

# Economy charts and tables

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December 2005



HM TREASURY





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# I The Economy

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The Pre-Budget Report (PBR), published by HM Treasury on 5 December 2005, includes a discussion of economic developments and prospects (Annex A). This 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 output, income and expenditure data to the third quarter of 2005, released by the Office for National Statistics on 25 November 2005.

## FORECAST RANGES

As in the previous Pre-Budget Reports and Budgets, 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 Annex A of the Pre-Budget Report.

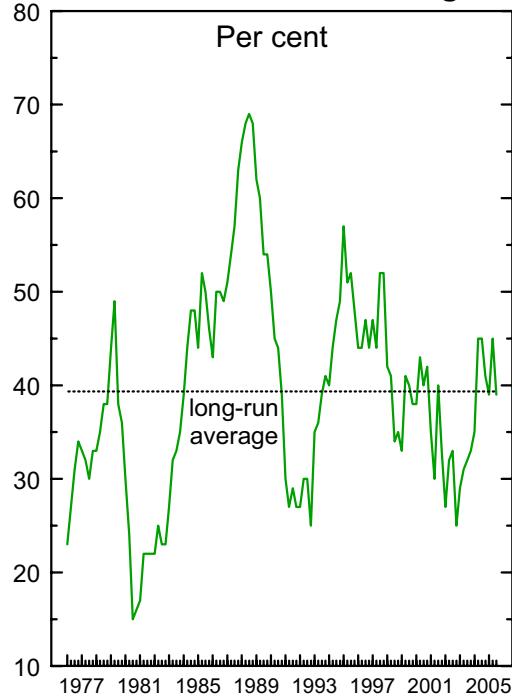
The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of 2¾ per cent a year to the end of 2006, slowing to 2½ per cent thereafter due to demographic effects. Details of this neutral assumption are set out in Table A2 of the Pre-Budget Report 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 gave a detailed assessment of the neutral rate to be used for economic forecasts. The neutral case assumed a more moderate trend rate of growth in the employment rate than had been witnessed over the recent past, and did 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 Annex B of the Pre-Budget Report) 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.

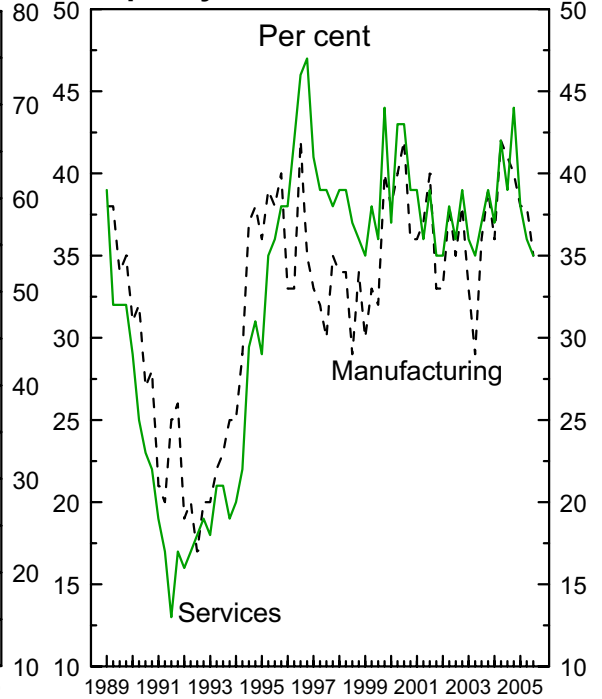
<sup>1</sup> *Trend Growth: Recent Evidence and Prospects*, HM Treasury, April 2002.

**THE DEGREE OF SPARE CAPACITY**

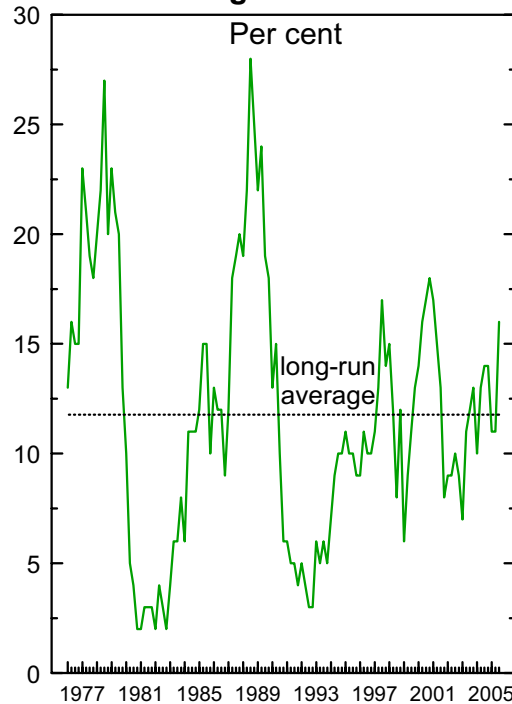
**Chart 1a: CBI capacity utilisation in manufacturing**



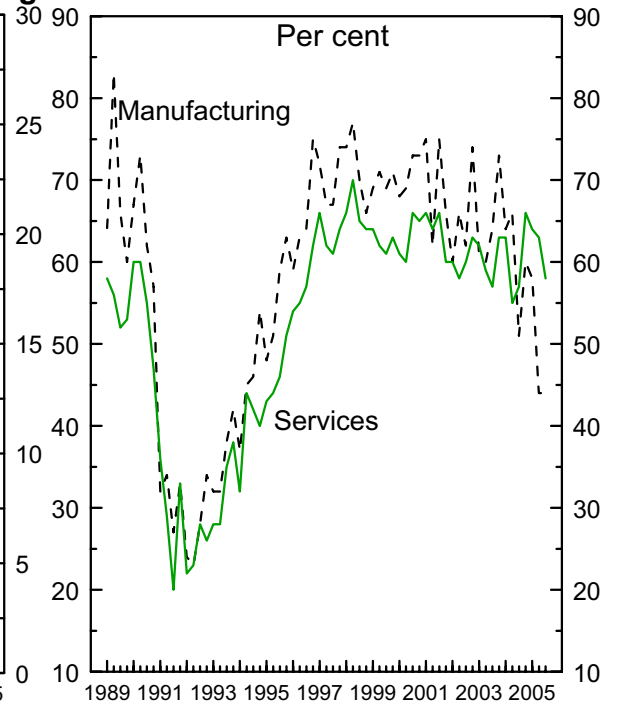
**Chart 1b: BCC survey of capacity utilisation**

