

The economy: supplementary charts and tables

December 2003



HM TREASURY



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supplementary
charts and tables**

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1 THE ECONOMY

The Pre-Budget Report (PBR), published by HM Treasury on 10 December 2003, 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 2003, released by the Office for National Statistics on 30 September, and output, income and expenditure data for the third quarter released on 26 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 the fourth quarter of 2001. Details of this neutral assumption are set out in Table A2 of the PBR, and are discussed in the accompanying text. A paper, published by the Treasury alongside Budget 2002¹, also sets out the Treasury's view on the rate of trend growth with 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.

1.3 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 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 1a: CBI capacity utilisation in manufacturing

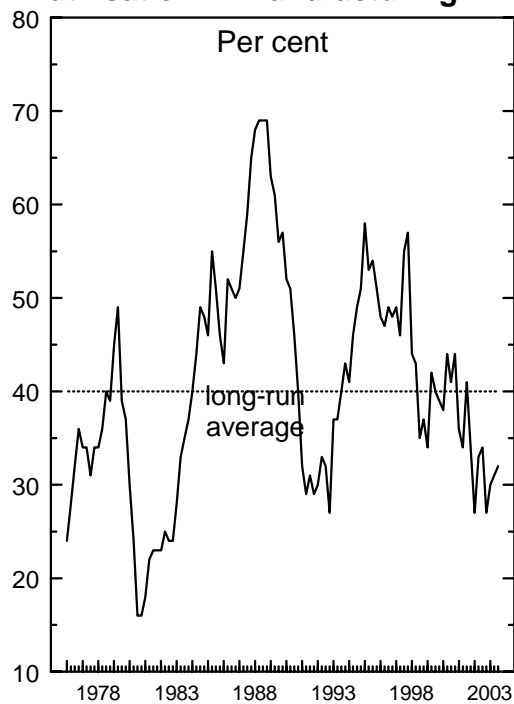


Chart 1b: BCC survey of capacity utilisation

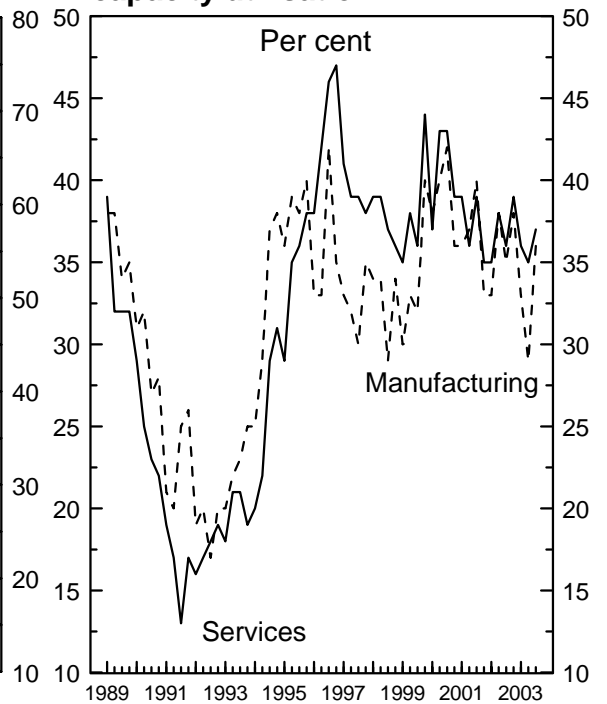


Chart 2a: CBI survey of skilled labour shortages in manufacturing

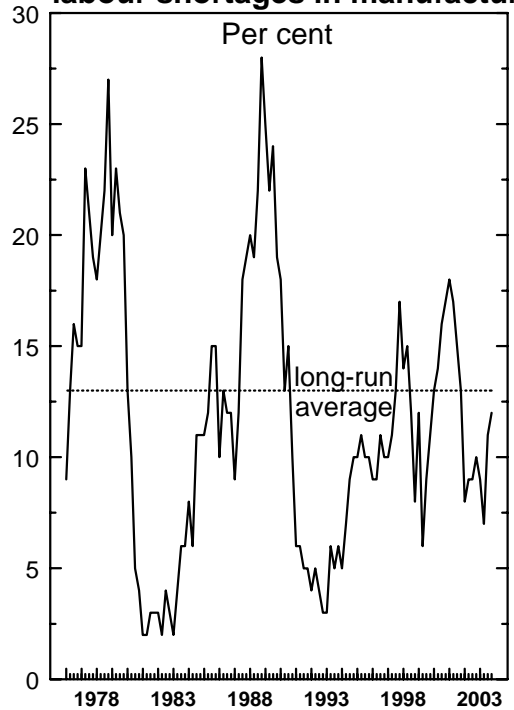


Chart 2b: BCC survey of recruitment difficulties

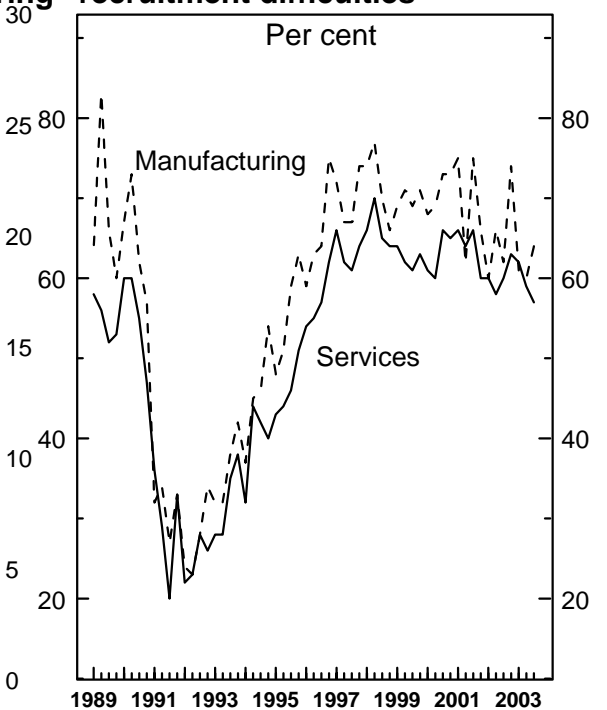
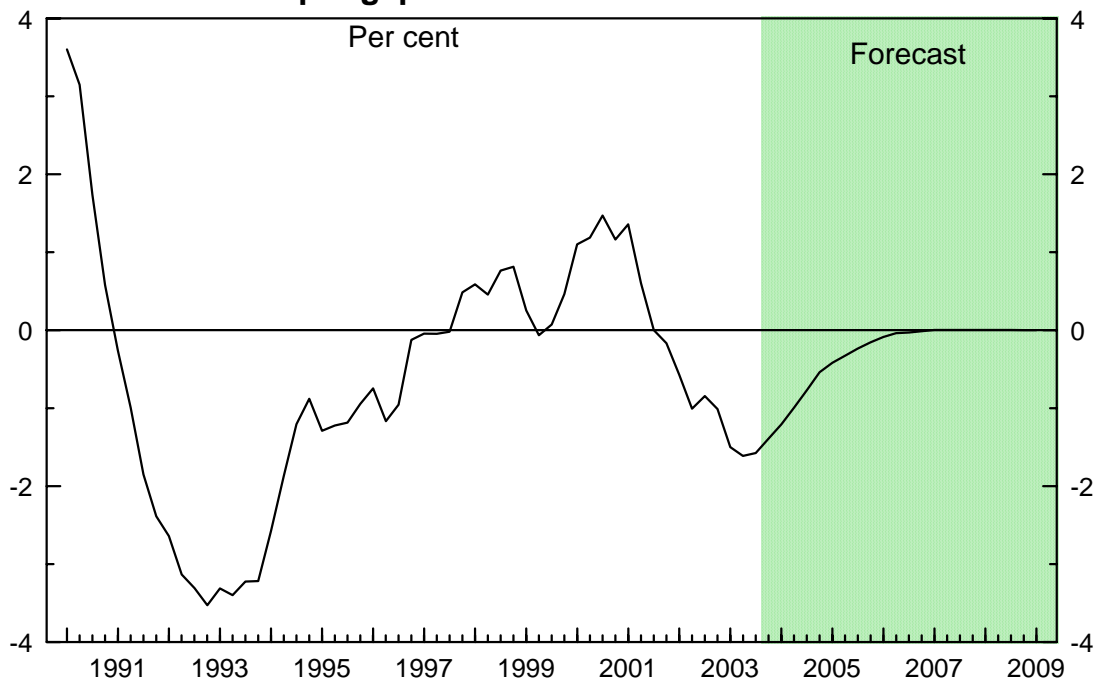


Chart 3: The output gap¹



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

GROSS DOMESTIC PRODUCT (GDP)

