



H M TREASURY

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

7 MARCH 2001

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THE ECONOMY

Introduction

The Financial Statement and Budget Report, published by HM Treasury on 7 March 2001, includes a discussion of economic developments and prospects (chapter B). This document provides additional information to that contained in chapter B, in the form of detailed charts and tables. The charts and tables are consistent with output, income and expenditure data to the fourth quarter of 2000 released by the Office for National Statistics (ONS) on the 23 February 2001¹.

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 2001. This neutral assumption for trend growth was set out in Table A2 of the November 2000 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 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, and is based on slightly lower labour productivity growth than in the neutral case. 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 potential for stronger growth based at least 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 2000 which the Treasury has carried through to certain other national accounts series that the ONS has not yet revised, in particular sectoral savings and net borrowing. A fully consistent national accounts data set for 2000 will be published by ONS on 26 March.

The degree of spare capacity

Chart 1a: CBI capacity utilisation in manufacturing

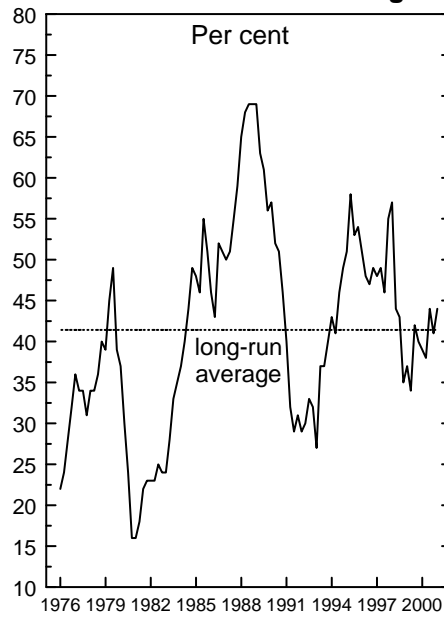


Chart 1b: BCC survey of capacity utilisation

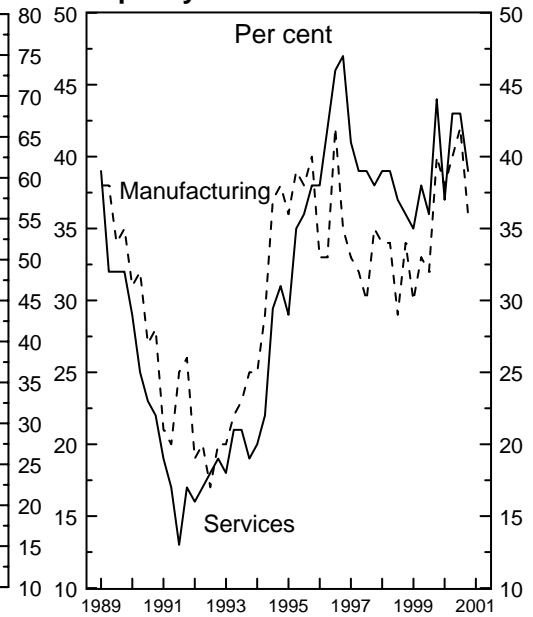


Chart 2a: CBI survey of skilled labour shortages

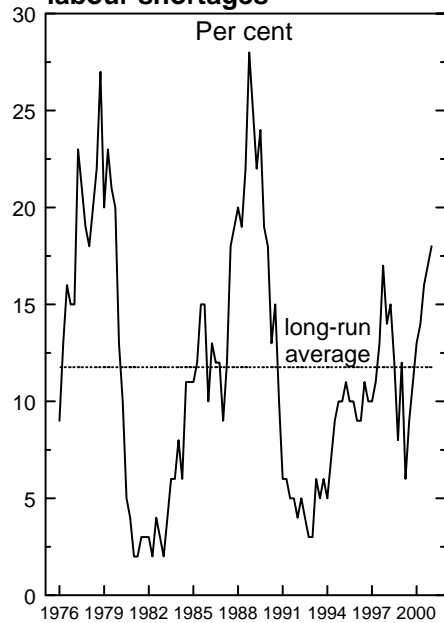


Chart 2b: BCC survey of recruitment difficulties

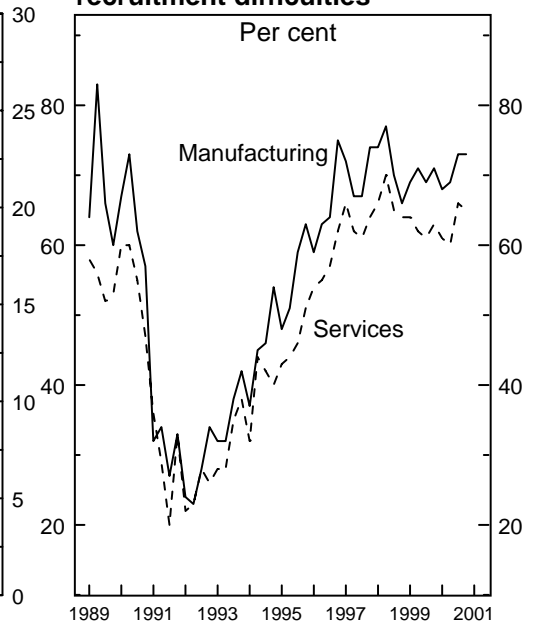
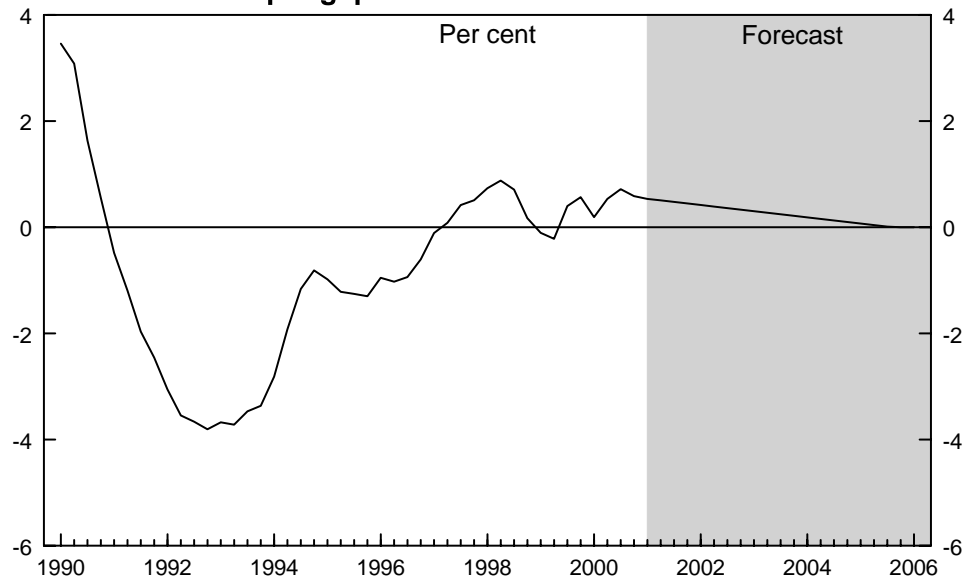


Chart 3: The output gap¹



¹ Actual output less trend output as a per cent of trend output.

