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PART E

ics,
(RPI)

Begin: ^{9/7/86}
~~12/11/86~~

DD: 25 years

Ends: ~~15/12/86~~ (CONTINUED)

29/9/86

5/9/95

CHANCELLOR'S 1986 PAPERS
ON ECONOMIC STATISTICS,
TRADE FIGURES AND THE
RETAIL PRICE INDEX (RPI)

PO -CH /NL/0143

PART E

CONFIDENTIAL

MS

*unclassified
circulation
for hold
leha*

FROM: M C SCHOLAR
DATE: 9 JULY 1986

CHANCELLOR OF THE EXCHEQUER

- Chief Secretary*
- cc Sir Peter Middleton
- Mr F E R Butler
- Sir Terence Burns
- ~~Mr Kemp~~
- Mr H P Evans
- Mr Odling-Smee
- ~~Mr Peretz~~ *Mr Scholar*
- Mr Turnbull
- ~~Miss O'Mara~~
- Mr Culpin
- ~~Mr Pratt~~
- Mr Tyrie

CABINET ON 17 JULY: ECONOMIC PROSPECTS PAPER

... I attach a revised draft of this paper, which takes account of our discussion yesterday and comments from copy recipients of this minute. The paper should be despatched to No 10 in the course of tomorrow, in time for your bilateral with the Prime Minister on Friday.

MS

M C SCHOLAR

ECONOMIC PROSPECTS

Memorandum by the Chancellor of the Exchequer

1. Events this year are turning out rather differently from the prospect foreseen at the time of the Budget. The fall in inflation - both worldwide and in the UK - has gone further than expected. But output has grown more slowly, as the initial unfavourable effect of the oil price fall has been superimposed on a temporary pause in activity worldwide, with inevitable consequences for unemployment.

There is ^{still} every reason to expect a ^{later this year,}

2. *as* A resumption of growth abroad and at home, when *So far this year we cannot afford to take chances.* the gains from lower oil prices begin to outpace the losses, continues to be the expectation. *begin to make themselves felt.* But in the light of *our* experience it is right for us to proceed with the caution which has served us well through turbulent times in recent years. *to take chances.*

benefits to financial activities

And, however the prospects for world growth turn out, we face two particular threats at home: the failure of pay settlements to respond to sharply lower inflation, and the pressure for higher public spending, against the background of a fiscal position still vulnerable to *the oil price which cannot stay at under \$10 a barrel as compared with the \$15 a barrel assumed at the time of the Budget.* uncertainties about oil prices.

World economy

3. Activity in the world economy was generally sluggish in the first quarter of 1986. There was a small fall in manufacturing output in Japan and much of Europe, and in the United States growth has been modest. Demand from outside the industrialised countries has also been weak, with a substantial reduction in imports by oil-producing countries.

4. With the ^{collapse} ~~fall~~ in oil prices and the continuing effect of the ^{prudent financial} ~~counter-inflationary~~ policies pursued ^{by all} in recent years there has been a further sharp fall in inflation: consumer prices in the major industrialised countries have risen on average by only 2 per cent over the past year. The consequent increases in real incomes, together with lower interest rates, ^{should ensure} ~~suggest~~ a resumption of ^{reasonable} ~~stronger~~ vigorous growth, perhaps later this year.

The British economy

5. At home, the pattern has been broadly similar. Following its strong performance in the four years up to early 1985, output, adjusted for the coal strike, has since grown more slowly, and is now expected to grow at ^{no more than} ~~about~~ 2½ per cent in 1986, instead of 3 per cent as forecast at Budget time.

But with buoyant consumers' expenditure and exports reflecting world trade ^{the expected upturn in} ~~growth likely to recover~~ later in the year, ^{stronger increase in activity} ~~growth overall may be~~ somewhat stronger in 1987 than ^{was envisaged at the} ~~expected~~ at Budget time. ^{Time of the Budget}

6. ^{Inflation has fallen steadily for the past few} ~~There has also been in recent months a decisive~~ reduction in inflation. The RPI is currently down to 2½ per cent. I expect it to remain low throughout 1987, ^{the rest of this year & next year,} ~~although perhaps a little above the~~ end-1986 level. ^{although there will inevitably be some} ~~although perhaps a little above the~~ ^{bounce back from the current astoundingly low level.}

7. But this fall in inflation has been matched and often surpassed in other industrialised countries. Germany and Japan are now enjoying virtually stable prices. ^{Moreover} There are clear signs in our competitor countries that the slowdown in price increases is being reflected in lower earnings growth; and their unit cost increases are negligible or negative.

The inflation rate has fallen steadily for the past few months, and, as measured by the RPI, now down to 2½ per cent.

There is as yet no sign of a

8. In the UK, on the other hand, there has been no response to the sharply changed inflation environment. Earnings are continuing to grow at around 7½ per cent a year, forcing increases in our unit costs and eroding our competitiveness.

Wage settlement

So far

very

(cos against an increase in TP1 of little more than ½ per cent), implying a sharp hit on our unit costs - a sharp deterioration in

9. The consequences of this excessive earnings growth are clear. Unemployment, despite all the measures we have taken, continues to increase at an average of 10,000-15,000 a month. With a faster expansion of employment as output growth picks up, and declining labour force growth, the prospect is still of some improvement in the unemployment position next year. But excessive earnings growth is losing us jobs. Furthermore, the loss of competitiveness on our non-oil trade, superimposed on the deterioration in the oil account, is beginning to make the current account of the balance of payments look vulnerable.

that there will be

best guess

10. The major changes taking place in financial markets have made the task of interpreting monetary conditions very difficult, for markets and authorities alike. Although narrow money is towards the bottom of its target range, bank lending is expanding rapidly and broad money continues to grow well beyond expectations. ~~House prices have also been rising rapidly.~~

11. The markets have, however, recognised that we are determined to pursue prudent fiscal and monetary policies. We have gone through a period of calm since the Budget, despite a further fall in oil prices and renewed uncertainties about the dollar and some fears about the prospects for our current account. Base rates have fallen by 2½ per cent although they have remained relatively high; and long-term rates have fallen to their lowest level since the early 1970s.

a fairly radical breakdown by PBM of earlier selection variation below.

WSP 10-12 from previous (below) as amended

Given these uncertainties on the monetary front,

(Comparison with
8/5 assessment in the
Budget and March)

brove to
top

Again see earlier
section return
below.

12. ~~But~~ the markets are watching for any evidence of lack of resolution on the public sector finances; and, with oil prices currently in the \$10 barrel range, the fiscal prospect looks more difficult than at the time of the Budget. As the Chief Secretary's paper shows, the pressures for higher public spending are intense and relentless. It will require great determination to maintain the firm control of public expenditure which is central to our economic strategy, essential if we are to avoid increases in the tax burden, and crucial if we are to avoid a damaging ~~fall~~ ^{loss} in confidence.

13. A summary of the most recent Treasury assessment is shown in the attached table.
...

Conclusion

14. The economy has been experiencing a pause in the steady growth ~~it has experienced~~ ^{seen} since the trough of the recession in 1981. That pause, which is also occurring in the rest of the industrialised world and has coincided with the collapse of oil prices, is affecting short-term employment prospects. But inflation has been lower than expected; and the prospect is still for a resumption of growth at home later on this year, as activity worldwide recovers its momentum.

Wavy red scribble

15. ~~Considerable risks, however, threaten this prospect.~~ ^{But there are some clear dangers.} Developments in the world economy are inevitably subject to much uncertainty; ~~and with the loss in our competitiveness in non-oil trade superimposed upon the fall in our oil prices our external position is beginning to look vulnerable.~~ ~~We must not add to these hazards by putting at risk our reputation for prudent management of the public finances, reversing the progress we have made in recent years in reducing the burden of taxation~~

Large red scribble

and the future so
far of pay to adjust to lower inflation is a
threat to competitiveness, ~~but~~ ^{loss of confidence in financial markets.}

(still higher than it was in 1978-79), in reducing borrowing and in holding down inflation. It is vital, therefore, that we maintain, as the Chief Secretary proposes, ~~tight~~^{firm} control of public expenditure.



PSV
M
2/1/26
ASPP

Ch.

This reflects comments from

PEM, Terry + PERB (re also me).
(I had accepted of course).

There is a fairly radical
redraft of para 10-12,
by PEM, which you may
like to compare with an
earlier Sheldon version
below.

Michael is raising
some of the 'watering the
brewer', exaggerated attitudes

But in your last letter
said for your
speaking with, it may
be a bit more here.

This needs to go to
the PM tomorrow
night, as you believed
on Friday evening.

Re.

97

MAJOR ECONOMIC INDICATORS

	1983	<u>United Kingdom</u>			Summit 7 (excl. UK) 1986
		1984	1985	1986	
A					
<u>Demand and activity</u> (per cent change on previous year)					
GDP	3½	2½	3½	2½	3
Domestic Demand of which:	4½	2½	2	3	3½
consumer spending	4	2	3	4	3½
fixed investment	5	8	1	4	4½
Exports of goods and services	2½	7	6½	1	1½
Imports of goods and services	6	9½	3	2	6½
B					
<u>Inflation</u> (per cent changes on a year earlier)					
Retail prices, fourth quarter	5	4¾	5½	2¼	½
Average earnings, fourth quarter	8	6½	7½	7½	3½ (2)
C					
<u>Other indicators</u> (levels)					
Current balance (£ billion)	3	1½	4	3	-6
Unemployment level (per cent, narrow definition)	12	12	12½	13	7½
Interest rates (3 month inter-bank, per cent)	10	10	12	10 (1)	6½ (1)
Sterling Index, 1980=100	83	78½	78	76 (1)	-
Oil prices, \$ North Sea	30	29½	27½	10 (3)	-

- (1) Current levels
- (2) Manufacturing earnings only
- (3) Brent price for delivery in July, as of 3rd July

Check
: 75 ✓



FROM: MRS R LOMAX

DATE: 9 July 1986

MR H P EVANS

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Byatt
Mr Cassell
Mr Kemp
Mr Monger
Mr Odling-Smee
Mr Peretz
Mr Sedgwick
Mr Scholar
Mr Watson
Mr Culpin
Mr Davies
Miss O'Mara
Miss Noble
Mr Brooks
Dr Rowlatt
Mr Ross Goobey

RETAIL PRICES INDEX ADVISORY COMMITTEE

The Chancellor was grateful for your minute of 8 July. He has approved the draft reply to Lord Young. However, he regrets that he can see no point in producing a Treasury working paper on owner-occupied housing costs. He has commented that the race is over and our horse has lost.

A handwritten signature in cursive script, appearing to be 'RL'.

RACHEL LOMAX



put

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

10 July 1986

David Norgrove
No 10 Downing Street

*paper to
be done
John Vickers
M.*

*larger to
planned
a copy of
version, as discussed
at 15 July. Open*

Dear David,

ECONOMIC PROSPECTS: CHANCELLOR'S PAPER FOR JULY CABINET

*has morning
R 14/17*

... I attach a draft of the Chancellor's paper on economic prospects for next week's Cabinet. Subject to the Prime Minister's views, (and some last minute polishing) the Chancellor would like to circulate next Monday. There will be an opportunity for discussion at tomorrow's bilateral.

The Prime Minister may also like to see the final draft of the Chief Secretary's Cabinet paper. This has been updated to record the agreement on local authority current expenditure, and the need for the Secretary of State for the Environment's statement to cover local authority capital expenditure. The drafting has also been tightened up in places, as the Prime Minister suggested. The Chancellor will explain the change to paragraph 17(a), to remove any reference to reporting back to Cabinet after the bilaterals.

*Yours ever
Rachel*

Thanks!

RACHEL LOMAX
Principal Private Secretary

put by 11/7

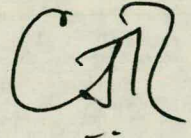
FROM: C J RILEY
DATE: 10 JULY 1986

MR SEDGWICK

cc Sir P Middleton
Sir T Burns
Mr Odling-Smee
Mrs Lomax —
Mr Grice
Mr Spencer (o/r)

THE MEASUREMENT OF FISCAL STANCE

This is the latest version of the note we had earlier intended to circulate to the Fund staff. The main difference from the version I circulated on 3 July is the addition, at your suggestion, of paragraphs 12-13 on the operational - or primary - deficit. If the Chancellor is intending to comment at some stage, he may wish to comment on this version.



C J RILEY

THE MEASUREMENT OF FISCAL STANCE

This note gives a brief review of alternative measures of fiscal stance, and assesses their usefulness in different contexts.

2. There are a number of potential uses for such measures. For example, they may provide information on:

- the impact of fiscal policy on nominal demand, inflation and interest rates
- the impact of fiscal policy on real demand and activity
- the government's contribution to total net saving in the economy, the counterpart of which is the current account of the balance of payments
- domestic pressure on financial markets, and hence real interest rates; though in this context the importance of external factors must be taken into account
- the sustainability of current fiscal policies.

Single measures of fiscal policy cannot provide adequate information on any of these relationships, but the different measures discussed below have a comparative advantage in providing different types of information.

The general government financial balance

3. Expressed as a share of GNP or GDP, this is the basic fiscal deficit indicator used by international organisations. It is based on standard national accounts concepts and is available for all major economies, allowing broad international comparisons to be made. Since general government comprises central and local government (together with their social security funds), this measure does not depend upon the extent of public ownership of industry, though for this reason it does not give a fully comprehensive indication of the public sector deficit or its effect on the economy.

4. The financial balance - or financial deficit - measures the increase or decrease in nominal net general government liabilities. Because it is not adjusted for variations in inflation it is most relevant as an indicator of the impact of fiscal policy on nominal demand and interest rates. It can be used to indicate the compatibility of fiscal policy with governments' monetary and inflation objectives.

5. However it has a number of limitations which should be borne in mind, particularly when making international comparisons:

- it does not allow for official lending (or loan guarantees) and is defined on an accruals rather than a payments basis, and so may give a misleading indication of the impact on financial markets. A measure of the borrowing requirement is more useful in this respect.
- it is more prone to revision and error than a cash-based borrowing measure.
- it makes no allowance for the build-up of future commitments such as pension rights.
- it is measured after allowing for net sales of physical assets, although these have little if any effect on nominal demand (or the public sector's balance sheet), but does not allow for net sales of financial assets which have essentially similar effects.
- it does not usually allow for changes in the capital value of fixed interest, indexed or foreign currency denominated debt. Differences in the debt structure across countries will therefore be reflected in the deficit.
- it will vary with the degree to which general government, rather than public corporations or the private sector, have responsibility for providing particular services (for example education or health).

The structural balance

6. The financial balance is affected by variations in the level of activity in the economy. It can be argued that this should be allowed for in assessing the underlying stance of fiscal policy, and the degree of pressure on market interest rates. The structural balance measure makes an allowance for this by adjusting for the estimated effect of variations in the level of output relative to productive potential. But there are considerable difficulties in gauging the underlying trend in productive potential, and so the adjustments required are subject to great uncertainty. Also, the adjustments depend on the precise fiscal systems in different countries, which makes international comparisons difficult and injects an essential element of arbitrariness into the calculation.

7. Because of the difficulties in estimating the level of productive potential, the OECD and others focus their analysis upon the change in the structural deficit. This is usually viewed as an indicator of discretionary changes in fiscal policy. However there are several problems with this interpretation:

- the growth of productive potential is also subject to great uncertainty, particularly in the recent past
- the effect of changes in output on the deficit is likely to be complex, depending for example upon the nature of the cycle as well as dynamic and compositional effects. This makes estimates of the division between automatic and discretionary movements prone to error.
- the adjustments are based on an econometric model and as such are extremely uncertain.
- it is necessary to make assumptions about the operation of monetary policy over the cycle, and in particular about changes in interest rates as output varies. But the operation of monetary policy differs between countries, and the choice of assumption is essentially arbitrary.

8. It is doubtful if the distinction between automatic and discretionary changes in fiscal policy is in practice very useful if the objective is to measure the overall impact of fiscal policy on demand, since both affect the economy. (It would certainly be wrong to argue, as some economic commentators tend to do, that only the structural component affects demand.) Moreover, the overall impact on financial markets and nominal demand will depend crucially upon the overall specification of financial policy. Nevertheless, the structural balance measure does offer a rough and ready way of allowing for cycles in output when comparing fiscal deficits, providing a crude indication of the underlying balance, and as such it may be of some limited use.

The inflation-adjusted financial balance

9. The financial balance is also affected by inflation rates. In particular debt interest payments vary with movements in nominal interest rates. But to the extent that debt interest payments are viewed by investors as a compensation for inflation they represent an early repayment of capital rather than real income, and this will affect saving behaviour and the implications for the economy and financial markets. High inflation will tend to generate high fiscal deficits and high saving ratios for any given state of the 'real' economy; and in certain contexts it is helpful to make an allowance for this.

10. It is often argued that inflation-adjusted financial balances provide a better measure of the impact of fiscal policy on activity and 'real' economic variables than do unadjusted balances. The adjusted measures are obtained by adding to the financial balance or the structural balance an estimate of the fall in the real value of government debt caused by inflation. When the prevailing rate of inflation is high, as it was during the late 1970s and early 1980s, this adjustment yields a much tighter measure of fiscal stance than the financial balance itself, irrespective of the precise method of calculation.

11. This type of indicator measures the stance of fiscal policy relative to a baseline in which inflation is fully accommodated. Consequently, although it may offer an indication of the impact of

fiscal conditions on activity, real interest rates, and the current account of the balance of payments, it is of rather limited use in describing the overall stance of policy when an important objective is to influence inflation. In these circumstances, it would be more appropriate to assess how large the unadjusted balance should be by reference to government's objectives for monetary growth and the path of nominal demand.

The operational deficit

12. An alternative method of allowing for inflation is to focus on the operational or primary balance - ie the financial balance excluding net interest payments. This differs from the inflation-adjusted balance by the amount of 'real' interest paid on countries' outstanding debt, which will reflect the prevailing level of real interest rates and both the level and structure of the debt. Thus not only does this measure allow for differences in inflation, but also it removes from the financial balance that element which reflects differences in the burden of debt in different countries.

13. This measure is subject to all the same drawbacks as the inflation-adjusted measure, and a number of others. Real interest payments add to demand in the economy as do other elements of the financial balance. But more importantly they contribute to the build-up of debt, and hence to the pressure on real interest rates and the external balance. To ignore them is to ignore an important potential source of fiscal and economic instability.

Demand-weighted financial balances

14. The idea here is to weight each element of the financial balance in terms of its effect on real demand, though the principle could easily be extended to cover other effects of fiscal policy - say the effects on inflation. Changes in different taxes and expenditure items have different effects on real demand, and this is allowed for in constructing the weights. These measures should also allow for inflation tax by incorporating an inflation adjustment as described above.

15. In principle the demand weights that are used could reflect whatever accompanying monetary policy and financial market reactions thought to be appropriate. In practice, most demand-weighted measures assume an accommodating monetary policy without any anticipatory behaviour by financial markets. But any assumption is essentially arbitrary, and not necessarily appropriate to the particular circumstances involved. Measures of this sort are highly dependent on the economic model used to construct them, as well as the underlying assumptions.

16. Another problem with demand-weighting is that effects on demand vary over time. Often, demand-weighted measures ignore this, taking account only of the first round impact of changes in taxes and expenditure after allowing for saving and import leakages or focusing on effects in a single time period. By ignoring the full implications of lags and second round effects, time series of demand-weighted deficits typically do not represent accurately the effects of fiscal policy on demand.

Public sector claims on private saving

17. This type of indicator shows the government's financial balance as a fraction of personal and company sector saving (net of stock appreciation and, sometimes, capital consumption) in order to help analyse the effect of government deficits on financial markets and real interest rates. There is some evidence that such indicators are correlated with real interest rates, a relationship which would be indicated by models based on financial flows. Also, one would expect them to be related to the state of the current account of the balance of payments.

18. Although in some ways useful, these indicators are affected by a number of practical drawbacks:

- a rise in the rate of inflation will tend to increase both the government deficit and personal saving, because of inflation tax, without altering business investment or the external position to the same extent. This will increase the deficit/saving ratio without necessarily implying an increase in real interest rates or a deterioration in the current

account. These inflation effects also make international comparisons very difficult, though an inflation-adjusted deficit/saving indicator might be more helpful.

- similarly, a fall in the level of activity will tend to push up the fiscal deficit and may raise the deficit/saving ratio while at the same time there is downward pressure on interest rates.
- the deficit/net saving statistic employs an allowance for business depreciation, which is notoriously difficult to measure.

Debt/income ratios

19. Real interest rates are likely to be influenced by the outstanding stock of public sector debt, not just new borrowing. Focusing on debt/GDP ratios, normally for general government, provides one way of analysing these cumulative effects. Changes in debt/GDP ratios over time provide an indication of the sustainability of current fiscal policies.

20. One possibility is to focus on gross debt. This might be justified on the grounds that government financial assets often tend to be overstated in the financial accounts. Another justification is that public assets often need to be set against liabilities which are off balance sheet. A good example is provided by state pension funds, whose assets reduce net debt as recorded but are hypothecated to meet future pension liabilities.

21. However it can be argued that net debt is the more appropriate concept as long as government assets can be valued properly. If government lending to the private sector replaces borrowing from other sources this should clearly give a better impression of the net government pressure on financial markets, although to the extent that government lending implies an increase in total private sector borrowing the gross debt ratio may be more appropriate. In any event the use of net debt does not deal with the problem of off balance sheet items, which can only be handled by constructing a comprehensive measure of government net worth.

22. Like the inflation-adjusted financial balance, the various debt/income ratio measures implicitly assume full accommodation of inflation (and output growth). Also, there are no very clear criteria available for deciding on the appropriate level or the trend over time. However they can give some indication of the overall pressure on real interest rates, and persistent trends in either direction give an indication of whether existing fiscal policies are sustainable or will need to be changed.

23. A major practical problem is that it is difficult to know the extent to which government lending to the private sector increases the overall pressure on financial markets. This is likely to depend upon the type of lending involved and may differ from year to year or from country to country. Different organisations allow for different categories of lending in constructing net debt figures. The figures produced by the OECD, for example, make no allowance for foreign exchange reserves or central bank holdings of commercial bills, and this produces a serious upward bias in the net debt/income ratio for the UK.

24. A further practical issue is whether the figures should be at market or nominal values. A case can be made either way, but the figures are likely to be quite different. In either case there are difficulties in obtaining appropriate stock data which can be reconciled with observed financial flows.

Conclusion

25. No available measure of the stance of fiscal policy is wholly satisfactory, and indeed no single measure could be given the different potential uses of such measures. Of those available, the unadjusted financial balance is probably the least unsatisfactory measure if the aim is to focus on the impact of fiscal policy on nominal demand and interest rates. Definitions of the structural balance are inevitably arbitrary and there are severe problems of measurement, though ideally they would give some indication of the underlying balance.

26. The demand-weighted inflation-adjusted financial balance may in principle be a useful measure of the impact of fiscal policy on real demand. But again there are severe conceptual and measurement problems which considerably limit its usefulness.

27. Debt/income ratios provide supplementary information which can be important in interpreting the flow data. Changes in the ratios probably provide the best available indication of the sustainability of fiscal policy; and they can also be used to indicate emerging pressures on real interest rates and the current account of the balance of payments. But they have to be interpreted with care, and measured in an appropriate way.

FROM: S BROOKS
DATE: 10 JULY 1986

- 1. MR S J DAVIES
- 2. CHANCELLOR OF THE EXCHEQUER

- cc : PS/Chief Secretary
 PS/Financial Secretary
 PS/Minister of State
 PS/Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Mr F E R Butler
 Mr F Cassell
 Mr N Monck
 Mr Kemp
 Mr H P Evans
 Mr Odling-Smee
 Mr Scholar
 Mr Culpin
 Mr Gilhooly
 Miss O'Mara
 Mr Pickford
 Mr Hacche
 Mr Halligan
 Mr P Davis
 Mr Westwater
 Mr Ross Goobey
 Mr Cropper
 Mr Tyrie

Handwritten in red:
 Thanks. See [unclear] [unclear]
 [unclear] [unclear]

THE JUNE RPI (to be published at 11.30 a.m. on Friday 11 July)

The level of the RPI fell by 0.1 per cent between May and June. The twelve month rate of inflation declined from 2.8 per cent in May to 2.5 per cent in June. This decline is in line with our expectations. The twelve month increase in June is the lowest since December 1967 which was also 2.5 per cent.

2. Excluding mortgage interest payments, the twelve month rate increased from 3.1 per cent in May to 3.3 per cent in June. (The twelve month rate for May has been revised down to 3.1 after further second thoughts by DE.) [Excluding housing the twelve month rate increased from 2.4 per cent to 2.6 per cent.]

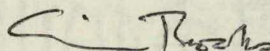
RPI
June

Handwritten in red:
 This must not be used in any way. It makes comparison in June.
 None.

3. The all items RPI was affected in June by the reduction of one per cent in the mortgage interest rate which became generally effective on 1 June. This reduced the index by about .4 per cent. As anticipated, petrol prices increased slightly, by about 3 p per gallon. This is the first rise in petrol prices since May 1985.

4. In July we expect the twelve month rate of increase to rise a little in the range 2.5 - 2.75 per cent. Last year the level of the RPI fell by 0.2 per cent between June and July. Unless this fall is repeated this year, the annual rate of inflation has to rise next month.

5. The RPI figures are roughly as anticipated in the City and elsewhere. Wood MacKenzie expect 2.5 per cent, James Capel 2.6 per cent and Phillips & Drew 2.3 per cent. In addition there were several press reports on Monday 7 July predicting an increase of 2.5 per cent.



S BROOKS
EAL DIVISION
X 7946



pp

10 DOWNING STREET

From the Private Secretary

11 July, 1986.

Dear Mrs. Lomax,

ECONOMIC PROSPECTS: CHANCELLOR'S PAPER FOR JULY CABINET

The Prime Minister and the Chancellor this morning discussed the draft economic prospects paper attached to your letter to me of 10 July.

The Prime Minister had two comments.

First, Mrs. Thatcher felt that the first sentence of paragraph 2 gave an over-optimistic impression. This impression seems to depend on the words ".... every reason to expect a resumption" which might be replaced by some such words as ".... a reasonable prospect of a resumption".

Second, the Prime Minister felt it would be helpful to include at some point in the paper a reference to the immense scale and growth of the Japanese current account surplus and also of the way in which Japanese exports were increasingly being switched from the United States to Europe.

Yours sincerely,

Elizabeth Lambert

pp

David Norgrove

Mrs. Rachel Lomax,
HM Treasury.

✓
14/7

CH/EXCHEQUER	
REC.	14 JUL 1986
APPROV.	
COPIES TO	<i>CST</i>
	<i>Sir P. MIDDLETON</i>
	<i>Mr F. BUTLER</i>
	<i>Sir T. BURNS</i>
	<i>Mr H. EVANS</i>

Mr CURPIN
Mr THRELFALL

Mr ODLING-SMEE
Mr SCHOLAR
Mr TURNBULL

CONFIDENTIAL
until 00.01 Monday 14 July 1986
then UNCLASSIFIED

FROM: S D KING
DATE: 11 JULY 1986

- 1. ~~MISS O'MARA~~ *mom 11/7*
- 2. 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 H P Evans
- Mr Odling-Smee
- Mr Scholar
- Mr Sedgwick
- Mr Culpin
- Mr S Davies
- Miss Peirson
- Mr Riley
- Mr Hacche
- Mr Pickering
- Dr Rowlatt
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie
- JD/06

Ch
Those looking for Treasury
Cabinet with background by
Mহারি and here.
Thank. One on
2 copies, please, in
for marginal note by
11/7

GOLDMAN SACHS ECONOMICS ANALYST: JULY 1986

The Goldman Sachs economics team, led by Gavyn Davies, have produced the first in a monthly series of publications on the UK economy entitled 'The UK Economics Analyst'. The 'Analyst' includes an economic commentary, which will focus on particular aspects of the economy from month to month, some detailed comment on monetary and fiscal policy, and a set of forecasts. In essence, therefore, the publication is very similar to that which Gavyn Davies et al produced for Simon & Coates up until April this year.

2. This month's commentary, which will be published on Monday, focuses on interest rates. A note by Dr Rowlatt, of FEU, is attached.

Assumptions

3. GS forecasts are based on an average oil price of \$15.1/bl in 1986 and \$14.3/bl in 1987. The sterling index is expected to decline to 72 by 1987Q2, rising slightly to 73 by 1987Q4.

4. M3 growth is expected to slow down later this year, although not by enough to bring annual growth into the 11-15% range given in the FSBR. MO is expected to be within the FSBR range in both 1986 and 1987.

5. The PSBR outturn in 1986/87 is forecast at £7 $\frac{3}{4}$ billion, slightly above the FSBR figure of £7 billion. It then rises to reach £9 billion in 1987/88. Tax cuts of £2 $\frac{3}{4}$ billion are assumed for both 1987/88 and 1988/89.

Forecast*

6.	<u>1986</u>	<u>1987</u>
GDP(A)	1.8	2.9
Consumers' expenditure	4.2	3.8
General Government expenditure	1.7	0.9
Gross fixed investment	1.3	5.9
Exports	0.0	2.5
Imports	2.5	4.7
RPI(Q4)	2.1	4.1
Unemployment (UK adults, million, Q4)	3.22	3.14
Current account (£bn)	1.9	0.2
PSBR (financial year, £bn)	7 $\frac{3}{4}$	9

*except where specified, figures are percentage changes on previous year

7. The main points of the forecast are:

- GS see retail prices inflation falling to 1.8 per cent by 1987Q1, but then rising to 4.1 per cent in 1987Q4.
- GS forecast GDP growth of 1.8 per cent and 2.9 per cent in 1986 and 1987 respectively.
- Unemployment of 3.22 million is forecast for 1986Q4, falling slightly to 3.14 million in 1987Q4.
- Base rates are forecast to fall to 8.5 per cent in 1986Q4 before rising to an average of 9.4 per cent in 1987.

"UK economic overview"

8. This section provides background to the forecast tables. On fiscal policy, GS expect public expenditure to keep more or less within the planning total this year but to exceed it by £2 $\frac{1}{2}$ billion next ^{year} and by £6 $\frac{1}{2}$ billion by 1989-90. They predict over spending by as much as

£3½ billion on local authorities next year, £1½ billion on public sector pay and £1 billion on health and education in the run up to the election. Revenues are expected to be slightly lower in the current financial year than forecast in the FSBR, largely owing to subdued GDP growth (although revenues pick up in the next financial year with higher inflation). Oil revenues remain in line with the Treasury forecast this year and may exceed it in future. As a result, the PSBR is expected to rise to £7¾ billion this year. They assume tax cuts of £2¾ billion next year, bringing the PSBR to £9 billion, and forecast election pressures will keep it around that level to 1988-89.

9. The rapid growth in M3 is not seen by GS as an indication that monetary conditions are loose. Interest rates are expected to stay relatively high, reflecting market concern over prospects for inflation and the balance of payments together with pre-election uncertainty. GS believe the UK authorities have been following a "shadow EMS band" of DM/£3.30-3.50, although they do not expect the UK to join the ERM formally before the election.

10. GS believe there will be some encouraging response to falling inflation from average earnings, although this will only serve to delay the expected rise in retail prices inflation until the second quarter of 1987.

11. The downward movement in average earnings results in a rise of only 3 per cent in real personal disposable income in 1986 (compared with around 5 per cent in the FSBR). But with a fall in the saving ratio (presumably reflecting the real balance effects of falling inflation), consumers' expenditure is expected to rise by 4½ per cent this year, and by 3¾ per cent next year. Investment performance is expected to be rather subdued this year, with growth of only 1½ per cent. Nevertheless, growth of 6 per cent is expected in 1987, helped by rising non-oil profits and by buoyant private housing lending. Exports of goods and services are forecast to be flat this year (reflecting slow growth in world trade and deteriorating competitiveness) picking up in 1987 to 2½ per cent, following the improved world outlook.

12. Overall, growth is forecast to be around 1¾ per cent this year, rising to around 3 per cent next year. The main reason for the pick up seems to be falling inflation, helped by lower oil prices, with their effects on the saving ratio and profits.

Lines to take

Positive

13. GS qualitatively in line with Chancellor's comments to Welsh Party Conference (10 June) in expecting pick up in growth in 1987.
14. GS forecast retail prices inflation to fall to 2.1 per cent by 1986Q4 and to 1.8 per cent by 1987Q1.
15. Investment expected to rise strongly in 1987, with forecast growth of 6 per cent.
16. GS believe that there is no real threat to inflation from the present rate of growth of £M3.

Defensive

17. Growth of only 1 $\frac{3}{4}$ per cent in 1986

Yes, but GS forecast growth of 3 per cent for 1987, following benefits of oil price fall. Chancellor has also indicated that while growth this year may be lower than forecast in the FSBR, may well be higher in 1987.

18. Currently in downswing of economic cycle?

Pause in worldwide growth expected to be temporary. GS forecast growth in UK of 3 per cent in 1987.

19. Inflation expected to pick up in 1987

GS place too much emphasis on unit wage costs as a determinant of inflation. The maintenance of firm financial policies will ensure continued downward pressure on inflation.

20. Unemployment remains above 3 million in 1987

Unlikely to see
Cannot expect major improvement in unemployment trend until rate of pay settlements comes down.

21. Deterioration forecast in balance of payments

Too early to say - though volume of world trade may be less than forecast in FSBR.

22. Public expenditure planning total for 1987-88 unrealistic given past performance

by three of Mark for
Past performance not bad. 1986 PEWP shows for two recent years - 1981-82, and 1982-83, *(1985-86-2)*
outturn below final figure plan. *So was 1985-86.*

is it this with time 1982-83?

23. Public expenditure likely to be above target from 1987-88 onwards, given pre-election pressures and local authority overspending

Higher reserves in 1987-88 and 1988-89 allow for uncertainties on LA spending. *Govt reserves* ~~But no~~
*com-
to
to from central*
~~relaxation on public expenditure simply to buy votes.~~

24. Tax cuts of £2 $\frac{3}{4}$ billion in 1987-88

Wait till Budget.

25. PSBR will rise to £9 billion in 1987-88

Large margin of error possible on £7 billion PSBR projection. But will not raise PSBR simply to buy votes and Government has stressed need to keep public borrowing low.

Stephen King

S D KING

THE "RISK PREMIUM" ON UK INTEREST RATES - GAVYN DAVIES

This first issue of the new circular from Goldman Sachs, "The UK Economics Analyst", contains an article on UK interest rates by Gavyn Davies.

2. The main concern of the article is with the expected future path of gilt yields and the implications this may have for investors. However, analysis of a possible "risk premium" gives rise to a discussion of the recent paths of the monetary aggregates. Gavyn Davies' view is that, after adjustment for distortions, the year-on-year growth of £M3 has been around 14 per cent in recent months. He favours the hypothesis that the high rate of growth of money has been associated with increases in wealth and concludes that the balances are "...securely held as part of [the private sector's] overall savings balances, with relatively little risk of a future leakage into transactions demand." But he holds this view with "a low degree of confidence."

Summary

3. Gavyn Davies' analysis of the level of UK interest rates is soundly based on the risk-adjusted interest parity condition. This states that, in the absence of capital controls, currencies will move to a point that equalises the expected real rates of return in different countries after adjustment for risk premium which may differ between countries. It follows that differences between estimates of real bond yields may result from

- incorrect estimates of inflation expectations used in construction of the real yields
- differences in risk premia
- expected future movements in real exchange rates
- market imperfections.

4. Gavyn Davies' calculations, which use historic or short-term forecasts of inflation, suggest that real bond yields in the UK are high relative to those in other countries. However, his judgment is that the reason for this is "a high degree of inflation risk" in the

UK. The main part of the article analyses three approaches to the assessment of the market's view of the future rate of inflation in the UK. The first is based on monetary growth, the second on an analysis of changes in costs and the third on "political risk" - the possibility of a change of Government at the next election.

5. The conclusion is that the market views the risk of inflation in the UK as high compared with other countries and likely to remain so through the remainder of 1986 and in 1987. He therefore sees little room for a narrowing of the nominal yield differential between UK gilts and the average of other major Governments' bonds. He does, however, believe that there is scope for a general easing in short rates and also for a further adjustment of yield curves to the lowering of inflation.

Comment

(i) On the general argument

6. Gavyn Davies bases his view of the current level of real long bond yields on nominal yields and historic data or short-term projections for inflation. Finding that on this measure UK real long rates come out above the rest, he concludes that expectations in the markets set UK inflation at a higher level than his (and others') forecasts. His opinion that this discrepancy will continue during the coming months suggests that market expectations are not, in his view, formed rationally.

7. An alternative interpretation of the data, which uses the same theoretical framework, would set market expectations broadly in line with forecasts and explain the discrepancy between nominal (short) rates by the view that, at present levels, a fall in sterling is viewed as more probable than a rise.

(ii) On Gavyn Davies' interpretation of money growth

8. The adjustments made to arrive at an "underlying" growth rate for £M3 are too naive to be taken seriously by us. Gavyn Davies replaces the figures for each component of the counterparts by a trend value. This leads to a substantial reduction in each counterpart. He takes no account of the probable interaction between counterparts (eg if there had been neutral instead of under-funding would bank lending have been higher?)

9. His discussion of whether this money growth matters covers the Governor of the Bank of England's "liquidity glacier" analogy and the Budd-Holly work about which he expresses the usual doubts.

(iii) On the remainder

10. The section on costs is sound and well-written but adds nothing to our own analysis. The section on political risk is, perhaps necessarily, superficial and of little interest.

PENELOPE A ROWLATT

CONFIDENTIAL
UNTIL 11.30 a.m. Monday 14 July then
UNCLASSIFIED

Paul

FROM: S BROOKS
DATE: 11 July 1986

- 1. *HPE 11/7*
MR H P EVANS
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Sir Terrence Burns
- Mr Monck
- Mr R Culpin
- Mr S J Davies
- Mr Gilhooly
- Miss O'Mara
- Mr Pickford
- Mr Hacche
- Mr Pickering
- Mr P Davis
- Mr Westwater
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie

*lowest since
index was
introduced
in 1974.*

CR 14/11

*Put Minister:
(Don't show him?)
(S/Sr m...
press release)*

Thatcher

PRODUCER PRICES FOR JUNE

The Producer Price Indices for June will be published at 11.30 a.m. on Monday 14 July. The level of the output index was the same in June as in May, with the twelve month rate of change declining slightly to 4.5 per cent in June from 4.6 per cent in May. (The May figure has been revised). Input prices fell by 8.4 per cent in the year to June, compared with 8.7 per cent in the year to May.

CONFIDENTIAL
UNTIL 11.30 a.m. Monday 14 July then
UNCLASSIFIED

PRODUCER PRICES (PERCENTAGE CHANGE OVER A YEAR EARLIER)

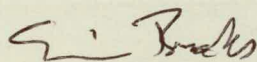
	<u>Output Prices</u>		<u>Input Prices</u>		
	<u>All</u>	<u>All excl FDT*</u>	<u>All</u>	<u>All</u> (Seasonally Adjusted)	<u>All excl FDT*</u>
1985 Q2	5.6	6.4	3.4	3.4	6.8
Q3	5.6	6.5	- 0.7	- 0.7	- 1.2
Q4	5.1	5.9	- 5.4	- 5.4	- 5.1
1986 Q1	5.0	5.0	- 9.4	- 9.4	- 11.9
Q2	4.5	4.4	- 9.0	- 8.9	- 12.2
April	4.5	4.4	- 9.7	- 9.6	- 12.5
May	4.6	4.4	- 8.7	- 8.5	- 12.2
June	4.5	4.3	- 8.4	- 8.4	- 11.8

* Excluding the food, drink and tobacco industries.

2. Before seasonal adjustment the producer price index for inputs to manufacturing industry fell by 1.2 per cent between May and June. This was largely the result of lower prices of home-produced food materials and of imported commodities. After seasonal adjustment, the index for manufacturing industry fell by 0.7 per cent. The overall fall in the year to June 1986 was 8.4 per cent, compared with a revised figure of 8.5 per cent in the year to May.

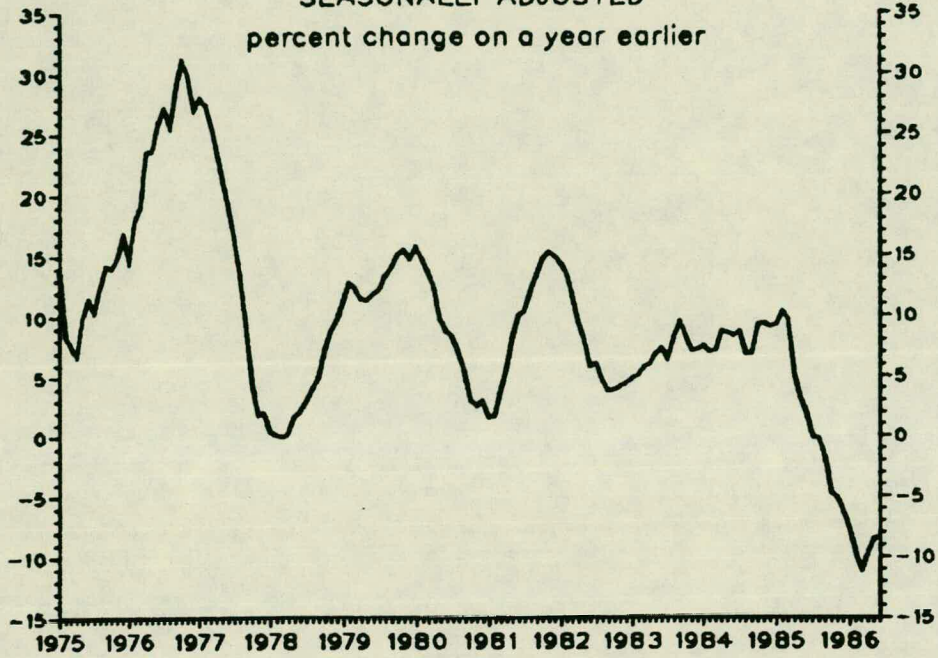
3. Between May and June, the producer output price index excluding the food and drink and tobacco industries rose by 0.2 per cent, with the twelve month rate of increase in June falling slightly to 4.3 per cent.

4. I attach two charts showing movements in producer input and output prices since January 1975.

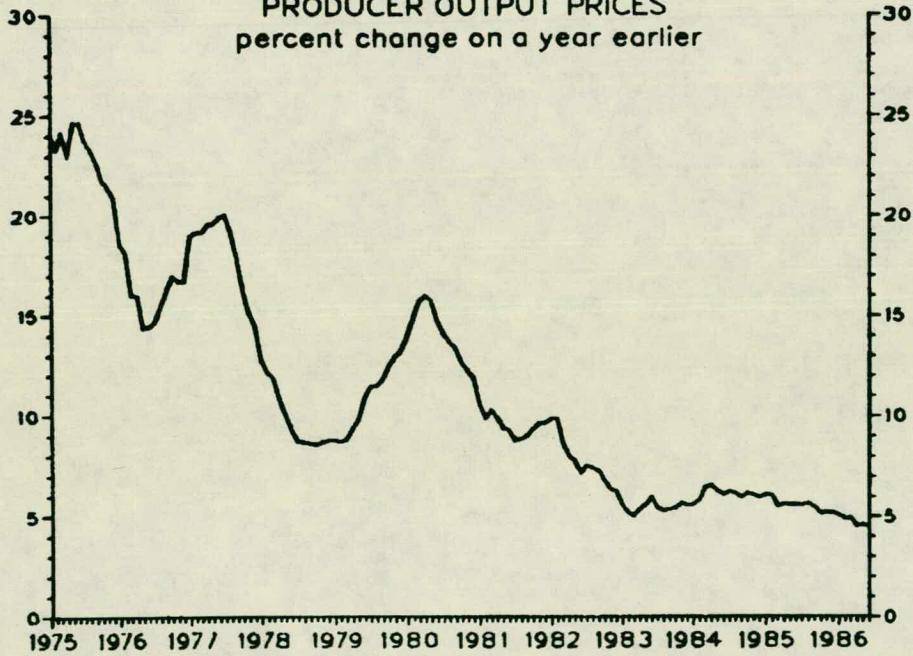


S BROOKS
EAL Division
x 7946

MATERIALS AND FUEL PURCHASED BY MANUFACTURING INDUSTRY
SEASONALLY ADJUSTED



PRODUCER OUTPUT PRICES
percent change on a year earlier



*RFL*

FROM: MRS R LOMAX
DATE: 11 July 1986

MR S BROOKS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr H P Evans
Mr Scholar
Mr Culpin
Mr S Davies
Miss O'Mara
Mr Pickford
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE JUNE RPI

The Chancellor was most grateful for your minute of 10 July.

2. You mention the RPI excluding housing at the end of your paragraph 2: the Chancellor has commented that this should not be used in briefing in any way. He thinks it merely confuses the issue.

A handwritten signature in cursive script, appearing to be "RL".

RACHEL LOMAX



FROM: MRS R LOMAX
DATE: 14 July 1986

PLP

MR S D KING

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Monck
- Mr H P Evans
- Mr Odling-Smee
- Mr Scholar
- Mr Sedgwick
- Mr Culpin
- Miss O'Mara
- Mr Cropper
- Mr Ross Goobey
- Mr Tyrie

GOLDMAN SACHS ECONOMICS ANALYST: JULY 1986

The Chancellor was grateful for your minute of 11 July. He has the following points on the suggested lines to take:-

- Paragraph 20: Redraft as follows "Unlikely to see major improvement in unemployment trend until rate of pay settlements comes down".
- Paragraph 22: Redraft second sentence as follows "In three of last five years - 1981-82, 1982-83, and 1985-86 - outturn below final figure plan". (The Chancellor has asked whether this is really true of 1982-83.)
- Paragraph 23: Redraft second sentence of answer as follows "Government remains committed to firm control of public expenditure".

LL

RACHEL LOMAX



post

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213..... 6460
 Switchboard 01-213 3000 GTN Code 213
 Facsimile 01-213 5465 Telex 915564

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 Treasury Chambers
 Parliament Street
 LONDON
 SW 1

14 July 1986

Nigel

RETAIL PRICES INDEX ADVISORY COMMITTEE

Thank you for your letter of 9 July.

As you know, it is my intention to publish the Committee's report on the afternoon of Tuesday 15 July, when I expect to be able to announce my decisions by means of Arranged Questions for Written Answer in both Houses and a press release from this Department. My officials have been in touch with yours about the possible wording of these.

I am copying this to the Prime Minister, Willie Whitelaw, Norman Tebbit, Norman Fowler, Nicholas Ridley, Michael Jopling and the Director of the Central Statistical Office.

CH/EXCHEQUER	
REC.	14 JUL 1986
ACTION	MR H EVANS
COPIES TO	CST FST EST MST
	SIR P MIDDLETON
	SIR T BURNS
	MR BIATT MR CASSELL
	MR KEMP
	MR ODLING-SMEE
	MR PEREZ

MR WILPIN
 MISS O'MARA
 MR TYRRE
 MR ROSS GOODEY

Paul
David
 ✓ 15/7

PERSONAL AND CONFIDENTIAL
until 11.30am Tuesday 15 July
then RESTRICTED

FROM: G HACCHE
DATE: 14 JULY 1986

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER

Manufacturing remains disappointingly flat, although the earlier decline seems to have been halted. But this is a general problem - not one unique to the UK.

more
14/7

hugel
This
with
to
accompanied
by
PA

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr H P Evans
Mr Scholar
Mr Shaw
Mr Culpin
Mr S Davies
Mr Pickford
Mr Naisbitt
Mr Pickering
Mr Dyer (+1 for No 10)
Mr Cropper
Mr Ross Goobey
Mr Tyrie
Mr Stirling - CSO
Mr Kingaby - CSO
Mr Lang - CSO
HB/02

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - MAY 1986

This will be published at 11.30am on Tuesday, 15 July.

