Office for National Statistics

The Economy - International Comparisons, 2011

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Theme: **Economy**
Theme: **Labour Market**

Key Points

- The economy is a key consideration when attempting to measure National Well-being and comparing the relative performance of different countries is an important aspect
- In international comparisons of household income the UK has dropped from 5th place in 2005 to 12th place in 2011. This is partly as a result of the devaluation of sterling seen in this period.
- Since 2009 inflation has remained high compared to the US, France and Germany but has been relatively less volatile
- Despite falling 12 places between 2005 and 2011 when looking at rankings based on unemployment, the UK labour market has been more resilient in than previous recessions
- In terms of household spending and wealth, the UK has remained relatively strong compared with other OECD countries
- Despite falling two places in the rankings since 2005, the UK still fares relatively better under Net National Income than Gross Domestic Product

Introduction

This article is published as part of the ONS Measuring National Well-being Programme. The programme aims to produce accepted and trusted measures of the well-being of the nation. This article focuses on one aspect of well-being, the economy, and is part of a series of articles which aim to explore in more detail the different areas that have been considered as important for the measurement of national well-being. These areas have been termed 'domains' The article describes how the UK has fared relative to other countries in the domain of the economy.

The scope of this domain includes measures of economic output and stock. These measures reflect the 'household perspective' as recommended in the Report from the Commission on the Measurement of Economic Performance and Social Progress published in 2009.

The article looks at each of these indicators within 'the economy' - in addition to a number of other relevant indicators - and compares the UK with other countries. We are comparing the UK with 33 other countries that are members of the Organisation for Economic Co-operation and Development (OECD). The first section of the article focuses on measures of household income, spending and wealth. The article then moves on to look at wider indicators of the economy as a whole.

Further information regarding the technical definitions of each of the indicators can be found in the supporting information at the end of the article.

Household Income

The well-being of individuals in a country is best reflected by looking at the experiences of households. Most households will not consider their share of national measures, but rather the income they actually have in their pockets after deductions such as income tax or pension contributions – this measure is household disposable income.

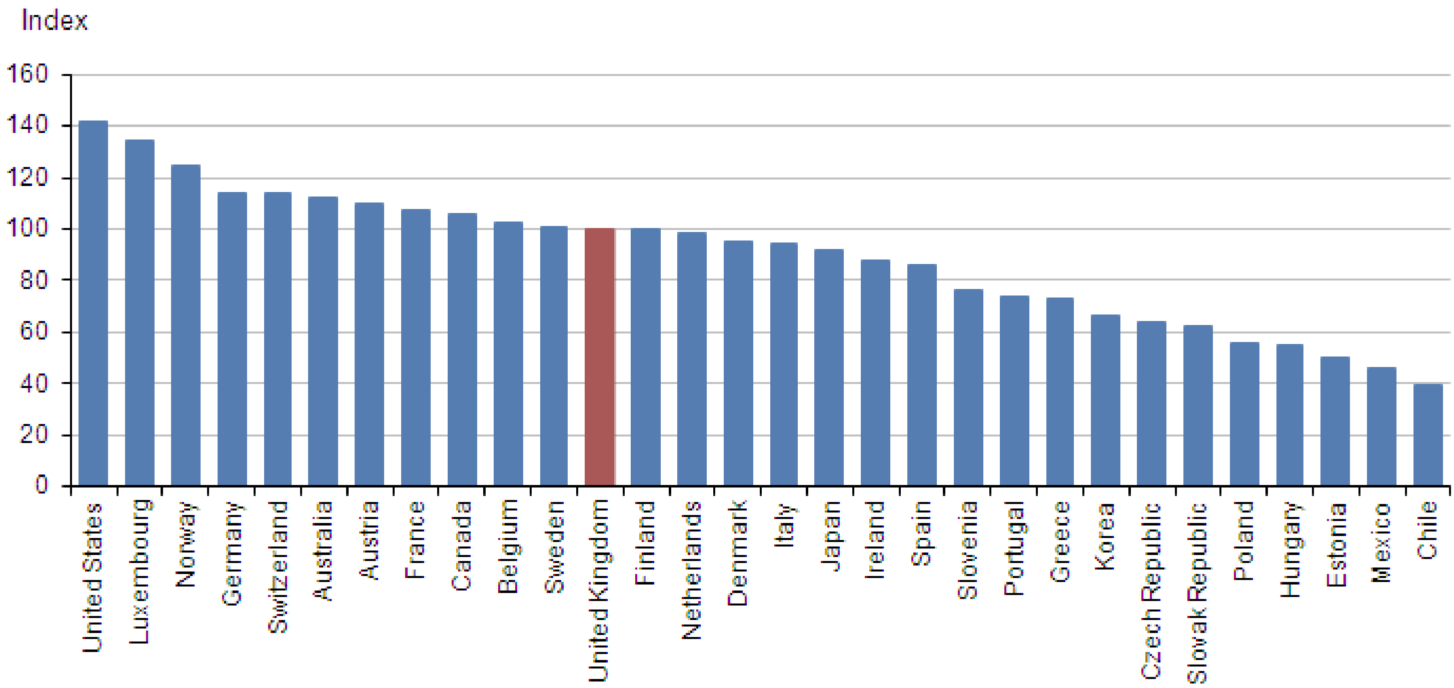
To allow for true international comparisons, in this section household disposable income is adjusted for services provided by government such as healthcare and education. Whilst these are largely free to households in some countries (such as the UK) they are not in all, meaning households in some countries would have to pay for these services out of their income. As a result, when making international comparisons on standards of living or well-being, it is important to adjust for this difference. This services adjusted indicator is referred to in this paper as household actual disposable income. We also adjust for the size of a country by looking at 'per head' measures.

Up until 2010 the UK had seen a prolonged period of growth in this adjusted measure of household income. Including 2008 and 2009, where household incomes grew despite the onset of the recession. This is because household incomes were supported by low mortgage interest rates and a stronger labour market than experienced in any previous recessions. Over the course of the recession, as unemployment rose, people paid less taxes and claimed more benefits – causing less of a strain on household income. However, as the economy emerged from the first period of contraction (measured by GDP), households began to feel the squeeze on their incomes as these effects wore off.

It is interesting to look at developments in the income of UK households relative to other countries, as this should provide a good comparison of international standards of living. In 2011, the UK was ranked 12th against other OECD countries when looking at household actual disposable income per head (see Figure 1).

Figure 1: Household Actual Disposable Income Per Head in 2011

OECD Countries, UK=100



Notes:

1. Source: OECD
2. Current prices and current PPPs
3. Data for Iceland, Israel, New Zealand and Turkey are not available

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In previous years, the UK has fared better when comparing household income internationally. When looking at 2005 data, the UK ranks 5th – this highlights the relative experience of UK households since the recession which started in 2008. Figure 2, shows the UK's ranking in 2011 is seven places lower when compared to 2005.

Figure 2: Household Actual Disposable Income Per Head rankings over time (2005 and 2011)

OECD Countries

Rank	2005	2011
1	United States	United States
2	Luxembourg	Luxembourg
3	Norway	Norway
4	Germany	Germany
5	United Kingdom	Switzerland
6	Australia	Australia
7	Austria	Austria
8	Switzerland	France
9	France	Canada
10	Canada	Belgium
11	Belgium	Sweden
12	Netherlands	United Kingdom
13	Ireland	Finland
14	Italy	Netherlands
15	Japan	Denmark

Notes:

1. Source: OECD

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To allow for international comparisons, household actual disposable income per head has been adjusted to equivalise the spending power across countries. This means it reflects not just the level of income but also how much can be bought with it (the purchasing power). Between 2005 and 2011 the prices of goods and services in the UK has increased relative to other countries. As a result, although household income in the UK has grown, when compared to other countries that income doesn't stretch as far. This goes some way in explaining why the UK ranks relatively lower than it did in 2005.

