
THE ECONOMY

Introduction

The November Pre-Budget Report (PBR), published by HM Treasury on 3 November, includes a discussion of economic developments and prospects (Annex A). This document provides additional information to that contained in the annex, in the form of detailed charts and tables. It is based on the set of charts and tables included in the supplementary document published with the March 1998 Budget. The data used for the charts and tables are consistent with the revised national accounts data published by the ONS on 24 September 1998, and the preliminary GDP estimate for the third quarter, released on 23 October.

Forecast ranges As in the March Budget, the economic forecast is presented in terms of opportunity ranges. These ranges are intended to provide an indication of how differing degrees of supply side improvement offer the prospect of a more favourable path for the economy over the next few years.

The figures at the lower ends of the forecast ranges are intended to be deliberately cautious, and make no allowance for any improvement in supply side performance. They are based on a trend growth rate of 2¼ per cent a year and are the basis of the projections of the public finances set out in Annex B of the Pre-Budget Report.

The figures at the upper ends of the forecast ranges are based on the assumption that improved labour market performance delivers a fall in the sustainable rate of unemployment (the NAIRU) of ½ percentage point a year through both 1999 and 2000 and ¼ percentage point through 2001, equivalent to trend output growing by 2¾ per cent a year through 1999 and 2000 and gradually reverting to the assumed rate of 2¼ per cent by the end of 2001.

Within the range of outcomes for GDP growth, the forecast path for inflation is assumed to be invariant. This is a highly stylised assumption that is made for the illustrative purpose of focussing on the real benefits of lower wage pressure. It amounts to assuming that the supply side benefits show up quickly in employment and output, abstracting from transitional adjustment through wages and prices. In practice, lower wage pressures would be likely for a time to show up partly in lower inflation before the full effects on employment and output came through.

Ratios of demand components to GDP are also assumed to be largely invariant within the forecast ranges for GDP growth. This stylisation is based on the assumption that factors affecting the NAIRU (and employment) are unlikely to have much effect on the sustainable real wage, which is mainly determined by productivity. In this case, income and expenditure shares in GDP would tend not to vary much within the forecast ranges for GDP growth.

Where applicable, the forecast ranges are shown in the following set of charts and tables.

The degree of spare capacity

Chart 1a: CBI capacity utilisation in manufacturing

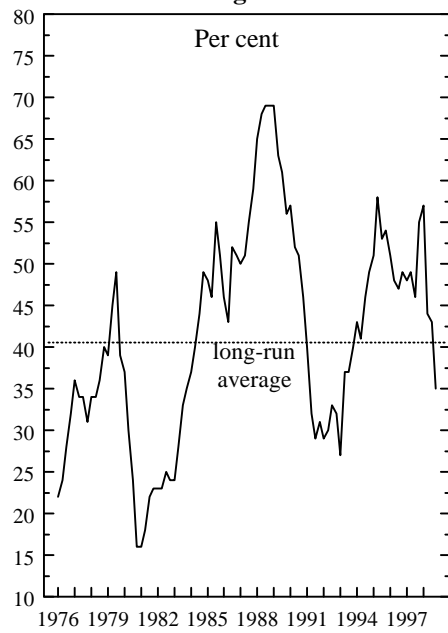


Chart 1b: BCC survey of capacity utilisation

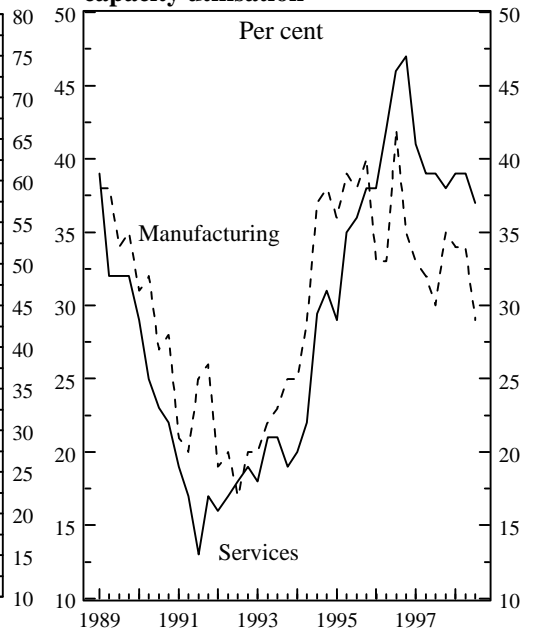


Chart 2a: CBI survey of skilled labour shortages

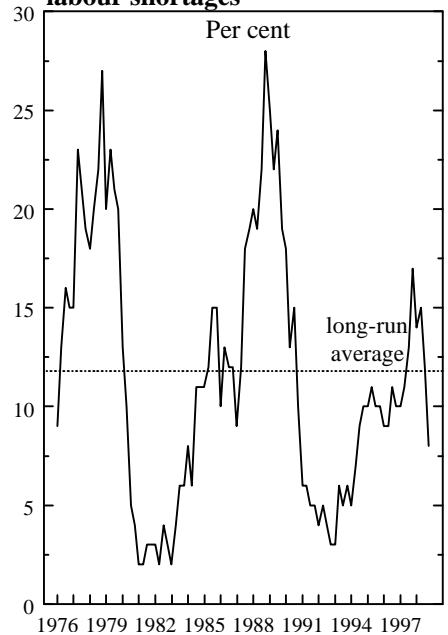


Chart 2b: BCC survey of recruitment difficulties

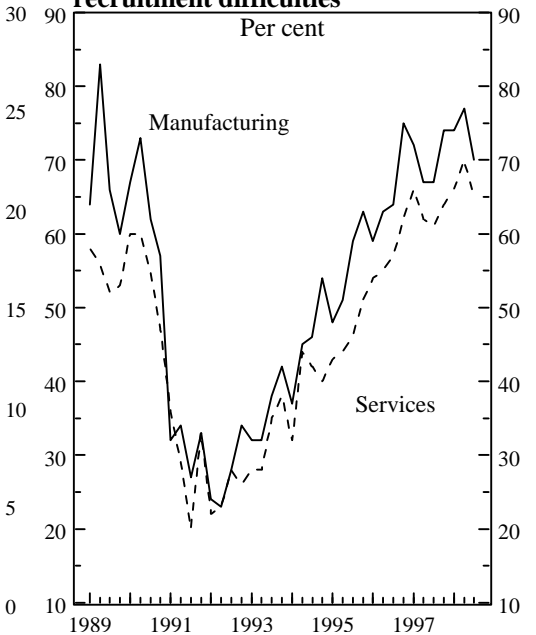
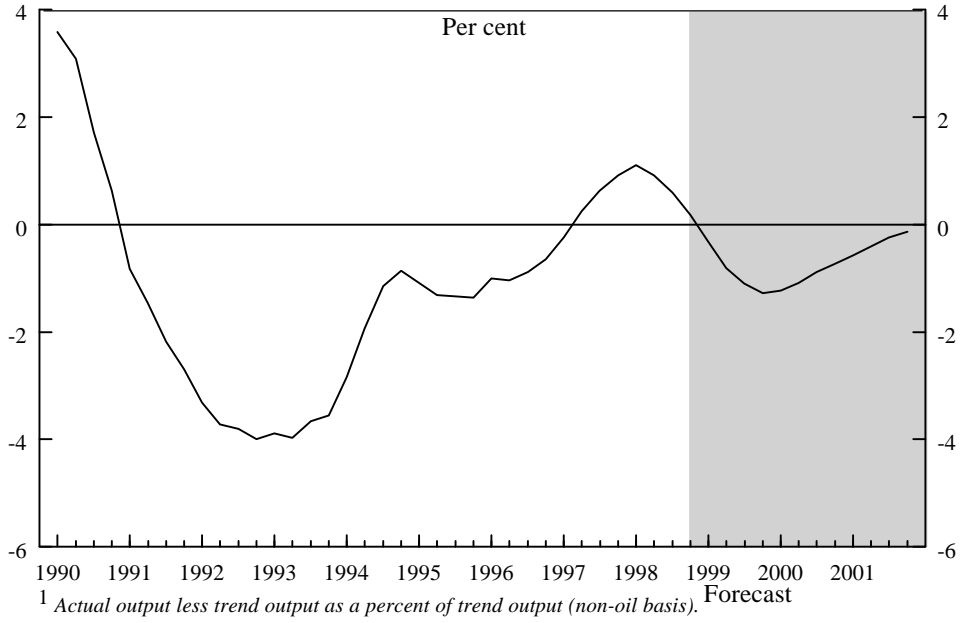


