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Economic Indicators, July 2008

This Research Paper series summarises the main economic indicators currently available for the UK, along with comparisons with other major OECD countries for selected indicators.

The series also includes articles on topical issues.

This month's article:

Sovereign wealth funds

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Bryn Morgan (editor)

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I Introduction to *Economic Indicators*

Economic Indicators research papers are published in sitting time on the **first Tuesday** of the month. In months when the House is not sitting, we produce a paper without a highlights page or articles. Also, individual indicators are updated and made available through the subject pages of the Library's intranet as standard notes. Indicator pages are listed both under the relevant subject page headings, and collectively on the *Economic Indicators* subject page.¹ A guide to sources is provided in section V.

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Upon receipt of each issue users should discard the previous issue as it may contain statistics which are no longer the most current, or which have been revised.

Glossary

Some economic terms used in this publication may be unfamiliar to readers. Many of these terms are described in the glossary at the end of this publication. Symbols and abbreviations used in this publication are also described here.

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¹ <http://hcl1.hclibrary.parliament.uk/wdw/subject/EI.asp>

² http://hcl1.hclibrary.parliament.uk/general_pdf/usingthelibrary.pdf

³ After 6pm there is a statistician on duty until the rise of the House who can be contacted via the Oriel Room of the Main Library (extn. 3666).

II Monthly highlights

Mansion House speeches

June saw two keynote speeches at the annual Lord Mayor's Banquet for Bankers and Merchants of the City of London at the Mansion House. Both the Chancellor of the Exchequer, Alistair Darling, and the Governor of the Bank of England, Mervyn King spoke to the dinner. Both focussed on the key challenges facing the economy. Mervyn King described the external factors that have changed economic conditions over the past year:⁴

Over that year, the west wind of a credit crunch emanating from the United States and the east wind of higher energy and food prices resulting from the strength of Asian economies have been stirring up the waters through which our economic ship must pass.

Inflation was the key threat, and the Monetary Policy committee was ready to raise interest rates if necessary:

Target growth not inflation is the cry. I could not disagree more. This is precisely the situation in which the framework of inflation targeting is so necessary. Without it, what should be a short-lived, albeit sharp, rise in inflation, could become sustained. Without a clear guide to the objective of monetary policy, and a credible commitment to meeting it, any rise in inflation might become a self-fulfilling and generalised increase in prices and wages. And surely the lesson of the past fifty years is that, when inflation becomes embedded, the cost of getting it back down again is a prolonged period of sluggish output and high unemployment. Price stability – returning inflation to the target – is a precondition for sustained growth, not an alternative.

Alistair Darling rejected comparisons of current inflation with that in the 1970s:⁵

I have seen reports suggesting yesterday's inflation figures show we are returning to the days of the 70s. They are wrong, both in the nature of the problems we face and also in the scale. Today's inflation must be tackled. We cannot be complacent. But in comparison to the 1970s when it reached over 26 per cent, it remains low. Even in 1991, it was still at 8 per cent.

Pay restraint was necessary to stop external price increases feeding into home-grown inflation:

But continued restraint on pay is required from both the public and private sector. We must recognise the need to reward efforts of people who work hard. But to return now to inflationary pay settlements would undermine rather than raise people's living standards with a damaging circle of wage increases eroded by steadily rising prices. We must never return to those days. That is why the Government has agreed a number of multi-year pay deals that now cover 1.5 million public sector employees.

Articles

This month's edition features an article on sovereign wealth funds. These funds have received a great deal of political and media attention in recent months.

⁴ Full text at: <http://www.bankofengland.co.uk/publications/speeches/2008/speech349.pdf>

⁵ Full text at: http://www.hm-treasury.gov.uk/newsroom_and_speeches/speeches/chancellor_exchequer/speech_chx_180608.cfm

III Sovereign Wealth Funds

This article summarises the background to and issues surrounding Sovereign Wealth Funds (SWFs), which have received a great deal of political and media attention through the creation of China's fund and the large investments made by SWFs in various Western financial institutions during the global 'credit crunch'.

1 What is a Sovereign Wealth Fund?

There is some disagreement about what defines a Sovereign Wealth Fund (SWF), but generally they are state-owned bodies intended to deliver financial returns from the investment of a country's foreign exchange reserves or other assets acquired through those reserves. The *Sovereign Wealth Fund Institute*, a research organisation, distinguishes SWFs from public pension schemes and state-owned enterprises, and defines an SWF as:⁶

a state-owned investment fund composed of financial assets such as stocks, bonds, real estate, or other financial instruments funded by foreign exchange assets. SWFs can be structured as a fund or as a reserve investment corporation. Some funds also invest indirectly in domestic state owned enterprises. In addition, they tend to prefer returns over liquidity, thus they have a higher risk tolerance than traditional foreign exchange reserves.

While SWFs are government-owned, wide variety is also seen in their level of independence from Government, and how they are managed.

1.1 Why have an SWF?

A recent *Oxford Economics* overview of SWFs, noted that they are typically set up for one or more of the following reasons:⁷

- **Macroeconomic stabilisation** – economies that are dependent on oil and other commodities are exposed to sharp moves in world commodity prices. The main aim of SWFs in these countries is to smooth the short- and medium-term fluctuations, and thereby promote domestic economic stability.
- **Seeking higher returns** – non-commodity-based economies that currently hold reserves far higher than needed for normal usage are increasingly trying to maximise returns rather than holding them in low return, risk-free assets.
- **Future generations** – some SWFs have been created with the long-term goal of creating a pool of wealth for future generations, to be used after natural resources have been depleted.
- **Domestic industries** - some SWFs have been used to restructure and encourage domestic industries.

The International Monetary Fund also see SWFs as a "heterogeneous group", with varying objectives, which can overlap and change, namely:⁸

⁶ Sovereign Wealth Fund Institute, "[About SWFs](#)" page (the organisation states that is "an impartial organization designed to study Sovereign Wealth Funds and their impact on Global Economics, Politics, Financial Markets, Trade, and Public Policy.", "[About us](#)" page)

⁷ Oxford Economics, Economic Outlook, "[The economic significance of Sovereign Wealth Funds](#)", January 2008, p1

- (i) stabilization funds, where the primary objective is to insulate the budget and the economy against commodity (usually oil) price swings
- (ii) savings funds for future generations, which aim to convert non-renewable assets into a more diversified portfolio of assets and mitigate the effects of Dutch disease;
- (iii) reserve investment corporations, whose assets are often still counted as reserve assets, and are established to increase the return on reserves;
- (iv) development funds, which typically help fund socio-economic projects or promote industrial policies that might raise a country's potential output growth; and
- (v) contingent pension reserve funds, which provide (from sources other than individual pension contributions) for contingent unspecified pension liabilities on the government's balance sheet.

1.2 History & growth

SWFs date back to at least the 1950s, but their size and general interest in them has increased dramatically in the past few years, particularly with creation of China's SWF (the China Investment Corporation, CIC) and the large, high-profile investments made by many SWFs in Western financial institutions during the global 'credit crunch'.

There is general agreement that the first SWF was the Kuwait Investment Board,⁹ created in 1953 to manage funds raised through oil exports (pre-dating Kuwait's independence from the UK in 1961). An office was established in London in 1953, "with the aim of investing surplus oil revenues to reduce the reliance of Kuwait on its finite oil resource."¹⁰ It describes itself as "an autonomous government body responsible for the management and administration" of two of Kuwait's major funds.¹¹

However, as the *Financial Times* has noted, SWFs are "rapidly becoming a huge force in global markets and economies".¹² As at December 2007 some \$46 billion had been invested in Western financial companies since the second quarter of 2007.¹³ Another estimate from June 2008 was that \$55 billion being invested by SWFs in US and European financial institutions since the end of 2007.¹⁴ SWFs were in the headlines in the UK again on 26 June, when Barclays Bank announced a £4.5 billion share issue, with the Qatar

⁸ International Monetary Fund, [Sovereign Wealth Funds: A Work Agenda](#), February 2008, para 8

⁹ Kuwait Investment Office from 1965, then Kuwait Investment Authority from 1984, see Kuwait Investment Authority, ["Kuwait Investment Office in London" page](#)

¹⁰ Kuwait Investment Authority, [homepage](#)

¹¹ *ibid.*

¹² "How sovereign wealth funds are muscling in on global markets", *FT.com*, 24 May 2007

¹³ In December 2007 \$46 billion was estimated to have been invested in Western financial companies since the second quarter of 2007. ("Dollars 46bn invested in western institutions", *Financial Times*, 12 December 2007, p18)

¹⁴ Stephen Schwarzman, "Reject sovereign wealth funds at your peril", *Financial Times*, 20 June 2008, p11

Investment Authority investing £1.8 billion.¹⁵ Temasek of Singapore and the China Development Bank had previously invested in Barclays back in July 2007.¹⁶

The Director of the International Monetary Fund's Research Department noted that SWFs' "total size worldwide has increased dramatically over the past 10–15 years" from \$500 billion "at most" in 1990 to a current estimated \$2-3 trillion.¹⁷ International Financial Services London (IFSL) report that SWF assets "more than doubled" between 2001 and 2007 to total of \$3.3 trillion, partly due to the large increases in trade imbalances and the rising price of oil.

Goldman Sachs have observed that SWFs' rise is due to global imbalances in the world economy, and that their investments in developed country economies "rebalance the world economy".¹⁸ In the past it has been primarily countries with oil reserves, such as Norway and the Gulf States, or other commodities that have operated SWFs, sourced from their foreign exchange earnings. China's fund is based on the rapid growth of foreign exchange from its goods exports, and in particular its current account imbalance with the US. The IMF has noted that SWFs "will become less important only if the countries with large surpluses begin to run prolonged current account deficits."¹⁹

Five countries account for 75% of the total value of SWF assets. The United Arab Emirates (UAE) has the largest funds, valued at \$875 billion (giving a 27% 'market share'), followed by Singapore (\$503 billion, 15%), Norway (\$380 billion, 12%), China (\$377 billion, 11%) and Saudi Arabia (\$314 billion, 10%).²⁰

The table below shows individual funds and their countries – the largest is the UAE's Abu Dhabi Investment Authority (\$875 billion):²¹

¹⁵ "Barclays seeks to put investors' minds at ease", *Financial Times*, 26 June 2008, p21

¹⁶ "Why sovereign wealth funds can't get enough bank shares", *The Observer*, 22 June 2008, Business & Media p5

¹⁷ Simon Johnson, Economic Counsellor & Director of Research Department, IMF, "[The Rise of Sovereign Wealth Funds](#)", *IMF Finance & Development Quarterly* (44:3), Sep 2007

¹⁸ "[The Rise of Sovereign Wealth Funds](#)", *IMF Finance & Development Quarterly* (44:3), Sep 2007

¹⁹ "[The Rise of Sovereign Wealth Funds](#)", *IMF Finance & Development Quarterly* (44:3), Sep 2007

²⁰ IFSL, [Sovereign Wealth Funds 2008](#), table 3

²¹ See also SWF Institute "[Fund Rankings](#)" page

Largest 20 Sovereign Wealth Funds

Fund	Country	Inception year	Assets (\$ bn)
Abu Dhabi Investment Council	United Arab Emirates	1976	875
Government Pension Fund of Norway	Norway	1990	380
Government of Singapore Investment Corporation	Singapore	1981	330
Saudi Arabia - various holdings	Saudi Arabia	n/a	300
Kuwait Investment Authority	Kuwait	1953	250
China Investment Corporation	China	2007	200
Hong Kong Monetary Authority Investment Portfolio	China	1998	163
Temasek Holdings	Singapore	1974	159
Stabilisation Fund (and National Welfare Fund)	Russia	2004	157
Australian Future Fund	Australia	2004	61
Qatar Investment Authority	Qatar	2000	50
Libyan Arab Foreign Investment Company	Libya	1981	50
Revenue Regulation Fund	Algeria	2000	43
Alaska Permanent Fund	US	1976	40
National Pensions Reserve Fund	Ireland	2001	31
Brunei Investment Agency	Brunei	1983	30
Korea Investment Corporation	South Korea	2005	30
Khazanah Nasional	Malaysia	1993	26
Kazakhstan National Fund	Kazakhstan	2000	22
Alberta's Heritage Fund	Canada	1976	16
Others	-	-	87
Total			3,300

Source: IFSL, *Sovereign Wealth Funds 2008*, chart 4 (based on SWF Institute, IFSL estimates)

The *Economist* notes that SWF-managed assets account for only 2% of the total \$165 trillion of global traded securities: they account for less than pension funds, mutual funds, insurance companies, but more than hedge funds and private equity.²² However, the IFSL note that SWFs are growing much more quickly,²³ and that they “are likely to become more important participants in global financial markets over the coming years as inflows from trade surpluses and commodities exports continue.”²⁴

Estimates of the future growth of the SWF vary. The International Monetary Fund (IMF) has said that SWFs could reach the \$10 trillion level by 2012 “based on the likely trajectory of current accounts”.²⁵ Morgan Stanley have predicted that they could be worth \$12 trillion by 2015,²⁶ and SWFs will exceed global official currency reserves by the end of 2011.²⁷ The IFSL predicts SWFs will be valued at \$5 trillion in 2010 then exceed \$10 trillion in 2015.²⁸

²² Graphic in “Sovereign-wealth funds: Asset-backed insecurity”, *The Economist*, 17 Jan 2008, see also Oxford Economics, Economic Outlook, “[The economic significance of Sovereign Wealth Funds](#)”, January 2008, p1

²³ IFSL, *Sovereign Wealth Funds 2008*, p1 and chart 2

²⁴ *ibid.* In addition to this, \$6.1 trillion was “held in other sovereign investment vehicles, such as pension reserve funds, development funds and state-owned corporations” and a further \$5.3 trillion in “official foreign exchange reserves not held in other sovereign investment vehicles.”

²⁵ “[The Rise of Sovereign Wealth Funds](#)”, *IMF Finance & Development Quarterly* (44:3), Sep 2007

²⁶ “Governments go shopping”, *The Economist*, 26 July 2007

²⁷ Morgan Stanley Global Research, “[How Big Could Sovereign Wealth Funds Be by 2015?](#)”, May 2007, p2

²⁸ IFSL, *Sovereign Wealth Funds 2008*, p1

Both Japan and India have recently considered establishing their own SWFs.²⁹ Brazil also confirmed in May 2008 that it would launch an SWF with up to \$20 billion of assets primarily financed from budget surpluses.³⁰ With recent oil discoveries in Brazil, the country's finance minister has said the fund could be worth £200-500 billion in 3-5 years time.³¹ Russia too is working towards an SWF, to be managed by a government agency, after dividing its oil stabilisation fund earlier this year "into a \$129 billion Reserve Fund, which will cushion the budget from a fall in oil prices, and a \$33 billion National Wealth Fund (NWF) earmarked for riskier investments."³² The latter "is intended to buoy the pension system as the Russian population ages and the share of those working shrinks", and will be permitted to invest in foreign stocks and bonds.³³

1.3 Two Sovereign Wealth Funds in brief

Norway

Norway's 'Government Petroleum Fund' was set up in 1990, and was renamed the 'Government Pension Fund – Global' in 2006.³⁴ It is now valued at around \$380 billion.³⁵

The Fund's source is the state's petroleum revenues, net financial transactions related to petroleum activities, and returns from the Fund's investments, while it also covers the state's non-oil budget deficit. Norway's Finance Ministry is responsible for the Fund's, while Norges Bank has operational responsibility, investing in financial assets outside of Norway only, using guidelines established by the Finance Ministry.³⁶

China

The China Investment Corporation (CIC) is perhaps the most well-known, and most controversial, SWF. However, with an estimated \$200 billion of assets it is only the sixth largest, and is relatively new having only been created in 2007 (although it took over the pre-existing Central Huijin Investment Corporation).

The CIC purchased a 9.9% stake in investment bank Morgan Stanley in 2007, prompting controversy as the SWF is seen by some as a strategic arm of the Chinese Government, with potential political motives (see part 2.1 below). However, CIC President and Chief Investment Officer, Gao Xiqing, has said that CIC was "investing for financial return not political motive. CIC was only making passive investments in companies and would walk away from countries that were publicly hostile".³⁷

²⁹ "Push for Japanese sovereign fund", *Financial Times*, 6 Dec 2007, p6 and "India weighs up benefits of wealth fund", *Financial Times*, 22 April

³⁰ "In plan for sovereign wealth fund, Brazil charts a different course", *International Herald Tribune*, 14 May 2008

³¹ "Brazil in \$200bn sovereign fund plan", *Ft.com*, 8 June 2008

³² "Putin: No sovereign wealth fund in Russia yet", *Reuters*, 30 June 2008

³³ "Russia Creates a \$32 Billion Sovereign Wealth Fund", *New York Times*, 1 February 2008

³⁴ This move was part of pension reforms, to highlight the Fund's role in funding public expenditure on pensions; however, the Fund is not earmarked for pensions.

³⁵ IFSL, *Sovereign Wealth Funds 2008*, chart 4

³⁶ See Norwegian Ministry of Finance "[Government Pension Fund](#)" page and [two-page fact-sheet](#).

³⁷ "Chinese fund tries to calm west's fears", *Financial Times*, June 2008, p4

For more on China's SWF, see a detailed Congressional Research briefing.³⁸ There is also a separate Hong Kong Monetary Authority Investment Portfolio, managed by Hong Kong's Monetary Authority, and valued at \$163 billion.

