

Article

Quarterly Sector Accounts: Quarter 4 Oct to Dec 2015

Detailed estimates of the quarterly sector accounts that can be found in the UK Economic Accounts (UKEA).

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1 . Main points

Annually for 2015, the central government, local government, financial corporations and households and non-profit institutions serving households (NPISH) sectors were net borrowers. The public corporations, private non-financial corporations and rest of the world sectors were net lenders. This pattern remains the same as in 2014.

In Quarter 4 (Oct to Dec) 2015, the central government, local government, public corporations, financial corporations and households and NPISH sectors were net borrowers. The private non-financial corporations and rest of the world sectors were net lenders. Compared to the previous quarter, there has been a switch to net borrowing in the financial corporations sector.

Household and NPISH net borrowing increased in Quarter 4 (Oct to Dec) 2015 to £12.3 billion from net borrowing of £8.3 billion in the previous quarter.

Private non-financial corporations net lending decreased in Quarter 4 (Oct to Dec) 2015 to £5.1 billion from net lending of £10.5 billion in the previous quarter.

The level of real households and NPISH disposable income (RHDI) increased by 3.3% in 2015, following an increase of 0.6% in 2014. This is the highest annual increase in the level of real households and NPISH disposable income since 2001, when it increased by 5.0%.

The level of real households and NPISH disposable income (RHDI) decreased by 0.6% in Quarter 4 (Oct to Dec) 2015, following an increase of 1.6% in the previous quarter.

For 2015, the households and NPISH saving ratio was 4.2%, compared with 5.4% in 2014. This is the lowest annual household and NPISH saving ratio on record.

The households and NPISH saving ratio for Quarter 4 (Oct to Dec) 2015 fell to 3.8% from 4.8% in the previous quarter. This is the lowest quarterly household and NPISH saving ratio on record.

2 . About this release

This bulletin, the quarterly sector accounts, presents estimates from the institutional sectors of the economy: non-financial corporations, financial corporations, central and local government and households and NPISH.

The quarterly sector accounts are contained within The UK Economic Accounts (UKEA). The UK Economic Accounts provides detailed estimates of national product, income and expenditure, UK sector accounts and UK balance of payments. UKEA is published at quarterly, pre-announced intervals alongside the Quarterly National Accounts and quarterly Balance of Payments statistical bulletins.

The UKEA includes income, capital and financial accounts which are produced for non-financial corporations, financial corporations, central government, local government and households and non-profit institutions serving households (NPISH) sectors, and for the UK. Financial transactions and balance sheets are produced for the rest of the world sector in respect of its dealings with the UK. These accounts are the underlying data that produce a single estimate of gross domestic product (GDP) using income, production and expenditure data.

The accounts are fully integrated, but with a statistical discrepancy, known as the statistical adjustment, shown for each sector account. This reflects the difference between the sector net borrowing or lending from the capital account and the identified borrowing or net lending in the financial accounts, which should theoretically be equal.

Users and uses of the sector accounts

Quarterly sector accounts data published in the United Kingdom Economic Accounts (UKEA) has a broad range of users. These include other government departments, the Bank of England (BoE), Office for Budget Responsibility (OBR), knowledge and research institutions, financial and non-financial corporations, journalists, the general public, and international institutions.

UKEA data are widely used by government departments to inform and monitor the effect of policy decisions. UKEA data also aid an assessment of the economy: informing the Bank of England's Monetary Policy Committee (MPC) discussions when setting monetary policy and the OBRs forecasts and evaluations of economic growth and public sector finances. The data is also used by knowledge and research institutions such as think-tanks, lobby groups and universities and by researchers, analysts, academics, students and trade organisations.

The UKEA also provides businesses with key statistics and often form the basis on which journalists publish reports and articles. Data series commonly of interest include real household disposable income, gross saving, the household saving ratio, financial wealth and balance of payments data. The UKEA also contain useful information on the holdings of debt for each sector of the economy.

Key users of the UKEA outside of the UK include international bodies such as Eurostat, the European Central Bank (ECB), the Organisation for Economic Cooperation and Development (OECD) and The World Bank.

3 . Real households and non-profit institutions serving households (NPISH) disposable income (RHDI)

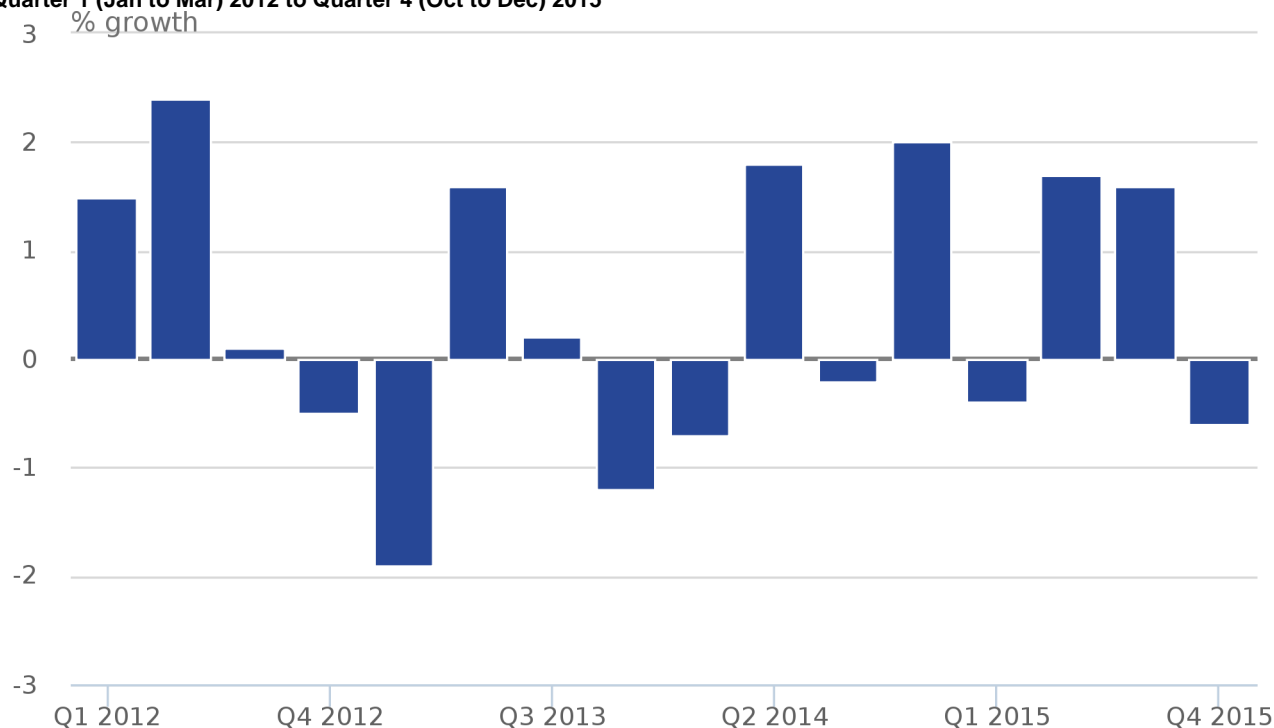
For the year 2015, real households and NPISH disposable income increased by 3.3% following an increase of 0.6% in 2014. This is the highest annual increase in the level of real households and NPISH disposable income since 2001, when it increased by 5.0%.

This reflects an increase of 3.5% in nominal gross disposable income partially offset by a 0.2% rise in the household and NPISH final consumption deflator. This increase in nominal gross disposable income was predominantly due to a rise in wages and salaries of £30.4 billion, a rise in net social benefits other than social transfers in kind of £12.4 billion together with a rise in gross operating surplus and mixed income of £9.1 billion, partially offset by a rise in taxes on income and wealth of £10.8 billion and a fall in net property income of £9.8 billion.

The level of real households and NPISH disposable income decreased by 0.6% in Quarter 4 (Oct to Dec) 2015, following an increase of 1.6% in the previous quarter (Figure 1).