Chart 4: GDP

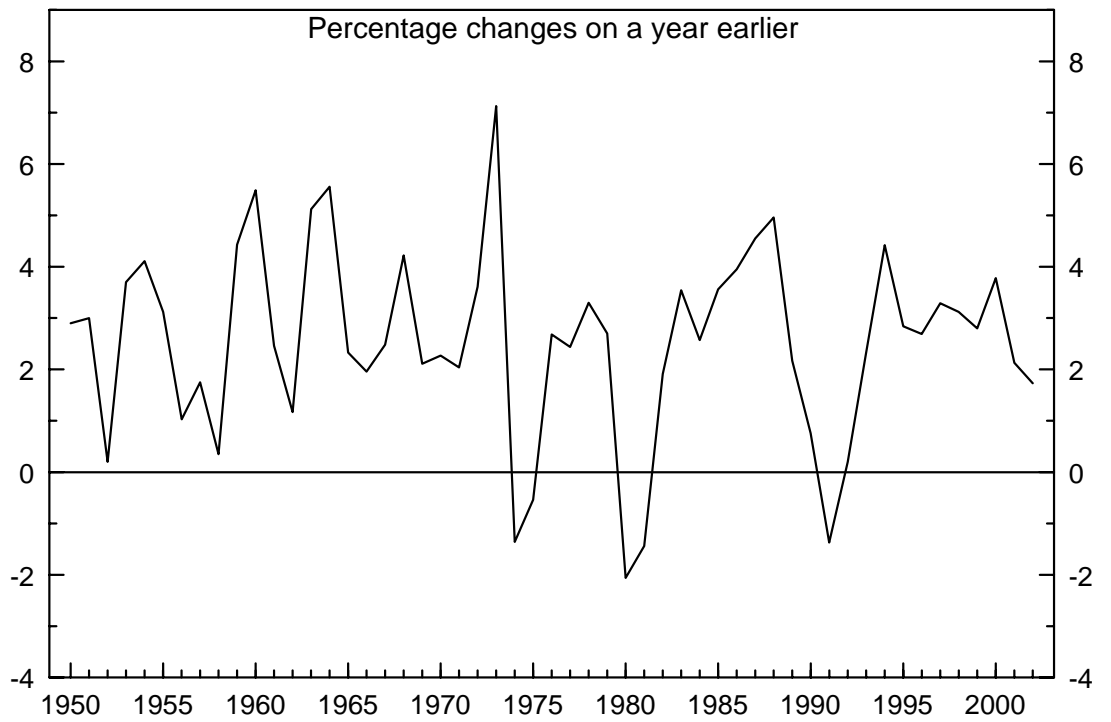
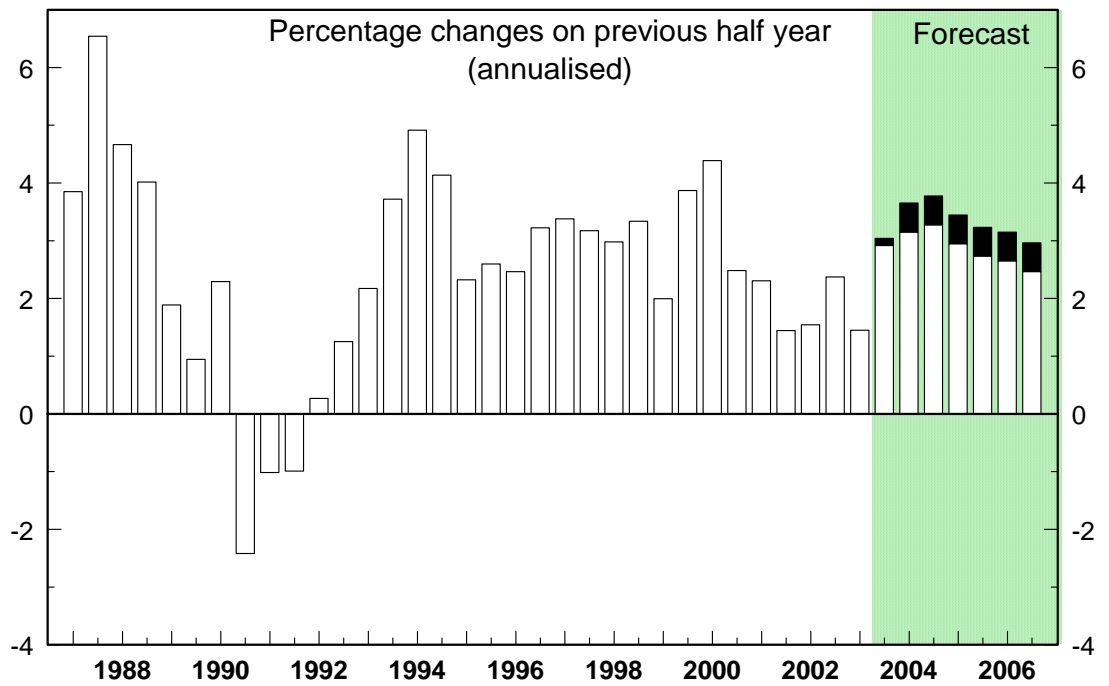


Chart 5: GDP forecast¹



¹ Darker areas on bars represent forecast ranges.

Table 1: Contributions to GDP¹ growth^{2,3}

	Percentage points, unless otherwise stated				
	2002	2003	Forecast		
			2004	2005	2006
Private consumption	2¼	1¾	1¾	1¾	1¾
Business Investment	-¼	0	¼	¾	½
Government	½	1	1	¾	¾
Change in inventories	-¼	0	¼	0	0
Net trade	-1½	-½	-¼	0	0
GDP growth, per cent	1¾	2	3¼	3¼	2¾

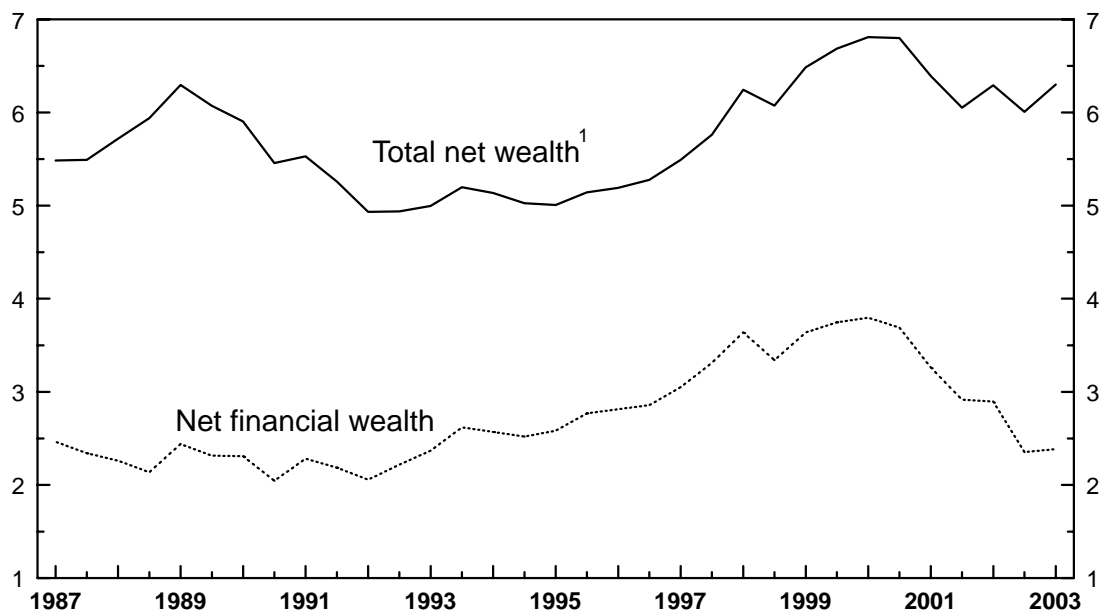
¹ Fixed based volumes

² Components may not sum to total due to rounding and omission of private residential investment, the transfer costs of land and existing buildings and the statistical discrepancy.

³ Based on central case. For the purpose of public finance projections, forecasts are based on the bottom of the forecast GDP

THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios²



¹ Includes tangible (mainly housing) wealth.

² semi-annual

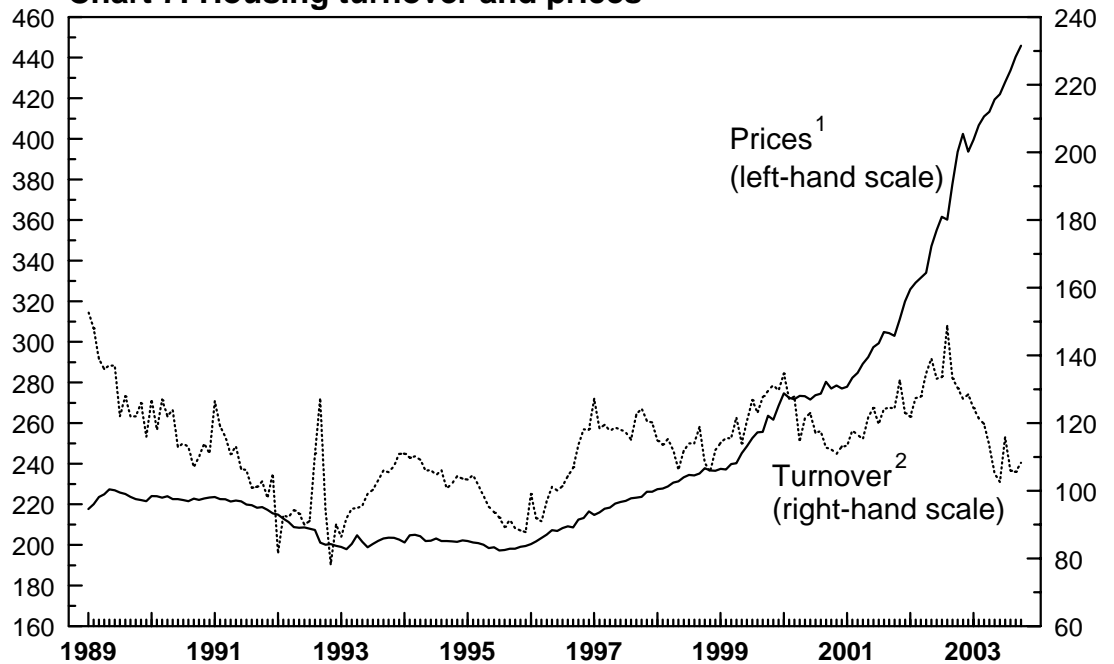
Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year unless otherwise stated				
	Forecast				
	2002	2003	2004	2005	2006
Household consumption ²	3½	2½	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾
Real household disposable income	1½	2	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾
Saving ratio (level, per cent)	5¼	4¾	4¾	4¾	4¾

¹ Including non-profit institutions serving households.

