

# The economy: supplementary charts and tables

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March 2004



HM TREASURY





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**The economy:  
supplementary  
charts and tables**

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# The Economy

The Financial Statement and Budget Report (FSBR), published by HM Treasury on 17 March 2004, 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 for the fourth quarter of 2003, released by the Office for National Statistics on 25 February 2004.<sup>1</sup> The release also contained revisions to earlier quarters of 2003, which the Treasury has carried through to certain other national accounts series that the ONS have not yet revised, in particular sectoral saving and borrowing. A fully consistent national accounts dataset for 2003 will be published by the ONS on 26 March 2004.

**Forecast ranges** **1.1** As in the 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 economy. The forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Chapter B of the FSBR.

**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 from the start of the fourth quarter of 2001. Details of this neutral assumption are set out in Table B2 of the FSBR and the accompanying text. A paper published by the Treasury alongside Budget 2002<sup>2</sup> discussed the Treasury's approach to trend growth and gives 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 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  $\frac{1}{4}$  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> See footnote 1 of Table 9 p. 20, which provides more detail.

<sup>2</sup> *Trend Growth: Recent Evidence and Prospects*, HM Treasury, April 2002.

THE DEGREE OF SPARE CAPACITY

Chart 1a: CBI capacity utilisation in manufacturing

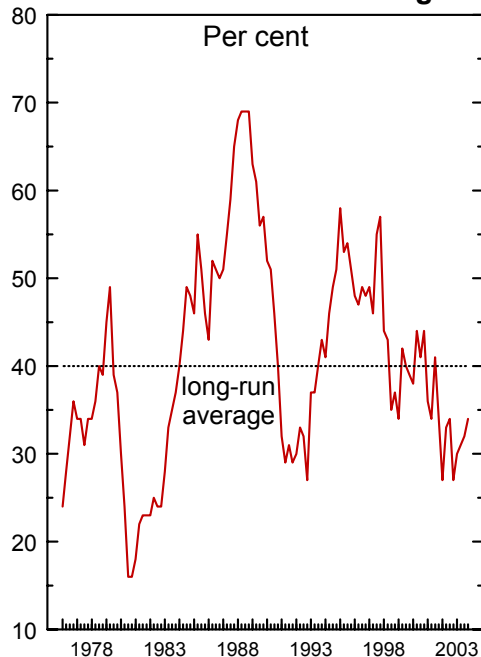


Chart 1b: BCC survey of capacity utilisation

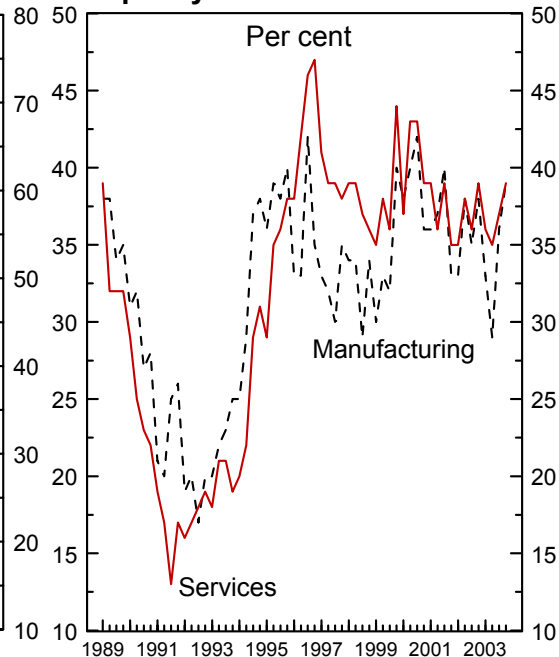


Chart 2a: CBI survey of skilled labour shortages in manufacturing

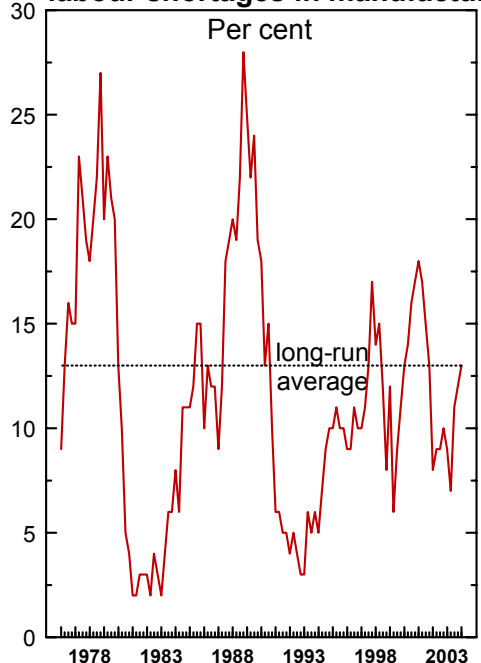
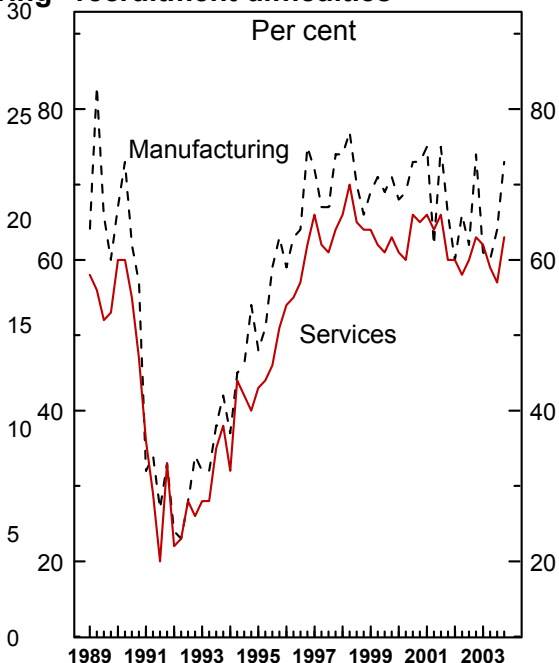
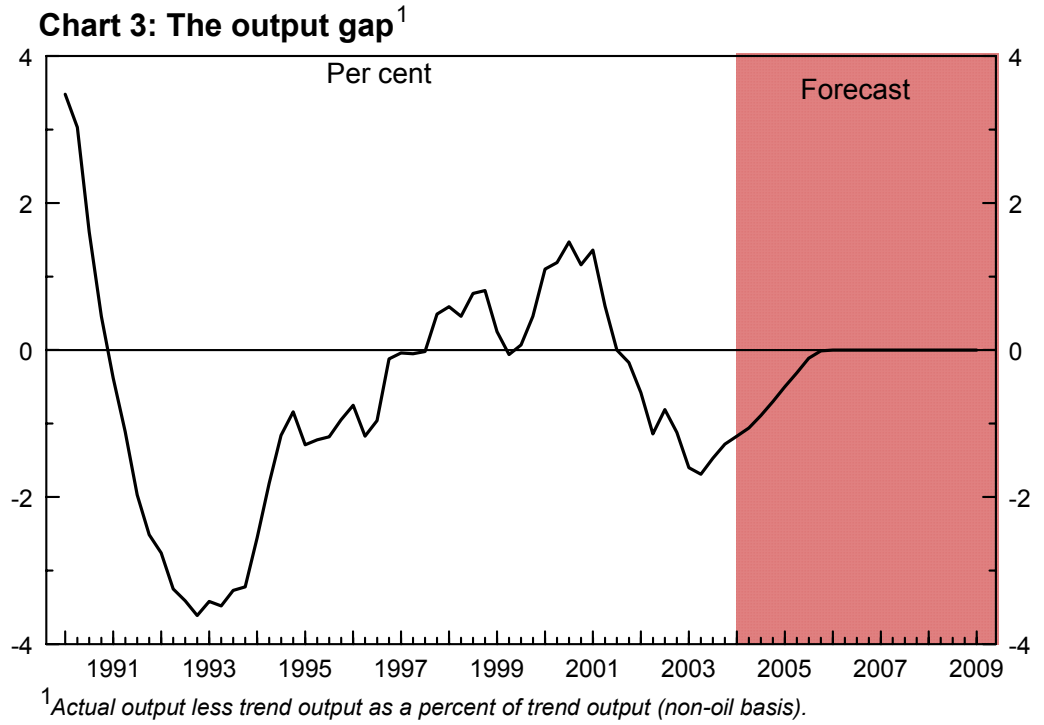


