Economic review

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SUMMARY

Gross Domestic Product expanded by 0.4 per cent in the final quarter of 2009, but this was not sufficient to prevent an overall annual fall of 4.9 per cent in 2009. On a quarter on quarter basis GDP growth has shown a steady improvement throughout the year. Household consumption recorded modest growth in the second half of the year, driven by an increase in spending on motor cars, and fixed investment moderated from the very large falls in the first and second quarters. Government consumption has also contributed positively to growth throughout most of the year. However, the contribution of changes in stocks is still erratic, and net trade has weighed on growth as imports expand faster than exports – despite the significant depreciation in sterling in late 2008. Household and corporate sector balance sheets show continuing signs of retrenchment as net-lending increases. In the labour market, the headline measures of unemployment, employment and inactivity all deteriorated to a greater extent for men than women over the last two years. This seems to reflect that the fall in jobs was more concentrated in industries where male employment is significantly higher. Manufacturing producer prices inflation has started to pick up in line with rising oil and other commodity prices. However, services producer prices remain in deflationary territory, as difficult market conditions and strong competition places downward pressure on prices.

UK economy contracts by 4.9 per cent in 2009

According to latest published estimates, the UK economy expanded by 0.4 per cent in the final quarter of 2009 – the first quarter of positive growth since 2008 Q1. Despite this, Gross Domestic Product (GDP) in 2009 fell at its fastest annual rate in the post war period. Compared to 2008, GDP was 4.9 per cent lower (**Figure 1**). Between 1993 and 2007, GDP had grown at an

average annual rate of 3 per cent, meaning that during these 15 years the level of GDP increased by over 50 per cent. Annual growth in 2008 slowed to 0.5 per cent in 2008 as the economy entered recession in the second half of that year.

Figure 2 shows the contributions to GDP growth by the main categories of expenditure in each of the four quarters of 2009.

In the first quarter, total expenditure contracted sharply by 2.6 per cent. Even though it represents less than 20 per cent

of GDP, the 7.3 per cent fall in Gross Fixed Capital Formation (GFCF) was the largest contribution to the quarterly drop. Household consumption fell by a relatively smaller 1.6 per cent, but as this accounts for nearly two-thirds of total expenditure, it too had a significant impact on growth.

In 2009 Q2 the rate of contraction in GDP slowed considerably to 0.7 per cent. GFCF continued to decline rapidly, dropping by a further 7.2 per cent. However, the pace of contraction of household consumption eased to 0.9 per cent, and larger positive contributions came from government consumption, net trade and the 'other' categories.

Government consumption grew by 0.9 per cent in the second quarter, without which, total expenditure growth would have been 0.2 percentage points lower. Net trade also made a positive contribution as falling exports were more than offset by a larger fall in imports. The 'other' category, consisting of the consumption of non-profit institutions and spending on valuables and changes in inventories (stocks), also contributed positively to GDP. Inventories, which are the stocks of raw materials, works in progress and finished goods that businesses hold to meet future demand, are typically a very small part of the level of total expenditure. However, they often account for a significant part of changes in total expenditure, especially over the business cycle when holdings are very sensitive to the economic outlook. In the second quarter, the rate at which firms were destocking slowed, contributing positively to growth.

During the third quarter of the year, the speed at which total expenditure or GDP was falling slowed further to 0.3 per cent. Household consumption was flat and fixed investment rebounded by 2.8 per cent. Government consumption also continued to grow, rising by 0.6 per cent over the quarter. However, the improvements in these domestic sources of demand were offset by net trade and inventories, which both made negative contributions to quarterly expenditure growth. Exports actually grew by 0.6 per cent, but imports grew faster by 1.2 per cent, perhaps reflecting the aforementioned pick up in domestic spending. The rate at which firms

Figure 1
Annual GDP growth

Source: Quarterly National Accounts

Figure 2
Contributions to quarterly GDP growth by main expenditure components

Source: Quarterly National Accounts

Figure 3
Household consumption growth

Source: Quarterly National Accounts

Figure 4
Contributions to household consumption growth

Source: Quarterly National Accounts

were destocking, having slowed in the previous quarter, also increased again.

