The economy: supplementary charts and tables

November 2002

HM TREASURY

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Contents

1 THE ECONOMY

The Pre-Budget Report (PBR), published by HM Treasury on 27 November 2002, includes a discussion of economic developments and prospects (Annex A). The present document reproduces charts and tables contained in Annex A, and also includes additional information in the form of more detailed charts and tables. The charts and tables are consistent with national accounts and balance of payments statistics to the second quarter of 2002, released by the Office for National Statistics on 27 September 2002, and output, income and expenditure data for the third quarter released on 27 November.

Forecast ranges

1.1 As in previous Budgets and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the UK economy. The forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Annex A of the PBR.

1.2 The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of 2¾ per cent a year from the start of fourth quarter of 2001. Details of this neutral assumption are set out in Table A3 of the PBR, and are discussed in the accompanying text and a paper published by the Treasury alongside Budget 2002[1]. The neutral case assumes a more moderate trend rate of growth in the employment rate than has been witnessed over the recent past, and does not rely on any increase in the underlying trend rate of growth in output per hour worked, relative to recent experience.

Consistent with past practice, projections for the public finances (set out in Annex B of the PBR) are based on the lower ends of the economic forecast ranges, which are consistent with a deliberately cautious assumption of annual trend output growth ¼ percentage point lower than the neutral view. Relative to the neutral case, this cautious assumption is based on slightly lower trend rates of growth for output per hour worked, the employment rate and the population of working age. The upper end of the forecast ranges is symmetrical, illustrating the potential for stronger growth based at least in part on Government policies to raise productivity growth and to increase employment opportunity.

[1] *Trend Growth: Recent Evidence and Prospects*, HM Treasury, April 2002.

THE DEGREE OF SPARE CAPACITY

Chart 1a: CBI capacity utilisation in manufacturing

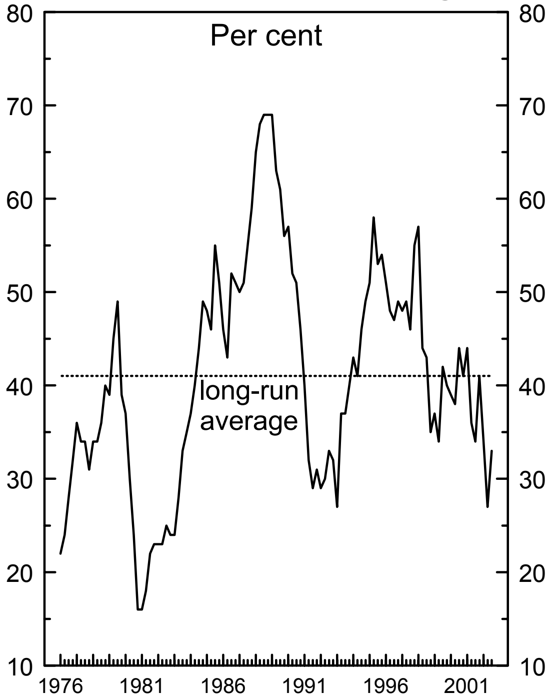


Chart 1b: BCC survey of capacity utilisation

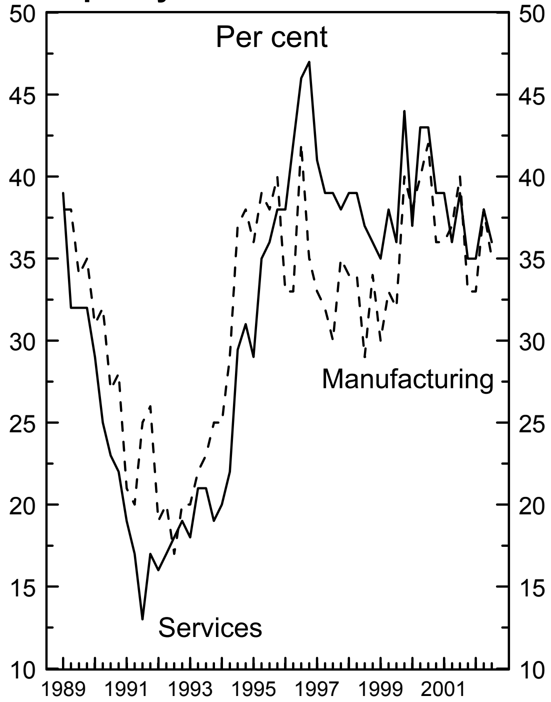


Chart 2a: CBI survey of skilled labour shortages in manufacturing

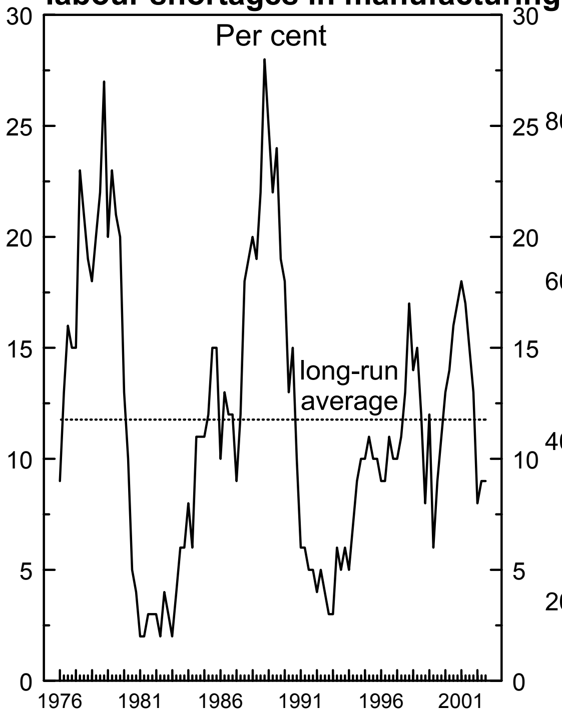


Chart 2b: BCC survey of recruitment difficulties

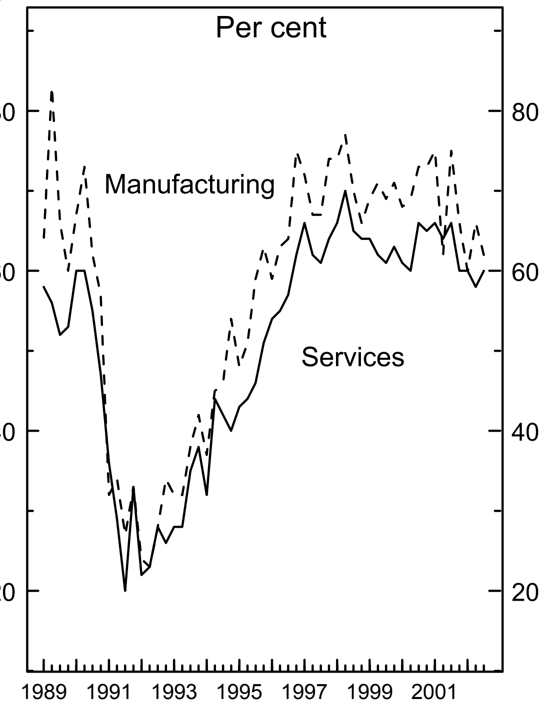
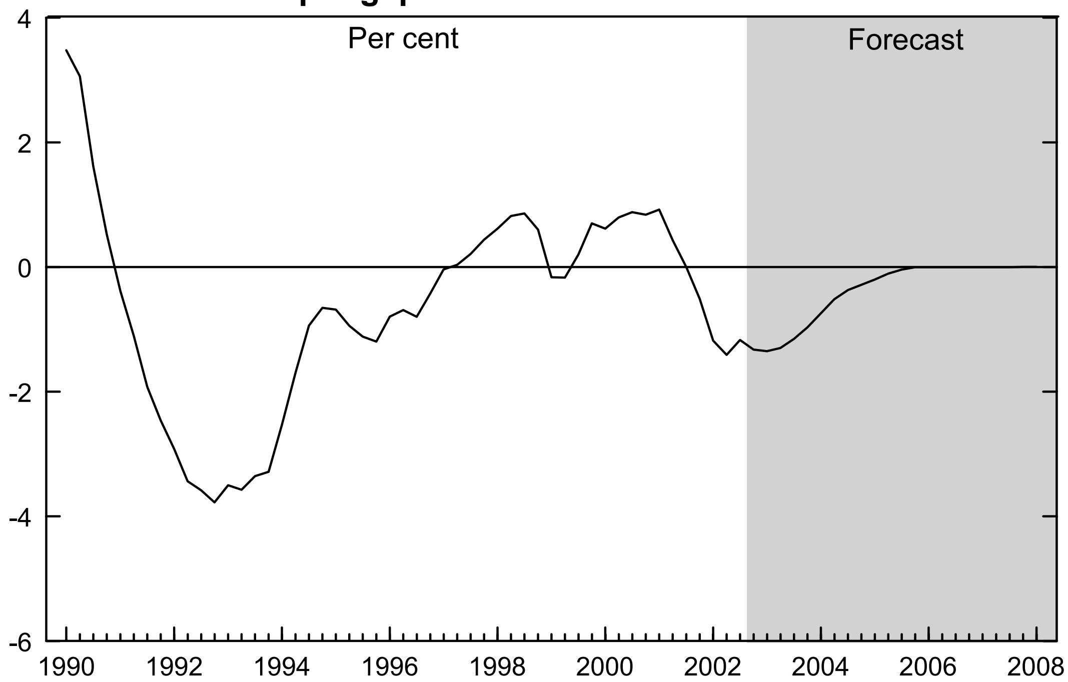


Chart 3: The output gap[1]



[1] *Actual output less trend output as a percentage of trend output (non-oil basis).*

GROSS DOMESTIC PRODUCT (GDP)

