

tutor2u

# Introduction to the UK Economy



# What are the key objectives of macroeconomic policy?



Price Stability (CPI  
Inflation of 2%)



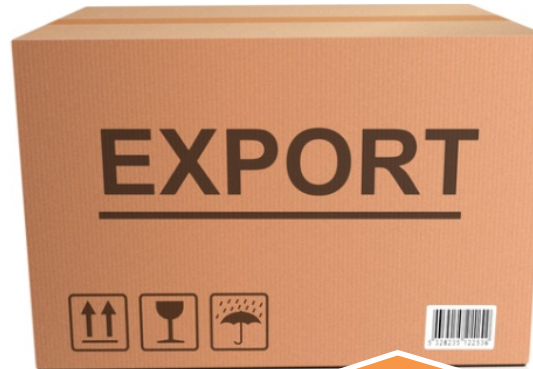
Growth of Real GDP  
(National Output)



Falling Unemployment /  
Raising Employment



Higher Average Living  
Standards (national  
income per capita)



Stable Balance of  
Payments on the Current  
Account



An Equitable Distribution  
of Income and Wealth

# Additional objectives of macroeconomic policy



**BUDGET**

Balancing the budget and reducing the national debt



Improving economic well-being



Better regional balance in the UK economy



Improved access to public services



**COMPETITIVE  
ADVANTAGE**

Improved competitiveness



Environmental sustainability

# Actual and Forecast Economic Indicators for the UK

\*Data for 2015 and 2016 are forecasts published for the July 2015 Budget

<b>Economic Indicator</b>	2014	2015*	2016*
Gross domestic product (GDP) % change	3.0	2.4	2.3
GDP levels (2014=100)	100.0	102.4	104.8
Output gap (per cent of potential GDP)	-1.0	-0.6	-0.4
<b>Expenditure components of GDP</b>			
Household consumption (% change)	2.5	3.0	2.5
General government consumption (% change)	1.6	1.2	0.5
Business investment (% change)	8.0	6.0	7.2
General government investment (% change)	3.4	2.4	-0.1
Net trade (exports - imports) (per cent of GDP)	-0.6	-0.5	-0.4
<b>Inflation</b>			
Consumer price index (annual % change)	1.5	0.1	1.1
<b>The Labour Market</b>			
Employment (millions)	30.7	31.2	31.5
Average earnings (annual % change)	2.6	2.2	3.6
Labour Force Survey unemployment (% rate)	6.2	5.4	5.1
Claimant count unemployment (millions)	1.04	0.78	0.73

# Basic Background Information for the UK Economy

## Recent Macroeconomic Data

<b>Latest annualised GDP Growth (%)</b>	<b>2.6%</b>
GDP per capita (US \$, PPP standard)	\$35,013
Inflation rate (%)	0.1%
Unemployment rate (% of labour force)	5.4%
Fiscal balance (% of GDP)	-5.3%
Government debt (% of GDP)	91%
Yield on 10-Yr Govt Bonds (%)	1.5%
Investment (% of GDP) in 2012	15%

## Background Information

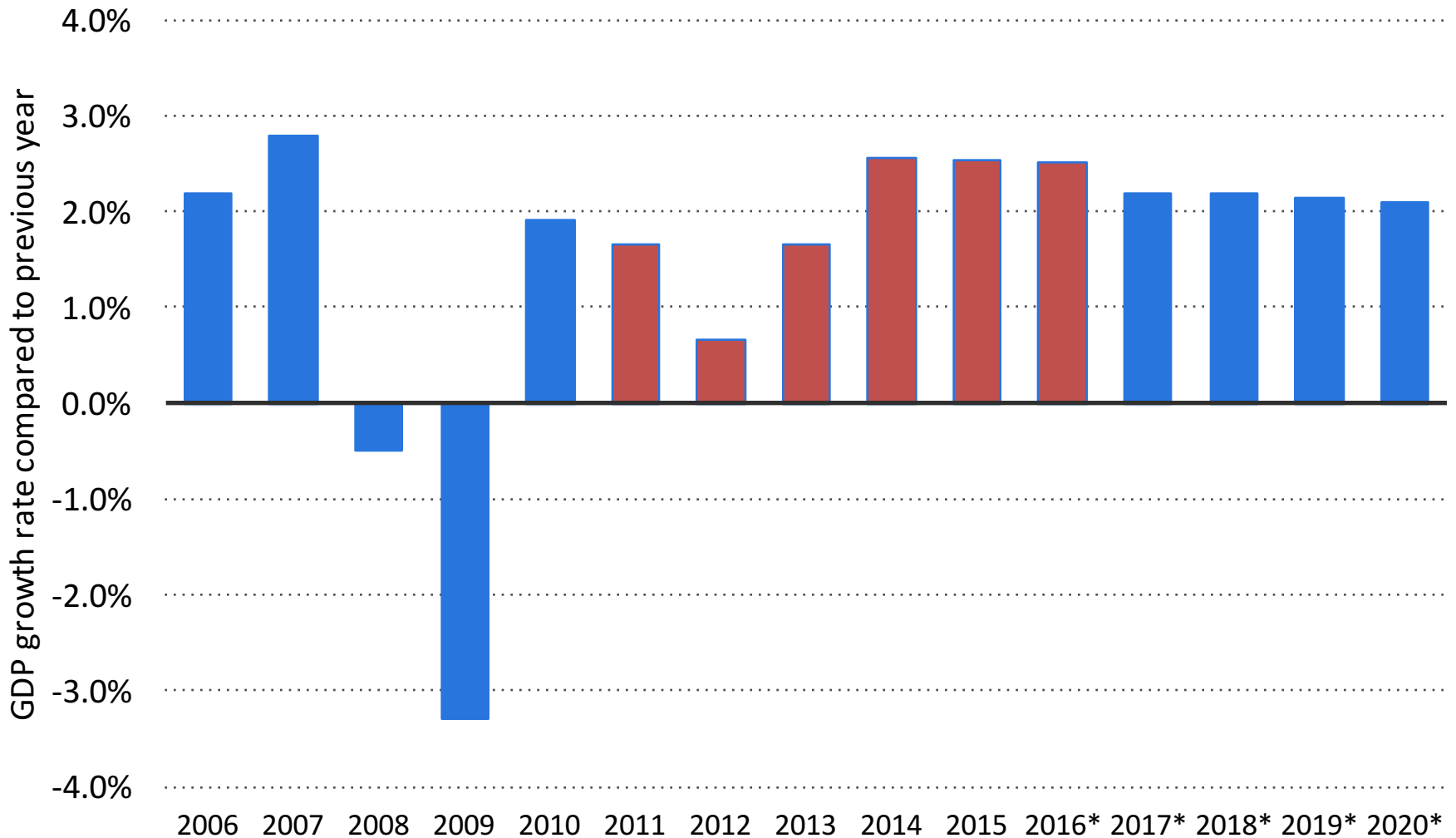
Currency unit	£
Exchange rate system	Floating
Current policy interest rate	0.5%
Trade surplus or deficit?	Deficit
Current account balance (% of GDP)	-4.4%
Main corporate tax rate (per cent)	20%
Global competitiveness ranking for 2014	9 <sup>th</sup>
Economic Freedom Index Ranking	14 <sup>th</sup>
Corruption Perception Ranking	14 <sup>th</sup>

## Other Indicators

Latest HDI ranking	14
% of population living below their national poverty line	n/a
Life Expectancy (years)	81.5
Rank for capacity to attract skilled talent	5 <sup>th</sup>
Rank for Innovation and sophistication	8 <sup>th</sup>
Gini coefficient (Latest published estimate)	36.5

