

# **The economy: supplementary charts and tables**

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March 2005



HM TREASURY





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# The economy: supplementary charts and tables

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# The Economy

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 16 March 2005, includes a discussion of economic developments and prospects (Chapter B). The present document reproduces charts and tables contained in Chapter B, and also includes additional information in the form of more detailed charts and tables. The charts and tables are consistent with output, income and expenditure data to the fourth quarter of 2004, released by the Office for National Statistics on 25 February 2005. The release also contained revisions to earlier quarters of 2004, which the Treasury has carried through to certain other national accounts series that the ONS have not yet revised, in particular sectoral saving and borrowing. A fully consistent national accounts dataset for 2004 will be published by the ONS on 23 March 2005.

**Forecast ranges** As in the 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 economy. The forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Chapter B of the FSBR.

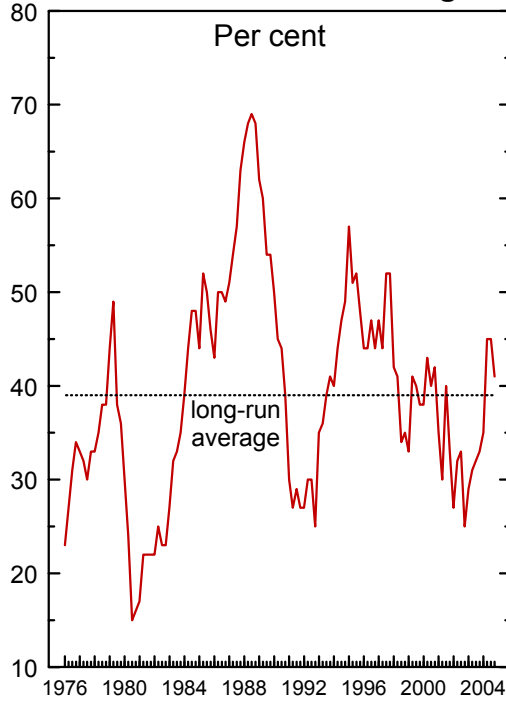
The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of  $2\frac{3}{4}$  per cent a year from the start of the fourth quarter of 2001. Details of this neutral assumption are set out in Table B2 of the FSBR and the accompanying text. A paper published by the Treasury alongside Budget 2002<sup>1</sup> discussed the Treasury's approach to trend growth and gives a detailed assessment of the neutral rate to be used for economic forecasts. 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 Chapter C of the FSBR) are based on the lower ends of the economic forecast ranges, which are consistent with a deliberately cautious assumption of annual trend output growth  $\frac{1}{4}$  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 the Government's policies to raise productivity growth and to increase employment opportunity.

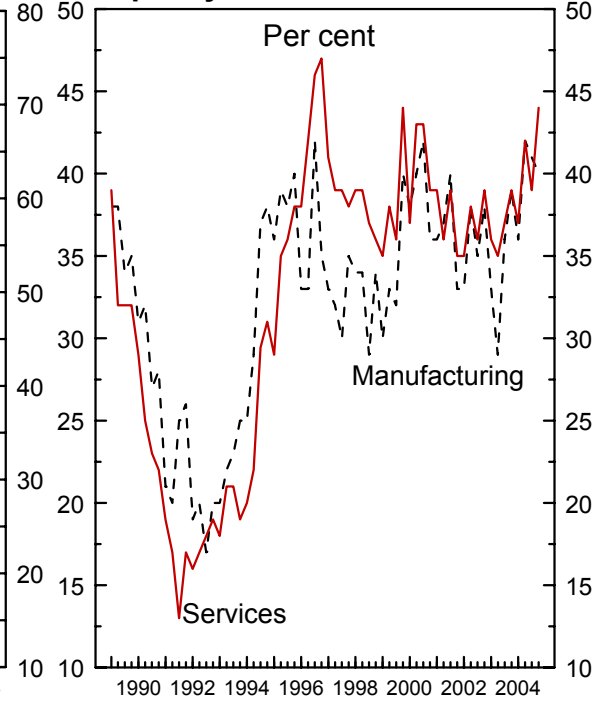
<sup>1</sup> *Trend Growth: Recent Evidence and Prospects*, HM Treasury, April 2002.

**THE DEGREE OF SPARE CAPACITY**

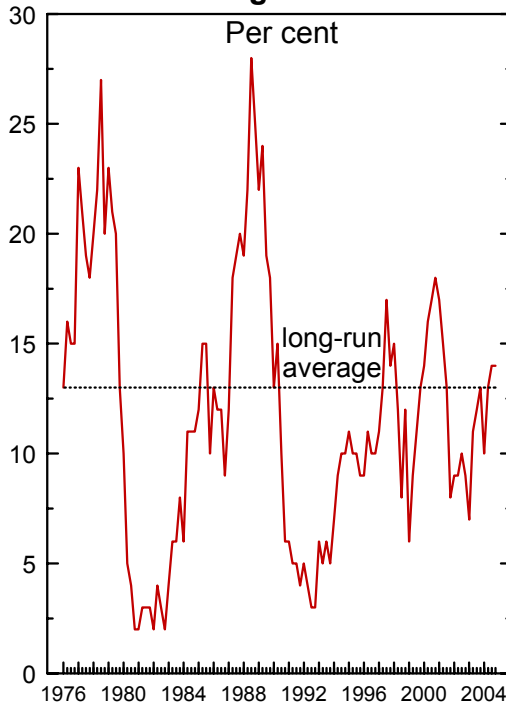
**Chart 1a: CBI capacity utilisation in manufacturing**



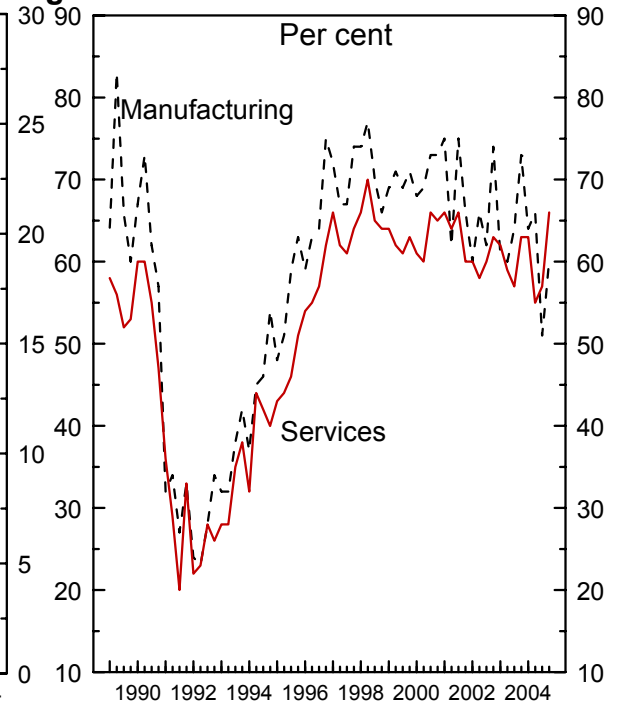
**Chart 1b: BCC survey of capacity utilisation**

