

# The economy: supplementary charts and tables

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December 2004



HM TREASURY





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supplementary  
charts and tables

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ISBN: 1-84532-072-7

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# 1 THE ECONOMY

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**The Pre-Budget Report (PBR), published by HM Treasury on 2 December 2004, includes a discussion of economic developments and prospects (Annex A). The present 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 2004, released by the Office for National Statistics on 29 September, and output, income and expenditure data for the third quarter released on 26 November.**

**Forecast ranges** 1.1 As in previous Budgets 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 forecast ranges do not represent general forecast uncertainties: the key short-term risks are described in Annex A of the PBR.

1.2 The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of 2¾ per cent a year between the third quarter of 2001 and the end of 2006, and 2½ per cent a year thereafter (up to 2010). Details of this neutral assumption are set out in Table A2 of the PBR, and are discussed in the accompanying text. A paper, published by the Treasury alongside Budget 2002<sup>1</sup>, also sets out the Treasury's view on the rate of trend growth with a detailed assessment of the neutral rate to be used for economic forecasts.

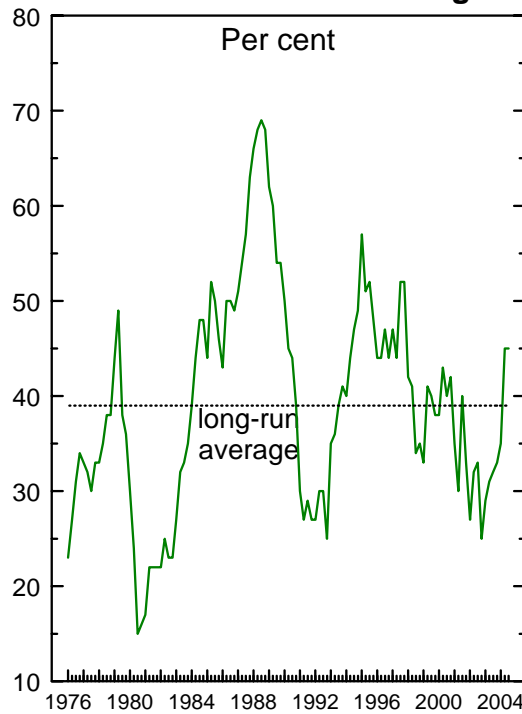
1.3 Consistent with past practice, projections for the public finances (set out in Annex A of the PBR) are based on the lower ends of the economic forecast ranges, which are consistent with a deliberately cautious assumption of annual trend output growth ¼ percentage point lower than the neutral view. Relative to the neutral case, this cautious assumption is based on slightly lower trend rates of growth for output per hour worked, the employment rate and the population of working age. The upper end of the forecast ranges is symmetrical, illustrating the potential for stronger growth based at least in part on the Government's policies to raise productivity growth and to increase employment opportunity.

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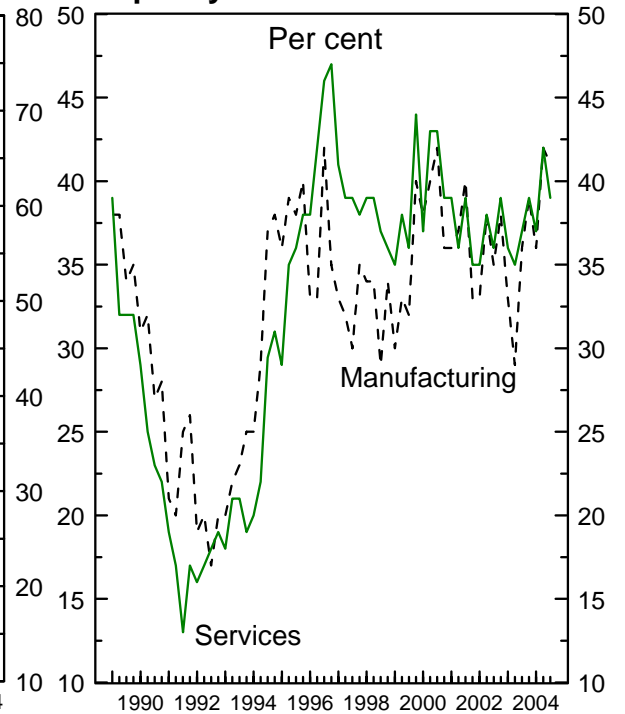
<sup>1</sup> *Trend Growth: Recent Developments and Prospects*, HM Treasury, April 2002.

THE DEGREE OF SPARE CAPACITY

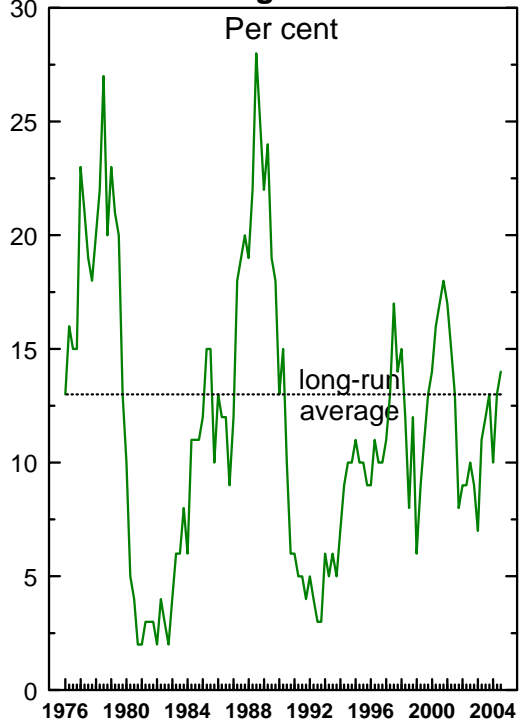
**Chart 1a: CBI capacity utilisation in manufacturing**



**Chart 1b: BCC survey of capacity utilisation**



**Chart 2a: CBI survey of skilled labour shortages in manufacturing**



**Chart 2b: BCC survey of recruitment difficulties**

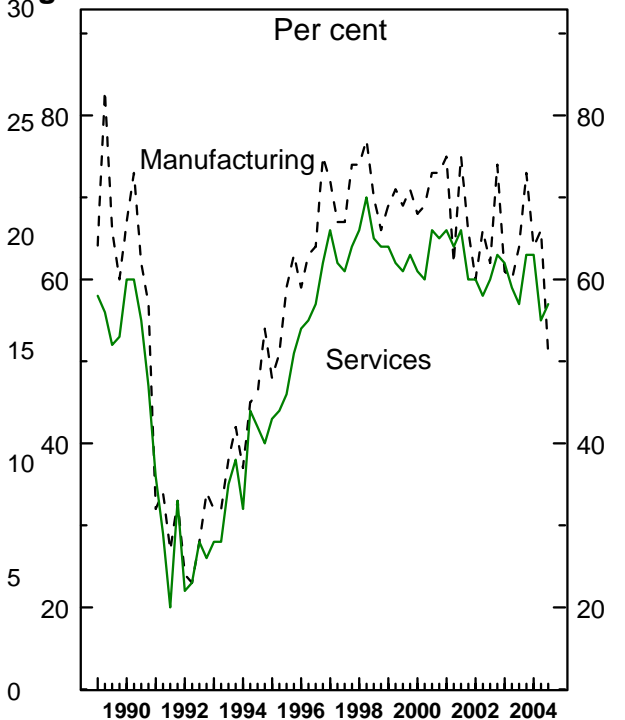
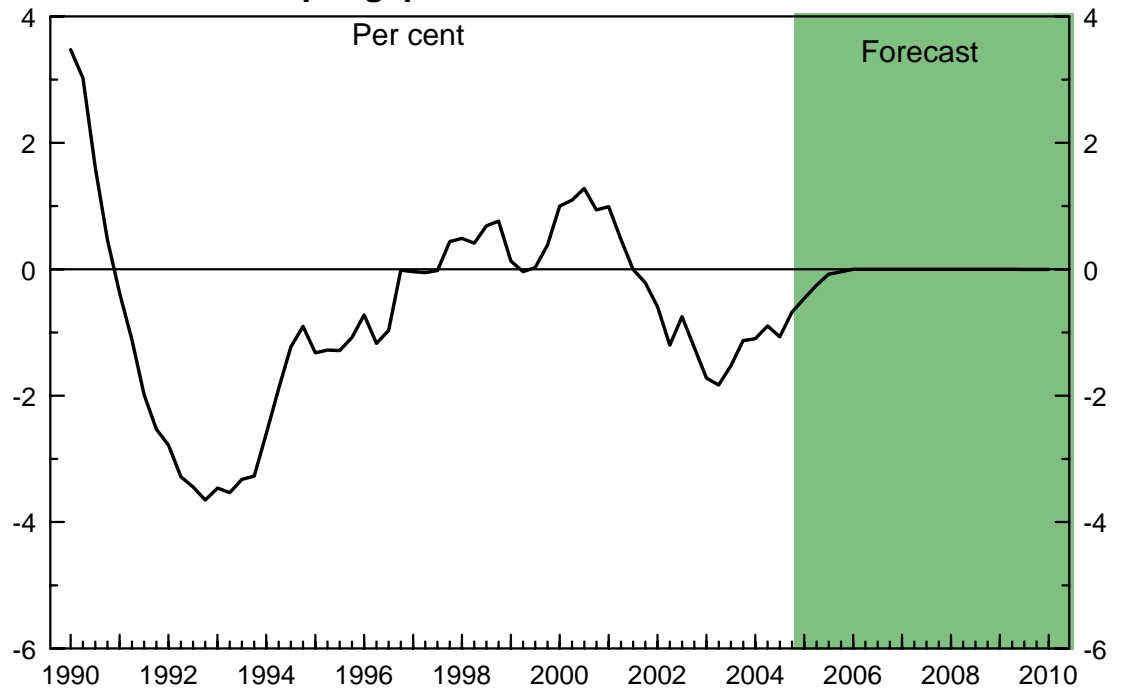


Chart 3: The output gap<sup>1</sup>



<sup>1</sup>Actual output less trend output as a percent of trend output (non-oil basis).