Chart 4: GDP

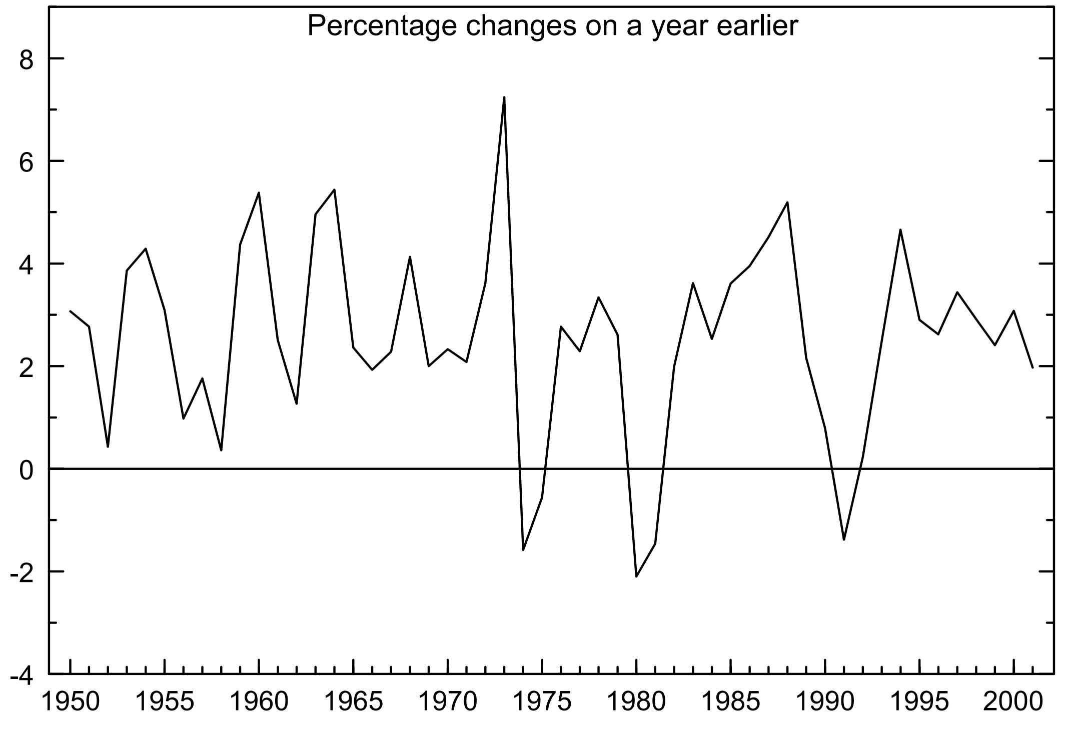
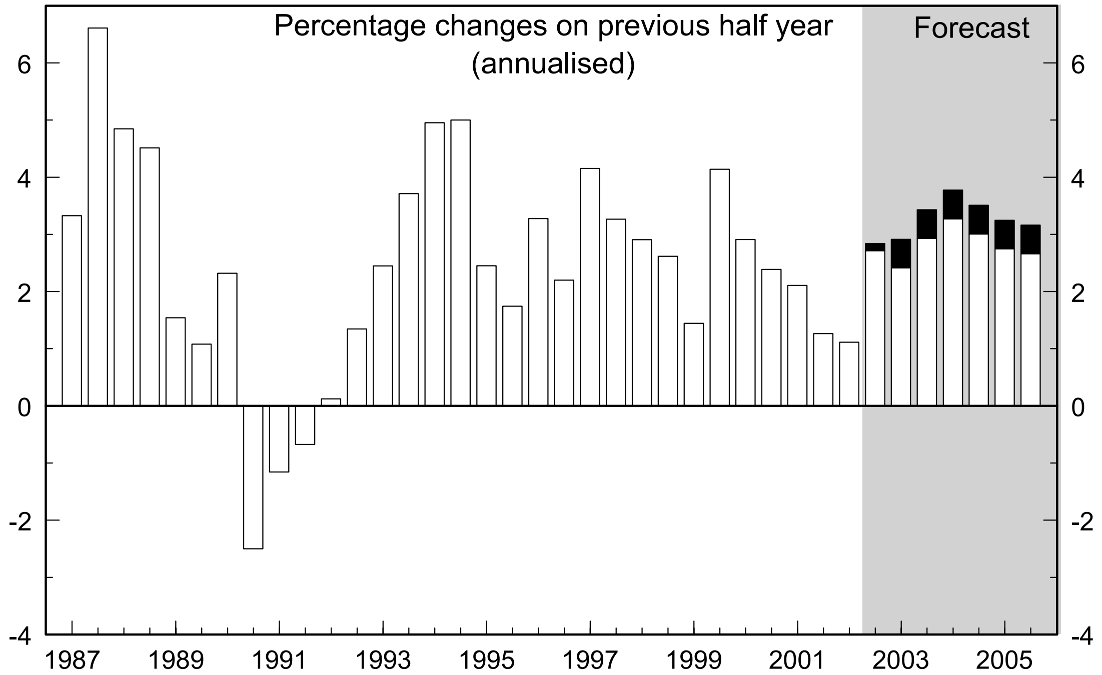


Chart 5: GDP forecast[1]



[1] *Darker areas on bars represent forecast ranges.*

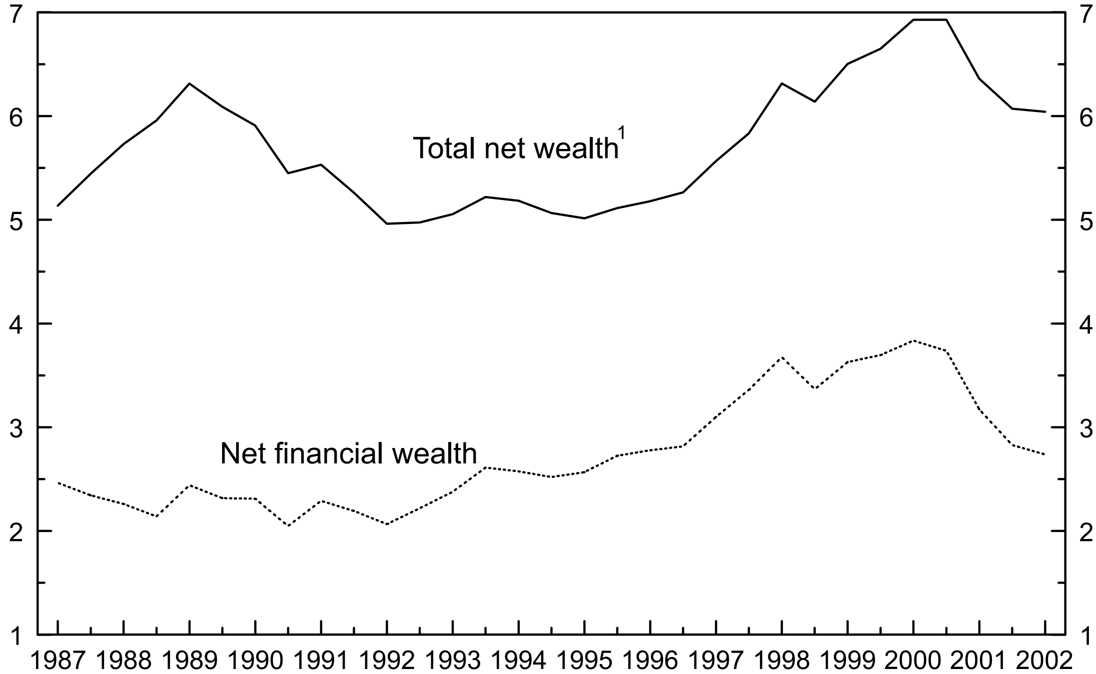
Table 1: Contributions to GDP[1] growth[2]

	Percentage points, unless otherwise stated				
		Forecast			
	2001	2002	2003	2004	2005
Final domestic demand	3½	2½	3½ to 3¾	3¼ to 3¾	3 to 3½
Change in inventories	-¾	-¼	-¼ to 0	¼	0
Total domestic demand	2¾	2¼	3¼ to 3¾	3½ to 4	3 to 3½
Net trade	-¾	-¾	-½ to -¾	-¼	-¼
GDP growth, per cent	2	1½	2½ to 3	3 to 3½	2¾ to 3¼

[1] *At constant market prices.*

[2] *Components may not sum to total due to rounding and omission of statistical discrepancy.*

Chart 6: Household sector wealth-income ratios



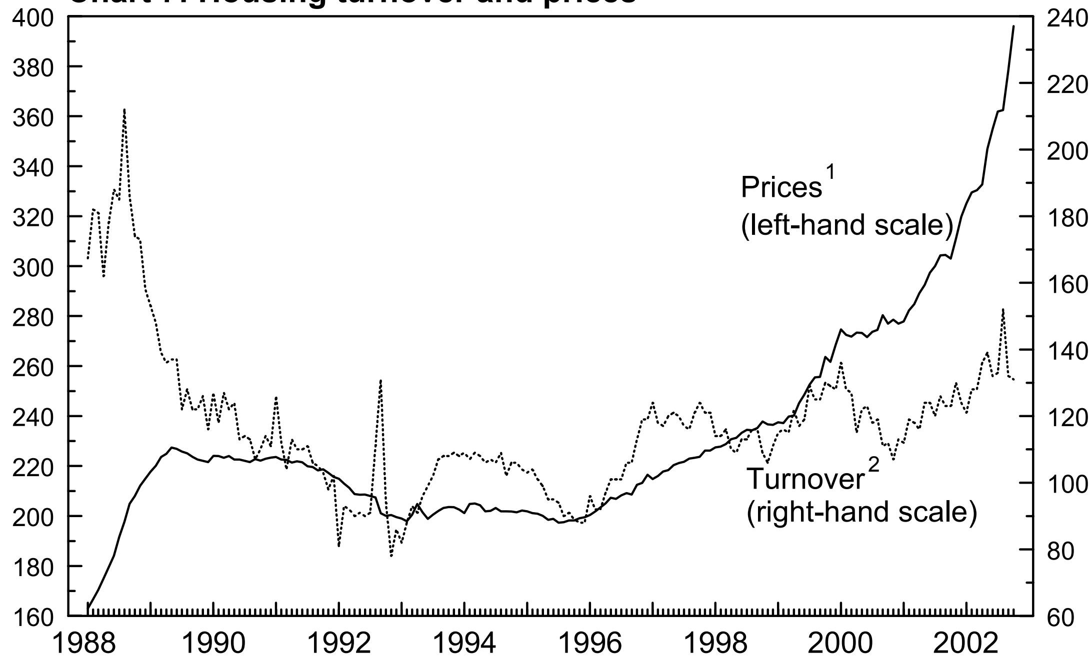
[1] *Treasury estimates. Includes tangible (mainly housing) wealth.*