Chart 2b: BCC survey of recruitment difficulties





**GROSS DOMESTIC PRODUCT (GDP)**

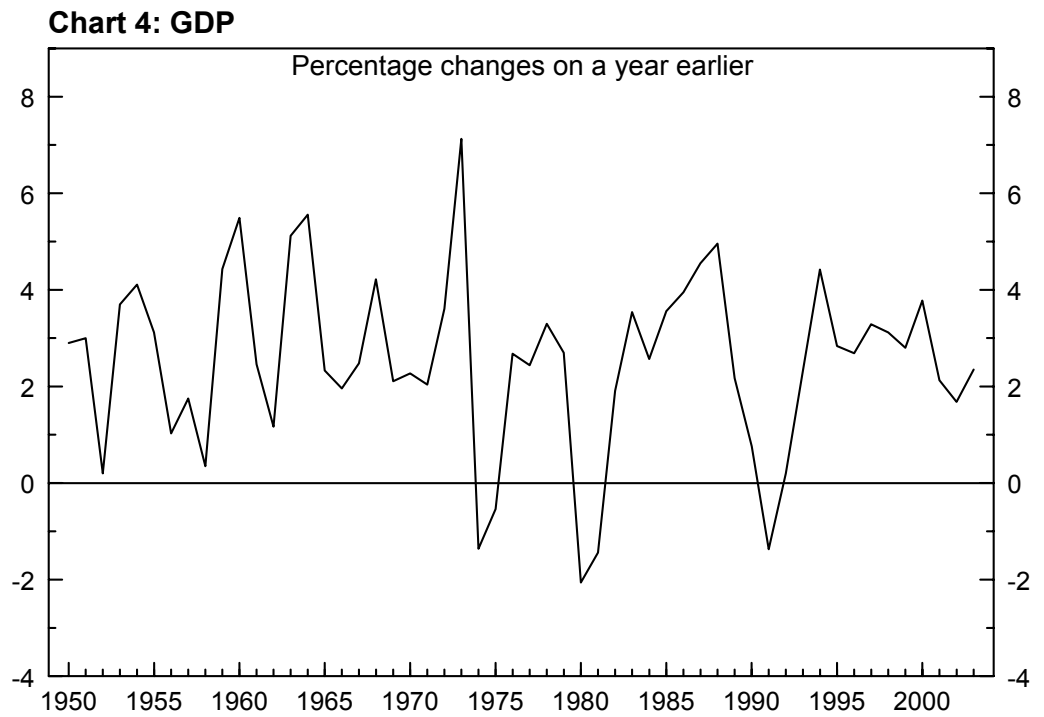
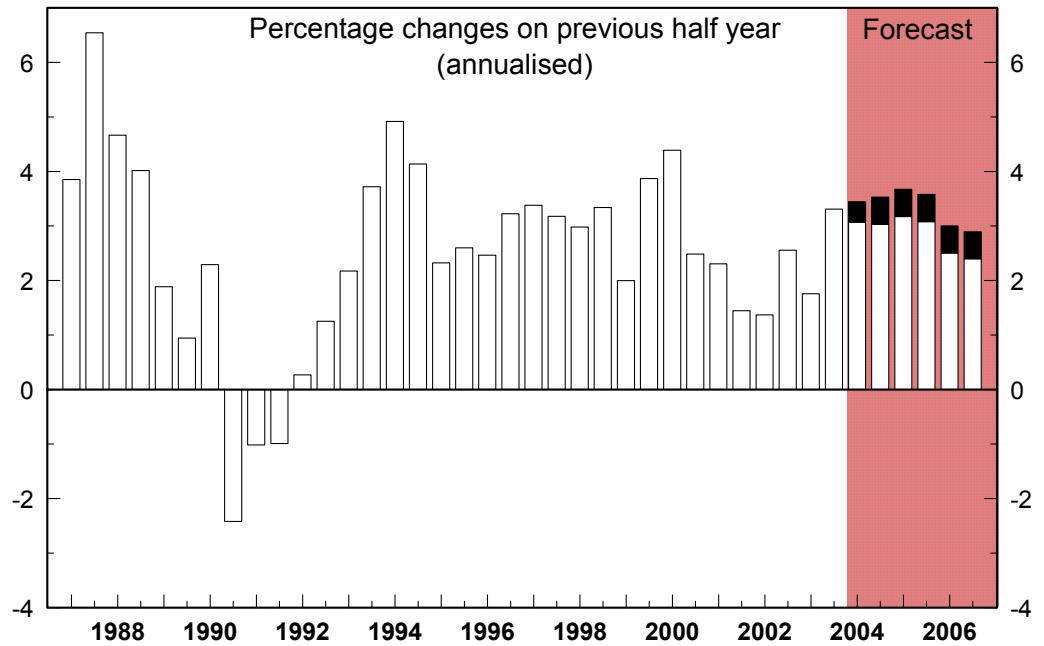


Chart 5: GDP forecast<sup>1</sup>



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

Table 1: Contributions to GDP<sup>1</sup> growth<sup>2,3</sup>

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

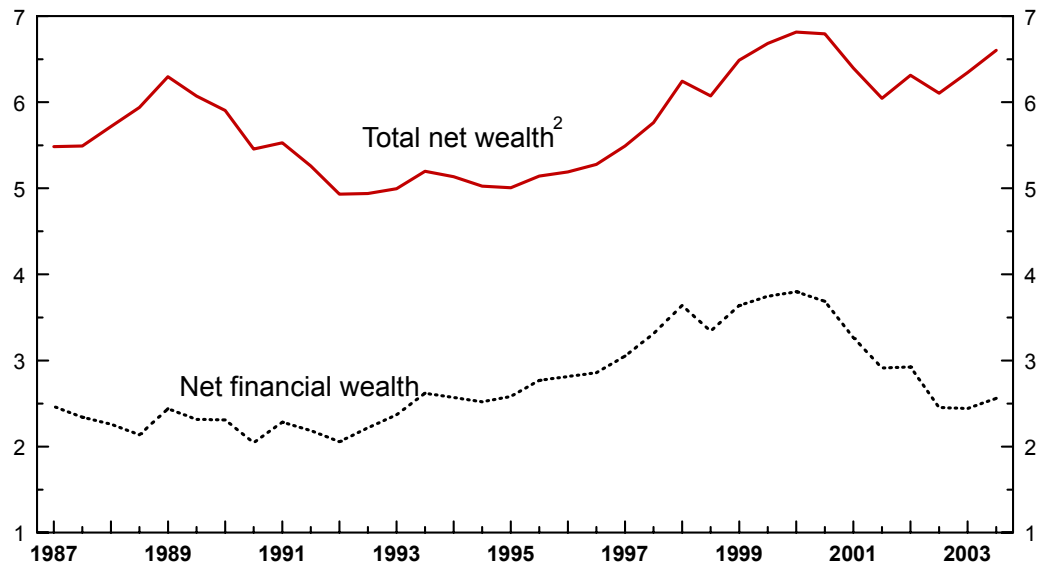
<sup>1</sup> Fixed base volumes.

<sup>2</sup> 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.

<sup>3</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.

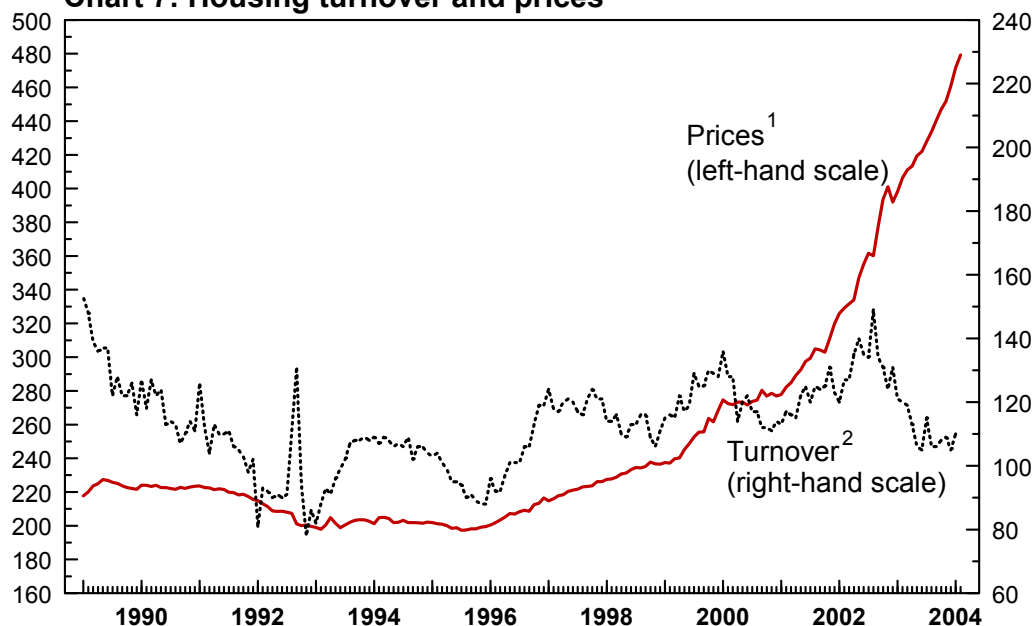
Table 2: Household sector<sup>1</sup> expenditure and income

	Percentage changes on previous year unless otherwise stated			
	2003	Forecast		
		2004	2005	2006
Household consumption <sup>2</sup>	3	3 to 3¼	2¼ to 2¾	2¼ to 2¾
Real household disposable income	2¾	3 to 3¼	2½ to 3	2 to 2½
Saving ratio (level, per cent)	5¼	5	5½	5½

