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Alex
Lawson

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PART G

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

Begins: 8/12/86

DD: 25 years

Ends: 30/12/86

5/9/95

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*Thanks.
2-1-look forward
to help of the balance
man.*

FROM: A BOTTRILL
DATE: 8 DECEMBER 1986

CHANCELLOR

cc as attached list

BALANCE OF PAYMENTS: MONTHLY NOTE

I attach the first of a new series of monthly notes on the balance of payments. These will attempt to provide a fuller perspective than is possible in the context of the short briefing notes on the trade figures. They will bring together a lot of scattered information in a single, convenient document.

2. In particular, they will discuss developments in trade volumes and prices in the context of the latest information on world activity, domestic demand and competitiveness. They will also comment on export shares, import penetration and the terms of trade. They will include more detailed analysis of the destination of exports and the commodity composition of imports. They will compare recent developments with both the latest internal and external forecasts.

3. The analysis of course, rests in many cases on partial information. It represents our best view but is not always suitable for public use.

4. We expect to refine both the content and the presentation of the note in the light of comments which will be welcome. The intention is to circulate it around the beginning of each month i.e. about 7-10 days after publication of the trade figures.

ABottrill

A BOTTRILL

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MONTHLY NOTE ON THE BALANCE OF PAYMENTS - DECEMBER 1986

- * In October the visible trade deficit narrowed slightly to £0.8 billion and the current balance moved back to a small surplus of £0.1 billion.
- * New figures for the third quarter, however, show a current deficit of £0.8 billion compared to surpluses of £0.5 billion in the first quarter of 1986 and of £0.3 billion in the second. The cumulative current account surplus so far this year is estimated at £0.1 billion.
- * In the year to November UK competitiveness, as measured by relative unit labour costs, appears to have improved by 10 to 14 per cent. This reflects a 14½ per cent nominal sterling depreciation partly offset by continuing faster growth of UK unit labour costs than those overseas.
- * Domestic demand has picked up since the beginning of 1986, in both the UK and other G5 countries. World trade in manufactures may also have picked up in the second quarter, although it has been held back by weak demand from non-OECD countries, particularly oil exporters.
- * Export volumes (excluding oil and erratics) in the UK have continued the upward trend evident since the spring. In the three months to October they were 1½ per cent higher than in the previous three months and 4 per cent higher than a year earlier.
- * Import volumes (excluding oil and erratics) in the UK, which rose sharply in August, have fallen back a little in September and October, although in the three months to October they were 5 per cent higher than the previous three months and 9 per cent above a year ago.
- * The terms of trade were unchanged in the three months to October on the previous three months, but were 7½ per cent lower than a year ago.
- * The Industry Act forecast projects the current account close to balance in 1986 and a deficit of £1½ billion in 1987. Outsiders forecast on average a £2 3/4 billion deficit in 1987.

D W OWEN
S KING
EA2 Division

MONTHLY NOTE ON THE BALANCE OF PAYMENTS - DECEMBER 1986

Current Account

1. The October trade figures, published on 25 November, showed a surplus on oil trade of £0.2 billion, and a deficit on non-oil trade of £1.0 billion. The oil trade surplus which fell sharply between the first two quarters because of the fall in the oil price, has since shown little change. The non-oil deficit, however, rose sharply between the second and third quarters. The decline in the visibles balance more than offset an improvement in invisibles and the current account moved to a deficit of £0.8 billion in the third quarter, although October showed a small surplus of £0.1 billion, partly as a result of a rise in the CSO projection of the invisibles surplus to £0.9 billion.

TABLE 1: CURRENT ACCOUNT

	£ billion					
	Current Balance	Visible Total	of which: Oil	Manufactures	Other goods	Invisibles Balance
1982	3.9	2.3	4.6	2.4	-4.7	1.6
1983	3.1	-0.8	7.0	-2.3	-5.5	4.0
1984	1.2	-4.4	6.9	-3.9	-7.4	5.6
1985	3.6	-2.1	8.2	-3.0	-7.3	5.7
1986 (10 months)	0.1	-6.9	3.6	-10.5		7.3
1986 Q1	0.5	-1.5	1.9	-1.5	-1.9	2.0
Q2	0.3	-1.6	0.7	-0.6	-1.7	1.9
Q3	-0.8	-3.0	0.8	-1.9	-1.9	2.3
August	-0.8	-1.5	0.2	-1.1	-0.6	0.8
September	-0.1	-0.9	0.3	-0.6	-0.6	0.8
October	0.1	-0.8	0.2	-0.5	-0.5	0.9*
Jan-Oct	0.1	-6.9	3.6	-4.6	-5.9	7.3*