Table 2: Household sector[1] expenditure and income

	Percentage changes on previous year unless otherwise stated				
		Forecast			
	2001	**2002**	**2003**	**2004**	**2005**
Household consumption[2]	4	3½	2¼ to 2½	2¾ to 3¼	2¼ to 2¾
Real household disposable income	6½	2	3 to 3½	2½ to 3	2 to 2½
Saving ratio (level, per cent)	6¼	4½	5¼	5	4¾

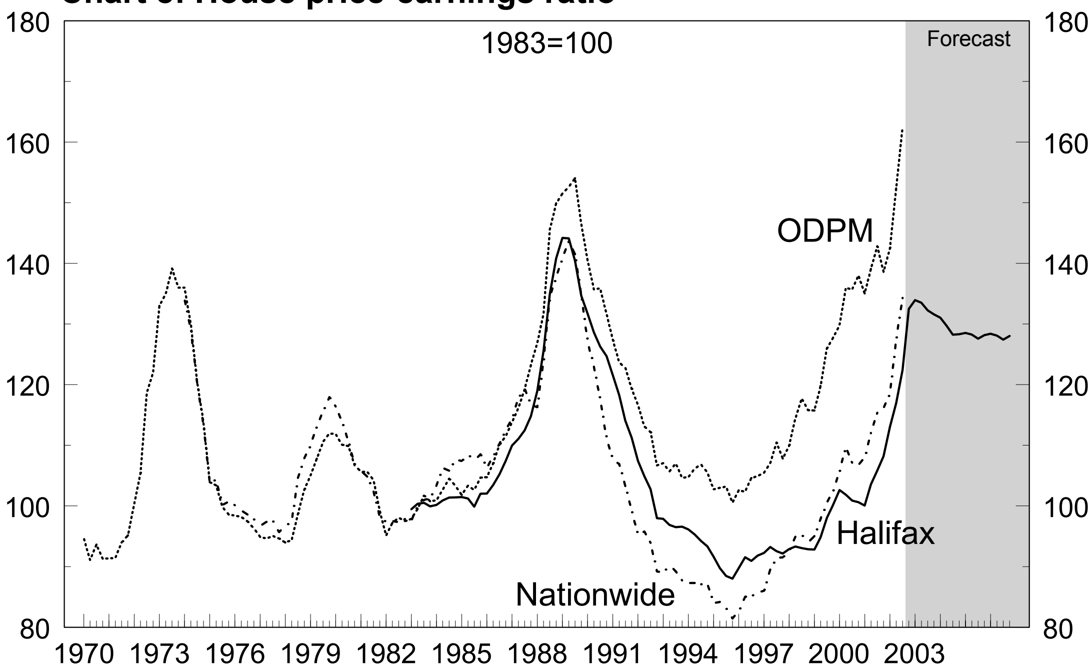
[1] *Including non-profit institutions serving households.*
[2] *At constant prices.*

Chart 7: Housing turnover and prices



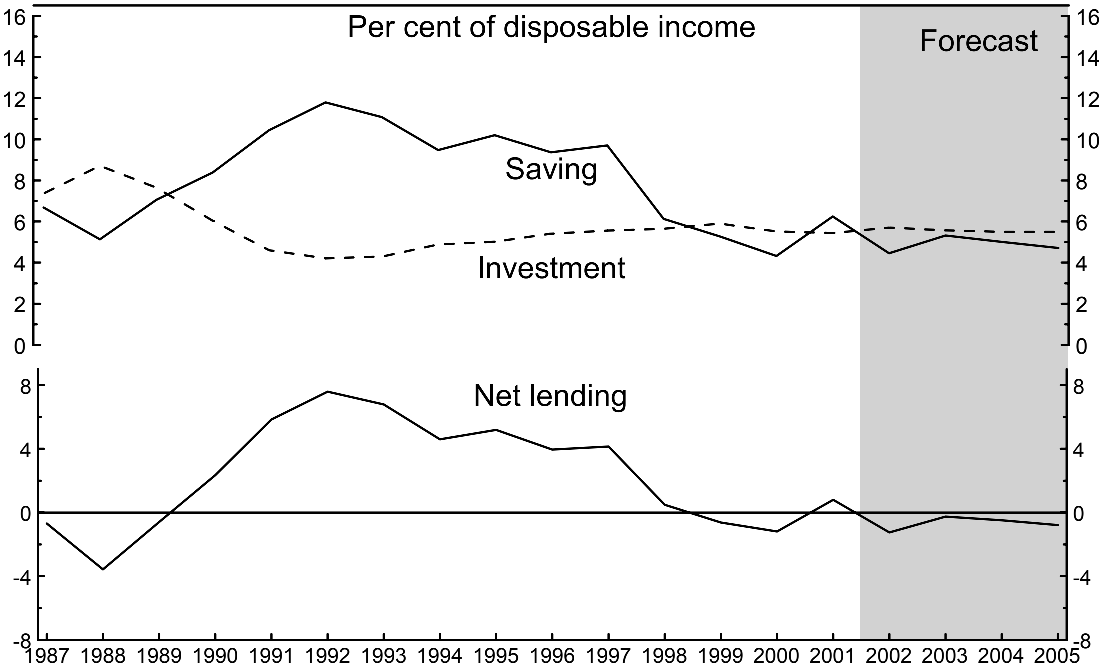
[1] *Halifax index, 1983=100.*
[2] *Particulars delivered, thousands.*

Chart 8: House price-earnings ratio[1]



[1] *Ratio of house prices to wages and salaries per employee.*

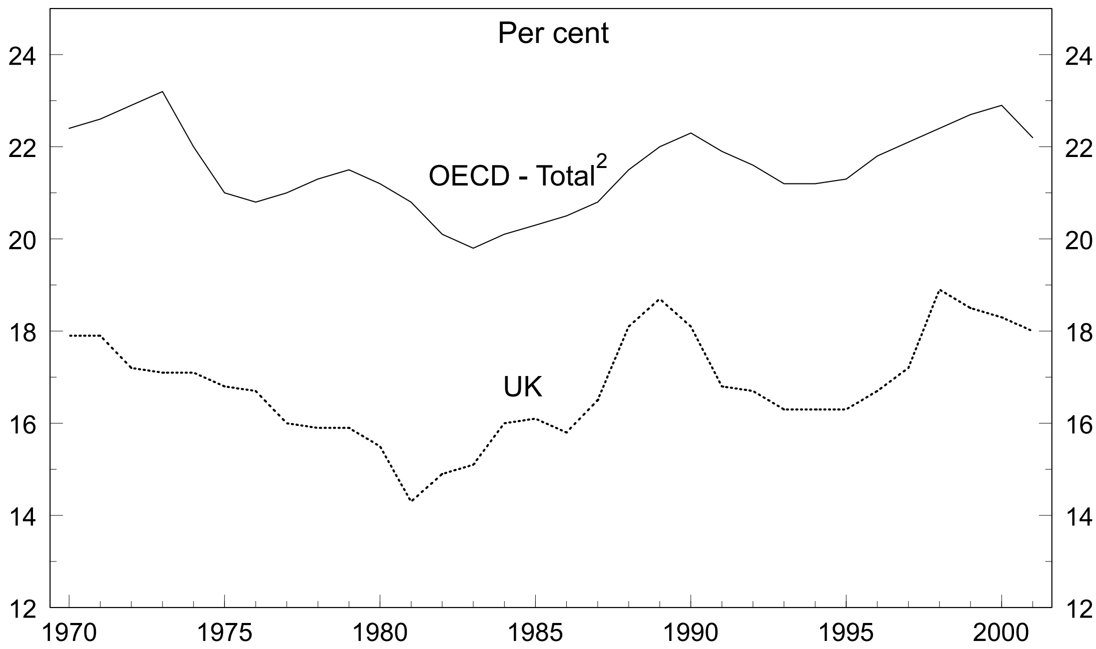
Chart 9: Household sector[1] net lending



[1] *Includes non-profit institutions serving households.*

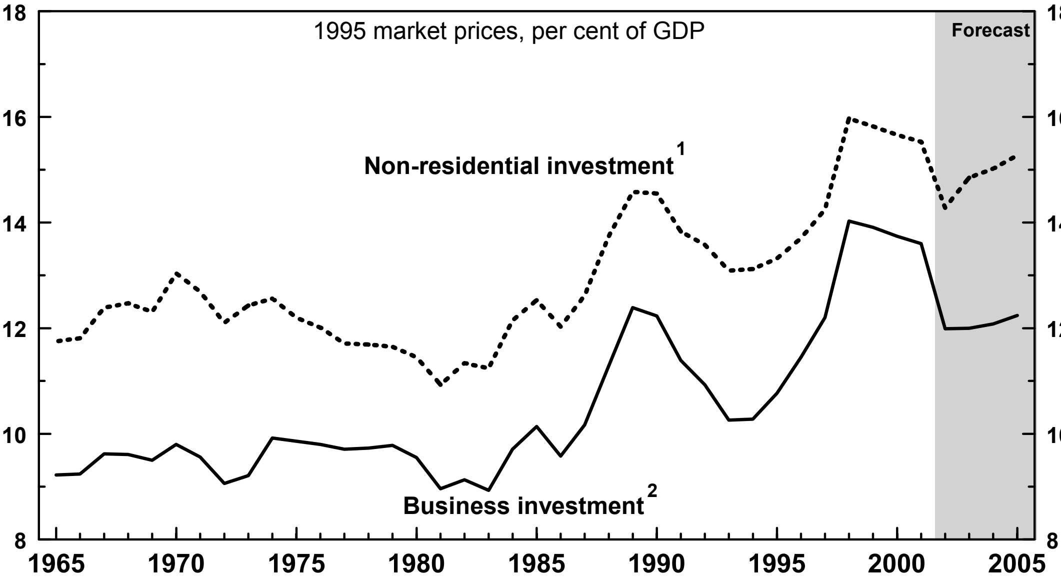
INVESTMENT AND INVENTORY ACCUMULATION

Chart 10: Whole economy investment-GDP ratio[1]