GDP

Chart 4: GDP

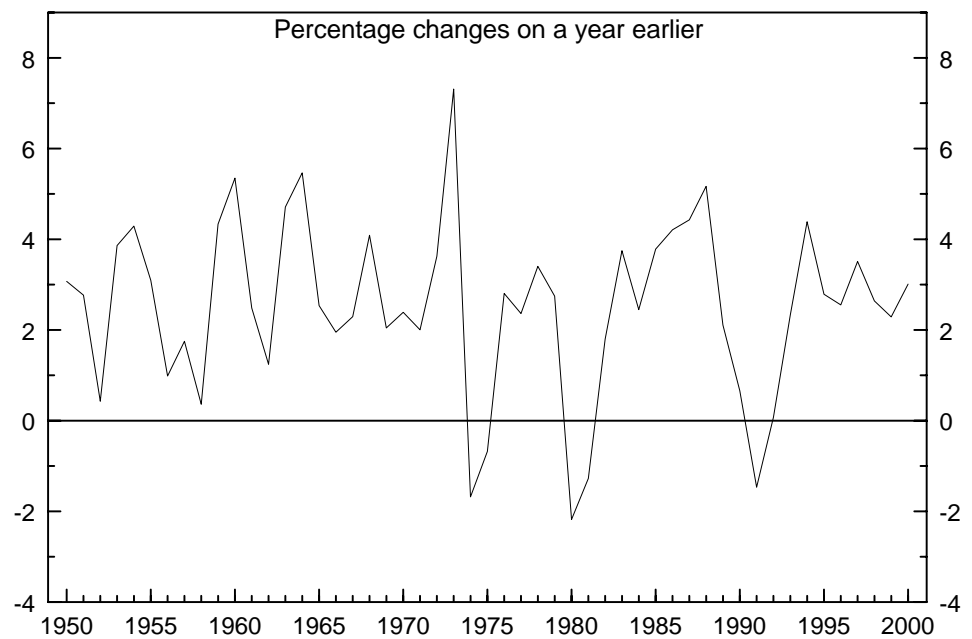


Chart 5: GDP forecast¹

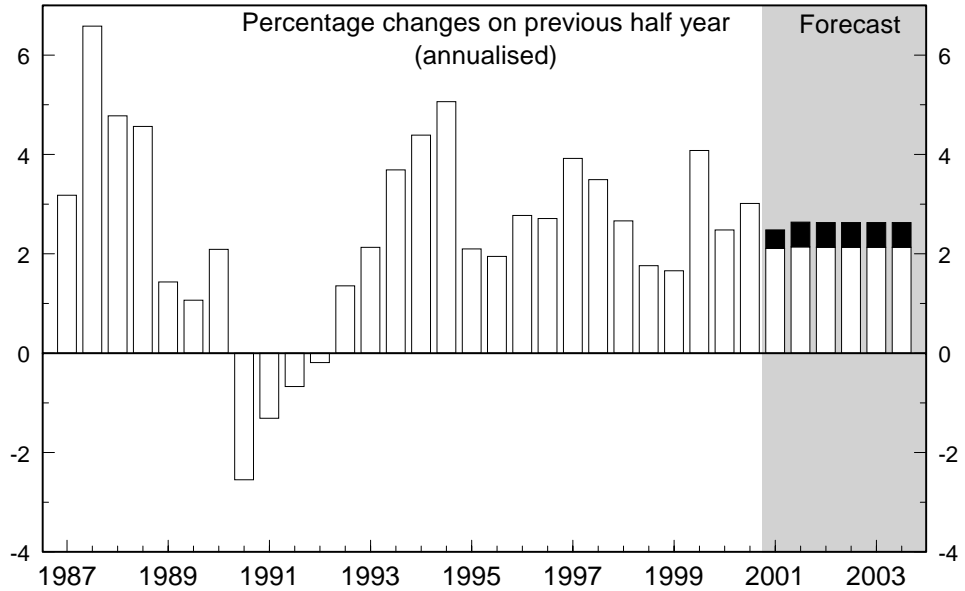


Table 1: Contributions to GDP¹ growth²

	Percentage points			
	2000	Forecast		
		2001	2002	2003
Final domestic demand	3½	4 to 4¼	2¾ to 3¼	2¾ to 3¼
Change in inventories	½	-½	¼	-¼
Total domestic demand	3¾	3¼ to 3¾	3 to 3½	2½ to 3
Net trade	-¾	-1	-1	-¼ to -½
GDP growth, per cent	3	2¼ to 2¾	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

