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 July, in advance of its meeting on 3-4 August. 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 July meeting, short-term sterling market interest rates implied by December 2005 futures contracts had risen by 11 basis points; dollar and euro implied rates for similarly dated contracts had risen by 18 and 10 basis points respectively. In the Reuters poll of economists published on 29 July, 43 of 47 economists had expected the UK policy rate to be cut at the August MPC meeting. The mean expectation of economists for the Bank's repo rate at the end of 2005 had fallen to 4.39%, from 4.46% at the time of the July MPC meeting.

A3 Medium to long-term nominal forward rates had risen a little over the period. Ten-year rates had risen by 6, 11 and 7 basis points in the United Kingdom, the United States and the euro area respectively. In the United Kingdom, an increase in real rates had accounted for most of the increase in nominal forward rates, while implied inflation and/or inflation risk premia had accounted for most of the increase in the United States and the euro area beyond about seven years. Long-term inflation expectations in the United Kingdom, as proxied by breakeven inflation rates, had remained stable.

A4 The sterling effective exchange rate (ERI) had fallen by 1.1% to 98.9 since the Committee's previous meeting. Sterling had depreciated by 1.9% against the euro, but had appreciated by 1.3% against the dollar and by 0.6% against the yen. The sterling ERI had fallen by 1% following the London bombings on 7 July and had fallen further following publication of the MPC minutes. Over the month, the US dollar ERI had fallen by 1.9%; the dollar had depreciated by 3.2% against the euro and by 0.6% against the yen. The euro ERI had risen by 1.9% over the period. Uncertainty surrounding exchange rates, as inferred from options prices, had fallen for dollar-sterling, dollar-euro and sterling-euro bilateral exchange rates.

A5 The major international equity indices had increased since the previous MPC meeting, with the FTSE All-Share, S&P 500 and Eurostoxx indices increasing by 2.1%, 4.2% and 3.8% respectively, in local currency terms. The increases had been broadly based across industrial sectors. Market views on uncertainty surrounding the major international equity indices, as inferred from option prices, had ended the period little changed. Sterling, dollar and euro-denominated investment-grade and non-investment-grade corporate bond spreads had narrowed on the month, as had emerging market sovereign and corporate bond spreads.

II The international environment

A6 According to the advance estimate, US GDP had risen by 0.8% in 2005 Q2, following a rise of 0.9% in 2005 Q1. Compared with a year earlier, GDP had risen by 3.6%. US final domestic demand had increased by 1.0% in 2005 Q2. Within this, private consumption had expanded by 0.8% on the quarter and private fixed investment had risen by 2.2%. Government spending had increased by 0.5%. Imports had fallen by 0.5% and exports had risen by 3.0% in Q2, such that net trade had made a 0.4 percentage point contribution to GDP growth. Stockbuilding had subtracted 0.6 percentage points from GDP growth on the quarter. Revisions to past data had lowered annual US GDP growth by 0.3 percentage points on average between 2002 and 2004.

A7 US non-farm payrolls had increased by 146,000 in June. That followed a 104,000 increase in May, an upward revision from the increase of 78,000 in the previous release. The unemployment rate had fallen to 5.0% in June, from 5.1% in May. Consumption had grown by 0.8% in June compared with a month earlier, after a 0.1% fall in May. Saving as a percentage of nominal personal disposable income had fallen to 0.0% in June, from 0.4% in May. The saving ratio had been revised up between 2002 and 2004 and down slightly during 2005.

A8 US industrial production had risen by 0.9% in June following a downwardly revised increase of 0.3% in May. The University of Michigan consumer confidence measure had increased to 96.5 in July, from 96.0 in June. The Conference Board consumer confidence measure had fallen to 103.2 in July, from 106.2 in June. The headline Institute for Supply Management (ISM) manufacturing index had risen to 56.6 in July, from 53.8 in June. The ISM non-manufacturing business activity index had fallen to 60.5 in July, from 62.2 in June.

