Central Statistical Office

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Economic Trends

No 507
January 1996

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Production Co-ordinator: PHIL LEWIN

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Contents

Introduction

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

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

An article on international economic indicators appears monthly and an article on regional economic indicators appears every March, June, September and December. Occasional articles comment on and analyse economic statistics and introduce new series, new analyses and new methodology.

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

The main section is based on information available to the CSO on the date printed in note 1 below and shows the movements of the key economic indicators. The indicators appear in tabular form on left hand pages with corresponding charts on facing right hand pages. Colour has been used to aid interpretation in some of the charts, for example by creating a background grid on those charts drawn to a logarithmic scale. Index numbers in some tables and charts are given on a common base year for convenience of comparison.

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

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

Notes on the tables

1. All data in the tables and accompanying charts is current, as far as possible, to 17 January 1996.

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

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

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

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

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

7. 'Billion' denotes one thousand million.

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

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

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

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

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

9. Symbols used:
.. not available
- nil or less than half the final digit shown
+ alongside a heading indicates a series for which measures of variability are given in the table on page T79
† indicates that the data has been revised since the last edition; the period marked is the earliest in the table to have been revised
* average (or total) of five weeks.

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

Marketing and Sales Branch
Central Statistical Office
17 January 1996

CSO Databank

The data in this publication can be obtained in computer readable form via the CSO Databank service which provides macro-economic time series data on disc. For more details about the availability of this and other datasets, prices or to place your order please telephone, write or fax: CSO Sales Desk, Room 131/4, Government Buildings, Great George Street, London, SW1P 3AQ. Telephone: 0171 270 6081 or fax 0171 270 4986. The CSO does not offer direct on-line access for these data but a list of host bureaux offering such a facility is available on request from the CSO.

Office for National Statistics

On 1 April 1996 the Central Statistical Office (CSO) and the Office of Population Censuses and Surveys (OPCS) will merge to form the *Office for National Statistics.*

Dr Tim Holt, now Director of the CSO, will become Director of the Office for National Statistics and, in addition, Registrar General for England and Wales. He will continue as Head of the Government Statistical Service.

The Office for National Statistics will be responsible for the full range of functions currently carried out by CSO and OPCS. This includes responsibility for labour market statistics which transferred to CSO when the Employment Department merged with the Department of Education.

The Office for National Statistics will continue to apply and promote the "Official Statistics Code of Practice".

The purpose of the merger is to meet a widely perceived need for greater coherence and compatibility in Government statistics, for improved presentation and for easier public access.

The Office for National Statistics will be a Government agency, as well as a Government Department, as the CSO already is. It will be independent of any Government Department, accountable to the Chancellor of the Exchequer. A Framework Document will set out the Agency's 'contract' with the Government. An important feature of this 'contract' will be to establish the same professional independence for the ONS as the CSO and OPCS have had.

If you have any queries about the setting up of the Office for National Statistics, please contact:

Public Enquiries

OPCS	**0171 396 2828**
CSO	**0171 270 6363/6364**

Press Office

OPCS	**0171 396 2000**
CSO	**0171 270 6357/6512**

ECONOMIC UPDATE - January 1996

(includes data up to 19th January 1996)

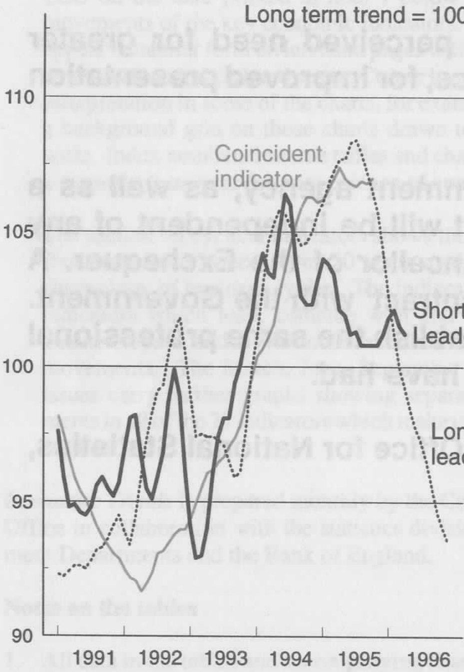
Overview

Monthly indicators suggest moderate growth in activity in 1995 Q4, as production output rose slowly, but domestic demand, shown by retail sales and net personal borrowing picked up. External demand is difficult to gauge - although overall net exports fell in October, non-EC trade showed strong growth in net exports in November. Inflationary pressure remains mixed, as growth in retail prices edged higher, but growth in producer prices moderated. Employment and unemployment are consistent with continued but moderate growth.

Activity

The latest CSO's **cyclical indicators**, shown in chart 1, based on partial information shows that the **longer leading index** has fallen steadily since June 1994, consistent with a slowdown during mid 1995 and the **shorter leading index** has fallen steadily since August 1994. Meanwhile the **coincident index** has shown little movement recently.

Chart 1
Cyclical Indicators



Output and expectations

2. The **index of industrial production**, seasonally adjusted, was 0.2 per cent higher in the three months to November than the previous three months. Within this, **manufacturing output** fell by 0.1 per cent, **mining and quarrying output, including oil and gas** extraction rose by 4.4 per cent and output of the **electricity, gas and water supply** industries fell by 2.0 per cent, due to milder than average temperatures in October. The latest estimates for trends in annual growth of output are 1 per cent for production industries and ½ per cent for manufacturing.

3. Chart 2 shows that the **CBI Monthly Trends Enquiry in manufacturing** revealed that the **output expectations** balance in the next 4 months, seasonally adjusted, fell sharply from 13 per cent in November to 5 per cent in December.

Chart 2
Manufacturing output

Indicators of domestic demand

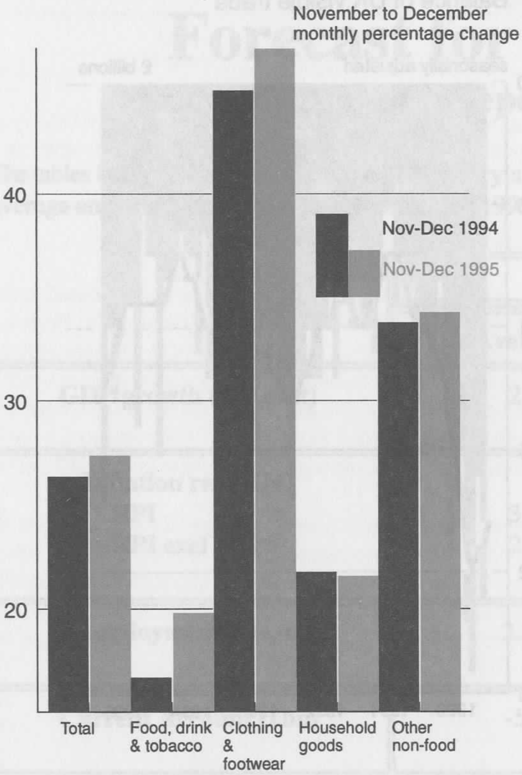
4. In the fourth quarter, the **volume of retail sales** was 0.8 per cent higher than in the previous quarter and 1.2 per cent up on a year earlier. There was a substantial rise in the value of sales between November and December, but as chart 3 shows, growth was similar to that recorded in the same period in 1994.

5. **Total net personal borrowing**, seasonally adjusted, rose from £5.4 billion in the three months to August to £5.6 billion in the three months to November. Over this period, **net borrowing secured on dwellings**, seasonally adjusted, remained at £3.5 billion while **net consumer credit**, seasonally adjusted, rose from £1.9 billion to £2.1 billion

.Prices and wages

6. The 12-month rate of increase of the **retail prices index (RPI)** rose from 3.1 per cent in November to 3.2 per cent in December. **Excluding mortgage interest payments**, the 12-month rate rose from 2.9 per cent in November to 3.0 per cent in December. This rate is within the government's target range of 1-4 per cent. **Excluding mortgage interest payments and indirect taxes (RPIY)**, rose from 2.4 per cent in November to 2.5 per cent in December. Chart 4 shows that higher motoring costs were the main reason for the rise.

Chart 3
Value of sales by commodity



7. Underlying producer price data continued to show signs of further falls in 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, fell from 3.3 per cent in November to 2.5 per cent in December. Over the same period the annualized change in **input prices** (all manufacturing), seasonally adjusted, fell from 2.5 per cent to 1.0 per cent.

8. **Expectations of price increases** edged up slightly in December. The CBI Monthly Trends Enquiry for manufacturing showed a balance of 15 per cent, seasonally adjusted by the CSO, expecting to raise prices in the next four months

9. The annual rise in underlying **whole economy average earnings** for Great Britain remained at 3¼ per cent in November. It has remained at this rate since July. The sectoral splits also remained at 4¼ per cent for production, 4 per cent for manufacturing and 2¾ per cent for services.

Labour market and productivity

10. Chart 5 shows that **UK claimant unemployment**, seasonally adjusted, fell in December by 7,900 to 2.237 million, or 8.0 per cent of the workforce. The average quarterly fall slowed in 1995 Q4 from 16,100 in the three months to September to 9,500 in the three months to December.

Chart 4
Main contributions to the change in the retail price index

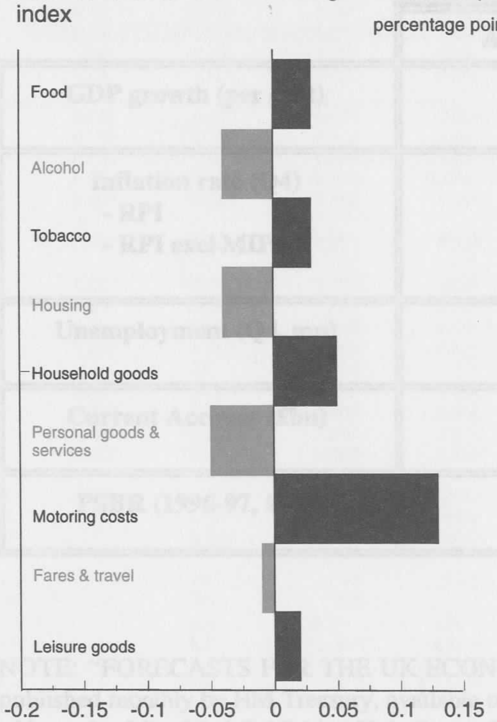
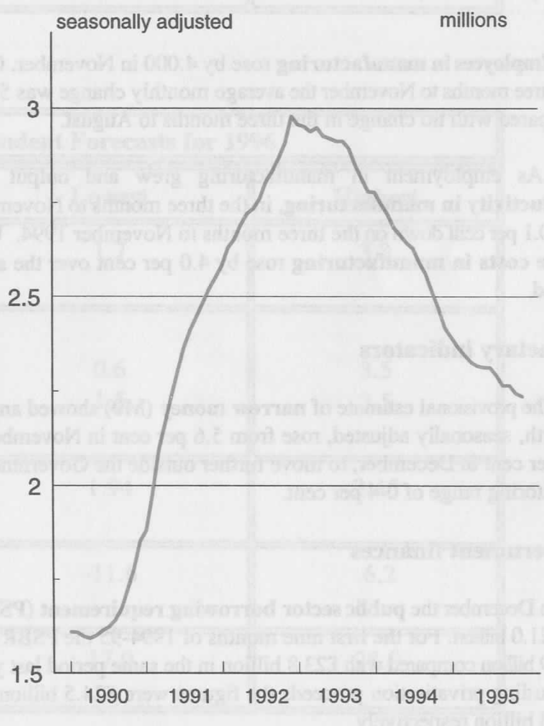


Chart 5
U.K. claimant unemployment

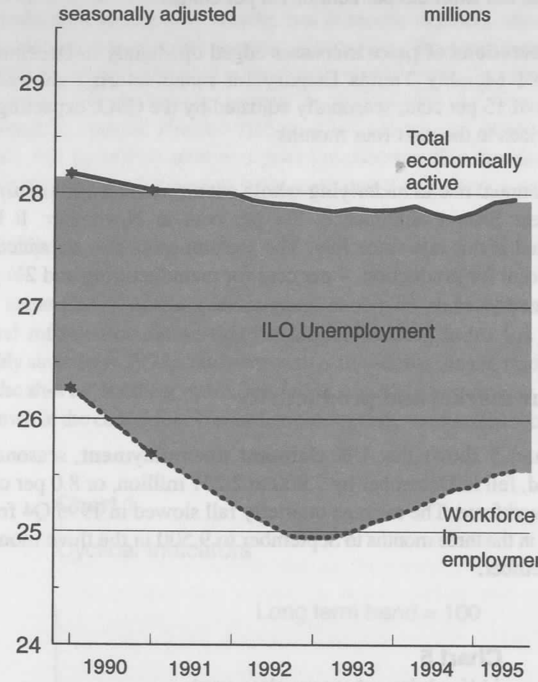


11. The Autumn 1995 **Labour Force Survey** (LFS) (September to November) also showed a fall in unemployment to 8.6 per cent of the workforce. **ILO unemployment**, seasonally adjusted, was 2.399 million in Great Britain over this period - a fall of 15,000 since the Summer survey.

12. **LFS employment in Great Britain**, seasonally adjusted, rose by 38,000 between the Summer and Autumn surveys to 25.551 million.

Chart 6 shows that the impact of increased employment on unemployment has been dampened by the growth in the total number of people economically active.

Chart 6
LFS total workforce, employment and ILO unemployment



*prior to 1992, annual data

13. **Employees in manufacturing** rose by 4,000 in November. Over the three months to November the average monthly change was 5,000 compared with no change in the three months to August.

14. As employment in manufacturing grew and output fell, **productivity in manufacturing,** in the three months to November, was 0.1 per cent down on the three months to November 1994. **Unit wage costs in manufacturing** rose by 4.0 per cent over the same period.

Monetary indicators

15. The provisional estimate of **narrow money (M0)** showed annual growth, seasonally adjusted, rose from 5.6 per cent in November to 5.9 per cent in December, to move further outside the Government's monitoring range of 0-4 per cent.

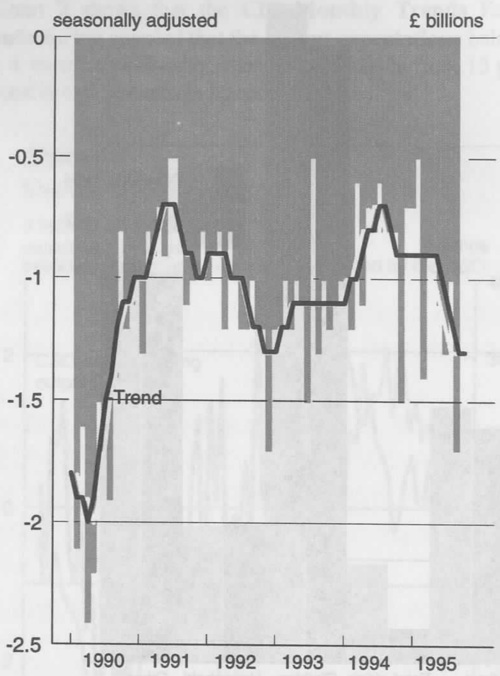
Government finances

16. In December the **public sector borrowing requirement (PSBR)** was £1.0 billion. For the first nine months of 1994-95 the PSBR was £23.9 billion compared with £23.8 billion in the same period last year. Excluding privatisation proceeds the figures were £24.5 billion and £28.3 billion respectively.