Household Spending

Trends in household income and inflation will impact on household spending decisions. Households have a choice as to what they do with their disposable income - they can either spend it on current consumption or save it for future consumption. This means an increase in income may not be spent straight away, and therefore in addition to income it is important to look at household spending to fully gauge any change to well-being. While income signifies potential material living standards, spending better signifies actual material living standards.

Like household income, this section adjusts household final consumption expenditure for services provided by the government, such as healthcare and education. This adjusted measure is known as

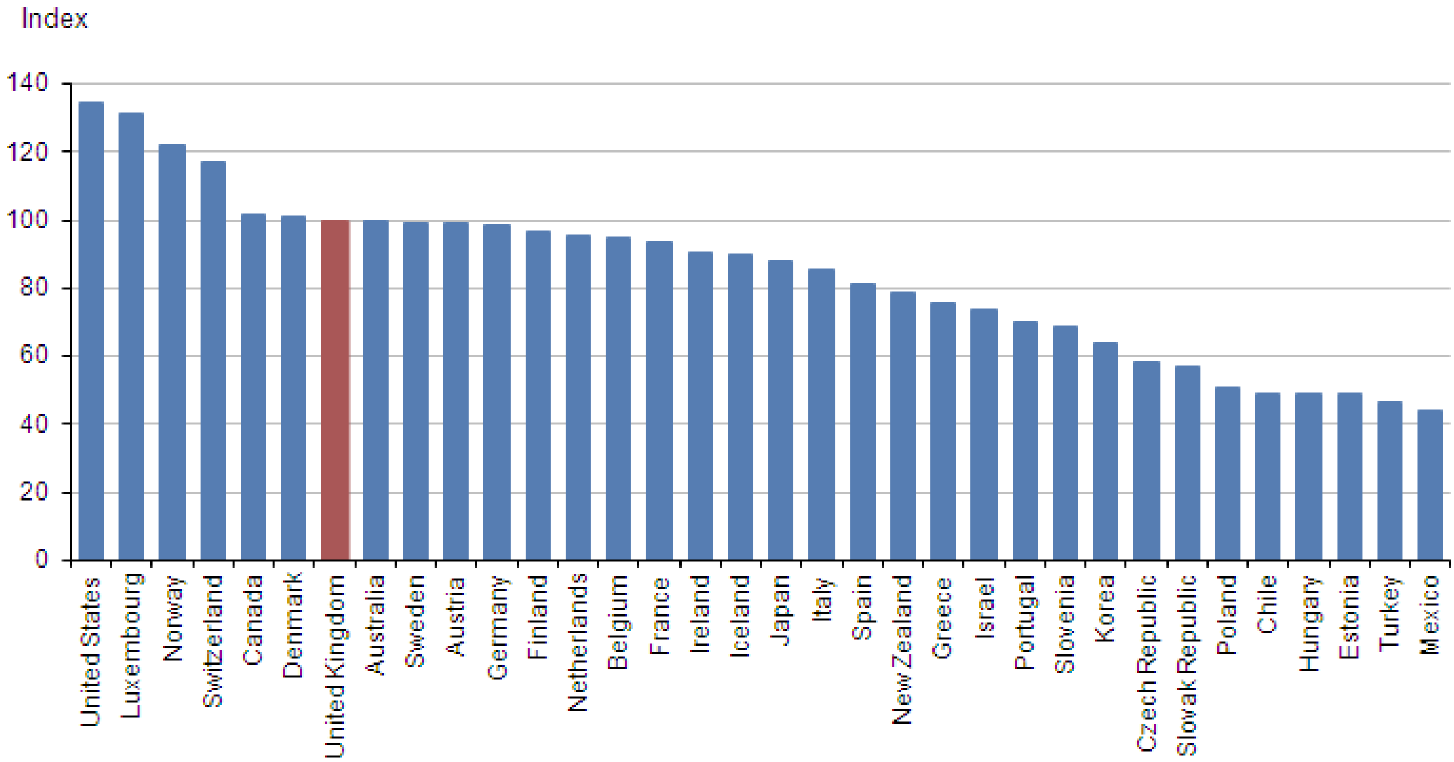
Household Actual Consumption. It is the value of the goods and services consumed by households - whether these goods and services are purchased and paid for by households, by government or by non-profit organisations. We also adjust this section for the size of a country by looking at the 'per head' measure.

The increase in household incomes seen in the early period of the 2008 recession was not matched by equivalent growth in household spending in the UK. The pattern of household spending followed the prolonged period of growth (seen in income) up to 2007. In 2008, the two measures diverge: household spending starts to fall despite the growth in household income. This fall in spending was therefore accompanied by an increase in saving, possibly reflecting the uncertainty facing households and the need to pay down debt.

This is reflected in the international comparisons of household spending per head, as measured by household actual consumption per head in Figure 3. The UK dropped to 7th place in 2011 - although this is an improvement from the ranking seen with household income per head (where the UK ranked 12th for the same year), it is not as strong as in previous years. This can be seen when comparing 2011 with 2005 data, in which the UK ranks 5th place.

Figure 3: Household Actual Consumption Per Head in 2011

OECD Countries, UK=100



Notes:

1. Source: OECD
2. Current prices and current PPPs

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It is worth highlighting that the gap between 5th place (Canada) and 11th place (Germany) is quite small and, in terms of household spending, the UK remains close to the countries around it in the rankings. As a result this change in the rankings may not really be significant in terms of relative experiences through the recession.

As we have seen, the UK's ranking for household spending per head is higher and much more stable than for household income per head. This would suggest that the relative material living standards of households in the UK are better than household income per head may indicate. It is worth noting that both Germany and France rank much lower under household spending per head, reflecting the different spending and saving decisions made by households in the UK compared to France and Germany. This shows that although household spending is a good indicator of living standards, cultural differences in saving priorities may affect any international comparison.

Between 2005 and 2011, the household saving rate was, on average, 11.8% for France, 10.9% for Germany and -1.1% for the UK. This figure is so low for the UK due to saving culture before the recession. From 2009, the savings ratio has been positive in the UK. This highlights that from 2005 to 2008, UK households were actually living beyond their means, spending not just from their income but also their savings (or borrowing to fund spending). This highlights the importance of considering household wealth when looking at well-being – giving an indication of the sustainability of current income and spending flows.

Household Wealth

Measures of household income and consumption flows are an important gauge for the standard of living today, but in the end it is consumption and consumption possibilities over time that matter. A low-income household with above-average wealth is better off than a low-income household without wealth.

