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Economic Trends

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ECONOMIC UPDATE - DECEMBER 1994

(includes data up to 15 December 1994)

Summary

- **UK claimant unemployment**, seasonally adjusted, fell to 2.471 million.

- The **index of industrial production**, seasonally adjusted, was 1.4 per cent higher in the three months to October than the three previous months.

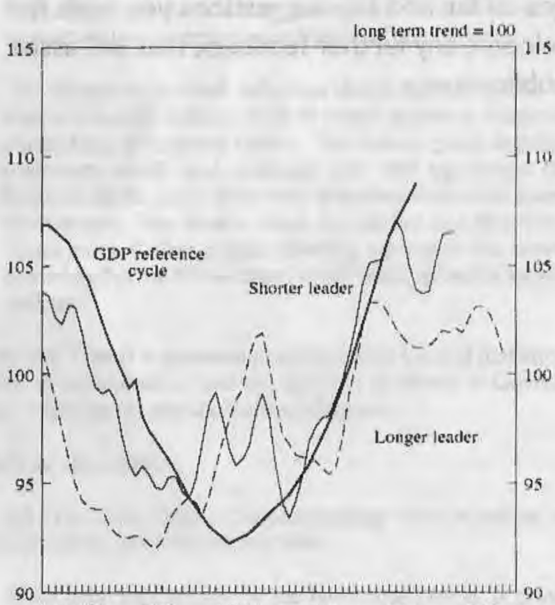
- The 12-month rate of increase of the **retail price index (RPI)** rose from 2.4 per cent in October to 2.6 per cent in November.

- The **volume of retail sales** was 0.5 per cent higher in the three months to November compared with the previous three months.

Activity

The CSO's **coincident cyclical indicator** continued to rise in October, from its trough in 1992 Q2. Partial information suggests that the **shorter leading index** stalled, and the **longer leading index** continued to fall in October. Chart 1 shows the recent movements of the leading indicators.

Chart 1
Leading cyclical indicators

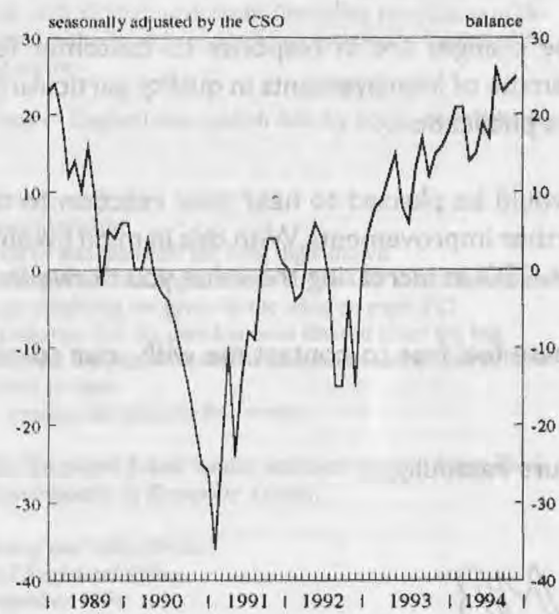


Output and expectations

2. The **index of industrial production**, seasonally adjusted, was 1.4 per cent higher in the three months to October than the three previous months. Within this, **manufacturing output** rose by 1.2 per cent, **mining and quarrying output, including oil and gas** extraction, rose by 1.6 per cent and output of the **electricity, gas and water supply** industries rose by 3.2 per cent. Latest estimates for trends in annual growth of output for production and manufacturing industries, were 6.0 per cent and 5.5 per cent respectively.

3. The **CBI Monthly Trends Enquiry in manufacturing** revealed that the **output expectations** balance in the next 4 months, seasonally adjusted and shown in chart 2, rose from 24 per cent in October to 25 per cent in November.

Chart 2
CBI output expectations



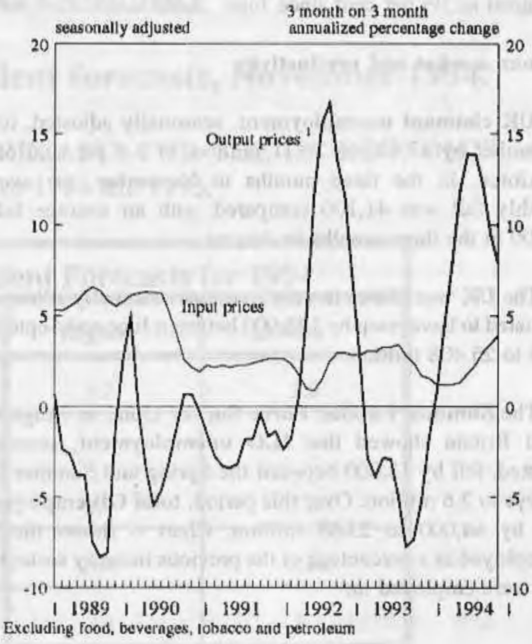
Indicators of domestic demand

4. In the three months to November, the **volume of retail sales**, shown in chart 3, was 0.5 per cent higher than in the previous three months and 3.0 per cent up on a year earlier.

5. **Net lending to consumers** (narrower coverage), seasonally adjusted, rose from £1,208 million in the three months to July to £1,562 million in the three months to October.

Chart 3
Volume of retail sales

Chart 4
Producer prices



1. Excluding food, beverages, tobacco and petroleum

Prices and wages

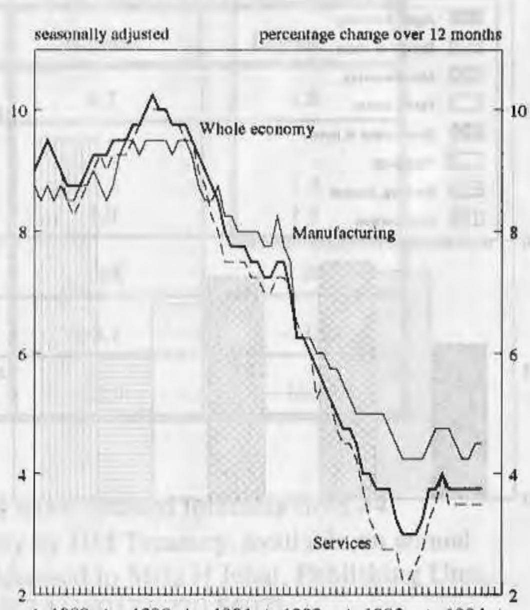
6. The 12-month rate of increase of the **retail prices index (RPI)** rose from 2.4 per cent in October to 2.6 per cent in November. This was mainly due to food price rises in November, compared with falls in November 1993. **Excluding mortgage interest payments**, the 12-month rate also rose, from 2.0 per cent in October to 2.3 per cent in November. This rate remained well within the government's target range of 1-4 per cent.

7. Producer price data, shown in chart 4, continued to show mixed signs of inflationary pressure. The three month on three month annualized percentage growth in the **output price index for manufactured products** (home sales), seasonally adjusted and excluding food, beverages, tobacco and petroleum, rose from 3.5 per cent in October to 3.9 per cent in November. Over the same period the annualized change in **input prices** (all manufacturing), seasonally adjusted, fell from 9.5 per cent to 7.9 per cent.

8. **Expectations of price increases** fell back slightly in November. The CBI Monthly Trends Enquiry for manufacturing showed a balance of 21 per cent of firms, seasonally adjusted by the CSO, expect to raise prices in the four months from November.

9. The annual rise in underlying **whole economy average earnings** for Great Britain edged higher in October after remaining steady for the previous four months. The rate of increase rose from 3¾ per cent in September to 4 per cent in

Chart 5
Whole economy underlying earnings in GB



October. Despite this, the underlying rate of increase in earnings in the production, manufacturing and service sectors remained at 4½ per cent, 4¾ per cent and 3½ per cent respectively. Underlying increases of earnings in the service sector have remained at 3½ per cent since June.

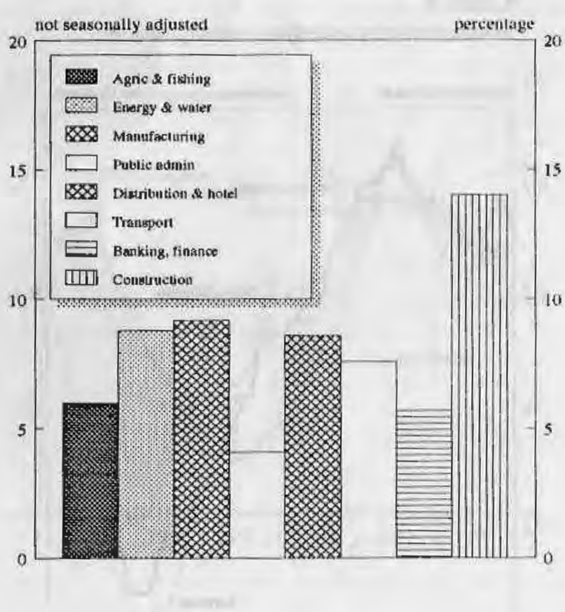
Labour market and productivity

10. **UK claimant unemployment**, seasonally adjusted, fell in November by 43,400 to 2.471 million, or 8.8 per cent of the workforce. In the three months to November, the average monthly fall was 41,100 compared with an average fall of 22,400 in the three months to August.

11. **The UK workforce in employment**, seasonally adjusted, is estimated to have risen by 146,000 between June and September 1994 to 25.408 million.

12. The **Summer Labour Force Survey** (June to August) in Great Britain showed that **ILO unemployment**, seasonally adjusted, fell by 13,000 between the Spring and Summer 1994 surveys to 2.6 million. Over this period, **total GB employment** rose by 64,000 to 25.05 million. Chart 6 shows the ILO unemployed as a percentage of the previous industry sectors that they were employed in.

Chart 6
GB ILO unemployment rates
summer 1994



13. In the three months to October, **productivity in manufacturing** was 6.5 per cent up on the three months to October 1993. **Unit wage costs in manufacturing** fell by 1.7 per cent over the same period.

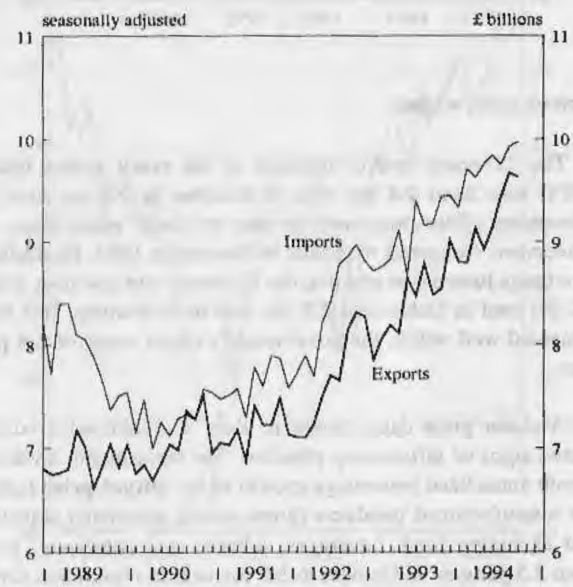
Monetary indicators

14. The **annual growth of narrow money (M0)**, seasonally adjusted, fell from 7.3 per cent in October to 7.1 per cent in November - but remained outside the Government's monitoring range of 0-4 per cent.

Balance of payments

15. The deficit on the **balance of UK visible trade** fell from £2.425 billion in the three months to June to £1.521 billion in the three months to September. Over this period the **volume of total exports, excluding oil and erratics**, rose by 4½ per cent. On the same basis **imports** rose by ½ per cent. Chart 7 shows the increase in export and import values of manufactured and semi-manufactured goods.

Chart 7
Value of semi and finished
manufacturers



Forecasts for the UK Economy

A comparison of independent forecasts, November 1994.

The tables below are extracted from HM Treasury's "FORECASTS FOR THE UK ECONOMY" and summarise the average and range of independent forecasts for 1994 and 1995.

	Independent Forecasts for 1994		
	Average	Highest	Lowest
GDP growth (per cent)	3.5	3.7	3.0
Inflation rate (Q4)			
-RPI	2.7	3.2	2.0
-RPI excl MIPS	2.4	2.9	1.9
Unemployment (Q4, mn)	2.54	2.70	2.44
Current Account (£bn)	-5.3	-3.1	-9.1
PSBR (1994-95, £bn)	32.6	36.7	28.5

	Independent Forecasts for 1995		
	Average	Highest	Lowest
GDP growth (per cent)	3.0	4.2	1.8
Inflation rate (Q4)			
-RPI	3.7	1.8	1.7
-RPI excl MIPS	3.2	5.0	1.8
Unemployment (Q4, mn)	2.35	2.65	1.90
Current Account (£bn)	-6.1	-2.1	-13.5
PSBR (1995-96, £bn)	24.0	32.0	16.8

N OTE: "FORECASTS FOR THE UK ECONOMY" gives more detailed forecasts from 44 organisations, covering 24 variables and is published monthly by HM Treasury, available on annual subscription, price £75. Subscription enquiries should be addressed to Miss H Jehal, Publishing Unit, Room 53a/4, HM Treasury, Parliament Street, London SW1P 3AG (0171 270 5607).

INTERNATIONAL ECONOMIC INDICATORS

(includes data up to 14 December 1994)

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.

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. There was no additional data available on **gross domestic product (GDP) at constant market prices** by 14 December.

4. **Consumer price inflation** in the United Kingdom rose from 2.4 per cent in October to 2.6 per cent in November - returning to the rate recorded in June 1994. Over the same period, consumer price inflation in Italy fell from 3.7 per cent to 3.5 per cent. In October, consumer price inflation fell from 2.9 per cent to 2.6 per cent in the United States and from 0.2 per cent to price deflation of 0.2 per cent in Canada. Over the same period, inflation rose in Japan, from 0.4 per cent to 0.9 per cent, and in France, from 1.6 per cent to 1.7 per cent. In October, consumer price inflation was lower in the Major 7 economies, at 2.2 per cent, than in the OECD as a whole, at 4.5 per cent.

5. **The standardised unemployment rate** (ILO based) in the United Kingdom fell from 9.4 per cent in September to 9.2 per cent in October 1994. The rate of unemployment also fell in France, the United States and Canada, by 0.1 of a percentage point. In Japan however, the rate of unemployment edged higher by 0.1 of a percentage point to 3.1 per cent; but the rate remained the lowest in the G7.

1 Gross domestic product at constant market prices: index numbers

1990 = 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	76.8	79.9	79.2	80.3	79.0	77.1	66.4	75.1	75.8	75.8
1985	84.9	84.7	85.4	86.1	85.0	87.4	80.0	86.6	85.4	85.2
1986	88.6	86.7	87.6	88.6	87.5	89.9	82.1	89.5	87.8	87.7
1987	92.8	87.9	89.5	91.4	90.0	92.7	85.7	93.2	90.7	90.6
1988	97.5	91.1	93.6	95.1	93.8	96.4	91.0	97.8	94.7	94.5
1989	99.6	94.4	97.6	97.9	97.1	98.8	95.4	100.2	97.7	97.6
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	98.0	104.6	100.8	101.2	101.7	99.4	104.3	98.2	100.9	100.9
1992	97.5	105.8	102.0	102.0	102.5	101.7	105.7	98.8	102.5	102.4
1993	99.6	103.8	101.0	101.3	102.2	104.8	105.8	101.0	103.9	103.8
1991 Q3	97.7	104.8	101.1	101.4	101.7	99.6	104.7	98.5	101.1	101.1
Q4	97.9	105.3	101.5	102.0	102.1	99.7	105.4	98.5	101.4	101.4
1992 Q1	97.2	106.4	102.2	102.4	103.0	100.4	106.0	98.6	102.0	102.1
Q2	97.3	106.3	102.0	102.5	102.7	101.0	105.7	98.7	102.2	102.2
Q3	97.7	105.7	102.0	101.6	102.3	101.9	105.6	98.8	102.5	102.5
Q4	97.9	104.9	101.8	101.5	102.1	103.3	105.5	98.9	103.1	102.9
1993 Q1	98.5	103.1	100.7	101.1	101.7	103.6	106.3	99.8	103.2	103.1
Q2	99.1	103.6	100.9	101.4	102.0	104.2	105.6	100.8	103.5	103.5
Q3	99.9	104.5	101.2	100.8	102.4	104.9	105.8	101.2	104.0	104.0
Q4	100.7	104.1	101.2	101.8	102.8	106.5	105.2	102.1	104.8	104.7
1994 Q1	101.6	104.7	101.9	102.2	103.5	107.4	106.1	103.2	105.6	105.5
Q2	103.1	106.7	102.9	103.7	..	108.5	105.7	104.8	106.4	..
Q3	103.9	..	..	..	..	109.4	..	..	..	..
Percentage change, latest quarter on corresponding quarter of previous year										
1994 Q2	*4.0*	*3.0*	*2.0*	*2.3*	..	*4.1*	*0.1*	*4.0*	*2.8*	..
Q3	*4.0*	..	..	..	..	*4.3*	..	..	..	..
Percentage change, latest quarter on previous quarter										
1994 Q2	*1.4*	*1.9*	*1.0*	*1.5*	..	*1.0*	*−0.4*	*1.6*	*0.8*	..
Q3	*0.8*	..	..	..	..	*0.8*	..	..	..	..

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*	*13.4*	*21.1*	*13.6*	*13.7*	*8.0*	*10.2*	*12.9*	*13.6*
1985	6.1	*2.2*	*5.9*	*8.6*	*6.2*	*3.5*	*2.1*	*4.0*	*4.0*	*4.9*
1986	3.4	*−0.1*	*2.7*	*6.2*	*3.7*	*1.9*	*0.4*	*4.1*	*2.0*	*3.0*
1987	4.2	*0.2*	*3.1*	*4.6*	*3.3*	*3.7*	*−0.2*	*4.4*	*2.9*	*3.6*
1988	4.9	*1.3*	*2.8*	*5.0*	*3.6*	*4.0*	*0.5*	*4.0*	*3.4*	*4.3*
1989	7.8	*2.8*	*3.5*	*6.6*	*5.3*	*4.9*	*2.2*	*5.1*	*4.5*	*5.4*
1990	9.5	*2.7*	*3.4*	*6.0*	*5.6*	*5.4*	*3.1*	*4.7*	*5.0*	*5.8*
1991	5.9	*3.5*	*3.2*	*6.5*	*5.1*	*4.2*	*3.3*	*5.6*	*4.3*	*5.2*
1992	3.7	*4.0*	*2.4*	*5.3*	*4.2*	*3.1*	*1.6*	*1.5*	*3.1*	*4.0*
1993	1.6	*4.2*	*2.1*	*4.2*	*3.4*	*3.0*	*1.1*	*1.9*	*2.6*	*3.6*
1993 Q3	*1.7*	*4.2*	*2.2*	*4.3*	*3.5*	*2.8*	*1.6*	*1.8*	*2.7*	*3.7*
Q4	*1.6*	*3.8*	*2.1*	*4.1*	*3.2*	*2.8*	*0.9*	*1.8*	*2.5*	*3.5*
1994 Q1	*2.4*	*3.3*	*1.8*	*4.2*	*3.2*	*2.6*	*1.0*	*0.6*	*2.4*	*3.5*
Q2	*2.6*	*3.1*	*1.7*	*4.0*	*3.2*	*2.4*	*0.6*	*0.0*	*2.2*	*4.2*
Q3	*2.3*	..	*1.7*	*3.8*	*3.1*	*2.9*	*−0.2*	*0.2*	*2.3*	*4.3*
1993 Nov	1.4	*3.6*	*2.2*	*4.1*	*3.2*	*2.7*	*0.9*	*1.9*	*2.4*	*3.4*
Dec	1.9	*3.7*	*2.1*	*3.9*	*3.3*	*2.8*	*0.9*	*1.7*	*2.5*	*3.6*
1994 Jan	2.5	*3.5*	*1.9*	*4.3*	*3.4*	*2.6*	*1.1*	*1.3*	*2.4*	*3.5*
Feb	2.4	*3.4*	*1.8*	*4.2*	*3.3*	*2.6*	*1.0*	*0.3*	*2.3*	*3.5*
Mar	2.3	*3.2*	*1.5*	*4.2*	*3.2*	*2.5*	*1.1*	*0.2*	*2.4*	*3.6*
Apr	2.6	*3.1*	*1.7*	*4.1*	*3.2*	*2.4*	*0.7*	*0.3*	*2.2*	*4.0*
May	2.6	*3.0*	*1.7*	*4.0*	*3.2*	*2.3*	*0.7*	*−0.2*	*2.2*	*4.2*
Jun	2.6	*3.0*	*1.8*	*3.7*	*3.2*	*2.5*	*0.3*	*0.0*	*2.2*	*4.2*
Jul	2.3	*2.9*	*1.7*	*3.7*	*3.1*	*2.8*	*0.0*	*0.2*	*2.2*	*4.2*
Aug	2.4	*3.0*	*1.7*	*3.8*	*3.1*	*2.9*	*0.2*	*0.2*	*2.3*	*4.2*
Sep	2.2	..	*1.6*	*3.9*	*3.1*	*2.9*	*0.4*	*0.2*	*2.3*	*4.5*
Oct	2.4	..	*1.7*	*3.7*	..	*2.6*	*0.9*	*−0.2*	*2.2*	*4.5*
Nov	2.6	..	..	*3.5*	..	..	..	..	..	..

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	6.2	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	7.2	5.6	9.4	10.9	9.0	5.2	2.3	7.5	5.7	6.2
1990	6.8	4.8	8.9	10.3	8.4	5.4	2.1	8.1	5.6	6.1
1991	8.8	4.2	9.4	9.9	8.7	6.6	2.1	10.2	6.3	6.8
1992	9.9	4.6	10.4	10.5	9.5	7.3	2.2	11.2	6.9	7.5
1993	10.3	5.8	11.7	10.2	10.7	6.7	2.5	11.1	6.9	7.8
1994 Q2	9.6	6.6	12.6	12.5	11.6	6.1	2.8	10.6	7.0	8.0
Q3	9.5	..	12.6	11.8	..	6.0	3.0	10.1	6.9	7.9
1993 Oct	10.2	6.2	12.2	10.7	11.1	6.6	2.7	11.1	7.0	8.0
Nov	10.1	6.3	12.4	–	11.2	6.4	2.7	10.9	7.0	7.9
Dec	9.9	6.3	12.4	–	11.3	6.3	2.8	11.1	7.0	8.0
1994 Jan	10.0	6.4	12.5	11.7	11.4	6.6	2.7	11.3	7.1	8.1
Feb	9.9	6.5	12.5	–	11.5	6.4	2.9	11.0	7.1	8.1
Mar	9.8	6.5	12.6	–	11.5	6.5	2.8	10.5	7.1	8.1
Apr	9.6	6.6	12.6	12.5	11.6	6.4	2.8	10.9	7.1	8.0
May	9.6	6.6	12.7	..	11.6	6.0	2.8	10.7	6.9	7.9
Jun	9.6	6.6	12.6	..	11.6	5.9	2.9	10.3	6.9	7.9
Jul	9.6	..	12.6	..	11.6	6.1	3.0	10.1	6.9	7.9
Aug	9.5	..	12.6	..	11.6	6.1	3.0	10.3	6.9	7.9
Sep	9.4	..	12.7	..	..	5.8	3.0	10.0	6.8	7.8
Oct	9.2	..	12.6	..	..	5.7	3.1	9.9	6.7	7.7

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	−1.7	−0.6	−2.3	0.1	−1.0	−0.6
1985	0.6	2.7	−0.1	−0.9	−3.1	3.6	−1.3
1986	−0.2	4.5	0.3	0.4	−3.5	4.3	−2.8
1987	−1.2	4.1	−0.6	−0.2	−3.7	3.6	−2.8
1988	−3.5	4.2	−0.5	−0.7	−2.6	2.7	−3.5
1989	−4.4	4.9	−0.5	−1.2	−2.0	2.0	−4.1
1990	−3.5	3.1	−0.8	−1.3	−1.7	1.2	−3.8
1991	−1.4	−1.2	−0.5	−1.9	−0.1	2.3	−4.1
1992	−1.6	−1.2	0.3	−2.3	−1.1	3.1	−3.8
1993	−1.6	−1.2	0.8	−0.7	−0.2	0.3	−4.4
1993 Q4	−1.3	−0.4	0.3	1.9	−1.9	2.8	−4.1
1994 Q1	−0.8	−1.9	0.2	..	−1.9	3.1	−4.0
Q2	−0.4	..	..	..	−2.2	0.2	−4.1

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

5 Total industrial production: index numbers

1990 = 100

	United Kingdom	Germany[1]	France	Italy	EC	United States	Japan[2]	Canada[3]	Major 7	OECD[4]
	DVZI	HFGA	HFFZ	HFGB	GACY	HFGD	HFGC	HFFY	GAES	GACX
1980	81.5	83.0	89.1	87.9	84.2	79.3	67.3	81.5	78.7	91.3
1985	88.0	85.6	87.5	84.8	86.2	89.0	79.8	94.5	86.3	100.0
1986	90.1	87.3	88.3	87.9	88.2	89.9	79.6	93.8	87.3	101.2
1987	93.7	87.6	90.0	91.3	90.1	94.3	82.4	98.4	90.6	104.9
1988	98.2	90.7	94.3	96.8	94.2	98.5	90.7	103.6	95.6	95.5
1989	100.3	95.1	98.1	99.8	98.1	100.0	96.0	103.4	98.5	98.5
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	96.1	103.1	99.9	99.1	100.1	98.2	101.9	95.9	99.6	99.5
1992	95.9	101.0	98.8	98.9	98.8	100.5	96.1	96.8	99.0	98.8
1993	97.9	86.8	95.1	96.5	95.5	104.6	92.0	101.5	98.8	98.5
1993 Q3	98.4	93.8	95.5	96.7	96.5	105.9	91.6	101.9	99.3	99.4
Q4	99.6	93.6	94.6	96.1	96.3	107.2	89.8	102.9	99.5	99.5
1994 Q1	100.7	93.5	95.4	96.0	96.9	109.1	91.2	103.7	100.7	100.7
Q2	102.9	96.5	98.2	100.6	101.8	110.7	91.8	107.0	102.7	102.7
Q3	104.2	..	..	103.6	..	112.0	94.1	..	..	..
1993 Oct	99.5	93.9	96.8	96.5	96.2	105.5	89.1	102.7	98.7	98.8
Nov	99.9	93.3	97.6	96.6	96.3	106.4	90.4	103.1	99.3	99.4
Dec	99.4	93.8	96.6	95.2	96.2	107.5	89.8	102.9	99.5	99.5
1994 Jan	100.4	92.1	97.8	94.9	95.7	108.1	90.2	103.3	99.8	99.8
Feb	101.1	93.9	97.7	96.8	97.4	108.5	89.8	102.9	100.2	100.5
Mar	100.6	94.4	98.4	96.3	97.4	109.3	93.7	104.4	101.5	101.4
Apr	102.6	96.0	100.3	100.3	99.4	109.4	91.6	105.7	101.9	101.9
May	103.0	95.9	100.9	100.3	99.7	110.0	90.7	106.7	102.0	102.2
Jun	103.2	96.8	100.4	100.1	99.8	110.8	93.1	107.7	103.0	103.1
Jul	103.6	99.0	102.5	104.3	..	111.5	92.2	108.7	103.9	103.9
Aug	103.9	96.3	102.5	105.2	..	112.3	95.9	110.0	104.9	105.1
Sep	105.0	97.4	102.2	101.3	..	112.3	94.1	109.5	104.3	104.5
Oct	105.1	99.0	..	..	..	113.0	..	..	..	..
Percentage change: average of latest three months on that of corresponding period of previous year										
1994 Sep	*5.9*	*−6.7*	*4.8*	*7.1*	..	*6.9*	*2.7*	*7.4*	*5.5*	*5.6*
Oct	*6.0*	*−2.1*	..	..	..	*7.1*	..	..	..	..
Percentage change: average of latest three months on previous three months										
1994 Sep	*1.2*	*1.4*	*1.9*	*3.4*	..	*1.8*	*2.5*	*2.5*	*2.0*	*2.1*
Oct	*1.4*	*0.3*	..	..	..	*1.6*	..	..	..	..

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	*15.9*	*7.0*	*9.4*	..	*11.3*	*13.4*	*14.8*	*13.4*	*13.2*	*13.2*
1985	*6.2*	*2.1*	*4.4*	*7.7*	*5.0*	*0.8*	*−0.8*	*2.7*	*2.0*	*3.0*
1986	*1.4*	*−2.3*	*−2.8*	*0.1*	*−0.9*	*−1.4*	*−4.7*	*0.9*	*−1.5*	*−1.1*
1987	*3.4*	*−0.5*	*0.7*	*3.1*	*1.4*	*2.1*	*−2.9*	*2.7*	*1.1*	*1.5*
1988	*3.7*	*1.6*	*5.1*	*3.5*	*3.4*	*2.5*	*−0.3*	*4.5*	*2.4*	*3.5*
1989	*4.8*	*3.4*	*5.4*	*5.8*	*4.9*	*5.2*	*2.1*	*1.8*	*4.4*	*5.3*
1990	*6.2*	*1.5*	*−1.2*	*4.2*	*2.4*	*4.9*	*1.6*	*0.3*	*3.3*	*4.0*
1991	*5.4*	*2.1*	*−1.3*	*3.3*	*2.3*	*2.1*	*1.1*	*−1.0*	*1.9*	*2.5*
1992	*3.1*	*1.7*	*−1.6*	*1.9*	*1.2*	*1.3*	*−0.9*	*0.5*	*0.8*	*1.7*
1993	*3.7*	*0.0*	*−2.8*	*3.7*	*0.3*	*1.3*	*−1.7*	*3.3*	*0.4*	*1.6*
1994 Q1	*3.1*	*0.0*	*−1.5*	*3.4*	*1.5*	*0.3*	*−2.2*	*3.4*	*0.3*	*2.1*
Q2	*2.2*	*0.3*	*−0.1*	*3.0*	*1.6*	*−0.3*	*−2.0*	*5.2*	*0.2*	*3.9*
Q3	*2.0*	..	..	..	..	*1.3*	*−1.7*	*6.6*	..	..
1993 Nov	*3.6*	*−0.4*		*3.9*	*0.4*	*0.4*	*−2.1*	*2.9*	*−0.1*	*1.4*
Dec	*3.9*	*−0.2*		*3.7*	*0.5*	*0.2*	*−2.2*	*3.2*	*−0.2*	*1.3*
1994 Jan	*3.5*	*−0.1*		*3.5*	*1.5*	*0.3*	*−2.1*	*2.6*	*0.2*	*1.8*
Feb	*3.2*	*0.1*		*3.6*	*1.5*	*0.2*	*−2.2*	*3.5*	*0.3*	*2.1*
Mar	*2.9*	*0.1*		*3.2*	*1.4*	*0.2*	*−2.2*	*3.9*	*0.2*	*2.2*
Apr	*2.3*	*0.3*		*3.0*	*1.5*	*−0.4*	*−2.2*	*4.3*	*0.0*	*3.4*
May	*2.2*	*0.4*		*3.2*	*1.7*	*−0.5*	*−2.0*	*5.2*	*0.1*	*4.0*
Jun	*2.1*	*0.5*		*3.0*	*1.7*	*0.0*	*−1.9*	*6.2*	*0.3*	*4.2*
Jul	*1.8*	..		*3.2*	*1.6*	*0.6*	*−1.8*	*6.6*	*0.6*	*4.4*
Aug	*2.0*	..		..	*1.8*	*1.9*	*−1.7*	*6.6*	*1.4*	*5.1*
Sep	*2.2*	..		..	..	*1.3*	*−1.5*	*6.2*	..	..
Oct	*2.2*	..		..	..	..	..	..	..	..
Nov	*2.4*	..		..	..	..	..	..	..	..

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

7 Total employment: index numbers[1]

1990 = 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	95.0	95.3	96.6	97	100	84	89	85	..	..
1985	91.9	93.5	95.6	97	93	91	93	89	92	92
1986	92.0	94.4	96.1	98	94	93	94	92	94	93
1987	93.8	95.3	96.5	98	95	95	95	94	95	95
1988	96.9	96.3	97.5	99	97	98	96	97	97	97
1989	99.3	97.2	99.0	99	98	100	98	99	99	99
1990	100.0	100.0	100.0	100	100	100	100	100	100	100
1991	97.3	101.9	100.0	101	100	99	102	98	100	100
1992	94.8	102.8	99.4	101	99	100	103	97	100	100
1993	93.7	100.9	97.9	96	97	101	103	99	100	99
1993 Q1	93.5	100.9	98.1	97	97	99	101	95	99	98
Q2	93.5	100.9	98.3	96	97	101	104	99	100	100
Q3	93.9	100.9	98.1	96	97	102	104	101	101	100
Q4	93.9	100.0	97.2	95	96	102	104	99	100	100
1994 Q1	93.6	99.1	97.3	93	95	102	101	96	100	99
Q2	93.6	..	98.2	93	96	104	105	101	101	101
Q3	94.0	..	..	94	..	105	104	104	..	..
1994 Jul	..	..	..	94	..	106	104	104	102	101
Aug	..	..	..	..	..	106	104	104	102	101
Sep	..	..	..	..	..	105	104	102	..	..
Percentage change, latest quarter on that of corresponding period of previous year										
1994 Q2	*0.1*	..	*−0.1*	*−3.1*	*−1.0*	*3.0*	*1.0*	*2.0*	*1.0*	*1.0*
Q3	*0.1*	..	..	*−2.1*	..	*2.9*	*0.0*	*3.0*	..	..
Percentage change latest quarter on previous quarter										
1994 Q2	*0.0*	..	*0.9*	*0.0*	*1.1*	*2.0*	*4.0*	*5.2*	*1.0*	*2.0*
Q3	*0.4*	..	..	*1.1*	..	*1.0*	*−1.0*	*3.0*	..	..

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	*17.6*	*6.5*	*15.0*	*18.7*	*11.4*	*8.1*	*7.4*	*9.6*	*8.9*	*9.3*
1985	*9.0*	*4.2*	*5.7*	*11.4*	*7.0*	*3.5*	*3.1*	*3.8*	*5.1*	*5.2*
1986	*7.7*	*4.0*	*4.0*	*4.7*	*5.3*	*2.3*	*1.4*	*2.4*	*2.4*	*3.7*
1987	*8.1*	*3.8*	*3.1*	*6.6*	*6.3*	*2.2*	*1.7*	*3.6*	*3.5*	*3.6*
1988	*8.5*	*4.6*	*3.0*	*6.0*	*4.7*	*2.2*	*4.5*	*4.6*	*3.4*	*4.6*
1989	*8.8*	*3.5*	*3.8*	*6.1*	*5.6*	*3.2*	*5.8*	*5.5*	*4.4*	*4.4*
1990	*9.3*	*5.1*	*4.6*	*7.2*	*6.4*	*3.1*	*5.3*	*4.2*	*5.3*	*5.3*
1991	*8.2*	*5.7*	*4.3*	*9.8*	*7.0*	*3.0*	*3.5*	*5.0*	*5.0*	*5.0*
1992	*6.6*	*6.2*	*3.6*	*5.4*	*6.5*	*2.9*	*1.1*	*2.9*	*2.9*	*3.8*
1993	*4.5*	..	*2.6*	*3.5*	*4.4*	*1.9*	*0.1*	*2.8*	*2.8*	*2.8*
1993 Q4	*3.9*	..	*2.2*	*3.9*	*5.2*	*2.8*	*−0.2*	*1.8*	*2.6*	*2.6*
1994 Q1	*4.9*	..	*2.1*	*4.2*	*4.3*	*3.7*	*2.9*	*1.8*	*2.9*	*3.8*
Q2	*4.4*	..	*2.4*	*4.1*	*3.4*	*2.8*	*5.0*	*0.9*	*3.6*	*3.6*
Q3	..	..	*2.4*	..	..	*1.8*	..	..	..	..
1993 Oct	*3.8*	..	*2.2*	*4.0*	*4.3*	*2.8*	*0.6*	*1.8*	*2.9*	*2.9*
Nov	*4.0*	..	..	*4.0*	*5.2*	*2.8*	*1.7*	*1.8*	*3.8*	*3.8*
Dec	*4.0*	..	..	*3.7*	*4.3*	*3.7*	*−1.1*	*0.9*	*1.4*	*2.2*
1994 Jan	*4.8*	..	*2.1*	*4.0*	*4.3*	*2.8*	*4.5*	*0.9*	*3.8*	*3.8*
Feb	*4.4*	..	..	*4.3*	*4.3*	*3.7*	*1.8*	*1.8*	*3.9*	*3.8*
Mar	*5.3*	..	..	*4.5*	*4.3*	*3.7*	*2.4*	*2.7*	*3.8*	*2.8*
Apr	*4.7*	..	*2.4*	*4.6*	*3.4*	*2.8*	*1.9*	*1.8*	*2.9*	*2.8*
May	*4.3*	..	..	*4.6*	*3.4*	*2.8*	*1.0*	*1.8*	*2.9*	*2.8*
Jun	*4.3*	..	..	*3.0*	*2.5*	*2.8*	*9.1*	*2.7*	*5.0*	*4.2*
Jul	*4.2*	..	*2.4*	*3.1*	..	*2.8*	*−5.2*	*1.8*	*0.8*	*0.0*
Aug	*4.5*	..	..	..	..	*2.8*	*−1.5*	*0.0*	*1.9*	..
Sep	..	..	..	..	..	*2.8*	..	..	..	..

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

1990 = 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	71.5	83.5	91.5	72.6	80.0	72.2	103.2	74.8	89.9	90.7
1985	82.8	80.8	90.5	87.4	84.2	85.9	100.0	89.3	100.0	100.0
1986	87.2	83.6	92.6	93.3	87.9	90.7	101.5	93.4	104.5	104.4
1987	91.6	86.9	94.8	97.8	91.6	93.1	107.1	98.6	108.3	108.1
1988	97.3	89.8	98.2	95.7	94.4	96.7	91.6	102.4	95.6	95.4
1989	99.3	92.2	99.4	102.3	97.7	99.3	95.1	102.3	98.4	98.3
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	98.9	105.7	100.1	97.3	100.7	97.9	102.1	89.6	99.1	99.3
1992	99.5	103.6	100.3	102.2	101.2	101.1	99.2	90.8	100.5	100.4
1993	103.0	99.3	100.3	99.0	99.4	106.4	94.4	93.5	102.1	101.4
1994 Q2	106.3	..	99.6	..	..	111.7	91.8	101.0	104.0	103.0
Q3	107.1	..	102.1	..	..	..	..	..	..	..
1994 Jan	105.4	98.5	102.2	100.0	100.1	109.3	95.0	96.0	104.1	103.1
Feb	105.0	99.4	100.2	91.6	98.3	111.1	92.7	99.0	103.9	103.0
Mar	105.7	100.9	103.1	98.1	101.3	112.9	93.0	101.5	105.9	105.0
Apr	106.2	92.5	98.4	91.1	96.3	111.6	91.3	99.6	103.4	102.3
May	106.2	98.1	100.1	91.4	98.0	111.4	91.8	101.1	104.1	103.0
Jun	106.4	..	100.2	..	..	112.2	92.2	102.3	104.6	103.6
Jul	107.0	..	99.4	..	..	111.7	95.0	100.4	104.4	103.3
Aug	106.9	..	103.1	..	..	112.5	..	101.2	105.4	..
Sep	107.3	..	103.7	..	..	..	..	..	..	..
Oct	107.4	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on that of corresponding period of previous year										
1994 Sep	*3.5*	..	*1.4*	..	..	..	..	..	..	..
Oct	*3.1*	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on previous three months										
1994 Sep	*0.8*	..	*2.5*	..	..	..	..	..	..	..
Oct	*0.6*	..	..	..	..	..	..	..	..	..

1 Western Germany (Federal Republic of Germany before unification)

10 World trade[1]

1990 = 100

	Export of manufactures			Import of manufactures			Export of goods			Import of goods			World trade	
	World	OECD	Other	World	OECD	Other	World	OECD	Other	World	OECD	Other	manufact-ures	goods
	GAFE	GAFF	GAFG	GAFH	GAFI	GAFJ	GAFK	GAFL	GAFM	GAFN	GAFO	GAFP	GAFR	GAFQ
1980	58.7	62.4	44.5	60.5	50.9	86.5	62.9	64.0	59.8	65.4	60.3	79.9	59.6	64.1
1985	73.1	76.0	62.0	73.2	68.2	87.0	75.2	77.6	68.8	74.9	72.4	81.8	73.2	75.0
1986	74.7	77.2	64.8	75.3	73.7	79.7	77.7	79.0	74.1	77.1	77.3	76.3	75.0	77.4
1987	79.7	80.7	75.7	80.1	79.4	81.8	82.0	82.5	80.6	81.4	82.6	78.1	79.9	81.7
1988	88.0	88.1	87.4	88.2	87.3	90.6	89.2	89.0	89.8	88.3	88.9	86.7	88.1	88.8
1989	95.0	95.2	94.3	95.8	95.0	97.9	95.3	95.3	95.0	95.0	95.4	94.0	95.4	95.1
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	103.1	102.3	106.2	104.2	103.4	106.3	103.6	103.2	104.3	103.8	103.1	105.7	103.6	103.7
1992	107.8	107.1	110.7	110.6	109.8	113.0	109.7	108.5	106.8	108.2	109.3	111.3	109.2	108.9
1993	111.1	108.9	119.7	113.8	110.8	122.2	112.8	110.8	113.4	111.6	110.5	120.1	112.5	112.2
1991 Q2	102.3	101.3	106.3	103.3	102.1	106.5	102.7	102.0	104.5	103.0	102.0	105.9	102.8	102.8
Q3	104.1	103.0	108.5	105.4	104.4	108.0	104.5	103.8	106.3	104.9	104.1	107.4	104.7	104.7
Q4	105.2	105.0	106.0	106.7	106.8	106.4	105.8	106.3	103.6	105.7	106.0	105.6	105.9	105.7
1992 Q1	107.4	107.1	108.5	109.2	109.0	109.9	108.4	108.4	105.3	107.7	108.4	108.6	108.3	108.0
Q2	106.9	106.0	110.4	109.9	109.0	112.5	109.2	107.5	106.6	107.4	108.7	110.9	108.4	108.3
Q3	108.4	107.5	111.7	111.8	110.8	114.3	110.8	109.2	107.5	108.9	110.4	112.5	110.1	109.8
Q4	108.6	107.7	112.4	111.7	110.4	115.2	110.4	109.0	107.9	108.9	109.6	113.2	110.1	109.6
1993 Q1	108.8	106.9	116.4	111.4	108.5	119.5	110.5	108.5	110.8	109.3	108.3	117.4	110.1	109.9
Q2	109.7	108.0	116.4	112.1	109.4	119.5	111.3	109.8	110.8	110.2	109.3	117.4	110.9	110.7
Q3	111.8	108.9	122.9	114.8	111.1	125.0	113.9	110.8	116.0	112.3	110.9	122.8	113.3	113.1
Q4	114.1	111.8	122.9	117.0	114.1	125.0	115.6	114.0	116.0	114.7	113.3	122.8	115.6	115.1
1994 Q1	117.4	114.1	130.2	120.7	117.1	130.7	119.0	115.9	122.2	117.7	116.0	128.3	119.1	118.4
Percentage change, latest quarter on corresponding quarter of previous year														
1993 Q4	*5.1*	*3.8*	*9.3*	*4.7*	*3.4*	*8.5*	*4.7*	*4.6*	*7.5*	*5.3*	*3.4*	*8.5*	*5.0*	*5.0*
1994 Q1	*7.9*	*6.7*	*11.9*	*8.3*	*7.9*	*9.4*	*7.7*	*6.8*	*10.3*	*7.7*	*7.1*	*9.3*	*8.2*	*7.7*
Percentage change, latest quarter on previous quarter														
1993 Q4	*2.1*	*2.7*	*0.0*	*1.9*	*2.7*	*0.0*	*1.5*	*2.9*	*0.0*	*2.1*	*2.2*	*0.0*	*2.0*	*1.8*
1994 Q1	*2.9*	*2.1*	*5.9*	*3.2*	*2.6*	*4.6*	*2.9*	*1.7*	*5.3*	*2.6*	*2.4*	*4.5*	*3.0*	*2.9*

1 Data used in the World and OECD aggregates refer to Germany after unification

Chart I: Gross domestic product

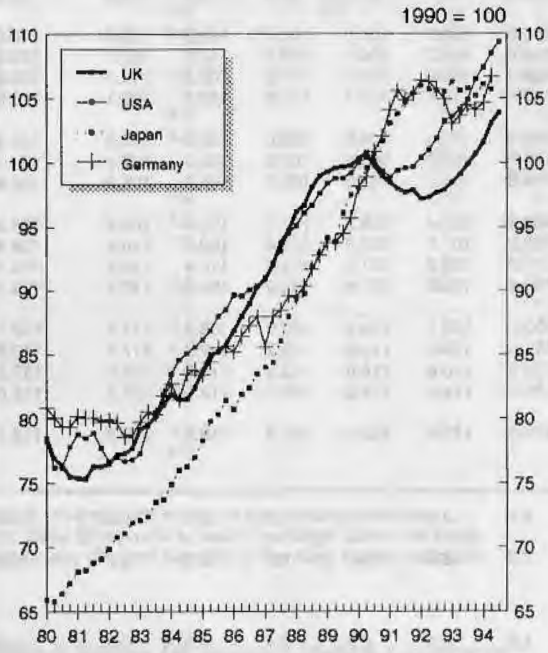


Chart II: Consumer price index

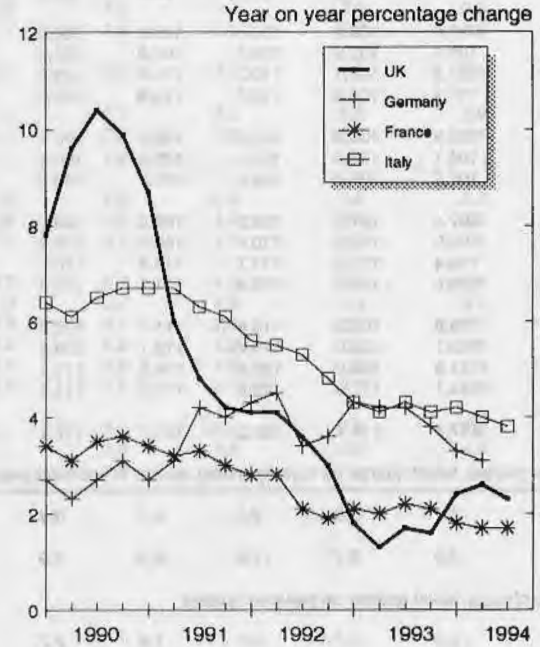
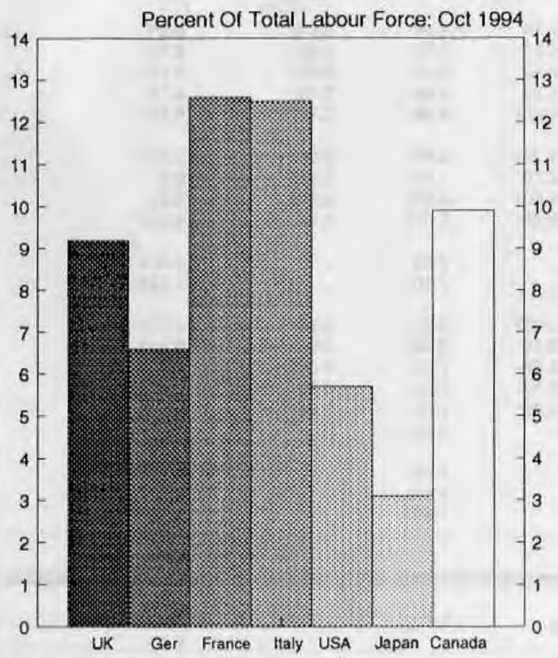


Chart III: Standardised unemployment



Germany refers to June, Italy to April

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

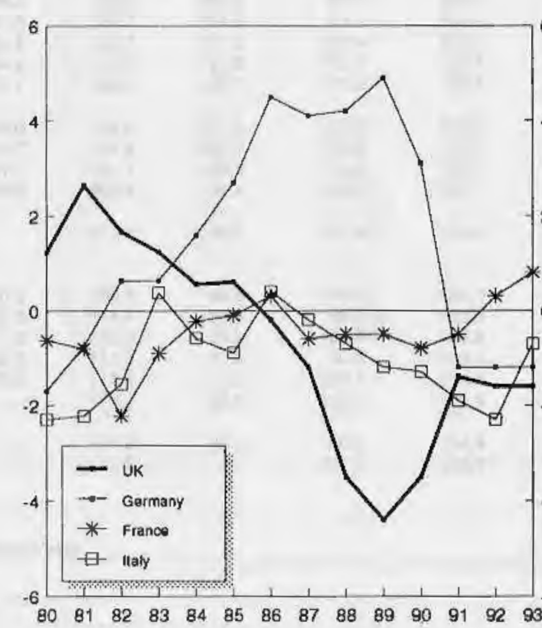


Chart V: Industrial production

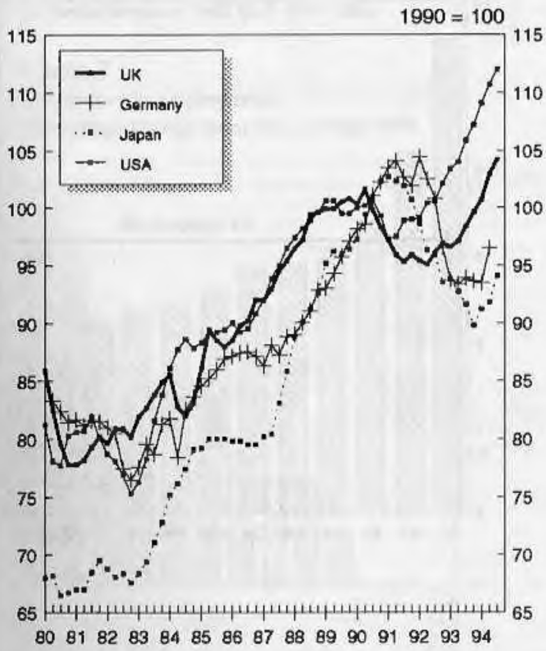


Chart VI: Producer price inflation

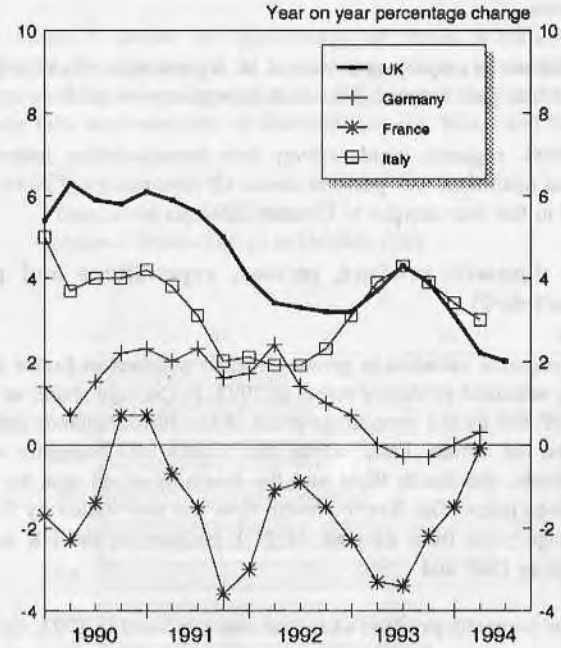


Chart VII: Employment

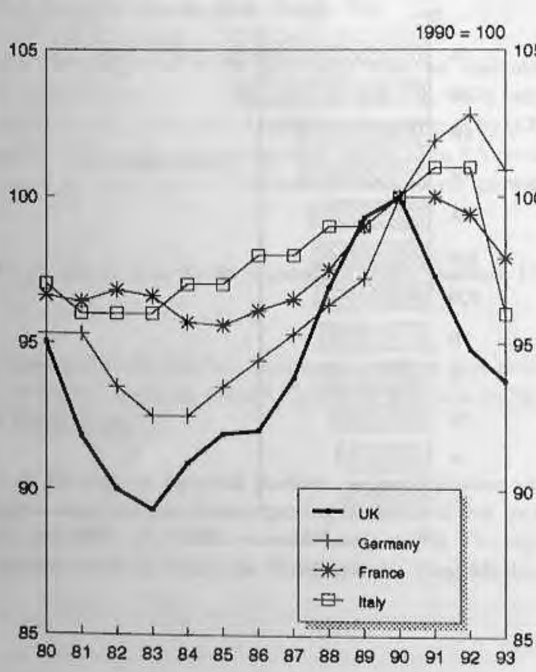
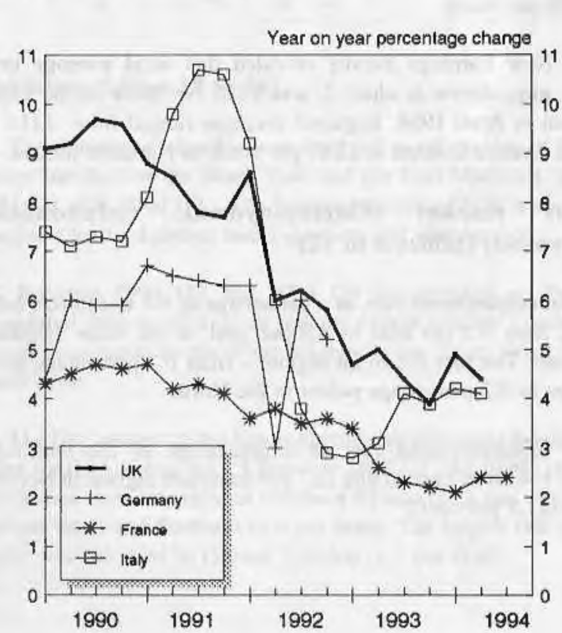


Chart VIII: Wage earnings (manufacturing)



REGIONAL ECONOMIC INDICATORS

(includes data up to 14 December)

Summary

- Regional shares of UK **gross domestic product at factor cost (GDP)** remained relatively stable in 1993.