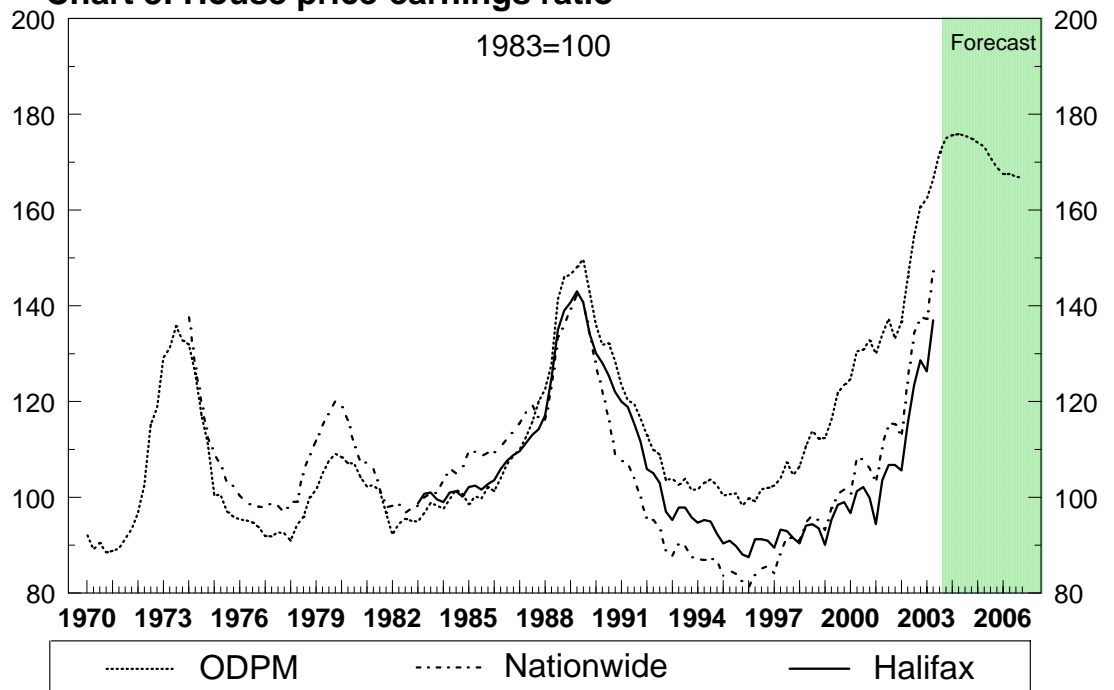
² Chained volume measures.

Chart 7: Housing turnover and prices



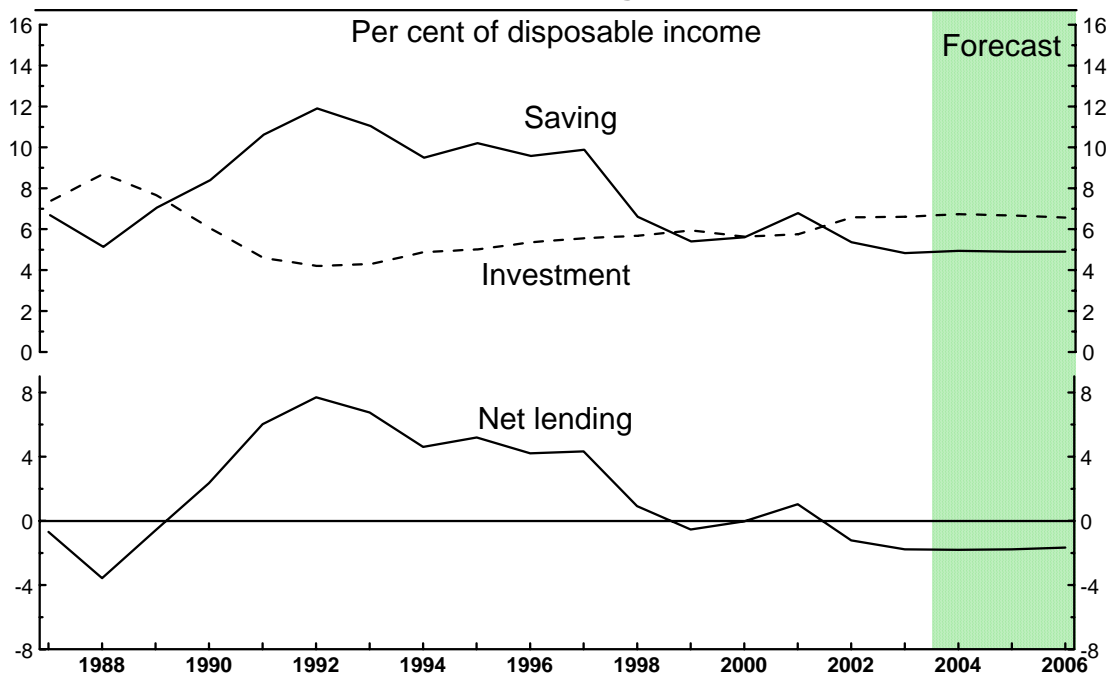
¹ Halifax index, 1983=100.
² Particulars delivered, thousands.

Chart 8: House price-earnings ratio¹



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

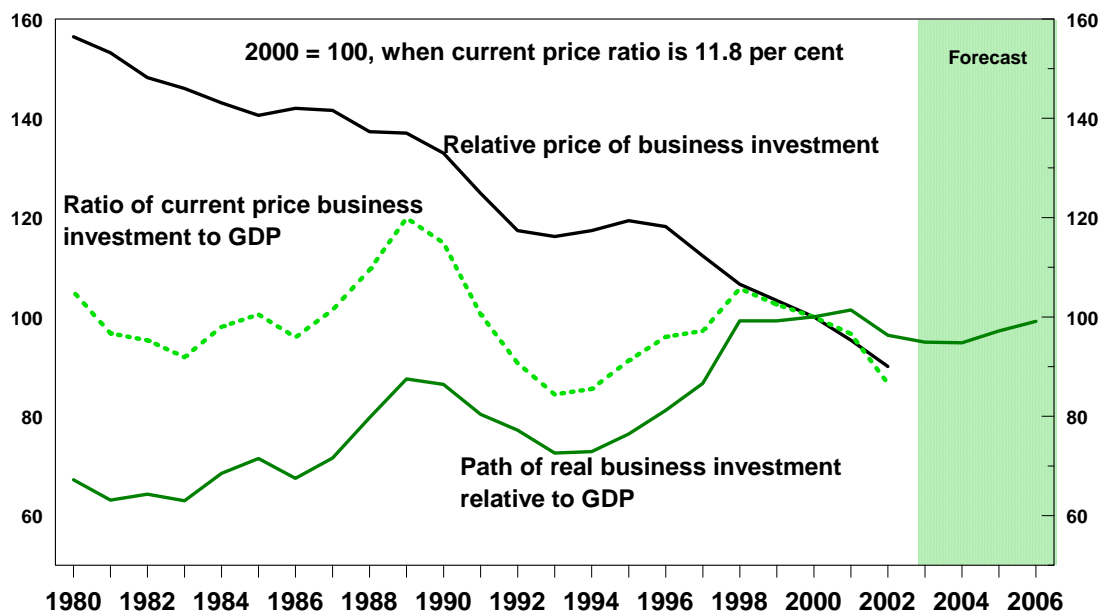
Chart 9: Household sector¹ net lending



¹ Includes non-profit institutions serving households.

INVESTMENT AND INVENTORY ACCUMULATION

Chart 10: Business investment¹



¹ 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				
	2002	2003	2004	Forecast	
				2005	2006
Whole economy ¹	1¼	2¼	6 to 6½	5½ to 6	4 to 4¼
of which:					
Business ^{2,3}	-3½	¾	3 to 3½	5½ to 6¼	4½ to 5¼
Private dwellings ³	19¼	4½	3¾ to 4	3¾ to 4¼	1½ to 2
General government ^{3,4}	7¾	15½	30	9¼	6¾

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

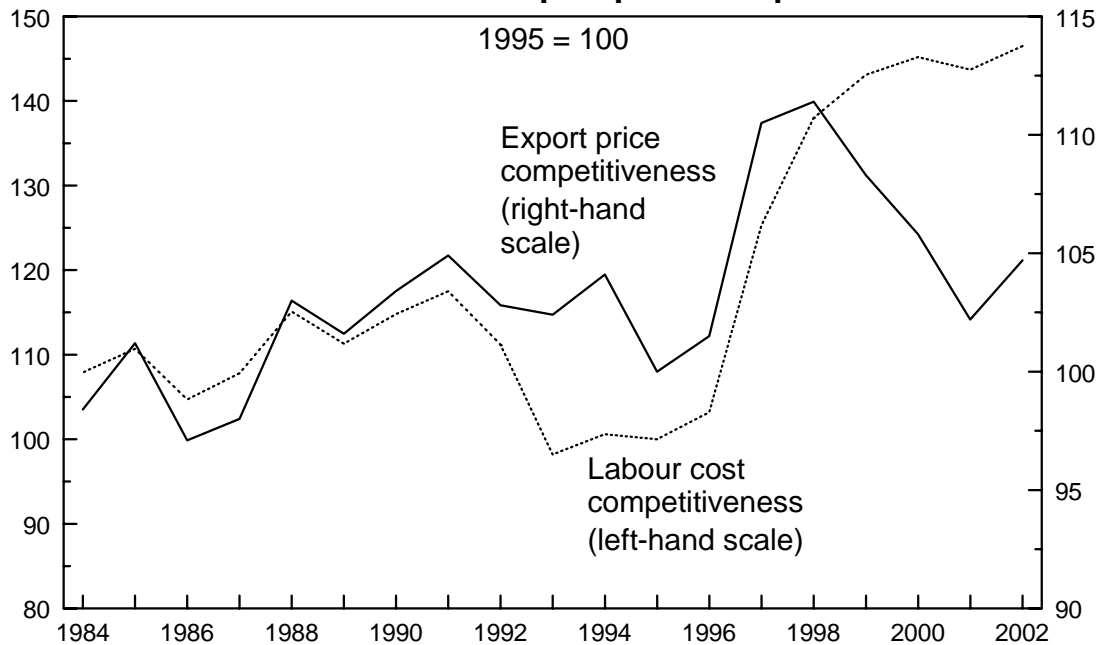
² Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

⁴ Includes National Health Service Trusts.

