

# **2006 Pre-Budget Report: the economy - supplementary charts and tables**

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December 2006



HM TREASURY





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**2006 Pre-Budget Report:  
the economy -  
supplementary charts and tables**

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# THE ECONOMY

The Pre-Budget Report (PBR), published by HM Treasury on 6 December 2006, 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 2006 released by the Office for National Statistics (ONS) on 27 September 2006, and output, income and expenditure data to the third quarter of 2006, released on 24 November 2006. A fully consistent National Accounts dataset for the third quarter will be published by the ONS on 21 December.

**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 Annex A of the PBR.

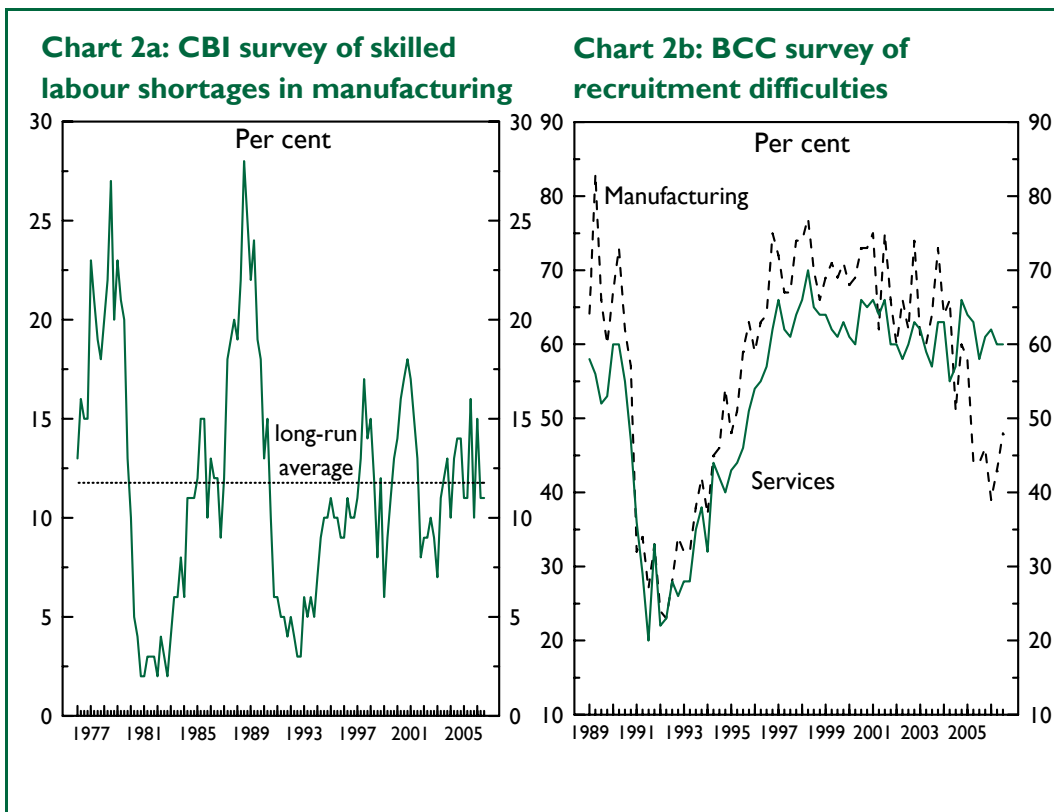
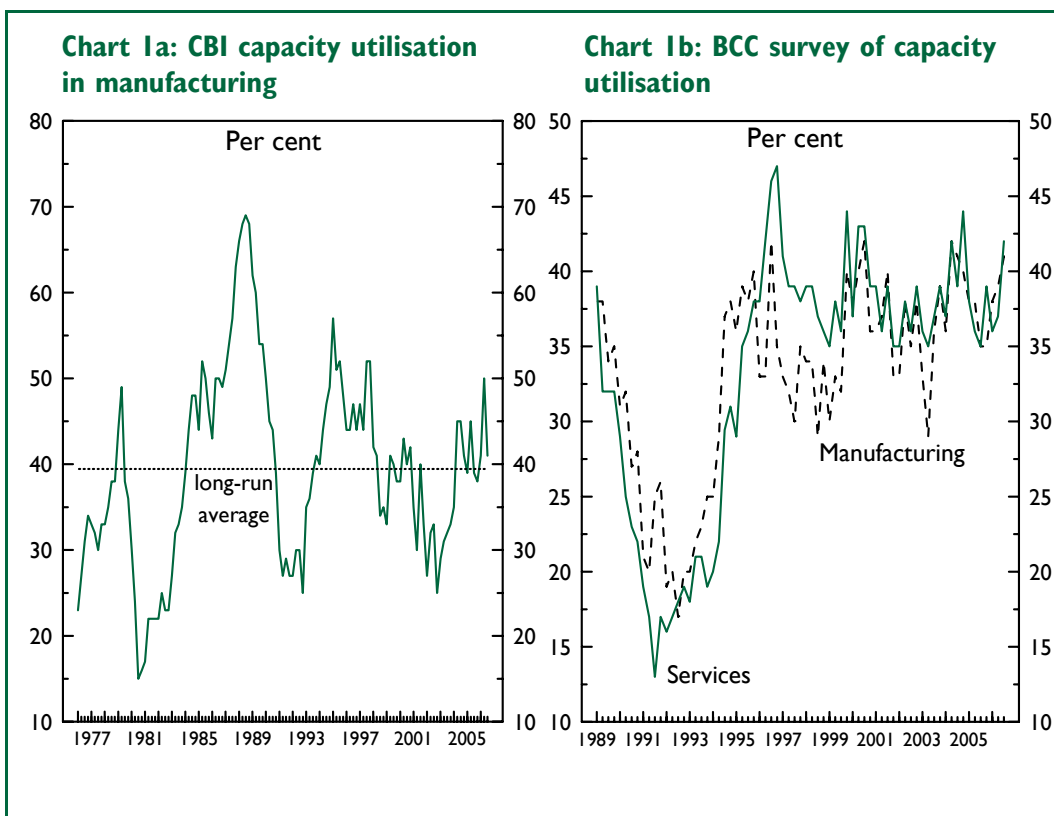
**1.2** The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of 2¾ per cent a year. Details of this neutral assumption are set out in Table A2 of the PBR and the accompanying text. A paper published by the Treasury alongside Budget 2002<sup>1</sup> discussed the Treasury's trend output growth projections, while a further paper published alongside PBR 2006<sup>2</sup> provides 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 Annex B of the PBR) are based on the lower ends of the economic forecast ranges, which are consistent with a deliberately cautious assumption for annual trend output growth ¼ 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.

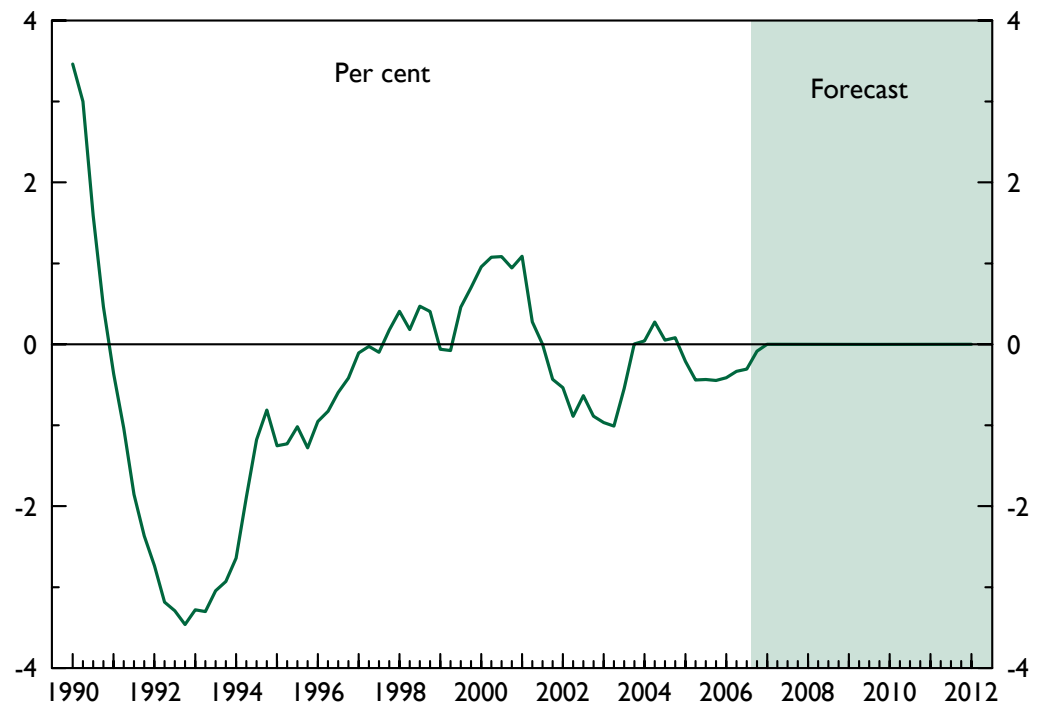
<sup>1</sup> *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

<sup>2</sup> *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

## THE DEGREE OF SPARE CAPACITY



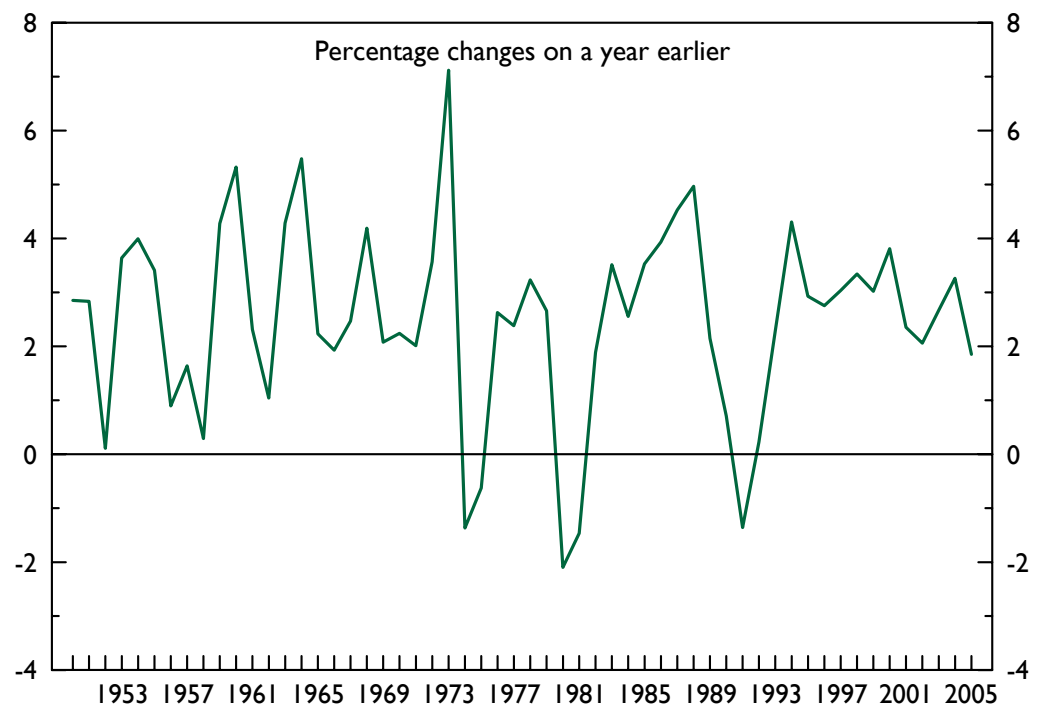
**Chart 3: The output gap<sup>1</sup>**



<sup>1</sup> 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, -0.4, -0.4, -0.4, -0.4, -0.3, -0.3, -0.1, 0.0. Thereafter, the output gap is forecast to be zero.