GROSS DOMESTIC PRODUCT (GDP)

Chart 4: GDP

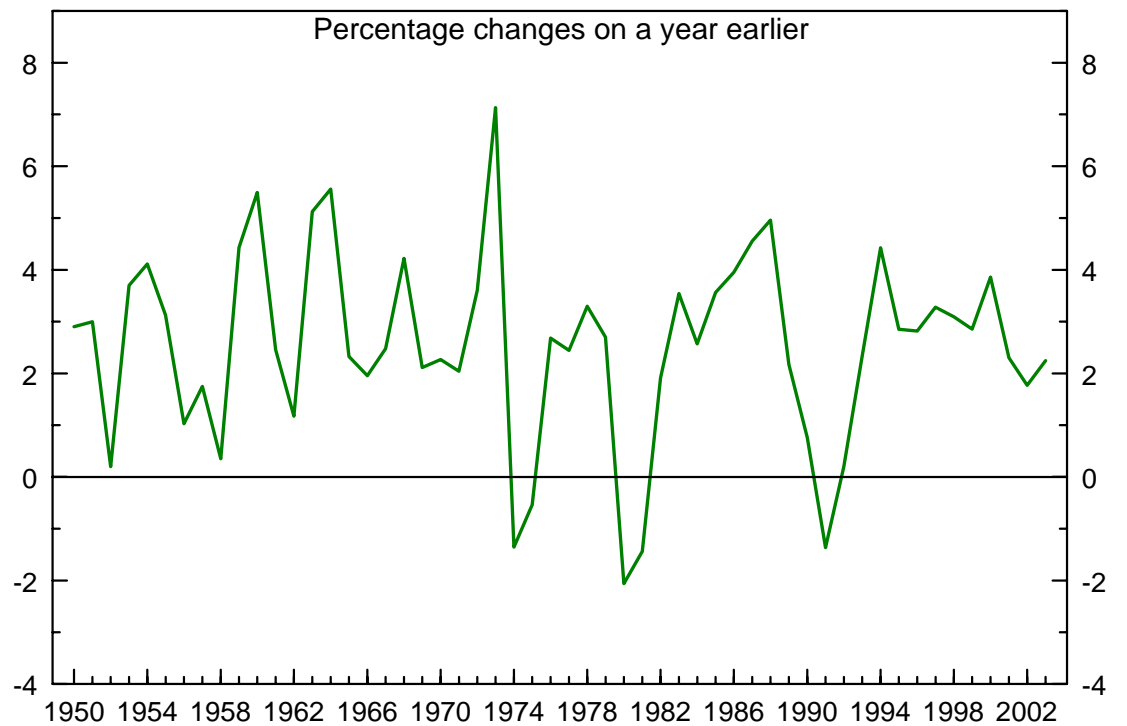
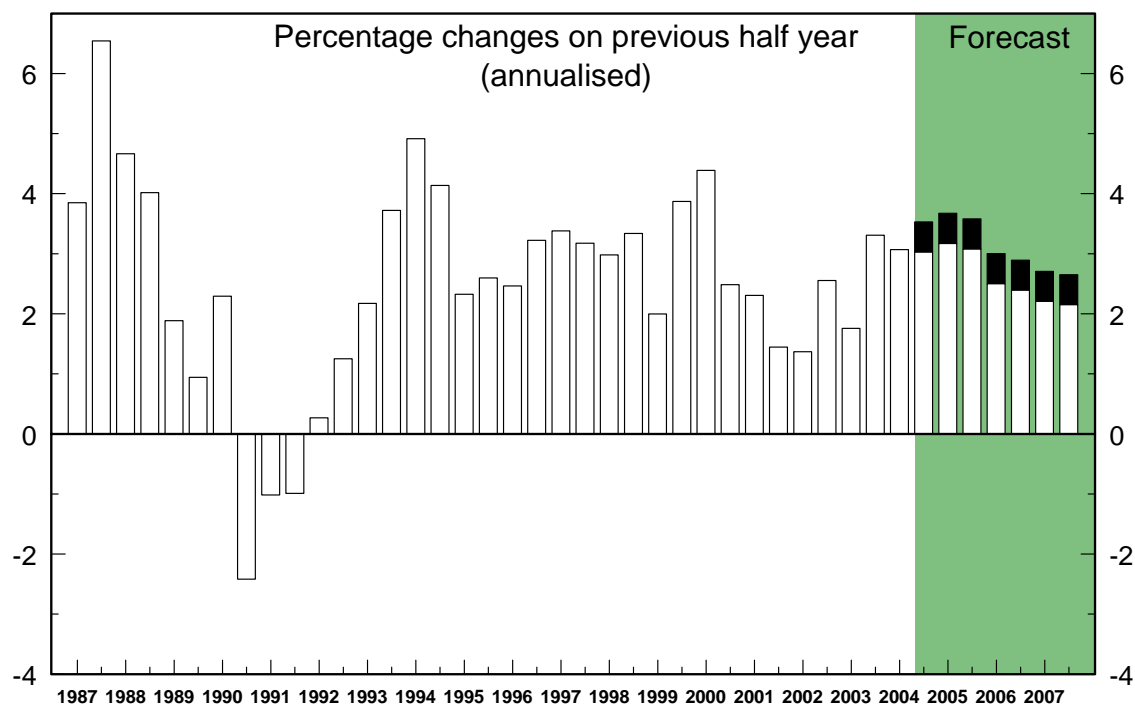


Chart 5: GDP forecast<sup>1</sup>



<sup>1</sup> Darker areas on bars represent forecast ranges.

Table 1: Contributions to GDP growth<sup>1,2</sup>

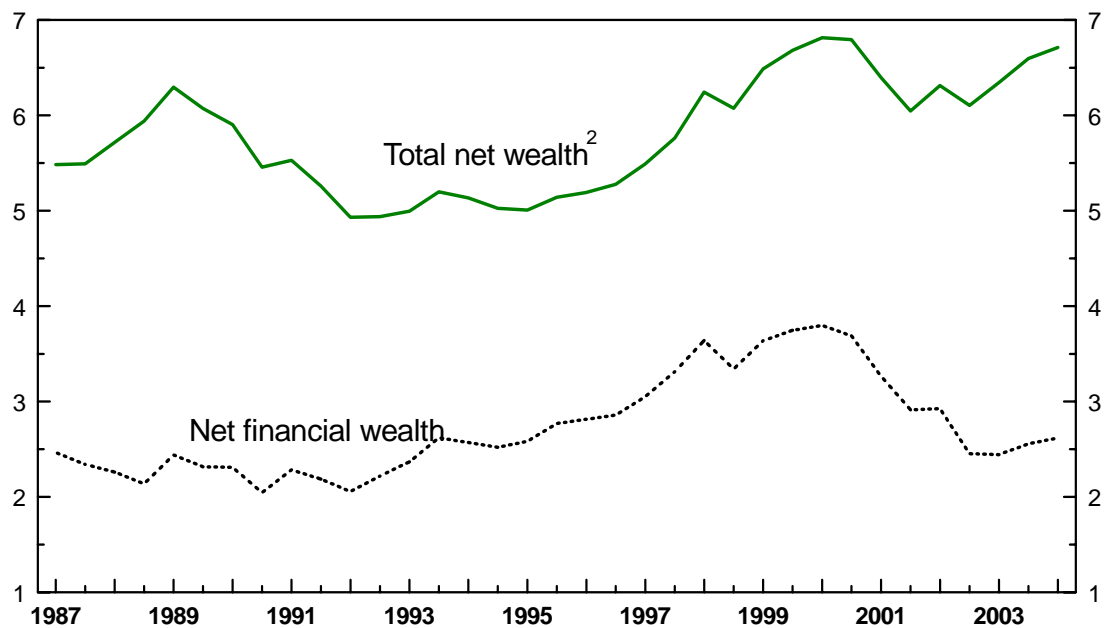
	Percentage points, unless otherwise stated				
	2003	Forecast			
		2004	2005	2006	2007
Private Consumption	1½	2	1¾	1½	1½
Business investment	0	½	½	½	¼
Government	1	1	1¼	¾	¾
Change in inventories	0	0	0	0	0
Net trade	-¼	-¾	0	0	0
<b>GDP growth, per cent</b>	<b>2¼</b>	<b>3¼</b>	<b>3¼</b>	<b>2¾</b>	<b>2½</b>

<sup>1</sup> Components may not sum to total due to rounding and omission of private residential investment, transfer costs of land and existing buildings and the statistical discrepancy.

<sup>2</sup> Based on central case. For the purpose of public finance projections, forecasts are based on the bottom of the forecast GDP range.

THE HOUSEHOLD SECTOR

Chart 6: Household sector wealth-income ratios<sup>1</sup>



<sup>1</sup> Semi-annual

<sup>2</sup> Includes tangible (mainly housing) wealth.

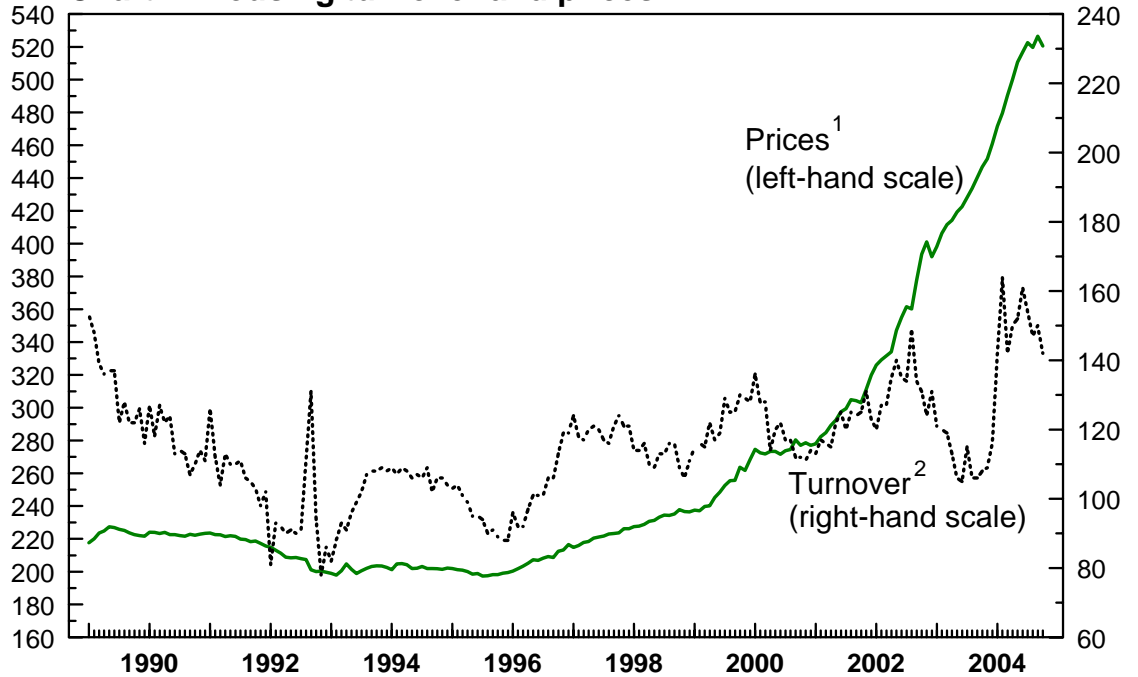
Table 2: Household sector<sup>1</sup> expenditure and income

	Percentage changes on previous year unless otherwise stated				
	2003	Forecast			
		2004	2005	2006	2007
Household consumption <sup>2</sup>	2¼	3¼	2¼ to 2¾	2 to 2½	2 to 2½
Real household disposable income	2¼	4	2½ to 2¾	1¾ to 2¼	1¾ to 2¼
Saving ratio (level, per cent)	5½	6¼	6½	6½	6½

<sup>1</sup> Including non-profit institutions serving households.

