

Budget 2007: the economy - supplementary charts and tables

March 2007



HM TREASURY



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**Budget 2007:
the economy -
supplementary charts and tables**

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THE ECONOMY

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 21 March 2007, 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 2006 released by the Office for National Statistics (ONS) on 23 February 2007. This release also contained revisions to earlier quarters of 2006, which the Treasury has carried through to other National Accounts series that the ONS has not yet revised, in particular sectoral saving and borrowing. A fully consistent National Accounts dataset to the fourth quarter will be published by the ONS on 28 March.

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 Budget.

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 $2\frac{3}{4}$ per cent a year. Details of this neutral assumption are set out in Table B2 of the Budget and the accompanying text. A paper published by the Treasury alongside Budget 2002¹ discussed the Treasury's trend output growth projections, while a further paper published alongside Pre-Budget Report 2006² provided an updated 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 Budget) are based on the lower end of the economic forecast ranges, which are consistent with a deliberately cautious assumption for annual trend output growth a $\frac{1}{4}$ percentage point lower than the neutral view. 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 developments and prospects*, HM Treasury, April 2002.

² *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

THE DEGREE OF SPARE CAPACITY

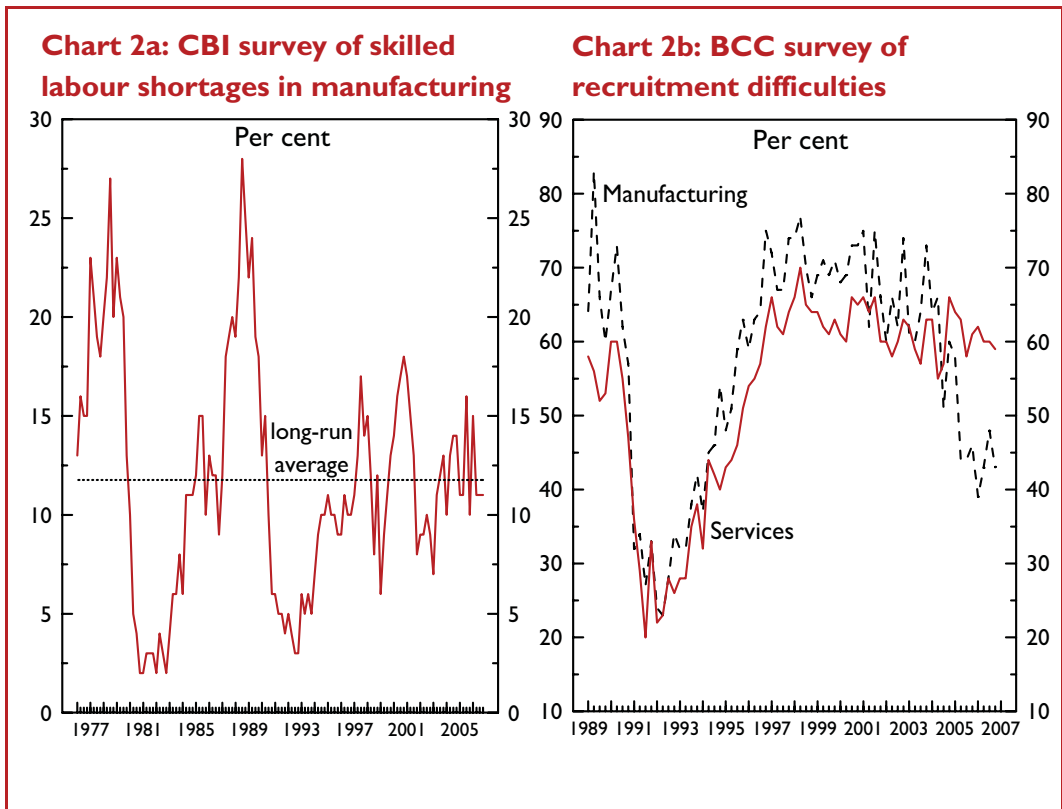
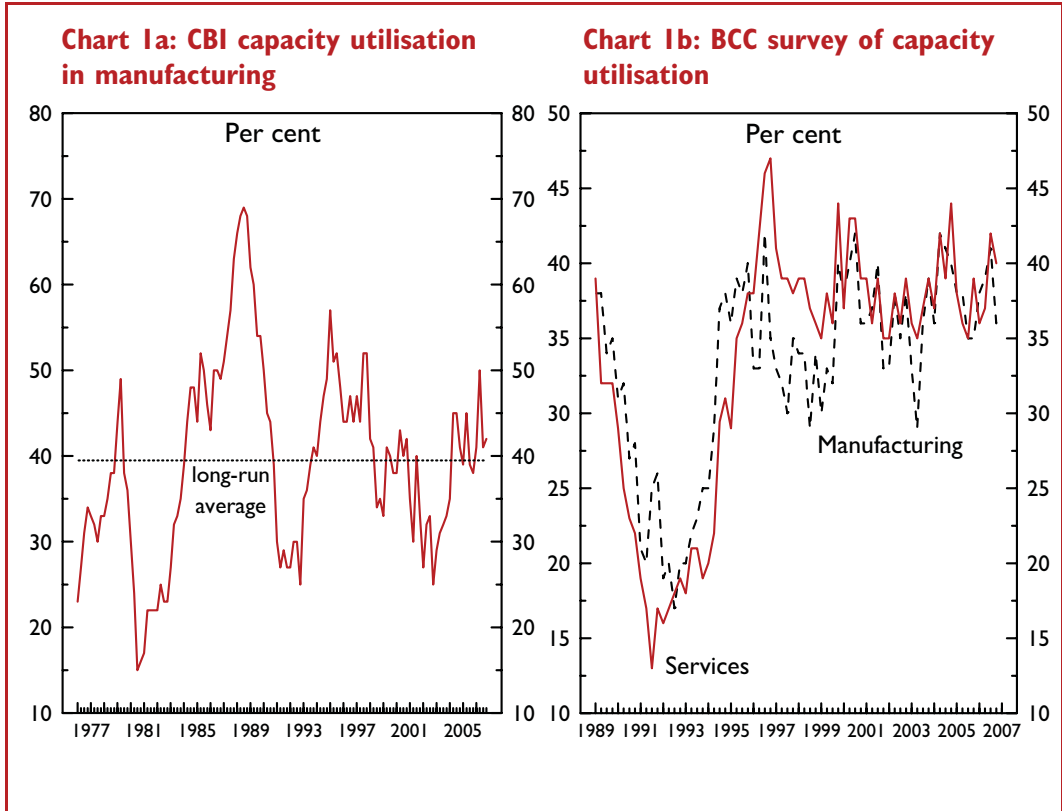
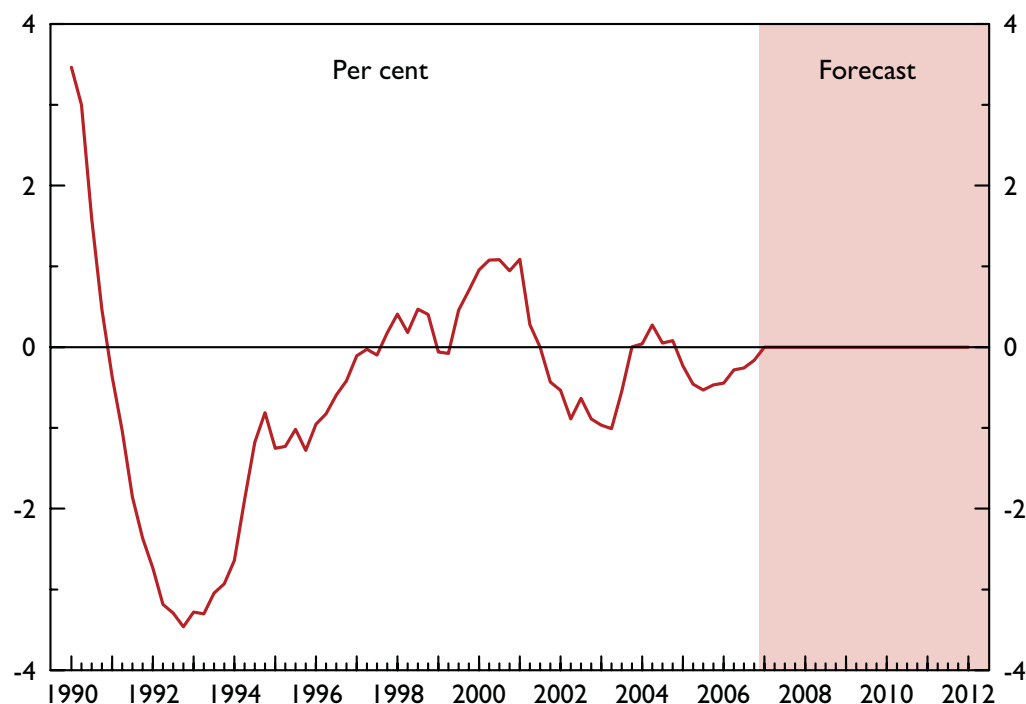


Chart 3: The output gap¹

¹ Actual output less trend output as a percent of trend output (non-oil basis). From 2005Q1 until the output gap is forecast to close in 2007Q1, the figures presented in this chart are: -0.2, -0.5, -0.5, -0.5, -0.4, -0.3, -0.3, -0.2, 0.0. Thereafter, the output gap is forecast to be zero.

