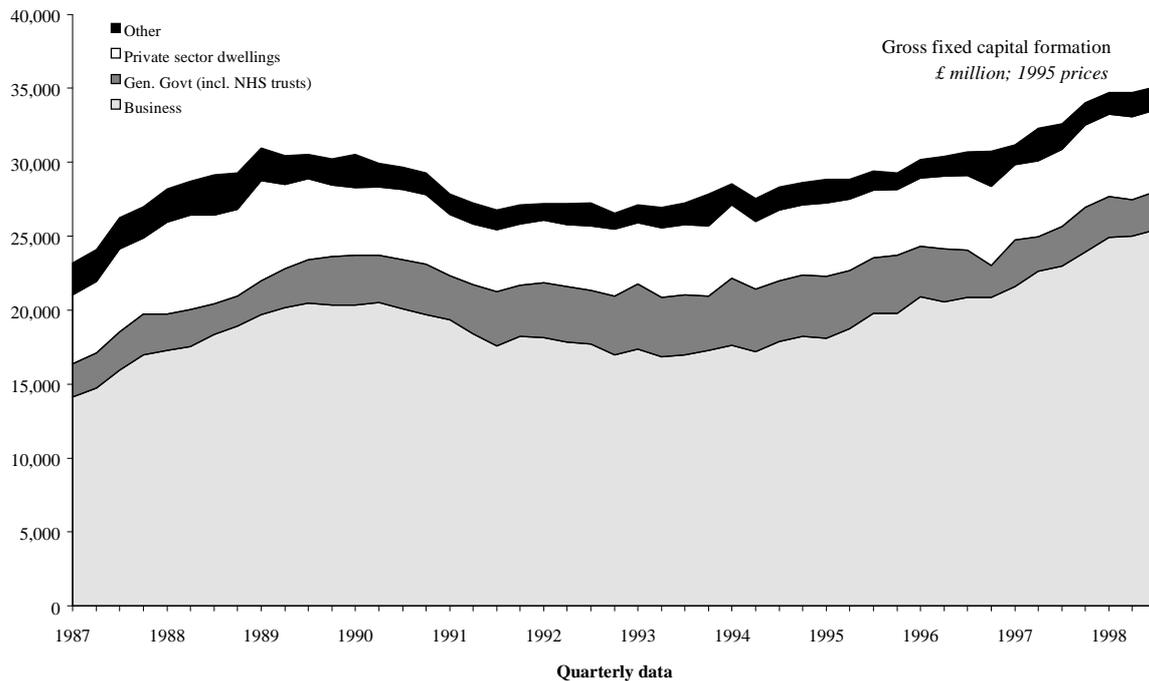
	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufac- turing			
1996	1.1%	0.4%	3.3%	2.0%	1.5%
1997	0.8%	1.0%	4.5%	0.5%	3.3%
1998	n.a.	n.a.	3.8%	n.a.	n.a.
1997 Q3	1.1%	1.3%	4.8%	0.5%	3.0%
Q4	0.2%	0.5%	5.1%	1.1%	3.1%
1998 Q1	-0.2%	0.1%	4.6%	0.5%	5.7%
Q2	1.2%	0.9%	4.0%	-0.4%	1.0%
Q3	0.6%	0.4%	3.6%	-0.2%	0.4%
Q4 (prov)	n.a.	n.a.	2.9%	n.a.	n.a.

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 3%. Provisional data for the fourth quarter of 1998 suggest that output was 0.6% higher than in the third quarter. This is the lowest quarter-on-quarter growth rate since the second quarter of 1995.
- Industrial production is estimated to have fallen between the third and fourth quarters of 1998. This was entirely due to a decline in manufacturing output – the output of the energy extraction and supply industries rose. The agriculture and construction industries are also estimated to have increased output in this period.
- 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%.

Next updates: 8 & 23 February

### A 3. Investment



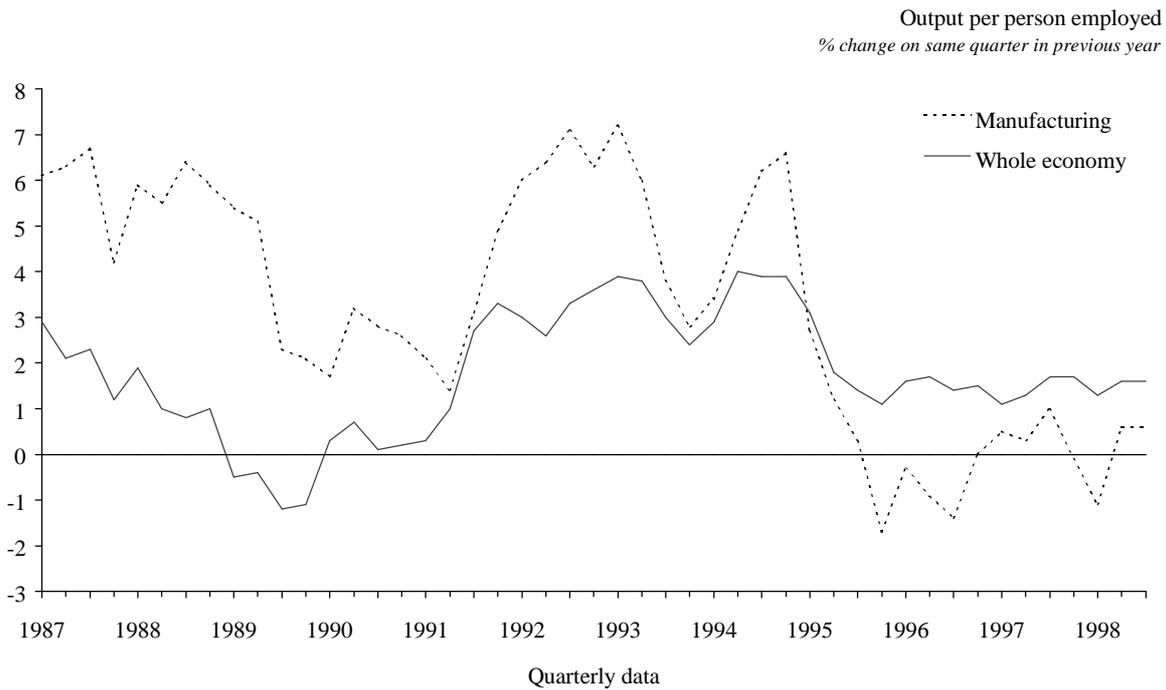
Gross fixed capital formation  
£ million; 1995 prices; seasonally adjusted

	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	14,271	52,429	36,172	23,024	4,216	130,112
1997 Q4	3,637	13,932	9,439	6,071	959	34,038
1998 Q1	3,870	14,045	9,835	6,024	921	34,695
Q2	3,501	14,682	9,527	6,054	942	34,706
Q3	3,476	14,744	9,917	5,962	995	35,094

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.
- Total investment rose 1.1% in the 1998 Q3 compared with the previous quarter and 7.7% compared with the same quarter in the previous year.
- Figures show that total GFCF in 1997 (at 1995 prices) is estimated to have risen 6.6% compared with 1996. Moreover, GFCF in 1997 was 6.5 % higher than the previous peak of £122,158 million, reached in 1989.

