Britain's regional economies: how different are they, and how should those differences affect monetary policy?

*In this lecture, the **Deputy Governor** considers*(1) *the degree to which the United Kingdom's regional economies differ, in economic terms, both absolutely and by European standards; and also recent trends in their relative positions. He goes on to ask why regional trends should matter to monetary policy makers. He argues that an examination of the differences between regions can improve their understanding of the nature of the economic cycle, and of the likely effect of shocks on the national economy. Moreover, regional patterns of economic activity may be affected by monetary policy—and, in particular, the authorities need to take account of such patterns when assessing what degree of monetary tightness is appropriate in the pursuit of national price stability.*

On the way here this evening, I crossed the North/South divide. I do not recall doing so, and nobody checked my passport. But there is no doubt that the crossing took place. At lunch-time I was luxuriating in the prosperous South East, at the apex of the golden triangle, Paris-Frankfurt-London, within which Europe's most prosperous populations flourish. Where people confuse their salary and their telephone number, drink tea at four fifteen and eat their dinner in the evenings. And of course they talk proper.

Now I am in a godless land, where men communicate in a strange guttural tongue, houses can be bought for the price of a decent City lunch and it is already six hours past dinner-time. The natives, in the North, may have a wonderful sense of rhythm. But the driving beat of the global economy is only dimly heard.

One or two of you may have thought you detected a faint note of irony in those observations. A rare commodity in the plain-speaking North. And, as a born and bred Mancunian myself, I hope my intentions are not misunderstood. I find the easy regional caricatures we lazily adopt in this country tiresome and unimaginative. They also tend to obscure economic realities, rather than illuminate them. So I propose to abandon these clichés for the evening, and I hope that any dour, curmudgeonly, mean-spirited Yorkshiremen who happen to have strayed in, will be prepared to do the same.

My aim tonight will be to ask and, more ambitiously, try to answer three questions about Britain's regional economies:

- *First*, how different are our regions in economic terms, both absolutely and by European standards?
- *Second*, what is happening to the relativities between regions? Are the inequalities becoming less or more marked? Are some regions improving their living standards more than others and, if so, why?
- *Third*, insofar as there are differences between regions, why should we care? How important to economic policy-makers is it that they should understand regional trends? After all, there is only one short-term interest rate for the United Kingdom—and, perhaps, one day, for the whole of the European Union.

(Some of you may have noticed that, on Wednesday of this week, the European Commission (EC) published its own report on Europe's regions, designed to assess the impact of the so-called Cohesion Funds. I should emphasise that the coincidence of that report, and tonight's lecture, is entirely accidental. My figures are not drawn from that document, though—broadly—they do paint a very similar picture.)

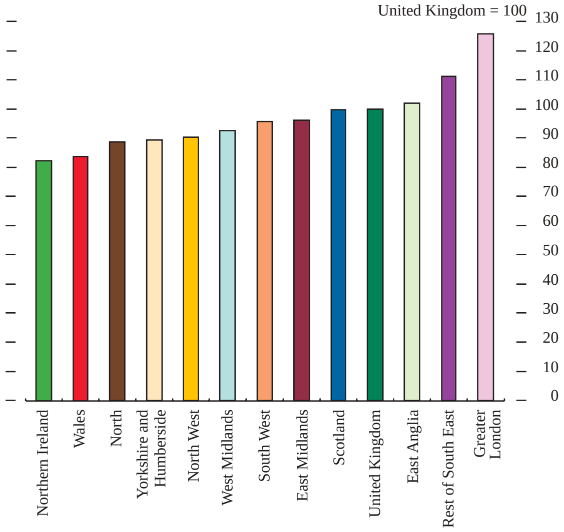
How unequal are the United Kingdom's regions?

Before I begin to look at differential economic performance, region by region, allow me to enter two caveats, at the outset. First, I plan to use the standard regional definitions used by the Office for National Statistics and others. You are, therefore, in the North, while I was born in the North West. These regions conceal significant differences within them. The distance between Wilmslow and Rochdale, where my mother lives, is, in some ways, as great as between Virginia Water and Darlington. But these regions are what we have to work with, in statistical terms. Second, some of the measures available, GDP per head or differential unemployment rates, are also not necessarily perfect expressions of prosperity. But, again, they are the raw material with which we must work.

With those caveats in mind, let us look at income, region by region. Some pictures will help greatly, here. The first (see Chart 1) shows the United Kingdom's regions

(1) In the Darlington Economic Lecture delivered on 8 November 1996.

