Economic review

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SUMMARY

GDP output continued to grow fairly robustly in 2007 quarter four, although at a slightly slower pace than in quarter three. Growth continued to be driven by the service sector offset by declining output in the manufacturing sector. On the expenditure side, household spending and business investment weakened in quarter four in comparison with quarter three. The current account deficit widened in quarter three; the trade deficit widened in quarter four contributing negatively to growth. The labour market continues to be buoyant in quarter four but average earnings remain relatively subdued. The public sector finance position deteriorated in January 2008. Consumer price inflation rose marginally in January and was above the Government's target. Producer output and input price inflation accelerated in January.

GROSS DOMESTIC PRODUCT

Fourth quarter growth of 0.6 per cent

GDP growth for the fourth quarter of 2007 is estimated to have grown fairly strongly despite a modest slowing since the third quarter. The latest estimate of GDP growth is 0.6 per cent, unchanged from the preliminary estimate. This compares with growth of 0.7 per cent in the third quarter. The annual rate of growth also slowed, reaching 2.9 per cent, down from 3.3 per cent in quarter three.

The latest GDP release for 2007 quarter four contains more information than the preliminary estimate. It provides the first estimates for expenditure and more complete data on the output side. It is still, however, based on incomplete information. (Figure 1).

The growth rate in the UK economy in quarter four continued to be driven by strong although slightly lower service sector output compared with the previous quarter. This was offset by virtually stagnant total production growth. Within total production, there was a sharp acceleration

in the output of the electricity, gas and water supply industries and a modest pick up in mining and quarrying (including oil and gas) output. This continued to be outweighed by a marginal contraction in manufacturing output growth. The construction sector continued to grow strongly.

OTHER MAJOR ECONOMIES

Global growth weakens in quarter four

Preliminary data for 2007 quarter four are now available for most major Organisation for Economic Co-operation and Development (OECD) countries. Data for quarter four reported a mixed but a broadly weakening picture of global growth, reversing the generally strong picture of growth recorded in the previous quarter.

US GDP data for the fourth quarter of 2007 showed a sharp deceleration compared with quarter three. Growth was just 0.2 per cent on a quarter on quarter basis compared with 1.2 per cent growth in the previous quarter. The marked slowdown in growth was primarily due to a contraction in inventories after showing positive growth in the previous quarter; a slowdown in net exports but still contributing positively to growth, with exports exceeding imports and slower consumption growth. Residential investment also contributed to lower growth with continued contraction in this sector.

Japan's GDP growth showed a marked acceleration in 2007 quarter four. Growth was 0.9 per cent compared with 0.3 per cent in the previous quarter. Growth was mainly driven by an increase in business investment and net exports. Government expenditure also added to growth, though to a lesser extent. This was offset by continued contraction in residential investment growth. Private consumption made a relatively subdued contribution to growth.

Data for Italy was not available at the time of writing this article. Growth for the other two big mainland EU economies – Germany and France – showed a weakening in 2007 quarter four compared with the previous quarter. According to Eurostat's estimate, euro area GDP decelerated to 0.4 per cent in 2007 quarter four compared

Figure 1
Gross domestic product

with the strong 0.8 per cent growth in quarter three.

German GDP grew by only 0.3 per cent in 2007 quarter four, a marked slowdown from growth of 0.7 per cent in quarter three. The breakdown to the growth was not available at the time of the headline release; indications are that the slowdown in growth was likely to be led by lower private consumption growth.

French GDP growth decelerated to 0.3 per cent in 2007 quarter four, from 0.8 per cent growth in the previous quarter. The weakening in growth was mainly due to a marked slowing in private consumption growth and decelerating inventories. This was offset by solid investment growth and a positive net trade picture.

FINANCIAL MARKETS

Share prices flat; pound depreciates

Equity performance has been volatile recently, and recorded muted growth in 2007 quarter four. The FTSE All-Share index rose by just 0.5 per cent. This follows a fall of 3.1 per cent in quarter three. The weakness in equity growth can mainly be attributed to global growth concerns, particularly regarding the US economy, brought on by continued problems

regarding the credit squeeze, attributable to the US housing and the sub-prime mortgage market. Increasing interest rates in the UK further contributed to this lack lustre performance.