## A 4. Productivity



% change on year  
*seasonally adjusted*

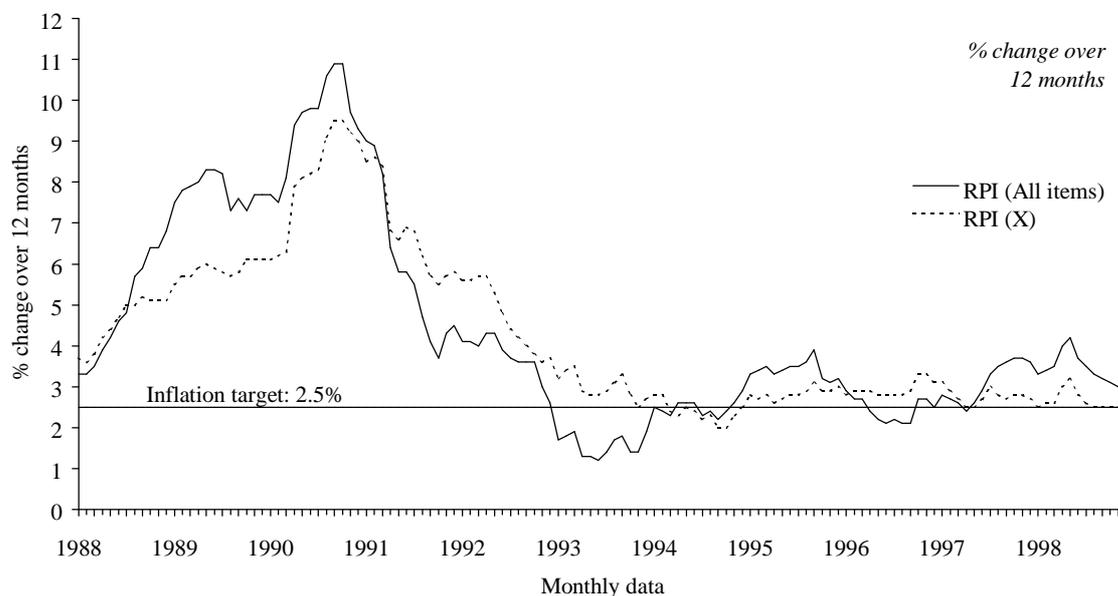
	Manufacturing			Whole Economy		
	Output	W'force in employment	Output per head	Output	W'force in employment	Output per head
1995	1.5	0.8	1.8	2.6	0.6	0.6
1996	0.4	1.0	1.5	2.6	-0.7	-0.7
1997	1.0	1.7	1.5	3.4	0.5	0.5
1997 Q3	1.3	0.3	1.0	3.6	1.7	1.7
Q4	0.5	0.6	-0.1	3.6	1.7	1.7
1998 Q1	0.1	1.2	-1.1	3.3	1.8	1.3
Q2	0.9	0.4	0.6	3.0	1.2	1.6
Q3	0.4	-0.2	0.6	2.6	0.9	1.6

Source: ONS Database (series ERIT, LNNM, LNNN, GDPQ, LNNX, LNOK, ERIU, LNNS, LNNU, GDPR, LNNO & LNNP)

- In the manufacturing sector, output growth slowed in the third quarter of 1998. However, the slight contraction in manufacturing employment offset the decline in output growth, helping productivity growth to remain positive.
- For the economy as a whole output growth and employment growth both slowed, causing productivity growth to remain steady at an annualised rate of 1.6% in 1998 Q3.

Next update: 17 February

## B 1. Retail Prices



	<u>% change on previous year</u>	
	Retail Prices Index	
	All-items	excl. mortgage interest (RPI(X))
1996	2.4	3.0
1997	3.1	2.8
1998	3.4	2.6
1997 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
Nov	3.0	2.5
Dec	2.8	2.6

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.
- RPI(X) 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) had been on a downward trend since June. However, after four months at 2.5%, RPI(X) increased marginally to 2.6% in December 1998.
- The rate of increase in headline inflation declined from 3.0% to 2.8% in December 1998.
- Having provided a large part of the upward pressure within the RPI for most of 1998, housing costs have exerted a downward influence on the all items RPI in November and December, as lower mortgage rates have fed through. In the twelve months up to December 1998, housing costs increased by 5.7%.

Next update: 16 February

## 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:

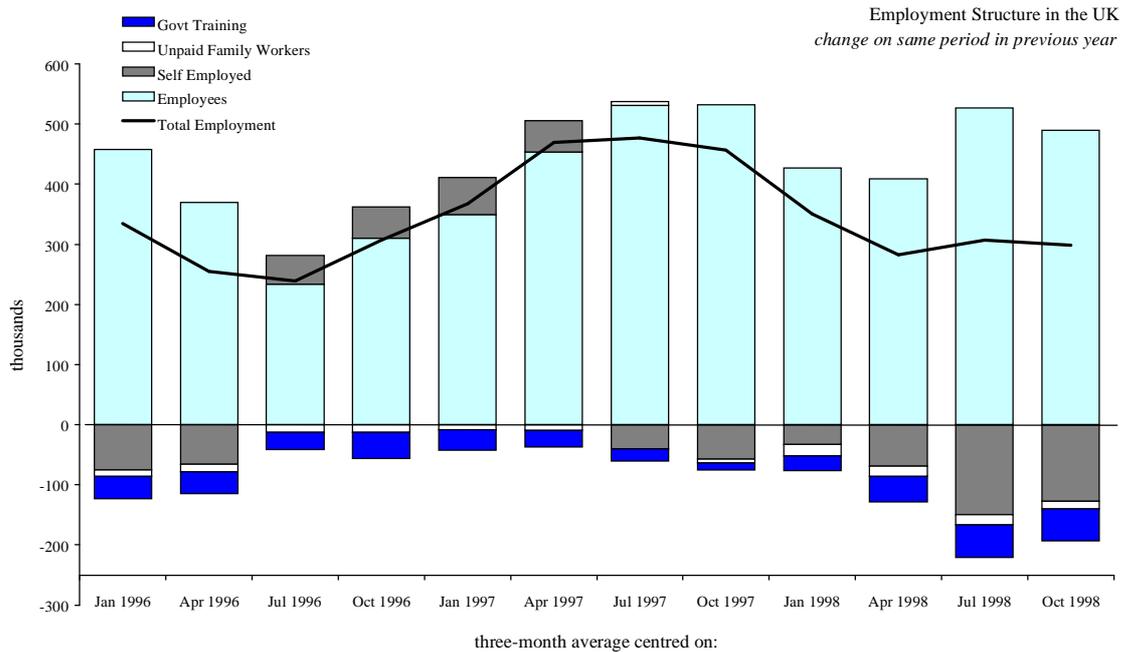
Public confidence in this particular series has clearly been dented. We have put substantial work in hand which will not be completed in time for the next scheduled release of the series. In the circumstances we judged it in the best interest of our users to halt publication until we can give the re-based 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 was originally expected to take between four and six weeks, but no statement on the outcome of this work has been made so far.

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

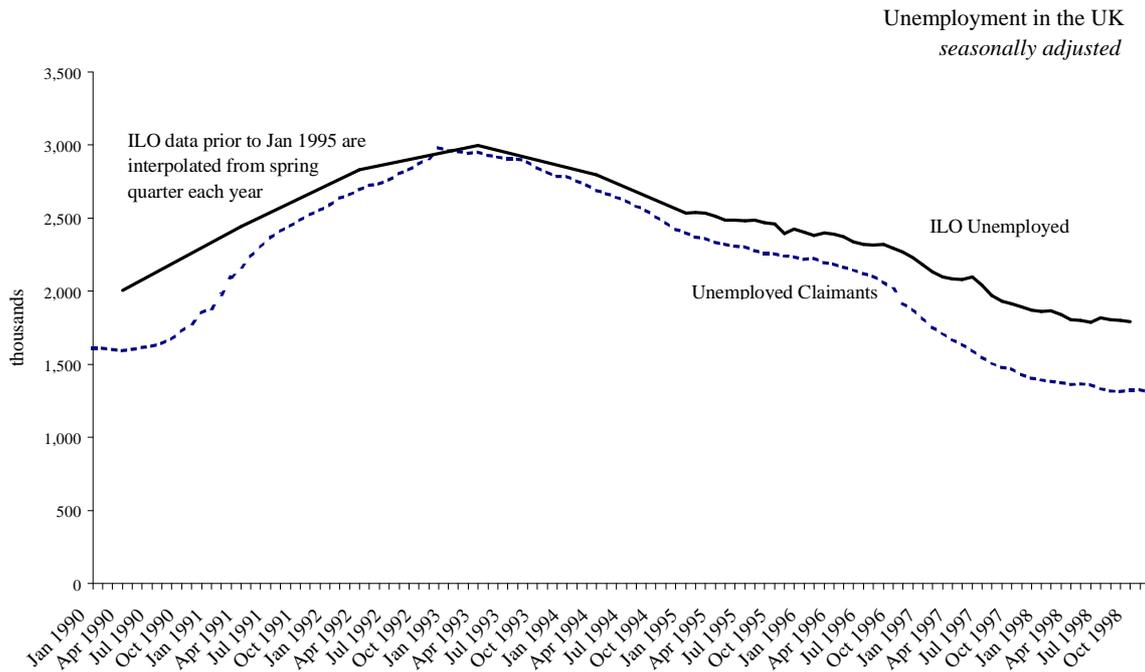
		Total in Employment	Employees	Self Employed	Unpaid Family Workers	Govt Training
1995	Sep-Nov	26,202	22,478	3,322	135	268
1996	Sep-Nov	26,509	22,788	3,374	122	225
1997	Sep-Nov	26,966	23,320	3,317	115	214
	Dec-Feb	27,007	23,383	3,325	95	205
1998	Mar-May	27,044	23,486	3,277	101	179
	Jun-Aug	27,166	23,708	3,183	106	168
	Sep-Nov	27,264	23,810	3,190	102	161
Changes:						
1997 Sep-Nov to		298	490	-127	-13	-53
1998 Sep-Nov		1.1%	2.1%	-3.8%	-11.3%	-24.8%

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 298,000 (1.1%) higher in the September-November 1998 period. The pace at which employment is increasing has slowed somewhat compared to a year ago, but has remained at an annual rate of about one per cent over the last six to eight months.
- The number of people working part-time is virtually unchanged from the level a year previously, currently standing at 6.8 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 September-November 1998: from 12.0% to 11.2%.
- In September-November 1998 the average actual weekly hours of work were 38.6 for people working full-time (40.6 for men and 34.5 for women) and 15.2 for people working part-time (14.9 for men and 15.3 for women).