In the final quarter of 2009 GDP growth was positive after six successive quarters of contraction. The largest positive contribution came from a moderation in the rate at which firms were destocking. Household and government consumption also recorded positive growth during the quarter, by 0.4 per cent and 1.0 per cent respectively. Fixed investment though fell by 2.7 per cent reversing the rise in the previous quarter. Net trade had a similar negative impact as imports increased by

4.7 per cent outstripping the 3.8 per cent rise in exports.

Throughout 2009 the quarter on quarter growth rate of GDP, or total expenditure, has steadily improved. Sharp falls in household consumption and GFCF in the first half of the year gave way to very modest growth in the second half of 2009. Government consumption has also generally supported growth during the course of the year. However, the evidence in Figure 2 is that net trade has weighed on growth in the third and fourth quarters as imports have rebounded faster than

exports as the global economy emerges from recession. This is despite the significant depreciation in sterling in late 2008, which was hoped to benefit the UK's trade position. Neither is there evidence in the second half of 2009 of a sustained pick up in fixed investment or a slowdown in the rate at which businesses are running down inventories.

Household consumption growth shows steady improvement through 2009

Between 2008 Q1 and 2009 Q2 household consumption fell for five successive quarters. Spending was then flat in the third quarter, before growth of 0.4 per cent in the final quarter of 2009 (see Figure 3). However, despite this recent and modest revival, the household consumption is still 3.7 per cent lower than its pre-recession level.

Figure 4 presents a breakdown of household consumption growth by the main categories of spending in each of the four quarters of 2009.

In the first quarter, spending declined by 1.6 per cent as households appeared to cut back on more discretionary items. Significant negative contributions came from net tourist spending; transport and communications; recreation, culture, hotels and restaurants; and household goods and services.

Although the amount spent by visitors to the UK was fairly stable in 2009 Q1, there was a significant fall in spending overseas by UK households – contributing to a 35 per cent fall in net tourist spending. This might partly be due to the sharp fall in sterling in the second half of 2008 which depreciated by around 25 per cent against both the euro and the US dollar.

In the transport and communications sector the largest negative contributions came from the operation of transport equipment (spending on fuel and repair and maintenance) which declined by 4.2 per cent and air transport, which in line with net tourism, fell sharply by 8.8 per cent on the quarter.

The housing and household goods and services category accounts for around one quarter of all household expenditure. Within this the largest component are rents and imputed rents (which are the rents owner occupiers implicitly pay to themselves to live in their own houses) and these tend to be both a large and very

stable part of total spending. Spending on household goods and furniture though is more sensitive to consumer confidence, and the 3.4 per cent fall in this item accounted for all of the -0.2 percentage points contribution of the housing and household goods and services component to total consumption growth in the first quarter.

In recreation, culture, hotels and restaurants, it was household spending on catering services that made the largest negative contribution, dragging consumption growth down by around 0.3 percentage points. This category consists of pubs and restaurants where spending fell by 1.9 per cent, and also canteens where spending fell considerably by 13.6 per cent. Spending in work place canteens may have reflected a weakening labour market and rising unemployment, household belt tightening by bringing in pack lunches, or even businesses looking to cut back on providing 'in house' catering services.

These negative contributions to consumption growth were partly offset by the clothing and footwear category, where strong discounting in clothing garments supported an increase of 6.3 per cent increase in spending, boosting total household expenditure growth by 0.3 percentage points.

In the second quarter, household consumption fell by a smaller 0.9 per cent. Many of the factors at play in the first quarter continued to drive down spending in the second, although in some instances to a lesser extent. For example, net tourism expenditure fell by a further 22.7 per cent, household goods and furniture by 1.4 per cent and pubs and restaurants by 2.1 per cent. Spending on clothing garments was flat after strong growth in the first. The main innovation was in the transport and communications component, where motor vehicle spending which fell by 0.4 per cent in quarter one, picked up strongly by 5.4 per cent in quarter two as the vehicle scrappage scheme came into effect. This contributed a quarter percentage points to total consumption growth in the second quarter.

In the third quarter, total consumption growth was flat, and as Figure 4 shows, for the most part there was not a significant impact on growth in either direction among the main categories of consumption. Spending on motor cars though rose strongly, up 6.4 per cent on the previous quarter adding 0.3 percentage points to total growth.