2 Policy towards SWFs & recent developments

The recent prominence of SWFs has generated policy questions as to how these funds, often considered secretive, should act and what restrictions or limitations should be imposed on them, particularly in 'strategic' economic sectors. Multi-national institutions, such as the IMF and the Organisation of Economic Co-operation & Development (OECD), as well as the European Union and individual countries have been looking at policies towards SWFs over recent months.

2.1 Transparency seen as key

The focus is generally on transparency. As the IMF's Director of Research has noted,³⁹

Unfortunately, there's a lot we don't know about sovereign funds. Very few of them publish information about their assets, liabilities, or investment strategies. It's thought that they've traditionally been "long only": that is, they pursue buy-and-hold strategies, with no short positions and perhaps no borrowing or direct lending of any kind. They probably have long horizons and, like other long-term investors, are willing to step in when asset prices fall. This likely exerts a stabilizing influence on the world's financial system. But there is also anecdotal evidence that some sovereign funds have placed investments with other leveraged funds. [...]

He also observed that 'rogue traders' were a potential issue, noting that heavy losses after acting "without the approval of the appropriate credit risk managers" could "awaken calls for regulation of cross-border capital flows when decisions by sovereigns are involved."

An index of SWF transparency, the 'Linaburg-Maduell Transparency Index' has been developed by SWF Institute researchers. This is based around Norway's SWF, widely seen as the benchmark of transparency. It has ten "essential principles", including the availability of governance information and having independently audited annual reports. This produces in a transparency rating from 1 to 10, with 8 recommended "in order to claim adequate transparency."⁴⁰ On this measure the Norwegian fund scores 10, whereas the largest fund, the Abu Dhabi Investment Authority, scores 3. China's CIC scores 2, and Honk Kong's Fund 7, as does Singapore's Temasek (Singapore's GIC scores 6).

The IMF's Director of Research also observed the "real danger" to be that SWFs, along with other "government-backed investment vehicles":⁴¹

may encourage capital account protectionism, through which countries pick and choose who can invest in what. Of course, there are always some national security limitations on what foreigners can own. But recent developments in the world suggest there may be a perception that certain foreign governments shouldn't be allowed to own what are regarded as an economy's "commanding heights." This is a slippery slope, which leads

³⁸ "China's Sovereign Wealth Fund", Congressional Research Service briefing, 22 January 2008

³⁹ "The Rise of Sovereign Wealth Funds", *IMF Finance & Development Quarterly* (44:3), Sep 2007

⁴⁰ SWF Institute, "Linaburg-Maduell Transparency Index" [page](#)

⁴¹ "The Rise of Sovereign Wealth Funds", *IMF Finance & Development Quarterly* (44:3), Sep 2007

quickly and painfully to other forms of protectionism. It's important to preempt such pressures.

However, the IMF found “no clear evidence that SWF investments have been motivated by narrow political objectives.”⁴² The *Economist* also argued that, despite the various “imagined fears” about SWFs,⁴³

it is hard to find examples of sovereign-wealth funds abusing their power. As with private-equity groups and hedge funds, the anxieties owe less to reality than to a mix of secrecy and suspicion. With a few exceptions, like Norway, which opts for disclosure, you cannot tell what a sovereign-wealth fund's objectives are, precisely how much money it manages and where it has made its investments. Already the funds use the full range of investment options, including hedge funds and private equity, which further covers their tracks. [...] Secretive and possibly manipulative, they are almost designed to raise suspicions. That is why the chief threat they pose is of financial protectionism.

2.2 OECD & IMF work

Nevertheless, the G7 Finance Ministers meeting in October 2007 called on both the IMF and the OECD to develop guidelines for SWFs.⁴⁴ The IMF is focusing on their management and accountability, while the OECD is focusing on recipient countries' policies towards investments by SWFs. So far, neither has completed their work.

The IMF is developing a voluntary SWF management code of conduct, having previously produced similar forms of guidelines on fiscal transparency and the management of foreign exchange reserves.⁴⁵ Its work agenda was approved by the IMF's Executive Board in March 2008.⁴⁶ So far this work has included a survey of SWFs, a roundtable meeting of governments and SWF officials, as well as co-ordinating work with the OECD, the World Bank and the European Commission.⁴⁷

An International Working Group of Sovereign Wealth Funds (IWG) was set up earlier this year. This group includes representatives of 25 SWFs, including China, Norway, Russia, and the United Arab Emirates, with the IMF providing the group's secretariat support. Saudi Arabia, the OECD and the World Bank are permanent observers. The IWG intends “to present by October 2008 a set of SWF principles that properly reflects their investment practices and objectives.”⁴⁸ An initial draft of a best practice text is expected to be ready for the IMF's Executive Board to discuss ahead of this autumn's IMF/World Bank Annual Meetings.⁴⁹

⁴² IMF, [Sovereign Wealth Funds: A Work Agenda](#), February 2008, para 15

⁴³ “Sovereign-wealth funds: Asset-backed insecurity”, *The Economist*, 17 Jan 2008

⁴⁴ “G7 ministers want new guidelines for sovereign wealth funds”, *The Times*, 20 October 2007, p61

⁴⁵ “IMF Intensifies Work on Sovereign Wealth Funds”, *IMF Survey online*, 4 March 2008

⁴⁶ “IMF Executive Board Discusses a Work Agenda on SWFs”, *IMF Public Information Notice 08/41*, 1 April 2008

⁴⁷ “IMF Intensifies Work on Sovereign Wealth Funds”, *IMF Survey online*, 4 March 2008

⁴⁸ “International Working Group of Sovereign Wealth Funds is Established to Facilitate Work on Voluntary Principles”, *IMF press release 08/97*, 1 May 2008

⁴⁹ “IMF Executive Board Discusses a Work Agenda on SWFs”, *IMF Public Information Notice 08/41*, 1 April 2008

The OECD's work has focused on the opposite side of the issue, the policies of countries in receipt of SWF investments, in order to avoid unwarranted protectionism.

The OECD's Secretary General, Angel Gurría, laid out a "common OECD position" on SWF policy in a letter to G7 finance ministers in April 2008.⁵⁰ The OECD says its member countries "are committed to keeping their investment frontiers open to sovereign wealth funds (SWFs) as long as these funds invest for commercial, not political ends."⁵¹ Accompanying this was a report, *SWFs and Recipient Country Policies*, the work of the 30 OECD member countries, 14 non-members, and the European Commission.⁵² It acknowledged that national security concerns were legitimate but that these "should not be a cover for protectionist policies".⁵³

The OECD's position is based on the principles in pre-existing "investment instruments" on capital movements, and international investment and multinational enterprises. These "call for fair treatment of investors", and include: commitment to non-discrimination; transparency; progressive liberalisation; undertakings not to introduce new restrictions; and not to insist on reciprocity as a condition for liberalisation.

The OECD Ministerial meeting on 4-5 June 2008 adopted an "OECD Declaration on Sovereign Wealth Funds and Recipient Country Policies", stating that:⁵⁴

- Recipient countries should not erect protectionist barriers to foreign investment.
- Recipient countries should not discriminate among investors in like circumstances. Any additional investment restrictions in recipient countries should only be considered when policies of general application to both foreign and domestic investors are inadequate to address legitimate national security concerns.
- Where such national security concerns do arise, investment safeguards by recipient countries should be:
 - transparent and predictable,
 - proportional to clearly-identified national security risks, and
 - subject to accountability in their application.

It is expected that the final report of the OECD's Freedom of Investment project, of which the SWF work forms a part, will be released in Spring 2009.⁵⁵

⁵⁰ OECD Secretary General's letter , 4 June 2008; <http://www.oecd.org/dataoecd/34/9/40408735.pdf>

⁵¹ "Sovereign wealth funds an opportunity, not a threat", *The Guardian*, 9 Apr 2008

⁵² "OECD countries stay open to commercial investments by sovereign wealth funds", *OECD press release*; and OECD report, available at <http://www.oecd.org/dataoecd/34/9/40408735.pdf>.

⁵³ *OECD report*, p4

⁵⁴ "OECD Declaration on Sovereign Wealth Funds & and Recipient Country Policies" (C/MIN(2008)8/FINAL), 5 June 2008, p2

⁵⁵ OECD Secretary General's letter, 4 April 2008; <http://www.oecd.org/dataoecd/34/9/40408735.pdf>.

3 UK, EU & US positions

3.1 UK Government position

In October 2007, the *Times* reported comments from the Chancellor of the Exchequer, Alistair Darling, that some countries' moves to regulate the activities of SWFs appeared to be "pure protectionism", noting that "Britain has had a tremendous benefit from liberalised trade over the past few years ... we are therefore vehemently against moves to re-establish protectionism."⁵⁶ The Chancellor has also said that SWFs "need to play by the rules", and that "When a company is not acting in a commercial way or we have reason to believe it is going to make an investment where there is an issue of national security, then we have powers to take action."⁵⁷ These powers exist under the Enterprise Act 2002, but the Chancellor has not specified which companies it would use them in relation to.⁵⁸

In a December 2007 speech the Economic Secretary to the Treasury, Kitty Ussher, said that SWF investment "benefits London, and there are advantages for the Funds, too – the City has a wealth of expertise in managing assets, and using London as a base allows Funds to keep close to the world's financial markets."⁵⁹ She went on to welcome SWFs "using London in that way and - open and international as it always has been - London will continue to welcome commercial investment from around the world."⁶⁰ She stated that she would be sending this message to the Chairman of China's CIC,⁶¹ while the Prime Minister, Gordon Brown, reportedly urged China's CIC to establish offices in London as an international hub during his visit to China in January 2008.⁶²

International Financial Services London (IFSL) have noted that London "is an important centre in the SWFs market as a clearing house and location from where some of these funds are managed."⁶³ In addition to the Kuwait Investment Authority, it notes that Brunei Investment Authority, Abu Dhabi Investment Authority and Temasek/the General Investment Corporation of Singapore have established London offices.

A working party of the Prime Ministers' Business Council was set up in December 2007 to develop policy proposals on SWFs, to "air suggestions that include restricting the voting rights of the funds, and forcing them to adhere to strict rules on transparency and corporate governance."⁶⁴ SWFs were then reportedly discussed at the February 2008 Business Council meeting.⁶⁵

The Economic Secretary to the Treasury's December 2007 speech also acknowledged that SWFs' growth "has raised concerns - that they may have a negative impact on global

⁵⁶ "G7 ministers want new guidelines for sovereign wealth funds", *The Times*, 20 October 2007, p61

⁵⁷ "Rising power of the sovereign funds", *Sunday Times*, 28 October 2007, Business p4.

⁵⁸ "Chancellor backs G7 move to get tough on sovereign wealth funds": 'Political' investments not tolerated, says Darling", *The Guardian*, 20 October 2007

⁵⁹ [Speech at The Economist "London's Financial Markets: Where Next?" Conference](#), London, 4 December 2007, para 53

⁶⁰ *ibid.*, para 54

⁶¹ *ibid.*, para 54

⁶² "Brown urges China fund to use City as hub", *Financial Times*, 19 Jan 2008

⁶³ International Financial Services London (IFSL) Research, *Sovereign Wealth Funds 2008*, p1 & p3

⁶⁴ "Brown gathers business leaders for summit on sovereign wealth funds", *The Observer*, 3 Feb 2008, p2

⁶⁵ *ibid.*

stability, and that they may make investments for non-commercial reasons.”⁶⁶ She said “all investors need to behave commercially, and be seen to behave commercially, and they have to meet the appropriate standards of governance and transparency”,⁶⁷ and welcomed the IMF and OECD work. In a document released in March 2008 alongside the Budget, the Government stated that “to harness the investment potential” in SWFs,⁶⁸

the UK will engage fully with the ongoing work in the IMF and OECD to set out best practice guidelines. SWFs raise important and complex global issues, requiring a global approach. It is in the interest of all parties to improve standards of governance and transparency and promote fair investment frameworks. This needs to be developed with SWF sponsoring countries and recipient countries through dialogue to build confidence.

In a May 2008 speech on SWFs, the Economic Secretary to the Treasury said she hoped the OECD and IMF work would help “build trust between countries with sovereign wealth funds, and countries where they are seeking to invest.”⁶⁹ She also acknowledged that “some funds have concerns about this international process”, but saw “a real economic rationale for developing best practice on corporate governance and transparency - and I do believe this process will benefit the funds in the long run, as well as being reassuring in recipient countries.”⁷⁰

3.2 EU position

A European Commission Communication issued in February 2008 recognised the benefits of SWFs but states that SWFs needed to be more transparent over their investment strategies and objectives.⁷¹ In summary this proposes:⁷²

[...] that EU leaders endorse a common EU approach to increasing the transparency, predictability and accountability of SWFs. This common approach will strengthen Europe’s voice in international discussions aiming to establish a code of conduct including standards in areas of transparency and governance.

It would like to see an agreed code of conduct by the end of 2008. As well as highlighting “some basic governance and transparency standards that should be included in a voluntary code of conduct for SWFs” the IMF is working on, the Commission highlight five principles:

1. commitment to an open investment environment both in the EU and elsewhere, including in third countries that operate SWFs;
2. support of multilateral work, in international organisations such as the IMF and OECD;
3. use of existing instruments at EU and Member State level;

⁶⁶ [Speech at The Economist “London's Financial Markets: Where Next?” Conference](#), London, 4 December 2007, para 50

⁶⁷ *Ibid.*, para 51

⁶⁸ HM Treasury, *The UK economy: analysis of long-term performance and strategic challenges*, March 2008: para 3.80

⁶⁹ [Speech by the Economic Secretary to the Treasury, Kitty Ussher MP](#), at 'Sovereign Wealth Funds: A British and Norwegian Perspective', Bloomberg, London, 6 May 2008, para 28

⁷⁰ *ibid.*, para 35

⁷¹ “A common European approach to Sovereign Wealth Funds”, [European Commission Communication](#), 27 Feb 2008

⁷² “Commission puts forward proposals to the European Council on sovereign wealth funds and financial stability”, [European Commission press release](#), 27 Feb 2008

4. respect of EC Treaty obligations and international commitments, for example in the WTO framework;
5. proportionality and transparency.

The European Commission's President, José Manuel Barroso, stated that:⁷³

Europe must remain open to inward investments. Sovereign wealth funds are not a big bad wolf at the door. They have injected liquidity and helped stabilize financial markets. They can offer reliable long-term investments our companies need. To ensure this, we need global agreement on a voluntary code of conduct – it is to this end that we make a contribution today. It must avoid some funds being run in an opaque manner or used for non-economic objectives. The EU should take a common approach, without different responses from Member States that could fragment the single market. I have already made clear that we may propose European legislation if we cannot achieve results by voluntary means.

In a March 2008 speech, the EU Trade Commissioner, Peter Mandelson, said that SWFs simply cannot afford to underestimate how important reassurance about systems of transparency and governance is in ensuring that unfounded suspicion doesn't mushroom into a protectionism that is in nobody's interest".⁷⁴ He concluded that:⁷⁵

Our focus should not be on demonising them [SWFs], or stoking public fears about foreign investment. Our chief concern should be integrating the sovereign wealth funds effectively into the global financial system by working with them on a voluntary international code that preserves an open global investment climate and gives the funds the access they want and the recipient countries and publics the reassurance they need. This is the route Europe has settled on, and I believe it is the right one.

This matter was considered by EU leaders at the March 2008 Spring European Council. They welcomed the Commission's work, acknowledged SWFs' "very useful role as capital and liquidity providers with long-term investment perspective", but noted concerns about "the emergence of new players with a limited transparency regarding their investment strategy and objectives has raised some concerns relating to potential non-commercial practices."⁷⁶ The Council agreed that a "common European approach taking into account national prerogatives, in line with the five principles proposed by the Commission" was needed, and pledged support for the work towards an internationally-agreed voluntary SWF code of conduct.

Philip Whyte and Katinka Barysch from the Centre for European Reform have warned against the EU "providing cheap protectionist ammunition to its member-states", favouring "alternative solutions that ease fears about foreign political control without succumbing to the

⁷³ *ibid.*

⁷⁴ "Putting sovereign wealth in perspective", [Speech to OECD Conference, Paris](#), 28 March 2008 (see also a November 2007 [speech on SWFs](#) by Charlie McCreevy, EU Internal Market Commissioner)

⁷⁵ *ibid.*

⁷⁶ European Council, 13/14 March 2008, [Presidency Conclusions](#), 14 Mar 2008, para 36

temptation of protectionism". They note moves in some countries to protect their energy or other strategic sectors, and acknowledge that "doing nothing may not be an option":⁷⁷

If the EU fails to agree a common line, individual EU countries will probably take measures of their own. And the barriers that resulted could impede the free movement of capital, both from outside the EU and within.⁷⁸

3.3 US position

In the US, the Committee on Foreign Investment in the United States (CFIUS) "is able to review investments from sovereign wealth funds just as it would other foreign government-controlled investments, and it has and will continue to exercise this authority to ensure national security."⁷⁹ The President's Working Group on Financial Markets, chaired by the Treasury Secretary, and including regulators, has also initiated a review of SWFs.⁸⁰

In March 2008, the US concluded an "Agreement on Principles" for investments by the Singapore and Abu Dhabi SWFs, outlining five policy principles for SWFs and four for recipients of investment:⁸¹

Policy Principles for Sovereign Wealth Funds (SWFs)

1. SWF investment decisions should be based solely on commercial grounds, rather than to advance, directly or indirectly, the geopolitical goals of the controlling government. SWFs should make this statement formally as part of their basic investment management policies.
2. Greater information disclosure by SWFs, in areas such as purpose, investment objectives, institutional arrangements, and financial information – particularly asset allocation, benchmarks, and rates of return over appropriate historical periods – can help reduce uncertainty in financial markets and build trust in recipient countries.
3. SWFs should have in place strong governance structures, internal controls, and operational and risk management systems.
4. SWFs and the private sector should compete fairly.
5. SWFs should respect host-country rules by complying with all applicable regulatory and disclosure requirements of the countries in which they invest.

