

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

A1 This Annex summarises the analysis presented by Bank staff to the Monetary Policy Committee on 29 April, in advance of its meeting on 6 and 9 May. 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 April meeting, short-term interest rates had fallen in the United Kingdom, the United States and the euro area. Sterling rates implied by December 2005 futures contracts had declined by 19 basis points; dollar and euro implied rates for similarly dated contracts had fallen by 12 and 24 basis points respectively. Weaker-than-expected data releases, including UK and US retail sales, had contributed to the falls, although US rate expectations in particular had picked up following the strong US non-farm payrolls data for April released on 6 May. All but two of the 45 economists surveyed by Reuters had expected UK rates to remain unchanged after the May MPC meeting, while economists' mean expectation of the Bank's repo rate at the end of 2005 had fallen slightly, to 4.82%.

A3 Medium to long-term nominal forward rates had also fallen internationally over the period. Ten-year instantaneous forward rates had fallen by 7, 15 and 9 basis points in the United Kingdom, United States and euro area respectively. In the United Kingdom, implied inflation and/or inflation risk premia had accounted for the majority of the movement in long nominal forward rates over the period, whilst in the United States real rates had been the dominant influence. The falls in euro-area rates had been due to a combination of real rates and implied inflation expectations.

A4 Between the previous Committee meeting and 6 May, the sterling effective exchange rate (ERI) had risen by 0.6% to 102.1. Sterling had risen by 0.8% against both the US dollar and the euro. Consensus survey data had continued to imply a depreciation in sterling relative to both the euro and the US dollar. The US dollar had fallen by 3.6% against the yen and was unchanged against the euro. The US dollar ERI had fallen by 0.8% over the month. Short-term foreign exchange uncertainty, as measured by three-month option contracts, had remained low.

A5 All the major international equity indices had fallen since the previous MPC meeting, with the FTSE All-Share, S&P 500 and Eurostoxx indices falling by 1.4%, 1.1% and 2.3% respectively, in local currency terms. A sectoral decomposition had shown that there had been a broad-based fall across most sectors internationally. Market views on uncertainty surrounding equity indices, as inferred from the three-month implied volatility of option prices, had increased for the major international equity indices. Sterling, dollar and euro-denominated investment-grade and high-yield corporate credit spreads had widened on the month (for example, the sterling, dollar and euro-denominated investment-grade spreads had increased by 5, 13, and 9 basis points respectively). In contrast, emerging market sovereign and corporate credit spreads had narrowed slightly on the month.

## **II The international environment**

A6 According to the advance estimate, US GDP had risen by 0.8% in 2005 Q1, following a rise of 0.9% in 2004 Q4. Compared with a year earlier, GDP had risen by 3.6%. US final domestic demand had increased by 0.8% in 2005 Q1. Within this, private consumption had expanded by 0.9% on the quarter and private fixed investment had risen by 1.2%, reflecting a rise of 1.1% in business investment and a rise of 1.4 % in residential investment. Government spending had increased by 0.1%. Imports had increased by 3.5% and exports had risen by 1.7%. Net trade had made a -0.4 percentage point contribution and stock building had contributed 0.3 percentage points to quarterly GDP growth in 2005 Q1.

A7 US non-farm payrolls had increased by 274,000 in April, following a 146,000 increase in March, an upward revision from 110,000 in the previous release. The unemployment rate had remained at 5.2% in April, the same rate as in March.

A8 US industrial production had risen by 0.3% in March following a downwardly revised increase of 0.2% in February. Consumption had grown by 0.1% in March compared with a month earlier, after a 0.4% rise in February. Saving as a percentage of nominal personal disposable income had fallen to 0.4% in March, from 0.5% in February. The University of Michigan consumer confidence measure fell to 87.7 in the final release for April, from 92.6 in March. The Conference Board consumer confidence measure had fallen to 97.7 in April, from 103.0 in March. The Institute for Supply

Management (ISM) manufacturing index had fallen to 53.3 in April, from 55.2 in March. The ISM non-manufacturing business activity index had fallen to 61.7 in April, from 63.1 in March.

A9 US producer prices for finished goods had increased by 4.9% in the year to March. The US headline consumer price index had risen by 3.1% in the year to March, compared with a 3.0% rise in February. The core CPI, which excludes energy and food, had increased by 2.3% in the year to March, compared with a 2.4% rise in February. The core measure of the personal consumption expenditures deflator had increased by 1.6% in the year to Q1, unchanged from 2004 Q4. Employment costs had risen by 0.7% in 2005 Q1 compared with a quarter earlier, down from the Q4 outturn of 0.8%.