Chart 1
GDP per capita in 1994

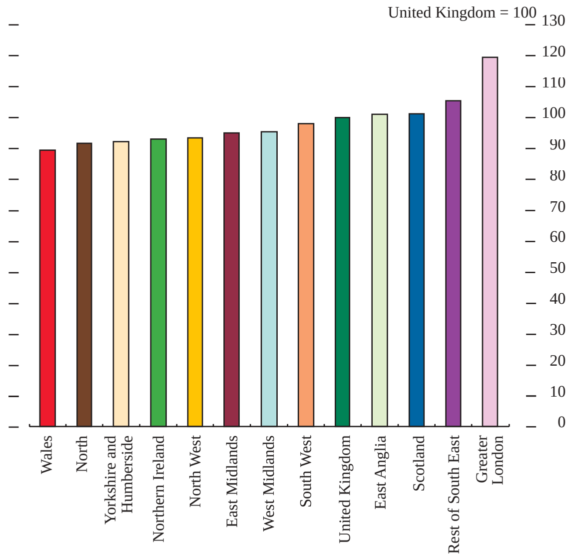


Source: *Economic Trends*, September 1996.

ranked by GDP per head in 1994, with Greater London proudly out front at 125% of the UK average, and Northern Ireland bottom of this particular league with 82%. Quite dramatic differences, you may think. And the Northern region is in the bottom third of the distribution. Indeed the North is, on this measure, the least prosperous region in England.

These differences are modified somewhat by the operation of the tax system which is, of course, modestly progressive. So if we look at personal disposable income per head (see Chart 2) we see that Greater London has slipped to 119% of the UK average and Wales, which now appears at the bottom of the league, is at 89%. The tax system squeezes the top and the bottom of this distribution. It may be, too, that living standards are not quite so different as these income figures suggest. They do not take account of the

Chart 2
Personal disposable income per capita in 1994

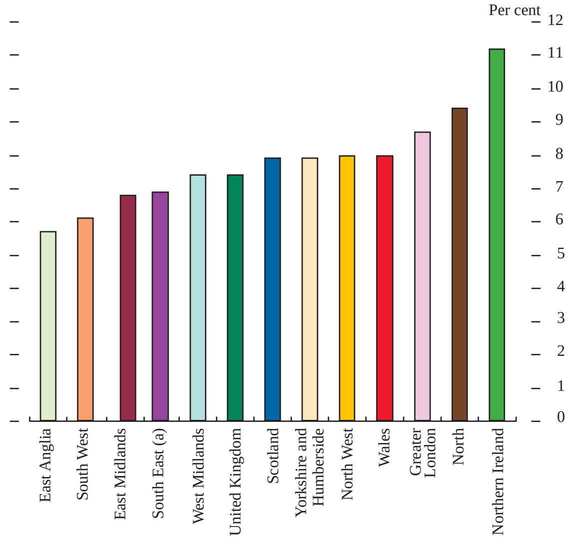


Source: *Economic Trends*, September 1996.

different, and generally higher cost of living in the South East.

Another way of looking at the relative position is through unemployment rates (see Chart 3), which are usually quite closely related to overall prosperity (though not perfectly). And here we can see that, on the most recent figures, UK unemployment averaged 7.4%, but ranged from 5.7% in East Anglia, the least affected region, up to 11.2% in Northern Ireland.(1) (These differentials, you will see, are

Chart 3
Unemployment rates by region in September 1996



Source: Office for National Statistics.

(a) South East includes Greater London.

not as large as the differentials in GDP per head might lead you to expect. There is an interesting lesson there to which I shall return a little later.)

But whichever way you measure them, these differentials do seem quite marked for a mature economy, with very open and flexible markets, and an economy in which successive governments have made strenuous and costly attempts to correct regional income differentials through a variety of regional policies, both domestic, and European. (We are now net recipients from the European Social Fund.) Of course many of the problems those regional policies have sought to address are long-lasting and deep seated. Regions which, like the North or Wales, experience the trauma of losing whole industries, like coal mining or ship building, are not easily resuscitated by a grant here, or a tax concession there.

This picture of differential prosperity again across the United Kingdom is, I would imagine, quite familiar to most of you. What is perhaps less well-known is how our regional differentials compare with those in other European countries. We hear, of course, some echoes of regional problems elsewhere through our media. We know about the problems within the unified Germany, and the relative impoverishment of the Eastern Länder. We hear of unrest in

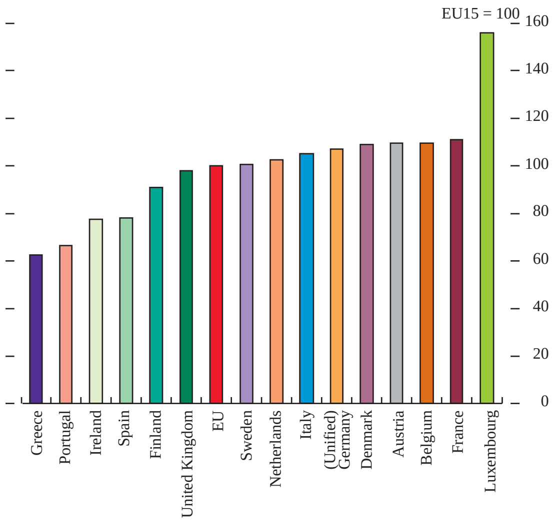
(1) Data available subsequent to this speech showed a fall in unemployment accompanied by a narrowing of regional differentials. In December 1996, the average unemployment rate for the United Kingdom fell to 6.7% and ranged from 5.2% in East Anglia up to 9.6% in Northern Ireland.

