

The economy: Supplementary charts and tables

March 2006



HM TREASURY



HM TREASURY

**The economy:
Supplementary charts and tables**

March 2006

© Crown copyright 2006

Published with the permission of HM Treasury on behalf of the Controller of Her Majesty's Stationery Office.

The text in this document (excluding the Royal Coat of Arms and departmental logos) may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the document specified.

Any enquiries relating to the copyright in this document should be sent to:

HMSO
Licensing Division
St Clements House
2-16 Colegate
Norwich
NR3 1BQ

Fax: 01603 723000

E-mail: hmsolicensing@cabinet-office.x.gsi.gov.uk

HM Treasury contacts

This report can be found on the Treasury website at:

hm-treasury.gov.uk

For general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hm-treasury.gov.uk

ISBN-10: 1-84532-167-7

ISBN-13: 978-1-84532-167-3

CONTENTS

	Page
Introduction	3
The degree of spare capacity	4
GDP	5
The household sector	7
Investment	9
Trade and the balance of payments	10
Pattern of net lending	13
The labour market	15
Financial developments	16
Inflation	18
Comparison with independent forecasts	19
Comparison with December 2005 Pre-Budget Report forecast	20
Summary tables	21
The world economy	23

THE ECONOMY

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 22 March 2006, 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 2005, released by the Office for National Statistics (ONS) on 24 February 2006. The release also contained revisions to earlier quarters of 2005, which the Treasury has carried through to certain other national accounts series that the ONS has not yet revised, in particular sectoral saving and borrowing. A fully consistent national accounts dataset for 2005 will be published by the ONS on 29 March 2006.

Forecast ranges **1.1** As in the 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 forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Chapter B of the FSBR.

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 to the end of 2006, slowing to 2½ per cent thereafter due to demographic effects. 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 2002¹ discussed the Treasury's approach to trend growth and gave a detailed assessment of the neutral rate to be used for economic forecasts.

1.3 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 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 the Government's 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

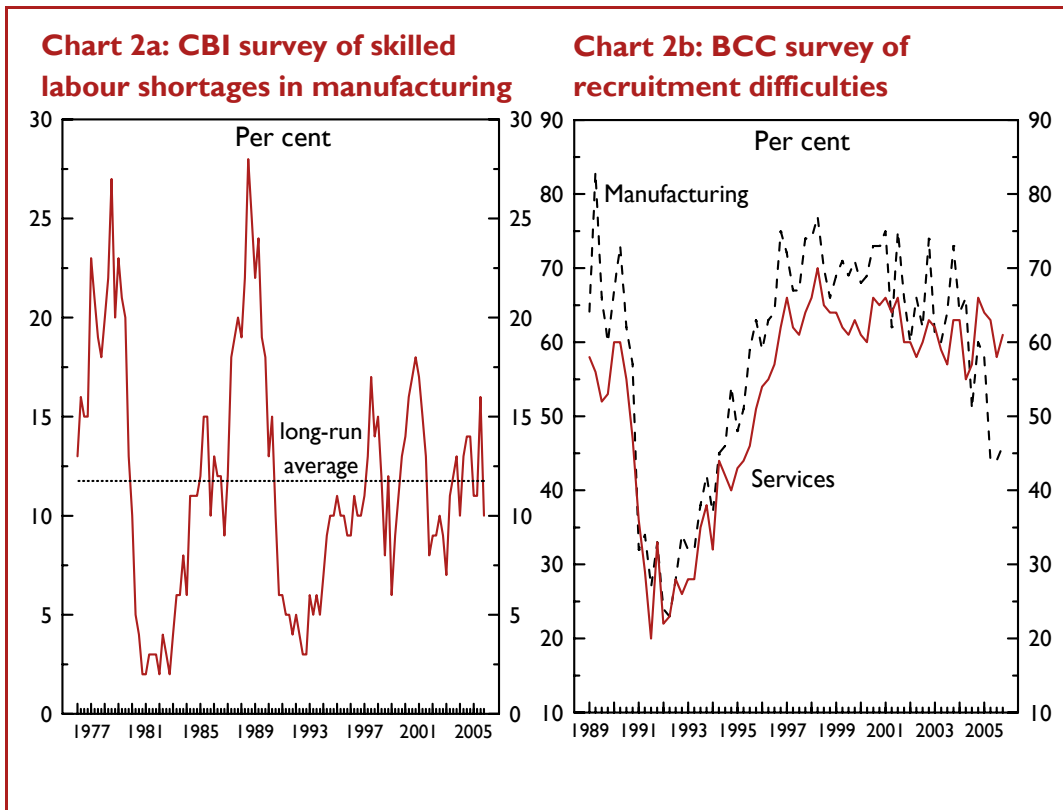
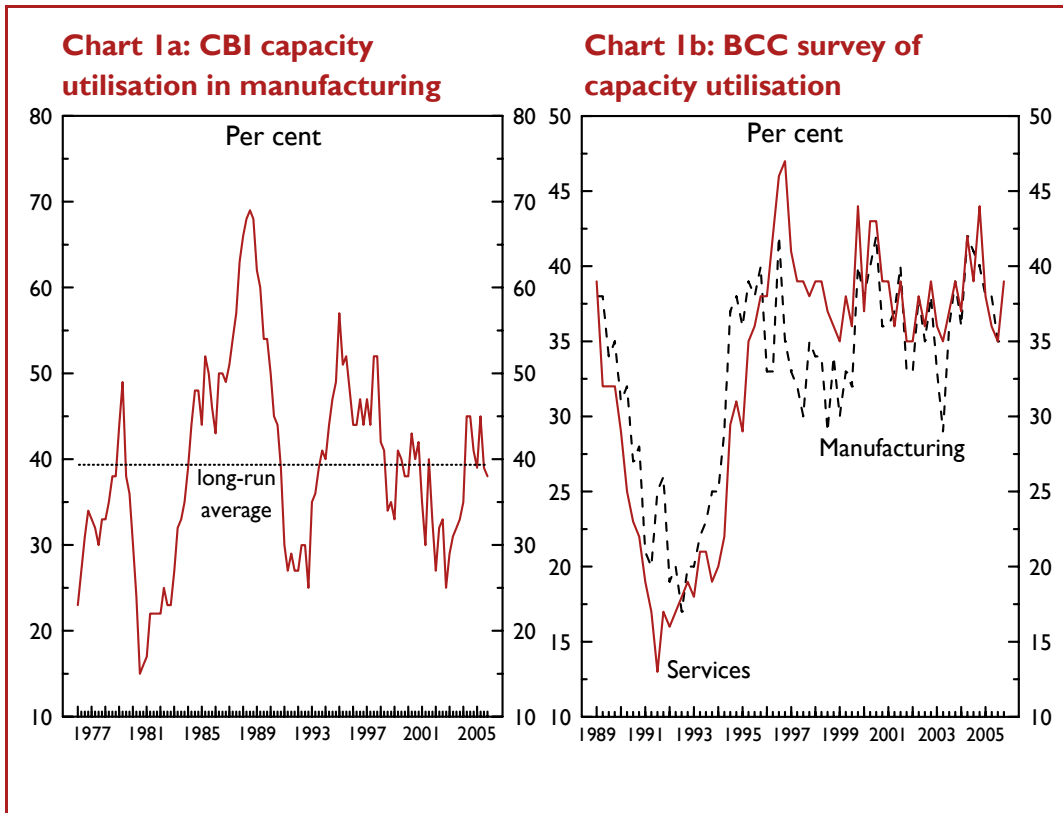
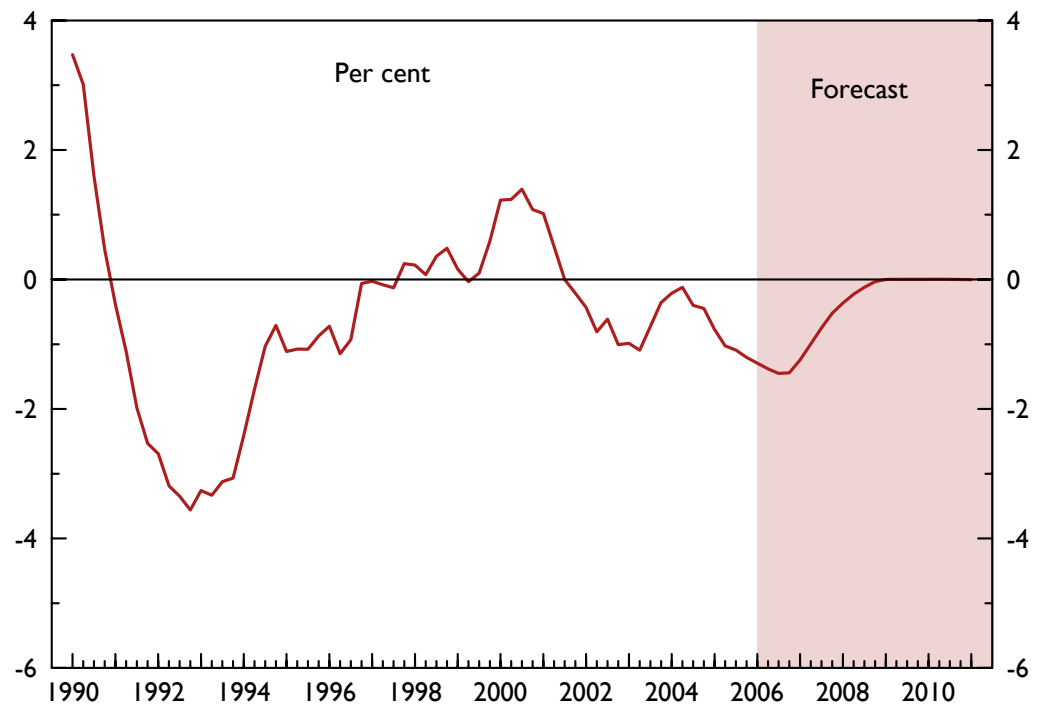


Chart 3: The output gap¹

¹ Actual output less trend output as a percent of trend output (non-oil basis).

