

Business and Industry Focus

UK MANUFACTURING HAS BEST YEAR SINCE 1994

BEST OUTPUT GAINS FOR SIX YEARS

A 0.5% increase in UK manufacturing output in the final three months of 2000 meant that production rose by 1.6% last year. This is the strongest output growth from manufacturing in the last six years. It raises hopes that British industry is benefiting from gains in productivity achieved over the last two years and that manufacturing is finding it easier to cope with the strength of the pound.

HI-TECH MANUFACTURING LEADS THE WAY

The growth in production is almost entirely due to the rapid pace of expansion in electrical and optical equipment, chemicals and man-made fibres. Output in electrical and optical equipment jumped nearly 3% in the final months of 2000. These industries continue to benefit from high levels of corporate and household spending on information and communications technology.

FEWER WORKERS—MORE PRODUCTIVITY

The gain in output was achieved despite a 2.4% decline in total manufacturing employment last year. Rising production using fewer workers implies that productivity as measured by output per worker has improved. The statistics bear this out. After a disappointing fall in labour productivity in 1998, manufacturing efficiency levels have improved by 4% in each of the last two years.

EXPLAINING THE PRODUCTIVITY JUMP

Productivity gains come from a variety of factors.

Output per person employed is normally cyclical. When demand is strong, many firms choose to squeeze extra output from their existing labour force before taking on extra staff. As demand and output increases, so businesses can make better (and more intensive) use of their production capacity leading to a cyclical increase in output per factor input employed.

Some can be attributed to the closure of less efficient plants in some sectors and also increased efforts by many manufacturing businesses to improve production processes to cut their unit labour costs. The discipline of living with a strong pound has clearly encouraged many manufacturing businesses to seek efficiency gains by changing production processes and cutting x-inefficiencies. There are clearly limits to the extent to which productivity growth arising from a fear of unemployment and the threat of loss of market share from cheaper imports is sustainable.

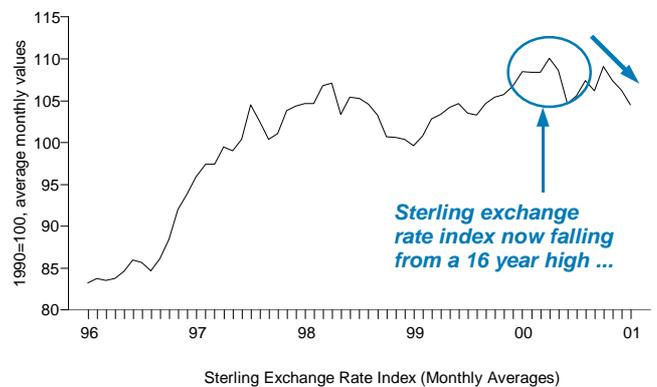
It can be hoped that higher output per worker is also a reflection of higher investment in new technology. Capital deepening can take some time to show through in the productivity statistics. Are workers in the manufacturing sector now learning to use new technology to better effect?

The government will be hoping that improved productivity in manufacturing will stimulate further increases in output this year. It may not be enough for total employment to continue drifting lower however.

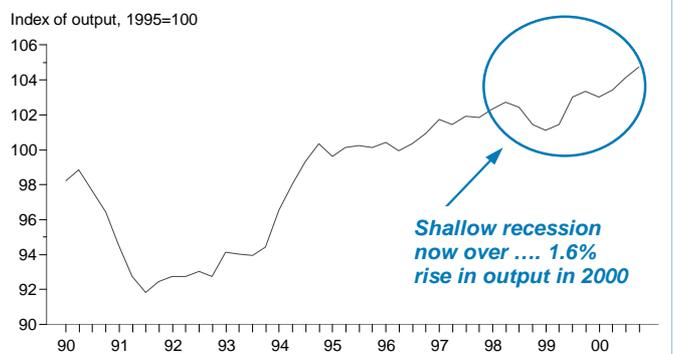
OUTPUT AND EMPLOYMENT IN INDUSTRY

Year	Employment	Output	Productivity
	Thousands	% change	% change
1998	4,152	0.5	-0.6
1999	4,050	0.0	3.9
2000	3,954	1.6	4.1

STERLING EXCHANGE RATE INDEX



MANUFACTURING OUTPUT IS CLIMBING



TWO SPEED MANUFACTURING?

