
THE ECONOMY: SUPPLEMENTARY MATERIAL TO THE PRE-BUDGET REPORT

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THE ECONOMY

Introduction

The Pre-Budget Report, published by HM Treasury on 27 November 2001, 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 national accounts and balance of payments statistics to the second quarter of 2001 released by the Office for National Statistics on 25 September, and output, income and expenditure data for the third quarter released on 22 November.

Forecast ranges

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 UK economy.

The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, based on an assumption of 2½ per cent a year for the trend rate of output growth from the start of 2002. This neutral assumption for trend growth is set out in Table A4 of the November 2001 Pre-Budget Report, and discussed in the accompanying text. It assumes only a very modest increase in the employment rate, and does not bank on any improvement in underlying productivity performance compared to the 1990s.

The figures at the low end of the ranges are consistent with a deliberately cautious assumption of 2¼ per cent a year trend growth. This does not assume any increase in the employment rate, and is based on slightly lower labour productivity growth than in the neutral case. As before, projections for the public finances (set out in annex B of the Pre-Budget Report) are based on the low end of the ranges. 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 the labour supply.

The degree of spare capacity

Chart 1a: CBI capacity utilisation in manufacturing

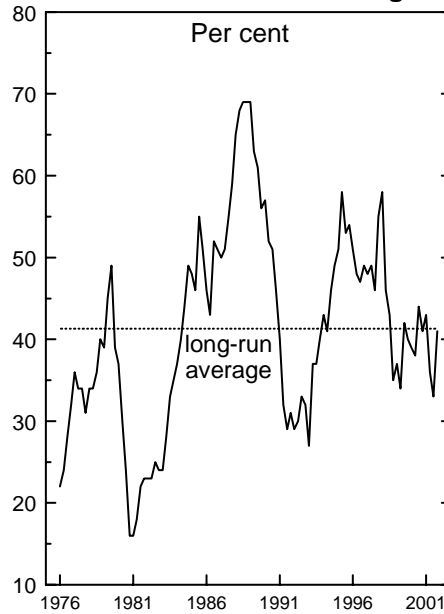


Chart 1b: BCC survey of capacity utilisation

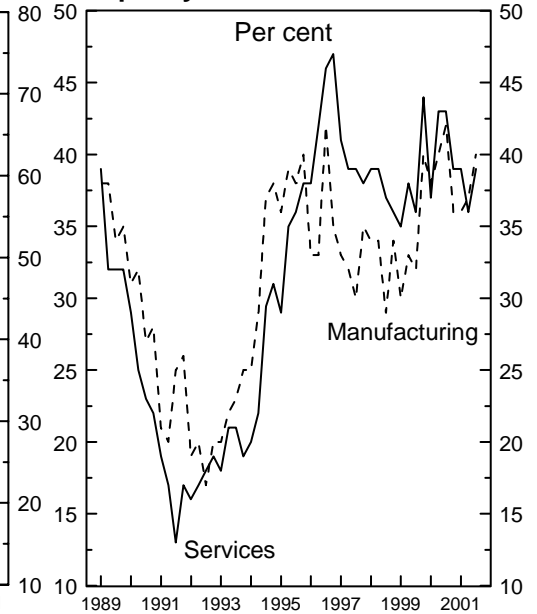


Chart 2a: CBI survey of skilled labour shortages

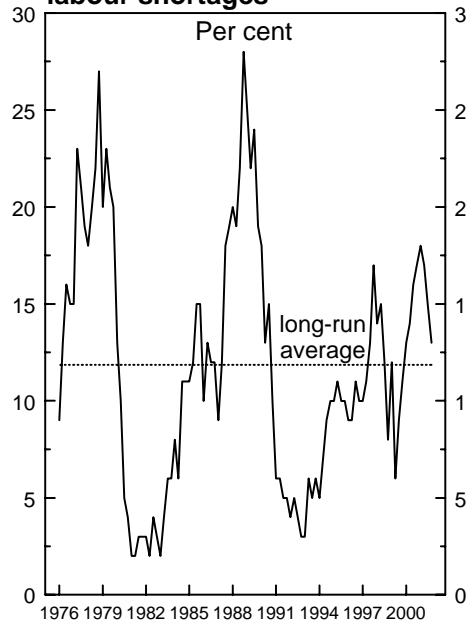


Chart 2b: BCC survey of recruitment difficulties

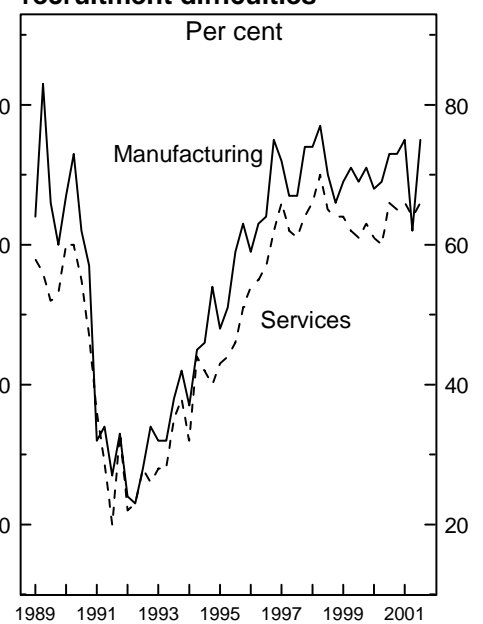
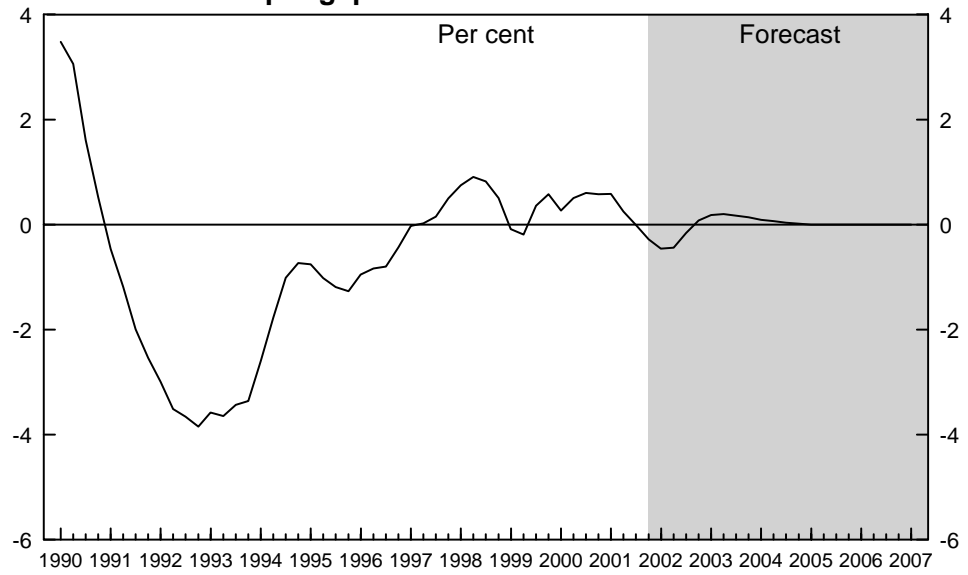