This component of household spending

continued to have an important impact on growth in the fourth quarter. Household spending on motor cars rose by 7.9 per cent, helped by both the vehicle scrappage scheme and also as consumers looked to take advantage of the lower prevailing rate of VAT before it reverted back to 17.5 per cent at the start of 2010. This contributed 0.4 percentage points to total growth, so without this influence household consumption would have been flat. It also suggests that although the sharp falls in consumption seen in the first half of the year have passed, the data does not show a broad-based pick up in spending in the second half of the year.

Motor car expenditure an important driver of household consumption growth in late 2009

Household expenditure on motor cars has been an important driver of consumption in the second half of 2009. The vehicle scrappage scheme, where owners of cars more than ten years old can receive a £2,000 discount on a new vehicle if they trade in their older one, was introduced in May of 2009 and ran until the end of March 2010. Given the timing of when this scheme was instigated and the strengthening demand for motor cars, it suggests that the policy may have had some positive impact.

Figure 5 shows the contribution of motor car spending to household consumption in recent years. As the recession took hold in 2008 Q2, spending on motor cars fell sharply, falling by 6.0 per cent in that quarter. Further falls of 5.7 per cent and 3.2 per cent in the third and fourth quarters respectively meant that by the end of the year motor vehicle expenditure was nearly 15 per cent lower than its pre-recession level.

Spending declined, not only because consumer confidence was dented by the depressed economic outlook, worsening labour market, falling house prices and high levels of borrowing, but also due to a tightening in the availability of finance as banks looked to restrict consumer credit.

In 2009 motor vehicle expenditure has rebounded strongly, especially in the final three quarters of the year. As a result, motor car expenditure by households was actually higher at the end of 2009 Q4 than before the recession started.

Although the vehicle scrappage scheme is a factor which may have supported expenditure, it is not the only one. The labour market has not deteriorated to the extent feared, pressures on household balance sheets have been reduced by a substantial reduction in interest rates, and the temporary reduction in the rate of VAT from December 2008 to January 2010 are all potential causes of the growth in household motor car expenditure.

Net tourist spending falls in 2009 as UK residents make less visits overseas

As Figure 4 shows, the contribution of net tourism to overall household consumption has been improving throughout the course of 2009. However, as Figure 6 shows, this has largely been due to a stabilisation in the level of spending abroad by UK households after falling rapidly for most of the previous two years. As tourist spending in the UK by overseas residents has been fairly stable, net tourist spending has fallen sharply and is now at its lowest level since 1992 Q2 – just over ten years ago.

According to the Overseas travel and tourism statistical bulletin, average spending by both UK residents overseas

Figure 5
Household expenditure on motor cars

Source: Quarterly National Accounts

Figure 6
Net tourism household expenditure

Source: Travel and tourism

Figure 7
Household saving ratio and net lending

Source: Quarterly National Accounts

and foreign visitors to the UK have not shown any significant change in the last few years, so therefore the trends in Figure 6 must mainly be the result of changes in visitor numbers. In January 2010, there were (seasonally adjusted) 4.37 million visits abroad by UK residents, down by about one third from the 6.18 million recorded in January 2008. In comparison, on a seasonally adjusted basis, there were 2.56 million visits by overseas residents to the UK in January 2010, only marginally lower than the 2.73 million visits recorded in January 2008.

Further analysis of the figures shows that the largest reductions in overseas visits by UK residents have been to Europe, which accounts for over half of all visits. There have also been significant falls in visits by UK residents to North America and other destinations.

It is natural that households, looking to protect their financial positions by cutting back on more discretionary items of spending in times of recession, may opt to reduce overseas travel, perhaps deciding to holiday within the UK or not at all. An additional factor may have been the depreciation of sterling, which fell by a quarter against the euro in the final quarter of 2008 and by a similar proportion against

the US dollar in the second half of that year. As a result, the purchasing power of sterling overseas is lower, and at the same time, the purchasing power of foreign currency in the UK is greater. Overseas visits are therefore relatively more expensive than before for UK resident. This might also explain why visits to the UK by overseas residents have held up despite the global recession also hitting the confidence and balance sheets of households in other parts of the world.

Strong rise in household saving and net lending during 2009

Gross savings by households are the difference between household resources and consumption. Resources available for consumption predominately consist of gross disposable income plus net equity invested in pension funds. The saving ratio is simply the ratio of gross savings to these total resources for the household sector.