GROSS DOMESTIC PRODUCT (GDP)

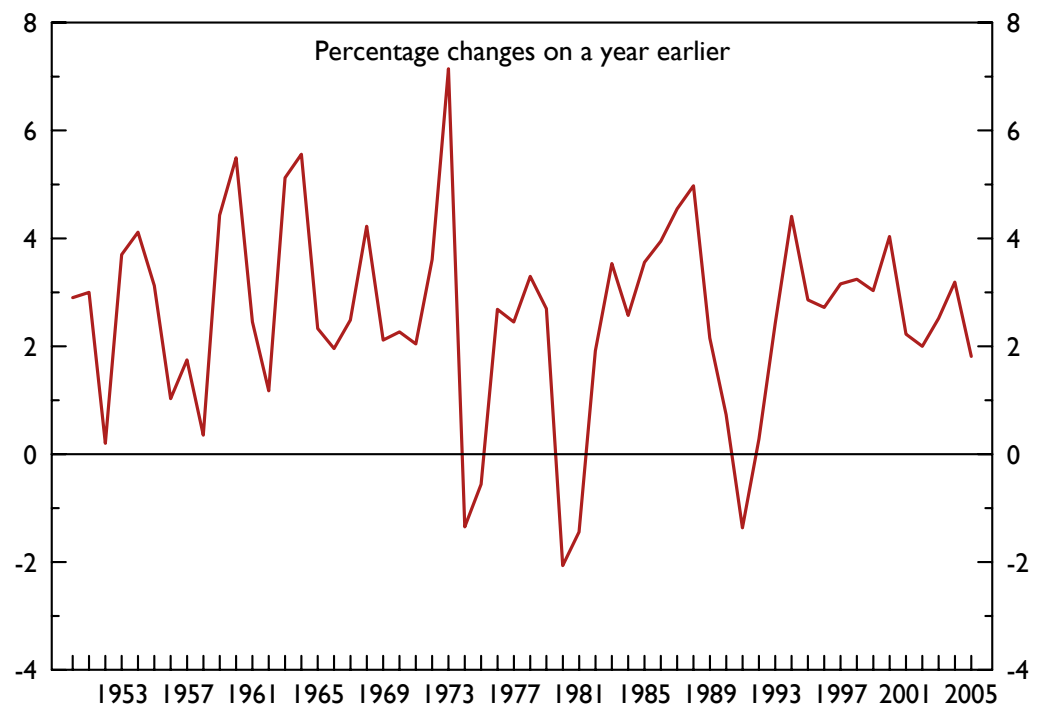
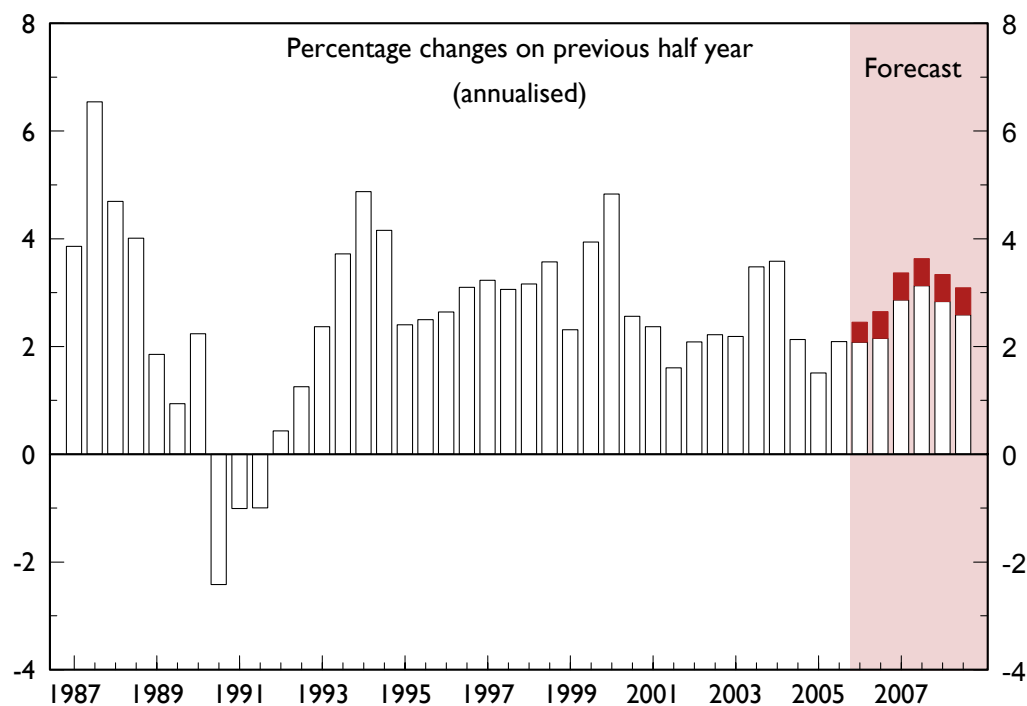
Chart 4: GDP

Chart 5: GDP forecast¹

¹ Darker areas on bars represent forecast ranges.

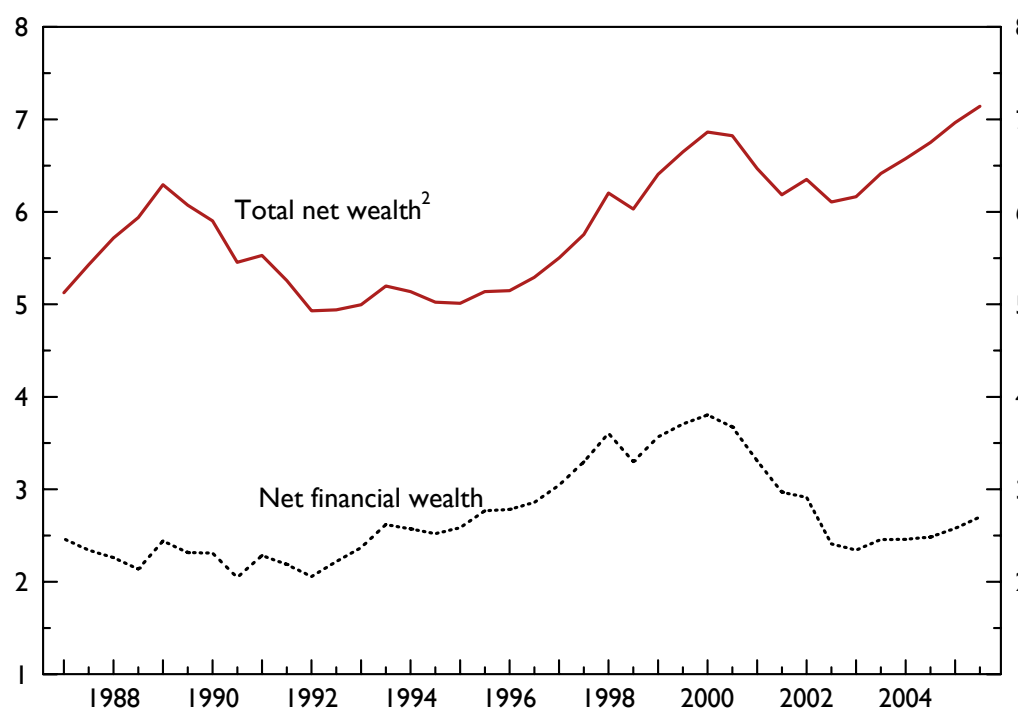
Table I: Contributions to GDP growth^{1,2}

	Percentage points unless otherwise stated			
	2005	Forecast		
		2006	2007	2008
GDP growth, per cent	1¾	2¼	3	3
Main components:				
Private consumption	1¼	1½	1¾	2
Business investment	¼	0	½	½
Government	¾	¾	¾	¾
Change in inventories	-¼	0	0	0
Net trade	0	0	0	0

¹ 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.

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

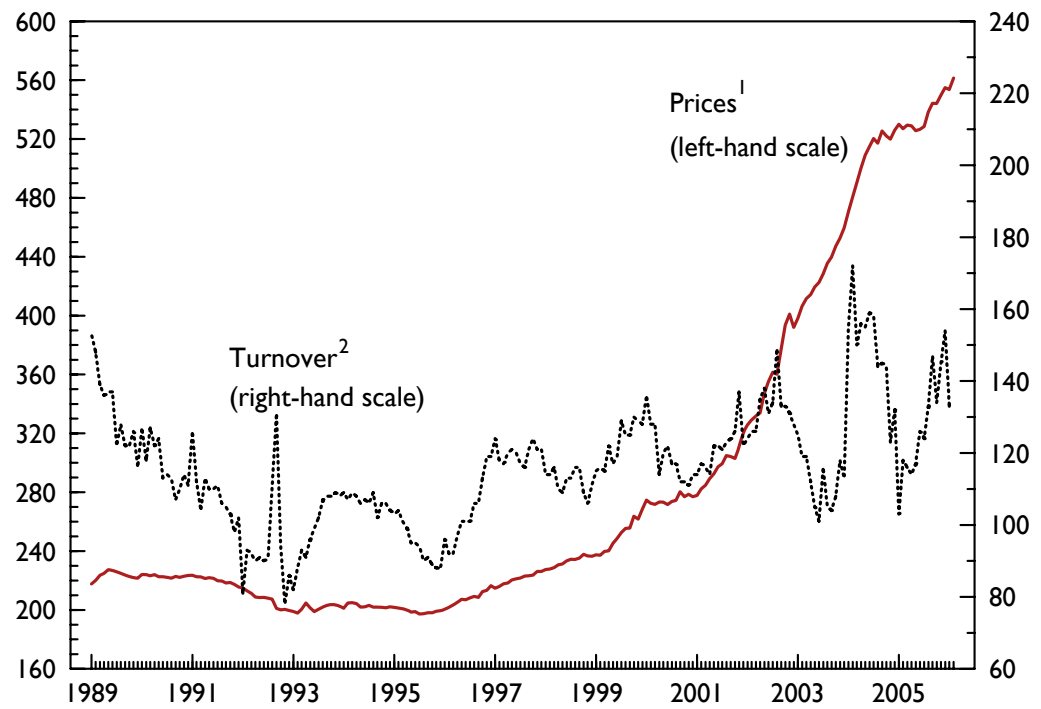
THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios¹¹ Semi-annual.² Includes tangible (mainly housing) wealth. 2005 is part forecast.Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year, unless otherwise stated			
	2005	Forecast		
		2006	2007	2008
Household consumption ²	1¾	2 to 2½	2¼ to 2¾	2½ to 3
Real household disposable income	2¼	2½ to 2¾	2 to 2½	2¼ to 2¾
Saving ratio ³ (level, per cent)	5¼	5¾	5½	5½

¹ Including non-profit institutions serving households.² Chained volume measures.³ Total household resources less consumption expenditure as a percent of total resources, where total resources comprise households' disposable income plus the increase in their net equity in pension funds.