2. The index of production in the three months to May was 1 per cent higher than in the previous three months and $\frac{1}{2}$ per cent higher than a year ago. However, after allowing for the coal dispute, industrial production was $\frac{1}{2}$ per cent lower than a year ago.
3. Manufacturing output in the latest three months was little changed from the level of the previous three months but 1 per cent lower than in the same period a year earlier.
4. There have been significant data revisions reflecting both additional information and the twice-yearly updating of seasonal factors. The index of manufacturing output has been revised up by around $\frac{1}{2}$ per cent in the first quarter of 1986 but April has been revised down, by 1 per cent for manufacturing and by around $\frac{1}{2}$ per cent for production industries.

5. The revisions to 1985 mean there is now a clearer temporary peak in manufacturing production in 1985Q2. In the three months to May manufacturing output was 1 per cent below the 1985Q2 level. However, manufacturing output has been relatively flat over the past four months suggesting that the decline in manufacturing may have stopped. The underlying output of all production industries in the second half of 1985 was almost 1 per cent below the high level reached in the first half but has partly recovered this year due to high oil extraction.

6. Recent movements

percentage changes	1985 on 1984	3 months to May on previous 3 months	3 months to May on previous year	May on April
Index of Production	+4½	+1	+ ½	- 1½
within which:				
Manufacturing	+3	0	- 1	0
Energy and Water	+9	+2½	+ 4½	- 4½

adjusted for strikes, weather etc*

Index of Production	+2½	+ ½	- ½	-1
Manufacturing output	+3	0	-1	0

*NOT FOR USE.

7. Manufacturing output in the latest three months was 11½ per cent above its 1981Q1 trough but was 8 per cent below its 1979Q2 peak. The index of production was 15 per cent above its 1981Q1 trough, although still slightly below the peak recorded in 1979Q2.

Other industrial detail

8. Within manufacturing, the output of 'other manufacturing' rose by 1 per cent between the two latest three month periods. The output of textiles and clothing fell by 1 per cent, and the output of metals and chemicals by 2 per cent. The output of other minerals, of engineering and allied industries and of food, drink and tobacco were broadly unchanged.

Lines to take

9. Positive:-

- (i) Total production up by 1 per cent in last three months on previous three months.
- (ii) Manufacturing output has grown in every year since 1981 - longest period of uninterrupted growth since 1970 - and a fifth year of growth is forecast for 1986.
- (iii) Manufacturing profitability in 1984 (latest figures available) best since 1973. Exports up 6 per cent in 1985 to beat 1984's all time and expected to rise further in 1986. Manufacturing industry expected to be major beneficiary of fall in oil price.

Defensive:-

- (iv) Manufacturing output peaked in 1985Q2. Expected to be temporary. Chancellor has made clear that growth is expected to pick up later in 1986 following benefits of lower oil price (in speeches to Association of Economic Representatives in London on 28 May and to Welsh Party Conference on June 10).
- (v) Downward revisions to manufacturing output in April show bias adjustment unjustified

No. Historical experience shows initial estimates of manufacturing output have been underestimated on average. Bias adjustments completely justified.

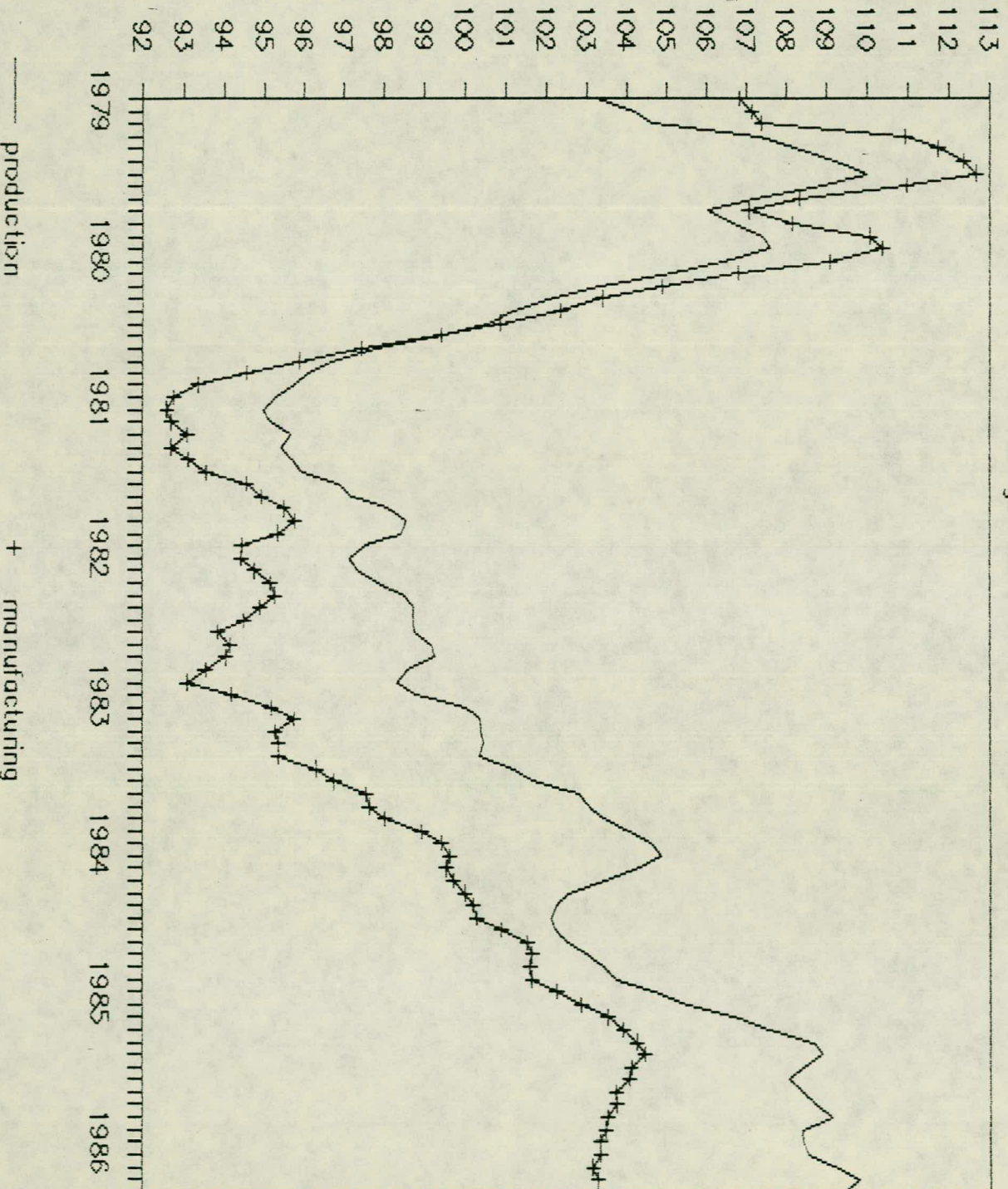
- (vi) Manufacturing output growth likely to turn out lower than forecast in FSBR
Growth may be lower than forecast this year but should pick up in 1987.

Guyn Hacche

G HACCHE

INDEX NUMBERS OF OUTPUT

Average last 3 months 1980=100





(Handwritten initials)

FROM: N G FRAY
DATE 15 JULY 1986

MR HACCHE

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - MAY 1986

The Chancellor has seen and was grateful for your minute of 14 July.

(Handwritten signature)
N G FRAY



per

FROM: MRS R LOMAX
DATE: 16 JULY 1986

MR J WEBB

cc Sir T Burns
Mr Evans
Mr S Matthews

WORLD ECONOMIC DEVELOPMENTS

The Chancellor has seen the July edition of this regular monthly note. He has commented that the new format is a vast improvement. He thinks it will be very useful.

A handwritten signature in cursive script, appearing to be "RL".

RACHEL LOMAX

PWF³



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 4887.....
GTN 215)
(Switchboard) 01-215 7877

Mrs R Lomax
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

C/ content with Press
Notice ?

CR 22/7

OK-

22 July 1986

Phoned message through.

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

Publication is set for Friday 25 July at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Thursday 24 July and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr Walker, H M Treasury.

Yours sincerely

W. E. Boyd

W E BOYD

SECRET AND PERSONAL
until 11.30 on Friday 25 July 1986
then CONFIDENTIAL

FROM: J E FLITTON
DATE: 23 JULY 1986

*Rec. I have
noted.*

- 1. MR KELLY ^{23.7}
- 2. CHANCELLOR

Ch,

cc as attached list

Nothing very exciting.

As a previous author of these notes I was surprised to see you still being asked to clear the Treasury's internal briefing for IDT - is this really necessary? But while you are, I wonder how long it will be credible to maintain the line that "it is too early to say" whether the current account surplus will be less than in ESBR. (Defensive 2)

AA
23/7

JUNE TRADE FIGURES

The June trade figures will be released on Friday 25 July. They will show a small current account surplus of £77 million, following one of £34 million in May. Visibles were in deficit by £623 million, offset by an estimated invisibles surplus of £700 million.

Main points

- 2. (i) The June trade account was little changed from May; an increased oil surplus was offset by a higher non-oil deficit;
- (ii) The tentative resumed upward movement in the underlying level of non-oil export volume now begins to look a little bit more firmly based (see chart). Volume in Q2 was 3½ per cent up on Q1;
- (iii) Unfortunately there are now growing signs that the underlying trend in non-oil import volume has also turned up. Volume in Q2 rose ½ per cent in Q1 to stand 3 per cent up on a year ago;
- (iv) The June oil trade surplus was £76 million above the May figure but £350 million below the average monthly surplus in the second half of 1985. Export volume fell for the second month in a row but price was a little higher;

*Why?
normal
consequence
of demand
growth*

(v) Manufacturing trade was in deficit by £357 million, £50 million worse than May. But, the Q2 deficit of £0.6 billion was still an improvement of more than £0.8 billion on Q1;

(vi) Invisibles continue to be projected at £700 million a month.

Comparison with forecast

4. The current account surplus for the first half of 1986 is £1 billion below that implied by the FSBR forecast. The non-oil visible balance is £1¼ billion below forecast and the oil visible surplus is £½ billion below; but the invisibles surplus is projected to be above forecast. Volumes are in general below forecast for the first half of the year: imports (less oil and erratics) are 3 per cent down, with manufactured imports 5 per cent down; exports (less oil and erratics) and manufactured exports are both 4 per cent below forecast. The outturn for the last two months has been much as anticipated in the internal June forecast.

Trade prices

5. The overall terms of trade in June improved by 1½ per cent and were 5 per cent better than in 1985. The non-oil terms of trade were stable in the month, but were 4½ per cent better than 1985. Import prices have been falling since March, partly in response to the firm exchange rate. Export prices have been more stable.

Percentage change in trade prices - June 1986 compared to March 1986

	<u>Import prices</u>	<u>Export prices</u>
Manufactures	- 1.8	+ 0.5
Food, drink, tobacco	+ 0.7	+ 1.3
Basic materials	- 3.3	- 6.0
Fuel	- 24	- 25

Crude oil import prices fell by over 20 per cent in June. They are

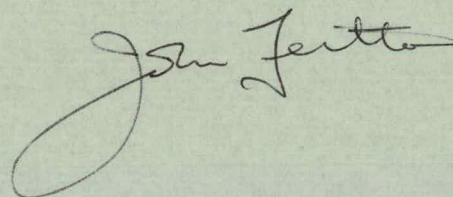
now below crude oil export prices.

Effect on markets

6. The markets are expecting a current account surplus of £50 million (and a trade deficit of £650 million). This is in line with the figures to be published and there is therefore unlikely to be any significant market impact.

Press briefing

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

A handwritten signature in cursive script, appearing to read 'John Flitton', written in dark ink.

J E FLITTON
EF1

SECRET AND PERSONAL
 until 11.30 on Friday 25 July 1986
 then UNCLASSIFIED

DRAFT BRIEFING FOR IDT

Positive

1. Substantial current account surplus of £1.1 billion in first half of year despite lower oil prices.
2. Fall of 4½ per cent in import unit value index in Q2 will help to maintain downward trend of UK inflation.
3. Export volume now moving up again. Excluding oil and erratics up 3½ per cent in Q2 compared with Q1.

Defensive

1. Lower oil balance

[Surplus of £8.2 billion in 1985; £2 billion in Q1 1986; £0.8 billion in Q2 1986.]

Reflects substantial fall in oil prices. Large oil surplus still expected in 1986.

2. FSBR current account forecast too optimistic given fall in oil prices

[Current account surplus of £3½ billion forecast for 1986 after £3.8 billion surplus in 1985. £1.1 billion surplus in 1986 H1.]

Too early to say. Forecast allowed for effect of fall in oil price to \$15 a barrel. Volume of world trade may be less than anticipated. Revisions to invisibles increased current account surpluses in 1984 and 1985 by £0.7 billion and £0.8 billion respectively.

*Quite possible. An update
 published in the usual way, @ forecast will be
 no time yet. Autumn
 stable.*

3. Manufacturing trade

[1986 Q1 deficit of £1.4 billion; Q2 deficit of £0.6 billion.]

Improvement of £0.8 billion between first two quarters of 1986 reflects erratic nature of figures. UK exporters of manufactures have gradually improved volume share of world trade since 1981 after years of decline.

4. Import volume

Volume has fluctuated considerably in recent months. For Q2 as a whole only $\frac{1}{2}$ per cent up on Q1.

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TABLE 1: CURRENT ACCOUNT

	£ billion						
	1985	Q1	Q2	1986 Apr	May	June	1986 year to date
Oil	+8.2	+2.0	+0.8	+0.3	+0.2	+0.3	+2.8
Non-oil	-10.2	-3.4	-2.3	-0.5	-0.9	-0.9	-5.7
Total visible trade	-2.1	-1.4	-1.6	-0.3	-0.7	-0.6	-3.0
o/w trade in manufactures (BOP basis)	-3.0	-1.4	-0.6	+0.1	-0.3	-0.4	-2.0
Invisibles	+5.8	+1.9	+2.1*	+0.7*	+0.7*	+0.7*	+4.0
Current account	+3.8	+0.5	+0.5	+0.4	+0	+0.1	+1.1

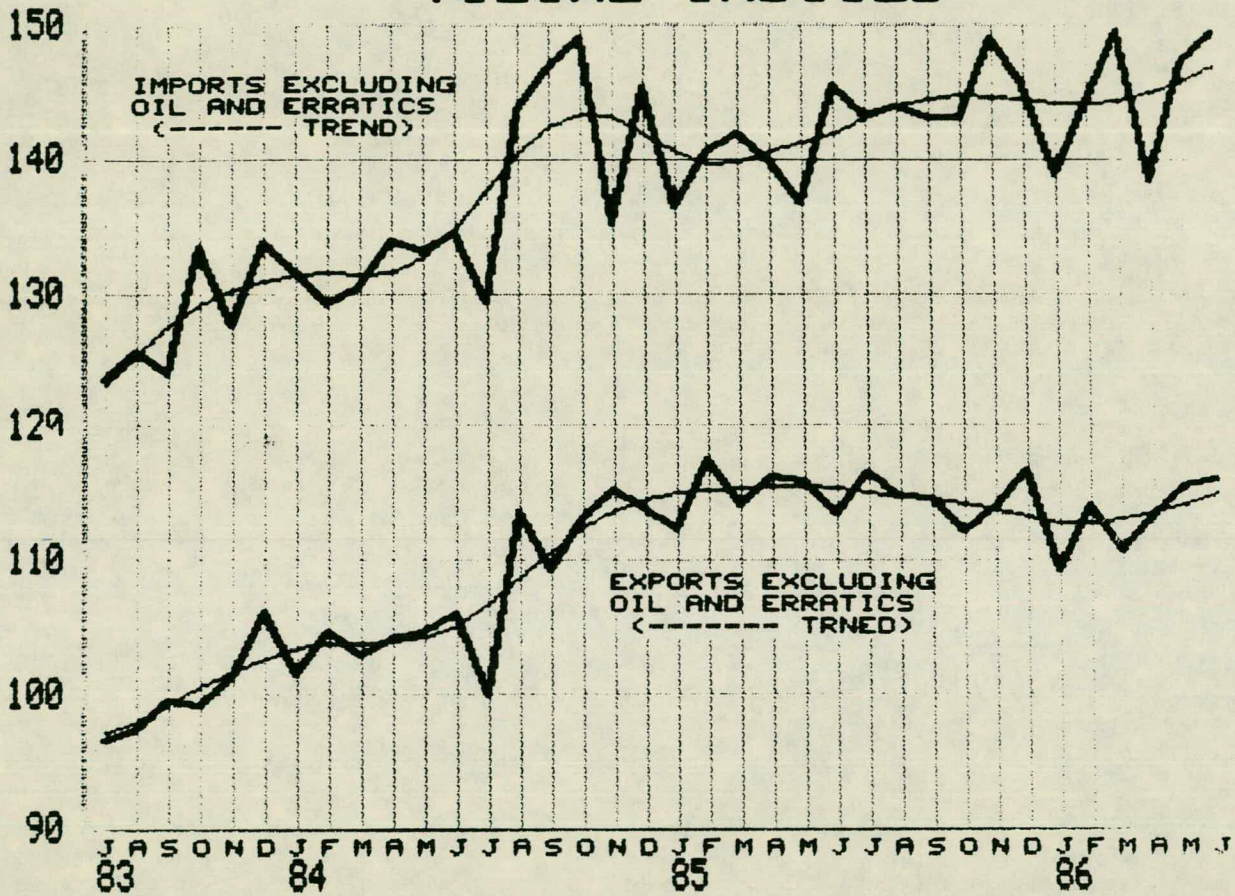
*projection

TABLE 2: EXPORTS AND IMPORTS (percentage change)

	1986 June on May	1986 Q2 on Q1	Q2 1986 on Q2 1985
i. Exports			
Total value	-1	-2½	-12½
Total volume (BOP basis)	+½	+3½	+½
Total volume excl oil and erratics (BOP basis)	+½	+3½	0
Manufactures volume (excl erratics) OTS basis	-1	+4	0
Fuels (volume)	-12	-8	-3
ii. Imports			
Total value	-1½	-1½	-5½
Total volume (BOP basis)	-1	+2	+3
Total volume excl oil and erratics (BOP basis)	+1½	+½	+3
Manufactures volume (excl erratics) OTS basis	+2	+1½	+2½
Fuels (volume)	-15	+21	+5

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VOLUME INDICES



ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

TRADE FIGURES FOR JUNE 1986

Advance Circulation

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PUP

*Man Mark
The will get
a very low
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house optimism
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FROM: SIR T BURNS
DATE: 24 JULY 1986

CHANCELLOR

cc Sir P Middleton
Mr Evans
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JULY CBI QUARTERLY TRENDS SURVEY

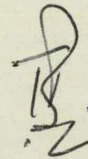
I spoke to John Caff this morning in confidence about the next CBI Industrial Trends Survey which is due to be published next Tuesday. He is coming to see me on Monday morning to deliver the results formally to me, and I gather that you are seeing Mr Nickson and Sir Terence Beckett on Monday evening. I have added the figures he gave me on the phone to the table which is annexed to this minute. At face value they are fairly gloomy for activity and very good for costs and inflation. The CBI press notice will be written under the heading "Output levels off but setback temporary". They put the problems down to sluggish world trade, and although output is flat for the moment they expect it to pick up later in the year.

2. The figure for firms working below capacity is surprisingly low, and they explain this as companies cutting out the more expensive plant. They interpret the answers to the questions on stockbuilding as implying that companies are meeting demand from stocks rather than production. They explain some of this in terms of widespread expectation of lower prices of raw materials.

3. John Caff suggested that at the Economic Situation Committee there was no mood of gloom. Consumers' real incomes were rising quickly and they expected the effect of this to come through by the end of the year. There was more concern with the Current Account, import penetration and the exchange rate.

4. As you know, we claim to have detected some seasonal variation in the replies to the CBI Survey. I have not had an opportunity to look closely at the seasonal correction, but I suspect that after seasonal adjustment the figure for overall optimism will in fact show a small improvement compared to April. The same goes for volume of new orders in the past four months.

5. Although the results are disappointing they are not surprising, and in line with other information. They confirm, above all, the weakness of external demand and the implications of sluggish activity elsewhere.



T BURNS

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July

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM JANUARY 1985 TO APRIL 1986

(All figures are percentage balances * except where otherwise stated)

TOTAL TRADE		Jan 85	Apr 85	Jul 85	Oct 85	Jan 86	Apr 86
1	Optimism re business situation	+ 4	+18	0	- 6	- 1	+ 8
3	12 month forecast of capital expenditure authorisations compared with previous 12 months on:						
a	buildings	- 8	- 3	-21	-21	-16	-15
b	plant and machinery	+11	+14	0	+ 4	+ 2	+10
4	Firms working below capacity ¹	54	54	45	49	54	57
6	Numbers employed						
	- past 4 months	- 8	- 5	-15	- 6	-16	-17
	- next 4 months	-10	- 1	-16	-10	-14	-14
7	Volume of new orders						
	- past 4 months	+13	+24	+10	+11	- 2	0
	- next 4 months	+19	+23	+15	+13	+ 9	+16
8	Volume of output						
	- past 4 months	+13	+21	+18	+10	+ 6	0
	- next 4 months	+19	+27	+14	+17	+ 4	+14
10a	Stocks of raw materials						
	- past 4 months	+ 5	0	+ 1	+ 1	- 1	- 5
	- next 4 months	- 5	+ 1	- 8	-12	-13	-12
b	Stocks of work in progress						
	- past 4 months	+ 6	+ 3	+ 7	+ 8	- 2	0
	- next 4 months	- 3	+ 8	- 6	- 7	- 9	- 8
c	Stocks of finished goods						
	- past 4 months	+ 4	+ 1	+ 4	0	- 3	- 3
	- next 4 months	- 7	0	- 8	- 8	-15	-10
11	Average unit costs						
	- past 4 months	+34	+47	+30	+19	+23	+19
	- next 4 months	+43	+34	+28	+21	+34	+18
12a	Average domestic prices						
	- past 4 months	+27	+35	+23	+13	+ 8	+20
	- next 4 months	+39	+30	+23	+17	+25	+19
14	Four month forecast of factors likely to limit output ¹						
	Orders or sales	80	73	73	79	83	81
	Skilled labour	11	12	15	15	10	13
	Other labour	1	1	2	1	1	1
	Plant capacity	14	18	15	17	13	13
	Credit or finance	3	4	4	4	4	8
	Materials/components	4	8	7	4	5	3
	Other	2	1	3	1	1	2

JULY
86

-9

+5

48

-6

4

-2

5

-7

-17

-8

-13

-2

-16

11

8

6

11

EXPORT TRADE		Jan 85	Apr 85	Jul 85	Oct 85	Jan 86	Apr 86						
2	Optimism re export prospects	+25	+20	+ 2	- 7	0	+12	-10					
7b	Volume of new export orders												
	- past 4 months	+13	+30	+ 7	0	- 6	- 1	-10					
	- next 4 months	+23	+19	+ 9	+ 6	+ 7	+18	-3					
9b	Volume of export deliveries												
	- past 4 months	+15	+28	+17	+ 1	+ 3	+ 5						
	- next 4 months	+22	+24	+14	+10	+ 4	+20						
12b	Average export prices												
	- past 4 months	+17	+34	+12	- 1	- 1	+ 9						
	- next 4 months	+36	+21	+11	+ 7	+21	+11						
15	Four month forecast of factors likely to limit export orders ¹												
	Prices	60	61	66	71	70	65	60					
	Delivery dates	13	13	11	11	11	10	8					
	Credit or finance	6	7	10	8	10	11	9					
	Quota and licence	13	14	15	10	11	11	11					
	Political/economic conditions abroad	28	33	27	29	25	30	31					
	Other	8	8	7	7	10	9	11					
1	Percentage Figures												
CBI Monthly Trends Enquiry: Time Series of results from May 1985 to April 1986													
In the intervening months between the main quarterly Industrial Trends Surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter participants are only asked to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.													
		May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
1a	Total Order Book (Q.5a)*	+ 1	0	- 5	- 7	- 6	-13	- 5	- 7	-19	- 9	-10	-24
1b	Export Order Book (Q.5b)	+ 7	- 1	0	-10	-13	-16	- 5	-12	-19	-10	- 7	-20
2	Stocks (Q.5c)	+10	+ 8	+12	+14	+14	+12	+13	+12	+16	+13	+11	+15
3	Volume of Output (Q.8)	+21	+23	+14	+15	+15	+17	+12	+18	+ 4	+23	+13	+14
4	Average Prices (Q.12a)	+26	+23	+23	+13	+16	+17	+15	+22	+25	+20	+19	+19
* question number in quarterly survey													

* The 'balance' is the difference between those replying 'more', 'up', 'above normal' or 'more than adequate' and those replying 'less', 'down', 'below normal' or 'less than adequate'.

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THE CURRENT ACCOUNT OF THE UNITED KINGDOM

BALANCE OF PAYMENTS

JUNE 1986

The current account for June is estimated to have been in surplus by £77 million compared with a surplus of £34 million in May. In June, exports were valued at £5826 million and imports at £6449 million so that trade in goods was in deficit by £623 million.

The balance on invisibles in June is projected to be in surplus by £700 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

SECOND QUARTER 1986

In the second quarter, the current account showed a surplus of £0.5 billion; much the same as in the first quarter. There was a deficit on visible trade of £1.6 billion in the second quarter compared with a deficit of £1.4 billion in the first. The surplus on invisibles in the second quarter is projected at £2.1 billion.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance ^b
		Balance	Exports fob	Imports fob	
1984	+ 1563	- 4391	70367	74758	+ 5953
1985	+ 3763	- 2068	78072	80140	+ 5831
1985 Q2	+ 1587	- 124	20237	20361	+ 1711
Q3	+ 1472	- 453	18748	19201	+ 1925
Q4	+ 762	- 225	19018	19242	+ 987
1986 Q1	+ 528	- 1400	18204	19604	+ 1928
Q2	+ 546a	- 1554	17735	19289	+ 2100a
1986 Jan	+ 1090	+ 155	6289	6135	+ 935 $\frac{1}{2}$
Feb	+ 152	- 344	6192	6535	+ 496 $\frac{1}{2}$
Mar	- 714	- 1211	5723	6934	+ 497 $\frac{1}{2}$
Apr	+ 435a	- 265	6038	6303	+ 700a
May	+ 34a	- 666	5871	6537	+ 700a
June	+ 77a	- 623	5826	6449	+ 700a
January to					
June 1986	+ 1074a	- 2954	35438	38893	+ 4028a

a Invisibles for April to June 1986 are projections and subject to revision as information becomes available.

b Monthly figures are one-third of the appropriate calendar quarter's estimate or projection, except for VAT abatements received from the European Community which are allocated to the month they are known to have been received. Information relating to credits and debits can be found in Table 3.



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VISIBLE TRADE IN JUNE 1986

There was a deficit on visible trade in June of £623 million compared with a deficit of £666 million in May. The surplus on oil at £288 million was £76 million higher than in May while the deficit on non-oil trade increased by £33 million to £911 million.

At £5826 million, exports in June were £45 million (1 per cent) lower than in May. Exports of oil fell by £57 million while exports of the erratic items increased by £34 million. Excluding trade in oil and the erratic items, exports were $\frac{1}{2}$ per cent down in June with higher deliveries of food, basic materials and semi-manufactures offset by a fall in exports of finished manufactures.

Total imports were valued at £6449 million in June which was £88 million ($1\frac{1}{2}$ per cent) lower than in May. Imports of the erratic items were down £55 million and imports of oil by £133 million. Excluding oil and the erratic items, imports increased by £99 million ($1\frac{1}{2}$ per cent) between May and June with higher arrivals of food and of finished manufactures.

RECENT TRENDS

Visible balance

In the second quarter there was a deficit on visible trade of £1.6 billion, a surplus of £0.8 billion on trade in oil offset by a deficit of £2.3 billion on non-oil trade. Between the first quarter and the second quarter the deficit on visible trade increased by about £0.2 billion - the surplus on oil fell by about £1.2 billion while the deficit on non-oil trade was reduced by about £1.1 billion.

Exports

Exports amounted to £17.7 billion in the second quarter, £0.5 billion ($2\frac{1}{2}$ per cent) less than in the first quarter. Between the two quarters exports of oil fell by £1.3 billion reflecting both lower oil prices and the high volumes of crude oil deliveries in January and February. Exports of the erratic items increased by £0.5 billion in the second quarter. Excluding oil and the erratic items exports grew by 3 per cent between the first and second quarters.

By volume, exports grew by $3\frac{1}{2}$ per cent in the second quarter to a level $\frac{1}{2}$ per cent higher than in the second quarter of last year. Export volume excluding oil and the erratic items also increased by $3\frac{1}{2}$ per cent between the first and second quarters. The underlying level of non-oil export volume has risen a little in recent months.

Imports

Total imports were valued at £19.3 billion in the second quarter, £0.3 billion ($1\frac{1}{2}$ per cent) less than in the first quarter. Imports of the erratic items fell by £0.1 billion and imports of oil also fell by £0.1 billion. Excluding oil and the erratic items, imports in the second quarter were $\frac{1}{2}$ per cent down on the first quarter.

Between the first and second quarters, total import volume increased by 2 per cent to be 3 per cent higher than in the second quarter of last year. Excluding oil and the erratic items, import volume rose by $\frac{1}{2}$ per cent between the first and second quarters. The underlying level of non-oil import volume shows signs of having risen a little in recent months.

Terms of trade and unit values

The terms of trade index increased by $1\frac{1}{2}$ per cent between the first and second quarters with the export unit value index falling by 3 per cent and the import unit value index by $4\frac{1}{2}$ per cent. Compared with the second quarter of last year, the export unit value index has fallen by $7\frac{1}{2}$ per cent and the import unit value index by 12 per cent. As a result the terms of trade index is now 5 per cent higher than a year earlier.

Export unit values for fuels fell by 35 per cent in the second quarter - to a level less than half that of the second quarter of 1985 - while the unit value index for non-oil exports increased by 1 per cent between the first and second quarters. Within

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the total for non-oil exports, unit values for basic materials fell by $3\frac{1}{2}$ per cent and those for chemicals were unchanged. The unit value index for exports of finished manufactures rose by $1\frac{1}{2}$ per cent in the second quarter.

Import unit values for fuels fell by 28 per cent in the second quarter while the unit value index for non-oil imports fell by $\frac{1}{2}$ per cent. Within the total for non-oil imports, those for basic materials fell by $2\frac{1}{2}$ per cent in the quarter and for chemicals by $1\frac{1}{2}$ per cent.

Analysis by area

Reflecting the reduction in exports of oil, exports to the developed countries fell by 6 per cent in the second quarter with exports to the European Community countries down 5 per cent and exports to North America down 10 per cent. Exports to the developing countries increased by $7\frac{1}{2}$ per cent between the first and second quarters.

Imports from the developed countries fell by 3 per cent in the latest quarter with higher arrivals from North America (up by $1\frac{1}{2}$ per cent) offset by lower imports from Western Europe (down $4\frac{1}{2}$ per cent). Within Western Europe, imports from the European Community countries were $1\frac{1}{2}$ per cent down in the second quarter while imports from the rest of Western Europe fell by 14 per cent. Imports from the developing countries increased by 5 per cent between the first and second quarters.

NOTES TO EDITORS

1. STANDARD NOTES

The standard notes describe the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. Copies can be obtained from the address below.

3 AREA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15.

In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

2. MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review supplements the information contained in this Press Notice. It gives longer historical runs of data and contains charts, tables on the UK Balance of Payments, UK exports and imports on an Overseas Trade Statistics basis, and certain international comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £36 or £3 per copy.

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 0ET, Telephone: 01-215 4895.

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

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance ^b
		Exports fob	Imports fob	Visible Balance	of which		
					Oil	Non-Oil	
1984	+ 1563	70367	74758	- 4391	+ 6937	- 11328	+ 5953
1985	+ 3763	78072	80140	- 2068	+ 8163	- 10231	+ 5831
1985 Q2	+ 1587	20237	20361	- 124	+ 2411	- 2535	+ 1711
Q3	+ 1472	18748	19201	- 453	+ 1900	- 2353	+ 1925
Q4	+ 762	19018	19242	- 225	+ 1893	- 2117	+ 987
1986 Q1	+ 528	18204	19604	- 1400	+ 1994	- 3394	+ 1928
Q2	+ 546 ^a	17735	19289	- 1554	+ 765	- 2319	+ 2100 ^a
1985 Oct	+ 281	6329	6323	+ 7	+ 754	- 747	+ 274
Nov	+ 59	6301	6515	- 214	+ 649	- 862	+ 273
Dec	+ 422	6387	6405	- 18	+ 491	- 508	+ 440 ⁱ
1986 Jan	+ 1090	6289	6135	+ 155	+ 987	- 832	+ 935
Feb	+ 152	6192	6535	- 344	+ 678	- 1021	+ 496 ⁱ
Mar	- 714	5723	6934	- 1211	+ 330	- 1541	+ 497
Apr	+ 435 ^a	6038	6303	- 265	+ 265	- 530	+ 700 ^a
May	+ 34 ^a	5871	6537	- 666	+ 212	- 878	+ 700 ^a
June	+ 77 ^a	5826	6449	- 623	+ 288	- 911	+ 700 ^a
% Change							
Latest 3 months							
on - previous							
3 months		- 2½	- 1½				
Same 3 months							
one year							
ago		- 12	- 5½				

aⁱ Invisibles for April and May 1986 are projections and subject to revision as more information becomes available.

b Monthly figures are one-third of the appropriate quarters estimate or projection except for VAT abatements received from the Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

	All Sectors						Private Sector and Public Corporations ^d		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65225	61227	+ 3998	+ 3671	+ 2467	- 2140	60614	52375	+ 8239
1984	77192	71239	+ 5953	+ 4225	+ 4025	- 2297	72304	61641	+ 10663
1985	81074	75243	+ 5831	+ 6233	+ 3120	- 3522	76691	64461	+ 12230
1984 Q2	17963	16910	+ 1053	+ 983	+ 818	- 748	16946	14528	+ 2418
Q3	19735	18175	+ 1560	+ 1145	+ 1146	- 731	18749	15839	+ 2910
Q4	21689	19590	+ 2099	+ 1056	+ 1336	- 293	20051	17058	+ 2993
1985 Q1	21914	20706	+ 1208	+ 1230	+ 1015	- 1037	20734	17812	+ 2922
Q2	20466	18755	+ 1711	+ 1711	+ 699	- 699	19440	16324	+ 3116
Q3	19639	17714	+ 1925	+ 1755	+ 1083	- 913	18440	14850	+ 3590
Q4	19055	18068	+ 987	+ 1537	+ 323	- 873	18077	15475	+ 2602
1986 Q1	19081	17153	+ 1928	+ 1301	+ 832	- 205	17900	14977	+ 2923

d ie excluding general Government transactions and all transfers.

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(Balance of Payments basis)

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade ^e	Exports	Imports
1984	136.0	139.7	97.4	112.5	121.9
1985	143.5	145.2	98.8	118.6	125.7
1985 Q2	145.5	148.8	97.8	120.5	124.8
Q3	141.7	141.4	100.2	116.3	124.1
Q4	140.5	138.3	101.6	118.9	127.4
1986 Q1	139.0	137.6	101.0	117.4	126.1
1986 Q2	134.9	131.6	102.5	121.3	128.4
1985 Oct	140.5	139.1	101.0	118.8	125.0
Nov	140.4	137.6	102.1	118.5	129.6
Dec	140.5	138.2	101.7	119.4	127.8
1986 Jan	140.7	138.3	101.7	118.7	120.3
Feb	138.7	137.8	100.7	120.7	125.8
Mar	137.5	136.6	100.7	112.7	132.2
Apr	135.3	133.0	101.7	122.2	123.9
May	134.4	131.5	102.2	120.7	131.4
June	135.0	130.2	103.7	121.1	129.8
% Change					
Latest 3 months on					
- previous 3 months	- 3	- 4½	+ 1½	+ 3½	+ 2
- same 3 months					
one year ago	- 7½	- 12	+ 5	+ ½	+ 3

^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
(Balance of Payments basis)

Table 5

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71197	115.4	128.8
1985	73765	76598	123.0	133.4
1985 Q2	18948	19326	124.1	131.4
Q3	17835	18439	121.5	132.4
Q4	17811	18599	122.2	136.5
1986 Q1	17146	18656	121.5	133.2
Q2	16215	18430	122.4	136.4
1985 Oct	5921	6073	122.1	133.2
Nov	5898	6293	121.8	138.7
Dec	5993	6234	122.9	137.6
1986 Jan	5926	5877	123.0	127.6
Feb	5839	6229	125.2	133.2
Mar	5381	6550	116.5	138.8
Apr	5400	6004	121.2	131.2
May	5447	6230	123.8	139.4
June	5368	6196	122.1	138.5
% Change				
Latest 3 months on				
- previous 3 months	- 5½	- 1	+ ½	+ 2½
- same 3 months				
one year ago	- 14	- 4½	- 1½	+ 4

^f These are defined as ships, North Sea installations, aircraft, precious stones, and silver.**SECRET**and personal
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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil					
		£ million fob	£ million fob	£ million fob	Crude Oil		£ million fob	£ million fob	Crude Oil		£ million fob	£ million fob
					[SITC (REV 2) 333.0]				[SITC (REV 2) 333.0]			
					Total	Avg value			Total	Avg value		
			per tonne				per tonne					
				tonnes	£ fob				tonnes	£ fob		tonnes
1984	+ 6937	14852	12173	75.9	160.4	2679	7915	3751	25.0	150.1	4163	
1985	+ 8163	16050	12921	79.0	163.5	3128	7887	4155	26.1	159.0	3732	
1985 Q2	+ 2411	4336	3499	20.1	174.0	837	1925	1078	6.5	165.6	847	
Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694	
Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640	
1986 Q1	+ 1994	3117	2520	22.8	110.7	597	1123	678	6.2	108.7	445	
Q2	+ 765	1770	1192	18.4	64.8	578	1005	552	7.6	72.2	453	
1985 Oct	+ 754	1277	1050	7.2	145.8	227	523	291	2.0	143.9	233	
Nov	+ 649	1180	974	6.7	145.8	207	532	327	2.2	150.6	205	
Dec	+ 491	1126	876	6.0	146.1	249	635	433	3.0	146.2	202	
1986 Jan	+ 987	1378	1133	8.2	138.6	244	391	246	1.8	136.0	144	
Feb	+ 678	1048	859	8.2	104.4	189	370	227	2.2	101.4	143	
Mar	+ 330	692	528	6.4	83.1	164	362	204	2.2	93.7	158	
Apr	+ 265	662	450	6.8	66.5	212	397	225	2.8	79.4	172	
May	+ 212	583	382	6.1	62.6	201	370	222	3.0	74.4	148	
June	+ 288	526	361	5.5	65.1	165	237	104	1.8	57.5	133	
% Change												
Latest 3 months on												
- previous 3 months		- 43	- 53	- 19	- 42	- 3	- 11	- 19	+ 23	- 34	+ 1½	
- same 3 months												
one year ago		- 59	- 66	- 8½	- 63	- 31	- 48	- 49	+ 17	- 56	- 47	

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 8 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
1984	- 11328	55515	66843	133.5	136.2	98.0	105.1	128.2	50894	63282	107.6	137.0
1985	- 10231	62022	72253	141.8	141.9	99.9	110.6	132.9	57715	68711	115.0	142.6
1985 Q2	- 2535	15901	18436	142.8	144.7	98.7	112.1	132.4	14612	17401	115.3	140.9
Q3	- 2353	15338	17691	141.6	139.3	101.7	110.0	132.9	14425	16930	115.4	143.6
Q4	- 2117	15435	17552	140.6	136.5	103.0	111.3	134.7	14229	16909	114.4	146.1
1986 Q1	- 3394	15087	18481	143.0	140.0	102.1	107.6	135.1	14029	17533	111.4	144.4
Q2	- 2319	15964	18284	144.3	139.2	103.7	114.6	135.0	14445	17425	115.1	145.1
* 1985 Oct	- 747	5052	5799	140.7	137.3	102.4	109.4	132.7	4644	5550	112.3	143.2
Nov	- 862	5121	5983	140.6	135.8	103.5	111.1	137.8	4717	5761	114.1	149.3
Dec	- 508	5262	5770	140.6	136.3	103.2	113.5	133.6	4867	5599	116.9	145.7
1986 Jan	- 832	4912	5744	141.8	137.4	103.2	105.6	129.4	4549	5487	109.3	139.0
Feb	- 1021	5144	6165	143.0	140.6	101.7	110.1	134.7	4791	5859	114.2	144.4
Mar	- 1541	5032	6572	144.2	141.9	101.6	107.0	141.1	4690	6188	110.8	149.8
Apr	- 530	5376	5906	143.9	140.3	102.6	115.2	129.3	4739	5607	113.4	138.5
May	- 878	5288	6166	144.1	138.3	104.2	112.9	137.2	4865	5859	115.7	147.3
June	- 911	5300	6211	144.8	138.9	104.3	115.6	138.4	4842	5959	116.2	149.6
% Change Latest 3 months on												
* - previous 3 months	+ 6	- 1	+ 1	- ½	+ 1½	+ 6½	-	+ 3	- ½	+ 3½	+ ½	
- same 3 months one * year ago	+ ½	- 1	+ 1	- 4	+ 5	+ 2	+ 2	- 1	-	-	+ 3	

^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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SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
	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
1984	70488	4693	1989	15308	46703	42169	16333	8217	8116	25835	1050	4673	11199	8912
1985	78331	4970	2145	16712	52514	48482	18449	9411	9038	30033	1343	5257	13493	9940
1985 Q2	20258	1284	529	4513	13436	12248	4704	2402	2303	7544	340	1304	3350	2550
Q3	18828	1300	531	3600	12879	12020	4532	2285	2246	7489	336	1342	3394	2416
Q4	19097	1193	506	3708	13164	12033	4522	2340	2182	7512	329	1319	3418	2445
1986 Q1	18257	1206	511	3297	12766	11807	4418	2293	2125	7389	293	1297	3346	2452
Q2	17816	1275	440	1913	13636	12207	4613	2414	2199	7594	347	1375	3333	2538
1986 Apr	6028	419	159	703	4577	4003	1497	788	709	2506	127	459	1082	838
May	5908	414	137	651	4532	4131	1533	795	738	2598	114	464	1132	888
June	5879	443	145	559	4528	4073	1582	831	752	2490	106	452	1120	813
Percentage Change														
Q2/Q1	- 2½	+ 6	- 14	- 42	+ 7	+ 3½	+ 4½	+ 5½	+ 3½	+ 3	+ 18	+ 6	- ½	+ 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

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
	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
1984	112.8	117.2	106.3	160.2	104.4	107.0	112.1	124.3	102.3	103.8	82.4	107.8	105.4	102.6
1985	119.3	119.1	107.0	170.9	110.8	115.7	118.9	133.3	107.5	113.7	99.4	111.6	121.4	107.6
1985 Q2	121.0	122	102	176	112	116	120	133	109	114	100	111	120	109
Q3	117.1	123	110	161	109	115	117	130	107	114	102	114	123	105
Q4	119.7	114	106	168	112	116	119	136	105	114	97	112	123	106
1986 Q1	118.0	117	113	184	107	111	115	131	102	109	88	108	117	103
Q2	122.0	119	102	170	115	116	120	139	105	113	97	115	118	107
1986 Apr	122.3	118	108	177	115	114	118	137	103	112	108	115	115	107
May	121.6	114	95	177	114	117	119	136	106	116	94	117	120	113
June	122.2	126	102	155	116	116	124	145	107	111	89	113	120	103
Percentage Change														
Q2/Q1	+ 3½	+ 2	- 10	- 8	+ 7½	+ 4	+ 4½	+ 6	+ 3	+ 3½	+ 10	+ 7	+ 1	+ 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.

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Total	Chemi- cals	Other	6	7+8	Total	Pass- enger Motor Cars	Other Consumer
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
1984	136.0	128	131	152	135	133	127	130	125	137	157	135	140	132
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141
1985 Q2	145.4	134	146	163	144	143	136	141	133	147	162	147	150	142
Q3	141.6	134	136	142	143	143	135	140	132	147	162	148	151	141
Q4	140.4	134	130	140	142	142	134	137	131	148	163	149	151	141
1986 Q1	138.9	136	128	114	145	145	137	142	133	150	166	153	153	144
Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145
1986 Apr	135.2	140	127	80	146	147	137	143	133	152	174	156	155	145
May	134.2	141	123	72	146	147	138	142	134	153	179	156	155	144
June	134.9	140	121	71	147	147	138	140	135	154	184	154	157	145
Percentage Change Q2/Q1	- 3	+ 3	- 3½	- 35	+ 1	+ 1	+ ½	-	+ 1	+ 1½	+ 8	+ 1½	+ 1½	+ ½

^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
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	Developed Countries							Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total	Other USA	Other	Total	Oil exporting countries	Other	
1984	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1985 Q2	20258	16210	9537	2034	3667	3189	972	3606	1510	2956	420
Q3	18828	15203	9312	1790	3182	2715	919	3314	1408	1906	386
Q4	19097	15369	9359	1817	3282	2778	910	3202	1357	1845	392
1986 Q1	18257	14652	8689	1779	3254	2784	930	3241	1405	1837	442
Q2	17816	13768	8254	1713	2919	2536	882	3483	1567	1917	471
1986 Apr	6028	4619	2833	520	973	857	293	1172	566	606	144
May	5908	4492	2595	605	993	885	300	1280	563	717	129
June	5879	4657	2825	589	954	794	289	1031	438	594	198
Percentage Change Q2/Q1	- 2½	- 6	- 5	- 3½	- 10	- 9	- 5	+ 7½	+ 12	+ 4½	+ 6½

K See paragraph 3 of Notes to Editors.

