

ANNEX: SUMMARY OF DATA PRESENTED BY BANK STAFF

A1 This Annex summarises the analysis presented by Bank staff to the Monetary Policy Committee on 7 January 2005, in advance of its meeting on 12-13 January. At the start of the Committee meeting itself, members were made aware of the information that had subsequently become available, and that information is included in this Annex.

I Financial markets

A2 Since the Committee's previous meeting, short-term sterling interest rates had changed little, but euro and US dollar rates had risen. Interest rates implied by December 2005 futures contracts had risen by 33 basis points in US dollars and by 13 basis points in euro. Sterling short-term interest rates had risen earlier in the month, following stronger-than-anticipated CPI and retail sales data, but these movements were reversed following some weaker-than-expected housing market data and the publication of the Minutes of the December MPC meeting. The Reuters survey of economists had indicated that all but one respondent had expected rates to remain unchanged at the January MPC meeting. The mean of economists' expectations for policy rates at the end of 2005 had edged down by 3 basis points to 4.76%; the mean expectation for policy rates at the end of 2006 had also fallen, to 4.54%. Short-term interest rate volatility, implied by options prices, had risen slightly in euro but had fallen in US dollars and sterling, although only very slightly.

A3 Over the month, long-term sterling nominal forward interest rates had changed little but ten-year forward US dollar and euro rates had fallen. There had been small and almost offsetting moves in sterling inflation forward rates and real forward rates; inflation forward rates had risen slightly, whereas there had been a slight fall in real forward rates, continuing a recent trend. Sterling long-term real forward rates were close to historical lows.

A4 The sterling effective exchange rate (ERI) had fallen by 2.0% to 101.8 since the Committee's previous meeting. Sterling had depreciated against all the major currencies; it had depreciated against the US dollar by 1.8%, the euro by 1.9% and the yen by 3.9%. Relative interest rate movements could only partly account for the fall in the value of sterling, and market commentary related some of the sterling depreciation to data releases suggesting weaker-than-expected activity in the UK housing

market. Exchange rate uncertainty, as measured by implied volatility from options prices, had fallen slightly for sterling against both the euro and the US dollar. Over the month, the US dollar ERI had appreciated by 1.2%. Risk reversals from options prices had suggested that the perceived balance of risks to the US dollar against other major currencies were skewed to the downside.

A5 The major equity indices had risen over the month, with the FTSE All-Share, S&P 500, Euro Stoxx and Topix having risen by 2.2%, 0.4%, 1.2% and 4.4% respectively, in local currency terms. There had been a broad-based increase across sector sub-indices in the United Kingdom: only the non-cyclical service sector sub-index had declined. Market views on uncertainty surrounding equity indices, as inferred from three-month implied volatility of options prices, had fallen over the period. Sterling, dollar and euro-denominated investment grade option-adjusted credit spreads had changed little and remained narrow.

II The international environment

A6 According to the second estimate, euro-area GDP had risen by 0.3% in 2004 Q3, unrevised from the previous release. Within this, consumption had increased by 0.1% on the quarter, revised down from 0.2% in the first release. Investment had increased by 0.7%, revised up from 0.6%, and government spending had risen by 0.5%, revised down from 0.8%. Exports had increased by 1.5% on the quarter in Q3, and imports had risen by 3.5%.

A7 According to the second estimate, French GDP had been unchanged in 2004 Q3, revised down from growth of 0.1% on the quarter in the previous release. Final domestic demand had been revised down slightly, while import growth, export growth and the contribution to GDP growth from stocks, remained unchanged from the first release. Italian GDP had increased by 0.4% in 2004 Q3, the same rate of growth as in Q2. Consumption had increased by 0.2%, while fixed investment and government expenditure had decreased by 0.8% and 0.5% respectively. Exports had risen by 4.8%, while imports had increased by 1.2%.