Figure 1: UK real households and NPISH disposable income, quarter on quarter

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



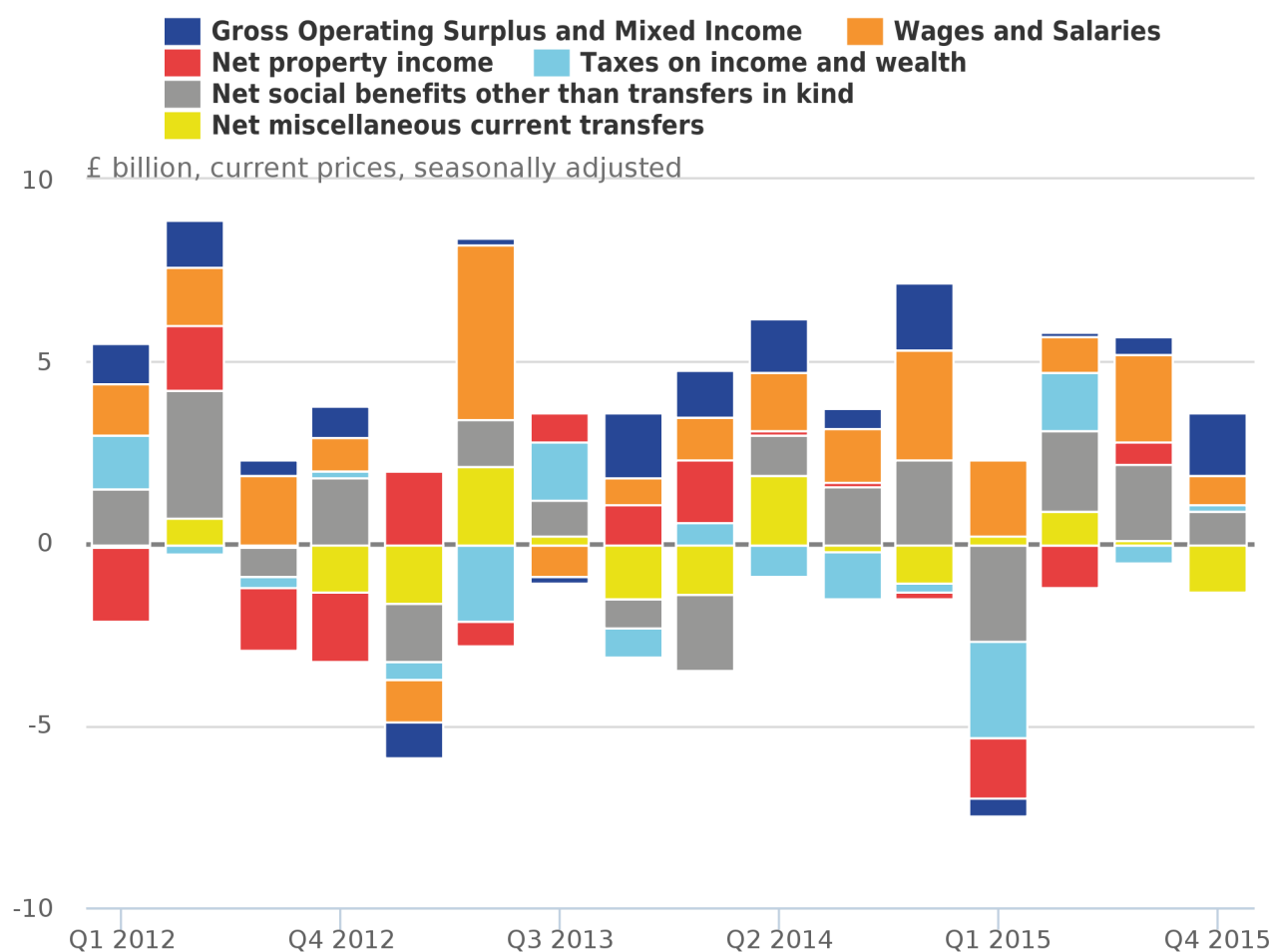
Source: Office for National Statistics

The fall in the latest quarter reflects a 0.6% rise in nominal gross disposable income offset by a 1.2% increase in the household and NPISH final consumption deflator. The rise in nominal gross disposable income was driven by a rise in gross operating surplus and mixed income of £1.7 billion, a rise in net social benefits other than transfers in kind of £0.9 billion and a rise in compensation of employees of £1.8 billion, partially offset by a fall in miscellaneous current transfers of £1.3 billion.

Figure 2 shows the main components contributing to the quarterly movement of gross disposable income.

Figure 2: UK households and NPISH main gross disposable income components

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

4 . Household and non-profit institutions serving households (NPISH) saving ratio

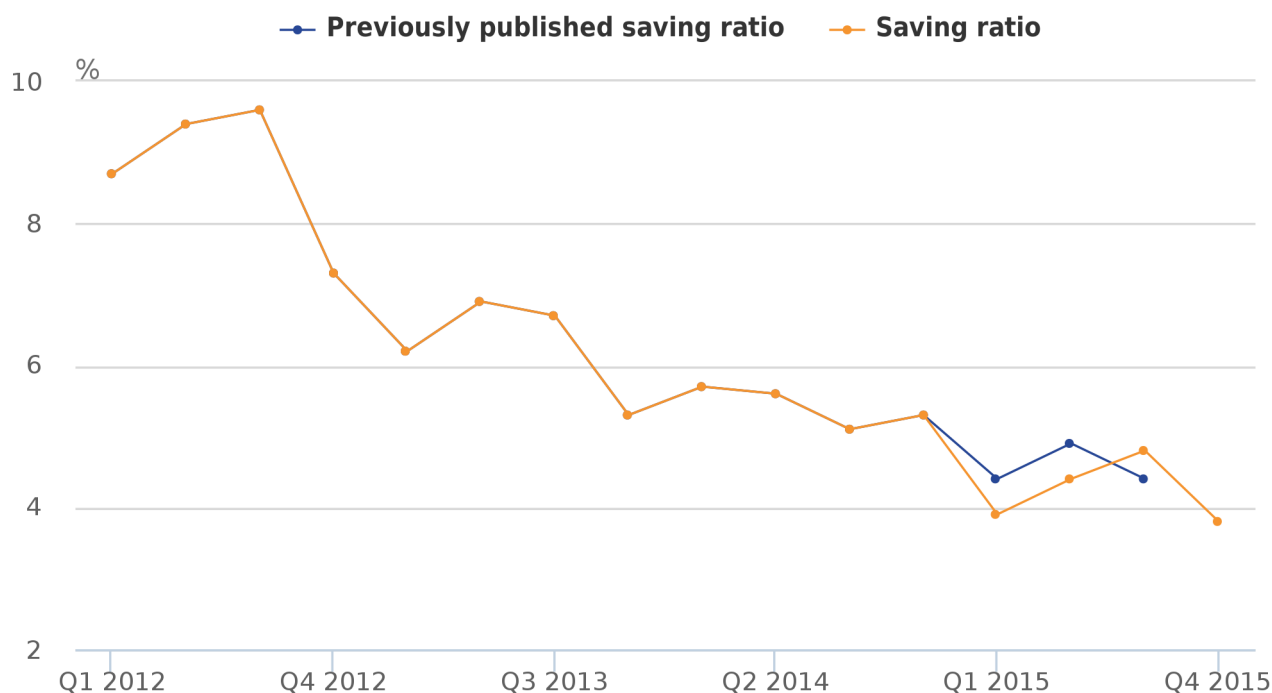
The saving ratio estimates the amount of money households and NPISH have available to save (known as gross saving) as a percentage of their total disposable income (known as total available resources). The saving ratio can be volatile and is sensitive to even relatively small movements to its components, particularly on a quarterly basis. This is because saving is a small difference between 2 numbers. It is therefore often revised at successive publications when new or updated data are included.