- The **unemployment rate** fell in all regions in the three months to November.

- **Employees in employment** rose in all regions other than the Rest of the South East between June and September.

- CBI/BSL regional trends survey into manufacturing indicated **business optimism** was positive across all regions except Northern Ireland in the four months to October 1994.

Gross domestic product, income, expenditure and pay (tables 1 to 7)

1. The regional variation in **gross domestic product at factor cost (GDP)**, remained relatively stable in 1993. Percentage shares of the UK GDP fell by 0.1 percentage point in the East Midlands and in the Rest of South East, while the shares of Yorkshire and Humberside, the South West and the North West all rose by 0.1 percentage point. The Rest of South East has now fallen by 0.5 a percentage point from its peak of 21.1 per cent of the UK total, recorded in 1989 and 1990.

2. **Gross domestic product at factor cost per head** in 1993, shown in chart 1, remained highest in Greater London, the Rest of the South East and East Anglia and lowest in Northern Ireland and Wales. However, the gap has narrowed as growth in GDP per head has been slower in Greater London and the Rest of the South East since 1990 (10.8 per cent and 9.5 per cent respectively) than in any other region. By contrast Northern Ireland, Scotland and the South West have had the highest rates of growth (of between 14.8 per cent and 18.8 per cent).

3. The New Earnings Survey revealed that **total average gross weekly pay**, shown in chart 2, was £325 per week in the United Kingdom in April 1994. Regional averages ranged from £416 per week in Greater London to £287 per week in Northern Ireland.

Labour market (Unemployment, redundancies, employment) (tables 8 to 11)

4. The **unemployment** rate, as a percentage of the workforce, fell in the UK from 9.2 per cent to 8.8 per cent, in the three months to November. The rate fell in all regions - from 0.7 percentage points in Wales to 0.2 percentage points in the North.

5. The **unemployment** rate as a percentage of the workforce, remains lowest in East Anglia (6.7 per cent) and highest in Northern Ireland (12.5 per cent).

Chart 1
Gross domestic product at factor cost: per head in 1993

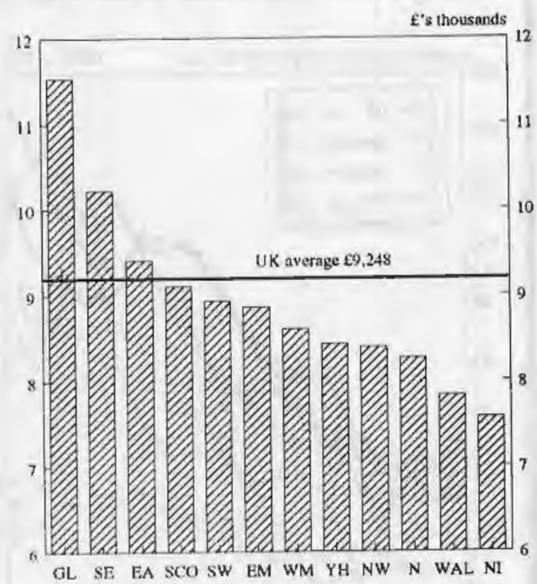
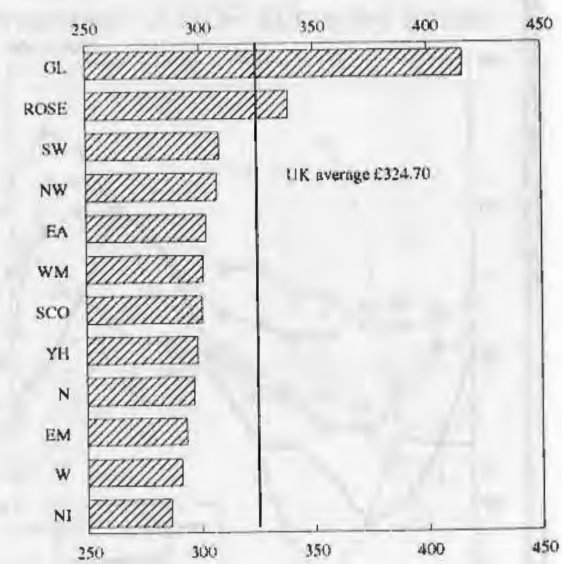


Chart 2
Total average gross weekly pay expenditure



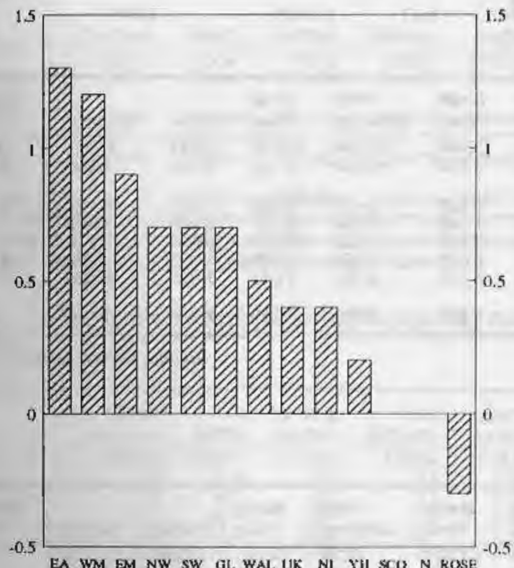
6. The **long-term unemployment** rate fell in all regions between July and October. The largest falls were in the North West and Wales (0.3 percentage points). Northern Ireland continue to have the highest rate of long-term unemployment (7.1 per cent).

7. **Employees in employment**, shown in chart 3, rose in the UK by 0.4 per cent between June and September. The largest rises were in East Anglia (1.3 per cent), the West Midlands (1.2 per cent) and the East Midlands (0.9 per cent). Rest of the South East was the only region where unemployment fell (0.3 per cent).

Chart 3

Employees in employment

percentage change from June to Sept 1994



Index of industrial production (table 12)

8. Between 1994 Q2 and 1994 Q3, there was an increase in **industrial production** of 1.3 per cent in the UK as a whole. Between 1994 Q1 and 1994 Q2 Industrial production rose by 2.2 per cent in the UK. Within the regions, growth varied from 3.5 per cent in Wales and 2.9 per cent in Northern Ireland to no growth in Scotland.

CBI/BSL regional trends in manufacturing (tables 13 to 17)

9. In the four months to October, **business optimism** was positive in all regions except Northern Ireland. Optimism was most by far the highest in East Anglia.

10. Firms in all regions reported positive **output** balances (firms reporting rises in output less those reporting falls) in the four months to October, indicating growth in manufacturing output. The highest **output** balances were in Wales, the North and the West Midlands.

11. **Output expectations**, for the four months from October, were strongest in Wales, the West Midlands and the North. The only region where, on average, firms expected output to fall was the East Midlands.

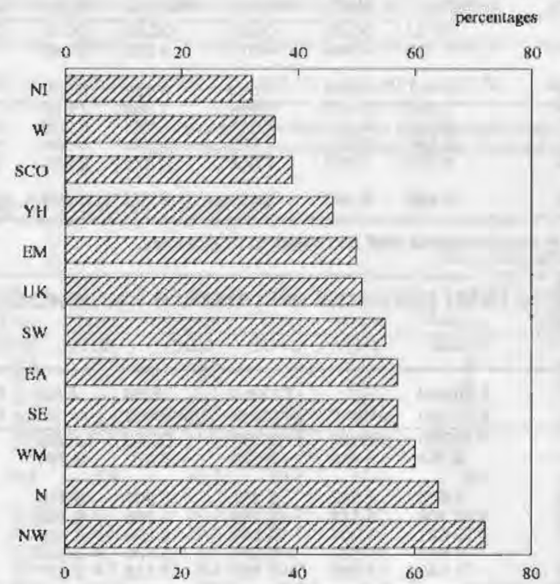
12. Balances for the **volumes of new export orders** were positive in all regions in the four months from October, indicating expectations of increased exports. Wales and the North had the highest balances.

13. Chart 4 shows the **percentage of firms working below capacity**. There was a fall of 3 percentage points in the number of firms working below capacity in the UK between July and October. Sharp falls were recorded in Northern Ireland, Wales and Scotland.

Chart 4

Firms below capacity: CBI

Regional Trends Survey in October 1994



Dwellings (tables 18 to 20)

14. The number of **dwellings started** fell in all regions of England except the Rest of the South East and the East Midlands, between 1994 Q2 and 1994 Q3 . The largest percentage falls were in East Anglia, Greater London and Yorkshire and Humberside.

15. Between 1994 Q2 and 1994 Q3 the number of **dwellings completed** rose in all English regions except Greater London. The largest rises were in the West Midlands, the South West and the North West.

16. The Department of the Environment's all dwellings **house prices** index for the UK rose by 1.1 between 1994 Q2 and 1994 Q3. House prices rises were strongest in Northern Ireland (13.4 per cent) Wales (4.9 per cent) and Scotland (4.0 per cent). The largest fall in house prices was recorded in Greater London (1.3 per cent).

1 Gross domestic product at factor cost: current prices

£ million and percentages

	United Kingdom[1] (£m)	Percentage of the UK[1] North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCIX	DCJF	DCJD	DCJC	DCIZ	DCPK	DCWH	DCJA	DCJB	DCJE	DCJG	DCJH	DCJI
1983	245 703	5.1	8.1	6.6	3.3	14.9	20.1	7.4	8.3	10.7	4.2	8.9	2.2
1984	260 979	5.0	8.1	6.7	3.5	14.7	20.3	7.5	8.4	10.6	4.2	8.8	2.2
1985	289 912	5.0	8.1	6.8	3.5	14.8	20.3	7.5	8.4	10.6	4.1	8.7	2.2
1986	319 893	4.9	8.1	6.7	3.5	15.0	20.5	7.6	8.4	10.5	4.2	8.6	2.2
1987	351 198	4.9	8.0	6.7	3.5	15.1	20.6	7.6	8.4	10.3	4.2	8.5	2.1
1988	394 712	4.8	7.9	6.7	3.6	15.0	21.0	7.7	8.4	10.3	4.3	8.3	2.1
1989	435 325	4.8	7.9	6.8	3.6	15.0	21.1	7.7	8.4	10.2	4.3	8.3	2.1
1990	472 046	4.7	7.8	6.7	3.6	15.0	21.1	7.7	8.4	10.1	4.2	8.4	2.1
1991	489 905	4.8	7.9	6.8	3.6	14.9	20.8	7.7	8.4	10.0	4.3	8.6	2.3
1992	509 762	4.8	7.8	6.8	3.7	14.9	20.7	7.8	8.5	9.9	4.2	8.7	2.3
1993	538 135	4.8	7.9	6.7	3.7	14.9	20.6	7.9	8.5	10.0	4.2	8.7	2.3

1 UK *less* continental shelf and statistical discrepancy.

Source: Central Statistical Office

2 Gross domestic product at factor cost: £ per head

£

	United Kingdom[1]	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCJJ	DCJR	DCJP	DCJO	DCJL	DCWS	DCJK	DCJM	DCJN	DCJQ	DCJS	DCJT	DCJU
1983	4 361	4 066	4 079	4 223	4 249	5 418	4 800	4 132	3 939	4 112	3 715	4 246	3 431
1988	6 917	6 159	6 318	6 652	6 903	8 768	7 817	6 526	6 400	6 369	5 977	6 447	5 266
1989	7 606	6 813	6 944	7 365	7 676	9 638	8 629	7 168	6 998	6 943	6 475	7 098	5 827
1990	8 222	7 244	7 465	7 885	8 326	10 405	9 327	7 781	7 639	7 453	6 952	7 810	6 375
1991	8 497	7 609	7 797	8 226	8 501	10 734	9 485	8 027	7 858	7 665	7 226	8 205	6 922
1992	8 789	7 909	7 984	8 476	8 954	11 025	9 762	8 370	8 191	7 911	7 330	8 668	7 151
1993	9 248	8 265	8 434	8 864	9 408	11 528	10 215	8 934	8 608	8 395	7 831	9 104	7 574

1 UK *less* continental shelf and statistical discrepancy.

Source: Central Statistical Office

3 Total personal disposable income: £ per head

£

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCSD	DCSM	DCSK	DCSJ	DCSG	DCSF	DCWI	DCSH	DCSI	DCSL	DCSN	DCSO	DCSP
1982	3 392	3 252	3 222	3 272	3 194	4 235	3 548	3 351	3 103	3 230	3 064	3 252	2 844
1988	5 566	4 982	5 157	5 269	5 473	6 868	6 218	5 487	5 155	5 155	4 807	5 187	4 758
1989	6 166	5 412	5 749	5 966	6 149	7 697	6 847	6 071	5 699	5 716	5 237	5 659	5 294
1990	6 621	5 904	6 146	6 294	6 532	8 418	7 236	6 402	6 163	6 178	5 419	6 351	5 581
1991	7 044	6 480	6 635	6 730	6 956	8 858	7 463	6 767	6 559	6 670	5 899	6 904	6 173
1992	7 543	7 040	7 150	7 112	7 577	9 133	8 030	7 171	7 040	7 146	6 442	7 617	6 755

Source: Central Statistical Office

4 Household disposable income: £ per head

£

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DEPZ	DEQA	DEQB	DEQC	DEQD	DEQE	DEQF	DEQG	DEQH	DEQI	DEQJ	DEQK	DEQL
1988	5 306	4 817	4 934	5 011	5 420	6 301	5 838	5 466	4 852	4 897	4 737	5 089	4 589
1989	5 950	5 363	5 542	5 735	6 111	6 981	6 627	6 169	5 465	5 473	5 153	5 645	5 073
1990	6 663	6 024	6 245	6 368	6 828	7 747	7 273	6 807	6 183	6 167	6 020	6 558	5 669
1991	7 083	6 567	6 674	6 759	7 184	8 212	7 575	7 234	6 620	6 578	6 457	7 033	6 278
1992	7 503	7 060	7 136	7 096	7 712	8 582	7 914	7 616	6 998	6 988	6 978	7 640	6 748

Source: Central Statistical Office

5 Consumers' expenditure: £ per head

£

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCVD	DCVM	DCVK	DCVJ	DCVG	DCVE	DCWD	DCVH	DCVI	DCVL	DCVN	DCVO	DCVP
1982	3 008	2 740	2 664	2 828	2 894	3 780	3 235	3 021	2 821	2 889	2 731	2 856	2 440
1988	5 247	4 527	4 664	4 708	5 201	6 710	5 867	5 375	4 779	4 988	4 539	4 847	4 271
1989	5 720	4 932	5 090	5 309	5 707	7 246	6 375	5 806	5 303	5 430	5 001	5 177	4 680
1990	6 053	5 203	5 303	5 760	6 037	7 547	6 715	6 215	5 611	5 731	5 417	5 542	5 050
1991	6 333	5 548	5 632	5 968	6 343	7 769	7 021	6 485	5 832	6 028	5 760	5 789	5 352
1992	6 598	5 825	5 980	6 159	6 771	7 980	7 393	6 754	6 020	6 222	6 009	5 967	5 636

Source: Central Statistical Office

6 Average weekly household disposable income and expenditure

£

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
Average weekly disposable household income													
	DCXQ	DCXR	DCXS	DCXT	DCXU	DCXV	DCXW	DCXX	DCXY	DCXZ	DCYA	DCYB	DCYC
1993	288.44	246.67	263.31	277.52	286.01	343.15	335.40	273.51	248.47	277.82	257.85	274.52	268.24
Average weekly household expenditure													
	DCYD	DCYE	DCYF	DCYG	DCYH	DCYI	DCYJ	DCYK	DCYL	DCYM	DCYN	DCYO	DCYP
1993	276.68	245.94	263.06	262.15	260.46	321.95	320.64	268.14	238.19	261.81	249.45	264.84	255.32

Source: Family Expenditure Survey, Central Statistical Office

7 Total average gross weekly pay[1]

£

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DEOG	DCQK	DCQI	DCQH	DCQE	DCPI	DEOH	DCQF	DCQG	DCQJ	DCQL	DCQM	DCQN
1991 Apr	283.80	258.00	257.90	261.30	268.90	361.10	295.30	265.60	261.10	267.10	252.20	265.30	245.90
1992 Apr	303.80	282.30	277.30	276.10	288.40	385.30	315.60	283.10	279.90	285.50	270.90	286.70	269.60
1993 Apr	316.00	288.60	287.40	285.70	292.20	408.00	328.70	298.40	291.90	298.80	281.20	296.80	282.40
1994 Apr	324.70	297.00	298.60	293.50	302.70	415.50	339.10	308.70	301.40	307.50	291.40	300.80	286.50

1 Average gross weekly earnings of full-time employees on adult rates whose pay for the survey pay-period was not affected by absence.

Sources: New Earnings Survey, Employment Department; Department of Economic Development, Northern Ireland

8 Unemployment (claimant count) as a percentage of total workforce

Seasonally adjusted

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCKH	DCKP	DCKN	DCKM	DCKJ	DCRA	DEOB	DCKK	DCKL	DCKO	DCKQ	DCKR	DCPL
1989	*6.3*	*9.9*	*7.4*	*5.4*	*3.5*	*5.1*	*2.9*	*4.5*	*6.5*	*8.5*	*7.3*	*9.3*	*14.3*
1990	*5.8*	*8.7*	*6.7*	*5.1*	*3.7*	*5.0*	*3.1*	*4.4*	*5.8*	*7.7*	*6.7*	*8.1*	*13.0*
1991	*8.1*	*10.3*	*8.7*	*7.3*	*5.9*	*8.1*	*6.0*	*7.1*	*8.5*	*9.4*	*8.9*	*8.6*	*13.3*
1992	*9.8*	*11.3*	*10.0*	*9.1*	*7.8*	*10.6*	*8.3*	*9.4*	*10.6*	*10.8*	*10.0*	*9.4*	*14.0*
1993	*10.3*	*12.1*	*10.3*	*9.5*	*8.4*	*11.5*	*9.0*	*9.8*	*11.0*	*10.8*	*10.3*	*9.6*	*13.8*
1993 Dec	*9.8*	*11.7*	*9.9*	*9.1*	*7.6*	*11.2*	*8.5*	*8.9*	*10.3*	*10.2*	*10.0*	*9.4*	*13.4*
1994 Jan	*9.9*	*11.8*	*10.0*	*9.2*	*7.8*	*11.3*	*8.6*	*9.0*	*10.3*	*10.3*	*10.1*	*9.5*	*13.3*
Feb	*9.8*	*11.6*	*9.9*	*9.1*	*7.6*	*11.2*	*8.4*	*8.8*	*10.1*	*10.1*	*10.0*	*9.5*	*13.3*
Mar	*9.7*	*11.5*	*9.8*	*9.0*	*7.5*	*11.1*	*8.2*	*8.7*	*9.9*	*10.0*	*9.9*	*9.4*	*13.3*
Apr	*9.5*	*11.4*	*9.7*	*8.9*	*7.3*	*10.9*	*8.0*	*8.5*	*9.8*	*9.9*	*9.8*	*9.3*	*13.3*
May	*9.4*	*11.3*	*9.6*	*8.8*	*7.3*	*10.8*	*8.0*	*8.5*	*9.6*	*9.8*	*9.7*	*9.3*	*13.1*
Jun	*9.4*	*11.3*	*9.6*	*8.8*	*7.2*	*10.8*	*7.9*	*8.5*	*9.6*	*9.7*	*9.6*	*9.2*	*13.2*
Jul	*9.3*	*11.3*	*9.5*	*8.8*	*7.2*	*10.7*	*7.8*	*8.4*	*9.5*	*9.6*	*9.6*	*9.3*	*13.1*
Aug	*9.2*	*11.2*	*9.4*	*8.7*	*7.1*	*10.6*	*7.6*	*8.2*	*9.4*	*9.5*	*9.5*	*9.2*	*13.0*
Sep	*9.1*	*11.1*	*9.3*	*8.6*	*7.0*	*10.5*	*7.5*	*8.1*	*9.3*	*9.4*	*9.3*	*9.0*	*12.8*
Oct	*8.9*	*11.0*	*9.2*	*8.4*	*6.8*	*10.4*	*7.3*	*8.0*	*9.1*	*9.2*	*9.0*	*8.8*	*12.7*
Nov	*8.8*	*11.0*	*9.1*	*8.3*	*6.7*	*10.3*	*7.1*	*7.8*	*8.9*	*9.0*	*8.8*	*8.7*	*12.5*

Source: Employment Department

9 Long-term unemployed as a percentage of total workforce (those out of work for 12 months or more)

Percentages

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCKS	DCLA	DCKY	DCKX	DCKU	DCRB	DCKT	DCKV	DCKW	DCKZ	DCLB	DCLC	DCLD
1994 Jan	*3.8*	*4.5*	*3.8*	*3.5*	*2.6*	*4.6*	*3.1*	*3.2*	*4.4*	*4.0*	*3.7*	*3.4*	*7.6*
Apr	*3.7*	*4.4*	*3.6*	*3.4*	*2.5*	*4.5*	*3.0*	*3.1*	*4.2*	*3.8*	*3.6*	*3.3*	*7.4*
Jul	*3.6*	*4.3*	*3.5*	*3.2*	*2.4*	*4.4*	*2.8*	*2.9*	*4.0*	*3.7*	*3.5*	*3.2*	*7.3*
Oct	*3.4*	*4.2*	*3.3*	*3.1*	*2.2*	*4.3*	*2.6*	*2.7*	*3.8*	*3.4*	*3.2*	*3.0*	*7.1*

Source: Employment Department

10 Redundancies

Rates[1]

	Great Britain	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland
	DCXD	DCXE	DCXF	DCXG	DCXH	DCXI	DCXJ	DCXK	DCXL	DCXM	DCXN	DCXO
Autumn 1992	14.4	17.9	14.2	11.9	14.8	14.3	14.6	13.4	15.2	12.1	15.2	17.0
Winter 1992	16.1	18.1	14.2	16.6	12.1	17.0	14.9	16.5	17.4	18.9	19.7	13.0
Spring 1993	12.4	16.5	13.0	13.9	–[2]	11.4	11.2	12.5	13.9	12.3	11.4	11.5
Summer 1993	11.2	14.1	12.2	11.8	–[2]	12.6	10.2	10.9	11.2	10.6	15.8	8.4
Autumn 1993	9.6	13.7	9.1	8.2	–[2]	11.2	9.5	7.0	10.3	7.3	12.0	10.8
Winter 1993	10.6	12.7	11.4	10.9	14.2	10.2	8.2	11.5	10.4	11.0	11.8	10.7
Spring 1994	9.7	13.0	10.8	10.0	–[2]	9.3	9.3	8.7	10.5	8.7	10.6	9.4
Summer 1994	8.9	11.1	10.4	10.2	–[2]	7.6	8.9	7.6	7.7	9.4	–[2]	9.2

1 Redundancies per 1,000 employees.
2 Sample size too small to provide a reliable estimate.

Source: Labour Force Survey, Employment Department

11 Employees in employment (all industries)

June 1990 = 100

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCLE	DCLM	DCLK	DCLJ	DCLG	DCRC	DCLF	DCLH	DCLI	DCLL	DCLN	DCLO	DCLP
1992	94.8	98.0	95.8	96.0	96.3	90.3	92.9	94.6	94.0	95.6	95.8	100.5	101.0
1993	94.4	97.3	95.4	95.8	97.3	89.0	92.0	95.4	93.2	95.3	97.0	101.2	101.6
1993 Dec	94.7	97.8	95.4	96.4	97.8	89.5	92.4	95.5	93.4	95.2	97.1	101.6	102.7
1994 Mar	93.9	96.9	94.7	95.4	97.3	89.5	91.5	94.6	92.3	94.3	96.0	100.3	102.2
Jun	94.2	97.4	95.1	96.1	98.3	89.2	91.7	96.1	92.1	93.8	97.5	101.2	102.5
Sep	94.6	97.4	95.3	97.0	99.6	89.8	91.4	96.8	93.2	94.5	98.0	101.2	102.9

Source: Employment Department

12 Index of industrial production

Seasonally adjusted 1990 = 100

	United Kingdom	Wales	Scotland	Northern Ireland
	DVZI	DEOL	DEOM	DEPY
1981	78.9	..	84.7	87.6
1986	90.1	93.1	89.1	88.5
1987	93.7	100.2	89.3	88.6
1988	98.2	103.9	94.6	90.8
1989	100.3	102.3	97.6	97.4
1990	100.0	100.0	100.0	100.0
1991	96.1	96.9	98.8	99.6
1992	95.9	100.1	99.2	101.1
1993	97.9	101.2	101.3	104.4
1993 Q3	98.4	100.8	102.4	104.1
Q4	99.6	105.0	103.7	106.0
1994 Q1	100.7	103.0	104.5	105.7
Q2	102.9	106.6	104.5	108.8
Q3	104.2	..	..	..

Sources: Central Statistical Office; Welsh Office; The Scottish Office; Department of Economic Development, Northern Ireland

13 Manufacturing industry: optimism about business situation

Balance[1]

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCMO	DCMW	DCMU	DCMT	DCMQ	DCMP	DCMR	DCMS	DCMV	DCMX	DCMY	DCMZ
1994 Jan	27	15	26	12	40	32	34	37	24	33	11	24
Apr	13	−2	3	23	21	16	1	32	27	36	3	−12
Jul	11	1	8	14	27	25	8	23	3	25	5	30
Oct	16	32	16	17	50	10	14	17	24	30	8	−5

1 Balance in percentage of firms reporting rises *less* those reporting falls.

Source: CBI/BSL Regional Trends Survey ISSN:0960 7781

14 Manufacturing industry: volume of output

Balance[1]

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
Past 4 months	DCLQ	DCLY	DCLW	DCLV	DCLS	DCLR	DCLT	DCLU	DCLX	DCLZ	DCMA	DCMB
1994 Jan	9	−4	21	14	3	13	−1	15	14	30	28	−18
Apr	12	7	10	36	12	25	17	29	8	35	27	−14
Jul	17	6	31	30	40	29	15	37	2	17	25	12
Oct	17	34	21	13	6	19	20	27	14	52	20	15
Next 4 months	DCMC	DCMK	DCMI	DCMH	DCME	DCMD	DCMF	DCMG	DCMJ	DCML	DCMM	DCMN
1994 Oct	19	20	19	−2	15	13	11	24	15	42	12	18

1 Balance in percentage of firms reporting rises *less* those reporting falls.

Source: CBI/BSL Regional Trends Survey ISSN:0960 7781

15 Manufacturing industry: volume of new orders

Balance[1]

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
Past 4 months	DCNA	DCNI	DCNG	DCNF	DCNC	DCNB	DCND	DCNE	DCNH	DCNJ	DCNK	DCNL
1994 Jan	11	7	24	11	10	22	4	13	9	19	22	−11
Apr	16	4	4	21	5	31	25	29	1	31	30	8
Jul	18	19	19	30	35	27	12	28	3	25	10	15
Oct	19	45	14	22	4	27	22	25	11	38	21	34
Next 4 months	DCNM	DCNU	DCNS	DCNR	DCNO	DCNN	DCNP	DCNQ	DCNT	DCNV	DCNW	DCNX
1994 Oct	23	15	18	29	27	18	18	18	23	33	5	14

1 Balance in percentage of firms reporting rises *less* those reporting falls.

Source: CBI/BSL Regional Trends Survey ISSN:0960 7781

16 Manufacturing industry: volume of new export orders

Balance[1]

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
Past 4 months	DCNY	DCOG	DCOE	DCOD	DCOA	DCNZ	DCOB	DCOC	DCOF	DCOH	DCOI	DCOJ
1994 Jan	8	11	–	−1	−5	8	−18	3	1	2	29	−29
Apr	10	12	−5	13	8	19	3	14	3	13	38	20
Jul	14	13	12	28	39	20	−10	28	14	3	31	12
Oct	17	30	6	20	16	27	8	10	7	25	28	–
Next 4 months	DCOK	DCOS	DCOQ	DCOP	DCOM	DCOL	DCON	DCOO	DCOR	DCOT	DCOU	DCOV
1994 Oct	22	39	3	24	27	15	21	26	27	39	17	3

1 Balance in percentage of firms reporting rises *less* those reporting falls.

Source: CBI/BSL Regional Trends Survey ISSN:0960 7781

17 Manufacturing industry: firms working below capacity

Percentages

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCOW	DCPE	DCPC	DCPB	DCOY	DCOX	DCOZ	DCPA	DCPD	DCPF	DCPG	DCPH
1994 Jan	*57*	*54*	*59*	*64*	*74*	*61*	*45*	*70*	*63*	*59*	*43*	*55*
Apr	*59*	*62*	*56*	*57*	*64*	*55*	*63*	*63*	*46*	*66*	*52*	*68*
Jul	*54*	*68*	*58*	*50*	*65*	*55*	*50*	*54*	*66*	*62*	*54*	*64*
Oct	*51*	*64*	*46*	*50*	*57*	*57*	*55*	*60*	*72*	*36*	*39*	*32*

Source: CBI/BSL Regional Trends Survey ISSN:0960 7781

18 Permanent dwellings started

Numbers

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DEOI	DCRZ	DCRX	DCRW	DCRT	DCRR	DCWL	DCRU	DCRV	DCRY	BLIA	BLFA	BLGA
1992	162 879	7 708	12 680	12 817	7 866	11 966	30 432	13 835	14 428	16 018	8 915	18 544	7 670
1993	184 976	7 752	14 531	16 147	9 814	14 755	29 125	15 507	15 189	19 968	10 583	22 914	8 691
1993 Q3	45 962	1 984	3 801	4 435	2 647	3 415	7 151	3 913	3 857	5 000	2 430	4 954	2 375
Q4	42 266	1 524	3 278	3 675	1 857	3 517	8 032	3 575	3 261	3 619	2 075	5 742	2 111
1994 Q1	48 951	2 466	4 016	4 010	2 393	4 051	6 878	4 283	4 787	5 353	2 532	5 904[1]	2 278
Q2	55 242	2 635	4 872	4 515	2 834	5 094	7 321	5 302	5 077	5 941	2 823[1]	5 904[1]	2 924
Q3	..	2 393	4 184	4 758	2 395	4 334	7 754	4 743	4 374	5 186	2 823[1]	5 904[1]	..

1 Estimated.

Sources: Department of the Environment; Department of the Environment, Northern Ireland

19 Permanent dwellings completed

Numbers

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DEOJ	DCVZ	DCVX	DCVW	DCVT	DCVR	DCWM	DCVU	DCVV	DCVY	BLII	BLFI	BLGI
1992	178 760	7 964	13 196	14 256	9 545	15 556	35 228	15 703	15 019	17 364	9 644	17 570	7 715
1993	182 252	7 304	14 377	14 644	9 622	13 518	36 307	15 061	15 940	18 673	9 287	19 904	7 198
1993 Q3	..	1 802	3 526	3 653	2 630	2 953	8 752	3 788	3 812	4 149	2 345	5 186	..
Q4	..	1 921	4 150	4 354	2 624	3 439	9 799	4 082	3 711	5 127	2 795	5 142	..
1994 Q1	..	1 494	3 128	4 069	2 545	4 091	9 025	3 360	3 146	4 548	2 347	4 707[1]	..
Q2	..	2 050	3 436	3 851	2 217	3 950	8 723	3 576	3 409	4 469	2 250[1]	4 707[1]	..
Q3	..	2 058	3 751	4 002	2 253	3 761	9 398	4 477	4 312	5 354	2 250[1]	4 707[1]	..

1 Estimated.

Sources: Department of the Environment; Department of the Environment, Northern Ireland

20 House prices[1]

1990 = 100

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCPQ	DCPY	DCPW	DCPV	DCPS	DCPJ	DCPR	DCPT	DCPU	DCPX	DCPZ	DCQA	DCQB
1992	94.9	104.9	102.3	95.5	92.0	86.2	88.0	91.4	97.2	102.7	97.5	113.1	109.1
1993	92.5	107.1	103.3	92.8	87.5	84.8	84.4	87.7	95.8	98.7	98.5	117.3	113.5
1993 Q3	94.3	111.0	106.1	94.3	89.6	87.3	86.0	90.0	97.9	98.5	96.1	118.8	120.6
Q4	92.3	109.1	102.5	92.9	87.0	81.6	84.0	90.3	98.1	98.6	99.0	115.4	113.6
1994 Q1	92.5	108.8	101.7	91.7	86.8	84.2	86.0	85.9	98.5	100.7	96.0	114.1	118.3
Q2	93.7	107.9	99.5	93.2	89.0	91.1	86.0	89.8	96.6	98.1	99.9	117.1	109.4
Q3	94.7	111.9	99.3	95.2	88.3	89.9	86.6	89.2	95.9	101.0	104.8	121.8	124.1

1 These indices adjust for the mix of dwellings (by size and type, whether new or second-hand) and exclude those bought at non-market prices.

Source: Department of the Environment

21 VAT registrations and deregistrations: net change[1]

Thousands

	United Kingdom	North	Yorks & Humber	East Midlands	East Anglia	Greater London	Rest of South East	South West	West Midlands	North West	Wales	Scotland	Northern Ireland
	DCYQ	DCYS	DCYT	DCYU	DCYV	DEON	DEOK	DCYX	DCYY	DCYZ	DCZA	DCZB	DCZC
1990[2]	55.0	1.6	3.3	3.1	1.4	9.2	14.8	3.7	4.2	6.1	2.1	4.2	1.3
1991[2]	3.0	0.1	0.6	0.2	–	2.0	–1.2	–1.4	–	1.5	–0.4	0.9	0.6
1992	–42.0	–1.4	–2.8	–2.1	–1.9	–8.0	–10.8	–5.8	–3.3	–3.6	–2.3	–0.5	0.5
1993[3]	–28.0	–0.8	–1.5	–1.4	–1.1	–2.1	–7.6	–3.6	–3.1	–4.4	–1.8	–1.1	0.7

1 Registrations *less* deregistrations.

2 Includes adjustments to allow for the effects of changes introduced in the 1990 and 1991 budgets.

3 Includes adjustments to allow for the effects of changes introduced in the November 1993 budget.

Source: Department of Trade and Industry

Regional Accounts 1993: Part 1

J.S. Virdee, Central Statistical Office

This article presents provisional estimates of Gross Domestic Product (GDP) by standard statistical region for 1993, together with regional estimates of Gross Domestic Fixed Capital Formation (GDFCF) up to 1992.

The latest figures published in this article show that:

- in 1993, the South East accounted for over 35 per cent of the GDP of the UK, compared with about 30 per cent of the population.
- GDP per head in Greater London was 25 per cent higher than the UK average in 1993, having gradually declined since 1987 by about 2 percentage points.
- in 1993, income from employment was the source of over 67 per cent of GDP in Scotland, compared with about 63 to 64 per cent in East Anglia, Wales and the South West.

Gross Domestic Product by Region

Latest figures and recent trends

In 1993, total UK GDP is estimated to have been £546 billion, an increase of 6 per cent in cash terms from 1992. Within the UK total, over a third of GDP is still accounted for by the South East, with Greater London contributing about 15 per cent (see Table A and Chart B).

There are wide variations in GDP per head between the regions, with the South East having the highest levels, and Greater London being significantly higher than the Rest of the South East (see Table A and Chart A). Provisional estimates for 1993 are £11,500 and £10,200 respectively. The differential between Greater London and the Rest of the South East takes account of the fact that employment income is recorded on a residence basis, so that income of commuters is included in the region where they live, not where they work. The highest GDP per head outside the South East is in East Anglia, £9,400 in 1993, followed by Scotland at £9,100. The lowest GDP per head in 1993 was in Northern Ireland, at below £7,600, with Wales next lowest at £7,800.

Many of the differences in the levels of regional GDP per head are long-standing, and there are relatively small year to year changes. Between 1992 and 1993 regional growth in GDP per head was strongest in Wales and the South West, whilst the North West, Northern Ireland and Yorkshire and Humberside also performed better than the UK average.

Greater London and the South East have seen their GDP per head, relative to the UK average, fall for four successive years, and in the last two years, East Midlands has also shown a drop. However, Scotland and Northern Ireland have maintained the increase seen in their share of the UK total over the previous two or three years, mainly at the expense of the South East.

CHART A

GDP per head, 1993 Index (UK=100)

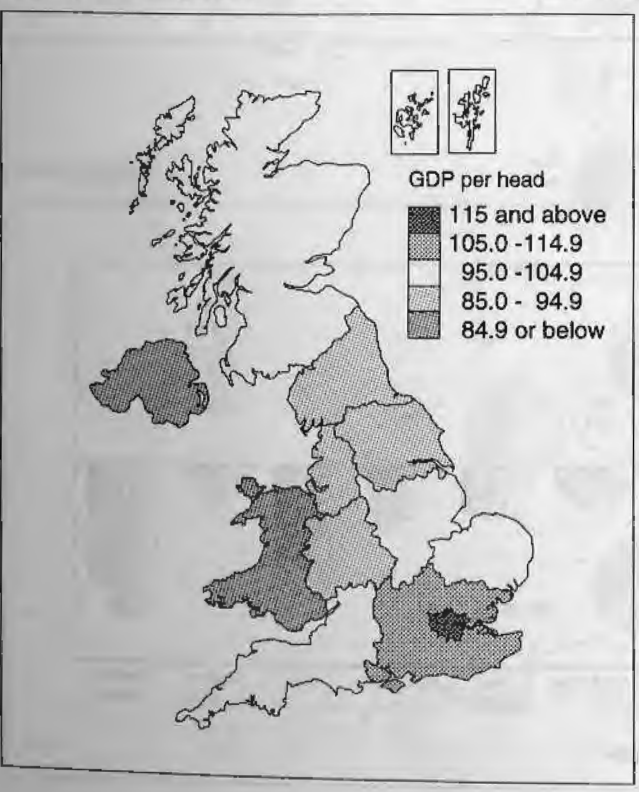


TABLE A

Regional GDP, 1993[1]

Region	Total £bn	Share of UK (%)	Per head £	Per head index UK=100
United Kingdom[2]	538.1	100.0	9,248	100.0
North	25.6	4.8	8,265	89.4
Yorkshire & Humberside	42.3	7.9	8,434	91.2
East Midlands	36.2	6.7	8,864	95.8
East Anglia	19.7	3.7	9,408	101.7
South East	190.6	35.4	10,728	116.0
Greater London	79.9	14.9	11,528	124.7
Rest of South East	110.7	20.6	10,215	110.5
South West	42.6	7.9	8,934	96.6
West Midlands	45.5	8.5	8,608	93.1
North West	53.8	10.0	8,395	90.8
England	456.4	84.8	9,404	101.7
Wales	22.8	4.2	7,831	84.7
Scotland	46.6	8.7	9,104	98.4
Northern Ireland	12.4	2.3	7,574	81.9

1. Provisional
2. Excluding the Continental Shelf

Longer trends

Over the last ten years there has been significant variation in regions' economic performances. Chart C shows regional GDP per head, indexed to UK = 100, from 1983 to 1993. This shows that London and the Rest of the South East improved their position during the first half of this period, but declined in the second half, whereas Scotland and Northern Ireland were declining in the first half, but have been showing steady improvement in the last few years. East Anglia and the West Midlands have shown a steady increase over the whole period, whilst the North West, the North, Yorkshire and Humberside and the East Midlands have shown downward trends.

The growth in regional GDP as a percentage of the UK total over the last ten years has also generally followed the above trends, with turning points in the late eighties for the South East, Scotland and Northern Ireland, steady increases for East Anglia, the South West and the West Midlands, and decreases for the North West, Yorkshire and Humberside and the North.

Changes to GDP are to some extent matched by fluctuations in population, therefore changes in regions' GDP per head are lower than those in regions' GDP share. For instance, the East Midlands have generally maintained their share of total UK GDP between 1983 and 1993, but on the basis of GDP per head, there has been a downward trend, reflecting an increase in the population greater than the increase in GDP.

