

Budget 2002

The Economy: Supplementary Charts and Tables

April 2002



HM TREASURY

THE ECONOMY:

SUPPLEMENTARY MATERIAL TO THE 2002 FINANCIAL STATEMENT AND BUDGET REPORT

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THE ECONOMY

Introduction

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 17 April 2002, 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 national accounts and balance of payments statistics to the fourth quarter of 2001, released by the Office for National Statistics on 27 March 2002.

Forecast ranges 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 Chapter B of the FSBR.

The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are now 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 B3 of the FSBR, and are discussed in the accompanying text and in a separate paper¹. 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 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

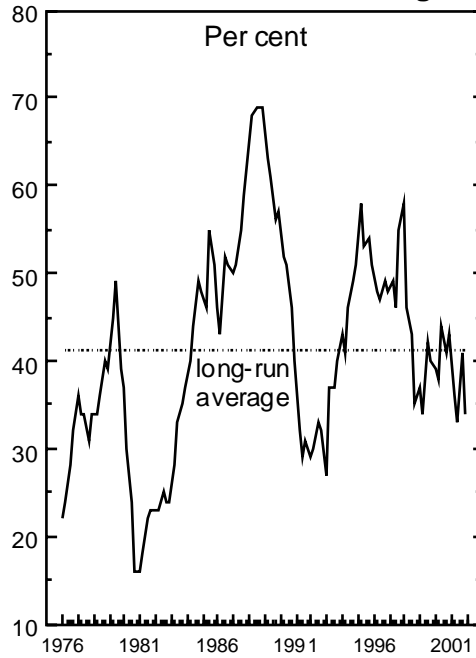


Chart 1b: BCC survey of capacity utilisation

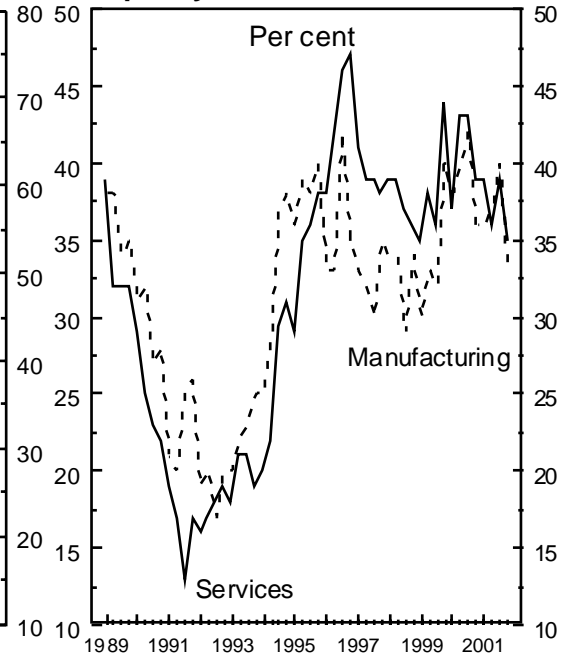


Chart 2a: CBI survey of skilled labour shortages in manufacturing

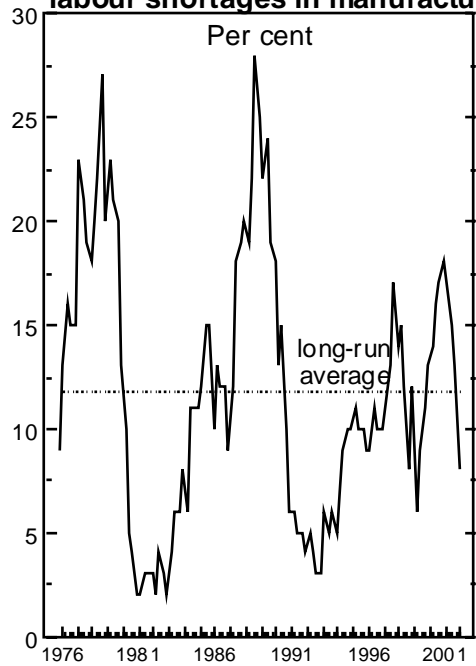
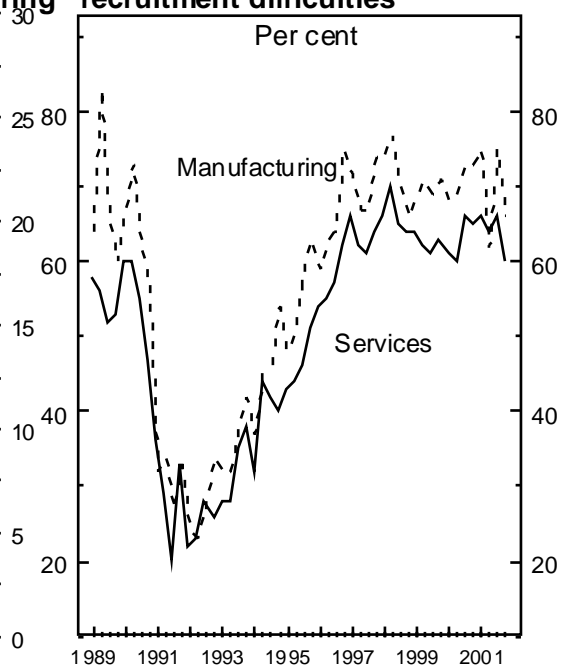
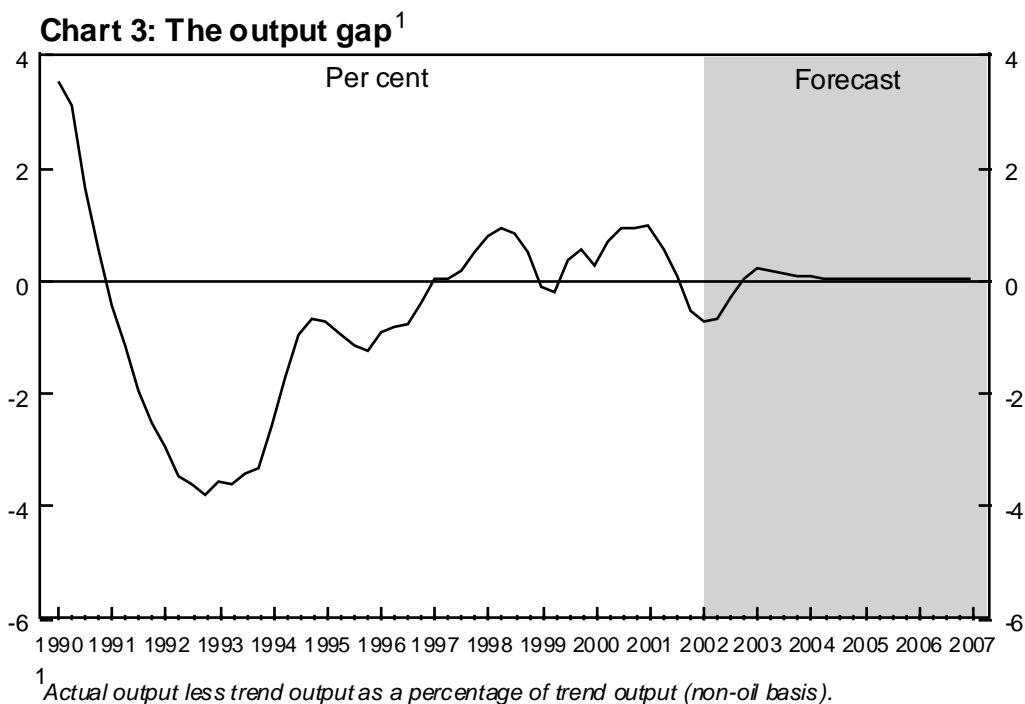