Annually for 2015 the saving ratio was 4.2%, compared with 5.4% in 2014. This is the lowest annual households and NPISH saving ratio on record. The fall in the saving ratio in 2015 reflects a rise in consumption expenditure of £34.2 billion, a rise in taxes on income and wealth of £10.8 billion, and a fall in net property income of £9.8 billion. These are partially offset by a rise in wages and salaries of £30.4 billion, and a rise in gross operating surplus and mixed income of £9.1 billion.

The saving ratio for Quarter 4 (Oct to Dec) 2015 was 3.8%, compared with 4.8% in the previous quarter (figure 3). This is the lowest quarterly households and NPISH saving ratio on record.

Figure 3: UK households and NPISH saving ratio, latest data and previously published data

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



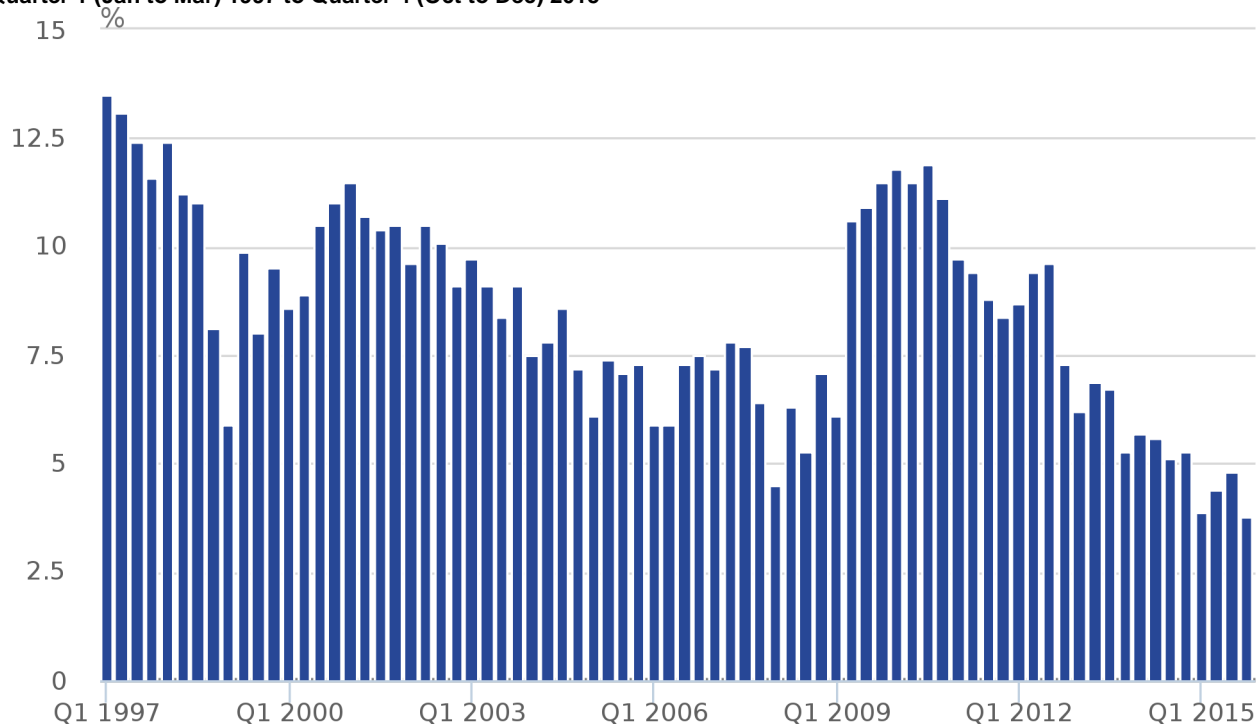
Source: Office for National Statistics

The households and NPISH saving ratio has been on a downward trend. The saving ratio fell from 13.5% in Quarter 1 (Jan to Mar) 1997 to 4.5% prior to the onset of the financial crisis in Quarter 1 (Jan to Mar) 2008. During this period, strong consumer confidence contributed to rising consumption and a sustained period of rising house prices led many households to acquire more debt. Resultantly, final consumption expenditure and, from 2004, interest payments, comprised a growing proportion of households and NPISH income, leading to a falling saving ratio.

However, the saving ratio rose sharply in response to the uncertainty households experienced during the financial crisis, peaking at 11.9% in Quarter 3 (July to Sept) 2010. Households and NPISH final consumption expenditure, taxes on income and interest payments fell as a proportion of income during this period, leading to a rise in the saving ratio.

Figure 4: UK households and NPISH saving ratio

Quarter 1 (Jan to Mar) 1997 to Quarter 4 (Oct to Dec) 2015



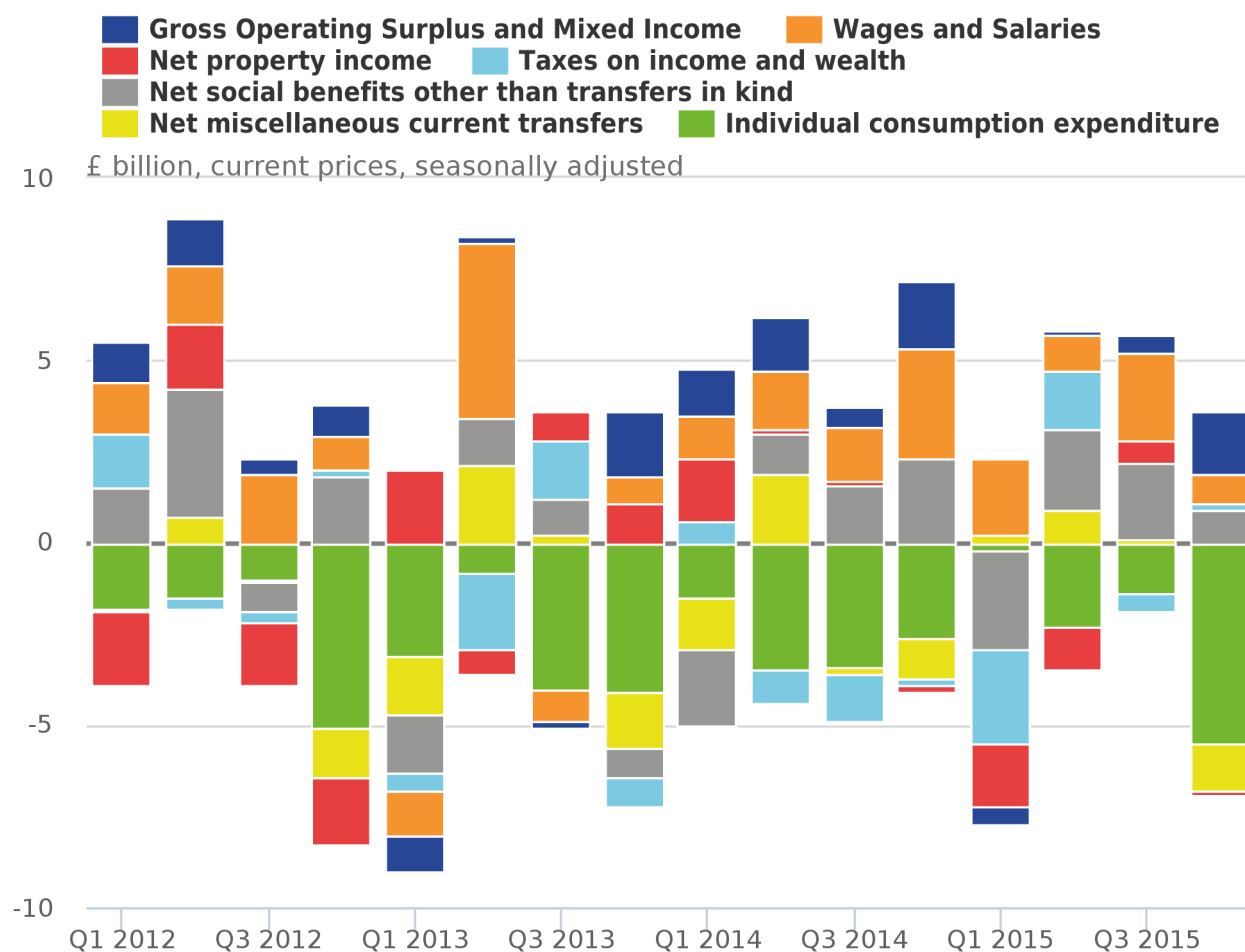
Source: Office for National Statistics

The households and NPISH saving ratio has since fallen to a record low of 3.8% in the latest quarter as growth in consumption has exceeded income growth. Quarterly growth in final consumption expenditure averaged 0.9% between Quarter 1 (Jan to Mar) 2011 and Quarter 4 (Oct to Dec) 2015, exceeding the average increase in wages and salaries of 0.7% over the same period. Relatively stronger wages and salaries growth prior to the financial crisis, helped slow the fall in the saving ratio during this period.