Chart 3: The output gap¹



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

GDP

Chart 4: GDP

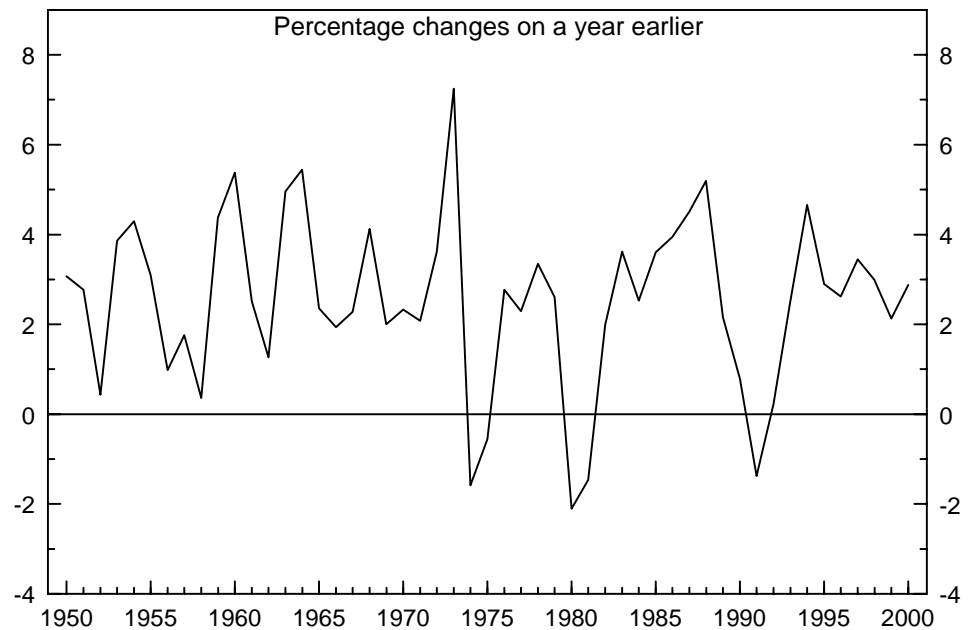
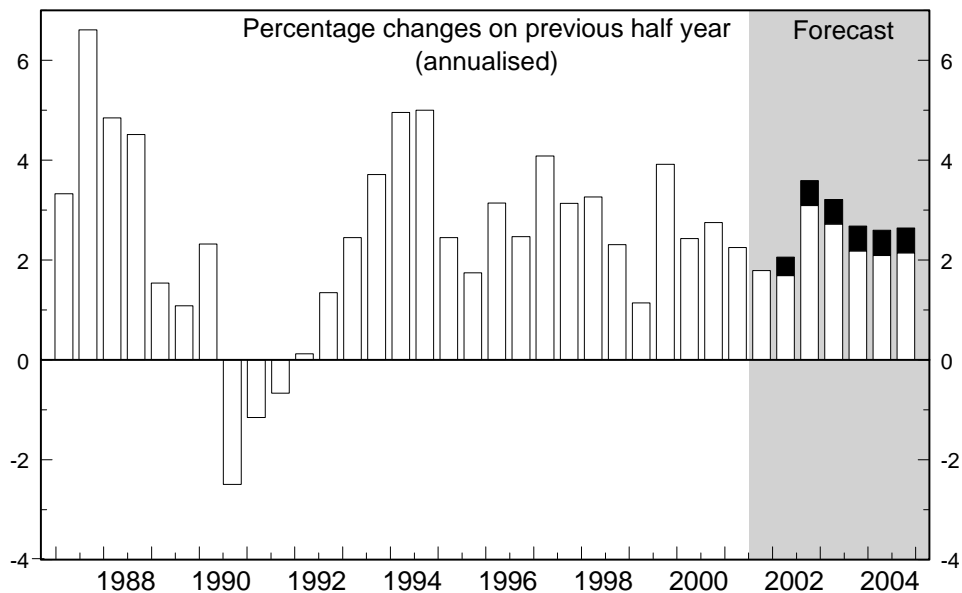


Chart 5: GDP forecast¹



¹Darker areas on bars represent forecast ranges.

Table 1: Contributions to GDP¹ growth²

	Percentage points, unless otherwise stated				
	2000	2001	Forecast		
			2002	2003	2004
Final domestic demand	4	3½	3 to 3¼	2¾ to 3¼	2¼ to 2¾
Change in inventories	-¼	-½	0	¼	0
Total domestic demand	3½	3	3 to 3¼	3 to 3½	2¼ to 2¾
Net trade	-¾	-¾	-1	-¼	-¼
GDP growth, per cent	3	2¼	2 to 2½	2¾ to 3¼	2¼ to 2¾

¹At constant market prices.