In the currency markets, 2007 quarter four saw sterling's average value broadly depreciate compared with the previous quarter. The pound appreciated against the dollar by around 1 per cent in 2007 quarter four, a lower rate of appreciation compared with 1.7 per cent in the previous quarter. Against the euro, sterling's value depreciated by around 3 per cent after depreciating by 0.2 per cent in the previous quarter. Overall, the quarterly effective exchange rate depreciated by approximately 3 per cent in quarter four after flat growth in the previous quarter (Figure 2). In January 2008, the pound depreciated by 2.4 per cent against the dollar. Against the euro, the pound depreciated by 3.5 per cent. Overall, the effective exchange rate depreciated by 3.4 per cent.

The recent movements in the exchange rate might be linked to a number of factors. First, exchange rate movements can be related to the perceptions of the relative strengths of the US, the euro and UK economy. The lower rate of appreciation in quarter four may have come in response to fears about lower growth in the UK

economy and therefore prospects of lower interest rates to stimulate the economy. Indeed, the Bank of England reduced interest rates by 25 basis points in February 2008 to 5.25 per cent. This followed the 25 basis points cut in December 2007, and was mainly in response to the effects of the sub-prime crisis in terms of downward risks to growth and inflation. Another reason could have been due to concerns about the size of the UK current account deficit.

In the US, however, there have been particular concerns in recent months regarding the relative weakness of GDP growth, compounded by housing market weakness and the sub-prime crisis. In fact, US interest rates were lowered by 0.75 basis points in January 2008, from 4.25 per cent to 3.5 per cent in response to fears about a possible recession. This followed the 25 basis points cut in December to 4.25 per cent. These interest rate reductions will have made the dollar less appealing to investors compared with other currencies.

Another factor could be the lack of international appetite for US dollar denominated assets, particularly from central banks, who are choosing to spread their currency assets on their balance sheets (for portfolio and risk management purposes), thereby further undermining the value of the dollar.

In contrast in the euro area, the depreciation of the pound against the euro in the fourth quarter of 2007 may have come in response to prospects of monetary tightening in the euro-zone. The euro-zone interest rate is currently at 4 per cent, having been maintained there since the 0.25 basis point increase in June 2007, partly in response to concerns about inflationary pressures.

OUTPUT

Services sector slows but continues to drive economic growth

GDP growth in 2007 quarter four was estimated at 0.6 per cent, down marginally from 0.7 per cent in the previous quarter. On an annual basis it was 2.9 per cent, down from 3.3 per cent in the previous quarter.

Construction activity continued to grow strongly in the fourth quarter of 2007. Construction output is estimated to have grown by 0.7 per cent, similar to the rate in the previous quarter. Comparing the quarter on the same quarter a year ago,

Figure 2
Exchange rates

Figure 3
Construction output

construction output rose by 2.2 per cent following growth of 2.5 per cent in the previous quarter (**Figure 3**).

In terms of external surveys of the construction sector, the Chartered Institute of Purchasing & Supply (CIPS) survey signalled weakening activity in 2007 quarter four with the average headline index at 55.9, down from 62.3 in the previous quarter, but still indicative of strong growth. In January 2008, the headline index fell further to 53.9. The Royal Institute of Chartered Surveyors construction survey for 2007 quarter four reported an easing in the growth of construction workloads with the balance at plus 16, down from plus 17 in the previous quarter.

Total output from the production industries recorded virtually stagnant growth in 2007 quarter four, roughly similar to the performance in the previous quarter. Growth was just 0.1 per cent, up marginally from flat growth in the previous quarter. On an annual basis growth rose by 0.6 per cent, up from 0.4 per cent in the previous quarter.