TRADE AND THE BALANCE OF PAYMENTS

Chart 11: Relative cost and export price competitiveness¹



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

Source: OECD Economic Outlook.

Chart 12: Exports and overseas demand

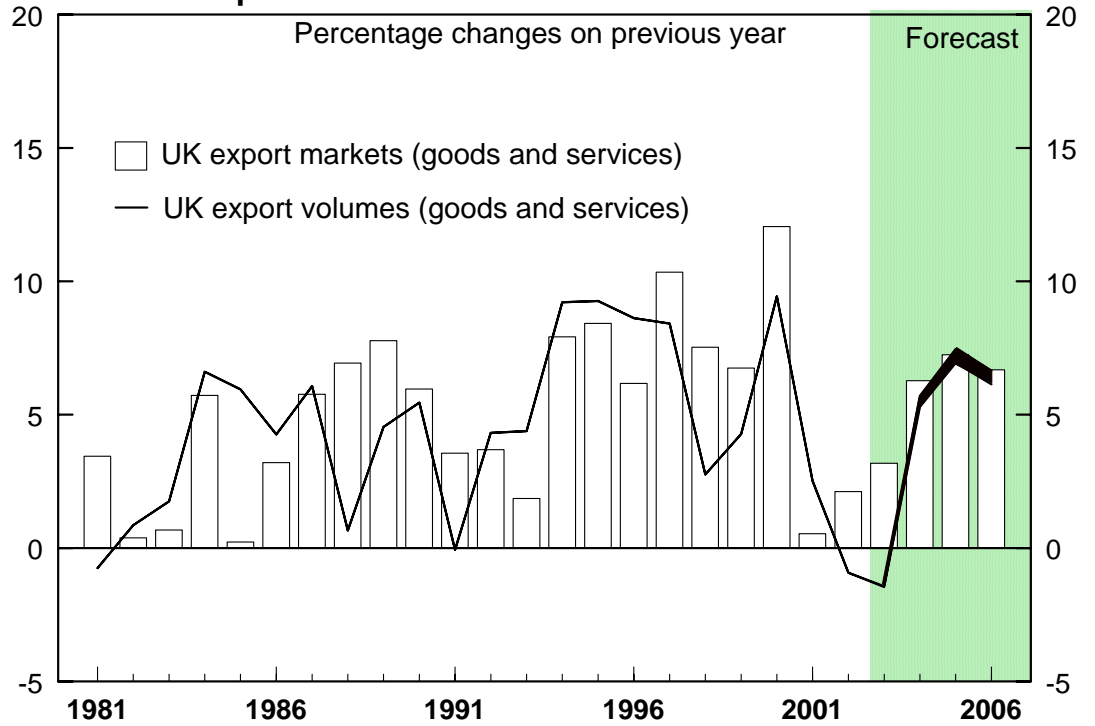


Chart 13: Imports and total final expenditure

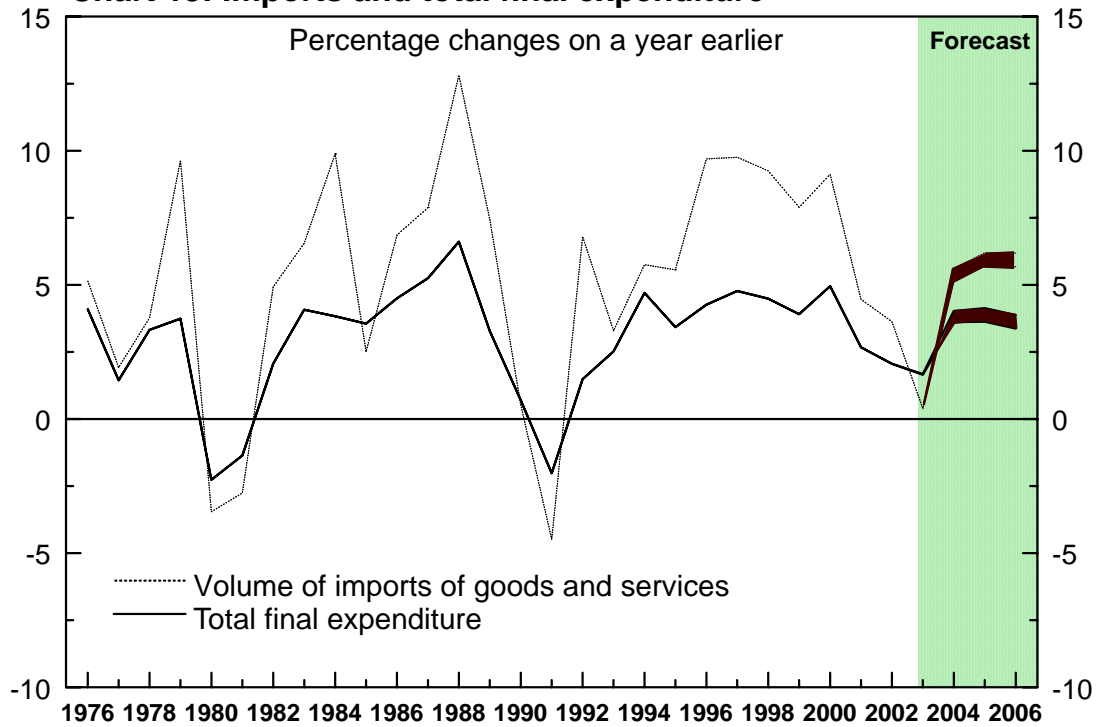


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
2002	-1	3¼	1¼	-2	2½	-31¼
<i>Forecast</i>						
2003	-1½	½	1	-¼	1¼	-33
2004	5¼ to 5¾	5¼ to 5½	2	1¼	¾	-33
2005	7 to 7½	5¾ to 6¼	3¼	3	¼	-31½
2006	6¼ to 6¾	5¾ to 6¼	3	2¾	0	-32½

¹Average value indices.

²Ratio of export to import prices.

Chart 14: Balance of payments current account

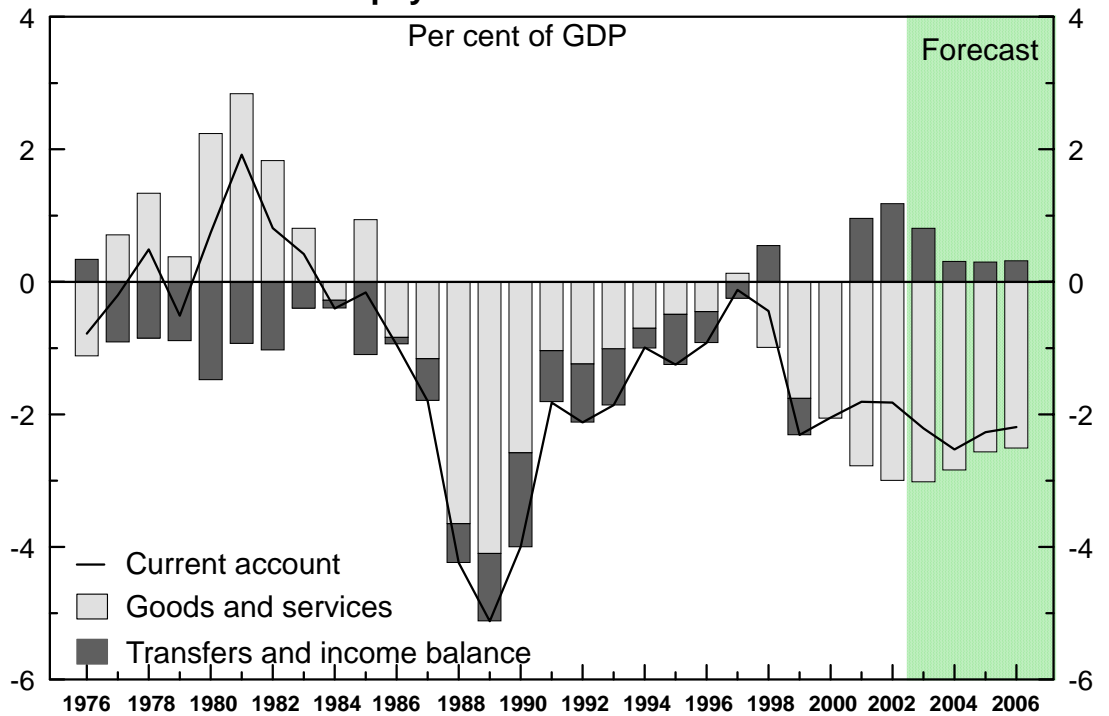
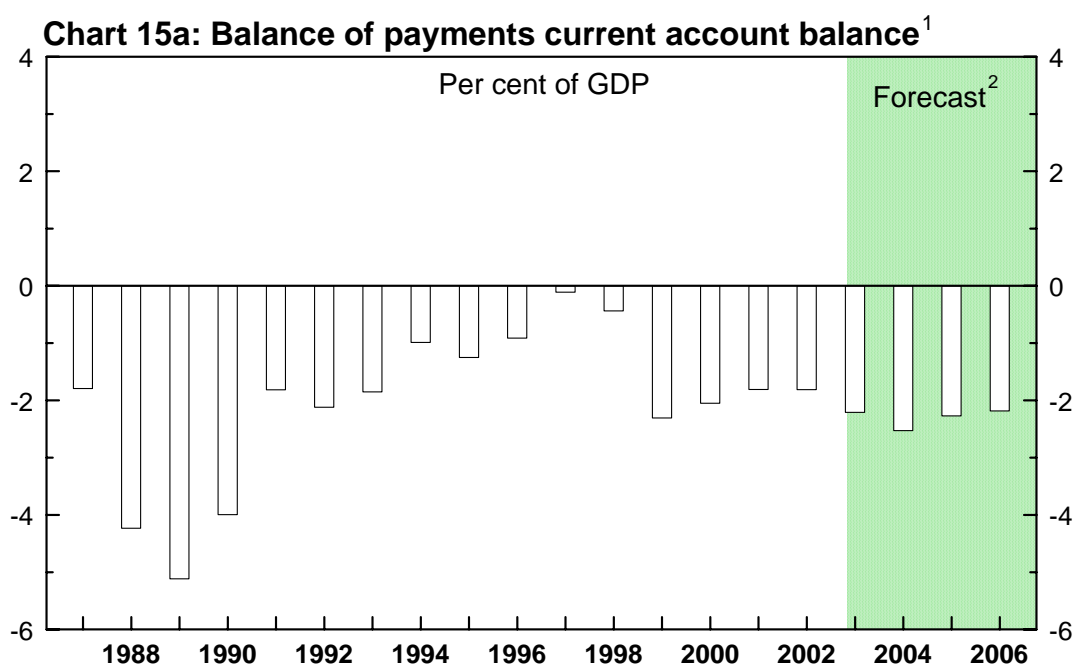