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(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j
1984	78967	8933	5418	10334	53011	49708	17930	6322	11608	31778	3670	8346	10218	9543
1985	84790	9274	5389	10517	58288	54953	19619	6903	12716	35334	4165	8887	11623	10659
1985 Q2	21548	2352	1366	2656	14848	13842	4920	1792	3128	8922	1116	2219	2928	2659
Q3	20321	2311	1312	2138	14250	13508	4913	1729	3184	8595	988	2189	2838	2581
Q4	20356	2256	1243	2178	14346	13798	4970	1708	3262	8829	1047	2237	2882	2662
1986 Q1	20670	2507	1225	1725	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665
Q2	20461	2416	1213	1523	14904	14078	5003	1789	3214	9075	1150	2413	2992	2520
1986 Apr	6692	770	390	616	4750	4461	1615	582	1033	2846	326	775	932	813
May	6921	807	420	509	5057	4764	1692	621	1071	3072	414	809	1016	834
June	6848	839	402	398	5097	4853	1696	586	1110	3157	411	829	1044	873
Percentage Change														
Q2/Q1	- 1	- 3½	- 1	- 12	+ ½	+ ½	- ½	- 1	-	+ 1	-	+ 6	+ 4	- 5½

^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

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						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
1984	120.2	112.3	101.7	86.5	134.1	146.7	137.2	164.5	125.9	153.0	119.9	139.6	161.4	172.9
1985	124.3	113.6	102.2	85.0	140.7	154.5	143.9	176.2	130.6	161.5	127.9	139.6	172.8	187.2
1985 Q2	123.3	112	98	82	141	153	142	180	126	160	139	137	170	184
Q3	122.8	116	103	75	140	154	147	180	133	159	125	139	171	184
Q4	126.0	115	106	81	143	160	149	177	137	167	124	147	180	192
1986 Q1	124.5	126	105	71	141	155	148	183	133	159	130	145	171	175
Q2	127.1	120	106	86	143	157	149	186	133	162	126	154	182	168
1986 Apr	122.5	115	101	92	135	148	142	176	128	151	107	148	166	162
May	129.9	120	111	90	145	160	151	192	134	166	136	157	185	169
June	128.8	124	105	76	148	163	153	190	138	170	136	158	194	174
Percentage Change														
Q2/Q1	+ 2	- 5½	-	+ 21	+ 1	+ 1½	+ ½	+ 1½	-	+ 2	- 2½	+ 6½	+ 6½	- 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.

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food				Total Manufac- tures	Semi-manufactures					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
		bever- ages and tobacco	Basic Mater- ials	Fuels	3		Total	Chem- icals	Other	6	7+8	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	less PS	6	7+8 less SNA	j	j	j	j	
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94	
1984	138.0	132	133	168	134	133	126	134	123	137	144	135	145	129	
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134	
1985 Q2	146.7	141	136	181	143	143	135	141	133	148	150	147	159	136	
Q3	139.2	135	124	161	139	139	131	137	128	144	149	145	154	131	
Q4	136.3	132	116	155	137	138	130	137	127	143	156	143	148	131	
1986 Q1	135.6	134	116	132	140	142	132	141	129	148	165	145	152	138	
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139	
1986 Apr	131.5	134	115	101	141	143	132	141	129	149	169	146	154	140	
May	130.0	136	113	99	139	141	131	139	128	148	170	142	152	138	
June	128.7	136	112	87	140	141	131	137	129	148	168	143	154	139	
Percentage Change															
Q2/Q1	- 4	+ 1	- 2½	- 28	- ½	-	- ½	- 1½	-	+ ½	+ 2	- 1	+ ½	+ ½	

^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 AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

Total K	Developed Countries							Developing Countries			Centrally planned economies
	Total	European Community	Rest of W Europe	North America Total	USA	Other	Total	Oil exporting countries	Other		
1984	78967	65279	37408	11184	11067	9368	5620	11514	2934	8579	2043
1985	84790	71520	41413	12025	11703	9920	6379	11233	2782	8451	1894
1985 Q2	21548	17957	10271	3060	3044	2602	1582	2984	851	2133	441
Q3	20321	17293	10096	3083	2546	2166	1569	2499	499	2000	485
Q4	20356	17561	10451	2942	2512	2078	1655	2454	620	1834	410
1986 Q1	20670	17868	10695	3121	2395	2007	1657	2422	504	1918	424
Q2	20461	17301	10536	2682	2427	2035	1657	2539	461	2077	451
1986 Apr	6692	5562	3337	941	815	681	470	876	152	723	152
May	6921	5845	3626	808	787	644	623	859	169	690	133
June	6848	5894	3573	933	825	709	564	804	140	664	166
Percentage Change											
Q2/Q1	- 1	- 3	- 1½	- 14	+ 1½	+ 1½	-	+ 5	- 8½	+ 8½	+ 6½

K See paragraph 3 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco			Basic Materials			Fuels		
	0 + 1			2 + 4			3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1984	4672	8196	- 3524	2014	4864	- 2850	15308	9917	+ 5391
1985	4936	8481	- 3545	2161	4789	- 2628	16712	10094	+ 6618
1984 Q3	1142	2073	- 932	519	1192	- 673	3840	2507	+ 1333
Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1186	2155	- 969	585	1315	- 731	4892	3387	+ 1505
Q2	1276	2153	- 877	533	1226	- 693	4513	2548	+ 1965
Q3	1290	2122	- 832	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2052	- 867	509	1086	- 577	3708	2092	+ 1616
1986 Q1	1198	2332	- 1134	515	1086	- 571	3271	1631	+ 1639
Q2	1261	2237	- 976	443	1080	- 637	1913	1413	+ 501
SITC (R2)	Semi-Manufactures			Finished Manufactures			Total Manufactures		
	5 + 6			7 + 8			5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1984	18266	18410	- 144	28324	32059	- 3735	46590	50469	- 3879
1985	20042	19978	+ 65	32254	35335	- 3081	52296	55313	- 3017
1984 Q3	4558	4684	- 127	7126	8336	- 1210	11684	13021	- 1337
Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7946	9263	- 1316	12963	14098	- 1135
Q2	5201	5050	+ 151	8223	9025	- 803	13423	14075	- 652
Q3	4852	5126	- 274	7960	8361	- 402	12812	13487	- 675
Q4	4973	4967	+ 5	8125	8686	- 560	13098	13653	- 555
1986 Q1	4847	5282	- 435	7894	8883	- 990	12741	14165	- 1424
Q2	5163	5126	+ 38	8410	9021	- 611	13573	14146	- 573

Monthly data at this level of detail are published in the Monthly Review of External Trade Statistics.

SECRET

and personal
until release of press notice on 25 JUL 86 at 11.30 a.m.

pwp

1 *new on*
answer on
unchanged
(28 Jul)
bt



FROM: MRS R LOMAX
DATE: 25 JULY 1986

SIR T BURNS

cc Sir P Middleton
Mr Evans
Miss O'Mara

JULY CBI QUARTERLY TRENDS SURVEY

The Chancellor was most grateful for your minute of 24 July. He fears that this will get a very bad press. He wonders when the previous worst optimism figure was.

RL

RACHEL LOMAX

Ch
Figures attached
AA
28/7

[Red signature]

OPTIMISM
re BUSINE
SITUATION

1979	Q1	-5
	Q2	6
	Q3	-22
	Q4	-40
1980	Q1	-45
	Q2	-41
	Q3	-70
	Q4	-54
1981	Q1	-27
	Q2	-6
	Q3	2
	Q4	-9
1982	Q1	8
	Q2	10
	Q3	-22
	Q4	-28
1983	Q1	-5
	Q2	31
	Q3	24
	Q4	7
1984	Q1	27
	Q2	26
	Q3	-3
	Q4	-5
1985	Q1	4
	Q2	18
	Q3	0
	Q4	-6
1986	Q1	-1
	Q2	8
	Q3	-9

G. HACCHE
X8661

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 31 July 1986

The trend in unemployment continues upward at a rate of up to 15 thousand per month. The increase would be around 20 thousand per month were it not for the continuing, favourable impact from employment and training measures. The employed labour force is thought to have risen by 25,000 in the first quarter, a projected rise in self-employed more than offsetting a decline in employees in employment, particularly in manufacturing industries. This follows an average quarterly rise of 75,000 in the second half of 1985.

Early estimates of economic activity in the second quarter based on the limited information so far available suggest that GDP rose by around $\frac{1}{2}$ per cent compared with the previous quarter. GDP has been growing at a slower rate since the first part of 1985.

The annual rate of inflation has been falling steadily since the beginning of the year and at 2.5 per cent in the 12 months to June was the smallest rise since December 1967. For July, it is likely that the annual rate will remain low.

The PSBR in June was £0.6 billion, bringing borrowing in the first three months of 1986-87 to £2.5 billion - much the same as in the same period of the previous financial year.

First estimates and projections suggest that the current account surplus was of the order of £1 billion for the first half of 1986. Visible trade is estimated to have been in deficit by £0.6 billion in June, much the same as in May. The latest observations suggest that the underlying level of non-oil export volume has risen a little in recent months, while the underlying level of non-oil import volume also shows signs of having risen a little recently. Last month's assessment was that both underlying trends had been showing little change recently.

M0 remains in the lower half of its target range for the 12 months to June whilst £M3 continues to be above the top end of its range. Early optimism in the money markets for a further base rate cut dissipated as sterling drifted downwards in July on oil price worries. Stock markets had been recovering towards the end of last month, but for most of July share prices have fallen away quite sharply with some revival as the month closed.

RECENT RATES OF CHANGE AND ASSESSMENT OF CURRENT
TREND FOR SOME KEY ECONOMIC INDICATORS

In the following notes, the figures for current trend represent our best assessment of the current underlying rate of increase after making allowance for temporary distorting factors such as strikes, unseasonal weather effects, etc. The figures show how the series are moving currently and may be different from the comparisons over the latest published twelve months.

GDP (average measure) in the first quarter of 1986 was $2\frac{1}{2}$ per cent higher than in the same period a year ago or $1\frac{1}{2}$ per cent after discounting the effects of the coal strike. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were, on average, upwards, though not uniformly so. The assessment of current underlying trend for the second quarter of 1986 is that the rate of increase lies in the range $\frac{1}{2}$ - $2\frac{1}{2}$ per cent per annum.

Industrial production in the three months to May was $\frac{1}{2}$ per cent higher than in the same period a year ago, but was $\frac{1}{2}$ per cent lower after allowing for the effects of the coal strike and other disputes, notably those in the motor vehicles industry. On the same basis, respective figures for manufacturing were -1 per cent in both cases. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range -1 to +1 per cent per annum. The trend in manufacturing output is in the range $+\frac{1}{2}$ to $-1\frac{1}{2}$ per cent per annum.

Retail prices rose by $2\frac{1}{2}$ per cent in the twelve months to June 1986. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg. mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is just under 4 per cent per annum. In the twelve months to June 1986 this series rose by a little over 4 per cent (not published).

Producer input prices have shown an almost uninterrupted decline in seasonally adjusted terms since early last year. A further substantial fall is expected in July, bringing the index to about 15 per cent below its peak in February 1985.

Average earnings (underlying) in the twelve months to May rose by $7\frac{1}{2}$ per cent. The current trend is estimated to be in the range 7 - $7\frac{1}{2}$ per cent per annum.

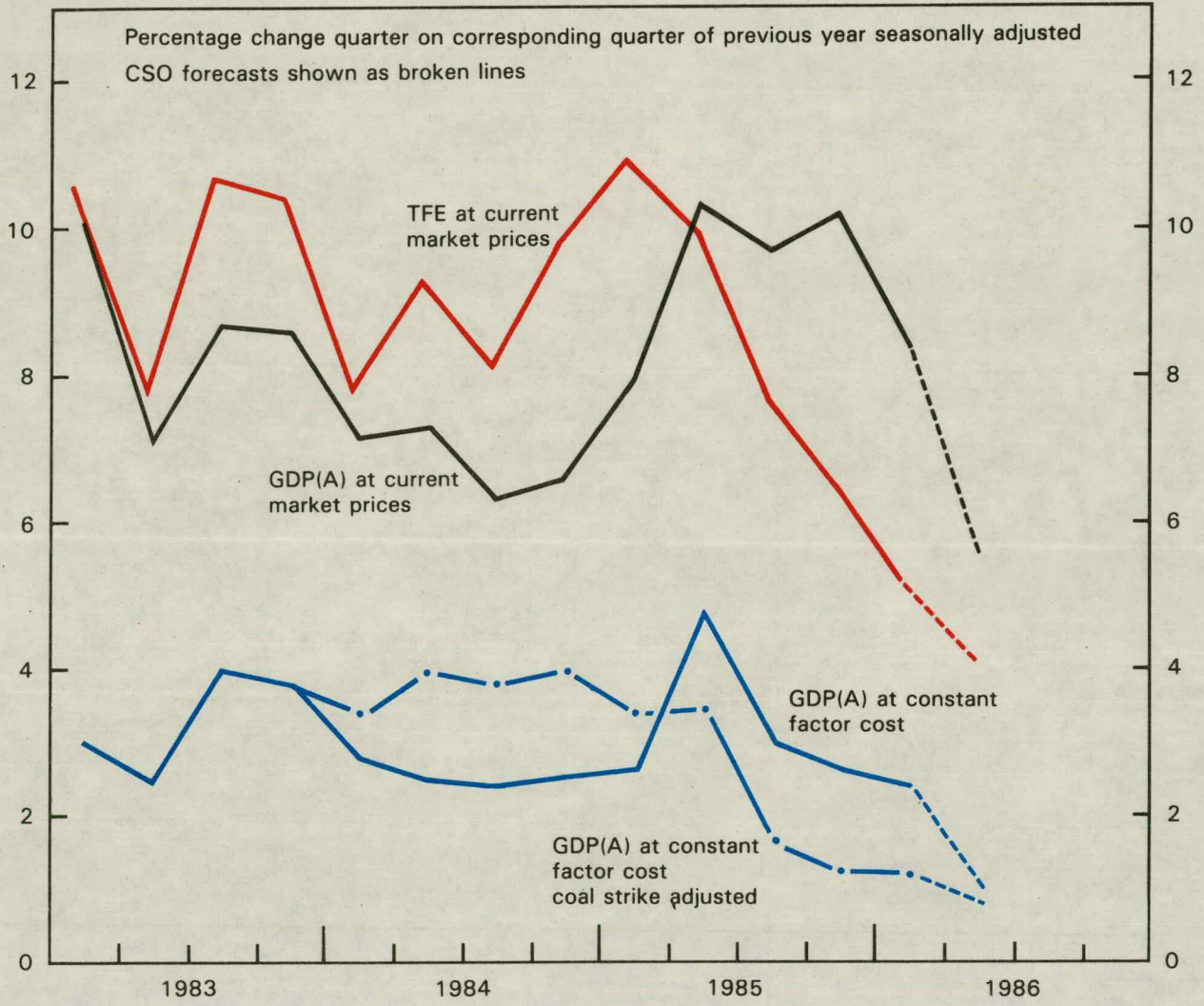
Unit wage costs in manufacturing in the three months to May rose by $7\frac{1}{2}$ per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 6-8 per cent per annum.

Unemployment (excluding school leavers) in the twelve months to June has been rising on average by 9 thousand per month and by 15 thousand per month in the latest six months. Discounting the effects of employment and training measures as far as possible, the current underlying trend appears to be an increase in the region of 20 thousand per month.

Movements over the latest published 12 months include any revisions that may have occurred since last publication (in general any such differences only occur in the GDP series).

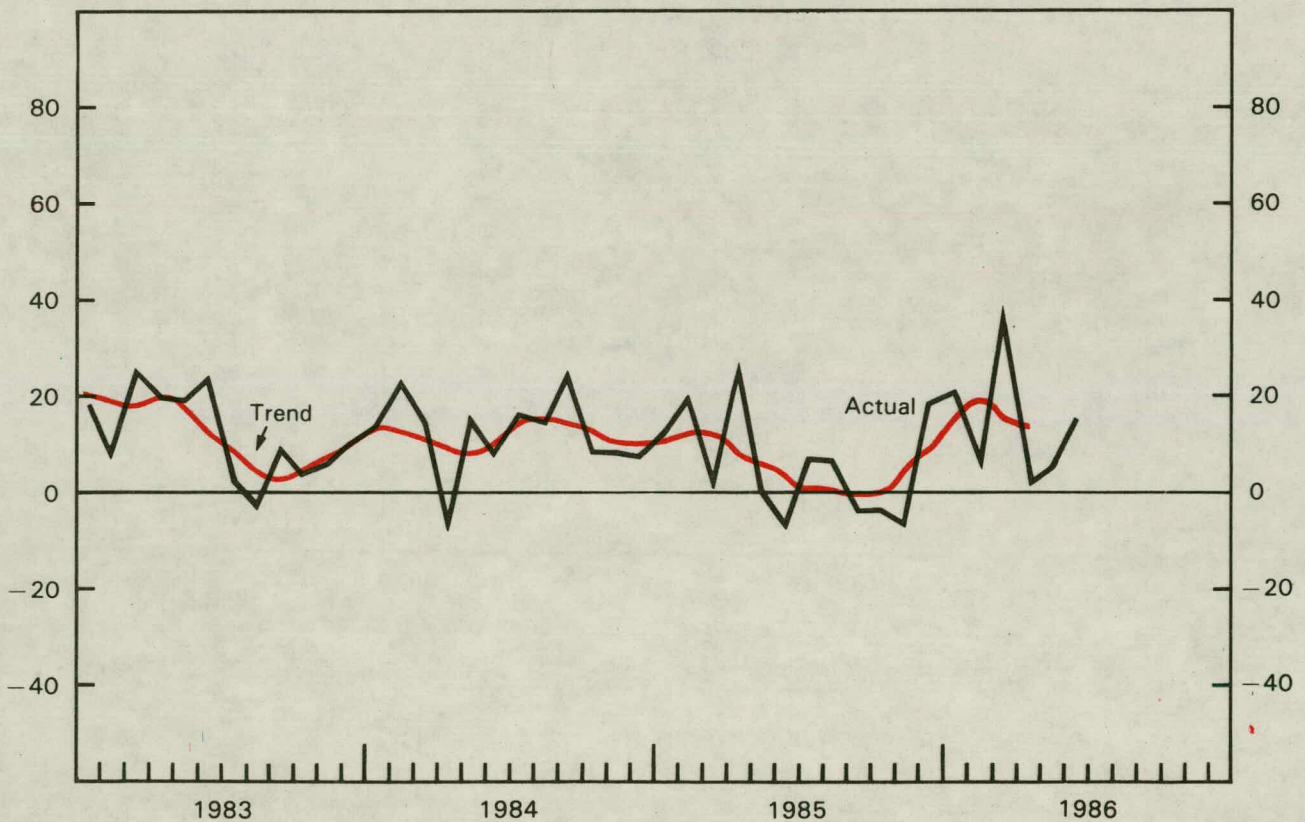
Changes in output and expenditure

CHART 1



Changes in unemployment

CHART 2



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

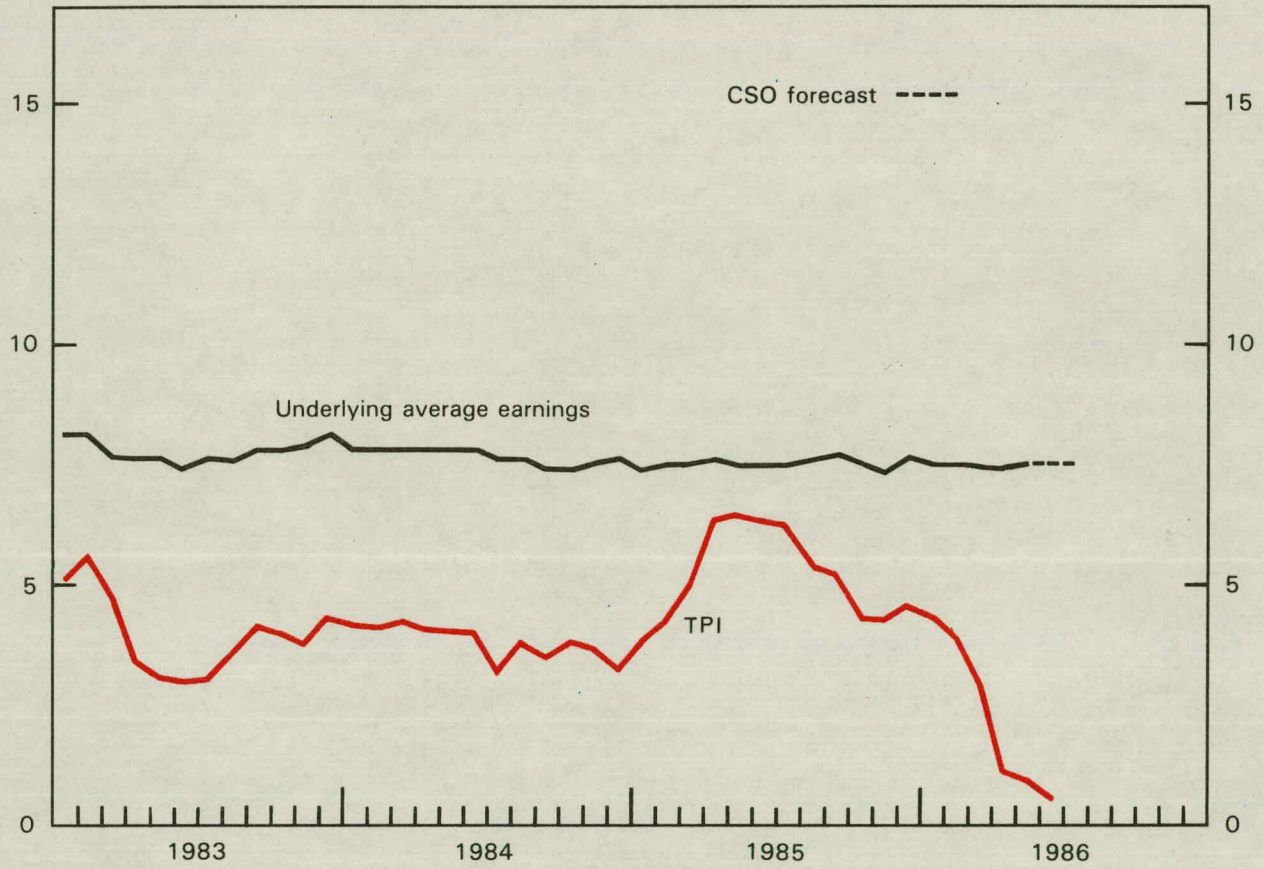
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



1. Excludes seasonal food, mortgage interest, rent, rates and water charges, motor vehicle licences, products produced by Nationalised industries and petrol.

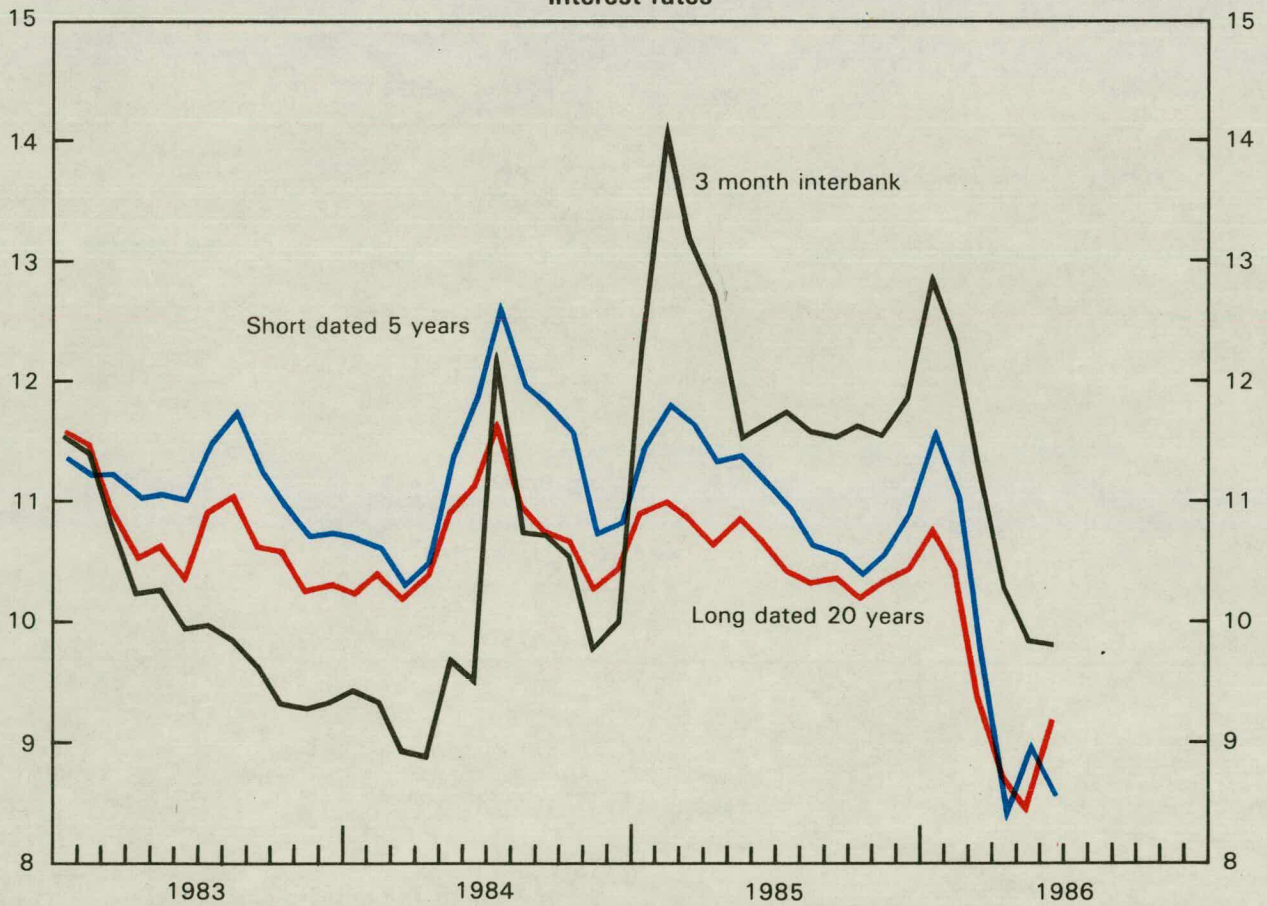
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

CHART 4



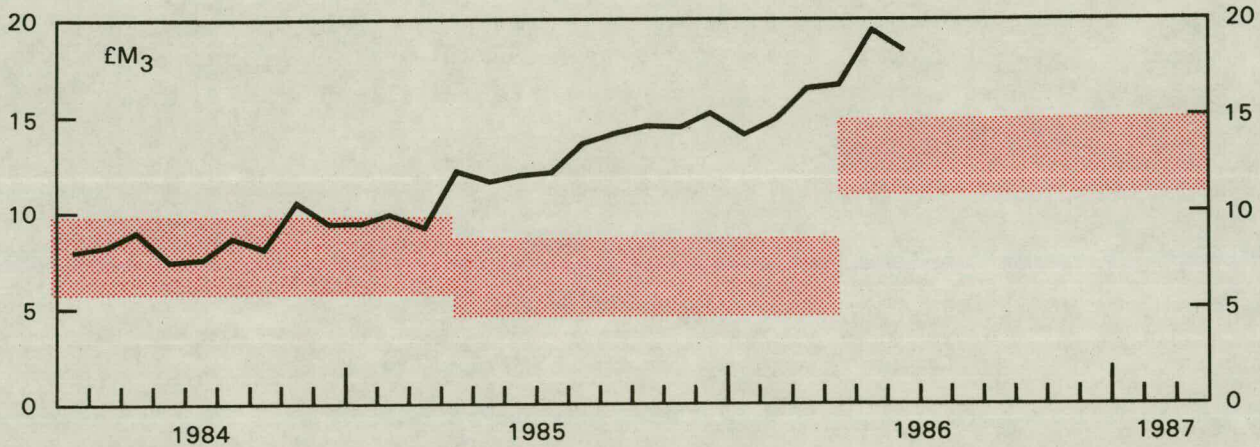
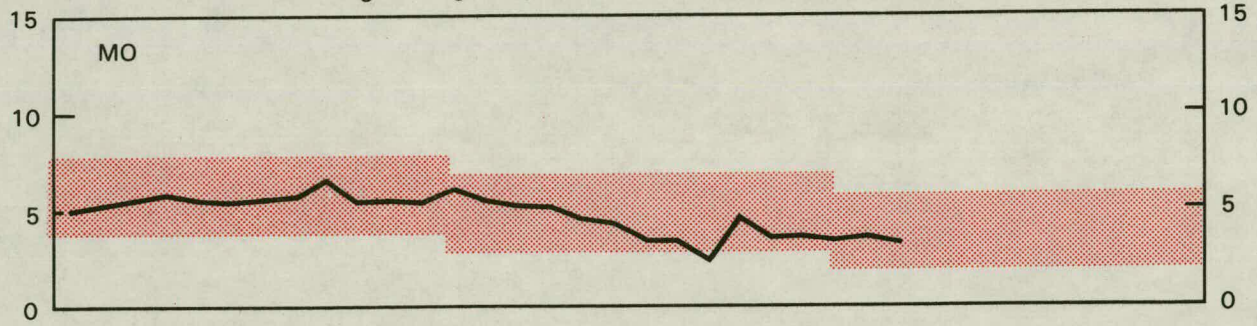
Interest rates

CHART 5



Monetary aggregates

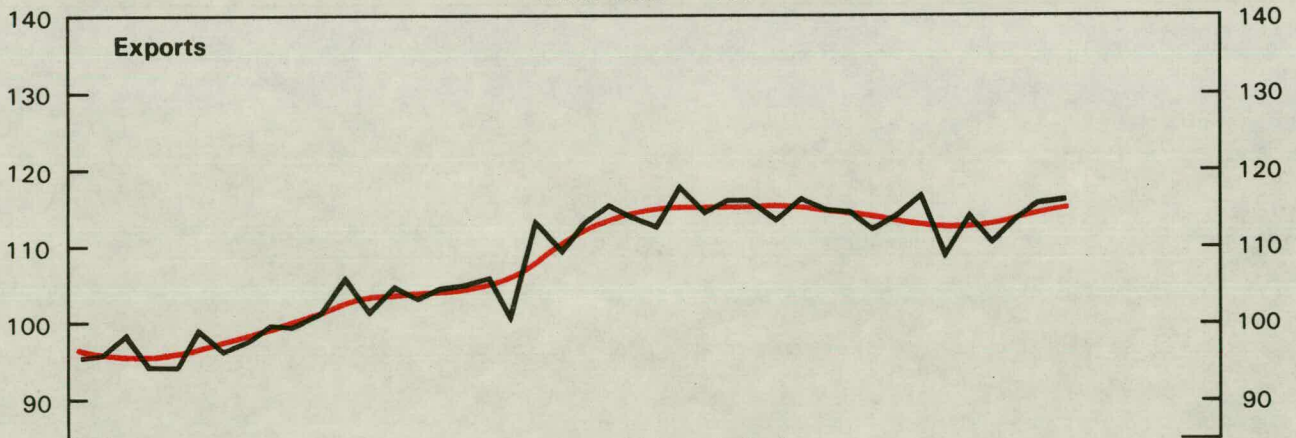
Percentage change on previous 12 months (seasonally adjusted)



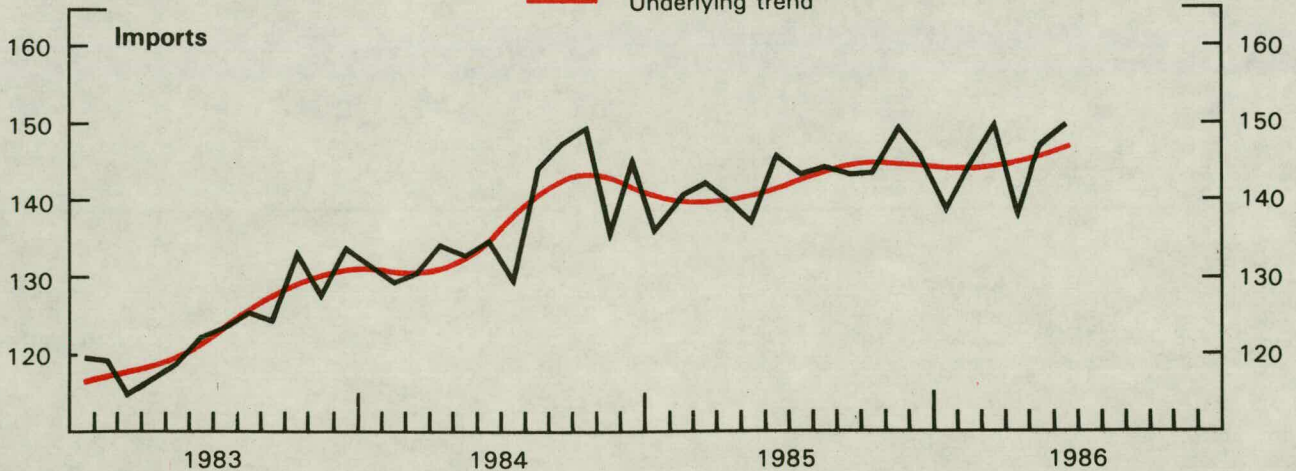
Shaded areas represent announced target ranges

Exports and Imports (excluding oil and erratics¹)

Index 1980 = 100



— Volume index²
— Underlying trend



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis

MONTHLY ECONOMIC BRIEF

DETAILED ASSESSMENTS SUPPLEMENT

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A ECONOMIC ACTIVITY

A1 Total gross domestic product (in real terms)

A1.1 The current projection of GDP(A) for the second quarter of 1986 suggests a rise in GDP of around $\frac{1}{2}$ per cent compared with the previous quarter and a growth of about 1 per cent compared with the second quarter of 1985; the small estimated effect of the coal dispute on GDP in the earlier period does not materially affect this annual growth. Comparing the first half year of 1986 with the same period of 1985, and allowing for the coal strike, also indicates that the level of aggregate economic activity rose about 1 per cent.

A1.2 There is still little data for the second quarter of 1986 on which to base estimates of GDP. GDP(E) is flat between the first and second quarters of 1986; GDP(O) is showing a rise of $\frac{1}{2}$ per cent, largely attributed to the growth in services. A slight rise in GDP(I) is projected.

A1.3 The assessment of the current underlying trend in GDP(A) is that it lies in the range of $\frac{1}{2}$ - $2\frac{1}{2}$ per cent per annum.

A2 Money GDP

A2.1 The projection of money GDP in the second quarter of 1986 suggests its level was virtually unchanged compared with the first quarter (implying a fall of $\frac{1}{2}$ per cent in prices) and showing a rise of some $5\frac{1}{2}$ per cent compared with the second quarter of 1985; allowing for the effect of the coal dispute in the earlier period barely changes this rate of growth. The assessment of the current underlying trend of growth in money GDP is that it lies in the region of 3-5 per cent per annum. This range is significantly lower than during previous quarters but largely reflects the immediate impact of falling oil prices. Money GDP in the non-North Sea sector is growing at a faster rate, though it also is lower than the rate of growth in previous quarters.

A3 Cyclical indicators

A3.1 The overall interpretation of the indicators is little changed since last month's assessment with only a limited amount of new and revised information having become available. The decline in the published version of the coincident index since May 1985 continues to suggest that there has been a weaker underlying rate of economic growth for the last 12 months or so. The incorporation of the latest quarterly CBI results do not indicate decisively whether the current decline in the coincident index will be more than a short term development, although the early GDP estimates contained in this month's Brief do point to a continuation of this period of below trend growth into the second quarter.

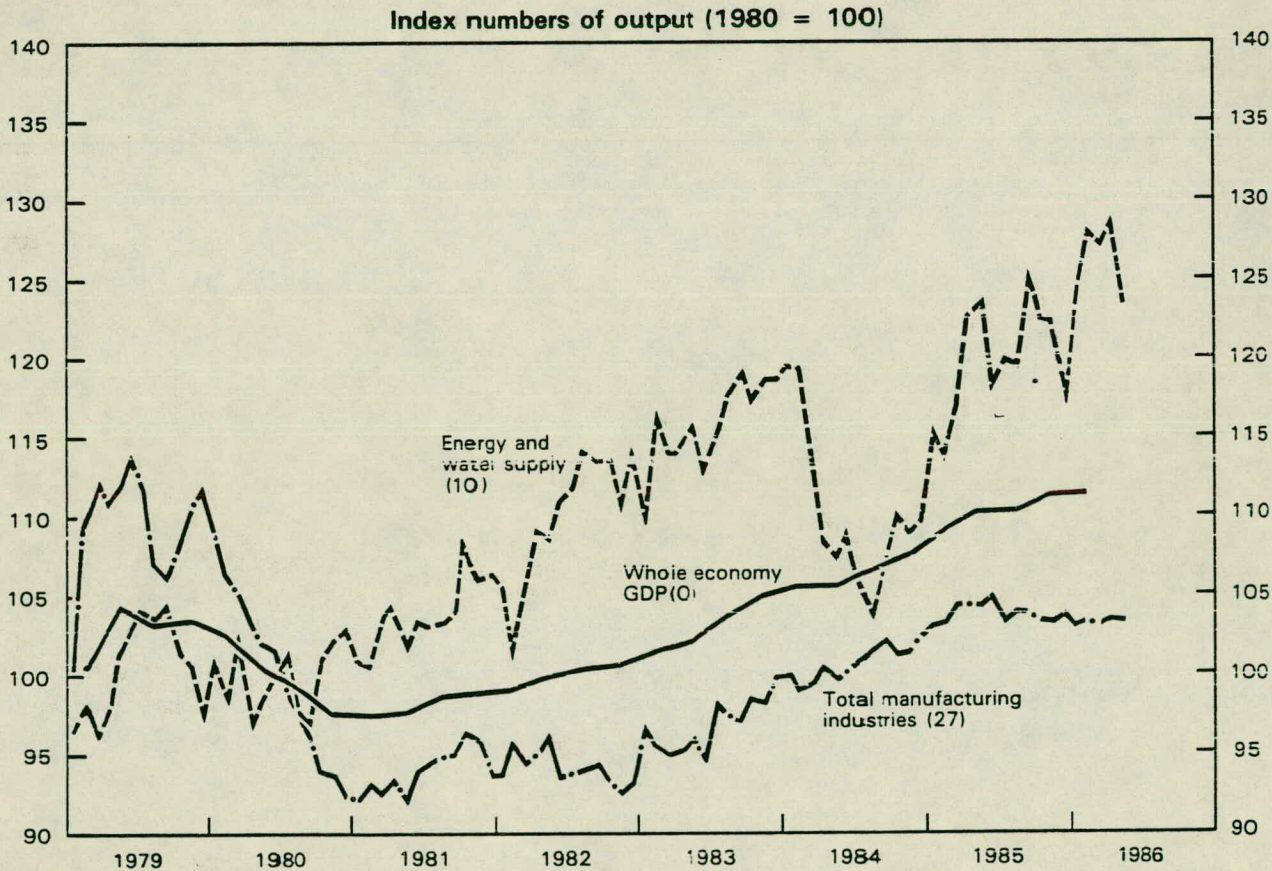
A3.2 The leading cyclical indicators still do not provide any clear signals about future turning points in activity and, hence, fail to provide any supportive evidence to aid interpretation of the coincident index. The longer leader fell slightly in May after a period of strong growth in the first part of the year and is then provisionally seen to be rising again in June. Whilst the renewed decline in the shorter leader over the first four months of 1986 is now based on almost full information, this downward movement may have halted in May. For each of the two leaders, an individual constituent component has been fairly dominant on movements so far this year as well as being the main influence on developments through 1985; the series in question are share prices for the longer leader and consumer credit for the shorter leader.

A3.3 Although share prices (in not seasonally adjusted terms) have weakened during much of the last few weeks, the next published update of the longer leader is likely to show further growth through to July. This assessment is based on a partially updated series which uses the latest estimates for the 3 component series for which new information is already available: seasonally adjusted interest rates and share prices for July and the latest quarterly CBI result for business optimism which, also after seasonal adjustment (see quality section), shows a slight rise between April and July despite still remaining negative.

A4 Output measures

A4.1 In the three months to May, the level of manufacturing output was over 1 per cent below the level in the second quarter of 1985 which was at least a temporary peak. The underlying trend is thought to be either flat or declining rather slowly, with the provisional estimates for April and May indicating that manufacturing output may be levelling out. Manufacturing output in the three months to May was broadly unchanged compared with the previous three months.

A4.2 The latest set of quarterly CBI Trends Survey results, on a seasonally adjusted basis, (see quality section) indicates a further, though smaller, decline in output in the second quarter. Their output expectations point to modest growth though in the previous two surveys the expectations balance has not matched well with the eventual outturn.



Note: Figures in brackets represent percentage of GDP(0) by weight in base year 1980

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A4.3 The underlying output of all production industries in the second half of 1985 was almost 1 per cent below the high level reached in the first half but partly recovered in the first quarter of this year due to high oil extraction and high demand for gas and electricity. Individual monthly figures can be erratic, but provisional figures for April and May average to a similar level to that for the first quarter. The index of production for June is expected to decline to about 107 (May was 108.6) reflecting a temporary reduction in oil extraction. With oil recovering in July the index is expected to return to about 109.

A4.4 The output measure of GDP is thought to have grown by about $\frac{1}{2}$ per cent between the first and second quarters of 1986. GDP(0) in the second quarter was little more than $1\frac{1}{2}$ per cent above its level of a year earlier. Output of the production and construction industries has been generally flat over this period but service sector output has continued to grow. Output displayed similar trends between the first and second quarters. Production industry output fell by about $\frac{1}{2}$ per cent but service sector activity increased by over 1 per cent with particularly strong growth in distribution.

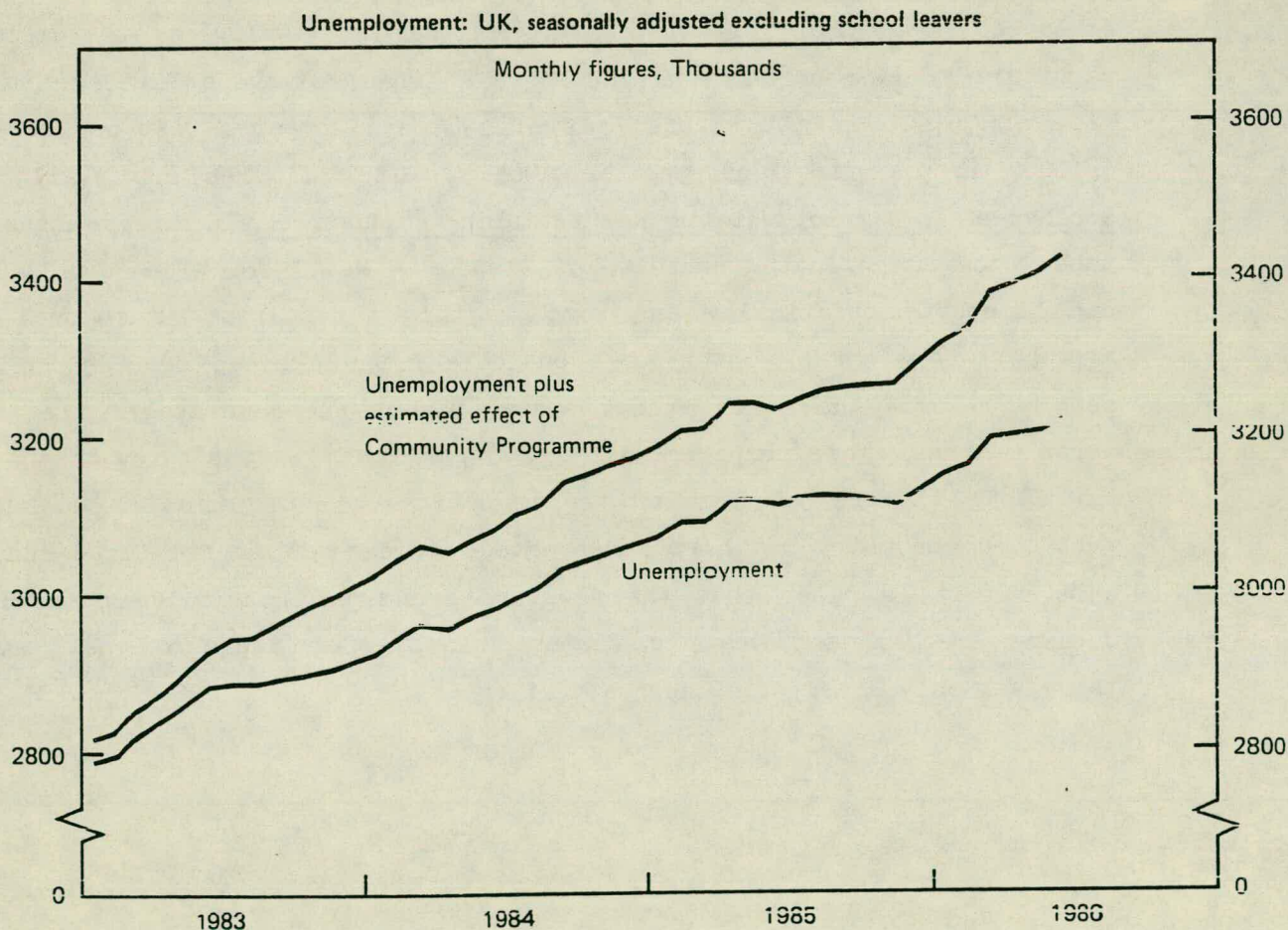
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B THE LABOUR MARKET

B1 Unemployment and vacancies

B1.1 The seasonally adjusted level of unemployment (UK, excluding school leavers) rose by 15 thousand in the month to June, to 3.220 million, or 11.7 per cent of the working population. New unemployment rates are now being used, whereby the self employed and Armed Forces are included in the base (not just employees in employment and the unemployed) (see also quality section).

B1.2 The seasonally adjusted series has now risen by some 15,000 per month on average over the past six months. The upward trend continues despite the favourable impact on the trend from employment measures, particularly the growth in the Community Programme. Without the growth in these measures, it seems that the underlying upward trend in adult claimants would be around 20 thousand per month, a higher rate of increase than since mid 1983.



Note: The lower line illustrates the trend in adult unemployment, while the higher line, which allows for the estimated effect of the Community Programme on the count, shows what the underlying trend is estimated to be in the absence of the Community Programme

B1.3 The June 'headline' total was 3.229 million. This included 107 thousand claimant school leavers (aged under 18), little changed since June last year. The separate total of non-claimant school leavers registered at Careers Offices, at 101,000 in June was slightly lower than in June 1985. Overall the position for school leavers is little different from last year.

B1.4 The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) increased by 14,000 in the month to June, to 185 thousand. This rise was due almost entirely to a reduction in placings. This may be largely the result of the transfer of more experienced staff from Jobcentres into training for Restart. MSC expect the placing performance to improve as newly recruited staff gain experience.

B2 Employment and hours

B2.1 The employed labour force in Great Britain is thought to have risen during the first quarter of 1986 by 25,000, a projected rise in self-employed more than offsetting a decline in employees in employment, particularly in manufacturing industries. This follows an average quarterly rise of 75,000 in the second half of 1985 and compares with an increase of 68,000 in the first quarter of 1985. Later figures are available for employees in employment in manufacturing industries in Great Britain and these show an estimated decrease of 21,000 in May 1986. The monthly figures can fluctuate erratically and some of this fluctuation is removed if the averages over three months are considered; the average decrease of 10,000 per month over the three months ending May is the same as for the previous three months. This compares with 2,000 per month in the three months ending May 1985. Severe weather and the reduction in employment in the newspaper publishing industry may have accentuated the decline in the first quarter of 1986 but it is clear that the downward trend, while still slower than the decline of 1980 to 1983, is faster than in the middle of last year when there was only a very slow downward drift.