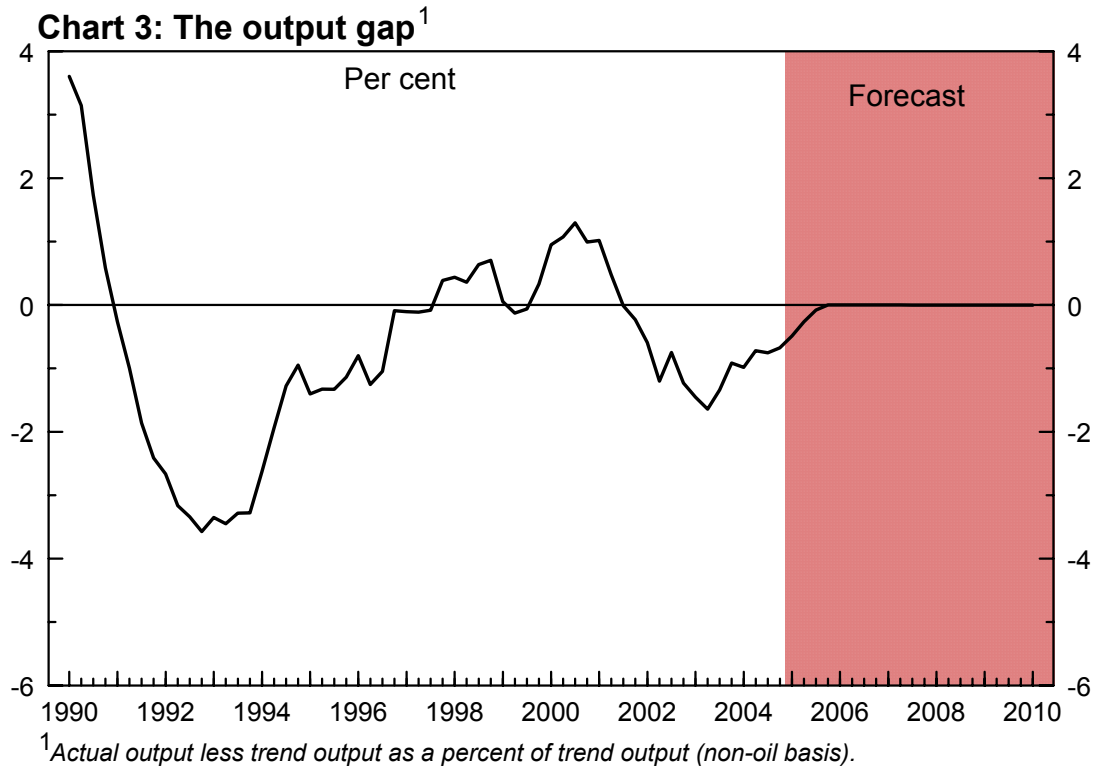


**Chart 2a: CBI survey of skilled labour shortages in manufacturing**

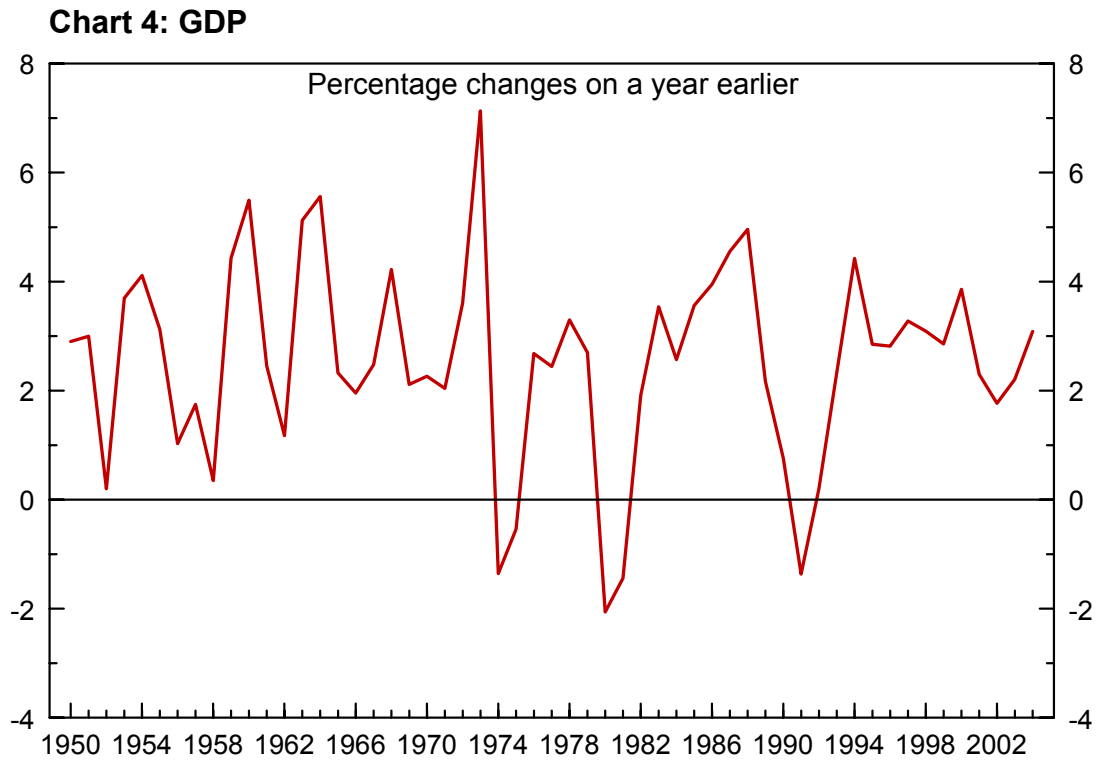


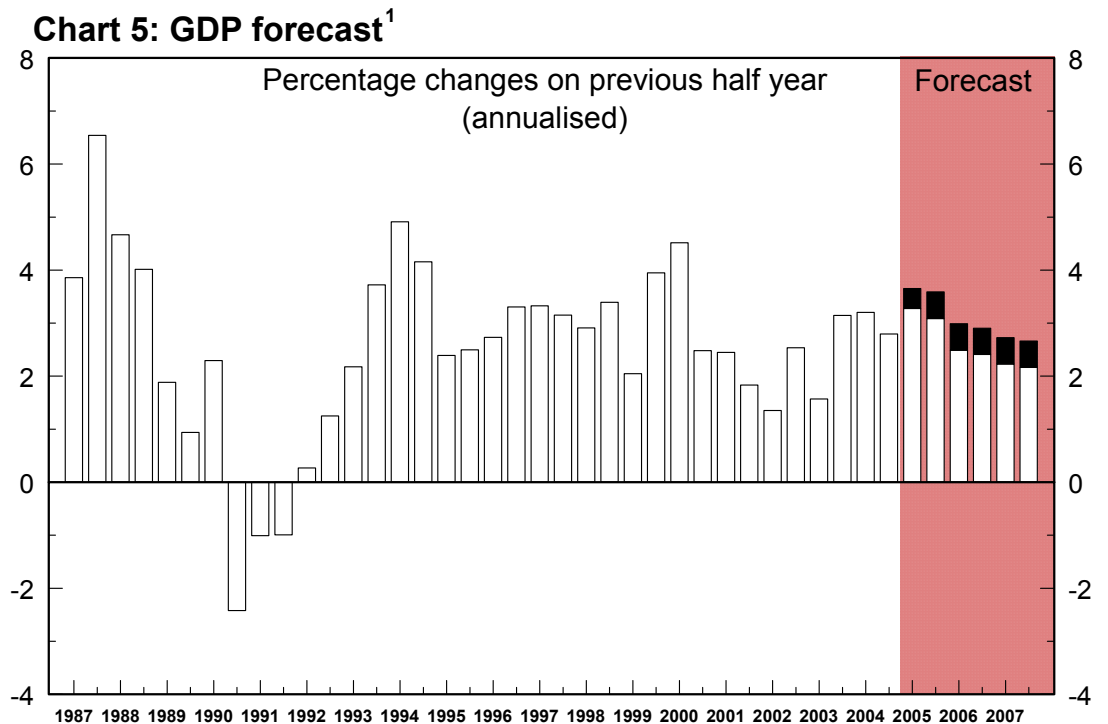
**Chart 2b: BCC survey of recruitment difficulties**





**GROSS DOMESTIC PRODUCT (GDP)**





<sup>1</sup>Darker areas on bars represent forecast ranges.

**Table 1: Contributions to GDP growth<sup>1,2</sup>**

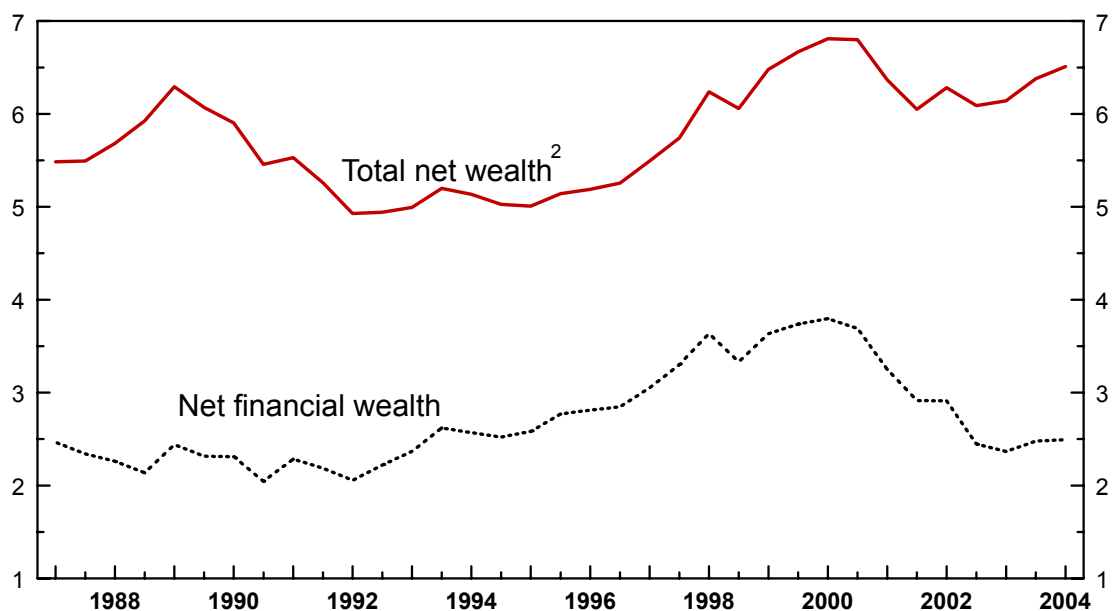
	Percentage points, unless otherwise stated			
	2004	Forecast		
		2005	2006	2007
Private Consumption	2	1¾	1½	1½
Business investment	½	½	½	¼
Government	1	1	¾	¾
Change in inventories	-¼	¼	0	0
Net trade	-1	-¼	0	0
<b>GDP growth, per cent</b>	<b>3</b>	<b>3¼</b>	<b>2¾</b>	<b>2½</b>

<sup>1</sup>Components may not sum to total due to rounding and omission of private residential investment, transfer costs of land and existing buildings and the statistical discrepancy. Rounding contributes over half of the difference in 2004.

<sup>2</sup>Based on central case. For the purpose of public finance projections, forecasts are based on the bottom of the forecast GDP range.

THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios<sup>1</sup>



<sup>1</sup> Semi-annual

<sup>2</sup> Includes tangible (mainly housing) wealth. 2004 = part forecast.

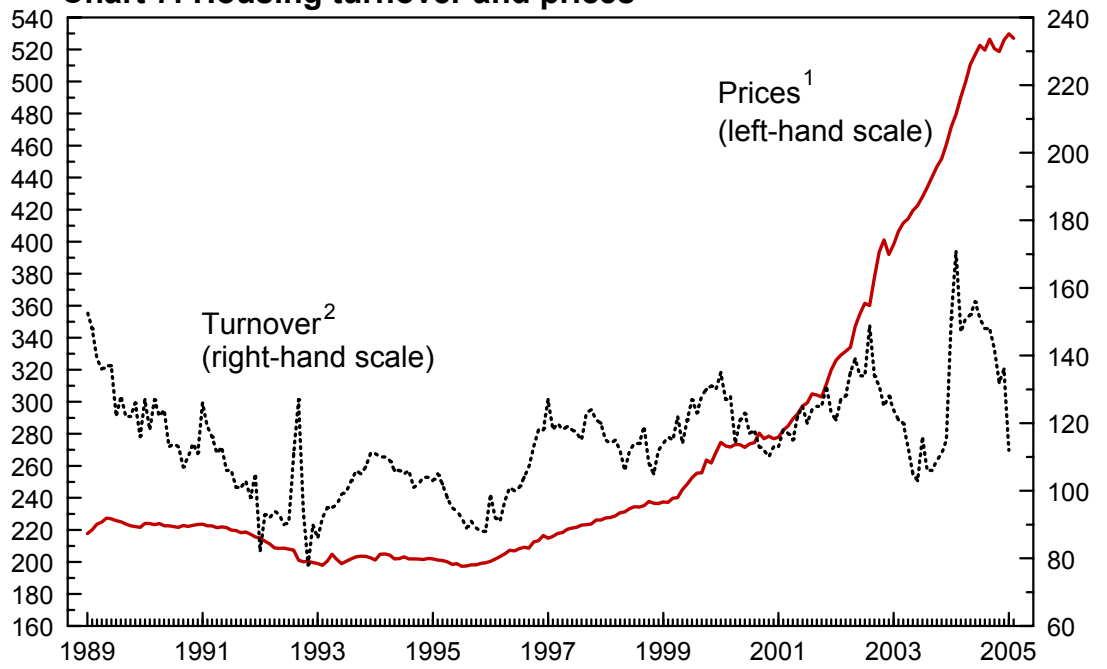
Table 2: Household sector<sup>1</sup> expenditure and income

	Percentage changes on previous year, unless otherwise stated			
	2004	Forecast		
		2005	2006	2007
Household consumption <sup>2</sup>	3¼	2¼ to 2¾	2 to 2½	2 to 2½
Real household disposable income	3	2¼ to 2½	1¾ to 2¼	1¾ to 2¼
Saving ratio (level, per cent)	5½	5¾	5¾	5¾

<sup>1</sup> Including non-profit institutions serving households.