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

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

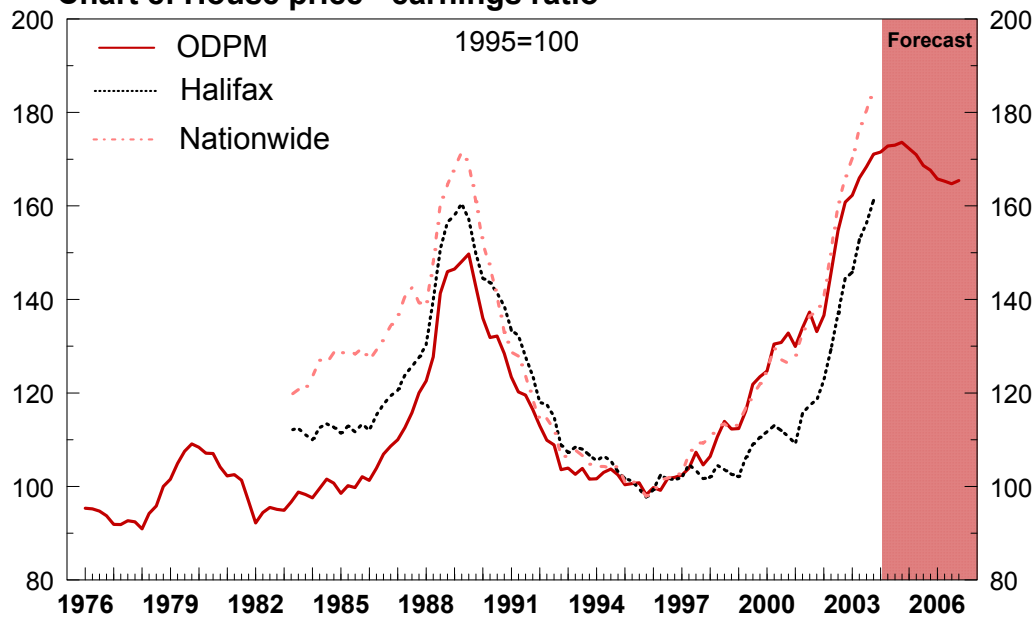
Chart 7: Housing turnover and prices



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

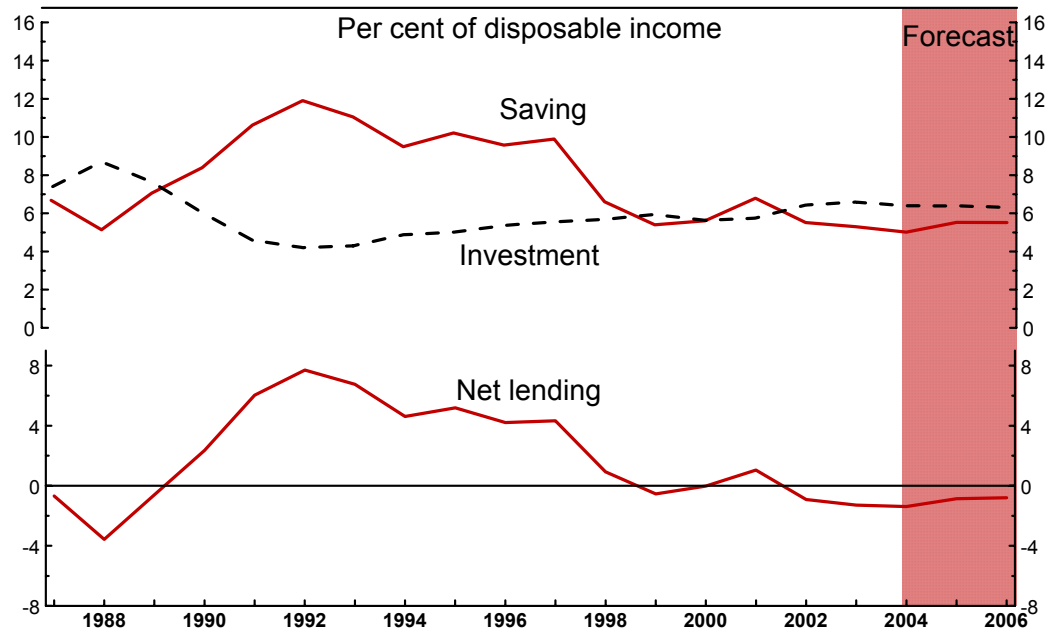
<sup>2</sup> Particulars delivered, thousands.

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.

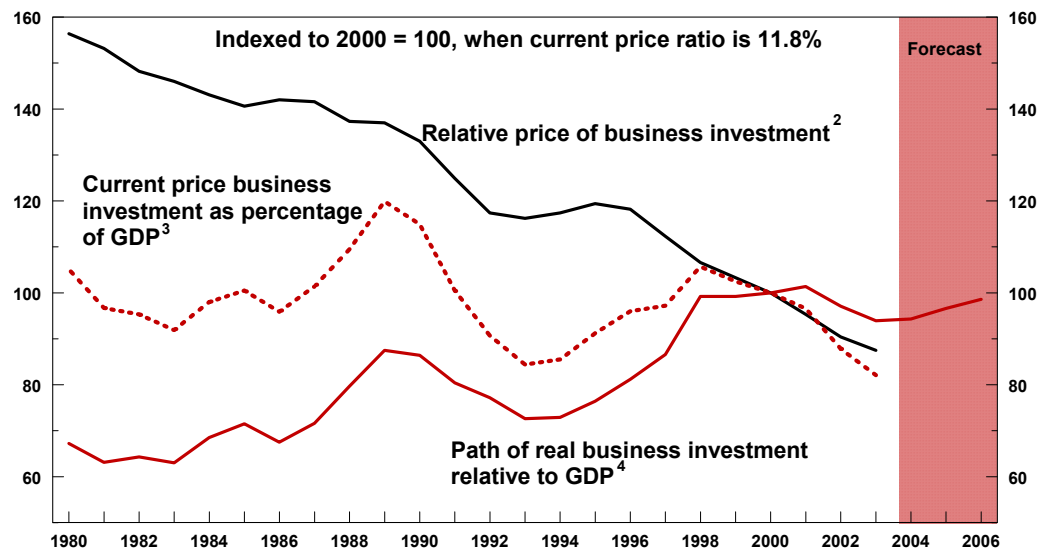
Chart 9: Household sector<sup>1</sup> net lending



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

INVESTMENT AND INVENTORY ACCUMULATION

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



<sup>1</sup> Includes investment by public corporations (except National Health Service Trusts) 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			
	2003	Forecast		
		2004	2005	2006
Whole economy <sup>1</sup>	2½	5½ to 5¾	6½ to 7	4¼ to 4¾
of which:				
Business <sup>2,3</sup>	-1	3½ to 4	5½ to 6¼	4¾ to 5¼
Private dwellings <sup>3</sup>	11¼	5½ to 5¾	3¼ to 3¾	1½ to 2
General government <sup>3,4</sup>	19	17	18	6¾

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

<sup>2</sup> Private sector and public corporations' (except National Health Service Trusts) non-residential investment.

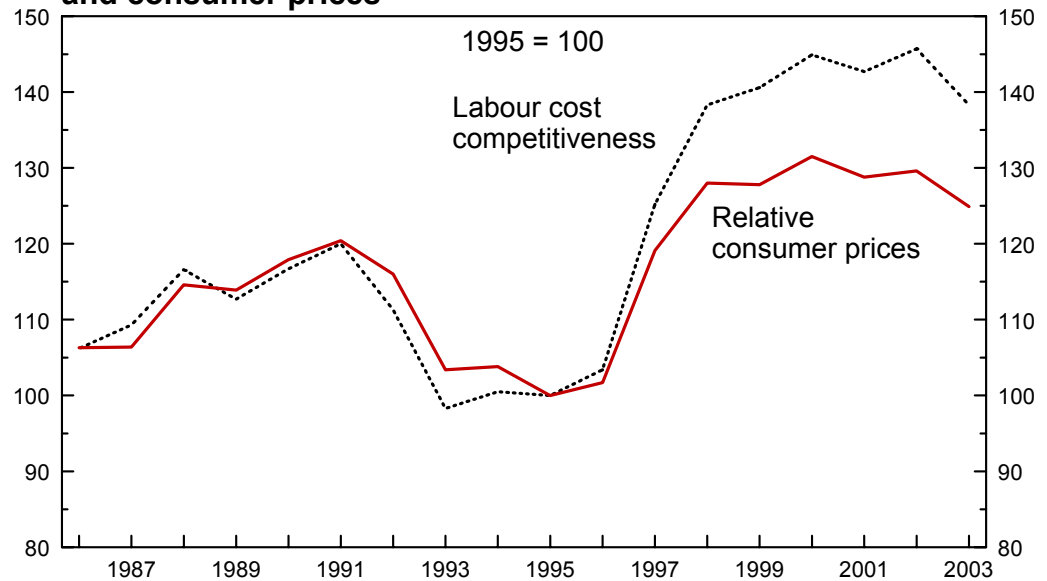
Includes investment under the Private Finance Initiative.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

<sup>4</sup> Includes National Health Service Trusts.

**TRADE AND THE BALANCE OF PAYMENTS**

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



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

Source: OECD Economic Outlook, 2003/2.