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The Employed Labour Force in Great Britain

Thousand: seasonally adjusted

Employees in employment					Self- Employed Persons	Employed Labour Force
	Manufacturing Industries	Service Industries	Other Industries	All Industries and Services		
Levels						
1984 Sep	5,446	13,438	1,930	20,814	2,462	23,605
Dec	5,454	13,532	1,921	20,907	2,489	23,724
1985 Mar	5,440	13,599	1,911	20,950	2,516	23,792
Jun	5,439	13,651	1,896	20,986	2,543	23,856
Sep	5,438	13,708	1,865	21,011	[2,574]	23,911
Dec	5,425	13,803	1,849	21,077	[2,604]	24,005
1986 Mar	5,389	13,854	1,829	21,072	[2,635]	24,030
Changes						
1984 Q3	- 3	+ 59	- 5	+ 51	+ 27	+ 80
Q4	+ 8	+ 94	- 9	+ 93	+ 27	+119
1985 Q1	- 14	+ 67	- 10	+ 43	+ 27	+ 68
Q2	- 1	+ 52	- 15	+ 36	+ 27	+ 64
Q3	- 1	+ 57	- 31	+ 25	[+ 31]	+ 55
Q4	- 13	+ 95	- 16	+ 66	[+ 30]	+ 94
1986 Q1	- 36	+ 51	- 20	- 5	[+ 31]	+ 25
Apr	- 2					
May	+ 3					
Jun	- 2					
Jul	+ 5					
Aug	- 7					
Sep	+ 1					
Oct	- 4					
Nov	- 13					
Dec	+ 4					
1986 Jan	- 3					
Feb	- 30					
Mar	- 3					
Apr	- 7					
May	- 21					

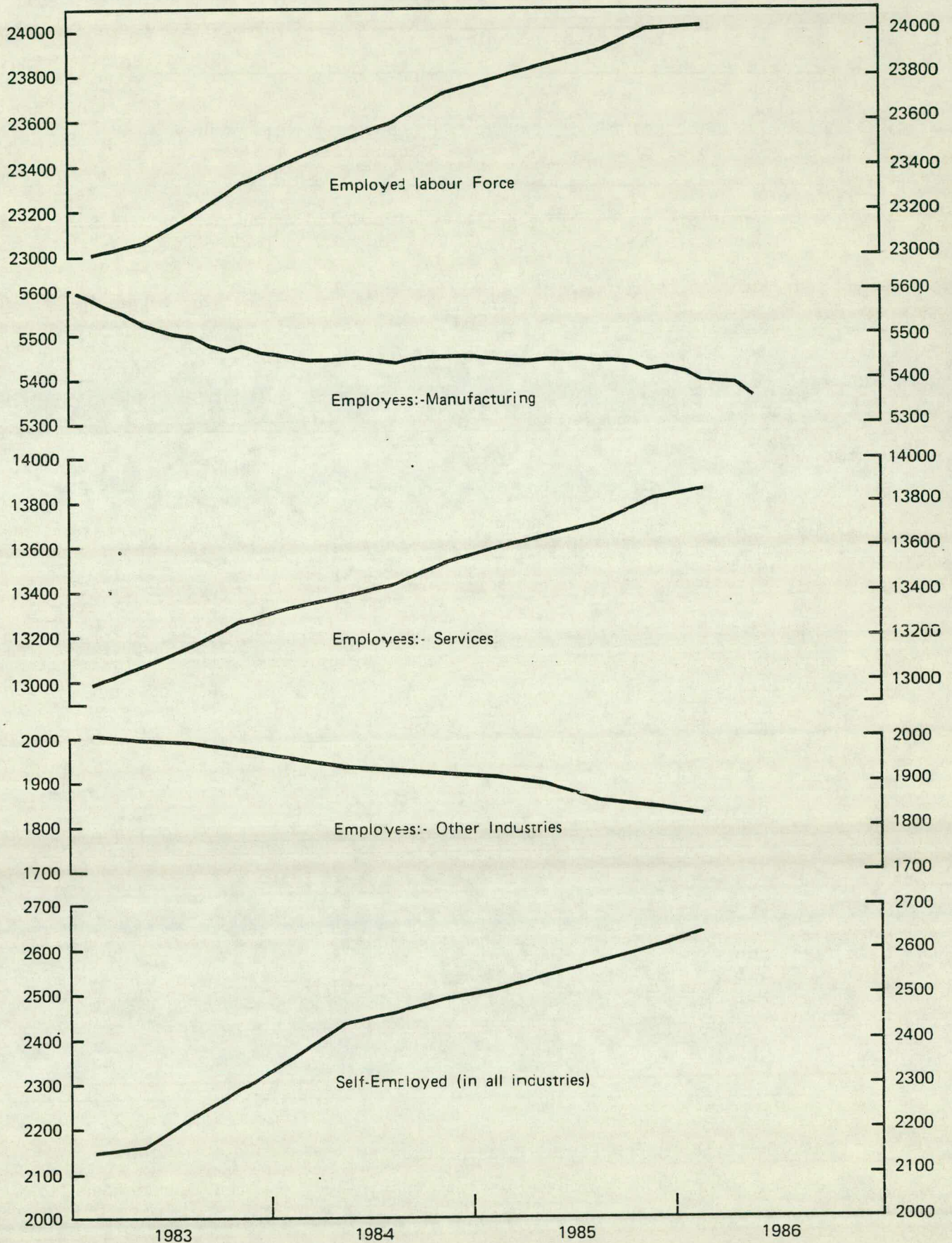
NB: Employed Labour Force also includes HM Forces

Square brackets indicate projections based on the assumption that the average rate of increase between 1981 and 1985 is continuing.

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Employment
Thousands



NB Total employed labour forces includes HM Forces

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B2.2 Overtime working by operatives in manufacturing industries was 11.24 million hours a week in May, giving an average over the three months ending May of 11.49 million hours a week. This confirms that overtime has fallen back from the high level of around 12 million hours a week observed in most of 1985. Short-time working resulted in the loss of an estimated 0.52 million hours a week in manufacturing industries in May 1986, giving an average of 0.55 million hours per week lost in the three months ending May. Whilst still low this represents an increase when compared with 1985 during which the level at no time exceeded 0.5 million hours lost per week.

B2.3 The index of average weekly hours worked by operatives in manufacturing industries stood at 102.6 in May 1986. The average for the three months ending May was 102.8 and compares with 103.3 for the three months ending February 1986. The index has declined slightly since December 1985 having previously remained at much the same level since the end of 1983.

B3 Redundancies

B3.1 The underlying trend in the number of redundancies confirmed as due to occur, as measured by the twelve month ended averages, has remained broadly level in the last few months, after rising from October of last year until February. This improvement in the trend is most marked in the manufacturing industries, although there has been a slowing in the upward trend in other sectors. However, the advance notifications of redundancies continue to rise so it would be unwise to interpret the confirmed redundancy figures for recent months as evidence that the upward trend in redundancies has ended. Indeed, the total of 128,000 advance notifications in the last three months is the highest for this period since 1982.

B3.2 The number of confirmed redundancies in the three months ending June 1986 is expected to average about 17,000 a month, slightly less than the 18,000 a month recorded during the corresponding period a year ago.

C PRICES AND REAL DISPOSABLE INCOME

C1 Average earnings

C1.1 The underlying increase in average weekly earnings in the year to May was about $7\frac{1}{2}$ per cent, the same as in the year to April. The trend over recent months (at an annual rate) has been 7 to $7\frac{1}{2}$ per cent. The recent slowdown in economic activity has been reflected in smaller overtime payments. Also a small reduction in the average level of pay settlements in the private sector is not being fully offset by somewhat higher pay settlements in the public sector.

C1.2 The actual increase in the year to May of 7.5 per cent was not affected to a significant degree by temporary factors and therefore was similar to the underlying increase.

C1.3 In June and July, the underlying increase is expected to show little change with the prospect of a reduced effect from changes in hours worked being offset by the effect of higher pay settlements than a year ago for some public sector groups. The actual annual increase in June is expected to be inflated by back pay to teachers. The back pay to civil servants will not affect the actual change as the delay this year is the same as last year. Changes in the timing of pay settlements will inflate the actual increase because teachers will have received two pay settlements in the twelve month periods.

C2 Unit wage costs and competitiveness

C2.1 Unit wage costs in the whole economy rose by about 2 per cent between the fourth quarter of 1985 and the first quarter of 1986. In the second quarter they are expected to rise by just over $1\frac{1}{2}$ per cent, with total wage costs rising by just over 2 per cent and GDP(0) increasing by about $\frac{1}{2}$ per cent; this would give a rise in unit wage costs of nearly $7\frac{1}{2}$ per cent since the second quarter of 1985. These second quarter increases are inflated by over $\frac{1}{2}$ per cent by the unusually high level of back pay in the quarter, arising mainly from the 1985 and 1986 teachers' settlements.

C2.2 In the three months to May manufacturing unit wage costs were a little under $1\frac{1}{2}$ per cent higher than in the previous three months and labour productivity improved by $\frac{1}{2}$ per cent. Compared with the same period a year ago, earnings in the three months to May increased by $7\frac{1}{2}$ per cent, and with no increase in labour productivity unit wage costs have also increased by $7\frac{1}{2}$ per cent.

C2.3 In 1985, domestic manufacturing unit labour costs grew more rapidly than those of our major competitors; compared with 1984, UK unit labour costs increased by $5\frac{1}{2}$ per cent, as against an increase of $1\frac{1}{2}$ per cent in the US and little change in Germany and in Japan. This more rapid increase between 1984 and 1985 was only partly offset by the slight depreciation in the average level of sterling, and UK competitiveness declined. Given the $5\frac{1}{2}$ per cent fall in the exchange rate between the fourth quarter of 1985 and the first quarter of this year, there will probably have been some short term gain in competitiveness, even though UK labour costs have continued to grow more rapidly than those of our competitors.

C3 Producer prices

C3.1 The seasonally adjusted price index for materials and fuel purchased by manufacturing industry has shown an almost uninterrupted decline since early last year. A further substantial fall is expected in July, mainly as a result of lower scheduled prices for petroleum products. The seasonally adjusted index should be about 15 per cent below its peak in February 1985. This implies that the twelve-monthly rate of decline in the unadjusted index should be about $9\frac{1}{2}$ per cent in July as compared with $8\frac{1}{2}$ per cent in June.

C3.2 The index for output prices (home sales) of manufactured products, which had been rising at an underlying rate of around 5 per cent at the end of 1985 and early this year, has shown slower growth in recent months. The published unadjusted index increased by 0.3 per cent in May and showed no change in June. Output price movements tend to be relatively small at this time of year and the published index is expected to rise by only about 0.1 per cent in July. The twelve-monthly rate of increase should remain at around $4\frac{1}{2}$ per cent, after having been in the range from just under 5 to $5\frac{1}{4}$ per cent in the six months to March.

C4 Retail prices

C4.1 In June, the annual rate of inflation, as measured by the 12-month change in the retail prices index, was 2.5 per cent compared with 2.8 per cent recorded in May. This is the sixth consecutive month in which the rate has fallen. It is now at its lowest level since December 1967.

C4.2 The overall level of prices fell by 0.1 per cent between May and June compared with a rise of 0.2 per cent recorded for the corresponding period last year. The main reason for this fall was the reductions in mortgage interest rates of about one percentage point which more than offset price increases for other goods and services, the most notable of which were for petrol, motor insurance and some foods.

C4.3 In July the 12-month rate is likely to increase slightly as a small monthly increase in the index is expected to replace, in the 12-month calculation, a fall of 0.2 per cent recorded between June and July last year. Higher prices for motor vehicles are expected with some lower prices for seasonal foods and summer sale reductions for durable goods. Although the latest fall in world oil prices, if sustained, should lead to lower petrol prices, it is unlikely that these prices will have shown much change for July.

C5 Real personal disposable income (RPDI)

C5.1 Total wages and salaries probably increased by about 2 per cent between the first and second quarters of 1986, a continuation of the recent trend.

C5.2 In the second quarter of 1986, total personal income and personal disposable income may have risen by 2 and 2½ per cent respectively compared to the first quarter. The higher growth in personal disposable income reflects the income tax changes announced in the Budget. Prices (as measured by the consumers' expenditure deflator) rose by about ½ per cent between the first and second quarters of 1986 and as a result, RPDI may have increased by almost 2 per cent.

C5.3 Consumers' expenditure at current prices rose by less than personal disposable income in the second quarter and the saving ratio increased by about 1½ percentage points.

		RPDI 1980 prices £bn	Consumers' expenditure 1980 prices £bn	Saving ratio per cent
1984		41.4*	36.4*	12
1985		42.5*	37.4*	12
1984	Q1	41.0	36.2	11½
	Q2	40.8	36.4	11
	Q3	41.1	36.2	12½
	Q4	42.7	36.8	14
1985	Q1	41.9	36.6	12½
	Q2	42.2	37.3	11½
	Q3	42.7	37.7	11½
	Q4	43.1	38.0	12
1986	Q1	43.4	38.3	11½
	Q2	(44.2)	38.5	(13)

* Quarterly average

D COMPONENTS OF DOMESTIC EXPENDITURE

D1 Consumers' expenditure at constant prices

D1.1 Preliminary estimates suggest that consumers' expenditure rose by about $\frac{1}{2}$ per cent between the first and second quarters of 1986 to a level just over 3 per cent above the same period last year. The largest increases in the second quarter were recorded in vehicles and other durable and non-durable goods. Spending on food and energy fell back slightly from high first quarter levels.

D1.2 The index of the volume of retail sales in the second quarter at 120.0 is $1\frac{1}{2}$ per cent higher than in the previous quarter - indicating strong growth. The provisional index for June at 122.0 is well above any previous level and could have been enhanced by fine weather combined with some early summer sales. The buoyancy of sales in June was spread across all kinds of business and extended to the smaller retailers. A fall-back from this level is expected in July for which an index around 120 is forecast, the same as in the second quarter.

D2 General government final consumption at constant prices

D2.1 General government consumption in the first and second quarters is estimated to have been rather higher than recently.

D3 Gross domestic fixed capital formation at constant prices

D3.1 Fixed investment was increased in the first quarters of both 1985 and 1986 by expenditure brought forward ahead of phased reductions in first year capital allowances announced in the 1984 Budget, which have now been fully withdrawn. The impact of these reductions appears to have been much less in the first quarter of 1986 than in the first quarter of 1985. Total fixed investment in the first quarter of 1986 was £11.9 billion compared with £12.2 billion a year earlier.

D3.2 Fixed investment by manufacturing industries (including leased assets) was 1 per cent higher in the first quarter of 1986 than the first quarter of 1985. Over the same period fixed investment by the construction, distribution and financial industries (excluding assets leased to manufacturers) fell by 3 per cent.

D3.3 Total fixed investment is expected to have been about £11.7 billion in the second quarter of 1986 compared with £10.9 billion in the second quarter of 1985. This 7 per cent increase would reflect the lower impact of the reduction in capital allowances in 1986. The impact of the reduction in capital allowances may be largely removed by comparison drawn between the first halves of 1985 and 1986. Between the first half of 1985 and the first half of 1986 total fixed investment is expected to have grown by around 2 per cent.

D4 Stockbuilding at constant prices

D4.1 Estimates for the first quarter of 1986 show a £0.4 billion increase in stocks. Within this figure wholesalers' stocks rose by £0.3 billion accompanied by a rise in Intervention Board for Agricultural Produce and retailers' stocks of £0.2 billion in total. These rises were offset by destocking in the energy and manufacturing industries of £0.2 billion and £0.1 billion respectively.

D4.2 Stocks during the second quarter are estimated to have increased by £0.2 billion.

E OVERSEAS TRADE AND CURRENT BALANCE

E1.1 Visible trade is estimated to have been in deficit by £623 million in June. With a projected surplus of £700 million on invisibles the current account is therefore in surplus by £77 million.

E1.2 In the second quarter of 1986 visible trade was in deficit by £1.6 billion compared with a deficit of £1.4 billion in the first quarter. The deficit on non-oil trade decreased by £1.1 billion over the period but this was more than offset by a fall of £1.2 billion in the oil surplus.

E1.3 Oil imports were valued at £1.0 billion in the second quarter compared with £1.1 billion in the first quarter. Non-oil imports fell by £0.2 billion to £18.3 billion over the same period. Nevertheless the underlying trend of non-oil import volume shows signs of having risen a little in recent months.

E1.4 Exports of oil were valued at £1.8 billion in the second quarter compared with £3.1 billion in the first quarter. This reflects the recent drop in prices as well as return to more normal levels of deliveries after the high levels recorded in January and February. Non-oil exports rose by £0.9 billion to £16.0 billion over the period. About half this increase was due to an increase in exports of erratic goods, especially aircraft, and most of the rest is attributable to increases in other categories of manufactured goods, particularly chemicals. The underlying level of non-oil export volume has risen a little in recent months.

E1.5 Both assessments of underlying trend have changed this month. Last month's assessment was that they had been showing little change recently.

E1.6 First estimates and projections suggest that the current account surplus was of the order of £1 billion for the first half of 1986, which includes £0.4 billion of the VAT abatement received from the European Community in respect of 1984. This should have been received last year but was delayed until 1986. The abatement in respect of 1985 is being received month by month during this year.

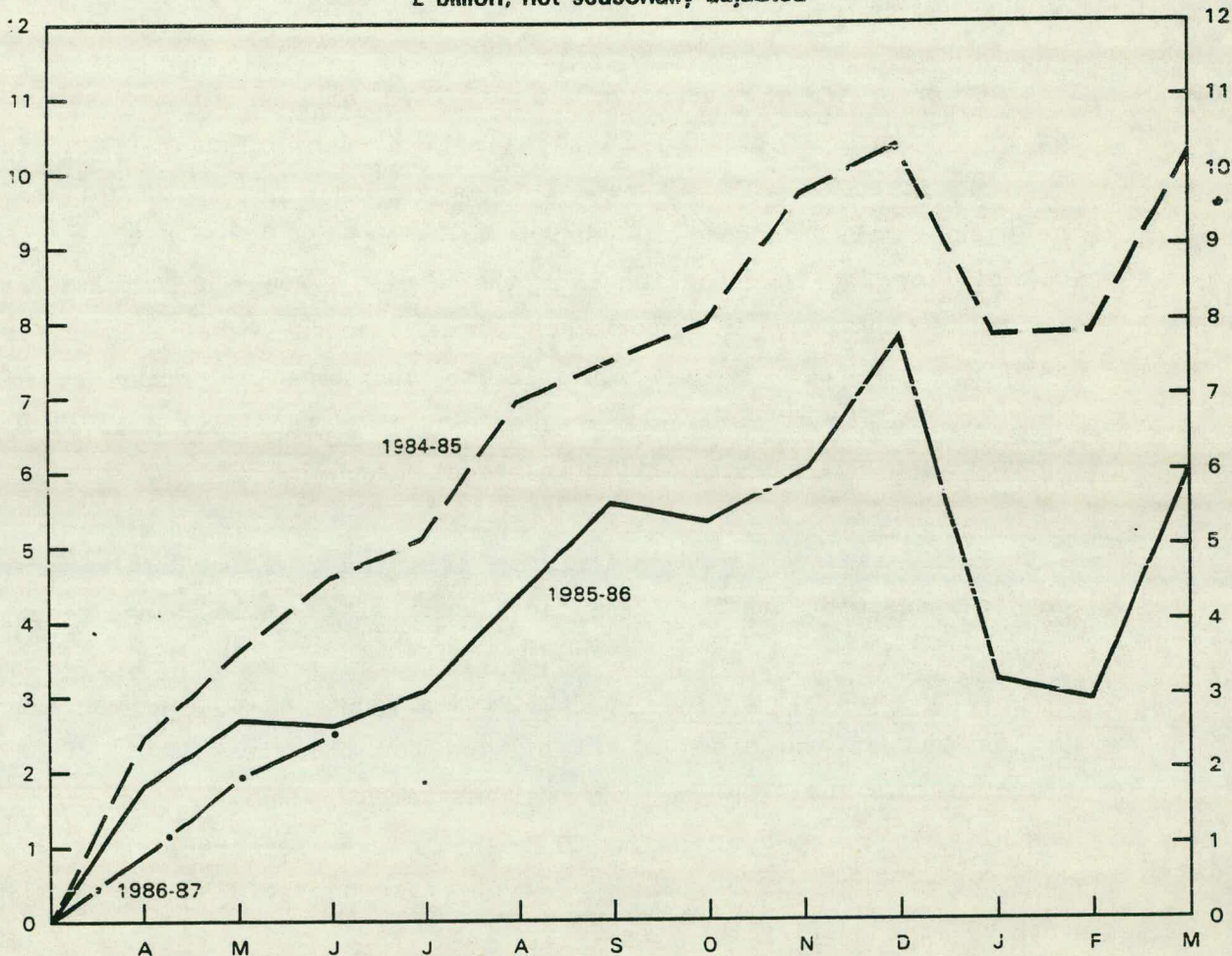
F FINANCIAL

F1 PSBR

F1.1 The PSBR is provisionally estimated to have been £0.6 billion in June bringing the cumulative total for the first three months of the financial year 1986-87 to £2.5 billion. In the same three months of 1985-86 the PSBR stood at £2.6 billion. This comparison is not complicated by the level of privatisation proceeds (£1.1 billion from second British Telecom call in June 1985 and £1.1 billion from the third call in April 1986).

F1.2 The forecast for 1986-87, announced in the Financial Statement and Budget Report, is £7.1 billion. As usual, most of this borrowing is expected to occur in the first half of the financial year.

Cumulative PSBR from start of financial year
£ billion, not seasonally adjusted



Note: The seasonal pattern can differ from year to year

F1.3 The components of the PSBR in June were:

(£ billion, not seasonally adjusted)

Comprising

	PSBR	CGBR(0)	LABR	PCBR
Outturns:				
June	0.6	1.2	-0.5	-0.1
April to June	2.5	3.1	-0.1	-0.5
1986 Budget forecast				
for 1986-87	7.1	na	na	na

F2 Monetary growth

F2.1 In the four weeks of banking June M0 rose by 0.5 per cent and £M3 rose by 1.3 per cent. The twelve month growth rates for the two targetted aggregates are now 3.1 per cent and 18.3 per cent respectively, against target ranges of 2-6 per cent for M0 and 11-15 per cent for £M3.

Annualised growth (% change,
seasonally adjusted)

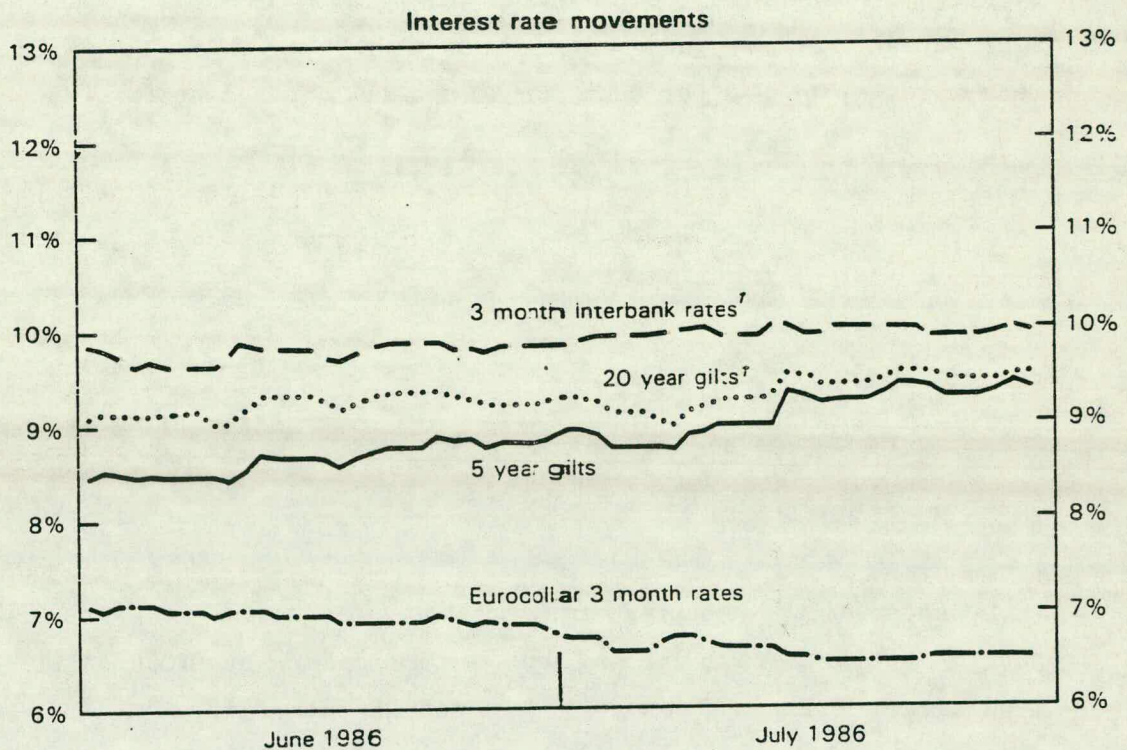
Banking June

		3 months	6 months	12 months
M0	+0.5	+3.8	+4.4	+3.1
£M3	+1.3	+33.6	+23.4	+18.3

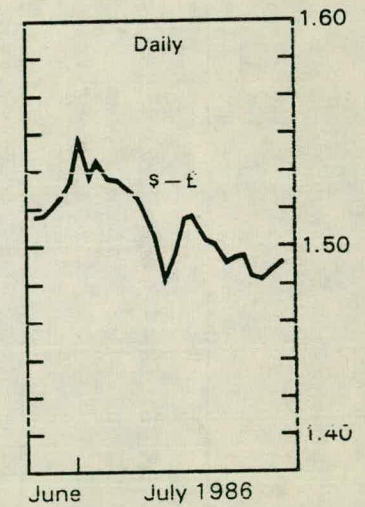
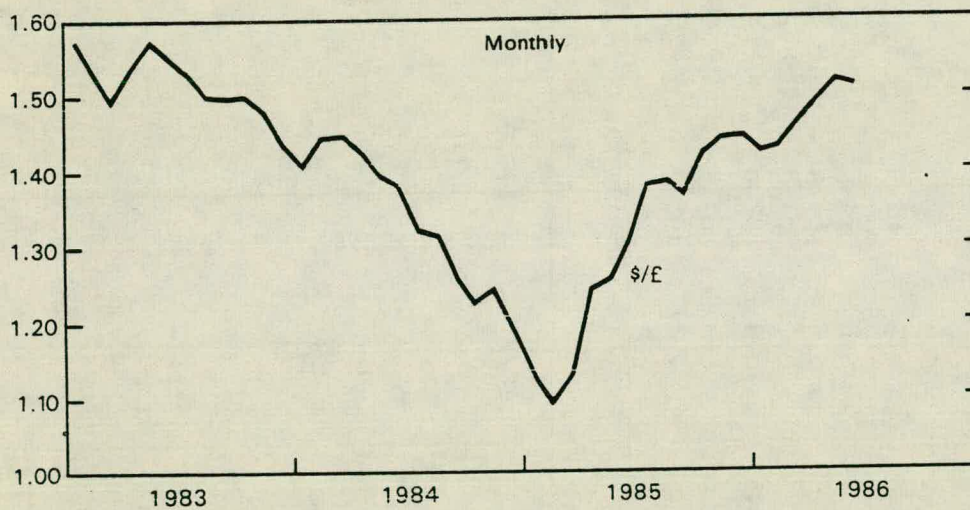
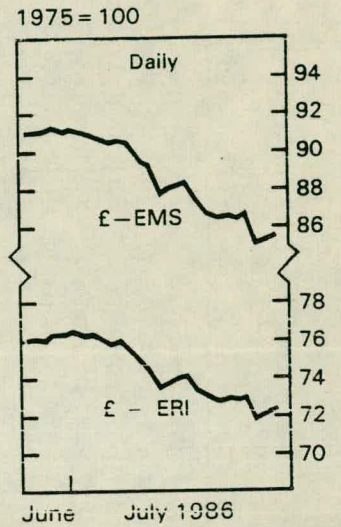
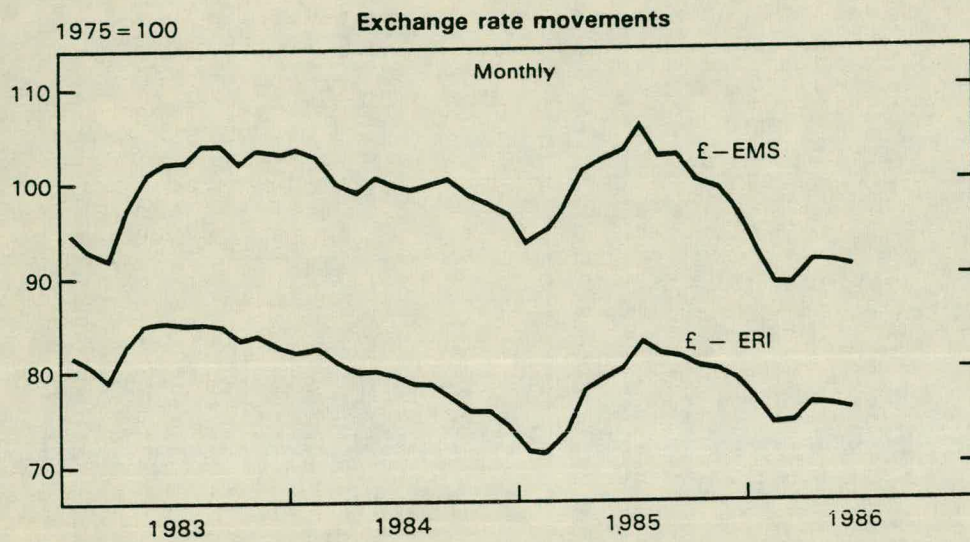
F2.2 Amongst the counterparts to the change in £M3, the net effect of public sector transactions was expansionary by £0.4 billion, Sterling lending rose £1.6 billion, and the net effect of the externals and net non-deposit liabilities was contractionary by £0.9 billion.

F3 Financial markets

F3.1 Early optimism in the money markets of a further base rate cut in July dissipated as oil prices fell and hopes for cuts in Japanese interest rates (following an American cut) failed to materialise. Towards the end of July the interbank yield curve was flat at around 10 per cent through to 12 months maturity. The current base rate is 10 per cent. Sterling drifted down mainly on weaker oil prices and touched all-time lows of Yen 229.92 and DM 3.1196 on 31 July. A combination of political factors, including the Government's poor showing in the Newcastle-under-Lyme by-election, also weighed on the pound which lost 3.9 on its ERI over the month. The dollar hit a new record low of Yen 153.50 and a 5 year low of DM 2.0890 on 31 July as concerns about US economic growth reinforced bearish sentiment.



1 For a long run of monthly data for these series see Chart 5



GROSS DOMESTIC PRODUCT: 1980 PRICES AND SEASONALLY ADJUSTED (figures in brackets are CSO forecasts)(1)

£bn, rounded to nearest £0.1 bn

	Consumers' expenditure	General government final consumption	Gross domestic fixed capital formation	Stock-building	Total domestic expenditure	Exports of goods and services	Imports of goods and services	Real resources for the balance of payments	Factor cost adjustment at factor cost	Gross domestic product
1984(2)	36.4	12.7	11.4	-	60.5	17.3	17.0	+ 0.3	- 8.2	52.6
1985(2)	37.4	12.8	11.5	+ 0.2	61.8	18.3	17.5	+ 0.8	- 8.4	54.2
1984 Q3	36.2	12.9	11.4	- 0.1	60.3	17.3	17.1	+ 0.2	- 8.1	52.4
1984 Q4	36.8	12.8	11.5	+ 0.3	61.3	18.0	18.0	-	- 8.3	53.1
1985 Q1	36.6	12.8	12.2	- 0.2	61.4	18.2	17.6	+ 0.6	- 8.3	53.7
1985 Q2	37.3	12.7	10.9	+ 0.5	61.4	18.7	17.4	+ 1.3	- 8.3	54.3
1985 Q3	37.7	12.7	11.3	+ 0.1	61.8	18.1	17.3	+ 0.8	- 8.5	54.2
1985 Q4	38.0	12.8	11.5	+ 0.3	62.6	18.4	17.9	+ 0.5	- 8.6	54.6
1986 Q1	38.3	12.9	11.9	+ 0.4	63.5	18.1	17.7	+ 0.3	- 8.6	55.2
1986 Q2	38.5	(12.9)	(11.7)	(+ 0.2)	(63.3)	18.5	17.9	+ 0.6	(- 8.6)	(55.3)

	GDP(E)	GDP(O)	GDP(I)	GDP(Average)	Index numbers 1980=100	GDP(Average) strike adjusted	% change on year earlier
	(A)	(A)	(A)	(A)	(A)	(A)	(B)
1984	105.5	106.4	107.4	106.4	107.7	2.6	3.9
1985	108.8	110.2	110.8	109.9	110.3	3.3	2.4
1981 Q2(3)	98.2	97.8	97.4	97.8	97.8		
1984 Q3	105.3	106.7	108.4	106.8	108.3	2.4	3.8
1984 Q4	106.6	107.5	108.9	107.7	109.2	2.6	4.0
1985 Q1	107.7	109.1	109.3	108.7	110.0	2.7	3.5
1985 Q2	109.1	110.2	111.9	110.4	110.7	4.7	3.6
1985 Q3	108.8	110.4	111.1	110.1	110.1	3.1	1.7
1985 Q4	109.6	111.2	111.1	110.6	110.6	2.7	1.3
1986 Q1	110.9	111.4	111.8	111.4	111.4	2.5	1.3
1986 Q2*	(110.9)	(112.0)	(112.2)	(111.7)	(111.7)	(1.2)	(0.9)

(1) Entries in this table are latest estimates and are not necessarily the same as published figures.
 (2) Quarterly averages
 (3) Trough of cycle

*The forecasts for the GDP index measures are not intended to be more precise than the general statements in the text.

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GROSS DOMESTIC PRODUCT: CURRENT PRICES AND SEASONALLY ADJUSTED (figures in brackets are CSO forecasts)(1)
TABLE 2 £bn, rounded to nearest £0.1 bn

	Income from employment		North		Other industrial and commercial company profits		GDP at factor cost (income-based)		Total expenditure		GDP (expenditure based) at market prices	
		Of which: wages and salaries and forces pay	Sea oil profits		Other factor incomes	factor cost	(income-based)	final expenditure	at factor cost			
1984 (2)	45.1	39.0	4.8	7.8	12.2	69.8	102.8	68.6	79.7			
1985 (2)	49.0	42.5	4.6	10.1	12.7	76.5	111.8	75.0	87.1			
1984 Q3	45.1	39.1	4.8	8.4	12.3	70.6	103.2	68.5	79.7			
Q4	46.5	40.4	5.4	8.3	11.8	72.0	107.4	70.4	81.9			
1985 Q1	47.5	41.2	5.4	9.5	11.7	74.1	110.6	73.0	84.3			
Q2	48.5	42.0	4.8	10.2	12.7	76.2	111.1	74.2	86.1			
Q3	49.6	43.0	4.0	10.3	13.1	77.0	111.2	75.2	87.6			
Q4	50.5	43.7	4.3	10.6	13.3	78.6	114.4	77.4	90.3			
1986 Q1	51.6	44.7	3.2	11.0	13.8	79.6	116.3	78.9	91.8			
Q2	(52.7)	(45.6)	(1.9)	(10.9)	(14.0)	(79.4)	(115.7)	(78.4)	(91.4)			
Index numbers 1980=100												
					Money GDP (average GDP at market prices)		Implied index of total home costs					
1984					139.6		130.5					
1985					152.9		138.3					
1984 Q3					140.3		130.7					
Q4					143.7		132.7					
1985 Q1					147.8		135.9					
Q2					151.4		136.6					
Q3					153.9		138.9					
Q4					158.4		141.9					
1986 Q1					160.2		142.9					
Q2					(159.9)		(141.9)					

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(1) Entries in this table are latest estimates and are not necessarily the same as published figures.
(2) Quarterly averages

TABLE 3

SELECTED MONTHLY INDICATORS
(Figures in brackets are CSO forecasts)

	Average earnings		Prices			Industrial production			Unemploy- ment(2) (Monthly changes)	Vacancies(3)	Employees in employ- -in manu- facturing (Monthly changes)
	Whole economy	Manufacturing	Producer		Retail (1)	Retail sales volume	Total	Manufacturing			
			Materials and fuel purchased	Home Sales (1)							
	Jan 1980=100	1980=100	1980=100	1980=100	Jan 1974=100	1980=100	1980=100	'000	'000	'000	
1984	158.3	162.8	135.5	132.1	351.8	110.7	103.2	100.7	150	-1	
1985	171.7	177.6	137.7	139.4	373.2	115.3	108.1	103.8	162	-2	
1985 Apr	170.6	177.6	140.1	139.1	373.9	113.5	109.1	104.3	161	-3	
May	169.7	174.4	138.6	139.5	375.6	115.3	109.2	104.2	161	+3	
Jun	170.2	176.2	137.4	139.6	376.4	115.9	108.4	104.9	163	-2	
Jul	172.2	178.3	135.6	139.9	375.7	115.9	107.7	103.3	163	+5	
Aug	173.1	178.1	135.4	140.1	376.7	117.5	108.1	104.0	163	-7	
Sep	176.4	181.5	135.1	140.5	376.5	115.6	109.5	103.9	167	+1	
Oct	174.3	180.9	133.6	140.9	377.1	115.0	108.5	103.4	173	-4	
Nov	175.9	182.9	133.1	141.5	378.4	117.4	109.4	103.3	170	-13	
Dec	178.1	184.7	132.2	141.9	378.9	117.3	107.3	103.8	162	+4	
1986 Jan	179.1	185.5	131.6	142.7	379.7	117.0	108.6	103.0	160	-3	
Feb	180.0	186.0	130.2	143.3	381.1	117.2	109.8	103.3	165	-30	
Mar	182.6	186.9	128.2	144.3	381.6	119.8	109.5	103.2	169	-3	
Apr	185.3	191.1	126.6	145.4	385.3	119.3	110.1	103.4	169	-7	
May	182.4	187.5	126.8	145.9	386.0	118.2	108.6	103.3	171	-21	
Jun	(184)	(189½)	125.9	145.9	385.8	122.0	(107)	(103)	185		
Jul	(185½)	(192)	(122½)	(146)	(386)	(120)	(109)	(103)			
Aug											
Sep											

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Basis for assess- Effect of new pay Detailed Under-
ing the present settlements and assessment lying
(ie the figures short-term trend
in brackets) factors

(1) Not seasonally adjusted

(2) New basis; excluding school leavers under 18
and adjusted for changes in coverage of the count.

(3) Unfilled vacancies at
jobcentres, excluding Community
Programme vacancies.

SELECTED MONTHLY INDICATORS
(Figures in brackets are CSO forecasts)(1)

	Volume 1980=100		Value			£ billion		Exchange rate Index (1975=100)	MO (wide monetary base) £ billion (3)	Relative actual unit labour costs, including exchange rate movements (1980=100)
	Exports of goods (excluding oil and erratics)	Imports of goods	Excl oil and erratics	Oil	Visible balance	Invisible balance(2)	Current balance total			
1984	108	137	-12.4	+6.9	-4.4	+6.0	+1.6	78.8	13.9	84.0
1985	115	143	-11.0	+8.2	-2.1	+5.8	+3.8	78.2	14.3	86.7
1985 Apr	116	140	-0.9	+0.8	-0.1	+0.6	+0.5	78.0	14.0)
May	116	137	-0.7	+0.8	+0.2	+0.6	+0.7	78.8	14.0) 87.3
Jun	114	146	-1.2	+0.8	-0.2	+0.6	+0.4	79.9	14.1)
Jul	117	143	-0.8	+0.6	-0.2	+0.6	+0.4	83.3	14.2)
Aug	115	144	-0.9	+0.6	-0.2	+0.6	+0.5	81.7	14.1) 91.7
Sep	115	143	-0.8	+0.7	-0.1	+0.6	+0.6	81.4	14.2)
Oct	112	143	-0.9	+0.8	-	+0.3	+0.3	80.4	14.1)
Nov	114	149	-1.0	+0.6	-0.2	+0.3	+0.1	80.0	14.2) 89.0
Dec	117	146	-0.7	+0.5	-	+0.4	+0.4	79.1	14.3)
1986 Jan	109	139	-0.9	+1.0	+0.2	+0.9	+1.1	76.6	14.5)
Feb	114	144	-1.1	+0.7	-0.3	+0.5	+0.2	74.2	14.4) (86)
Mar	111	150	-1.5	+0.3	-1.2	+0.5	-0.7	74.6	14.4)
Apr	113	138	-0.9	+0.3	-0.3	(+0.7)	(+0.4)	76.2	14.5)
May	116	147	-1.0	+0.2	-0.7	(+0.7)	(-)	76.1	14.5)
Jun	116	150	-1.1	+0.3	-0.6	(+0.7)	(+0.1)	75.8	14.6)
Jul	(116)	(149)	(-1.0)	(+0.3)	(-0.6)	(+0.7)	(+0.1)	74.0)
Aug										
Sep										

Basis for Trend line assessing the present

CSO projections

Recent trends in components (4)

(1) Entries in this table are latest estimates and are not necessarily the same as published figures.
 (2) Monthly figures are one-third of the quarterly total, except for EC budget refunds allocated to month of receipt.
 (3) Average amount outstanding in banking months. Annuals data relate to December.
 (4) Movements in exchange rates to 1986 Q1, UK unit wage and salary costs in manufacturing to January 1986 and that of competitors to 1985 Q4, plus extrapolation of recent trends. The estimate for the first quarter of 1986 is therefore not firmly based and is only intended to provide a guide to the direction of the latest movements.

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QUALITY OF LATEST INFORMATION AVAILABLE

Effects of the coal strike on GDP

Rough estimates of mainly first order effects of the coal strike on GDP are given below. Estimated effects for each of the three measures of GDP have for the most part been independently obtained. The coverage of the strike effects for each measure does not exactly correspond because of gaps in the information available.

per cent

Measure		income	expenditure	output	average
<u>At current market prices</u>					
1984	Q1	0.6	0.6	0.6	0.6
	Q2	1.4	1.2	1.4	1.3
	Q3	1.4	1.4	1.5	1.4
	Q4	1.6	1.7	1.6	1.6
	Year	1.2	1.2	1.3	1.2
1985	Q1	1.5	1.7	1.7	1.6
	Q2	0.4	0.3	0.5	0.4
	Q3	0.1	0.1	0.1	0.1
	Q4	-	-	-	-
	Year	0.5	0.5	0.6	0.5
<u>At constant factor cost</u>					
1984	Q1	0.6	0.6	0.4	0.5
	Q2	1.7	1.5	1.1	1.4
	Q3	1.4	1.5	1.2	1.4
	Q4	1.5	1.6	1.2	1.4
	Year	1.3	1.3	1.0	1.2
1985	Q1	1.3	1.4	1.0	1.2
	Q2	0.4	0.2	0.2	0.3
	Q3	0.1	-	-	-
	Q4	-	-	-	-
	Year	0.4	0.4	0.3	0.4

Examples of the sort of second order effects that have not been included are (on the income side) reduced profits of mining machinery manufacturers and of shopkeepers in mining communities, and (on the expenditure side) reduced spending by miners, possibly offset by some increase in spending by policemen.

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Unemployment rates

New rates were first included in the July Labour Market Statistics Press Notice. These should provide a more reliable guide to the incidence of unemployment among the whole work-force. The new national unemployment rate is about $1\frac{1}{2}$ percentage points lower than the narrower based rate.

CBI survey results: seasonal adjustment of cyclical indicator components and output balances

The 3 CBI series as set out below are seasonally adjusted for the purposes of compiling the leading cyclical indicators. Interpretation is significantly affected by making allowance for the seasonality that is found to be evident in these series. Recent figures for these series are as follows:

	Business optimism		Change in new orders past 4 months		Stocks of raw materials next 4 months	
	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted	Unadjusted	Seasonally Adjusted
1985						
Jan	4	+3	+13	+14	- 5	- 4
Apr	+18	+3	+24	+14	+ 1	- 4
July	0	+6	+10	+11	- 8	- 8
Oct	- 6	+5	+11	+19	-12	- 9
1986						
Jan	- 1	-2	- 2	- 1	-13	-12
Apr	8	-8	0	-10	-12	-17
July	- 9	-3	- 6	- 5	-17	-17

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The two CBI series included in the coincident index (firms working below capacity and stocks of materials and fuel over the past 4 months) do not display significant stable seasonality and are incorporated on an unadjusted basis. However, the two questions in the quarterly surveys relating to levels of output (past and future) are put on a seasonally adjusted basis for internal briefing purposes.

	Volume of output past 4 months		Volume of output next 4 months	
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
1985				
Jan	13	15	19	21
Apr	21	15	27	21
July	18	18	14	16
Oct	10	14	17	19
1986				
Jan	6	8	4	6
Apr	0	- 6	14	7
July	- 2	- 2	5	7

Overall the latest set of results are not as depressed as would appear on an unadjusted basis and, for business optimism especially, point to some improvement since April.

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RPI.

The RPI in July is 0.1%
lower than in June and
4.4% higher than a year
earlier. RPI less mortgage
interest payments is
3.7% higher than a year ago.

