



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

16 December 2002

Bank of England Quarterly Bulletin - Winter 2002

The Bulletin is published on 16 December, and among the articles in this issue are the following:

What do measures of core inflation really tell us?

When policy makers see a change in measured inflation, they need to ask how persistent is the change likely to be? Does it reflect movements in the fundamental determinants of inflation? Is there 'news' for the outlook for inflation? Measures of core inflation can be useful in answering these questions. But there is neither a widely accepted theoretical definition nor an agreed method of measuring core inflation. The wide range of conceptual bases is potentially confusing, and can make the resulting large number of measures hard to interpret. The article sets out how core inflation measures might be useful to monetary policy makers. It concludes that they are no substitute for understanding the sources of shocks affecting the economy and how these are likely to evolve over the future. No single measure performs well across the board but there can be value in looking at a range of measures, as long as it is clear what information each type of indicator is best at providing.

Estimating the impact of changes in employers' National Insurance Contributions on wages, prices and employment

The article explains how changes in payroll taxes might affect real wages and employment, estimating the responses of relative wages, prices and employment to the changes in employers' National Insurance Contributions that occurred in 1999. The evidence suggests that real wages - through reduced nominal wages and higher prices - respond more than employment to payroll tax changes.

Equity valuation measures: what can they tell us?

The article examines the usefulness of summary statistics, such as the price-earnings ratio and the dividend yield. The article shows that all these measures are special cases of the simple present value concept. It also shows that to use them as simple summary statistics to be compared with past averages may lead to invalid conclusions, if some of the underlying variables, such as risk premium, have changed. This is not to

say that such measures are without their use - unusual movements or large deviations from past averages may prompt us to reflect on the fundamental factors driving asset prices.

Financial pressures in the UK household sector: evidence from the British Household Panel Survey

A great deal of attention has been paid to the rapid rise in household indebtedness in relation to incomes in recent years. But aggregate data cannot indicate which types of households - by age, income or wealth - have accumulated the most debts. Using information from the latest British Household Panel Survey, the article shows that the youngest and lowest-income households increased their debt to income ratios by most - and from the highest levels - between 1995 and 2000. The households with the highest absolute levels of debts tended also to have the highest incomes and net wealth in both years. But such households did not hold substantially more liquid assets than less indebted households, leaving them potentially more exposed to adverse shocks to income or an increase in interest rates. Additionally, the article notes that the rapid growth of both sides of the aggregate household balance sheet between 1995 and 2001 was associated with the same households accumulating both liabilities and assets, reflecting the rapid growth of house prices in recent years. In some respects, these conclusions imply that the household sector overall may be somewhat more vulnerable than the aggregate measures indicate.

Other articles and reports

The Bulletin also contains an article describing the work of the Bank of England's Centre for Central Banking Studies. Others are: Markets and operations; Profit expectations and investment; Money market operations and volatility in UK money market rates; The external balance sheet of the United Kingdom: recent developments; and Public sector debt: end-March 2001.

Note to Editors

Copies of the Quarterly Bulletin are available from the Publications Group, Bank of England, Threadneedle Street, EC2R 8AH (Tel: 020 7601 4030; fax 020 7601 3298).

Key Resources

Quarterly Bulletin, Winter 2002 – complete issue

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/qb/2002/qb0204.pdf>