A9 US producer prices for finished goods had increased by 3.6% in the year to June, compared with a rise of 3.5% in the year to May. The US headline consumer price index had risen by 2.5% in the year to June, compared with a 2.8% rise in May. The core CPI, which excludes energy and food, had increased by 2.0% in the year to June, compared with a 2.2% rise in May. The core measure of the personal consumption expenditures (PCE) deflator had increased by 1.9% in the year to June, compared with 2.0% in May. The core PCE deflator had also been revised up in 2004 from 1.5% to 2.0%. Employment costs had risen by 0.7% in 2005 Q2 compared with a quarter earlier, the same rate of increase as in Q1.

A10 In the euro area, the second estimate of quarterly GDP growth in 2005 Q1 had been unrevised at 0.5%, although there were small offsetting changes to some components and revisions to past data. Private consumption growth had been unrevised. Investment growth had been revised upwards to –0.4% in Q1, from –0.7% previously. Government consumption growth had been revised upwards to 0.0% in Q1, from –0.2% in the first release. Estimated export growth had been –0.6%, revised down from 0.2% previously. Import growth had also been revised down, to –1.6% from –1.1% in the first release. Stock building had contributed 0.0 percentage points to quarterly growth, unrevised from the first release.

A11 The euro-area Purchasing Managers' Index (PMI) for the manufacturing sector had risen to 50.8 in July, from 49.9 in June. The service sector PMI had risen to 53.5 in July, from 53.1 in June. The European Commission measure of industrial confidence had risen to –8 in July, from –10 in June. The German IFO index had risen to 95.0 in July, from 93.3 in June. Industrial production (excluding construction) in the euro area had fallen by 0.3% in May, after increasing by 0.7% in April.

A12 The European Commission measure of consumer confidence had been –15 in July, unchanged from June. Total euro-area retail sales had increased by 0.4% on the month in June, following an increase of 1.1% in May.

A13 Annual harmonised consumer price (HICP) inflation in the euro area had risen to 2.1% in the year to June, from 2.0% in the year to May. According to the Eurostat flash estimate, annual HICP inflation had risen to 2.2% in the year to July. Core HICP inflation, which excludes energy, food, alcohol and tobacco, had been 1.4% in the year to June, compared with 1.6% in May. Annual producer price inflation had increased to 4.0% in June, from 3.5% in May. Annual producer price inflation (excluding energy and construction) had fallen to 1.7% in June, from 1.9% in May.

A14 In Japan, industrial production had risen by 1.5% in June compared with a month earlier, following a fall of 2.8% in May. According to the Household Survey, workers' real expenditure had been unchanged on the quarter in 2005 Q2, down from growth of 3.2% in 2005 Q1. Export volumes had risen by 0.4% in the year to June, having fallen by 2.5% in the year to May. Estimated GDP in China had grown by 9.5% in the year to 2005 Q2, up slightly from 9.4% in the year to 2005 Q1.

A15 Since the Committee's previous meeting, the spot price of Brent crude oil had risen to US $60.28 per barrel. *The Economist* dollar non-oil commodity price index had risen by 0.5% over the same period.

III Money and credit

A16 The twelve-month growth rate of notes and coin, adjusted for special factors, had increased to 4.7% in July, from 3.9% in June. The three-month annualised growth rate had increased to 4.8% in July, from 2.7% in June. The annual growth rate of aggregate M4 had fallen to 11.0% in June, from 11.6% in May. The annual growth rate of M4 lending (excluding the effects of securitisations) had fallen to 12.2% in June, from 12.6% in May. Excluding other financial corporations, annual M4 growth had fallen to 9.1% in June, from 9.2% in May, whereas annual M4 lending growth (excluding the effects of securitisations) had risen to 11.8%, from 11.5% in May.

A17 The annual growth rate of households' M4 had increased by 0.2 percentage points, to 8.9% in June. 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 banks and building societies, had fallen by 0.4 percentage points, to 11.1% in June. The annual growth rate of secured lending to individuals had decreased to 10.8% in June, from 11.1% in May, while the annual growth rate of unsecured lending to individuals had fallen to 12.5% in June, from 13.2% in May. Within unsecured lending, the annual growth rate of credit card lending had decreased by 1.4 percentage points, to 18.1% in June, and the annual growth rate of other unsecured lending had weakened by 0.4 percentage points, to 10.3% in June.