GROSS DOMESTIC PRODUCT (GDP)

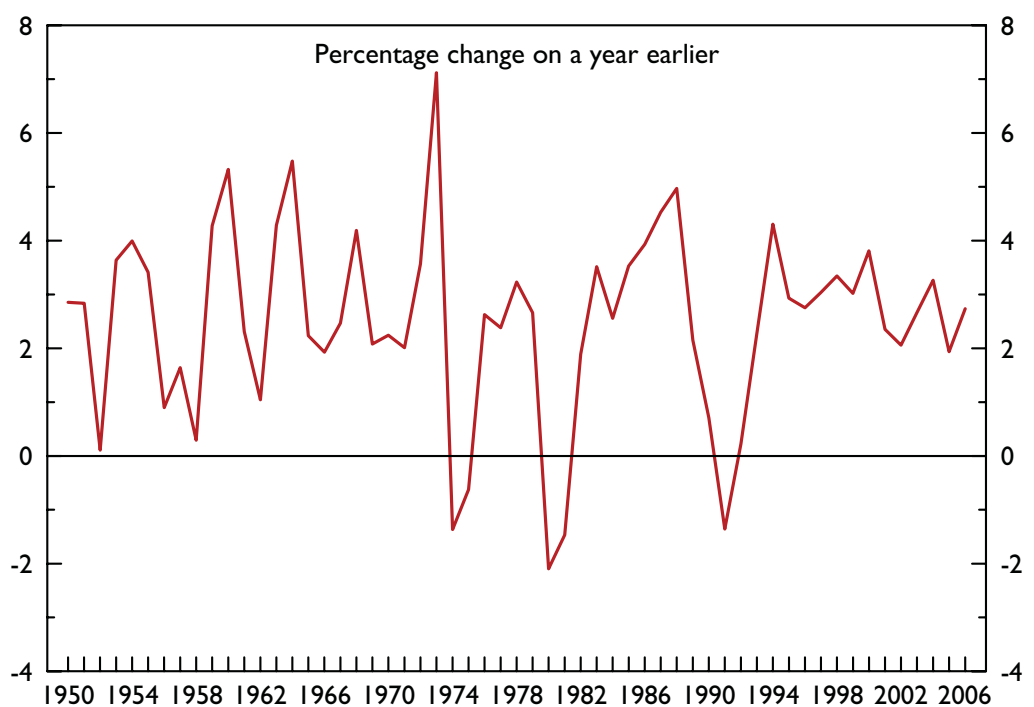
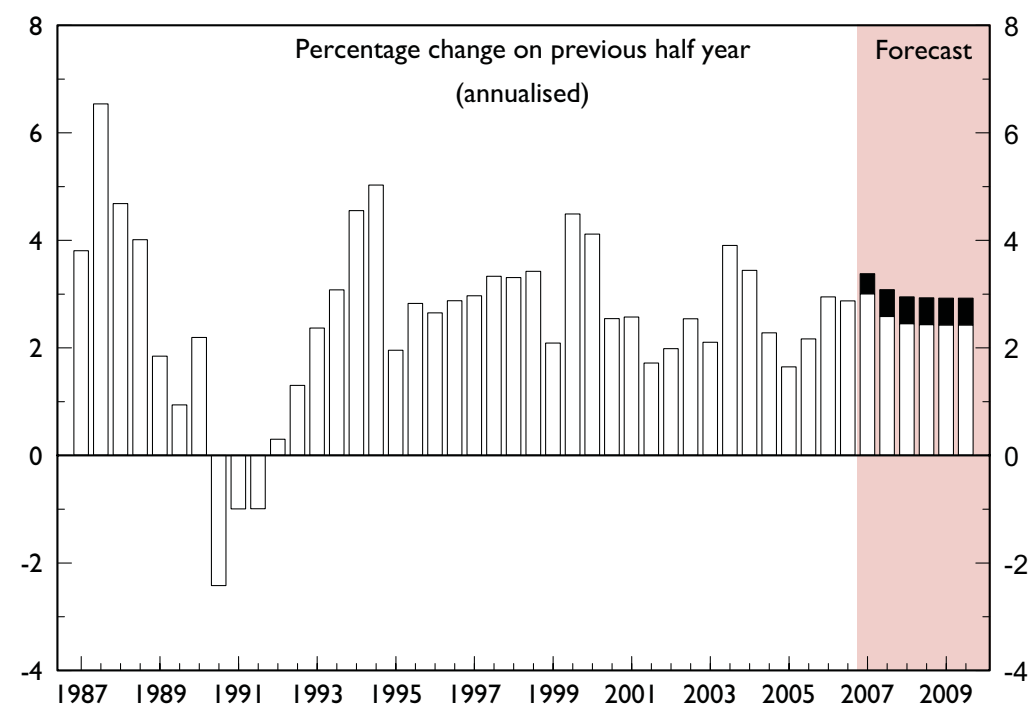
Chart 4: GDP

Table I: Quarterly GDP and non-oil GVA growth

	Percentage change on previous quarter							
	2005				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	0.3	0.5	0.5	0.7	0.7	0.7	0.7	0.8
Non-oil GVA	0.4	0.5	0.6	0.7	0.7	0.8	0.7	0.8

Chart 5: GDP forecast¹



¹ Darker areas on bars represent forecast ranges

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

	Percentage points, unless otherwise stated				
	Average 2000 to 2005	2006	Forecast		
			2007	2008	2009
GDP growth, per cent	2¾	2¾	2¾ to 3¼	2½ to 3	2½ to 3
Main contributions					
Private consumption	2	1½	1½	1½	1½
Business investment ³	¼	¾	¾	½	½
Government ^{3,4}	¾	½	¾	½	½
Change in inventories	0	¼	0	0	0
Net trade	-½	-½	-¼	0	0

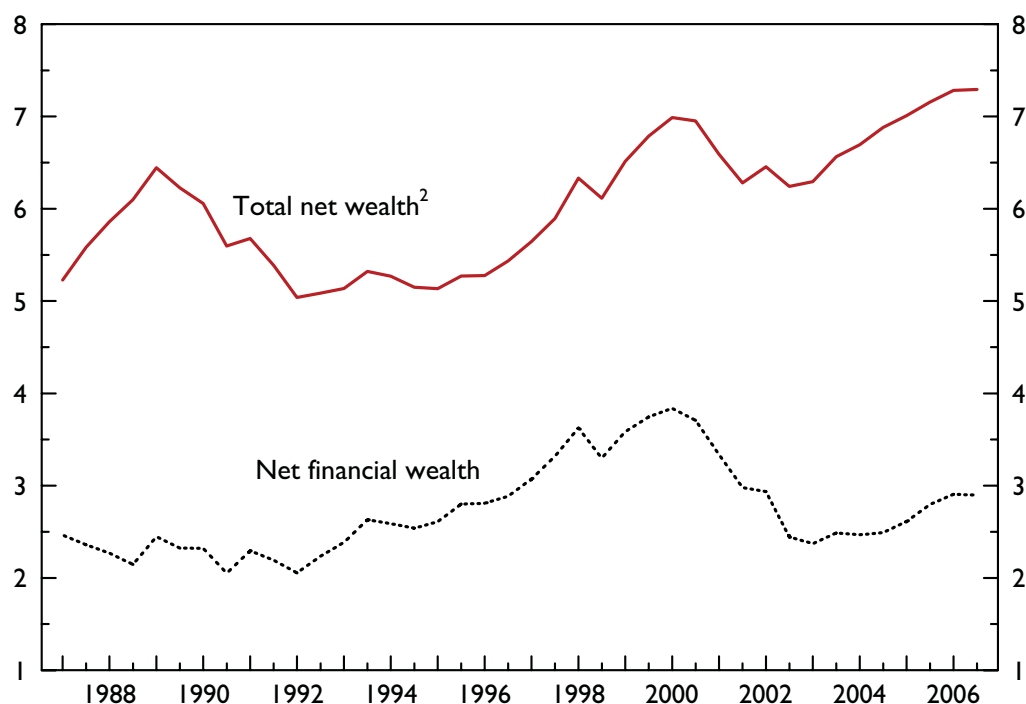
¹ Components may not sum to total due to rounding and omission of private residential investment, transfer costs of land and existing buildings and the statistical discrepancy.

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

³ Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2.

⁴ The sum of government consumption and government investment.

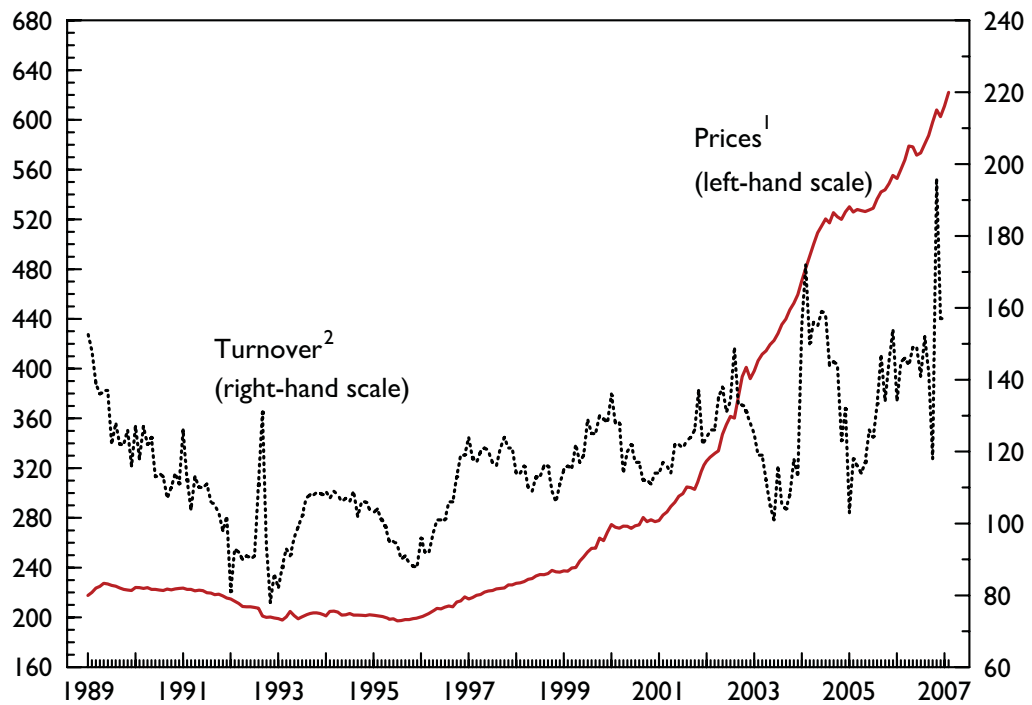
THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios¹¹ Semi-annual² Includes tangible (mainly housing) wealth. 2006 is part forecastTable 3: Household sector¹ expenditure and income

	Percentage change on a year earlier, unless otherwise stated			
	2006	Forecast		
		2007	2008	2009
Household consumption ²	2¼	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾
Real household disposable income	1¾	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾
Saving ratio ³ (level, per cent)	5¼	5½	5¾	5¾

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.