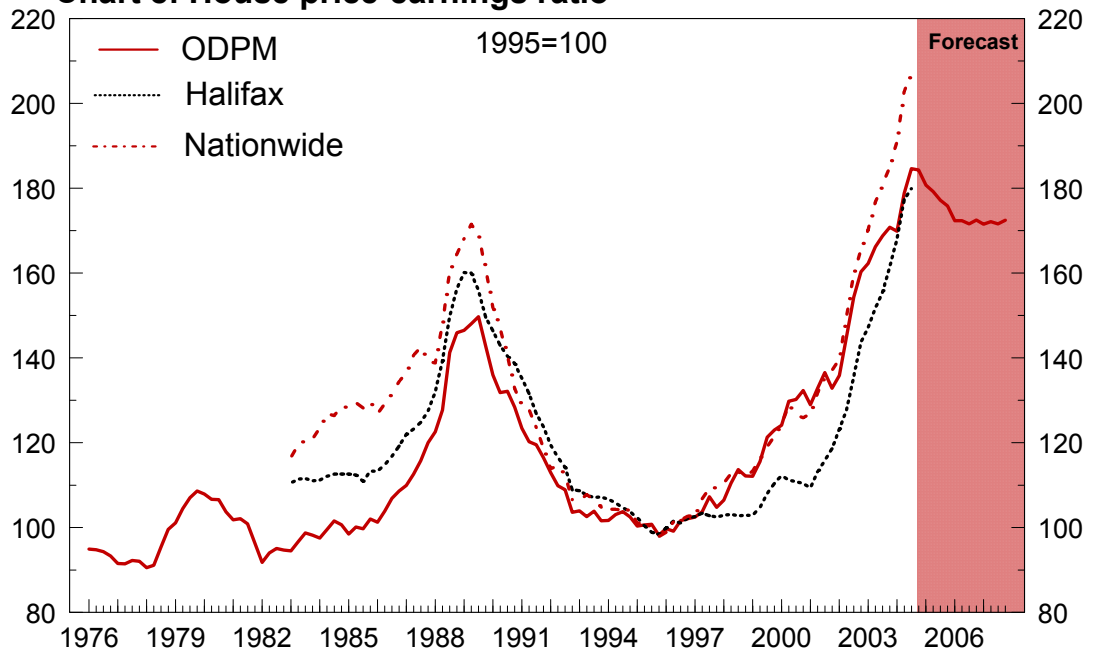
<sup>2</sup> Chained volume measures.

Chart 7: Housing turnover and prices

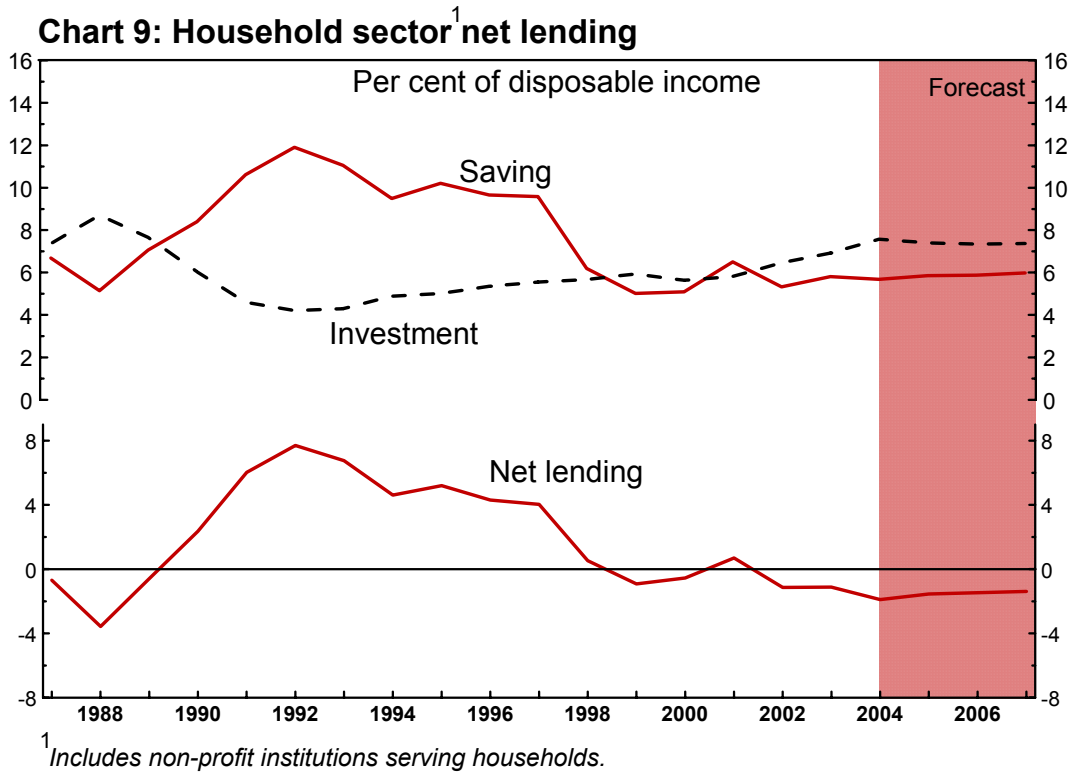


<sup>1</sup> Halifax index, 1983=100.  
<sup>2</sup> Property Transactions, thousands.

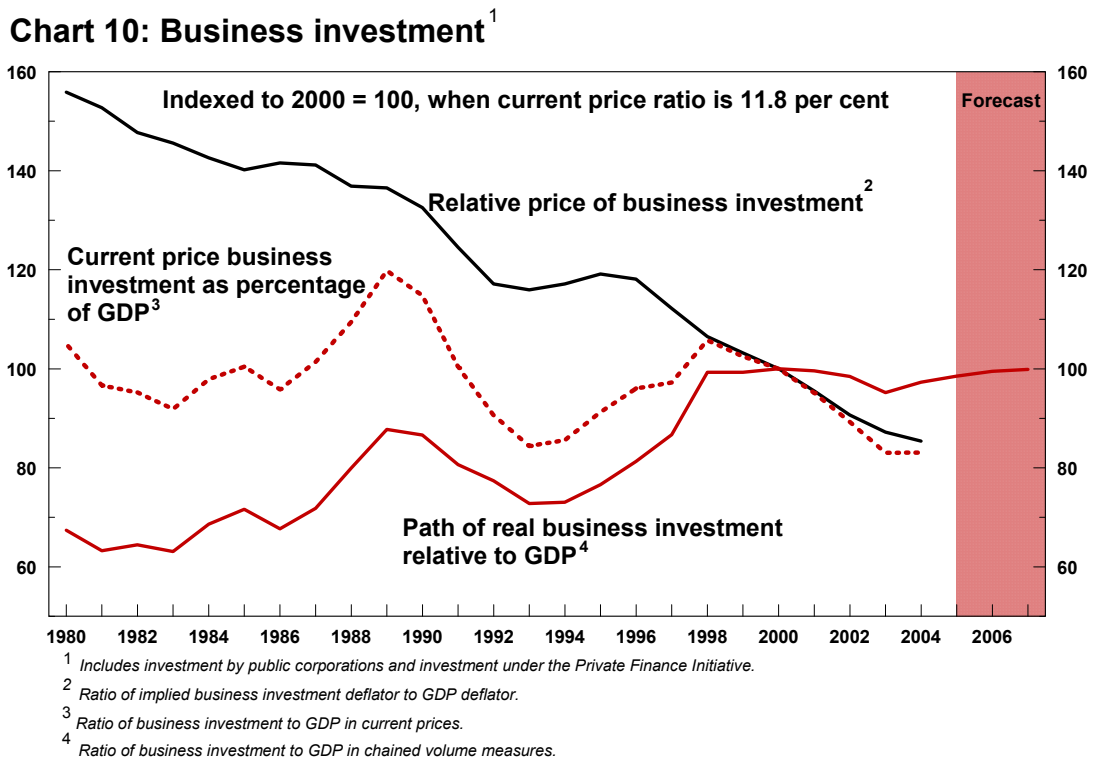
Chart 8: House price-earnings ratio<sup>1</sup>



<sup>1</sup> Ratio of ODPM/Halifax/Nationwide house prices to wages and salaries per employee.



**INVESTMENT**



**Table 3: Gross fixed capital formation**

	Percentage changes on previous year			
	2004	Forecast		
		2005	2006	2007
Whole economy <sup>1</sup>	6	6 to 6¼	4 to 4½	2¾ to 3¼
of which:				
Business <sup>2,3</sup>	5¼	4¼ to 4¾	3½ to 4¼	2½ to 3¼
Private dwellings <sup>3</sup>	8¾	2¼ to 2¾	1¼ to 1¾	1½ to 2
General government <sup>3</sup>	3¾	22¾	11½	5¼

<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

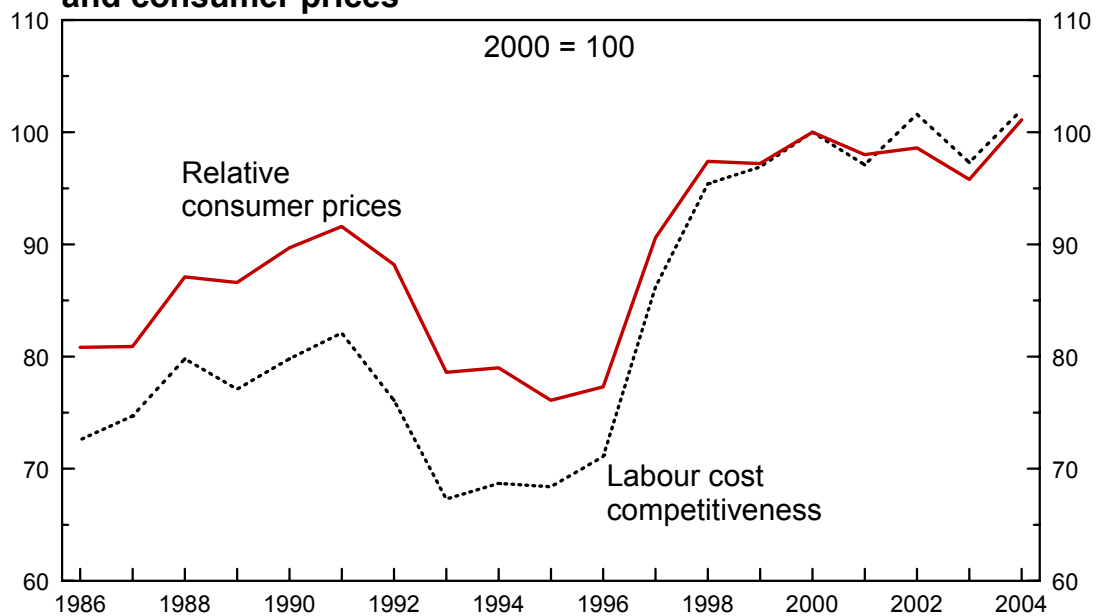
<sup>2</sup> Private sector and public corporations' non-residential investment.