Year	Engineering	Textiles	Chemicals
	1995 = 100	1995 = 100	1995 = 100
1998	106.6	89.2	103.8
1999	111.1	83.0	107.8
2000	115.7	78.5	112.5

The UK housing market remains in robust health. Lower mortgage rates and rising employment have caused a dip in mortgage debt

Home Alone

The number of properties taken into possession by UK mortgage lenders in 2000 was the lowest since 1989. The number of properties taken into possession during the second half of 2000 was 10,270 (a fall of 17% on the first half of 2000), while the total for the year was 22,610 (a 25% decrease on 1999).

The welcome fall in home repossessions suggests that the housing market has not been adversely affected by the rise in interest rates in the early part of last year. And, with mortgage interest rates set to fall during the current year and housing affordability in most of the country still at reasonable levels, there is every prospect of a continued high level of activity in the housing market over the coming months.

In Arrears

The number of mortgage accounts with mortgage arrears also fell significantly. At the end of 2000, mortgages with long term arrears (over 12 months) fell by 36% to 18,830, while medium term (six to 12 months) arrears fell by 20% to 45,680. The number of mortgages with short term arrears (three to six months) fell by around 5% in 2000, and totalled 91,630.

In the early 1990s a combination of rising unemployment and very high interest rates created a major problem for hundreds of thousands of home owners. The economic recession forced many people into mortgage arrears and interest rates well above 10% led to very high monthly interest payments on home loans. It was little surprise to see a sharp increase in mortgage repossessions. Many of these houses were then sold on the open market by the lenders, adding to the excess supply of homes and putting downward pressure on prices.

The second half of the 1990s saw a move towards much lower nominal interest rates, mortgage interest payments as a percentage of incomes fell and housing affordability increases because of the fall in average house prices.

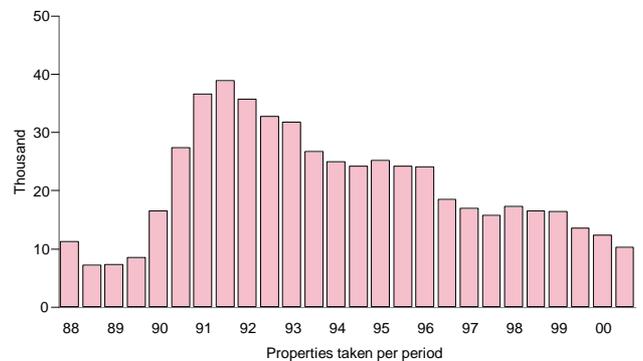
Your Flexible Friend

The market for mortgages has become more competitive and contestable and this may now be showing through in a wider range of options for homeowners. A new survey from the Council of Mortgage Lenders finds that nearly half of mortgage borrowers have made some change to their mortgage in recent years - either by re-mortgaging to a new lender, renegotiating terms with their existing lender, or increasing their borrowing.

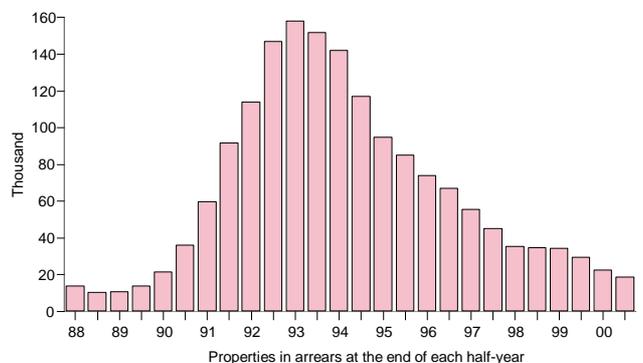
The growth of online mortgage brokers has not yet had a dramatic effect on the total market for housing loans. Nearly one quarter of people say they are keen to find mortgage information using the Internet, but less than one person in ten would "go the distance" and apply for a mortgage using the web. As with so many e-commerce markets at the moment, it is a case of "lookers, not bookers".

Mortgage Repossessions

HOME REPOSSESSIONS AT LOWEST FOR TEN YEARS



MORTGAGES MORE THAN 12 MONTHS IN ARREARS



MORTGAGES AND REPOSSESSIONS IN THE UK

Year	Number of Mortgages	Mortgage Repossessions
1997	10,738,000	32,770
1998	10,821,000	33,820
1999	10,981,000	30,030
2000	11,168,000	22,610