[1] *UK data at 1995 prices. OECD total at price levels and exchange rates of 1995.*
[2] *2001: HM Treasury estimate.*

Chart 11: Business and non-residential investment ratios



[1] *Whole economy less dwellings.*

[2] *Business investment includes investment by public corporations (except National Health Service Trusts) and investment under the Private Finance Initiative.*

Table 3: Gross fixed capital formation

	Percentage changes on previous year				
		Forecast			
	2001	2002	2003	2004	2005
Whole economy[1]	¼	-4¼	6½ to 7	4 to 4½	4¼ to 4¾
of which:					
Business[2,3]	1	-10½	2¾ to 3¼	3¾ to 4½	4 to 4¾
Private dwellings[3]	-6½	10½	2½ to 2¾	2 to 2½	2 to 2½
General government[3,4]	5¼	24¾	36½	8½	7½

[1] *Includes costs associated with the transfer of ownership of land and existing buildings.*

[2] *Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.*

[3] *Excludes purchases less sales of land and existing buildings.*

[4] *Includes National Health Service Trusts.*

TRADE AND THE BALANCE OF PAYMENTS

Chart 12: Relative cost and export price competitiveness[1]

[1] Relating to trade in manufactures. A fall means competitiveness has improved.
Source: OECD Economic Outlook.

Chart 13: Exports and overseas demand

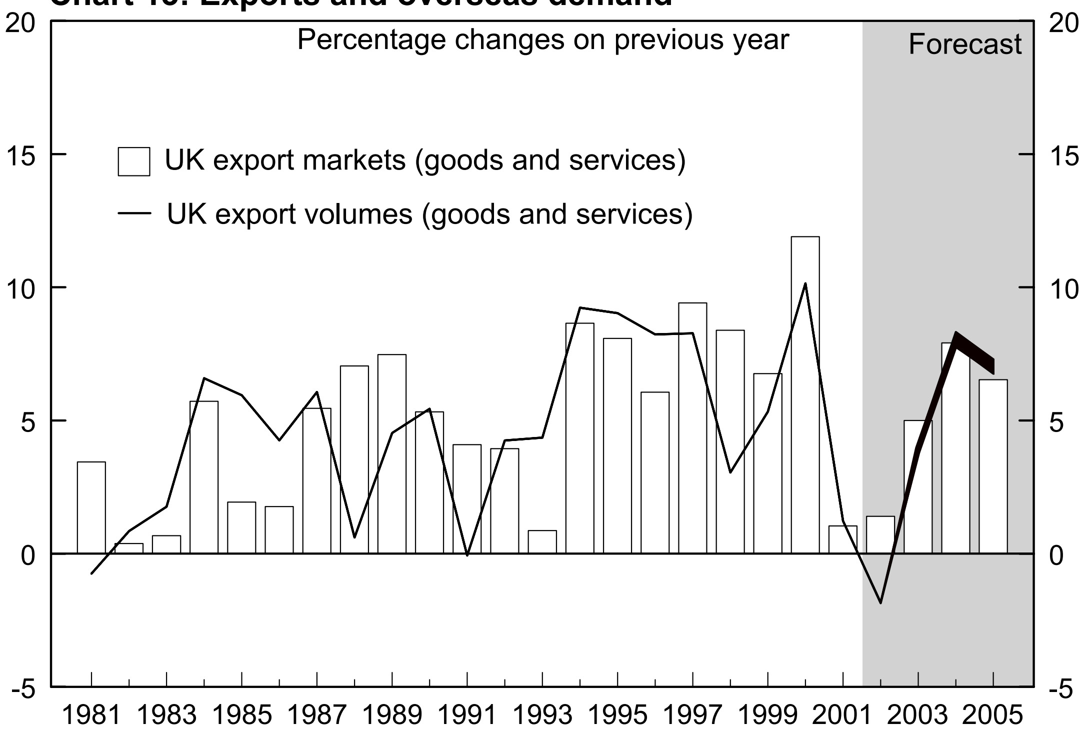


Chart 14: Imports and total final expenditure

Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion
	Volumes		Prices[1]			
	Exports	**Imports**	**Exports**	**Imports**	**Terms of trade[2]**	**Goods and services balance**
2001	1¼	2¾	-¼	-¼	0	-23
Forecast						
2002	-1¾	¼	1¼	-2	3¼	-19¼
2003	3¾ to 4¼	4¾ to 5	½	½	0	-22¾
2004	7¾ to 8¼	7 to 7½	2¾	2¾	0	-23½
2005	6¾ to 7¼	6¼ to 6¾	2½	2½	0	-24¼

[1] *Average value indices.*

[2] *Ratio of export to import prices.*

Chart 15: Balance of payments current account

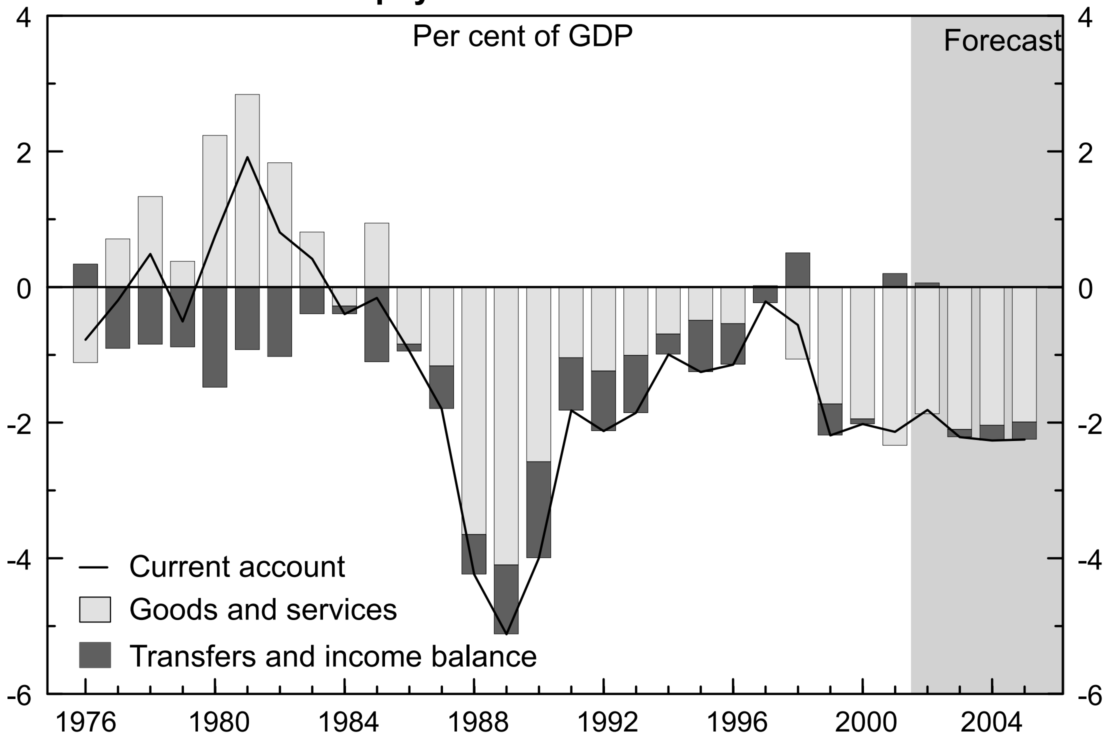


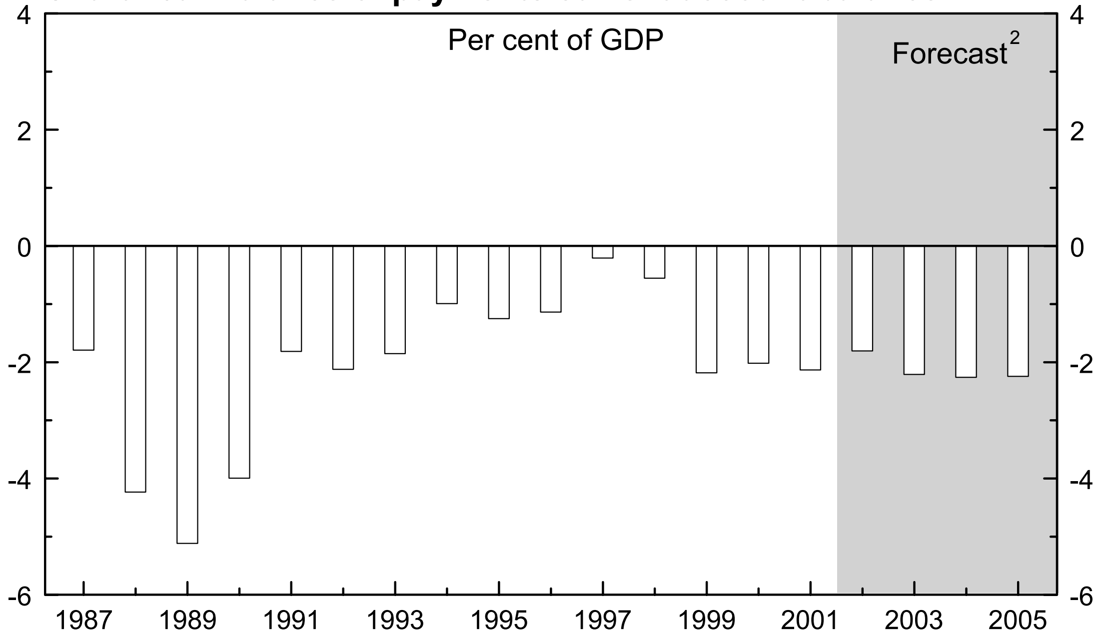
Table 5: The current account

	£ billion					
	Goods and services					
	Non-oil	Oil	Total	Transfers	Income balance[1]	Current balance
2001	-28½	5½	-23	-7¼	9¼	-21
Forecast						
2002	-24¾	5¼	-19¼	-10¼	11	-18¾
2003	-27¾	5	-22¾	-9	7¾	-24
2004	-28	4¾	-23½	-10½	8	-26
2005	-28¼	4¼	-24¼	-11	8	-27¼

