CENTRAL STATISTICAL OFFICE

Economic Trends

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Introduction

Economic Trends brings together all the main economic indicators. It contains three regular sections of tables and charts illustrating trends in the UK economy.

'Economic Update' is a new feature giving an overview of the latest economic statistics. The content and presentation will vary from month to month depending on topicality and coverage of the published statistics. The accompanying table on main economic indicators is wider in coverage than the table on selected monthly indicators appearing in previous editions of *Economic Trends*. Data included in this section may not be wholly consistent with other sections which will have gone to press earlier.

The main section is based on information available to the CSO on the date printed at the foot of this page and shows the movements of the key economic indicators. The indicators appear in tabular form on left hand pages with corresponding charts on facing right hand pages. Colour has been used to aid interpretation in some of the charts, for example by creating a background grid on those charts drawn to a logarithmic scale. Index numbers in some tables and charts are given on a common base year for convenience of comparison.

The section on cyclical indicators shows the movements of four composite indices over 20 years against a reference chronology of business cycles. The indices group together indicators which lead, coincide with and lag behind the business cycle, and a short note describes their most recent movements. The March, June, September and December issues carry further graphs showing separately the movements in all of the 27 indicators which make up the composite indices.

An article on international economic indicators appears monthly. Occasional articles comment on and analyse economic statistics and introduce new series, new analyses and new methodology.

Quarterly articles on the national accounts and the balance of payments appear in a separate supplement to *Economic Trends* entitled *UK Economic Accounts* which is published every January, April, July and October.

Economic Trends is prepared monthly by the Central Statistical Office in collaboration with the statistics divisions of Government Departments and the Bank of England.

Notes on the tables

1. Some data, particularly for the latest time period, are provisional and may be subject to revisions in later issues.

2. The statistics relate mainly to the United Kingdom; where figures are for Great Britain only, this is shown on the table.

3. Almost all quarterly data are seasonally adjusted; those not seasonally adjusted are indicated by NSA.

4. Rounding may lead to inconsistencies between the sum of constituent parts and the total in some tables.

5. A line drawn across a column between two consecutive figures indicates that the figures above and below the line have been compiled on different bases and are not strictly comparable. In each case a footnote explains the difference.

6. 'Billion' denotes one thousand million.

7. There may sometimes be an inconsistency between a table and the corresponding chart, because the data may be received too late to update the chart. In such cases it should be assumed that the table is correct.

8. There is no single correct definition of *money*. Consequently, several definitions of money stock are widely used:

M0 the narrowest measure consists of notes and coin in circulation outside the Bank of England and bankers' operational deposits at the Bank.

M2 comprises notes and coin in circulation with the public *plus* sterling retail deposits held by the UK private sector with UK banks and building societies.

M4 comprises notes and coin in circulation with the public, together with all sterling deposits (including *certificates of deposit*) held with UK banks and building societies by the rest of the private sector.

The Bank of England also publish data for liquid assets outside M4.

9. Symbols used:
.. not available
\- nil or less than half the final digit shown
\+ alongside a heading indicates a series for which measures of variability are given in the table on page 82
† indicates that the data has been revised since the last edition; the period marked is the earliest in the table to have been revised
* average (or total) of five weeks.

The Editor would welcome readers' suggestions for improvements to *Economic Trends*.

Central Statistical Office, 16 April 1993

CSO Databank

Virtually all the series in *Economic Trends* and the Quarterly Articles may be obtained as part of the CSO Databank Service on tape or disk. The appropriate four digit identifier is included at the top of the column or start of a row of figures. This enables users to obtain (in computer-readable form) a much more comprehensive and up-to-date set of long run macro-economic time series data than can be included in this publication. The tape format, unlabelled EBCDIC, is the same for all datasets. The disks, either $3^1/_2$" or $5^1/_4$" are written in ASCII text which can be loaded as spreadsheets and viewed using standard spreadsheet packages, such as LOTUS or SMART.

Details of the service offered and the schedule of charges may be obtained from the Databank Manager, CSO Information Systems Branch, Room 52/4, Government Offices, Great George Street, London, SW1P 3AQ (telephone 071-270 6386). CSO does not offer direct on-line access for these data but a list of host bureaux offering such a facility is available on request from CSO.

ECONOMIC UPDATE - APRIL 1993

(includes data up to 26 April)

Summary

- On the preliminary estimate, **Gross domestic product (GDP) at constant factor cost** rose by 0.2 per cent between the first quarter of this year and 1992 Q4; excluding oil and gas extraction it rose by 0.6 per cent.

- **UK claimant unemployment**, seasonally adjusted, fell in March for the second successive month.

- **Retail sales volume** rose by 1.6 per cent between the first quarter of this year and 1992 Q4.

- **The retail prices index** rose by 1.9 per cent in the year to March compared to 1.8 per cent in February. Excluding mortgage interest payments the rise was 3.5 per cent in March compared to 3.4 per cent in February.

- **Output prices for manufactured products**, seasonally adjusted and excluding food drink and tobacco, rose by 2.6 per cent in the year to March. **Input prices for manufacturing industry**, seasonally adjusted, rose by 8.3 per cent.

- Annual growth in **whole economy underlying average earnings** for Great Britain fell to four and a half per cent in February from four and three quarter per cent in January.

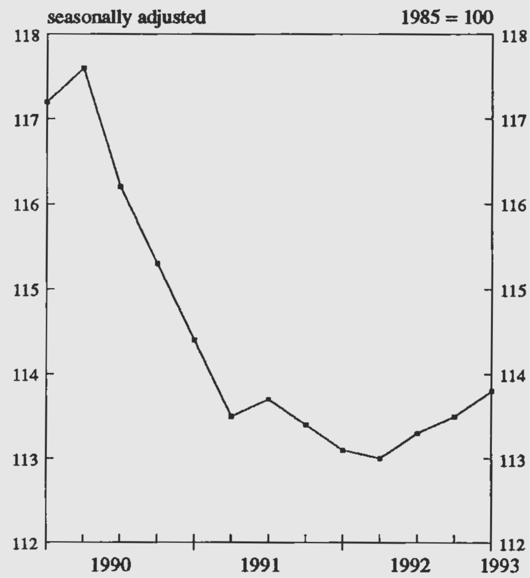
- Annual growth of **M0** rose from 4.5 per cent in February to 4.9 per cent in March.

- The **PSBR** in 1992-93 was £36.5 billion.

Output

The preliminary estimate shows that **Gross domestic product (GDP) at constant factor cost** continued to rise in the first quarter from its low point of 1992 Q2. It rose by 0.2 per cent between the first quarter and 1992 Q4. It rose by 0.6 per cent between the first quarters of 1992 and 1993. Excluding oil and gas extraction it rose by 0.6 per cent in the first quarter and, also, by 0.6 per cent between the first quarters of 1992 and 1993. On this basis it was 3.2 per cent below the highest point of 1990 Q2 and recent movements are shown in chart 1.

Chart 1
Gross domestic product
at constant factor cost



2. Within GDP, the **index of industrial production** changed little between the first quarter and 1992 Q4. **Energy output** fell between these quarters as a result of disruptive weather in the North Sea in January and above average temperatures reducing domestic energy demand. This was offset by a rise in **manufacturing output**. The output of the **service sector** is estimated to have risen in the first quarter.

Activity and expectations

3. The CSO's **coincident cyclical indicator** was virtually flat between October of last year and January. However, the **shorter** and **longer leading indicator** have both risen in recent months: in particular, the longer leader has risen strongly since last September, boosted by cuts in interest rates, higher share prices and increased business optimism.

Domestic demand

4. The **volume of retail sales**, seasonally adjusted, continues to rise. In the first quarter the volume was 1.6 per cent higher than in 1992 Q4 and 3.3 per cent up on the first quarter of 1992. Within the total, sales by food retailers rose by 1.2 per cent in the first quarter compared with 1992 Q4, those by non food retailers rose by 2.6 per cent and those by mixed retail businesses (which include department stores) fell by 0.3 per cent. Recent movements are illustrated in chart 2.

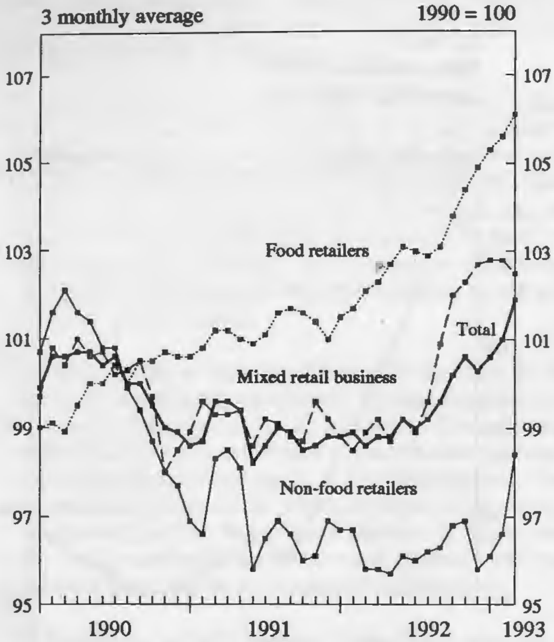
Prices and wages

5. The 12 month inflation rate of the **retail prices index** (RPI) rose slightly in March to 1.9 per cent from 1.8 per cent in February. Excluding mortgage interest payments it rose to 3.5 per cent from 3.4 per cent.

6. A rise of 0.4 per cent in the RPI in March reflected rises in motoring costs, prices of clothing and household goods following the end of the winter sales and, especially, food prices which rose by 0.8 per cent; the latter was, in part, associated with the devaluation of the green pound following sterling's depreciation. These rises were partly offset by a fall in mortgage interest rates. Excluding these, the RPI rose by 0.7 per cent in March.

7. The **input price index for purchases by manufacturing**

Chart 2
Volume of retail sales



industry, seasonally adjusted, rose by 0.5 per cent in March - somewhat below recent monthly rises. The change over 12 months rose to 8.3 per cent in March from 7.2 per cent in February. The change between August of last year and March, largely associated with sterling's depreciation, was 8.0 per cent.

8. The **output price index for manufactured products, seasonally adjusted and excluding food, drink and tobacco,** rose by 0.2 per cent in March and by 2.6 per cent in the year to March. Its rise since August was 1.5 per cent. Recent movements in input and output prices are shown in chart 3.

9. The annual rise in underlying **whole economy average earnings** for Great Britain in February was four and a half per cent; down from the four and three quarter per cent of January. It has fallen from a peak of ten and a quarter per cent in July 1990. The underlying annual increases in February for manufacturing and services also fell, to five per cent and four and a quarter per cent respectively.

Labour market and productivity

10. **UK claimant unemployment**, seasonally adjusted, fell again in March by 26,000 to 2.941 million or 10.5 per cent of the labour force and recent changes are shown in Chart 4. The net average monthly rise in the six months to March was 16,600 compared to a rise of 32,200 a month in the previous six months.

11. **The number of employees in manufacturing industry** fell by 11,000 in February. Over the three months to February the average monthly fall was 17,000 compared to an average monthly fall of 22,000 in 1992.

Chart 3
Producer price indices for manufacturing

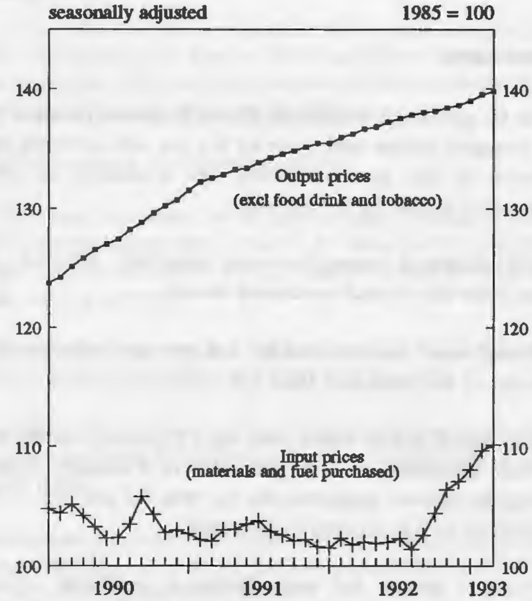
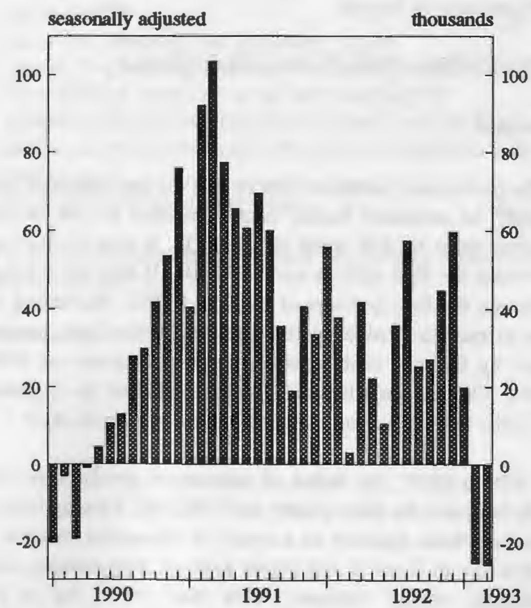


Chart 4
Changes in UK claimant unemployment



12. **Labour productivity in manufacturing** continues to rise. In the three months to February it was 7.2 per cent above its level of one year earlier. Lower growth of average earnings coupled with an acceleration of productivity

growth has resulted in a fall in **unit wage costs in manufacturing** of 2 per cent in the three months to February compared with one year earlier. Unit wage costs and productivity in manufacturing are described in Chart 5.

Chart 5
Labour productivity and unit wage costs in manufacturing

Balance of payments

13. In the first quarter of this year, the **non EC visible trade deficit** was £3.2 billion: the same as the deficit in 1992 Q4. In the first quarter, the **export volume of goods excluding oil and erratics to non-EC countries** was 5.3 per cent higher than in 1992 Q4. On the same basis, **imports** were 2.8 per cent higher.

14. In the first quarter of this year the **unit value of exports, excluding oil, to non-EC countries** was 6.1 per cent higher than in the preceding quarter. On the same basis, the **unit value of imports** was 5.6 per cent higher. These unit values are illustrated in Chart 6. The non-EC terms of trade, excluding oil, rose by 0.5 per cent in the first quarter compared to the final quarter of last year.

Monetary indicators

15. The annual growth of **M0**, seasonally adjusted, in March rose to 4.9 per cent from 4.5 per cent in February. The annual growth of broad money **(M4)** rose, provisionally, from 3.3 per cent in February to 3.6 per cent in March.

16. **Net lending to consumers**, narrower coverage, shows in Chart 7, another rise in net lending in the three months to February in contrast to the experience of late 1992.

