

ANNEX: SUMMARY OF DATA PRESENTED BY BANK STAFF

A1 This Annex summarises the analysis presented by Bank staff to the Monetary Policy Committee on 2 September 2005, in advance of its meeting on 7-8 September. 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 August meeting, short-term sterling market interest rates implied by December 2005 futures contracts had been broadly unchanged; there had been some increase in implied rates following the publication of the August *Inflation Report* and the MPC *Minutes*, but these movements had unwound through the period. In the Reuters poll of economists published on 1 September, all of the 47 economists surveyed had expected the UK policy rate to remain unchanged at the September MPC meeting. Euro rates implied by December 2005 futures contracts had fallen by 6 basis points since the previous MPC meeting. Dollar rates for similar-dated contracts had fallen by 19 basis points, in anticipation of the economic effects of Hurricane Katrina in late August, followed by the release of some weaker-than-expected US macroeconomic data.

A3 Ten-year nominal forward rates had fallen by around 20 basis points in the United Kingdom and the euro area since the August meeting, but had risen by 3 basis points in the United States. Sterling, euro and US dollar real ten-year forwards had all fallen over the period, in line with the general drift down in global long-term real interest rates over the past year. In the United States, however, a decrease in real rates had been more than offset by an increase in implied inflation expectations.

A4 The sterling effective exchange rate index (ERI) had risen by 2.5% to 101.4 since the Committee's previous meeting. Sterling had appreciated by 2.3%, 3.3% and 2.4% against the euro, the dollar and the yen respectively. Comments from market participants suggested that exchange rate fluctuations during August had simply reflected the normal light trading volumes during the summer, rather than any changes in views about currency levels. The US dollar ERI had fallen by 1.6% over the period; the dollar had depreciated by 1.1% against the euro and by 0.9% against the yen. The euro ERI had also fallen, by 0.6%, over the period. Uncertainty surrounding exchange rates, as inferred

from options prices, had risen a little for dollar-sterling and dollar-euro bilateral exchange rates, but had fallen slightly for sterling-euro.

A5 The FTSE All-Share, DJ Euro Stoxx and Topix equity indices had increased since the Committee's previous meeting, by 0.9%, 0.7% and 6.1% respectively (4.3%, 1.7% and 7.0% in dollar terms). The S&P 500 had fallen by 0.7%. The FTSE All-Share sub-indices had also risen; indeed the smaller cap indices had increased by more than the FTSE 100 index. Spreads on international investment-grade bonds had changed little; yields had fallen by between 15 and 19 basis points. In the high-yield bond market, US dollar- and euro-denominated spreads had widened, while sterling spreads had narrowed.

II The international environment

A6 According to the first release, euro-area GDP had risen by 0.3% in 2005 Q2, following a downwardly-revised increase of 0.4% in the previous quarter. Within this total, private consumption had fallen by 0.1%, investment had increased by 0.2%, and government consumption had risen by 0.3% on the quarter. Net trade had made a zero contribution to GDP growth in Q2, while inventories had added 0.2 percentage points to GDP growth.

A7 German GDP had been unchanged compared with the previous quarter in Q2, following a 0.8% increase in Q1. Within this total, private consumption had fallen by 0.3% on the quarter in Q2, investment had increased by 0.2%, and government consumption had risen by 0.6%. Net trade had subtracted 0.3 percentage points from GDP growth in Q2, while inventories had contributed 0.3 percentage points to quarterly GDP growth. French GDP had increased by 0.1% in Q2, following growth of 0.4% in Q1. Within this total, private consumption had fallen by 0.3%, total investment had fallen by 0.4%, and government consumption had increased by 0.3% in Q2. Net trade had subtracted 0.1 percentage points from GDP growth, while inventories had contributed 0.4 percentage points. In Q2, Dutch GDP had increased by 1.2%; Spanish GDP had increased by 0.9%; Italy's preliminary estimate of GDP had suggested growth of 0.7%; and Belgian GDP had risen by 0.3%.

A8 According to Eurostat, euro-area industrial production excluding construction had increased by 0.3% on the month in June, having fallen by 0.4% in May. The purchasing managers' index for the manufacturing sector in the euro area had fallen to 50.4 in August, from 50.8 in July and the index for

the service sector had fallen to 53.3 in August, from 53.5 in July. The German IFO index had fallen to 94.6 in August, from 95.0 in July.