Policy Principles for Countries Receiving SWF Investment

1. Countries receiving SWF investment should not erect protectionist barriers to portfolio or foreign direct investment.

⁷⁷ Philip Whyte & Katinka Barysch, "What should Europe do about sovereign wealth funds?", *Centre for European Reform Bulletin 56* (October/November 2007)

⁷⁸ *ibid.*

⁷⁹ "Statement by Deputy Assistant Secretary Robert Dohner before the U.S.-China Economic and Security Review Commission", [US Treasury Department press release](#), 7 February 2008

⁸⁰ *ibid.*

⁸¹ "Treasury Reaches Agreement on Principles for Sovereign Wealth Fund Investment with Singapore and Abu Dhabi", [US Treasury Department press release](#), 20 March 2008

2. Recipient countries should ensure predictable investment frameworks. Inward investment rules should be publicly available, clearly articulated, predictable, and supported by strong and consistent rule of law.
3. Recipient countries should not discriminate among investors. Inward investment policies should treat like-situated investors equally.
4. Recipient countries should respect investor decisions by being as unintrusive as possible, rather than seeking to direct SWF investment. Any restrictions imposed on investments for national security reasons should be proportional to genuine national security risks raised by the transaction.

Also, in June 2008, the US and China announced talks pursuant to a bilateral investment treaty. The *Financial Times* reported that the US “would seek a “high standard” treaty, which “would strengthen investor rights in China”, to ensure that foreign and domestic investors are treated equally, with the widest possible sectoral coverage.⁸² It noted that “analysts believe that China will favour a more limited investment treaty of the kind it already has with some other nations”, but that it was “anxious to ensure that its investors”, its SWF included, “are allowed to buy US assets without discrimination.”

Oxford Economics consider that the US will see “calls for greater protectionism against SWFs – mostly aimed at China” becoming “increasingly vocal as the November 2008 elections approach.” It noted that “suspicion will have been reinforced” by the China’s CIC \$1 billion stake in Bear Stearns, the investment bank, and the \$7.5 billion investment by Abu Dhabi Investment Council into Citigroup.⁸³

4 Additional resources (see also footnotes)

[Please note that some resources are only available to Parliamentary network users]

Anders Åslund, “[The truth about sovereign wealth funds](#)”, *Foreign Policy*, December 2007

Aaditya Mattoo & Arvind Subramanian, “[Currency Undervaluation & Sovereign Wealth Funds: A New Role for the WTO](#)”, *Peterson Institute for International Economics*, January 2008

Council on Foreign relations, “[Sovereign Wealth Funds](#)” page

Dr Gerard Lyons, “[State Capitalism: The Rise of Sovereign Wealth Funds](#)”, *Standard Chartered ‘Thought Leadership’ paper*, December 2007

Financial Times, ‘[In depth’ guide to Sovereign Wealth Funds](#)

International Monetary Fund, [Sovereign Wealth Funds: A Work Agenda](#), February 2008

Jen, S., “[Sovereign Wealth Funds: What they are and what's happening](#)”, *World Economics* 8:4 (2007), pp1-6

⁸² “Washington and Beijing to discuss investment treaty”, *Financial Times*, 19 June 2008, p11

⁸³ Oxford Economics, Economic Outlook, “[The economic significance of Sovereign Wealth Funds](#)”, January 2008, p31

Kern, S., "[Sovereign Wealth Funds - State Investments on the Rise](#)", *Deutsche Bank Research*, September 2007

Kimmit, R. M., "[Public Footprints in Private Markets: Sovereign Wealth Funds and the World Economy](#)", *Foreign Affairs*, January/February 2008

Martin, M. F. "[China's Sovereign Wealth Fund](#)", *Congressional Research Service briefing*, January 2008

Morgan Stanley Global Research, "[How Big Could Sovereign Wealth Funds Be by 2015?](#)", May 2007

Oxford Economics, Economic Outlook, "[The economic significance of Sovereign Wealth Funds](#)", January 2008

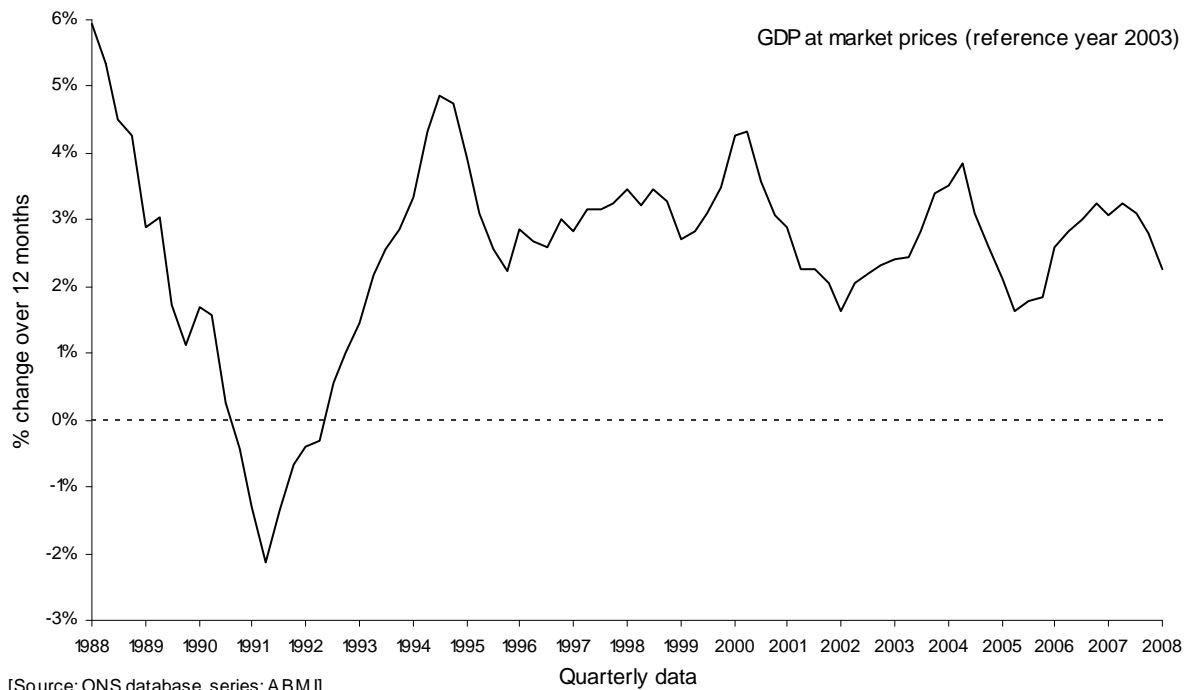
Truman, E. M., "[Sovereign Wealth Funds: The Need for Greater Transparency and Accountability](#)", *Peterson Institute for International Economics*, August 2007

Weiss, M. A. "[Sovereign Wealth Funds: Background and Policy - Issues for Congress](#)", *Congressional Research Service briefing*, January 2008

Ian Townsend

Economic Policy and Statistics Section

A1: Gross Domestic Product



Gross Domestic Product at market prices

£ billion & %; seasonally adjusted

	Current prices		Chained volume (reference year 2003)
	£ billion	% change on year	% change on year
2004	1,184.3	5.9	3.3
2005	1,234.0	4.2	1.8
2006	1,303.9	5.7	2.9
2007	1,381.6	6.0	3.1
2007 Q1	337.6	5.8	3.1
Q2	344.0	6.7	3.3
Q3	348.2	5.8	3.1
Q4	351.7	5.6	2.8
2008 Q1	355.7	5.3	2.3

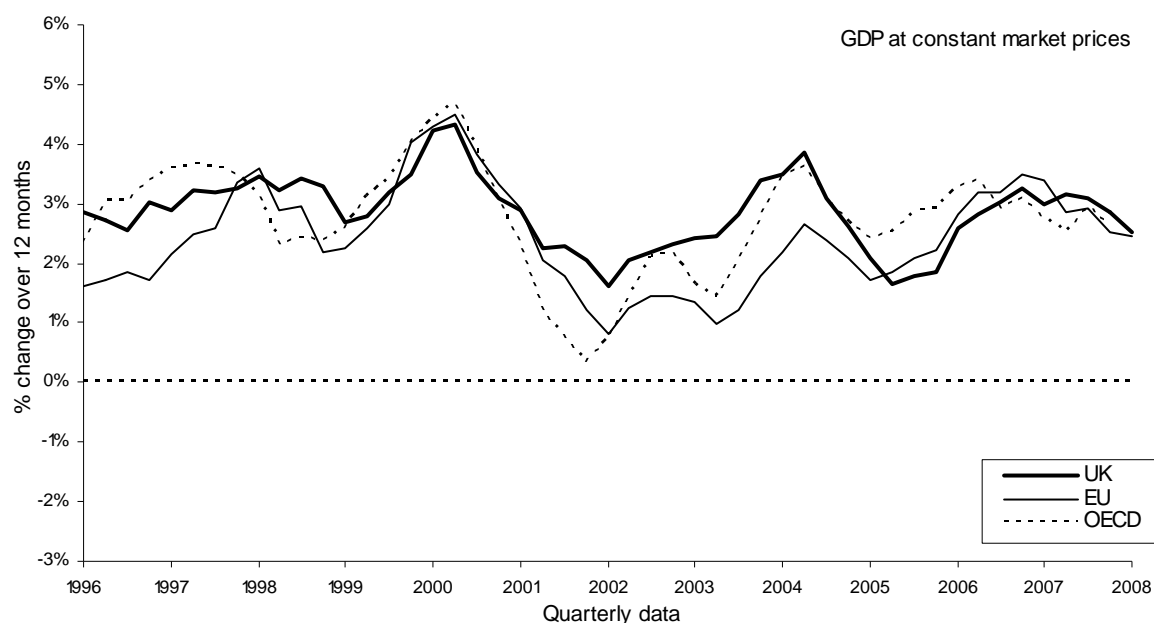
Source: ONS database, series: YBHA, ABMI

- The UK economy is estimated to have grown by 3.1% in 2007, compared with 2.9% in 2006.
- The chained volume measure of gross domestic product (GDP) at market prices was 0.3% higher in Q1 2008 than in the previous quarter (Q4 2007). Compared with the same quarter in the previous year (Q1 2007 on Q1 2006) this measure of GDP was 2.3% higher. This increase has been revised down from the initial estimate of 2.5%
- In June 2008, HM Treasury's average of independent economic forecasts of GDP growth for 2008 was 1.7%, unchanged from May. The average growth forecast for 2009 was 1.4% in June.

Contact: Grahame Allen, x3977

Updates: HM Treasury, *Forecasts for the UK Economy*, 16 Jul;
ONS, *Quarterly National Accounts*, 30 Sep

A2: GDP: International Comparisons



GDP at constant market prices

% changes

	% change on year				% change quarter on quarter					
					2006	2007				2008
	2004	2005	2006	2007	Q4	Q1	Q2	Q3	Q4	Q1
USA	3.6	3.1	2.9	2.2	0.5	0.2	0.9	1.2	0.1	0.2
Japan	2.7	1.9	2.4	2.1	1.1	1.1	-0.6	0.3	0.6	0.8
Canada	3.1	2.9	3.1	2.7	0.5	1.0	1.0	0.6	0.2	-0.1
United Kingdom	3.3	1.8	2.9	3.0	0.9	0.7	0.8	0.6	0.6	0.4
Germany	1.1	0.8	2.9	2.5	1.0	0.6	0.2	0.7	0.3	1.6
France	2.5	1.9	2.2	2.2	0.5	0.6	0.6	0.7	0.3	0.6
Italy	1.5	0.6	1.8	1.5	1.0	0.3	0.0	0.2	-0.4	0.4
Eurozone	1.9	1.7	2.9	2.6	0.8	0.8	0.4	0.7	0.3	0.8
G7	3.0	2.3	2.7	2.2	0.7	0.5	0.5	0.8	0.2	0.5
OECD	3.3	2.7	3.1	2.7	0.8	0.6	0.6	0.9	0.4	..

Source: OECD, *Main Economic Indicators*, Jun 2008

- Of the OECD countries displayed in the table above, Canada was the only one to recorded negative growth in Q1 2008. Annual UK GDP growth was 3.0% in 2007 compared with 2.2% in the US and 2.6% in the eurozone.
- Historic annual growth in the eurozone has been weaker than growth in all OECD countries and the G7. However, in 2007 eurozone growth was 2.6%, higher than G7 growth of 2.2%.
- UK growth is forecast to be 1.8% in 2008 compared with 1.2% in the US and 1.7% in Japan. Overall OECD growth is forecast to be 1.8% in 2008.

OECD growth forecasts

	% change on year		
	2007	2008	2009
USA	2.2	1.2	1.1
Japan	2.1	1.7	1.5
United Kingdom	3.0	1.8	1.4
Eurozone	2.6	1.7	1.4
OECD	2.7	1.8	1.7

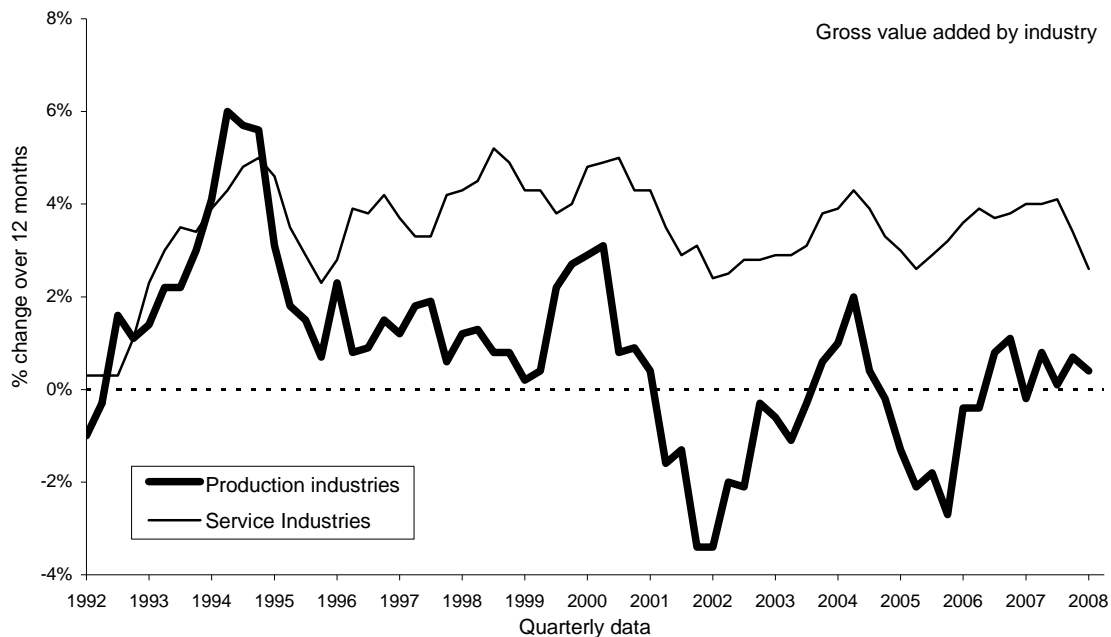
Source: OECD, *Economic Outlook*, Jun 2008

Contact: Edward Beale, x2464

Update: OECD, *Main Economic Indicators*, mid-Jul

A3: Gross Domestic Product by Industry

GDP by industry is measured by gross value added (GVA). GVA measures the value of output of an industry less the value of intermediate inputs used by that industry.



[Source: ONS database, series: ERIE, GDSI]

- Since 1995, output has grown faster in the service sector than in production industries, and is currently growing at an annual rate of 2.6%. Between the fourth quarter of 2007 and the first quarter of 2008 annual output growth in the service sector decreased by 0.8%.