* CSO projection

CHART 1: CURRENT ACCOUNT

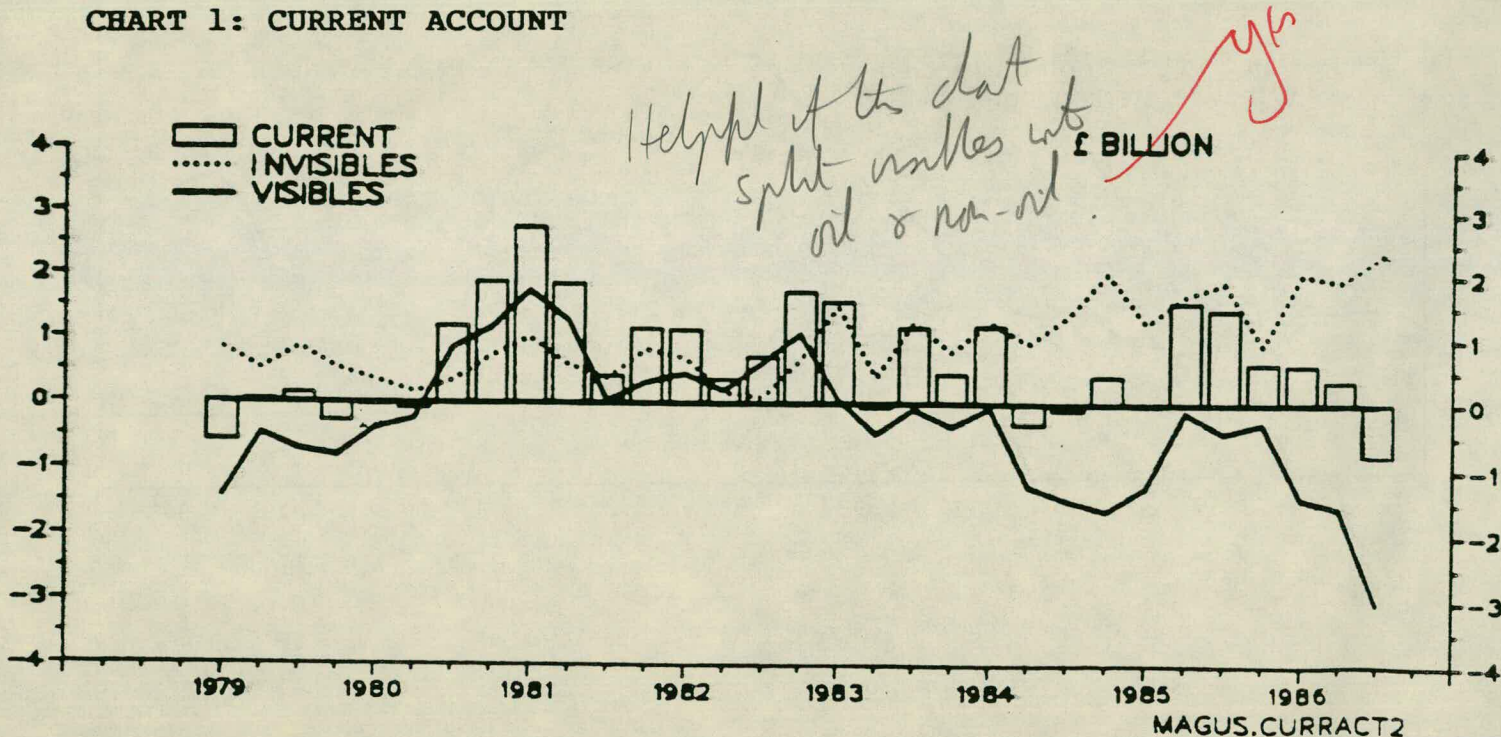


TABLE 2: RELATIVE UNIT LABOUR COSTS IN MANUFACTURING

Indices

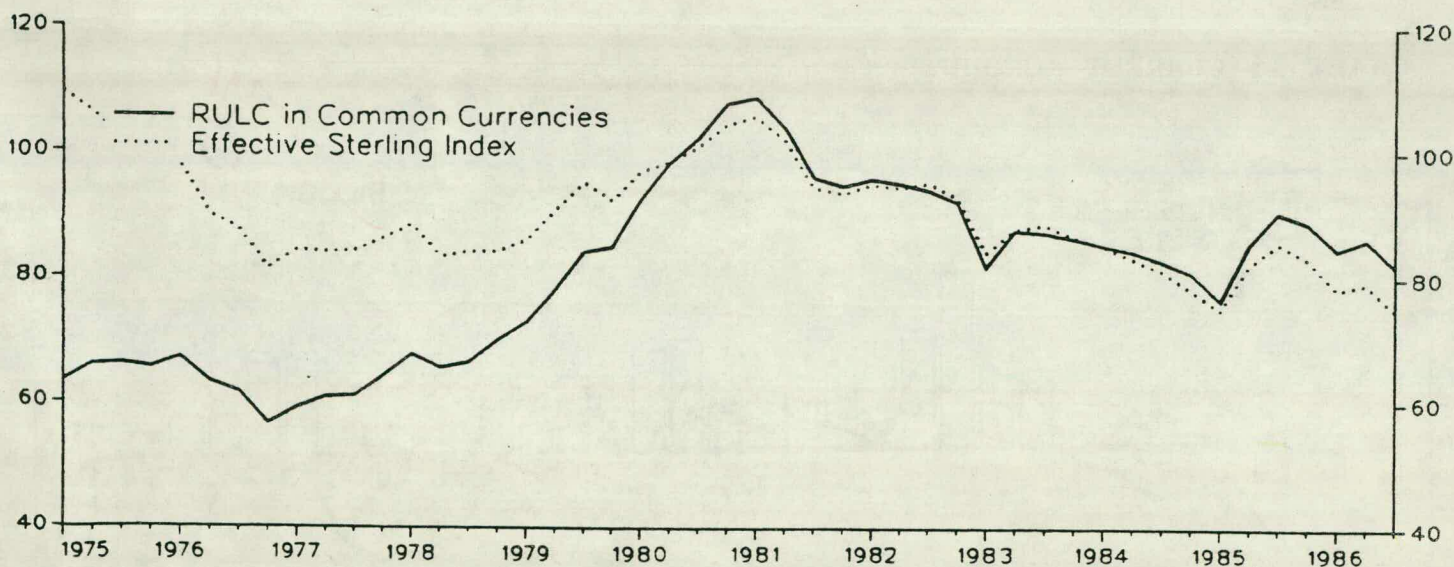
(% changes on a year earlier in brackets)

	Relative Unit Labour Costs in domestic currencies 1980=100	Sterling Exchange Rate Index 1975=100	Relative Unit Labour Costs in common currencies 1980=100
1982	100.1 (-2.0)	90.7 (-4.5)	94.5 (-6.5)
1983	99.0 (-1.0)	83.4 (-8.1)	85.7 (-9.0)
1984	102.0 (3.0)	78.7 (-5.5)	83.5 (-2.6)
1985	105.1 (3.0)	78.2 (-0.6)	85.5 (2.6)
1985 Q1	102.2 (1.5)	72.1 (-11.8)	76.6 (-10.4)
Q2	104.2 (2.4)	78.9 (-1.1)	85.5 (1.3)
Q3	106.3 (3.8)	82.1 (5.3)	90.7 (9.3)
Q4	107.3 (3.5)	79.8 (6.3)	89.0 (9.9)
1986 Q1	107.6 (5.2)	75.1 (+4.2)	84.0 (9.6)
Q2	107.1* (2.8)	76.0 (-3.7)	84.8* (-0.8)
Q3	107.2* (0.9)	71.9 (-12.4)	80.1* (-11.6)
October		67.8 (-15.7)	
November		68.5 (-14.4)	

* estimate

CHART 2: UNIT LABOUR COSTS IN MANUFACTURING

1980=100



MAGUS.ERK

TERMINANTS OF UK TRADECompetitiveness

2. UK competitiveness (as measured by relative actual unit labour costs), has improved substantially during 1986 reflecting the sharp depreciation of the nominal exchange rate since the beginning of the year. By November the sterling effective rate was 14½ per cent lower than a year earlier. Competitiveness almost certainly improved by less, however, because unit labour costs in the UK have been rising faster than in other countries - by an estimated 3 per cent on average in the first three quarters of 1986 compared with a year earlier. (The apparent improvement in UK unit labour cost performance so far in 1986 (see table 2, column 1) reflects in part temporary factors - in particular a sharp fall in manufacturing employment - and is thought to overstate the underlying improvement). Only partial information on unit labour costs is available for the latest five months, but on the assumption that there has been no marked change in the trend in the UK's relative performance it seems likely that competitiveness has improved by about 10-14 per cent over the year to November. The UK has gained competitiveness very rapidly against Germany and Japan, and to a lesser extent against France. But against the US we are probably now slightly less competitive than a year ago.