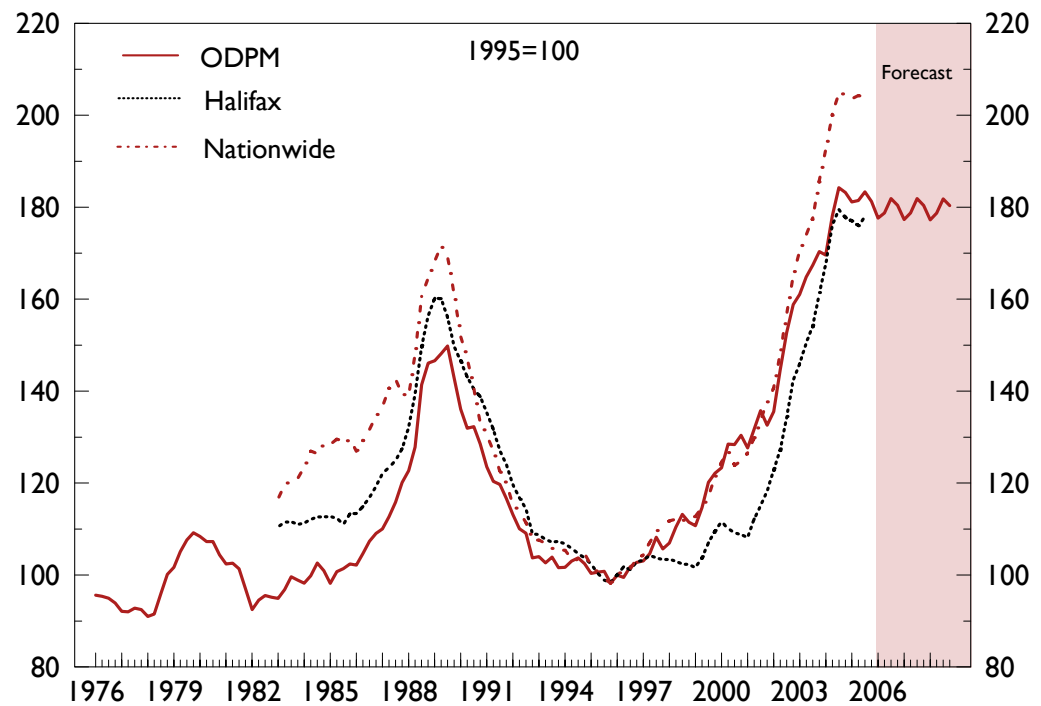
Chart 7: Housing turnover and prices



¹ Halifax index. 1983 = 100.

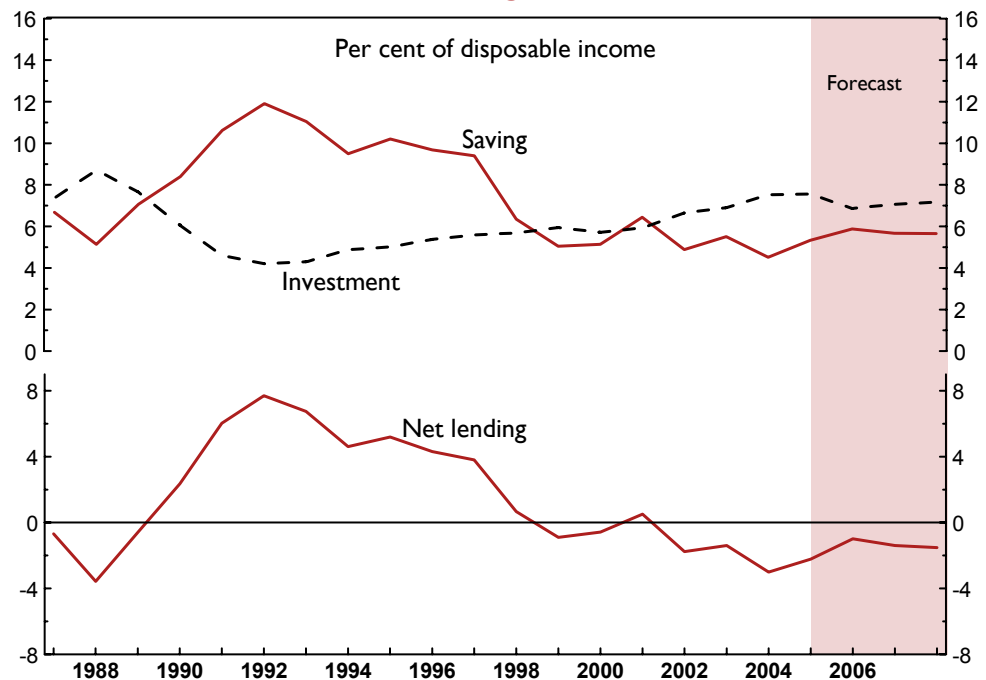
² Property transactions, thousands.

Chart 8: House price-earnings ratio¹



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

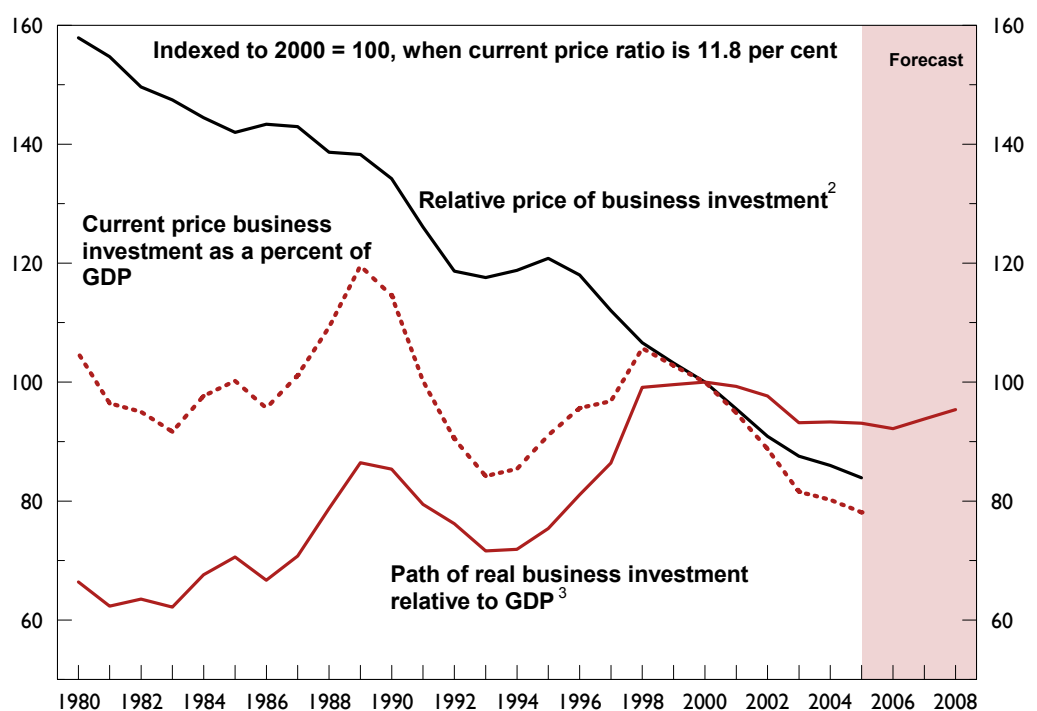
Chart 9: Household sector¹ net lending



¹ Includes non-profit institutions serving households.

INVESTMENT

Chart 10: Business investment¹



¹ Includes investment by public corporations and investment under the Private Finance Initiative.

² Ratio of implied business investment deflator to GDP deflator.

³ Ratio of business investment to GDP in chained volume measures.

Table 3: Gross fixed capital formation

	Percentage changes on previous year			
	2005	Forecast		
		2006	2007	2008
Whole economy ¹	3¼	1¾ to 2	4 to 4½	4 to 4½
of which:				
Business ^{2,3}	1½	1 to 1½	4½ to 5¼	4½ to 5¼
Private dwellings ³	-½	0 to ¼	2¾ to 3¼	3 to 3½
General government ³	18½	8½	7	5

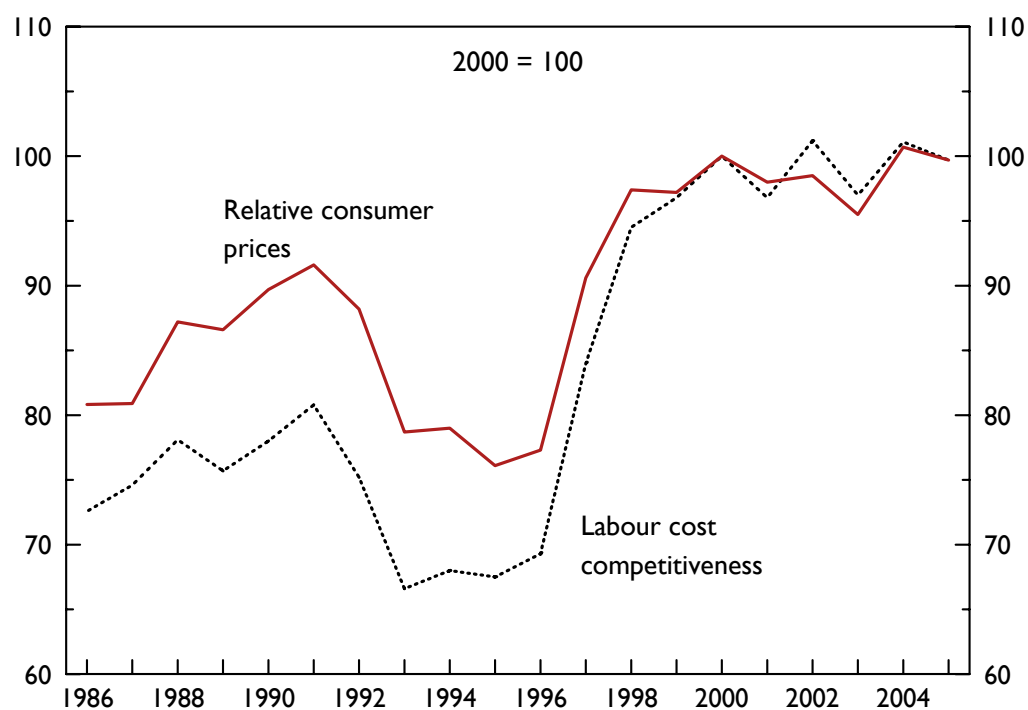
¹ Includes costs associated with the transfer of ownership of land and existing buildings.