In the final quarter of 2009 the household saving ratio was 7.0 per cent (see Figure 7). Although this is lower than the 8.4 per cent recorded in the third quarter, the ratio of household saving to

total household resources has increased significantly in the last two years, mainly due to a retrenchment in household consumption in the face of the downturn in the economy and tighter restrictions in the availability of credit. Disposable incomes have not fallen to the same extent, despite the weakening labour market, and fairly tepid growth in nominal wages. Household disposable incomes appear to have been supported by lower interest payments to other sectors of the economy following the sharp reduction in base rates and net taxes (taxes minus benefits) which tend to behave as an automatic stabiliser across the economic cycle.

The household sector has also become an increasing net lender since the start of 2009 as the sector experiences a growing surplus of saving over investment. Although this partly reflects the rise in gross savings, the main factor has been a sharp fall in the fixed investment by the sector – notably in new house purchases. For the household sector residential dwellings are the most important category of investment spending. National Accounts essentially treats owner occupied housing as an investment good as it yields a future flow of housing services to the owners – for which implied rents are charged. As a result, owner occupied households are in effect businesses providing these services to themselves. Falling house prices and rising unemployment saw the demand for new mortgage borrowing drop significantly in 2008. Furthermore, the financial crisis led to a hiatus in new lending as banks and building societies looked to rebuild balance sheets. Although house prices have risen during 2009, mortgage lending still remains far below the peak levels seen in 2007 which has fed through to a low turnover in the housing market.

Business investment falls sharply in 2009

Fixed investment tends to be a strongly procyclical part of aggregate demand. As it often involves lumpy and irreversible expenditure, it is very sensitive to business confidence concerning the economic outlook and the ease in financing. In a recession both these factors will be less supportive. Businesses will be less optimistic about their need for future capacity, and less willing to add more debt to their balance sheets when profits and cash flow are depressed. Financial institutions will also be more

Figure 8
Gross fixed capital formation (GFCF) growth

Source: Quarterly National Accounts

Figure 9a
Contributions to GFCF growth by sector, 2009

Source: Quarterly National Accounts

Figure 9b
Contributions to GFCF growth by asset, 2009

Source: Quarterly National Accounts

cautious about lending when the trading environment is weaker and insolvencies are on the rise.

Figure 8 shows a strong contraction in GFCF during the recent recession. This is particularly evident in the first two quarters of 2009 contributing largely to the contraction in GDP during these quarters (see **Figure 4**). In the second half of the year fixed investment spending appears to have stabilised, but after growing in quarter three it fell in quarter four.

Figure 9a presents the contributions to the growth in GFCF by each sector during 2009. Clearly, business investment has been the most important contributor to the

fall in fixed investment spending during the year, contracting in every quarter and very sharply in the first half of the year. In 2009 Q4 business investment was 23.5 per cent lower than in the same quarter of 2008.

Government investment has made a positive contribution to fixed investment growth in the second half of the year, especially in the third quarter when government GFCF rose by 13.8 per cent. As part of the fiscal stimulus package of measures, the Government has looked to bring forward some public spending on infrastructure projects. However, as this category is less than a third of business

investment it is insufficient to fully offset the decline in total GFCF. The other components – namely investment in new dwellings and the costs associated with the transfer of fixed assets such as land and real estate fees and commissions – had smaller influences on total GFCF growth in 2009. This may partly reflect muted activity in residential property markets during the year.

The contributions to GFCF growth by main asset type (**Figure 9b**) show a consistent picture with the sector breakdown. The largest negative contributions in the first half of 2009 were concentrated in equipment investment and also other buildings and structures which include commercial and industrial buildings – in line with the strong fall in business investment. As the rate of decline in business investment eased in the second half of the year these components also made an improved contribution to GFCF growth.

High rate of destocking in 2009 as businesses face weak demand

In a downturn businesses tend to reduce their stocks of inventories due to lower expectations of current and future demand. As a result current and near future orders are met from existing stocks rather than production, which then falls quickly, often abruptly. When the economy exits recession and businesses are confident of a sustained improvement in orders, production rises equally quickly to meet higher demand and to replenish stocks of inventories. This stocks cycle means that growth in industries where stockholding is important, such as the production industries, tends to show stronger amplitude than GDP as a whole during the economic cycle.

The latest recession appears to be no exception, with stockholding playing an important role in driving the fall in output. **Figure 10** shows the change in stocks (that is the accumulation minus the disposal of inventories) as a proportion of GDP in each year since 1976. The cyclical pattern is clearly evident as is the strong degree of destocking in 2009.