## GROSS DOMESTIC PRODUCT (GDP)

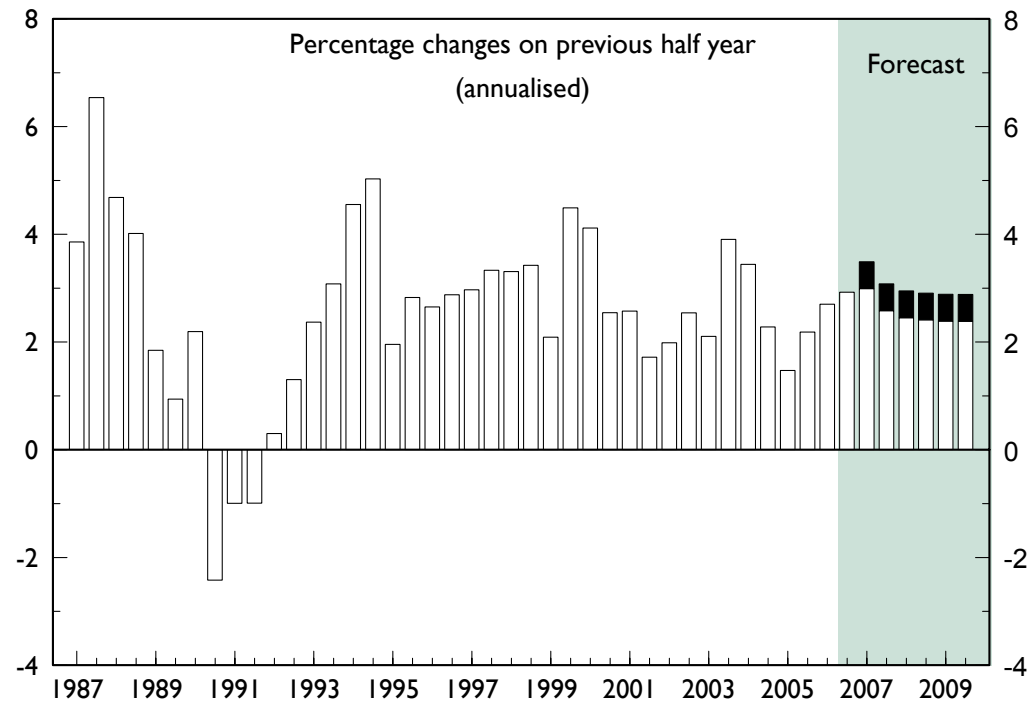
**Chart 4: GDP**



**Table 1: Quarterly GDP and non-oil GVA growth**

	Percentage changes on previous quarter						
	2005				2006		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP	0.2	0.5	0.5	0.7	0.7	0.7	0.7
Non-oil GVA	0.4	0.5	0.7	0.7	0.7	0.8	0.7

**Chart 5: GDP forecast<sup>1</sup>**



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

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

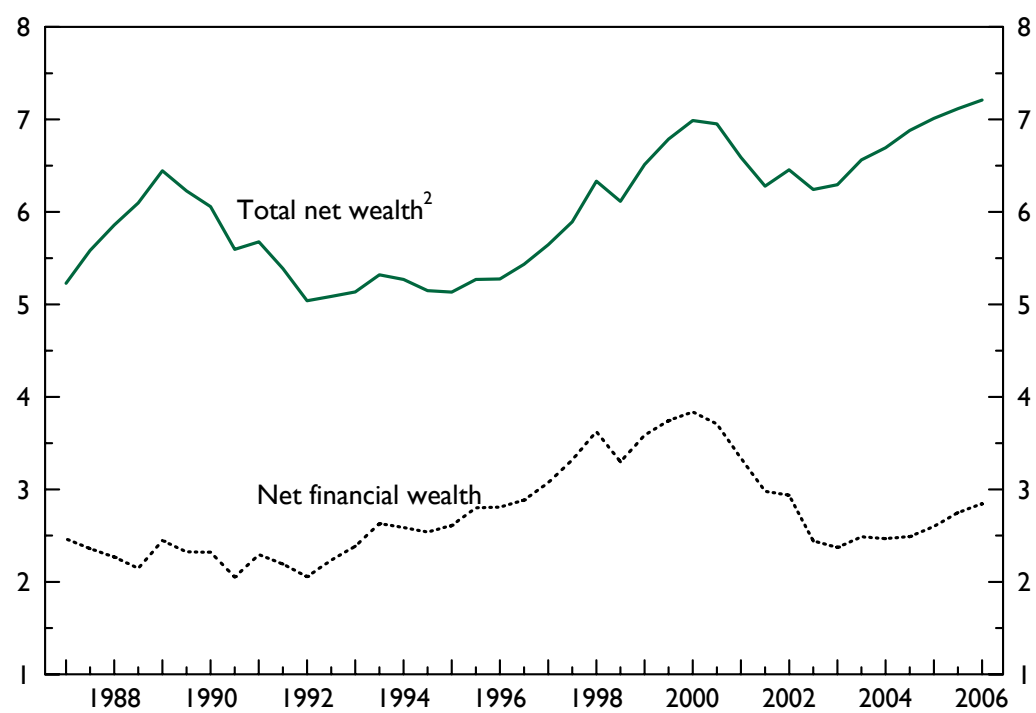
	Percentage points unless otherwise stated					
	Average 2000 - 2004	Forecast				
		2005	2006	2007	2008	2009
<b>GDP growth, per cent</b>	<b>2¾</b>	<b>1¾</b>	<b>2¾</b>	<b>2¾ to 3¼</b>	<b>2½ to 3</b>	<b>2½ to 3</b>
<b>Main components:</b>						
Private consumption	2¼	1	1½	1½	1½	1½
Business investment	¼	¼	½	½	½	½
Government <sup>3</sup>	¾	½	½	¾	½	½
Change in inventories	0	0	0	0	0	0
Net trade	-½	0	-¼	0	0	0

<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.

<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.

<sup>3</sup>The sum of government consumption and government investment

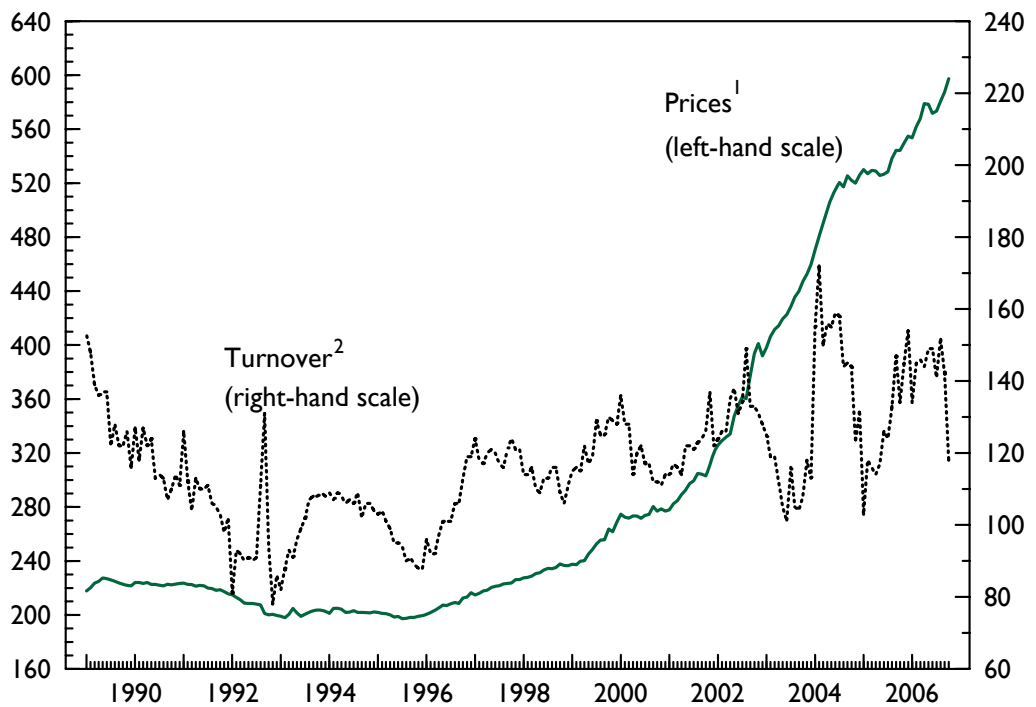
## THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios<sup>1</sup><sup>1</sup> Semi-annual.<sup>2</sup> Includes tangible (mainly housing) wealth. 2006 is part forecast.Table 3: Household sector<sup>1</sup> expenditure and income

	Percentage changes on previous year, unless otherwise stated				
	2005	Forecast			
		2006	2007	2008	2009
Household consumption <sup>2</sup>	1½	2	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾
Real household disposable income	2¼	2	2¼ to 2½	2¼ to 2¾	2 to 2½
Saving ratio <sup>3</sup> (level, per cent)	5	5½	5¾	5¾	5¾

<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.