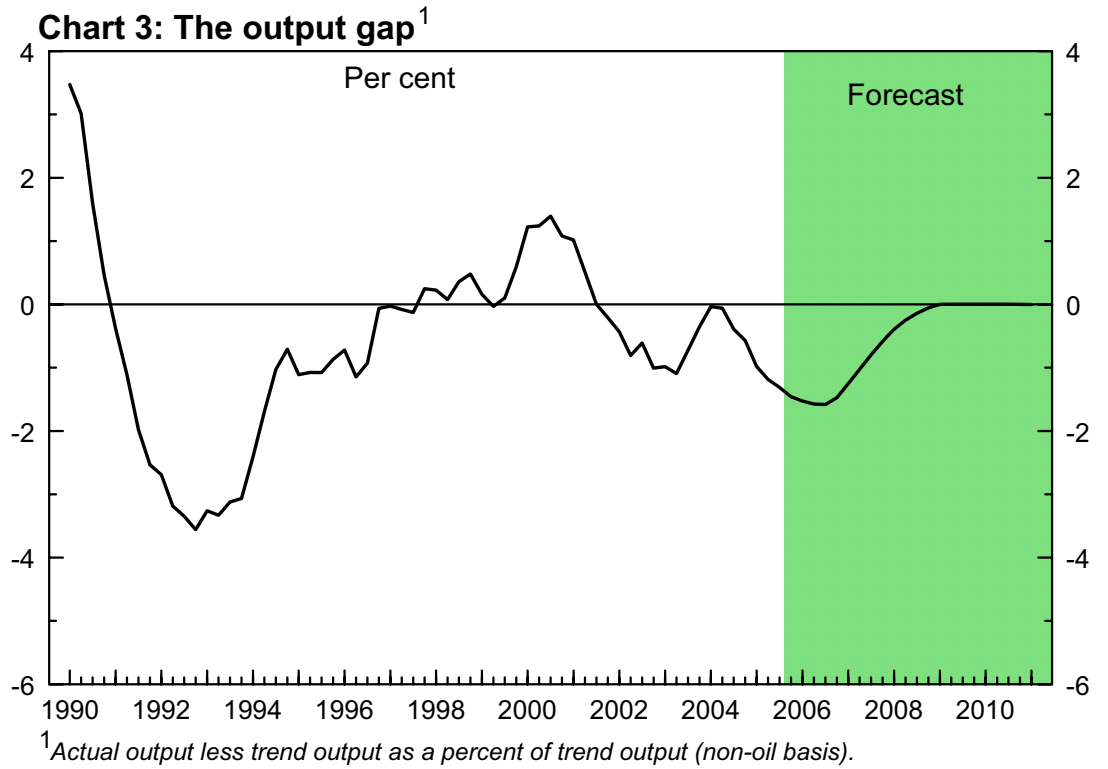


**Chart 2a: CBI survey of skilled labour shortages in manufacturing**

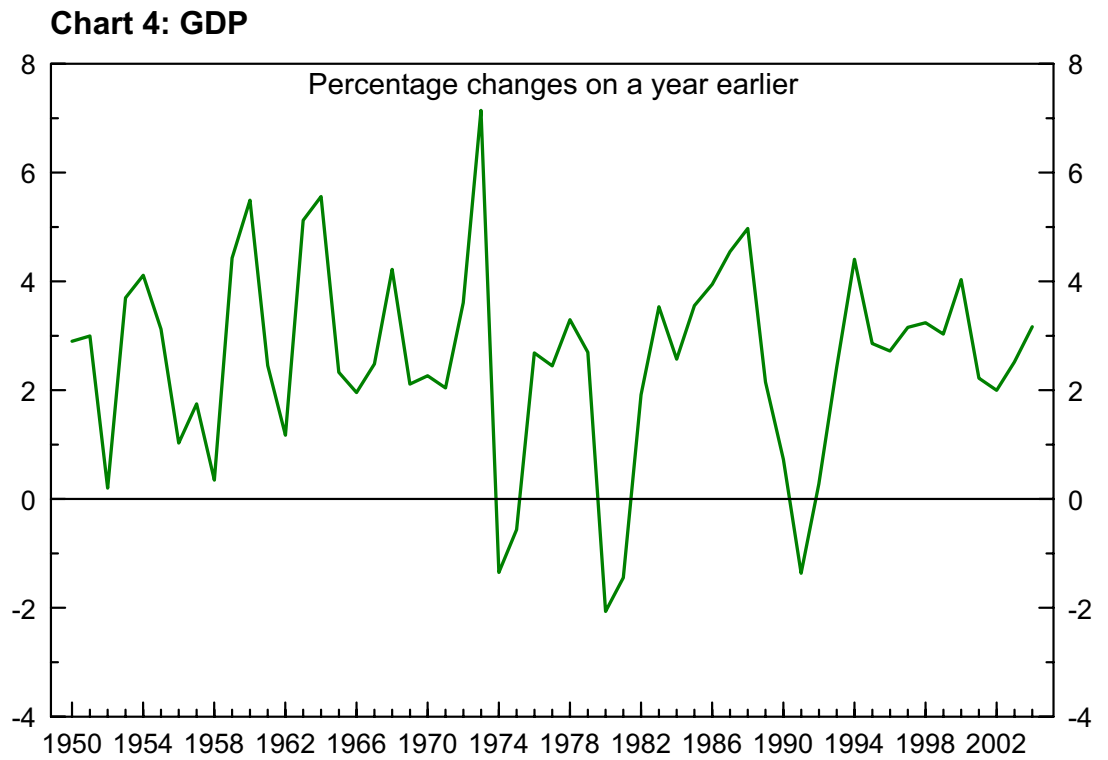


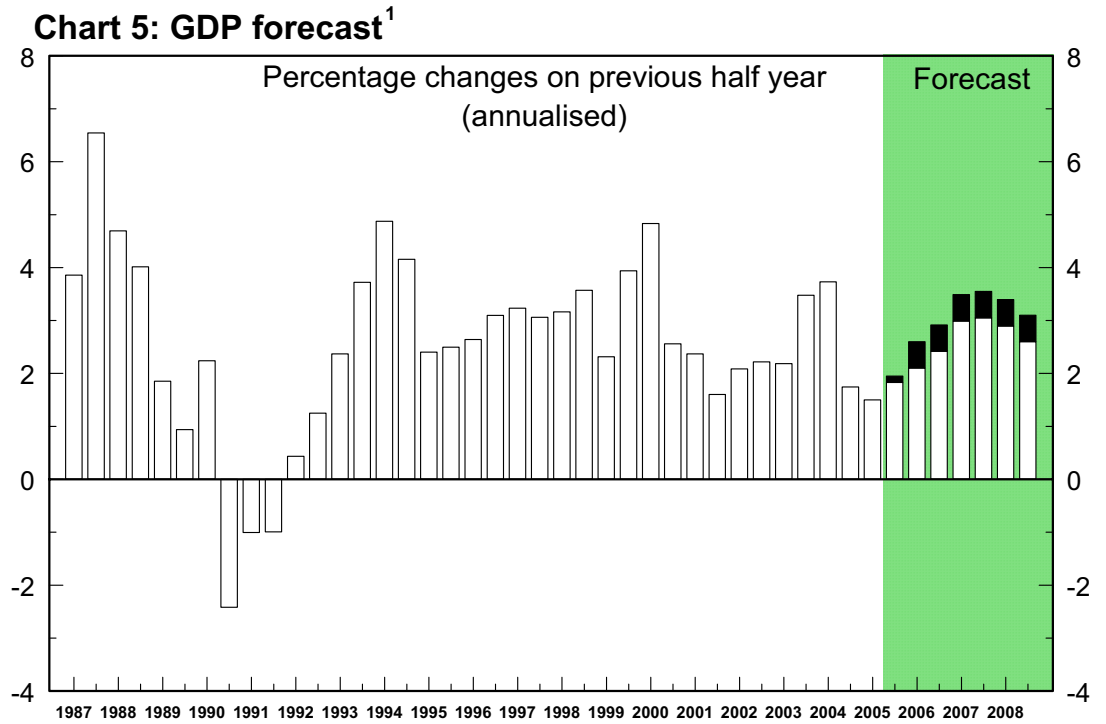
**Chart 2b: BCC survey of recruitment difficulties**





**GROSS DOMESTIC PRODUCT (GDP)**





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

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

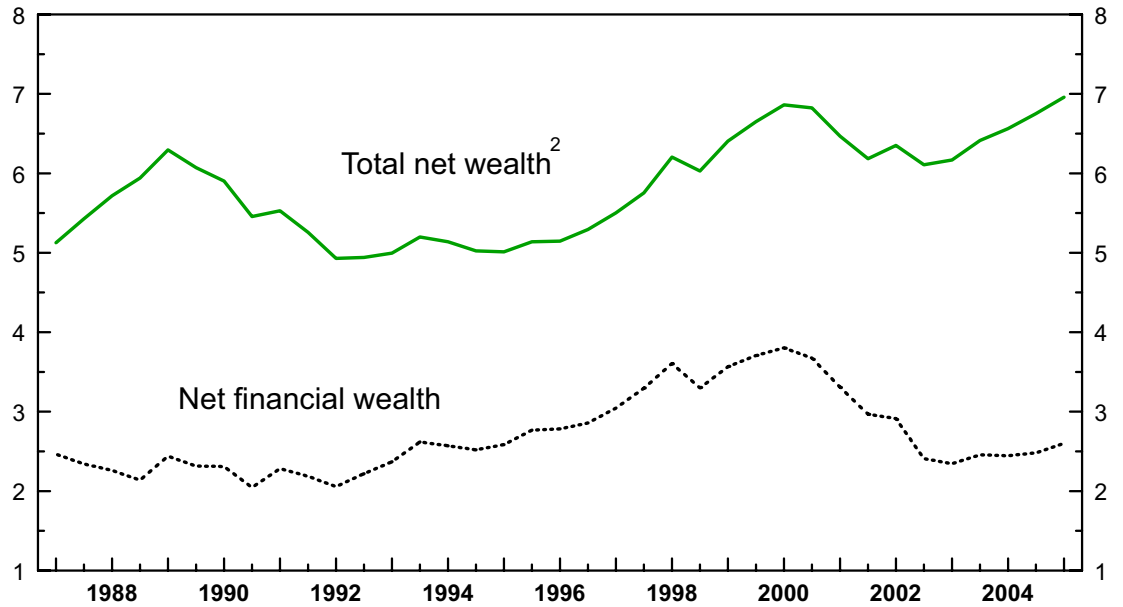
	Percentage points unless otherwise stated				
	2004	Forecast			
		2005	2006	2007	2008
Private consumption	2½	1¼	1½	1¾	1¾
Business investment	¼	¼	¼	½	½
Government	¾	½	¾	¾	¾
Change in inventories	0	0	0	0	0
Net trade	-¾	-¼	0	0	0
<b>GDP growth, per cent</b>	<b>3¼</b>	<b>1¾</b>	<b>2¼</b>	<b>3</b>	<b>3</b>

<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. 2005 is part forecast.

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

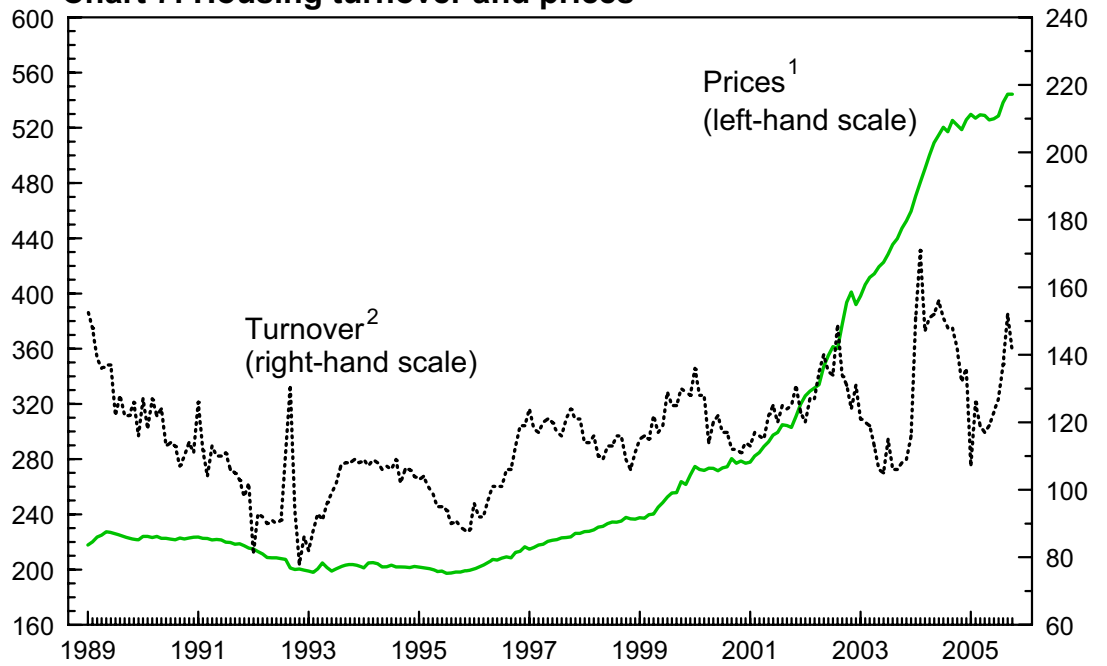
	Percentage changes on previous year unless otherwise stated				
	2004	Forecast			
		2005	2006	2007	2008
Household consumption <sup>2</sup>	3¼	1¾	1¾ to 2¼	2¼ to 2¾	2½ to 3
Real household disposable income	2¼	1½	1½ to 2	2¼ to 2¾	2¼ to 2¾
Saving ratio <sup>3</sup> (level, per cent)	4¼	4¾	4¾	4¾	4¾

