



# Economic Indicators, October 2010

RESEARCH PAPER 10/59 05 October 2010

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

- Employment in the three months to July 2010 was 286,000 higher than the previous quarter, mainly due to an increase in part-time employment. This is the largest quarterly increase in employment since records began in 1971.
- GDP growth in Q2 2010 was confirmed at 1.2%, the fastest quarterly increase in national output since 2001.
- Manufacturing output continues to recover strongly, increasing by 4.9% in the year to July, although employment in the sector fell.

This month's articles:

- **Saving the economy?**
- **Comparing earnings in the public and private sector**

Daniel Harari (editor)

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## Research Paper 10/59

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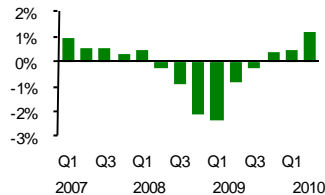
## Summary

Employment in the three months to July 2010 was 286,000 higher than the previous quarter, mainly due to an increase in part-time employment. This is the largest quarterly increase in employment since records began in 1971 (see page 10). GDP growth in Q2 2010 was confirmed at 1.2%, the fastest quarterly increase in national output since 2001 (see page 1). Manufacturing output continues to recover strongly, increasing by 4.9% in the year to July, although employment in the sector fell (page 5).

### GDP Growth

page 1

(% change quarter-on-quarter)

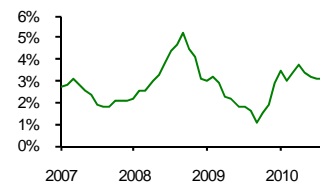


Quarterly GDP growth in Q2 2010 was confirmed at 1.2%. This is the fastest rate of quarterly growth since early 2001.

### Inflation (CPI)

page 7

(% change on year ago)

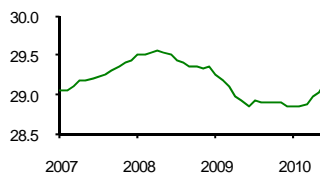


The rate of CPI inflation was 3.1% in the year to August, unchanged from July. Inflation has been at least 3% in every month so far this year.

### Employment

page 10

(total, millions)

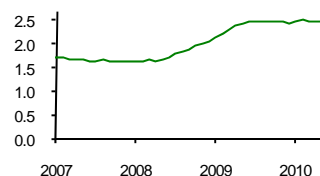


The employment level rose for the second consecutive quarter to stand at 29.2 million in the three months to July. The employment rate among 16-64 year-olds in this period was 70.7%, up by 0.4 percentage points compared with the previous quarter.

### Unemployment

page 11

(total, millions, ILO definition)



ILO unemployment has remained steady at around 2.5 million over the past year. The unemployment rate was 7.8% in the three months to July.

### Manufacturing Output

page 5

(% change on year ago)



Manufacturing output increased by 4.9% in July compared with a year ago, up from 4.0% in June. This was its fastest rate of growth since December 1994 and follows a deep contraction in output during the recession.

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Next issue: 2 November

Editor: Daniel Harari

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## 1 Introduction to *Economic Indicators*

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## 2 Saving the economy?

*"In the short term, we want to see households not saving more, but spending more"*

Charlie Bean, Deputy Governor of the Bank of England, Channel 4 News, 27 September 2010

Following a recession blamed on excessive borrowing and insufficient prudence, economists argue that more lending and less saving is important for economic recovery. This is symptomatic of the paradoxes of the economics of savings.

### 2.1 The savings ratio

The propensity of households to save is usually measured by the savings ratio, saving as a proportion of total household resources.

The UK savings ratio has broadly followed a downward trend over recent years, falling from 10% in the mid-1990s to 2-3% in 2007 and briefly becoming negative (net household borrowing) in early 2008.

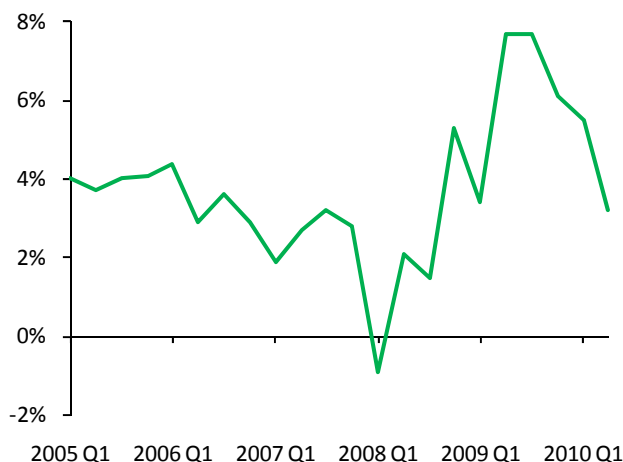
However, it increased sharply during the recession, rising to 7.7% in the second and third quarters of 2009, the highest ratio recorded since 1998.

Initially, this trend appears counter-intuitive: saving has increased at the very time that the returns on saving, interest rates, have fallen. The trends almost precisely mirror each other:

- The savings ratio fell during 2006 and 2007 as typical interest rates were rising.
- The ratio then rose sharply during 2008 despite interest rates falling close to zero (and negative in real terms).
- The savings ratio has fallen in recent quarters (to 3.2% in Q2 2010), at the same time that savings interest rates (particularly ISAs and notice accounts) have begun to creep upwards.

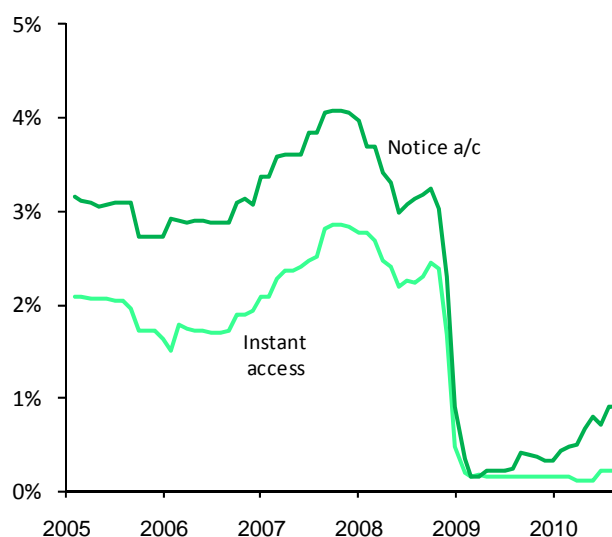
**UK household savings ratio**

Quarterly data: ONS series NRJS



**Average saving interest rates**

Monthly, Bank of England series THAK, WTTA

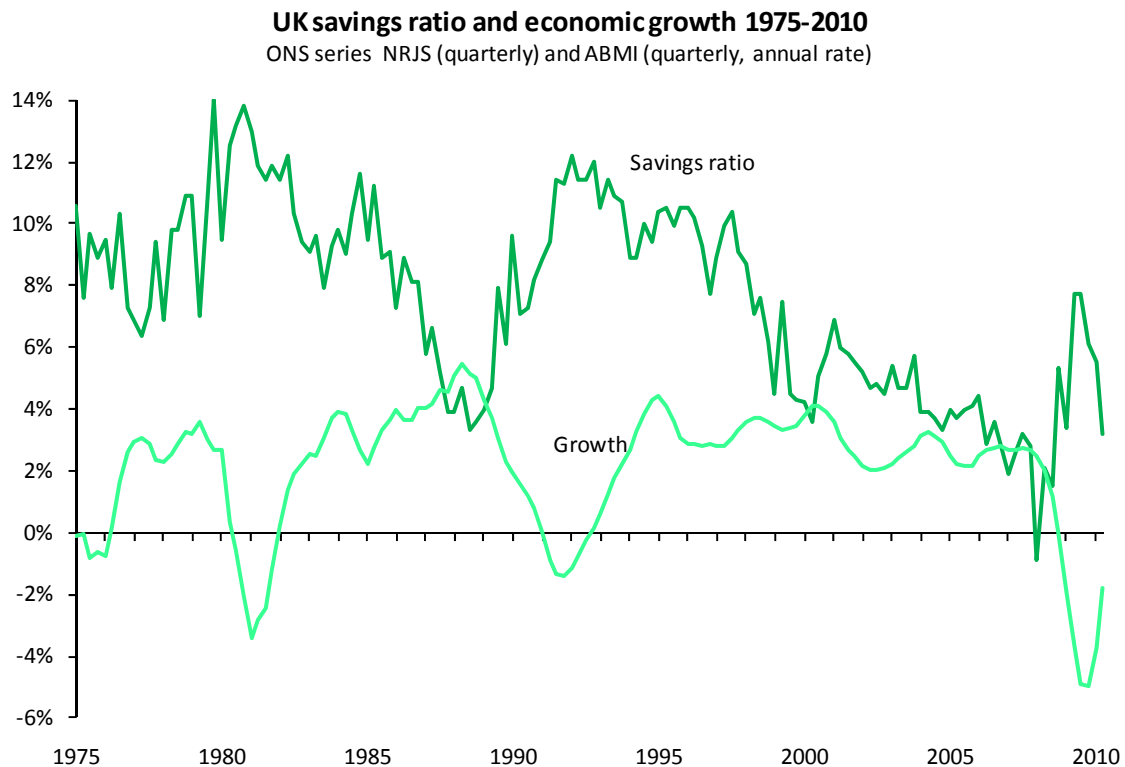


Household saving is inversely correlated with the rewards from saving. It appears that the amount which households choose to save is not determined by the interest rates on offer. What is behind this apparently contradictory result?



## 2.2 A counter-cyclical series

Some insight is offered by comparing trends in the savings ratio and economic growth:



The saving ratio is clearly counter-cyclical. Peaks in the savings ratio in the early 1980s, early 1990s and in 2008/2009 coincided with recessions. Falls in the savings ratio in the 1980s, 1990s and 2000s coincided with sustained periods of economic growth.

Households tend to save a greater share of their resources when the economy is recession. This is likely to be a combination of several effects: they may be less confident about the future, more fearful of unemployment or future tax rises, less inclined to risk borrowing, or be less attractive to potential lenders. In total, this adds up to households saving proportionately more (in net terms) when they have, or expect to have, less.

## 2.3 Saving and economic recovery

Economists such as Charlie Bean want households to spend rather than save in order to increase demand. If disposable income is put towards immediate consumption, businesses may be more inclined to employ, invest, and so on. If resources are saved, they are removed from economic circulation in the short-term (though savings may be available for investment). Keynes popularised the concept of the *paradox of thrift*. Rational and prudent individuals may choose to save during a recession. However, this reduces aggregate demand and may result in reduced growth and, conceivably, lower saving in the longer term.

The arguments in favour of less saving now are similar to those that banks should be encouraged to lend more to businesses. The question is whether encouraging less saving and more lending in the interests of short-term growth risks a longer-term return to the conditions that precipitated the financial crisis in the first place.

Adam Mellows-Facer, Economic Policy and Statistics Section

### 3 Comparing earnings in the public and private sector

In recent months the difference in pay between the public and private sector has been compared and debated in Parliament and the media. This article highlights some of the key figures as well as some of the problems with comparing earnings data.

The comparisons provide a mixed picture. Median (middle observation of a distribution) pay is higher in the public sector than in the private sector while mean (simple average) pay is higher in the private sector than in the public sector. However, this article also shows that the occupational mix of those in the public and private sectors is quite different, which is likely to have a strong effect on earnings levels.

#### 3.1 Earnings data

Data on gross annual median and mean earnings back to 1999 are available from the Annual Survey of Hours and Earnings (ASHE) and published by ONS.<sup>3</sup> ASHE data for April 2010 is expected in November 2010. The table below compares April 2009 with April 1999.

As noted in the table, there have been methodological changes between 1999 and 2009 meaning comparisons should be made with caution, although the general trend is likely to be accurate. Between 2008 and 2009, RBS, HBOS and Lloyds were included in the public sector which meant pay growth in the public sector was higher than it would have been otherwise; between 2008 and 2009 private sector full-time median weekly earnings rose by 1.0% and public sector full-time median weekly earnings rose by 3.1%. Had the banks remained in the private sector these figures would have been 1.6% and 2.7% respectively.<sup>4</sup>

#### Gross annual pay not affected by absence, public and private sector, April 1999 and 2009

*Comparisons should be made with caution due to discontinuities (see notes)*

	1999		2009		% change 1999-2009	
	Private Sector	Public Sector	Private Sector	Public Sector	Private Sector	Public Sector
Median (all)	14,963	15,002	20,988	22,405	40	49
Median (full-time)	17,249	19,290	24,970	27,686	45	44
Mean (all)	18,475	16,322	27,451	25,344	49	55
Mean (full-time)	21,556	20,820	32,615	30,900	51	48

Notes: There have been a number of methodology changes between 1999 and 2009 meaning comparisons should be made with caution. Between 2008 and 2009 RBS, HBOS and Lloyds were included in the public sector resulting in a higher annual increase in earnings than would have been the case. Data prior to 1999 is available on a weekly but not annual basis.

Source: ONS, Annual Survey of Hours and Earnings

In general, earnings are higher in the public sector when measured using the median, but higher in the private sector when using the mean. Growth has been higher for public sector pay over the period when full-time and part-time workers are included, but pay growth has been greater in the private sector over the period when we look at full-time employees only.

The distribution of pay in each sector by percentile indicates the private sector has a wider range of pay:

- 10% of all public sector employees have annual gross pay less than £7,527 while 10% earn more than £43,369.

<sup>3</sup> <http://www.statistics.gov.uk/statbase/product.asp?vlnk=13101>

<sup>4</sup> ONS, *Patterns of pay: results of the Annual Survey of Hours and Earnings 1997 to 2009*, March 2010

- 10% of all private sector employees have annual gross pay less than £6,498 while 10% earn more than £49,168.

Two recent ONS articles have considered public/private pay differentials:

- [Patterns of pay: results of the Annual Survey of Hours and Earnings 1997 to 2009](#), March 2010 (page 6 of the PDF contains a section on public and private sector pay, but this article also includes other earnings breakdowns such as by gender).
- [Total reward: pay and pension contributions in the private and public sectors](#), September 2010. This article considers the differences between pay in the public and private sector when pension benefits are taken into account.