A10 In the euro area, the second estimate of quarterly GDP growth in 2005 Q1 had been unrevised at 0.2%, although there were small offsetting changes to components and revisions to past data. Private consumption growth had been revised upwards to 0.6% in Q4 from 0.5% in the first release.

Government consumption and investment growth had been unrevised. Estimated export growth had been 0.3%, revised down from 0.5% previously. Import growth had also been revised down to 0.7% from 1.0% in the first release. Net trade had contributed -0.1 percentage points to quarterly GDP growth compared with -0.2 percentage points from the first release. The contribution of stock building had been revised down to -0.2 percentage points from -0.1 percentage points in the first release. According to revised figures from the German Statistical Office, German growth had been slightly stronger during 1991-2004, at 1.5% per year on average, compared with 1.3% using the previous data. Annual growth in 2004 had remained unchanged.

A11 The euro-area Purchasing Managers' Index (PMI) for the manufacturing sector had fallen to 49.2 in April, from 50.4 in March. The service sector PMI had also fallen, to 52.8 in April from 53.0 in March. Industrial production in the euro area had fallen by 0.5% in February compared with a month earlier, after increasing by 0.3% in January. The European Commission measures of industrial and consumer confidence had been -9 and -13 respectively in April. Industrial confidence had fallen from -8 in March, while consumer confidence had picked up from -14 in March. The German IFO index had fallen to 93.3 in April, from 94.0 in March.

A12 According to Eurostat, total euro-area retail sales had increased by 0.3% on the month in March, following a rise of 0.2% in February.

A13 Annual harmonised consumer price inflation in the euro area had remained at 2.1% in March, and the Eurostat flash estimate had indicated a rate of 2.1% in the year to April. Core HICP inflation, which excludes energy, food, alcohol and tobacco, had been 1.6% in the year to March, compared with 1.4% in February. Annual producer price inflation had remained at 4.2% in March.

A14 In Japan, industrial production had fallen by 0.3% in March compared with a month earlier, following a decline of 2.3% in February. According to the Household Survey, workers' real expenditure had risen by 3.2% in the quarter to 2005 Q1, up from -1.8% in 2004 Q4. Estimated GDP in China had grown by 9.5% in the year to 2005 Q1, the same as in the year to 2004 Q4.

A15 Since the Committee's previous meeting, the spot price of Brent crude oil had fallen by 8.5% per barrel, to US \$49.89. *The Economist* dollar non-oil commodity price index had risen by 1.0% over the same period.

### **III Money and credit**

A16 The twelve-month growth rate of notes and coin, adjusted for special factors, had fallen to 4.9% in April, from 5.2% in March. The three-month annualised growth rate had fallen to 3.4% in April, from 6.0% in March. The annual growth rate of aggregate M4 deposits had risen to 10.3% in March, from 9.5% in February. The annual growth rate of M4 lending (excluding the effects of securitisations) had fallen to 12.6% in March, from 12.8% in February. Excluding other financial corporations, annual M4 deposit growth had been unchanged in March at 8.6%, while annual M4 lending growth (excluding the effects of securitisations) had risen to 11.5%, from 11.0% in February.

A17 The annual growth rate of households' M4 had eased by 0.3 percentage points, to 8.4% in March. 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 0.4 percentage points, to 12.0% in March. The annual growth rate of secured lending to individuals had decreased to 11.7% in March, from 12.1% in February, while the annual growth rate of unsecured lending to individuals had fallen to 13.5% in March, from 13.7% in February. Within unsecured lending, the annual growth rate of credit card lending had decreased by 1.5 percentage points, to 20.8% in March, while the annual growth rate of other unsecured lending had edged upwards by 0.2 percentage points, to 10.6% in March.

A18 At 6.59%, the average standard variable rate on mortgages quoted for existing customers had remained unchanged since March, while the average two-year fixed rate on mortgages had fallen slightly, to 5.21% in April. The effective mortgage rate had fallen slightly, to 5.55% in March. According to the latest data from the Council of Mortgage Lenders, the share of new mortgages (by volume) with fixed rates had risen to 42% in March, from 39% in February. The average quoted interest rate on postal and telephone deposits, along with deposit rates for time and instant access accounts, had remained unchanged in April. The average quoted interest rate on credit card borrowing had decreased in April, while the effective rate for a personal loan had edged upwards to 8.95% in March from 8.88% in February.