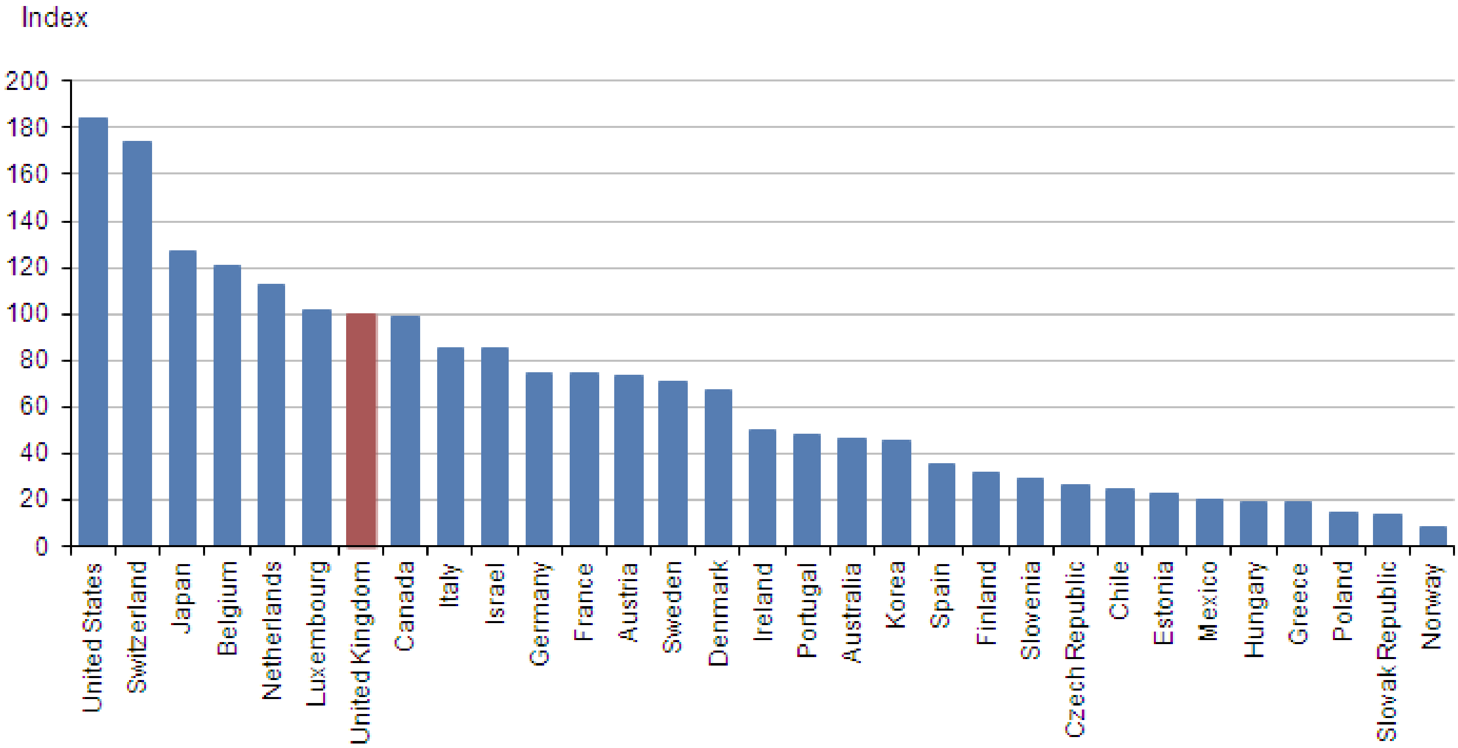
Household wealth is also one reason why household income and consumption are not necessarily equal; for a given income, consumption can be raised by running down assets or by increasing debt, and consumption can be reduced by saving and adding to assets.

In the UK, household net financial wealth saw growth from 2003 to 2006, but shrunk in 2007 and 2008. This reduction in financial wealth reflects falls in the value of household assets (for example shares and other equities) and may be attributed turmoil on the stock market as the financial crisis deepened. Household net financial wealth started to recover after 2008 but is unsteady, this is likely to be because of the UK's volatile mortgage market.

Figure 4 shows household financial net wealth per head relative to other countries in 2011. As with the other indicators, we adjust for the size of a country by looking at 'per head' measures. This shows that the UK was in 7th place amongst OECD countries. The UK's financial net wealth of households is double that of Ireland and four times as much as Chile.

Figure 4: Financial Net Wealth of Households and NPISH Per Head in 2011

OECD Countries, UK=100



Notes:

1. Source: OECD
2. Current prices and current PPPs
3. Data for Iceland, New Zealand and Turkey are not available

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The financial net wealth of households in the UK remained relatively stable over this period, only ranking 7th or 8th place from 2005 to 2011.

It is interesting to note that several countries which ranked higher than the UK in some of the previous indicators now rank closer to or well below the UK, for example - Luxembourg and Germany. Furthermore, Italy, Israel and Japan have moved considerably up the rankings, meaning that their households' are, on the whole, getting wealthier over the period.

Differences in the net wealth of countries can arise for a number of reasons. They may be due to the importance placed on other assets over financial assets. This in turn may be reflected in the extent to which households participate in the financial markets. Finally, differences in social security systems across the countries may encourage some households to take out private pensions and life insurance.

Inflation

Inflation is another key factor that can influence well-being. The main channel through which inflation impacts households, and therefore well-being, is through the erosion of household incomes. As prices rise faster than people's incomes, over time people find their income purchases a lower quantity of goods and services - therefore they feel worse off.

In addition to the impact on household income, a high rate of inflation reduces the real value of wealth held in cash terms - the higher the rate of inflation the greater the reduction in the real value of wealth held in cash. In addition, if inflation is above the interest rate the value of wealth in the form of savings also falls in real terms. The opposite is true for debtors, as this scenario results in a fall of the real value of debt.

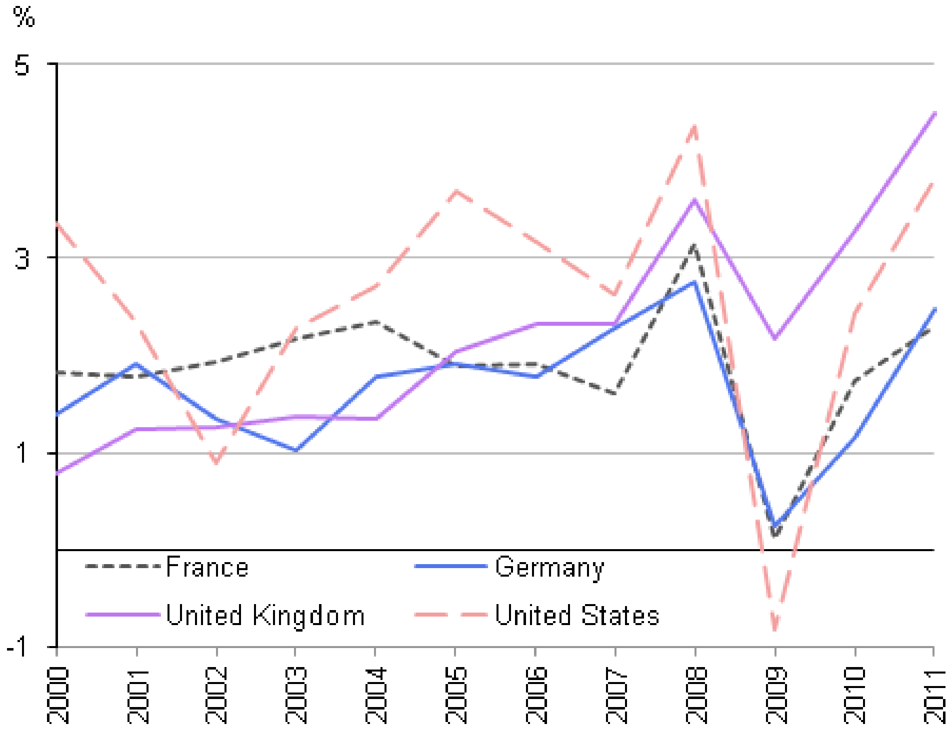
Therefore the rate of inflation relative to the rate of interest has important distributional effects for well-being; a relatively high inflation rate redistributes net wealth from savers to debtors and vice versa.

Figure 5 shows inflation as measured by the HICP (CPI) for the UK, the US, France and Germany. The recession saw a fall in house prices, consumer confidence and thus consumer demand, and an increase in savings. This is clearly reflected by the fall in inflation for the UK to 2.2% in 2009. However, in the same year, prices grew by only 0.1% in France and 0.2% in Germany and actually fell by 0.8% in the USA.

