PO-CH/NL/0060

PART B

Part B.

SECRET

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Begins: 18/6/84
Ends: 29/11/84.

PO -CH /NL/0060

PART B

Chancellor's (Lawson) Papers:

ECONOMIC FORECASTING AND PERFORMANCE 1984

Disposal Directions 25 Years

[signature]
21/7/95.

PO -CH /NL/0060
PART B

51:2

CONFIDENTIAL

FROM: A SMITH
DATE: 18 June 1984

CHANCELLOR OF THE EXCHEQUER

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Culpin
Mr Folger o.r.
Mr Shields
Mr Horton
Mr Lord
Mr Portillo
Mr Ridley

Mr Lomas - CSO
HE/13

C
Some marginalia below.
NLC

Thanks
N

CYCLICAL PEAKS

You asked how long a sustained period of growth below 3 per cent would have to be for the CSO to define a peak (Mr Peretz's note of 13 June refers).

2. This depends mainly on the extent of the moderation in growth. A slight easing in growth, say from an annual rate of 3 to 2 percent, would probably have to persist for over a year for a peak to be identified. A sharper slowdown in growth would need to persist for a shorter time.

3. On the effects of the miners' strike, the CSO always interpret movements in their indicators with care, especially when they are affected by special circumstances such as strikes. In the current miners' strike the direct effects of lost coal output on GDP and hence the coincident indicator are reasonably easy to calculate. Any apparent peaking in the coincident indicator which was attributable to the direct effects of temporarily lower coal output would be heavily discounted and would not be regarded, or publicly reported, as a definite turning point. (The possible emergence of secondary effects in a very prolonged strike would make it more difficult to assess 'underlying' activity, however).

good

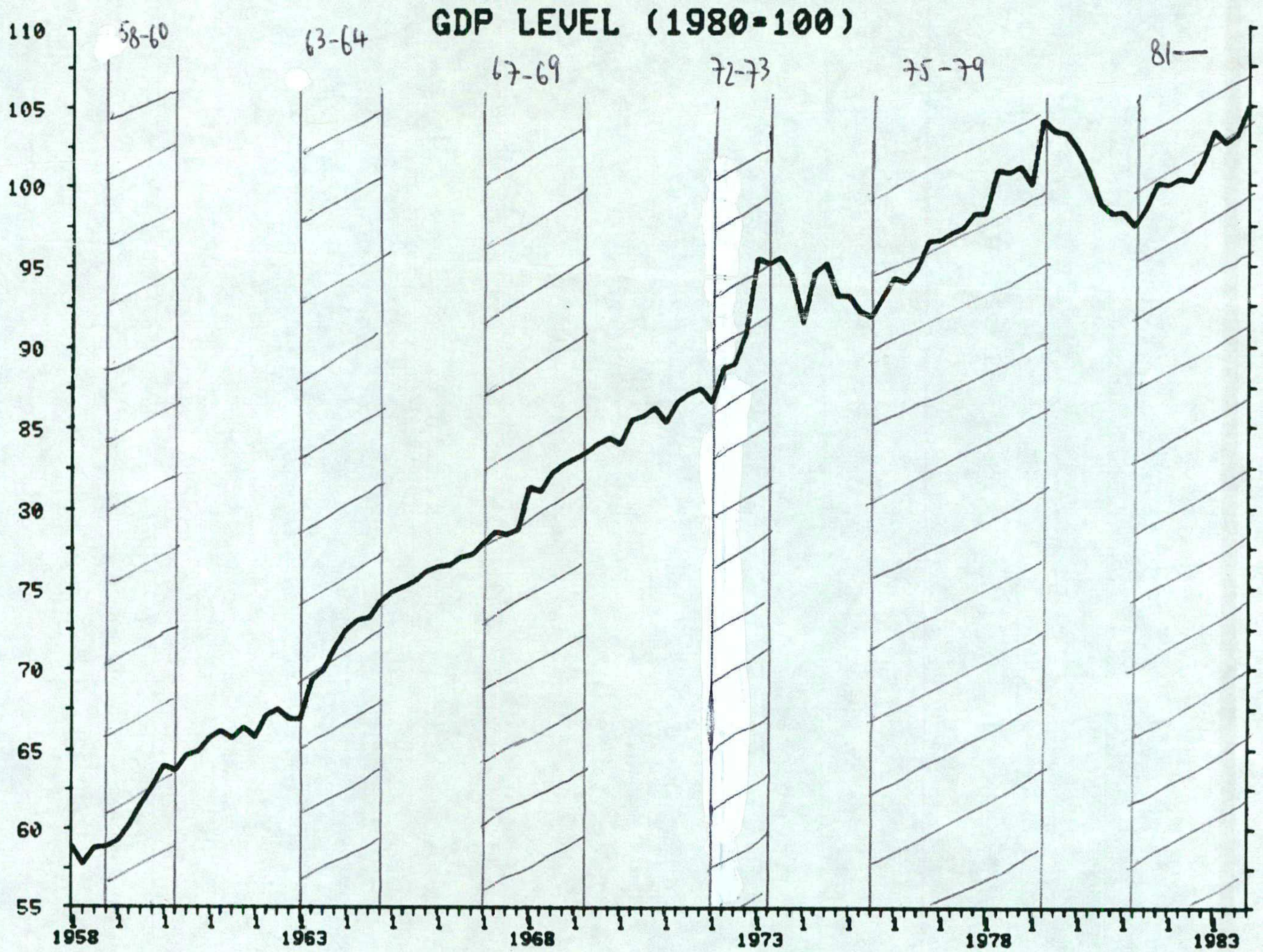
4. Finally, the diagram in Mr Peretz's note is, infact, not quite as nonsensical as it appears. The experience of cycles in the late 1950's and 1960s was for 'troughs' in activity to occur at levels of output higher than at previous peaks (this is clear from the attached chart). The 1974-75 and, of course, the 1979-81 recessions broke this pattern, with troughs well below previous peaks.

As we thought

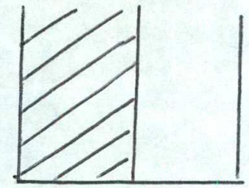
So the methodology shd be brought up to date ...
NLC

Yes
N

A Smith
A SMITH
EB



upswing down-
swing



AJ

MAAS for KJ

For Cabinet

FROM: GEOFF HORTON
DATE: 20 June, 1984

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Sedgwick
Mr Folger
Mr M A Hall
Mr Spencer
Mr A Smith

Mr Lord
Mr Ridley
Mr Portillo

Mr Kavanagh (CSO)

GDP FIGURES FOR THE FIRST QUARTER

The CSO will be publishing provisional estimates for all three measures of GDP tomorrow (Thursday 21 June at 2.30pm). A press notice is attached.

A preliminary estimate of the output measure (GDPO) in the first quarter was published last month. This has been revised slightly and now shows an increase of 0.2 per cent from the fourth quarter and of 3.1 per cent from the same period last year. The expenditure measure (GDPE) is estimated to have risen 0.3 per cent since the last quarter but the income measure has gone up 2.1 per cent.

This large spread of estimates produces a rise in the average measure of 0.9 per cent but the output measure, which rose only a little, is generally considered the best guide for quarter to quarter movements. The press notice draws attention to the fact that both average and output measures are about 3 per cent above their level a year ago.

The growth occurred in spite of the fact that all measures of GDP were depressed somewhat by the effect of the overtime ban and subsequent strike in the coal industry. The effect on GDP (O) in the first quarter is said ~~in the press notice~~ to be approaching half a per cent.

The figures are consistent with the budget forecast of 3 per cent growth in 1984. Expenditure, income and average measures are now substantially above their 1979 peaks but the output measure is still below its 1979 Q2 level

GDP Index 1980=100

	Output	Expenditure	Income	Average	% change in average on a year earlier
1979	103.3	102.4	102.1	102.6	2.4
1980	100	100	100	100	-2.6
1981	98.0	99.3	98.5	98.6	-1.4
1982	99.4	101.4	101.1	100.6	2.0
1983	102.2	104.9	104.5	103.9	3.3
1983 Q1	101.0	105.6	103.8	103.5	3.4
Q2	101.2	103.8	103.9	103.0	2.7
Q3	102.8	103.8	104.2	103.6	3.3
Q4	103.9	106.3	105.9	105.4	3.7
1984 Q1	104.1	106.6	108.0	106.3	2.8

Expenditure grew in spite of a fall in the largest item, consumption. Fixed investment showed a large rise after the substantial increase in the fourth quarter. The largest rise in incomes was in company profits.

Line to Take

(i) Figures consistent with continued growth of underlying GDP of 3 per cent a year

(ii) Recovery becoming more broadly based with rises in investment and exports.

G. R. Horton

G R HORTON

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AND
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21 June 1984

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GROSS DOMESTIC PRODUCT IN THE FIRST QUARTER OF 1984

The provisional estimates of gross domestic product (GDP) for the first quarter of 1984 show that economic activity has continued to improve. The average measure of GDP at constant factor cost in the first quarter was 2 3/4 per cent higher than a year earlier and 9 per cent above its trough in the second quarter of 1981. The output measure, usually the best indicator of short term movements, showed little change between the fourth quarter of 1983 and the first quarter of 1984 but was 3 per cent above the level of a year earlier.

The first quarter figures for all measures of GDP were depressed somewhat as a result of the reductions in coal output arising from the overtime ban and subsequent strike in the coal industry. The current underlying annual rate of growth of GDP (making broad allowances for erratic movements in the individual series) is estimated to be around 3 per cent per annum.

GDP at current market prices ("money GDP") increased by 6 1/2 per cent between the first quarters of 1983 and 1984. However, this increase is depressed because the figure for the first quarter of 1983 was inflated by the effect on incomes of back pay to health workers and that for the first quarter of 1984 was reduced as a result of the miners' dispute.

NATIONAL ACCOUNTS AGGREGATES

INDEX NUMBERS SEASONALLY ADJUSTED[1]

1980 = 100

		Gross domestic product							National disposable income at 1980 market prices	Implied index of total home costs	Implied market price GDP deflator
		At current market prices	At current factor cost		At constant factor cost 1980 prices						
		Average estimate	Based on expenditure data	Based on income data	Average estimate	Based on expenditure data	Based on income data[2]	Based on output data	Average estimate	Based on expenditure data	Average estimate
1978		72.9	74.9	74.1	100.2	100.7	99.6	100.4	98.5	74.3	73.0
1979		85.6	86.0	85.8	102.6	102.4	102.1	103.3	101.7	84.0	83.5
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		110.0+	109.5	108.6	98.6	99.3	98.5	98.1+	99.5	110.3	111.7
1982		120.5	119.0	118.7+	100.7+	101.4	101.1+	99.7	101.5+	117.4	119.8
1983		131.0	130.6+	130.1	103.9	104.9+	104.5	102.2	104.7	124.5	126.1
1978	1	69.3	71.6	70.5	98.2	98.9	97.4	98.4	95.6	72.4	70.6
	2	71.9	74.3	73.0	100.9	102.0	100.3	100.5	98.9	72.8	71.6
	3	74.2	75.8	75.6	100.7	100.6	100.3	101.3	99.1	75.4	73.8
	4	76.3	77.8	77.1	101.1	101.3	100.4	101.6	99.4+	76.8	75.8
1979	1	78.2	79.0	79.1	100.0	99.4	99.6	101.0	99.7	79.5	78.0
	2	83.9	85.2	84.3	104.0	104.1	103.0	104.8	102.8	81.8	80.5
	3	88.5	88.7	87.8	103.3	103.8	102.8	103.4	102.4	85.4	86.1
	4	92.0	91.3	91.8	103.2	102.5	103.1	103.9	102.1	89.0	89.3
1980	1	95.8	94.6	96.1	102.2	101.2	102.8	102.6+	101.8	93.5	93.6
	2	99.1	98.5	99.7	100.7	100.1	101.4	100.7	100.0	98.4	98.6
	3	101.1	101.9	100.7	98.8	99.3	98.1	99.0	98.9	102.6	102.5
	4	104.0	105.0	103.5	98.2	99.3	97.8	97.7	99.3	105.7	105.6
1981	1	105.9+	107.7	104.1	98.3	100.4	97.0	97.5	100.5	107.3	107.8+
	2	108.3	108.2	106.0	97.5	98.5	96.5	97.7	98.5	109.9	111.2
	3	111.4	109.7	110.2	98.5	98.2	98.8	98.5	99.0	111.6	113.1
	4	114.4	112.4	114.1	100.1	100.1	101.6	98.7	100.4	112.3	114.8
1982	1	116.6	113.9	114.1+	100.3+	100.9	101.0+	98.9	101.5	112.9+	116.4
	2	119.7	118.4	118.0	100.4	101.0+	100.7	99.6	100.5	117.2	119.3
	3	121.7	119.4	119.9	100.5	100.5	100.9	100.0	101.3	118.9	121.0
	4	124.3	124.2+	122.6	101.8	103.2	101.8	100.4	103.1	120.4	122.2
1983	1	128.1	128.7	126.5	103.5	105.6	103.8	101.0	104.7	121.9	124.0
	2	129.0	128.0	128.0	103.0	103.8	103.9	101.2	102.6	123.3	125.2
	3	132.0	130.8	131.3	103.6	103.8	104.2	102.8	105.2	126.0	127.3
	4	135.0	134.9	134.4	105.4	106.3	105.9	103.9	106.2	126.9	128.2
1984	1	136.5	136.0	137.8	106.3	106.6	108.0	104.1	106.6	127.5	128.8

1 These estimates are given to one decimal place but this does not imply that they can be regarded as accurate to the last digit shown.
2 Income data deflated by the index of total home costs.

The real income of the United Kingdom, as shown by gross national disposable income at constant prices, rose by 1 3/4 per cent in the year to the first quarter of 1984.

The increase compared with a year earlier in the implied index of total home costs ("the factor cost GDP deflator") was just over 4 1/2 per cent in the first quarter of 1984. This compares with an increase of nearly 4 per cent in the market price GDP deflator: the difference mainly reflects reductions in the national insurance surcharge, which is treated as a tax on expenditure in the national accounts and therefore only has an impact on market price assessments. Both of these indices were also inflated in the first quarter of 1983 by the health workers' back-pay.

Estimates of GDP at current and constant prices, of gross national disposable income at constant prices, of the implied index of total home costs and of the market price GDP deflator are given in index number form on page 2.

Expenditure at constant 1980 prices (Table B)

The expenditure measure of gross domestic product (GDP(E)) has moved somewhat unevenly in recent quarters, with in particular an erratically high figure occurring in the first quarter of 1983. Largely as a consequence of this, the increase in this measure in the year to the first quarter of 1984 was only 1 per cent. The increase between the fourth quarters of 1982 and 1983 was 3 per cent.

Consumers' expenditure fell by over 1 per cent in the first quarter of 1984 but was still 2 per cent higher than a year earlier. Further details are given below. Fixed investment grew by 10 per cent between the first quarters of 1983 and 1984 while general government final expenditure showed no change. There was some destocking in the first quarter of 1984, following the increase in stocks which occurred in 1983, mainly in the first quarter.

come at current prices (Table C)

Company profits have continued to improve quite strongly. In the first quarter of 1984, company gross trading profits are estimated to have been almost one quarter higher than a year earlier, much the same as the increase in the year 1983 as a whole. Income from employment grew by some 6 1/2 to 7 per cent between the first quarters of 1983 and 1984 whilst the gross trading surplus of public corporations showed no change: in both cases, the first quarter figures in 1984 have, as mentioned earlier, been depressed to some extent by the effects of the miners' dispute, whilst the income from employment figures in the first quarter of 1983 were also inflated by the health workers' back pay.

When deflated by the index of total home costs, the income measure of GDP increased by 4 per cent between the first quarters of 1983 and 1984. This measure has also moved somewhat unevenly in recent quarters: the increase in the year 1983 as a whole was some 3 to 3 1/2 per cent.

Output at constant 1980 prices (Table D)

The output measure of GDP was broadly unchanged between the fourth quarter of 1983 and the first quarter of 1984: in the first quarter it was 3 per cent higher than a year earlier. The level of output in the first quarter (and to a much lesser extent the preceding quarter) was affected by the reduction in coal output resulting from the miners' dispute; ~~the estimated effect was to reduce the quarter-on-quarter increase in GDP by approaching 1/2 per cent.~~

Output of the production industries was scarcely changed between the fourth and first quarters, reduced coal output offsetting increases elsewhere. Transport and communication output showed little change and distribution activity fell slightly from its buoyant fourth quarter level but there was a continuation of recent growth elsewhere within the service sector.

Consumers' expenditure (Tables E and F)

At constant 1980 prices, consumers' expenditure in the first quarter of 1984 was over 1 per cent below the level of the fourth quarter of 1983, but still 2 per cent above that of the first quarter of 1983.

The figures reflect the lower level of retail sales of all types of goods (food, household durables, etc) in the first quarter following the high levels of the fourth quarter. New vehicle registrations were also down. On the other hand energy consumption, low in the fourth quarter, increased sharply.

At current prices consumers' expenditure increased by 1/2 per cent between the fourth quarter of 1983 and the first quarter of 1984.

NOTES TO EDITORS

Although estimates of gross domestic product (GDP) based on expenditure, income and output should in principle give the same result, in practice (as shown by the table on page 2) the data may on occasions move differently. The output measure is usually the best indicator of short-term movements (that is, for periods up to around one year); for medium or longer-term comparisons, the average of the three measures is preferred.

In the interpretation of quarterly and annual national accounts estimates, special attention needs to be paid to the higher margins of error attached to series estimated at constant prices when the rate of inflation is changing significantly. This caution applies whether the rate of change is accelerating (as it was at times during the 1970s) or decelerating (as over the period 1980 to 1982).

More detailed estimates of national income and expenditure up to the first quarter, 1984 , will be published in an article in the July issue of Economic Trends. They will be based on later data than are available for this press notice and will incorporate the estimates of personal income and expenditure and of industrial and commercial companies' appropriation account which are scheduled for release on 28 June. The revised data can be obtained from the CSO Databank during July. The Databank is a collection of macro-economic time-series sold to the public in computer-readable form. The service is run on CSO's behalf by SIA Computer Services. Further details can be obtained from SIA Computer Services, Ebury Gate, 23 Lower Belgrave Street, London SW1W ONW, Telephone: 01-730 4544.

As usual the commentary in the press notice is based entirely on seasonally adjusted data, as shown in the attached tables. A † indicates that the data are new or have been revised. The period so marked is the earliest in the column to have been revised.

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT CURRENT PRICES

Seasonally adjusted

TABLE A — MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
1978		166 502	147 207	212 013	99 596	33 071	19 808	13 263	29 845	1 716	47 785	45 511	19 295
1979		194 474	169 165	249 015	118 503	38 407	23 007	15 400	34 816	2 126	55 163	54 541	25 309
1980		227 496	196 642	284 925	137 324	48 387	29 442	18 945	39 241	-3 236	63 209	57 429	30 854
1981		251 612	215 328	311 559	153 099	54 677	33 312	21 365	39 010	-3 075	67 848	59 947	36 284
1982		275 745†	233 996†	342 654†	168 390	59 871†	36 472†	23 399	42 381†	-1 155†	73 167	66 909	41 749†
1983		300 584	256 780	376 409	184 456	65 635	39 980	25 655†	45 889	776	79 653†	75 825†	43 804
1980	1	54 031	46 510	69 309	33 228	11 094	6 720	4 374	9 606	-594	15 975	15 278	7 521
	2	56 034	48 423	71 094	33 879	11 620	7 092	4 528	9 816	-101	15 880	15 060	7 611
	3	57 772	50 107	71 468	34 717	12 588	7 642	4 946	9 875	-1 312	15 600	13 696	7 665
	4	59 659	51 602	73 054	35 500	13 085	7 988	5 097	9 944	-1 229	15 754	13 395	8 057
1981	1	61 310	52 960	74 270	36 690	13 132	8 003	5 129	9 737	-1 192	15 903	12 960	8 350
	2	62 074	53 210	76 116	37 881	13 480	8 200	5 280	9 630	-1 330	16 455	14 042	8 864
	3	63 213	53 910	79 577	38 755	13 948	8 464	5 484	9 761	-355	17 468	16 364	9 303
	4	65 015	55 248	81 596	39 773	14 117	8 645	5 472	9 882	-198	18 022	16 581	9 767
1982	1	66 623†	56 009†	82 984†	40 334	14 485†	8 903†	5 582	10 443†	-206†	17 928	16 361	10 614†
	2	68 401	58 213	85 496	41 608	14 892	9 082	5 810	10 297	341	18 358	17 095	10 188
	3	69 208	58 721	85 785	42 559	15 050	9 168	5 882	10 791	-587	17 972	16 577	10 487
	4	71 513	61 053	88 389	43 889	15 444	9 319	6 125	10 850	-703	18 909	16 876	10 460
1983	1	74 134	63 273	92 344	44 559	16 371	10 034	6 337†	11 307	588	19 519†	18 210†	10 861
	2	73 891	62 925	92 640	45 671	16 303	9 848	6 455	11 065	36	19 565	18 749	10 966
	3	75 191	64 277	93 970	46 734	16 306	9 929	6 377	11 423	-53	19 560	18 779	10 914
	4	77 368	66 305	97 455	47 492	16 655	10 169	6 486	12 094	205	21 009	20 087	11 063
1984	1	77 868	66 841	98 657	47 715†	16 756	10 250	6 506	12 897	-509	21 798	20 789	11 027

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

Seasonally adjusted

TABLE B £ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
1978		228 270	198 000	282 537	131 485	46 728	28 184	18 544	41 210	2 090	61 024	54 267	30 270
1979		232 948	201 456	292 856	138 004	47 683	28 631	19 052	41 411	2 490	63 268	59 908	31 492
1980		227 496	196 642	284 925	137 324	48 387	29 442	18 945	39 241	-3 236	63 209	57 429	30 854
1981		225 285	195 246	280 747	137 559	48 250	29 623	18 627	35 661	-2 655	61 932	55 462	30 039
1982		230 289†	199 382†	287 853†	139 390	48 917†	29 836†	19 081	37 906†	-1 023†	62 663	57 564	30 907
1983		238 224	206 245	298 680	144 812	50 201	30 351	19 850†	39 833	672	63 162†	60 456†	31 979
1980	1	57 733	49 769	73 290	34 911	12 079	7 270	4 809	10 238	-501	16 563	15 557	7 964
	2	56 859	49 233	71 815	34 128	11 999	7 291	4 708	9 989	-135	15 834	14 956	7 626
	3	56 381	48 837	70 016	34 134	12 086	7 392	4 694	9 645	-1 201	15 352	13 635	7 544
	4	56 523	48 803	69 804	34 151	12 223	7 489	4 734	9 369	-1 399	15 460	13 281	7 720
1981	1	56 885	49 336	69 687	34 458	12 073	7 427	4 646	8 996	-1 010	15 170	12 802	7 549
	2	55 839	48 406	69 217	34 383	12 066	7 449	4 617	8 818	-1 329	15 279	13 378	7 433
	3	55 908	48 297	70 715	34 297	12 095	7 387	4 708	8 846	-182	15 659	14 807	7 611
	4	56 653	49 207	71 128	34 421	12 016	7 360	4 656	9 001	-134	15 824	14 475	7 446
1982	1	57 243†	49 593†	71 600†	34 263	12 135†	7 463†	4 672	9 443†	58†	15 701	14 357	7 650
	2	57 374	49 668	72 167	34 605	12 163	7 430	4 733	9 220	231	15 948	14 793	7 706
	3	57 162	49 397	71 349	34 949	12 174	7 436	4 738	9 600	-620	15 246	14 187	7 765
	4	58 510	50 724	72 737	35 573	12 445	7 507	4 938	9 643	-692	15 768	14 227	7 786
1983	1	59 806	51 923	74 492	35 505	12 624	7 590	5 034†	9 985	601	15 777†	14 686†	7 883
	2	59 028	51 051	73 969	36 095	12 571	7 570	5 001	9 686	-39	15 656	14 941	7 977
	3	59 066	51 016	74 075	36 527	12 460	7 569	4 891	9 826	-121	15 383	15 009	8 050
	4	60 324	52 255	76 144	36 685	12 546	7 622	4 924	10 336	231	16 346	15 820	8 069
1984	1	60 454	52 414	76 258	36 224†	12 617	7 628	4 989	10 977	-239	16 679	15 804	8 040†

FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT

Seasonally adjusted

TABLE C

£ MILLION

		GROSS NATIONAL PRODUCT		Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME -BASED)	Total domestic income	Income from employ-ment	Gross trading profits or surplus			Other income(2)	LESS Stock apprec-iation	Memorandum items		
		At market prices	At factor cost						Comp-anies(1)	Public corpor-ations	General government enterprises			Company profits net of stock app-reciation	Industrial & commercial companies trading profits(3) gross	net(4)
1978		167 163	147 868	661	245	146 962	151 185	98 437	23 322	5 391	205	23 830	4 223	19 946	25 093	21 717
1979		195 564	170 255	1 090	-1 029	170 194	178 933	114 765	29 982	5 582	190	28 414	8 739	22 787	31 277	24 082
1980		227 430†	196 576†	-66†	-1 810	198 452	205 026	135 902	30 188	6 129	189	32 618	6 574	24 995	32 392	27 199
1981		252 929	216 645	1 317	-195	215 523	221 388	146 765	30 899	7 700	154	35 870	5 865	26 354	35 510	30 965
1982		277 370	235 621	1 625	-1 516†	235 512†	239 402†	156 289†	34 559†	9 068	120	39 366†	3 890†	31 495†	39 175†	36 111†
1983		301 947	258 143	1 363	-1 309	258 089	262 371	167 190	43 029	9 735†	21†	42 396	4 282	39 477	48 029	44 477
1980	1	53 977†	46 456†	-54†	-1 172	47 682	50 458	32 192	8 836	1 627	41	7 762	2 776	6 580	9 187	6 931
	2	55 900	48 289	-134	-1 065	49 488	50 950	33 660	7 848	1 361	70	8 011	1 462	6 740	8 304	7 196
	3	57 777	50 112	5	162	49 945	51 392	34 721	6 807	1 498	36	8 330	1 447	5 657	7 414	6 264
	4	59 776	51 719	117	265	51 337	52 226	35 329	6 697	1 643	42	8 515	889	6 018	7 487	6 808
1981	1	61 576	53 226	266	1 318	51 642	52 889	35 683	6 811	1 656	48	8 691	1 247	5 854	7 794	6 837
	2	62 468	53 604	394	599	52 611	54 201	36 183	7 229	1 954	39	8 796	1 590	6 012	8 364	7 147
	3	63 535	54 232	322	-770	54 680	56 264	37 026	8 099	1 985	59	9 095	1 584	6 795	9 331	8 027
	4	65 350	55 583	335	-1 342	56 590	58 034	37 873	8 760	2 105	8	9 288	1 444	7 693	10 021	8 954
1982	1	66 726	56 112	103	-613†	56 622†	57 611†	38 493†	7 320†	2 229	41	9 528	989†	6 526†	8 544†	7 750†
	2	68 824	58 636	423	-350	58 563	59 339	38 933	8 390	2 215	50	9 751†	776	7 911	9 567	9 088
	3	69 670	59 183	462	-786	59 507	60 423	39 128	8 995	2 341	6	9 953	916	8 224	10 126	9 355
	4	72 150	61 690	637	233	60 820	62 029	39 735	9 854	2 283	23	10 134	1 209	8 834	10 938	9 918
1983	1	74 558	63 697	424	518	62 755	63 556	40 894	10 035	2 322†	-5	10 310	801	9 313	11 135	10 413
	2	73 870	62 904	-21	-580	63 505	64 524	41 412	10 045	2 628	-†	10 439	1 019	9 224	11 245	10 424
	3	75 776	64 862	585	-865	65 142	66 346	41 941	11 313	2 366	26	10 700	1 204	10 352	12 613	11 652
	4	77 743	66 680	375	-382	66 687	67 945	42 943	11 636	2 419	-	10 947	1 258	10 588	13 036	11 988
1984	1	78 137	67 110	269	-1 516	68 357	69 318	43 634	12 240	2 329	-18	11 133	961	11 400	13 640	12 800

(1) Including financial institutions.
(2) Income from rent, self employment and imputed charge for consumption of non-trading capital.
(3) Excluding financial companies and institutions. Their contribution to the gross national product is measured as the difference between bank charges, commissions, etc, on the one hand and the management expenses on the other, and is negative.
(4) Gross trading profits net of stock appreciation.

INDEX NUMBERS OF OUTPUT AT CONSTANT FACTOR COST

Seasonally adjusted

TABLE D

1980 = 100

		GROSS DOMESTIC PRODUCT	Agriculture forestry and fishing	Total production and construction	Production			Construction	Distribution hotels and catering; repairs	Transport and communication	Other
					Total	Energy and water supply	Manufacturing (revised definition)				
1980 Weights		1000	22	424	361	95	266	63	128	72	354
1978		100.4	91.1	103.4	103.1	85.0	109.6	105.0	105.4	97.1	96.4
1979		103.3	89.8	106.8	107.0	100.5	109.4	105.6	109.0	101.5	98.2
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		98.1†	103.1	95.4	96.3	103.8	93.6	89.9	98.0†	98.9	100.9†
1982		99.7	111.9	97.1	98.0	110.0	93.7	91.6	99.2	98.7†	102.5
1983		102.2	107.2†	100.1†	100.9†	116.0†	95.5†	95.3†	102.9	102.1	104.3
1980	1	102.6†	97	105.1	105.1	100.5	106.8	105.0	104†	103	99
	2	100.7	100	101.4	101.3	98.6	102.3	101.6	101	101	100
	3	99.0	101	98.2	97.8	98.8	97.4	100.5	98	99	100
	4	97.7	101	95.3	95.7	102.1	93.5	92.9	96	98	101†
1981	1	97.5	101	94.5	94.9	101.8	92.4	92.5	98	98	101
	2	97.7	102	94.6	95.5	103.5	92.6	89.6	98	98	101
	3	98.5	104	96.0	96.9	103.3	94.6	90.9	99	100	101
	4	98.7	106	96.4	98.0	106.8	94.9	86.8	97	100	101
1982	1	98.9	110	95.9	97.0	104.6	94.3	89.2	98	98	102
	2	99.6	113	97.1	98.3	110.0	94.1	90.1	98	99	102
	3	100.0	113	97.7	98.6	112.7	93.5	92.6	100	98	102
	4	100.4	112	97.6	98.2	112.9	92.9	94.3	100	100	103
1983	1	101.0	108	98.7†	99.6†	113.7	94.5†	93.6†	101	100	103
	2	101.2	106†	98.4	99.5	114.6	94.1	92.3	102	101	104
	3	102.8	107	101.0	101.6	116.8	96.2	97.6	104	103†	105
	4	103.9	108	102.2	103.0	118.9†	97.3	97.5	105	104	105
1984	1	104.1	111	102.1	103.1	118.0	97.7	96.6	104	104	106

CONSUMERS' EXPENDITURE AT CURRENT PRICES

Seasonally adjusted

TABLE E — £ MILLION

		Total consumers' expenditure	Durable goods: Total	Durable goods: Cars, motor cycles and other vehicles	Durable goods: Furniture and floor coverings	Durable goods: Other durable goods	Other goods: Food (household expenditure)	Other goods: Beer	Other goods: Other alcoholic drink	Other goods: Tobacco	Other goods: Clothing other than footwear	Other goods: Footwear	Other goods: Energy products	Other goods: Other goods	Services: Rent, rates and water charges	Services: Other services (1)
1978		99 596	9 762	4 489	2 556	2 717	17 927	4 182	3 280	3 885	6 393	1 343	7 210	10 482	11 334	23 798
1979		118 503	12 677	6 180	3 194	3 303	20 364	4 839	4 009	4 233	7 454	1 613	8 819	12 420	13 364	28 711
1980		137 324	13 019	6 120	3 357	3 542	22 873	5 655	4 486	4 822	7 983	1 750	10 957	14 220	16 040	35 519
1981		153 099	13 820	6 436	3 555	3 829	24 170	6 378	4 992	5 515	8 328	1 798	13 367	15 294	19 406	40 031
1982		168 390	15 511	7 136	3 972	4 403	25 564	7 039	5 314	5 882	8 820	1 944	14 954	16 507	22 558	44 297
1983		184 456	18 801	9 234	4 555	5 012	27 072	7 861	5 891	6 199	9 874	2 155	16 212	17 853	23 955	48 583
1980	1	33 228	3 490	1 774	847	869	5 618	1 370	1 103	1 155	1 960	439	2 557	3 456	3 733	8 347
	2	33 879	3 208	1 498	840	870	5 717	1 405	1 078	1 220	1 988	437	2 608	3 523	3 908	8 787
	3	34 717	3 196	1 467	846	883	5 758	1 368	1 132	1 227	2 016	434	2 841	3 570	4 102	9 073
	4	35 500	3 125	1 381	824	920	5 780	1 512	1 173	1 220	2 019	440	2 951	3 671	4 297	9 312
1981	1	36 690	3 349	1 505	900	944	5 878	1 540	1 203	1 286	2 056	444	3 043	3 738	4 543	9 610
	2	37 881	3 507	1 670	889	948	5 917	1 567	1 241	1 368	2 050	444	3 292	3 788	4 737	9 970
	3	38 755	3 481	1 652	880	949	6 127	1 613	1 271	1 407	2 070	449	3 425	3 858	4 952	10 102
	4	39 773	3 483	1 609	886	988	6 248	1 658	1 277	1 454	2 152	461	3 607	3 910	5 174	10 349
1982	1	40 334	3 488	1 542	928	1 018	6 247	1 703	1 268	1 497	2 135	472	3 495	3 998	5 401	10 630
	2	41 608	3 682	1 672	965	1 045	6 514	1 752	1 313	1 420	2 163	476	3 687	4 077	5 570	10 954
	3	42 559	3 979	1 839	1 009	1 131	6 303	1 778	1 321	1 443	2 216	489	3 841	4 179	5 731	11 279
	4	43 889	4 362	2 083	1 070	1 209	6 500	1 806	1 412	1 522	2 306	507	3 931	4 253	5 856	11 434
1983	1	44 559	4 412	2 135	1 078	1 199	6 511	1 862	1 398	1 594	2 324	498	3 960	4 324	5 903	11 773
	2	45 671	4 527	2 138	1 156	1 233	6 663	1 908	1 474	1 509	2 454	546	4 190	4 438	5 942	12 020
	3	46 734	4 853	2 493	1 127	1 233	6 811	2 075	1 479	1 511	2 507	550	4 041	4 506	6 026	12 375
	4	47 492	5 009	2 468	1 194	1 347	7 087	2 016	1 540	1 585	2 589	561	4 021	4 585	6 084	12 415
1984	1	47 715†	4 629†	2 212†	1 171†	1 246†	6 946†	2 043†	1 504†	1 692†	2 476†	528†	4 293†	4 564†	6 206†	12 834†

(1) Including the adjustments for international travel, etc. and final expenditure by private non-profit-making bodies.