<sup>2</sup> Chained volume measures.

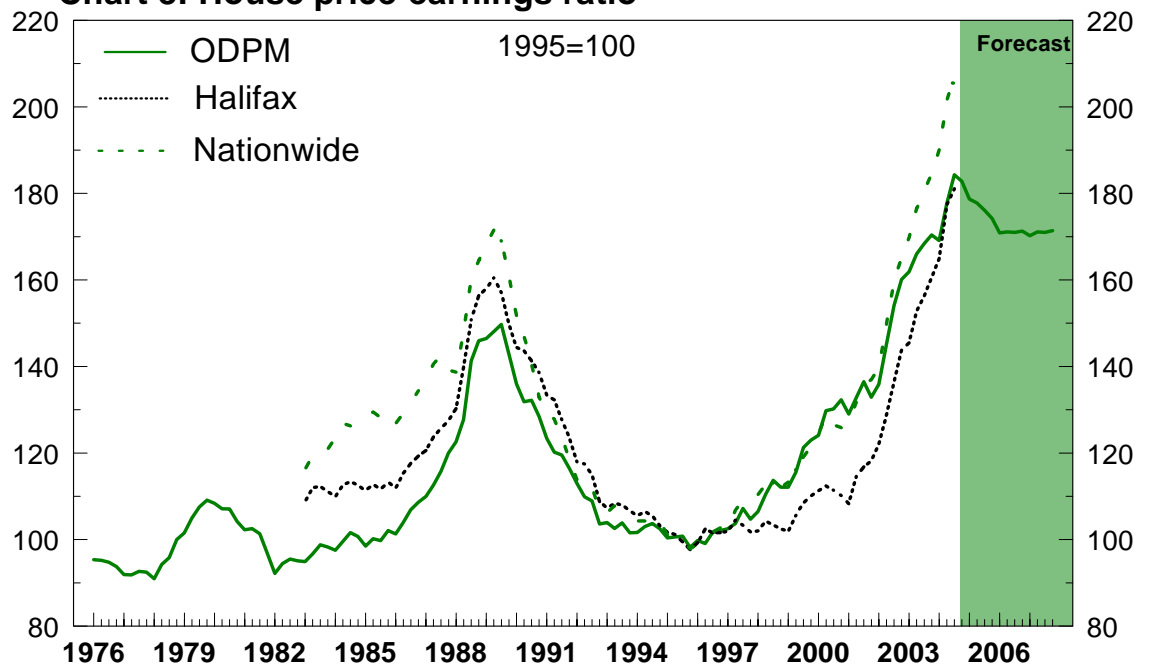
**Chart 7: Housing turnover and prices**



<sup>1</sup> Halifax index, 1983=100.

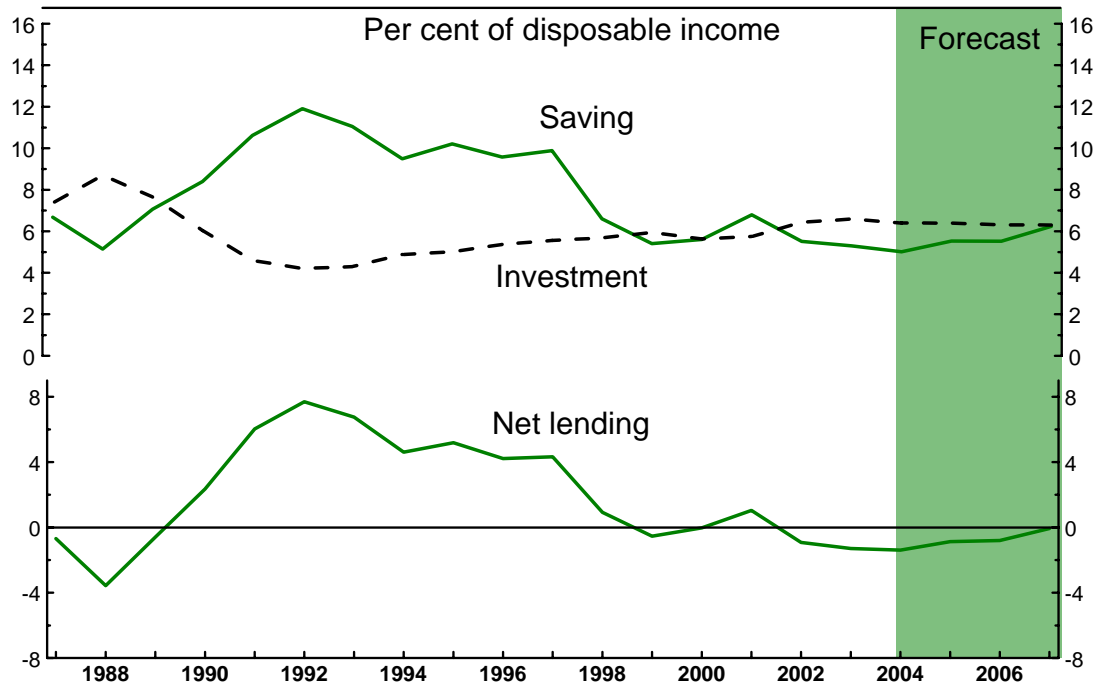
<sup>2</sup> Property Transactions, thousands.

**Chart 8: House price-earnings ratio <sup>1</sup>**



<sup>1</sup> Ratio of ODPM/Halifax/Nationwide house prices to wages and salaries per employee.

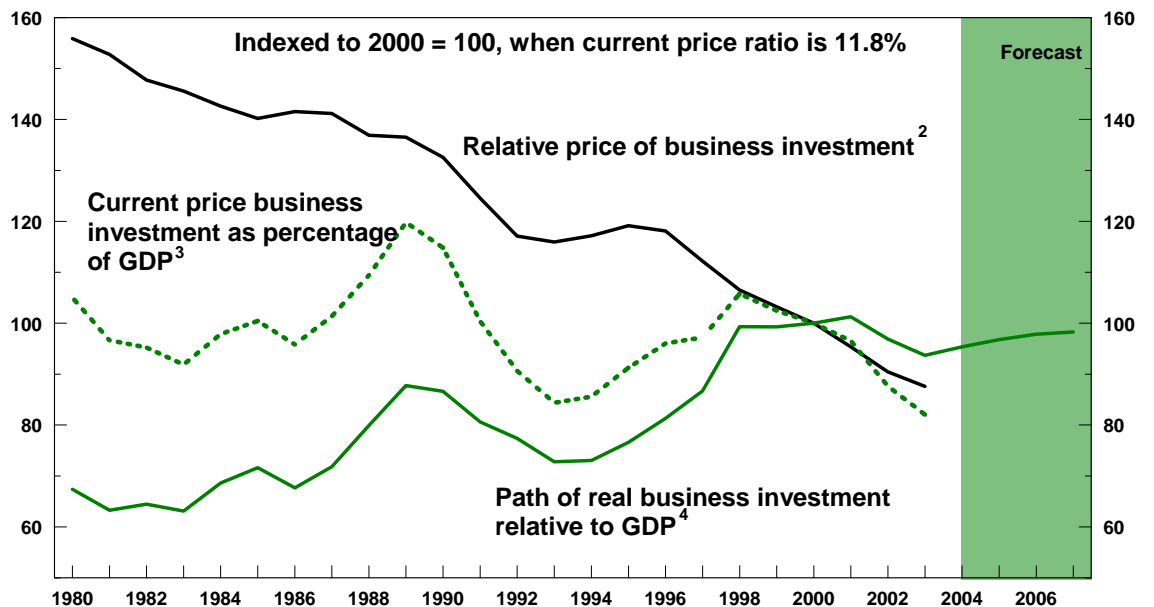
**Chart 9: Household sector net lending<sup>1</sup>**



<sup>1</sup> Includes non-profit institutions serving households.

INVESTMENT AND INVENTORY ACCUMULATION

**Chart 10: Business investment<sup>1</sup>**



<sup>1</sup> Includes investment by public corporations and investment under the Private Finance Initiative.

<sup>2</sup> Ratio of implied business investment deflator to GDP deflator.

<sup>3</sup> Ratio of business investment to GDP in current prices.

<sup>4</sup> Ratio of business investment to GDP in chained volume measures.

**Table 3: Gross fixed capital formation**

	Percentage changes on previous year				
	2003	Forecast			
		2004	2005	2006	2007
Whole economy <sup>1</sup>	2¼	6½	6¾ to 7¼	3¼ to 3¾	2¾ to 3¼
of which:					
Business <sup>2,3</sup>	-1	5¾	4½ to 5	3½ to 4¼	2½ to 3¼
Private dwellings <sup>3</sup>	8	9½	1¼ to 1½	1½ to 2	1¾ to 2¼
General government <sup>3</sup>	23½	5¾	30¾	4¾	5¾

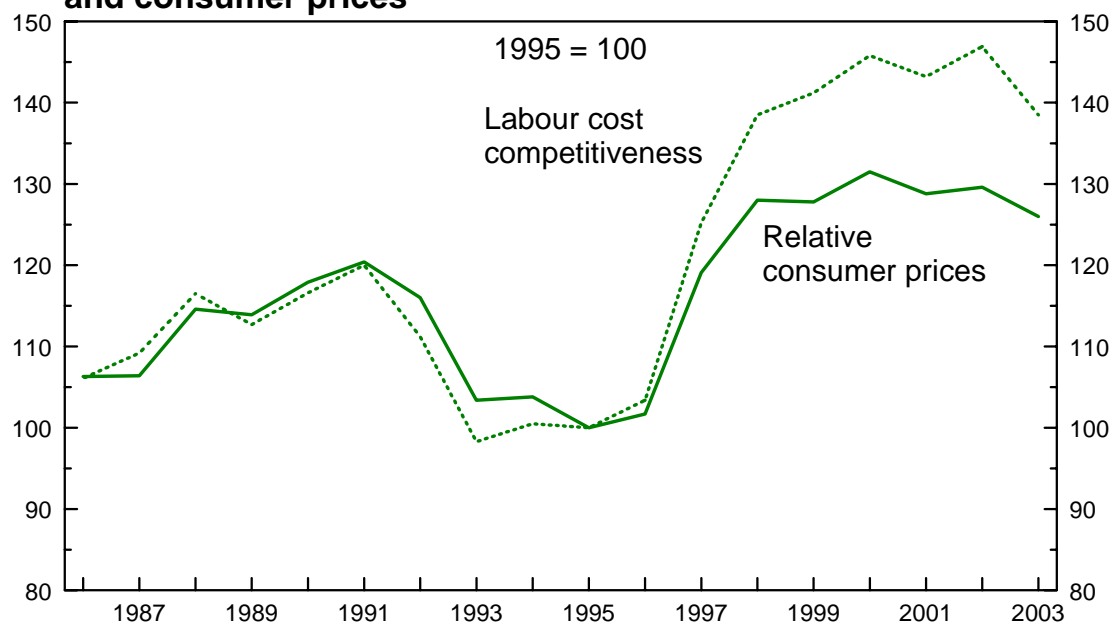
<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

<sup>2</sup> Private sector and public corporations' non-residential investment. Includes investment under the Private Finance Initiative.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

## TRADE AND THE BALANCE OF PAYMENTS

**Chart 11: Competitive positions: Relative unit labour costs and consumer prices<sup>1</sup>**



<sup>1</sup> Relating to trade in manufactures. A fall means competitiveness has improved.