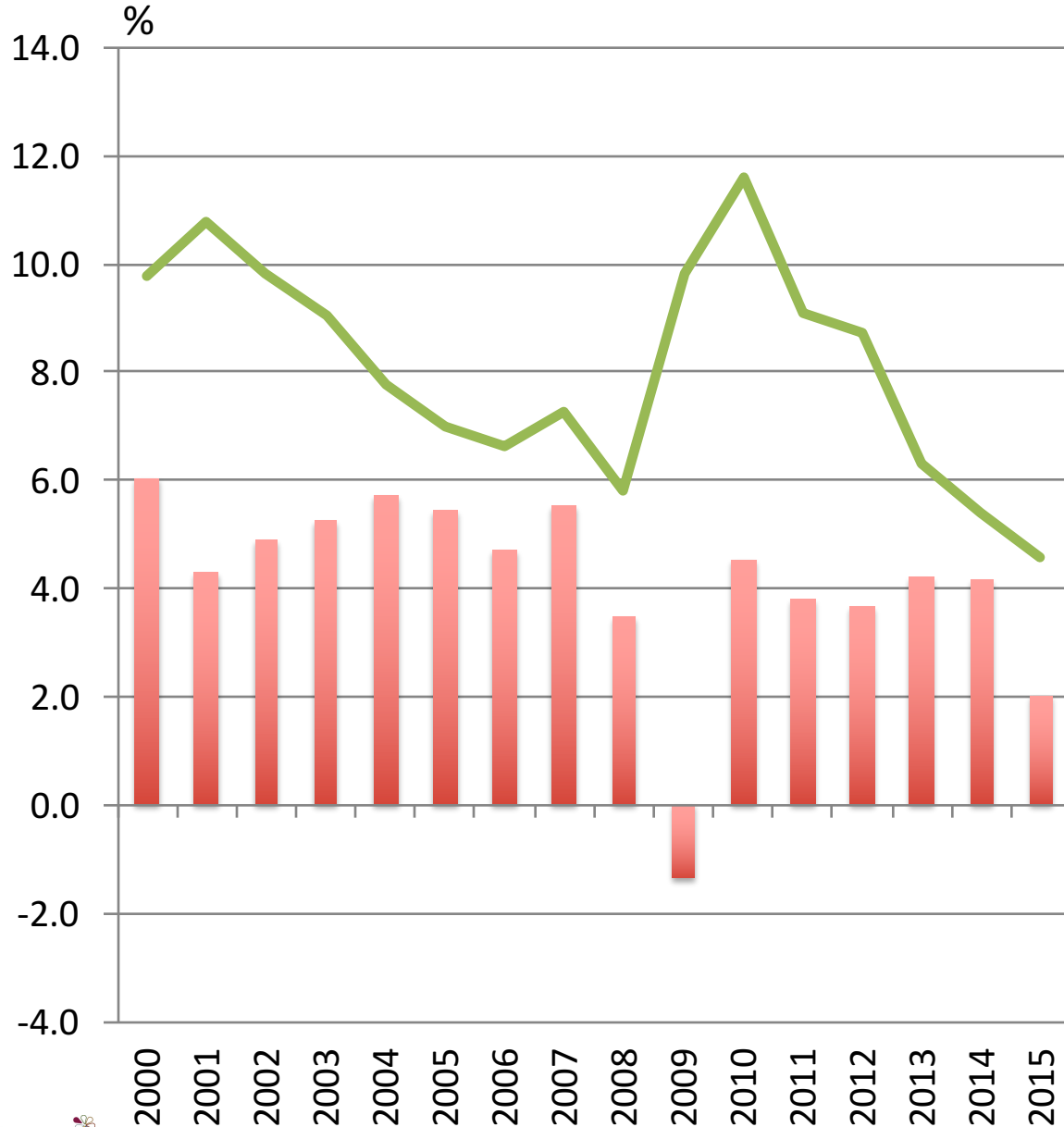
# The UK Economic Cycle in Recent Years

Source: ONS



The chart shows real GDP growth for the UK from 2010-2014. Data for 2015 onwards shows forecast growth using figures from the International Monetary Fund (IMF)

# Household Saving Ratio for the UK Economy

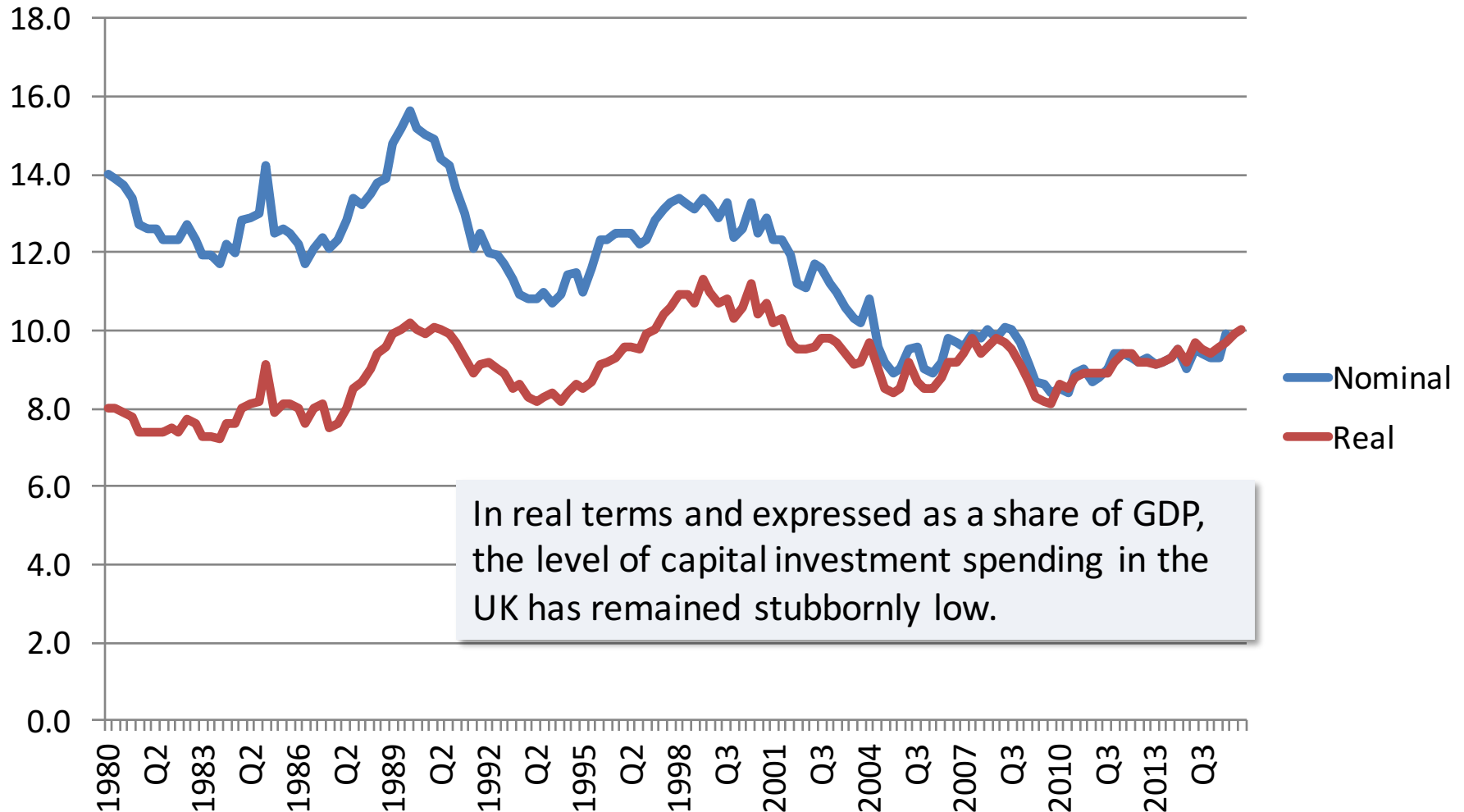


The chart shows the annual growth in household consumption of goods and services along with the household saving ratio (% of disposable income)

Household final consumption  
Savings ratio

The **saving ratio in the UK** has been falling since 2010 mainly due to a period of relatively strong consumer spending that has out-paced the growth of real disposable income

# Capital Investment as a share of UK GDP



In real terms and expressed as a share of GDP, the level of capital investment spending in the UK has remained stubbornly low.

This chart shows total investment spending measured as a share of GDP – it is expressed in nominal and in real terms i.e. inflation adjusted.

