Economic review

June 2008

Anis Chowdhury

Office for National Statistics

OTHER MAJOR ECONOMIES

Global growth shows mixed fortunes in quarter one

Preliminary data for 2008 quarter one are now available for most major OECD countries. Data reported a mixed but overall a strengthening picture of global growth compared with the previous quarter.

US GDP growth continued to exhibit relative weakness. Growth on the quarter was just 0.2 per cent, similar to the rate in the previous quarter, and a marked slowdown from 1.2 per cent growth achieved in 2007 quarter three. The weakness in growth was mainly due to a significant deceleration in consumer spending, partly due to negative conditions in the housing and credit markets. Fragile growth was also partly led by continued contraction in residential investment – for the ninth consecutive quarter. There was also contraction in non-residential investment following positive growth shown in previous quarters. The above weaknesses were offset by a positive inventories and net trade situation – with both contributing positively to growth.

Japan's GDP grew by 0.8 per cent in 2008 quarter one, an acceleration from 0.6 per cent growth in the previous quarter. Growth was led by a strengthening in household consumption and net exports. Residential investment also showed buoyant growth following contraction in the previous quarter. However, these were offset by a contraction in both private investment and inventories.

Euro-zone growth picked up. According to Eurostat's preliminary estimate, euro area GDP growth accelerated to a buoyant 0.7 per cent compared with modest 0.4 per cent growth in the previous quarter. Growth for the two big mainland European Union economies – Germany and France – showed an improved picture in 2008 quarter one compared with the previous quarter.

German GDP growth accelerated sharply in 2008 quarter one, increasing by 1.5 per cent, up sharply from 0.3 per cent in the previous quarter. Growth was led partly by positive growth in household consumption following negative growth in the previous

SUMMARY

Growth Domestic Product output slowed modestly in 2008 quarter one compared with the previous quarter. Growth was driven by slower service sector output, offset by virtually flat total production growth. Manufacturing output returned to positive growth in the latest quarter. On the expenditure side, household spending strengthened while business investment weakened in quarter one compared with the previous quarter. The current account deficit narrowed in quarter four. The goods trade deficit widened slightly in quarter one. The labour market continues to be buoyant in 2008 but shows signs of softening; average earnings remain relatively subdued. Public sector finances showed a healthy position in April 2008. Consumer price inflation accelerated in April 2008 and was above the Government's inflation target. Producer output and input price inflation accelerated in 2008 quarter one and continued to increase in April 2008.

GROSS DOMESTIC PRODUCT

First quarter growth of 0.4 per cent

Gross Domestic Product (GDP) growth for the first quarter of 2008 is estimated to have slowed compared with the previous quarter. Growth was a modest 0.4 per cent, a deceleration from 0.6 per cent growth in the previous quarter. The initial estimate for the annual rate of growth was 2.5 per cent, down from 2.8 per cent growth in the previous quarter (Figure 1).

The growth rate in the UK economy in quarter one continued to be driven by relatively strong, although slower, service sector output compared with the previous quarter. Industrial production growth continued to display weakness for the third successive quarter, with output decelerating in the latest quarter. Within total production, there was a fall in the output of the mining & quarrying (including oil & gas) as well as the electricity, gas and water supply industries. This was offset by a modest upturn in manufacturing output. The construction sector continued to grow fairly strongly.

Figure 1
Gross domestic product

quarter. Capital and construction investment also contributed to growth with both accelerating in the latest quarter. Exports grew strongly and continued to be a key driver in Germany's economic growth.

French GDP growth showed a more modest acceleration in 2008 quarter one, rising by 0.6 per cent, from 0.3 per cent in the previous quarter. The increase was driven by a sharp acceleration in corporate investment as well as net exports, with both contributing positively to growth. On the other hand, household consumption decelerated, with virtually flat growth recorded in the latest quarter. Italy figures were not available at the time of writing this article.