Following this, the UK experienced relatively high inflation between 2010 and 2011, again much above that of France, Germany or the US. While other countries appear to have experienced a similar trend to the UK when looking at inflation, the UK has been higher but less volatile than the France Germany and the US since 2009.

Figure 5: Annual Change in Harmonised Index of Consumer Prices (HICP)

Selected OECD Countries



Notes:

1. Source: OECD

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Unemployment

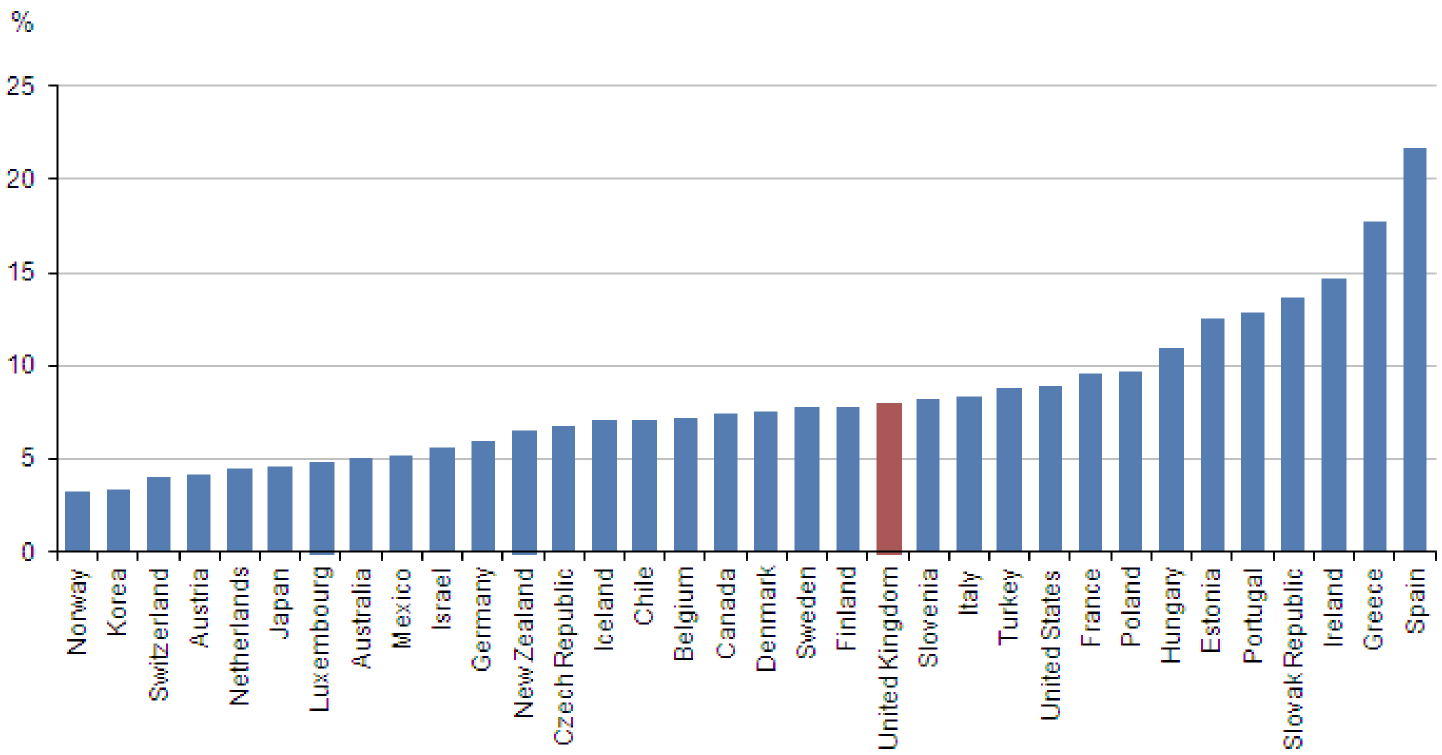
A substantial proportion of household income comes from earnings from employment; unemployment can therefore reduce income and subsequently well-being. Any deterioration in employment is expected to have a negative impact on income growth.

In addition to reducing household income per head, unemployment also has a direct, and strongly negative, impact on individual well-being. ONS Experimental Subjective Well-being results showed that forty-five per cent of unemployed people rated their life satisfaction as ‘low’ or ‘very low’; over twice the proportion reported by employed people.

Although the impact of the recession on employment was more muted in 2008 than previous recessions (employment did not fall as far and unemployment did not rise as much), it is also important to see how the UK unemployment compares internationally as well as historically. Looking at the falls in employment relative to those experienced in other countries give an international picture of the UK’s relative well-being over the recession.

Figure 6: Harmonised Unemployment Rates in 2011

OECD Countries



Notes:

1. Source: OECD

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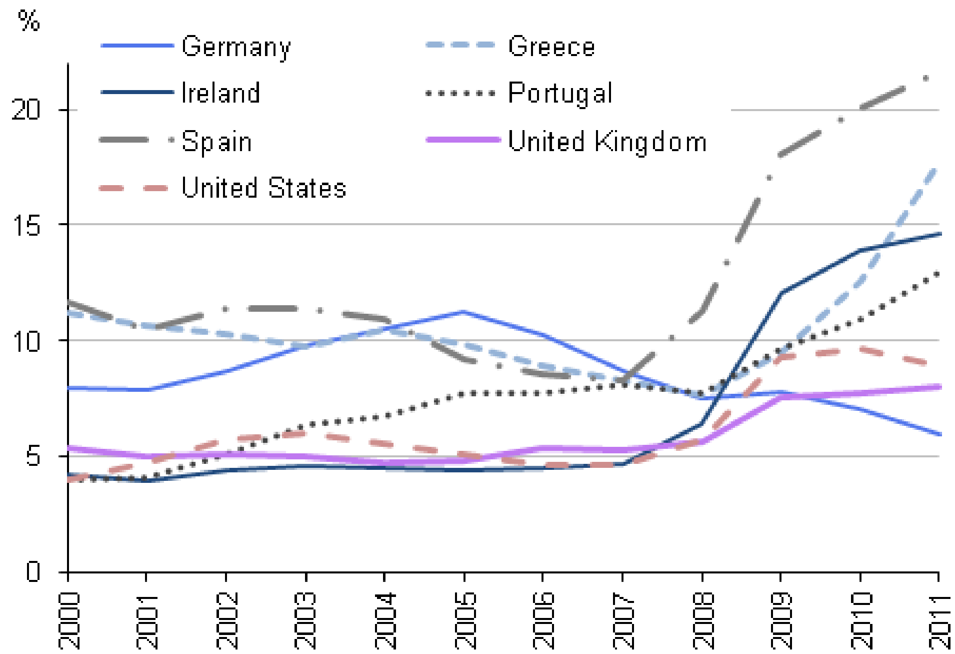
Figure 6 shows OECD countries ranked from lowest unemployment rate (Norway) to the highest (Spain). From the point of view of well-being, a lower employment rate would have a positive impact (both directly and indirectly) on society. In 2011 the UK ranked somewhere near the middle of the order when looking at unemployment. This is 12 places below the ranking of 9th seen in 2005. However, with a rate of 8.0% in 2011, UK unemployment still remains well below unemployment rates seen in Greece (17.7%) or Spain (21.6%) and closer to Norway. Unemployment in Norway has remained the lowest since 2008, and in 2011 the unemployment rate was 3.3%. Luxembourg, Australia and Austria maintained a relatively stable rate of unemployment over the 6 years. This might help to explain why they are also amongst the top ranking countries for household income per head.