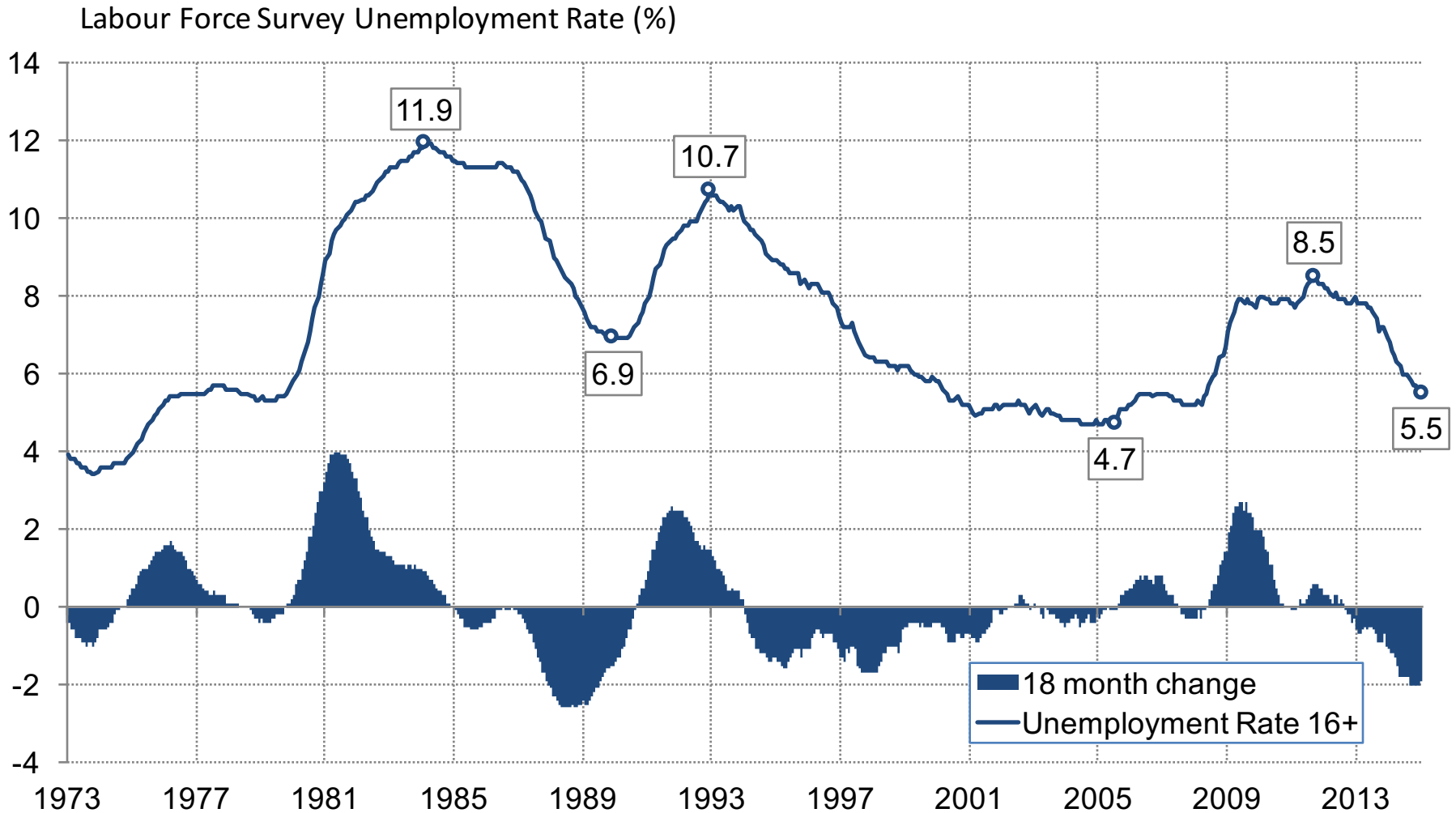


# Key UK Labour Market Data in Recent Years

Year	Labour Force Survey Unemployment Level	Labour Force Survey Unemployment Rate	Total Employment	Employment Rate
	Thousands	Per cent of the labour force	Thousands	Per cent of population of working age
2011	2,593	8.1	29,376	70.3
2012	2,572	8.0	29,696	71.0
2013	2,476	7.6	30,043	71.5
2014	2,027	6.2	30,726	72.9
2015 (April)	1,813	5.5	31,053	73.4

Source: HM-Treasury Databank

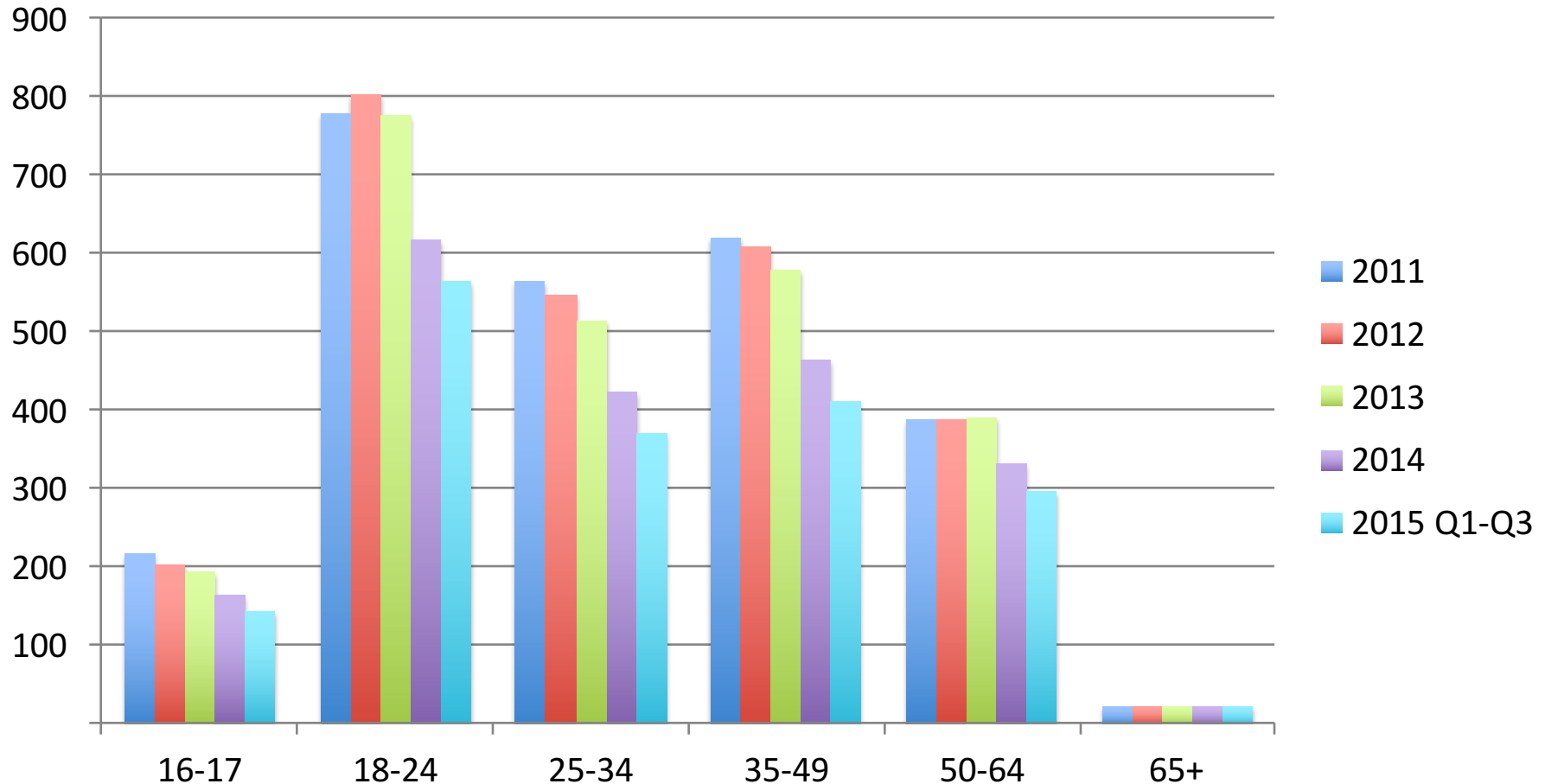
# Unemployment in the UK Economy over Long Run



The unemployment rate has varied over the last 40 years. Our chart shows the peaks over this period – the peak rate has been falling.