Includes investment under the Private Finance Initiative.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

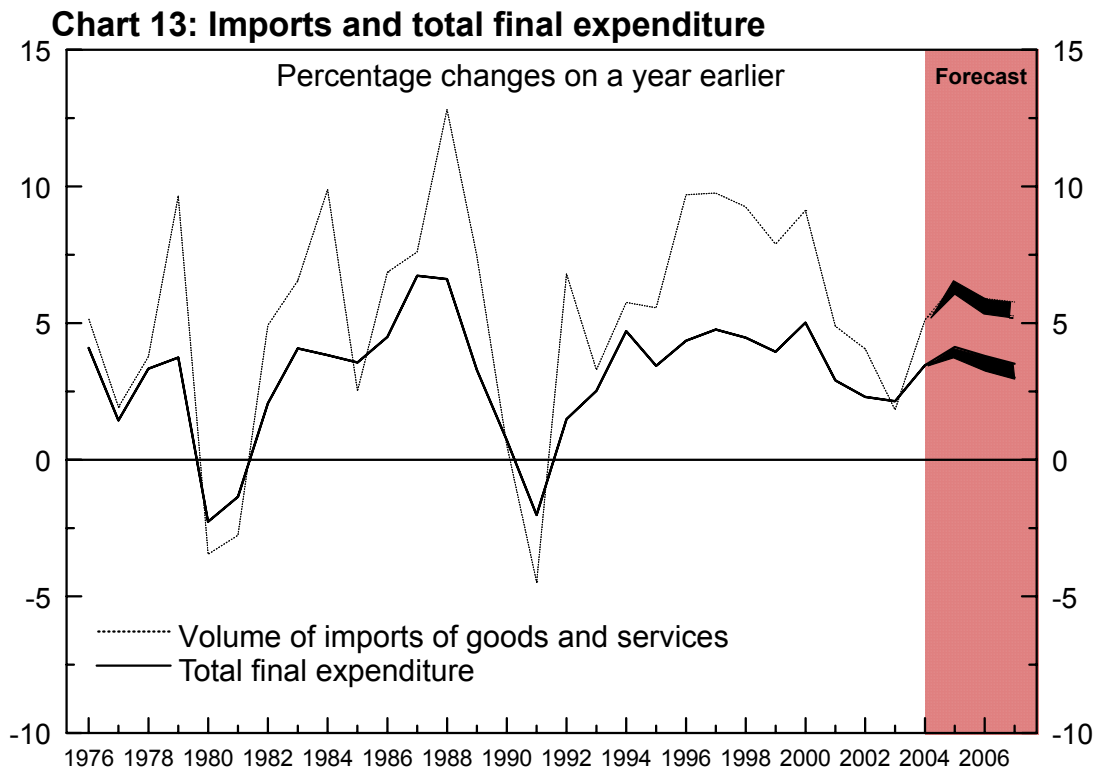
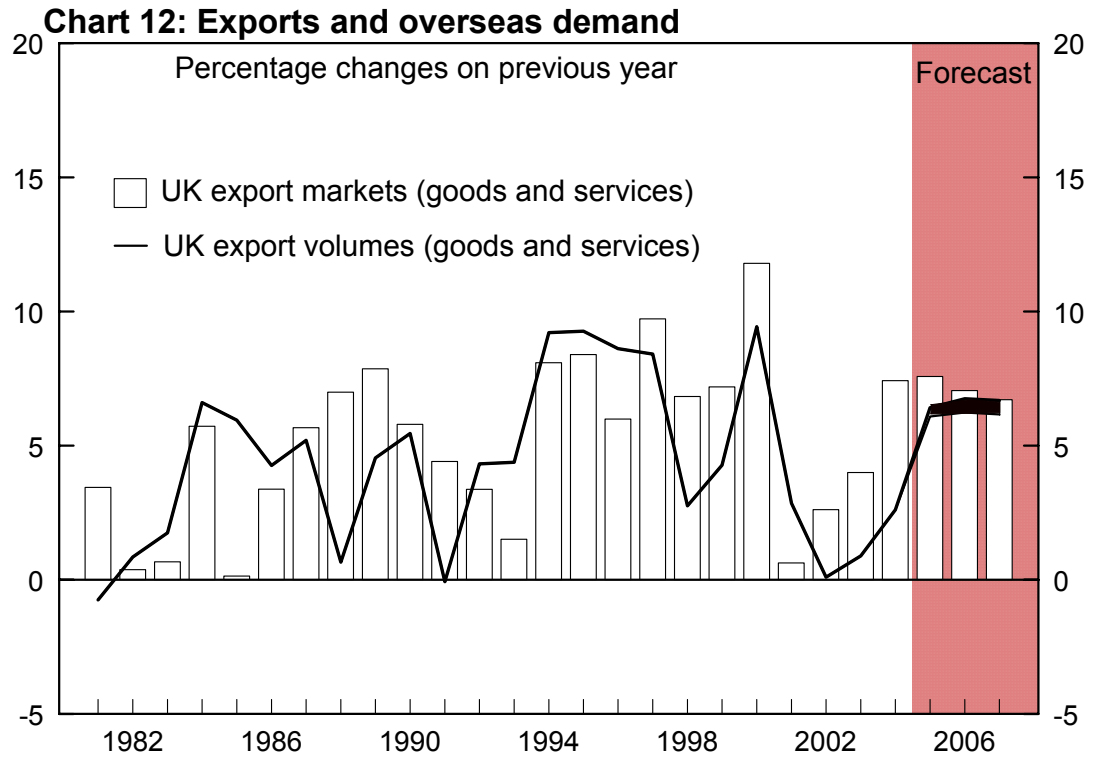
**TRADE AND THE BALANCE OF PAYMENTS**

**Chart 11: Competitive positions: Relative unit labour costs<sup>1</sup> and consumer prices**



<sup>1</sup> Relating to trade in manufactures. A fall means competitiveness has improved.

Source: OECD Economic Outlook 76, 2004/2 (30/11/04).



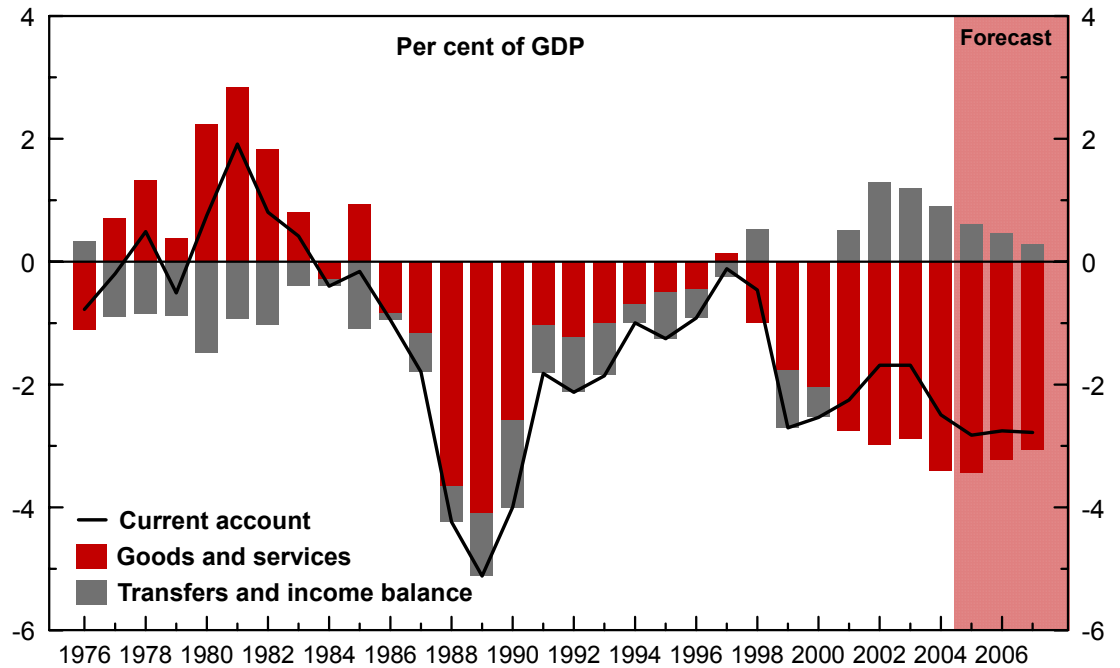
**Table 4: Trade in goods and services**

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices <sup>1</sup>		Terms of trade <sup>2</sup>	
	Exports	Imports	Exports	Imports		
2004	2½	5	-½	-¾	¼	-39½
<i>Forecast</i>						
2005	6 to 6½	6 to 6½	1	1	0	-42
2006	6¼ to 6¾	5½ to 6	2¼	2	¼	-41¾
2007	6¼ to 6¾	5¼ to 5¾	1½	1½	0	-41¾

<sup>1</sup>Average value indices.

<sup>2</sup>Ratio of export to import prices.

