

## **ANNEX: SUMMARY OF DATA PRESENTED BY BANK STAFF**

A1 This Annex summarises the analysis presented by Bank staff to the Monetary Policy Committee on 4 March 2005, in advance of its meeting on 9-10 March. 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 interest rates had risen significantly in the United Kingdom and the United States, but had been little changed in the euro area. Interest rates implied by December 2005 futures contracts had risen by 24 basis points in the United Kingdom and by 44 basis points in the United States. In the United Kingdom, short-term interest rates had fallen following the publication of the *Inflation Report* on 16 February, but this fall had been more than reversed by the end of the period, following comments from MPC members and publication of the minutes of the February MPC meeting. The Reuters survey of economists had indicated that all the respondents had expected rates to remain unchanged at the March MPC meeting. But the mean of economists' expectations for policy rates at the end of 2005 had increased by 13 basis points to 4.85%.

A3 Medium to long-term nominal forward interest rates implied by government bonds had risen internationally since the Committee's previous meeting. In the United Kingdom, ten-year forward rates had risen by 36 basis points, while in the United States and the euro area ten-year forward rates had risen by 47 basis points and 51 basis points respectively. Over the previous six to nine months nominal long-term forward rates had drifted lower internationally, particularly so in the United States and the euro area, and the recent increases in rates had only partly reversed the earlier falls. The rise in rates since the Committee's previous meeting could be accounted for mainly by higher real forward interest rates. Implied inflation forward rates had also risen slightly in the United Kingdom and the United States. The February HM Treasury survey of forecasters had shown an expected average annual rate of CPI inflation of 1.9% in 2005 Q4, compared with an expectation of 1.8% in the January survey. The Consensus Economics survey had suggested that CPI inflation was expected to average 1.7% in 2005, unchanged for the third consecutive month.

A4 The sterling effective exchange rate index (ERI) had fallen slightly by 0.1% to 103.0 since the Committee's previous meeting. Sterling had appreciated by 3.4% against the dollar and by 1.7% against the yen, but had depreciated by 1.0% against the euro. During the period since the Committee's previous meeting, expectations of higher UK interest rates had initially provided some support for sterling, but the sterling ERI had depreciated following weaker-than-expected UK trade data on 9 March. The US dollar ERI had depreciated by 3.2%. Exchange rate uncertainty implied by options prices had remained low.

A5 The FTSE All-Share index had fallen by 0.1% and the S&P 500 and Eurostoxx indices had risen by 1.3% and 1.1% respectively, in local currency terms, since the Committee's previous meeting. The Topix index had risen by 3.9% in local currency terms. Market views on uncertainty surrounding equity indices, as inferred from three-month implied volatility of option prices, had changed little. Sterling, dollar and euro-denominated investment-grade corporate bond spreads had narrowed further over the period.

## **II The international environment**

A6 According to the preliminary estimate, US GDP had risen by 0.9% in 2004 Q4, revised up from the advance estimate of 0.8%. Within this total, the estimate for private consumption growth had been revised down to 1.0%, from 1.1%; private fixed investment growth had been revised up to 2.3% from 1.6%; and government spending growth had been revised up slightly, to 0.3% from 0.2% in the advance release. The contribution to quarterly GDP growth in Q4 from stockbuilding was unrevised at 0.1 percentage points and the net trade contribution had also been unrevised at -0.4 percentage points. Non-farm business sector labour productivity had risen by 0.5% in Q4, following a rise of 0.3% in Q3. Unit labour costs had risen by 0.3% in Q4, following a rise of 1.0% in Q3.

A7 US industrial production had been unchanged in January, following a rise of 0.7% in December. New orders for non-defence capital goods had fallen by 0.2% in January. The Institute for Supply Management (ISM) manufacturing index had fallen to 55.3 in February, from 56.4 in January, while the ISM non-manufacturing index had risen to 59.8 in February, from 59.2 in January.