Chart 3: The output gap¹



GDP

Chart 4: GDP

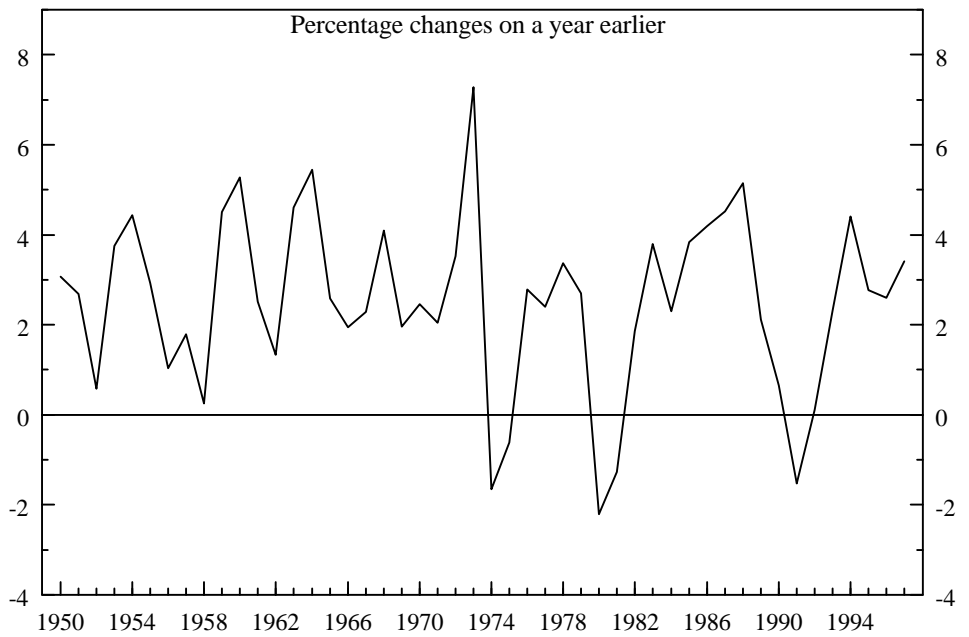
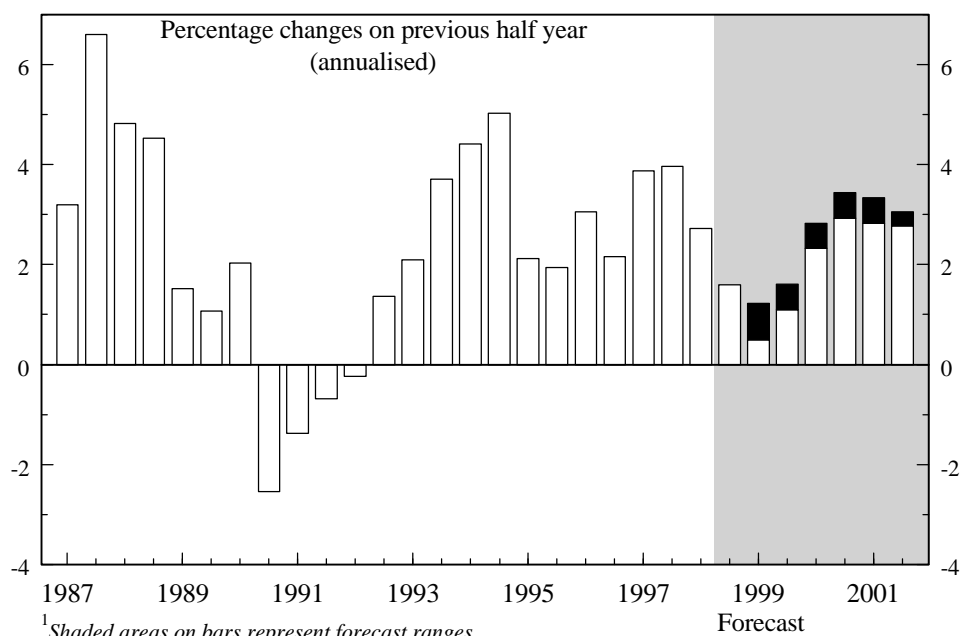


Chart 5: GDP forecast¹**Table 1: Contributions to GDP¹ growth²**

Percentage points, unless otherwise stated

	1997	Forecast			
		1998	1999	2000	2001
Final domestic demand	4	3½	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾
Change in inventories	¼	½	-½ to -¼	0	¼
Total domestic demand	4	4	1¾ to 1¾	2 to 2½	2½ to 3
Net trade	-½	-1¼	-½	0	0
GDP growth, per cent	3½	2¾	1 to 1½	2¼ to 2¾	2¾ to 3¼

¹ At constant market prices.

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

The household sector

Chart 6: Household sector wealth-income ratios

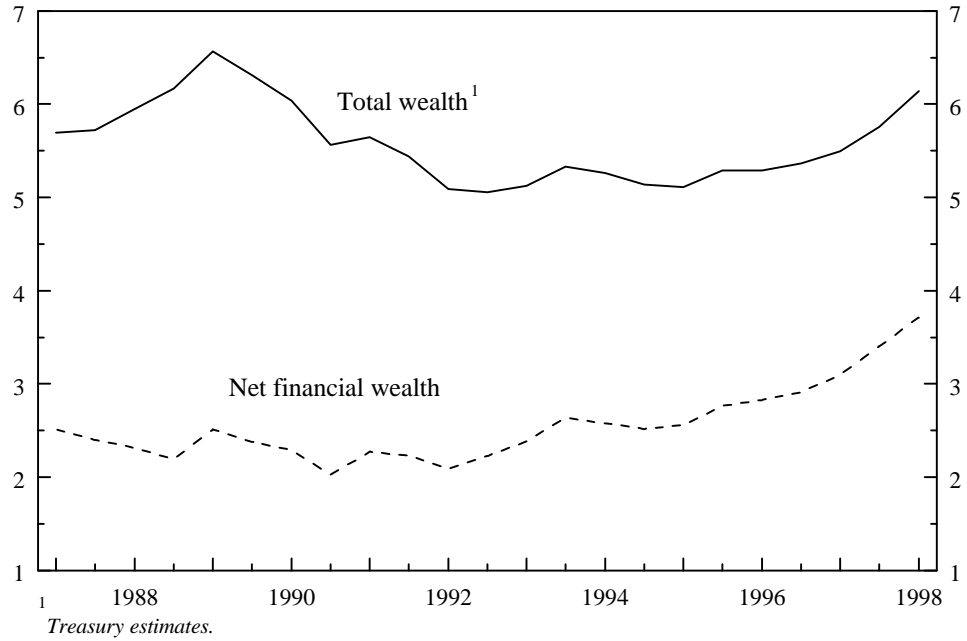


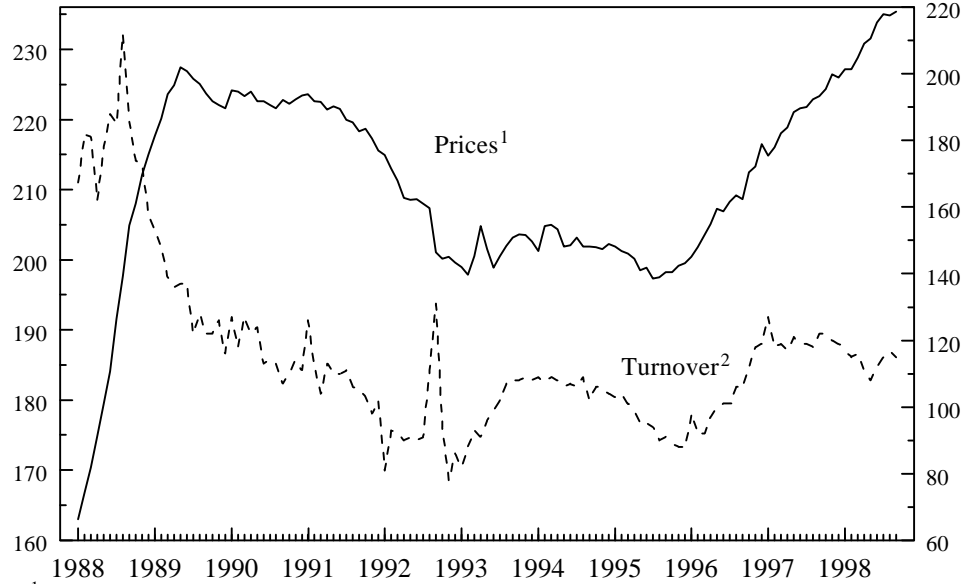
Table 2: Household sector¹ expenditure and income