### 3.2 Comparisons using earnings data

It is worth noting the issues that can cause problems in making comparisons with earnings statistics. There are a number of different ways to present such data meaning similar data can often be used to argue opposing points. For example, conflicting points could be made using:

- The mean (simple average) versus the median (middle observation in a distribution). The median is normally the preferred measure for earnings;
- The average earnings of all employees versus just full-time (or part-time) employees
- Earnings including all pay and benefits versus earnings excluding items such as bonuses, overtime and/or pensions.

Secondly, making comparisons between sectors without controlling for the type of job has the potential to be misleading. According to the Labour Force Survey (LFS), public sector employment tends to be in higher skilled occupational groups than in the private sector. The table below shows the proportion of public and private sector employment in each sector in April-June 2010. This is survey-based data and relies on the respondent's classification of the sector they are employed in. The survey also overestimates public sector employment compared with the official estimates of public sector employment from ONS.<sup>5</sup>

#### Employment by occupation group, split by public and private sector, April-June 2010

*Public sector employment tends to be in higher skilled occupations*

	As % of private sector employment	As % of public sector employment	As % of all employment
Managers and Senior Officials	18.1	7.7	15.5
Professional occupations	10.0	25.8	14.0
Associate Professional and Technical	11.6	23.9	14.7
Administrative and Secretarial	9.6	15.5	11.1
Skilled Trades Occupations	13.6	2.1	10.7
Personal Service Occupations	6.9	14.4	8.8
Sales and Customer Service Occupations	9.6	1.0	7.4
Process, Plant and Machine Operatives	8.4	1.5	6.6
Elementary Occupations	12.2	8.1	11.1
	100.0	100.0	100.0

Ed Potton,  
Economic Policy  
and Statistics  
Section

Source: Labour Force Survey (not seasonally adjusted)

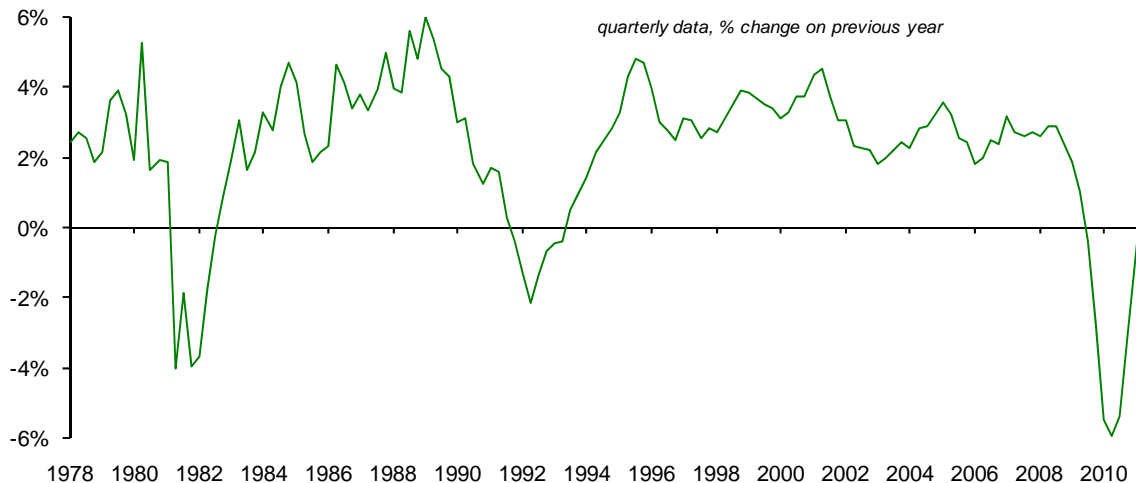
<sup>5</sup> The 'public sector' in the survey is estimated at 7.3 million whereas official estimates are around 6.1 million: ONS, [Public Sector Employment Q2 2010](#)



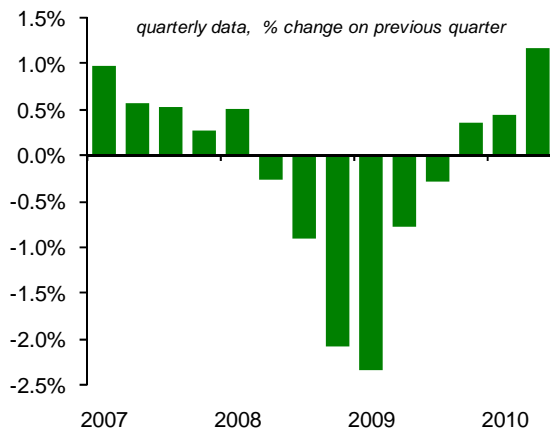
## A1: Gross Domestic Product

The economy grew by 1.2% in Q2 2010, following growth of 0.4% in Q1 2010. In September 2010, HM Treasury's average of independent economic forecasts of GDP growth for 2010 was 1.5%, and for 2011 was 1.9%. The interim Office for Budget Responsibility's (OBR) central forecasts from the June 2010 Budget are for 1.2% growth in 2010 and 2.6% for 2011.

### Real GDP Growth since 1977



### Real GDP Growth since 2007



### Gross Domestic Product

£ billion & %; seasonally adjusted

	Current prices		Real GDP (inflation-adjusted)	
	£ billion	% change on year	% change on quarter	% change on year
2007	1,405	5.8	...	2.7
2008	1,446	2.9	...	-0.1
2009	1,393	-3.7	...	-4.9
2009 Q2	344.4	-5.2	-0.8	-6.0
Q3	347.4	-3.9	-0.3	-5.4
Q4	351.6	-2.0	0.4	-3.0
2010 Q1	359.3	2.9	0.4	-0.3
Q2	364.1	5.7	1.2	1.7

Source: ONS, series: YBHA, ABMI

- The economy grew by 1.2% in Q2 of 2010, compared with Q1 of 2010. This compares with growth of 0.4% in Q1 2010 compared with Q4 2009.
- The contraction in the economy of -2.3% between Q4 2008 and Q1 of 2009 was the largest percentage fall in quarterly GDP since Q3 of 1979 (-2.4%).
- In Q2 2010, GDP rose by 1.7% compared with the same period a year ago, compared with a 0.3% decline recorded in Q1 2010.
- Total output of the economy fell by (a revised) 6.5% during the recession.

**Contact:** Grahame Allen, x3977

**Updates:** ONS, [Preliminary GDP estimates](#), 26 Oct  
HM Treasury, [Forecasts for the UK Economy](#), 20 Oct

## A2: GDP: International Comparisons

Among G7 countries, France, Germany and Japan emerged from recession (with quarter on quarter growth) in Q2 2009, followed by the US, Canada, Italy (and the eurozone as a whole) in Q3 2009, and the UK in Q4 2009.

The UK economy grew 1.2% in Q2 2010, while initial estimates of 0.6% growth in the US were revised down to 0.4%.

Germany grew by 2.2% in the same period, more than double the growth rate in France (0.6%), while the eurozone as a whole grew 1.0%. Greece's economy continued to contract (by 1.5% in Q2 2010), while Spain grew by 0.2% (see [Eurostat release](#)). Japan's economy grew by 0.1%.

### Real GDP, % changes

	2009	change on prev. year					change on prev. quarter				
		09Q2	09Q3	09Q4	10Q1	10Q2	09Q2	09Q3	09Q4	10Q1	10Q2
US	-2.6	-4.1	-2.7	0.2	2.4	3.0	-0.2	0.4	1.2	0.9	0.4
Japan	-5.2	-5.9	-4.9	-1.3	4.4	1.9	2.5	-0.3	1.0	1.1	0.1
UK	-4.9	-5.9	-5.3	-2.9	-0.2	1.7	-0.7	-0.3	0.4	0.3	1.2
Germany	-4.7	-5.5	-4.4	-2.0	2.0	3.7	0.5	0.7	0.3	0.5	2.2
France	-2.6	-3.1	-2.7	-0.5	1.2	1.7	0.1	0.3	0.6	0.2	0.6
Eurozone	-4.0	-4.9	-4.0	-2.0	0.8	1.9	-0.1	0.4	0.2	0.3	1.0
G7	-3.6	-4.7	-3.6	-0.8	2.2	2.6	0.2	0.3	0.9	0.8	0.6
OECD	-3.4	-4.6	-3.4	-0.6	2.4	2.6	0.3	0.5	0.9	0.7	0.5

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

The European Commission's [September forecasts](#) revised up their May forecast for UK 2010 growth of 1.2% up to 1.7%, and those for France from 1.3% to 1.6%. The Commission more than doubled their forecast for Germany (1.2% to 3.4%), and raised its eurozone forecast from 0.9% to 1.7%.

OECD [interim forecasts](#) revised down annualised G7 growth in the second half of 2010 to 1.5% from May's 2.5% estimate. It anticipates annualised UK quarter-on-quarter growth of 2.7% in Q3 then 1.5% in Q4 2010, compared with 2.1% and 1.2% in the US, 0.7% and 1.1% in Germany, and 0.7% and 0.3% in France (although the margins of error for these estimates are relatively large).

The IMF's [July 2010 growth forecasts](#) revised its 2010 world growth forecast up from 4.2% in [April](#) to 4.6%; the 2011 forecast was unchanged.

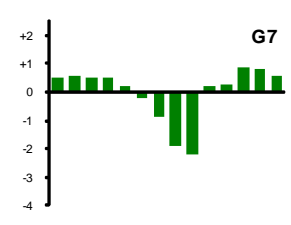
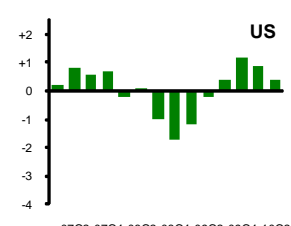
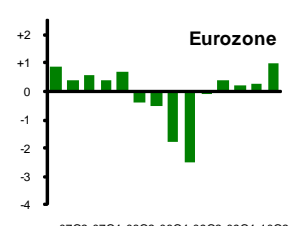
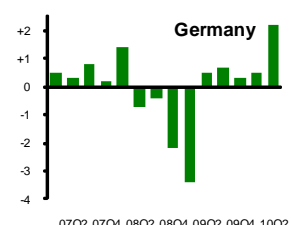
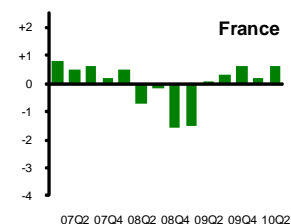
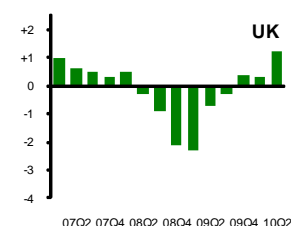
Forecast growth in 2010 in the UK and France was revised down 0.1 of a percentage point, and the US and Germany's up 0.2 of a percentage point. The China and India forecasts were up 0.5 and 0.6 percentage points respectively.

### Real Growth Forecasts (% changes)

	EC (Sep)			EC (Jun)		IMF (Jul)		cf. Apr (% pts)		OECD (May)	
	2010	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
UK	1.7	1.2	2.1	1.2	2.1	-0.1	-0.4	1.3	2.5		
France	1.6	1.3	1.5	1.4	1.6	-0.1	-0.2	1.7	2.1		
Germany	3.4	1.2	1.6	1.4	1.6	+0.2	-0.1	1.9	2.1		
Eurozone	1.7	0.9	1.5	1.0	1.3	0.0	-0.2	1.2	1.8		
US	..	2.8	2.5	3.3	2.9	+0.2	+0.3	3.2	3.2		
Japan	..	2.1	1.5	2.4	1.8	+0.5	-0.2	3.0	2.0		
<b>OECD</b>	..	..	..	..	..	..	..	<b>2.7</b>	<b>2.8</b>		
China	..	..	..	10.5	9.6	+0.5	-0.3	11.1	9.7		
India	..	..	..	9.4	8.4	+0.6	0.0	8.3	8.5		
<b>World</b>	..	..	..	<b>4.6</b>	<b>4.3</b>	<b>+0.4</b>	<b>0.0</b>	..	..		

Sources: IMF, WEO update Jul 10; OECD, EO87, May 10; EC, Sep/May 10

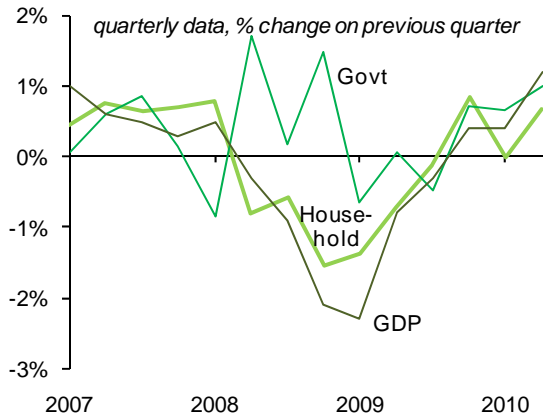
### Quarter-on-quarter growth rates



### A3: Components of GDP

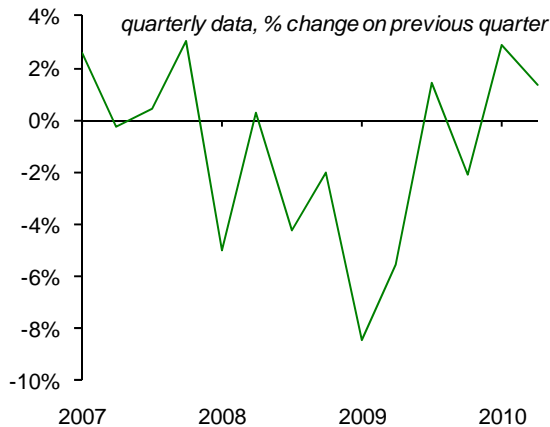
GDP is made up of a number of elements, including household consumption, government spending, investment and net trade (exports less imports). Household consumption is the largest element accounting for 63% of the total in 2009. Government consumption accounted for 24% and gross fixed capital formation for 15%.

#### Household consumption, government consumption and GDP



- In Q2, 2010, household consumption increased by 0.7%. Government consumption increased by 1.0%.
- Over the past year, government consumption has increased by 1.9% compared with 1.4% for household consumption.
- Inventories (stocks held by companies to meet future demand) play an important role in the economic cycle. Companies increased their holdings of inventories in Q2, 2010 for the first time since Q3, 2008.