CHART B

Regional Shares of UK GDP, 1983-1993

Percentages (UK=100)

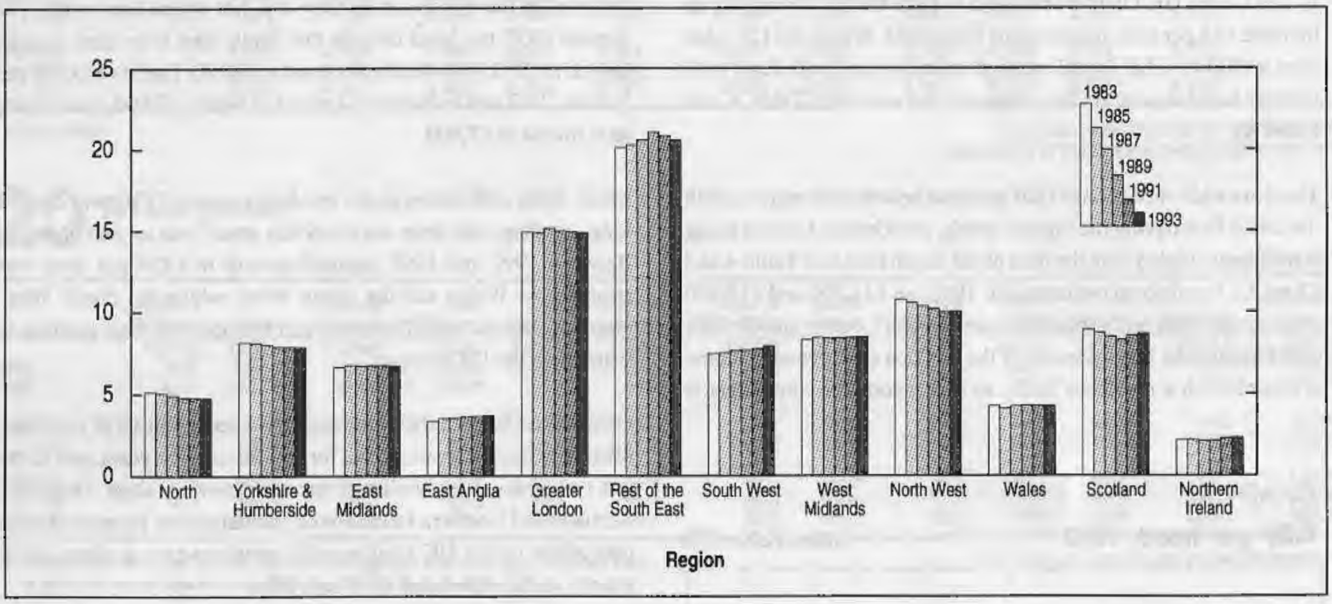
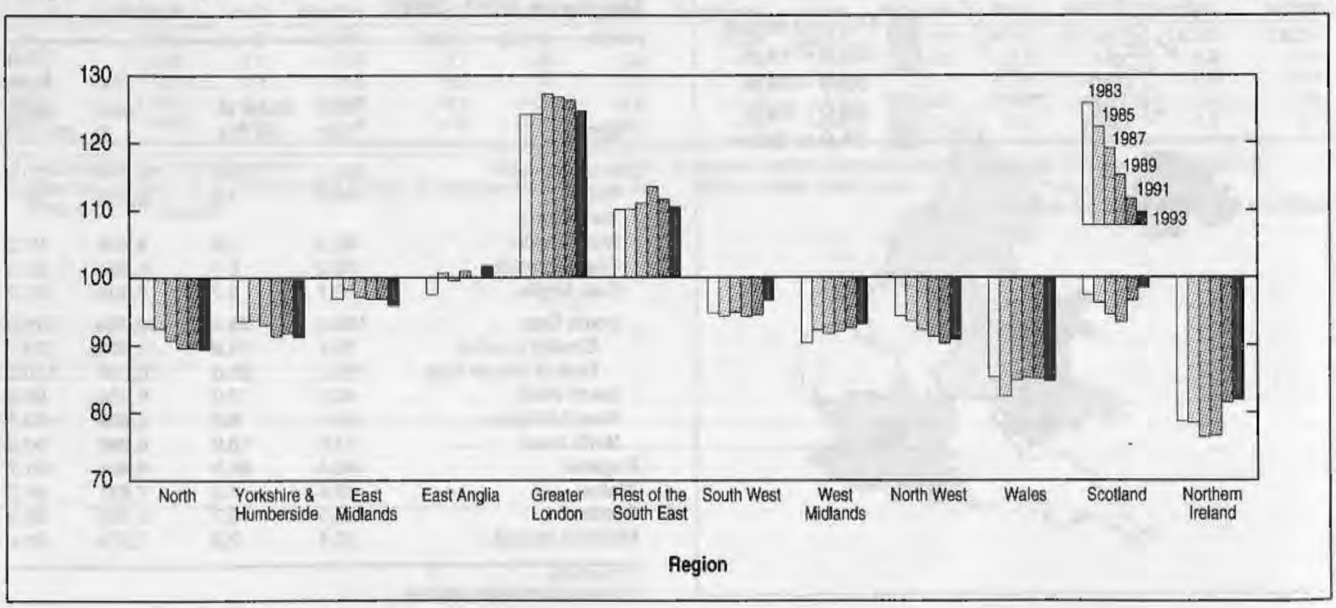


CHART C

Regional GDP per Head Index

Indices (UK=100)



Industrial breakdown of regional GDP

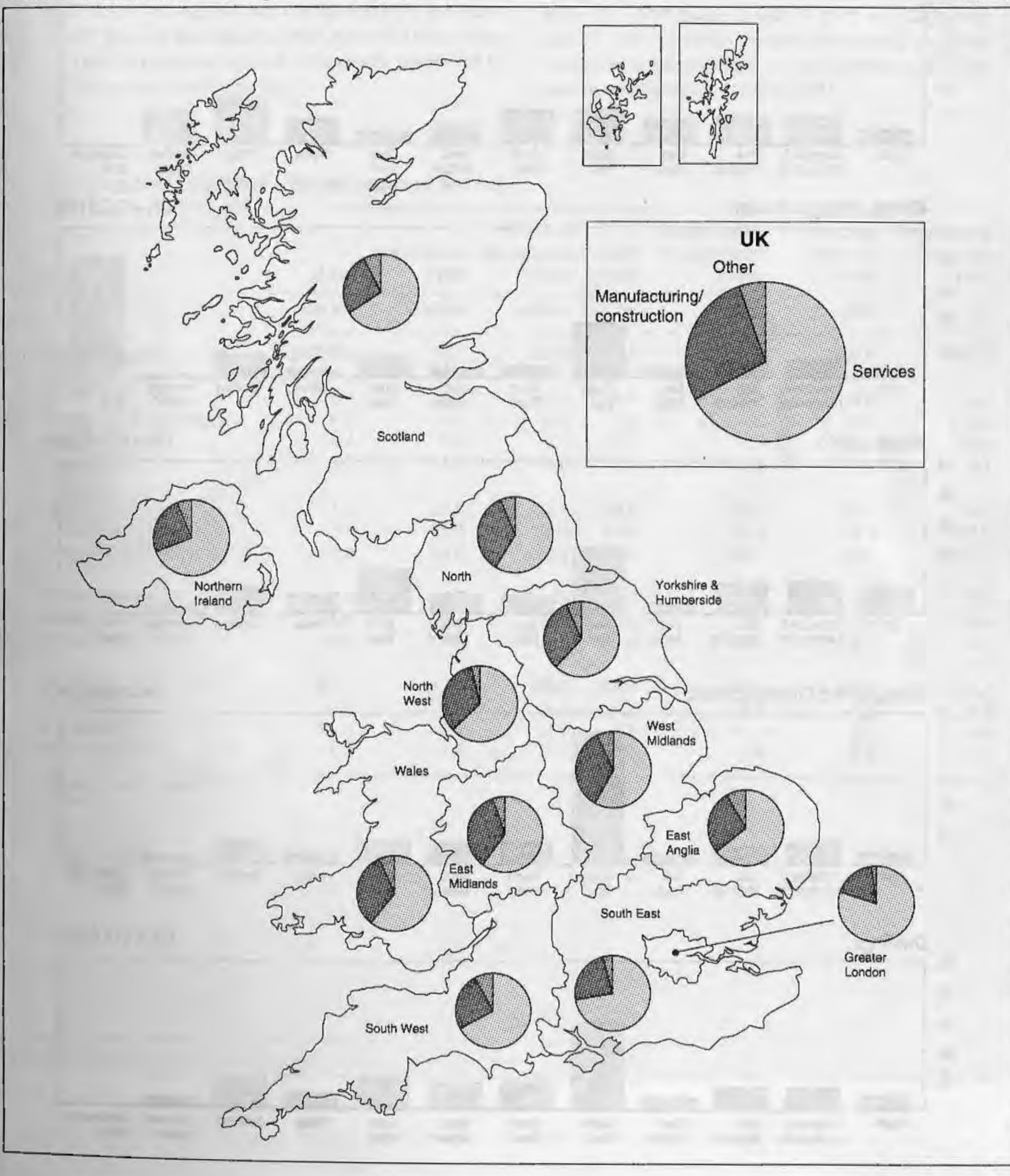
Part of the explanation for the wide variation in regional GDP per head and changes therein lies in the marked differences in the industrial structures of the regions (see Appendix Table 3 and Chart D). Very significant but short term factors, such as changes in the sterling price of oil, may affect industries, and therefore regions, very differently. A detailed industrial analysis of GDP is given in Appendix Table 3, and changes to the industrial classification used for this are described in background note 11.

The industrial breakdown figures show that output of the construction industries in most English regions has fallen for three successive years, although the size of the falls in 1993 were smaller than in earlier years. Mining and quarrying, including oil extraction, showed falls in 1993 in Yorkshire and Humberside and East Midlands, the regions traditionally dominant in the mining sector, due to the mine closures which occurred during the last two years. The Scottish increase within this sector was probably due to increased oil activity. For manufacturing, Wales and Northern Ireland saw percentage increases well above the national average in 1993. Northern Ireland also had increases higher than most regions for the last three years in the distribution, hotels, catering and repairs sector.

CHART D

Industrial breakdown of region GDP, 1993

£ millions



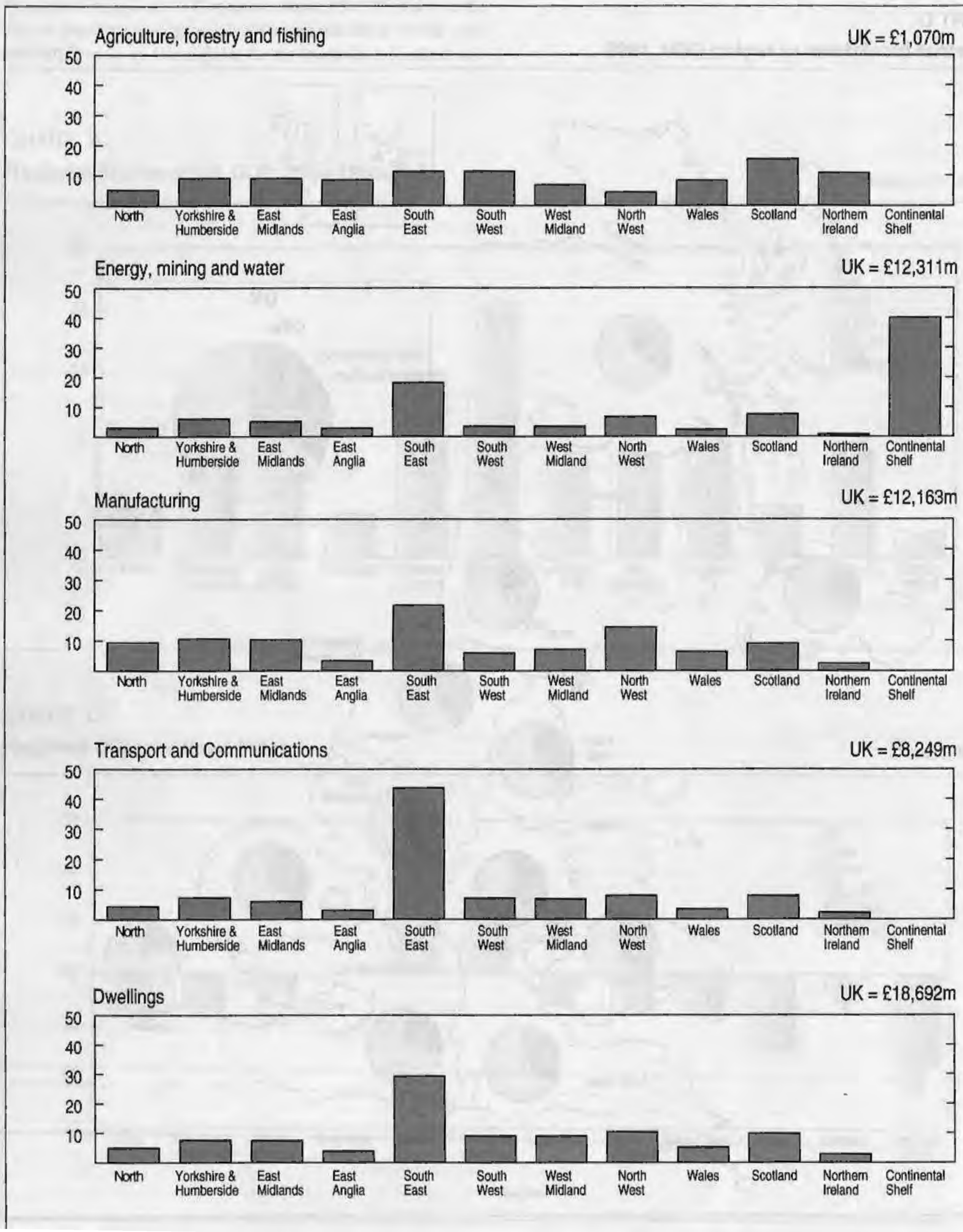
Gross Domestic Fixed Capital Formation (GDFCF)

The charts below give regional estimates of GDFCF in 1992 for the following industries: agriculture, forestry and fishing; energy, mining and water; manufacturing; transport and communications; and dwellings. There are insufficient data available to provide regional estimates for other industries. Appendix Table 4 shows the figures for the above industries from 1988 to 1992.

Investment in dwellings was £19 billion in 1992, 29 per cent of which was in the South East. Investment in the manufacturing sector fell in 1992 in the West Midlands, the South East, the North, Scotland, Wales and Northern Ireland, whilst there were increases in East Anglia, East Midlands, Yorkshire and Humberside and the South West. The energy, mining and water sector saw increases in the South East, East Anglia, the North West and Scotland, whilst investment on the Continental Shelf remained at the high level of 1991. The West Midlands, Wales and the South West saw reductions.

CHART E

Regional shares of GDFCF for selected industries, 1992



Diversity of the Regions

There is much diversity between the regions of the UK. Scotland, Wales, Northern Ireland and the regions of England are all different in character, industrial structure and economic performance. The table below shows some of the differences in size of the regions. Scotland has the largest area, but has a small population relative to its size; the North West has the smallest area, but the second largest population. The South East is densely populated; with 17.7 million people, it has three times the population of any other region. At the other extreme, Northern Ireland has only a population of 1.6 million. These large variations in the regions' populations are reflected in the size of the regional GDP. In 1993, this varied from £12.4 billion in Northern Ireland to £191 billion in the South East. The Continental Shelf, which is treated as a separate region in the accounts, contributed £8 billion (see background note 14).

The wide variation in the size of the regions makes it difficult to compare the regions' economic performance using total GDP; comparisons are therefore usually expressed in terms of amounts per head of the population. However, it is important to note that the growth in total GDP may be quite different to the growth in GDP per head in regions where the population has increased or decreased. Furthermore, the level of GDP per head is determined both by the average amount of earnings of the working population and by the proportion of dependants. In Northern Ireland, for example, households have a high proportion of children (26 per cent of the population were aged under 16 in 1992 compared with 18 to 21 per cent in other regions). This will tend to depress GDP per head. Ideally the age structure of the population should therefore be taken into account when comparing GDP per head.

Key Regional Statistics - Percentages of the UK

Region	Area	Population 1993	Civilian Workforce 1993	GDP 1993	Consumers' Expenditure 1992	Personal Income 1992	Household Income 1992
	sq km	million	million	£bn	£bn	£bn	£bn
United Kingdom (=100%)	242,500	58.0	27.9	546.1	382.7	550.6	529.5
North	6.4	5.3	5.0	4.8	4.7	4.8	4.9
Yorkshire & Humberside	6.4	8.6	8.5	7.9	7.8	8.0	8.0
East Midlands	6.4	7.0	6.9	6.7	6.5	6.6	6.6
East Anglia	5.2	3.6	3.6	3.7	3.7	3.6	3.7
South East	11.2	30.5	32.4	35.5	35.3	35.1	34.5
Greater London	0.7	11.9	14.4	14.9	14.4	14.5	13.9
Rest of South East	10.6	18.6	18.0	20.6	20.9	20.6	20.5
South West	9.8	8.2	7.9	7.9	8.4	7.8	8.2
West Midlands	5.4	9.1	9.1	8.5	8.3	8.5	8.4
North West	3.0	11.0	10.7	10.0	10.4	10.3	10.1
England	53.8	83.4	84.0	84.8	85.1	84.7	84.3
Wales	8.6	5.0	4.4	4.2	4.6	4.2	4.5
Scotland	31.8	8.8	9.1	8.7	8.0	8.7	8.8
Northern Ireland	5.8	2.8	2.6	2.3	2.4	2.3	2.4

1. Excluding the Continental Shelf
2. Provisional

1 Gross domestic product
Factor cost: current prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993[1]
£ million											
United Kingdom	261 225	280 653	307 902	328 272	360 675	401 428	441 759	478 886	495 900	516 027	546 120
North	12 605	13 143	14 611	15 597	17 211	18 914	20 937	22 278	23 468	24 508	25 640
Yorkshire & Humberside	20 023	21 051	23 517	25 959	28 098	31 042	34 308	36 968	38 630	39 937	42 287
East Midlands	16 301	17 613	19 611	21 457	23 613	26 409	29 454	31 689	33 114	34 430	36 190
East Anglia	8 179	9 178	10 124	11 347	12 368	14 044	15 695	17 144	17 777	18 702	19 699
South East	85 970	91 380	101 824	113 506	125 371	141 983	156 825	170 157	175 026	181 539	190 622
Greater London	36 597	38 379	43 051	48 000	53 134	59 054	65 119	70 695	73 023	76 125	79 926
Rest of South East	49 373	53 001	58 773	65 505	72 237	82 929	91 706	99 463	102 003	105 415	110 696
South West	18 282	19 518	21 732	24 241	26 850	30 240	33 350	36 312	37 916	39 724	42 598
West Midlands	20 388	21 822	24 469	26 734	29 384	33 322	36 503	39 872	41 290	43 227	45 533
North West	26 361	27 750	30 586	33 430	36 239	40 528	44 291	47 613	48 886	50 628	53 832
England	208 109	221 455	246 473	272 270	299 136	336 482	371 363	402 032	416 107	432 696	456 401
Wales	10 430	10 950	11 862	13 328	14 834	17 077	18 604	20 032	20 856	21 247	22 761
Scotland	21 869	22 900	25 315	27 364	29 806	32 842	36 134	39 852	41 905	44 304	46 614
Northern Ireland	5 295	5 675	6 263	6 932	7 423	8 311	9 225	10 130	11 037	11 515	12 360
United Kingdom less Continental Shelf	245 703	260 979	289 912	319 893	351 198	394 712	435 325	472 046	489 905	509 762	538 135
Continental Shelf[2]	15 627	18 504	17 990	8 379	9 477	6 716	6 434	6 840	5 995	6 265	7 668
Statistical discrepancy (income adjustment)	-105	1 170	-	-	-	-	-	-	-	-	317
United Kingdom less Continental Shelf[3] = 100%											
United Kingdom	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North	5.1	5.0	5.0	4.9	4.9	4.8	4.8	4.7	4.8	4.8	4.8
Yorkshire & Humberside	8.1	8.1	8.1	8.1	8.0	7.9	7.9	7.8	7.9	7.8	7.9
East Midlands	6.6	6.7	6.8	6.7	6.7	6.7	6.8	6.7	6.8	6.8	6.7
East Anglia	3.3	3.5	3.5	3.5	3.5	3.6	3.6	3.6	3.6	3.7	3.7
South East	35.0	35.0	35.1	35.5	35.7	36.0	36.0	36.0	35.7	35.6	35.4
Greater London	14.9	14.7	14.8	15.0	15.1	15.0	15.0	15.0	14.9	14.9	14.9
Rest of South East	20.1	20.3	20.3	20.5	20.6	21.0	21.1	21.1	20.8	20.7	20.6
South West	7.4	7.5	7.5	7.6	7.6	7.7	7.7	7.7	7.7	7.8	7.9
West Midlands	8.3	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.4	8.5	8.5
North West	10.7	10.6	10.6	10.5	10.3	10.3	10.2	10.1	10.0	9.9	10.0
England	84.7	84.9	85.0	85.1	85.2	85.2	85.3	85.2	84.9	84.9	84.8
Wales	4.2	4.2	4.1	4.2	4.2	4.3	4.3	4.2	4.3	4.2	4.2
Scotland	8.9	8.8	8.7	8.6	8.5	8.3	8.3	8.4	8.6	8.7	8.7
Northern Ireland	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.3	2.3	2.3
Per head, £[4]											
United Kingdom	4 636	4 971	5 438	5 783	6 335	7 035	7 718	8 341	8 601	8 897	9 385
Kingdom less Continental shelf[3]	4 361	4 622	5 121	5 636	6 169	6 917	7 606	8 222	8 497	8 789	9 248
North	4 066	4 249	4 734	5 064	5 594	6 159	6 813	7 244	7 609	7 909	8 265
Yorkshire & Humberside	4 079	4 292	4 797	5 298	5 734	6 318	6 944	7 465	7 797	7 984	8 434
East Midlands	4 223	4 546	5 032	5 474	5 990	6 652	7 365	7 885	8 226	8 476	8 864
East Anglia	4 249	4 732	5 153	5 697	6 142	6 903	7 676	8 326	8 501	8 954	9 408
South East	5 045	5 340	5 923	6 574	7 240	8 186	9 021	9 747	9 969	10 255	10 728
Greater London	5 418	5 681	6 362	7 085	7 848	8 768	9 638	10 405	10 734	11 025	11 528
Rest of South East	4 800	5 117	5 638	6 245	6 849	7 817	8 629	9 327	9 485	9 762	10 215
South West	4 132	4 375	4 829	5 336	5 852	6 526	7 168	7 781	8 027	8 370	8 934
West Midlands	3 939	4 216	4 721	5 160	5 653	6 400	6 998	7 639	7 858	8 191	8 608
North West	4 112	4 339	4 789	5 244	5 689	6 369	6 943	7 453	7 665	7 911	8 395
England	4 442	4 716	5 232	5 762	6 310	7 078	7 787	8 404	8 657	8 944	9 404
Wales	3 715	3 901	4 219	4 724	5 230	5 977	6 475	6 952	7 226	7 330	7 831
Scotland	4 246	4 450	4 928	5 343	5 830	6 447	7 098	7 810	8 205	8 668	9 104
Northern Ireland	3 431	3 660	4 020	4 424	4 712	5 266	5 827	6 375	6 922	7 151	7 574
Per head, United Kingdom less Continental Shelf[3] = 100											
United Kingdom	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North	93.2	91.9	92.5	89.9	90.7	89.0	89.6	88.1	89.6	90.0	89.4
Yorkshire & Humberside	93.5	92.9	93.7	94.0	92.9	91.3	91.3	90.8	91.8	90.8	91.2
East Midlands	96.9	98.4	98.3	97.1	97.1	96.2	96.8	95.9	96.8	96.4	95.8
East Anglia	97.5	102.4	100.6	101.1	99.6	99.8	100.9	101.3	100.1	101.9	101.7
South East	115.7	115.5	115.7	116.7	117.4	118.4	118.6	118.5	117.3	116.7	116.0
Greater London	124.2	122.9	124.2	125.7	127.2	126.8	126.7	126.5	126.3	125.4	124.7
Rest of South East	110.1	110.7	110.1	110.8	111.0	113.0	113.5	113.4	111.6	111.1	110.5
South West	94.8	94.7	94.3	94.7	94.9	94.3	94.2	94.6	94.5	95.2	96.6
West Midlands	90.3	91.2	92.2	91.6	91.6	92.5	92.0	92.9	92.5	93.2	93.1
North West	94.3	93.9	93.5	93.1	92.2	92.1	91.3	90.6	90.2	90.0	90.8
England	101.9	102.0	102.2	102.2	102.3	102.3	102.4	102.2	101.9	101.8	101.7
Wales	85.2	84.4	82.4	83.8	84.8	86.4	85.1	84.6	85.0	83.4	84.7
Scotland	97.4	96.3	96.2	94.8	94.5	93.2	93.3	95.0	96.6	98.6	98.4
Northern Ireland	78.7	79.2	78.5	78.5	76.4	76.1	76.6	77.5	81.5	81.4	81.9

1 Provisional.
2 Gross domestic product for the Continental Shelf region does not include income from employment, which is allocated to the region of residence of the employee.
3 The regional estimates of GDP are income-based and are linked to the average estimate of United Kingdom GDP by a statistical discrepancy. This discrepancy is excluded from the figures for the United Kingdom less Continental Shelf.
4 Estimates of gross domestic product per head cannot be calculated for the Continental Shelf region as there is no resident population.

2 Factor incomes in the gross domestic product
Factor cost: current prices

£ million

	Income from employment	Income from self-employment	Gross trading profits and surpluses	Less stock appreciation	Rent[1]	Gross domestic product
1990						
United Kingdom	312 358	61 138	68 561	6 131	42 960	478 886[2]
North	14 815	2 271	3 771	354	1 776	22 278
Yorkshire & Humberside	24 254	4 765	5 739	548	2 759	36 968
East Midlands	20 645	4 357	4 404	436	2 719	31 689
East Anglia	10 727	2 922	2 190	217	1 521	17 144
South East	114 664	21 490	18 420	1 783	17 367	170 157
Greater London	48 194	7 987	6 974	614	8 154	70 695
Rest of South East	66 470	13 502	11 446	1 169	9 213	99 463
South West	23 292	6 237	3 769	488	3 502	36 312
West Midlands	26 556	4 870	5 525	615	3 536	39 872
North West	31 459	5 049	7 824	758	4 039	47 613
England	266 412	51 960	51 641	5 199	37 218	402 032
Wales	12 397	2 883	3 433	284	1 604	20 032
Scotland	26 989	4 724	5 398	503	3 244	39 852
Northern Ireland	6 560	1 571	1 253	149	895	10 130
Continental Shelf[3]	-	-	6 835	-5	-	6 840
Statistical discrepancy (income adjustment)	-	-	-	-	-	-
1991						
United Kingdom	329 609	58 639	60 592	2 010	49 070	495 900[2]
North	15 715	2 339	3 548	110	1 976	23 468
Yorkshire & Humberside	25 867	4 677	5 067	176	3 195	38 630
East Midlands	21 782	4 200	4 227	183	3 089	33 114
East Anglia	11 341	2 809	1 950	73	1 751	17 777
South East	119 520	20 328	15 930	502	19 749	175 026
Greater London	50 039	7 694	6 194	183	9 280	73 023
Rest of South East	69 482	12 635	9 736	318	10 469	102 003
South West	24 690	5 804	3 496	182	4 108	37 916
West Midlands	27 995	4 709	4 745	258	4 098	41 290
North West	33 112	4 838	6 646	249	4 539	48 886
England	280 023	49 703	45 609	1 733	42 504	416 107
Wales	13 306	2 709	3 098	79	1 821	20 856
Scotland	29 027	4 654	4 681	188	3 731	41 905
Northern Ireland	7 253	1 573	1 253	54	1 013	11 037
Continental Shelf[3]	-	-	5 951	-44	-	5 995
Statistical discrepancy (income adjustment)	-	-	-	-	-	-
1992						
United Kingdom	342 215	59 482	62 762	1 832	53 400	516 027[2]
North	16 399	2 306	3 699	61	2 166	24 508
Yorkshire & Humberside	26 882	4 732	4 973	148	3 499	39 937
East Midlands	22 479	4 230	4 555	200	3 366	34 430
East Anglia	11 934	2 810	2 107	71	1 922	18 702
South East	123 419	20 380	16 891	397	21 246	181 539
Greater London	51 652	7 938	6 893	129	9 772	76 125
Rest of South East	71 767	12 442	9 999	268	11 474	105 415
South West	25 653	6 044	3 666	160	4 522	39 724
West Midlands	29 163	4 872	4 949	264	4 507	43 227
North West	34 292	4 998	6 525	195	5 008	50 628
England	290 220	50 371	47 365	1 496	46 236	432 696
Wales	13 838	2 693	2 823	78	1 971	21 247
Scotland	30 509	4 821	5 112	194	4 057	44 304
Northern Ireland	7 647	1 598	1 197	64	1 136	11 515
Continental Shelf[3]	-	-	6 265	-	-	6 265
Statistical discrepancy (income adjustment)	-	-	-	-	-	-
1993[4]						
United Kingdom	352 896	61 346	77 106	2 359	56 814	546 120[2]
North	16 761	2 414	4 261	95	2 298	25 640
Yorkshire & Humberside	27 805	4 867	6 072	163	3 706	42 287
East Midlands	23 266	4 334	5 186	174	3 579	36 190
East Anglia	12 317	2 798	2 573	43	2 054	19 699
South East	126 014	21 219	21 474	660	22 575	190 622
Greater London	52 685	8 002	9 153	290	10 376	79 926
Rest of South East	73 328	13 218	12 322	370	12 198	110 696
South West	27 056	6 304	4 640	209	4 808	42 598
West Midlands	30 129	4 924	5 970	301	4 812	45 533
North West	35 595	5 156	8 092	304	5 292	53 832
England	298 943	52 017	58 268	1 949	49 123	456 401
Wales	14 471	2 743	3 576	103	2 073	22 761
Scotland	31 418	4 925	6 116	232	4 387	46 614
Northern Ireland	8 065	1 660	1 505	101	1 231	12 360
Continental Shelf[3]	-	-	7 642	-26	-	7 668
Statistical discrepancy (income adjustment)	-	-	-	-	-	317

1 Including imputed charges for consumption of non-trading capital.
2 See footnote 3 to Table 1.
3 See footnote 2 to Table 1.
4 Provisional.

3 Gross domestic product by industry groups[1]
Factor cost: current prices

£ million

	1990	1991	1992	1993[2]	1990	1991	1992	1993[2]
	North				Yorkshire & Humberside			
Agriculture, hunting, forestry and fishing	446	435	491	572	757	754	785	882
Mining, Quarrying inc Oil and Gas Extraction	366	427	404	371	596	735	696	625
Manufacturing[3]	6 965	6 836	7 144	7 425	10 668	10 204	10 337	11 046
Electricity, Gas, Water	564	707	669	711	935	1 210	1 202	1 252
Construction	1 724	1 688	1 593	1 522	2 786	2 567	2 410	2 346
Distribution, hotels and catering; repairs	2 762	3 067	3 150	3 327	5 640	6 145	6 270	6 714
Transport, storage and communication	1 665	1 710	1 693	1 811	2 789	2 948	2 959	3 236
Financial & business services,etc[4]	3 511	3 704	4 083	4 409	6 291	6 655	7 334	7 953
Public administration and defence[5]	1 328	1 443	1 728	1 764	2 145	2 348	2 553	2 550
Education, social work and health services	2 405	2 755	2 882	2 999	3 826	4 237	4 751	4 893
Other services	1 233	1 278	1 320	1 394	2 053	2 151	2 214	2 412
Adjustment for financial services	-690	-581	-651	-666	-1 520	-1 325	-1 574	-1 622
Total	22 278	23 468	24 508	25 639	36 967	38 630	39 937	42 287
	East Midlands				East Anglia			
Agriculture, hunting, forestry and fishing	857	895	892	1 069	901	890	898	993
Mining, Quarrying inc Oil and Gas Extraction	636	817	764	640	71	87	106	128
Manufacturing[3]	9 665	9 437	10 031	10 582	4 067	3 846	4 028	4 306
Electricity, Gas, Water	790	1 012	965	943	362	505	517	557
Construction	2 315	2 147	1 981	1 957	1 399	1 246	1 144	1 082
Distribution, hotels and catering; repairs	4 539	4 822	5 037	5 257	2 545	2 616	2 675	2 831
Transport, storage and communication	2 153	2 315	2 290	2 469	1 559	1 675	1 888	1 959
Financial & business services,etc[4]	5 687	6 040	6 404	6 888	3 567	3 698	4 014	4 350
Public administration and defence[5]	2 010	2 125	1 917	1 949	1 068	1 221	1 452	1 482
Education, social work and health services	2 712	2 982	3 538	3 694	1 558	1 772	1 889	1 913
Other services	1 371	1 434	1 549	1 686	896	948	934	1 000
Adjustment for financial services	-1 047	-912	-937	-944	-849	-727	-845	-903
Total	31 689	33 114	34 430	36 190	17 144	17 777	18 702	19 699
	South East				Greater London			
Agriculture, hunting, forestry and fishing	1 252	1 235	1 235	1 418	46	44	44	52
Mining, Quarrying inc Oil and Gas Extraction	352	403	500	617	148	161	171	205
Manufacturing[3]	28 976	27 786	28 774	30 358	9 669	9 487	9 979	10 590
Electricity, Gas, Water	3 062	3 928	3 988	4 243	1 127	1 397	1 383	1 482
Construction	12 116	10 833	10 076	9 902	4 196	3 743	3 516	3 479
Distribution, hotels and catering; repairs	25 013	25 618	26 351	27 672	10 325	10 294	11 006	11 378
Transport, storage and communication	17 462	18 244	19 263	20 120	8 354	8 703	9 102	9 502
Financial & business services,etc[4]	57 122	56 892	59 935	63 682	28 290	27 946	29 252	31 163
Public administration and defence[5]	11 335	12 097	13 307	13 555	4 360	4 622	5 035	5 051
Education, social work and health services	13 958	15 821	17 122	17 579	5 878	6 587	7 011	7 137
Other services	11 275	11 779	11 746	12 227	5 532	5 838	5 914	6 117
Adjustment for financial services	-11 766	-9 610	-10 758	-10 751	-7 230	-5 800	-6 287	-6 232
Total	170 157	175 025	181 539	190 622	70 694	73 023	76 125	79 926
	Rest of South East				South West			
Agriculture, hunting, forestry and fishing	1 206	1 191	1 191	1 365	1 340	1 376	1 462	1 644
Mining, Quarrying inc Oil and Gas Extraction	205	242	328	412	222	344	395	480
Manufacturing[3]	19 307	18 298	18 795	19 768	7 634	7 362	7 578	8 143
Electricity, Gas, Water	1 935	2 531	2 605	2 761	1 076	1 412	1 360	1 354
Construction	7 920	7 090	6 560	6 422	3 056	2 604	2 440	2 395
Distribution, hotels and catering; repairs	14 688	15 324	15 346	16 294	5 562	5 891	6 177	6 589
Transport, storage and communication	9 109	9 541	10 161	10 617	2 498	2 538	2 694	2 864
Financial & business services,etc[4]	28 832	28 946	30 683	32 519	8 328	8 595	9 206	10 257
Public administration and defence[5]	6 975	7 475	8 271	8 504	3 358	3 697	4 072	4 334
Education, social work and health services	8 080	9 234	10 111	10 442	3 399	3 883	4 252	4 374
Other services	5 742	5 940	5 833	6 110	1 996	2 042	2 145	2 334
Adjustment for financial services	-4 536	-3 810	-4 470	-4 519	-2 157	-1 828	-2 056	-2 170
Total	99 462	102 002	105 414	110 696	36 312	37 916	39 724	42 598

See footnotes on next page.

3 Gross domestic product by industry groups[1]
Factor cost: current prices (cont'd)

£ million

	1990	1991	1992	1993[2]	1990	1991	1992	1993[2]
	West Midlands				North West			
Agriculture, hunting, forestry and fishing	833	870	908	1 028	471	480	505	550
Mining, Quarrying inc Oil and Gas Extraction	246	298	252	242	100	114	99	101
Manufacturing[3]	13 132	12 410	12 737	13 225	14 937	14 132	14 223	15 260
Electricity, Gas, Water	823	1 054	1 055	1 179	1 146	1 368	1 302	1 374
Construction	2 713	2 498	2 453	2 462	3 126	2 908	2 712	2 697
Distribution, hotels and catering; repairs	5 607	5 961	6 301	6 607	6 966	7 172	7 652	8 011
Transport, storage and communication	2 647	2 844	3 046	3 171	3 955	4 174	4 323	4 513
Financial & business services,etc[4]	7 707	8 120	8 944	9 697	9 463	9 771	10 500	11 408
Public administration and defence[5]	1 980	2 203	2 322	2 322	2 580	2 821	2 968	3 044
Education, social work and health services	3 755	4 317	4 585	4 829	4 514	5 167	5 667	5 996
Other services	1 949	2 032	2 107	2 316	2 567	2 701	2 829	3 051
Adjustment for financial services	-1 521	-1 318	-1 482	-1 545	-2 212	-1 923	-2 151	-2 173
Total	39 872	41 290	43 227	45 533	47 613	48 886	50 627	53 832
	England				Wales			
Agriculture, hunting, forestry and fishing	6 859	6 935	7 175	8 156	461	468	459	493
Mining, Quarrying inc Oil and Gas Extraction	2 590	3 225	3 215	3 203	173	203	159	161
Manufacturing[3]	96 045	92 011	94 851	100 345	5 904	5 811	5 447	6 081
Electricity, Gas, Water	8 759	11 196	11 058	11 614	625	751	814	868
Construction	29 236	26 491	24 809	24 362	1 448	1 318	1 303	1 310
Distribution, hotels and catering; repairs	58 634	61 292	63 613	67 008	2 800	2 967	3 088	3 225
Transport, storage and communication	34 728	36 448	38 156	40 142	1 409	1 404	1 399	1 519
Financial & business services,etc[4]	101 675	103 477	110 420	118 645	3 072	3 307	3 630	4 019
Public administration and defence[5]	25 804	27 955	30 320	30 999	1 601	1 681	1 729	1 730
Education, social work and health services	36 127	40 935	44 686	46 277	2 105	2 468	2 727	2 861
Other services	23 339	24 364	24 844	26 420	1 058	1 060	1 118	1 179
Adjustment for financial services	-21 763	-18 224	-20 453	-20 771	-623	-581	-622	-684
Total	402 031	416 106	432 694	456 400	20 033	20 858	21 249	22 761
	Scotland				Northern Ireland			
Agriculture, hunting, forestry and fishing	1 199	1 121	1 186	1 214	404	439	462	510
Mining, Quarrying inc Oil and Gas Extraction	756	986	973	1 067	32	42	42	48
Manufacturing[3]	9 302	8 775	9 153	9 497	2 140	2 237	2 192	2 371
Electricity, Gas, Water	937	1 164	1 226	1 291	262	277	241	221
Construction	3 158	3 002	3 001	2 886	687	659	647	664
Distribution, hotels and catering; repairs	5 356	5 878	6 294	6 450	1 287	1 420	1 541	1 665
Transport, storage and communication	3 374	3 587	3 713	3 911	560	612	638	691
Financial & business services,etc[4]	7 261	7 719	8 437	9 113	1 630	1 775	1 969	2 179
Public administration and defence[5]	2 914	3 088	3 516	3 687	1 357	1 532	1 695	1 783
Education, social work and health services	5 085	5 741	5 952	6 499	1 387	1 613	1 697	1 820
Other services	2 355	2 527	2 736	2 894	704	725	758	799
Adjustment for financial services	-1 846	-1 683	-1 884	-1 895	-320	-294	-367	-390
Total	39 852	41 905	44 304	46 614	10 130	11 037	11 515	12 360
	United Kingdom							
Agriculture, hunting, forestry and fishing	8 923	8 964	9 282	10 373				
Mining, Quarrying inc Oil and Gas Extraction	3 550	4 455	4 389	4 479				
Continental shelf	6 840	5 995	6 265	7 668				
Manufacturing[3]	113 392	108 834	111 644	118 294				
Electricity, Gas, Water	10 583	13 388	13 339	13 994				
Construction	34 529	31 470	29 760	29 221				
Distribution, hotels and catering; repairs	68 076	71 558	74 536	78 348				
Transport, storage and communication	40 071	42 051	43 905	46 263				
Financial & business services,etc[4]	113 638	116 277	124 456	133 956				
Public administration and defence[5]	31 676	34 257	37 260	38 199				
Education, social work and health services	44 704	50 757	55 062	57 457				
Other services	27 456	28 676	29 455	31 292				
Adjustment for financial services	-24 552	-20 782	-23 326	-23 741				
Statistical discrepancy (income adjustment)	-	-	-	317				
United Kingdom	478 886	495 900	516 027	546 120				

1 Gross domestic product is shown for each industry after deducting stock appreciation.
2 Provisional.
3 Definition of manufacturing as revised in SIC 92.
4 Financial intermediation, real estate, renting, business activities, including rent on dwellings.
5 Public administration, national defence and compulsory social security.

4 Gross domestic fixed capital formation by selected industry groups

£ million

	Total of industries shown	Agriculture forestry and fishing	Energy, mining and water[1]	Manufacturing[2]	Transport and communication[3]	Dwellings
1988						
United Kingdom	48 921	1 420	6 655	12 415	7 504	20 927
North	2 742	81	192	1 328	234	907
Yorkshire & Humberside	4 004	128	543	1 232	499	1 602
East Midlands	3 193	116	404	803	418	1 452
East Anglia	1 949	109	154	424	200	1 061
South East	15 361	153	1 349	3 025	3 500	7 334
Greater London	..	..	..	1 074	..	2 519
Rest of South East	..	..	..	1 952	..	4 815
South West	3 911	182	380	774	574	2 001
West Midlands	3 874	108	349	1 203	533	1 682
North West	4 576	54	412	1 576	578	1 956
England	39 611	931	3 783	10 366	6 535	17 996
Wales	2 287	113	245	778	234	917
Scotland	3 843	256	523	1 025	555	1 485
Northern Ireland	1 210	120	133	247	180	530
Continental shelf	1 970	-	1 970	-	-	-
1989						
United Kingdom	55 785	1 485	7 998	14 248	9 066	22 988
North	3 152	78	279	1 413	319	1 063
Yorkshire & Humberside	4 502	124	676	1 259	599	1 844
East Midlands	3 741	117	481	893	500	1 749
East Anglia	2 092	109	230	477	234	1 042
South East	16 654	148	1 476	3 463	4 186	7 382
Greater London	..	..	..	1 119	..	2 724
Rest of South East	..	..	..	2 344	..	4 658
South West	4 647	206	529	758	769	2 386
West Midlands	4 705	123	444	1 476	709	1 954
North West	5 303	52	443	2 029	670	2 109
England	44 796	956	4 557	11 768	7 986	19 529
Wales	2 938	133	294	1 068	279	1 164
Scotland	4 198	261	478	1 150	601	1 708
Northern Ireland	1 334	134	151	262	200	587
Continental shelf	2 519	-	2 519	-	-	-
1990						
United Kingdom	55 186	1 368	9 442	14 226	8 711	21 439
North	3 221	72	359	1 414	328	1 049
Yorkshire & Humberside	4 327	113	655	1 291	550	1 717
East Midlands	3 632	106	525	985	479	1 538
East Anglia	1 839	101	263	452	255	769
South East	15 771	137	1 668	3 251	4 073	6 642
Greater London	..	..	..	1 196	..	2 725
Rest of South East	..	..	..	2 055	..	3 917
South West	4 072	187	525	758	684	1 918
West Midlands	4 424	109	478	1 388	617	1 832
North West	5 673	48	463	2 291	649	2 221
England	42 959	874	4 936	11 829	7 635	17 686
Wales	3 100	107	437	1 068	303	1 184
Scotland	4 493	254	624	1 012	590	2 013
Northern Ireland	1 314	133	125	317	183	556
Continental shelf	3 321	-	3 321	-	-	-

See footnotes on next page.

4 Gross domestic fixed capital formation by selected industry groups (cont'd)

£ million

	Total of industries shown	Agriculture forestry and fishing	Energy, mining and water[1]	Manufacturing[2]	Transport and communication[3]	Dwellings
1991						
United Kingdom	52 718	1 063	11 566	13 183	8 405	18 501
North	3 146	48	398	1 437	339	925
Yorkshire & Humberside	3 995	76	736	1 182	568	1 432
East Midlands	3 603	80	598	1 109	451	1 365
East Anglia	1 616	76	242	340	241	718
South East	14 233	101	1 846	3 255	3 791	5 239
Greater London	..	..	..	1 233	..	1 792
Rest of South East	..	..	..	2 022	..	3 447
South West	3 610	161	531	651	615	1 651
West Midlands	4 096	96	555	1 184	601	1 661
North West	4 873	31	431	1 733	688	1 990
England	39 172	669	5 336	10 892	7 294	14 980
Wales	2 474	79	347	809	302	937
Scotland	4 890	214	833	1 172	625	2 045
Northern Ireland	1 264	102	130	309	183	540
Continental shelf	4 919	-	4 919	-	-	-
1992						
United Kingdom	52 485	1 070	12 311	12 163	8 249	18 692
North	2 883	56	382	1 137	366	943
Yorkshire & Humberside	4 159	97	747	1 285	603	1 426
East Midlands	3 873	96	635	1 246	498	1 397
East Anglia	1 832	91	353	402	254	733
South East	14 077	120	2 244	2 631	3 606	5 475
Greater London	..	..	..	841	..	1 704
Rest of South East	..	..	..	1 790	..	3 772
South West	3 535	121	427	713	581	1 692
West Midlands	3 608	73	427	848	563	1 697
North West	5 236	47	833	1 748	659	1 949
England	39 202	701	6 048	10 010	7 131	15 312
Wales	2 428	89	297	768	283	991
Scotland	4 681	165	931	1 089	643	1 852
Northern Ireland	1 246	116	107	295	192	536
Continental shelf	4 928	-	4 928	-	-	-

1 Includes extraction of mineral oil and natural gas,mining and quarrying, gas, electricity and water.
2 Revised definition
3 Excluding sea and air transport

BACKGROUND NOTES

General

1. The regional accounts presented in this article are consistent with the national accounts published in the *United Kingdom National Accounts (Blue Book) 1994 edition*, which also defines the terms used.

2. The methodology employed in producing the original items of the regional accounts was described in *Regional Accounts (Studies in Official Statistics No 31)* published in 1978 and updated in the publication *Methods Used to Compile Regional Accounts (Eurostat, 1984)*. Brief descriptions of the sources and methods used to compile the estimates of GDP are given below.

Accuracy

3. As with the national accounts, the regional estimates, although calculated as reliably as possible, cannot be regarded as accurate to the last digit shown.

4. The regional GDP estimates are partly based on sample surveys and the quality of the results therefore vary according to sample size. This means that the results for areas with smaller populations are subject to a greater degree of uncertainty than those for more populated areas. An assessment of the quality of the regional and county estimates was published in *Economic Trends, November 1990*.

Revisions

5. All items in the regional accounts are subject to revision when better information becomes available, either from the national accounts for the UK, from regional data sources, or from improvements to regional accounts methodology. Revisions to one year frequently suggest the need for revisions to other years and all regional series apart from the GDFCF series have previously been maintained back to 1971, with no comparable data for earlier years being available. However, the changes to the region by industry series described in notes 11 and 12, due to the introduction of SIC(92), have only been taken back to 1982, with earlier data continuing to be available on a SIC(80) basis.