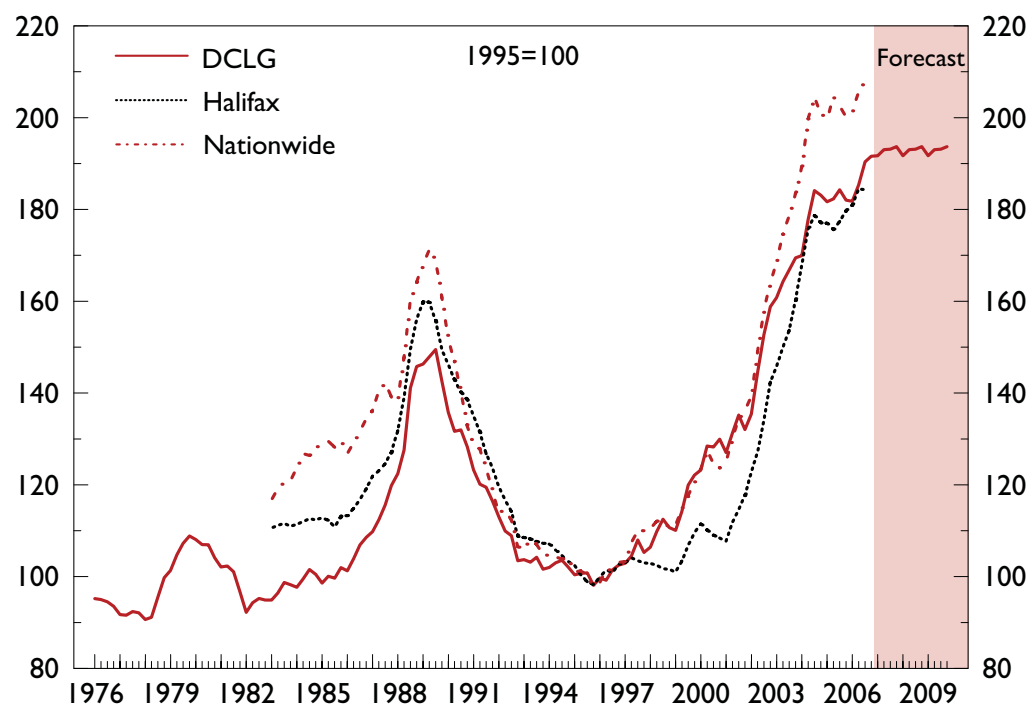
Chart 7: Housing turnover and prices



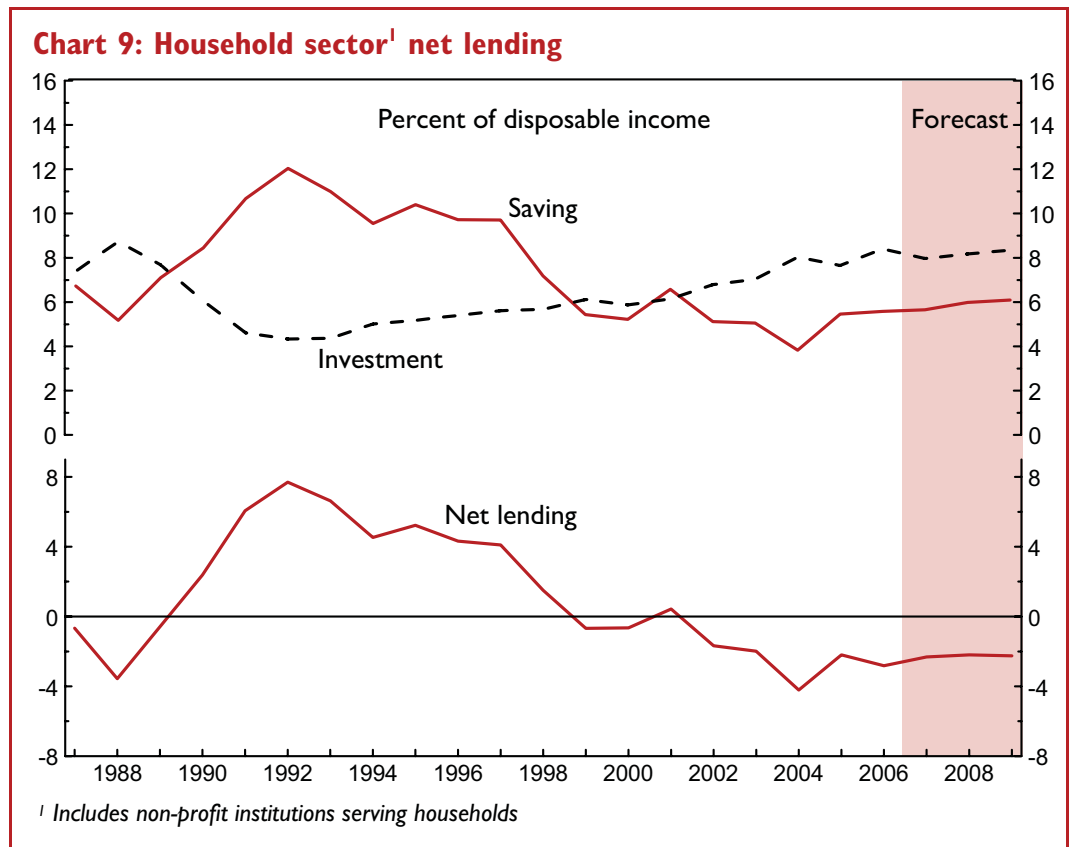
¹ Halifax index. 1983 = 100

² Property transactions, thousands

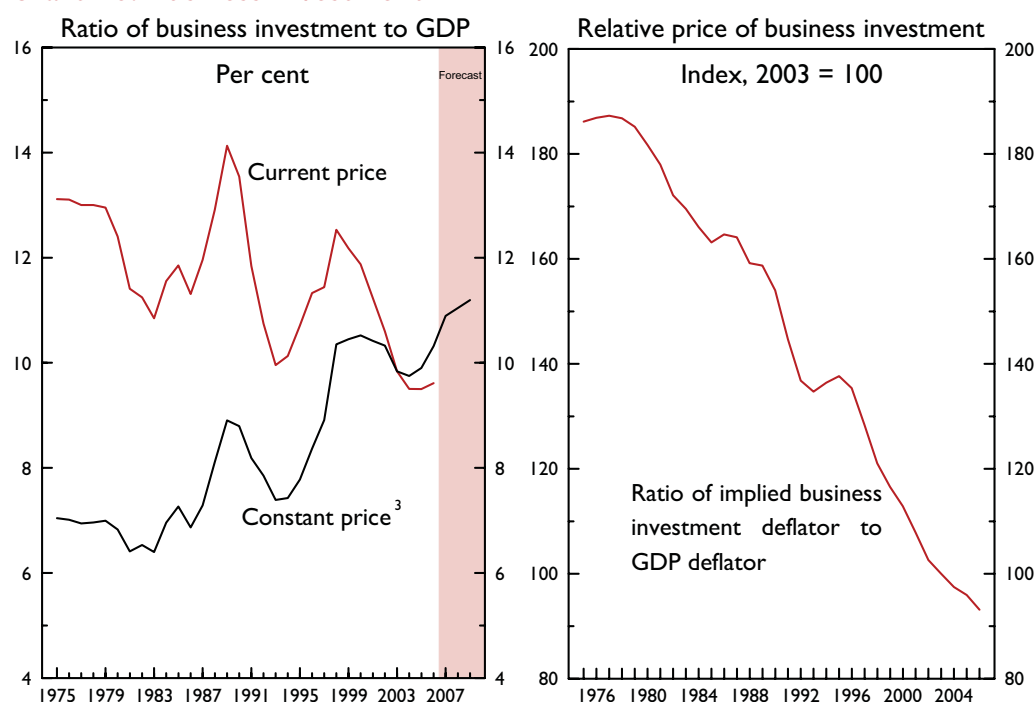
Chart 8: House price-earnings ratio¹



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



INVESTMENT

Chart 10: Business investment^{1,2}

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

² Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2

³ Ratio of business investment to GDP in chained volume measures

Table 4: Gross fixed capital formation

	Percentage change on a year earlier			
	2006	Forecast		
		2007	2008	2009
Whole economy ¹	6	6½ to 7	3¼ to 3¾	3¼ to 3¾
of which:				
Business ^{2,3,4}	7	7¼ to 7¾	3¾ to 4¼	3¾ to 4½
Private dwellings ³	8	3¾ to 4¼	2¾ to 3¼	2¾ to 3¼
General government ^{3,4}	2½	13½	3¾	2

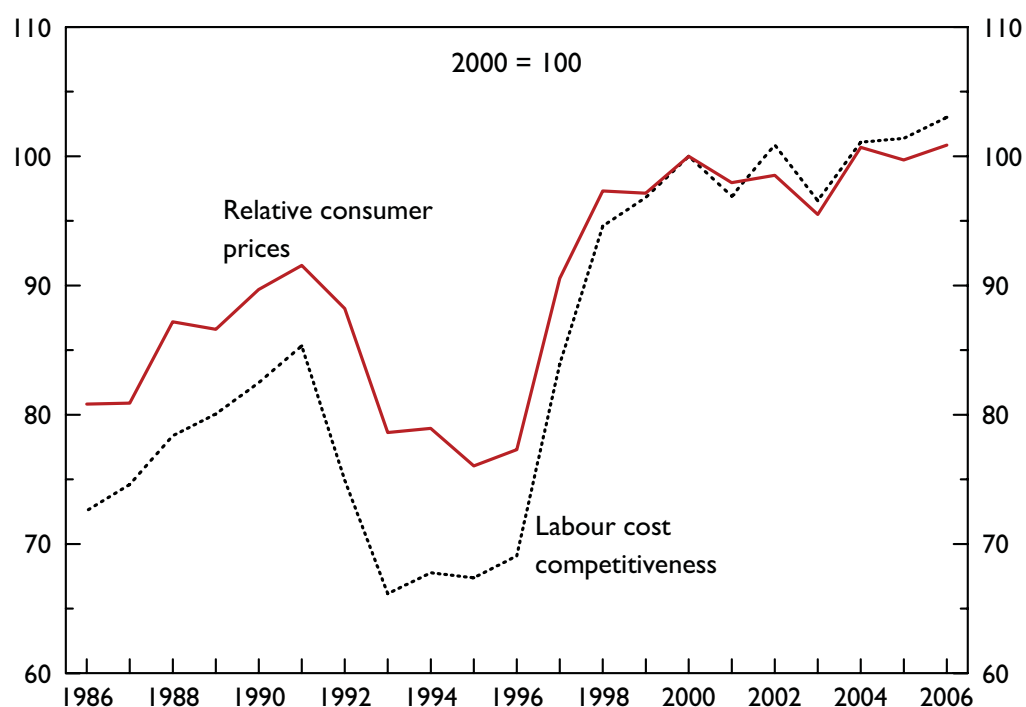
¹ Includes costs associated with the transfer of ownership of land and existing buildings.

