
THE ECONOMY: SUPPLEMENTARY MATERIAL TO THE FINANCIAL STATEMENT AND BUDGET REPORT.

Introduction

The Financial Statement and Budget Report, published by HM Treasury on 21 March 2000, includes a discussion of economic developments, prospects and risks (Chapter B). This document provides additional information to that contained in chapter B, in the form of detailed charts and tables. The Budget economic forecast is consistent with output, income and expenditure data to the fourth quarter of 1999 released by the Office for National Statistics (ONS) on 28 February 2000¹.

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. Details are provided in Chapter B of the Financial Statement and Budget Report.

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 growth from the start of 2000. This is a balanced assessment, assuming only a very modest increase in the employment rate, and not banking on any improvement in underlying productivity performance compared to the 1990s. The neutral assumption for trend growth was set out in Table A2 of the November 1999 Pre-Budget Report, and discussed in the accompanying text.

The figures at the low end of the range 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. As before, projections for the public finances (set out in Chapter C of the Financial Statement and Budget Report) are based on the low end of the ranges. The upper end of the forecast ranges is symmetrical, illustrating the clear potential for stronger growth based in part on Government policies to raise productivity growth and to increase the labour supply.

¹ This release also contained revisions to earlier quarters of 1999 which the Treasury has carried through to other national accounts series that the ONS did not revise, such as household saving and sectoral net borrowing. A fully consistent national accounts data set for 1999 will not be published by the ONS until 27 March.

The degree of spare capacity

Chart 1a: CBI capacity utilisation in manufacturing

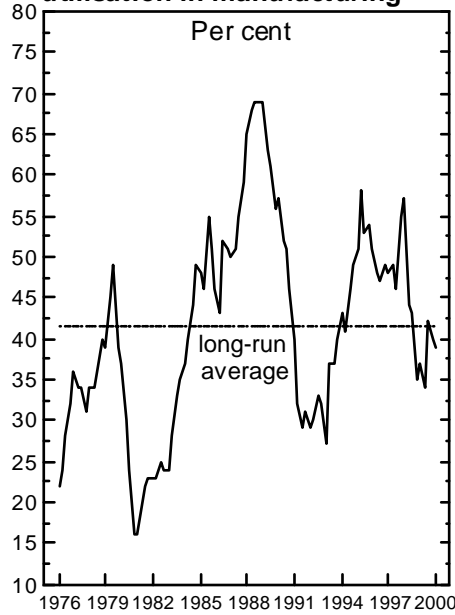


Chart 1b: BCC survey of capacity utilisation

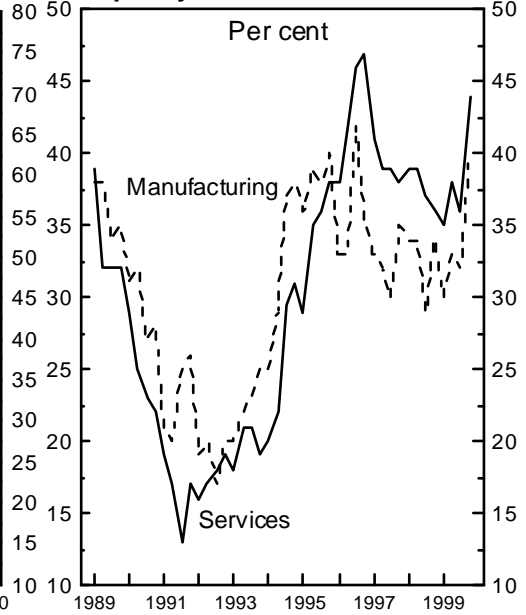


Chart 2a: CBI survey of skilled labour shortages

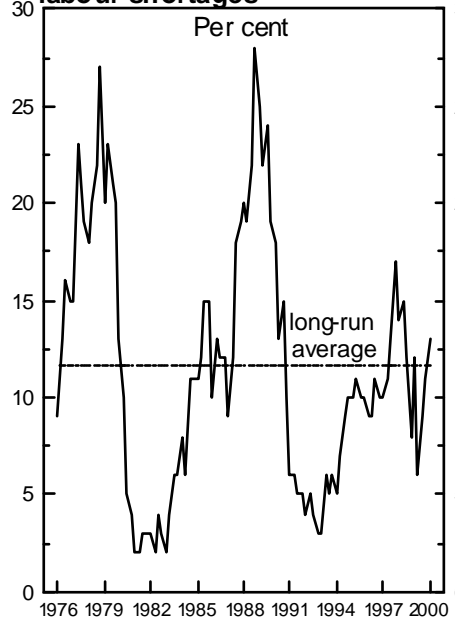
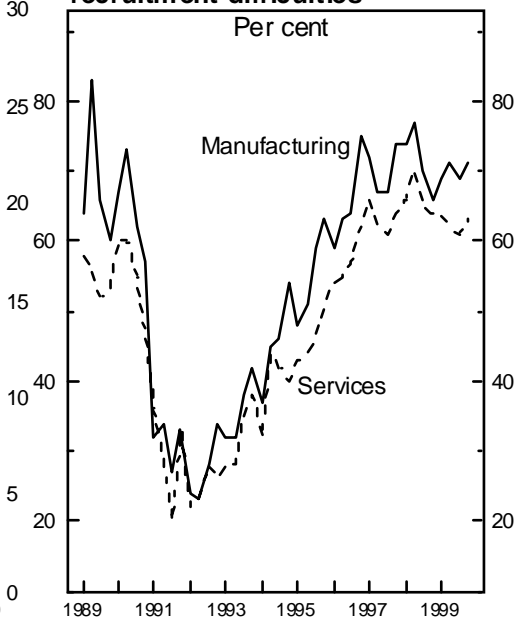
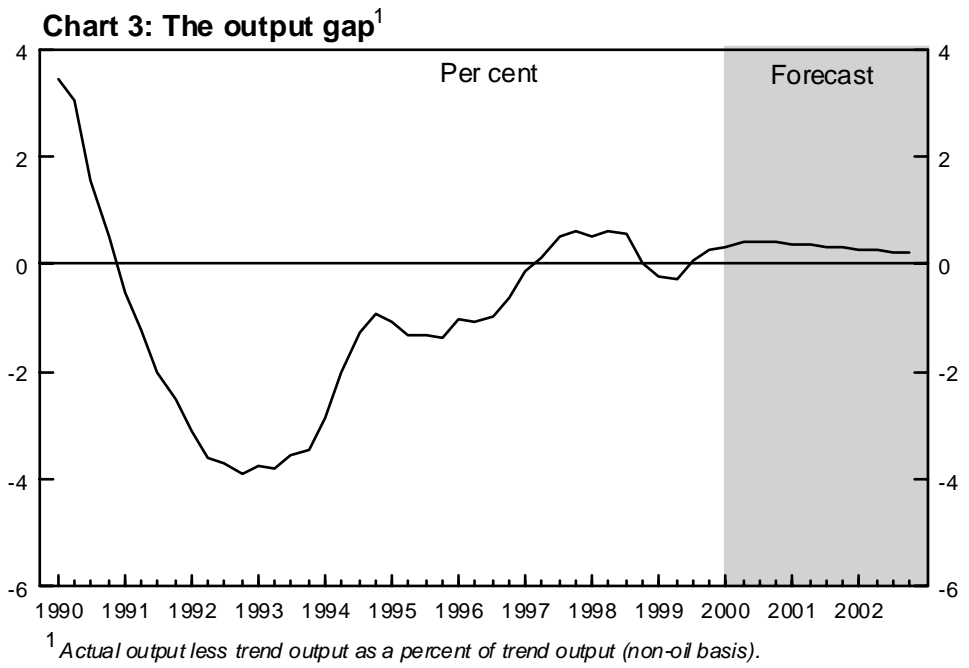