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

The household sector

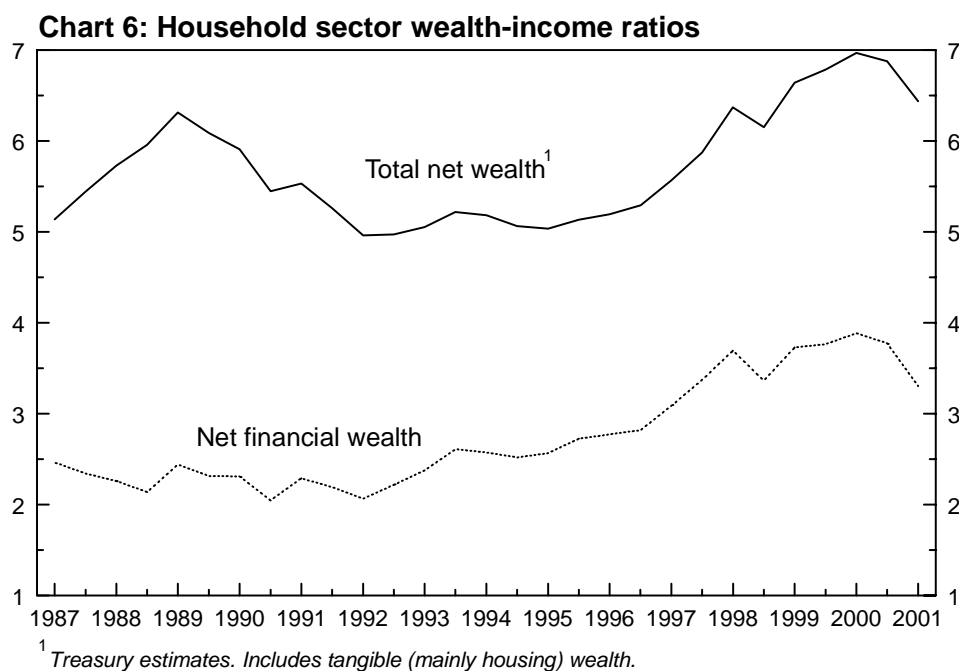


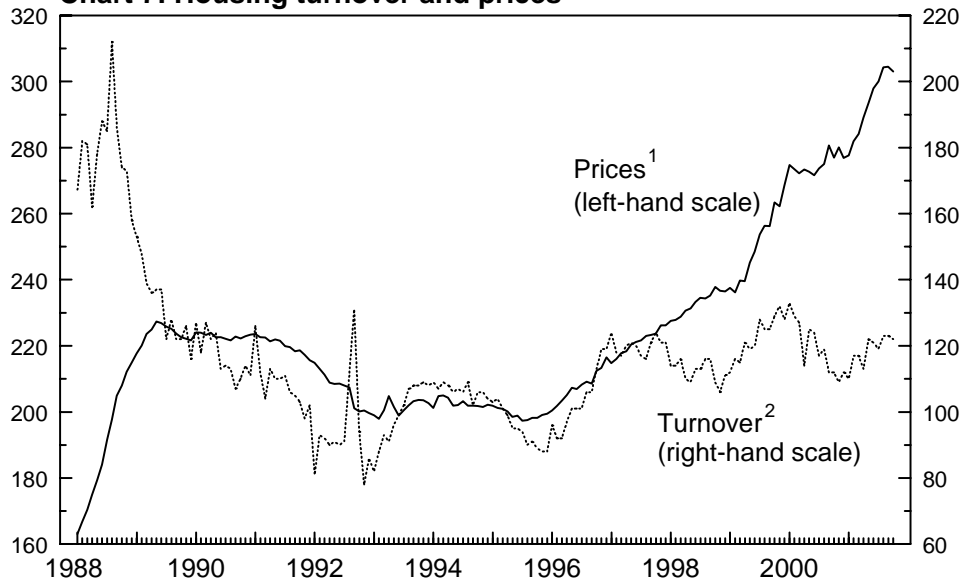
Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year unless otherwise stated				
	2000	2001	Forecast		
			2002	2003	2004
Household consumption ²	4	4	2¼ to 3	2¼ to 2¾	2 to 2½
Real household disposable income	4¼	4	3¼ to 3½	2 to 2½	2½ to 3
Saving ratio (level, per cent)	5	5	5	5	5½

¹Including non-profit institutions serving households.

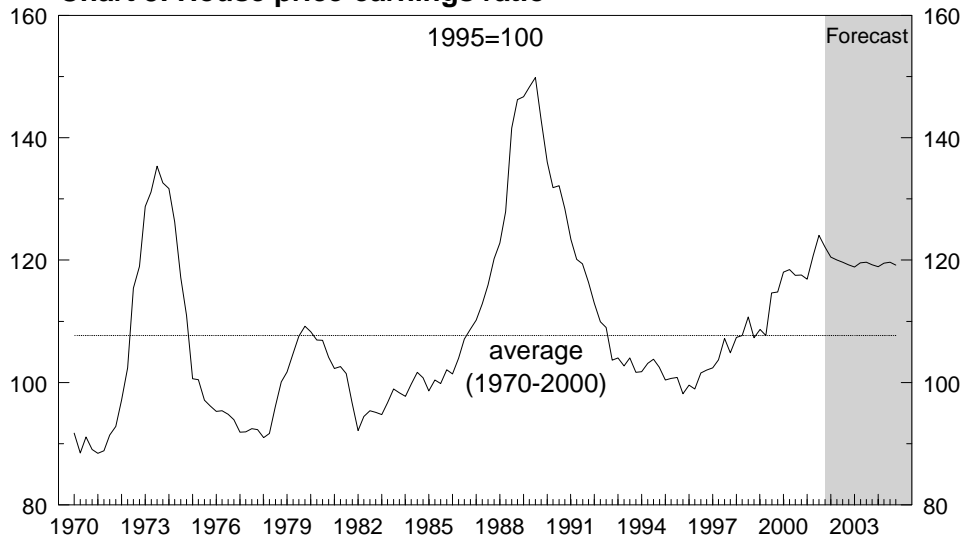
²At constant prices.

Chart 7: Housing turnover and prices



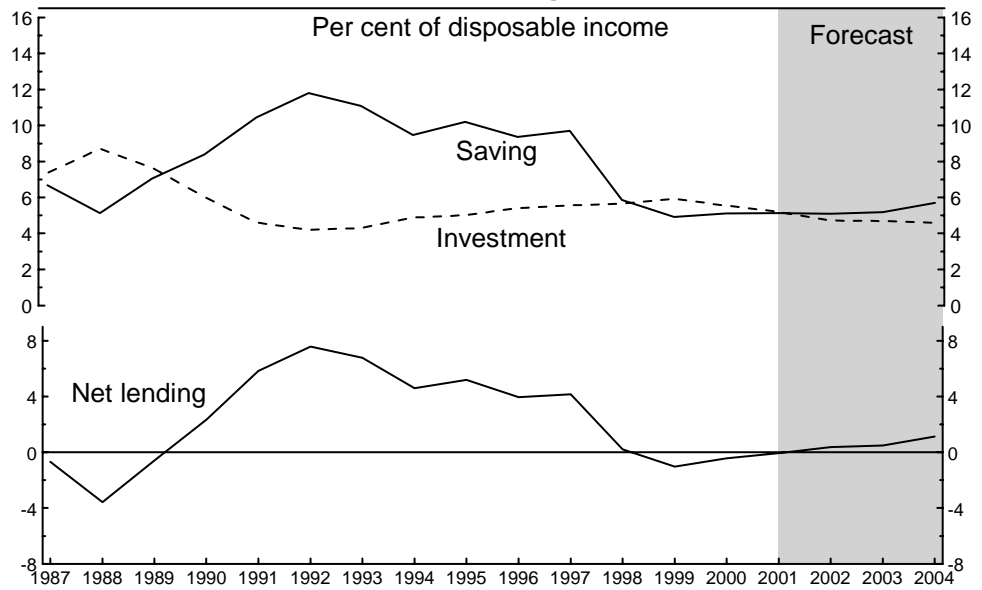
¹ Halifax index, 1983=100.
² Particulars delivered, thousands.

Chart 8: House price-earnings ratio¹



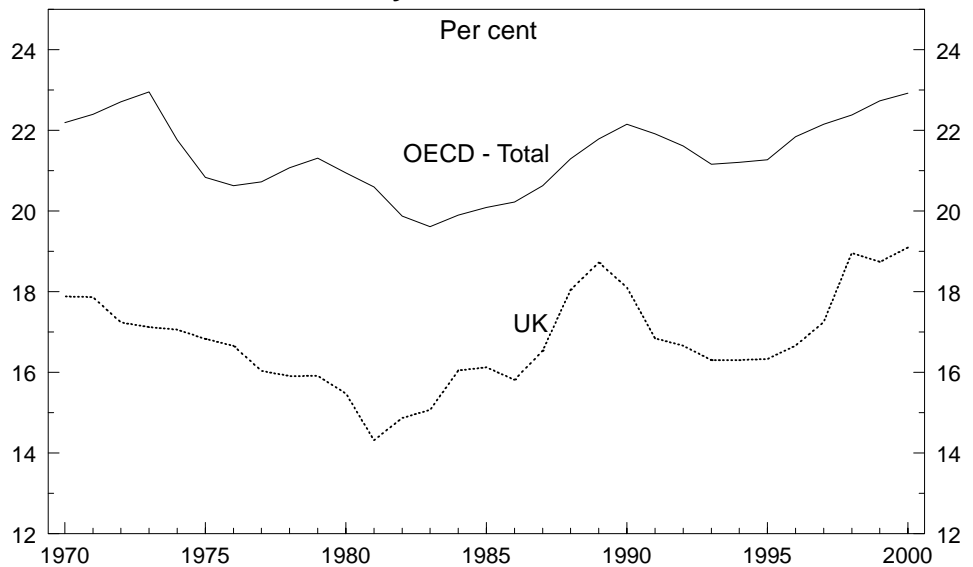
¹ Ratio of house prices to wages and salaries per employee. House prices are measured by the DETR index up to 1998 to obtain a long time-series. Thereafter house prices are measured by the average of DETR, Halifax and Nationwide indices in view of short-term divergences.