Figure 5 shows the main components contributing to the quarterly saving ratio movement.

Figure 5: UK main households and NPISH quarterly saving ratio components

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

This fall in the latest quarter reflects a rise in final consumption expenditure of £5.5 billion, and a fall in miscellaneous current transfers of £1.3 billion, partially offset by a rise in gross operating surplus and mixed income of £1.7 billion a rise in wages and salaries of £0.8 billion.

5 . Focus on.....

Households and non-profit institutions serving households (NPISH)

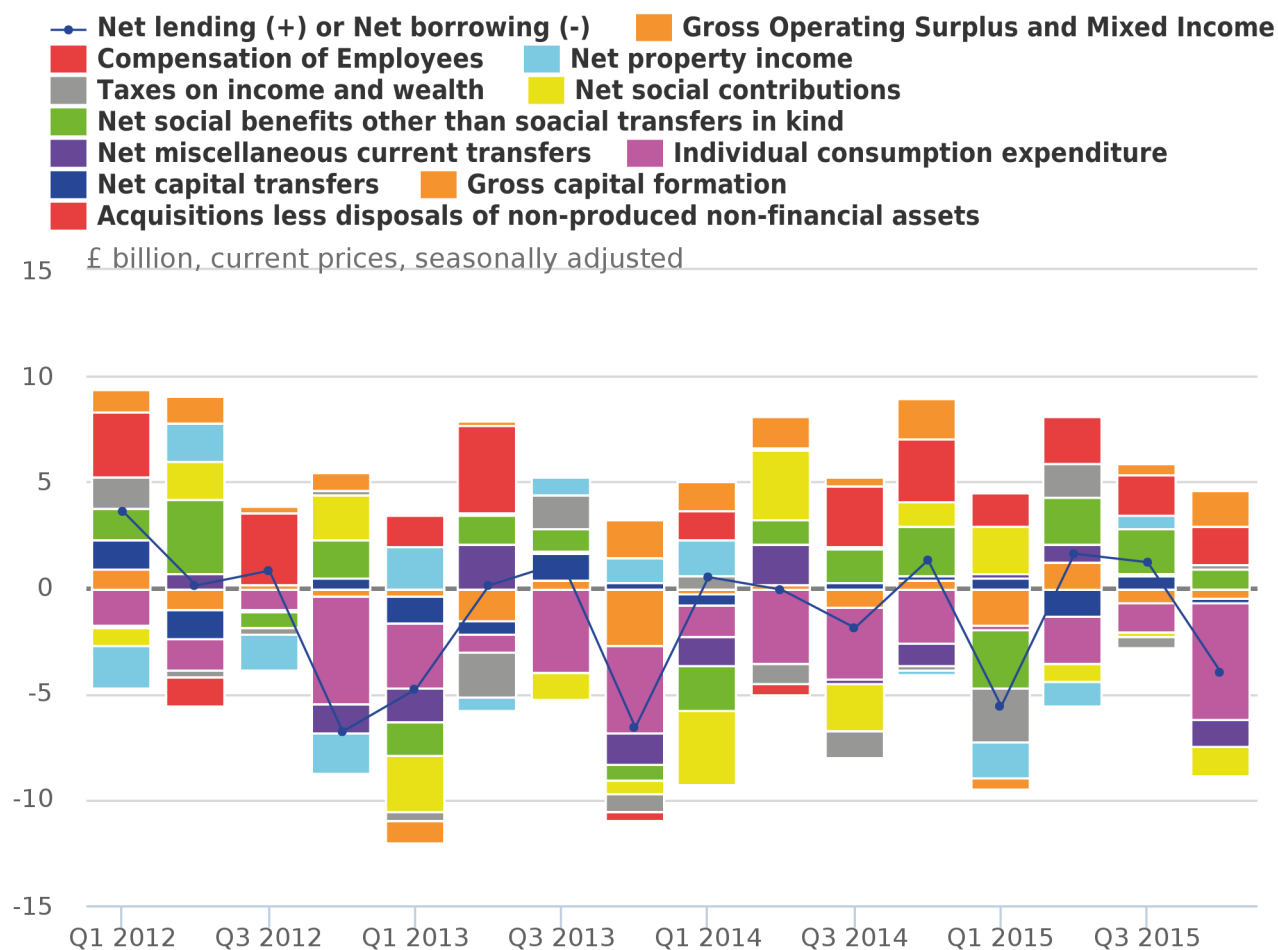
Households and NPISH net borrowing has increased...

A greater increase in household and NPISH expenditure than income during Quarter 4 (Oct to Dec) 2015 has led to an increase in net borrowing. Households and NPISH net borrowing was £12.3 billion in Quarter 4 (Oct to Dec) 2015 compared to net borrowing of £8.3 billion in the previous quarter (Figure 7).

Figure 6 shows the main components contributing to the quarterly households and NPISH net lending / net borrowing movement.

Figure 6: UK households and NPISH net lending (+) / net borrowing (-) contributions

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015

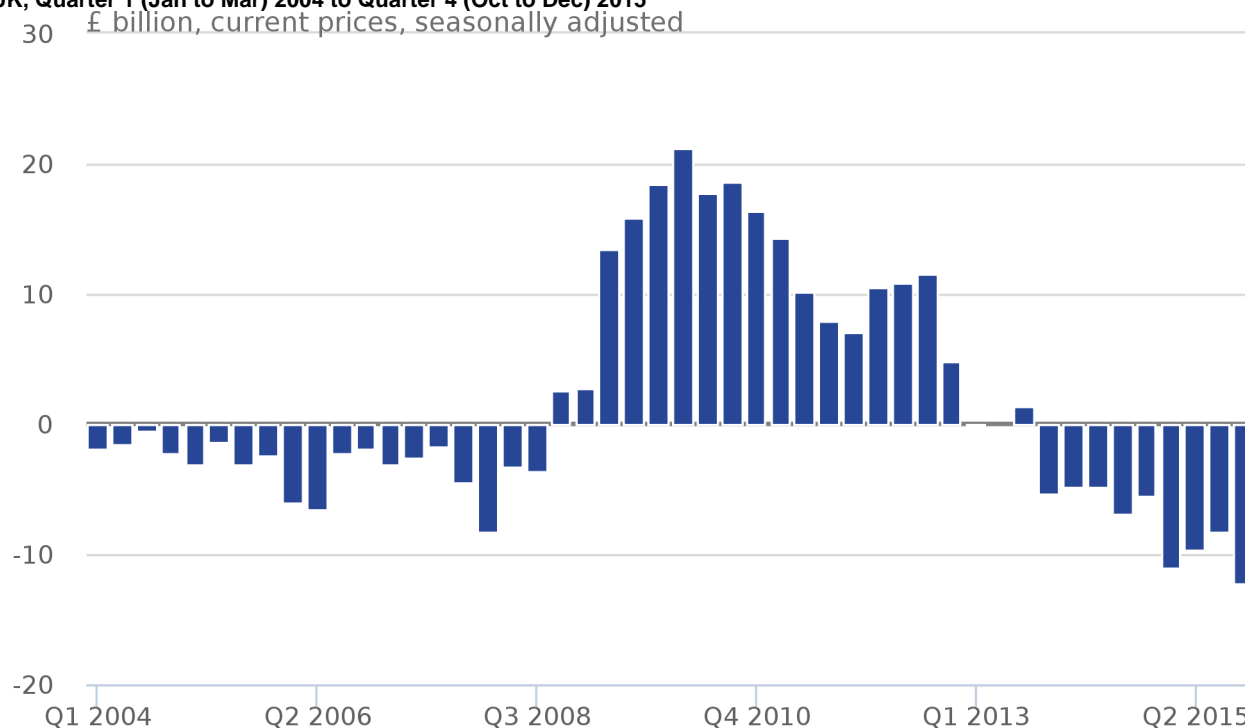


Source: Office for National Statistics

The fall in the latest quarter reflects a rise in final consumption expenditure of £5.5 billion, a fall in net social contributions of £1.3 billion, and a fall in miscellaneous current transfers of £1.3 billion, partially offset by a rise in compensation of employees of £1.8 billion and a rise in gross operating surplus and mixed income of £1.7 billion.