# Unemployment by Age in the UK Economy

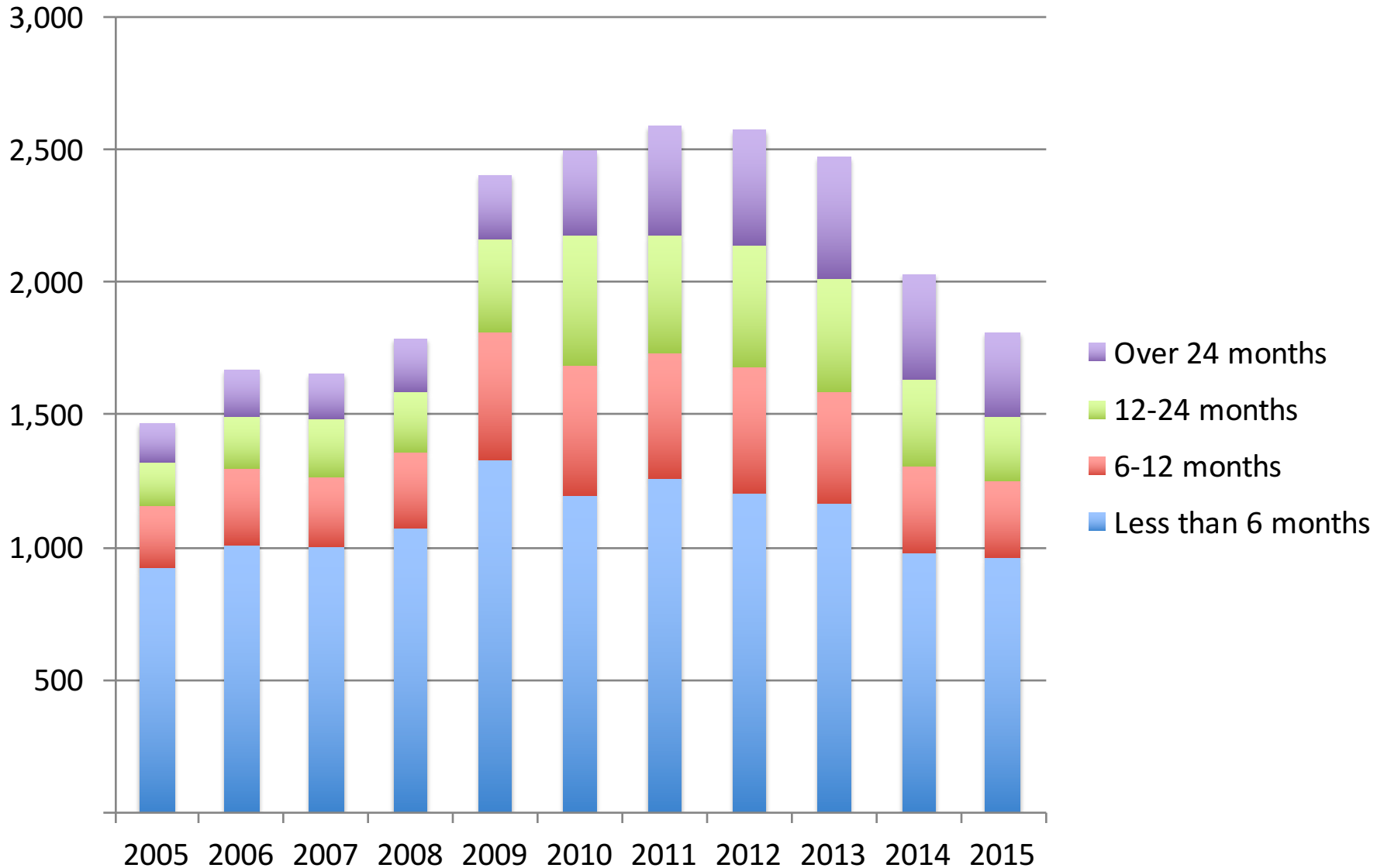
Total unemployment, seasonally adjusted



The decline in unemployment since 2011 has been across all age groups, but has been greater for the 18 to 49 age brackets during this period

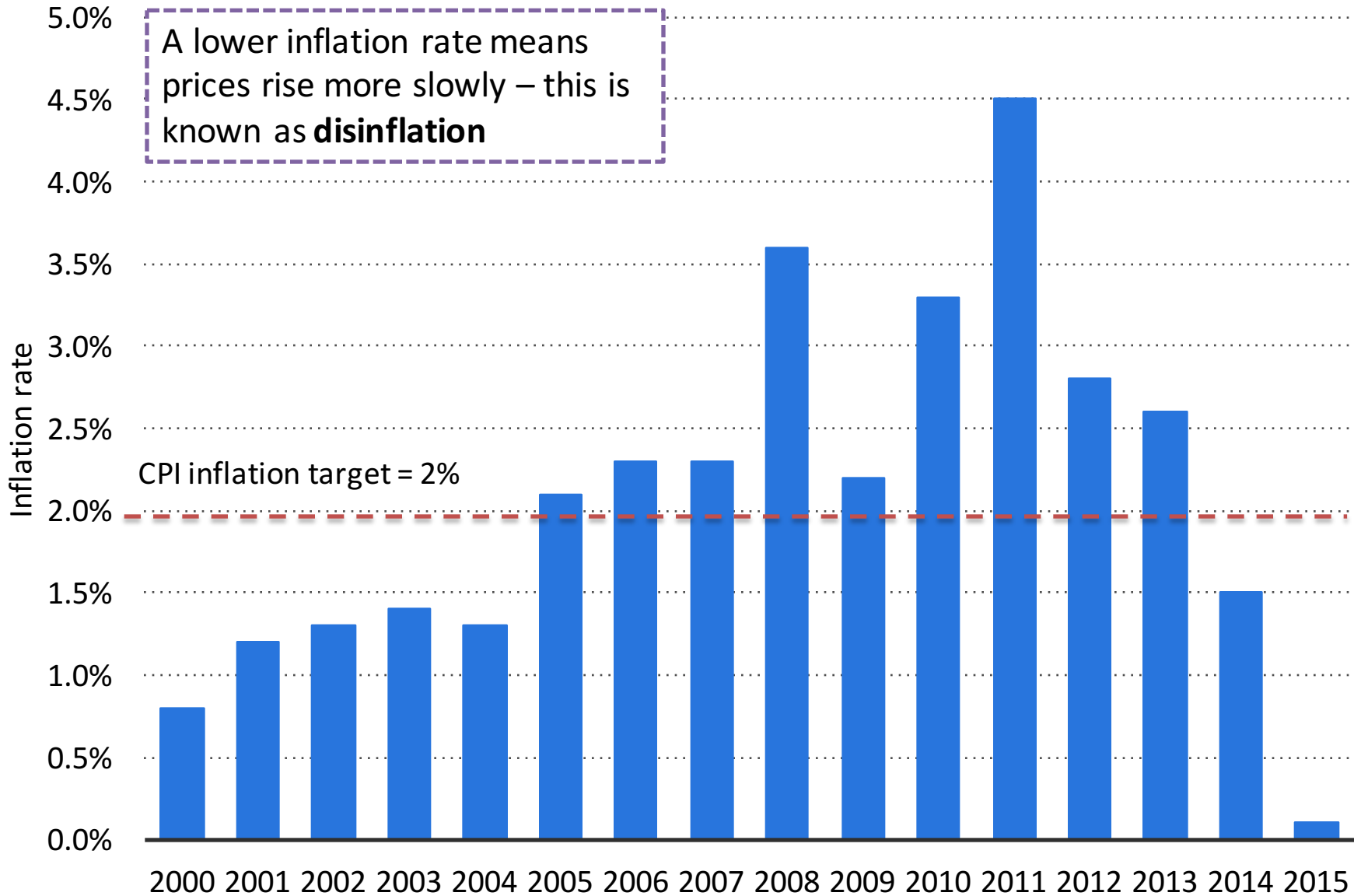
# Duration of LFS Unemployment in the UK economy