Chart 9: Household sector¹ net lending



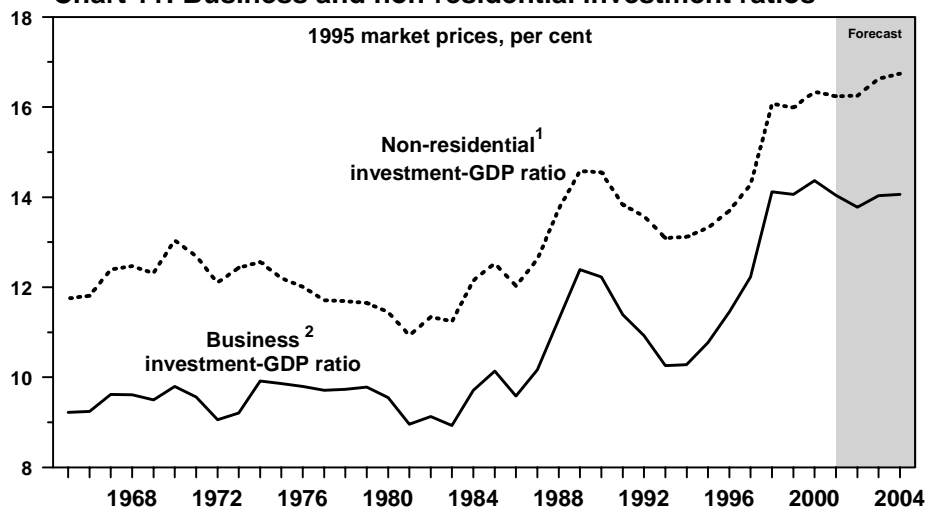
Investment and inventory accumulation

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				
	2000	Forecast			
		2001	2002	2003	2004
Whole economy ¹	4¾	1	2 to 2¼	4¾ to 5¼	2¾ to 3¼
of which:					
Business ^{2,3}	5	0	¼ to ½	4½ to 5	2¼ to 3
Private dwellings ³	2½	-4¾	-¾ to -½	2 to 2½	2 to 2½
General government ^{3,4}	8½	21½	18½	10½	6½

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.

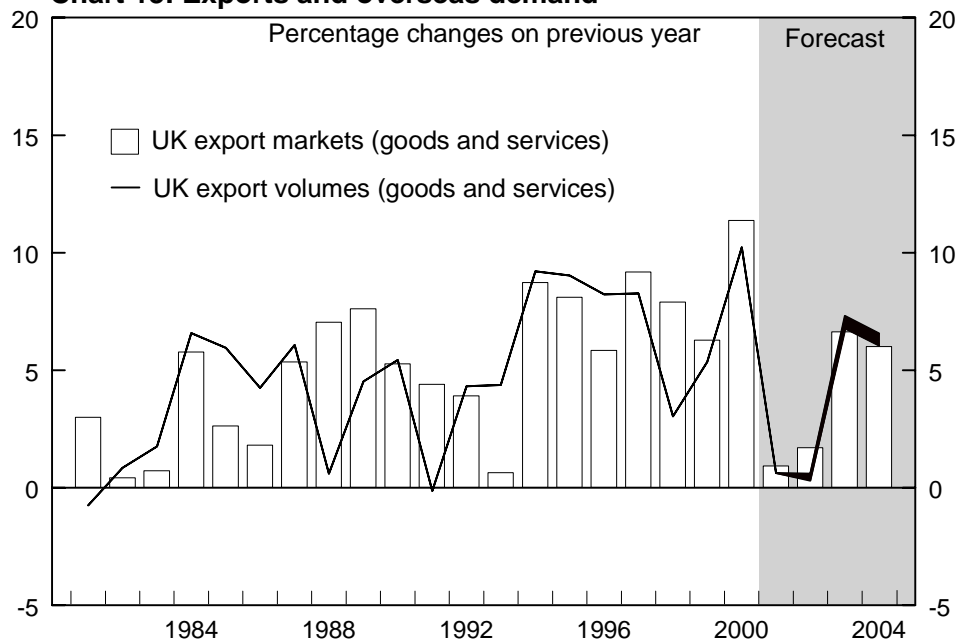
Trade and the balance of payments

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



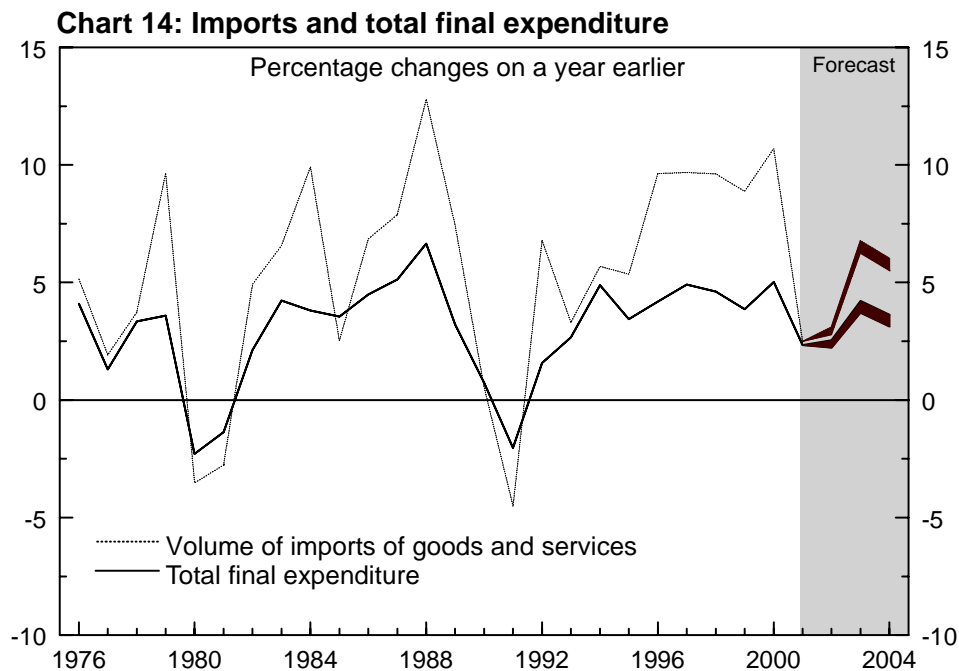
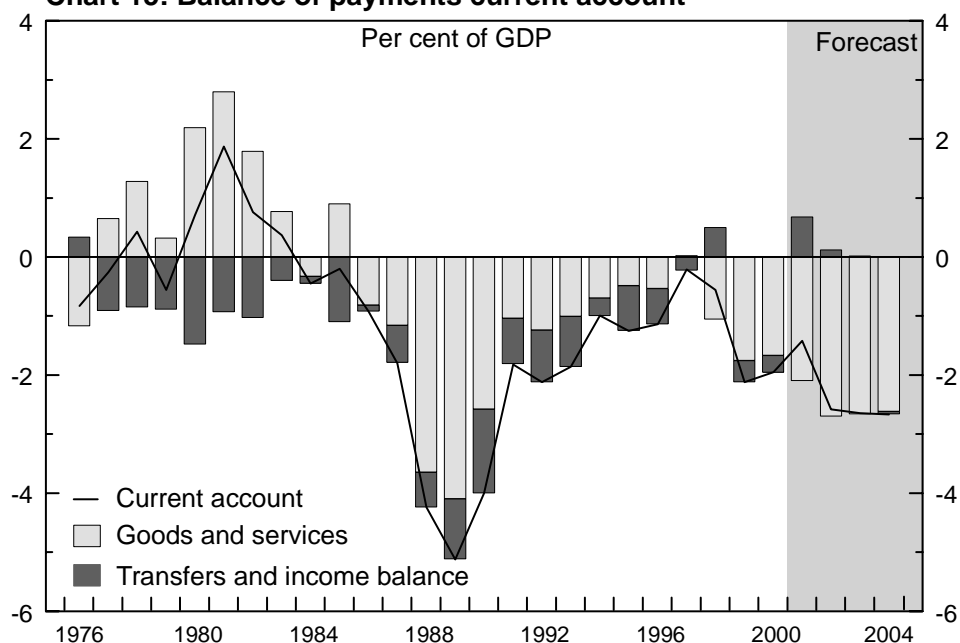


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
2000	10¼	10¼	1¼	½	1¼	-15¼
<i>Forecast</i>						
2001	¾	2½	-¼	-¼	0	-20¼
2002	¼ to ½	2¾ to 3	-¼	-¼	0	-28
2003	6¾ to 7¼	6¼ to 6¾	2½	2½	0	-29
2004	6 to 6½	5½ to 6	2¾	2¾	0	-30

¹Average value indices.