A19 The annual growth rate of private non-financial corporations' (PNFCs') holdings of M4 deposits had risen to 9.3% in March, from 8.3% in February. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had risen to 10.8% in March, from 7.6% in February. The monthly flow of total finance raised in the United Kingdom by PNFCs (excluding the effects of securitisations) had averaged £4.1 billion in Q1, rising from a monthly average of £2.4 billion in Q4. Within total finance, the flow of bond, equity and commercial paper issuance (denominated in sterling and foreign currencies) had averaged –£0.6 billion a month in Q1, falling from its Q4 monthly average of £0.6 billion.

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

A20 In the preliminary GDP release, the ONS had estimated that GDP at market prices had grown by 0.6% in 2005 Q1, following growth of 0.7% in 2004 Q4. Annual GDP growth at market prices had fallen to 2.8%, from 2.9% in Q4. Whole-economy gross value added had also been estimated to have grown by 0.6% on the quarter in Q1.

A21 In the preliminary GDP release, the output of the service sector had been estimated to have grown by 0.8% in 2005 Q1. The output of the production sector had been estimated to have fallen by 0.1% on the quarter, with a rise of 0.1% in manufacturing output. In March's Index of Production release, the estimated growth in output of the production sector had subsequently been revised down to –0.7% for 2005 Q1. That revision had principally reflected a downward revision to manufacturing output growth, to –0.7%.

A22 Retail sales volumes had fallen by 0.1% in March, while retail sales values had risen by 0.2%. In Q1 as a whole, retail sales volumes had grown by 0.3%, compared with a 0.1% increase in Q4. The *CBI Distributive Trades* retailers' sales balance had fallen to –14 in April, from –9 in March, and the GfK consumer confidence balance had fallen by 1 point in April, to 0.

A23 Preview data from the Royal Institution of Chartered Surveyors (RICS) indicated that the balance of new buyer enquiries was unchanged on the month, at –3 in April. The RICS sales-to-stocks ratio, which had in the past been closely correlated with movements in house price inflation, had also been unchanged in April. Mortgage loan approvals had increased to 91,000 in March, from 86,000 in February. The Nationwide house price index had risen by 0.9% in April, while the Halifax index had been unchanged on the month. The three-month on three-month inflation rates of the two indices had fallen slightly, to 0.6% and 0.7% respectively in April. The RICS balance of estate agents expecting prices to rise over the subsequent three months had become slightly more negative.

A24 Surveys of business confidence had fallen in Q1, but had remained close to their long-run average levels. In the service sector, the British Chambers of Commerce (BCC) survey's balance for confidence regarding profitability had fallen to +38 in Q1, from +41 in Q4. And the Chartered Institute of Purchasing and Supply (CIPS) *Report on Services* business expectations balance had fallen to 71.8 in April, from 75.5 in March. In the manufacturing sector, the BCC survey's balance for confidence regarding profitability had fallen to +34 in Q1, from +35 in Q4. However, the *CBI Quarterly Industrial Trends Survey's* business optimism balance in the manufacturing sector had risen to –15 in Q1, from –22 in Q4.

A25 Most surveys of investment intentions had eased back slightly in Q1. The BCC services investment intentions balance had fallen to +11 in Q1, from +15 in Q4. In the manufacturing sector, there had been a decrease in the BCC manufacturing investment intentions balance to +10 in Q1, from +16 in Q4; but the CBI manufacturing investment intentions balance had risen to –16, from –19, over the same period.

A26 Looking ahead to Q2, the CIPS *Report on Services* business activity index had decreased to 56.5 in April, from 57.0 in March, but had remained in the narrow range within which it had fluctuated over the previous nine months. The new orders index had decreased to 55.6 in April, from 56.9 in March. The BCC services domestic orders balance had fallen to +18 in Q1, from +21 in Q4.

A27 In the manufacturing sector, the CIPS manufacturing survey output index had fallen to 51.3 in April. The new orders balance had fallen to 49.2, from 51.8 in March. The BCC manufacturing domestic orders balance had fallen to +11 in Q1. The CBI total new orders balance had fallen to -18 in Q1, from -4 in Q4.

A28 In April, the Agents carried out a survey of their contacts regarding prospects for consumer spending on services. The survey covered 166 firms with a total annual turnover of nearly £24 billion, equivalent to around 6% of total UK consumer spending on services. A weighted net balance of 28% of firms reported that turnover had been higher in the latest six months compared with the previous six months. Looking ahead to the next six months, a weighted net balance of 26% of firms expected turnover to be higher than in the latest six months.