FINANCIAL MARKETS

Share prices weaken; pound depreciates

Equity performance has displayed volatility in the last couple of years. In recent quarters, equity growth has been particularly weak. In 2008 quarter one, the FTSE All-Share index fell substantially, by around 9 per cent. This follows growth of just 0.5 per cent in the previous quarter. The weakness in equity growth can mainly be attributed to global growth concerns, particularly regarding

the US economy, brought on by financial uncertainty and continued problems regarding the credit squeeze, attributable to the US housing and the sub-prime mortgage market. According to the latest monthly figures, there appeared to be a rebound with the FTSE All-Share index rising by 4.8 per cent.

In the currency markets, 2008 quarter one saw sterling's broad average value depreciating markedly compared with the previous quarter. The pound's value against the dollar fell by around 3 per cent compared to appreciation of around 1 per cent in the previous quarter. Against the euro, sterling's value depreciated by approximately 7 per cent, a further depreciation from around 4 per cent in 2007 quarter four. Overall, the quarterly effective exchange rate depreciated by approximately 6 per cent in 2008 quarter one following depreciation of around 3 per cent in the previous quarter. In April, the pound depreciated against the dollar by 1.1 per cent. Against the euro, the pound depreciated by 2.5 per cent. The effective exchange rate depreciated by 1.9 per cent (Figure 2).

The recent movements in the exchange rate might be linked to interest rate and growth factors. Exchange rate movements can be related to the perceptions of the

relative strengths of the US, the euro and UK economy. The depreciation of the pound against both the dollar and euro in quarter one 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 0.25 basis points in April 2008 to 5 per cent, the third cut in interest rates since December 2007 and was mainly in response to the effects of the sub-prime crisis in terms of downward risks to growth and inflation. These interest rate reductions may have made the pound less appealing to investors compared to other currencies.

Also, the depreciation of the pound against the dollar may have occurred due to perceptions amongst investors of further prospect of interest rate reductions in the UK compared with the US. However, US interest rates were lowered by a further 0.25 basis points in April 2008 to 2 per cent following a 0.75 basis points reduction in March – driven by the same growth concerns as the UK.

In contrast, in the euro area, the further depreciation of the pound against the euro in the first quarter of 2008 may have come in response to continued stability in interest rates in the euro-zone – with the likelihood that interest rates are unlikely to be cut in the medium term. 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 2008 quarter one was estimated to have grown at 0.4 per cent, a deceleration from 0.6 per cent in the previous quarter. On an annual basis it was 2.5 per cent, down from 2.8 per cent in the previous quarter.

Construction activity weakened in the latest quarter but still grew modestly. Construction output is estimated to have grown by 0.5 per cent, down from 1.1 per cent growth in the previous quarter. Comparing the quarter on the same quarter a year ago, construction output rose by 2.9 per cent, up from 2.5 per cent growth in the previous quarter (Figure 3).

External surveys also signalled weakening activity – putting this down partly to the

Figure 2
Exchange rates

Figure 3
Construction output

slowing housing market. The survey by the Chartered Institute of Purchase and Suppliers (CIPS) recorded an average headline index of 51.2 in the latest quarter, a decrease from 55.9 in the previous quarter but still indicative of fairly buoyant growth. In April the headline index declined to 46.1. The Royal Institute of Chartered Surveyors construction survey for 2008 quarter one reported a sharp fall in the growth of construction workloads to a balance of plus one, down from plus 16 in the previous quarter.

Total output from the production industries weakened in the latest quarter, reversing the subdued upturn in the previous quarter. Growth fell by 0.2 per cent following growth of just 0.2 per cent in 2007 quarter four. On an annual basis output grew by 0.6 per cent, down slightly from 0.7 per cent growth in the previous quarter.

The weakness in total production was driven by a contraction in the output of the mining and quarrying industries which fell by 4.6 per cent compared with the virtually flat growth in the previous quarter. On an annual basis, output contracted by 4.5 per cent compared with growth of 1.8 per cent in the previous quarter. Weaker total production growth was also partly led by a fall in the output of the electricity, gas and water supply industries which decreased by 1.3 per cent after output increased by 2.8 per cent in the previous quarter. On an annual basis, growth was 1.7 per cent, down from 4.6 per cent growth in the previous quarter.

Manufacturing output in contrast showed a modest revival. Output grew by 0.3 per cent compared with flat growth in the previous quarter. On an annual basis, manufacturing output grew by 1.0 per cent, up from 0.2 per cent growth in the previous quarter (Figure 4).