CONSUMERS' EXPENDITURE AT 1980 PRICES

Seasonally adjusted

TABLE F — £ MILLION

			Durable goods				Other goods								Services	
		Total consumers' expenditure	Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)
1978		131 485	12 109	5 736	3 253	3 120	22 501	5 840	4 276	4 982	7 484	1 729	10 759	14 424	15 512	31 869
1979		138 004	13 930	6 763	3 616	3 551	22 893	5 897	4 660	4 960	8 040	1 838	11 114	14 824	15 787	34 061
1980		137 324	13 019	6 120	3 357	3 542	22 873	5 655	4 486	4 822	7 983	1 750	10 957	14 220	16 040	35 519
1981		137 559	13 415	6 296	3 394	3 725	22 676	5 345	4 450	4 470	8 258	1 781	10 992	14 182	16 263	35 727
1982		139 390	14 483	6 580	3 678	4 225	22 570	5 285	4 355	4 128	8 645	1 936	11 038	14 323	16 531	36 096
1983		144 812	16 875	7 959	4 088	4 828	22 772	5 443	4 565	4 080	9 476	2 126	11 129	14 569	16 781	36 996
1980	1	34 911	3 530	1 774	869	887	5 843	1 461	1 171	1 204	2 002	456	2 781	3 639	3 990	8 834
	2	34 128	3 214	1 501	842	871	5 746	1 425	1 082	1 218	1 979	442	2 641	3 560	4 003	8 818
	3	34 134	3 169	1 447	841	881	5 668	1 356	1 114	1 216	1 998	426	2 749	3 507	4 016	8 915
	4	34 151	3 106	1 398	805	903	5 616	1 413	1 119	1 184	2 004	426	2 786	3 514	4 031	8 952
1981	1	34 458	3 309	1 515	870	924	5 697	1 374	1 132	1 185	2 055	437	2 735	3 544	4 045	8 945
	2	34 383	3 428	1 656	850	922	5 629	1 322	1 106	1 105	2 046	438	2 747	3 544	4 060	8 958
	3	34 297	3 352	1 589	839	924	5 676	1 336	1 112	1 103	2 052	447	2 705	3 546	4 073	8 895
	4	34 421	3 326	1 536	835	955	5 674	1 313	1 100	1 077	2 105	459	2 805	3 548	4 085	8 929
1982	1	34 263	3 273	1 419	872	982	5 568	1 323	1 079	1 075	2 110	473	2 748	3 555	4 107	8 952
	2	34 605	3 437	1 543	892	1 002	5 733	1 334	1 075	1 011	2 126	475	2 751	3 567	4 127	8 969
	3	34 949	3 698	1 674	935	1 089	5 570	1 328	1 062	1 011	2 173	487	2 775	3 603	4 139	9 103
	4	35 573	4 075	1 944	979	1 152	5 699	1 300	1 139	1 031	2 236	501	2 764	3 598	4 158	9 072
1983	1	35 505	4 052	1 912	983	1 157	5 595	1 323	1 110	1 048	2 253	492	2 759	3 610	4 173	9 090
	2	36 095	4 079	1 861	1 035	1 183	5 716	1 338	1 140	1 004	2 374	536	2 876	3 630	4 188	9 214
	3	36 527	4 308	2 109	1 013	1 186	5 652	1 437	1 133	1 003	2 404	544	2 766	3 645	4 206	9 429
	4	36 685	4 436	2 077	1 057	1 302	5 809	1 345	1 182	1 025	2 445	554	2 728	3 684	4 214	9 263
1984	1	36 224†	4 063†	1 833†	1 019†	1 211†	5 615†	1 363†	1 138†	1 050†	2 426†	521†	2 870†	3 632†	4 229†	9 317†

(1) Including the adjustments for international travel, etc. and final expenditure by private non-profit-making bodies.

CONFIDENTIAL

FROM: D L C PERETZ
DATE: 22 JUNE 1984

Mr Smith

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Culpin
Mr Folger
Mr Shields
Mr Horton
Mr Lord
Mr Portillo
Mr Ridley
Mr Lomas - CSO
HE/13

CYCLICAL PEAKS

The Chancellor was grateful for your further note of 18 June.

2. The explanation in the fourth paragraph is rather as he thought, and suggests - he thinks - that the CSO methodology should now be brought up to date to take account of the pattern of the two most recent cycles.

DLP

D L C Peretz

M- A Smith   [illegible]

D13/4

- You may wish to appraise the Chancellor of this misconception EJL

MR PERETZ - Treasury

cc Sir Peter Middleton)
Sir Terence Burns)
Mr Battishill)
Mr Evans)
Mr Odling-Smee)
Mr Culpin) Treasury
Mr Folger)
Mr Shields)
Mr Horton)
Mr Lord)
Mr Ridley)
Mr A Smith)

CYCLICAL PEAKS

Thank you for sending me a copy of your minute to Mr Smith of 22 June. I am afraid that it reveals a misconception about the CSO cyclical indicators methodology, which is not dependent on the pattern of cycles in the way suggested.

The methodology adapts automatically to cycles with differing underlying growth rates. Although in the last two cycles the level of activity fell between the peak and the following trough, the methodology took account of this and could cope perfectly well with a resumption of the previous pattern in which no falls were recorded over the downswing phases. The cyclical indicators describe movements in economic time series relative to their long-term trends. It is an essential feature of the methodology that they can and do adapt to changes in long-term trend.

I realise that it is difficult for the non-specialist to grasp the full meaning and implications of economic cycles and in particular the statistical methods CSO employ to identify them. If you feel that further explanation would be useful, or perhaps some illustrative examples, we should be happy to supply them.

E J Lomas

E J LOMAS

Central Statistical Office
27 June 1984

BTW

CONFIDENTIAL
until
18 July

Thanks

FROM: D W OWEN
DATE: 29 JUNE 1984

1. ~~MR~~ EVANS
2. CHANCELLOR OF THE EXCHEQUER

Although these figures are not being published for some time, you may like to be aware of the findings: they provide much firmer backing, though only to mid 1983, for estimates of employment and employed labour force.

HPE
2/7

cc. Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Battishill
Mr Culpin
Mr Folger
Mr Shields o/r
Mr Ridley
Mr Lord
Mr Portillo
Mr Smith

OWEN
→ EVANS
29/6

EMPLOYED LABOUR FORCE: REVISED ESTIMATES BASED ON RESULTS OF 1983 LABOUR FORCE SURVEY

Revised estimates of the employed labour force are due to be published at 11.30 am on 18 July.

2. These revisions will affect the series for self employment, employees in employment (in service industries and in manufacturing) and so the employed labour force over the period since mid 1981. The main effects of the revisions, which are not large, are summarised in the attached table. The employed labour force is now estimated to have risen by about 220 thousand between March and December 1983 compared with an increase of 190 thousand on previous estimates.

3. The revisions to the employment series are based on the results of the June 1983 Labour Force Survey (LFS). A comparison of these results with the results of the June 1981 LFS provides a more reliable estimate of employment in June 1983 than the old 'supplementary' estimate, which was based on quarterly sample enquiries but included a 'supplementary addition' to allow for underestimation in the basic series. The supplementary addition - worth 40 thousand per quarter

for employees and 25 thousand per quarter for self employment - was based on the rate of undercounting which occurred between 1979 and 1981. The 1983 LFS results provide the first opportunity to revise these estimates of the supplementary addition.

4. The LFS results suggest that the employed labour force in June 1983 was about 70 thousand higher than the supplementary estimate - the number of employees in employment was 130 thousand higher (with upward revisions for both manufacturing and service sectors), while the number of self employed was 60 thousand lower. The results confirm that the supplementary estimates provided a much more accurate indication of employment movements than did the basic series. The revised estimates of the supplementary addition, derived from these results, are 58 thousand per quarter for employees and 17 thousand per quarter for self employment. Estimates of the employed labour force since June 1983 will now include these revised (and, overall, larger) additions.

5. In future a single series for employment will be published: the basic series will no longer appear. The estimates of employment since June 1983 will be reviewed again when the 1984 LFS results become available in the first half of next year.

David Owen

D W OWEN
EA1

BTW

CONFIDENTIAL

Employed Labour Force in Great Britain

thousand, seasonally adjusted

	Present supplementary series	Revised series
June 1981	23750	23750
September 1981	23650	23643
December 1981	23527	23531
March 1982	23500	23515
June 1982	23398	23425
September 1982	23257	23294
December 1982	23184	23233
March 1983	23139	23199
June 1983	23167	23238
September 1983	23221	23304
December 1983	23327	23421
Change:		
June 1981- March 1983	-611	-551
March 1983- Dec 1983	+188	+222

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G
Greenwell's post-mortem on pp 6 et seq.

GREENWELL JULY BULLETIN

Monetary Bulletin

No 161

July 1984

Introduction

During the last nine months we have been relatively relaxed about the behaviour of the monetary aggregates. In the light of the latest data this position must obviously be thoroughly scrutinised; this is done in some detail below but it may be helpful to begin with a broad summary.

The most striking feature of the monetary statistics at present is the marked acceleration in all of the broader aggregates. The growth of PSL2 has been high for some time but its six month rate of growth has continued to rise since the turn of the year. PSL1 and, now, sterling M3 are also growing at rates clearly greater than the target range.

The picture is rather different for the narrower aggregates. Mo remains well within its target range. Currency, on a properly calculated basis, is not too different. The growth of retail M1 looks to be slowing down after a temporary acceleration in March and April, while M2 is trending very slowly upwards in a way that is consistent with reasonable economic growth.

There is, therefore, a striking contrast between the behaviour of the two sets of monetary aggregates. With inflation relatively low and stable and with real interest rates at the height they are now, it is obviously true that a growing portion of genuine savings are being held in the form of interest-bearing money, e.g. with building societies and in bank deposit accounts. It is also true that such savings can subsequently be spent, thereby raising inflationary pressures, but there are no signs yet of a strong spending boom. If anything, retail sales seem to be losing their momentum, and the rise in interest rates must make a further slowdown more probable.

Monetary Growth in the Month to Mid-June

The seasonally adjusted data for the five weeks to 20th June were as follows:-

	£m.	p.a.
Mo	144	13%
Currency	118	12%
Retail M1	279	10%
M1	853	22%
Sterling M3	2,064	24%
PSL1	2,589	29%
PSL2	3,874	27%
Bank lending in sterling to private sector	1,549	17%

The longer-term picture of monetary growth at mid-June becomes:

% p.a.		3 months	4 months**	6 months	1 year
Narrow money:	Mo	6	7	5	5
	Currency	10	9	5	5
	Retail M1	13	15	9	9
	M1	23	27	20	14
	M2	n.a.	n.a.	n.a.	11*
Broad money:	Sterling M3	14	15	11	9
	PSL1	16	17	12	10
	PSL2	19	20	17	13

* 8% after allowing for reclassification of building society deposits
** Target period so far

The growth of Mo continues to be reassuringly in the middle of its 4-8% p.a. target range. We estimate that it will have risen by less than ½% in banking July, bringing its three, six and twelve month growth rates to 7½% p.a., 5½% p.a., and 6% respectively.

Currency has grown at a similar rate to Mo over the last six and twelve months, but has been more buoyant over the last three. About half of this more rapid growth arises from the fact that the currency series is based on a single, relatively volatile mid-month calculation rather than on an average of weekly data within a banking month. The latter basis produces a three month growth rate for currency of 8% pa.

The growth rate of retail M1 was again not very high in the month to mid-June. As we pointed out last month, the growth of retail M1 in real terms was lower after mid-1983 than would have been expected given the trend in interest rates; its acceleration in March and April is no cause for alarm if all that was happening was a return of retail M1 to a normal relationship with interest rates. The last two months' figures suggest that this might be happening. Further, the recent rise in interest rates should cause retail M1 to decelerate sharply, starting in the banking month to mid-August.

As the Chancellor stated in his Financial Statement last March "the increasing share of interest bearing deposits within the total has complicated interpretation and made M1 an increasingly inadequate measure of transactions balances". The reclassification of certain deposits late last summer is still boosting the twelve month growth rate of M1 but not the three and six month rates. More recently, however, M1 has been increased by the introduction of high interest checking accounts by Midland and Barclays. Even after making allowance for these accounts, we estimate that M1's three, four and six month growth rates remain high at about 19% pa, 23% pa and 17%pa respectively.

M2 will no doubt become the authorities' preferred indicator of narrow money but, as a seasonally adjusted series is not yet available, only its annual growth rate is relevant. After adjusting for the reclassification of certain building society deposits, its annual growth rate continues at a very reasonable 8.3%.

The very rapid growth in sterling M3 in the month to mid-June reflects an above average PSBR (at twice the rate of the Budget forecast for the year) coinciding with high bank lending, low sales of gilt-edged stock and unfavourable external finance and non-deposit liabilities. This extreme combination of every counterpart is exceptional. Turning to future growth, it should be noted that the recent rise in interest rates has altered the structure of rates. In particular, banks' deposit rates have risen relative to building society share rates. This should encourage a faster growth of bank deposits and, therefore, of sterling M3. To the extent this merely reflects a change in the form which people hold their savings, this rise in sterling M3 would not be especially worrying.

PSL1 & PSL2 are growing even more rapidly than sterling M3. The growth of PSL1 has been boosted by non-bank holdings of eligible bills having risen by more than £1bn in the four months to mid-June. The rapid growth of PSL2 reflects a 22% p.a. increase in its building society component over the same four months.

Counterparts to Monetary Growth

Sterling M3 was also giving cause for concern a year ago. An obvious approach is to compare this year's overshoot with that of last year, which is done in Table I.

TABLE I
Counterparts to Monetary Growth

£bn	4 months to June '83	4 months to Oct '83	4 months to Feb '84	4 months to June '84
PSBR*	4.9	4.1	3.1	4.0
less CG Debt sales	-2.4	-5.5	-4.3	-3.3
Bank Lending	3.3	4.8	4.9	5.5
External Finance and banks' non-deposit liabilities	-1.3	-1.3	-1.8	-1.6
Sterling M3	4.5	2.2	1.9	4.6
Deviation of sterling M3 from:				
mid-point of target range	+1.8	-0.5	-0.8	+2.0
top of target range	+1.2	-1.1	-1.4	+1.3

* plus purchase of local authority & public corporation debt from non-bank private sector.

Remembering the mini-Budget last July, the surprising factor about the above table is that the most important cause of excessive monetary growth last June was very low debt sales rather than an especially high PSBR. The main cause this year is high bank lending. We discuss the PSBR and bank lending in turn.

The Profile of the PSBR

Ever since the Budget, the profile of the PSBR has been expected to be skewed this year. On a seasonally adjusted basis, the borrowing requirement is expected to be more than £2bn greater in the first half than in the second half of the year.

This is mainly because the tax changes and the asset sales announced in the Budget will have a very uneven impact. Additional VAT receipts, proceeds from asset sales and EEC rebates will be heavily concentrated in the second half of the year. Table II shows the impact of the Budget changes on the PSBR's expected profile.

TABLE II

Influences on PSBR Profile in 1984/5

£m	First Half	Second Half
EEC rebate	-400	-650
Asset sales	-600	-1,300
Extra VAT	-50	-1,500
End of N.I.S.	-	+350
	-1,050	-3,100

It should be noted that on a non-seasonally adjusted basis almost the whole of the PSBR is expected to occur in the first half of the year, £6¾bn compared with £½bn. The published figure of £4.7bn (£3.4bn seasonally adjusted) for the first quarter of the fiscal year is quite consistent with this estimate.

The miners' dispute is likely to have a further impact on the PSBR profile, as well as putting the total under some pressure if it is not settled fairly soon. Our estimate of the weekly rate of loss for the NCB and the rest of the public sector is shown in Table III.

TABLE III
Weekly Accounting Losses

			£m
NCB:	reduced revenue from lower sales	65	
	reduced expenditure	-35	
			30
CEGB:	increased expenditure on oil	43	
	reduced expenditure on coal	-26	
			17
British Rail			4
British Steel			4
Police			4
Income tax lost and benefits paid			7
			66

The impact of the dispute on the PSBR will be different from the accounting losses shown above because it will lead to a fall in the NCB's stocks of coal and the CEGB's stocks of coal and oil, which will release finance. The NCB's coal stocks were virtually unchanged in April but the CEGB's coal and oil stocks fell by £130m and £50m respectively. Data for May and June have not yet been published but reductions in stocks are likely to be lower because the CEGB increased its purchases of fuel oil and because the seasonal reduction in the demand for electricity enabled coal stocks to be conserved.

Allowing for the finance released by the fall in stocks, our estimates of the effect of the miners' dispute on the PSBR during April, May and June are £115m, £240m and £200m respectively. If the dispute were to end by the beginning of August, which does not now look likely, there would be a PSBR increase of some £230m in July. The rebuilding of coal stocks by the NCB and CEGB and the continuation, for a few months, of a higher than normal oil burn by the CEGB would continue to raise the PSBR in subsequent months. These additional effects could amount to some £300m, of which £100m would increase the 1985/6 PSBR.

On the assumption that the miners' dispute ends within a month, its total impact on the PSBR this fiscal year will be less than £1,000m, as compared with a contingency reserve of £2¾bn for the year as a whole.

There are further identified claims on the contingency reserve. First, public sector pay increases are running above the 3% assumption made in the Public Expenditure White Paper. The outcome is likely to be an overrun of about 1½% which would increase expenditure for 1984/5 by £550m, before any offsetting manpower reductions. The increase in the PSBR will be lower at £325m, as almost 40% of the extra wage costs will be offset by higher receipts of income tax and national insurance contributions.

Secondly, unemployment is continuing to rise slowly, compared with the Budget assumption of an unchanged level. Social security costs are likely to be £200m higher than planned.

There is one important factor which will reduce the PSBR this year. According to the Budget estimates, receipts of petroleum revenue tax (PRT) and oil royalties will be £8bn in 1984/5. As receipts in a fiscal year are determined by production in a calendar year, information for half of the current year is already available. Not only has the volume of oil production risen by 13% in the first half but the sterling oil price has also risen with the fall in the sterling/dollar exchange rate. The Budget assumed that "oil prices do not change much from current levels". At that time sterling was above $1.46. In the first half of the year it averaged $1.41. If the average is, say, $1.33 in the second half, and dollar oil prices are maintained, the sterling oil price will be 6% above the Budget assumption. If these assumptions are correct, receipts from PRT and oil royalties will exceed the Budget estimate by some £500m.

All these factors suggest that the PSBR will be close to the Budget forecast of £7¼bn. The PSBR is, however, likely to be under real pressure if the miners' dispute extends very far into the autumn.

Bank Lending

As Table I shows, high bank lending is an important factor behind the rapid monetary growth in the last four months. Indeed, compared with the same period a year ago, bank lending is more than £2bn higher. A full breakdown is not available but partial data clearly indicate that lending to persons is no higher than a year ago (group data for the London Clearing Banks show that lending to persons was about £1.2bn in the four months to mid-June, some £50m lower than last year). The increase of £2bn, therefore, arises from lending to companies and unincorporated businesses.

The quarterly analysis of bank lending to mid-May confirms that the lending is to companies rather than persons. Further, it is widespread across different industries rather than confined to merely a few.

The other source of information is data for industrial and commercial companies' net borrowing in the first calendar quarter, which have recently been published. In spite of a record financial surplus of £3.6bn, bank lending was still high at £2.6bn. This was not because of a strong build-up of liquid assets, which at only £1.1bn were less than a third of the previous quarter's increase. Rather, there was a record level of "unidentified" items, at £5.2bn. These include errors and omissions as well as trade credit and unrecorded transactions, e.g. foreign currency flows and changes in leads and lags of trade. The first quarter accounts, therefore, suggest that corporate bank borrowing in the four months to mid-June may reflect lower remittances to the UK and more rapid transfers abroad, presumably responding to the continued rise in the US dollar.

A Post-mortem

Before coming to overall conclusions, there are some important lessons to be learned from a post-mortem into the recent rise in short term interest rates. To begin with, we focus on the contrast between three firmly held impressions and reality.

Impressions

First, it is very widely believed that sterling has been weak since March. Confidence in the foreign exchange market is determined to a very large extent by sterling's exchange rate against the US dollar, because the US dollar is involved in the majority of sterling's foreign exchange transactions. Almost invariably, the press concentrates on the sterling/dollar exchange rate. Throughout the period since March there have been continual headlines of sterling falling to new all-time lows.

Secondly, most participants in the money and gilt-edged markets believe that sterling weakness is the single most important cause of increases in short term interest rates. They do so because they have observed that there has nearly always been a foreign exchange explanation when the Bank of England has altered its dealing rates in the bill market or, in the old days, when it altered MLR.

Thirdly, many officials believe that the authorities have to accede to market pressure when expectations of an increase in interest rates become really engrained.

Reality

Reality was certainly different from the first of the above impressions. If the behaviour of the US dollar is excluded, sterling was not weak during April, May and June. The Bank's index of sterling's "effective exchange rate" measures sterling against a basket of currencies weighted according to their importance in our overseas trade. It is possible to calculate an index leaving out the US dollar. Chart I, at the top of page 7, shows that this index actually rose by some $1\frac{1}{2}$% between 30th March and 25th June. During the same period, the dollar's own effective exchange rate rose by no less than $6\frac{1}{4}$%, as shown in Chart II, at the bottom of page 7. The sterling/US dollar exchange rate fell because sterling rose by substantially less than the US dollar. Despite the newspaper headlines, sterling was not weak before 26th June - the US dollar was strong.

On 26th June the Bank, in a most unusual statement, claimed that "there is no need on monetary policy grounds for any general increase in the level of domestic interest rates". On the 28th June, the West German discount rate was raised from 4% to $4\frac{1}{2}$%. An interpretation of these events was that Germany was following the rise in US interest rates but the UK was not. Sterling's weakness became general. Between 25th June and 10th July its effective rate, excluding the US dollar, fell by some $2\frac{1}{2}$%. The first report of substantial selling occurred on the afternoon of Thursday 5th July and this continued into the morning of Friday 6th July. The Bank reacted at once; base rates rose by $\frac{3}{4}$% at midday on the Friday and the Bank's dealing rates in the bill market were raised by 1%. The crisis, such as it was, broke extremely quickly.

Sterling continued to be weak in spite of this rise in interest rates. The provisional data for the money supply for the month to mid-June, which were published on Tuesday 10th July, were poor and base rates rose by another 2% on Wednesday 11th July. Sterling's effective rate, excluding the US dollar, has subsequently recovered over three-quarters its post-25th June losses.

Chart I — Sterling's Non-U.S. Effective Rate

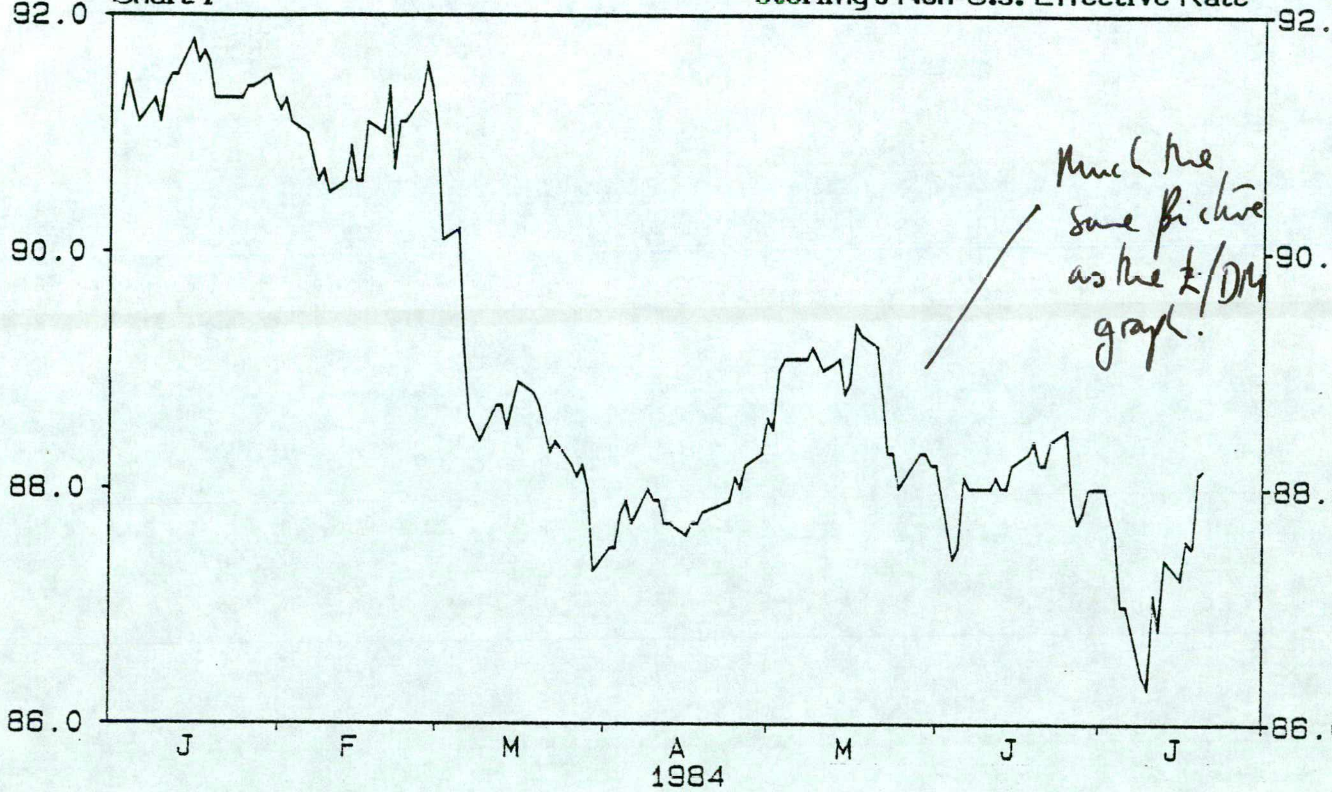
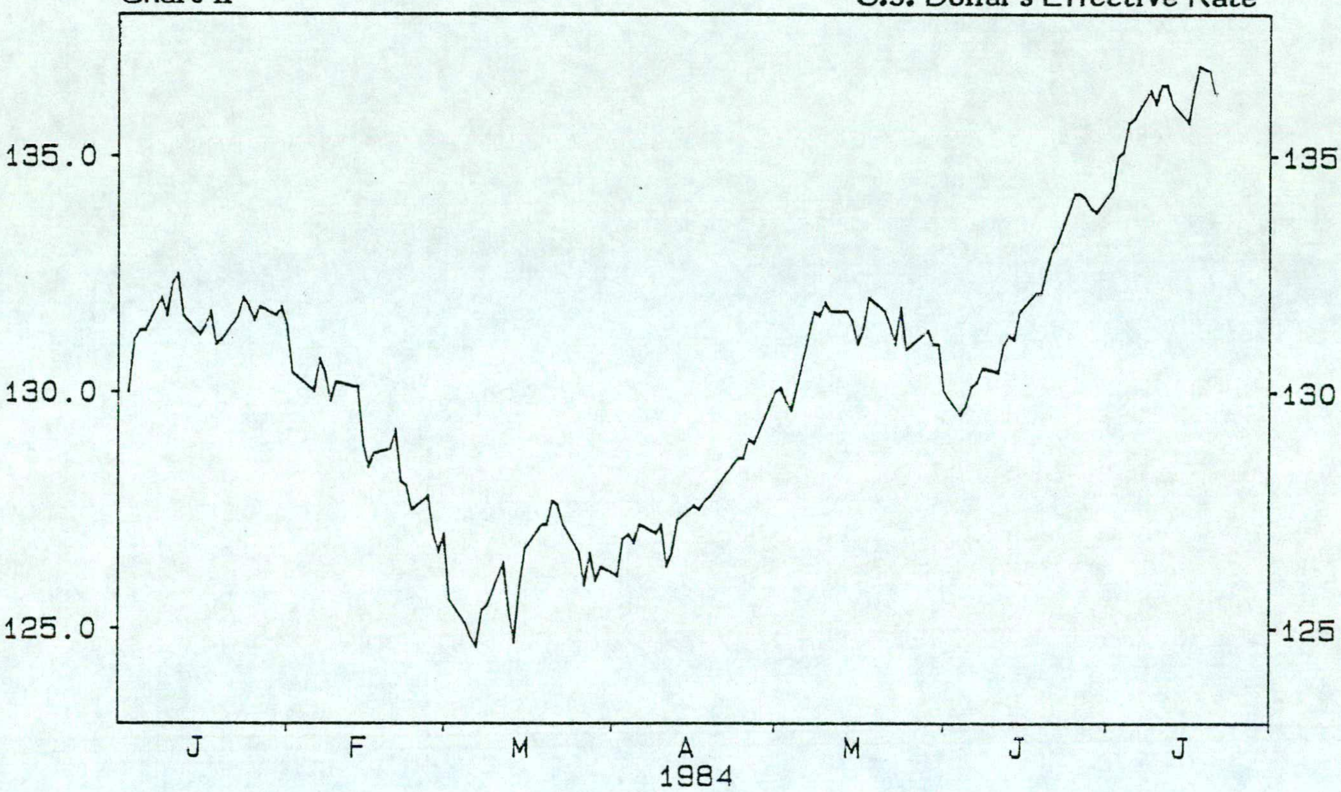


Chart II — U.S. Dollar's Effective Rate



Turning now to the belief that the behaviour of sterling is the dominant cause of changes in short term interest rates, the authorities continue to claim that they are following a domestic money supply policy and have no target for the exchange rate. The Chancellor has explained the policy on two recent occasions, in his Mansion House Speech last October and in his Mais Lecture in June.

The message has not yet got through. This is not because market participants are simple-minded or do not want to understand. Experience has taught the market to ignore what the authorities say and to pay attention to what they do. The simple fact is that the authorities react to foreign exchange pressure and concede to persistent market expectations of a change in interest rates that are based on sterling's behaviour.

The policy which the authorities are trying to follow is quite subtle. The monthly data for the money supply are volatile. When the data are published, it is often far from clear whether a deviation which appears in the monetary aggregates is a random fluctuation or the start of a trend, and the authorities are right to pay attention to all available information. The behaviour of sterling is an important confirming indicator. Put simply, if sterling's behaviour confirms the latest deviation in the money supply, the authorities tend to act quickly. If it does not, they tend to delay.

There is no doubt that the behaviour of sterling has been a most important factor determining the timing of increases in short term interest rates. Many market participants fail to distinguish between the trigger for a change and the underlying reason for it. The distinction should be important on those occasions when sterling and the money supply persist in giving opposite signals, as they did, for example, during February and March 1983 when sterling was weak but the money supply was under control. Such periods are unusual because domestic monetary pressures have an important influence (although with a lag) on the short term capital account (and balancing item) of the balance of payments and, therefore, on sterling. If such a period of divergence occurs, non-monetary reasons for sterling's behaviour (eg the current miners' and dockers' strikes) should be assessed and the data for the money supply should be examined to make quite certain that they have been correctly interpreted. If the inconsistency persists, history in the UK shows that it has been right to focus policy on the behaviour of the money supply and adopt a foreign exchange policy of benign neglect. March 1983 was an excellent example.

We now consider the third impression, the belief on the part of many officials that the authorities have to accede to engrained market expectations of a change in interest rates. The true position is as follows:

(i) The authorities cannot control the term structure of money rates, eg they cannot peg the seven day rate and the three month rate at levels at which the difference between them is contrary to market expectations of a change in their levels.

(ii) The authorities cannot for long distort interest rate relatives, in particular they cannot hold down bank base rates relative to LIBOR.

(iii) The authorities definitely have the ability to peg the level of one particular money rate, eg either the seven day rate or the three month rate but not both.

If the authorities were to attempt either of the first two courses of action, arbitrage transactions would soon become overwhelming. The situation on 26th June, when the Bank issued its statement on interest rates, was quite a good example. The term structure of money rates was wrong. The Bank had been dealing in seven day and three month bills at the same yield, which was not in accordance with market expectations. The statement was issued to reassure the market about the general level of rates when the Bank changed the term structure.

The authorities should definitely be able, however, to peg any one particular money rate, because arbitrage transactions will cancel out. Some officials argue there would be a huge demand for cheap funds from the Bank if the authorities were to peg, say, the seven day rate when there were engrained expectations that it would rise. This argument is fallacious; people would not borrow for seven days and invest for, say, three months if the gradient of the yield curve were allowed to reflect expectations accurately.

There is no doubt that officials who argue that the authorities must react to engrained market expectations have a powerful voice. In practice, they tend to win the argument unless it is clear that the change in interest rates is inconsistent with controlling the money supply.

The belief that the authorities will concede to market pressure and will alter interest rates in accordance with sterling's behaviour is reinforced each time they do so. It is now more firmly engrained than ever.

The Provisional Money Supply Data

The authorities' statement on the 26th June seemed to be inconsistent with the publication on 10th July of poor provisional data for sterling M3 in banking June. We suspect that the authorities were very surprised by these data. They have up-to-date daily information about the majority of the counterparts to sterling M3, namely the CGBR, sales of central government debt and the government's external transactions; these were satisfactory. Up-to-date data for bank lending and banks' external transactions are not, however, available, and early indications for a banking month have to be obtained by survey. We, ourselves, discuss what has been happening widely within the banking sector. The indications we obtain are usually reasonably accurate providing that proper allowance is made for variation in holdings of commercial bills, in particular in the Bank's own holdings. Our discussions for the banking month of June suggested that lending would be about £1,000m lower than it actually was; the error was our largest ever. The Bank was probably surprised in the same way.

The vital practical point is that there was a waning in the belief that monetary growth was satisfactory at the same time as the start of substantial selling of sterling. Arguments for a foreign exchange policy of benign neglect were undermined by poor data for the money supply.

Conclusions

The behaviour of sterling is a very important factor determining the timing of changes in interest rates. When sterling is weak and monetary growth is satisfactory, however, the authorities should not readily acquiesce in a rise in interest rates. Given the conflicting signals from the broader and narrower money aggregates, the authorities were right to acquiesce to some extent this time. They were wrong, however, to ratify a rise as large as nearly 3%.

Looking through the behaviour of sterling, the reason for the substantial rise in UK interest rates was, of course, the upward trend of those in the US. We are most concerned that US rates may rise still further. Dr Henry Kaufman, amongst others, is forecasting that this will happen. More specifically, his current view is that "the peak in interest rates is not near - both in terms of level and when it will occur . . . much higher interest rates loom ahead".

In America, the contractionary effect of high interest rates is offset by grossly easy fiscal policy. In developed countries other than the US, high interest rates are not generally offset by easy fiscal policy to anything like the same extent as they are in the US. The UK is, in particular, at the opposite end of the spectrum to the US. It can be argued that UK fiscal policy is tight rather than easy. Without the offsetting factor of clearly easy fiscal policy, there is a distinct danger that the economic recovery in the UK will collapse if we follow US rates up again.

Such a collapse is not yet in sight. It will be preceded, if it occurs, by a slowdown in the growth of the narrower monetary aggregates in the UK. Historically, the money supply has declined in real terms, i.e. after allowing for inflation, prior to every recession. The slowdown does not, however, necessarily occur in the broader aggregates.