[1] *Includes investment and employee income.*

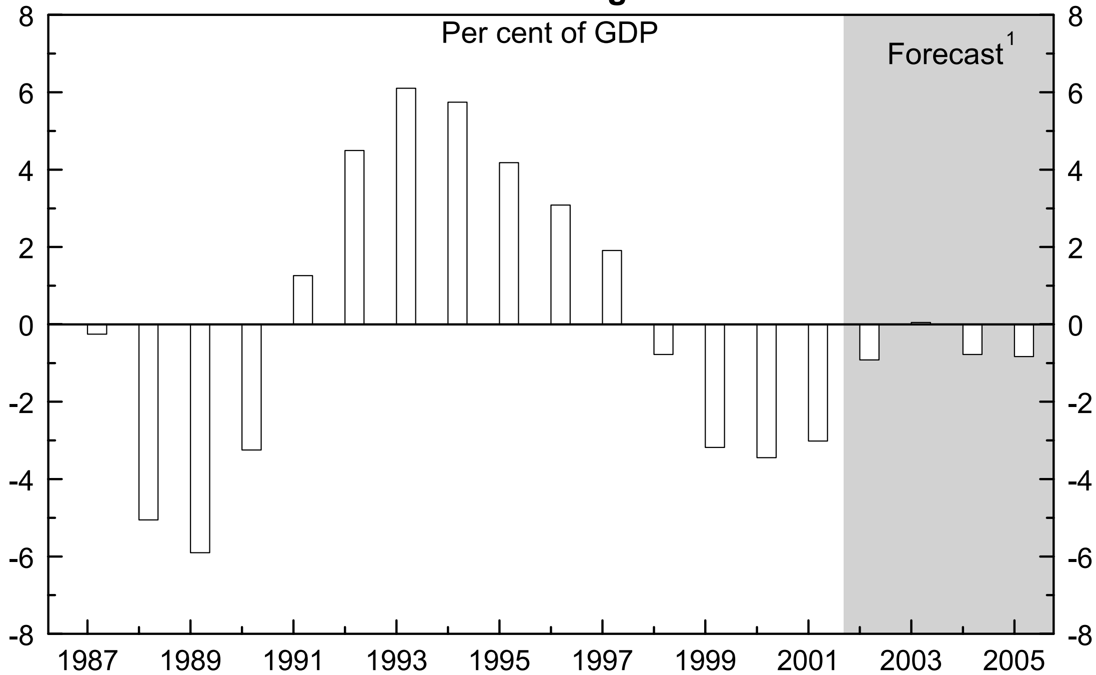
PATTERN OF NET LENDING

Chart 16a: Balance of payments current account balance[1]



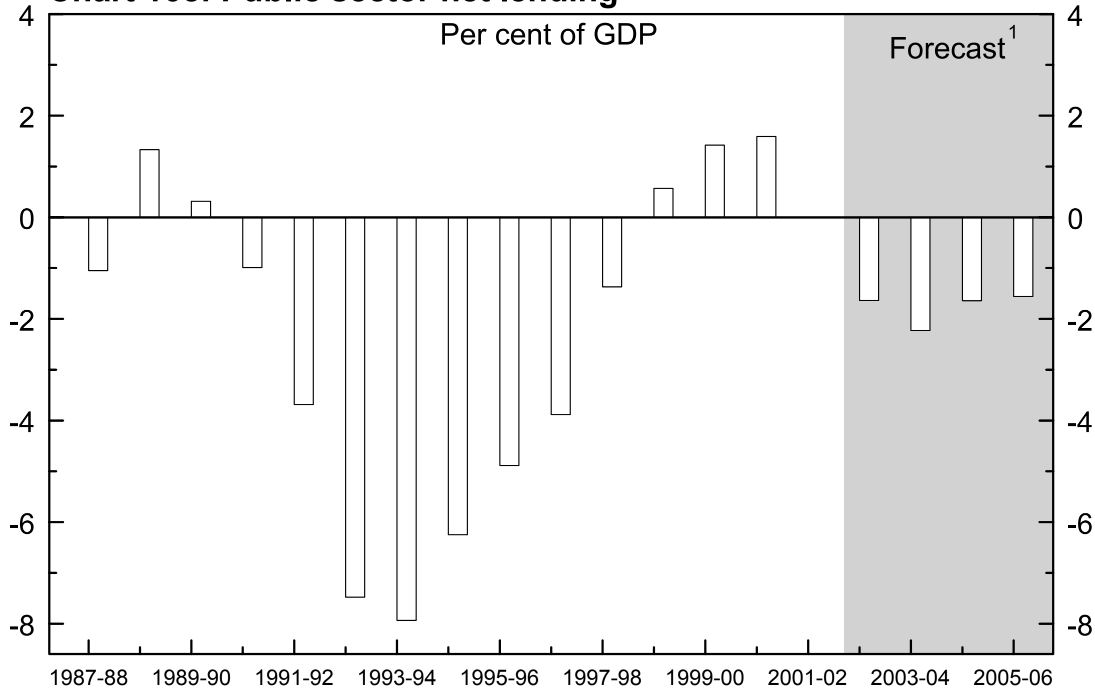
[1] *The current account balance approximately equals net lending to the rest of the world, adjusted for net capital transfers and net acquisitions of non-produced non-financial assets.*
[2] *At mid-points of forecast ranges.*

Chart 16b: Private sector net lending



[1] *At mid-points of forecast ranges.*

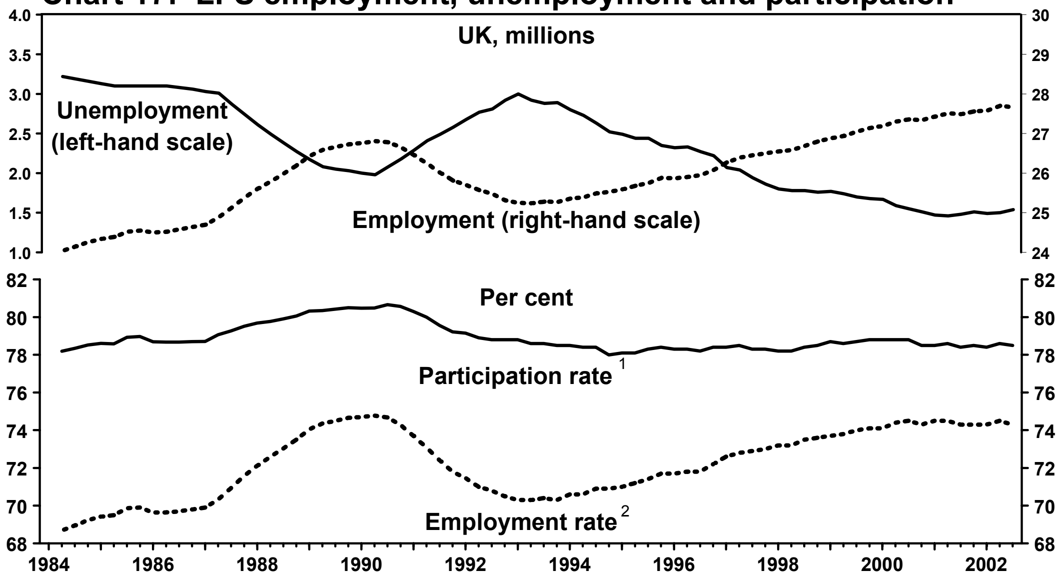
Chart 16c: Public sector net lending



[1] *At mid-points of forecast ranges.*

THE LABOUR MARKET

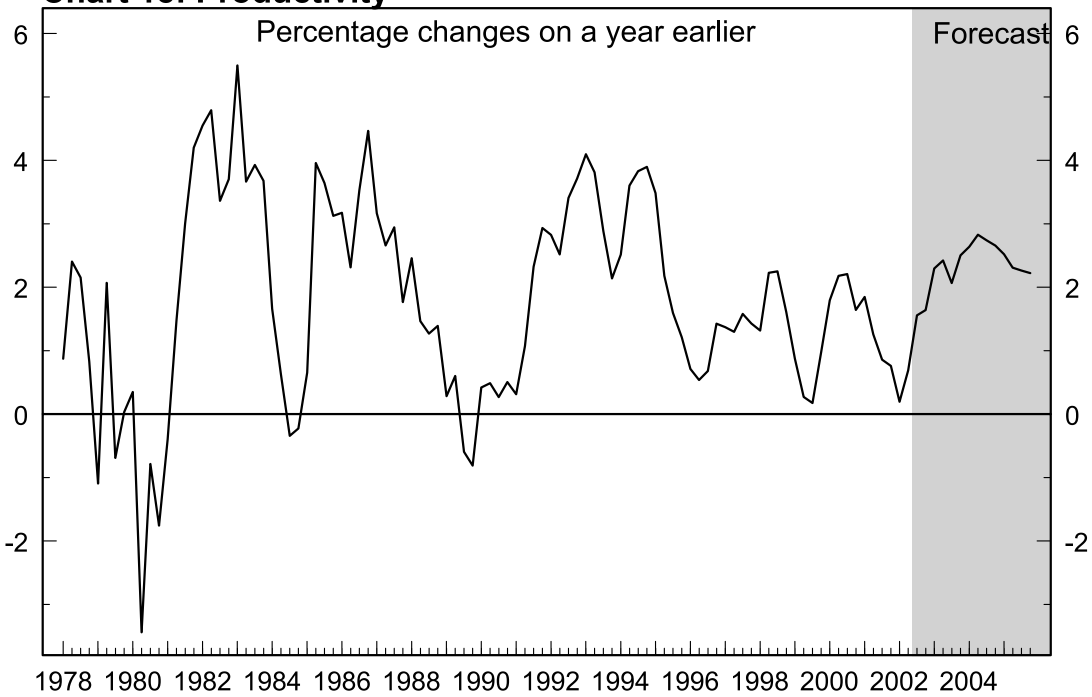
Chart 17: LFS employment, unemployment and participation