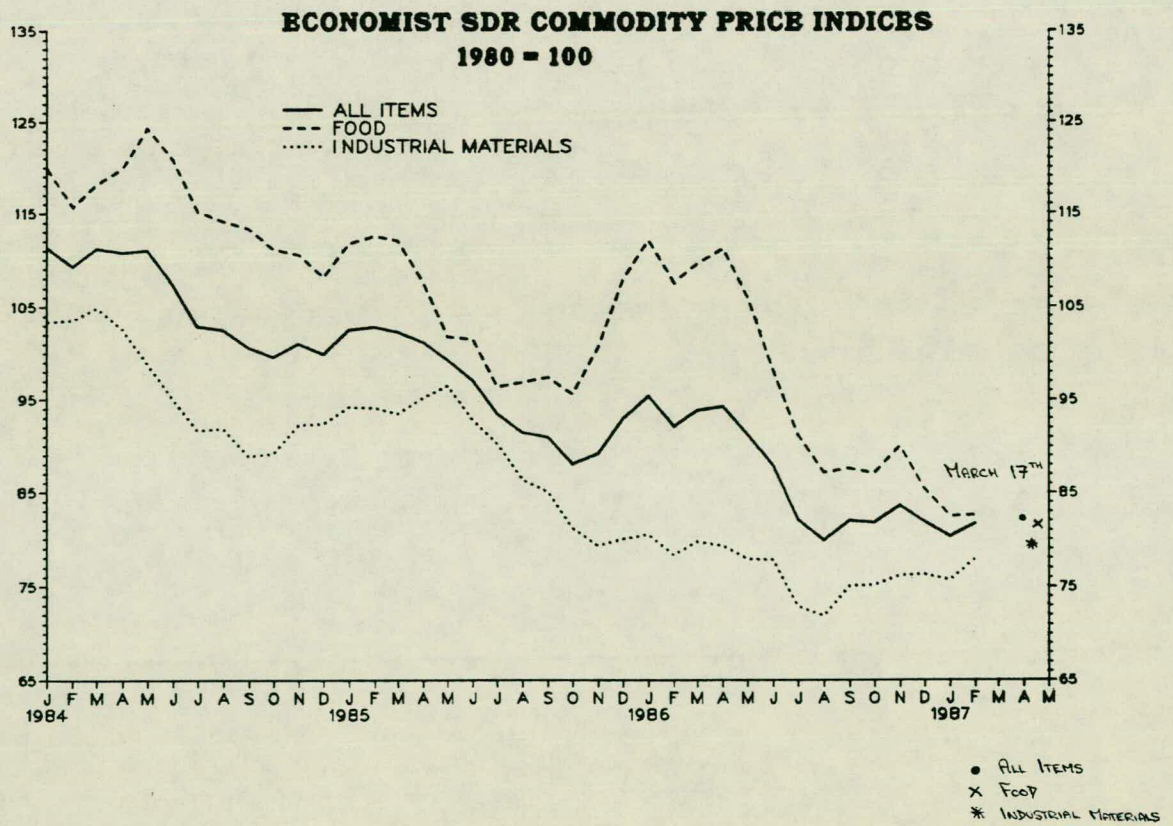
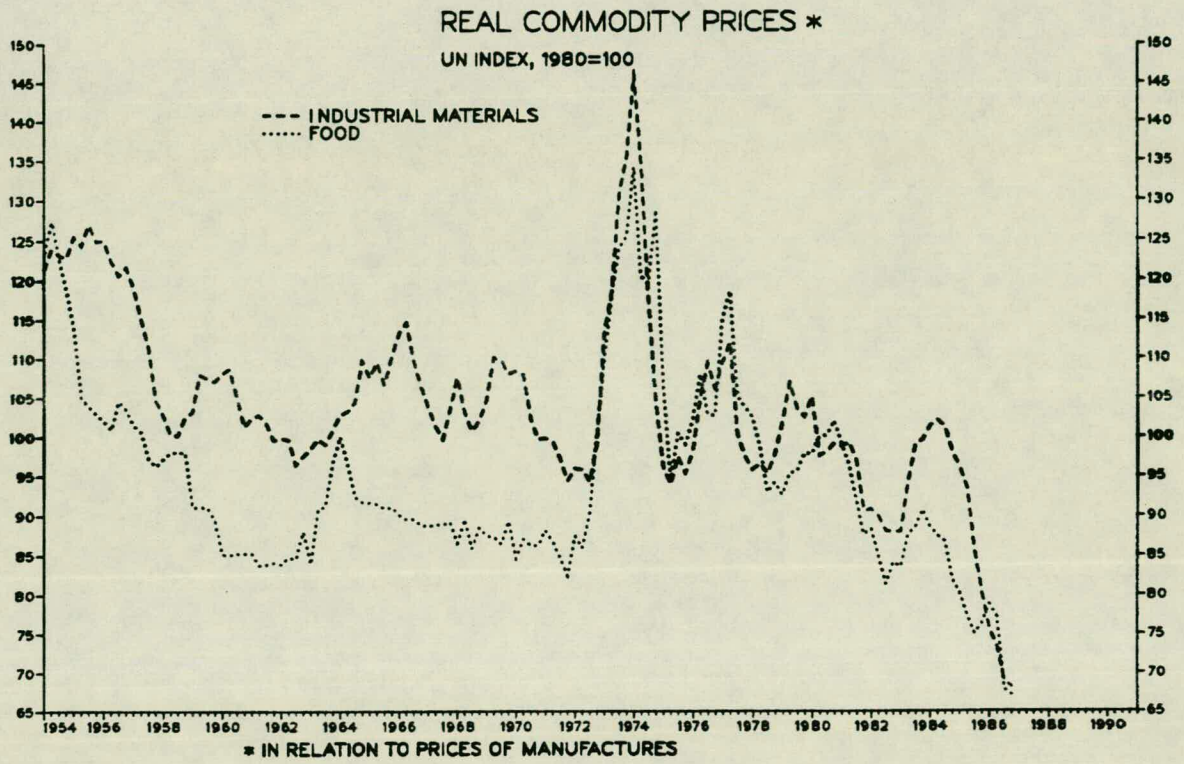
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Thanks.
S. J. Jackson

		<u>All items indices</u>				<u>SDR indices</u>		
		SDR	Dollar	Sterling	Real*	Food	Nfa**	Metals
<u>Annual</u>								
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		95.1	86.2	99.4	91.1	96.9	98.6	89.5
1982		87.9	74.7	99.2	81.6	92.3	90.4	79.1
1983		102.7	84.3	129.4	95.5	105.5	109.8	92.8
1984		105.7	83.4	144.9	98.1	116.1	105.1	89.5
1985		96.0	74.8	136.0	87.6	103.6	94.4	84.6
1986		87.0	78.4	124.2	76.7	97.5	85.0	70.5
<u>Quarterly</u>								
1985	Q1	102.5	76.1	159.5	95.1	112.1	98.5	89.7
	Q2	99.4	75.8	140.5	91.3	103.9	99.0	90.9
	Q3	92.1	72.7	122.9	83.6	96.9	93.2	82.7
	Q4	90.1	74.7	121.0	80.3	101.4	86.9	75.0
1986	Q1	93.7	80.9	130.8	82.6	109.5	87.2	73.7
	Q2	90.8	81.1	125.2	80.3	104.5	86.7	71.8
	Q3	81.3	75.2	117.1	71.9	88.7	80.0	68.2
	Q4	82.4	76.4	123.8	72.0	87.4	86.4	68.4
<u>Monthly</u>								
	March	93.8	82.9	131.5		109.5	89.2	72.8
	April	94.2	82.7	129.5		111.1	89.3	72.1
	May	91.2	82.0	124.9		105.9	87.7	70.9
	June	87.9	78.6	121.1		98.1	83.9	72.9
	July	82.1	75.1	115.5		91.2	78.8	68.3
	August	79.9	74.1	115.6		87.2	78.8	66.7
	September	82.0	76.3	120.1		87.6	82.5	69.5
	October	81.8	76.2	123.9		87.1	84.6	68.3
	November	83.6	76.9	125.4		90.0	87.0	68.4
	December	81.9	76.1	122.6		85.4	87.5	68.4
	January	80.3	77.0	118.8		82.5	88.8	66.7
	February	81.7	79.6	120.5		82.6	91.7	68.5
<u>Weekly</u>								
January	6	80.3	75.7	119.2		81.5	88.2	68.0
	13	80.2	76.6	119.4		82.1	88.9	66.9
	20	79.7	76.8	117.4		82.4	88.3	65.5
	27	81.0	78.9	119.4		84.0	89.7	66.4
Feb	3	81.0	79.3	120.5		83.2	90.7	66.7
	10	82.0	79.7	120.6		83.3	92.9	67.6
	17	82.0	79.8	121.0		81.9	92.2	69.7
	24	81.9	79.5	120.0		82.1	91.1	69.9
Mar	3	82.7	80.3	119.6		82.4	91.5	71.3
	10	83.6	80.9	118.7		83.1	92.7	72.3
	17 (prov)	82.2	80.2	116.6		81.8	91.8	70.7

* In relation to prices of manufactured exports. Recent figures are estimated.

** Non-food agriculturals



PERSONAL AND CONFIDENTIAL



c Mrs Davies

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

13th August 1986

Dear David,

RETAIL PRICE INDEX : JULY 1986

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 15 August.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely

Iain Mackinnon

IAIN MACKINNON
Private Secretary

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RETAIL PRICES INDEX : JULY 1986

In July, the annual rate of inflation, as measured by the 12-month change in the retail prices index, was 2.4 per cent compared with 2.5 per cent recorded in June. This is the seventh consecutive month in which the rate has fallen.

2. The overall level of prices fell in July for the second month in succession. Two successive monthly reductions in the price index has not occurred since the third quarter of 1967.

3. In July the index was 0.3 per cent below the level recorded for June. This was a larger decrease than that of 0.2 per cent recorded for the corresponding period last year. There were seasonal falls in the prices of fresh vegetables, including potatoes, and summer sale reductions in the prices of household durables. Petrol prices fell back to around their average level for May.

4. In August the 12-month rate is likely to remain below 2½ per cent as the movement in the overall level of prices over the month is expected to be similar to the increase of 0.3 per cent recorded between July and August last year. Increases in the prices of durable household goods, clothing and footwear are expected following the end of summer sales, together with further falls in the prices of seasonal foods. Although there have been increases in some petrol prices this week, very few will have been in time to affect the index for August which otherwise seems likely to show that petrol had fallen in price, on average, compared with July.

Producer Prices

5. The seasonally adjusted price index for materials and fuels purchased by manufacturing industry has shown an almost uninterrupted decline since early last year. In July it was 15 per cent below its peak level in February 1985. This index fell over the month by 2.5 per cent, mainly reflecting falls in the scheduled prices of petroleum products.

6. In July the price index for home sales of manufactured products (not seasonally adjusted) rose by 0.1 per cent compared with June and the annual increase in these prices was 4.4 per cent. This twelve month rate has been around 4½ per cent since April.

Tax and Price Index

7. The tax and prices index increased by 0.4 per cent in the year to July compared with 0.6 per cent recorded for June.

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International comparisons

8. The latest 12-month percentage changes in consumer prices in the main OECD countries are as follows :-

	UK	FRANCE	FEDERAL GERMANY	ITALY	NETHER LANDS	JAPAN	USA	CANADA
1985 Q2	7.0	6.4	2.5	9.4	2.5	2.1	3.7	3.9
Q3	6.3	5.6	2.2	9.1	2.3	2.1	3.3	3.9
Q4	5.5	4.8	1.8	8.9	1.7	1.9	3.5	4.2
1986 Q1	5.5	4.2	1.3	7.7	1.3	1.4	3.9	4.4
April	3.0	2.6	-0.2	-	0.6	0.9	1.6	3.9
May	2.8	2.3	-0.2	-	0.5	1.1	1.6	4.1
June	2.5	2.3	-0.1					
July	2.4							

DEPARTMENT OF EMPLOYMENT
STATISTICS DIVISION

13 AUGUST 1986

FROM: PAUL DAVIS
DATE: 13 AUGUST 1986

1. MR MOWL ✓ *G.F.M.*
2. ECONOMIC SECRETARY

cc : PS/Chancellor o/r
PS/Chief Secretary o/r
PS/Financial Secretary o/r
PS/Minister of State o/r
Sir Peter Middleton
Sir Terence Burns o/r
Mr F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr H P Evans o/r
Mr Sedgwick o/r
Mr Odling-Smee
Mr Scholar
Mr Culpin
Mr S J Davies
Mr Gilhooly
Miss O'Mara
Mr Pickford
Mr Brooks
Mr Hacche
Mr Halligan
Mr P Davis
Mr Westwater
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE JULY RPI (to be published at 11.30 a.m. on Friday 15 August)

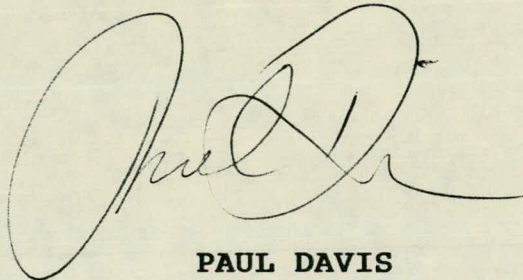
The level of the RPI fell by 0.3 per cent between June and July. The twelve month rate of inflation fell from 2.5 per cent in June to 2.4 per cent in July. This is slightly below what we had expected. The twelve month increase in July is the lowest since November 1967.

2. Excluding mortgage interest payments, the twelve month rate fell from 3.3 per cent in June to 3.2 per cent in July.

3. Between June and July the RPI was affected by the summer sales, which were deeper than expected in their impact on clothing and footwear and durable household goods. Petrol prices fell by about 3 pence per gallon instead of the usual seasonal increases during the summer.

4. In August we expect the twelve month rate of increase to rise to between 2.5 and 2.75 per cent.

5. The RPI figures are lower than anticipated in the City and elsewhere. Both Phillips & Drew and James Capel expect 2.6 per cent.



PAUL DAVIS
EAL DIVISION
X 3434

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON FRIDAY 15 AUGUST 1986

146/86

August 15, 1986

INDEX OF RETAIL PRICES

JULY 1986

The index of retail prices for all items for July 15, 1986 was 384.7 (January 15, 1974 = 100). This represents a decrease of 0.3 per cent on June 1986 (385.8) and an increase of 2.4 per cent on July 1985 (375.7).

The fall in the index between June and July was mainly caused by seasonal falls in the prices of fresh vegetables, summer sale reductions in the prices of household durables and lower petrol prices which fell back to around their average level for May.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items				All items except seasonal food			
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over		
		1 month	6 months	12 months		1 month	6 months	
1986								
February	381.1	+0.4	+1.2	+5.1	383.3	+0.4	+0.9	
March	381.6	+0.1	+1.4	+4.2	383.4	0.0	+1.0	
April	385.3	+1.0	+2.2	+3.0	387.0	+0.9	+1.8	
May	386.0	+0.2	+2.0	+2.8	387.3	+0.1	+1.6	
June	385.8	-0.1	+1.8	+2.5	387.0	-0.1	+1.5	
July	384.7	-0.3	+1.3	+2.4	386.8	-0.1	+1.3	

TABLE 2

Indices (15 January 1974 = 100)

	June 10, 1986	July 15, 1986	Percentage change over the month
All items	385.8	384.7	-0.3
All items excluding food	395.3	394.9	-0.1
<hr/>			
Food	351.4	347.4	-1.1
Seasonal food	361.8	332.2	-8.2
Food excluding seasonal	350.3	350.7	+0.1
Alcoholic drink	429.4	431.0	+0.4
Tobacco	597.3	597.1	0.0
Housing	471.6	472.8	+0.3
Fuel and light	504.8	505.0	0.0
Durable household goods	268.7	265.5	-1.2
Clothing and footwear	227.5	226.8	-0.3
Transport and vehicles	387.9	386.7	-0.3
Miscellaneous goods	409.3	408.2	-0.3
Services	401.2	401.5	+0.1
Meals out	439.3	440.4	+0.3

CONFIDENTIAL
 until 11.30am Wednesday 20 August
 then RESTRICTED

Rust

From: R D KERLEY
 Date: 19 August 1986

1. MISS O'MARA
2. MINISTER OF STATE

While there has been no dramatic
 increase in growth this quarter,
 these figures are an encouraging
 antidote to the widespread charges
 that the economy is stagnating.

max

19/8

✓

cc
 Chancellor
 Chief Secretary
 Financial Secretary
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Cassell
 Mr Monck
 Mr Scholar
 Mr Burgner
 Mr P N Sedgwick
 Mr Shaw
 Mr Culpin
 Mr S Davies
 Mr Pickford
 Mr Allum
 Mr Hacche
 Mr Pickering
 Mr Dyer (+1 for No. 10)
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie
 Mr Stirling - CSO
 Mr Clary - CSO
 Mr Lang - CSO
 HB/02

GDP (OUTPUT MEASURE) IN SECOND QUARTER 1986

The CSO will publish the preliminary estimate for GDP(O) on 20 August.

Second Quarter Figures

2. GDP(O) is estimated to have risen by about $\frac{1}{2}$ per cent between the first and second quarters of 1986 and by $1\frac{1}{2}$ per cent in the year to 1986Q2.
3. The contributions of changes in the individual components of GDP(O) are tabled below.

Contributions to percentage
change in GDP(O)

1986Q2 on 1986Q1

Industry

1. Agriculture, forestry and fishing	0.0	
2. Construction	+0.1**	
3. Services	+0.7	
4. Industrial Production of which:	-0.3	
5. oil and gas extraction		-0.3
6. other energy and water supply		-0.1
7. manufacturing		+0.1
GDP(O)*	+0.5*	

* Sum of rows 1-4

** Not for use

4. The most substantial contribution to growth in Q2 came from the service industries and within that sector from distribution (up 2½ per cent) and from banking and other financial services.

5. The negative contribution of production growth to GDP growth was due largely to a fall in extraction of natural oil and gas, reflecting North Sea maintenance work. Manufacturing made a small position contribution.

6. GDP has grown by over 11 per cent since 1979Q1 and by 14½ per cent since the 1981Q1 trough.

Lines to take

7. Positive

(a) GDP(O) up about ½ per cent between first and second quarters of 1986.

(b) GDP(O) excluding oil and gas extraction up ¾ per cent between first and second quarters of 1986.

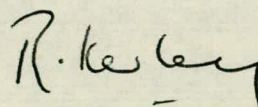
(c) GDP(O) up 14½ per cent since trough in 1981Q1 and nearly 10 per cent since June 1983 election. Now in sixth successive year of growth at real average rate of nearly 3 per cent a year - longest period of growth since 1973 oil price rise.

(d) Service sector output up over 1 per cent between first and second quarters of 1986 and nearly 3 per cent above its level a year earlier.

8. Defensive

(e) Output stagnant since beginning of last year. Output has risen over 2½ per cent since 1985Q1 and up ½ per cent in 1986Q2 on previous quarter. Fall in oil price should bring faster growth later this year.

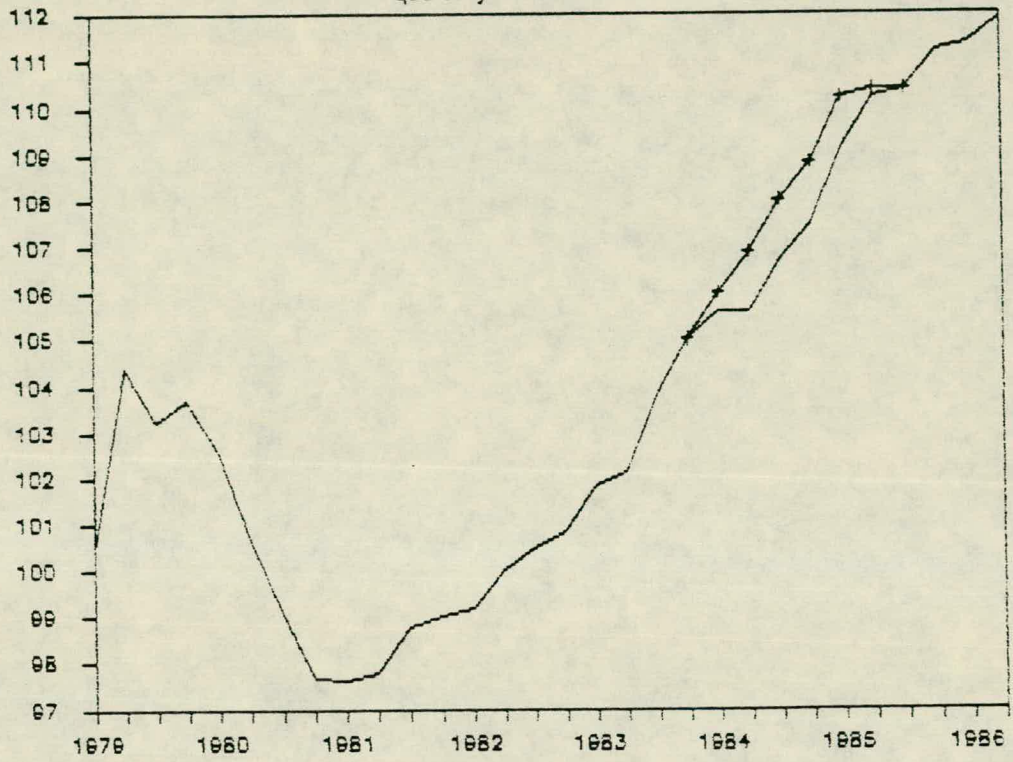
(f) Fall in oil and gas extraction signifies gloomy prospects for future growth. Oil and gas extraction fall expected to be reversed after completion of maintenance work. Service sector growing at nearly 3 per cent. Manufacturing output up by ½ per cent in 1986Q2 over previous quarter. Signs that decline in manufacturing now at an end.



R D KERLEY

GDP (OUTPUT)

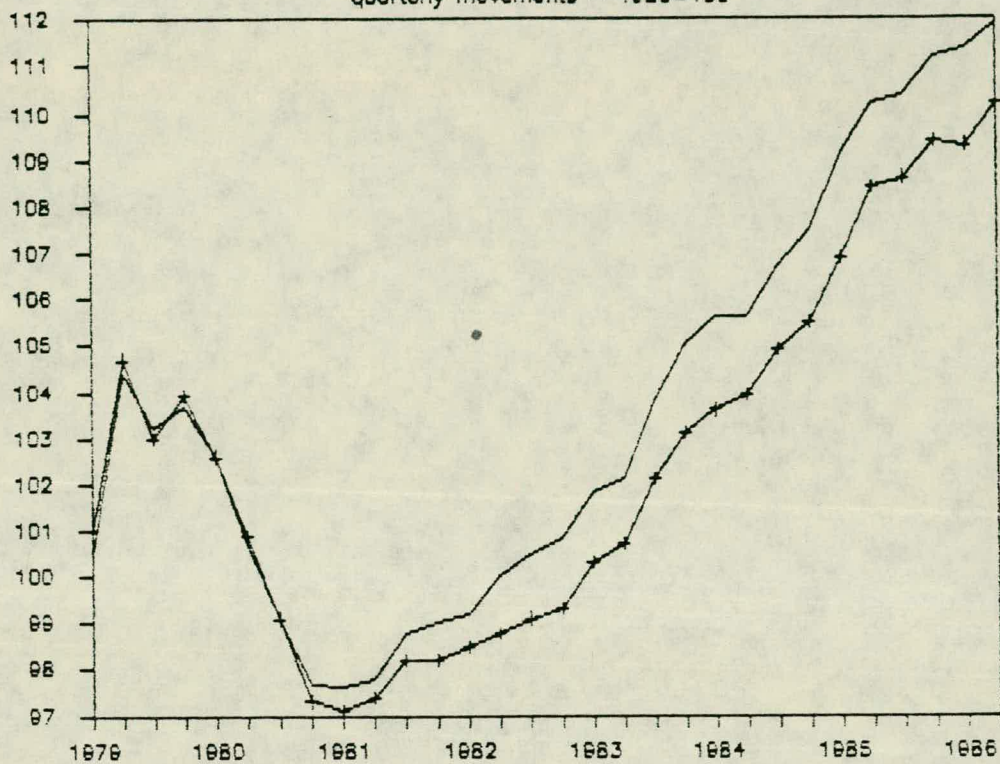
quarterly series: 1980=100



+ cool strike adjusted

GDPI(OUTPUT)

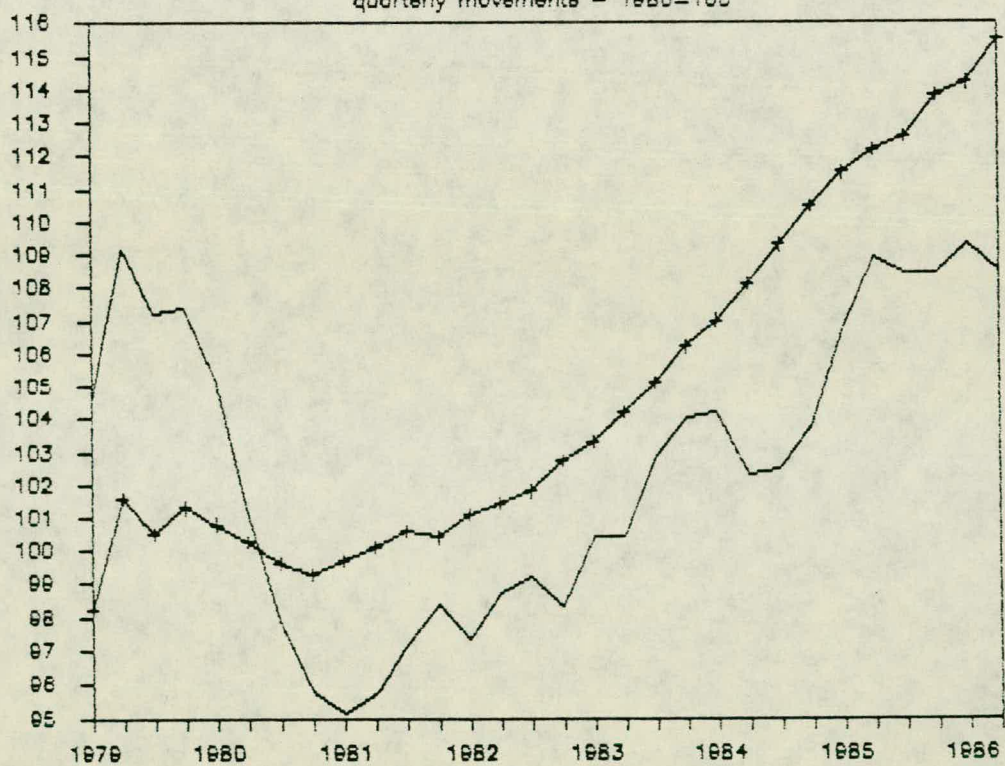
quarterly movements - 1980=100



+ EXCLCLASS 13 [OIL AND GAS]

OUTPUT OF PRODUCTION & SERVICE SECTORS

quarterly movements - 1980=100



— production

+ services

COVERING SECRET AND PERSONAL



DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 4887
GTN 215)
(Switchboard) 01-215 7877

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

21 August 1986

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

Publication is set for Wednesday 27 August at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Tuesday 26 August and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr Brown, H M Treasury.

Yours sincerely

W E BOYD

COVERING SECRET AND PERSONAL

THE CURRENT ACCOUNT OF THE UNITED KINGDOM
BALANCE OF PAYMENTS

JULY 1986

The current account for July is estimated to have been in surplus by £12 million compared with a surplus of £77 million in June. In July, exports were valued at £5990 million and imports at £6577 million so that trade in goods was in deficit by £588 million.

The balance on invisibles in July is projected to be in surplus of £600 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

MAY TO JULY 1986

In the three months ended July, the current account showed a surplus of £0.1 billion compared with a deficit of £0.1 billion in the previous three months. There was a deficit on visible trade of £1.9 billion in the latest three months; much the same as in the three months ended April. The surplus on invisibles in the latest three months is projected at £2.0 billion.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance ^b
		Balance	Exports £m	Imports £m	
1984	+ 1212	- 4384	70367	74751	+ 5596
1985	+ 3602	- 2111	78051	80162	+ 5713
1985 Q2	+ 1566	- 119	20226	20345	+ 1685
Q3	+ 1447	- 440	18749	19188	+ 1886
Q4	+ 612	- 292	19006	19299	+ 904
1986 Q1	+ 597	- 1459	18204	19663	+ 2056
Q2	+ 487 ^a	- 1613	17708	19321	+ 2100 ^a
1986 Feb	+ 101	- 378	6188	6566	+ 539
Mar	- 666	- 1205	5732	6936	+ 579
Apr	+ 407 ^a	- 293	6017	6310	+ 700 ^a
May	+ 3 ^a	- 698	5865	6563	+ 700 ^a
June	+ 77 ^a	- 623	5826	6449	+ 700 ^a
July	+ 12 ^a	- 588	5990	6577	+ 600 ^a
Feb-Apr 1986	- 99 ^a	- 1876	17936	19812	+ 1778 ^a
May-July 1986	+ 92 ^a	- 1908	17681	19589	+ 2000 ^a
Jan-July 1986	+ 1096 ^a	- 3660	41901	45561	+ 4756 ^a

^a Invisibles for April to July 1986 are projections and subject to revision as information becomes available.

^b Monthly figures are one-third of the appropriate calendar quarter's estimate or projection, except for VAT abatements received from the European Community which are allocated to the month they are known to have been received. Information relating to credits and debits can be found in Table 3.

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until release of press notice on 27 AUG 86 at 11.30 a.m.

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on 27/8/86 at 11.30 am

VISIBLE TRADE IN JULY 1986

There was a deficit on visible trade in July of £588 million compared with a deficit of £623 million in June. The surplus on oil at £281 million was little changed from June while the deficit on non-oil trade was reduced by £32 million to £869 million.

At £5990 million, exports in July were £164 million (3 per cent) higher than in June. Exports of oil increased by £60 million while exports of the erratic items fell by £43 million. Excluding oil and the erratic items, exports increased by £147 million - also a rise of 3 per cent. Higher exports of finished manufactures accounted for the bulk of the growth.

Total imports were valued at £6577 million in July which was £129 million (2 per cent) higher than in June. Imports of the erratic items were little changed but imports of oil rose by £57 million. Excluding oil and the erratic items, imports grew by £83 million (1½ per cent) between June and July largely reflecting higher arrivals of finished manufactures.

RECENT TRENDS

Visible balance

In the threemonths ended July there was a deficit on visible trade of £1.9 billion - a surplus on trade in oil of £0.8 billion offset by a deficit of £2.7 billion on non-oil trade. Between the three months ended April and the latest three months the

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on 27/8/86 at 11.30 am

deficit on visible trade was little changed - the surplus on oil fell by about £0.5 billion while the deficit on non-oil trade declined by just over £0.4 billion.

Exports

Exports amounted to £17.7 billion in the latest three months, £0.3 billion ($1\frac{1}{2}$ per cent) less than in the three months ended April. Exports of oil fell by £0.7 billion between the two periods while exports of the erratic items were little changed. Excluding oil and the erratic items exports grew by $3\frac{1}{2}$ per cent in the latest three months. Among the broad sectors, only basic materials showed no growth between the two periods.

By volume, exports grew by $3\frac{1}{2}$ per cent in the latest three months to a level 3 per cent higher than in the same period a year ago. Export volume excluding oil and the erratic items also grew by $3\frac{1}{2}$ per cent in the three months ended July and the recent growth in the underlying level of non-oil export volume continues.

Imports

Total imports were valued at £19.6 billion in the three months ended July, £0.2 billion (1 per cent) less than in the three months ended April. Between the two periods, imports of oil fell by £0.3 billion and imports of the erratic items fell by £0.2 billion. Non-oil imports excluding the erratic items grew by 1 per cent between the two periods reflecting higher arrivals of finished manufactures.

By volume, imports increased by $3\frac{1}{2}$ per cent in the latest three months to a level 6 per cent higher than the same period a year earlier. Excluding oil and the erratic items the increase in the latest three months was 4 per cent. The underlying level of non-oil import volume continues to rise.

Terms of trade and unit values
index

The terms of trade/~~increased~~ by 2 per cent between the three months ended April and the latest three months with the export unit value index falling by 2 per cent and the import unit value index falling by 4 per cent. Compared with the three months ended July of last year, the export unit value index has fallen by $6\frac{1}{2}$ percent and import unit values by 11 per cent so that the terms of trade index is now $4\frac{1}{2}$ per cent higher than a year earlier.

Export unit values for fuels fell by 28 per cent in the latest three months while the unit value index for non-oil exports increased by $\frac{1}{2}$ percent. Within the total for non-oil exports, the unit value index for basic materials (down $5\frac{1}{2}$ per cent) continues to fall and unit values for chemicals were also reduced (down $1\frac{1}{2}$ per cent).

Import unit values for fuels fell by 49 per cent in the latest three months while the unit value index for non-oil imports fell by $1\frac{1}{2}$ per cent. Among the broad sectors, only the unit values for food, drink and tobacco (up $\frac{1}{2}$ per cent) showed any increase in the latest three months.

SECRET AND PERSONAL until release of Press Notice
on 27/8/86 at 11.30 am

Analysis by area

Reflecting the sharp ~~reduction in~~ exports of oil, exports to the developed countries fell by $2\frac{1}{2}$ per cent between the three months ended April and the latest three months. Exports to Western Europe were down 2 per cent and exports to North America and the other developed countries were down by $4\frac{1}{2}$ per cent and 6 per cent. Partly offsetting these falls, exports to the developing countries grew by $5\frac{1}{2}$ per cent in the latest three months.

Total imports from the developed countries fell by 1 percent in the latest three months almost wholly reflecting lower imports of oil from Norway. Imports from the European Community countries rose by 2 per cent and imports from North America rose by $\frac{1}{2}$ per cent. Imports from the other developed countries increased by $6\frac{1}{2}$ per cent in the latest three months while imports from the developing countries were down 3 per cent.

NOTES TO EDITORS

1 INVISIBLES

The figures for invisibles in the first quarter of 1986 are consistent with the annual estimates published in the CSO Pink Book on 22 August. Preliminary estimates for the second quarter of 1986, replacing the projections included in tables 1 and 2, will be published in a CSO press notice on 4 September.

2 REVISIONS

Estimates of visible trade for 1984 and 1985 have been revised in line with the recent publication of the Balance of Payments 'Pink Book'.

3 AREA (tables 11 and 15)

Low value consignments ie items of an individual value less than £475, are not analysed by country and are therefore excluded from the area data in tables 11 and 15.

4 STANDARD NOTES

The standard notes describe the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) bases of compilation. Copies can be obtained from the address below.

5 MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

The Monthly Review supplements the information contained in this Press Notice. It gives longer historical runs of data and contains charts, tables on the UK Balance of Payments, UK exports and imports on an Overseas Trade Statistics basis, and certain international comparisons. The Monthly Review is available from the Department of Trade and Industry at the address given below for an annual subscription of £38 or £3 per copy.

In addition the method of seasonal adjustment leads to further differences between the sum of areas and figures for total trade.

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 0ET, Telephone: 01-215 4895.

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

£ million seasonally adjusted

	Current Balance	Visible Trade					Invisible Balance b
		Exports fob	Imports fob	Visible Balance	of which		
					Oil	Non-Oil	
1984	+ 1212	70367	- 74751	- 4384	+ 6937	- 11321	+ 5596
1985	+ 3602	78051	80162	- 2111	+ 8163	- 10274	+ 5713
1985 Q2	+ 1566	20226	20345	- 119	+ 2411	- 2530	+ 1685
Q3	+ 1447	18749	19188	- 440	+ 1900	- 2340	+ 1886
Q4	+ 612	19006	19299	- 292	+ 1893	- 2185	+ 904
1986 Q1	+ 597	18204	19663	- 1459	+ 1922	- 3381	+ 2006
Q2	+ 487	17708	19321	- 1613	+ 732	- 2345	+ 2100a
1985 Nov	+ 5	6301	6542	- 241	+ 649	- 890	+ 246
Dec	+ 360	6376	6428	- 52	+ 491	- 543	+ 412
1986 Jan	+ 1102	6284	6160	+ 124	+ 949	- 826	+ 97a
Feb	+ 161	6188	6566	- 378	+ 643	- 1021	+ 539
Mar	- 666	5732	6936	- 1205	+ 330	- 1534	+ 539
Apr	+ 407a	6017	6310	- 293	+ 252	- 545	+ 700a
May	+ 3a	5865	6563	- 698	+ 201	- 899	+ 700a
June	+ 77a	5826	6449	- 623	+ 279	- 901	+ 700a
July	+ 12a	5990	6577	- 588	+ 281	- 869	+ 600a
May-July 1985	+ 1546	19700	19905	- 206	+ 2228	- 2434	+ 1752
Feb-Apr 1986	- 98a	17936	19812	- 1876	+ 1225	- 3101	+ 1778a
May-July 1986	+ 92a	17681	19589	- 1908	+ 761	- 2669	+ 2000a
% Change							
Latest 3 months							
on previous 3		- 1½	- 1				
months same 3		- 10	- 1½				
months one year							
ago							

a Invisibles for April to July 1986 are projections and subject to revision as more information becomes available.

b Monthly figures are one-third of the appropriate quarters estimate or projection except for VAT abatements received from the Community which are allocated to the month they are known to have been received.

Table 3

INVISIBLES

£ million seasonally adjusted

	All Sectors						Private Sector and Public Corporations ^d		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65224	61255	+ 3969	+ 3652	+ 2421	- 2104	60599	52903	+ 7696
1984	76737	71141	+ 5596	+ 3744	+ 4157	- 2305	71859	62054	+ 9805
1985	80608	74895	+ 5713	+ 5812	+ 3400	- 3499	76241	64791	+ 11450
1984 Q2	17817	16885	+ 932	+ 853	+ 886	- 807	16848	14607	+ 2239
Q3	19613	18248	+ 1365	+ 949	+ 1177	- 761	18641	16030	+ 2611
Q4	21529	19489	+ 2040	+ 953	+ 1322	- 235	19850	17118	+ 2732
1985 Q1	21780	20542	+ 1238	+ 1202	+ 1051	- 1015	20612	17817	+ 2795
Q2	20324	18639	+ 1685	+ 1621	+ 817	- 753	19362	16376	+ 2986
Q3	19518	17632	+ 1886	+ 1600	+ 1217	- 931	18352	14939	+ 3413
Q4	18986	18082	+ 904	+ 1389	+ 315	- 800	17915	15659	+ 2256
1986 Q1	18954	16898	+ 2056	+ 1233	+ 1038	- 215	17793	14883	+ 2910

d ie excluding general Government transactions and all transfers.

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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 ^e	Exports	Imports
1984	136.0	139.7	97.4	112.5	121.9
1985	143.5	145.2	98.9	118.6	125.8
1985 Q2	145.5	148.7	97.8	120.5	124.7
Q3	141.7	141.4	100.2	116.3	124.1
Q4	140.5	138.2	101.6	118.9	127.9
1986 Q1	139.0	137.5	101.1	117.4	126.1
Q2	134.8	131.6	102.4	120.8	128.1
1985 Nov	140.4	137.5	102.1	118.5	130.2
Dec	140.5	138.1	101.7	119.2	128.3
1986 Jan	140.7	138.2	101.8	118.6	120.1
Feb	138.7	137.7	100.7	120.6	125.9
Mar	137.5	136.5	100.7	113.0	132.3
Apr	135.3	133.0	101.7	121.5	123.4
May	134.3	131.6	102.0	120.2	131.2
June	134.9	130.3	103.6	120.7	129.6
July	133.3	129.3	103.2	126.6	134.0
May-July 1985	143.8	145.9	98.6	119.1	124.3
Feb-Apr 1986	137.2	135.7	101.0	118.4	127.2
May-July 1986	134.2	130.4	102.9	122.5	131.6
% Change					
Latest 3 months on					
- previous 3 months	- 2.0	- 4.0	+ 2.0	+ 3.0 1/2	+ 3.0 1/2
- same 3 months					
one year ago	- 6.0 1/2	- 11.0	+ 4.0 1/2	+ 3.0	+ 6.0

^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
(Balance of Payments basis)

Table 5

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71191	115.4	128.8
1985	73760	76617	123.0	133.4
1985 Q2	18944	19308	124.0	131.3
Q3	17835	18425	121.5	132.3
Q4	17811	18661	122.3	137.1
1986 Q1	17146	18715	121.6	133.2
Q2	16162	18419	121.6	135.9
1985 Nov	5898	6319	121.8	139.4
Dec	5993	6255	122.9	139.4 138.2
1986 Jan	5921	5903	122.9	127.3
Feb	5835	6260	125.1	133.4
Mar	5390	6552	116.8	138.9
Apr	5381	5998	120.5	130.4
May	5431	6228	123.1	139.2
June	5350	6193	121.4	138.2
July	5557	6333	130.0	134.6
May-July 1985	18468	18925	122.8	131.3
Feb-Apr 1986	16605	18809	120.8	134.2
May-July 1986	16338	18755	124.8	140.3
% Change				
Latest 3 months on				
- previous 3 months	- 1 1/2	- 1/2	+ 3.0 1/2	+ 4.0 1/2
- same 3 months				
one year ago	- 12	- 1	+ 1.0 1/2	+ 7.0

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

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TRADE IN OIL⁹
(Balance of Payments basis)

seasonally adjusted

	Balance of Trade in oil	Exports of Oil					Imports of Oil					
		Total	Crude Oil			Rest of Division 33	Total	Crude Oil			Rest of Division 33	
			[SITC (REV 2) 333.0]					[SITC (REV 2) 333.0]				
			£ million fob	£ million fob	£ million fob			tonnes	Avg value per tonne £ fob	£ million fob		£ million fob
1984	+ 6937	14852	12173	75.9	160.4	2679	7915	3751	25.0	150.1	4163	
1985	+ 8163	16050	12921	79.0	163.5	3128	7887	4155	26.1	159.0	3732	
1985	Q2	+ 2411	4336	3499	20.1	174.0	837	1925	1078	6.5	165.6	847
	Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694
	Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640
1986	Q1	+ 1922	3117	2520	22.8	110.7	597	1195	749	6.8	109.9	445
	Q2	+ 732	1717	1135	18.1	62.8	583	986	559	7.6	73.2	426
1985	Nov	+ 649	1180	974	6.7	145.8	207	532	327	2.2	150.6	205
	Dec	+ 491	1126	876	6.0	146.1	249	635	433	3.0	146.2	202
1986	Jan	+ 949	1378	1133	8.2	138.6	244	428	284	2.1	135.1	144
	Feb	+ 643	1048	859	8.2	104.4	189	405	261	2.5	102.9	143
	Mar	+ 330	692	528	6.4	83.1	164	362	204	2.2	93.7	158
	Apr	+ 252	642	428	6.6	64.6	214	390	228	2.8	80.5	162
	May	+ 201	566	363	6.0	60.7	202	365	225	3.0	75.4	139
	June	+ 279	510	343	5.4	63.1	166	231	106	1.8	58.3	125
	July	+ 281	569	402	7.0	57.7	167	288	158	3.3	47.9	130
May-July 85	+ 2228	3922	3021	18.3	164.8	901	1693	848	5.4	157.1	845	
Feb-Apr 86	+ 1225	2381	1815	21.2	85.6	566	1157	694	7.6	91.8	463	
May-July 86	+ 761	1645	1109	18.4	60.2	536	884	489	8.1	60.4	395	
% Change												
Latest 3 months on												
- previous 3 months	- 31	- 39	- 13	- 30	- 5½	- 24	- 30	+ 7	- 34	- 15		
- same 3 months	- 58	- 63	+ ½	- 63	- 41	- 48	- 42	+ 50	- 62	- 53		
one year ago												

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 8 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
1984	- 11321	55515	66837	133.5	136.2	98.0	104.9	128.2	50894	63276	107.6	137.0
1985	- 10274	62001	72275	141.8	141.8	100.0	110.6	133.0	57710	68730	115.0	142.7
1985 Q2	- 2530	15890	18420	142.8	144.6	98.8	112.0	132.3	14608	17383	115.3	140.9
Q3	- 2340	15339	17679	141.6	139.2	101.7	110.0	132.8	14425	16916	115.4	143.5
Q4	- 2185	15423	17609	140.6	136.4	103.1	111.2	135.2	14228	16971	114.4	146.7
1986 Q1	- 3381	15086	18468	143.0	139.9	102.2	107.6	134.5	14029	17520	111.4	143.8
Q2	- 2345	15990	18335	144.2	139.2	103.6	114.7	134.9	14444	17433	115.0	144.9
1985 Nov	- 890	5121	6011	140.6	135.8	103.5	111.1	138.5	4711	5788	114.1	150.1
Dec	- 543	5250	5793	140.6	136.2	103.2	113.2	134.2	4867	5620	116.9	146.4
1986 Jan	- 826	4906	5732	141.8	137.3	103.2	105.5	128.3	4544	5475	109.2	137.8
Feb	- 1021	5140	6162	143.0	140.4	101.8	110.0	134.1	4787	5855	114.1	143.8
Mar	- 1534	5040	6574	144.2	141.8	101.6	107.2	141.2	4698	6190	111.0	150.0
Apr	- 545	5375	5919	143.8	140.3	102.5	115.1	128.9	4739	5608	113.4	137.8
May	- 899	5300	6198	144.0	138.3	104.1	113.1	137.3	4865	5864	115.7	147.3
June	- 901	5316	6218	144.8	138.9	104.2	115.9	138.5	4840	5962	115.9	149.6
July	- 869	5420	6289	144.0	139.5	103.2	116.5	139.2	4988	6045	119.4	150.9
May-Jul 1985	- 2434	15778	18212	142.2	142.5	99.8	111.9	132.9	14546	17232	115.4	142.0
Feb-Apr 1986	- 3101	15555	18655	143.6	140.9	102.0	110.8	134.8	14224	17653	112.9	143.8
May-Jul 1986	- 2669	16036	18705	144.3	138.9	103.9	115.1	138.3	14693	17871	117.0	149.3
% Change												
Latest 3 months on												
- previous 3 months	+ 3	+ 1/2	+ 1/2	+ 1/2	- 1/2	+ 2/10	+ 4/18	+ 2/10	+ 3 1/2	+ 1	+ 3/10	+ 4/18
- same 3 months one year ago	+ 1 1/2	+ 2 1/2	+ 1/2	+ 1/2	- 2/10	+ 4/10	+ 3/18	+ 4/18	+ 1	+ 3 1/2	+ 1/2	+ 5/18

^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

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	6	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
1984	70488	4693	1989	15308	46703	42169	16333	8217	8116	25835	1050	4673	11199	8912	
1985	78331	4970	2145	16712	52514	48482	18449	9411	9038	30033	1343	5257	13493	9940	
1985 Q2	20258	1284	529	4513	13436	12248	4704	2402	2303	7544	340	1304	3350	2550	
Q3	18828	1300	531	3600	12879	12020	4532	2285	2246	7489	336	1342	3394	2416	
Q4	19097	1193	506	3708	13164	12033	4522	2340	2182	7512	329	1319	3418	2445	
1986 Q1	18257	1206	511	3297	12766	11807	4418	2293	2125	7389	293	1297	3346	2452	
Q2	17816	1275	440	1913	13636	12207	4613	2414	2199	7594	347	1375	3333	2538	
1986 May	5908	414	137	651	4532	4131	1533	795	738	2598	114	464	1132	888	
June	5879	443	145	559	4528	4073	1582	831	752	2490	106	452	1120	813	
July	6033	449	167	600	4637	4219	1599	805	794	2620	99	506	1166	849	
Feb-Apr	17989	1254	496	2548	13198	11992	4502	2346	2156	7491	319	1342	3355	2475	
May-July	17820	1305	448	1810	13696	12423	4715	2431	2284	7708	320	1422	3417	2549	
% change	- 1	+ 4	- 9½	- 29	+ 4	+ 3½	+ 4½	+ 3½	+ 6	+ 3	+ ½	+ 6	+ 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.

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

Table 9

INDICES 1980 = 100, seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Total	Chemi- cals	Other	6	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147	
1984	112.8	117.2	106.3	160.2	104.4	107.0	112.1	124.3	102.3	103.8	82.4	107.8	105.4	102.6	
1985	119.3	119.1	107.0	170.9	110.8	115.7	118.9	133.3	107.5	113.7	99.4	111.6	121.4	107.6	
1985 Q2	121.0	122	102	176	112	116	120	133	109	114	100	111	120	109	
Q3	117.1	123	110	161	109	115	117	130	107	114	102	114	123	105	
Q4	119.7	114	106	168	112	116	119	136	105	114	97	112	123	106	
1986 Q1	118.0	117	113	184	107	111	115	131	102	109	88	108	117	103	
Q2	122.0	119	102	170	115	116	120	139	105	113	97	115	118	107	
1986 May	121.6	114	95	177	114	117	119	136	106	116	94	117	120	113	
June	122.2	126	102	155	116	116	124	145	107	111	89	113	120	103	
July	127.6	124	120	191	117	120	125	139	114	117	80	129	123	105	
Feb-Apr	119.1	120	111	175	110	113	117	134	104	110	93	112	117	104	
May-July	123.8	121	106	174	116	118	123	140	109	115	188	120	121	108	
% change	+4	+1	-4½	-	+5	+4	+5	+4½	+5	+4	-5½	+7	+3½	+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.

