

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 December, in advance of its meeting on 7-8 December. At the start of the Committee meeting itself, members were made aware of the information that had subsequently become available, and that information is also included in this Annex.

A2 The Bank has hitherto published this Staff Annex alongside the MPC *Minutes*, summarising the information presented to the MPC ahead of the policy meeting. Almost all of that data is already in the public domain, especially now that the Bank also publishes a separate monthly summary of the intelligence provided to the MPC by the Bank's regional Agents. Moreover, the Staff Annex is inevitably a somewhat partial description of the information to which the Committee has access when it makes its decision each month.

A3 It appears that relatively few readers of the *Minutes* download the Staff Annex and a recent survey of those who do indicated that only a small number find the Annex of much value. Given the costs of production, the Bank has therefore decided to cease publication of a Staff Annex with effect from January 2006. The quarterly *Inflation Report* will, of course, continue to provide a comprehensive picture of the information and analysis provided to the Committee.

I Financial markets

A4 Since the Committee's previous meeting, short-term sterling market interest rates implied by March 2006 futures contracts had fallen slightly, as had dollar and euro implied rates for similarly dated futures contracts. In the Reuters poll of economists published on 30 November, all of the 45 economists surveyed had expected the UK policy rate to remain unchanged at the December MPC meeting. Measures of six-month ahead short-term US dollar interest rate uncertainty, as implied by options prices, had increased slightly, but had fallen in sterling and euro.

A5 Since the November meeting, sterling, euro and US dollar ten-year nominal forward rates had all fallen by around 15 basis points. The fall in sterling nominal forward rates had reflected a fall in both ten-year real forward interest rates and forward inflation rates. There had also been a fall in euro ten-year real forward rates, but a small rise in euro inflation forwards. US dollar real forward rates had

risen, but there had been a marked fall in US dollar inflation forwards, reversing some of the sharp rise in the previous month.

A6 The sterling effective exchange rate (ERI) had fallen by 0.4% to 99.7 since the Committee's previous meeting. Sterling had depreciated by 0.4% against the US dollar and by 0.3% against the euro, but had appreciated by 2.5% against the yen. The largest fall in the sterling ERI had followed the release of UK labour market data and the November *Inflation Report*. For much of the month, the depreciation of sterling against the euro had been consistent with relative movements in international interest rates. Over the month, both the US dollar ERI and the euro ERI had risen by 0.3%, while the yen ERI had fallen by 2.9%. The dollar had appreciated by 0.1% against the euro and by 2.9% against the yen. Short-term uncertainty surrounding sterling bilateral exchange rates, as implied by options prices, had fallen since the previous meeting.

A7 Over the month, the FTSE All-Share, S&P 500 and Euro Stoxx indices had increased by 2.3%, 3% and 4.3% in local currency terms, respectively. The increases had been broadly based across all sectors. In the United Kingdom, non-cyclical service sector equity prices had fallen, but that largely reflected news about one company. Uncertainty surrounding future equity prices, as inferred from three-month implied volatility, had changed little over the month for the FTSE 100, S&P 500 and Euro Stoxx. Dollar and euro-denominated investment-grade credit spreads had widened slightly over the month, whereas sterling-denominated investment-grade credit spreads had changed little. Non-investment grade spreads in all three currencies had widened over the month.

II The international environment

A8 According to the first release, euro-area GDP had risen by 0.6% in 2005 Q3, following an upwardly revised increase of 0.4% in the previous quarter. Within this total, private consumption had increased by 0.3%; investment had increased by 1.6%; and government consumption had risen by 0.7% on the quarter. Net trade made a 0.3 percentage point contribution to GDP growth in Q3, while inventories subtracted 0.3 percentage points from GDP growth.

A9 German GDP had risen by 0.6% in 2005 Q3, following a rise of 0.2% in the previous quarter. Within this total, private consumption had fallen by 0.2%; investment had increased by 2.2%; and government consumption had risen by 0.4% on the quarter. Net trade had added 0.3 percentage points,

while inventories had subtracted 0.1 percentage points from quarterly GDP growth in Q3. French GDP had increased by 0.7% in 2005 Q3, following an increase of 0.1% in the previous quarter. Within this total, private consumption had risen by 0.7%; investment had increased by 0.9%; and government consumption had increased by 1.2% in Q3. Net trade had made a 0.2 percentage point contribution to GDP growth in Q3, while inventories had reduced GDP growth by 0.4 percentage points.