² Private sector and public corporations' non-residential investment. Includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

TRADE AND THE BALANCE OF PAYMENTS

Chart 11: Competitive positions: Relative unit labour costs¹ and consumer prices



¹ Relating to trade in manufactures: A fall means that competitiveness has improved.

Source: OECD Economic Outlook 78, 2005/2 (December 2005).

Chart 12: Exports and overseas demand

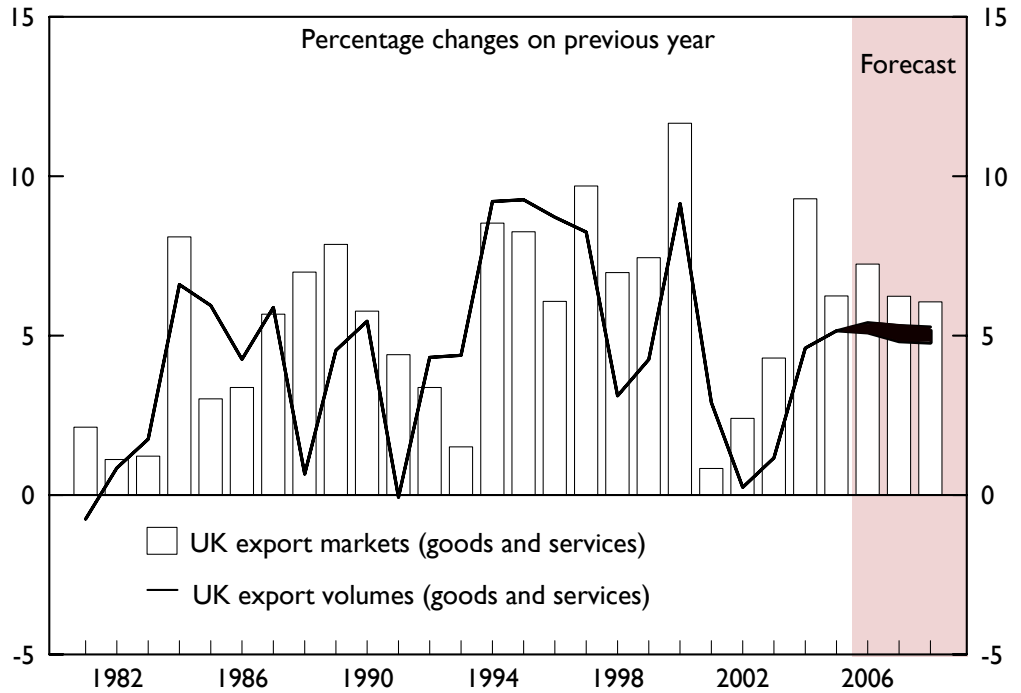


Chart 13: Imports and total final expenditure

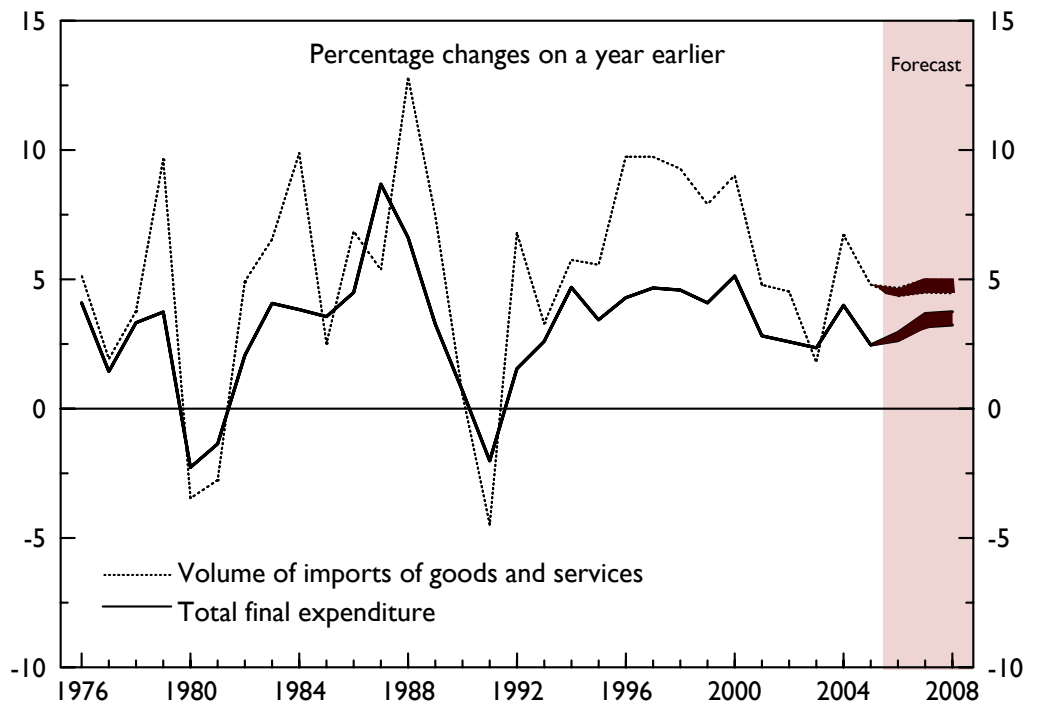


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
2005	5¼	4¾	1¾	3¾	-1¾	-47
<i>Forecast</i>						
2006	5 to 5½	4¼ to 4¾	1¼	1¾	-½	-49¼
2007	4¾ to 5¼	4½ to 5	¾	¾	¼	-50¼
2008	4¾ to 5¼	4½ to 5	½	½	0	-51¾

¹ Average value indices.

² Ratio of export to import prices.

Chart 14: Balance of payments current account

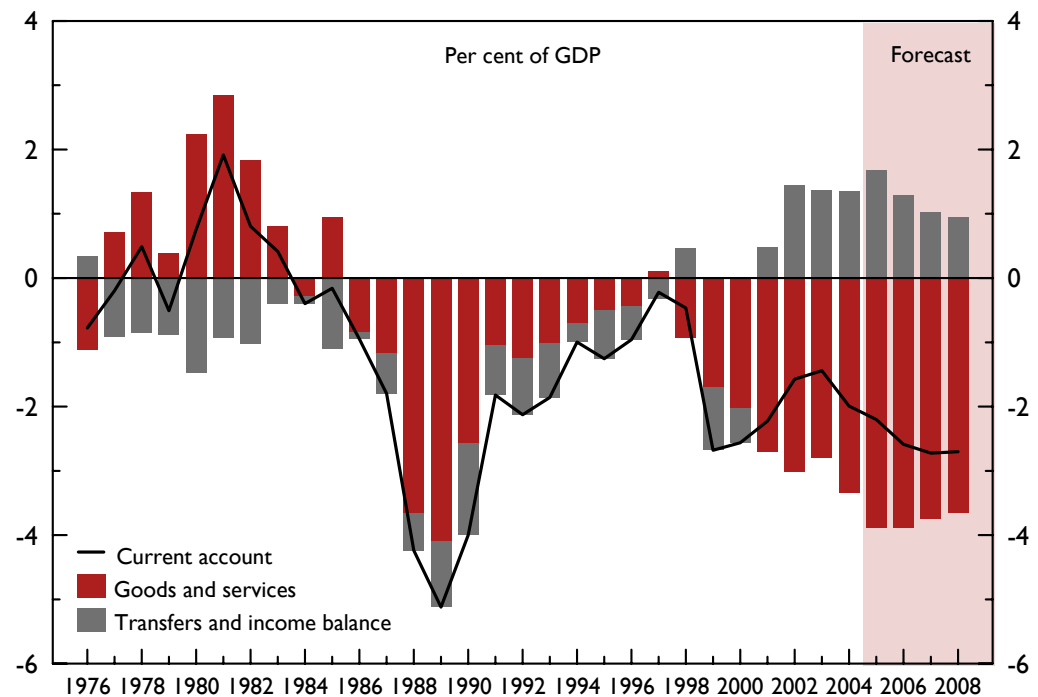
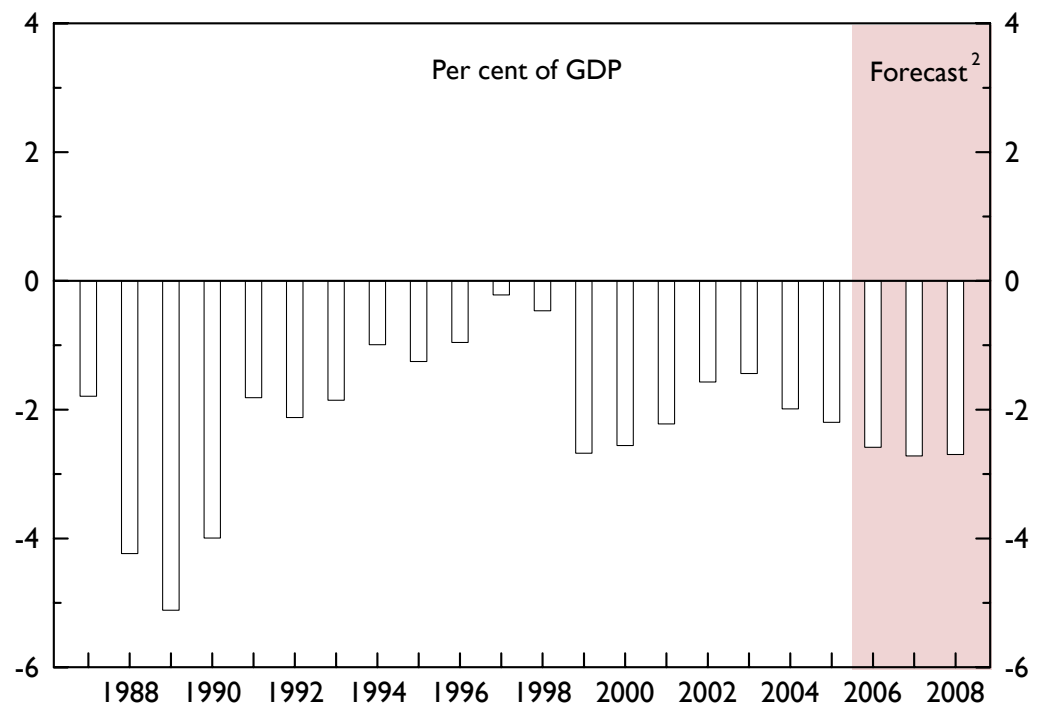