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 the following two quarters, due to weak manufacturing output growth. Manufacturing output has displayed volatility in the recent past. In the latest quarter there appears to be some sort of reversal with manufacturing output showing a modest upturn – but it remains to be seen whether this can be sustained.

The output of the agriculture, forestry and fishing industries weakened in the latest

Figure 4
Manufacturing output

quarter with output increasing by 0.7 per cent, decelerating from growth of 2.1 per cent in the previous quarter. On an annual basis growth was 2.4 per cent, down from 2.8 per cent growth in the previous quarter.

External surveys of manufacturing for 2008 quarter one showed a deteriorating picture compared with the previous quarter (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 slow-down but still painted a fairly robust picture in the latest quarter. The headline index was 51.1, down from 53.0 in the previous quarter. According to the latest April figure, the index was at 51.0. The Confederation of British Industry (CBI) in its 2008 quarter one Industrial Trends survey reported a weakening in its total order books with the balance dropping to minus 13, from plus two in the previous quarter. In April, the total order book balance was at minus 13. The British Chambers of Commerce (BCC) in its 2008 quarter one survey also reported a weakening picture of manufacturing activity. The home sales balance dropped to

Figure 5
External manufacturing

Figure 6
Services output

plus 12 from plus 32 in the previous quarter – the lowest since 2005 quarter three.

Overall the service sector, the largest part of the UK economy, continues to be the main driver of UK economic growth. Growth continued to be fairly buoyant despite easing in the latest quarter compared with the previous quarter.

Services output grew by 0.5 per cent in 2008 quarter one, a reduction from 0.7 per cent growth in the previous quarter and a further slow-down from growth of 0.9 per cent recorded in 2007 quarter three (**Figure 6**). On an annual basis services output expanded by 2.9 per cent, down from 3.4 per cent in the previous quarter.

Growth was recorded in varying degrees across all four broad sectors, with a slow-down overall. The main contribution to the decline in services output growth came from businesses services and finance, where output decelerated to 0.4 per cent from 0.6 per cent in the previous quarter. On an annual basis growth was 3.8 per cent, down from 4.4 per cent in the previous quarter. The output of the transport, storage and communication industries also decelerated with growth of 1.0 per cent, down from 1.7 per cent in the previous quarter. On an annual basis growth was 3.2 per cent, down from 3.9 per cent in the previous quarter. There was also a weakening in the output of government and other services, which grew by 0.5 per cent, down from 0.7 per cent in the previous quarter. On an annual basis growth was 2.0 per cent, down from 2.1 per cent in 2007 quarter four. This was partially offset by stronger growth in the output of the distribution, hotels and catering industries. Growth accelerated to 0.7 per cent from 0.2 per cent in the previous quarter. On an annual basis, growth was 2.5 per cent, down from 3.0 per cent in the previous quarter.

The external surveys on services showed a mixed picture of service sector activity in 2008 quarter one. The CIPS survey pointed to a stable but still healthy picture of service sector activity. The average headline index in 2008 one was 52.9, up from 52.5 in the previous quarter. In April the index had slowed to 50.4. It should be noted that the CIPS survey has a narrow coverage of the distribution and government sectors.

The CBI and BCC reported a generally weakening picture of service sector activity (**Figure 7**). The CBI service sector survey for February 2008 reported falling sentiment and business volumes for the business and professional services sector and the consumer service sector compared

Figure 7
External services

Figure 8
Household demand

to the previous quarter. The consumer services volume balance was at minus seven, down from plus four in the previous quarter. For business and professional services, the balance was at plus six, down from plus 26 in the previous quarter. The BCC survey for 2008 quarter one reported a weakening picture of service sector activity, but overall balances for home orders and sales remained positive at plus 14 and plus 17, from plus 18 and plus 28 respectively.

EXPENDITURE

Consumers' spending strengthens

Household consumption expenditure accelerated in 2008 quarter one from the previous quarter. Growth was 1.3 per cent, up markedly from that of 0.1 per cent in quarter four. Compared with the same quarter a year ago, growth was 3 per cent, up from 2.4 per cent in the previous quarter (**Figure 8**). Higher spending was primarily driven by a rise in durable and semi-durable goods expenditure. This was offset by slower growth in non-durable goods expenditure. There was modest growth in services expenditure.