Source: OECD Economic Outlook, 2004/1.

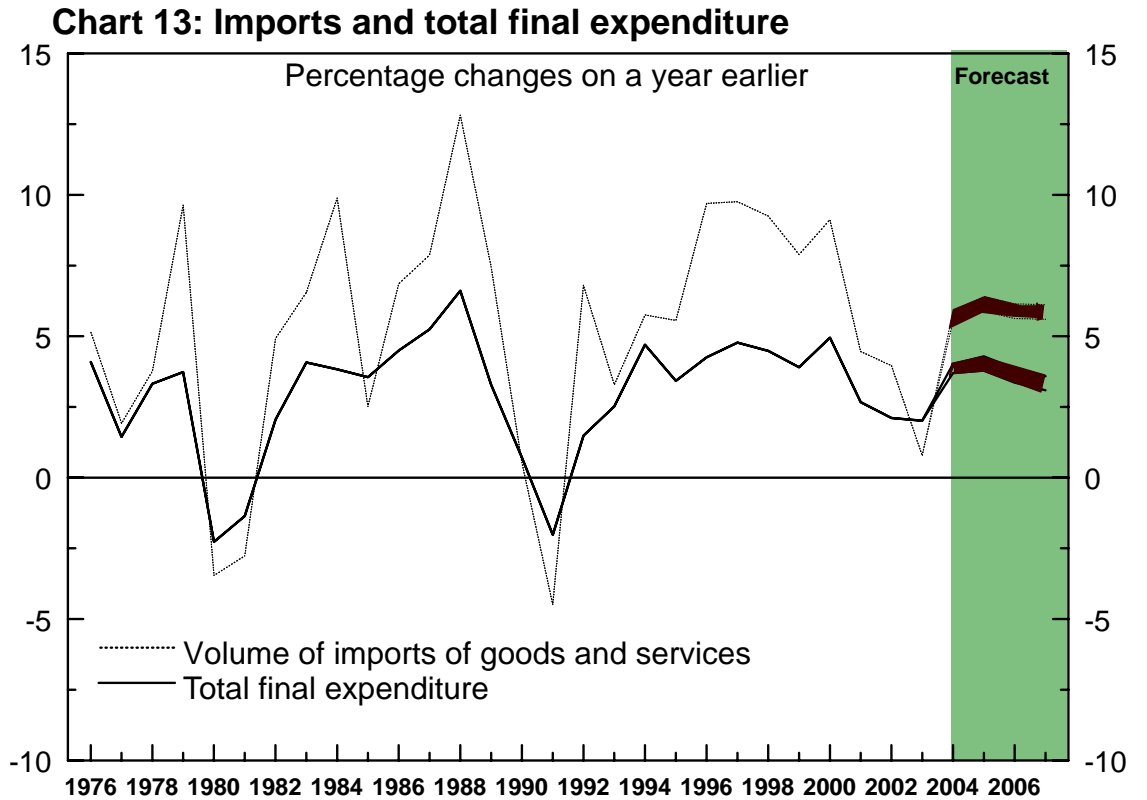
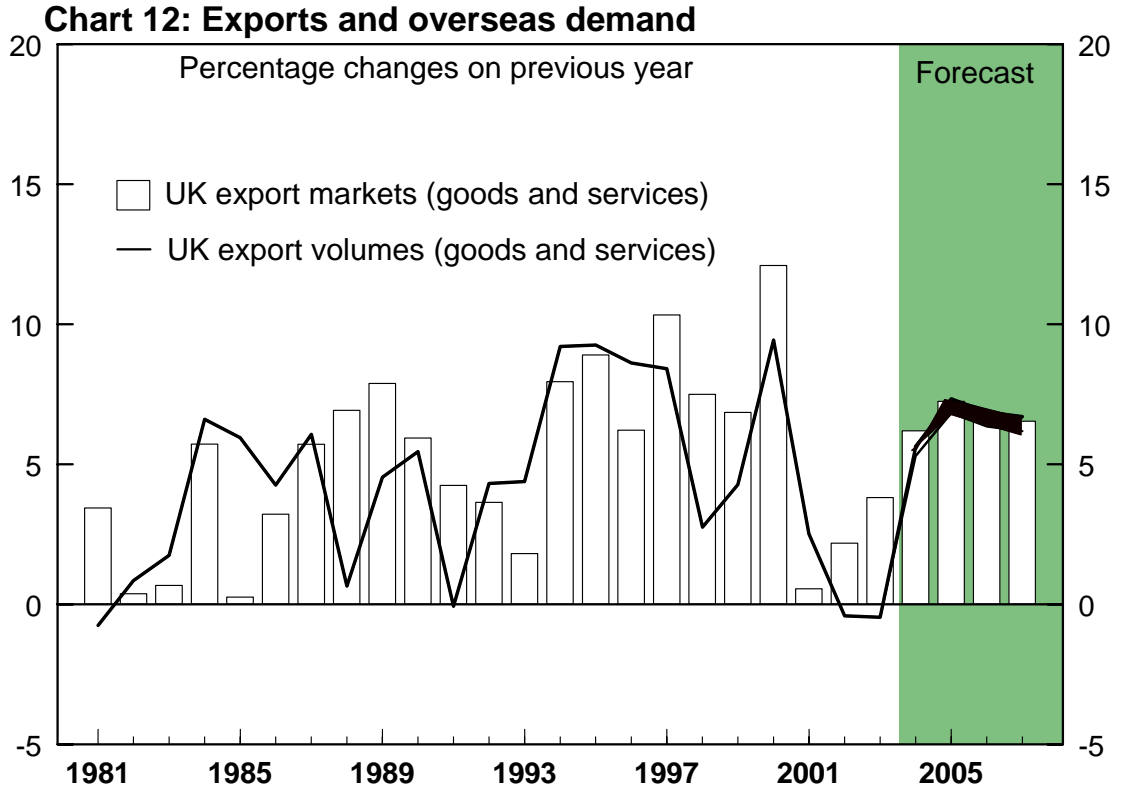


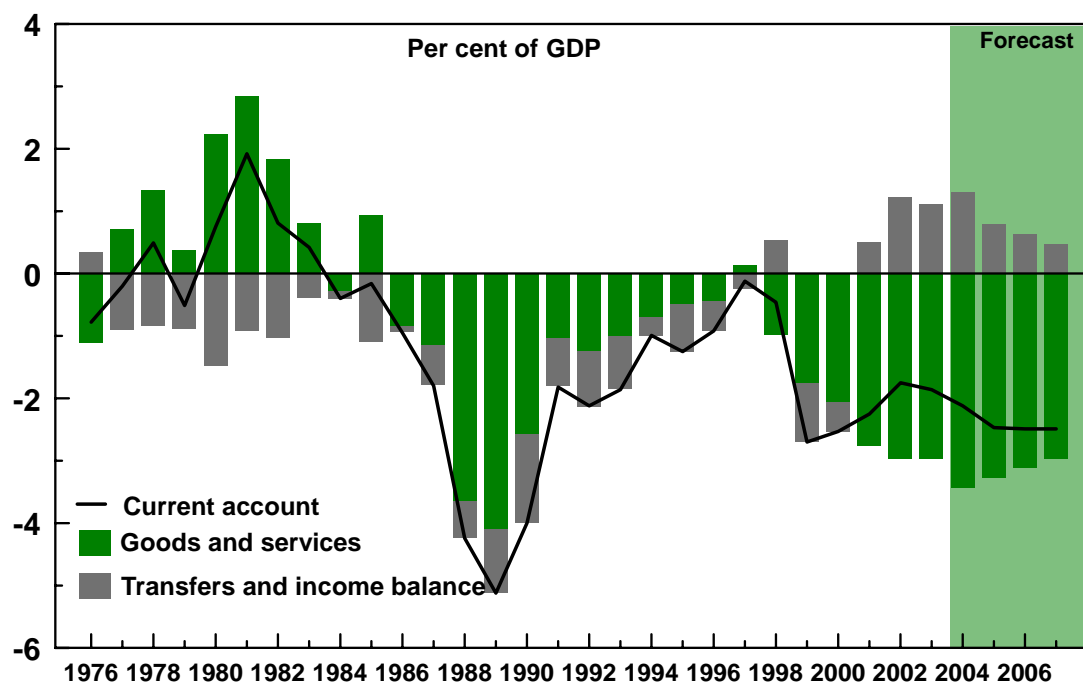
Table 4: Trade in goods and services

	Percentage changes on previous year					£ billion Goods and services balance
	Volumes		Prices <sup>1</sup>		Terms of trade <sup>2</sup>	
	Exports	Imports	Exports	Imports		
2003	0	1¼	1¼	½	¾	-32¾
<i>Forecast</i>						
2004	2¼	4¾	-¾	-¾	¼	-39¾
2005	6½ to 7	6 to 6¼	1¼	1¼	¼	-40
2006	6¼ to 6¾	5¼ to 5¾	2¾	2¾	0	-40¼
2007	6¼ to 6¾	5¼ to 5¾	2¼	2¼	0	-40½

<sup>1</sup>Average value indices.

<sup>2</sup>Ratio of export to import prices.