Next update: 17 February

## C 2. Unemployment: National

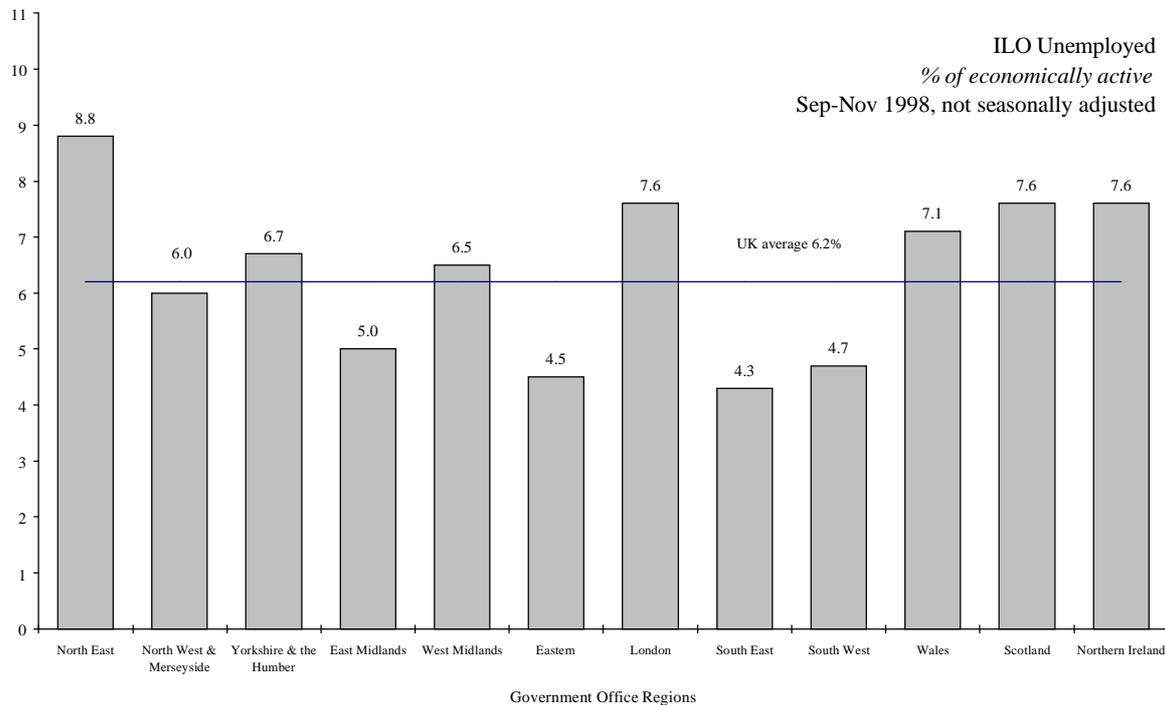


ILO Unemployment in the UK <i>seasonally adjusted</i>		
	thousands	rate (%)
1995 Sep-Nov	2,462	8.6
Dec-Feb	2,404	8.4
1996 Mar-May	2,388	8.3
Jun-Aug	2,319	8.1
Sep-Nov	2,295	8.0
Dec-Feb	2,180	7.6
1997 Mar-May	2,083	7.2
Jun-Aug	2,042	7.1
Sep-Nov	1,913	6.6
Dec-Feb	1,861	6.4
1998 Mar-May	1,807	6.3
Jun-Aug	1,816	6.3
Sep-Nov	1,791	6.2

Source: Labour Force Survey(ONS)

- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).
- The latest LFS estimates show that over the period September to November 1998, the level of ILO unemployment in the UK was 1,791,000. This was a decrease of 25,000 from the previous three-month period of June to August, when unemployment had temporarily increased by 9,000. As measured by the monthly claimant count, unemployment fell in December 1998 by 14,000 to stand at 1,311,000, after having increasing marginally in both October and November 1998.
- Since the New Deal for the Young Unemployed started in January 1998, approximately 188,300 people have joined the scheme. Up to the end of October, nearly 44,000 of those leaving the Gateway had moved into employment, over 75% of which were unsubsidised jobs. Since the beginning of the New Deal for the Long-Term Unemployed in July 1998, 60,400 people have joined the scheme; up to the end of October, approximately 2,890 people had entered employment from the Advisory Interview Process.

### C 3. Unemployment: Regional



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

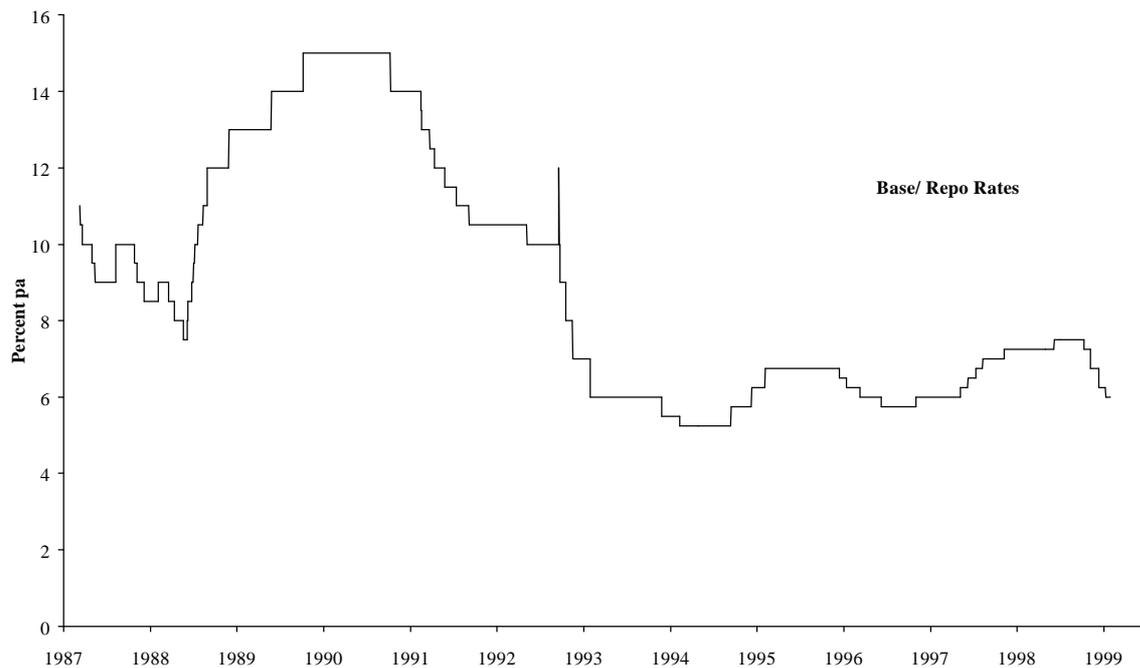
	thousands	%
North East	3	3%
North West & Merseyside	-6	-4%
Yorkshire & the Humber	-9	-5%
East Midlands	-4	-4%
West Midlands	1	1%
Eastern	-21	-15%
London	-63	-19%
South East	-9	-5%
South West	-6	-5%
Wales	0	0%
Scotland	7	4%
Northern Ireland	-11	-16%
UK	-117	-6%

Source: ONS, First Release (99) 17

- Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).
- Unemployment is still in a downward trend in the majority of UK regions. However, the rate at which unemployment is falling varies between the regions; in recent months, Northern Ireland, the Eastern region and London have seen the most pronounced falls in unemployment.
- In the three-month period of September to November 1998, unemployment in the Eastern region fell by 15% from the same period a year earlier, and unemployment in London fell by 19% from the same three-month period a year earlier.
- However, London had the joint second highest unemployment rate of all UK regions, 7.6%, behind only the North East's rate of 8.8%.