Gross value added at current basic prices

% changes on year; seasonally adjusted

	Production industries		Services	Agriculture, hunting & fishing	Construction
	Total	Manufacturing			
2005	-2.0	-1.2	2.9	4.4	1.5
2006	0.3	1.5	3.7	2.8	1.1
2007	0.3	0.6	3.9	-3.0	2.4
2007 Q1	-0.2	0.9	4.0	-2.5	2.1
Q2	0.8	1.1	4.0	-3.1	2.9
Q3	0.1	0.1	4.1	-4.5	2.2
Q4	0.7	0.2	3.4	-2.1	2.3
2008 Q1	0.4	0.9	2.6	1.0	2.4

Source: ONS database, series: ERID, ERIE, ERIT, ERIU, GDQV, GDQW, GDRN, GDRQ, GDRR, GDSI

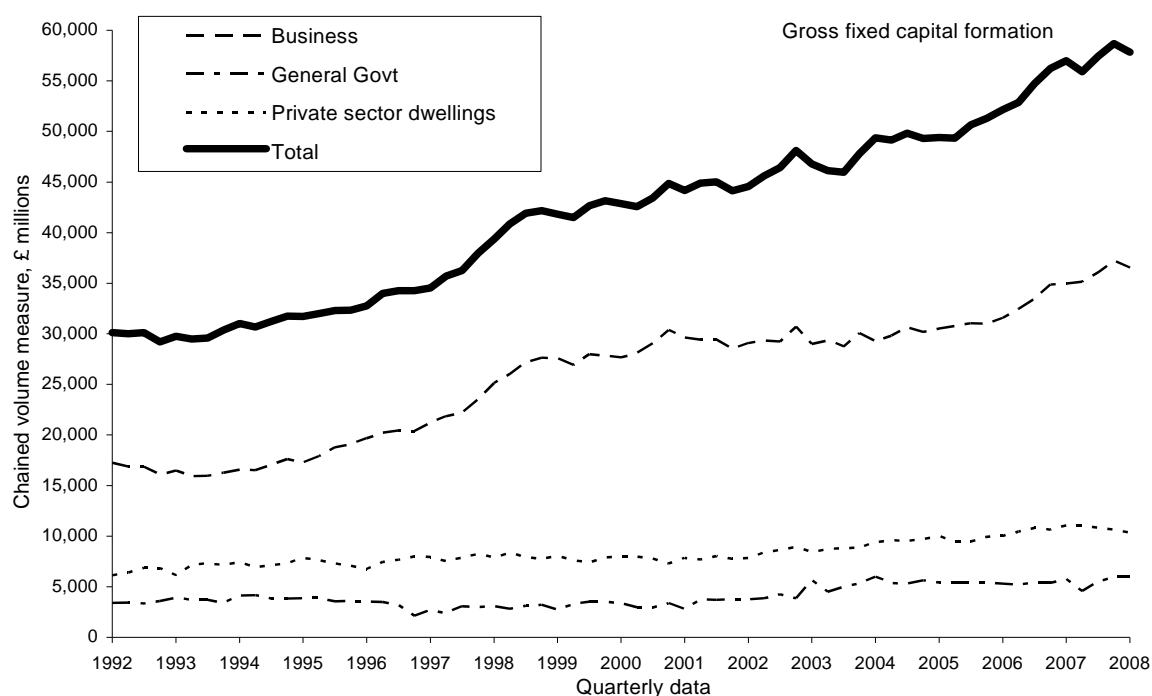
- Manufacturing output increased by 0.9% in the first quarter of 2008 compared with the same quarter in 2007, and manufacturing output increased by 0.6% overall in 2007.
- In 2005, services accounted for 75% of gross value added, manufacturing for 14%, other production industries (mining & quarrying, and electricity, gas & water supply) for 5%, construction for 6% and agriculture, hunting and fishing for 1%.

Contact: Ed Potton, x2883

Update: ONS, *Preliminary GDP estimates*—Q2, 25 Jul

A4: Investment

Gross Fixed Capital Formation (GFCF) is expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings. The graph excludes the effect of the exceptional transfer of nuclear reactors as this distorts the figures.



[Source: ONS database: series DFEA, DLWF, NPEL, NPQT]

Gross fixed capital formation

£ million; Chained volume measures, reference year 2003; seasonally adjusted

	Transport Equipment	Other Machinery & Equipment	Other Buildings & Structures	Dwellings	Intangible Fixed Assets	Total
2004	14,706	58,817	68,135	41,541	14,457	197,655
2005	14,908	58,839	70,493	42,337	14,077	200,654
2006	15,361	62,878	77,021	45,746	14,979	215,985
2007	15,694	69,795	80,808	47,344	15,351	228,993
2007 Q1	4,016	17,483	19,648	11,985	3,873	57,006
Q2	3,943	16,764	19,442	11,965	3,788	55,901
Q3	3,912	17,231	20,660	11,778	3,836	57,417
Q4	3,823	18,317	21,058	11,616	3,854	58,669
2007 Q1	3,923	17,401	21,059	11,521	3,908	57,813

Source: ONS database, series: DLWL, DLWO, DLWT, DFEG, EQDO, NPQT

- Total business investment decreased by 1.8% in Q1 2008 compared with the previous quarter, and increased by 4.5% compared with Q1 2007 on a seasonally adjusted basis.
- Total manufacturing investment decreased by 6.7% in Q1 2008 compared with the previous quarter while investment in private sector services increased by 0.6% on a seasonally adjusted basis.

Contact: Dominic Webb, x4324

Update: ONS, *Business Investment*, 21 Aug

A5: Productivity



Productivity

% changes on year; seasonally adjusted

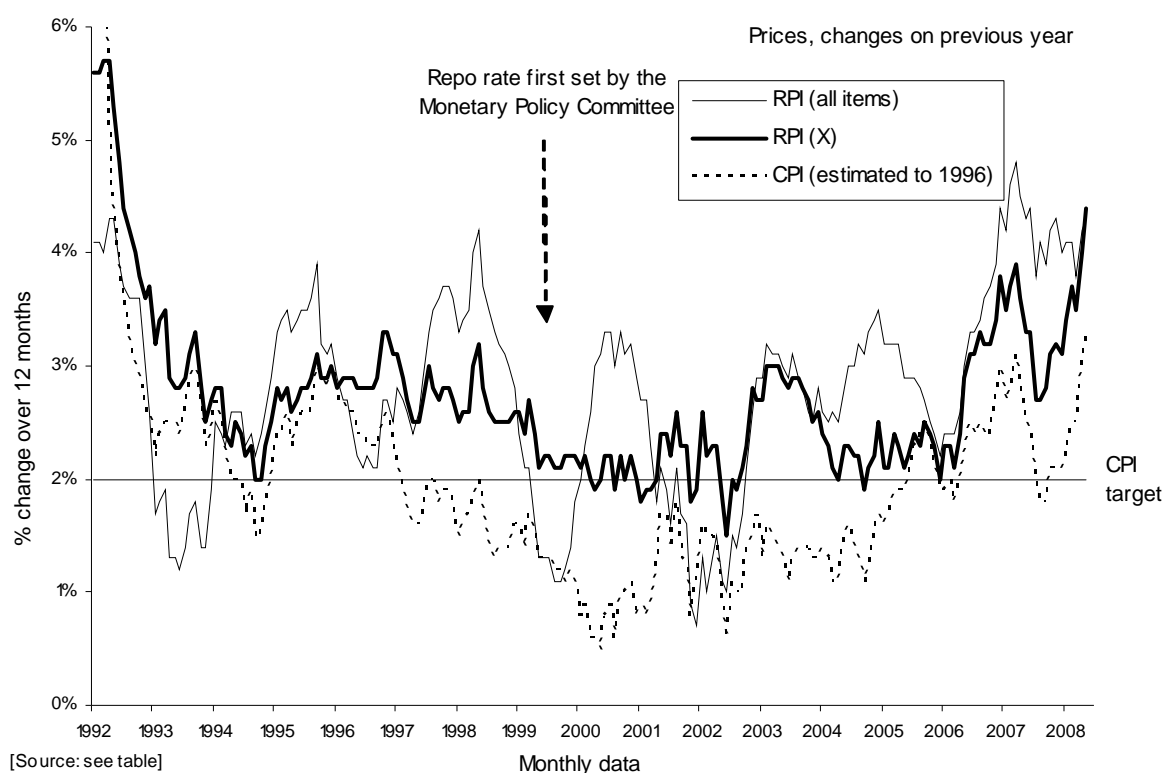
	Manufacturing			Whole Economy		
	Output	Workforce in employment	Output per head	Output	Workforce in employment	Output per head
2005	-1.2	-4.5	3.5	1.9	1.0	0.9
2006	1.5	-2.7	4.4	3.0	0.8	2.2
2007	0.6	-2.2	3.0	3.0	0.8	2.2
2007 Q1	0.9	-2.4	3.5	3.1	0.7	2.3
Q2	1.1	-2.4	3.6	3.3	0.7	2.5
Q3	0.1	-2.4	2.6	3.2	0.8	2.2
Q4	0.2	-1.9	2.1	2.9	1.1	1.6
2008 Q1	0.9	-1.7	2.6	2.2	1.5	0.6

Source: ONS database, series: ABMM, ERIT, ERIU, GDPR, LNNM, LNNN, LNNO, LNNP, LNNNS, LNNU, LNNX, LNOK

- Productivity across the whole economy, measured by output per head, is estimated to have grown by 2.2% in 2007 compared with 2.2% in 2006 and 0.9% in 2005.
- In 2007, manufacturing output increased by 0.6% and employment in manufacturing fell by 2.2%, while manufacturing output per head rose by 3.0%.
- Productivity growth in manufacturing rose to 2.6% per annum in Q1 2008 compared to 2.1% per annum in the previous quarter, while whole economy productivity growth decreased from 1.6% per annum in Q4 2007 to 0.6% per annum in Q1 2008.
- For the economy as a whole, productivity growth has averaged 2.0% per annum over the last eight quarters. Figures on this page are based on output per job.

Contact: Ed Potton, x2883

Update: ONS, *Productivity*, 1 Oct

B1: Prices

On 10 December 2003 the (then) Chancellor wrote to the Bank of England setting a new UK inflation target of 2.0%, measured by the consumer prices index (CPI). Inflation must remain within 1 percentage point either side. The previous target was 2.5% measured by RPI(X).

- In the year to May, the consumer prices index (CPI) showed inflation at 3.3%, up from 3.0% April. The Governor of the Bank of England, Mervyn King, is now required to write to the Chancellor to explain why the CPI is now more than 1 percentage point greater than the inflation target.
- The largest upward effect on the CPI came from food and non-alcoholic beverages. There were further large upward contributions from housing and household services (due to gas prices), and recreation and culture.
- There were no large downward contributions to the CPI annual rate.
- The former headline (all items RPI) rate of inflation was 4.3% in May, up from 4.2% in April. The underlying RPI(X) rose to 4.4% in May from 4.0% in April.
- The largest upward effect on the RPI came from food. The only large downward effect came from housing.

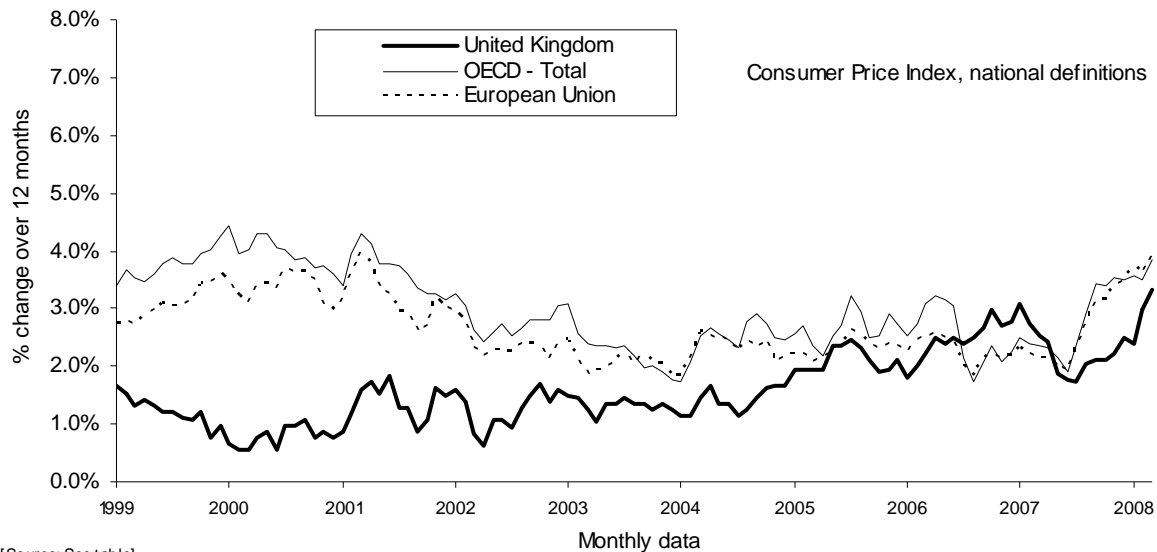
Price Indices

% change over 12 months

	CPI (was HICP)	RPI (all items)	RPI (X)
2004	1.3	3.0	2.2
2005	2.1	2.8	2.3
2006	2.3	3.2	2.9
2007	2.3	4.3	3.2
2007 May	2.5	4.3	3.3
Jun	2.4	4.4	3.3
Jul	1.9	3.8	2.7
Aug	1.8	4.1	2.7
Sep	1.8	3.9	2.8
Oct	2.1	4.2	3.1
Nov	2.1	4.3	3.2
Dec	2.1	4.0	3.1
2008 Jan	2.2	4.1	3.4
Feb	2.5	4.1	3.7
Mar	2.5	3.8	3.5
Apr	3.0	4.2	4.0
May	3.3	4.3	4.4

Source: ONS database, series: D7G7, CDKQ, CJYR

B2: Prices: International Comparisons



The OECD compiles inflation rates based on national consumer price measures. While these are not strictly comparable they indicate that:

- Inflation in the United States was 4.2% in May, an increase of 0.3 percentage points from 3.9% in April;
- The average inflation rate for all OECD countries in May was 3.9%, the highest rate of inflation rate seen since June 2001;
- By this measure, the EU's average inflation rate (not in the table, but shown in the chart above), was 4.0% in May.

Consumer Price Indices

national definitions; % change over 12 months

	USA	Japan	Canada	UK	OECD
2004	2.7	-0.0	1.9	1.3	2.3
2005	3.4	-0.3	2.2	2.0	2.3
2006	3.2	0.2	2.0	2.3	2.4
2007	2.9	0.1	2.1	2.3	2.5
2007 Dec	4.1	2.4	0.7	2.1	3.4
2008 Jan	4.3	2.2	0.7	2.2	3.5
Feb	4.0	1.8	1.0	2.5	3.5
Mar	4.0	1.4	1.2	2.4	3.6
Apr	3.9	1.7	0.8	3.0	3.5
May	4.2	2.2	1.3	3.3	3.9

Source: OECD, Consumer Prices Release

Eurozone inflation

harmonised indices (HICPs); % change over 12 months

	France	Germany	Italy	UK	Eurozone
2004	2.3	1.8	2.3	1.3	2.1
2005	1.9	1.9	2.2	2.1	2.2
2006	1.9	1.8	2.2	2.3	2.2
2007	1.6	2.3	2.0	2.3	2.1
2007 Dec	2.8	3.1	2.8	2.1	3.1
2008 Jan	3.2	2.9	3.1	2.2	3.2
Feb	3.2	3.0	3.1	2.5	3.3
Mar	3.5	3.3	3.6	2.5	3.6
Apr	3.4	2.6	3.6	3.0	3.3
May	3.7	3.1	3.7	3.3	3.7

Source: Eurostat, Euro-Indicators news release, Jun 2008

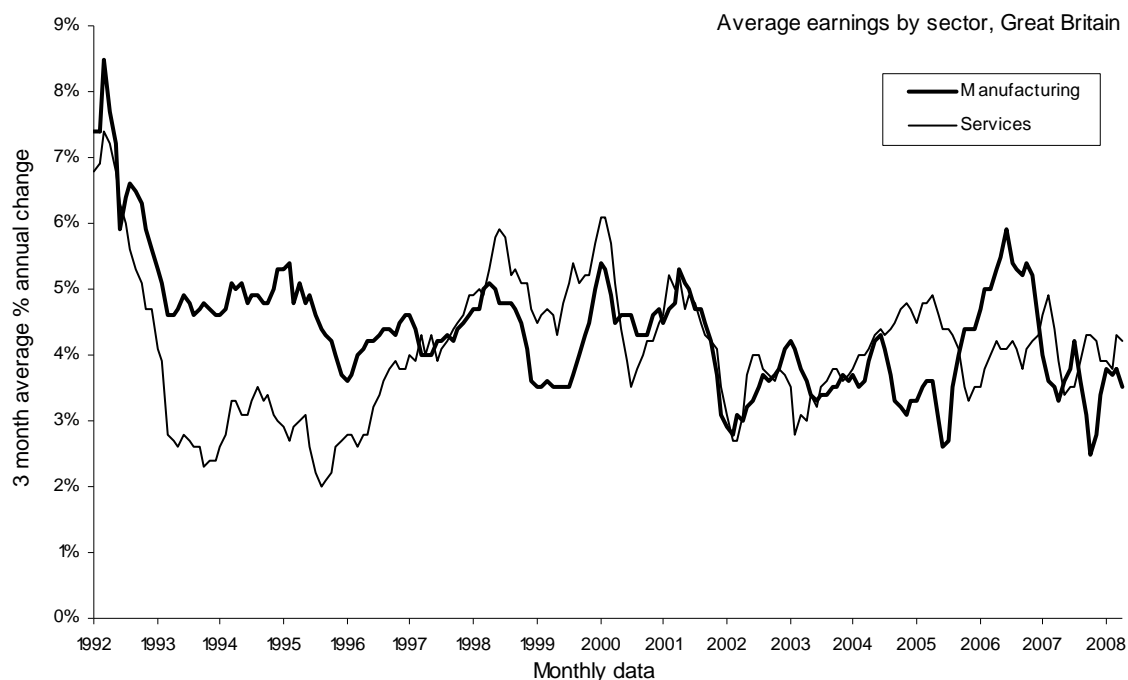
The EU has developed harmonised indices of consumer prices (HICPs), designed for international comparison, to monitor prices within the eurozone:

- In May 2008, Eurozone annual inflation was 3.7%, an increase of 0.4 percentage points. The flash estimate for eurozone inflation in June 2008 was 4.0%, up a further 0.3 percentage points on May's figure.
- The HICP inflation rates for the EU15 Member States not in the eurozone were 3.6% in Denmark, 3.9% in Sweden and 3.3% in the UK.
- The eurozone countries with the highest HICP annual inflation rates were Slovenia (6.2%), Belgium (5.1%) and Greece (4.9%). The lowest rates were in the Netherlands (2.1%), Portugal (2.8%) and Germany (3.1%).