One key indicator of household expenditure is retail sales. Retail sales

strengthened in 2008 quarter one compared with the previous quarter, contributing to a certain extent to buoyant consumer spending in quarter one. Retail sales volumes grew by 2.0 per cent in quarter one, an acceleration from growth of 0.6 per cent in 2007 quarter four. The robustness in retail sales in the latest quarter may be partly attributed to continued, widespread discounting which is reflected in the price deflator (i.e. shop prices). This fell on average by 0.9 per cent in 2008 quarter one.

Retail sales figures are published on a monthly basis and the latest available figures for April 2008 showed a slowing, but still fairly robust, picture (**Figure 9**). In the three months to April the volume of retail sales increased by 1.5 per cent compared with an increase of 1.9 per cent increase in the three months to March. On an annual basis in April, the latest three months growth compared with the same three months a year ago recorded strong growth of 4.8 per cent, down from 5.5 per cent in March.

In the latest month, discounting continued to play a part in retail sales growth but to a lower extent compared with the previous month. The price deflator fell by 0.9 per cent in April 2008 compared with a fall of 1.1 per cent in March.

Retail sales can be disaggregated into

'predominantly food' and 'predominantly non-food' sectors. In the three months to April 2008, retail sales growth in volume terms was driven by the 'predominantly non-food stores' and to a lesser extent the 'predominantly food stores' sector. The 'predominantly non-food stores' sector grew by 1.7 per cent, similar to the rate in the previous month. Within this sector 'household goods stores' weakened with growth falling by 1.9 per cent compared with a decrease of 0.4 per cent in the previous month. The 'non-store retailing and repair stores' also showed a slowdown, with growth of 3.3 per cent, down from 5.5 per cent in March. This was offset by a rebound in 'non-specialised stores', which grew by 1.6 per cent following a 0.5 per cent contraction in the previous month. The 'textile, clothing and footwear stores' grew buoyantly at 1.7 per cent, unchanged from the previous month. The 'predominantly food stores' sector in contrast slowed with growth of 1 per cent, compared with 1.5 per cent in the previous month.

External surveys for retail sales presented a mixed picture of growth in 2008 quarter one. The CBI reported an average balance of plus one in the latest quarter, down from plus ten in the previous quarter. The latest balance in April according to the monthly Industrial Trends survey had deteriorated

further to minus 26. The BRC reported average growth of 3.3 per cent in 2008 quarter one on a total sales basis, up from 2.8 per cent in 2007 quarter four. According to the latest April figures, total sales growth was 1 per cent (**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, increases/decreases in interest rates raises/lowers debt servicing costs. The recent reductions in interest rates may have begun to feed through to increased spending decisions, by providing households' the incentive to borrow, particularly on unsecured credit. This may have contributed partly in the rebound of household expenditure in the latest quarter.

Despite the credit crunch, Bank of England figures show both secured and

unsecured lending holding up remarkably well, with a strengthening in the latter. In recent years, secured borrowing has been particularly strong compared to weaker unsecured credit growth. This appears to have reversed in the latest quarter as a result of the credit crunch, in terms of the tight lending criteria adopted by banks and building societies on secured credit; possibly suggesting that households could be resorting to unsecured lending for spending purposes. Bank of England data showed total lending was £26.2 billion in 2008 quarter one roughly similar to £26.9 billion in the previous quarter. Within total lending there was a slow-down in lending on secured dwellings to £21.5 billion, down from £23.6 billion in 2007 quarter four. This was offset by an increase in unsecured lending to £4.6 billion in the latest quarter, up from £3.3 billion in the previous quarter.

An alternative measure of expenditure also showed a buoyant picture. M4 (a broad money aggregate of UK money supply) rose sharply in the latest quarter to £43.1 billion, up from £34.3 billion in 2007 quarter four. M4 (i.e. bank cash deposits) lending also rose to £55.3 billion in 2008 quarter one, up from £51.7 billion in the previous quarter.