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

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

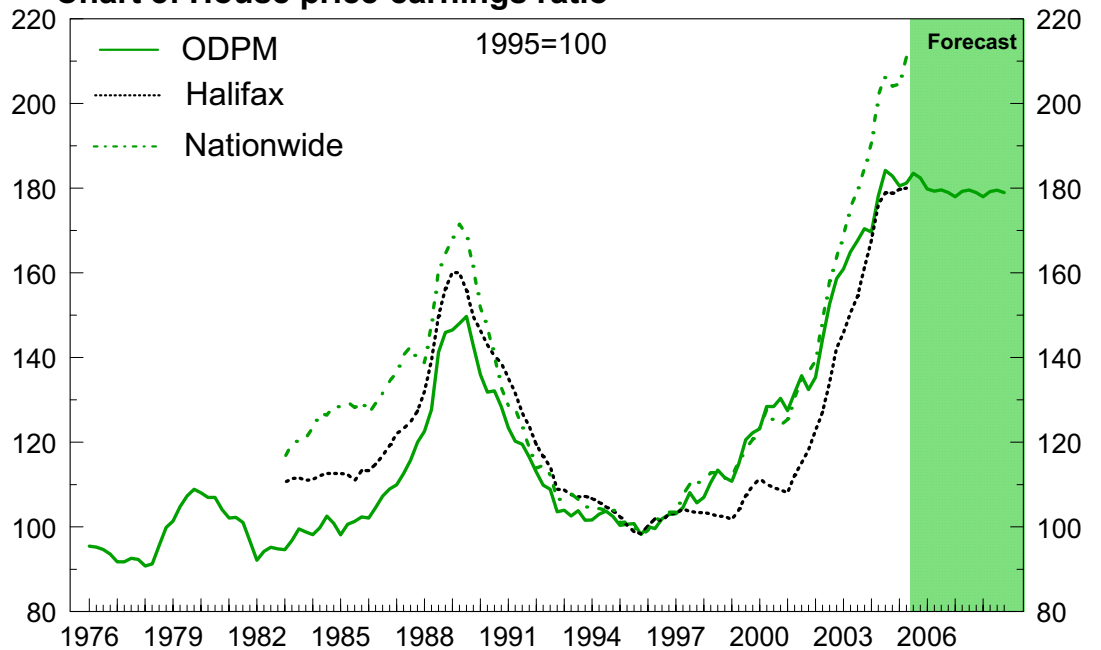
<sup>3</sup>Total household resources less consumption expenditure as a percent of total resources, where total resources comprise households' disposable income plus the increase in their net equity in pension funds.

**Chart 7: Housing turnover and prices**



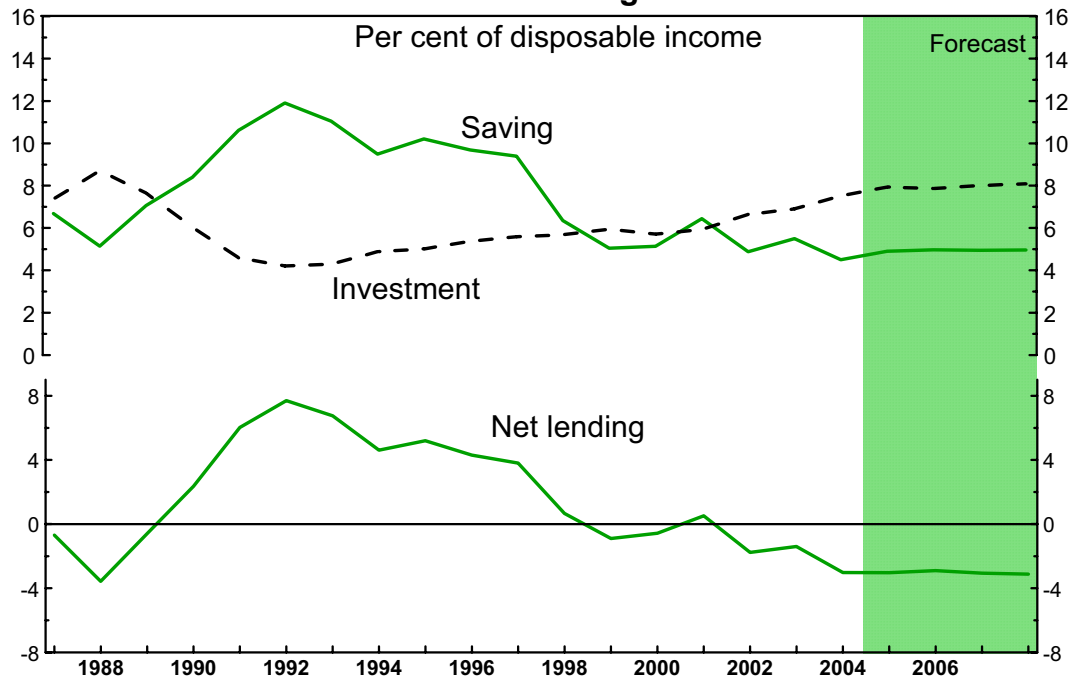
<sup>1</sup> Halifax index, 1983=100.  
<sup>2</sup> Property transactions, thousands.

**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.

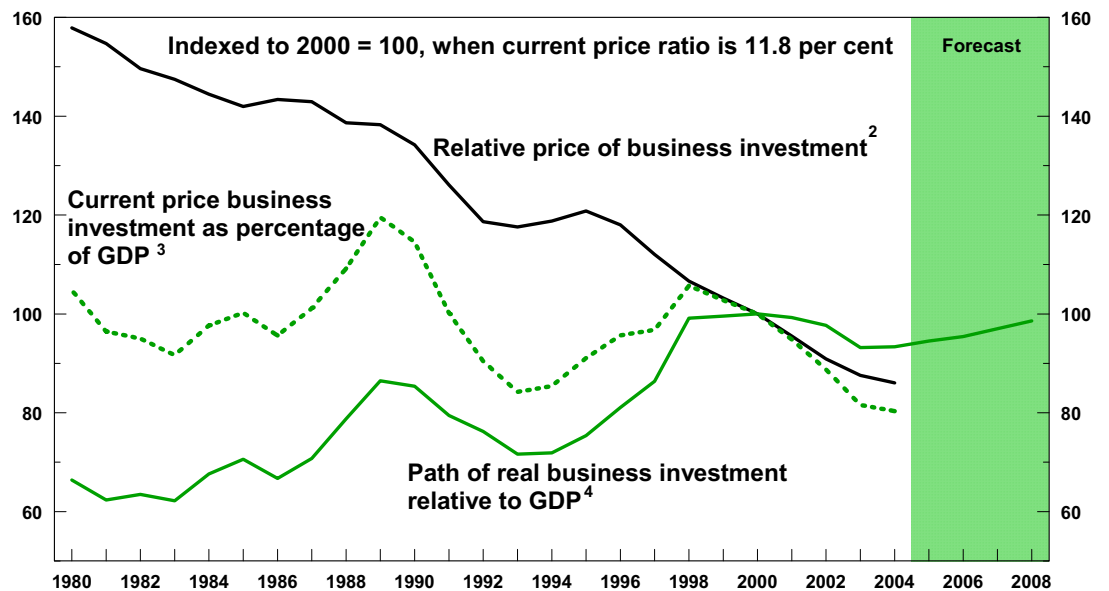
Chart 9: Household sector<sup>1</sup> net lending



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

INVESTMENT

Chart 10: Business investment<sup>1</sup>



<sup>1</sup> Includes investment by public corporations and investment under the Private Finance Initiative.

<sup>2</sup> Ratio of implied business investment deflator to GDP deflator.

<sup>3</sup> Ratio of business investment to GDP in current prices.

<sup>4</sup> Ratio of business investment to GDP in chained volume measures.

**Table 3: Gross fixed capital formation**

	Percentage changes on previous year				
	2004	Forecast			
		2005	2006	2007	2008
Whole economy <sup>1</sup>	5	2¾	3¾ to 4¼	4¾ to 5¼	4¼ to 4¾
of which:					
Business <sup>2,3</sup>	3¾	3	3 to 3½	4½ to 5¼	4½ to 5¼
Private dwellings <sup>3</sup>	9½	¼	1 to 1¼	2¾ to 3¼	3 to 3½
General government <sup>3</sup>	6	11	12½	9¾	6¼

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

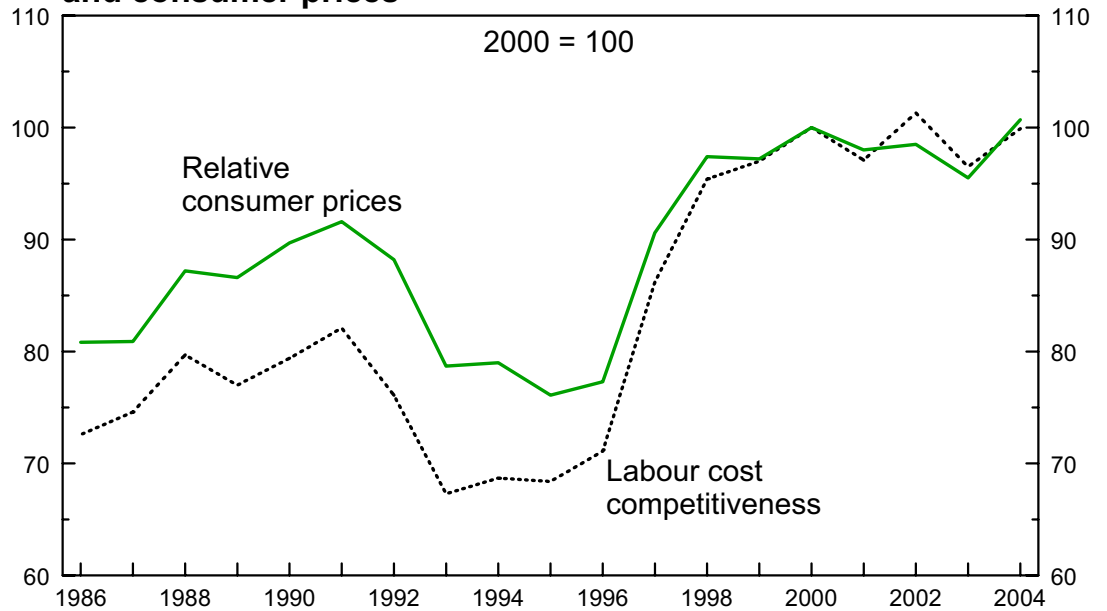
<sup>2</sup> Private sector and public corporations' non-residential investment.