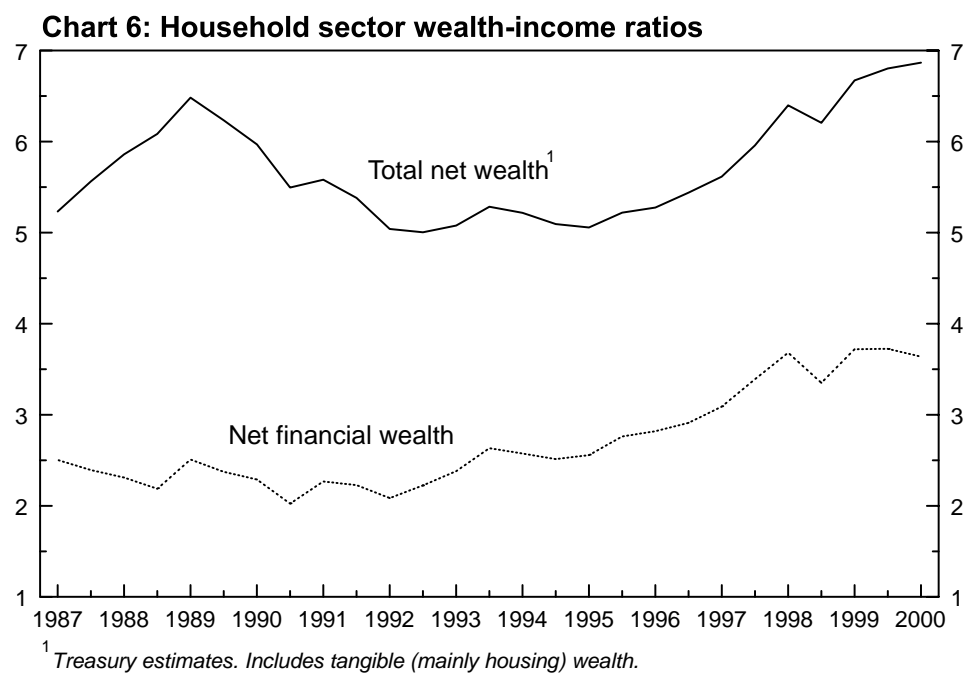


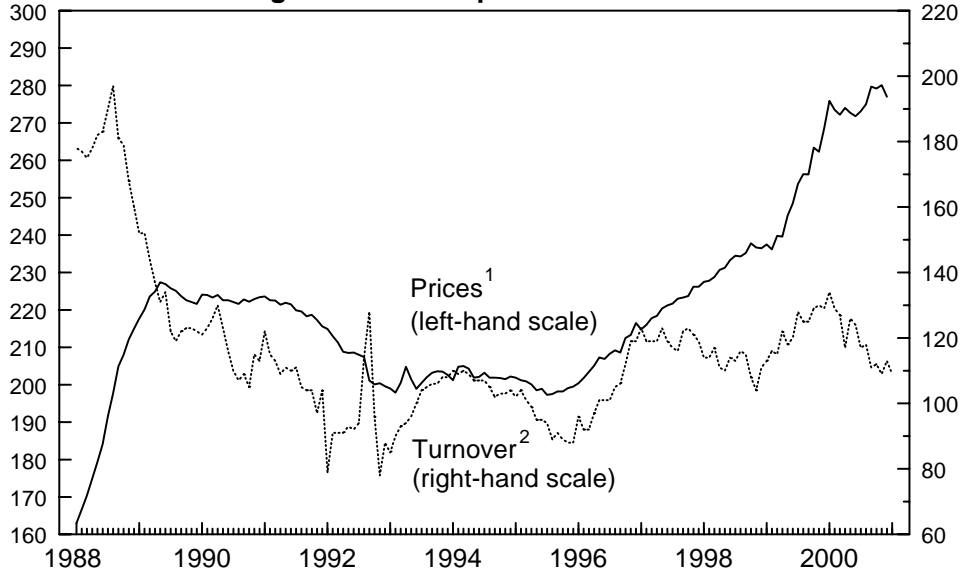
Table 2: Household sector¹ expenditure and income

	Percentage changes on previous year			
	2000	Forecast		
		2001	2002	2003
Household consumption ²	3%	3% to 3½	2½ to 3	2¼ to 2¾
Real household disposable income	2%	4% to 4½	2½ to 3	2½ to 3
Saving ratio (level, per cent)	3%	4%	5	5¼

¹ Including non-profit institutions serving households.

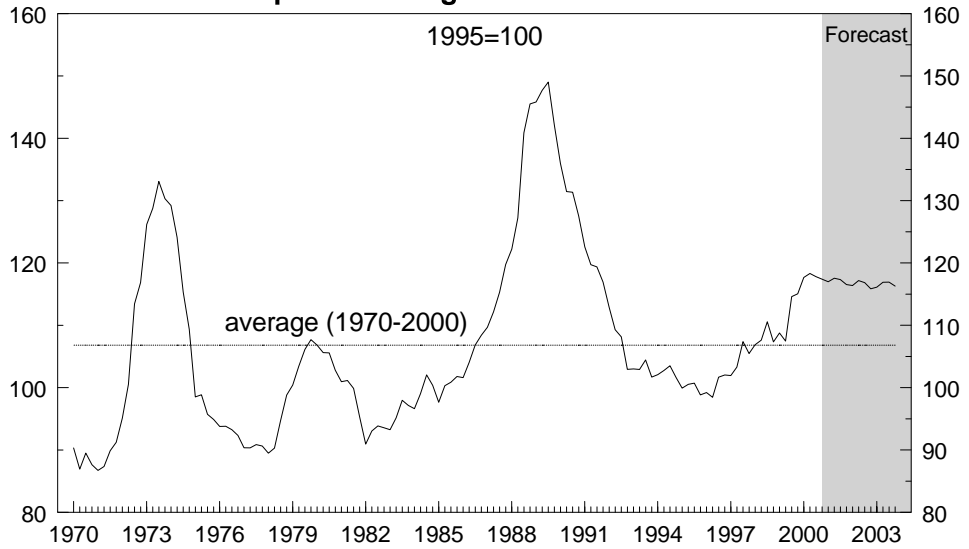
² At constant prices.

Chart 7: Housing turnover and prices



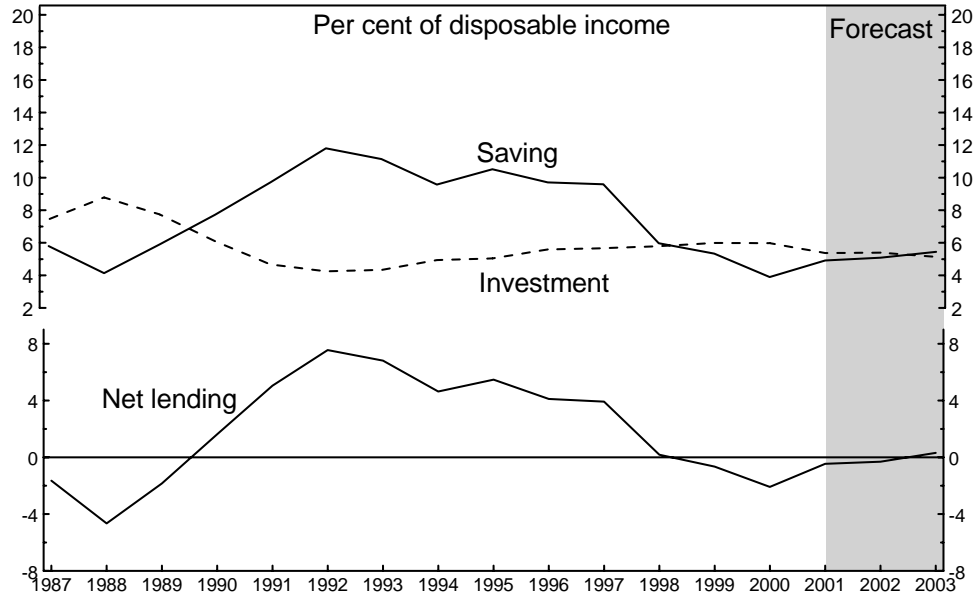
¹ Halifax index, 1983=100.
² Particulars delivered, thousands.

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 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.

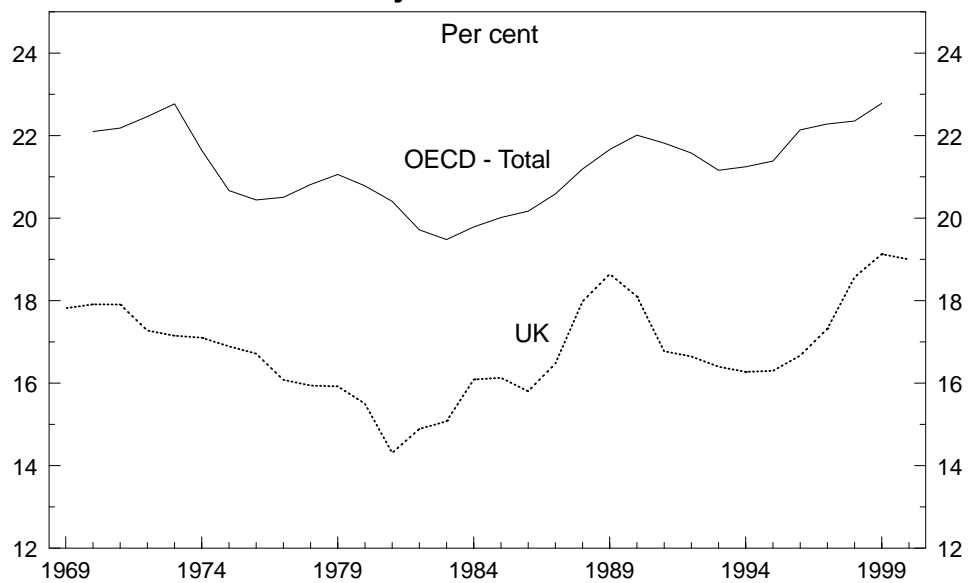
Chart 9: Household sector¹ net lending



¹ Includes non-profit institutions serving households.

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.