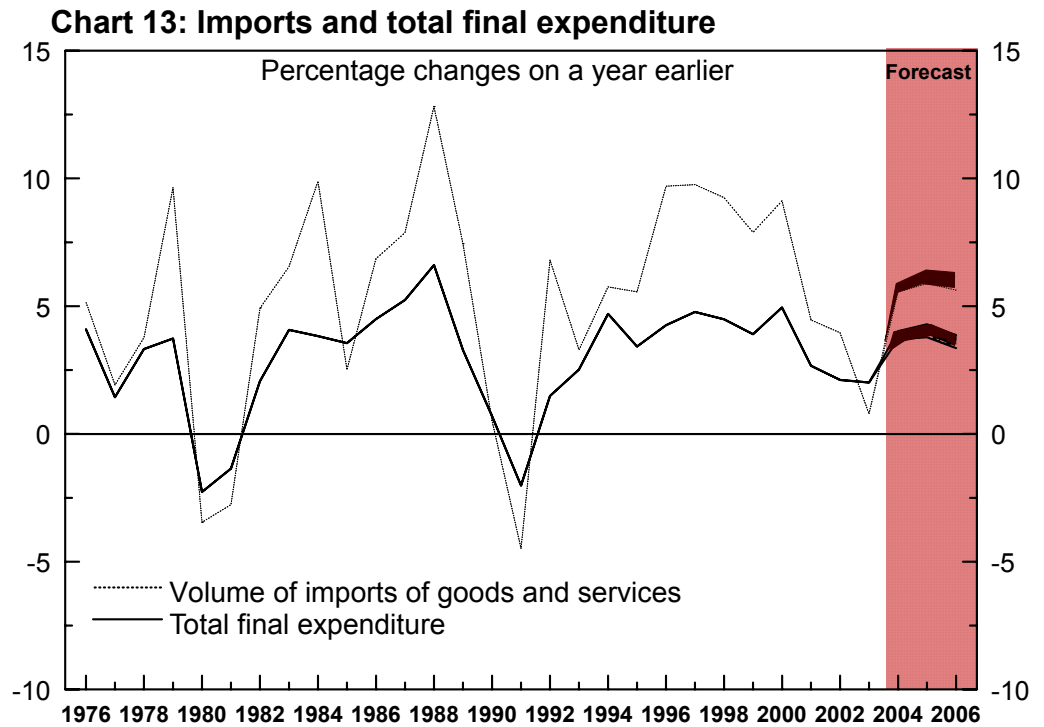
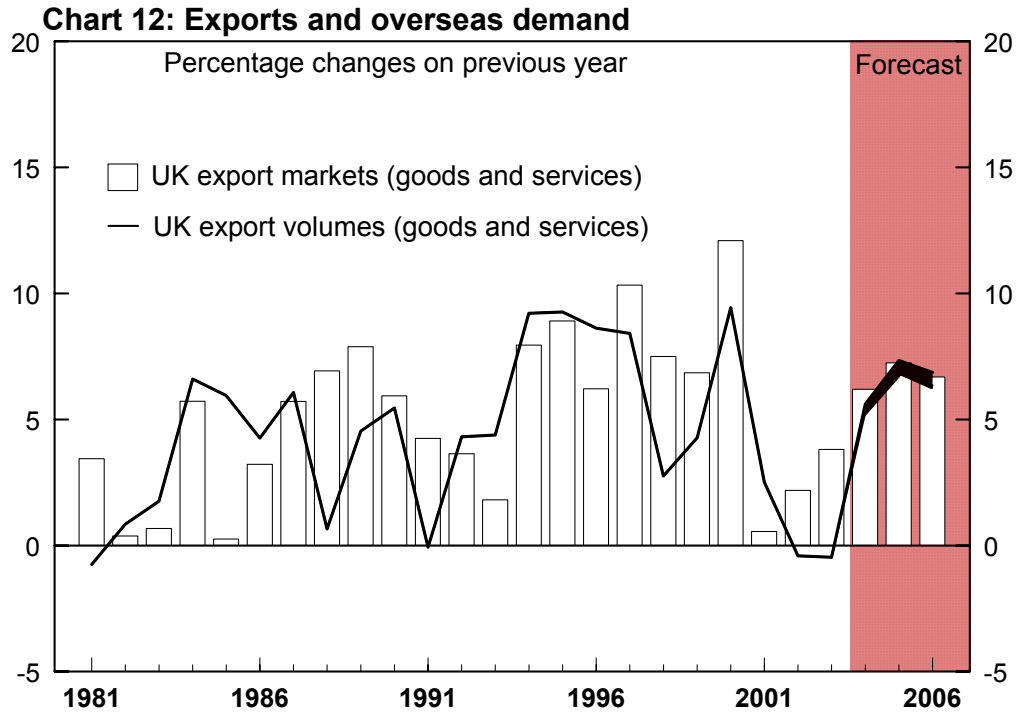
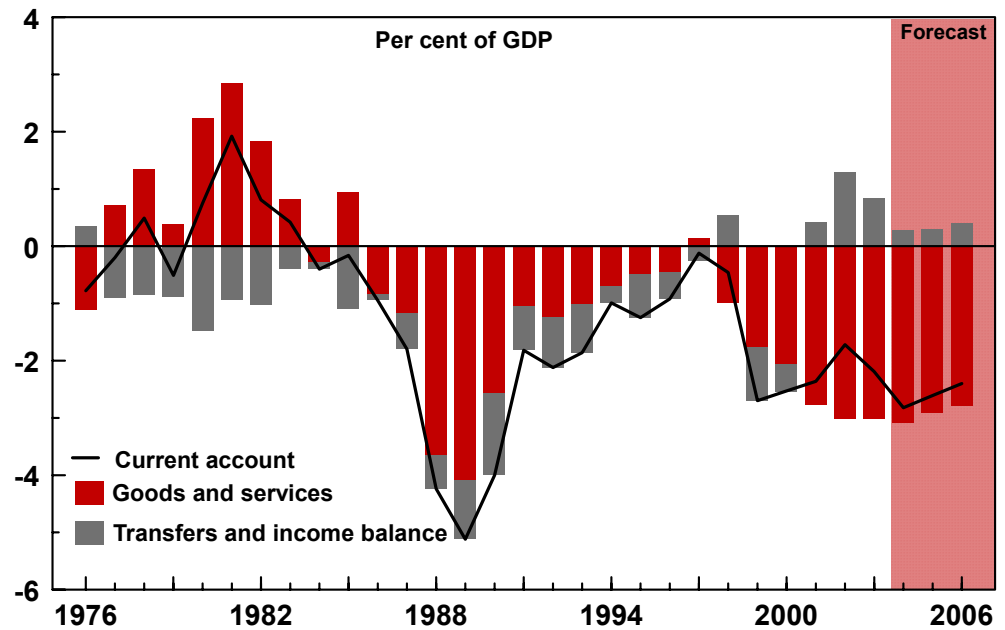


Table 4: Trade in goods and services

	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		
2003	-1/2	3/4	1 1/4	1/2	3/4	-33 1/4
<i>Forecast</i>						
2004	5 1/4 to 5 1/2	5 1/2 to 6	1 1/2	1 1/4	1/4	-35 3/4
2005	6 3/4 to 7 1/4	6 to 6 1/2	3	2 3/4	1/4	-35 3/4
2006	6 1/4 to 6 3/4	5 3/4 to 6 1/4	2 3/4	2 3/4	0	-36 1/4

<sup>1</sup>Average value indices.  
<sup>2</sup>Ratio of export to import prices.

Chart 14: Balance of payments current account

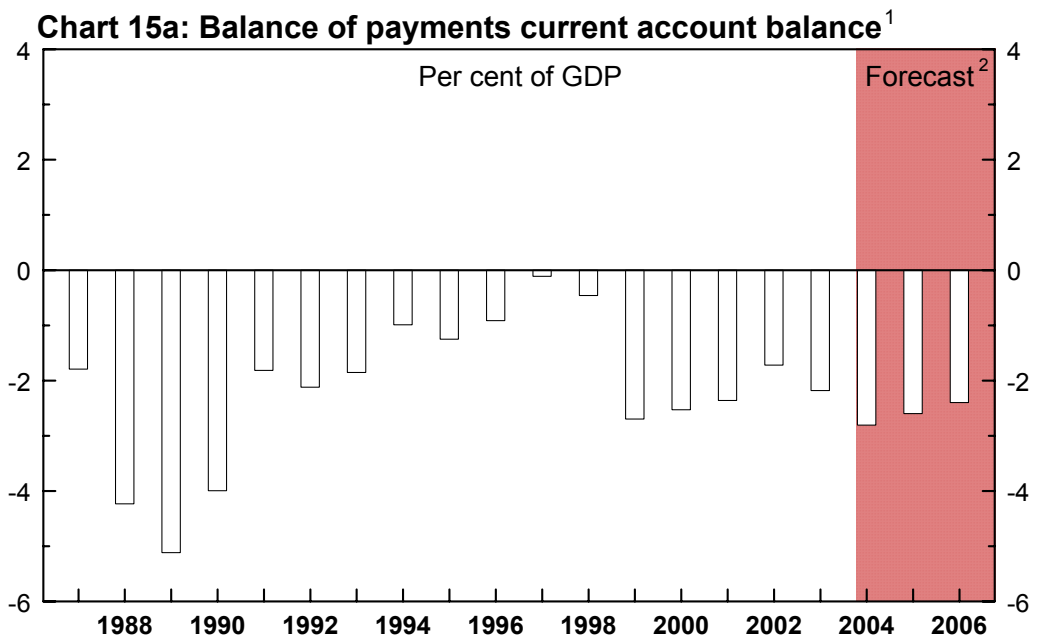


**Table 5: The current account**

	£ billion					
	Goods and services			Transfers	Income balance <sup>1</sup>	Current balance
	Non-oil	Oil	Total			
2002 <i>Estimate</i>	-37¼	5¼	-31½	-8¼	22¼	-18
2003 <i>Forecast</i>	-37½	4½	-33¼	-10¼	19½	-24
2004	-38½	2¼	-35¾	-10¼	13½	-32¾
2005	-38¼	2½	-35¾	-10½	14¼	-32
2006	-38	1¼	-36¼	-10¾	15¾	-31¼