²Ratio of export to import prices.

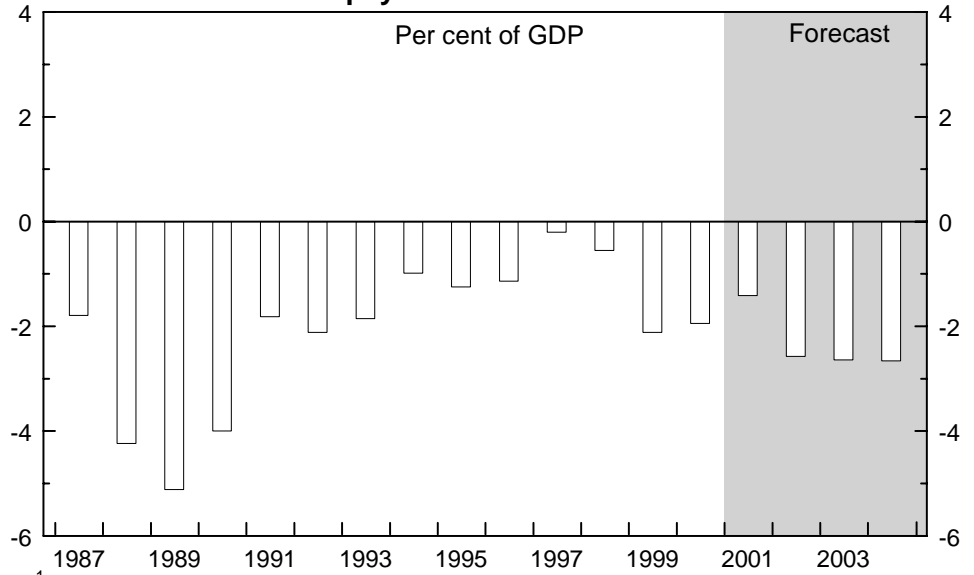
Chart 15: Balance of payments current account**Table 5: The current account**

	£ billion					
	Goods and services			Transfers	Income balance ¹	Current balance
	Non-oil	Oil	Total			
2000	-22¼	6¼	-15¼	-8¼	6	-18½
<i>Forecast</i>						
2001	-26½	5¼	-20¾	-8¼	15	-14
2002	-33¾	5¼	-28	-7¾	9	-26¾
2003	-35¼	6¼	-29	-8½	8¼	-28¾
2004	-36½	6½	-30	-9	8½	-30½

¹Includes investment and employee income.

Pattern of net lending

Chart 16a: Balance of payments current account balance¹



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.

Chart 16b: Private sector net lending

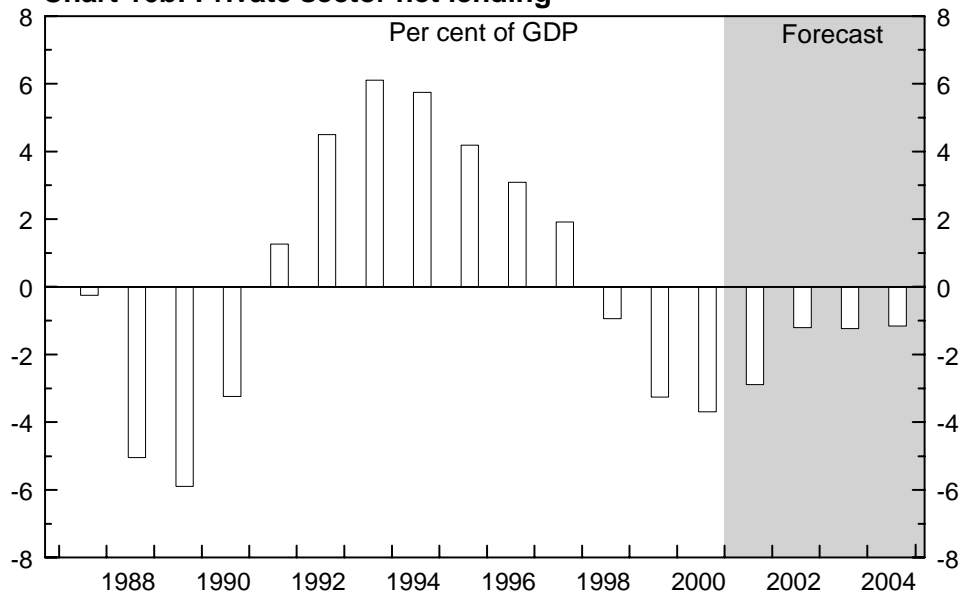
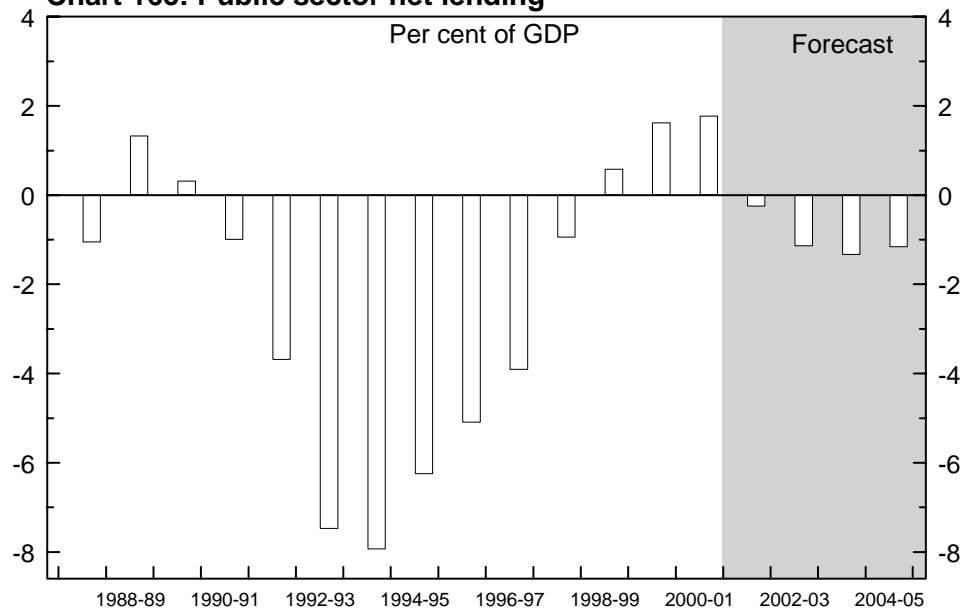
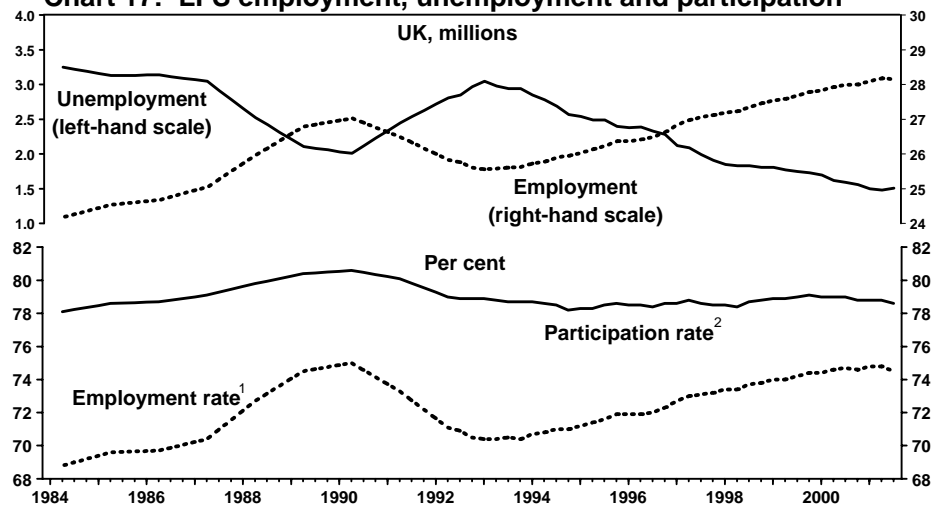