Regional gross domestic product - concepts and definitions

6. GDP for the United Kingdom is defined as the total sum of all incomes earned from productive activity in the UK. Regional GDP should thus be defined as the sum of incomes earned from productive activity in the region, so that the income of commuters should be included in the region where they work. However, the estimates of regional GDP are not compiled on this basis; they include regional estimates of income from employment on a residence basis, because this is the basis of the most reliable data source (the 1 per cent sample of Department of Social Security (DSS) records). This has a significant effect on the estimates for Greater London and the Rest of the South East, but is assumed not to introduce any significant distortion for the other regions.

7. In this article GDP is measured as the total of all incomes earned from the production of goods and services at factor cost. Insufficient information is available to estimate GDP using either the production or expenditure approaches.

8. Estimates of GDP by region are at factor cost. They measure the income of factors of production and exclude the value of taxes on expenditure such as VAT, but include subsidies. Thus the effect of the 1984 miners' strike on regional GDP is restricted to the effect on miners' income from employment; the value of government subsidy to the coal industry is included in profits and thus in GDP.

9. All the items are measured in current prices which means that increases over time reflect inflation as well as real growth. Trends in total GDP per head cannot be analyzed easily without deflating the data. However, there are no regional price indices which could be used to remove the effect of inflation from the figures. Comparisons of trends can therefore be based either on the difference between regional increases at current prices or on movements in the amount relative to the UK average. Both approaches would be misleading if the rate of inflation in any region were different from the national average.

10. In the regional accounts it is usual to look at changes per head relative to the UK average over time. However, this obscures the effect of changes in population size and area. In areas where the population is increasing most rapidly, growth in total GDP would be expected to grow relatively strongly; conversely, areas with a low or negative population growth would be expected to grow more slowly.

Revisions to regional GDP

11. The tables which contain industrial analysis of regional GDP are now based as far as possible on the *Standard Industrial Classification, Revised 1992 (SIC(92))*, in line with the *1994 Blue Book*. The changes were described in articles in the October 1992 and February 1993 issues of *Economic Trends*. The new series, which are designed to approximate the section and sub-section level of the SIC(92), have been formed by regrouping classes from the existing classification SIC(80). This regrouping leads to a change in the definition of manufacturing, which now includes coke ovens, mineral oil processing and nuclear fuel production. These industries were previously classified as energy industries.

12. The analyses of GDP by industry, both national and regional, are based on classifying each economic unit by industry, based on its main activity, and allocating all its activity to that industry. Subsidiary activities of these units are therefore included with the main activity. From the *1993 Blue Book*, this general principle has been extended to rent income, which is now allocated by industry according to the main activity of each rent-receiving unit.

Provisional estimates of GDP

13. The estimates of GDP for 1993 given in this article are based on a less complete set of data than estimates for the earlier years, and projections are employed where necessary. These provisional estimates are particularly subject to revision when more data for 1993 become available e.g. from the one per cent sample of pay records by DSS, from the Annual Census of Production, from the Survey of Personal Incomes, from the Agriculture Departments and from the national accounts.

Continental Shelf

14. Gross domestic product for the Continental Shelf region consists only of profits and surpluses less stock appreciation, which cannot be allocated to standard regions. It does not include income from employment, which is allocated to the region of residence of the employee; there is no resident population in the Continental Shelf region. Since GDP per head cannot be calculated for the Continental Shelf region, it is excluded from the United Kingdom total in the calculation of the national average used in comparisons of regional

GDP per head. Continental Shelf GDP incorporates profits of both UK and foreign contractors.

European Community definition of regional GDP

15. The treatment of the adjustment for financial services (or interest) in the accounts differs from the approach used by the Statistical Office of the European Community (Eurostat). In the UK regional accounts the adjustment for financial services is deducted from the GDP of the region providing the service and receiving the interest payment (pro-rata employment in banking, finance and insurance). The treatment used by Eurostat is to deduct the interest from the GDP of the region paying the interest. It is assumed that the interest paid is proportional to GDP. The effect on regional GDP is to increase the level of the South East and reduce that of other regions.

16. There are also two other very minor adjustments to the regional distribution of GDP. The GDP of UK embassies is added to the Continental Shelf region or Extra-Regio and the GDP of foreign embassies in the UK is deducted from the GDP of the South East. The GDP of UK forces stationed abroad is also included in the Extra-Regio.

Gross Domestic Fixed Capital Formation by Selected Industries

17. Regional estimates of GDFCF are given in Table 4. These estimates are only made for a few industries, namely agriculture, energy, manufacturing, dwellings and transport and communications industries. There are insufficient data available to provide estimates for other industries.

Personal Income, Household Income and Consumers' Expenditure

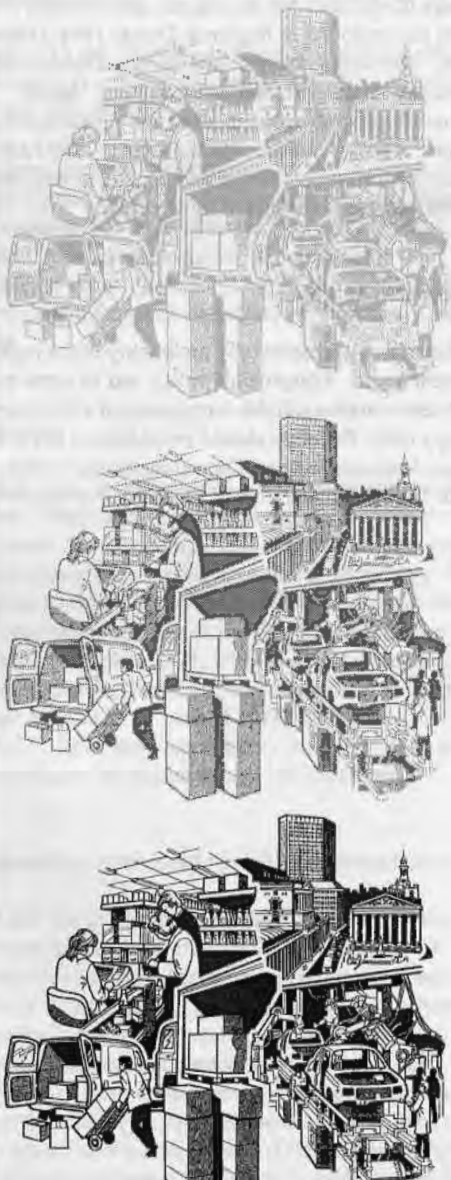
18. Regional estimates of personal income, personal disposable income, household income and consumers' expenditure in 1993 will be published in the May 1995 issue of *Economic Trends*. The 1992 estimates for these as well as estimates for GDP, household income and household disposable income by county for 1991, were published in *Economic Trends*, May 1994. The 1992 estimates for household income and household disposable income by county will also be published in Regional Accounts 1993 part 2.

Regional Trends

19. A wider range of statistics for the regions and counties of the United Kingdom can be found in *Regional Trends 1994, (HMSO)* price £27.00 net. The topics covered in Regional Trends include population, housing, transport and environment, health, law enforcement, education, employment, industry and agriculture. Also, *Regional Statistics: A Brief Guide to Official Sources, 1993 edition* provides useful information on sources and contact points, and is available from the address at the end of these notes.

The regional accounts database

20. This article necessarily presents only a summary of the regional accounts for recent years. Longer time series and in some cases additional detail can be made available on payment of a fee either on paper or on floppy disk. Requests should be addressed to Mr Bob Cooper, Regional Accounts Section, Central Statistical Office, PO Box 1333, Room 1819, Millbank Tower, Millbank, London SW1P 4QQ.



THE EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME, 1993

This article examines how the distribution of income amongst households in the UK is modified by government expenditure and taxation. The main findings are:

- The income share of the bottom fifth of households is increased from 2.3% of original income to 6.6% of post-tax income by taxes and benefits. .
- The average original income of the top fifth of households is 21 times the average of the bottom fifth, the average final income of the top fifth of households is less than 4 times the average of the bottom fifth.
- Cash benefits make up 70% of the gross income of the bottom fifth of households.
- The top fifth of non-retired households pay 17.9% of their gross income in income tax, the middle fifth pay 11.2%.
- The state pension accounts for 74% of the cash benefits received by retired households.
- The distribution of original income is more equal among non-retired households than retired.But the distribution of post-tax income is more equal among the retired than the non-retired.

In part 2 of this article there is a special section analysing the impact of the tax-benefit system on households ranked according to the proportion of gross income received through cash benefits

Part 1

Introduction

During 1993, the government raised and spent £273 billion. Directly or indirectly most of this revenue was raised from households and the expenditure benefited households. This article examines the impact of government taxation and expenditure on the distribution of income by allocating the revenue to those households which paid the taxes and the expenditure to those households which benefited from it, wherever this is possible. Some outlays and revenue of government cannot readily be allocated to households, for example there is no clear conceptual basis for determining the benefit to each household of expenditure on defence. However, about 57 per cent of government revenue and 55 per cent of government spending in 1993 can be allocated to households (see Table 1 and Table 2, Appendix 1). One of the consequences of this redistribution is to reduce the differences in income amongst households.

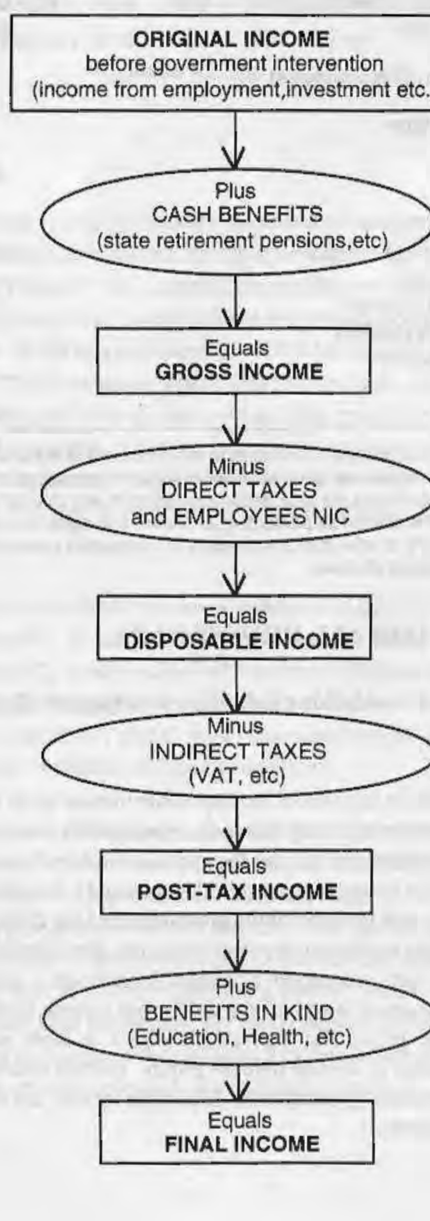
The stages of redistribution of incomes used in this analysis are shown in Chart 1. Household members receive income from their employment; from occupational pensions; from their investments and from other non-government sources. Total income from these sources constitutes original income. The flow chart shows the various ways in which government then raises revenue through taxation on households and distributes benefits to them both in cash and in kind.

The main data source for this analysis is the Family Expenditure Survey (FES) which covers about 7,000 households per year. People living in hotels, lodging houses and in institutions such as old peoples' homes are excluded. The unit of analysis is the household rather than the individual. Being a sample survey its results are subject to the usual sampling errors - these errors are larger for the household groups with smaller sample numbers (see Appendix 3).

The article aims to present the most meaningful figures for 1993. The figures cannot be easily compared with earlier articles in this series because the tax-benefit system and the FES change over time.

CHART 1

Stages of redistribution



Summary of the effects of taxes and benefits by quintile groups of unadjusted disposable income, 1993

TABLE A

	Quintile groups of households ranked by UNADJUSTED disposable income					
	Bottom	2nd	3rd	4th	Top	All households
Average per household (£ per year)[1]						
Original income	1 190	4 340	11 650	20 530	42 310	16 000
plus cash benefits	3 790	4 640	3 070	2 000	1 370	2 970
Gross income	4 980	8 980	14 720	22 530	43 680	18 980
less direct taxes[2] and employees' NIC	640	1 140	2 490	4 400	9 850	3 710
Disposable income	4 340	7 830	12 220	18 130	33 830	15 270
less indirect taxes	1 140	1 990	2 950	3 800	5 580	3 090
Post-tax income	3 200	5 840	9 280	14 330	28 250	12 180
plus benefits in kind	2 010	3 110	2 920	2 890	3 280	2 840
Final income	5 200	8 950	12 200	17 210	31 530	15 020
Average per household (number)						
Children[3]	0.2	0.7	0.7	0.8	0.8	0.6
Adults	1.2	1.6	1.9	2.1	2.4	1.8
Persons	1.4	2.3	2.6	2.9	3.2	2.5
People in full-time education	0.2	0.5	0.6	0.6	0.7	0.5
Economically active people	0.3	0.6	1.2	1.7	2.1	1.2
Retired people	0.7	0.7	0.4	0.2	0.1	0.4
Composition (Percentages)						
Household type						
Retired	60	38	20	10	4	26
Non-retired						
1 adult	20	16	14	9	4	12
2 adults	6	12	26	28	28	20
1 adult with children[4]	10	14	5	1	1	6
2 adults with children	4	16	24	35	35	23
3 or more adults[5]	1	4	10	17	28	12
Total	100	100	100	100	100	100

1 The monetary values in the tables in the main body of the article are rounded to the nearest £10.
2 These are income tax (after tax relief at source on mortgage interest and life assurancepremiums) and gross Council tax /Community charge /Domestic rates and Water charges but after deducting discounts and Council tax transitional relief.
3 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.
4 This group is smaller than the category of "one parent families" because some of these families will be contained in the larger household types.
5 With or without children.

RESULTS FOR ALL HOUSEHOLDS

Results for households ranked by unadjusted disposable income

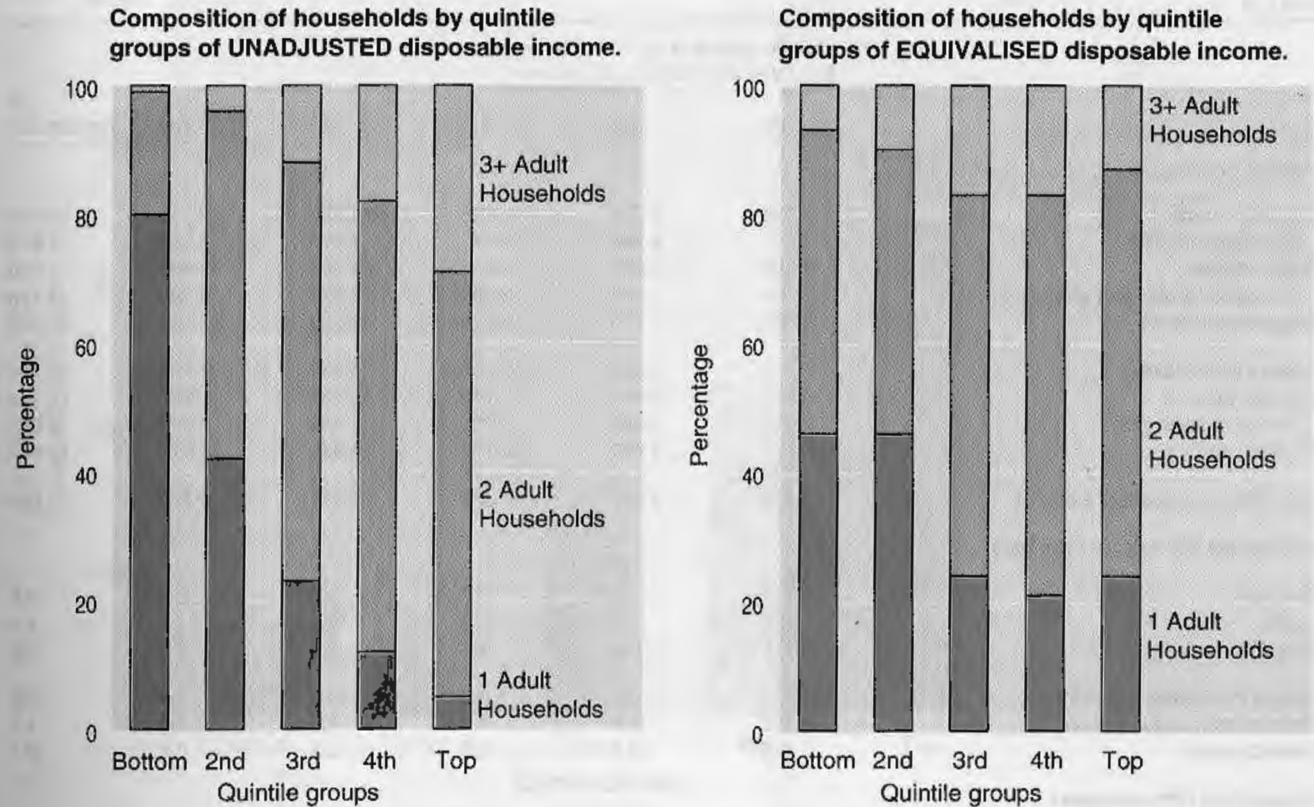
When households are ranked by disposable income as in Table A, there is a strong relationship between a household's position in the income distribution and its size: the average number of persons per household is 3.2 for the highest quintile group and 1.4 for the lowest quintile group (the lowest quintile group contains the 20 per cent of households with the lowest disposable income). The bottom quintile group has a high proportion of retired households - defined as households where at least half the total gross income comes from retired people. In contrast, households with 3 or more adults are over-represented in the top quintile group. Further details of the distribution ranked by unadjusted disposable income are shown in Table 9, Appendix 1.

Adjustment for household composition

Using income per household to compare the welfare among households does not allow for differences in their composition and thus the differing demands on resources. One way to take such differences into account is to use income per capita but such a measure does not allow for the differing needs of children relative to adults or for economies of scale within households. This analysis therefore uses equivalence scales designed to take into account household size, family composition and age of children. The remainder of this article refers to households ranked by equivalised disposable income (disposable income divided by the equivalence value of the household). Chart 2 shows how the use of the equivalence scale results in larger households moving down the income distribution and smaller ones moving up. Fuller details of the derivation of the equivalence scale are given in Appendix 3.

CHART 2

The effect of EQUIVALISATION



Equivalised income is used only to rank the households. Most monetary values shown in the article are unequivalised. Where equivalised amounts are given, they are shown in *italics*.

Results for households ranked by equivalised disposable income

The level of original income varies widely between households. Table B shows this and other income measures for quintile groups ranked by equivalised disposable income. In the lowest quintile group the average number of economically active people is 0.6 and the chief economic supporter is a full-time employee or self-employed in 13% of the households (Appendix 1, Table 3b). Hence the average original income is low (£1,920 per annum). In the highest quintile group, there are an average of 1.6 economically active people and the chief economic supporter is in full-time employment or self employed in 84% of the households. The average original income is £39,370 for this group. In the lowest quintile group, nearly 40 per cent of the households are retired and the majority of these have virtually no original income since the state retirement pension is a cash benefit.

Chart 3 illustrates the declining importance of cash benefits in gross income as income rises.

Chart 4 shows the average taxes paid and the average benefits received by household in each quintile group. This redistribution of income through the tax-benefit system reduces the dispersion of incomes, so that the average final income for each quintile group ranges from £7,480 to £28,270, a ratio of about 1:4 compared with the ratio for original incomes of about 1:21

An alternative way to illustrate the extent of income redistribution is to examine how income shares are modified by the tax-benefit system (Table C). For example, households in the highest quintile group (when ranked by equivalised disposable income) receive 52 per cent of all original income. After taking into account cash benefits, this same group's share falls to 44 per cent. At the other end of the scale, the share of the lowest quintile group rises from 2.3 per cent to 7.0 per cent. A further, but comparatively smaller, compression of the income distribution occurs at the stage of disposable income, but this is reversed after indirect taxes are taken into account.

The Gini coefficient is the most widely used summary measure of the inequality of the distribution of income (see Appendix 3, paragraph 42). It takes values between 0 and 100 per cent - the higher values indicating greater inequality. The fall from 53 per cent to 38 per cent shown in Table C shows that cash benefits contribute the most to the reduction in income inequality.

Attention has already been drawn to the preponderance of retired households in the lower ranges of the distribution of original income; about 43 per cent of the households in the bottom two quintile groups are retired (Table B). The income pattern of the retired is very different from that of households whose head is of working age, as is their expenditure pattern (which is reflected in their indirect tax payments). For this reason, in the detailed examination of each stage of the tax-benefit system which follows, retired and non-retired households are analysed separately.

Summary of the effects of taxes and benefits by quintile groups of equivalised disposable income, 1993

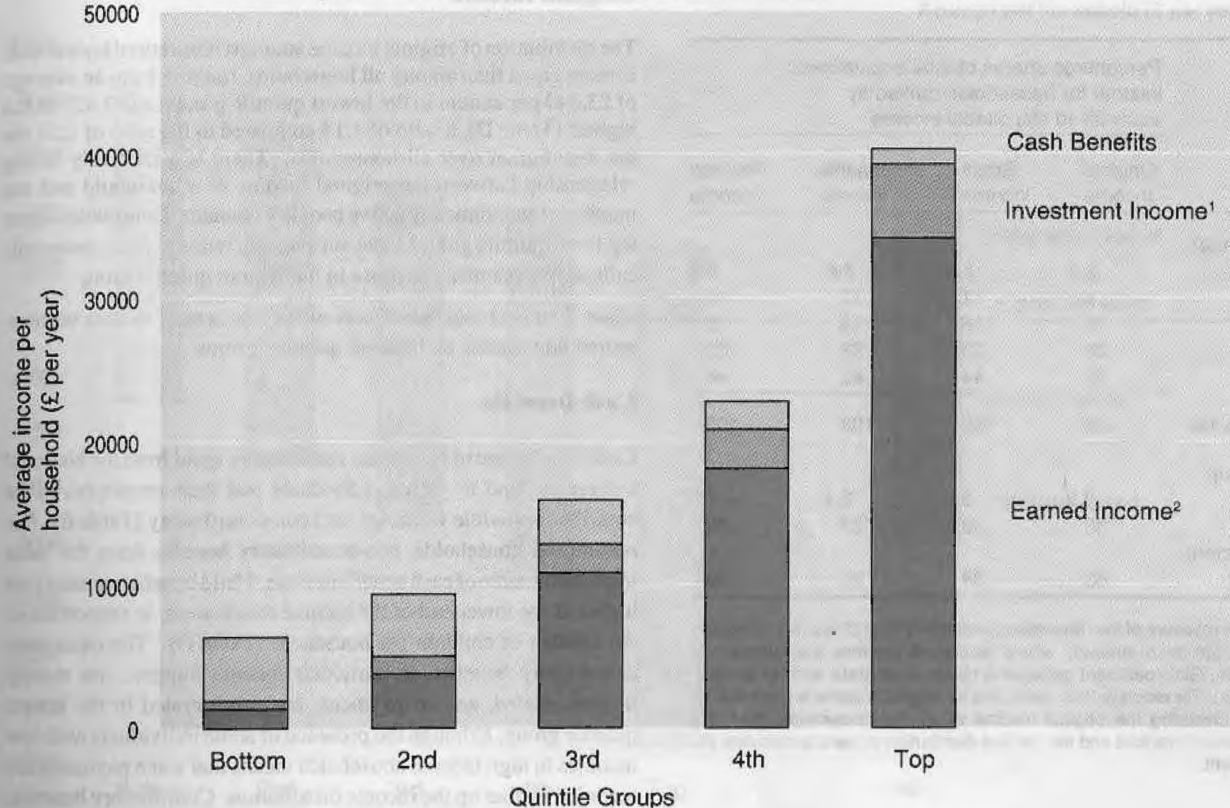
TABLE B

	Quintile groups of households ranked by EQUIVALISED disposable income					
	Bottom	2nd	3rd	4th	Top	All households
Average per household (£ per year)[1]						
Original income	1 920	5 020	12 860	20 850	39 370	16 000
plus cash benefits	4 460	4 350	3 070	1 930	1 060	2 970
Gross income	6 380	9 370	15 930	22 780	40 420	18 980
less direct taxes[2] and employees' NIC	790	1 200	2 690	4 530	9 320	3 710
Disposable income	5 590	8 170	13 240	18 250	31 100	15 270
less indirect taxes	1 710	1 950	3 100	3 790	4 900	3 090
Post-tax income	3 870	6 220	10 140	14 460	26 200	12 180
plus benefits in kind	3 610	3 000	3 050	2 490	2 070	2 840
Final income	7 480	9 220	13 190	16 940	28 270	15 020
Equivalised disposable income	*5 335*	*8 103*	*11 370*	*15 911*	*29 567*	*14 058*
Average per household (number)						
Children[3]	0.9	0.6	0.7	0.6	0.4	0.6
Adults	1.6	1.7	2.0	2.0	1.9	1.8
Persons	2.5	2.2	2.7	2.6	2.3	2.5
People in full-time education	0.7	0.5	0.6	0.5	0.4	0.5
Economically active people	0.6	0.7	1.3	1.6	1.6	1.2
Retired people	0.6	0.7	0.5	0.3	0.2	0.4
Composition (Percentages)						
Household type						
Retired	39	47	24	15	7	26
Non-retired						
1 adult	10	9	10	13	21	12
2 adults	9	9	20	26	36	20
1 adult with children[4]	15	9	4	2	1	6
2 adults with children	21	17	27	27	23	23
3 or more adults[5]	6	9	16	16	12	12
Total	100	100	100	100	100	100

1 All the tables in Part 1 of this article show unequivalised income:equivalised income has only been used in the ranking process to produce the quintile groups(and to produce the percentage shares and Gini coefficients).
2 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and Gross Council tax /Community charge /domestic rates and Water charges but after deducting discounts and Council tax transitional relief.
3 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.
4 This group is smaller than the category of "one parent families" because some of these families will be contained in the larger household types.
5 With or without children.

CHART 3

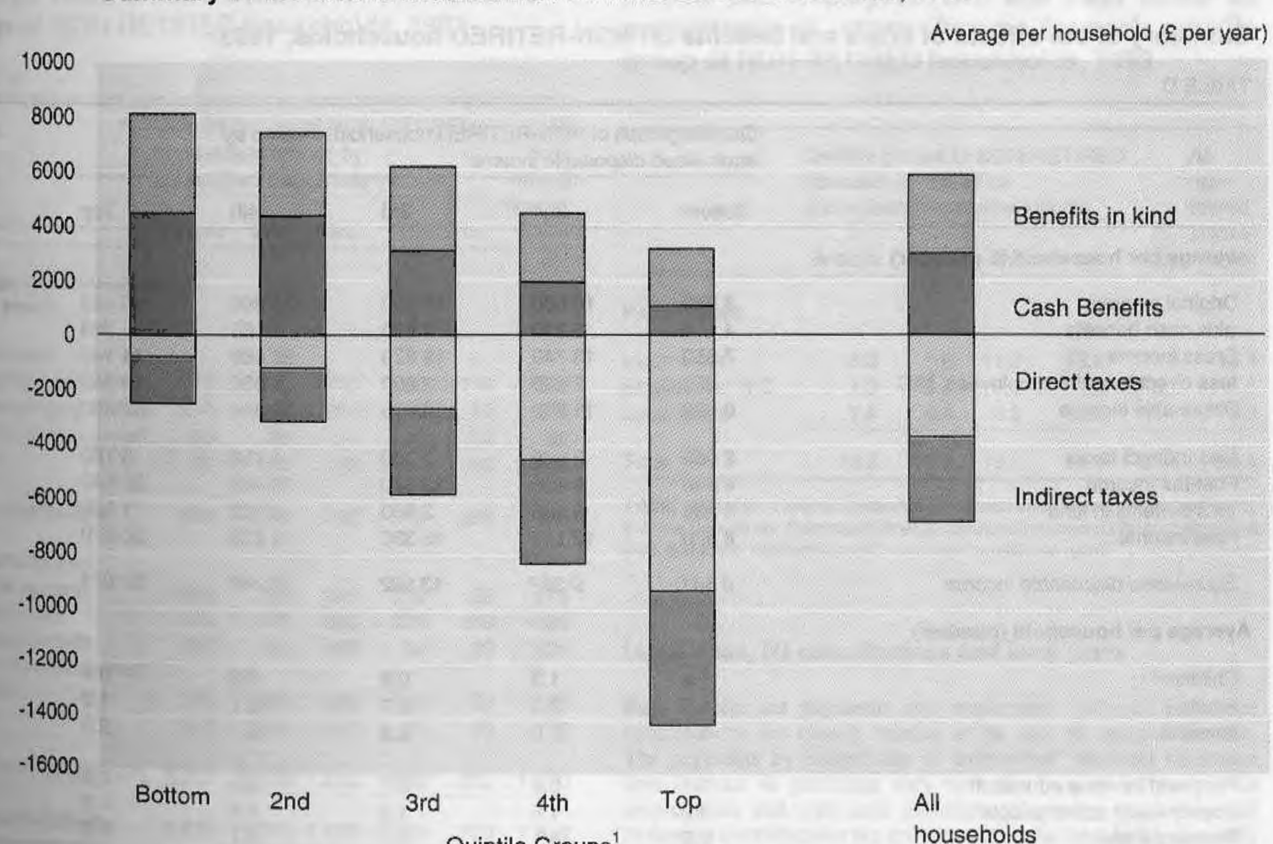
Sources of gross income by quintile groups of equivalised disposable income, 1993



1. Investment income includes occupational pensions and annuities.
2. Earned income includes wages and salaries, income from self-employment and income from "fringe benefits".

CHART 4

Summary of the effects of taxes and benefits on all households, 1993



1. Households are ranked by their equivalised disposable income.

Percentage shares of total household income and Gini coefficients[1], 1993

TABLE C

	Percentage shares of total equivalised income for households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom	2.3	7.0	7.6	6.6
2nd	6	11	12	11
3rd	15	16	16	16
4th	25	23	23	22
Top	52	44	42	44
All households	100	100	100	100
Decile group				
Bottom	0.9	3.0	3.1	2.5
Top	33	28	27	28
Gini coefficient (percent)	53	38	35	38

1 This is a measure of the dispersion of each definition of income. Unlike the percentage share analysis where household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

RESULTS FOR NON-RETIRED HOUSEHOLDS

Original income

The distribution of original income amongst non-retired households is more equal than among all households, ranging from an average of £3,040 per annum in the lowest quintile group to £43,420 in the highest (Table D), a ratio of 1:14 compared to the ratio of 1:21 for the distribution over all households. There is a relatively strong relationship between the original income of a household and the number of economically active people it contains. Households in the top three quintile groups have, on average, twice as many economically active members as those in the bottom quintile group.

Chart 5 summarises the effects of the tax-benefit system on non-retired households in different quintile groups.

Cash benefits

Cash benefits are of two types: contributory (paid from the National Insurance Fund to which individuals and their employers make contributions while working), and non-contributory (Table E). For non-retired households, non-contributory benefits form the most important source of cash benefit income. Child benefit payments are higher at the lower end of the income distribution, in proportion to the number of children per household (Table D). The other non-contributory benefits, in particular Income Support, are mainly income-related, and so payments are concentrated in the lowest quintile group, although the presence of some individuals with low incomes in high income households means that some payments are recorded further up the income distribution. Contributory benefits, for which the individual's contribution record rather than income is the criterion for payment, are highest for the second quintile group. On average, cash benefits formed 10 per cent of the gross income of non-retired households: their payment resulted in a significant reduction in income inequality.

Summary of the effects of taxes and benefits on NON-RETIRED households, 1993

TABLE D

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Original income	3 040	10 530	17 950	25 300	43 420	20 050
plus cash benefits	4 510	3 210	1 920	1 160	720	2 310
Gross income	7 550	13 740	19 870	26 460	44 140	22 350
less direct taxes[1] & employees' NIC	950	2 170	3 800	5 580	10 340	4 570
Disposable income	6 600	11 570	16 070	20 880	33 800	17 780
less indirect taxes	2 060	2 940	3 700	4 150	5 160	3 600
Post-tax income	4 540	8 630	12 370	16 740	28 640	14 180
plus benefits in kind	4 280	3 480	2 960	2 530	1 930	3 040
Final income	8 820	12 110	15 330	19 270	30 570	17 220
Equivalised disposable income	*5 541*	*9 307*	*13 032*	*17 742*	*32 075*	*15 539*
Average per household (number)						
Children[2]	1.4	1.0	0.8	0.6	0.4	0.9
Adults	1.7	2.0	2.1	2.1	1.9	2.0
Persons	3.1	3.0	2.9	2.7	2.3	2.8
People in full-time education	1.1	0.9	0.7	0.5	0.4	0.7
Economically active people	0.9	1.5	1.8	1.8	1.7	1.5
Retired people	0.0	0.1	0.1	0.1	0.0	0.1

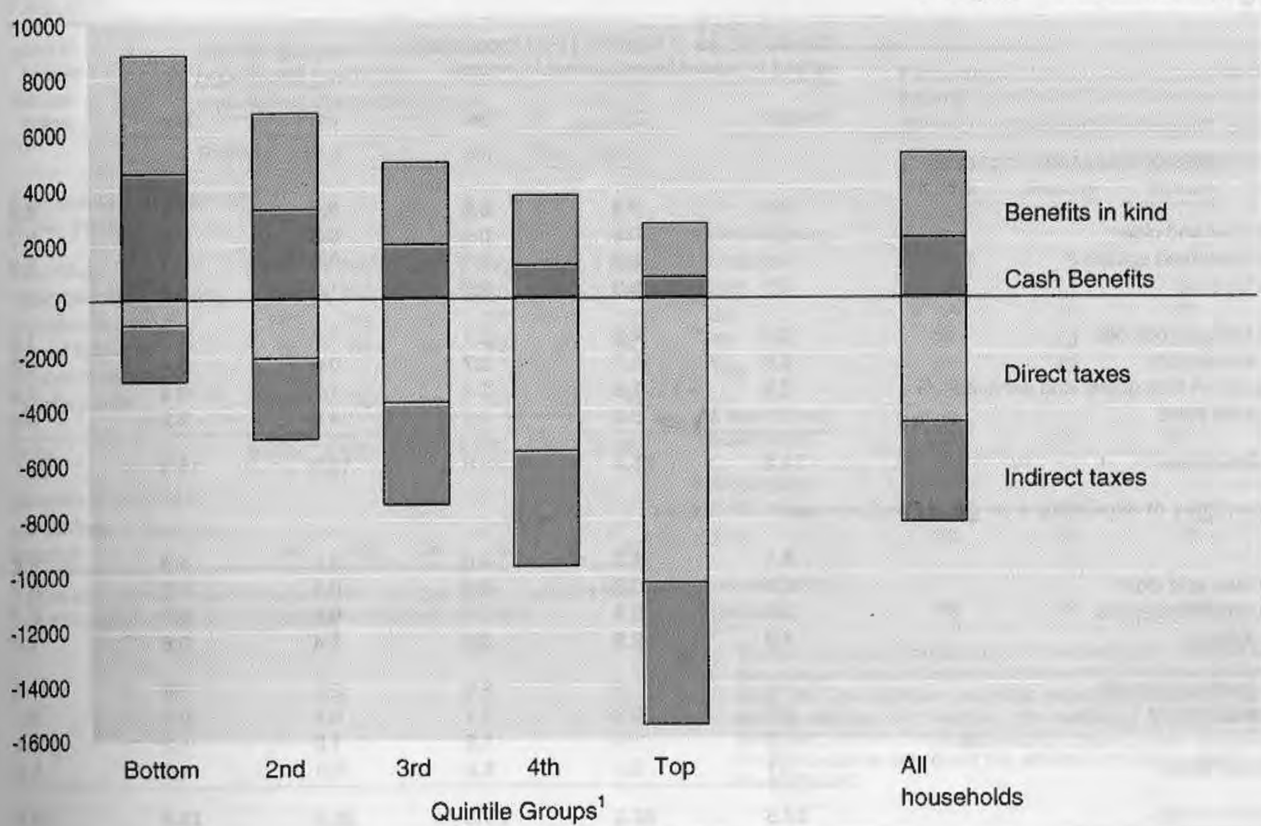
1 These are income tax (which is after tax relief at source on mortgage interest and life assurance premiums) and Gross Council tax /Community charge /domestic rates and Water charges but after deducting discounts and Council tax transitional relief.

2 Children are defined as persons aged under 16 or aged between 16 and 18, unmarried and receiving non-advanced further education.

CHART 5

Summary of the effects of taxes and benefits on non-retired households, 1993

Average per household (£ per year)



1. Households are ranked by their equivalised disposable income.

Average value of cash benefits for each quintile group of NON-RETIRED households, 1993

TABLE E

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired house-holds
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Contributory						
Retirement pension	70	360	310	250	150	230
Sickness/injury related	370	440	260	180	90	270
Unemployment benefit	90	90	80	40	30	60
Other	80	90	70	50	90	80
Total contributory	600	980	710	510	360	640
Non-contributory						
Income support	1 800	700	240	110	20	570
Child benefit	670	500	390	300	210	420
Housing benefit	960	490	150	50	20	330
Sickness/disablement related	120	290	290	110	50	170
Other	350	250	140	80	60	170
Total non-contributory	3 910	2 230	1 210	650	360	1 670
Total cash benefits	4 510	3 210	1 920	1 160	720	2 310
Cash benefits as a percentage of gross income	60	23	10	4	2	10

Income tax, employees' NIC and local taxes[2] as percentages of gross income for each quintile group of NON-RETIRED households, 1993

TABLE F

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired house-holds
	Bottom	2nd	3rd	4th	Top	
Percentages						
Income tax[1]	3.2	7.6	11.2	13.6	17.9	13.4
Employees' NIC	1.9	3.9	4.7	4.9	3.9	4.1
Local taxes[2]	7.4	4.4	3.2	2.6	1.7	2.9
Total	12.6	15.8	19.1	21.1	23.4	20.4

1 After tax relief at source on mortgage interest and life assurance premiums.
2 Gross Council tax, Community charge, Domestic rates and Water charges but after deducting discounts and Council tax transitional relief.

Income tax, NI contributions and local taxes

Both income tax payments and employees' National Insurance contributions are closely related to the size of original income. The payments by households of employees' National Insurance contributions in particular vary with the number of persons in employment and with their earnings. However, since National Insurance contributions are only levied on the first £420 of weekly earnings (the ceiling in operation during most of 1993), households in the top quintile group pay rather less in contributions as a percentage of gross income than the 3rd and 4th quintile groups of households (Table F).

Indirect taxes as a percentage of (a) disposable income and (b) expenditure on goods and services for each quintile group of NON-RETIRED households, 1993

TABLE G

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired households
	Bottom	2nd	3rd	4th	Top	
(a) Percentages of disposable income						
VAT	11.2	9.9	9.5	8.6	7.1	8.6
Duty on beer and cider	1.0	0.9	0.9	0.8	0.5	0.7
Duty on wines and spirits	0.8	0.7	0.7	0.6	0.7	0.7
Duty on tobacco	5.5	3.3	2.2	1.3	0.5	1.7
Duty on hydrocarbon oils	2.4	2.2	2.1	1.9	1.2	1.8
Vehicle excise duty	0.8	0.7	0.7	0.6	0.4	0.6
Other taxes on final goods and services	2.3	1.8	1.7	1.2	0.9	1.4
Intermediate taxes	7.1	5.8	5.3	4.8	3.9	4.9
Total indirect taxes	31.2	25.4	23.0	19.9	15.3	20.2
(b) Percentages of expenditure on goods and services[1]						
VAT	8.1	8.7	9.0	9.0	8.8	8.8
Duty on beer and cider	0.7	0.8	0.9	0.8	0.6	0.7
Duty on wines and spirits	0.6	0.6	0.6	0.6	0.8	0.7
Duty on tobacco	4.0	2.9	2.0	1.4	0.6	1.8
Duty on hydrocarbon oils	1.8	1.9	2.0	2.0	1.5	1.8
Vehicle excise duty	0.6	0.6	0.7	0.6	0.5	0.6
Other taxes on final goods and services	1.7	1.6	1.6	1.3	1.2	1.4
Intermediate taxes	5.1	5.1	5.0	5.1	4.9	5.0
Total indirect taxes	22.5	22.3	21.8	20.8	18.8	20.8

1 See paragraph 30 of Appendix 3 for the definition of expenditure.

Income tax was, on average, 3.2 per cent of gross income in the lowest quintile, rising steadily to 17.9 per cent in the top quintile. As the quintile groups are based on equivalised disposable income, ie after direct tax, even the lowest quintile contains individuals who are liable for income tax.

Council tax (in Great Britain from April 1993), community charge and domestic rates (in Northern Ireland) are included here with income tax and NICs in line with the treatment of council tax and community charge in the National Accounts. Rebates on these local taxes are included as part of housing benefit in Table E. Table F overstates the regressive impact of local taxation at the lower end of the income distribution, since low income households are likely to be receiving these rebates.

Indirect taxes

Households' payments of indirect taxes are estimated from their expenditure recorded in the FES. Because the data on expenditure and incomes in the FES are compiled in different ways, they are not fully compatible (see Appendix 3, paragraph). Indeed, measured expenditure substantially exceeds measured income in the bottom decile group of households.

In total, indirect taxes expressed as a proportion of disposable income fall as disposable income rises (upper part of Table G), though the highest quintile pay most in indirect taxes in cash terms. The impact of indirect taxes declines for the top quintile groups partly because higher income households channel an increased proportion of their disposable income into savings, investments and mortgage payments.

Because of the imbalance between measured income and expenditure already mentioned, Table G also shows estimates of indirect tax payments expressed as a percentage of *expenditure* on goods and services (in the lower part of the table). When assessed in this way, indirect taxes, with the exception of tobacco duty, rise broadly in line with expenditure.

Benefits in kind

The Government provides certain goods and services to households either free at the time of use or at subsidised prices. These benefits in kind are allocated to individual households in order to arrive at final income. The imputed value of these benefits is based on estimated costs of providing them. The largest two items for which such imputations are made are the health and education services, which together accounted for 24.2 per cent of total general government expenditure in 1993. Other items for which imputations are made are school meals and welfare milk, the housing subsidy and travel subsidies, together accounting for a further 1.2 per cent of general government expenditure.

Education benefit is attributed to households according to the members' usage of state education (see Appendix 3, paragraph 32). The bottom quintile group contains the highest number of children and consequently the highest number of those in full-time education (Table D). This is the main reason for this quintile group being allocated the highest average imputed benefit (Table H). In addition, the majority of student-only households, for whom the costs of education are greatest, are in this quintile group. Similarly the impact of expenditure on school meals and welfare milk is greatest in the lower income groups where children are more likely to have school meals provided free of charge.

Average value of benefits in kind for each quintile group of NON-RETIRED households, 1993

TABLE H

	Quintile groups of NON-RETIRED households ranked by equivalised disposable income					All non-retired house-holds
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Education	2 540	1 900	1 530	1 180	750	1 580
National health service	1 440	1 430	1 330	1 250	1 08	1 310
Housing subsidy[1]	110	70	30	20	0	50
Travel subsidies	30	50	50	70	90	60
School meals and welfare milk	150	30	10	10	10	40
Total	4 280	3 480	2 960	2 530	1 930	3 040
Benefits in kind as a percentage of post-tax income	94	40	24	15	7	21

1 Does not include tax relief at source on mortgage payments. These are taken into account in the income tax payments shown in Table F.

Percentage shares of total household income and Gini coefficients[1] for NON-RETIRED households, 1993

TABLE J

	Percentage shares of total equivalised income for NON-RETIRED households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom	2.7	6.5	7.1	6.1
2nd	9	11	12	11
3rd	16	16	17	16
4th	25	23	23	23
Top	47	43	41	44
All non-retired households	100	100	100	100
Decile group				
Bottom	0.9	2.7	2.9	2.2
Top	30	27	26	28
Gini coefficient (percent)	46	37	34	38

1 This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis wherethe household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

The benefit from the health service is estimated according to the age and sex of the household members (see Appendix 3, paragraph 34). Table H indicates that the distribution of these benefits is fairly equal across the lower two quintile groups and then the benefits decline as income goes up.

The housing subsidy (see Appendix 3, paragraph 35) has been spread between public sector tenants, and since such households tend to be concentrated in the lower half of the income distribution this is where the imputed benefit is highest.

Travel subsidies cover the passenger element of the grants made to various public operations covering both buses and railways. The use of public transport by non-retired households is partly related to the need to travel to work and thus to the number of economically active people in a household and so the combined effect of these travel subsidies increases over the income distribution.

Table H shows that taken together the absolute values of these benefits in kind clearly decline as household income increases. The ratio of benefits in kind to post-tax income decrease from 94 per cent in the lowest quintile group to 7 per cent in the highest quintile group, indicating that this expenditure contributes to the reduction in income inequality.

Summary

The overall effect of the various stages of the tax-benefits system on non-retired households is summarised in Table J. Households in the highest quintile group receive 47 per cent of all (equivalised) original income, compared with 2.7 per cent received by the lowest quintile group. However, after direct taxes and benefits are taken into account, the share of the lowest quintile group rises to 7.1 per cent and that of the highest falls to 41 per cent. Cash benefits are the major factor underlying these changes, causing the Gini coefficient to fall from 46 per cent based on original income to 37 per cent based on gross income. Income tax, employees' National Insurance contributions and rates produced a further reduction in inequality, but payment of indirect taxes increases inequality.

RESULTS FOR RETIRED HOUSEHOLDS

Retired households (see Appendix 3, paragraph 8 for definition) have quite distinct income and expenditure patterns and so the tax-benefit system affects them in a different way from non-retired households (Table K). Few retired households have substantial original income; those who do are concentrated in the top two quintile groups and are receiving occupational pensions. The majority of retired households are dependent on cash benefits, in the form of state retirement pensions and income-related benefits such as Housing Benefits and Income Support to pensioners.

Cash benefits form a very high proportion of gross income for all but the better-off retired households. However, unlike non-retired households, the bulk of these cash benefits (80 per cent) are paid from the National Insurance Fund into which the recipients will have made contributions throughout their working lives. Non-contributory benefits are lowest for the bottom quintile group as nearly 80% of these households are owner-occupiers (Table 5b, Appendix 1) and, therefore, not eligible for housing benefit.

All households except those in the highest quintile group of retired households pay very little income tax, because their income is unlikely to exceed their tax allowances unless they have significant income from investments or occupational pensions in addition to their state retirement pension. The top quintile group pays nearly twice as much indirect tax as the average for all retired households.