Table 5: The current account

	£ billion					
	Goods and services			Transfers	Income balance ¹	Current balance
	Non-oil	Oil	Total			
2002	-36¾	5½	-31¼	-8¾	21	-19
<i>Forecast</i>						
2003	-37½	4¼	-33	-10	18¾	-24½
2004	-35¼	2¼	-33	-10	12	-30¾
2005	-33½	2	-31½	-10¾	13	-29¼
2006	-34	1½	-32½	-11¼	14	-29¾

¹Includes investment and employee income.

PATTERN OF NET LENDING



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 15b: Private sector net lending

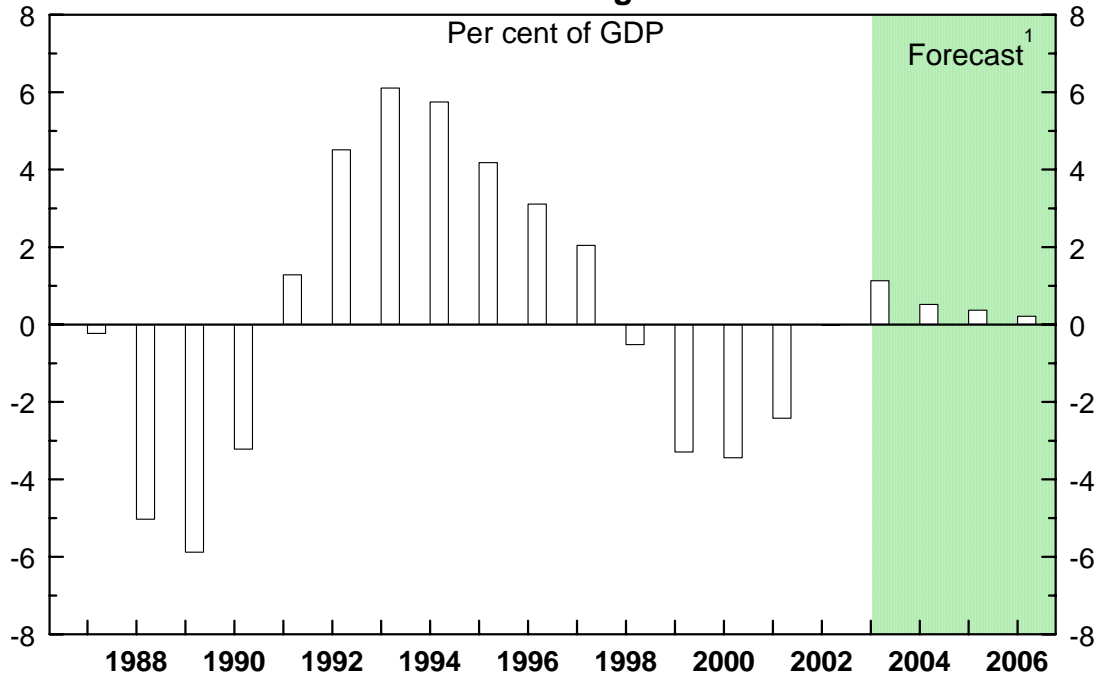
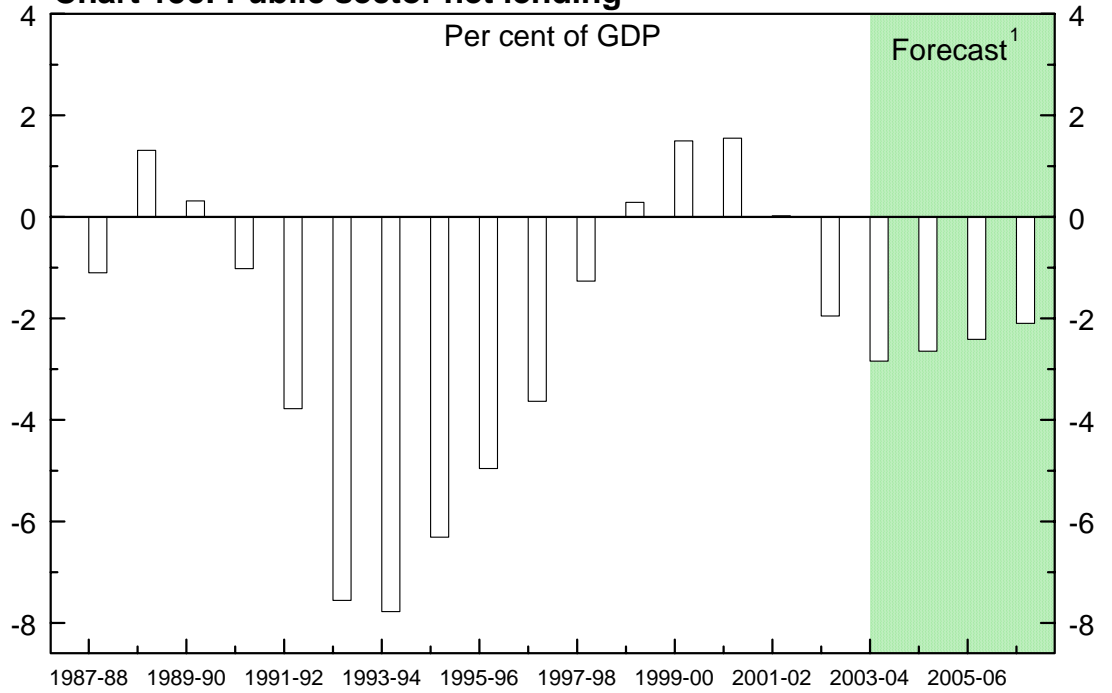
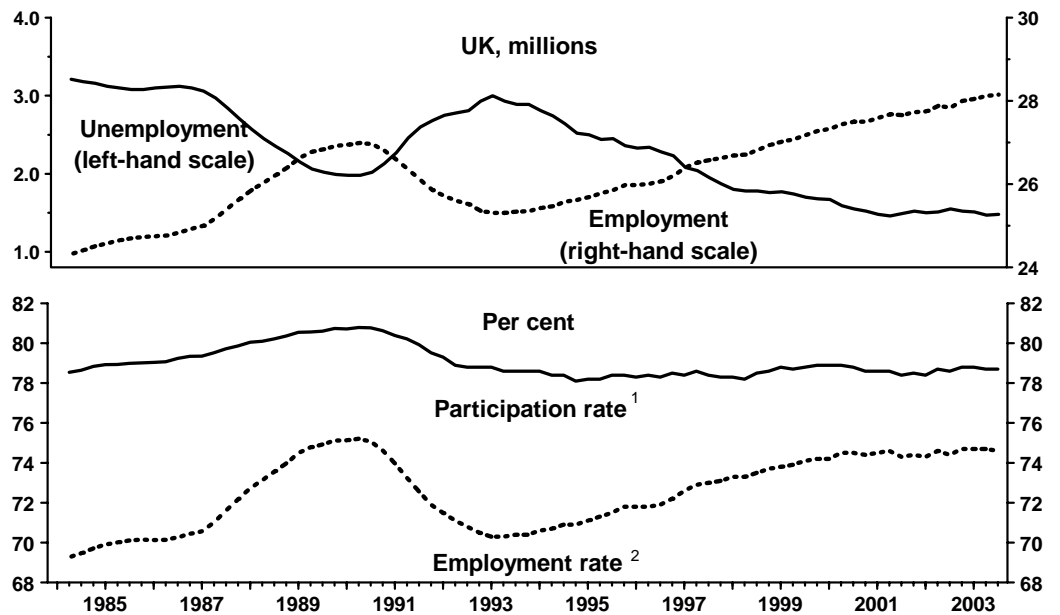