Chart 6
Unit values for non-EC trade excluding oil

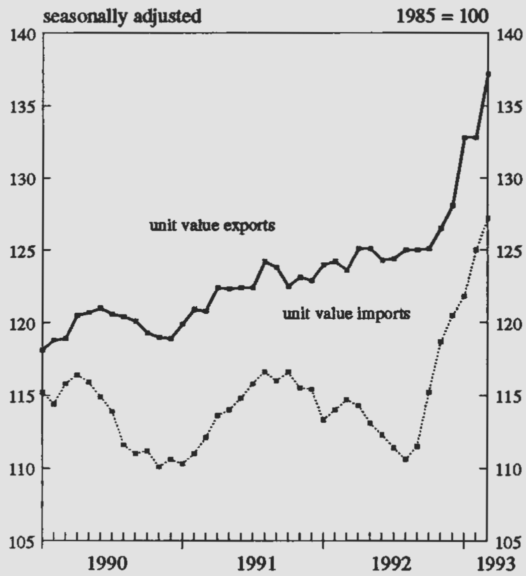
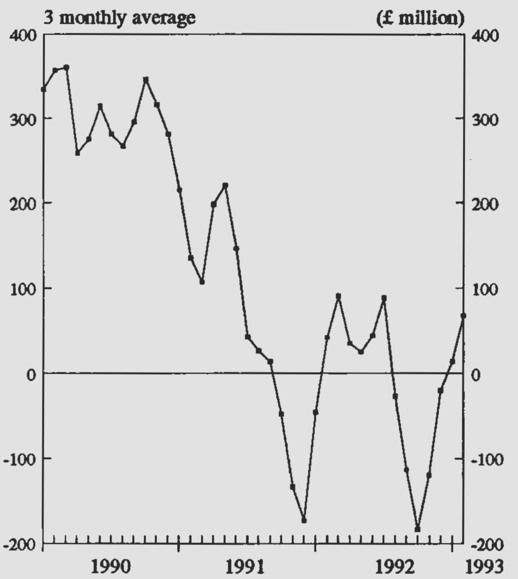


Chart 7
Net lending to consumers (narrow coverage)



Government finances

17. The **PSBR** was £9.5 billion in March. For 1992-93 the outturn was £36.5 billion - £1.4 billion higher than this March's budget estimate of £35.1 billion. It compares with an outturn of £13.8 billion in 1991-92.

INTERNATIONAL ECONOMIC INDICATORS

INTRODUCTION

The series presented here are taken from the Organisation of Economic Co-operation and Development's (OECD) Main Economic Indicators, except for the United Kingdom where several of the series are those most recently published. The series shown are for each of the G7 economies (United Kingdom, Germany, France, Italy, United States, Japan and Canada) and for the European Communities (EC) and OECD countries in aggregate. For countries other than the UK, the data are those available at 21 April 1993.

2. The length and periodicity of the series have been chosen to show their movement over a number of years as well as the recent past. There is no attempt here to make cross country comparisons across cycles. Further, because the length and timing of these cycles varies across countries, comparisons of indicators over the same period should be treated with caution.

COMMENTARY

3. Between the second and third quarters of last year, Gross Domestic Product (GDP) at market prices in the EC as a whole fell by 0.3 per cent compared with a rise of 0.2 per cent in the OECD overall. Between the third and fourth quarters of last year GDP rose by 0.3 per cent in the United Kingdom. It fell by 0.5 per cent in France and by 1.2 per cent in Germany, the third successive quarterly fall in the latter. In the same period, GDP in the United States continued its growth since early 1991 with a 1.2 per cent rise and GDP in Canada rose by 0.9 per cent. In Japan there were small falls in GDP during the last two quarters.

4. In the three months to February, industrial production rose by 1.5 per cent in the United States and 0.3 per cent in the United Kingdom compared with the previous three months. On the same basis industrial production fell by 5.3 per cent in Germany and by 2.8 per cent in Japan.

5. Consumer price inflation fell slightly in the United States from 3.2 per cent in February to 3.1 per cent in March. It remains around the levels recorded throughout 1992. Within the EC, between February and March, consumer price inflation remained constant at 4.2 per cent in Germany, rose from 2.1 per cent to 2.2 per cent in France and from 1.8 per cent to 1.9 per cent in the United Kingdom. It fell from 4.5 per cent to 4.2 per cent in Italy.

6. The standardised unemployment rate in the United States fell from 7.0 per cent to 6.9 per cent between January and February of this year and remained at 11.0 per cent in Canada; these levels are below those averaged for 1992. Within the EC the unemployment rate in Germany rose slightly from 5.2 per cent in December to 5.4 per cent in January. Between January and February unemployment rates rose from 10.5 per cent to 10.6 per cent in France and fell from 10.7 per cent to 10.6 per cent in the United Kingdom.

1 Gross domestic product at constant market prices: index numbers

1985 = 100

	United Kingdom	Germany[1]	France	Italy	EC	United States	Japan[2]	Canada	Major 7	OECD
	FNAO	GABI	GABH	GABJ	GAEK	GAEH	GAEI	GAEG	GAEO	GAEJ
1980	90.5	94.4	92.7	93.3	93.0	88.2	82.9	86.7	88.7	88.9
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	104.1	102.2	102.5	102.9	102.8	102.9	102.6	103.3	102.9	102.9
1987	109.1	103.6	104.8	106.1	105.8	106.1	107.1	107.6	106.2	106.3
1988	114.0	107.2	109.5	110.5	110.2	110.3	113.8	113.0	110.9	110.9
1989	116.4	111.5	114.0	113.7	114.1	113.0	119.3	115.6	114.5	114.5
1990	117.0	117.2	116.6	116.2	117.2	114.0	125.0	115.0	116.8	117.1
1991	114.4	121.4	117.9	117.9	118.8	112.6	130.0	113.1	117.3	117.8
1992	113.6	121.8	120.0	..	..	115.0	132.4	114.1	..	..
1990 Q1	117.9	115.0	116.4	115.7	116.8	114.3	122.6	116.2	116.4	116.7
Q2	118.2	116.2	116.3	115.7	117.0	114.6	124.6	115.6	116.9	117.2
Q3	116.5	118.2	117.0	116.8	117.6	114.1	125.9	114.9	117.1	117.4
Q4	115.3	119.2	116.7	116.7	117.6	112.9	127.1	113.6	116.7	117.1
1991 Q1	114.8	121.7	116.7	117.2	118.1	112.1	129.1	111.9	116.7	117.2
Q2	114.0	121.6	117.5	117.8	118.7	112.6	129.9	113.4	117.2	117.7
Q3	114.3	121.4	118.6	118.0	119.1	112.9	130.5	113.5	117.6	118.0
Q4	114.2	120.8	118.8	118.7	119.3	113.1	131.1	113.5	117.8	118.3
1992 Q1	113.6	123.1	119.7	119.4	119.6	113.9	132.5	113.6	118.6	119.0
Q2	113.4	122.9	120.1	119.7	119.6	114.3	132.5	113.7	118.9	119.3
Q3	113.6	121.3	120.5	118.9	119.3	115.3	132.0	114.0	119.1	119.5
Q4	114.0	119.8	119.9	..	..	116.6	131.8	115.0	..	..
Percentage change, latest quarter on corresponding quarter of previous year										
1992 Q3	*−0.6*	*−0.1*	*1.6*	*0.8*	*0.2*	*2.1*	*1.1*	*0.4*	*1.3*	*1.3*
Q4	*−0.2*	*−0.8*	*0.9*	..	..	*3.1*	*0.5*	*1.3*	..	..
Percentage change, latest quarter on previous quarter										
1992 Q3	*0.2*	*−1.3*	*0.3*	*−0.7*	*−0.3*	*0.9*	*−0.4*	*0.3*	*0.2*	*0.2*
Q4	*0.3*	*−1.2*	*−0.5*	..	..	*1.2*	*−0.2*	*0.9*	..	..

1 Western Germany (Federal Republic of Germany before unification)
2 GNP

2 Consumer prices[1]
Percentage change on year earlier

	United Kingdom	Germany[2]	France	Italy	EC	United States	Japan	Canada	Major 7	OECD
1980	18.0	5.5	13.6	21.0	13.7	13.5	8.0	10.1	12.7	13.7
1985	6.1	2.2	5.8	8.6	6.2	3.5	2.0	4.0	4.0	4.8
1986	3.4	−0.1	2.7	6.1	3.7	1.9	0.4	4.2	2.1	3.0
1987	4.2	0.2	3.1	4.6	3.4	3.6	−0.2	4.3	2.9	3.6
1988	4.9	1.3	2.6	5.0	3.6	4.1	0.5	4.0	3.3	4.3
1989	7.8	2.8	3.7	6.6	5.2	4.8	2.3	5.0	4.6	5.4
1990	9.4	2.7	3.4	6.0	5.6	5.5	3.1	4.8	5.0	5.8
1991	5.9	3.5	3.2	6.5	5.0	4.2	3.3	5.6	4.3	5.2
1992	3.7	4.0	2.3	5.3	5.5	3.0	1.6	1.5	3.1	4.1
1991 Q3	4.8	4.2	3.0	6.3	5.0	3.8	3.2	5.7	4.1	5.0
Q4	4.2	4.0	2.9	6.1	4.6	3.0	2.8	4.1	3.4	4.4
1992 Q1	4.1	4.3	3.0	5.6	5.9	2.9	1.8	1.7	3.1	4.2
Q2	4.1	4.5	3.1	5.5	5.9	3.1	2.3	1.4	3.3	4.2
Q3	3.6	3.4	2.7	5.3	5.2	3.1	1.6	1.3	3.0	3.9
Q4	3.0	3.6	2.1	4.8	4.9	3.0	0.7	1.7	2.8	3.7
1993 Q1	1.8	..	..	..	..	..	..	..	..	..
1992 Apr	4.3	4.6	3.1	5.4	5.9	3.2	2.4	1.7	3.3	4.4
May	4.3	4.6	3.2	5.6	6.0	3.0	2.0	1.4	3.2	4.2
Jun	3.9	4.3	3.0	5.4	5.6	3.1	2.2	1.1	3.2	4.1
Jul	3.7	3.3	2.9	5.4	5.3	3.2	1.5	1.3	3.1	4.0
Aug	3.6	3.5	2.7	5.2	5.3	3.1	1.6	1.2	3.0	4.0
Sep	3.6	3.6	2.6	5.1	5.3	3.1	2.0	1.3	3.0	4.0
Oct	3.6	3.7	2.5	4.8	5.1	3.2	0.9	1.6	2.9	3.9
Nov	3.0	3.7	2.1	4.7	4.9	3.0	0.4	1.7	2.7	3.7
Dec	2.6	3.7	2.0	4.7	4.8	2.9	0.9	2.1	2.8	3.6
1993 Jan	1.7	4.4	2.2	4.3	3.5	3.3	1.1	2.0	2.9	3.8
Feb	1.8	4.2	2.1	4.5	..	3.2	..	2.3	..	..
Mar	1.9	4.2	2.2	4.2	..	3.1	..	..	..	..

1 Components and coverage not uniform across countries
2 Western Germany (Federal Republic of Germany before unification)

3 Standardised unemployment rates: percentage of total labour force[1]

	United Kingdom	Germany[2]	France	Italy	EC[3]	United States	Japan	Canada	Major 7	OECD
	GABF	GABD	GABC	GABE	GADR	GADO	GADP	GADN	GAEQ	GADQ
1980	6.4	2.9	6.3	7.5	6.4	7.0	2.0	7.4	5.5	5.8
1985	11.2	7.1	10.2	9.6	10.8	7.1	2.6	10.4	7.2	7.8
1986	11.2	6.4	10.4	10.5	10.8	6.9	2.8	9.5	7.1	7.7
1987	10.3	6.2	10.5	10.9	10.6	6.1	2.8	8.8	6.7	7.3
1988	8.6	6.2	10.0	11.0	9.9	5.4	2.5	7.7	6.1	6.7
1989	7.1	5.5	9.4	10.9	9.0	5.2	2.3	7.5	5.7	6.2
1990	6.8	4.9	9.0	10.3	8.4	5.4	2.1	8.1	5.6	6.1
1991	8.7	4.4	9.5	9.9	8.7	6.6	2.1	10.2	6.3	6.8
1992	10.0	4.8	10.2	9.7	9.4	7.2	2.2	11.2	6.8	7.4
1991 Q2	8.6	4.4	9.4	10.0	8.6	6.6	2.1	10.3	6.3	6.8
Q3	9.1	4.5	9.7	9.6	8.8	6.7	2.1	10.3	6.4	6.9
Q4	9.3	4.4	9.9	9.9	8.9	6.9	2.1	10.3	6.5	7.0
1992 Q1	9.5	4.5	10.0	9.9	9.1	7.2	2.1	10.7	6.7	7.2
Q2	9.7	4.7	10.2	9.9	9.3	7.4	2.1	11.2	6.8	7.4
Q3	10.1	4.8	10.2	9.9	9.5	7.4	2.2	11.5	6.9	7.5
Q4	10.4	5.1	10.4	..	9.8	7.2	2.3	11.5	6.9	7.6
1992 Feb	9.6	4.4	10.2	–	9.1	7.2	2.0	10.6	6.7	7.2
Mar	9.5	4.5	10.1	–	9.1	7.2	2.0	11.1	6.7	7.3
Apr	9.6	4.6	10.2	9.9	9.2	7.2	2.0	11.0	6.7	7.3
May	9.7	4.7	10.2	–	9.3	7.4	2.1	11.1	6.8	7.4
Jun	9.8	4.7	10.2	–	9.3	7.6	2.1	11.5	7.0	7.5
Jul	10.0	4.8	10.2	9.9	9.4	7.5	2.2	11.5	6.9	7.5
Aug	10.2	4.8	10.2	–	9.5	7.5	2.2	11.5	6.9	7.5
Sep	10.3	4.9	10.3	–	9.6	7.4	2.2	11.3	6.9	7.6
Oct	10.3	5.0	10.4	9.9	9.7	7.3	2.3	11.3	6.9	7.6
Nov	10.4	5.1	10.4	..	9.8	7.2	2.3	11.7	6.9	7.6
Dec	10.6	5.2	10.5	..	9.9	7.2	2.4	11.4	7.0	7.7
1993 Jan	10.7	5.4	10.5	..	..	7.0	2.3	11.0	..	..
Feb	10.6	..	10.6	..	..	6.9	..	11.0	..	..

1 Uses an ILO based measure of those without work, currently available for work, actively seeking work or waiting to start a job already obtained
2 Western Germany (Federal Republic of Germany before unification)
3 Excludes Denmark, Greece and Luxembourg

4 Balance of payments current account as percentage of GDP

	United Kingdom	Germany[1,2]	France	Italy	United States[1]	Japan[1]	Canada
1980	1.2	–1.9	–0.6	–2.3	0.1	–1.0	–0.4
1985	0.8	2.6	–0.1	–0.9	–2.9	3.6	–0.4
1986	–	4.4	0.3	0.4	–3.1	4.3	–2.0
1987	–1.1	4.1	–0.6	–0.2	–3.2	3.6	–1.7
1988	–3.4	4.2	–0.5	–0.7	–2.6	2.7	–1.7
1989	–4.2	4.8	–0.5	–1.2	–2.0	2.0	–3.2
1990	–3.1	3.1	–0.8	–1.3	–1.7	1.2	–3.8
1991	–1.1	–1.2	–0.5	..	–0.1	2.1	–4.3
1992	–2.0	–1.4	..	..	..	..	..
1990 Q3	–2.0	0.6	–0.2	0.1	–1.7	1.0	–2.5
Q4	–2.2	0.5	–0.2	–0.3	–1.7	1.0	–3.5
1991 Q1	–2.0	–0.3	–0.4	–0.6	0.9	1.2	–5.3
Q2	–0.2	–0.4	–0.1	..	0.2	2.3	–3.7
Q3	–0.9	–0.4	–	..	–0.8	2.3	–3.5
Q4	–1.3	–0.1	–	..	–0.5	2.7	–4.9
1992 Q1	–2.0	–0.3	–0.2	..	–0.4	3.0	–5.6
Q2	–2.2	–0.4	0.1	..	–1.2	3.2	–3.8
Q3	–1.5	–0.5	0.1	..	..	..	..
Q4	–2.4	–0.3	..	..	..	..	..