Corsica and of revolting farmers in distressed French agricultural areas. We know of tensions in Belgium: linguistic, but economic too. And most recently, we have noted the aggressive regionalism of the Lombardy League in the North of Italy. Signor Bossi has even gone as far as to propose the division of Italy on economic lines, with rich Padania in the North quickly joining a single currency bloc, while the impoverished South is left to its own devices.

But are these regional issues elsewhere in Europe as serious as our own?

Here we enter a statistician's wonderland. There are as many different ways of presenting these figures as there are Directorates General in the EU in Brussels. It is first worth looking at GDP per head by country, just to show the relative national positions, first. That shows a very wide range (see Chart 4) with Greece at the bottom and Luxembourg, right at the top. The German figures are of course brought down by the integration of the East. Without that, they would clearly have been above the French.

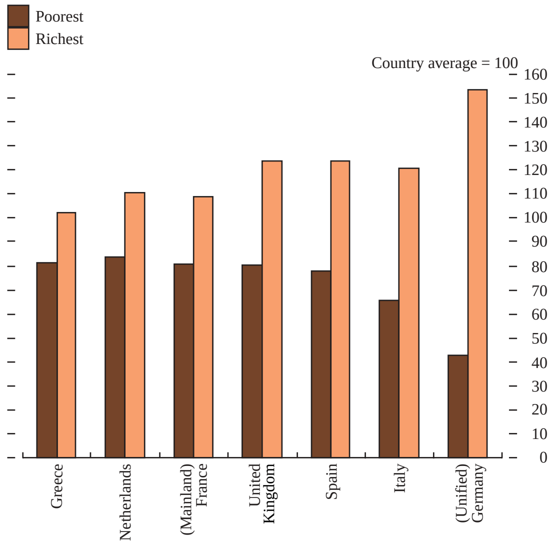
Chart 4
GDP per capita in the EU, average 1991–93



Source: EC data based on purchasing power parity exchange rates.

But we are most interested, in this context, in the differentials within countries, rather than between them. How is that best assessed? One approach is to take the five poorest areas (in the UK case that is Merseyside, South Yorkshire, Northern Ireland, Mid Wales and Cleveland and Durham) and the five most prosperous (Greater London, Grampian, Berks, Bucks and Oxon, Cumbria and Avon, Gloucester and Wiltshire) and show how far above and below the national average they are. You will see that on this measure, the United Kingdom does not look significantly more unequal than major other European countries (see Chart 5). The difference in GDP per head between Greater London and Merseyside is almost two to one. But the ratio is very similar between the Balearic Islands and the Extremadura in Spain. And it is larger between Lombardy and Calabria in Italy. And in the case of Germany, for the moment, the GDP per head ratio between Hamburg and Thuringia in the East is over four to one:

Chart 5
GDP per capita in the five poorest and richest regions, average 1991–93

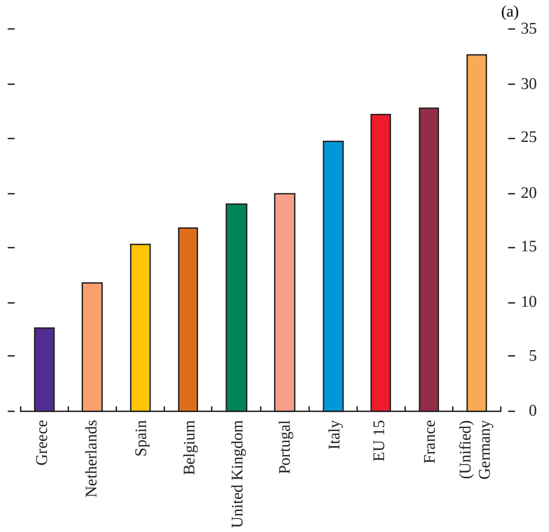


Source: European Commission.

though the Eastern Länder are in a special category, and are catching up quite rapidly.

One way of collapsing all this data into an overall measure of the regional differences is to use a measure of disparities in GDP per head by region, which, for the statisticians among you, weights the standard deviations between region by population. On this measure (see Chart 6) you will see that the United Kingdom is significantly less unequal than

Chart 6
Disparities in GDP per head by region within EU countries in 1993



Source: European Commission.

(a) Disparity measured as standard deviation weighted by population. Based on EU15 GDP per head = 100.

the average for all EU countries, though that average is somewhat influenced by the arrival of the East Germans. Nonetheless, even taking them out of the picture, the United Kingdom is less unequal, region by region, than West Germany, France or Italy. In Portugal the distribution of income across regions is quite similar to that in the United Kingdom while Belgium, Greece, Spain and the Netherlands have a rather more equal distribution of income across regions. The Greeks are the poorest Europeans, but they are also the most evenly disadvantaged nation.

A slightly different picture appears if one looks at different unemployment rates by region. Unemployment differentials are rather greater in Spain and Italy. This seems to be reflected in the fact that very large regional transfer payments are made within those countries, payments which do not seem to be having a very significant effect on employment opportunities. In some of the other countries, notably France and Germany, regional differences in unemployment do not look quite as large as in the United Kingdom, though the differences are not dramatically great.