The weakness in total production continued to be led by a lacklustre performance in the manufacturing sector. Manufacturing output contracted by 0.1 per cent in the latest quarter, a slight weakening from flat growth in the previous quarter. On an annual basis, manufacturing output slowed to 0.1 per cent from 0.4 per cent growth in the previous quarter (**Figure 4**).

This was partially offset by an acceleration in the output of the electricity, gas and water supply industries. Growth was 1.7 per cent in 2007 quarter four compared with 0.7 per cent in quarter three. On an annual basis, growth was 4.3 per cent, up markedly from 0.5 per cent in the previous quarter. Mining and quarrying output also provided a partly offsetting effect with modest growth of 0.3 per cent in the latest quarter, reversing the contraction of 1.4 per cent growth in 2007 quarter three. On an annual basis, growth was 2.3 per cent, up sharply from 0.1 per cent in quarter three.

Production growth has generally been slow since the second quarter of 2006 due to weakness in mining and quarrying and utilities output, offset through most of this period by relatively strong manufacturing output. There was a pick up in production in 2007 quarter two, but this appears not to have been sustained in quarter three and four, due to weak manufacturing output growth in the latest two quarters. However, manufacturing output has been volatile in recent quarters.

Figure 4
Manufacturing output

The output of the agriculture, forestry and fishing industries strengthened in the latest quarter, with output increasing by 1.7 per cent after growing by 0.4 per cent in the previous quarter.

External surveys of manufacturing for 2007 quarter four showed a fairly positive picture (**Figure 5**). In the past, it has not been unusual for the path of business indicators and official data to diverge over the short term. These differences happen partly because the series are not measuring exactly the same thing. External surveys measure the direction rather than the magnitude of a change in output and often inquire into expectations rather than actual activity.

The CIPS average headline index for manufacturing indicated a stable but robust picture in the latest quarter. The headline index was 53.4, down from 55.4 in the previous quarter. In January 2008, the CIPS headline index fell to near-stagnation levels with the index at 50.6, the lowest since August 2005, particularly driven by weakening external demand. The CBI in its 2007 quarter four Industrial Trends survey reported a strengthening in its total order books with the balance at plus two, up from minus six in the previous quarter. That strong position was maintained according to the latest figures with the balance at plus three in February 2008. The BCC in its 2007 quarter four survey reported a

Figure 5
External manufacturing

Figure 6
Services output

mixed but overall fairly buoyant picture of manufacturing activity. The home sales balance was plus 32 from plus 37 in the previous quarter.

Overall the service sector, the largest part of the UK economy, continues to be the main driver of UK economic growth. However, growth slowed in the latest quarter compared with the previous quarter, contributing to the overall marginal slowdown in GDP output.

Services output grew by 0.6 per cent in 2007 quarter four, a moderate reduction from 0.9 per cent growth in the previous quarter (**Figure 6**). On an annual basis, services output expanded by 3.4 per cent, down from 4 per cent in the previous quarter.

Growth was recorded in varying degrees across all four broad sectors. The main contribution to the decline in the growth rate came from businesses services and finance, where output decelerated sharply in the latest quarter to 0.5 per cent from 1.3 per cent in quarter three. On an annual basis growth was 4.3 per cent, down from 5.1 per cent in the previous quarter. The distribution, hotels and catering sector also contributed but to a lesser extent towards the downward adjustment to services output. Growth was only 0.1 per cent compared with 0.7 per cent in the previous quarter. On an annual basis growth was 2.7 per cent, down from 4.4 per cent in quarter three. The weakening in the above two sectors was offset by the strengthening in the output of the transport, storage and communication sector with growth of 1.9 per cent, an acceleration from growth of 0.2 per cent in quarter three. Growth annually was 5.3 per cent, slightly down from 5.5 per cent in quarter three. Government and other services output also grew fairly strongly at 0.7 per cent, up marginally from growth of 0.6 per cent in the previous quarter. Growth annually was 2 per cent, up from 1.9 per cent in the previous quarter.

