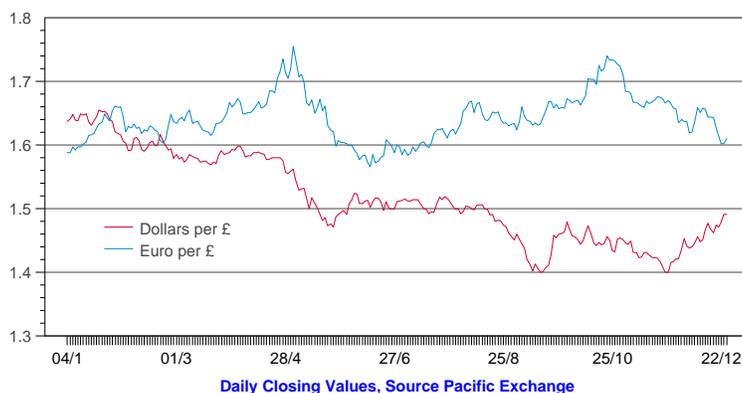


Will sterling fall to a more competitive level?

DAILY EXCHANGE RATE VALUES FOR STERLING IN 2000



Alan Greenspan surprised financial markets with a 0.5% cut in US official interest rates last week. The Fed's decision was prompted by growing evidence of a sharp slowdown in the US economy. The number of profit warnings from leading US companies has gathered pace and data was released showing US manufacturing industry growing at its slowest rate for nearly ten years. There are also residual fears that the collapse in technology sector share prices might spread to old-economy stocks and precipitate a sharp decline in investor confidence and consumer spending.

The Euro continues to rebound higher

Gains made by the Euro over the final days and weeks of 2000 suggest that sterling may fall to a more competitive level against the Euro over the next twelve months. This is despite sterling's upward drift against the US dollar during December.

The financial markets are expecting UK interest rates to fall this spring and this has been one factor behind a switch in short term capital flows out of sterling and into the Euro in recent weeks.

No change in interest rates this January

The Monetary Policy Committee left their key official interest rate steady at 6 per cent for the eleventh month in a row following their January meeting. Some economists had predicted a small cut in borrowing costs and there was a concerted attempt by many business organisations to persuade the MPC to lower base rates. But the Bank opted to delay any change in monetary policy until there is more conclusive evidence that the economy is slowing to a more sustainable rate of growth.

UK ECONOMY AT A GLANCE

(annual average unless shown)		1998	1999	2000	Latest
Real GDP at market prices	% annual change	2.6	2.2	3.0	2.9
Household Spending	% annual change	4.0	4.4	3.7	4.0
Base Interest Rates	Per cent (end year)	6.25	5.50	6.0	6.0
Claimant Count Unemployment	% of labour force	4.7	4.3	3.7	3.6
Retail Price Inflation	(RPIX—% change)	2.7	2.3	2.1	2.2

A Rebound for UK Coal

Domestic coal sector is making a comeback

Despite making losses of £130 million in 1999, RJB Mining is considering opening three new pits in the UK and win government funding for the development of environmentally friendly coal-fire power stations. There are signs that what remains of the British coal industry may be about to enjoy a deserved but long delayed upturn in its fortunes.

Positive multiplier effects

New pits would create directly about 2,000 jobs in economically depressed areas. The positive local and regional multiplier effects would add substantially to this employment creation.

Long-term decline

RJB owns 13 of the UK's 17 remaining mines. The domestic coal industry has suffered a deep-rooted decline including a decision in the early 1990s to close many of the remaining deep-mine pits. The majority of them were loss-making and uncompetitive against cheaper (heavily subsidised) foreign coal and relatively inexpensive gas.

Government subsidies

The U.K. government announced in November 2000 that it was lifting previously imposed limits on new natural gas-fired power stations, which it introduced in 1998 to protect the country's coal-fired generators. It also said it would bring in an explicit coal subsidy of as much as 110 million pounds to help miners through the transition.

The government is also keen to reach a target of 10% of domestic energy production from environmentally clean sources.

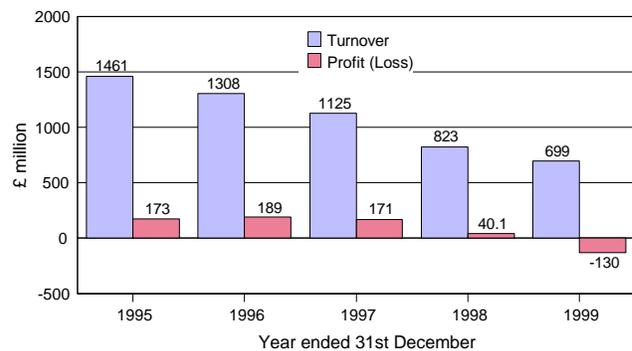
Higher gas prices boost coal demand

RJB Mining has benefited in recent months from higher domestic gas prices (gas being a substitute for coal) and a fall in the value of sterling against other currencies. This has increased the relative price of imported coal and made UK produced coal more competitive. RJB claim that order books from their existing mines are now full for the next three years.