As the production sector is a smaller part of total UK output than in previous recessions, especially compared to that of the early 1980s, it might be thought that the stocks cycle would now be less important than previously. The recent recession though has been global and led

Figure 10
Changes in inventories as a proportion of GDP

Figure 11
Net lending of private non financial corporations

Figure 12
Net lending by sector

to a sharp deterioration in global trade. In 2009 world trade almost fell for the first time since the end of World War II, so therefore the recession has been particularly severe for sectors of the economy, like manufacturing and other production, where output is highly traded. Furthermore, the changing structure of global trade, which is now more vertically integrated across countries than ever before, helped by the growing share of world trade accounted by multinational corporations, may have increased the importance of stockholding within the production process.

Corporate sector net lending rises sharply in 2009 as investment falls

The private non financial corporations (PNFC) sector has been a net lender since 2002, but in 2009 the extent of its net lending increased markedly to 5.5 per cent of GDP. While gross disposable incomes (reflecting operating surpluses and net property income including earnings from foreign direct investments) have remained fairly robust as a proportion of GDP during the recession, the sharp fall in gross capital formation

consisting of fixed investment and the disposal of inventories has resulted in the PNFC sector generating a larger surplus of saving over investment in the latest full year (see **Figure 11**).

The rise in net lending may therefore occur automatically due to the fall in fixed investment and the disposal of inventories as firms lower their expectations of future demand and hence the amount of capacity required. However, the argument could conceivably also work the other way around – that firms have lowered investment spending in order to build up cash reserves in order to rebuild balance sheets and provide a buffer against the difficult trading conditions currently prevailing. These cash buffers may also be required in order to fund pension fund deficits and protect against volatile energy and commodity prices.

Net borrowing by government greater than net lending by households and private corporations

Both the household and PNFC sectors have become increasing net lenders in 2009 as they look to rebuild or protect balance sheets against the economic downturn. This has either been the result of or resulted in a retrenchment in consumption and investment spending. The net-lending of the other sectors of the economy as a proportion of GDP are also shown in **Figure 12**.

Net lending of financial corporations tends to reflect the income generated by the sector as investment spending by this sector is relatively small. Taken together, net lending by households, financial corporations and PNFCs was around 10 per cent of GDP in 2009. However, the growing current budget deficit has meant that the general government sector (consisting of Central Government, Local Government and public corporations) has become an increasing net borrower to the tune of over 11 per cent of GDP because of its huge negative savings (consumption greatly in excess of income funded by borrowing).

Because the domestic sectors of the UK are therefore collectively a net borrower, this means that the rest of the world sector is also a net lender – implying that the UK is funding its excess investment over saving by running a current account deficit.

Figure 13

Changes in the headline levels of employment,² unemployment² and inactivity¹

Thousands

Notes:

- 1 Working age population.
2 Population over 16 years of age.

Source: Labour Market Statistics

Figure 14

Changes in the headline rates of employment,¹ unemployment² and inactivity¹

Percentage points

Notes:

- 1 Working age population.
2 Population over 16 years of age.

Source: Labour Market Statistics

Headline labour market outcomes worse for men than women in the recession

Falling output during the recession has passed through to the labour market, where unemployment has risen and employment has fallen. However, a look at the headline figures tends to show the

deterioration in labour market outcomes have been worse for men than women in the last two years (see **Figure 13** and **Figure 14**).

Total employment of those aged 16 and over was 28.9 million in the three months to January 2010. This represents a fall of 572,000 from 29.4 million in the three months to January 2008. The employment rate, based on the working age population, fell by 2.6 percentage points from 74.8 per cent to 72.2 per cent over the same period.

Declining employment though impacted more severely on men than women. The total employment level for men fell by 556,000 to 15.4 million in the three months to January 2010 relative to the same period two years earlier. For women, the decline was much smaller, as employment levels fell by 17,000 to 13.5 million. In terms of employment rates, for men there was a 3.9 percentage point drop to 75.0 per cent while for women there was a fall of 1.1 per cent to 69.2 per cent.