Chart 2b: BCC survey of recruitment difficulties





GDP

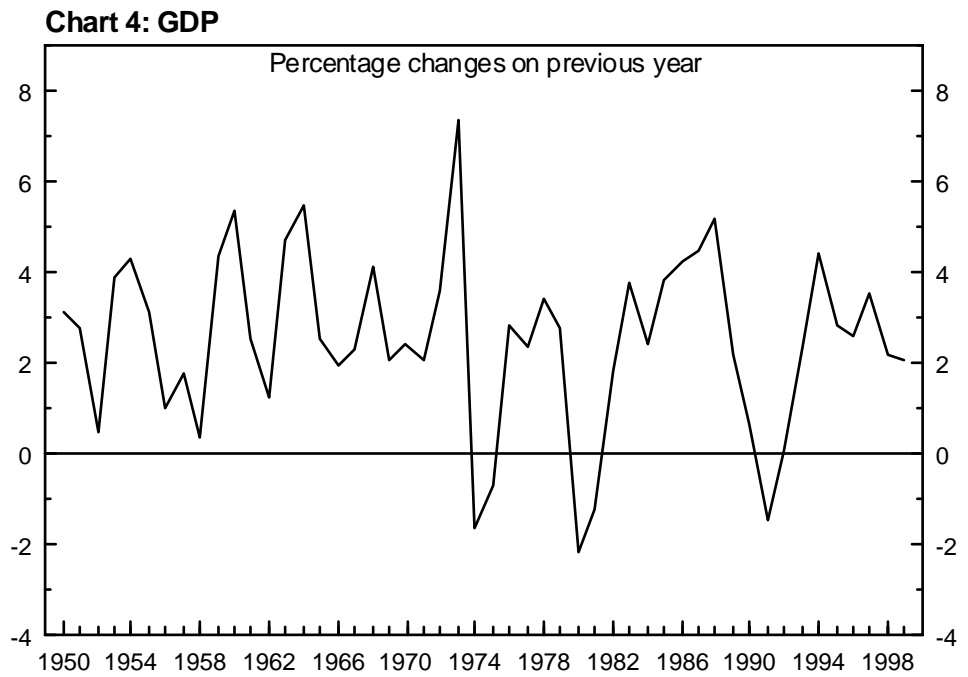


Chart 5: GDP forecast ¹

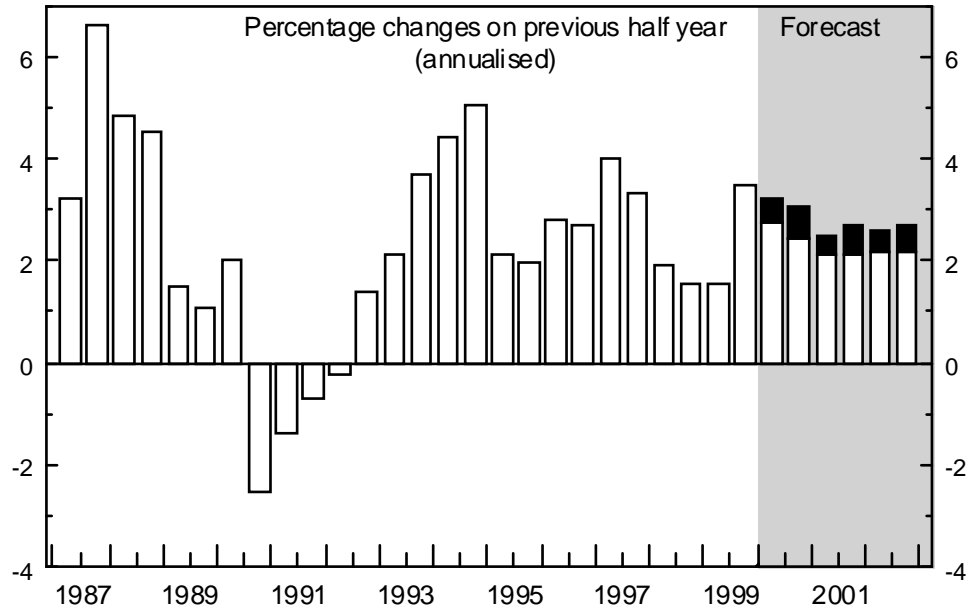


Table 1: Contributions to GDP¹ growth²

	Percentage points, unless otherwise stated			
	1999	Forecast		
		2000	2001	2002
Final domestic demand	4¼	3½ to 4	2½ to 3	2¾ to 3
Change in inventories	-¾	¼	0	-¼ to 0
Total domestic demand	3½	3¾ to 4¼	2½ to 3	2½ to 3
Net trade	-1¾	-1	-¼	-¼
GDP growth, per cent	2	2¾ to 3¼	2¼ to 2¾	2¼ to 2¾

¹ At constant market prices.

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

The household sector

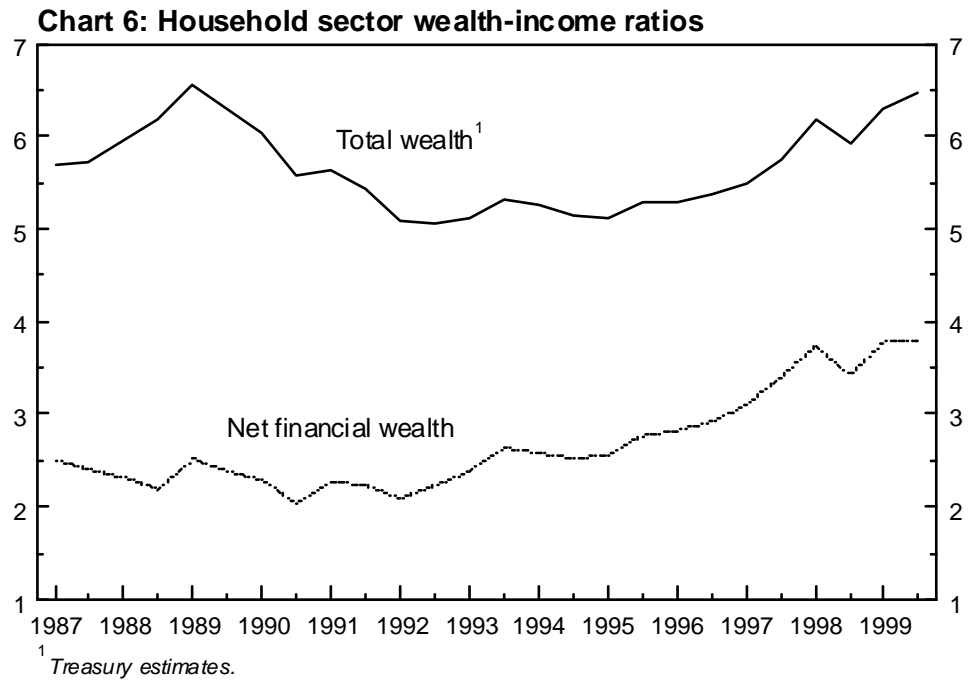
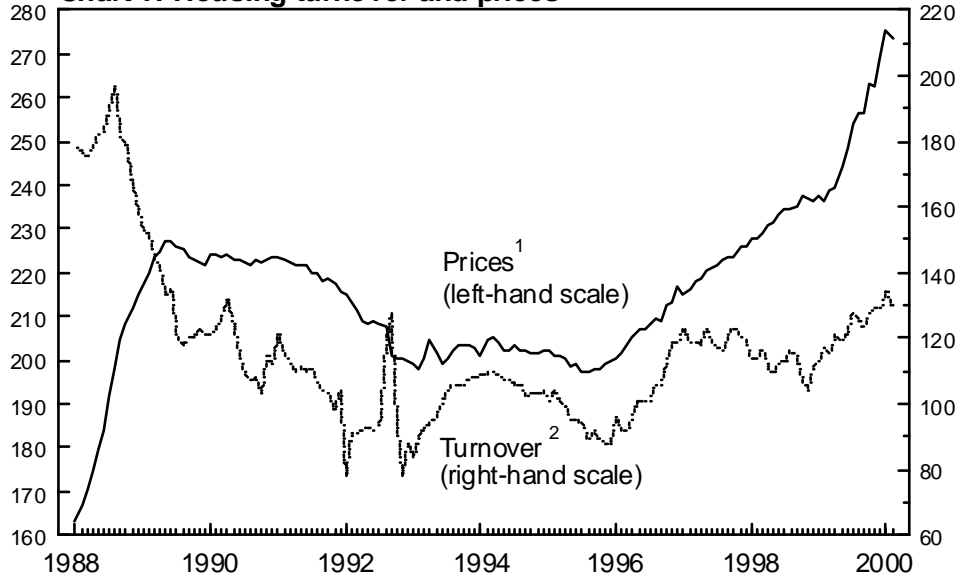


Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year			
	1999	Forecast		
		2000	2001	2002
Household consumption ²	4	3½ to 3¾	2 to 2½	1¾ to 2¼
Real household disposable income	3¼	3¾ to 4	2¾ to 3¼	2½ to 3
Saving ratio (level, per cent)	5¾	5½	6	6¾

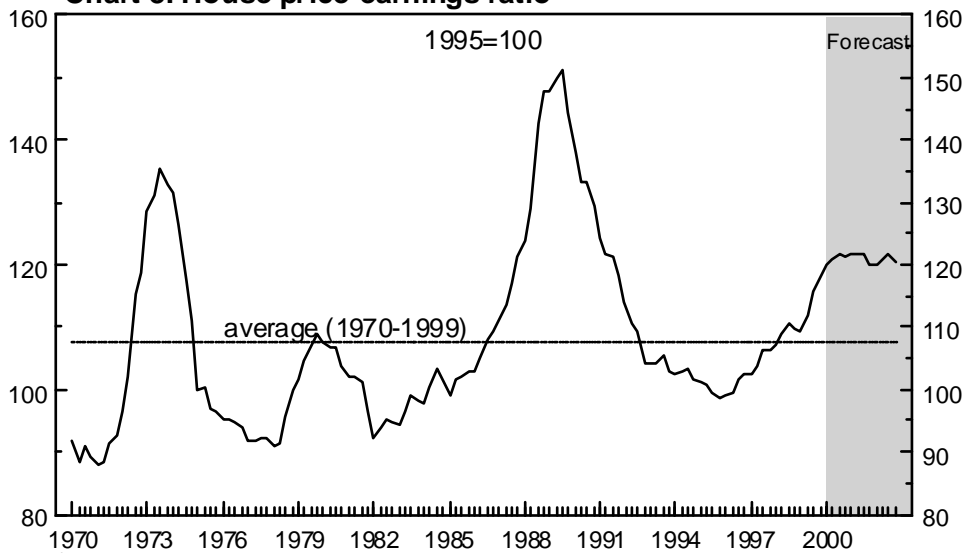
¹ Including non-profit institutions serving households.
² At constant prices.

Chart 7: Housing turnover and prices



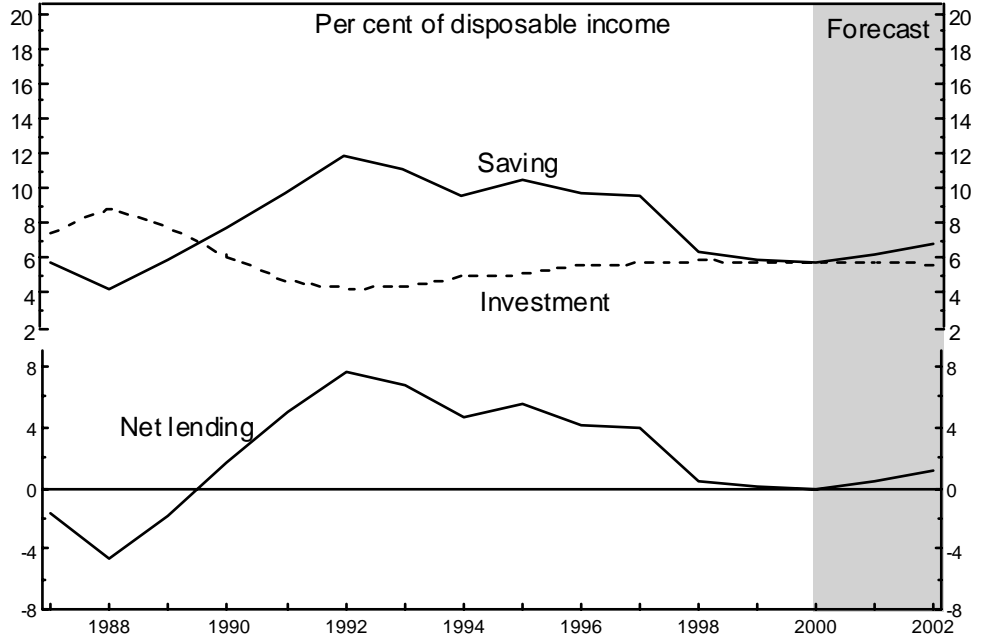
¹ Halifax index, 1983=100.
² Particulars delivered, thousands.

Chart 8: House price-earnings ratio¹



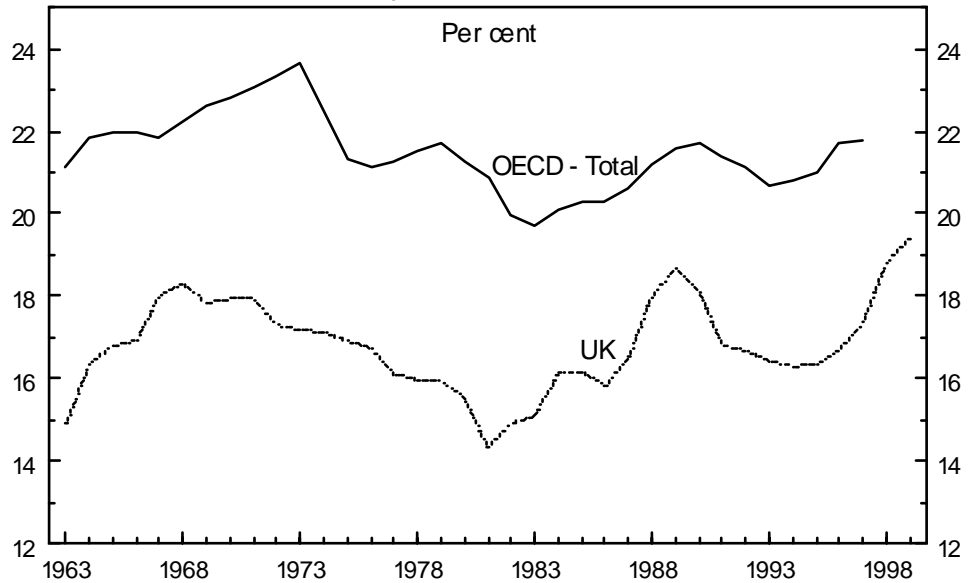
¹ Ratio of house prices to wages and salaries per employee. House prices are measured by the DETR index up to 1995 to obtain a long time-series. Thereafter house prices are measured by the average of DETR, Halifax and Nationwide indices in view of short-term divergences.