A8 US non-farm payrolls had increased by 262,000 in February, following a downwardly-revised rise of 132,000 in January. Real consumption had fallen by 0.2% in January, following a rise of 0.9%

in December. Real personal disposable income had declined by 2.8% in January after having risen by 4.2% in December. The saving rate had fallen to 1.0% of disposable income in January, from 3.6% in December. The Conference Board measure of consumer confidence had fallen to 104.0 in February, from 105.1 in January. The University of Michigan headline index of consumer confidence had fallen to 94.1 in February, from 95.5 in January.

A9 US producer prices for finished goods had increased by 4.2% in the year to January. Annual headline consumer price inflation had been 3.0% in January, compared with 3.3% in December. Annual core consumer price inflation (which excludes food and energy prices) had been 2.3% in January, up from 2.2% in December. The core measure of the private consumption expenditure deflator had risen by 1.6% in Q4 compared with a year earlier.

A10 According to the first release, euro-area GDP had increased by 0.2% in Q4, following a downwardly-revised increase of 0.2% in Q3. Within this total, private consumption had risen by 0.5%; investment had increased by 0.6%; and government consumption had risen by 0.2%. Net trade had contributed -0.2 percentage points to growth in Q4, while inventories had contributed -0.1 percentage points.

A11 German GDP had contracted by 0.2% in Q4, compared with quarterly growth of 0.0% in Q3. Within total German GDP, private consumption had increased by 0.2% in Q4, following a rise of 0.1% in Q3. Investment had risen by 0.2% in Q4, having increased by 0.7% in Q3. Government consumption had fallen by 0.7%, having risen by 0.6% in Q3. Net trade had contributed 0.5 percentage points to growth in Q4, while inventories had contributed -0.8 percentage points. French GDP had increased by 0.8% in Q4, compared with quarterly growth of 0.0% in Q3. Private consumption had risen by 1.2%; total investment had increased by 0.9%; and government consumption had risen by 0.6%. Net trade had made no contribution to GDP growth, while inventories had contributed -0.3 percentage points. In Q4, Italian GDP had contracted by 0.3%; Dutch GDP had fallen by 0.1%; Spanish GDP had increased by 0.8%; and, according to the flash estimate, Belgian GDP had risen by 0.4%.

A12 According to Eurostat, euro-area industrial production had risen by 0.5% in December, having fallen by 0.4% in November. The European Commission measure of euro-area industrial confidence had been -7 in February, down from -5 in January. The European Commission measure of consumer

confidence had been –13 in February, unchanged from January. The purchasing managers' index for the manufacturing sector in the euro area had remained unchanged at 51.9 in February and the index for the service sector had fallen to 53.0 in February, from 53.4 in January. The German IFO index had fallen to 95.5 in February, from 96.4 in January.

A13 The euro-area unemployment rate had been 8.8% in January, unchanged from December. According to Eurostat, the volume of retail sales in the euro area had increased by 0.3% in January, following a downwardly revised growth rate of 0.0% in December.

A14 Annual inflation in the euro area, as measured by the harmonised index of consumer prices (HICP), had fallen to 1.9% in January, from 2.4% in December. Annual core inflation (excluding energy, food, alcohol and tobacco prices) had been 1.6% in January, down from 1.9% in December. According to the Eurostat flash estimate, euro-area annual HICP inflation had risen to 2.0% in February. Annual producer price inflation (excluding construction) had been 3.9% in January, compared with 3.5% in December.

A15 According to the first estimate, Japanese real GDP had fallen by 0.1% in Q4, compared with a 0.3% fall in Q3. Within the total, private consumption had fallen by 0.3%, business investment had increased by 0.7% and government consumption had risen by 0.4%. Net trade had contributed –0.2 percentage points to quarterly growth.

A16 Industrial production in Japan had risen by 2.1% in January, following a fall of 0.8% in December. The workers' household survey had reported 2.6% growth in real spending in the year to January, compared with a fall of 3.8% in the year to December. Annual growth in export volumes had been –3.1% in January, down from 2.8% in December. Annual growth in import volumes had slowed to 2.5% in January, from 2.7% in December. The all-activity index had fallen by 0.3% in December, having increased by 0.2% in November.