[1] *Percentage of the working-age population who are economically active (i.e. employed or unemployed).*

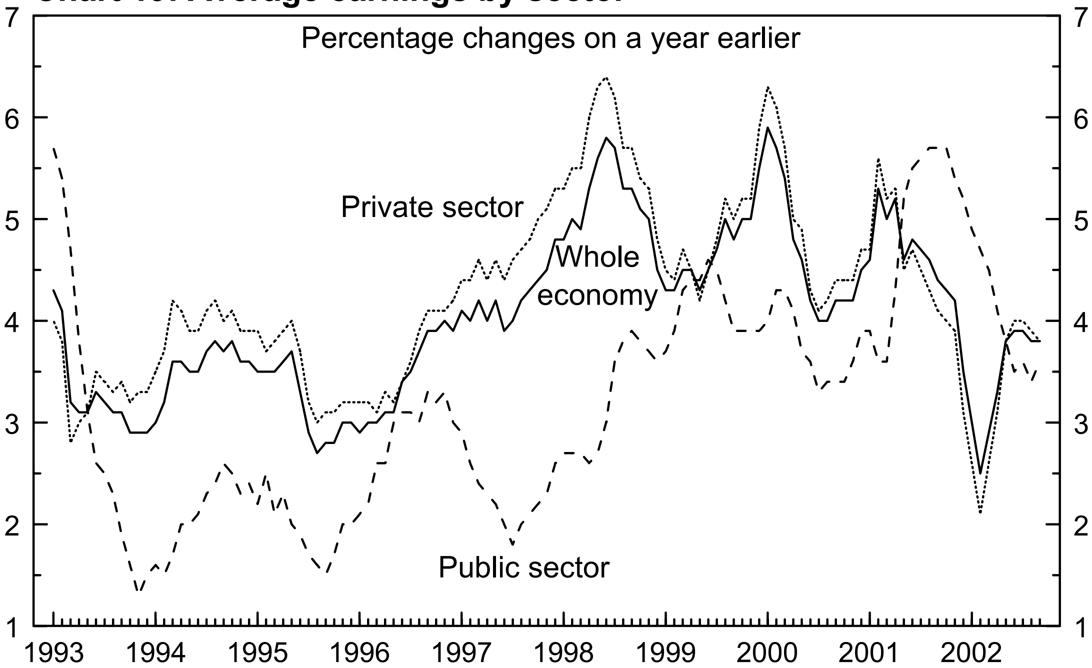
[2] *Percentage of the working-age population in employment.*

Chart 18: Productivity[1]



[1] *Estimated output (excluding North Sea oil) per workforce job.*

Chart 19: Average earnings by sector[1]



[1] *Headline rates, seasonally adjusted.*

Chart 20: Sterling effective exchange rate index

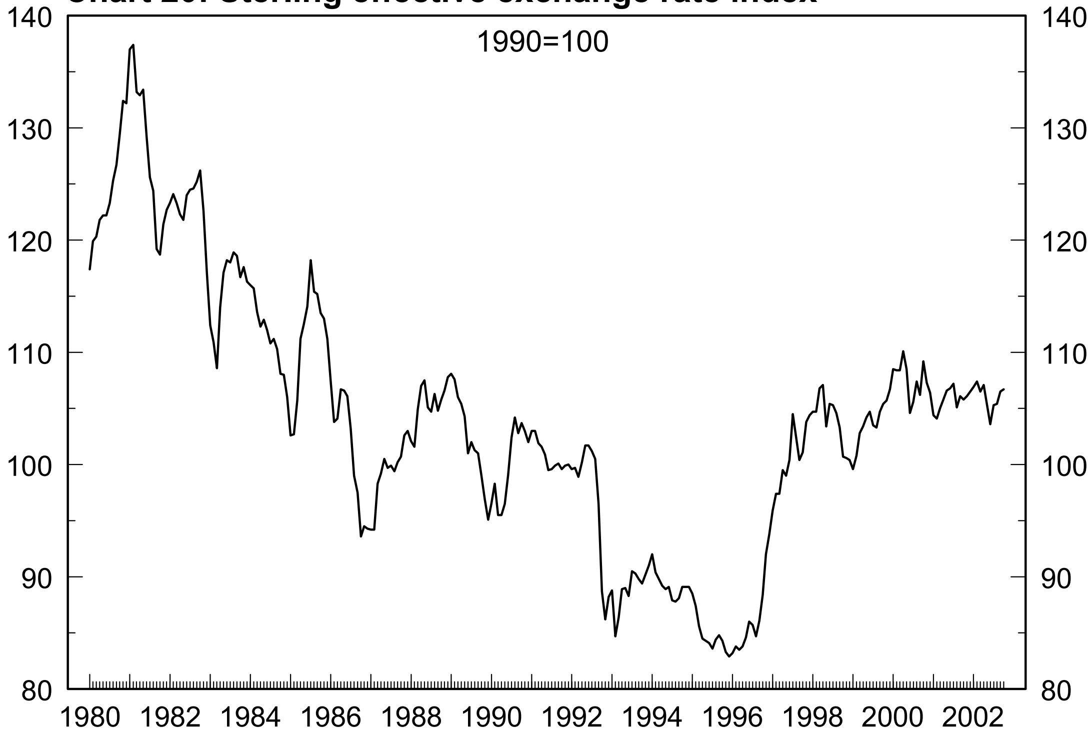


Chart 21: UK interest rates

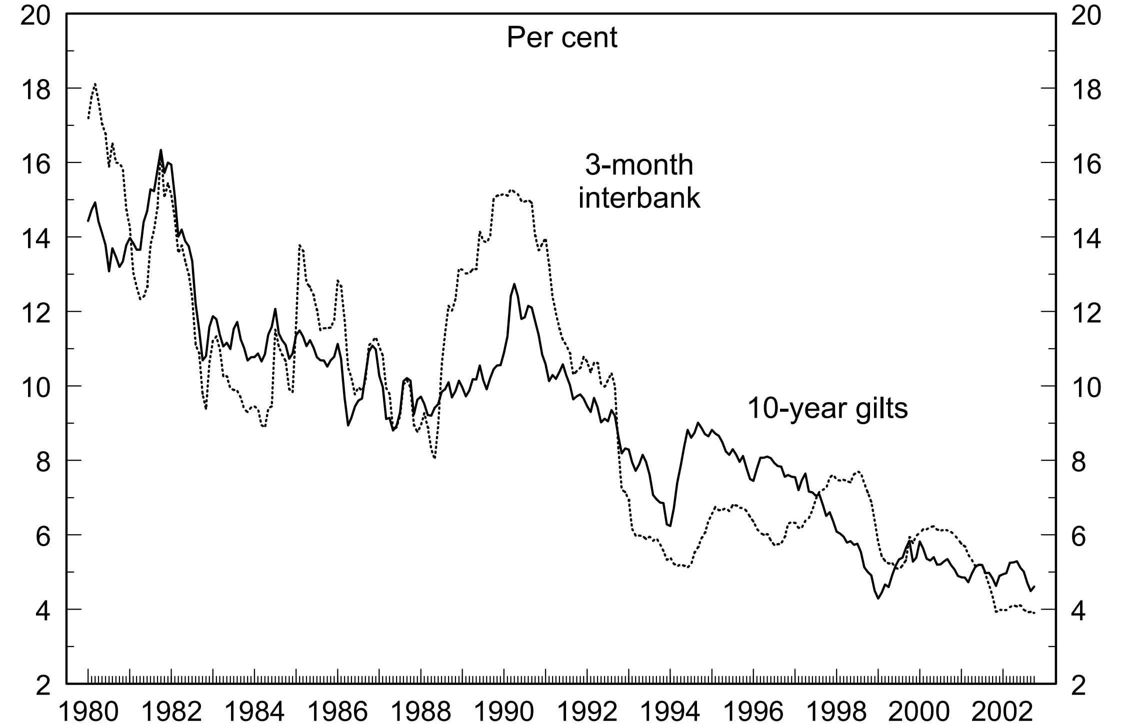
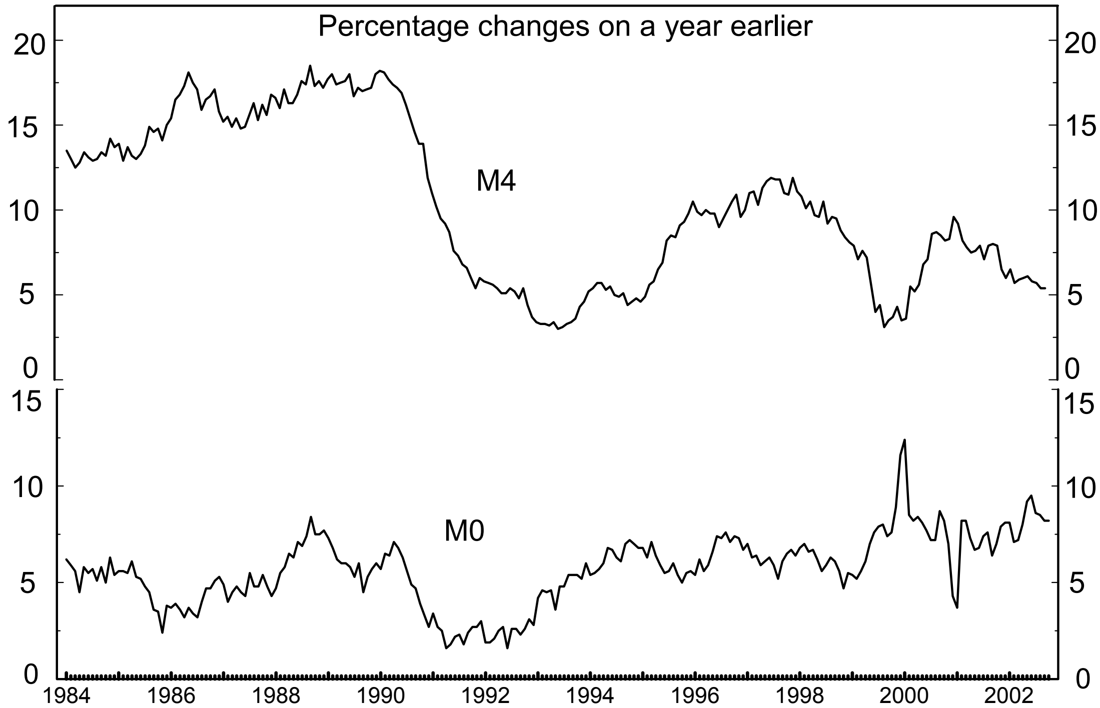
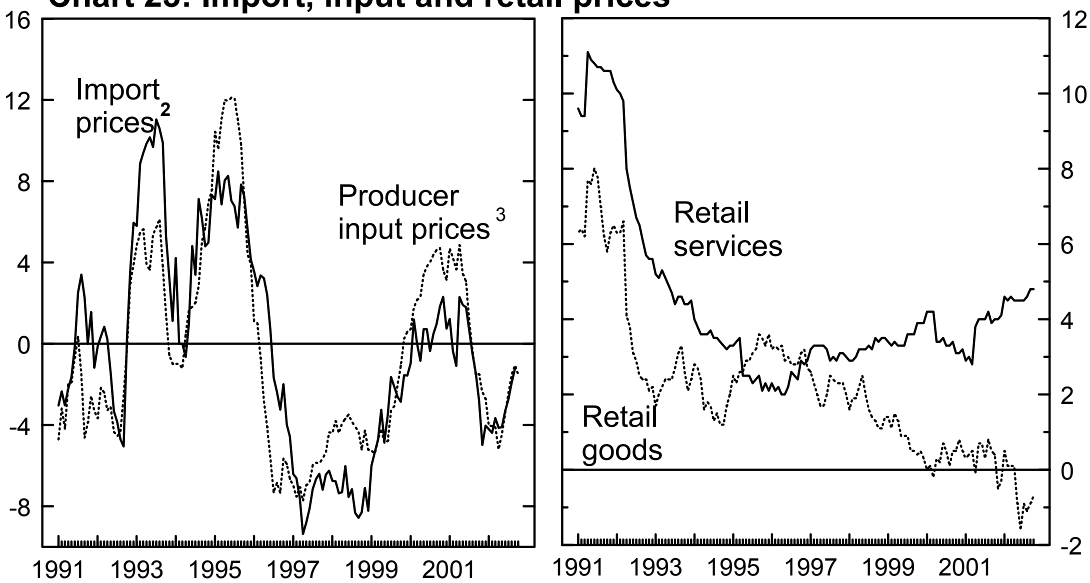