The experience of the second half of 1980 illustrates this. There was at that time a loss of confidence, a rise in the savings ratio (from $11\frac{1}{2}\%$ to $15\frac{1}{2}\%$) and buoyant growth of the broader aggregates, as genuine savings were invested in bank deposits. Something somewhat similar could happen in the coming months. The possibility of another rise in US rates is a dark cloud overhanging the gilt-edged market. We have recently had a dreadful demonstration of what can happen to our market when the US bond market is in disarray. In these circumstances it would be no surprise at all if sales of government debt in the UK did not respond as they should to the current height of UK interest rates. Investors may easily prefer to hold bank deposits rather than gilt-edged stock.

In his recent Mais Lecture, the Chancellor stressed that Mo and sterling M3 have equal weight in guiding policy decisions. In our view he should modify this rule in the coming months and place greater weight on the narrower monetary aggregates. If these start to decline in real terms, the authorities should act as they did in the second half of 1980 and reduce short term interest rates, even if the broader aggregates are still buoyant.

There remains the question about how sterling would react. Ideally, the UK should strive for international agreement, particularly with Germany and Japan, not to follow US interest rates upwards. If such an agreement cannot be achieved and sterling comes under pressure, the UK authorities should adopt a foreign exchange policy of benign neglect and resist those who argue that they must accede to engrained market expectations of a rise in interest rates.

GTP
RLT
RR

MONETARY GROWTH

In Nominal Terms

Percentage annual rates		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
Changes in year to:									
1983	July	6	8	10	14	9	12	11	13
	Aug.	7	8	9	13	8	11	10	13
	Sept.	6	8	8	12	8	10	9	12
	Oct.	7	8	7	13	7	11	10	13
	Nov.	6	8	8	12	7	10	9	12
	Dec.	7	8	8	12	9	10	10	13
1984	Jan.	6	7	9	11	10	10	10	13
	Feb.	6	5	8	11	10	9	9	12
	Mar.	6	5	8	13	10	10	9	12
	Apr.	5	6	9	14	10	8	7	11
	May	5	5	9	14	10	8	8	12
	June	6	5	9	14	11	9	10	13
Changes in 6 months to:									
1984	Jan.	7	5	7	10		8	7	10
	Feb.	6	4	7	10		7	6	9
	Mar.	5	4	9	16		9	9	12
	Apr.	4	7	11	16		8	7	12
	May	4	4	11	18		9	9	14
	June	5	5	9	20		11	12	17
Changes in 3 months to:									
1984	Apr.	3	10	15	22		8	8	14
	May	4	7	16	28		11	12	17
	June	6	10	13	23		14	16	19

In Real Terms

Percentage annual rates		Mo	Currency	Retail M1	M1	M2	Sterling M3	PSL1	PSL2
Changes in year to:									
1984	July	2	4	5	10	4	7	7	9
	Aug.	2	3	5	9	4	6	6	8
	Sept.	1	2	3	7	3	5	4	7
	Oct.	2	3	2	8	2	6	5	8
	Nov.	2	3	3	7	3	5	5	7
	Dec.	1	3	3	6	4	5	5	8
1984	Jan.	1	2	4	6	5	5	5	8
	Feb.	1	0	3	6	5	4	4	7
	Mar.	0	0	3	8	5	5	4	7
	Apr.	0	1	4	8	5	3	2	6
	May	0	0	4	9	5	3	3	7
	June	0	0	4	9	6	4	4	8
Changes in 6 months to:									
1984	Jan.	2	0	2	5		3	2	5
	Feb.	1	-1	2	5		2	1	4
	Mar.	0	-1	4	12		4	4	7
	Apr.	-1	1	5	11		2	2	7
	May	-1	-1	5	13		4	3	9
	June	0	0	4	15		6	7	12
Changes in 3 months to:									
1984	Apr.	-2	5	10	17		2	2	9
	May	-1	2	11	23		6	7	12
	June	1	4	8	17		8	10	14

Chart 1 - Monetary Growth in NOMINAL Terms (% p.a.)

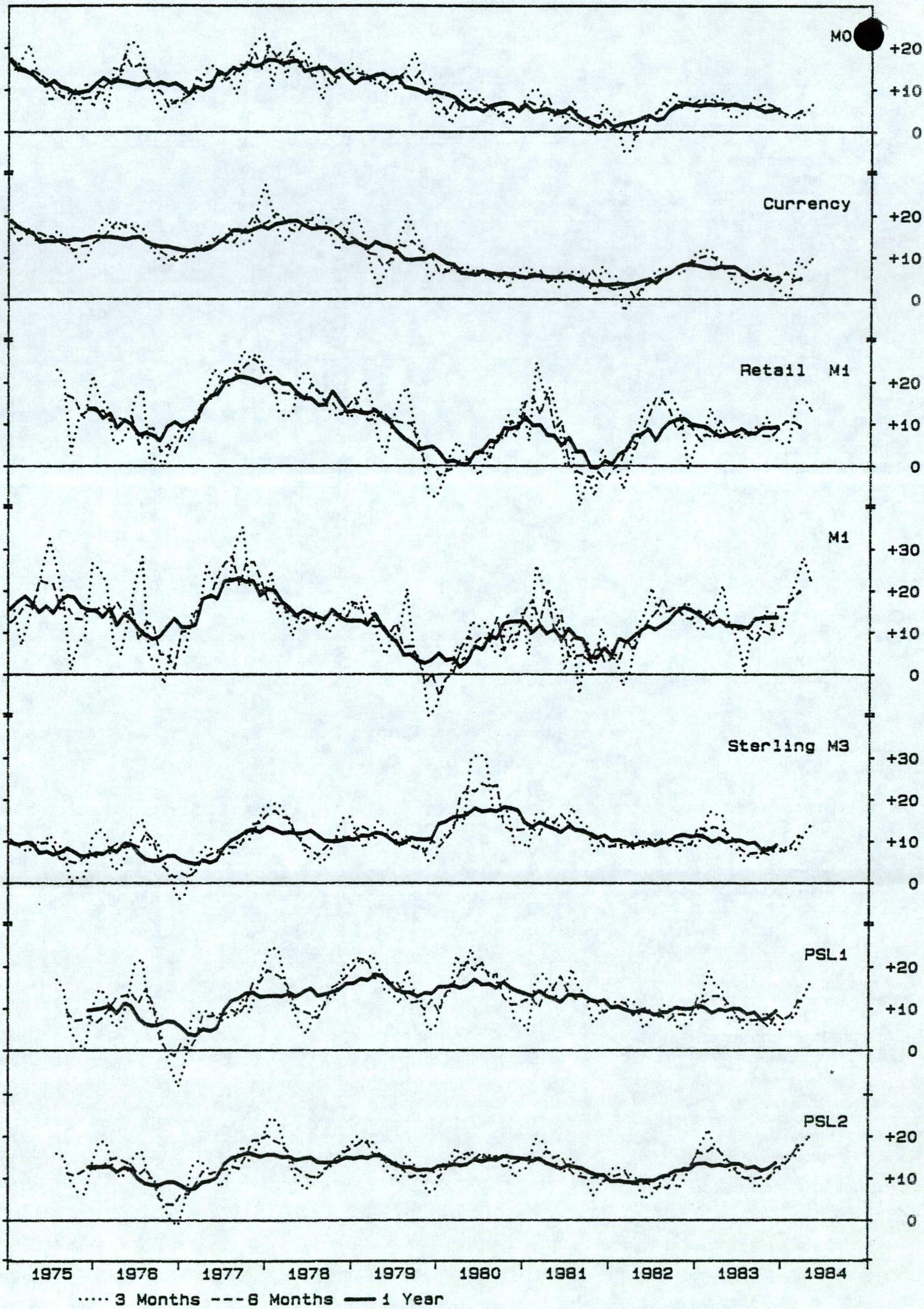


Chart 2 - Monetary Growth in REAL Terms (% p.a.)

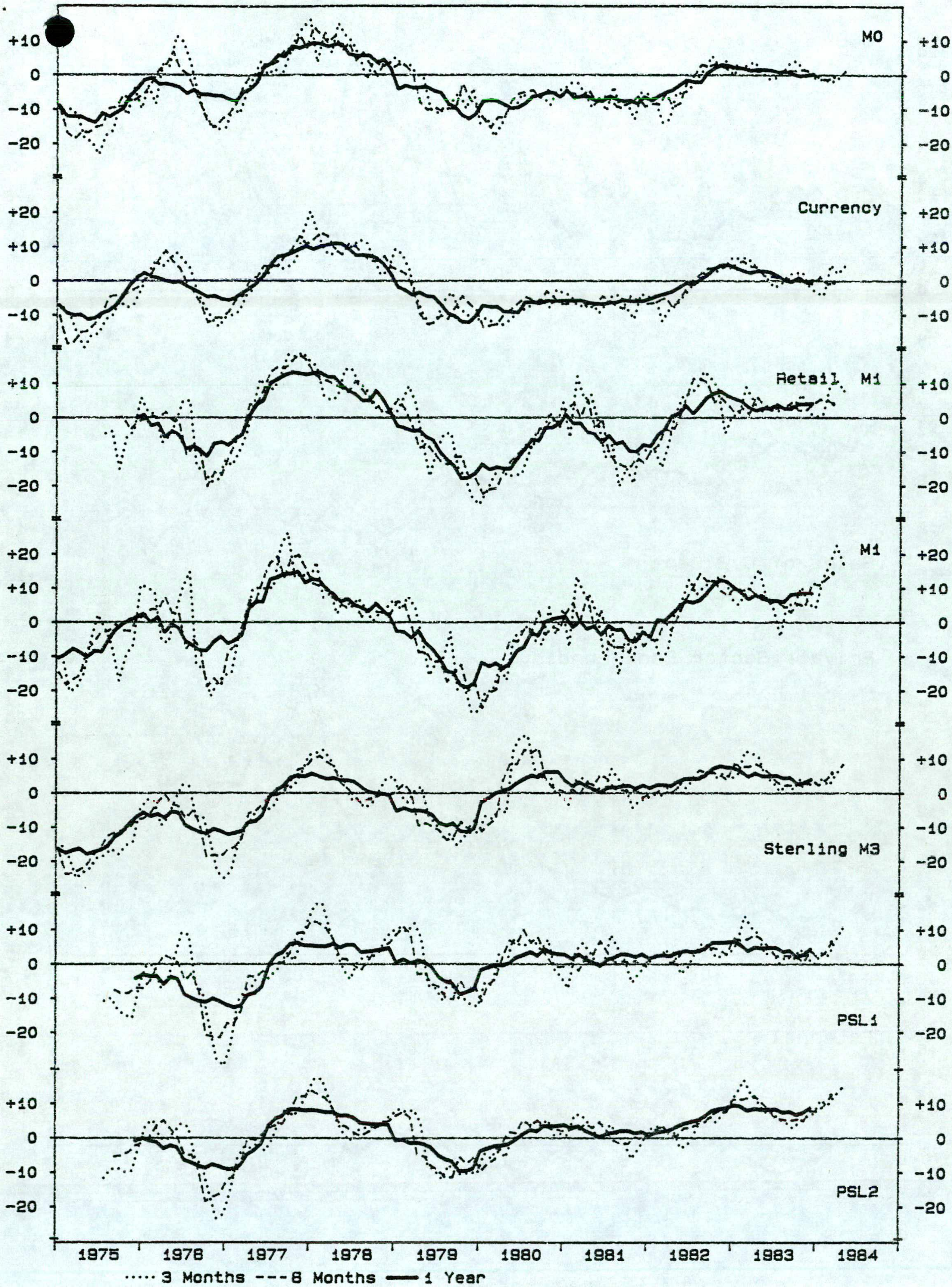
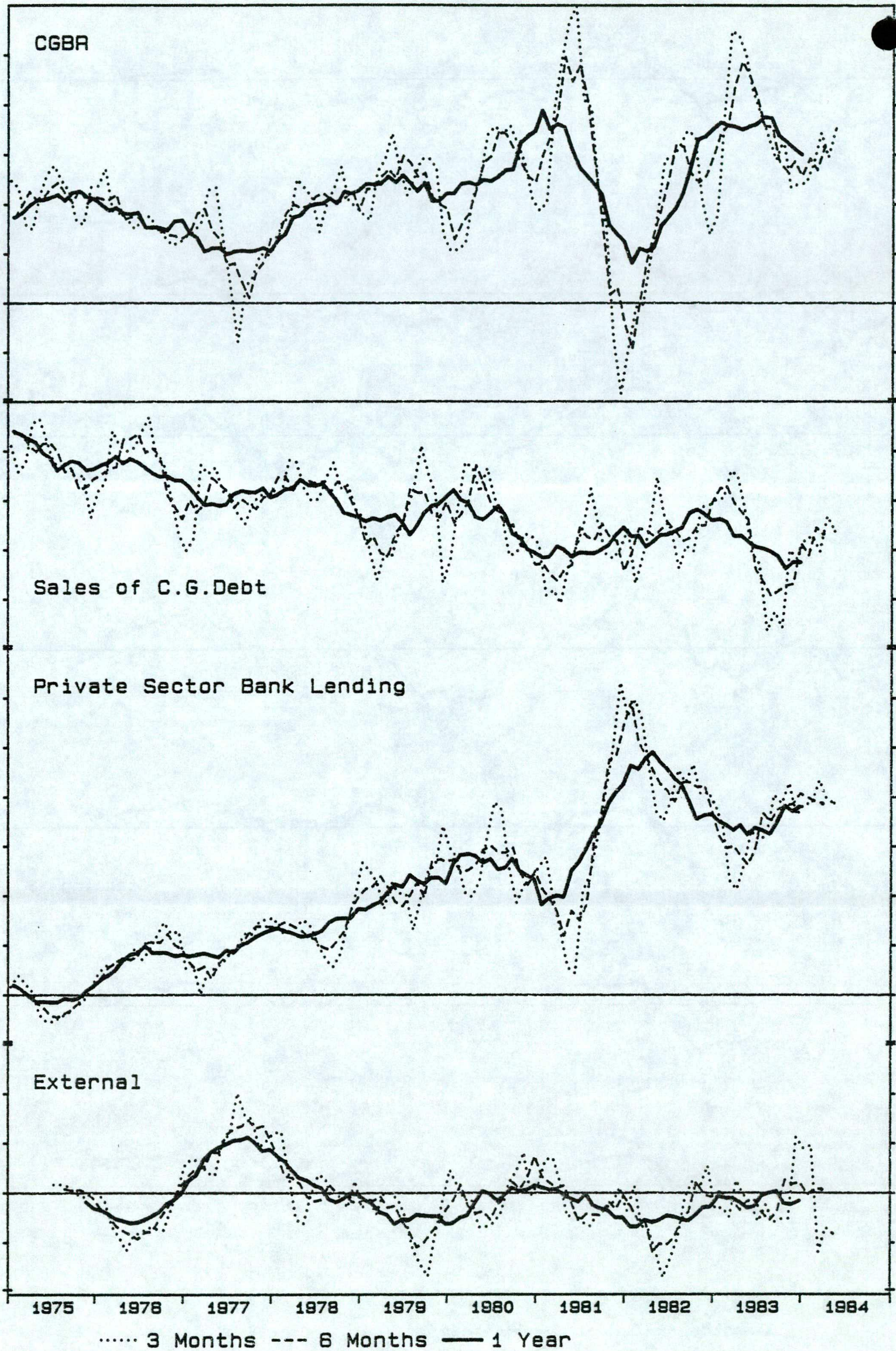


Chart 3 - Components of Monetary Growth (bns)



W. GREENWELL & Co—Monetary Bulletin

STATISTICS

reprinted from Bank of England *Banking Statistics*

[Table 11.1 in the *Quarterly Bulletin*]

Money stock: amounts outstanding

£ millions

Month ended	Notes and coin in circulation with public	UK private sector sterling sight deposits: Non-interest-bearing[a]	UK private sector sterling sight deposits: Interest-bearing	Money stock M1[b]: Unadjusted	Money stock M1[b]: Seasonally adjusted	UK private sector sterling time deposits[c]	Money stock £M3[b] [d]: Unadjusted	Money stock £M3[b] [d]: Seasonally adjusted	UK private sector deposits in other currencies [c]	Money stock M3[b] [d]: Unadjusted	Money stock M3[b] [d]: Seasonally adjusted
	1	*2*	*3*	*4*		*5*	*6*		*7*	*8*	
1983 May 18	11,263	18,415	10,656	40,334	40,300	53,261	93,595	94,460	13,095	106,690	107,560
June 15	11,328	18,564	11,102	40,994	41,060	53,803	94,797	95,430	13,274	108,071	108,700
July 20	11,601	18,978	10,714	41,293	40,860	55,029	96,322	95,930	13,497	109,819	109,430
Aug. 17	11,507	18,785	10,902	41,194	41,180	55,579	96,773	96,380	13,489	110,262	109,870
Sept. 21[e]	11,477	18,876	10,601	40,954	41,170	55,952	96,906	96,740	13,545	110,451	100,290
Oct. 19	11,473	19,369	11,172	42,014	41,910	56,135	98,149	97,750	14,086	112,235	111,830
Nov. 16	11,531	19,264	11,352	42,147	42,190	55,757	97,904	97,850	14,523	112,427	112,380
Dec. 14[e]	12,119	19,990	11,466	43,575	42,680	56,238	99,813	99,100	15,865	115,678	114,960
1984 Jan. 18	11,467	19,320	11,914	42,701	42,980	56,619	99,320	99,740	16,036	115,356	115,770
Feb. 15	11,531	19,018	11,951	42,500	43,140	56,119	98,619	99,810	16,754	115,373	116,560
Mar. 21[e]	11,641	19,467	12,637	43,745	44,440	55,735	99,480	101,220	17,047	116,527	118,270
Apr. 18	12,044	20,572	13,038	45,654	45,220	55,449	101,103	101,550	17,329	118,432	118,870
May 16	11,834	20,593	13,485	45,912	45,910	55,925	101,837	102,550	15,474	117,311	118,020
June 21[e]	11,941	20,646	13,962	46,549	46,770	57,501	104,050	104,620	15,528	119,578	120,150

[Table 11.2 in the *Quarterly Bulletin*]

Money stock: changes[f]

£ millions: *percentages in italics*

Month ended	Notes and coin in circulation with public	UK private sector sterling sight deposits: Non-interest-bearing[a]	UK private sector sterling sight deposits: Interest-bearing	Money stock M1[b]		UK private sector sterling time deposits [c]	Money stock £M3[b] [d]		UK private sector deposits in other currencies [c]: Transactions	UK private sector deposits in other currencies [c]: Valuation changes [g]	Money stock M3[b] [d]	
	1	*2*	*3*	*4*		*5*	*6*		*7*		*8*	
(unadjusted)												
1983 June 15	+ 65	+ 149	+ 446	+ 660		+ 542	+ 1,202		− 102	+ 281	+ 1,381	
July 30	+ 273	+ 414	− 388	+ 299		+ 1,226	+ 1,525		+ 285	− 62	+ 1,748	
Aug. 17	− 94	− 193	+ 188	− 99		+ 550	+ 451		− 87	+ 79	+ 443	
Sept. 21	− 30	+ 71	− 306	− 265		+ 323	+ 58		− 66	+ 87	+ 79	
Oct. 19	− 4	+ 493	+ 571	+ 1,060		+ 183	+ 1,243		+ 460	+ 81	+ 1,784	
Nov. 16	+ 58	− 105	+ 180	+ 133		− 378	− 245		+ 357	+ 30	+ 192	
Dec. 14	+ 588	+ 716	+ 109	+ 1,413		+ 291	+ 1,704		+ 670	+ 682	+ 3,056	
1984 Jan. 18	− 652	− 670	+ 448	− 874		+ 381	− 493		+ 73	+ 98	− 322	
Feb. 15	+ 64	− 302	+ 37	− 201		− 500	− 701		+ 1,005	− 287	+ 17	
Mar. 21	+ 110	+ 444	+ 671	+ 1,225		− 424	+ 801		+ 190	+ 73	+ 1,064	
Apr. 18	+ 403	+ 1,105	+ 401	+ 1,909		− 286	+ 1,623		+ 130	+ 152	+ 1,905	
May 16	− 210	+ 21	+ 447	+ 258		+ 315	+ 573		− 2,133	+ 278	− 1,282	
June 21	+ 107	+ 53	+ 467	+ 627		+ 1,561	+ 2,188		− 226	+ 255	+ 2,217	
(seasonally adjusted)												
1983 June 15	+ 48	+ 154	+ 554	+ 756	+ *1.9*	+ 179	+ 935	+ *1.0*	− 102	+ 281	+ 1,114	+ *1.0*
July 20	− 14	+ 236	− 434	− 212	− *0.5*	+ 704	+ 492	+ *0.5*	+ 285	− 62	+ 715	+ *0.7*
Aug. 17	+ 46	+ 17	+ 266	+ 329	+ *0.8*	+ 130	+ 459	+ *0.5*	− 87	+ 79	+ 451	+ *0.4*
Sept. 21	+ 82	+ 146	− 269	− 41	− *0.1*	+ 337	+ 296	+ *0.3*	− 66	+ 87	+ 317	+ *0.3*
Oct. 19	+ 56	+ 228	+ 454	+ 738	+ *1.8*	+ 260	+ 998	+ *1.0*	+ 460	+ 81	+ 1,539	+ *1.4*
Nov. 16	+ 62	+ 73	+ 148	+ 283	+ *0.7*	− 173	+ 110	+ *0.1*	+ 357	+ 80	+ 547	+ *0.5*
Dec. 14	+ 86	+ 352	+ 38	+ 476	+ *1.1*	+ 576	+ 1,052	+ *1.1*	+ 670	+ 682	+ 2,404	+ *2.1*
1984 Jan. 18	− 59	− 32	+ 389	+ 298	+ *0.7*	+ 351	+ 649	+ *0.7*	+ 73	+ 98	+ 820	+ *0.7*
Feb. 15	+ 16	+ 40	+ 103	+ 159	+ *0.4*	− 57	+ 102	+ *0.1*	+ 1,005	− 287	+ 820	+ *0.7*
Mar. 21	+ 58	+ 416	+ 811	+ 1,285	+ *3.0*	+ 114	+ 1,399	+ *1.4*	+ 190	+ 73	+ 1,662	+ *1.4*
Apr. 18	+ 206	+ 375	+ 197	+ 778	+ *1.8*	− 405	+ 373	+ *0.4*	+ 130	+ 152	+ 655	+ *0.6*
May 16	− 54	+ 194	+ 547	+ 687	+ *1.5*	+ 179	+ 866	+ *0.9*	− 2,133	+ 278	− 989	− *0.8*
June 21	+ 118	+ 161	+ 574	+ 853	+ *1.9*	+ 1,211	+ 2,064	+ *2.0*	− 226	+ 255	+ 2,093	+ *1.8*

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the *Quarterly Bulletin*).
[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.
[c] Including certificates of deposit.
[d] Excluding public sector deposits.
[e] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the *Quarterly Bulletin*, and, for December 1983, footnote [b] to Table 3 on page 5.
[f] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the *Quarterly Bulletin*.)
[g] See additional notes to Tables 6 and 11 of the *Quarterly Bulletin*.

An alternative presentation of counterparts to changes in £M3

[See pa[illegible] 529 in the Dec[illegible] 1983 *Quarter*[illegible]*letin*]

£ millions

	Public sector borrowing requirement (surplus–)[a]: Central government borrowing requirement	Public sector borrowing requirement (surplus–)[a]: Other public sector contribution	Purchases (–) of public sector debt by UK private sector (other than banks): Other public sector debt	Purchases (–) of public sector debt by UK private sector (other than banks): Central government debt: British government stocks	Purchases (–) of public sector debt by UK private sector (other than banks): Central government debt: Other	External and foreign currency and finance of public sector (increase–): Purchases of British government stocks by overseas sector	External and foreign currency and finance of public sector (increase–): Other [b]	Banks' sterling lending to UK private sector [c]	External and foreign currency transactions of UK banks [d]: Sterling deposits from, net of market loans to, banks abroad (increase–)	External and foreign currency transactions of UK banks [d]: Other overseas sterling deposits	External and foreign currency transactions of UK banks [d]: Other sterling lending to overseas sector[e]	External and foreign currency transactions of UK banks [d]: Banks' net foreign currency deposits liabilities (increase–)	Net non-deposit liabilities (increase–)	Money stock £M3[a] (columns 1-13)
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*
Month ended (unadjusted)														
1983 June 15	+ 2,188	– 960		– 748	– 156	– 13	+ 89	+ 1,173	– 561	– 36	+ 224	+ 25	– 23	+ 1,202
July 20	+ 1,169	– 429		– 1,018	– 159	– 209	– 81	+ 2,036	+ 237	+ 149	– 37	– 108	– 25	+ 1,525
Aug. 17	+ 1,603	+ 55		– 1,082	– 21	– 102	+ 83	+ 299	– 237	– 401	+ 146	+ 133	– 25	+ 451
Sept. 21	+ 764	+ 645		– 1,747	– 442	– 55	– 113	+ 1,401	+ 64	– 46	+ 229	+ 193	– 835	+ 58
Oct. 19	+ 1,021	– 375		– 394	– 434	– 5	+ 71	+ 2,017	– 506	– 151	+ 277	– 104	– 174	+ 1,243
Nov. 16	+ 959	– 32		– 1,143	– 428	+ 46	– 40	+ 816	– 118	– 472	+ 67	+ 282	– 182	– 245
Dec. 14	+ 1,786	– 132		– 572	– 180	+ 86	– 204	+ 601	– 15	– 194	+ 270	+ 283	– 25	+ 1,704
1984 Jan. 18	– 1,362	– 491		– 738	– 239	– 164	+ 6	+ 1,798	+ 526	– 233	+ 890	+ 199	– 685	– 493
Feb. 15	– 67	+ 92		– 1,051	– 6	– 69	– 89	+ 1,230	– 226	– 328	+ 280	– 52	– 415	– 701
Mar. 21	+ 127	– 65		– 121	– 450	– 105	+ 42	+ 1,461	+ 110	– 448	+ 357	+ 545	– 652	+ 801
Apr. 18	+ 3,392	+ 360		– 1,048	– 346	– 283	– 94	+ 1,589	– 645	– 423	+ 354	– 146	– 1,087	+ 1,623
May 16	+ 766	– 299		– 279	– 114	+ 10	– 117	+ 506	– 69	+ 292	+ 85	– 300	+ 92	+ 573
June 20	+ 2243	– 114		– 374	– 543	+ 179		+ 1,541	+ 179	– 571	+ 152	+ 20	– 524	+ 2,188
Month ended (seasonally adjusted)														
1983 June 15	+ 1,710	– 831		– 748	– 155	– 13	+ 83	+ 1,125		– 260			+ 24	+ 935
July 20	+ 1,244	– 387		– 1,018	– 182	– 209	– 87	+ 784		+ 223			+ 124	+ 492
Aug. 17	+ 851	+ 191		– 1,082	– 104	– 102	+ 77	+ 1,219		– 294			– 297	+ 459
Sept. 21	+ 1,249	+ 583		– 1,747	– 514	– 55	– 119	+ 1,223		+ 325			– 649	+ 296
Oct. 19	+ 789	– 395		– 394	– 415	– 5	+ 65	+ 1,601		– 487			+ 239	+ 998
Nov. 16	+ 1,260	+ 29		– 1,143	– 367	+ 46	– 46	+ 1,041		– 249			– 461	+ 110
Dec. 14	+ 284	+ 161		– 572	– 118	+ 86	– 210	+ 1,643		+ 284			– 506	+ 1,052
1984 Jan. 18	+ 867	– 807		– 738	– 253	– 164	+ 48	+ 943		+ 1,332			– 579	+ 649
Feb. 15	+ 1,276	+ 23		– 1,051	– 51	– 69	– 95	+ 1,280		– 320			– 891	+ 102
Mar. 21	+ 659	– 103		– 121	– 508	– 105	+ 37	+ 1,637		+ 299			– 396	+ 1,399
Apr. 18	+ 1,502	+ 175		– 1,048	– 251	– 283	– 75	+ 1,425		– 582			– 490	+ 373
May 16	+ 782	– 343		– 279	– 111	+ 10	– 123	+ 898		+ 129			– 97	+ 866
June 20	+ 1,236	+ 106		– 374	– 562	+ 173		+ 1,549		– 73			+ 9	+ 2,064

[a] Excluding public sector bank deposits.
[b] Including public sector foreign currency bank deposits.
[c] Including net purchases of commercial bills by the Issue Department, and holdings of sterling certificates of deposit issued by building societies.
[d] A seasonally-adjusted breakdown of these transactions is not available.
[e] Including net purchases of ECGD-backed promissory notes by the Issue Department

M0, the wide monetary base

[Table 2 in the *Quarterly Bulletin*]

£ millions: *percentages in italics*

End-banking-month series

	Notes and coin in circulation outside the Bank of England: In circulation with public: Unadjusted	Notes and coin in circulation outside the Bank of England: In circulation with public: Seasonally adjusted	Notes and coin in circulation outside the Bank of England: Held by banks (till money): Unadjusted	Notes and coin in circulation outside the Bank of England: Held by banks (till money): Seasonally adjusted	Bankers' deposits with the Banking Department: Operational deposits: Unadjusted	Bankers' deposits with the Banking Department: Cash ratio deposits: Unadjusted
	1		*2*		*3*	*4*
Amount outstanding at						
1983 May 18	11,263	11,325	1,113	1,135	96	468
June 15	11,328	11.374	1,137	1,155	223	468
July 20	11,601	11,362	1,250	1,164	118	468
Aug. 17	11,507	11,407	1,207	1,167	148	468
Sept. 21	11,477	11,489	1,196	1,207	149	468
Oct. 19	11,473	11,545	1,177	1,191	135	468
Nov. 16	11,531	11,607	1,157	1,175	199	500
Dec. 14	12,119	11,694	1,365	1,249	150	500
1984 Jan. 18	11,467	11,636	1,221	1,230	111	500
Feb. 15	11,531	11,653	1,170	1,227	278	500
Mar. 21	11,641	11,711	1,167	1,247	232	500
Apr. 18	12,044	11,917	1,236	1,161	154	500
May 16	11,834	11,863	1,201	1,208	159	533
June 20	11,941	11,982	1,222	1,238	204	533
Change in month ended						
1983 May 18	+ 89	+ 104	+ 29	+ 50	– 41	+ 33
June 15	+ 65	+ 48	+ 24	+ 20	+ 127	—
July 20	+ 273	– 14	+ 113	+ 8	– 105	—
Aug. 17	– 94	+ 46	– 43	+ 3	+ 30	—
Sept. 21	– 30	+ 82	– 11	+ 40	+ 1	—
Oct. 19	– 4	+ 56	– 19	– 15	– 14	—
Nov. 16	+ 58	+ 62	– 20	– 16	+ 64	+ 32
Dec. 14	+ 588	+ 86	+ 208	+ 74	– 49	—
1984 Jan. 18	– 652	– 59	– 144	– 20	– 39	—
Feb. 15	+ 64	+ 16	– 51	– 3	+ 167	—
Mar. 21	+ 110	+ 58	– 3	+ 20	– 46	—
Apr. 18	+ 403	+ 206	+ 69	– 86	– 78	—
May 16	– 210	– 54	– 35	+ 47	+ 5	+ 33
June 20	+ 107	+ 118	+ 21	+ 30	+ 45	—

Monthly-average series

	Notes and coin in circulation outside the Bank of England: Unadjusted	Notes and coin in circulation outside the Bank of England: Seasonally adjusted	Bankers' operational deposits with the Banking Department: Unadjusted	M0 (wide monetary base) (columns 5 + 6): Unadjusted	M0 (wide monetary base) (columns 5 + 6): Seasonally adjusted	
	5		*6*	*7*		
Average amount outstanding in month ended						
1983 May 18	12,411	12,510	131	12,542	12,641	
June 15	12,556	12,589	149	12,705	12,738	
July 20	12,669	12,619	105	12,774	12,724	
Aug. 17	12,772	12,599	162	12,934	12,761	
Sept. 21	12,773	12,749	154	12,927	12,903	
Oct. 19	12,685	12,810	166	12,851	12,976	
Nov. 16	12,689	12,867	171	12,860	13,038	
Dec. 14	13,106	12,959	155	13,261	13,114	
1984 Jan. 18	13,345	12,915	222	13,567	13,137	
Feb. 15	12,686	12,955	202	12,888	13,157	
Mar. 21	12,791	13,027	204	12,995	13.231	
Apr. 18	13,023	13,085	157	13,180	13,242	
May 16	13,157	13,157	138	13,295	13,295	
June 20	13.202	13,260	179	13.381	13,439	
Change						
1983 May 18	+ 7	+ 94	– 74	– 67	+ 20	*+0.2*
June 15	+ 145	+ 79	+ 18	+ 163	+ 97	*+0.8*
July 20	+ 113	+ 30	– 44	+ 69	– 14	*–0.1*
Aug. 17	+ 103	– 20	+ 57	+ 160	+ 37	*+0.3*
Sept. 21	+ 1	+ 150	– 8	– 7	+ 142	*+1.1*
Oct. 19	– 88	+ 61	+ 12	– 76	+ 73	*+0.6*
Nov. 16	+ 4	+ 57	+ 5	+ 9	+ 62	*+0.5*
Dec. 14	+ 417	+ 92	– 16	+ 401	+ 76	*+0.6*
1984 Jan. 18	+ 239	– 44	+ 67	+ 306	+ 23	*+0.2*
Feb. 15	– 659	+ 40	– 20	– 679	+ 20	*+0.2*
Mar. 21	+ 105	+ 72	+ 2	+ 107	+ 74	*+0.6*
Apr. 18	+ 232	+ 58	– 47	+ 185	+ 11	*+0.1*
May 16	+ 134	+ 72	– 19	+ 115	+ 53	*+0.4*
June 20	+ 45	+ 103	+ 41	+ 86	+ 144	*+1.1*

Transactions balances and components of M2

[Table 11.1 in the *Quarterly Bulletin*]

£ millions: *not seasonally adjusted*

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight deposits with banks[a]	Non-interest-bearing M1[b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2[b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
Amounts outstanding									
1983 June 15	11,328	18,564	29,892	30,259	51,822	1,751	113,724	1,160	2,637
July 20	11,601	18,978	30,579	30,512	52,018	1,749	114,858	1,193	2,741
Aug. 17	11,507	18,785	30,292	30,360	51,952	1,729	114,333	949	2,721
Sept. 21[c]	11,477	18,876	30,353	30,176	52,193	1,742	114,464	864	2,732
Oct. 19	11,473	19,369	30,842	30,086	52,562	1,742	115,232	935	2,794
Nov. 16[d]	11,531	19,264	30,795	30,089	52,811	1,745	115,440	1,045	2,669
	11,531	19,264	30,795	30,847	52,811	1,745	116,198	1,045	2,996
Dec. 14[c]	12,119	19,990	32,109	30,218	55,673	1,750	119,750	899	2,999
1984 Jan. 18	11,467	19,320	30,787	30,340	58,280	1,765	121,172	1,072	3,124
Feb. 15	11,531	19,018	30,549	30,057	58,969	1,777	121,352	962	3,083
Mar. 21[c]	11,641	19,467	31,108	29,953	60,121	1,778	122,960	1,124	3,106
Apr. 18	12,044	20,572	32,616	29,896	60,944	1,788	125,244	995	3,116
May 16	11,834	20,593	32,427	29,879	61,777	1,775	125,858	1,073	3,187
June 20	11,941	20,646	32,587	30,455	62,980	1,743	127,765	1,079	3,193
Changes in month ended									
1983 June 15	+ 65	+ 149	+ 214	+ 356	+ 585	− 18	+1,137	+ 162	− 99
July 20	+ 273	+ 414	+ 687	+ 253	+ 196	− 2	+1,134	+ 33	+ 104
Aug. 17	− 94	− 193	− 287	− 152	− 66	− 20	− 525	− 244	− 20
Sept. 21	− 30	+ 71	+ 41	− 184	+ 241	+ 13	+ 111	− 85	+ 11
Oct. 19	− 4	+ 493	+ 489	− 90	+ 369	—	+ 768	+ 71	+ 62
Nov. 16	+ 58	− 105	− 47	+ 3	+ 249	+ 3	+ 208	+ 110	− 125
Dec. 14	+ 588	+ 716	+1,304	− 629	+2,586	+ 5	+3,266	− 146	+ 3
1984 Jan. 18	− 652	− 670	−1,322	+ 122	+2,405	+ 15	+1,220	+ 173	+ 125
Feb. 15	+ 64	− 302	− 238	− 283	+ 520	+ 12	+ 11	− 110	− 41
Mar. 21	+ 110	+ 444	+ 554	− 104	+1,104	+ 1	+1,555	+ 162	+ 23
Apr. 18	+ 403	+1,105	+1,508	− 57	+ 823	+ 10	+2,284	− 129	+ 10
May 16	− 210	+ 21	− 189	− 17	+ 792	− 13	+ 573	+ 78	+ 71
June 20	+ 107	+ 53	+ 160	+ 576	+1,203	− 32	+1,907	+ 6	+ 6

[a] After deducting 60% of net debit transit items (see additional notes to Table 6 of the *Quarterly Bulletin*).