Figure 7: Households and NPISH net lending (+) / net borrowing (-)

UK, Quarter 1 (Jan to Mar) 2004 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

Households and NPISH were net borrowers from Quarter 1 (Jan to Mar) 2004 until the onset of the financial crisis. Between Quarter 4 (Oct to Dec) 2008 and Quarter 4 (Oct to Dec) 2012, households and NPISH were net lenders, attributable in part to a fall in consumption, particularly in 2009, a fall in taxes on income and wealth and a fall in net social contributions. From Quarter 4 (Oct to Dec) 2013, households and NPISH have increased their net borrowing, driven primarily by an increase in consumption expenditure.

Households and NPISH net borrowing of £12.3 billion in Quarter 4 (Oct to Dec) 2015 is the highest quarterly net borrowing in nominal terms since the time series began in 1987. In nominal terms, households and NPISH net borrowing was higher in every quarter of 2015 than the previous highest quarterly net borrowing recorded for households and NPISH in Quarter 1 (Jan to Mar) 2008.

...this has been driven primarily by consumption

Final consumption expenditure increased by £5.5 billion in Quarter 4 (Oct to Dec) 2015. In nominal terms, whilst this is the largest quarterly increase in final consumption expenditure, the annual increase in final consumption expenditure in 2015 of £34.2 billion was the smallest since 2009, when it decreased by £13.3 billion.

The biggest upward contributions to the rise in the latest quarter were housing, water, gas, electricity and other fuels (£1.7 billion) (this excludes mortgage repayments as these are classified as gross fixed capital formation), and transport expenditure (£762 million) of which £224 million was on the purchase of air transport. The rise in expenditure on air fares is likely to have been caused by the sharp increase in air fares in December. The air fare increase of 46% between November and December 2015 was the largest November to December increase since 2002.

Against a backdrop of low Consumer Price Inflation and rising nominal wage growth, households are taking advantage of the lower cost of credit offered by financial institutions to obtain mortgages. Changes to the treatment of stamp duty to be introduced in April 2016 may have also increased demand for buy-to-let mortgages during the quarter.

Acquisitions of long term loans secured on dwellings was £12.2 billion in Quarter 4 (Oct to Dec) 2015. This is the highest quarterly increase in acquisitions of loans secured on dwellings since Quarter 1 (Jan to Mar) 2008, but much less than the peak value of £33.2 billion in Quarter 3 (July to Sept) 2007. It is important to recognise that because long term loans secured on dwellings are presented in nominal terms, the value of the liabilities the households and NPISH sector are acquiring do not reflect the effect of inflation over time.

Households and NPISH also acquired £2.6 billion of short-term loans issued by UK Monetary Financial Institutions in quarter 4 (Oct to Dec) 2015. This may have partially funded the £5.5 billion increase in final consumption expenditure.

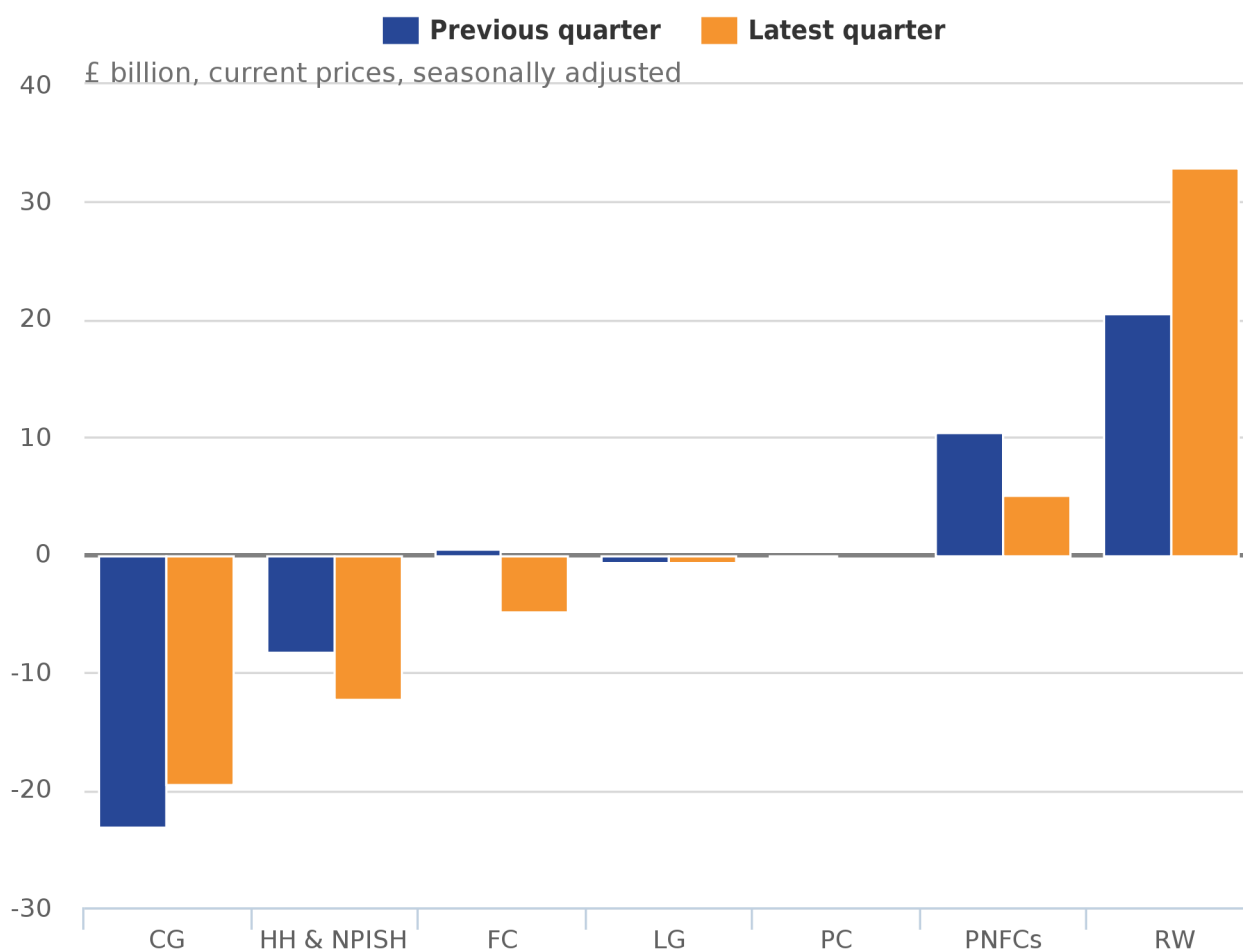
6 . Net lending (+) / net borrowing (-) by sector

Annually for 2015, the central government, local government, financial corporations and households and non-profit institutions serving households (NPISH) sectors were net borrowers. The public corporations, private non-financial corporations and rest of the world sectors were net lenders. This pattern remains the same as in 2014.