There is, of course, one obvious point to be made about these regional differentials in the whole of Europe. The differences are, in each country, around different averages. If you consider the European Union as one economic unit, then the differences between the richest and poorest regions in the Union as a whole are even more stark. The citizens of Hamburg, Europe's richest region, are almost five times as wealthy as those of the Alentejo in Portugal. This is an interesting point to consider, when we come on to think about how regional differences affect monetary policy within one country, and within Europe as a whole.

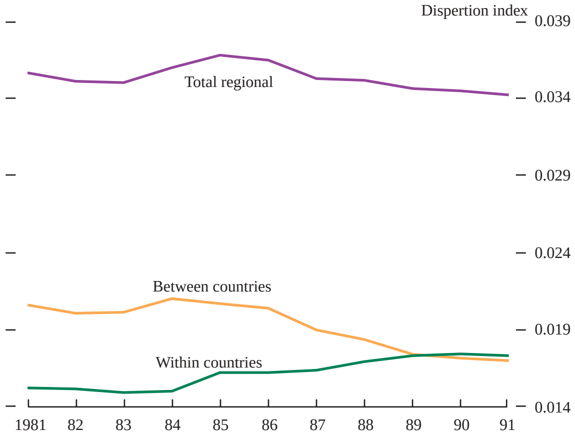
But this has been, so far, a static analysis. What is happening over time? It is a snapshot taken at one moment. Are these regional differentials widening, or the reverse? Are we seeing a gradual convergence, within the British economy, or within the European single market, or not?

Regional differentials over time

First, a brief look at trends in the EU as a whole. In the period from the end of the last War up to 1974 there was a consistent and noticeable, albeit gradual, reduction in differentials between different EU countries. But the process of convergence came to a halt in the decade between the mid-1970s and the mid-1980s. That may in part be because the weak growth rate associated with successive sharp oil price rises, culminating in the world recessions of the mid-1970s and the early 1980s, made it harder to reduce income inequalities by redistributing GDP from richer to poorer states. It is always more difficult to share a shrinking cake.

Since the mid-1980s there has been some evidence of a return to gradual convergence in living standards between countries (see Chart 7). But this movement is not very firmly established and, over the period since the mid-1980s, the trend has been relatively weak. Furthermore, the convergence that has occurred is due mainly to improvements in the position of a few countries on the (geographical) periphery of the EU, like Ireland and Portugal, partly reflecting greatly improved economic management and their success in attracting inward investment (certainly in the case of Ireland) and partly attributable to large transfer payments managed by the European Commission.

Chart 7
Regional disparities in the EU12: GDP per capita



Source: Eurostat. Dispersion measured using a Theil-type index. Reproduction of Figure 6, 'Regional Disparities in the EU12: GDP per capita' in Tony Dignan, 'Regional Disparities and Regional Policy in the European Union', *Oxford Review of Economic Policy*, Vol 11, No 2, summer 1995, page 80.

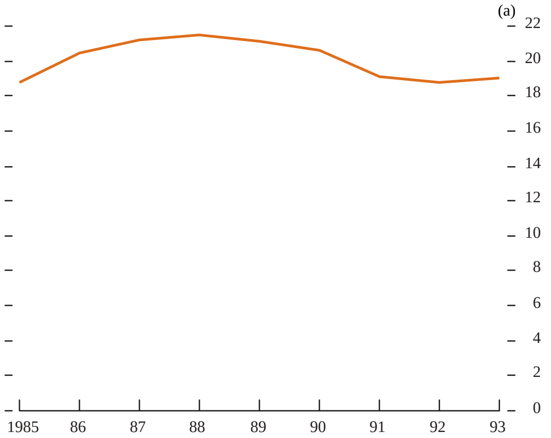
It is noticeable, though, on this measure of dispersion, that the dispersion of income across all regions of the EU has hardly shown any trend at all. And within countries, in Europe as a whole, regional differentials have, if anything, become slightly more marked. That is the meaning of the rising line at the bottom of the graph. It is interesting to note, in parenthesis, that the measure of dispersion here is almost the same within regions as it is between countries, suggesting that the Council of a European Central Bank trying to set monetary policy for Europe as a whole, would in one sense face a task rather similar to that faced in the United Kingdom in assessing the impact on regions with different standards of living. But the individual member governors on the Council would have had to reconcile the regional differences first, in producing their views. And of course the current 'national' monetary unions are much more closely integrated economies, with more robust fiscal safety mechanisms to respond to regional differences in income.

But has the United Kingdom shared this experience of rising regional inequality over the last couple of decades?

The short answer to that is no. And the most striking fact is that a weighted measure of income inequality across the United Kingdom has been remarkably constant over the past decade or so (see Chart 8). There was an increase in the late 1980s at the time of the most rapid expansion of the economy, which seemed to benefit the South East more than other regions, but since then things have gone back, if you like, to normal, and the measure of dispersion is almost exactly the same now as it was in the mid-1980s.