Summary of the effects of taxes and benefits on RETIRED households, 1993

TABLE K

	Quintile groups of RETIRED households ranked by equivalised disposable income					All retired house-holds
	Bottom	2nd	3rd	4th	Top	
Average per household (£ per year)						
Original income						
Earnings	30	50	120	310	650	230
Occupational pensions	360	730	1 200	3 340	9 290	2 980
Investment income	290	270	610	1 170	5 220	1 510
Other income	10	70	60	60	40	50
Total original income	680	1 120	1 990	4 870	15 210	4 770
plus Contributory benefits	3 440	3 810	3 750	4 070	4 000	3 820
Non-contributory benefits	580	1 070	1 310	1 260	850	1 010
Gross income	4 700	6 000	7 050	10 200	20 050	9 600
less Income tax[1]	70	80	160	530	2 800	730
Employees'NIC	0	0	0	10	30	10
Local taxes[2]	550	510	520	590	700	570
Disposable income	4 080	5 410	6 360	9 070	16 520	8 290
less Indirect taxes	1 190	1 170	1 270	1 940	2 840	1 680
Post-tax income	2 890	4 250	5 100	7 130	13 680	6 610
plus National health service	2 250	2 060	2 150	2 160	2 020	2 130
Housing subsidy[3]	30	80	100	50	20	60
Other benefits in kind	140	90	90	180	110	120
Final income	5 310	6 470	7 440	9 520	15 820	8 910
Equivalised disposable income	*5 061*	*6 885*	*8 153*	*10 502*	*19 119*	*9 943*

1 After tax relief at source on mortgage interest and life assurance premiums.
2 Gross Council tax, Community charge, Local rates and Water charges but after deducting discounts and Council tax transitional relief.
3 Does not include tax relief at source on mortgage payments, which is included in the income tax payments shown above.

Retired households derive significant benefits from health services and, to a lesser extent, the housing subsidy and travel subsidies, though of course virtually none from the education service. Health benefit is spread fairly evenly within the group of retired households, but housing subsidy is substantially higher for the second and third quintile groups since they have the highest concentration of public sector tenants. The benefits received by retired households from travel subsidies are mainly for bus travel, particularly in the form of concessionary fares, passes, etc, for senior citizens, and since these are not usually means-tested but depend instead on what sort of scheme is being operated by their local authority, there is no particular relationship with income.

Table L shows the extent to which income inequality amongst retired households is reduced by the tax-benefit system. Cash benefits play by far the largest part in bringing about this reduction and income tax payments make a further, though much smaller, contribution. Payments of indirect taxes result in an increase in inequality.

A comparison of Table L with Table J shows that although the distribution of original income amongst retired households is much more unequal than that within the non-retired household group, the distribution of post-tax income is more equal amongst the retired than amongst the non-retired.

Chart 6 illustrates the impact which the tax-benefit system has on retired households in different quintile groups.

Percentage shares of total household income and Gini coefficients[1] for RETIRED households, 1993

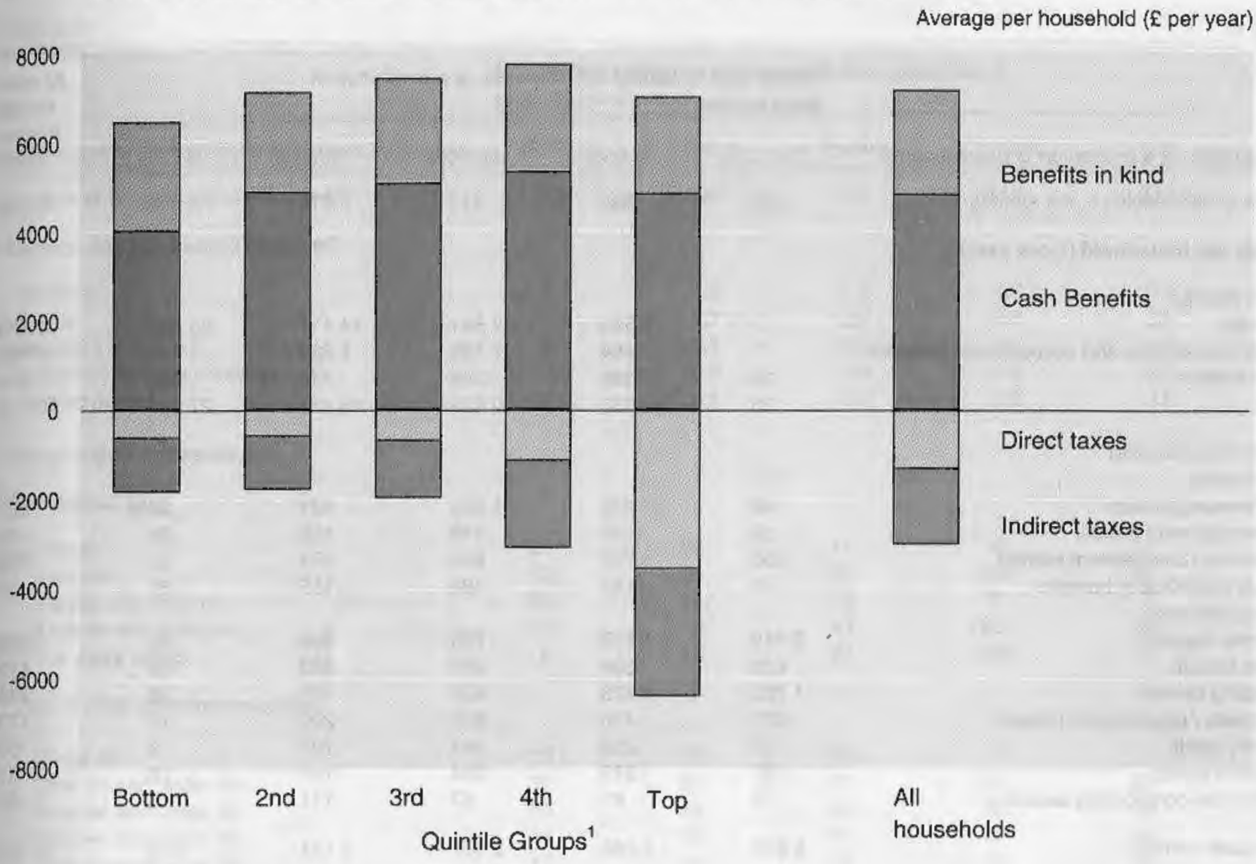
TABLE L

	Percentage shares of total equivalised income for RETIRED households ranked by equivalised disposable income			
	Original income	Gross income	Disposable income	Post-tax income
Quintile group				
Bottom	3.0	10.1	10.2	9.1
2nd	5	13	14	14
3rd	8	16	16	17
4th	20	21	21	21
Top	64	40	38	40
All retired households	100	100	100	100
Decile group				
Bottom	1.1	4.5	4.4	3.5
Top	45	26	24	26
Gini coefficient (percent)	67	30	28	32

1 This is a measure of the dispersion of each definition of income. Unlike the percentage shares analysis where the household incomes are ranked only once, the Gini coefficient calculation needs a separate ranking for each income definition. For example, the coefficient for original income is produced by first equivalising the original income of all the households, then this distribution is ranked and this ranked distribution is used to calculate the coefficient.

CHART 6

Summary of the effects of taxes and benefits on retired households, 1993



1. Households are ranked by their equivalised disposable income.

PART 2 - HOUSEHOLDS RANKED BY CASH BENEFITS AS A PROPORTION OF GROSS INCOME

This section considers the impact of the tax-benefit system on households ranked according to the proportion of gross income received through cash benefits. This ranking is not intended to provide a measure of the financial well-being of households. Contributory benefits and some non-contributory benefits, such as child benefit and disability benefits, are not means-tested and are thus independent of other household income. In addition, means-tested benefits are paid to some individuals with low incomes in high income households.

Non-retired households

For the purpose of this analysis, the households are divided into 5 groups according to their "dependency" on cash benefits, ie the ratio of cash benefits to gross income. By far the largest group is that of households receiving less than 10% of their gross income from cash benefits. This group accounts for 63% of all non-retired households. The other four groups each contain between 8% and 11% of the households.

Characteristics of households

Households most dependent on benefits have, on average, the fewest adults and the most children (Table N). The average number of people in households is highest for those households receiving between 10% and 50% of their income from benefits.

One adult households and one adult with children households are over represented among those more than 50% dependent on benefits. Two adult households both with and without children are over represented among those with a low ratio of benefits.

In 89% of the households in the group least dependent on benefits, the chief economic supporter is either self-employed or in full-time employment. This percentage drops as the level of dependency rises.

Cash benefits

Non-contributory benefits, in particular income support and housing benefit, are the main income source for those households most dependent on benefits (Table M). Contributory benefits are highest for households receiving between 10% and 50% of income from benefits. These households have more members in receipt of retirement pension. For those households with the lowest benefit ratio, child benefit accounts for over two-thirds of all cash benefits.

Direct taxes

Amongst the group of households most dependent on benefits, very few pay income tax or NI contributions. The average income tax is negative for this group because of tax rebates and tax relief obtained through the MIRAS scheme. Income tax and NI contributions increase in cash terms and as a percentage of gross income in moving from the group of households most dependent on benefits to the group least dependent on benefits.

Indirect taxes

The payment of most indirect taxes increases in cash terms as the ratio of benefits to income falls. The exception is duty on tobacco which is lowest for the households least dependent on benefits.

Average incomes, taxes and benefits of NON-RETIRED households ranked by cash benefits as a proportion of gross income, 1993

TABLE M

	Households ranked by cash benefits as a proportion of gross income					All non-retired house-holds
Cash benefits as a proportion of gross income	95-100%	50-95%	25-50%	10-25%	0-10%	
Number of households in the sample	568	395	412	515	3 242	5 132
Average per household (£ per year)						
Original income						
Earnings	7	1 552	7 561	14 417	25 863	18 513
Investment income and occupational pensions	7	484	1 149	1 639	1 415	1 189
Other income	12	399	376	378	389	346
Total	26	2 435	9 085	16 434	27 668	20 047
Direct benefits in cash						
Contributory						
Retirement pension	43	443	1 098	827	27	227
Unemployment benefit	62	125	140	168	31	64
Sickness / disablement related	656	797	820	479	32	268
Other contributory benefits	81	167	186	155	37	76
Non-contributory						
Income support	3 019	1 719	705	329	28	574
Child benefit	628	556	403	463	355	415
Housing benefit	1 725	1 128	428	121	16	334
Sickness / disablement related	507	475	642	200	12	172
Family credit	17	253	244	107	2	53
Student grants	87	319	284	143	16	81
Other non-contributory benefits	72	83	57	111	16	40
Total cash benefits	6 896	6 065	5 007	3 101	573	2 305
Gross income	6 921	8 501	14 093	19 536	28 240	22 352
Direct taxes and Employees' NIC						
Income tax (net of tax relief at source)	-42	43	845	1 971	4 330	3 000
Employees' N I contributions	4	54	369	758	1 292	926
Local taxes[1]	517	525	618	670	677	642
Total	479	622	1 832	3 400	6 299	4 569
Disposable income	6 443	7 879	12 261	16 136	21 941	17 784
Equivalised disposable income	*6 298*	*7 325*	*10 076*	*12 587*	*19 321*	*15 539*
Indirect taxes						
Taxes on final goods and services						
VAT	546	786	1 208	1 515	1 824	1 522
Duty on tobacco	357	343	458	386	265	309
Duty on alcohol	76	120	247	255	290	246
Duties on private motoring and transport	120	198	343	450	494	413
Other taxes on final goods and services	132	197	205	254	272	243
Intermediate taxes	353	474	687	880	1 023	865
Total indirect taxes	1 584	2 118	3 148	3 740	4 168	3 600
Post-tax income	4 858	5 761	9 112	12 396	17 773	14 184
Benefits in kind						
Education	2 079	2 310	1 965	1 750	1 329	1 581
National health service	1 359	1 303	1 540	1 804	1 190	1 307
Housing subsidy	148	105	71	47	18	47
Travel subsidies	26	42	65	61	65	59
School meals and welfare milk	200	111	44	18	9	42
Total	3 813	3 871	3 685	3 679	2 613	3 035
Final income	8 671	9 632	12 798	16 075	20 386	17 220

1 Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Characteristics of NON-RETIRED households ranked by cash benefits as a proportion of gross income, 1993

TABLE N

Cash benefits as a proportion of gross income	Households ranked by cash benefits as a proportion of gross income 95-100%	50-95%	25-50%	10-25%	0-10%	All non-retired house-holds
Number of households in the sample	568	395	412	515	3 242	5 132
Average per household (number)						
Children	1.3	1.0	0.8	1.0	0.8	0.9
Adults	1.5	1.7	2.2	2.3	2.0	2.0
People	2.7	2.7	3.0	3.2	2.8	2.8
People in full-time education	0.9	0.9	0.8	0.8	0.6	0.7
Retired people	0.0	0.1	0.3	0.3	0.0	0.1
Composition (percentages)						
Household type						
1 adult	27	19	11	8	17	17
2 adults	12	20	31	26	31	27
1 adult with children	32	32	9	5	2	8
2 adults with children	23	18	23	33	35	31
3 or more adults	6	12	27	28	15	16
Age of chief economic supporter						
Under 25	15	15	14	7	7	9
Over 24 and under 35	32	27	21	27	29	28
Over 34 and under 45	20	22	24	30	28	26
Over 44 and under 55	16	12	19	20	24	22
Over 54 and under 65	17	17	15	14	12	13
Over 64	-	7	8	3	0	2
Employment status of chief economic supporter						
Self-employed	0	4	10	14	11	10
Full-time employee at work	-	4	42	64	78	60
Part-time employee at work	1	24	21	10	5	8
Unemployed	31	21	15	10	4	10
Unoccupied and under minimum NI age	65	45	12	2	1	13
Retired or Unoccupied and over minimum NI age	-	1	-	0	-	0
Other	4	1	0	-	0	1

Benefits in kind

Benefits in kind are fairly flat across the first four groups in cash terms but fall for the households least dependent on benefits. The cost of education is higher for a pupil in secondary school than for a pupil in primary school and higher still for a student in further education. Education benefit is highest for households receiving between 50% and 95% of income from cash benefits as this group have, on average, older children than the group most dependent on benefits. The imputed cost of health care rises for older people and so the benefit from the health service is highest for those households receiving between 10% and 50% of income from benefits as these households contain more retired people. The impact of government expenditure on school meals and welfare milk falls as dependency on cash benefits decreases. The pattern for housing subsidy is similar as households most dependent on benefits are more likely to be public sector tenants.

Retired households

As the majority of retired households receive substantial amounts of cash benefit through the state retirement pension, the distribution of households across the five groups is distinctly different from that of the non-retired households (Table P). Over two-thirds of retired households receive more than 50% of their gross income through benefits. Fewer than one in twenty households receive less than 10% of their income through benefits. However, for most of this group, the head of household is below state retirement age and thus not eligible for the state pension.

Average incomes, taxes and benefits of RETIRED households ranked by cash benefits as a proportion of gross income, 1993

TABLE P

	Households ranked by cash benefits as a proportion of gross income					All retired house-holds
Cash benefits as a proportion of gross income	95-100%	50-95%	25-50%	10-25%	0-10%	
Number of households in the sample	483	767	373	136	88	1 847
Average per household (£ per year)						
Original income						
Earnings	1	64	409	754	1 398	232
Occupational pensions	12	1 253	5 301	11 210	11 834	2 983
Investment income	30	529	2 229	6 287	7 751	1 510
Other income	3	80	62	12	14	48
Total original income	46	1 926	8 001	18 263	20 998	4 773
plus Contributory benefits	3 434	4 173	4 326	3 838	594	3 815
Non-contributory benefits	2 190	891	275	177	36	1 013
Gross income	5 669	6 989	12 601	22 278	21 628	9 601
less Income tax[1]	0	123	1 130	3 512	4 002	728
Employees'NIC	0	1	18	34	63	10
Local taxes[2]	469	549	661	735	769	575
Disposable income	5 200	6 317	10 792	17 997	16 794	8 288
Equivalised disposable income	*7 201*	*7 599*	*12 315*	*20 826*	*18 538*	*9 943*
less Indirect taxes	912	1 420	2 213	3 053	3 783	1 680
Post-tax income	4 288	4 896	8 579	14 944	13 011	6 607
plus National health service	2 138	2 250	2 110	2 039	1 213	2 127
Housing subsidy[3]	105	63	14	2	8	57
Other benefits in kind	86	109	142	119	334	121
Final income	6 618	7 318	10 844	17 104	14 566	8 913
Number of people per household	*1.3*	*1.6*	*1.7*	*1.7*	*1.8*	*1.5*
Percentages						
Number of 1 adult households	72	49	41	36	27	51
Number of 2 adult households	27	48	54	60	65	45
Number of 3 or more adult households	2	3	5	4	8	3
Households with male heads	40	59	70	79	94	60
Households with female heads	60	41	30	21	6	40
Age ranges of heads of household						
Under 60	0	1	3	5	31	3
Over 59 and under 65	7	5	9	13	56	10
Over 64 and under 70	19	23	32	32	6	23
Over 69 and under 75	23	29	26	21	3	25
Over 74 and under 85	37	34	26	26	3	31
85 and over	12	7	5	3	1	7

1 After tax relief at source on mortgage interest and life assurance premiums.
2 Gross Council tax, Community charge, Local rates and Water charges but after deducting discounts and Council tax transitional relief.
3 Does not include tax relief at source on mortgage payments, which is included in the income tax payments shown above.

APPENDIX 1

Detailed tables for 1993

CONTENTS

A table showing the average incomes, taxes and benefits for 1993 by quintile groups within household type is available from the CSO on request.

General government expenditure in 1993

TABLE 1 (Appendix 1)

	£ million	Percentage of total expenditure
Allocated expenditure[1]		
Allocated cash benefits		
Contributory (National Insurance, etc)		
Retirement	28 390	10.4
Widows and guardians	1 030	0.4
Unemployment	1 690	0.6
Sickness / Statutory sick pay	1 000	0.4
Invalidity	6 800	2.5
Maternity / Statutory maternity pay	460	0.2
Other	410	0.2
Non-contributory		
Family benefits	7 610	2.8
Income support	16 730	6.1
War pensions	1 090	0.4
Other	6 700	2.5
Student maintenance grants[2]	1 100	0.4
Rent rebates and allowances	8 540	3.1
Allocated benefits in kind		
Health services	35 680	13.1
Education	30 360	11.1
School meals and welfare milk	740	0.3
Housing subsidy	1 220	0.4
Travel subsidies[3]	1 430	0.5
	150 980	55.3
Unallocated expenditure		
Other current expenditure	84 660	31.0
Capital expenditure	15 460	5.7
Debt interest	18 450	6.8
Non-trading capital consumption	3 310	1.2
Total expenditure	272 850	100.0

1 Including benefits to people not living in private households. It is not possible (for the reasons given in Appendix 3, paragraph 1) to allocate all of Government expenditure to households.
2 Estimated.
3 Including concessionary fares expenditure.

Source: United Kingdom National Accounts, 1994 edition, Table 9.4

Financing of general government expenditure in 1993

TABLE 2 (Appendix 1)

	£ million	Percentage of total financing
Allocated financing[1]		
Income tax[2]	57 680	21.1
Employees' and self-employed NI contributions	15 800	5.8
Council tax / Community charge	8 000	2.9
Taxes on final goods and services		
VAT	29 670	10.9
Duty on beer and cider	2 460	0.9
Duty on wines and spirits	2 680	1.0
Duty on tobacco	6 120	2.2
Duty on hydrocarbon oils	5 790	2.1
Vehicle excise duty	2 350	0.9
Other	4 230	1.6
Taxes and NI contributions on intermediate goods and services		
Employers' NI contributions	7 450	2.7
Commercial and industrial rates	5 780	2.1
Duty on hydrocarbon oils	3 350	1.2
VAT	2 390	0.9
Vehicle excise duty	630	0.2
Other	950	0.3
	155 310	56.9
Unallocated financing		
Employers' NI contributions not allocated	15 250	5.6
Taxes on expenditure not allocated	24 980	9.2
Other taxes		
Corporation tax	15 010	5.5
Petroleum revenue tax	380	0.1
Taxes on capital	2 390	0.9
Other receipts[3]	11 870	4.4
Non-trading capital consumption	3 310	1.2
General government borrowing requirement	44 330	16.2
Total financing	272 850	100.0

1 Including taxes paid by people not living in private households.
2 Net of tax relief at source on mortgage interest and life assurance premiums.
3 Receipts of rent, royalties and licence fees on oil and gas production, interest, dividends, trading income and miscellaneous transactions (net).

Source: United Kingdom National Accounts, 1994 edition, Table 9.1

Average incomes, taxes and benefits by decile groups of ALL households, 1993

TABLE 3A (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points *(equivalised £)*	*5 557*	*6 880*	*8 052*	*9 542*	*11 298*	*13 350*	*15 786*	*19 087*	*24 982*		
Number of households in the sample	698	698	698	698	698	697	698	698	698	698	6 979
Original income											
Wages and salaries	605	1 296	2 369	4 044	8 265	11 012	14 551	17 864	24 351	33 924	11 828
Imputed income from benefits in kind	4	23	16	9	64	106	233	367	576	1 254	265
Self-employment income	409	385	405	756	991	1 293	1 556	1 698	1 573	6 745	1 581
Occupational pensions, annuities	147	327	503	866	1 039	1 398	1 358	1 782	1 469	2 494	1 138
Investment income	194	179	239	487	472	668	695	1 075	1 485	3 758	925
Other income	113	166	152	198	220	192	233	287	529	579	267
Total	1 471	2 376	3 684	6 360	11 050	14 669	18 626	23 072	29 983	48 754	16 005
Direct benefits in cash											
Contributory											
Retirement pension	1 098	1 683	1 786	1 814	1 198	1 011	772	685	466	417	1 091
Unemployment benefit	65	64	69	47	59	59	56	40	33	20	51
Invalidity pension and allowance	160	301	385	257	367	291	209	209	138	41	236
Statutory sick pay	2	4	6	9	17	14	20	26	19	8	13
Sickness, industrial injury benefit	37	17	26	23	10	15	13	4	2	13	16
Widows' benefits	44	65	35	74	69	67	28	12	21	23	44
Statutory Maternity Pay/ Allowance	4	5	7	5	11	16	17	34	50	65	22
Christmas bonus for pensioners	5	7	7	7	5	4	4	3	2	2	5
Non-contributory											
Income support	1 392	1 088	680	526	433	242	213	112	53	18	476
Child benefit	470	383	273	294	360	315	299	266	227	189	308
Housing benefit	563	841	845	635	336	166	136	65	26	14	363
Invalid care allowance	11	10	19	32	40	18	17	4	3	3	16
Attendance allowance	2	31	35	98	81	68	49	19	16	2	40
Disability living allowance	37	33	81	134	157	137	121	76	20	25	82
War pensions	1	6	6	22	18	59	30	8	14	30	19
Severe disablement allowance	5	17	26	24	53	55	56	16	6	3	26
Industrial injury disablement benefit	16	10	23	21	36	33	41	22	13	-	21
Student maintenance awards	125	58	73	59	67	76	45	35	40	27	61
Government training schemes	46	24	18	30	33	29	26	10	21	6	24
Family credit	71	95	63	84	52	17	5	1	4	1	39
Other non-contributory benefits	14	20	18	23	13	36	28	32	24	5	21
Total cash benefits	4 167	4 743	4 480	4 219	3 415	2 729	2 184	1 679	1 200	911	2 973
Gross income	5 639	7 119	8 164	10 579	14 464	17 398	20 810	24 751	31 184	49 665	18 978
Direct taxes and Employees' NIC											
Income tax	233	186	345	690	1 319	1 986	2 673	3 632	5 206	9 665	2 594
less Tax relief at source[1]	57	47	54	94	152	201	271	300	368	403	195
Employees' N I contributions	61	89	150	253	513	688	921	1 083	1 433	1 643	684
Local taxes[2]	577	539	530	574	604	632	651	672	711	756	625
Total	814	766	972	1 423	2 284	3 105	3 974	5 088	6 982	11 661	3 707
Disposable income	4 825	6 353	7 192	9 156	12 181	14 293	16 835	19 663	24 202	38 003	15 271
Equivalised disposable income	*4 393*	*6 277*	*7 456*	*8 751*	*10 401*	*12 341*	*14 499*	*17 324*	*21 759*	*37 375*	*14 058*
(Standard error	*83*	*70*	*78*	*110*	*135*	*158*	*185*	*211*	*311*	*1 168*	*180)*
Indirect taxes											
Taxes on final goods and services											
VAT	649	587	656	858	1 154	1 341	1 556	1 687	1 946	2 587	1 302
Duty on tobacco	274	252	227	276	354	280	315	244	237	145	260
Duty on beer and cider	47	55	50	68	106	124	136	146	153	144	103
Duty on wines	14	9	11	16	18	26	34	35	58	109	33
Duty on spirits	41	31	35	60	77	82	80	98	114	142	76
Duty on hydrocarbon oils	135	123	114	169	259	300	341	359	391	391	258
Vehicle excise duty	54	44	46	62	88	103	118	122	136	132	91
Television licences	67	65	65	70	74	75	77	78	77	77	73
Stamp duty on house purchase	10	7	8	11	14	21	25	30	44	62	23
Customs duties	28	25	26	34	43	47	52	57	65	81	46
Betting taxes	19	25	22	33	43	89	54	45	56	70	46
Fossil fuel levy	22	21	19	22	22	22	23	22	23	25	22
Other	10	5	9	10	11	11	17	16	16	14	12
Intermediate taxes											
Commercial and industrial rates	118	111	115	147	189	214	248	268	312	402	212
Employers' NI contributions	147	138	144	185	236	269	311	340	395	511	268
Duty on hydrocarbon oils	71	68	68	88	108	120	137	154	173	222	121
Vehicle excise duty	12	12	12	15	19	21	24	28	31	41	22
Other	71	65	68	86	112	127	146	158	182	234	125
Total indirect taxes	1 789	1 641	1 695	2 211	2 929	3 272	3 694	3 888	4 409	5 389	3 092
Post-tax income	3 036	4 712	5 498	6 946	9 252	11 021	13 141	15 775	19 794	32 614	12 179
Benefits in kind											
Education	2 025	1 226	991	1 161	1 391	1 347	1 074	989	943	620	1 177
National health service	1 756	1 750	1 714	1 784	1 606	1 537	1 379	1 344	1 263	1 109	1 524
Housing subsidy	71	96	100	81	53	33	27	20	5	6	49
Rail travel subsidy	15	18	12	17	25	26	29	49	58	87	34
Bus travel subsidy	28	38	36	41	30	24	21	22	18	14	27
School meals and welfare milk	125	74	33	22	17	10	9	8	6	5	31
Total	4 019	3 202	2 887	3 107	3 123	2 977	2 539	2 433	2 294	1 842	2 842
Final income	7 055	7 914	8 384	10 053	12 375	13 998	15 680	18 208	22 088	34 456	15 021

1 On mortgage interest and life assurance premiums.
2 Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Household characteristics of decile groups of ALL households, 1993

TABLE 3B (Appendix 1)

	Decile groups of ALL households ranked by equivalised disposable income										All households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	2.7	2.4	2.1	2.3	2.7	2.7	2.6	2.6	2.5	2.2	2.5
Adults	*1.7*	*1.6*	*1.6*	*1.7*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*1.8*	*1.8*
Children	*1.0*	*0.8*	*0.6*	*0.6*	*0.7*	*0.7*	*0.6*	*0.6*	*0.5*	*0.4*	*0.6*
Economically active people	0.6	0.5	0.6	0.8	1.2	1.4	1.6	1.6	1.7	1.6	1.2
Retired people	0.5	0.7	0.7	0.7	0.5	0.4	0.3	0.3	0.2	0.1	0.4
People in full-time education	0.88	0.58	0.43	0.52	0.62	0.58	0.49	0.45	0.41	0.31	0.53
In state primary schools	*0.48*	*0.32*	*0.25*	*0.26*	*0.31*	*0.27*	*0.23*	*0.20*	*0.18*	*0.09*	*0.26*
In state secondary schools	*0.26*	*0.20*	*0.13*	*0.18*	*0.22*	*0.20*	*0.18*	*0.16*	*0.11*	*0.11*	*0.17*
In further and higher education	*0.09*	*0.04*	*0.05*	*0.05*	*0.07*	*0.08*	*0.06*	*0.06*	*0.07*	*0.03*	*0.06*
In other educational establishments	*0.05*	*0.01*	*0.01*	*0.02*	*0.02*	*0.02*	*0.03*	*0.03*	*0.04*	*0.07*	*0.03*
Composition (percentages)											
Household type											
Retired											
1 adult	20	23	34	23	10	10	6	6	2	3	14
2 or more adults	16	21	17	21	15	12	10	8	6	4	13
Non-retired											
1 adult	11	9	10	9	9	11	12	14	19	23	13
2 adults	10	7	7	12	20	20	24	28	32	40	20
3 or more adults	4	3	5	5	8	10	13	11	13	7	8
1 adult with children	13	17	10	8	6	2	3	2	1	1	6
2 adults with 1 child	5	5	4	4	7	9	11	11	11	9	7
2 adults with 2 children	8	7	7	10	12	16	14	12	12	9	11
2 adults with 3 or more children	11	6	5	4	6	5	4	4	3	2	5
3 or more adults with children	4	2	3	5	8	6	5	5	2	2	4
Household tenure											
Rented	43	61	64	49	36	25	21	15	9	8	33
Local authority rented	*30*	*44*	*48*	*33*	*21*	*15*	*11*	*6*	*2*	*1*	*21*
Housing association	*4*	*8*	*6*	*6*	*4*	*2*	*3*	*1*	*1*	*0*	*3*
Other rented unfurnished	*4*	*4*	*5*	*5*	*4*	*3*	*3*	*3*	*2*	*2*	*3*
Rented furnished	*4*	*3*	*4*	*3*	*4*	*4*	*2*	*4*	*4*	*4*	*4*
Rent free	*1*	*2*	*3*	*2*	*2*	*1*	*1*	*1*	*1*	*1*	*2*
Owner occupied	57	39	36	51	64	75	79	85	91	92	67
With mortgage	*18*	*14*	*15*	*25*	*36*	*46*	*57*	*64*	*72*	*74*	*42*
Rental purchase	-	-	-	-	*0*	*1*	*1*	*0*	*0*	-	*0*
Owned outright	*39*	*25*	*21*	*27*	*28*	*29*	*22*	*22*	*19*	*18*	*25*
Age of chief economic supporter											
Under 25	10	9	7	6	8	6	7	7	5	2	7
Over 24 and under 35	20	17	15	14	19	20	23	25	31	25	21
Over 34 and under 45	17	15	11	15	18	23	23	23	22	28	19
Over 44 and under 55	10	10	9	11	16	17	20	19	22	25	16
Over 54 and under 65	12	9	12	13	16	16	15	15	13	12	13
Over 64 and under 75	14	22	26	23	15	11	9	9	5	6	14
Over 74	17	18	19	19	8	8	4	3	3	2	10
Employment status of chief economic supporter											
Self-employed	8	5	4	6	7	8	8	6	5	13	7
Full-time employee at work	3	9	16	25	48	55	65	70	76	73	44
Part-time employee at work	5	8	6	10	7	6	4	3	5	4	6
Unemployed	21	12	8	5	5	5	4	5	5	3	7
Unoccupied and under minimum NI age	28	23	18	13	11	8	6	5	3	2	12
Retired/unoccupied over minimum NI age	32	42	48	41	22	19	13	12	7	6	24
Other	2	1	0	0	-	0	0	-	-	-	0

Average incomes, taxes and benefits by decile groups of NON-RETIRED households, 1993

TABLE 4A (Appendix 1)

	Decile groups of NON-RETIRED households ranked by equivalised disposable income										All non-retired house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points *(equivalised £)*		*5 789*	*7 449*	*9 359*	*11 113*	*13 043*	*15 085*	*17 540*	*21 110*	*26 909*	
Number of households in the sample	513	513	514	513	513	513	513	514	513	513	5 132
Original income											
Wages and salaries	966	2 982	6 593	10 354	13 579	16 369	19 609	23 036	28 054	38 583	16 012
Imputed income from benefits in kind	6	37	26	80	135	216	431	436	757	1 481	361
Self-employment income	652	619	1 163	1 373	1 645	1 768	2 001	1 765	2 020	8 396	2 140
Occupational pensions, annuities	63	114	222	243	470	399	513	708	539	1 470	474
Investment income	153	70	229	230	415	358	521	737	1 143	3 292	715
Other income	199	226	293	258	280	258	312	524	524	584	346
Total	2 037	4 049	8 526	12 538	16 524	19 367	23 386	27 207	33 039	53 807	20 047
Direct benefits in cash											
Contributory											
Retirement pension	40	96	360	362	342	278	249	246	134	164	227
Unemployment benefit	82	100	99	74	65	86	41	39	36	24	64
Invalidity pension and allowance	196	432	417	394	248	197	150	141	108	31	232
Statutory sick pay	5	8	14	21	16	25	30	24	18	8	17
Sickness, industrial injury benefit	59	35	33	11	20	10	4	3	5	15	19
Widows' benefits	42	89	80	74	64	31	17	12	18	19	45
Statutory maternity pay / Allowance	5	12	9	17	16	27	34	37	63	73	29
Christmas bonus for pensioners	2	2	3	3	2	2	1	1	1	1	2
Non-contributory											
Income support	2 017	1 589	807	599	248	226	117	95	36	4	574
Child benefit	729	619	525	466	423	361	323	280	230	193	415
Housing benefit	815	1 101	614	362	170	133	62	46	26	11	334
Invalid care allowance	15	20	42	37	32	17	3	9	-	3	18
Attendance allowance	3	7	11	37	15	9	9	7	-	3	10
Disability living allowance	53	67	137	167	131	159	66	52	24	16	87
War pensions	-	2	-	15	9	38	8	10	23	12	12
Severe disablement allowance	11	29	37	62	60	58	11	12	-	4	28
Industrial injury disablement benefit	16	16	15	26	12	40	14	17	14	-	17
Student maintenance awards	196	113	112	66	109	54	43	47	41	32	81
Government training schemes	67	27	51	45	40	22	30	9	24	4	32
Family credit	112	171	126	79	28	3	4	7	-	2	53
Other non-contributory benefits	6	11	10	6	19	3	4	9	18	-	9
Total cash benefits	4 471	4 546	3 501	2 921	2 068	1 781	1 221	1 104	818	620	2 305
Gross income	6 508	8 596	12 027	15 459	18 591	21 149	24 607	28 311	33 857	54 427	22 352
Direct taxes and Employees' NIC											
Income tax	293	355	912	1 493	2 223	2 780	3 530	4 374	5 783	10 844	3 258
less Tax relief at source[1]	79	80	134	195	251	299	338	362	412	434	258
Employees' N I contributions	96	192	420	643	855	1 026	1 222	1 377	1 623	1 809	926
Local taxes[2]	583	539	595	607	633	641	663	691	713	761	642
Total	893	1 005	1 792	2 548	3 460	4 147	5 077	6 079	7 707	12 979	4 569
Disposable income	5 615	7 590	10 235	12 910	15 131	17 002	19 530	22 232	26 150	41 448	17 784
Equivalised disposable income	*4 430*	*6 651*	*8 384*	*10 233*	*12 073*	*13 992*	*16 293*	*19 189*	*23 746*	*40 404*	*15 539*
(Standard error	*108*	*103*	*148*	*151*	*174*	*183*	*211*	*275*	*356*	*1 463*	*225)*
Indirect taxes											
Taxes on final goods and services											
VAT	733	750	1 047	1 243	1 430	1 609	1 662	1 917	2 055	2 776	1 522
Duty on tobacco	383	341	358	408	328	366	300	259	207	139	309
Duty on beer and cider	63	71	90	124	139	151	170	155	167	147	128
Duty on wines	16	10	20	19	28	31	32	43	64	122	38
Duty on spirits	46	30	53	77	75	79	79	101	115	148	80
Duty on hydrocarbon oils	160	163	212	300	328	356	392	397	407	397	311
Vehicle excise duty	55	52	73	93	108	117	125	126	140	130	102
Television licences	62	61	70	75	74	77	77	77	77	78	73
Stamp duty on house purchase	10	9	15	16	23	26	29	37	49	68	28
Customs duties	32	31	40	47	50	55	55	65	67	85	53
Betting taxes	19	20	37	43	102	63	53	50	49	88	52
Fossil fuel levy	24	22	23	24	23	24	23	22	24	25	23
Other	11	6	14	13	11	22	12	21	14	13	14
Intermediate taxes											
Commercial and industrial rates	133	130	175	204	231	254	265	305	333	428	246
Employers' NI contributions	165	163	221	254	289	318	334	388	420	544	310
Duty on hydrocarbon oils	81	81	105	117	129	143	149	176	185	234	140
Vehicle excise duty	14	14	19	21	23	25	27	32	34	43	25
Other	80	77	103	120	137	151	156	180	193	251	145
Total indirect taxes	2 087	2 033	2 677	3 198	3 529	3 866	3 939	4 351	4 600	5 716	3 600
Post-tax income	3 528	5 558	7 558	9 712	11 602	13 136	15 591	17 881	21 550	35 732	14 184
Benefits in kind											
Education	3 043	2 037	2 029	1 769	1 826	1 243	1 243	1 121	895	606	1 581
National health service	1 501	1 381	1 426	1 441	1 377	1 277	1 275	1 233	1 111	1 050	1 307
Housing subsidy	103	121	85	49	34	33	13	19	1	7	47
Rail travel subsidy	18	20	22	28	33	31	54	55	69	93	42
Bus travel subsidy	16	14	20	20	17	18	15	18	12	12	16
School meals and welfare milk	190	110	41	24	12	12	9	9	6	5	42
Total	4 872	3 683	3 623	3 331	3 299	2 615	2 610	2 455	2 095	1 772	3 035
Final income	8 401	9 241	11 181	13 044	14 901	15 750	18 201	20 336	23 645	37 504	17 220

1 On mortgage interest and life assurance premiums.

2 Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Household characteristics of decile groups of NON-RETIRED households, 1993

TABLE 4B (Appendix 1)

	Decile groups of NON-RETIRED households ranked by equivalised disposable income										All non-retired house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	3.3	2.9	3.0	3.0	3.0	2.8	2.8	2.6	2.4	2.2	2.8
Adults	*1.8*	*1.7*	*1.9*	*2.1*	*2.1*	*2.1*	*2.1*	*2.1*	*2.0*	*1.9*	*2.0*
Children	*1.6*	*1.2*	*1.1*	*0.9*	*0.9*	*0.7*	*0.7*	*0.6*	*0.5*	*0.4*	*0.9*
Economically active people	0.9	0.9	1.3	1.6	1.7	1.8	1.9	1.8	1.8	1.7	1.5
Retired people	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.1
People in full-time education	1.34	0.92	0.91	0.80	0.76	0.59	0.55	0.49	0.42	0.29	0.71
In state primary schools	*0.75*	*0.49*	*0.49*	*0.42*	*0.36*	*0.29*	*0.22*	*0.25*	*0.17*	*0.08*	*0.35*
In state secondary schools	*0.38*	*0.33*	*0.30*	*0.28*	*0.27*	*0.22*	*0.21*	*0.13*	*0.12*	*0.10*	*0.23*
In further and higher education	*0.14*	*0.08*	*0.09*	*0.08*	*0.11*	*0.05*	*0.08*	*0.07*	*0.07*	*0.03*	*0.08*
In other educational establishments	*0.06*	*0.03*	*0.03*	*0.02*	*0.03*	*0.04*	*0.03*	*0.04*	*0.05*	*0.08*	*0.04*
Composition (percentages)											
Household type											
Non-retired											
1 adult	16	21	15	12	13	14	15	18	22	24	17
2 adults	14	14	18	26	27	29	31	34	37	44	27
3 or more adults	6	5	10	12	12	14	14	14	12	7	11
1 adult with children	22	26	15	9	3	3	3	1	1	1	8
2 adults with 1 child	8	8	8	9	10	13	13	12	10	10	10
2 adults with 2 children	14	12	17	15	21	17	14	14	13	9	15
2 adults with 3 or more children	15	10	9	8	7	4	5	4	2	2	7
3 or more adults with children	5	5	8	9	8	6	7	4	2	2	6
Household tenure											
Rented	61	69	51	37	26	23	16	13	10	8	31
Local authority rented	*43*	*49*	*34*	*20*	*15*	*12*	*6*	*5*	*1*	*1*	*19*
Housing association	*6*	*8*	*5*	*3*	*2*	*3*	*1*	*1*	*1*	*0*	*3*
Other rented unfurnished	*5*	*5*	*5*	*5*	*3*	*4*	*3*	*2*	*3*	*1*	*4*
Rented furnished	*6*	*6*	*5*	*7*	*5*	*3*	*4*	*5*	*5*	*3*	*5*
Rent free	*1*	*2*	*2*	*2*	*1*	*1*	*2*	*1*	*1*	*1*	*1*
Owner occupied	39	31	50	64	75	77	84	87	90	93	69
With mortgage	*25*	*22*	*35*	*44*	*56*	*62*	*72*	*74*	*77*	*79*	*55*
Rental purchase	-	-	-	*0*	*1*	*1*	*0*	*0*	*0*	-	*0*
Owned outright	*15*	*9*	*15*	*19*	*18*	*14*	*11*	*13*	*12*	*14*	*14*
Age of chief economic supporter											
Under 25	14	14	12	10	7	8	10	6	5	1	9
Over 24 and under 35	32	28	27	26	25	27	29	31	32	27	28
Over 34 and under 45	26	27	23	24	29	27	26	25	26	29	26
Over 44 and under 55	15	18	19	20	23	22	23	23	25	28	22
Over 54 and under 65	12	12	15	17	14	14	11	14	11	12	13
Over 64 and under 75	0	1	3	2	2	2	1	1	1	2	2
Over 74	0	0	0	0	-	-	-	0	0	0	0
Employment status of chief economic supporter											
Self-employed	12	7	10	10	11	9	9	6	7	15	10
Full-time employee at work	6	20	43	60	69	75	81	82	82	78	60
Part-time employee at work	8	15	15	11	7	5	5	3	5	4	8
Unemployed	31	20	12	7	6	6	5	6	5	3	10
Unoccupied and under minimum NI age	40	37	20	12	6	5	1	3	1	1	13
Retired/unoccupied over minimum NI age	0	0	-	0	0	0	-	-	-	-	0
Other	3	1	0	0	0	0	-	-	-	-	1

Average incomes, taxes and benefits by decile groups of RETIRED households, 1993

TABLE 5A (Appendix 1)

	Decile groups of RETIRED households ranked by equivalised disposable income										All retired house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points *(equivalised £)*	*5 249*	*6 205*	*6 891*	*7 486*	*8 140*	*8 970*	*10 373*	*12 550*	*16 298*		
Number of households in the sample	185	184	185	185	185	184	185	185	184	185	1 847
Original income											
Wages and salaries	15	36	40	49	75	52	191	370	482	722	203
Imputed income from benefits in kind	-	-	-	-	3	-	-	2	-	0	1
Self-employment income	-	9	14	5	-	101	-	49	48	54	28
Occupational pensions, annuities	237	477	720	736	1 041	1 366	2 688	3 994	6 193	12 374	2 983
Investment income	264	309	313	235	414	801	946	1 386	2 353	8 072	1 510
Other income	10	13	71	60	45	80	52	67	36	46	48
Total	526	843	1 158	1 085	1 578	2 401	3 876	5 869	9 113	21 269	4 773
Direct benefits in cash											
Contributory											
Retirement pension	2 880	3 654	3 664	3 263	3 531	3 434	3 895	3 532	3 466	3 595	3 492
Unemployment benefit	19	11	29	24	16	11	13	12	-	4	14
Invalidity pension and allowance	94	87	253	305	208	179	142	425	418	367	248
Statutory sick pay	-	-	-	1	-	1	-	-	1	-	0
Sickness, industrial injury benefit	19	-	12	1	1	4	-	6	31	-	7
Widows' benefits	64	38	41	-	18	78	42	49	34	52	41
Statutory maternity pay/ Allowance	-	-	-	-	-	-	-	-	-		-
Christmas bonus for pensioners	12	14	14	12	12	13	14	12	13	13	13
Non-contributory											
Income support	268	196	139	347	119	229	202	188	259	83	203
Child benefit	15	15	8	-	-	10	13	10	7	8	9
Housing benefit	141	319	557	768	829	838	467	245	218	39	442
Invalid care allowance	-	10	9	3	-	19	24	12	16	-	9
Attendance allowance	-	57	41	63	114	141	259	229	245	86	124
Disability living allowance	10	16	21	25	25	104	189	117	102	75	68
War pensions	4	5	11	-	36	43	35	175	49	48	41
Severe disablement allowance	-	-	9	28	-	5	27	20	89	19	20
Industrial injury disablement benefit	15	9	15	26	-	43	25	120	87	-	34
Student maintenance awards	-	-	-	-	-	-	29	2	-	-	3
Government training schemes	2	-	14	-	-	-	9	7	-	-	3
Family credit	-	-	7	-	-	-	-	-	-	-	1
Other non-contributory benefits	28	39	19	32	36	35	43	67	123	142	56
Total cash benefits	3 571	4 471	4 861	4 899	4 945	5 187	5 427	5 230	5 158	4 532	4 828
Gross income	4 097	5 314	6 019	5 984	6 523	7 588	9 303	11 098	14 271	25 801	9 601
Direct taxes and Employees' NIC											
Income tax	113	51	114	61	111	243	387	714	1 305	4 360	746
less Tax relief at source[1]	13	11	12	8	13	13	16	25	32	36	18
Employees' N I contributions	2	-	3	3	2	6	6	18	25	34	10
Local taxes[2]	559	549	537	482	504	542	555	615	651	753	575
Total	661	589	641	538	604	778	932	1 322	1 950	5 112	1 313
Disposable income	3 437	4 725	5 379	5 446	5 919	6 809	8 371	9 776	12 321	20 689	8 288
Equivalised disposable income	*4 380*	*5 746*	*6 569*	*7 200*	*7 803*	*8 505*	*9 583*	*11 422*	*14 148*	*24 063*	*9 943*
(Standard error	*133*	*100*	*88*	*85*	*98*	*124*	*200*	*280*	*380*	*1 531*	*217)*
Indirect taxes											
Taxes on final goods and services											
VAT	505	403	475	408	406	522	740	889	1 123	1 427	690
Duty on tobacco	93	87	160	99	120	149	168	131	117	131	125
Duty on beer and cider	23	27	34	18	24	31	41	57	35	52	34
Duty on wines	11	7	6	6	10	13	12	16	36	63	18
Duty on spirits	41	24	29	18	36	69	87	94	93	147	64
Duty on hydrocarbon oils	81	72	80	52	74	89	118	134	181	229	111
Vehicle excise duty	47	43	37	27	34	42	56	73	105	122	59
Television licences	75	72	70	65	64	69	69	74	78	78	71
Stamp duty on house purchase	10	5	5	4	4	6	8	11	16	28	10
Customs duties	20	18	19	19	16	22	31	31	39	49	26
Betting taxes	15	24	36	19	23	25	25	35	39	23	26
Fossil fuel levy	19	17	19	16	17	18	20	20	19	25	19
Other	5	5	5	5	6	9	6	7	7	12	7
Intermediate taxes											
Commercial and industrial rates	92	84	93	78	82	99	125	142	176	226	120
Employers' NI contributions	115	106	115	99	102	125	157	178	225	287	151
Duty on hydrocarbon oils	52	50	54	48	46	58	72	78	100	122	68
Vehicle excise duty	9	8	9	8	8	10	12	13	17	22	12
Other	54	50	53	48	47	58	74	83	102	128	70
Total indirect taxes	1 268	1 102	1 297	1 035	1 120	1 411	1 822	2 067	2 509	3 170	1 680
Post-tax income	2 168	3 623	4 081	4 411	4 799	5 398	6 549	7 709	9 812	17 519	6 607
Benefits in kind											
Education	73	62	35	-	-	46	114	104	50	46	53
National health service	2 230	2 272	2 199	1 918	2 057	2 245	2 210	2 104	2 068	1 972	2 127
Housing subsidy	25	33	70	90	105	93	69	39	29	15	57
Rail travel subsidy	5	23	11	4	1	10	9	11	11	11	10
Bus travel subsidy	45	67	64	56	63	66	65	53	46	51	58
School meals and welfare milk	0	4	-	-	-	2	0	0	-	-	1
Total	2 379	2 461	2 380	2 069	2 226	2 462	2 467	2 312	2 203	2 095	2 305
Final income	4 547	6 084	6 461	6 480	7 024	7 860	9 016	10 021	12 015	19 614	8 913