#### Gross fixed capital formation



- Gross fixed capital formation (GFCF) measures investment in buildings and machinery.
- GFCF growth has fluctuated considerably in recent quarters. In Q2, 2010 GFCF grew by 1.4% compared with growth of 2.9% in Q1.

#### Components of GDP

% change on previous quarter (real terms)

	Household consumption	Government consumption	GFCF (a)	Exports	Imports	GDP
2008 (annual % change)	0.6%	1.6%	-5.0%	1.0%	-1.2%	-0.1%
2009 (annual % change)	-3.4%	1.0%	-15.1%	-11.1%	-12.3%	-5.0%
2009 Q3	-0.1%	-0.5%	1.5%	0.9%	1.2%	-0.3%
2009 Q4	0.8%	0.7%	-2.0%	3.7%	4.5%	0.4%
2010 Q1	0.0%	0.7%	2.9%	-0.7%	2.0%	0.4%
2010 Q2	0.7%	1.0%	1.4%	2.3%	2.4%	1.2%

Source: ONS series ABJR, NMRY, NPQT, IKBK, IKBL and ABM I

Note: (a) gross fixed capital formation

Contact: Dominic Webb, x4324

Update: ONS, [UK output, income and expenditure](#), 24 Nov

## A4: Output and employment by industry

In 2008, services accounted for 77% of UK Gross Value Added (GVA), manufacturing 12%, other production industries (mining & quarrying, and utilities) 5%, construction 6% and agriculture, hunting and fishing 1%. The services sector accounts for 83% of total workforce jobs.

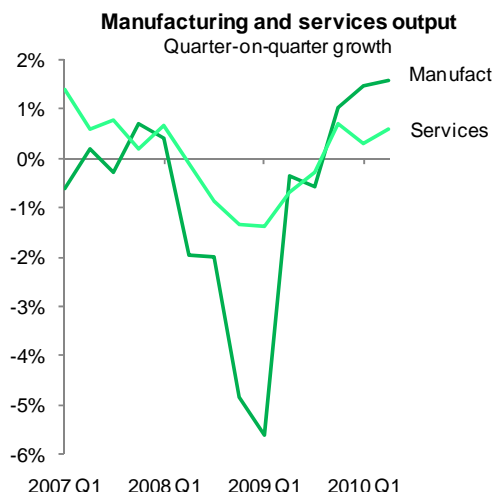
### Output

#### GVA growth by industry

Seasonally adjusted, chained volume measures at basic prices

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008	-2.9%	-0.8%	0.5%	-0.1%
2009	-10.8%	-10.5%	-3.3%	-4.8%
2009 Q4	-5.5%	-6.4%	-1.7%	-2.6%
2010 Q1	1.6%	-2.2%	0.0%	-0.1%
2010 Q2	3.6%	9.8%	1.3%	1.7%
<i>Quarter-on-quarter</i>				
2009 Q4	1.0%	-1.7%	0.7%	0.5%
2010 Q1	1.5%	-0.8%	0.3%	0.3%
2010 Q2	1.6%	9.4%	0.6%	1.1%

Source: ONS series CKYY, GDQB, GDQS, CGCE



- Following sharp falls in manufacturing output in 2008 and 2009, it is now growing at a faster rate than services. Construction rebounded strongly in Q2 2010.
- Manufacturing output rose by 3.6% in the year to Q2 2010. Construction output rose by 9.8%
- Services output rose by 1.3% in the year to Q2 2010, with output in the business services and finance sector growing by 1.1%.

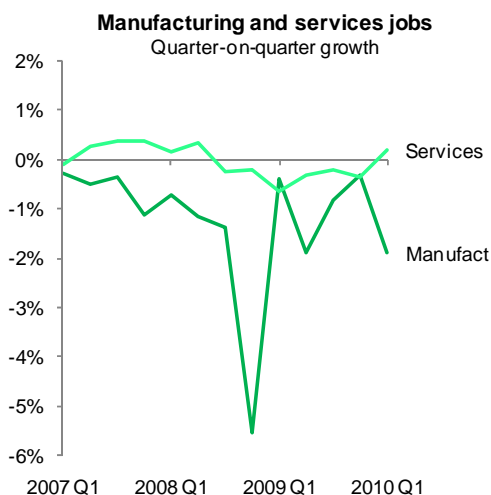
### Employment

#### Workforce jobs by industry

Seasonally adjusted

	Manufacturing	Construction	Services	All industries
<i>Annual % changes</i>				
2008 Q2	-3.3%	-0.9%	1.2%	0.7%
2009 Q2	-8.9%	-5.4%	-1.4%	-2.5%
2010 Q1	-4.8%	-10.0%	-0.7%	-1.7%
2010 Q2	-3.7%	-3.3%	-0.4%	-0.6%
<i>Quarter-on-quarter</i>				
2010 Q1	-1.9%	-2.8%	0.2%	-0.1%
2010 Q2	-0.7%	2.6%	0.0%	0.2%
<i>Thousands</i>				
2010 Q2	2,515	2,103	25,408	30,801

Source: ONS series JWR7, JWS2, JWT8, DYDC



- The employment picture is different, with numbers of manufacturing jobs continuing to fall sharply (3.7% in the year to June 2010). Numbers of service sector jobs have been steadier.
- Numbers of jobs in the construction sector rose in the last quarter but are still down over the year.
- The public administration, health and education workforce rose by 1.6% in the year to June 2010.

Contact: Adam Mellows-Facer, x4904

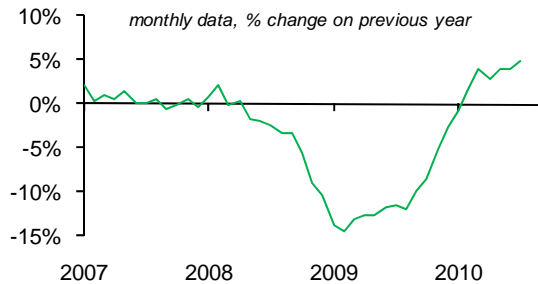
Update: [Preliminary GDP estimates](#), ONS, 26 Oct



## A5: Manufacturing (Including Automotives)

Monthly manufacturing output data from the ONS, as well monthly vehicle production and new car registration data from the Society of Motor Manufacturers and Traders (SMMT), are covered below.

### Manufacturing Output

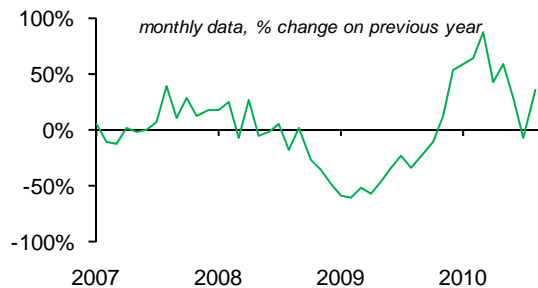


	Index Value (2005=100)	% change over month	% change over 12 months
2008	97.6	...	-2.9
2009	87.3	...	-10.6
2010 Apr	89.9	-0.8	+2.7
May	90.2	+0.3	+3.9
Jun	90.5	+0.3	+4.0
Jul	90.8	+0.3	+4.9

Source: ONS, series CKYY

- Manufacturing output was up by 4.9% in the year to July 2010, the highest annual rate of increase since December 1994. In 2009 output fell by 10.6%.
- Industrial production, which in addition to manufacturing includes mining and quarrying, and electricity, gas and water supply, was up by 1.9% compared with a year ago, up from 1.6% in June.

### Vehicle Production

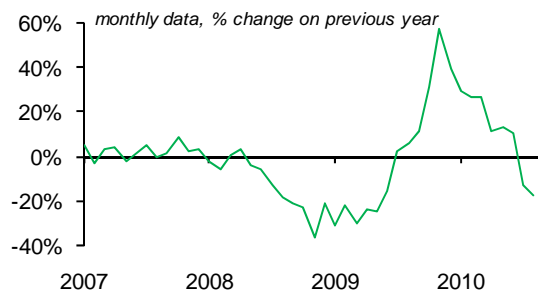


	Number '000s	% change over 12 months
2008	1,650	-5.8
2009	1,090	-33.9
2009 Aug	62	-33.2
2010 Jun	129	+28.3
Jul	108	-7.3
Aug	84	+36.1

Source: SMMT, not seasonally adjusted

- Vehicle production was 36% higher in August 2010 than in August 2009. The Government's scrappage scheme ended in April 2010.
- In 2009, 1.09 million vehicles were produced in the UK, down by 33.9% compared with 2008. Out of the total, 261,000 or 24% were for the UK market and 829,000 or 76% were for export.

### New Car Registrations



	Number '000s	% change over 12 months
2008	2,132	-11.3
2009	1,994	-6.4
2009 Aug	67	+6.0
2010 Jun	195	+10.8
Jul	136	-13.2
Aug	55	-17.5

Source: SMMT, not seasonally adjusted

- There were 17.5% fewer new registrations of cars in August 2010 than in August 2009, a month the SMMT described as "scrappage fuelled".
- New car registrations fell by 6.4% in 2009 to 2 million, the lowest level since 1995.

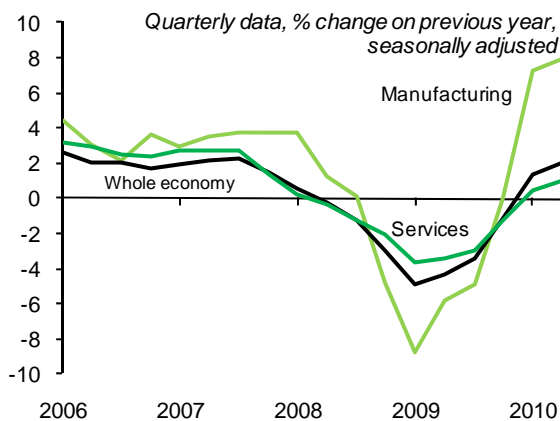
**Contact:** Adam Mellows-Facer, x4904

**Update:** ONS, [Index of Production](#), 7 Oct  
SMMT, [Vehicle Production](#), late Oct  
SMMT, [New Car Registrations](#), 6 Oct

## A6: Productivity

Productivity is a measure of the level of output in an economy and the inputs required to produce it. Three measures are commonly used: output (or GDP) per worker, output per job and output per hour (worked). Data covering the UK economy is published every three months, with international comparisons updated biannually.

### Productivity by sector, output per job



Source: ONS, series: LNNP, LNNU, GG5J

- Productivity across the whole economy, measured by output per worker, is estimated to have fallen by 3.2% in 2009 compared with a fall of 0.8% in 2008.
- Output per worker rose by 1.4% in Q2 2010 compared to the same quarter a year ago.
- Manufacturing output per job grew by 7.9% in Q2 2010 compared to the same quarter a year ago, as output in the sector increased while employment fell. Output per job in the service sector rose by 1.0% over the same period.
- Comparing Q2 2010 with Q1 2010, manufacturing output per job increased by 2.2%, services output per job grew by 0.3% while output per job for the whole economy grew by 0.5%.

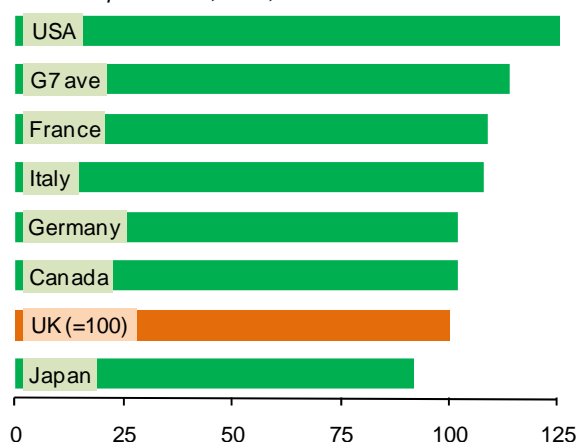
### Productivity growth, seasonally adjusted

Annual % change	Manufacturing		Services		Whole Economy		
	Output per job	Output per hour	Output per job	Output per hour	Output per worker	Output per job	Output per hour
2008	0.1	0.2	..	..	-0.8	-1.0	-0.5
2009	-4.9	-3.4	..	..	-3.2	-3.5	-2.0
2009 Q2	-5.8	-4.1	-3.4	-3.1	-3.9	-4.3	-3.5
Q3	-4.9	-3.8	-3.0	-1.7	-3.4	-3.4	-2.0
Q4	0.0	1.2	-1.3	-0.4	-1.1	-1.1	0.0
2010 Q1	7.3	5.0	0.4	0.1	1.1	1.4	0.9
Q2	7.9	5.7	1.0	0.7	1.4	2.0	1.4
Latest quarterly % change	2.2	2.2	0.3	-0.4	0.5	0.7	0.2

Source: ONS

### International comparisons

GDP per worker, 2008, index where UK=100



- International comparisons of productivity are presented as an index where the UK=100.
- In 2008, based on GDP per worker, the UK had higher levels of productivity than Japan, around the same levels as Germany and Canada, and lower levels than Italy, France, the US and the G7 average.
- From 1997 to 2008 UK productivity improved by 20%, a larger improvement compared to all but one G7 country (USA, 21% increase). It increased by 17% for the G7 average, 14% for Japan, 11% for Canada and France, 10% for Germany and no change for Italy.
- Based on GDP per hour, in 2008 the UK had higher levels of productivity than Japan, around the same levels as Italy and Canada, and lower levels than Germany, France, the US and the G7 average.

Contact: Daniel Harari, x2464

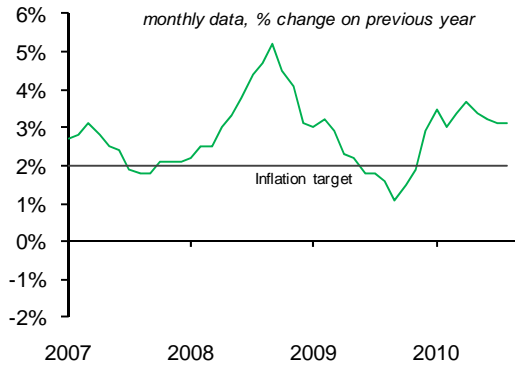
Update: ONS, [Productivity](#), 23 Dec

## B1: Inflation

Compared with a year ago, the consumer prices index (CPI) showed inflation at 3.1% in August, the same as in July and still above the Bank of England's 2% target.