But this is not the whole story. And two interesting changes have occurred over the last couple of decades, which are suggestive in economic policy terms.

Chart 8
Regional disparity in GDP per head within the United Kingdom



Source: European Commission.

(a) Disparity measured as standard deviation weighted by population. Based on EU15 GDP per head = 100.

First, the regional league table has altered. The changes have not been as dramatic as those in the football league. Nothing as disagreeable as Manchester City's relegation from the Premier League has occurred. The South East remains at the top, and Wales and Northern Ireland remain at the bottom, just as they were in the early 1970s. And, sadly, we have to note that the Northern region remains the poorest English region today, just as it was 25 years ago. Darlington, too, remains in the Third Division, after a disappointing trip to the South East last May.

But you will see from Table A that there have been one or two interesting changes in relative positions. East Anglia has moved up from fifth to second place, and Scotland has moved even more sharply from seventh to third. The West Midlands has seen the sharpest decline from second to sixth

Table A
Ranking of regions by GDP per capita

	1971	1994
South East (includes Greater London)	1	1
East Anglia	5	2
Scotland	7	3
East Midlands	3	4
South West	6	5
West Midlands	2	6
North West	4	7
Yorkshire and Humberside	8	8
North	9	9
Wales	10	10
Northern Ireland	11	11

Source: Office for National Statistics.

and, more sadly from my point of view, the North West has similarly fallen back from fourth place to seventh. (The change in trend coincides almost exactly with my own move from Manchester to London but, as I recall it, I took very little GDP with me at the time.)

The most important reasons for these changes in relative position seem to lie in the different economic structures of the different regions. The North West's decline may be traced to the post-War problems of the textile industry. The West Midlands was particularly hard hit by the deep recession in the manufacturing sector at the beginning of the 1980s. The share of manufacturing in the GDP of the Midlands, the North and North West and Wales is relatively high. The South East, by contrast, has a large services component in its economy and, until the most recent recession, that was a more favourable construction of GDP, from a growth perspective. The South East did suffer more acutely during the last recession, which is part of the reason why the overall dispersion of income has reduced, though the move was not sharp enough to alter its top position in the league table.

The *second* interesting point concerns the behaviour of unemployment over the last 20 years. Of course we know that, overall, unemployment has gone up. In fact, in the United Kingdom, uniquely among major European economies, the peak in unemployment during the last recession was lower than the peak in the previous one. This may reflect the impact of labour market reforms here in the 1980s. But looking at unemployment over a slightly longer horizon, we can see that in 1995 the rate was over two and a half times the rate in 1975.

That, however, is not my principal point. What I find more interesting, from a regional perspective, is that the variation in unemployment rates by region was higher in the mid-1970s than it is today (see Table B). In 1975 unemployment in the South East was 2.1%. In Northern Ireland it was two and a half times as high at 5.5%. It was twice as high in the North at 4.2%. Today, employment in the South East is 6.9% while in Northern Ireland it is 11.2% and in the North 9.4%. In statistical terms the amount of variation in unemployment rates by region is only around half, today, what it was 20 years ago.[1]

Table B
Variation in unemployment rates by region over the past 20 years[a]

Per cent	1975		1988		1992		Sept. 1996	
East Anglia	2.6	*9*	5.1	*11*	10.5	*4*	5.7	*11*
East Midlands	2.6	*9*	7.1	*8*	9.0	*11*	6.8	*9*
North	4.2	*2*	11.8	*2*	11.1	*2*	9.4	*2*
North West	4.0	*4*	10.3	*4*	10.6	*3*	8.0	*3*
Northern Ireland	5.5	*1*	15.0	*1*	13.8	*1*	11.2	*1*
Scotland	3.7	*5*	11.2	*3*	9.4	*8*	7.9	*5*
South East (includes Greater London)	2.1	*11*	5.3	*10*	9.2	*9*	6.9	*8*
South West	3.4	*6*	6.0	*9*	9.2	*9*	6.1	*10*
Wales	4.1	*3*	9.9	*5*	10.0	*6*	8.0	*3*
West Midlands	3.1	*7*	8.8	*7*	10.3	*5*	7.4	*7*
Yorkshire and Humberside	2.9	*8*	9.3	*6*	9.9	*7*	7.9	*5*
United Kingdom	**3.1**		**8.0**		**9.7**		**7.4**	

Source: Office for National Statistics.

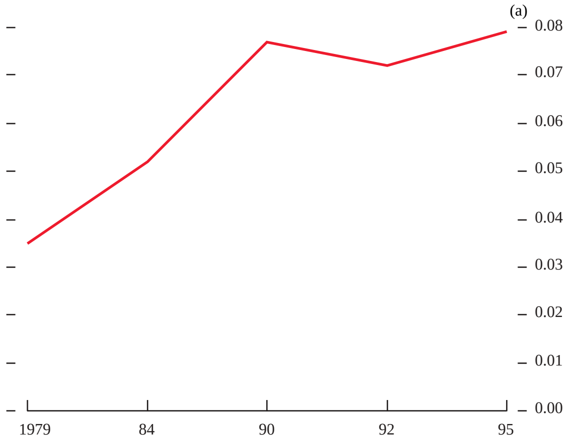
(a) Annual averages; figures in italics are the regional rankings of unemployment rates.