Figure 7 shows some of the 'big movers' in terms of the unemployment rate since 2005 - showing that while unemployment in the UK has increased, it is not the only economy to have experienced a weakening labour market over the recession. Unemployment in the US echoes that of the UK, with the US falling 13 places down the OECD rankings between 2005 and 2011. Against the background of recession, Germany has seen the biggest improvement (of those countries compared in Figure 7) in the unemployment rate, decreasing from 11.3% in 2005 to 6.0% in 2011.

The fall in the international rankings of the UK and US should be taken in context. As Figure 4 indicates, though the UK and the US have seen growth in their unemployment rates, the extent of this growth has not been as severe as other countries (such as Spain, Greece, Portugal and Ireland). Many of the countries that have overtaken the UK and US in the rankings are smaller economies, less exposed to the 2008 downturn, which centred on the US and Europe. The fall of 12 places in the international rankings for the UK has therefore come despite historically the most stable labour market seen in a UK recession.

Figure 7: Harmonised Unemployment Rates

Selected OECD Countries



Notes:

1. Source: OECD

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The National Economy

Although it is important to look at the household perspective, it is also important to understand the performance of an economy overall. This section of the article looks at the economy as a whole, using Gross Domestic Product (GDP) per head as a starting point and then considering, Net National Income (NNI) per head and Gross Public Debt as a percentage of GDP. The role of GDP in this release is to provide a starting point from which other measures can be discussed and used to provide greater insight on how the UK fares internationally.

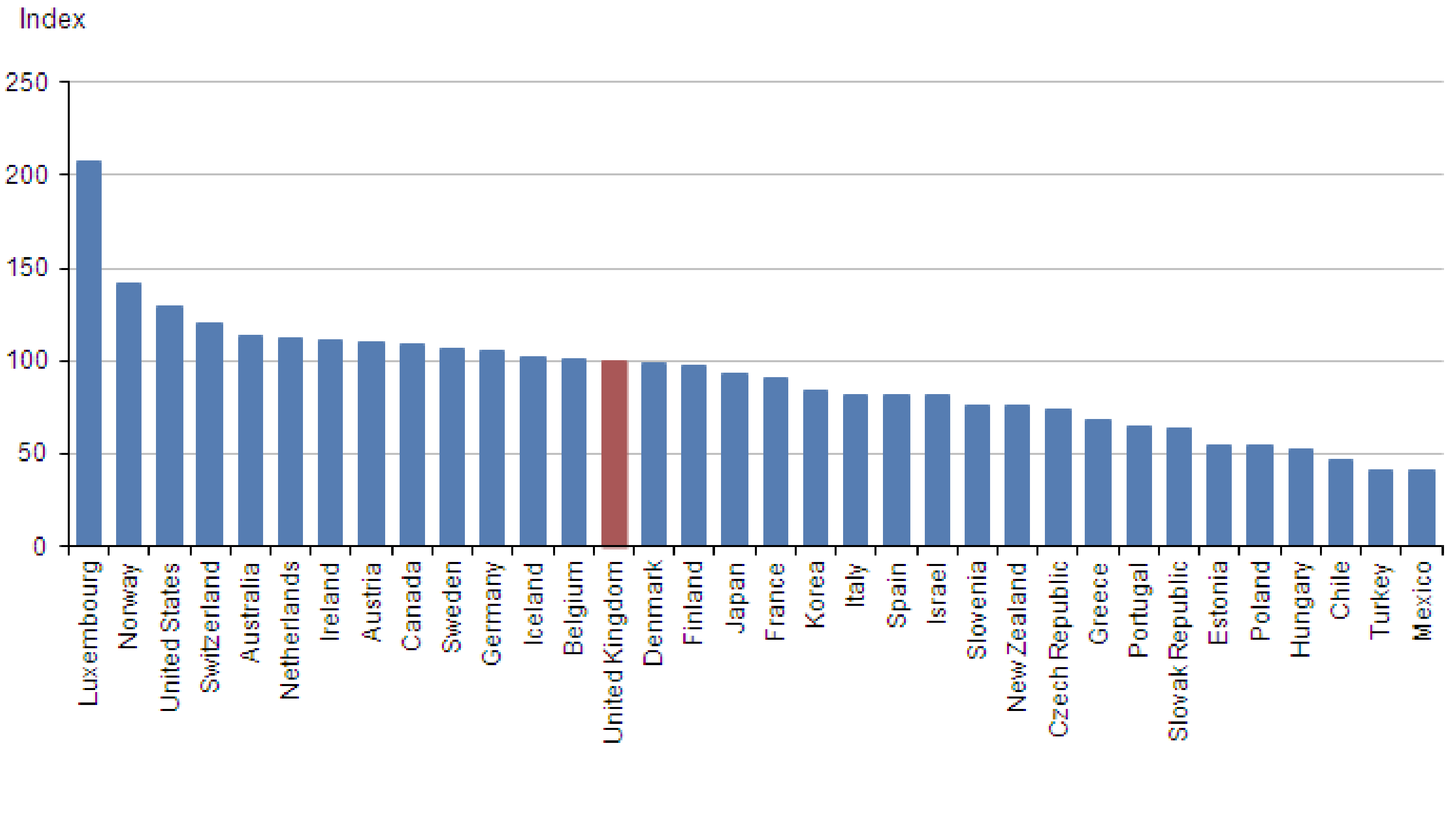
GDP is the most well-known macroeconomic indicator, and can be considered as either the total of income, expenditure or production within an economy. It can be defined as the value of all the goods and services produced within the economic territory of a country, in other words its entire output, during a given period (it can also be defined in a similar way as the total income or expenditure of an economy).

GDP is often used for judging how well an economy is doing. A country with a higher figure for GDP is said to have a 'bigger economy'. When GDP is increasing, the economy is said to be growing. The term 'recession' is often defined as two consecutive quarters of declining GDP.

Figure 8 shows how OECD countries compare against each other when looking at real GDP per head. Again, this is on a per head basis and adjusted to reflect relative purchasing power.

Figure 8: Real GDP Per Head for 2011

OECD Countries, UK=100



Notes:

1. Source: OECD
2. Constant prices and constant PPPs

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In 2010, the UK ranked 14th place with a GDP per head less than half that of Luxembourg in first place but almost three times that of Mexico at the other end of the scale.

Although GDP has traditionally been considered a measure of living standards, it was not designed for this purpose. GDP measures production and not material well-being. Living standards are more closely aligned with NNI which better measures the total income available to residents of that country.