BUSINESS DEMAND

Business investment weakens

Total investment fell by 1.6 per cent in 2008 quarter one compared with growth of 1.8 per cent in the previous quarter. On an annual basis, total investment fell by 1.1 per cent, a slow-down from 4.1 per cent growth in the previous quarter. The decrease in total investment was primarily due to a contraction in machinery and capital equipment investment (**Figure 11**).

Business investment decelerated markedly in 2008 quarter one, contracting 1.4 per cent – the first quarterly drop in three years – following growth of 1.8 per cent in 2007 quarter four. On an annual basis, business investment grew by 3.7 per cent in the latest quarter, a slow-down from 5.3 per cent growth in the previous quarter. The slow-down in business investment was due to sharp declines in construction, consumer goods manufacturing and distribution.

Business investment could have slowed for a number of reasons. Firstly, increased uncertainty and pessimism, particularly in regards to global demand, may have deterred investment; secondly, the

Figure 9
Retail sales

Percentage growth

Figure 10
External retailing

Balances

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; 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 investment in plant and machinery fell by nine points to plus 12 – the lowest since 2005 quarter four. The CBI's Quarterly Industrial Survey in 2008 quarter one also reported a bleaker investment picture, with the investment balance of plant and machinery weakening to minus 18 from minus 12 in the previous quarter.

GOVERNMENT DEMAND

Government expenditure increases

Government final consumption expenditure accelerated in the latest quarter. Growth jumped to 1 per cent after contracting by 0.5 per cent in the previous quarter. On an annual basis, growth was 1.7 percent, up from 1.3 per cent in the previous quarter (**Figure 12**).

Public sector finances improves

The latest figures on the public sector finances to April 2008 illustrated a positive picture. The figures showed a current budget surplus together with a net lending situation. Overall, however, in financial year terms, the Government continued to operate a financial deficit, with government expenditure continuing to exceed revenues reflected in a budget deficit and net borrowing. In April 2008, the current budget was in surplus by £0.6 billion; this compares with a deficit of £0.1 billion in April of 2007. In the financial year 2007/08, the deficit was £5.7 billion. Public sector net borrowing fell by £0.5 billion (that is, net lending) in April 2008; this compares with net borrowing of £0.2 billion in April 2007. In the financial year 2007/08, net borrowing was £34.3 billion. The positive monthly picture mainly reflected lower growth in both central government expenditure and revenues combined with buoyant petroleum tax receipts.

Figure 11
Total fixed investment

Figure 12
Government spending

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 April 2008 was 36.5 per cent of GDP, up from 36.1 in April 2007. In the financial year 2006/07, net debt as a percentage of GDP was 36.7 per cent.

TRADE AND THE BALANCE OF PAYMENTS

Current account deficit narrows; goods deficit widens

The publication of the latest quarterly Balance of Payments figures shows that the current account deficit narrowed in 2007 quarter four to £8.5 billion, from a deficit of £19.1 billion in the previous quarter (**Figure 13**). As a proportion of GDP, the deficit fell to 2.4 per cent of GDP from 5.5 per cent in 2007 quarter three. The narrowing in the current account deficit in 2007 quarter four was due to a switch from a deficit on income to a surplus on income, together with a higher surplus on services. The surplus on income stood at £9.3 billion and the surplus on trade in services widened to £10.1 billion. The deficit on trade in goods was unchanged at £23.2 billion compared with the

previous quarter.

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.

In the latest quarter, the deficit on trade in goods and services widened to £13.4 billion, from a £13.1 billion deficit in the previous quarter. There was a lower surplus on trade in services which exceeded the narrowing in the goods trade deficit. The latest figures show a continuation in the goods trade deficit. The goods trade deficit was £22.9 billion in 2008 quarter one, down from £23.2 billion in the previous quarter. The balance on trade in services was £9.6 billion in the latest quarter compared with £10.1 billion in the previous quarter. In terms of growth, exports of goods grew by 0.5 per cent while goods imports fell by 1.1 per cent. Services exports fell by 0.8 per cent and services imports grew by 0.8 per cent. Over the quarter, total trade contracted by 0.6 per cent following a decrease of 1 per cent in the previous quarter.