Table 5: The current account

	£ billion					
	Goods and services			Transfers	Income balance ¹	Current balance
	Non-oil	Oil	Total			
2005	-46¼	-¾	-47	-12	32½	-26¾
<i>Forecast</i>						
2006	-48¾	-½	-49¼	-10¼	26½	-32¾
2007	-49½	-¾	-50¼	-12	25¾	-36½
2008	-49¼	-2½	-51¾	-12¾	26¼	-38¼

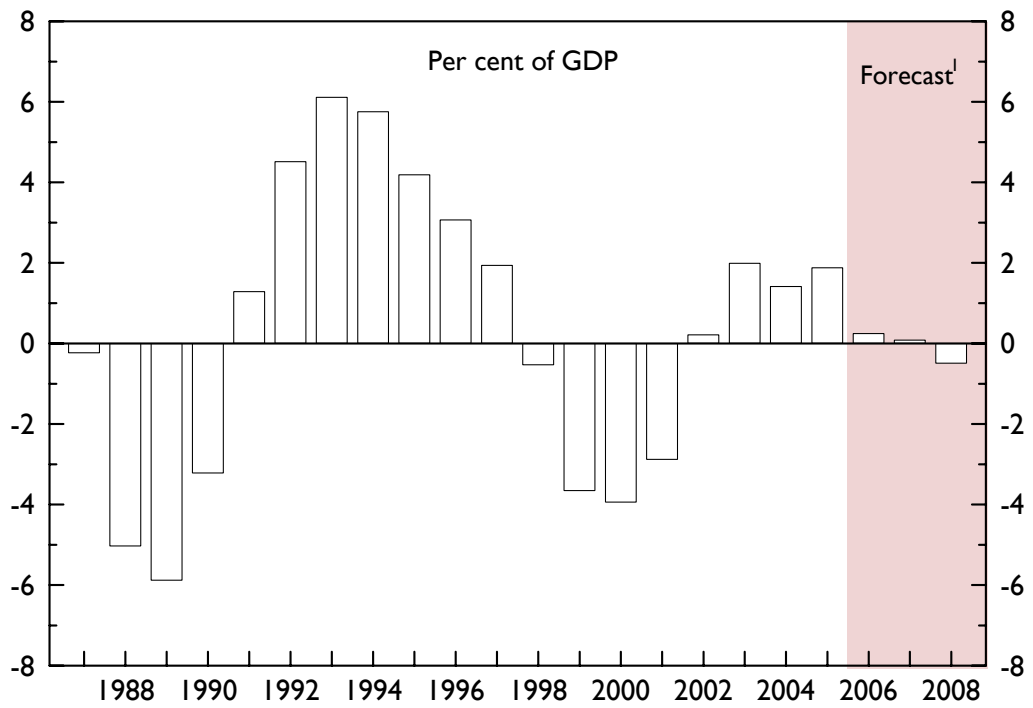
¹ Includes investment and employee income.

PATTERN OF NET LENDING**Chart 15a: Balance of payments current account balance¹**

¹ The current account balance approximately equals net lending to the rest of the world, adjusted for net capital and net acquisitions of non-produced non-financial assets.

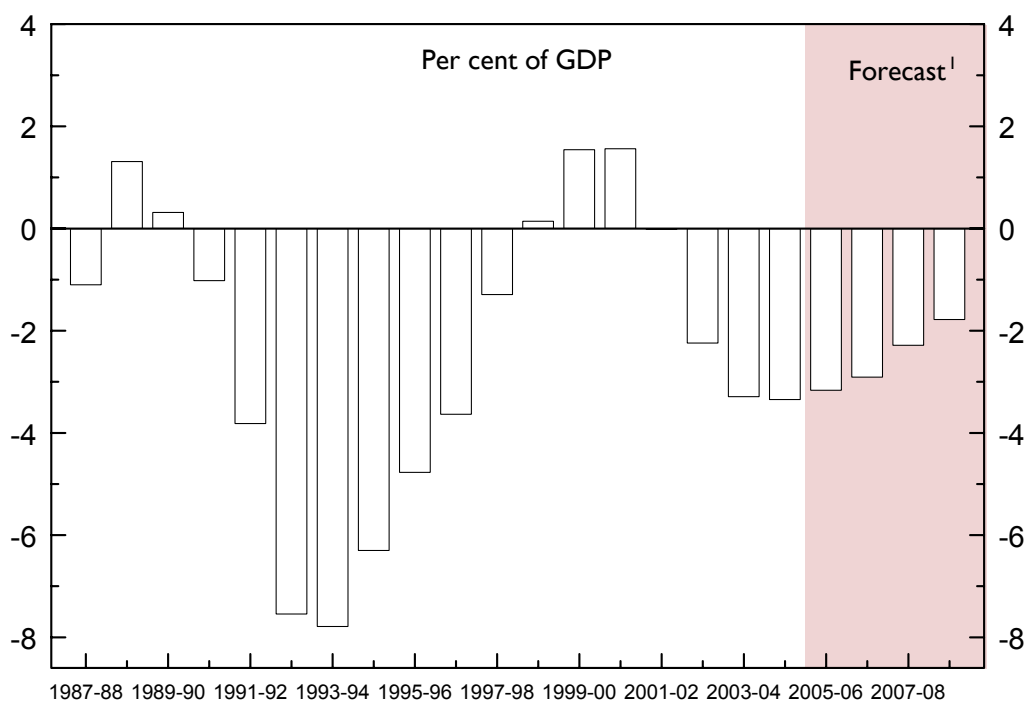
² At mid-points of forecast ranges.

Chart 15b: Private sector net lending



¹ At mid-points of forecast ranges.

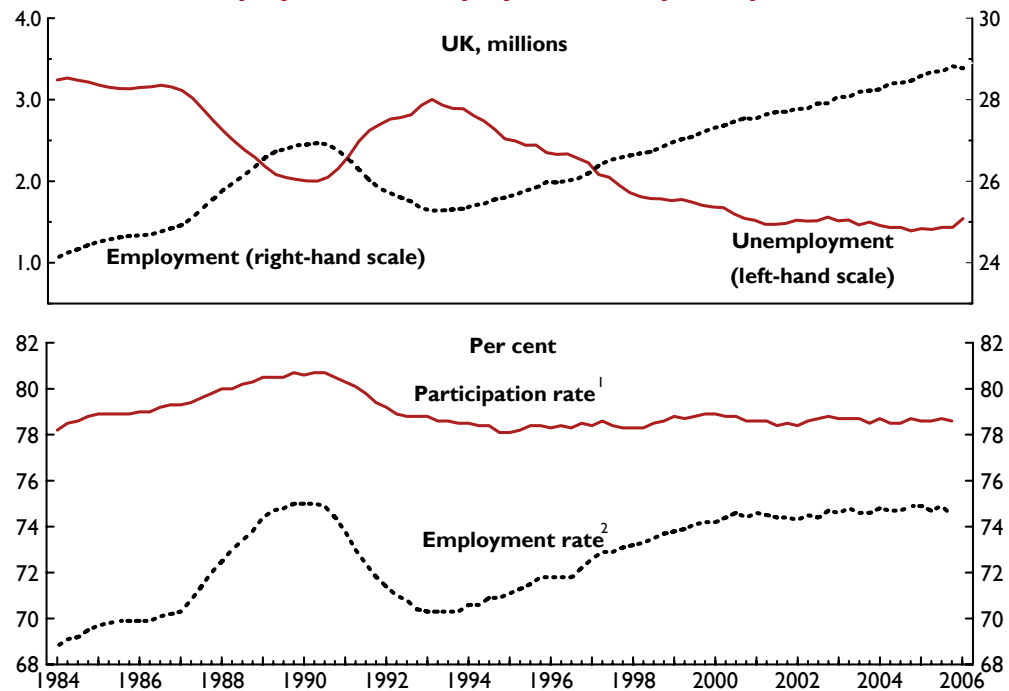
Chart 15c: Public sector net lending



¹ At mid-points of forecast ranges.