Contact: Ian Townsend, x2042

Updates: Eurostat, *Euro-indicators news release*, 16 Jul
OECD, *Consumer prices release*, 29 Jul

B3: Average Earnings Index



[Source: ONS database, series: LNNG, LNNH]

- The headline rate of growth in average earnings for the whole economy in April was 3.8%, down from 4.0% in March.
- Headline average earnings growth in manufacturing was 3.5% in April, down from 3.8% in March. Earnings growth in the service sector was 4.2% in April, down from 4.3% in the previous month.
- Headline earnings growth in the private sector was 3.8% in April, the same as in the public sector. Earnings growth in the private sector was down from 4.0% in March, while earnings growth in the public sector was unchanged from March.
- Earnings are currently growing at a faster rate than they were a year ago (the headline rate in April 2007 was 3.7%).
- In the year to April, the consumer price index showed inflation below the rate of earnings growth at 3.0%. Earnings growth of 4.5% is thought to be consistent with the Government's inflation target of 2.0%.

Average Earnings, Great Britain % change on year; seasonally adjusted

	Headline rate		
	Whole Economy	Private Sector	Public Sector
2004 Apr	4.0	3.9	4.3
2005 Apr	4.0	3.9	4.3
2006 Apr	4.0	3.9	4.3
2007 Apr	3.7	4.0	3.0
May	3.5	3.7	3.1
Jun	3.5	3.6	3.1
Jul	3.5	3.7	2.8
Aug	3.7	3.9	2.9
Sep	4.1	4.3	3.0
Oct	4.0	4.2	3.2
Nov	4.0	4.2	3.3
Dec	3.8	4.0	3.3
2008 Jan	3.9	4.0	3.5
Feb	3.7	3.7	3.7
Mar	4.0	4.0	3.8
Apr	3.8	3.8	3.8

Source: ONS database, series: LNNC, LNND, LNNE

C1: Employment



Employment structure in the UK

3-month average centred on month; '000s & % changes; seasonally adjusted

	Total in employment	Employees	Self- employed	Unpaid Family Workers	Government Training
2004 Mar	28,410	24,553	3,626	110	122
2005 Mar	28,699	24,867	3,605	105	122
2006 Mar	28,996	25,087	3,728	87	94
2007 Mar	29,108	25,098	3,806	103	101
2007 Jun	29,205	25,181	3,798	107	120
2007 Sep	29,317	25,286	3,825	97	110
2007 Dec	29,478	25,424	3,838	107	110
2008 Mar	29,554	25,489	3,831	114	120

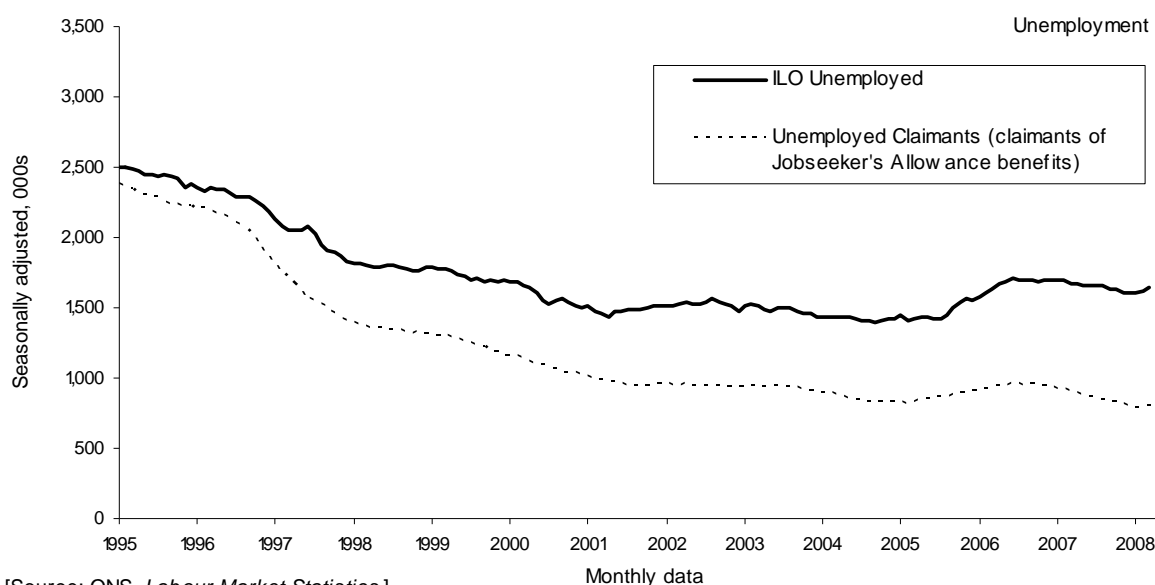
Changes (%):

on last 3 months	0.3	0.3	-0.2	6.5	9.2
on last year	1.5	1.6	0.7	10.9	18.9

Source: ONS

- Total employment was 29.6 million in the period February to April 2008, 1.5% higher than a year earlier. The working age employment rate of 74.9% was the same as the previous quarter and 0.5 percentage points higher than a year earlier.
- Over the year to March, the number of manufacturing industry workforce jobs fell by 52,000. The number of service sector jobs rose by 209,000 over the year.
- 7.5 million people were in part-time employment in the period February to April 2008, of whom 5.7 million were women. 3.8 million people were self-employed.

C2: Unemployment: National



Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS). This data has been revised to take account of the 2001 Census results.

- The latest LFS estimates show that over the period February to April 2008, the level of ILO unemployment in the UK was 1,643,000 (seasonally adjusted). This was a decrease of 34,000 from the same period a year earlier.
- Seasonally adjusted unemployment, as measured by the monthly claimant count, increased by 9,000 between April and May 2008 to 819,000.

The New Deal for Young People started in January 1998.

- By February 2008, there had been 1,801,000 starts under the scheme. By November 2007, 1,691,000 spells had resulted in 794,000 sustained jobs (47%) i.e. where the individual had not returned to claim Jobseeker's Allowance (JSA) within three months of starting employment.

The New Deal 25 plus started in June 1998 and an enhanced scheme was introduced in April 2001.

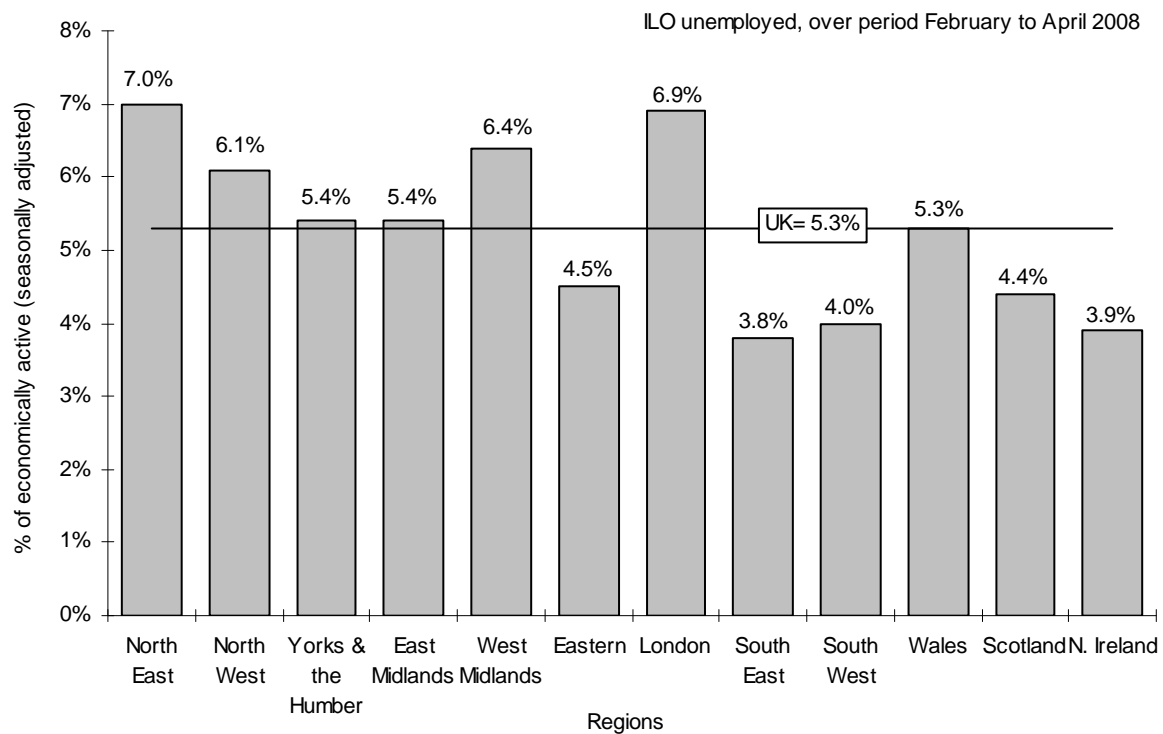
- By February 2008, there had been 1,096,000 starts under the scheme. By November 2007, 643,000 spells had resulted in 281,000 sustained jobs (43%).

ILO Unemployment in the UK seasonally adjusted

	'000s	(%)
Feb - Apr 2002	1,522	5.2
May - Jul	1,527	5.2
Aug - Oct	1,545	5.2
Nov - Jan 2003	1,479	5.0
Feb - Apr	1,517	5.1
May - Jul	1,506	5.1
Aug - Oct	1,474	5.0
Nov - Jan 2004	1,440	4.8
Feb - Apr	1,437	4.8
May - Jul	1,425	4.8
Aug - Oct	1,398	4.7
Nov - Jan 2005	1,425	4.7
Feb - Apr	1,417	4.7
May - Jul	1,426	4.7
Aug - Oct	1,503	5.0
Nov - Jan 2006	1,549	5.1
Feb - Apr	1,627	5.3
May - Jul	1,704	5.5
Aug - Oct	1,697	5.5
Nov - Jan 2007	1,695	5.5
Feb - Apr	1,677	5.4
May - July	1,652	5.4
Aug - Oct	1,637	5.3
Nov - Jan 2008	1,605	5.2
Feb - Apr	1,643	5.3

Source: ONS, *Labour Market Statistics*

C3: Unemployment: Regional



[Source: ONS, *Labour Market Statistics*]

Since April 1998, the Office for National Statistics has used the International Labour Organisation (ILO) definition of unemployment as the headline measure of unemployment. In the UK this is obtained from the Labour Force Survey (LFS).

- Over the period February to April 2008 the North East had the highest unemployment rate, 7.0% of the economically active population. The lowest rate over the same period was 3.8%, in the South East.
- A comparison of February to April 2008 with the same period a year earlier shows that the highest fall (15%) in unemployment occurred in Scotland. The North East showed the largest increase (7%) over the period.

ILO Unemployment, February to April 2008

change on same period in previous year;
seasonally adjusted

	Number (rounded)	%
North East	6,000	7
North West & Merseyside	12,000	6
Yorkshire & the Humber	-10,000	-7
East Midlands	4,000	3
West Midlands	5,000	3
Eastern	0	0
London	-6,000	-2
South East	-25,000	-13
South West	6,000	6
Wales	-5,000	-6
Scotland	-20,000	-15
Northern Ireland	-1,000	-3

Source: ONS, *Labour Market Statistics*

C4: Unemployment: International Comparisons



Unemployment

Unemployed as % of labour force (standardised); seasonally adjusted

	2006	2007	2006				2007				2008
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Canada	6.3	6.0	6.4	6.2	6.4	6.2	6.1	6.1	6.0	5.9	5.9
France	9.2	8.3	9.5	9.3	9.2	8.9	8.7	8.4	8.2	8.0	7.8
Germany	9.8	8.4	10.5	10.0	9.6	9.2	8.7	8.5	8.3	8.0	7.5
Italy	6.8	6.1	7.3	6.8	6.6	6.4	6.1	6.0	6.1	6.1	..
Japan	4.1	3.9	4.2	4.1	4.1	4.1	4.0	3.8	3.8	3.8	3.9
UK	5.3	5.3	5.1	5.4	5.4	5.4	5.5	5.3	5.2	5.0	..
USA	4.6	4.6	4.7	4.7	4.7	4.4	4.5	4.5	4.7	4.8	4.9
Eurozone	8.2	7.4	8.6	8.4	8.1	7.9	7.6	7.5	7.4	7.2	7.1
G7	5.8	5.4	6.0	5.8	5.8	5.6	5.5	5.2	5.4	5.4	5.4
OECD	6.1	5.6	6.4	6.2	6.1	5.9	5.7	5.6	5.6	5.5	5.5

Source: OECD, Standardised Unemployment Rate, June 2008

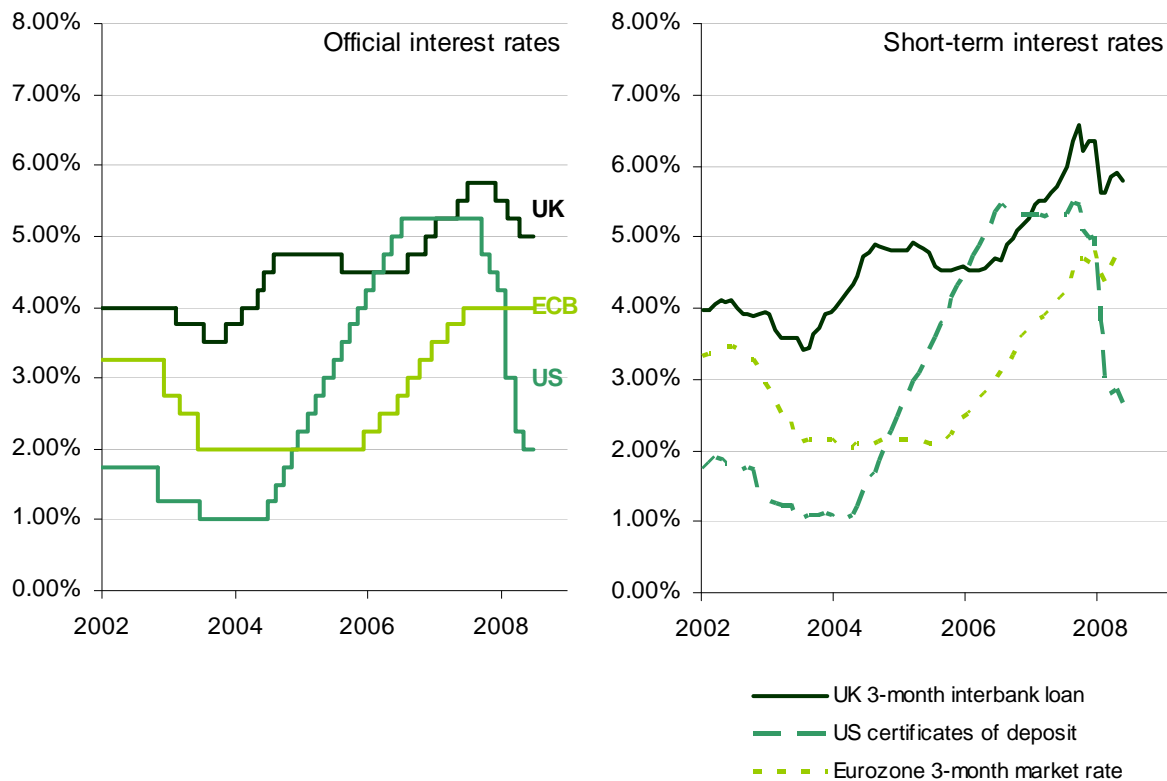
- Using standardised definitions, the UK unemployment rate for 2007 was 5.3%, significantly below the eurozone average (7.4%) and below the G7 and OECD rates (5.4% and 5.6% respectively).
- Between Q4 2006 and Q4 2007 (the latest quarter for which all data are available) the largest fall in unemployment among G7 countries was in Germany where it fell by 1.2 percentage points.
- The most recent forecasts published by the OECD (*Economic Outlook*, June 2008) suggest the UK unemployment rate will be 5.5% in 2008 and 5.8% in 2009. The respective forecasts for the eurozone are 7.2% and 7.4% and for the OECD as a whole 5.7% and 6.0%.

Contact: Alex Adcock, x3973

Updates: OECD, *Standardised Unemployment Rates*, 11 Jul
OECD, *Economic Outlook*, Dec

D1: Interest Rates

- At its latest meeting on 5 June, the Bank of England's Monetary Policy Committee (MPC) voted to maintain the interest rate at 5.00%. Eight members voted to maintain the rate; one voted for a 25 basis point reduction.
- The US Federal Reserve kept the funds rate at 2.00% at its June meeting. Previously it had cut the rate by 25 basis points on 30 April, by 75 points on 18 March, and by 50 points on 30 January. There was an unscheduled cut of 75 basis points on 22 January as well as cuts at its September, October and December 2007 meetings.
- The Governing Council kept the European Central Bank (ECB) interest rate for main refinancing operations at 4.00% at its meeting on 5 June.