[b] Non-interest-bearing M1 equals columns 1+2. M2 equals non-interest-bearing M1+columns 4+5+6.

[c] See footnote [f] to Table 11.1 on page 3.

[d] In November 1983 twenty contributors joined the population providing figures in columns 4, 8 and 9, and seven contributors left the series. All monthly-reporting monetary sector institutions contribute to column 2. (See article in June 1982 *Bulletin*, page 225.)

Private sector liquidity, and other deposits

[Summary of Table 12 in the *Quarterly Bulletin*]

£ millions

	'Money'	Other money-market instruments	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5)	PSL2 (columns 1+2+3+6)	PSL1	PSL2	Other shares and deposits with building societies	
	Seasonally adjusted	Seasonally adjusted	Seasonally adjusted		Seasonally adjusted		Seasonally adjusted	Seasonally adjusted	Seasonally adjusted change in month [b]	Seasonally adjusted change in month [b]	Unadjusted	
			Total (net)	*of which shares and deposits with building societies* [a]	Issues net of surrenders	Column 5 less building society holdings					Amount outstanding	Change in month
Month ended	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
1983 June 15	93,997	2,842	59,355	*55,000*	2,136	1,954	98,975	158,148	+ 949 *+1.0*	+1,572 *+1.0*	16,519	+ 14
July 20	94,479	3,040	60,342	*56,058*	2,000	1,818	99,519	159,679	+ 529 *+0.5*	+1,518 *+1.0*	16,632	+113
Aug. 17	94,912	3,265	61,171	*56,950*	1,905	1,723	100,082	161,071	+ 563 *+0.6*	+1,392 *+0.9*	16,712	+ 80
Sept. 21	95,272	3,081	61,786	*57,508*	1,975	1,774	100,328	161,913	+ 168 *+0.2*	+ 764 *+0.5*	17,242	+530
Oct. 19	96,237	3,064	62,037	*58,098*	2,070	1,852	101,371	163,190	+1,043 *+1.0*	+1,276 *+0.8*	17,802	+560
Nov. 16	96,369	3,153	62,477	*58,952*	2,116	1,884	101,638	163,883	+ 275 *+0.3*	+ 699 *+0.4*	18,241	+439
Dec. 14	97,603	3,124	63,073	*59,841*	2,048	1,795	102,775	165,595	+ 948 *+0.9*	+1,522 *+0.9*	18,557	+316
1984 Jan. 18	98,170	2,954	64,409	*61,149*	2,077	1,955	103,201	167,488	+ 451 *+0.4*	+1,918 *+1.2*	18,720	+163
Feb. 15	98,249	2,890	65,673	*62,522*	1,869	1,726	103,008	168,538	− 159 *−0.2*	+1,084 *+0.6*	18,823	+103
Mar. 21	99,684	2,984	66,916	*63,742*	2,077	1,891	104,745	171,475	+1,728 *+1.7*	+2,938 *+1.7*	18,957	+134
Apr. 18	99,999	2,975	68,178	*64,734*	2,105	1,917	105,079	173,069	+ 391 *+0.4*	+1,652 *+1.0*	19,002	+ 45
May 16	101,052	3,095	69,453	*65,690*	1,982	1,794	106,129	175,394	+ 929 *+0.9*	+2,204 *+1.3*	19,002	—
June 20	103,091	3,420	70,753	*66,852*	2,206	2,003	108,717	179,267	+2,589 *+2.4*	+3,874 *+2.2*	19,002	—

[a] Including UK non-bank private sector's holdings of certificates of deposit and time deposits issued by building societies.

[b] Percentage changes are shown in italics.

6.3

CONFIDENTIAL
until 18 July

FROM: MISS J C SIMPSON

DATE: 3 July 1984

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Battishill
Mr Culpin
Mr Folger
Mr Evans
Mr Shields o.r.
Mr Ridley
Mr Lord
Mr Portillo
Mr Smith

SIMPSON → OWEN 3/7

MR D W OWEN

EMPLOYED LABOUR FORCE:
REVISED ESTIMATES BASED ON RESULTS OF 1983 LABOUR FORCE SURVEY

The Chancellor has seen and was grateful for your minute of 29 June.

JS

MISS J C SIMPSON

EMBARGOED UNTIL 00.01 HOURS FRIDAY, 6 JULY 1984

FROM: NEIL MACKINNON
DATE: 5 July 1984

1. MR FOLGER
2. CHANCELLOR OF THE EXCHEQUER

If you are content, this will be the last monthly note on P&D. The one page summary of their forecast would however still be prepared.
We intend to switch our energies instead to a regular note on Simon and Coates, who generally have more interesting things to say. MJF 5.7.84

I agree N.

cc Chief Secretary
Financial Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr Battishill
Mr H P Evans
Mr Lankester
Mr Scholar
Mr Folger
Mr Culpin
Miss Peirson
Mr Page
Mr A Smith
Mr Lord
Mr Ridley
Mr Portillo
JD/02

PHILLIPS AND DREW JULY FORECAST

1. P&D's latest assessment will be released on Friday, 6 July. Their forecasts are summarised in the attached note. The main changes from last month's forecast include

(i) a considerably larger current account surplus this year (now put at £1.7bn) and next reflecting "major upward revisions to official invisibles estimates." Note that the previous forecast (June) revised downwards the current account surplus for 1984 from £1½ billion to £0.8 billion reflecting the effect of the coal strike on oil imports.

(ii) marginal downward revisions to GDP growth this year from 3.2 per cent to 2.9 per cent, again reflecting the effect of the coal strike. However next year GDP grows by 2.6 per cent instead of their previous forecast of 2.2 per cent.

2. In an accompanying press notice (copy attached) P&D examine "Government attitudes towards the exchange rate" in the light of "the Government's reluctance to contemplate higher base rates." P&D discuss the current position in which a lower sterling-dollar rate is perceived to be favourable through its beneficial effects on North Sea oil revenues and, therefore, financing of the PSBR. P&D argue "this policy thinking is some way from that which originally envisaged deep spending cuts and employed strong sterling as a weapon to lower inflation further" - (page 3 of the main text - copy attached).

EF1 suggest the following line to take on the exchange rate:

The Government has no exchange rate target and misleading to suggest that there is change in policy stance. Recent decline in the effective exchange rate has been modest and partly reflects effect of strong dollar. Against the basket of EMS currencies, and the yen, sterling has been steady for several months. Government does not make predictions about interest rates but policy remains sound and underlying trend in rates is downward despite short-term fluctuations.

NM

N MACKINNON
EB

PHILLIPS AND DREW (JULY) FORECAST

Latest assessment continues to remain close to the Treasury view on output and inflation this year. 1984 GDP increases at a similar rate to last year (about 3 per cent) but with stronger contributions from exports and investment. See effects of coal strike on GDP forecasts below. Retail price inflation falls to about 5 per cent by end 1984, rising slightly to 6 per cent by end-1985.

ASSUMPTIONS

- OECD real GNP grows by 4½ per cent this year reflecting continuation of strong growth in USA and accelerating activity in Europe and Japan. As a result UK export markets expand by 7 per cent this year and, despite a slowdown in US growth, 4 per cent in 1985. OECD inflation rises steadily over the next two years to peak at 7½ per cent in mid-1985: the impact of increasing activity is partly offset by the effect of high unemployment on earnings. Total non-oil commodity prices (in SDR terms) rise by 2 per cent from end-1983 to end-1984 and by 3 per cent in the following year. The official crude oil price remains at $29/bl up to end-1985.

POLICY ASSESSMENT

- Current government policy "shows more concern over unemployment, less over depressing inflation further."

- Government abides by "broad thrust" of current MTFS. Positive fiscal adjustments are assumed to be limited to £1bn pa upto 1988-89 (amounting to less than a third of the planned cumulative fiscal adjustment of £13½bn in the new MTFS) reflecting real increases in public expenditure and "balance of payments constraints on growth and inflation." Net public sector cost of coal strike put at £25m a week.

Claimed that exchange rate policy influenced by advantages of lower sterling-dollar rate on North Sea oil revenues and a steady trade-weighted rate on UK inflation.

FORECAST DETAILS

- GDP growth is revised down to 2.9 per cent from 3.2 per cent this year as a result of the miners' dispute ie lower stockbuilding, higher imports, and lower coal and steel production. However the forecast of GDP growth in 1985 has been raised from 2.2 per cent to 2.6 per cent. These forecasts assume that the coal strike finishes by end July.

- Little change is expected in the saving ratio but rpdi grows by 2½-3 per cent this year with a slight slowdown to 2-2½ per cent reflecting the mild rise in inflation. This underpins growth in consumer spending of 2½-3 per cent in 1984 and 1985.

- Budget measures are expected to bring forward investment expenditures. As a result manufacturing investment (inc. leased assets) rises by 14 per cent this year compared to 6½-7 per cent pre-budget. Total fixed investment grows by 6-7 per cent in 1984, and 4-5 per cent in 1985 reflecting "more sluggish" public sector investment. Previous forecasts of stockbuilding for 1984 and 1985 have been considerably revised, a little over £1bn in each year (no explanation is given).

- Rising OECD activity sees the volume of exported goods expanding by 7½ per cent this year while non-oil export volumes expand by 6½ per cent. The current account shows a surplus of £1.7bn for 1984 (up on their previous forecast as a result of the "recent large revision in the invisible account.")

- Average earnings grow by 7½ per cent in the current round. Basic settlements "remain at their recently higher level of abour 6 per cent". The effective exchange rises slightly throughout the forecast period reaching 81.5 by mid-1985.

KEY INDICATORS
(June forecast in brackets)

	GDP(A) (% chg on prev yr)	RPI % chg on prev year - Q4)	Unemployment (UK adults-Q4) millions	Balance of payments on current account (£bn)	PSBR (£bn-fiscal year)
1984	2.9 (3.2)	4.9 (5.0)	3.01 (2.98)	1.7(0.8)	8.0 (8.0)
1985	2.6 (2.2)	5.9 (5.9)	2.92 (2.89)	0.8 (-0.1)	6.7 (6.7)

EB
6 July 1984

Phillips & Drew
ECONOMICS UNIT

PRESS INFORMATION

Embargo : 0.01 hours Friday 6 July 1984

Further information: Dr. Paul Neild 01-628 4444 Night: 0480 65993

Exchange Rate Policy

Our policy section (p.3) this month contains an analysis of Government attitudes towards the exchange rate. This was brought to the forefront of present policy perceptions by the unusual Bank of England statement issued on Tuesday 26 June that it saw no reason on monetary grounds for a rise in UK domestic interest rates. Further, this reference to monetary policy included all the monetary indicators used for assessing policy, including the exchange rate.

The first point to note is that a fall in the US$/£ rate tends to boost North Sea oil revenues thereby helping to meet the Government's £7¼bn 1984/85 PSBR target. This is especially helpful when public spending is, if anything, overshooting. Secondly, it is the movement in the trade-weighted rate (TWR) rather than the US$/£ rate that influences domestic inflation and growth trends. Hence, sterling weakness against the US$ occasioned by pure US$ strength, a situation in which the TWR may not come under strain, is probably viewed with equanimity since public revenues are boosted at little cost to inflation or growth.

However, with the oil market soft, the German engineering strike near settlement, the UK coal strike not settled, the German discount rate increased, and little immediate relief on US interest rates in prospect, more general sterling weakness in the short-term is a distinct possibility. Meanwhile, the recent Bank of England statement reaffirmed the Government's reluctance to contemplate higher base rates. Further, any suggestion of public spending cuts below present plans, an age-old remedy philosophically in keeping with the first Thatcher Administration, now meets with political hostility.

The question therefore arises of what the Government will do if the TWR comes under pressure. As regards inflation objectives, to the extent that TWR weakness stems from soft oil prices, the Government has more scope to do nothing since the inflation-boosting effect of the TWR fall will hopefully be partially offset by the inflation-depressive effect of oil price softness. In addition, a base rate hike to protect the TWR could, in present circumstances, trigger a mortgage rate rise. A 1 point rise

Continued.....

PAUL NEILD DAVID ROBINS BRENDAN BROWN TIM O'DELL
STEPHEN LEWIS CHRIS ANTHONY BILL MARTIN JOHN SILLS

in mortgage rates would directly add 0.3% to the retail price index. This is a further disincentive to act on inflation grounds. Hence, there is probably some elastic in the TWR before the authorities would feel inclined to overcome their base-rate reluctance for a given inflation objective. However, the Treasury's forecast of 4½% inflation in 1984 Q4 and 4% in 1985 Q2 was made on the assumption of a TWR constant at the average for last year. This average was about 83 compared with the present near-79. The elastic is probably pretty stretched already if the mid-1985 4% objective is to be approached.

Finally, as regards the growth objective, the TWR has been allowed to decline at a rate of 7¼% p.a. from 1981 Q1 to 1984 Q2, partly to help recovery. Hence officialdom might well be prepared to accept a significantly lower TWR in a year's time on growth account. The speed of any movement rather than the direction would be viewed as more of a problem. A higher base rate would have an independent deterrent impact on growth, quite apart from the protection afforded to the TWR.

All this explains the Government's unwillingness to act. It may be an interesting test.

Phillips & Drew
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Telex 291163

Policy Assessment

The forecasts that follow are based on the policy changes and assessment given below.

MAIN POINTS THIS MONTH

★ **Current policy emphasis** shows more concern over unemployment, less over depressing inflation further.

★ **Sterling** attitude conditioned both by North Sea oil revenue enhancement (lower US$/£) and domestic inflation consequences (steady trade-weighted rate).

★ **Spring 1985 Budget** to include £1bn personal tax relief, half that in MTFS.

Current Policy Emphasis

In the June issue of *Economic Forecasts* we explained the current balance of Government policy in terms of using up the unexpected leeway on inflation to dampen unemployment. This was to be distinguished from a policy aimed primarily at promoting growth with the control of inflation only of secondary importance. However, the mix of 1984 Budget measures did in our judgement imply some weakening in the Government's fiscal hold compared with the intentions it set out at the time of the 1983 Budget. We still believe this analysis is broadly correct but the events of late May to mid-June tended to confirm that some shift in policy emphasis has occurred despite the Chancellor's comments in his Mais lecture speech.

Before the May provisional money supply figures were published on 5 June, Bank of England operations made it clear that the Government did not wish to see a second base rate rise at that moment. The subsequently published figures were indeed better than foreseen for two principal reasons. First, private sector bank lending was much lower than figures in previous months, an outcome which we would not expect to last. Secondly, the PSBR was also lower than generally expected but public spending trends may if anything be running slightly ahead of the Government's 1984/85 plans. The explanation of the lower than expected PSBR probably therefore lies in the buoyancy of revenues, principally oil revenues.

It may be thought that the Bank of England action was vindicated by the money supply outturn. However, we think it demonstrated the reluctance of the authorities to accept a base rate increase, which, through its possible effect on the mortgage rates, would jeopardise the achievement of the Treasury's 4½% retail price index forecast for 1984 Q4. In addition, the authorities proved very sensitive to any suggestion that a fiscal tightening through a midsummer package might be appropriate. Apparently, fiscal insulation from US events can only go so far and no further. Certainly, the impression was given that, on public spending at least, all than can be done has been done. Along with base rate reluctance, this again suggests that the Government feels more constrained in this period of office than in its first, despite its larger majority.

On this point, the new Parliament contains a larger number of conservative MPs in the relatively unemployed areas of the country than did the last. Hence a slight policy shift away from anti-inflation determination and towards greater concern for unemployment would also be explicable in political terms.

We detect that this shift has occurred. What does it amount to? It amounts to the acceptance of 5% inflation, but it does not amount to 'going for growth' regardless of the inflation consequences. Clearly, a further reduction in inflation below 5% is seen as desirable, but it might be regarded as a bonus rather than a primary target.

Exchange Rate Strain

Another facet of current Government policy relates to the exchange rate. Here two factors should be borne in mind. First, it is the trade-weighted rate that has a direct effect on domestic inflation. Second, it is the US$/£ rate that has a direct effect on public sector revenues and hence the PSBR. The present attitude of the Government is probably as follows. A significant fall in the trade-weighted rate in the near future would be unwelcome because it would jeopardise the Government's 4½% inflation forecast for 1984 Q4. However, a gradual fall over the next 12 months or over the medium-term would probably not be unwelcome. Indeed, it may be necessary to produce current account balance at a growth rate sufficient to stabilise unemployment.

A further decline in the US$/£ rate, on the back of higher US interest rates, would probably not trigger action actively to defend sterling provided other overseas official interest rates did not follow suit and the trade-weighted rate held up. Of course, market forces might in these circumstances put upward pressure on the UK base rate, in which case the Government's aforementioned reluctance to accept a further base hike would come into play and be tested. Rather, the Government would probably not seek to defend sterling out of its own volition if weakness was only being shown against the US$.

Finally, the Government might even perceive US$ strength as a help in that a lower US$/£ rate would increase the sterling value of North Sea oil revenues, thereby helping to finance any overrun in public expenditure which might otherwise threaten the Government's 1984/85 PSBR target. In other words, a falling US$/£ rate would be useful in financing any spending overrun. Clearly, this policy thinking is some way from that which originally envisaged deep spending cuts and employed strong sterling as a weapon to lower inflation further.

1985 Budget

We assume that half of the £2bn positive fiscal adjustment shown in the 1984 MTFS for 1985/86 is exhausted by a public spending overshoot and half is available for further tax relief in the 1985 Budget. This may be in the form of another over-indexation of personal tax allowances. Excise duties are assumed to be fully indexed. Further moves on tax reform are also envisaged.

Public Spending

Given recent pay decisions, public sector pay control is likely to be a key problem in limiting the cash cost of public spending, not only in 1984/85 but also in succeeding years. The Government's projections for unchanged real public spending looks likely to be exceeded and we look for slippage of 1% pa, on average, to 1988/89. This would still be slower public spending growth than the 1½% pa average seen between 1978/79 and 1983/84.

4.76

FROM: MISS M O'MARA

DATE: 6 July 1984

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Mr Bailey
Sir T Burns
Mr Cassell
Mr Battishill
Mr H P Evans
Mr Lankester
Mr Scholar
Mr Folger
Mr Culpin
Mr Folger
Miss Peirson
Mr Page
Mr A Smith
Mr Lord
Mr Ridley
Mr Portillo

MR MACKINNON

PHILLIPS AND DREW JULY FORECAST

The Chancellor was grateful for your note of 5 July. He agrees with the proposal to produce a regular note on the Simon and Coates forecast in place of a note on Phillips and Drew.

Mom

MISS M O'MARA

P.S. I've asked Philip Wynn Owen to come, to make a record of this discussion.

CHANCELLOR OF THE EXCHEQUER

C

There's a new note from Rachel on the latest Greenwell bulletin, opposite.

Points for discussion are:-

(i) Cd the Bank be more adventurous in guiding the market in normal times? And are there new tricks that wd help (e.g. dealing in different ways, on occasion)

(ii) Shdn't we do more (or less) than just relieving the shortage, sometimes.

(iii) Can we articulate policy better to make the (non) role of the X Rate clearer (A regular retrospective description to be published - of our monetary assessment?

(iv) What cd be done to control the timing of moves better (e.g. to stop 2-stage operations)

DLW

LOMAX 26/7

FROM: RACHEL LOMAX
DATE: 26 JULY 1984

CHANCELLOR

cc: Economic Secretary
Sir P Middleton o.r.
Sir T Burns
Mr Cassell
Mr Lavelle
Mr Wood

GREENWELL'S BULLETIN: POST MORTEM

Greenwell's July Bulletin contains Gordon Pepper's reflections on the latest round of base rate rises. Pepper has always been sceptical of the argument that there are times when the authorities cannot resist market pressures. This article reflects some of that scepticism, but argues that the authorities were right to acquiesce "to some extent this time" though wrong to ratify a rise as large as 3 per cent.

2. The discussion of the role of the exchange rate in official thinking is rather helpful. The point that the fall in the effective rate prior to 26 June was primarily a reflection of the strength of the dollar is well illustrated by charts showing the dollar's effective rate and sterling's effective rate against currencies other than the dollar (attached). Greenwell's argue that there is no exchange rate target, but that movements in the exchange rate are an important trigger for changes in interest rates. Worries about monetary growth are acted on quickly only if they are confirmed by the exchange rate. Conversely, the case for benign neglect of the exchange rate depends on monetary growth being under control. Although narrow money is clearly behaving itself, worries about broad money justified some rise in interest rates when sterling weakened more generally at end June and early July.

3. That strikes me as a reasonable summary of past official behaviour, and a defensible description of the thinking behind the first rise in base rates to 10 per cent. Greenwell's do not say whether they would have wanted to go beyond 10 per cent on these grounds. But the authorities certainly did not want to.

The second rise in base rates, to 12 per cent, was forced. By implication, it is this forced element that Greenwell's think could have been avoided.

4. Their reasons for arguing that market pressures could have been resisted are not very fully spelt out and, as stated, do not address the central issue at all squarely. There is no great dispute about what Greenwell's call "the true position", ie. that the authorities cannot control the term structure, or distort interest rate relativities for any length of time, but they can peg the level of any one particular short term money rate. We might be more sceptical about our ability to hold the 3-month rate than Greenwell's, because it is more heavily influenced by expectations, but we would certainly agree that 7-day and 1-month money market rates are susceptible to considerable official influence.

5. Greenwell's are also quite correct to say that the change in the Bank's dealing rates on 26 June was an attempt to bring the structure of dealing rates more in line with the market. But is does not strike me as a particularly good example of the Bank's inability to control the term structure - except as an instance of how the market yield curve can change without there being any alteration in the Bank's dealing rates. Nor is the reference to "overwhelming arbitrage transactions" particularly apposite in this context.

6. To digress a little, prior to 26 June the market yield curve had steepened, while the Bank's dealing rates had stayed flat, reflecting an earlier structure of market rates. As a result, the Bank had found itself dealing only in longer term paper (Band 4). While daily shortages were small, the situation was manageable. But, with larger shortages in prospect, the Bank were worried that they might have to engage at shorter maturities. The risk was that by doing so at existing dealing rates they might have put upward pressure on very short market rates. To avoid this, they wanted to move Band I and II rates down, and Bands III and IV rates up; but they also wanted to make it clear that, by steepening the yield curve at a time when Lloyds had raised base rates by

¼ per cent, they were not validating the market's implicit expectation that short term rates were set to rise. Hence the attempt to back up a delicate operation with a statement which, as Greenwell's argue, probably misfired.

7. Coming back to the central argument, no-one disputes the authorities' ability to peg some very short term rate, if they are so minded. What is missing from Greenwell's exposition is any recognition of the quantitative implications of holding rates down, and any discussion of the effect of large money market operations on expectations, and hence on shape of the yield curve, the exchange rate, and ultimately base rates.

8. Greenwell's argue cryptically that "abitrage transactions would cancel out" and criticise officials who "argue there would be a huge demand for cheap funds from the Bank if the authorities were to peg, say, the 7 day rate when there were engrained expectations that it would rise". One interpretation of this passage is that Greenwell's think that money market rates can be pegged, in the face of engrained expectations to the contrary, without the Bank needing to supply additional cash to the market. It is difficult to believe that this is really their view. Gordon Pepper is, after all, a long time advocate of monetary base control, and critic of the Bank's activities as "lender of first resort". And if rates are not held down by varying the amount of cash supplied, it is not clear what other mechanism they have in mind.

9. Another possibility is that Pepper believes that only a modest liquidity operation would have been needed in practice. He may be right, but there was no way of being sure before the event. The argument against trying to peg short term rates on 12 July was not that it would definitely have failed, but that it was very risky, because market expectations had hardened to the point where it might well have required more than a modest intervention to produce the desired results, and because the consequences of large scale money market operations, in such circumstances, are highly unpredictable and potentially counter-productive.

10. Greenwell's failure to explain clearly why they think the authorities could successfully have resisted pressure for higher interest rates undermines the value of their policy prescriptions. In the circumstances, they postulate - a weak exchange rate, but low growth in narrow money and broad money growth high due to funding difficulties - a policy of benign neglect towards the exchange rate would have considerable appeal. But the real problem that may have to be faced is how to put it into practice. As Greenwell's point out "The belief that the authorities will concede to market pressure and will alter interest rates in accordance with sterling's behaviour is reinforced each time they do so. It is now more firmly engrained than ever". Rhetoric may not be enough. To quote Greenwell's again "Experience has taught the market to ignore what the authorities say and to pay attention to what they do". A convincing demonstration of benign neglect may well be needed - but there is little doubt in my mind that it will be easier to mount if £M3 is coming back on target. (That was part of the argument for the element of overkill involved in going to 12 per cent).

11. Happily, these problems are looking less immediate. Volcker's statement has had a very cheering effect on the markets; we have sold a lot of stock this morning, the exchange rate is strong, and the money market yield curve is sloping down to $11^{13}/16$ at 12 months (with the 3-month rate only just above 12 per cent).

RL

RACHEL LOMAX

Chart I Sterling's Non-U.S. Effective Rate

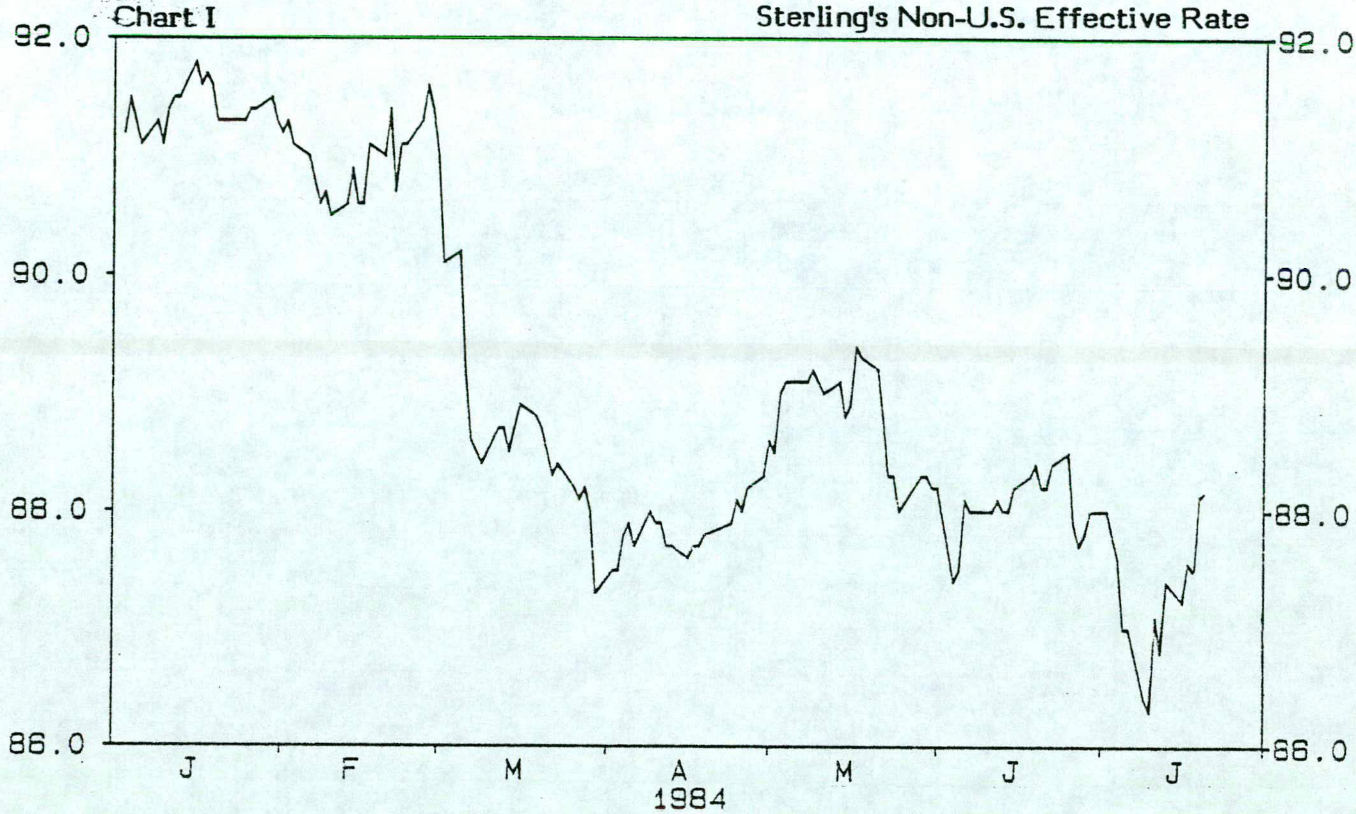
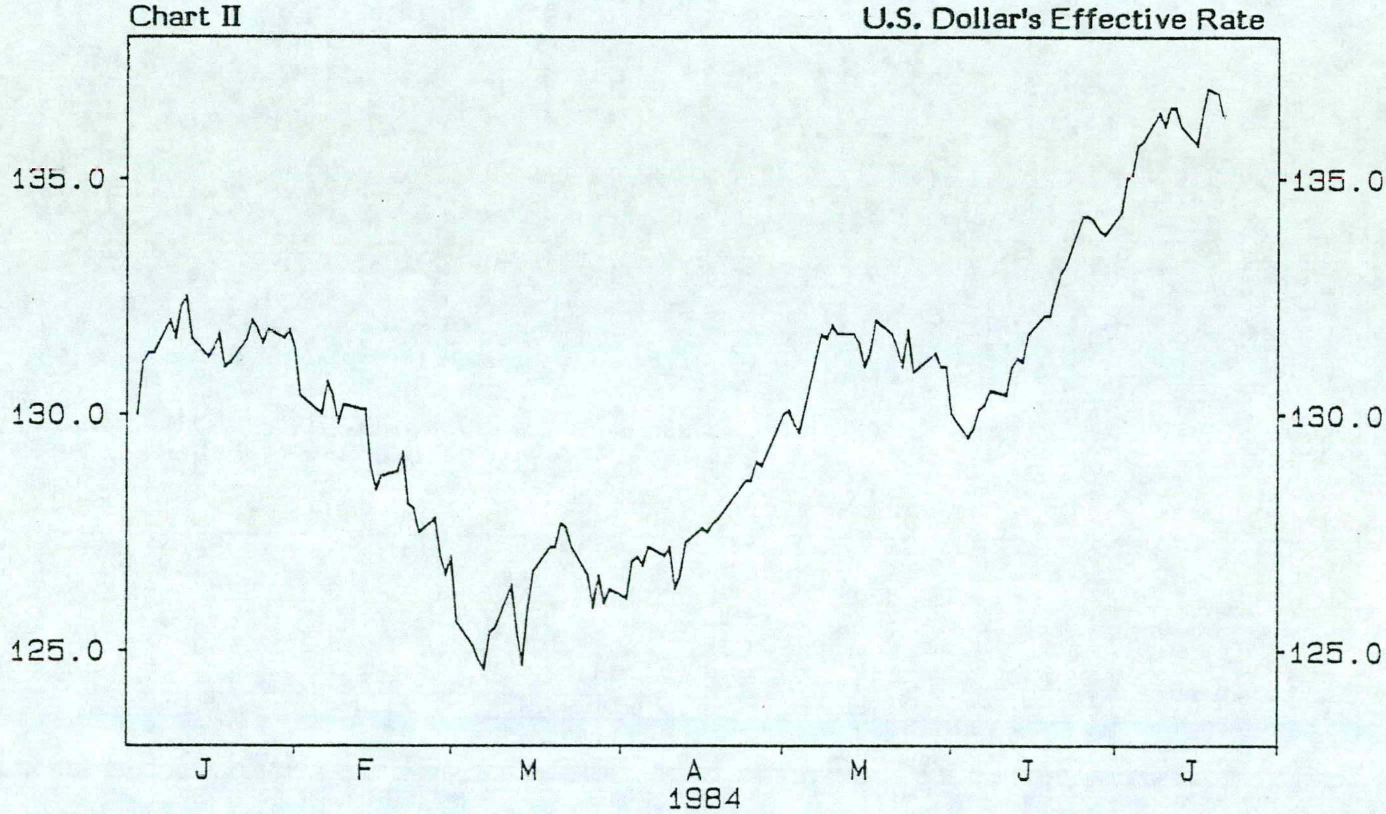


Chart II U.S. Dollar's Effective Rate



59/1

b/f for next PEM bilateral

FROM: SIR PETER MIDDLETON

DATE: 7 AUGUST 1984

CHANCELLOR OF THE EXCHEQUER

This is very important. I am glad there is movement @ last. I wd like to discuss with Peter at a future Statistics mtg ~~[illegible]~~ ~~[illegible]~~

cc: Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Sedgwick
Mr Folger
Mr G White
Mr Lord
Mr Ridley
Mr Portillo

NATIONAL ACCOUNTS STATISTICS

I have held two meetings with the Central Statistical Office to discuss discrepancies in the national accounts and to review progress to try to rectify them. You may wish to know the state of play in the four areas on which we have concentrated.