Balance of payments

17. The deficit on the **balance of UK visible trade**, shown in chart 7, rose from £4.297 billion in the three months to July to £4.841 billion in the three months to October. The latest estimate of the trend suggest that the whole world visible deficit is rising. However data on non-EC trade for November shows a fall of £0.687 billion in the deficit. Over this period the **volume of total exports, excluding oil and erratics**, rose by 1.3 per cent. On the same basis **imports** rose by 1.6 per cent.

Chart 7
Balance of UK visible trade



Forecast for the UK Economy

A comparison of independent forecasts, January 1996.

The tables below are extracted from HM Treasury's "FORECASTS FOR THE UK ECONOMY" and summarise the average and range of independent forecasts for 1995 and 1996, updated monthly.

	Independent Forecasts for 1995		
	Average	**Lowest**	**Highest**
GDP growth (per cent)	2.6	2.4	2.8
Inflation rate (Q4)			
- RPI	3.2	3.0	3.8
- RPI excl MIPS	2.9	2.5	3.2
Unemployment (Q4, mn)	2.25	2.20	2.30
Current Account (£bn)	-5.4	-9.0	5.2
PSBR (1995-96, £bn)	29.3	27.0	34.4

	Independent Forecasts for 1996		
	Average	**Lowest**	**Highest**
GDP growth (per cent)	2.4	1.7	3.3
Inflation rate (Q4)			
- RPI	2.6	0.6	3.5
- RPI excl MIPS	2.8	1.5	3.5
Unemployment (Q4, mn)	2.13	1.94	2.45
Current Account (£bn)	-4.8	-11.6	6.2
PSBR (1996-97, £bn)	23.5	17.0	28.0

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

INTERNATIONAL ECONOMIC INDICATORS

(includes data up to 18 January 1996)

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. Latest estimates of **gross domestic product (GDP) at constant market prices** show that despite a revision downwards in the United Kingdom in 1995 Q3 growth remained unchanged at 0.4 per cent. In France too the rate was unchanged at 0.2 per cent. In Canada, following a contraction of 0.3 per cent in 1995 Q2, growth rebounded to 0.7 per cent. The estimate for Italy in 1995 Q2 was revised down to a growth rate of 1.3 per cent in that quarter.

4. **Consumer price inflation** in December increased in the United Kingdom from 3.1 per cent to 3.2 per cent, and in France from 1.9 per cent to 2.1 per cent. While in Germany the rate edged down to 1.5 per cent. In November significant falls in inflation were apparent in several countries. In Canada the rate fell from 2.4 per cent to 2.0 per cent, in the United States from 2.7 per cent to 2.5 per cent, and in Japan deflation deepened from 0.5 per cent to 0.7 per cent.

5. **Standardised unemployment rates** (ILO based) fell in November in the United Kingdom and Canada, to 8.5 per cent and 9.3 per cent respectively. Rises were, however, registered among two of the G7 countries with lower rates; for the United States the rate returned to 5.6 per cent while the rate in Japan moved up to 3.4 per cent.

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	66.8	75.1	75.9	76.2
1985	84.9	84.7	85.4	86.1	85.1	87.4	80.3	86.6	85.4	85.5
1986	88.6	86.7	87.6	88.6	87.6	89.9	82.4	89.5	87.9	87.8
1987	92.8	87.9	89.5	91.4	90.1	92.7	85.8	93.2	90.7	90.6
1988	97.5	91.1	93.6	95.1	93.8	96.4	91.1	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	97.5
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	101.5	99.4	104.3	98.2	100.9	101.0
1992	97.5	105.8	102.0	102.0	102.3	101.7	105.4	98.8	102.4	102.5
1993	99.7	103.8	101.0	101.3	101.8	104.8	105.2	101.0	103.8	103.8
1994	103.6	107.4	103.6	103.0	104.6	109.1	105.7	105.5	106.8	106.8
1992 Q4	97.8	104.9	101.8	101.5	102	103.3	105.1	98.9	103.0	103.1
1993 Q1	98.6	104.0	100.8	101.2	101	103.6	105.6	99.8	103.1	103.2
Q2	99.2	104.4	101.0	101.4	102	104.2	105.2	100.8	103.4	103.4
Q3	100.2	105.5	101.1	100.7	102	104.9	105.4	101.2	103.9	103.9
Q4	100.9	105.2	101.2	101.9	102	106.5	104.6	102.1	104.7	104.6
1994 Q1	102.0	105.8	102.0	101.5	103	107.4	105.4	103.2	105.4	105.4
Q2	103.3	106.8	103.2	101.4	104	108.5	105.6	105.1	106.4	106.3
Q3	104.3	107.9	104.1	102.3	105	109.6	106.5	106.6	107.5	107.3
Q4	105.0	108.7	105.0	103.8	106	111.0	105.4	107.8	108.2	108.0
1995 Q1	105.6	..	105.9	104.2	107	111.7	105.4	108.1	108.8	108.6
Q2	106.1	..	106.1	105.6	..	112.1	106.2	107.8	..	..
Q3	106.5	..	106.3	106.2	..	113.2	..	108.6	..	..
Percentage change, latest quarter on corresponding quarter of previous year										
1995 Q2	*2.7*	..	*2.8*	*4.1*	..	*3.3*	*0.6*	*2.6*	..	..
Q3	*2.1*	..	*2.1*	*3.8*	..	*3.3*	..	*1.9*	..	..
Percentage change, latest quarter on previous quarter										
1995 Q2	*0.4*	..	*0.2*	*1.3*	..	*0.4*	*0.8*	*–0.3*	..	..
Q3	*0.4*	..	*0.2*	*0.6*	..	*1.0*	..	*0.7*	..	..

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	14.8
1985	6.1	2.2	5.9	8.6	6.2	3.5	2.1	4.0	4.0	7.1
1986	3.4	−0.1	2.7	6.2	3.7	1.9	0.4	4.1	2.0	5.9
1987	4.2	0.2	3.1	4.6	3.3	3.7	−0.2	4.4	2.9	7.7
1988	4.9	1.3	2.8	5.0	3.7	4.0	0.5	4.0	3.4	8.6
1989	7.8	2.8	3.5	6.6	5.2	4.9	2.2	5.1	4.5	6.2
1990	9.5	2.7	3.4	6.0	5.7	5.4	3.1	4.7	5.0	6.8
1991	5.9	3.5	3.2	6.5	5.1	4.2	3.3	5.6	4.3	6.1
1992	3.7	4.0	2.4	5.3	4.2	3.1	1.6	1.5	3.1	4.9
1993	1.6	4.2	2.1	4.2	3.4	3.0	1.1	1.9	2.6	4.1
1994	2.4	3.0	1.7	4.0	3.1	3.3	0.8	0.2	2.3	1.9
1995	3.5	1.8	1.8	..	..	..	..	..	..	..
1994 Q4	2.6	1.9	1.7	3.8	3.0	2.8	1.1	0.0	2.3	4.8
1995 Q1	3.4	2.0	1.7	4.3	3.1	2.9	0.1	1.6	2.4	5.6
Q2	3.5	1.9	1.6	5.3	3.3	3.1	0.1	2.7	2.7	6.3
Q3	3.7	1.7	1.8	5.7	3.0	2.6	0.0	2.4	2.3	6.7
Q4	3.2	1.6	1.9	..	..	..	..	..	..	..
1994 Dec	2.9	1.9	1.6	4.0	3.1	3.0	1.3	0.3	2.2	4.9
1995 Jan	3.3	2.1	1.7	3.9	3.0	2.9	0.5	0.6	2.4	5.3
Feb	3.4	2.0	1.7	4.3	3.1	2.8	0.2	1.8	2.4	5.6
Mar	3.5	1.9	1.8	4.7	3.3	2.8	−0.4	2.2	2.4	6.0
Apr	3.3	2.0	1.6	5.0	3.3	3.1	−0.1	2.5	2.6	6.2
May	3.4	1.8	1.6	5.1	3.3	3.2	0.0	2.9	2.7	6.3
Jun	3.5	1.9	1.6	5.6	3.4	3.0	0.3	2.7	2.8	6.4
Jul	3.5	1.9	1.5	5.6	3.0	2.6	0.0	2.6	2.4	6.4
Aug	3.6	1.5	1.9	5.8	3.0	2.5	−0.2	2.3	2.3	6.6
Sep	3.9	1.7	2.0	5.7	3.1	2.6	0.2	2.3	2.3	6.9
Oct	3.2	1.7	1.8	5.8	2.8	2.7	−0.5	2.4	2.2	7.1
Nov	3.1	1.6	1.9	5.9	2.9	2.5	−0.7	2.0	2.1	7.1
Dec	3.2	1.5	2.1	..	..	..	..	..	..	..

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

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

	United Kingdom	Germany[2]	France	Italy	EC[3]	United States	Japan	Canada	Major 7	OECD
	GABF	GABD	GABC	GABE	GADR	GADO	GADP	GADN	GAEQ	GADQ
1980	6.4	2.9	6.2	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	6.7
1992	9.9	4.6	10.4	10.5	9.4	7.3	2.2	11.3	6.9	7.4
1993	10.3	5.8	11.6	10.2	10.7	6.7	2.5	11.2	7.0	7.8
1994	9.5	6.8	12.3	11.8	11.4	6.0	2.9	10.4	6.9	7.8
1995 Q1	8.7	6.8	11.8	12.2	11.1	5.5	2.9	9.6	6.5	7.4
Q2	8.8	..	11.6	12.2	10.8	5.6	3.1	9.5	6.6	7.4
Q3	8.7	..	11.4	12.1	10.9	5.6	3.2	9.4	6.7	7.5
1994 Nov	9.0	6.8	12.0	..	11.1	5.5	2.9	9.6	6.5	7.4
Dec	8.8	6.8	12.0	..	11.0	5.4	2.8	9.5	6.4	7.4
1995 Jan	8.7	6.7	11.9	12.2	10.9	5.6	2.9	9.7	6.5	7.4
Feb	8.7	6.7	11.8	..	10.9	5.4	2.9	9.6	6.4	7.3
Mar	8.8	6.7	11.7	..	10.9	5.4	3.0	9.6	6.4	7.3
Apr	8.8	6.8	11.6	12.2	10.9	5.7	3.1	9.4	6.6	7.5
May	8.8	6.8	11.6	..	10.8	5.6	3.1	9.5	6.6	7.4
Jun	8.7	..	11.5	..	10.8	5.5	3.2	9.5	6.5	7.4
Jul	8.8	..	11.4	12.1	10.8	5.6	3.2	9.7	6.6	7.6
Aug	8.7	..	11.4	..	11.0	5.6	3.2	9.5	6.8	7.5
Sep	8.6	..	11.5	..	11.0	5.6	3.2	9.1	6.7	7.5
Oct	8.6	..	11.5	..	11.0	5.4	3.2	9.4	6.7	7.5
Nov	8.5	..	..	..	..	5.6	3.4	9.3	..	..

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	–1.1	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	–4.3	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	–1.5	–1.2	–0.5	–1.9	–0.1	2.1	–4.1
1992	–1.6	–1.2	0.3	–2.3	–1.1	3.2	–3.8
1993	–1.8	–1.1	0.7	–0.7	–0.2	3.1	–4.4
1994	–0.3	–0.9	0.7	..	..	2.8	–3.3
1994 Q2	–0.4	–	1.1	0.3	–2.3	0.7	–
Q3	0.3	–0.6	2.0	0.5		0.6	–
Q4	–0.3	–0.3	2.4	..	..	0.7	–
1995 Q1	–0.7	..	..		..	0.6	–
Q2	–1.3	..	..	..	..	..	..

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	97.3	88.0	87.9	83.8	79.3	67.3	81.4	78.7	78.9
1985	88.0	100.3	88.5	84.8	86.3	89.0	79.8	94.5	86.3	86.3
1986	90.1	102.3	89.5	87.9	88.1	89.9	79.6	93.8	87.3	87.2
1987	93.7	102.7	91.3	91.3	90.1	94.3	82.4	98.1	90.6	90.3
1988	98.2	106.3	95.0	96.8	94.1	98.5	90.7	103.6	95.6	95.3
1989	100.3	111.4	98.5	99.8	98.0	100.0	95.9	103.4	98.5	98.4
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	96.3	103.7	100.3	99.1	99.8	98.3	101.9	95.9	99.6	99.7
1992	96.2	100.9	100.3	98.9	98.6	101.5	96.1	96.8	99.4	99.4
1993	98.1	93.4	97.5	96.5	95.5	105.7	92.0	101.5	99.2	99.1
1994	103.1	97.1	101.3	101.5	100.3	111.3	93.1	107.8	103.4	103.7
1994 Q3	104.4	97.6	102.9	103.4	101.9	112.0	93.9	109.5	104.4	104.8
Q4	104.2	99.9	102.9	105.5	102.8	113.8	95.2	111.4	105.7	106.1
1995 Q1	105.0	96.8	103.8	103.9	102.6	114.9	96.5	112.4	106.3	106.6
Q2	105.1	98.4	104.2	105.7	103.7	114.5	96.4	111.7	106.4	106.4
Q3	105.8	98.6	104.5	107.6	104.4	115.5	94.7	112.4	106.7	106.8
1994 Nov	103.7	98.4	102.8	103.2	102.1	113.7	95.8	111.7	105.5	105.9
Dec	104.4	100.7	103.7	109.9	104.4	114.6	95.9	112.5	106.9	107.2
1995 Jan	104.3	96.5	103.9	101.9	102.1	114.9	94.7	113.0	105.7	106.2
Feb	104.9	97.4	102.7	104.1	102.3	114.8	96.8	112.5	106.4	106.5
Mar	105.9	96.5	104.8	105.6	103.4	115.0	97.9	111.6	106.8	107.0
Apr	105.0	98.6	103.0	107.2	102.8	114.5	97.0	111.8	106.3	106.1
May	105.3	98.6	104.9	105.1	104.2	114.4	96.5	112.2	106.4	106.5
Jun	104.9	98.0	104.8	104.9	104.2	114.5	95.7	111.2	106.4	106.5
Jul	105.7	100.6	105.1	107.5	104.5	114.6	93.5	112.0	106.3	106.3
Aug	105.6	97.6	105.1	108.2	105.1	115.9	96.6	112.5	107.2	107.6
Sep	106.1	97.5	103.2	107.2	103.5	116.0	94.0	112.6	106.5	106.6
Oct	105.2	95.4	101.4	106.5	102.4	115.6	95.1	111.8	106.1	106.2
Nov	105.7	95.4	..	..	..	115.8	96.6		..	
Percentage change: average of latest three months on that of corresponding period of previous year										
1995 Oct	*0.8*	*–0.5*	*0.5*	*3.9*	*1.6*	*2.9*	*1.0*	*2.2*	*1.9*	*1.6*
Nov	*1.1*	*–2.0*	..	..	..	*2.4*	*0.8*	..	..	..
Percentage change: average of latest three months on previous three months										
1995 Oct	*0.3*	*–2.3*	*–1.6*	*1.4*	*–0.6*	*1.2*	*0.0*	*0.4*	*0.2*	*0.3*
Nov	*0.2*	*–2.7*	..	..	..	*0.7*	*0.0*	..	..	..