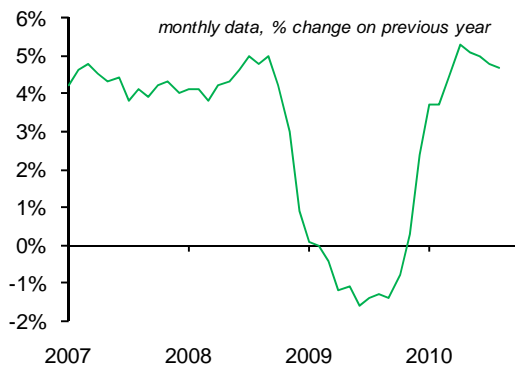
On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side.

### Consumer Prices Index (CPI)



- The CPI annual inflation rate fell by 0.1 percentage points in July to 3.1% and remained at 3.1% in August.
- Upward pressure on inflation came from transport, in particular fuel and lubricants and air fares, while there was downward pressure from the price of clothing and footwear.
- The RPI (all items) measure of inflation fell to 4.7% in August, continuing to fall from its highest level, since July 1991, of 5.3% in April.

### Retail Prices Index (RPI)



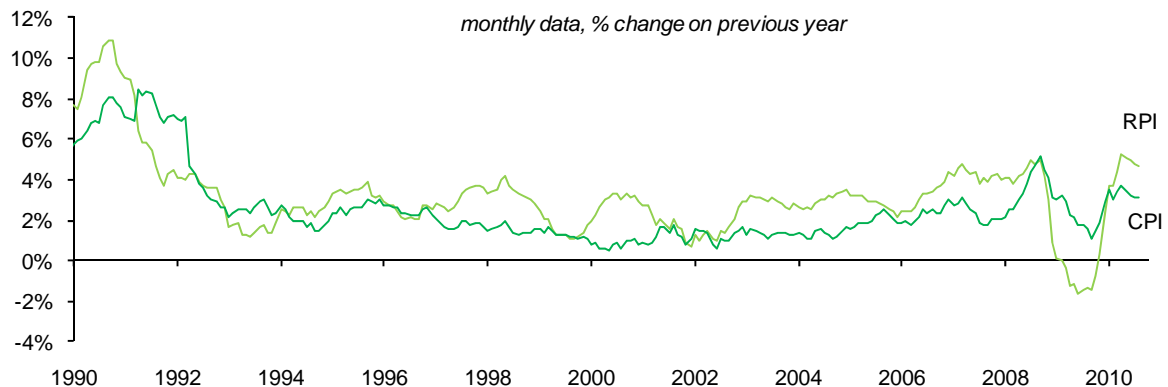
### Price Indices

% change on a year ago

		CPI	RPI
2007		2.3	4.3
2008		3.6	4.0
2009		2.2	-0.5
2010	Mar	3.4	4.4
	Apr	3.7	5.3
	May	3.4	5.1
	Jun	3.2	5.0
	Jul	3.1	4.8
	Aug	3.1	4.7

Source: ONS database, series: D7G7, CDKQ

### CPI and RPI since 1990



## B2: Inflation: International

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

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

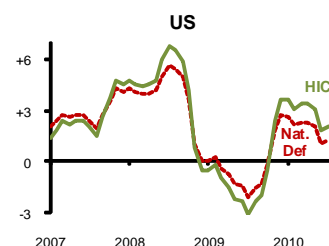
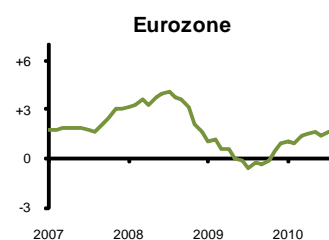
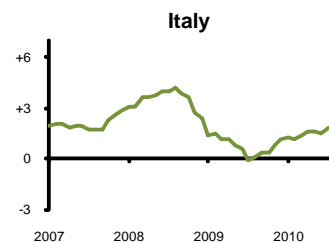
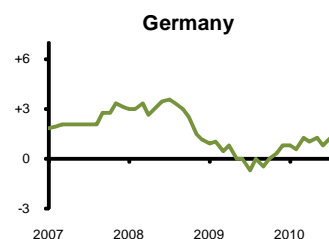
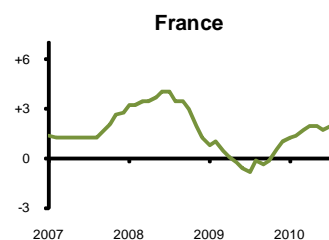
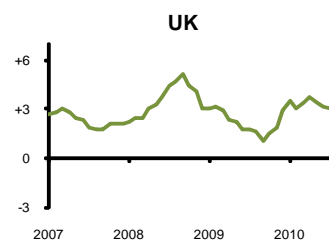
- In the year to August, UK inflation (CPI/HICP) was 3.1%, unchanged from July. The Bank of England's UK inflation target is 2%. This rate was the sixth highest rate in the EU (the highest being 7.6% in Romania, followed by 5.6% in Greece).
- The flash estimate of eurozone inflation in September is 1.8%, compared with 1.6% (HICP) in the year to August 2010. The European Central Bank (ECB) aims to keep inflation "below, but close to, 2% over the medium term".
- The highest rate in Europe is outside the EU (8.3% in Turkey), as is the third highest Iceland (5.9%), after EU member Romania with the second highest rate. Prices continued to fall in Ireland (-1.2%) and Latvia (-0.4%) (all HICP).
- HICP annual inflation in the US in July was 2.0%, up from 1.8% in June (August data are not yet available). Using national definitions, US inflation was lower (1.2% in July, 1.1% in August).

### Inflation rates: selected countries

Annual % change in consumer prices

	2008	2009	Jun 10	Jul 10	Aug 10
<b>HICP (Eurostat/ONS)</b>					
UK	3.6	2.2	3.2	3.1	3.1
Eurozone	3.3	0.3	1.4	1.7	1.6
EU	3.7	0.3	1.9	2.1	2.0
France	3.2	0.1	1.7	1.9	1.6
Germany	2.8	0.2	0.8	1.2	1.0
Greece	4.2	1.3	5.2	5.5	5.6
Italy	3.5	0.8	1.5	1.8	1.8
Spain	4.1	-0.2	1.5	1.9	1.8
US	4.4	-0.8	1.8	2.0	..
<b>National definitions (OECD)</b>					
Canada	2.4	0.3	1.0	1.8	1.7
Japan	1.4	-1.4	-0.7	-0.9	-0.9
US	3.8	-0.4	1.1	1.2	1.1
G7	3.2	-0.1	1.0	1.2	1.1
OECD	3.7	0.5	1.5	1.6	1.6
Brazil	5.7	4.9	4.8	4.6	4.5
China	5.9	-0.7	2.7	..	..
India	8.3	10.9	13.7	11.3	9.9
Russia	14.1	11.7	5.8	5.5	6.1

Source: ONS, Eurostat & stat.OECD database



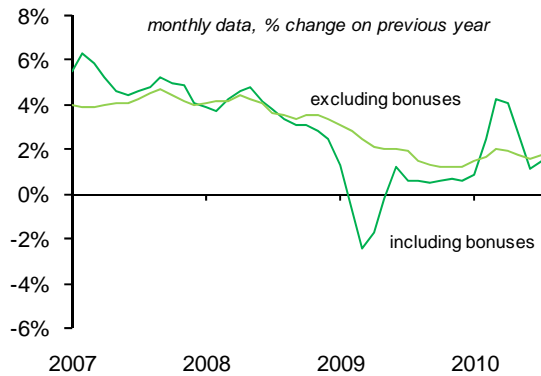
**Contact:** Ian Townsend, x2042

**Updates:** Eurostat, [HICP full release](#), 15 Oct  
Eurostat, [Flash estimate \(Aug\)](#), 29 Oct  
OECD, [Consumer prices release](#), 2 Nov

### B3: Average Earnings

Average weekly earnings (three-month average including bonuses) for the whole economy rose by 1.5% in July compared with a year ago. This was higher than the increase of 1.1% in June. Average weekly earnings excluding bonuses were 1.8% higher in the three months to July compared with a year ago, up from a rise of 1.6% in June.

#### Average Earnings, Whole Economy



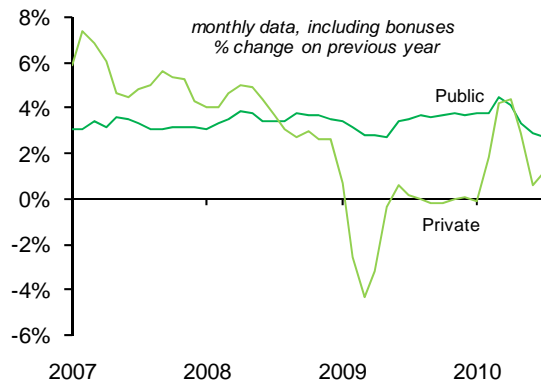
#### Average Earnings, Including Bonuses

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

		Private	Public	Manuf.	Serv.	Total
2007	Jul	4.8	3.3	4.2	4.5	4.6
2008	Jul	3.7	3.4	4.0	3.7	3.8
2009	Jul	0.2	3.5	0.2	1.0	0.6
2010	Feb	1.8	3.8	4.3	2.0	2.5
	Mar	4.2	4.5	6.1	4.1	4.3
	Apr	4.4	4.1	5.6	4.4	4.1
	May	2.9	3.3	4.9	2.9	2.7
	Jun	0.6	2.9	2.9	1.1	1.1
	Jul	1.2	2.7	3.3	1.6	1.5

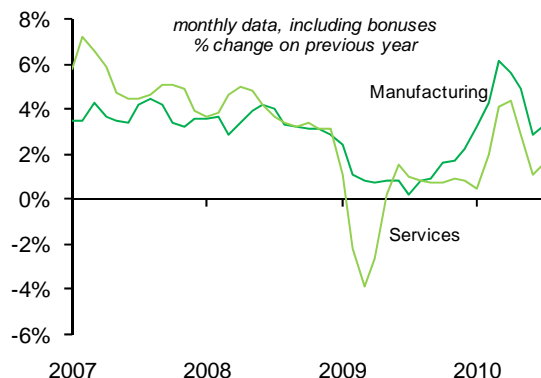
Source: ONS, data shows latest 3-month period

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



- Average total pay (including bonuses) in the private sector rose by 1.2% in July, compared with an increase of 2.7% in the public sector. Excluding financial services, public sector earnings rose by 1.4%.
- Average weekly earnings (including bonuses) in July in the public sector were £464 compared with £451 in the private sector.
- In 2009, headline (including bonuses) earnings in the public sector averaged an increase of 3.2%, while the private sector averaged a 0.9% decrease.

#### Average Earnings in Services and Manufacturing

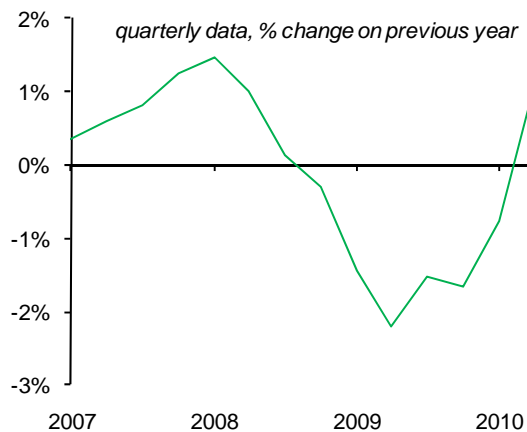


- Average total pay growth (including bonuses) in the manufacturing sector was 3.3% in July, compared with 1.6% in the services sector.
- Average weekly earnings (including bonuses) in July in the manufacturing sector were £520 compared with £440 in the services sector.
- In 2009, headline (including bonuses) earnings in the services sector averaged a decrease of 0.2% compared with a 1.2% increase in the manufacturing sector.

## C1: Employment

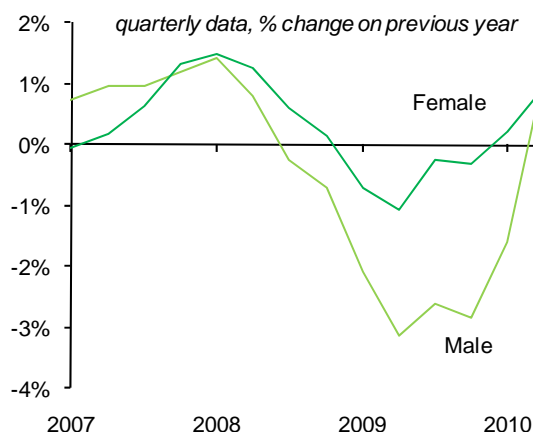
Employment in the three months to July 2010 was 286,000 higher than the previous quarter, mainly due to an increase in part-time employment. This is the largest quarterly increase since records began in 1971.

### Total employment



- Employment is 1.4% lower than its peak of 29.6 million in April 2008.
- Over the past year, employment among 16-24 year olds has fallen by 0.4%. Employment has increased for all other age groups. (see table below).
- Employment of those aged 65 and over has increased by 17.5% over the last year.