I Revisions to estimates of GDP

2. The CSO study shows that initial estimates of the annual growth rate of real GDP in the 1970's have been revised up by a little over a ½ per cent on average - with some evidence that revisions were larger in up-swings than in down-swings. The corresponding initial estimates of the level of current price GDP were revised upwards on average by 1½ per cent after 1 year, 2½ per cent after 2 years and 4 per cent after 4 years.

3. Ideally, the CSO and other government departments should be able to pinpoint the reasons for these revisions and correct any biases that arise. In practice, the most likely solution may be to make an arbitrary upward adjustment to the published figures. But we need to do some more work before deciding on this. In particular the CSO are currently analysing the components of GDP to see whether a clear picture of the sources of revisions emerges.

Which wd give us c. ½% higher growth, by the looks of it.

[illegible]

Moreover we shall be able to analyse another batch of revisions, going back several years during the next few weeks when the annual Blue Book (on national accounts) and the Pink Book (on the balance of payments) are available. I hope to come to you with some firm suggestions for dealing with this problem in November.

II Discrepancies between GDP measures

4. Investigation into the construction industry has revealed that output has probably been understated in recent years. In particular, activity in housing improvements has almost certainly been higher than has been recorded in the output statistics. Correction of this understatement will help to narrow the gap between the output measure of GDP and the other two measures. The example illustrates the general difficulty that definitions of industries do not change as fast as events in the real world and Departments rarely share the CSO's interest in redefining the industries which they sponsor, if it is likely to result in different coverage from their own definitions for sponsorship purposes.

III The Company Sector

5. Company sector statistics have been causing concern for many years. An additional statistician has been assigned to this area since March. The most worrying feature is the large discrepancy between the financial surplus as measured from income and expenditure and the surplus as measured from its financing. Several errors have now been identified which have reduced this discrepancy or balancing item.

6. Most areas investigated have revealed points where improvements are needed. But there is a great deal more work to be done to reduce the balancing item to an acceptable level. In particular we are concerned about the consistency of oil company data used in the income, expenditure, and output measures of GDP, in the balance of payments and in financial statistics.

IV Improvements to UK Service sector statistics

7. An inter-departmental group is considering the need for improved data on the service industries. Its recommendations may include some extensions to the data collection system. Industries for

which employment has been used as a proxy for output account for 6 per cent of GDP. The assumption that they enjoy no productivity growth will be changed and this will further narrow the gap between the various GDP measures. Other improvements should follow. These may include some further use of VAT data for statistical purposes.

PEM

P E MIDDLETON

cc: Sir J Boreham - Central Statistical Office

PRESS
AND
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CSO

CENTRAL STATISTICAL OFFICE
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OTHER ENQUIRIES 01-233 6135/6193

CSO(84)69

8 August 1984

ECONOMIC TRENDS - JULY

DISTRIBUTION OF INCOME IN THE UK, 1981/82

Estimates by the Central Statistical Office of personal income distribution in the tax year 1981/82 are published today in an article[1] in Economic Trends for July. They show that, compared with 1978/79, the latest earlier year for which estimates were published, the 10 per cent of people with the highest incomes increased their share of both pre- and post- tax income, while the pre-tax income of those in the lower half of the income distribution fell. The following were among the main findings:

Over three-quarters of personal income before tax went to tax-units* in the upper half of the income distribution.

The top 10 per cent of tax-units increased their share of pre-tax income from 26 per cent in 1978/79 to 28 per cent in 1981/82.

Payment of income tax in 1981/82 reduced the share of the top 10 per cent of tax-units from 28 per cent of pre-tax income to 26 per cent of post-tax income. It increased the share of the bottom 10 per cent by about a half per cent.

The share of pre-tax income of the lower half of the income distribution fell between 1978/79 and 1981/82 from about 24 to 23 per cent.

Income tax paid in 1981/82 averaged 17 per cent of pre-tax income, a marginal increase over 1978/79. However the income tax burden at both the upper and lower ends of the distribution fell.

* A tax-unit can be either a married couple or an unmarried individual who has left school.

Eighty per cent of the pre-tax income of the top quarter of tax-units in 1981/82 was derived from employment, compared with [illegible]3 per cent of income of the bottom quarter, whose main sources of income were the National Insurance Retirement Pension and non-taxable social security payments (which at that time included benefits paid to the unemployed).

Percentage shares of income, before and after tax, received by quantile groups 1975/76, 1978/79 and 1981/82

	Percentages[1]					
	Before tax[2]			After tax[2]		
Quantile group	1975/76	1978/79	1981/82	1975/76	1978/79	1981/82
Top 1 per cent	5.7	5.3	6.0	3.9	3.9	4.6
2-5 per cent	10.7	10.7	11.6	9.7	9.8	10.7
6-10 per cent	9.8	10.1	10.7	9.5	9.7	10.3
Top 10 per cent	26.2	26.1	28.3	23.1	23.4	25.6
11-20 per cent	16.1	16.5	16.7	15.9	16.3	16.4
21-30 per cent	13.2	13.5	13.2	13.5	13.5	13.2
31-40 per cent	11.5	11.2	10.7	11.3	11.3	10.8
41-50 per cent	9.2	9.2	8.6	9.6	9.3	8.8
51-60 per cent	7.5	7.3	7.0	7.7	7.7	7.3
61-70 per cent	5.8	5.8	5.8	6.3	6.4	6.3
71-80 per cent	4.5	4.5	4.4	5.3	5.1	5.2
81-90 per cent	3.5	3.5	3.5	4.3	4.1	4.0
91-100 per cent	2.5	2.4	2.0	3.0	2.9	2.4
Median income: £	2 370	3 370	4 720	1 970	2 890	4 090
Mean income : £	2 870	4 110	6 050	2 300	3 420	5 020

[1] The figures in this table are rounded and may therefore not sum to 100.
[2] People in, say, the top ten per cent of the pre-tax income distribution will not all be the same as those in the top ten per cent of the post-tax income distribution. This arises from differences in tax liability between tax-units at similar levels of pre-tax income. A similar qualification applies to comparisons between one year and another. Undue significance should not be attached to very small changes, as the figures are rounded estimates.

These estimates aim to cover the whole of the income-receiving population and all sources of income for a full year. They are thus much more comprehensive than other information available in the field of income distribution statistics. This analysis was formerly made annually, but the frequency of production has now been reduced. It was last carried out for the year 1978/79 and published in Economic Trends for February 1981. Estimates for intervening years are not available.

Economic Trends for July also contains the regular quarterly article on National Income and Expenditure, for the first quarter of 1984.

[1] The distribution of income in the United Kingdom, 1981/82.

Economic Trends No.369, July 1984 is published by HMSO and is marketed by Open University Educational Enterprises Ltd. It is available from government bookshops and through booksellers.

Price £11.25 net.

ISBN 0 11 620124X

FROM: DAVID PERETZ
DATE: 10 August 1984

R—D

MR FOLGER

cc Sir P Middleton
Sir T Burns (or)
Mr Battishill (or)
Mr Culpin
Mr Ridley

The Chancellor was struck, unfavourably, with the press coverage on 9 August of an article in the July Economic Trends on the distribution of income. He was also concerned about the tone of the CSO press notice (of which I attach a copy) that appears to have prompted this report.

2. He has not seen the article itself, but so far as the press notice is concerned he felt it would have given a more balanced picture had it pointed out, for example, that:-

(i) whatever the changes in the distribution of income, incomes at all levels have risen between 1978/79 and 1981/82.

(ii) the change in the distribution post-tax between the two years is the same as the change in distribution pre-tax.

(iii) the changes presumably also reflect changes in the age distribution: the proportion of "tax-units" represented by retired households is presumably rising.

3. Could you and/or Mr Culpin make diplomatic enquiries with the CSO about the background to this article and press notice? The Chancellor is inclined to think the Treasury should, as a matter of normal course, be consulted in advance about such press releases on economic matters - if this does not happen already.

DLCP

D L C PERETZ

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CENTRAL STATISTICAL OFFICE

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11-20 per cent	16.1	16.5	16.7	15.9	16.3	16.4
21-30 per cent	13.2	13.5	13.2	13.5	13.5	13.2
31-40 per cent	11.5	11.2	10.7	11.3	11.3	10.8
41-50 per cent	9.2	9.2	8.6	9.6	9.3	8.8
51-60 per cent	7.5	7.3	7.0	7.7	7.7	7.3
61-70 per cent	5.8	5.8	5.8	6.3	6.4	6.3
71-80 per cent	4.5	4.5	4.4	5.3	5.1	5.2
81-90 per cent	3.5	3.5	3.5	4.3	4.1	4.0
91-100 per cent	2.5	2.4	2.0	3.0	2.9	2.4
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[1] The figures in this table are rounded and may therefore not sum to 100.
[2] People in, say, the top ten per cent of the pre-tax income distribution will not all be the same as those in the top ten per cent of the post-tax income distribution. This arises from differences in tax liability between tax-units at similar levels of pre-tax income. A similar qualification applies to comparisons between one year and another. Undue significance should not be attached to very small changes, as the figures are rounded estimates.

These estimates aim to cover the whole of the income-receiving population and all sources of income for a full year. They are thus much more comprehensive than other information available in the field of income distribution statistics. This analysis was formerly made annually, but the frequency of production has now been reduced. It was last carried out for the year 1978/79 and published in Economic Trends for February 1981. Estimates for intervening years are not available.

Economic Trends for July also contains the regular quarterly article on National Income and Expenditure, for the first quarter of 1984.

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[1] The distribution of income in the United Kingdom, 1981/82.

Economic Trends No.369, July 1984 is published by HMSO and is marketed by Open University Educational Enterprises Ltd. It is available from government bookshops and through booksellers.

Price £11.25 net.

ISBN 0 11 620124X

8.40

FROM: DAVID PERETZ

DATE: 10 August 1984

SIR PETER MIDDLETON

cc Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Sir T Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Sedgwick
Mr Folger
Mr G White
Mr Lord
Mr Ridley
Mr Portillo

NATIONAL ACCOUNTS STATISTICS

The Chancellor was grateful for the progress report, in your minute of 7 August, on this important subject. He very much welcomes the progress that is beginning to be made.

DLP

D L C PERETZ

F13

FROM: ADAM RIDLEY
DATE: 13 August 1984

MR PERETZ

CSO ARTICLE ON INCOME DISTRIBUTION

Like the Chancellor, I was rather surprised by the CSO draft for Economic Trends, and asked myself whether it could and should have been cleared properly with Treasury officials in advance. As you will see from the attached minute, there were some pretty major weaknesses in the exposition in the full text which if corrected could have helped a good deal. It also occurs to me that one could, if we could get the picture clearer, put a short piece in the EPR which might help straighten the record. Not least worth considering because I suspect the EPR is more widely read than Trends!

AR

A N RIDLEY

PS It was impossible to do much to pre-empt this since I only saw the brief from S. Matthews hours before Trends was published.

F13

FROM: ADAM RIDLEY
DATE: 9 August 1984

MR FOLGER

cc Mr Byatt
Mr Allen
Mr Culpin
Mr Lord
Mr Portillo
Mr Matthews

ECONOMIC TRENDS ARTICLE ON INCOME DISTRIBUTION

Mr Matthews' brief of August 7 on the economic trends article raises some important points. Since there is a clear possibility, as already noted, that some of the material in this article could be used, or rather misused, if people misinterpret it, it is worth drawing attention to two other issues which may be helpful at some point. First, the article focuses on changes between 78-9 and 81-2 alone, with the exception of the data in Table A. The obvious thought to emerge from that fact is that it would be sensible to take a few key figures over a longer period, at least as far back as the early 1970s. Obvious statistics to look at would be the gini co-efficient, the share of pre and post-tax income in various sensitive groups such as the top and bottom quantiles. This might both indicate the extent to which there is variability in such statistics; and might also demonstrate that 75/6 and 78/9 were a bit off trend (without checking back the earlier articles, no one looking at this draft article will have any way of knowing, nor will those who brief on it). Second, much more must surely be made of the points in para 7 of Mr Matthews' draft brief. In particular I cannot help wondering whether one could not make some kind of very crude calculations about the effect of changes since 81-2, which must have had a major impact since they involved in particular the very substantial increase in personal allowances in the last two budgets.

2. These thoughts and the important issues raised in Stephen Matthew's brief prompt the thought in my mind that the economic trends article is not a very enlightening document . One can imagine more illuminating ways of presenting the latest information in a proper context which are certainly value free and more likely to be of help to the average reader of Economic Trends!

AR

A N RIDLEY

CONFIDENTIAL

B:34

FROM: M T FOLGER
DATE: 15 August 1984

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr Culpin
Mr G P Smith DEU4
PS/IR
KB/01

JULY "TRENDS": CSO ARTICLE ON INCOME DISTRIBUTION

Mr Peretz's minute of 10 August asked about the background to this article and the Press Notice on it.

Article

2. As usual for articles of close interest to other Departments, CSO consulted DEU4 and the Revenue on a draft of this article. The final version clearly stated that:

"Changes in the distribution of income do not necessarily have a bearing on movements in average living standards; real household disposable income per head rose by 4 per cent between 1978 and 1981" [main result (vii) p.98]

"Between 1978 and 1981 real household disposable income per head rose by 4 per cent from £2,470 per annum to £2,569 (in 1980 prices). A further small increase was recorded in 1982. This indicates an overall improvement in average living standards."

Thus the article covered the point at sub-paragraph 2(i) of Mr Peretz's note. (So, too, did the defensive briefing of 7 August, prepared at my request by Mr Matthews of DEU4 against publication. A copy of this is attached.)

3. The article also explained the increasingly important role, at the bottom end of the distribution, of social security payments. (These include those paid to retired households, as mentioned in Mr Peretz's 2(iii).) It noted that changes in the composition of income, including occupational pensions, underlie many of the changes observed in its distribution.

The text did not however bring out the fact that the increased inequality in post-tax income distribution as measured by movements in the Gini between 1978-79 and 1981-82, was due entirely to changes in the pre-tax distribution. This would have been a useful point to make and was covered in our defensive briefing note.

Press Notice

5. It has not hitherto been CSO practice to clear Press Notices about "Trends" with the Treasury. Clearly in this case it would have been helpful had they done so. CSO themselves say that with hindsight the Notice should certainly have made the point about rising real incomes, which might have prevented the popular press getting things quite so wrong.

6 As for other press releases on economic matters, CSO already consult my division and/or EA and others about those on GDP, industrial production, cyclical indicators etc. I see no cause for concern about the way the mechanics of those arrangements are working.

Action

7. To help avoid repetition of the problems over the income distribution article, I have proposed to the editor of "Trends" that:

(a) he lets EB, and Treasury Divisions concerned with specific articles, should have the opportunity to comment each month on the draft Press Notice on "Trends".

(b) a note of the forward programme for Trends articles be circulated regularly for information, so that we have better early warning of potentially sensitive subjects.

(c) though it does not seem to have been a major problem in this case, he may like to remind all CSO contributors to "Trends" of the importance of inviting comments from concerned Treasury divisions at an early draft stage.

MTF

M T FOLGER

CONFIDENTIAL

(PLP)

FROM: MISS J C SIMPSON

DATE: 21 August 1984

cc Sir P Middleton
Sir T Burns
Mr Battishill
Mr Culpin
Mr G P Smith DEU 4
PS/IR
KB/01

MR FOLGER

JULY "TRENDS": CSO ARTICLE ON INCOME DISTRIBUTION

The Chancellor has seen and was grateful for your minute of 15 August. He has commented that the action proposed seems to be both necessary and appropriate.

JS

MISS J C SIMPSON

2.65

CONFIDENTIAL

FROM: MISS J C SIMPSON

DATE: 24 August 1984

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Littler
Sir T Burns
Mr Kelly - EF
Mr Folger
Mr Culpin
Mr Towers

MR HARRISON

JULY TRADE FIGURES

The Chancellor has seen your minute of 21 August, and is content with the proposed IDT press line.

JS

MISS J C SIMPSON

REVISED DRAFT.

10
No. (13

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THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

30 SEPTEMBER 1984

The current account for September was in deficit by an estimated £514 million compared with a deficit of £318 million in August. Exports in September amounted to £5857 million and imports to £6621 million so that trade in goods was in deficit by £764 million.

The invisibles account has been projected at a monthly surplus of £250 million; a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

THIRD QUARTER 1984

In the third quarter the current account was in deficit by £719 million compared with a deficit of £283 million in the second quarter. There was a deficit of £1469 million on visible trade in the latest quarter compared with a deficit of £1193 million in the previous quarter. The surplus on invisibles is projected at £750 million.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

			Visible Trade			Invisibles [c]		
		Current Balance	Balance	Exports fob	Imports fob	Balance	Credits	Debits
1982		+ 5206	+ 2384	55565	53181	+ 2822	31307	28485
1983		+ 2916	- 716	60625	61341	+ 3632	34975	31343
1983	Q3	+ 922	- 276	14856	15132	+ 1198	8836	7638
	Q4	+ 496	- 120	16194	16314	+ 616	8898	8282
1984	Q1	+ 472	- 59	16853	16912	+ 531	9054	8523
	Q2	- 283	- 1193	16896	18089	+ 910	9273	8363
	Q3	- 719a	- 1469	17284	18753	+ 750a		
1984	Apr	- 514	- 817	5368	6184	+ 303b	Monthly figures of credits and debits are not available	
	May	+ 25	- 279	5636	5914	+ 304b		
	June	+ 206	- 97	5893	5990	+ 303b		
	July	+ 113a	- 137	5476	5614	+ 250a		
	Aug	- 318a	- 568	5951	6518	+ 250a		
	Sept	- 514a	- 764	5857	6621	+ 250a		

a Invisibles are projections and subject to revision as information becomes available.
b One-third of the appropriate calendar quarter's estimate, except for budget refunds received from the European Community which are allocated to the month they are known to have been received.
c Information relating to credits and debits of the private sector and public corporations can be found in Table 3.

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VISIBLE TRADE IN SEPTEMBER 1984

Visible trade in September was in deficit by £764 million compared with a deficit of £568 million in August.

At £5857 million exports were £94 million (1½ per cent) lower than in August. Excluding trade in oil and the erratic items, both of which increased in September, exports fell by about 5 per cent between the two months. This fall reflects a return to more normal levels of trade following the August figures which were boosted by the recovery from the July dock strike.

Total imports were valued at £6621 million which was £103 million (1½ per cent) higher than in August. Imports of oil fell by £166 million and imports of the erratic items increased by £64 million.

The level of imports in September was 9 per cent higher than the average of July and August. There is evidence suggesting that traders may have brought forward imports scheduled for later in the year in anticipation of the change in VAT procedures at the beginning of November.

The terms of trade index in September was unchanged compared with August as both the export unit value index and the import unit value index increased by 1 per cent.

RECENT TRENDS

Visible balance

In the latest quarter there was a deficit on visible trade of £1.5 billion compared with a deficit of £1.2 billion in the previous quarter. The surplus on trade in oil increased by £0.3 billion to £1.8 billion while the deficit on non-oil goods increased by about £0.5 billion to £3.3 billion.

Exports

Exports in the third quarter were valued at £17.3 billion, an increase of £0.4 billion (2½ per cent) over the second quarter. Much of this

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increase reflects higher oil deliveries (up by £0.3 billion).

Exports of the erratic items fell by £0.1 billion and exports of other goods, excluding oil, increased by £0.2 billion reflecting higher deliveries of chemicals and finished manufactures.

In the third quarter of this year export volume was marginally lower than in the previous quarter and was much the same as in the last quarter of 1983. The underlying level of non-oil export volume has remained flat throughout the year.

Imports

Total imports in the third quarter were valued at £18.8 billion, an increase of £0.7 billion (3½ per cent) over the second quarter. Imports of oil increased only marginally and imports of the erratic items fell by £0.1 billion. Imports of other goods increased by £0.8 billion with passenger motor cars and intermediate goods showing the most significant growth.

The volume of total imports increased by 1per cent in the latest three months. The trend in non-oil inports was fairly flat during the first half of 1984 while the underlying position in the last three months is not yet clear; the latest three month comparison shows a rise of 1½ per cent.

Terms of trade and unit values

The terms of trade index was virtually unchanged in the latest quarter with both the export unit value index and the import unit value index increasing by about 2½ per cent.

Export unit values of food, beverages and tobacco fell slightly in the latest quarter as did those of passenger motor cars. Most of the other broad sectors rose by between 2 and 3 per cent although the export unit value indices for fuels and for other semi-manufactures increased marginally faster.

Import unit values for chemicals (up by 4½ per cent) continue to rise relatively faster than those for most of the other broad sectors. Import unit values for consumer goods other than cars (up by 5 per cent) and for fuels (up by 4½ per cent) also increased significantly more than those for other sectors in the third quarter. By contrast import unit values for passenger motor cars fell marginally in the latest quarter.

Analysis by Area

The value of exports to the developed countries increased by 4 per cent between the latest two quarters; the result of higher deliveries to the European Community countries (up 7 per cent) and to North America (up 3 per cent). Exports to the developing countries increased by 5½ per cent.

Imports from the developed countries as a whole increased by 3 per cent in the latest quarter with imports from North America increasing by 7 per cent and imports from the European Community countries increasing by 5 per cent. Imports from the developing countries fell by 5 per cent,

INVISIBLES

The latest estimates of invisibles - services, interest, profits and dividends and transfers - relate to the second quarter of 1984

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when credits were £9.3 billion and debits were £8.4 billion giving a surplus of £0.9 billion for the quarter. Invisibles in the private sector and public corporations (excluding transfers) were in surplus by £2.2 billion. The figures for the third quarter are CSO projections.

NOTES TO EDITORS

1 STANDARD NOTES

The standard notes describe in detail the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. The principal difference is the deduction of freight from the OTS valuation of imports. Copies can be obtained from the address below.

2 VISIBLE TRADE BALANCES BY COMMODITY (BALANCE OF PAYMENTS BASIS)

Table 16 of the Press Notice shows the value of exports, imports and the visible balance, measured on a comparable (BOP) basis, for each of the major commodity groups including manufactured goods. Monthly data at this level of detail are published in the Monthly Review of External Trade Statistics.

3 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review of External Trade Statistics, prepared mainly as an internal working document, is made available publicly by the Department of Trade and Industry (price £3 a copy).

This is a monthly publication containing charts and tables, on the current account of the UK balance of payments, UK exports and imports of goods by commodity and area and certain international comparisons. An annual supplement (No 5), price £4 a copy, provides longer historical runs for the series shown in the monthly edition and additional international data.

4 INVISIBLES: MONTHLY FIGURES

For all invisible transactions except European Community budget refunds one third of the appropriate calendar quarter's balance is used as the monthly balance.

European Community budget refunds are allocated to the particular month in which they are known to have been received.

5 ROUNDING

The data published in this Press Notice have been rounded to the nearest £million. Therefore figures may not sum to the aggregates and balances may not derive exactly from the export and import figures shown.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H OET, Telephone: 01-215 5703.

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Table 2

CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES

(Balance of Payments basis)

£ million seasonally adjusted

		Current Balance	Visible Trade: Exports fob	Imports fob	Visible Balance	of which: Oil	Non-Oil	Invisible Balance
1982		+ 5206	55565	53181	+ 2384	+ 4556	- 2172	+ 2822
1983		+ 2916	60625	61341	- 716	+ 6875	- 7591	+ 3632
1983	Q3	+ 922	14856	15132	- 276	+ 1485	- 1761	+ 1198
	Q4	+ 496	16194	16314	- 120	+ 2099	- 2219	+ 616
1984	Q1	+ 472	16853	16912	- 59	+ 2316	- 2374	+ 531
	Q2	- 283	16896	18089	- 1193	+ 1548	- 2740	+ 910
	Q3	- 719a	17284	18753	- 1469	+ 1818	- 3286	+ 750a
1983	Sept	+ 434	5140	5098	+ 42	+ 512	- 470	+ 392 b
	Oct	- 322	5156	5610	- 455	+ 550	- 1004	+ 133 b
	Nov	+ 97	5235	5271	- 35	+ 652	- 687	+ 132 b
	Dec	+ 721	5803	5433	+ 370	+ 898	- 528	+ 351 b
1984	Jan	- 147	5214	5538	- 324	+ 719	- 1042	+ 177 b
	Feb	+ 669	5948	5456	+ 492	+ 821	- 329	+ 177 b
	Mar	- 50	5691	5918	- 227	+ 776	- 1003	+ 177 b
	Apr	- 514	5368	6184	- 817	+ 380	- 1197	+ 303 b
	May	+ 25	5636	5914	- 279	+ 512	- 791	+ 304 b
	June	+ 206	5893	5990	- 97	+ 656	- 753	+ 303 b
	July	+ 113a	5476	5614	- 137	+ 784	- 922	+ 250 a
	Aug	- 318a	5951	6518	- 568	+ 417	- 984	+ 250 a
	Sept	- 514a	5857	6621	- 764	+ 617	- 1380	+ 250 a
Percentage change third quarter on previous quarter			+2½	+3½				

a Invisibles are projections and subject to revision as more information becomes available.

b One third of the appropriate calendar quarter's estimate, except for budget refunds received from the European Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

		All Sectors: Credits	Debits	Balance	of which: Services	Interest Profits Dividends	Transfers	Private Sector and Public Corporations[d]: Credits	Debits	Balance
1982		31307	28485	+ 2822	+ 3706	+ 1165	- 2049	26898	20395	+ 6503
1983		34975	31343	+ 3632	+ 3902	+ 1948	- 2218	30530	22696	+ 7834
1982	Q3	7560	7132	+ 428	+ 789	+ 347	- 708	6655	5105	+ 1550
	Q4	8169	7260	+ 909	+ 907	+ 568	- 566	7114	5176	+ 1938
1983	Q1	8848	7433	+ 1415	+ 1012	+ 528	- 125	7361	5377	+ 1984
	Q2	8393	7990	+ 403	+ 1090	+ 120	- 807	7474	5761	+ 1713
	Q3	8836	7638	+ 1198	+ 978	+ 745	- 525	7806	5581	+ 2225
	Q4	8898	8282	+ 616	+ 822	+ 555	- 761	7889	5977	+ 1912
1984	Q1	9054	8523	+ 531	+ 988	+ 87	- 544	7860	6243	+ 1617
	Q2	9273	8363	+ 910	+ 1174	+ 489	- 753	8329	6086	+ 2243

c ie excluding general Government transactions and all transfers.

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

		Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
		Exports	Imports	Terms of Trade[e]	Exports	Imports
1982		116.7	117.9	99.0	101.5	100.7
1983		126.6	129.1	98.0	102.3	107.6
1983	Q3	127.9	129.3	98.9	99.2	106.6
	Q4	129.2	131.8	98.0	107.3	112.8
1984	Q1	132.6	136.1	97.4	109.5	113.2
	Q2	134.9	139.0	97.1	108.3	118.2
	Q3	138.5	~~142.2~~ 142.6	~~97.4~~ 97.1	107.6	~~119.5~~ 119.4
1983	Sept	128.7	129.8	99.2	102.0	107.2
	Oct	128.4	131.2	97.9	103.1	117.8
	Nov	128.9	131.6	98.0	104.3	109.1
	Dec	130.2	132.7	98.1	114.6	111.6
1984	Jan	132.5	135.1	98.1	101.8	111.7
	Feb	132.8	136.4	97.4	115.4	110.2
	Mar	132.5	136.7	96.9	111.3	117.9
	Apr	133.9	138.6	96.6	104.4	122.4
	May	134.9	139.3	96.8	108.5	115.0
	June	136.1	139.1	97.8	112.0	117.3
	July	137.5	141.2	97.4	102.8	108.6
	Aug	138.3	142.7	96.9	111.9	123.8
	Sept	139.7	~~142.9~~ 143.7	~~97.8~~ 97.1	108.2	~~126.1~~ 125.7
Percentage change third quarter on previous quarter		+2½	+2½	~~+½~~ –	-½	+1

[e] Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[f]

Table 5

(Balance of Payments basis)

seasonally adjusted

		Value £ million fob		Volume Index 1980 = 100	
		Exports	Imports	Exports	Imports
1982		52118	50723	103.6	106.2
1983		56284	57944	104.0	112.8
1983	Q3	13696	14358	100.3	112.3
	Q4	15202	15608	110.5	119.9
1984	Q1	15689	16113	111.9	119.9
	Q2	15778	17227	110.9	125.0
	Q3	16257	18020	111.1	~~127.2~~ 127.1
1983	Sept	4651	4827	101.5	112.8
	Oct	4835	5297	106.2	123.8
	Nov	4968	5042	108.3	115.8
	Dec	5400	5269	117.1	120.0
1984	Jan	4951	5332	105.9	119.3
	Feb	5444	5308	116.1	118.6
	Mar	5294	5473	113.6	121.7
	Apr	5092	5885	108.5	129.1
	May	5245	5623	111.0	121.5
	June	5441	5719	113.1	124.6
	July	5133	5349	105.7	114.7
	Aug	5650	6316	116.4	133.1
	Sept	5474	6355	111.1	~~133.9~~ 133.4
Percentage change third quarter on previous quarter		+3	+4½	-	~~+2~~ +1½

[f] These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

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TRADE IN OIL[g]
(Balance of Payments basis)

seasonally adjuste

	Balance of Trade in oil	Exports of Oil					Imports of Oil				
		Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Divisio 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1982	+ 4556	10686	8542	60.3	141.6	2144	6130	3861	28.3	136.6	2269
1983	+ 6875	12525	10111	68.4	147.8	2414	5650	3265	22.8	143.3	2385
1983 Q3	+ 1485	2960	2361	16.2	145.8	599	1474	961	6.8	140.5	513
Q4	+ 2099	3500	2910	19.5	149.6	589	1400	829	5.8	144.0	571
1984 Q1	+ 2316	3654	2951	19.1	154.2	703	1338	643	4.3	148.6	695
Q2	+ 1548	3455	2766	17.5	158.4	689	1907	1019	6.9	148.8	888
Q3	+ 1818	3768	3083	18.8	164.4	685	1950	1046	6.8	154.4	905
1983 Sept	+ 512	1031	818	5.6	147.4	212	518	347	2.5	139.7	172
Oct	+ 550	1100	905	6.1	148.4	195	550	366	2.5	144.5	185
Nov	+ 652	1117	935	6.1	154.0	182	465	265	1.9	141.8	200
Dec	+ 898	1283	1070	7.3	147.0	212	385	198	1.4	145.9	186
1984 Jan	+ 719	1101	874	5.8	151.8	226	382	205	1.4	151.1	177
Feb	+ 821	1277	1019	6.5	156.2	258	456	226	1.5	149.7	230
Mar	+ 776	1276	1058	6.9	154.2	218	500	212	1.5	145.1	288
Apr	+ 380	1035	828	5.3	156.8	207	655	365	2.5	147.8	290
May	+ 512	1175	955	6.0	158.4	220	663	353	2.4	148.9	310
June	+ 656	1245	983	6.2	159.8	262	590	301	2.0	149.9	288
July	+ 784	1265	1013	6.2	162.6	252	480	285	1.9	152.3	195
Aug	+ 417	1234	1021	6.3	162.1	213	818	388	2.5	153.4	430
Sept	+ 617	1269	1049	6.2	168.6	220	652	373	2.4	158.3	280
Percentage change third quarter on previous quarter		+9	+11	+7½	+4	-½	+2½	+2½	-1	+4	+2

v [g] Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 7 of the standard notes).

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TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total: Value, £ million, fob (seasonally adjusted)			Total: Unit value index 1980 = 100 (not seasonally adjusted)			Total: Volume index 1980 = 100 (seasonally adjusted)		Excluding Erratics[f]: Value, £ million fob (seasonally adjusted)		Excluding Erratics[f]: Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1982	- 2172	44879	47051	114.4	113.9	100.4	96.9	105.0	41432	44593	98.8	111.9
1983	- 7591	48100	55691	124.5	125.7	99.1	95.5	114.1	43759	52294	96.7	120.9
1983 Q3	- 1761	11896	13657	126.2	126.1	100.1	93.0	112.5	10736	12883	93.7	119.8
Q4	- 2219	12694	14913	127.2	128.5	98.9	99.0	120.4	11702	14207	101.9	129.4
1984 Q1	- 2374	13199	15573	130.5	133.0	98.1	101.0	121.4	12035	14774	102.9	130.1
Q2	- 2740	13441	16181	132.9	136.4	97.4	101.2	123.7	12323	15320	103.5	132.2
Q3	- 3286	13516	16803	136.1	139.6	97.5	99.6	125.7	12490	16070	102.8	135.4
1983 Sept	- 470	4110	4580	126.9	126.6	100.2	95.4	112.8	3621	4309	94.2	119.9
Oct	- 1004	4056	5060	126.5	127.6	99.1	95.3	124.5	3735	4747	98.1	132.2
Nov	- 687	4118	4805	126.9	128.6	98.6	96.6	115.9	3851	4577	100.5	124.4
Dec	- 528	4520	5048	128.2	129.4	99.1	105.1	120.7	4117	4884	107.0	131.7
1984 Jan	- 1042	4113	5156	130.6	131.7	99.2	94.3	121.3	3851	4950	98.4	131.4
Feb	- 329	4671	5000	130.5	133.2	98.0	106.9	117.7	4166	4852	106.9	128.4
Mar	- 1003	4415	5418	130.3	134.3	97.1	101.8	125.1	4018	4973	103.4	130.5
Apr	- 1197	4333	5530	131.8	136.2	96.8	98.9	127.3	4057	5230	103.3	135.7
May	- 791	4461	5252	132.9	136.6	97.3	100.9	119.9	4071	4960	103.0	127.9
June	- 753	4647	5400	134.0	136.6	98.1	103.8	123.8	4196	5129	104.2	133.1
July	- 922	4212	5133	135.1	138.4	97.6	93.5	115.8	3868	4868	96.0	123.8
Aug	- 984	4716	5701	136.0	139.7	97.4	104.7	128.3	4416	5499	109.3	139.6
Sept	- 1380	4588	5969	137.1	140.6	97.5	103.5	133.0	4206	5703	103.1	142.8
Percentage change third quarter on previous quarter		+½	+4	+2½	+2½	-	-1½	+1½	+1½	+5	-½	+2½

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

e Export unit value index as a percentage of the import unit value index.

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until release of press notice on 24 OCT 84 at 3.00 p.m.