Next update: 17 February

## D 1. Interest Rates



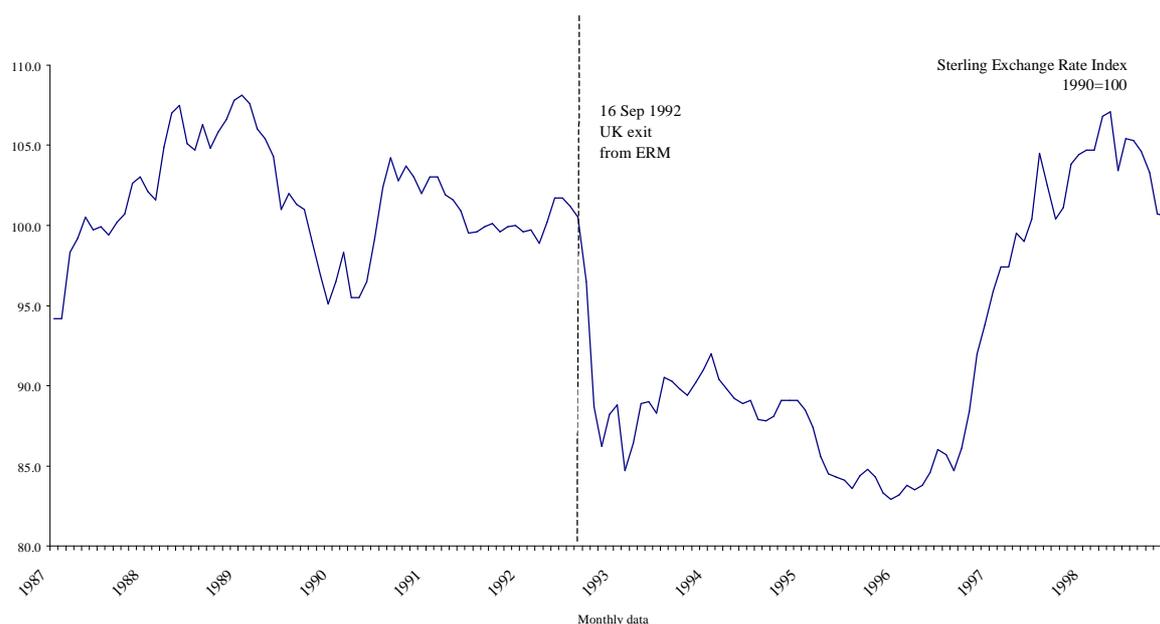
### UK Base/Repo Rates *per cent per annum*

Date of change	New rate
1992	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
	Dec 10 6.25
1999	Jan 7 6.00

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 (MPC) of the Bank of England rather than by the Chancellor.
- The MPC next meets on 3-4 of February.
- The ½ percentage point cuts in the repo rate (previously called the Bank's base rate) in November and December were the largest change in rates yet made by the MPC.
- According the minutes of the January meeting (following the latest ¼% point cut) the Committee was persuaded to cut rates because of the slowdown in the world economy. Seven members voted for a ¼% point cut, one voted for a ½% point cut and one for no change.
- 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 Oct	2.78	-3.1%	1.70	3.8%	205.02	3.8%	1.41	-3.4%
1998 Nov	2.80	-4.5%	1.66	-1.6%	199.98	-5.6%	1.42	-3.9%
1998 Dec	2.79	-5.6%	1.67	0.7%	195.52	-9.1%	1.42	-4.8%

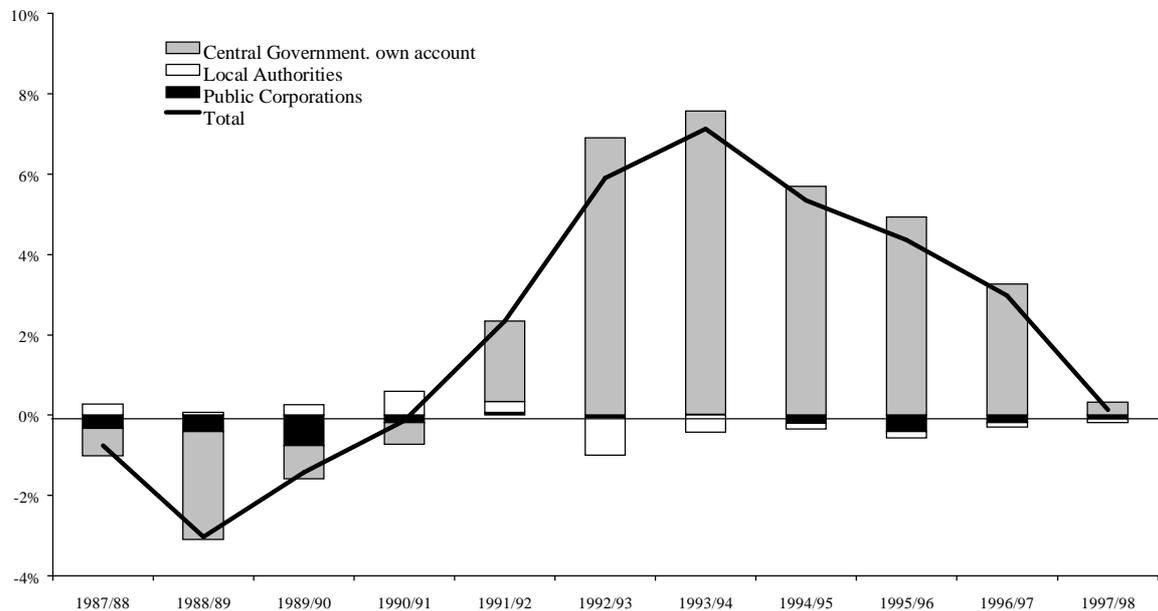
Sources: ONS database (series AJFH, AJFA, AJFO, AJHW)

### Recent Developments

- Two issues have dominated exchange rate news in the past month. First has been the introduction of the euro. It is not often that one can witness the birth of what may become one of the world's largest and most widely used currencies. The performance of the new currency is described in the article starting on page six of this Paper; however, the general consensus is that the technical and operational phase of its introduction has been a success.
- Outside Europe, the second major development has been in Brazil. The Brazilian real was floated on January 13 when the government was forced to abandon exchange rate controls. Since then it has fallen from 1.21 to the US dollar to 1.80 to the US dollar. Interest rates have been raised to 35.5% in a bid to curtail capital flight which has already seen \$8 billion leave the country's reserves in two weeks.