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	12.8	7.0	9.4	..	11.3	13.4	14.8	13.4	13.2	13.2
1985	5.3	2.1	4.4	7.7	4.9	0.8	−0.8	2.7	1.9	4.8
1986	4.2	−2.3	−2.8	0.1	−1.0	−1.4	−4.7	0.9	−1.5	1.5
1987	3.7	−0.5	0.7	3.1	1.2	2.1	−2.9	2.7	1.1	5.8
1988	4.3	1.6	5.1	3.5	3.4	2.5	−0.3	4.5	2.4	7.2
1989	4.7	3.4	5.4	5.8	4.8	5.2	2.1	1.8	4.4	5.8
1990	5.8	1.5	−1.2	4.2	2.5	4.9	1.6	0.3	3.3	4.7
1991	5.4	2.1	−1.3	3.3	2.2	2.1	1.1	−1.0	1.9	3.3
1992	3.5	1.7	−1.6	1.9	1.2	1.3	−0.9	0.5	0.8	2.2
1993	3.7	0.0	−2.8	3.7	1.2	1.3	−1.7	3.3	0.8	2.1
1994	2.5	−3.0	3.6	3.7	1.4	0.7	−1.8	5.6	0.5	3.1
1995 Q1	3.5	2.2	2.7	6.5	4.7	3.4	−0.7	9.9	2.6	8.2
Q2	3.9	2.5	1.2	8.8	..	4.1	−0.5	9.0	..	..
Q3	4.2	2.4	..	8.9	..	3.5	−0.7	7.6	..	..
1994 Nov	2.5	−2.0	..	4.8	2.6	0.0	−1.2	7.7	1.5	5.5
Dec	2.6	1.7	..	5.4	3.1	0.7	−0.9	8.1	1.7	6.4
1995 Jan	3.3	2.1	2.9	5.6	4.4	3.2	−0.9	10.3	2.4	7.7
Feb	3.4	2.3	2.1	6.3	4.7	3.5	−0.8	9.6	2.6	8.3
Mar	3.6	2.4	3.0	7.5	5.1	3.5	−0.5	9.8	2.8	8.9
Apr	3.9	2.5	0.9	8.2	..	4.1	−0.4	9.4	3.2	8.6
May	3.9	2.5	1.0	9.0	..	4.2	−0.5	8.9	3.2	8.4
Jun	3.9	2.6	1.5	9.2	..	4.0	−0.6	8.6	..	..
Jul	4.1	2.4	..	9.2	..	3.8	−0.7	8.2	..	..
Aug	4.2	2.3	..	9.0	..	3.2	−0.7	7.1	..	..
Sep	4.2	2.4	..	8.7	..	3.6	−0.6	7.6	..	..
Oct	4.3	..	..	..	..	..	−0.6	6.3	..	..
Nov	4.3	..	..	..	..				..	..

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	93.5	95.3	96.6	97.0	100.0	84.2	88.6	84	..	..
1985	91.2	93.5	95.6	97.3	93.1	90.9	92.9	89	92.3	92.1
1986	91.4	94.4	96.1	97.9	93.8	92.9	93.7	92	93.6	93.4
1987	93.4	95.3	96.5	97.8	95.0	95.4	94.6	94	95.2	95.0
1988	96.7	96.3	97.5	99.0	96.8	97.5	96.2	97	97.1	97.0
1989	99.4	97.2	99.0	98.6	98.5	99.5	98.1	99	98.9	98.8
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100	100.0	100.0
1991	97.1	101.9	100.0	101.3	99.9	99.1	101.9	98	99.9	99.9
1992	94.6	102.8	99.4	100.7	98.7	99.7	103.0	98	100.1	99.7
1993	93.6	100.9	98.2	95.9	96.3	101.2	103.2	99	100.1	99.5
1994	94.2	99.3	98.4	94.0	..	104.0	104.0	101	..	..
1993 Q4	93.9	107	97.6	94.6	95.9	102.3	103.3	99.0	100.5	99.8
1994 Q1	93.9	100	97.3	94.4	95.0	102.1	101.3	96.9	100.0	99.0
Q2	94.0	99	98.2	94.4	96.0	104.1	104.5	101.1	101.0	101.0
Q3	94.3	99	98.9	95.3	..	105.4	104.0	104.1	..	..
Q4	94.7	99	99.2	93.9	..	105.8	103.2	101.8	..	..
1995 Q1	94.8	..	..	92.4	..	104.6	101.4	99.5	..	..
Q2	94.9	..	..	93.9	..	105.9	104.3	103.0	..	..
Q3	94.8	..	..	95.0	..	106.8	104.4	105.2	..	..
1995 Aug	..	..	..	..	..	106.8	103.9	105.8	..	..
Sep	..	..	..	..	..	106.2	104.5	103.9	..	..
Oct	..	..	..	..	..	106.8	103.9	103.6	..	..
Percentage change, latest quarter on that of corresponding period of previous year										
1995 Q2	1.0	..	..	−0.5	..	1.7	−0.2	1.9	..	..
Q3	0.5	..	..	−0.3	..	1.3	0.4	1.1	..	..
Percentage change latest quarter on previous quarter										
1995 Q2	0.1	..	..	1.6	..	1.2	2.9	3.5	..	..
Q3	−0.1	..	..	1.2	..	0.8	0.1	2.1	..	..

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	11.0	8.7	7.4	10.0	8.9	9.5
1985	9.0	4.2	5.7	11.4	7.1	3.9	3.1	3.8	3.8	5.1
1986	7.7	4.0	4.0	4.7	5.2	2.0	1.4	2.8	3.7	3.3
1987	8.1	3.8	3.1	6.6	5.4	1.8	1.7	3.3	2.4	3.5
1988	8.5	4.6	3.0	6.0	5.4	2.8	4.5	3.9	4.6	4.4
1989	8.8	3.5	3.8	6.1	5.9	2.9	5.8	5.4	4.4	4.9
1990	9.3	5.1	4.6	7.2	6.8	3.3	5.3	4.7	5.3	5.4
1991	8.2	5.7	4.3	9.8	7.1	3.3	3.5	4.8	5.0	5.0
1992	6.6	6.2	3.6	5.4	5.5	2.4	1.1	3.4	2.9	3.6
1993	4.5	–3.6	2.6	3.7	4.5	2.5	0.1	2.0	2.8	2.8
1994	4.7	2.9	2.3	3.3	5.0	2.4	3.2	2.2	2.7	2.8
1995 Q1	5.0	1.9	..	2.5	4.1	2.1	3.9	0.4	2.5	3.0
Q2	4.8	..	..	2.3	..	2.3	2.6	1.0	..	..
Q3	4.4	..	..	3.5	..	2.7	3.1	2.3	..	..
1994 Dec	5.8	..	..	3.0	3.7	2.2	3.8	2.3	2.4	2.4
1995 Jan	4.6	1.9	2.1	2.8	–0.1	2.2	4.7	1.2	2.4	3.2
Feb	5.6	..	..	2.4	3.7	2.0	3.7	0.5	2.6	3.0
Mar	4.8	..	..	2.3	3.5	2.2	3.5	–0.3	2.5	2.9
Apr	5.2	1.3	2.4	2.3	3.7	2.3	3.5	0.7	2.6	..
May	4.5	..	..	2.3	..	2.3	3.5	1.2	2.6	..
Jun	4.4	..	..	2.2	..	2.3	0.8	0.9	..	..
Jul	4.9	..	..	3.5	..	2.8	6.5	1.1	..	..
Aug	4.2	..	..	3.4	..	2.8	0.4	3.3	..	..
Sep	3.9	..	..	3.9	..	2.6	2.4	2.5	..	..
Oct	..	..	..	3.9	..	2.7	2.0	..	..	..

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
	EAPS	GADD	GADC	GADE	GADH	GADA	GADB	GACZ	GAEW	GADG
1980	..	83.5	91.5	72.6	80.2	72.2	103.2	74.8	76.7	77.5
1985	..	80.8	90.5	87.4	84.3	85.9	100.0	89.3	85.2	85.2
1986	87.0	83.6	92.6	93.3	88.0	90.7	101.5	93.4	89.1	89.0
1987	91.5	86.9	94.8	97.8	91.5	93.1	107.1	98.6	92.3	92.1
1988	97.3	89.8	98.2	95.7	94.0	96.7	91.5	102.4	95.4	95.2
1989	99.3	92.2	99.4	102.3	97.6	99.3	95.0	102.3	98.3	98.2
1990	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1991	98.7	105.7	100.1	97.3	100.6	97.9	101.9	89.6	99.0	99.2
1992	99.4	103.6	100.3	102.2	100.8	101.1	99.1	90.8	100.4	100.3
1993	102.4	99.3	100.3	99.0	99.1	106.4	94.3	93.5	102.1	101.3
1994	106.2	97.5	100.8	94.4	98.3	113.0	92.8	101.1	105.1	104.0
1995 Q3	107.4	..	102.4	..	..	..	93.3	102.5	..	..
Q4	108.3	..	..	..	..	..	..	..	..	..
1995 Mar	106.9	..	99.6	88.0	99.0	116.0	93.1	100.7	106.7	..
Apr	107.3	..	97.8	90.4	..	115.7	91.6	100.5	105.4	..
May	107.1	..	102.5	89.5	..	116.8	92.1	101.1	109.0	..
Jun	107.5	..	100.2	89.5	..	118.0	92.7	101.6	..	..
Jul	107.9	..	101.6	91.0	..	117.5	92.6	101.6	..	..
Aug	107.1	..	103.0	99.0	..	118.3	94.2	103.0	..	..
Sep	107.3	..	102.5	..	..	..	93.2	103.0	..	..
Oct	107.6	..	93.7	..	..	..	..	..	..	..
Nov	108.4	..	..	..	..	..	..	..	..	..
Dec	108.9	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on that of corresponding period of previous year										
1995 Nov	0.6	..	..	..	..	..	..	..	..	..
Dec	1.2	..	..	..	..	..	..	..	..	..
Percentage change average of latest three months on previous three months										
1995 Nov	0.2	..	..	..	..	..	..	..	..	..
Dec	0.8	..	..	..	..	..	..	..	..	..

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
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	103.4	101.8	109.2	105.5	103.4	109.1	104.5	102.8	107.2	103.9	103.0	109.1	104.4	103.7
1992	108.3	105.6	118.6	112.3	108.3	119.9	110.8	106.8	113.6	108.6	107.8	119.9	110.3	108.9
1993	111.6	107.5	128.1	115.5	109.2	122.2	113.9	108.9	120.6	111.9	108.9	129.5	113.6	112.1
1994	114.2	112.0	132.7	117.4	114.6	125.0	116.1	113.7	116.0	114.5	113.9	122.9	115.8	115.3
1992 Q1	107.4	107.1	108.5	109.2	109.0	104.6	108.4	108.3	105.3	107.6	108.5	108.6	108.3	108.0
Q2	106.9	106.0	110.4	110.0	109.0	112.5	109.2	107.6	106.6	107.4	108.7	110.9	108.4	108.3
Q3	108.4	107.5	111.7	111.7	110.8	114.3	110.8	109.2	107.5	108.9	110.3	112.5	110.1	109.8
Q4	108.7	107.7	112.4	111.6	110.3	115.2	110.4	109.0	107.9	108.9	109.6	113.2	110.1	109.6
1993 Q1	108.5	106.5	116.4	111.2	108.2	119.5	110.3	107.9	110.8	108.8	108.0	117.6	109.8	109.6
Q2	109.7	107.9	116.4	112.1	109.4	119.5	111.7	110.3	110.8	110.6	109.8	117.6	110.9	111.1
Q3	112.3	109.6	122.9	115.1	111.5	125.0	114.6	112.1	116.0	113.3	111.9	122.7	113.7	113.9
Q4	114.3	112.1	122.9	117.2	114.3	125.0	116.0	114.4	116.0	114.9	113.9	122.7	115.8	115.5
1994 Q1	117.8	114.9	129.1	121.4	118.0	130.7	120.0	116.4	121.3	117.9	117.2	128.5	119.6	118.9
Q2	122.5	119.8	132.8	125.8	123.1	133.3	127.4	120.6	124.2	121.7	121.0	130.7	124.1	128.6
Q3	125.6	122.9	136.3	129.8	127.1	137.2	126.6	123.5	127.4	124.7	124.0	134.8	127.7	125.7
Q4	128.8	126.8	136.3	133.6	132.2	137.2	129.5	127.7	127.4	127.8	127.9	134.8	131.2	128.6
1995 Q1	131.7	128.9	142.7	136.4	133.4	143.8	131.8	129.3	132.8	130.4	128.5	141.9	134.0	131.1
Q2	135.3	131.5	150.0	139.5	135.6	150.1	134.6	131.2	141.9	133.0	130.5	147.0	137.4	133.8
Percentage change, latest quarter on corresponding quarter of previous year														
1995 Q1	*11.8*	*12.2*	*10.5*	*12.4*	*13.1*	*10.0*	*9.8*	*11.1*	*9.5*	*10.6*	*9.6*	*10.4*	*12.0*	*10.3*
Q2	*10.4*	*9.8*	*13.0*	*10.9*	*10.2*	*12.6*	*5.7*	*8.8*	*14.3*	*9.3*	*7.9*	*12.5*	*10.7*	*4.0*
Percentage change, latest quarter on previous quarter														
1995 Q1	*2.3*	*1.7*	*4.7*	*2.1*	*0.9*	*4.8*	*1.8*	*1.3*	*4.2*	*2.0*	*0.5*	*5.3*	*2.1*	*1.9*
Q2	*2.7*	*2.0*	*5.1*	*2.3*	*1.6*	*4.4*	*2.1*	*1.5*	*6.9*	*2.0*	*1.6*	*3.6*	*2.5*	*2.1*