UK Base/Repo rate changes

% per annum

Date	New rate	Date	New rate
2000 Jan 13	6.00	2004 May 6	4.25
Feb 10	5.75	Jun 10	4.50
2001 Feb 8	5.50	Aug 5	4.75
Apr 5	5.25	2005 Aug 4	4.50
May 10	5.00	2006 Aug 3	4.75
Aug 2	4.75	Nov 9	5.00
Sep 18	4.50	2007 Jan 11	5.25
Oct 4	4.00	May 10	5.50
Nov 8	3.75	Jul 5	5.75
2003 Feb 6	3.50	Dec 6	5.50
Jul 10	3.75	2008 Feb 7	5.25
Nov 6	4.00	Apr 10	5.00

Source: Bank of England

International interest rates

% per annum, at 30 June 2008

	Official rate	Yield 10yr Govt bonds	3-month market rate
United Kingdom	5.00	10/4/08 5.13	6.00 - 5.88
Eurozone	4.00	6/6/07 n/a	4.98 - 4.86
United States	2.00	30/4/08 3.98	3.13 - 3.05
Japan	0.50	21/2/07 1.60	1.13 - 0.97
Switzerland	2.25-3.25	13/9/07 3.31	2.85 - 2.79

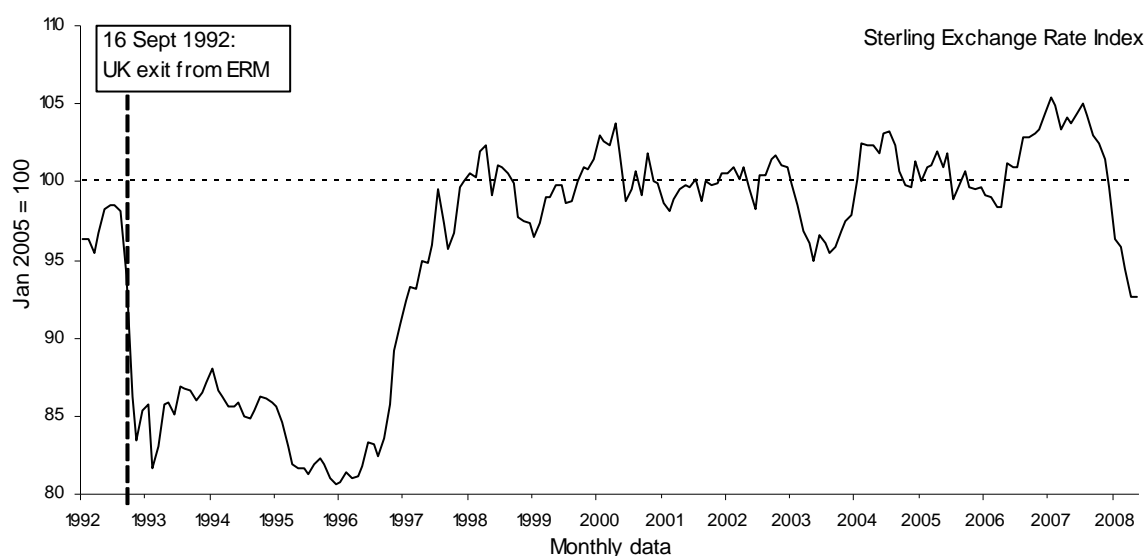
Source: *Financial Times*, 1 July 2008
(*Companies & Markets*, p.37)

Contact: Bryn Morgan, x4904

Updates: Short-term interest rates: OECD, MEI, mid-Jul;
Base rates: 10 Jul (UK MPC), 3 Jul (ECB), 5 Aug (US)

D3: Exchange rates

The *Sterling Exchange Rate Index* (SERI) measures the value of sterling against a trade-weighted 'basket' of other currencies. The weights used in this index measure currencies' relative importance to UK trade in manufacturing:



[Source: ONS database, series: BK67]

- The large fall in the SERI following the UK exit from the ERM indicated a relative improvement in the competitiveness of the UK. Compared with December 2007, the SERI fell by 7.0 points in May 2008, suggesting that the UK was relatively more competitive at the end of May than at the end of the previous year.

The table shows sterling exchange rates for three major currencies: the US dollar, Japanese yen and the euro. The pound was worth €1.263 at the London market close on 30 June 2008, compared with a launch rate of €1.476 on 31 December 1998. The pound was worth \$1.991 at the market close on 30 June 2008.

Sterling Exchange Rates

rates and % changes

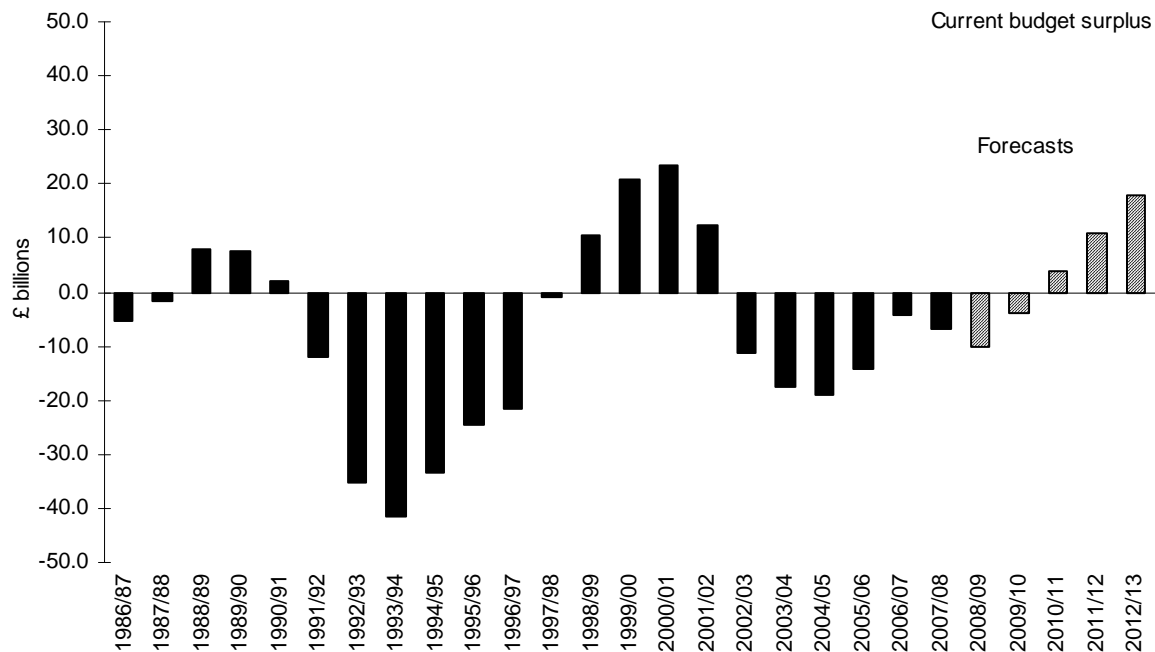
	US Dollar (\$)		Yen (¥)		Euro (€)	
	Rate	change on yr (%)	Rate	change on yr (%)	Rate	change on yr (%)
2004	1.832	12.1	198.1	4.6	1.474	2.0
2005	1.820	-0.7	200.1	1.0	1.463	-0.7
2006	1.843	0.6	214.3	8.2	1.467	-0.5
2007	2.002	10.0	235.6	17.7	1.462	-0.1
2007 May	1.984	6.1	239.6	14.8	1.468	0.3
Jun	1.986	7.8	243.7	15.4	1.481	1.7
Jul	2.034	10.3	247.1	15.8	1.482	1.9
Aug	2.011	6.2	234.8	7.0	1.476	-0.2
Sep	2.019	7.1	232.2	5.2	1.452	-2.0
Oct	2.045	9.0	236.9	6.5	1.437	-3.4
Nov	2.070	8.3	229.6	2.4	1.411	-4.9
Dec	2.019	2.8	226.8	-1.4	1.386	-6.7
2008 Jan	1.970	0.6	212.2	-10.1	1.338	-11.2
Feb	1.964	0.3	210.3	-10.8	1.332	-11.0
Mar	2.003	2.9	202.0	-11.6	1.290	-12.3
Apr	1.982	-0.5	203.4	-14.1	1.258	-14.5
May	1.964	-1.0	205.0	-14.5	1.263	-13.9

Source: ONS database, series: AUSS, AJFO, THAP

Contact: Edward Beale, x2464

Updates: ONS, *SERI*, mid-Jul; *Sterling Exchange Rates*, daily

D4: Public Finances



[Source: ONS database, series: ANMU; HM Treasury]

The Government's "golden rule" requires it to balance the current budget over the economic cycle. The Treasury have yet to reach a final view about the end point of the cycle. The chart shows returns for the current budget balance and Treasury forecasts from the 2008 Budget.

Net borrowing in total was £34.6bn in 2007/08 and is forecast by the Treasury to reach £43bn in 2008/09.

The Government's other fiscal rule requires it to keep public sector net debt below 40% of GDP in each and every year of the current economic cycle.

Northern Rock and the Bank of England will be included in the measurement of public debt. The net debt figures in the table do not include them as the ONS is still undertaking quality assurance of the data. ONS has, however, published estimates including Northern Rock and the Bank of England which show debt at 43.2% of GDP in March 2008, exceeding the 40% limit.

The Code for Fiscal Stability allows the Government to depart temporarily from the fiscal rules. The Government have said that the rule will be assessed looking at debt excluding Northern Rock.

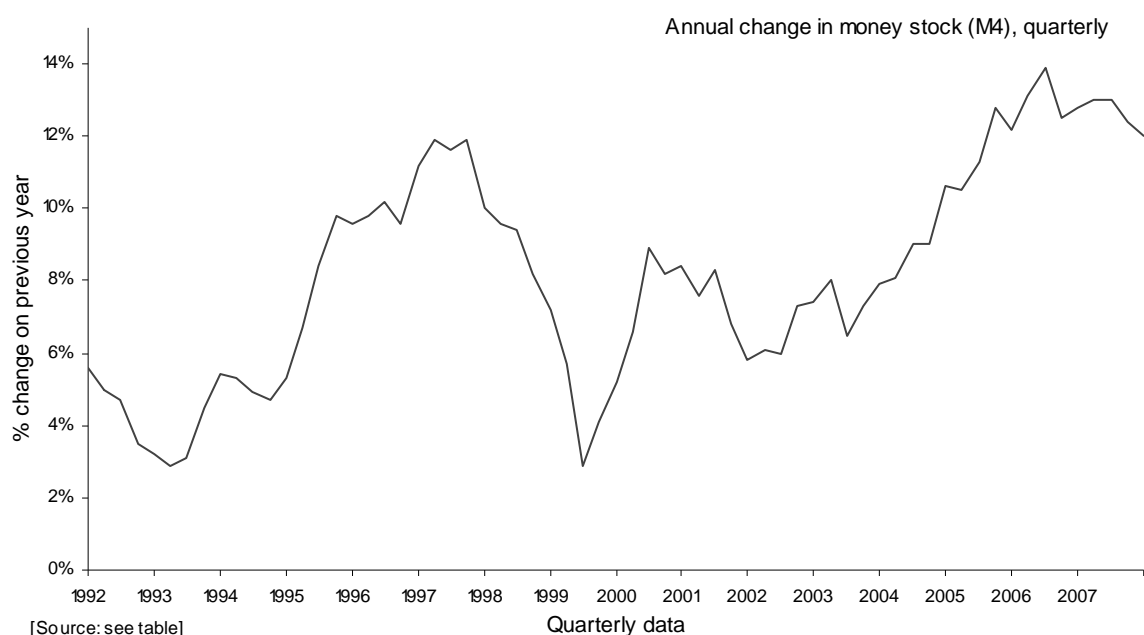
Public Sector Net Debt and Borrowing

£ billion & %

	Net Debt		Net borrowing
	£bn	% GDP	£bn
2004/05	423.6	34.7	39.6
2005/06	463.0	36.0	37.6
2006/07	499.7	36.6	30.2
2007/08	528.5	36.7	34.6
2007 Q1	499.7	36.6	-2.2
Q2	514.6	37.2	14.7
Q3	516.2	36.7	6.7
Q4	535.7	37.7	17.1
2008 Q1	528.5	36.7	-4.0

Source: ONS database, series: RUTN, RUTO, -ANNX

D5: Money Supply



Money stock

% change; seasonally adjusted

	Notes and coin		M4	
	3 month change (annualised)	12 month change	3 month change (annualised)	12 month change
2007 May	7.3	4.6	15.8	14.0
Jun	8.3	4.8	13.9	12.9
Jul	7.0	4.3	13.1	13.1
Aug	4.8	4.6	12.8	13.7
Sep	5.2	5.4	14.4	12.9
Oct	7.2	5.4	10.5	12.0
Nov	6.6	5.3	7.2	11.9
Dec	4.4	5.8	8.7	12.4
2008 Jan	5.8	6.3	14.5	13.1
Feb	7.7	6.6	13.2	12.2
Mar	9.2	6.8	10.0	11.7
Apr	6.7	6.7	5.7	10.9
May	4.7	5.9	6.8	10.0

Source: Bank of England, *Monetary and Financial Statistics*, June 2008, Tables A.1.1 and A.2.1.1

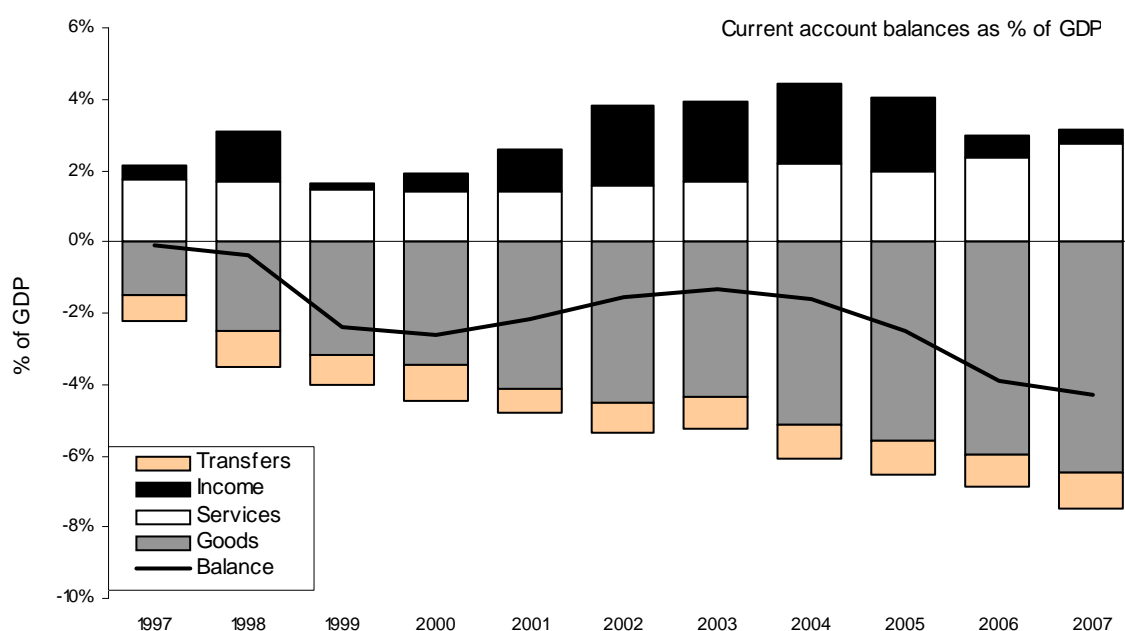
The table above shows sterling notes and coin in circulation outside the Bank of England. The table also shows M4 which is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

- Seasonally adjusted M4 grew by 10.0% in the 12 months to May 2008. The 12-month seasonally adjusted growth rate of notes and coins was 5.9% in May 2008.
- There are now no formal targets for money supply growth.

Contact: Dominic Webb, x4324

Update: Bank of England, *Monetary & Financial Stats*, 29 Jul

E1: UK Overseas Trade



Current Account Balances

£ millions; seasonally adjusted

	Trade in goods/services			Income (total)	Transfers			Current Account Balance
	Goods	Services	Total		Central Gov.	Other	Total	
2004	-60,893	25,918	-34,975	26,596	-8,304	-2,645	-10,949	-19,328
2005	-68,789	24,611	-44,178	25,204	-9,427	-2,584	-12,011	-30,985
2006	-77,555	31,023	-46,532	7,760	-9,531	-2,422	-11,953	-50,725
2007	-89,515	38,331	-51,184	5,302	-9,930	-3,863	-13,793	-59,675
2007 Q1	-21,446	9,241	-12,505	-1,832	-2,231	-896	-3,127	-17,164
Q2	-20,308	9,733	-10,575	15,809	-2,088	-1,010	-3,098	-12,164
Q3	-23,618	9,772	-13,846	-1,246	-2,094	-928	-3,022	-18,114
Q4	-24,143	9,585	-14,558	6,871	-3,517	-1,029	-4,546	-12,233
2008 Q1	-22,720	9,231	-13,489	9,024	-2,529	-1,401	-3,930	-8,395

Source: ONS database, series: BOKI, FNSV, FNTC, HBOJ, HBOP, IKBD, IKBJ, IKBP

- **Annually**, the current account deficit in 2007 was £59.7 billion, equivalent to -4.3% of GDP. The surplus on income narrowed between 2006 and 2007 and the services surplus widened, while the deficits on goods trade and transfers widened.
- On a **quarterly** basis, the current account deficit was estimated at £8.4 billion in Q1 2008, narrowing from the Q4 2007 deficit of £12.2 billion. Between Q4 2007 and Q1 2008 the surplus on services narrowed, as did the deficit on goods.
- In 2007 the **annual** current account deficit with EU27 countries was £45.7 billion, compared with a deficit with non-EU countries of £14.0 billion. On a **quarterly** basis, the deficit with EU countries was £8.4 billion in Q1 2008 (compared with £12.5 billion in Q4 2007). With non-EU countries, the current account was in deficit by £19 million in Q1 2008 (compared with a surplus of £275 million in Q3 2007).