World Trade and Domestic Demand

3. G5 countries' domestic demand appears to have been growing strongly in the second and third quarters of 1986, and their export volumes, which provide early information about world trade, may also have begun to recover. Industrial output in the G5 countries other than the UK has, however, not shown much sign of increase in the third quarter. The growth of total world trade has almost certainly picked up more than that for manufactures alone as a result of higher trade in oil. UK domestic demand and production appear to have risen strongly in the third quarter with higher retail sales and manufacturing output.

Japan ? ind Gov

TABLE 3: INDICATORS OF DEMAND

% change

Indices 1980=100

	World			UK		
	G5 Export Volumes*	G5 Domestic Demand	G5 Industrial Production	Export Volumes**	Domestic Demand	Manufacturing Production
1982	100	100.9	96.7	99.3	100.4	94.2
1983	101	104.4	100.6	98.2	105.1	96.9
1984	109	110.0	108.6	107.6	108.0	100.7
1985	113	113.2	111.9	115.0	111.1	103.9
1985 1	112	111.5	110.8	114.8	110.9	103.6
2	115	112.5	111.8	115.3	110.3	104.5
3	108	114.1	112.6	115.4	111.4	103.8
4	117	114.9	112.7	114.4	111.7	103.6
1986 1	108	115.5	112.7	111.4	114.1	102.8
2	114	117.2	112.8	115.1	113.6	103.5
3			113.2	118.0	116.3 ¹	104.8
July			113.5	119.3		104.5
August			112.9	113.7		104.3
September			113.3	121.1		105.6
October				120.8		

percentage change on previous year

	World			UK		
	G5* Export Volumes	G5 Domestic Demand	G5 Industrial Production	Export** Volumes	Domestic Demand	Manufac- turing Production
1982	-2.9	-0.2	-3.6	0.5	2.2	0.2
1983	1.0	3.5	3.8	-1.1	4.7	2.9
1984	7.9	5.4	8.0	9.6	2.8	3.9
1985	3.7	2.9	3.0	6.9	2.8	3.2
1985 1	5.7	2.6	3.6	11.3	3.7	4.1
2	6.5	2.6	4.3	9.6	2.5	4.3
3	1.9	3.3	2.8	7.1	3.2	2.3
4	-0.8	3.5	2.2	1.8	1.9	1.9
1986 1	-3.6	3.6	1.7	-3.0	2.8	-0.8
2	-0.9	4.2	0.9	-0.2	3.0	-1.0
3			0.5	2.3	4.5 ¹	1.0
July			0.5	2.3		1.1
August			0.4	-1.0		0.2
September			0.8	7.8		1.5
October				7.6		

* Not seasonally adjusted

** Excluding oil and erratics

¹ Estimate

VISIBLE TRADE

Summary

TABLE 4: VISIBLE TRADE VALUES

	Exports	Imports	£ billion Balance
1982	55.6	53.2	2.3
1983	60.8	61.6	-0.8
1984	70.4	74.8	-4.4
1985	78.1	80.2	-2.1
1986 1	18.1	19.6	-1.4
2	17.8	19.4	-1.6
3	17.5	20.6	-3.0
August	5.5	7.0	-1.5
September	6.1	7.0	-0.9
October	6.2	7.0	-0.8

4. Tables 4 and 5 show recent movements in trade values, volumes and prices. The rise in the visible deficit which in the first half of the year reflected the deterioration in the terms of trade associated with the fall in the oil price, has more recently reflected mainly a very rapid growth of import volumes relative to export volumes. The terms of trade showed an improvement in September, although this appears to be due largely to an erratically sharp rise in the volume but not the value of fuel imports, reducing the average price of fuel imports. (The deterioration over the past year in the average value index terms of trade contrasts markedly with the improvement in the DTI's published terms of trade index calculated from unit value indices. The latter indices - being 1980 base weighted - do not give sufficient weight to oil.)

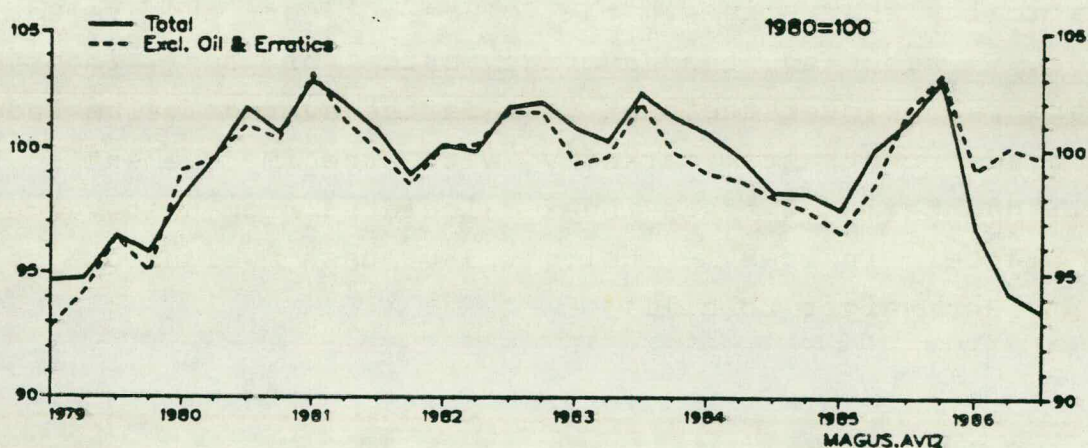
TABLE 5: VISIBLE TRADE VOLUMES AND PRICES

Indices 1980=100

	Volumes*			Average Value Indices		
	Exports	Imports	Ratio Exports: Imports	Exports	Imports	Terms of trade
1982	101.9	101.5	100.4	115.0	113.9	101.0
1983	103.8	109.7	94.6	123.5	122.0	101.2
1984	112.5	121.9	92.3	131.9	133.0	99.2
1985	118.6	125.8	94.3	138.8	138.3	100.4
1986 1	116.9	125.7	93.0	130.8	135.1	96.8
2	121.8	128.6	94.7	123.2	130.8	94.2
3	123.3	139.1	88.6	119.8	128.3	93.4
August	117.0	142.9	81.9	118.3	127.3	92.9
September	126.5	139.5	90.7	121.5	129.9	93.5
October	125.3	140.6	89.1	125.3	130.5	96.0
3 mths to Oct on same period previous year	5½	14	-7½	-10	-2½	-7½
3 mths to Oct on previous 3 mths	0	6½	-6	0	0	0
October on September	-1	1	-2	3	½	2½

* including oil and erratics

CHART 3: TERMS OF TRADE



Exports

5. The upward trend in exports which appears to have begun in March (see Chart 4) has continued with the volume of non-oil