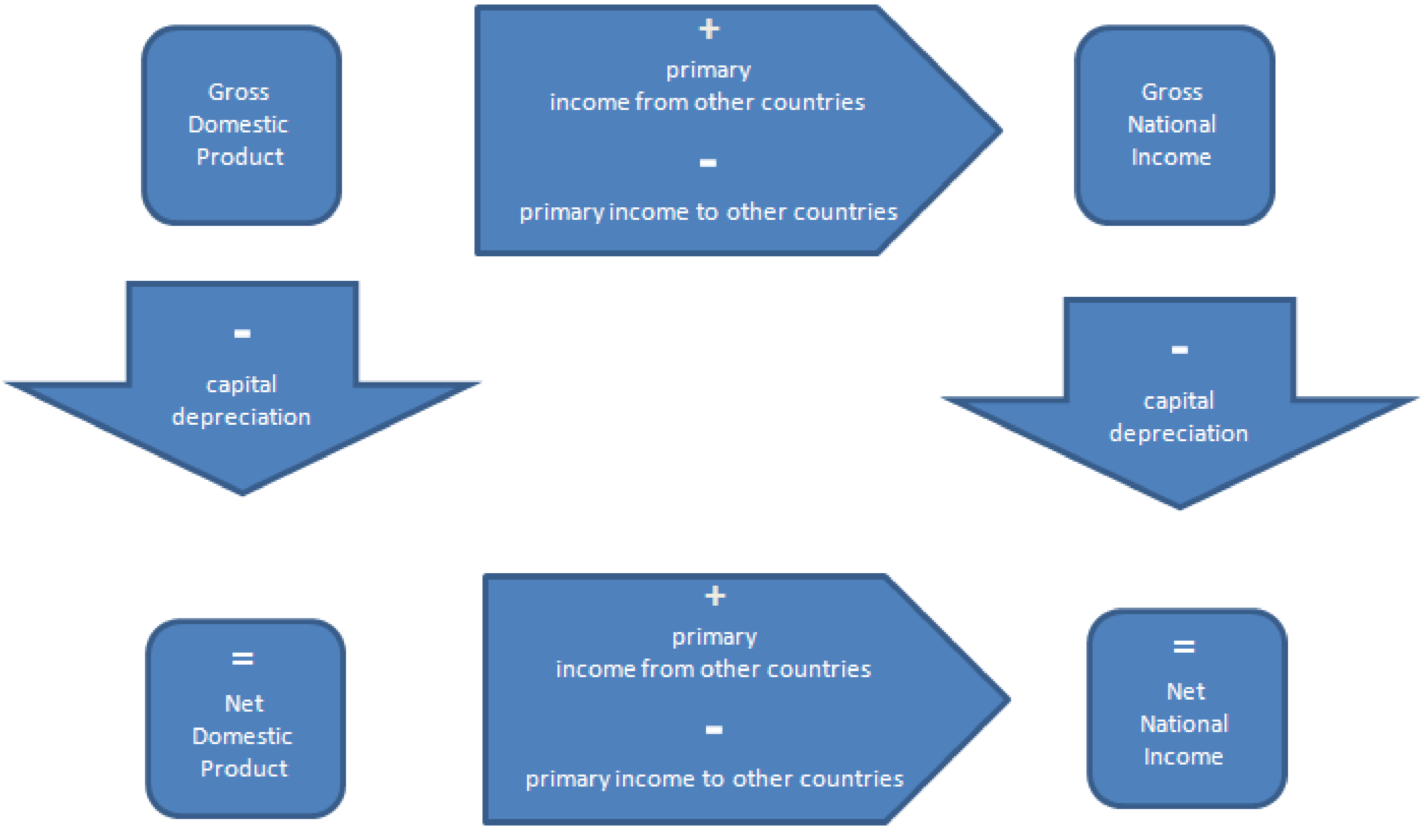
NNI is a measure of the total income of a country and is different from GDP in two ways. Firstly, it includes only the income from UK production (in other words, the share of GDP) that can be claimed by individuals and organisations resident in the UK. It then adds to this the income that these residents can claim from the GDP of other countries. This production is still part of the UK's income even though it does not take place within its national boundaries. For example the following would all be included in GDP but excluded from NNI as they are not income available to the residents:

- A non-UK resident receiving wages for seasonal work undertaken in this country
- The profits of a UK based subsidiary that are repatriated to its parent company in another country
- A pensioner resident abroad receiving dividends on shares held in a British business

Additionally NNI is adjusted for capital depreciation - that is to say the day-to-day wear and tear on vehicles, machinery, buildings and other fixed capital used in the productive process. This takes account of income that is used to simply replace or repair existing vehicles, machinery, buildings and other fixed capital as this does not increase the well-being of a nation.

Figure 9 graphically represents how GDP is adjusted to take account of depreciation and net income from abroad to derive NNI.

Figure 9: Deriving NNI from GDP

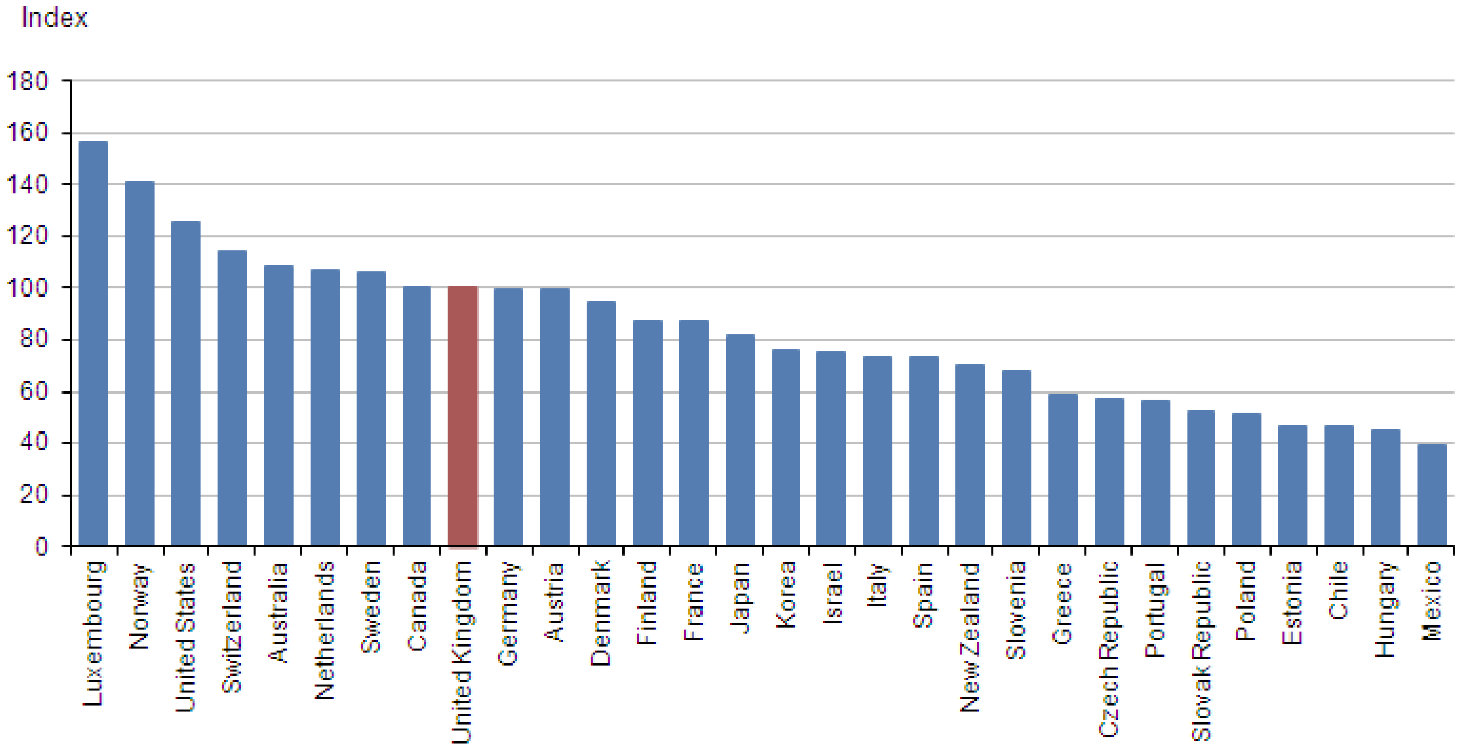


A full comparison of GDP per head and NNI per head in the UK can be found in The Economy article. It shows that for the second quarter of 2012 the UK NNI per head in real terms was 13.2% below its level in the first quarter of 2008; a sharper fall in living standards than the GDP data alone indicate.

Figure 10 shows how the UK compares to other OECD countries when using real NNI per head. In 2011 the UK ranked 9th place – higher than the ranking under GDP per head. Using NNI per head has resulted in the UK overtaking Austria and Germany. However, the UK remains behind Netherlands, Sweden and Canada. The UK fell by two places when comparing its position in 2005 with its position in 2011. However, the gap (as a ratio of UK NNI per head) between Luxembourg and the UK narrowed by 14 percentage points during the same period.