	Percentage changes on a year earlier				
	1997	Forecast			
		1998	1999	2000	2001
Household consumption ²	4¼	3	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾
Real household disposable income	3½	2½	1¾ to 2¼	1¾ to 2¼	1¾ to 2¼
Saving ratio (level, per cent)	9½	8¼	8	7¾	7¾

¹ Includes non-profit institutions serving households.

² At constant prices.

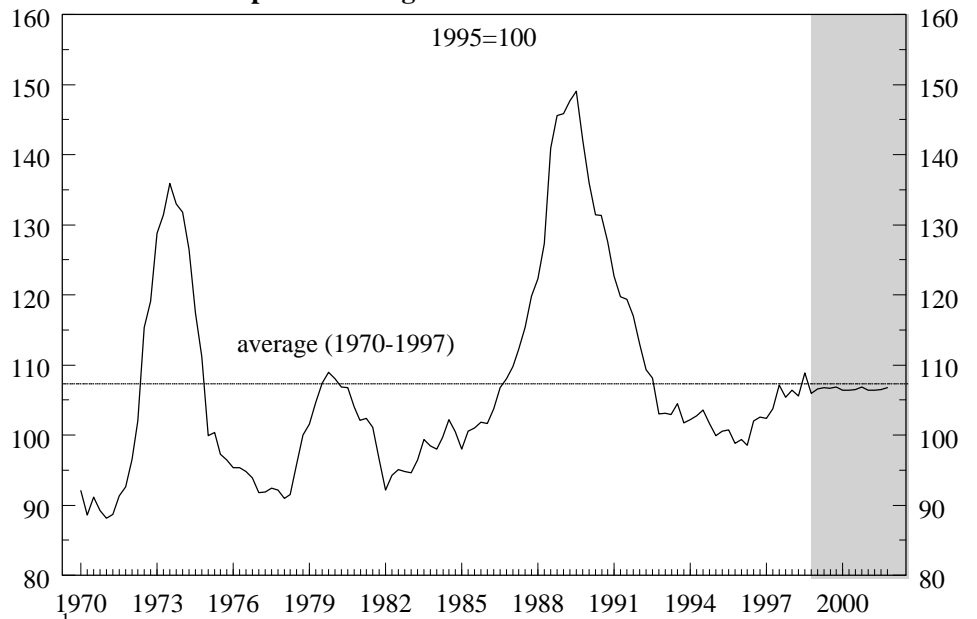
Chart 7: Housing turnover and prices



¹Halifax index, 1983=100, left-hand scale.

²Particulars delivered, thousands, right-hand scale.

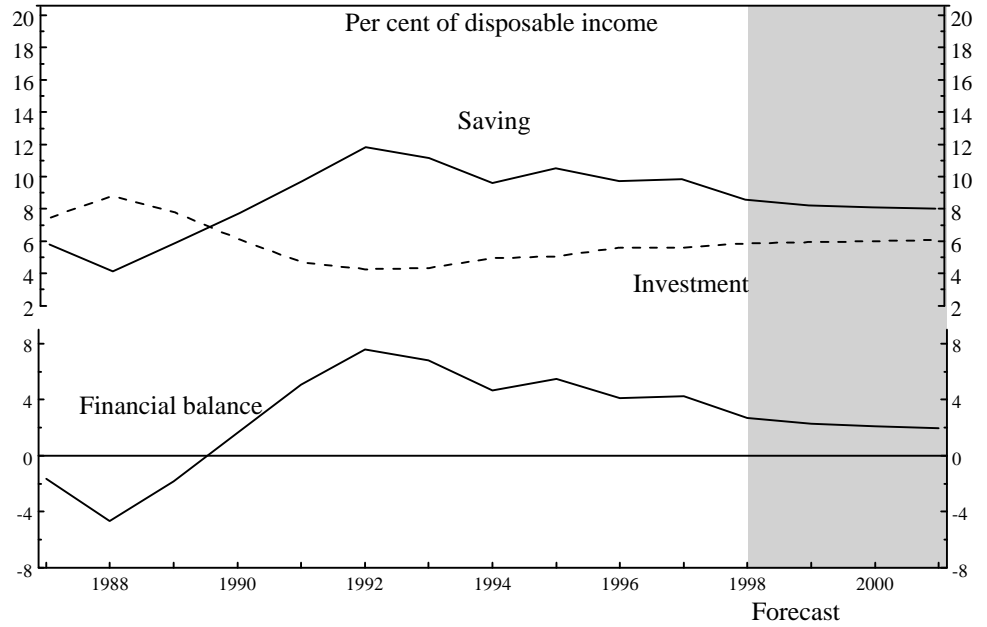
Chart 8: House price-earnings ratio¹



¹Ratio of DETR house price index to wages and salaries per head.