## D 3. Public Sector Net Cash Requirement

PSNCR as % of GDP

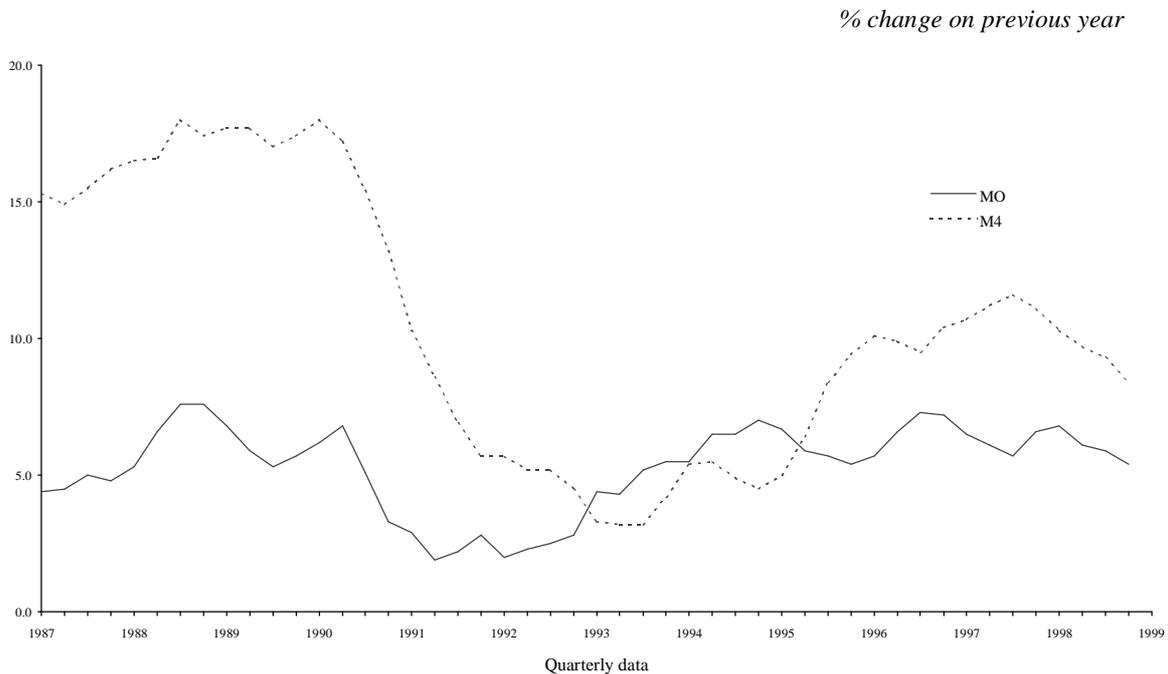


	Public Sector Net Cash Requirement			
	PSNCR		PSNCR excl privatisation receipts	
	£ billion	As a % of GDP	£ billion	As a % of GDP
1995/96	31.5	4.4%	33.9	4.7%
1996/97	22.7	3.0%	27.2	3.6%
1997/98	1.1	0.1%	2.9	0.4%
1997 Q4	-2.4	-1.2%	-2.4	-1.2%
1998 Q1	-5.2	-2.6%	-5.2	-2.6%
1998 Q2	5.4	2.6%	5.5	2.7%
1998 Q3	-2.8	-1.3%	-2.8	-1.3%
1998 Q4	-3.7	-1.7%	-3.7	-1.7%

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 nine months of 1998/99 the PSNCR was a negative £1 billion. (ie net debt repayment). Privatisation proceeds during the period were £70 million. This can be compared to a PSNCR of £6.4 billion for the same period in 1997/98.

## D 4. Money Supply



Money stock  
*seasonally adjusted*

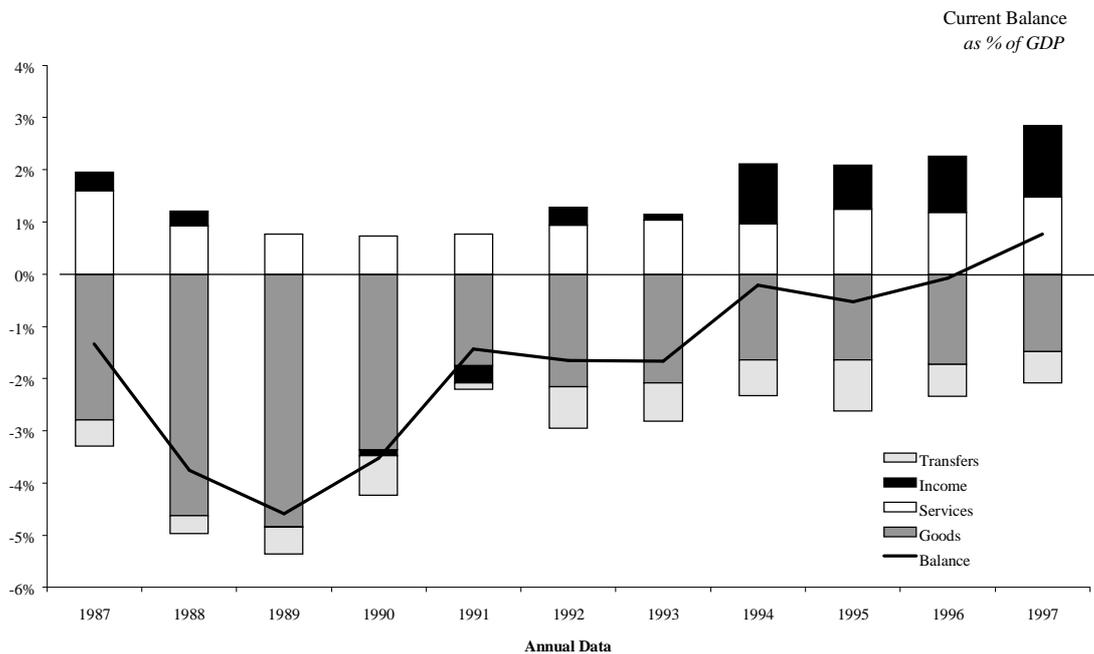
	MO		M4	
	3 month change annualised (%)	12 month change (%)	3 month change annualised (%)	12 month change (%)
1997 Dec	9.7	6.7	10.6	11.8
1998 Jan	7.4	6.8	9.9	10.7
Feb	5.0	7.1	9.9	10.4
Mar	4.6	6.6	7.7	9.7
Apr	4.0	6.7	9.7	10.4
May	3.2	6.3	7.9	9.4
Jun	2.8	5.4	8.8	9.2
Jul	3.8	5.7	10.3	10.0
Aug	5.1	6.1	8.0	8.8
Sep	6.5	5.9	8.9	9.0
Oct	6.6	5.4	6.0	9.0
Nov	6.1	4.8	7.2	8.3
Dec (prov)	10.2	6.0	6.7	8.0

*Source: Bank of England press notice dated 21 January 1999*

- 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.
- The sharp increase in the 3-month growth of M0 in December may reflect the difficulties of seasonally adjusting data for the Christmas period.
- There are now no formal targets for money supply growth.

*Next updates: 1 & 18 February*

## E 1. International Trade



Current Account Balances  
seasonally adjusted; £ million

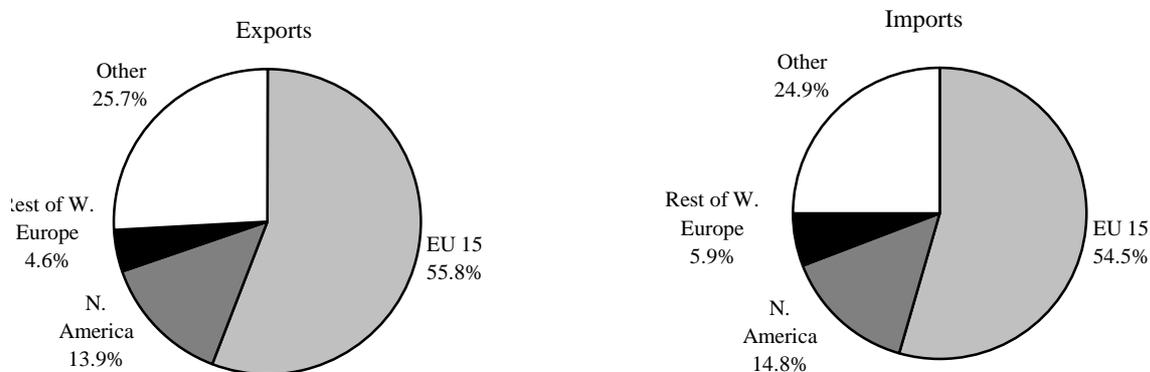
	Trade in Goods	Trade in services	Total Trade	Total income	Central Gov transfers	Other transfers	Current transfers	Current Balance
1995	-11,724	8,915	-2,809	5,976	50	-6,962	-6,912	-3,745
1996	-13,086	8,897	-4,189	8,111	1,698	-6,220	-4,522	-600
1997	-11,912	11,881	-31	10,950	908	-5,685	-4,777	6,142
1997 Q2	-3,056	3,107	51	2,632	-33	-887	-920	1,763
Q3	-2,797	3,110	313	3,006	167	-1,550	-1,383	1,936
Q4	-3,947	3,078	-869	2,266	504	-1,341	-837	560
1998 Q1	-4,453	3,027	-1,426	2,007	-152	-1,783	-1,935	-1,354
Q2	-4,771	3,245	-1,526	743	519	-1,139	-620	-1,403
Q3	-5,204	3,408	-1,796	5,160	35	-1,090	-1,055	2,309

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 rose slightly to £3,400 million from £3,200 million in the previous quarter. For 1997 as a whole, the surplus in services was £11,900 million, which was only £31 million short of offsetting fully 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 some £150 million to a surplus of £520 million.
- **Current Account:** The current account showed an overall surplus of £2,300 million in the third quarter of 1998, compared with a deficit of £1,400 million in the previous quarter.