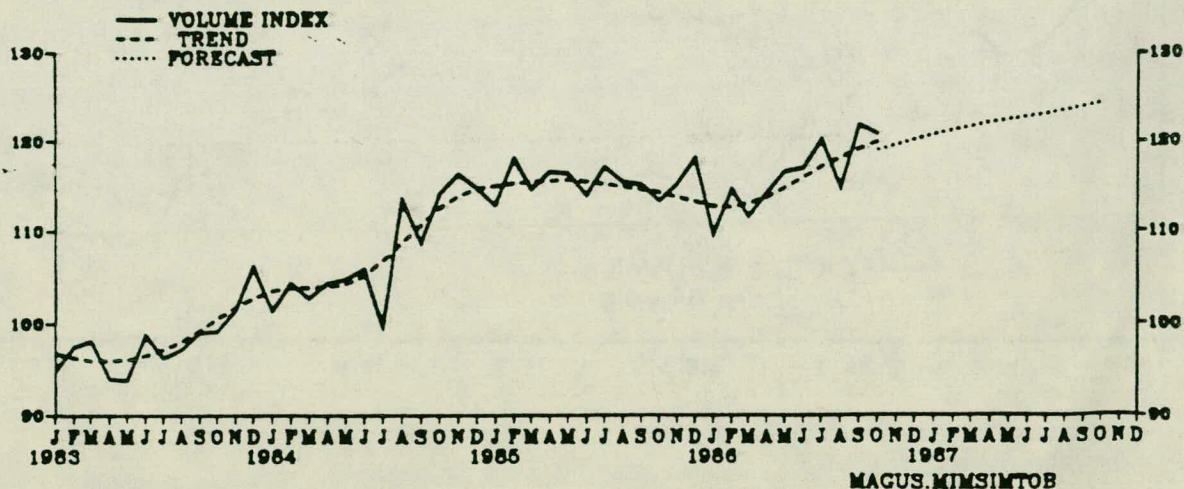
exports (excluding erratics) $1\frac{1}{2}$ per cent higher in the three months to October than in the previous three months. The CBI survey for October shows a strong rise in manufacturers' optimism about export prospects compared to July, and the November enquiry indicates a sharp increase in export orders.

TABLE 6: EXPORT VOLUMES

	1980=100		
	Goods less erratics*	Goods less oil and erratics*	Manufactures excluding erratics
1982	104.0	99.3	97.8
1983	105.2	98.2	96.2
1984	115.4	107.6	107.0
1985	123.0	115.0	115.7
1986 1	121.0	111.4	111
2	122.7	115.1	116
3	127.6	118.0	117
August	123.4	113.7	113
September	129.9	121.1	119
October	128.8	120.8	119
% change			
3 months to Oct on same period previous year	$4\frac{1}{2}$	4	3
3 months to Oct on previous 3 months	$1\frac{1}{2}$	$1\frac{1}{2}$	$-1\frac{1}{2}$
Oct on Sept	-1	0	0

* Balance of Payments basis

CHART 4: NON OIL EXPORT VOLUMES EXCLUDING ERRATICS



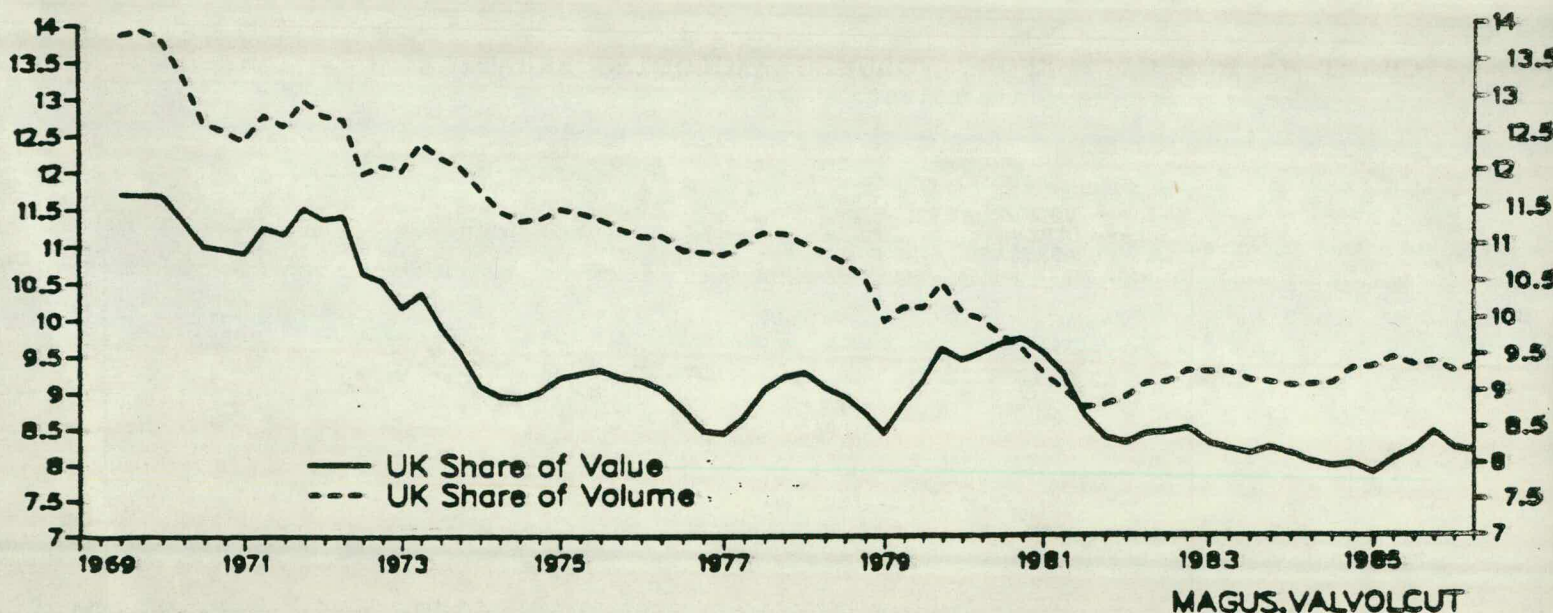
6. The growth in export volumes against a background of weak world trade growth in the first three quarters of 1986 suggests that underlying UK export performance has been good. On the basis of WEP estimates of main manufacturing countries' exports the UK's volume share may be close to last year's average although these estimates are subject to revision as fuller information becomes available. The Industry Act forecast is consistent with UK exports of manufactures growing roughly in line with main manufacturing countries' exports.

TABLE 7: UK MANUFACTURERS' SHARE OF MAIN MANUFACTURING COUNTRIES' EXPORTS

	Volume	Per cent Value
1980	9.7	9.7
1981	8.8	8.6
1982	8.8	8.5
1983	9.1	8.1
1984	9.2	8.0
1985	9.4	8.2
1985 1	9.4	7.7
2	9.5	8.4
3	9.2	8.4
4	9.4	8.4
1986 1	8.9	7.6
2*	9.4	8.3
3*	9.3	7.7

* Based on WEP estimates

CHART 5: UK SHARE OF MAIN MANUFACTURING COUNTRIES' EXPORTS



Manufacturers' export prices, which remained broadly flat through the early part of 1986, are now rising in response to both higher domestic costs and the opportunities afforded by sterling's depreciation to improve profit margins. Fuel export prices continued to recover in October (reflecting the oil price rise in early August) but in the three months to October they were 56 per cent lower than a year earlier. Food and basic materials prices have begun to pick up, perhaps reflecting the pick up in world commodity prices in September and October, although this increase has been short-lived.