1 Balance as percentage of GNP
2 Western Germany (Federal Republic of Germany before unification)

5 Total industrial production: index numbers

1985 = 100

	United Kingdom	Germany[1]	France	Italy	EC	United States	Japan[2]	Canada[3]	Major 7	OECD[4]
	DVIM	HFGA	HFFZ	HFGB	GACY	HFGD	HFGC	HFFY	GAES	GACX
1980	92.6	97.3	101.9	103.6	97.2	89.1	84.4	86.2	91.0	91.1
1985	100.0	100.3	100.0	100.0	100.1	100.0	100.0	100.0	100.0	100.0
1986	102.4	102.3	100.9	103.6	102.3	101.0	99.8	99.3	101.1	101.2
1987	105.7	102.6	102.8	107.6	104.7	105.9	103.3	104.1	104.8	104.9
1988	109.5	106.3	107.7	114.1	109.0	111.6	112.8	109.6	110.9	110.7
1989	109.9	111.4	112.1	117.6	113.1	114.5	119.6	109.2	114.6	114.6
1990	109.3	117.2	114.2	117.6	115.2	115.7	125.3	104.6	116.8	116.7
1991	106.1	120.7	114.1	115.4	115.1	113.4	128.2	100.3	116.2	116.1
1992	105.7	118.4	..	114.7	..	115.2	121.2	101.2	115.3	..
1991 Q1	106.6	121.2	113.3	117.0	115.1	112.0	128.9	99.4	115.8	115.8
Q2	105.2	121.9	114.1	114.7	115.0	112.7	128.2	100.4	115.9	115.9
Q3	106.3	120.6	115.3	114.3	114.9	114.6	128.5	101.2	116.7	116.6
Q4	106.2	119.1	113.8	115.6	114.9	114.4	127.3	100.3	116.3	116.2
1992 Q1	105.4	122.1	113.1	118.6	116.0	113.5	123.9	100.0	115.7	115.8
Q2	105.0	120.1	114.0	115.5	114.5	114.9	121.0	100.5	115.3	115.4
Q3	105.9	118.5	113.2	112.8	113.8	115.6	121.6	101.3	115.4	115.5
Q4	106.8	112.9	..	112.0	112.0	116.8	118.4	102.9	114.6	114.7
1992 Feb	106.2	123.1	113.7	119.6	116.8	113.6	124.7	100.3	116.1	116.2
Mar	105.2	121.3	113.2	119.2	115.7	114.0	121.6	100.5	115.4	115.5
Apr	105.7	120.5	115.2	112.6	114.6	114.5	121.5	100.8	115.2	115.3
May	104.6	120.5	113.4	117.7	114.8	115.4	119.4	100.5	115.3	115.4
Jun	104.6	118.8	113.7	115.4	114.1	114.9	122.0	100.4	115.3	115.4
Jul	105.8	118.5	113.7	116.1	114.8	115.9	122.9	100.0	116.0	116.2
Aug	105.7	118.4	113.7	110.6	113.1	115.6	118.2	101.9	114.6	114.7
Sep	106.1	118.4	114.0	111.1	113.5	115.4	123.7	102.0	115.7	115.7
Oct	107.3	115.5	114.6	113.9	113.7	116.2	120.4	102.0	115.4	115.6
Nov	106.5	113.2	109.6	114.6	111.6	116.9	118.1	102.8	114.6	114.6
Dec	106.4	110.1	108.3	107.6	110.7	117.4	116.8	103.5	113.9	114.0
1993 Jan	106.3	109.8	108.8	..	..	117.9	116.7	103.8	..	..
Feb	108.0	108.8	..	..	..	118.4	118.4	..	..	..
Percentage change: average of latest three months on that of corresponding period of previous year										
1993 Jan	*0.8*	*–7.2*	*–4.0*	..	..	*3.2*	*–7.3*	*3.6*	..	..
Feb	*1.2*	*–9.0*	..	..	..	*3.9*	*–6.5*	..	..	..
Percentage change: average of latest three months on previous three months										
1993 Jan	*0.1*	*–5.4*	*–4.6*	..	..	*1.4*	*–3.0*	*1.4*	..	..
Feb	*0.3*	*–5.3*	..	..	..	*1.5*	*–2.8*	..	..	..

1 Western Germany (Federal Republic of Germany before unification)
2 Not adjusted for unequal number of working days in a month
3 GDP in industry at factor cost and 1986 prices
4 Some countries excluded from area total

6 Producer prices (manufacturing) Percentage change on a year earlier

	United Kingdom	Germany[1]	France[2]	Italy	EC	United States	Japan	Canada	Major 7	OECD
1980	*14.1*	*7.1*	*9.2*	..	..	*13.5*	*14.7*	*13.3*	..	..
1985	*5.3*	*1.9*	*4.4*	*7.8*	*5.0*	*0.9*	*−0.8*	*2.8*	*1.9*	*3.0*
1986	*4.3*	*−2.4*	*−2.8*	*0.2*	*−0.8*	*−1.4*	*−4.7*	*0.9*	*−1.5*	*−1.1*
1987	*3.8*	*−0.4*	*0.6*	*3.0*	*1.3*	*2.1*	*−2.9*	*2.8*	*1.1*	*1.5*
1988	*4.5*	*1.6*	*5.1*	*3.5*	*3.5*	*2.5*	*−0.2*	*4.4*	*2.5*	*3.5*
1989	*5.1*	*3.4*	*5.4*	*5.9*	*5.1*	*5.1*	*2.1*	*1.9*	*4.4*	*5.4*
1990	*5.9*	*1.5*	*−1.1*	*4.2*	*2.3*	*5.0*	*1.6*	*0.3*	*3.4*	*3.9*
1991	*5.6*	*2.0*	*−1.3*	*3.3*	*2.3*	*2.1*	*1.0*	*−1.1*	*2.0*	*2.6*
1992	*3.8*	*1.6*	*−1.6*	..	*1.3*	*1.2*	*−0.8*	*0.5*	*0.7*	*1.8*
1991 Q2	*5.9*	*2.0*	*−0.7*	*3.8*	*2.7*	*3.5*	*1.7*	*−0.5*	*2.8*	*3.5*
Q3	*5.6*	*2.3*	*−1.5*	*3.1*	*2.2*	*1.9*	*1.0*	*−1.6*	*1.8*	*2.5*
Q4	*5.0*	*1.6*	*−3.6*	*2.0*	*1.1*	*−0.3*	*−0.1*	*−3.2*	*0.2*	*0.9*
1992 Q1	*4.5*	*1.7*	*−3.0*	*1.4*	*1.2*	*0.4*	*−0.8*	*−2.3*	*0.3*	*1.3*
Q2	*3.6*	*2.4*	*−1.1*	*2.1*	*1.8*	*1.3*	*−0.9*	*−0.2*	*0.9*	*1.9*
Q3	*3.4*	*1.4*	*−0.9*	*1.9*	*1.4*	*1.5*	*−0.8*	*1.6*	*1.1*	*2.1*
Q4	*3.3*	*1.0*	*−1.5*	..	*1.2*	*1.5*	*−1.1*	*3.2*	*1.0*	*2.1*
1992 Apr	*3.8*	*2.2*		*1.8*	*1.8*	*1.1*	*−0.9*	*−0.9*	*0.7*	*1.8*
May	*3.5*	*2.5*		*2.1*	*1.8*	*1.1*	*−0.9*	*−0.1*	*0.8*	*1.9*
Jun	*3.6*	*2.5*		*2.1*	*1.7*	*1.6*	*−1.0*	*0.4*	*1.1*	*2.0*
Jul	*3.6*	*1.6*		*1.9*	*1.6*	*1.7*	*−0.8*	*0.8*	*1.1*	*2.1*
Aug	*3.4*	*1.5*		*1.9*	*1.4*	*1.5*	*−0.9*	*1.6*	*1.0*	*2.0*
Sep	*3.4*	*1.2*		*1.9*	*1.3*	*1.6*	*−0.9*	*2.2*	*1.0*	*2.1*
Oct	*3.3*	*1.0*		*2.0*	*1.1*	*1.7*	*−1.1*	*3.0*	*1.1*	*2.2*
Nov	*3.3*	*1.0*		*2.2*	*1.2*	*1.3*	*−1.1*	*3.1*	*0.8*	*2.0*
Dec	*3.5*	*1.0*		..	*1.3*	*1.5*	*−1.2*	*3.6*	*1.0*	*2.2*
1993 Jan	*3.6*	*1.0*		..	..	*1.8*	*−1.1*	*4.0*	..	..
Feb	*3.7*	..		..	..	..	..	..	..	..
Mar	*3.7*	..		..	..	..	..	..	..	..

1 Western Germany (Federal Republic of Germany before unification).
2 Producer prices in intermediate goods

7 Total employment: index numbers[1]

1985 = 100

	United Kingdom	Germany[2,3]	France[3]	Italy	EC	United States[3]	Japan	Canada[3]	Major 7	OECD
	DMBC	GAAR	GAAU	GAAS	GADW	GADT	GADU	GADS	GAEU	GADV
1980	103.5	102	101.6	100	..	93	95	95	..	..
1985	100.0	100	100.0	100	100	100	100	100	100	100
1986	100.1	101	100.3	101	101	102	101	103	101	101
1987	101.9	102	100.6	100	102	105	102	106	103	103
1988	105.2	103	101.4	102	104	107	104	109	105	105
1989	107.8	104	102.7	101	106	109	106	111	107	107
1990	108.5	107	103.8	103	107	110	108	112	108	108
1991	105.6	109	103.8	104	107	109	110	110	108	108
1992	102.6	110	..	..	..	110	111	109	108	108
1991 Q2	105.9	109	104.2	104	107	109	111	111	109	109
Q3	105.1	109	104.1	105	108	110	111	113	109	109
Q4	104.3	110	103.3	104	107	109	110	109	108	108
1992 Q1	103.9	109	103.3	103	106	108	109	106	107	107
Q2	103.4	110	103.8	105	107	110	112	109	109	109
Q3	102.0	110	103.8	104	106	111	112	112	109	109
Q4	101.1	110	..	..	..	110	111	109	109	109
1992 Apr	..	110	–	105	107	109	111	106	108	108
May	..	110	–	–	107	110	112	110	109	109
Jun	..	110	103.8	–	107	111	112	112	109	109
Jul	..	109	–	104	106	112	112	113	109	109
Aug	..	109	–	..	106	111	111	113	109	109
Sep	..	110	103.8	..	106	110	112	110	109	109
Oct	..	110	..	..	107	110	112	110	109	109
Nov	..	110	..	..	..	110	112	109	109	109
Dec	..	109	..	..	..	110	111	108	109	108
1993 Jan	..	..	..	..	..	108	108	106	..	..
Percentage change, latest quarter on that of corresponding period of previous year										
1992 Q3	*−2.9*	*0.9*	*−0.3*	*−1.0*	*−1.9*	*0.9*	*0.9*	*−0.9*	*0.0*	*0.0*
Q4	*−3.1*	*0.0*	..	..	..	*0.9*	*0.9*	*0.0*	*0.9*	*0.9*
Percentage change latest quarter on previous quarter										
1992 Q3	*−1.4*	*0.0*	*0.0*	*−1.0*	*−0.9*	*0.9*	*0.0*	*2.8*	*0.0*	*0.0*
Q4	*−0.9*	*0.0*	..	..	..	*−0.9*	*−0.9*	*−2.7*	*0.0*	*0.0*

1 Not seasonally adjusted except for the United Kingdom
2 Western Germany (Federal Republic of Germany before unification)
3 Excludes members of armed forces

8 Average wage earnings in manufacturing[1] Percentage change on a year earlier

	United Kingdom[2]	Germany[3]	France	Italy	EC	United States	Japan	Canada	Major 7	OECD
1980	*17.8*	*6.5*	*15.2*	*18.7*	*12.1*	*8.6*	*7.5*	*10.9*	*10.4*	*9.1*
1985	*9.1*	*4.2*	*5.7*	*11.2*	*7.5*	*4.2*	*3.1*	*4.2*	*5.3*	*5.2*
1986	*7.7*	*4.0*	*3.9*	*4.8*	*5.0*	*2.0*	*1.4*	*3.0*	*3.0*	*4.0*
1987	*8.0*	*3.8*	*3.2*	*6.5*	*5.7*	*2.0*	*1.7*	*2.9*	*2.9*	*2.9*
1988	*8.5*	*4.6*	*3.1*	*6.1*	*5.4*	*2.9*	*4.6*	*3.8*	*4.7*	*4.7*
1989	*8.7*	*3.5*	*3.8*	*6.1*	*6.0*	*2.8*	*5.8*	*5.5*	*4.5*	*5.4*
1990	*9.4*	*5.1*	*4.5*	*7.2*	*7.3*	*3.6*	*5.4*	*5.2*	*5.2*	*5.8*
1991	*8.2*	*5.7*	*4.3*	*9.8*	*7.5*	*2.6*	*3.6*	*4.9*	*4.9*	*4.8*
1992	*6.6*	..	*3.6*	*5.4*	..	*2.6*	*1.4*	*3.9*	*3.9*	+
1991 Q2	*8.5*	*6.5*	*4.2*	*9.8*	*7.6*	*3.5*	*4.3*	*4.9*	*5.0*	*4.9*
Q3	*7.8*	*6.4*	*4.3*	*10.7*	*8.2*	*3.5*	*3.3*	*4.9*	*4.8*	*4.7*
Q4	*7.7*	*6.3*	*4.1*	*10.6*	*7.2*	*3.5*	*3.2*	*4.0*	*4.5*	*4.6*
1992 Q1	*8.6*	..	*3.6*	*9.2*	*7.2*	*2.6*	*2.5*	*3.9*	*4.2*	*4.9*
Q2	*6.0*	..	*3.8*	*6.0*	*5.6*	*2.6*	*2.4*	*3.9*	*4.0*	*4.7*
Q3	*6.1*	..	*3.5*	*3.8*	*4.8*	*1.7*	*1.0*	*3.1*	*3.1*	*3.8*
Q4	*5.7*	..	*3.6*	*2.9*	..	*1.7*	*0.2*	*3.1*	*2.2*	+
1992 Apr	*5.0*	..	*3.8*	*8.8*	*6.4*	*3.4*	*1.3*	*3.9*	*4.2*	*3.0*
May	*6.9*	..	..	*4.6*	*5.6*	*2.6*	*1.1*	*3.9*	*3.3*	*4.9*
Jun	*5.9*	..	..	*4.7*	*5.6*	*2.6*	*3.8*	*3.1*	*3.6*	*4.0*
Jul	*6.2*	..	*3.5*	*4.0*	*4.8*	*1.7*	*2.3*	*3.1*	*2.8*	*4.3*
Aug	*6.5*	..	..	*3.5*	*5.6*	*2.6*	*−1.5*	*3.9*	*2.4*	*3.1*
Sep	*5.7*	..	..	*3.7*	*4.8*	*2.5*	*1.4*	*3.1*	*3.3*	*3.5*
Oct	*6.2*	..	*3.6*	*4.1*	..	*1.7*	*1.5*	*3.9*	*3.3*	+
Nov	*5.6*	..	..	*2.1*	..	*1.7*	*1.5*	*3.1*	*3.2*	+
Dec	*5.4*	..	..	*2.4*	..	*2.5*	*−0.7*	*3.8*	*1.8*	+
1993 Jan	*5.0*	..	..	..	..	*2.5*	..	..	..	+
Feb	..	..	..	..	..	..	..	..	..	..