A17 Since the Committee's previous meeting, the spot price of Brent crude oil had risen by \$10.91 to \$54.02 per barrel, an increase of 25%. Over the same period, the sterling spot price of Brent crude oil had risen by 21%, to £28.12 per barrel. Since the Committee's previous meeting, the price of the January 2006 Brent crude oil futures contract had risen by 19%, to \$50.60. *The Economist* dollar non-oil commodity price index had increased by 9.3% over the same period.

### III Money and credit

A18 The twelve-month growth rate of notes and coin, adjusted for special factors, had risen to 5.9% in February, from 5.7% in January. The three-month annualised growth rate had risen to 6.0% in February, from 5.5% in January. The annual growth rate of aggregate M4 deposits had increased to 8.9% in January, from 8.7% in December. The annual growth rate of M4 lending (excluding the effects of securitisations) had decreased slightly, to 12.4% in January from 12.6% in December. Excluding other financial corporations, annual M4 deposit growth had risen to 8.9% in January, from 8.0% in December, while annual M4 lending growth (excluding the effects of securitisations) had fallen slightly, to 11.2% from 11.3% in December.

A19 The annual growth rate of households' M4 had risen by 0.3 percentage points, to 8.5% in January. The annual growth rate of total net lending to individuals, a wider measure than M4 lending that includes lending by a broader set of institutions than just banks and building societies, had fallen by 0.3 percentage points to 12.6% in January. The annual growth rate of secured lending to individuals had decreased to 12.6% in January, from 13.0% in December, while the annual growth rate of unsecured lending to individuals had increased to 12.6% in January, from an upwardly revised 12.5% in December. Within unsecured lending, the annual growth rate of credit card lending had risen to 22.2% in January, from an upwardly-revised 21.7% in December, while the annual growth rate of other unsecured lending had been 8.9% in January, unchanged from the downwardly-revised growth rate in December.

A20 At 6.61% in February, the average standard variable rate on mortgages quoted for existing customers had not changed since January, while the average two-year fixed rate on mortgages had risen slightly, to 5.05%. The effective mortgage rate had fallen slightly, to 5.54% in January. According to the latest data from the Council of Mortgage Lenders, the share of new mortgages (by volume) with fixed rates had been unchanged at 42% in January. The average quoted interest rate on postal and telephone deposits, along with deposit rates for time and instant access accounts, had been broadly unchanged in February. The average quoted interest rate on credit card borrowing was unchanged in February, while the effective rate on credit card borrowing had risen in January. The effective rate for personal loans had fallen to 8.87% in January.

A21 The number of loan approvals for house purchase had fallen to 79,000 in January, from 82,000 in December. The monthly balance of net housing reservations reported by the House Builders Federation had risen slightly, to –37.9 in January, from –38.9 in December. The RICS sales-to-stocks ratio had fallen to 0.27 in February from 0.31 in January. The RICS balance of new buyer enquiries had risen to 0 in February, its highest level since April 2004.

A22 The annual growth rate of private non-financial corporations' (PNFCs') holdings of M4 deposits had risen to 10.4% in January, from 7.2% in December. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had risen to 8.0% in January, from 7.4% in December. Total finance raised in the United Kingdom by PNFCs in January had been £4.9 billion (excluding the effects of securitisations). This compared with a monthly average of £2.2 billion in 2004 Q4. Within total finance, the net flow of bond, equity and commercial paper issuance (denominated in sterling and foreign currencies) in January had been –£1.2 billion, compared with the monthly average of £0.6 billion in Q4.

#### **IV Demand and output**

A23 Estimated quarterly growth of GDP at market prices had been unrevised in the 2004 Q4 Output, Income and Expenditure release, at 0.7%. At basic prices, quarterly GDP growth had also been unrevised at 0.7% in Q4.