1 On mortgage interest and life assurance premiums.
2 Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Household characteristics of decile groups of RETIRED households, 1993

TABLE 5B (Appendix 1)

	Decile groups of RETIRED households ranked by equivalised disposable income										All retired households
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (number)											
People	1.5	1.5	1.5	1.4	1.4	1.5	1.7	1.6	1.7	1.7	1.5
Adults	*1.44*	*1.51*	*1.52*	*1.36*	*1.37*	*1.47*	*1.63*	*1.62*	*1.65*	*1.64*	*1.52*
Children	*0.03*	*0.03*	*0.02*	-	-	*0.02*	*0.03*	*0.02*	*0.01*	*0.02*	*0.02*
Economically active people	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Retired people	1.4	1.4	1.4	1.3	1.3	1.4	1.5	1.5	1.5	1.5	1.4
People in full-time education	0.03	0.03	0.02	-	-	0.02	0.03	0.03	0.02	0.03	0.02
Composition (percentages)											
Household type											
Retired											
1 adult	57	53	52	67	64	58	42	43	41	39	52
2 or more adults	43	47	48	33	36	42	58	57	59	61	49
Household tenure											
Rented	15	29	56	69	62	59	39	28	21	7	39
Local authority rented	*11*	*21*	*40*	*54*	*50*	*40*	*28*	*18*	*14*	*3*	*28*
Housing association	*2*	*3*	*7*	*6*	*6*	*8*	*9*	*4*	*1*	*1*	*5*
Other rented unfurnished	*2*	*4*	*4*	*4*	*4*	*5*	*1*	*4*	*3*	*2*	*3*
Rented furnished	-	-	*1*	*1*	*1*	*1*	*1*	*1*	*1*	-	*1*
Rent free	*1*	-	*5*	*4*	*2*	*4*	*2*	*2*	*2*	*1*	*2*
Owner occupied	85	71	44	31	38	41	61	72	79	93	62
With mortgage	*5*	*5*	*7*	*3*	*5*	*4*	*8*	*11*	*9*	*10*	*7*
Owned outright	*80*	*66*	*38*	*28*	*33*	*38*	*52*	*61*	*71*	*83*	*55*
Age of chief economic supporter											
Under 25	-	-	-	-	-	-	-	1	-	-	0
Over 24 and under 35	-	-	-	-	-	-	-	-	1	-	0
Over 34 and under 45	-	-	-	-	-	1	-	-	1	-	0
Over 44 and under 55	1	-	1	1	1	-	1	-	1	1	0
Over 54 and under 65	13	5	9	11	9	9	10	17	23	18	12
Over 64 and under 75	39	49	48	54	49	46	54	50	45	54	49
Over 74	47	45	43	35	42	45	35	32	30	27	38
Employment status of chief economic supporter											
Self-employed	-	1	-	1	-	1	-	1	-	-	0
Full-time employee at work	-	-	-	1	-	-	-	1	2	-	0
Part-time employee at work	1	-	-	-	1	-	-	-	-	-	0
Unoccupied and under minimum NI age	10	2	5	4	4	5	7	12	17	15	8
Retired/unoccupied over minimum NI age	89	97	95	95	95	95	94	87	82	85	91

Average incomes, taxes and benefits by decile groups of NON-RETIRED households *without* CHILDREN, 1993

TABLE 6 (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points *(equivalised £)*	6 667	8 942	11 003	13 029	14 989	17 308	19 975	23 784	30 044		
Number of households in the sample	281	281	282	281	281	281	281	282	281	281	2 812
Original income											
Wages and salaries	974	3 677	7 570	10 336	13 864	16 710	20 118	23 236	26 322	38 591	16 139
Imputed income from benefits in kind	3	13	14	39	84	195	242	470	642	1 579	328
Self-employment income	473	782	922	1 476	1 162	1 545	1 004	1 740	2 248	8 149	1 950
Occupational pensions, annuities	188	285	346	678	595	702	986	801	685	1 809	707
Investment income	264	278	362	479	400	588	640	1 050	1 144	4 046	925
Other income	177	206	236	195	141	172	363	398	371	590	285
Total	2 078	5 241	9 450	13 202	16 246	19 912	23 353	27 696	31 412	54 764	20 334
Direct benefits in cash											
Contributory											
Retirement pension	161	554	640	608	424	338	345	245	173	222	371
Unemployment benefit	134	93	96	59	97	46	45	59	13	28	67
Invalidity pension and allowance	457	710	575	344	346	237	174	196	37	34	311
Statutory sick pay	1	10	20	15	23	35	30	25	15	6	18
Sickness, industrial injury benefit	72	57	13	18	29	7	0	2	8	20	23
Widows' benefits	97	109	131	116	42	23	15	28	10	36	61
Statutory Maternity Pay/ Allowance	-	-	1	-	-	-	2	3	-	10	2
Christmas bonus for pensioners	3	4	4	3	3	2	2	1	1	1	3
Non-contributory											
Income support	1 143	692	553	250	257	109	69	24	28	4	313
Child benefit	10	7	15	9	7	6	8	4	5	4	7
Housing benefit	720	718	394	174	179	41	61	15	36	11	235
Invalid care allowance	-	24	56	27	18	6	17	-	-	6	15
Attendance allowance	8	-	49	33	11	17	14	-	-	6	14
Disability living allowance	45	125	248	166	228	95	92	16	32	11	106
War pensions	3	-	21	18	70	15	11	-	19	3	16
Severe disablement allowance	13	43	99	91	98	21	21	-	7	-	39
Industrial injury disablement benefit	34	21	34	10	82	25	27	15	13	-	26
Student maintenance awards	355	184	104	161	50	66	72	56	9	38	109
Government training schemes	44	39	47	21	23	37	7	41	3	0	26
Family credit	-	8	32	-	-	1	2	-	-	-	4
Other non-contributory benefits	2	21	11	12	6	7	17	1	26	-	10
Total cash benefits	3 302	3 420	3 144	2 136	1 994	1 133	1 030	732	436	440	1 777
Gross income	5 381	8 661	12 594	15 337	18 240	21 045	24 384	28 428	31 848	55 204	22 111
Direct taxes and Employees' NIC											
Income tax	300	548	1 112	1 630	2 200	2 863	3 588	4 577	5 365	11 458	3 364
less Tax relief at source[1]	46	66	107	163	196	273	285	340	399	406	228
Employees' N I contributions	76	233	468	671	874	1 049	1 247	1 451	1 565	1 875	951
Local taxes[2]	553	552	586	615	599	618	662	663	685	747	628
Total	884	1 267	2 060	2 752	3 478	4 258	5 213	6 351	7 215	13 675	4 715
Disposable income	4 497	7 394	10 533	12 585	14 763	16 787	19 171	22 077	24 633	41 530	17 396
Equivalised disposable income	*4 839*	*7 784*	*10 048*	*12 001*	*13 957*	*16 100*	*18 512*	*21 787*	*26 509*	*45 229*	*17 675*
(Standard error	*193*	*192*	*214*	*236*	*238*	*281*	*310*	*397*	*517*	*2 201*	*337)*
Indirect taxes											
Taxes on final goods and services											
VAT	627	829	1 069	1 211	1 457	1 496	1 700	1 882	1 978	2 738	1 499
Duty on tobacco	298	334	383	341	441	338	272	285	191	138	302
Duty on beer and cider	83	89	130	149	159	192	165	187	156	156	147
Duty on wines	16	17	17	26	30	29	34	59	63	133	42
Duty on spirits	53	52	60	82	106	83	103	128	109	162	94
Duty on hydrocarbon oils	135	158	246	282	310	370	363	397	377	387	303
Vehicle excise duty	48	56	82	94	106	123	119	143	130	119	102
Television licences	58	65	72	72	75	74	76	76	76	78	72
Stamp duty on house purchase	9	10	9	17	17	21	27	37	48	68	26
Customs duties	24	30	42	40	49	48	55	64	66	79	50
Betting taxes	17	38	51	127	71	65	45	64	27	139	64
Fossil fuel levy	18	20	20	21	22	21	21	22	22	23	21
Other	7	5	14	8	19	12	19	17	13	13	13
Intermediate taxes											
Commercial and industrial rates	112	133	171	193	221	234	268	289	308	418	235
Employers' NI contributions	140	166	214	243	278	296	341	362	390	532	296
Duty on hydrocarbon oils	69	78	98	111	127	135	159	160	172	235	135
Vehicle excise duty	12	14	18	20	23	25	30	29	32	44	25
Other	67	79	100	113	130	135	156	166	180	240	137
Total indirect taxes	1 791	2 172	2 797	3 151	3 640	3 697	3 953	4 366	4 337	5 704	3 561
Post-tax income	2 706	5 222	7 736	9 434	11 123	13 089	15 218	17 711	20 296	35 826	13 835
Benefits in kind											
Education	1 227	596	384	522	172	260	363	248	240	115	413
National health service	832	985	1 140	1 107	960	947	921	883	756	790	932
Housing subsidy	67	90	52	38	40	13	28	1	1	12	34
Rail travel subsidy	37	26	26	24	23	55	41	57	85	102	48
Bus travel subsidy	17	18	25	23	19	16	19	15	10	14	18
School meals and welfare milk	1	1	0	1	-	-	-	-	-	-	0
Total	2 179	1 716	1 628	1 714	1 215	1 290	1 372	1 205	1 093	1 033	1 445
Final income	4 886	6 938	9 364	11 148	12 338	14 380	16 590	18 916	21 389	36 858	15 280

1 On mortgage interest and life assurance premiums.
2. Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Average incomes, taxes and benefits by decile groups of NON-RETIRED households *with* CHILDREN, 1993

TABLE 7 (Appendix 1)

	Decile groups of households ranked by equivalised disposable income										All house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points *(equivalised £)*		*5 330*	*6 525*	*7 783*	*9 318*	*10 833*	*12 727*	*14 659*	*17 417*	*22 253*	
Number of households in the sample	232	232	232	232	232	232	232	232	232	232	2 320
Original income											
Wages and salaries	967	2 164	5 002	8 322	12 425	16 345	19 051	22 694	29 374	42 238	15 858
Imputed income from benefits in kind	12	44	48	28	160	247	317	701	808	1 633	400
Self-employment income	603	824	883	1 233	1 859	1 884	2 382	2 631	2 280	9 129	2 371
Occupational pensions, annuities	11	25	93	93	126	271	122	225	134	812	191
Investment income	36	23	74	102	107	343	293	384	914	2 324	460
Other income	192	282	228	398	265	283	323	694	697	834	420
Total	1 821	3 362	6 328	10 176	14 942	19 375	22 489	27 328	34 205	56 965	19 699
Direct benefits in cash											
Contributory											
Retirement pension	-	26	33	66	79	68	58	107	55	29	52
Unemployment benefit	99	45	73	102	56	81	84	31	27	17	61
Invalidity pension and allowance	164	251	290	129	199	114	72	46	31	53	135
Statutory sick pay	6	9	12	15	23	19	30	20	17	8	16
Sickness, industrial injury benefit	28	15	44	27	9	13	4	-	5	9	15
Widows' benefits	13	53	22	67	18	50	18	10	-	-	25
Statutory Maternity Pay/ Allowance	11	9	29	10	26	28	70	73	115	258	63
Christmas bonus for pensioners	1	1	1	1	1	1	1	1	0	0	1
Non-contributory											
Income support	2 514	2 263	1 588	1 090	638	315	219	117	118	40	890
Child benefit	1 164	1 034	987	922	930	861	819	785	799	791	909
Housing benefit	917	1 116	1 045	693	356	183	105	70	50	8	454
Invalid care allowance	7	26	38	54	29	23	29	-	-	-	21
Attendance allowance	-	7	7	8	31	-	-	7	-	-	6
Disability living allowance	33	49	116	130	95	59	102	30	7	24	65
War pensions	-	-	-	-	-	4	-	-	8	52	6
Severe disablement allowance	8	24	24	34	19	22	8	10	-	-	15
Industrial injury disablement benefit	12	-	24	-	8	4	8	-	-	-	6
Student maintenance awards	75	9	75	82	41	50	62	26	16	35	47
Government training schemes	106	23	31	61	34	65	24	23	8	13	39
Family credit	170	261	219	229	142	44	36	9	13	4	113
Other non-contributory benefits	7	7	9	4	2	1	27	0	-	8	6
Total cash benefits	5 334	5 228	4 669	3 724	2 736	2 005	1 777	1 363	1 271	1 350	2 946
Gross income	7 155	8 591	10 997	13 900	17 677	21 380	24 266	28 692	35 476	58 315	22 645
Direct taxes and Employees' NIC											
Income tax	261	235	646	1 051	1 817	2 645	3 445	4 231	5 833	11 142	3 131
less Tax relief at source[1]	93	93	124	163	294	328	413	436	485	527	296
Employees' N I contributions	108	143	345	512	774	1 025	1 176	1 409	1 644	1 825	896
Local taxes[2]	576	570	573	610	628	645	690	715	763	827	660
Total	852	856	1 441	2 009	2 924	3 986	4 899	5 920	7 756	13 267	4 391
Disposable income	6 303	7 735	9 556	11 890	14 753	17 393	19 367	22 771	27 720	45 048	18 254
Equivalised disposable income	*4 232*	*5 909*	*7 142*	*8 524*	*10 067*	*11 771*	*13 602*	*15 996*	*19 565*	*32 684*	*12 949*
(Standard error	*126*	*111*	*145*	*196*	*203*	*253*	*246*	*316*	*441*	*1 731*	*268)*
Indirect taxes											
Taxes on final goods and services											
VAT	811	727	948	1 153	1 382	1 607	1 798	1 831	2 267	2 986	1 551
Duty on tobacco	420	403	370	379	418	335	278	278	172	121	317
Duty on beer and cider	48	62	62	89	119	130	137	138	123	137	105
Duty on wines	13	12	12	21	22	28	32	36	50	111	34
Duty on spirits	30	36	34	54	84	70	52	61	91	128	64
Duty on hydrocarbon oils	189	170	182	243	351	365	410	426	438	447	322
Vehicle excise duty	60	52	64	83	103	116	128	130	137	145	102
Television licences	65	62	66	74	77	77	79	80	82	78	74
Stamp duty on house purchase	12	9	14	16	22	28	35	37	57	77	31
Customs duties	37	33	39	45	53	59	61	64	77	98	57
Betting taxes	21	24	17	32	35	73	48	40	62	26	38
Fossil fuel levy	26	27	24	25	27	25	25	26	24	31	26
Other	16	6	14	15	16	15	18	20	16	17	15
Intermediate taxes											
Commercial and industrial rates	145	135	159	198	235	262	291	305	371	492	259
Employers' NI contributions	181	167	201	250	293	328	364	383	470	622	326
Duty on hydrocarbon oils	88	83	100	122	134	146	159	167	204	262	146
Vehicle excise duty	15	14	18	22	24	25	28	29	36	47	26
Other	87	80	95	115	139	157	175	181	221	292	154
Total indirect taxes	2 264	2 104	2 420	2 935	3 533	3 844	4 119	4 232	4 899	6 117	3 647
Post-tax income	4 039	5 630	7 136	8 956	11 221	13 549	15 248	18 540	22 821	38 93	14 607
Benefits in kind											
Education	4 055	3 253	2 807	3 204	3 319	3 200	2 600	2 728	2 512	2 298	2 998
National health service	1 873	1 644	1 960	1 623	1 669	1 688	1 728	1 745	1 819	1 871	1 762
Housing subsidy	120	145	116	98	48	34	27	11	13	1	61
Rail travel subsidy	7	7	19	16	35	42	36	51	67	79	36
Bus travel subsidy	16	16	14	19	15	12	15	17	14	9	15
School meals and welfare milk	326	209	148	71	45	29	22	25	25	20	92
Total	6 397	5 274	5 063	5 030	5 132	5 006	4 429	4 578	4 451	4 278	4 964
Final income	10 436	10 904	12 199	13 986	16 353	18 555	19 677	23 117	27 272	43 210	19 571

1 On mortgage interest and life assurance premiums.

2. Gross Council tax, Community charge, Rates and Water charges but after deducting discounts and transitional relief.

Distribution of households[1] co-operating in the Family Expenditure Survey and Summary of the effects of taxes and benefits, by household type, 1993

TABLE 8 (Appendix 1)

	Retired households		Non-Retired households								
	1 adult	2 or more adults	1 adult	2 adults	3 or more adults	1 adult with children	2 adults with 1 child	2 adults with 2 children	2 adults with 3 or more children	3 or more adults with children	All house-holds
Decile groups of households ranked by equivalised disposable income											
Number of households											
Bottom	137	110	75	69	26	89	37	57	73	25	698
2nd	160	143	65	51	21	115	33	52	41	17	698
3rd	234	118	68	46	33	68	28	47	34	22	698
4th	159	144	59	83	36	54	27	72	31	33	698
5th	69	107	62	138	57	41	46	81	44	53	698
6th	70	84	74	140	70	14	62	112	33	38	697
7th	45	66	83	170	87	18	73	94	27	35	698
8th	42	56	94	198	76	14	75	85	26	32	698
9th	11	41	131	226	89	5	75	81	22	17	698
Top	24	27	159	279	47	10	60	63	14	15	698
All households	951	896	870	1 400	542	428	516	744	345	287	6 979
Summary of the effects of taxes and benefits, by household type											
Average per household (£ per year)											
Original income	2 672	7 002	12 147	22 862	26 946	4 358	22 158	24 267	20 226	25 681	16 005
plus Cash benefits	4 024	5 681	1 417	1 572	2 884	5 188	1 926	1 919	3 337	3 624	2 973
Gross income	6 696	12 684	13 564	24 434	29 829	9 546	24 085	26 186	23 563	29 305	18 978
less Direct taxes & employees' NIC	966	1 682	3 001	5 335	5 864	1 012	4 930	5 556	4 474	5 341	3 707
Disposable income	5 730	11 002	10 563	19 099	23 965	8 535	19 154	20 630	19 089	23 964	15 271
Equivalised disposable income	*9 369*	*10 552*	*17 317*	*18 738*	*15 506*	*8 576*	*15 914*	*14 419*	*11 010*	*12 661*	*14 058*
less Indirect taxes	1 002	2 400	2 130	3 722	5 440	1 799	3 672	3 985	3 881	5 198	3 092
Post-tax income	4 729	8 602	8 434	15 377	18 525	6 736	15 482	16 645	15 208	18 766	12 179
plus Benefits in kind	1 838	2 801	660	1 259	3 183	4 618	3 001	4 799	7 898	5 909	2 842
Final income	6 567	11 403	9 094	16 635	21 708	11 354	18 483	21 444	23 106	24 675	15 021

1 See Appendix 3 for definitions of retired households, adults and children.

Average incomes, taxes and benefits by decile groups of households (ranked by UNADJUSTED disposable income), 1993

TABLE 9 (Appendix 1)

	Decile groups of households ranked by UNADJUSTED disposable income										All house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Average per household (£ per year)											
Decile points (£)	4 496	6 037	7 800	9 825	12 144	14 877	17 982	21 909	29 354		
Number of households in the sample	698	698	698	698	698	697	698	698	698	698	6 979
Original income											
Wages and salaries	230	421	1 495	3 280	6 542	9 933	14 023	18 224	25 222	38 909	11 828
Imputed income from benefits in kind	-	2	19	21	56	64	171	353	581	1 385	265
Self-employment income	133	148	304	580	905	1 147	1 604	1 544	2 101	7 343	1 581
Occupational pensions, annuities	261	492	673	1 046	1 375	1 488	1 381	1 511	1 127	2 027	1 138
Investment income	207	286	339	569	666	723	740	1 043	1 253	3 425	925
Other income	76	117	196	158	182	215	223	252	470	782	267
Total	907	1 465	3 026	5 654	9 727	13 571	18 142	22 927	30 753	53 872	16 005
Direct benefits in cash											
Contributory											
Retirement pension	1 673	1 962	1 762	1 561	1 194	875	617	560	392	313	1 091
Unemployment benefit	41	41	68	63	44	78	38	52	44	43	51
Invalidity pension and allowance	144	212	251	328	340	356	225	233	171	97	236
Statutory sick pay	-	4	3	7	16	15	22	22	21	15	13
Sickness, industrial injury benefit	37	21	11	26	9	21	7	13	4	13	16
Widows' benefits	67	59	69	39	59	39	36	33	13	5	44
Statutory maternity pay/ Allowance	1	7	4	5	6	23	18	32	39	80	22
Christmas bonus for pensioners	7	8	7	7	5	4	3	3	2	1	5
Non-contributory											
Income support	479	771	1 131	863	528	359	269	176	125	56	476
Child benefit	71	161	333	334	305	334	376	376	390	395	308
Housing benefit	559	935	809	605	290	192	121	65	29	21	363
Invalid care allowance	2	6	12	16	34	20	28	22	10	4	16
Attendance allowance	4	27	66	124	64	31	43	25	15	2	40
Disability living allowance	17	48	63	119	133	170	99	85	53	35	82
War pensions	1	5	12	19	41	32	26	18	2	39	19
Severe disablement allowance	7	13	12	35	53	40	25	46	27	3	26
Industrial injury disablement benefit	12	9	17	33	32	38	32	19	22	-	21
Student maintenance awards	45	29	76	90	65	64	57	54	57	71	61
Government training schemes	16	7	11	36	24	28	14	40	34	31	24
Family credit	8	10	80	109	82	36	35	20	13	1	39
Other non-contributory benefits	19	21	14	42	41	19	5	5	26	19	21
Total cash benefits	3 230	4 357	4 812	4 463	3 364	2 773	2 094	1 900	1 490	1 244	2 973
Gross income	4 137	5 823	7 838	10 117	13 091	16 344	20 236	24 827	32 243	55 116	18 978
Direct taxes and Employees' NIC											
Income tax	165	128	350	652	1 247	1 799	2 595	3 494	5 066	10 437	2 594
less Tax relief at source[1]	25	28	51	86	147	213	290	312	375	422	195
Employees' N I contributions	23	29	99	224	420	633	878	1 123	1 530	1 878	684
Local taxes[2]	488	499	528	574	612	637	645	676	740	847	625
Total	651	629	925	1 364	2 133	2 855	3 829	4 981	6 962	12 740	3 707
Disposable income	3 486	5 194	6 912	8 754	10 958	13 489	16 408	19 846	25 281	42 376	15 271
Indirect taxes											
Taxes on final goods and services											
VAT	384	439	642	850	1 082	1 309	1 432	1 753	2 128	3 000	1 302
Duty on tobacco	138	172	236	306	300	309	304	349	266	225	260
Duty on beer and cider	26	28	54	70	94	109	127	159	176	187	103
Duty on wines	8	9	13	17	20	26	33	39	52	112	33
Duty on spirits	23	34	43	70	68	90	82	91	107	152	76
Duty on hydrocarbon oils	67	71	126	176	227	275	335	365	453	488	258
Vehicle excise duty	32	32	49	65	86	101	115	121	145	160	91
Television licences	62	62	66	71	75	76	76	78	79	80	73
Stamp duty on house purchase	8	5	7	12	16	22	26	30	44	62	23
Customs duties	17	18	27	33	39	47	50	61	72	94	46
Betting taxes	10	17	28	37	42	68	50	63	59	82	46
Fossil fuel levy	16	18	21	22	21	22	23	24	25	28	22
Other	6	5	6	14	10	8	14	13	24	18	12
Intermediate taxes											
Commercial and industrial rates	77	86	116	145	175	209	235	273	339	470	212
Employers' NI contributions	96	107	144	183	219	263	295	345	426	599	268
Duty on hydrocarbon oils	45	51	68	88	99	118	132	155	186	266	121
Vehicle excise duty	8	9	12	16	17	21	24	28	34	49	22
Other	46	50	68	86	103	125	139	162	197	273	125
Total indirect taxes	1 068	1 214	1 726	2 260	2 694	3 197	3 492	4 109	4 811	6 345	3 092
Post-tax income	2 418	3 980	5 186	6 494	8 264	10 292	12 915	15 737	20 470	36 031	12 179
Benefits in kind											
Education	288	416	1 096	1 305	1 200	1 377	1 299	1 404	1 611	1 773	1 177
National health service	1 425	1 589	1 712	1 682	1 531	1 480	1 406	1 475	1 451	1 491	1 524
Housing subsidy	59	97	98	78	51	39	24	24	11	10	49
Rail travel subsidy	13	9	7	22	21	28	40	39	55	103	34
Bus travel subsidy	31	40	35	35	29	26	20	20	18	19	27
School meals and welfare milk	8	35	85	67	36	30	14	9	12	12	31
Total	1 825	2 186	3 033	3 189	2 868	2 980	2 803	2 972	3 157	3 409	2 842
Final income	4 243	6 165	8 219	9 683	11 131	13 272	15 719	18 709	23 628	39 440	15 021

1 On mortgage interest and life assurance premiums.
2 Gross Council tax (net of transitional relief), community charge, Rates and net Water charges.

Cross-tabulation of households ranked by disposable income, unadjusted and equivalised, 1993

TABLE 10 (Appendix 1)

(i) Quintile groups

	Quintile groups of **equivalised** disposable income					All house-holds
	Bottom	2nd	3rd	4th	Top	
Number of households						
Quintile groups of **unadjusted** disposable income						
Bottom	824	544	28	-	-	1 396
2nd	491	472	295	138	-	1 396
3rd	75	323	598	275	124	1 395
4th	6	56	416	629	289	1 396
Top	-	1	58	354	983	1 396
All households	1 396	1 396	1 395	1 396	1 396	6 979

(ii) Decile groups

	Decile groups of **equivalised** disposable income										All house-holds
	Bottom	2nd	3rd	4th	5th	6th	7th	8th	9th	Top	
Number of households											
Decile groups of **unadjusted** disposable income											
Bottom	332	226	140	-	-	-	-	-	-	-	698
2nd	178	88	181	223	28	-	-	-	-	-	698
3rd	104	226	140	21	103	104	-	-	-	-	698
4th	67	94	93	218	44	44	128	10	-		698
5th	13	47	93	78	240	69	6	126	26	-	698
6th	4	11	39	113	97	192	136	7	98	-	697
7th	-	5	9	37	110	128	155	162	19	73	698
8th	-	1	3	7	62	116	146	166	145	52	698
9th	-	-	-	1	14	39	118	163	235	128	698
Top	-	-	-	-	-	5	9	64	175	445	698
All households	698	698	698	698	698	697	698	698	698	698	6 979

APPENDIX 2

Trends in income distribution, 1977-1993

CONTENTS

This section gives Gini coefficients and shares of income for 1977 to 1993. As was noted in the Introduction, it is not possible to produce a fully consistent time series because of changes in methodology and definition. Many of these changes, like the inclusion of the income from company cars since 1990, improve the quality of the results but previous data cannot be reproduced on the same consistent basis. However, Gini coefficients and shares of income are relatively robust and can be used to shed light on broad trends in income distribution. The Department of Social Security publication, Households Below Average Income 1979 - 1991/92 (HMSO), contains more detailed data for comparison of incomes over time.

Percentage shares of total original, gross, disposable and post-tax incomes by quintile groups of households[1], 1977-1993

TABLE 1 (Appendix 2)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Equivalised original income									
Quintile group									
Bottom	3.6	2.8	2.4	2.4	2.9	2.9	3.0	2.9	2.5
2nd	10	10	10	9	9	8	8	7	7
3rd	18	18	18	18	17	17	17	17	17
4th	26	26	27	26	26	26	26	26	27
Top	43	43	43	44	46	46	47	47	47
All households	100	100	100	100	100	100	100	100	100
Equivalised gross income									
Quintile group									
Bottom	8.9	8.7	8.5	8.3	8.4	8.5	8.5	8.6	8.3
2nd	13	13	13	12	12	12	12	12	12
3rd	18	18	18	18	17	17	17	17	17
4th	24	23	24	23	23	23	23	23	24
Top	37	37	37	38	39	39	39	39	40
All households	100	100	100	100	100	100	100	100	100
Equivalised disposable income									
Quintile group									
Bottom	9.7	9.8	9.4	9.2	9.3	9.5	9.5	9.6	9.2
2nd	14	14	13	13	13	13	13	13	13
3rd	18	18	18	18	17	17	17	17	17
4th	23	23	23	23	23	23	23	23	23
Top	36	35	36	37	38	37	38	37	38
All households	100	100	100	100	100	100	100	100	100
Equivalised post-tax income									
Quintile group									
Bottom	9.4	9.7	9.5	9.0	9.0	9.0	8.9	9.1	8.6
2nd	14	14	13	13	13	13	13	13	13
3rd	17	18	18	17	17	17	17	17	17
4th	23	23	23	23	22	22	22	22	23
Top	37	36	37	38	39	39	39	38	39
All households	100	100	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.

Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1977-1993

TABLE 2 (Appendix 2)

	1977	1978	1979	1980	1981	1982	1983	1984	1985
Gini coefficients (per cent)									
Equivalised original income	43	43	44	44	46	47	48	49	49
Equivalised gross income	29	29	30	31	31	31	32	31	32
Equivalised disposable income	27	26	27	28	28	28	28	28	29
Equivalised post-tax income	29	28	29	30	31	31	31	30	32

Percentage shares of total original, gross, disposable and post-tax incomes by quintile groups of households[1], 1977-1993

TABLE 1 (continued) (Appendix 2)

	1986	1987	1988	1989	1990[2]	1991[2]	1992[3]	1993[3]
Equivalised original income								
Quintile group								
Bottom	2.5	2.1	2.0	2.0	2.0	2.0	2.1	2.3
2nd	7	7	7	7	7	7	6	6
3rd	16	16	16	16	15	16	15	15
4th	26	25	26	26	25	26	26	25
Top	49	50	50	49	51	50	50	52
All households	100	100	100	100	100	100	100	100
Equivalised gross income								
Quintile group								
Bottom	8.0	7.5	7.1	7.1	6.7	6.7	6.9	7.0
2nd	11	11	11	11	10	10	11	11
3rd	16	16	16	16	16	16	16	16
4th	23	23	23	23	23	23	23	23
Top	41	43	43	42	44	44	43	44
All households	100	100	100	100	100	100	100	100
Equivalised disposable income								
Quintile group								
Bottom	8.8	8.2	7.6	7.6	7.0	7.2	7.4	7.6
2nd	12	12	11	12	11	11	11	12
3rd	17	16	16	17	16	16	16	16
4th	23	23	23	23	23	23	23	23
Top	40	41	42	41	43	42	42	42
All households	100	100	100	100	100	100	100	100
Equivalised post-tax income								
Quintile group								
Bottom	8.2	7.6	6.9	6.9	6.3	6.5	6.5	6.6
2nd	12	12	11	11	10	11	11	11
3rd	16	16	16	16	15	16	16	16
4th	22	22	22	23	23	23	23	22
Top	41	43	44	43	45	44	44	44
All households	100	100	100	100	100	100	100	100

1 Ranked by equivalised disposable income.
2 Includes Company car benefit.
3 Includes Company car benefit and beneficial house purchase loans from employers.

Gini coefficients for the distribution of income at each stage of the tax-benefit system, 1977-1993

TABLE 2 (continued) (Appendix 2)

	1986	1987	1988	1989	1990[1]	1991[1]	1992[2]	1993[2]
Gini coefficients (per cent)								
Equivalised original income	50	51	51	50	52	51	52	53
Equivalised gross income	34	36	37	36	38	37	37	38
Equivalised disposable income	31	33	35	34	36	35	34	35
Equivalised post-tax income	35	36	38	37	40	39	38	38

1 Includes Company car benefit.
2 Includes Company car benefit and beneficial house purchase loans from employers.

APPENDIX 3

METHODOLOGY AND DEFINITIONS

The allocation of government expenditure and its financing

1. There are considerable difficulties in moving from the aggregates of government expenditure and financing published in the United Kingdom National Accounts - the CSO Blue Book - to apportioning taxes and benefits to individual households. We can obtain information about the types of household that receive cash benefits and pay direct taxes through surveys such as the Family Expenditure Survey (FES). From the replies respondents give to questions on their expenditure we can impute their payments of indirect taxes, and from information they supply about such factors as their ages and number of children in the household we can estimate the average costs of providing them with social services, such as health and education. But there are other kinds of financing, such as corporation tax and government receipts from public corporations: no attempt is made in this analysis to apportion them to households because it would be too difficult. Similarly, there are other items of government expenditure, such as capital expenditure and expenditure on defence and on the maintenance of law and order, for which there is no clear conceptual basis for allocation, or for which we do not in any event have sufficient information to make an allocation. In all, 57 per cent of government financing (including the Borrowing Requirement) and 55 per cent of expenditure are allocated to households in this analysis.

Family Expenditure Survey (FES)

2. The estimates in this article are based mainly on data derived from the FES. The FES is an annual survey of the expenditure and income of private households. People living in hotels, lodging houses, and in institutions such as old peoples' homes are excluded. Each person aged 16 and over keeps a full record of payments made during 14 consecutive days and answers questions about hire purchase and other payments. The respondents also give detailed information, where appropriate, about income (including cash benefits received from the state) and payments of income tax. Information on age, occupation, education received, family composition and housing tenure is also obtained. The survey covers the whole 12 month period.

3. One of the main purposes of the FES is to produce information on household expenditure patterns which is used to derive the weights for the index of retail prices. The survey is conducted by the Office of Population Censuses and Surveys on behalf of the Central Statistical Office who analyse and report on it (prior to July 1989, the FES was the responsibility of the Department of Employment). The Family Expenditure Survey Report for 1993, containing detailed data on household characteristics, income, and expenditure, was published in August 1994. Details of the survey method are set out in 'The Family Expenditure Survey Handbook' by W F F Kemsley, R U Redpath and M Holmes. Both are published by Her Majesty's Stationery Office.

4. The number of households in the United Kingdom responding to the FES in 1993 was 6,979 (about 1 in every 3,000 households). The response rate in Great Britain was 69 per cent: the FES in Northern Ireland is done as a separate exercise to the rest of UK, with a larger sampling fraction, and only a proportion of these cases go into the UK analysis. To count as a co-operating household, all members aged 16 and over must fill in the diaries for both weeks and give full details of income etc. The available evidence suggest that older households, households where the head is self-employed, those without children and higher income households, are less likely to co-operate than others (see 'Family Expenditure Survey: a second study of differential response, comparing Census characteristics of FES respondents and non-respondents' by Bob Redpath, *Statistical News No 72* February 1986 HMSO). In addition response in Greater London is noticeably lower than in other areas. However, at present, the results in this article are based on the responses of those households which actually co-operated in the survey and they are not reweighted. This means that some of the figures differ from those produced by other surveys such as the Survey of Personal Incomes from the Inland Revenue.

5. The FES is designed primarily as a survey of expenditure on goods and services by households. It has been developed to gather information about the income of household members, and is an important and detailed source of income data. However, no information is collected that would enable a balance sheet of income and expenditure be drawn up for a household over any particular period. Much expenditure relates to the two-week period after the interview, whereas many income components refer to a much longer period (eg investment income over the previous 12 months). FES income does not include proceeds from the sale of assets (eg a car) or windfalls such as legacies. But recorded expenditure might reflect these items, as well as the effects of living off savings, using capital or borrowing money. Hence, there is no reason why income and expenditure should balance either for an individual household or even averaged over a group of households. Indeed, measured expenditure substantially exceeds measured income for the bottom decile groups of households. Moreover, the difference between income and expenditure is not necessarily a measure of savings or dis-savings.

Unit of analysis

6. The basic unit of analysis in the article is the household, and not the family, individual or benefit unit. A household is defined in the FES as comprising people who live at the same address and who share common catering for at least one meal a day. Spending on many items, particularly on food, housing, fuel and light, is largely joint spending by the members of the household. Without further information or assumptions it is difficult to apportion indirect taxes between individuals or other sub-divisions of households.

7. In classifying the households into various types, a **child** (ie a dependant) is defined as:

either aged under 16

or aged 16, 17 or 18 not married, and receiving full-time non-advanced further education.

[The definition used in the pre-1987 articles was a person aged under 16].

Most of the 'extra' adults in households with at least three adults are sons or daughters of the head of household rather than retired people.

8. A **retired household** is defined as one where the combined income of retired members amounts to at least half the total gross income of the household, where a retired person is defined as anyone who describes themselves as 'retired' or anyone over minimum NI pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.

9. By no means all retired people are in retired households: about one in five households comprising three or more adults contain retired people, for example, and households comprising one retired and one non-retired adult are often classified as non-retired.

10. The sample households have been classified according to their compositions at the time of the interview. This classification is sensible for the vast majority of households, but it can be misleading for the very small number of cases (34 in 1993) where a spouse is absent from the household at the time of interview. The absent spouse may well be working away from home (eg on an oil rig), or living separately - but contributing financially to the household's upkeep. These contributions would be picked up as part of the household's original income. Also, it is likely that some households will have changed their composition during the year.

11. Economically active people comprise persons aged 16 or over who, at the time of interview, were:
- (a) employees at work,
- (b) employees temporarily away from work through illness, temporary lay-off, industrial action etc.
- (c) on government training schemes,
- (d) self-employed,
- (e) not in employment but who had sought work within the last four weeks, or were waiting to start a job already obtained.

Income: redistributive stages

12. Stage one:
Original income plus cash benefits = Gross income.

Stage two:
Gross income minus income tax, employees' National Insurance contributions and local taxes (see paragraph 21 below) = Disposable income.

Stage three:
Disposable income minus indirect taxes = Post-tax income.

Stage four:
Post-tax income plus 'benefits in kind' = Final income.

13. The starting point of the analysis is **original income**. This is the annual income in cash of all members of the household before the deduction of taxes or the addition of any state benefits. It includes income from employment, self-employment, investment income, occupational pensions and annuities. Employment income is based on the last payment received before the interview or, where different, the amount usually received. Allowance is made for any periods of absence from work through sickness and unemployment in the preceding 12 months, and for bonuses. Income from self-employment is recorded in the FES for a past period. This is brought up to current levels using the average earnings index. Income from interest, dividends and rent is taken as the amount received in the 12 months before the interview. Income from occupational pensions is based on the last payment received.

14. About 98 per cent of original income comes from earnings, occupational pensions (including annuities) and investment income. The tiny bit remaining comes from a variety of sources: trade union benefits, income of children under 16, private scholarships, earnings as a mail order agent or baby-sitter, regular allowance from a non-spouse, allowance from an absent spouse and the imputed value of rent-free accommodation. Households living in rent-free dwellings are each assigned an imputed income. This is counted as employment income if the tenancy depends on the job.

15. In addition to salary, many employees receive as part of their income fringe benefits such as company cars, private medical insurance and beneficial loans. Until recently, these benefits were not allocated to individual households as the information was not available in the FES. However, the company car benefit, together with the benefit from fuel for personal use, has been included in the analysis since 1990. This is by far the most important fringe benefit accounting for over two thirds of all taxable fringe benefits according to Inland Revenue statistics. The benefit is taken to be the taxable income in accordance with Inland Revenue scale charges. Inland Revenue Statistics 1994 (HMSO) contains more detailed information on taxable fringe benefits and their impact on individuals. Although for those earning below £8,500 per year the benefit is not taxable, benefit has been allocated to all those with a company car regardless of the level of earnings. The calculation of this benefit is based primarily on the engine size as reported in the FES. In any given year the total amount of benefit will depend on the level of scale charges for tax purposes as well as the numbers and engine sizes of vehicles in the FES.

16. In the 1992 and 1993 analyses, the benefit of subsidised loans from employers for house purchase has been allocated. The benefit is taken to be the difference between the interest payments on such loans as reported in the FES and the interest payments that would have been payable at the ruling market rate of interest.

17. The next stage of the analysis is to add cash benefits to original income to obtain **gross income**. This is slightly different from the 'gross normal weekly income' used in the FES Report. Cash benefits include:

Contributory:

Retirement pension and Christmas bonus, unemployment benefits, invalidity pension and allowance, statutory sick pay, sickness and industrial injury benefits, widows' benefits, and statutory maternity pay.

Non-contributory:

Income support, child benefit, housing benefit, invalid care allowance, attendance allowance, disability living allowance, disability working allowance, war pensions, severe disablement allowance, industrial injury disablement benefits, family credit, old persons pension, government training scheme allowances (YTS etc), student maintenance awards.

18. Statutory Sick Pay and Statutory Maternity Pay are classified as cash benefits even though they are paid through the employer.

19. Income from short-term benefits is taken as the product of the last weekly payment and the number of weeks the benefit was received in the 12 months prior to interview. Income from long-term benefits, and from housing benefit, is based on current rates.

20. Income tax, local taxes and employees' and self-employed contributions to National Insurance and National Health services are

then deducted to give disposable income. Taxes on capital, such as capital gains tax and inheritance tax, are not included in these deductions because there is no clear conceptual basis for doing so, and the relevant data is not available from the FES.

21. The figures for local taxes include:

council tax (for households in Great Britain interviewed from April 1993),
community charge (for households in Great Britain interviewed before April 1993),
domestic rates (for households in Northern Ireland),
and charges made by water authorities for water, environmental and sewerage services.

Council tax is shown after deduction of transitional relief and discounts to reduce or remove the personal element of the tax (eg the discount of 25% for single person households). All local taxes are shown gross of rebates. These rebates are included as part of housing benefit.

[In pre-1987 articles, domestic rates were included in the 'indirect' tax category. Since then, they have been deducted in the derivation of disposable income in anticipation of their replacement by the community charge. The National Accounts system, which strongly influences this article, shows the community charge/council tax as a deduction before disposable income is produced.]

22. The tax estimates are based on the amount deducted from the last payments of employment income and pensions, and on the amount paid in the last 12 months in respect of income from self-employment, interest, dividends and rent. The income tax payments recorded will therefore take account of a household's tax allowances, with the exception of tax relief obtained in this way 'at source'. In 1993 there were two types of tax relief obtained in this way: mortgage interest relief and life assurance premium relief. Where households are eligible for these reliefs imputations are made and deducted from recorded income tax payments. In the case of mortgage interest relief obtained through the MIRAS scheme, which was introduced in April 1983, these imputations are based on the interest component of the latest mortgage repayment.

23. The next step is to deduct indirect taxes to give **post-tax income**. Indirect tax on final consumer goods and services include:

Duties on beer, wines, spirits, tobacco, oil, betting, etc
Value Added Tax (VAT)
Customs (import) duties
Motor vehicle duties
Driving licenses
Television licenses
Stamp duties
Gas levy
Fossil fuel levy

24. Taxes levied on final goods and services are assumed to be fully incident on the consumer, and can be imputed from a household's FES expenditure record. For example, the amount of VAT which is paid by the household is calculated from the household's total expenditure on goods and services subject to VAT.

25. VAT affects the prices of secondhand cars and is therefore assumed to be incident on the purchasers of such cars as well as on the purchasers of new cars. In allocating taxes, expenditures recorded in the FES on alcoholic drink, tobacco, ice cream, soft drinks and confectionery are grossed up to allow for the known under-recording of these items in the sample. The true expenditure in each case is assumed to be proportional to the recorded expenditure. This approach has its drawbacks because there is some evidence to suggest that heavy drinkers, for example, are not picked up by the FES.

26. The incidence of stamp duty on house purchase on an owner-occupying household has been taken as the product of the hypothetical duty payable on buying their current dwelling (estimated from valuations given in the FES) and the probability of a household of that type moving in a given year (estimated from the General Household Survey).

27. Indirect taxes on intermediate goods and services include:

Rates on commercial and industrial property
Motor vehicle duties
Duties on hydrocarbon oils
Employers' contributions to National Insurance, the National Health Service, the industrial injuries fund and the redundancy payments scheme
Customs (import) duties
Stamp duties
VAT

28. These are taxes that fall on goods and services purchased by industry. Only the elements attributable to the production of subsequent goods and services for final consumption by the UK personal sector are allocated in the article, being assumed to be fully shifted to the consumer. Their allocations between different categories of consumers' expenditure are based on the relation between intermediate production and final consumption using estimated input-output techniques. This process is not an exact science, and many assumptions have to be made. Some analyses, eg that by Dilnot, Kay and Keen 'Allocating Taxes to Households: A Methodology', suggest that the taxes could be progressive rather than regressive if one were to use different incidence assumptions.

29. In discussing the incidence of indirect taxes, we have used the terms '**progressive**' and '**regressive**' to mean taking an increasing or decreasing proportion of income as income rises. The degree to which a tax is progressive or regressive is strongly affected by the definition of income which the tax is compared with. For example, if indirect taxes were to be compared with gross income (rather than disposable income as in this article), they would appear much more regressive than shown in Table G of this article.

30. For Table G of the main article, we have constructed a measure of expenditure on goods and services which is similar to that used in the Consumers' Expenditure part of the National Accounts except that mortgage interest payments are included as a proxy for imputed rent "payments" for owner-occupiers. Savings, investments, superannuation contributions and capital repayments on mortgages are excluded as well as payments of local taxes. The expenditures on alcohol, tobacco and confectionery have been grossed up to correspond to the grossed-up indirect tax amounts described in paragraph 25 above.

31. Finally, we add those notional benefits in kind provided to households by government for which there is a reasonable basis for allocation to households, to obtain **final income**. The benefits in kind allocated are:

State education
School meals and welfare milk
National Health service
Housing subsidy
Railway travel subsidy

Bus travel subsidy (including concessionary fares schemes)

32. Education benefit is estimated by the Department of Education and Science as the cost per pupil or student in special schools, primary and secondary schools, universities, and other further education establishments. The value of the benefits attributed to a household depends on the number of people in the household recorded in the FES as receiving each kind of state education (students away from the household are excluded). No benefit is allocated for pupils attending private schools.

33. The value of school meals and other welfare foods is based on their costs to the public authorities. Any payment by the individual household is subtracted to arrive at a net contribution.

34. Data are available on the average cost to the Exchequer of providing the various types of health care - hospital inpatient/outpatient care, GP consultations, dental services, etc. Each individual in the FES is allocated a benefit from the National Health Service according to the estimated average use made of these various types of health service by people of the same age and sex, and according to the total cost of providing those services. The benefit from maternity services is assigned separately to those households containing children under the age of 12 months. No allowance is made for the use of private health care services.