Chart 2b: BCC survey of recruitment difficulties





GDP

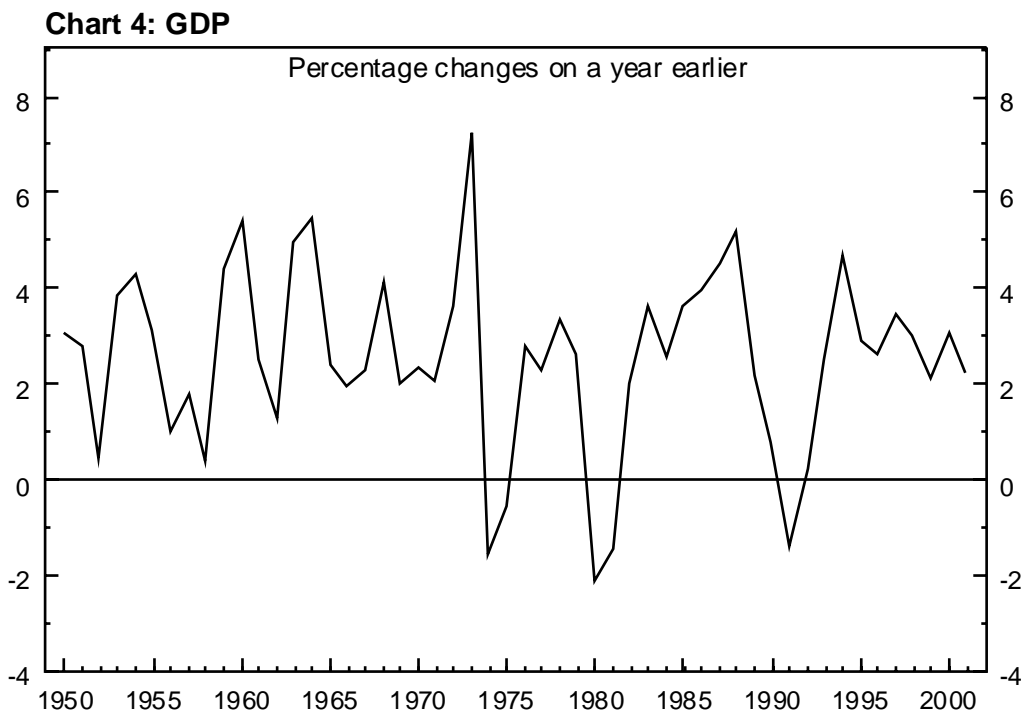
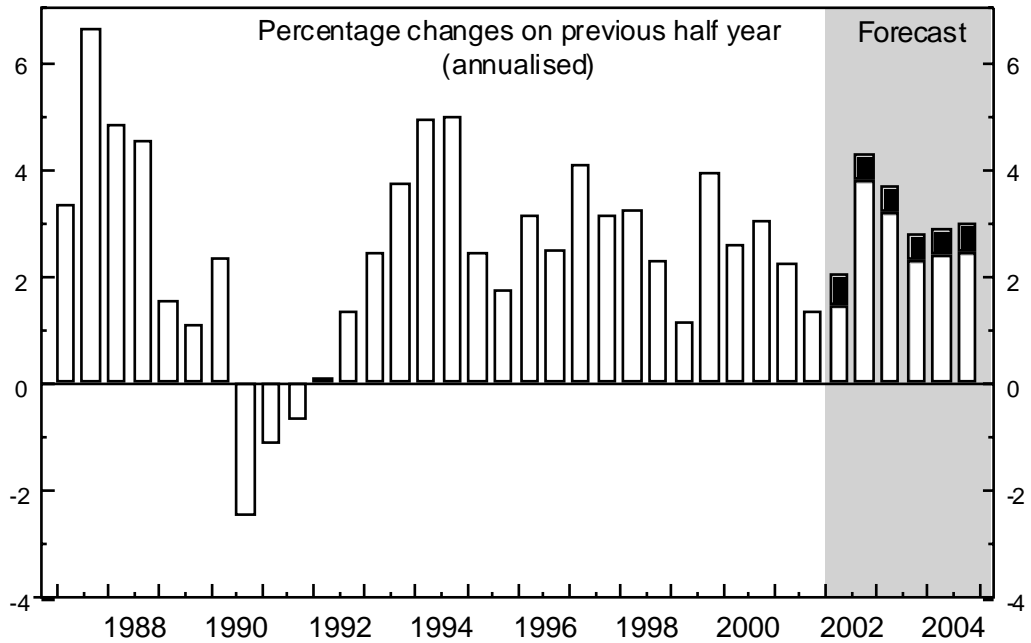


Chart 5: GDP forecast¹



¹ Darker areas on bars represent forecast ranges.

Table 1: Contributions to GDP¹ growth²

	Percentage points, unless otherwise stated			
	2001	Forecast		
		2002	2003	2004
Final domestic demand	3	3 to 3½	3¼ to 3½	2¾ to 3
Change in inventories	-¼	0	0	0
Total domestic demand	3	3 to 3½	3 to 3½	2½ to 3
Net trade	-¾	-1	0	-¼
GDP growth, per cent	2¼	2 to 2½	3 to 3½	2½ to 3

¹ At constant (1995) market prices.

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

The household sector

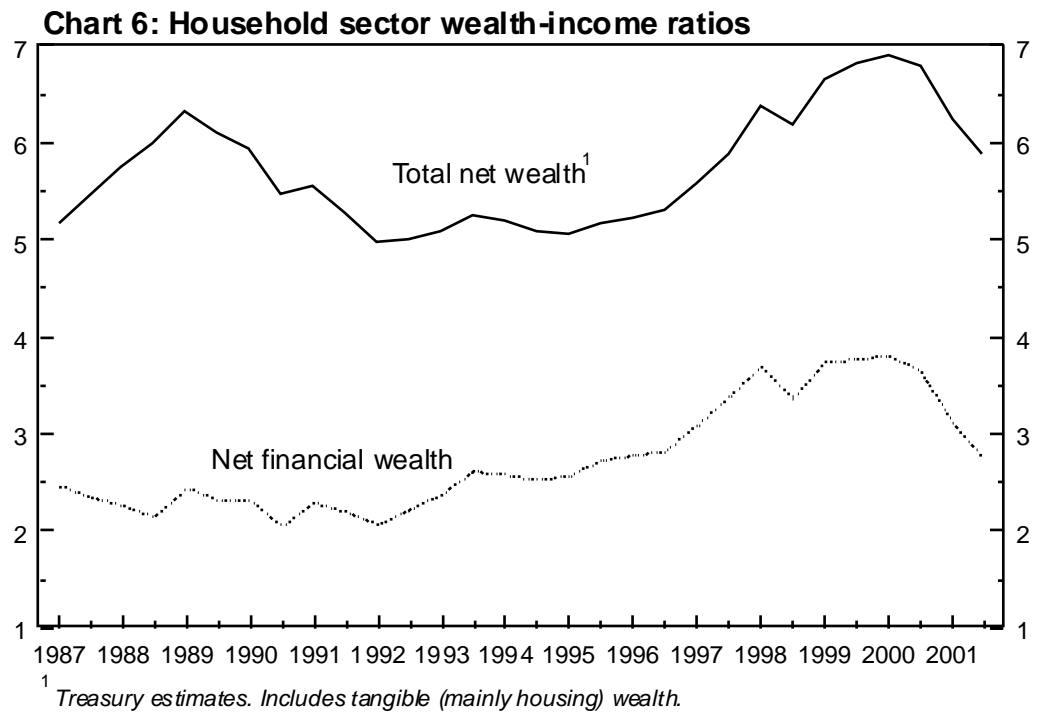


Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year unless otherwise stated			
	2001	Forecast		
		2002	2003	2004
Household consumption ²	3¾	3 to 3½	2¼ to 2¾	1¾ to 2¼
Real household disposable income	5	1¼ to 1¾	2 to 2½	2½ to 3
Saving ratio (level, per cent)	5½	3¾	4¼	4¾

¹ Including non-profit institutions serving households.

² At constant prices.