The external surveys on services showed a weakening but still fairly robust picture in line with official data. The CIPS average headline index in 2007 quarter four was 52.5, markedly down from 57.1 in the previous quarter but still above the long-run average. In January 2008, the headline index was stable at 52.5. It should be noted that the CIPS survey has a narrow coverage of the distribution and government sectors.

The Confederation of British Industry (CBI) and British Chambers of Commerce (BCC) reported a generally weakening

Figure 7
External services

Figure 8
Household demand

picture of service sector activity (**Figure 7**). The CBI service sector survey for November reported modest growth in business services sector and the consumer service sector. The consumer services volume balance was at plus 15, unchanged from the previous quarter. For business and professional services, the balance was at plus 19, down from plus 31 in the previous quarter. The BCC survey for 2007 quarter four survey reported a weakening picture of service sector activity, but overall balances for home orders and sales remained positive at plus 18 and plus 28, from plus 26 and plus 29 respectively.

EXPENDITURE

Consumers' spending weakens

Household consumption expenditure decelerated in 2007 four compared with the previous quarter. Growth was only 0.2 per cent, down markedly from that of 0.9 per cent in quarter three. Compared with the same quarter a year ago, growth was 2.7 per cent, down from 3.6 per cent in quarter three (**Figure 8**). Lower spending was primarily driven by a fall in durable goods expenditure and slower

growth in semi-durables and non-durable goods expenditure. There was fairly buoyant growth in services expenditure.

There are a number of reasons why consumer spending could have slowed; primarily the impact of the credit crisis and past interest rate rises feeding through to spending decisions. Early indications tentatively suggest that both these factors may have contributed to some extent towards spending weakening. In particular, the Bank of England's recent quarter four Credit Conditions Survey (CCS) indeed highlighted increased tightening in credit conditions for some households.

One key indicator of household expenditure is retail sales, which slowed in quarter four compared with quarter three and grew by 0.4 per cent in quarter four, a deceleration from growth of 1.5 per cent in the previous quarter.

Retail sales figures are published on a monthly basis and the latest available figures for January signalled a marginal upturn from December and indicative of fairly buoyant growth (**Figure 9**). In the three months to January the volume of retail sales increased by 0.6 per cent compared with a 0.5 per cent increase in the three months to December. On an annual basis in January, the latest three months growth

compared with the same three months a year ago recorded growth of 4.1 per cent, up from 3.6 per cent growth in December.

The slowdown in retail sales in the latest quarter occurred despite widespread discounting and early sales which are reflected in the price deflator (i.e. shop prices) which fell on average by around 1.1 per cent in 2007 quarter four. This could suggest the impact of previous interest rate rises and the effects of the credit crunch may have been a constraining factor in retail sales growth, together with diminished confidence on the part of consumers. However, despite this, retail sales growth is still holding up fairly well with discounting still playing a considerable part, as evident in the latest retail sales figures. The price deflator fell by 1.2 per cent in January 2008.

Retail sales can be disaggregated into 'predominantly food' and 'predominantly non-food' sectors. In the three months to January 2008 the 'predominantly non-food' sector recorded flat growth, down from 0.2 per cent in the three months to December. Within this sector 'non-store retailing and repair' stores grew by 8.2 per cent, followed by growth in the 'household goods' stores with growth of 3.7 per cent. This was offset by a fall of 3.9 per cent in the 'non-specialised' stores, followed by

'textile, clothing and footwear' stores and 'other' stores, each decreasing by 0.6 per cent respectively. The 'predominantly food' sector grew by just 0.1 per cent in the three months to January, down from 0.2 per cent in the three months to December.

External surveys for retail sales presented a mixed picture of growth for January 2008. The CBI's monthly Distributive Trades survey for January reported a further slowdown, with the balance at plus four, falling from plus eight in December. The BRC reported an increase of 2.6 per cent in retail sales on a like-for-like basis in January 2008, up from 0.3 per cent in the previous month. This result, however, was heavily skewed by a strong performance in the first week of January (**Figure 10**).