Looking to the future

RJB has recently recruited 50 apprentices for the first time in four years and has also taken on 150 extra miners. This marks a small but important step in ensuring that what remains of the domestic coal industry can face the future with a little more confidence.

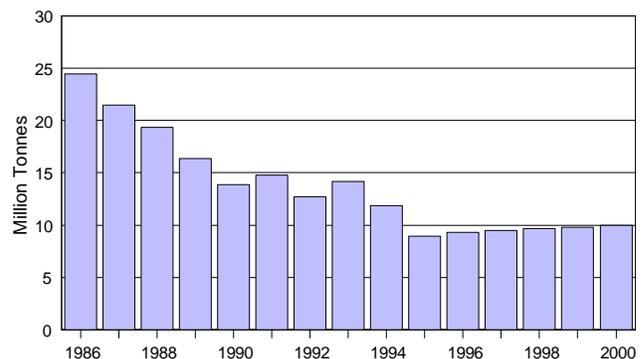
RJB MINING - TURNOVER AND PROFIT



RJB MINING SHARE PRICE SINCE 1997



HOUSEHOLD DEMAND FOR COAL IN THE UK



RJB MINING

Coal mining in the United Kingdom is a £1,500 million-a-year industry. It produces almost 40 million tonnes of energy, employs 15,000 directly with a further 30,000 working for equipment manufacturers, suppliers of goods and services and in fuel manufacture and distribution.

RJB Mining is Britain's biggest producer, with 13 collieries and 8,000 employees currently producing around 21 million tonnes per annum.

Strong growth boosts business survival rate

A pick up in the rate of economic growth in the British economy contributed to a 6% fall in business failures during 2000. Business information service Dun and Bradstreet found in their end of year survey that the number of companies going under dipped by over 2,500 compared with 1999.

Overall, including Scotland and Wales, the number of business fatalities has fallen from 43,365 business fatalities in 1999 to 40,847.

London leads the way

Business failures dropped in London by more than a fifth (21.8%) - more than twice as rapidly as any other region of the country (see the table at the bottom of this page) and the lowest rate of failures in London for more than a decade.

North South divide apparent in the figures

In contrast, the only area of the country where the number of business failures rose was the North. In the North East, there was a 12% rise in business collapses where the number of failures rose from 4,848 to 5,422 which is the highest number for this region for 10 years.

This is further evidence of the north-south economic divide and reflects in part the impact of the strong pound on manufacturing businesses and related service industries.

Bigger is better?

Dun and Bradstreet's analysts found that larger businesses were better able to cope with the fluctuations in economic growth and the exchange rate. Their 2000 survey showed that liquidations of larger companies fell by 11.4% while the decline in bankruptcies of smaller companies was only 1.6%.

Cyclical Fluctuations

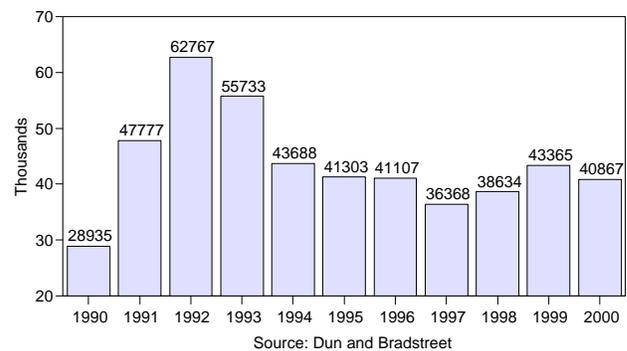
The scale of business failures has fluctuated within a fairly narrow range since the end of the last recession in the early 1990s.

Between 1991-1992 the number of companies going under more than doubled—with the total peaking in the second quarter of 1993 at just over 17,000.

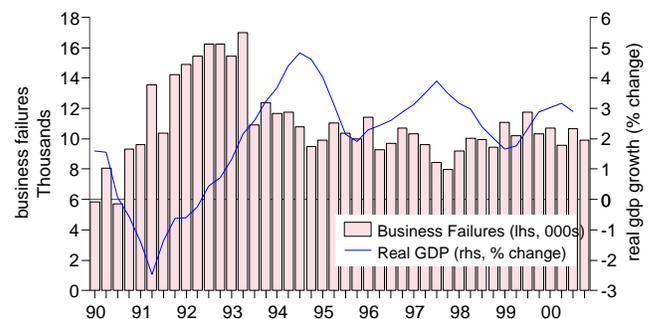
Since then the sustained recovery in the British economy helped by a period of lower interest rates has led to a much lower scale of business failures.