Chart 15c: Public sector net lending



THE LABOUR MARKET

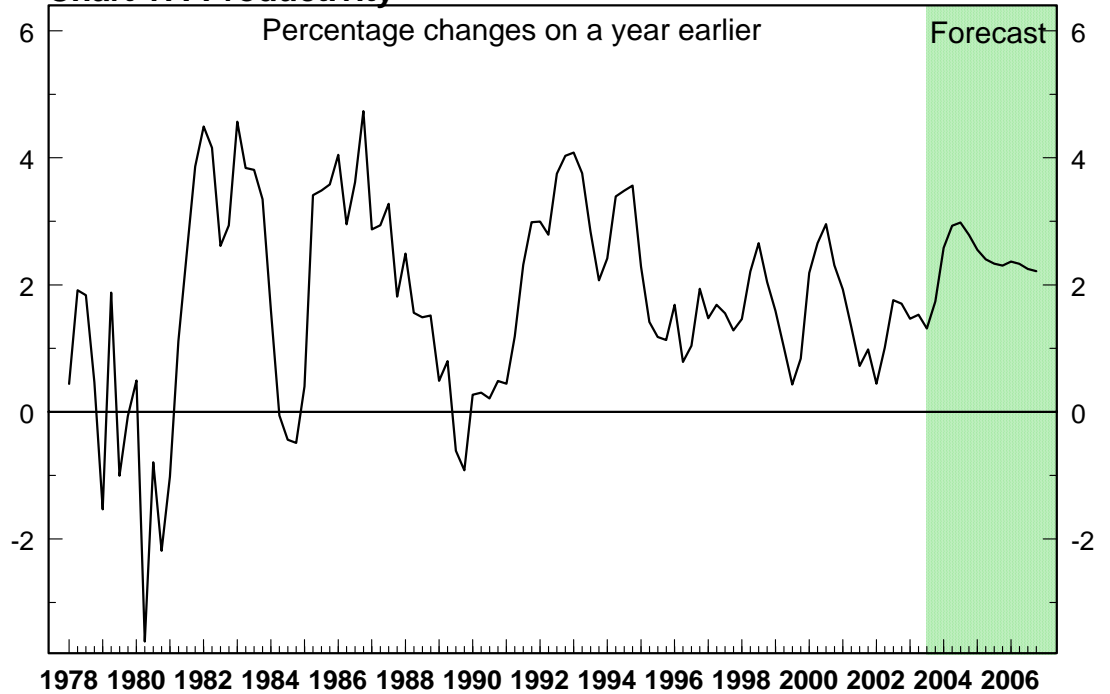
Chart 16: LFS employment, unemployment and participation



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

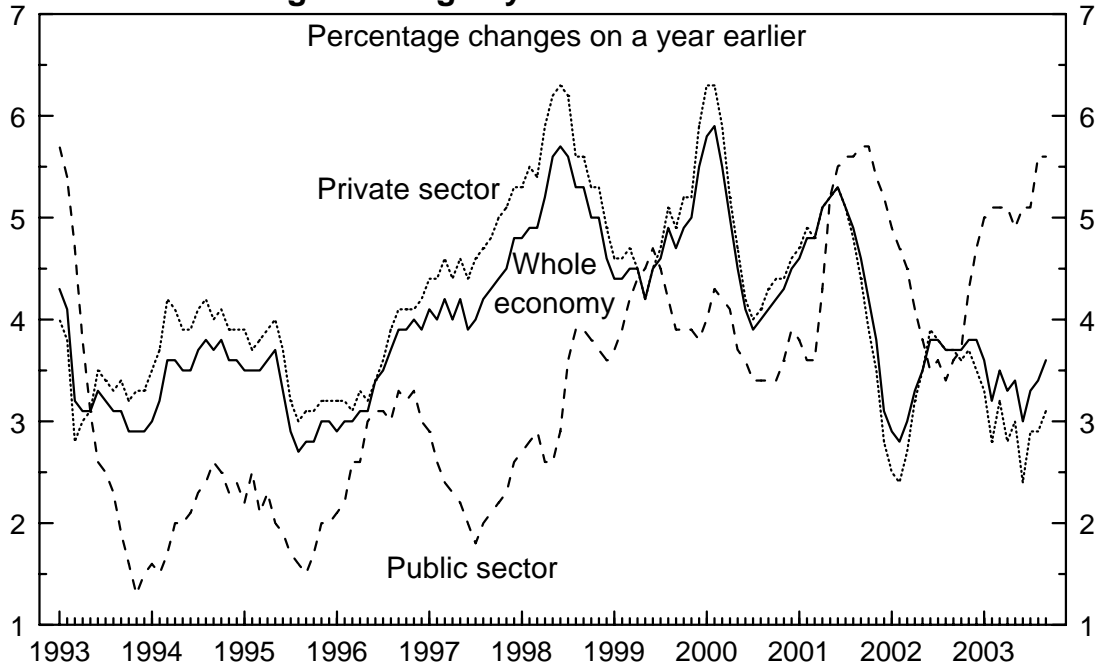
² Percentage of the working-age population in employment.

Chart 17: Productivity¹



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

Chart 18: Average earnings by sector¹



¹ Latest three months, seasonally adjusted.