Chart 14: Balance of payments current account



**Table 5: The current account**

	£ billion					
	Goods and services			Transfers	Income balance <sup>1</sup>	Current balance
	Non-oil	Oil	Total			
2003	-36¾	4	-32¾	-9¾	22	-20½
<i>Forecast</i>						
2004	-41¾	2	-39¾	-9	24¼	-24¾
2005	-42¼	2¼	-40	-8	18	-30¼
2006	-42	1¾	-40¼	-8¾	17½	-31¾
2007	-41½	1	-40½	-8¾	16	-33¼

<sup>1</sup>Includes investment and employee income.

THE PATTERN OF NET LENDING

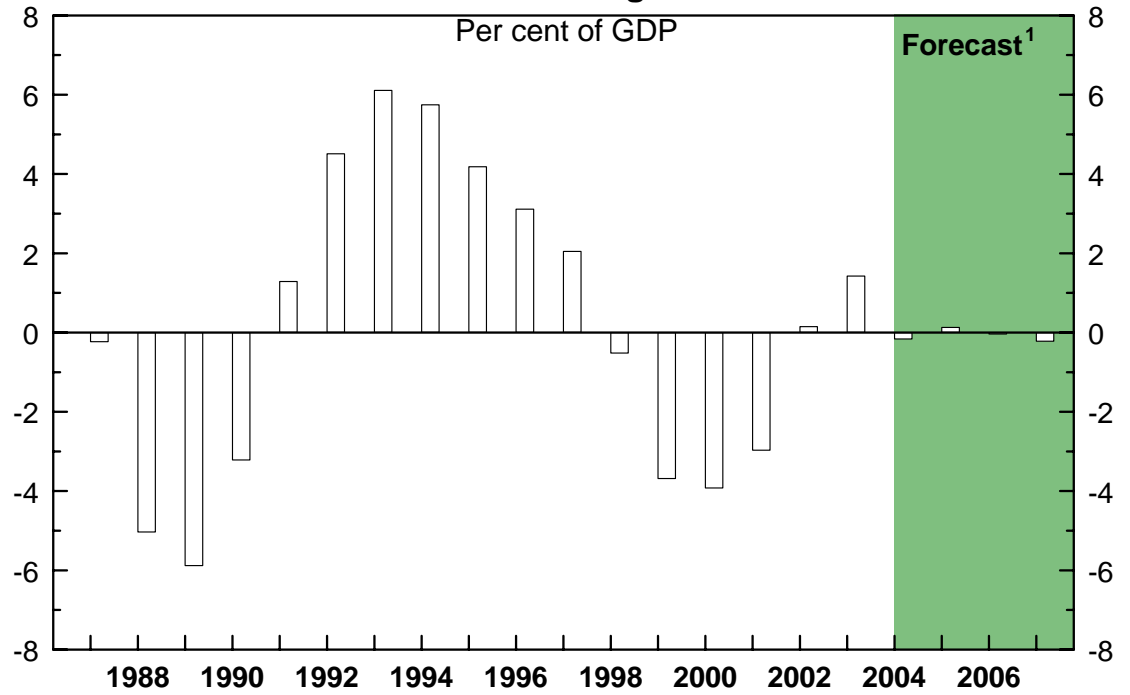
**Chart 15a: Balance of payments current account balance<sup>1</sup>**



<sup>1</sup> 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.

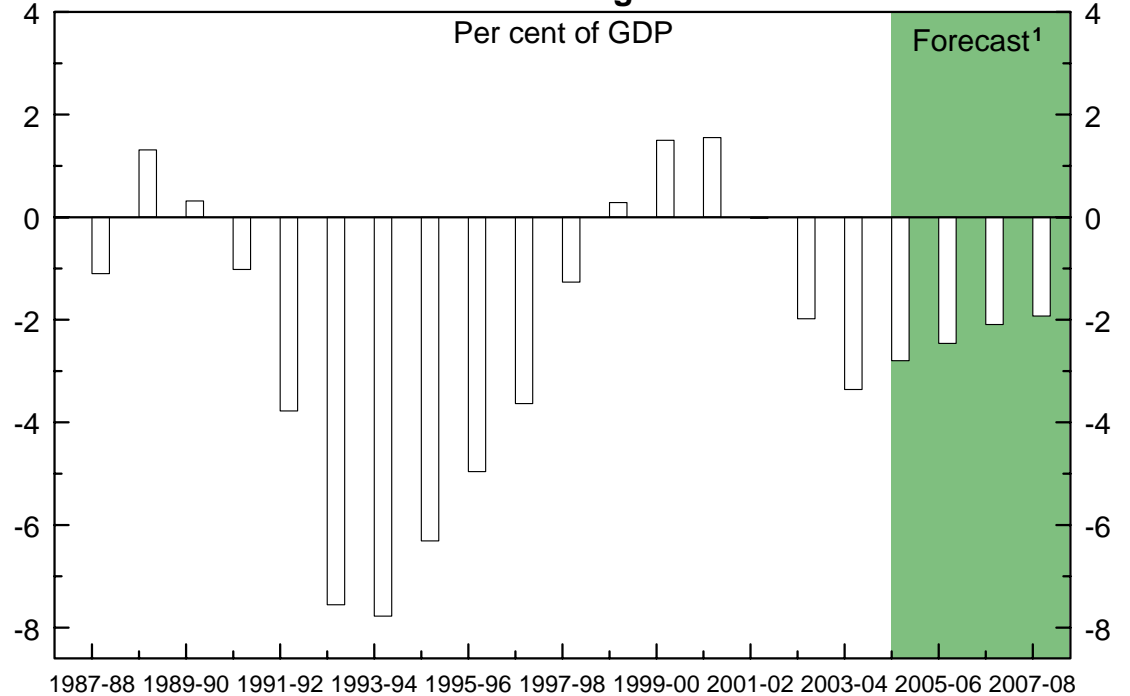
<sup>2</sup> At mid-points of forecast ranges.

**Chart 15b: Private sector net lending**



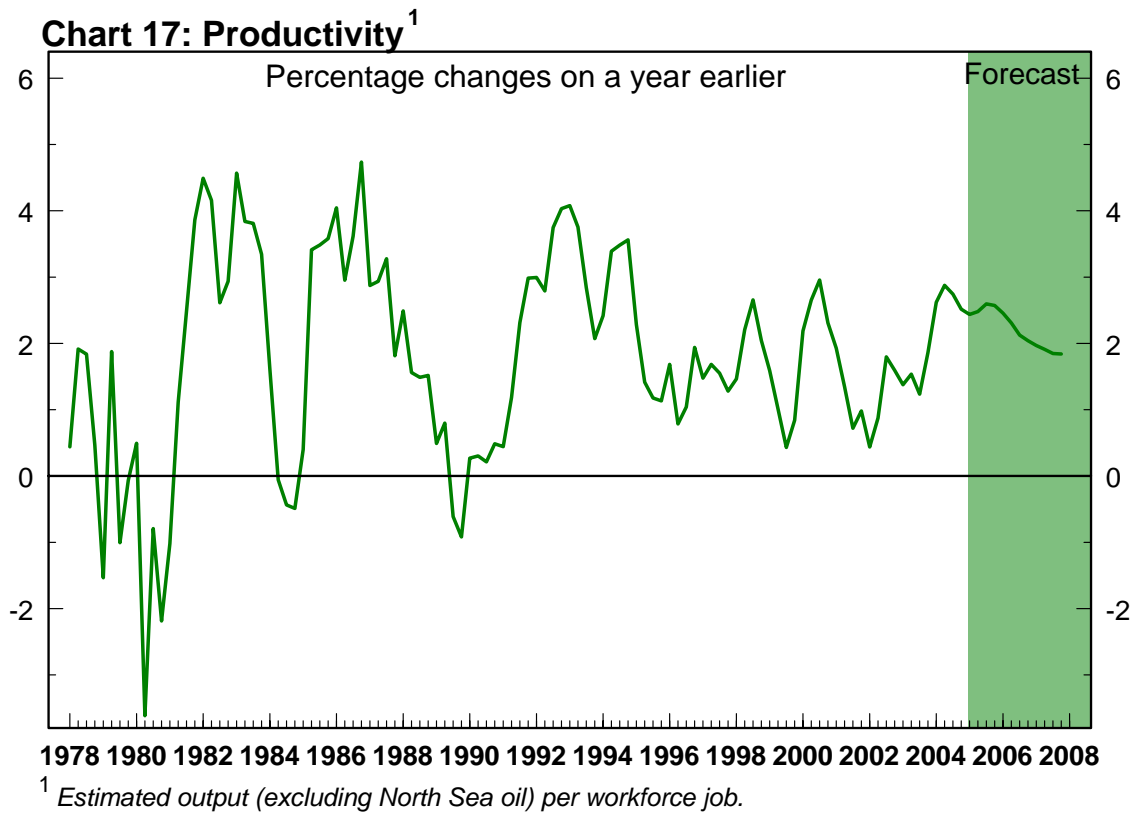
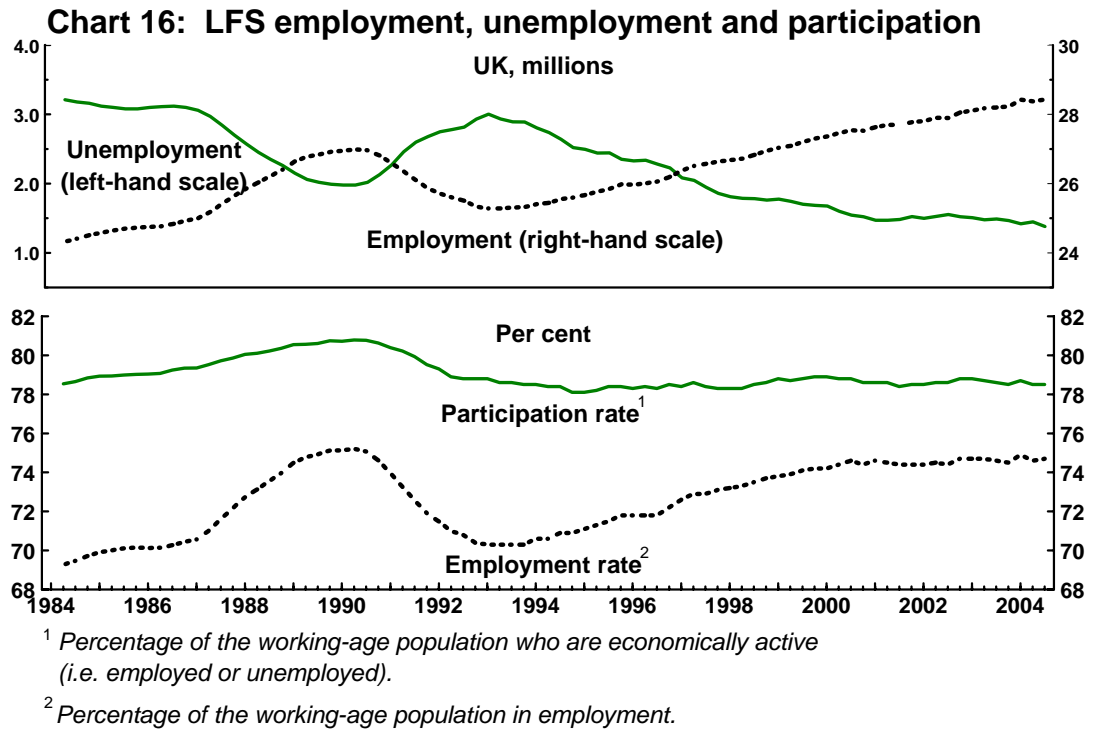
<sup>1</sup> At mid-points of forecast ranges.