Chart 16c: Public sector net lending



The labour market

Chart 17: LFS employment, unemployment and participation



¹ Employment as a per cent of working-age population.

² Percentage of the working-age population who are economically active (i.e. employed or unemployed).

Chart 18: Productivity¹

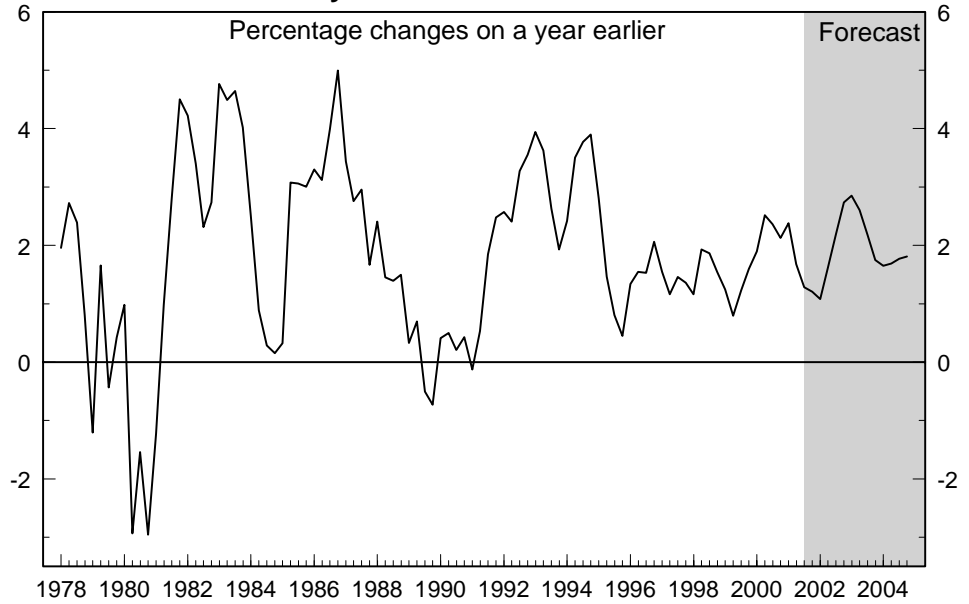
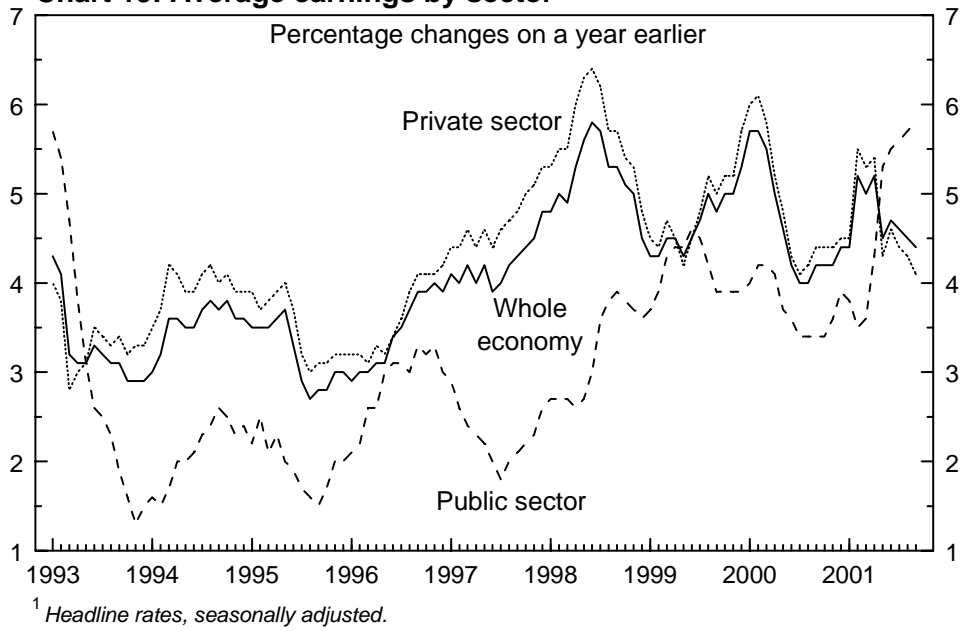