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

Chart I: Gross domestic product

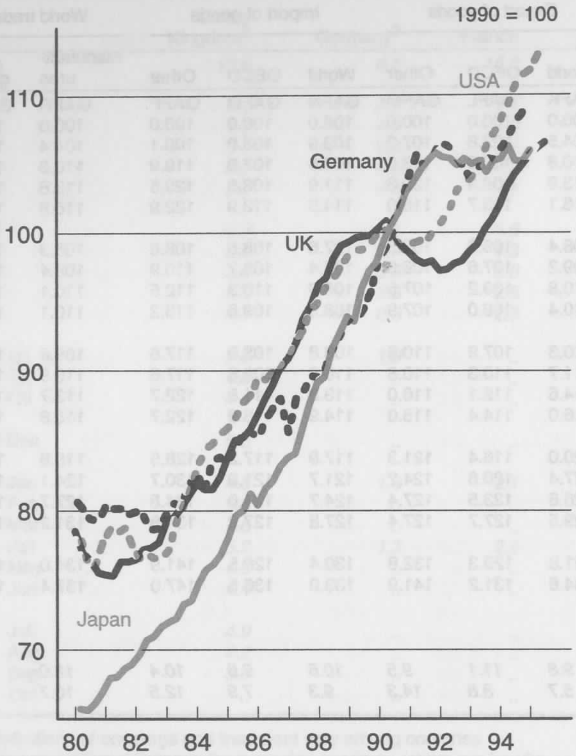


Chart II: Consumer price index

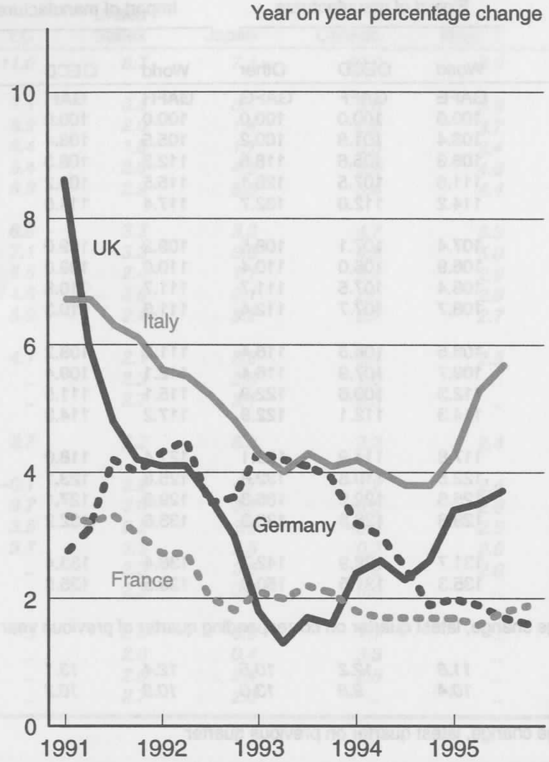
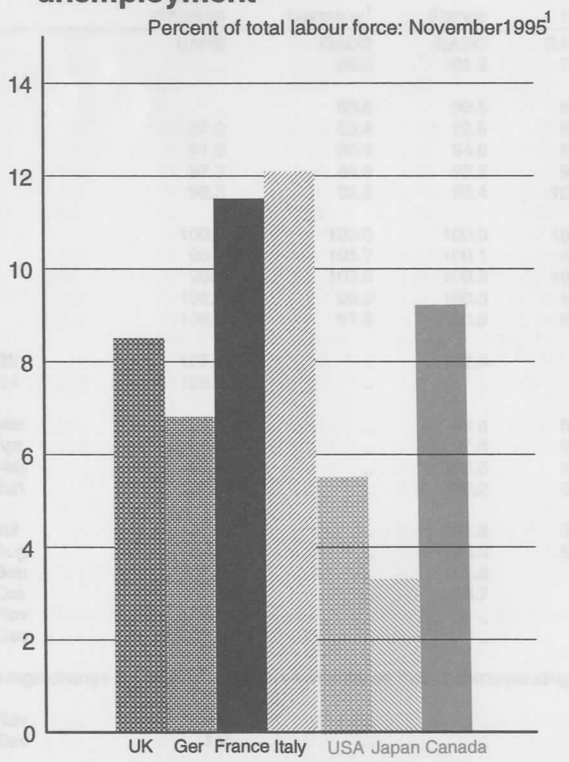


Chart III: Standardised unemployment



1. Germany refers to May 1995, while Italy refers to July. France refers to October.

Chart IV: Current account balance

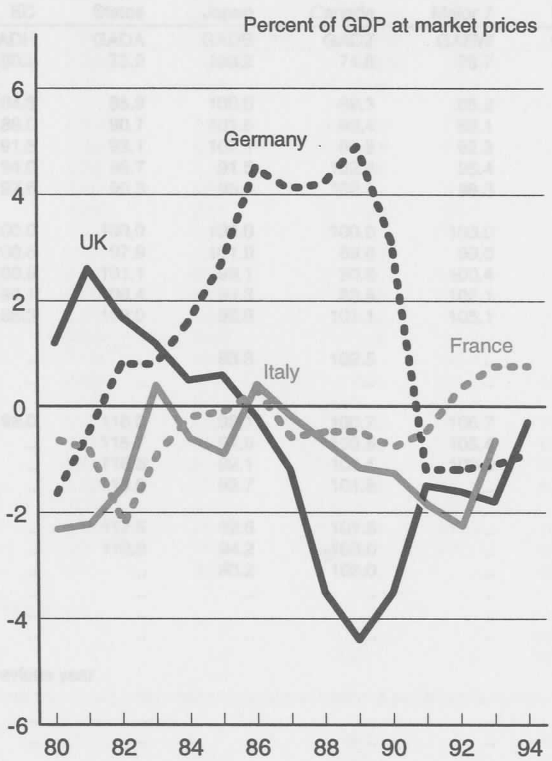


Chart V: Industrial Production

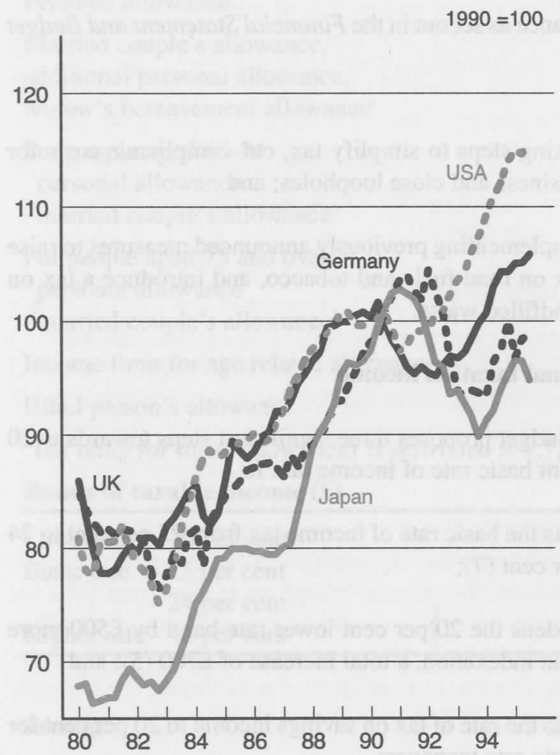


Chart VI: Producer price inflation

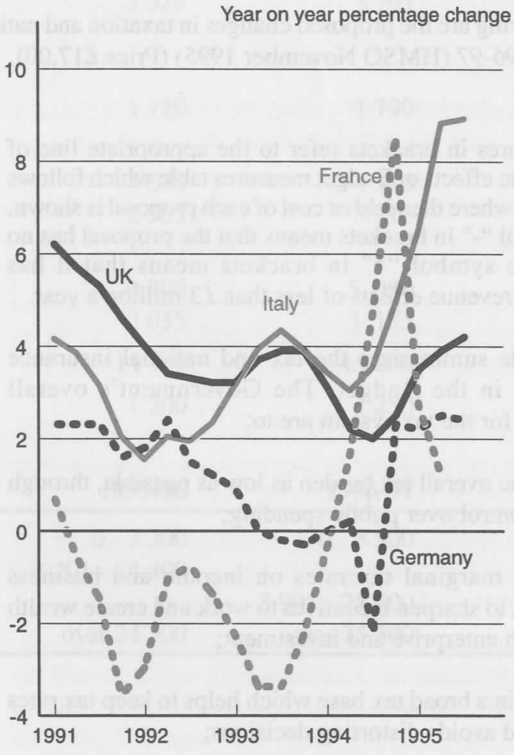


Chart VII: Employment

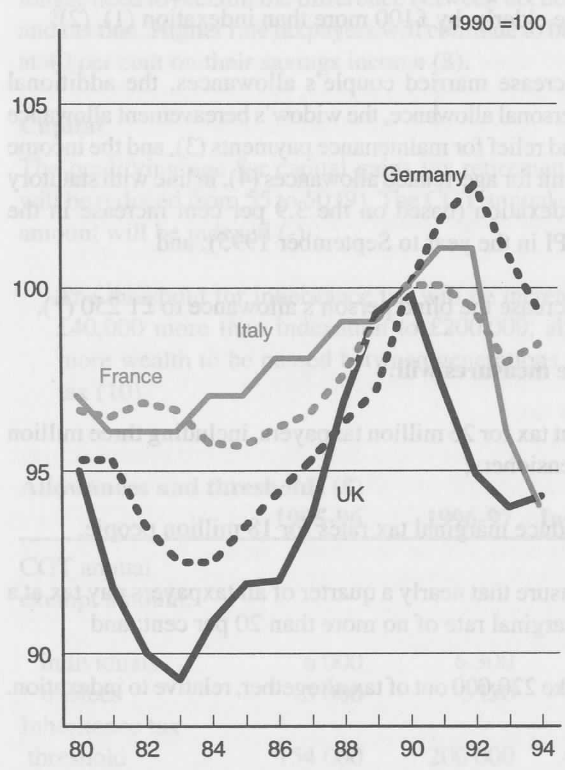
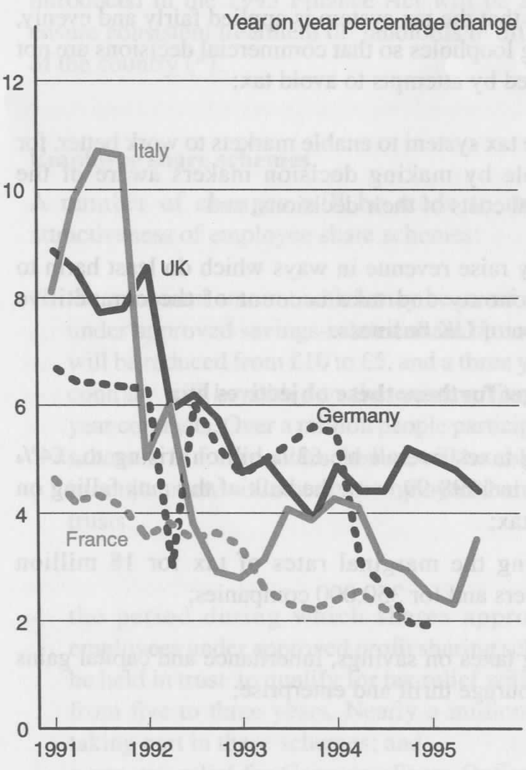


Chart VIII: Wage earnings (manufacturing)



THE BUDGET - 28 NOVEMBER 1995

The following are the proposed changes in taxation and national insurance as set out in the *Financial Statement and Budget Report 1996-97* (HMSO November 1995) (Price £17.00).

Note: Figures in brackets refer to the appropriate line of the Revenue effects of Budget measures table which follows the article, where the yield or cost of each proposal is shown. The symbol "-" in brackets means that the proposal has no effect; the symbol "*" in brackets means 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 Government's overall objectives for the tax system are to:

- keep the overall tax burden as low as possible, through firm control over public spending;
- reduce marginal tax rates on income and business profits, to sharpen incentives to work and create wealth through enterprise and investment;
- maintain a broad tax base which helps to keep tax rates low and avoids distorting decisions;
- shift the balance of taxation from taxes on income to taxes on spending;
- simplify the administration of the tax system and minimise the burdens which compliance places on the taxpayer;
- ensure that the tax system is applied fairly and evenly, closing loopholes so that commercial decisions are not distorted by attempts to avoid tax;
- use the tax system to enable markets to work better, for example by making decision makers aware of the external costs of their decisions; and
- thereby raise revenue in ways which do least harm to the economy and take account of the competitive position of UK business.

The Budget furthers these objectives by:

- cutting taxes overall by £3¼ billion, rising to, £4¾ billion in 1998-99, with the bulk of the cuts falling on direct tax;
- reducing the marginal rates of tax for 18 million taxpayers and for 350,000 companies;
- cutting taxes on savings, inheritance and capital gains to encourage thrift and enterprise;
- taking steps to simplify tax, cut compliance costs for business and close loopholes; and
- implementing previously announced measures to raise tax on road fuels and tobacco, and introduce a tax on landfilled waste.

Personal taxation income

The Budget proposes three significant steps towards a 20 per cent basic rate of income tax. It:

- cuts the basic rate of income tax from 25 per cent to 24 per cent (7);
- widens the 20 per cent lower rate band by £500 more than indexation, a total increase of £700 (5); and
- cuts the rate of tax on savings income to 20 per cent for basic rate taxpayers.

The Budget also proposes to:

- increase the basic rate limit by £200 more than indexation, a total increase of £1 200 (6);
- increase personal allowances, including allowances for the elderly, by £100 more than indexation (1), (2);
- increase married couple's allowances, the additional personal allowance, the widow's bereavement allowance and relief for maintenance payments (3), and the income limit for age related allowances (4), in line with statutory indexation (based on the 3.9 per cent increase in the RPI in the year to September 1995); and
- increase the blind person's allowance to £1 250 (*).

These measures will:

- cut tax for 26 million taxpayers, including three million pensioners;
- reduce marginal tax rates for 18 million people;
- ensure that nearly a quarter of all taxpayers pay tax at a marginal rate of no more than 20 per cent; and
- take 220,000 out of tax altogether, relative to indexation.

The new allowances and bands of taxable income are:

Income tax allowances (£)	1995-96	1996-97	Increase
Personal allowance	3 525	3 765	240
Married couple's allowance, additional personal allowance, widow's bereavement allowance[1]	1 720	1 790	70
For people aged 65-74:			
personal allowance	4 630	4 910	280
married couple's allowance[1]	2 995	3 115	120
For people aged 75 and over:			
personal allowance	4 800	5 090	290
married couple's allowance[1]	3 035	3 155	120
Income limit for age related allowances	14 600	15 200	600
Blind person's allowance	1 200	1 250	50

[1]Tax relief for these allowances is restricted to 15 per cent.

Bands of taxable income (£)	1995-96	1996-97	Increase
Lower rate - 20 per cent	0 - 3 200	0 - 3 900	700
Basic rate - 25 per cent	3 201 - 24 300		
- 24 per cent		3 901 - 25 500	
Higher rate - 40 per cent	over 24 300	over 25 500	1 200

Savings

The tax on savings income, such as bank and building society interest, will be reduced from the basic rate to the lower rate of 20 per cent for basic rate taxpayers, from 6 April 1996. The rate at which tax is deducted from interest will also be reduced to 20 per cent. These changes will reduce tax on savings income for some 14 million taxpayers, increasing incentives to save. Lower rate taxpayers will no longer need to reclaim the difference between tax deducted and tax due. Higher rate taxpayers will continue to be liable at 40 per cent on their savings income (8).

Capital

The qualifying age for capital gains tax retirement relief will be reduced from 55 to 50 (9). The CGT annual exempt amount will be indexed (-).

The threshold for inheritance tax will be increased by £40,000 more than indexation to £200,000, allowing more wealth to be passed between generations free of tax (10).