FINANCIAL DEVELOPMENTS

Chart 19: Sterling effective exchange rate index

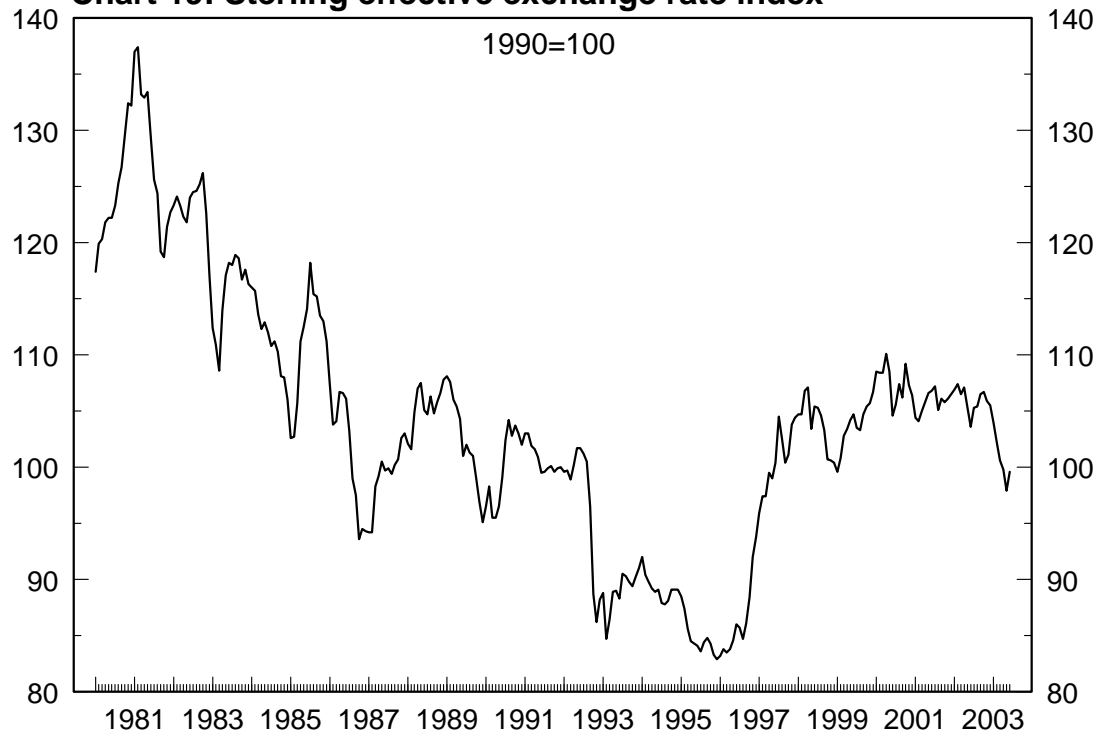


Chart 20: UK interest rates

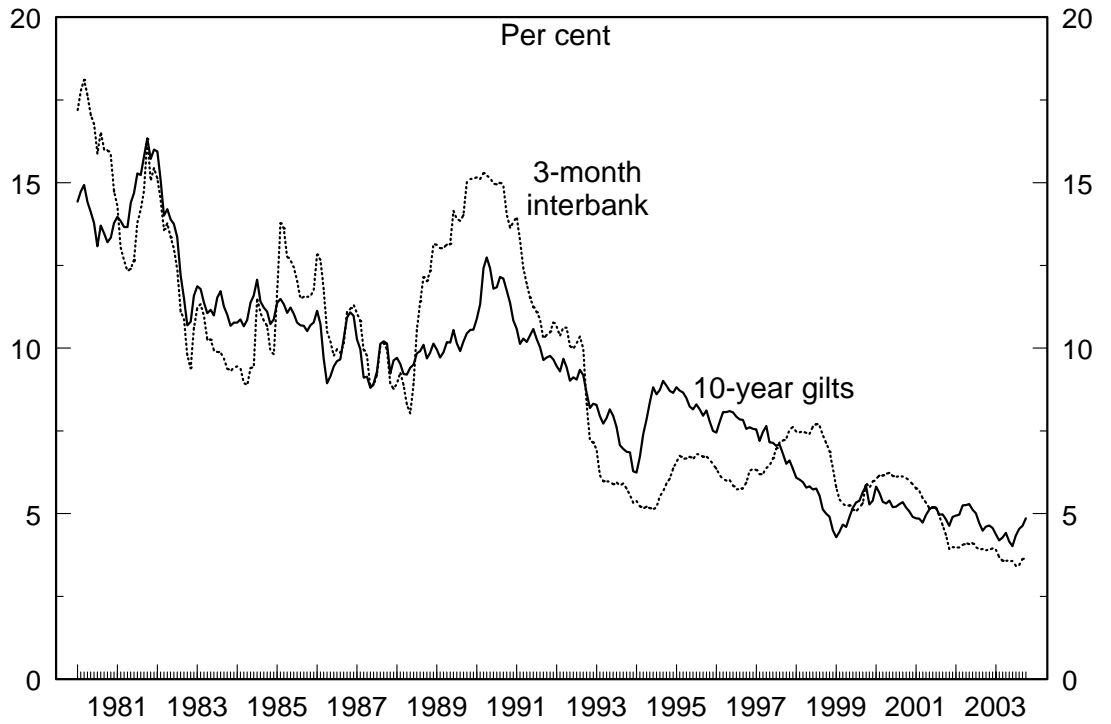
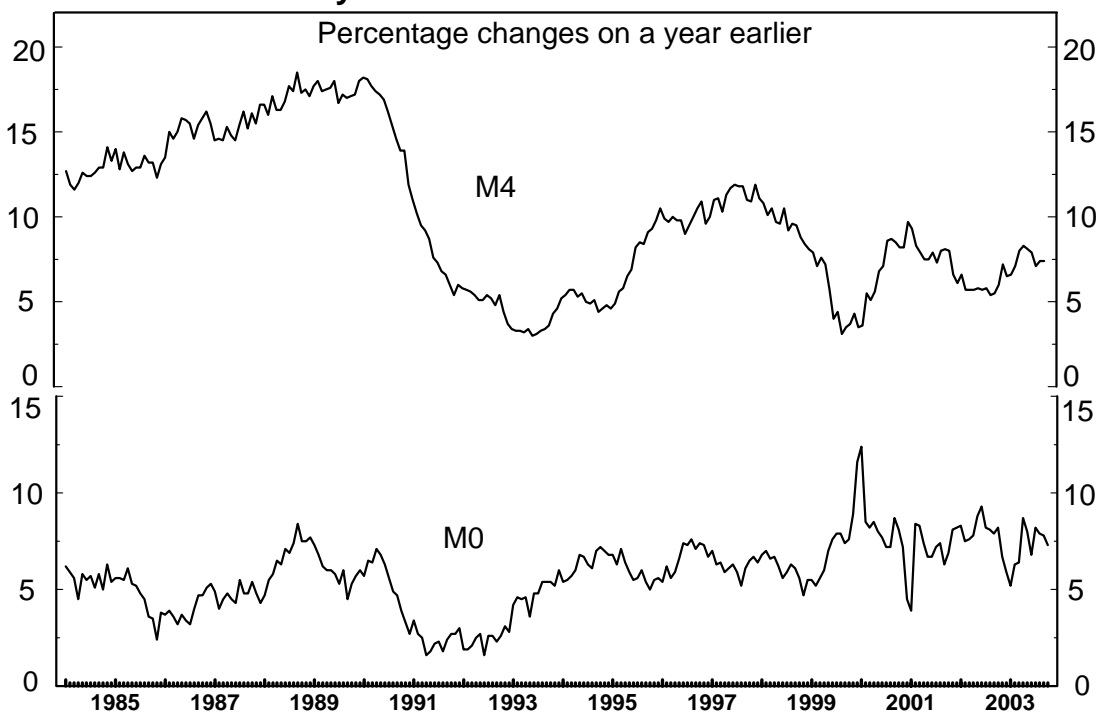
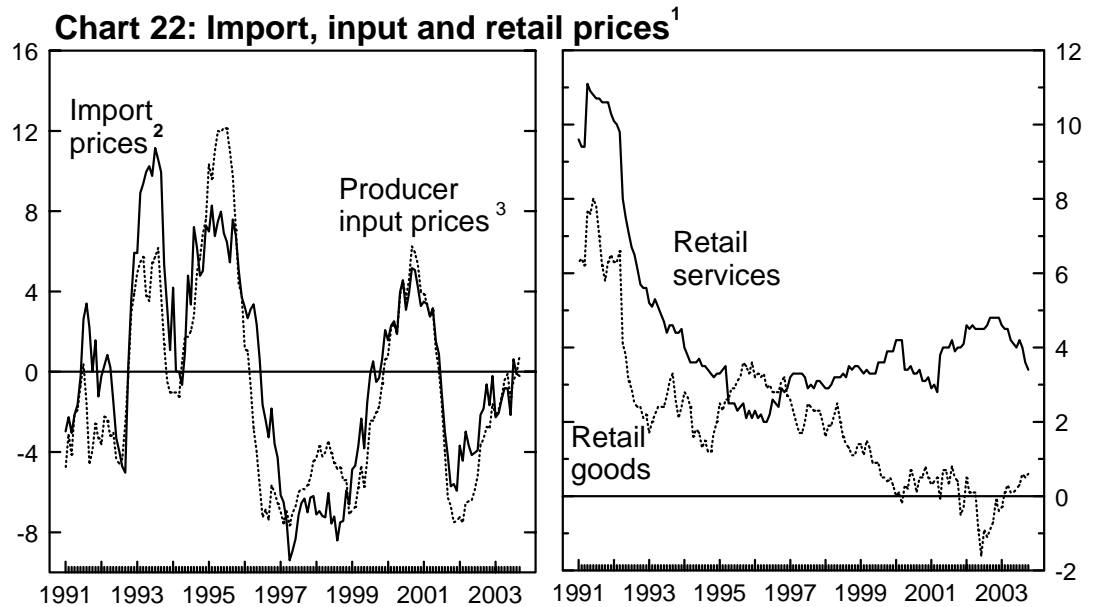


Chart 21: Monetary indicators



INFLATION



¹ Percentage changes on a year earlier.

² All goods.

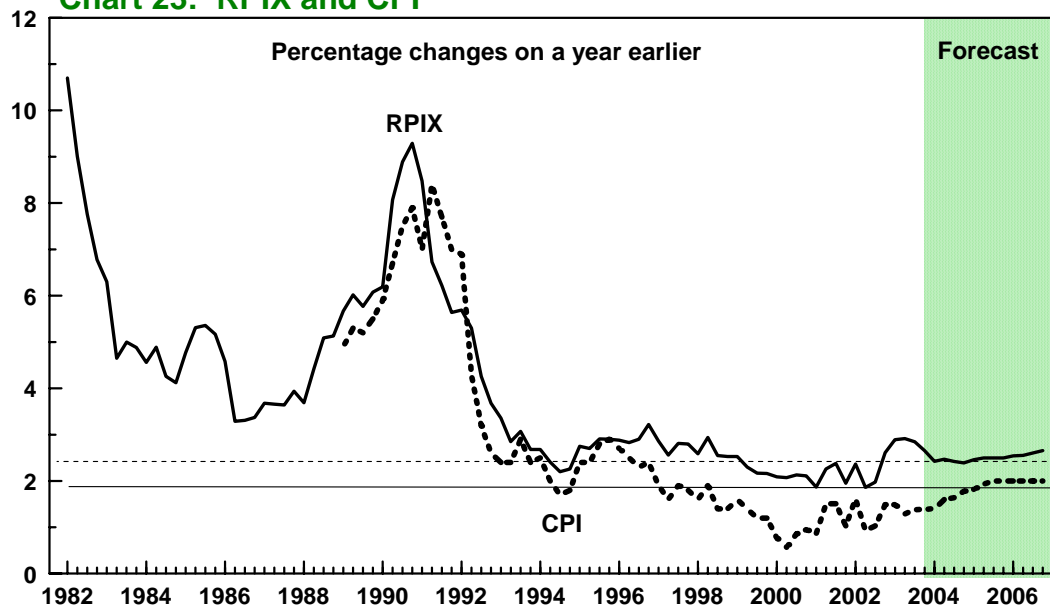
³ Including climate change levy, but excluding food, beverages, tobacco and petroleum.

Table 6: Consumer and producer output prices

	Percentage changes on a year earlier									
	2002		2003		2004		2005		2006	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI inflation	1	1½	1¼	1½	1½	1¾	2	2	2	2
Producer output prices ¹	-½	1	1¼	1½	2	2¼	2	2	2	2

¹ Excludes excise duties.

Chart 23: RPIX and CPI¹



¹Outturns until 2003Q3; forecasts for every second quarter from 2003Q4 to 2006Q4.

COMPARISON WITH INDEPENDENT FORECASTS

Table 7: Pre-Budget Report and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2003			2004		
	Pre-Budget Report	Independent		Pre-Budget Report	Independent	
Average		Range	Average		Range	
Gross domestic product	2	1.9	1.6 to 2.2	3 to 3½	2.6	0.3 to 3.5
RPIX (Q4)	2¾	2.7	2.2 to 2.9	2½	2.4	1.7 to 3.3
Current account (£ billion)	-24¼	-22.2	-39.3 to -8.0	-29½	-23.5	-43.9 to -5.0

¹Forecasts for the UK Economy: A Comparison of Independent Forecasts, November 2003.

COMPARISON WITH APRIL 2003 BUDGET FORECAST

Table 8: Comparison with Budget 2003 forecast

		Percentage changes on a year earlier unless otherwise stated	
		April 2003 Budget	December 2003 Pre-Budget Report
Gross domestic product	2003	2 to 2½	2
	2004	3 to 3½	3 to 3½
	2005	3 to 3½	3 to 3½
RPIX inflation (per cent, Q4)	2003	2¾	2¾
	2004	2½	2½
	2005	2½	2½
Current account (£ billion)	2003	-23¼	-24½
	2004	-23¼	-30¾
	2005	-23¼	-29¼

SUMMARY TABLES

Table A9: Summary of economic prospects¹

	Percentage changes on a year earlier unless otherwise stated					Average errors from past forecasts ³
	2002	2003	2004	Forecast ²		
				2005	2006	
Output at chained volume measures						
Gross domestic product (GDP)	1¾	2	3 to 3½	3 to 3½	2½ to 3	¾
Manufacturing output	-3½	¼	1¼ to 2¼	1¼ to 2¼	1¼ to 2¼	1¼
Expenditure components of GDP at chained volume measures⁴						
Domestic demand	3	2½	3¼ to 3¾	2¾ to 3¼	2¾ to 3¼	¾
Household consumption ⁵	3½	2½	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾	1
General government consumption	2½	3¼	2½	2½	2½	1¼
Fixed investment	1¾	2¼	6 to 6½	5½ to 6	4 to 4¾	1½
Change in inventories ⁶	-¼	0	¼	0	0 to ¼	¼
Exports of goods and services	-1	-1½	5¼ to 5¾	7 to 7½	6¼ to 6¾	2¼
Imports of goods and services	3¾	½	5¼ to 5¾	5¼ to 6¼	5¼ to 6¼	2
Balance of payments current account						
£ billion	-19	-24¼	-29½	-28	-28¼	7¼
per cent of GDP	-1¾	-2¼	-2½	-2¼	-2¼	¾
Inflation						
CPI (Q4)	1½	1½	1¾	2	2	-
RPIX (Q4)	2½	2¾	2½	2½	2¾	¼
Producer output prices (Q4) ⁷	1	1½	2¼	2	2	1¼
GDP deflator at market prices	3¼	3	2½	2½	2¾	1
Money GDP at market prices						
£ billion	1044	1096	1158 to 1164	1222 to 1234	1287 to 1306	10
percentage change	5	5	5½ to 6	5½ to 6	5¼ to 5¾	¾

¹The forecast is consistent with [the national accounts and balance of payments statistics to the second quarter of 2003, released by the Office for National Statistics on 30 September 2003, and output, income and expenditure data for the third quarter released on 26 November 2003, about the supply-side performance of the economy. The mid-points of forecast ranges are anchored around the neutral 2 per cent assumption

²As 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 2½ per cent assumption for the trend rate of output growth. The figures at the lower end of the ranges are consistent with the deliberately cautious assumption of 2½ per cent a year trend growth used as the basis for projecting the public finances.