## 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*

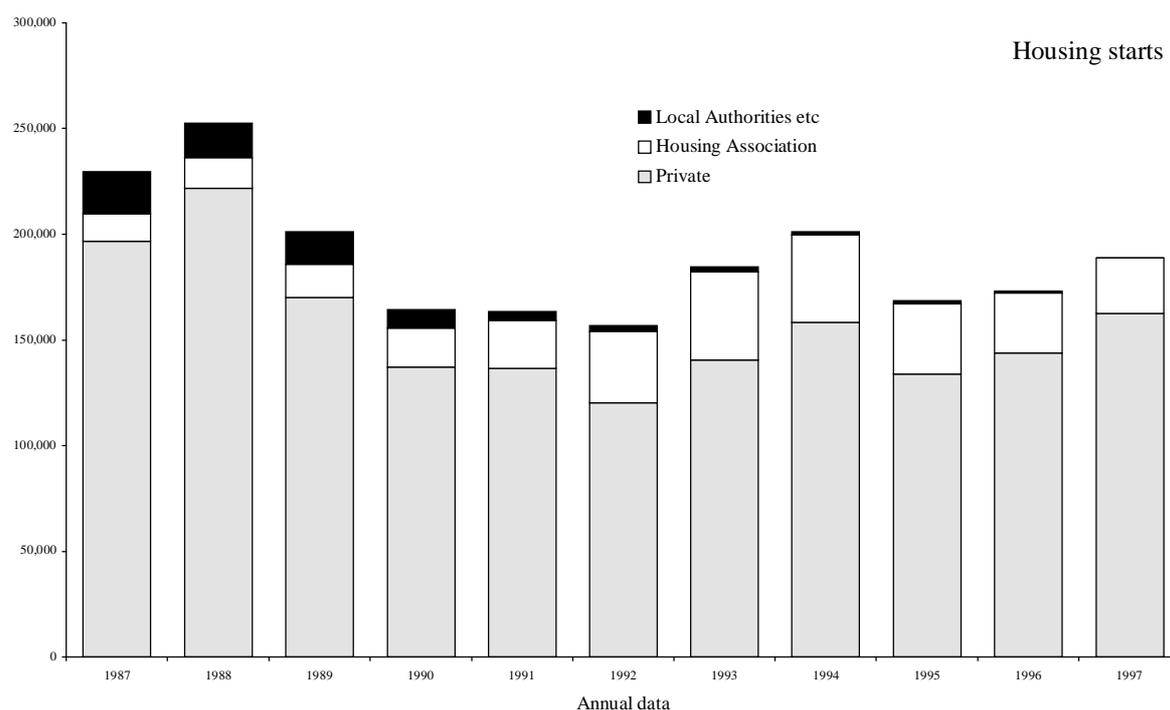
	Volume Index 1995=100		Trade in Goods (£m)		
	Exports	Imports	Exports	Imports	Balance
1995	100.0	100.0	153,725	165,449	-11,724
1996	107.7	109.1	167,403	180,489	-13,086
1997	116.5	119.0	171,783	183,695	-11,912
1997 Q3	118.2	119.6	43,182	45,979	-2,797
1997 Q4	118.6	124.0	43,108	47,055	-3,947
1998 Q1	116.9	123.7	41,082	45,535	-4,453
1998 Q2	117.8	126.7	41,184	45,955	-4,771
1998 Q3	118.7	129.7	40,961	46,165	-5,204

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

First Release: UK Trade (ONS(99) 31)

- **1997 as a whole:** The deficit in trade in goods is estimated at £11,900 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 £7,900 million in 1997 from £8,900 million in 1996.
- **Recent monthly data:** The UK's balance on trade in goods widened in November to an estimated £2,200 million compared with deficits of £1,600 million in September and £2,600 million in October, a new monthly record.
- **1998, third quarter:** The deficit in trade in goods in Q3 was £5,200 million; the largest quarterly deficit since 1990 Q2. In value terms, exports were 6.2% lower compared with the same quarter in 1997 whereas imports were largely unchanged. Compared with the previous quarter, export volumes of goods fell 2.9% and import volumes rose 2.7%
- **EU and Non-EU trade:** The deficit in trade in goods with non-EU countries for 1998 is provisionally estimated at a record £15,700 million, reflecting in part the slowdown in Asian markets. Exports to non-EU countries in the Q4 1998 fell by 12%. Exports to the EU fell by 1.7% in Q3 (the latest quarter for which figures are available). Imports from non-EU countries rose slightly by 0.4% (Q4) and from the EU fell 0.4% (Q3).
- **Trends:** The latest estimate of volume trends shows the UK trade balance is widening, with exports falling and imports flat.

## F 1. Housing



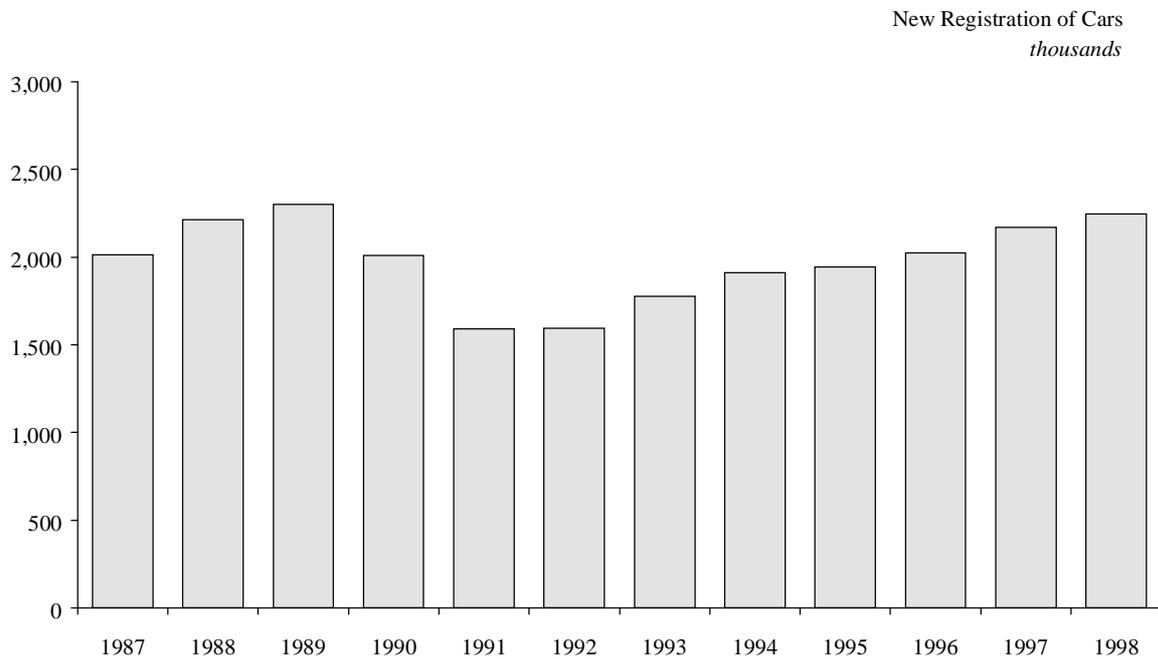
	House prices			
	All Houses	New Houses	Existing Houses	First time buyers
Standardised average price (£)				
1997	68,500	71,300	68,300	49,700
1998	72,300	75,900	71,900	52,200
1998 Q2	72,600	76,900	72,500	52,400
1998 Q3	72,900	75,900	72,800	52,800
1998 Q4	72,900	75,900	72,800	52,800
% change over same period last year				
1997	6.2%	2.6%	6.7%	5.5%
1998	5.5%	6.5%	5.3%	5.0%
1998 Q2	5.5%	9.4%	5.5%	4.8%
1998 Q3	5.5%	6.5%	5.7%	5.4%
1998 Q4	5.3%	4.0%	5.5%	5.6%

Source: Halifax House Price Index: Fourth Quarter 1998

- Provisional estimates for the three months ending in November 1998 show that the seasonally adjusted total starts were 1% higher when compared with the previous three months. During the same period, private enterprise starts rose by 5%.
- The Halifax Quarterly Index shows that house price inflation in the United Kingdom dropped to 4.5% in the year to December 1998 from 4.9% in the year to November 1998. The largest increase of 12.2% occurred in Northern Ireland followed by the South East and East Anglia which recorded respective increases of 9.5% and 9.3%. No regions recorded falls.
- The Halifax Monthly Index also shows that house prices in the UK as a whole fell by 0.1% between November and December on a seasonally adjusted basis.