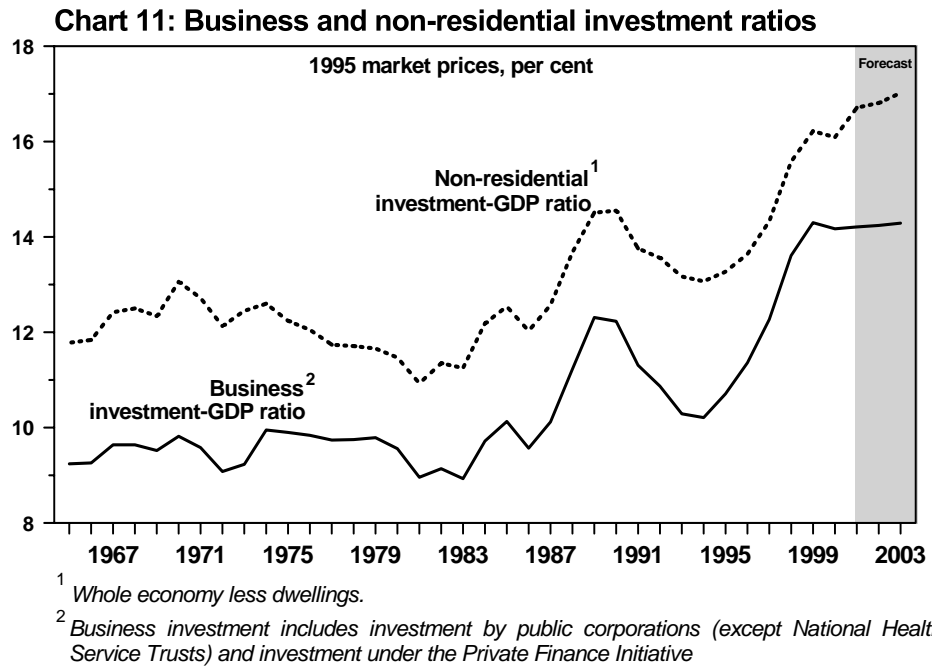


Table 3: Gross fixed capital formation

	Percentage changes on previous year			
	2000	2001	2002	2003
Whole economy ¹	2¼	5½ to 5¾	3 to 3½	3½ to 4
of which:				
Business ^{2,3}	2	2½ to 3	2¼ to 2¾	2½ to 3
Private dwellings ³	2¾	¼ to ¾	2 to 2½	2 to 2½
General government ^{3,4}	5	43½	8½	11¼

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

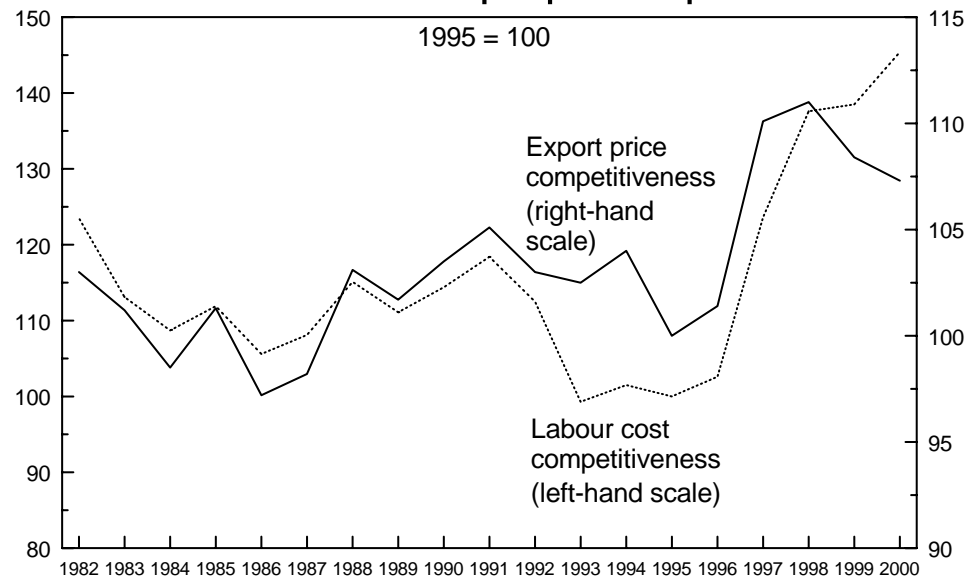
² Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

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

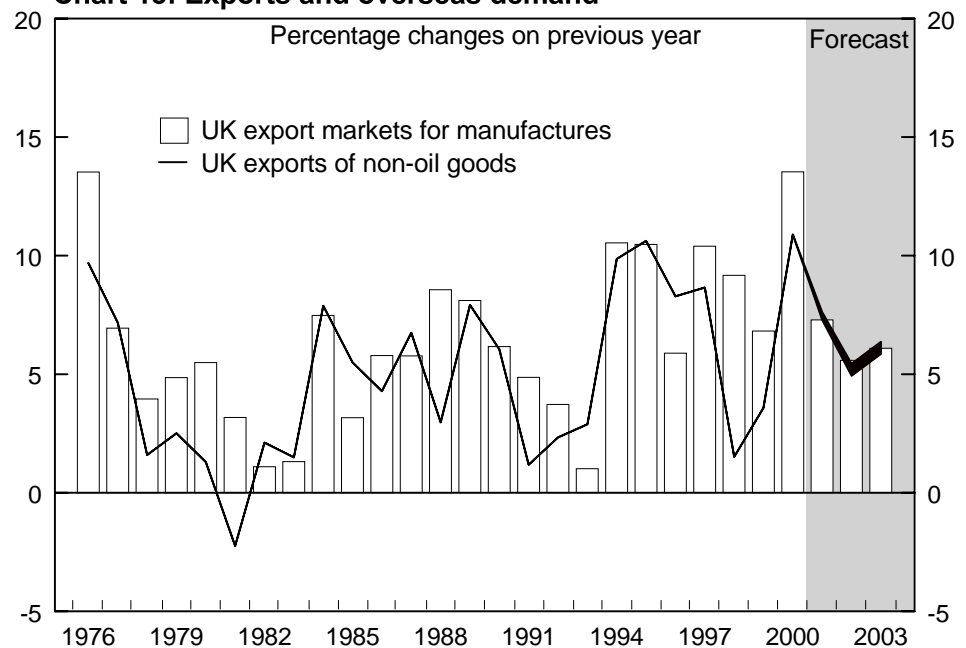
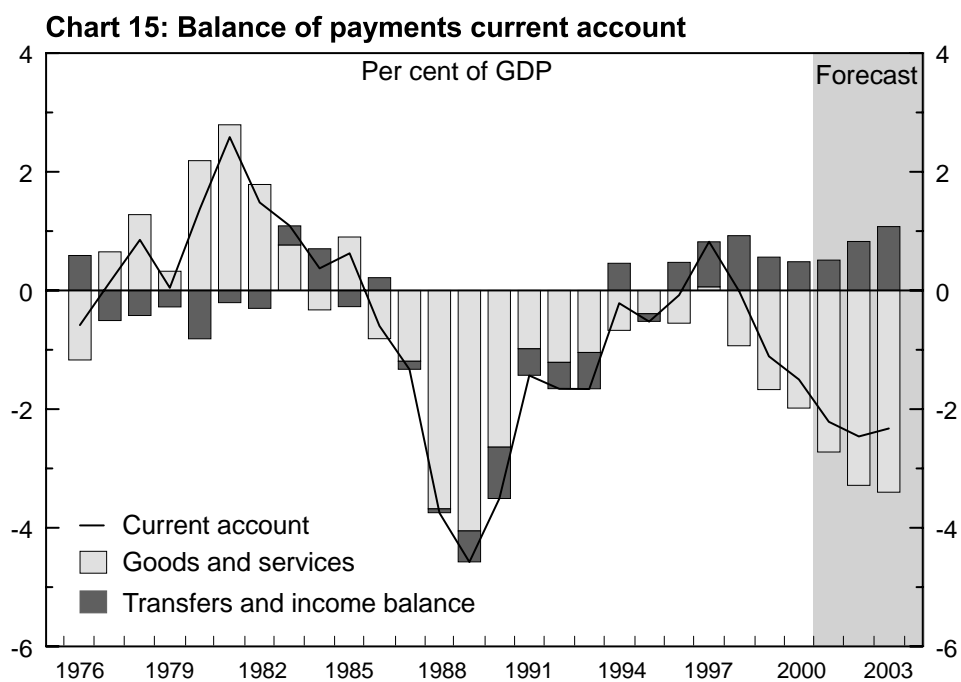




Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices ¹		Terms of trade ²	
	Exports	Imports	Exports	Imports		
2000	7½	8¾	1½	1	½	-18½
<i>Forecast</i>						
2001	5½ to 5¾	7½ to 7¾	1¼	1¾	-½	-26¾
2002	4¾ to 5¼	6¼ to 6¾	3¾	3¾	0	-33¾
2003	5½ to 6	5½ to 6	3	3	0	-36¾

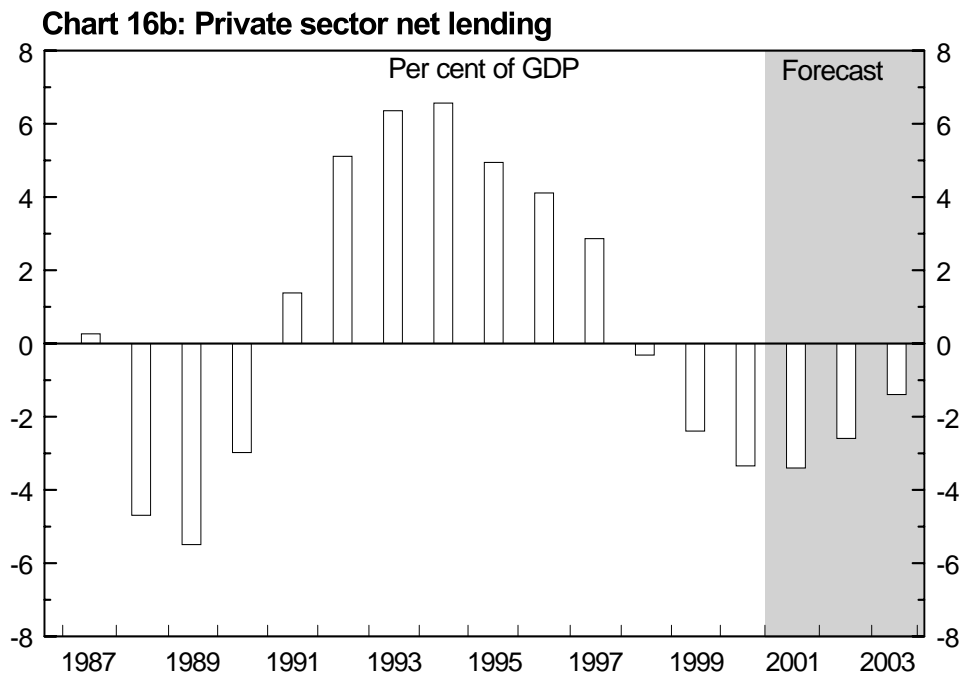
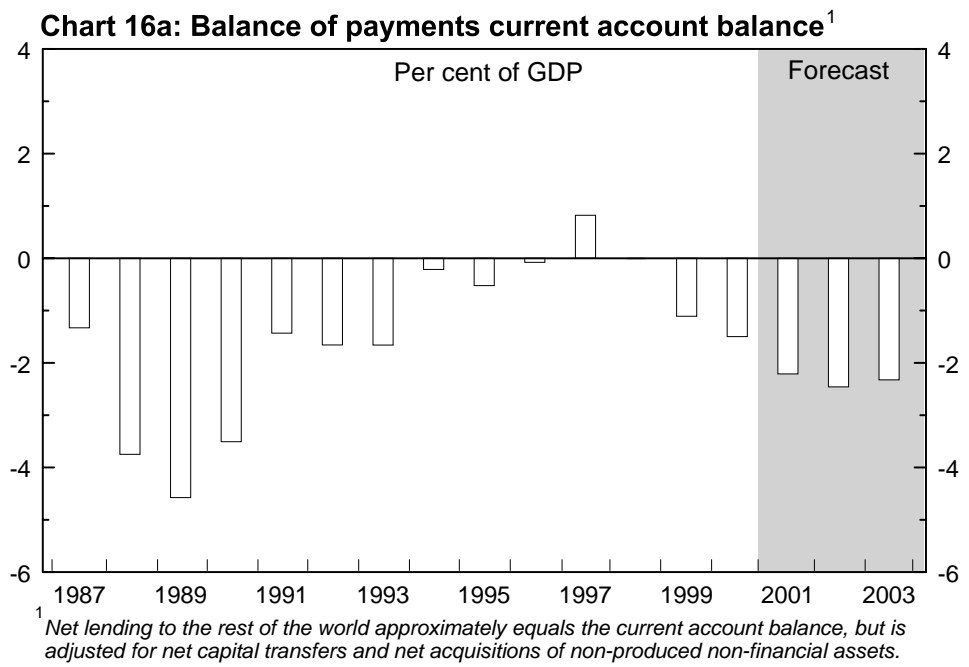
¹ Average value indices.
² Ratio of export to import prices.