External surveys on exports reported

Figure 13
Balance of payments

Figure 14
Employment and unemployment

a subdued picture for the latest quarter. The BCC reported that the export sales net balance fell by six points to plus 16 – the lowest position since 2005 quarter four. The latest CBI quarterly survey also reported a weaker picture. The export orders balance was minus 12 in 2008 quarter one, deteriorating from minus four in the previous quarter. According to the latest figures in May, the export orders balance was unchanged at minus 12.

LABOUR MARKET

Labour market activity buoyant but shows signs of softening

The labour market in the latest reference period illustrated a mixed but, overall, still buoyant picture – with relatively high levels of employment and low levels of unemployment seen throughout 2006 and in 2007. The weakening in certain indicators of the labour market in the latest period may reflect the lagged effect of the slow-down in the economy which began in the third quarter of 2007 and which has quickened in the latest quarter, starting to feed through to the labour market.

The latest figure from the Labour Force Survey (LFS) pertains to the three-month

period up to March 2008. The number of people in employment and the employment rate rose. The number of unemployed people rose but the unemployment rate was unchanged. The claimant count increased. The inactivity rate and the number of inactive people of working age have both fallen. The number of vacancies rose. Average earnings including bonuses rose, while the figure excluding bonuses was unchanged. Overall average earnings remain subdued with weak real wage growth.

Employment continues to proceed at record levels. The current working age employment rate was 74.9 per cent in the three months to March 2008, up 0.1 percentage point from the three months to December 2007 and up 0.6 percentage points from a year earlier. The number of people in employment rose by 117,000 in the three months to March 2008 compared to the previous quarter to an employment level of 29.54 million – the highest since comparable records began in 1971. Unemployment levels, on the other hand, rose on the quarter, marking the first rise in the year. The number of unemployed people increased by 14,000 but was down 83,000 from a year earlier, leaving the unemployment level at 1.61 million in the three months to March 2008. However, the

unemployment rate was 5.2 per cent in the three months to March 2008, unchanged from the three months to December 2007, but down 0.3 percentage points from a year earlier (Figure 14).

Looking at a detailed level, the increase in the employment level was mainly driven by employees and full-time employment. The increase was led by a rise in employees of 69,000 and a 39,000 rise in self-employment. In terms of full- and part-time workers, the numbers of people in full-time employment rose by 84,000 while the number of people in part-time employment increased by 33,000.

Workforce jobs increases

According to employer surveys, there was an increase of 13,000 jobs in the three months to December 2007. The largest quarterly contribution to the increase came from distribution, hotels and restaurants (up 43,000), followed by transport and communication (up 18,000), and education, health and public administration (up 10,000). This was offset by decreases across a number of sectors with the largest decrease in manufacturing (down 29,000), followed by construction (down 19,000) and other services (down 13,000). Over the year, total workforce jobs increased by 208,000. Of the total, the largest contribution to the increase over the year came from finance and business services (up 149,000), followed by distribution, hotels and restaurants (up 103,000) and education, health and public administration (up 23,000). The manufacturing sector, in contrast, lost the largest number of jobs on the year (down 53,000), followed by other services (down 12,000).

Claimant count level increases

The claimant count measures the number of people claiming the Jobseeker's Allowance. The latest figures for April 2008 showed the claimant count level rose by 7,200, but was down 82,300 on a year earlier to reach a level of 806,300. However, this figure is still close to lowest levels for 30 years. The claimant count rate in April 2008 was 2.5 per cent, unchanged from the previous month but down 0.3 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 682,800 job vacancies in the three months to April 2008, up 6,700 from the previous three months and up 44,600 from the same period a year earlier.

Inactivity level falls

The working age inactivity rate was 20.9 per cent in the three months to March 2008, down 0.1 percentage point on the three months to December 2007 and down 0.3 percentage points from a year earlier. In level terms, the number of economically inactive people of working age was down 33,000 over the quarter and by 80,000 over the year to reach a level of 7.88 million in the three months to March 2008. Inactivity falls in level terms were recorded across most groups. The largest level fall in inactivity was recorded for those categorised as 'temporary sick' (down 13,000) followed by the 'long-term sick' category (down 11,000). This was offset by increases in a couple of categories, with the largest increase in inactivity amongst the 'discouraged' category (up 8,000) followed by the 'student' category (up 5,000).