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h														
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver (PS)						Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147	
1984	136.0	128	131	152	135	133	127	130	125	137	157	135	140	132	
1985	143.4	134	140	155	143	142	135	139	132	147	162	147	150	141	
1985 Q2	145.4	134	146	163	144	143	136	141	133	147	162	147	150	142	
Q3	141.6	134	136	142	143	143	135	140	132	147	162	148	151	141	
Q4	140.4	134	130	140	142	142	134	137	131	148	163	149	151	141	
1986 Q1	138.9	136	128	114	145	145	137	142	133	150	166	153	153	144	
Q2	134.7	141	124	74	146	147	138	142	134	153	179	156	156	145	
1986 May	134.2	141	123	72	146	147	138	142	134	153	179	156	155	144	
June	134.9	140	121	71	147	147	138	140	135	154	184	154	157	145	
July	133.2	140	119	64	146	147	136	139	135	153	182	155	157	145	
Feb-Apr	137.1	138	128	96	145	146	137	143	133	152	169	155	154	145	
May-July	134.1	141	121	69	146	147	137	141	135	153	182	155	156	145	
% Change	- 2	+ 1 1/2	- 5 1/2	- 28	+ 1/2	+ 1/2	-	- 1 1/2	+ 1	+ 1	+ 7 1/2	-	+ 1 1/2	-	

^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
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	Developed Countries							Developing Countries			Centrally planned economies
	Total K	Total	European Community	Rest of W Europe	North America Total USA	Other	Total	Oil exporting countries	Other		
1984	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1985 Q2	20258	16210	9537	2034	3667	3189	972	3606	1510	2956	420
Q3	18828	15203	9312	1790	3182	2715	919	3314	1408	1906	386
Q4	19097	15369	9359	1817	3282	2778	910	3202	1357	1845	392
1986 Q1	18257	14652	8689	1779	3254	2784	930	3241	1405	1837	442
Q2	17816	13768	8254	1713	2919	2536	882	3483	1567	1917	471
1986 May	5908	4492	2595	605	993	885	300	1280	563	717	129
June	5879	4657	2825	589	954	794	289	1031	438	594	198
July	6033	4706	2843	581	977	830	305	1177	532	646	121
Feb-Apr	17989	14246	8552	1689	3054	2656	951	3314	1484	1830	442
May-July	17820	13855	8264	1774	2924	2509	893	3489	1532	1956	448
% Change	- 1	- 2 1/2	- 3 1/2	+ 5	- 4 1/2	- 5 1/2	- 6	+ 5 1/2	+ 3	+ 7	+ 1 1/2

K See paragraph 3 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

£ million cif seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
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	
1984	78967	8933	5418	10334	53011	49708	17930	6322	11608	31778	3670	8346	10218	9543
1985	84790	9274	5389	10517	58288	54953	19619	6903	12716	35334	4165	8887	11623	10659
1985 Q2	21548	2352	1366	2656	14848	13842	4920	1792	3128	8922	1116	2219	2928	2659
Q3	20321	2311	1312	2138	14250	13508	4913	1729	3184	8595	988	2189	2838	2581
Q4	20356	2256	1243	2178	14346	13798	4970	1708	3262	8829	1047	2237	2882	2662
1986 Q1	20742	2507	1225	1797	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665
Q2	20461	2416	1213	1523	14904	14078	5003	1789	3214	9075	1150	2413	2992	2520
1986 May	6921	807	420	509	5057	4764	1692	621	1071	3072	414	809	1016	834
June	6848	839	402	398	5097	4853	1696	586	1110	3157	411	829	1044	873
July	6995	826	367	514	5158	4920	1678	590	1088	3242	427	863	1058	894
Feb-Apr	20909	2486	1242	1790	14969	14087	5060	1808	3252	9027	1128	2342	2910	2647
May-July	20763	2473	1190	1421	15312	14537	5066	1797	3269	9471	1251	2501	3118	2601
% Change	- 1/2	- 1/2	- 4	- 21	+ 2 1/2	+ 3	-	- 1/2	+ 1/2	+ 5	+ 11	+ 7	+ 7	- 2

^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)

INDICES 1980 = 100 seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
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
1984	120.2	112.3	101.7	86.5	134.1	146.7	137.2	164.5	125.9	153.0	119.9	139.6	161.4	172.9
1985	124.3	113.6	102.2	85.0	140.7	154.5	143.9	176.2	130.6	161.5	127.9	139.6	172.8	187.2
1985 Q2	123.3	112	98	82	141	153	142	180	126	160	139	137	170	184
Q3	122.8	116	103	75	140	154	147	180	133	159	125	139	171	184
Q4	126.0	115	106	81	143	160	149	177	137	167	124	147	180	192
1986 Q1	125.0	126	105	74	141	155	148	183	133	159	130	145	171	175
Q2	127.1	120	106	86	143	157	149	186	133	162	126	154	182	168
1986 May	129.9	120	111	90	145	160	151	192	134	166	136	157	185	169
June	128.8	124	105	76	148	163	153	190	138	170	136	158	194	174
July	132.9	122	98	117	148	164	150	188	135	172	142	164	191	177
Feb-Apr	125.8	125	107	81	141	154	148	183	134	155	125	148	171	171
May-July	130.5	122	105	94	147	162	151	190	135	169	138	160	190	173
% Change	+ 3 1/2	- 2 1/2	- 2	+17	+ 4 1/2	+ 5 1/2	+ 2	+ 4	+ 1	+ 7 1/2	+11	+ 8	+11	+ 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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IMPORTS BY COMMODITY: UNIT VALUE INDICES
(Overseas Trade Statistics basis)

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 2)	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Manufactures excluding erratics ^h								
						Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
						Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						5-8 less SNAPS	5+6 less PS	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
1984	138.0	132	133	168	134	133	126	134	123	137	144	135	145	129
1985	143.1	137	130	172	141	141	133	139	130	146	152	147	155	134
1985 Q2	146.7	141	136	181	143	143	135	141	133	148	150	147	159	136
Q3	139.2	135	124	161	139	139	131	137	128	144	149	145	154	131
Q4	136.3	132	116	155	137	138	130	137	127	143	156	143	148	131
1986 Q1	135.6	134	116	132	140	142	132	141	129	148	165	145	152	138
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139
1986 May	130.0	136	113	99	139	141	131	139	128	148	170	142	152	138
June	128.7	136	112	87	140	141	131	137	129	148	168	143	154	139
July	128.0	135	111	77	141	142	132	138	129	149	168	145	155	139
Feb-Apr	134.0	135	116	116	142	143	133	141	129	150	168	146	154	141
May-July	128.9	135	112	86	140	142	131	138	129	148	169	143	154	139
% Change	- 4	+ 1/2	- 3	-24	- 1	- 1	- 1	- 2 1/2	- 1/2	- 1	-	- 2	-	- 1 1/2

^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 AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

	Total K	Developed Countries						Developing Countries			Centrally planned economies
		Total	European Community	Rest of W Europe	North America Total USA	Other	Total	Oil exporting countries	Other		
1984	78967	65279	37408	11184	11067	9368	5620	11514	2934	8579	2043
1985	84790	71520	41413	12025	11703	9920	6379	11233	2782	8451	1894
1985 Q2	21548	17957	10271	3060	3044	2602	1582	2984	851	2133	441
Q3	20321	17293	10096	3083	2546	2166	1569	2499	499	2000	485
Q4	20356	17561	10451	2942	2512	2078	1655	2454	620	1834	410
1986 Q1	20742	17916	10697	3167	2395	2007	1657	2438	507	1932	424
Q2	20461	17301	10536	2682	2427	2035	1657	2539	461	2077	451
1986 May	6921	5845	3626	808	787	644	623	859	169	690	133
June	6848	5894	3573	933	825	709	564	804	140	664	166
July	6995	5990	3675	923	834	711	558	768	151	617	166
Feb-Apr	20909	17904	10658	3174	2437	2047	1635	2502	455	2047	434
May-July	20763	17729	10874	2664	2446	2064	1745	2431	460	1971	465
% Change	- 1/2	- 1	+ 2	- 16	+ 1/2	+ 1	+ 6 1/2	- 3	+ 1	- 3 1/2	+ 7

K See paragraph 3 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R2)	Food Beverages and Tobacco			Basic Materials			Fuels		
	0 + 1			2 + 4			3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1984	4672	8196	- 3524	2014	4864	- 2850	15308	9917	+ 5391
1985	4931	8523	- 3592	2161	4795	- 2634	16712	10087	+ 6625
1984 Q3	1142	2073	- 932	519	1192	- 673	3840	2507	+ 1333
Q4	1218	2126	- 908	563	1349	- 786	4180	3297	+ 883
1985 Q1	1185	2156	- 971	585	1315	- 731	4892	3387	+ 1505
Q2	1272	2141	- 869	533	1232	- 699	4513	2541	+ 1971
Q3	1290	2118	- 829	534	1162	- 628	3600	2067	+ 1533
Q4	1185	2108	- 923	509	1086	- 577	3708	2092	+ 1616
1986 Q1	1197	2294	- 1096	515	1102	- 588	3271	1702	+ 1569
Q2	1262	2212	- 949	440	1095	- 655	1861	1389	+ 472
SITC (R2)	Semi-Manufactures			Finished Manufactures			Total Manufactures		
	5 + 6			7 + 8			5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1984	18266	18410	- 144	28324	32059	- 3735	46590	50469	- 3879
1985	20043	19958	+ 85	32237	35339	- 3102	52280	55297	- 3017
1984 Q3	4558	4684	- 127	7126	8336	- 1210	11684	13021	- 1337
Q4	4960	4890	+ 69	7797	8771	- 974	12757	13662	- 905
1985 Q1	5017	4836	+ 182	7948	9258	- 1311	12965	14094	- 1129
Q2	5201	5032	+ 169	8216	9046	- 830	13417	14077	- 661
Q3	4852	5124	- 272	7960	8359	- 400	12812	13484	- 672
Q4	4973	4966	+ 7	8114	8676	- 562	13087	13642	- 555
1986 Q1	4847	5303	- 456	7895	8873	- 979	12742	14176	- 1434
Q2	5223	5177	+ 46	8377	9035	- 658	13600	14212	- 612

Monthly data at this level of detail are published in the Monthly Review of External Trade Statistics.

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UNTIL 11.30 ON WEDNESDAY 27 AUGUST 1986
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Paul

*C/ Thus, and attached DTI
press briefing, is for MST
to clear (as duty minister)
but you might like to see*

FROM: MARK BROWN
DATE: 22 August 1986

1. MR DAVIES *sgo* *for information* cc as attached list
2. MINISTER OF STATE *CR 2218.*

JULY TRADE FIGURES

The July trade figures will be released on Wednesday 27 August. They will show the current account almost exactly in balance with a surplus of £12 million, following one of £77 million in June. Visibles were in deficit by £588 million offset by an estimated surplus on invisibles of £600 million.

Main Points

2. (i) The visible trade account improved slightly in July, offset by a projected fall in the surplus on invisibles leaving the current account in surplus by £12 million compared with £77 million in June;
- (ii) The resumption of the rise in exports is now more strongly founded. Non-oil export volume, excluding erratics, rose for the fourth month in succession in July to surpass the early 1985 peak. In the three months to July volume was 3½ per cent higher than in the previous three months;
- (iii) The rise in non-oil import volume, excluding erratics, also continued in July following a flat period between mid-1985 and the early months of this year. In the three months to July volume was 4 per cent higher than in the previous three months;

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UNTIL 11.30 ON WEDNESDAY 27 AUGUST 1986
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(iv) The July oil trade surplus, at £281 million, was almost exactly the same as in June. Both export and import volume rose but their average values were lower;

(v) The deficit on trade in manufactures, at £295 million, was £55 million lower than in June. In the three months to July export volume was 5 per cent higher than in the previous three months (4 per cent higher excluding erratics), import volume was 4½ per cent higher (5½ per cent higher excluding erratics);

(vi) Preliminary data for the second quarter has not suggested any need to change the projection of £700 million a month invisibles balance (Q2 balance of payments figures are published on Thursday September 4). Invisibles are projected at £600 million in July. The reduction reflects the profile of EC payments;

Comparison with Forecast

3. The current account surplus now estimated for the first half of 1986 was over £1 billion below the figure underlying the FSBR forecast and £445 million below that contained in the internal June forecast. For the latter the difference lies largely on the invisibles account. Visible trade volumes are in general below the FSBR forecast for the first half of the year but the outturn for the last three months has been much as anticipated in the June forecast; manufactured export volumes were as anticipated in Q2 whereas imports were 1 per cent lower.

Trade Prices

4. The overall terms of trade improved by 1½ per cent in July leaving the latest three months 2 per cent better than the previous three months and 4½ per cent better than a year earlier. The non-oil terms of trade fell 1 per cent in the month but in the latest three months were 2 per cent and 4 per cent higher than in the previous three months and a year earlier respectively. Import prices fell between March and June, partly in response to the firm exchange rate, before rising slightly in July as the effective rate fell. Export prices have been more stable falling slightly in July.

Percentage Change in Trade Prices

	Import Prices		Export Prices	
	Compared to		Compared to	
	one month ago	one year ago	one month ago	one year ago
Manufactures	½	½	- ½	2
Food, drink, tobacco	- ½	- ½	0	4½
Basic materials	- 1	-13	- 1½	-15
Fuel	-11	-53	-11	-56

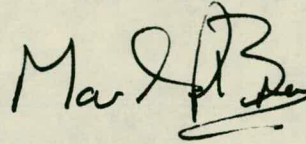
5. Crude oil import prices fell by 34 per cent in the three months to July compared with the previous three months to be below export prices which fell by 30 per cent.

Market Expectation

6. The market consensus is for a current account surplus of £25 million and a visible trade deficit of £675 million.

Press Brief

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

A handwritten signature in black ink, appearing to read 'Mark Brown', with a stylized flourish at the end.

MARK BROWN
EA1

DRAFT BRIEFING FOR IDT

Positive

1. Substantial current account surplus of £1.1 billion in first seven months of year despite lower oil prices.
2. Further evidence that the rise in export volume has resumed. Excluding oil and erratics up 3½ per cent in latest three months. Exports now at record level.
3. 4 per cent fall in import unit value index in latest three months will help to maintain downward trend of UK inflation.

Defensive

1. Lower Oil Balance

(Surplus of £8.2 billion in 1985; £2 billion in Q1 1986; £732 million in Q2; £279 million in June; £281 million in July.)

Reflects substantial fall in oil prices. Large oil surplus still expected in 1986.

2. FSRB Current Account Forecast Too Optimistic Given Fall in Oil Prices

[Current account surplus of £3½ billion forecast for 1986 after £3.8 billion in 1985. £1.1 billion surplus in year to July.]

Quite possibly. An updated forecast will be published as usual in the Autumn.

3. Trade in Manufactures

(1986 Q1 deficit of £1.4 billion; Q2 deficit of £0.6 billion; £295 million deficit in July.)

Improvement of £0.8 billion between first two quarters of 1986 reflects erratic nature of figures. UK exporters of manufactures have gradually improved volume share of world trade since 1981 after years of decline.

4. Import Volume Picking Up?

Some rise to be expected as economic growth picks up again (cf $\frac{3}{4}$ per cent rise in UK non-oil output in Q2); but figures are a reminder to industry of the need to keep costs down to remain competitive.

5. National Institute Forecasting Current Account Deficit of Almost £6 billion in 1987

National Institute, as usual, unduly pessimistic over prospects for UK economy. They are out of line with almost all other forecasters on the current account for 1987; and their implausible forecast for 1986 - which implies over £350 million current account deficit a month from now on - does not add to the credibility of their projections.

TABLE 1: CURRENT ACCOUNT

	£ billion							1986 year to date
	1985	1986		May	June	July		
		Feb-Apr	May-July					
Oil	+ 8.2	+1.2	+0.8	+0.2	+0.3	+0.3	+2.9	
Non-oil	-10.3	-3.1	-2.7	-0.9	-0.9	-0.9	-6.6	
Total visible trade	- 2.1	-1.9	-1.9	-0.7	-0.6	-0.6	-3.7	
(of which) trade in Manufactures (BOP basis)	- 3.0	-1.1	-1.0	-0.3	-0.4	-0.3	-2.3	
Invisibles	+ 5.7	+1.8	+2.0*	+0.7*	-0.7*	+0.6*	+4.8*	
Current account	+ 3.6	-0.1	+0.1	+ '0	+0.1	+ 0	+1.1	

* projection

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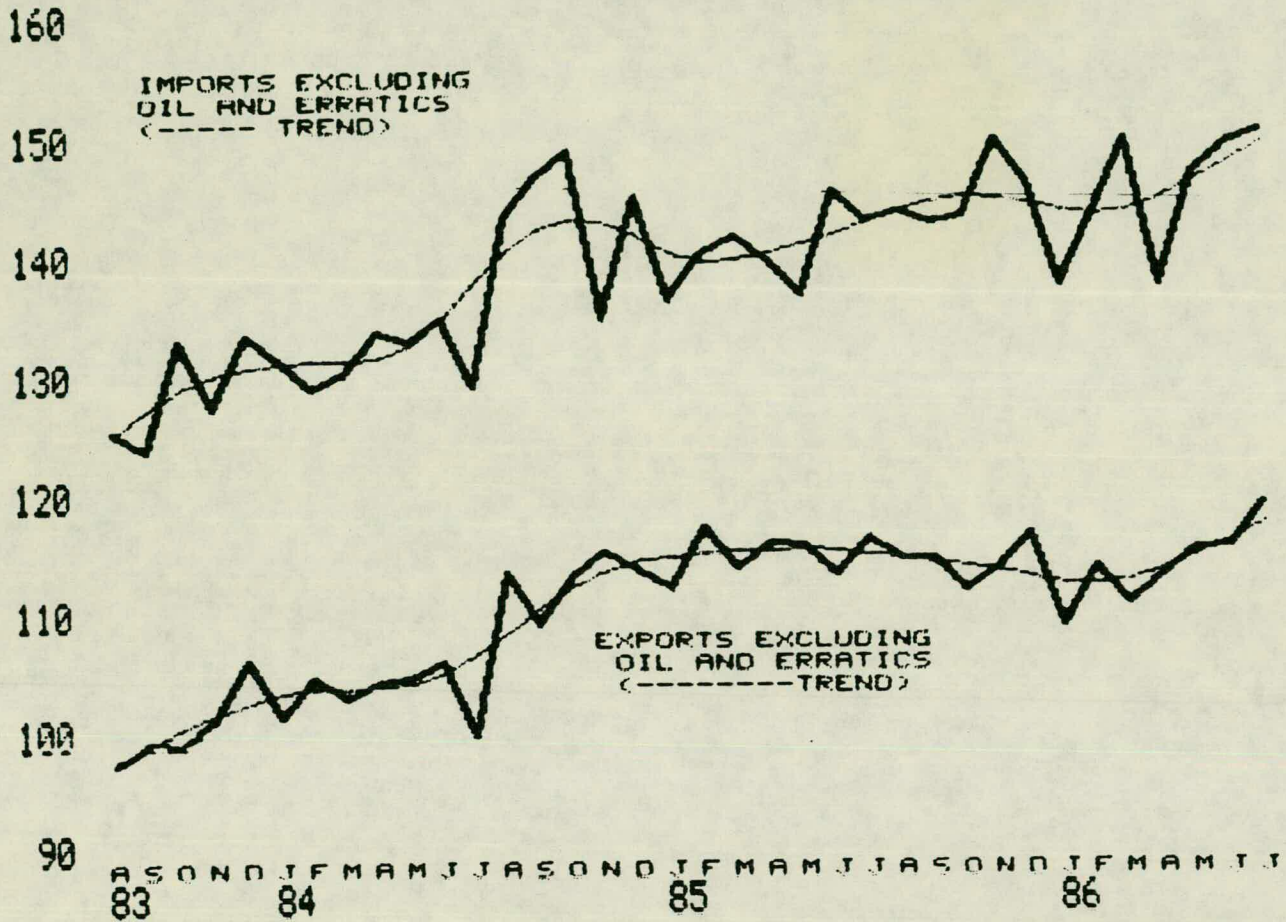
TABLE 2: VISIBLE EXPORTS AND IMPORTS - PERCENTAGE CHANGES

<u>EXPORTS</u>	1986 July on June	1986 May-July on Feb-Apr	1986 May-July on 1985 May-July
Total Value	+ 3	- 1½	- 10
Total Volume (BOP basis)	+ 5	+ 3½	+ 3
Total Volume excl. oil and erratics (BOP basis)	+ 3	+ 3½	+ 1½
Manufactures volume (excl. erratics, OTS basis)	+ 3½	+ 4	+ 2
Fuels volume	+ 23	0	+ 4

<u>IMPORTS</u>	1986 July on June	1986 May-July on Feb-Apr	1986 May-July on 1985 May-July
Total Value			
Total Volume (BoP basis)	+3½	+3½	+6
Total Volume excl. oil and erratic (BoP basis)	+1	+4	+5
Manufactures Volume (excl erratics, OTS basis)	+ ½	+5½	+5½
Fuels Volume	+5½	+17	+3

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VOLUME INDICES



ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

TRADE FIGURES FOR JULY 1986

Advance Circulation

Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Sedgwick
Mr H P Evans
Mr C W Kelly
Mr Mowl

Miss O'Mara
Mr Culpin
Mr S Robson
Mr Segal
Mr Barrell
Mr Gill - Bank of England
Mr Norgrove - No.10
Miss Deuchers - DTI

Circulation after 11.30am on Wednesday 27 August 1986

Financial Secretary
Minister of State
Mr Lankester (Washington)
Mr Matthews
Mr Shaw
Mr Hacche

Mr Tyrie
Mr Ross Goobey
Miss Roche (No.10)



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

PWD

CH/EXCHEQUER	
REC.	1-SEP 1986
ACTION	MR BONNEY
COPIES TO	CST, MST
	SIR P MIDDLETON
	SIR T BURNS
	SIR G LITTLER
	MR F E R BUTLER
	MR LAVELLE
	MR BURTON
	MR A EDWARDS
	MR SCHOLAR
	MR SEDGWICK
MRS O'MARA	
MR WILPIN	
MR CROPPER	
MR TYRIE	

✓
2/5

CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

September 1986

Handwritten signature: Mrs Prime Minister

✓

FORECASTS OF RETAIL FOOD PRICES

I am writing to report on recent movements in retail food prices and to let you have our latest forecasts to December 1986.

The rate of increase in the Food Price Index has remained at around 3 per cent over the last 18 months and has until recently been below the rate for the Retail Price Index as a whole. Some items, notably tea, sugar and margarine are cheaper than a year ago whilst the prices of many other foods, especially meat, are little changed.

The most recent figures, for July, show the Food Price Index 3.6 per cent higher than in July 1985. Food prices are forecast to fall by about 1 per cent between July and September with the annual rate declining to 2½-3 per cent in September. Fresh food prices are forecast to fall substantially with the seasonal increase in supplies. Prices of many other foods are expected to be little changed although confectionery and some other manufactured foods may be slightly dearer.

In the final quarter food prices are expected to rise by around 1 per cent as seasonal foods become less plentiful. Assuming no major policy changes, however, the annual rate of increase in the Food Price Index is forecast to remain at around 3 per cent to December. Some firming of meat prices is expected towards the end of the year and a further round of bread price increases is likely in December. Margarine prices are forecast to fall reflecting lower raw material prices and despite press comment an early rise in coffee prices should be unnecessary given the recent increases.

/ I am copying ...

I am copying this letter to the Chancellor of the Exchequer,
the Secretary of State for Employment and the PUSS (CCA),
Department of Trade and Industry.

James D. ...
Michael

MICHAEL JOPLING

PWP

FROM: P J DAVIS
DATE: 5 SEPTEMBER 1986

1. S J DAVIES *Seen in draft - not available.*
2. **CHANCELLOR OF THE EXCHEQUER**

cc : PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Culpin
Mr Sedgwick
Mr Gilhooly
Miss O'Mara
Mr Pickford
Mr Hacche
Mr Pickering
Mr S Brooks
Mr Westwater
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PRODUCER PRICES FOR AUGUST

The Producer Price Indices for August will be published at 11.30 a.m. on Monday 8 September. The level of the output index rose by 0.1 per cent between July and August, and the twelve month rate of change was unchanged from the (revised) July figure of 4.3 per cent. Input prices fell by 9.6 per cent in the year to August, compared with 10.4 per cent in the year to July.

PRODUCER PRICES (PERCENTAGE CHANGE OVER A YEAR EARLIER)

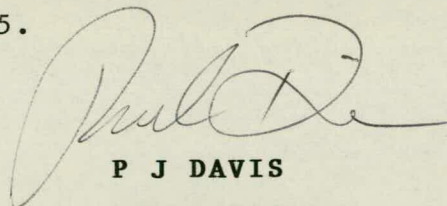
	Output Prices		All	Input Prices	
	ALL	All excl FDT*		All	All excl FDT*
				(Seasonally Adjusted)	
1985 Q2	5.6	6.4	3.4	3.4	6.8
Q3	5.6	6.5	- 0.7	- 0.7	- 1.2
Q4	5.1	5.9	- 5.4	- 5.4	- 5.1
1986 Q1	5.0	5.0	- 9.4	- 9.4	- 11.9
Q2	4.5	4.3	- 9.1	- 8.9	- 12.4
June	4.4	4.3	- 8.9	- 8.8	- 12.4
July	4.3	4.0	-10.4	-10.2	- 14.5
August	4.3	3.9	- 9.6	- 9.7	- 14.2

* Excluding the food, drink and tobacco industries.

2. The producer price index for inputs to manufacturing industry was unchanged between July and August. Rises in costs of imported commodities were offset by falls in prices of petroleum products and home produced food materials. After seasonal adjustment the producer price index for inputs to manufacturing industry rose by 0.4 per cent between July and August.

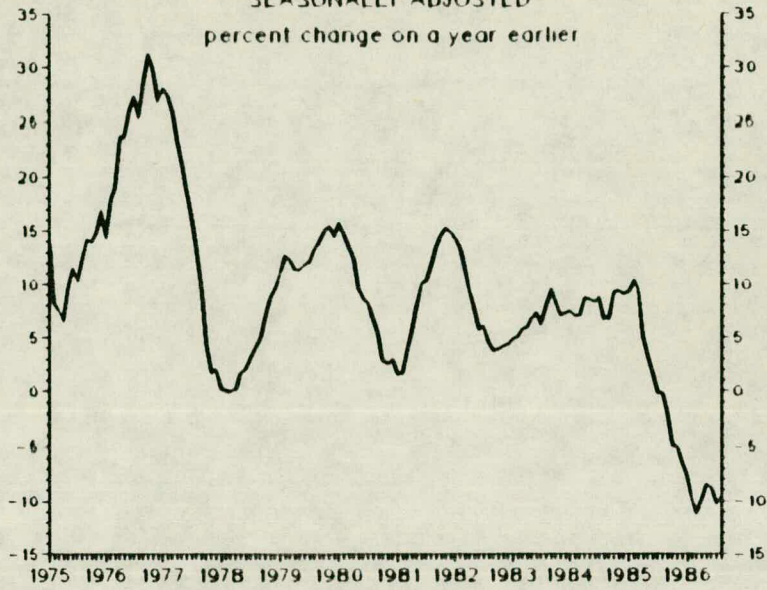
3. Between July and August, the producer output price index excluding the food and drink and tobacco industries rose by 0.2 per cent, with the twelve month rate of increase in August falling slightly to 3.9 per cent.

4. I attach two charts showing movements in producer input and output prices since January 1975.

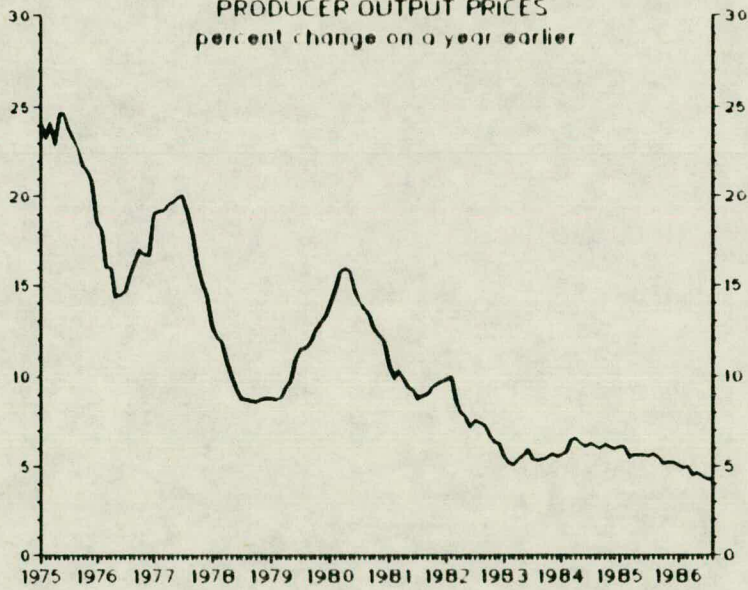


P J DAVIS
EAI DIVISION
X 3434

MATERIALS AND FUEL PURCHASED BY MANUFACTURING INDUSTRY
SEASONALLY ADJUSTED
percent change on a year earlier



PRODUCER OUTPUT PRICES
percent change on a year earlier



M : TIREE.MANPUR
D : 5-9-86 G : TIREE.DISMANCOM



Caxton House Tothill Street London SW1H 9NF

6460

Telephone Direct Line 01-213.....

Switchboard 01-213 3000

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

11 September 1986

Dear David

RETAIL PRICE INDEX: AUGUST 1986

... I enclose a numbered copy of the DE note and draft press release on the Index of Retail Prices due to be released at 11.30 on Friday 12 September.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Timothy Walker (Trade and Industry), Rachel Passmore (CSO), John Footman (Bank of England), Chris Cloke (CO) and Andrew Lansley (Chancellor of the Duchy of Lancaster's Office).

Yours sincerely

JOHN TURNER
Private Secretary

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RETAIL PRICES INDEX : AUGUST 1986

In August, the annual rate of inflation, as measured by the 12-month change in the retail prices index, was 2.4 per cent, the same as in July.

2. Having recorded falls in the index for the last two months, the overall level of prices rose in August by 0.3 per cent. This increase matched the one recorded a year earlier leaving the annual rate unchanged. The more notable price increases were for clothing and footwear, following the summer sales, motor vehicles and some seasonal foods. Petrol prices fell on average, the latest increases having taken effect after the August index day.

3. In September the 12-month rate is likely to rise to around 3 per cent. The overall level of prices is expected to increase by about one half of one per cent between August and September, the largest monthly percentage increase since May 1985, whereas a decrease of 0.1 per cent was recorded between the corresponding months last year. About half of next month's expected increase is a result of the sharp rise in petrol prices.

Producer Prices

4. The price index for materials and fuels purchased by manufacturing industry was unchanged in August compared with July but on a seasonally adjusted basis it rose by about a half of a per cent. These prices are still nearly 10 per cent lower than they were a year ago.

5. In August the price index for home sales of manufactured products rose by 0.1 per cent compared with July and the annual increase remained around 4½ per cent.

Tax and Price Index

7. The tax and prices index increased by 0.6 per cent in the year to August compared with 0.4 per cent recorded for July.

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International comparisons

8. The latest 12-month percentage changes in consumer prices in the main OECD countries and the averages for all EEC and OECD countries are as follows :-

	UK	FEDERAL FRANCE	GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1985 Q2	7.0	6.4	2.5	9.4	2.5	2.1	3.7	3.9	4.6	8.7
Q3	6.3	5.6	2.2	9.1	2.3	2.1	3.3	3.9	4.2	8.3
Q4	5.5	4.8	1.8	8.9	1.7	1.9	3.5	4.2	4.2	7.9
1986										
Q1	5.5	3.6	0.7	7.7	1.2	1.4	3.1	4.2	3.8	4.4
Q2	2.8	2.4	-0.2	-	0.4	0.8	1.6	3.9	2.5	3.3
May	2.8	2.3	-0.2	-	0.5	1.1	1.6	4.1	2.6	3.2
June	2.5	2.3	-0.2	-	0.2	0.5	1.7	3.7	2.5	3.1
July	2.4	2.0	-0.5	-	-0.7	-	1.6	4.2	2.4	3.0
August	2.4									

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON FRIDAY 12 SEPTEMBER 1986

209/86

September 12, 1986

INDEX OF RETAIL PRICES

AUGUST 1986

The index of retail prices for all items for August 12, 1986 was 385.9 (January 15, 1974 = 100). This represents an increase of 0.3 per cent on July 1986 (384.7) and an increase of 2.4 per cent on August 1985 (376.7).

The rise in the index between July and August was mainly the result of price increases for clothing and footwear, following the summer sales, motor vehicles and some seasonal foods. Petrol prices fell on average, the latest increases having taken effect after the August index day.

The movements for the main groups in the index are shown in Table 2.

Table 1.

	All items				All items except seasonal food		
	Index Jan 15 1974 = 100	Percentage change over			Index Jan 15 1974 = 100	Percentage change over	
		1 month	6 months	12 months		1 month	6 months
1986							
March	381.6	+0.1	+1.4	+4.2	383.4	0.0	+1.0
April	385.3	+1.0	+2.2	+3.0	387.0	+0.9	+1.8
May	386.0	+0.2	+2.0	+2.8	387.3	+0.1	+1.6
June	385.8	-0.1	+1.8	+2.5	387.0	-0.1	+1.5
July	384.7	-0.3	+1.3	+2.4	386.8	-0.1	+1.3
August	385.9	+0.3	+1.3	+2.4	387.9	+0.3	+1.2

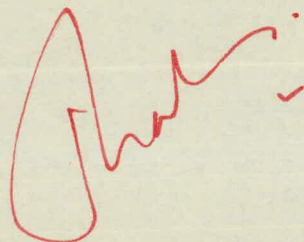
TABLE 2

Indices (15 January 1974 = 100)

			Percentage change
	July 15, 1986	August 12, 1986	over the month
All items	384.7	385.9	+0.3
All items excluding food	394.9	396.1	+0.3
<hr/>			
Food	347.4	348.6	+0.3
Seasonal food	332.2	336.6	+1.3
Food excluding seasonal	350.7	351.4	+0.2
Alcoholic drink	431.0	432.5	+0.3
Tobacco	597.1	597.5	+0.1
Housing	472.8	475.3	+0.5
Fuel and light	505.0	505.8	+0.2
Durable household goods	265.5	264.2	-0.5
Clothing and footwear	226.8	229.7	+1.3
Transport and vehicles	386.7	387.0	+0.1
Miscellaneous goods	408.2	410.1	+0.5
Services	401.5	402.0	+0.1
Meals out	440.4	442.6	+0.5

FROM: S BROOKS
DATE: 11 September 1986

1. MR S J DAVIES
2. CHANCELLOR



- PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir Peter Middleton
- Sir Terence Burns
- Mr F E R Butler
- Mr F Cassell
- Mr N Monck
- Mr Kemp
- Mr Sedgwick
- Mr Odling-Smee
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Miss O'Mara
- Mr Pickford
- Mr Hacche
- Mr Halligan
- Mr P Davis
- Mr Westwater
- Mr Ross Goobey
- Mr Cropper
- Mr Tyrie

THE AUGUST RPI (to be published at 11.30 a.m. on Friday 12 September

The level of the RPI rose by 0.3 per cent between July and August. The twelve month rate of inflation was unchanged between July and August at 2.4 per cent. This is a little lower than we had expected.

2. Excluding mortgage interest payments, the twelve month rate rose from 3.2 per cent in July to 3.3 per cent in August.

3. There were marked increases in some food prices and in the prices of clothing and footwear - the latter as summer sales came to an end. But the prices of durable household goods fell as did the price of petrol. (The recent increases in petrol prices were too late to affect the August index.)

RPI
August

4. In September we expect the twelve month rate of increase to rise, probably to just below 3 per cent. The rise in the rate partly reflects the decline in mortgage rates between August and September 1985, which will drop out of the period of comparison.

5. The RPI figures are in line with City expectations. Both Phillips & Drew and Goldman Sacks correctly expect a 12 month rate of 2.4 per cent, with James Capel and Wood McKenzie expecting 2.5 per cent..

S Brooks

S BROOKS
EAL DIVISION
X 7946

pwp



FROM: A C S ALLAN
DATE: 11 SEPTEMBER 1986

MR BROOKS

cc Mr Sedgwick
Mr S J Davies

THE AUGUST RPI

The Chancellor was grateful for your minute of 11 September.

A handwritten signature in black ink, appearing to read "A C S Allan", with a horizontal line underneath.

A C S ALLAN

J0227

MR D NOROGROVE
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY 1986

The provisional index of the output of the production industries for July 1986 will be published at 11.30 am on Wednesday 17 September. A copy of the Press Notice is attached.

Latest figures

The July 1986 index of the output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 110.3 (1980=100, seasonally adjusted), an increase of 3½ per cent on June, with oil extraction accounting for much of this rise. For manufacturing the index was 104.2, an increase of 1 per cent on June (see also paragraph on bias adjustment below).

In the three months to July, the output of production industries was 1½ per cent lower than in the previous three months but manufacturing output was little changed. Some industry detail is given in the attached table.

Assessment

Manufacturing output reached at least a temporary peak in the second quarter of 1985 and declined by about 1 per cent during the second half of the year. Provisional figures for the first half of 1986 suggest that output has been broadly flat since the fourth quarter of last year. July is high, but one month is too short a period to establish a trend, and monthly figures can be erratic.

The underlying output of all production industries in the second half of 1985 was almost 1 per cent below the high level reached in the first half. Since then production industries' output has moved broadly in line with changes in energy output. Figures for the first quarter of 1986 showed some recovery, due to high oil extraction and high demand for gas and electricity, but fell back again in the second quarter. July is high, due to manufacturing (see above) and a high level of oil extraction.

Bias adjustment for manufacturing output

In line with revised procedures introduced in January, figures of manufacturing output for the last 6 months include adjustments to try to allow for underestimation in the provisional estimates (see Note 11 of Notes to Editors of Press Notice).

Figures for August 1986

Figures for August 1986 are scheduled for publication on Tuesday 14 October.



S D Kingaby
16 September 1986

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on September 17 1986 and thereafter unclassified ++

Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1984	103.2	110.1	100.7	108.2	95.0	113.9	99.3	102.0	97.9	97.7
1985	108.1	120.1	103.8	113.2	94.4	118.8	104.0	101.3	102.2	98.8
1985 1	106.7	115.5	103.5	111.0	92.7	119.8	104.1	101.9	100.7	97.7
2	108.9	121.3	104.5	115.9	94.6	120.6	105.6	100.4	102.1	98.0
3	108.4	121.5	103.7	114.4	94.3	118.7	103.5	100.9	103.2	99.8
4	108.4	122.1	103.5	111.6	96.1	116.3	103.1	102.1	102.8	99.8
1986 1	109.2	127.1	102.8	110.4	92.7	116.6	102.0	100.7	103.8	100.4
2	108.4	122.7	103.3	111.7	93.4	116.8	102.4	101.6	104.0	100.8
1986 M	108.1	123.0	102.8	112	92	116	102	102	102	100
J	106.7	116.2	103.3	114	95	118	102	101	104	102
J	110.3	127.2	104.2	115	94	120	103	103	102	102

Percentage change latest 3 months on:
previous 3 months

	-1.4	-4.9	+0.2	+3.7	+1.2	+1.3	-0.3	+0.3	-1.8	+0.5
a year earlier		+1.4	-0.7	-2.0	-1.1	-1.5	-2.3	+1.5	+0.5	+2.6
1st quarter 1981(a)	+14.0	+20.0	+11.6	+14.5	+4.9	+22.2	+14.0	+2.7	+12.7	+8.2
1st half 1979(b)	+1.3	+23.4	-5.8	-12.9	-13.3	+8.5	-6.7	+2.2	-14.3	-8.9

DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply	Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified
1984	33.8	147.1	98.4	95.7	108.2	95.0	114.9	78.8	101.0
1985	67.2	150.1	98.7	106.1	113.2	94.4	120.1	74.2	99.0
1985 1	36.0	154.8	99.5	100.1	111.0	92.7	121.2	71.8	98.4
2	71.0	149.5	99.2	108.9	115.9	94.6	121.9	76.3	99.4
3	80.3	147.2	98.6	108.2	114.4	94.3	119.9	75.5	100.5
4	81.4	149.1	97.4	107.0	111.6	96.1	117.6	73.0	97.9
1986 1	79.5	155.2	95.3	115.0	110.4	92.7	117.8	74.7	96.0
2	78.2	148.4	102.7	110.6	111.7	93.4	118.2	69.9	92.8
1986 M	77	152	105	106	112	92	118	70	93
J	78	138	98	107	114	95	119	70	90
J	76	163	101	104	115	94	121	68	93

Percentage change latest 3 months on:
previous 3 months

	-2.4	-3.3	+3.1	-10.1	+3.7	+1.2	+1.5	-5.7	-4.5
a year earlier	+1.3	+3.6	+2.5	-3.2	-2.0	-1.1	-1.4	-9.1	-7.7
1st quarter 1981(a)	-20.7	+40.5	+5.7	+9.2	+14.5	+4.9	+23.4	-23.4	+3.9
1st half 1979(b)	-19.1	+59.9	-10.1	+0.9	-12.9	-13.3	+10.7	-49.9	-25.2

DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1984	87.4	123.0	81.1	91.5	104.6	96.7	93.7	101.5	96.4	99.3
1985	92.8	130.7	86.3	94.7	104.2	95.3	98.3	105.5	98.6	99.2
1985 1	91.4	132.0	87.0	95.7	104.3	96.9	97.0	103.8	97.3	98.3
2	94.5	132.6	87.6	96.5	102.9	95.3	97.1	106.4	97.5	98.6
3	91.6	128.9	88.5	93.4	104.4	93.6	99.7	106.3	99.4	100.3
4	93.7	129.3	82.1	93.3	105.3	95.4	99.6	105.6	100.1	99.5
1986 1	94.9	125.5	80.6	94.4	104.1	93.8	99.6	107.4	100.7	100.0
2	96.8	125.8	82.3	93.4	105.3	93.8	99.9	107.6	100.6	100.9
1986 M	97	126	82	93	106	92	97	106	100	100
J	96	125	83	94	105	94	102	107	101	102
J	97	127	84	94	106	97	96	107	102	101

Percentage change latest 3 months on:
previous 3 months

	+0.4	-0.2	+3.1	-0.6	+0.8	-0.9	-2.3	-1.3	+0.3	+0.7
a year earlier	+4.1	-4.6	-5.6	-1.8	+2.3	-0.5	+0.5	+0.5	+3.2	+1.8
1st quarter 1981(a)	+10.7	+35.8	+7.9	-11.4	+7.3	-6.7	+8.7	+16.3	+6.6	+10.1
1st half 1979(b)	-12.2	+21.8	-32.7	-0.3	+6.1	-5.9	-21.2	-7.8	-5.3	-12.8

(a) Last trough for production industries (b) Last peak for production industries

Personal numbered copies of the minute and attachment to:

Treasury (Principal Private Secretary
(Sir Peter Middleton

Cabinet Office (Mr Jack Hibbert

Department of Trade and Industry (Private Secretary
Secretary of State's Office

(Private Secretary
to Geoffrey Pattie

(Private Secretary
to Giles Shaw

(Private Secretary
to John Butcher

(Sir Brian Hayes
(Mr H H Liesner

(Mr A Whiting
(Mr N Harvey
(Mr E J Wright

Bank of England (Mr R Leigh-Pemberton

FROM: R D KERLEY
 DATE: 16 SEPTEMBER 1986

1. MR S DAVIES *sgo*

2. 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 Burgner
 Mr Scholar
 Mr Sedgwick
 Mr Shaw
 Mr Culpin
 Miss O'Mara o.r
 Mr Pickford
 Mr Hacche
 Mr Naisbitt
 Mr Pickering
 Mr Dyer (+1 for No 10)
 Mr Cropper
 Mr Ross Goobey
 Mr Tyrie
 Mr Stirling - CSO
 Mr Kingaby - CSO
 Mr Lang - CSO
 HB/02

** I have
 checked positive (i) M.*

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY 1986

This will be published at 11.30am on Wednesday, 17 September.

2. The index of production fell by 1.4 per cent in the three months to July 1986 compared with the previous three months, but only by 0.1 per cent compared with the same period a year earlier, (0.3 per cent after allowing for effects of coal dispute).
3. Manufacturing output rose by 0.2 per cent in the three months to July 1986 compared with the previous three months, but fell by 0.7 per cent compared with the same period a year earlier.

4. The CSO's assessment is that the underlying output of all production industries in 1985H2 was almost 1 per cent below 1985H1. Since then production industries' output has moved broadly in line with changes in energy output. Figures for 1986Q1 showed some recovery, due to high oil extraction and high demand for gas and electricity, but fell back again in the second quarter. Manufacturing output reached at least a temporary peak in 1985Q2 and declined by about 1 per cent during the second half of the year. Provisional figures for 1986H1 suggest that output has been broadly flat since 1985Q4.

5. Recent movements

percentage changes	1985 on <u>1984</u>	Latest 3 months on <u>previous 3 months</u>	Latest 3 months on same period one <u>year earlier</u>	July on <u>June</u>
Index of Production	+4½	-1.4	-0.1	+3.4
within which:				
Manufacturing	+3	+0.2	-0.7	+0.9
Energy and Water	+9	-4.9	+1.4	+9.5

adjusted for strikes, weather etc*

Index of Production	+2½	-0.9	-0.2	+3.5
Manufacturing output	+3	+0.1	-0.7	+0.9

*NOT FOR USE.

6. Figures for individual months can be erratic, and more reliable comparisons can generally be made on the basis of three-month on three-month changes or on the basis of three month moving averages (see attached graph). However, for July 1986, the index of production was 3.4 per cent higher than in June, with oil extraction accounting for much of the increase. The July index for manufacturing was 0.9 per cent higher than in June. Over the longer term, the output of the production industries in the three months to July was 14 per cent higher than at its trough in 1981Q1 with manufacturing output 11.6 per cent higher.

Other industrial detail

7. Within manufacturing, the output of metals increased by 4 per cent, and the output of other minerals, of chemicals and of other manufacturing industries by 1 per cent between the two latest 3 months periods. The output of textiles and clothing fell by 2 per cent. Coal

production fell by 2 per cent (productivity improvements being more than offset by a fall in employment), oil and gas extraction by 2 per cent (with the very low June figure being partially offset by better July figures, reflecting less maintenance work) and other energy and water supply by 10 per cent (mainly reflecting colder than average weather in February and April), again between the latest 3 month periods. Other categories were broadly unchanged.

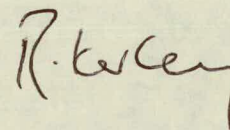
Lines to take

8. Positive:-

- (i) Total production in July nearly ^{3½} ~~2~~ per cent above its level in ^{June.} ~~July 1985.~~
- (ii) Decline in manufacturing output now at an end. Prospects favourable as manufacturing industry expected to be major beneficiary of fall in oil price.
- (iii) Manufacturing has grown in every year since 1981 - longest period of uninterrupted growth since 1970.