Chart 7: Housing turnover and prices

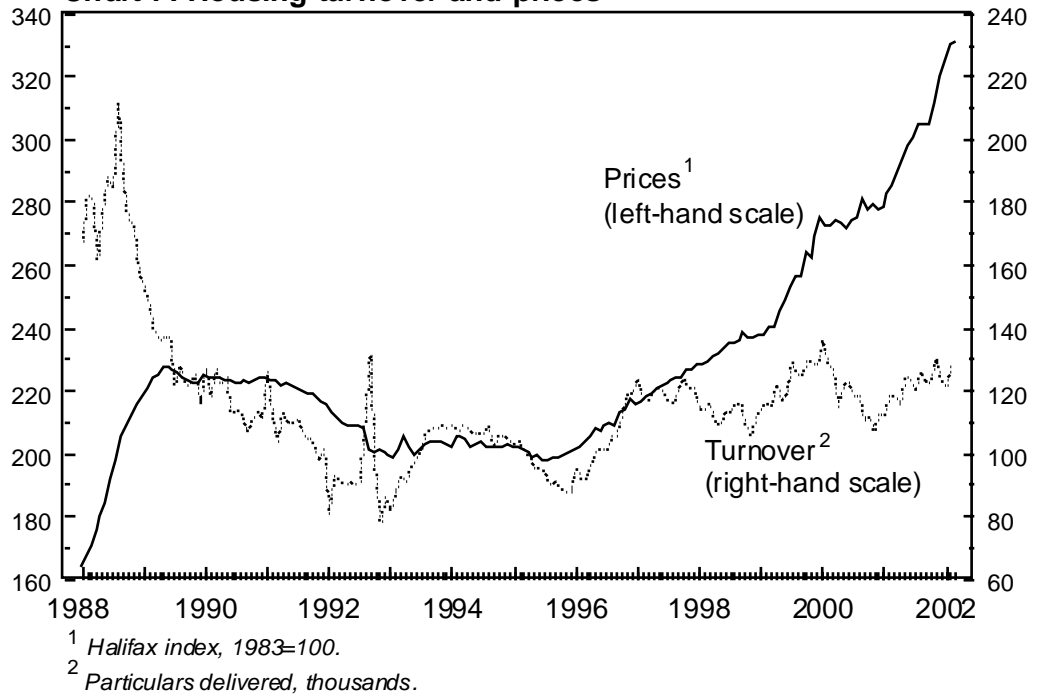
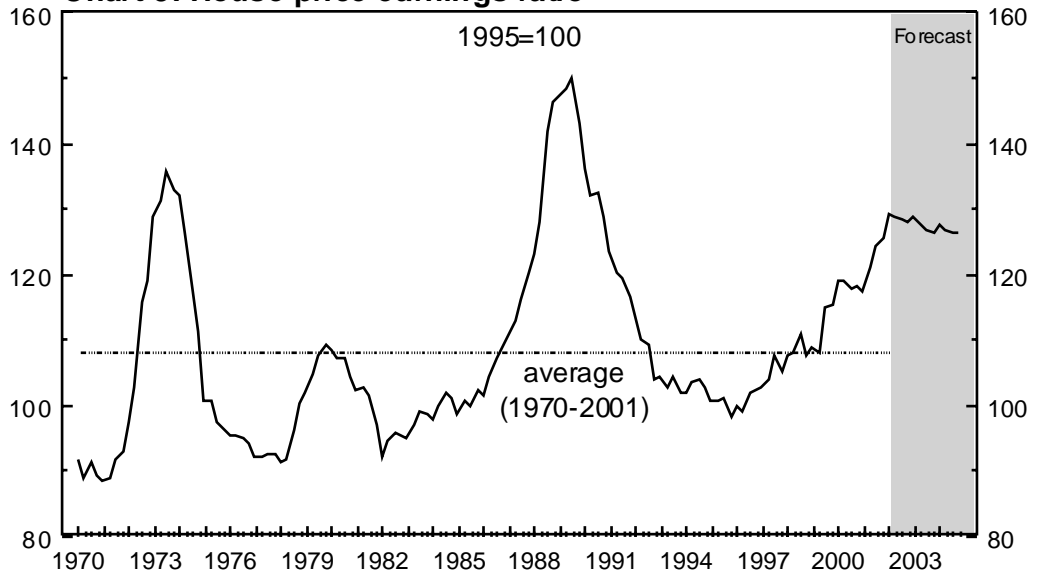
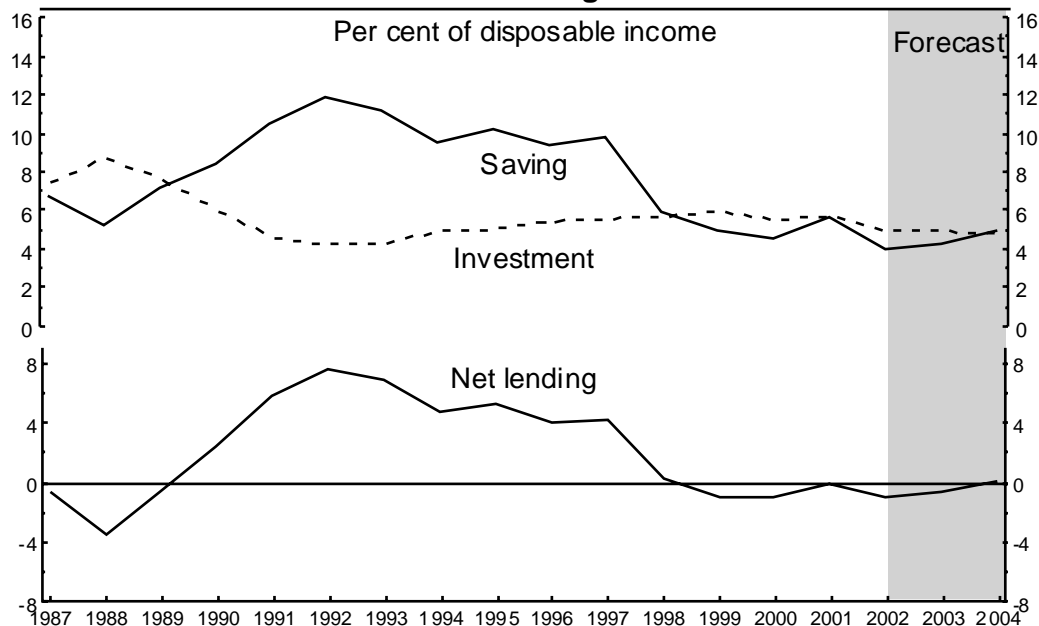


Chart 8: House price-earnings ratio¹



¹ Ratio of house prices to wages and salaries per employee. House prices are measured by the DETR index up to 1998 to obtain a long time-series. Thereafter house prices are measured by the average of DETR, Halifax and Nationwide indices in view of short-term divergences.

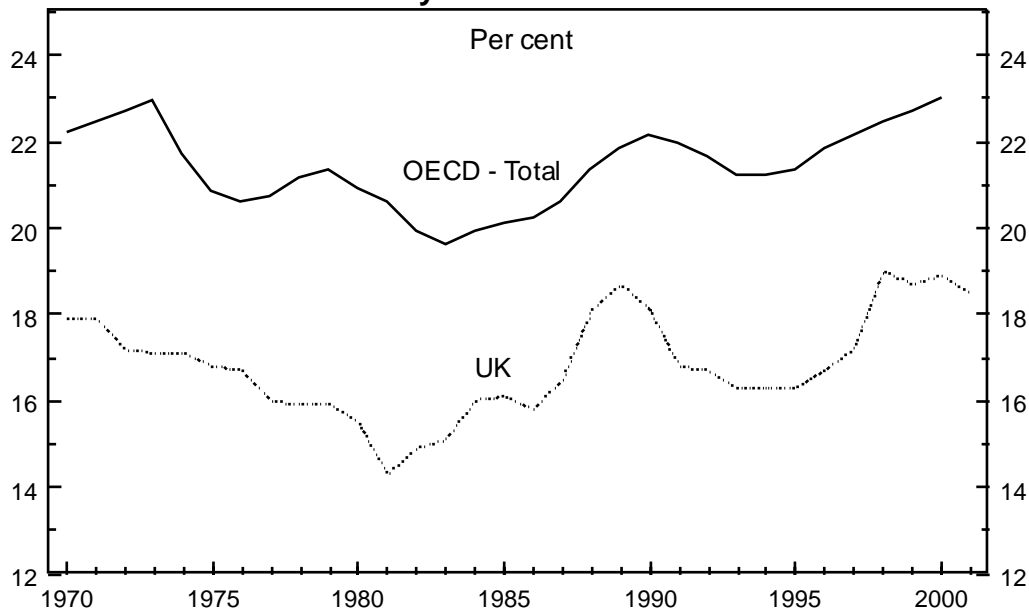
Chart 9: Household sector net lending¹



¹ Includes non-profit institutions serving households.

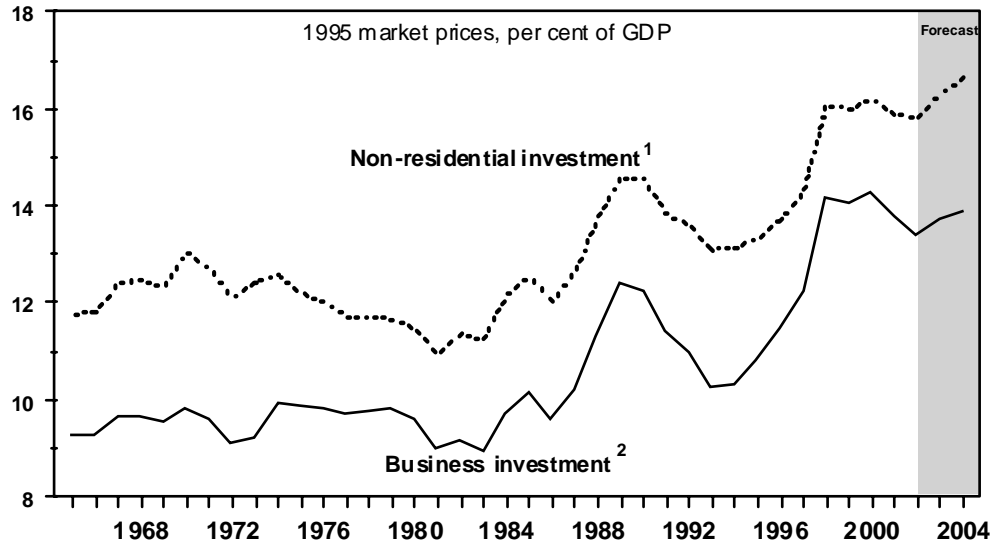
Investment and inventory accumulation

Chart 10: Whole economy investment-GDP ratio¹



¹ UK data at 1995 prices. OECD total at price levels and exchange rates of 1995.