35. In this article public sector tenants are defined to include the tenants of local authorities, New Town Corporations, the Scottish Special Housing Association (SSHA), Northern Ireland Housing Executive (NIHE) and housing associations. The total housing subsidy includes the contribution from central government to the housing revenue accounts of local authorities: and grants paid to the New Town Corporations, the SSHA, the NIHE and housing associations. Within Greater London, the rest of England, Wales, Scotland and Northern Ireland each public sector tenant has been allocated a share of the region's total relevant subsidy based on the size of the dwelling. Housing subsidy does not include mortgage interest tax relief, rent rebates and allowances or local tax rebates included in housing benefit.

36. The rail travel subsidies allocated are those to British Rail passenger operations and the London Underground. The subsidy to London and South East services is allocated to households living in the area and subsidies to provincial services to households living outside the South East, in proportion to households' expenditure on rail fares as recorded in the FES. In making these allocations allowances are made for the use of rail travel by the business sector, tourists and the institutional part of the personal sector.

37. In this article, bus travel subsidy covers both the cost of concessionary travel schemes for senior citizens and others, and subsidies to operators. Separate allocations are made for Greater London, the other metropolitan areas and the rest of the United Kingdom. The subsidy is divided between households according to recorded expenditure on bus travel and the types of concessionary passes held.

38. We must emphasise that the analysis in this article provides only a very rough guide to the kinds of household which benefit from government expenditure, and by how much, and to those which finance it. Apart from the fact that large parts of expenditure and receipts are not allocated, the criteria used both to allocate taxes and to value and apportion benefits to individual households could be regarded as too simplistic. For example, the lack of data forces us to assume that the incidence of direct taxes falls on the individual from whose income the tax is deducted. This implies that the benefit of tax relief for mortgage interest, for example, accrues directly to the taxpayer rather than to some other party, for instance, the vendor of the land. It also implies that the working population is not able to pass the cost of the direct tax back to employers through lower profits, or to consumers through higher prices. And, in allocating indirect taxes we assume that the part of the tax falling on consumers' expenditure is borne by the households which buy the item or the service taxed, whereas in reality the incidence of the tax is spread by pricing policies and probably falls in varying proportions on the producers of a good or service, on their employees, on the buyer, and on the producers and consumers of other goods and services. Another example is that we know only an estimate of the total financial cost of providing benefits such as education, and so we have to treat that cost as if it measured the benefit which accrues to recipients of the service. In fact, the value the recipients themselves place on the service may be very different to the cost of providing it: moreover, there may be households in the community, other than the immediate beneficiaries, who receive a benefit indirectly from the general provision of the service.

Equivalence scale

39. The equivalence scale used in this analysis is the *McClements scale* (**before** housing costs are deducted). The scales (separate ones for before and after housing costs) were developed by Dr L D McClements at the Department of Health and Social Security (DHSS) in the mid-seventies, based on expenditure data from the 1971 and 1972 FES. They are based on the assumption that it is possible to estimate equivalence scales from people's spending behaviour as recorded in the FES without making any specific assumption about the criteria for equivalence. These scales are in regular use and an analysis by Banks and Johnson ('Children and Household Living Standards', IFS, 1993) suggests that the scales are as valid now as when they were developed. The scales are regarded as plausible and they are well within the range of equivalence scales developed at different times in a number of countries. Hence their use is fully justified for broad statistical standardisation.

40. The equivalence values are given below:

Type of household member	Equivalence value
a. married head of household	
(ie a married couple of 2 adults)	1.00
1st additional adult	0.42
2nd (or more) additional adult	0.36 (per adult)
b. single head of household	
(ie 1 adult)	0.61
1st additional adult	0.46
2nd additional adult	0.42
3rd (or more) additional adult	0.36 (per adult)
c. Child aged:	
16-18	0.36
13-15	0.27
11-12	0.25
8-10	0.23
5-7	0.21
2-4	0.18
Under 2	0.09

Diagram A

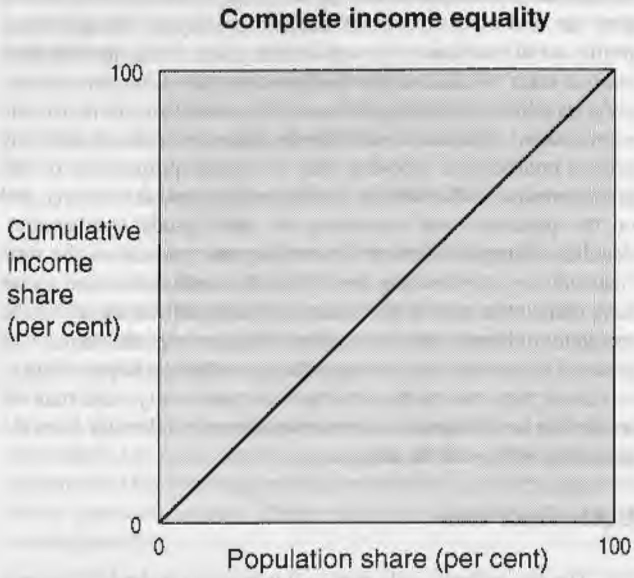
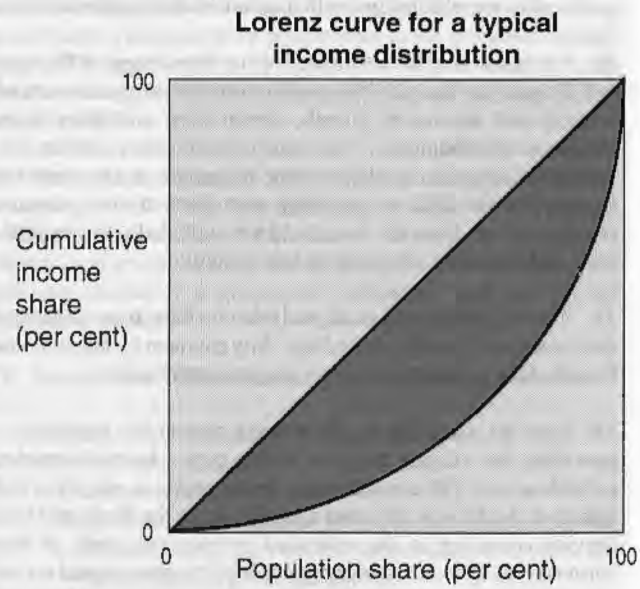


Diagram B



The values for each household member are added together to give the total equivalence number for that household. This number is then divided into the disposable income for that household to give **equivalised disposable income**. For example, a household has a married couple with 2 children (aged 6 and 9) plus one adult lodger. The household's equivalence number is 1.0 + 0.21 + 0.23 + 0.42 = 1.86. The household's disposable income is £20,000, and so its equivalised disposable income is £10,753 (=£20,000/1.86).

41. This quantity is used to produce the single ranking used in all the tables in this article (apart from the Gini coefficients which have to be ranked afresh for each different definition of income).
[In pre-1987 articles, three types of ranking were used; the main one was using original income but gross income and disposable income were also used. In addition, the tables showing income shares were re-ranked for each separate income measure].
It is important to note that most monetary values shown in the article are ordinary (ie un-equivalised) £ a year, not equivalised £ a year. Where equivalised £ a year do appear (eg the quintile points in Table 3 of Appendix 1), they are shown in *italics*.

Gini coefficient

42. The Gini coefficient is the most widely used summary measure of the degree of inequality in an income distribution. It can more easily be understood by considering a Lorenz curve of the income distribution, (see Diagram B) ie a graph of the cumulative income share against the cumulative share of households. The curve representing complete equality of income is thus a diagonal line while complete inequality (with only one recipient of income) is represented by a curve comprising the horizontal axis and the right-hand vertical axis (see Diagram A). The area between the Lorenz curve and the diagonal line of complete equality, as a proportion of the triangular area between the curves of complete equality and inequality, gives the value of the Gini coefficient. Thus a distribution of perfectly equal incomes has a Gini coefficient of zero; as inequality increases (and the Lorenz curve bellies out), so does the Gini coefficient until, with complete inequality, it reaches its maximum value of 1 (or 100 per cent).

43. To calculate the Gini coefficient for an income distribution, the first step is to rank that distribution in ascending order. All the Gini coefficients shown in this article are based on distributions of equivalised income eg the coefficient for original income is calculated after dividing the original income for all the households by their appropriate equivalence values.
[In pre-1987 articles, no such equivalisation was used.]

44. Strictly speaking, one could argue that the equivalence scales used here are only applicable to disposable income because this is the only income measure relating directly to spending power. Since the scales are often applied, in practice, to other income measures, we are content to use them to equivalise original, gross and post-tax income for the purpose of producing Gini coefficients (and in the tables giving percentage shares of total income). However, we do not think it is appropriate to equivalise the final income measure because this contains notional income from benefits in kind (eg state education): the equivalence scales used in this article are based on actual household spending and do not, therefore, apply to such items as notional income.

Sampling errors and reliability

45. As the FES is a sample survey, data from it will differ in varying degrees from those of all households in the UK. The degree of difference will depend on how widely particular categories of income and expenditure vary between households. This 'sampling error' is smallest in relation to, say, the average expenditure of large groups of households on items purchased frequently (when spending does not vary greatly between households). Conversely, it is largest for small groups of households, and for items or services purchased infrequently (for which expenditure varies considerably between households). A broad numerical measure of the amount of variability is provided by the quantity known as the standard error.

46. It is difficult to calculate these standard errors exactly because of the multi-stage design of the FES, but we have made a good approximation by combining the simple random formula with the appropriate design factor from the FES analysis. [The design factor is the ratio of the standard error using the detailed formula that takes account of the full complexity of the sample design to the standard error using the simple random sample formula.] The most appropriate design factor from the FES work is for 'gross normal weekly household income'. The standard error of the mean for N house-

holds in Table 1 is given by:

(design factor) * $S/\sqrt{N}$

where the design factor is 1.34 for 1993, and S^2 is the estimate of the population variance.

This simple formula is applicable to a complete group of households, but for quintile or decile groups a more complex formula is required (see paragraph 48).

47. The standard errors can be used to give an idea of the reliability of a mean by quoting a confidence interval of the form:

estimate of mean ± (1.96 * standard error)

where the factor 1.96 corresponds to the 95% confidence interval.

For example: the mean disposable income for all households is £15,271 (see Table 3A in Appendix 1), and its standard error is £186 (from Table 1 below). So the confidence interval for the population value is £15,271 ± £365 ie about (£14,900 to £15,640). It is very likely that the mean disposable income for the whole population (ie all UK private households) will lie in this range.

48. The standard errors for the household types are larger than for the whole sample, mainly because the sample sizes concerned are smaller. For quantile groups of given household types, the sample sizes are of course smaller still, which would tend to increase sampling variability. On the other hand, the income values are by definition in a narrower range which would tend to reduce the sampling error. Precise estimates of standard errors for averages for quantile groups are complicated to produce. As well as the variability of the observations between the quantile points, we should also take account of the randomness which exists because the sample quantile points are themselves subject to random variation. We have used a formula for the asymptotic variance of a 'randomly trimmed' mean. This formula gives a good approximation where the total sample size is around 1,000 (when the variance is under-estimated by about 2 per cent on average), and a reasonable approximation for samples of 100-500 (when the variance is under-estimated by about 5 per cent on average). The formula for the variance of a mean (x) calculated between two sample percentiles, Q_1 and Q_2, corresponding to proportions p_1 and p_2 is:

$$\frac{S^2+p_1\,(x-Q_1)^2+(1-p_2)\,(Q_2-x)^2+\dfrac{p_1\,(1-p_2)}{(p_2-p_1)}\,(Q_2-Q_1)^2}{n(p_2-p_1)}$$

where S^2= variance calculated from observations between Q_1 and Q_2, and n = total sample size.

The square root of this quantity is then multiplied by the design factor (as described in paragraph 46) to give the standard errors shown in the tables for quintile and decile groups.

49. The 'complex' standard errors for quintile and decile groups are quite a bit larger than the simple random sample estimates. For the 'all households' group the ratio merely reflects the fact that the simple random sample figure is multiplied by the design factor (1.34 in 1993) to produce the 'complex' standard error. The quoted standard errors for the middle decile groups are about six times higher than the simple random sample estimates.

Ratio of 'complex' standard error to simple random sample estimate for equivalised disposable income, 1993

Decile group	
Bottom	1.81
2nd	4.81
3rd	6.22
4th	6.67
5th	6.88
6th	7.01
7th	6.87
8th	6.06
9th	4.76
Top	1.56
All	1.34

50. We have produced estimates for the standard errors of **shares of total income** (shown in Table 1, Appendix 2). These standard errors have been calculated using the formula for the variance of a ratio, and the results are given in Table 2 below.
For example, the top quintile group accounted for 42 per cent of total equivalised disposable income; the standard error of this estimate is 0.26 per cent, and the 95% confidence interval for the true value is (41.5, 42.6) per cent.
As the formula involves an approximation, the figures shown in Table 2 are likely to be under-estimates of the true position.

Previous articles

51. This article is the latest in an annual series. Earlier articles covering the years 1957 to 1986 (using the old methodology) were published in the following issues of Economic Trends:
November 1962, February 1964, August 1966, February 1968, 1969, 1970, 1971, 1972, November 1972 and 1973, December 1974, February 1976, December 1976, February 1978, January 1979, 1980, 1981 and 1982, December 1982, November 1983, December 1984, December 1985, July 1986, November 1986, July 1987 and December 1988.

52. The results for 1987 (the first year of using the new methodology) were published in the May 1991 edition of Economic Trends, the 1988 results appeared in the March 1991 edition, the 1989 results in the January 1992 edition, the 1990 results in the January 1993 edition, the 1991 results in the May 1993 edition and the 1992 results in the January 1994 edition. The latest seven articles use a very different methodology from the earlier years, and hence are completely incompatible.

53. The results in all articles are intended to be free standing: they were not designed for direct comparison with other years except where some limited comparisons were made in the articles. Such comparisons are fraught with difficulty because of changes in definitions eg housing benefit in 1983. However, some broader measures like the Gini coefficients are relatively robust and will stand comparison with other years: this year's article gives such a comparison for the years 1977-1993. Enquiries should be addressed to Dave Westcott, Social Regional Statistics and Household Expenditure Branch, Central Statistical Office, Room 1823, Millbank Tower, Millbank, London SW1P 4QQ.

Standard errors of the mean, 1993

TABLE 1 (Appendix 3)

	Number in sample	Original income	Gross income	Disposable income: Unadjusted	Disposable income: Equivalised	Post-tax income	Final Income
		Standard error of the mean of the five income measures (£ per year)					
Household type/ Quantile group							
All households	6 979	264	246	186	180	165	173
Non-retired	5 132	359	340	253	225	230	240
Retired	1 847	260	220	199	217	178	187
Non-retired without children	2 812	474	454	334	337	302	310
Non-retired with children	2 320	550	448	290	268	352	364
Decile groups[1] of all households							
Bottom	698	186	188	162	83	156	383
2nd	698	615	517	444	70	368	766
3rd	698	1 109	886	716	78	548	1 082
4th	698	1 461	1 125	899	110	716	1 220
5th	698	1 790	1 439	1 117	135	907	1 419
6th	697	2 041	1 736	1 336	158	1 120	1 651
7th	698	2 115	1 873	1 441	185	1 263	1 700
8th	698	2 096	1 998	1 511	211	1 274	1 684
9th	698	1 921	1 905	1 436	311	1 265	1 597
Top	698	1 787	1 786	1 318	1 168	1 239	1 282
Household type							
1 adult retired	951	278	271	190	310	179	183
2 or more adults retired	896	425	405	315	301	289	294
1 adult non-retired	870	618	578	427	700	402	400
2 adults non-retired	1 400	706	672	482	479	447	446
3 or more adults non-retired	542	1 090	1 017	749	498	681	702
1 adult with children	428	596	523	420	416	381	438
2 adults and 1 child	516	1 001	945	714	591	667	670
2 adults and 2 children	744	1 084	1 052	772	550	719	726
2 adults with 3 or more children	345	1 324	1 222	931	544	842	872
3 or more adults with children	287	1 578	1 459	1 167	604	1 035	1 087

1 Households ranked by equivalised disposable income.

Standard errors for shares of total income, 1993

TABLE 2 (Appendix 3)

	Share of total income, r (as %)	Standard error of r (as %)	95 % confidence interval for r (as %)
Equivalised original income			
Quintile group[1]			
Bottom	2.3	0.06	(2.16,2.42)
2nd	6	0.16	(5.6, 6.2)
3rd	15	0.32	(14.0,15.3)
4th	25	0.48	(23.9,25.9)
Top	52	0.15	(51.9,52.6)
All households	100		
Equivalised gross income			
Quintile group[1]			
Bottom	7.0	0.07	(6.88,7.14)
2nd	11	0.10	(10.3,10.8)
3rd	16	0.22	(15.1,16.1)
4th	23	0.33	(22.0,23.4)
Top	44	0.27	(43.6,44.7)
All households	100		
Equivalised disposable income			
Quintile group[1]			
Bottom	7.6	0.07	(7.46,7.72)
2nd	12	0.10	(11.3,11.8)
3rd	16	0.20	(15.7,16.6)
4th	23	0.29	(22.0,23.3)
Top	42	0.26	(41.5,42.6)
All households	100		
Equivalised post-tax income			
Quintile group[1]			
Bottom	6.6	0.04	(6.56,6.70)
2nd	11	0.13	(10.8,11.4)
3rd	16	0.23	(15.0,16.0)
4th	22	0.35	(21.7,23.1)
Top	44	0.34	(43.6,45.0)
All households	100		

1 Ranked by equivalised disposable income.

THE BUDGET: 29 NOVEMBER 1994

The following are the proposed changes in taxation and national insurance as set out in the *Financial Statement and Budget Report 1995-96* (HMSO November 1994) (Price £15.50).

Note: Figures in brackets refer to the appropriate line of the Direct effect 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 that it has negligible revenue effects of less than £3 million a year.

This article summarises the tax and national insurance proposals in the Budget. The measures raise the main tax allowances and thresholds in line with prices, with extra increases for the elderly and in the lower rate tax band. Fuel and tobacco duties are increased in real terms in line with previous commitments, while most alcohol duties are frozen. There are a number of proposals to encourage investment in small and growing businesses, to help businesses facing higher rates bills, to simplify and deregulate the tax system and to close loopholes.

Overall the measures will cost some £1 billion in 1995-96, due mainly to transitional support on business rates. By 1997-98 the cost falls to under £$^{1}/_{2}$ billion, so the measures do not have a significant effect on revenues in the medium term.

The effect of the measures on government revenues is set out in the Direct effect of Budget measures table. Annex A explains the costings and Annex B details a number of tax changes which were announced before the Budget, including measures announced in the two 1993 Budgets but not yet implemented.

Inland Revenue taxes

Personal taxation

The following allowances, limits and thresholds will be increased in line with statutory indexation (based on the 2.2 per cent increase in the Retail Prices Index in the year to September 1994):

- personal allowance for people under 65 (1);
- income limit for age related allowances (3);
- basic rate limit (5);
- capital gains tax annual exempt amount (-);
- threshold for inheritance tax (6).

Personal allowances for people aged 65 and over will be increased by £430, which is £330 more than indexation (2). The lower rate band will be increased by £200, £100 more than indexation (4). The blind person's allowance is unchanged (-). The new levels are as follows:

Income tax allowances (£)	1994-95	1995-96
Personal allowance	3 445	3 525
Married couple's allowance, additional personal allowance, widow's bereavement allowance	1 720	1 720[1]
For people aged 65-74:		
personal allowance	4 200	4 630
married couple's allowance	2 665	2 995[1]
For people aged 75 and over:		
personal allowance	4 370	4 800
married couple's allowance	2 705	3 035[1]
Income limit for age related allowances	14 200	14 600
Blind person's allowance	1 200	1 200

[1] *Announced in November 1993 Budget. See Annex B.*

Bands of taxable income (£)	1994-95	1995-96
Lower rate - 20 per cent	0 - 3 000	0 - 3 200
Basic rate - 25 per cent	3 001 - 23 700	3 201 - 24 300
Higher rate - 40 per cent	over 23 700	over 24 300

Other allowances and thresholds (£)	1994-95	1995-96
CGT annual exempt amount:		
individuals	5 800	6 000
trusts	2 900	3 000
Inheritance tax threshold	150 000	154 000

Changes will be made in the tax treatment of premiums paid for employee indemnity insurance such as directors' and officers' liability insurance. Where employers pay, the payment will not be taxable as a benefit in kind; where employees pay, they will get tax relief. The same treatment will apply to payments made to meet work related liabilities, such as legal costs, which are not covered by insurance; and to payments made up to six years after the end of the year in which the employment ends. This will take effect from 6 April 1995 (7).

The rules for registered profit related pay schemes will be amended to reflect changes in accountancy practice on extraordinary items (-).

Benefits in kind

The scales for assessing the benefit of fuel provided by employers for private use in company cars will be increased from 6 April 1995 by 5 per cent for petrol cars and 4 per cent for diesel cars, in line with the price of fuel (8). The scales are also used for employers' national insurance contributions (54) and VAT (27).

Accessories for the disabled, fitted in company cars, will not be taxed as a benefit in kind from 6 April 1995 (*).

Self assessment

Measures to simplify the personal tax system and allow self assessment were announced in the March 1993 Budget. Further measures which build on this framework are:

- all income from property, including furnished lettings, will be brought together and taxed using rules similar to those for trading income;

- the rules for taxing non-residents will be simplified;

- employers will be required to give employees certain information, mainly about benefits and expenses, which they need to complete their tax returns; and

- anti-avoidance provisions will be introduced to prevent exploitation of the rules for the transition from the 'preceding year' to the 'current year' basis of assessment (*).

Simplification and deregulation

Employees' personal expenses of up to £5 a night in the UK and £10 a night abroad, paid by employers when employees stay away from home on business, will not be taxable from 6 April 1995 (9).

Other simplification and deregulation changes are:

- the rules for taxation of trusts and other settlements which tax the settlor on the income of a settlement in certain circumstances will be simplified from 6 April 1995 (*);

- tax will be deducted at the basic rate from interest credited to bank accounts belonging to discretionary and accumulation trusts from 6 April 1996 (*);

- two changes will be made to simplify the offshore funds legislation from 29 November 1994 (*);

- measures will be introduced to allow certain tax returns to be submitted electronically (-);

- in Scotland, Inland Revenue will be able to pursue debts of up to £50,000 through the Sheriff courts rather than the Court of Session (-);

- the tax rules relating to foreign income dividends and certain forms of deemed income received by personal representatives of deceased persons' estates, and to payments made out of that income to residuary beneficiaries, will be clarified from 6 April 1995 (*).

Savings

Changes will be made to the rules for Tax Exempt Special Savings Accounts (TESSA) so that when an account matures after five years, up to £9,000 of the capital may be deposited in a new TESSA. The normal limit for first year deposits is £3,000 (10).

Personal Equity Plans (PEPs) will be extended to corporate bonds and preference shares (11).

The annual amount which may be invested in a friendly society tax exempt life assurance fund will be increased from £200 to £270 with effect from Royal Assent (*).

The maximum level of earnings for which pension provision may be made with tax relief (the "earnings cap") will be increased in line with statutory indexation to £78,600 (*).

Other savings measures are:

- investors in personal pension schemes will be given more flexibility to choose when to buy an annuity (*); and to buy annuities from insurance companies established in other European Union countries (-);

- the ordinary Save As You Earn (SAYE) scheme will be abolished. Contracts starting on or after 1 December 1994 will not get tax relief (*). The Sharesave scheme will continue, and the Treasury will take on responsibility for the model scheme from the Department for National Savings (-);

- financial institutions in other European Union countries will be able to offer PEPs, TESSAs and Sharesave SAYE schemes in the UK (*);

- gains made by higher rate taxpayers on certain life assurance policies and life annuity contracts written by insurers established in other European countries will in future only be charged on the difference between the higher and basic rates of tax (*).

Investment in small businesses

As announced in the November 1993 Budget, tax reliefs will be available to investors in Venture Capital Trusts (VCTs), a new vehicle designed to encourage investment in unquoted trading companies. Investors will benefit from income tax relief at 20 per cent, and capital gains tax reinvestment relief, on purchase of new VCT shares of up to £100,000 a year. Income and gains on these investments will also be tax free (12).

Relief from capital gains tax which is available where gains are reinvested in an unquoted trading company will, from 29 November 1994, be extended to cover companies which are engaged in farming or developing property, or which hold more than half their assets in land and buildings (13).

The reliefs available under the Enterprise Investment Scheme will be extended to allow CGT to be deferred on capital gains where they are reinvested in a company which qualifies under the scheme. Changes will also be made to simplify the scheme and make it more attractive for companies and investors to use. These include allowing relief when more than half a company's assets are in land and buildings (14).

Business taxation

Tax relief will be given for certain spending by individuals after their trade or profession has ceased. The relief will apply to spending on or after 29 November 1994 (15).

Employers will be allowed to make quarterly rather than monthly payments of PAYE and national insurance contributions from 6 April 1995 when their total PAYE and NIC bill is below £600 a month, an increase from the current threshold of £450 (16,55).

The industrial buildings allowance provisions will be amended to extend capital allowances to design, build, finance and operate (DBFO) roads; and new rules will give capital allowances balancing charges to them and to toll roads covered by the private finance initiative (17).

Other business taxation changes are:

- the relief which allows group companies to set gains from the sale of business assets against the cost of assets acquired by other companies in the same group will be put on a statutory basis (-);

- the stamp duty relief for sales of property within a group of companies will be extended to new leases, and the test for group membership for the purpose of this relief will be revised from 90 per cent ownership of issued share capital to 75 per cent ownership of ordinary share capital, from Royal Assent (*);

- changes will be made to facilitate the use of cash as collateral for stock loans and to address anomalies in the interaction between the legislation on sale and repurchase of securities in the Finance Act 1994 and other legislation (*);

- a tax regime will be established for open ended investment companies, a new form of collective investment vehicle which will be constituted as a company with continuously variable share capital. It is expected that the necessary secondary legislation will be brought into effect by mid-1995 (*);

- the distribution rules applying to thinly capitalised companies will be modified (*);

- the tax treatment of short rotation coppice (in which fast growing trees are regularly harvested for fuel) will be clarified to ensure that it is taxed as farming and thus excluded from the exemption for commercial woodlands (*).

Anti-avoidance and revenue protection measures

Returns on certain debt instruments such as deep discount bonds held by UK companies associated with companies carrying on a banking business in the UK will be taxed as they accrue, rather than on sale or maturity, from 29 November 1994. There will be no change where the instruments are held for long-term insurance purposes (18).

From 29 November 1994 companies within a group will only be able to claim rollover relief for business assets acquired from outside that group and not by transfer from other companies within the same group (19). Changes from the same date will also counter avoidance of the charge which applies when a company leaves a group holding an asset which it acquired from another company in the same group (*).

Changes will be made to prevent avoidance of tax by manipulating the valuation of stock when a trade is transferred between connected parties (20).

Where there is a change in the ownership of an investment company, measures will be introduced to prevent companies setting excess management expenses and charges from the period before the change against profits of a later period. This will apply to changes in ownership on or after 29 November 1994, unless the contract for sale was entered into before that date (21).

Any petroleum revenue tax (PRT) losses transferred to the purchaser of an interest in an oil or gas field will exclude losses attributable to reliefs brought into the field by the seller. Reliefs brought into a field will also be excluded from any unrelievable field loss which is set against the PRT liability of another field. The changes apply to claims for relief and transfers of an interest made on or after 29 November 1994 (22).

Measures will be introduced to prevent erosion of the tax base for life assurance companies through reinsurance arrangements, and to correct other anomalies (23).

Measures will also be introduced to:

- ensure that capital gains tax applies to disposals of certain securities linked to a share index, on or after 29 November 1994 (*);

- amend the capital allowances rules for industrial buildings and buildings in enterprise zones to clarify the amounts on which allowances can be claimed (-);

- amend the provisions introduced in the March 1993 Budget for Lloyd's special reserve funds to ensure that they operate as originally intended (-);

Customs and Excise taxes

Value added tax

The annual turnover threshold above which traders must register for VAT will increase from £45,000 to £46,000 and the deregistration threshold will rise from £43,000 to £44,000, from midnight on 29 November 1994 (*).

From 1 August 1995 businesses will be able to recover VAT on the purchase of cars bought wholly for business use, primarily leasing. Where VAT is recoverable, businesses will have to account for output tax on the eventual sale of the car by the business. Only half of the VAT applying to leasing charges will be recoverable where there is any private use (24).

The scheme under which VAT on certain second-hand goods is charged only on the dealer's margin will be extended to virtually all second-hand goods, antiques and collectors' items, whether sold by a dealer or at public auction. A simplified method of global accounting for some margin scheme transactions will be introduced, and an effective VAT rate of 2.5 per cent will be charged on imports of certain works of art, antiques and collectors' items which were previously exempted from VAT at import. These changes implement the European Community seventh VAT directive and will be phased in from 1 January 1995 (25).

The zero-rating of passenger transport will be confined to public passenger transport in the generally accepted sense, as envisaged when the relief was first introduced, from 1 April 1995 (26).

A number of changes will be made to reduce burdens on business:

- traders will be consulted on a move to annual VAT returns and payments for small businesses. Subject to views expressed, it is envisaged that those who voluntarily register for VAT will make annual returns by the end of 1995, with a possible extension to businesses with an annual turnover below £100,000 the following year. There will also be consultation on a simplified scheme for calculating VAT due from small businesses, which would link payments to turnover rather than to detailed accounts of all sales and purchases (-);

- a number of deregulatory measures associated with the VAT liability of construction and land and property will be introduced. Most will take effect from 1 March 1995 (28);

- the penalties for late VAT registration, unauthorised issue of tax invoices, and failure to notify import of new means of transport or goods liable to excise duty and pay the VAT on time, will be reduced to bring them into line with other VAT penalties, from 1 January 1995 (29);

- the VAT bad debt relief provisions of the VAT Act 1994 will be clarified, and from Royal Assent Customs' right to deduct traders' debts from VAT credits arising during insolvency will be limited further (*);

- the long-standing practice of allowing payment of VAT due on goods removed from excise warehouses to be deferred will be put on a statutory basis from Royal Assent (-).

A number of changes will be made to reduce scope for avoidance of VAT:

- the rules will be changed to stop avoidance of VAT through lease and lease back of property from 30 November 1994 (30);

- the rules on incidental financial transactions will be changed to block a device used to avoid VAT on share issues from 1 December 1994 (31);

- to counter abuse, the *de minimis* rules which determine when small businesses making exempt supplies can treat themselves as fully taxable will be tightened from 1 December 1994 (32);

- traders appealing against a Customs requirement to provide security against payment of their VAT liability will have to be up to date with their VAT returns and payments, from Royal Assent (33);

- section 30(5) of the VAT Act 1994 will be repealed from Royal Assent to prevent it being used as a basis for tax avoidance. Alternative legislative cover will be provided to allow registered charities to continue to reclaim VAT on goods exported for charitable purposes (-).

Excise duties

Duty on beer, table wine, cider and spirits will remain unchanged (34, 35, 38). Duty on fortified wine will be reduced from 1 January 1995 in line with a previous international agreement (37). The duty on sparkling wine will be reduced to the new fortified wine rate at the same time (36).

Duties on tobacco products will be increased from 6 pm on 29 November 1994, in line with the Government's commitment to increase duty on average by at least 3 per cent a year in real terms (39).

Tax on petrol will rise by 2.5 pence per litre, and duty on diesel will rise to bring it into line with that for unleaded petrol, from 6 pm on 29 November 1994, in line with the Government's commitment to increase duty on road fuels on average by at least 5 per cent a year in real terms (40, 41, 42). Duty on gas oil and fuel oil will rise by 0.5 pence per litre from the same time (43).

The changes in duty and their effect on the price of each product are set out below. Price effects include VAT except for gas oil and fuel oil.

Excise duty changes

	Change in duty (per cent)	Effect on price of typical item (pence)	Unit	
Alcohol				
Beer	0.0	0.0	pint	(34)
Table wine	0.0	0.0	75cl bottle	(35)
Sparkling wine	-13.5	-27.0	75cl bottle	(36)
Fortified wine	-7.1	-13.0	75cl bottle	(37)
Cider and perry	0.0	0.0	2 litre	(*)
Spirits	0.0	0.0	70cl bottle	(38)
Tobacco				
Cigarettes	5.5[1]	10.0	packet of 20	(39)
Cigars	6.4	5.0	packet of 5	(*)
Hand-rolling tobacco	5.0	12.0	25 grams	(*)
Pipe tobacco	6.0	6.0	25 grams	(*)
Fuel				
Leaded petrol	6.4	2.5	litre	(40)
Unleaded petrol	7.5	2.5	litre	(41)
Diesel	9.9	3.2	litre	(42)
Gas Oil	30.5	0.5	litre	(43)
Fuel Oil	43.1	0.5	litre	(43)

[1] *Specific duty up 6.2 per cent. Rate of ad valorem duty unchanged.*

The rate of duty on road fuel gas will remain at its current level, but will be expressed per kilogram rather than per litre from 6 pm on 29 November 1994 (*).

The rules for giving duty relief to traders using mineral oil for industrial purposes other than as motor or heating fuel will be changed to reduce the administrative burden on traders from the summer of 1995 (*).

The definition of vehicles entitled to use rebated heavy oil (commonly known as red diesel) as fuel on public roads will be revised to preserve nearly all existing entitlements following changes to vehicle excise duty, from 1 July 1995 (*).

A number of changes will be made to simplify the structure of alcohol duties:

- the number of tax bands for wine and made-wine with strength between 1.2 and 5.5 per cent alcohol by volume (abv) will be reduced from five to two from 1 January 1995 (*);

- the systems for refunding duty on alcohol used in the manufacture of food and non-alcoholic drinks will be unified and simplified from Royal Assent (*);

- the regime for denatured alcohol, including methylated spirits, will be extended to cover all dutiable alcohols used in foods and non-alcoholic drinks from the summer of 1995 (*);
- the definition of beverages between 1.2 and 5.5 per cent abv which are liable to beer duty rate will be clarified from 30 November 1994 (*).

A statutory right to recover excise duty which has been overpaid will be introduced; and there will be provision for claims to be brought before the VAT and Duties Tribunal in the event of an appeal, from the summer of 1995 (*).

Gaming machine licence duty will be increased on average by about 19 per cent for licence applications made on or after 1 December 1994, and payment by instalments will be introduced from 1 November 1995 for annual licences (44). From the latter date, the duty will be extended to include amusement machines and will be renamed amusement machine licence duty (45).

A number of changes will be made to air passenger duty:

- treatment of debts in insolvency will be aligned with other duties and taxes collected by Customs, from Royal Assent (-); and
- a mechanism will be provided for the assessment and collection of interest on arrears from 1 January 1995 (*).

Insurance premium tax

From Royal Assent, Customs' powers under the legislation for insurance premium tax will be aligned more closely with those available for other indirect taxes (-). In addition, the right of insurers to request a review and appeal against an assessment for tax due will be removed for cases where no tax return has been submitted (-).

Intrastat

The threshold above which traders are required to submit monthly statistical returns on trade with European Union countries will be increased from £140,000 of annual EU trade in goods to £150,000, from 1 January 1995 (-).

Vehicle excise duty

Duty on cars, light goods vehicles, taxis and vans will rise from £130 to £135 from 30 November 1994 (46). Duty on lorries is unchanged (47).

The system of concessionary and exempt classes of VED will be rationalised with effect from 1 July 1995. The number of concessionary classes will be reduced from 132 to nine. Exemption from VED will be extended to police vehicles (48).

The definition of a goods vehicle for tax purposes and the taxable weight of such vehicles will be clarified (49).

A number of other changes will be made:

- new powers will be introduced to enable a fee, to cover the costs of the Driver and Vehicle Licensing Agency (DVLA), to be charged on new vehicle registrations which are not notified to DVLA under the automated first registration scheme (50);
- DVLA will be allowed to sell anonymised data, for example to market research companies (50);
- powers will be introduced to enable wheelclamping to be used to combat VED evasion (50);
- new requirements to provide documentation will be placed on the vendor, to reinforce the proposed move to joint notification of changes in vehicle ownership (-);
- vehicles with fewer than nine seats currently licensed as 'Hackney' carriages, will be licensed as cars from 1 July 1995 (*).

Business rates

Transitional relief

A revaluation of non-domestic properties will take effect across Great Britain from 1 April 1995. This will be the first five yearly review of property valuations for rating purposes following the introduction of the new business rating system.

Changes in rateable values resulting from revaluation will vary significantly between regions. A scheme of transitional relief will limit the maximum real increases in rates bills over the coming years to 10 per cent a year for large properties, $7^1/_2$ per cent for small properties, and 5 per cent for small mixed domestic/non-domestic properties (such as shops with flats above).

The transitional relief scheme will be financed in 1995-96 in part by limiting real reductions in rates bills to 5 per cent for large properties and 10 per cent for small ones. An Exchequer contribution will cover the balance (51).

Rate poundages

The unified poundages in England and Wales for 1995-96 will be increased in line with the RPI for the year to September 1994, after account is taken of the effects of the revaluation. In Scotland a unified poundage will be introduced for the first time in 1995-96. It will be set at the same level as the poundage in England.

National insurance contributions

The lower rates of employers' national insurance contributions will be reduced by 0.6 per cent from April 1995 (52).

From April 1996 employers who take on someone who has been out of work for at least two years will be able to get a rebate on their employer NICs on that person for up to a year (53).

From April 1995 the lower earnings limit will be increased from £57 to £59 a week, in line with the single person's rate of retirement pension; the earnings thresholds for the employers' lower rate bands will each be increased by £5 to £105, £150 and £205; and the upper earnings limit will be increased from £430 to £440 a week (-). The new structure of contributions is:

Structure of national insurance contributions from April 1995

	Percentage NIC rate[1]	
Weekly earnings	Employees	Employers[2]
Below £59	0	0.0
£59 to £104.99	2% of £59	3.0
£105 to £149.99	plus 10%	5.0
£150 to £204.99	of earnings	7.0
£205 to £440	between £59	10.2
Above £440	and £440	10.2

[1] *Not contracted out rates.*
[2] *Rates apply to all earnings.*

The weekly Class 2 rate for the self employed will be increased to £5.85, and the Class 3 voluntary contribution to £5.75. The lower and upper profits limits for Class 4 contributions will increase to £6,640 and £22,880 respectively (-).

To simplify the NICs system and provide a better service for business, Inland Revenue dispensations will count for NICs; and the Inland Revenue and the DSS will be drawing up a programme for closer working (-).

Treasury grant not exceeding 12.5 per cent of contributory benefit expenditure will be made available to National Insurance Fund in 1995-96.

The Government Actuary will report on the likely effect of the changes on the National Insurance Fund. Th working assumptions provided to the Government Actuary for use in preparing his report are set out in Annex A to Chapter 3.

Direct effects of Budget measures

	£ million	yield(+)/cost(-) of measure		
	Changes from a non-indexed base	Changes from an indexed base		
	1995-96	1995-96	1996-97	1997-98
INLAND REVENUE				
Personal taxation				
1 Personal allowance - indexed	-390	0	0	0
2 Age related personal allowances - up by £430	-200	-150	-210	-210
3 Income limit for age related allowances - indexed	-5	0	0	0
4 Lower rate band - up by £200	-170	-80	-100	-110
5 Basic rate limit - indexed	-160	0	0	0
6 Inheritance tax threshold - indexed	-15	0	00	
7 Tax relief for employee indemnity insurance	-40	-40	-40	-40
8 Car fuel scales - increased in line with fuel prices	10	10	10	10
9 Personal incidental expenses - exempted	-20	-20	-20	-20
Savings				
10 TESSAs - extended	*	*	-150	-160
11 Personal Equity Plans - extended	-10	-10	-25	-40
Investment in small businesses				
12 Venture Capital Trusts	-150	-150	-290	-240
13 CGT reinvestment relief - changed	*	*	-15	-20
14 Enterprise Investment Scheme - extended	-5	-5	-10	-10
Business taxation				
15 Post-cessation expenditure - tax relief	*	*	-10	-10
16 PAYE - quarterly payments extended	-50	-50	*	*
17 Capital allowances - extended to DBFO roads	*	*	*	-5

Direct effects of Budget measures - continued	£ million	yield(+)/cost(-) of measure		
	Changes from a non-indexed base	Changes from an indexed base		
	1995-96	1995-96	1996-97	1997-98
Anti-avoidance measures				
18 Debt instruments - use restricted	20	20	100	100
19 Company groups - rollover relief	5	5	50	50
20 Valuation of stock - restricted	0	0	20	20
21 Management expenses buying	*	*	30	30
22 PRT loss transfer - restricted	25	25	25	25
23 Life assurance companies - reinsurance etc	50	50	-50	*
Total Inland Revenue	**-1 105**	**-395**	**-685**	**-630**
CUSTOMS AND EXCISE				
Value added tax				
24 Cars for business use - changed treatment	-140	-140	-100	-50
25 Second-hand goods and imported works of art	-60	-60	-55	-55
26 VAT on passenger transport - clarified	35	35	45	45
27 Car fuel scales - increased in line with fuel prices	10	10	10	10
VAT simplification and deregulation				
28 Land and property - simplification and deregulation	-60	-60	-60	-60
29 Penalties for late notification	-5	-5	*	*
VAT anti-avoidance measures				
30 Land and property - blocking loopholes	210	210	215	215
31 Recovery of VAT on share issues restricted	100	100	100	100
32 Prevention of abuse of *de minimis* limits	20	20	20	20
33 Doubtful payers and appeals	10	10	0	0
Excise duties on:				
34 beer unchanged	0	-60	-60	-65
35 table wine unchanged	0	-15	-15	-20
36 sparkling wine down 13.5%	-5	-10	-10	-10
37 fortified wine down 7.1%	-5	-5	-5	-5

Direct effects of Budget measures - continued

	£ million	yield(+)/cost(-) of measure		
	Changes from a non-indexed base	Changes from an indexed base		
	1995-96	1995-96	1996-97	1997-98
38 spirits unchanged	0	-15	-15	-15
39 cigarettes up 5.5%	15	15	15	20
40 leaded petrol up 6.4%	-40	-40	-40	-40
41 unleaded petrol up 7.5%	15	15	20	25
42 diesel up 9.9%	115	115	130	145
43 gas and fuel oils up 0.5p per litre	75	70	70	70
44 gaming machine licences up 19%	-30	-30	15	30
45 gaming machine licences - scope extended	10	10	30	35
Total Customs and Excise	**270**	**170**	**310**	**395**
VEHICLE EXCISE DUTY				
46 Duty on cars up £5 to £135	125	55	55	55
47 Duty on lorries unchanged	0	-10	-10	-10
48 Changes to exemptions and concessions	20	20	30	30
49 Definition of goods vehicle	5	5	5	5
50 Other changes	5	5	30	25
Total vehicle excise duty	**155**	**75**	**110**	**105**
BUSINESS RATES				
51 New transitional scheme	-605	-605	-135	-10
Total business rates	**-605**	**-605**	**-135**	**-10**
NATIONAL INSURANCE CONTRIBUTIONS				
52 Reduction of lower rates of employer NICs	-235	-235	-260	-265
53 Employer NIC rebate for long-term unemployed	0	0	-45	-45
54 Car fuel scales - increased in line with fuel prices	0	0	5	5
55 NICs - quarterly payments extended	-25	-25	*	*
Total national insurance contributions	**-260**	**-260**	**-300**	**-305**
TOTAL	**-1 545**	**- 1 015**	**-700**	**-445**

* = Negligible.

Annex A: Explaining the costings

This annex explains how the effects of Budget measures on tax yield set out in the Direct effect of Budget measures table are calculated.

The general approach

The direct effect of a tax change is the difference between the tax yield from applying the post-Budget and pre-Budget tax regimes to the levels of income, spending etc expected after the Budget.

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, and the change in the yield of VAT and other excise duties resulting from the new pattern of spending.

Since total income and total spending at factor cost are assumed to be fixed at their post-Budget levels, the estimates 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 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 Table 5.1.

In the first column of the table the pre-Budget regime is the regime of allowances, thresholds and rates of duty which applied before this Budget (including any measures previously announced but not yet implemented).

The remaining three columns strip out the effects of inflation by assuming that allowances, thresholds and rates of duty are increased in line with prices in this and in future Budgets (again taking account of measures previously announced but not yet implemented). Measures announced in this Budget are assumed to be indexed in the same way in future Budgets.

In calculating the indexed base we assume that each year excise duties rise in December (January for alcohol), and allowances and thresholds rise in April, in line with the assumed increase in the RPI over twelve months to the previous September. The assumptions are 3 per cent, $2^1/_2$ per cent and 2 per cent for September 1995, 1996 and 1997 respectively.

Notes on individual Budget measures

Inland Revenue taxes

1,3,5,6 The increases in allowances, thresholds and limits are rounded according to statutory rules after being increased in line with the rise in the all items Retail Prices Index in the year to September 1994.

2 The cost of the increase in a full year, against an indexed base, is £200 million.

4 The cost of the increase in a full year, against an indexed base, is £100 million.

18 - 23 The yield represents the estimated direct effect of the measures with the existing level of activity. Without these measures there could be a more significant loss of revenue in the future.

Customs and Excise taxes

37 The reduction in duty on fortified wines reflects the Government's intention, announced in December 1992, to reduce the duty differential between fortified wine and table wine.

39 This row shows the additional yield from the duty increases specified compared with the yield from raising duty by 3 per cent in real terms as announced in the November 1993 Budget. Since the commitment was expressed in real terms there is no difference between the indexed and non-indexed base.

40,41,42 These rows show the additional yield from the duty increases specified compared with the yield from raising duty by 5 per cent in real terms as announced in the November 1993 Budget. Since the commitment was expressed in real terms there is no difference between the indexed and non-indexed base.

44 Includes the cost of payment by instalments.

Revenue effects in 1994-95

A number of the Budget measures have effects on revenue in 1994-95. These are summarised below:

		£ million yield(+)/cost(-) of measure Changes from an indexed base
25	Second-hand goods and imported works of art	-10
30	Land and property - blocking certain loopholes	15
31	Recovery of VAT on share issues restricted	10
34-38	Alcohol duty	-20
39	Tobacco duty	5
40-42	Road fuel duties	25
43	Other fuels	20
44	Gaming machine licence duty	5
46-50	VED	15
	Total	**65**

This annex sets out a number of tax changes which were announced.

Annex B: Tax changes announced before the Budget

This annex sets a number of tax changes which were announced before the before the Budget, the effects of which are taken into account in the forecasts.

Direct effect of measures announced since the November 1993 Budget

	£ million	yield(+)/cost(-)		
	Changes from a non-indexed base	Changes from an indexed base		
	1995-96	1995-96	1996-97	1997-98
Inland Revenue taxes				
B1 Indexation of capital losses - transitional relief	-10	-10	-5	*
B2 Ships - rollover relief	-10	-10	-20	-20
B3 Construction industry tax scheme	0	0	0	*
Customs and Excise taxes				
B4 Zero rate on converted dwellings	-20	-20	-20	-20
B5 Revised VAT education exemption	-15	-15	-15	-15
National insurance contributions				
B6 Anti-avoidance measures	50	50	50	50
Total	**-5**	**-5**	**-10**	**-5**

* = *Negligible*

Inland Revenue taxes

Transitional relief, up to a maximum of £10,000, is available to individuals and trusts for indexed capital losses realised between 30 November 1993 and 5 April 1995. The measure was announced in April 1994.