Next update: 5 February

## F 2. New Registrations of Cars



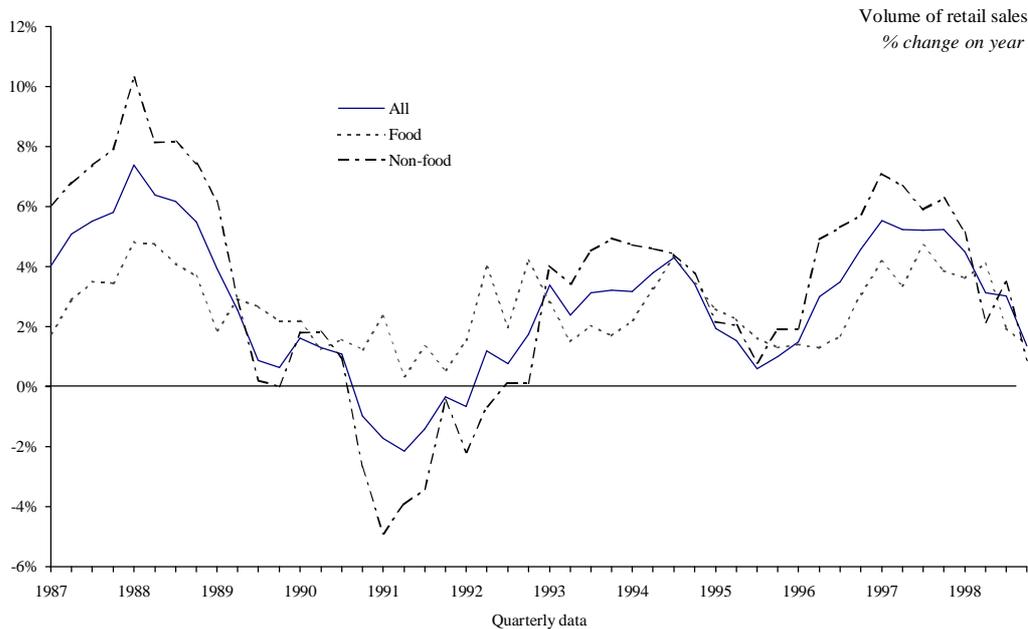
New Registrations of Cars <i>not seasonally adjusted</i>		
	Numbers thousands	Change over 12 months
1995	1,945	1.8%
1996	2,026	4.1%
1997	2,171	7.2%
1998 (forecast)	2,210	1.8%
1999 (forecast)	2,050	-7.2%
2000 (forecast)	2,000	-2.4%
1998 Sep	163	1.2%
Oct	155	-1.3%
Nov	152	0.0%
Dec	96	12.9%

Source: SMMT "Monthly Statistical Review", Dec 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 since 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.
- 96,346 cars were registered in December 1998 which represented an increase of 12.9% over the figure recorded for December 1997.
- The share of the UK market taken by

Next update: 22 February

### F 3. Retail Sales



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

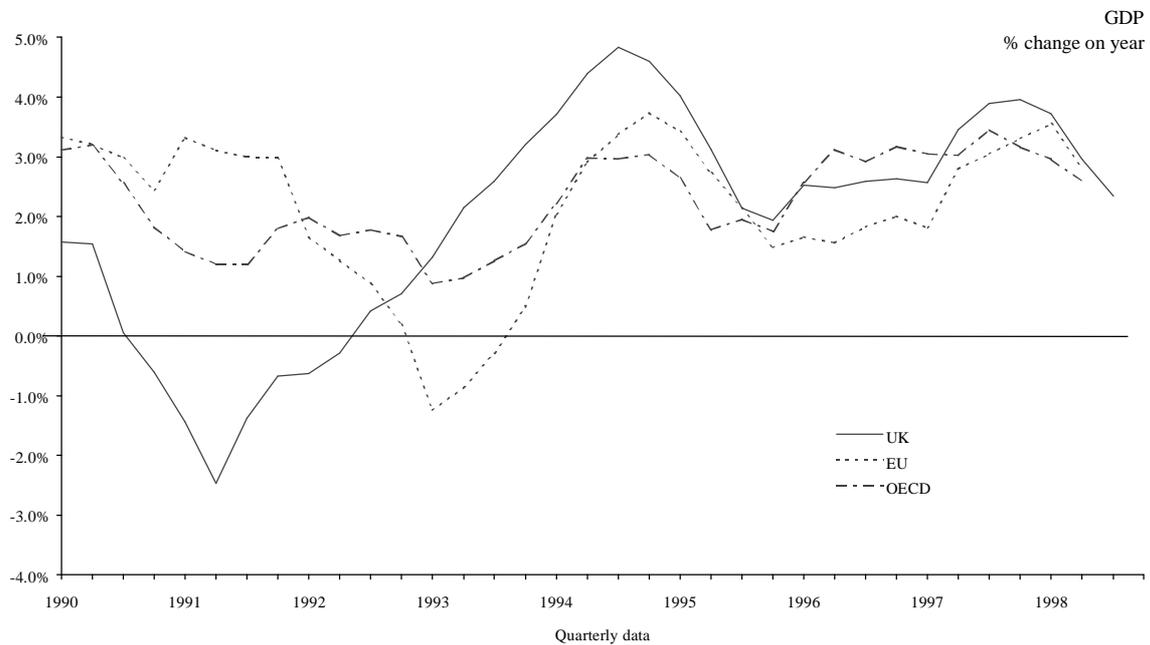
	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food
1996	4.0%	5.0%	9.0%	5.0%
1997	3.8%	7.6%	10.1%	6.7%
1998	3.7%	2.7%	5.8%	3.6%
1998 Q1	2.9%	5.5%	9.0%	4.0%
Q2	4.7%	2.8%	6.4%	4.8%
Q3	1.9%	3.7%	7.1%	4.7%
Q4	4.3%	-0.7%	1.4%	2.2%

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

- The pace of growth of retail sales declined significantly in the fourth quarter of 1998. The seasonally adjusted volume of retail sales increased by 1.4% compared to the same period a year earlier; in the third quarter of 1998, retail sales volume had increased by 3% from a year earlier.
- In December the seasonally adjusted volume of retail sales was only 0.7% higher than a year earlier.
- In value terms, the growth rate of food sales had been slowing since the middle of 1998, but picked up once more in the 1998 Q4. During the fourth quarter, growth of non-food sales also began to slow significantly. Most notably, sales of clothing & footwear actually fell by -0.7% in value terms during the fourth quarter compared to a year earlier, reflecting continued discounting by retailers.

Next update: 18 February

## G 1. International Comparisons - Growth



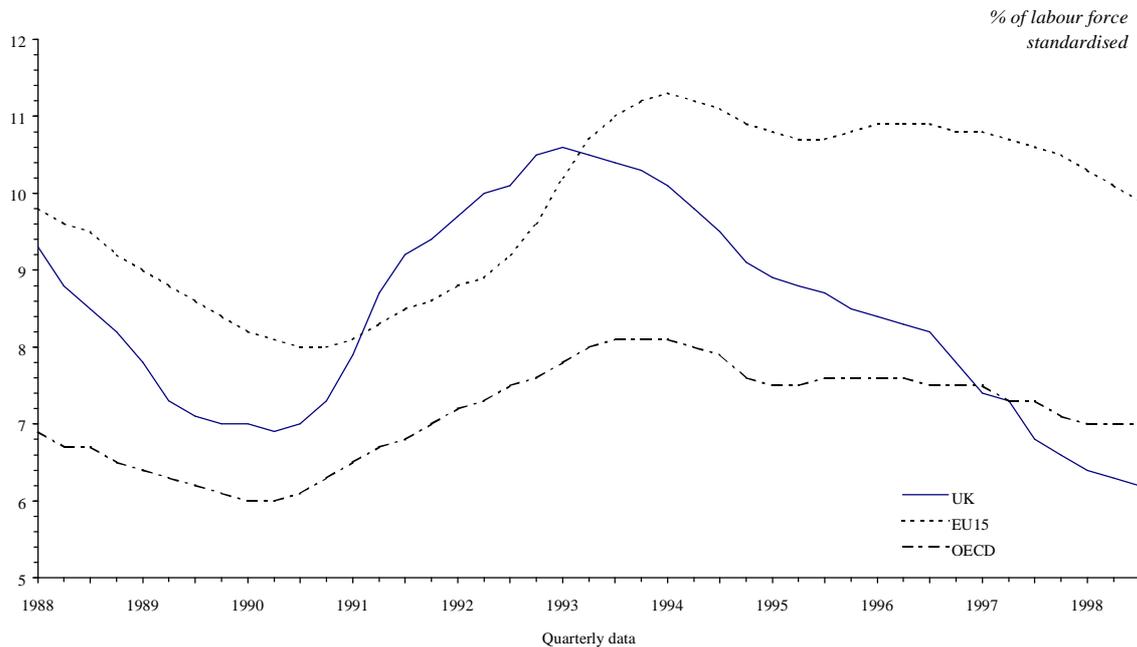
	GDP at constant market prices % change on year						
	1995	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
USA	2.3%	3.4%	3.9%	3.8%	4.1%	3.6%	3.4%
Japan	1.4%	3.9%	0.9%	-0.4%	-3.7%	-1.7%	n.a.
Canada	2.2%	1.2%	3.7%	4.0%	3.7%	3.1%	n.a.
United Kingdom	2.8%	2.6%	3.5%	4.0%	3.7%	3.0%	2.3%
Germany	1.2%	1.4%	2.3%	2.3%	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