1 Definitions of coverage and treatment vary among countries
2 Figures for Great Britain refer to weekly earnings; others are hourly
3 Western Germany (Federal Republic of Germany before unification)

9 Retail Sales (volume): index numbers

1985 = 100

	United Kingdom	Germany[1]	France	Italy	EC	United States	Japan	Canada	Major 7	OECD
	FAAM	GADD	GADC	GADE	GADH	GADA	GADB	GACZ	GAEW	GADG
1980	86.3	103	101.0	83.1	94.7	83.3	103.2	83.6	89.6	90.4
1985	100.0	100	100.0	100.0	99.9	100.0	99.9	100.0	100.0	99.9
1986	105.2	104	102.4	106.8	104.4	105.7	101.5	104.6	104.6	104.5
1987	110.7	107	104.5	112.0	108.6	108.3	107.1	110.3	108.3	108.0
1988	117.7	111	108.0	109.5	111.7	112.3	112.2	114.6	111.9	111.7
1989	119.9	114	109.5	117.1	116.0	115.1	116.0	114.5	115.1	115.0
1990	120.4	124	110.1	114.4	119.2	115.4	121.8	112.0	116.8	116.9
1991	119.5	131	109.7	111.2	120.2	113.5	123.3	100.4	115.8	116.1
1992	120.3	128	108.9	..	..	117.6	..	101.4	..	..
1992 Q1	119.4	130	108.8	110.6	120.2	116.3	122.4	100.2	117.1	117.2
Q2	120.0	126	109.0	..	118.6	116.0	120.3	100.6	115.9	116.2
Q3	120.7	128	109.2	..	119.0	117.5	120.0	101.9	116.9	117.0
Q4	120.8	130	108.5	..	..	120.5	..	102.7	..	..
1992 Mar	118.8	127	104.8	111.2	118.0	115.4	118.1	99.6	115.3	115.4
Apr	119.7	128	111.2	..	118.5	115.8	120.9	100.6	115.7	116.3
May	120.0	127	108.0	..	118.6	116.1	119.6	100.1	115.8	116.1
Jun	120.2	125	107.7	..	118.7	116.0	120.4	101.1	116.1	116.3
Jul	119.8	127	109.2	..	118.3	117.3	121.5	101.2	116.7	116.9
Aug	120.9	126	108.8	..	120.2	117.2	119.4	102.0	117.2	117.2
Sep	121.2	130	109.8	..	118.6	118.0	119.0	102.5	116.8	117.0
Oct	121.5	127	110.7	..	118.1	120.4	116.5	102.8	117.8	117.6
Nov	121.5	129	105.2	..	118.7	119.7	115.4	102.7	117.4	117.1
Dec	120.1	133	109.6	..	..	121.3	..	102.7	..	..
1993 Jan	122.7	..	110.9	..	..	..	..	..	..	..
Feb	123.0	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on that of corresponding period of previous year										
1993 Jan	*1.4*	..	*−1.3*	..	..	..	..	..	..	..
Feb	*1.8*	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on previous three months										
1993 Jan	*0.2*	..	*−1.1*	..	..	..	..	..	..	..
Feb	*0.3*	..	..	..	..	..	..	..	..	..

1 Western Germany (Federal Republic of Germany before unification)

Chart I: Gross domestic product

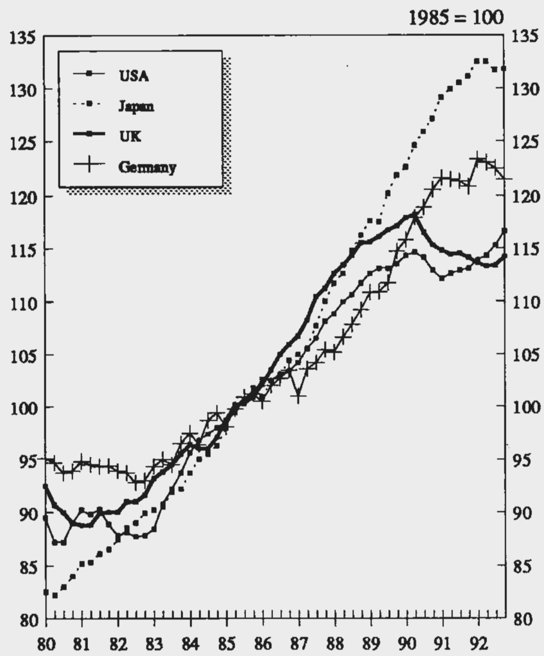


Chart II: Consumer price inflation

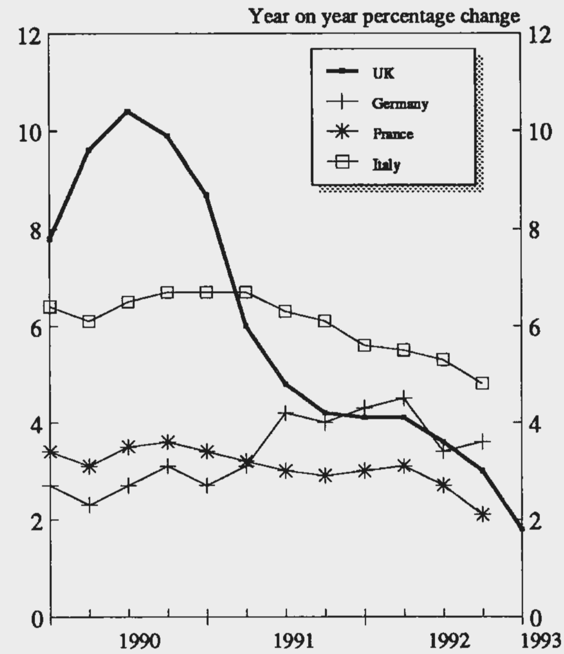
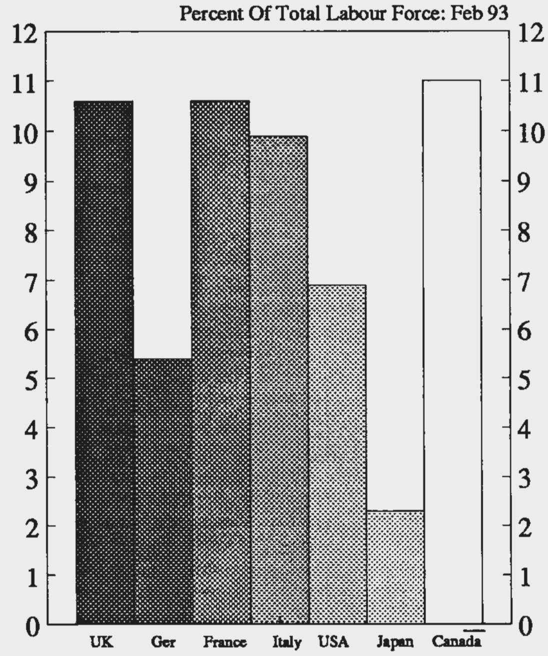


Chart III: Standardised unemployment



Germany and Japan refer to January

Italy refers to October

Chart IV: Current account balance - percentage of GDP at market prices

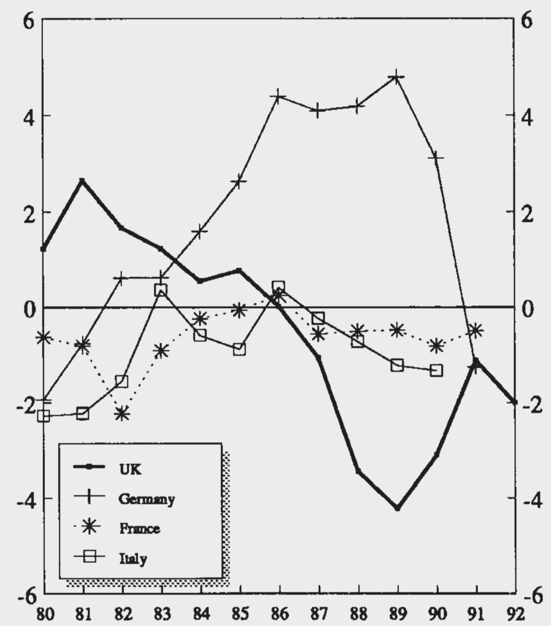


Chart V: Industrial production

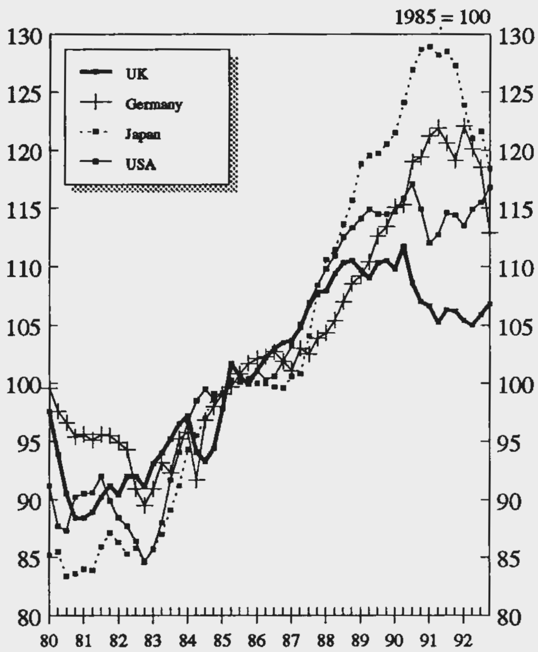


Chart VI: Producer price inflation

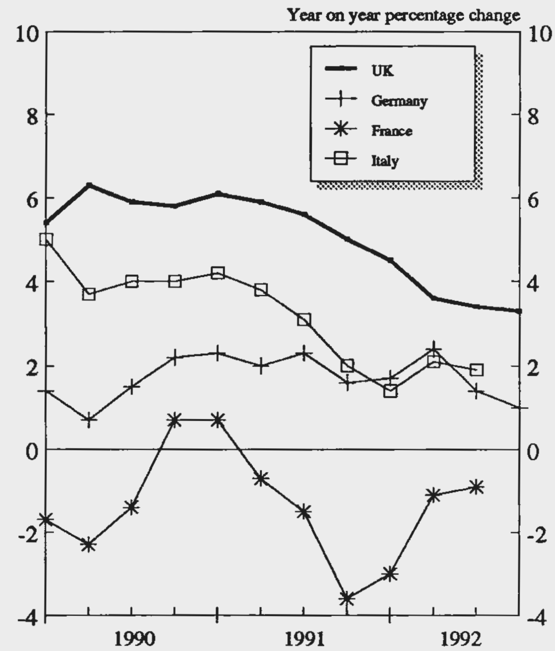


Chart VII: Employment

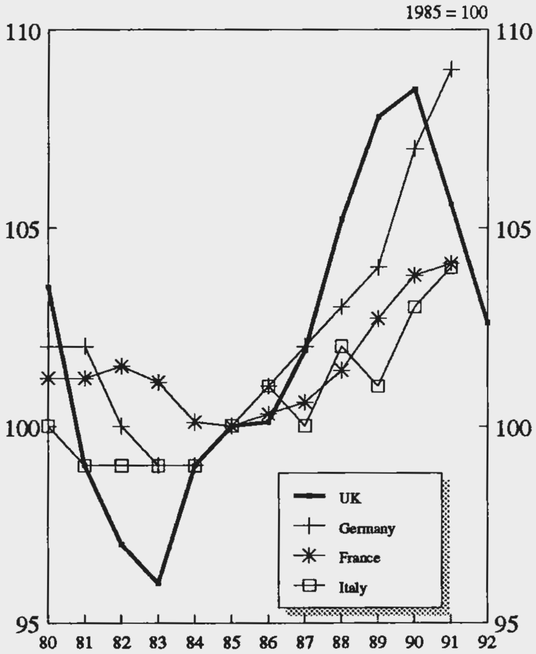
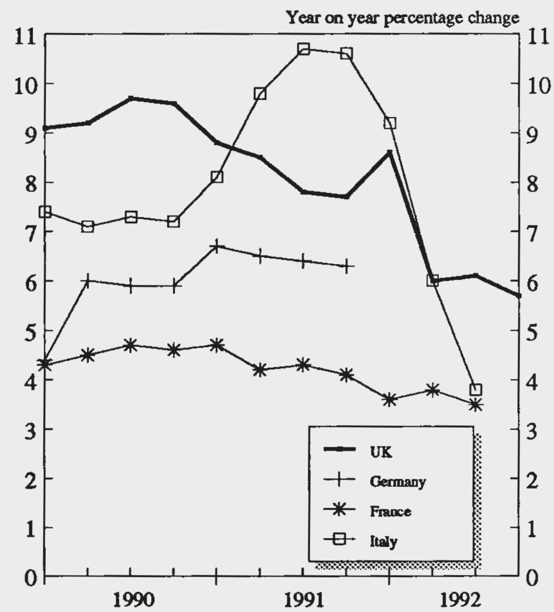


Chart VIII: Wage earnings (manufacturing)



The Budget: 16 March 1993

The following are the proposed changes in taxation and national insurance as set out in the *Financial Statement and Budget Report 1993-94* (HMSO March 1993) (Price £10.00).

Note: Figures in brackets refer to the appropriate line of the Direct effects of Budget measures table which follows the article, where the yield or cost of each proposal is shown. The symbol "-" in brackets means that the proposal has no effect; the symbol "*" in brackets means it has negligible revenue effects of less than £3 million a year.

Income tax

There will be no change to income tax allowances or the income limit for age-related allowances for 1993-94.

- Personal allowance £3,445;
- Married couple's allowance, additional personal allowance, widow's bereavement allowance £1,720;
- Blind person's allowance £1,080;
- For those aged 65 to 74:
  personal allowance £4,200;
  married couple's allowance £2,465;
- For those aged 75 and over:
  personal allowance £4,370;
  married couple's allowance £2,505;
- Income limit for age-related allowances £14,200.

The 20 per cent tax band will be widened from £2,000 to £2,500 for 1993-94, and by a further £500 to £3,000 for 1994-95. The basic rate limit is unchanged at £23,700. The new tax bands are:

Bands of taxable income(£)	1992-93	1993-94
Lower rate - 20 per cent	0-2,000	0-2,500
Basic rate - 25 per cent	2,001-23,700	2,501-23,700
Higher rate - 40 per cent	over 23,700	over 23,700

From 6 April 1994 tax relief for the married couple's allowance, and allowances linked to it, will be restricted to 20 per cent. The married couple's allowance for those aged 65 and over will be increased by £200.

Measures will be brought forward to simplify the assessment and collection of personal tax from 1996-97. The proposals, which were outlined in the Inland Revenue consultation paper "A Simpler System for Assessing Personal Tax" published in November 1992, offer the option of self-assessment to all who pay tax by assessment; apply the same rules for assessment and payment of tax to income from differenct sources; and simplify tax for the self-employed by assessing income for each year as it arises instead of on the "preceding year" basis.

Benefits and expenses

The car benefit scale charges will be increased by 8 per cent from 6 April 1993. From 6 April 1994 they will be replaced by a charge of 35 per cent of the list price of the car, with discounts for business mileage and for cars four or more years old. These scale charges are used for employers' national insurance contributions as well as income tax.

The scales for assessing the benefit of fuel provided by employers for private use in company cars will be increased by 20 per cent, and the reduction in the charge for 18,000 or more business miles a year will be abolished, from 6 April 1993. The scales are used for employers' national insurance contributions as well as income tax. The fuel scales for VAT will be similarly amended.