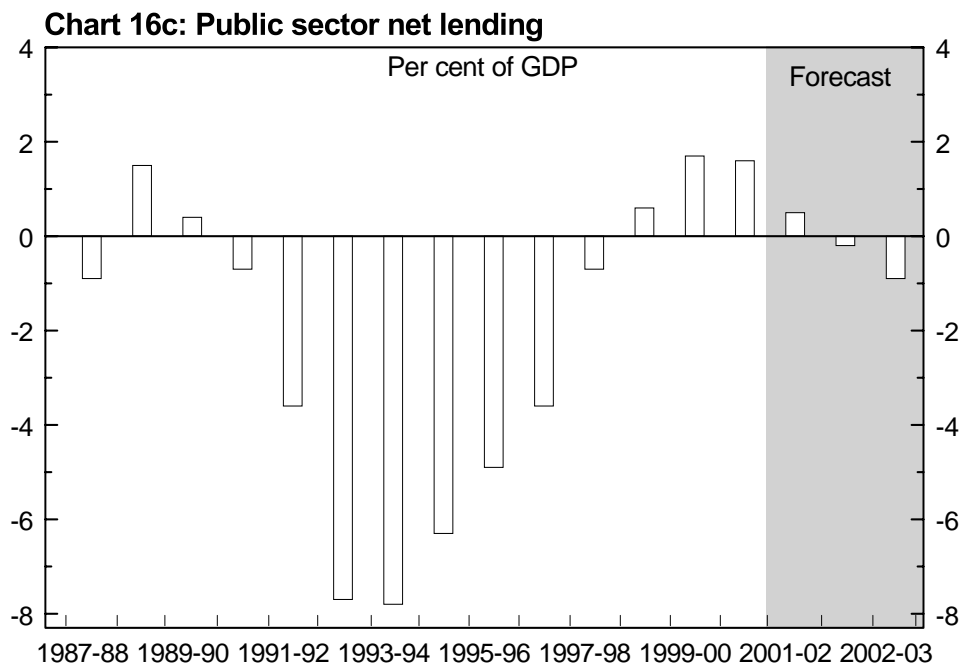
**Table 5: The current account**

	£ billion					
	Goods and services			Transfers	Income balance ¹	Current balance
	Non-oil	Oil	Total			
2000	-24¾	6¼	-18½	-4	8½	-14
<i>Forecast</i>						
2001	-32	5¼	-26¾	-4¼	9¼	-21¾
2002	-39¾	6	-33¾	-3	11½	-25¼
2003	-43¼	6½	-36¾	-2¼	13¾	-25

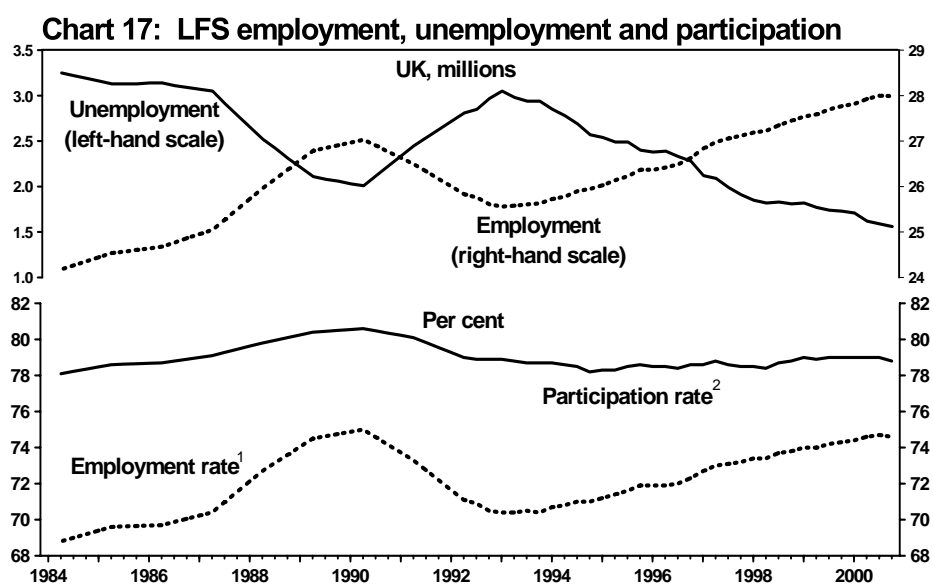
¹Includes investment and employee income.

Pattern of net lending





The labour market



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

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

Chart 18: Productivity¹

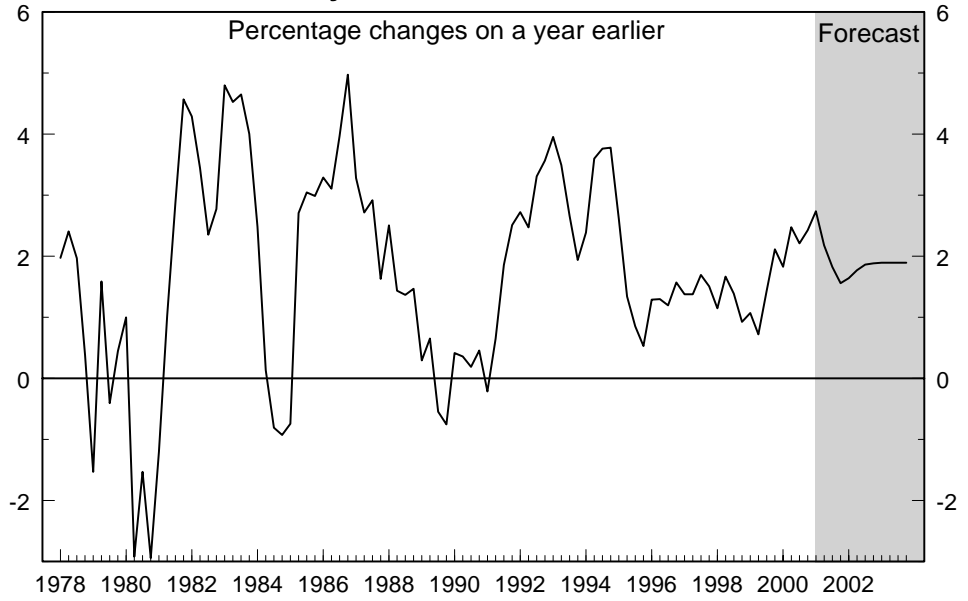
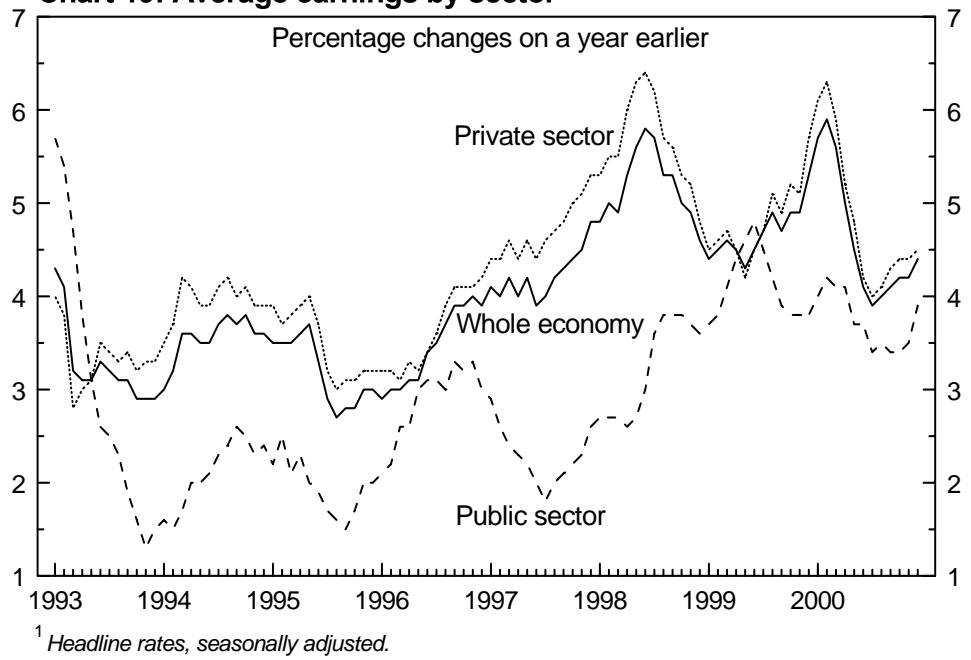