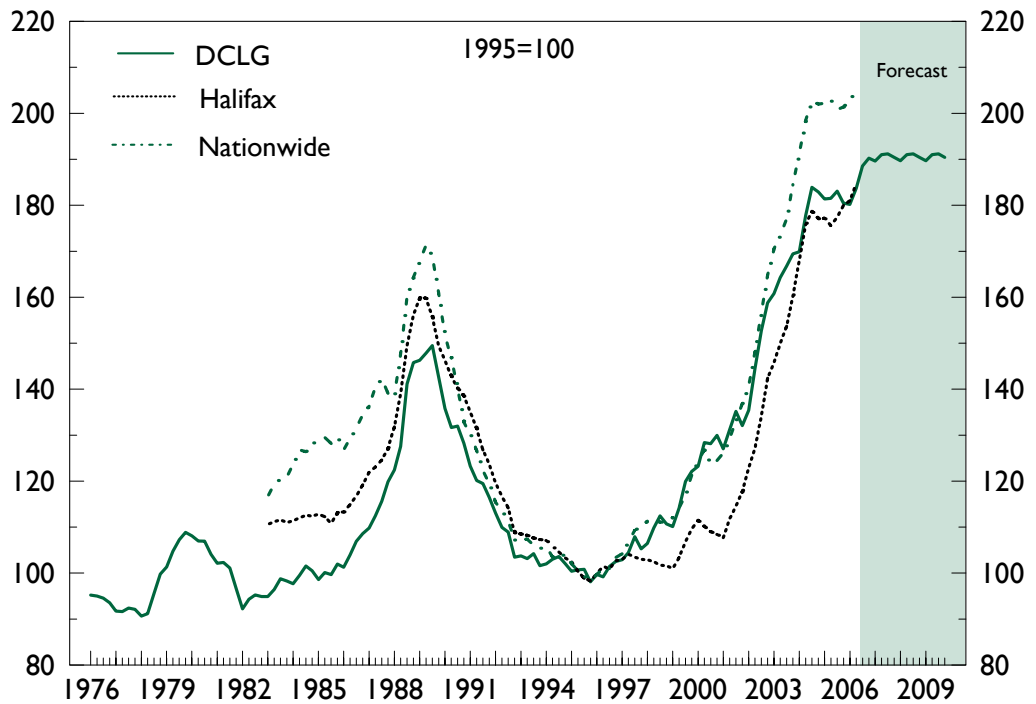
**Chart 7: Housing turnover and prices**



<sup>1</sup> Halifax index. 1983 = 100.

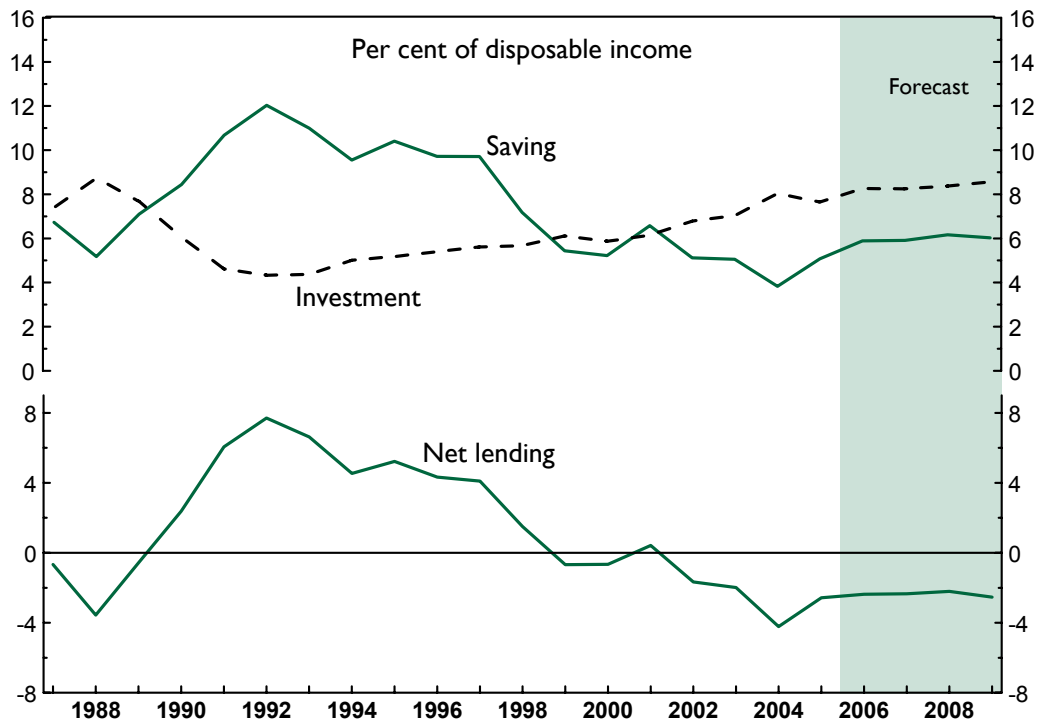
<sup>2</sup> Property transactions, thousands.

**Chart 8: House price-earnings ratio<sup>1</sup>**



<sup>1</sup> Ratio of DCLG/Halifax/Nationwide house prices to wages and salaries per employee.

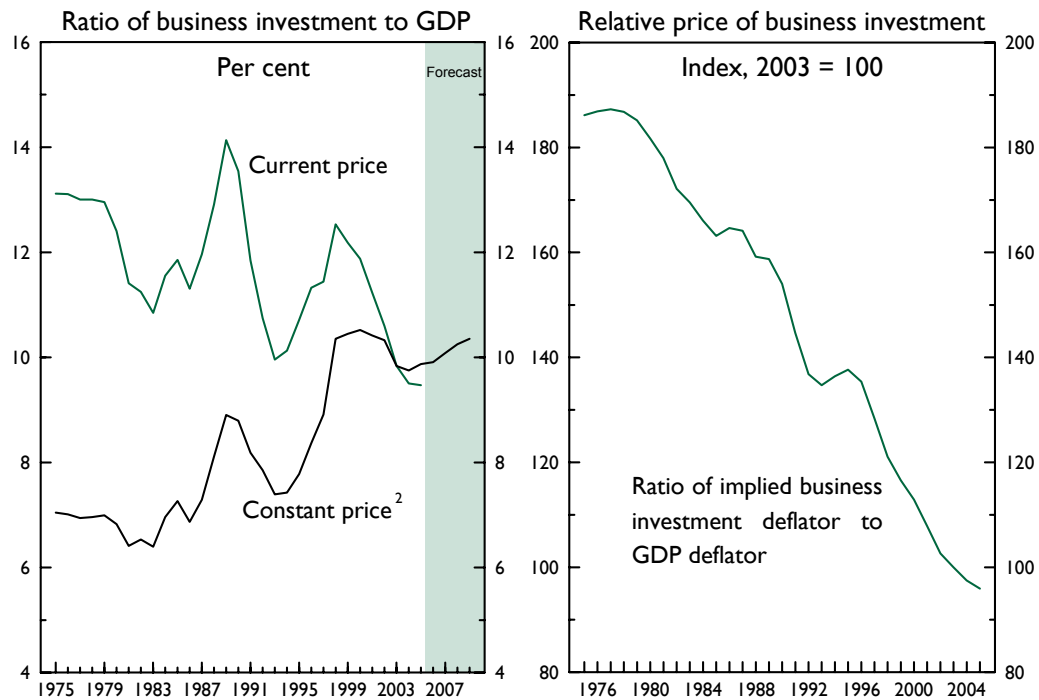
**Chart 9: Household sector<sup>1</sup> net lending**



<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 business investment to GDP in chained volume measures.

**Table 4: Gross fixed capital formation**

	Percentage changes on previous year				
	2005	Forecast			
		2006	2007	2008	2009
Whole economy <sup>1</sup>	2¾	6	5¼ to 5¾	3¼ to 3¾	3¼ to 3¾
of which:					
Business <sup>2,3</sup>	3¼	5¾	4¾ to 5½	4 to 4¾	3¾ to 4½
Private dwellings <sup>3</sup>	2¼	8	4½ to 5	2¾ to 3¼	2¾ to 3¼
General government <sup>3</sup>	-1¼	6¾	13¼	2	2

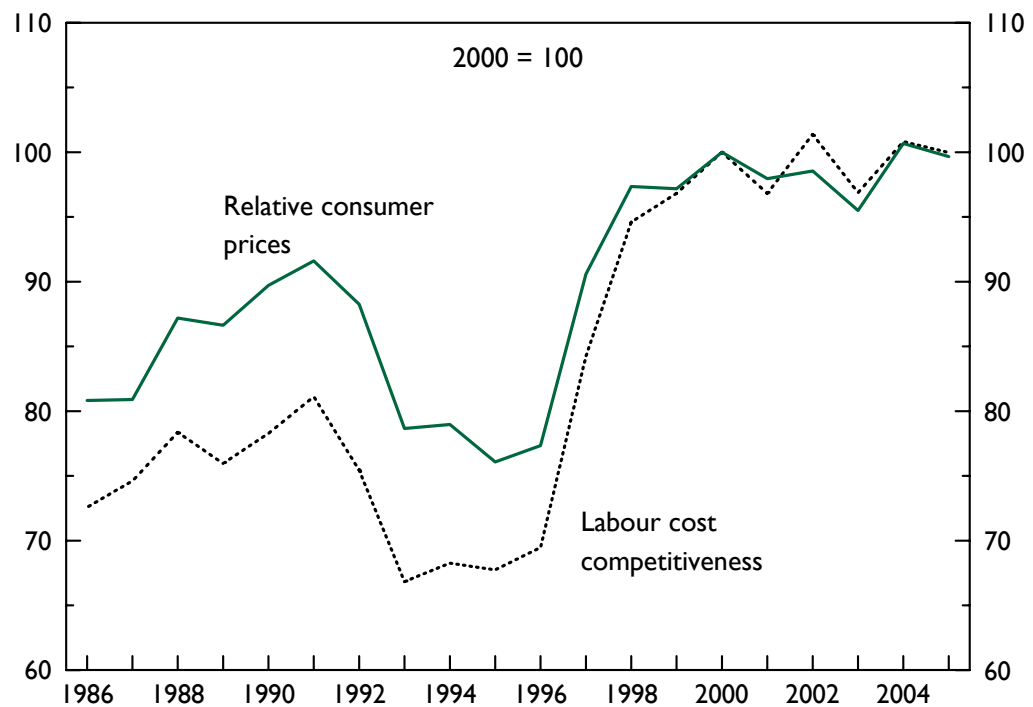
<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