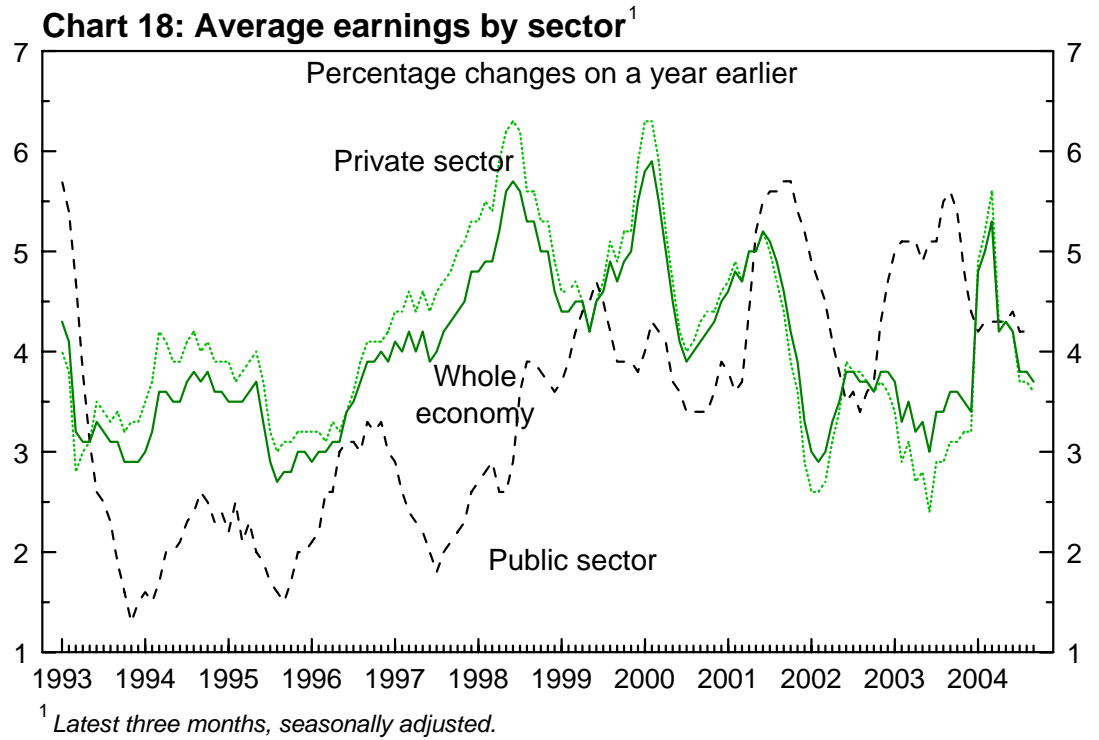
**Chart 15c: Public sector net lending**



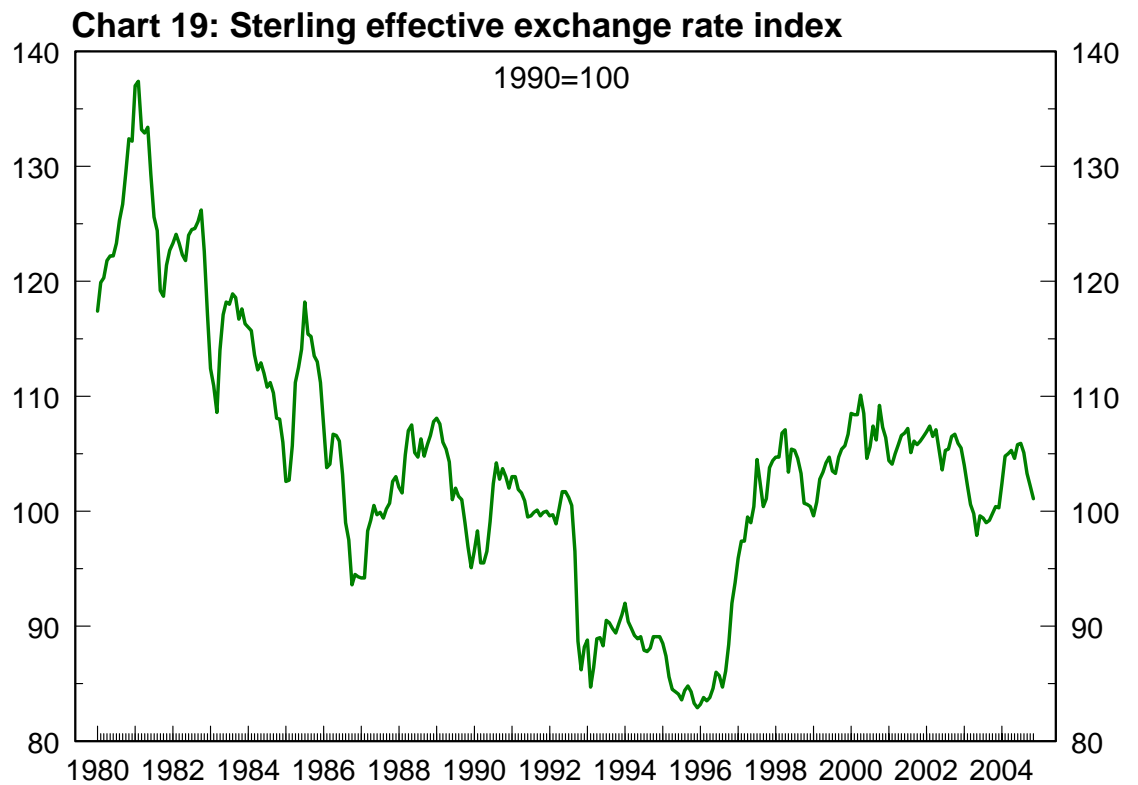
<sup>1</sup> At mid-points of forecast ranges.