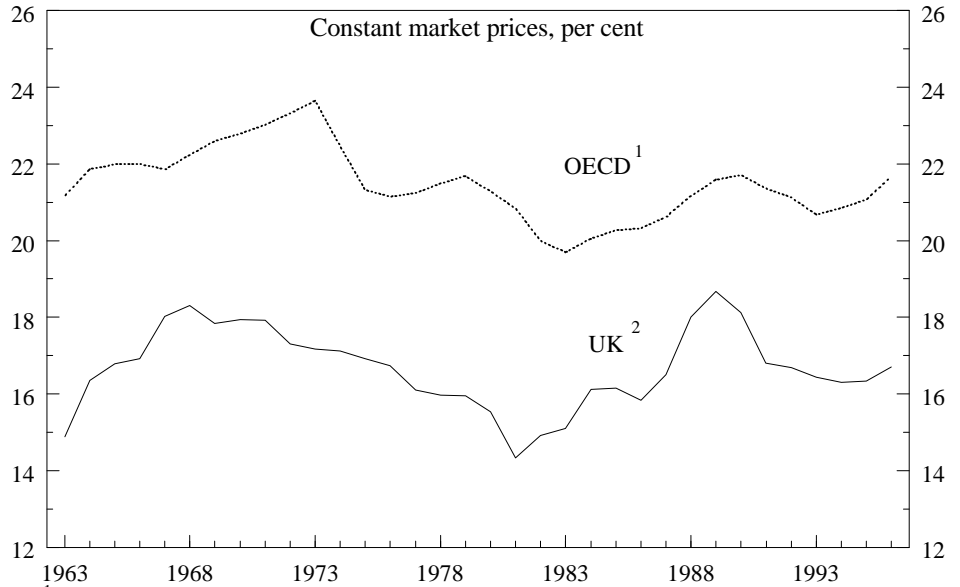
Forecast

Chart 9: Household sector financial balance



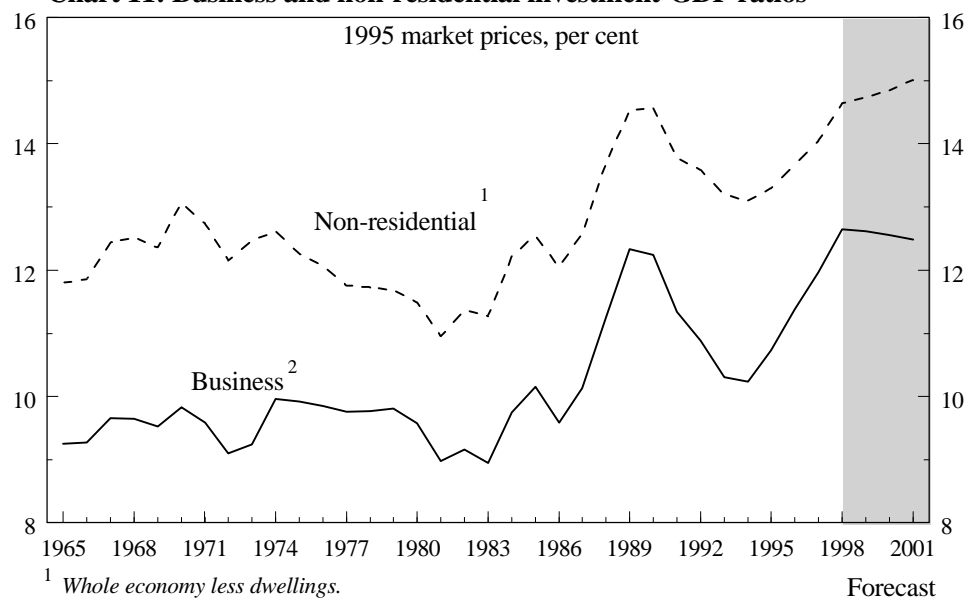
Investment and inventory accumulation

Chart 10: Whole economy investment-GDP ratio



¹ Source: OECD. At 1990 prices.

² At 1995 prices.

Chart 11: Business and non-residential investment-GDP ratios**Table 3: Gross fixed capital formation**

	Percentage changes on a year earlier				
	1997	Forecast			
		1998	1999	2000	2001
Whole economy ¹	6	6¼	1¾ to 2¼	3 to 3½	3½ to 4
of which:					
Business ^{2,3}	8¾	8¾	¾ to 1¼	1¾ to 2¼	2¼ to 2¾
Dwellings ²	7	3¼	2¼ to 2¾	3¼ to 3¾	2 to 2½
General government ^{2,4}	-11	-3¾	5½	11	15

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

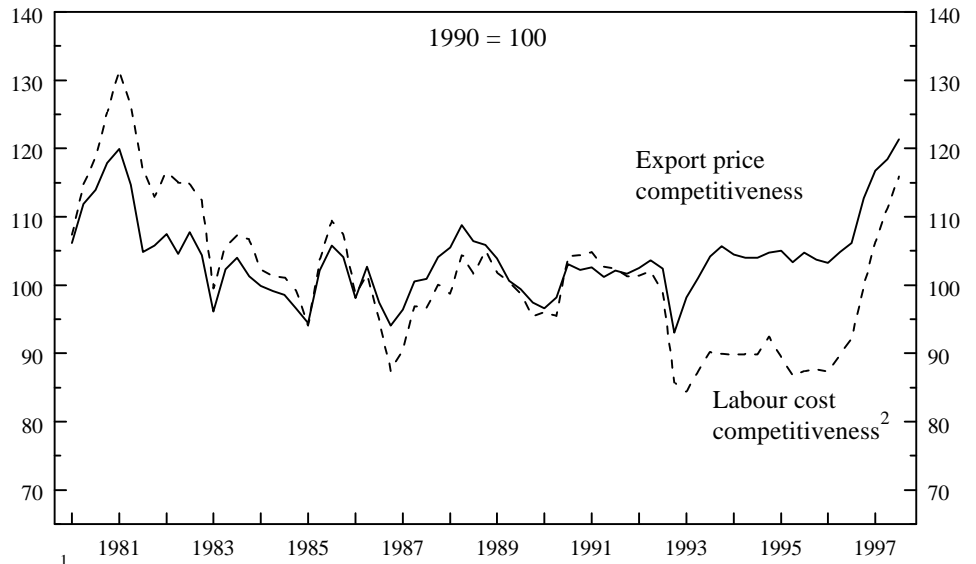
² Excludes purchases less sales of land and existing buildings.

³ Private sector and public corporations' (except National Health Service Trusts) non-residential investment. Includes investment under the Private Finance Initiative.

⁴ Includes National Health Service Trusts.

Trade and the balance of payments

Chart 12: Relative cost and export price competitiveness¹



¹ A fall means competitiveness has improved.

² IMF index of relative unit labour costs (actual).

Chart 13: Exports and overseas demand

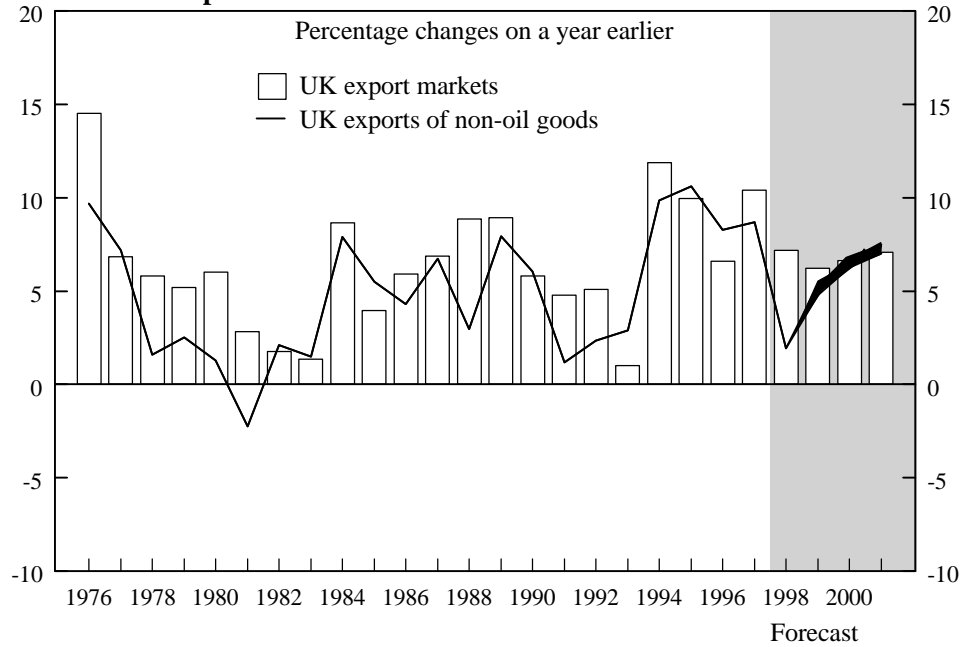


Chart 14: Imports and total final expenditure

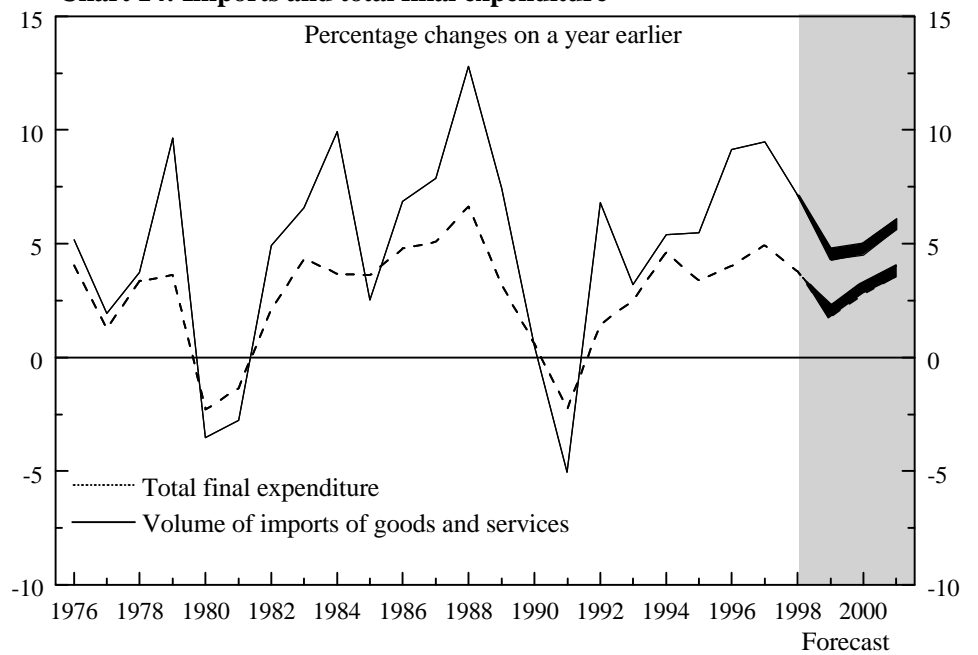


Table 4: Trade in goods and services

	Percentage changes on a year earlier					£ billion
	Volumes		Prices ¹		Terms of trade ²	Goods and services balance
	Exports	Imports	Exports	Imports		
1997	8½	9½	-4¼	-6¾	2½	-¾
<i>Forecast</i>						
1998	3¼	7¼	-4¾	-6¼	1¾	-5¼
1999	2¾ to 3¼	4¼ to 4¾	-2¼	-1¾	-½	-9½
2000	4¾ to 5¼	4½ to 5	1¾	2	-¼	-10¼
2001	6 to 6½	5½ to 6	2¼	2¼	0	-10¼

¹ Average value indices.