Chart 9: Household sector net lending



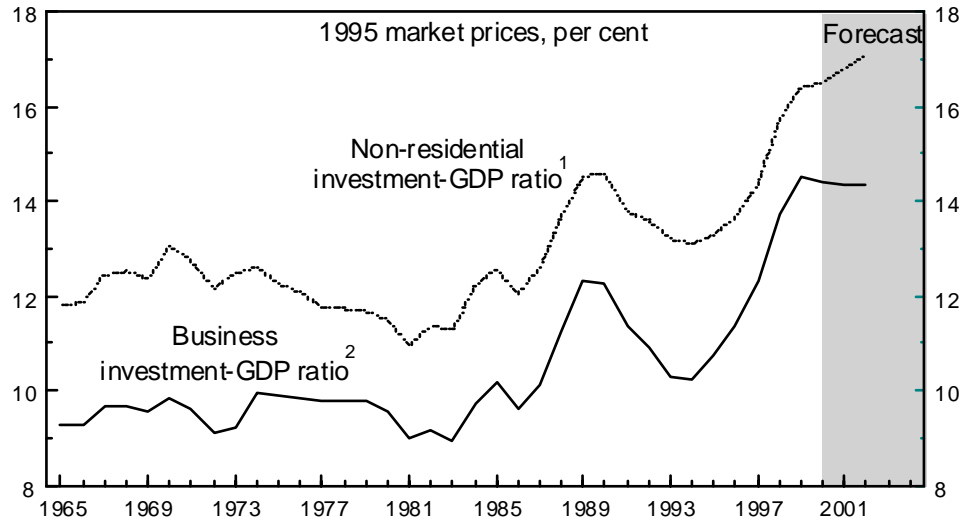
Investment

Chart 10: Whole economy investment-GDP ratio ¹



¹ UK data at 1995 prices. OECD total at price levels and exchange rates of 1990 (not yet published on 1995 base).

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			
	1999	Forecast		
		2000	2001	2002
Whole economy ¹	5¼	3¼ to 3¾	3¾ to 4¼	3¾ to 4¼
of which:				
Business ^{2,3}	7¾	2¼ to 2¾	2 to 2½	2 to 2½
Private dwellings ³	-¾	3 to 3½	1¾ to 2¼	2 to 2½
General government ^{3,4}	½	18¼	20	17½

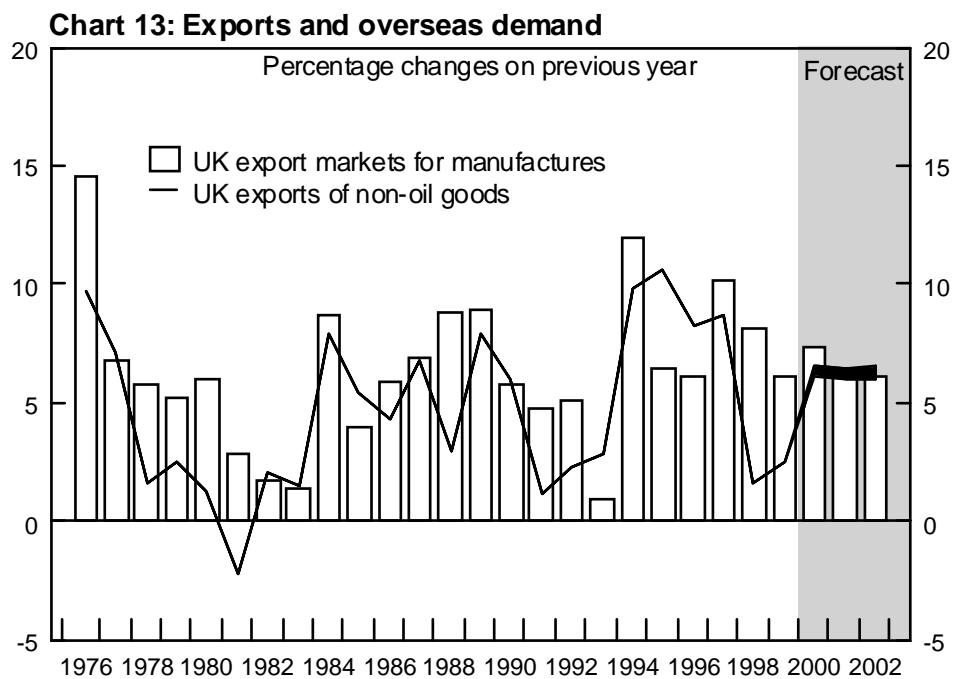
¹ Includes costs associated with the transfer of ownership of land and existing buildings.

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



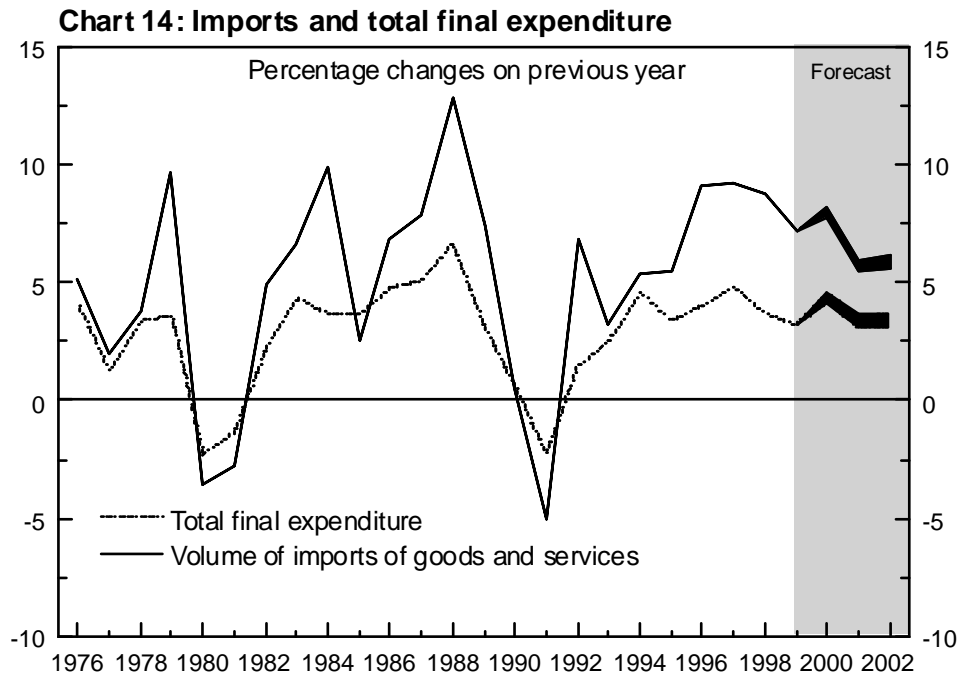


Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
1999	2½	7¼	-1¼	-2½	1½	-15½
<i>Forecast</i>						
2000	5½ to 6	7¾ to 8¼	¾	1	-¼	-22¼
2001	5½ to 6	5½ to 6	2½	2¾	-½	-25¼
2002	5½ to 6	5½ to 6	3½	3½	0	-28¼

¹ Average value indices.

² Ratio of export to import prices.