THE LABOUR MARKET

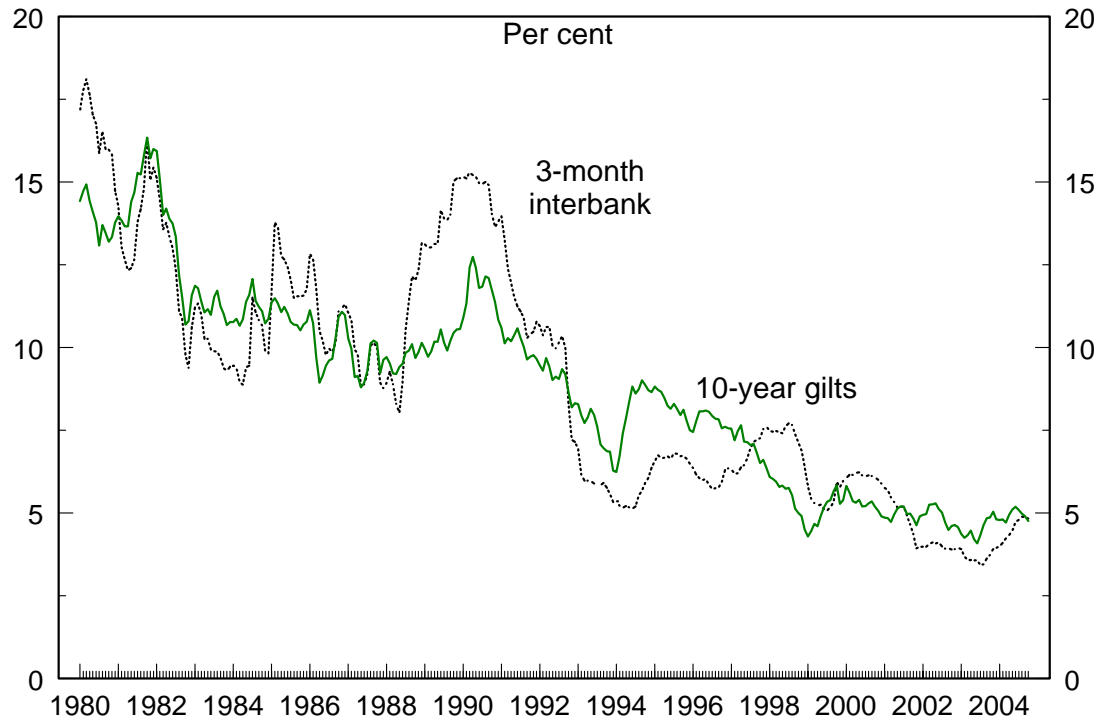




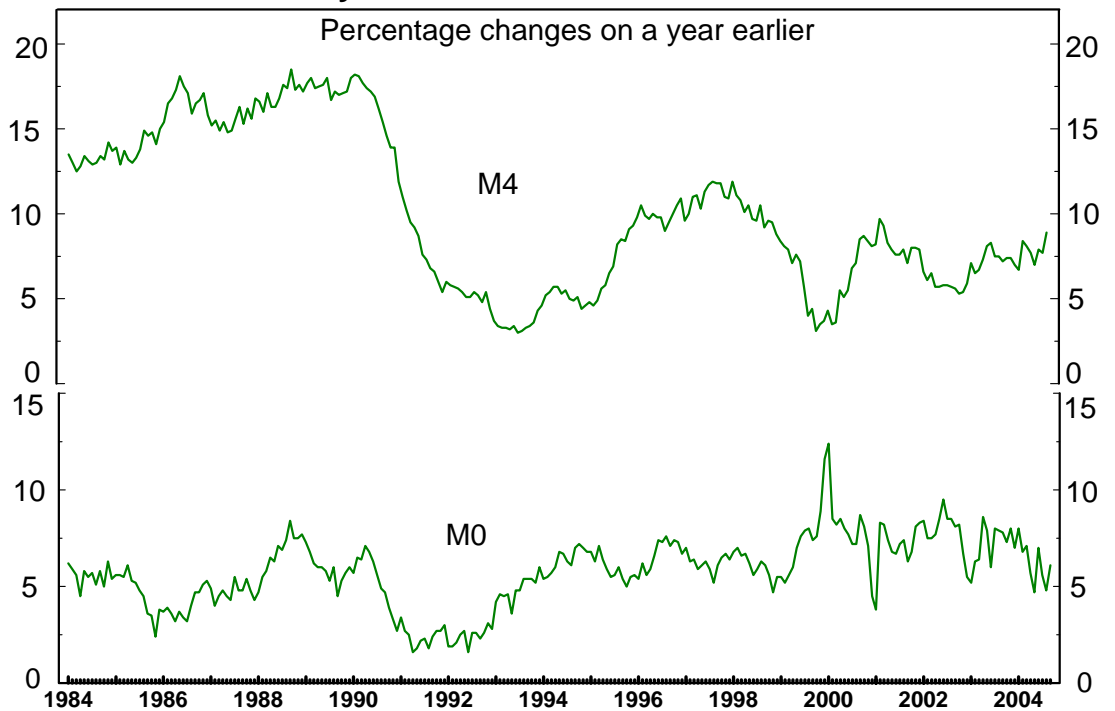
FINANCIAL DEVELOPMENTS



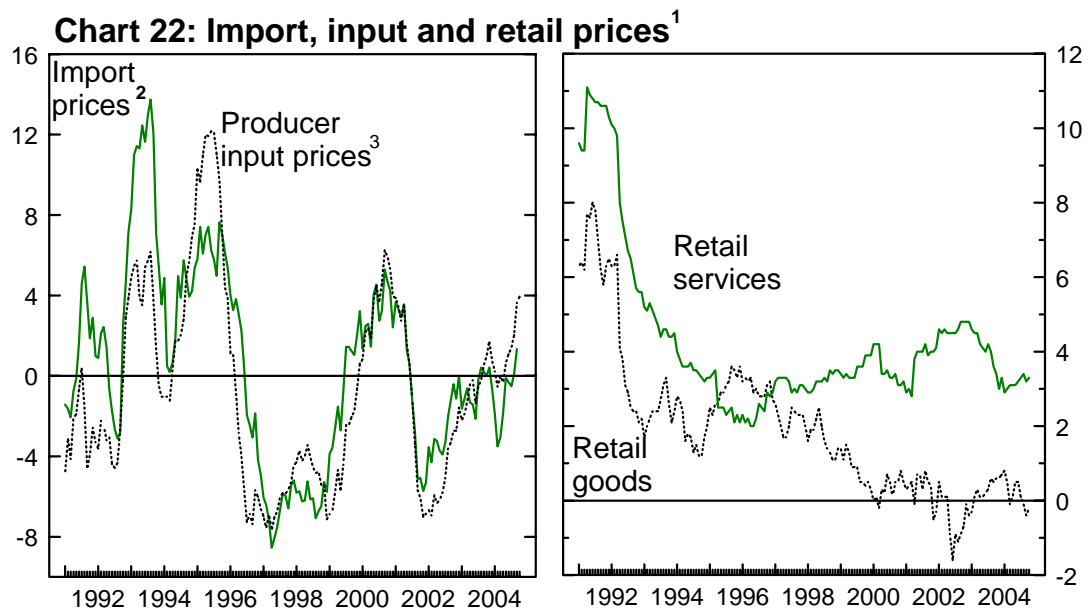
**Chart 20: UK interest rates**



**Chart 21: Monetary indicators**



INFLATION



<sup>1</sup> Percentage changes on a year earlier.

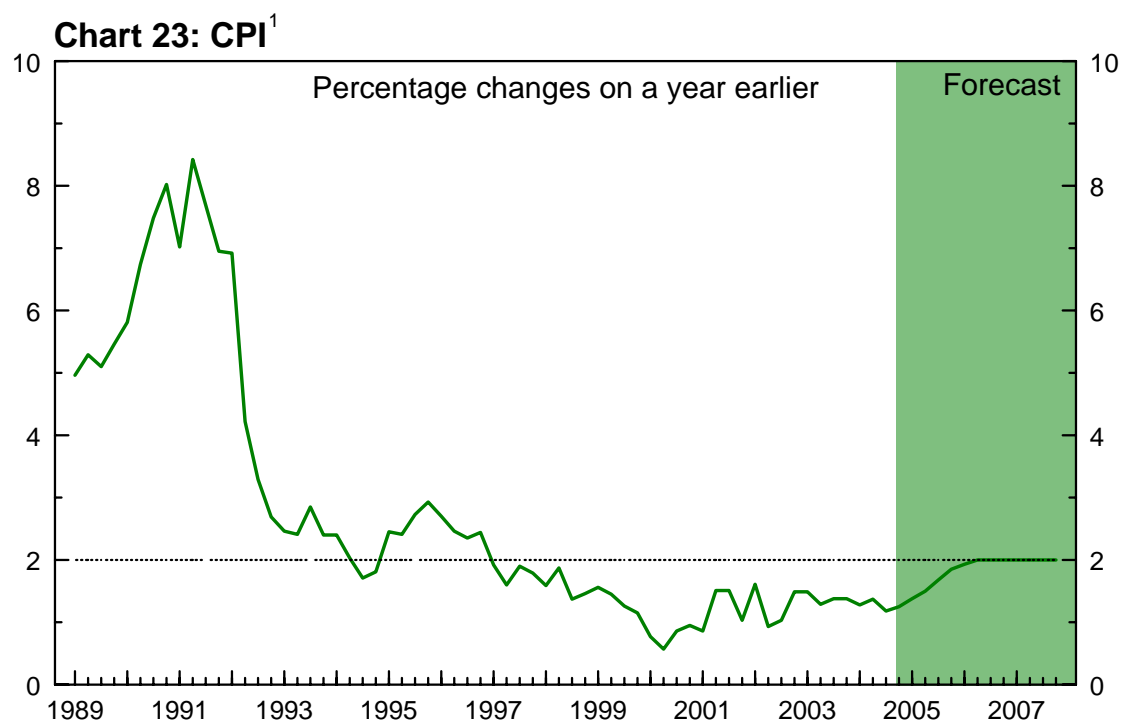
<sup>2</sup> All goods.

<sup>3</sup> Including climate change levy, but excluding food, beverages, tobacco and petroleum.

**Table 6: Consumer and producer output prices**

	Percentage changes on a year earlier									
	2003		2004		2005		2006		2007	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI inflation	1¼	1½	1¼	1¼	1½	1¾	2	2	2	2
Producer output prices <sup>1</sup>	1¼	1½	2¼	3½	2¾	2½	2¼	2	2	2

<sup>1</sup> Excludes excise duties.



<sup>1</sup> Outturns until 2004Q3; forecasts for every second quarter from 2004Q4 to 2007Q4.

## COMPARISON WITH INDEPENDENT FORECASTS

**Table 7: Budget and independent<sup>1</sup> forecasts**

	Percentage changes on a year earlier unless otherwise stated					
	2004			2005		
	PBR 2004	Independent		PBR 2004	Independent	
Average		Range	Average		Range	
Gross domestic product	3¼	3.2	2.9 to 3.6	3 to 3½	2.5	0.5 to 3.5
CPI (Q4)	1¼	1.4	1.2 to 2.0	1¼	1.8	1.3 to 2.8
Current account (£ billion)	-24½	-26.6	-31.8 to -18.0	-30¼	-28.6	-41.2 to -15.0

<sup>1</sup> Forecasts for the UK Economy: A Comparison of Independent Forecasts, November 2004.

COMPARISON WITH MARCH 2004 BUDGET FORECAST

**Table 8: Comparison with Budget 2004 forecast**

		Percentage changes on a year earlier unless otherwise stated	
		Mar-04 Budget	December 2004 Pre-Budget Report
Gross domestic product	2004	3 to 3½	3¼
	2005	3 to 3½	3 to 3½
	2006	2½ to 3	2½ to 3
CPI inflation (per cent, Q4)	2004	1¾	1¼
	2005	2	1¾
	2006	2	2
Current account (£ billion)	2004	-32¾	-24¾
	2005	-32	-30¼
	2006	-31¾	-31¼

SUMMARY TABLES

Table 9: Summary of economic prospects<sup>1,2,3</sup>

	Percentage changes on a year earlier unless otherwise stated					Average errors from past forecasts <sup>5</sup>
	2003	2004	Forecast <sup>4</sup>			
			2005	2006	2007	
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	2¼	3¼	3 to 3½	2½ to 3	2¼ to 2¾	¾
Manufacturing output	½	1¼	1¼ to 1¾	1¼ to 2¼	1¼ to 2¼	1¼
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	2½	4	3 to 3½	2½ to 3	2¼ to 2¾	¾
Household consumption <sup>7</sup>	2¼	3¼	2¼ to 2¾	2 to 2½	2 to 2½	¾
General government consumption	3½	4½	3	3	2½	1
Fixed investment	2¼	6½	6¾ to 7¼	3¼ to 3¾	2¾ to 3¼	2¼
Change in inventories <sup>8</sup>	0	0	0	0 to ¼	0	¼
Exports of goods and services	0	2¼	6½ to 7	6¼ to 6¾	6¼ to 6¾	2½
Imports of goods and services	1¼	4¾	6 to 6¼	5¼ to 5¾	5¼ to 5¾	2¼
<b>Balance of payments</b>						
<b>current account</b>						
£ billion	-20½	-24¾	-30¼	-31¼	-33¼	9
per cent of GDP	-1¼	-2¼	-2½	-2½	-2½	¾
<b>Inflation</b>						
CPI (Q4)	1½	1¼	1¼	2	2	-
Producer output prices (Q4) <sup>9</sup>	1½	3½	2½	2	2	1½
GDP deflator at market prices	3	2¼	2½	2¾	2¾	¾
<b>Money GDP at market prices</b>						
£ billion	1100	1161.00	1226 to 1231	1292 to 1303	1356 to 1376	8
percentage change	5¼	5½	5¾ to 6	5¼ to 5¾	5 to 5½	¾

<sup>1</sup> The forecast is consistent with national accounts and balance of payments statistics to the second quarter of 2004, released by the Office for National Statistics on 29 September, and output, income and expenditure data for the third quarter released on 26 November.

<sup>2</sup> All growth rates in tables throughout this chapter are rounded to the nearest ¼ percentage point.

<sup>3</sup> 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 economy. The mid-points of the forecast ranges are anchored around the neutral 2 ¾ per cent assumption for the trend rate of output growth. The figures at the lower end of the ranges are consistent with the deliberately cautious assumption of 2½ per cent a year trend growth used as the basis for projecting the public finances.

<sup>4</sup> 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.

<sup>5</sup> 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 percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2005.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table A10.

<sup>7</sup> Includes households and non-profit institutions serving households.

<sup>8</sup> Contribution to GDP growth, percentage points.

<sup>9</sup> Excluding excise duties.