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.

⁴ Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2.

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 80, 2006 / 11 (November 2006)

Table 5: Trade in goods and services

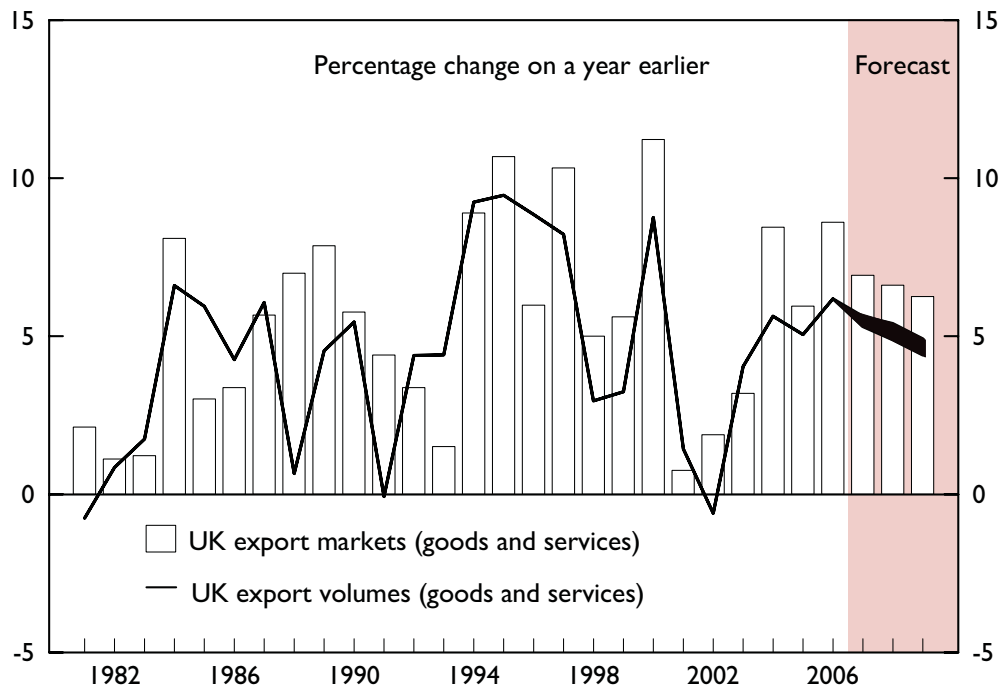
	Percentage change on a year earlier					£ billion
	Volumes (excluding MTIC) ¹		Prices ²		Terms of trade ³	
	Exports	Imports	Exports	Imports		
2006	6¼	7	1½	2½	-¾	-55¼
Forecast						
2007	5¼ to 5¾	5 to 5½	0	0	0	-56½
2008	5 to 5½	4¼ to 4¾	2	2	0	-58¼
2009	4½ to 5	4 to 4½	1½	1½	0	-60

¹ Table 10 contains figures including the effects of MTIC-related activity. In 2008 and 2009 export and import growth including and excluding MTIC are the same, reflecting forecast assumptions.

² Average value indices.

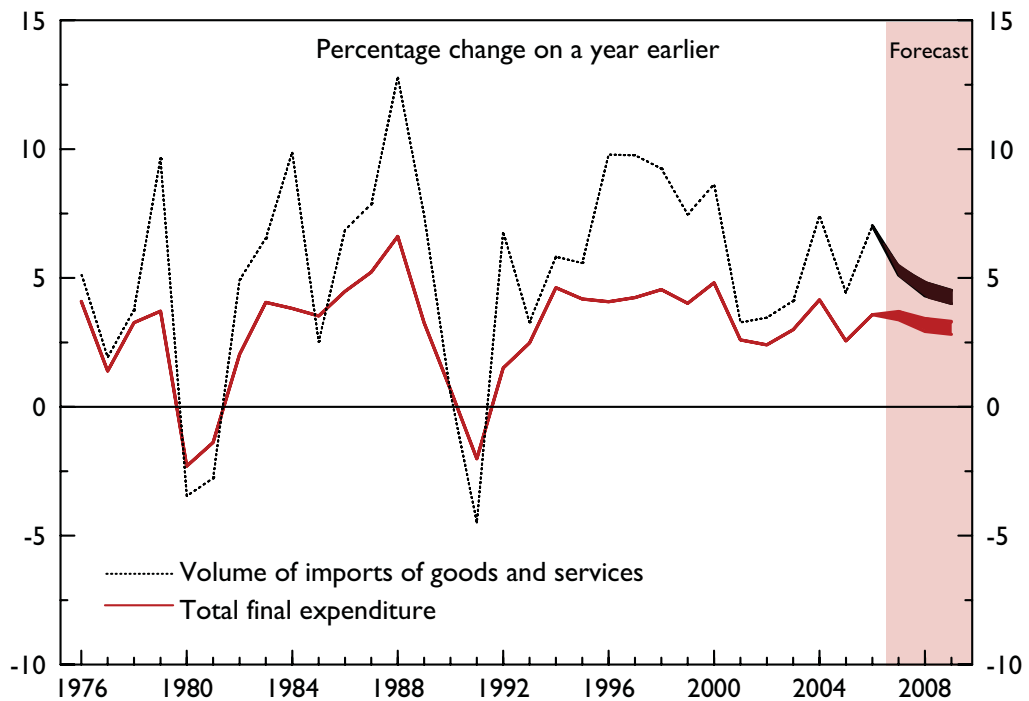
³ Ratio of export to import prices.

Chart 12: Exports¹ and overseas demand

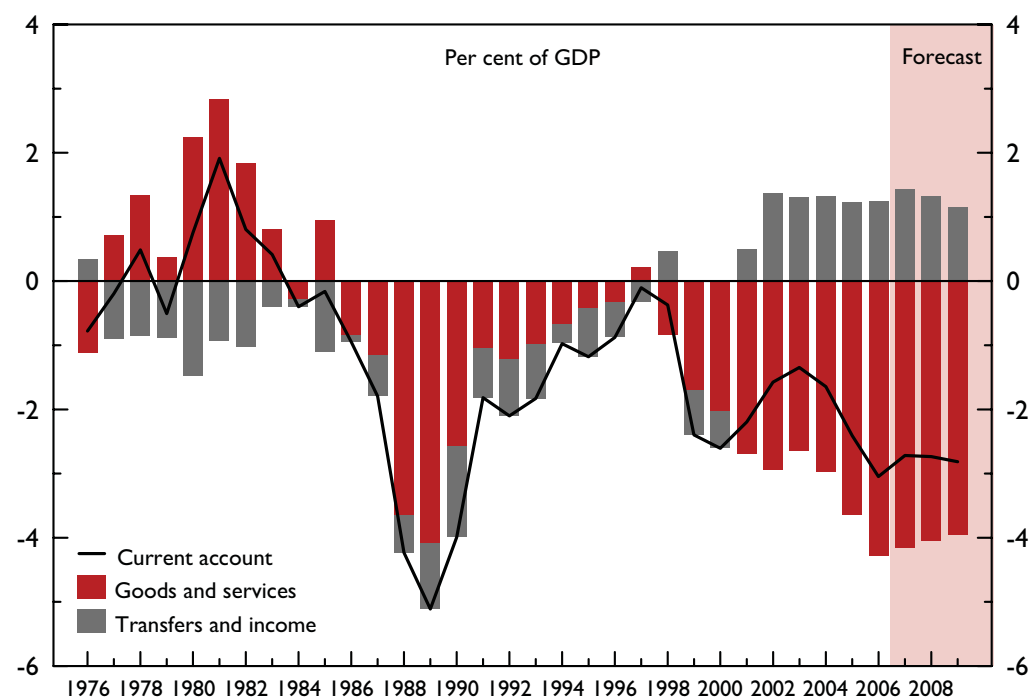


¹ Excluding the effects of activity related to missing trader intra-community (MTIC) fraud. Growth rates including estimates of MTIC are shown in Table 10

Chart 13: Imports and total final expenditure¹



¹ Excluding estimates of MTIC-related activity. Growth rates including estimates of MTIC are shown in Table 10

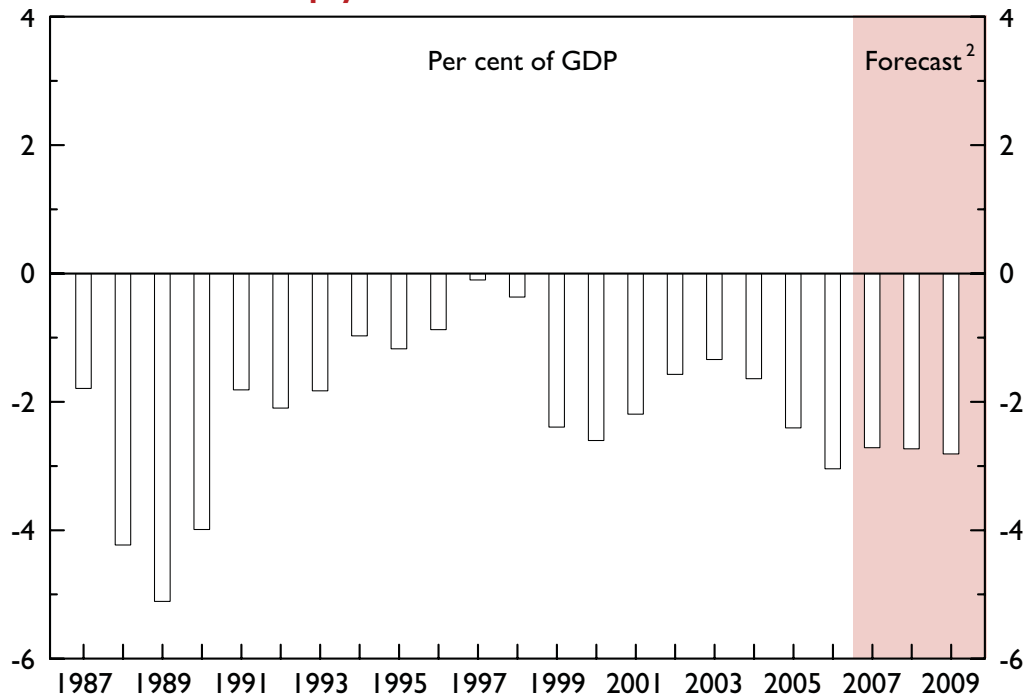
Chart 14: Balance of payments current account**Table 6: The current account**

	£ billion					Current balance
	Goods and services			Transfers	Income balance ¹	
	Non-oil	Oil	Total			
2006	-51½	-3¾	-55¼	-11¾	27½	-39¼
<i>Forecast</i>						
2007	-53½	-3	-56½	-10¾	30¼	-37
2008	-55½	-2¾	-58¼	-11¼	30¼	-39¼
2009	-56½	-3½	-60	-13¼	30½	-42¾

¹ Includes investment and employee income.