TABLE 8: EXPORT PRICES*

	Indices 1980=100			
	Manufac- tures	Food, Drink and Tobacco	Basic Materials	Fuel
1982	111.9	113.9	98.8	131.2
1983	120.6	118.2	108.3	138.0
1984	128.5	122.9	129.2	148.6
1985	136.1	128.1	138.4	152.1
1986 1	137.1	126.6	124.9	111.5
2	136.2	131.6	119.2	70.0
3	137.8	127.8	118.7	57.4
August	137.5	125.4	121.3	52.7
September	139.4	125.5	117.9	60.7
October	140.3	132.3	125.0	68.6
% change				
3 months to Oct				
on same period				
previous year	3	-½	-8½	-56
3 months to Oct				
on previous				
3 months	2	-3½	3½	-6½
Oct on Sept	½	5½	6	13

* Average Value Indices - Overseas Trade Statistics basis

8. The volume of exports going to oil exporting countries and to the US appear to have fallen in recent months, although these falls have been more than offset by a rise in exports to the European Community. The 25 per cent fall in exports to oil exporters in the three months to October compared with the previous three months, however, overstates the underlying decline, since exports in the three months to July were boosted by deliveries of Tornados to Saudi Arabia. Nevertheless, exports to oil-producing countries in the latest three months were still 13 per cent lower than a year ago. Exports to the EC, however, rose 10½ percent over the same period.

TABLE 9: GEOGRAPHICAL DESTINATION OF EXPORTS

£ million, 1980 prices

	EC	US	Oil Exporters	Other
1982	20875	6472	5796	14943
1983	22445	6860	5119	14628
1984	24796	7690	4554	16246
1985	27225	8291	4416	16396
1985 1	6891	1978	1245	3987
2	6505	2247	1104	4386
3	6872	2002	1048	3986
4	6958	2062	1016	4169
1986 1	6962	2137	1044	4138
2	7389	2099	1175	4515
3	7857	2008	964	4592
August	2398	637	271	1474
September	2673	667	292	1558
October	2761	627	295	1471
3 months to Oct on same period previous year	10½	½	-13	16½
% change 3 months to Oct on previous 3 months	7½	-7½	-25	-2
Oct on Sept	3½	-6	1	-5½

Imports

9. Import volumes (excluding oil and erratics) rose by 6 per cent in the three months to October on the previous three months, although there are some signs that imports may have levelled off in September and October after the steep rise in August. Imports of finished manufactures in October remained below the August peak but in the latest three months were more than 5 per cent above the previous three months. Consumer goods have been below their August peak. The most rapid increase recently has been in imports of capital goods, which were up 11 per cent, but this represented a recovery from the artificially low level earlier this year perhaps due in part to the phasing out of capital allowances. Semi-manufactures also rose considerably in the three months to October to a level 4½ per cent above the previous three months - reflecting at least in part the increase in domestic manufacturing output. Fuel volumes rose by 19 per cent over the same period although the figures may not be wholly reliable.

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TABLE 10a: IMPORT VOLUMES

	1980=100					
	Goods less erratics*	Goods less oil and erratics*	Food Drink and Tobacco	Basic materials	Fuels†	Manufac- tures less erratics
1982	107.1	112.7	108.1	93.0	74.5	116.5
1983	115.0	123.4	107.8	104.6	66.8	131.1
1984	128.8	137.0	112.3	101.7	86.5	146.7
1985	133.4	142.7	113.6	102.2	85.0	154.5
1986 1	132.8	144.1	126	105	74	154
2	136.5	144.7	120	106	86	157
3	148.0	155.1	126	106	107	169
August	152.8	159.4	131	102	107	175
September	146.6	156.0	125	119	104	168
October	149.6	153.1	116	110	142	167
% change 3 months to Oct on same period previous year	13	9	6	4	54	10
3 months to Oct on previous 3 months	6	5	2	5	19	5
Oct on Sept	2	-2	-7	-7½	36½	-½

† Figures affected by coal strike
* Balance of payments basis

TABLE 10b IMPORT VOLUMES OF MANUFACTURES

	Semi manufac- tures	Finished manufactures	of which: Passenger motor cars	Other consumer goods	Inter- mediate goods	Capital goods
1982	111.3	120.0	110.1	113.3	122.8	128.2
1983	123.3	136.4	125.5	124.9	136.2	153.1
1984	137.2	153.0	119.9	139.6	161.4	172.9
1985	143.9	161.5	127.9	139.6	172.8	187.2
1986 1	148	159	130	145	171	175
2	149	162	126	154	182	168
3	156	177	144	166	193	186
August	159	186	166	171	204	192
September	159	173	125	163	185	189
October	156	175	137	154	191	195
% change 3 mths to Oct on previous year	7½	12	21½	17½	13½	4
3 mths to Oct on prev 3 mths	4½	5	3½	2	1½	11
Oct on Sept	-2	1	9½	-5½	3	3

The growth of imports in the third quarter was faster than the projected growth of total final expenditure, implying a substantial rise in import volume penetration. This follows a period, during 1985, when volume penetration appeared to level off (Chart 7). It is not yet possible to be sure whether the latest deterioration is merely a temporary phenomenon, associated with the particularly strong recent rise in domestic demand earlier or whether it marks a return to more adverse trends.

TABLE 11: IMPORT PENETRATION*

	Volume	Per cent Value
1980	13.9	14.0
1981	13.9	13.2
1982	14.6	13.7
1983	15.5	14.8
1984	16.5	16.2
1985	16.5	16.1
1985 1	16.3	16.7
2	16.5	16.5
3	16.5	15.7
4	16.7	15.4
1986 1	16.4	15.8
2	16.4	15.6
3**	17.3	16.4

* Imports (excluding oil) as a percentage of total final expenditure

** Projection

11. Import prices of manufactures have begun to rise reflecting the depreciation of sterling. Food import prices are similarly rising. Weak world commodity prices which had until recently helped to hold down the price of imported basic materials, picked up in September and October and may have contributed to the recent rise in the price of basic materials.