Another indicator of household consumption expenditure is borrowing. Household consumption has risen faster than disposable income in recent years as the household sector has become a considerable net borrower and therefore accumulated high debt levels. Bank of England data on stocks of household debt outstanding to banks and building societies shows household debt at unprecedented levels relative to disposable income.

There are two channels of borrowing available to households: i) secured lending, usually on homes; and ii) unsecured

lending, for example on credit cards. On a general level, an increase in the interest rates increases debt servicing costs, may discourage borrowing and in the process displace consumer expenditure on certain goods.

According to the latest figures from the Bank of England, there are signs that past interest rate rises may have begun to impact on lending and borrowing in 2007 quarter four and possibly due to the credit crunch. With regards to total net lending, figures showed a slowdown with total net lending at £27.82 billion in 2007 quarter four, down from £30.80 billion in quarter three. This was driven by lower growth on lending for secured dwellings which grew by £24.42 billion in quarter four, down from £27.31 billion in the previous quarter. Unsecured lending was around £34.0 billion in the latest quarter, roughly similar to growth in the previous quarter.

An alternative measure of expenditure also showed a weakening picture. M4 (a broad money aggregate of UK money supply) rose by around £35.0 billion in 2007 quarter four compared with around £50.0 billion in quarter three. M4 lending (including cash and bank deposits) also fell sharply from around £77.0 billion in quarter three to around £51.0 billion in 2007 quarter four.

The slowdown in lending could possibly be as a result of tighter lending criteria adopted by some banks and building societies, particularly towards first-time buyers and those considered higher risk. There may also be an impact in the form of higher interest rates charged by banks for customers who have borrowed on variable interest rate mortgages in the short term, and in the longer term, there may be an impact on those who took out fixed rate mortgages. However, the recent decrease in UK interest rates may reverse some of this trend.

Household expenditure may be linked to household equity withdrawal (HEW) and developments in the housing market. The situation regarding house prices in terms of contribution to consumer expenditure remains uncertain. Both Nationwide and Halifax report an easing in growth in house prices in quarter four compared with quarter three; however, despite this slowdown, house price growth is still holding up fairly well. According to the Nationwide, annual house price growth in quarter four was 6.9 per cent compared with 9.3 per cent in the previous quarter. Halifax reported annual house price growth

Figure 9
Retail sales

Percentage growth

Figure 10
External retailing

Balances

of 5.2 per cent in quarter four, down from 9.8 per cent in quarter three and below the long-run average of 8 per cent.

The saving ratio is also a determinant of household expenditure. In quarter three, household spending was given a boost by the fall in the saving ratio which fell to 3.4 per cent, down from 4 per cent in quarter two. However, in 2007 quarter four, there may have been some reorientation towards higher savings particularly in light of ongoing economic uncertainty.

Finally, pressures on current disposable income, together with uncertainty regarding future projection of incomes, may have been factors in reducing consumption expenditure in quarter four.

BUSINESS DEMAND

Business investment decelerated

Total investment fell by 0.5 per cent in quarter four compared with growth of 1.7 per cent in the previous quarter.

On an annual basis, total investment decelerated sharply with growth of 0.9 per cent, down from 4.8 per cent in the previous quarter. The weakness in total investment was primarily driven by a fall in private sector dwellings investment as well as capital and transport equipment investment (**Figure 11**).

Business investment weakened markedly in 2007 quarter four compared with quarter three. Business investment has been volatile throughout 2007. In the latest quarter, growth fell by 0.5 per cent after increasing by a strong 2 per cent. On an annual basis, business investment also decelerated, to 1.7 per cent from growth of 6.9 per cent in the previous quarter.

Business investment could have declined for a number of reasons. Firstly, increased uncertainty and pessimism, particularly with regards to global demand, may have deterred investment; secondly, the downturn in investment could have come on the back of lower corporate profits; thirdly, the weakness in the equity market in recent quarters may have constrained revenue generation and hence investment; and last but not least, the general weakness in the property market in terms of lower price growth may have inhibited investment spending.