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 77, 2005/1 (06/2005).

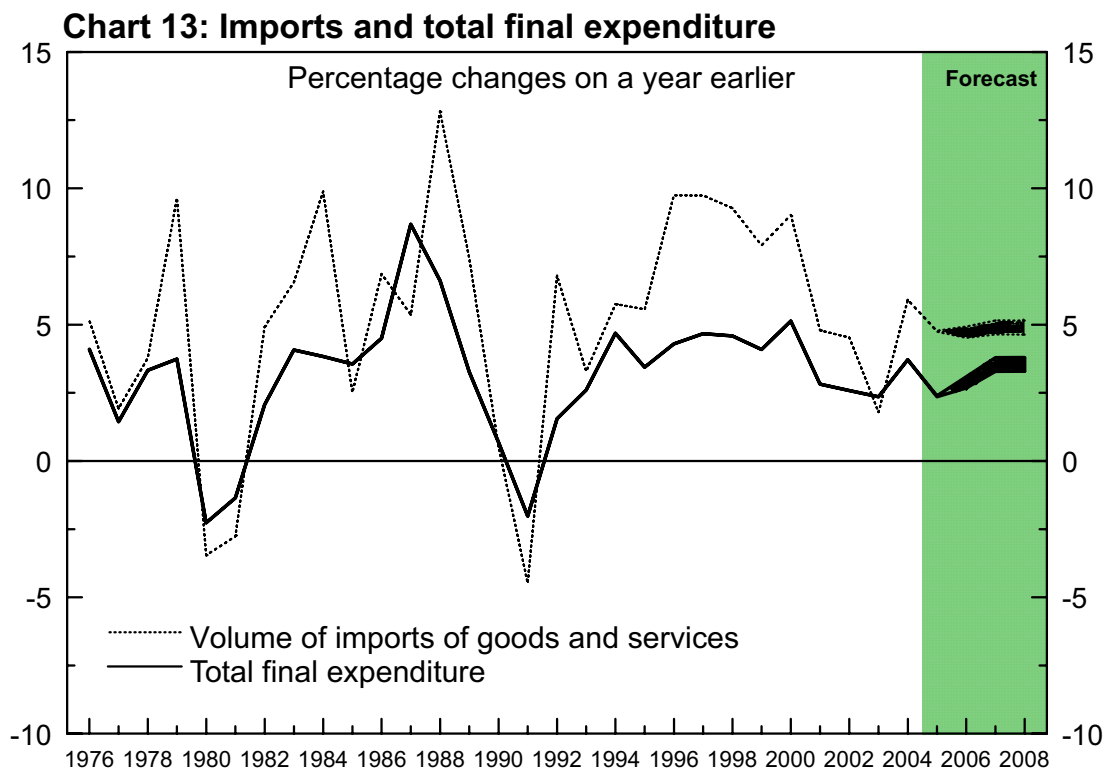
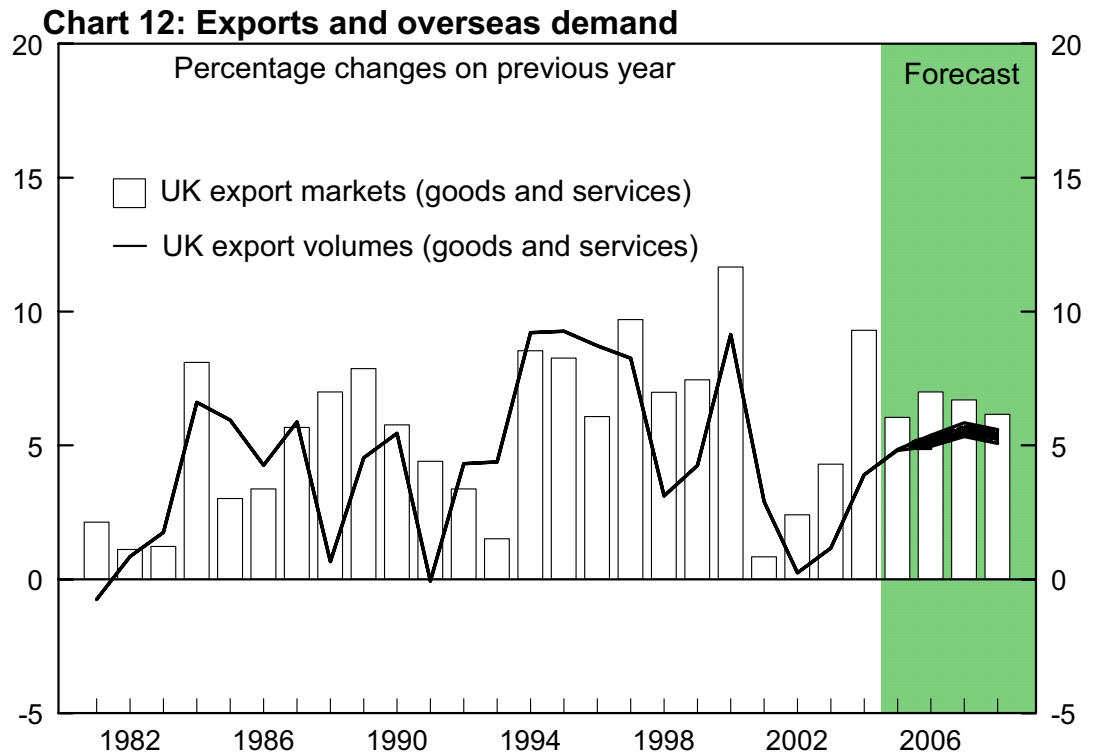


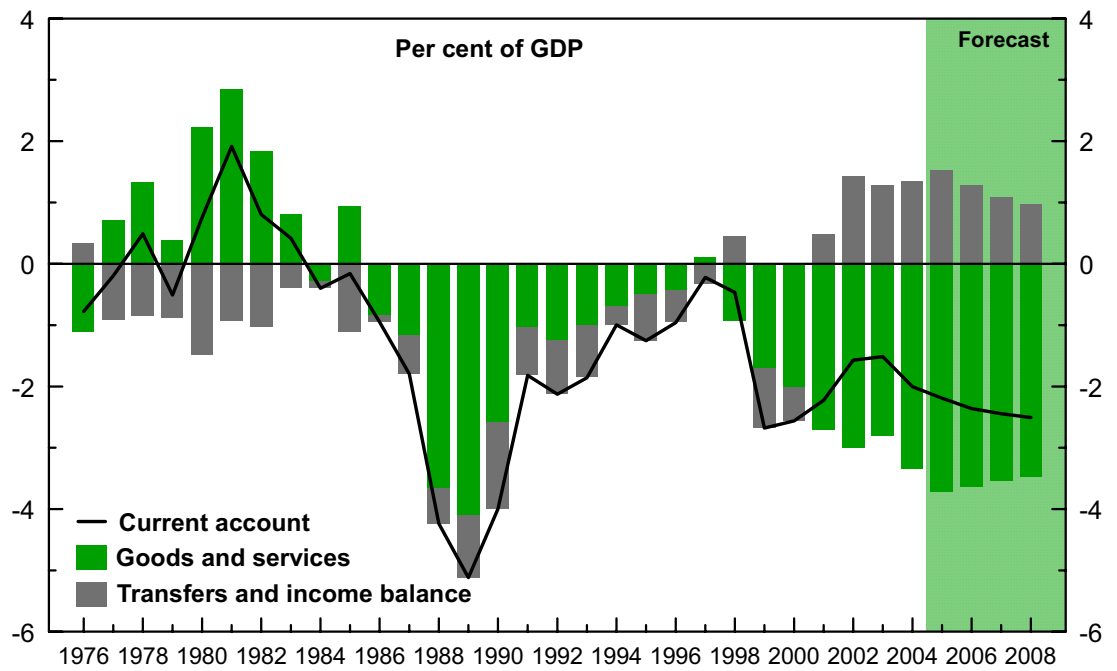
Table 4: Trade in goods and services

	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	4	6	-3/4	-1/2	-1/4	-39
<i>Forecast</i>						
2005	4 3/4	4 3/4	1 3/4	2 3/4	-1	-45
2006	5 to 5 1/2	4 1/2 to 5	1 1/4	1 1/4	0	-46 1/4
2007	5 1/4 to 5 3/4	4 3/4 to 5 1/4	1/4	3/4	-1/4	-47 1/2
2008	5 to 5 1/2	4 3/4 to 5 1/4	1/4	1/2	-1/4	-49 1/2

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

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

Chart 14: Balance of payments current account



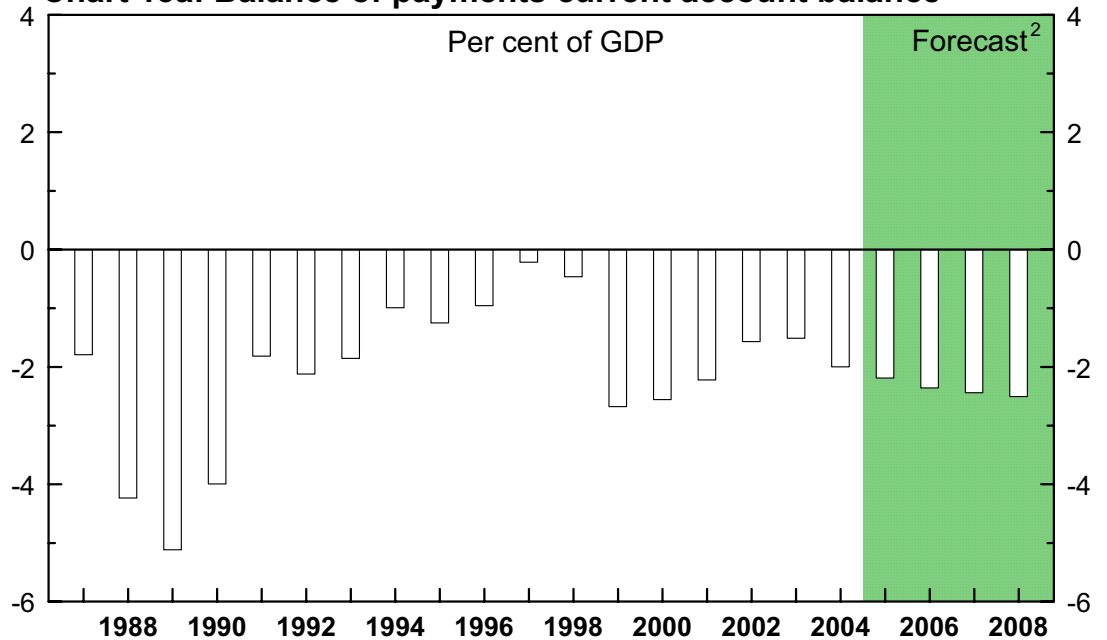
**Table 5: The current account**

	£ billion					Current balance
	Goods and services			Transfers	Income balance <sup>1</sup>	
	Non-oil	Oil	Total			
2004	-40¾	1¾	-39	-10¾	26½	-23¼
<i>Forecast</i>						
2005	-46¼	1	-45	-11¾	30¼	-26½
2006	-48¼	2	-46¼	-11½	28	-30
2007	-48	¼	-47½	-12½	27¼	-32¾
2008	-48¼	-1¼	-49½	-13	26¾	-35¾