A18 At 6.60%, the average standard variable rate on mortgages quoted for existing customers had been unchanged in July, while the average two-year fixed rate on mortgages had fallen slightly, to 4.70%. The effective mortgage rate had been unchanged, at 5.51% in June. According to the latest data from the Council of Mortgage Lenders, the share of new mortgages (by volume) with fixed rates had risen to 47% in June, from 45% in May. The average quoted interest rate on postal and telephone deposits had risen slightly, to 3.86% in July. The average quoted deposit rates for time and instant access accounts had been unchanged in July. The average quoted interest rate on credit card borrowing had increased slightly in July, while the effective rate for a personal loan had edged upwards to 8.89% in June, from 8.86% in May.

A19 The annual growth rate of private non-financial corporations' (PNFCs') holdings of M4 had declined to 9.8% in June, from 10.9% in May. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had risen to 14.5% in June, from 12.3% in May. The monthly flow of total finance raised in the United Kingdom by PNFCs (excluding the effects of securitisations) had averaged £4.3 billion in Q2, rising from a monthly average of £4.0 billion in Q1. Within total finance, the flow of bond, equity and commercial paper issuance (denominated in sterling and foreign currencies) had averaged –£0.8 billion a month in Q2, falling from its Q1 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 0.4% in 2005 Q2, following growth of 0.4% in Q1. Annual GDP growth at market prices had fallen to 1.7%, from 2.1% in Q1. Whole-economy gross value added had also been estimated to have grown by 0.4% on the quarter in Q2.

A21 In the preliminary GDP release, output growth in the service sector had been estimated at 0.6% in 2005 Q2. Output growth in the production sector had been estimated at –0.4% on the quarter, with a fall of 0.7% in manufacturing output.

A22 Retail sales volumes had risen by 1.3% in June. In Q2 as a whole, retail sales volumes had grown by 0.7%, compared with a 0.1% increase in Q1. The *CBI Distributive Trades* retailers' sales balance was broadly unchanged at –18 in July, while the GfK consumer confidence balance had risen by 2 points in July, to –1.

A23 Preview data from the Royal Institution of Chartered Surveyors (RICS) indicated that the balance of new buyer enquiries had fallen to +5 in July, from +9 in June. The RICS sales to stocks ratio had ticked up slightly in July. Mortgage loan approvals had been unchanged at 96,000 in June. Both the Nationwide and Halifax house price indices had risen by 0.2% in July. The three-month on three-month inflation rates of the two indices had both risen, to 0.8% and –0.3% respectively in July. The RICS balance of estate agents expecting prices to rise over the subsequent three months had risen to –10 in July, from –19 in June.

A24 Most surveys of business confidence had fallen slightly in Q2. In the service sector, the British Chambers of Commerce (BCC) survey's balance for confidence regarding profitability had fallen to +29 in Q2, from +38 in Q1. The Chartered Institute of Purchasing and Supply (CIPS) service sector index of business expectations balance had fallen to 72.6 in July, from 72.9 in June. In the manufacturing sector, the BCC survey's balance for confidence regarding profitability was unchanged at +34 in Q2. The *CBI Quarterly Industrial Trends Survey* business optimism balance in the manufacturing sector had fallen to –16 in Q2, from –15 in Q1.

A25 Surveys of investment intentions in the services sector had eased slightly in Q2; the BCC services investment intentions balance had fallen to +8 in Q2, from +11 in Q1. In the manufacturing sector, there had been a decrease in the BCC manufacturing investment intentions balance to +9 in Q2, from +10 in Q1. The CBI manufacturing investment intentions balance had risen to –15, from –16, over the same period.

A26 Looking ahead to Q3, the CIPS *Report on Services* business activity index had increased to 56.3 in July, from 55.8 in June. The new orders index had increased to 56.8 in July, from 56.2 in June. The BCC services domestic orders balance had fallen to +12 in Q2, from +23 in Q1.

A27 In the manufacturing sector, the CIPS manufacturing survey output index had risen to 51.0 in July, from 50.1 in June. But the new orders balance had fallen to 49.4, from 50.7 in June. The BCC manufacturing domestic orders balance had risen to +18 in Q2. The CBI total new orders balance had risen to –7 in Q2, from –18 in Q1.