Chart 19: Average earnings by sector¹



Financial developments

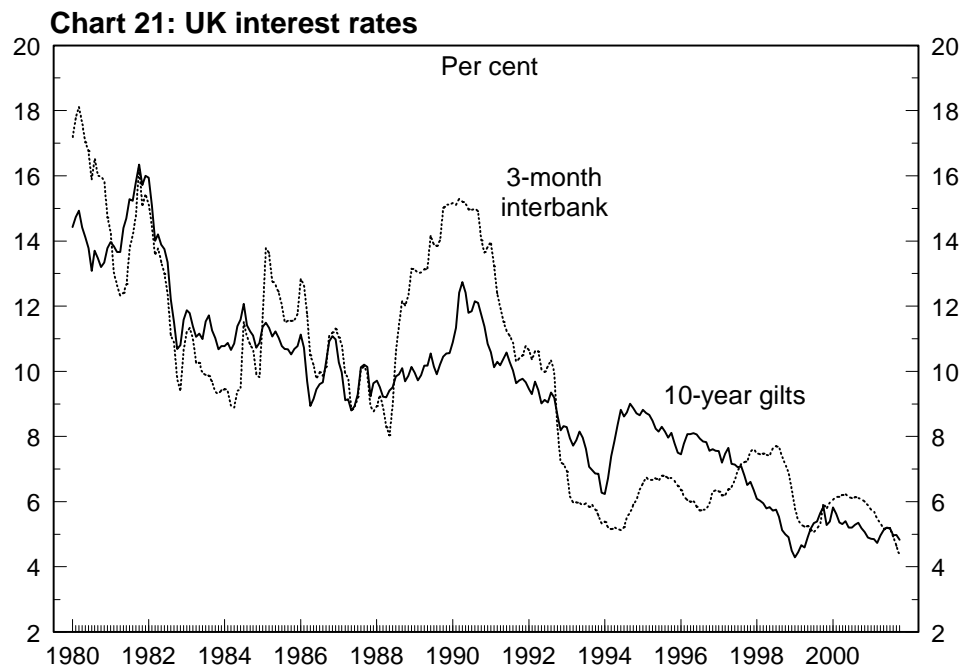
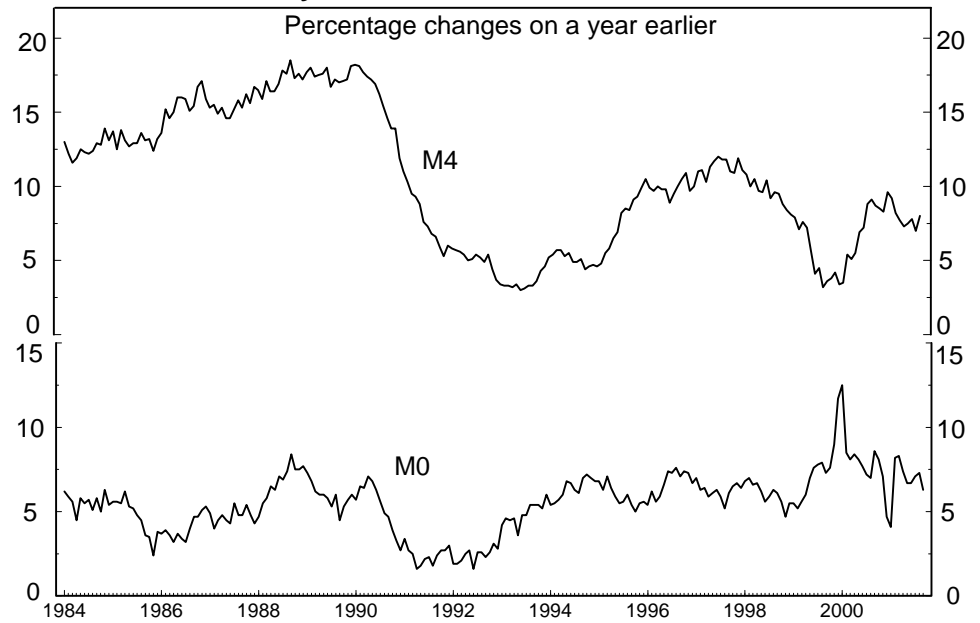
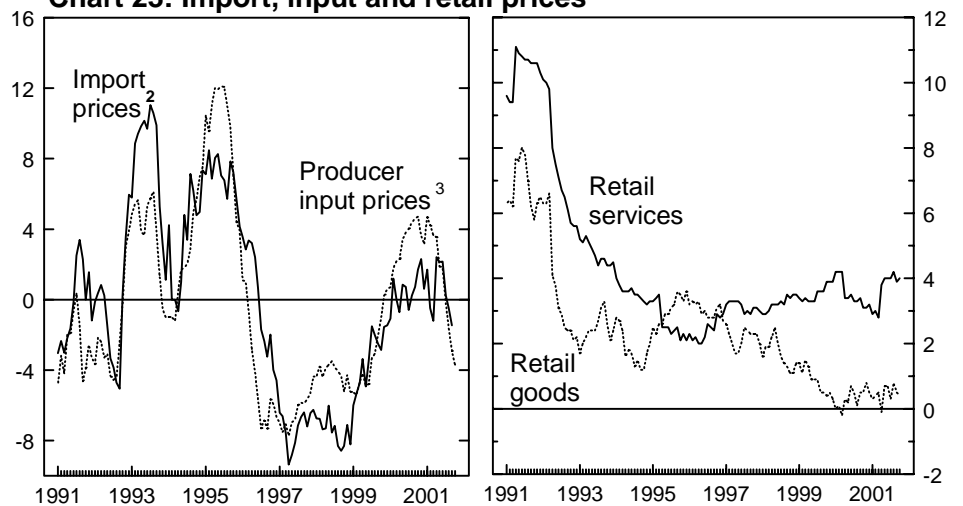


Chart 22: Monetary indicators



Inflation

Chart 23: Import, input and retail prices¹



¹ Percentage changes on a year earlier.

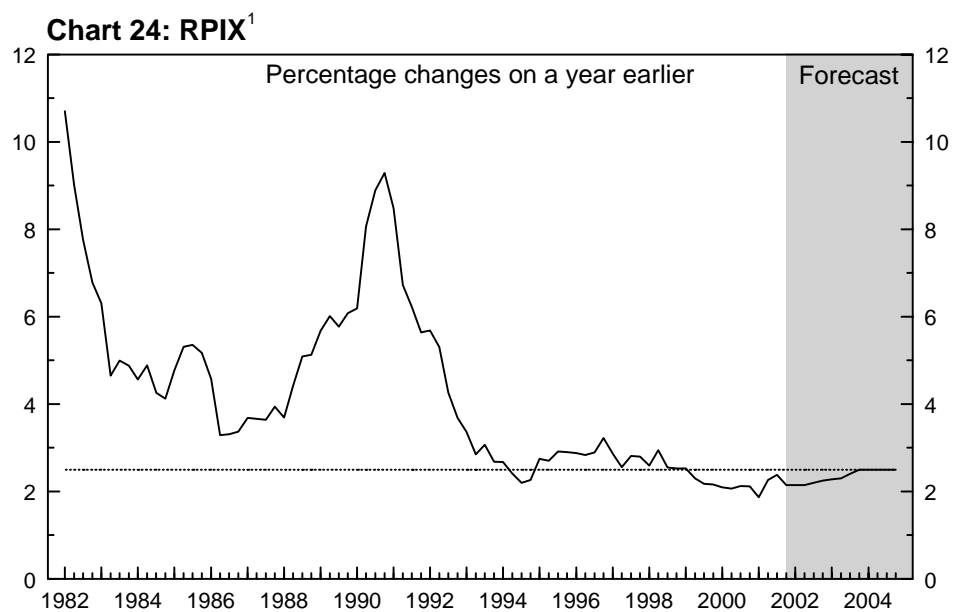
² All goods.

³ Excluding food, beverages, tobacco and petroleum.

Table 6: Retail and producer output prices

	Percentage changes on a year earlier									
	Forecast									
	2000		2001		2002		2003		2004	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2	2	2¼	2¼	2¼	2¼	2¼	2½	2½	2½
Producer output prices ¹	1¾	1¾	¾	0	¼	¾	1¼	2	2¼	2¼

Excludes excise duties.



¹ Outturns until 2001Q3; forecasts for every second quarter from 2001Q4 to 2004Q4.

Comparison with independent forecasts

Table 7: Pre-Budget Report and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2001			2002		
	Pre-Budget Report	Independent		Pre-Budget Report	Independent	
		Average	Range		Average	Range
Gross domestic product	2¼	2.2	1.9 to 2.7	2 to 2½	1.9	0.4 to 2.8
RPIX (Q4)	2¼	2.3	1.9 to 2.7	2¼	2.3	1.7 to 3.5
Current account (£ billion)	-14	-16.5	-23.3 to -10.0	-26¾	-23.6	-35.2 to -16.0

¹Forecasts for the UK Economy: A Comparison of Independent Forecasts¹, November 2001.