**Chart 14: Balance of payments current account**

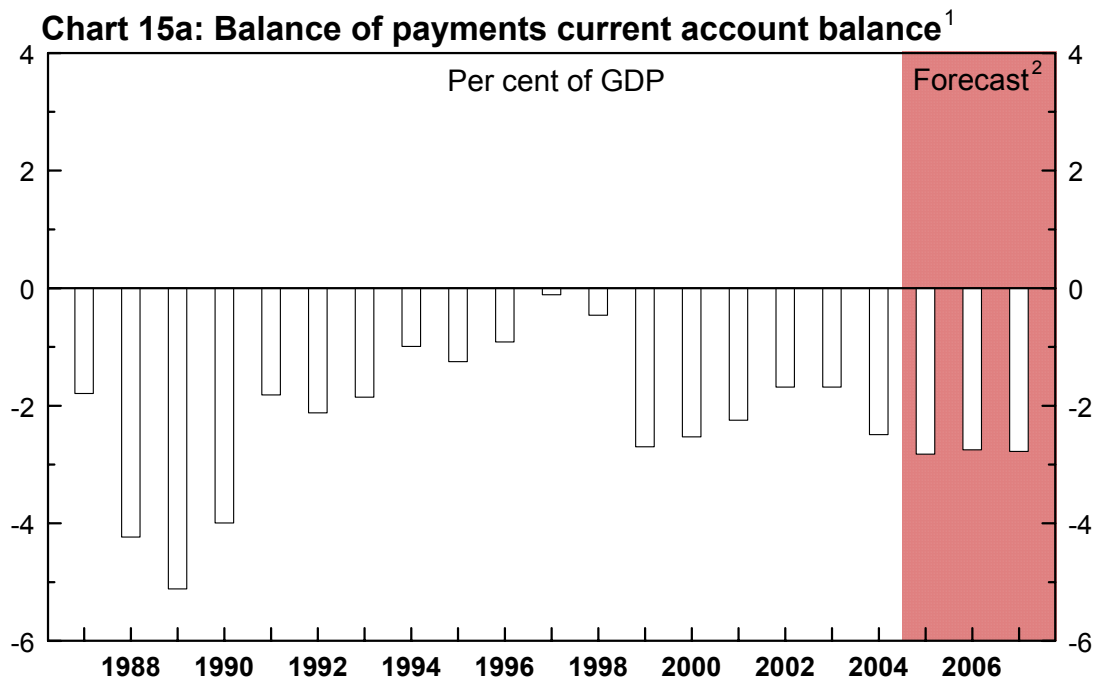


**Table 5: The current account**

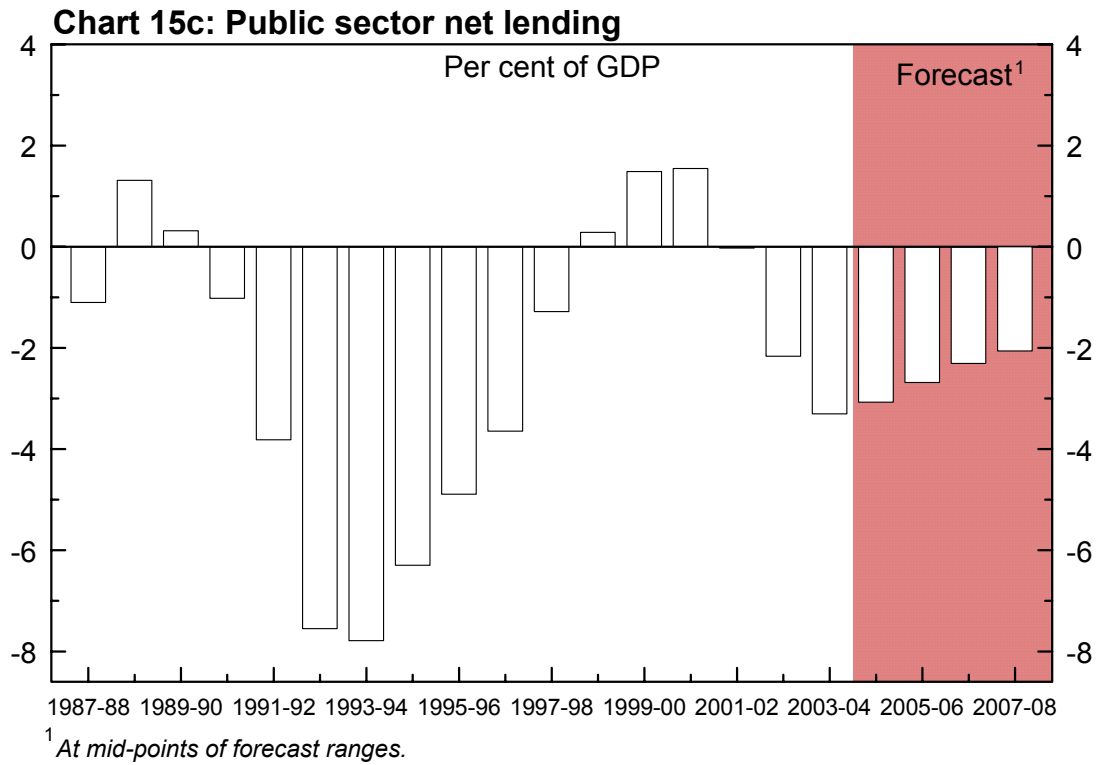
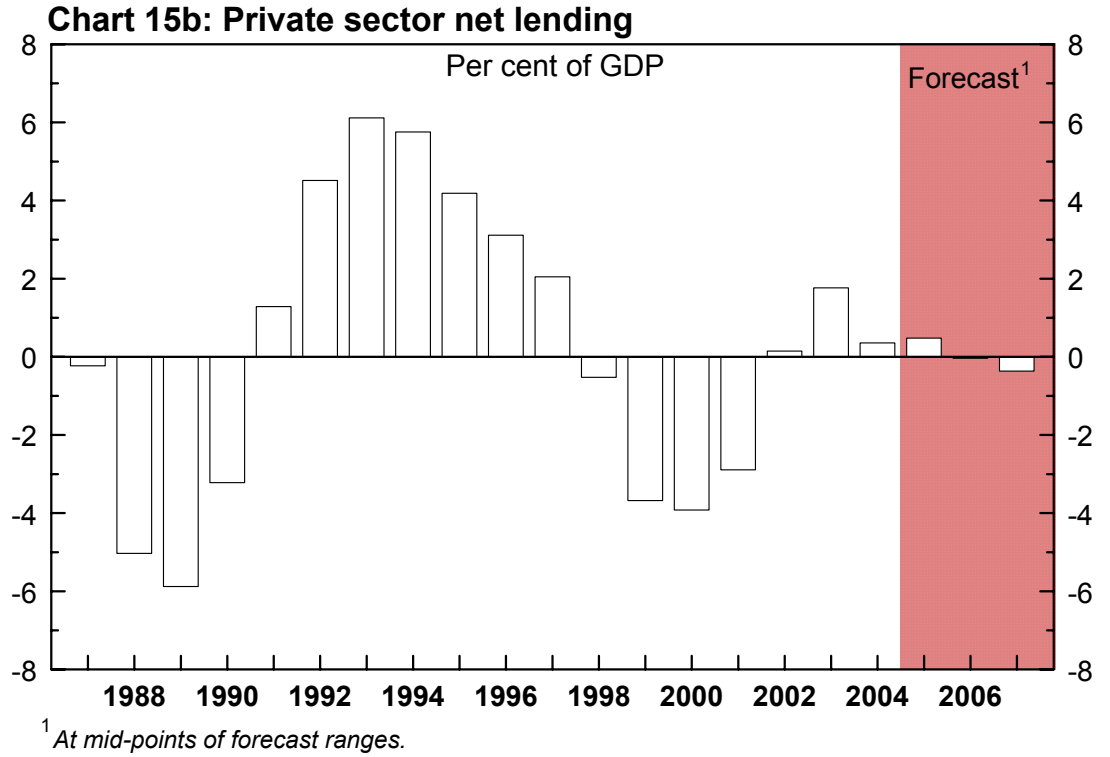
	£ billion					
	Goods and services			Transfers	Income balance <sup>1</sup>	Current balance
	Non-oil	Oil	Total			
2004	-41½	2	-39½	-11¼	22¼	-29
<i>Forecast</i>						
2005	-44½	2½	-42	-12¼	19¾	-34½
2006	-43¾	2	-41¾	-13¼	19¼	-35¾
2007	-43½	1½	-41¾	-14	18	-37¾

<sup>1</sup>Includes investment and employee income.

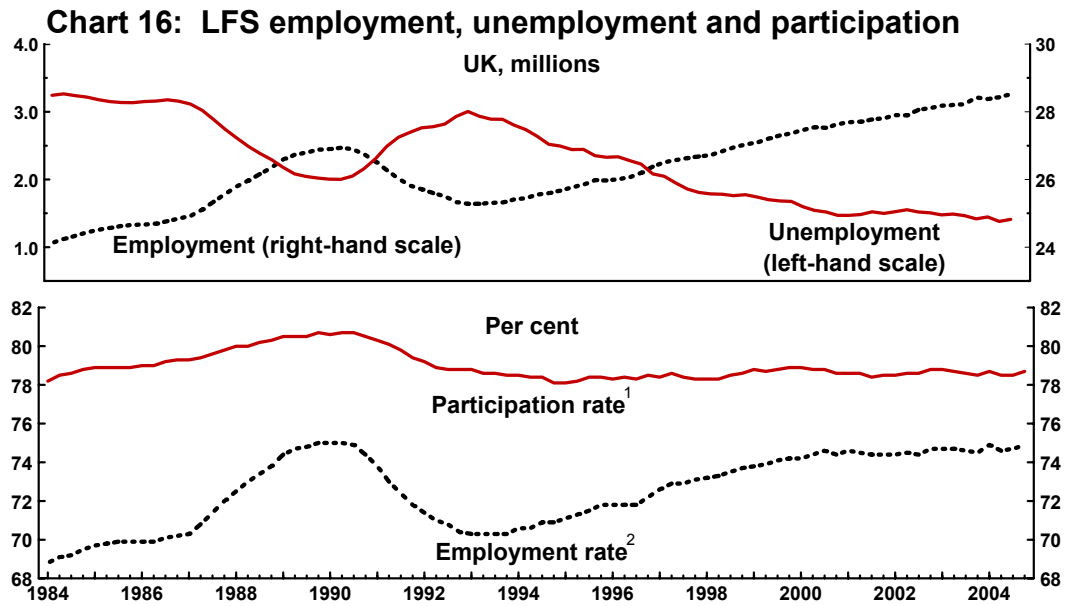
**PATTERN OF NET LENDING**



<sup>1</sup> 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.  
<sup>2</sup> At mid-points of forecast ranges.