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

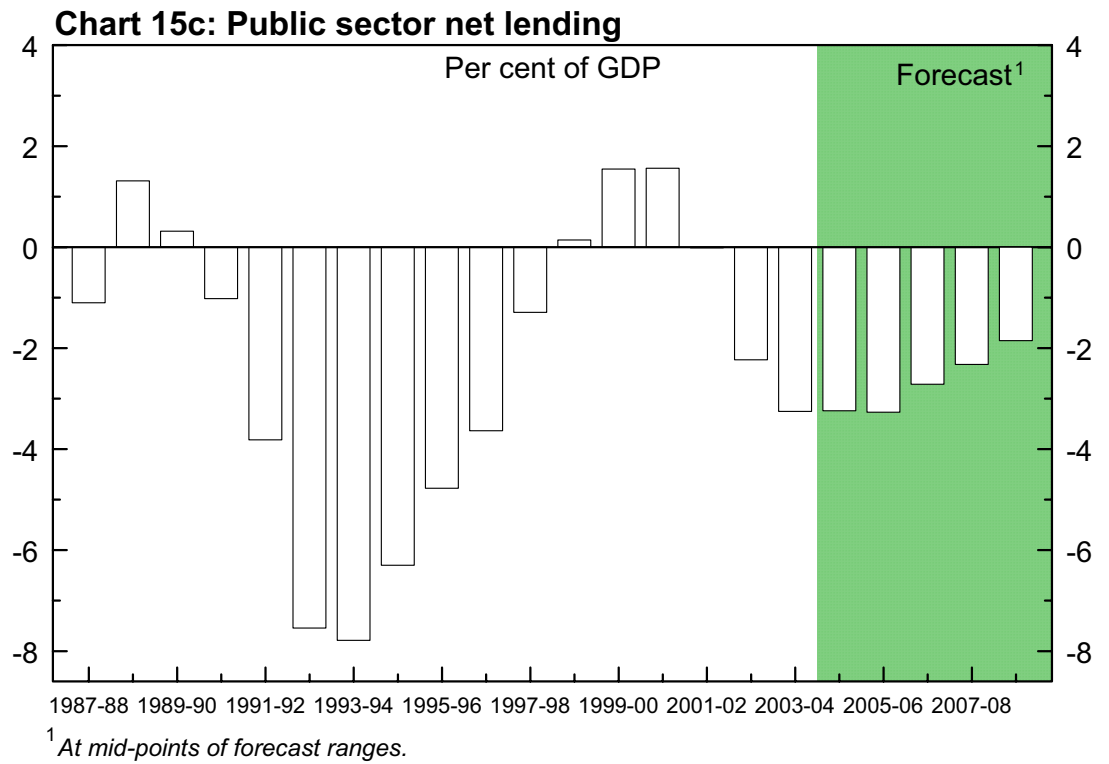
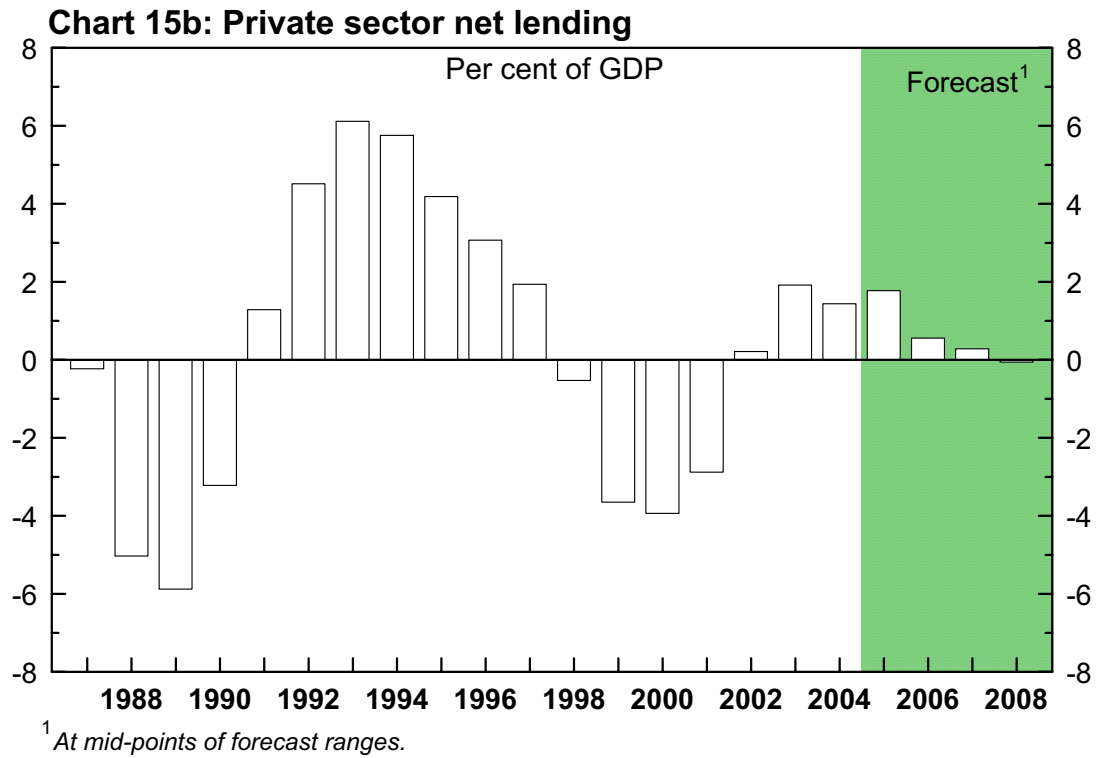
**PATTERN OF NET LENDING**

**Chart 15a: Balance of payments current account balance<sup>1</sup>**

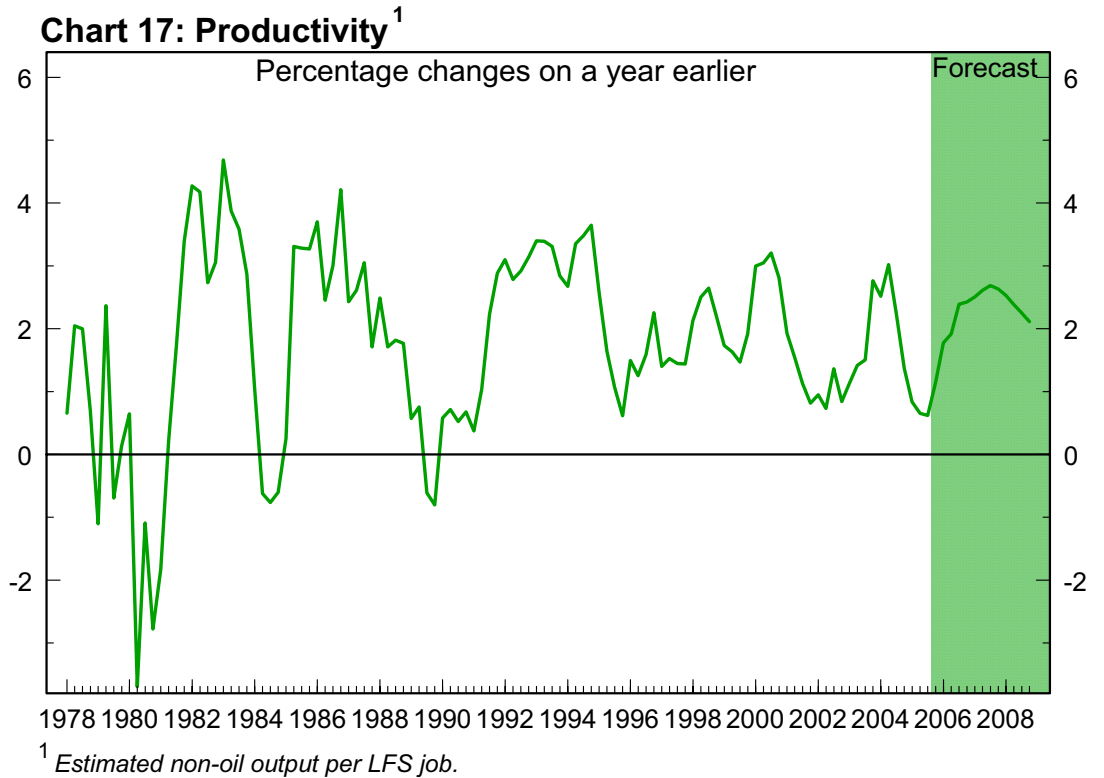
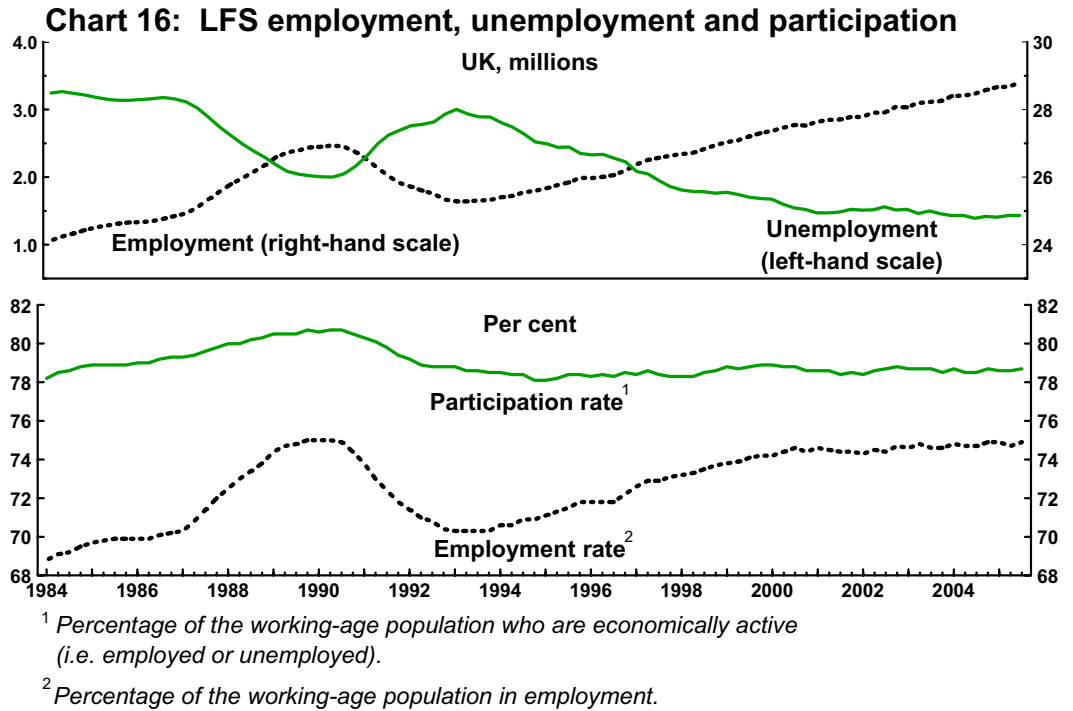