<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

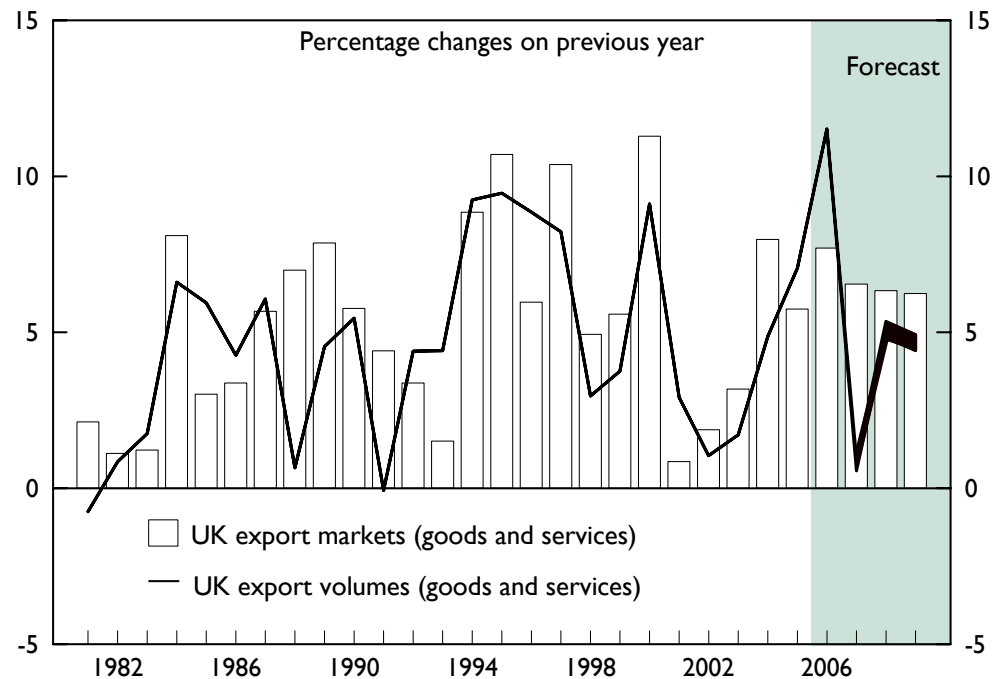
**Chart 11: Competitive positions: Relative unit labour costs<sup>1</sup> and consumer prices**



<sup>1</sup> Relating to trade in manufactures: A fall means that competitiveness has improved.

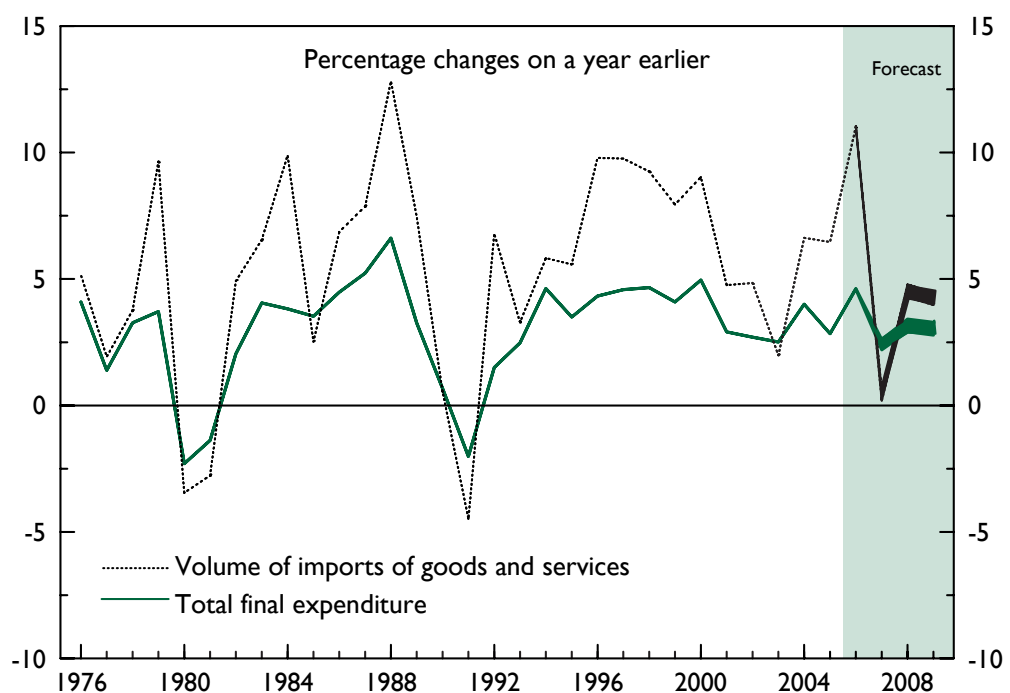
Source: OECD Economic Outlook 79, 2006/06 (June 2006).

**Chart 12: Exports<sup>1</sup> and overseas demand**



<sup>1</sup> Figures for recent years up to and including 2007 are distorted by estimates of activity related to missing trader intra-community (MTIC) fraud. Growth rates excluding MTIC are shown in Table 5.

**Chart 13: Imports<sup>1</sup> and total final expenditure**



<sup>1</sup> Figures for recent years up to and including 2007 are distorted by estimates of MTIC-related activity. Growth rates excluding MTIC are shown in Table 5.

**Table 5: Trade in goods and services**

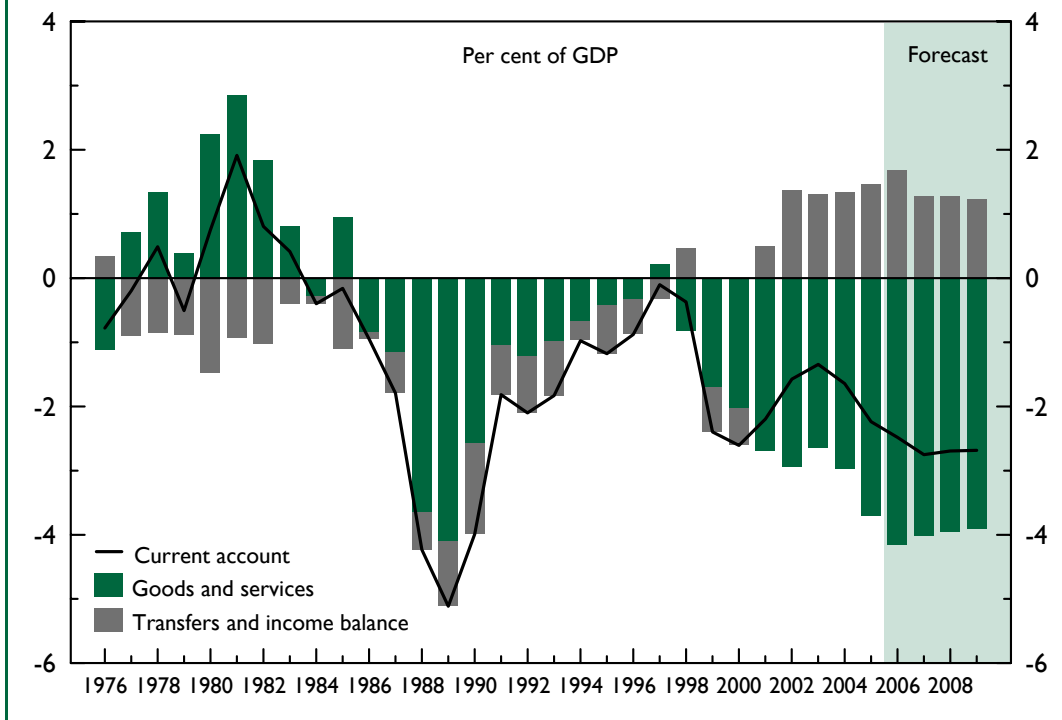
	Percentage changes on previous year					£ billion Goods and services balance
	Volumes <sup>1</sup>		Prices <sup>2</sup>		Terms of trade <sup>3</sup>	
	Exports	Imports	Exports	Imports		
2005	4¼ (7)	4 (6½)	1¼	3¾	-2½	-45¼
<i>Forecast</i>						
2006	6 (11½)	6¼ (11)	2	3	-1	-53½
2007	5 to 5½ (½ to 1)	4¼ to 4¾ (¼ to ½)	2½	2¾	-¼	-54¾
2008	4¾ to 5¼	4¼ to 4¾	2¾	2¾	0	-57
2009	4½ to 5	4 to 4½	2¾	2¾	0	-59¼

<sup>1</sup>Excluding MTIC-related activity. Figures in parenthesis include MTIC-related activity. In 2008 and 2009 export and import growth including and excluding MTIC are the same, reflecting forecast assumptions.

<sup>2</sup>Average value indices.

<sup>3</sup>Ratio of export to import prices.

**Chart 14: Balance of payments current account**



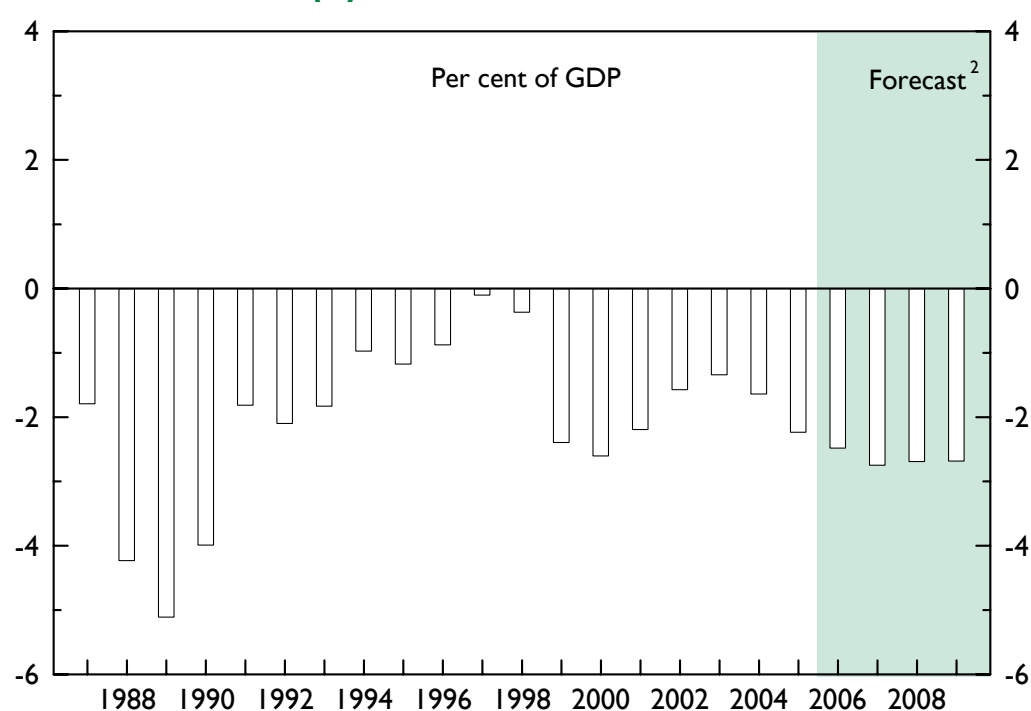
**Table 6: The current account**

	£ billion					
	Goods and services			Transfers	Income balance <sup>1</sup>	Current balance
	Non-oil	Oil	Total			
2005	-43	-2¼	0	-12	30	-27½
<i>Forecast</i>						
2006	-51	-2½	-53½	-10¾	32½	-32
2007	-55¾	1	-54¾	-12	29¼	-37½
2008	-57¾	¾	-57	-13	31¼	-38¾
2009	-58¾	-½	-59¼	-13¼	32	-40¾