### Male and female employment



- Over the past year, male employment has increased by 1.1% while female employment increased by 0.9%.
- Full-time employment has fallen by 0.3% over the past year while part-time employment has increased by 4.7%.
- Over the past quarter, the number of public sector jobs has fallen by 22,000 while the number of private sector jobs has increased by 308,000,

### Employment by age

3-month average centred on month; '000s & % changes; seasonally adjusted

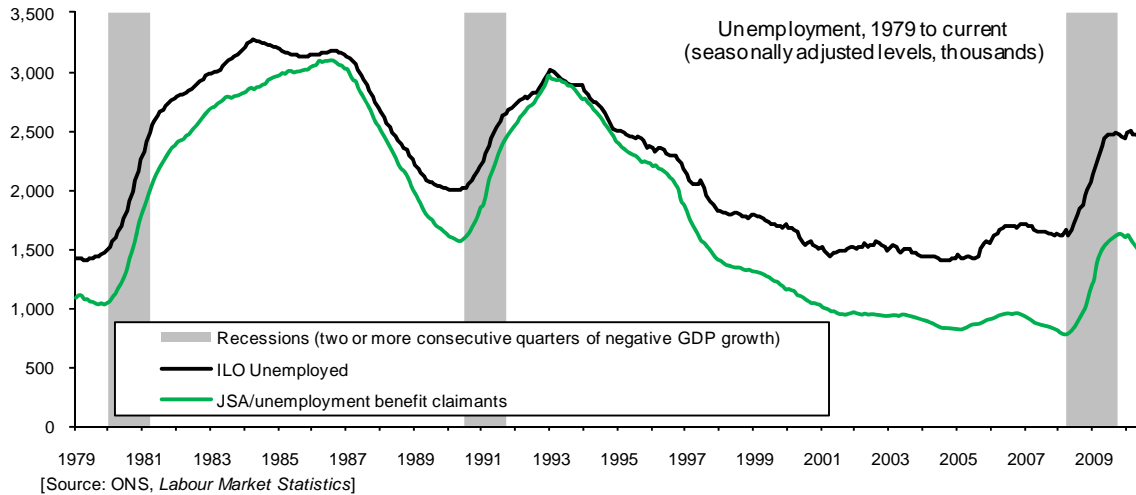
	Total	16-24	25-49	50-64	65+
Jun 2008	29,503	4,194	17,389	7,227	693
Jun 2009	28,857	3,865	17,044	7,212	735
Sep 2009	28,906	3,783	17,152	7,212	758
Dec 2009	28,861	3,751	17,115	7,225	770
Mar 2010	28,872	3,797	17,040	7,244	791
Jun 2010	29,158	3,851	17,163	7,280	864
% change on previous 3 months	+1.0	+1.4	+0.7	+0.5	+9.2
% change on previous year	+1.0	-0.4	+0.7	+0.9	+17.5

Source: ONS

## C2: Unemployment: National

The Office for National Statistics uses the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- **ILO unemployment in May to July 2010 was 2,467,000 (7.8% of all economically active) – down by 8,000 from the previous quarter (UK, seasonally adjusted).**

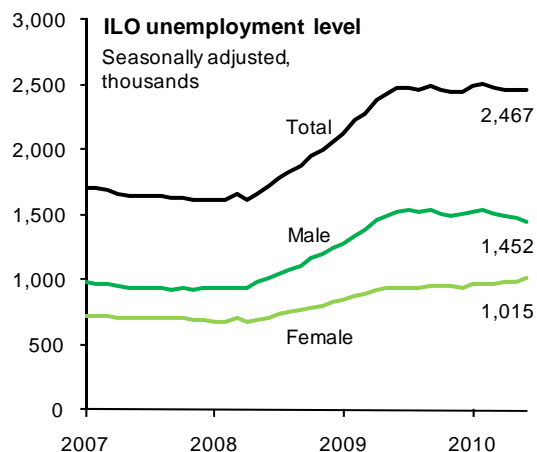


### ILO unemployment (period May-Jul 2010)

- The number of people unemployed for more than 12 months stood at 797,000, a year-on-year increase of 218,000;
- The unemployment level among 16- to 24-year-olds was 915,000, 19.2% of the economically active population in the age group (see table below).

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

The seasonally adjusted monthly JSA claimant count increased by 2,300 between July and August 2010 to 1,466,300.



### ILO Unemployment in the UK

seasonally adjusted

	Total		16 to 24		25 to 49		50 to 64		65 and over	
	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)	'000s	(%)
May-Jul 2005	1,423	4.7	598	12.5	616	3.5	198	2.8	12	2.1
May-Jul 2006	1,698	5.5	704	14.5	756	4.2	221	3.1	17	2.7
May-Jul 2007	1,642	5.3	709	14.5	687	3.8	231	3.2	16	2.4
May-Jul 2008	1,717	5.5	725	14.7	749	4.1	230	3.1	13	1.9
May-Jul 2009	2,472	7.9	945	19.6	1,155	6.3	349	4.6	23	3.1
Aug-Oct 2009	2,485	7.9	944	20.0	1,155	6.3	359	4.7	26	3.4
Nov-Jan 2010	2,443	7.8	916	19.6	1,131	6.2	371	4.9	25	3.1
Feb-Apr 2010	2,475	7.9	923	19.6	1,171	6.4	358	4.7	23	2.8
<b>May-Jul 2010</b>	<b>2,467</b>	<b>7.8</b>	<b>915</b>	<b>19.2</b>	<b>1,158</b>	<b>6.3</b>	<b>375</b>	<b>4.9</b>	<b>19</b>	<b>2.1</b>
% change on quarter	-0.3		-0.9		-1.1		+4.7		-17.4	
% change on year	-0.2		-3.2		+0.3		+7.4		-17.4	

Source: ONS, Labour Market Statistics.

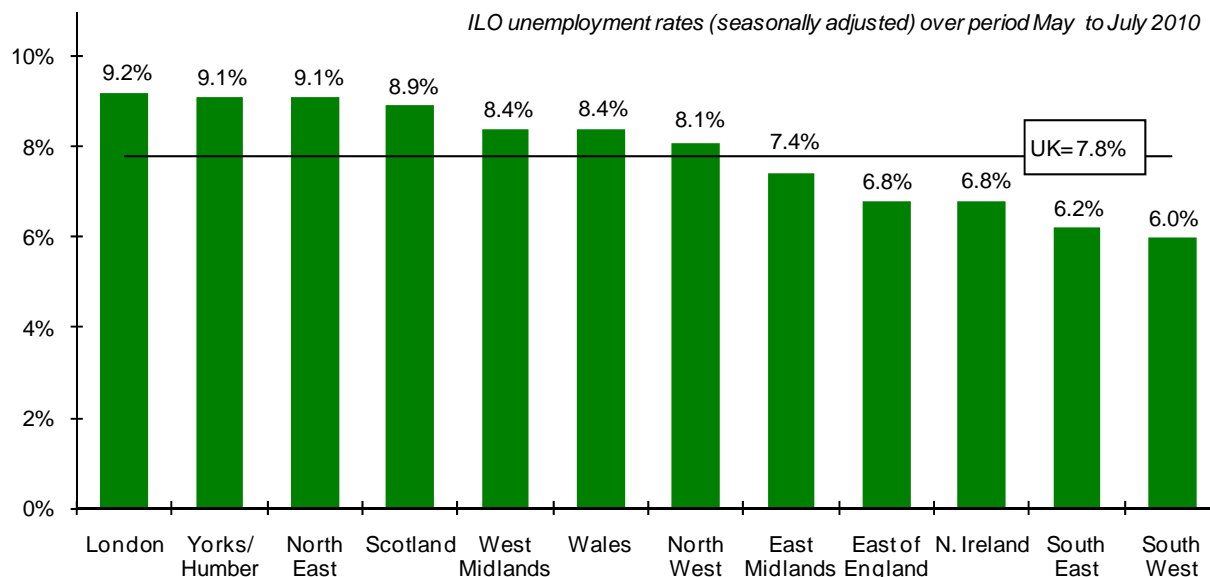
Notes: Rates are percentages of economically active in the relevant age group. Levels might not sum due to rounding.

**Contact:** Roderick McInnes, x3793 **Updates:** ONS, [Labour Market Statistics](#), 13 Oct

### C3: Unemployment: Regional

The Office for National Statistics uses the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- Over the period May to July 2010 London had the highest unemployment rate, 9.2% of the economically active population. The lowest rate over the same period was 6.0%, in the South West.



- Eight regions have seen falls in their unemployment level since the previous quarter. The largest falls were in the North West, the West Midlands and Yorkshire and the Humber (see table below).
- Over the year, four regions have seen a fall in their unemployment level. By far the biggest fall was in the West Midlands (down by 58,000) while the biggest rise was in Scotland (up by 49,000).
- The seasonally adjusted JSA claimant count rose in most regions in August 2010 compared with the previous month. It fell in the East Midlands, the West Midlands and the South East.

#### Key regional labour market statistics *seasonally adjusted*

	ILO unemployment				JSA claimant count	
	May - July 2010		Change in level		August 2010	
	Level (000s)	Rate (%) <sup>(a)</sup>	qtr-on-qtr (000s)	year-on-year (000s)	Level (000s)	change since prev. month (000s)
North East	118	9.1	-1	0	80.3	+0.4
North West	277	8.1	-16	-16	180.6	+0.7
Yorkshire & Humber	242	9.1	-12	+9	144.0	+0.3
East Midlands	169	7.4	+3	-1	98.0	-0.7
West Midlands	226	8.4	-13	-58	159.1	-0.6
East of England	204	6.8	+8	+9	109.4	+0.7
London	380	9.2	+10	+7	213.7	+0.1
South East	273	6.2	-8	+5	134.7	-0.8
South West	162	6.0	-1	-17	81.1	+0.4
Wales	121	8.4	-2	+5	71.5	+0.2
Scotland	239	8.9	+25	+49	136.1	+0.7
Northern Ireland	57	6.8	-2	+4	57.8	+0.9

Source: ONS, *Labour Market Statistics*

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

**Contact:** Roderick McInnes, x3793      **Update:** ONS, *Labour Market Statistics*, 13 Oct



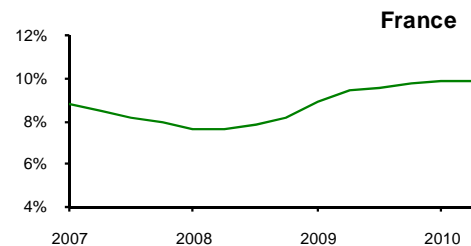
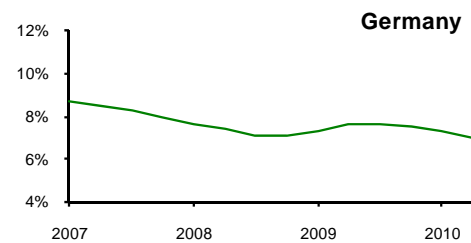
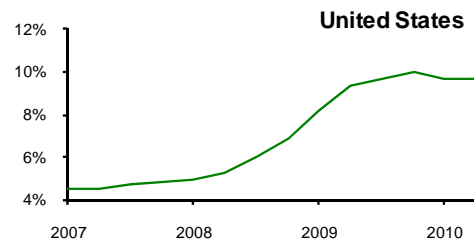
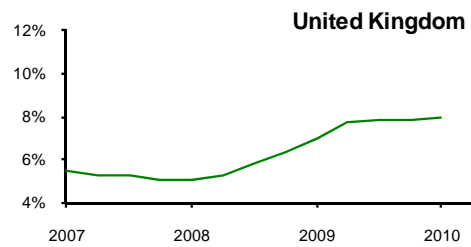
## C4: Unemployment: International Comparisons

The OECD produces harmonised unemployment rates for OECD members based on the ILO definition of unemployment.

- Using harmonised definitions, the UK unemployment rate in Q1 2010 (the latest quarter for which all data are available) was 7.9%, below the Eurozone rate (9.9%) and below the G7 and OECD rates (8.3% and 8.7% respectively).

(The ONS headline estimate of ILO unemployment in the UK for Q2 2010 was 7.8%. This measure is not directly comparable with OECD harmonised rates.)

- Between Q2 2009 and Q2 2010 Germany saw a 0.6 percentage-point fall in its unemployment rate (from 7.6% to 7.0%); Canada was the other G7 country to see a fall (-0.4 percentage points). The US unemployment rate rose by 0.4 percentage points over the same period.
- Outside the G7, Spain has the highest harmonised unemployment rate among the 31 OECD member states (20.0% in Q2 2010), having risen particularly sharply over the last three years (up from 8.0% in Q2 2007). The Irish Republic has also seen a sharp rise over the same period (up from 4.5% to 13.1%). This compares with a 2.9 percentage point rise in unemployment in the OECD as a whole (from 5.7% to 8.6%) and a 2.5 percentage point rise in the Eurozone (from 7.5% to 10.0%) over the same period.
- The most recent forecasts published by the OECD ([Economic Outlook no. 87, May 2010](#)) suggested the UK unemployment rate would be 8.1% in 2010 and 7.9% in 2011. The respective forecasts for the eurozone were 10.1% and 10.1%, and for the OECD as a whole 8.5% and 8.2%.



### Unemployment

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

	2007	2008		2009				2010					
		2008	2009	Q1	Q2	Q3	Q4	Q1	Q2				
Canada	6.0	6.1	8.3	5.9	6.0	6.1	6.5	7.8	8.4	8.5	8.4	8.2	8.0
France	8.3	7.8	9.4	7.6	7.6	7.8	8.2	8.9	9.4	9.6	9.8	9.9	9.9
Germany	8.4	7.3	7.5	7.6	7.4	7.1	7.1	7.3	7.6	7.6	7.5	7.3	7.0
Italy	6.2	6.8	7.8	6.5	6.8	6.7	6.9	7.4	7.6	7.9	8.3	8.4	8.6
Japan	3.9	4.0	5.1	3.9	4.0	4.0	4.1	4.5	5.1	5.4	5.2	4.9	5.2
UK	5.3	5.6	7.6	5.1	5.3	5.8	6.3	7.0	7.7	7.8	7.8	7.9	..
USA	4.6	5.8	9.3	5.0	5.3	6.0	6.9	8.2	9.3	9.7	10.0	9.7	9.7
Eurozone	7.5	7.6	9.4	7.2	7.4	7.6	8.0	8.8	9.3	9.7	9.8	9.9	10.0
G7	5.4	5.9	8.0	5.4	5.6	6.0	6.5	7.3	8.1	8.3	8.5	8.3	8.3
OECD	5.8	6.1	8.3	5.7	5.8	6.2	6.7	7.6	8.3	8.6	8.7	8.7	8.6

Source: OECD, Harmonised Unemployment Rates, September 2010

Contact: Roderick McInnes, x3793

Updates:

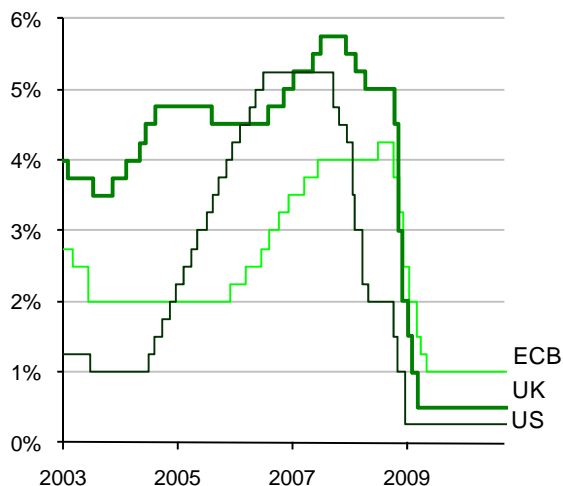
OECD, [Harmonised Unemployment Rates](#), Oct  
OECD, [Economic Outlook](#), Dec

## D1: Interest Rates and the Money Supply

In consecutive monthly meetings from October 2008 to March 2009, the Bank of England cut the official Base Rate from 4.50% to 0.50%, the lowest in the Bank’s 315-year history. It has remained at that level since then.