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			
	2001	Forecast		
		2002	2003	2004
Whole economy ¹	¼	1½ to 2	5¾ to 6¼	4¼ to 4¾
of which:				
Business ^{2,3}	-1¼	-1 to -½	5½ to 6¼	3¾ to 4¼
Private dwellings ³	-1¾	-2¼ to -2	2 to 2½	2 to 2½
General government ^{3,4}	11¾	26¼	12½	10¾

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

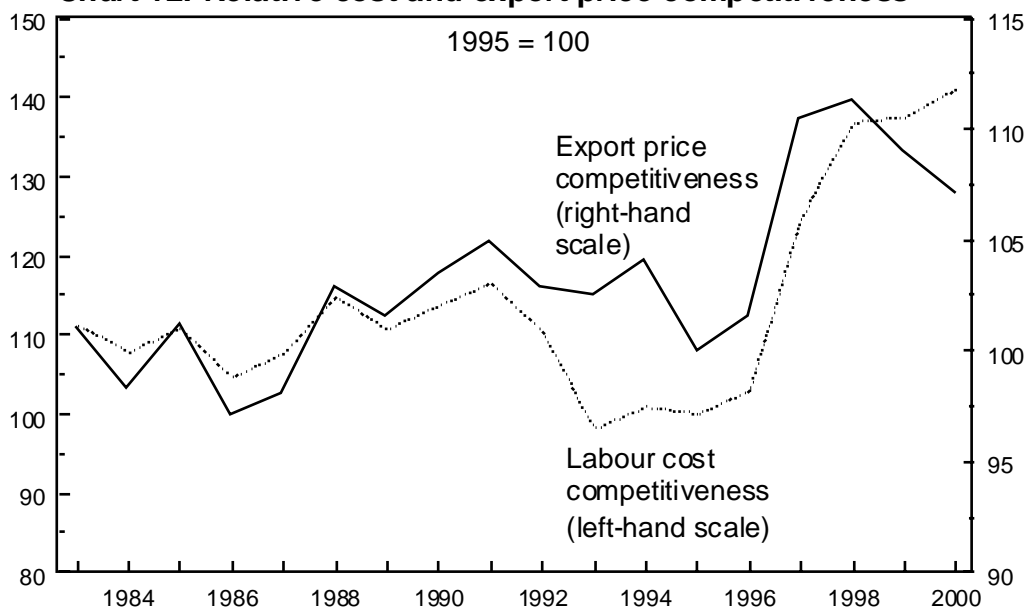
² Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

⁴ Includes National Health Service Trusts.

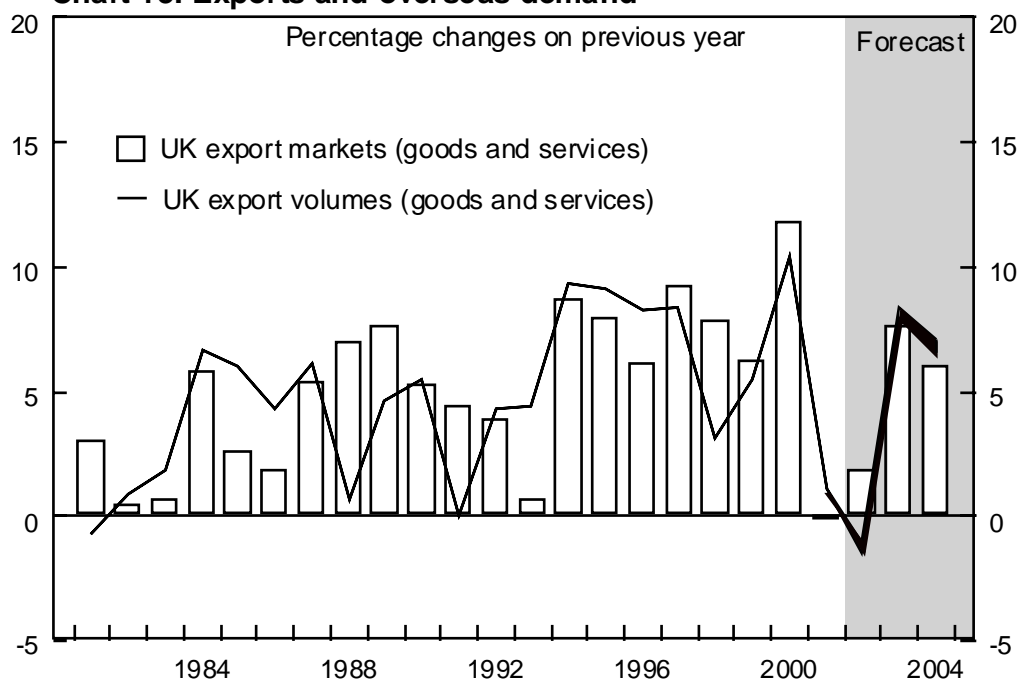
Trade and the balance of payments

Chart 12: Relative cost and export price competitiveness¹



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

Chart 13: Exports and overseas demand



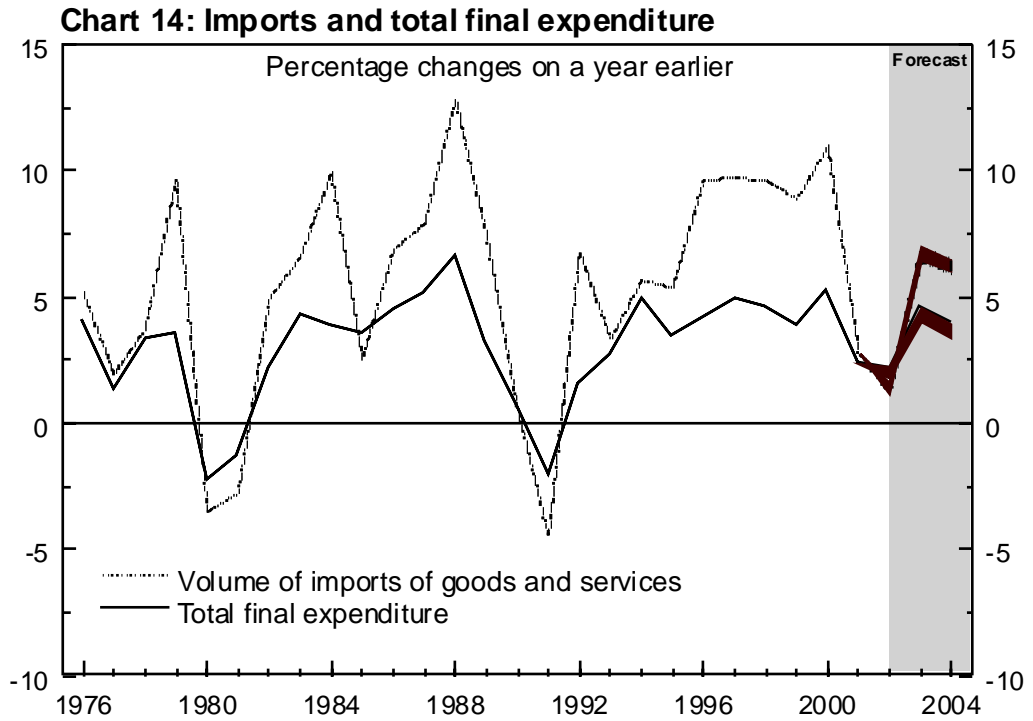
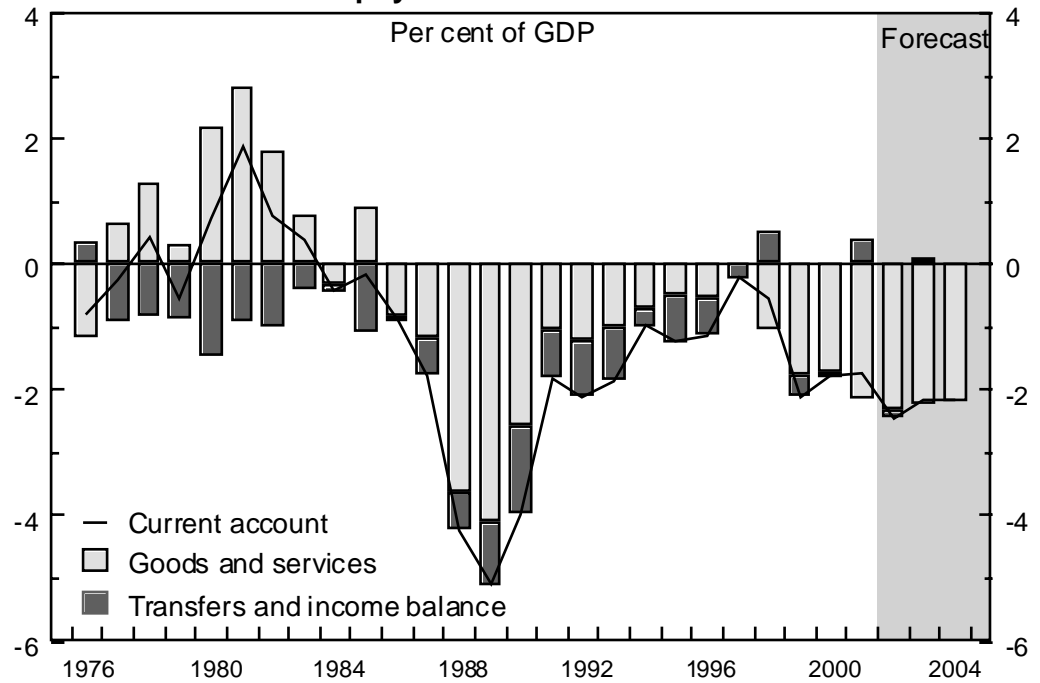


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
2001	1	2¾	0	0	0	-21¼
<i>Forecast</i>						
2002	-1½ to -1	1 to 1½	1¼	-½	1¾	-24
2003	7¾ to 8¼	6½ to 7	3	3½	-¾	-24¾
2004	6½ to 7	6 to 6½	3½	3½	0	-25½

¹ Average value indices.