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

## PATTERN OF NET LENDING

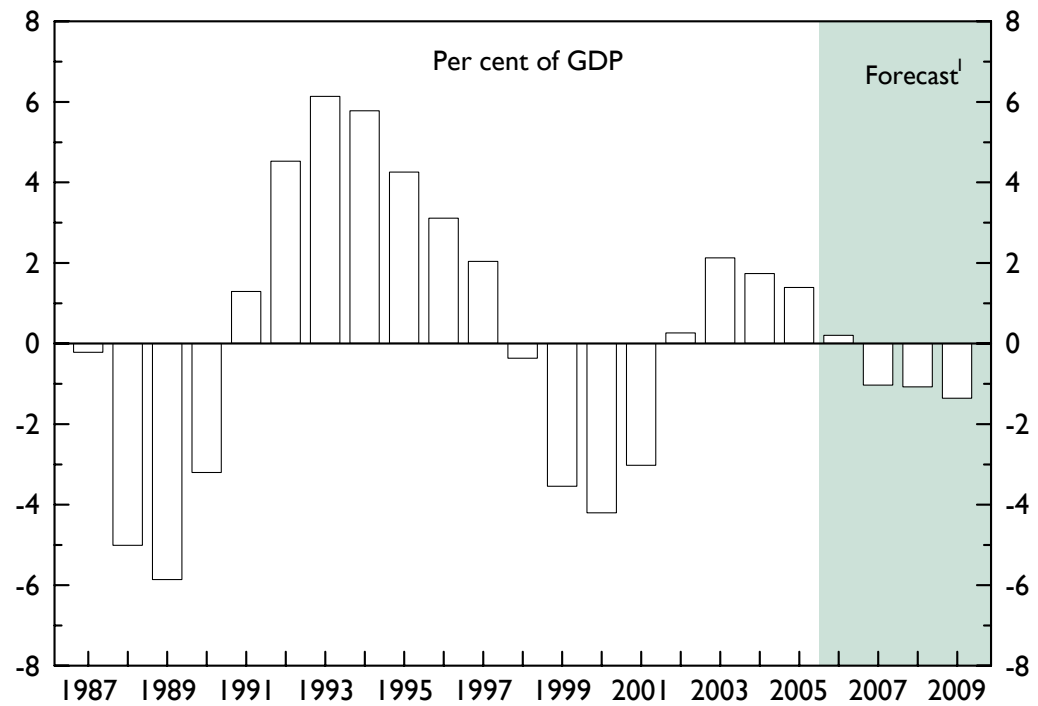
**Chart 15a: Balance of payments current account balance<sup>1</sup>**



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

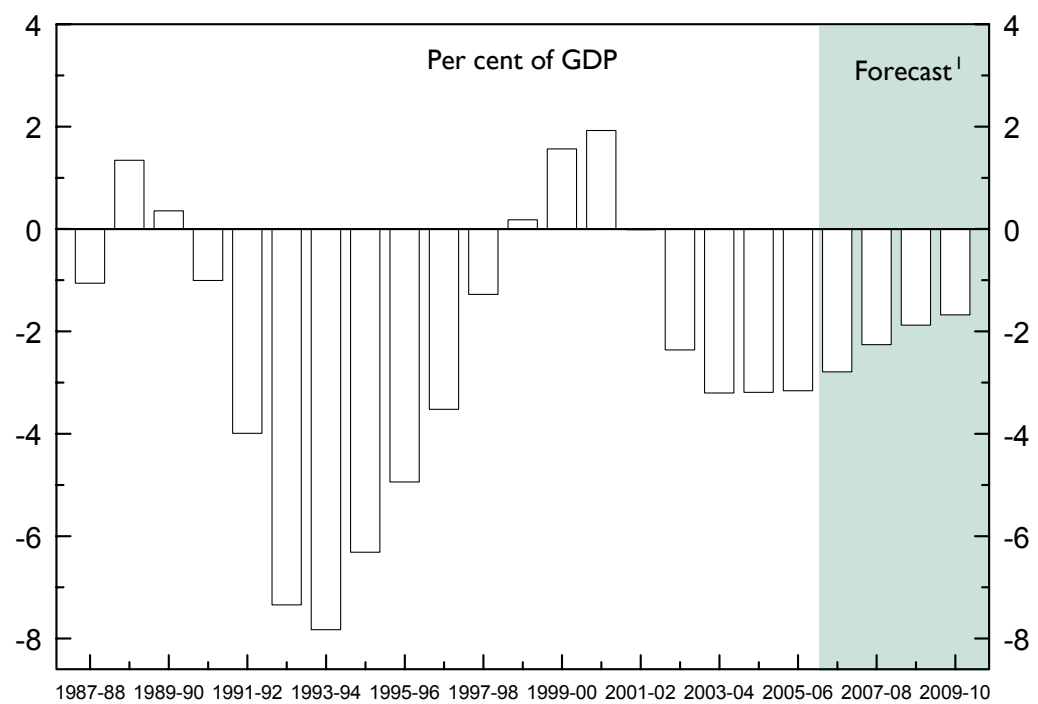
<sup>2</sup> At mid-points of forecast ranges.

**Chart 15b: Private sector net lending**



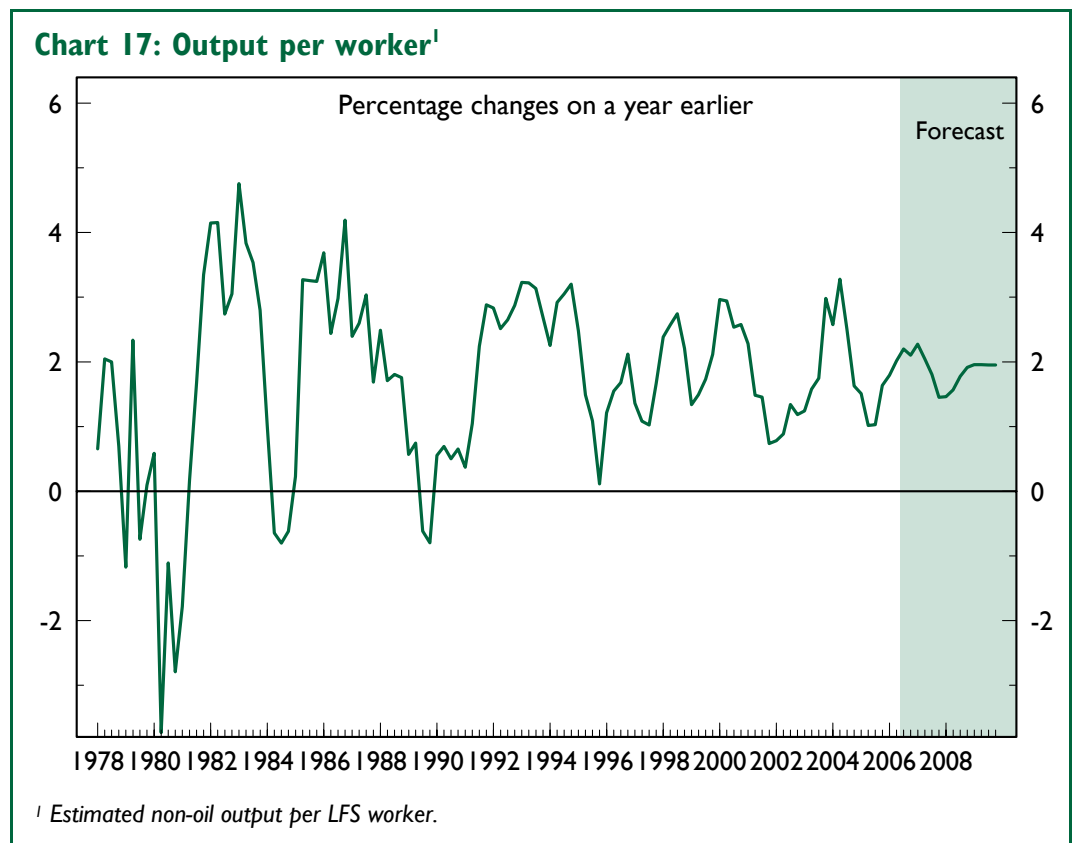
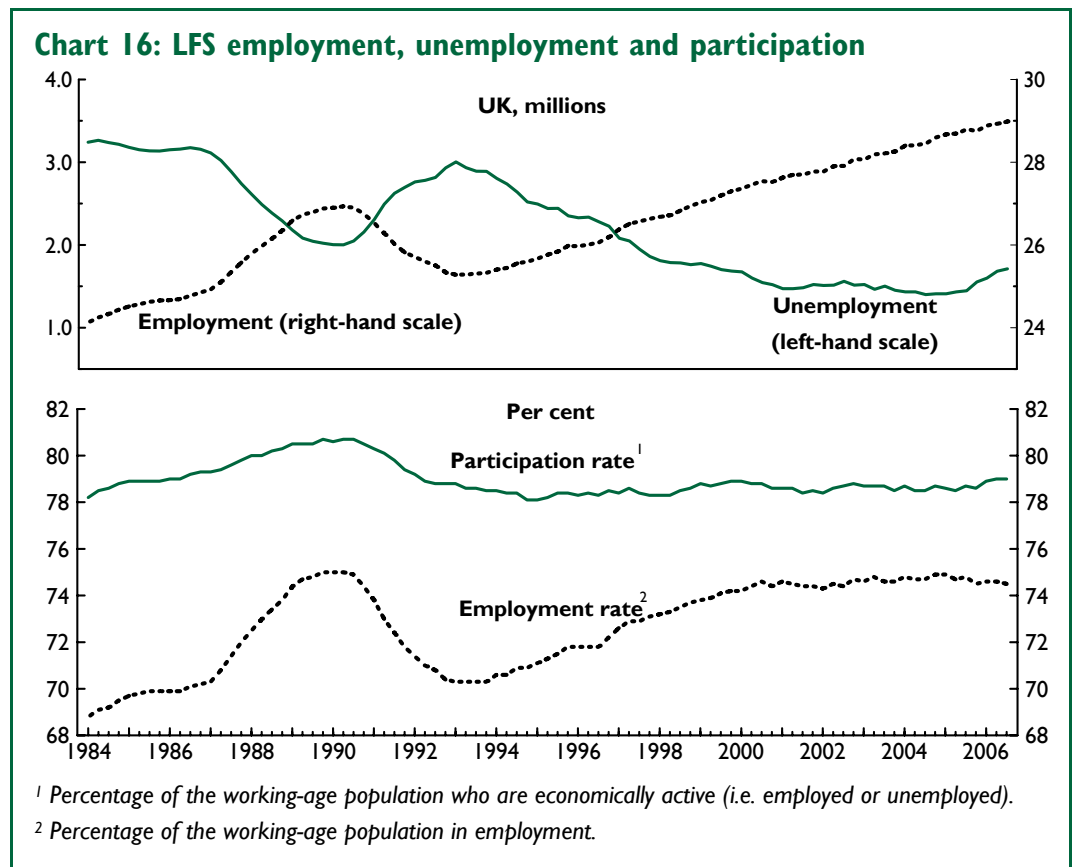
<sup>1</sup> At mid-points of forecast ranges.