The existing charge on vans made available by employers for private use will be replaced from 6 April 1993 by a standard charge of £500 a year, or £350 if the van is four or more years old. Any benefit from a van weighing more than 3.5 tonnes will be exempt from tax.

The benefit-in-kind of workplace sports facilities will be exempt from tax from 6 April 1993(*).

There will be a ceiling of £8,000 per move on expenses and benefits which qualify for tax relief when paid or provided by employers as part of relocation packages. In future, relief will be available whether or not employees sell their old home. The relief will be put onto a statutory basis. Concessionary relief for payments made to help meet additional housing costs following a job related move will be withdrawn. The changes will apply to employees who start a new job on or after 6 April 1993, but there will be transitional arrangements to protect employees who are already committed to moving.

Outplacement counselling provided to redundant employees will be exempt from income tax with effect from 16 March 1993, and restrictions which in some cases prevent employers getting tax relief on the costs will be removed.

Housing

Tax relief on mortgage interest will be restricted to 20 per cent with effect from 6 April 1994. Relief will remain at 25 per cent for those aged 65 and over who take out a loan to by a life annuity.

The stamp duty threshold for transactions in land and property will be raised from £30,000 to £60,000 for instruments executed on or after 16 March 1993 and not stamped before 23 March 1993.

Borrowers will be entitled to mortgage interest relief where, on or after 16 March 1993, a lender substitutes a borrower's new home for a previous home as security for a loan. Under present law, relief is available only if the new home is bought with a new loan(*).

Temporary relief for mortgage interest will be extended to:

- borrowers who move out of their home without taking out a loan to buy a new home, provided the property is put up for sale(*);
- elderly people who move out of a property used as security for a loan which is used to buy an annuity, provided that the property is put up for sale(*).

These changes will apply to mortgage interest paid on or after 16 March 1993.

Two further minor changes to the tax treatment of housing are:

- new rules will be introduced for stamp duty on property purchased under the rent to mortgage and rent to loan schemes being created by the Housing and Urban Development Bill(*);

- Inland Revenue will be given clear statutory authority to recover amounts overclaimed by MIRAS lenders, together with appropriate interest and penalties, with effect from Royal Assent(*).

Savings and financial services
Business Expansion Scheme tax relief will no longer be available to individuals who obtain loans which are connected in any way with shareholdings they acquire through the scheme. This applies for shares issued on or after 16 March 1993.

The maximum level of earnings for which pension provision may be made with tax relief will remain at £75,000(*).

A new scheme will be introduced to replace the special reserve fund and enable Lloyd's underwriters to build up a tax-free reserve to meet losses. Gains on assets representing invested premiums will be chargeable as trading profits rather than to capital gains tax. The tax treatment of certain reliefs and expenses will be simplified.

Two minor measures are:

- repayments to friendly societies for their non-pension exempt business will be put onto a statutory basis(-);
- a number of minor amendments will be made to the administrative rules for Personal Equity Plans(-).

Charities
The minimum size of single donations to charities which qualify for relief under the Gift Aid scheme will be reduced from £400 to £250 from 16 March 1993.

The annual limit on charitable donations qualifying for income tax relief under the payroll giving scheme will be raised from £600 to £900 from 6 April 1993(*).

Tax relief for voluntary contributions by an employer towards costs incurred by a charitable agency in running a payroll giving scheme will be put onto a statutory basis(-).

Residence rules
The rule under which someone who has accommodation available for use in the UK is considered resident for tax purposes for any year in which they visit the UK, will be abolished. This applies to income and capital gains tax and takes effect from 6 April 1993.

Taxation of dividends
The value of tax credits attached to dividends paid after 5 April 1993 will be reduced from 25 per cent to 20 per cent. The income tax charge on dividends will be reduced from the basic rate of 25 per cent to the lower rate of 20 per cent. This means that basic and lower rate taxpayers will have no more tax to pay on their dividends, and no part of the tax credit will be payable to lower rate taxpayers. Higher rate taxpayers will continue to be liable at the higher rate of 40 per cent, of which 20 per cent will be met by the tax credit. Charities with dividend income will be able to claim special payments for a four year period to ease the transition to the new lower rate of tax credits.

The rate of advance corporation tax (ACT) will be reduced from 25 per cent to 22 $^1/_2$ per cent for 1993-94 and to 20 per cent from 1994-95.

Business taxation
A consultative document is being issued with a view to legislation in 1994 on a proposal which would allow companies to reclaim surplus ACT which arises from certain dividends paid out of foreign income which has borne foreign tax. The Government intends in any event to legislate in 1994 for such a scheme for international headquarters companies.

The tax treatment of foreign exchange gains and losses will be reformed so that gains and losses on all monetary assets and liabilities will be taxed or relieved as income as they accrue. The date for implementation of these changes will be announced in due course(*).

A number of changes will be made to limit the scope for tax avoidance:

- interest accruing after 31 March 1993 which is payable within multinational groups on certain loans and other forms of debt will become chargeable to tax as it accrues rather than when it arises;
- group companies will no longer be able to set certain capital losses against capital gains where the losses arise outside the group and are brought in by a company joining the group. This will apply to disposals on or after 16 March 1993, where a company joined the group after 31 March 1987;
- where there is a change in company ownership, in certain circumstances it will no longer be possible to set off ACT paid after the change against corporation tax paid before it;
- UK companies which control foreign companies will (subject to certain exclusions) be liable to UK tax on the profits of the foreign company arising on or after 16 March 1993 where the overseas tax paid by that foreign company is less than three-quarters (previously one half) of the tax that would be payable if it were resident in the UK;
- the capital allowance provisions for connected persons will be extended to qualifying hotels, commercial buildings in enterprise zones and scientific research assets, and will be amended so that elections are available only where both parties are entitled to capital allowances(*);
- the provisions which limit capital allowances for assets leased overseas will be amended to ensure that they operate as originally intended(-);
- the basis on which contributions by employers to approved occupational pension schemes may be allowed for tax purposes will be clarified, with effect from 6 April 1993(-);
- changes will be made, with effect from 16 March 1993, to the capital gains rules applying to exchanges of shares and securities under company takeovers, reconstructions and reorganisations of share capital(*).

European Community (EC) agricultural quotas for ewe and suckler cow premiums will qualify for rollover relief from 1 January 1993. Other qualifying assets may be introduced in future by Treasury Order.

Other changes are:

- the period for which businesses can claim relief for costs incurred before trading begins will be extended from five to seven years. Relief will also be extended to trade related charges paid by companies, and costs of preparing waste disposal sites, incurred before trading begins(*);

- some improvements will be made to the Pay and File rules which come into force on 1 October 1993, including provision for a wider range of people to sign company returns(*).

- the capital gain chargeable to tax when a company grants a share option to an employee under an approved scheme will be limited to the amount, if any, actually paid for the option by the employee(*).

- the rules for the recovery of under-deductions of PAYE by Government departments will be brought into line with those for the private sector from 1993-94(*).

Oil taxation
The rate of petroleum revenue tax (PRT) will be reduced from 75 per cent to 50 per cent from 1 July 1993, and PRT will be abolished for fields which get development consent on or after 16 March 1993. Subject to transitional arrangements, spending on exploring for and appraising new fields may no longer be set against PRT arising from existing fields. Similar changes will be made for future development costs in fields for which PRT has been abolished. The special PRT allowance for tariff receipts will not be given when tariffs are paid from a new non-PRT field.

Double taxation relief will be made available to reduce a PRT liability on certain non-oil production receipts.

Capital gains tax
The capital gains tax annual exempt amount will remain at £5,800 for individuals and £2,900 for most trusts.

Entrepreneurs who sell shares in their own company will not be liable to capital gains tax when the gains are reinvested in unquoted shares in other qualifying trading companies. This takes effect from 16 March 1993.

The capital gains tax retirement relief provisions will be changed to relax the shareholding condition to a single 5 per cent test and allow full-time working employees, as well as directors, to qualify for the relief. This takes effect from 16 March 1993.

Inheritance tax
The threshold for inheritance tax will remain at £150,000.

Some minor changes will be made to inheritance tax:

- the three year period after death during which land and buildings may be sold and the sale price substituted for the value at death, will be extended to four years for sales from 16 March 1993(*);

- where an estate contains investments with quotations that have been suspended within a year after death, the investment, if unsold, may be valued for inheritance tax purposes at the value one year after death. This will apply where the death occurred on or after 16 March 1992(*);

- in inheritance tax appeals, the Special Commissioners will be given powers to refer questions about the value of land to the Lands Tribunal(-).

Value added tax
VAT will be charged on domestic fuel and power at 8 per cent from 1 April 1994 and at the full standard rate from 1 April 1995.

The turnover threshold above which traders are required to register for VAT will rise from £36,600 to £37,600 from 17 March 1993, in line with the increase in the RPI in the year to December 1992. The deregistration threshold will rise from £35,100 to £36,000 from 1 May 1993(*).

All major VAT penalties on late returns and misdeclarations will be reformed during 1993. The reforms are the outcome of reviews announced by the Chancellor in his 1991 and 1992 Budgets and consultation with traders.

Traders will be able to claim VAT relief on bad debts after six months rather than a year, from 1 April 1993.

More small businesses will be able to benefit from the cash accounting scheme, under which VAT is handled on the basis of cash paid and received rather than invoiced. The turnover limit below which firms may join the scheme is being increased from £300,000 to £350,000 a year from 1 April 1993; and businesses will no longer have to make a written application to Customs and Excise to join.

There are a number of minor changes to VAT:

- new arrangements are being introduced to simplify the taxation of so called "triangular" transactions involving traders located in different EC member states from 1 August 1993(-);

- the VAT relief on samples is to be simplified and widened to help businesses provide samples, with effect from Royal Assent(*). This will help the music industry in particular;

- a scheme is being introduced to extend the number of horse owners eligible for VAT registration(*);

- for the second year of the Payments on Account scheme starting in October 1993, businesses are to be included on the basis of their VAT liabilities in 1992-93. Under this scheme certain large businesses are required to make a monthly payment on account towards their quarterly VAT bills(*);

- a special scheme covering gold sales between registered traders will be introduced from 1 April 1993, to minimise the increased scope for fraud arising from the introduction of the single market(*);

- the law on input tax will be clarified to ensure that businesses only reclaim VAT on goods and services purchased for making taxable supplies, with effect from Royal Assent(*);

- controls will be introduced, with effect from Royal Assent, to protect VAT and customs duty on vehicles brought into the UK. The previous controls lapsed when car tax was abolished in November 1992(-);

- all training, including work experience, provided under Government funded training programmes will be exempt from VAT from 1 April 1993. This widens an existing exemption for certain training;

- the zero-rating on certain protective boots and helmets approved by the British Standards Institution will be extended to similar products meeting the equivalent EC safety standards(*);

- parts and equipment for some ships and aircraft, other than those used for recreational purposes, will be zero-rated from 1 April 1993(*).

Excise duties
Most excise duties will rise from 6pm on 16 March 1993. The duty on spirits is not being increased. The change in duty and its effect on the price of each product is set out below:

Excise duty changes

	Rise in duty (per cent)	Effect on price of typical item (pence)	Unit	
Alcohol				
Beer	5	$1\frac{1}{2}$	Pint	(35)
Wine	5	$5\frac{1}{2}$	75cl bottle	(36)
Sparkling wine	5	9	75cl bottle	(36)
Sherry and port	5	$9\frac{1}{2}$	75cl bottle	(36)
Cider and perry	5	$\frac{1}{2}$	pint	(37)
Spirits	0			(38)
Mineral Oils				
Unleaded petrol	10	2.7	litre	(39)
Leaded petrol	10	3.3	litre	(39)
Derv	10	2.7	litre	(39)
Gas oil and fuel oil	10	0.1	litre	(41)
Tobacco				
Cigarettes	†	10	pkt of 20	(43)
Cigars	$6\frac{1}{2}$	$4\frac{1}{2}$	pkt of 5 (small)	(43)
Hand rolling tobacco	$6\frac{1}{2}$	$13\frac{1}{2}$	25 grams	(44)
Pipe tobacco	$6\frac{1}{2}$	$5\frac{1}{2}$	25 grams	(44)

† Specific duty increased by 10 per cent. Ad valorem duty reduced by 1 percentage point to 20 per cent.

The duty on road fuels will be raised on average by at least 3 per cent in real terms in future Budgets. This will encourage more efficient use of fuel and reduce emissions of carbon dioxide. Developments in charging for road use will be taken into account in determining the appropriate level of duty.

The National Lottery, which is due to start in 1994, will be taxed at a rate of 12 per cent of gross stakes.

Most rates of gaming machine licence duty will be increased by 20 per cent from 1 May 1993, except for the duty on small prize machines costing less than 5p per play which is unchanged and will be abolished from 1 November 1993. The exemption limit for fairground bingo will be increased to £25 from 5 April 1993(*).

Hydrocarbon oil duties will be extended to all fuel substitutes including orimulsion (a fuel oil substitute), rapeseed diesel and certain motor fuel additives from shortly after Royal Assent.

The definition of hand rolling tobacco will be revised from Royal Assent. This is to stop pipe tobacco, which has a lower rate of duty, being marketed for rolling into cigarettes(*).

Vehicle excise duties

Duty on cars, light goods vehicles, vans and taxis will rise from £110 to £125 from 17 March 1993. A range of minor rates, including those applying to motorcycles, trade licences, and small lorries, are increased by a similar percentage.

The rate for special type vehicles will be increased to £4,250 from 17 March 1993, and to £5,000 from Budget day in November 1993(*). Concessionary rates for vintage motorcycles will be simplified(-). Other VED rates, including the majority of those for lorries, are unchanged.

Business rates

England and Wales

Rate bills for properties in England and Wales which are in transition to higher bills as a result of the 1990 reforms will not increase in real terms in 1993-94. This change will reduce the total rates bill in England and Wales by 2.6 per cent. Bills will rise in line with the uprating of business poundages already announced in November 1992 which is based on the rise in the RPI in the year to September 1992 (3.6 per cent).

Scotland and Northern Ireland

Scotland and Northern Ireland have different arrangements for business rates but their total rates bill for 1993-94 will also be reduced by 2.6 per cent.

National insurance contributions

From 1 April 1994 the main rate of employees' national insurance contributions will be increased by 1 percentage point to 10 per cent and the Class 4 rate of contributions for the self-employed will be increased by 1 percentage point to 7.3 per cent.