PATTERN OF NET LENDING

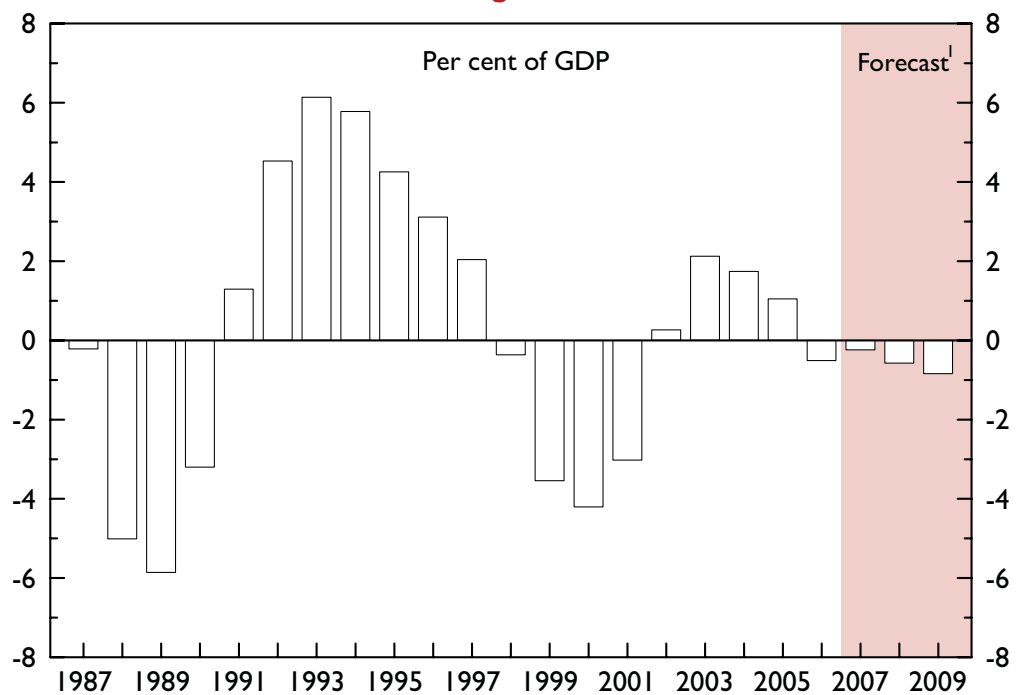
Chart 15a: Balance of payments current account balance¹



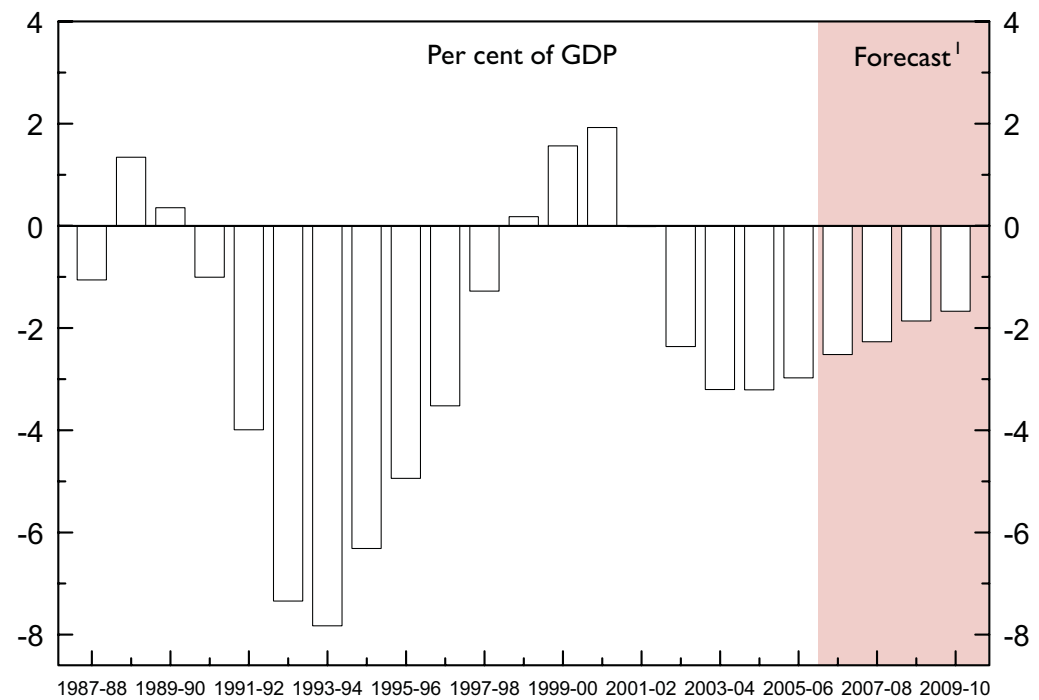
¹ The current account balance approximately equals net lending to the rest of the world, adjusted for net capital and net acquisitions of non-produced non-financial assets

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

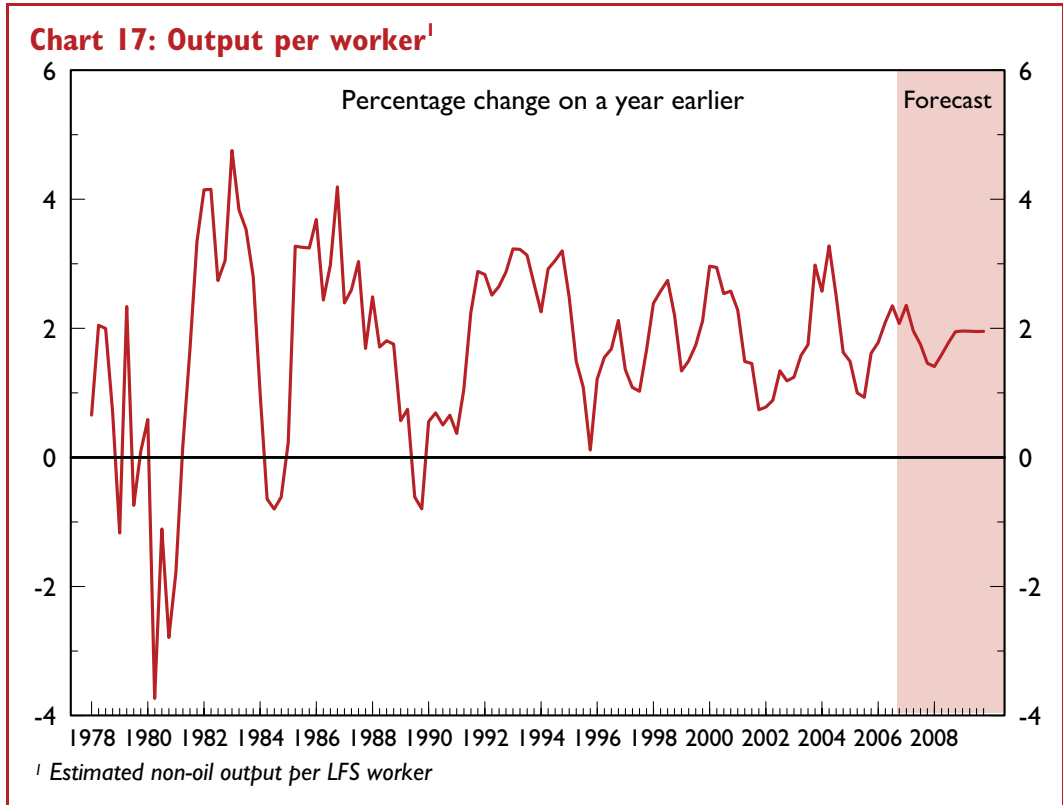
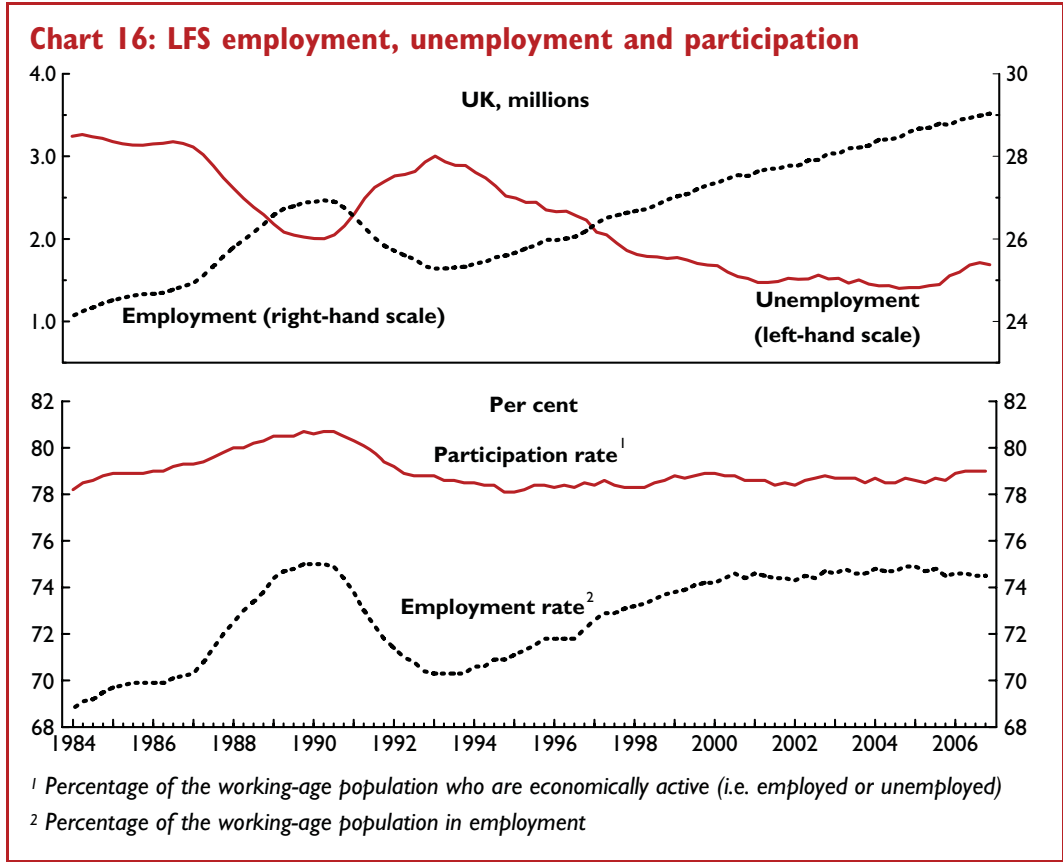
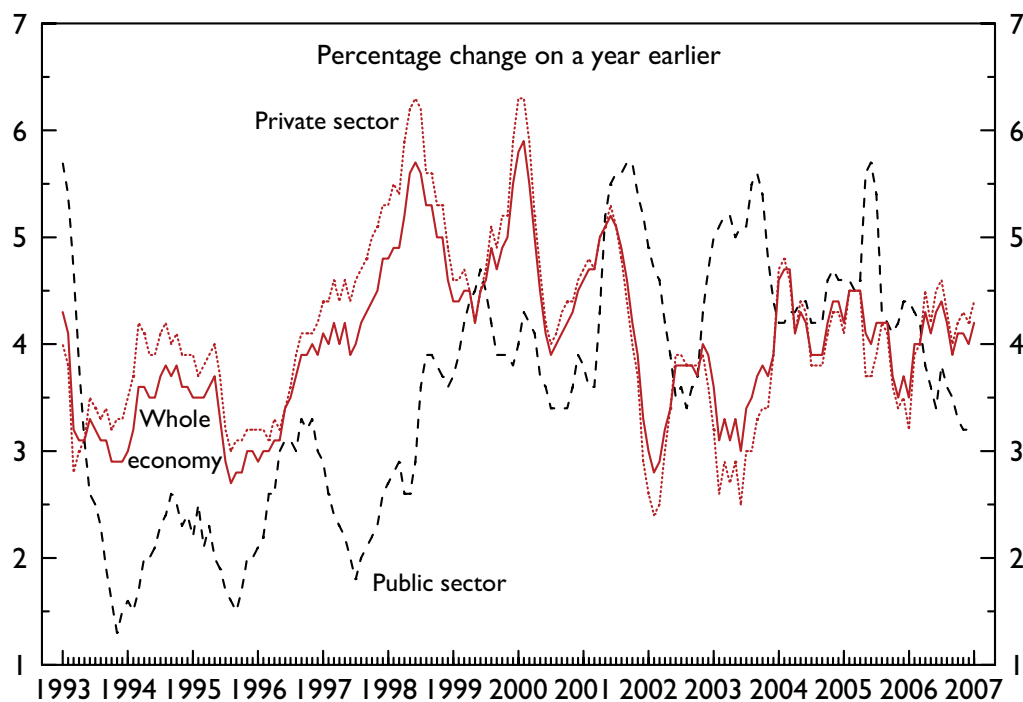