TABLE 12: IMPORT PRICES*

	1980=100			
	Manufac- tures	Food Drink and Tobacco	Basic Materials	Fuel
1982	110.9	109.0	104.4	144.7
1983	118.6	118.6	112.8	154.1
1984	126.8	129.3	131.6	173.8
1985	132.9	132.7	130.2	180.0
1985 3	130.6	129.5	125.8	165.9
4	128.7	127.5	115.8	156.4
1986 1	135.0	129.4	115.2	141.3
2	133.7	130.9	113.0	103.0
3	134.7	133.0	110.9	77.4
August	135.0	132.9	110.5	73.7
September	135.9	134.0	110.2	81.0
October	137.9	136.3	112.7	80.6
% change				
3 mths to Oct on same period previous year	3½	5	-9½	-51
3 mths to Oct on previous 3 mths Oct on Sept	1½	2	-1	-12
	1½	1½	2½	-½

* Average Value Indices - Overseas Trade Statistics basis

INVISIBLES

12. The invisibles balance was estimated to have been in surplus by a little under £2.3 billion in the third quarter of 1986, compared with a revised outturn of £1.9 billion in the second quarter. The average surplus of £751 million a month in the third quarter compares with the CSO's earlier estimate, published with the October trade figures, of £800 million a month. The new projection for the surplus in October was £900 million.

TABLE 13: INVISIBLES BALANCE

	£ billion			
	Services	IPD	Transfers	Total
1982	2.6	1.0	-2.0	1.6
1983	3.7	2.4	-2.1	4.0
1984	3.7	4.2	-2.3	5.6
1985	5.8	3.4	-3.5	5.7
	4.1	3.6		
1986 1	1.2	1.0	-0.2	2.0
2	1.3	1.1	-0.6	1.9
3	1.6	1.5	-0.9	2.3

13. Improvements on the balances on services and interest, profits and dividends between the second and third quarters were only partially offset by a deterioration in the balance on transfers. The increased surplus on services, which was helped by slight improvements on the travel and civil aviation balances, was largely a reflection of increased credits on 'financial and other services', which were buoyed by higher net insurance premium earnings. The higher transfer deficit was mainly the result of higher net EC contributions. The rise in the IPD surplus reflected improvements in the earnings on both direct and portfolio investment. The former was temporarily boosted by a tax credit to BP, and both benefitted from the effect of the falling exchange rate on net earnings in sterling terms. However these effects were partly offset by a sharp rise in UK banks' net overseas interest payments. The Bank of England does not yet have a satisfactory explanation for this.

BALANCE OF RESOURCES

14. The rapid rise in the volume of imports of goods and services relative to exports of goods and services has led to a shift of resources out of the balance of payments widening to the equivalent of more than 1 per cent of GDP in the third quarter.

TABLE 14: BALANCE OF RESOURCES

£ billion, 1980 prices

(% change on previous period in brackets)

	Exports of Goods and services		Imports of Goods and services		Balance*	
1982	63.3	(0.8)	59.5	(0.0)	3.8	(-1.3)
1983	64.7	(2.2)	62.8	(5.5)	1.9	(-0.9)
1984	69.0	(6.7)	68.6	(9.2)	0.5	(-0.7)
1985	73.1	(5.9)	71.0	(3.0)	2.5	(1.0)
1986 1	18.0	(-2.0)	17.8	(-1.2)	0.2	(-0.3)
2	18.6	(3.9)	18.1	(2.0)	0.5	(-0.6)
3	18.9	(1.4)	19.1	(5.5)	-0.2	(-1.3)

* Figures in brackets refer to change in resource balance as percentage of GDP in previous period.

CAPITAL FLOWS AND NET OVERSEAS ASSETS

15. Despite the current account deficit in the third quarter, net capital outflows were recorded, although, at £0.9 billion, they were considerably less than the £2.6 billion recorded in the second quarter. There was a sharp rise in outward direct investment, reflecting in part increased take-over activity in the US. Outward portfolio investment, however, declined over the same period. Inward portfolio investment rose and there was also a sharp increase in banks' net foreign currency borrowing. Both of these may be related to the Big Bang. The balancing item was £1.9 billion in the third quarter, similar to the quarterly average for the first half of the year. Some of this may represent errors in the current account, but the major part probably reflects as yet unidentified capital inflows.

TABLE 15: NET TRANSACTIONS ON CAPITAL ACCOUNT

£ million

	1985	1986		
		Q1	Q2	Q3
Direct investment	-3937	+1205	-210	-1781
Portfolio investment	-11171	-4078	-4864	-2931
Net foreign currency lending abroad	+4909	+788	+2901	+6002
Net sterling lending abroad	+2513	+1818	-1389	-722
Other	+1821	-729	+1249	+856
Official reserves	-1758	-580	-296	-2321
Total	-7623	-1576	-2609	-897

- = net outflow, + = net inflow.

16. Although there has probably been little net capital outflow this year, given the deterioration in the current account, net overseas assets are nevertheless likely to have grown strongly because of the depreciation of sterling against most currencies other than the US dollar and the strength of overseas stock and bond markets.

PROSPECTS

17. Independent forecasters are on average expecting a current deficit of £2 3/4 billion in 1987 compared to the Industry Act forecast's £1½ billion deficit but there are wide differences of view. The National Institute expects the current account to be in deficit by £5.6 billion in 1987 and £7.2 billion by 1988, the result of rapid import growth and rather low growth in net earnings on interest, profit and dividends. The latest LBS 'Economic Outlook', however, argues that the recent depreciation of sterling will eventually bring about a shift away from consumption and into exports, and hence, the current account into the medium term should return to broad balance by 1990. Oxford Economic Forecasting shows an even quicker improvement. Others, however, such as Goldman Sachs, Phillips and Drew and Henley show deficits persisting for the rest of the decade.

TABLE 16: CURRENT ACCOUNT (£ billion)

	1986	1987	1988	1989	1990
National Institute (Nov)	-1.8	-5.6	-7.2	-	-
LBS (Nov)	-0.4	-2.4	-1.2	-0.9	-0.4
Phillips & Drew (Nov)	0.1	-3.2	-4.4	-2.9	-1.8
Goldman & Sachs (Oct)	-0.8	-2.8	-3.3	-1.9	-2.9
Henley (Nov)	-0.3	-1.1	-2.0	-2.5	-2.6
Oxford (Nov)	-1.0	-2.2	0.1	-0.5	-0.1
Outside Average (Oct)	0.2	-2.7			

INTERNATIONAL COMPARISONS

18. Over the past year, as the UK current account has deteriorated, the US current deficit has tended to level off as a share of GNP while the German and Japanese surpluses have increased considerably.