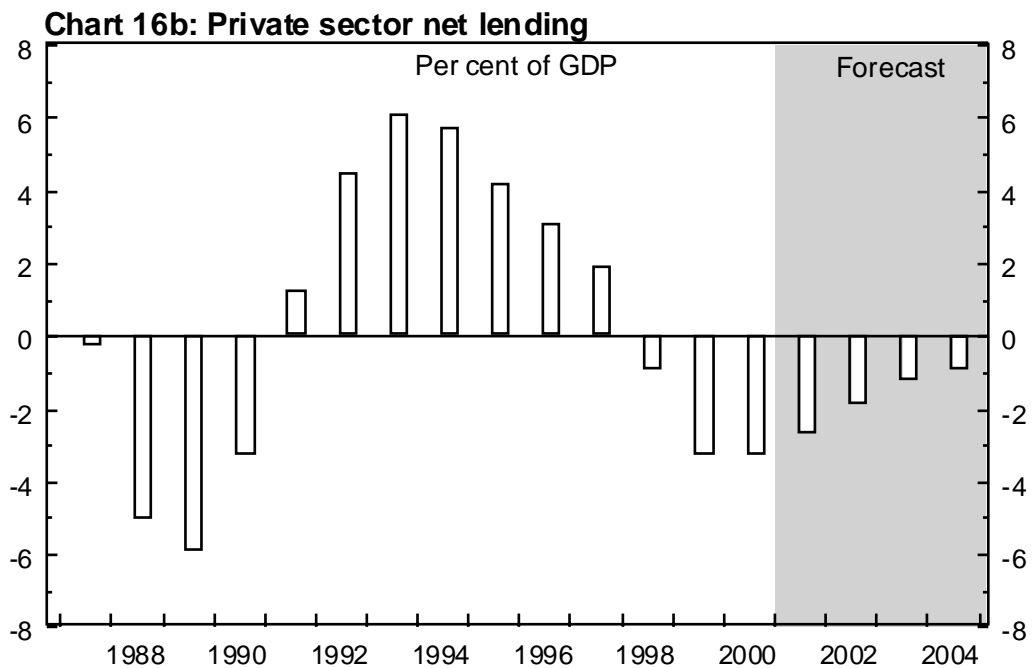
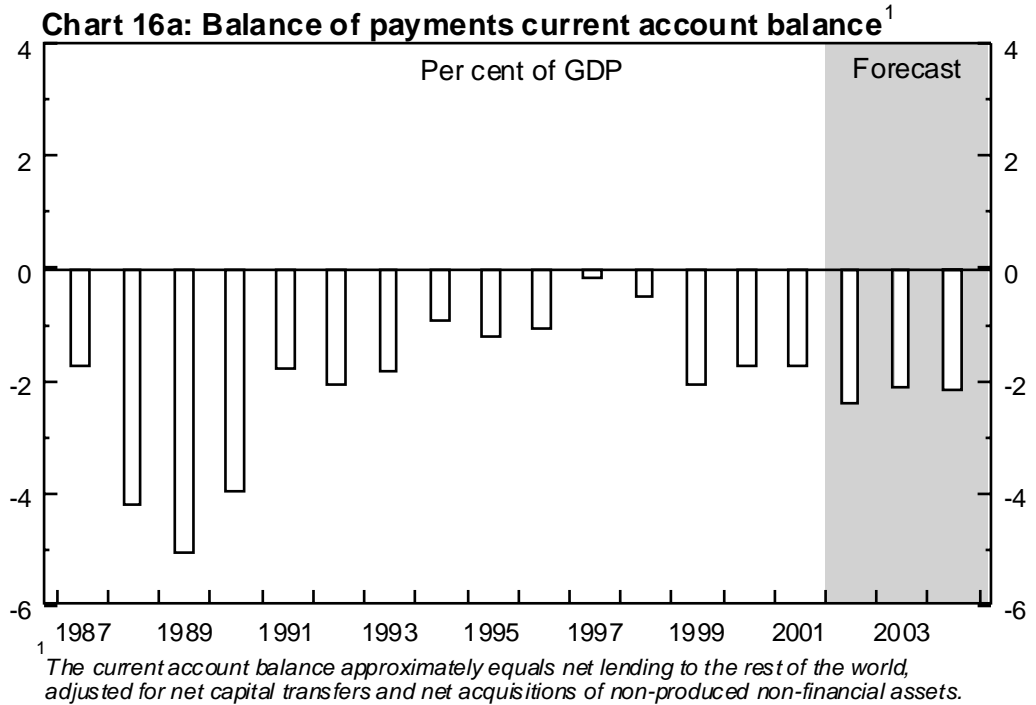
² Ratio of export to import prices.

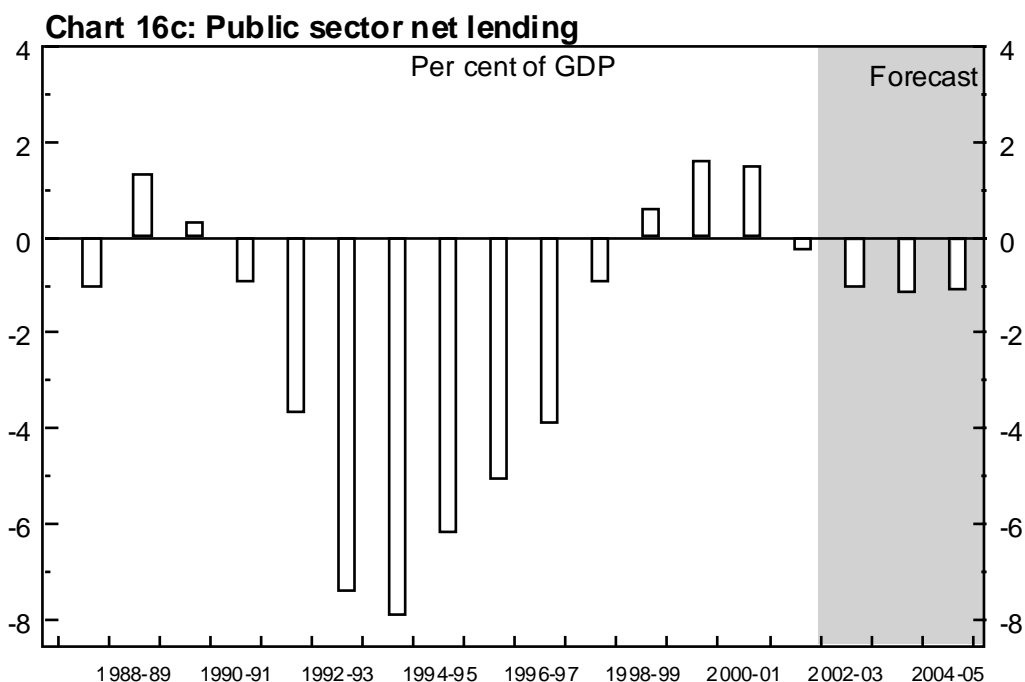
Chart 15: Balance of payments current account**Table 5: The current account**

	£ billion					Current balance
	Goods and services			Transfers	Income balance ¹	
	Non-oil	Oil	Total			
2001	-26¼	5½	-21¼	-7¼	11¼	-17½
<i>Forecast</i>						
2002	-28¼	4¼	-24	-11½	10	-25¼
2003	-29	4¼	-24¼	-9½	10¼	-23¼
2004	-30	4½	-25½	-11	11	-25½