<sup>1</sup> The current account balance approximately equals net lending to the rest of the world, adjusted for net capital transfers and net acquisitions of non-produced non-financial assets.

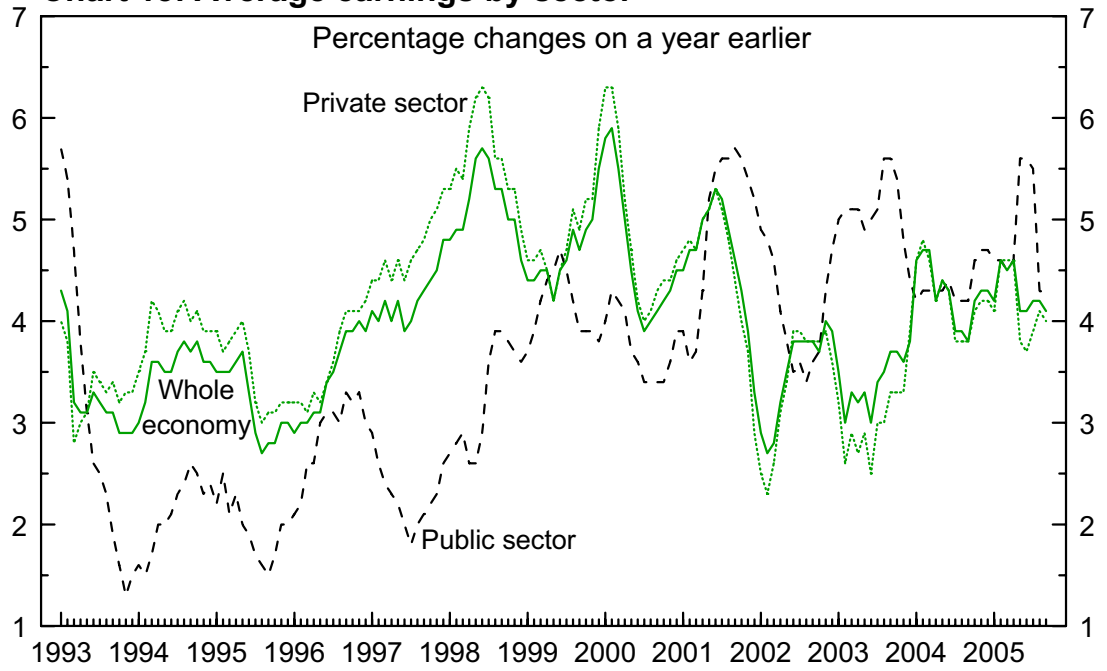
<sup>2</sup> At mid-points of forecast ranges.



THE LABOUR MARKET



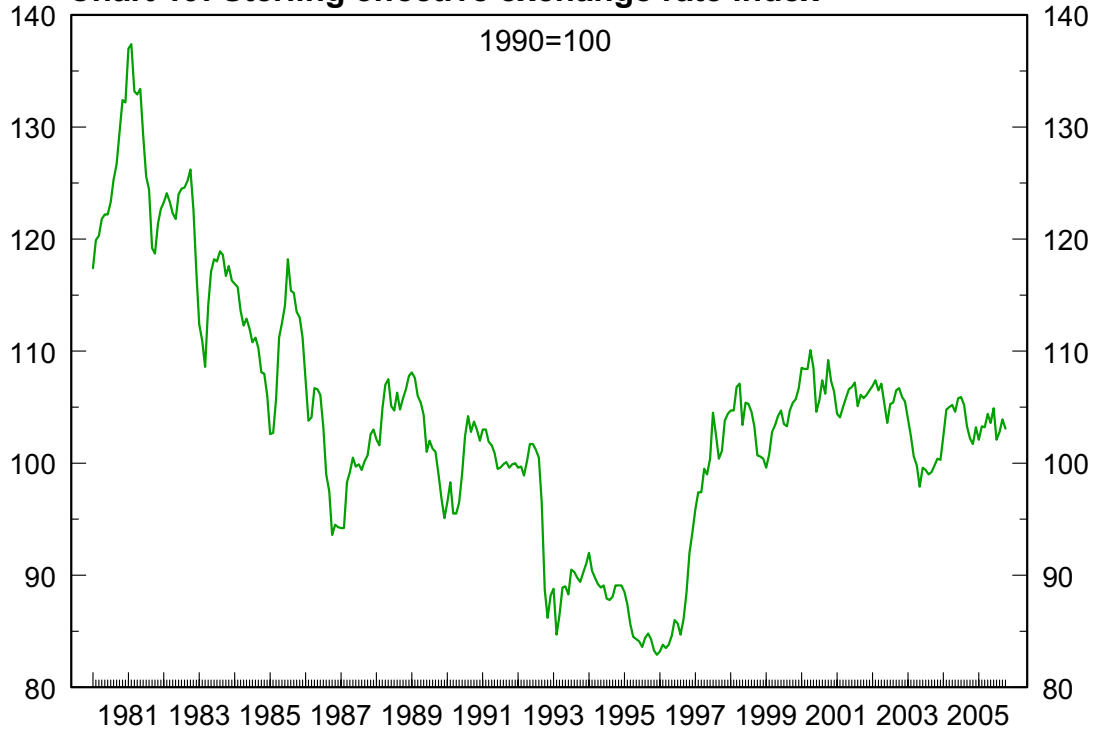
**Chart 18: Average earnings by sector<sup>1</sup>**



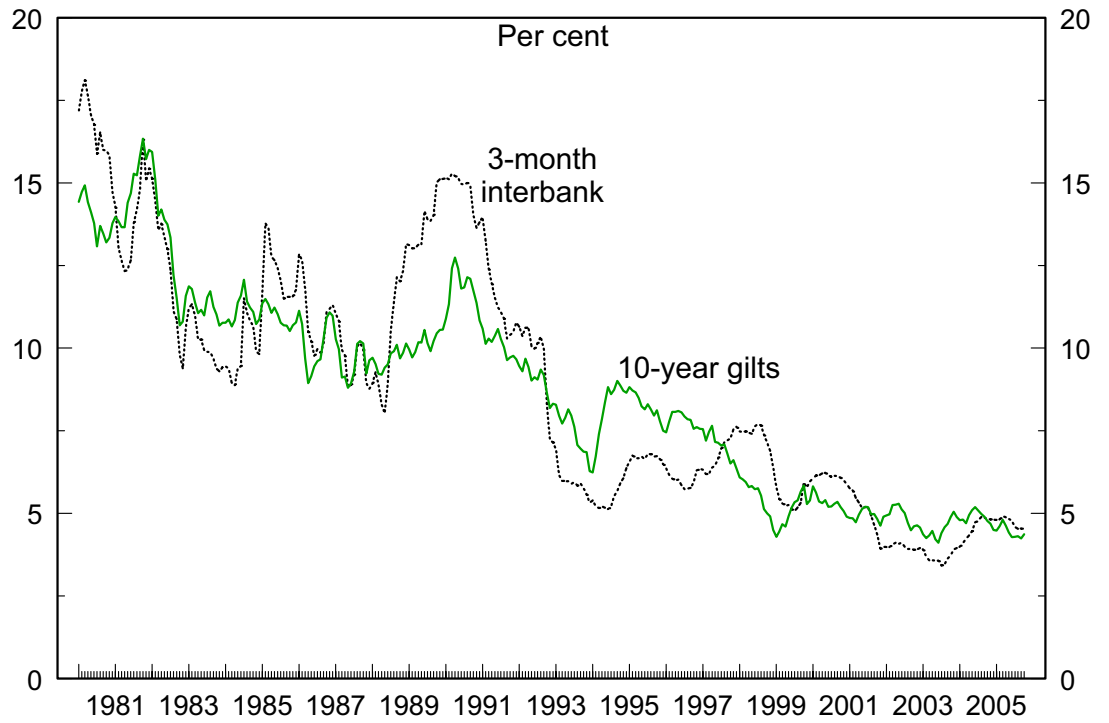
<sup>1</sup> Latest three months, seasonally adjusted.