Chart 15: Balance of payments current account

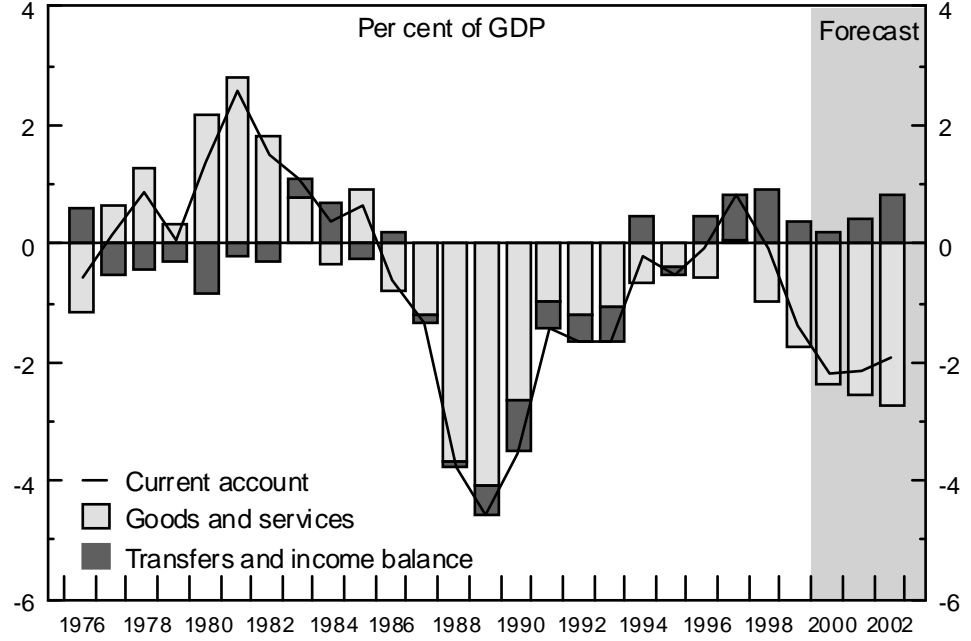
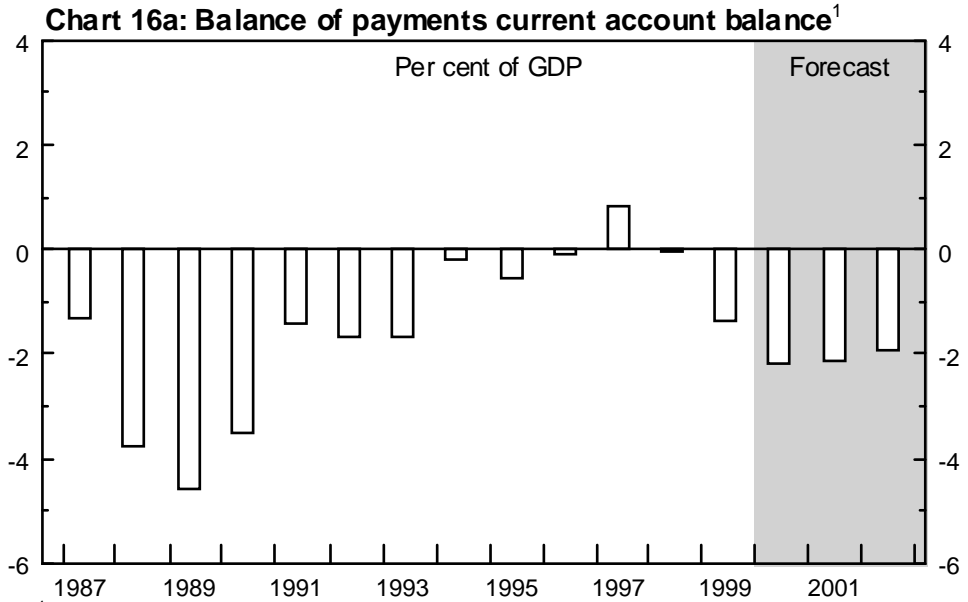


Table 5: The current account

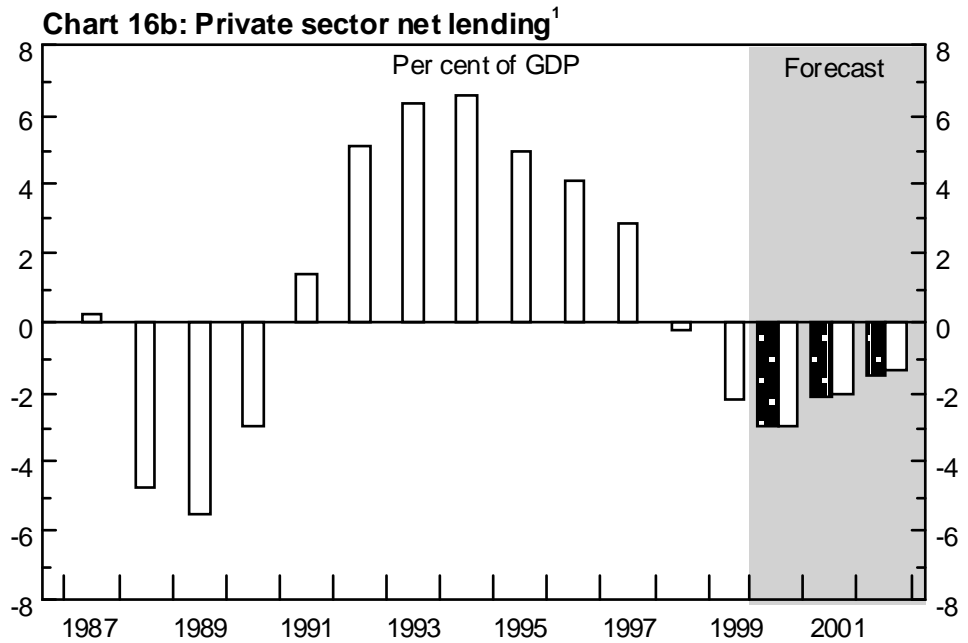
	£ billion					Current balance
	Goods and services		Total	Transfers	Income balance ¹	
	Non-oil	Oil				
1999	-19½	4	-15½	-4½	7¼	-12¼
<i>Forecast</i>						
2000	-27¼	5	-22¼	-6¼	8	-20½
2001	-30	4¾	-25¼	-5¾	10	-21
2002	-33	5	-28¼	-3½	12	-19¼

¹ Includes investment and employee income.