Allowances and thresholds (£)	1995-96	1996-97	Increase
CGT annual exempt amount:			
individuals	6 000	6 300	300
trustees	3 000	3 150	150
Inheritance tax threshold	154 000	200 000	46 000

The inheritance tax relief for holdings of unquoted shares in trading companies of up to 25 per cent will be increased from 50 per cent to 100 per cent from 6 April 1996 (11). This allows all qualifying shareholdings to be passed on free of tax.

The inheritance tax relief for landlords of agricultural land introduced in the 1995 Finance Act will be amended to ensure consistent treatment of landlords in different parts of the country (*).

Employee share schemes

A number of changes will be made to improve the attractiveness of employee share schemes:

- the minimum amount which may be saved each month under approved savings-related share options schemes will be reduced from £10 to £5, and a three year savings contract will be added to the existing five and seven year contracts. Over a million people participate in these schemes. In future such schemes will be able to operate in conjunction with statutory employee share ownership trusts;
- the period during which shares appropriated to employees under approved profit sharing schemes must be held in trust to qualify for tax relief will be reduced from five to three years. Nearly a million people are taking part in these schemes; and
- a new tax relief for Company Share Option Plans will

be introduced to enable companies to grant share options worth up to £20 000 to their employees. There will be no income tax to pay when the options are granted or exercised. Companies will not be able to grant options at a discount (12).

Other changes

Certain insurance benefits paid in the event of sickness or redundancy, such as mortgage protection, permanent health and a range of long-term care insurance, will be exempt from tax. The exemption will apply from 6 April 1996, but with retrospective effect for some benefits (13).

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 £82 200 (-).

Tax relief for vocational training for trainees aged 30 or over will be extended to full-time courses of between four weeks and a year from 6 May 1996 (14).

The annual limit on charitable donations qualifying for income tax relief under payroll giving schemes will be increased from £900 to £1 200, from 6 April 1996 (*).

Personal tax reliefs and tax credits which are currently available to citizens of Commonwealth countries and the Irish Republic will be extended to citizens of all countries within the European Economic Area, from 6 April 1996 (15).

The scales for assessing the benefit of free fuel provided by employers for private use in company cars will be increased by 5 per cent, in line with fuel prices, from 6 April 1996 (16). The scales are also used for employers' national insurance contributions (57) and VAT (29).

Business taxation
Direct tax

The small companies' rate of corporation tax will be reduced from 25 per cent to 24 per cent from 1 April 1996, cutting the marginal rate of tax on profits for some 350 000 companies (17). All three million unincorporated businesses which pay tax will benefit from the cuts in income tax.

The foreign income dividend scheme, introduced in 1993 to help companies with a substantial proportion of foreign profits, will be improved. The rules for international headquarters companies owned by foreign quoted companies will be made more flexible and changes will be made to the way foreign profits are calculated. The amendments will generally take effect from 28 November 1995 (18).

Tax relief will be given on equalisation reserves for certain non-life insurance business, for accounting periods ending on or after 23 December 1996. This change is linked to a new supervisory requirement for insurance companies to maintain equalisation reserves where claims are particularly volatile (19).

Tax rules for approved investment trusts will be modified to allow them to invest in rented housing, as announced in the Housing White Paper in June 1995. These housing investment trusts will be exempt from capital gains tax and pay the small companies' rate of corporation tax on their rental income (*). The aim is to increase the supply of private rented housing by increasing investment in this sector.

The stamp duty and stamp duty reserve tax rules will be adapted to cater for electronic share transfers under Crest, from 1 July 1996 (*).

National insurance

The introduction of the landfill tax (see para. 'landfill tax') will allow a cut in the main rate of employers' national insurance contributions of 0.2 per cent from April 1997 (53). This will reduce wage bills for employers by some £500 million and cut the marginal cost of employment.

In the 1994 Budget it was announced that employers who hire someone who has been out of work for two years or more will be able to get a full rebate of employer NICs for that person for up to one year, starting in April 1996. This rebate will be extended to cover people who have been on training schemes or in temporary work during the two year qualifying period of unemployment (55).

Business rates

This Budget improves the transitional protection for businesses whose rates bills are increasing in real terms following the 1995 rates revaluation. The 1994 Budget introduced a scheme to limit the real increases in bills to 10 per cent for large properties, 7½ per cent for small properties and 5 per cent for small mixed domestic/non-domestic properties (such as shops with flats above). For 1996-97 these maximum real increases will be reduced to 7½ per cent, 5 per cent and 2½ per cent respectively. This change will be financed by an increase in the Exchequer contribution to the scheme (52). The remainder of the scheme's cost will continue to be met by limits on real rates reductions which remain unchanged.

The rate poundage for 1996-97 will be increased in line with the RPI for the year to September 1995.

Simplification and deregulation
Direct tax

The rate of Class 4 national insurance contributions, paid by the self-employed, will be reduced from 7.3 per cent to 6 per cent (54), and the 50 per cent tax relief for these contributions will be withdrawn, from 6 April 1996 (20). These changes will simplify self-assessment tax returns for the self-employed and, taken together, will be broadly neutral in their impact.

The taxation of debt issued by corporate borrowers and all debt held by corporate investors will be simplified with effect from 1 April 1996. Borrowers will get tax relief for interest costs and issue discounts; and all returns to corporate investors on gilts, bonds and other debt will be taxed or relieved as income. Taxation of individual investors remains broadly unchanged (21).

Legislation on the financing of UK government debt will be amended to enable gilts to be "stripped" into their component coupon and principal payments, and associated changes will be made to their taxation. This will allow the development of a strips market in UK gilts (22).

UK banks and stockbrokers will no longer be required to deduct tax from foreign dividends and interest except where they exercise a custodian function on behalf of a UK investor, from Royal Assent (23).

Subject to certain conditions, lump sum compensation paid for mis-sold personal pensions or buyout contracts will be exempt from income tax and capital gains tax (*).

To assist the introduction of self-assessment, this Budget includes further measures to:

- align time limits for claims, elections and notices with the time limits for filing returns and amending self-assessments (*);
- clarify the rules for claiming some tax reliefs (-); and
- help employers calculate the value of cheap or interest-free loans provided to employees (*).

The current pay and file regime for corporation tax will be aligned more closely with self-assessment (*).

The Inland Revenue will undertake preparatory work on proposals to rewrite law relating to Inland Revenue taxes to make it clearer and simpler. This would reduce costs to businesses and help taxpayers meet their obligations under self-assessment.

Other simplification and deregulation measures are:

- a new statutory framework will be introduced for agreements between employers and the Inland Revenue under which employers may make a single payment to meet the tax due on minor benefits and expenses (*);
- payments of Jobfinder's Grant from 6 April 1995 will be exempt from tax (*);
- the tax treatment of payments made under short-term government pilot schemes will in future be set by secondary rather than primary legislation (-);
- tax payable when a company controlled by its directors, or a small group of people, makes a loan to one of the people who control it, will be payable nine months after the end of the accounting period in which the loan is made, instead of fourteen days. The change will apply to loans made in accounting periods ending on or after 31 March 1996 (*);
- where employers have not entered the fixed profit car scheme, employees who use their own car for business travel will be able to use the scheme's tax free mileage rates to calculate any tax due (*);
- the meaning of "bank" for tax purposes will be aligned with that for regulatory purposes (-);
- fees earned by pension funds through lending out investments will be exempt from tax (*);
- the definition for tax purposes of shares on the Official List of the Stock Exchange will be amended in line with changes in the Stock Exchange (-); and
- the tax treatment of certain financial transactions in overseas securities will be amended (*).

VAT

A number of changes are also proposed to simplify and deregulate VAT:

- the annual turnover threshold above which traders must register for VAT will rise from £46 000 to £47 000 from 29 November 1995. The deregistration threshold will also rise by £1 000 to £45 000. The registration and deregistration thresholds for acquisitions from other Member States will increase from £46 000 to £47 000 on 1 January 1996 (28);
- the payments on account scheme for large VAT payers is to be reformed from 1 June 1996, following consultation. The monthly payments on account will be halved and traders will be given the option of paying their actual monthly VAT liability instead. This will give businesses in the scheme a continuing cash flow benefit of some £35 million a year. Payment by electronic means will become mandatory, and the concession which allows electronic payments to be deferred for seven days will be withdrawn. Late payments will in future be subject to default surcharge (27);
- the second VAT simplification directive will be implemented in UK law. The main provision is to introduce fiscal warehousing creating a VAT-free regime for trading in certain commodities (30);
- the limit above which VAT has to be charged on business gifts will be raised from £10 to £15 from 29 November 1995 (*);
- the special rules governing the VAT treatment of trading stamps will be abolished with effect from 1 June 1996 (*); and
- Customs will be given discretion to allow traders to omit certain information from VAT invoices from the summer of 1996 (-).

Intrastat

From 1 January 1996, the annual threshold above which traders must provide Customs and Excise with detailed statistics on trade within the European Union will increase from £150 000 to £160 000 (-).

Anti-avoidance and revenue protection measures

Direct tax

Measures will be introduced to:

- end of scheme for avoiding the full tax liability on the benefit of job-related living accommodation (24)
- ensure that UK residents with an interest in non-resident companies are taxed appropriately on capital gains made by those companies (25);
- modify the existing provisions relating to controlled foreign companies (CFCs) to require trading CFCs to distribute at least 90 per cent of their taxable profits (less capital gains and foreign taxes) for accounting periods beginning on or after 28 November 1995 (26);
- require sub-contractors in the construction industry who are paid under deduction arrangements to have registration cards. Contractors will need to see the card before making any payment to the sub contractor. This new requirement will not be introduced before 1 August 1998 (*); and
- amend the definition of companies exempt from certain anti-avoidance provisions to refer to those whose shares or stocks are on the Official List of the Stock Exchange (-).

To reduce the scope for avoidance or evasion of VAT, measures will be introduced to:

- counter VAT avoidance involving the transfer of companies orassets into or out of group registrations, with effect from 29 November 1995 (-);
- require businesses to issue a credit note or a debit note when a change in price alters the amount of VAT due after an invoice has been issued. Customs are consulting about the change which is expected to apply from the summer of 1996 (31);
- extend the special VAT accounting scheme for gold to cover all gold grain irrespective of purity or price, with effect from 29 November 1995 (32);
- provide for instances where the penalty for large errors in VAT returns is imposed to count towards the tally for the penalty for repeated errors, from Royal Assent (*); and
- restore the penalty for failure to notify liability to register for VAT when a business has been transferred as a going concern, with effect from 1 January 1996 (33).

Excise duties

Customs and Excise will be given powers to prevent fuel taxed for off road use in another Member State being used as road fuel for private vehicles in the UK. This is in line with existing powers for fuel in commercial vehicles. The measure will take effect from Royal Assent (*).

Excise duties

Alcohol

Duties on beer, table wine, sparkling wine and most cider will remain unchanged (34). Duty on spirits will be reduced by 4 per cent from 6 pm on 28 November 1995 (35). From 1 January 1996, to give effect to a previous international agreement, duty on fortified wine will be reduced by 6.7 per cent (36). From 1 October 1996 a banded duty structure will be introduced for cider with the duty on very strong cider (over 7.5 per cent alcohol by volume) increased by 50 per cent from the current rate (37).

Tobacco

Duties on most tobacco products will be increased from 6 pm on 28 November 1995, in line with the Government's commitment to increase duty on average by at least 3 per cent a year in real terms. Duty on hand-rolling tobacco will remain unchanged (38).

Oils

The tax (duty plus VAT) on petrol and diesel will rise by 3.5 pence per litre, 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 (39). Duty on gas oil and fuel oil will also be raised by 5 per cent in real terms (41). The tax on road fuel gases (compressed natural gas and liquid petroleum gas) will be reduced by 5.8 pence per kg because these fuels produce markedly lower emissions of major pollutants (*). All these changes will take place at 6 pm on 28 November 1995. The tax on superunleaded petrol will be increased by a further 3.9 pence per litre from 15 May 1996, to remove a tax advantage which is not~ justified by the environmental effects of this product (40).

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	
Wine	0	0	
Sparkling wine	0	0	
Fortified wine	-6.7	-12	75cl bottle
Most cider and perry	0	0	
Very strong cider and perry	50	8	pint
Spirits	- 4	- 27	70cl bottle
Tobacco			
Cigarettes	7.5	15	packet of 20
Cigars	6.9	6	packet of 5
Hand-rolling tobacco	0	8	
Pipe tobacco	6.9	0	25 grams
Fuel			
Leaded petrol	8.2	3.5	litre
Unleaded petrol	9.5	3.5	litre
Superunleaded petrol[2]	20.1	7.4	litre
Diesel	9.5	3.5	litre
Gas oil	8.9	0.2	litre
Fuel oil	8.9	0.1	litre
Road fuel gases	-15.0	-5.8	kg

1 *Specific duty up 8.5 per cent. Rate of* advalorem *duty unchanged.*

2 *Increases in two stages.*

Betting

Pool betting duty will be reduced by 5 per cent to 27½ per cent from 3 December 1995. It will be cut by a further 1 per cent to 26½ per cent from 5 May 1996, on condition that this is passed on to the Football Trust and the Foundation for Sport and the Arts (42). General betting duty will be reduced by 1 per cent to 6¾ per cent from 1 March 1996, subject to satisfactory agreement on how the cut will be spread between the betting industry and the horse and greyhound racing industries (43). These changes are a response to growing competition from the National Lottery.

Pools companies will be able to make returns and payments of pool betting duty monthly, rather than weekly as at present, from 31 December 1995 (42).

The rates of amusement machine licence duty are unchanged (44). The current practice of allowing machine-specific rather than premises-specific licences for most types of amusement machines will be given statutory cover from Royal Assent (-).

Air passenger duty

The rates of air passenger duty are unchanged at £5 for flights to destinations in the European Economic Area and £10 elsewhere (45).

Vehicle excise duty

Duty on private/light goods vehicles (PLG), chiefly cars, taxis and vans, will rise by £5 to £140 from 29 November 1995, in line with inflation (47). Duty on lorries will be frozen, the sixth successive Budget freeze for most rates of lorry VED (48).

An off road notification scheme will be introduced for all cars, taxis, vans, tricycles and motorcycles. Keepers of vehicles will be required to notify the Driver and Vehicle Licensing Agency (DVLA) when a vehicle excise licence is not to be renewed because the vehicle is taken off the road, sold, or scrapped. This will enhance DVLA's enforcement effort, reduce duty evasion, and improve the vehicle record (49).

Vehicles which are at least 25 years old in the PLG, tricycle and motorcycle classes will be exempt from VED from 29 November 1995 (50). Steam-driven vehicles will be placed in the special concessionary class, paying annual duty of £35 (*).

A number of minor changes will be made to:

- enhance the ability to set automatic penalties (51);
- correct certain minor anomalies arising from the 1995 Finance Act (*); and
- move those heavy goods vehicles which have remained within the PLG class into the more appropriate special vehicles class (*).