THE LABOUR MARKET

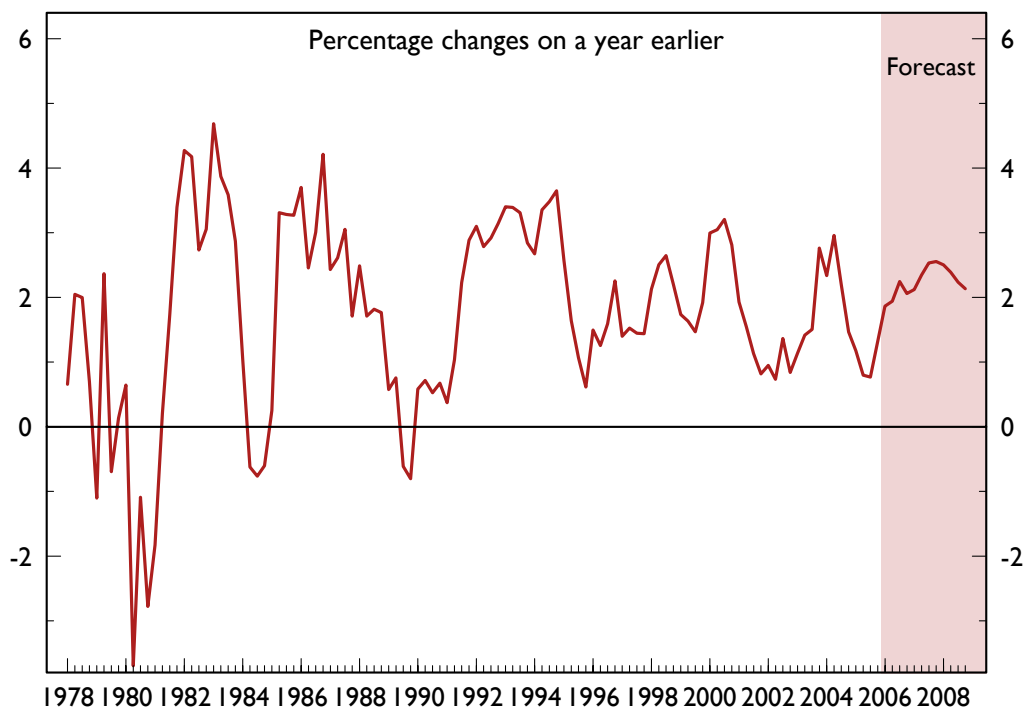
Chart 16: LFS employment, unemployment and participation



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

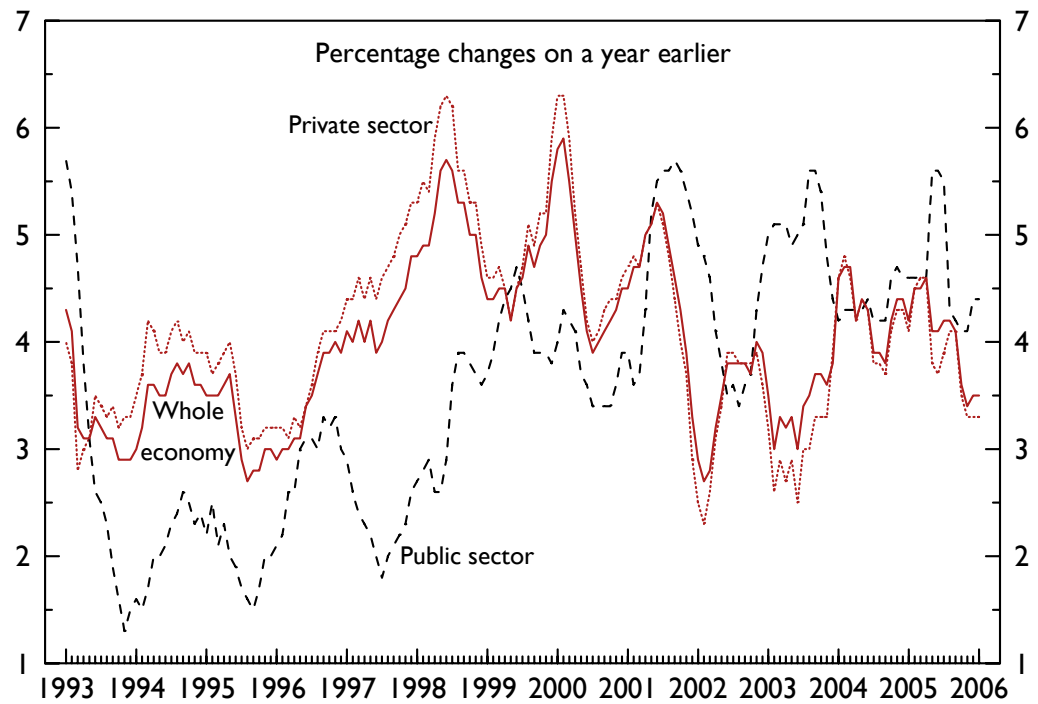
² Percentage of the working-age population in employment.

Chart 17: Productivity¹



¹ Estimated non-oil output per LFS job.

Chart 18: Average earnings by sector¹



¹ Latest three months, seasonally adjusted.