In Quarter 4 (Oct to Dec) 2015, the central government, local government, public corporations, financial corporations and households and NPISH sectors were net borrowers. The private non-financial corporations and rest of the world sectors were net lenders. Compared to the previous quarter, there has been a switch to net borrowing in the financial corporations sector.

Figure 8: UK net lending (+) / net borrowing (-) by sector

Quarter 3 (July to Sept) 2015 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

Compared with the previous quarter, there has been a switch to net borrowing in the financial corporations sector. On a quarterly basis, the financial corporations sector has switched frequently between net lending and net borrowing since Quarter 4 (Oct to Dec) 2005. All other sectors remain unchanged.

7 . Private non-financial corporations (PNFCs)

Annually, for 2015, private non-financial corporations net lending was £32.3 billion, following net lending of £28.6 billion in 2014.

Private non-financial corporations net lending was £5.1 billion in Quarter 4 (Oct to Dec) 2015, following net lending of £10.5 billion in the previous quarter.

Key drivers in the latest quarter

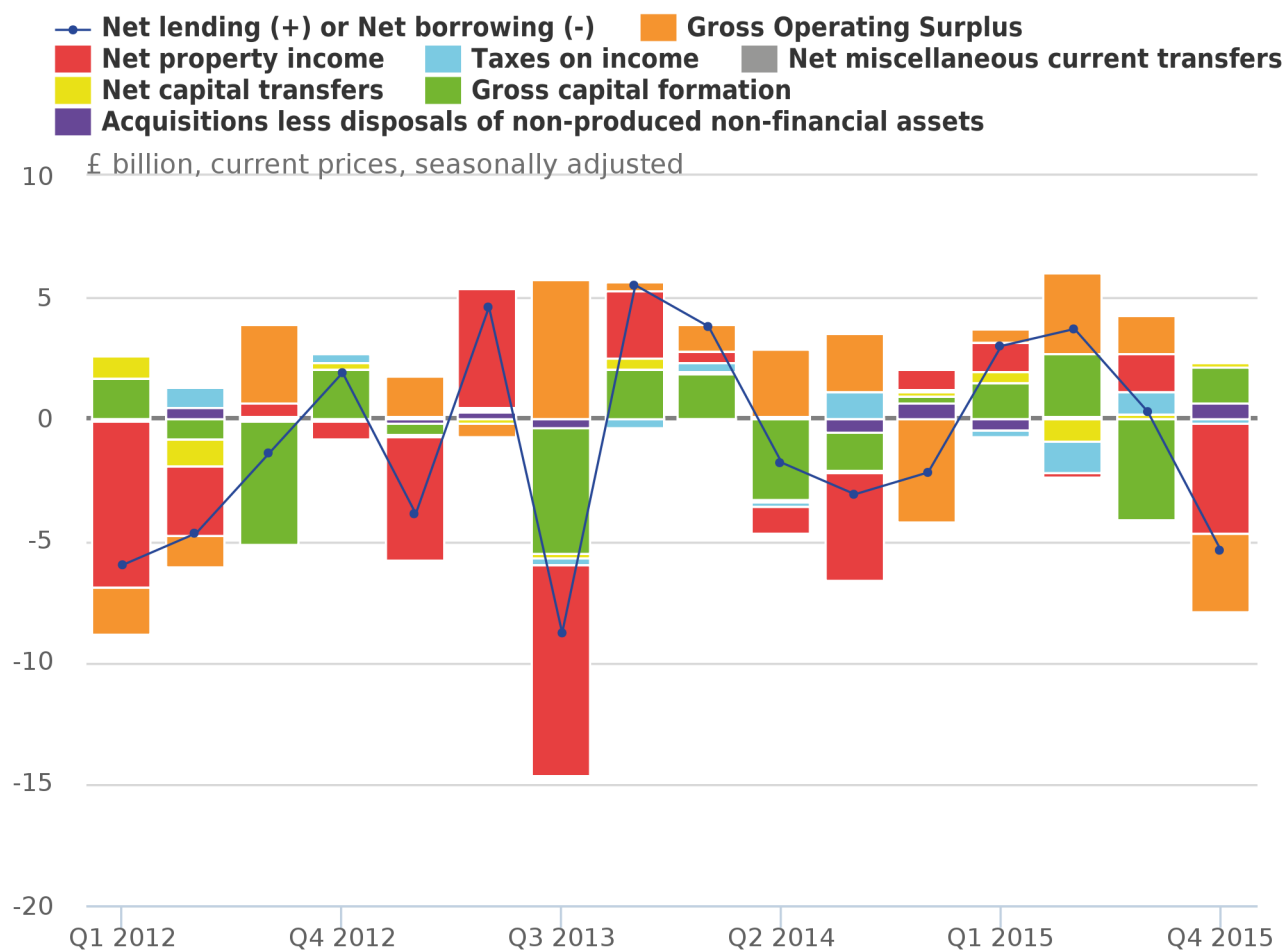
- £4.5 billion decrease in net property income
- £3.2 billion decrease in gross operating surplus

Partially offset by:

- £1.5 billion decrease in gross capital formation
- £0.7 billion decrease in acquisitions less disposals of non-produced non-financial assets

Figure 9: PNFCs net lending (+) / net borrowing (-) contributions

UK, Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

8 . Financial corporations

Annually, for 2015, financial corporations net borrowing was £11.0 billion, following net borrowing of £7.0 billion in 2014.

Financial corporations net borrowing was £4.8 billion in Quarter 4 (Oct to Dec) 2015, following net lending of £0.6 billion in the previous quarter.

Key drivers in the latest quarter

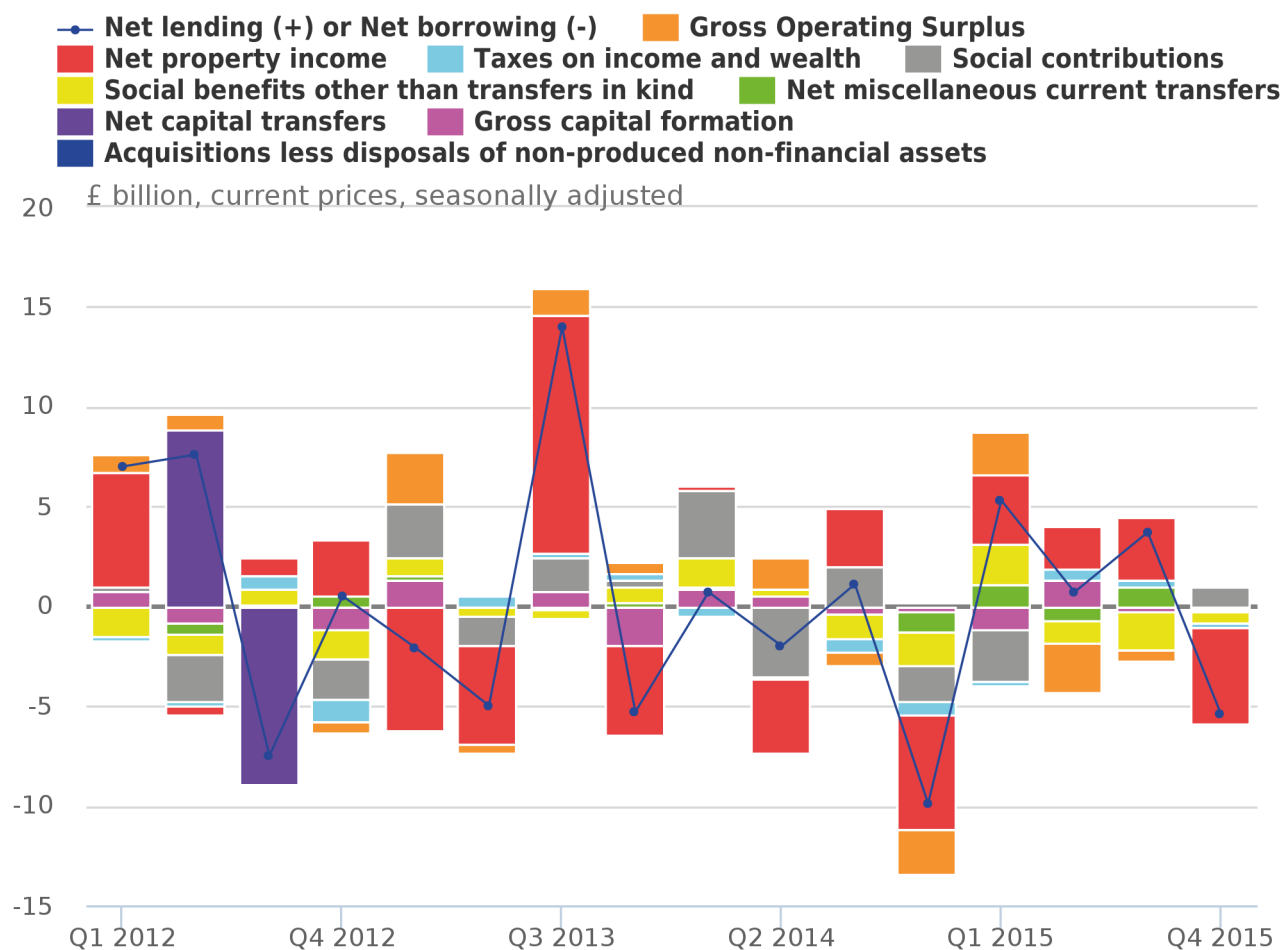
- £4.9 billion decrease in net property income