It was announced on 21 April 1994 that balancing charges arising on the disposal of certain ships may be rolled over for a period of up to three years from the date of disposal. The charges will be set against subsequent expenditure on the acquisition of such ships within the period.

The construction industry tax scheme will be modified following the move to self assessment. Only where sub-contractors are running genuine business operations will the contractor be exempt from the requirement to deduct tax from payments. The rate of deduction will be reduced; and deduction arrangements will be computerised. The changes will not take effect before the start of 1998-99.

Customs and Excise taxes

An extra statutory concession was granted with effect from 21 July 1994 which extended VAT zero-rating to new dwellings created by conversion of non-residential buildings, and enabled builders to reclaim as input tax the VAT charged on certain electrical items incorporated into new dwellings.

An extra statutory concession was granted with effect from 1 August 1994 to replace the previous VAT exemption for fee paying education, training and research with a new exemption to simplify the relief and clarify the tax borderlines.

National insurance contributions

From August 1994 employers have been liable to pay national insurance contributions on payments to their employees in the form of alcoholic liquors not subject to UK tax, or diamonds and other gemstones.

Direct effect of measures announced in the November 1993 Budget or earlier which do not take effect until after the November 1994 Budget

	£ million	yield(+)/cost(-)		
	Changes from a non-indexed base	Changes from an indexed base		
	1995-96	1995-96	1996-97	1997-98
Inland Revenue taxes				
B7 Married couple's allowance etc - restricted to 15%	740	810	1 040	1 090
B8 Mortgage interest relief - restricted to 15%	880	880	910	950
B9 Incapacity benefit - tax new recipients from April 1995	50	50	110	160
B10Self assessment	*	*	50	-250
Customs and Excise taxes				
B11 VAT on domestic fuel and power	1 020	1 020	1 525	1 540
B12Road fuel duties to be increased by 5% real	1 240	925	1 820	2 835
B13Tobacco duties to be increased by 3% real	375	240	455	685
Total	**4 305**	**3 925**	**5 910**	**7 010**

* = *Negligible*

Inland Revenue taxes

From 6 April 1995 tax relief for the married couple's allowance, and allowances linked to it, will be restricted to 15 per cent. The married couple's allowance for those aged under 65 and the allowances linked to it will be £1,720. The married couple's allowance for those aged 65-74 will be £2,995 and for those aged 75 and over £3,035. Tax relief on the first £1,720 of maintenance payments will also be restricted to 15 per cent.

From 6 April 1995 tax relief for mortgage interest payments will be restricted to 15 per cent. This will also reduce public spending on mortgage interest relief for borrowers who are non-taxpayers by £60 million a year. Relief will remain at 25 per cent for those aged 65 and over who take out loans to buy life annuities.

Sickness and invalidity benefit will be replaced by incapacity benefit from 13 April 1995. Incapacity benefit will be taxable for new recipients from that date. The element of the benefit which replaces sickness benefit will not be taxed.

As announced in the March 1993 Budget, the assessment and collection of personal tax will be reformed from 1996-97 with the introduction of self assessment. The main measures abolish the 'preceding year' basis of assessment for the self employed, and tax income as it arises from 1997-98, with a transitional year in 1996-97; align payment dates for assessed income tax from all sources and for capital gains tax; introduce separate assessment for partners; and introduce clear rules for filing tax returns, allowing taxpayers the option of calculating their own tax, and for the payment of tax, and clear sanctions for failing to comply with them. After 1997-98 the measures are expected to produce a yield.

The November 1993 FSBR stated that stamp duties on securities, and on transfers of property other than land and buildings, would continue beyond 1993-94. It remains the intention to abolish stamp duties on securities etc in the longer term, but it is assumed that they will continue for the time being, and probably for a time after the introduction of the new system of paperless share trading known as Crest. The revenue forecasts therefore assume continuation of these receipts.

Customs and Excise taxes

VAT will be charged on domestic fuel and power at the standard rate of 17.5 per cent from 1 April 1995, having been introduced at 8 per cent on 1 April 1994.

The Chancellor said in the November 1993 Budget that road fuel duties would be increased on average by at least 5 per cent in real terms in future Budgets.

The Chancellor said in the November 1993 Budget that tobacco duties would be increased on average by at least 3 per cent in real terms in future Budgets.

Annex C

Amendments to Budget announced 8 December 1994

Following the parliamentary decision subsequent to the Budget to leave the rate of VAT on fuel and power at 8 per cent, the Chancellor announced measures to ensure that the public sector borrowing requirement continues to fall on the course he set out in his Budget.

The Chancellor announced increases from 1 January 1995 in the rates of duty on alcohol, tobacco and road fuels. These increases will raise £780 million in 1995-96. Together with the savings on expenditure from cancelling that part of the compensation package no longer required to meet higher domestic fuel prices, they are sufficient to make good the shortfall next year resulting from holding VAT on fuel to 8 percent.

The tax measures

The Chancellor proposes:

- A 1 pence per litre increase in petrol and diesel.
- A 4 per cent increase in alcohol duties.
- A 4 per cent increase in tobacco duties.

The table below sets out the changes in duty and their effect on the price of each product.

EXCISE DUTY CHANGES	UNIT	Change in duty (Per cent)	Effect on price of typical item (pence)
Alcohol			
Beer	pint	3.6	1
Table wine	75 cl	4.2	5
Fortified wine	75 cl	4.2	7
Sparkling wine	75 cl	4.2	7
Cider	litre	4.2	1
Spirits	70 cl	4.0	26
Fuel			
Petrol			
Leaded	litre	2.5	1
Unleaded	litre	2.9	1
Diesel	litre	2.9	1
Tobacco			
Cigarettes	20 king size	3.7	6
Cigars	5 small	3.7	3
Hand rolling	25g	0.0	0
Pipe	25g	3.7	4

The economy: recent developments and prospects

The following notes and tables are taken from the *Financial Statement and Budget Report 1995-96* (HMSO November 1994) (price £15.50)

Summary

World economy

Growth in the seven major countries (G7) picked up in the second half of 1993 and has increased further this year. It is forecast to be $2\frac{3}{4}$ per cent both in 1994 and 1995. G7 consumer price inflation is expected to rise to 3 per cent.

Output

In the UK, GDP growth has been stronger than forecast in the summer. It is now forecast to be 4 per cent in 1994, slowing to $3\frac{1}{4}$ per cent in 1995 largely as a result of slower growth of North Sea output.

Inflation

Underlying RPI inflation has been a little lower than anticipated in the summer and was 2 per cent in October. It is forecast to rise to a temporary plateau of $2\frac{1}{2}$ per cent while prices adjust to higher commodity prices and profit margins increase in the buoyant manufacturing sector.

Labour market

Unemployment, as measured by the claimant count, has fallen by 455,000 since December 1992 to $2\frac{1}{2}$ million. The Labour Force Survey shows a similar rate of decline and suggests that rising employment accounts for most of the fall in unemployment.

Current account

The current account deficit was much lower in the first half of 1994 than was generally expected. It is forecast to fall from £$10\frac{1}{2}$ billion in 1993 to £4 billion in 1994 as a whole and to £$3\frac{1}{2}$ billion in 1995.

Financial conditions

The sterling index has been fairly steady this year. The forecast is based on the conventional assumption that sterling remains close to recent levels. Long-term interest rates have risen sharply this year, but have fallen back a little recently. Short-term rates were increased from $5\frac{1}{4}$ per cent to $5\frac{3}{4}$ per cent in September. M0 growth has continued above its monitoring range; M4 growth is in the lower half of its monitoring range.

Public finances

The PSBR in 1993-94 was £$45\frac{1}{2}$ billion. It is expected to fall to £$34\frac{1}{2}$ billion in the current financial year and to £$21\frac{1}{2}$ billion in 1995-96; £3 billion and £$8\frac{1}{2}$ billion respectively lower than in the last Budget (after allowing for classification changes).

[1] *GDP excluding oil and gas extraction*

Medium-term projections

For the purposes of medium-term fiscal projections, GDP growth from 1996-97 is assumed to average $2\frac{3}{4}$ per cent a year. Inflation as measured by the GDP deflator is assumed to fall from $3\frac{1}{4}$ per cent in 1995-96 to 2 per cent by the end of the decade.

The world economy

Activity

Output has continued to accelerate in the G7 as a whole. G7 GDP grew by 3 per cent at an annual rate in the first half of 1994, up from $1\frac{3}{4}$ per cent in the second half of 1993. Recovery is at last underway in mainland Europe. In the United States growth has moderated a little from its peak at the end of last year but the economy continues to expand rapidly. In Japan it is still not clear that recovery has taken a firm hold.

G7 growth is forecast to be $2\frac{3}{4}$ per cent in both 1994 and 1995, increasing to 3 per cent in the first half of 1996. After fast growth in the US and slow growth in Europe and Japan over the past year, growth rates within the G7 should converge in 1995. The US is forecast to grow in 1995 by around 3 per cent, down from nearly 4 per cent in 1994. Mainland Europe is expected to accelerate, with growth of 3 per cent in Germany and in Europe as a whole. In Japan sustained growth is expected to resume in the second half of 1994 and to average $2\frac{1}{2}$ per cent in 1995.

Table 1 The world economy

	Percentage changes on a year earlier			
		Forecast		
	1993	1994	1995	1996 H1
Major seven countries[1]				
Real GDP	$1\frac{1}{4}$	$2\frac{3}{4}$	$2\frac{3}{4}$	3
Domestic demand	1	$2\frac{3}{4}$	$2\frac{3}{4}$	$2\frac{3}{4}$
Industrial production	0	$3\frac{1}{2}$	$3\frac{3}{4}$	$3\frac{1}{4}$
Consumer price inflation[2]	$2\frac{3}{4}$	$2\frac{1}{2}$	$2\frac{3}{4}$	3
World trade in manufactures	3	$9\frac{1}{4}$	$8\frac{1}{4}$	$8\frac{1}{4}$
UK export markets[3]	0	8	$7\frac{1}{2}$	$7\frac{1}{2}$

[1] *G7: US, Japan, Germany, France, Italy, UK and Canada.*

[2] *Final quarter of each period. For UK, RPI excluding mortgage interest payments.*

[3] *Other countries' imports of manufactures weighted according to their importance in UK exports.*

World trade

World trade has picked up sharply in 1994, particularly in Europe. It is forecast to grow by over 9 per cent in 1994 - more than three times faster than in 1993 - and to continue growing rapidly in 1995 and the first half of 1996. UK export markets will probably grow a little more slowly because trade in Europe - our main export market - is projected to rise more slowly than trade between the Asian economies.

Commodity prices

Non-oil commodity prices have risen by around 40 per cent since their trough in mid-1993. This sharp increase reflects both rising demand and problems of supply for some commodities. But prices have flattened off in recent months and are expected to grow more moderately over the forecast period. The Brent oil price has risen from a low point of $\$13^1/_2$ a barrel at the beginning of 1994 and has been trading around $17 a barrel recently. It is assumed to remain around this level in the forecast period.

Interest rates

The US Federal Reserve has increased the Federal Funds rate by $2^1/_2$ percentage points since it began to tighten policy in February. The German discount rate has remained at $4^1/_2$ per cent since May. In Japan the Official Discount Rate has been unchanged at $1^3/_4$ per cent since September 1993. Long-term rates drifted up over the summer in all the major countries following the sharp rise earlier in the year.

Inflation

Although consumer price inflation looks to have stopped falling in the G7 as a whole, immediate inflationary pressures appear weak. In Germany inflation - now just below 3 per cent - is expected to fall further. In Japan consumer prices are stable. In the US inflation rose to 3 per cent in the early autumn but has subsequently fallen back. However, with higher commodity prices and higher output, G7 inflation is forecast to increase a little, reaching $2^3/_4$ per cent by the end of 1995 and 3 per cent in the first half of 1996.

Demand and output

Recent developments

In the UK output has risen more than expected in the summer. Growth in the second and third quarters of 1994 was stronger than forecast and growth in earlier quarters has been revised up. In the year to the third quarter GDP is currently estimated to have increased by 4.2 per cent; for non-North Sea GDP[1] the increase was 3.7 per cent.

GDP is now 7 per cent above its trough in the first quarter of 1992 and $3^1/_4$ per cent above its previous peak in the second quarter of 1990. Excluding oil and gas extraction, which has risen by over 50 per cent since 1990, GDP is $6^1/_4$ per cent above the trough and $2^1/_4$ per cent above its previous peak. Output has risen in all the main sectors of the economy: by $6^3/_4$ per cent in manufacturing and 4 per cent in construction, though ouput is still below its previous peak in both these sectors. Service sector output, which accounts for 60 per cent of the total and fell less than output in other sectors in the recession, has risen $6^3/_4$ per cent since its trough and is now well above its previous peak.

Over the past year the basis of the recovery has shifted away from consumer demand towards exports. In the early stages of recovery most of the growth in GDP came from consumer spending. Stocks and exports also contributed, but the contribution of exports was more than offset by rising imports. Arithmetically, therefore, net trade made a negative contribution. But more recently the growth of consumers' expenditure has slowed, exports have accelerated and imports decelerated. Net trade accounts for about half the growth in 1994 so far.

Non-North Sea GDP has been growing faster than trend since the middle of 1993. The current size of the output gap - the difference between actual and trend levels of GDP - cannot be estimated with any certainty, but there is almost certainly still a sizeable gap. In other words there is still spare capacity in the economy as a whole. This should allow the economy to continue growing faster than trend without significant upward pressure on prices.

Capacity utilisation

The only direct measures of capacity utilisation are based on surveys and relate to particular sectors. The CBI survey, which reflects utilisation of both labour and capital, shows capacity utilisation in manufacturing back to normal levels. Outside manufacturing, the British Chambers of Commerce and Building Employers' Confederation surveys show increases in capacity utilisation in services and construction respectively, but to levels well below those seen in the late 1980s.

However, there are grounds for thinking that currently reported levels of utilisation represent less of a constraint on expansion and hence less of an inflationary threat than in the past. Under pressure to cut costs, companies have probably been exploiting opportunities to use their existing capacity more efficiently. There have been strong incentives to reduce the time plant and machinery spends idle and to remove bottlenecks. On the employment side, labour market reforms have discouraged labour hoarding. In these circumstances the key question is how quickly capacity can be expanded and at what price. For new plant and machinery lead times on installation have probably shortened. Moreover there is a large pool of available labour: unemployment remains high despite its rapid fall since the end of 1992. Nor is there much evidence of shortages of skilled labour.

Prospects

The pace of GDP growth is likely to slow a little from now on, while remaining above its trend rate. This largely reflects much slower growth of North Sea output following the very large increases of the past couple of years. But it also reflects a marginal slowing in non-North Sea growth, mainly accounted for by slower growth of public expenditure in volume terms and little further contribution from stockbuilding.

GDP is forecast to increase by 4 per cent in 1994, and by $3^1/_4$ per cent in 1995 - stronger than the Summer Economic Forecast of $2^3/_4$ per cent in each year. Excluding North Sea output, GDP is projected to rise by $3^1/_2$ per cent in 1994 and by $3^1/_4$ per cent in 1995. These growth rates are above estimates of trend growth, implying a further narrowing of the output gap.

The personal sector

Consumer spending

The growth of consumers' expenditure has weakened this year, with quarterly growth rates of 1 per cent in the second half of 1993 giving way to increases of around $^1/_2$ per cent in the first three quarters of 1994. In part this reflects greater caution on the part of consumers towards major purchases. Spending on cars has slowed, and weakness in the housing market has held back expenditure on other durable goods. Elsewhere there is much less evidence of any

[1] *Employees plus self-employed (GB)*

significant weakening since the tax rises in April, and the trend in retail sales remains buoyant. Consumers' expenditure as a whole is expected to rise by $2^1/_2$ per cent in 1994.

Saving

As expected the saving ratio has fallen. It is estimated to have averaged 10 per cent in the first three quarters of this year, down from $12^1/_4$ per cent last year. Three related factors probably account for this fall:

- lower interest rates, lower inflation and economic recovery have encouraged spending;
- the personal sector has significantly improved its financial position by running substantial financial surpluses, which have more than offset the deficits of the late 1980s;
- consumers are to some extent offsetting the effect of higher taxes on spending by reducing their saving.

Prospects

In 1995 as a whole consumption may increase by $2^1/_2$ per cent, the same as in 1994. This is faster than the growth of real personal disposable income which is forecast to rise by $1^1/_2$ per cent. Thus the saving ratio is expected to fall again, though by less than in 1994 when real personal disposable income seems likely to be unchanged on 1993.

The housing market

Housing market turnover increased strongly in 1993 but has fallen back this year. House prices have moved erratically with no pronounced trend up or down. In October they were at much the same level as a year earlier. This lacklustre performance looks surprising in the face of low mortgage rates, low house prices in relation to incomes, and the continued recovery in the financial position of the personal sector. It may be the consequence of persistent negative equity and significant, though diminishing, repossessions - both unknown before the last few years. The two percentage point increase in the cost of fixed rate mortgages, the result of the rise in bond rates, may also have kept some purchasers out of the market. (Fixed rate mortgages have accounted for the greater part of new mortgage lending this year.) Finally the housing market may also still be adjusting to the changes in mortgage interest relief announced in the last two Budgets.

On balance the housing market indicators point to renewed recovery. Housing remains very affordable, with house prices and mortgage interest payments both low in relation to incomes. Continued economic growth which increases the personal sector's resources and reduces uncertainty about the future, should lead to modest increases in both turnover and house prices next year.

A prominent feature of the recession was the move by the personal sector from deficit into substantial financial surplus, as saving was increased and investment cut. The surplus fell slightly in 1993, but it remained at a historically high level. It is forecast to fall sharply in 1994 mainly because of lower saving. Further, smaller, declines are forecast for 1995 and 1996, but the personal sector is expected to remain in comfortable surplus.

The corporate sector and investment

Industrial and commercial companies (ICCs) have transformed financial deficits of the order of 4 per cent of GDP in 1989 and 1990 into a record surplus in the first half of 1994. Strong profits growth, sharp reductions in interest and tax payments, and lower capital expenditure have all contributed to this dramatic turnaround. At the same time companies have been restructuring their balance sheets by issuing equity and repaying bank borrowing. The key issue for the forecast is whether balance sheet adjustment has largely been completed. One view is that most companies still have a long way to go in repairing damage to their balance sheets because recent financial surpluses fall well short of making good the large deficits run between 1988 and 1992. On this view companies will remain reluctant to invest and will continue to run relatively large surpluses.

An alternative view, on which the forecast is based, is that companies have largely completed the adjustment. Since early 1991 ICCs have repaid over £19 billion of bank borrowing and the market has absorbed large-scale capital issues. Debt as a proportion of total financial liabilities has fallen sharply, and financial assets, particularly liquid assets, have been built up. Overall the market value of ICCs, as measured by their net financial liabilities (including equity), was almost 50 per cent higher in mid-1994 than at the end of 1990. All this suggests that companies in aggregate are now in reasonable financial shape and have little need to forgo profitable investment opportunities for the sake of sustaining substantial financial surpluses.

Profits

ICC's profits rose by $13^1/_2$ per cent in 1993, having been virtually static throughout the recession. In the first three quarters of 1994 they showed a further gain of over 16 per cent on a year earlier. This reflects continued tight control over unit costs, rising output and expansion of margins, particularly for exports. Higher profits have fed through to company saving (retained income), which rose by over a third in 1993 and has continued to grow at a similar rate in 1994.

Profitability, as measured by the real rate of return on capital, is likely to show another healthy rise in 1994. Some further increase is forecast for 1995. But with output growth slowing and only modest further rebuilding of margins, profits growth is unlikely to be sustained at recent rates. Moreover dividends and, particularly, tax payments are forecast to rise relatively quickly in response to the earlier strong growth of profits. Company saving could, therefore, be fairly flat in 1995.

Business investment

Business investment in the third quarter of 1994 is estimated to have been $1^1/_4$ per cent higher than a year earlier. With profitability up, and demand and capacity utilisation continuing to rise, the need to install extra capacity is likely to become an increasingly important motive for investment. Companies should typically be well placed to finance investment internally, having moved into substantial financial surplus and largely restructured their balance sheets. So the climate for investment is much improved. Moreover there is little sign that the rise in long-term interest rates earlier this year will prevent a significant rebound in capital spending. The first indications of a marked step up in investment intentions have recently been emerging from business surveys.

In 1994 business investment is expected to increase only modestly, by 2 per cent. However, it is forecast to grow by nearly 11 per cent in 1995. At some point during economic upswings it is usual to see a surge in business investment: in the early 1980s this started in 1984, three years into recovery, about the same stage as 1995 in the present upturn.

Government investment

General government investment in fixed assets rose by 5¾ per cent in 1993 and is projected to rise by 4½ per cent in 1994, boosted in both years by the temporary relaxation of the rules governing spending out of local authority capital receipts announced in the 1992 Autumn Statement. As this temporary measure unwinds, local authority investment will return to more normal levels. Central government investment is also forecast to level off in 1995, following strong growth in recent years. Consequently general government investment is expected to fall back in 1995 and the first half of 1996, while remaining well above the levels seen in the 1980s.

Whole economy investment

Fixed investment in the economy as a whole is forecast to grow by 3¾ per cent in 1994 and by 5¾ per cent in 1995. Stronger business investment is partly offset by weaker growth in housing investment and the fall in general government investment.

Table 2 Gross domestic fixed capital formation at constant prices

	Percentage changes on a year earlier			
		Forecast		
	1993	1994	1995	1996 H1
Business[1]	-2½	2	10¾	9
Private dwellings and land[2]	4½	8¼	¾	8¼
General government[3]	5¾	4½	-4½	-4½
Whole economy	¼	3¾	5¾	6¾

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 hospitals*

Stockbuilding

In 1993 the level of stocks in total was virtually unchanged, though manufacturers destocked for most of the year. So far in 1994 companies have been rebuilding stocks, and stockbuilding is forecast to contribute ½ percentage point to GDP growth in the year as a whole. Stockbuilding is forecast to continue at around recent rates, making virtually no contribution to GDP growth in 1995.

Companies' financial balance

Rising capital spending against a background of slower profits growth and higher tax payments implies a declining financial balance. ICCs' financial surplus is forecast to fall from 2¼ per cent of GDP in 1994 to 1 per cent 1995.

The labour market

Employment

Interpreting developments in the labour market is made difficult by discrepancies in estimates of employment[1] between the Labour Force Survey (LFS) and the employer-based survey, especially for men. According to the LFS, which is a survey of households, the trough in employment occurred in winter 1992-93, and by summer 1994 employment had risen by 334,000, with the increase split fairly evenly between men and women. But according to the employer-based survey employment has increased by only 44,000 since its trough in March 1993, with male employment having fallen.

Some discrepancy is not surprising as the two series are not attempting to measure exactly the same thing. For example, the LFS counts people in employment while the employer-based survey counts jobs. Nevertheless over the past year they cannot be readily reconciled by adjusting for known coverage differences. Of the two measures, the LFS seems more consistent with what has been happening to unemployment and output. If employment had not been increasing, the fall in unemployment would imply a large decline in labour market participation, which would not be easy to explain. At the present stage of the cycle participation normally increases.

Productivity

Uncertainty about what has been happening recently to employment carries over to the published data for productivity, and hence unit wage costs. These are currently calculated using the employer-based, not LFS, estimates of employment. Recorded non-North Sea productivity growth has yet to show any sustained slowdown, contrary to what might have been expected two and a half years into recovery. Indeed it rose by 3½ per cent in the year to the second quarter of 1994, somewhat faster than the 3 per cent recorded in 1993. This could reflect the acceleration of output in the first half of 1994, though if employment is under-recorded recent productivity growth is overstated by the published figures. But the 6 per cent rise in manufacturing productivity in the year to the third quarter is probably reasonably accurate, because the data problems lie largely outside the manufacturing sector.

Productivity growth in both the manufacturing sector and the non-North Sea economy as a whole is forecast to revert towards trend rates in 1995. This is usual once recoveries become more mature, and consistent with companies operating at a satisfactorily high level of labour utilisation.

Unemployment

Unemployment has continued to fall at a fairly rapid rate. Again there are two alternative measures, but they both tell much the same story. The LFS measure (on the internationally agreed definition) shows a fall of 273,000 in unemployment in Great Britain from its peak in winter 1992-93 to summer 1994. Over the same period the GB claimant count fell 334,000. The main differences in coverage between these measures are that LFS unemployment includes non-claimants who are looking for work, and the claimant count includes a similar number of people who are not classified as unemployed in the LFS. The latest LFS figures show a slower rate of decline since the spring than the claimant count, which is consistent with rising participation. This is the normal pattern as economies continue to expand, with more people being encouraged to seek work.

Total claimant unemployment in the UK was 2.52 million in October 1994, 455,000 down on its peak at the end of 1992. Over the past six months it has fallen by 27,000 a month on average, rather faster than the average monthly decline of 21,000 a month since the peak.

1 *All references to producer prices exclude the food, beverages tobacco and petroleum industries.*

Looking ahead, improving job prospects, demographic factors and the new Incapacity Benefit medical test are likely to increase the number of people participating in the labour market. This means that unemployment is likely to fall less than employment rises.

Trade and the balance of payments

The current account deficit has declined sharply this year. In the second quarter it was £0.7 billion, the lowest figure since 1987. Much of this improvement arose from a stronger invisible surplus, with net investment income at its highest ever level. The visible deficit also fell, largely the consequence of higher oil output. But more recently the non-oil balance has shown a noticeable improvement too. In the three months to August the non-oil deficit was £3.1 billion compared with £3.6 billion a year earlier.

Competitiveness

The recent improvement in the performance of non-oil visible trade is in part the result of better competitiveness:

- The improvement in cost competitiveness following sterling's withdrawal from the ERM has been largely maintained. Cost competitiveness is currently estimated to be more than 10 per cent better than in the second quarter of 1992. Changes in unit labour costs in the UK are projected to be much the same as overseas, implying that, if the exchange rate stays close to recent levels as assumed, the current level of competitiveness will be broadly maintained.
- Taken at face value the published figures suggest that export price competitiveness is worse than before sterling left the ERM. However, it seems likely that there is a discontinuity in the export price series at the beginning of 1993 when the Intrastat system for recording European Union trade was introduced. Making some allowance for this, export price competitiveness is probably close to its pre-ERM exit level.

The differences between cost and price competitiveness result mainly from the rebuilding of profit margins by UK exporters. These were squeezed sharply during sterling's membership of the ERM, when firms held export prices down in the face of rising costs. Margins regained their pre-ERM levels by the third quarter of this year, although the discontinuity in export prices means that published figures probably exaggerate the increase. Higher margins encourage firms to supply the export market, and this appears to be more than offsetting any reduction in demand for UK exports because of higher prices. Recent figures for manufacturing export volumes and survey indicators of the state of firms' order books do not suggest any fall off in overseas demand for UK goods - quite the reverse. The export orders balance in the November CBI survey was at its highest level since March 1988. While margins are not expected to grow any further, the favourable prospects for unit labour cost growth in the UK mean that the incentive to export should remain strong, notwithstanding increases in other costs.

Exports

Exports of non-oil goods increased by $10^1/_2$ per cent in volume terms in the three months to August compared with a year earlier. This strong growth was well spread across categories. Non-oil exports to other European Union countries rose by 14 per cent, comfortably in excess of market growth. UK exports to other countries rose by $5^1/_2$ per cent in the three months to October compared with a year earlier. Exports overall appear to have increased faster than UK export markets. This gain in share is consistent with a positive effect from improved cost competitiveness and higher margins.

The prospects remain good. UK export market growth, forecast to be 8 per cent in 1994, is expected to be around $7^1/_2$ per cent in 1995, as stronger growth in Europe largely replaces weaker demand growth from North America. Exports of manufactures are expected to rise by $9^1/_2$ per cent in 1994, and they more than maintain their improved market share in 1995, increasing by 8 per cent. Non-oil exports in total are expected to grow at a similar rate.

Imports

Non-oil import volumes have been subdued this year. They were lower in the three months to August than in the first quarter, even though demand increased. Compared with a year earlier they have risen by $5^1/_2$ per cent . Non-oil imports are expected to be $5^1/_4$ per cent higher in 1994 than in 1993. This is a modest increase in relation to the anticipated demand growth of 4 per cent - normally imports have grown 3 to 4 per cent faster than demand, the consequence of continuing specialisation of world production. This improved import performance is probably the result of better competitiveness in the UK. It is expected to continue, with import growth of 6 per cent in 1995, around $2^1/_2$ percentage points faster than demand.

Trade prices

Export prices have risen sharply since sterling left the ERM as margins have been rebuilt, although as already noted the published figures may overstate the increase. Even so, recorded export prices have not increased as much as import prices. Thus the non-oil terms of trade are 2 per cent below pre-ERM exit levels, with import prices up $15^1/_4$ per cent and export prices up 13 per cent. While the rise in export prices is largely accounted for by higher margins, the rise in import prices is more than accounted for by the impact of the lower exchange rate and the growth of world prices. Non-oil import prices are expected to rise by around $2^1/_4$ per cent in 1995, a little less than in 1994 partly because of slower growth in commodity prices. Export prices are forecast to rise by around 3 per cent in 1995, much the same as domestic producer output prices but a little faster than competing world prices.

Table 3 Non-oil visible trade

	Percentage changes on a year earlier					£ billion
	Volumes		Prices[1]			
	Exports	Imports	Exports	Imports	Terms of trade[2]	Non-oil visible balance
1993	$2^1/_4$	$3^1/_2$	$10^1/_4$	$8^1/_4$	2	$-15^1/_2$
Forcast						
1994	$9^1/_2$	$5^1/_4$	$1^1/_2$	$2^3/_4$	$-1^1/_4$	$-13^1/_2$
1995	$7^3/_4$	6	3	$2^1/_4$	$^3/_4$	$-11^1/_2$
1996 H1	7	$6^1/_2$	$1^3/_4$	$1^3/_4$	00.	-12

[1] *Average value indices*

[2] *Ratio of export to import prices*

The North Sea

North Sea output in the third quarter of 1994 was nearly half as high again as at the start of 1993. In 1994 as a whole it is expected to be 27 per cent higher than in 1993. But growth of less then 2 per cent is forecast for 1995 because most of the major new developments are now on stream. The increase in ouput has benefited the current account. Despite a fall of about 9 per cent in the sterling oil price, the oil balance is expected almost to double between 1993 and 1994, rising from £2½ billion to £4½ billion. A small further increase is expected in 1995.

Invisibles

The surplus on invisibles increased sharply in the first half of 1994 to £3½ billion, £1 billion more than in the second half of 1993. This was more than accounted for by higher investment income (the earnings on the UK's net holdings of overseas assets) which rose to over £4 billion, the highest figure ever recorded. Although figures for investment income are notoriously erratic and prone to revision, outturns over the past couple of years suggest it should continue to make a significant contribution to the surplus on invisibles.

Despite a weak outturn in the second quarter of 1994, the prospects for the balance of services are also favourable. It should benefit from improved competitiveness and the recovery in world activity. The overall surplus on invisibles is expected to fall back to around £3½ billion in 1995 from £5 billion in 1994, with the turnaround more than accounted for by erratic movements of investment income.

Table 4 The current account

	£ billion					
	Manufactures	Oil	Other	Total visibles	Invisibles	Current balance
1993	-8	2½	-7½	-13	3	-10½
Forecast						
1994	-6½	4½	-7	-9	5	-4
1995	-5½	5	-6	-6½	3½	-3½
1996 H1[1]	-6	5	-6	-7	3½	-3½

[1] *At an annual rate*

Current account

The current account deficit is expected to more than halve from £10½ billion in 1993 to £4 billion in 1994. It is forecast to fall a little further in 1995 to £3½ billion. The improvement in 1994 is largely the result of a fall in the visible deficit. A further fall in the visible deficit more than accounts for the projected fall in the current account deficit in 1995.

Pattern of financial balances

With the financial surpluses of both the personal and ICC sectors projected to decline, the financial surplus of the private sector as a whole is forecast to fall to 3¾ per cent of GDP in 1995 and 2 per cent of GDP in the first half of 1996. This compares with surpluses of around 6 per cent in both 1993 and 1994. The main counterpart is a lower public sector deficit, consistent with the substantial fall in the PSBR. The current account deficit is expected to fall from around 1¾ per cent of GDP in 1993 to about ½ per cent in 1994 and to remain at that level in 1995 and the first half of 1996.

Financial developments

Exchange rates

Sterling has remained stable against a basket of currencies this year, although it has appreciated against the dollar and depreciated against the main European currencies and the Yen. For the most part the sterling index has been in the range of 79 to 81, averaging a little over 80 in recent weeks.

Interest rates

Base rates were reduced by ¼ percentage point to 5¼ per cent in February. In September, as the strength of the recovery became evident, and to ensure that no risks were taken with inflation, base rates were raised by ½ percentage point to 5¾ per cent. Other short-term rates have followed a similar pattern: variable mortgage rates are back at the same level as a year ago, having been ¼ percentage point or so lower in the first half of 1994; deposit rates have moved similarly.

Long rates rose steadily in the first half of the year. This was to a large extent prompted by developments abroad, especially in the US, which led to a rise in bond rates world wide. UK rates initially rose by more than other G7 countries' rates, but they have been declining recently and the differential with other G7 rates has narrowed. Yields on ten-year gilts, which peaked at 9¼ per cent in mid-September, are now 8¾ per cent. The future rates of inflation implicit in gilt yields remain well above most forecasts of inflation. Although the rise in long rates may have contributed to the renewed weakness in the housing market, there is no evidence that it has been a significant drag on recovery in other sectors.

Asset prices

House prices have moved erratically over the past couple of years. They are currently around the same level as a year ago. The commercial property market is in the early stages of recovery, though rents and capital values remain very depressed. Equity prices rose sharply in 1993 and in early 1994 before falling back with the decline in world bond markets. Since the spring they have fluctuated with no apparent trend. In late November they were about 15 per cent below their peak in February and little changed from a year ago. The dividend yield is about 4 per cent.

Monetary aggregates

The 12-month growth rate of M0 was 7.3 per cent in October. It has been above its 0 to 4 per cent medium-term monitoring range since the start of 1993. A period of rapid M0 growth is normal when interest rates are reduced as the public adjusts its cash holdings to reflect their lower cost in terms of interest forgone. M4's 12-month growth rate was 3.8 per cent in October. So far this year it has remained in the range 3¾ to 5½ per cent, below the middle of its medium-term monitoring range of 3 to 9 per cent.

Credit

The growth of M4 lending - bank and building society lending to the UK private sector - has continued to be weak. In October its 12-month growth rate was 3.8 per cent - the highest figure for the year to date. Lending secured on residential property has been growing more rapidly - its 12-month rate has been over 6 per cent.

But industrial and commercial companies, as they have moved from financial deficit to surplus and taken opportunities to exploit cheaper forms of finance, have continued to repay bank debt.

Inflation

The economy now appears to be running with less spare capacity than previously expected, particularly in the manufacturing sector, implying less disinflationary pressure. Yet underlying inflation, as measured by the RPI excluding mortgage interest payments (MIPs), has continued to fall by more than forecast, recently reaching a 27-year low of 2 per cent.

Taken together, these factors suggest little overall change in the balance of inflationary pressures, compared to the assessment made in the Summer Economic Forecast. While there may be a small pick-up next year, inflation is expected to remain low by historical standards. Despite increasing capacity utilisation, there is still scope for output to expand without posing a serious inflationary threat.

However, in the shorter term the buoyancy of the manufacturing sector is likely to afford opportunities for manufacturers to rebuild margins further. In addition, there is upward pressure on costs from higher commodity prices. Producer output price[1] inflation has already started to show signs of picking up. As these effects feed through, underlying RPI inflation is expected to rise temporarily from its current very low level. But the rise is expected to be limited by the intensity of competition in the retail sector.

Earnings

Underlying average earnings growth picked up from its low of 3 per cent in autumn 1993 to $3\frac{3}{4}$ per cent in January this year. Since then it has remained remarkably flat, only occasionally rising to 4 per cent in months when earnings were temporarily boosted by high bonus and overtime payments. Moreover settlements generally are still very low, although they have been edging up over the past year. Latest data from the CBI show settlements in the third quarter of 2.9 per cent in manufacturing and 3.4 per cent in services, both about $\frac{3}{4}$ percentage points up on the fourth quarter of 1993. No doubt rising demand, good productivity performance and increased profits have relieved some of the pressure on companies to contain earnings, while allowing them to keep unit labour costs under tight control.

Costs and producer prices

Unit wage costs in the non-North Sea economy are estimated to have risen by only $\frac{3}{4}$ per cent in 1993, and to have barely changed at all in the year to the second quarter of 1994. These figures may be somewhat flattering if the employer-based estimates of employment (to which they are linked) have been under-recording job creation over the past year to the extent suggested by the LFS. Nevertheless, unit wage cost performance has undoubtedly been impressive.

This is particularly true in the manufacturing sector, where the data are more reliable. Manufacturing unit wage costs have been falling: in the third quarter of 1994 they were 1.4 per cent lower than a year earlier. They also seem likely to be lower in 1994 as a whole, following a small rise in 1993. This probably explains why producer output price inflation continued to fall through to the summer, when it reached 2 per cent. But with a sharp increase in input prices, up 7.1 per cent in the year to October, and with manufacturers seeking to increase domestic margins, output prices have already picked up in recent months. The annualised three-month rate of producer output price inflation in October was $3\frac{1}{2}$ per cent, up sharply from its low point of 1 per cent in April.

Looking ahead, unit labour cost growth is likely to pick up a little as productivity growth slows down and earnings growth increases. Moreover manufacturers are expected to take advantage of bouyant markets to push through further increases in domestic margins. Some may also be looking to pass on higher imported input and other raw material costs, despite offsetting effects from unit labour costs. Price expectations as measured by the CBI survey certainly point to further upward movement in output prices in the months ahead is forecast to rise months ahead. As a result, producer output price inflation is forecast to rise temporarily to $3\frac{1}{4}$ per cent by mid-1995. It is expected to fall back to $2\frac{1}{4}$ per cent by mid-1996, as upward pressure on margins eases and import cost inflation recedes.

Table 5 Retail and producer output price inflation

Percentage changes on a year earlier

	Forecast				
	1993 Q4	1994 Q4	1995 Q2	1995 Q4	1996 Q2
RPI excluding MIPs	$2\frac{3}{4}$	2	$2\frac{1}{4}$	$2\frac{1}{2}$	$2\frac{1}{2}$
Producer output prices[1]	3	$2\frac{1}{2}$	$3\frac{1}{4}$	$2\frac{3}{4}$	$2\frac{1}{4}$

1 *Excluding the food, beverages, tobacco and petroleum industries*

Retail prices

Underlying RPI inflation was 2 per cent in October, and is now expected to average 2 per cent in the fourth quarter of 1994. This is $\frac{1}{2}$ percentage point below the Summer Economic Forecast, and $1\frac{1}{4}$ points below last November's Budget forecast. It is forecast to rise to $2\frac{1}{2}$ per cent by the end of 1995, mainly as a result of higher producer output price inflation. The forecast rise in underlying RPI inflation is, however, much less pronounced than for producer output price inflation, because competition in retailing is expected to remain tougher than in the more buoyant manufacturing sector.

The recent increase in interest rates and the further reduction in mortgage interest relief in April 1995 will tend to keep all-items RPI inflation above the underlying rate. But the outlook for the all-items rate will also depend on what happens to interest rates from now on. Other things being equal, each 1 percentage point change in mortgage rates changes the level of the all-items RPI by just over $\frac{1}{2}$ per cent.

GDP deflator

Prospects for the GDP deflator differ from those for retail prices primarily because of its wider coverage. It is forecast to rise by 2 per cent in 1994-95, 2 percentage points less than in the last Budget forecast. Most of this downward revision reflects the outturns for the first two quarters of the financial year which show domestic prices, particularly for investment, growing more slowly and the terms of trade slightly less favourable than previously forecast. In 1995-96 the GDP deflator is forecast to increase by $3\frac{1}{4}$ per cent. This acceleration is expected to be temporary and mainly reflects a rebound in investment prices from extremely low levels and the projected rise in the terms of trade.

Risks and uncertainties

All forecasts are subject to risks and uncertainties. Average errors from past forecasts, shown in Table 8, are one illustration of their possible extent. The errors increase the further ahead the forecast looks. Obviously errors on any individual forecast may be larger than the average.

The forecast of GDP growth in 1994 has been revised up by 1¼ per cent since the Summer Economic Forecast and by 1½ per cent since the last Budget. The inflation forecast has been revised down, by ½ per cent since the Summer Economic Forecast, and by 1¼ per cent since the last Budget. The forecast of the current account deficit in 1994 was the same in the Summer Economic Forecast as in last November's Budget, but has now been revised down significantly. The forecast of the PSBR in 1994-95 has been progressively revised down but only by £3½ billion in total since the last Budget.

Table 6 Recent Treasury forecasts

	Percentage changes on a year earlier unless otherwise stated		
	1993 November Budget	1994 Summer Economic Forecast	1994 Budget
Gross domestic product (1994)	2½	2¾	4
RPI excluding mortgage interest payments (1994 Q4)	3¼	2½	2
Current account (1994, £ billion)	-9½	-9½	-4
PSBR (1994-95, £ billion)	38	36	34½

The Panel of Independent Forecasters

A further indication of the forecast uncertainties can be obtained from the range of views of members of the Panel of Independent Forecasters. For example, the Panel's forecasts of growth in 1995 range from 2½ per cent to 3¾ per cent and its forecasts of inflation at the end of 1995 range from 2 per cent to 4 per cent. The Treasury forecast of growth in 1995 is a little above the Panel average, though the Panel's forecasts were completed before the latest upward revisions to GDP data. The Treasury forecasts of inflation and the current account deficit are slightly lower than the average of the Panel's forecasts.

Table 7 Treasury and Independent Panel[1] forecasts

	Percentage changes on a year earlier unless otherwise stated					
	1994			1995		
	Treasury	Independent Panel		Treasury	Independent Panel	
		Average	Range		Average	Range
Gross domestic product	4	3½	3½ to 3½	3¼	3	2½ to 3¾
RPI excluding mortgage interest payments (fourth quarter)	2	2¼	2 to 2¼	2½	3	2 to 4
Current account (£ billion)	-4	-5	-6½ to -3½	-3½	-5	-12 to 2
PSBR (financial year, £ billion)	34½	34	29¾ to 36½	21½	25	17 to 32

1 *Submitted to the Chancellor of the Exchequer on 2 November*

Table 8 Summary of economic prospects[1]

	Percentage changes on a year earlier unless otherwise stated			
		Forecast		Average errors from past forecasts[2]
	1993	1994	1995	
GDP and domestic demand at constant prices				
Domestic demand	2¼	3	2¾	1½
Consumers' expenditure	2½	2½	2½	1¼
General government consumption	1	1¼	¼	1
Fixed investment	¼	3¾	5¾	4
Change in stockbuilding[3]	¼	½	0	½
Exports of goods and services	3	8¼	7	2¼
Imports of goods and services	2¾	4¾	5¼	3½
Gross domestic product	2	4	3¼	1½
Non-North Sea GDP	1¾	3½	3¼	1¼
Manufacturing output	1¼	4¼	4¼	1¾
Balance of payments current account				
£ billion	-10½	-4	-3½	7
per cent of GDP	-1¾	-½	-½	1
Inflation				
RPI excluding mortgage interest payments (fourth quarter)	2¾	2	2½	1
Producer output prices (fourth quarter)[4]	3	2½	2¾	1
GDP deflator at market prices (financial year)	3	2	3¼	1¼
Money GDP at market prices (financial year)				
£ billion	639	678	720	
percentage change	5¾	6	6¼	2
PSBR (financial year)				
£ billion	45½	34½	21½	10½
per cent of GDP	7	5	3	1½

1 *Data in this chapter are consistent with the output, income and expenditure estimates and other series for the period to the third quarter of 1994 released by the CSO on 18 November 1994. The CSO did not publish full national accounts estimates until 22 December 1994, but revisions to available data have been carried through by the Treasury to further series, such as personal saving and sectoral financial balances.*

2 *Average absolute error in autumn forecasts over past ten years: they apply to forecasts for 1995 unless otherwise indicated.*

3 *Per cent of GDP*

4 *Excluding food, beverages, tobacco and petroleum industries*

Table 9 **Gross domestic product and its components**

		Consumers' expenditure	General government consumption	Total fixed investment	Stock building	Domestic demand services	Exports of goods and	Total final expenditure goods and	Less imports of to factor	Less adjustment	Plus statistical discrepancy[1]	GDP at factor cost
		£ billion at 1990 prices, seasonally adjusted										
1993		348.8	116.9	96.6	-0.2	562.1	140.6	702.6	153.3	72.5	-0.7	476.2
1994		357.5	118.5	100.2	2.2	578.3	152.2	730.5	160.4	74.8	-0.6	494.7
1995		366.8	118.8	106.0	2.4	593.9	162.7	756.7	168.9	77.0	-0.5	510.3
1993	1st half	172.8	58.2	48.0	0	278.9	69.2	348.2	75.6	36.1	-0.2	236.2
	2nd half	175.9	58.7	48.6	-0.1	283.2	71.3	354.5	77.7	36.4	-0.4	240.0
1994	1st half	177.8	59.1	50.0	0.6	287.5	74.9	362.4	80.0	37.2	-0.3	244.9
	2nd half	179.7	59.4	50.2	1.5	290.8	77.4	368.1	80.4	37.6	-0.3	249.8
1995	1st half	182.0	59.4	52.2	1.4	295.0	80.1	375.2	83.3	38.2	-0.3	256.9
	2nd half	184.8	59.3	53.8	1.0	298.9	82.6	381.5	85.6	38.8	-0.3	260.8
1996	1st half	188.0	59.2	55.7	0.7	303.6	85.1	388.7	88.1	39.5	-0.3	260.8
		Percentage changes on a year earlier[2]										
1993		$2\frac{1}{2}$	1	$\frac{1}{4}$	$\frac{1}{4}$	$2\frac{1}{4}$	3	$2\frac{1}{4}$	$2\frac{3}{4}$	$2\frac{1}{4}$	$-\frac{1}{4}$	2
1994		$2\frac{1}{2}$	$1\frac{1}{4}$	$3\frac{3}{4}$	$\frac{1}{2}$	3	$8\frac{1}{4}$	4	4	3	0	4
1995		$2\frac{1}{2}$	$\frac{1}{4}$	$5\frac{3}{4}$	0	$2\frac{1}{4}$	7	$3\frac{1}{2}$	$5\frac{1}{4}$	$2\frac{3}{4}$	0	$3\frac{1}{4}$
1996	1st half	$3\frac{1}{4}$	$-\frac{1}{4}$	$6\frac{3}{4}$	$-\frac{1}{4}$	3	$6\frac{1}{4}$	$3\frac{1}{2}$	$5\frac{1}{4}$	$3\frac{1}{2}$	0	3

[1] *Expenditure adjustment*

[2] *For stockbuilding and the statistical discrepancy, changes are expressed as a percent of GDP*