² Ratio of export to import prices.

Chart 15: Balance of payments current account

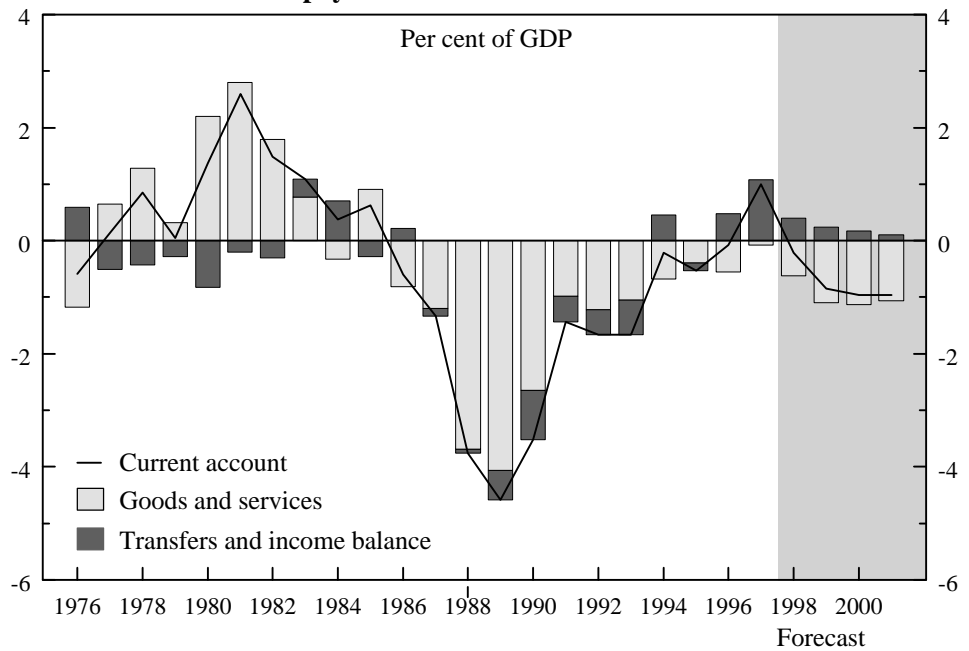


Table 5: The current account

£ billion						
Goods and services			Transfers	Income balance ¹	Current balance	
Non-oil	Oil	Total				
1997	-5¼	4¾	-¾	-3½	12¼	8
<i>Forecast</i>						
1998	-8½	3¼	-5¼	-6½	10	-1¾
1999	-13¾	4	-9½	-6	8¼	-7½
2000	-15	4½	-10¼	-6½	8	-8¾
2001	-15¼	5	-10¼	-7	8	-9¼

¹ Includes investment and employee income.