Total unemployment, seasonally adjusted

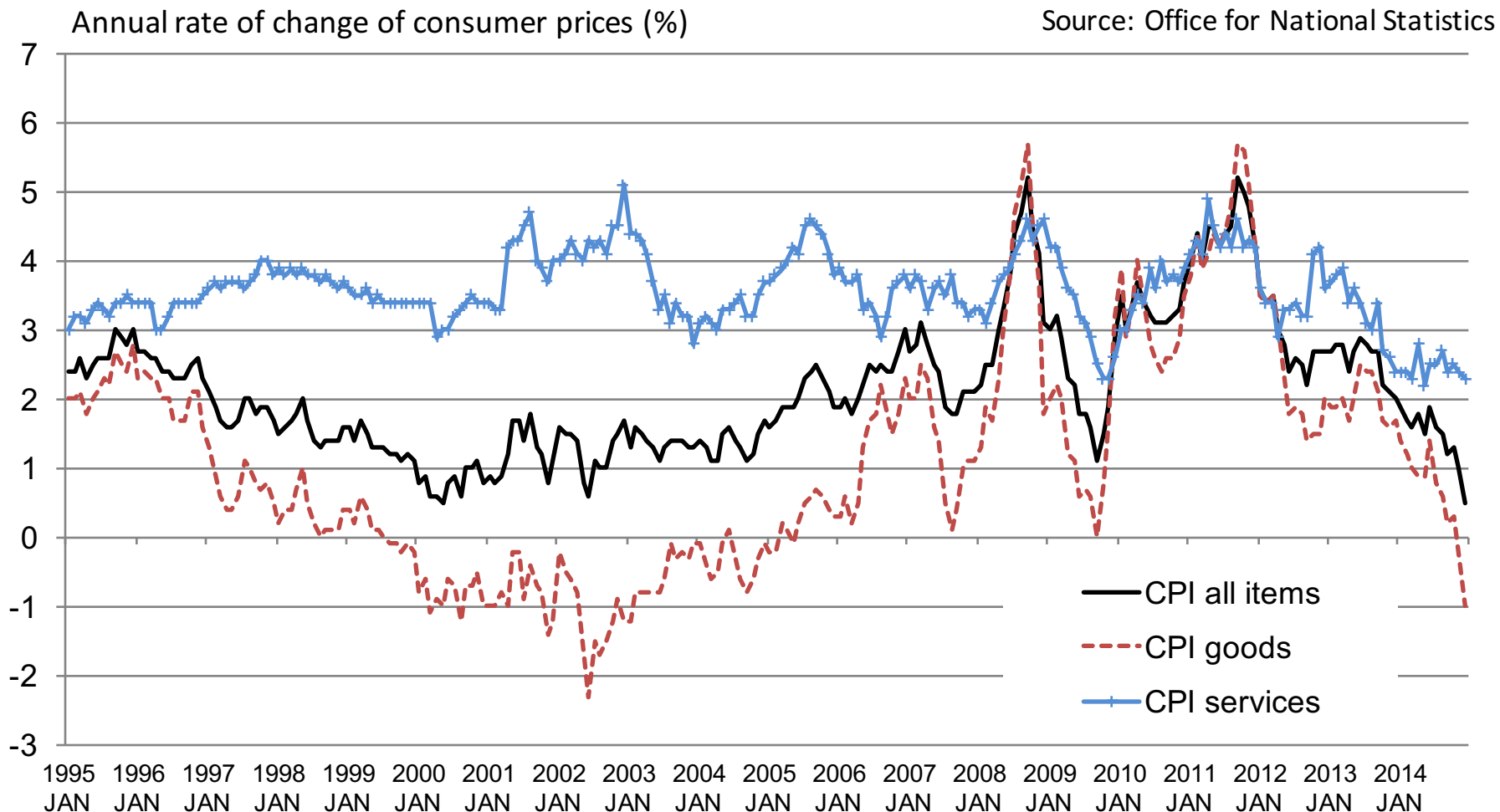


# Inflation Rate in the UK Economy in Recent Years

Source: Office for National Statistics



# CPI Inflation in the UK over the last 20 Years

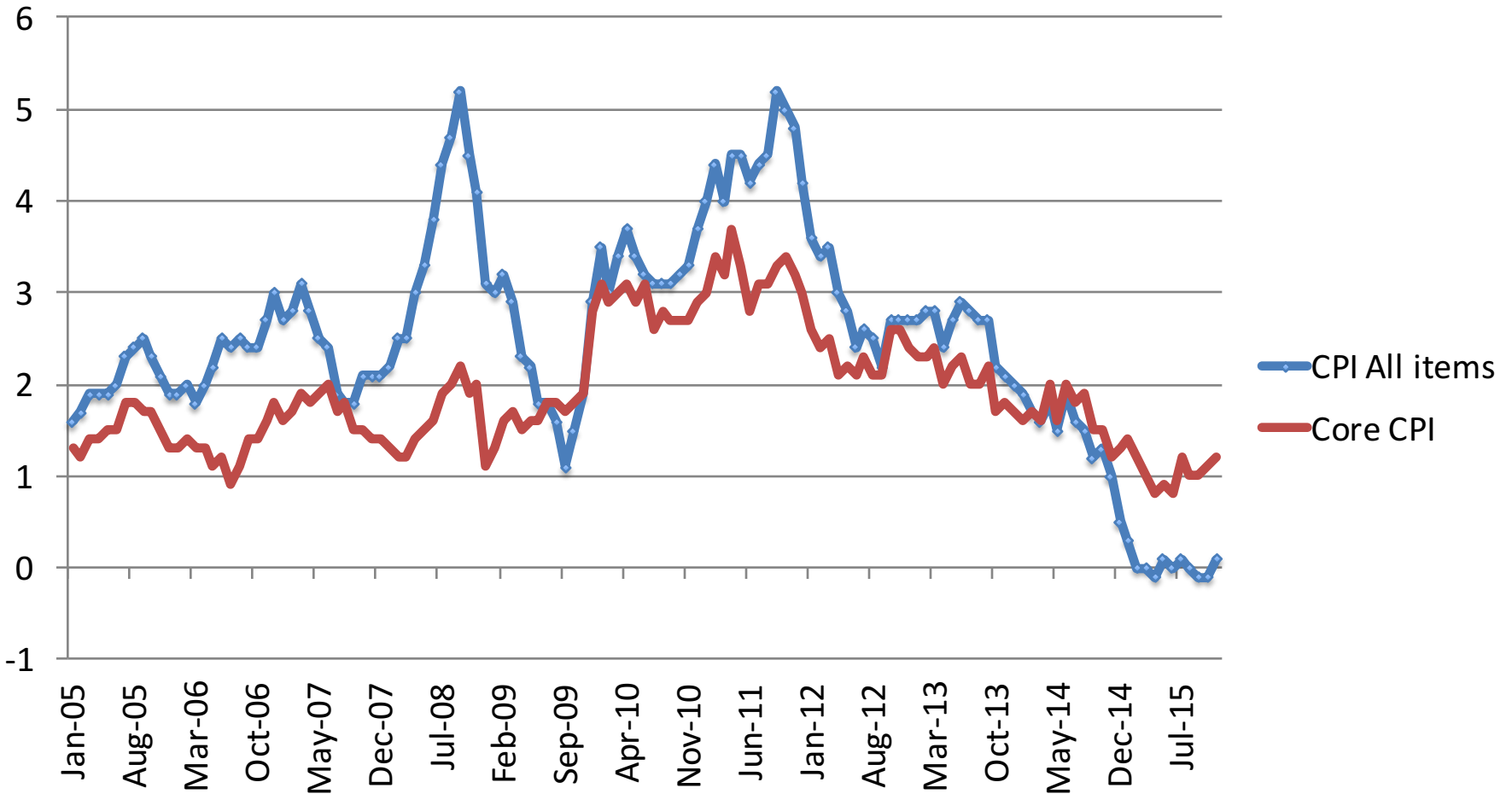


The inflation rate for goods such as clothing and computing equipment has been, on average, lower than for service such as insurance and education

# CPI and Core Inflation in the UK In Recent Years

Annual rate of change of consumer prices (%)