Why has this happened? The answer is not entirely clear, but one hypothesis which has something to commend it is that the shift is related to changes in earnings differentials, because average gross weekly earnings of full-time adult employees have become more unequal in regional terms, at the same time. In 1979, weekly earnings in the South East were about 8% higher than in the North. Last year

(1) Subsequent data covering annual averages for 1996 do not materially change the regional ranking of unemployment rates shown in Table B.

they were almost 30% higher. And if you look at the country as a whole, and express these differences as a co-efficient of variation, you will see that the spread is more than twice as wide now as it was at the end of the 1970s (see Chart 9).

Chart 9
Dispersion in average gross weekly earnings (£s) of full-time adult employees



Source: Office for National Statistics, excludes Northern Ireland.

(a) Dispersion measured as co-efficient of variation.

This change has resulted partly from changes to the pattern of earnings in different sectors. In the 1980s earnings in financial services rose more than the average, which drove up the relative earnings of the South East, with the large financial services component it has in its GDP. (And the City bonuses you read about are big enough, sometimes, to have an impact on the figures.) But there is obviously something else going on, too. This greater dispersion of earnings may be associated with a closer matching of pay to productivity and with structural changes in wage setting—for example, greater emphasis on local pay bargaining, so that local deals reflect differences in the cost of living (especially housing) from place to place. All of this is, if you like, evidence of greater flexibility in the labour market. Put simply, it would seem that employees, or potential employees in less favoured regions have, to some extent, priced themselves into work.

Whatever the reason, we have seen, particularly in the last few years, both a reduction in overall inequalities in living standards from one region to another, and a compression of unemployment rates. And these trends have occurred at a time when, as we have seen, in Europe as a whole, regional differences within countries have tended to increase, rather than to decrease. Will this new trend in the United Kingdom continue into the future? Ought I to skip a couple of lunches in the City next week, and buy a house in Darlington?

I would not wish to try to give you a forecast. Some crystal ball-gazers think that the wind is set fair for the North of England. A recent survey of foreign investors' perceptions showed that the North East was the number one region in Europe in terms of its attractiveness. Another survey chose the North West as the most favoured location. But there are other less flattering views, too.

A recent study by the Henley Centre for Forecasting argues that the narrowing of regional disparities recently may be a temporary phenomenon and not the start of a permanent structural shift in favour of the North. The 1990s recession was associated with the bursting of the late 1980s housing and consumption bubble, which was most inflated in the South East. With that correction arguably now coming to an end, the Henley Centre suggests that the South may well begin to grow faster once again because it is better represented in those service industries which are likely to create the most wealth over the next few years: telecommunications, computers and financial services. Furthermore, they argue that although the North's economy is biased towards manufacturing, the manufacturing that does take place in the South has a far higher value per ton—which is one proxy measure for sophistication and high value added.

On this analysis East Anglia, for example, will grow most quickly in the next five years, while the North will grow less rapidly than the other English regions.

Will that happen? I do not know. And I have to say that I am somewhat suspicious of these deterministic analyses. I find it interesting that the North of England has done better than the North West in recent years in attracting inward investment and revitalising its manufacturing sector. This seems to me in part to reflect better regional organisation, and stronger regional determination to address economic problems.

So there is no inevitability about the future evolution of regional differentials. They may become wider, or narrower, and the direction of change will undoubtedly be influenced by the energies and skills of people in those regions.

But the last question I said I would address is, to put it bluntly, whether this matters for monetary policy, which is the Bank of England's core business. I should perhaps say that it is, rather, the Chancellor's core business. But we are his principal advisers. How far should we take account of regional differences in considering our policy advice? If we are only setting one interest rate for the whole of the United Kingdom, what sense does it make to think about regional differences before doing so?

The impact of regional trends on monetary policy

Some of you may be cunning enough to suspect that, if my answer was that we paid no attention whatsoever to regional differences in determining monetary policy, then I would not choose to deliver that message in Darlington. I would do so in the oak-panelled offices of a London merchant bank, or over the port in a livery hall. So you will not be surprised to learn that my short answer to this question is that it is indeed important for policy-makers to look at what is happening in different regions, and that an understanding of regional development can improve the quality of the advice that we give to the Chancellor. But what justification can I offer for that view?

In general terms there are three principal, related reasons for the monetary authorities, and policy-makers more generally, to be more than casually interested in the question of regional disparities in economic performance.

The first, and perhaps most important reason, is that an examination of the differences between regions can improve our understanding of the nature of economic cycles, and of the effect various 'shocks', as economists call them, may have on the national economy.