Pattern of financial balances

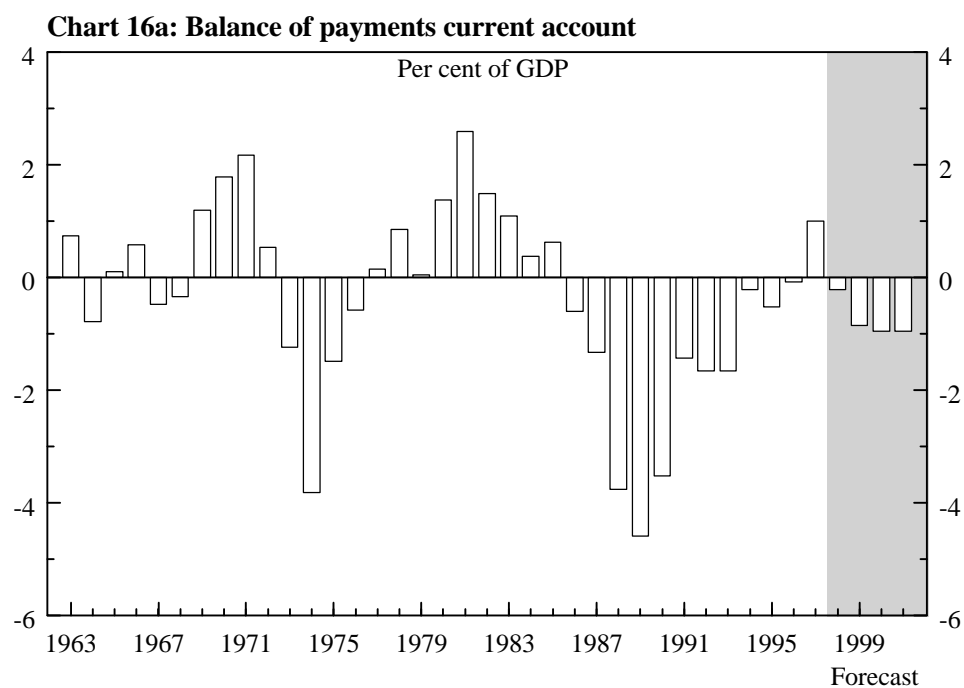


Chart 16b: Private sector financial balance¹

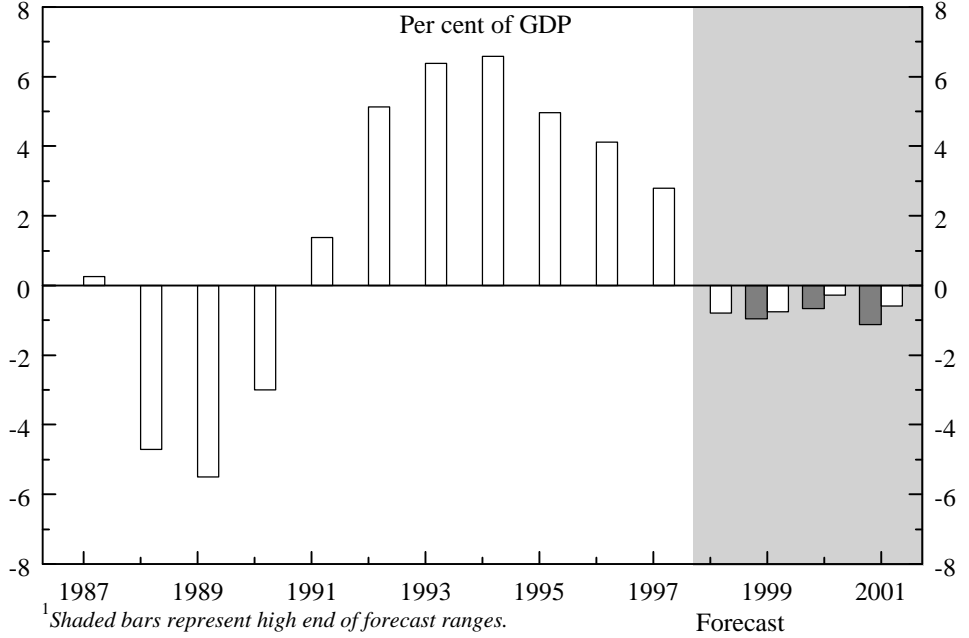
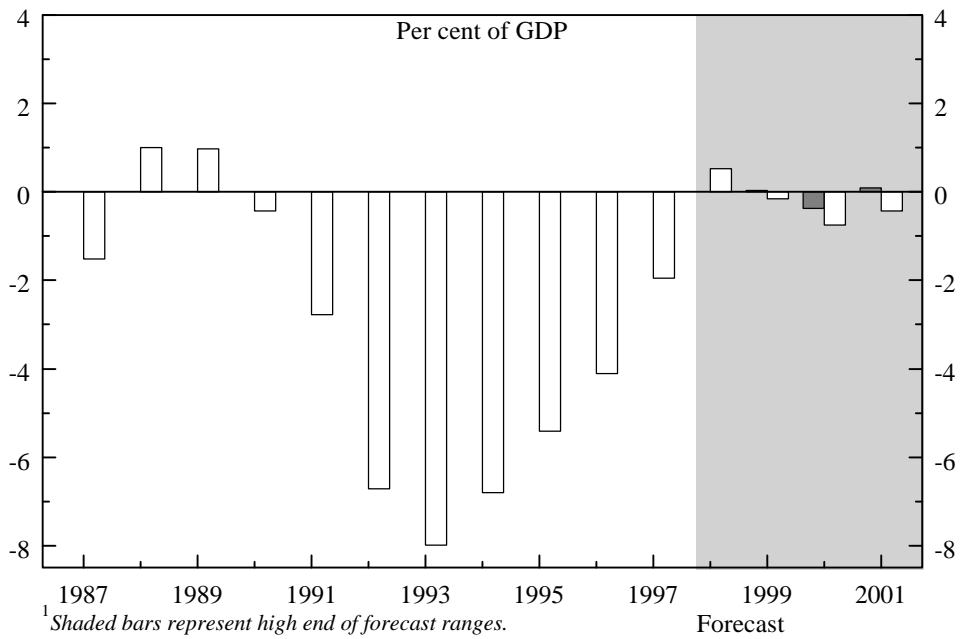
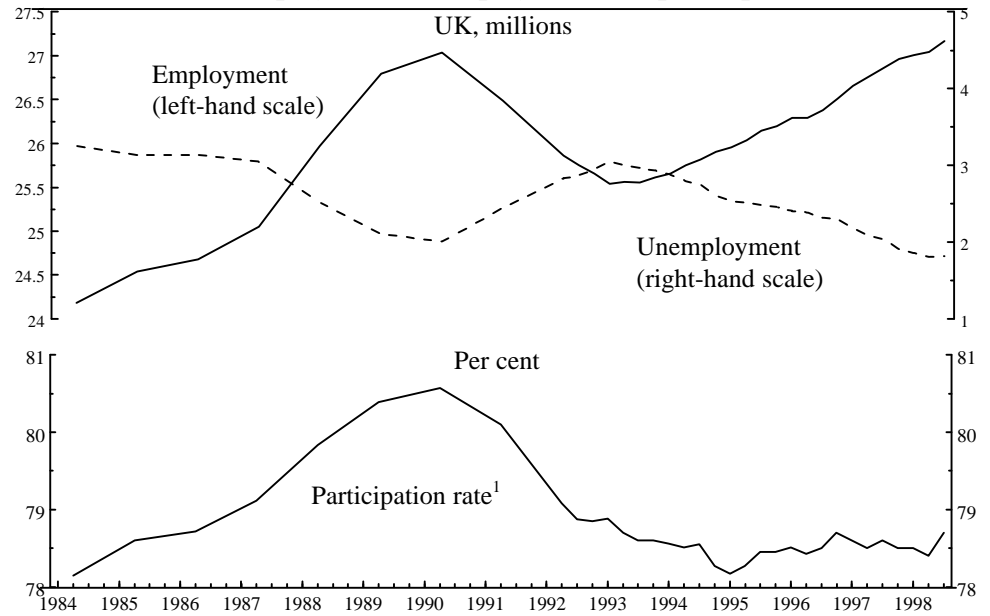


Chart 16c: Public sector financial balance¹



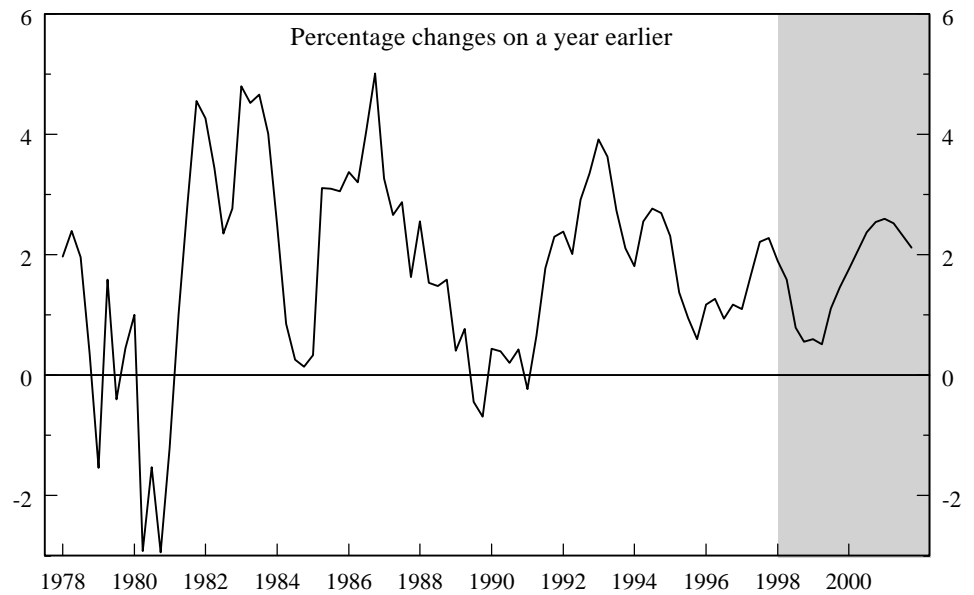
The labour market

Chart 17: LFS employment, unemployment and participation rate



¹ Percentage of the population of working age who are economically active (i.e. employed or unemployed).

Chart 18: Productivity¹



¹ Non North-Sea oil output per person employed (employer-survey based figures). Forecast