Direct effects of the Budget measures

	£million	yield(+)/cost (-) of measure		
	Changes from a non-indexed base	Changes from an indexed base		
	1993-94	1993-94	1994-95	1995-96
INLAND REVENUE				
Income tax				
1 Allowances-unchanged	-	550	750	780
2 Lower rate band-increased to £2 500 for 1993-94	-370	-300	-390	-400
3 Basic rate limit - unchanged	-	110	170	180
4 Married couple's allowance-restricted to 20 per cent etc	-	-	910	1 170
5 Lower rate band - increased to £3000 for 1994-95	-	-	-320	-450
6 Mortgage interest relief-restricted to 20 per cent	-	-	820	870
7 Car scales-up 8 per cent	100	100	110	110
8 Fuel scales-up 20 per cent and mileage discount abolished	65	65	70	70
9 Car scales-price based charge from 1994-95	-	-	35	80
10 Company vans-new standard charge	10	10	35	30
11 Relocation expenses-reformed	-	-	200	200
Income tax and corporation tax				
12 Taxation of dividends	-100	-100	100	900
13 Payments treated as interest	-	-	75	100
14 Capital losses-restricted for group companies	*	*	100	100
15 Gift Aid-limit reduced	-20	-20	-30	-30
16 Outplacement counselling-exempted	-10	-10	-10	-10
Income tax and capital gains tax				
17 BES-"loan-linked" investments abolished	20	20	100	50
18 Lloyd's underwriters-changed tax treatment	*	*	*	-5
19 Available accommodation rule-abolished	*	*	-10	-10
Corporation tax				
20 Surplus ACT-use restricted	50	50	150	150
21 Controlled foreign companies	-	-	35	50
Corporation tax and capital gains tax				
22 Rollover relief for ewe and suckler cow premiums	*	*	-5	-5
Oil taxation				
23 Petroleum revenue tax-reformed	-	-	300	400
Capital gains tax				
24 Annual exempt amount-unchanged	-	-	5	5
25 Relief for gains in a personal company	*	*	-20	-30
26 Retirement relief-changed	*	*	-10	-20
Inheritance tax				
27 Threshold-unchanged	-	10	25	35
Stamp duties				
28 Land and property-threshold increased	-220	-220	-270	-265
TOTAL INLAND REVENUE	**-475**	**265**	**2925**	**4055**

- = *Nil*
* = *Negligible*

Direct effects of the Budget measures - *continued*

	£million	yield(+)/cost (-) of measure		
	Changes from a non-indexed base	Changes from an indexed base		
	1993-94	1993-94	1994-95	1995-96
CUSTOMS AND EXCISE				
Valued added tax				
29 VAT on domestic fuel and power	-	-	950	2 300
30 Reform of VAT penalties	-50	-50	-75	-75
31 VAT relief on bad debts	-150	-150	-	-
32 Cash accounting threshold raised	-5	-5	-5	-
33 Relief for Government funded training	-25	-25	-25	-25
34 VAT fuel scale charge up 20 per cent	25	25	35	35
Excise duties on:				
35 beer up 5 per cent	100	45	60	65
36 wine and made-wine up 5 per cent	20	10	15	15
37 cider and perry up 5 per cent	5	*	*	*
38 spirits unchanged	-	-25	-25	-25
39 petrol and derv up 10 per cent (net of car tax recoupment)	380	90	120	70
40 petrol and derv up 3 per cent in real terms in future Budgets	105	105	520	950
41 gas oil and fuel oil up 10 per cent	15	10	10	10
42 fuel substitutes-coverage extended	5	5	5	5
43 cigarettes-specific duty up 10 per cent, ad valorem duty down 1 percentage point	360	230	280	290
44 other tobacco products up $6^{1}/_{2}$ per cent	25	15	15	20
45 most gaming machine licences up 20 per cent	15	15	20	20
46 Lottery duty set at 12 per cent	-	-	*	*
47 Other minor measures	-	-	-	-
TOTAL CUSTOMS AND EXCISE	**825**	**295**	**1900**	**3655**
Vehicle excise duty				
48 Duty on cars etc up to £125	380	310	320	330
49 Freeze most lorry rates	5	-10	-10	-10
TOTAL VEHICLE EXCISE DUTY	**385**	**300**	**310**	**320**
Business rates				
50 No real increases under transitional arrangements	-370	-370	-260	...
TOTAL BUSINESS RATES	**-370**	**-370**	**-260**	**...**
National insurance contributions				
51 1 percentage point increase in employees' main rate	-	-	1750	2100
52 1 percentage point increase in self-employed Class 4 rate	-	-	40	110
53 Changes to car and fuel benefit scales	-	-	60	65
TOTAL NATIONAL INSURANCE CONTRIBUTIONS	**0**	**0**	**1850**	**2275**
TOTAL	**365**	**490**	**6725**	**10305**

- = Nil
** = Negligible*
... = Not applicable

This annex explains how the effects of Budget measures on tax yield are calculated.

The general approach
The direct effect of a tax change is the difference between the tax yields obtained by applying the post-Budget tax regime and the pre-Budget tax regime to the levels of income, profit etc expected after the Budget.

Since total income and total spending at factor cost are fixed at their post-Budget levels, the estimates of direct effects do not include any effect the tax changes themselves may have on levels of income and spending.

Other effects on behaviour are taken into account where they are likely to have a significant effect on the yield. For example, changes to excise duties influence the pattern of consumer spending.

The estimates take account of any consequential changes in receipts from related taxes. For example, the estimated yield from increasing the excise duty on tobacco includes the change in the yield of VAT on that duty, but also the change in VAT and other excise duties resulting from the new pattern of spending.

The direct effect of some tax changes is affected by the implementation of others. Where this happens, measures are costed in the order in which they appear in the previous table.

In the first column of the table the pre-Budget regime is simply the regime of allowances, thresholds and rates of duty which applied in 1992-93.

The remaining three columns strip out the effects of inflation on the tax system by assuming that allowances, thresholds and rates of duty are increased in line with prices in this and in future Budgets. Measures announced in this Budget are assumed to be indexed in the same way in future Budgets.

The move to a November Budget
This year the estimates need to take account of the fact that the normal date of the Budget is being brought forward from March to November. In line with the Chancellor's decisions on indexation provisions and the timing of tax changes, the following assumptions are made in calculating the indexed base:

- **March 1993 Budget**: allowances, thresholds and rates of duty raised in line with the increase in the RPI over the year to December 1992 (2.6 per cent);

- **November 1993 Budget:** allowances and thresholds raised in April 1994 in line with an assumption for the increase in the RPI over the year to September 1993 (2 per cent). Rates of excise duty rise on Budget day (1 January 1994 for alcohol) in line with the assumed increase in the RPI over nine months to September 1993 (2 per cent). (This assumption for excise duties also applies to the first column of the table.)

- **November 1994 Budget:** excise duties rise on Budget day (1 January 1995 for alcohol) and allowances and thresholds in April 1995 in line with the assumed increase in the RPI over 12 months to September 1994 ($3^{3}/_{4}$ per cent).

- **November 1995 Budget:** rates of excise duty rise on Budget day (1 January 1996 for alcohol) in line with the assumed rise in the RPI in the year to September 1995 ($3^{1}/_{4}$ per cent).

The RPI assumptions for the November 1993, 1994 and 1995 Budget are stylised figures compatible with the projections of the RPI excluding mortgage interest payments shown in Chapters 2 and 3, on the assumption that interest rates remain unchanged at current levels.

Notes on individual Budget measures

Inland Revenue taxes

1, 3 Under statutory indexation the allowances and limits would have risen by 2.6 per cent.

6 Assumes interest rates are unchanged from current levels. There will also be a reduction in public spending of £80 million in 1994-95 and £90 million in 1995-96 on mortgage interest relief for borrowers who are non-taxpayers or liable only at the lower rate of income tax.

9 Assumes average list prices of cars will increase by 3 per cent a year. The new charge would produce the same yield in 1993-94 as the 1993-94 scale charges.

10 Yield under the current system is estimated at about £5 million a year. Part of the 1994-95 yield is delayed receipt of tax for 1993-94. The 1995-96 yield assumes about 350,000 vans will be taxable in 1995-96.

12 The estimates of revenue effects assume levels of dividends are unaffected, and include the fall in ACT payments by companies, the fall in tax credits paid to non-taxpayers and exempt institutions, the extra income tax payments by higher rate taxpayers and discretionary trusts and the increase in companies' mainstream corporation tax payments. The yield of the changes after 1995-96 is expected to be about £1 billion per year.

14 The yield represents the estimated direct effect of the measure on the existing level of capital loss buying activity. Without this measure there could be a more significant loss of tax in the future.

18 These proposals will not affect receipts significantly before 1995-96 and are expected to be broadly revenue neutral over a period.

20, 21 The yields represent the estimated direct effect of the measures on the existing level of activity. Without these measures there could be a more significant loss of tax in the future.

23 The figures allow for effects on corporation tax receipts and estimates of the effects of the reform on North Sea activity.

24, 27 Under statutory indexation, the capital gains tax annual exempt amount and the inheritance tax threshold would have risen by 2.6 per cent.

Customs and Excise taxes

35-45 The effect of moving the Budget date from March to late November is to reduce yield from excise duties in 1993-94 by about £100 million. This is because there is usually a rise in clearances of excise goods before the Budget and a fall afterwards. 1993-94 will include two post-Budget dips, and this will depress receipts over the year as a whole. This is taken into account in the forecast, but not scored as a Budget measure.

39 These figures show the increased yield from road fuel duties which goes beyond what is required to recoup the cost of car tax abolition announced in the Autumn Statement.

46 Duty from the lottery will be broadly offset by reductions in receipts from betting and other taxes on spending.

47 The Finance Bill will include a number of minor measures which individually and collectively have no revenue effect:

- measures to end the refund of duty on beer returned to bond following the introduction of the new beer end product on 1 June 1993;

- a revised definition of beer;

- a provision to tax any wine in bottles with mushroom stoppers as sparkling wine irrespective of pressure;

- reducing the maximum permitted level of fortification of wine from 23 per cent alcohol by volume to 22 per cent. This brings it into line with the maximum level permitted for made wine which was increased from 18.3 per cent to 22 per cent on 1 January 1993;

- taxing all alcoholic drinks over 22 per cent alcohol by volume at the spirits duty rate;

- an anti-avoidance measure to ensure that the correct rate of duty is paid on blended drinks;

- allowing imported spirits denatured to the requirements of other EC member states to benefit from the duty exemption for methylated spirits denatured to UK requirements;

- to levy hydrocarbon oil duties on volumes calculated at a standard temperature of 15 degrees Celsius rather than the ambient temperature;

- to extend the existing provisions in EC directives for mutual assistance and mutual recovery of VAT and customs duties to excise duties;

- existing arrangements for refunding duty on beer exported to the Isle of Man are to be repealed when agreement is reached between the UK and the Isle on Man Government on making beer duty a shared revenue.

Vehicle excise duties
48 Includes changes to motorcycles and other minor rates.

Business rates
50 The cost in 1995-96 is not known since it will depend on the transititional arrangements, if any, introduced following the 1995 revaluation.

National insurance contributions
52 Takes account of the fact that half of Class 4 NIC charges can be offset against self-employment income charged to income tax.

The economy: recent developments and prospects to mid-1994

The following notes and tables are taken from the *Financial Statement and Budget Report 1993-94* (HMSO March 1993) (Price £10.00).

Summary

World economy

Since last summer, activity has fallen sharply in continental Europe and Japan, but there has been a stronger than expected recovery in the USA. GDP in the major seven (G7) economies is estimated to have increased by 1½ per cent in 1992. Activity in Europe and Japan is likely to remain weak, and G7 GDP growth may be no more than 1½ per cent again in 1993. With plenty of spare capacity, G7 inflation is forecast to remain below 3 per cent.

UK activity

GDP was somewhat stronger in the second half of 1992 than anticipated in the Autumn Statement, rising by ¼ per cent on the first half. While non-oil GDP fell by ½ per cent in 1992 as a whole, it was broadly flat over the year to the fourth quarter. There remain considerable uncertainties and a wide range of views about the prospects for 1993. The forecasts from the Panel of Independent Forecasters range from growth of ¼ to 2 per cent with an average of a little above 1 per cent.The Treasury forecast is very similar,at 1¼ per cent, ¼ percentage point more than in the Autumn Statement reflecting the higher than expected level of GDP in the second half of 1992. Growth is projected to pick up through the year, reaching 3 per cent in the year to the first half of 1994 (2¼ per cent non-oil).

Demand

In the Treasury forecast the recovery is expected to come both from an increase in domestic demand, principally consumer spending, and exports. Trade performance improves significantly on 1992, although net trade makes virtually no contribution to GDP growth because imports rise as domestic demand increases.

Inflation

Further progress has been made on inflation, with underlying RPI inflation down to 3¼ per cent in January. There remain powerful underlying disinflationary pressures and, apart from petrol prices, there is as yet little evidence of any effect on retail prices from the lower exchange rate. The forecasts of underlying RPI inflation in the fourth quarter of 1993 from the Independent Panel range from 3 to 4¾ per cent, with an average of around 4 per cent. The Treasury forecast, after taking account of the Budget measures, is 3¾ per cent for both the fourth quarter of 1993 and the second quarter of 1994.

Labour market

Underlying earnings growth fell to 4¾ per cent in December and should fall further in 1993 as the effect of recent low settlements feeds through. Employment fell sharply and unemployment continued to rise in the second half of 1992. These trends are forecast to moderate in 1993, but with unemployment a lagging indicator it may be some time before it begins to fall back.

Current account

The current account deficit rose to £12 billion in 1992 from £6½ billion in the previous year, with the visibles deficit rising and the invisibles surplus falling. The visibles deficit is forecast to increase further in 1993 largely due to a deterioration in the terms of trade but also due to sluggish growth in some of the UK's main trading partners. While there may be some improvement in the invisibles position, the current account deficit is projected to widen to £17½ billion. This is broadly in line with the majority view of the Independent Panel, though somewhat above the average.

Table 1 Economic prospects: summary

	Percentage changes on a year earlier unless otherwise stated				
		Forecasts			
	1992	1993			1994 H1
		Treasury	Independent Panel[1]		Treasury
			Average	Range	
Gross domestic product	-½	1¼	1	¼ to 2	3
Domestic demand	½	1¼	¾	-1 to 1¾	3
Net Trade[2]	-1¼	0	½	0 to 1¼	0
RPI excluding mortgage interest payments (fourth quarter)	3¾	3¾	4	3 to 4¾	3¾[3]
Current account (£billion)	-12	-17½	-15½	-20 to -7½	-18½[4]
PSBR (financial year, £billion)	35	50	47	40 to 55	

[1] *Panel of Independent Forecasters;*
[2] *Contribution to GDP growth, percentage points.*
[3] *Q2*
[4] *At an annual rate.*

Financial developments

The sterling index has averaged $78^1/_2$ so far this year, 15 per cent lower than in the three months before ERM suspension. Base rates at the beginning of March were 4 per cent lower than at the beginning of September. This easing of monetary policy underpins the forecast of recovery. M0 growth has been within its target range for most of 1992-93, though above it in February. M4 growth has recently been below its monitoring range.

Public finances

The estimated outturn for the public sector borrowing requirement (PSBR) in 1992-93 is £35 billion, well up on last year's Budget forecast but lower than in the Autumn Statement. The PSBR is forecast to be £50 billion in 1993-94.

Assumptions

The forecast is based on the conventional assumption that sterling remains close to recent levels, and assumes that oil prices average $18 a barrel.

World economy

Recent developments

After stabilising in the summer, industrial production in the G7 was again falling by the end of last year, as continued weakness in Japan and continental Europe more than offset a strengthening of activity in North America. In the latest three months industrial production in the US was up 3 per cent on a year earlier compared to a fall of over 3 per cent in the major continental European economies and 7 per cent in Japan. Business confidence in the US has risen, but in Europe it is falling sharply and in Japan it is at its lowest level since 1976.

Recent movements in industrial production have been mirrored in GDP. By the second half of the year, GDP was falling in Japan, France and Italy, while in Germany[1] it has fallen by a cumulative $1^1/_2$ per cent from its peak in the first quarter. By contrast, in the fourth quarter of 1992, US GDP grew at its fastest rate for five years. For the G7 as a whole, GDP is estimated to have risen by $1^1/_2$ per cent in 1992, following growth of only $^3/_4$ per cent in 1991.