EXPORTS BY COMMODITY

(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h] Total	Semi-manufactures excluding precious stones & silver(PS) Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA) Total	Passenger Motor Cars	Other Consumer	Intermediate	Capita
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1982	55558	3960	1340	11237	37313	34052	12687	6119	6568	21365	960	3523	9225	7656
1983	60534	4235	1586	13127	39919	35756	13832	6929	6903	21924	996	3914	9288	7726
1983 Q3	14831	1024	389	3086	9935	8809	3397	1737	1660	5412	243	959	2273	1937
Q4	16234	1104	436	3658	10573	9587	3694	1843	1851	5893	305	1072	2513	2003
1984 Q1	16859	1177	436	3784	11067	9876	3816	1935	1881	6060	267	1100	2598	2095
Q2	16866	1168	501	3494	11232	10116	3954	1960	1993	6162	255	1102	2652	2154
Q3	17210	1096	504	3861	11299	10310	3977	2033	1943	6333	218	1111	2776	2228
1984 July	5450	341	148	1295	3534	3206	1248	642	606	1958	72	364	847	676
Aug	5934	414	183	1265	3892	3596	1383	691	692	2214	78	379	970	787
Sept	5827	341	172	1301	3873	3508	1346	700	646	2162	68	368	960	765
Percentage change Q3/Q2	+2	-6	+½	+11	+½	+2	+½	+3½	-2½	+3	-15	+1	+4½	+3½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h] Total	Semi-manufactures excluding precious stones & silver(PS) Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA) Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	101.6	107	94	133	95	97	99	106	93	96	94	94	99	95
1983	102.2	110	101	148	93	94	102	113	93	90	86	96	89	87
1983 Q3	99.1	105	95	141	92	92	100	113	89	87	80	93	86	86
Q4	107.6	112	106	163	97	100	108	119	100	95	107	105	95	88
1984 Q1	109.5	119	103	165	100	101	109	121	99	96	91	105	96	91
Q2	108.1	118	112	149	100	101	110	119	103	96	79	103	96	95
Q3	107.3	110	113	159	98	101	108	123	96	97	68	104	98	96
1984 July	102.4	103	101	161	92	95	101	116	90	91	65	104	90	88
Aug	111.6	125	126	158	102	106	112	125	103	102	73	105	104	101
Sept	107.8	102	112	158	100	103	109	127	95	98	66	102	100	99
Percentage change Q3/Q2	-½	-6½	+1	+6½	-1½	-½	-2	+3	-7	+1	-14	+1	+2	+1½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

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EXPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	116.6	115	102	132	115	115	110	112	109	118	126	114	120	118
1983	126.5	122	112	140	125	124	117	119	115	129	144	122	132	128
1983 Q3	127.9	123	115	139	127	126	118	120	116	131	147	123	134	129
Q4	129.2	125	117	142	128	127	119	121	117	132	144	125	134	131
1984 Q1	132.6	127	122	146	131	130	123	125	120	135	153	129	138	133
Q2	134.9	128	127	148	134	133	126	129	124	137	160	131	141	132
Q3	138.4	128	130	153	138	136	129	131	128	140	158	133	145	135
1984 July	137.4	128	130	152	136	135	129	131	127	139	162	132	143	134
Aug	138.2	127	129	152	138	136	129	131	127	140	156	133	145	136
Sept	139.7	128	132	156	139	137	130	132	129	141	156	135	146	136
Percentage change Q3/Q2	+2½	-½	+2½	+3½	+2½	+2½	+2½	+2	+3	+2½	-1	+2	+3	+2½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY AREA

Table 11

(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total	Developed Countries: Total	European Community	Rest of W Europe	North America	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1982	55558	41393	23124	6681	8353	3235	13053	6445	6608	974
1983	60534	46508	26516	7516	9342	3133	12783	6122	6661	1112
1983 Q3	14831	11493	6386	1777	2496	835	3202	1540	1662	290
Q4	16234	12592	7234	2025	2473	860	3332	1528	1804	271
1984 Q1	16859	13240	7427	2197	2703	912	3263	1477	1786	340
Q2	16866	13201	7398	2153	2721	929	3098	1325	1773	441
Q3	17210	13757	7905	2168	2797	888	3275	1361	1915	428
1984 July	5450	4383	2583	745	777	277	1032	440	593	107
Aug	5934	4774	2648	737	1057	332	1125	485	641	164
Sept	5827	4601	2674	686	962	279	1117	436	682	157
Percentage change Q3/Q2	+2	+4	+7	+½	+3	-4½	+5½	+2½	+8	-3

and personal until release of press notice on 24 OCT 84 at 3.30 p.m.

IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1982	56978	7251	3930	7409	37114	34795	12795	4179	8616	22000	2882	5909	6674	6536
1983	65993	7853	4723	7067	44905	41609	14886	5120	9766	26723	3659	6902	8121	8041
1983 Q3	16288	1917	1146	1813	11119	10349	3716	1254	2461	6634	1013	1671	1970	1980
Q4	17338	2111	1280	1800	11855	11243	4053	1413	2640	7190	881	1936	2189	2184
1984 Q1	18064	2175	1300	1792	12530	11684	4293	1513	2780	7391	902	1938	2363	2188
Q2	19431	2237	1315	2463	13066	12127	4341	1540	2801	7786	828	2069	2465	2424
Q3	19888	2210	1271	2626	13470	12827	4527	1616	2911	8300	1079	2107	2657	2458
1984 July	5984	673	396	694	4136	3875	1366	483	883	2509	246	645	838	780
Aug	6952	751	427	1011	4634	4437	1589	560	1029	2848	431	735	873	810
Sept	6952	786	448	921	4700	4515	1573	573	999	2943	401	726	947	869
Percentage change Q3/Q2	+2½	-1	-3½	+6½	+3	+6	+4½	+5	+4	+6½	+30	+2	+8	+1½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: VOLUME INDICES
(Overseas Trade Statistics basis)

Table 13

INDICES 1980 = 100 seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	100.1	108	93	75	106	115	111	123	107	117	110	113	120	122
1983	107.8	108	104	67	119	128	123	143	115	131	125	125	129	142
1983 Q3	106.7	105	99	69	118	128	124	144	115	131	144	120	125	140
Q4	111.9	112	108	67	125	138	133	157	123	141	121	140	139	154
1984 Q1	112.7	112	105	64	128	139	137	163	126	140	121	137	144	149
Q2	118.2	114	102	87	130	141	135	163	123	145	109	144	147	161
Q3	118.~~1~~9	111	96	~~92~~ 91	131	144	136	164	124	150	142	139	152	161
1984 July	107.8	101	89	72	121	132	124	150	113	138	101	131	145	154
Aug	123.3	113	97	104	135	150	143	171	132	155	172	146	150	162
Sept	123.~~4~~9	117	102	~~102~~ 99	135	150	140	171	127	157	152	141	161	168
Percentage change Q3/Q2	-	-3	-5½	~~+6~~ +5	+½	+2½	+1	+½	+1	+3½	+30	-3½	+3	-

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	116.8	112	104	146	114	115	109	114	107	119	123	113	119	122
1983	127.7	120	116	153	126	125	116	121	113	131	137	122	138	131
1983 Q3	128.0	121	117	153	126	125	116	121	114	131	132	123	139	131
Q4	129.8	123	120	155	128	127	117	123	115	133	137	125	141	131
1984 Q1	134.2	127	127	160	132	131	121	128	119	137	141	128	147	135
Q2	137.2	131	130	160	135	134	126	133	123	139	143	128	150	137
Q3	140.~~5~~9	134	134	~~166~~ 168	138	138	129	138	126	143	143	135	153	141
1984 July	139.6	134	134	166	137	136	129	137	125	141	140	132	152	140
Aug	140.8	134	134	167	138	138	129	138	126	143	142	134	154	142
Sept	~~141.1~~ 142.1	134	134	~~164~~ 171	140	139	130	140	126	145	148	138	153	142
Percentage change Q3/Q2	+2½	+2½	+3½	~~+3~~ +4½	+2	+3	+3	+4½	+2½	+2½	-½	+5	+2	+3

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

Table 15

IMPORTS BY AREA
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

	Total	Developed Countries: Total	Developed: European Community	Developed: Rest of W Europe	Developed: North America	Developed: Other	Developing Countries: Total	Developing: Oil exporting countries	Developing: Other	Centrally planned economies
1982	56978	46191	25269	8390	8095	4436	9349	3453	5896	1327
1983	65993	54729	30098	10444	9027	5159	9611	2824	6786	1534
1983 Q3	16288	13346	7400	2541	2154	1251	2388	718	1670	373
Q4	17338	14689	8072	2898	2394	1324	2331	603	1727	397
1984 Q1	18064	15295	8235	3188	2447	1425	2314	478	1835	431
Q2	19431	15929	8650	3322	2573	1384	2931	836	2096	482
Q3	19888	16442	9102	3231	2753	1357	2789	746	2042	518
July	5984	5008	2709	974	893	432	807	194	613	133
Aug	6952	5680	3178	1206	866	430	966	219	747	215
Sept	6952	5754	3214	1051	994	495	1015	332	683	169
Percentage change Q3/Q2	+2½	+3	+5	-2½	+7	-2	-5	-11	-2½	+7½

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

	Food Beverages and Tobacco			Basic Materials			Fuels		
SITC (R2)	0 + 1			2 + 4			3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	3936	6612	- 2676	1354	3315	- 1961	11237	7193	+ 4043
1983	4220	7203	- 2983	1609	4012	- 2403	13126	6886	+ 6241
1982 Q4	1044	1629	- 585	339	811	- 472	3165	1636	+ 1529
1983 Q1	1114	1765	- 651	380	919	- 539	3260	1621	+ 1640
Q2	987	1740	- 753	393	1017	- 624	3122	1742	+ 1380
Q3	1017	1752	- 736	394	969	- 575	3086	1761	+ 1325
Q4	1102	1946	- 844	442	1107	- 665	3658	1762	+ 1896
1984 Q1	1178	2026	- 849	443	1156	- 712	3805	1751	+ 2054
Q2	1164	2072	- 909	508	1170	- 663	3558	2370	+ 1188
Q3	1091	2049	- 958	511	1129	- 618	3861	2494	+ 1367

	Semi-Manufactures			Finished Manufactures			Total Manufactures		
SITC (R2)	5 + 6			7 + 8			5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	14112	12972	+ 1140	23218	21855	+ 1363	37330	34827	+ 2503
1983	15869	15672	+ 198	24137	26482	- 2345	40006	42153	- 2148
1982 Q4	3671	3290	+ 381	5857	5672	+ 184	9528	8963	+ 565
1983 Q1	3863	3712	+ 151	5803	6387	- 584	9666	10099	- 433
Q2	3923	3942	- 20	5924	6507	- 583	9847	10449	- 603
Q3	3980	3866	+ 114	5983	6547	- 564	9963	10413	- 450
Q4	4104	4151	- 48	6427	7041	- 614	10530	11192	- 662
1984 Q1	4319	4455	- 136	6710	7231	- 520	11030	11686	- 656
Q2	4539	4433	+ 106	6660	7691	- 1031	11199	12123	- 925
Q3	4433	4564	- 131	6937	8226	- 1288	11370	12790	- 1419

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DEPARTMENTS OF INDUSTRY AND TRADE
– COMMON SERVICES
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Telephone Direct Line 01-215 3055
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D L C Peretz Esq
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1P 3AG

19 October 1984

I am attaching a copy of the draft Press Notice on the Current Account of the United Kingdom Balance of Payments in September. The draft was agreed earlier today at the usual interdepartmental meeting.

Publication is set for Wednesday 24 October at 3.30pm and I should be grateful is you would arrange for the Notice to be cleared by noon Tuesday 23 October 1984 and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton.

Yours sincerely

W. E. Boyd

W E BOYD

Note
Told Mr Boyd's secretary that C was content.
Pwo.

V3119

SECRET AND PERSONAL
until 3.30 p.m. on WEDNESDAY 24 OCTOBER
CONFIDENTIAL

FROM: P M WALKER
DATE: 22 OCTOBER 1984

Note at end

1. MR KELLY
2. CHANCELLOR

SEPTEMBER TRADE FIGURES

The September trade figures will be released on Wednesday 24 October. We are content with the DTI press notice which is being sent to you as usual for approval.

Summary

2. The main features are:

(i) An estimated current account deficit of £514 million in September (£318 million in August) brought the current account deficit for the year so far to £530 million. This compares with the FSBR forecast of a £2 billion surplus and a recent internal forecast of a £1¼ billion surplus.

(ii) The deficit on manufactured trade (BOP basis) in the first nine months of the year was £3 billion, equivalent to an annual deficit of £4 billion, twice the £2 billion last year.

(iii) The oil surplus in the first nine months was £5½ billion (an annual rate of £7½ billion).

(iv) Total imports for the month and the quarter were a record, as was the quarterly visible balance. The current account deficit for the month equalled the previous record in April 1984

Table 2: Exports and Imports (percentage change)

(i) Exports	**September on August**	**Q3 on Q2**	**Q3 1984 on Q3 1084**
Total value	- 1½	+ 2½	+ 16½
Total volume	- 3½	- ½	+ 8½
Total volume ecluding oil and erratics	- 5½	- ½	+ 9½
O/w manufactures	- 3	- ½	+ 10
Fuels (volume)	-	+ 6½	+ 13
(ii) Imports			
Total value	+ 1½	+ 3½	+ 24
Total volume	+ 2	+ 1	+ 12
Total volume excluding oil and erratics	+ 2½	+ 2½	+ 13
O/w manufactures	-	+ 2½	+ 12½
Fuels (volume)	- 2	+ 6	+ 33½

To be inserted after Table 1 on page 3.

Analysis

3. The following tables summarise the latest overall position:

Table 1: Current Account

£billion

	1983	1984	Q3	July	August	September
Oil	+ 6.9	+ 1.5	+ 1.8	+ 0.8	+ 0.4	+ 0.6
Non-oil	- 7.6	- 2.7	- 3.3	- 0.9	- 1.0	- 1.4
Total visible trade	- 0.7	- 1.2	- 1.5	- 0.1	- 0.6	- 0.8
O/w: trade in manufactures (BoP) basis)	- 2.1	- 0.9	- 1.4	- 0.3	- 0.5	- 0.6
Invisibles	+ 3.6	+ 0.9	+ 0.8	+ 0.3*	+ 0.3*	+ 0.3*
Current Account	+ 2.9	- 0.3	- 0.7	+ 0.1*	- 0.3*	- 0.5*

For Table 2: see page 2.

4. The July dock strike appears to have worked itself out in July and August to little net effect. Neither the July nor the September disputes noticeably affected the September figures.

5. The miners' strike produced in September extra net oil imports of £250 million and extra net coal imports of around £60 million. Both figures have been rising. The oil surplus was £617 million, equal to the average of July and August taken together. This ws due to the absence of two special factors behind the August fall; the first a temporary fall in North Sea production, the second imports catching up after the July dock strike.

* Projection

6. Exports remain considerably higher than their levels of a year ago (table 2). The underlying trend appears, however, to have flattened out (see attached chart). Comparing the third quarter with the second in volume terms, manufactured exports fell marginally and the most significant change was a 14 per cent fall in passenger car exports. By destination, exports to North America in the third quarter were 3 per cent up on the second quarter.

7. Imports in September exceeded an August figure increased by "catching up" from the July dock strike. The attached chart (which excludes oil and erratics) is starting to show a trend rising from a plateau. In individual categories, comparing the third quarter with a year ago, the largest rises were intermediate goods (22 per cent), capital goods (15 per cent), other consumer goods (16 per cent) and chemicals (14 per cent).

8. Comparison with Forecast. The September trade figures put the current account in deficit by £0.7 billion at an annual rate. This compares with a projected surplus of £1¼ billion in the internal October forecast, and a published current account estimate of £2 billion in the FSBR.

9. Part of the reasons for this discrepancy is invisibles: we are expecting a surplus of £4 billion for 1984 compared to current CSO projections of £3 billion at an annual rate. £½ billion of this discrepancy is due to EC refunds, not allowed for in CSO projections: the remainder is because we think the current estimates of the invisibles balance in the first half of 1983 may be too low. The CSO emphasise that their initial estimates on invisibles are provisional (the Q3 figures are in any case only projections), and there has been a history of upward revisions recently to certain series (particularly on return from direct investment).

10. The balance of trade in oil was in line with other October forecasts, and the annual total is not in fact very different from that envisaged in the FSBR, with a lower dollar/sterling exchange rate and higher North Sea oil production, roughly offsetting the effects of the miners' strike. However, the balance of non-oil trade was substantially worse than we had anticipated in the October forecasts: non-oil import volumes were higher,

and exports of erratics lower than forecast. It seems likely that the imports figure in particular is erratically higher, and there may be a partial offset to it in the fourth quarter.

11. Trade Prices. In September, the effective exchange rate averaged 77.3, 1½ per cent lower than in August. This leads to a further 1 per cent increase in imports of manufactures prices, and puts their annual rate of increase at 10-11 per cent. For non-manufactures, however, the picture is much more encouraging: prices for imported food stuff and basic materials were unchanged in September, probably reflecting recent falls in world prices for non-oil commodities. So in aggregate import prices rose 1 per cent, as did export prices, leaving the terms of trade unchanged.

Briefing

12. I should be grateful for clearance of the attached press briefing.

P M Walker

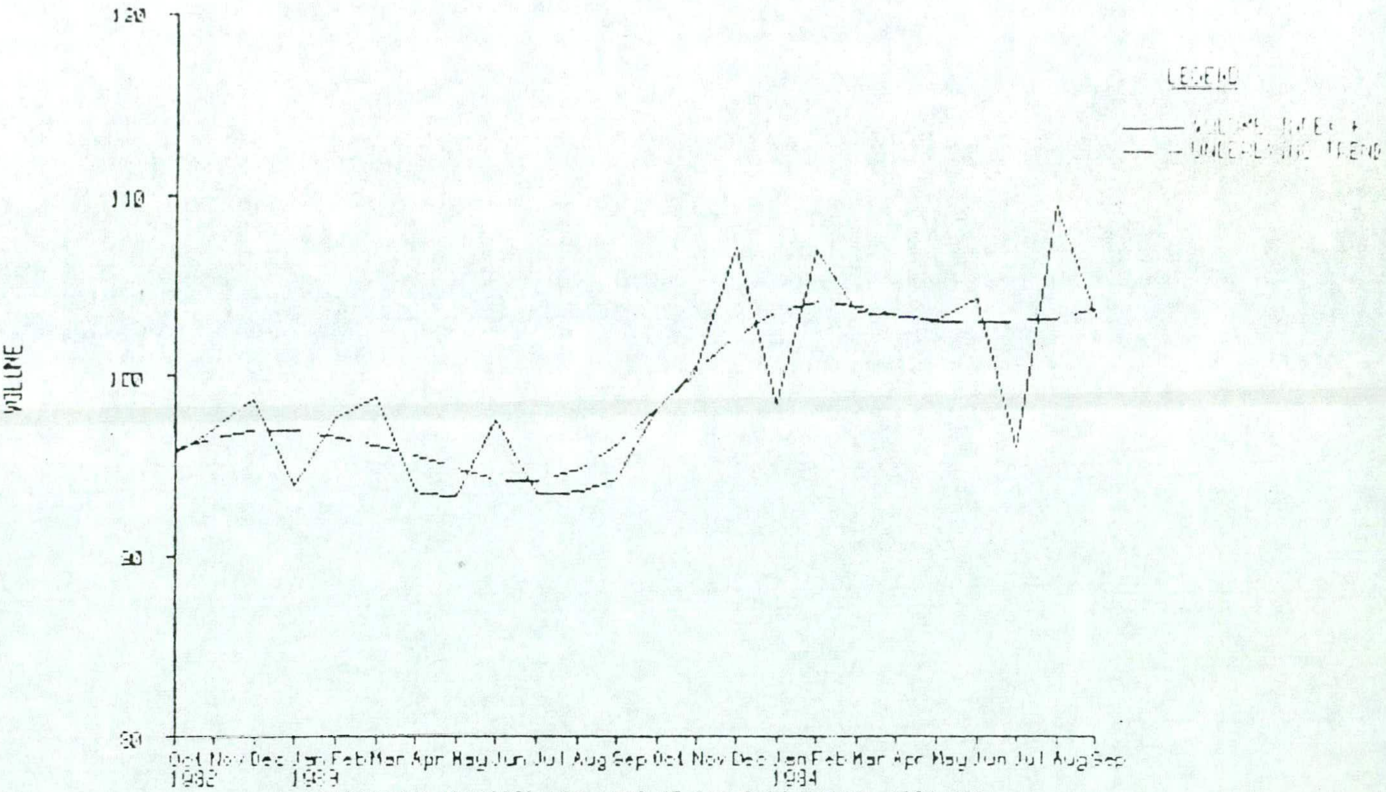
P M WALKER

These are disappointing figures, and likely to be seen as such by the markets. As usual, however, their impact will depend partly upon what else is happening to sterling at the time.

N

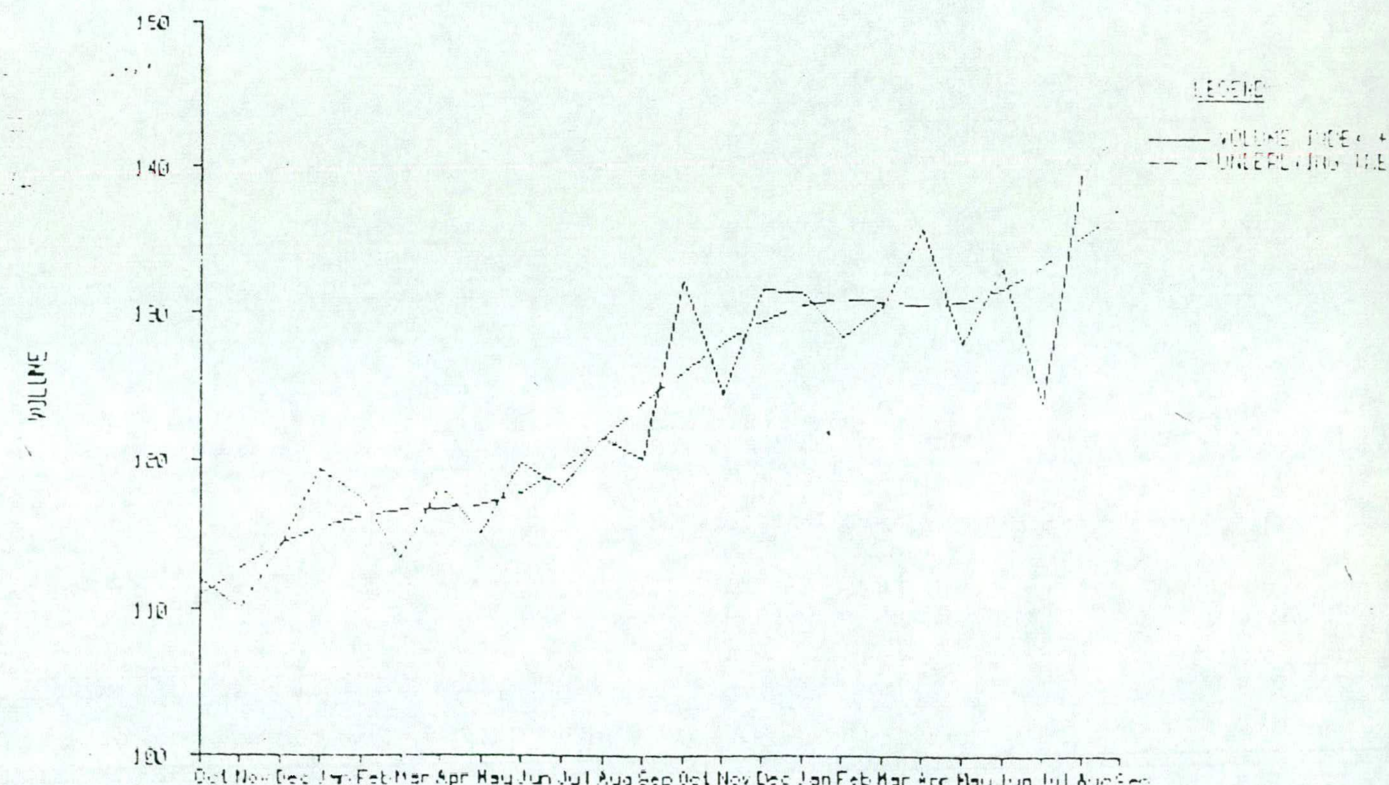
22.10.

TOTAL EXPORTS (EX. OIL & ERRATICS)



+ SEASONALLY ADJUSTED. BALANCE OF PAYMENTS BASIS. 1980=100

TOTAL IMPORTS (EX. OIL & ERRATICS)



+ SEASONALLY ADJUSTED. BALANCE OF PAYMENTS BASIS. 1980=100

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SECRET - PERSONAL

until 3.30 p.m. on WEDNESDAY 24 OCTOBER then

UNCLASSIFIED

DRAFT BRIEFING FOR IDT

Points to make

1. (i) July and September dock strikes do not appear to have affected figures. Effect of July strike minimal over July and August taken together. (Mr Tebbit described effect as "negligible and transient").

(ii) Export volumes remain considerably higher than a year ago (table 2). Among individual categories:

(a) total finished manufactures 11 per cent higher in third quarter than a year ago;

(b) consumer goods other than cars 12 per cent higher;

(c) capital goods 12 per cent higher.

(d) intermediate goods 14 per cent higher.

(iii) Oil surplus was £½ billion in first nine months; on track to equal or exceed last year's record £7 billion, despite miners' strike.

(iv) Substantial invisibles surplus £1½ billion (incorrectly states as £½ billion in last month's briefing) in first half of year.

Defensive

2. Current/trade account deterioration in September? [Imports at record level; current account deficit equalled previous record in April 1984]. Figures too volatile for any one month to be reliable guide. Thus main fall in exports was in erratics. Some qualitative evidence that imports are being brought forward to anticipate the 1 November change in the procedures for payment of VAT on imports.

3. Current account in deficit in year so far? FSBR forecast of £2 billion current account surplus too high?

Too early to say what eventual outcome on current balance will be: figures highly volatile and invisibles data highly provisional. No credit has yet been taken for £½ billion EC budget refund.

[IF PRESSED] Continuation of miners' dispute will temporarily reduce oil balancebelow what it would otherwise have been. [Although this partly offset by higher NS oil production and a lower £/$ exchange rate]. But underlying position on balance of payments strong enough to absorb temporary difficulties of this kind.

4. Exports flattening out?

Still at considerably higher levels than this time last year (table 2). Good performances in many individual categories (see (1) above).

5. Effect of miners' strike?

[Do not give effects on oil or coal balance.]

Undoubtedly some effect. But oil surplus still on track for last year's record level.

6. Manufactured trade deficit increasing?

Deficit in manufactures offset by substantial surpluses on oil and invisibles.

7. Effect of September dock disputes?

Minimal.

TRADE FIGURES FOR SEPTEMBER 1984

Advance Circulation

Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Sir Peter Middleton
Mr Littler
Sir Terence Burns
Mr F Cassell
Mr Unwin
Mr Lavelle
Mr Battishill
Mr Kelly (EF)
Mr H P Evans
Mr Folger
Mr Culpin
Mr C Mowl
Mr S Robson
Mr Gleed
Mr N Towers
Mr Ridley
Mr Gill - Bank
Mr Turnbull - No 10

Circulation after 3.30 p.m. on Wednesday 24 October

Financial Secretary
Minister of State
Mr Bailey
Mr Byatt
Mr Wicks (Washington)
Mr Fitchew
Mr Odling-Smee
Mr Lankester
Mr Shields
Mr Gordon
Mr Melliss
Mr Riley
Mr Sedgwick
Mr P Patterson
Mr Kelly (MP
Mr Vernon
Miss Deyes
Mr N McKinnon
Mr Lord
Mr Portillo

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Revised Draft Press Notice

THE CURRENT ACCOUNT OF THE UNITED KINGDOM BALANCE OF PAYMENTS

31 OCTOBER 1984

The current account for October is estimated to have been in deficit by £73 million compared with a deficit of £578 million in September. Exports in October amounted to £6291 million and imports to £7142 million so that trade in goods was in deficit by £851 million.

The invisibles balance in October is projected to be in surplus by £778 million. This comprises £528 million from the European Community budget refund and a projected monthly surplus on other transactions of £250 million, which was in turn made up of a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

£528 mil?

JULY TO OCTOBER 1984 (see note 1 on page 4)

In the four months ended October, the current account was in deficit by £975 million compared with a deficit of £472 million in the previous four months. There was a deficit on visible trade of £2503 million in the latest four months compared with a deficit of £1559 million in the previous four months. The surplus on invisibles is projected at £1528 million.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

			Visible Trade			Invisibles c	
	Current Balance	Balance	Exports fob	Imports fob	Balance	Credits	Debits
1982	+ 4877	+ 2055	55565	53510	+ 2822	31307	28485
1983	+ 2527	- 1105	60625	61730	+ 3632	34975	31343
1983 Q3	+ 829	- 369	14856	15225	+ 1198	8836	7638
Q4	+ 395	- 221	16194	16415	+ 616	8898	8282
1984 Q1	+ 377	- 154	16855	17010	+ 531	9054	8523
Q2	- 387	- 1297	16902	18199	+ 910	9273	8361
Q3	- 902a	- 1652	17252	18904	+ 750a	N/A	N/A
1984 May	- 10	- 314	5637	5951	+ 304b	Monthly figures of credits and debits are not available	
June	+ 166	- 137	5895	6032	+ 303b		
July	+ 53a	- 198	5471	5668	+ 250a		
Aug	- 377a	- 627	5937	6564	+ 250a		
Sept	- 578a	- 828	5844	6672	+ 250a		
Oct	- 73a	- 851	6291	7142	+ 778a d		
Mar - Jun	- 472	- 1559	22594	24152	+ 1087		
July - Oct	- 975	- 2503	23543	26046	+ 1528		

a Invisibles are projections and subject to revision as information becomes available.

b One-third of the appropriate calendar quarter's estimate, except for budget refunds received from the European Community which are allocated to the month they are known to have been received.

c Information relating to credits and debits of the private sector and public corporations can be found in Table 3.

d This comprises £528 million from the European Community budget refund and a projected surplus on other transactions of £250 million.

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VISIBLE TRADE IN OCTOBER 1984

The visible trade balance in October was in deficit £851 million, much the same as the deficit of £828 million in September. A fall in the surplus on oil from £584 million to £388 million was offset by a reduction in the deficit on non-oil trade from £1412 million to £1239 million.

At £6291 million exports were £447 million (7½ per cent) higher than in September. An increase in the erratic items offset a fall in exports of oil. Excluding these, exports increased by 10 per cent between the two months.

Total imports were valued at £7142 million which was £471 million (7 per cent) higher than in September. Imports of oil increased by £112 million and imports of the erratic items increased by £100 million. Excluding these, the value of imports increased by 4½ per cent. This surge in imports will have included goods scheduled for import later in the year brought forward in anticipation of the change in VAT procedures on 1 November.

NB

The terms of trade index fell slightly in October as the export unit value index increased by ½ per cent and the import unit value index increased by 1 per cent.

RECENT TRENDS

Visible balance

In the latest four months there was a deficit on visible trade of £2.5 billion compared with a deficit of £1.6 billion in the previous four months. The surplus on trade in oil fell by £0.2 billion to £2.1 billion and the deficit on non-oil trade increased by £0.7 billion to £4.6 billion.

Exports

Exports in the latest four months were valued at £23.5 billion compared with £22.6 billion in the previous four months mainly reflecting an increase in exports of manufactured goods (up by £0.6 billion).

Export volume increased marginally in the latest four months to be 9½ per cent higher than a year ago. Figures in recent months now suggest that there has been an increase in the underlying level of non-oil export volume.

Imports

Total imports in the four months ended October were valued at £26.0 billion compared with £24.2 billion in the four months ended June. Imports of oil increased by £0.4 billion and imports of manufactures increased by about £0.9 billion.

Total import volume increased by 4 per cent between the four months ended June and the latest four months. The trend in non-oil import volume was fairly flat during the first half of 1984. While the underlying position in the last four months is not yet clear, the latest four month comparison shows a rise of 5 per cent.

Terms of trade and unit values

The terms of trade index remained virtually unchanged in the latest four months as both the export and import unit value index increased by 3½ per cent.

Export unit values for food, drink and tobacco and passenger motor cars were unchanged in the latest four months. Most of the other broad sectors showed increases of between 3 and 4 per cent, although the unit value for fuels increased slightly more and that for other consumer goods slightly less.

Import unit values for fuels, other consumer goods (both up 6 per cent) and chemicals (up 5½ per cent) showed greater increases than the average in the latest four months. The unit value index for passenger motor cars on the other hand increased only marginally.

Analysis by Area

By value, exports to the developed countries increased by 5 per cent between the four months ended June and the latest four months. Exports to the other European Community countries increased by 7½ per cent and exports to North America increased by 4½ per cent.

Imports from the developed countries as a whole increased by 5½ per cent between the four months ended June and the latest four months with much the same growth shown by arrivals from the other European Community countries. Imports from North America grew by 13 per cent and imports from the developing countries increased by 6 per cent.

INVISIBLES

The latest estimates of invisibles - services, interest, profits and dividends and transfers - relate to the second quarter of 1984 when credits were £9.3 billion and debits were £8.4 billion giving a surplus of £0.9 billion for the quarter. Invisible in the private sector and public corporations (excluding transfers) were in surplus by £2.2 billion. The figures for the latest four months are CSO projections.

22 NOV 84

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Note 1

Estimates of the value and volume of trade in July and August have been distorted by the effects of the July dock strike. As a result the normal 3 month on 3 month comparisons, are misleading. Comparisons of four month periods have been used instead in this press notice.

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CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Balance of Payments basis)

£ million seasonally adjusted

		Current Balance	Visible Trade: Exports fob	Imports fob	Visible Balance	of which: Oil	Non-Oil	Invisible Balance
1982		+ 4877	55565	53510	+ 2055	+ 4556	- 2501	+ 2822
1983		+ 2527	60625	61730	- 1105	+ 6875	- 7981	+ 3632
1983	Q3	+ 829	14856	15225	- 369	+ 1485	- 1855	+ 1198
	Q4	+ 395	16194	16415	- 221	+ 2099	- 2320	+ 616
1984	Q1	+ 377	16855	17010	- 154	+ 2316	- 2470	+ 531
	Q2	- 387	16902	18199	- 1297	+ 1548	- 2845	+ 910
	Q3	- 902a	17252	18904	- 1652	+ 1726	- 3378	+ 750 a
1983	Oct	- 356	5156	5645	- 489	+ 550	- 1039	+ 133b
	Nov	+ 62	5235	5306	- 70	+ 652	- 722	+ 132b
	Dec	+ 689	5803	5464	+ 338	+ 898	- 560	+ 351b
1984	Jan	- 178	5215	5569	- 355	+ 719	- 1073	+ 177b
	Feb	+ 639	5949	5487	+ 462	+ 821	- 359	+ 177b
	Mar	- 85	5692	5953	- 262	+ 776	- 1038	+ 177b
	Apr	- 543	5370	6216	- 846	+ 380	- 1226	+ 303b
	May	- 10	5637	5951	- 314	+ 512	- 826	+ 304b
	June	+ 166	5895	6032	- 137	+ 656	- 793	+ 303b
	July	+ 53a	5471	5668	- 198	+ 755	- 953	+ 250a
	Aug	- 377a	5937	6564	- 627	+ 387	- 1014	+ 250a
	Sept	- 578a	5844	6672	- 828	+ 584	- 1412	+ 250a
	Oct	- 73a	6291	7142	- 851	+ 368	- 1239	+ 778a
Mar-Jun		- 472	22594	24152	-1559	+2324	-3883	+1087
July-Oct		-975	23543	26046	-2503	+2114	-4617	+1528
Percentage change			+4	+8				

a Invisibles are projections and subject to revision as more information becomes available.

b One third of the appropriate calendar quarter's estimate, except for budget refunds received from the European Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

		All Sectors: Credits	Debits	Balance	of which: Services	Interest Profits Dividends	Transfers	Private Sector and Public Corporations[d]: Credits	Debits	Balance
1982		31307	28485	+ 2822	+ 3706	+ 1165	- 2049	26898	20395	+ 6503
1983		34975	31343	+ 3632	+ 3902	+ 1948	- 2218	30530	22696	+ 7834
1982	Q3	7560	7132	+ 428	+ 789	+ 347	- 708	6655	5105	+ 1550
	Q4	8169	7260	+ 909	+ 907	+ 568	- 566	7114	5176	+ 1938
1983	Q1	8848	7433	+ 1415	+ 1012	+ 528	- 125	7361	5377	+ 1984
	Q2	8393	7990	+ 403	+ 1090	+ 120	- 807	7474	5761	+ 1713
	Q3	8836	7638	+ 1198	+ 978	+ 745	- 525	7806	5581	+ 2225
	Q4	8898	8282	+ 616	+ 822	+ 555	- 761	7889	5977	+ 1912
1984	Q1	9054	8523	+ 531	+ 988	+ 87	- 544	7860	6243	+ 1617
	Q2	9273	8363	+ 910	+ 1174	+ 489	- 753	8329	6086	+ 2243

d ie excluding general Government transactions and all transfers.