Evidence on investment intentions from the latest BCC and CBI surveys painted a weak picture. According to the latest quarterly BCC survey, the balance of manufacturing firms planning to increase

Figure 11
Total fixed investment

Figure 12
Government spending

investment in plant and machinery fell from plus 33 to plus 21. The CBI's Quarterly Industrial Survey for January 2008 reported a subdued investment picture, with the investment balance of plant and machinery weakening at minus 12 from minus 14 in the previous quarter.

GOVERNMENT DEMAND

Government expenditure strengthens

Government final consumption expenditure accelerated in the latest quarter. Growth increased by 0.9 per cent from 0.3 per cent in the previous quarter. On an annual basis, growth was 2.2 per cent, up from 1.9 per cent in the previous quarter (**Figure 12**).

Public sector finances deteriorate

The latest figures on the public sector finances reported a deterioration in the current financial year to January 2008, compared with the last financial year. It showed a higher current budget deficit and a higher level of net borrowing. Overall, the Government continued to operate a financial deficit, with government

expenditure continuing to exceed revenues, partly to fund capital spending. In the financial year April to January 2007/08, the current budget deficit was £8.5 billion; this compares with a deficit of £3.7 billion in the financial year April to January 2006/07. In the financial year April to January 2007/08, net borrowing was £26.5 billion; this compares with net borrowing of £20.5 billion in the financial year April to January 2006/07. Although there was an increase in VAT and corporation and income tax receipts in January 2008, this was outweighed by a larger increase in total current expenditure, particularly on capital projects by central government, leading to the higher current budget deficit together with the higher net borrowing.

Since net borrowing became positive in 2002, following the current budget moving from surplus into deficit, net debt as a proportion of annual GDP has risen steadily. Public sector net debt in January 2008 was 35.9 per cent of GDP, up from 35.5 in January 2007. In the financial year 2006/07, net debt as a percentage of GDP was 36.6 per cent.

TRADE AND THE BALANCE OF PAYMENTS

Figure 13
Balance of payments

Current account deficit widens; goods deficit widens

The publication of the latest quarterly Balance of Payments shows that the current account deficit widened in 2007 quarter three to £20 billion, from a revised deficit of £13.7 billion in the previous quarter (Figure 13). As a proportion of GDP, the deficit rose to 5.7 per cent of GDP from 4 per cent in 2007 quarter two. The widening in the current account deficit in 2007 quarter three was due to a higher deficit on income and on trade in goods, partially offset by a higher surplus on trade in services. The deficit on income increased to £3.8 billion and the deficit on trade in goods widened to £22.6 billion. The surplus in trade in services increased to £9.3 billion. The deficit in current transfers was little changed at £3.0 billion. The increase in the income deficit was driven by a rise in earnings on other investment abroad, which outweighed a fall in earnings on direct investment abroad.

The run of current account deficits since 1998 reflects the sustained deterioration in the trade balance. The UK has traditionally run a surplus on the trade in services, complemented by a surplus in investment income, but this has been more than offset by the growing deficit in trade in goods partly due to the UK's appetite for cheaper imports.

Data for 2007 quarter four recorded a continuation of the large trade deficit in goods. Exports of goods fell but imports of goods fell by a lesser amount resulting in a widening of the deficit. The goods trade deficit widened to £14.2 billion from a £13.8 billion deficit in the previous quarter. In terms of growth, exports of goods fell by 0.7 per cent while goods imports fell by 0.4 per cent. Services exports fell by 0.2 per cent and services imports fell by 3.7 per cent.

Over the quarter, total trade contracted by 1.2 per cent following growth of 3.9 per cent in the previous quarter.

However, these figures are distorted by volatility in VAT Missing Trader Intra-Community (MTIC) fraud and therefore need to be treated with caution. According to the latest figures, the level of trade in goods excluding trade associated with MTIC fraud is estimated to be to £0.1 billion in December, unchanged from the previous month, and by £0.2 billion in the fourth quarter of 2007.