In March 2009, with little room for further cuts in interest rates, the Bank initiated an asset purchase or ‘quantitative easing’ (QE) programme. The Bank has created money which it has used to purchase assets in an effort to stimulate demand and meet its 2% inflation target. Money supply growth has, however, remained weak.

### Official interest rates



### UK Base/Repo rate changes

% per annum

Date	New rate	Date	New rate
2001 Oct 4	4.50	2007 Jan 11	5.25
Nov 8	4.00	May 10	5.50
2003 Feb 6	3.75	Jul 5	5.75
Jul 10	3.50	Dec 6	5.50
Nov 6	3.75	2008 Feb 7	5.25
2004 Feb 5	4.00	Apr 10	5.00
May 6	4.25	Oct 8	4.50
Jun 10	4.50	Nov 6	3.00
Aug 5	4.75	Dec 4	2.00
2005 Aug 4	4.50	2009 Jan 8	1.50
2006 Aug 3	4.75	Feb 5	1.00
Nov 9	5.00	Mar 5	0.50

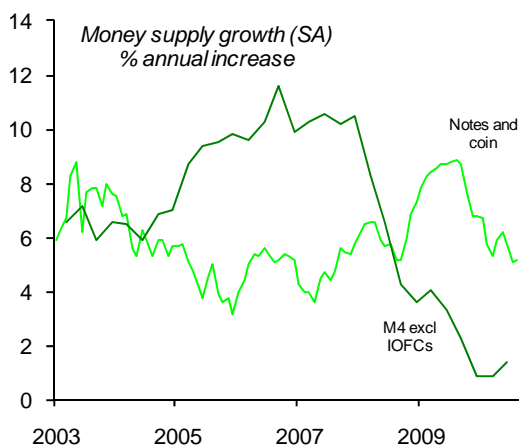
Source: Bank of England

- The European Central Bank’s official interest rate has been 1% since 7 May 2009.
- The US Federal Reserve’s target range for the federal funds rate has been 0-0.25% since 16 December 2008.

### Asset purchase programme (quantitative easing)

- On 5 March 2009, the Bank of England announced that it would undertake a policy of “quantitative easing”. The Bank said that it would purchase £75 billion of assets using money which it would create. This total was increased to £125 billion in May 2009, £175 billion in August 2009 and £200 billion in November 2009.
- The Bank of England has now purchased £200 billion worth of assets using created reserves. 99% of the purchases by value have been gilts (UK Government securities). No further purchases are scheduled.

### Money supply



- In its May 2010 *Inflation Report*, the Bank of England noted that money supply growth has been weak, but less so than it would have been in the absence of the asset purchase programme.
- Annual growth in M4 excluding intermediate other financial corporations (a measure monitored by the Bank of England Monetary Policy Committee) was 1.4% in Q2 2010, up from the record low of 0.9% in Q4 2009 and Q1 2010.
- The value of notes and coins in circulation outside the Bank of England rose by 5.2% in the year to August 2010.

**Contact:** Adam Mellows-Facer, x4904    **Updates:** Monetary policy: 7 Oct (UK) 7 Oct (ECB) 3 Nov (US)  
Bank of England [Monetary & Financial Stats](#), 29 Oct

## D2: Public Finances

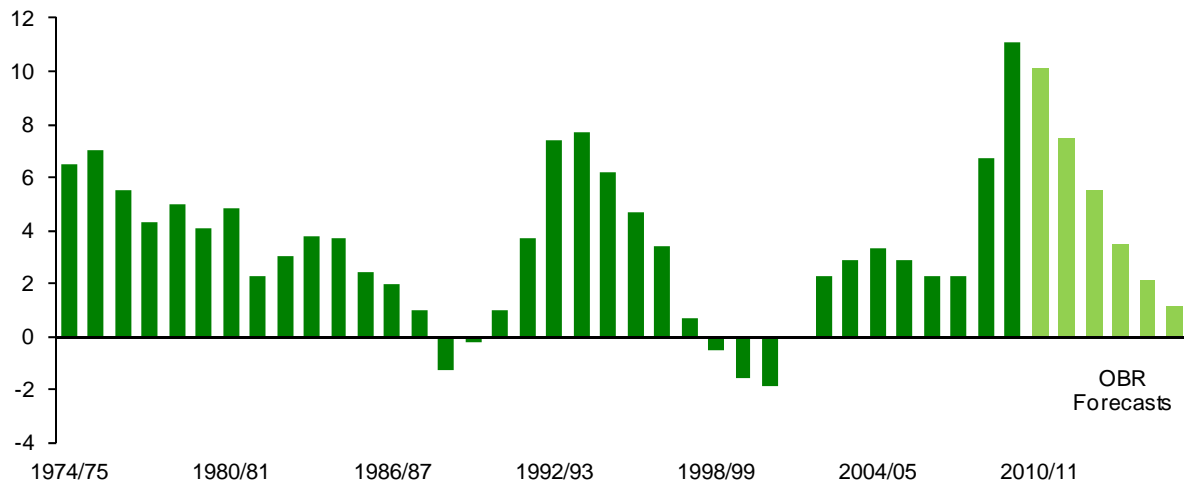
The newly-created Office for Budget Responsibility (OBR) forecasts that public borrowing will be £149 billion in 2010/11, equivalent to 10.1% of GDP.

- The Government borrowed £155.6 billion in 2009/10 (11.1% of GDP). Over the first five months of 2010/11, borrowing was £58.1 billion, £3.8 billion lower than the same period in 2009/10.
- The OBR's Budget forecast for borrowing in 2010/11 is £149 billion. The OBR forecast that government debt will be £932 billion in 2010/11.
- These figures exclude the effect of government intervention in the banking industry.

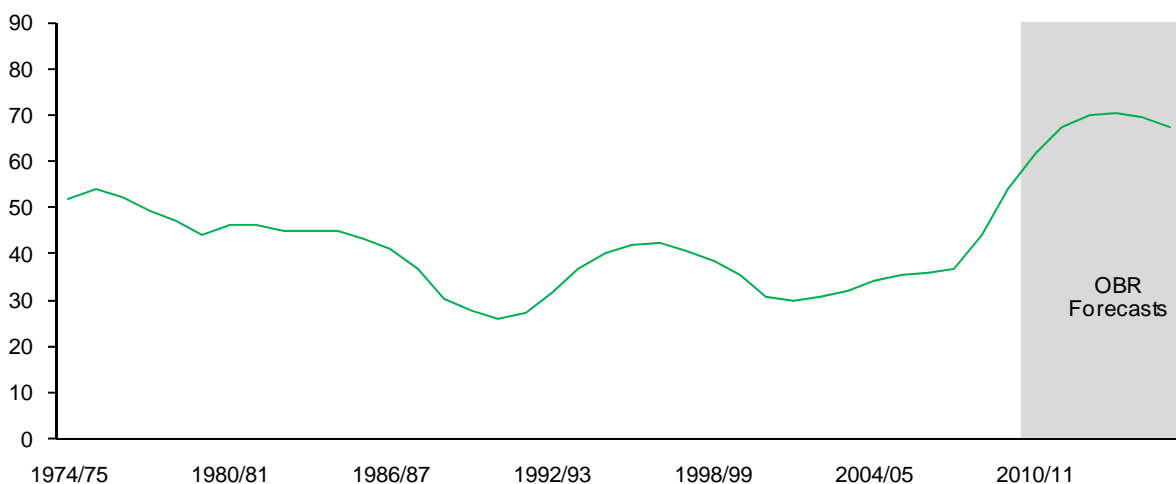
	Net borrowing		Net debt	
	£ billion	% GDP	£ billion	% GDP
2008/09	96	6.7	617	44.1
2009/10	156	11.1	772	53.9
2010/11	149	10.1	932	61.9
2011/12	116	7.5	1,059	67.2
2012/13	89	5.5	1,162	69.8
2013/14	60	3.5	1,235	70.3
2014/15	37	2.1	1,284	69.4
2015/16	20	1.1	1,316	67.4

Source: ONS, OBR

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



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



Contact: Dominic Webb, x4324

Update: ONS, [Public sector finances](#), 20 Oct

### D3: Financial Indicators

The leading share index in the UK, the FTSE 100, tracks share-price movements in the country's 100 largest companies (by market capitalisation). It began in 1984 and hit an all-time high of 6,930 in December 1999. It approached those highs again in 2007, before falling sharply in 2008 and early 2009.

The price of oil nearly tripled in the 18 months to July 2008, reaching an all time high above \$145/barrel. A steep decline then followed to below \$40 by the end of 2008, before recovering in 2009.

The price of gold is at an all-time high of £1,312/ounce.

*Data from Friday 1 October 2010*

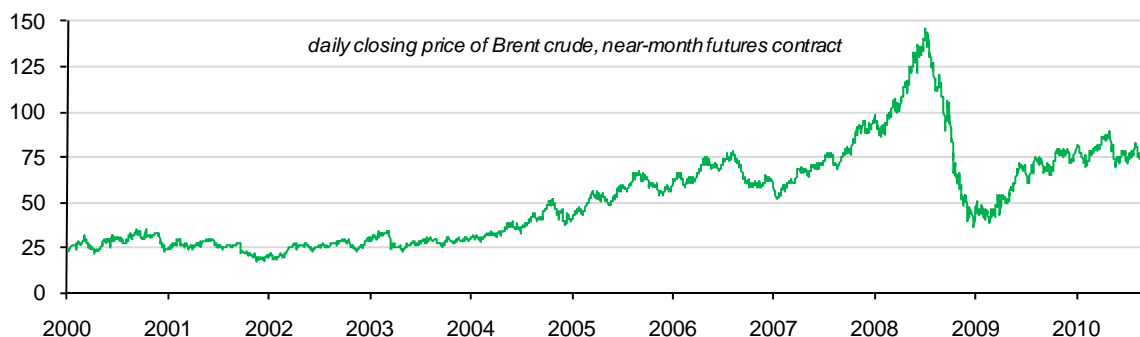
	FTSE-100	Oil (\$/bbl)	Gold (\$/oz)
01 Oct 2010	5,592.9	83.8	1,317.8
%change over:			
1-month	+4%	+10%	+5%
12-months	+11%	+21%	+31%
%change from:			
cyclical peak	-17%	-43%	at peak
date	15 Jun '07	03 Jul '08	01 Oct '10
cyclical trough	+59%	+130%	+85%
date	03 Mar '09	24 Dec '08	24 Oct '08

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

#### FTSE-100 Index



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



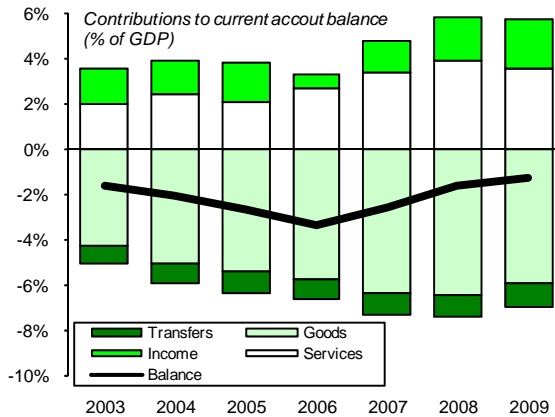
#### Gold price (\$ per ounce)



## E1: UK Balance of Trade

Annually, the current account deficit in 2009 was £17.6 billion, equivalent to -1.3% of GDP. The surplus on income widened between 2008 and 2009 while on services it narrowed. The deficit in goods also narrowed, resulting in the current account deficit narrowing in 2009 compared with 2008.

### Current Account



- On a **quarterly** basis, the current account deficit was estimated at £7.4 billion in Q2 2010, widening from a Q1 2010 deficit of £11.3 billion. Between Q1 2010 and Q2 2010 the surplus on services narrowed while the deficit on goods widened.
- The **annual** current account deficit with EU27 countries in 2009 was £15.8 billion, compared with a deficit with non-EU countries of £1.8 billion. On a **quarterly** basis, the deficit with EU27 countries was £9.3 billion in Q2 2010 (£11.2 billion deficit in Q1 2010). With non-EU countries, the current account was in surplus by £2.0 billion in Q2 2010 (£0.1 billion deficit in Q1 2010).

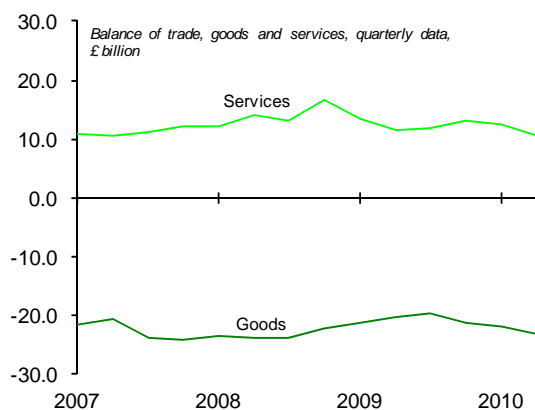
### Current Account Balances

£ millions; seasonally adjusted

	Goods			Services	Goods and Services	Income	Transfers	Current Account Balance
	Exports	Imports	Balance	Balance	Balance			
2007	-68,789	24,611	-89,754	46,798	-42,956	20,020	-13,546	-36,482
2008	-77,399	31,005	-93,116	55,356	-37,760	28,035	-14,051	-23,776
2009	-87,425	36,464	-82,353	49,277	-33,076	30,139	-14,673	-17,610
2009 Q2	-20,143	8,559	-20,124	11,606	-8,526	2,651	-4,091	-9,966
Q3	-20,845	8,956	-19,717	12,031	-7,772	8,526	-3,527	-2,773
Q4	-20,094	9,112	-21,332	13,081	-8,500	10,982	-3,280	-798
2010 Q1	-23,187	9,345	-21,975	12,524	-10,005	2,858	-4,151	-11,298
Q2	-23,299	9,051	-23,150	10,521	-12,629	9,326	-4,080	-7,383

Source: ONS database, series: BQKU, BQKV, BOKG, BOKH, BOKI, FNSV, FNTC, HBOJ, HBOP, IKBD, IKBJ, IKBP

### Trade in Goods and Services



- The estimated deficit on goods trade in July was £8.7 billion, wider than the June deficit of £7.5 billion.
- The monthly trade surplus on services was an estimated £3.8 billion in July, up from the June surplus of £3.6 billion.
- The overall monthly deficit on goods and services combined in July was £4.9 billion, up from £3.9 billion in June.
- The goods deficit with the EU27 was £3.9 billion in July (compared with £3.2 billion in June), while the deficit with non-EU countries was £4.8 billion (compared with £4.3 billion in June).