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

(Balance of Payments basis)

Table 4

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade*	Exports	Imports
1982	116.7	118.2	98.7	101.5	100.7
1983	126.6	129.4	97.8	102.3	107.7
1983 Q3	127.9	129.7	98.6	99.2	106.6
Q4	129.2	132.2	97.7	107.3	112.9
1984 Q1	132.6	136.2	97.3	109.5	113.3
Q2	134.9	139.3	96.9	108.3	118.3
Q3	138.5	143.0	96.8	107.4	119.5
1983 Oct	128.4	131.5	97.6	103.1	117.9
Nov	128.9	131.9	97.7	104.3	109.2
Dec	130.2	133.1	97.8	114.6	111.6
1984 Jan	132.5	135.3	97.9	101.8	111.8
~~1984~~ Feb	132.8	136.6	97.2	115.4	110.3
Mar	132.5	136.8	96.8	111.3	118.0
Apr	133.9	138.9	96.4	104.4	122.3
May	134.9	139.6	96.6	108.5	115.1
June	136.1	139.3	97.6	112.0	117.5
July	137.5	141.7	97.0	102.7	108.9
Aug	138.3	142.9	96.7	111.6	123.9
Sept	139.7	144.3	96.8	107.9	125.8
Oct	140·4	145·4	96·5	116·6	133·8
Mar - Jun	134·4	138·7	96·9	109·1	118·2
July - Oct	139·0	143·6	96·8	109·7	123·1
Percentage change	+3½	+3½	–	+½	+6

* Export unit value index as a percentage of the import unit value index.

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[f]

Table 5

(Balance of Payments basis)

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1982	52118	51052	103.6	106.2
1983	56284	58333	104.0	112.8
1983 Q3	13696	14451	100.3	112.3
Q4	15202	15709	110.5	119.9
1984 Q1	15692	16211	111.9	120.0
Q2	15787	17372	110.9	125.3
Q3	16212	18162	110.7	127.1
1983 Oct	4835	5331	106.2	123.8
Nov	4968	5077	108.3	115.8
Dec	5400	5300	117.1	119.[illegible]
1984 Jan	[illegible]	5363	105.9	119.4
Feb	5445	5339	116.2	118.5
Mar	5295	5508	113.6	121.9
Apr	5095	5934	108.6	129.4
May	5248	5671	111.0	121.8
June	5444	5767	113.1	124.8
July	5118	5400	105.4	114.9
Aug	5635	6358	116.1	133.1
Sept	5459	6404	110.7	133.4
Oct	5791	6775	118·0	140·8
Mar - Jun	21082	22880	111·6	124·5
July - Oct	22003	24937	112·6	130·6
Percentage change	+4½	+9	+1	+5

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

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TRADE IN OIL[9]

(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil: Total	Exports of Oil: Crude Oil [SITC (REV 2) 333.0]			Exports of Oil: Rest of Division 33	Imports of Oil: Total	Imports of Oil: Crude Oil [SITC (REV 2) 333.0]			Imports of Oil: Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
1982	+ 4556	10686	8542	60.3	141.6	2144	6130	3861	28.3	136.6	2269
1983	+ 6875	12525	10111	68.4	147.8	2414	5650	3265	22.8	143.3	2385
1983 Q3	+ 1485	2960	2361	16.2	145.8	599	1474	961	6.8	140.5	513
Q4	+ 2099	3500	2910	19.5	149.6	589	1400	829	5.8	144.0	571
1984 Q1	+ 2316	3654	2951	19.1	154.2	703	1338	643	4.3	148.6	695
Q2	+ 1548	3455	2766	17.5	158.4	689	1907	1019	6.9	148.8	888
Q3	- 1726	3761	3078	18.5	166.3	683	2035	1138	7.4	154.4	897
1983 Oct	+ 550	1100	905	6.1	148.4	195	550	366	2.5	144.5	185
Nov	+ 652	1117	935	6.1	154.0	182	465	265	1.9	141.8	200
Dec	+ 898	1283	1070	7.3	147.0	212	385	198	1.4	145.9	186
1984 Jan	+ 719	1101	874	5.8	151.8	226	382	205	1.4	151.1	177
Feb	+ 821	1277	1019	6.5	156.2	258	456	226	1.5	149.7	230
Mar	+ 776	1276	1058	6.9	154.2	218	500	212	1.5	145.1	288
Apr	+ 380	1035	828	5.3	156.8	207	655	365	2.5	147.8	288
May	+ 512	1175	955	6.0	158.4	220	663	353	2.4	148.9	290
June	+ 656	1245	983	6.2	159.8	262	590	301	2.0	149.9	310
July	+ 755	1262	1011	6.2	164.4	251	507	311	2.0	152.4	288
Aug	+ 387	1232	1020	6.2	164.0	212	846	422	2.8	152.9	196
Sept	+ 584	1266	1047	6.1	170.5	219	682	405	2.6	157.5	423
Oct	+ 388	1182	987	5.8	169.9	195	794	334	2.1	160.8	460
Mar-Jn	+2324	4731	3824	24.4	157.3	907	2408	1231	8.4	147.9	1176
July-Oct	+2114	4942	4065	24.3	167.2	877	2829	1472	9.5	155.9	1357
Percentage change		+4½	+6½	-½	+6½	-3½	+17	+20	+13	+5½	+15

9 Trade in petroleum and petroleum products. These figures differ from those published by the Department of Energy which are on a time of shipment basis (see paragraph 7 of the standard notes).

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TRADE IN GOODS OTHER THAN OIL
(Balance of Payments basis)

	Total								Excluding Erratics[f]			
	Value, £ million, fob (seasonally adjusted)			Unit value index 1980 = 100 (not seasonally adjusted)			Volume index 1980 = 100 (seasonally adjusted)		Value, £ million fob (seasonally adjusted)		Volume index 1980 = 100 (seasonally adjusted)	
	Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade[e]	Exports	Imports	Exports	Imports	Exports	Imports
1982	- 2501	44879	47380	114.4	114.2	100.1	96.9	104.8	41432	44922	98.8	111.7
1983	- 7981	48100	56081	124.5	126.1	98.8	95.5	114.1	43759	52684	96.7	120.9
1983 Q3	- 1855	11896	13751	126.2	126.5	99.7	93.0	112.5	10736	12977	93.7	119.8
Q4	- 2320	12694	15014	127.2	128.9	98.6	99.0	120.3	11702	14308	101.9	129.4
1984 Q1	- 2470	13202	15671	130.5	133.3	97.9	101.0	121.5	12039	14872	102.9	130.1
Q2	- 2845	13447	16292	132.9	136.8	97.2	101.2	123.7	12332	15465	103.6	132.5
Q3	- 3378	13491	16869	136.1	140.0	97.2	99.4	125.4	12451	16127	102.5	134.9
1983 Oct	- 1039	4056	5094	126.5	128.0	98.8	95.3	124.4	3735	4781	98.1	132.2
Nov	- 722	4118	4840	126.9	129.0	98.3	96.6	116.0	3851	4612	100.5	124.5
Dec	- 560	4520	5080	128.2	129.8	98.7	105.1	120.6	4117	4916	107.0	131.5
1984 Jan	- 1073	4114	5187	130.6	131.9	99.1	94.3	121.4	3852	4981	98.4	131.4
Feb	- 359	4672	5031	130.5	133.4	97.8	106.9	117.8	4168	4883	106.9	128.4
Mar	- 1038	4416	5453	130.3	134.5	96.9	101.8	125.3	4019	5008	103.5	130.6
Apr	- 1226	4335	5561	131.8	136.6	96.5	99.0	127.2	4060	5279	103.3	136.0
May	- 826	4463	5289	132.9	136.9	97.0	100.9	119.9	4073	5009	103.1	128.2
June	- 793	4650	5442	134.0	136.9	97.9	103.8	124.0	4199	5177	104.3	133.3
July	- 953	4209	5161	135.1	138.8	97.3	93.4	115.7	3856	4893	95.6	123.5
Aug	- 1014	4705	5719	136.0	140.1	97.1	104.5	127.8	4403	5512	109.0	139.0
Sept	- 1412	4577	5989	137.1	140.9	97.3	100.2	132.5	4193	5721	102.8	142.2
Oct	- 1239	5109	6348	137.8	142.0	97.0	111.9	139.9	4609	5980	113.4	148.8
Mar-Jun	-3883	17863	21745	132.3	136.2	97.1	101.4	124.1	16351	20473	103.6	132.0
July-Oct	-4617	18600	23217	136.5	140.5	97.2	102.5	129.0	17060	22107	105.2	138.4
Percentage change		+4	+7	+3	+3	-	+1	+4	+4½	+8	+1½	+5

f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.

e Export unit value index as a percentage of the import unit value index.

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EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	SNA: Passenger Motor Cars	SNA: Other Consumer	SNA: Intermediate	SNA: Capital
SITC (REV 2)	0–9	0+1	2+4	3	5–8	5–8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1982	55558	3960	1340	11237	37313	34052	12687	6119	6568	21365	960	3523	9225	7656
1983	60534	4235	1586	13127	39919	35756	13832	6929	6903	21924	996	3914	9288	7726
1983 Q3	14831	1024	389	3086	9935	8809	3397	1737	1660	5412	243	959	2273	1937
Q4	16234	1104	436	3658	10573	9587	3694	1843	1851	5893	305	1072	2513	2003
1984 Q1	16859	1177	436	3784	11067	9876	3816	1935	1881	6060	267	1100	2598	2095
Q2	16866	1168	501	3494	11232	10116	3954	1960	1993	6162	255	1102	2652	2154
Q3	17210	1096	504	3861	11299	10310	3977	2033	1943	6333	218	1111	2776	2228
1984 Aug	5934	414	183	1265	3892	3596	1383	691	692	2214	78	379	970	787
Sept	5827	341	172	1301	3873	3508	1346	700	646	2162	68	368	960	765
Oct	6201	406	183	1209	4244	3750	1453	759	724	2267	125	419	995	762
Mar-Jun	22552	1566	656	4810	14910	13398	5225	2594	2630	8172	346	1479	3493	2856
July-Oct	23412	1502	686	5070	15543	14060	5460	2792	2668	8601	330	1530	3772	2970
Percentage change	+4	−3½	+4½	+5½	+4	+5	+4½	+7½	+1½	+5	−4½	+3½	+8	+4

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY COMMODITY: VOLUME INDICES
(Overseas Trade Statistics basis)

Table 9

INDICES 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	SNA: Passenger Motor Cars	SNA: Other Consumer	SNA: Intermediate	SNA: Capital
SITC (REV 2)	0–9	0+1	2+4	3	5–8	5–8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	101.6	107	94	133	95	97	99	106	93	96	94	94	99	95
1983	102.2	110	101	148	93	94	102	113	93	90	86	96	89	87
1983 Q3	99.1	105	95	141	92	92	100	113	89	87	80	93	86	86
Q4	107.6	112	106	163	97	100	108	119	100	95	107	105	95	88
1984 Q1	109.5	119	103	165	100	101	109	121	99	96	91	105	96	91
Q2	108.1	118	112	149	100	101	110	119	103	96	79	103	96	95
Q3	107.3	110	113	159	98	101	108	123	96	97	68	104	98	96
1984 Aug	111.6	125	126	158	102	106	112	125	103	102	73	105	104	101
Sept	107.8	102	112	158	100	103	109	127	95	98	66	102	100	99
Oct	115.1	120	120	145	110	110	121	139	107	103	100	118	104	94
Mar-Jun	108.9	118	112	155	100	101	110	119	103	96	82	104	96	95
July Oct	109.2	112	115	156	101	103	111	127	99	99	76	107	100	96
Percentage change	+½	−4½	+3	+½	+1½	+2	+1	+6½	−4	+2½	−7½	+3½	+4½	+1

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

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until release of press notice on 22 NOV 84 at 3.30 p.m.

EXPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0–9	0+1	2+4	3	5–8	5–8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1982	116.6	115	102	132	115	115	110	112	109	118	126	114	120	118
1983	126.5	122	112	140	125	124	117	119	115	129	144	122	132	128
1983 Q3	127.9	123	115	139	127	126	118	120	116	131	147	123	134	129
Q4	129.2	125	117	142	128	127	119	121	117	132	144	125	134	131
1984 Q1	132.6	127	122	146	131	130	123	125	120	135	153	129	138	133
Q2	134.9	128	127	148	134	133	126	129	124	137	160	131	141	132
Q3	138.4	128	130	153	138	136	129	131	128	140	158	133	145	135
1984 Aug	138.2	127	129	152	138	136	129	131	127	140	156	133	145	136
Sept	139.7	128	132	156	139	137	130	132	129	141	156	135	146	136
Oct	140.3	130	134	156	139	137	131	133	129	142	158	135	147	137
Mar-Jun	134.3	128	126	147	133	132	126	128	124	136	158	130	140	132
July-Oct	138.9	128	131	156	138	136	130	132	128	140	158	134	145	136
Percentage change	+3½	–	+4	+4½	+3½	+3	+3½	+3	+4	+3	–	+2½	+3½	+3

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

EXPORTS BY AREA

Table 11

(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total	Developed Countries: Total	European Community	Rest of W Europe	North America	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1982	55558	41393	23124	6681	8353	3235	13053	6445	6608	974
1983	60534	46508	26516	7516	9342	3133	12783	6122	6661	1112
1983 Q3	14831	11493	6386	1777	2496	835	3202	1540	1662	290
Q4	16234	12592	7234	2025	2473	860	3332	1528	1804	271
1984 Q1	16859	13240	7427	2197	2703	912	3263	1477	1786	340
Q2	16866	13201	7398	2153	2721	929	3098	1325	1773	441
Q3	17210	13757	7905	2168	2797	888	3275	1361	1915	428
1984 Aug	5934	4774	2648	737	1057	332	1125	485	641	164
Sept	5827	4601	2674	686	962	279	1117	436	682	157
Oct	6201	4821	2808	722	989	301	1252	569	683	139
Mar-Jun	22552	17670	9971	2832	3620	1245	4162	1826	2336	565
July-Oct	23412	18579	10713	2890	3785	1189	4526	1930	2599	567
Percentage change	+4	+5	+7½	+2	+4½	−4½	+9	+5½	+11½	+½

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£ million cif seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1982	56978	7251	3930	7409	37114	34795	12795	4179	8616	22000	2882	5909	6674	6536
1983	65993	7853	4723	7067	44905	41609	14886	5120	9766	26723	3659	6902	8121	8041
1983 Q3	16288	1917	1146	1813	11119	10349	3716	1254	2461	6634	1013	1671	1970	1980
Q4	17338	2111	1280	1800	11855	11243	4053	1413	2640	7190	881	1936	2189	2184
1984 Q1	18064	2175	1300	1792	12530	11684	4293	1513	2780	7391	902	1938	2363	2188
Q2	19431	2237	1315	2463	13066	12127	4341	1540	2801	7786	828	2069	2465	2424
Q3	19888	2210	1271	2626	13470	12827	4527	1616	2911	8300	1079	2107	2657	2458
1984 Aug	6952	751	427	1011	4634	4437	1589	560	1029	2848	431	735	873	810
Sept	6952	786	448	921	4700	4515	1573	573	999	2943	401	726	947	869
Oct	7357	828	544	1045	4823	4479	1681	601	1081	2798	281	786	884	846
Mar-Jun	25746	2975	1758	3137	17413	16018	5776	2050	3725	10241	1101	2718	3256	3167
July-Oct	27845	3038	1816	3671	18293	17306	6209	2217	3992	11098	1359	2892	3542	3305
Percentage change	+6	+2	+3	+17	+5	+8	+7½	+8	+7	+8½	+23	+6½	+9	+4½

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: VOLUME INDICES

Table 13

(Overseas Trade Statistics basis)

INDICES 1980 = 100 seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Finished: Passenger Motor Cars	Finished: Other Consumer	Finished: Intermediate	Finished: Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	100.1	108	93	75	106	115	111	123	107	117	110	113	120	122
1983	107.8	108	104	67	119	128	123	143	115	131	125	125	129	142
1983 Q3	106.7	105	99	69	118	128	124	144	115	131	144	120	125	140
Q4	111.9	112	108	67	125	138	133	157	123	141	121	140	139	154
1984 Q1	112.7	112	105	64	128	139	137	163	126	140	121	137	144	149
Q2	118.2	114	102	87	130	141	135	163	123	145	109	144	147	161
Q3	118.0	111	96	91	131	144	136	164	124	150	142	139	152	161
Aug	123.3	113	97	104	135	150	143	171	132	155	172	146	150	162
Sept	123.0	117	102	99	135	150	140	171	127	157	152	141	161	168
Oct	129.1	123	124	105	139	150	149	179	137	150	107	155	168	167
Mar-Jun	118.0	114	103	84	130	140	135	165	123	143	109	142	146	158
July-Oct	120.8	116	103	95	133	146	139	168	127	150	133	143	151	163
Percentage change	+2½	-½	-½	+13	+2	+4	+3	+2	+3½	+4½	+22	+1	+3	+3

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

IMPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 2)	0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1982	116.8	112	104	146	114	115	109	114	107	119	123	113	119	122
1983	127.7	120	116	153	126	125	116	121	113	131	137	122	138	131
1983 Q3	128.0	121	117	153	126	125	116	121	114	131	132	123	139	131
Q4	129.8	123	120	155	128	127	117	123	115	133	137	125	141	131
1984 Q1	134.2	127	127	160	132	131	121	128	119	137	141	128	147	135
Q2	137.2	131	130	160	135	134	126	133	123	139	143	128	150	137
Q3	140.9	134	134	168	138	138	129	138	126	143	143	135	153	141
1984 Aug	140.8	134	134	167	138	138	129	138	126	143	142	134	154	142
Sept	142.1	134	134	171	140	139	130	140	126	145	148	138	153	142
Oct	143·4	134	134	173	141	140	131	140	127	146	147	140	156	141
Mar-Jun	136·7	130	129	160	135	134	125	132	122	139	143	129	150	137
July-Oct	141·5	134	134	169	139	138	130	139	126	144	144	136	154	141
Percentage change	+3½	+3	+4	+6	+3	+3½	+4	+5½	+3½	+3½	+½	+6	+2½	+3

h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).

j Based on the United Nations Broad Economic Categories end-use classification.

Table 15

IMPORTS BY AREA
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

	Total	Developed Countries: Total	European Community	Rest of W Europe	North America	Other	Developing Countries: Total	Oil exporting countries	Other	Centrally planned economies
1982	56978	46191	25269	8390	8095	4436	9349	3453	5896	1327
1983	65993	54729	30098	10444	9027	5159	9611	2824	6786	1534
1983 Q3	16288	13346	7400	2541	2154	1251	2388	718	1670	373
Q4	17338	14689	8072	2898	2394	1324	2331	603	1727	397
1984 Q1	18064	15295	8235	3188	2447	1425	2314	478	1835	431
Q2	19431	15929	8650	3322	2573	1384	2931	836	2096	482
Q3	19888	16442	9102	3231	2753	1357	2789	746	2042	518
1984 Aug	6952	5680	3178	1206	866	430	~~987~~ 966	219	747	215
Sept	6952	5754	3214	1051	994	495	~~966~~ 1015	332	683	169
Oct	7357	6020	3132	1256	1096	537	1135	263	872	205
Mar-Jun	25746	21289	11542	4476	3409	1864	3704	995	2709	637
July-Oct	27245	22462	12233	4487	3847	1894	3923	1003	2915	722
Percentage change	+6	+5½	+6	+½	+13	+1½	+6	+1½	+7½	+13

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjust-

SITC (R2)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	3936	6654	- 2718	1354	3344	- 1989	11237	7202	+ 4035
1983	4220	7247	- 3027	1609	4047	- 2437	13126	6896	+ 6230
1982 Q4	1044	1639	- 596	339	818	- 479	3165	1638	+ 1527
1983 Q1	1114	1775	- 661	380	927	- 547	3260	1623	+ 1637
Q2	987	1751	- 764	393	1026	- 633	3122	1744	+ 1377
Q3	1017	1763	- 746	394	978	- 584	3086	1763	+ 1323
Q4	1102	1958	- 855	442	1116	- 674	3658	1765	+ 1893
1984 Q1	1178	2016	- 838	443	1169	- 726	3805	1757	+ 2048
Q2	1164	2068	- 905	508	1183	- 675	3558	2377	+ 1181
Q3	1089	2037	- 948	510	1137	- 627	3852	2583	+ 1269

SITC (R2)	Semi-Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1982	14112	13062	+ 1050	23218	22004	+ 1213	37330	35067	+ 2263
1983	15869	15781	+ 88	24137	26662	- 2525	40006	42443	- 2437
1982 Q4	3671	3312	+ 359	5857	5711	+ 146	9528	9023	+ 505
1983 Q1	3863	3739	+ 124	5803	6431	- 628	9666	10170	- 503
Q2	3923	3971	- 48	5924	6552	- 629	9847	10523	- 676
Q3	3980	3892	+ 88	5983	6591	- 608	9963	10483	- 520
Q4	4104	4179	- 76	6427	7088	- 661	10530	11267	- 737
1984 Q1	4320	4486	- 167	6712	7287	- 575	11032	11773	- 741
Q2	4540	4477	+ 63	6665	7739	- 1075	11204	12216	- 1012
Q3	4431	4618	- 188	6920	8237	- 1317	11351	12855	- 1504

Ian

I gather that there was a revised version of the attachment. Pl. provide (poss. from Sir PM's office?) today.

PWO 20/11

DEPARTMENTS OF INDUSTRY AND TRADE
– COMMON SERVICES
1 Victoria Street London SW1H 0ET
Telephone Direct Line 01-215 3055
Switchboard 01-215 7877

D L C Peretz Esq
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON SW1P 3AG

19 November 1984

I am attaching a copy of the draft Press Notice on the Current Account of the United Kingdom Balance of Payments in October. The draft was agreed earlier today at the usual interdepartmental meeting.

Publication is set for Thursday 22 November at 3.30pm and I should be grateful if you would arrange for the Notice to be cleared by noon Wednesday 21 November and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton.

Yours sincerely

W. E. Boyd

W E BOYD

150/33

SECRET AND PERSONAL
until 3.30 pm on Thursday 22 November
then CONFIDENTIAL

FROM: DAVID BARTLETT
DATE: 20 NOVEMBER 1984

1. MR KELLY cw 20.11.
2. CHANCELLOR

C. Briefing for IDT and DTI press notice both require your approval.
PWO 20/11

cc as attached list

Chancellor content with press release & IDT briefing

OCTOBER TRADE FIGURES

The October trade figures will be released on Thursday 22 November. We are content with the DTI press notice, which they are sending to you as usual for approval.

Summary

2. The main features are:

(i) an estimated current account deficit of £73 million in October, compared with a £578 million deficit in September, and comprising

(ii) a record visible deficit of £851 million (£828 million in September) and a projected invisibles surplus of £778 million, which includes £528 million (90 per cent) of the EC budget refund.

(iii) The current account deficit so far in 1984 is £985 million. This compares with the Autumn Statement forecast of balance in 1984 as a whole.

(iv) Imports figures for all periods back to 1980 have been revised up ½-¾ per cent, and the current account figures revised down a corresponding amount (see paragraph 4 below for a full explanation).

(v) The deficit on manufactured trade (BoP basis) in the first ten months of 1984 was £3¾ billion, equivalent to an annual rate of about £4½ billion, compared with roughly £2½ billion last year.

(vi) The oil surplus in the first ten months was £6 billion (an annual rate of about £7¼ billion).

(vii) The underlying level of export volumes appears to be rising again. The underlying imports trend is however obscured by imports being brought forward in anticipation of the change in VAT procedures.

Analysis

3. The following tables summarise the latest overall position. In line with the DTI press notice, the tables use comparisons of four month periods, because the distorting effects of the July dock strike have rendered the latest three month comparisons misleading.

Table 1: Current Account

£ billion

		1984					
	1983	Mar-June	July-Oct	July	Aug	Sept	Oct
Oil	+6.9	+2.3	+2.1	+0.8	+0.4	+0.6	+0.4
Non-oil	-8.0	-3.9	-4.6	-1.0	-1.0	-1.4	-1.2
Total visible trade	-1.1	-1.6	-2.5	-0.2	-0.6	-0.8	-0.9
o/w: trade in manufactures (BoP basis)	-2.4	-1.4	-1.9	-0.4	-0.5	-0.6	-0.4
Invisibles	+3.6	+1.1	+1.5*	+0.3*	+0.3*	+0.3*	+0.8*
Current Account	+2.5	-0.5	-1.0*	+0.1*	-0.4*	-0.6*	-0.1*

* Projection

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Table 2: Exports and Imports (percentage change)

	October on September	July-Oct on Mar-June	July-Oct 1984 on July-Oct 1983
(i) Exports			
Total value	+ 7½	+ 4	+18
Total volume	+ 8	+ ½	+ 9½
Total volume excluding oil and erratics	+10	+ 1½	+11
o/w manufactures	+ 7	+ 2	+11
Fuels (volume)	- 8	+ ½	+ 7½
(ii) Imports			
Total value	+ 7	+ 8	+25
Total volume	+ 6	+ 4	+13
Total volume excluding oil and erratics	+ 4½	+ 5	+13
o/w manufactures	0	+ 4	+11
Fuels (volume)	+ 6	+13	+34

4. The press notice includes upward revisions to imports (and corresponding downward changes to the current account) in all periods back to 1980. Up to now, import figures on an OTS basis (ie based on values declared to Customs) have been adjusted down for the Balance of Payments accounts by the estimated amount declared values exceeded transaction values. But recently available survey data indicate that declared and transaction values have been virtually identical since 1980, and therefore that all adjustments since then have undervalued imports (by ½-¾ per cent). The current changes mean imports about £350 million higher in Q1-Q3 1984, and nearly £400 million higher in 1983 (giving a revised 1983 current account surplus of £2.5 billion).

5. The coal strike produced in October extra net oil imports of £275 million (£250 million in September) and extra net coal imports of around £80 million (£60 million in September). Thus, since January, the strike has adversely affected the balance of trade by nearly £2 billion, of which £1.6 billion has fallen

on the oil account.

6. Export volumes grew strongly in October, and marginally in the latest four months compared with the previous four (table 2). They remain considerably higher than their levels of a year ago. The underlying trend of non-oil export volumes now appears to have been increasing in recent months (see attached chart). Manufactured export volumes (excluding erratics) grew 2 per cent in the latest four months compared with the previous four. Chemicals performed well, rising 6½ per cent in volume in the last four months, but passenger car exports fell 7½ per cent. By destination, exports to the EEC grew 7½ per cent and to N America 4½ per cent in value terms in the latest four months.

Mentioned in press release

7. Imports continued to rise strongly in October, partly as a result of imports being brought forward in anticipation of the 1 November change in VAT procedures. The underlying level of imports, excluding oil and erratics, was fairly flat in the first half of the year (see attached chart), but the trend in the last four months is not yet clear because of the VAT effect. (As you suggested, this point has been brought out in the press notice.) In individual categories, the largest increase in the latest four months compared with the previous four was in passenger cars (22 per cent). By area, the largest increase was in imports from N America (13 per cent).

Comparison with Autumn Statement

8. The Autumn Statement forecast for the current account projected balance for 1984. This compares to the deficit of about £1bn for the year to October. Allowance was made for both the receipt of EC refunds (stated in the press notice text) and for the upward revisions to the import figures on a balance of payments basis (not stated). The text stressed that the forecast was more optimistic than recent CSO figures, and that it "allowed for a rise in exports in the fourth quarter; and a better outcome on invisibles than indicated by recent data and CSO projections." The October figures certainly provide confirmation of the rise in exports, and it is too early to make any judgement on

invisibles.

9. The more worrying aspect of the figures for the forecast is the high level of imports, particularly the increase in basic materials imports and the continuing high level of imports of manufactures. However since the figures are distorted to an unknown extent by attempts to beat the introduction of VAT on imports, we shall need to see the November figures before coming to a judgement on underlying import volumes.

Trade Prices

10. The behaviour of trade prices in October was encouraging. Despite a fall of 2 per cent in the effective exchange rate between September and October, import prices rose less than 1 per cent, with no increase in food, drinks, tobacco or basic materials' prices from September to October - a reflection of weak world commodity prices for non-oil goods. Fuel imports rose 1½ per cent, only half the fall in the $/£ rate.

Effect on Markets

11. Sterling's undertone is currently reasonably strong, with the Barclays' base rate cut easily absorbed and rather less market concern about the coal strike. These figures contain both good and bad news, so any pressure either way that develops on the pound could be accentuated by news of the balance of payments position.

~~What good? The bad this?~~

Briefing

12. I should be grateful for clearance of the attached draft press briefing.

David Bartlett

DAVID BARTLETT

. 172/37

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DRAFT BRIEFING FOR IDT

Points to make

1. (i) October current account balance ~~much improved, although still in small (£73 million) deficit.~~ continues to be affected by coal strike (around £350m net deterioration on coal & oil account).

(ii) Rise in imports in October (6 per cent by value) includes imports brought forward to anticipate 1 November change in VAT procedures.

(iii) Export volumes grew strongly in October, and remain considerably higher in latest four months than in same period a year ago (table 2). Among individual categories (excluding erratics):

(a) total manufactures 11 per cent higher;

(b) total finished manufactures 12 per cent higher;

(c) consumer goods other than cars 14 per cent higher;

(d) intermediate goods 13 per cent higher;

(e) capital goods 12 per cent higher.

~~(iv) Oil surplus £6 billion in first ten months; on track to equal or exceed last year's record £7 billion, despite miners' strike.~~

(~~v~~ iv) Substantial £1½ billion invisibles surplus in first half of year. Over £½ billion (90 per cent) of EC refund now received - included in October invisibles figure.

Defensive

2. Current account in substantial deficit in year so far, despite receipt of EC refund? Autumn Statement Forecast too optimistic?

[Autumn Statement forecast current account balance in 1984. Current account deficit £985 million Jan-Oct 1984. £528 million (90%) of EC refund received in October.]

Too early to say, as monthly figures highly erratic. Some evidence that imports being brought forward to anticipate 1 November change in procedures for paying VAT on imports. Forecast takes into account expected fourth quarter rise in exports (exports grew strongly in October) and likely substantial upward revisions to invisibles data and CSO projections.

3. Substantial upward revisions to back data on imports?

[See para 4 of note.]

Revisions made to correct mistaken assumptions about relation between values declared to Customs and actual transaction values. But revisions only ½-¾ per cent of imports, well within normal margins of error on such data. [Detailed queries to DTI.]

4. Record imports and visible deficit in October?

[Imports £7.1 billion in October; visible deficit £851 million - both records.]

Yes, but monthly figures very volatile and imports affected by anticipation of 1 November VAT change.

5. Effect of continuing coal strike?

Strike has affected balance of trade on oil and coal to tune of nearly £2 billion since January. But oil surplus still on track for last year's record £7 billion. Balance of payments position strong enough to absorb temporary difficulties of this kind - £2½ billion 1985 current account surplus forecast in Autumn Statement, assuming strike over. [**Do not** reveal figures on coal effect. Detailed queries to DTI and D/Energy.]

6. Manufactured trade deficit increasing?

[£3¾ billion deficit in Jan-Oct 1984, after £2½ billion in 1983.]

In fact, deficit £0.2 billion lower in October than September. Deficit offset by substantial surpluses on oil and invisibles.

7. Effect of September docks dispute?

Minimal.