A8 Euro-area retail sales had remained flat in November compared with the previous month, following growth of 0.4% in October. The European Commission's consumer confidence indicator for the euro area had remained at -13 in December. The euro-area seasonally adjusted unemployment rate had been 8.9% in November, unchanged from October.

A9 Industrial production in the euro area had decreased by 0.5% on the month in October, following a rise of 0.8% in September. The European Commission's industrial confidence indicator for the euro area had fallen to - 4 in December, from - 3 in November. The euro-area purchasing managers' index (PMI) for manufacturing had risen to 51.4 in December, from 50.4 in November. The euro-area PMI index for services had risen to 52.7 in December, from 52.6 in November. The German IFO index had risen to 96.2 in December, from 94.1 in November. German industrial production had fallen by 1.7% on the month in November, compared with a rise of 0.4% in October.

A10 The Eurostat flash estimate for annual euro-area inflation, as measured by the harmonised index of consumer prices (HICP), had risen to 2.3% in December, from 2.2% in November.

A11 According to the final estimate, US GDP had risen by 1.0% in 2004 Q3, unrevised from the preliminary estimate. Within this, the estimate for consumption growth had been revised up to 1.3%, from 1.2% in the preliminary release. Government spending had been revised down to 0.2%, from 0.3% previously. Private fixed investment growth had been unrevised at 2.1%. Export growth had been revised down to 1.5%, from 1.6%, and import growth had been revised down to 1.1%, from 1.5%. The US current account deficit had remained at 5.6% of GDP in 2004 Q3, the same as in the previous quarter. Goods export volumes had fallen by 4.0% on the month in November, compared with a fall of 0.8% in October; goods import volumes had grown by 1.2% in November, following growth of 2.8% in October.

A12 US non-farm payrolls had risen by 157,000 in December, following an upwardly revised increase of 137,000 in November. Real private consumption in the United States had been unchanged in November compared with the previous month, following a rise of 0.4% in October. The saving rate had increased to 0.3% of disposable income in November, from 0.1% in October. The Conference Board measure of consumer confidence had increased to 102.3 in December, from 92.6 in November. The University of Michigan measure of consumer confidence had increased to 97.1 in December, from 92.8 in November.

A13 US industrial production had risen by 0.2% in November compared with the previous month, following a rise of 0.7% in October. The Institute for Supply Management (ISM) manufacturing index had risen to 58.6 in December, from 57.8 in November. The ISM non-manufacturing business activity index had risen to 63.1 in December, from 61.3 in November.

A14 US producer prices for finished goods had increased by 5.0% in the year to November, compared with a 4.4% rise in the year to October. The US headline consumer price index (CPI) had risen by 3.5% in the year to November, up from an annual rate of 3.2% in October. Annual core CPI, which excludes food and energy prices, had increased by 2.2% in November, following a rise of 2.0% in October.

A15 In Japan, industrial production had risen by 1.5% on the month in November, after falling by 1.3% in October. The all-activity index had fallen by 0.4% in October, compared with the previous month. According to the Bank of Japan's Tankan survey for December, the large manufacturers' business conditions diffusion index had decreased by 4 points, to 22, while the large non-manufacturers' business conditions diffusion index had remained unchanged, at 11.

A16 In China, industrial production growth had been 14.8% in the year to November, following an increase of 15.7% in the year to October. Annual consumer price inflation had been 2.8% in November, compared with 4.3% in October.

A17 Since the Committee's previous meeting, the spot price of Brent crude oil had risen by nearly 20% in dollar terms. *The Economist* dollar non-oil commodity price index had increased by 1.1% over the same period.

III Money and credit

A18 The twelve-month growth rate of notes and coin, adjusted for special factors, had been at 5.5% in December, unchanged from its value in November. The three-month annualised growth rate, however, had fallen to 3.8%, down from 6.4% in November. The annual growth of aggregate M4 deposits had decreased to 8.8% in November, from 9.5% in October. Annual growth of M4 lending (excluding the effects of securitisations) had fallen to 12.4% in November, from 12.9% in October. Excluding other

financial corporations, annual M4 deposit growth had fallen to 8.5% in November, from 9.2% in October, while annual M4 lending growth (excluding the effects of securitisations) had fallen to 11.0%, from 12.0% in October.