A9 The euro-area unemployment rate had fallen to 8.6% in July from 8.7% in June. According to Eurostat, the volume of retail sales in the euro area had fallen by 0.5% in the month to July, having been unchanged in June.

A10 According to the Eurostat flash estimate, annual inflation in the euro area, as measured by the harmonised index of consumer prices (HICP), had fallen to 2.1% in August, from 2.2% in July. Annual core inflation (excluding energy, food, alcohol and tobacco prices) had been 1.3% in July, down from 1.4% in June. Annual producer price inflation (excluding construction) had been unchanged at 4.0% in July.

A11 According to the preliminary estimate, US GDP had risen by 0.8% in 2005 Q2, the same as in the advance estimate. Within this total, the estimates of quarterly consumption and private fixed investment growth had been unrevised, while the estimates for government spending growth and the contribution from stockbuilding had both been revised up. The net trade contribution to GDP growth had been revised down to +0.3 percentage points from +0.4 percentage points.

A12 US industrial production had increased by 0.1% in July, following a 0.8% rise in June. New orders for non-defence capital goods had fallen by 7.5% in July. The Institute for Supply Management (ISM) manufacturing index had fallen to 53.6 in August, from 56.6 in July, while the ISM non-manufacturing index had increased to 65.0 in August, from 60.5 in July.

A13 Real US consumption had increased by 0.7% on the month in July, following a 1.0% increase in June. Real personal disposable income had been unchanged in July, having increased by 0.5% on the month in June. The saving rate had fallen to -0.6% of disposable income in July, from 0.0% in June. US non-farm payrolls had increased by 169,000 in August, following an upwardly revised increase of 242,000 in July. The Conference Board measure of consumer confidence had increased to 105.6 in August, from 103.6 in July, but the University of Michigan headline index of consumer confidence had fallen to 89.1 in August, from 96.5 in July.

A14 US producer prices for finished goods had increased by 4.6% in the year to July, compared with 3.6% in June. Annual headline consumer price inflation had been 3.2% in July, compared with 2.5% in June. Annual core consumer price inflation (which excludes food and energy prices) had been 2.1% in July, up from 2.0% in June. The core measure of the private consumption expenditures deflator had increased by 1.8% in the year to July, following a 1.9% increase in the year to June.

A15 According to the first estimate, Japanese real GDP had increased by 0.3% on the quarter in Q2, following growth of 1.3% in Q1. Private consumption had increased by 0.7% in Q2, business investment had increased by 2.2% and government consumption had fallen by 0.2%. Net trade had contributed 0.2 percentage points, while inventories had detracted 0.5 percentage points from quarterly GDP growth.

A16 Industrial production in Japan had fallen by 1.1% on the month in July, following an increase of 1.6% in June. The workers' household survey had reported a 3.3% fall in real spending in the year to July, compared with a 0.1% increase in the year to June. Export volumes had fallen by 1.0% in the year to July, compared with growth of 0.5% in the year to June. Import volumes had fallen by 0.7% in the year to July, having increased by 2.0% in the year to June.

A17 Since the Committee's previous meeting, the spot price of Brent crude oil had risen by \$3.28 to \$63.56 per barrel. *The Economist* dollar non-oil commodity price index had fallen by 3.8% over the same period.

III Money and credit

A18 The twelve-month growth rate of notes and coin, adjusted for special factors, had increased to 5.0% in August, from 4.7% in July. The three-month annualised growth rate had risen to 6.3% in August, from 4.8% in July. The annual growth rate of aggregate M4 had risen to 11.5% in July, from 11.1% in June. The annual growth rate of M4 lending (excluding the effects of securitisations) had eased to 12.2% in July, from 12.3% in June. Excluding other financial corporations, annual M4 growth had eased to 8.9% in July, from 9.0% in June. Annual M4 lending growth (excluding the effects of securitisations) had also fallen, to 11.5% from 11.9% in June.

A19 The annual growth rate of households' M4 had edged downwards by 0.2 percentage points, to 8.6% in July. 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 10.7% in July.

A20 The annual growth rate of secured lending to individuals had decreased, to 10.4% in July from 10.8% in June. The three-month annualised growth rate had also fallen, to 9.9% in July from 10.4% in June. The average standard variable rate on mortgages quoted for existing customers had edged downwards to 6.61% in August, while the average two-year fixed rate on mortgages had also fallen slightly, to 4.67% in August. The effective mortgage rate had risen, to 5.54% in July from 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 50% in July, from 47% in June.