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

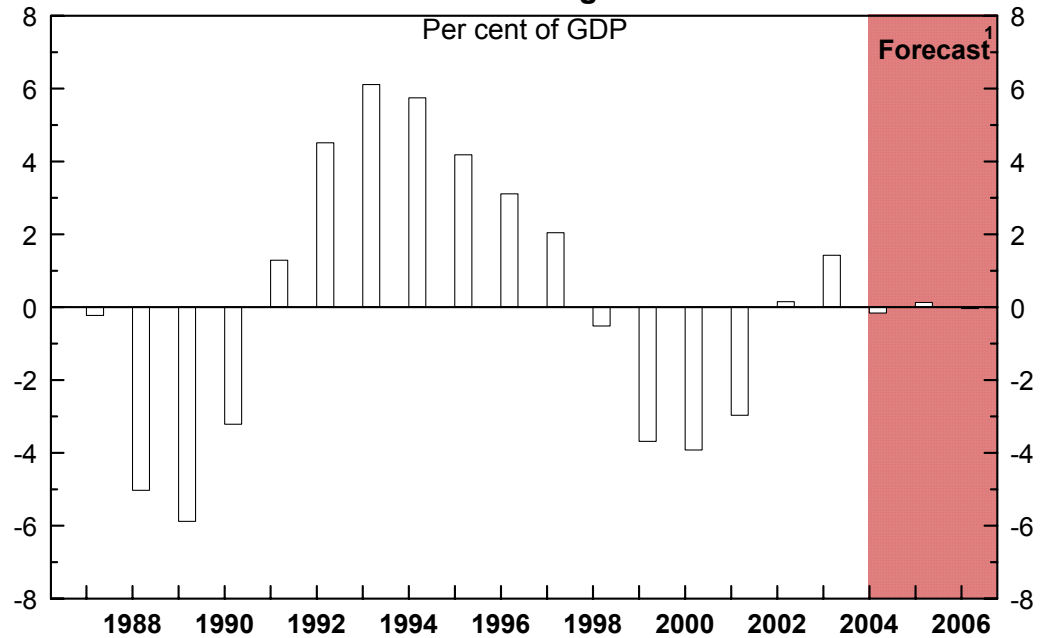
**PATTERN OF NET LENDING**



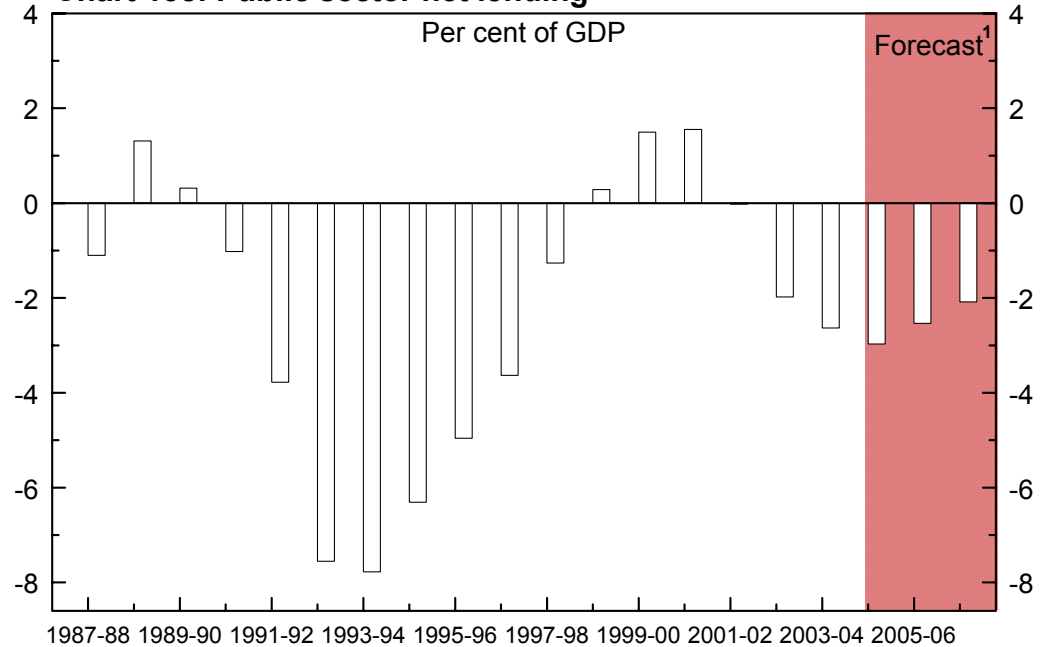
<sup>1</sup> The current account balance approximately equals net lending to the rest of the world, adjusted for net capital transfers and net acquisitions of non-produced non-financial assets.

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

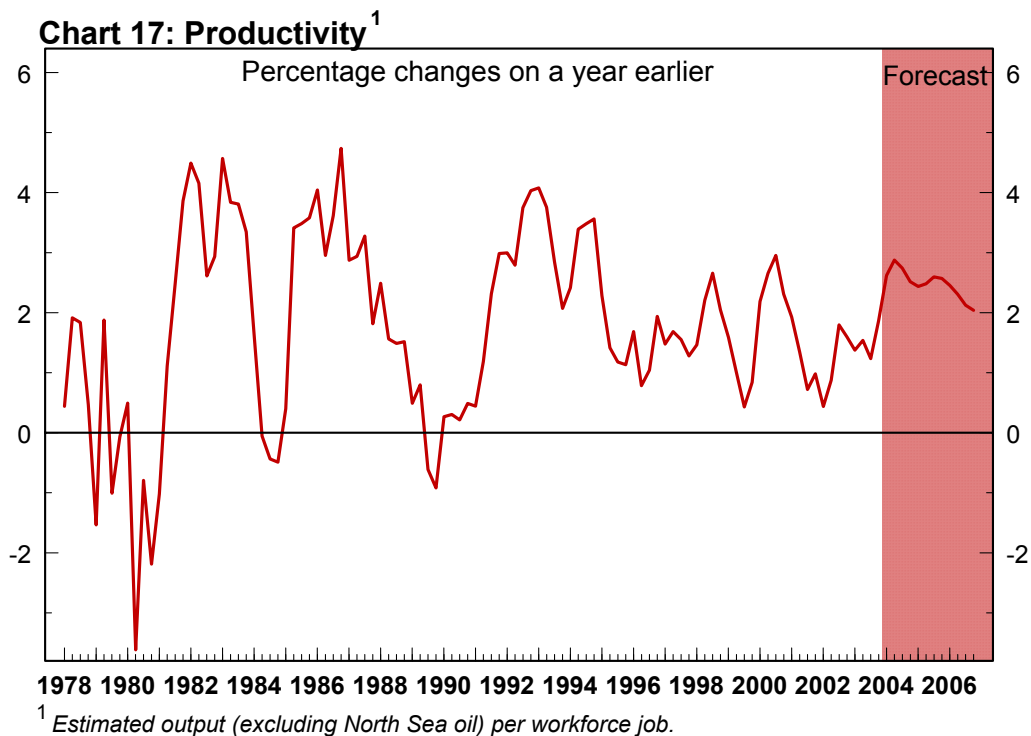
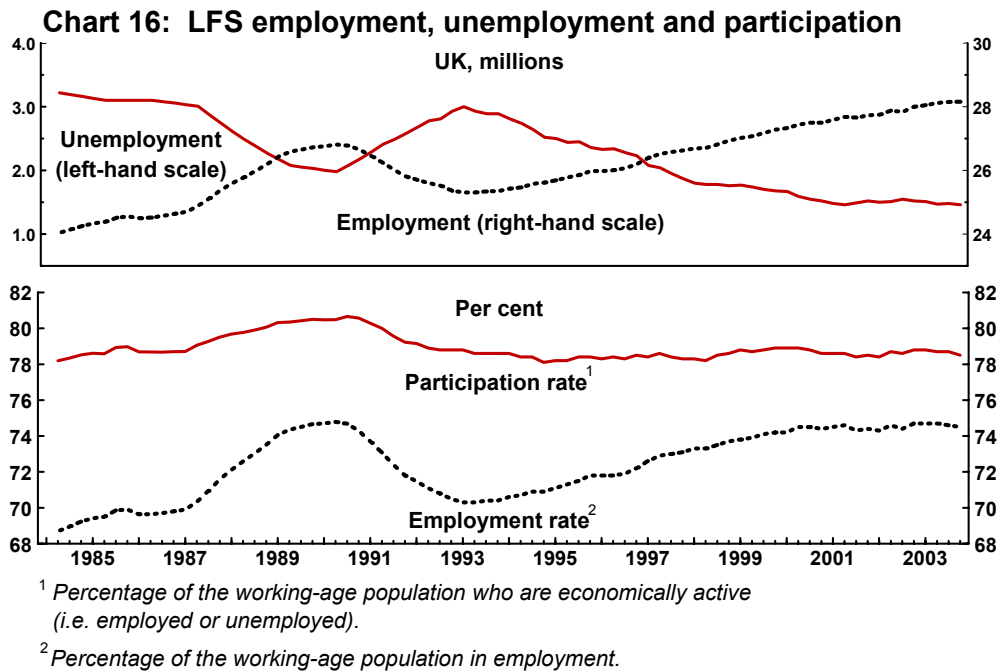
**Chart 15b: Private sector net lending**