Average earnings subdued

Growth in whole economy average earnings showed a mixed picture in the three months to March 2008, but overall remains relatively subdued. Average earnings including bonuses increased by 4.0 per cent in the three months to March 2008, up 0.3 percentage points from the previous month. Average earnings excluding bonuses rose by 3.8 per cent, unchanged from the previous month. In terms of the public and private sector split, the gap in average

earnings (excluding bonuses) widened in March 2008. Public sector wage growth was 3.9 per cent, up 0.1 percentage point from the previous month. Private sector wages grew by 3.7 per cent, unchanged from the previous month.

Overall, the numbers still point to a fairly buoyant labour market, with employment at high levels and unemployment at a fairly stable level. However, the slowing economy may have started to impact on the labour market in terms of higher unemployment levels. 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 the first quarter of 2008, output prices exhibited further signs of an acceleration of growth from quarter four 2007 and therefore provided signs of continued inflationary pressures. Input prices also accelerated in the first quarter of 2008 compared with quarter four 2007. This suggests that firms were attempting to maintain their profit margins by passing on the higher costs of inputs to customers. However, the slower rate of growth of output inflation in the latest quarter compared to faster input price growth may suggest that firms have been tempered in part in passing higher input price rises to customers, due to spending pressures faced by households – with possible impact on firms' profits.

Input prices on average rose by around 20 per cent in 2008 quarter one. This compares with around 11 per cent in 2007 quarter four. The core input price index, excluding food, beverages, tobacco and petroleum, rose by an average of around

9 per cent in 2008 quarter one (12 month non-seasonally adjusted growth), an acceleration from growth of around 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 monthly figures, the annual rate of input price inflation rose by 23.3 per cent in the 12 months to April 2008, driven by a 62.6 per cent increase in the price of crude oil on the year.

Output prices grew on average by around 6 per cent in 2008 quarter four, an acceleration from growth of around 4.5 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 around 3 per cent in 2008 quarter one, up from 2.3 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. According to the latest monthly figures, annual output price inflation rose by 7.5 per cent in the 12 months to April – mainly driven by petroleum products which rose 25.4 per cent on the year.

Consumer prices accelerate and above target

Growth in the Consumer Prices Index (CPI) – the Government's target measure of inflation – was 3.0 per cent in April 2008, a jump from 2.5 per cent in March. This is lower than the peak in March 2007 when inflation reached 3.1 per cent but above Government's 2 per cent inflation target (Figure 15).

The largest upward contribution to the change in the CPI annual rate came from housing and household services due to changes in the price of gas, electricity and heating oil. There were further large upward contributions from: food and non-alcoholic beverages, particularly meat, fruit, some breads and cereals and fish; miscellaneous goods and services where prices rose this year but fell last year, principally due to banking services; and restaurants and hotels where the effect mainly came from alcoholic drinks sold in restaurants and cafes, reflecting the increase in excise duty which was larger than last year.

The largest downward contribution came from: transport costs, mainly due to air

Figure 15
Inflation

transport and fuels and lubricants;

air fares, which fell in April compared with rises last April; and the price of fuels and lubricants which rose this year by less than last year. The average price of petrol increased by 1.9 pence per litre between March and April this year, to stand at 108.2 pence, compared with a rise of 3.4 pence last year. By contrast, diesel prices rose by more than last year but have a

smaller effect on the fuels index. There was a further large downward contribution from clothing and footwear.

Retail Price Index (RPI) inflation rose to 4.2 per cent in April, up from 3.8 per cent in March. The main factors affecting the CPI also affected the RPI.

Additionally, there were downward contributions to RPI from house depreciation, council tax and vehicle excise

duty; and the differences in coverage and weights between RPI and CPI for financial services result in a smaller upward contribution for RPI than CPI.

RPIX inflation – the all items RPI excluding mortgage interest payments – was 4.0 per cent in April, up from 3.5 per cent in March.