## THE ECONOMY

**Table 10: Gross domestic product and its components**

£ billion chained volume measures at market prices, seasonally adjusted										
	Household consumption <sup>1</sup>	General government consumption	Fixed investment	Change in inventories	Domestic demand <sup>2</sup>	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy <sup>3</sup>	GDP at market prices
<b>2003</b>	697.6	203.7	173.6	2.5	1077.4	272.9	1350.3	315.9	0.2	1034.6
<b>2004</b>	719.5	212.8	185.1	2.2	1119.6	279.2	1398.8	330.5	0.2	1068.4
<b>2005</b>	735.8 to 739.0	219.0	197.7 to 198.5	2.2 to 2.3	1154.0 to 1158.9	297.5 to 298.8	1451.5 to 1457.7	350.0 to 351.5	0.2	1101.6 to 1106.3
<b>2006</b>	750.8 to 757.7	225.8	204.0 to 205.9	1.5 to 2.4	1182.4 to 1193.3	316.3 to 319.2	1498.7 to 1512.5	368.5 to 371.9	0.2	1130.4 to 1140.8
<b>2007</b>	766.0 to 776.8	231.6	209.7 to 212.7	1.8 to 3.9	1207.8 to 1224.8	335.8 to 340.5	1543.6 to 1565.3	387.9 to 393.3	0.2	1155.9 to 1172.2
<b>2003</b> 1st half	346.2	100.3	85.7	0.7	533.0	136.5	669.6	157.0	0.1	512.7
2nd half	351.5	103.3	87.9	1.8	544.4	136.4	680.8	159.0	0.1	521.9
<b>2004</b> 1st half	357.6	105.5	91.3	1.8	556.1	137.2	693.3	162.9	0.1	530.5
2nd half	361.8	107.4	93.9	0.5	563.5	142.0	705.5	167.7	0.1	537.9
<b>2005</b> 1st half	365.9 to 367.0	108.7	98.2 to 98.5	0.1 to 0.4	572.8 to 574.6	146.5 to 146.9	719.3 to 721.5	172.6 to 173.2	0.1	546.8 to 548.4
2nd half	369.9 to 371.9	110.4	99.5 to 100.0	1.4 to 2.0	581.2 to 584.4	151.0 to 151.8	732.2 to 736.2	177.4 to 178.4	0.1	554.9 to 557.9
<b>2006</b> 1st half	373.6 to 376.5	112.1	100.8 to 101.6	1.4 to 2.3	587.9 to 592.6	155.7 to 157.0	743.7 to 749.6	181.9 to 183.4	0.1	561.8 to 566.3
2nd half	377.3 to 381.2	113.7	103.1 to 104.2	0.4 to 1.6	594.5 to 600.7	160.6 to 162.2	755.0 to 762.9	186.6 to 188.5	0.1	568.6 to 574.5
<b>2007</b> 1st half	381.1 to 386.0	115.1	104.0 to 105.4	0.6 to 2.1	600.8 to 608.5	165.4 to 167.5	766.2 to 776.0	191.4 to 193.9	0.1	574.9 to 582.2
2nd half	384.9 to 390.8	116.4	105.7 to 107.3	0.0 to 1.7	607.0 to 616.3	170.4 to 173.0	777.4 to 789.3	196.4 to 199.4	0.1	581.0 to 590.0
Percentage changes on previous year <sup>4,5</sup>										
<b>2003</b>	2¼	3½	2¼	0	2½	0	2	1¼	0	2¼
<b>2004</b>	3¼	4½	6½	0	4	2¼	3½	4¼	0	3¼
<b>2005</b>	2¼ to 2¾	3	6¼ to 7¼	0	3 to 3½	6½ to 7	3¾ to 4¼	6 to 6¼	0	3 to 3½
<b>2006</b>	2 to 2½	3	3¼ to 3¾	0 to ¼	2½ to 3	6¼ to 6¾	3¼ to 3¾	5¼ to 5¾	0	2½ to 3
<b>2007</b>	2 to 2½	2½	2¼ to 3¼	0	2¼ to 2¾	6¼ to 6¾	3 to 3½	5¼ to 5¾	0	2¼ to 2¾

<sup>1</sup> Includes households and non-profit institutions serving households.

<sup>2</sup> Also includes acquisitions less disposals of valuables.

<sup>3</sup> Expenditure adjustment.

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

<sup>5</sup> Growth ranges for GDP components do not necessarily sum to the ¼ 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

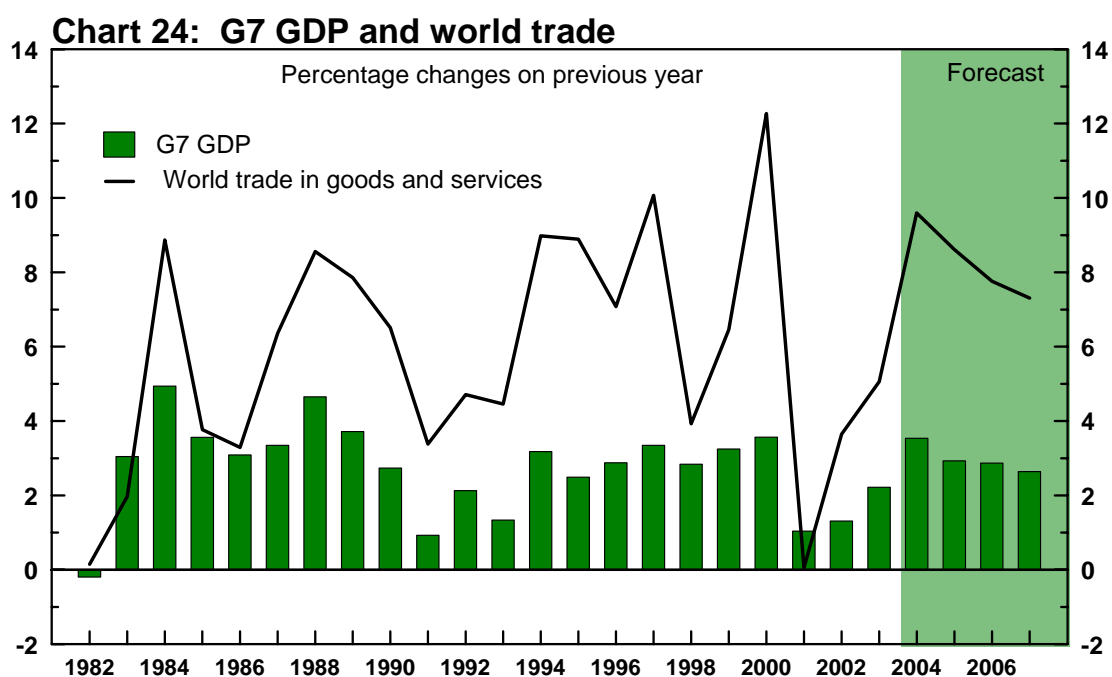
	Percentage changes on a year earlier unless otherwise stated				
	2003	Forecast			
		2004	2005	2006	2006
<i>Major 7 countries<sup>1</sup></i>					
Real GDP	2¼	3½	3	2¼	2¼
Consumer price inflation <sup>2</sup>	1½	3	2¼	1¼	1¼
<i>Euro area</i>					
Real GDP	½	2	2	2¼	2¼
World trade in goods and services	5	9½	8½	7¼	7¼
UK export markets <sup>3</sup>	3¼	8¼	8	7¼	6¼

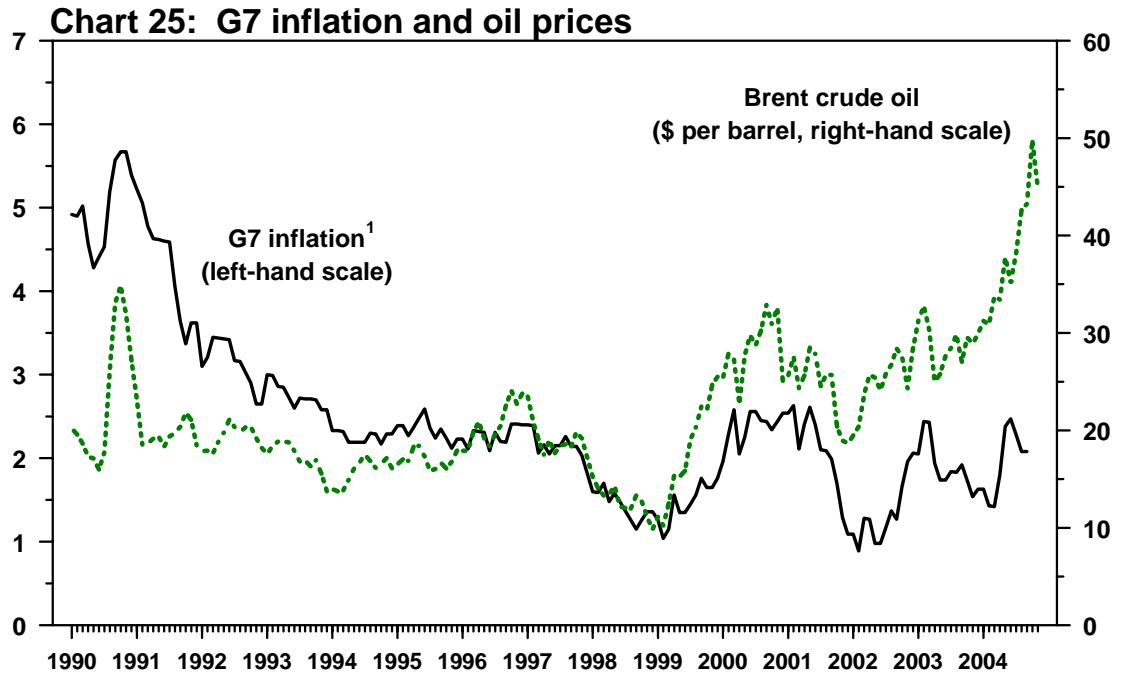
<sup>1</sup> G7: US, Japan, Germany, France, UK, Italy and Canada.  
<sup>2</sup> Per cent, Q4.  
<sup>3</sup> Other countries' imports of goods and services weighted according to their importance in UK exports.

Table 12: Consensus forecasts for GDP growth in major economies<sup>1</sup>

	Percentage changes on previous year			
	Mar-04		Dec-04	
	2004	2005	2004	2005
<i>GDP</i>				
USA	4.6	3.7	4.4	3.4
Euro-area	1.7	2.1	1.9	1.9
Japan	2.8	1.6	4.3	1.8

<sup>1</sup> 'Consensus forecasts', Consensus Economics Inc.





<sup>1</sup> Consumer price index, percentage change on a year earlier.