TABLE 17 COMPARISON OF CURRENT ACCOUNTS AS % OF NOMINAL GDP/GNP FOR THE G5

	US	Japan	Germany	France	UK	Total
1984	-2.8	2.8	1.1	-0.1	0.4	-0.6
1985	-2.9	3.7	2.1	0.0	1.1	-0.7
1985 1	-2.7	3.1	1.5	-0.5	0.0	-0.5
2	-3.0	3.9	2.0	0.4	2.4	-0.1
3	-2.8	3.6	2.7	0.0	2.1	-0.0
4	-3.3	4.0	2.5	0.7	0.8	-0.3
1986 1	-3.2	3.6	4.0	0.6	0.8	-0.1
2	-3.3	4.9	3.5	0.6	0.4	-0.0
3					1.4*	

cc Sir T Jones

FROM: S J PICKFORD
DATE: 9 DECEMBER 1986

prop

MR BOTTRILL

Sir S Litter

cc Mr Culpin
Mr S King
Mr Segal

Miss O'Hare

Mr Allan

You should be aware of this Kc

Mr Saunders

BALANCE OF PAYMENTS BRIEFING

Following the release of the latest monthly balance of payments figures a number of points were raised by journalists which drew attention to gaps in the Q and A briefing. This briefing is usually fairly cursory but has become more so in the last few months. This is to some extent understandable because the bulk of the calls are dealt with by DTI and CSO. However, we are usually approached as a matter of course by journalists working on the 'heavies' so there is a need for some sort of background on the figures.

u/n

2. The problem was complicated last month by the fact that CSO was clearly completely unprepared for the questions addressed to them in the revision to the invisibles.

3. But a further factor is that the background note for the Chancellor often contains a fuller explanation of the figures than is given in the Q and A - explanation which is often not in the slightest way confidential. But the way the brief is currently written we cannot distinguish between what is and what is not for use. For example, for the most recent set of figures the paragraph on import volumes contained a rather more informative description of the underlying trend in import growth than the single sentence in the briefing.

4. Many journalists were also interested in relating the figures to the projections in the Autumn Statement, but the briefing contained no reference to the AS. In particular it did not mention the forecast on invisibles and how it related to the upward revisions to the CSO's figures.

5. It would also be useful if claims in the briefing such as, "growth [of imports] appears to be slowing in underlying terms"

232/12

was supported by the relevant figures (or reference to the appropriate table or chart).

6. We think it would be extremely helpful for IDT to have a brief meeting with EA2 on the figures and the background briefing at an appropriate time before release of the figures, perhaps on the morning of release. Would that be possible?.

Stephen Pickford

S J PICKFORD

1 Alex -
for 1st order
POS

FROM: G HACCHE
DATE: 10 DECEMBER 1986

- 1. MISS O'MARA
- 2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr H Sedgwick
Mr Culpin
Mr S J Davies
Mr Shaw

Mr Guy
Mr Hudson
Mr Naisbitt
Mr Dyer (+1
for No 10)
Mr Cropper
Mr Ross Goobey
Mr Tyrie
HE/05

This year's likely author is disappointing, though certainly not as bad as the CBt initially projected following the 1984 corporate tax reforms. But next year's growth in industrial investment is especially encouraging. You will want to be aware of these figures for 1st order (they are incorporated in the briefing)

mon 10/12

Thatcher

INVESTMENT INTENTIONS SURVEY: DECEMBER 1986

(published 11.30 Thursday 11 December)

The bi-annual survey covers manufacturing, construction, distribution and selected service industries. (The total for these is described here as 'industrial investment'.) These sectors account for around 40 per cent of total fixed investment. The survey questionnaire was completed at the end of September and in October.

What % gain for the order 60%?

2. The main features are:

- (i) Industrial investment is expected to rise by around 6 per cent in 1987 in real terms, and by a similar amount in 1988, following a slight fall this year.
- (ii) Manufacturing investment (including leased assets) is expected to rise by around 2 per cent in 1987, following a fall of 2 per cent this year. Indications for 1988 suggest a larger increase in manufacturing investment than in 1987.
- (iii) Investment in construction, distribution and selected services (excluding assets leased to manufacturers) is expected to rise by 8 per cent in 1987, following zero growth in 1986. The results suggest a further significant increase in 1988, though smaller than in 1987.

INVESTMENT INTENTIONS DECEMBER SURVEY

(1980 prices, year on year percentage changes, June 1986 Survey results in brackets)

	1985	1986	1987	1988
Manufacturing incl. leased assets	+5.6	-2 (+3)	+2 (+2*)	+5*
Construction, distribution, selected service excl. assets leased to manufacturing	+10.0	0 (+4)	+8 (+5*)	+6*
Total	+8.4	-1 (+3)	+6 (+4*)	+6*

* FOR INFORMATION ONLY: figures not published.

3. The estimates for 1986 are based on data for the first three quarters and projections for Q4. As such, they are subject to considerable revision. Data for the whole of 1985 and the first three quarters of 1986 are, in fact, still very provisional. (Initial estimates of growth in manufacturing investment in 1982, 1983 and 1984 were revised upward substantially as more data became available.)

Comparison with June Survey

4. Compared with the DTI's June survey, the latest results indicate faster growth in industrial investment in 1987, but from a lower base; the projected growth between 1985 and 1987, is slightly lower than in their June survey. The projected growth in manufacturing investment between 1985 and 1987 is now zero compared with 5 per cent in June.

Comparison with IAF

5. The Autumn Industry Act forecast stated: 'Non-oil business investment, seems likely to rise this year by almost 3 per cent, compared with 6 per cent last year... In 1987 non oil business investment is expected to grow at a similar rate to, or slightly faster than this year'. Although the definitions are not strictly comparable, the DTI survey points to faster growth in non oil business investment in 1987 than the IAF but slower growth in 1986.

Comparison with CBI projections

6. The DTI survey indicates slower growth in manufacturing investment for 1987 than projected in the CBI November Economic Situation Report (but similar growth in 1988). For 1986 the DTI's fall of 2 per cent compares with the CBI's projected "no change."

FORECASTS FOR MANUFACTURING AND NON MANUFACTURING INVESTMENT*: Summary Comparison

	Manufacturing			Non Manufacturing		
	1986	1987	1988	1986	1987	1988
DTI Survey	-2	+2	+5*	0	8	6*
CONFIDENTIAL: HMT (November)	1	4	n.a	3	3	n.a
CBI (November)	0	3.6	4.8	n.a.	n.a	n.a

* FOR INFORMATION ONLY: figures not published.

** NB definitions not wholly comparable between different forecasts.

[NOT FOR USE: The forecast for manufacturing investment underlying the IAF was for faster growth in both 1986 and 1987 than suggested by the DTI. The forecast for non manufacturing (non-North Sea) investment was for faster growth than suggested by DTI in 1986 but slower growth in 1987]

Lines to take

Positive

1. Industrial investment expected to rise by around 6 per cent in 1987 and by similar amount in 1988.
2. Manufacturing investment (including leased assets) expected to rise by around 2 per cent in 1987 and by larger amount in 1988.
3. Investment in construction, distribution and services expected to rise by about 8 per cent in 1987, with further growth in 1988.
4. Industrial/manufacturing investment risen by around 30 per cent in last three years, (change between 1983Q1 and average level so far this year to Q3).
5. Survey supports Industry Act forecast of healthy growth in non-oil business investment for 1987.

Defensive

Fall in industrial/manufacturing investment this year.