9. Defensive

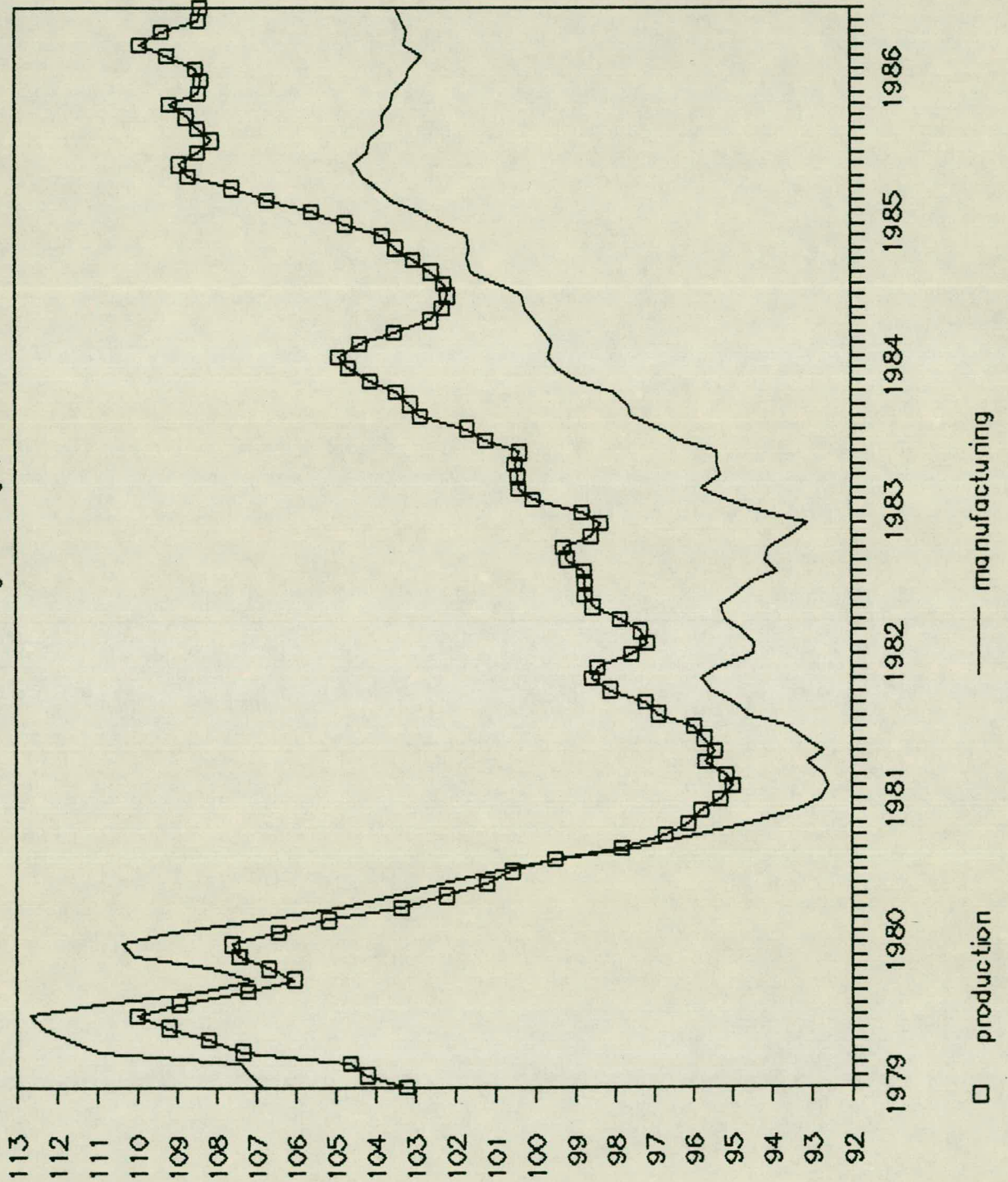
- (iv) Manufacturing output peaked in 1985Q2. Decline now at end. Chancellor has made clear that growth is expected to pick up later this year following benefits of lower oil price.
- (v) Output of production industries fell by 1½ per cent in 3 months to July 1986 compared with previous 3 months. Year on year figure is broadly unchanged and growth should pick up later this year following benefits of lower oil price.



R D KERLEY

OUTPUT OF THE PRODUCTION INDUSTRIES

3 month moving average, 1980=100





FROM: A C S ALLAN

DATE: 17 September 1986

MR KERLEY

cc Sir T Burns
Mr Culpin
Mr S Davies
Miss O'Mara
Mr Pickford
Mr Hacche**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - JULY 1986**

The Chancellor was grateful for your minute of 16 September. While recognising that individual months figures can be erratic, he feels something should be made in positive (i) of the point that total production in July was nearly $3\frac{1}{2}$ per cent above its level in June.

A handwritten signature in black ink that reads 'ACSA' with a horizontal line underneath.

A C S ALLAN

PWP

1. MR S DAVIES *SD*
2. CHANCELLOR

FROM: G. HACCHE
DATE: 17 September 1986
cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr Sedgwick
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Dyer (+1 for No.10)
Mr Hudson
Mr Hunt
Mr Pickering
Mr Cropper
Mr Ross Goobey
Mr Tyrie
HB/01

Ch
This is an example of unnecessary duplication of effort by officials. Most of this material is already in DE notes you have seen. A very short & pithy commentary would be much more useful. **QUITE RIGHT** AA

1. Andrew
2. PWP.

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 18 SEPTEMBER

Summary Statistics (seasonally adjusted unless otherwise stated)

	Level	Change on previous period
	<i>Thousands</i>	
<u>Unemployment</u>		
Total (excl. school leavers) August	3,224	0
Total (not seasonally adjusted) August: 'Headline Total'	3,280	1
<u>Employed Labour Force 1986Q1</u>	24,032	+25
<u>Manufacturing employment July 1986</u>	5,331	-18
		Percentage change on previous year
<u>Index of average earnings</u>		
Whole economy July, underlying (actual)		7½(8.2)
Services July, underlying (actual)		7¼(9.3)
Manufacturing July, underlying (actual)		7¾(7.0)
<u>Wage and salary costs per unit of output</u>		
Whole economy 1986Q1		6.8
Manufacturing 3 months ending July		6.5
<u>Output per head</u>		
Whole economy 1986Q1		1.1
Manufacturing 3 months to July		0.9

The point about lowest figure for "stoppages" since 1939 is useful speed material. (see para 13)

1784

Unemployment

2. Seasonally-adjusted adult unemployment (excluding school leavers) remained virtually unchanged in August, with a small increase of 400. The headline total was 3,280,000, having risen by only 500.

3. The average monthly increases in unemployment for the six months and three months to August were 10,000 and 6,000 respectively.

	Average monthly changes			thousands
	<u>July to August</u>	<u>6 mnths to August</u> (previous six months in brackets)	<u>3 mnths to August</u> (previous three months in brackets)	
Seasonally adjusted	0	+10 (+12)	+6 (+8)	

4. Features of the figures compared with July are shown below (figures not ^{seasonally} adjusted except where indicated):

	Levels		Thousands (rounded)
			<u>Change</u>
	<u>July</u>	<u>August</u>	
Stock of unfilled vacancies (s.a.)	195	210	+6
Effect of employment measures on unemployment count (excluding school leavers)	- 273 (June)	-278 (July)	- 5

Headline total	3,280	3,280	/
less claimant school leavers	-102	-92	+ 10
less seasonal factors	+ 45	+36	- 9

Adult unemployment (seasonally adj):	3,223	3,224	+ 0
of which			
- Males	2,211	2,208	- 3
- Females	1,012	1,016	+ 4

*Given that the unemployment count date is early in the month, the effect at the end of the previous month is more relevant than the effect at the end of the same month.

5 The stock of unfilled vacancies, seasonally adjusted, increased by 6,000 in August to 201,000. This is the highest level since 1979.

6. Points of interest are:

But unnecessarily masochistic to put these points!

(a) Seasonally adjusted total highest on record, equivalent to 11.7 per cent of working population (13.1 per cent on old definition). August saw ninth consecutive monthly increase.

(b) Headline total highest August level recorded - equivalent to 11.9 per cent of working population. The September figures will show a sharp increase in the headline total of about 100,000. Seasonal influences will cause some increase in adult unemployment and in addition, this year's summer school leavers become eligible for benefit for the first time.

(c) Upward trend in unemployment is put by D.E. at 5-10,000 a month (compared with DE's assessment last month of 10,000-15,000).

(d) Male unemployment has been broadly unchanged since March following a large rise between February and March. Over the same period female unemployment rose steadily by more than 5,000 a month.

CHANGES IN UNEMPLOYMENT - SEASONALLY ADJUSTED
excluding school leavers ('000s)

		Male	Female
1986	Feb	+2.0	+5.7
	March	+31.1	+6.6
	April	- 5.2	+6.8
	May	+ 1.4	+3.8
	June	+ 5.1	+9.1
	July	- 1.6	+6.0
	August	- 3.2	+3.6

(e) Restart began to affect the count in August. DE's provisional assessment is that Restart has so far reduced the claimant total by about 5,000.

Employment figures

7. There have been some minor revisions to the figures for the whole economy employed force which is now estimated to have increased by 25,000 in 1986Q1 and by 975,000 between June 1983 and March 1986.

8. The number of employees in employment in manufacturing industries is estimated to have decreased by 18,000 in July 1986 compared with an average monthly fall of 13,000 in 1986H1.

Assessment of Unemployment and Employment Statistics

9. Recent unemployment and vacancy figures have been more hopeful. The virtually unchanged unemployment figures in August followed a rise of only 4,000 in July. The current upward trend is estimated by DE as 5-10,000 a month compared with 10-15,000 earlier in the year. Special employment measures have been taking an additional 5,000 off the count each month for about the last year. Restart is tentatively estimated to have reduced the count by 5,000 in August.

10. The stock of vacancies has risen in each of the last seven months and in August was at the highest level for seven years. Inflows of notified vacancies (but not placings) are also at their highest levels since 1979.

11. However, the decline in manufacturing employment in July was slightly above the average monthly fall in the first half of the year. The downward trend which followed the faster decline in 1980 to 1983 is continuing but has accelerated from the middle of last year when there was only a very slow downward drift. Overtime hours in manufacturing have been broadly unchanged in recent months and have fallen back slightly from the levels seen in 1985.

Other features

12. Manufacturing output per head in the three months to July was 0.9 per cent higher than a year earlier. It fell by $\frac{3}{4}$ per cent between 1985Q2 and 1985Q3 as output fell and employment was flat, was broadly unchanged in 1985Q4 and 1986Q1 given the similar proportionate falls in employment and output, and has since risen as output has recovered and employment has continued falling.

Manufacturing output per head in the three months to July was 26 per cent higher than in 1979Q1 and 32 per cent higher than the trough in 1980Q4.

13. Industrial stoppages

i. 2.3 million days were lost in year to July 1986. The current level of days lost is at its lowest level since September 1967.

ii. 893 stoppages have been recorded in year to July 1986 - the lowest figure for any twelve month period since the year to August 1939.

14. The 12 month change in whole economy average earnings (underlying) has been $7\frac{1}{2}$ per cent in every month but one since July 1984. This is the first month that DE has published a series for average earnings in services. This is intended to give a more balanced picture of developments within the whole economy. The 12 month change for services (underlying) was $7\frac{1}{4}$ per cent in July, slightly above the 12 month change earlier this year reflecting higher public sector settlements in particular that for teachers. The 12 month change for manufacturing (underlying) has fallen from 9 per cent last summer to $7\frac{3}{4}$ per cent in the last four months, reflecting a fall in hours worked.

Press Release and briefing for No 10

15. You have seen Caroline Slocock's letter of 15 September to No 10 which encloses briefing for the Prime Minister on the combined press release. We understand that, as usual, a DE Minister will be issuing a statement to accompany the press notice. As usual, we suggest your office may like to contact DE to ensure the tone is appropriate.

16. Press comment is likely to be more favourable this month given the virtually unchanged level of unemployment in August and the buoyant vacancies picture. There may be some questioning of why the level of vacancies is so high when the level of unemployment is also high.

LINES TO TAKE

17. Unemployment/Vacancies:

Positive

On unemployment

Unemployment virtually unchanged in August.

Male unemployment has been flat since March.

On vacancies

Stock of vacancies has risen in each of the last seven months and is at highest level for seven years.

Defensive

When will unemployment start falling?

Not the practice of this or previous governments to publish forecasts of unemployment. But recent figures encouraging.

18. Employment

Positive

- (i) Around one million more jobs created since June 1983.
- (ii) Rises in employed labour force recorded for twelve successive quarters - longest period of continuous growth for twenty years.

Defensive

(i) Fall in employment in 1986Q1 but for arbitrary assumption on self-employment
Assumption on growth in self-employment in Q1 perfectly reasonable - based on average growth between 1981 and 1985 and therefore no reason to suspect upward bias.

(ii) Increase in employment slowing; jobs increase in 1986Q1 smallest quarterly increase since recovery in employment began.

Even so, employment has increased over 12 successive quarters. Smaller increase may in part be attributable to special reductions in employment in newspaper industry and adverse weather conditions and continuing possibility that seasonal adjustment is inappropriate.

(iii) Large falls in manufacturing employment in recent months.

Shows need for more realistic pay settlements. But average monthly fall since June 1983 half that under Labour Government.

19. Other features

Positive

Strike record: In 12 months to July number of stoppages lowest recorded for almost 50 years; number of working days lost lowest for almost 20 years.

Productivity: Output per head in manufacturing in 3 months to July over 30 per cent above trough of 1980Q4.

Defensive

UK productivity miracle has come to an end.

Slowdown in productivity growth has occurred in all major industrialised countries. Reflects temporary pause in output growth. Already signs of productivity growth picking up. Manufacturing productivity in latest three months $1\frac{1}{4}$ per cent above Q1 level.

GWYN HACCHE

Gwyn Hacche

LABOUR MARKET TRENDS

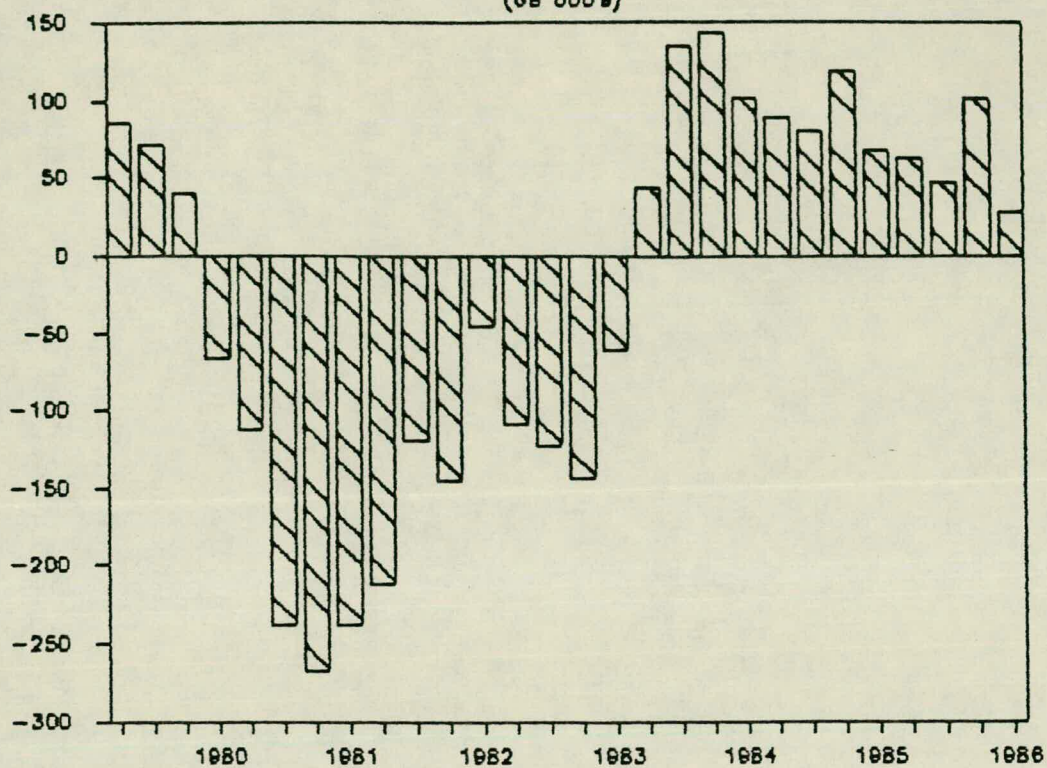
all figures seasonally adjusted

	Whole Economy (UK)		Great Britain					Average Weekly Hours per operative
	Adult Unemployment changes	Stock of Notified Vacancies	Employed Labour Force ** Changes (Quarterly)	Employees in Employment Changes (Quarterly)	Manufacturing			
					Employees in Employment Changes	Short-time (operatives)	Overtime (operatives)	
	000s, monthly average change in 3 Months ended	000s, average of 3 months ended	000s	000s	000s, monthly average in 3 months ended	millions of hours lost	millions of hours worked	Index 1980=100
1981 Mar	70	90	-237	-264	-55	5.9	8.5	96.8
June	56	82	-211	-238	-45	4.6	9.2	98.6
Sept	41	90	-118	-132	-27	2.6	9.9	100.2
Dec	27	102	-145	-155	-28	1.9	10.0	100.1
1982 Mar	18	113	-45	-53	-18	1.8	10.3	100.6
June	25	113	-109	-117	-31	1.8	10.2	100.6
Sept	26	113	-122	-135	-29	1.6	9.8	100.4
Dec	29	116	-143	-153	-29	1.6	9.7	100.7
1983 Mar	17	123	-61	-74	-21	1.3	9.8	101.0
June	21	133	44	30	-16	1.1	9.6	101.0
Sept	3	145	134	62	-12	0.6	11.0	102.0
Dec	7	148	144	75	-6	0.5	11.2	102.4
1984 Mar	17	146	101	31	-9	0.6	11.2	102.5
June	6	149	89	20	-1	0.7	11.6	102.6
Sept	18	152	80	51	-1	0.7	11.5	102.5
Dec	8	154	119	93	3	0.5	11.9	103.2
1985 Mar	11	154	69	44	-5	0.5	11.9	103.1
June	7	162	64	37	0	0.3	12.4	103.3
Sept	3	164	48	18	0	0.4	12.2	103.4
Dec	3	168	102	73	-4	0.3	12.2	103.6
1986 Mar	22	165	25	-4	-12	0.5	11.7	103.0
June	7	175			-13	0.4	11.3	102.6
August	6	194			-16	0.3	11.5	102.7

**UK employees in employment, armed forces, plus an assumed 31,000 increase per quarter in self employment from 1985Q3

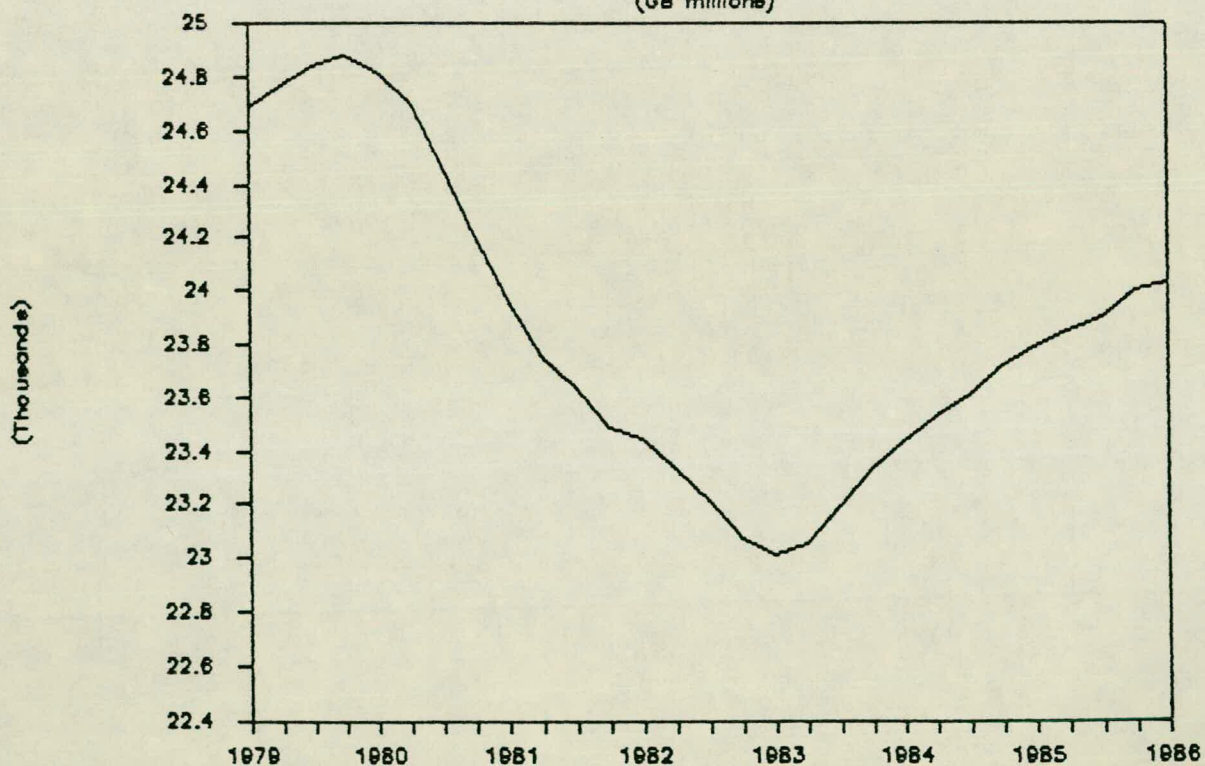
Changes In Employment

(GB 000's)



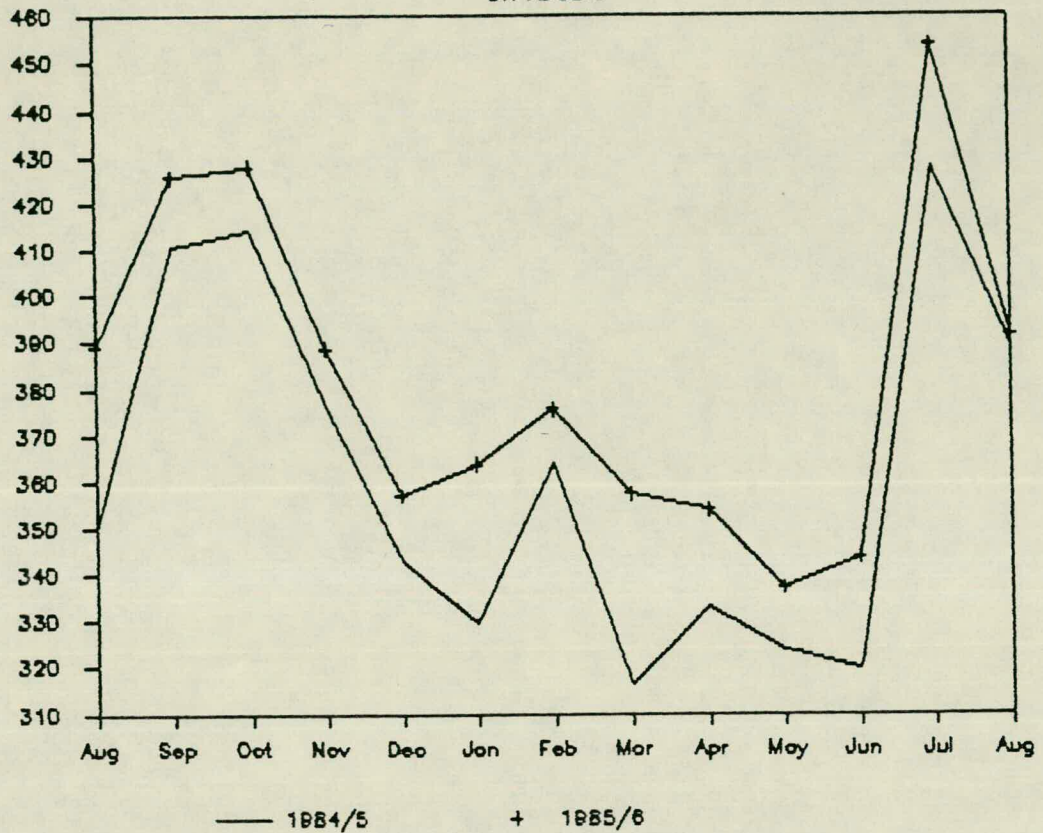
Employed Labour Force

(GB millions)



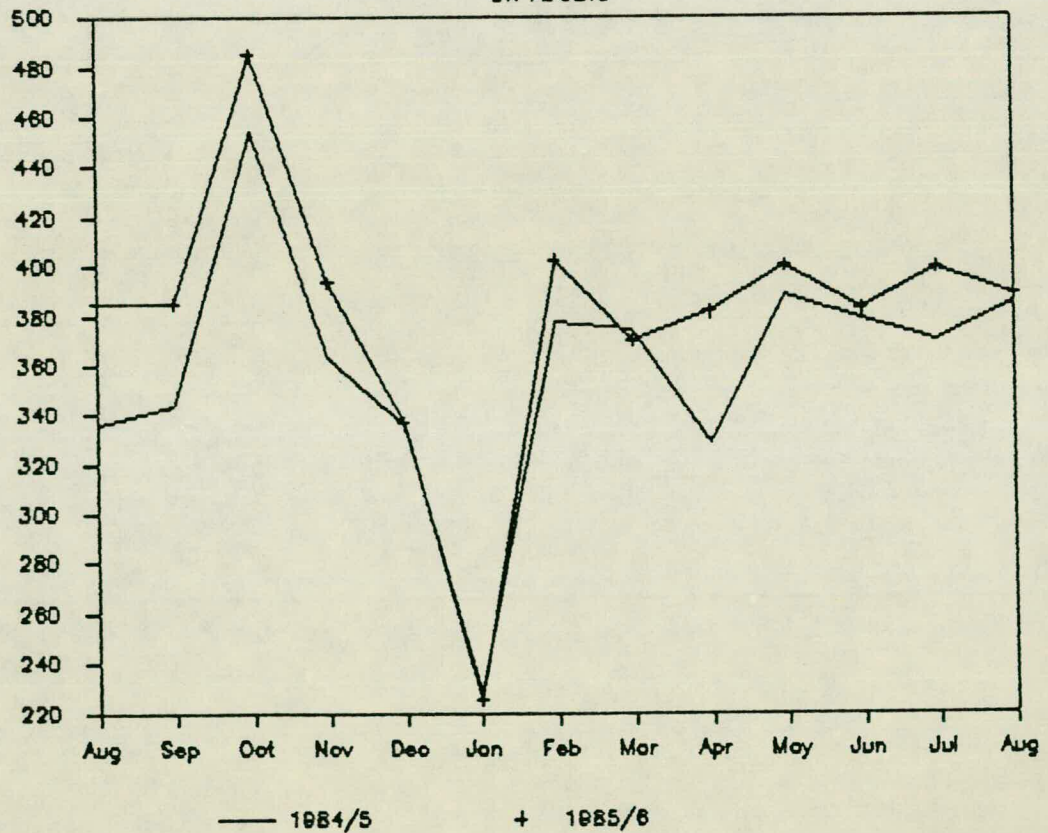
INFLOWS

UK ADULTS



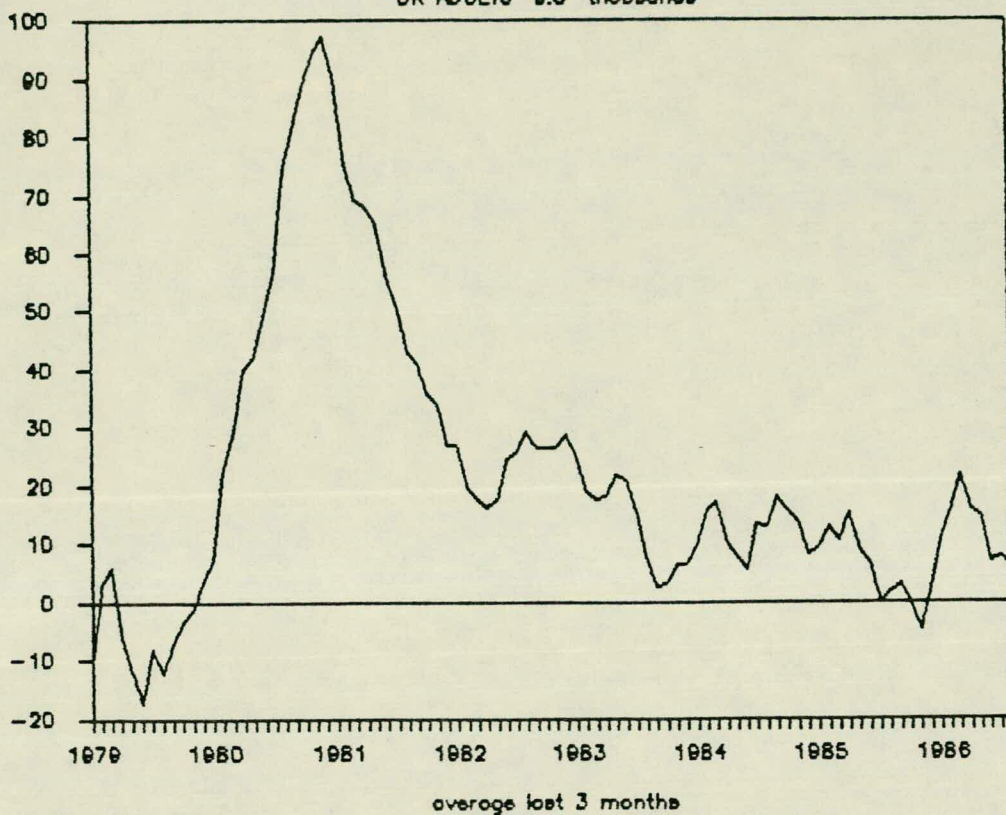
OUTFLOWS

UK ADULTS



CHANGES IN UNEMPLOYMENT

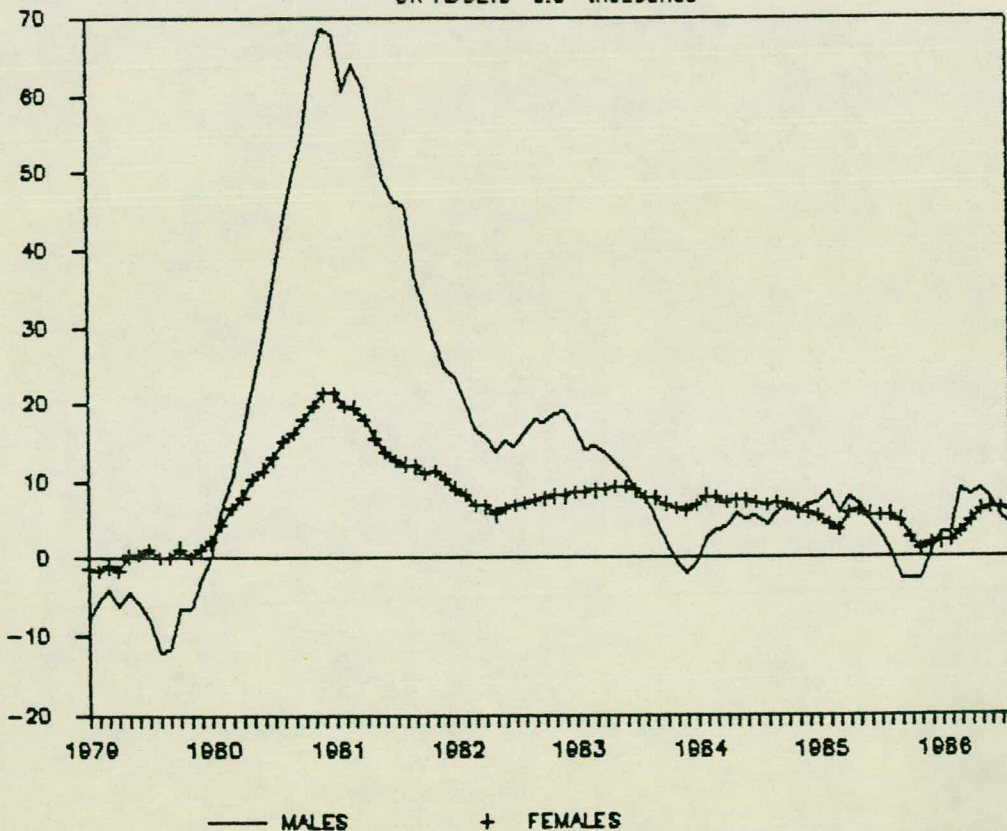
UK ADULTS s.o thousands



CHANGES IN UNEMPLOYMENT BY SEX

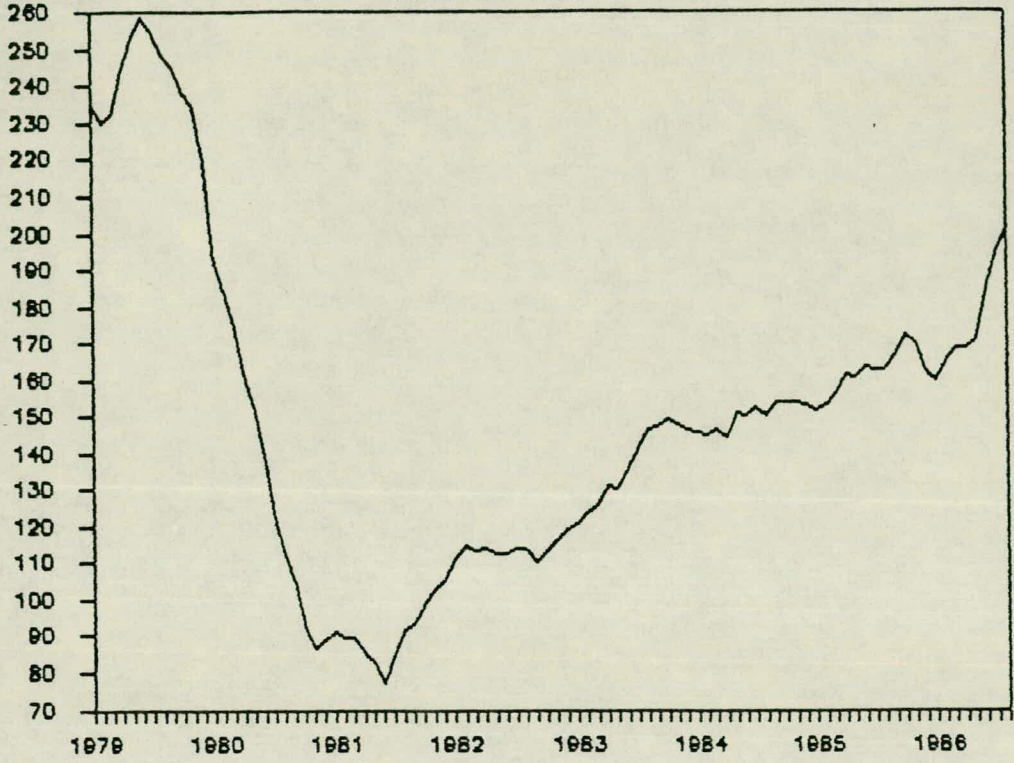
UK ADULTS s.o thousands

average last 6 months



VACANCIES

UK ADULTS e.o thousands



SECRET AND PERSONAL until release of Press Notice
on Wednesday 24 September 1986 at 11.30 am

To:

Copy No. 3 (23)

MINISTER FOR TRADE

From:

P J STIBBARD
US/S2
V/260 Ext. 4872

18 September 1986

Ch
Will need v careful
press handling

yes. (W) not have come @
AA
a worse point. (what with
current account surplus
for the year to date?)
W.

OVERSEAS TRADE FIGURES FOR AUGUST

On 15 September I reported the August export figures. The corresponding import figures are now available. They are at a very high level, with the result that the overall current balance for August (-£0.9bn) shows a rather greater deficit than in March (-£0.7bn), which itself was a record deficit. Similar deteriorations are seen in the balances for non-oil goods, and manufactures.

Very true

Clearly in this month's press briefing it will be more important than normal to play down the significance of one month's figures. The usual analysis of the figures follows.

THE CURRENT ACCOUNT

In August, exports were valued at £5.5 billion and imports at £7.0 billion so that visible trade, seasonally adjusted on a balance of payments basis, showed a deficit of £1.5 billion compared with a deficit of £0.6 billion in July.

The Central Statistical Office project a surplus of £0.6 billion for invisibles in August so that the current account is provisionally estimated to have been in deficit by £0.9 billion compared with a broad balance in July.

TABLE 1: CURRENT BALANCE, VISIBLE TRADE AND INVISIBLES
(Table 2 of Press Notice)

	Current Account Balance	Visible Trade Total	Balances		Seasonally adjusted Balance of Payments basis
			Oil	Non-Oil	£ million Invisibles Balance
1984	+1212	-4384	+6937	-11321	+5596
1985	+3602	-2111	+8163	-10274	+5713
1986 Mar-May	- 351	-2195	+ 783	- 2978	+1844
June-Aug	- 843	-2696	+ 771	- 3467	+1853
1986 June	+ 30	- 623	+ 279	- 901	+ 653
July	+ 12A	- 588	+ 281	- 869	+ 600A
August	- 886A	-1486	+ 211	- 1697	+ 600A

A = Projection

In the three months ended August there was a deficit on visible trade of £2.7 billion - a surplus on trade in oil of £0.8 billion offset by a deficit of £3.5 billion on non-oil trade. Between the three months ended May and the latest three months the deficit on visible trade increased by £0.5 billion reflecting an increase in the deficit on non-oil trade - the surplus on oil was little changed.

EXPORTS

The value of exports in August was £519 million (8½ per cent) lower than in July. Exports of oil fell by £120 million and exports of the erratic items fell by £205 million. Excluding oil and the erratic items, exports were 4 per cent lower than the high level reached in July.

In the three months ended August, total export volume was 3 per cent higher than in the previous three months and 4 per cent higher than a year earlier. It is not unusual for trade in July and August to follow a somewhat erratic path. Taking the two months together, the underlying level of non-oil export volume continues to show signs of an increase in recent months.

SECRET AND PERSONAL until release of Press Notice
on Wednesday 24 September 1986 at 11.30 am

TABLE 2; EXPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop basis, seasonally adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1984	70367	50894	112.5	107.6
1985	78051	57710	118.6	115.0
1986 Mar-May	17613	14302	118.2	113.4
June-Aug	17286	14621	121.5	116.4
1986 June	5826	4840	120.7	115.9
July	5990	4988	126.6	119.4
Aug	5470	4793	117.3	113.9

By value, exports fell by 2 per cent between the three months ended May and the latest three months but rose by 2 per cent after excluding oil and the erratic items. Exports to the developed countries in total were virtually unchanged between the two periods while exports to the developing countries fell by $9\frac{1}{2}$ per cent.

IMPORTS

The value of imports in August was £379 million (6 per cent) higher than in July. Imports of the erratic items were little changed while imports of oil fell by £49 million between the two months. Excluding oil and the erratic items, imports rose by 7 per cent between July and August. The increase was spread across all of the broad commodity groups within the total for non-oil.

Between the three months ended May and the latest three months, total import volume increased by 5 per cent to be $8\frac{1}{2}$ % higher than a year earlier. Excluding oil and the erratic items, import volume rose by 6 per cent in the latest three months. The underlying level of non-oil import volume continues to rise.

SECRET AND PERSONAL until release of Press Notice
on Wednesday 24 September 1986 at 11.30 am

TABLE 3: IMPORTS BY VALUE AND VOLUME (Tables 1, 4 and 7 of Press Notice)

Bop basis, seasonally adjusted

	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total less oil and erratics	Total	Total less oil and erratics
1984	74751	63282	121.9	137.0
1985	80162	68711	125.8	142.7
1986 Mar-May	19809	17661	129.0	145.0
June-Aug	19982	18473	135.3	153.6
1986 June	6449	5962	129.6	149.6
July	6577	6045	134.0	150.9
Aug	6956	6466	142.3	160.3

By value imports increased by 1 per cent between the three months ended May and the latest three months and by 4½ per cent after excluding oil and the erratic items. Total imports from the developed countries increased by 2½ per cent. Arrivals from the European Community countries increased by 5 per cent and those from North America by 1 per cent. Imports from the developing countries fell by 3½ per cent in the latest three months.

TRADE IN MANUFACTURES

Estimates of trade in manufactures on a balance of payments basis will be published in the Monthly Review of External Trade Statistics. On present estimates, there was a deficit on trade in manufactures of £1.7 billion in the latest three months compared with a deficit of £1.1 billion in the three months ended May. The cumulative deficit for the first 8 months of the year stands at £3.4 billion.

TABLE 4: TRADE IN MANUFACTURES (SITC 5-8) (Table 16 of Press Notice, quarterly data only)

	£ million		
	Seasonally adjusted Balance of payments basis		
	Exports	Imports	Balance
1984	46590	50469	- 3879
1985	52280	55297	- 3017
1986 Mar-May	13369	14425	- 1056
June-Aug	13295	15030	- 1735
1986 June	4498	4848	- 350
July	4598	4894	- 295
Aug	4199	5288	- 1089

SECRET AND PERSONAL until release of Press Notice
on Wednesday 24 September 1986 at 11.30 am

PUBLICATION

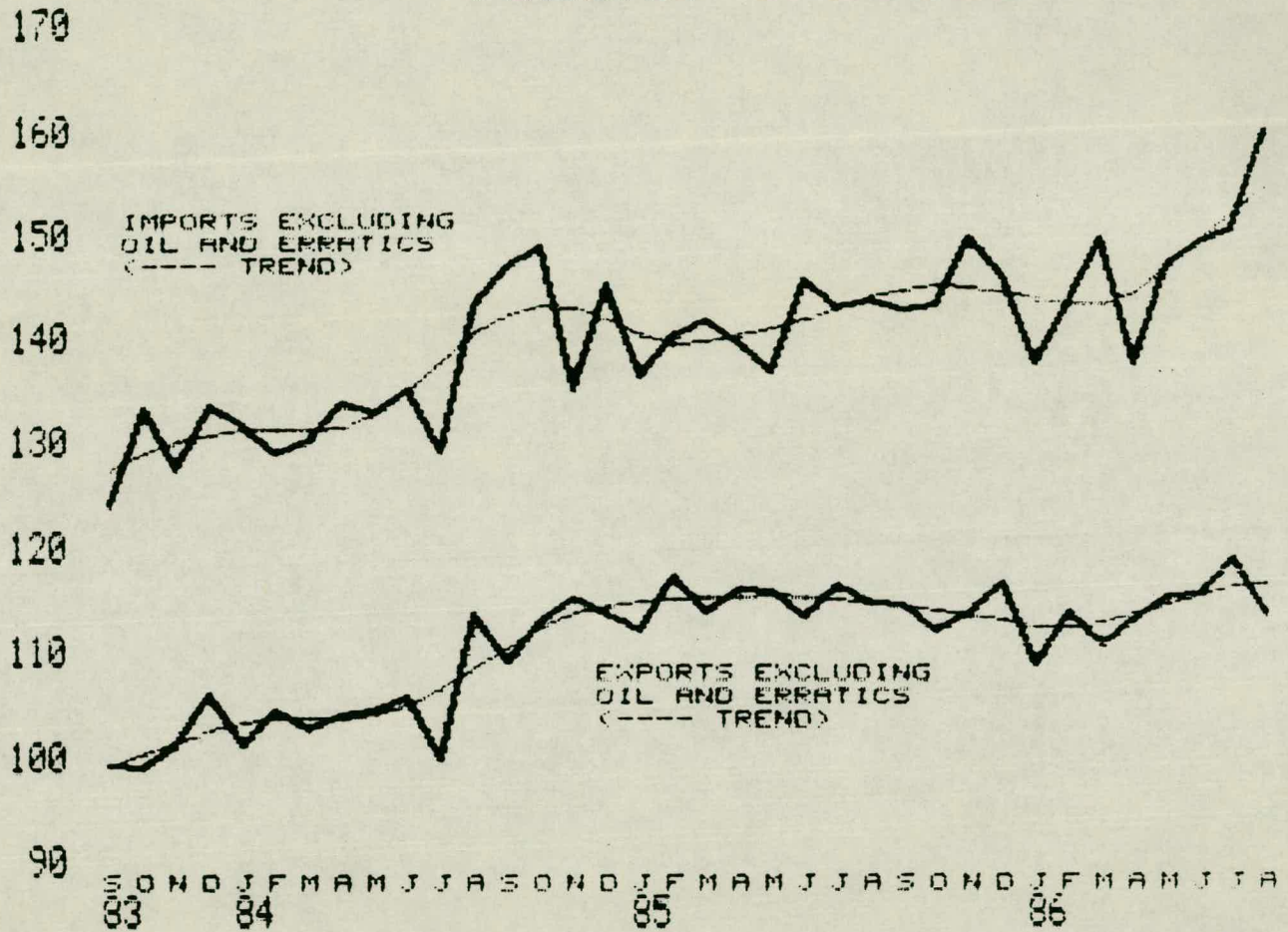
The press notice with the August figures is scheduled for release at 11.30am on Wednesday 24 September 1986. A draft will be circulated tomorrow afternoon.



P J STIBBARD

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11 30AM 24 9 86

VOLUME INDICES



ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

CIRCULATION LIST

Copy No	1	Minister for Trade	
	2	Prime Minister	
	3	Chancellor of the Exchequer	
	4	Secretary of State for Trade and Industry	
	5	Sir Robert Armstrong (Cabinet Office)	
	6	Sir Brian Hayes (Dept. of Trade and Industry)	
	7	Sir Peter Middleton (HM Treasury)	
	8	Governor of the Bank of England	
	9	Chairman of the Board of HM Customs and Excise	
	10	Mr J Hibbert (CSO)	
	11	Mr Finlinson (HM Customs and Excise)	
	12	Mr A Croxford (CSO)	
	13	Mr S King (HM Treasury)	
	14	Mr Barrell (HM Treasury)	
	15	Mr A McIntyre (CSO)	
	16	Dr P Rice (Dept. of Energy)	
	17	Mr H H Liesner)
	18	Mr P Stibbard)
	19	Mr W E Boyd)
	20	Mr E J Wright) Dept. of Trade and
	21	Mr A R Hewer) Industry
	22	Ms F Deuchars)
	23	Miss H Chapman)

~~BIF~~
~~2319~~



PWP

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

PWP

Telephone (Direct dialling) 01-215) 4887
GTN 215)
(Switchboard) 01-215 7877

~~*PWP*~~

Mr A Allan
Principal Private Secretary
Chancellor of the Exchequer
H M Treasury
Parliament Street
LONDON
SW1 3AG

✓

19 September 1986

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

Publication is set for Wednesday 24 September at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Tuesday 23 September and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton and Mr King, H M Treasury.

Yours sincerely

W E Boyd

W E BOYD

Ch
Press Notice is purely factual.
Answer to your question is that
current balance for Jan - Aug
is + £68 million.

AA

FROM: M M COURTNEY

DATE: 19 September 1986

CHANCELLOR

cc Mr Cassell
Mrs Lomax
Mr Ilettc/ The numbers
you asked for

CR 22/19

PHILLIPS AND DREW ECONOMIC BRIEFING - SEPTEMBER

Mrs Ryding's minute of 18 September asked for the 1979 equivalents of some of the end-1985 figures in Table 2 of the Phillips and Drew Briefing. The 1979 and 1985 figures are set out below (together with the personal sector's equity in life assurance and pension funds, excluded from the Phillips and Drew table).

Household Wealth

End - 1979 £bn

Assets

Dwellings	282
Liquid savings*	78
Illiquid savings+	46
Total	406

Liabilities

Home loans	45
Credit	10
Total	55
"Wealth"	351

Memorandum Life assurance and pension fund equity 78

End - 1985 £bn

Assets

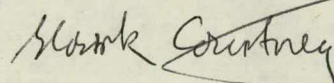
Dwellings	550	2 Inc
Liquid savings*	182	95
Illiquid savings+	108	133
Total	840	135

Liabilities

Home loans	127	2 Inc
Credit	26	182
Total	152	160
"Wealth"	688	176
		96

Memorandum Life assurance and pension fund equity 267

* bank and building society deposits and national savings products
+ direct investments in equities, gilts and unit trusts.