A10 The European Commission survey of consumer confidence had been unchanged at -13 in November. Euro-area industrial production excluding construction had fallen by 0.4% on the month in September, having risen by 0.8% in August. The purchasing managers' index for the manufacturing sector in the euro area had risen to 52.8 in November, from 52.7 in October and the index for the service sector had increased to 55.2 in November, from 54.9 in October. The German IFO index had fallen to 97.8 in November, from 98.8 in October.

A11 The euro-area unemployment rate had been 8.3% in October, unchanged from the previous month. According to Eurostat, the volume of euro-area retail sales had increased by 0.5% on the month in October, following a fall of 0.9% in September.

A12 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 2.4% in November, from 2.5% in October. Annual core inflation (excluding energy, food, alcohol and tobacco prices) had been 1.4% in October, up from 1.3% in September. Annual producer price inflation (excluding construction) had fallen to 4.1% in October, down from 4.4% in September.

A13 According to the preliminary estimate, US GDP had risen by 1.1% in 2005 Q3, revised up from the advance estimate. Within this total, private consumption growth had been revised up by 0.1 percentage points to 1.0% in Q3. Private fixed investment growth had been revised up to 2.1% in Q3. The estimate for government spending growth had been unchanged since the advance estimate at 0.8%. The contribution to GDP growth from net trade had been revised down to -0.1 percentage points and the contribution from inventories was unchanged, subtracting 0.1 percentage points from growth on the quarter.

A14 US industrial production had risen by 0.9% in October, following a fall of 1.5% in September. The Institute for Supply Management (ISM) manufacturing index had fallen to 58.1 in November, from 59.1 in October, while the ISM non-manufacturing business activity index had fallen to 58.5 in November, from 60.0 in October.

A15 Real US consumption had increased by 0.1% in October, following a fall of 0.4% in September. Real personal disposable income had increased by 0.2% in October, following a rise of 1.0% in September. The saving rate had increased to -0.7% of disposable income in October, from -0.8% in September. US non-farm payrolls had increased by 215,000 in November, following a downwardly revised increase of 44,000 in October. The Conference Board measure of consumer confidence had increased to 98.9 in November, from 85.2 in October, and the University of Michigan headline index of consumer confidence had increased to 81.6, from 74.2 in October.

A16 US producer prices for finished goods had increased by 5.9% in the year to October, compared with 6.9% in September. Annual headline consumer price inflation had been 4.3% in October, compared with 4.7% in September. Annual core consumer price inflation (which excludes food and energy prices) had been 2.1% in October, up from 2.0% in September. The core measure of the private consumption expenditure deflator had increased by 1.8% in the year to October, following an increase of 2.0% in September. Unit labour costs had fallen by 0.25% in Q3, following a fall of 0.3% in Q2. Non-farm business sector labour productivity had increased by 1.2% in Q3, following a rise of 0.5% in Q2.

A17 According to the first estimate, Japanese real GDP had increased by 0.4% on the quarter in 2005 Q3. Private consumption had increased by 0.3%; business investment had increased by 0.7%; and government consumption had increased by 0.5% on the quarter. Net trade had contributed 0.2 percentage points, while inventories made a zero contribution to GDP growth in Q3.

A18 Industrial production in Japan had increased by 0.6% on the month in October, following a 0.4% rise in September. The workers' household survey had reported a 1.2% rise in real spending in the month to October, up from a fall of 0.2% in September. Export volumes had increased by 0.7% in the month to October, compared with 0.8% in September. Import volumes had fallen by 2.1% in the month to October, compared with a fall of 1.4% in September.

A19 Since the Committee's previous meeting, the spot price of Brent crude oil had fallen by \$1.41 to \$55.47 per barrel. *The Economist* dollar non-oil commodity price index had risen by 1.6% over the same period.

III Money and credit

A20 The twelve-month growth rate of notes and coin, adjusted for special factors, had increased to 3.7% in November, from 3.6% in October. The three-month annualised growth rate had risen to 2.7% in November, from 2.4% in October. The annual growth rate of aggregate M4 had risen to 11.6% in October, from 11.3% in September. The annual growth rate of M4 lending (excluding the effects of securitisations) had risen by 0.3 percentage points, to 11.8% in October. Excluding other financial corporations, annual M4 growth had risen to 8.3% in October, from 8.2% in September, and annual M4 lending growth (excluding the effects of securitisations) had fallen by 0.2 percentage points to 11.2% in October.