Financial developments

Chart 19: Sterling effective exchange rate index

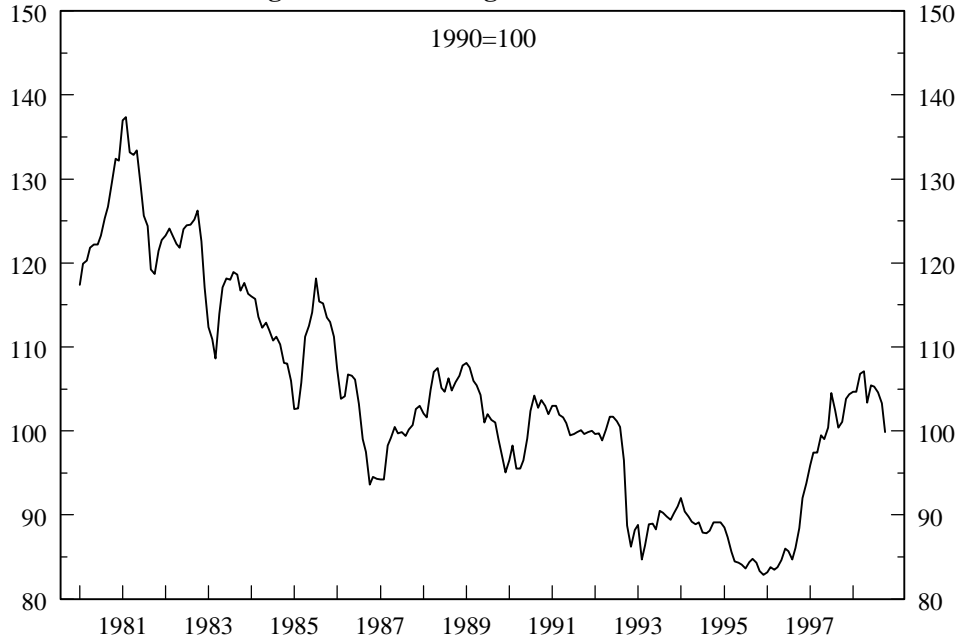


Chart 20: UK interest rates

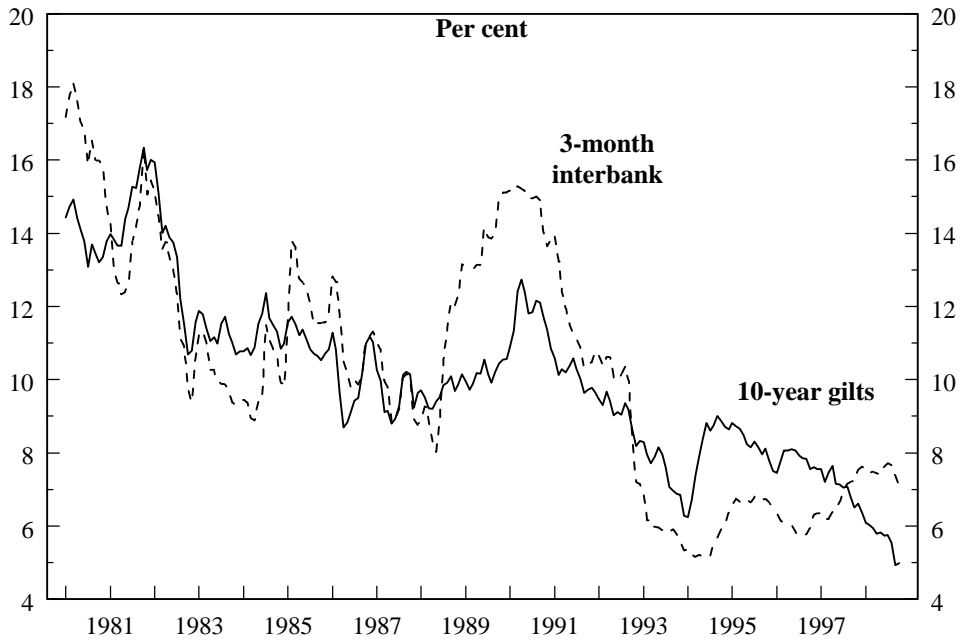
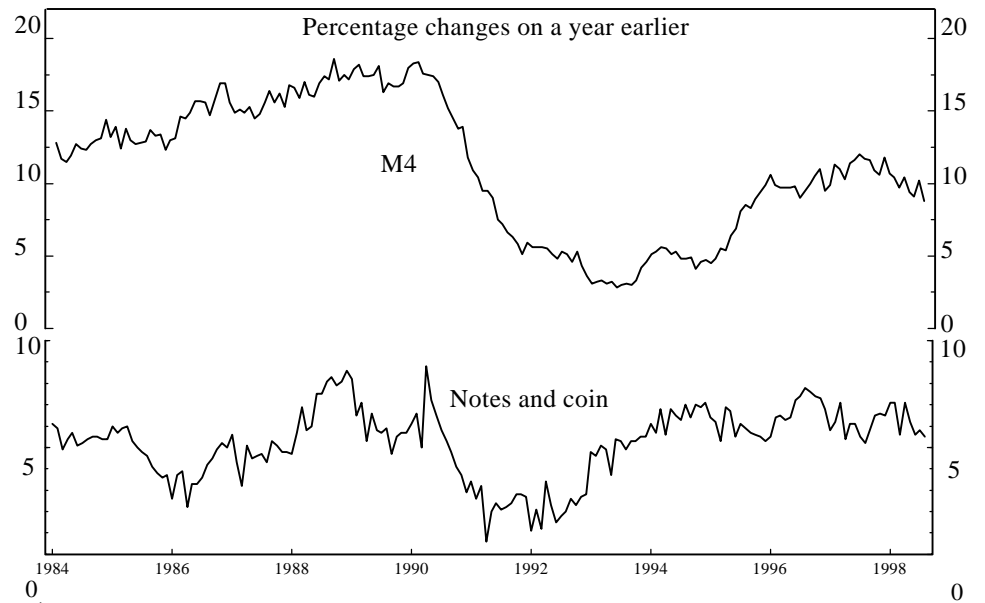


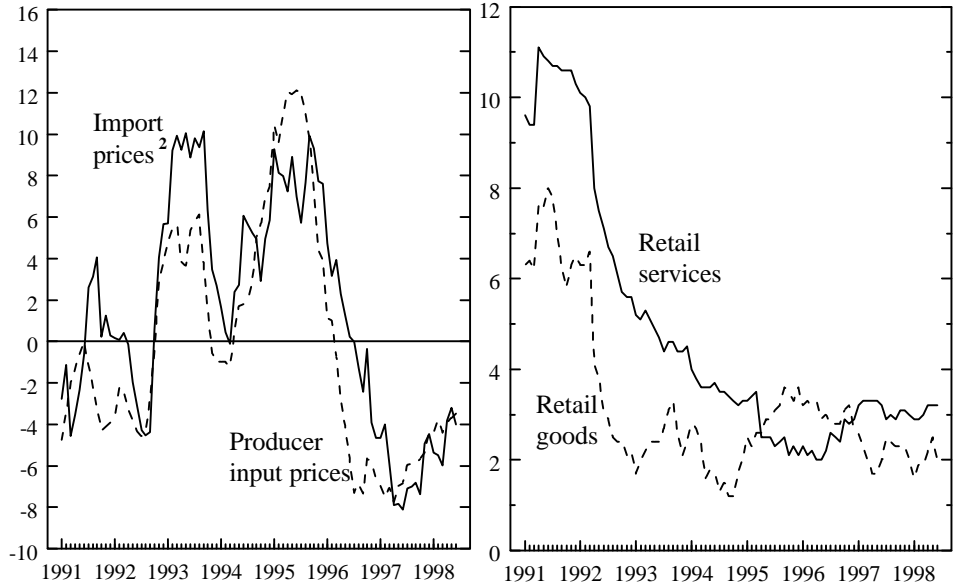
Chart 21: Monetary indicators¹



¹ Not seasonally adjusted.

Inflation

Chart 22: Import, input and retail prices¹



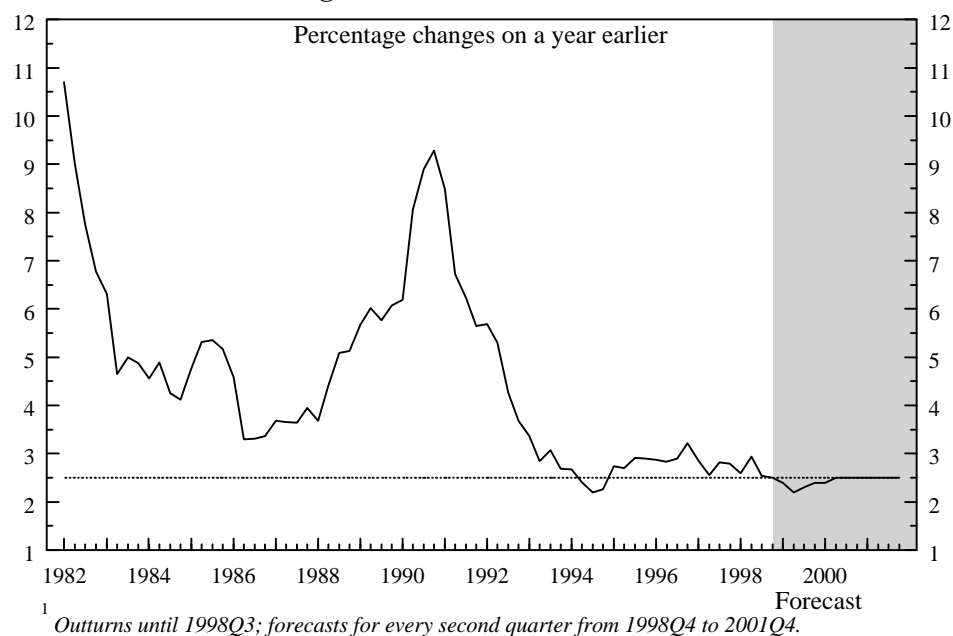
¹ Percentage changes on a year earlier.