When we try to assess the prospects of inflation, and to evaluate the impact of observed price changes, whether they will persist, and whether they will produce second-round effects elsewhere in the economy, we need to distinguish between shocks which come from the real side of the economy from those which arise from changes in monetary conditions. Real shocks may be increases or decreases in aggregate demand, or they may reflect changes on the supply side of the economy, such as a change in raw material prices or an increase or decrease in domestic productivity.

Some of these shocks, though they affect the whole economy, have a greater impact on some regions than on others because of the differences in industrial structure or demographic composition. For example, the impact of increased international competition on the car industry in the 1970s was felt particularly strongly in the West Midlands. By contrast, the effect of the liberalisation of financial services in the 1980s was strongest in the other direction—in the South East. Longer-term trends, such as the decline in shipbuilding and coal mining have clearly had a particularly fierce impact on South Wales and the North East. Technological changes that affect particular industries will similarly have different effects from one region to another. Scotland has become a region where trends in the IT industry have a marked impact.

Understanding these differential effects is not simply interesting, it provides greater insight into how the whole economy operates and therefore how it is likely to react to changes in policy at national level. We have learned—partly from our analysis of regional trends—that different industries are affected to a greater or lesser extent by changes in interest rates. It would appear that the construction and distribution sectors are most affected by a tightening of monetary policy, while the agricultural sector is the least affected. The East Midlands, the North and Scotland have relatively large construction sectors and, therefore, are likely to be disproportionately affected by changes in interest rates. On the other hand, East Anglia and Northern Ireland have a relatively high proportion of agriculture in their economies and may be less affected by a tightening of monetary conditions.

This leads into the second argument for the Bank to analyse regional trends. Regional patterns of economic activity may be affected by monetary policy. Monetary policy is directed at the objective of national price stability, but we need to take into account different behavioural patterns in different areas in assessing what degree of monetary tightness is appropriate to have the effect on inflation we want to see. The relatively high levels of personal sector debt in the South East may, for example, make households there more sensitive to interest changes than in the North or in Scotland, and therefore influence the path of the recovery.

That point has been of particular significance in the last three years. A disproportionate amount of negative equity in housing was concentrated in the South East. So house price rises in the South East have had a proportionately larger impact in reducing that negative equity, and creating conditions in which householders once again feel confident enough to increase their expenditure. We therefore watch regional movements in house prices.

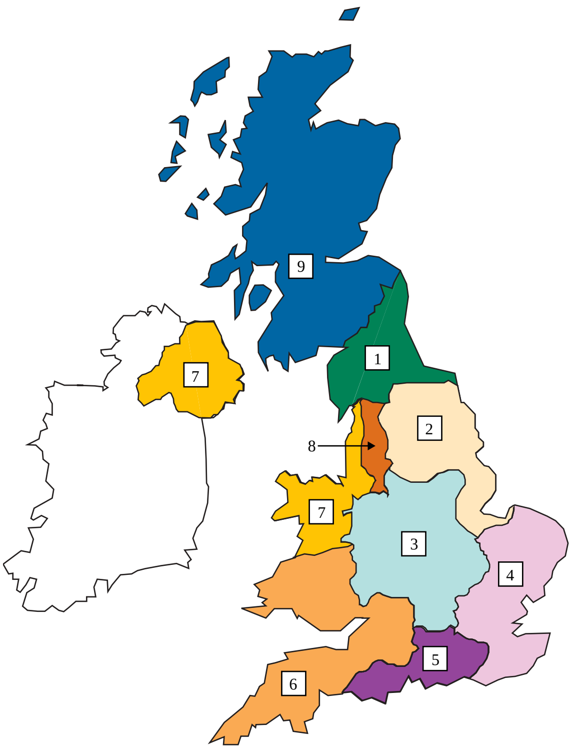
Third, the picture we draw from a set of statistics from the whole economy is not independent of their regional composition, because the way the economy as a whole responds will be affected in a number of ways by the way in which those components are distributed. The inflation prospect is, of course, heavily influenced by the state of the labour market. If unemployment falls below what economists term its non-accelerating inflation rate of unemployment, then one can expect a stimulus to demand to be followed by an increase in wage rates and in inflation.

So it important for us to take a view of the amount of slack in the labour market when giving our monetary policy advice. But of course labour is not perfectly mobile. Indeed we know that in the United Kingdom, labour mobility is still relatively restricted, for a number of reasons, notably the nature of the housing market. So we need to think not just about the overall level of unemployment, but also about its geographical spread. If there were no unemployment in the South East, but 15% in the North and North West, then an interest rate reduction, which would of course increase demand in the South East as well as in the depressed North, might generate more inflation than it would were that unemployment to be more widely spread. So when we look at unemployment we need to look at the 'match' between available labour and the likely demand for it. That means looking at the skill profile of the workforce, and the nature of the jobs available, but also at different regional circumstances.