**Chart 15c: Public sector net lending**

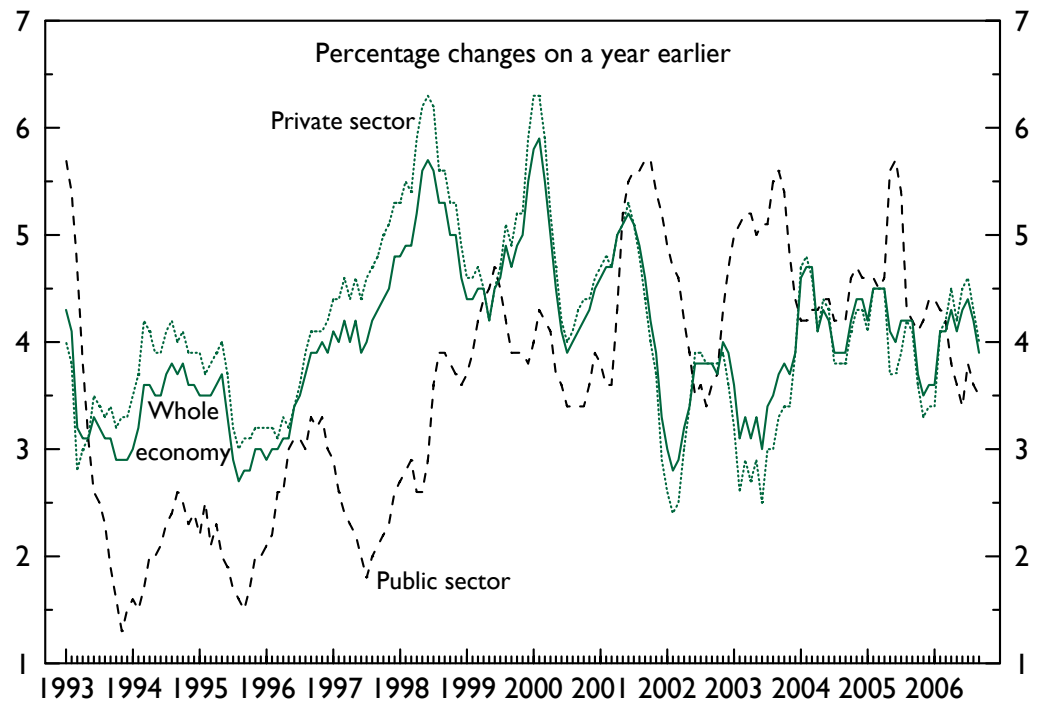


<sup>1</sup> At mid-points of forecast ranges.

## THE LABOUR MARKET



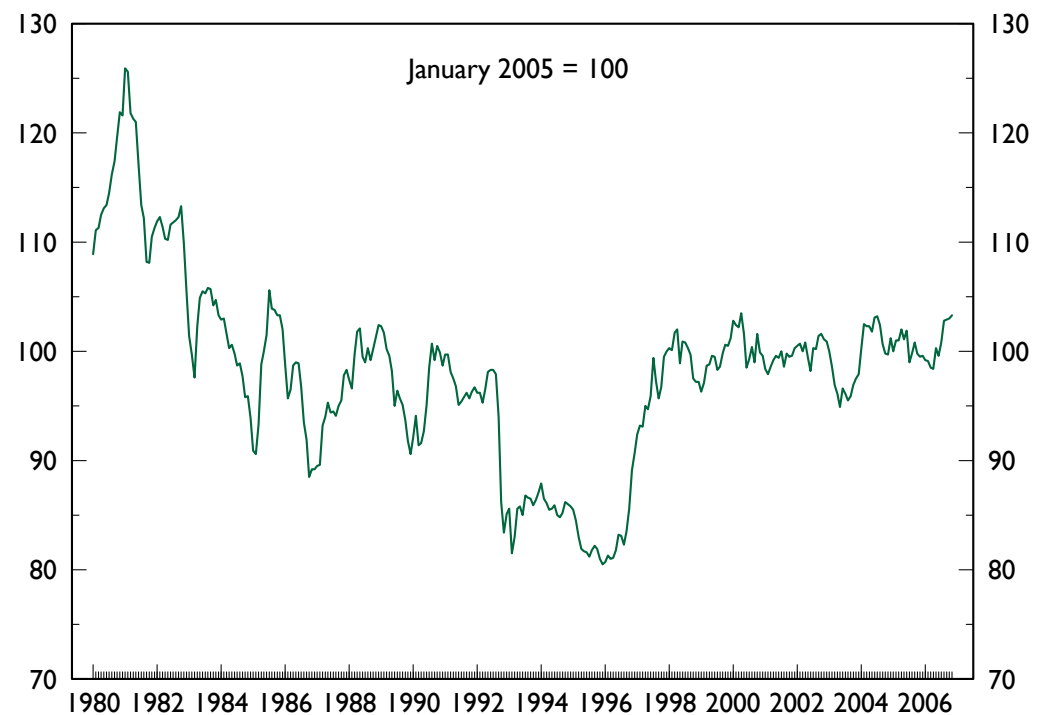
**Chart 18: Average earnings by sector<sup>1</sup>**



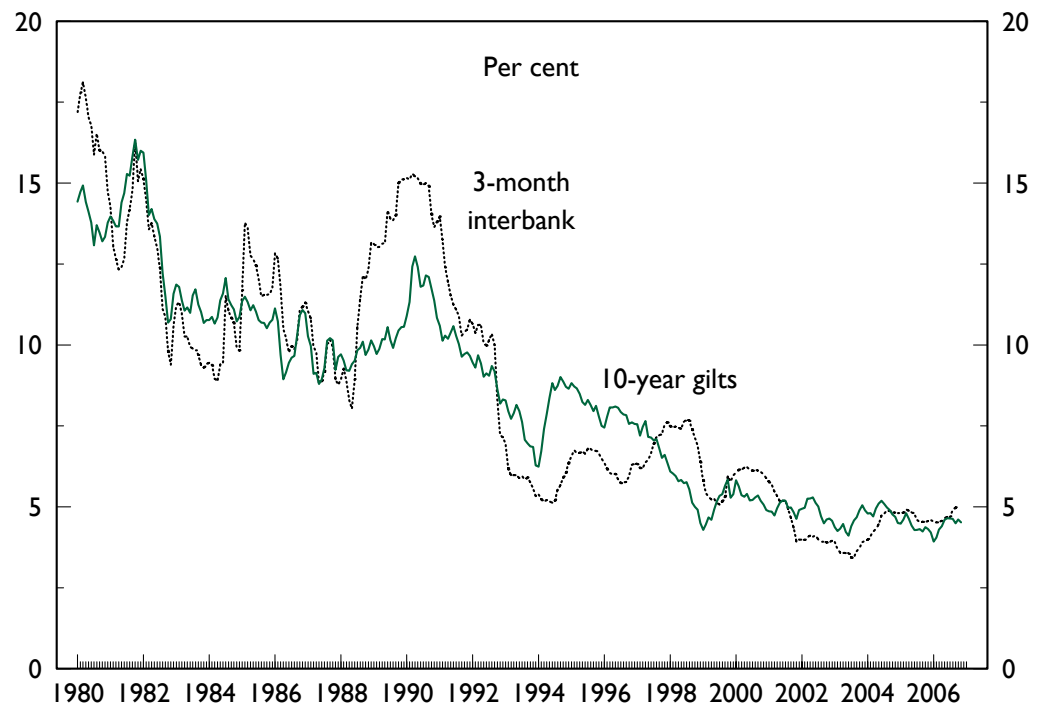
<sup>1</sup> Latest three months, seasonally adjusted.

**FINANCIAL DEVELOPMENTS**

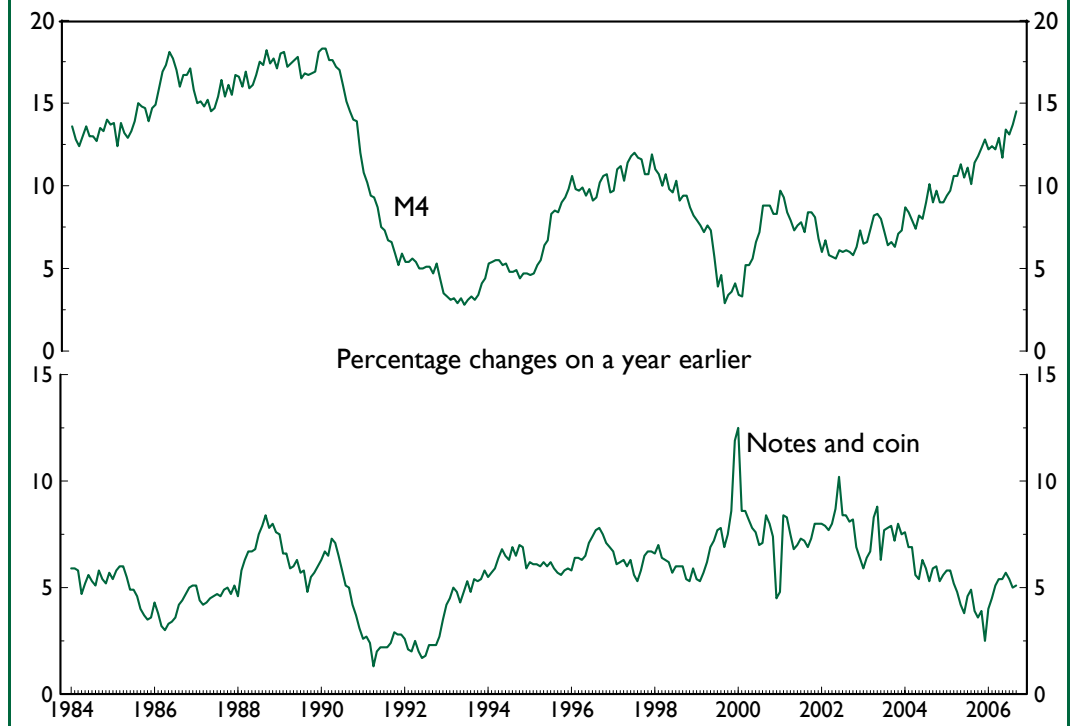
**Chart 19: Sterling effective exchange rate index**