Chart 19: Average earnings by sector¹



Financial developments

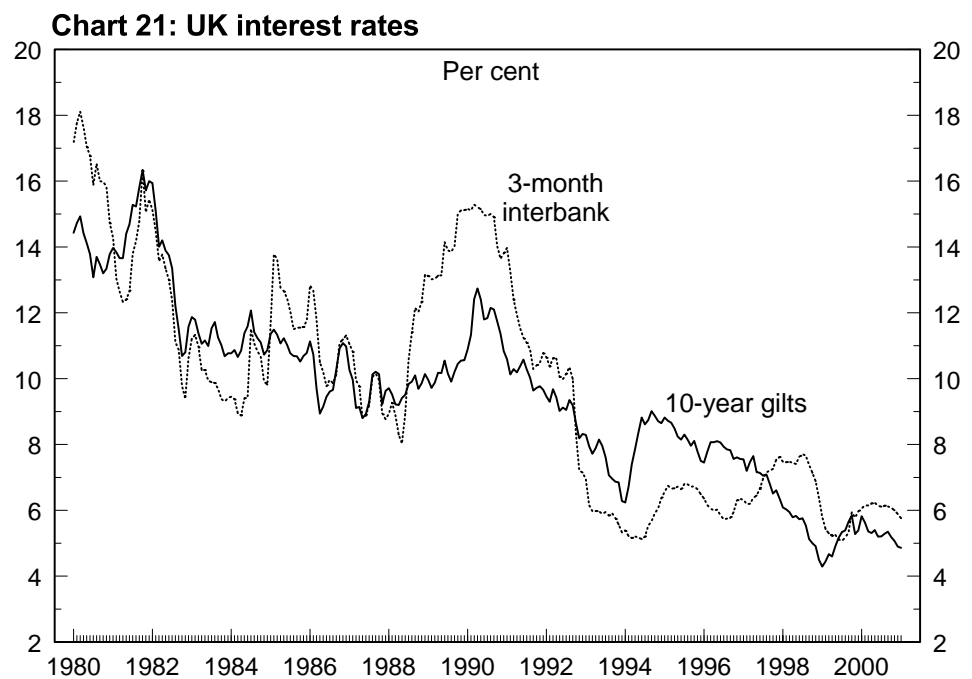
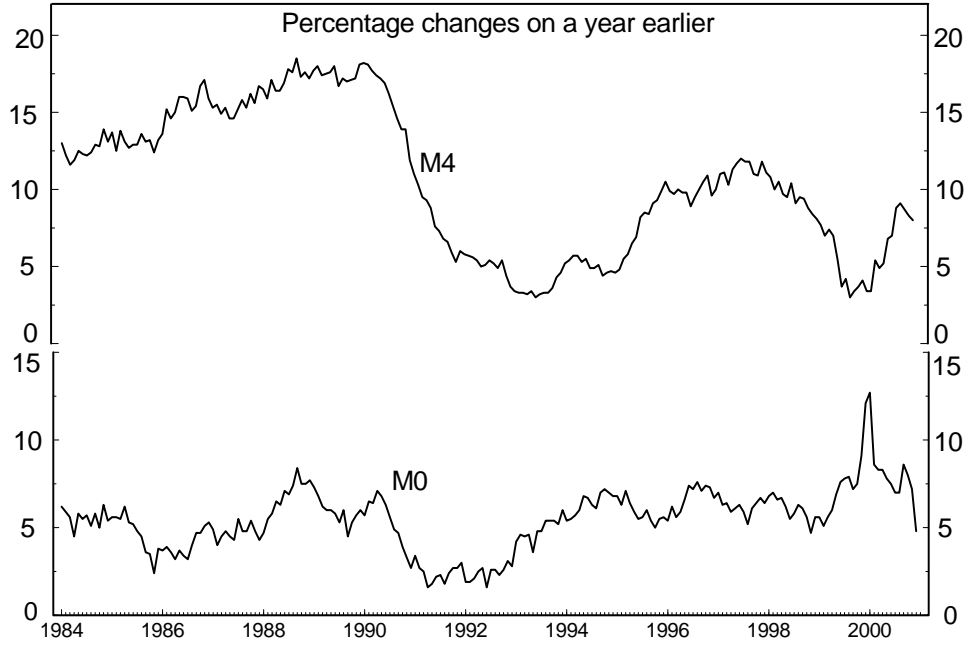
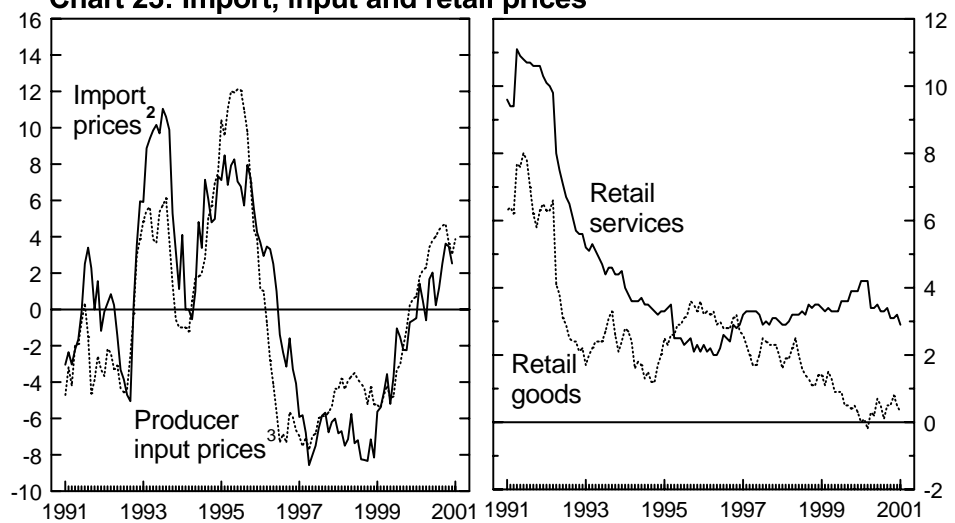


Chart 22: Monetary indicators



Inflation

Chart 23: Import, input and retail prices¹



¹ Percentage changes on a year earlier.

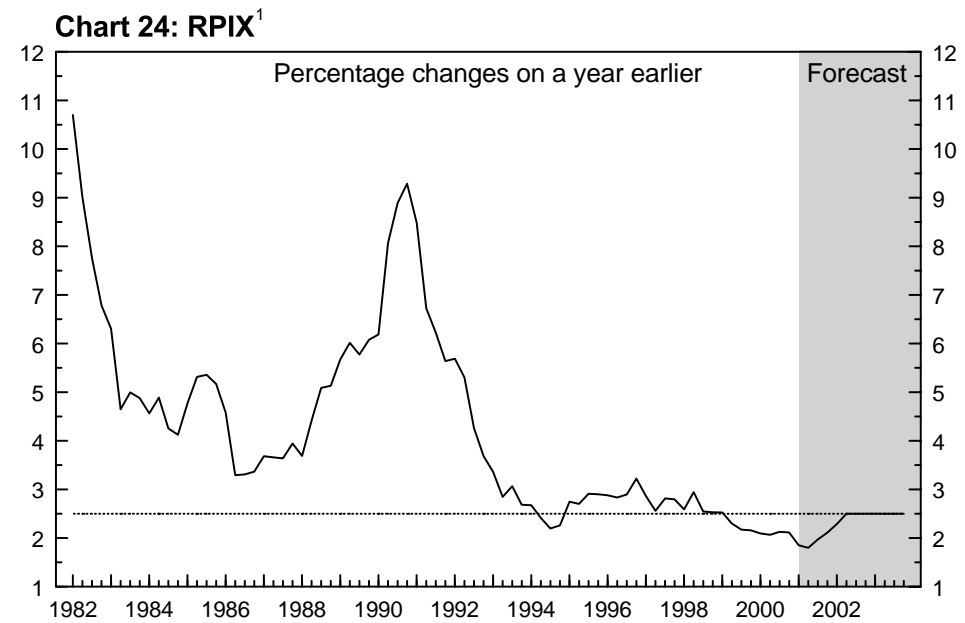
² All goods.