Unemployment data have moved in the opposite direction to employment levels and rates. Total unemployment of those aged above 16 years was 2.449 million in the three months to January 2010, which is 827,000 higher than in the same three month period two years earlier. Male unemployment accounted for most of the increase, rising by 572,000 to 1.511 million compared to a rise of 254,000 to 938,000 for women. The unemployment rate, again based on all those over 16 years of age, increased by 2.6 percentage points to 7.8 per cent. The rise was twice as large for men, increasing by 3.4 percentage points to 9.0 per cent, while for women the increase was 1.7 percentage points to 6.5 per cent.

Inactivity levels and rates also showed larger rises for men than women. For the total working age population, inactivity grew by 276,000 to 8.2 million over the same two year period. However, for men the rise was greater than for women, increasing by 269,000 to 3.5 million compared to just 7,000 to 4.7 million. These figures are reflected in the movement in inactivity rates. Total working age inactivity rose by 0.6 percentage points to 21.5 per cent. For men, the inactivity rate rose by 1.2 percentage points to 17.5 per cent but actually fell by 0.1 percentage points to 25.8 per cent for women.

Therefore, the overall picture from the labour market during the last two years is for the downturn to have impacted more on the employment, unemployment and inactivity of men than for women.

Job falls concentrated in industries with higher male employment

Relatively worse labour market outcomes for men appear to be explained by the recession impacting more on the sectors of the economy where male employment is traditionally higher. Workforce Jobs is a count of the

Figure 15
Changes in Workforce Jobs by industry and sex

Source: Labour Market Statistics

Figure 16
Percentage of part time workers that could not find full time jobs

Source: Labour Market Statistics

total number of jobs in the UK, collected mainly but not exclusively from employer surveys, and gives a better description of labour market changes by industry than the Labour Force Survey.

There was a total peak to trough fall of 908,000 jobs between 2008 Q2 and 2009 Q4. Of these, 708,000 were males jobs compared to 200,000 female jobs. A breakdown of changes in jobs by industry and sex over this period are shown in **Figure 15**.

Manufacturing accounted for a third of the fall in jobs, a total of 305,000 of which 236,000 were male compared to 68,000 that were female. In 2008 Q2 three-quarters of manufacturing jobs were held by males compared to just one-quarter by females, so the larger decline in male manufacturing jobs is simply indicative of the higher concentration of male jobs in the industry.

A similar result was observed in the construction sector. In 2008 Q2, on the eve of the downturn, just under 90 per cent of the jobs in the industry were held by men. Therefore it is unsurprising that of the 184,000 reduction in total jobs between then and the final quarter of 2009, 177,000 were held by men compared to just 6,000 by women.

Where the employment mix between men and women is relatively equal, the fall in jobs was more similar. In the distribution, hotels and restaurants sector, total jobs fell by 273,000 of which male jobs accounted for 143,000 and female jobs 130,000. In 2008 Q2 there was an almost exact split of total jobs between men and women.

Likewise, in the business and financial services sector, the 289,000 reduction in jobs was split evenly between men and women (145,000 for men and 144,000 for women). In 2008 Q2, 56 per cent of jobs were male compared to 44 per cent female, so the fairly equal fall in jobs reflected the fairly equal split in total jobs between the sexes.

To compound the differences in changes in the number of jobs between men and women, the sector where the number of jobs actually grew was one where female jobs are usually much higher than male jobs. In the education, health and public administration sector 30 per cent were male jobs in 2008 Q2 compared to 70 per cent female. Between then and 2009 Q4 total jobs in these industries increased by 276,000 of which 75,000 were male and 201,000 were female.

Hence, the pattern of job changes across industries tends to support the view

Figure 17
Changes in the levels of working age inactive by reason and sex

Source: Labour Market Statistics

part time workers at the beginning of the period the rise in male part time working was proportionately larger.

Of more significance are changes the numbers working part time due to the inability to find a permanent job. These increased by 306,000 over the same two year period (to 1.036 million), split fairly evenly between men and women. For men, there was an increase of 159,000 to 445,000, and for women the increase was 147,000 to 591,000. But because numbers of female part time workers are greater, the proportional impact was greater for men (**Figure 16**). Overall, the percentage of part time workers unable to find a full time job rose by 3.8 percentage points to 13.7 per cent. For men the rise was by 8 percentage points to 24.5 per cent compared to a 2.4 percentage points increase to 10.3 per cent for women. This suggests that incidence of underemployment, where workers are unable to work the number of hours they would like to by being constrained to part time work, increased proportionately more for men than women in the downturn.