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TRADE FIGURES FOR OCTOBER 1984

Advance Circulation

Chancellor of the Exchequer	Mr H P Evans
Chief Secretary	Mr Folger
Economic Secretary	Mr Culpin
Sir P Middleton	Mr C Mowl
Mr Littler o.r.	Mr S Robson
Sir T Burns	Mr Vernon
Mr Cassell	Mr Gleed
Mr Unwin	Mr Towers
Mr Lavelle	Mr Ridley
Mr Battishill	Mr Gill - Bank
Mr Kelly (EF)	Mr Turnbull - No 10

Circulation after 3.30pm on Thursday 22 November

Financial Secretary	Mr Melliss
Minister of State	Mr Riley
Mr Bailey	Mr Sedgwick
Mr Byatt	Mr P Patterson
Mr Wicks (Washington)	Mr Kelly (MP)
Mr Fitchew	Mr Walker o.r.
Mr Odling-Smee	Miss Deyes
Mr Lankester	Mr N McKinnon
Mr Shields	Mr Lord
Mr Gordon	Mr Portillo

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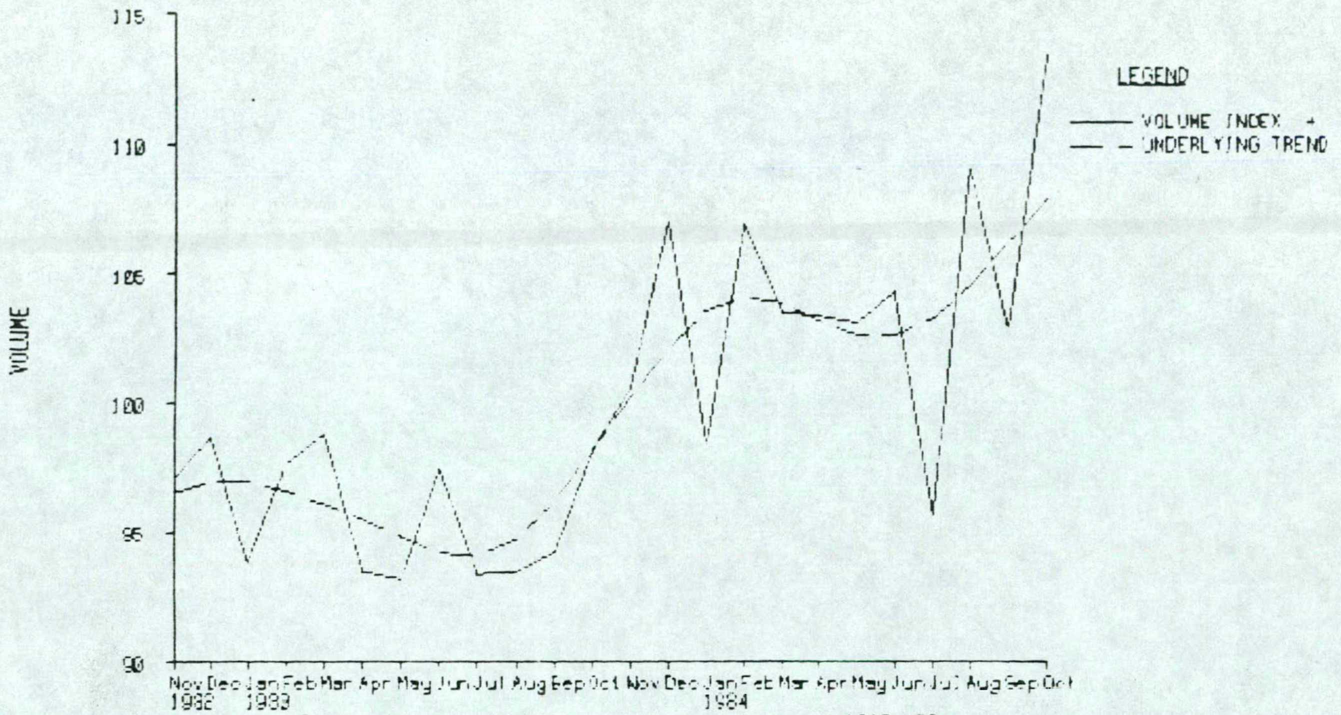
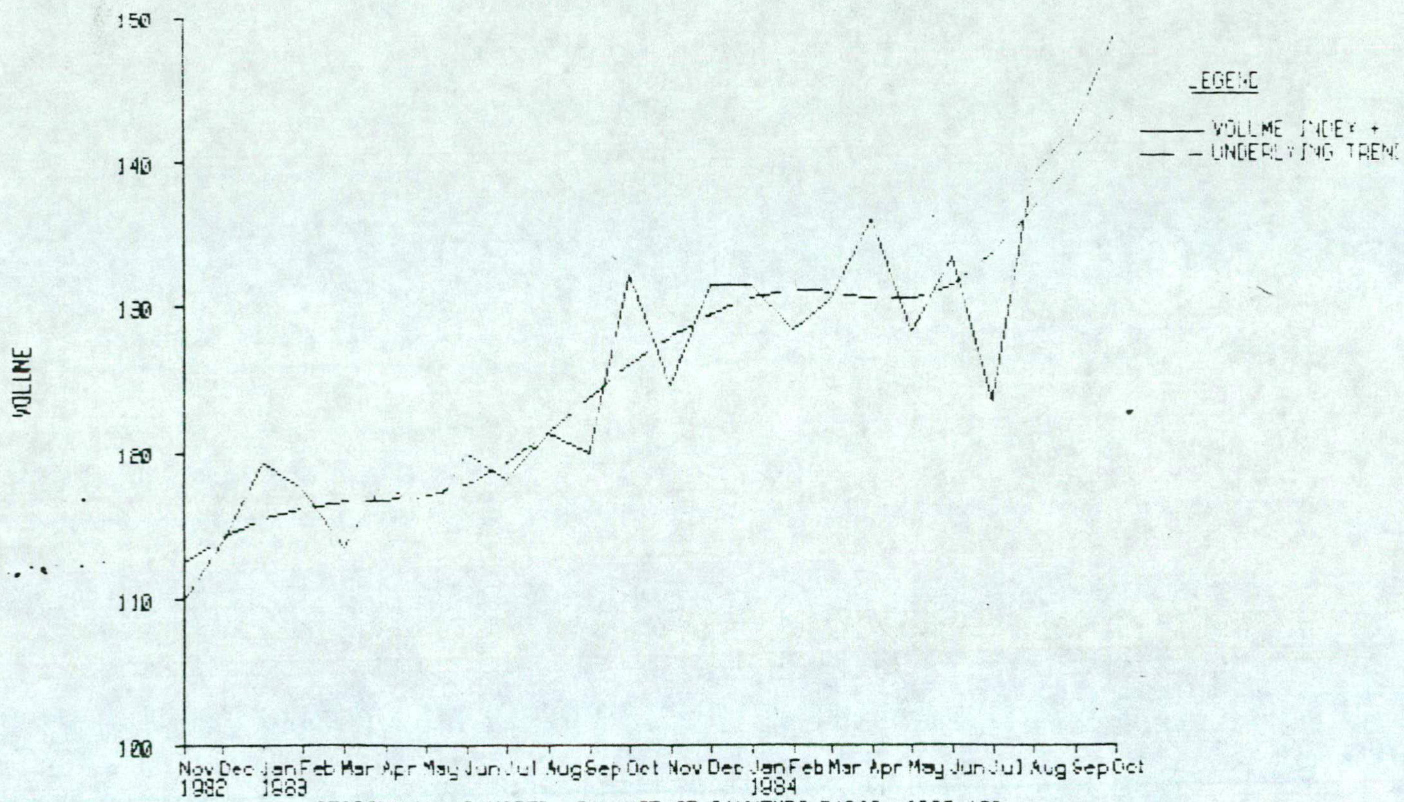
until release of press notice on 22 NOV 84 at ... pm

EXPORTS EXC OIL & ERRATICS



+ Seasonally adjusted balance of payments basis 1980=100

TOTAL IMPORTS (EX. OIL & ERRATICS)



+ SEASONALLY ADJUSTED. BALANCE OF PAYMENTS BASIS. 1980=100

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FROM: P WYNN OWEN

DATE: 21 November 1984

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Littler
Mr Cassell
Mr Unwin
Mr Lavelle
Mr Battishill
Mr H P Evans
Mr Kelly
Mr Folger
Mr Culpin
Mr Mowl
Mr S Robson
Mr Vernon
Mr Gleed
Mr Towers
Mr Ridley
Mr Gill - B/E
Mr Turnbull - No.10

MR BARTLETT

OCTOBER TRADE FIGURES

OCTOBER TRADE FIGURES

The Chancellor has seen your minute of 20 November covering the draft DTI press notice and draft briefing for IDT.

2. He suggests one amendment to the draft DTI press notice. In the second sentence of paragraph 2, after £250 million insert ", which was in turn made up of".

3. In the draft briefing for IDT:

(a) items (i) and (iii) should switch places.

(b) The new item (iii), formally (i), should be amended to read:

"October current account balance continues to be effected by coal strike (around £350 million net deterioration in coal and oil account).

(c) Delete item (iv) altogether.

PWO

P WYNN OWEN

PMP.

C.

You asked when we get Q3 1984 employment figures.

Mr Vernon says 16 Jan' 1985 for publication (couple of days before for us).

PWO 3/12

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C.
To note

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 29 November 1984

Developments over the past month led to more stability in financial markets based on views of the outlook for the UK economy. Sterling traded quietly firmer in the first part of November, since when it has fallen, on renewed dollar strength and weaker oil prices.

Increased confidence combined with falling US interest rates has also contributed to the recent cuts in interest rates by UK clearing banks. Monetary growth remains satisfactory with both target aggregates inside their target ranges.

The twelve month increase in the RPI is still around 5 per cent. Whilst the trend in the inflation rate is encouraging, real earnings continue to rise. UK labour competitiveness has only been maintained by a fall in the exchange rate; there must be concern about the implications of this for the longer term position on competitiveness.

There has been no further increase in the GDP effects of the coal strike in the third quarter, and our estimate of the underlying rate of growth is still between 2 and 3 per cent a year. This is a slow-down from earlier in the year, which is broadly consistent with the somewhat hazy picture given by the cyclical indicators.

The rise in unemployment continues. The rises in October and November were much lower than in the summer, and it is likely that the underlying upward trend remains between 10 and 15 thousand per month, as since mid 1983. There has probably been some further increase in employment during the third quarter.

There are signs of an increase in the underlying level of non-oil export volume. The volume of non-oil imports is also increasing but the underlying position is blurred by the effects of the introduction of new VAT procedures.

In the first seven months of the financial year, the public sector borrowing requirement was £7.7 billion. The forecast for 1984-5 has been revised to £8½ billion, to take into account the expected effects of the coal strike.

SOME KEY ECONOMIC INDICATORS

Rates of change:

	Published data to	Over latest published 12 months	Assessment of current trend*
GDP (average measure) % p.a.	84Q2	3**	2-3
Industrial production % p.a.	September	- 1**	0-2
Retail prices % p.a.	October	5	$3\frac{1}{2}$-5^{x}
Producer Input prices % p.a.	October	$8\frac{1}{2}$	6-8
Average earnings (underlying) % p.a.	September	$7\frac{1}{2}$	7-$7\frac{1}{2}$
Unit wage costs in manufacturing % p.a.	September	6**	6-7
Unemployment***(000's per month)	November	+14	+10 to +15

* Our best assessment of the current underlying rate of increase after making allowance for temporary distorting factors such as strikes, unseasonal weather effects, etc.

** Latest 3 months or quarter compared with same period a year ago.

*** Excluding school leavers, adjusted for changes in coverage.

x The range is wide because short-term movements are affected by indirect taxes, mortgage interest rates and seasonal food prices.

CHART 1

Changes in output and expenditure

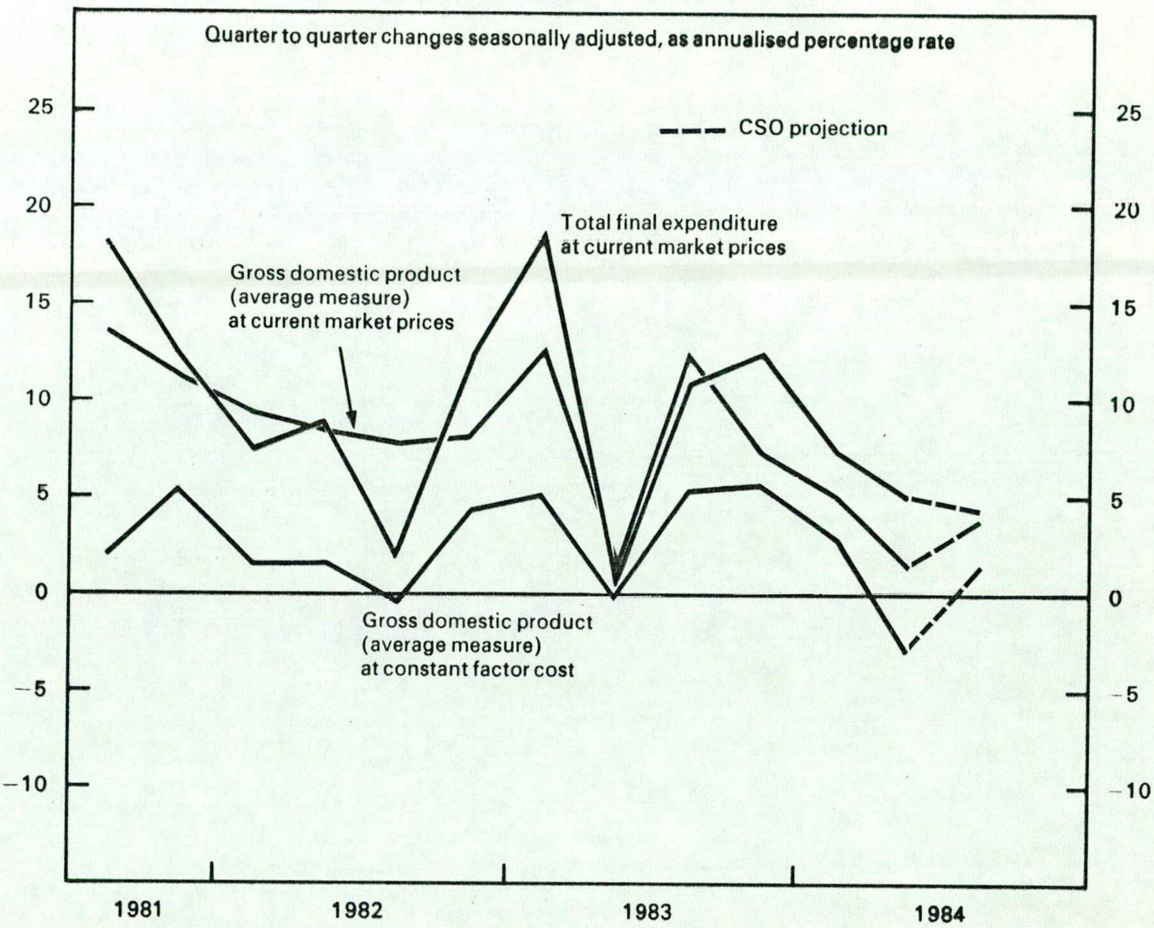
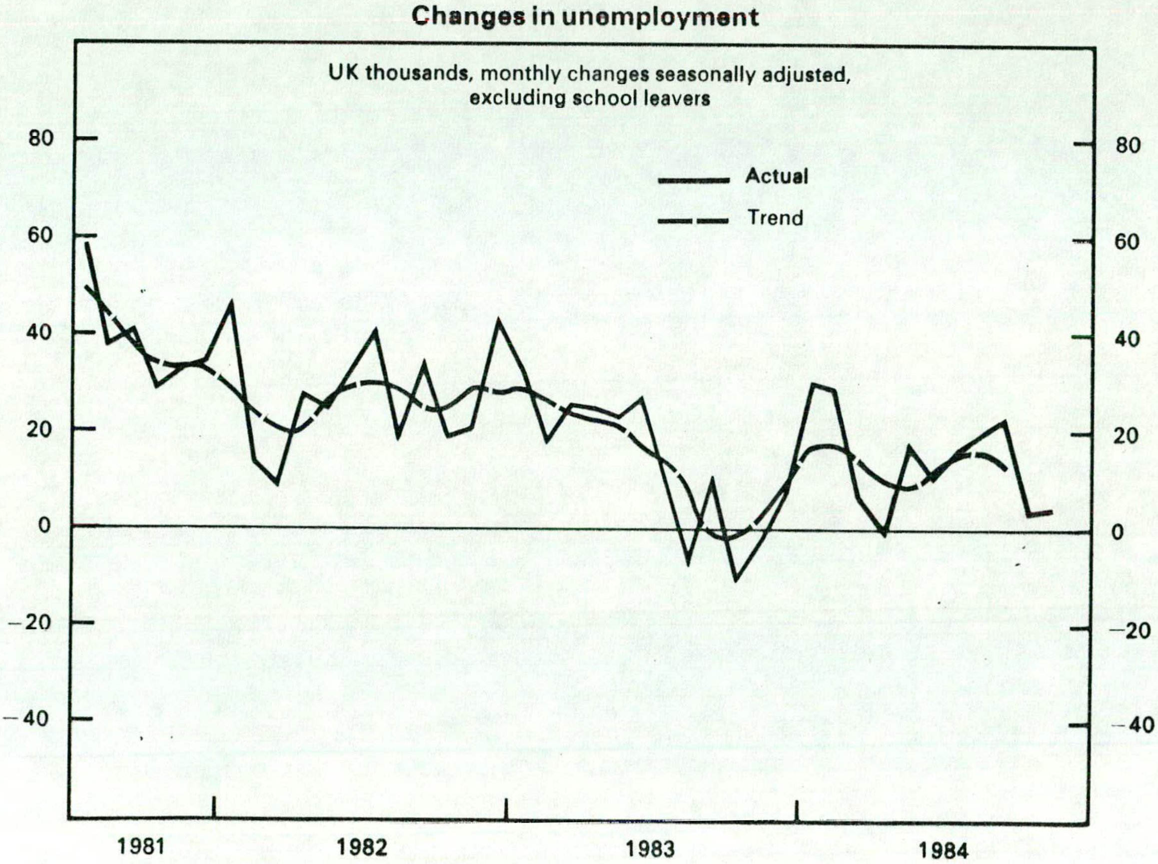


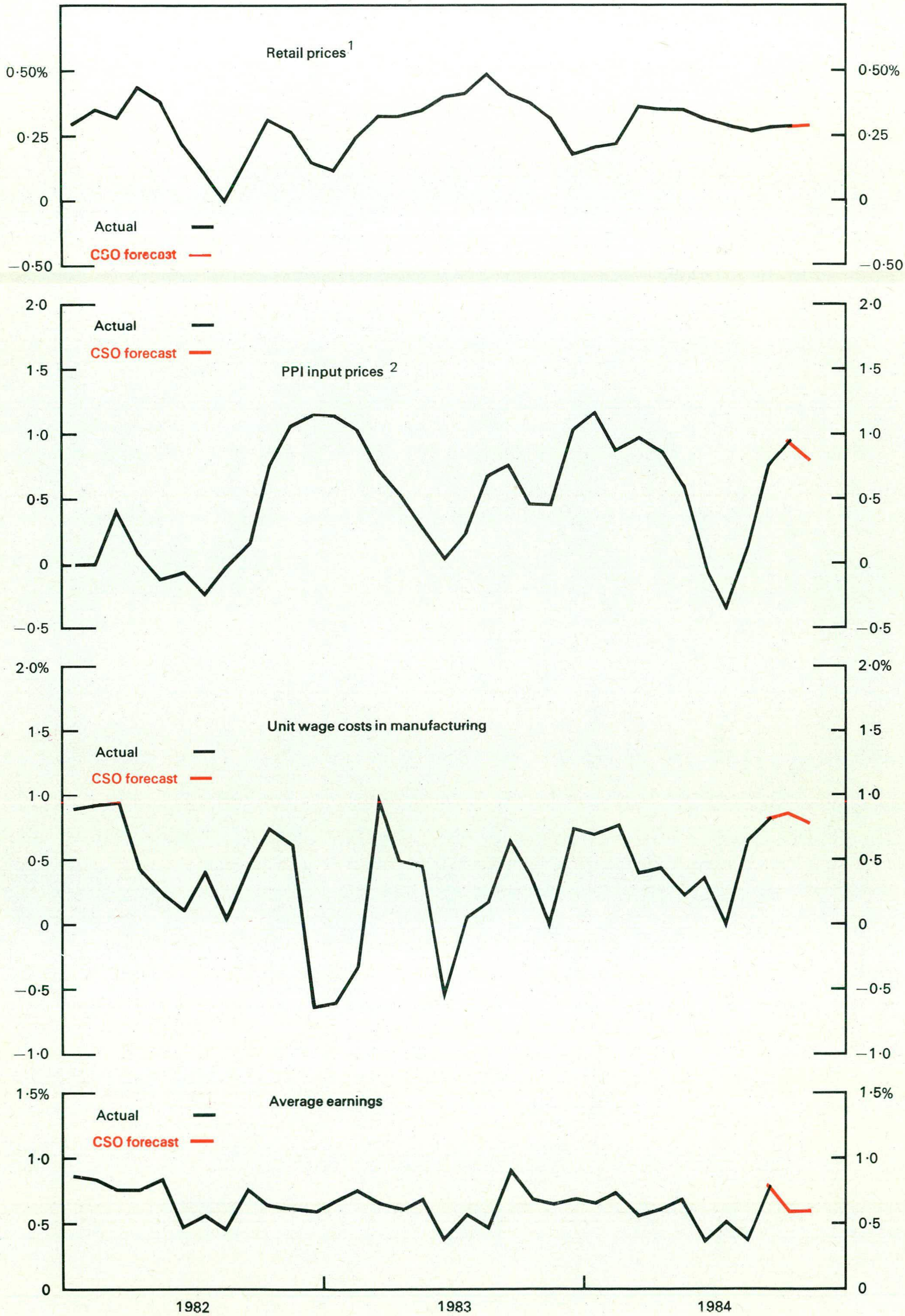
CHART 2

Changes in unemployment



Rate of increase in average earnings, unit wage cost in manufacturing, PPI input prices and retail prices

Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



1. Excluding effects of Budget tax and duty changes and LA rates increases
2. Excluding effects of seasonal changes in unit costs of electricity

CHART 4

Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

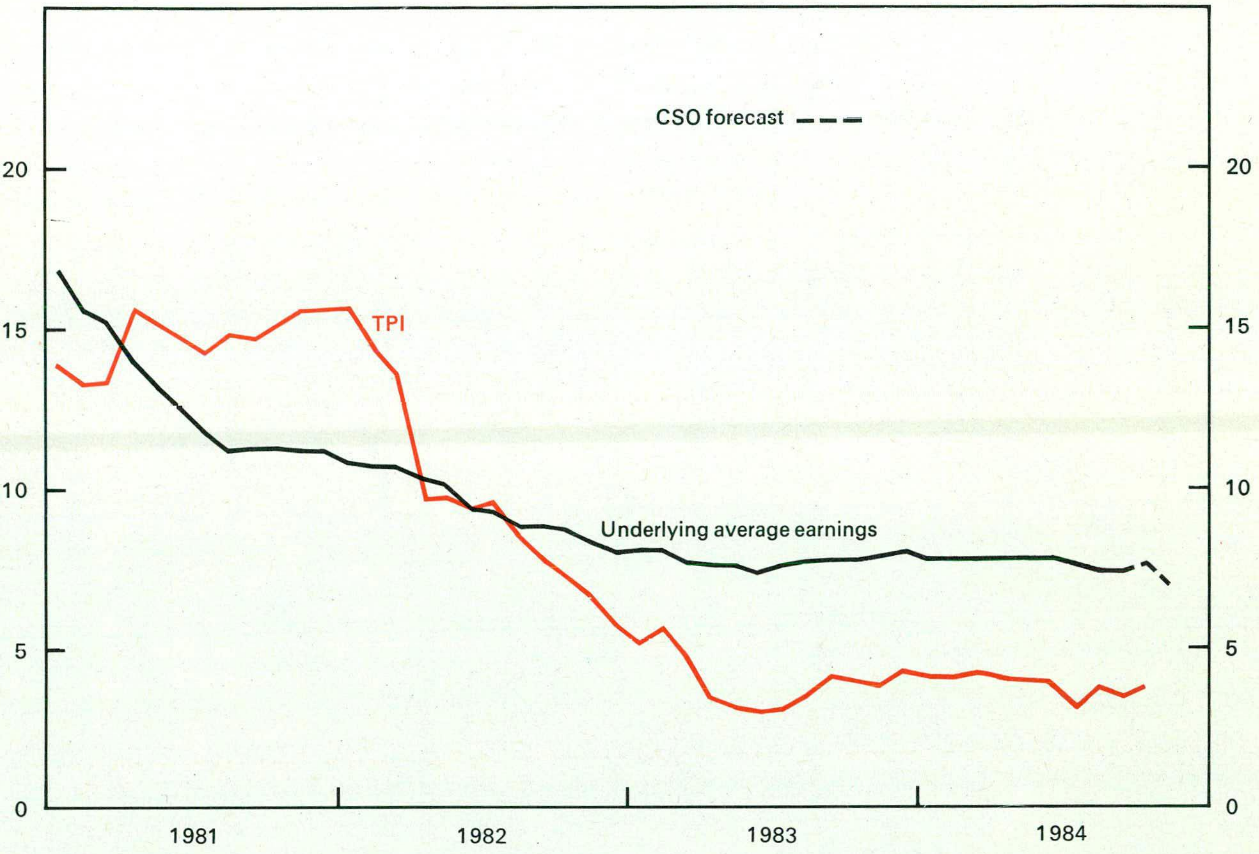
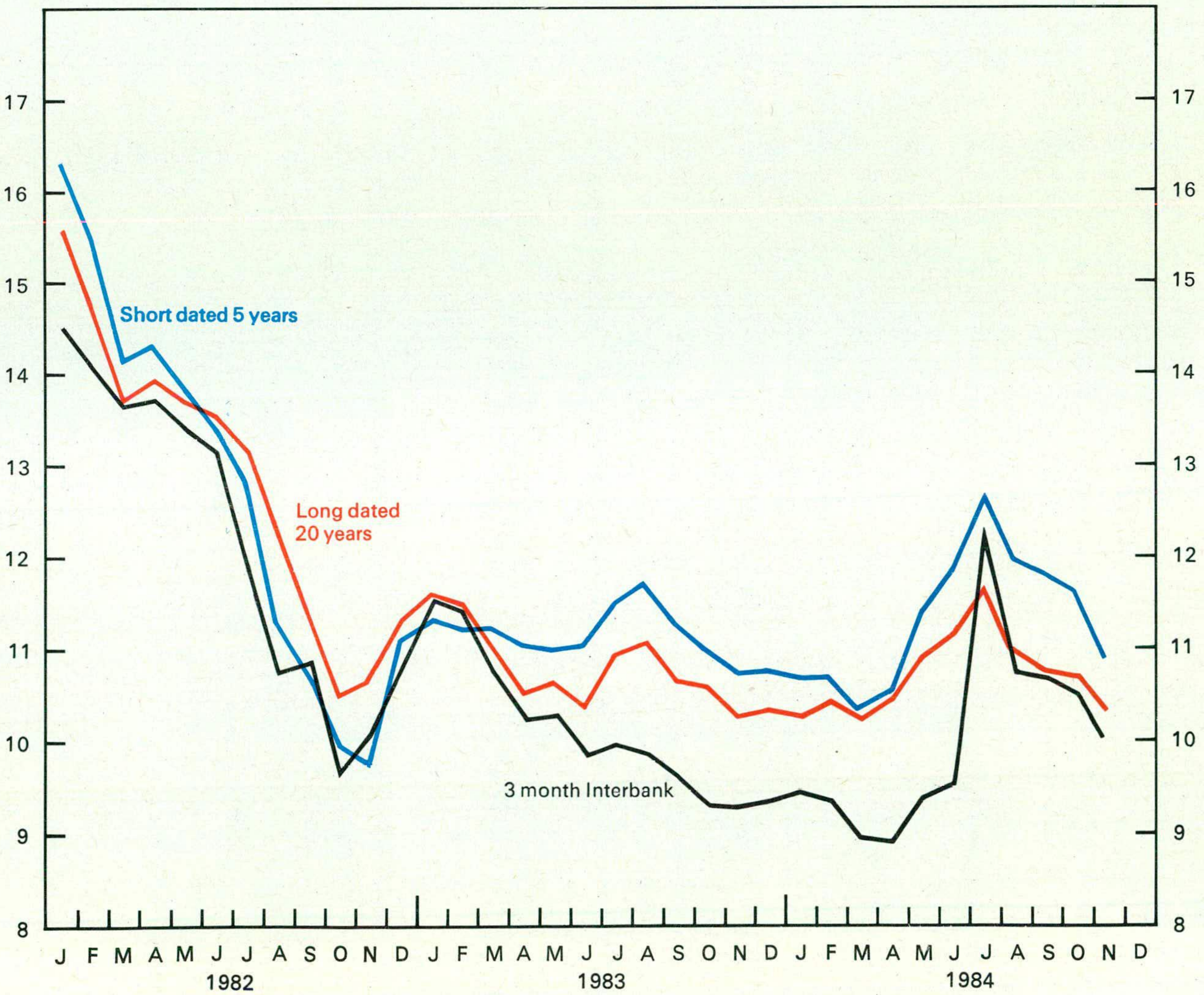


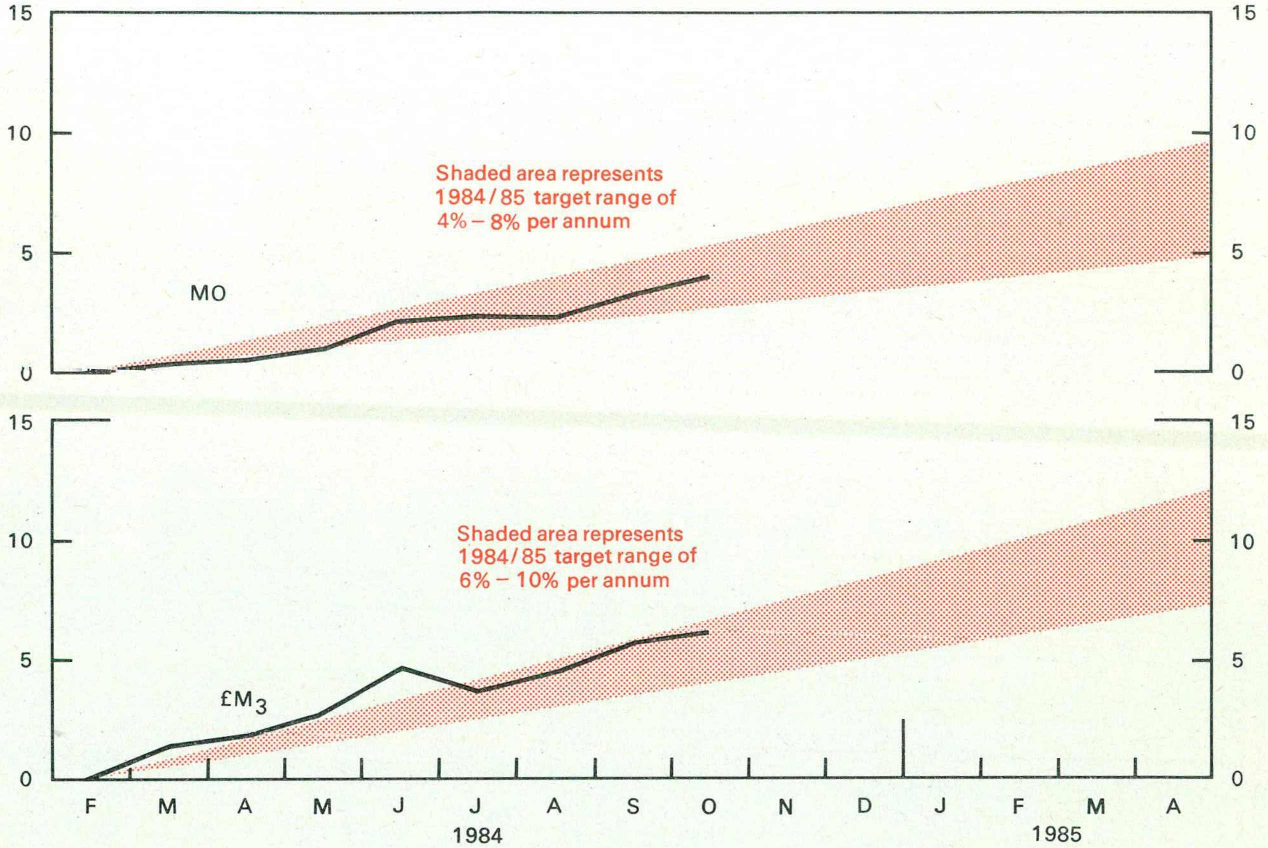
CHART 5

Interest rates



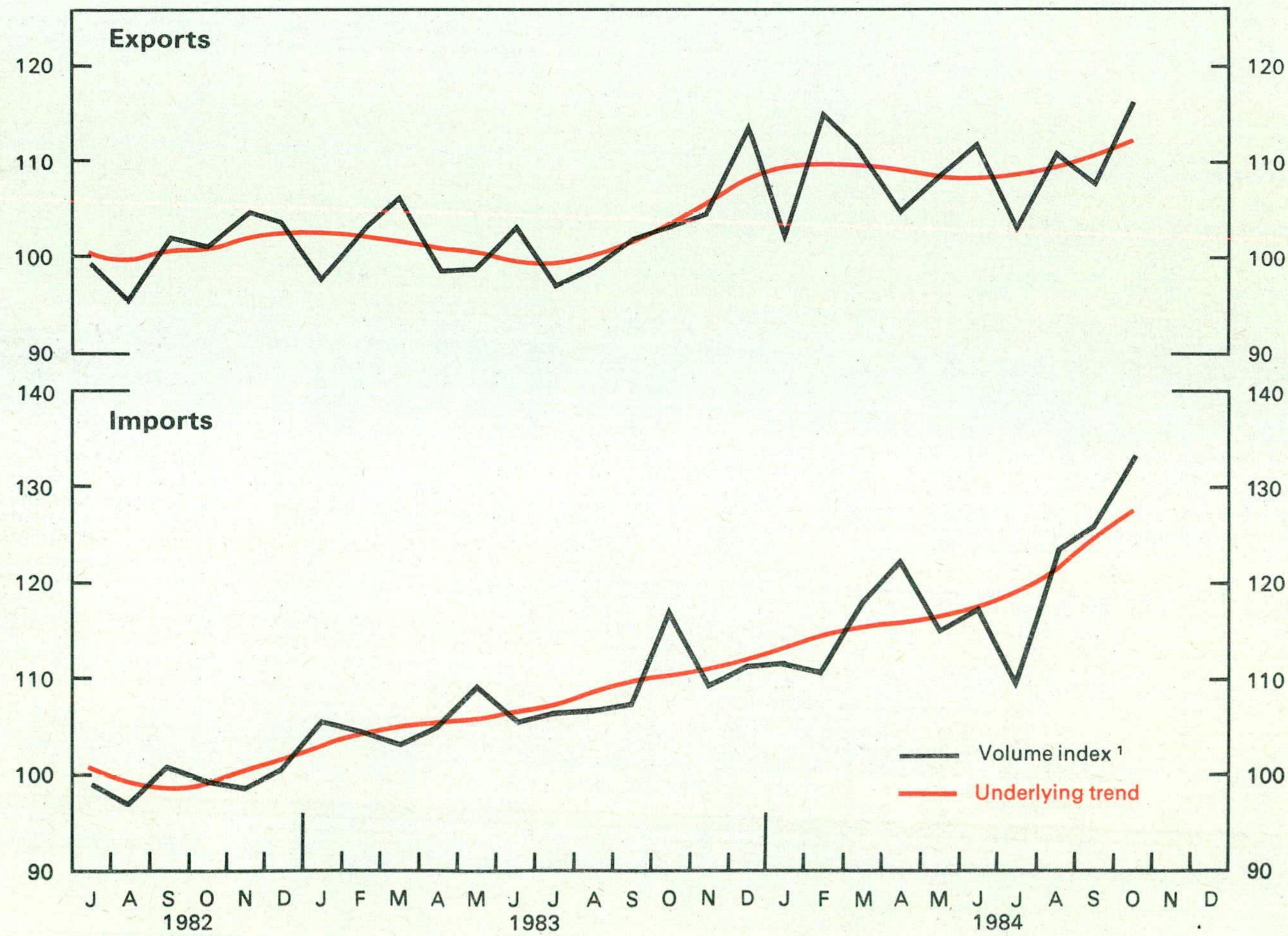
Target monthly aggregates (1984/85)

Percentage change from start of target period (seasonally adjusted)



Exports and Imports

Index 1980 = 100



[1] Seasonally adjusted data, Balance of Payments basis