Figure 10: Real NNI Per Head for 2011

OECD Countries, UK=100



Notes:

1. Source: OECD
2. Constant prices and constant PPPs
3. Data for Ireland, Iceland, Belgium and Turkey are not available.

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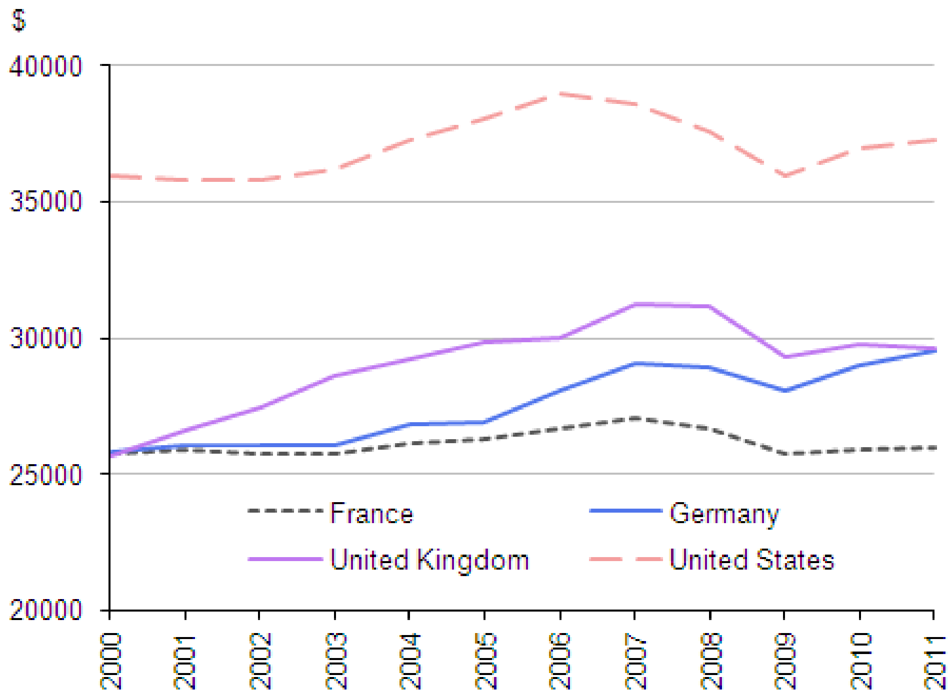
Interestingly, Luxembourg's NNI per head is 31.9% smaller than its GDP per head. As a result, the NNI per head of the UK is now greater than half that of Luxembourg's. Luxembourg has a significant number of workers commuting from neighbouring countries. Consequently, there is a large outflow of income earned by foreign nationals in Luxembourg which explains why Luxembourg's NNI per head is much less than it's GDP per head. Nevertheless, Luxembourg still retains in 1st place in the rankings.

Given the extent of the fall in NNI over the recession that started in 2008 (see the Economy Article) it is also interesting to look at the impact this has had on the international rankings. Figure 11 shows real NNI per head from 2000 to 2011 for the UK, US, France and Germany. Between 2000 and 2007 there is a notable increase in NNI per head overall, which corresponds with a general increase in material living standards during this period. The general decline in the rate of growth between 2007 and 2009 is indicative of the global recession.

Figure 11: Real NNI Per Head

Selected OECD Countries



Notes:

1. Source: OECD
2. Constant prices and constant PPPs

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The UK saw, relatively, the largest growth in the early 2000s with an average growth rate of 2.8% between 2000 and 2007. However, like France, it did not recover well after the recession. Germany experienced more stable growth and a stronger recovery.

In 2008 and 2009 the effect of the recession is clear in all four economies. France was taken to its lowest NNI per head since 2000 and the UK was pushed back to close to its 2004 level. Germany fared comparably well, falling less severely. By 2010, Germany had recovered to its pre-recession level of NNI per head. However the UK recovery lags behind, in 2011 NNI was still 5% below its 2008 level.

Germany, France and the UK had a similar level of NNI per head in 2000 and although the UK grew more strongly than Germany between 2000 and 2007, the weaker recovery in the UK has resulted in Germany and the UK having similar levels of NNI again in 2011. Comparatively France saw weaker growth to 2007 and a relatively weak recovery, leaving NNI per head in France 12.3 per cent lower than the UK.

Conversely, in 2000 the US NNI per head was 39.9% bigger than that of the UK. Over the period, despite relatively strong growth in the US between 2004 and 2006, the gap between the US and the other countries (including the UK) reduced. By 2011, the gap had shrank 14 percent points to 25.9% of UK NNI per head. This reflects stronger growth in the UK between 2000 and 2008, and comes despite a weaker recovery.

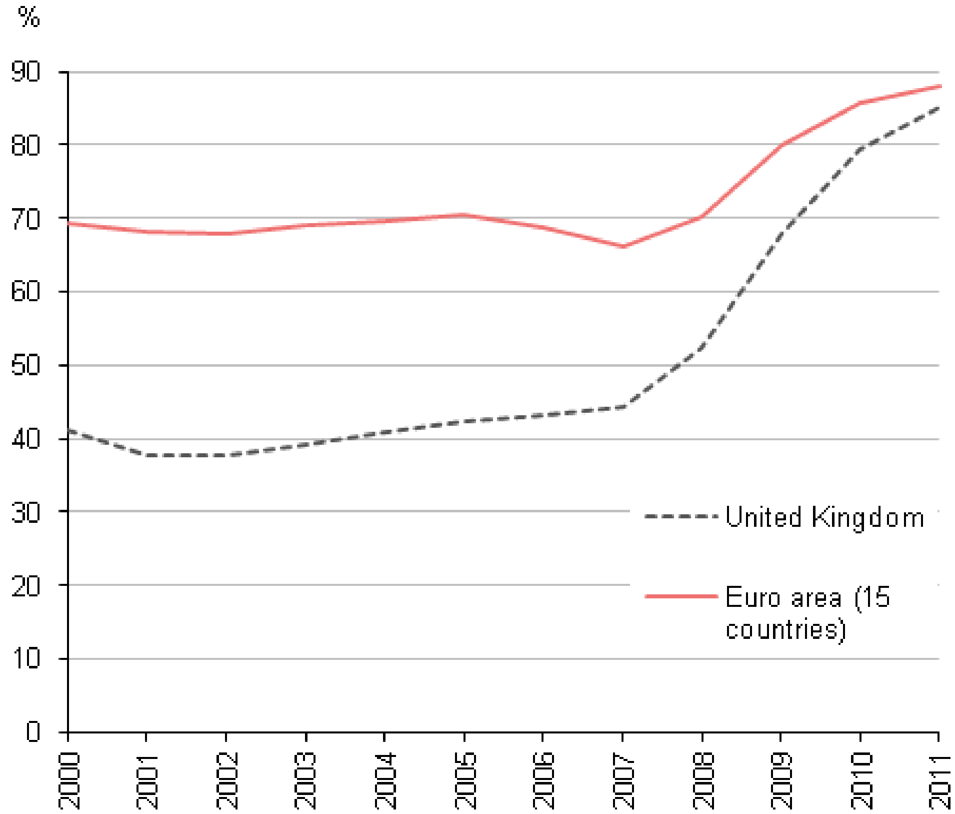
Public Sector Debt

As with households, while national income flows are important for current income, it is also important to consider Public Sector Debt – giving an indication of the sustainability of current public spending. While NNI per head tells us about what is happening in the economy here and now, levels of debt give us an indication of how the current situation may affect the future. Debt effectively transfers the burden of paying for current consumption from the present to the future. Personal debt remains the liability of the individual (at least until their death). However, Public Sector Debt is government debt and can be transferred from one generation of tax payers to the next. However, it is worth highlighting that future economic progress can increase when debt is spent on investment in assets and capital, which generate income over their lifetime.