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

A29 According to the Labour Force Survey (LFS), employment had increased by 148,000 in the three months to February compared with the three months to November. The 16+ employment rate had risen by 0.2 percentage points in the three months to February to 60.3% compared with the previous non-overlapping quarter, and had increased by 0.1 percentage points compared with the same period a year earlier. Average hours worked had risen by 0.5% in the three months to February compared with the previous non-overlapping quarter, to 32.3.

A30 The overall CIPS employment survey for April had been unchanged at 52.0. Within this, the services and construction balances had risen, and the manufacturing balance had fallen.

A31 LFS unemployment had increased by 29,000 in the three months to February, but had been 2,000 lower than a year earlier. The LFS unemployment rate had been 4.8% in the three months to February, up by 0.1 percentage points compared with the previous non-overlapping quarter, but unchanged compared with the same period a year earlier. The claimant count unemployment rate was unchanged on the month, at 2.7% in March. The level of 16+ inactivity had decreased by 104,000 in the three months to February. The 16+ inactivity rate had fallen to 36.7% in the three months to February, down by 0.3 percentage points compared with the previous non-overlapping quarter, and down by 0.1 percentage points compared with the same period a year earlier.

A32 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 March, although the shorter-run measure had risen in the recent past. The twelve-month mean settlement in the private sector (AEI-weighted) was unchanged at 3.3% and the public sector (sample-weighted) was unchanged at 2.8%.

A33 Overall annual whole-economy earnings growth had been 4.7% in the three months to February, up by 0.3 percentage points on the three months to January. Private sector pay growth had increased by 0.5 percentage points, to 4.8% in the three months to February. Public sector pay growth had been unchanged at 4.6% in the three months to February. Whole-economy earnings growth had been 5.7% in the year to February, up by 1.5 percentage points compared with the year to January. Whole-economy annual earnings growth excluding bonuses had been 4.3% in the three months to February, down by 0.1 percentage points compared with the three months to January.

A34 Since the Committee's previous meeting, sterling oil prices had fallen by 10%.

A35 Manufacturing input prices had risen by 1.6% in March and by 0.3% in April. That meant that the annual inflation rate had fallen to 10.4% in April, from 11.1% in March. The *CIPS Report on Manufacturing* input price balance had fallen to 62.5 in April, from 63.8 in March.

A36 Manufacturing output prices excluding duties (PPIY) had risen by 0.3% in March and by 0.4% in April. The annual inflation rate had risen to 3.4% in April, from 3.2% in March. The balance on expected output prices from the *CBI Quarterly Trends Enquiry* had fallen to +5 in April.

A37 Annual CPI inflation had risen to 1.9% in March, up by 0.3 percentage points on February. Within this, annual goods price inflation had risen by 0.3 percentage points, to 0.1%, and annual services price inflation had risen by 0.2 percentage points, to 4.0%. Annual RPIX inflation had increased to 2.4% in March, from 2.1% in February. Annual RPI inflation was unchanged at 3.2% in March.

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

A38 The Bank's regional Agents reported that the annual growth of retail sales had remained weak in the previous month. Spending on durable goods had been particularly subdued. That had been partly associated with the sharp decline in the number of housing transactions compared with the same period a year earlier, which had reduced spending on items such as carpets and 'white' goods. Turning to other expenditure components of GDP, reports from contacts had suggested that the growth of exports and business investment in 2004 had been somewhat stronger than indicated by the latest official figures. While export growth had tailed off in 2005, contacts' investment intentions had remained reasonably upbeat.

A39 Prospects for employment had been for steady growth, though tightness in the labour market had perhaps eased slightly in recent months as more overseas workers had entered the UK job market. Pay settlements had been drifting higher, partly because some were linked to RPI inflation, which had risen in the previous year. Contacts had expected that past and prospective increases in the National Minimum Wage might add further upward pressure to settlements in the next pay round. Even so, most of the increase in contacts' labour costs recently had stemmed from wage drift, such as increased bonus payments and other forms of performance-related pay.

A40 Manufacturers' output price inflation had continued to edge up. Past increases in the cost of materials, many of which had been linked to higher oil prices, had gradually been passed on to customers in the form of higher factory gate prices. By contrast, retail goods prices had continued to fall, though the pace of decline had eased because of recent increases in food prices.