Partially offset by:

- other small movements across the accounts

Figure 10: Financial corporations net lending (+) / net borrowing (-) contributions

UK, Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

9 . Central government

Annually, for 2015, central government net borrowing was £78.4 billion, following net borrowing of £101.4 billion in 2014.

Central government net borrowing was £19.5 billion in Quarter 4 (Oct to Dec) 2015, following net borrowing of £23.1 billion in the previous quarter.

Key drivers in the latest quarter

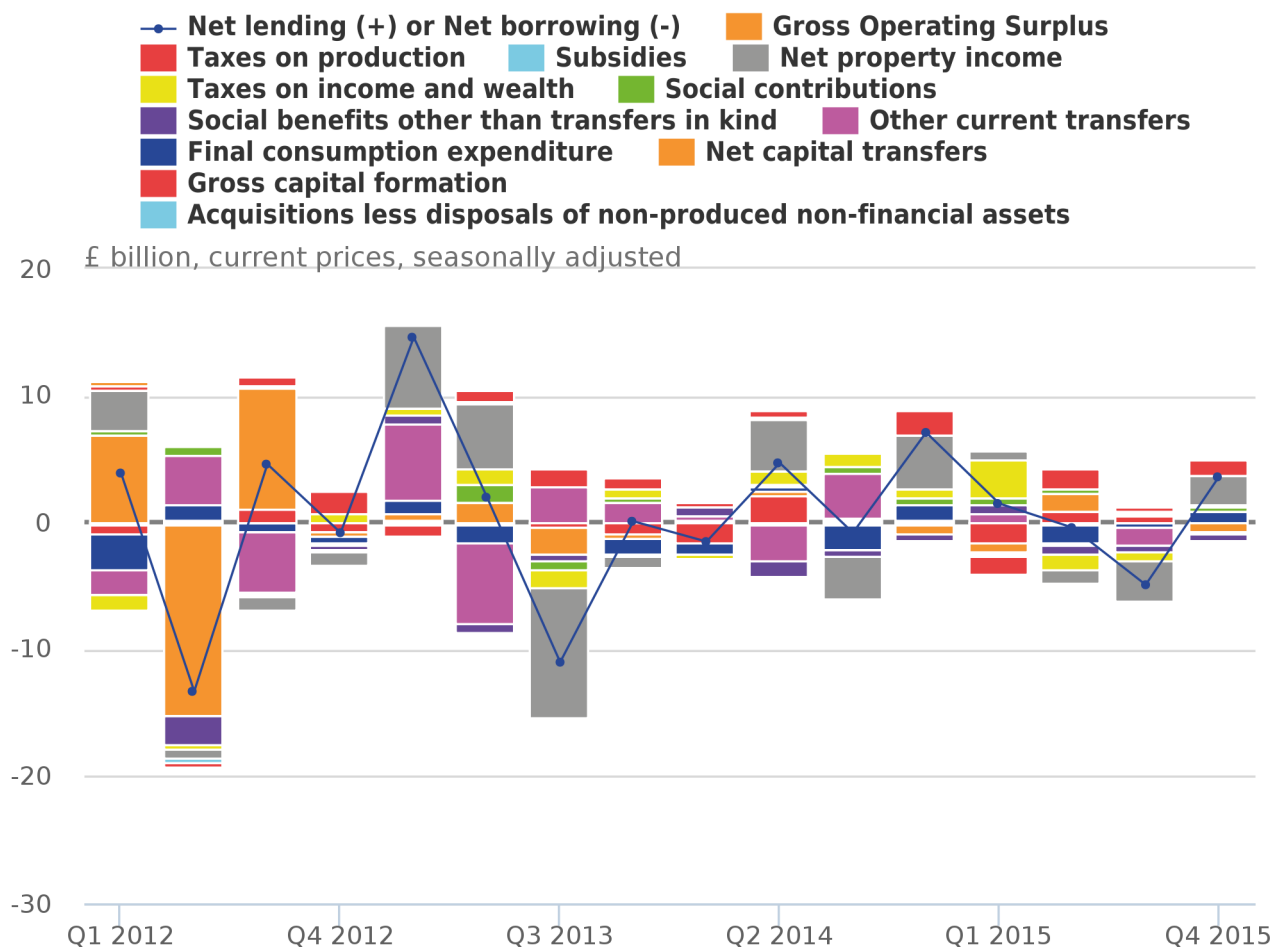
- £2.3 billion increase in net property income
- £1.3 billion increase in taxes on production
- £0.9 billion decrease in final consumption expenditure

Partially offset by:

- £0.6 billion decrease in net capital transfers
- £0.5 billion increase in social benefits other than transfers in kind

Figure 11: Central government net lending (+) / net borrowing (-) contributions

UK, Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

10 . Local government

Annually, for 2015, local government net borrowing was £3.9 billion, following net borrowing of £0.6 billion in 2014.

Local government net borrowing was £0.7 billion in Quarter 4 (Oct to Dec) 2015, unchanged from the previous quarter.

Key drivers in the latest quarter

- £0.2 billion decrease in gross capital formation
- £0.1 billion decrease in final consumption expenditure

Offset by:

- £0.1 billion decrease in other current transfers within general government
- £0.1 billion decrease in net capital transfers