² All goods.

Table 6: Retail and producer output prices

	Percentage changes on a year earlier									
	1997		1998		Forecast					
	Q2	Q4	Q2	Q4	1999	2000	2001	1999	2000	2001
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
RPI excluding MIPs	2½	2¾	3	2½	2¼	2½	2½	2½	2½	2½
Producer output prices ¹	0	-¼	0	-¾	-½	½	1¼	1¼	2	2¼

¹ Excludes excise duties.

Chart 23: RPI excluding MIPs¹

Comparison with independent forecasts

Table 7: Pre-Budget Report and independent¹ forecasts

	Percentage changes on a year earlier unless otherwise stated					
	1998			1999		
	Pre-Budget Report	Independent		Pre-Budget Report	Independent	
	Average	Range		Average	Range	
Gross domestic product	2¼	2.4	2.0 to 2.7	1 to 1½	1.1	0.0 to 2.5
RPI excluding MIPs (Q4)	2½	2.6	2.3 to 3.2	2½	2.5	2.0 to 3.5
Current account (£ billion)	-1¼	-5.6	-13.8 to 0.8	-7½	-8.7	-26.5 to -0.5

¹ "Forecasts for the UK Economy: A Comparison of Independent Forecasts", October 1998.

Comparison with March Budget forecast

Table 8: Comparison with March Budget forecast

		Percentage changes on a year earlier unless otherwise stated	
		March 1998 Budget	November 1998 Pre-Budget Report
Gross domestic product	1998	2 to 2 ½	2¾
	1999	1¾ to 2 ¼	1 to 1½
	2000	2¼ to 2¾	2¼ to 2¾
RPI excluding MIPs (Q4)	1998	2¾	2½
	1999	2½	2½
	2000	2½	2½
Current account (£ billion)	1998	-6½	-1¾
	1999	-6¾	-7½
	2000	-6½	-8¾

Table 9: Summary of economic prospects¹

	Percentage changes on a year earlier unless otherwise stated					Average errors from past forecasts ³
	1997	1998	Forecast ²			
			1999	2000	2001	
Output at constant market prices ⁴						
Gross domestic product (GDP)	3½	2¾	1 to 1½	2¼ to 2¾	2¾ to 3¼	1½
Manufacturing output	1	¼	-¼ to ¼	¾ to 1¼	2 to 2½	2¼
Expenditure components of GDP at constant market prices ⁴						
Domestic demand	4	4	1½ to 2	2¼ to 2¾	2¾ to 3¼	1½
Households' expenditure ⁵	4¼	3	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾	1½
General government consumption	0	2¼	2½	1¾	2¼	1¼
Fixed investment	6	6¼	1¾ to 2¼	3 to 3½	3½ to 4	3½
Change in inventories ⁶	¼	½	-½ to -¼	0	¼	¼
Exports of goods and services	8½	3¼	2¾ to 3¼	4¾ to 5¼	6 to 6½	1¾
Imports of goods and services	9½	7¼	4¼ to 4¾	4½ to 5	5½ to 6	2¾
Balance of payments						
current account						
£ billion	8	-1¾	-7½	-8¾	-9¼	8¾
per cent of GDP	1	-¼	-¾	-1	-1	1
Inflation						
RPI excluding mortgage interest payments (Q4)	2¾	2½	2½	2½	2½	1
Producer output prices (Q4) ⁷	-¼	-¾	½	1¾	2¼	1¼
GDP deflator at market prices (financial year)	2½	2¾	2½	2½	2½	1¼
Money GDP at market prices (financial year)						
£ billion	814	855	884 to 890	930 to 940	979 to 994	14
percentage change	6½	5	3½ to 4	5 to 5½	5¼ to 5¾	1½

¹ Data in this chapter are consistent with the national accounts and balance of payments statistics to the second quarter of 1998 released by the Office for National Statistics on 24 September 1998, and the preliminary GDP estimate for the third quarter released on 23 October.

² Despite the assumption that ratios of variables to GDP are largely invariant within forecast ranges, the growth ranges for GDP components do not necessarily round to the ½ percentage point ranges for GDP growth. This reflects the GDP growth ranges themselves being rounded, and assumed invariance of the levels of public spending and counterparts within the forecast ranges.

³ Average absolute errors in autumn forecasts over the past ten years; they apply to forecasts for 1999. The average errors for the current account are calculated as a percent of GDP. The £ billion figures are calculated by scaling the errors as a percent of GDP by money GDP.

⁴ Further detail on GDP and its components is given in Table A8.

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
1997	490.6	142.9	129.5	3.1	765.8	236.0	1001.8	245.2	-0.5	756.1
1998	505.4	146.2	137.7	6.9	796.2	243.5	1039.7	262.7	0.0	776.9
1999	513.8 to 516.3	150.0	140.0 to 140.7	3.9 to 4.6	807.7 to 811.6	250.4 to 251.6	1058.1 to 1063.2	274.0 to 275.4	0.0	784.1 to 787.9
2000	525.6 to 530.8	152.6	144.1 to 145.6	3.0 to 4.5	825.4 to 833.5	262.1 to 264.7	1087.5 to 1098.2	286.4 to 289.2	0.0 to 0.1	801.1 to 809.0
2001	538.1 to 545.8	156.1	149.3 to 151.4	5.0 to 7.2	848.4 to 860.5	277.9 to 281.9	1126.3 to 1142.4	302.5 to 306.8	0.0 to 0.1	823.9 to 835.7
1997										
1st half	242.9	71.3	63.3	1.0	378.5	115.9	494.4	119.8	-0.2	374.4
2nd half	247.7	71.5	66.1	2.1	387.3	120.0	507.4	125.4	-0.3	381.7
1998										
1st half	251.2	72.7	68.6	2.7	395.1	121.1	516.2	129.3	0.0	386.9
2nd half	254.2	73.5	69.1	4.2	401.0	122.5	523.5	133.5	0.0	390.0
1999										
1st half	255.9 to 256.8	74.0	69.7 to 70.0	3.0 to 3.2	402.6 to 404.0	124.2 to 124.6	526.7 to 528.6	135.8 to 136.2	0.0	391.0 to 392.4
2nd half	257.9 to 259.5	75.9	70.3 to 70.8	1.0 to 1.4	405.2 to 407.6	126.2 to 127.0	531.4 to 534.6	138.3 to 139.1	0.0	393.1 to 395.5
2000										
1st half	261.0 to 263.3	75.5	71.4 to 72.0	1.9 to 2.5	409.8 to 413.3	129.2 to 130.3	539.0 to 543.6	141.3 to 142.6	0.0	397.7 to 401.1
2nd half	264.6 to 267.5	77.2	72.7 to 73.5	1.2 to 2.0	415.6 to 420.2	132.9 to 134.3	548.5 to 554.6	145.0 to 146.6	0.0	403.4 to 407.9
2001										
1st half	267.6 to 271.2	77.3	74.0 to 75.0	2.5 to 3.6	421.4 to 427.1	136.9 to 138.7	558.2 to 565.8	149.1 to 151.2	0.0	409.1 to 414.7
2nd half	270.5 to 274.6	78.8	75.3 to 76.4	2.5 to 3.7	427.1 to 433.4	141.0 to 143.1	568.1 to 576.6	153.3 to 155.6	0.0	414.8 to 421.0
Percentage changes on a year earlier ³										
1997	4¼	0	6	¼	4	8½	5	9½	0	3½
1998	3	2¼	6¼	½	4	3¼	3¼	7¼	0	2¼
1999	1¼ to 2¼	2½	1¼ to 2¼	-½ to -¼	1½ to 2	2¼ to 3¼	1¼ to 2¼	4¼ to 4¼	0	1 to 1½
2000	2¼ to 2¼	1¼	3 to 3½	0	2¼ to 2¼	4¼ to 5¼	2¼ to 3¼	4½ to 5	0	2¼ to 2¼
2001	2¼ to 2¼	2¼	3½ to 4	¼	2¼ to 3¼	6 to 6½	3½ to 4	5½ to 6	0	2¼ to 3¼

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.