A21 The annual growth rate of households' M4 had eased by 0.3 percentage points to 8.0% in October. The annual growth rate of total lending to individuals (a wider measure than M4 lending which includes lending by a broader set of institutions than just banks and building societies) had eased by 0.1 percentage points, to 10.2% in October. Within this, the annual growth rate of secured lending to individuals had been unchanged at 10.2%. Annual growth in unsecured lending to individuals had fallen to 10.5% in October, from 10.9% in September. Within unsecured lending, the annual growth of credit card lending had fallen by 0.5 percentage points, to 13.9%, and the annual growth of other unsecured lending (including personal loans) had fallen by 0.3 percentage points, to 9.2% in October.

A22 The average quoted credit card rate had increased by 64 basis points in November, to 16.58%. The effective all balances credit card rate had fallen by 16 basis points in October, to 11.29%, while the effective interest-bearing credit card rate had increased by 4 basis points, to 15.17%.

A23 The average quoted interest rate on postal and telephone deposits had been unchanged at 3.58% in November. Average quoted interest rates on time and instant access deposits had also been unchanged in November, at 2.73% and 1.76% respectively. The effective time deposit rate had risen

in October by 2 basis points, to 4.09%, and the effective interest-bearing sight deposit rate had fallen by 3 basis points, to 2.85%.

A24 The number of loan approvals for house purchase had increased to 113,000 in October, from 108,000 in September. The monthly balance of net housing reservations reported by the Home Builders Federation (seasonally adjusted by Bank staff) had risen to 0 in October, from -8 in September. The three-month on three-month rate of inflation of the Nationwide house price index had risen to 0.6% in November, from 0.4% in October. The three-month on three-month rate of inflation of the Halifax index had fallen by 0.1 percentage points, to 2.8% in November.

A25 The average quoted two-year fixed rate on mortgages had increased by 10 basis points, to 4.70% in November. The average quoted standard variable rate on mortgages had remained unchanged at 6.39%. The effective mortgage rate had fallen by 2 basis points, to 5.36% in October.

A26 The annual growth rate of private non-financial corporations' (PNFCs') holdings of M4 had risen to 9.9% in October, from 7.7% in September. The annual growth rate of M4 lending to PNFCs (excluding the effects of securitisations) had fallen to 14.9% in October, from 15.2% in September. Total finance raised (excluding the effects of securitisations) in the United Kingdom by PNFCs had been £3.5 billion in October. Within total finance raised, net issuance of bonds, equity and commercial paper (denominated in sterling and foreign currencies) had been £1.2 billion in October.

IV Demand and output

A27 Estimated quarterly growth of GDP at market prices had been unrevised in the 2005 Q3 *Output, Income and Expenditure* release, at 0.4%. At basic prices, GDP growth had also been unrevised at 0.4%.

A28 On the output side of the accounts, the output of the service sector had been estimated to have risen by 0.6% in 2005 Q3. Production sector output had been estimated to have fallen by 0.6% in 2005 Q3. Within the production sector, manufacturing output had been estimated to have risen by 0.4%; in October's *Index of Production* release, the estimate of output growth in the manufacturing sector had subsequently been revised down to 0.3%. Construction sector output had been estimated to have grown by 0.5% in 2005 Q3.

A29 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 0.5%. Real government consumption had risen by 0.3% and whole-economy investment (including acquisition less disposal of valuables) had risen by 0.5%. Within whole-economy investment, business investment had risen by 0.3%.

A30 Total exports had been estimated to have risen by 0.7%, while total imports had been estimated to have risen by 2.1% in 2005 Q3. Overall, the contribution of net trade to quarterly GDP growth in 2005 Q3 had been -0.4 percentage points. Adjusting for the effects of missing trader intra-community (MTIC) VAT fraud, export and import growth had been estimated at 0.0% and 1.3% respectively.

A31 Turning to indicators of expenditure in 2005 Q4, retail sales volumes had risen by 0.2% in October. The *CBI Distributive Trades Survey* retailers' reported sales balance fell to an all-time low of -35 in November, from -18 in October. However the *KPMG-BRC Retail Sales Monitor* was somewhat stronger, suggesting that retail sales values had grown by 4.6% in the twelve months to November. The *GfK UK Consumer Confidence Survey* headline balance was unchanged in November, at -8.

A32 Turning to indicators of output in 2005 Q4, the Chartered Institute of Purchasing and Supply / Royal Bank of Scotland (CIPS / RBS) *Report on Services* business activity and new orders indices had both been broadly unchanged in November, at 55.8 and 56.3 respectively. The October *Index of Production* release had indicated that manufacturing output had fallen by 0.7% in October. The CIPS / RBS *Report on Manufacturing* output index had risen slightly to 53.8 in November, from 53.1 in October. The new orders index had fallen in November, to 52.2 from 53.6. The *CBI Monthly Trends Enquiry* total orders balance was unchanged at -25 in November. The expected output balance had fallen to -4, from +2 in October.