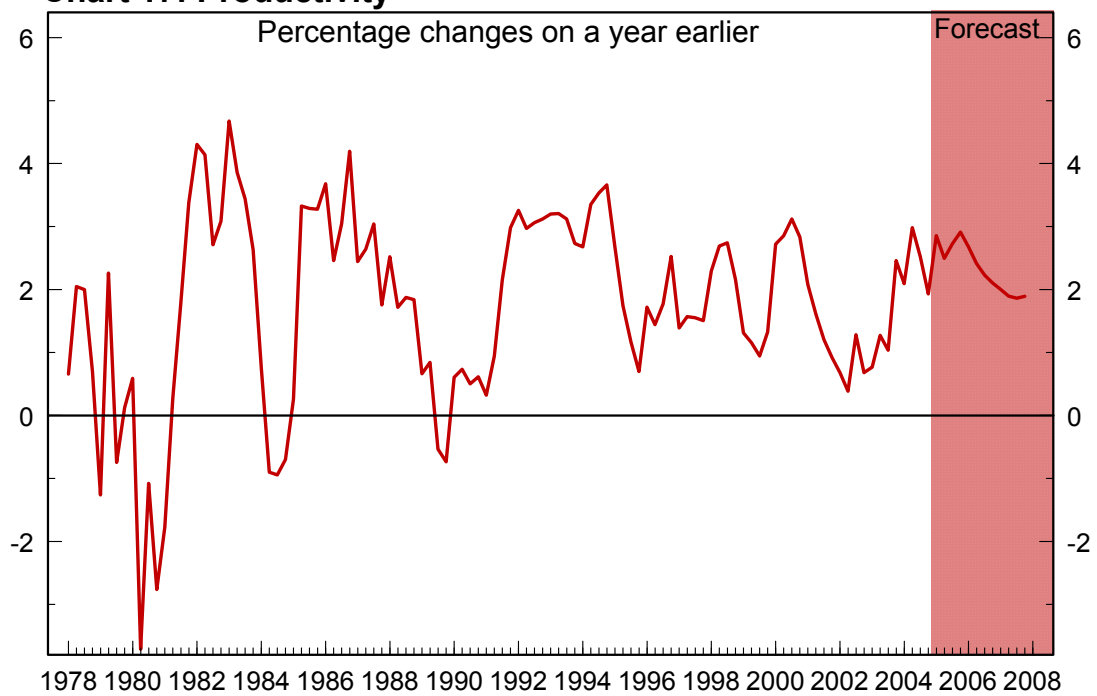
THE LABOUR MARKET



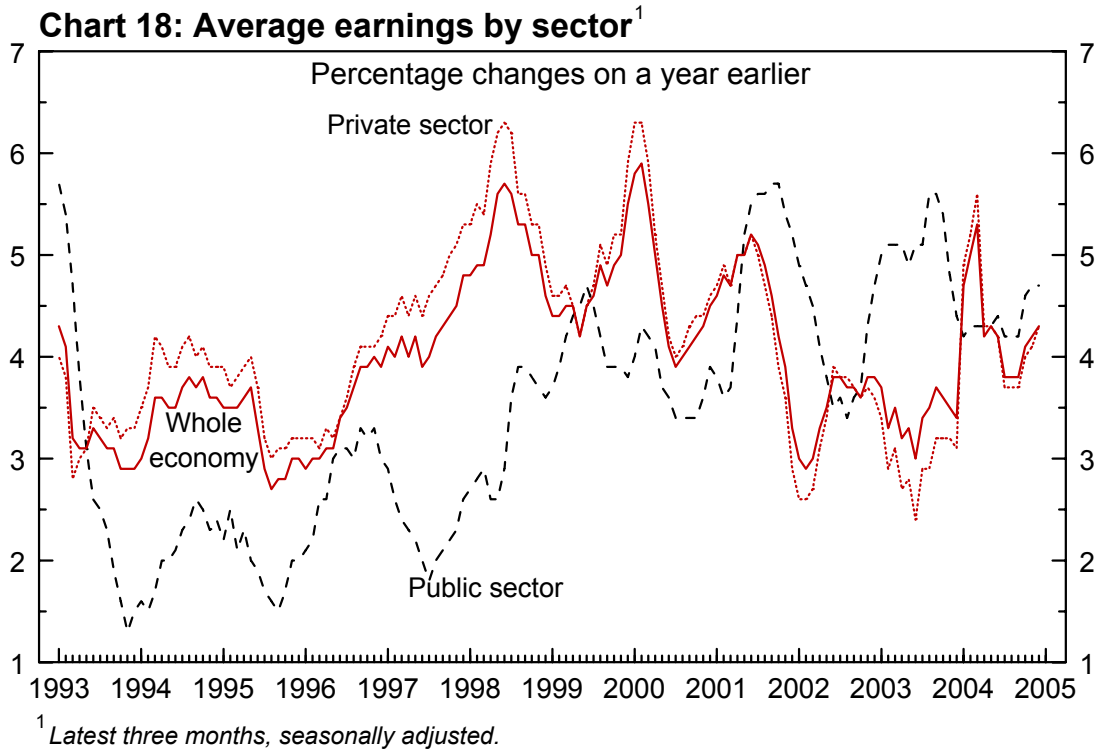
<sup>1</sup> Percentage of the working-age population who are economically active (i.e. employed or unemployed).

<sup>2</sup> Percentage of the working-age population in employment.

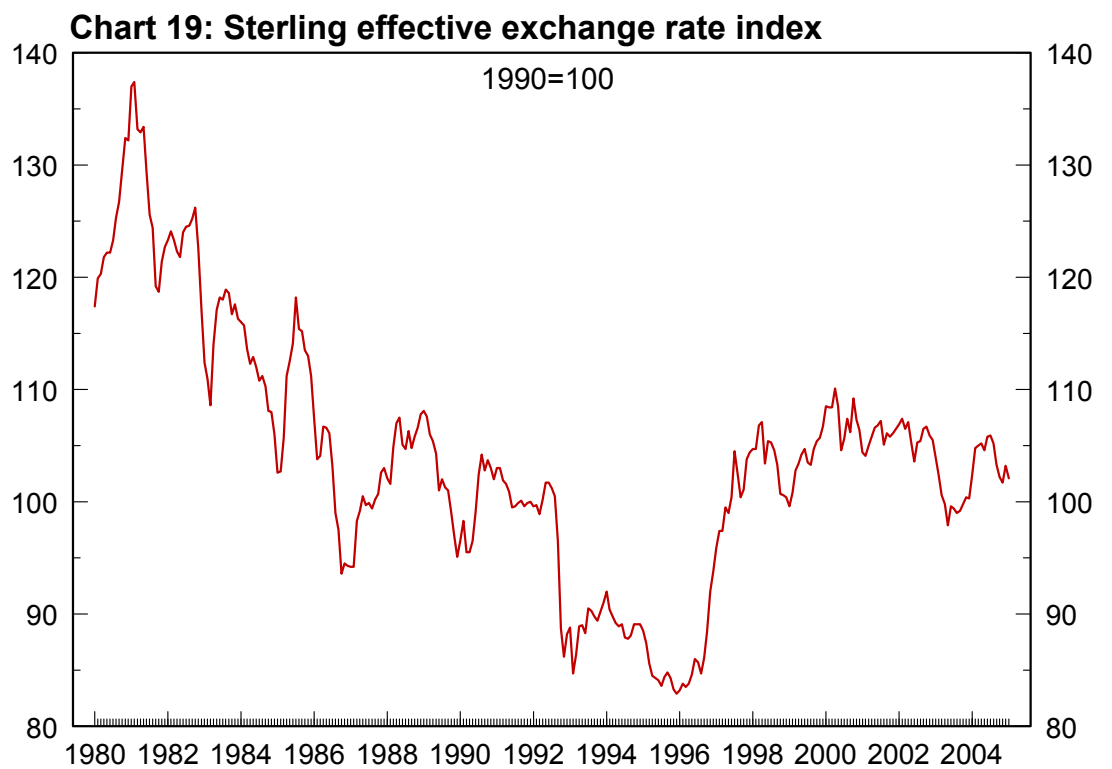
**Chart 17: Productivity<sup>1</sup>**



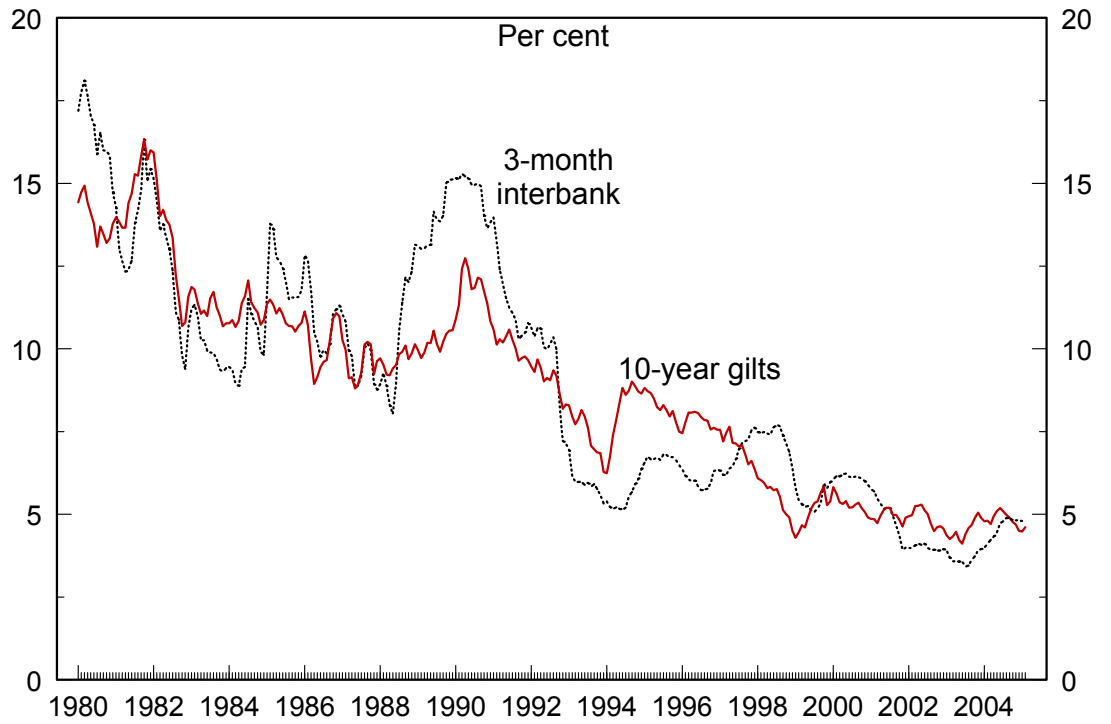
<sup>1</sup> Estimated output (excluding North Sea oil) per LFS job.