M M COURTNEY

purp

FROM: S D KING
DATE: 23 SEPTEMBER 1986

1. MR SEDGWICK *See note below.* *P.N.J.* cc see attached list
2. CHANCELLOR OF THE EXCHEQUER *23. IX*

*Ch
Bonaparte is (rights) brief.
I have a... AA*

AUGUST TRADE FIGURES

The August trade figures will be released at 11.30 am on Wednesday 24 September. They will show a deficit on the current account of just under £0.9 billion, following a surplus of £12 million in July. **In nominal terms this is the largest monthly deficit ever although, as a percentage of nominal GDP it is smaller than some of the deficits recorded during the mid-1970s.** Visibles were in deficit by £1.5 billion (again, only an all time high in nominal terms), partially offset by an estimated surplus of £0.6 billion on invisibles.

Main points

2. (i) The visible trade account deteriorated by £0.9 billion in August; combined with an unchanged estimate for invisibles, this gave a current account deficit of £886 million.
- (ii) Exports fell back from their very high July level. **Non-oil export volume, excluding erratics, fell by 4½ per cent. However in the three months to August they rose by 2½ per cent and 1 per cent on the previous three months and previous year respectively.** DTI estimate that the underlying level of non-oil export volumes continues to show signs of having increased in recent months.

- (iii) Non-oil import volumes, excluding erratics, rose by over 6 per cent in August compared with July, and by 6 per cent and $6\frac{1}{2}$ per cent in the latest three months compared with the previous three months and the previous year respectively. There is no obvious explanation for the sudden increase: it was spread uniformly over most areas (consumer goods, manufactures). However, combined with the sharp rise in exports in July, the August import figures seem to suggest that the trade figures have followed a somewhat erratic path in the last two months.
- (iv) The August oil trade surplus, at £211 million, was a little lower than in July. Both volumes and average values of exports and imports fell, reflecting spot prices in July.
- (v) The deficit on trade in manufactures rose from £295 million in July to £1089 million. This was an all time high, both in nominal terms and as a percentage of nominal GDP. In the three months to July export volumes rose by 2 per cent on the previous three months, but by only $\frac{1}{2}$ per cent on the previous year; import volumes rose by 7 per cent, but fell by $3\frac{1}{2}$ per cent on the previous year.
- (vi) By geographical area, total exports to the developed countries (in value terms) in the latest three months were virtually unchanged on the previous three months. Exports to the developing countries, however, fell by $9\frac{1}{2}$ per cent in the latest three months, largely due to weak demand in OPEC. Total imports from the developed countries rose by $2\frac{1}{2}$ per cent over the same period; from the developing countries they were down by $3\frac{1}{2}$ per cent.

interesting
- point
worth making

Comparison with Forecast

+68
3. The current account forecast underlying the FSBR for the first three quarters of 1986 was £2.9 billion. The equivalent figures contained in the internal June forecast was £1.6 billion. The August figures, however, suggest that the cumulative current account for the first eight months of 1986 has been more or less in balance; it therefore seems that, provisionally, neither forecast will be met (indeed, the August deficit on visible trade is larger than the deficit forecast in June for the entire third quarter). You will remember, however, that you have already indicated publicly that the FSBR forecast may well turn out to have been too optimistic.

Trade prices

4. The overall terms of trade improved by $\frac{1}{2}$ per cent in August. In the latest three months the terms of trade were 2 per cent better than in the previous three months and 4 per cent better than in the same period a year earlier. The non-oil terms of trade improved by a little over 1 per cent on the previous month and, in the latest three months by 1 and 3 per cent on the previous three months and year respectively. Both export and import prices rose in August, though the rise in export prices was a little sharper.

Percentage Change in Trade Prices

	Import Prices Compared to		Export Prices Compared to	
	one month ago	one year ago	one month ago	one year ago
Manufactures	$\frac{1}{2}$	3	2	4
Food, drink, tobacco	$\frac{1}{2}$	$1\frac{1}{2}$	0	$4\frac{1}{2}$
Basic materials	-1	$11\frac{1}{2}$	$1\frac{1}{2}$	$-10\frac{1}{2}$
Fuel	$-2\frac{1}{2}$	53	-9	59

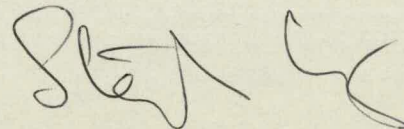
Market Expectations

5. The market consensus is for a current account deficit of £600 million and a visible trade deficit of £1,200 million.

??
At odds with some of the stuff I've seen

Press Briefing

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



S D KING
 EA2

The poor trade figures for August are particularly unwelcome at a time when both the domestic financial markets and the exchange rate show signs of fragility. Because of the difficulties that the trade figures could cause we have consulted Sir T Burns on the analysis in this note and the draft press briefing. Our strong preference is to emphasise the considerable 'noise' in recent monthly figures, but, that said, not to try to explain away the poor figures for August. To do so could even increase rather than diminish the misgivings that market operators are likely to have when the figures are released.

P. N. J

P N SEDGWICK

DRAFT BRIEFING FOR IDT

Positive

1. Non-oil export volumes, excluding erratics, up by 2½ per cent in latest three months on previous three months, and up by 1 per cent on previous year. Underlying trend now resumed upward path after slight fall during 1985.

Defensive

1. Deficit of £0.9 billion in August

Never draw conclusions from a single month's figures. Movements in trade figures are always erratic in the last two months, and therefore unwise to place great emphasis on August figures. Similar deficit in March was promptly followed by a month of surplus in April.

2. FSBR Current Account Forecast Too Optimistic [~~Given Fall in Oil Price~~]

[Current account surplus of £3½ billion forecast for 1986 after £3.6 billion in 1985. Current account ^{in FSBR} ~~more or less in balance~~ *only pick up small surplus in surplus* in year to August.]

insurplus by £0.1 billion. always use this

~~Quite possibly~~, as Chancellor has made clear; an updated forecast will be published as usual in the Autumn.

3. On basis of latest figures, seems likely that current account will be in large deficit in 1987.

Much too soon to say.

~~Cannot judge on basis of one month's figures.~~ Current account will benefit from likely pick-up in world trade, ~~together with recent recovery in oil price.~~

4. Import volume picking up.

Some rise to be expected given pick up in economic growth; indeed, similar experience has been shared by other countries in G5. However, August figures ^(clearly) probably overstate the underlying rise.

5. Growth in exports slowing down

July figures unusually high, and consequent fall in August probably represents erratic monthly movement. Underlying trend still remains upward, despite weak demand in LDCs and OPEC.

6. Trade in manufactures

[Deficit of £1089 million in August, giving cumulative deficit for first eight months of year of £3.4 billion. Compares with deficits for 1984 and 1985 as a whole of £3.9 and £3.0 billion respectively.]

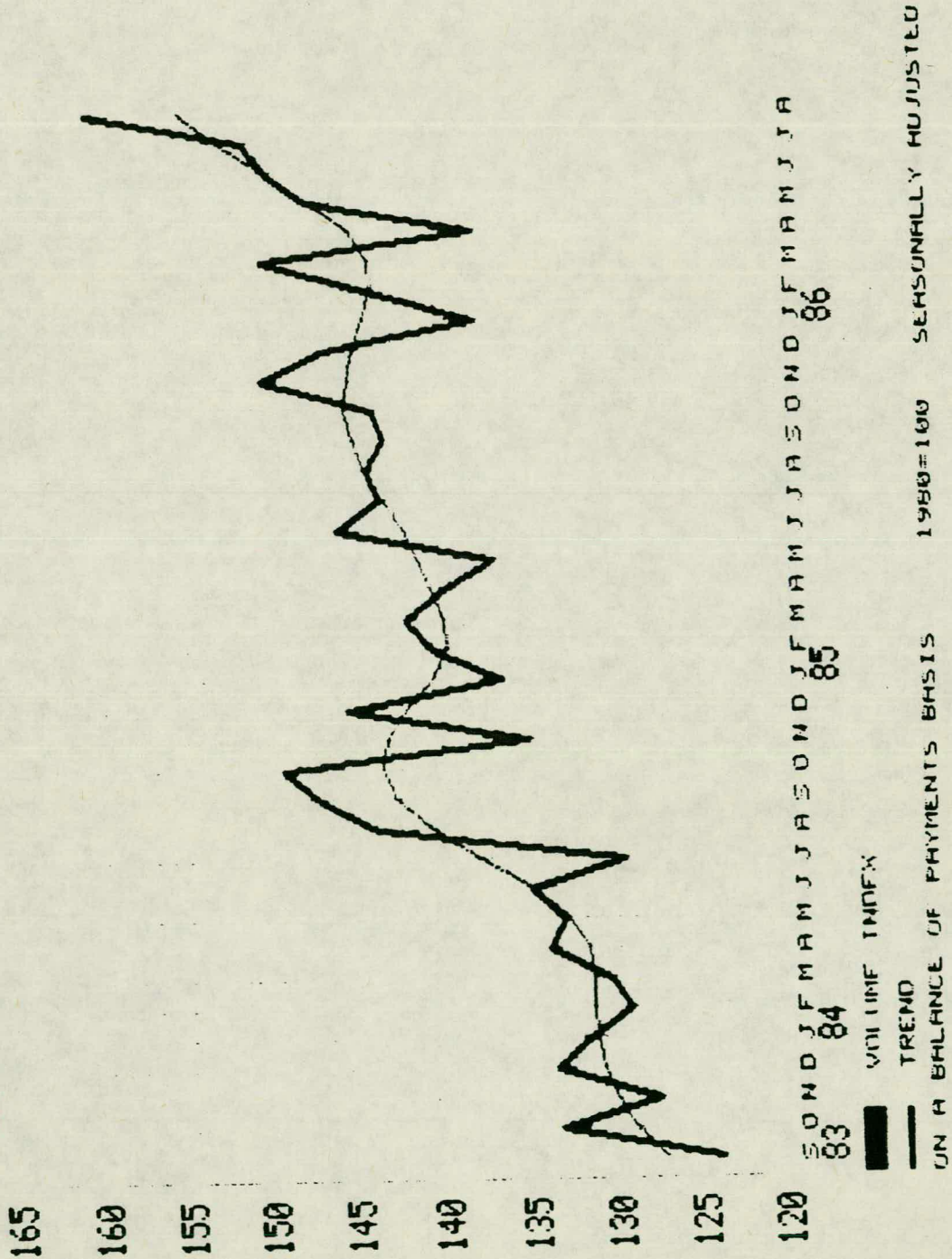
Figures have moved erratically in past few months, and therefore not sensible to read too much into one month's figures. In any case, manufacturing as a whole continues to make progress; for example, manufacturing output has grown in every year since 1981, longest period of uninterrupted growth since 1970: manufacturing profitability, at 8 per cent, highest since 1973: manufacturing investment up 2 per cent in 1986Q2 on 1985Q2.

7. Government welcome lower exchange rate because of deficit

Chancellor has made clear that depreciation is not an easy ^{escape} ~~escape~~ from ~~excessive pay settlements~~.

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11 30AM 24 9 86

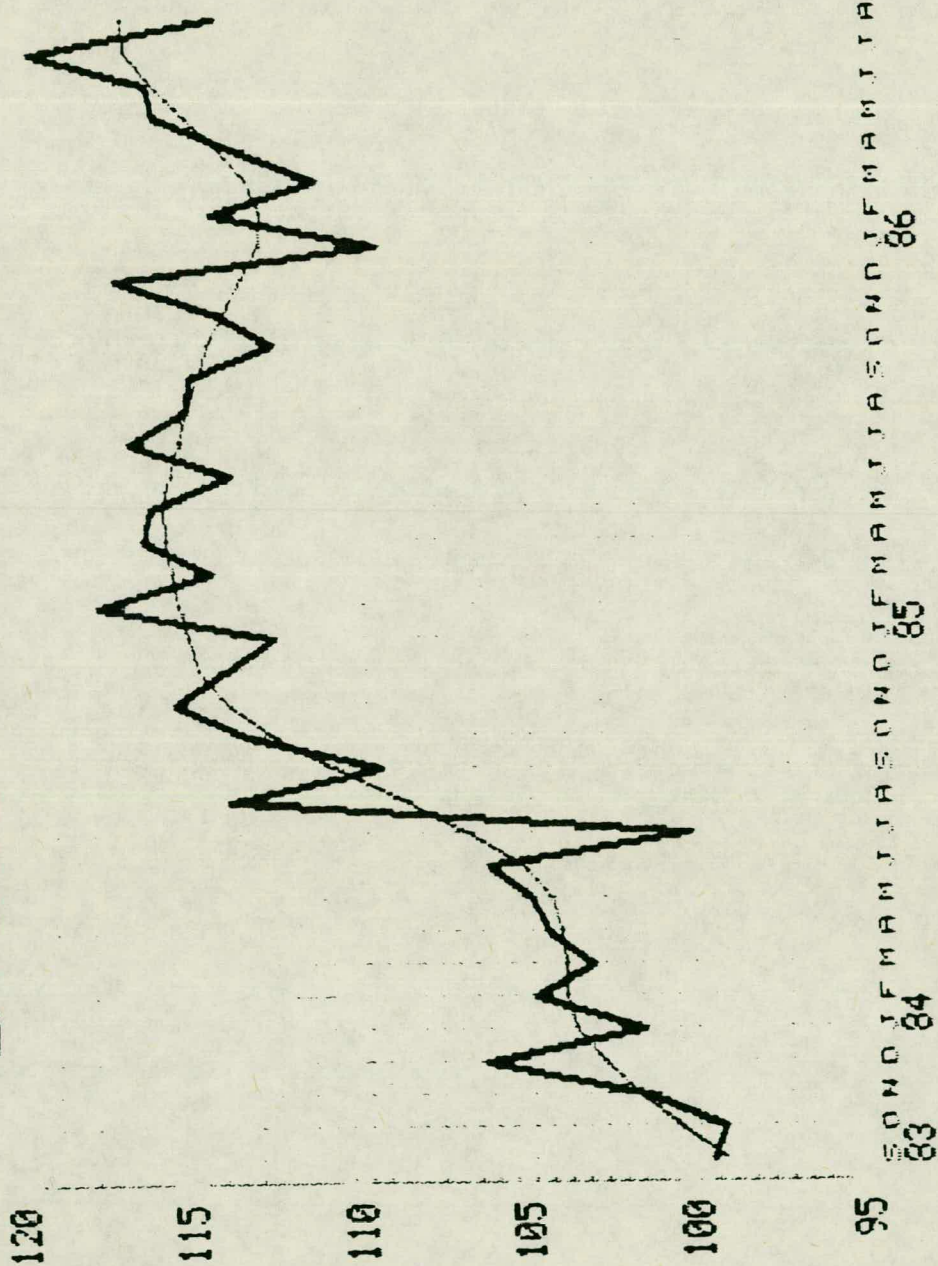
IMPORTS LESS OIL AND ERRATICS



S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A
83 84 85 86

■ VOLUME INDEX
— TREND
ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE AT 11:30AM 24.9.86
EXPORTS LESS OIL AND ERRATICS



50ND JF MAM J JASON D JF MAM J JASON D JF MAM J J A
 83 84 85 86
 VOLUME INDEX
 TREND
 ON A BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

TABLE 1 : CURRENT ACCOUNT (£billion)

	1985	1986			1986			1986 year to date
		Mar-May	June-Aug	June	July	Aug		
Oil	8.1	0.8	0.8	0.3	0.3	0.2	3.1	
Non-oil	-10.3	-3.0	-3.5	-0.9	-0.9	-1.7	-8.3	
Total visible trade	-2.1	-2.2	-2.7	-0.6	-0.6	-1.5	-5.1	
of which: trade in manufactures (BOP basis)	-3.0	-1.1	-1.7	-0.4	-0.3	-1.1	-3.4	
Invisibles	5.7	1.8	1.9	0.7	0.6*	0.6*	5.2*	
Current Account	3.6	-0.4	-0.8	0.0	0.0*	-0.9*	0.0*	

* projection

TABLE 2 : VISIBLE EXPORTS AND IMPORTS - PERCENTAGE CHANGES

<u>EXPORTS</u>	1986 Aug on July	1986 June-Aug on Mar-May	1986 June-Aug on 1985 June-Aug
Total value	-8½	-2	-9
Total volume (BOP basis)	-7½	3	+4
Total volume excl. oil and erratics (BOP basis)	-4½	2½	+1
Manufactures volume (excl. erratics, OTS basis)	-6	+2	+½
Fuels volume	-12½	+1	+6½
 <u>IMPORTS</u>			
Total value	+6	+1	+2½
Total volume (BOP basis)	+6	+5	+8½
Total volume excl. oil and erratics (BOP basis)	+6	+6	+6½
Manufactures volume (excl. erratics, OTS basis)	+6½	+7½	-3½
Fuels volume	-13½	+14	+33

TRADE FIGURES FOR JULY 1986

Advance circulation

Chancellor
Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr H P Evans

Mr C W Kelly
Mr Mowl
Miss O'Mara
Mr Culpin
Mr S Robson
Mr Barrell
Mr Towers

Mr Gill - Bank o England

Mr Norgrove - No 10

Miss Deuchess - DTI

Circulation after 11.30 am on Wednesday 27 August 1986

Financial Secretary
Minister of State
Mr Lankester (Washington)
Mr Matthews
Mr Shaw

Mr Hacche
Mr Tyrie
Mr Ross Goobey
Miss Roche (No.10)

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 29 September 1986

Published estimates for the second quarter of 1986 suggest that, after a period of flatness in 1985, GDP continued to rise in 1986 to a level nearly $1\frac{1}{2}$ per cent higher than in the corresponding period a year earlier. The very limited information so far available for the third quarter of 1986 indicates that economic activity is likely to have expanded further, by about $\frac{1}{2}$ per cent compared with the previous quarter.

The trend in unemployment continues upward, at a rate of 5 to 10 thousand a month although this is slower than earlier in the year. Without the favourable impact of employment measures particularly the growth in the Community Programme, the rate of increase would still be in the range of 10 to 15 thousand a month, as it has been for most of the past three years.

The annual rate of inflation was 2.4 per cent in both July and August and has now been 3 per cent or below for the last five months. This compares with a rate of $5\frac{1}{2}$ per cent at the beginning of the year and 7 per cent for the middle of 1985. A moderate increase in the rate of inflation is expected for September.

In September, sterling has been depreciating against most European currencies particularly the Deutschmark and to a lesser extent against the dollar. Sterling's ERI started at 71.0 at the beginning of the month and opened at 68.8 today.

In the first five months of 1986/7 the PSBR stood at £3.8 billion compared with £4.3 billion in the corresponding period the previous year. Most of the year's borrowing occurs in the first half of the financial year.

After including the large trade deficit in August, the current account was, on present estimates, in broad balance in the first eight months of 1986. Visible trade is estimated to have been in deficit by £1.5 billion in August, compared with deficits of a little more than £0.5 billion in each of the previous three months. Whilst there has been some worsening in the UK's underlying trading position in recent months, the size of the deficit in August overstates this development. The underlying trend of non-oil import volume continues to rise; at the same time the underlying level of non-oil export volume also appears to be still upwards.

RECENT RATES OF CHANGE AND ASSESSMENT OF CURRENT
TREND FOR SOME KEY ECONOMIC INDICATORS

In the following notes, the figures for current trend represent our best assessment of the current underlying rate of increase after making allowance for temporary distorting factors such as strikes, unseasonal weather effects, etc. The figures show how the series are moving currently and may be different from the comparisons over the latest published twelve months.

GDP (average measure) in the second quarter of 1986 was nearly $1\frac{1}{2}$ per cent higher than in the same period a year ago or 1 per cent after discounting the effects of the coal strike. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on average, upwards, though not uniformly so. The assessment of current underlying trend for the third quarter of 1986 is that the rate of increase lies in the range 1-3 per cent per annum.

Industrial production in the three months to July was little changed on the same period a year ago, but was $\frac{1}{2}$ per cent lower after allowing for the effects of the coal strike and other disputes, notably those in the motor vehicles industry. On the same basis, respective figures for manufacturing were $-\frac{1}{2}$ per cent in both cases. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range -1 to +1 per cent per annum. The trend in manufacturing output is in the range -1 to +1 per cent per annum.

Retail prices rose by just under $2\frac{1}{2}$ per cent in the twelve months to August 1986. It is only possible to provide a useful indicator of trend for about 70 per cent of the RPI, mainly that covering private sector prices and excluding eg. mortgage interest, rent, rates, products produced by nationalised industries, seasonal food and petrol. The current trend for this series is 4 per cent per annum. In the twelve months to August 1986 this series rose by 4 per cent (not published).

Producer input prices which had declined almost uninterruptedly in seasonally adjusted terms by over 15 per cent since early last year, showed a small rise of $\frac{1}{2}$ per cent in August and are expected to show a similar small increase in September.

Average earnings (underlying) in the twelve months to July rose by $7\frac{1}{2}$ per cent. The current trend is estimated to be $7\frac{1}{2}$ per cent per annum.

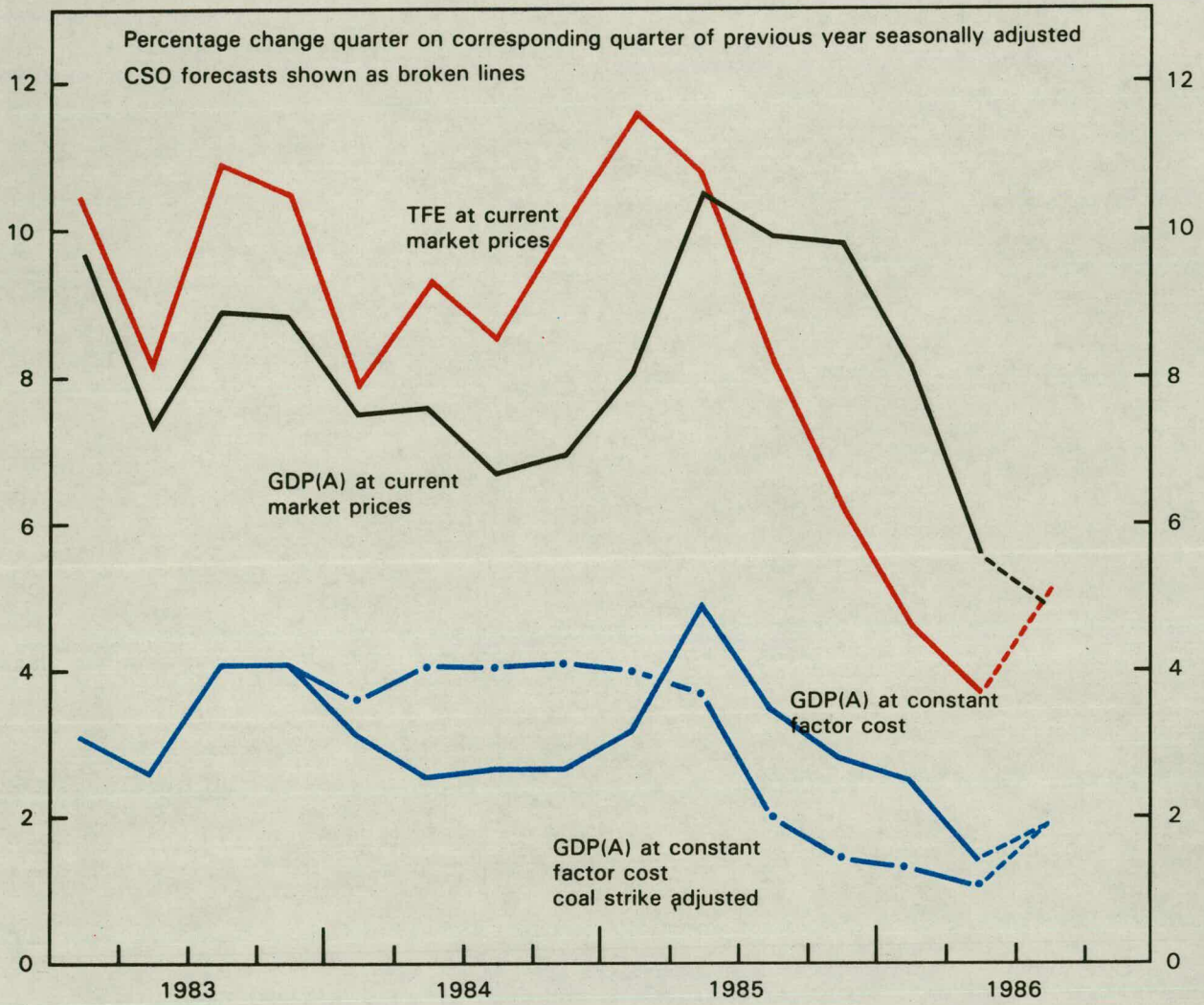
Unit wage costs in manufacturing in the three months to July rose by $6\frac{1}{2}$ per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 6-7 per cent per annum.

Unemployment (excluding school leavers) in the twelve months to August has been rising on average by 8 thousand per month and by 10 thousand per month in the latest six months. The current trend in the published series seems to be an increase of some 5-10 thousand per month; though discounting the effects of employment measures as far as possible it would be in the region of 10-15 thousand.

Movements over the latest published 12 months include any revisions that may have occurred since last publication (in general any such differences only occur in the GDP series).

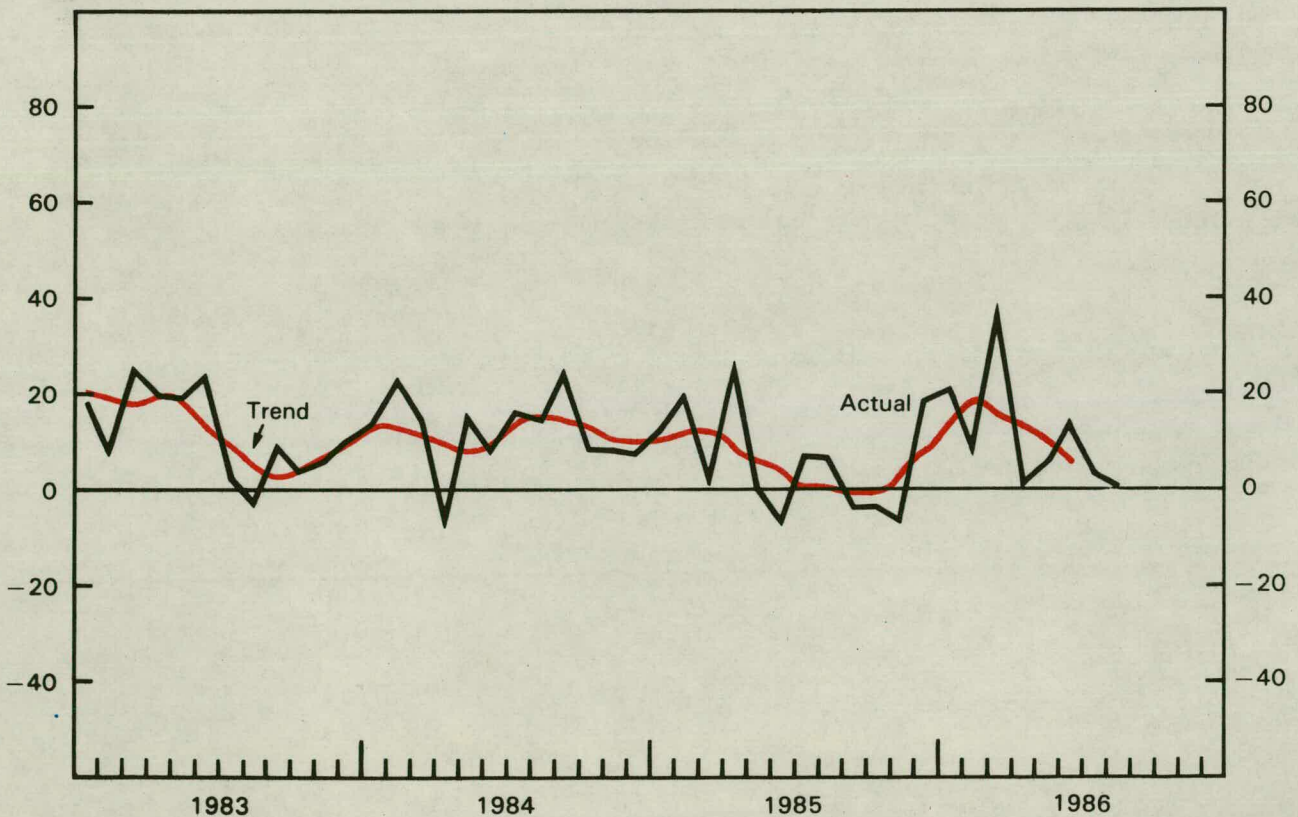
Changes in output and expenditure

CHART 1



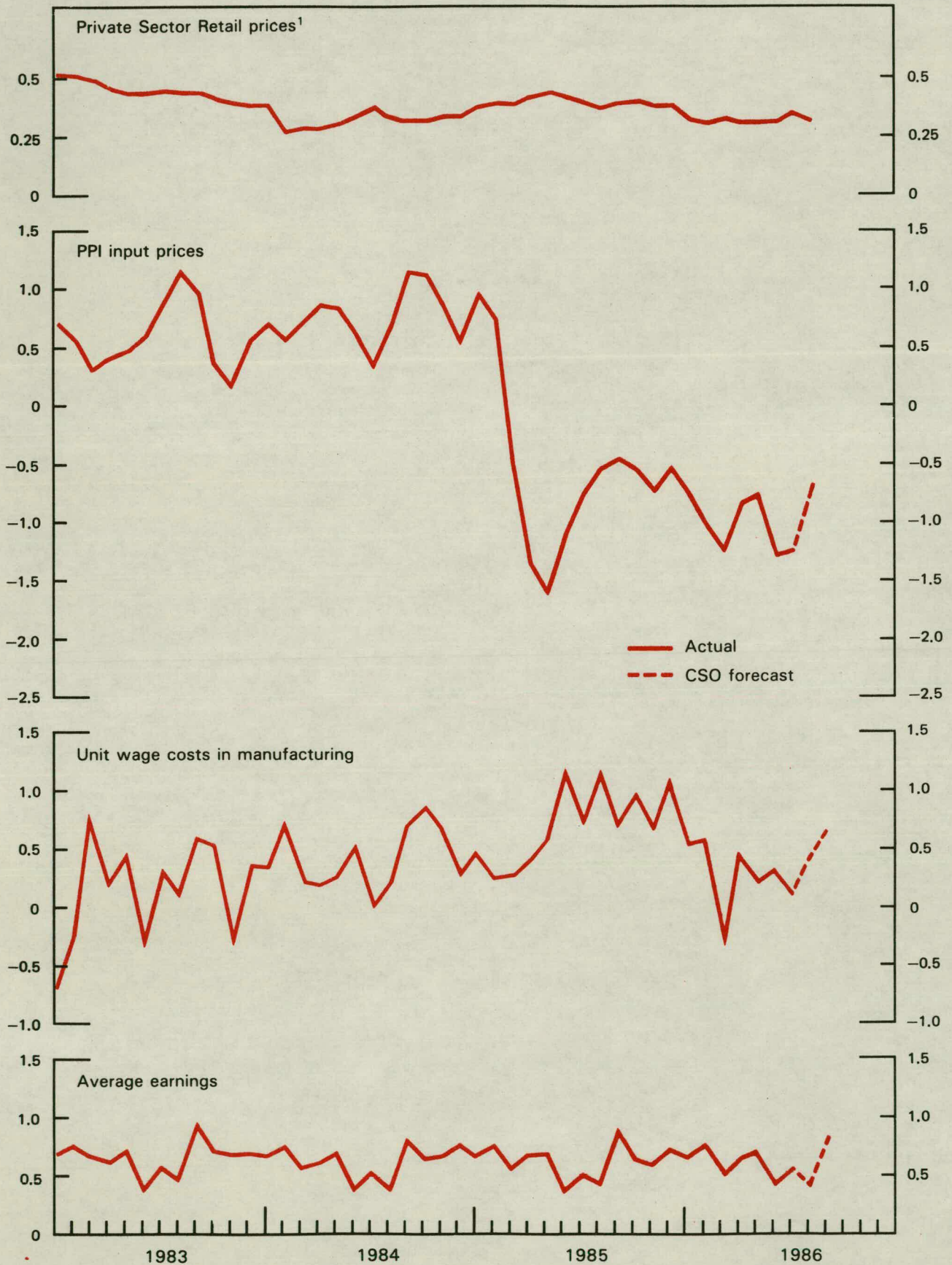
Changes in unemployment

CHART 2



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

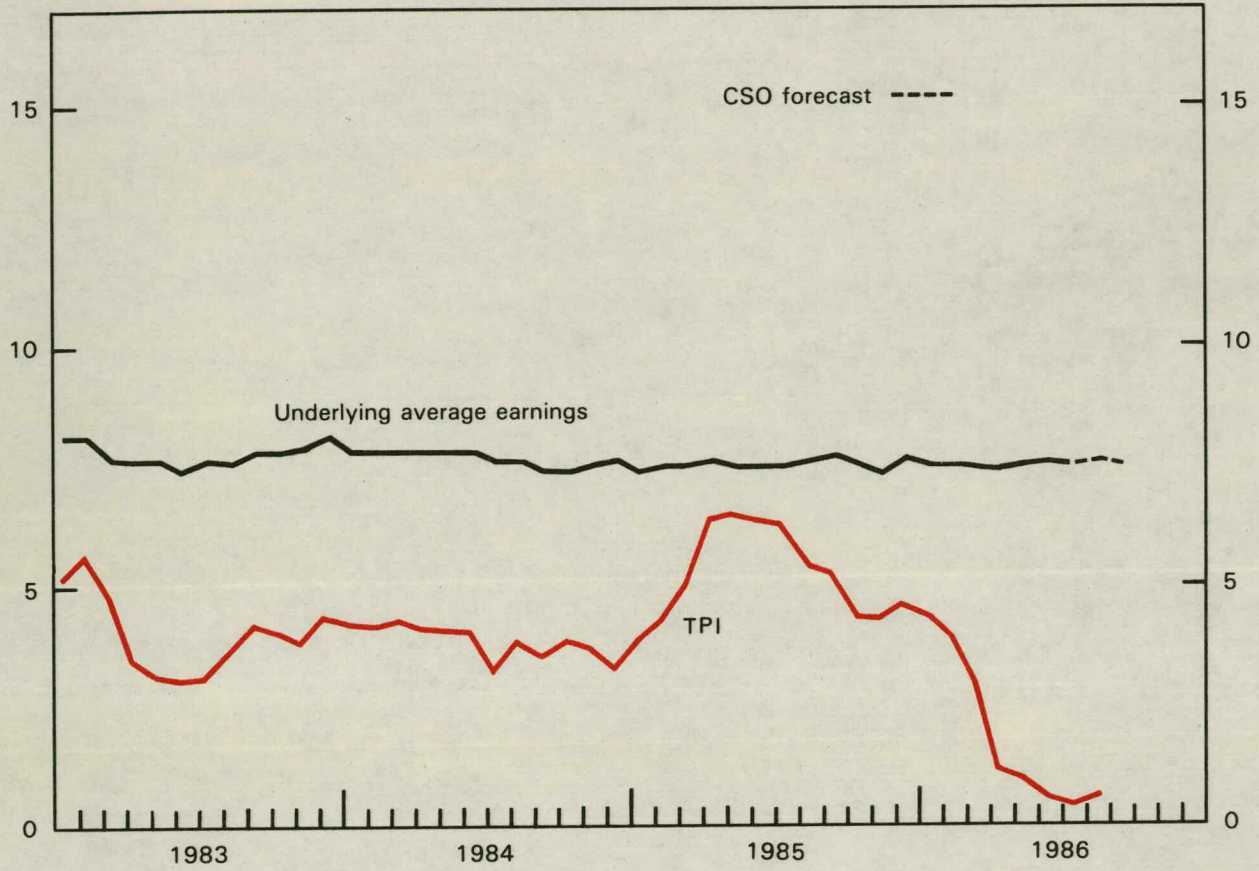
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



1. Excludes seasonal food, mortgage interest, rent, rates and water charges, motor vehicle licences, products produced by Nationalised industries and petrol.

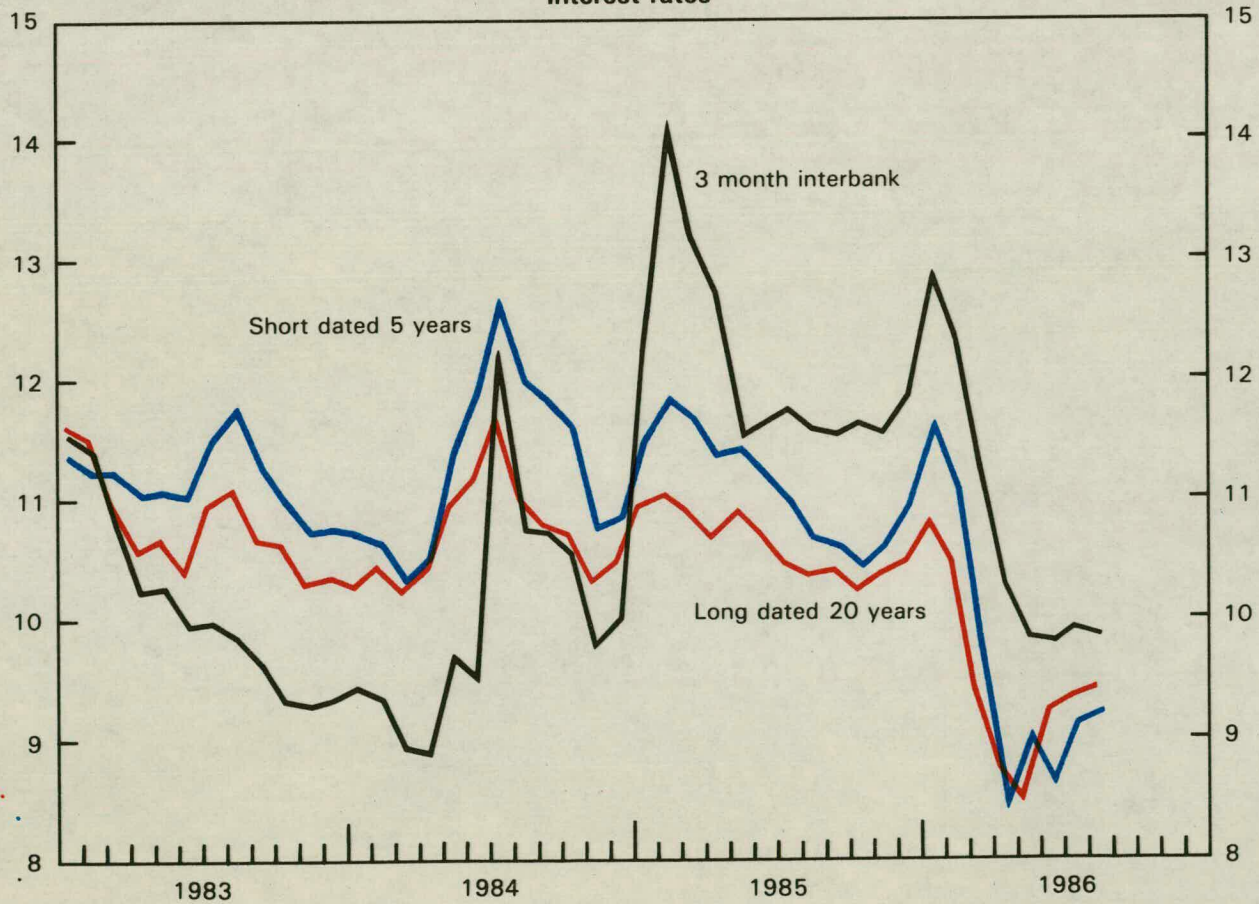
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

CHART 4



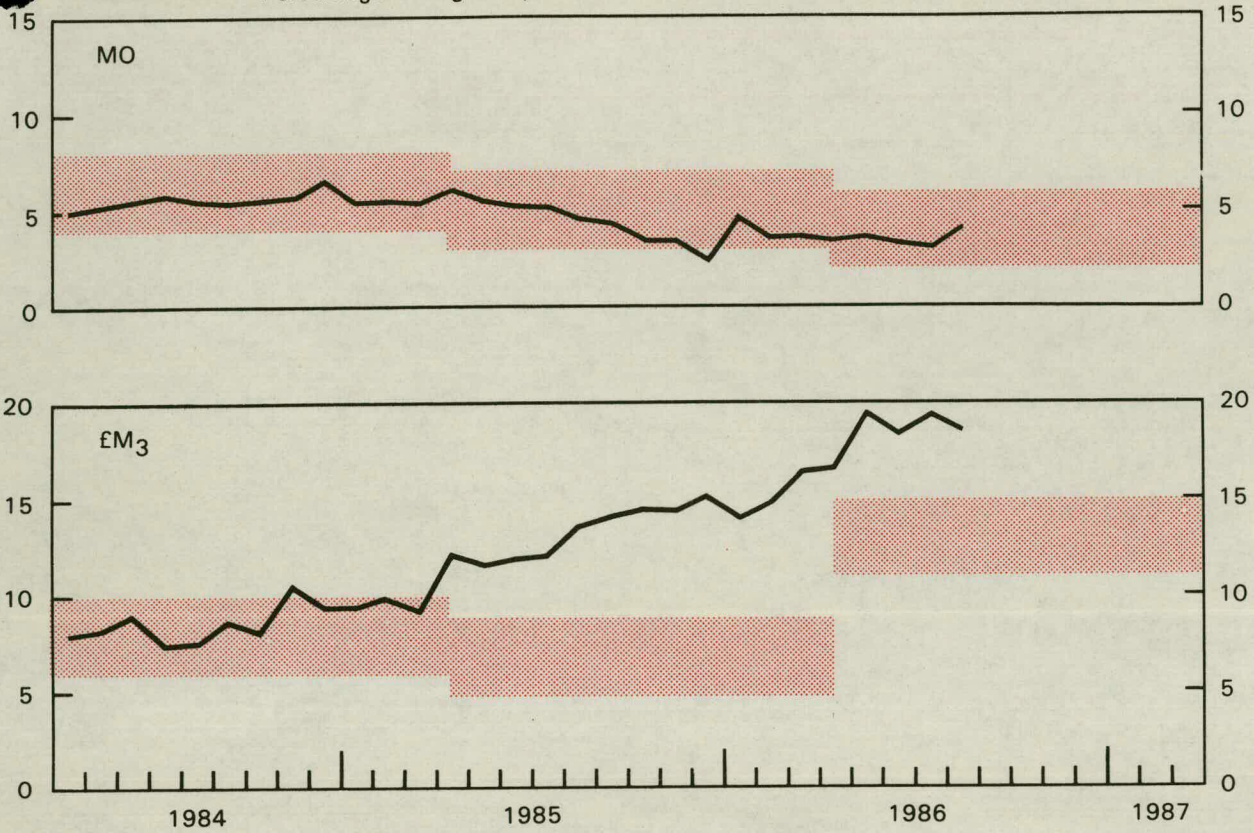
Interest rates

CHART 5



Monetary aggregates

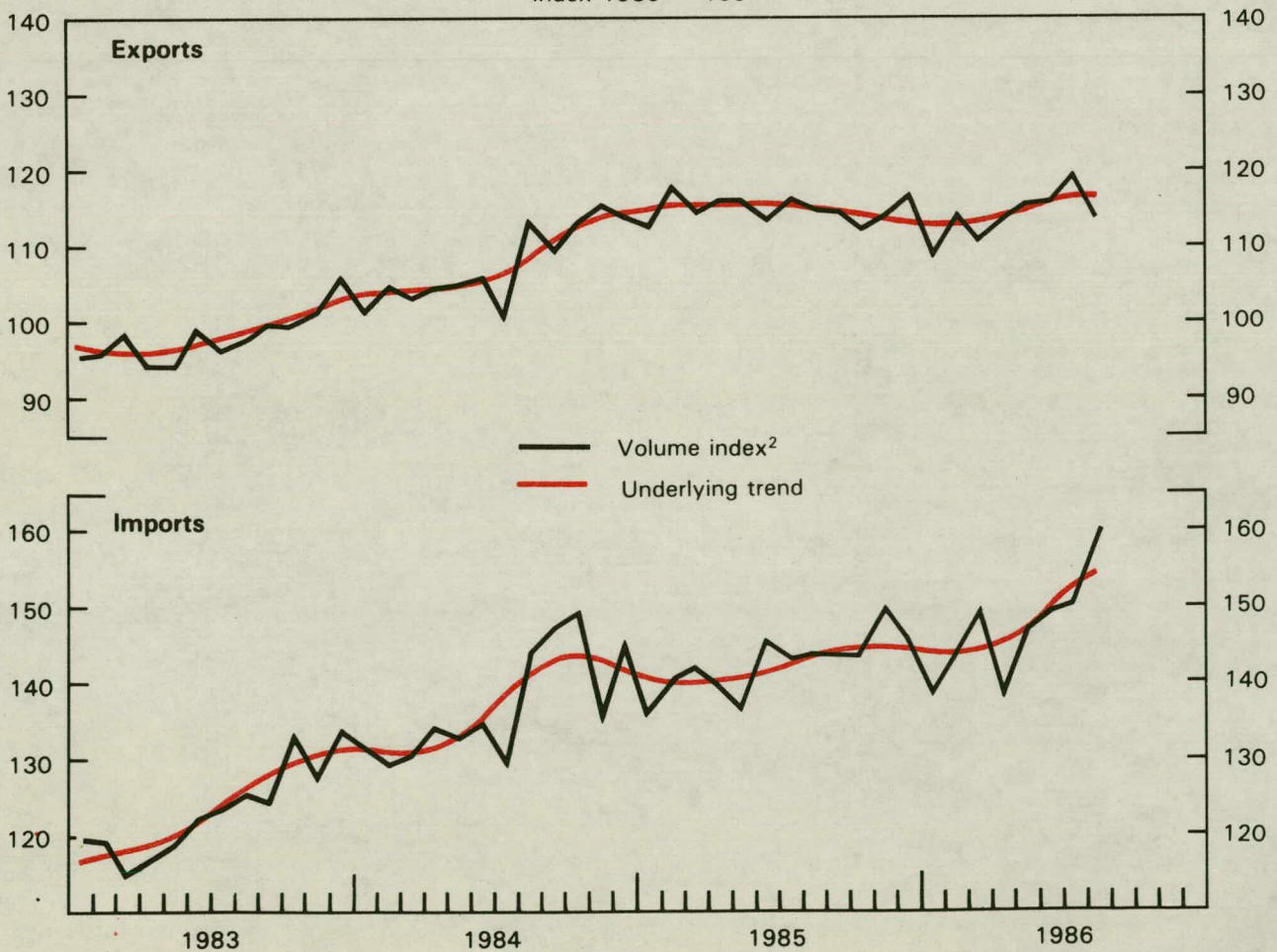
Percentage change on previous 12 months (seasonally adjusted)



Shaded areas represent announced target ranges

Exports and Imports (excluding oil and erratics¹)

Index 1980 = 100



1. Ships, North Sea Installations, Aircraft, Precious Stones and Silver
2. Seasonally adjusted data, Balance of Payments basis