A24 On the output side of the accounts, service sector growth had been estimated at 0.9% in 2004 Q4, revised down from 1.0% in the previous release. Production sector output had been estimated to have fallen by 0.1% in 2004 Q4, compared with a fall of 0.5% in the previous release. Within the production sector, manufacturing output had risen by 0.2%, revised up from –0.2% in the previous release. In January's Index of Production release, manufacturing output growth had subsequently been revised up further, to 0.3% in Q4. Construction sector output had been estimated to have grown by 0.8% in 2004 Q4.

A25 On the expenditure side of the accounts, real household consumption (including that of non-profit institutions serving households) had been estimated to have risen by 0.4%. Real government consumption had risen by 0.8% and whole-economy investment had risen by 1.6%. Within whole-economy investment, business investment had risen by 0.7%.

A26 Total exports had risen by 1.9%, while imports had risen by 2.0% in 2004 Q4. Overall, the contribution of net trade to quarterly GDP growth in 2004 Q4 had been –0.1 percentage points. Adjusting for the effects of missing trader intra-community (MTIC) VAT fraud, export and import growth had been estimated at 2.0% and 2.1% respectively.

A27 Turning to indicators of expenditure in 2005 Q1, retail sales volumes had risen by 0.9% in January, following a fall of 1.1% in December. The three-month on three-month growth rate of retail sales had fallen to 0.0% in January, from 0.2% in December. The GfK consumer confidence balance had fallen by 1 point in February, to 0. In the *CBI Distributive Trades Survey*, the balance of retailers reporting positive annual growth in sales volumes had risen to +2 in February, from –3 in January. According to the *BRC-KPMG Retail Sales Monitor*, retail sales values had grown by 2.9% in the twelve months to February. According to the Society of Motor Manufacturers and Traders, new private car registrations had been 17.5% lower in the three months to February compared with a year earlier.

A28 The Nationwide house price index had risen by 0.5% in February, while the Halifax house price index had fallen by 0.5%. The three-month on three-month inflation rate of the Nationwide index had fallen to 0.9% in February, whereas the three-month on three-month inflation rate of the Halifax index had risen to 1.1%.

A29 The Index of Production release had indicated that industrial production had fallen by 0.2% in January. Within that, manufacturing output had risen by 0.2% and energy output had fallen by 1.7% on the month. The Chartered Institute of Purchasing and Supply (CIPS) *Report on Manufacturing* output index had fallen to 53.0 in February, from 53.5 in January. The new orders index had risen in February, to 53.0 from 51.9. The *CBI Monthly Trends Enquiry* total orders balance had risen to –10 in February, from –13 in January. The expected output balance had also risen, to +19, from +10 in January. The CIPS *Report on Services* business activity and new orders indices had both fallen in February, to 55.1 and 55.5 respectively.

A30 The Bank's regional Agents had conducted a special survey on export prospects. This had suggested that UK exporters had experienced mixed fortunes in the previous six months, though on balance respondents had reported that exports had been weak. The survey had also shown that

exporters were generally positive about their expected export performance in the next six months, particularly exports to the United States and the euro area.

## **V The labour market, costs and prices**

A31 According to the Labour Force Survey (LFS), employment had increased by 90,000 in the three months to December compared with the three months to September. The 16+ employment rate had risen by 0.1 percentage points in 2004 Q4 to 60.1%, and had increased by 0.2 percentage points compared with the same period a year earlier. Average weekly hours worked had risen by 0.8% in 2004 Q4 compared to 2004 Q3, to 32.2.

A32 The overall CIPS employment survey for February had fallen to 49.9. Within this, the services, manufacturing and construction balances had all fallen. The BCC survey of employment expectations for 2004 Q4 for the manufacturing sector had been at its long-run average, and had been slightly above its long-run average for the services sector.

A33 LFS unemployment had increased by 32,000 in 2004 Q4, but had been 56,000 lower than a year earlier. The LFS unemployment rate had been 4.7% in 2004 Q4, 0.1 percentage points higher than 2004 Q3, but 0.2 percentage points lower than the same period a year ago. The claimant count unemployment rate had fallen to 2.6% in January, from 2.7% in December. The level of 16+ inactivity had decreased by 49,000 in 2004 Q4. The 16+ inactivity rate had fallen to 36.9% in 2004 Q4, 0.2 percentage points lower than 2004 Q3, and 0.1 percentage points lower than the same period a year earlier. Much of the rise in LFS employment had been of people aged over fifty. The Bank's Agents had also reported greater participation in the labour market by older workers and by workers from overseas.