Landfill tax

As announced in the 1994 Budget, a new tax on waste disposed of in landfill sites will be introduced on 1 October 1996. The tax is designed to use market forces to reduce the environmental damage associated with waste disposal. The tax will be based on weight and have two rates: £2 per tonne for inactive waste, which does not decay or contaminate land, and £7 per tonne for all other waste. Landfill operators will be able to claim a tax rebate of 90 per cent on payments to environmental trusts set up for specific purposes, up to a maximum of 20 per cent of their landfill tax bill (46).

National insurance contributions

From April 1996, the lower earnings limit will be increased from £58 to £61 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 £110, £155 and £210; and the upper earnings limit will be increased from £440 to £455 a week. The new structure of contributions is:

Structure of national insurance contributions from April 1996

Weekly earnings	Annual earnings[2]	Percentage NIC rate[1]: Employees	Percentage NIC rate[1]: Employers[3]
Below £61	Below £3 172	0	0.0
£61 to £109.99	£3 172 to £5 720	2% of £61	3.0
£110 to £154.99	£5 720 to £8 060	plus 10%	5.0
£155 to £209.99	£8 060 to 10 920	of earnings	7.0
£210 to £455	£10 920 to £23 660	between £61	10.2[4]
Above £455	Above £23 660	and £455	10.2[4]

1 Not contracted out rates.

2 Approximate annual equivalent.

3 Rates apply to all earnings.

4 To be reduced to 10.0 per cent from April 1997, subject to the usual statutory review by the Secretary of State for Social Security.

The weekly Class 2 rate for the self-employed will be increased to £6.05 and the Class 3 voluntary contribution to £5.95. The lower and upper profits limits for Class 4 contributions will increase to £6 860 and £23 660 respectively (56).

Treasury grant not exceeding 6 per cent of contributory benefit expenditure will be made available to the National Insurance Fund in 1996-97. The Government Actuary will report on the likely effect of the changes on the Fund.

Revenue effects of Budget measures

	£ million yield (+) /cost (-) of measure			
	Changes from a non-indexed base	Changes from an indexed base		
	1996-97	1996-7	1997-98	1998-99
INLAND REVENUE				
Personal taxation				
1 Personal allowance - up by £240	-1 070	-440	-640	-610
2 Age related personal allowances - up by £280/£290	-120	-40	-60	-70
3 Married couple's allowances - indexed	-90	0	0	0
4 Income limit for age related allowances - indexed	- 10	0	0	0
5 Lower rate band - up by £700	-520	-370	-530	-510
6 Basic rate limit - up by £1 200	-270	-40	-80	-80
7 Basic rate - reduced to 24 per cent	- 1 600	- 1 600	-2 000	-2 100
Savings				
8 Tax on savings income cut to 20 per cent	-800	-800	-400	-45
Capital				
9 CGT retirement relief - age limit reduced	- 10	- 10	-40	-60
10 Inheritance tax threshold - increased to £200 000	- 155	- 130	- 250	- 295
11 IHT business relief extended	*	*	*	- 5
Other personal tax measures				
12 Employee share schemes - changes	- 15	- 15	- 10	- 10
13 Insurance benefits exempted	- 10	- 10	- 10	- 10
14 Vocational training relief extended	*	*	- 5	- 10
15 Personal reliefs etc extended to EEA nationals	- 10	- 10	- 20	- 20
16 Car fuel scales increased	10	10	10	10
Business taxation				
17 Small companies' corporation tax rate cut to 24 per cent	*	*	-95	-130
18 Foreign income dividend scheme - changed	-10	-10	-10	-10
19 Insurance equalisation reserves - tax relief	0	0	- 100	-100
Simplification and deregulation				
20 Relief for Class 4 NICs—withdrawn	0	0	240	190
21 Taxation of gilts and bonds	*	*	*	*
22 Gilt strips market	0	0	*	*
23 Paying and collecting agents - simplified	5	5	*	*
Anti-avoidance measures				
24 Accommodation provided by employers	10	10	10	10
25 Capital gains of non-resident companies	5	5	20	30
26 Controlled foreign companies	0	0	0	*
CUSTOMS AND EXCISE				
Value added tax				
27 Payments on account - changes	600	600	0	0
28 Registration and deregistration thresholds increased	- 10	10	10	5
29 Car fuel scales increased	5	5	10	10
30 Second VAT simplification directive	-25	-25	0	0
31 Credit notes	5	5	5	5
32 Extension of special accounting scheme for gold	5	5	5	5
33 Belated notification penalty	5	5	5	5

Revenue effects of Budget measures- *continued*

	£ million yield (+) /cost (-) of measure			
	Changes from a non-indexed base	Changes from an indexed base		
	1996-97	1996-7	1997-98	1998-99
Excise duties on:				
34 beer, wine and most cider unchanged	0	- 150	- 150	- 155
35 spirits cut by 4 per cent	-30	-60	-60	-65
36 fortified wine cut by 6.7 per cent	*	- 5	- 5	- 5
37 very strong cider up by 50 per cent	5	5	10	15
38 tobacco up by 3 per cent real but hand-rolling unchanged[1]	25	25	25	30
39 petrol and diesel up by 3.5p a litre[1]	45	45	55	70
40 superunleaded petrol increased by further 3.9p a litre	25	25	25	25
41 fuel oil and gas oil up by 5 per cent in real terms	20	10	10	15
42 pools betting cut by 6 per cent	-35	-35	-35	-35
43 general betting cut by 1 per cent	-65	-65	-70	-70
44 amusement machine licences unchanged	0	- 5	- 5	- 5
Other .measures				
45 Air passenger duty - unchanged	0	- 10	- 15	- 15
46 Landfill tax introduced at £2/£7 per tonne	110	110	450	460
VEHICLE EXCISE DUTY				
47 Car VED increased from £135 to £140	115	-5	-5	-5
48 Lorry VED unchanged	0	- 20	- 20	- 20
49 Off road notification scheme	0	0	15	25
50 25 year old vehicles exempted	- 15	- 15	- 15	- 15
51 Other minor measures	0	0	0	5
BUSINESS RATES				
52 Business rates - transitional scheme amended	- 135	- 135	- 95	- 55
NATIONAL INSURANCE CONTRIBUTIONS				
53 Employer NICs-main rate reduced by 0.2 per cent	0	0	-495	-580
54 Class 4 NICs - rate reduced to 6 per cent	0	0	-270	-205
55 Employer NICs - rebate for long-term unemployed extended	- 5	- 5	- 10	- 10
56 Earnings thresholds increased	-120	0	0	0
57 Car fuel scales increased	0	5	5	5
TOTAL	-4 145	-3 140	-4 590	-4 790

* = *Negligible.*

[1] *Tax increases previously announced and confirmed in this Budget*

5 per cent real increase in road fuel duties	*1 430*	*805*	*855*	*900*
3 per cent real increase in tobacco duties	*480*	*210*	*215*	*220*
Total	*1 910*	*1 015*	*1 070*	*1 120*

Annex A
Explaining the costings

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

The general approach

The revenue effect of a Budget measure is the difference between the tax yield from applying the pre-Budget and post-Budget tax regimes to the levels of total income and spending at factor cost expected after the Budget. The estimates do not therefore include any effect the tax changes themselves may have on overall levels of income and spending. They do however take account of other effects on behaviour where they are likely to have a significant effect on the yield, and 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. Where the effect of one tax change is affected by the implementation of others the measures are costed in the order in which they appear in the Revenue effects of Budget measures table.

In the non-indexed base column the pre-Budget regime is the regime of allowances, thresholds and rates of duty which applied before this Budget (including any measures, such as the real increase in fuel duties, previously announced but not yet implemented). The indexed base columns strip out the effects of inflation by assuming, in defining the pre-Budget regime, 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 November (January for alcohol), and allowances and thresholds rise in April, in line with the assumed increase in the RPI over 12 months to the previous September. The commitments for real increases in fuel and tobacco duties are also built in. The assumptions are 2¼per cent, 2 per cent and 2 per cent for September 1996,1997 and 1998 respectively.

Notes on individual Budget measures

The numbers below refer to lines in the Revenue effects of Budget measures table.

Inland Revenue taxes

The cost of the following measures in a full year, against an indexed base, is:

1	£590 million
2	£60 million
5	£490 million
6	£70 million
7	£1 800 million
8	£400 million.

3, 4 The increases in allowances 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 1995.

12 The new scheme is not expected to have any costs in the first three years. The cost in a full year is £80 million. The cost of the other changes in a full year is £30 million.

21 These measures are assumed to be broadly revenue neutral; the actual cost or yield will depend on future market movements.

22 The revenue effects of this measure depend on decisions on the stocks which can be stripped and the timing of the start of the strips market. There will be no effect on tax receipts in 1996—97.

24, 25 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.

26 The likely yield in a full year from this measure with the existing level of activity is £100 million. Without this measure there could be a more significant loss of revenue in the future.

Customs and Excise Taxes

Implementation of the second VAT simplification directive affects the timingtaxes of payments, causing a one-off loss in 1996-97.

35 The non-indexed figure shows the loss from the 4 per cent duty cut on spirits while the indexed figure also includes the cost of not revalorising the duty.

42 The move from weekly to monthly payment has revenue effects only in 1995-96.

46 The revenue figure for landfill tax in 1996-97 is a part year figure because the tax is being introduced on 1 October 1996.

Revenue effects in 1995-96

A number of Budget measures have revenue effects in 1995-96. These are summarised below:

Measures in 1995 Budget which have revenue effects in current year

		£ million yield (+) /cost(-) of measure Changes from an indexed base 1995-96
8	Tax on savings income cut	- 50
30	Second VAT simplification directive	15
34-37	Alcohol	-40
38	Tobacco	5
39-41	Road fuel	10
42	Pool betting duty[1]	- 15
48, 50	Vehicle excise duty	-10
Total		- 85

[1] *Includes the move from weekly to monthly payment of pools duty.*

Annex B
Tax changes announced before the Budget

This annex sets out a number of tax changes which were announced before the Budget, the effects of which are taken into account in the forecasts. Measures announced by the Chancellor on 8 December 1994, following the Government's decision not to proceed with the second stage increase in VAT on domestic fuel and power, were reflected in revised tables for the FSBR 1995-96 published by the Treasury in January 1995.

Measures announced since the 1994 Budget

	£ million yield (+) /cost (-) of measure			
	Changes from a non-indexed base	Changes from an indexed base		
	1996-97	1996-7	1997-98	1998-99
Inland Revenue taxes				
1 Gilt repo market	*	*	*	*
2 Deduction at source for certain rents	-30	-30	*	*
3 Debt held by associates of banks	10	10	*	*
4 Executive share option scheme	0	0	0	0
Customs and Excise taxes				
5 Annual VAT returns for small businesses	- 65	- 65	0	0
6 VAT exemption for dispensing spectacles	- 45	- 45	- 45	- 45
7 VAT group registration	50	50	50	50
8 Pool betting duty reduced	- 30	- 3()	- 3()	- 30
9 Arumsement machine licence duty	- 15	- 15	- 15	- 15
Vehicle excise duty				
10 Changes to vehicle excise duty	- 5	- 5	- 5	- 5
Business rates				
11 Relief for village shops	- 15	- 15	- 15	- 15
Total	**- 165**	**165**	**- 60**	**- 60**

* = Negligible.

Inland Revenue taxes

Measures to improve the liquidity of the gilt market will take effect from 2 January 1996. These include payments of gilt interest gross in certain circumstances, the ending of tax rules which impeded financial transactions in gilts and new arrangements to collect tax on gilt interest from UK companies. The measures are estimated to have a cost of £100 million in 1995-96.

The requirement to deduct tax at source from certain rents payable by mineral extraction, transport and similar businesses, was abolished for payments made on or after 1 May 1995.

A measure in the 1994 Budget brought the tax liability of issuers of securities through dedicated subsidiaries of a bank into line with that which applies where banks lend money direct. A transitional provision was announced on 20 February 1995 to defer the application of this measure, where the issuer is a university or housing association, until 1 April 1996.

The income tax relief available for share options granted under approved executive share option schemes will be withdrawn in relation to options granted on or after 17 July 1995. The yield in a full year is estimated to be £80 million.

Customs and Excise taxes

On 22 September 1995 Customs and Excise announced an enhancement of the annual accounting arrangements for small traders with an annual turnover of less than £100,000.

In March 1995 the High Court ruled that dispensing services associated with the supply of spectacles should be treated as a separate supply and should be exempt from VAT.

New measures were announced to counter VAT avoidance involving the transfer of companies in or out of group registrations. The measures took effect from midnight on 28 February 1995.

Pool betting duty was reduced by 5 per cent from 37.5 per cent to 32.5 per cent from 7 May 1995.

Major changes involving types of machine, rates and the administration of the new amusement machine licence duty were announced on 31 March and 7 September 1995. All the changes took effect from 1 November 1995.

Vehicle excise duty

A number of changes to VED were announced during the passage of the 1995 Finance Bill to exempt short journey agricultural vehicles; place all-terrain vehicles in the special concessionary class; create concessionary classes for recovery vehicles; and place small island HGVs in the special vehicles class.

Business rates

The Government announced in the Rural White Paper proposals to introduce a new scheme of rate relief for village shops, at the discretion of local authorities.

Measures announced in 1994 Budget or earlier which take effect after 1995 Budget

	£ million yield (+)/cost (-) of measure			
	Changes from a non-indexed base	Changes from an indexed base		
	1996-97	1996-97	1997-98	1998-99
Inland Revenue taxes				
12 Self-assessment	*	*	50	850
13 Construction industry tax scheme	0	0	0	400
Customs and Excise taxes				
14 5 per cent real increase in road fuel duties	1 695	1 070	2 120	3 335
15 3 per cent real increase in tobacco duties	545	275	525	795
16 Tour operators' margin scheme	10	10	10	10
Total	**2 250**	**1 355**	**2 705**	**5 390**

* = Negligible.

Inland Revenue taxes

As announced in the March 1993 Budget, the assessment and collection of personal tax is being 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 and paying tax, and clear sanctions for failing to comply with them.

The November 1994 Budget announced further measures including simplification of the way income from property and income of non-residents are taxed; and a requirement for employers to give their employees certain information which they need to complete their tax returns. The figures in the table include Class 4 NICs.

Changes to the construction industry tax scheme were introduced in the 1995 Finance Act which will ensure that only those businesses running more substantial construction operations will qualify for certificates exempting them from deductions for tax and national insurance contributions. The changes will not take effect before 1 August 1998.

Customs and Excise taxes

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 yield shown here includes the effect of duty increases in future Budgets. The footnote to Table 5.1 shows only the yield from implementing the commitment in this Budget.

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.

On 25 October 1994 it was announced that the tour operators' margin scheme would be amended with effect from 1 January 1996 so that the standard rate of VAT would be applied to the whole of a tour operator's margin on holidays and travel within the Community. On 24 October 1995, following consultations with the trade, proposals were announced which would allow tour operators to alleviate the effects of the change.