The marked divergence in activity across the G7 is partly a consequence of recent developments in monetary and fiscal policy. In the US, real short-term interest rates have been under 1 per cent for the last year. This is in marked contrast to continental Europe where, despite some slight easing since the currency turmoil in September, real short-term rates are still very high, at around 6 per cent. And in many European countries, discretionary fiscal tightening has accompanied the monetary squeeze. But in Japan there has been a substantial monetary easing and a large fiscal package has been announced though, so far, this has failed to stem the decline in activity.

In most countries, abundant spare capacity has maintained downward pressure on inflation. Since June, inflation has fallen by around 1 percentage point in Japan, France and Italy and has stabilised at just over 3 per cent in the US. But in Germany inflation picked up in the second half of 1992 and, following the 1 per cent rise in VAT at the beginning of this year, it is now $4^1/_4$ per cent. Average consumer price inflation in the G7 countries is just under 3 per cent.

Despite the continued overall weakness of G7 activity, non-oil commodity prices have risen by over 10 per cent since October as the prospect of stronger US activity became apparent. However, in real terms, non-oil commodity prices remain close to their lowest level since the early 1970s. Oil prices have been relatively stable since the end of the Gulf War. Since December the Brent price has averaged around $18 a barrel and it is assumed in the forecast to remain at that level.

[1] *Throughout this article references to Germany relate to western Germany only.*

Forecast

G7 GDP growth in 1993 is forecast to be $1^1/_2$ per cent, the same as in 1992 and only slightly below the Autumn Statement forecast of $1^3/_4$ per cent. However, there have been some significant changes to the prospects for individual countries. In the US, growth of $3^1/_4$ per cent is now forecast for 1993 compared with $2^1/_4$ per cent last November. This upward revision partly reflects a stronger outturn for the second half of 1992 than had been expected. But also, against a background of stronger business and consumer confidence, it now appears that reasonably robust growth will be maintained through 1993. It will be helped by the small fiscal stimulus included in President Clinton's budget package and by the fall in long-term interest rates following the announcement of medium-term deficit reduction measures.

Table 2 World economy

	Percentage changes on a year earlier			
		Estimate	Forecast	
	1991	1992	1993	1994 HI
Major seven countries[1]				
Real GDP	$^3/_4$	$1^1/_2$	$1^1/_2$	$2^3/_4$
Domestic demand	0	$1^1/_2$	$1^1/_2$	$2^3/_4$
Industrial production	$-^1/_2$	$-^3/_4$	$^1/_4$	$3^1/_2$
Consumer price inflation[2]	$3^1/_2$	$2^3/_4$	$2^1/_2$	$2^1/_2$
World trade[3]	4	$4^1/_2$	$4^1/_4$	$5^3/_4$
UK Export markets[3]	5	$4^1/_2$	$3^3/_4$	$4^3/_4$

[1] *US, Japan, Germany, France, UK, Italy and Canada.*
[2] *Final quarter of each period.*
[3] *Manufactures.*

The forecast for GNP growth in Japan in 1993, at 1 per cent, is well below forecasts by the OECD and the IMF at the end of last year. This reflects the continued slide in indicators of activity in recent months, and the lack of any forward indicators yet pointing to recovery. The net stimulus from the fiscal package announced in August is likely to be considerably less than originally thought. Its impact has, in any case, been affected by the prolonged delay before its approval by the Diet.

In the three largest continental European economies, the expectation is, on average, for a fall in GDP of around $^3/_4$ per cent in 1993, following growth of only $1^1/_4$ per cent in 1992. In Germany, GDP has fallen for three quarters, and no pick-up is expected until the second half of the year as high real interest rates and the need for fiscal consolidation continue to depress business and consumer confidence. GDP in Germany could fall by $1^1/_2$ per cent in 1993 as a whole. Growth in Italy and France will be affected directly by the weakness of activity in Germany, but also by the high real interest rates and discretionary fiscal tightening across Europe.

Although commodity prices have picked up in recent months, output in the G7 is well below trend and the growth in demand is expected to remain weak in 1993. Hence, the prospect is for inflation to remain subdued. Consumer price inflation in the G7 is forecast to fall from $2^3/_4$ per cent in the fourth quarter of 1992 to around $2^1/_2$ per cent by the fourth quarter of this year, and to remain at that level in the first half of 1994.

Despite the slowdown in industrial countries, world trade has held up remarkably well, helped in part by buoyant Far Eastern markets. World trade in manufactures is estimated to have grown by $4^1/_2$ per cent in 1992 and a similar rate of growth is forecast for 1993. However, growth of UK export markets, which are weighted more heavily toward Europe, is forecast to fall from $4^1/_2$ per cent in 1992 to $3^3/_4$ per cent in 1993.

UK demand and output

Recent developments

GDP rose slightly in the second half of 1992, a stronger performance than anticipated in the Autumn Statement. It edged up in both the third and fourth quarters, but non-oil GDP fell marginally. In 1992 as a whole, GDP was $^1/_2$ per cent down on 1991, though it was broadly unchanged between the fourth quarters of 1991 and 1992. A small increase in domestic demand was more than offset by a fall in net trade volumes.

Within GDP, oil output recovered strongly in the second half of 1992 and rose $3^1/_4$ per cent in the year as a whole. Other energy output also recovered in the second half of the year. Manufacturing output fell back a little in the fourth quarter, though not as much as suggested by business surveys in the summer and autumn, and it was $^1/_2$ per cent higher than a year earlier. Construction output fell in 1992 but not as much as in 1991. Service sector output was little changed.

Prospects

The four percentage point cut in base rates since early September, the fall in the value of sterling and the measures announced in the Autumn Statement, have enhanced the prospects for recovery. Business optimism has improved and there are signs of strengthening consumer demand.

Nevertheless downside risks remain to the central forecast. Consumer demand may remain hesitant, held back by high levels of debt relative to income and to house prices, and by the fear of unemployment. And the outlook for the continental European economies is very subdued. Moreover business surveys have indicated false dawns before, notably in the autumn of 1991 and the spring of 1992. On this occasion, however, the improvement in confidence follows a tangible easing of policy: there is therefore a better chance that it will translate into higher activity and prove more durable.

The forecast for GDP growth in 1993 is $1^1/_4$ per cent, broadly in line with the average of forecasts by the Independent Panel, but slightly more than in the Autumn Statement reflecting higher than expected output in the second half of 1992. Growth in the year to the second half of 1993 is unchanged from the Autumn Statement at $1^3/_4$ per cent. It is forecast to pick up further to 3 per cent ($2^1/_4$ per cent non-oil) in the first half of 1994. Manufacturing output is forecast to rise more rapidly than GDP during the course of 1993 because of the impact of improved competitiveness.

The main contributions to growth in 1993 are expected to come from consumers' expenditure, up $1^1/_4$ per cent, and exports, up $5^1/_2$ per cent. Stocks are also forecast to make a contribution to GDP growth, with destocking coming to an end during the course of the year.

Personal sector

Recent developments

Consumers' expenditure has moved ahead since the first quarter of 1992, rising by $1^1/_4$ per cent in the year to the fourth quarter. Recent consumption indicators have turned out much as expected. But real personal disposable income was much stronger than forecast, increasing by $2^1/_4$ per cent in 1992 despite a sharp fall in employment. As a result, the saving ratio rose $1^3/_4$ points in 1992, to $11^1/_2$ per cent.

Housing market

Personal sector spending has been closely linked with housing market developments in the past few years. Although both turnover and prices fell sharply in the autumn of 1992, this now looks to have been the effect of the stamp duty concession, which ended in mid-August and which shifted activity into the summer. Sentiment in the housing market has clearly improved in recent months, with help from the lower level of interest rates, the reduced level of repossessions and the measures announced in the Autumn Statement to take empty properties off the market. Surveys of estate agents and housebuilders suggest greater activity in the early part of 1993, but this has not yet been reflected in official housing market turnover statistics. House prices, though $7^1/_4$ per cent lower than a year ago according to the Halifax measure, have fallen by only 1 per cent in the last four months. The house price/earnings ratio is now back to 1986 levels, and below its average of the last 25 years. While the market is currently weak by earlier standards, both prices and turnover may start to rise during the year.

Prospects

Personal sector spending is likely to continue to be restrained by the desire for further balance sheet adjustment and by the fear of unemployment. However, consumer confidence has picked up since the Autumn Statement and the interest rate cuts since ERM suspension have made current levels of debt easier to service. Retail sales have continued their upward trend, and survey and other evidence from distributors also suggests a pick-up in spending in the early months of the year. It therefore seems likely that there have been further increases in consumption so far in the first quarter similar to those in the second half of 1992. Moveover spending is unlikely yet to have reacted fully to the surprisingly strong growth of real incomes in 1992.

Thus, despite projected slower growth of real personal disposable income in 1993 of $^3/_4$ per cent, consumer spending is forecast to grow by $1^1/_4$ per cent. This implies a fall in the saving ratio from its high 1992 level. Personal sector investment in dwellings - which includes home improvements as well as the purchase of new properties - might be little changed in 1993, following a fall of 2 per cent in 1992.

The personal sector's financial balance is expected to remain in sizeable surplus in 1993-about $6^3/_4$ per cent of personal disposable income. The debt/income ratio fell in 1992; it is expected to fall again in 1993 but by less than in 1992. The debt/income ratio by mid-1994 could be about 7 percentage points below its peak in 1991.

Company sector and investment

Comany income and saving

Faced with falling turnover and downward pressure on profit margins through the recession, companies have reacted by cutting costs, particularly by shedding labour. As a result industrial and commercial companies' profits (net of stock appreciation) have barely risen since 1990. At the same time dividends have continued to increase, rising 20 per cent in the past two years. But with lower tax payments-down by over a quarter between 1990 and 1992-and falling short-term interest payments, particularly in 1992, company saving (undistributed income) rose by over 6 per cent between 1991 and 1992.

Profitability of non-North Sea industrial and commercial companies, as measured by the real rate of return, is forecast to pick up in 1993 as demand rises, firms continue tight control of labour costs, and pressure on margins eases. And with lower tax and short-term interest payments, company saving can be expected to increase sharply.

Business investment

Business investment has held up well during the recession. Following a 9 per cent fall in 1991, it fell by only 2 per cent in 1992, despite weak profitability, and actually rose between the second halves of 1991 and 1992. Manufacturing investment has risen for three consecutive quarters to the fourth quarter of 1992.

Given the degree of spare capacity and companies' continuing financial deficit, a sharp rebound in business investment in 1993 is unlikely. Nevertheless the temporary increase in capital allowances announced in the Autumn Statement will boost investment in 1993, and the CBI survey balances for business optimism and investment intentions recovered quite strongly between October and January.

Non-oil business investment is forecast to rise modestly in 1993, by 1 per cent on 1992. However, with North Sea investment expected to fall, total business investment is forecast to fall by $^1/_2$ per cent in 1993. Business investment rises through 1993 as recovery gathers pace and profitability improves, with growth of 2 per cent in the year to the first half of 1994. The trough in business investment as a share of GDP is likely to occur in the first half of 1994, at a level well above those seen between 1970 and the mid-1980s.

Government investment

General government investment rose by 9 per cent in volume terms in 1992. It is forecast to rise by 5 per cent in 1993 mainly due to increased local authorities' investment following the temporary relaxation of the rules for spending out of capital receipts announced in the Autumn Statement.

Table 3 Gross domestic fixed capital formation at constant prices

		Percentage changes on a year earlier		
			Forecast	
	Weights in 1992	1992	1993	1994H1
Business[1]	69	-2	$-^1/_2$	2
Private dwellings and land[2]	15	$-3^3/_4$	$^1/_4$	6
General government[3]	16	9	5	$3^3/_4$
Total fixed investment	100	$-^3/_4$	$^1/_2$	$2^3/_4$

[1] Includes public corporations, except National Health Trust hospitals
[2] Includes net purchases of land and existing buildings for the whole economy.
[3] Excludes net purchases of land and existing buildings; includes National Health Trust hosptials.

Whole economy investment

The forecast for whole economy fixed investment in 1993 is a small increase of $^1/_2$ per cent. This is above the forecasts made by most members of the Independent Panel, which point to a fall in 1993. But given the uncertainties and the volatility of investment the difference is well within the margins of error; and two panel members are expecting investment to increase by more than the Treasury forecast.

Stockbuilding

Destocking continued in 1992, although at a slower pace than in 1991. The rate of destocking is forecast to slow further through 1993, with a return to stockbuilding expected in the second half of the year. Stockbuilding is forecast to add $^1/_4$ percentage point to GDP growth in 1993, and $1^1/_4$ points in the year to the first half of 1994. For 1993 the Treasury forecast is similar to most forecasts made by members of the Independent Panel.

Companies' financial position

Industrial and commercial companies cut their financial deficit to about $1^3/_4$ per cent of GDP in 1992 from 2 per cent in 1991,and $3^3/_4$ per cent in 1990. With saving increasing sharply, investment rising only slowly, and further destocking, industrial and commercial companies are expected to move into financial surplus in 1993.

Labour market

Employment and productivity

The cumulative fall in employment of nearly 2 million to September 1992 from its peak in June 1990 has been reflected in strong productivity performance. Despite the weakness of output, non-oil productivity has been rising since early 1991, increasing by $2^1/_2$ per cent in the year to the third quarter of 1992. Over the year to the fourth quarter of 1992 manufacturing productivity rose by 6 per cent. These rates of productivity growth are much faster than normal at this stage of the cycle.

Unemployment

Unemployment has risen considerably less than the fall in employment-by about 1.4 million to January 1993 from its low point in April 1990 reflecting falling workforce participation. Following a further round of job losses in the second half of 1992 the rate of increase in unemployment rose, having moderated earlier. The rate of increase should start to slow down again as the economy recovers; though since the level of unemployment typically lags behind the cycle in activity it will be some time before it starts to fall again.

Trade and the balance of payments

Current account in 1992

The current account deficit was £12 billion in 1992, compared with £$6^1/_2$ billion in 1991. The visible trade deficit rose to £14 billion, as a result of an adverse movement in trade volumes, with import volumes rising twice as fast as exports. However, exports were rising more strongly than imports towards the end of the year. Although the terms of trade deteriorated sharply in the fourth quarter of 1992 following sterling's depreciation, they were $^1/_2$ per cent better in 1992 as a whole than in 1991.

In 1991 the invisibles surplus benefited from contributions from abroad towards the UK's Gulf War costs and from exceptionally low net transfers to the EC. It is not surprising therefore that the surplus fell in 1992. But at £2 billion it was much lower than anticipated in last year's Budget forecast: estimates both of the level of the surplus in 1991 and of the UK's net stock of overseas assets have been revised down since then.

Competitiveness

Manufacturing unit labour costs were unchanged in the fourth quarter of 1992 compared with a year earlier as earnings growth continued to slow and productivity growth picked up. By contrast, competitors' unit labour costs probably grew by $3^1/_4$ per cent. This underlying improvement in competitiveness is likely to continue in 1993, with UK unit labour costs set to fall while competitor countries' costs continue to rise. The gap between UK and overseas unit labour cost growth is forecast to improve competitiveness on its own by about 4 per cent in 1993.

The lower exchange rate compared with most of last year will enhance this underlying improvement, so that actual cost competitiveness may be about 20 per cent better in mid-1993 than a year earlier. Price competitiveness is also forecast to improve in 1993, but not by as much as cost competitiveness because exporters are likely to rebuild their profit margins.