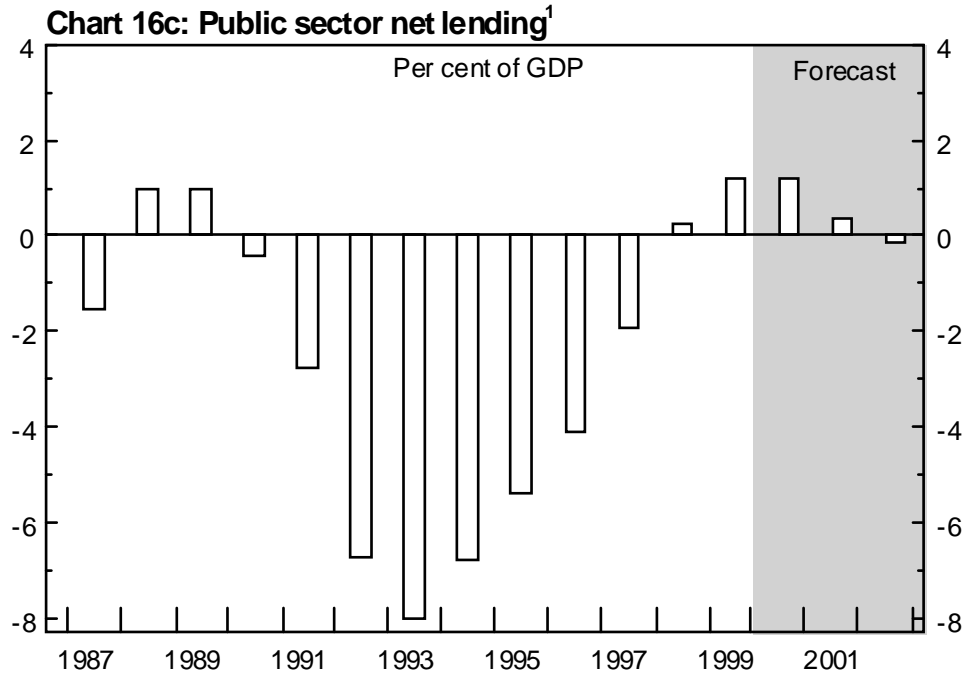
Pattern of net lending



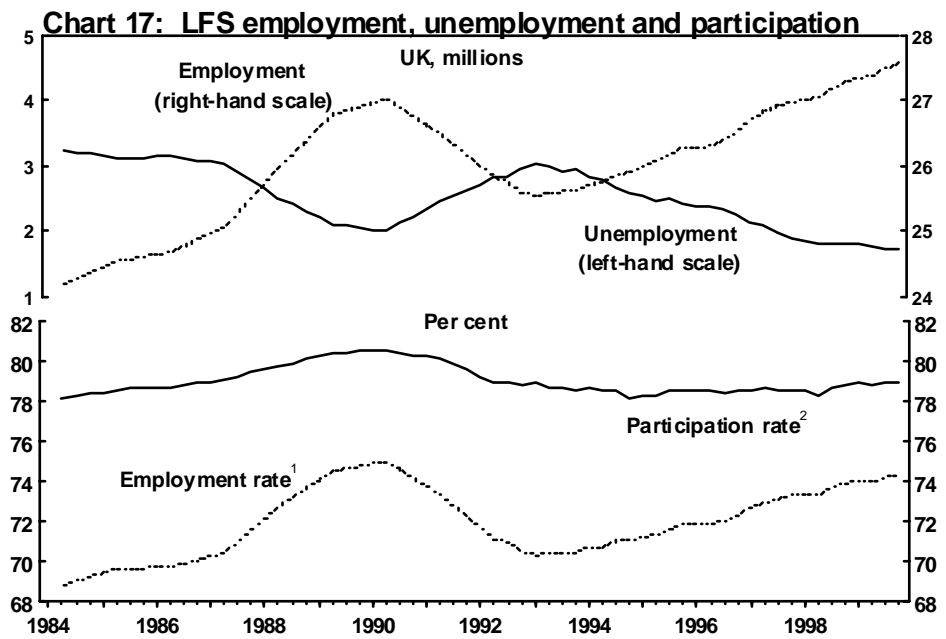
¹ Net lending to the rest of the world approximately equals the current account balance, but is adjusted for net capital transfers and net acquisitions of non-produced non-financial assets.



¹ Darker bars represent upper end of forecast ranges.



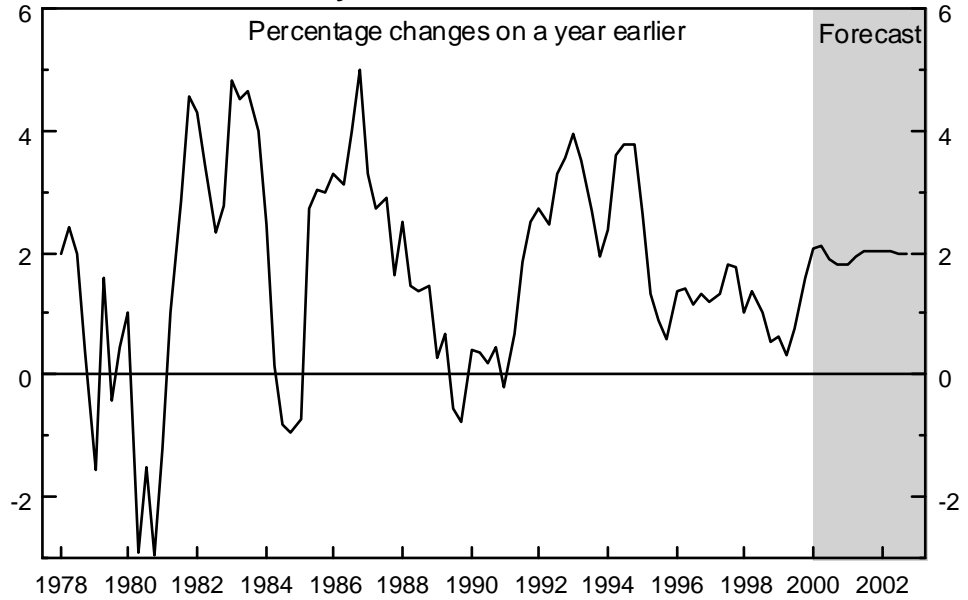
The labour market



¹ Employment as a per cent of working age population.

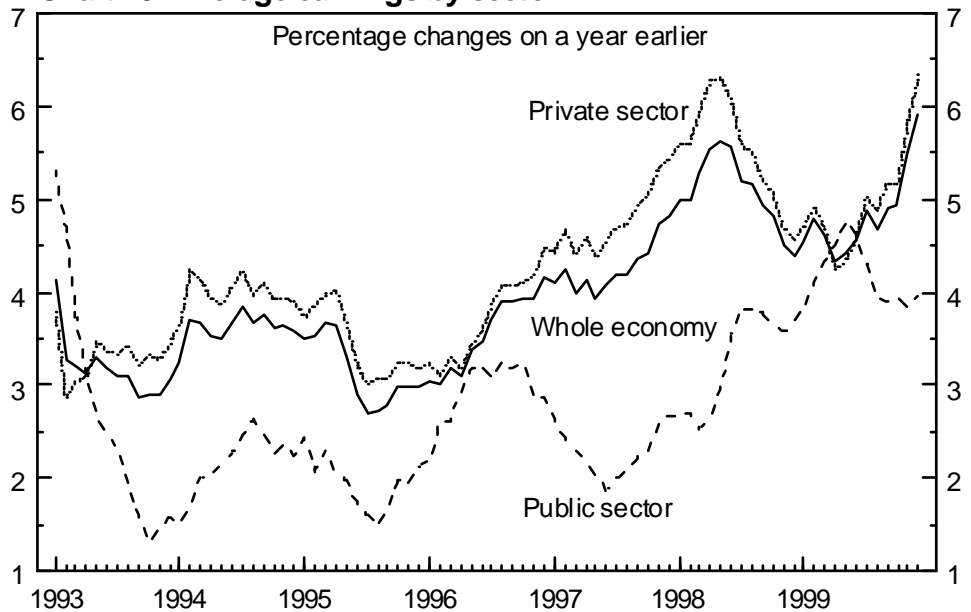
² Percentage of the population of working age who are economically active (i.e. employed or unemployed).

Chart 18: Productivity¹



¹ Estimated non-North Sea oil output per person employed.

Chart 19: Average earnings by sector¹



¹ Seasonally adjusted excluding arrears, centred three-month moving average.