The economy: recent developments and prospects

Summary

World economy

Growth has slowed this year in both North America and Europe. It is expected to average about 2½ per cent for the G7 as a whole in 1995, compared with 3 per cent in 1994, and is projected to continue at about 2½ per cent in 1996.

Activity

Growth has moderated in the UK too, partly because of slower export growth. After rising by 4 per cent in 1994, GDP is likely to increase by around 2¾ per cent in 1995. Growth of 3 per cent is forecast for 1996.

Inflation

Underlying RPI inflation was just under 3 per cent in October, compared with 2 per cent a year ago. Inflationary pressure has come mainly from higher import prices, reflecting the increase in commodity prices in 1994 and the depreciation of sterling early this year. This pressure has begun to ease, and inflation is expected to fall back to 2¼ per cent by the second quarter of 1997.

Labour market

Employment has continued to rise, and labour force participation has also picked up recently as job prospects have improved further. The survey-based measure of unemployment has flattened off recently, but the claimant count has fallen by a further 150,000 so far this year, and in October was 710,000 below its peak in December 1992.

Current account

The current account deficit has increased this year, mainly because net investment income has dropped back from its exceptionally high level of last year. A deficit of around £6½ billion is forecast for 1995, followed by a smaller deficit of around £5 billion in 1996.

Financial conditions

The sterling index declined by about 5 per cent over the first three months of this year, but has ranged mainly between 83 and 85 since April. The forecast is based on the conventional assumption that sterling remains close to recent levels. Short-term interest rates have remained unchanged since February, while long rates have fallen. MO growth has slowed, while M4 has accelerated, mainly because corporate borrowing has picked up.

Medium-term projections

For the purpose of the medium-term fiscal projections, GDP is assumed to grow by around 2¾ per cent a year from 1997-98. Inflation as measured by the GDP deflator is assumed to fall from 2¾ per cent in 1996-97 to 2 per cent by 1999-2000.

The Economy in the Short Term

World background

Activity

World output and trade increased sharply in 1994, but growth has slowed this year. This has been the pattern in most of the major seven economies (G7). In the US, GDP rose by 4 per cent in 1994, but growth then slowed sharply in the first half of 1995. This was partly a stock adjustment, and there was a strong pick-up in growth in the third quarter. Europe also slowed down in the first half of 1995 after the more rapid growth of last year. But in Japan recovery is not yet firmly established.

G7 growth is projected to be 2½ per cent in 1995, down from 3 per cent last year. It is forecast to continue at 2½ per cent in 1996. Growth rates within the G7 should start to converge in 1996 as Japan finally starts to recover. The US economy is forecast to grow by around 3¼ per cent in 1995 and slow to around 2½ per cent in 1996. Growth is also expected to average about 2½ per cent in Europe.

Table 1 The world economy

Percentage changes on a year earlier

		Forecast		
	1994	1995	1996	1997 H1
Major seven countries[1]				
Real GDP	3	2½	2½	2½
Domestic demand	3¼	2½	2¼	2¼
Industrial Production	4¼	3¼	2½	2½
Consumer price inflation[2]	2¼	2½	2½	2½
World trade in manufactures	12	10½	8½	8½
UK export markets[3]	11	10½	8	8¼

[1] *G7: US, Japan, Germany, France, Italy, UK and Canada.*
[2] *Final quarter of each period. For UK, RPI excluding mortgage interest payments.*
[3] *Others countries' imports of manufactures weighted according to their importance in UK exports.*

World trade

The slowdown in the world economy in the first half of the year has brought a slowing in world trade growth from the rapid rates of 1994. Nevertheless, world trade is still expected to increase by 10½ per cent in 1995. It is forecast to grow at around 8½ per cent a year over the next 18 months, on the back of output growth at about trend rates in most industrial countries and continuing fast rates of growth in the emerging markets of Southeast Asia. UK export markets are likely to grow slightly slower than world trade as a whole because intra-regional trade in Southeast Asia is expected to be particularly buoyant.

Commodity prices

Non-oil commodity prices rose sharply in 1994, because of the combined effect of strong world trade, supply shortages and speculative pressures. But they fell back in the early months of 1995 and, despite a slight pick-up recently, are not expected to be a source of renewed inflationary pressure. Brent oil prices have also fallen back, from a peak of around \$20 a barrel in April, to around \$16½ a barrel. The forecast assumes that oil prices remain close to this level.

Inflation

The pick-up in G7 consumer price inflation looks to have been short-lived. Inflation has already fallen back in the US, and has turned out lower than expected in Germany (in part reflecting the rebasing of the index). In Japan, prices are broadly flat. With few cost-push pressures in the pipeline, output growth at trend rates, and probably still some spare capacity in aggregate, the outlook for inflation is benign. G7 inflation is forecast to remain at around 2½ per cent.

Interest rates

In the US, the Federal Reserve began to tighten policy in February 1994, increasing the Federal Funds rate by 3 percentage points by February this year. It then cut rates by a ¼ percentage point in July. The Bundesbank cut its discount rate to 3½ per cent in August, the twelfth cut since the peak of 8¾ per cent in September 1992. The Bank of Japan cut its discount rate to a record low of ½ per cent in September in response to the continued weakness of the Japanese economy. With renewed confidence that inflation will remain low, world long-term rates have generally fallen back in 1995, reversing most of the sharp increase last year.

Demand and output

Recent developments

Growth in the UK has also moderated this year. After increasing by 4 per cent in 1994, GDP grew at an annual rate of around 2 per cent over the first three quarters of 1995. However, because of the rapid growth through last year, GDP is still likely to increase by about 2¾ per cent between 1994 and 1995. Manufacturing output growth has slowed and construction output has fallen. In contrast, the trend in output of services has continued fairly steadily upwards, with the output of the transport and communication industries rising especially fast.

Exports of goods rose by over 10 per cent in 1994, the largest increase for over 20 years. They flattened off in the first half of this year as world trade decelerated; and this is probably the main reason for the slower rise in manufacturing output. Consumers' expenditure has hardly slowed, on the latest data, despite the tightening of fiscal and monetary policies. Manufacturing investment in plant and machinery has picked up strongly. But, with construction comparatively weak, fixed investment in total is likely to grow more slowly this year. The growth of government consumption has also slowed.

Prospects

Exports now appear to be picking up again. They remain highly profitable, and are likely to increase substantially next year if world demand continues to expand. Consumer demand may also strengthen as real disposable incomes rise more quickly. Business surveys suggest that business investment could rise quite strongly, but housing investment may remain weak for some time. Direct public sector investment is falling, but offsetting increases in private investment are expected under the Private Finance Initiative. Stock building, which has been quite high this year, could make a small negative contribution to growth next year.

With this outlook for the components of demand, GDP growth is expected to pick up from recent rates of around 2 per cent to 3¼ per cent through 1996. This would imply an increase in GDP of 3 per cent in 1996 as a whole.

Personal sector and the housing market

Consumers' expenditure

Consumers' expenditure has risen by 2¼ per cent at an annual rate over the first three quarters of this year, which is similar to its rate of increase during the course of last year. Retail sales have been broadly flat this year, and most of the growth in consumer spending has been on services (which are not included in retail sales). Real personal disposable income has risen more quickly this year, partly because of higher dividend payments. The saving ratio, which had fallen from 12¼ per cent in 1992 to 9¾ per cent in 1994, does not appear to have changed substantially this year. For an explanation of the basis of this estimate, see footnote 1 to Table 8.

Survey evidence suggest that consumer confidence has been on a slight upward trend in recent months, but consumers remain wary about making major purchases. Despite the falls in 1993 and 1994, the saving ratio is still fairly high given the historically low rate of inflation, and households are accumulating substantial net financial assets. Their debt-income ratio, which rose steeply during the 1980s, has fallen slightly since 1991 and debt servicing costs have been sharply reduced as a result of lower interest rates. Saving for personal pensions, comparatively high real interest rates, job insecurity and the weakness of the housing market all suggest that the saving ratio could remain quite high for a time, and the forecast assumes only a comparatively small further fall. Real personal disposable income and consumption are forecast to rise by 2 and 2¼ per cent respectively in 1995. Real incomes are projected to rise by 2¾ per cent next year, partly because taxes are being reduced, and consumers expenditure is forecast to grow by 3½ per cent.

Housing market

Housing prices are 2 per cent lower than at the start of the year, while turnover is over 13 per cent lower. Demand and supply may still be adjusting to some extent to the boom in the late 1980s. In addition, some potential house buyers, especially first-time buyers, may have been delaying moves until after the Budget. However, the latest data indicate that house prices may have reached the bottom of their cycle. The Department of the Environment index rose in the second quarter, and was unchanged in the third quarter; the Halifax index has now risen for three months in succession; and although the Nationwide index fell in October, it is still above the level in June. Turnover also appears to have stabilised recently.

A modest housing market recovery is projected for 1996, encouraged by higher real income growth, low mortgage rates, an historically low house price-earnings ratio, and an increasing number of first-time buyers. To the extent that there is still pent up supply in the market, the recovery may be reflected at first more in turnover than prices, which are forecast to rise only slowly next year.

Private housing investment

Housing completions have been on an upward trend; but this reflects the increase in starts last year, and with starts recently falling short of completions, the number of houses under construction has been falling. Nevertheless, private housing investment (which includes improvements, maintenance and net purchases of land and existing buildings as well as new housebuilding) is projected to rise by 3¼ per cent in 1996.

Financial position

With no large change in either the saving or investment ratios, the personal sector is expected to maintain a significant financial surplus. At around 3 per cent of income, it would be close to the average of the last 30 years.

Corporate sector and investment

Profits

Profits of industrial and commercial have increased by over one third over the past three years. Their share in GDP has risen from 12½ per cent in 1992 to 14½ per cent in the first three quarters of 1995, and the real rate of return on capital is approaching levels last seen in the late 1980s. With generally strong balance sheets and easy access to external finance, it is not surprising that the October CBI survey indicates that relatively few firms regard availability of finance as a major constraint on investment.

Business investment

Business investment has fluctuated from quarter to quarter, but appears to have been on a rising trend since the beginning of last year. The aggregate figures conceal very different movements in different sectors. Manufacturing investment turned up at the beginning of 1994, and by the third quarter of this year was over 20 per cent higher than at its trough. Investment by the privatised utilities (gas, electricity and water) was heavy from 1991 to 1993, but has now passed its peak. North Sea investment has also fallen back from high levels in the early 1990s. Other business investment (mainly in services) has been rising since the start of 1994.

Surveys of manufactures' intentions suggest that there is still a good deal of planned investment in the pipeline. Manufacturing capacity utilisation is still at a high level, and according to the CBI survey the need to increase capacity is an increasingly important incentive to invest. Manufacturing investment is forecast to increase by over 10 per cent both this year and in 1996. The British Chambers of Commerce survey suggests that investment intentions are also quite high in services. However, construction orders remain low, and investment in plant and machinery is likely to be more buoyant than investment in buildings.

The prospect is for a substantial rise in business investment in total, but not a boom of late 1980's proportions. An increase of 3¼ per cent is forecast for this year, and 9 per cent for 1996.

Whole economy investment

The forecast of business investment takes full account of the substantial investment planned under the Private Finance Initiative, which offsets planned reductions in directly financed public investment. With, in addition, only modest increases in investment in housing and land projected over the next 18 months, investment for the economy as a whole is likely to increase significantly less than business investment. Even so, it is forecast to rise by over 4 per cent in 1996.

Table 2 Gross domestic fixed capital formation

Percentage changes on a year earlier

		Forecast		
	1994	1995	1996	1997 H1
Business[1]	1½	3¼	9	6¾
Private dwellings and land[2]	6½	1	3¼	4¼
General government[3]	4¼	-6	-11	-9
Whole economy	3	1	4¼	3¾

[1] *Includes public corporations (except National Health Trust hospitals) and investment under the Private Finance Initiative.*

[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

Stockbuilding increased sharply in the third quarter of 1995 and has been high on average for the last four quarters. The increase in stocks has been large in manufacturing and the retail trade, and the ratio of total stocks to GDP has risen against its long-term downward trend. A lower rate of stockbuilding may temporarily reduce output growth, but this effect is expected to be short-lived.

Financial balance

Industrial and commercial companies remain in substantial financial surplus. However, the surplus is projected to fall from 2 per cent of GDP in 1994 to virtually zero in 1996, under the twin influences of strong investment and lower saving.

Trade and the balance of payments

Competitiveness

Most measures of competitiveness continue to show the UK in a strong position. Important prices have risen far more than domestic producer prices so far this year, which implies a further improvement in the price competitiveness of domestically produced goods relative to imports. Cost competitiveness also benefited from the weakness of sterling early this year.

The position on export price competitiveness does not appear so strong. However, exports are very profitable. When sterling depreciated early this year, exporters maintained their prices in foreign currency terms, again taking the benefit in the form of higher profit margins. This pattern is consistent with the export prices of standard products being determined on world markets, rather than being set by UK firms. High profit margins will increase the incentive to supply overseas markets. In the longer term it will also encourage investment to increase capacity, and there are already signs of this happening in manufacturing.

Export volumes

After rising by 10 per cent in 1994, the volume of non-oil exports of goods was little changed in the first half of this year. The slowdown in the world economy partly accounts for this flattening off. Delivery times may also have lengthened. But, with business surveys suggesting a more buoyant picture, it is conceivable that the volume of exports has been understated. Third-quarter data suggest that exports have stated to pick up again. Over the next 18 months, exports of manufactures are projected broadly to maintain their market share.

Import volumes

Over the past year and a half, non-oil import volumes have moved erratically. This year they fell in the first quarter, picked up in the second and continued rising into the third quarter. Despite the recent increases, the current level of imports does not appear unusually high in relation to demand. With growing investment and high stockbuilding, capital and intermediate goods imports have been relatively strong, while imports of consumer goods have been relatively weak. Over the next 18 months, imports are projected to rise rather faster than final expenditure, but less so than typically in the past because of the strong competitive position of UK manufacturers. In the longer term the build-up of UK manufacturing capacity may also tend to reduce import growth through greater import substitution.

Trade prices

Following sterling's depreciation early this year, both export and import prices increased sharply. With import prices rising more than export prices, the terms of trade deteriorated further. However, the growth of export and particularly import prices has moderated recently, and part of the deterioration in the terms of trade has already been reversed. Assuming a constant exchange rate and no marked change in commodity prices, little change in the terms of trade is projected over the next 18 months.

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
1994	10	5	1¼	3½	-2¼	-14¾
Forecast						
1995	6½	5	8	8¾	-¾	-15¾
1996	8¼	7¾	4	3¼	¾	-15½
1997 H1	7½	6½	1¼	1	¼	-14¾[3]

[1] *Average value indices.*
[2] *Ratio of export to import prices.*
[3] *At an annual rate.*

Visible balance

The non-oil visible deficit increased by almost £1½ billion between the second half of last year and the first half of 1995. This is more than fully explained by the deterioration in the terms of trade; the balance improved in volume terms. The deficit is projected to fall slightly next year, as export volumes recover and the terms of trade are a little higher.