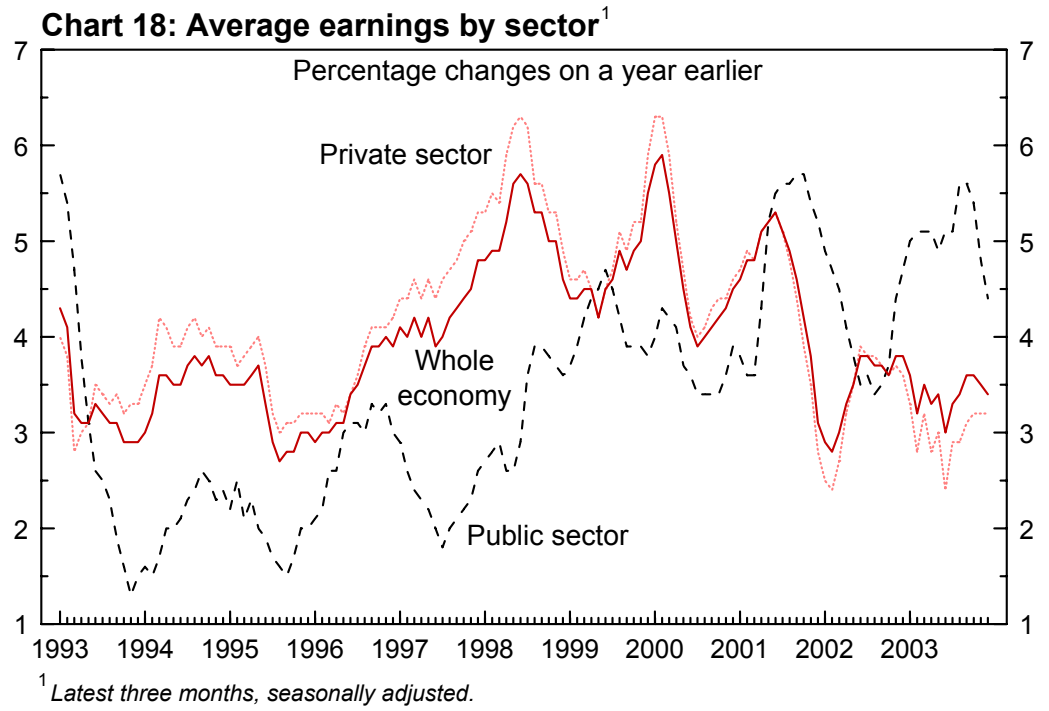


**Chart 15c: Public sector net lending**



THE LABOUR MARKET





FINANCIAL DEVELOPMENTS

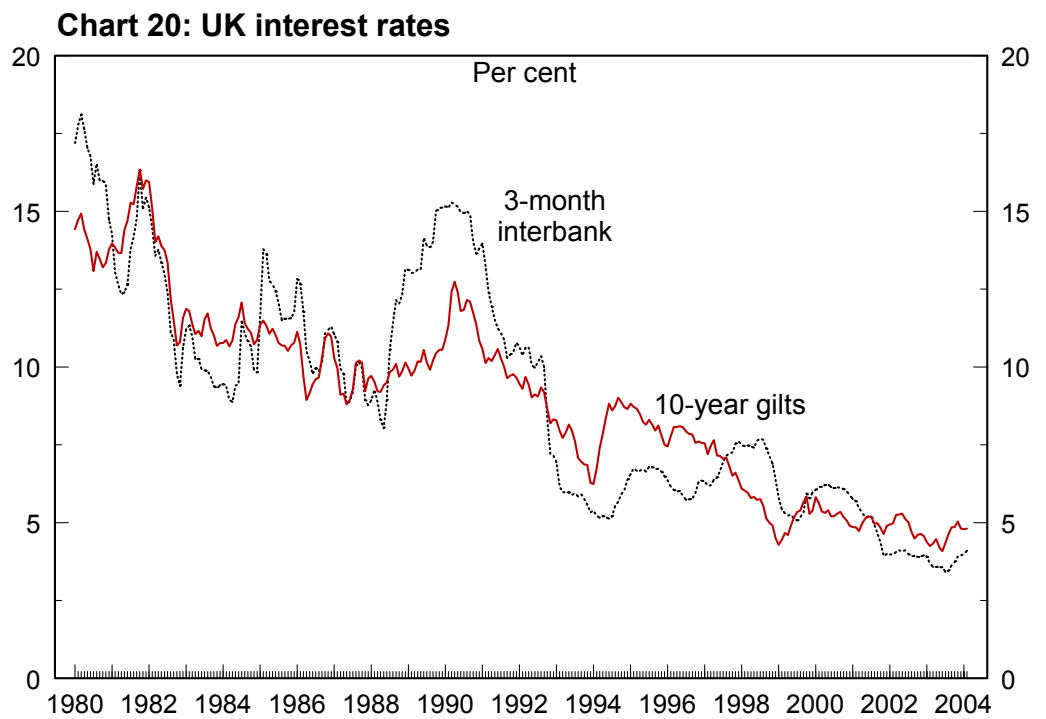
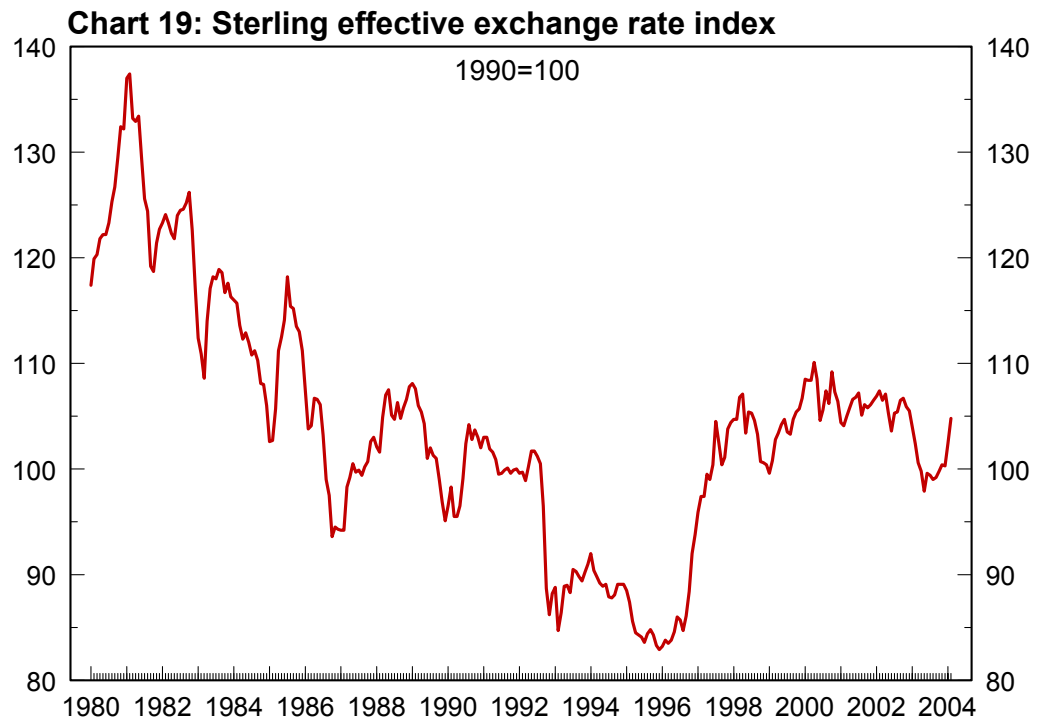
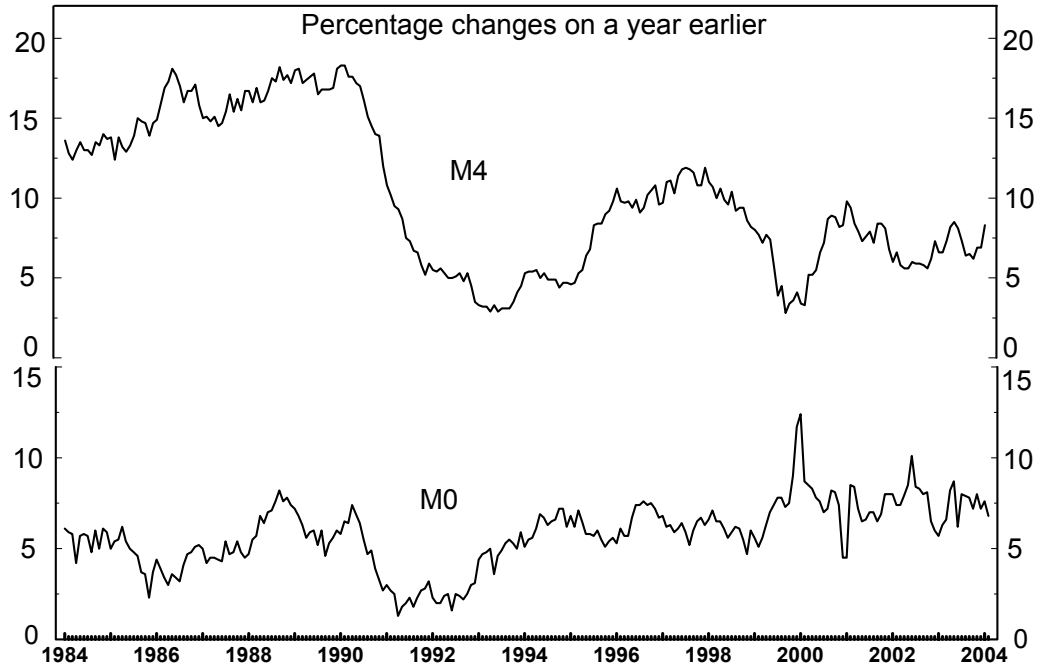
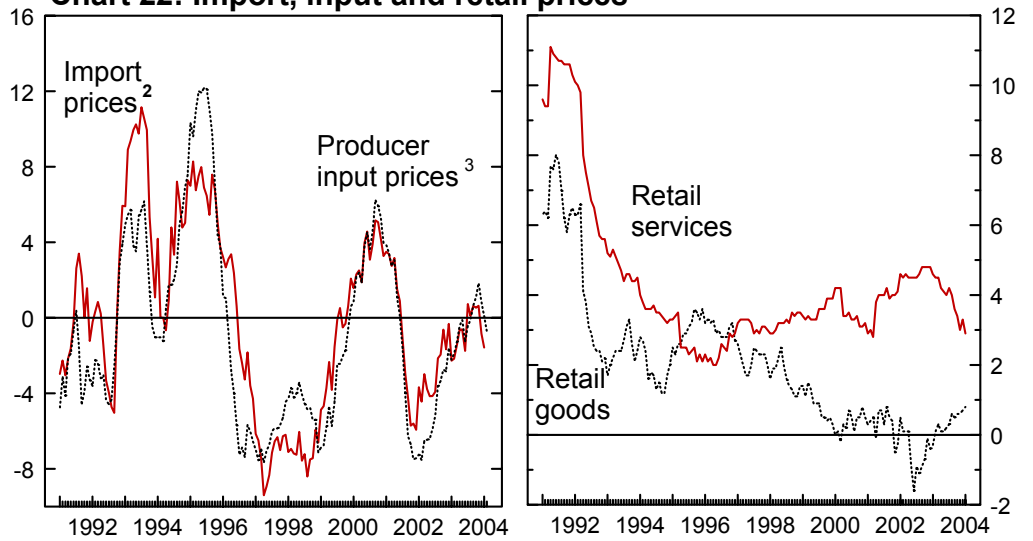