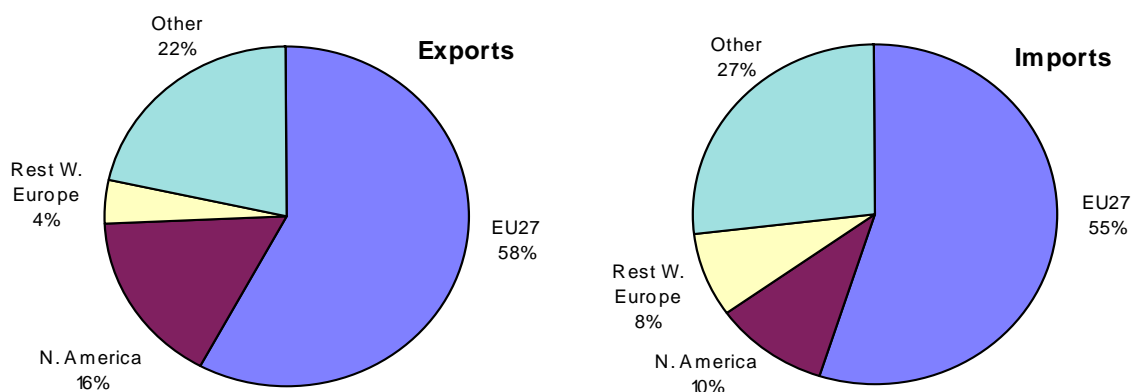
Contact: Grahame Allen, x3977

Updates: ONS, *UK Balance of Payments*, 30 Sep; *UK Trade*, 9 Jul

E2: UK Overseas Trade in Goods

Shares of UK trade in goods by area, 2007

Balance of Payments basis



[Source: ONS database, series: LGCK, HBZQ, HCJD, HCII, HDII, HCHW, LGDC, HCRB, HBTS, HDJQ, HCPC, HCIF]

Export & import volume indices & trade in goods balances

Index & £ million; Balance of Payments basis; seasonally adjusted

	Volume index (2003=100)		Trade in goods (£m)		
	Exports	Imports	Exports	Imports	Balance
2004	101.5	106.9	190,877	251,770	-60,893
2005	111.0	114.7	211,608	280,397	-68,789
2006	125.2	127.9	243,631	321,186	-77,555
2007	110.1	122.2	220,797	310,312	-89,515
2007 Q1	108.9	120.1	53,306	74,752	-21,446
Q2	109.9	118.8	54,681	74,989	-20,308
Q3	111.8	125.6	55,960	79,578	-23,618
Q4	109.9	124.3	56,850	80,993	-24,143
2008 Q1	110.8	121.8	59,807	82,527	-22,720

Source: ONS database, series: BQKU, BQKV, BOKG, BOKH, BOKI

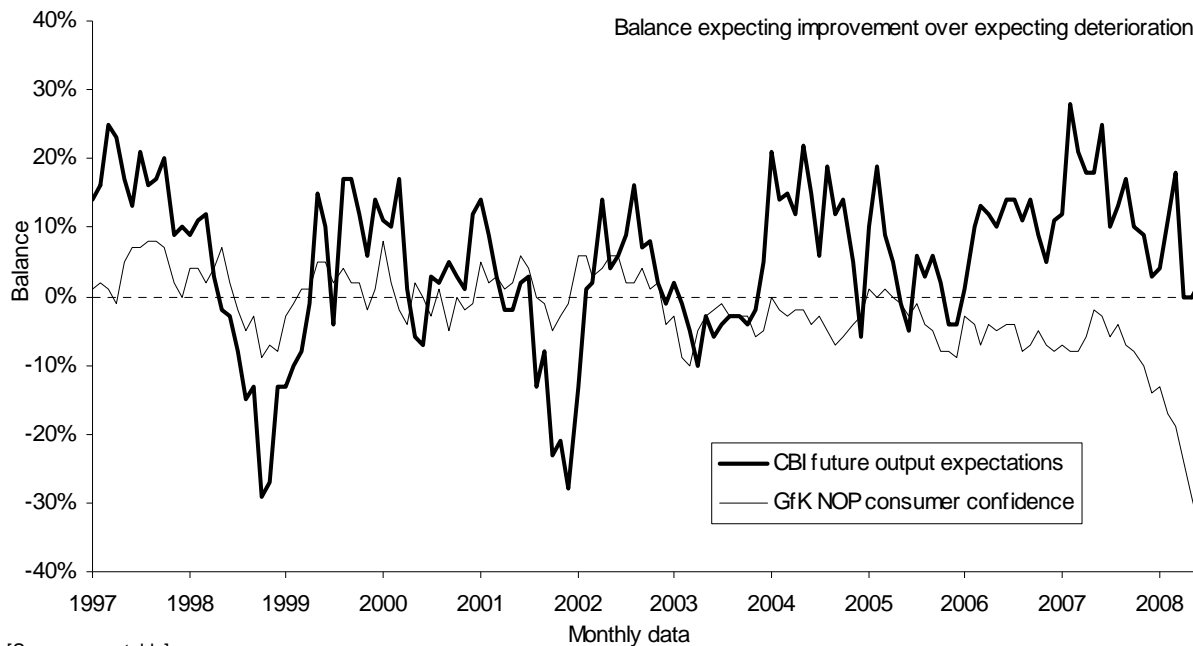
- In April, the provisionally estimated total value of UK goods exports was £20.8 billion and the total value of UK goods imports was £28.4 billion. As a result, the estimated deficit on goods trade was £7.6 billion, lower than the March level of £7.1 billion.
- Geographical breakdowns of UK trade with EU and non-EU countries are affected by VAT Missing Trader Intra-Community (MTIC) – or ‘carousel’ – fraud. These issues make EU/non-EU breakdowns difficult to interpret. However, the latest estimates suggest that the goods deficit with the EU27 was £3.4 billion in April (compared with £3.4 billion in March), while the deficit with non-EU countries was £4.2 billion (compared with £3.8 billion in March).
- The UK’s monthly surplus on trade in **services** was £3.3 billion in April compared with £3.4 billion in March.
- The UK’s overall monthly deficit on **goods and services combined** in April was £4.3 billion, up from £3.8 billion in March.

Contact: Grahame Allen, x3977

Update: ONS, *UK Trade*, 9 Jul

F1: Survey indicators

The survey indicators shown here are expressed in terms of a balance of 'the percentage of respondents expecting the situation to improve' over 'the percentage expecting things to worsen':



[Sources: see table]

The CBI carries out monthly and quarterly *Industrial Trends Surveys*:

- Manufacturers' expectations of output over the next three months are relatively flat for the third consecutive month. A balance of +2% of firms thought output would increase.
- 39% of survey respondents said they expect to increase prices in the next three months, against 10% who expect to cut them.
- 31% of firms rated their total order book as above normal and 30% said it was below, giving a balance of +1% (-5% for export orders).

GfK NOP's *Consumer Confidence Barometer* measures a range of consumer attitudes, including forward expectations of the general economic situation and households' financial positions, and views on making major household purchases:

- The overall index fell by five points in June to stand at -34, the lowest figure since March 1990. All five measures in the index fell.
- The outlook for major purchases (-35) is 41 points below the June 2007 figure, and the lowest on record (since 1983) for this measure.
- The index for the general economic situation over the next 12 months fell 8 points to -66. This is 42 points below the June 2007 figure and is the lowest since December 1992.

Output Expectations & Consumer Confidence

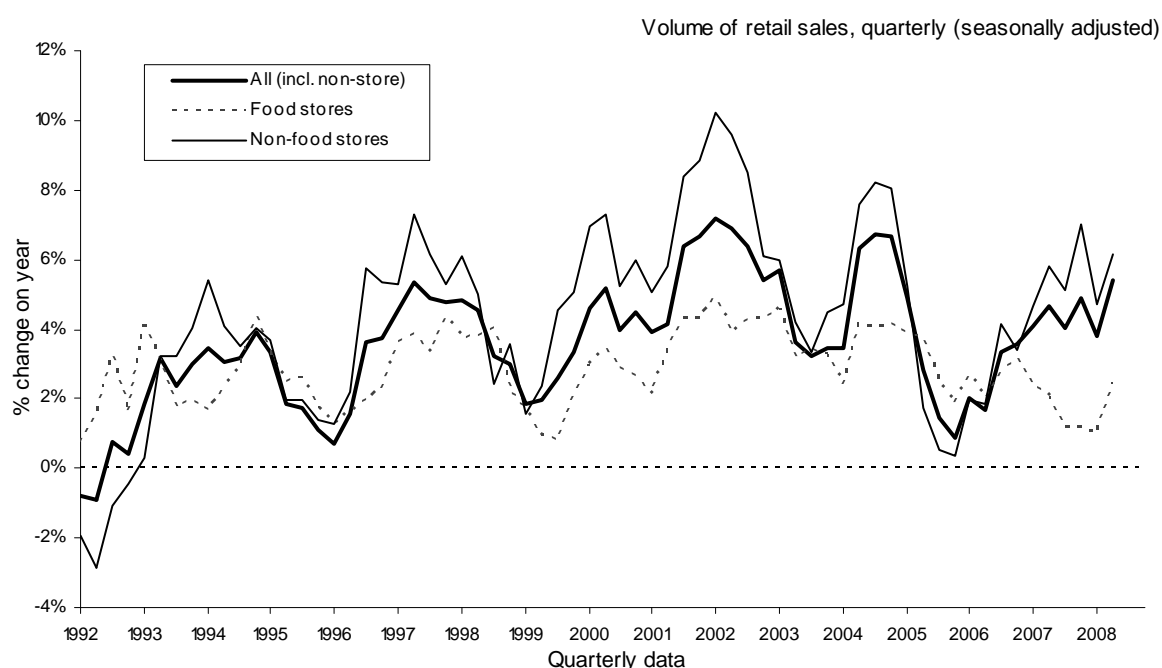
Balance of % expecting improvement over % expecting deterioration

		Future output expectations (CBI)	Consumer confidence (GfK)
2007	Jun	+25	-3
	Jul	+10	-6
	Aug	+13	-4
	Sep	+17	-7
	Oct	+10	-8
	Nov	+9	-10
2008	Dec	+3	-14
	Jan	+4	-13
	Feb	+11	-17
	Mar	+18	-19
	Apr	0	-24
	May	0	-29
	Jun	+2	-34

Sources: CBI, *Industrial Trends Survey* (monthly), from ONS database, series: ETCU; GfK NOP, *Consumer Confidence Survey* on behalf of the European Commission

Contact: Bryn Morgan, x4904

Updates: GfK NOP, *Consumer Confidence*, 31 Jul; CBI, *Industrial Trends* (Monthly), end-Jul

F2: Retail Sales

[Source: ONS database, series: EAPS, EAPT, EAPV]

- The total *volume* of retail sales in the three months period March to May 2008 was 1.8% higher compared with the previous three months, and was 5.4% higher than in the same period a year previously (seasonally adjusted).
- Total retail sales volumes in May 2008 were 8.1% higher than in May 2007 (seasonally adjusted).
- Retail sales volumes in predominantly non-food stores increased by 6.2% in March to May compared with the same three months a year earlier. For those stores selling primarily food the increase was 2.6% (seasonally adjusted).
- The quarterly growth figure for the value of 'other non-food' in the table below is partly affected by changes in the categorisation of some products by reporting retailers.

Value of Retail Sales

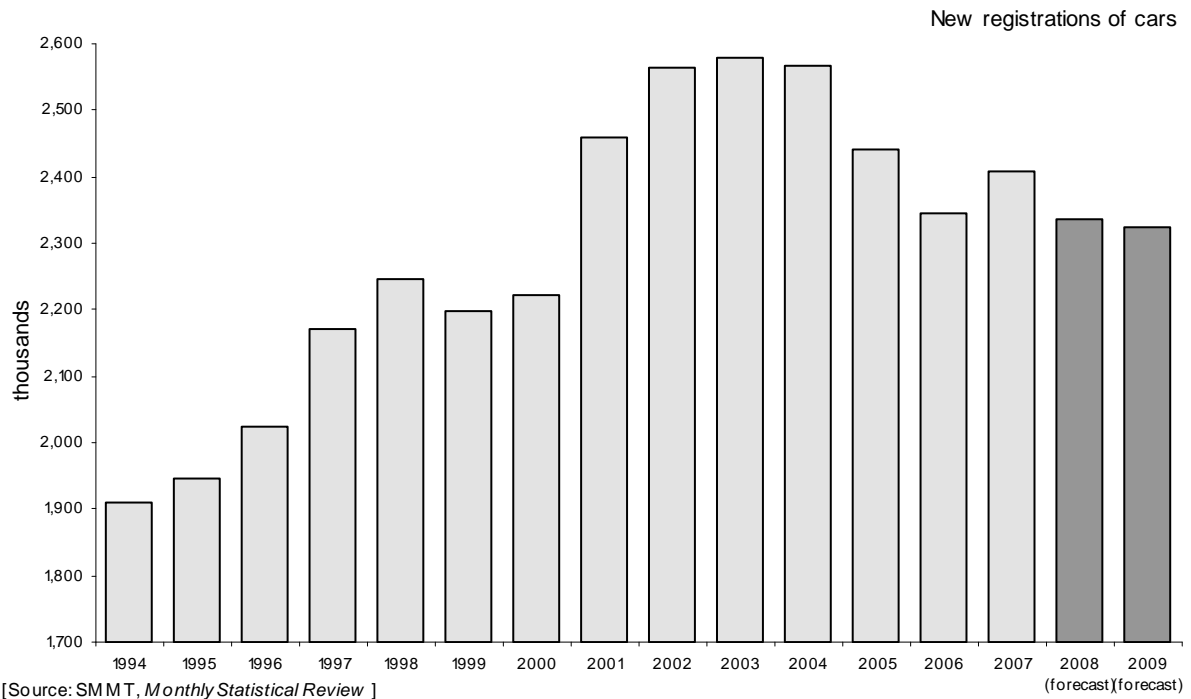
% change on year; non-seasonally adjusted

	Food, drink & tobacco	Clothing & footwear	Household goods	Other non-food	Total
2004	3.6	3.8	4.6	6.2	4.5
2005	3.1	2.2	-1.5	-1.5	0.9
2006	3.5	3.5	2.5	1.3	2.8
2007	2.2	3.9	5.6	4.4	3.6
2007 Q1	4.5	5.8	6.7	2.2	4.7
Q2	2.7	4.7	6.6	5.3	4.4
Q3	1.2	5.2	6.4	4.7	3.6
Q4	0.8	1.0	3.2	5.2	2.3
2008 Q1	2.7	3.2	1.5	15.8	5.1

Source: ONS database, series: EAWN, EAWO, EAWP, EAWQ, EAFY

- The average weekly *value* of retail sales in May 2008 was £5.3 billion, a 7.0% increase from May 2007 (non-seasonally adjusted).

F3: New Car Registrations



Figures from the Society of Motor Manufacturers & Traders (SMMT) show that new car registrations decreased by 3.4% in May 2008, compared with the previous May's figure, to 179,435 units (excluding taxi registrations).

- The number of new registrations of cars was just over 2.4 million units in 2007.
- New registrations of cars are forecast to fall by 3.0% in 2008 and then fall by a further 0.4% in 2009.
- In 2007 as a whole, there were 338,893 registrations of British-built cars, a decrease of 1.2% from the previous year's figure and equivalent to 14.1% of the market.
- In 2007 1,534,567 cars were produced in the UK; 23% or 349,108 of these were for the UK market, while 77% or 1,185,459 were for export.

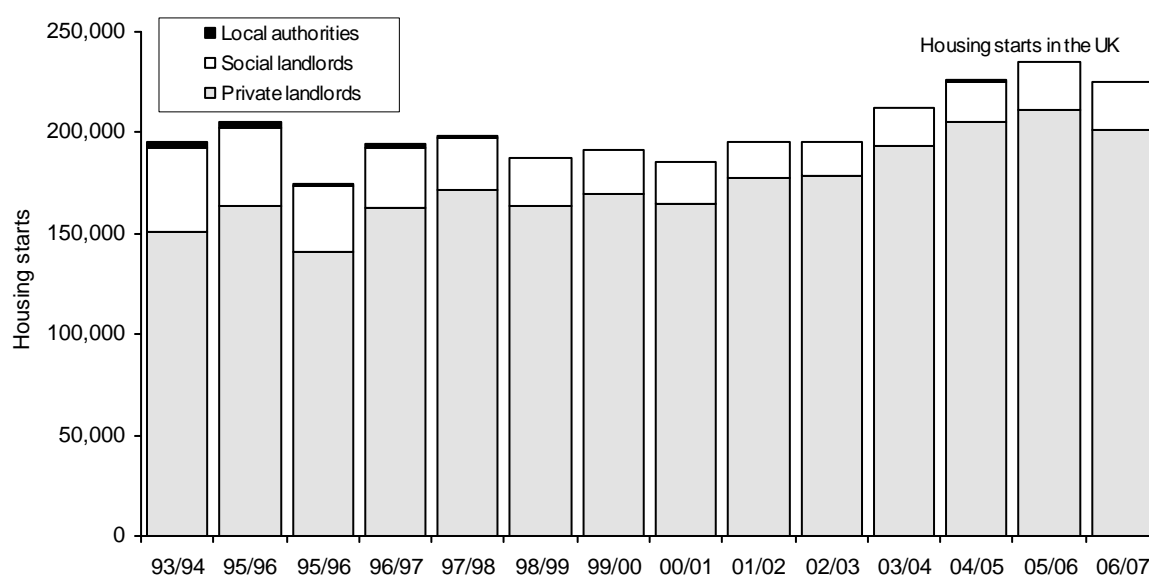
New Registrations of Cars

000s & % change; not seasonally adjusted

	Number ('000s)	Change over 12 months
2007	2,407	2.5
2008 (forecast)	2,335	-3.0
2009 (forecast)	2,325	-0.4
2007 May	186	-2.0
Jun	223	1.7
Jul	177	5.1
Aug	78	-0.3
Sep	420	1.4
Oct	167	8.6
Nov	159	2.3
Dec	138	3.2
2008 Jan	166	0.0
Feb	70	-5.4
Mar	452	0.5
Apr	176	3.2
May	179	-3.4

Source: SMMT, *Monthly Statistical Review and website*

F4: House-building & Prices



[Source: DCLG, Live table 208]

Data on housing starts and completions from the Department for Communities and Local Government show that there were 58,296 dwelling starts in the UK in Q1 2007, compared with 63,983 in Q1 2006. In Q1 2007 there were 56,851 completions compared with 50,539 in Q1 2006 (all data are not seasonally adjusted).