A19 The annual growth rate of households' M4 had decreased by 0.4 percentage points, to 8.5% in November. The annual growth rate of M4 lending to households (excluding the effects of securitisations) had fallen by 0.3 percentage points, to 12.6% in November. The annual growth rate of secured lending to individuals (a measure that includes borrowing from a broader set of institutions than just banks and building societies) had fallen to 13.4% in November, from 14.0% in October, while the annual growth rate of unsecured lending had fallen to 11.7% in November, from 11.8% in October. Within unsecured lending, the annual growth rate of credit card borrowing had increased by 0.3 percentage points, to 16.9% in November, while the annual growth rate of other unsecured borrowing had decreased to 9.3% in November, from 9.7% in October.

A20 The average standard variable rate on mortgages quoted for existing customers had fallen slightly since November, while the average two-year fixed rate on mortgages had increased slightly. The effective mortgage rate had been unchanged at 5.56% in November. According to the latest data from the Council of Mortgage Lenders, the share of new mortgages (by volume) with fixed rates had risen slightly to 40% in November, up from 38% in October. The effective rate for a personal loan of £10,000 or had risen slightly in November.

A21 The number of loan approvals for house purchase had fallen to 77,000 in November, from 85,000 in October. The monthly balance of net housing reservations reported by the House Builders Federation had increased to - 34.4 in November, from - 37.8 in October. The number of loan approvals for purposes other than house purchases or re-mortgaging had fallen slightly, to 77,000 in November, from 80,000 in October.

A22 The annual growth rate of private non-financial corporations' (PNFCs) holdings of M4 deposits had fallen to 8.8% in November, from 10.3% in October. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had fallen to 5.8% in November, from 9.0% in October. The monthly flow of total finance raised in the UK by PNFCs had averaged £1.1 billion in

October and November, down from a monthly average of £3.5 billion in Q3. Within total finance, the flow of bond, equity and commercial paper issuance (denominated in sterling and foreign currencies) had averaged £1.0 billion in October and November, up from its Q3 monthly average of £0.2 billion.

IV Demand and output

A23 The Q3 Quarterly National Accounts had been published on 23 December. Estimated GDP growth at market prices in 2004 Q3 had been revised up by 0.1 percentage point, to 0.5%. At basic prices, GDP growth also had been revised up, to 0.5%. Revisions in the latest release had affected GDP and its components back to 2003 Q1. The cumulative impact of the revisions had been to decrease the estimated level of GDP at market prices by 0.1% in 2004 Q3, and to increase the estimated level of GDP at basic prices by 0.4%.

A24 On the expenditure side of the accounts, domestic demand had been estimated to have grown by 0.6% in 2004 Q3, compared with 0.4% in the previous release. Within domestic demand, final domestic demand growth had been revised up to 0.7% in Q3, from 0.6% in Q2.

A25 The estimated growth of households' consumption (including that of non-profit making institutions serving households) had been unrevised at 0.6% in 2004 Q3. In 2004 Q2, household consumption growth had been revised up by 0.1 percentage points, to 0.7%. The cumulative effect of revisions to past data had left the estimated level of household consumption in 2004 Q3 0.2% higher than the previous release. Business investment growth in 2004 Q3 had been estimated at 1.0%, revised up from 0.1% in the previous release. Whole-economy investment growth in Q3 had also been revised up, from -0.1% to 0.6%. Government consumption had been estimated to have grown by 1.4%, unrevised from the previous release.

A26 Excluding the effects of identified missing trader intra-community fraud, estimated export and import growth had been 0.8% and 1.4% respectively in 2004 Q3. Net trade had been estimated to have made a contribution of -0.2 percentage points to GDP growth in 2004 Q3, revised down from the estimate of a zero contribution in the previous release.