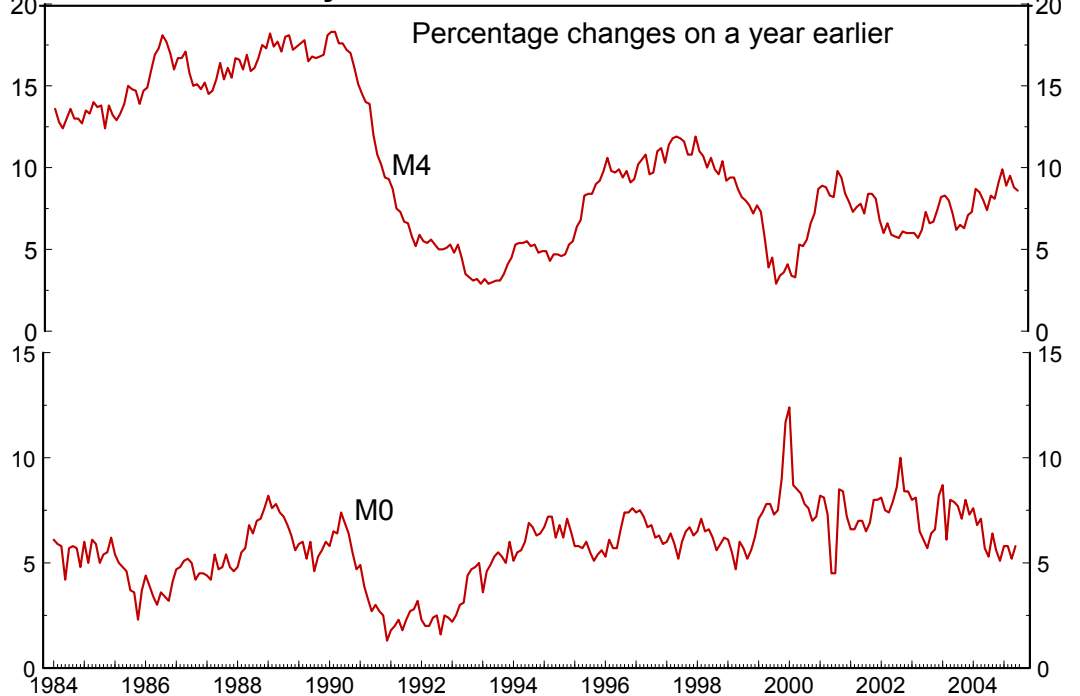
**FINANCIAL DEVELOPMENTS**



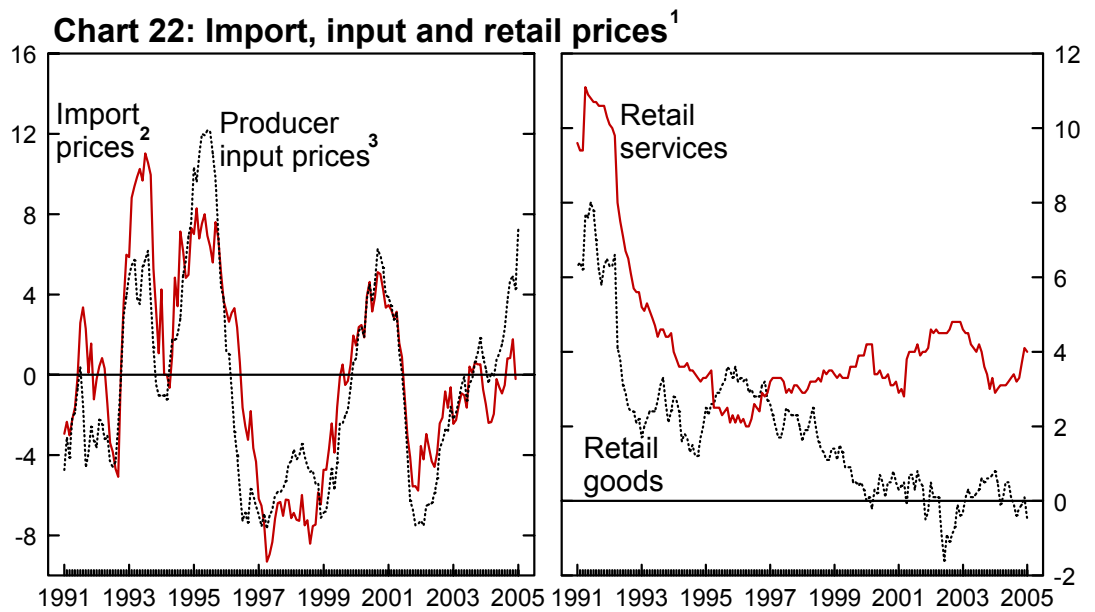
**Chart 20: UK interest rates**



**Chart 21: Monetary indicators**



**INFLATION**



<sup>1</sup> Percentage changes on a year earlier.

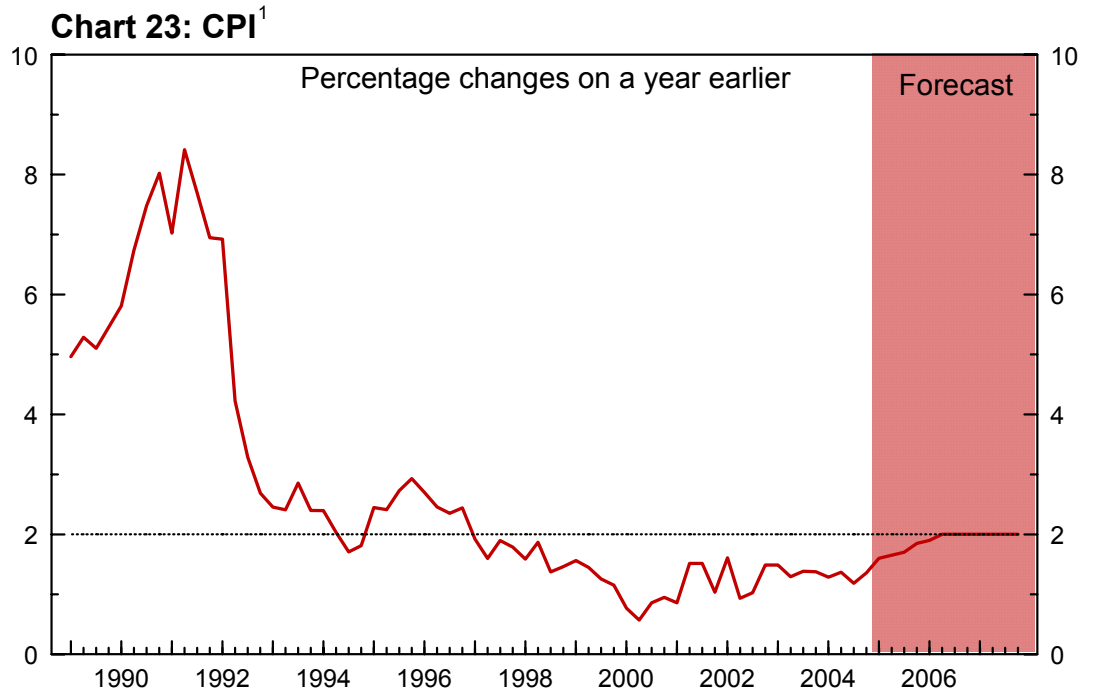
<sup>2</sup> All goods.

<sup>3</sup> Including climate change levy, but excluding food, beverages, tobacco and petroleum.

**Table 6: Consumer and producer output prices**

	Percentage changes on a year earlier							
	2004		Forecast					
	Q2	Q4	2005		2006		2007	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	1¼	1¼	1¾	1¾	2	2	2	2
Producer output prices <sup>1</sup>	2¼	3½	2¾	2½	2¼	2	2	2

<sup>1</sup>Excludes excise duties.



<sup>1</sup>Outturns until 2004Q4; forecasts for every second quarter from 2004Q4 to 2007Q4.

**COMPARISON WITH INDEPENDENT FORECASTS**

**Table 7: Budget and independent<sup>1</sup> forecasts**

	Percentage changes on a year earlier, unless otherwise stated					
	2005			2006		
	March Budget	Independent		March Budget	Independent	
Average		Range	Average		Range	
Gross domestic product	3 to 3½	2.6	1.5 to 3.2	2½ to 3	2.3	0.3 to 2.9
CPI (Q4)	1¾	1.8	1.4 to 3.0	2	1.9	1.5 to 3.2
Current account (£ billion)	-34½	-29.1	-38.4 to -20.0	-35¾	-28.9	-43.7 to -12.5

<sup>1</sup>Forecasts for the UK Economy: A Comparison of Independent Forecasts, March 2005.

**COMPARISON WITH DECEMBER 2004 PRE-BUDGET REPORT FORECAST**

**Table 8: Comparison with Pre-Budget Report 2004 forecast**

		Percentage changes on a year earlier unless otherwise stated	
		December 2004 Pre-Budget Report	March 2005 Budget
Gross domestic product	2005	3 to 3½	3 to 3½
	2006	2½ to 3	2½ to 3
	2007	2¼ to 2¾	2¼ to 2¾
CPI inflation (per cent, Q4)	2005	1¾	1¾
	2006	2	2
	2007	2	2
Current account (£ billion)	2005	-30¼	-34½
	2006	-31¾	-35¾
	2007	-33¼	-37¾

## SUMMARY TABLES

**Table 9: Summary of economic prospects<sup>1</sup>**

	Percentage changes on a year earlier unless otherwise stated					
	2004	Forecast <sup>2, 3, 4</sup>			Average errors from past forecasts <sup>5</sup>	
		2005	2006	2007	2005	2006
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	3	3 to 3½	2½ to 3	2¼ to 2¾	½	½
Manufacturing output	1½	1½ to 2	1¼ to 2¼	1¼ to 2¼	1	1¼
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	3¾	3¼ to 3½	2½ to 3	2¼ to 2¾	½	¾
Household consumption <sup>7</sup>	3¾	2¼ to 2¾	2 to 2½	2 to 2½	½	1
General government consumption	4¾	3¾	3	2¾	1	¾
Fixed investment	6	6 to 6¼	4 to 4½	2¾ to 3¾	2	1¾
Change in inventories <sup>8</sup>	-¼	¼	0	0	¼	¼
Exports of goods and services	2½	6 to 6½	6¼ to 6¾	6¼ to 6¾	2¼	3¾
Imports of goods and services	5	6 to 6½	5½ to 6	5½ to 5¾	2¼	2¾
<b>Balance of payments</b>						
<b>current account</b>						
£ billion	-29	-34½	-35¾	-37¾	7	8¼
per cent of GDP	-2½	-2¾	-2¾	-2¾	½	¾
<b>Inflation</b>						
CPI (Q4)	1¼	1¼	2	2	-	-
Producer output prices (Q4) <sup>9</sup>	3½	2½	2	2	1	1½
GDP deflator at market prices	2	2½	2¾	2¾	½	½
<b>Money GDP at market prices</b>						
£ billion	1158	1223 to 1227	1288 to 1299	1353 to 1370	7	7
percentage change	5¼	5½ to 6	5¼ to 5¾	5 to 5½	½	½

<sup>1</sup> The forecast is consistent with output, income and expenditure data for the fourth quarter of 2004, released by the Office for National Statistics on 25 February 2005.