Working age inactivity levels up more for men than women

Working age inactivity has also risen more strongly for males than females during the latest recession. **Figure 17** presents a breakdown of the change in the numbers of working age inactive between the three months to January 2008 and the three months to January 2010 by stated reason and sex.

A number of key observations can be drawn from the chart. Student numbers increased by 360,000, the majority (250,000) of which were men. Female student numbers also increased but by a smaller amount (109,000). Growing enrolments in higher and further education may reflect the currently limited job market opportunities facing those seeking work, particularly younger people as employers cut back on entry-level and graduate recruitment schemes.

Changes in other stated reasons for inactivity were all rather small. The number of temporary and long term sick both exhibited a small fall, so there is little evidence of this type of inactivity hiding unemployment. Discouraged worker numbers also picked up, but still account for a very small proportion of the total inactive working age population.

Figure 18
PPI output and input inflation

Source: Producer Prices

that the downturn in the labour market impacted to a greater extent on men than women because the industries where job reductions were greatest had the highest concentration of male jobs.

Increases in part time workers proportionately greater for men

One argument might be that as women tend to be more concentrated in occupations where part time working arrangements are more

common, this flexibility over the number of hours worked may have led to smaller reductions in employment. However, the evidence from the Labour Force Survey doesn't really support this, in fact the rise in part time working over the last two years has been proportionately greater for men.

Between the three months to January 2008 and the three months to January 2010 the number of part time workers increased by 199,000. Although the rise in female part time workers was greater than men, 114,000 compared to 85,000, as females accounted for around three quarters of all

Figure 19a
Contributions to total output PPI inflation by main product groups¹

Note:

¹ Figures in brackets are actual percentage changes.

Source: Producer Prices

Figure 19b
Contributions to total input PPI inflation by main product groups¹

Note:

¹ Figures in brackets are actual percentage changes.

Source: Producer Prices

Figure 20
SPPI inflation

Source: Services Producer Prices Index (experimental)

Rising oil prices drive up producer prices inflation

Output price index for home sales of manufactured products, often referred to as factory gate prices, rose by 4.1 per cent in the year to February. PPI output inflation has now been steadily rising since February 2009, although it still remains far below the recent peak rate of 10 per cent in July 2008 (see **Figure 18**). Recent fluctuations in PPI inflation rates have tended to follow changes in oil and other commodity prices.

The contributions to the 12 months increase in output price inflation by main product groups are shown in **Figure 19a**. Clearly the largest positive contribution has come from petroleum products, where prices have risen by 20.0 per cent in the last year. The pass through from oil prices to petrol prices tends to be both quick and strong, with the recent increases reflecting the rise in oil prices since the beginning of 2009. However, oil prices are still yet to reach the peak levels achieved in the summer of 2008.

The strong influence of movements in oil prices on PPI inflation rates is also clearly shown in input price indices (**Figure 19b**). In the year to February manufacturing input prices increased by 6.9 per cent, accelerating from the deflation of 12.2 per cent recorded in July 2009. Contributions to input prices show that crude oil accounted for 8.24 percentage points, having risen by 54.5 per cent on the year. However, input price inflation is still a long way below the peak of 34.1 per cent recorded in June 2008 when oil prices were at a record high.

Services producer prices fall as difficult market conditions prevail

Output price inflation in the services sector continues to be muted as current market conditions put downward pressure on services providers. The quarterly Services Producer Prices Index (SPPI), which is an experimental statistic and does not include full coverage of the services sector, fell by 0.7 per cent in the final quarter of 2009. This was the third consecutive quarter of deflation in the index. Unlike PPI, where commodity and oil prices in particular have been fundamental drivers of the index, SPPI inflation though appears to reflect more the current cyclical position of the economy. As **Figure 20** shows,

Note: Source: Services Producer Prices Index (experimental)
1 Figures in brackets are actual percentage changes.

SPPI inflation rates have declined as the economy entered recession.

Figure 21 shows the contributions to the four quarters SPPI inflation rate in 2009 Q4. Property rentals, where prices have declined by 2.9 per cent on the same quarter in 2008, made the largest negative contribution to SPPI inflation. The large increase in commercial office floor space in the years preceding the downturn along with lower business demand have resulted in stronger competition for tenants driving down prices. Freight forwarding and construction plant hire also made notable downward contributions to the aggregate index as falling business demand increases competition among suppliers for customers.

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