Business Failures Fall in 2000

RATE OF BUSINESS FAILURES FALLS 6% DURING 2000



BUSINESS FAILURES AND ECONOMIC GROWTH



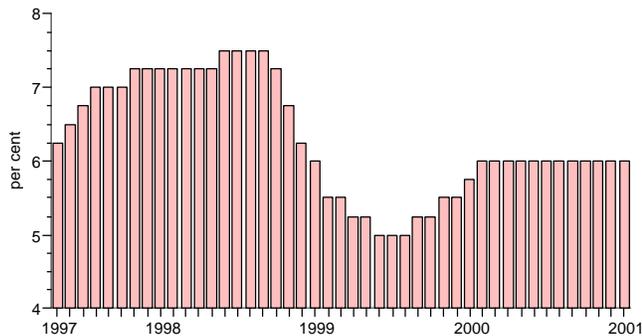
Region	1999	2000	% Change
London	6,006	4,697	(21.8%)
South East	8,281	7,640	(7.7%)
East	2,175	1,973	(9.3%)
South West	5,115	4,590	(10.3%)
East Midlands	2,572	2,499	(2.8%)
West Midlands	3,368	3,295	(2.2%)
North West	4,749	4,802	(1.1%)
North East	4,848	5,422	(11.8%)
Wales	1,697	1,692	(0.3%)
Scotland	4,554	4,237	(7%)
TOTAL	43,365	40,847	(5.8%)

KEY POINTS ON THE SURVEY

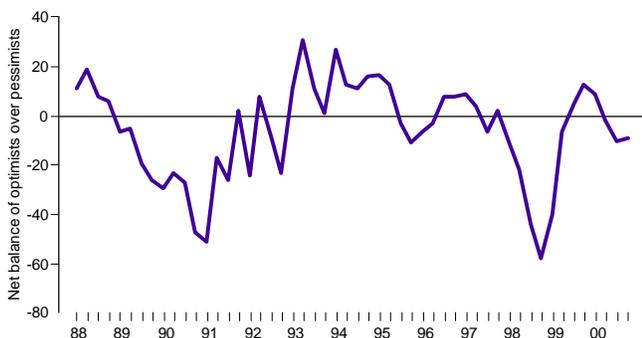
- London's strong growing economy enjoyed the lowest rate of business failures for ten years
- Northern regions suffered a reverse with company closures bucking the national trend
- Smaller-medium sized enterprises have fared less well than larger-scale businesses

THE WEEK IN REVIEW

UK INTEREST RATES SINCE BANK INDEPENDENCE



CBI MANUFACTURING BUSINESS CONFIDENCE



MATALAN SHARES COLLAPSE



NEWS FROM THE BRITISH ECONOMY

Lower car prices boost demand from consumers

The Alliance and Leicester Car Price index finds that prices have fallen by nearly 12% over the last twelve months. Lower prices have contributed to a sharp rise in the volume of cars traded both in new and second-hand markets. The price cuts were a response to government legislation designed to bring British forecourt prices into line with other Western European markets.

CBI criticises further pause on base rates

The Confederation of British Industry has expressed disappointment at the decision of the Bank's Monetary Policy Committee to keep interest rates on hold at 6 per cent for at least another month. The CBI believed that a rate cut was justified to support fragile business confidence in manufacturing and other sectors of the economy (see chart opposite)

Kate Barker, the CBI's Chief Economist said

"We believe the Bank can afford to cut rates without inflation rising above the government's target. Indeed, without a cut there is a distinct possibility that inflation will undershoot."

Matalan suffers a collapse in its market value

Shares in Matalan, Europe's top performing retail share last year, collapsed in trading this week. This followed news of poor trading performance in its stores, a large rise in unsold stocks and a warning that profits this year will be affected by heavy discounting required to shift excess stock. Matalan was one of seven high profile clothes retailers to announce disappointing trading figures—prompting a big sell off of retail stocks. In one day, the FTSE General Retail stock index lost 7% of its value.

RECOMMENDED WEB SITES

BIZ ED ECONOMICS QUESTION BANK

www.bized.ac.uk/stafsup/options/qbank/

MARKET EYE

www.marketeye.com/

CO-OPERATIVE BANK ECONOMICS REVIEW

www.co-operativebank.co.uk/treasury/treasury_economic_briefing.html

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NEXT WEEK'S ECONOMICS BRIEFING

DRILLING FOR PROFIT

Oil Companies profit from the surge in oil prices

LUCKY DIP

Consumer spending on the National Lottery

LABOUR MARKET IN FOCUS

Unemployment data for December

Weekly Briefing

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