**FINANCIAL DEVELOPMENTS**

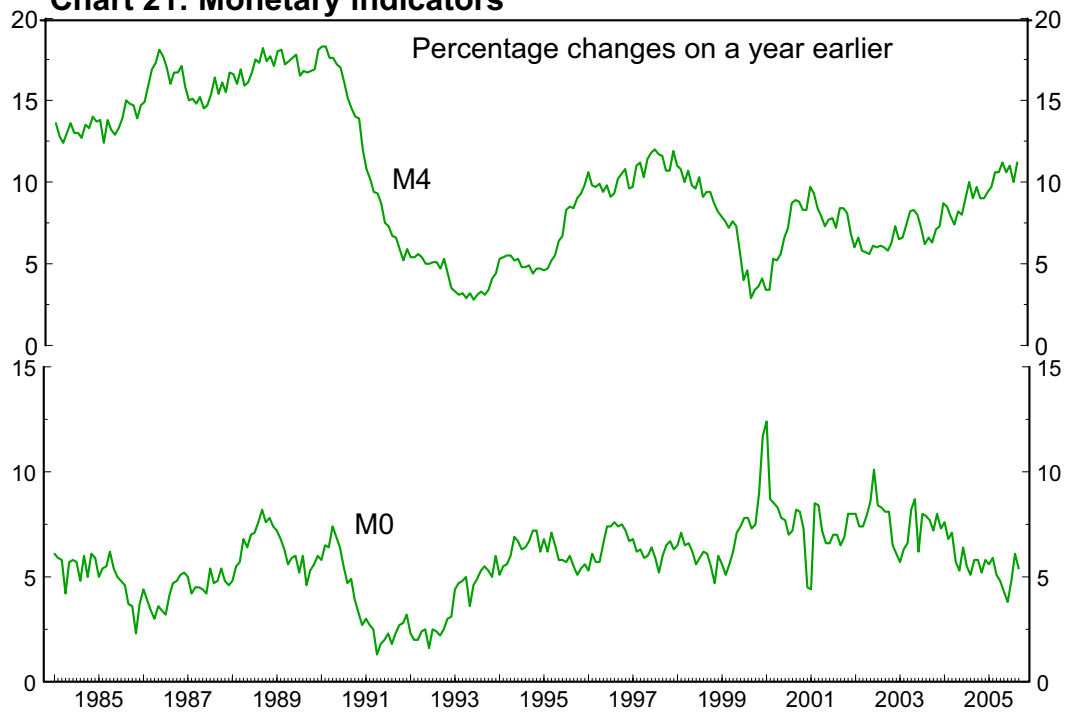
**Chart 19: Sterling effective exchange rate index**



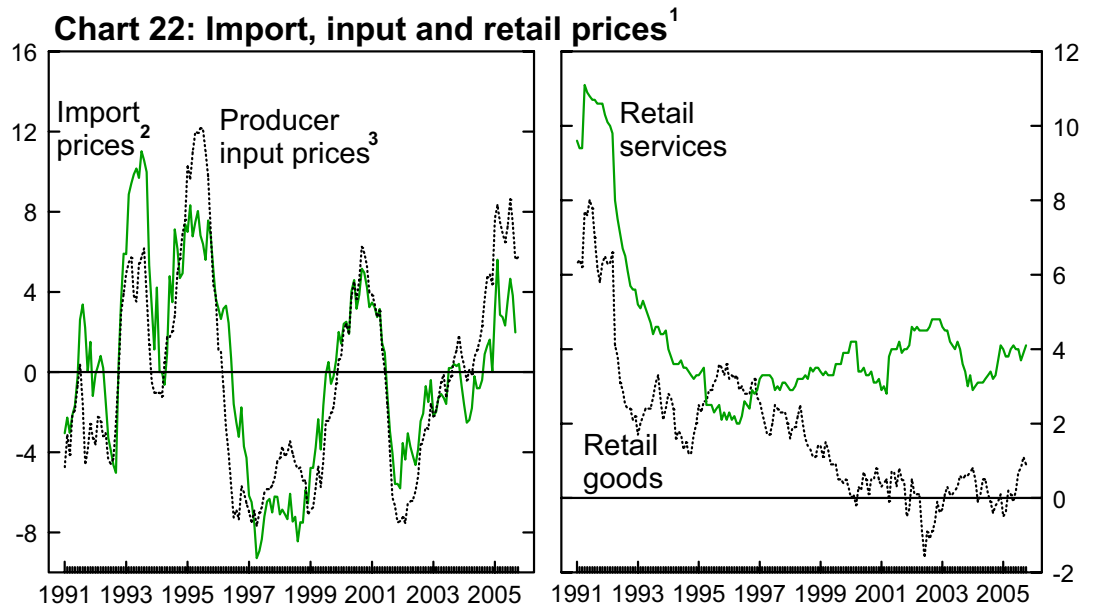
**Chart 20: UK interest rates**



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

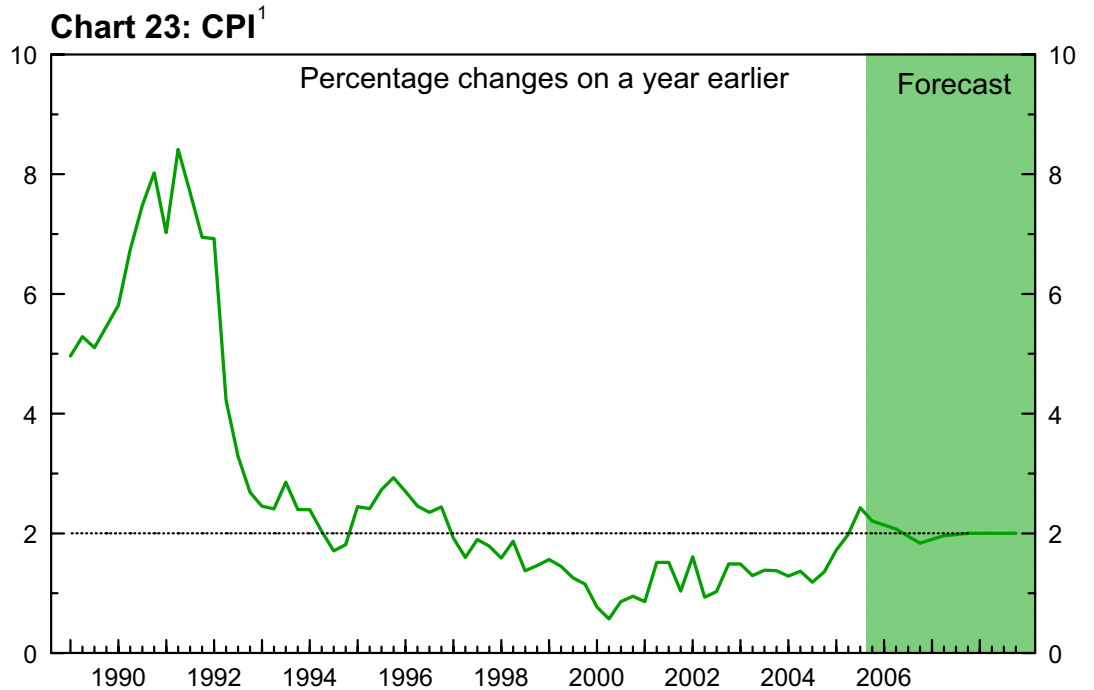
	Percentage changes on a year earlier									
	2004		Forecast							
	Q2	Q4	2005		2006		2007		2008	
CPI	1¼	1¼	2	2¼	2	1¾	2	2	2	2
Producer output prices <sup>1</sup>	2¼	3½	3	2¾	2	1¼	1¾	2	2	2

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

**Table 6b: Consumers' expenditure deflator**

	Percentage changes on a year earlier, unless otherwise stated					
	2004		Forecast			
	Level	Q2	Q4	2005	2006	2007
CED <sup>1</sup>	104	1¼	2¼	2	2¾	2¾

<sup>1</sup>Consumers' expenditure deflator, Q4



## COMPARISON WITH INDEPENDENT FORECASTS

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

	Percentage changes on a year earlier, unless otherwise stated					
	2005			2006		
	December PBR	Independent		December PBR	Independent	
Average		Range	Average		Range	
Gross domestic product	1¼	1.7	1.5 to 1.9	2 to 2½	2.1	0.2 to 2.9
CPI (Q4)	2¼	2.4	1.9 to 2.7	1¼	1.9	1.3 to 2.8
Current account (£ billion)	-26½	-22.8	-28.0 to -17.8	-30	-26.0	-38.0 to -15

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

COMPARISON WITH MARCH 2005 BUDGET FORECAST

Table 8: Comparison with Budget Report 2005 forecast

		Percentage changes on a year earlier, unless otherwise stated	
		March 2005 Budget	December 2005 PBR
Gross domestic product	2005	3 to 3½	1¼
	2006	2½ to 3	2 to 2½
	2007	2¼ to 2¾	2¾ to 3¼
CPI inflation (per cent, Q4)	2005	1¾	2¼
	2006	2	1¾
	2007	2	2
Current account (£ billion)	2005	-34½	-26½
	2006	-35¾	-30
	2007	-37¾	-32¾

## SUMMARY TABLES

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

	Percentage changes on a year earlier, unless otherwise stated					Average errors from past forecasts <sup>5</sup>
	2004	2005	Forecast <sup>2,3,4</sup> 2006	2007	2008	
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	3¼	1¾	2 to 2½	2¾ to 3¼	2¾ to 3¼	½
Manufacturing output	2	-½	1 to 1¼	1¼ to 2¼	1¼ to 2¼	1½
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	3¼	1¾	2 to 2½	2¾ to 3¼	2¾ to 3¼	¾
Household consumption <sup>7</sup>	3¼	1¾	1¼ to 2¼	2¼ to 2¾	2½ to 3	1
General government consumption	2½	1½	2	2½	2½	1¼
Fixed investment	5	2¾	3¾ to 4¼	4¾ to 5¼	4¼ to 4¾	2¼
Change in inventories <sup>8</sup>	0	0	0	0	0	¼
Exports of goods and services	4	4¾	5 to 5½	5¼ to 5¾	5 to 5½	2
Imports of goods and services	6	4¾	4½ to 5	4¾ to 5¼	4¾ to 5¼	2¼
<b>Balance of payments</b>						
<b>current account</b>						
£ billion	-23¼	-26½	-30	-32¾	-35¾	10
per cent of GDP	-2	-2¼	-2¼	-2½	-2½	¾
<b>Inflation</b>						
CPI (Q4)	1¼	2¼	1¾	2	2	-
Producer output prices (Q4) <sup>9</sup>	3½	2¾	1¾	2	2	1
GDP deflator at market prices	2	2½	2½	2½	2¾	¾
<b>Money GDP at market prices</b>						
£ billion	1164	1212	1267 to 1273	1338 to 1350	1413 to 1433	9
percentage change	5¼	4¼	4½ to 5	5½ to 6	5¾ to 6¼	¾

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

<sup>2</sup> All growth rates in tables throughout this document are rounded to the nearest ¼ 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 2¼ 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.