External surveys on exports reported a mixed picture for exports in the latest quarter. The BCC reported that the export sales net balance fell by nine points to plus 22 and the export orders balance fell ten points to plus 19. The latest CBI quarterly survey in contrast reported an improving picture. The export orders balance was plus ten, up from plus six in the previous quarter. In January 2008, the export orders balance fell to minus four.

LABOUR MARKET

Labour market activity buoyant

The labour market in the latest reference period illustrated a continued strong picture – with high levels of employment and low levels of unemployment as seen throughout 2006 and in 2007. The robust labour market continues to be a reflection of relatively strong demand conditions in the UK economy.

The latest figure from the Labour Force Survey (LFS) pertains to the three-month period up to December 2007. The number of people in employment and the employment rate rose. The number of unemployed people and the unemployment rate fell. The claimant count fell. The

inactivity rate and the number of inactive people of working age have both fallen. The number of vacancies rose. Average earnings, including bonuses fell while excluding bonuses, rose. Overall average earnings remain subdued with weak real wage growth.

Looking at a detailed level, the increase in the employment level was mainly driven by employees and full-time employment. The current working age employment rate was 74.7 per cent in the three months to December, up 0.3 percentage points from the three months to September 2007, and up 0.2 percentage points from a year earlier (Figure 14). The number of people in employment rose by 175,000 in the three months to December 2007 compared with the three months to September, to an employment level of 29.40 million in the three months to December, the highest since 1971. The unemployment rate was 5.2 per cent in the three months to December, down 0.2 percentage points from the three months to September 2007 and down 0.3 percentage points from a year earlier. The number of unemployed people decreased by 61,000 in the three months to December and was down 86,000 from a year earlier, leaving the current level of unemployment at 1.61 million, the lowest level for almost two years.

According to the LFS, in the period October to December 2007, the number of people in employment rose by 175,000. The increase was led by a rise in employees of 154,000 and a 17,000 rise in self-employment. In terms of full- and part-time workers, the numbers of people in full-time employment rose by 105,000, while the number of people in part-time employment increased by 70,000.

Workforce jobs increases

According to employer surveys, there was an increase of 63,000 jobs in the three months to September 2007. The largest quarterly contribution to the increase came from finance and business services (up 57,000), followed by manufacturing (up 5,000), and other services (up 4,000). This was offset by small decreases across a number of sectors with the largest decrease in transport and communication (down 3,000), followed by construction and distribution, hotels & restaurants (down 1,000 respectively). Over the year, total workforce jobs increased by 287,000. Of the total, the largest contribution to the increase over

the year came from finance and business services (up 201,000), followed by distribution, hotels and restaurants (up 75,000) and construction (up 40,000). The manufacturing sector, in contrast, lost the largest number of jobs on the year (down 37,000), followed by transport and communication (down 19,000).

Claimant count level continues to fall

The claimant count measures the number of people claiming Jobseeker's Allowance. The latest figures for January 2008 showed the claimant count level at 794,600, the lowest level since June 1975. The claimant level was down 10,800 on the previous month and down 128,500 on a year earlier. The claimant count rate in January 2007 was 2.5 per cent, unchanged from the previous month but down 0.4 percentage points from a year earlier.

Vacancies rise

The number of vacancies created in the UK continued to show a healthy demand position for the economy. There were 677,400 job vacancies in the three months to January 2008, up 7,300 from the previous three months and up 72,000 from the same period a year earlier.

Inactivity level falls

The working age inactivity rate was 21.0 per cent in the three months to December 2007, down 0.2 percentage points on the three months to September 2007 but unchanged from a year earlier. In level terms, the number of economically inactive people of working age was down 54,000 over the quarter, but increased by 51,000 over the year to reach a level of 7.92 million in the three months to

December 2007. Inactivity falls in level terms were recorded across most groups. The largest level falls in inactivity were recorded for those categorised as 'looking after family/home' (down 40,000), followed by the 'other' category (down 28,000) and the 'temp sick' category (down 13,000).