Chart 21: Monetary indicators



INFLATION

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



<sup>1</sup> Percentage changes on a year earlier.

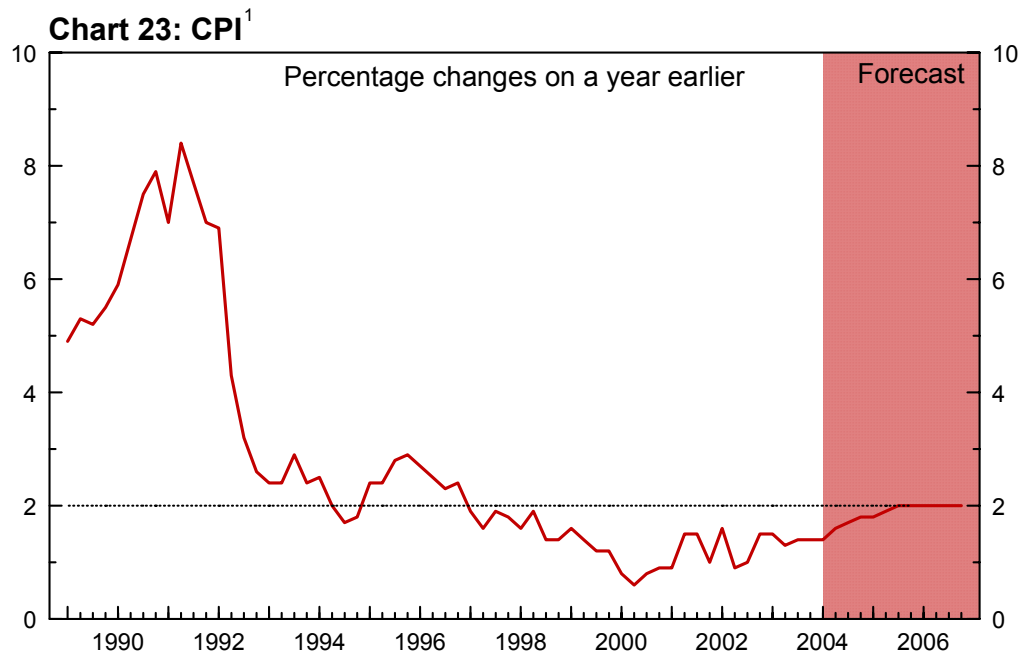
<sup>2</sup> All goods.

<sup>3</sup> Including climate change levy, but excluding food, beverages, tobacco and petroleum.

**Table 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	1¼	1¼	2	2	2	2
Producer output prices <sup>1</sup>	-½	1	1¼	1½	1¼	2¼	2½	2	2	2

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



**COMPARISON WITH INDEPENDENT FORECASTS**

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

	Percentage changes on a year earlier unless otherwise stated					
	2004			2005		
	March Budget	Independent		March Budget	Independent	
		Average	Range		Average	Range
Gross domestic product	3 to 3½	3.0	2.4 to 3.8	3 to 3½	2.6	0.4 to 3.5
CPI (Q4)	1¼	1.7	1.2 to 2.3	2	1.9	1.2 to 2.7
Current account (£ billion)	-32¼	-27.3	-37.4 to -18	-32	-28.3	-53.2 to -10.0

<sup>1</sup> 'Forecasts for the UK Economy: A Comparison of Independent Forecasts', March 2004.

**COMPARISON WITH DECEMBER 2003 PRE-BUDGET REPORT FORECAST**

**Table 8: Comparison with Pre-Budget Report 2003 forecast**

	Percentage changes on a year earlier unless otherwise stated		
		December 2003	March 2004
		Pre-Budget Report	Budget
Gross domestic product	2004	3 to 3½	3 to 3½
	2005	3 to 3½	3 to 3½
	2006	2½ to 3	2½ to 3
CPI inflation (per cent, Q4)	2004	1¼	1¼
	2005	2	2
	2006	2	2
Current account (£ billion)	2004	-29½	-32¼
	2005	-28	-32
	2006	-28¼	-31¼

## SUMMARY TABLES

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

	Percentage changes on a year earlier unless otherwise stated					
	2003	Forecast <sup>2</sup>			Average errors from past forecasts <sup>3</sup>	
		2004	2005	2006	2004	2005
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	2¼	3 to 3½	3 to 3½	2½ to 3	¾	½
Manufacturing output	¼	1½ to 2	1¼ to 2¼	1¼ to 2¼	1¼	2
<b>Expenditure components of GDP at constant market prices<sup>4</sup></b>						
Domestic demand	2¼	3¼ to 3½	3 to 3½	2½ to 3	½	¾
Household consumption <sup>5</sup>	3	3 to 3¼	2¼ to 2¾	2¼ to 2¾	½	1
General government consumption	2	2¼	2½	2½	¾	1
Fixed investment	2½	5½ to 5¾	6½ to 7	4¼ to 4¾	1¾	1¾
Change in inventories <sup>6</sup>	0	0	0	0	¼	¼
Exports of goods and services	-½	5¼ to 5½	6¼ to 7¼	6¼ to 6¾	2¼	3½
Imports of goods and services	¾	5½ to 6	6 to 6½	5¾ to 6¼	2¼	2¾
<b>Balance of payments</b>						
<b>current account</b>						
£ billion	-24	-32¼	-32	-31¼	7½	9½
per cent of GDP	-2¼	-2¼	-2½	-2½	¾	¾
<b>Inflation</b>						
CPI (Q4)	1½	1¾	2	2	-	-
Producer output prices (Q4) <sup>7</sup>	1½	2	2	2	1	1½
GDP deflator at market prices	3	2¼	2½	2¾	¼	¾
<b>Money GDP at market prices</b>						
£ billion	1100	1160 to 1164	1226 to 1236	1291 to 1308	9	9
percentage change	5½	5½ to 5¾	5¾ to 6¼	5¼ to 5¾	¾	¾

<sup>1</sup> The forecast is consistent with output, income and expenditure data to the fourth quarter of 2003 released by the Office for National Statistics on 25 February 2004. Because full national accounts are not yet available for the fourth quarter last year, some figures for 2003 in the charts and tables are estimates.