This article looks at Gross Public Sector Debt to indicate sustainability of public spending, this is internationally comparable. This is notably a different measure to that used to influence UK fiscal policy, Public Sector Net Debt, which we are not able to compare across countries. Figure 12 compares the UK and Euro Area countries in terms of Gross Public Sector Debt as a percentage of GDP, a comparison that is often used as it gives an indication of the sustainability of debt. There is no precise ratio as to what level of debt is sustainable; this depends on a variety of country specific risks and ultimately debt sustainability is decided by the financial markets. Growth in GDP, however, is seen as a critical element in reducing the risks.

Figure 12: Gross Public Debt as a percentage of GDP

United Kingdom and Euro Area



Notes:

1. Source: OECD

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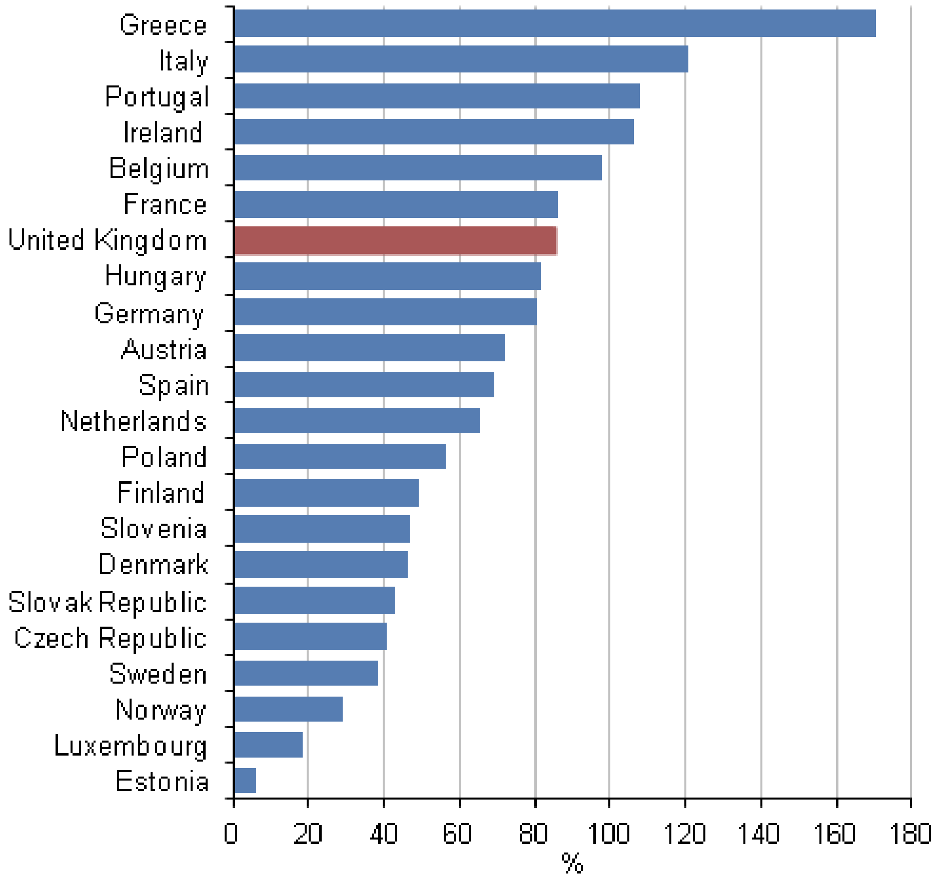
In 2000, the level of UK debt was 41.1% of GDP, which is notably lower than the 69.2% for the Euro area. Between 2007 and 2011, with the effects of the financial crisis, the two levels of debt converge, increasing to 85% for the UK and 88.1% for the Euro area countries. By 2012, Gross Public Sector Debt as a percentage of GDP for the UK was over twice as much as it was in 2000.

Unsurprisingly given Figure 12, the UK has moved up the rankings when considering Gross Public Sector Debt (see Figure 13) from the 15th most indebted OECD country in 2000 to the 7th most indebted OECD country in 2011. Other countries who also saw a big rise in their relative debt levels by 2011 were Greece, France, Hungary and Norway who all moved up by two places, when compared to 2000. Notable countries at the top of the ranking include Greece, Italy, Portugal and Ireland all of whom have experienced problems with sustainability of debt in recent years.

Figure 13: Gross Public Debt as a Percentage of GDP in 2011

OECD Countries



Notes:

1. Source: OECD

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Background notes

1. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

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Supporting Information

Further information

Measuring National Well-being, The Economy, 2012
How economic well-being has evolved over the last decade focusing on the period beginning with the 2008 recession.

Measuring National Well-being, Summary of Proposed Domains and Measures, July 2012
Summary of proposed domains and measures of national well-being

First Annual ONS Experimental Subjective Well-being Results
This article presents estimates of subjective well-being from the first annual experimental Annual Population Survey (APS) Subjective Well-being dataset for April 2011 to March 2012

Related Internet Links

Stiglitz J E, Sen A & Fitoussi J-P (2009) 'Report by the Commission on the Measurement of Economic Performance and Social Progress'.
Stiglitz J E, Sen A & Fitoussi J-P (2009) 'Report by the Commission on the Measurement of Economic Performance and Social Progress'.

OECD: Main Economic Indicators (MEI)

Glossary

Gross Public Sector Debt

The measure of Public Sector Debt used in this article is Gross public sector debt. Gross public sector debt measures the nominal value of consolidated general government financial liabilities including currency, bills, bonds and loans. It is different to the Measuring National Well-being Economy Domain indicator of public sector net debt excluding the temporary effects of financial interventions which is calculated as financial liabilities less liquid assets with both scored at face value. Liquid assets mainly comprise foreign exchange reserves and bank deposits. We have used the former definition in this article to allow international comparability.

Household Income (Household Actual Income)

The measure of household income used in this article is Household Actual Disposable Income (or household gross adjusted disposable income) in current prices and per head. This is a measure composed of total household income (employment earnings, property income, interest, dividends, pensions and social security benefits) plus the value of social transfers in kind receivable by households less payments of taxes, social security contributions, other current transfers, insurance premiums and the value of social transfers in kind payable by households.

Household Spending (Household Actual Consumption)

The measure of household spending used in this article is Household Actual Consumption (or household actual individual consumption). This is a measure of the value of consumption goods and services acquired by households, either through purchase or transfer from government or non-public institutions serving households (NPISH).

Household wealth

The measure of household wealth used in this article is household and NPISH net financial worth per head. Household financial worth is the sum of financial assets less financial liabilities. Financial assets include currency and deposits, securities other than shares, loans, and shares and other equity, net equity of households in life insurance reserves and pension funds, prepayments of premiums and other accounts receivable. Financial liabilities include loans, house purchase loans, and other accounts payable and where applicable securities other than shares (except financial derivatives), net equity of households in pension funds, and prepayments of premiums.

Inflation

The measure of inflation used in this article is the Harmonised Index of Consumer Prices (HICP). This is equivalent to the UK headline measure of inflation (Consumer Price Index – CPI).

Unemployment

The measure of unemployment used in this article is the Harmonised Rate of Unemployment. The Harmonised unemployment rates are based on the International Labour Organisation definition and are all sourced from the European Union Labour Force Survey. Unemployed persons are defined as persons aged 15 to 74 who are without work, are available to start work within the next two weeks and who have actively sought employment at some time during the previous four weeks. The unemployment rate is the number of people unemployed as a percentage of the labour force (the total number of people employed and unemployed).