Financial developments

Chart 20: Sterling effective exchange rate index

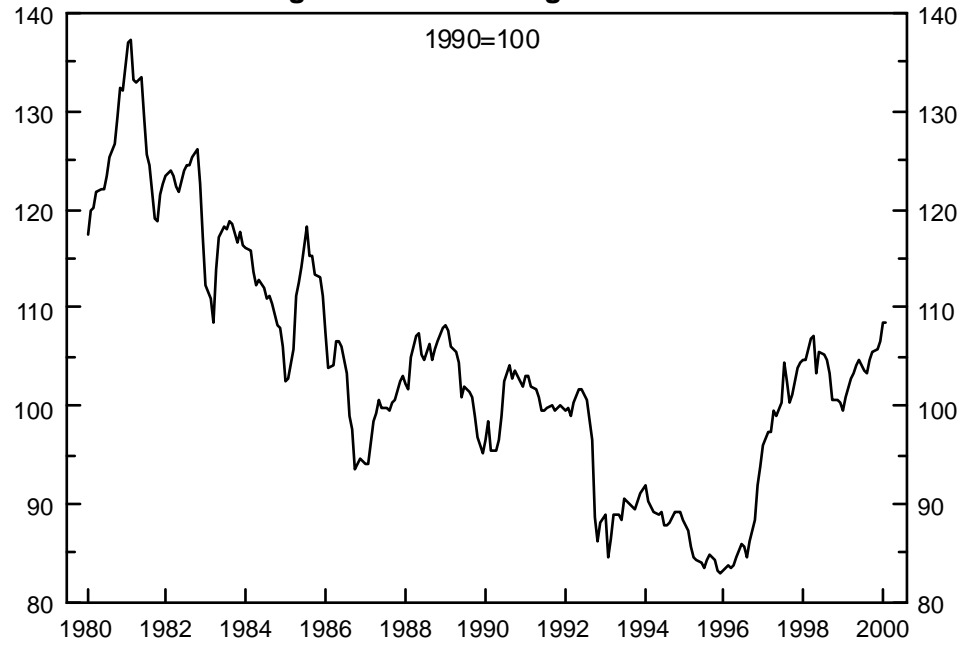


Chart 21: UK interest rates

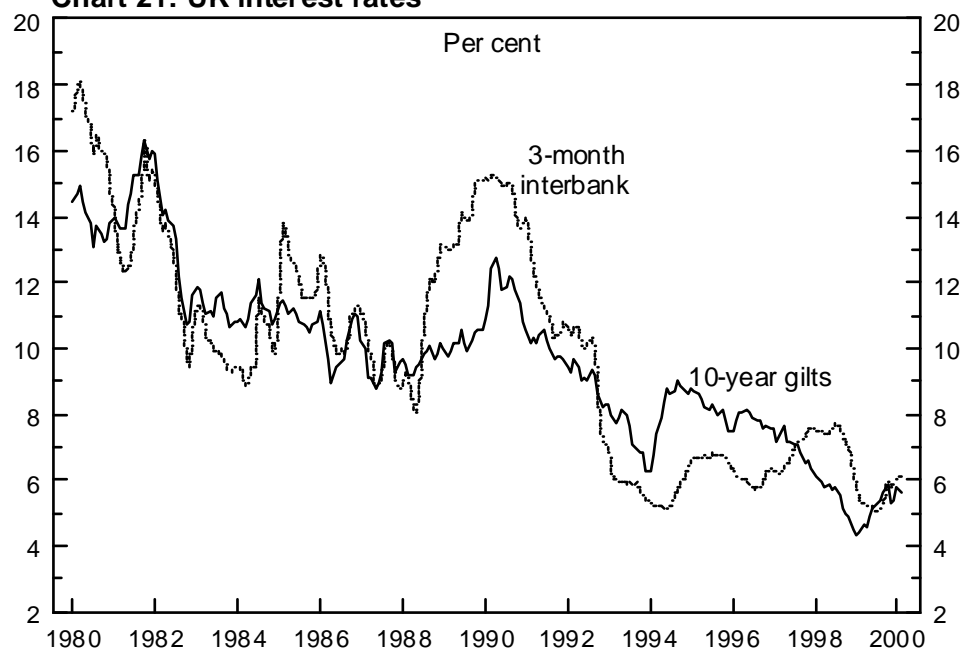
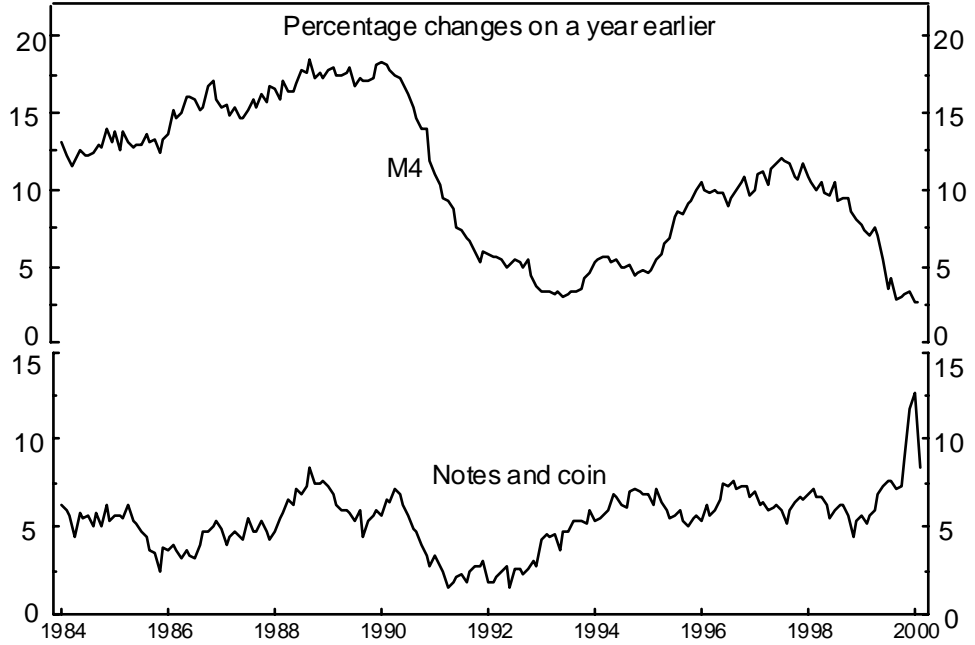
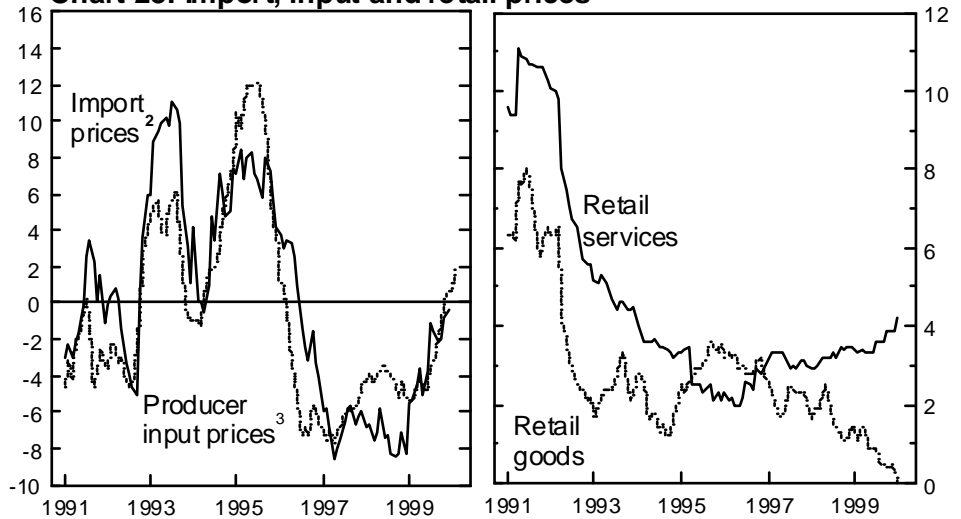


Chart 22: Monetary indicators



Inflation

Chart 23: Import, input and retail prices¹



¹ Percentage changes on a year earlier.

² All goods.

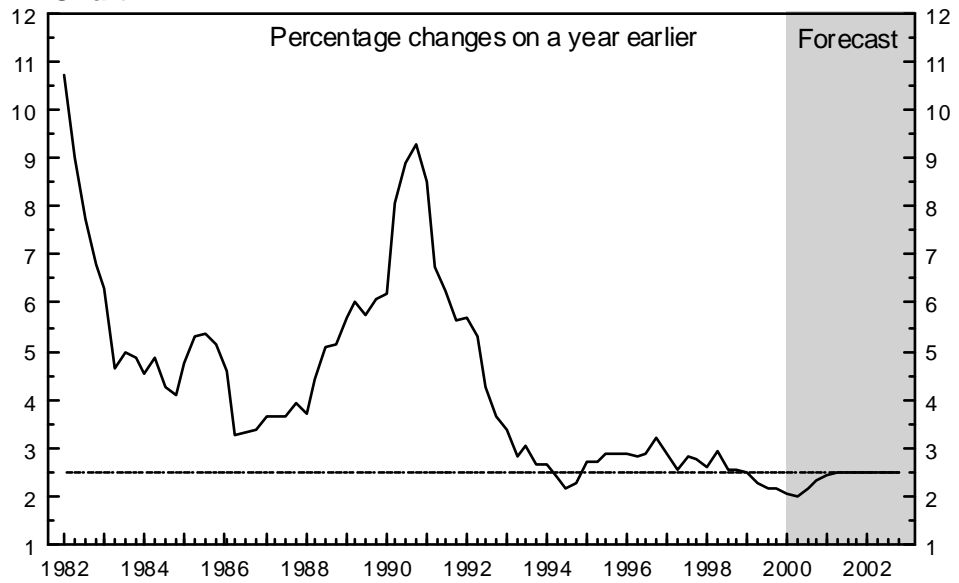
³ Excluding food, beverages, tobacco and petroleum.