A34 According to settlements information available to the Bank, the mean whole-economy twelve-month average earnings index (AEI-weighted) settlement had remained at 3.2% in the year to January. The twelve-month mean settlement in the private sector (AEI-weighted) had been 3.3%. The twelve-month mean settlement in the public sector (sample-weighted) had been 2.8%.

A35 Overall annual whole-economy earnings growth had been 4.3% in the three months to December, up 0.1 percentage points compared with the three months to November. Private sector pay growth had increased by 0.2 percentage points, to 4.3%, within which manufacturing had risen by 0.3 percentage points, to 3.4%, and private sector services had increased by 0.3 percentage points, to 4.4%. Public sector pay growth was unchanged at 4.7% in the three months to December. Whole-economy earnings growth in the year to December was unchanged at 4.4%. Whole-economy annual earnings growth, excluding bonuses, had increased by 0.1 percentage points to 4.5% in the three months to December, compared with the three months to November.

A36 Manufacturing input prices had risen by 3.4% in January. The annual inflation rate had risen to 9.4% in January, from a revised 4.4% in December. The CIPS *Report on Manufacturing* input price balance had fallen to 66.8 in February, from 72.5 in January.

A37 Manufacturing output prices excluding duties (PPIY) had fallen by 0.1% in January. Annual inflation had fallen to 2.7% in January, from 3.0% in December. The CIPS manufacturing output price balance had fallen to 54.9 in February, from 56.1 in January. Looking ahead, the balance on expected output prices from the *CBI Monthly Trends Enquiry* had fallen to +11 in February, from +19 in January.

A38 The ONS's experimental corporate services price index (CSPI) had indicated that annual corporate services price inflation (non seasonally adjusted) had fallen to 2.2% in Q4, from 2.3% in Q3. The CIPS *Report on Services* prices charged index had risen to 53.2 in February, from 52.0 in January.

A39 According to the ONS's Output, Income and Expenditure release, the annual inflation rate of the GDP deflator at market prices had risen to 2.0% in Q4, from 1.3% in Q3. Within this, the annual inflation rate of the household consumption deflator was unchanged at 1.2% in Q4. The annual inflation rate of the government consumption deflator had risen to 1.8% in Q4, from 1.5% in Q3. The annual inflation rates of the imports and exports deflators had been 0.1% and 1.5% respectively in Q4.

A40 Annual CPI inflation had been unchanged at 1.6% in January. Within this, annual goods price inflation had fallen by 0.1 percentage points to -0.2%, while annual services price inflation was unchanged at 3.7%. Annual RPIX inflation had fallen to 2.1% in January, from 2.5% in December. Annual RPI inflation had fallen by 0.3 percentage points in January, to 3.2%.

## **VI Reports by the Bank's Agents**

A41 The Bank's regional Agents had reported that manufacturing output had continued to increase, though at a slower pace. Manufacturing order books were a little weaker. There had been tentative signs that recent strong price increases for materials and fuel had abated. Even so, some manufacturers had still faced large price increases for some inputs, as longer-term contracts had been renewed.

A42 Most manufacturers had reported that they had sufficient spare capacity to meet prospective demand, with some able to expand capacity if need be by outsourcing and sub-contracting work. By contrast, capacity constraints had increased in the service sector, largely due to skill shortages, especially of professional staff.

A43 Turning to consumption, the Agents had reported that underlying consumer spending growth had slowed in recent months. Growth of spending on big-ticket items, including new cars, had been weaker than on consumer services. In the housing market, contacts had reported signs of a slight pickup in activity recently, following a sharp slowdown towards the end of last year. Nevertheless, it had remained a buyers' market and contacts had expected activity to remain fairly subdued in the months ahead.