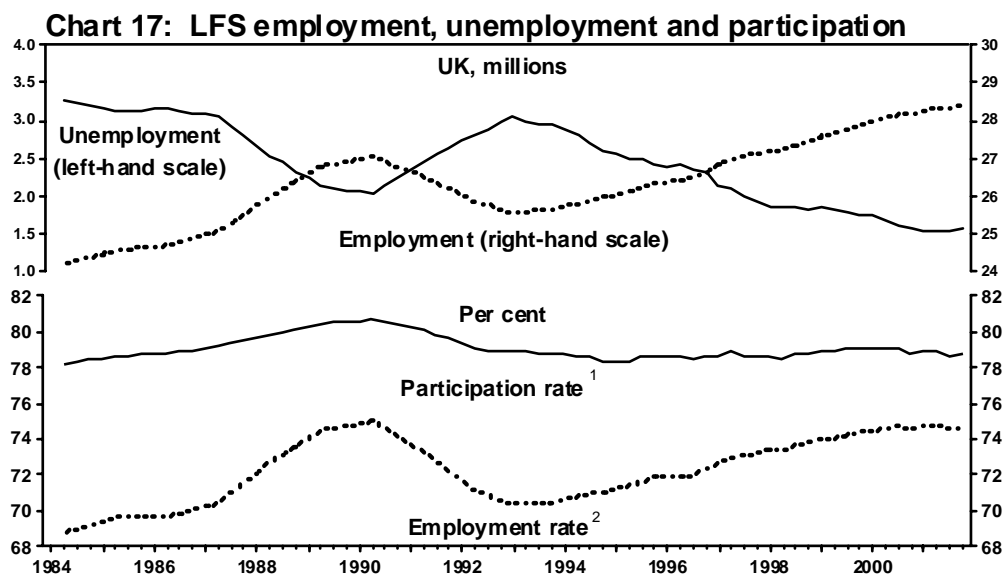
¹Includes investment and employee income.

Pattern of net lending





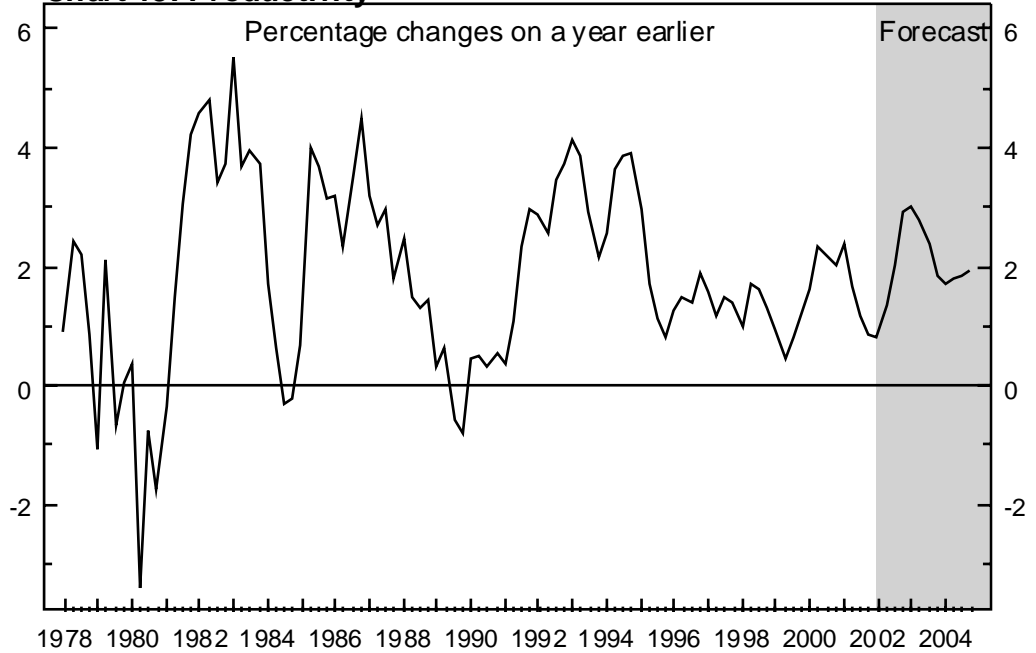
The labour market



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

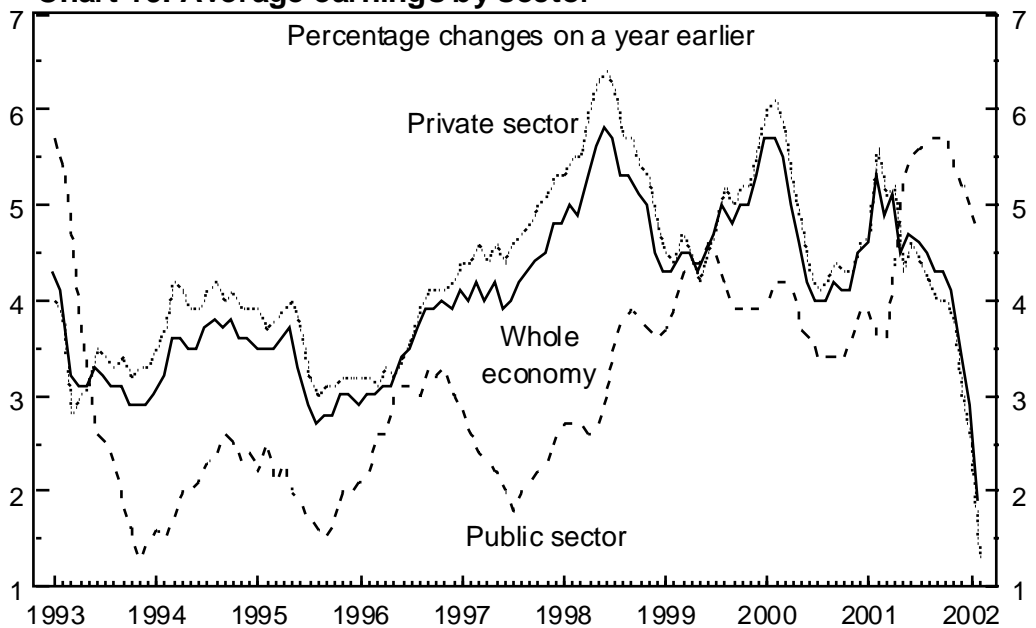
² Percentage of the working-age population in employment.

Chart 18: Productivity¹



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

Chart 19: Average earnings by sector¹



¹ Headline rates, seasonally adjusted.