A21 The number of loan approvals for house purchase had increased to 97,000 in July, from 96,000 in June. The monthly balance of net housing reservations reported by the House Builders Federation (seasonally adjusted by Bank staff) had risen to -11 in July, from -32 in June. The three-month on three-month rate of inflation of the Nationwide house price index had eased to 0.3% in August, from 0.6% in July. The three-month on three-month rate of inflation of the Halifax index had risen, to 0.5% from -0.3% in the previous month.

A22 The annual growth rate of unsecured lending to individuals had fallen to 12.1% in July, from 12.7% in June. Within unsecured lending, the annual growth rate of credit card lending had decreased by 1.5 percentage points in July, to 16.6%, while the three-month annualised growth rate had fallen to 10.6%, from 10.9% in June. The annual growth rate of other unsecured lending had edged downwards by 0.2 percentage points to 10.3% in July. The effective rate for personal loans had eased, to 8.84% in July from 8.89% in June.

A23 The annual growth rate of private non-financial corporations' (PNFCs') holdings of M4 had risen to 10.3% in July, from 9.9% in June. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had fallen slightly, to 14.7% in July from 14.8% in June. Total finance raised (excluding the effects of securitisations) in the United Kingdom by PNFCs had been £3.6 billion in July. Within total finance raised, net issuance of bonds, equity and commercial paper (denominated in sterling and foreign currencies) had been £0.2 billion in July.

IV Demand and output

A24 Estimated quarterly growth of GDP at market prices had been revised up by 0.1 percentage points in the 2005 Q2 Output, Income and Expenditure release, to 0.5%. At basic prices, GDP growth had also been revised up to 0.5%.

A25 On the output side of the accounts, the output of the service sector had been estimated to have risen by 0.6% in 2005 Q2. Production sector output had been estimated to have been broadly unchanged in 2005 Q2, compared with a fall of 0.4% in the preliminary GDP release. Within the production sector, manufacturing output had been estimated to have fallen by 0.3%; in July's Index of Production release, the estimate of output growth in the manufacturing sector was subsequently revised up to -0.2%. Construction sector output had been estimated to have grown by 0.4% in 2005 Q2.

A26 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 0.2%. Real government consumption had risen by 0.4% and whole-economy investment (including acquisition less disposal of valuables) had risen by 2.0%. Within whole-economy investment, business investment had risen by 0.5%.

A27 Total exports had been estimated to have risen by 5.6%, while total imports had risen by 3.0% in 2005 Q2. Overall, the contribution of net trade to quarterly GDP growth in 2005 Q2 had been 0.6 percentage points. Adjusting for the effects of missing trader intra-community (MTIC) VAT fraud, export and import growth had been estimated at 4.3% and 1.6% respectively.

A28 Turning to indicators of expenditure in 2005 Q3, retail sales volumes had fallen by 0.3% in July. The *CBI Distributive Trades Survey* retailers' reported sales balance remained at -18 in August. The *GfK UK Consumer Confidence Survey* headline balance had fallen in August, to -4.

A29 In the UK trade release, goods export volumes had been estimated to have fallen by 7.5% in July, following an 8.7% increase in June. Goods import volumes had been estimated to have fallen by 1.3% in July, following a 0.6% increase in June.

A30 Turning to indicators of output in 2005 Q3, the *CIPS Report on Services* business activity and new orders indices had both fallen slightly in August, to 55.2 and 56.0 respectively. The Index of Production release had indicated that manufacturing output had risen by 0.1% in July. The Chartered Institute of Purchasing and Supply (CIPS) *Report on Manufacturing* output index had risen to 52.0 in August, from 51.4 in July. The new orders index had also risen in August, to 51.9 from 50.2. The *CBI Monthly Trends Enquiry* total orders balance had fallen to -29 in August, from -20 in July. The expected output balance had also fallen, to +3 from +6 in July.

V The labour market, costs and prices

A31 According to the Labour Force Survey (LFS), employment had fallen by 16,000 in the three months to June compared with the three months to March. The 16+ employment rate had fallen by 0.1 percentage points in 2005 Q2, to 60.1%, but had increased by 0.1 percentage points compared with the same three-month period a year earlier.