Average earnings subdued

Growth in whole economy average earnings showed a mixed picture in the three months to December compared with the three months to November, but overall remains relatively subdued. Average earnings including bonuses increased by 3.8 per cent in the three months to December, down 0.2 percentage points from the previous month. Average earnings excluding bonuses rose by 3.7 per cent, up 0.1 percentage points from the previous month. In terms of the public and private sector split, the gap in average earning (excluding bonuses) narrowed in December. Public sector wage growth was 3.6 per cent, up 0.2 percentage points from November. Private sector wages grew by 3.7 per cent, up 0.1 percentage points from the previous month.

Overall, the numbers still point to a fairly buoyant labour market, with employment at high levels and unemployment at a stable level. This is consistent with higher workforce participation rates, underpinned by robust GDP growth. Average earnings show stable but fairly modest growth, consistent with increased supply in the labour force.

PRICES

Producer output and input prices accelerate

Industrial input and output prices are an indication of inflationary pressures in the economy. During quarter four, output prices exhibited further signs of an acceleration of growth from quarter three 2007 and therefore provided signs of continued inflationary pressures. Input prices also accelerated in the fourth quarter compared with quarter three. This suggests that firms were attempting to maintain their profit margins by passing on the higher costs of inputs to customers after facing a profit squeeze earlier in 2007.

Input prices on average rose by 10.6 per cent in 2007 quarter four. This compares with 2.8 per cent in 2007 quarter three. The core input price index, excluding food, beverages, tobacco and petroleum, rose by an average of 3 per cent in 2007 quarter four (12 month non-seasonally adjusted growth), an acceleration from growth of 2.3 per cent in the previous quarter. The sharp rise in input prices came mainly on the back of rising crude oil and home food materials prices. According to the latest figures, input prices rose by 19.1 per cent in the 12 months to January 2008. The largest contributions to the increase came from crude oil and home food materials, which increased by 70.3 and 36.0 per cent respectively. The core input price inflation measure also accelerated to 7.3 per cent, up from 4 per cent in December.

Output prices grew on average by 4.5 per cent in 2007 quarter four, an acceleration from growth of 2.6 per cent in the previous quarter. The underlying picture also suggests inflationary pressures. On the core measure which excludes food, beverages, tobacco and petroleum, producer output prices rose on average by 2.3 per cent in 2007 quarter four, up from 2.2 per cent in the previous quarter. The main contributions to the increase in output prices were provided by rises in petroleum products and food prices. In January 2008, output prices increased further to 5.7 per cent from 5.0 per cent in December 2007. The largest contributions to the increase came from petroleum product and food prices which rose by 22.9 and 8.5 per cent respectively. Core output prices also showed signs of inflationary pressures with growth of 0.8 per cent in January 2008, up from 0.4 per cent in December 2007.

Figure 14
Employment and unemployment

Consumer prices rise and still above target

Growth in the consumer prices index (CPI) – the Government's target measure of inflation – was 2.2 per cent in January 2008, up from 2.1 per cent in December 2007. This is lower than the peak in March when inflation reached 3.1 per cent but above Government's 2 per cent inflation target (**Figure 15**).

The largest upward pressure came from an increase in the price of road fuels. Average petrol prices rose by 1.3p in January to stand at 103.9p per litre, compared with a fall of 0.8p a year ago. There was also a large upward affect from food, particularly fruit, such as grapes and grapefruit, where prices fell by less than last year.

There was a further large upward contribution from furniture where, overall,

Figure 15
Inflation

price reductions in the January sales were less than in the previous year. There was a large downward affect from clothing and footwear. Overall, the prices of garments fell by more than last year.

RPI inflation rose to 4.1 per cent in January, up from 4 per cent in December.

The main factors affecting the CPI also affected the RPI. Additionally, mortgage interest payments had a downward affect on RPI this month. RPIX inflation – the all items RPI excluding mortgage interest payments – was 3.4 per cent in January, up from 3.1 per cent in December.