Exports

Non-oil export volumes were on an upward trend during 1992 reaching record levels in the fourth quarter. They rose $2^1/_2$ per cent in the year as a whole. The growth of world trade in manufactured goods (which account for around 90 per cent of UK non-oil exports) is expected to be similar in 1993 to 1992, although the growth in UK export markets is forecast to fall from $4^1/_2$ per cent to $3^3/_4$ per cent. But better competitiveness means that exports should grow faster than this in 1993, although there is a good deal of uncertainty about the speed with which improved competitiveness will affect export volumes. Manufactured exports could rise by $7^1/_2$ per cent in 1993, over 3 per cent faster than world trade and twice as fast as UK export market growth. Exports should continue to benefit from the improved competitiveness beyond 1993 with further increases in the UK's share of world trade. Exports of all goods are forecast to rise 6½ per cent in 1993 and just over 10 per cent in the year to the first half of 1994.

Imports

While import growth outstripped demand growth last year, the rise in import penetration was not out of line with its long-term trend. The specialisation of world production has led to a rise in import penetration in the UK as in other countries. The counterpart of rising import penetration due to increased specialisation is faster growth of world trade than world activity, and with it the faster growth of UK exports than GDP. A further rise in import penetration is to be expected in 1993, though the improvements to competitiveness, which benefit firms competing with imports just as much as exporters, should keep it down. The volume of imports of goods is expected to rise by 5½ per cent in 1993, a little less than in 1992 despite stronger domestic demand.

Table 4 Non-oil trade

	Percentage changes on a year earlier				
	Volumes		Prices		
	Exports	Imports	Exports	Imports	Terms of trade
1991	2¼	- 3	¼	-2¾	3
1992	2½	6¾	1	0	1
1993 Forecast	7¼	6	6½	12	-4¾

Trade prices

Normally after a large fall in the exchange rate import prices rise faster than export prices, and this is evident in the monthly figures available since ERM suspension. The resulting terms of trade loss, expected to be nearly 5 per cent for non-oil goods comparing 1993 with the whole of 1992, has a significant adverse effect on the visible trade deficit, more that accounting for the deterioration in 1993. However, in large part it arises because UK exporters hold back from raising their prices in the interest of selling more to their customers. The higher volumes that result will work to offset the adverse terms of trade effect, but will take some time to come through. Similarly improved competitiveness will tend to reduce import volumes, further offsetting the terms of trade loss. As export prices catch up, there is the prospect of some improvement in the terms of trade in the first half of 1994.

The North Sea

Oil and gas production rose 3¼ per cent in 1992. It is expected to rise by 6 per cent in 1993 as new fields begin production and as output resumes from those fields affected by the Piper Alpha disaster in 1988. Output is expected to be near the centre of the DTI's Brown Book range, which shows a further sharp increase in 1994. Net oil exports are expected to rise in 1993 with export volumes over 3 per cent higher and import volumes ½ per cent higher than in 1992. The oil surplus is expected to rise to nearly £2 billion in 1993.

Invisibles

The surplus on interest, profits and dividends (IPD) rose from £½ billion in 1991 to £3 billion in 1992. However, several exceptional factors account for much of this turnaround: IPD was depressed in 1991 because of Gulf War effects on oil companies' profits; and during 1992 there were exceptional currency market earnings associated with the turmoil in September. Continuing current account deficits will reduce the UK's net stock of overseas assets and therefore the IPD balance over the years ahead. Against this, the lower exchange rate will raise the sterling value of foreign currency assets and receipts. The UK's net stock of overseas assets is estimated to have fallen from £11 billion at the end of 1991 to near zero in the middle of 1992. By the end of the year it had risen to £37 billion, as exchange rate revaluations more than offset the effect of the current account deficit.

Like goods, the services balance will benefit from the improved competitiveness, though adverse terms of trade effects may dominate in 1993. The volumes of both exports and imports are forecast to rise quite strongly during 1993, exports more so than imports. But because they start from rather depressed levels in the second half of 1992, growth between 1992 and 1993 as a whole is quite modest, 1 per cent for exports and ½ per cent for imports. The balance of transfers is expected to change little between 1992 and 1993. Overall, the surplus on invisibles might be £3½ billion in 1993, up from £2 billion in 1992.

The current account

The current account deficit is expected to rise to £17½ billion in 1993, with the recovery in the invisibles surplus more than offset by the increase in the visibles deficit. Although the forecast is above the average of the Independent Panel's forecasts, five of the seven panel members expect the deficit to be in the range £16½ to £20 billion.

Table 5 Current account

	£ billion					
	Manufactures	Oil	Other	Total visibles	Invisibles	Current balance[1]
1991	– 3½	1	– 8	– 10½	4	– 6½ (–1)
1992	– 7½	1½	– 7½	– 14	2	– 12 (–2)
1993 Forecast	– 13	2	– 9½	– 21	3½	– 17½ (–2¾)

[1] *Figures in brackets are as a percent of GDP.*

Inflation

Recent developments

The weakness of demand has kept strong downward pressure on inflation, despite the lower exchange rate. Underlying inflation, as measured by the RPI excluding mortgage interest payments (MIPs), was 3.2 per cent in January-down 2½ percentage points since April 1992. As yet, with the exception of petrol prices, there is little obvious sign of inflationary pressures at the retail level as a result of sterling's depreciation. Since last September retail goods price inflation has continued to fall somewhat faster than retail services price inflation. All-items RPI inflation has fallen more rapidly than the underlying rate in recent months, and to a significantly lower level, reflecting the effect of mortgage rate reductions. The all-items rate in January was 1.7 per cent, the lowest rate since September 1967.

Producer output price inflation, excluding food, drink and tobacco[2]. was a little higher in January and February, at 2.7 per cent, than the low point of 2.4 per cent reached in late 1992. This perhaps reflects the beginnings of the impact of the lower exchange rate on output prices. But producer output price inflation remains low by historical standards: 1992 apart, the rate was last below 2.7 per cent in May 1969. Producer input prices, on the other hand, have clearly been affected by the lower exchange rate, albeit somewhat less than expected, with the index 8¼ per cent higher in February than last August. Even so the pressure on producers' profit margins has been eased by the sharp decline in unit wage cost growth: in the fourth quarter of 1992 unit wage costs in manufacturing were unchanged on a year earlier.

Whole economy underlying earnings growth has continued to break new ground by the standards of the past 25 years. In December it fell at around 7½ per cent early in 1992. And under the influence of falling inflation, weak demand for labour, and financial pressures on companies, pay settlements have clearly resumed a downward path since last summer. CBI data point to recent settlements in both manufacturing and services falling to an average of under 3 per cent, compared to around 5 per cent a year or so earlier.

Prospects

Low headline inflation and a slack labour market indicate that earnings growth may continue to fall for some time yet, though a recovery in profits may progressively exert some upward pressure on earnings. With subdued earnings growth and further gains in productivity growth, unit labour costs are forecast to increase only marginally in 1993 in the private sector, and to fall in manufacturing.

Manufacturers' input price inflation is expected to pick up further during much of 1993, largely reflecting higher import costs as a result of the lower exchange rate. Manufacturers are also likely to take advantage of increased demand partly by rebuilding their profit margins. These factors are expected slightly to outweigh the effects of lower unit labour costs on producer output prices. The net result is that producer output price inflation is forecast to rise to 4 per cent in the fourth quarter of 1993, before falling back to $3^1/_2$ per cent in the second quarter of 1994 as import price inflation recedes.

However, underlying RPI inflation is not expected to rise as much from its current level. Although retail goods price inflation is likely to pick up as the effects of the lower exchange rate feed through, services price inflation, which typically responds more slowly to changes in economic activity, should continue to come down. Underlying RPI inflation is forecast to be $3^3/_4$ per cent in both the fourth quarter of 1993 and the second quarter of 1994. This includes the effects of the measures announced in the Budget. Compared to the Autumn Statement forecast, which allowed for increased motoring taxes to recoup the cost of abolishing car tax, the Budget is expected directly to add around $^1/_4$ per cent to the level of the RPI excluding MIPs in 1993, and a further $^1/_2$ per cent by the second quarter of 1994. For the fourth quarter of 1993 the Treasury forecast is just below the average of forecasts made by the Independent Panel. $3^1/_2$ per cent.

Table 6 Retail and producer output price inflation

	Percentage changes on a year earlier	Forecast	
	1992Q4	1993Q4	1994Q2
RPI excluding MIPs	$3^3/_4$	$3^3/_4$	$3^3/_4$
Producer output prices[1]	$2^1/_2$	4	$3^1/_2$

[1] *Excluding food, drink and tobacco.*

For given underlying inflation, the all-items RPI inflation rate will depend on what happens to mortgage rates. The forecast of underlying inflation implies that if mortgage rates remained unchanged from present levels, all-items RPI inflation would be $2^1/_2$ per cent in the fourth quarter of 1993. A one percentage point change in mortgage rates changes the level of the all-items RPI by just over $^1/_2$ per cent, other things being equal.

The relatively flat profile of the forecast for underlying inflation contrasts with the path forecast for the GDP deflator, which measures the price of domestic value added (principally unit labour costs and profits per unit of output). The GDP deflator is now expected to rise by $3^1/_2$ per cent in 1992-93. But in 1993-94 it is forecast to rise by only $2\,^3/_4$ per cent, partly reflecting the effect of the lower exchange rate on the terms of trade. It is also held down by low public sector pay growth as a result of the limit on settlements announced in the Autumn Statement.

[2] *Throughout this article the producer price figures exclude food, drink and tobacco*

Financial developments

Exchange rates

Sterling was suspended from the ERM on 16 September last year. Since then, it has traded at an average level of DM2.44, or 15 per cent below its average level during 1992 prior to suspension. Against a basket of currencies, it has averaged 13 per cent lower, with the sterling index within the range 76 to $82^1/_2$ since mid-October.

Interest rates

Base rates, at 6 per cent, are four percentage points lower than before sterling's membership of the ERM was suspended, and UK short-term interest rates are the lowest in the EC. They were $10^1/_2$ per cent one year ago. Mortgage rates have come down by less, to just under 8 per cent compared with $11^1/_2$ per cent at the beginning of last year. At current levels they are the lowest since the early 1970s.

Long-term interest rates have continued to fall. Ten-year yields averaged 8 per cent in February, over 1 per cent below their level a year earlier, and nearly 4 per cent lower than their average 1990 level. Since ERM suspension, the yield gap has switched over, with short rates below long rates for the first time since 1988.

Asset prices

Equity prices were depressed in the run-up to the currency turbulence in September, but have since recovered strongly. In February they were 24 per cent above their average level in August. Dividend yields have fallen correspondingly, though they remain close to average levels in the mid-1980s. Commercial property rentals and residential house prices remain depressed. Although house prices in February were $7^1/_4$ per cent below their level a year earlier (on the Halifax measure) they have fallen only 1 per cent in the last four months.

Monetary aggregates

Annual growth of M0 was between $1^1/_2$ and 3 per cent throughout 1992, comfortably within its 0 to 4 per cent target range. Towards the end of the year, however, M0's shorter term growth rates increased strongly, and its 12 month growth rate exceeded 4 per cent in February. M0's relatively strong growth - and its correspondingly low velocity growth - may be a consequence of the falls in interest rates during the year, which reduce the incentive to economise on cash. M4 growth, in contrast to M0, has continued to fall. It was 3.2 per cent in January, below the monitoring range of 4 to 8 per cent announced in the Autumn Statement.

Credit

The growth of M4 lending - bank and building society lending to the private sector - has, like M4, continued to decline over the past year. M4 lending's annual growth was 4.2 per cent in January. Personal sector borrowing has been depressed by weak activity in the housing market and the desire to reduce debt. Lending to industrial and commercial companies has been similarly depressed, growing by less than 1 per cent in each of the past two years.

Forecast and outturn

Table 7 compares the main elements of the forecast published in the 1992 FSBR with the outturns for 1992 or the latest estimates for 1992-93. GDP fell unexpectedly in 1992. Domestic demand and exports were weaker than forecast although the errors here were no bigger than the averages from past forecasts. But imports were stronger than projected, largely due to a shift in the composition of demand toward manufactures. This was also reflected in a larger current account deficit than forecast. The counterpart of weaker than anticipated activity has been faster progress on inflation. And the public sector borrowing requirement is likely to be well above last year's FSBR forecast.

Table 7 Forecast and outturn

Percentage changes on a year earlier unless otherwise stated

	1992 FSBR	Outturn or latest estimate	Average errors from past forecasts
GDP (1992)	1	$-\frac{1}{2}$	$\frac{3}{4}$
Non-oil GDP (1992)	$\frac{3}{4}$	$-\frac{1}{2}$	$\frac{3}{4}$
Domestic demand (1992)	$1\frac{1}{4}$	$\frac{1}{2}$	1
Exports of goods and services (1992)	$3\frac{1}{2}$	2	$1\frac{1}{2}$
Imports of goods and services (1992)	4	$5\frac{1}{4}$	$2\frac{1}{4}$
RPI (1992Q4)	$3\frac{3}{4}$	3	$1\frac{1}{4}$
GDP deflator (1992-93)	$4\frac{1}{2}$	$3\frac{1}{2}$	1
Money GDP (1992-93)	$6\frac{1}{2}$	$3\frac{1}{4}$	$1\frac{1}{4}$
Balance of payments current account (1992, £ billion)	$-6\frac{1}{2}$	-12	$4\frac{1}{4}$
PSBR (1992-93, £ billion)	28	35	$6\frac{1}{4}$

Risks and uncertainties

All forecasts are subject to risks and uncertainties. Recent Treasury forecasts have emphasised that these are most acute when the economy is at or close to a turning point, and that remains true on this occasion. The recent movements in the exchange rate have added to the uncertainty. The forecast is based on the conventional assumption that the exchange rate remains close to recent levels. The forecasts presented here are central forecasts, a balance of upside and downside risks. Table 8 shows average errors from past FSBR forecasts.

Table 8 Summary of economic prospects

	Percentage changes on a year earlier unless otherwise stated			
		Forecast		Average errors from past forecasts[1]
	1992	1993	1994 H1	
GDP and domestic demand at constant prices				
Domestic demand				
of which:	1/2	1 1/4	3	1 1/4
Consumers' expenditure	1/4	1 1/4	1 3/4	1 1/4
General government consumption	-1/4	1/4	1 1/4	1 1/4
Fixed investment	-3/4	1/2	2 3/4	2 3/4
Change in stockbuilding[2]	1/2	1/4	1 1/4	1/4
Exports of goods and services	2	5 1/2	10 1/2	1 1/4
Imports of goods and services	5 1/4	4 3/4	9 1/4	2
Gross domestic product	-1/2	1 1/4	3	1
Non-oil GDP	-1/2	1	2 1/4	1
Manufacturing output	-3/4	1 1/2	2 3/4	1
Balance of payments current account				
£ billion	-12	-17 1/2	-18 1/2[3]	4 3/4
per cent of GDP	-2	-2 3/4	-2 3/4	3/4
Inflation				
RPI excluding mortgage interest payments (fourth quarter)	3 3/4	3 3/4	3 3/4[4]	3/4
Producer output prices (fourth quarter)[5]	2 1/2	4	3 1/2[4]	3/4
GDP deflator at market prices (financial year)	3 1/2	2 3/4		1
Money GDP at market prices (financial year)				
£ billion	599	628		
Percentage change	3 1/4	4 3/4		1 1/2
PSBR (financial year)				
£ billion	35	50		6 1/2
per cent of GDP	5 3/4	8		1

1 Average errors regardless of sign over past ten years; they apply to the forecasts for 1993 or 1993-94.
2 Per cent of GDP.
3 At annual rate.
4 Q2
5 Excluding food, drink and tobacco.