FINANCIAL DEVELOPMENTS

Chart 19: Sterling effective exchange rate index

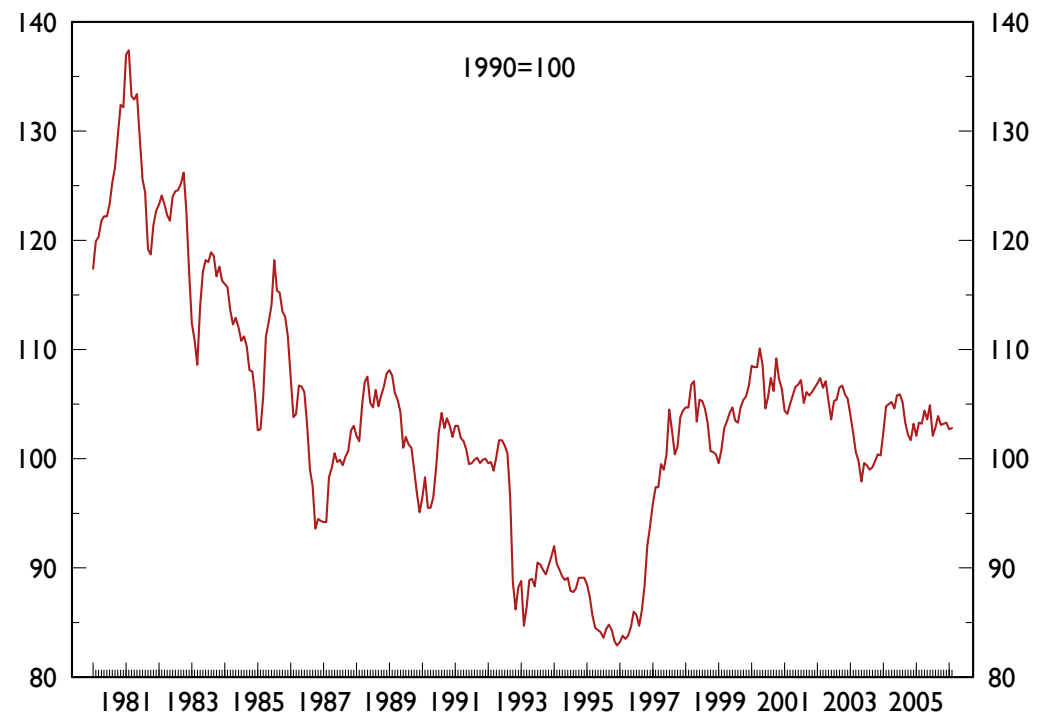


Chart 20: UK interest rates

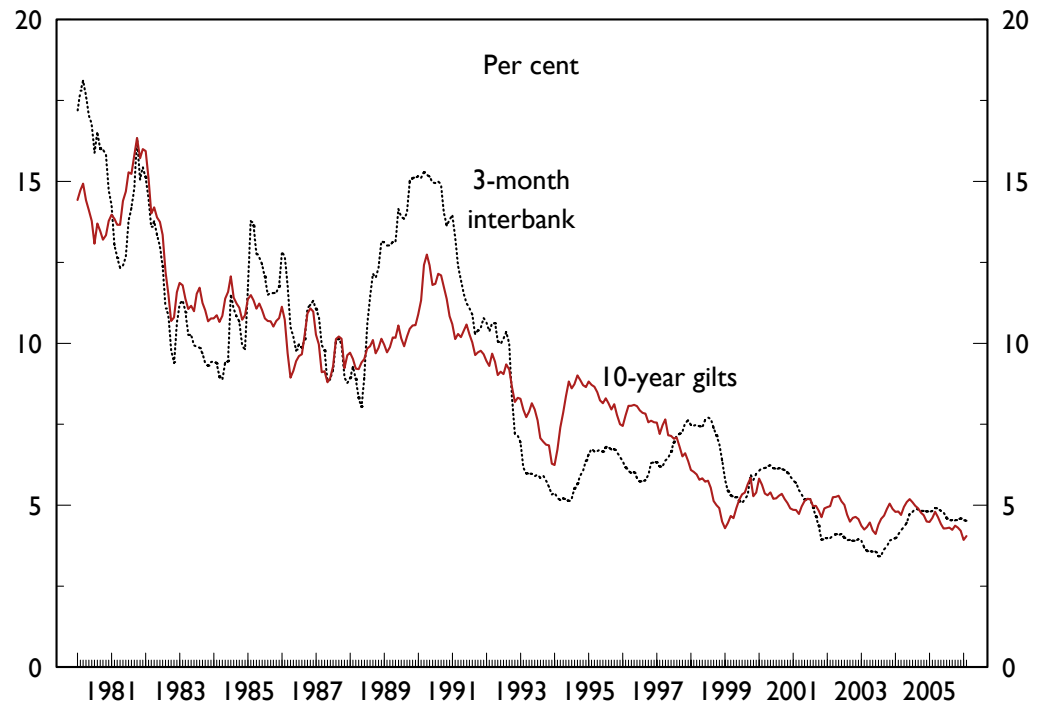
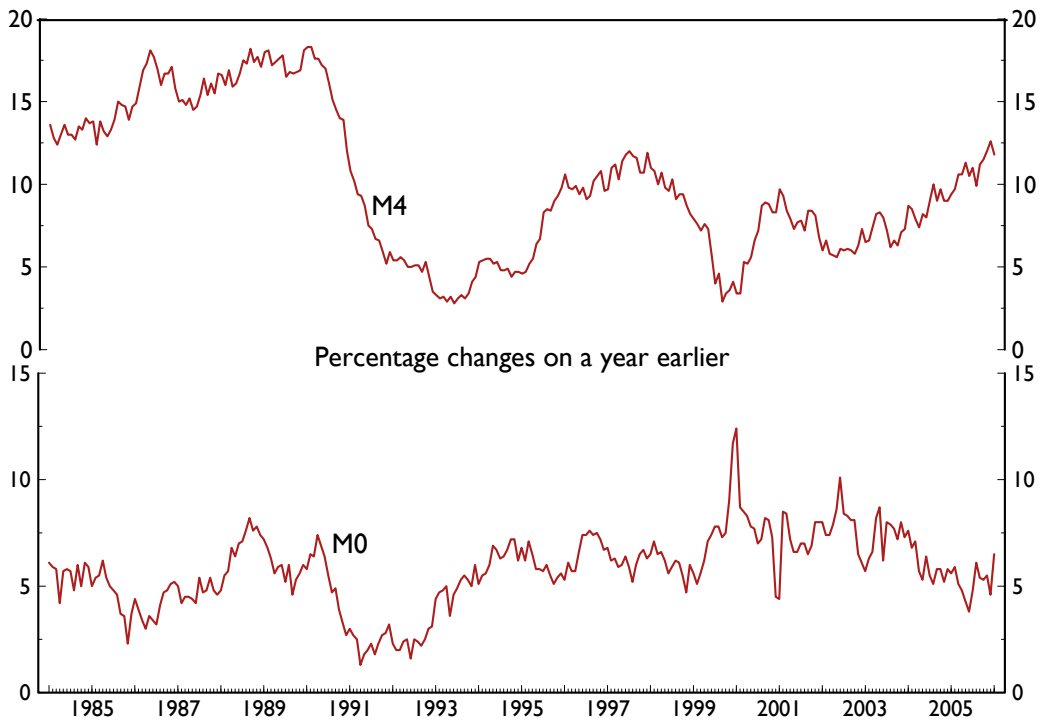
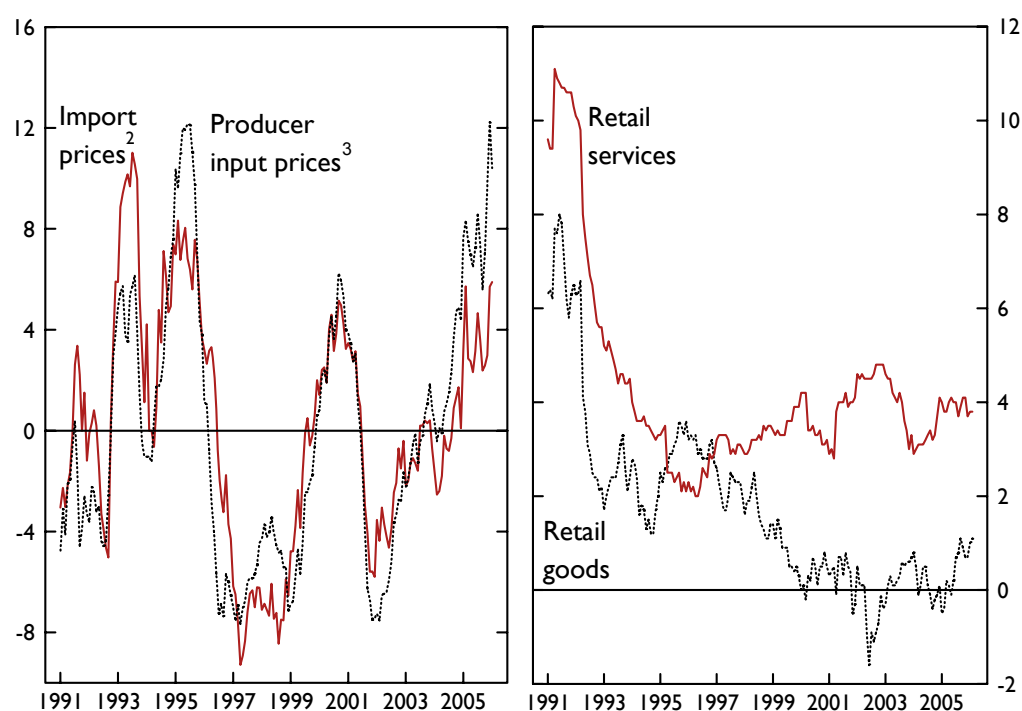


Chart 21: Monetary indicators



INFLATION

Chart 22: Import, input and retail prices¹

¹ Percentage changes on a year earlier.

² All goods.

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

Table 6a: Consumer and producer output prices

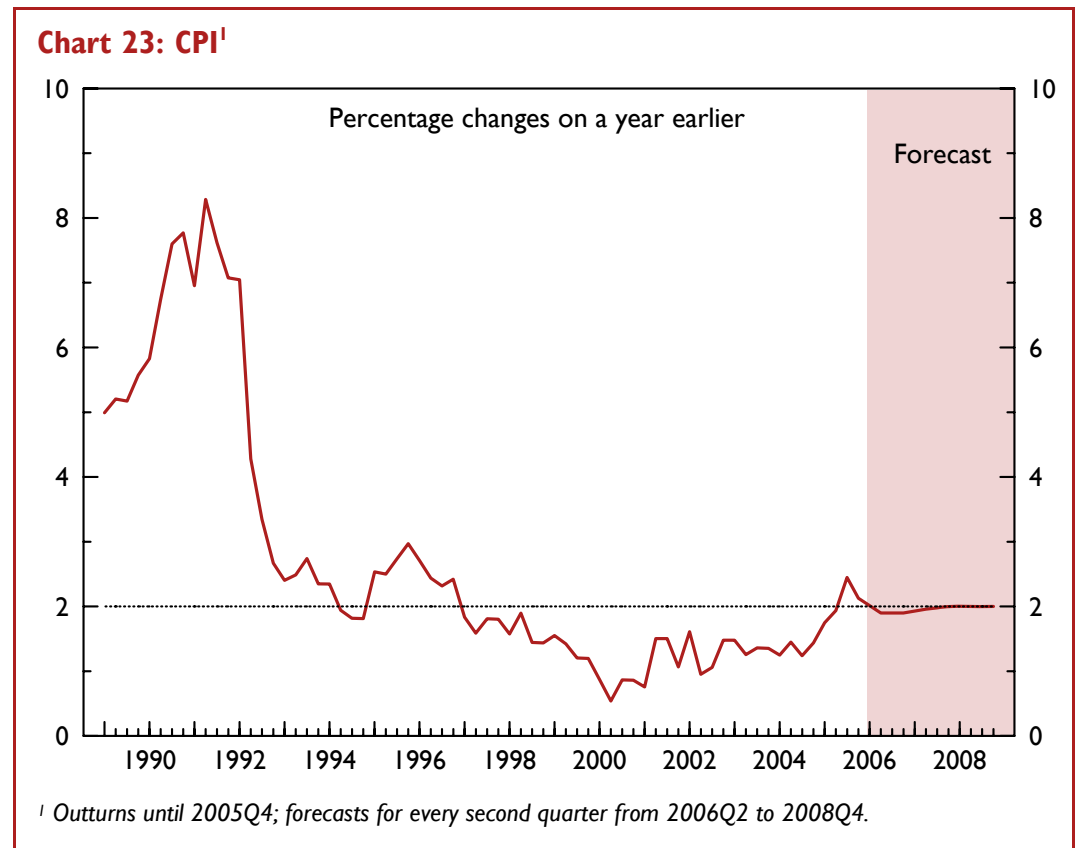
	Percentage changes on a year earlier							
	2005		2006		Forecast		2008	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2	2¼	2	2	2	2	2	2
Producer output prices ¹	3	2½	2½	1¾	1¾	2	2	2

¹ Excludes excise duties.

Table 6b: Consumers expenditure deflator

	Percentage changes on a year earlier, unless otherwise stated				
	2005		2006		Forecast
	Level		2007		2008
CED ²	106¼	2¼	2½	2¾	2¾

² Consumers' expenditure deflator, Q4



COMPARISON WITH INDEPENDENT FORECASTS

Table 7: Budget and independent¹ forecasts

	Percentage changes on a year earlier, unless otherwise stated					
	2006			2007		
	March Budget	Independent		March Budget	Independent	
		Average	Range		Average	Range
Gross domestic product	2 to 2½	2.2	1.4 to 2.8	2¾ to 3¼	2.4	0.1 to 2.9
CPI (Q4)	2	1.9	1.4 to 2.4	2	2.0	1.6 to 2.8
Current account (£ billion)	-32¾	-28.4	-45.7 to -18.7	-36½	-29.3	-45.2 to -15.0

¹ 'Forecasts for the UK Economy: A Comparison of Independent Forecasts', March 2006.

COMPARISON WITH DECEMBER 2005 PRE-BUDGET REPORT FORECAST

Table 8: Comparison with Pre-Budget Report 2005 forecast

		Percentage changes on a year earlier, unless otherwise stated	
		December 2005	March 2006
		PBR	Budget
Gross domestic product	2006	2 to 2½	2 to 2½
	2007	2¾ to 3¼	2¾ to 3¼
	2006	2¾ to 3¼	2¾ to 3¼
CPI inflation (per cent, Q4)	2006	1¾	2
	2007	2	2
	2006	2	2
Current account (£ billion)	2006	-30	-32¾
	2007	-32¾	-36½
	2008	-35¾	-38¼

SUMMARY TABLES

Table 9: Summary of economic prospects¹

	Percentage changes on a year earlier, unless otherwise stated						
	2005	Forecast ^{2,3,4}				Average errors from past forecasts ⁵	
		2006	2007	2008	2006	2007	
Output at constant market prices							
Gross domestic product (GDP)	1¾	2 to 2½	2¾ to 3¼	2¾ to 3¼	¾	½	
Manufacturing output	-1	½ to 1	1¾ to 2¼	1¾ to 2¼	1¼	2	
Expenditure components of GDP at constant market prices⁶							
Domestic demand	1¾	2 to 2¼	2¾ to 3¼	2¾ to 3¼	¾	¾	
Household consumption ⁷	1¾	2 to 2½	2¼ to 2¾	2½ to 3	¾	1	
General government consumption	2	2½	2½	2½	1	1¼	
Fixed investment	3¼	1¾ to 2	4 to 4½	4 to 4½	2½	2¼	
Change in inventories ⁸	-¼	-¼ to 0	0 to ¼	0	¼	¼	
Exports of goods and services	5¼	5 to 5½	4¾ to 5¼	4¾ to 5¼	1¾	3¼	
Imports of goods and services	4¾	4¼ to 4¾	4½ to 5	4½ to 5	2¼	2½	
Balance of payments							
current account							
£ billion	-26¾	-32¾	-36½	-38¼	7¼	8	
per cent of GDP	-2¼	-2½	-2¾	-2¾	½	¾	
Inflation							
CPI (Q4)	2¼	2	2	2	-	-	
Producer output prices (Q4) ⁹	2½	1¾	2	2	1	1½	
GDP deflator at market prices	2¼	2¼	2½	2¾	½	½	
Money GDP at market prices							
£ billion	1211¼	1266 to 1269	1334 to 1345	1409 to 1428	9	9	
percentage change	4	4½ to 4¾	5½ to 6	5½ to 6¼	¾	¾	

¹ The forecast is consistent with output, income and expenditure data for the fourth quarter of 2005, released by the Office for National Statistics on 24 February 2006.