Because we take this view, and attach increasing importance to understanding these forces at work in the economy, we have been taking steps recently to expand our regional coverage, through increasing the number and distribution of our agents. The Bank of England's agents are its eyes and ears in the regions. Of course, as I have done this evening, one can look at top level statistics on regional trends. But that is no substitute for having people on the ground who can monitor economic activity directly. The very simple reason for that is that in delivering policy advice we are more concerned about the future than about the past. Our inflation target is couched in terms of the inflation rate 18 months or two years hence. So there is little point in our waiting until the Office for National Statistics have seasonally adjusted and smoothed the profile of growth region by region, which usually takes a year or two. We need to know what is happening now, and what local business people, local authorities and trades unions think about what will happen tomorrow. The agents do other jobs, too. They involve themselves in initiatives to improve the functioning of their local economy. Our Newcastle agent, for example, is helping with efforts to launch a Regional Investment Fund. But intelligence gathering is their number one task.

We already have agents in Glasgow, Newcastle (who covers this region), Leeds, Manchester, Liverpool, Bristol, Birmingham, Southampton and London. Between them, those agents visit around 4,000 companies each year to gather intelligence on their intentions, to complement the wider analysis of the economy undertaken by the Bank's economists in Threadneedle Street (see Charts 10 and 11).

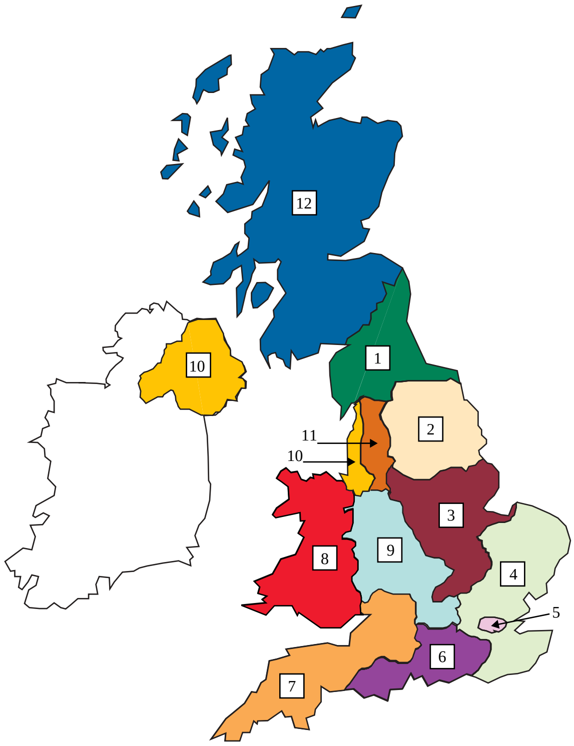
Chart 10
Bank of England's previous Agency network



1 Newcastle Agency.
2 Leeds Agency.
3 Birmingham Agency.
4 London Agency.
5 Southampton Agency.
6 Bristol Agency.
7 Liverpool Agency.
8 Manchester Agency.
9 Glasgow Agency.

We now plan to extend that network, and to add a new office in Nottingham, to cover the East Midlands. In December we open in Cardiff, and a second office in London—dividing our coverage of Greater London from the rest of the South East—and another smaller office in Cambridge to look at East Anglia will follow shortly after.

Chart 11
Bank of England's new Agency network



1 The Agency for the North East and Cumbria.
2 The Agency for Yorkshire and the Humber.
3 The Agency for the East Midlands.
4 The Agency for East Anglia and the South East.
5 The Agency for Greater London.
6 The Agency for Central Southern England.
7 The Agency for the South West.
8 The Agency for Wales.
9 The Agency for the West Midlands.
10 The Agency for the North West (Liverpool) and Northern Ireland.
11 The Agency for the North West (Manchester).
12 The Agency for Scotland.

And as well as expanding the range of our network, we are also making the Bank's agents' work more visible. The agents already regularly report in to us on the regional economic situation. That forms part of our monthly assessment of inflationary conditions. We began in May to release a quarterly summary of the agents' analysis, partly so that other commentators could take a view on whether we were reporting accurately.

In this way we are seeking to produce, if you like, a UK version of what happens in Germany, or the United States. They are, of course, federal countries, which dictates the structure of their central banks. They, too, set only one interest rate, but their central banks devote considerable effort to understanding regional economic trends, nonetheless. In the United States, the regional Federal Reserve Banks publish regional analyses of the economies of their areas and send, by rotation, their presidents to Washington to contribute to monetary policy discussions. Similarly, in Germany, the presidents of the regional central banks are also represented on the Bundesbank Council. We do not, in this country, have a federal basis on which that representation can be built. But that does not absolve us from the responsibility of understanding regional trends. So we are equipping ourselves, now, better to do so in the future.

Were we to find ourselves operating within a European monetary framework, as is possible—if not in 1999, then perhaps some time after that—then I believe we would still need to develop this broad regional view. Each president, or governor, of a central bank from a country part of the central monetary union will be required to attend European Central Bank Council meetings in Frankfurt and to articulate a view of overall economic conditions in his or her member state. To do so properly will require comprehensive regional coverage, just as the assessment of domestic monetary conditions does today. So the network of intelligence gathering which we are now building will be useful no matter what monetary framework we find ourselves working within in the future.