<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 autumn 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 A10.

<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.

## THE ECONOMY

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

£ billion chained volume measures at market prices, seasonally adjusted										
	Real GDP	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>	737.0	226.2	181.0	5.1	1149.4	289.0	1438.4	330.4	1.0	1108.9
<b>2005</b>	750.5	229.4	186.0	3.8	1169.5	303.0	1472.5	346.2	1.0	1127.3
<b>2006</b>	764.4 to 767.7	233.8	193.1 to 194.0	2.4 to 3.4	1198.8 to 1198.8	318.0 to 319.3	1511.7 to 1518.2	361.7 to 363.3	1.0	1150.9 to 1155.9
<b>2007</b>	782.4 to 789.6	239.7	202.2 to 204.1	2.1 to 4.3	1226.5 to 1237.8	334.9 to 338.0	1561.4 to 1575.8	378.5 to 382.0	1.0	1183.9 to 1194.7
<b>2008</b>	802.2 to 813.5	245.7	210.8 to 213.8	2.2 to 5.7	1260.9 to 1278.7	351.9 to 356.9	1612.8 to 1635.6	396.1 to 401.7	1.0	1217.7 to 1234.9
<b>2004</b> 1st half	365.8	112.9	89.7	2.3	570.8	143.0	713.8	162.1	0.4	552.0
2nd half	371.2	113.2	91.4	2.8	578.6	146.0	724.6	168.3	0.5	556.8
<b>2005</b> 1st half	373.6	114.3	92.1	1.7	581.6	149.0	730.6	170.1	0.5	561.0
2nd half	377.0	115.1	93.9	2.1	587.9	154.0	741.9	176.1	0.5	566.3
<b>2006</b> 1st half	380.3 to 381.4	116.2	95.5 to 95.8	1.5 to 1.9	593.5 to 595.3	157.1 to 157.5	750.6 to 752.9	179.0 to 179.6	0.5	572.0 to 573.8
2nd half	384.1 to 386.2	117.6	97.6 to 98.1	0.8 to 1.5	600.2 to 603.5	160.9 to 161.8	761.1 to 765.3	182.7 to 183.7	0.5	578.9 to 582.1
<b>2007</b> 1st half	388.7 to 391.8	119.1	100.0 to 100.8	0.9 to 1.8	608.7 to 613.6	165.3 to 166.6	774.0 to 780.1	187.0 to 188.4	0.5	587.5 to 592.2
2nd half	393.7 to 397.8	120.6	102.3 to 103.3	1.2 to 2.5	617.8 to 624.2	169.7 to 171.4	787.4 to 795.6	191.6 to 193.6	0.5	596.4 to 602.6
<b>2008</b> 1st half	398.7 to 403.9	122.1	104.5 to 105.8	1.2 to 2.8	626.5 to 634.6	173.9 to 176.1	800.4 to 810.8	196.0 to 198.5	0.5	604.9 to 612.7
2nd half	403.5 to 409.7	123.6	106.3 to 108.0	1.0 to 2.9	634.4 to 644.1	178.0 to 180.7	812.4 to 824.8	200.1 to 203.2	0.5	612.8 to 622.2
Percentage changes on previous year <sup>4,5</sup>										
<b>2004</b>	3¼	2½	5	0	3¼	4	3¼	6	0	3¼
<b>2005</b>	1¾	1½	2¾	0	1¾	4¾	2¼	4¾	0	1¼
<b>2006</b>	1¾ to 2¼	2	3¾ to 4¼	0	2 to 2½	5 to 5½	2¾ to 3	4½ to 5	0	2 to 2½
<b>2007</b>	2¼ to 2¾	2½	4¾ to 5¼	0	2¾ to 3¼	5¼ to 5¾	3¼ to 3¾	4¾ to 5¼	0	2¾ to 3¼
<b>2008</b>	2½ to 3	2½	4¼ to 4¾	0	2¾ to 3¼	5 to 5½	3¼ to 3¾	4¾ to 5¼	0	2¾ to 3¼

<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	2008
<i>Major 7 countries<sup>1</sup></i>					
Real GDP	3¼	2½	2½	2½	2½
Consumer price inflation <sup>2</sup>	2½	2¾	2¼	1¾	1¾
<i>Euro area</i>					
Real GDP	1¾	1½	1¾	2	2¼
World GDP	5	4¼	4¼	4¼	4
World trade in goods and services	10	6¾	7¾	7¼	7
UK export markets <sup>3</sup>	9¼	6	7	6¾	6¼

<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 UK 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			
	February 2005		November 2005	
	2005	2006	2005	2006
<i>GDP</i>				
USA	3.5	3.4	3.6	3.3
Euro-area	1.7	2.0	1.3	1.7
Japan	1.1	1.8	2.2	1.9

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

Chart 24: G7 GDP and world trade

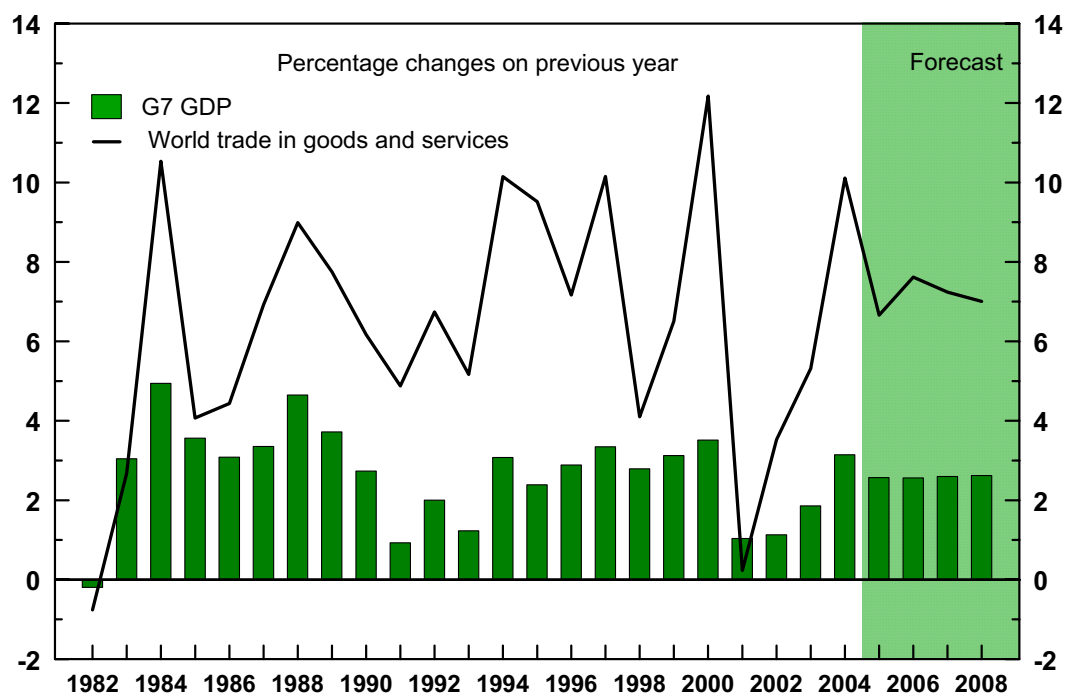
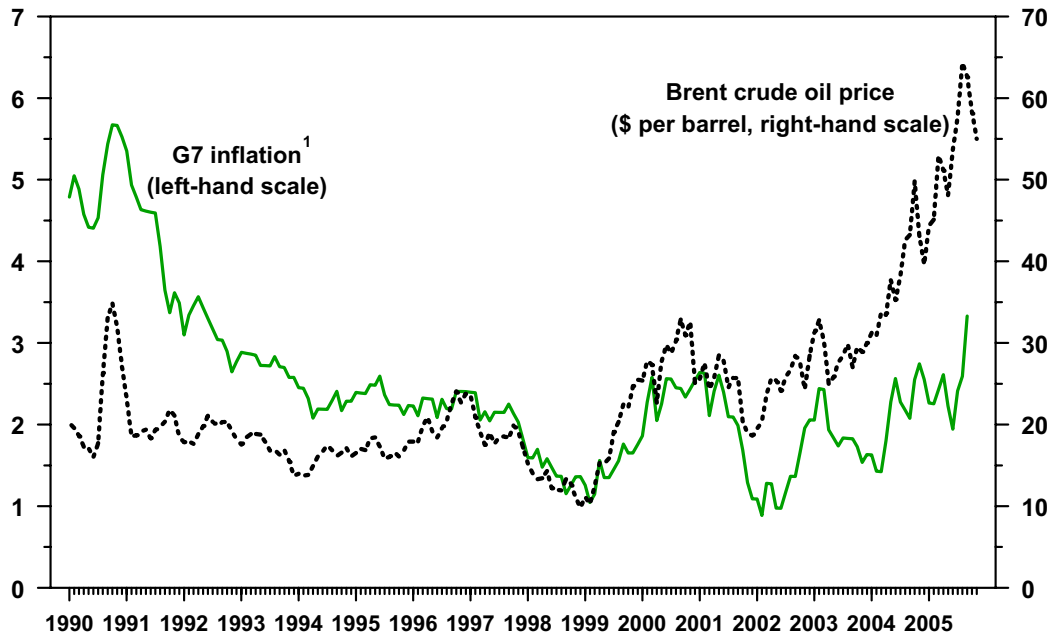


Chart 25: G7 inflation and oil prices



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