Source: Office for National Statistics



CPI All Items: Percentage change over 12 months

Core CPI: Excludes energy, food, alcohol & tobacco

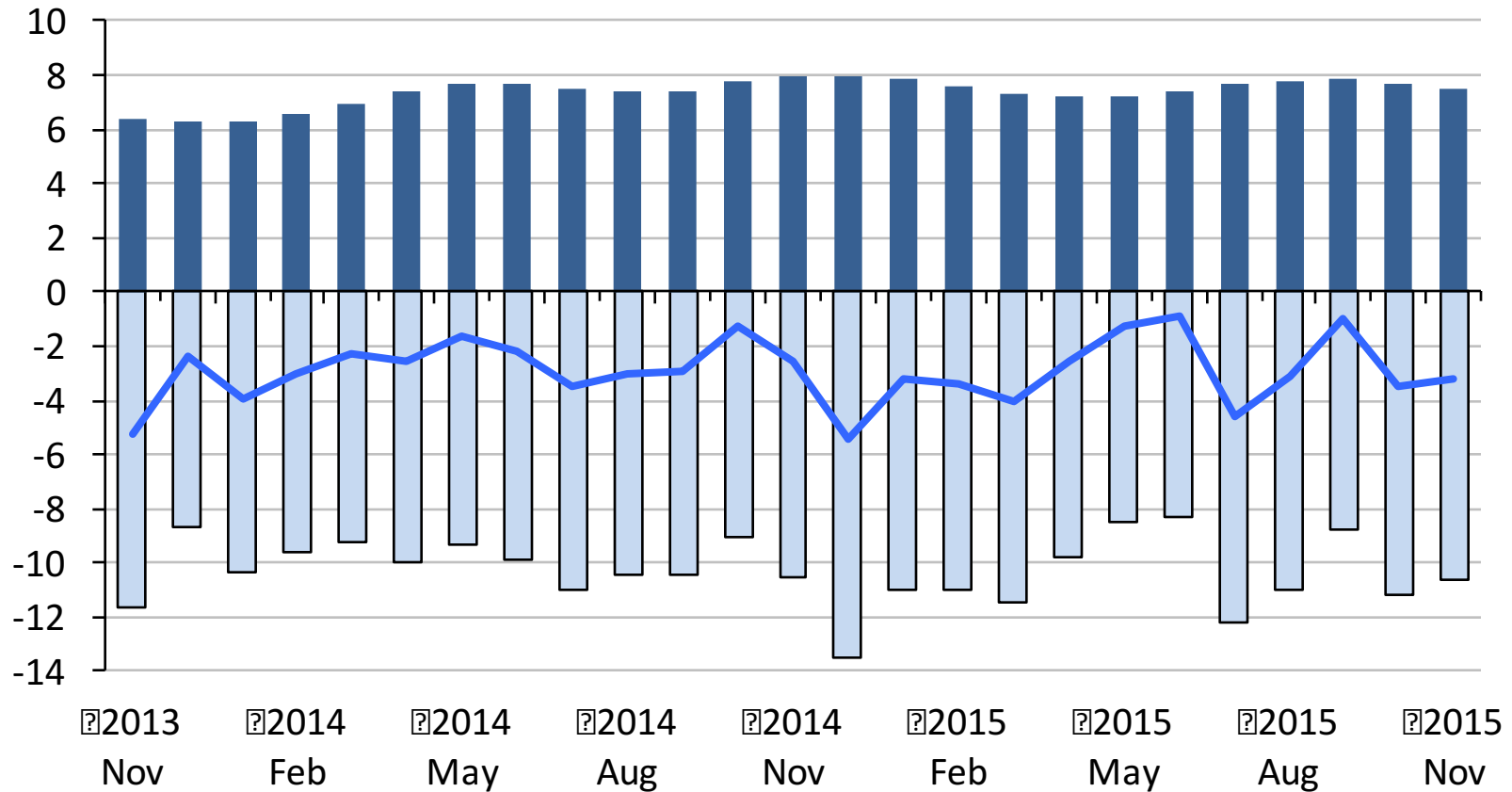
# UK Balance of Trade in Goods and Services

£ billion, seasonally adjusted

Balance of Trade in Goods

Balance of Trade in Services

Balance of Total UK Trade

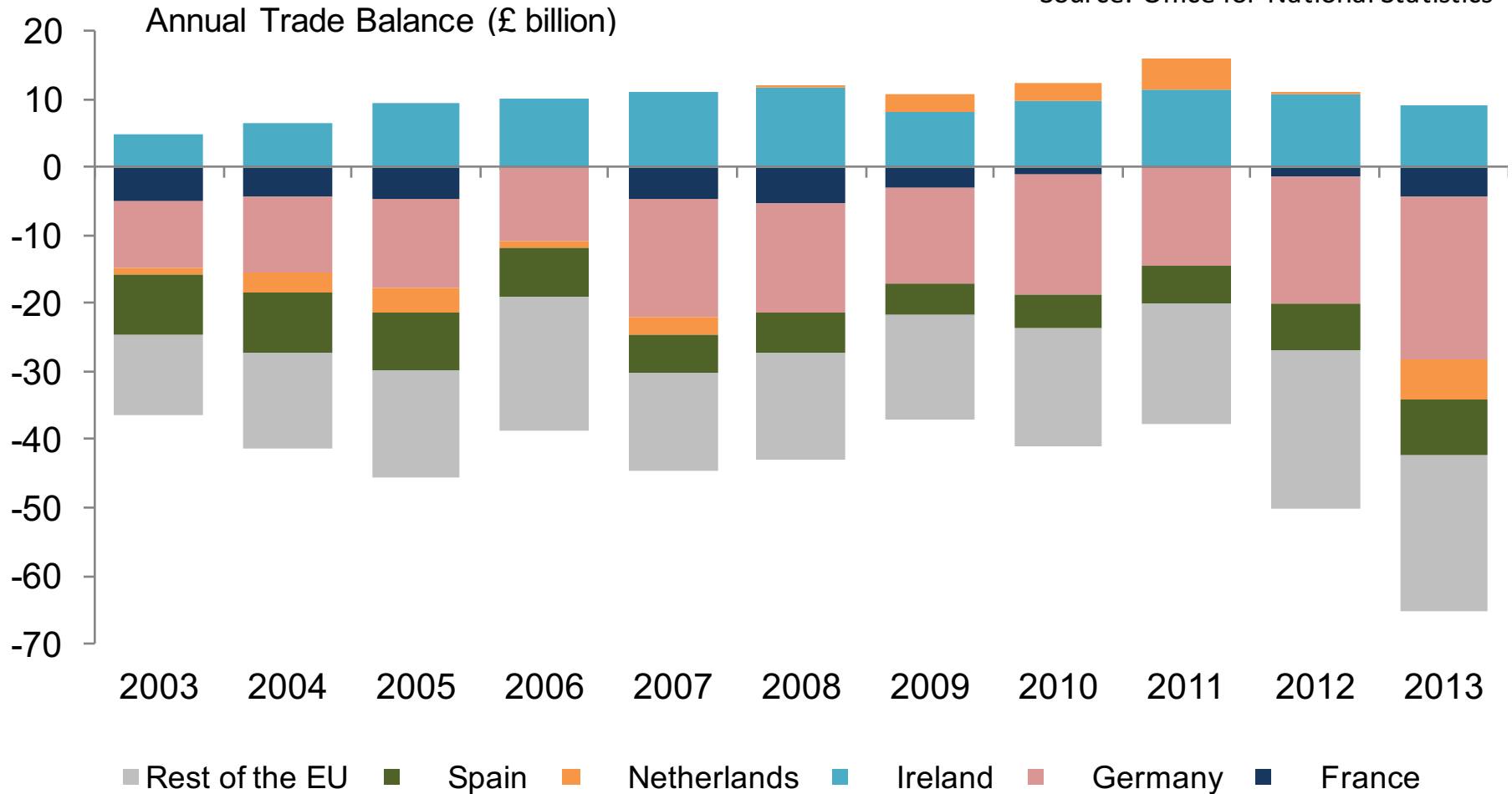


Britain runs a strong surplus in services but a large and persistent deficit in goods