<sup>2</sup> All growth rates in tables throughout this chapter 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 2 ¾ 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 2 1/2 per cent a year trend growth used as the basis for projecting the public finances.

<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 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 2004 and 2005.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table 10.

<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.

## I THE ECONOMY

£ 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	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy <sup>3</sup>	GDP at market prices
<b>2003</b>	687.1	189.6	174.4	1.5	1052.6	271.3	1323.9	313.7	0.9	1011.1
<b>2004</b>	708.0 to 710.2	193.7	183.8 to 184.4	1.7 to 2.3	1087.2 to 1090.5	285.7 to 286.6	1372.9 to 1377.1	331.1 to 332.1	0.8	1042.6 to 1045.8
<b>2005</b>	723.5 to 729.2	198.6	195.8 to 197.3	1.9 to 3.5	1119.7 to 1128.6	305.2 to 307.6	1424.9 to 1436.2	350.6 to 353.4	0.8	1075.1 to 1083.6
<b>2006</b>	739.4 to 748.9	203.8	203.9 to 206.5	1.2 to 3.8	1148.2 to 1163.0	324.6 to 328.8	1472.8 to 1491.7	370.3 to 375.1	0.8	1103.2 to 1117.4
<b>2003</b> 1st half	339.8	94.3	86.1	0.9	521.2	135.9	657.1	156.1	0.5	501.4
2nd half	347.2	95.4	88.3	0.6	531.4	135.4	666.8	157.5	0.4	509.7
<b>2004</b> 1st half	352.2 to 352.8	96.4	90.4 to 90.6	0.8 to 0.9	539.8 to 540.7	140.3 to 140.6	680.1 to 681.3	163.0 to 163.3	0.4	517.4 to 518.4
2nd half	355.9 to 357.4	97.3	93.4 to 93.8	0.9 to 1.3	547.5 to 549.8	145.4 to 146.0	692.8 to 695.8	168.0 to 168.7	0.4	525.2 to 527.4
<b>2005</b> 1st half	359.7 to 362.1	98.7	96.5 to 97.2	0.8 to 1.5	555.7 to 559.5	150.2 to 151.2	705.9 to 710.7	172.9 to 174.0	0.4	533.5 to 537.1
2nd half	363.7 to 367.1	99.9	99.2 to 100.1	1.0 to 2.0	563.9 to 569.1	155.0 to 156.4	718.9 to 725.5	177.7 to 179.3	0.4	541.6 to 546.6
<b>2006</b> 1st half	367.7 to 371.9	101.3	101.2 to 102.3	0.7 to 1.9	570.8 to 577.4	159.8 to 161.7	730.6 to 739.1	182.6 to 184.8	0.4	548.4 to 554.7
2nd half	371.7 to 376.9	102.5	102.7 to 104.2	0.5 to 2.0	577.4 to 585.6	164.7 to 167.1	742.2 to 752.6	187.7 to 190.3	0.4	554.9 to 562.7
Percentage changes on previous year <sup>4,5</sup>										
<b>2003</b>	3	2	2½	0	2¾	-½	2	¾	0	2¼
<b>2004</b>	3 to 3¼	2¼	5½ to 5¾	0	3¼ to 3½	5¼ to 5½	3¾ to 4	5½ to 6	0	3 to 3½
<b>2005</b>	2¼ to 2¾	2½	6½ to 7	0	3 to 3½	6¾ to 7¼	3¾ to 4¼	6 to 6½	0	3 to 3½
<b>2006</b>	2¼ to 2¾	2½	4¼ to 4¾	0	2½ to 3	6¼ to 6¾	3¼ to 3¾	5¾ to 6¼	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> Expenditure adjustment.

<sup>4</sup> For change in inventories and the statistical discrepancy, changes are expressed as a per cent 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

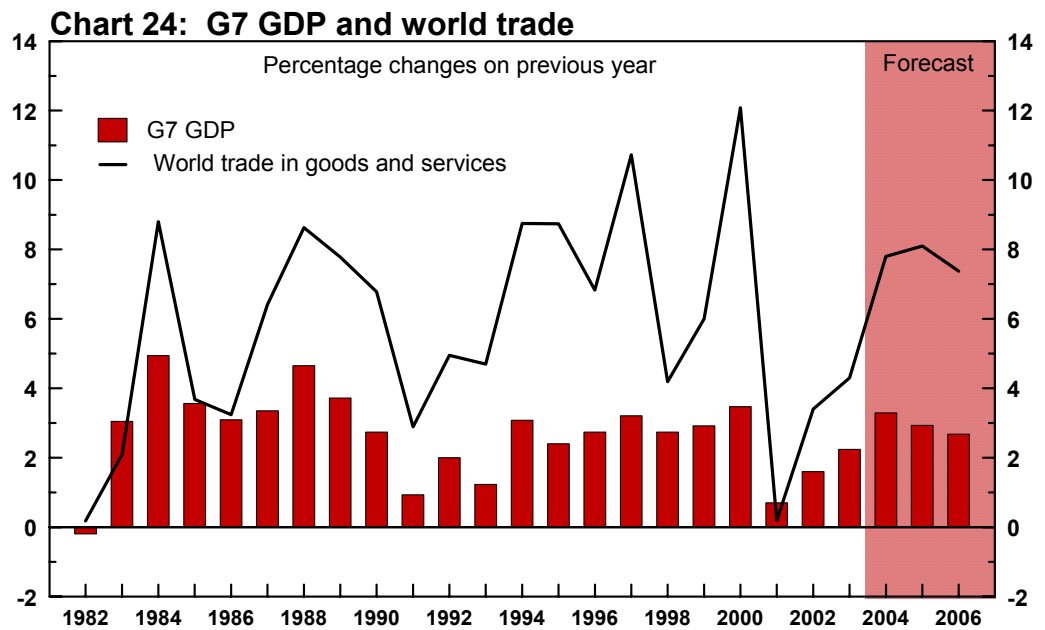
Table 11: The world economy

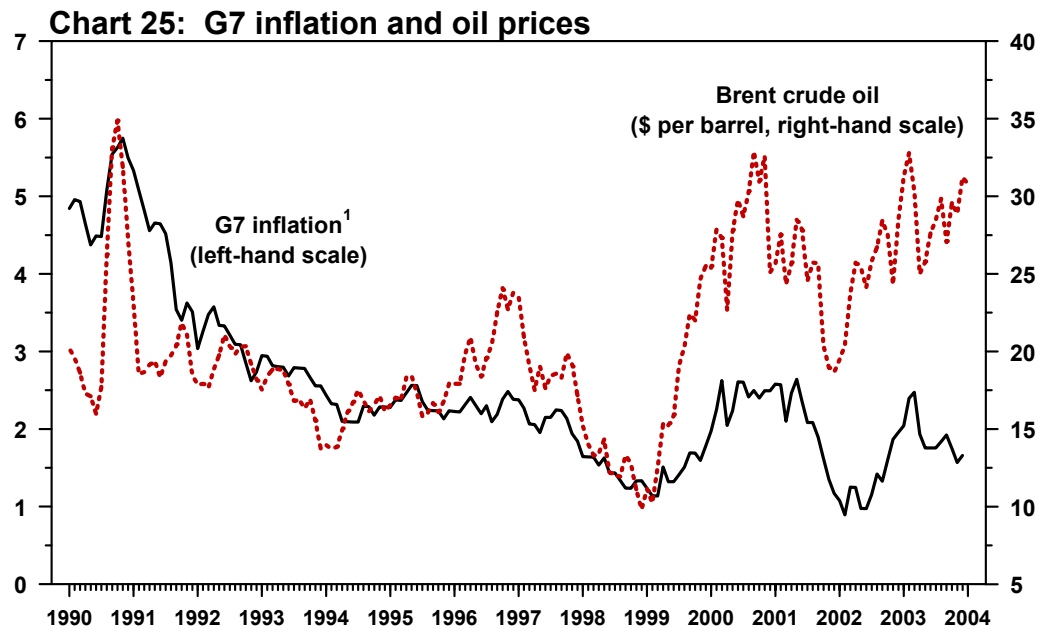
	Percentage changes on a year earlier unless otherwise stated			
	2003	Forecast		
		2004	2005	2006
<i>Major 7 countries<sup>1</sup></i>				
Real GDP	2¼	3¼	3	2¾
Consumer price inflation <sup>2</sup>	1½	1½	1¾	1¾
<i>Euro area</i>				
Real GDP	½	1¾	2¾	2½
World trade in goods and services	4¾	7¾	8	7¼
UK export markets <sup>3</sup>	3¾	6¼	7¼	6¾

<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 goods and services weighted according to their importance in UK exports.





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