Oil

The oil surplus has increased since the end of last year, but fell back a little in the second quarter, and fell further during the summer because of maintenance work in the North Sea. Oil production has since picked up again, and the oil surplus is likely to increase as a result.

Invisibles

The surplus on invisibles quadrupled last year to £9¾ billion, its highest level relative to GDP since 1987, due mainly to higher net investment income. There were, however, a number of exceptional factors underlying this increase, for example a sharp fall in the profits of overseas financial institutions operating in the UK and unusually high net earnings from interest rate swaps. A fall-back in 1995 was expected, therefore, as these exceptional factors unwound. This fall was exacerbated by the Barings losses in the first half of 1995, and a number of other factors, such as a small increase in UK interest rates relative to those overseas. In the event, the invisibles surplus fell to an annual rate of £4¾ billion in the first half of this year. It is projected to remain at about this level over the next year and a half.

Table 4 The current account[1]

£billion

	Manu-factures	Oil	Other	Total visibles	Invisibles	Current balance
1993	-8¼	2½	-7¾	-13½	2¼	-11
1994	-7½	4	-7¼	-10¾	9¾	-¾
Forecast						
1995	-8¾	4½	-7	-11½	4¾	-6½
1996	-9½	5¼	-6¼	-10¼	5¼	-5
1997 H1[2]	-9	5½	-5¾	-9¼	5	-4¼

[1] *The estimate of the current account deficit for 1994 takes account of revisions to visible and invisible trade statistics since the last CSO Balance of Payments release on 22 September (see footnote 1 to Table 8).*
[2] *At an annual rate.*

Current account

A current account deficit of about £6½ billion is expected in 1995, £5¾ billion higher than in 1994. Almost all of this increase is accounted for by the fall-back in net investment income. The deficit is projected to narrow by £1½ billion in 1996, largely as a result of a lower deficit on visible trade. The projected deficits in 1995 and 1996 are relatively small at ¾ - 1 per cent of GDP.

Pattern of financial balances

With the current account expected to remain in small deficit, the projected fall in the private sector financial surplus closely mirrors the fall in the public sector deficit. The fall in the private sector financial surplus, from 6½ per cent of GDP in 1994 to 2½ per cent in 1996, comes largely through a lower corporate sector surplus.

Labour market

Employment

Employment continues to rise. The employer survey measure shows an increase of 510,000 since its trough at the end of 1992, while the Labour Force Survey (LFS) measure has risen by 650,000 over a similar period. The employer survey shows employment growth slowing recently, with an increase of 80,000 in the first half of 1995, compared with 220,000 in the second half of last year. But the LFS measure shows little deceleration, with an increase of over 160,000 between the winter and summer, not much less than the increase in the previous half year.

Productivity

Productivity rose less rapidly in the first half of this year, probably reflecting a lag in the adjustment of employment to lower output growth. Non-oil output per person employed rose at an annual rate of 1½ per cent, compared with 2¾ per cent in 1994. Over the next 18 months, non-oil productivity is projected to rise at around its trend rate. Manufacturing productivity has also slowed, for a similar reason, but is expected to pick up next year as output picks up.

Unemployment

UK claimant unemployment is now over 710,000 below its end-1992 peak. The monthly rate of decline has tended to slow for most of this year. It averaged around 12,000 a month in July to October, against an average last year of 30,000 a month. The LFS measure of unemployment in Great Britain has also fallen substantially and is now over 520,000 less than in winter 1992/93. On either measure, the unemployment rate has declined to 8-8½ per cent from 10½ per cent around end-1992.

Labour force

However, the LFS measure of unemployment has changed relatively little since last winter. As employment has continued to rise, this implies a substantial increase in the labour force - the number of people either in or actively seeking work. According to the LFS, the number of economically active people in Great Britain, which had fallen by over 110,000 between winter 1992/93 (when unemployment peaked) and winter 1994/95, has since risen by over 140,000. Some of this rise is accounted for by demographic trends (more people of working age), but most is accounted for by a rising participation rate (a higher proportion of people in or seeking work). Participation had been falling because of increasing numbers of students and 'discouraged workers', but is now rising, partly because more people are being attracted into the labour force by better job prospects.

Financial developments

Sterling

Sterling's exchange rate index, which measures the sterling exchange rate against a basket of currencies, fell by about 5 per cent in the first three months of the year, but has ranged mainly between 83 and 85 since April. During the year, sterling has traded in a fairly narrow range against the dollar but has fallen against the Deutschmark and the French Franc. Sterling lost ground against the Yen in the first half of the year but has since recovered.

Interest rates

Since the last Budget, base rates have been raised twice (by ½ percentage point in both December and February) to 6¾per cent. Mortgage rates have, however, barely increased, reflecting competition in the mortgage market.

Long rates

UK long rates have declined gradually since the beginning of the year, largely reflecting international developments. Yields on ten year gilts were around 7¾ per cent in mid-November, down from 8¾ per cent in January. UK long rates have not fallen as much as those in the US and the differential has widened; but the differential against German rates has remained broadly constant for most of the year. Inflation expectations implied by gilts yields have declined a little since the end of 1994.

Asset prices

House prices appear to have stabilised following the falls during the first half of 1995. In the commercial property market too, there are signs that the recent falls in capital and rental values may soon be at an end. Equity prices have risen sharply during 1995, and the FT-SE All-Share index has risen by 17 per cent since last December.

Monetary aggregates

The annual growth rate of MO, 5.2 per cent in October, is still high. Rapid MO growth during 1993 and 1994 was probably a result of continuing adjustment to falling interest rates. The persistence of strong growth in 1995 has been more difficult to explain, and may suggest a structural change in its trend relative to GDP, perhaps due to a slowdown in financial innovation and an adjustment to lower inflation.

The annual growth rate of M4 was 8.7 per cent in October, close to the top of its medium-term monitoring range. M4 lending - bank and building society lending to the UK private sector - has strengthened over the last year. Although lending for house purchase declined during the first three quarters, lending to industrial and commercial companies and other financial institutions has been strong for most of the year.

Inflation

Inflation since June has been broadly in line with the Summer Economic Forecast. The 12-month rate of increase in the RPI excluding mortgage interest payments (MIPs) was 2.9 per cent in October, compared with 2 per cent a year ago. Producer output prices have been decelerating since April, and the 3-month annualised rate of increase fell sharply in October to 4 per cent. Most of the increase in retail price inflation has been in goods, reflecting the increase in producer output prices; services inflation, which is more closely related to earnings growth, remains subdued.

Import costs

The main force pushing up goods prices has been higher import costs, arising from the sharp rise in commodity prices last year and the weakness of sterling earlier this year. In the first quarter, import prices were almost 10 per cent higher than a year before, but they have since slowed considerably as commodity prices have fallen back, and have been virtually unchanged since May. This has been reflected in the deceleration of producer input prices. The 3-month annualised rate of increase has fallen from a peak of over 16 per cent in March to just 1½ per cent in October.

Earnings

Pay settlements have picked up very slightly recently, but earnings growth remains low, suggesting a decreasing contribution from overtime, grading increments and bonuses. This is probably partly related to the slowdown in output growth, although it may also partly reflect new working practices which have reduced increments and allowances. The underlying rate of increase in average earnings for the economy as a whole was just 3¼ per cent in the third quarter. This is close to the rate of increase recorded in autumn 1993, which in turn was the lowest since 1967.

Manufacturing sector

With capacity utilisation in manufacturing at high levels, manufacturers were able to improve margins earlier in the recovery. But as manufacturing output has slowed, pressure on prices from this source has eased. Therefore, movements in prices this year largely reflect changes in costs. The CBI price expectations balance, which is a good leading indicator of producer output prices, peaked in February, and has recently been at its lowest level since the middle of 1994. The Chartered Institute of Purchasing and Supply survey also shows inflationary pressures in manufacturing easing.

Retail sector

In retailing, the relative weakness of consumer demand has given firms little opportunity to raise margins. Competition remains fierce, as evidenced by recent attempts to end collective agreements in book retailing and pharmaceuticals. Although consumer demand is expected to pick up in 1996, a large rebound in retailers' margins seems unlikely in these circumstances.

Prospects

With external cost pressures easing and output still below trend, inflation may now be close to its peak. From 3 per cent in the last quarter of this year, RPI excluding MIPs inflation is forecast to fall back to 2¼ per cent by the second quarter of 1997. The forecast excludes any possible effect on measured inflation from electricity rebates associated with the flotation of the National Grid.

Table 5 Retail and producer output price inflation

Percentage changes on a year earlier

			Forecast		
	1994 Q4	1995 Q4	1996 Q2	1996 Q4	1997 Q2
RPI excluding MIPs[1]	2¼	3	2¾	2½	2¼
Producer output prices[2]	2½	4½	3	2	1¾

[1] *Excludes any possible effect on measured inflation from electicity rebates associated with the flotation of the National Grid.*

[2] *Excluding the food, beverages, tobacco and petroleum industries.*

GDP deflator

The GDP deflator has been rising more slowly than the RPI excluding MIPs because of the deterioration in the terms of trade. With the terms of trade recovering slightly, it is projected to rise marginally faster than the RPI in 1996-97.

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. Errors usually increase the further ahead the forecast looks. Obviously, errors on any individual forecast may be larger or smaller than the average.

The forecasts of GDP growth and inflation for this year are little changed from the Summer Economic Forecast. Growth is expected to be ½ percentage point lower than in the last Budget forecast, while RPI excluding MIPs inflation is ½ percentage point higher, partly due to the weakness of sterling early this year. The forecast of the current account deficit for this year has been revised up since the summer, mainly because the terms of trade and export volumes have both been lower than expected. The PSBR for the current financial year is now expected to be £5½ billion higher than forecast in the summer.

Table 6 Comparison with earlier forecasts

Percentage changes on a year earlier unless otherwise stated

		1994 Budget	1995 Economic Forecast	1995 Budget
Gross domestic product	1995	3¼	3	2¾
	1996	-	2¾	3
RPI excluding mortgage interest payments	1995 Q4	2½	3	3
	1996 Q4	-	2½	2½
Current account (£billion)	1995	-3½	-2	-6½
	1996	-	-1	-5
PSBR (£billion)	1995-96	21½	23½	29
	1996-97	13	16	22½

The Panel of Independent Forecasters

Forecast uncertainties can also be illustrated by the range of views of members of the Panel of Independent Forecasters. For example, the Panel's forecasts of inflation at the end of 1996 range from 1¾ to 3¼ per cent. The forecasts of growth in 1996, however, cover a relatively narrow range of 2½ to 3 per cent. The Budget forecast of growth is the same as the Panel average for 1995, but at the upper end of the range for 1996. The Budget forecast of inflation for end-1995 and 1996 is the same as the Panel average.

Table 7 Budget and Independent Panel[1] forecasts

Percentage changes on a year earlier unless otherwise stated

	1995			1996		
	Budget	Independent Panel		Budget	Independent Panel	
		Average	Range		Average	Range
Gross domestic product	2¾	2¾	2½ to 2¾	3	2¾	2½ to 3
RPI excluding mortgage interest payments (Q4)	3	3	2½ to 3¼	2½	2½	1¾ to 3¼
Current account (£billion)	-6½	-6	-9 to -3	-5	-3¾	-9½ to 1½
PSBR (financial year, £billion)	29	27½	25¼ to 30	22½	22	20¼ to 26

[1] *Submitted to the Chancellor of the Exchequer on 2 November.*

Table 8 Summary of short-term economic prospects[1]

	1994	Forecast 1995	Forecast 1996	Average errors from past forecasts[3]
				Percentage changes on a year earlier unless otherwise stated
Expenditure at constant prices[2]				
Domestic demand	3	2	2¾	1¾
Consumers' expenditure	2¾	2¼	3½	1¾
General government consumption	2	¾	¼	1¼
Fixed investment	3	1	4¼	3½
Change in stockbuilding[4]	½	¼	-¼	½
Exports of goods and services	9	5¾	7¼	2
Imports of goods and services	5¼	3¾	6¾	3
Gross domestic product	4	2¾	3	1½
Non-North Sea GDP	3½	2½	2¾	1½
Manufacturing output	4¼	2	2½	1¾
Balance of payments current account				
£ billion	-¾	- 6½	-5	7¼
per cent of GDP	-¼	- 1	-¾	1
Inflation				
RPI excluding mortgage interest payments (fourth quarter)	2¼	3	2½	1
Producer output prices (fourth quarter)[5]	2½	4½	2	1
GDP deflator at market prices (financial year)	2	2¾	2¾	1½
Money GDP at market prices (financial year)				
£ billion	678	712	754	
percentage change	6	5	6	2
PSBR (financial year)				
£ billion	36	29	22½	11
per cent of GDP	5¼	4	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 1995 released by the Central Statistical Office (CSO) on 20 November 1995.*
2 *Further detail on GDP and its components is given in Annex A.*
3 *Average absolute error in autumn forecasts over past ten years: they apply to forecasts for 1996 unless otherwise indicated.*
4 *Per cent of GDP.*
5 *Excluding food, beverages, tobacco and petroleum industries.*

Annex A Forecasts of GDP and its components

£ billion at 1990 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Stock-building	Domestic demand	Exports of goods and services	**Total final expenditure**	*Less* imports of goods and services	*Less* adjustment to factor cost	*Plus* statistical discrepancy[1]	**GDP at factor cost**
1994	358.2	118.3	99.5	2.6	578.6	154.9	733.6	161.9	74.9	-0.5	496.3
1995	366.7	119.1	100.5	3.8	590.1	163.9	754.0	168.0	76.7	0.1	509.3
1996	379.3	119.5	104.9	3.1	606.9	175.8	782.7	179.3	79.5	0.1	524.0
1994											
1st half	178.1	59.1	50.1	0.0	287.3	75.6	362.9	79.8	37.2	-0.3	245.6
2nd half	180.1	59.2	49.4	2.6	291.4	79.3	370.7	82.1	37.7	-0.2	250.7
1995											
1st half	182.0	59.4	50.4	1.5	293.3	80.7	373.9	82.3	38.1	0.0	253.6
2nd half	184.7	59.7	50.1	2.3	296.9	83.2	380.1	85.8	38.7	0.1	255.7
1996											
1st half	188.0	59.6	52.0	1.6	301.2	86.5	387.7	88.6	39.4	0.1	259.8
2nd half	191.4	59.9	53.0	1.5	305.7	89.3	395.0	90.8	40.1	0.0	264.2
1997											
1st half	195.1	59.9	53.9	1.2	310.2	92.1	402.2	93.5	40.8	0.1	267.9
					Percentage changes on a year earlier[2]						
1994	2¾	2	3	½	3	9	4¼	5¼	3	0	4
1995	2¼	¾	1	¼	2	5¾	2¾	3¾	2½	0	2¾
1996	3½	¼	4¼	-¼	2¾	7¼	3¾	6¾	3½	0	3
1997											
1st half	3¾	½	3¾	-¼	3	6½	3¾	5½	3¾	0	3¼

1 *Expenditure adjustment.*
2 *For stockbuilding and the statistical discrepancy, changes are expressed as a percent of GDP.*