# UK Trade Balances in Goods and Services with the EU

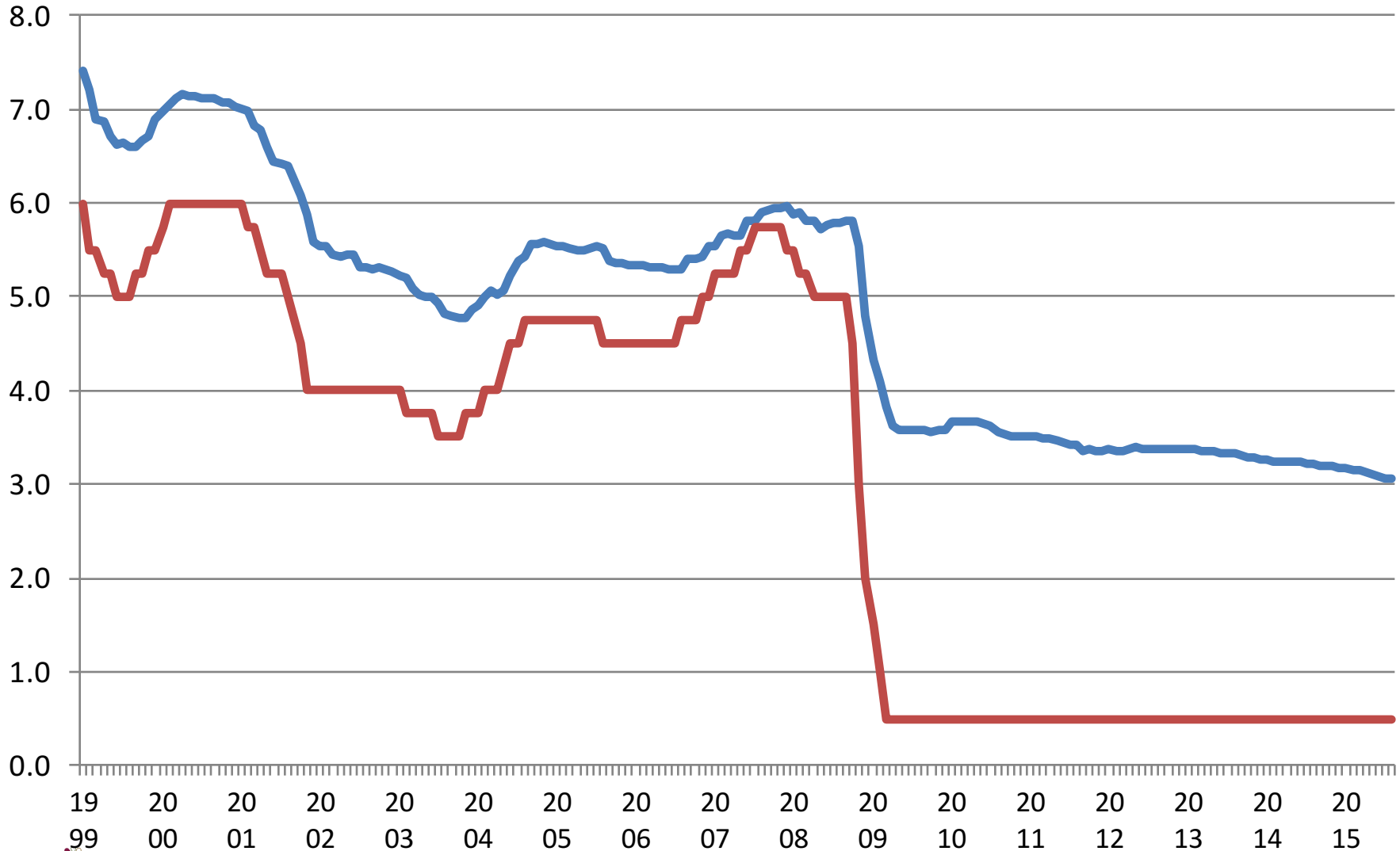
Source: Office for National Statistics



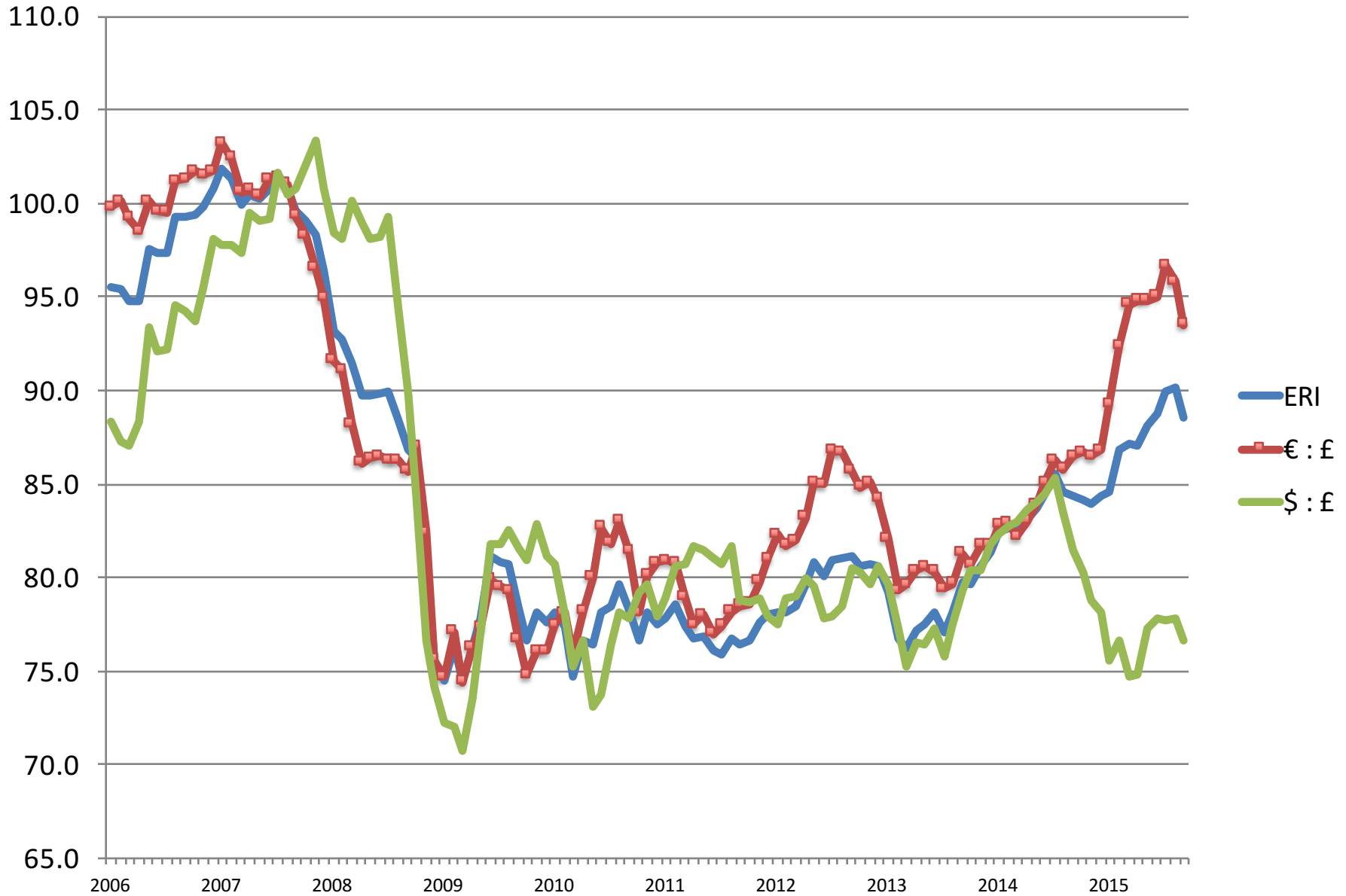
The UK runs a trade surplus with countries such as Ireland but very large trade deficits with countries such as Germany and Spain. Can you explain why?