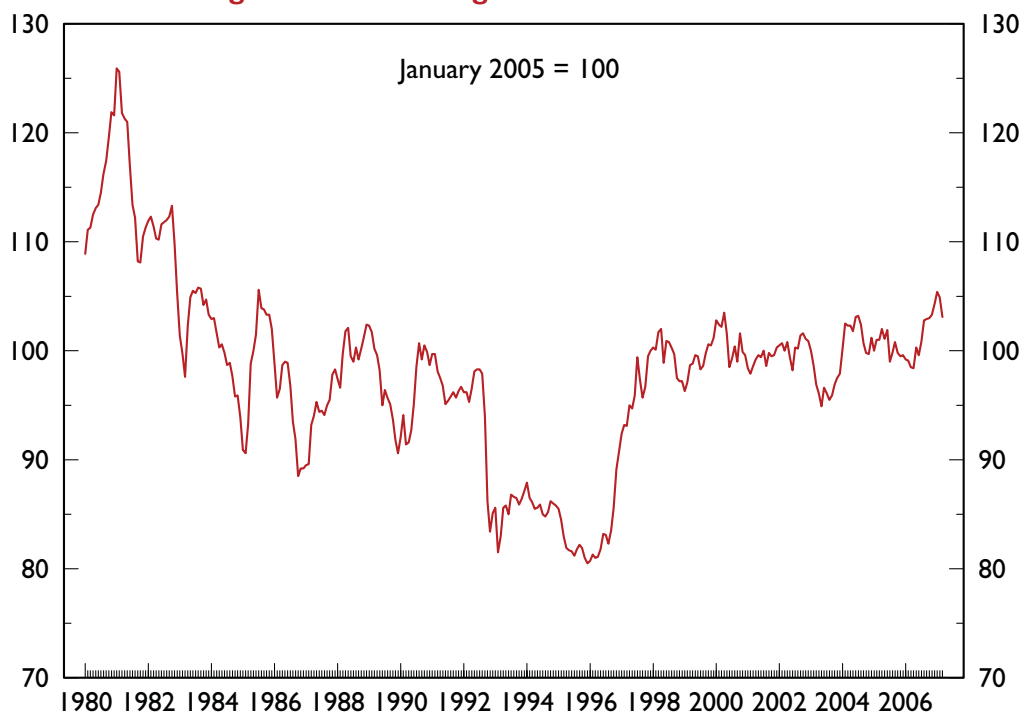
Chart 18: Average earnings by sector¹



¹ Including bonuses. Latest three months, seasonally adjusted

FINANCIAL DEVELOPMENTS

Chart 19: Sterling effective exchange rate index¹



¹ Latest data point: average of month-to-date up to, and including, 20 March 2007

Chart 20: UK interest rates

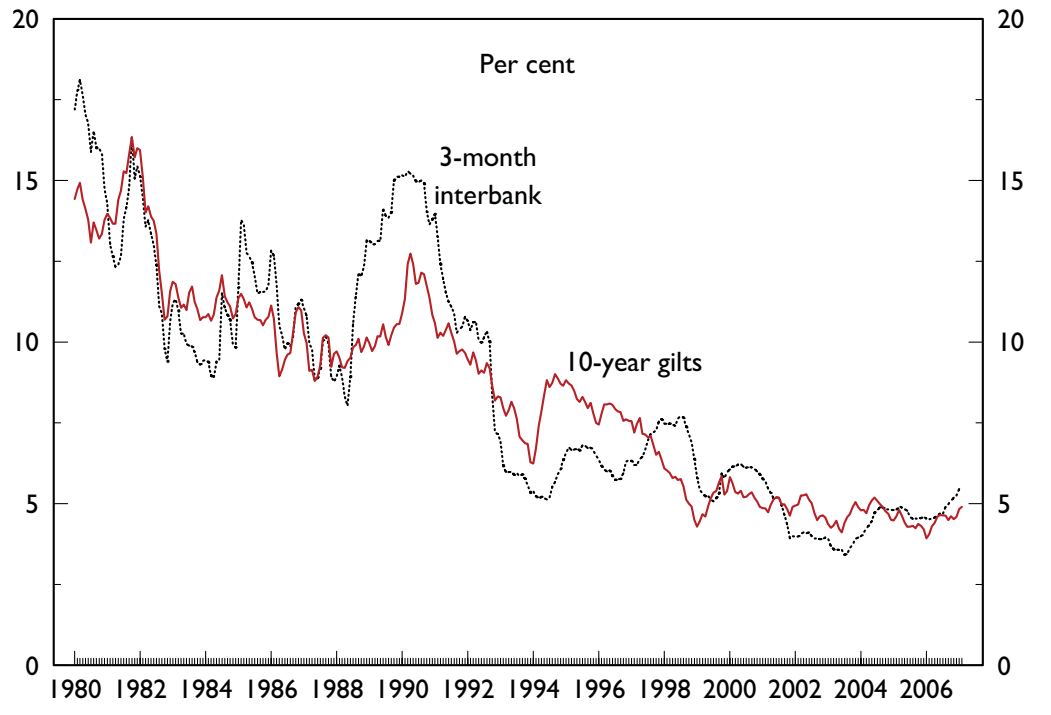
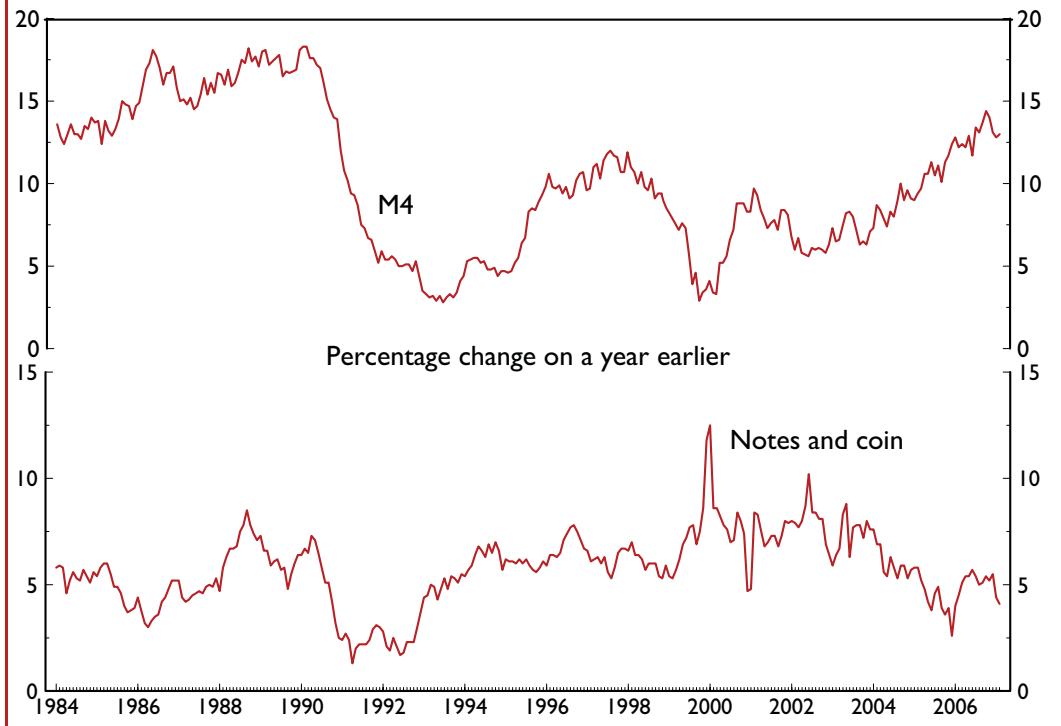