³ Excluding food, beverages, tobacco and petroleum.

Table 6: Retail and producer output prices

	Percentage changes on a year earlier							
	2000		2001		Forecast		2003	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2	2	1¾	2	2½	2½	2½	2½
Producer output prices ¹	1½	1¾	1¾	1¾	2	2	2¼	2

¹Excludes excise duties.



¹Outturns until 2000Q4; forecasts for every second quarter from 2000Q4 to 2003Q4.

Comparison with independent forecasts

Table 7: Budget and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	2001			2002		
	March Budget	Independent		March Budget	Independent	
		Average	Range		Average	Range
Gross domestic product	2¼ to 2¾	2.6	1.5 to 3.2	2¼ to 2¾	2.6	0.7 to 3.6
RPIX (Q4)	2	2.2	1.3 to 2.6	2½	2.4	1.4 to 3.2
Current account (£ billion)	-21¾	-17.7	-26.0 to -4.9	-25¼	-17.6	-37.9 to -8.0

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

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 2000 Pre-Budget Report	March 2001 Budget
		Gross domestic product	2001
	2002	2¼ to 2¾	2¼ to 2¾
	2003	2¼ to 2¾	2¼ to 2¾
RPI excluding MIPs (Q4)	2001	2½	2
	2002	2½	2½
	2003	2½	2½
Current account (£ billion)	2001	-15	-21¾
	2002	-17½	-25¼
	2003	-16¾	-25

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
		2001	2002	2003		
Output at constant market prices						
Gross domestic product (GDP)	3	2¼ to 2¾	2¼ to 2¾	2¼ to 2¾	½	¾
Manufacturing output	1½	1¾ to 2	1½ to 2	1½ to 2	¾	2¼
Expenditure components of GDP at constant market prices⁴						
Domestic demand	3¾	3¾ to 3½	2¾ to 3¼	2¼ to 2¾	½	1¼
Household consumption ⁵	3¾	3¾ to 3½	2½ to 3	2¼ to 2¾	½	1¼
General government consumption	2½	4¼	3¼	3	1	1¼
Fixed investment	2¼	5½ to 5¾	3 to 3½	3½ to 4	1½	2¼
Change in inventories ⁶	½	-½	¼	-¼	¼	½
Exports of goods and services	7½	5½ to 5¾	4¾ to 5¼	5½ to 6	1¾	2½
Imports of goods and services	8¾	7½ to 7¾	6¾ to 6¾	5½ to 6	2	3
Balance of payments						
current account						
£ billion	-14	-21¾	-25¼	-25	7	9
per cent of GDP	-1½	-2¼	-2½	-2¼	¾	¾
Inflation						
RPIX (Q4)	2	2	2½	2½	½	½
Producer output prices (Q4) ⁷	1¾	1¾	2	2	½	1¾
GDP deflator at market prices	1¾	2¼	2½	2½	¾	1
Money GDP at market prices						
£ billion	935	978 to 982	1025 to 1033	1073 to 1086	8	12
percentage change	5	4¾ to 5	4¾ to 5¼	4¾ to 5¼	¾	1¼

¹ The forecast is consistent with output, income and expenditure data to the fourth quarter of 2000, released by the Office for National Statistics (ONS) on 23 February 2001. See also footnote 1 on the first page of this document.

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 per cent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2001 and 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	551.3	152.6	155.7	2.3	862.3	270.8	1133.2	313.3	-0.2	819.7
2001	568.5 to 570.3	159.1	164.3 to 164.8	-2.3 to -1.8	889.7 to 892.4	285.8 to 286.7	1175.5 to 1179.1	336.4 to 337.4	-0.2	838.9 to 841.5
2002	582.3 to 586.9	164.3	169.1 to 170.4	-0.4 to 0.9	915.2 to 922.5	299.5 to 301.9	1214.7 to 1224.4	357.8 to 360.6	-0.2	856.8 to 863.6
2003	594.8 to 602.4	169.2	174.9 to 177.1	-2.4 to -0.2	936.4 to 948.5	316.1 to 320.2	1252.5 to 1268.7	377.3 to 382.2	-0.2	875.1 to 886.4
2000 1st half	273.2	75.5	77.0	1.4	427.3	133.5	560.7	153.8	-0.1	406.8
2nd half	278.1	77.1	78.7	0.9	435.1	137.4	572.5	159.5	-0.1	412.9
2001 1st half	282.4 to 282.9	78.9	82 to 82.2	-2.1 to -1.9	441.2 to 442.1	141.3 to 141.5	582.5 to 583.6	165.2 to 165.5	-0.1	417.2 to 418
2nd half	286.2 to 287.4	80.2	82.3 to 82.7	-0.3 to 0.1	448.4 to 450.3	144.6 to 145.2	593 to 595.5	171.2 to 172	-0.1	421.7 to 423.5
2002 1st half	289.6 to 291.5	81.4	83.7 to 84.3	0 to 0.6	454.7 to 457.8	147.9 to 148.9	602.6 to 606.6	176.4 to 177.5	-0.1	426.1 to 429
2nd half	292.7 to 295.4	82.8	85.4 to 86.1	-0.4 to 0.4	460.5 to 464.7	151.7 to 153	612.2 to 617.8	181.4 to 183.1	-0.1	430.7 to 434.6
2003 1st half	295.8 to 299.3	84.0	86.8 to 87.8	-1 to -0.1	465.6 to 471.1	155.9 to 157.7	621.5 to 628.8	186.2 to 188.4	-0.1	435.2 to 440.3
2nd half	298.9 to 303.2	85.2	88 to 89.3	-1.3 to -0.2	470.8 to 477.4	160.2 to 162.5	631 to 639.9	191.1 to 193.8	-0.1	439.8 to 446.1
Percentage changes on previous year ^{4,5}										
2000	3¼	2½	2¼	½	3¼	7½	4½	8¼	0	3
2001	3¼ to 3½	4¼	5½ to 5¾	-½	3¼ to 3½	5½ to 5¾	3¼ to 4	7½ to 7¾	0	2¼ to 2¾
2002	2½ to 3	3¼	3 to 3½	¼	2¾ to 3¼	4¼ to 5¼	3¼ to 3¾	6¼ to 6¾	0	2¼ to 2¾
2003	2¼ to 2¾	3	3½ to 4	-¼	2¼ to 2¾	5½ to 6	3 to 3½	5½ to 6	0	2¼ to 2¾

¹ Includes households and non-profit institutions serving households.

² Also includes acquisitions less disposals of valuables.

³ Expenditure adjustment.

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

⁵ 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.