Financial developments

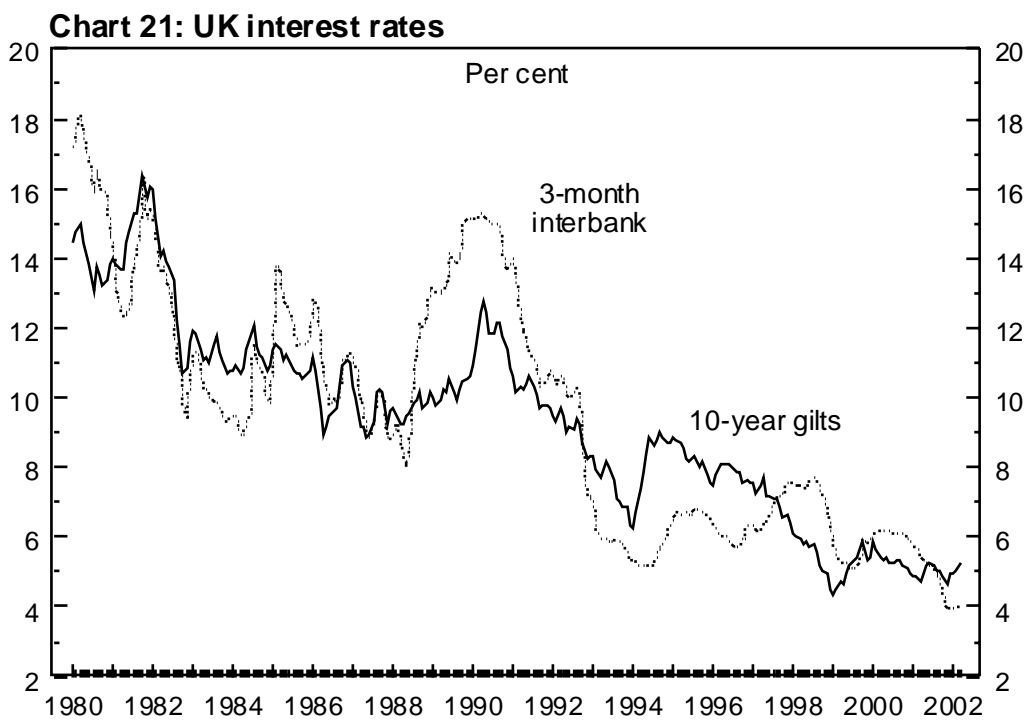
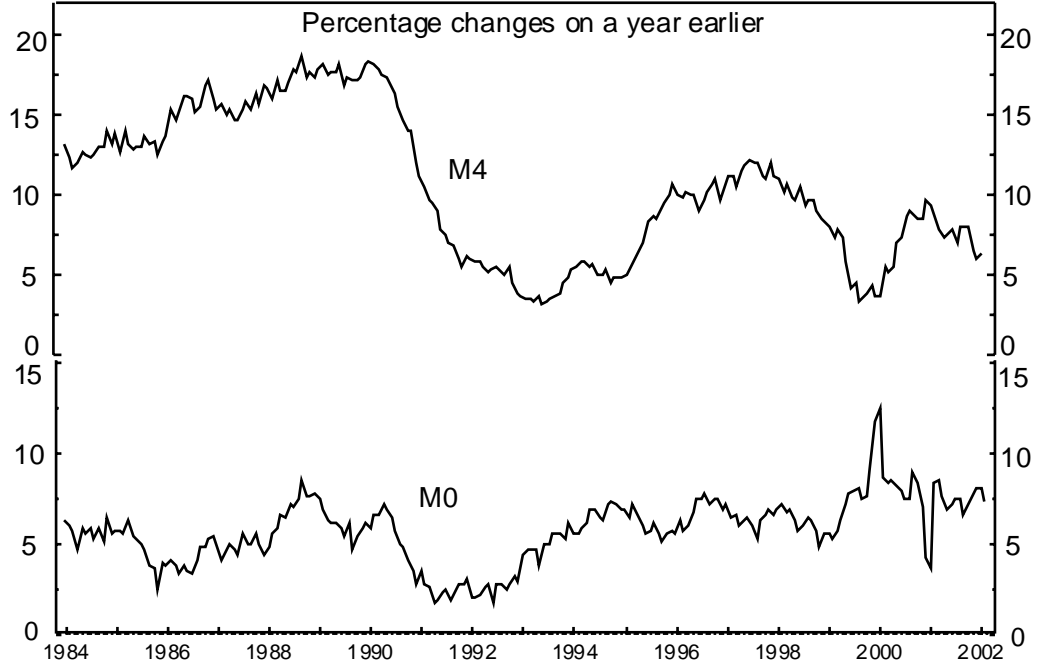
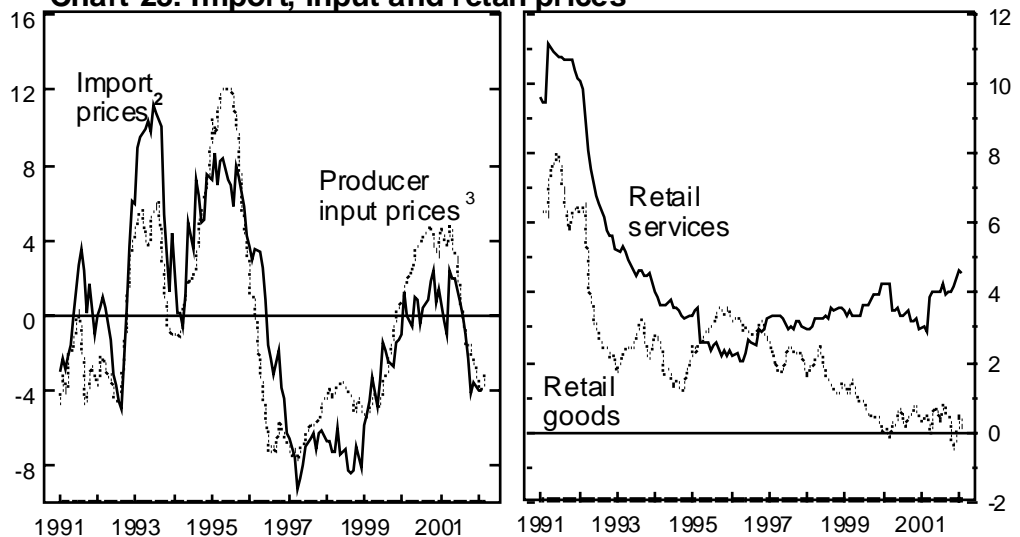


Chart 22: Monetary indicators



Inflation

Chart 23: Import, input and retail prices¹



¹ Percentage changes on a year earlier.

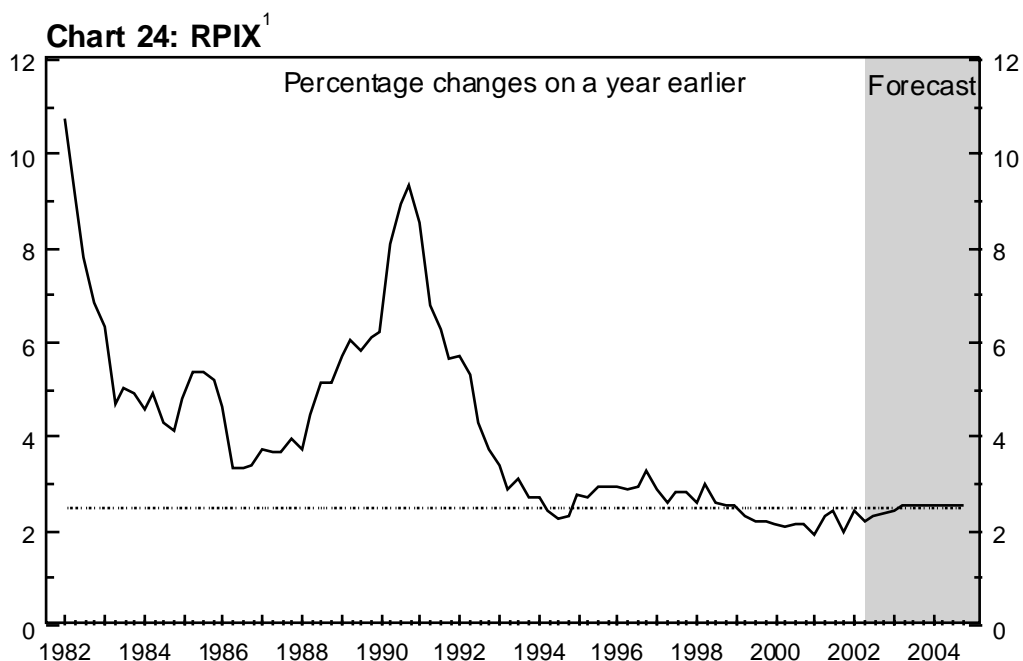
² All goods.

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

Table 6: Retail and producer output prices

	Percentage changes on a year earlier							
	2001		Forecast					
			2002		2003		2004	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2¼	2	2¼	2¼	2½	2½	2½	2½
Producer output prices ¹	¾	-¼	½	1	2½	2	1¼	2¼

¹Excludes excise duties.



¹Outturns until 2002Q1; forecasts for every second quarter from 2002Q2 to 2004Q4.

Comparison with independent forecasts

Table 7: Budget and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated							
	2002				2003			
			Independent				Independent	
	April	Budget	Average	Range	April	Budget	Average	Range
Gross domestic product	2 to 2½		1.9	0.4 to 2.7	3 to 3½		2.7	-0.1 to 3.6
RPIX (Q4)	2¼		2.2	1.6 to 3.1	2½		2.4	1.8 to 3.3
Current account (£ billion)	-25¾		-21.0	-29.7 to -10.0	-23¾		-22.7	-49.1 to -8.0

¹ *Forecasts for the UK Economy: A Comparison of Independent Forecasts, April 2002.*

Comparison with November 2001 Pre-Budget Report forecast

Table 8: Comparison with November 2001 Pre-Budget Report forecast

	Percentage changes on a year earlier unless otherwise stated		
		November 2001	April 2002
		Pre-Budget Report	Budget
Gross domestic product	2001	2¼	2¼
	2002	2 to 2½	2 to 2½
	2003	2¾ to 3¼	3 to 3½
RPI excluding MIPs (Q4)	2001	2¼	2
	2002	2¼	2¼
	2003	2½	2½
Current account (£ billion)	2001	-14	-17½
	2002	-26¾	-25¾
	2003	-28¾	-23¾

Summary tables

Table 9: Summary of economic prospects¹

	Percentage changes on a year earlier unless otherwise stated					
	2001	Forecast ²			Average errors from past forecasts ³	
		2002	2003	2004	2002	2003
Output at constant market prices						
Gross domestic product (GDP)	2½	2 to 2½	3 to 3½	2½ to 3	¾	½
Manufacturing output	-2½	-3 to -2½	2½ to 3½	1¾ to 2½	1	1¾
Expenditure components of GDP at constant market prices⁴						
Domestic demand	2½	2¾ to 3¼	3 to 3½	2½ to 3	½	1
Household consumption ⁵	3¾	3 to 3½	2¾ to 2¾	1¾ to 2¾	¾	1¾
General government consumption	2¾	3¼	3¼	3¼	¾	1
Fixed investment	¼	1½ to 2	5¾ to 6¼	4¼ to 4¾	2	2½
Change in inventories ⁶	-¼	0	0	0	¼	¼
Exports of goods and services	1	-1½ to -1	7¾ to 8¼	6½ to 7	2½	2½
Imports of goods and services	2½	1 to 1½	6½ to 7	6 to 6½	2½	3
Balance of payments current account						
£ billion	-17½	-25¾	-23¾	-25½	6¾	7
per cent of GDP	-1¾	-2½	-2¼	-2¼	¾	¾
Inflation						
RPIX (Q4)	2	2¼	2½	2½	½	½
Producer output prices (Q4) ⁷	-¼	1	2	2¼	1	1½
GDP deflator at market prices	2½	2¾	2½	2½	½	¾
Money GDP at market prices						
£ billion	989	1 036 to 1 041	1 094 to 1 104	1 149 to 1 166	8	13
percentage change	4¾	4¾ to 5¼	5½ to 6	5 to 5½	¾	1¼

¹The forecast is consistent with national accounts and balance of payments statistics to the fourth quarter of 2001, released by the Office for National Statistics on 27 March 2002.