# Base Interest Rates and Mortgage Rate in the UK

— Effective mortgage interest rate — Base rate



# Fluctuations in the UK Exchange Rate Index

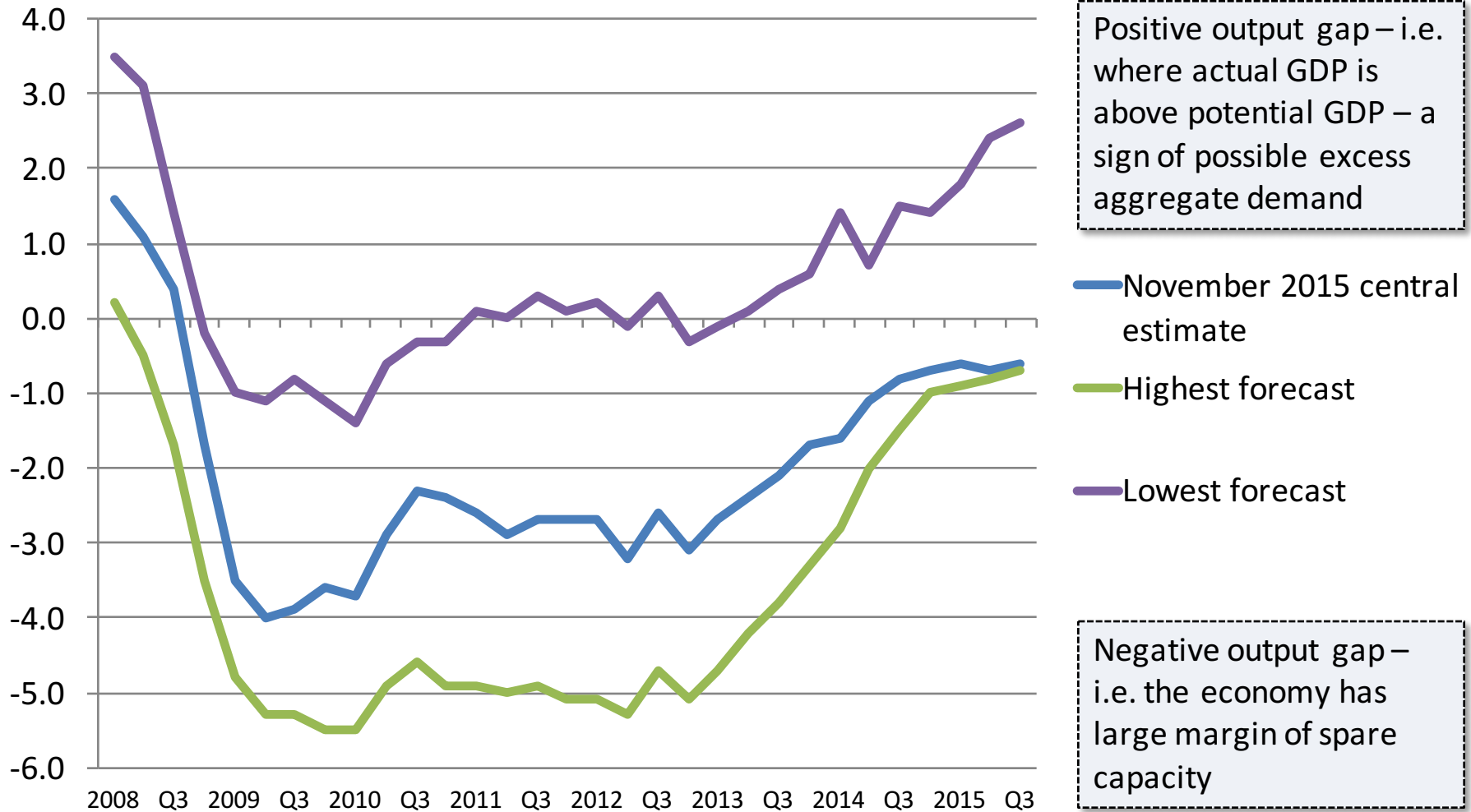


# Key Summary of UK Government Finances 2014-2021

	Per cent of GDP						
	Outturn		Forecast				
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Revenue and spending</b>							
Tax revenues (% of GDP)	35.8	35.8	36.5	36.9	36.9	<b>36.9</b>	37.1
Government spending (% of GDP)	40.9	39.7	39.1	38.1	37.2	<b>36.5</b>	36.4
<b>Size of the budget deficit (% of GDP)</b>							
Government borrowing	5.1	3.9	2.6	1.2	0.3	<b>-0.4</b>	-0.7
Cyclically adjusted current budget deficit (% of GDP)	2.4	1.6	0.5	-0.5	-1.2	-1.9	-2.4
<b>The Size of the National Debt:</b>							
Public sector net debt (% of GDP)	83.1	82.5	81.7	79.9	77.3	74.3	71.3

Source: OBR, November 2015

# The Estimated Output Gap for the UK Economy

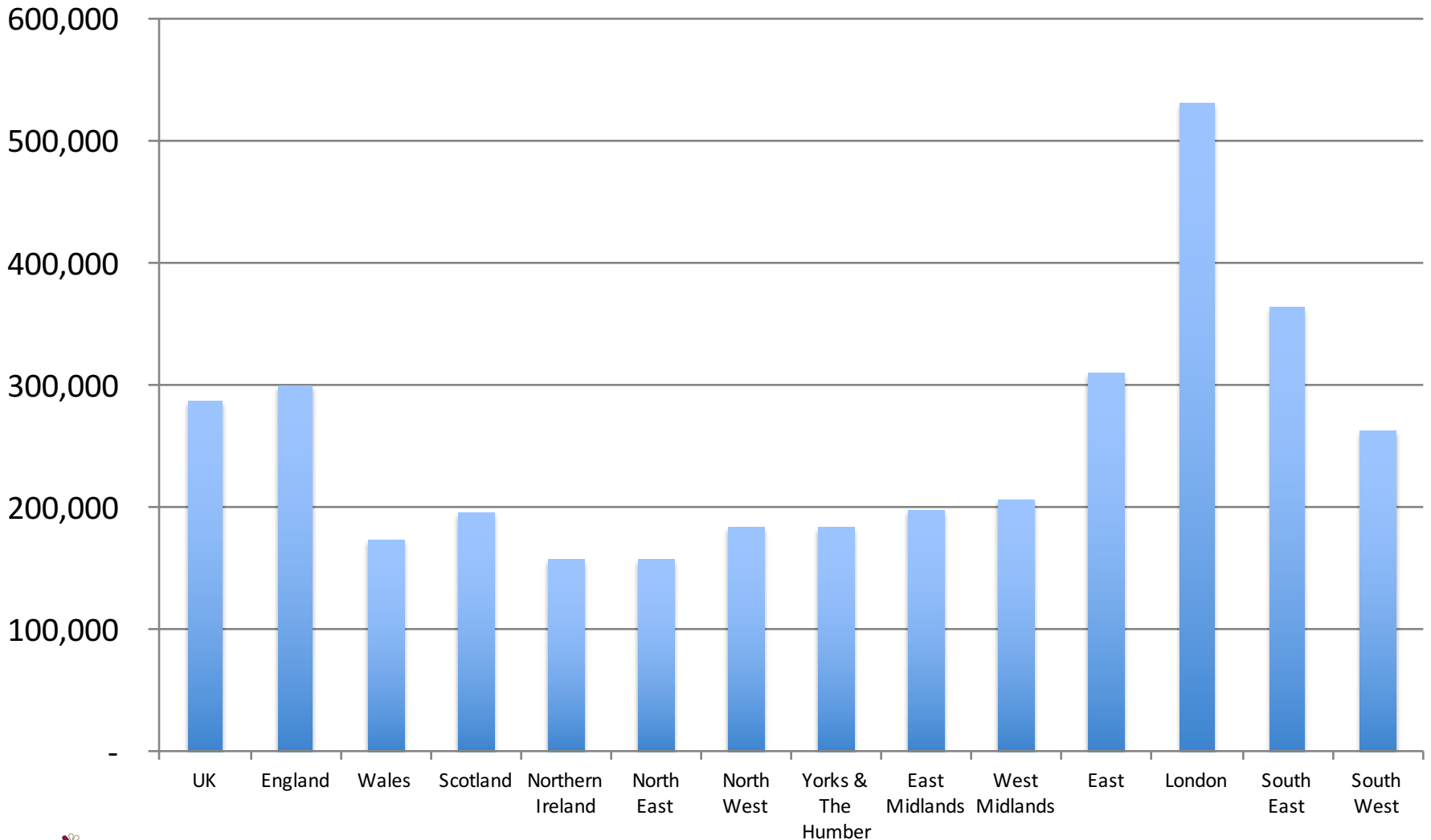


The chart shows the estimated output gap for the UK economy. Note that there is a range of estimates from different economic forecasters.

# Average UK House Prices by Region

£s

Mix-adjusted average house price for UK countries and English Regions, October 2015



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