Table 6: Retail and producer output prices

	Percentage changes on a year earlier							
	Forecast							
	1999		2000		2001		2002	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2¼	2¼	2	2¼	2½	2½	2½	2½
Producer output prices ¹	-¼	1¼	2	2	2½	2	2	2¼

¹ Excludes excise duties.

Chart 24: RPIX¹



¹ Outturns until 1999 Q4; forecasts for every second quarter from 2000 Q2 to 2002 Q4.

Comparison with independent forecasts

Table 7: Budget and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2000			2001		
	March Budget	Independent		March Budget	Independent	
		Average	Range		Average	Range
Gross domestic product	2¾ to 3¼	3.1	2.0 to 3.7	2¼ to 2¾	2.6	1.6 to 3.8
RPIX (Q4)	2¼	2.1	1.3 to 2.8	2½	2.4	1.5 to 2.8
Current account (£ billion)	-20½	-15.6	-28.0 to -9.3	-21	-16.4	-39.0 to -5.0

¹Forecasts for the UK Economy: A Comparison of Independent Forecasts', March 2000.

Comparison with November Pre-Budget Report forecast

Table 8: Comparison with Pre-Budget Report forecast

		Percentage changes on a year earlier unless otherwise stated	
		November 1999 Pre-Budget Report	March 2000 Budget
		Gross domestic product	1999
	2000	2½ to 3	2¾ to 3¼
	2001	2¼ to 2¾	2¼ to 2¾
	2002	2¼ to 2¾	2¼ to 2¾
RPI excluding MIPs (Q4)	1999	2	2¼
	2000	2½	2¼
	2001	2½	2½
	2002	2½	2½
Current account (£ billion)	1999	-12¼	-12¼
	2000	-10¼	-20½
	2001	-11½	-21
	2002	-10¾	-19¾

Table 9: Summary of economic prospects¹

	1999	Forecast ²			Average errors from past forecasts ³	
		2000	2001	2002	2000	2001
Output at constant market prices						
Gross domestic product (GDP)	2	2¾ to 3¼	2¼ to 2¾	2¼ to 2¾	½	1
Manufacturing output	0	1¾ to 2¼	1¾ to 2¼	1¾ to 2¼	¾	2½
Expenditure components of GDP at constant market prices⁴						
Domestic demand	3½	3¾ to 4	2½ to 3	2¼ to 2¾	½	1¼
Household consumption ⁵	4	3½ to 3¾	2 to 2½	1¾ to 2¼	¾	1¼
General government consumption	3½	4	2¾	4¼	1	1¼
Fixed investment	5¼	3¼ to 3¾	3¾ to 4¼	3¾ to 4¼	1¾	2¾
Change in inventories ⁶	-¾	¼	0	-¼ to 0	¼	½
Exports of goods and services	2½	5½ to 6	5½ to 6	5½ to 6	1¾	2½
Imports of goods and services	7¼	7¾ to 8¼	5½ to 6	5½ to 6	1¾	2¾
Balance of payments						
current account						
£ billion	-12¼	-20½	-21	-19¾	7	9
per cent of GDP	-1½	-2¼	-2¼	-2	¾	1
Inflation						
RPIX (Q4)	2¼	2¼	2½	2½	¾	1
Producer output prices (Q4) ⁷	1¼	2	2	2¼	1	1¾
GDP deflator at market prices (financial year)	2½	2¼	2½	2½	¾	1
Money GDP at market prices (financial year)						
£ billion	901	946 to 951	990 to 1000	1037 to 1053	7	12
percentage change	5	5 to 5½	4¾ to 5¼	4¾ to 5¼	¾	1¼

¹ The forecast is consistent with UK output and expenditure data to the fourth quarter of 1999, released by the Office for National Statistics on 28 February 2000. See also footnote 1 in the introduction.

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 current year and 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 2000 and 2001.

⁴ Further detail on the expenditure components of GDP is given in Table A10.

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	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy ²	GDP at market prices
1999	524.9	146.6	153.0	-1.7	823.1	248.2	1071.3	285.2	2.2	788.4
2000	542.7 to 544.8	152.5	158.1 to 158.7	0.2 to 0.8	853.5 to 856.9	262.2 to 263.2	1115.6 to 1120.1	307.3 to 308.5	2.4	810.8 to 814
2001	553.3 to 558.3	156.8	163.8 to 165.3	-0.1 to 1.3	873.8 to 881.6	276.3 to 278.8	1150.2 to 1160.4	324 to 326.9	2.4	828.5 to 835.9
2002	562.8 to 570.6	163.4	170.1 to 172.4	-1.7 to 0.5	894.5 to 906.8	291.8 to 295.8	1186.3 to 1202.6	342.2 to 346.9	2.4	846.4 to 858.1
1999 1st half	260.5	72.8	75.8	-1.0	408.2	120.4	528.6	138.8	1.0	390.8
2nd half	264.5	73.8	77.2	-0.7	414.9	127.8	542.8	146.4	1.2	397.5
2000 1st half	269.4 to 270	75.9	78.4 to 78.6	0.1 to 0.3	423.8 to 424.8	129.4 to 129.7	553.2 to 554.5	151.5 to 151.9	1.2	402.9 to 403.9
2nd half	273.3 to 274.8	76.6	79.6 to 80.1	0.1 to 0.6	429.7 to 432.1	132.8 to 133.5	562.4 to 565.5	155.8 to 156.7	1.2	407.8 to 410.1
2001 1st half	275.6 to 277.7	77.6	81.1 to 81.7	0 to 0.6	434.4 to 437.7	136.3 to 137.3	570.7 to 574.9	159.8 to 161	1.2	412.1 to 415.2
2nd half	277.7 to 280.5	79.2	82.7 to 83.6	-0.2 to 0.6	439.4 to 443.9	140.1 to 141.5	579.5 to 585.5	164.3 to 165.9	1.2	416.5 to 420.7
2002 1st half	280 to 283.5	81.2	84.3 to 85.3	-0.8 to 0.2	444.6 to 450.1	143.9 to 145.7	588.5 to 595.8	168.8 to 170.8	1.2	421 to 426.2
2nd half	282.8 to 287.1	82.2	85.8 to 87.1	-0.9 to 0.3	449.9 to 456.7	147.9 to 150.1	597.8 to 606.8	173.5 to 176.1	1.2	425.5 to 431.9
Percentage changes on previous year ^{3,4}										
1999	4	3½	5¼	-¾	3½	2½	3¼	7¼	¼	2
2000	3½ to 3¾	4	3¼ to 3¾	¼	3¾ to 4	5½ to 6	4¼ to 4½	7¾ to 8¼	0	2¾ to 3¼
2001	2 to 2½	2¾	3¾ to 4¼	0	2½ to 3	5½ to 6	3 to 3½	5½ to 6	0	2¼ to 2¾
2002	1¾ to 2¼	4¼	3¾ to 4¼	-¼ to 0	2¼ to 2¾	5½ to 6	3¼ to 3¾	5½ to 6	0	2¼ to 2¾

¹ Includes households and non-profit institutions serving households.

² Expenditure adjustment.

³ For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

⁴ 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.