**Chart 20: UK interest rates**

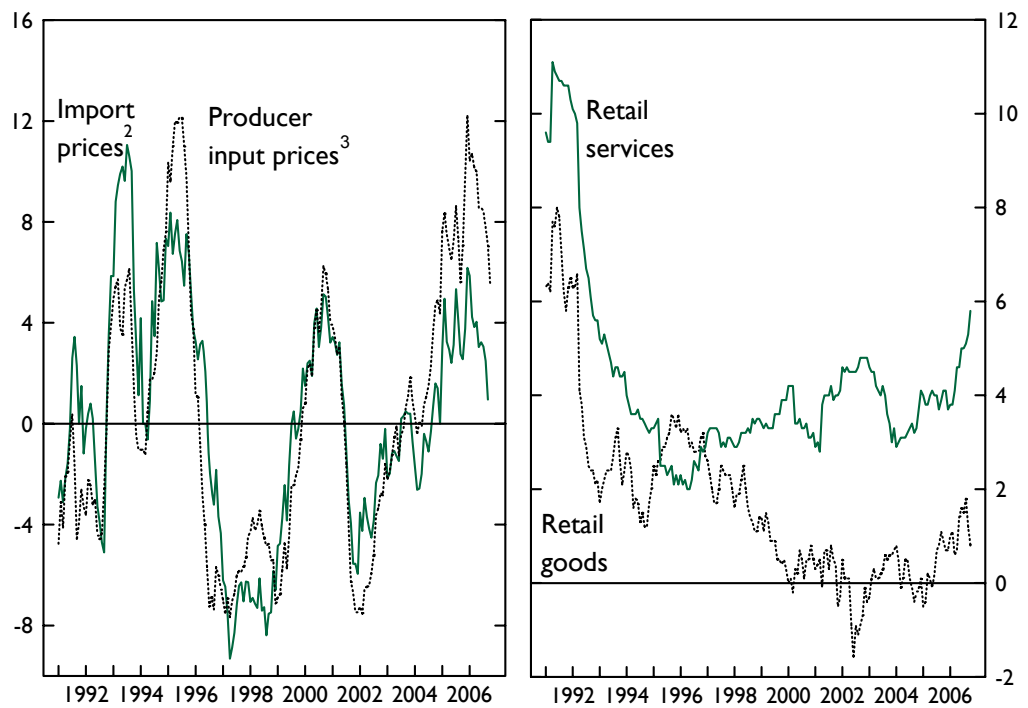


**Chart 21: Monetary indicators**



## INFLATION

**Chart 22: Import, input and retail prices<sup>1</sup>**



<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 7a: Consumer and producer output prices**

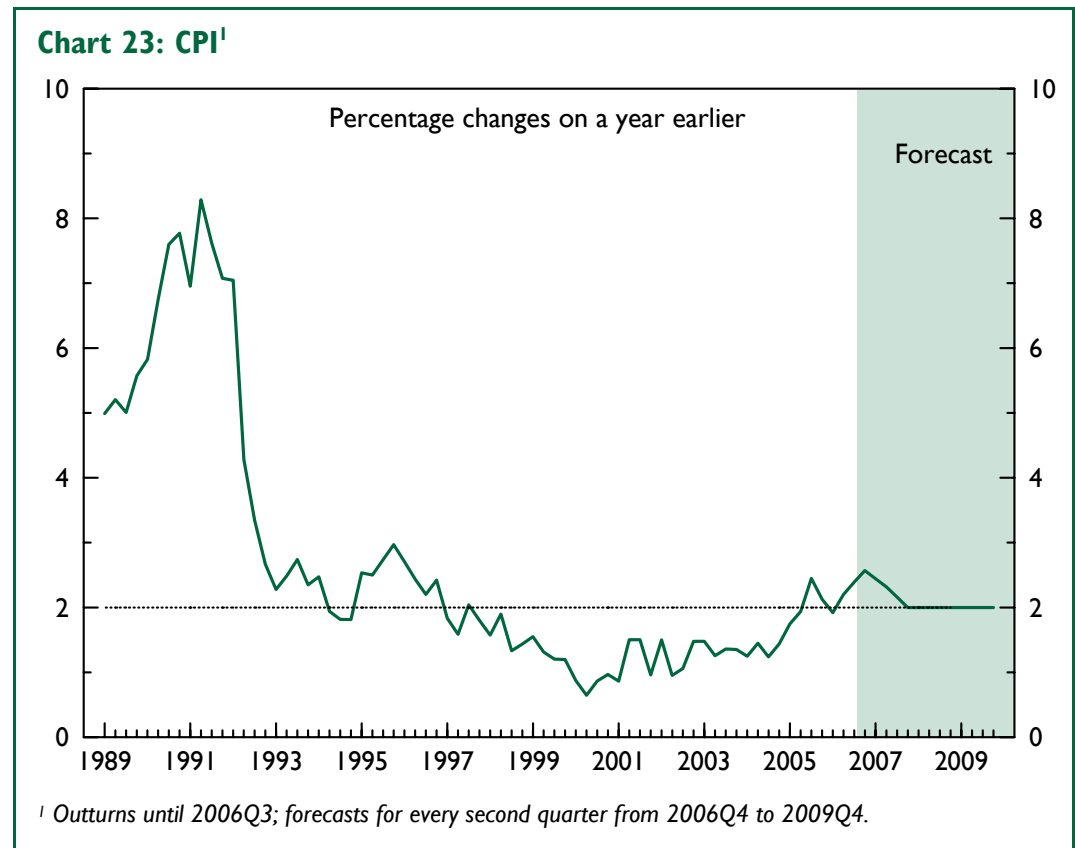
	Percentage changes on a year earlier									
	2005		2006		2007		Forecast		2009	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2	2¼	2¼	2½	2¼	2	2	2	2	2
Producer output prices <sup>1</sup>	3	2½	3¼	2¼	2	2	2	2	2	2

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

**Table 7b: Consumers expenditure deflator**

	Percentage changes on a year earlier, unless otherwise stated					
	2005		2006		Forecast	
	Level	Q4	Q2	Q4	2008	2009
CED <sup>2</sup>	105¼	3	2¼	2¼	2¾	2¾

<sup>2</sup> Consumers' expenditure deflator, Q4



## COMPARISON WITH INDEPENDENT FORECASTS

**Table 8: Pre-Budget Report and independent<sup>1</sup> forecasts**

	Percentage changes on a year earlier, unless otherwise stated					
	2006			2007		
	December PBR	Independent		December PBR	Independent	
Average		Range	Average		Range	
Gross domestic product	2¾	2.60	2.2 to 2.7	2¾ to 3¼	2.40	-0.1 to 2.9
CPI (Q4)	2½	2.60	2.0 to 2.8	2	2.10	1.3 to 3.1
Current account (£ billion)	-32	-31.40	-36.3 to -25.0	-37½	-32.80	-48.8 to -10.5

<sup>1</sup> 'Forecasts for the UK Economy: A Comparison of Independent Forecasts', November 2006.

## COMPARISON WITH BUDGET 2006 FORECAST

Table 9: Comparison with Budget 2006 forecast

		Percentage changes on a year earlier, unless otherwise stated	
		March 2006	December 2006
		Budget	PBR
Gross domestic product	2006	2 to 2½	2¾
	2007	2¾ to 3¼	2¾ to 3¼
	2008	2¾ to 3¼	2½ to 3
CPI inflation (per cent, Q4)	2006	2	2½
	2007	2	2
	2008	2	2
Current account (£ billion)	2006	-32¾	-32
	2007	-36½	-37½
	2008	-38¼	-38¾

## SUMMARY TABLES

Table 10: Summary of economic prospects<sup>1</sup>

	Percentage changes on a year earlier, unless otherwise stated					Average errors from past forecasts <sup>5</sup>
	Forecast <sup>2, 3, 4</sup>					
	2005	2006	2007	2008	2009	2007
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	1¾	2¾	2¾ to 3¼	2½ to 3	2½ to 3	½
Manufacturing output	-1	1¼	1¾ to 2	1¾ to 2¼	1¾ to 2¼	1½
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	1¾	2¾	2¾ to 3	2¼ to 2¾	2¼ to 2¾	¾
Household consumption <sup>7</sup>	1½	2	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾	1
General government consumption	2¾	2	2½	2½	2	1
Fixed investment	2¾	6	5¼ to 5¾	3¼ to 3¾	3¼ to 3¾	2½
Change in inventories <sup>8</sup>	0	0	0	0	0	¼
Exports of goods and services <sup>9</sup>	7	11½	½ to 1	4¾ to 5¼	4½ to 5	1¾
Imports of goods and services <sup>9</sup>	6½	11	¼ to ½	4¼ to 4¾	4 to 4½	2¼
Exports of goods and services (excluding MTIC)	4¼	6	5 to 5½	4¾ to 5¼	4½ to 5	-
Imports of goods and services (excluding MTIC)	4	6¼	4¼ to 4¾	4¼ to 4¾	4 to 4½	-
<b>Balance of payments</b>						
<b>current account</b>						
£ billion	-27½	-32	-37½	-38¾	-40¾	10
per cent of GDP	-2¼	-2½	-2¾	-2¾	-2¾	¾
<b>Inflation</b>						
CPI (Q4)	2¼	2½	2	2	2	-
Producer output prices (Q4) <sup>10</sup>	2½	2¼	2	2	2	1
GDP deflator at market prices	2¼	2½	2¾	2¾	2¾	½
<b>Money GDP at market prices</b>						
£ billion	1224½	1287½	1360 to 1366	1431 to 1445	1505 to 1526	10
percentage change	4	5¼	5¾ to 6	5¼ to 5¾	5¼ to 5¾	¾

<sup>1</sup> The forecast is consistent with National Accounts and balance of payments statistics to the second quarter of 2006 released by the Office for National Statistics (ONS) on 27 September 2006, and output, income and expenditure data to the third quarter of 2006, released on 24 November 2006. A fully consistent National Accounts dataset for the third quarter will be published by the ONS on 21 December.

<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 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.

<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 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 2007.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table 11.

<sup>7</sup> Includes households and non-profit institutions serving households.

<sup>8</sup> Contribution to GDP growth, percentage points.

<sup>9</sup> 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

<sup>10</sup> Excluding excise duties.