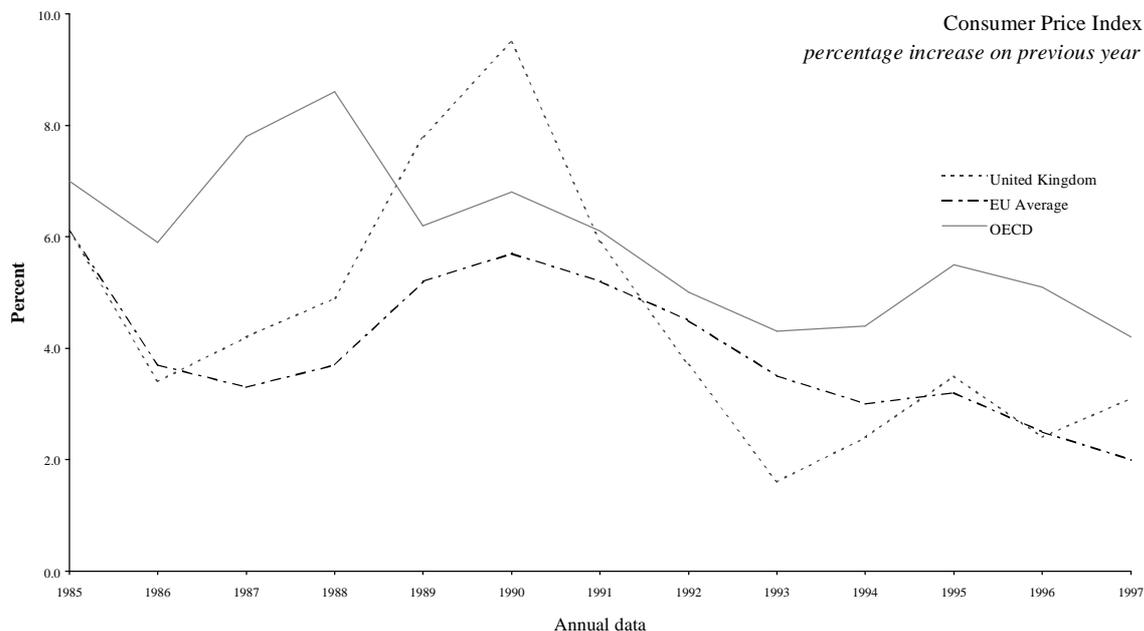
	Unemployed as % of labour force <i>standardised; seasonally adjusted</i>						
	1995	1996	1997	1997 Q4	1998 Q1	1998 Q2	1998 Q3
USA	5.6	5.4	4.9	4.7	4.7	4.4	4.6
Japan	3.1	3.4	3.4	3.5	3.6	4.2	4.3
Canada	9.5	9.7	9.2	8.9	8.6	8.4	8.3
United Kingdom	8.7	8.2	7.0	6.6	6.4	6.3	6.2
Germany	8.2	8.9	10.0	10.3	10.0	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	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 Q3 and was also marginally lower than the G7 average.
- The unemployment rate in the euro-zone (the eleven Member States participating in the single currency) stood at 10.8% in November – slightly higher than the rate of 9.8% for the EU15 as a whole.
- Youth unemployment rates (for those aged under 25) tend to be vary much more widely than the rates for people of all ages. For example, the UK's youth unemployment rate stood at 13.5% in September 1998 on a standardised basis, compared to 10.4% in Germany, 26.6% in France, 32.9% in Italy and 34.9% in Spain (the highest in the EU).

Next update: mid February

### G 3. International Comparisons – Prices



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

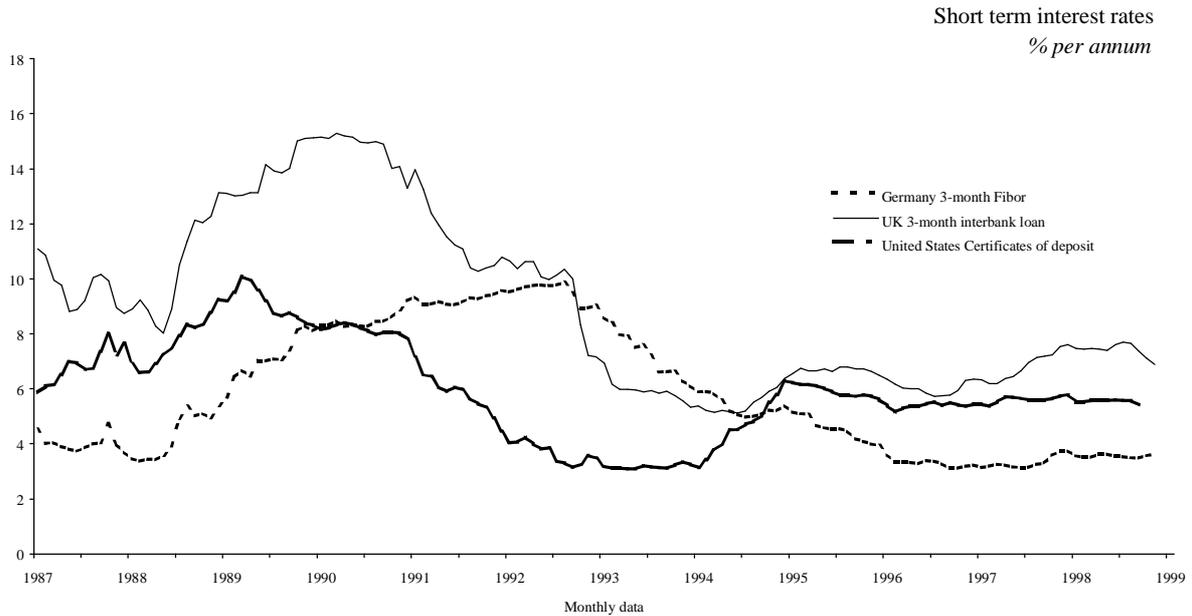
	1996	1997	Oct 1998	Nov 1998	Dec 1998
United States	2.9%	2.4%	1.5%	1.5%	..
Japan	0.1%	1.8%	0.2%	0.7%	..
Canada	1.6%	1.6%	1.0%	1.2%	1.0%
UK	2.5%	3.1%	3.1%	3.0%	2.7%
Germany	1.5%	1.7%	1.1%	1.1%	1.0%
France	2.0%	1.2%	0.4%	0.3%	0.3%
Italy	3.8%	1.8%	1.6%	1.5%	1.5%
OECD	5.1%	4.2%	3.2%	3.2%	..
EU 15	2.5%	2.0%	1.6%	1.4%	1.3%

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 0.9% in November. The UK's inflation rate on this basis stood at 1.4%.
- The inflation rates for the other three Member States not participating in the Single Currency for November 1998 were (on a harmonised basis) Greece: 3.9%, Denmark: 1.1% and Sweden: 0.1%.

Next update: late February

## G 4. International Comparisons - Interest Rates



International Interest Rates as at 28 January 1999

	Yield on 10 yr Government bonds (% pa)	3-month rate (% pa)
United Kingdom	4.21	$5 \frac{21}{32}$
United States	4.76	$4 \frac{29}{32}$
Switzerland	2.28	$1 \frac{1}{4}$
Japan	1.86	$\frac{11}{32}$
Euro-zone	na	$3 \frac{1}{8}$

Source: Financial Times, 29 January 1999

- The European Central Bank set its first repo rate at 3% in January 1999 when Stage III of EMU started. The current level of 3-month rates within EMU is shown as the 'euro-zone' rate in the table.
- There is, as yet, no equivalent euro-zone government bond rate quoted. In future, a suitable comparator may be the rate on bonds issued by institutions like the European Investment Bank. Further details will be published on this page when they become available.
- Euro-bond issues this week included the largest ever, • 3bn, issued by a German bank
- 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