³Average absolute errors for year-ahead projections made in autumn 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 2003.

⁴Further detail on the expenditure components of GDP is given in Table A9.

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 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
2002	669.0	185.2	170.0	1.5	1025.9	271.2	1297.1	310.2	1.5	988.3
2003	685.3	191.2	174.0	0.7	1051.4	267.7	1318.6	311.4	1.5	1008.7
2004	701.2 to 704.7	195.8	184.4 to 185.3	3.3 to 4.3	1084.7 to 1090.0	281.4 to 282.7	1366.0 to 1372.7	327.5 to 329.1	1.5	1040.1 to 1045.2
2005	717.9 to 724.9	200.5	194.3 to 196.3	2.0 to 4.0	1114.7 to 1125.6	300.9 to 303.8	1415.6 to 1429.5	346.1 to 349.5	1.5	1071.0 to 1081.5
2006	734.0 to 744.8	205.3	202.4 to 205.3	2.3 to 5.4	1144.0 to 1160.8	319.4 to 324.1	1463.3 to 1484.9	365.8 to 371.2	1.5	1099.1 to 1115.3
2002 1st half	331.4	92.7	83.8	0.7	508.7	136.4	645.1	154.4	0.7	491.3
2nd half	337.6	92.5	86.2	0.8	517.2	134.8	652.0	155.8	0.8	497.1
2003 1st half	340.3 to 340.3	95.3	86.5 to 86.5	-0.5 to -0.5	521.8 to 521.8	133.7 to 133.7	655.5 to 655.5	155.6 to 155.6	0.8	500.7 to 500.7
2nd half	344.8 to 345.2	95.9	87.5 to 87.6	1.2 to 1.3	529.4 to 529.9	133.5 to 133.6	662.9 to 663.6	155.8 to 155.9	0.8	507.9 to 508.4
2004 1st half	348.5 to 349.7	97.0	90.9 to 91.2	1.7 to 2.1	538.1 to 540.1	138.3 to 138.8	676.3 to 678.8	161.3 to 161.8	0.8	515.8 to 517.7
2nd half	352.8 to 354.9	98.8	93.5 to 94.1	1.6 to 2.2	546.6 to 549.9	143.1 to 144.0	689.7 to 693.9	166.3 to 167.3	0.8	524.2 to 527.4
2005 1st half	357.0 to 360.0	99.2	96.0 to 96.8	1.4 to 2.3	553.6 to 558.4	148.2 to 149.5	701.8 to 707.8	170.7 to 172.1	0.8	531.9 to 536.4
2nd half	360.9 to 364.9	101.3	98.3 to 99.4	0.6 to 1.8	561.1 to 567.3	152.7 to 154.4	713.8 to 721.7	175.5 to 177.4	0.8	539.1 to 545.0
2006 1st half	364.9 to 369.9	101.8	100.3 to 101.7	1.4 to 2.8	568.5 to 576.2	157.3 to 159.4	725.8 to 735.6	180.4 to 182.8	0.8	546.2 to 553.6
2nd half	369.0 to 374.9	103.5	102.0 to 103.7	0.9 to 2.6	575.5 to 584.7	162.0 to 164.6	737.5 to 749.3	185.4 to 188.4	0.8	552.9 to 561.7
Percentage changes on previous year ^{4,5}										
2002	3½	2½	1¾	-¼	3	-1	2	3¾	¼	1¾
2003	2½	3¼	2¼	0	2½	-1½	1¾	½	0	2
2004	2¼ to 2¾	2½	6 to 6½	¼	3¼ to 3¾	5¼ to 5¾	3½ to 4	5¼ to 5¾	0	3 to 3½
2005	2¼ to 2¾	2½	5½ to 6	0	2¾ to 3¼	7 to 7½	3¾ to 4¼	5¼ to 6¾	0	3 to 3½
2006	2¼ to 2¾	2½	4 to 4¾	0 to ¼	2¾ to 3¼	6¾ to 6¾	3¾ to 4	5¾ to 6¾	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				
	2002	2003	2004	2005	2006
<i>Major 7 countries</i> ¹					
Real GDP	1½	2¼	3	2¾	2¼
Consumer price inflation ²	1¾	1½	1½	1¼	1¼
<i>Euro-area</i>					
Real GDP	¾	½	1¾	2¾	2½
World trade in goods and services	3½	4	7¾	8	7¼
UK export markets ³	2	3¼	6¼	7¼	6¼

¹ G7: US, Japan, Germany, France, UK, Italy and Canada.
² Per cent, Q4.
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			
	April 2003		November 2003	
	2003	2004	2003	2004
<i>GDP</i>				
USA	2.3	3.6	2.9	4.2
Euro-area	1.0	2.0	0.5	1.7
Japan	0.8	0.8	2.4	1.3

¹ Consensus forecasts, Consensus Economics Inc.

Chart 24: G7 GDP and world trade

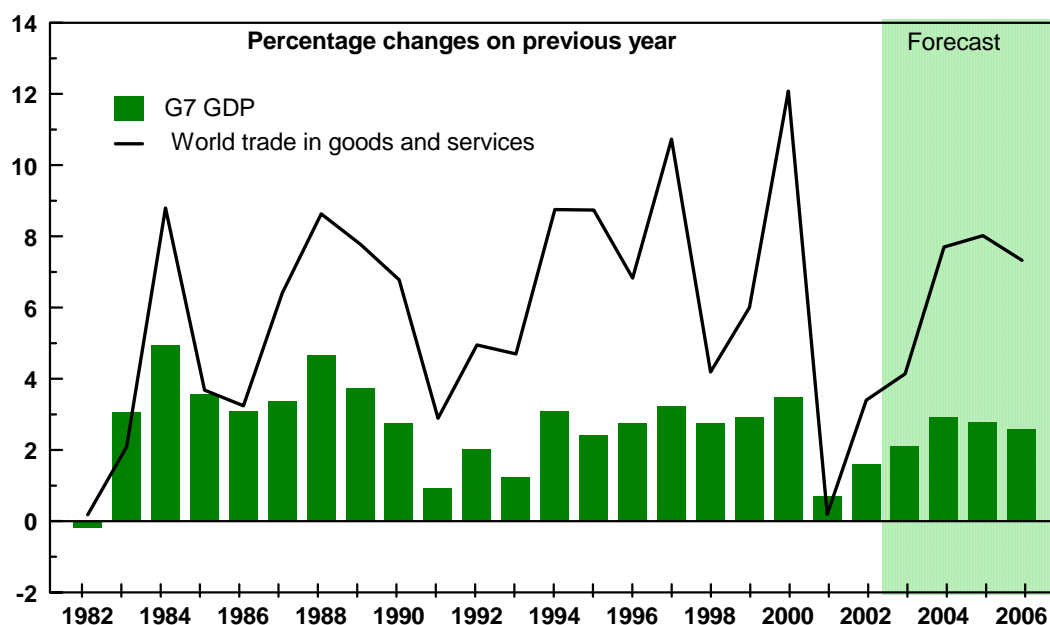
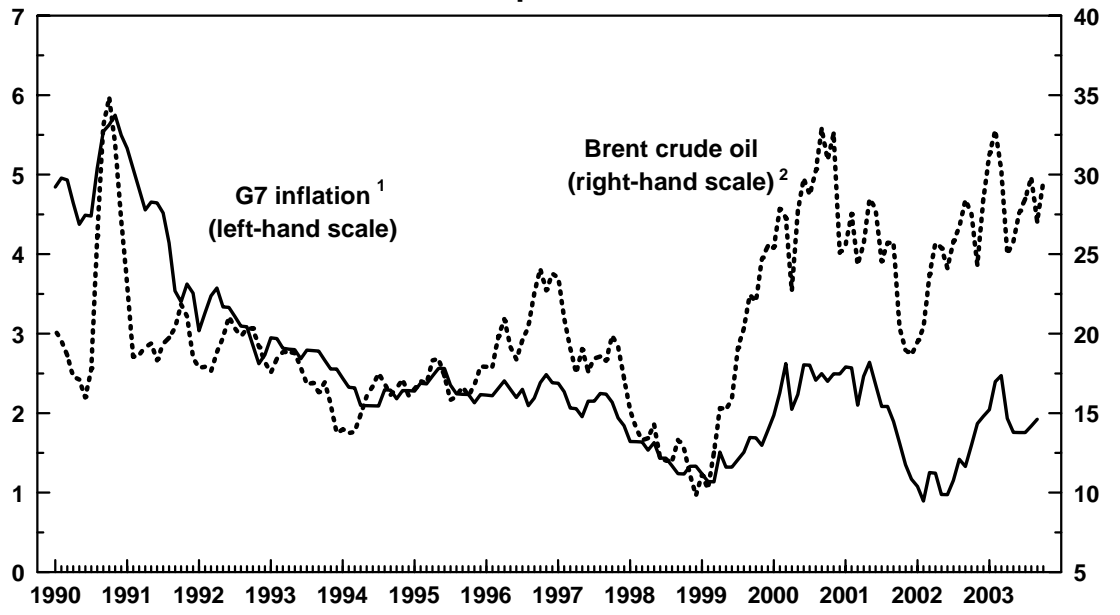


Chart 25: G7 inflation and oil prices



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

² US dollars per barrel.