Contact: Grahame Allen, x3977

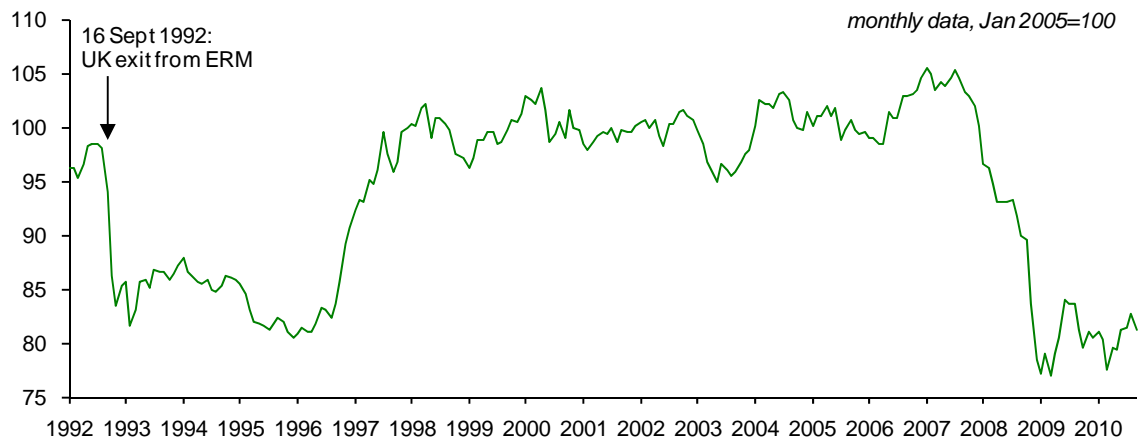
Updates: ONS, [UK Trade](#), 12 Oct;  
ONS, [UK Balance of Payments](#), 26 Oct

## E2: Exchange rates

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

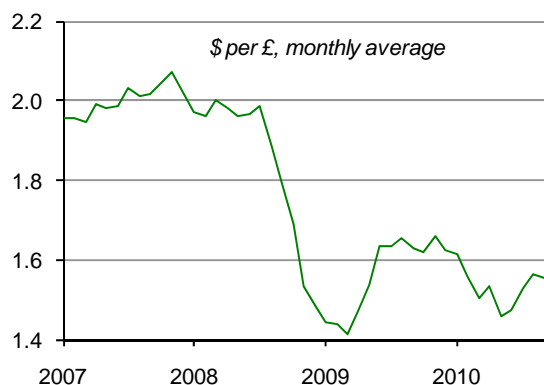
The SERI fell 1.7% in September 2010, after having risen in June, July and August. Compared with last year, the SERI was unchanged. It is now 5.5% above its March 2009 level – when it was at its lowest point since 1980, when the series began – and was 22.8% down from its July 2007 peak.

### Sterling Exchange Rate Index (SERI)



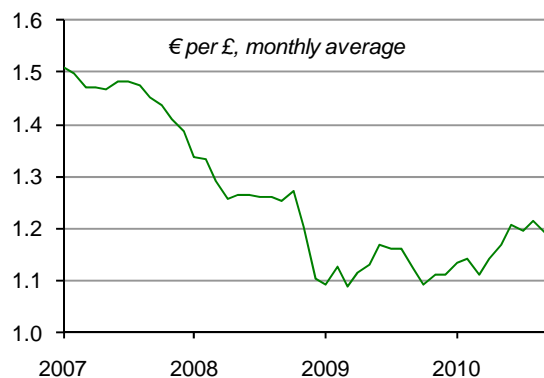
[Source: Bank of England, Bankstats database, XUMABK67]

### US\$/£ Exchange Rate



- In September, the pound weakened slightly against the dollar. At the 1 October market close the pound stood at \$1.58 dollars, slightly above the September average.
- Sterling also fell against the euro in September, having risen earlier this year amid concerns over Greece and other eurozone economies.
- At the 1 October market close the pound stood at €1.15. This compares with an all-time low of €1.02 (on 30 December 2008), and a launch rate of €1.48 on 31 December 1998.

### €/£ Exchange Rate



### Sterling Exchange Rates

average rates in period and % changes

		US Dollar (\$)		Euro (€)	
		% change		% change	
		Rate	on year	Rate	on year
2008		1.85	-7.5%	1.26	-13.9%
2009		1.57	-15.5%	1.12	-10.8%
2009	Sep	1.63	-9.2%	1.12	-10.5%
2010	Jun	1.48	-9.8%	1.21	3.4%
	Jul	1.53	-6.5%	1.20	2.9%
	Aug	1.57	-5.3%	1.21	4.6%
	Sep	1.56	-4.6%	1.19	6.1%

Source: Bank of England, Bankstats database

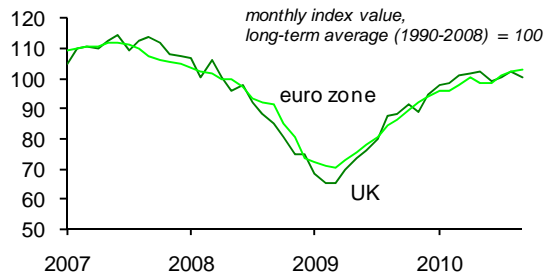
Contact: Ian Townsend, x2042

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

## F1: Business and Consumer Confidence

Confidence surveys, with information generally released ahead of official statistical data, can indicate changes to the economic outlook as well as turning points in the economic cycle.

### European Commission Economic Sentiment Indicator

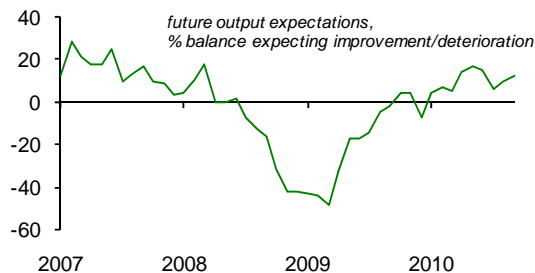


	UK Index	monthly change	change on year ago
2008 Sep	85.3	...	...
2009 Sep	88.1	...	...
2010 Jul	100.8	+1.4	+21.0
Aug	102.3	+1.5	+14.6
Sep	100.2	-2.1	+12.1

Source: European Commission

- The European Commission conducts regular harmonised surveys for different sectors (manufacturing, services, retail, construction and consumers) of all EU member states' economies.
- The overall UK sentiment index fell 2.1 points in September, and is now 12 points higher than a year ago. By contrast, the EU sentiment index rose 0.3 points.

### CBI Industrial Trends Survey



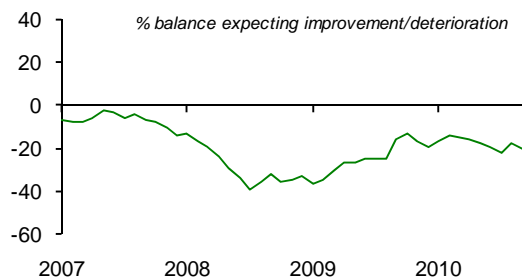
balance (as a %) of those expecting an improvement minus those expecting a deterioration

	Future output expectations	monthly change	change on year ago
2008 Sep	-16	...	...
2009 Sep	-2	...	...
2010 Jul	+6	-9	+20
Aug	+10	+4	+15
Sep	+12	+2	+14

Source: CBI, *Industrial Trends Survey*

- The CBI carries out monthly and quarterly *Industrial Trends* surveys.
- Manufacturers' output expectations in September were +12% of firms expecting output to rise rather than fall over the next three months. This was up 2 points on August's +10%, and 14 points higher than a year ago.

### GfK NOP Consumer Confidence Survey



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

	Consumer Conf. Index	monthly change	change on year ago
2008 Sep	-32	...	...
2009 Sep	-16	...	...
2010 Jul	-22	-3	+3
Aug	-18	+4	+7
Sep	-20	-2	-4

Source: GfK NOP, *Consumer Confidence*

- GfK NOP's *Consumer Confidence Barometer* measures a range of consumer attitudes, including forward expectations of the general economic situation and households' financial positions, and views on making major household purchases.
- Overall confidence fell 2 points in August, having risen in both July and August, and is 4 points higher than it was a year ago.

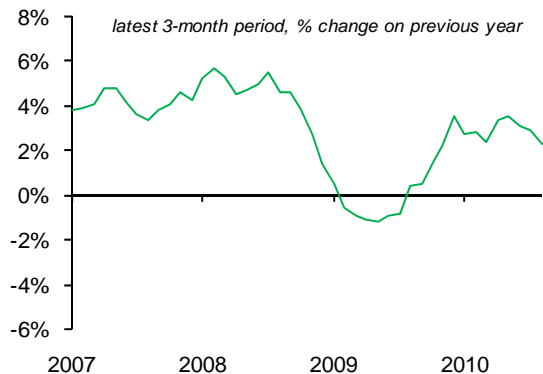
**Contact:** Ian Townsend, x2042

**Update:** CBI, [Industrial Trends](#), mid-Oct  
EC, [Economic Sentiment Indicator](#), 28 Oct  
GfK NOP, [Consumer Confidence](#), 29 Oct

## F2: Retail Sales

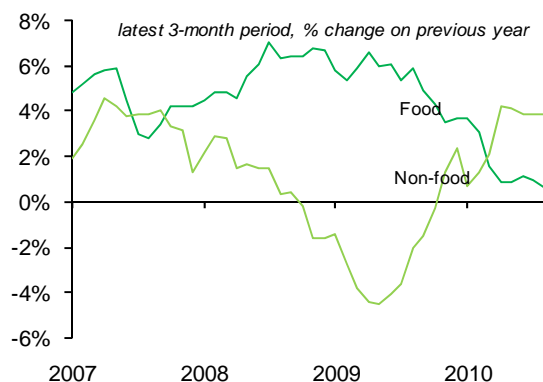
Retail sales are an indicator of household consumption. A number of retail sales surveys are conducted, for instance by the CBI; however, this page only uses data and information from the ONS.

### Value of Retail Sales



- The seasonally-adjusted value of retail sales in the three months to August was 2.3%, the third consecutive fall.
- The value of retail sales in August alone was down by 0.5% compared with July. That compares with a rise of 0.8% between June and July.
- The estimated total value of sales in July was £24.2 billion (non-seasonally-adjusted)

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



- The value of sales in food stores in the three months to August was 0.6% higher than a year ago, the lowest ever recorded in the series, which began in 1989.
- By contrast, the value of sales in non-food stores in the three months to August was 3.9% higher than a year ago
- Sales in household goods stores were 0.5% higher than a year ago.
- Sales in clothing and footwear stores were up by 4.7% in the three months to August.

### Value of Retail Sales

annual data and latest 3-month period, % change on previous year; seasonally adjusted

	Food Stores	Non-Food Stores				All retailing total
		Clothing & Footwear	Household goods	Other	Total	
2008	6.0	0.3	-2.2	6.1	0.9	<b>4.1</b>
2009	5.2	0.8	-5.1	-3.4	-1.8	<b>0.6</b>
2010 Apr	0.9	5.8	3.5	2.2	4.2	<b>3.4</b>
May	0.9	5.7	3.1	1.8	4.1	<b>3.5</b>
Jun	1.1	5.6	2.4	1.0	3.9	<b>3.1</b>
Jul	1.0	4.7	1.8	1.9	3.9	<b>2.9</b>
Aug	0.6	4.7	0.5	2.4	3.9	<b>2.3</b>

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



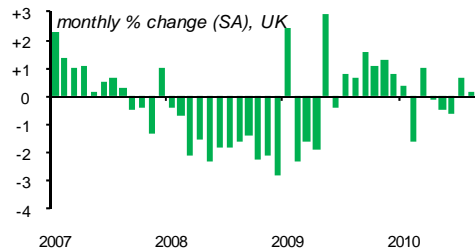
## F3: Housing Market

House prices on the Nationwide index rose by 0.1% in September following a 0.9% fall in August. Prices were 3.1% higher in September compared with a year ago. The latest (August) Halifax index also showed a small month-month rise but a slowing annual rate of increase.

Numbers of mortgage approvals and housing starts have increased since the recession but still remain well below pre-recession levels.

### House price indices

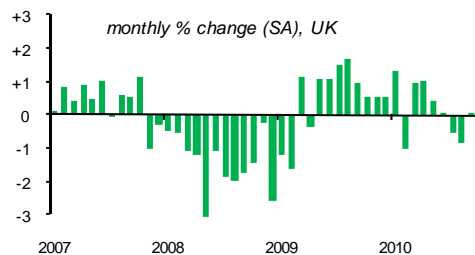
#### Halifax house price index



#### Latest monthly data UK, seasonally adjusted

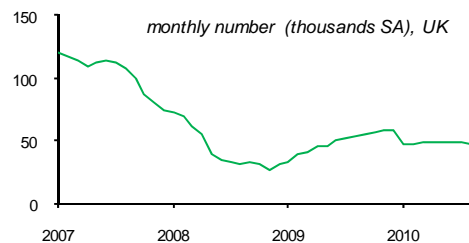
	Halifax	Nationwide
Latest data	Aug-10	Sep-10
Change in month	+0.2%	+0.1%
Change in year	+4.4%	+3.1%
Peak date	Aug-07	Jul-07
Change since peak	-15.9%	-8.9%
Trough date	Apr-09	Feb-09
Change since trough	+8.6%	+10.5%

#### Nationwide house price index



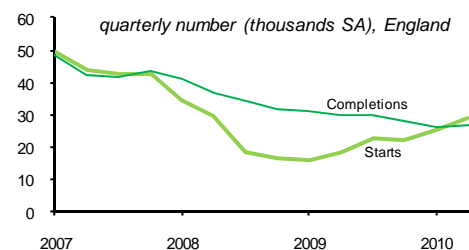
- The recovery in house prices since early 2009 has stalled, with recent data showing year-on-year growth slowing on both the Halifax and Nationwide measures.
- There is considerable regional variation. In Q2 2010 prices fell by 5% in Northern Ireland but rose by 13% in London and the South West compared with a year earlier (Nationwide data).