V The labour market, costs and prices

A33 According to the Labour Force Survey (LFS), the 16+ employment rate had risen by 0.1 percentage points in 2005 Q3 to 60.2%. The inactivity rate had fallen by 0.1 percentage points to 36.8%. The LFS unemployment rate had been 4.7% in 2005 Q3, down from 4.8% in Q2. The

claimant count rate had been unchanged on the month at 2.8% in October. Average weekly hours of work had increased by 0.3% in 2005 Q3 compared with the previous non-overlapping quarter, to 32.1.

A34 According to settlements information available to the Bank, the mean whole-economy twelve-month settlement (weighted by the average earnings index) had been 3.6% in the year to October, unchanged from the equivalent revised figure for September.

A35 Annual growth in the whole-economy average earnings index had been 4.1% in the three months to September, down 0.1 of a percentage point compared with the three months to August. Whole-economy annual earnings growth excluding bonuses had been unchanged at 4.0%. On the non-seasonally adjusted Average Weekly Earnings measure (excluding arrears), overall annual whole-economy earnings growth had been 4.7% in the three months to September, the same as in the three months to August.

A36 The Bank's regional Agents had conducted an informal survey on the use of migrant labour. The survey included 225 companies covering approximately 277,000 employees. Most respondents said that non-UK nationals represented less than 10% of their workforce. But 29% of respondents said that at least 10% of their workforce were not UK nationals. Companies in agriculture used the largest proportion of non-UK nationals, followed by those in hospitality and catering. 56% of respondents had increased the proportion of non-UK nationals in their workforce over the past year, and 44% expected a further increase in this proportion in 2006. The most frequently cited reason why firms had chosen to employ migrant labour was a scarcity of local workers.

A37 The annual inflation rate of manufacturing input prices had been 7.5% in October, down from 10.1% in September. Excluding oil, annual inflation had risen from 3.9% to 4.6% in October. The *CIPS Report on Manufacturing* input price balance had been 58.0 in November, down from 60.6 in October.

A38 Manufacturing output price inflation excluding duties (PPIY) was 2.7% in the year to October, compared to 3.5% in September. Excluding petroleum products, the annual inflation rate of PPIY had been 1.0% in October, down from 1.6% in September. The *CIPS Report on Manufacturing* output price balance had been 51.0 in November, down from 51.5 in October.

A39 The ONS's experimental corporate services price index had indicated that annual corporate services price inflation (not seasonally adjusted) had risen to 3.8% in 2005 Q3, an increase from 3.4% in the previous quarter. The *CIPS Report on Services* input price balance had fallen from 59.2 in October to 57.8 in November. The output price balance had risen from 52.2 to 52.5 in November.

A40 The daily one-day forward gas spot price had risen from 33 pence per therm on 3 November to 155 pence per therm on 24 November before falling to 96 pence on 7 December.

A41 Annual CPI inflation had been 2.3% in October, a fall of 0.2 percentage points from September. Within this, annual goods price inflation had fallen by 0.1 percentage points to 0.6%, and annual services price inflation had fallen by 0.1 percentage points to 4.4%.

VI Reports by the Bank's Agents

A42 The Bank's regional Agents had reported that annual growth in the private sector as a whole had stabilised. Once again the professional and financial services sector was the most buoyant. The Agents' contacts had also reported a modest improvement in retail sales in November. But contacts remained cautious about the outlook for sales over Christmas and the New Year.

A43 Wholesale gas prices had increased markedly in November. The number of firms likely to be affected by this price increase was small, typically those who were reliant on gas for energy and could not easily substitute to alternative energy sources. A number of contacts also had long-term fixed-price contracts with their suppliers, and therefore had been unaffected so far. But if the elevated price persisted into the New Year, and the weather remained colder than in recent years, the impact of the price rise could be more widespread and could include decisions to reduce or suspend production.

A44 The Agents had asked their contacts about pay prospects ahead of the forthcoming pay round. In most instances, RPI inflation remained the key determinant of settlements. And as RPI inflation had eased over the past twelve months, contacts expected settlements to be very similar to the previous year. The degree of tightness in the labour market had also eased over the past year, which was also supportive of a benign outlook for wage inflation.