A27 On the output side of the National Accounts, the service sector had been estimated to have grown by 0.9% in 2004 Q3, revised up from 0.8%. Manufacturing output had been estimated to have decreased by 0.8%, revised up from - 1.0%.

A28 On the income side of the accounts, households' real post-tax income had increased by 0.7% in 2004 Q3. Household consumption had grown slightly less than income in Q3, such that the household saving ratio had risen to 5.6%, from 5.5% in Q2. The household sector had remained in financial deficit for the eleventh consecutive quarter in Q3, at - 1.3% of GDP. Revisions to historical data had led to downward revisions to the saving ratio and net financial balance in 2004 Q2.

A29 The gross operating surplus of corporations (excluding the quarterly alignment adjustment) had been estimated to have fallen by 1.3% in 2004 Q3, mainly reflecting a fall in the gross operating surplus of financial companies. The gross trading profits of private non-oil, non-financial corporations had been estimated to have fallen by 0.5% in 2004 Q3. The corporate sector's financial surplus (excluding the alignment adjustment) had fallen in Q3, to 1.7% of GDP. The public sector financial deficit had widened to 3.1% of GDP in Q3, from 2.7% in Q2. The current account had widened to 3.0% of GDP in Q3.

A30 Among indicators of output in 2004 Q4, industrial production had fallen by 0.1% in October. Manufacturing output had also fallen by 0.1% in October, while energy output had fallen by 0.2%. The Chartered Institute of Purchasing and Supply (CIPS) manufacturing survey output index had fallen to 54.7 in December, from 57.1 in November, and new orders had risen slightly to 55.5 in December, from 55.2 in November. The expected output balance in the *CBI Monthly Trends Enquiry* had fallen on the month, to - 6 in December from +5 in November. The total orders balance had risen to - 4, from - 16 in November. The *CIPS Report on Services* business activity index had fallen to 54.9, from 56.7 in November. The incoming new business index had also fallen.

A31 Turning to indicators of expenditure in 2004 Q4, retail sales had grown by 0.6% in November, following a fall of 0.5% in October. The three-month on three-month growth rate of retail sales had increased to 1.3% in November, from 1.2% in October. In the *CBI Distributive Trades Survey*, the balance of retailers reporting positive annual growth in sales volumes had risen, from +19 in November to +33 in December. The GfK consumer confidence balance had increased to - 3 in

December, from - 4 in November. According to the Society of Motor Manufacturers and Traders, new private car registrations had been 7.7% lower in the three months to December compared with a year earlier.

A32 Three-month on three-month house price inflation measured by the Nationwide house price index had fallen to 0.8% in December, from 1.4% in November. The equivalent inflation rate measured by the Halifax house price index had fallen to - 0.4% in December, from +0.4% in November.

A33 Underlying goods export volumes (excluding oil and erratics) had been estimated to have fallen by 3.7% in October. Goods import volumes (excluding oil and erratics) had been estimated to have increased by 3.6%.

V The labour market

A34 According to the Labour Force Survey (LFS), employment had increased by 55,000 in the three months to October compared with the three months to July. The 16+ employment rate had been flat in the three months to October at 60.0%, but had increased by 0.1 percentage points compared with the same period a year earlier. Average weekly hours worked had risen by 0.7% in the three months to October compared with the previous non-overlapping quarter, to 32.1.

A35 The CIPS employment survey for December had suggested slowing employment growth. All three sector indices (construction, manufacturing and services) had fallen, although construction and services had remained above the 'no change' level of 50.

A36 LFS unemployment had fallen by 29,000 in the three months to October, and had been 86,000 lower than a year earlier. The LFS unemployment rate had fallen by 0.1 percentage points to 4.7% in the three months to October, and by 0.3 percentage points compared with the same period a year earlier. The claimant count unemployment rate had remained unchanged, at 2.7% in November. The level of inactivity among those aged 16+ had increased by 48,000 in the three months to October. The 16+ inactivity rate had been flat at 37.1% in the three months to October compared with the previous non-overlapping quarter, and had increased by 0.1 percentage points compared with the same period a year earlier.