**Table 11: Gross domestic product and its components**

£ billion chained volume measures at market prices, seasonally adjusted										
	Household consumption <sup>1</sup>	General government consumption	Fixed investment	Change in inventories	Domestic demand <sup>2</sup>	Exports of goods and services <sup>3</sup>	Total final expenditure	Less imports of goods and services <sup>3</sup>	Plus statistical discrepancy <sup>4</sup>	GDP at market prices
<b>2005</b>	759.3	246.8	194.6	3.6	1203.9	320.4	1524.3	357.4	0.8	1167.8
<b>2006</b>	775.4	251.8	206.3	3.8	1237.3	357.3	1594.6	396.8	0.8	1198.7
<b>2007</b>	793.1 to 796.5	257.7	217.1 to 218.0	2.4 to 3.5	1270.3 to 1275.7	359.2 to 360.8	1629.5 to 1636.5	397.5 to 399.2	0.8	1232.9 to 1238.1
<b>2008</b>	810.9 to 818.3	263.9	224.1 to 226.1	1.5 to 3.9	1300.4 to 1312.3	376.6 to 380.1	1677.0 to 1692.4	414.5 to 418.3	0.8	1263.3 to 1274.9
<b>2009</b>	829.4 to 841.1	269.1	231.1 to 234.4	0.9 to 4.7	1330.4 to 1349.2	393.2 to 398.8	1723.7 to 1748.0	430.9 to 437.0	0.8 to 0.8	1293.6 to 1311.8
<b>2005 1st half</b>	378.3	122.5	96.0	1.7	598.4	155.6	754.0	173.7	0.4	580.7
2nd half	381.0	124.3	98.6	1.9	605.5	164.8	770.3	183.7	0.5	587.0
<b>2006 1st half</b>	385.4	125.4	101.2 to 101.2	2.3 to 2.3	614.4 to 614.4	185.9 to 185.9	800.3 to 800.3	205.8 to 205.8	0.4	594.9 to 594.9
2nd half	389.9	126.4	105.1 to 105.2	1.5 to 1.5	622.7 to 623.1	171.4 to 171.5	794.1 to 794.6	191.0 to 191.1	0.4	603.6 to 603.9
<b>2007 1st half</b>	394.4 to 395.6	127.7	107.7 to 108.0	1.3 to 1.7	631.1 to 633.1	177.2 to 177.8	808.4 to 810.8	196.3 to 196.9	0.4	612.5 to 614.4
2nd half	398.7 to 400.9	130.0	109.4 to 110.0	1.1 to 1.8	639.1 to 642.6	182.0 to 183.0	821.1 to 825.7	201.2 to 202.3	0.4	620.4 to 623.8
<b>2008 1st half</b>	403.2 to 406.4	131.3	111.1 to 112.0	0.9 to 1.9	646.5 to 651.7	186.3 to 187.8	832.8 to 839.4	205.3 to 206.9	0.4	627.9 to 632.9
2nd half	407.7 to 411.9	132.6	112.9 to 114.1	0.6 to 2.0	653.9 to 660.7	190.3 to 192.3	844.2 to 853.0	209.2 to 211.3	0.4	635.4 to 642.0
<b>2009 1st half</b>	412.3 to 417.6	133.9	114.7 to 116.2	0.5 to 2.2	661.4 to 669.9	194.5 to 197.0	855.9 to 866.9	213.3 to 216.1	0.4	643.0 to 651.2
2nd half	417.0 to 423.4	135.2	116.4 to 118.2	0.4 to 2.4	669.1 to 679.3	198.7 to 201.8	867.8 to 881.1	217.6 to 221.0	0.4	650.6 to 660.6
Percentage changes on previous year <sup>5,6</sup>										
<b>2005</b>	1½	2¾	2¾	0	1¾	7	2¾	6½	0	1¾
<b>2006</b>	2	2	6	0	2¾	11½	4½	11	0	2¾
<b>2007</b>	2¼ to 2¾	2½	5¼ to 5¾	0	2¾ to 3	½ to 1	2¼ to 2½	¼ to ½	0	2¾ to 3¼
<b>2008</b>	2¼ to 2¾	2½	3¼ to 3¾	0	2¼ to 2¾	4¼ to 5¼	3 to 3½	4¼ to 4¾	0	2½ to 3
<b>2009</b>	2¼ to 2¾	2	3¼ to 3¾	0	2¼ to 2¾	4½ to 5	2¾ to 3¼	4 to 4½	0	2½ to 3

<sup>1</sup> Includes households and non-profit institutions serving households.  
<sup>2</sup> Also includes acquisitions less disposals of valuables.  
<sup>3</sup> Figures up to and including 2007 are distorted by estimates of MITC-related activity.  
<sup>4</sup> Expenditure adjustment.  
<sup>5</sup> For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.  
<sup>6</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 12: The world economy**

	Percentage changes on a year earlier, unless otherwise stated					
	2004	2005	Forecast			
			2006	2007	2008	2009
World GDP	5	4¾	4¾	5	4¾	4½
Major 7 countries <sup>1</sup>						
Real GDP	3¼	3	2½	2¾	2¼	2½
Consumer price inflation <sup>2</sup>	2½	2½	2½	2½	2¼	2
Euro area GDP	0	1¾	1½	2½	2	2¼
World trade in goods and services	10	10	7¼	8¾	7½	7½
UK export markets <sup>3</sup>	9¼	8	5¾	7¾	6½	6¼

<sup>1</sup> G7: US, Japan, Germany, UK, France, Italy and Canada.

<sup>2</sup> Per cent, Q4.

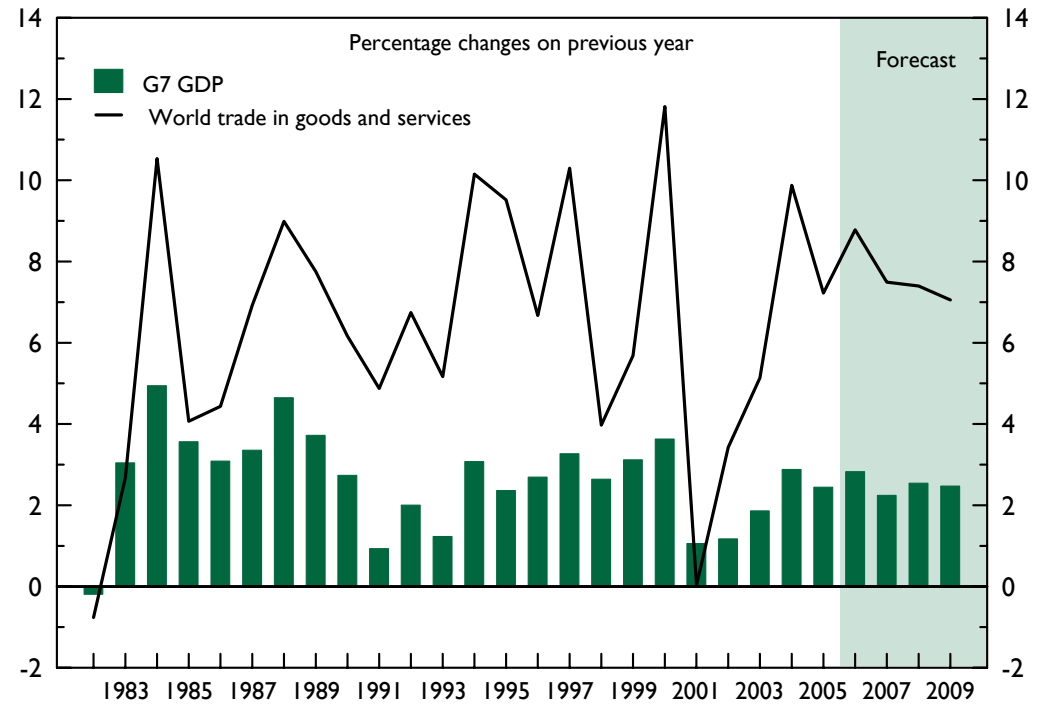
<sup>3</sup> Other countries' imports of UK goods and services weighted according to their importance in UK exports.

**Table 13: Consensus forecasts for GDP growth in major economies<sup>1</sup>**

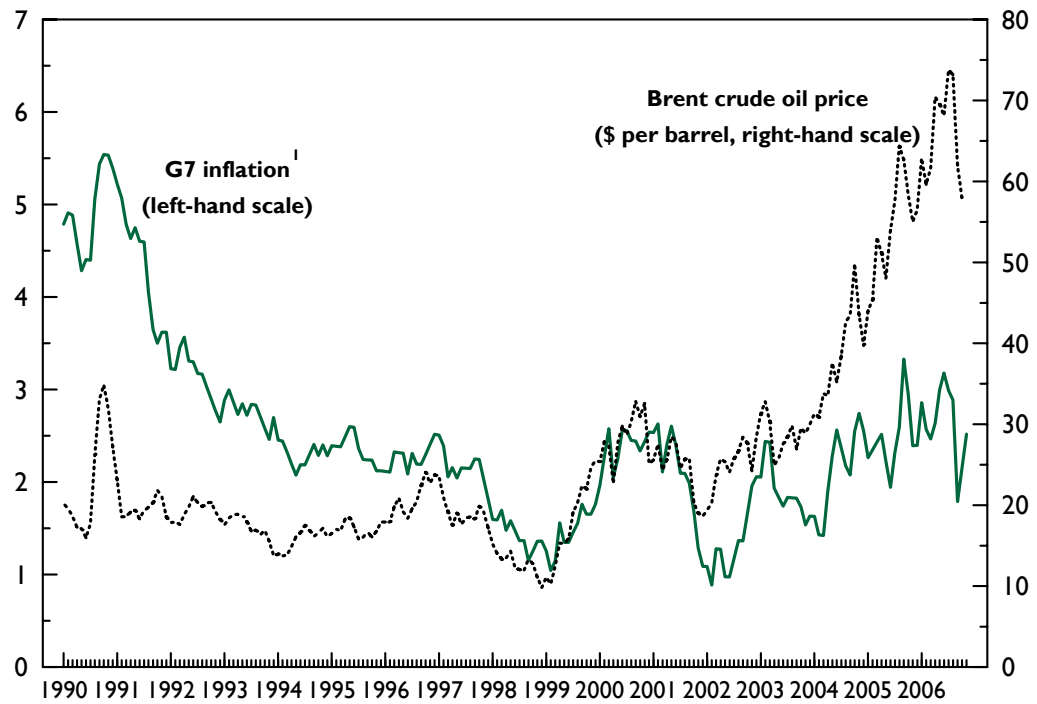
	Percentage changes on previous year			
	March 2006		November 2006	
	2006	2007	2006	2007
USA	3.3	3.0	3.3	2.5
Euro-area	2.1	1.8	2.6	1.9
Japan	2.9	2.1	2.7	2.0

<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.