V The labour market, costs and prices

A28 According to the Labour Force Survey (LFS), employment had fallen by 72,000 in the three months to May compared with the three months to February. The 16+ employment rate had fallen by 0.2 percentage points in the latest quarter to 60.0%, and had been unchanged compared with the same period a year earlier. The BCC survey of employment intentions for 2005 Q2 had suggested weakening employment in both the manufacturing and service sectors.

A29 The Bank's regional Agents had conducted an informal survey of around 200 private sector firms covering around 260,000 employees on the prospects for employment. Weighted by employment, the net balance of employment growth had been +12% over the past 6 months, and had been expected to be - 2% for the next 6 months. Within that, only retail firms had suggested expectations of higher employment growth over the next 6 months compared with the previous 6 months. Demand had been highlighted as the main factor causing firms to expect both higher and lower employment, while productivity and costs had been suggested as likely downward influences on employment over the next 6 months.

A30 The LFS unemployment rate had been 4.8% in the three months to May, unchanged compared with the previous non-overlapping quarter. The 16+ inactivity rate had risen to 37.0% in the three months to May, up by 0.3 percentage points compared with the previous non-overlapping quarter.

A31 According to settlements information available to the Bank, the twelve-month average earnings index weighted mean settlement had been 3.6% in the year to June, up by 0.1 percentage points on the equivalent figure for May.

A32 Overall annual whole-economy earnings growth had been 4.1% in the three months to May, 0.5 percentage points lower than in the three months to April. Private sector pay growth had fallen by 0.8 percentage points, to 3.8% in the three months to May. Public sector pay growth had increased by 1.0 percentage points, to 5.6% in the three months to May. Whole-economy annual earnings growth excluding bonuses had fallen by 0.1 percentage points, to 4.0% in the three months to May, compared with the three months to April. On the non-seasonally adjusted Average Weekly Earnings measure, overall average earnings growth had fallen by 0.7 percentage points, to 4.2% in the three months to

May, compared with the three months to April. The equivalent average earnings growth excluding bonuses series had been flat at 4.3% over the same period.

A33 Manufacturing input prices had risen by 2.1% in June. The annual inflation rate had risen to 12.1% in June, up from 8.1% in May. The CIPS *Report on Manufacturing* input price balance had risen to 52.0 in July, from 49.4 in June.

A34 Manufacturing output prices excluding duties (PPIY) had been unchanged on the month. Annual inflation had fallen to 2.5% in June, from 2.9% in May.

A35 Annual CPI inflation had been 2.0% in June, up 0.1 percentage points on May. Within this, annual goods price inflation had risen by 0.3 percentage points to 0.2%, and annual services price inflation was unchanged, at 4.2%. Annual RPIX inflation had been 0.1 percentage points higher in June, at 2.2%, than it had been in May. Annual RPI inflation in June had been unchanged on the figure for May, at 2.9%.

VI Reports by the Bank's Agents

A36 The Bank's regional Agents reported that service sector output growth had eased recently. Growth in business services had remained strong but had eased in recent months, although there had been some regional variation. Professional service companies had continued to perform the most strongly, while companies selling services to consumer-facing firms such as retailers — for example, logistics and advertising — had seen the most pronounced weakness. Growth in consumer services turnover had remained much weaker than for business services, although stronger than retail sales. But consumer services growth had also eased — partly reflecting the subdued housing market, but also slower growth in sales at restaurants and pubs.

A37 Construction sector output growth had weakened over the past month, although overall it remained fundamentally strong. There had been some slowing in the pace of public sector projects coming to the market, and house builders had cut back on new starts. Contacts had also reported that some further easing in construction sector output growth was expected.

A38 Agents' contacts had also reported an easing in investment intentions in recent months. But intentions in both services and manufacturing had still been positive, albeit only slightly for the manufacturing sector. The easing in intentions had been attributed to weakening confidence, associated with some uncertainty about the outlook for the economy. However, there was no widespread sense of serious concern, and the general expectation had been that any downturn in the economy would be fairly short-lived.