Chart 21: Monetary indicators



INFLATION

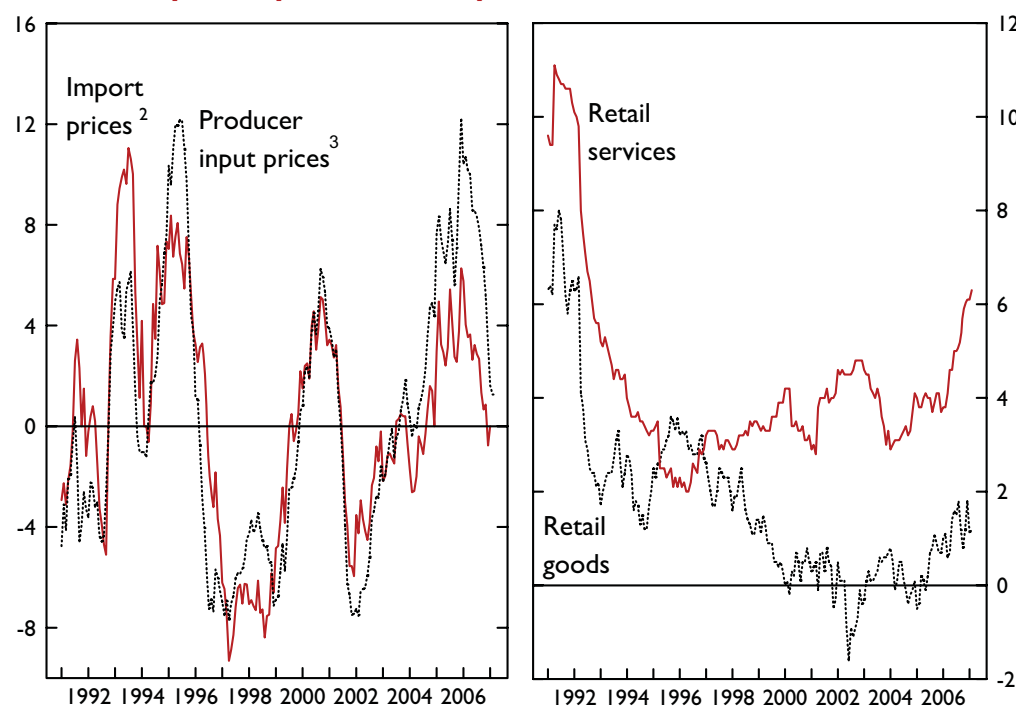
Chart 22: Import, input and retail prices¹¹ Percentage changes on a year earlier² All goods³ Including climate change levy, but excluding food, beverages, tobacco and petroleum

Table 7a: Consumer and producer output prices

	Percentage change on a year earlier							
	2006		2007		Forecast		2009	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2¼	2¾	2½	2	2	2	2	2
Producer output prices ¹	3¼	2	2¼	2¼	2	2	2	2

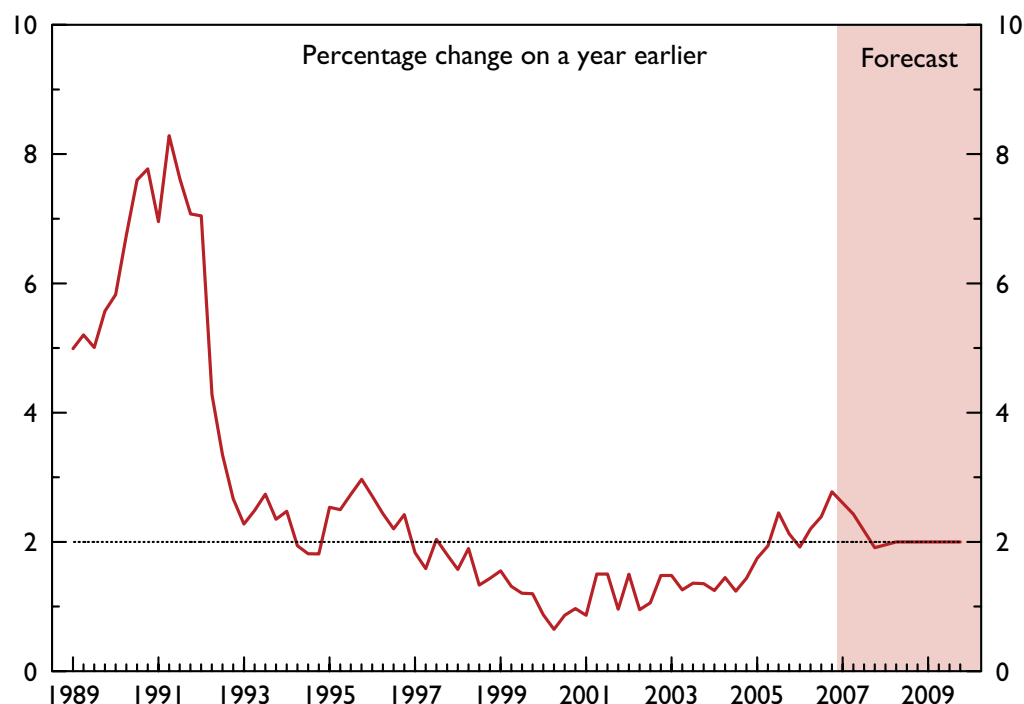
¹ Excludes excise duties.

Table 7b: Consumers expenditure deflator

	Percentage change on a year earlier, unless otherwise stated					
	2006		2007		Forecast	
	Level					
CED ²	107½	2	2½	2¾	2¾	2¾

² Consumers' expenditure deflator, Q4.

Chart 23: CPI¹



¹ Outturns until 2006Q4; forecasts for every second quarter from 2007Q1 to 2009Q4

COMPARISON WITH INDEPENDENT FORECASTS

Table 8: Budget and independent¹ forecasts

	Percentage change on a year earlier, unless otherwise stated					
	2007			2008		
	March Budget	Independent		March Budget	Independent	
		Average	Range		Average	Range
GDP growth	2¾ to 3¼	2.6	1.3 to 3.0	2½ to 3	2.3	-0.3 to 2.9
CPI (Q4)	2	1.9	1.4 to 3.0	2	2.0	1.5 to 2.3
Current account (£ billion)	-37	-36.1	-56.9 to -25.1	-39¼	-37.8	-63.7 to -23.8

¹ 'Forecasts for the UK economy: A comparison of independent forecasts', March 2007.

COMPARISON WITH PRE-BUDGET REPORT 2006 FORECAST

Table 9: Comparison with Pre-Budget Report 2006 forecast

		Percentage change on a year earlier, unless otherwise stated	
		December 2006	March 2007
		PBR	Budget
Gross domestic product	2007	2¾ to 3¼	2¾ to 3¼
	2008	2½ to 3	2½ to 3
	2009	2½ to 3	2½ to 3
CPI inflation (per cent, Q4)	2007	2	2
	2008	2	2
	2009	2	2
Current account (£ billion)	2007	-37½	-37
	2008	-38¾	-39¼
	2009	-40¾	-42¾

SUMMARY TABLES

Table 10: Summary of economic prospects¹

	Percentage change on a year earlier, unless otherwise stated					
	2006	Forecast ^{2, 3, 4}			Average errors from past forecasts ⁵	
		2007	2008	2009	2007	2008
Output at constant market prices						
Gross domestic product (GDP)	2¾	2¾ to 3¼	2½ to 3	2½ to 3	¾	½
Manufacturing output	1½	1¾ to 2	1¾ to 2¼	1¾ to 2¼	1¼	1¾
Expenditure components of GDP at constant market prices⁶						
Domestic demand	3	2¾ to 3¼	2½ to 3	2¼ to 2¾	¾	¾
Household consumption ⁷	2¼	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾	¾	1
General government consumption	2	2½	2½	2	½	1
Fixed investment	6	6½ to 7	3¼ to 3¾	3¼ to 3¾	2¾	2¼
Change in inventories ⁸	¼	-¼ to 0	0	0	¼	¼
Exports of goods and services ⁹	11¼	-2½ to -2	4¾ to 5¼	4½ to 5	2¼	3¼
Imports of goods and services ⁹	11½	-1¾ to -1½	4¼ to 4¾	4 to 4½	2½	2¾
Exports of goods and services (excluding MTIC)	6¼	5¼ to 5¾	5 to 5½	4½ to 5	-	-
Imports of goods and services (excluding MTIC)	7	5 to 5½	4¼ to 4¾	4 to 4½	-	-
Balance of payments current account						
£ billion	-39¼	-37	-39¼	-42¾	8¾	9¼
per cent of GDP	-3	-2¾	-2¾	-2¾	¾	¾
Inflation						
CPI (Q4)	2¾	2	2	2	-	-
Producer output prices (Q4) ¹⁰	2	2¼	2	2	1	1½
GDP deflator at market prices	2¼	2¾	2¾	2¾	¼	½
Money GDP at market prices						
£ billion	1288¼	1361 to 1365	1432 to 1443	1506 to 1526	9	8
percentage change	5¼	5½ to 6	5¼ to 5¾	5¼ to 5¾	¾	½

¹ The UK forecast is consistent with output, income and expenditure data to the fourth quarter of 2006 released by the Office for National Statistics (ONS) on 23 February 2007.