Figure 12: Local government net lending (+) / net borrowing (-) contributions

UK, Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

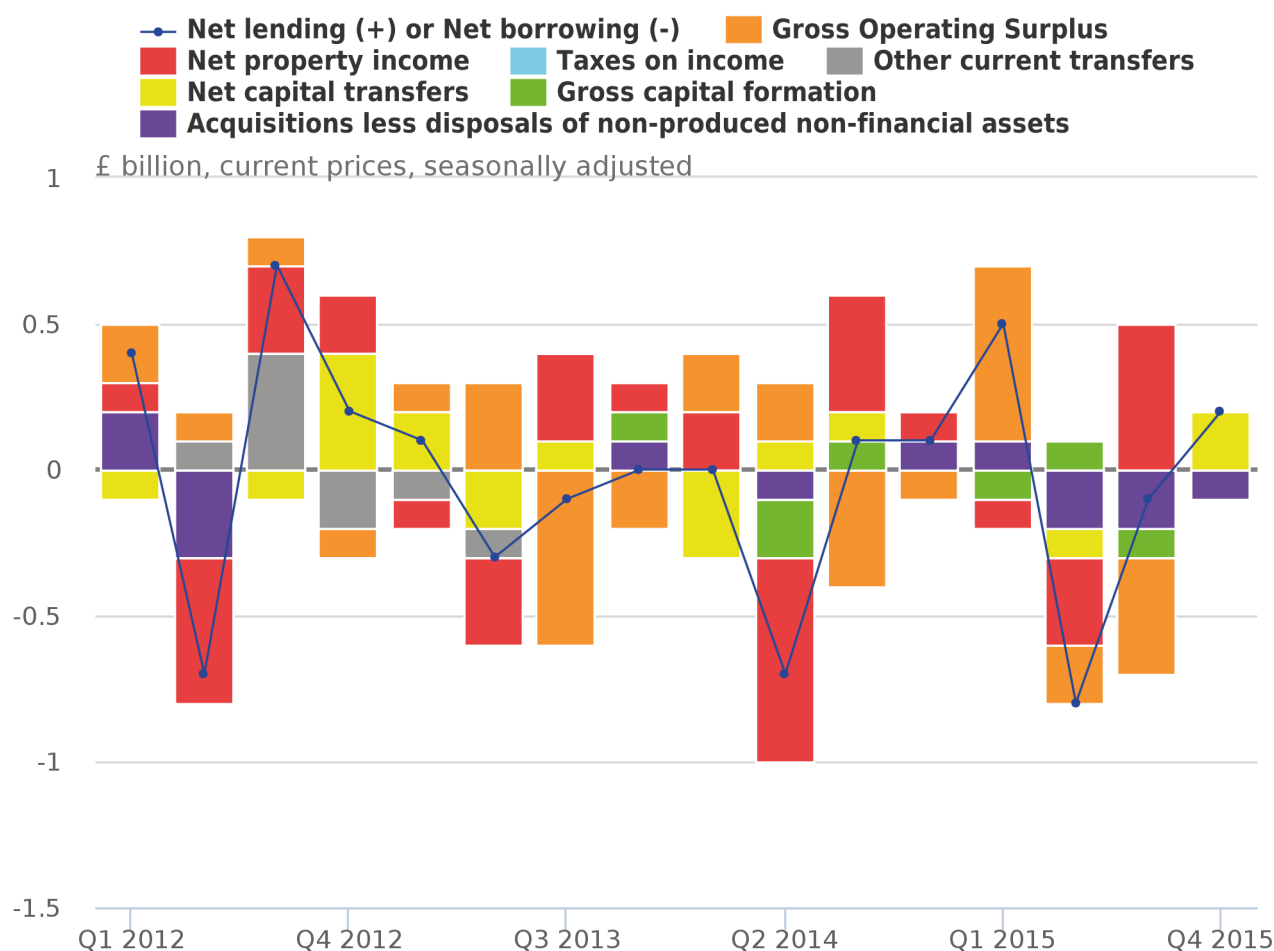
11 . Public corporations

Annually, for 2015, public corporations net lending was £0.4 billion, following net lending of £1.0 billion in 2014.

Public corporations net borrowing remained broadly unchanged in Quarter 4 (Oct to Dec) 2015 compared to the previous quarter.

Figure 13: Public corporations net lending (+) / net borrowing (-) contributions

UK, Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics

12 . Rest of the world

Annually, for 2015, rest of the world net lending was £97.3 billion, following net lending of £92.9 billion in 2014.

Rest of the world net lending was £33.0 billion in Quarter 4 (Oct to Dec) 2015, following net lending of £20.5 billion in the previous quarter.

Key drivers in the latest quarter

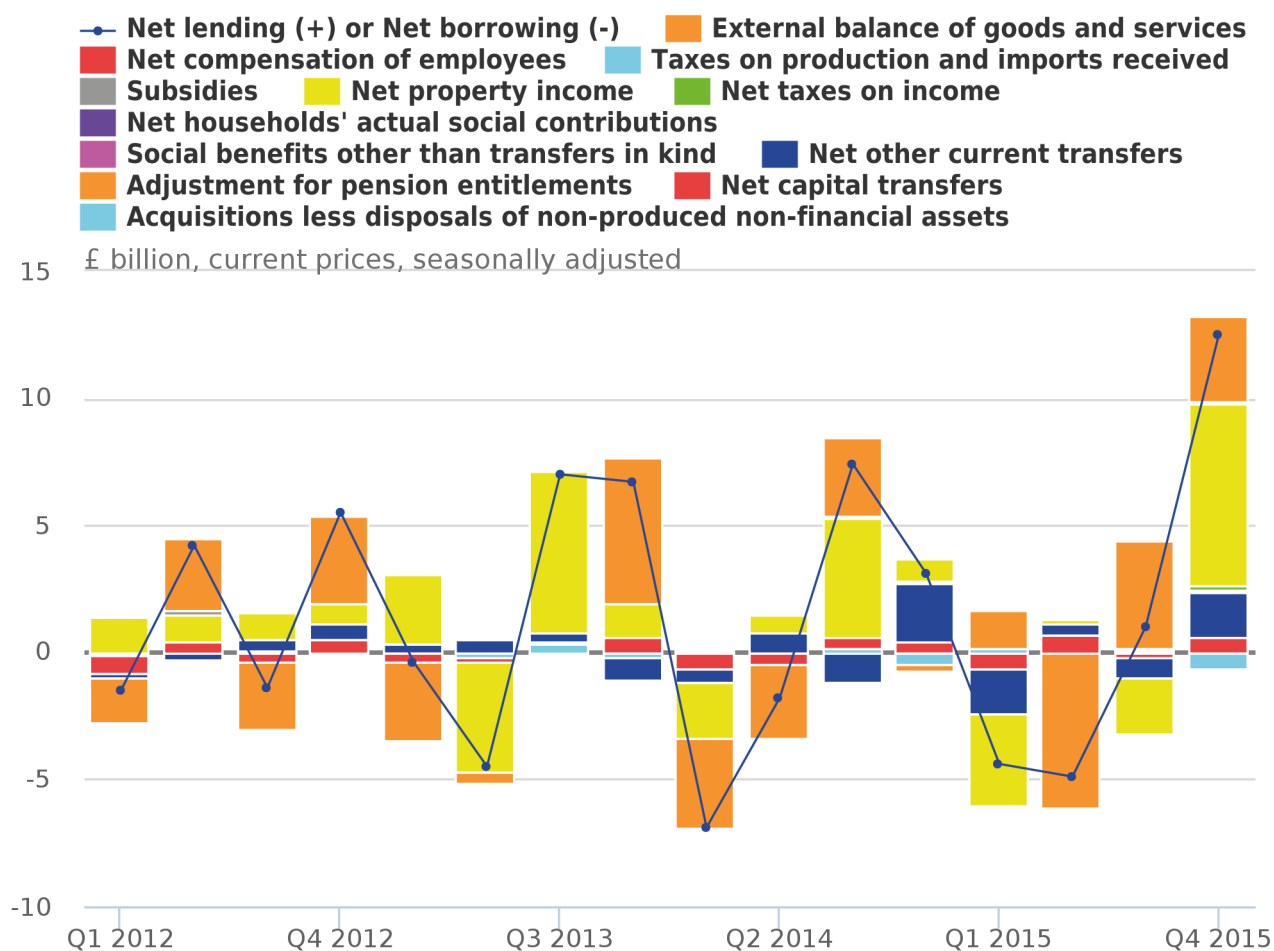
- £7.2 billion increase in net property income
- £3.3 billion increase in the external balance of goods and services
- £1.8 billion increase in Net other current transfers

Partially offset by:

- £0.6 billion decrease in acquisitions less disposals of non-produced non-financial assets

Figure 14: Rest of the world net lending (+) / net borrowing (-) contributions

Quarter 1 (Jan to Mar) 2012 to Quarter 4 (Oct to Dec) 2015



Source: Office for National Statistics