<sup>2</sup> All growth rates in tables throughout this chapter are rounded to the nearest 1/4 percentage point.

<sup>3</sup> As in previous Budget 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 economy. The mid-points of the forecast ranges are anchored around the neutral assumption for the trend rate of output growth of 2 3/4 per cent to the end of 2006 and 2 1/2 per cent thereafter. The figures at the lower end of the ranges are consistent with the deliberately cautious assumption of trend growth used as the basis for projecting the public finances, which is 1/4 percentage point below the neutral assumption.

<sup>4</sup> The size of the growth ranges for GDP components may differ from those for total GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

<sup>5</sup> Average absolute errors for current year and year-ahead projections made in spring forecasts over the past 10 years. The average errors for the current account are calculated as a percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2005 and 2006.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table B10.

<sup>7</sup> Includes households and non-profit institutions serving households.

<sup>8</sup> Contribution to GDP growth, percentage points.

<sup>9</sup> Excluding excise duties.

## I THE ECONOMY

**Table 10: Gross domestic product and its components**

£ billion chained volume measures at market prices, seasonally adjusted										
	Household consumption <sup>1</sup>	General government consumption	Fixed investment	Change in inventories	Domestic demand <sup>2</sup>	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy <sup>3</sup>	GDP at market prices
<b>2004</b>	719.1	213.1	184.0	0.5	1116.6	282.2	1398.9	333.9	1.2	1066.1
<b>2005</b>	735.8 to 738.0	220.1	195.0 to 195.6	1.9 to 2.6	1152.8 to 1156.3	299.4 to 300.3	1452.2 to 1456.6	354.3 to 355.4	1.4	1099.3 to 1102.6
<b>2006</b>	751.2 to 757.2	226.5	202.9 to 204.5	1.3 to 3.1	1181.9 to 1191.3	318.1 to 320.6	1500.0 to 1512.0	373.4 to 376.4	1.4	1128.0 to 1137.0
<b>2007</b>	766.0 to 775.9	232.6	208.3 to 211.0	0.5 to 3.5	1207.4 to 1223.0	337.7 to 342.0	1545.1 to 1565.0	393.0 to 398.1	1.4	1153.5 to 1168.3
<b>2004</b> 1st half	357.5	105.5	90.9	0.1	554.0	138.9	692.9	164.0	0.5	529.4
2nd half	361.6	107.6	93.1	0.4	562.6	143.4	706.0	169.9	0.7	536.7
<b>2005</b> 1st half	365.8 to 366.5	109.3	95.3 to 95.5	1.8 to 2.0	572.2 to 573.2	147.4 to 147.7	719.6 to 720.9	174.8 to 175.2	0.7	545.5 to 546.5
2nd half	370.0 to 371.6	110.8	99.7 to 100.1	0.1 to 0.6	580.6 to 583.1	152.0 to 152.6	732.6 to 735.7	179.5 to 180.2	0.7	553.8 to 556.2
<b>2006</b> 1st half	373.7 to 376.2	112.5	99.9 to 100.6	1.5 to 2.2	587.6 to 591.6	156.6 to 157.7	744.3 to 749.3	184.3 to 185.5	0.7	560.7 to 564.4
2nd half	377.5 to 380.9	114.0	103.0 to 103.9	-0.2 to 0.9	594.3 to 599.8	161.4 to 162.9	755.8 to 762.7	189.1 to 190.8	0.7	567.4 to 572.6
<b>2007</b> 1st half	381.2 to 385.6	115.6	102.9 to 104.1	0.9 to 2.3	600.6 to 607.6	166.3 to 168.3	767.0 to 775.9	194.0 to 196.3	0.7	573.7 to 580.3
2nd half	384.9 to 390.3	117.0	105.4 to 106.9	-0.5 to 1.2	606.8 to 615.4	171.4 to 173.8	778.2 to 789.2	199.0 to 201.8	0.7	579.8 to 588.0
Percentage changes on previous year <sup>4,5</sup>										
<b>2004</b>	3¼	4¼	6	-¼	3¼	2½	3½	5	¼	3
<b>2005</b>	2¼ to 2¾	3¼	6 to 6¼	¼	3¼ to 3½	6 to 6½	3¾ to 4¼	6 to 6½	0	3 to 3½
<b>2006</b>	2 to 2½	3	4 to 4½	0	2½ to 3	6¼ to 6¾	3¼ to 3¾	5½ to 6	0	2½ to 3
<b>2007</b>	2 to 2½	2¾	2¾ to 3¼	0	2¼ to 2¾	6¼ to 6¾	3 to 3½	5¼ to 5¾	0	2¼ to 2¾

<sup>1</sup> Includes households and non-profit institutions serving households.

<sup>2</sup> Also includes acquisitions less disposals of valuables.

<sup>3</sup> Expenditure adjustment.

<sup>4</sup> For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

<sup>5</sup> 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			
	2004	Forecast		
		2005	2006	2007
<i>Major 7 countries<sup>1</sup></i>				
Real GDP	3¼	2½	2½	2½
Consumer price inflation <sup>2</sup>	2½	2¼	1¾	1¾
<i>Euro area</i>				
Real GDP	1¾	1½	2¼	2¼
World trade in goods and services	8¾	8¼	7¾	7¼
UK export markets <sup>3</sup>	7½	7½	7	6¾

<sup>1</sup> G7: US, Japan, Germany, France, UK, Italy and Canada.

<sup>2</sup> Per cent, Q4.

<sup>3</sup> 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<sup>1</sup>**

	Percentage changes on previous year		
	December 2004		February 2005
	2005	2005	2006
<i>GDP</i>			
USA	3.5	3.5	3.4
Euro-area	1.7	1.7	2.0
Japan	1.5	1.1	1.8

<sup>1</sup> 'Consensus forecasts', Consensus Economics Inc.

**Chart 24: G7 GDP and world trade**

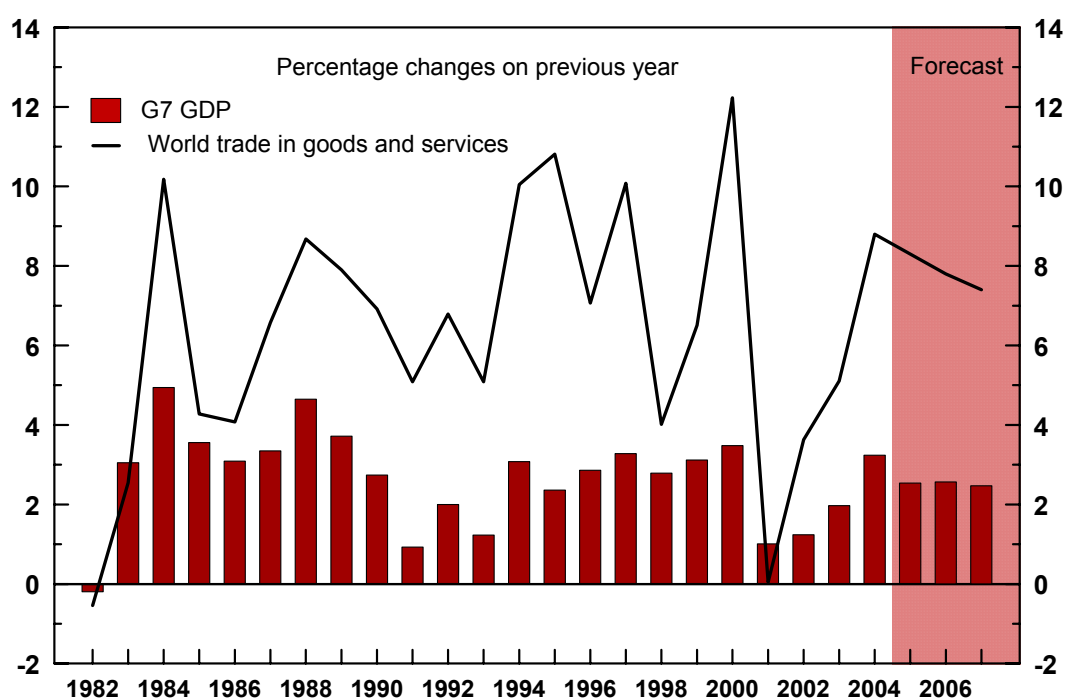
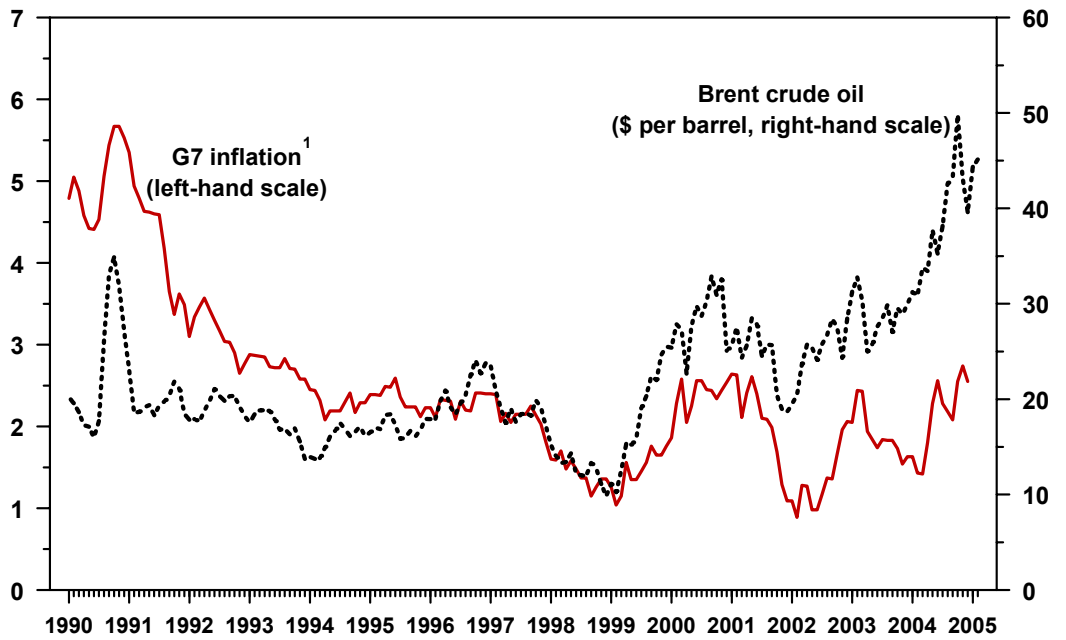


Chart 25: G7 inflation and oil prices



<sup>1</sup> Consumer price index, percentage changes on a year earlier.