This release also contained revisions to earlier quarters of 2006, which the Treasury has carried through to other National Accounts series that the ONS has not yet revised, in particular sectoral saving and borrowing. A fully consistent National Accounts dataset to the fourth quarter will be published by the ONS on 28 March.

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. 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 2007 and 2008.

⁶ Further detail on the expenditure components of GDP is given in Table 11.

⁷ Includes households and non-profit institutions serving households.

⁸ Contribution to GDP growth, percentage points.

⁹ Figures up to and including 2007 are distorted by estimates of MTIC-related activity. Growth rates excluding MTIC are shown in subsequent lines of this table and in Table 5.

¹⁰ Excluding excise duties.

Table 1 I: 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 ³	Total final expenditure	Less imports of goods and services ³	Plus statistical discrepancy ⁴	GDP at market prices
2006	775.3	252.2	207.6	5.6	1240.8	359.0	1599.9	400.6	1.5	1200.7
2007	793.3 to 795.7	258.2	221.2 to 221.9	3.7 to 4.5	1276.4 to 1280.3	350.4 to 351.5	1626.9 to 1631.8	393.6 to 394.8	1.8	1235.1 to 1238.9
2008	810.2 to 816.7	264.4	228.6 to 230.4	3.7 to 5.8	1306.9 to 1317.3	367.5 to 370.4	1674.4 to 1687.7	410.4 to 413.7	1.8	1265.7 to 1275.8
2009	828.8 to 839.4	269.8	235.8 to 238.9	3.5 to 7.0	1337.9 to 1355.1	383.6 to 388.5	1721.5 to 1743.6	426.8 to 432.3	1.8	1296.5 to 1313.1
2006 1st half	384.9	125.5	101.9	4.1	616.5	189.5	806.0	210.5	0.6	596.1
2nd half	390.4	126.8	105.7	1.5	624.3	169.5	793.9	190.1	0.9	604.6
2007 1st half	394.8 to 395.5	128.5	109.2 to 109.4	1.7 to 1.9	634.2 to 635.4	172.8 to 173.2	807.1 to 808.5	194.4 to 194.7	0.9	613.6 to 614.7
2nd half	398.5 to 400.2	129.7	112.0 to 112.5	2.0 to 2.6	642.2 to 645.0	177.6 to 178.3	819.8 to 823.3	199.2 to 200.0	0.9	621.5 to 624.1
2008 1st half	402.7 to 405.4	131.4	113.6 to 114.4	2.0 to 2.9	649.7 to 654.1	181.8 to 183.0	831.5 to 837.0	203.3 to 204.7	0.9	629.1 to 633.3
2nd half	407.5 to 411.3	133.0	115.0 to 116.0	1.7 to 2.9	657.2 to 663.3	185.7 to 187.4	842.9 to 850.6	207.1 to 209.0	0.9	636.7 to 642.5
2009 1st half	412.1 to 416.9	134.3	116.9 to 118.2	1.7 to 3.3	665.0 to 672.7	189.7 to 191.9	854.7 to 864.7	211.3 to 213.7	0.9	644.3 to 651.8
2nd half	416.6 to 422.5	135.5	119.0 to 120.6	1.8 to 3.7	672.9 to 682.4	193.8 to 196.6	866.7 to 879.0	215.5 to 218.6	0.9	652.1 to 661.3
Percentage changes on previous year ^{5,6}										
2006	2¼	2	6	¼	3	11¼	4¾	11½	¼	2¾
2007	2¼ to 2¾	2½	6½ to 7	0	2¾ to 3¼	-2½ to -2	1¾ to 2	-1¾ to -1½	0	2¾ to 3¼
2008	2¼ to 2¾	2½	3¼ to 3¾	0	2½ to 3	4¾ to 5¼	3 to 3½	4¼ to 4¾	0	2½ to 3
2009	2¼ to 2¾	2	3¼ to 3¾	0	2¼ to 2¾	4½ to 5	2¾ to 3¼	4 to 4½	0	2½ to 3

¹ Includes households and non-profit institutions serving households.

² Also includes acquisitions less disposals of valuables.

³ Figures up to and including 2007 are distorted by estimates of MTIC-related activity.

⁴ Expenditure adjustment.

⁵ For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

⁶ 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 12: The world economy

	Percentage change on a year earlier, unless otherwise stated			
	2006	Forecast		
		2007	2008	2009
World GDP	5	4¾	4¾	4½
Major 7 countries ¹ :				
Real GDP	2¾	2½	2½	2½
Consumer price inflation ²	1½	2	2	2
Euro area GDP	2¾	2¼	2¼	2¼
World trade in goods and services	9¾	7¾	7½	7
UK export markets ³	8½	7	6½	6¼

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

² Per cent, Q4.

³ Other countries' imports of goods and services weighted according to the importance of imports from the UK in those countries' total imports.

Table 13: Consensus forecasts for GDP growth in major economies¹

	Percentage change on a year earlier		
	November 2006	March 2007	
	2007	2007	2008
USA	2.5	2.4	3.0
Euro-area	1.9	2.3	2.1
Japan	2.0	2.1	2.2

¹ 'Consensus forecasts', Consensus Economics Inc.

Chart 24: G7 GDP and world trade

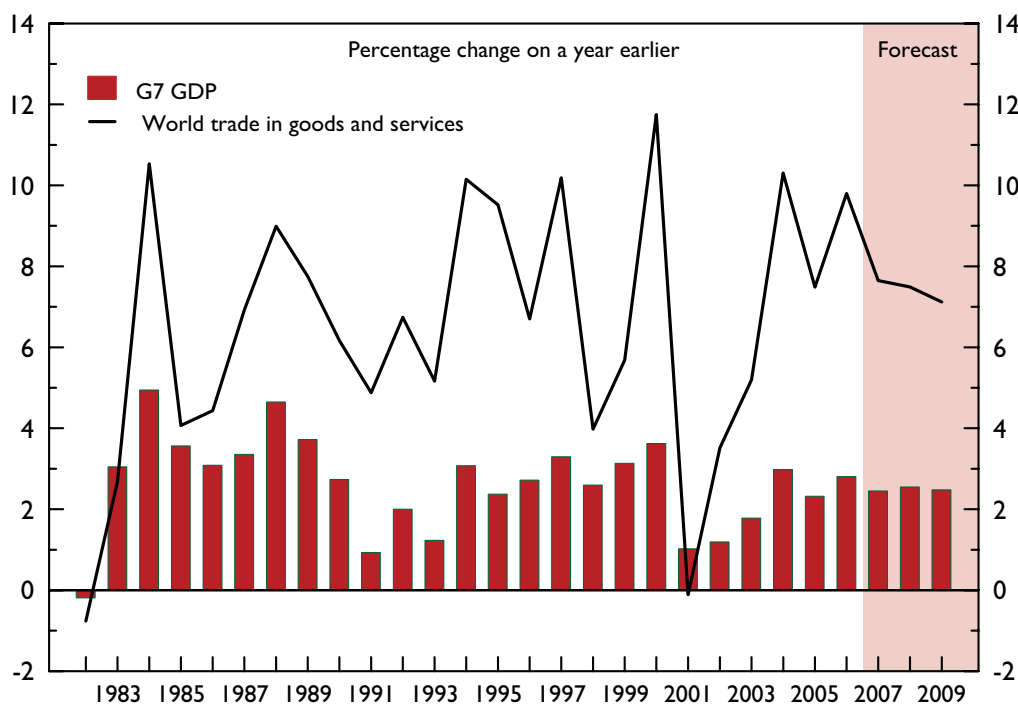
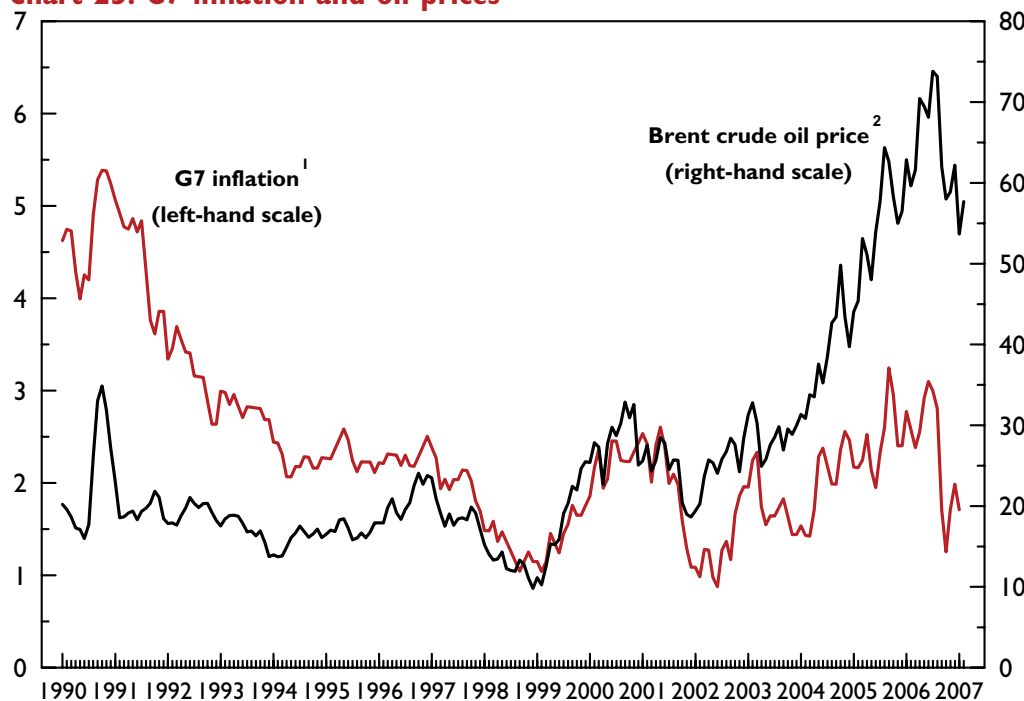


Chart 25: G7 inflation and oil prices



¹ Consumer price index, percentage change on a year earlier

² US dollar per barrel