² All growth rates in tables throughout this document are rounded to the nearest ¼ percentage point.

³ 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 2¾ per cent to the end of 2006 and 2½ 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 ¼ percentage point below the neutral assumption.

⁴ 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.

⁵ 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 2006 and 2007.

⁶ Further detail on the expenditure components of GDP is given in Table 10.

⁷ Includes households and non-profit institutions serving households.

⁸ Contribution to GDP growth, percentage points.

⁹ Excluding excise duties.

Table 10: Gross domestic product and its components

	£ billion chained volume measures at market prices, seasonally adjusted									
	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
2005	749.9	232.1	187.5	2.7	1171.9	306.0	1477.9	348.9	0.3	1129.2
2006	765.6 to 767.9	237.7	190.8 to 191.4	1.1 to 1.9	1195.3 to 1198.9	321.6 to 322.5	1516.8 to 1521.4	364.1 to 365.2	0.3	1153.0 to 1156.5
2007	783.6 to 789.8	243.9	198.6 to 200.2	1.8 to 3.8	1227.9 to 1237.7	337.0 to 339.7	1564.9 to 1577.4	380.4 to 383.5	0.3	1184.7 to 1194.2
2008	803.9 to 814.3	250.1	206.7 to 209.3	1.9 to 5.1	1262.5 to 1278.8	353.1 to 357.6	1615.6 to 1636.4	397.4 to 402.5	0.3	1218.5 to 1234.2
2005 1st half	372.8	115.1	92.6	1.7	582.2	150.8	733.0	171.4	0.1	561.7
2nd half	377.1	117.0	94.9	1.0	589.7	155.2	744.9	177.5	0.1	567.5
2006 1st half	380.8 to 381.5	118.2	94.8 to 95.0	0.8 to 1.0	594.7 to 595.7	158.9 to 159.2	753.6 to 755.0	180.3 to 180.6	0.1	573.4 to 574.5
2nd half	384.7 to 386.4	119.5	96.0 to 96.4	0.3 to 0.8	600.6 to 603.2	162.6 to 163.3	763.2 to 766.5	183.8 to 184.6	0.1	579.6 to 582.0
2007 1st half	389.3 to 391.9	121.2	98.2 to 98.9	0.5 to 1.3	609.1 to 613.2	166.5 to 167.7	775.7 to 780.9	188.0 to 189.2	0.1	587.8 to 591.8
2nd half	394.3 to 397.9	122.7	100.4 to 101.3	1.3 to 2.5	618.8 to 624.5	170.5 to 172.0	789.3 to 796.5	192.5 to 194.2	0.1	596.9 to 602.4
2008 1st half	399.5 to 404.2	124.3	102.4 to 103.6	1.0 to 2.5	627.3 to 634.6	174.5 to 176.6	801.9 to 811.2	196.7 to 198.9	0.1	605.3 to 612.4
2nd half	404.4 to 410.1	125.7	104.2 to 105.7	0.8 to 2.6	635.2 to 644.2	178.5 to 181.1	813.7 to 825.2	200.7 to 203.6	0.1	613.1 to 621.8
	Percentage changes on previous year ^{4,5}									
2005	1¾	2	3¼	-¼	1¾	5¼	2½	4¾	0	1¾
2006	2 to 2½	2½	1¾ to 2	-¼ to 0	2 to 2¼	5 to 5½	2¾ to 3	4¼ to 4¾	0	2 to 2½
2007	2¼ to 2¾	2½	4 to 4½	0 to ¼	2¾ to 3¼	4¾ to 5¼	3¼ to 3¾	4½ to 5	0	2¾ to 3¼
2008	2½ to 3	2½	4 to 4½	0	2¾ to 3¼	4¾ to 5¼	3¼ to 3¾	4½ to 5	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 percent 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			
	2005	Forecast		
		2006	2007	2008
<i>Major 7 countries¹</i>				
Real GDP	2½	2½	2½	2½
Consumer price inflation ²	2½	2½	2¼	2½
Euro area: Real GDP	1½	1¾	2	2
World GDP	4½	4½	4½	4½
World trade in goods and services	7	7¾	7	6¾
UK export markets ³	6¼	7¼	6¼	6

¹ G7: US, Japan, Germany, UK, France, Italy and Canada.

² Per cent, Q4.

³ Other countries' imports of UK goods and services weighted according to their importance in UK exports.

Table 12: Consensus forecasts for GDP growth in major economies¹

	Percentage changes on previous year		
	November 2005	March 2006	
	2006	2006	2007
USA	3.3	3.3	3.0
Euro-area	1.7	2.1	1.8
Japan	1.9	2.9	2.1

¹ 'Consensus forecasts', Consensus Economics Inc.

Chart 24: G7 GDP and world trade

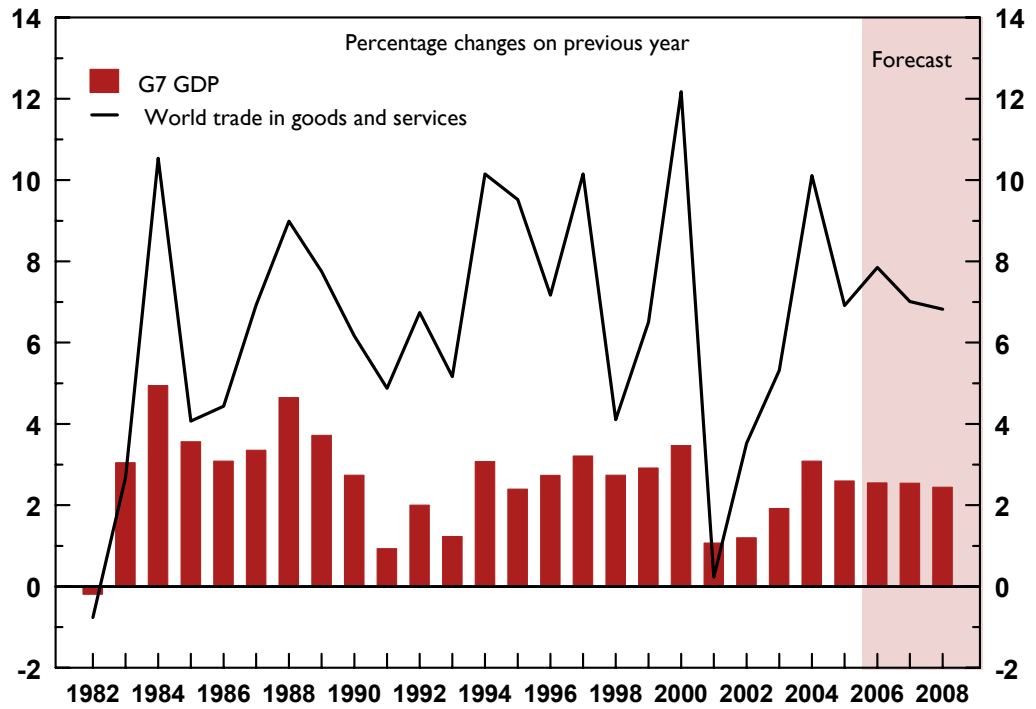
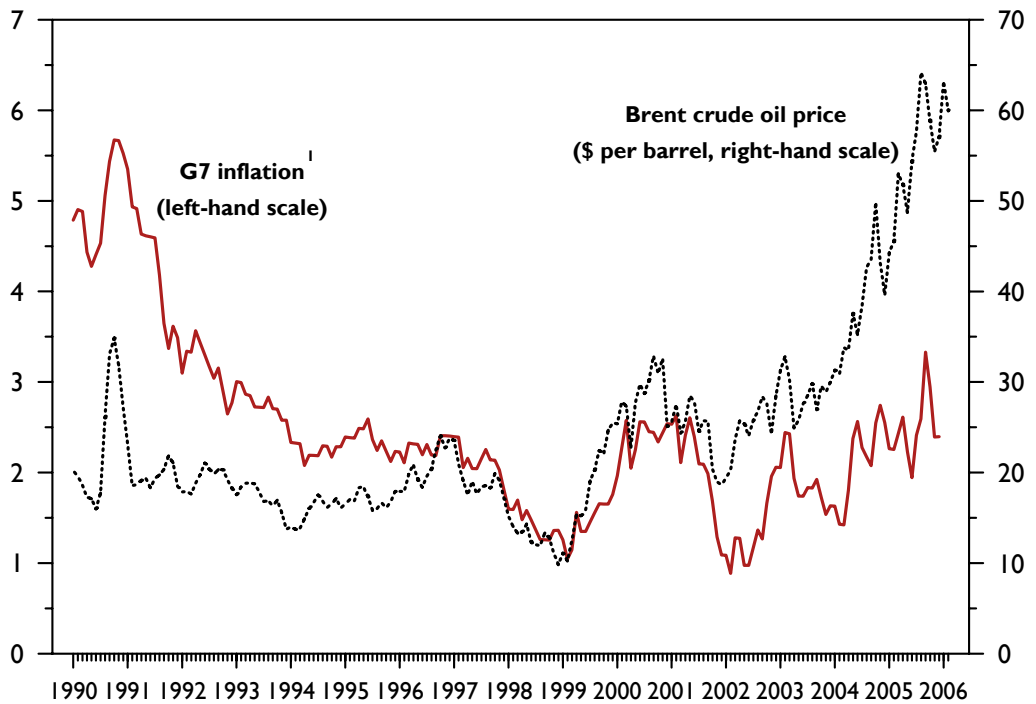


Chart 25: G7 inflation and oil prices



¹ Consumer price index, percentage changes on a year earlier.