²The 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.

³Average absolute errors for year-ahead projections made in spring forecasts over the past ten 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 2002 and 2003.

⁴Further detail on the expenditure components of GDP is given in Table 10.

⁵Includes households and non-profit institutions serving households.

⁶Contribution to GDP growth, percentage points.

⁷Excluding excise duties.

Table 10: Gross domestic product and its components

£ billion at 1995 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	
2001	580.2	158.1	156.6	1.2	896.4	288.4	1184.8	338.8	-0.3	845.7	
2002	598.3 to 600.8	163.3	158.9 to 159.6	0.9 to 1.6	921.4 to 925.4	284.0 to 285.2	1205.4 to 1210.6	342.5 to 344.0	-0.3	862.6 to 866.3	
2003	611.0 to 616.6	168.8	168.1 to 169.7	0.1 to 1.7	948.1 to 956.8	306.2 to 309.0	1254.3 to 1265.8	364.5 to 367.8	-0.3	889.5 to 897.7	
2004	621.8 to 630.6	174.3	175.3 to 177.7	-0.3 to 2.2	971.1 to 984.8	326.0 to 330.7	1297.1 to 1315.4	386.1 to 391.5	-0.3	910.8 to 923.6	
2001 1st half	287.2	79.1	78.5	1.2	446.2	147.4	593.6	172.0	-0.2	421.4	
2nd half	293.0	78.9	78.0	0.0	450.2	141.0	591.2	166.8	-0.1	424.3	
2002 1st half	297.4 to 298.3	81.4	78.8 to 79.0	-0.7 to -0.5	456.9 to 458.3	139.4 to 139.8	596.3 to 598.1	168.8 to 169.3	-0.1	427.3 to 428.6	
2nd half	300.9 to 302.5	81.9	80.1 to 80.6	1.7 to 2.1	464.5 to 467.1	144.6 to 145.4	609.2 to 612.5	173.7 to 174.7	-0.1	435.3 to 437.7	
2003 1st half	304.0 to 306.4	83.7	82.9 to 83.6	0.8 to 1.5	471.4 to 475.2	150.4 to 151.6	621.8 to 626.8	179.5 to 180.9	-0.1	442.2 to 445.7	
2nd half	307.0 to 310.2	85.1	85.2 to 86.1	-0.7 to 0.2	476.6 to 481.6	155.8 to 157.4	632.4 to 639.0	185.0 to 186.9	-0.1	447.3 to 451.9	
2004 1st half	309.6 to 313.6	87.0	86.8 to 87.9	-0.9 to 0.2	482.5 to 488.7	160.6 to 162.6	643.1 to 651.4	190.3 to 192.8	-0.1	452.6 to 458.4	
2nd half	312.2 to 317.0	87.3	88.5 to 89.8	0.6 to 2.0	488.6 to 496.0	165.5 to 168.0	654.0 to 664.1	195.7 to 198.7	-0.1	458.2 to 465.2	
Percentage changes on previous year ^{4,5}											
2001	3%	2%	¼	-¼	2%	1	2%	2%	0	2%	
2002	3 to 3½	3%	1½ to 2	0	2½ to 3½	-1½ to -1	1¾ to 2½	1 to 1½	0	2 to 2½	
2003	2½ to 2¾	3%	5¾ to 6¼	0	3 to 3½	7¾ to 8¼	4 to 4½	6½ to 7	0	3 to 3½	
2004	1¾ to 2¼	3%	4¼ to 4¾	0	2½ to 3	6½ to 7	3½ to 4	6 to 6½	0	2½ to 3	

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
Major 7 countries¹				
Real GDP	1	1½	2¾	2½
Consumer price inflation ²	1½	1½	1½	1½
World trade in goods and services	0	2¼	8½	7¼
UK export markets ³	-¼	1¾	7¾	6

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 economies¹

	Percentage changes on previous year			
	November 2001		April 2002	
	2002	2003	2002	2003
USA	1.1	-	2.6	3.5
Euro-area	1.5	-	1.3	2.7
Japan	-0.5	-	-1.1	1.1

¹Consensus forecasts, Consensus Economics Inc.

Chart 25: G7 GDP and world trade

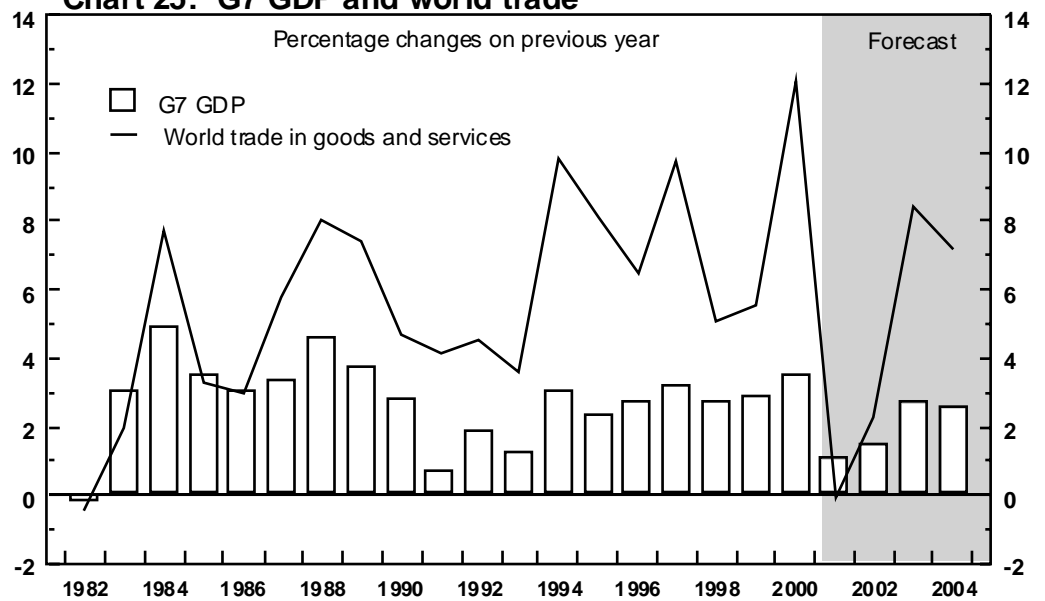
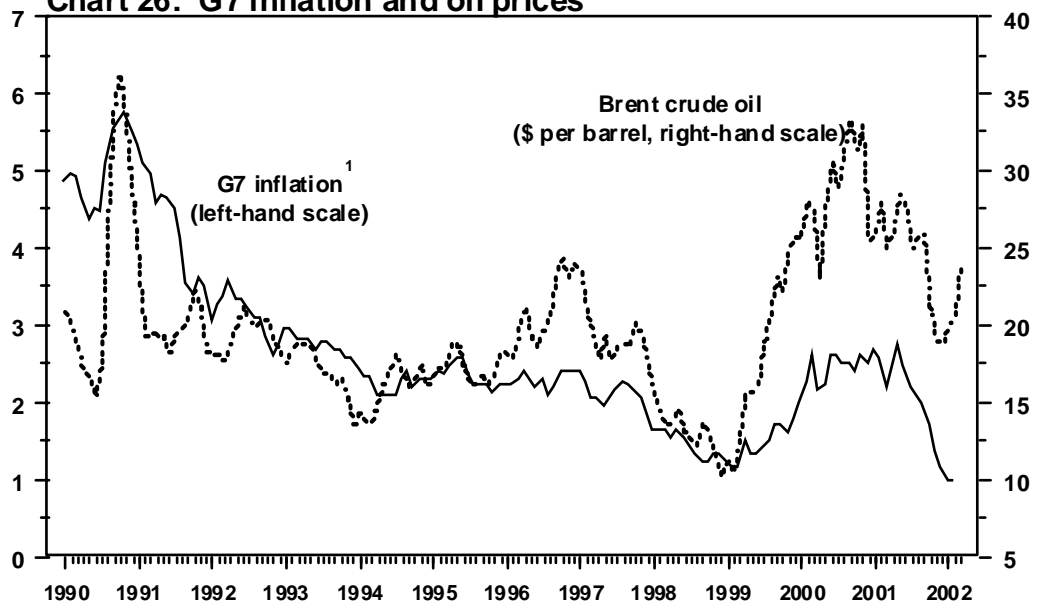


Chart 26: G7 inflation and oil prices



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