Chart 22: Monetary indicators



INFLATION

Chart 23: Import, input and retail prices[1]



[1] *Percentage changes on a year earlier.*

[2] *All goods.*

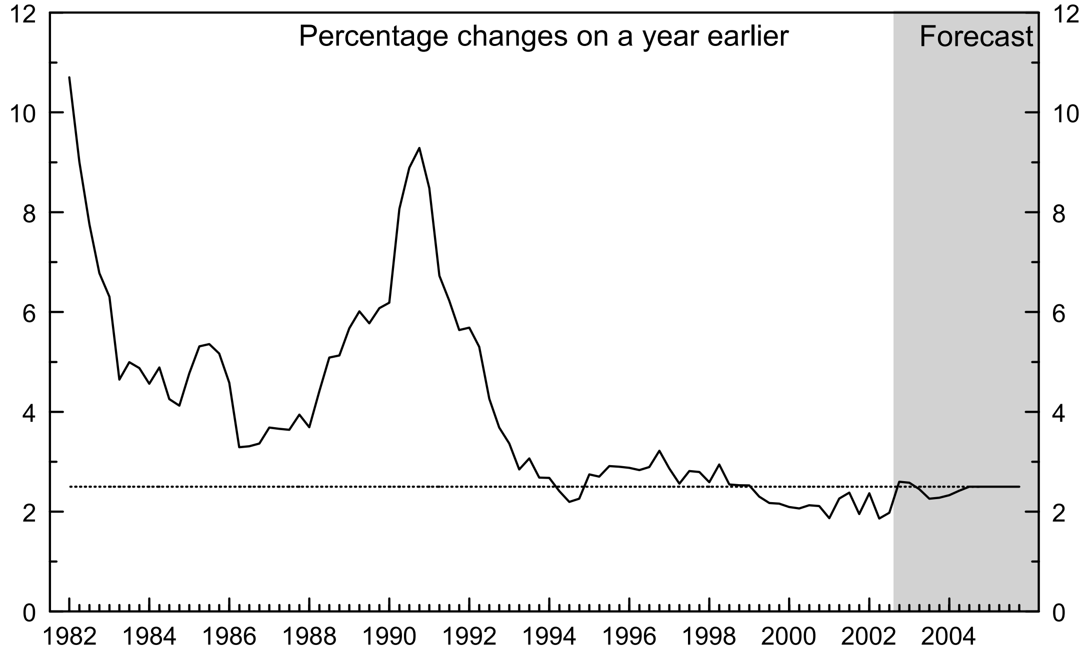
[3] *Including climate change levy, but excluding food, beverages, tobacco and petroleum.*

Table 6: Retail and producer output prices

	Percentage changes on a year earlier									
			Forecast							
	2001		2002		2003		2004		2005	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2¼	2	1¾	2½	2½	2¼	2½	2½	2½	2½
Producer output prices[1]	¾	-¼	¼	¾	1	1¾	2¼	2¼	2	2

[1]*Excludes excise duties.*

Chart 24: RPIX[1]



[1]*Outturns until 2002Q3; forecasts for every second quarter from 2002Q4 to 2005Q4.*

COMPARISON WITH INDEPENDENT FORECASTS

Table 7: Pre-Budget Report and independent[1] forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2002			2003		
		Independent			Independent	
	Pre-Budget Report	Average	Range	Pre-Budget Report	Average	Range
Gross domestic product	1½	1.6	0.6 to 2.0	2½ to 3	2.4	-0.3 to 3.1
RPIX (Q4)	2½	2.2	1.5 to 2.6	2¼	2.3	1.7 to 3.3
Current account (£ billion)	-18¾	-18.7	-24.6 to -13.3	-24	-21.5	-36.4 to -13.8

[1] *'Forecasts for the UK Economy: A Comparison of Independent Forecasts', November 2002.*

COMPARISON WITH APRIL 2002 BUDGET FORECAST

Table 8: Comparison with Budget 2002 forecast

		Percentage changes on a year earlier unless otherwise stated	
		April 2002 Budget	November 2002 Pre-Budget Report
Gross domestic product	2002	2 to 2½	1½
	2003	3 to 3½	2½ to 3
	2004	2½ to 3	3 to 3½
RPI excluding MIPs (Q4)	2002	2¼	2½
	2003	2½	2¼
	2004	2½	2½
Current account (£ billion)	2002	-25¾	-18¾
	2003	-23¾	-24
	2004	-25½	-26

SUMMARY TABLES

Table 9: Summary of economic prospects[1,2]

	Percentage changes on a year earlier unless otherwise stated					
			Forecast[3]			Average errors from past forecasts[4]
	2001	2002	2003	2004	2005	
Output at constant market prices						
Gross domestic product (GDP)	2	1½	2½ to 3	3 to 3½	2¾ to 3¼	1
Manufacturing output	-2½	-4	1¾ to 2¼	2¼ to 2¾	1¾ to 2¼	1¾
Expenditure components of GDP at constant market prices[5]						
Domestic demand	2¾	2¼	3 to 3½	3¼ to 3¾	2¾ to 3¼	1
Household consumption[6]	4	3½	2¼ to 2½	2¾ to 3¼	2¼ to 2¾	1¼
General government consumption	3	4½	3¾	3	3½	1
Fixed investment	¼	-4¼	6½ to 7	4 to 4½	4¼ to 4¾	2
Change in inventories[7]	-¾	-¼	-¼ to 0	¼	0	¼
Exports of goods and services	1¼	-1¾	3¾ to 4¼	7¾ to 8¼	6¾ to 7¼	2½
Imports of goods and services	2¾	¼	4¾ to 5	7 to 7½	6¼ to 6¾	2½
Balance of payments current account						
£ billion	-21	-18¾	-24	-26	-27¼	6¾
per cent of GDP	-2¼	-1¾	-2¼	-2¼	-2¼	¾
Inflation						
RPIX (Q4)	2	2½	2¼	2½	2½	½
Producer output prices (Q4)[8]	-¼	¾	1¾	2¼	2	1
GDP deflator at market prices	2	3	2	2½	2½	¾
Money GDP at market prices						
£ billion	988	1033	1082 to 1087	1143 to 1153	1204 to 1220	13
percentage change	4	4½	4¾ to 5¼	5½ to 6	5¼ to 5¾	1¼

[1] *The forecast is consistent with the national accounts and balance of payments statistics to the second quarter of 2002, released by the Office for National Statistics on 27 September 2002, and output, income and expenditure data for the third quarter released on 27 November.*

[2] *As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative about the supply-side performance of the economy. The mid-points of the forecast ranges are anchored around the neutral 2¾ per cent the trend rate of output growth. The figures at the low end of the ranges are consistent with the deliberately cautious assumption of 2½ per cent a trend growth used as a basis for projecting the public finances.*

[3] *The size of the growth ranges for GDP components may differ from those for total GDP growth because of rounding and the assumed invariance o the levels of public spending within the forecast ranges.*

[4] *Average absolute errors for year-ahead projections made in autumn forecasts over the past ten years. The average errors for the current account calculated as a percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2003.*