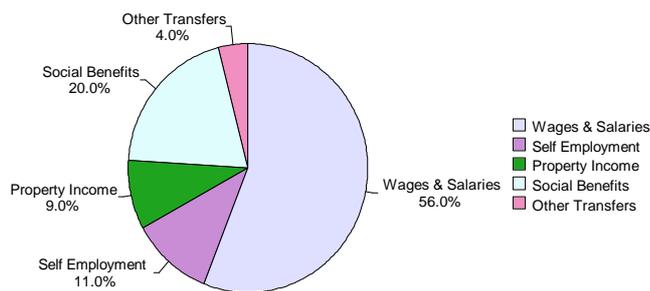
Repossessions—end of year figures

UK HOUSING MARKET INDICATORS

Year	Nationwide House Prices % change	Halifax House Prices % change
1998	10.1	5.3
1999	9.2	7.6
2000	12.9	9.9
December 2000	9.3	3.2

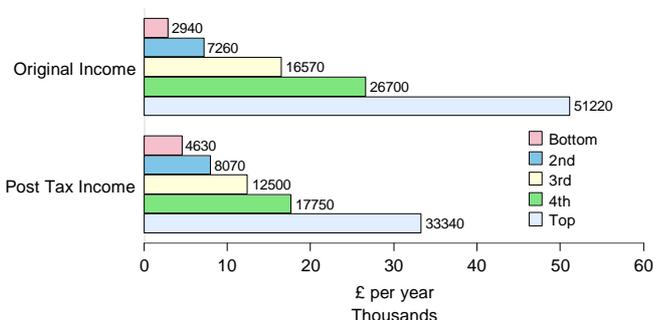
Income Inequality and Taxes

COMPOSITION OF UK HOUSEHOLD INCOME

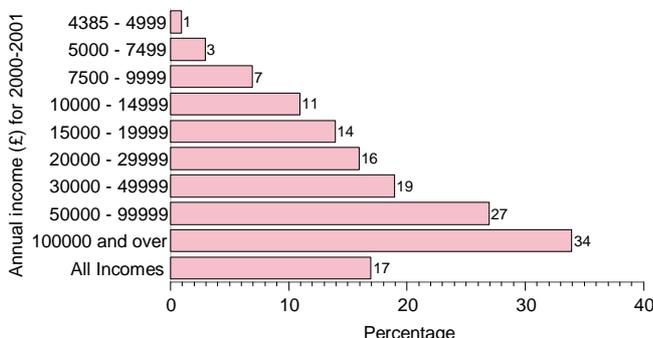


Source: Social Trends 2001

RE-DISTRIBUTING INCOME IN 1998-99



AVERAGE RATE OF INCOME TAX PAID



SOURCES OF INCOME

Wages and salaries from employment continue to be the main source of income for most households in the UK. The latest edition of Social Trends finds that 56% of household income in 1999 came from this source. On average, social security benefits (or transfer payments) account for one fifth of household income. This figure has remained broadly stable over the last fifteen years, although the sources of state cash benefits have changed over time. Nearly ten per cent of income accrues to those people in self employment and one tenth comes from net property income (including interest from savings and rent from the ownership of land).

These figures are averages for the whole of the UK. There are huge differences between groups such as students, pensioners, the disabled and households where one or more of those of working age are either unemployed or economically inactive.

INCOME TAX REDUCES OVERALL INEQUALITY

The income tax system in the UK is progressive - meaning that the percentage of income paid in tax rises with income. The bottom two charts on this page illustrate how direct taxes and the impact of cash benefits from the state help to reduce the scale of inequality in the UK. Notice how the post tax income of the poorest households is substantially higher than their original income - the reverse is true for the top quintile, the highest 20% of income earners. Measured by original income, the average income for the richest fifth of households is nearly 17 times that of the poorest. After tax and benefits that ratio has fallen to approximately 7.

This year the Government estimate that there were 1.2 million people earning a gross income in excess of £50,000 per year. The average rate of income tax payable rises from 1% for those earning less than £5,000 per year to 34% for people whose pay exceeds £100,000 per annum. Last year, this final group each contributed (on average) £72,800 in income tax to the government!

Last year the average household paid £3,470 in income tax to the government (or 17% of their total income)

WEB SITES ON THE EURO DEBATE

Guardian Euro Special
www.guardian.co.uk/EMU/0,2759,178219,00.html

Britain in Europe
www.britainineurope.org

Business for Sterling
www.bfors.co.uk

Tutor2u Economics www.tutor2u.net
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NEXT WEEK'S ECONOMICS BRIEFING

Is the UK Labour Market coming to a halt?

Exchange Rate regimes in the global economy

Rates of return from international stock markets

Weekly Briefing

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