A32 The overall CIPS employment survey for August had fallen to 51.0. Within this, the manufacturing and services balances had fallen, although the balance for construction had risen. The demand for agency staff balance from *REC Report on Jobs* had improved slightly in August.

A33 The LFS unemployment rate had been 4.7% in 2005 Q2, up 0.1 percentage points on the quarter, but 0.1 percentage points lower compared with the same period a year earlier. The claimant count rate had been 2.8% in July, unchanged from the previous month, but up by 0.1 percentage points compared with the same period a year earlier. The 16+ inactivity rate had been 37.0% in 2005 Q2, up 0.1 percentage points compared with 2005 Q1, but unchanged compared with the same period a year earlier.

A34 According to settlements information available to the Bank, the mean whole-economy twelve-month settlement (weighted by the average earnings index) had been 3.7% in the year to July, unchanged on the equivalent figure for June.

A35 Annual growth in the whole-economy average earnings index (AEI) had been 4.2% in the three months to June, up 0.1 percentage points compared with the three months to May. Private sector pay growth had been 3.8% in the three months to June, unchanged compared with the three months to

May. Public sector pay growth had been 5.6% in the three months to June, unchanged compared with the three months to May. Whole-economy annual earnings growth (AEI), excluding bonuses, had been 4.0% in the three months to June, unchanged compared with the three months to May. On the non-seasonally adjusted Average Weekly Earnings (AWE) measure (excluding arrears), overall annual average earnings growth had been flat at 4.3% in the three months to June, as in the three months to May. Excluding bonuses, this AWE measure had been 4.2% in the three months to June, 0.1 percentage points lower than for the three months to May.

A36 Manufacturing input prices had risen by 1.8% in July; the annual inflation rate had risen to 13.4% in July, up from 12.5% in June. The CIPS *Report on Manufacturing* input price balance had risen to 57.8 in August, from 51.5 in July.

A37 Manufacturing output prices excluding duties (PPIY) had risen by 0.7% in July; the annual inflation rate had risen to 3.1% in July, up from 2.6% in June. The balance on expected output prices from the *CBI Monthly Trends Enquiry* had risen to -8 in August, from -11 in July.

A38 The ONS's experimental corporate services price index (CSPI) had indicated that annual corporate services price inflation (not seasonally adjusted) had risen to 3.4% in 2005 Q2, from 3.3% in 2005 Q1. The CIPS *Report on Services* prices charged index had risen to 51.4 in August, from 51.3 in July.

A39 Annual CPI inflation had been 2.3% in July, up 0.3 percentage points on June. Within this, annual goods price inflation had risen by 0.3 percentage points, to 0.5%, and annual services price inflation had risen by 0.3 percentage points, to 4.5%. Annual RPIX inflation had increased to 2.4% in July, from 2.2% in June. Annual RPI inflation in July had been unchanged on the figure for June, at 2.9%.

VI Reports by the Bank's Agents

A40 The Bank's regional Agents had reported relatively flat retail sales values over the past month. Demand for big-ticket household goods such as furniture had remained weak. Retailers had not been optimistic about the rest of the year, and car sales had remained weak. Growth in spending on

consumer services had also continued to ease, with a number of regions reporting fewer holiday visitors compared with a year ago. This had been partly offset by demand for budget airlines, which had continued to grow robustly.

A41 Employment intentions had softened. Employers had been increasingly cautious about taking on permanent staff, and increases in labour demand had generally been offset by losses from restructuring or offshoring. Manufacturing jobs had continued to be lost, and some consumer-facing businesses had also been cutting back staff in the face of softer demand. Where firms were hiring, there had been increasingly systematic recruitment from overseas, particularly Eastern Europe. Despite this weaker picture, there had still been skill shortages in some sectors, such as professional services.

A42 Agents' contacts had reported some increase in demand from oil-producing countries, as they spent the revenues generated by the high oil price. Investment spending by the UK energy sector had been boosted, but this had mainly been spending on maintenance and improvements rather than new capacity. The impact of recent oil price rises on UK firms' costs had been partly mitigated by some larger companies' forward purchases of oil, but there had still been a substantial impact. Service providers had been more likely to pass the cost increases on to their customers – for example in specific fuel surcharges – than manufacturing firms.