Comparison with Budget 2001 forecast

Table 8: Comparison with Budget 2001 forecast

		Percentage changes on a year earlier unless otherwise stated	
		March 2001 Budget	November 2001 Pre-Budget Report
		Gross domestic product	2001
	2002	2¼ to 2¾	2 to 2½
	2003	2¼ to 2¾	2¾ to 3¼
RPI excluding MIPs (Q4)	2001	2	2¼
	2002	2½	2¼
	2003	2½	2½
Current account (£ billion)	2001	-21¾	-14
	2002	-25¼	-26¾
	2003	-25	-28¾

Summary tables

Table 9: Summary of economic prospects¹

	Percentage changes on a year earlier unless otherwise stated					Average errors from past forecasts ³
	2000	Forecast ²				
		2001	2002	2003	2004	
Output at constant market prices						
Gross domestic product (GDP)	3	2¼	2 to 2½	2¾ to 3¼	2¼ to 2¾	1
Manufacturing output	1¾	-1¾	-¾ to -½	2¼ to 2¾	1¾ to 2¼	1¾
Expenditure components of GDP at constant market prices⁴						
Domestic demand	3½	3	2¾ to 3¼	2¾ to 3¼	2¼ to 2¾	1¼
Household consumption ⁵	4	4	2¾ to 3	2¼ to 2¾	2 to 2½	1¼
General government consumption	1½	3	4¾	2	2	1¼
Fixed investment	4¾	1	2 to 2¼	4¾ to 5¼	2¾ to 3¼	2½
Change in inventories ⁶	-¼	-½	0	¼	0	¼
Exports of goods and services	10¼	¾	¼ to ½	6¾ to 7¼	6 to 6½	2¼
Imports of goods and services	10¾	2½	2¾ to 3	6¼ to 6¾	5½ to 6	2½
Balance of payments						
current account						
£ billion	-18½	-14	-26¾	-28¾	-30½	5¾
per cent of GDP	-2	-1½	-2½	-2¾	-2¾	½
Inflation						
RPIX (Q4)	2	2¼	2¼	2½	2½	¾
Producer output prices (Q4) ⁷	1¾	0	¾	2	2¼	1
GDP deflator at market prices	1¾	2¼	2½	2½	2½	¾
Money GDP at market prices						
£ billion	943	988	1032 to 1036	1086 to 1095	1137 to 1151	13
percentage change	4¾	4¾	4½ to 4¾	5¼ to 5¾	4¾ to 5¼	1¼

¹ The forecast is consistent with the national accounts and balance of payments statistics to the second quarter of 2001, released by the Office for National Statistics on 25 September 2001, and output, income and expenditure data for the third quarter, released on 22 November.

² 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.

³ Average 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 per cent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2002.

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

⁵ Includes households and non-profit institutions serving households.

⁶ Contribution to GDP growth, percentage points.

⁷ Excluding 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	
2000	557.9	151.4	157.8	2.5	870.0	285.4	1155.4	328.9	-0.4	826.1	
2001	580.7	156.0	159.3	-1.0	895.2	287.2	1182.4	337.1	-0.5	844.8	
2002	596.1 to 597.9	163.4	162.5 to 163.0	-1.2 to -0.7	920.7 to 923.6	288.1 to 289.0	1208.8 to 1212.5	346.6 to 347.6	0.0	862.2 to 864.9	
2003	608.9 to 613.8	166.5	170.3 to 171.6	0.3 to 1.6	946.0 to 953.5	307.7 to 310.1	1253.6 to 1263.6	368.3 to 371.2	0.0	885.3 to 892.4	
2004	621.2 to 629.3	170.0	175.0 to 177.2	0.3 to 2.5	966.5 to 979.0	326.3 to 330.5	1292.8 to 1309.5	388.6 to 393.6	0.0	904.2 to 915.8	
2000 1st half	276.5	75.4	77.0	1.5	430.6	140.1	570.7	160.3	-0.1	410.3	
2nd half	281.3	76.0	80.8	1.0	439.4	145.3	584.8	168.6	-0.2	415.9	
2001 1st half	287.1	76.8	80.4	0.8	445.1	147.2	592.3	171.3	-0.5	420.5	
2nd half	293.6	79.2	78.9	-1.9	450.1	140.0	590.1	165.8	0.0	424.3	
2002 1st half	296.5 to 297.1	81.4	80.2 to 80.3	-1.5 to -1.4	456.5 to 457.4	141.8 to 142.0	598.3 to 599.4	170.5 to 170.8	0.0	427.8 to 428.6	
2nd half	299.6 to 300.8	81.9	82.3 to 82.7	0.4 to 0.7	464.2 to 466.2	146.3 to 146.9	610.5 to 613.1	176.1 to 176.9	0.0	434.4 to 436.3	
2003 1st half	302.9 to 305.0	82.6	84.4 to 85.0	0.5 to 1.1	470.5 to 473.7	151.4 to 152.4	621.9 to 626.1	181.6 to 182.9	0.0	440.3 to 443.2	
2nd half	306.0 to 308.8	83.9	85.9 to 86.6	-0.3 to 0.5	475.5 to 479.9	156.2 to 157.7	631.7 to 637.5	186.7 to 188.4	0.0	445.0 to 449.1	
2004 1st half	309.1 to 312.7	84.8	86.9 to 88.0	-0.2 to 0.8	480.6 to 486.2	160.8 to 162.7	641.4 to 648.9	191.7 to 193.9	0.0	449.7 to 454.9	
2nd half	312.2 to 316.6	85.2	88.0 to 89.3	0.4 to 1.7	485.9 to 492.8	165.5 to 167.8	651.4 to 660.6	196.9 to 199.7	0.0	454.5 to 460.9	
Percentage changes on previous year ^{4,5}											
2000	4	1½	4¾	-¼	3½	10¼	5	10¾	0	3	
2001	4	3	1	-½	3	¾	2¼	2½	0	2¼	
2002	2¾ to 3	4¾	2 to 2¼	0	2¾ to 3¼	¼ to ½	2¼ to 2½	2¾ to 3	0	2 to 2½	
2003	2¼ to 2¾	2	4¾ to 5¼	¼	2¾ to 3¼	6¾ to 7¼	3¾ to 4¼	6¼ to 6¾	0	2¾ to 3¼	
2004	2 to 2½	2	2¾ to 3¼	0	2¼ to 2¾	6 to 6½	3 to 3¾	5½ to 6	0	2¼ to 2¾	

¹Includes households and non-profit institutions serving households.

²Also includes acquisitions less disposals of valuables.

³Expenditure adjustment.

⁴For change in inventories and the statistical discrepancy, changes are expressed as a per cent of GDP.

⁵Growth 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 change on a year earlier				
	2000	Forecast			
		2001	2002	2003	2004
<i>Major 7 countries¹</i>					
Real GDP	3½	1	¾	3	2½
Consumer price inflation ²	2½	2	1½	1½	1½
World trade in goods and services	11¾	1¼	1¾	7¾	7
UK export markets ³	11¾	1	1¾	6¾	6

¹G7: US, Japan, Germany, France, UK, Italy and Canada.

²Per cent, Q4. For UK, RPIX.

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

Table 12: Consensus forecasts for growth in major economies¹

	Percentage changes on previous year			
	March 2001		November 2001	
	2001	2002	2001	2002
<i>GDP</i>				
USA	1.9	3.4	1.1	0.7
Euro-area	2.7	2.9	1.5	1.5
Japan	1.2	1.7	-0.5	-0.6

¹Consensus forecasts¹, Consensus Economics Inc.

Chart 25: G7 GDP and world trade



Chart 26: G7 consumer price inflation (CPI) and oil prices