The Halifax *House Price Index* data shows that (seasonally adjusted data):

- **Monthly** UK house prices fell by 2.4% in May compared to a fall of 1.2% in April.
- **Annual** house prices in May were 3.8% lower than in the same month in 2007 (compared with 0.9% lower in April 2008).
- **Quarterly** house prices fell by 1.0% in Q1 2008, on Q4 2007, compared with a rise of 0.8% in Q4 2007 on Q3 2007.
- Regionally, the Halifax data show that in Q1 2008 **annual** house price inflation was highest in Scotland (5.3%) and lowest in Wales (-5.3%), while all-UK prices rose by 1.1% (not seasonally adjusted; regions are not aligned with regions used by the DCLG below).

Standardised average house prices

£s & %; non-seasonally adjusted

	All houses	New houses	Existing houses	First time buyers
<i>average house prices, £</i>				
2007 Q1	189,681	188,670	190,863	141,945
Q2	199,021	190,085	200,234	151,923
Q3	200,623	187,842	201,894	150,999
Q4	196,002	198,884	195,517	147,980
2008 Q1	191,852	196,040	191,588	147,807
<i>% change over same period in previous year</i>				
2007 Q1	11.1	12.1	10.9	10.5
Q2	10.7	9.3	10.6	12.2
Q3	10.7	6.7	10.7	11.2
Q4	5.2	14.0	3.9	4.9
2008 Q1	1.1	3.9	0.4	4.1

Source: HB OS, *Halifax House Price Index* (historical data)

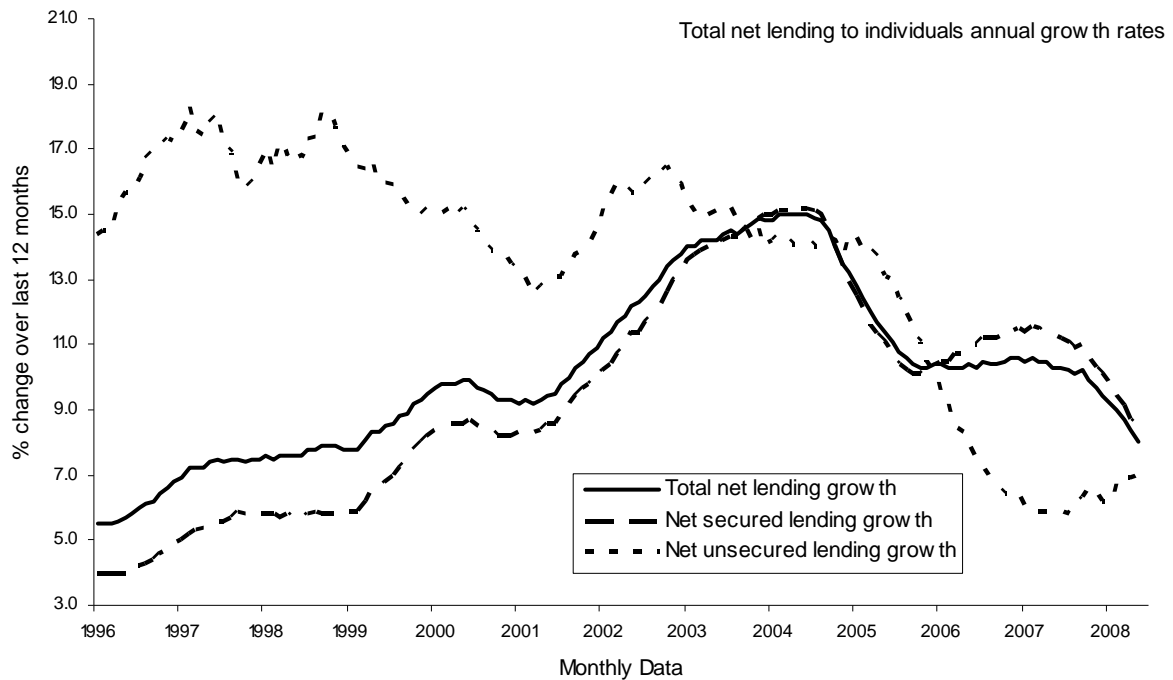
The DCLG's house price index is based on completions (the Halifax index is based on mortgage approvals). All figures are not seasonally adjusted:

- The average house price in the UK in stood at £218,875 in April 2008, up from £217,344 in March. **Annual** house price inflation in April was 4.9%, down from 5.2% in March 2008.
- Regionally, **annual** house price inflation in March was highest in Scotland (7.7%) and lowest in Northern Ireland (-2.8%).

Contact: Bryn Morgan, x4904

Updates: *Halifax House Prices*, early Jul; *DCLG, House Prices*, 8 Jul; *House-building*, Aug

F5: Consumer borrowing



[Source: Bank of England]

Net lending to individuals

£ millions and % changes on year; seasonally adjusted

	Net Lending Outstanding			Net Lending Growth Rates		
	Secured	Unsecured	Total	Secured	Unsecured	Total
2004 Apr	819,686	187,761	1,007,447	15.2	14.1	15.0
2005 Apr	910,584	205,435	1,116,019	11.1	13.1	11.4
2006 Apr	1,007,526	212,180	1,219,706	10.9	8.0	10.4
2007 Apr	1,121,157	214,808	1,335,965	11.3	5.8	10.3
Jul	1,148,628	216,131	1,364,759	10.9	6.0	10.1
Oct	1,178,637	220,454	1,399,092	10.3	6.5	9.7
2008 Jan	1,193,693	230,147	1,423,841	9.4	6.8	9.0
Apr	1,210,137	232,599	1,442,736	8.2	7.0	8.0

Source: Bank of England, series: VTYI, VTYO, VTYC, VTXK, VZRI, VZXC

- Total net outstanding lending to individuals was £1,443 billion at the end of May 2008 (seasonally adjusted).
- Total net lending to individuals grew by 0.4% in May 2008 compared with the previous month, and grew by 8.0% on an annual basis (all seasonally adjusted); the annual growth rate is 0.4 percentage points lower than in April 2007.
- Of the £5.4 billion increase in net lending in May 2008, £4.1 billion was mortgage borrowing and £1.4 billion was consumer credit (seasonally adjusted).

Contact: Ed Potton, x2883

Update: Bank of England, *Lending to Individuals*, 29 Jul

IV Indicator sources

The table gives details of sources used in this paper. Office for National Statistics (ONS) releases are available from www.statistics.gov.uk/press_release/CurrentReleases.asp.

Indicator		Source details (coloured text is a hyperlink to the source)
A1	Gross Domestic Product	Office for National Statistics (ONS), releases: Preliminary GDP Estimates ; Quarterly National Accounts ; UK output, income & expenditure ; HM Treasury, Forecasts for the UK Economy
A2	GDP: ICs	Gross Domestic Product: Organisation for Economic Co-operation and Development (OECD), Main Economic Indicators ; Growth Forecasts: OECD, Economic Outlook
A3	GDP by Industry	ONS, UK Output, income and expenditure, Quarterly National Accounts/GDP preliminary estimate releases HM Treasury, Forecasts for the UK economy
A4	Investment	ONS Database & ONS, Business Investment release
A5	Productivity	ONS, Productivity release
B1	Prices	ONS, Consumer Price Indices release
B2	Prices: International Comparisons	CPI: OECD, Main Economic Indicators ; EU data: Eurostat news release and database
B3	Average Earnings Index	ONS Database & ONS, Labour Market Statistics release
C1	Employment	ONS Database & ONS, Labour Market Statistics release
C2	Unemployment: National	ONS, Labour Market Statistics release and Labour Market Statistics First Release Historical Supplement (via Virtual Bookshelf); Commentary: Department for Work and Pensions (DWP) Quarterly Working Age Statistics for New Deal for Young People & Long-term Unemployed (table 6);
C3	Unemployment: Regional	ONS, Labour Market Statistics release
C4	Unemployment: International Comparisons	Data: OECD, Main Economic Indicators Commentary: OECD, Main Economic Indicators & Economic Outlook
D1	Interest Rates	UK: Bank of England, Monetary Policy Committee decisions & minutes . US: Federal Reserve, Federal Open Market Committee decisions ECB: European Central Bank news releases Short term interest rates (graph): OECD; Main Economic Indicators ; International interest rates: Financial Times , Companies & Analysis section, "Currencies, Bonds & Interest Rates" page
D3	Exchange Rates	Effective and sterling exchange rates: ONS Database; Euro spot rate: Financial Times

Indicator		Source details (coloured text is a hyperlink to the source)
D4	Public Finances	Data: ONS, Public Sector Accounts or Public Sector Finances ; ONS database Forecasts of budget surplus: HM Treasury, <i>Pre-Budget Report</i> , table B2 or <i>Budget Red Book</i> , table C2.
D5	Money Supply	Bank of England: Bankstats , tables A 1.1 and A 2.2.1; and ONS Database.
E1	International Trade	Data: ONS Database; Commentary: ONS, Balance of Payments
E2	Trade in Goods	Data: ONS Database; Commentary: ONS, UK Trade ;
F1	Survey Indicators	Future Output Expectations/Quarterly Business Confidence: Confederation of Business Industry (CBI), Economic and Business Outlook and Quarterly Industrial Trends Survey press releases; Consumer Confidence: GfK NOP Consumer Confidence Barometer ;
F2	Retail Sales	ONS, <i>Retail Sales</i> release
F3	New Car Registrations	Society of Motor Manufacturers and Traders, <i>Monthly Statistical Review</i> (in Library holdings)
F4	Housing	Department for Communities and Local Government (DCLG, formerly Office of the Deputy Prime Minister) UK Housing Starts: table 201 ; DCLG House building statistics: statistical release ; Halifax House Price data: housing research page ; DCLG Experimental House Prices: statistical release
F5	Consumer Debt	Bank of England Lending to Individuals and database :

V Glossary

Symbols and abbreviations

..	Figure(s) not yet available
CBI	Confederation of British Industry
ILO	International Labour Organisation
OECD	Organisation for Economic Co-operation and Development
ONS	Office for National Statistics

Definitions⁸⁴

Average Earnings Index: Measures changes in gross wages and salaries paid to employees, including overtime payments. Excludes employers' insurance contributions, holiday pay, benefits in kind and bonuses which are not part of regular pay.

Balance of payments: A country's financial position, with other countries of the world, comprising two parts:

- **Current account:** the balance of imports and exports of goods and services, income and transfers combined;
- **Capital account:** the difference between a country's capital invested in other countries, and the capital invested by other countries in it.

Technically, the two parts always balance. A Balance of payments deficit normally refers to a **current account deficit**.

Balance of trade: The difference between a country's exports and imports of either goods only or goods and services combined. Trade in financial services account for around a third of UK exports, and thus partially offsets trade in goods deficits.

Basic prices: Prices excluding taxes and subsidies on products.

Claimant count: The number of people claiming Jobseeker's Allowance benefits.

Consumer Prices Index (CPI): This is the headline UK domestic measure of inflation. It measures the average change from month to month in the prices of consumer goods and services purchased in the UK.

Current account balance/deficit: The difference between receipts/payments due to transactions in goods, services, income and transfers between the UK and all other countries. A **current account deficit** means that total payments exceed total receipts; in the reverse case, the current account is in surplus.

Current budget: Measures the balance of public sector current account revenue over public sector current expenditure. It is the measure for assessing progress against **the golden rule**. This states that, on average over the economic cycle, the Government should borrow only to invest and not to fund current expenditure.

HM Treasury has stated that progress against the golden rule will be measured by averaging the

surplus on current budget, when expressed as a percentage of GDP, over each year of the economic cycle. To meet the rule, this average should be positive.

Constant/current prices: Constant prices refer to volume measures whose values are derived by applying to current quantities, prices for a specific base period. They allow figures to be represented so that the effects of inflation are removed. The values for each time period are expressed in terms of the prices in a particular base period.

Current prices are the actual or estimated recorded monetary value over a defined period for a group of industries or products. They show the value for each item expressed in terms of the prices of that period.

Economically active: Those aged 16 and over who are either in employment or unemployed.

Economically inactive: Those aged 16 and over who are neither in employment nor unemployed. This includes those who want a job but have not been seeking work in the last four weeks, those who want a job and are seeking work but not available to start work, and those who do not want a job.

Employment: The number of people with jobs as estimated by the Labour Force Survey (LFS). This includes all people aged 16 or over who did paid work, those who had a job that they were temporarily away from, those on government supported training and employment programmes, and those doing unpaid family work during the survey period. The employment rate refers to the number of people employed as a percentage of the working age population as measured by the LFS.

Exchange rate: The rate at which one currency is traded against another.

Gross Domestic Product (GDP): The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production (intermediate consumption) but before deducting consumption of fixed capital (depreciation).

Gross Domestic Product – chained volume measure: Also known as *constant price* or *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced.

Gross Fixed Capital Formation (GFCF): Expenditure on fixed assets (buildings, vehicles etc.) either for replacing or adding to the stock of existing assets. Business investment is GFCF by the private sector and public corporations on transport equipment, other machinery and equipment and new dwellings and structures other than dwellings.

Gross Value Added (GVA): The difference between output and intermediate consumption for any given sector/industry. That is the difference between the value of goods and services produced and the cost of raw materials and other inputs which

⁸⁴ Sources: ONS, HM Treasury, HM Revenue and Customs, Finance-Glossary.com.

are used up in production. GVA is used to measure the productivity of sectors/industries and economies.

Harmonised Indices of Consumer Prices (HICP): Harmonised indices of consumer prices for Member States of the European Union.

Market prices: The prices actually paid by the purchaser for goods and services, including transport costs, trade margins and taxes. GDP at market prices = GDP at basic prices + transport prices paid separately + non deductible taxes on expenditure - subsidies received.

Money supply: The total amount of money in an economy at a given time. In the UK the main measures of money supply are:

- M0 which comprises notes and coins in circulation outside the Bank of England plus bankers' operational deposits with the Bank and is the UK's main narrow monetary aggregate.
- M4 which is a broad measure of money consisting of the private sector's holdings of cash and sterling deposits at banks and building societies.

New Deal for Young Persons (NDYP): A Government employment programme designed to help the long-term unemployed between the ages of 18-24 back into sustained employment through the provision of training, education, work experience, and job-search support.

New Deal for 25 plus (ND25+): A Government employment programme designed to help the long-term unemployed aged 25 and over back into sustained employment through the provision of training, education, work experience, and job-search support.

The Public Sector Net Cash Requirement (PSNCR): This measures the public sector's accumulation of debt net of liquid financial assets. Its approximate stock equivalent is net public sector debt.

Public Sector Net Debt: This is approximately the stock analogue of the PSNCR. It measures the public sector's financial liabilities to the private sector and abroad, net of short-term financial assets such as bank deposits and foreign exchange reserves.

Retail Prices Index (RPI): A domestic indicator of inflation. It measures the average change from month to month in the prices of goods and services purchased in the UK. It is similar to the CPI, but differs in terms of coverage and methodology. **RPI(X)** excludes mortgage interest payments.

Seasonally adjusted: Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

Sterling Exchange Rate Index (SERI): This measures the value of sterling against a trade-weighted 'basket' of other currencies. The weights used in this index measure currencies' relative importance to UK trade in manufacturing.

Sustained employment: In terms of the New Deal programmes, sustained employment is classified as a job from which the participant does not return to claim Jobseeker's Allowance (JSA) or transfer to another option within 13 weeks. It includes those who have been in employment for less than 13 weeks but have not yet returned to JSA.

UK Official Bank rate: The rate the Bank of England pays on commercial banks' reserves held by the Bank.

Unemployment: The ILO definition includes all people who are: out of work, want a job, have actively sought work in the previous four weeks and are available to start work within the next fortnight; or are out of work and have accepted a job that they are waiting to start in the next fortnight.

Unemployment rate: The number of unemployed persons expressed as a percentage of the economically active population.

Volume/value of retail sales: The volume of retail sales is the total takings adjusted for inflation and the value of retail sales is the total actual takings.

Workforce jobs: The sum of employee jobs, self-employment jobs, those in HM Forces and government-supported trainees.