[5] *Further detail on the expenditure components of GDP is given in Table A9.*

[6] *Includes households and non-profit institutions serving households.*

[7] *Contribution to GDP growth, percentage points.*

[8] *Excluding excise duties.*

Table 10: Gross domestic product and its components

	Household consumption[1]	General government consumption	Fixed investment	Change in inventories	Domestic demand[2]	Exports of goods and services	Total final expenditure	*Less* imports of goods and services	*Plus* statistical discrepancy[3]	GDP at market prices
	£ billion at 1995 prices, seasonally adjusted									
2001	588.4	157.2	152.4	0.4	898.8	288.6	1187.4	340.8	-0.8	845.8
2002	609.4	164.2	146.1	-1.4	918.2	283.3	1201.5	341.5	-1.0	859.1
2003	622.7 to 625.3	170.4	155.6 to 156.2	-2.7 to -2.0	945.9 to 950.0	293.8 to 295.1	1239.7 to 1245.0	357.3 to 358.8	-1.0	881.5 to 885.2
2004	639.3 to 645.1	175.6	161.9 to 163.4	-0.9 to 0.7	975.9 to 984.8	316.7 to 319.6	1292.6 to 1304.4	382.6 to 386.1	-1.0	909.0 to 917.3
2005	654.4 to 663.6	181.8	168.8 to 171.1	-1.3 to 1.2	1003.6 to 1017.8	338.1 to 342.9	1341.7 to 1360.6	406.4 to 412.2	-1.0	934.4 to 947.5
2001 1st half	291.3	77.5	77.3	0.7	446.9	148.0	594.8	172.9	-0.3	421.6
2nd half	297.1	79.8	75.2	-0.4	451.9	140.6	592.6	167.9	-0.5	424.2
2002 1st half	302.2 to 302.2	81.7	72.8 to 72.8	-0.4 to -0.4	456.3 to 456.3	141.7 to 141.7	598.0 to 598.0	170.9 to 170.9	-0.5	426.6 to 426.6
2nd half	307.1 to 307.3	82.5	73.3 to 73.3	-1.0 to -1.0	461.9 to 462.1	141.5 to 141.6	603.4 to 603.7	170.5 to 170.6	-0.5	432.4 to 432.6
2003 1st half	309.5 to 310.5	84.5	77.5 to 77.8	-2.0 to -1.7	469.6 to 471.0	144.3 to 144.7	613.9 to 615.8	175.9 to 176.4	-0.5	437.5 to 438.9
2nd half	313.1 to 314.8	85.8	78.0 to 78.5	-0.7 to -0.2	476.3 to 478.9	149.5 to 150.3	625.8 to 629.2	181.4 to 182.4	-0.5	443.9 to 446.4
2004 1st half	317.5 to 320.0	87.1	80.0 to 80.7	-0.4 to 0.3	484.2 to 488.0	155.5 to 156.7	639.7 to 644.8	188.1 to 189.6	-0.5	451.1 to 454.7
2nd half	321.8 to 325.1	88.5	81.9 to 82.7	-0.5 to 0.4	491.7 to 496.8	161.2 to 162.9	652.9 to 659.7	194.5 to 196.6	-0.5	457.9 to 462.6
2005 1st half	325.4 to 329.6	89.6	83.7 to 84.7	-0.2 to 0.9	498.5 to 504.9	166.5 to 168.6	665.0 to 673.5	200.4 to 203.0	-0.5	464.1 to 470.1
2nd half	329.0 to 334.0	92.2	85.1 to 86.4	-1.1 to 0.3	505.1 to 512.9	171.6 to 174.2	676.8 to 687.1	206.0 to 209.2	-0.5	470.2 to 477.5
	Percentage changes on previous year[4,5]									
2001	4	3	¼	-¾	2¾	1¼	2¼	2¾	0	2
2002	3½	4½	-4¼	-¼	2¼	-1¾	1¼	¼	0	1½
2003	2¼ to 2½	3¾	6½ to 7	-¼ to 0	3 to 3½	3¾ to 4¼	3¼ to 3½	4¾ to 5	0	2½ to 3
2004	2¾ to 3¼	3	4 to 4½	¼	3¼ to 3¾	7¾ to 8¼	4¼ to 4¾	7 to 7½	0	3 to 3½
2005	2¼ to 2¾	3½	4¼ to 4¾	0	2¾ to 3¼	6¾ to 7¼	3¾ to 4¼	6¼ to 6¾	0	2¾ to 3¼

[1] *Includes households and non-profit institutions serving households.*
[2] *Also includes acquisitions less disposals of valuables.*
[3] *Expenditure adjustment.*
[4] *For change in inventories and the statistical discrepancy, changes are expressed as a per cent of GDP.*
[5] *Growth ranges for GDP components do not necessarily sum to the ½ percentage point ranges for GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.*

THE WORLD ECONOMY

Table 11: The world economy

	Percentage changes on a year earlier unless otherwise stated				
		Forecast			
	2001	**2002**	**2003**	**2004**	**2005**
Major 7 countries [1]					
Real GDP	½	1½	2¼	3	2¾
Consumer price inflation[2]	1½	1¾	1¼	1½	1½
World trade in goods and services	½	2	5½	8¾	7½
UK export markets[3]	1	1½	5	8	6½

[1] *G7: US, Japan, Germany, France, UK, Italy and Canada.*
[2] *Per cent, Q4. For UK, RPIX.*
[3] *Other countries' imports of goods and services weighted according to their importance in UK exports.*

Table 12: Consensus forecasts for GDP growth in major economies[1]

	Percentage changes on previous year			
	April 2002		November 2002	
	2002	**2003**	**2002**	**2003**
GDP				
USA	2.6	3.5	2.3	2.7
Euro-area	1.3	2.7	0.8	1.7
Japan	-1.1	1.1	-0.9	0.8

[1] *'Consensus forecasts', Consensus Economics Inc.*

Chart 25: G7 GDP and world trade

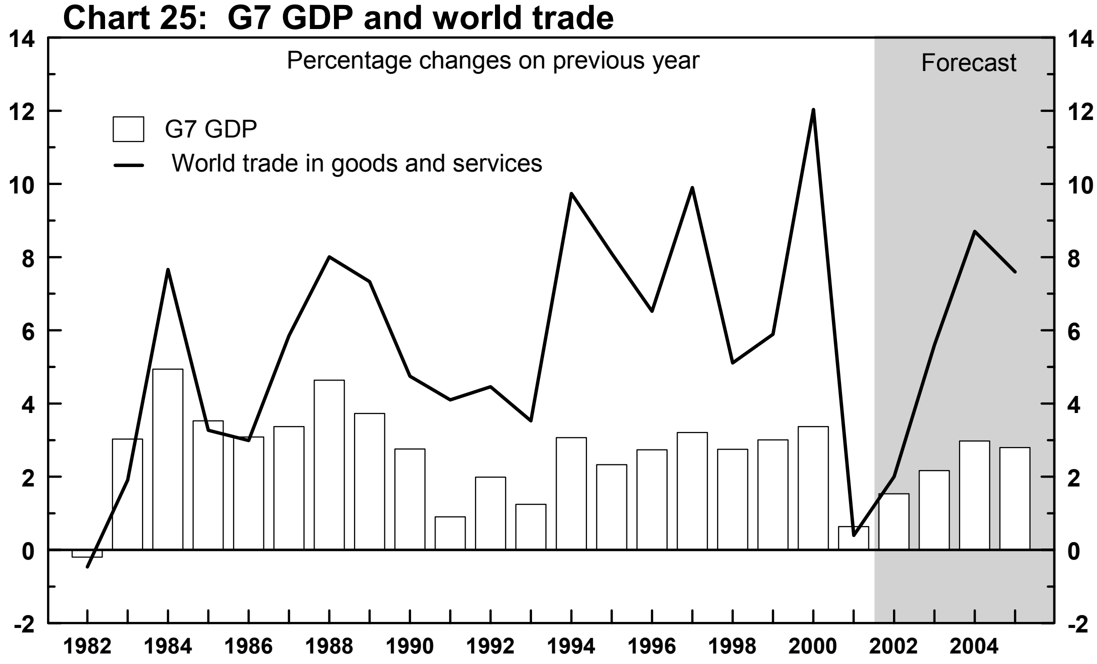
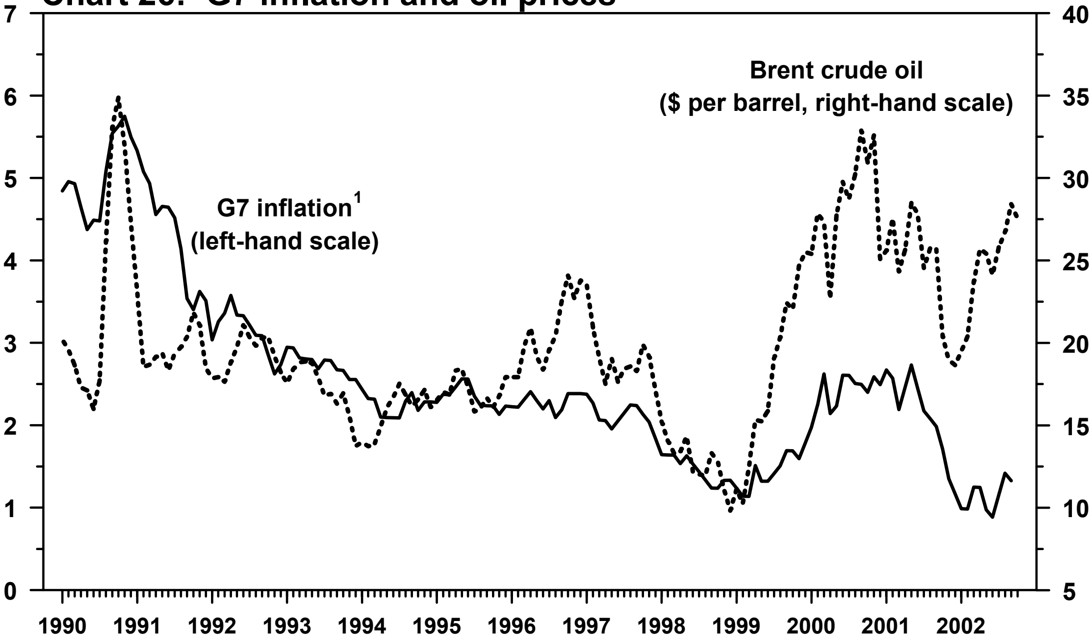


Chart 26: G7 inflation and oil prices



[1] *Consumer price index, percentage change on a year earlier.*