A37 According to settlements information available to the Bank, the mean whole-economy average earnings index-weighted settlement had been 3.2% in the year to November, unchanged from October. The twelve-month mean settlement in the private sector (AEI-weighted) had been 3.2%, and in the public sector (sample-weighted) had been 2.9%, both unchanged from October.

A38 Annual whole-economy earnings growth had been 4.1% in the three months to October, up 0.3 percentage points on the figure for the three months to September. Private sector pay growth had increased by 0.2 percentage points to 3.9%. Within this, pay growth in manufacturing had fallen by 0.1 percentage points, to 3.3%, and pay growth in private sector services had increased by 0.5 percentage points, to 3.9%. Public sector pay growth had risen by 0.4 percentage points, to 4.6%, in the three months to October. Whole-economy earnings growth in the year to October had increased by 0.3 percentage points, to 4.2%. Annual earnings growth excluding bonuses had been 4.4% in the three months to October, up 0.1 percentage points on the three months to September. The comparable public sector growth rate had increased by 0.3 percentage points to 4.5%, while the comparable private sector growth rate had remained unchanged at 4.3%.

VI Prices

A39 Manufacturing input prices had fallen by 1.9% in November. The annual inflation rate had fallen to 6.4% in November, from 8.7% in October. Looking ahead, the *CIPS Report on Manufacturing* had pointed to a fall in input price inflation in December: the input price index had fallen to 71.5, from 73.6 in November.

A40 Manufacturing output prices excluding duties (PPIY) had risen by 0.3% in November. The annual inflation rate had fallen to 3.7% in November, from 3.8% in October. Survey data had pointed to rising output prices in the near future: the balance on expected output prices from the *CBI Monthly Trends Survey* had risen to 10 in December, from 8 in November.

A41 The National Accounts release showed that the GDP deflator at market prices had risen by 0.6% in 2004 Q3. The annual inflation rate had fallen to 1.4%, from 2.1% in 2004 Q2. Within this, the annual inflation rate of the household consumption deflator had fallen to 1.1%, from 1.4% in Q2.

The annual inflation rate of the government consumption deflator had risen to 2.1%, from 1.6% in Q2. The annual inflation rate of the exports deflator had risen to - 0.7% in Q3, from - 1.1% in Q4, while the annual inflation rate of the imports deflator had risen by 0.6 percentage points, to - 0.4%.

A42 Annual CPI inflation had risen to 1.5% in November, from 1.2% in October. Within this, annual goods price inflation had risen by 0.2 percentage points, to - 0.4%, and annual services price inflation had also risen by 0.2 percentage points, to 3.5%. Annual RPIX inflation had risen to 2.2% in November, from 2.1% in October. Annual RPI inflation had risen to 3.4 % in November, from 3.3% in October.

VII Reports by the Bank's Agents

A43 The Bank's regional Agents had surveyed some 150 consumer businesses about their Christmas trading. The survey suggested that, after allowing for seasonal influences, retail trading had been fairly weak in the first two weeks of December, but that an unprecedented level of discounting thereafter had stimulated sales volumes immediately before and after Christmas. Overall, it had appeared that, after allowing for seasonal influences, retail sales volumes had grown modestly in the month to December, although there had been substantial differences in the fortunes of individual retailers.

A44 Most other components of consumer spending had remained reasonably firm, and had not suggested that consumers had reined in their spending significantly. For instance, there had been few, if any, signs of expenditure easing on travel and leisure. And, although new car sales to private buyers had been declining over the past year, they had been above dealers' expectations in recent months. Activity in the housing market had declined sharply. But some estate agents and house builders had expressed confidence that the housing market would have started to recover by next spring.