### Mortgage approvals



- Bank of England data on the number of mortgages approved to finance house purchases are a leading indicator of house sales.
- There were 47,000 mortgage approvals in August 2010, with numbers remaining flat following a sharp fall in January.

### House-building



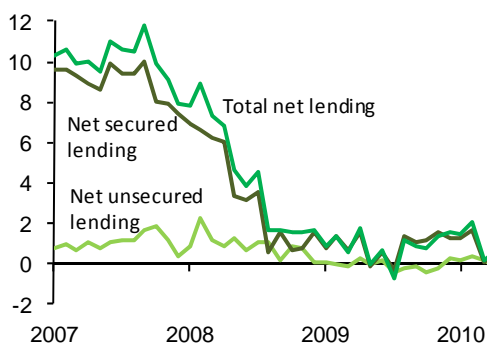
- There were 28,590 house building starts in England in Q2 2010, up from 25,300 in Q1 2010. This is 10,000 higher than the figure for Q2 2009, but still only just over half the 50,000 starts in Q1 2007.
- The number of dwelling completions rose slightly in Q2 2010, after falling in each of the previous nine quarters, but is still almost 40% lower than they were three years ago.

**Contact:** Daniel Harari, x2464

**Updates:** Halifax [House Price Index](#), early Oct;  
Nationwide [House Price Index](#), end Oct;  
Bank of England, [Lending to Individuals](#), 29 Oct;  
DCLG, [House-building](#), 18 Nov

## F4: Household debt

### Monthly net lending, £bn



Source: Bank of England

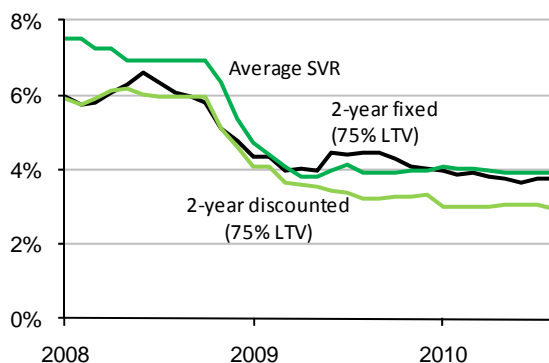
### Net outstanding lending to individuals

£ billions; seasonally adjusted

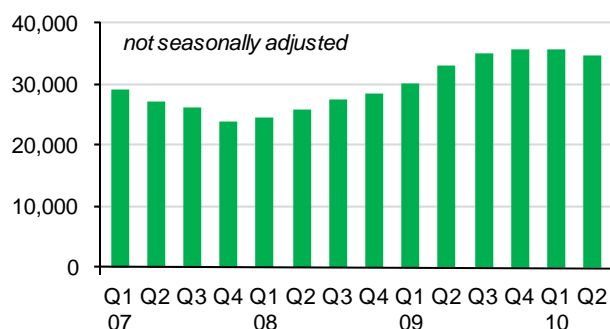
	Secured	Unsecured	Total
2006 Aug	1,036	212	1,249
2007 Aug	1,149	216	1,365
2008 Aug	1,218	236	1,455
2009 Aug	1,229	229	1,458
2010 Feb	1,238	224	1,462
May	1,239	219	1,458
Aug	1,240	216	1,457

Source: Bank of England, series: LPMVTXK, LPMVZRI, LPMVTXC

### Current average mortgage interest rates



### Individual insolvencies, England and Wales



Source: Insolvency Service

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

- Total net lending to individuals grew by £1.5 billion in August. This compares with an increase of £0.2 billion in July. Monthly net lending peaked in October 2003 at £12.0 billion.
- Monthly net unsecured lending fell by £0.1 billion in August 2010.
- Monthly net secured lending (mortgages) rose by £1.7 billion in August 2010, compared with no change in July.

- Total net outstanding lending to individuals was £1,457 billion at the end of August 2010.
- Secured lending (mortgages) is the largest form of lending at £1,240 billion, 85% of total lending outstanding.
- Unsecured lending outstanding (including credit cards) was £216 billion at the end of August 2010.
- Total net outstanding lending was down 0.1% in August compared with a year ago. Secured lending increased by 0.9% in August compared with August 2009, while unsecured lending fell by 5.6%.

- Average interest rates offered by banks and building societies have fallen sharply since late 2008 (all Bank of England data).
- The average Standard Variable Rate (SVR) in August was 3.94%, 2.99 percentage points lower than in August 2008.
- The average fixed and discounted rates offered (75% LTV) in August were 3.74% and 2.96% respectively (2.34 and 3.00 percentage points lower than in August 2008).

- Q2 2010 provisional data indicates there were 34,743 individual insolvencies (bankruptcy orders, Individual Voluntary Arrangements (IVAs) or debt relief orders) in England and Wales (not seasonally adjusted), a 5.0% increase on Q2 2009. This was made up of 14,982 bankruptcies, 13,466 IVAs and 6,295 Debt Relief Orders.
- In Scotland in Q2 2010 there were 5,378 individual insolvencies, a fall of 15% on Q2 2009.
- In Northern Ireland in Q2 2010 there were 636 individual insolvencies, a rise of 13.6% on Q2 2009.

**Contact:** Daniel Harari, x2464

**Update:** Bank of England, [Lending to Individuals](#), 29 Oct  
Insolvency Service, [Insolvency Statistics](#), 5 Nov

## 5 Indicator sources

The table gives details of sources used in this paper. Office for National Statistics (ONS) releases are available from [www.statistics.gov.uk/press\\_release/CurrentReleases.asp](http://www.statistics.gov.uk/press_release/CurrentReleases.asp).

Indicator		Source details
A1	<b>Gross Domestic Product</b>	ONS releases: <i>Preliminary GDP estimates</i> ; <i>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</i> HM Treasury, <i>Forecasts for the UK Economy</i>
A2	<b>GDP: International Comparisons</b>	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), <i>Main Economic Indicators</i> , via Stat.OECD database ( <a href="#">link to user defined table</a> ) Growth Forecasts: OECD, <i>Economic Outlook</i> (full document via <a href="http://www.sourceoecd.org">www.sourceoecd.org</a> ); IMF <i>World Economic Outlook database and updates</i> European Commission's <a href="#">growth forecasts</a>
A3	<b>Components of GDP</b>	ONS releases: <i>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</i>
A4	<b>Output and Employment by Industry</b>	ONS releases: <i>Preliminary GDP estimates</i> ; <i>UK output, income &amp; expenditure</i> ; <i>Quarterly national accounts</i>
A5	<b>Manufacturing (Including Automotives)</b>	ONS, <i>Index of Production</i> SMMT, <i>Vehicle Production</i> SMMT, <i>New Car Registrations</i>
A6	<b>Productivity</b>	ONS, <i>Productivity</i>
B1	<b>Inflation</b>	ONS, <i>Consumer Price Indices</i>
B2	<b>Inflation: International</b>	CPI: OECD, <i>Main Economic Indicators</i> ( <a href="#">link to user defined table</a> ); EU data: Eurostat <a href="#">news release</a> and <a href="#">database</a>
B3	<b>Average Earnings Index</b>	ONS, <i>Average Weekly Earnings</i> and <i>Labour Market Statistics</i>
C1	<b>Employment</b>	ONS, <i>Employment</i> and <i>Labour Market Statistics</i>
C2	<b>Unemployment: National</b>	ONS, <i>Labour Market Statistics</i> release and <i>Labour Market Statistics First Release Historical Supplement</i>
C3	<b>Unemployment: Regional</b>	ONS, <i>Labour Market Statistics</i> and <i>Regional Labour Market Statistics</i>
C4	<b>Unemployment: International Comparisons</b>	Data: OECD, <i>Main Economic Indicators</i> Commentary: OECD, <i>Economic Outlook</i> (full document via <a href="http://www.sourceoecd.org">www.sourceoecd.org</a> )

Indicator		Source details
D1	<b>Interest Rates and the Money Supply</b>	UK: Bank of England, Monetary Policy Committee <a href="#">decisions &amp; minutes</a> US: Federal Reserve, <a href="#">Federal Open Market Committee decisions</a> ECB: <a href="#">European Central Bank news releases</a> Bank of England: <a href="#">Bankstats</a> , tables A 1.1 and A 2.2.1; and ONS Database.
D2	<b>Public Finances</b>	Data: ONS, <a href="#">Public Sector Accounts</a> or <a href="#">Public Sector Finances</a> ; Forecasts of budget balance: HM Treasury, <a href="#">Pre-Budget Report</a> , table B2 or <a href="#">Budget Red Book</a> , table C2.
D3	<b>Financial Indicators</b>	<a href="#">Financial Times</a> , <a href="#">Markets Data</a>
E1	<b>UK Balance of Trade</b>	ONS, <a href="#">Balance of Payments</a> ONS, <a href="#">UK Trade</a>
E2	<b>Exchange Rates</b>	Sterling effective exchange rates and sterling-dollar/euro rates: Bank of England, <a href="#">Bankstats</a> database ( <a href="#">annual</a> and <a href="#">monthly</a> )
F1	<b>Business and Consumer Confidence</b>	European Commission: <a href="#">Economic Sentiment Indicator</a> Future Output Expectations/Quarterly Business Confidence: Confederation of Business Industry (CBI), <a href="#">Economic and Business Outlook and Quarterly Industrial Trends Survey</a> press releases; Consumer Confidence: GfK NOP <a href="#">Consumer Confidence Barometer</a>
F2	<b>Retail Sales</b>	ONS, <a href="#">Retail Sales</a>
F3	<b>Housing Market</b>	Bank of England: <a href="#">Lending to Individuals</a> ; Department for Communities and Local Government (DCLG) UK Housing Starts: <a href="#">table 201</a> ; Halifax house price data: <a href="#">housing research page</a> ; Nationwide house price data: <a href="#">data page</a>
F4	<b>Household Debt</b>	Bank of England: <a href="#">Lending to Individuals</a> ; The Insolvency Service: <a href="#">Insolvency Statistics</a>

## 6 Glossary

### Symbols and abbreviations

..	Figure(s) not yet available
<b>CBI</b>	Confederation of British Industry
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>ONS</b>	Office for National Statistics

### Definitions<sup>1</sup>

**Balance of payments:** A country's financial position, with other countries of the world, comprising two parts:

**Current account:** the balance of imports and exports of goods and services, income and transfers combined;

**Capital account:** the difference between a country's capital invested in other countries, and the capital invested by other countries in it.

Technically, the two parts always balance. A balance of payments deficit normally refers to a **current account deficit**.

**Balance of trade:** The difference between a country's exports and imports of either goods only or goods and services combined. Trade in financial services account for around a third of UK exports, and thus partially offsets trade in goods deficits.

**Basic prices:** Prices excluding taxes and subsidies on products.

**Claimant count:** The number of people claiming Jobseeker's Allowance (JSA) benefits.

**Consumer Prices Index (CPI):** This is the headline UK domestic measure of inflation. It measures the average change from month to month in the prices of consumer goods and services purchased in the UK.

**Current account balance:** The difference between receipts/payments due to transactions in goods, services, income and transfers between the UK and all other countries. A current account deficit means that total payments exceed total receipts; in the reverse case, the current account is in surplus.

**Current budget:** Measures the balance of public sector current account revenue over public sector current expenditure.

**Current/constant prices:** Current prices are the actual or estimated recorded monetary value over a defined period for a group of industries or products. They show the value for each item expressed in terms of the prices of that period.

Constant prices refer to volume measures whose values are derived by applying to current quantities, prices for a specific base period. They allow figures to be represented so that the effects of inflation are removed. The values for each time period are expressed in terms of the prices in a particular base period.

**Economically active:** Those aged 16 and over who are either in employment or unemployed.

**Economically inactive:** Those aged 16 and over who are neither in employment nor unemployed. This includes those who do not want a job, those who want a job but have not been seeking work in the last four weeks and those who want a job and are seeking work but not available to start work.

**Employment:** The number of people with jobs as estimated by the Labour Force Survey (LFS). This includes all people aged 16 or over who did paid work, those who had a job that they were temporarily away from, those on government supported training and employment programmes, and those doing unpaid family work during the survey period. The employment rate refers to the number of people employed as a percentage of the working age population as measured by the LFS.

**Exchange rate:** The rate at which one currency is traded against another.

**Gross Domestic Product (GDP):** The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production (intermediate consumption) but before deducting consumption of fixed capital (depreciation).

**Gross Domestic Product – Real GDP:** Also known as constant price or chained volume measure, this is a measure used to indicate change in the actual quantity of goods and services produced, by adjusting for inflation.

**Gross Fixed Capital Formation (GFCF):** Expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

1. Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

**Gross Value Added (GVA):** The difference between output and intermediate consumption for any given sector/industry. That is the difference between the value of goods and services produced and the cost of raw materials and other inputs which are used up in production. GVA is used to measure the productivity of sectors/industries and economies.

**Harmonised Indices of Consumer Prices (HICP):** Harmonised indices of consumer prices for Member States of the European Union, which enable comparisons to be made across countries. The UK's CPI measure uses HICP methodology.

**Market prices:** The prices actually paid by the purchaser for goods and services, including transport costs, trade margins and taxes.  $GDP \text{ at market prices} = GDP \text{ at basic prices} + \text{transport prices paid separately} + \text{non deductible taxes on expenditure} - \text{subsidies received}$ .

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

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

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

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

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

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

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

other interest rates, including mortgages and personal loans.

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

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

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

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

