

UNITED KINGDOM

Output grew by 2¾ per cent in 2006, close to its trend rate, with only moderate labour market tensions, because of strong inward migration. Consumer price inflation veered up temporarily to just above 3%, partly because of a hike in electricity and gas prices, but is expected to drop back to about 2%. Output growth is likely to remain brisk, propelled by strong business investment.

The Bank of England has raised interest rates since mid-2006. While inflation should come down to the target, the Bank needs to remain vigilant as inflation expectations have risen, albeit by a lot less than actual inflation, and the current wage round may be affected by the recent spike in inflation. The March budget, which included both tax rate cuts and base broadening measures, had no significant impact on the fiscal stance, which is likely to damp demand somewhat. Going forward, greater spending restraint will be needed to achieve a more rapid reduction in the deficit. Improved work force skills and a better transport infrastructure are required to raise potential growth.

United Kingdom: Demand and output						
	2003	2004	2005	2006	2007	2008
	Current prices £ billion	Percentage changes, volume (2003 prices)				
Private consumption	724.3	3.4	1.4	2.0	2.4	2.2
Government consumption	232.7	3.2	3.0	2.4	2.3	2.1
Gross fixed investment	178.8	6.0	3.0	6.5	7.6	5.3
Public ¹	18.3	8.3	-64.7	234.2	4.3	6.5
Residential	51.2	13.0	-1.2	4.1	4.7	4.3
Non-residential	109.2	2.3	17.2	-4.7	9.6	5.6
Final domestic demand	1 135.8	3.7	2.0	2.8	3.2	2.7
Stockbuilding ²	3.9	0.1	-0.1	0.2	-0.4	0.0
Total domestic demand	1 139.7	3.8	1.9	3.0	2.8	2.7
Exports of goods and services	285.4	4.9	7.9	11.6	-2.1	6.6
Imports of goods and services	314.8	6.6	7.0	11.8	-1.1	7.0
Net exports ²	-29.4	-0.6	0.0	-0.4	-0.3	-0.4
GDP at market prices	1 110.3	3.3	1.9	2.8	2.7	2.5

1. Including nationalised industries and public corporations.
2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.
Source: OECD Economic Outlook 81 database.