Figures for 1986 still subject to very considerable revision. (Initial estimates of growth in manufacturing investment in 1982, 1983 and 1984 were revised upwards substantially.) Survey points to substantial growth in industrial investment in 1987 and 1988. Manufacturing expected to share in growth. CBI also forecasting growth in manufacturing investment in 1987 and 1988.

Gwyn Hacche

GWYN HACCHE

10/12/86

PERSONAL AND CONFIDENTIAL

RETAIL PRICES INDEX : NOVEMBER 1986

The annual rate of inflation in November, as measured by the 12-month change in the retail prices index, rose to 3.5 per cent from the 3.0 per cent recorded in October.

2. Increases in mortgage interest rates from around 11 per cent to around 12.25 per cent, which affected most borrowers from 1 November, accounted for about three quarters of the 0.8 per cent rise in the 'all items' index between October and November. Higher prices for durable household goods and increased motor insurance premia also contributed to the monthly rise. Last year a smaller increase - of 0.3 per cent - was recorded between the corresponding months.

3. In December higher food prices are expected, contributing to an increase in the 'all items' index of between 1/3 and 1/2 per cent between November and December. This contrasts with the small rise of 0.1 per cent recorded for the same period a year ago and as a result the annual rate of inflation in December is expected to rise further - to around 3% per cent.

Producer Prices

4. The seasonally adjusted price index for materials and fuels purchased by manufacturing industry has shown increases in each of the months from August. Prices were nevertheless 4 per cent lower in November than in November 1985 having declined in the first part of the year.

5. The annual increase in the prices for home sales of manufactured products has been falling steadily since the beginning of 1985 when it was around 6 per cent. By the beginning of this year it was around 5 percent and has been below 4 1/2 per cent since the summer. In November it was 4.1 per cent.

Tax and Price Index

6. The tax and prices index increased by 2.2 per cent in the year to November compared with 1.5 per cent recorded for October.

PERSONAL AND CONFIDENTIAL

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	FRANCE	FEDERAL GERMANY	ITALY	NETHER -LANDS	JAPAN	USA	CANADA	OECD Averages	EEC
1985										
Q3	6.3	5.6	2.2	9.1	2.3	2.1	3.4	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	4.9	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	6.1	0.4	0.8	1.6	3.9	2.5	3.3
Q3	2.6	2.1	-0.4		-0.4	0.2	1.7	4.2	2.5	3.0
August	2.4	2.0	-0.4		-0.5	-0.2	1.6	4.3	2.4	3.0
Sept	3.0	2.3	-0.4		-0.6	0.2	1.8	4.1	2.5	3.1
October	3.0	2.2	-0.9		-0.2	-0.6	1.5	4.4	2.3	3.0
November	3.5									

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON FRIDAY 12 DECEMBER 1986

264/86

December 12, 1986

INDEX OF RETAIL PRICES

NOVEMBER 1986

The index of retail prices for all items for November 11, 1986 was 391.7 (January 15, 1974 = 100). This represents an increase of 0.8 per cent on October 1986 (388.4) and an increase of 3.5 per cent on November 1985 (387.4).

The rise in the index between September and October was the result of increases in mortgage interest rates from around 11 per cent to around 12½ per cent, which affected most borrowers from 1 November. Higher prices for durable household goods and increased motor insurance premium were also recorded.

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							
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
September	387.8	+0.5	+1.6	+3.0	390.0	+0.5	+1.7
October	388.4	+0.2	+0.8	+3.0	390.9	+0.2	+1.0
November	391.7	+0.8	+1.5	+3.5	394.3	+0.9	+1.8

TABLE 2

Indices (15 January 1974 = 100)

			Percentage change
	October 14, 1986	November 11, 1986	over the month
All items	388.4	391.7	+0.8
All items excluding food	399.6	403.7	+1.0
<hr/>			
Food	347.6	347.5	0.0
Seasonal food	324.9	322.8	-0.6
Food excluding seasonal	352.2	352.4	+0.1
Alcoholic drink	436.6	436.0	-0.1
Tobacco	599.9	602.2	+0.4
Housing	478.4	497.4	+4.0
Fuel and light	506.4	506.1	-0.1
Durable household goods	264.7	267.3	+1.0
Clothing and footwear	233.0	234.0	+0.4
Transport and vehicles	393.3	395.3	+0.5
Miscellaneous goods	412.5	413.0	+0.1
Services	404.0	406.2	+0.5
Meals out	447.8	449.5	+0.4

NOTES TO EDITORS

1 The retail prices index measures the change from month to month in the average level of prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and households of retired people dependent mainly on social security benefits is excluded.

2 The index covers a large and representative selection of more than 600 separate goods and services, for which prices movements are regularly measured in about 180 towns throughout the country. Approximately 130,000 separate price quotations are used each month in compiling the index.

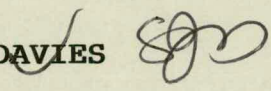
3 Seasonal variations in the index of retail prices are due largely to a very few items of "seasonal food". That is, those items of food the prices of which show significant seasonal variations. These items account for less than five per cent of total retail expenditure. If the variation caused by these items is removed, the underlying trend of the figures can be seen more clearly.

4 Rates of change of indices can be calculated over periods of any length. However, rates calculated over periods as long as twelve months are slow to detect changes in trend, while calculations over periods as short as three months give rather volatile results. To help in assessing trends, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of six months.

5 The housing costs of owner-occupiers are represented in the index by an indicator which reflects, inter alia, the rate of interest typically charged on mortgage loans. Hitherto this has been based on the rate recommended by the Building Societies' Association but, following the decision of several societies to charge a higher rate from August 1984, a weighted average of actual rates is now being used.

6 The index is given in full in the Employment Gazette.

FROM: S BROOKS
DATE: 11 DECEMBER 1986

1. MR S J DAVIES 
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 F E R Butler
Mr F Cassell
Mr N Monck
Mr Kemp
Mr Odling-Smee
Mr Sedgwick
Mr Scholar
Mr Bottrill
Mr Culpin
Mr Gilhooly
Mr Mowl
Miss O'Mara
Mr Pickford
Mr Hacche
Mr Halligan
Mr P Davis
Mr Ross Goobey
Mr Cropper
Mr Tyrie

THE NOVEMBER RPI (to be published at 11.30 a.m. on Friday 12 December)

The level of the RPI rose by 0.8 per cent between October and November. The twelve month rate of inflation rose to 3.5 per cent in November from 3.0 per cent in October. This is as we expected.

2. Excluding mortgage interest payments, the twelve month rate of increase fell to 3.3 per cent in November from 3.4 per cent in October.

3. The increase in the mortgage rate increased the all items RPI by about 0.6 per cent. Apart from this the prices of durable household goods and motor insurance premiums increased significantly.

4. While most of the effect of higher mortgage rates came through in November, a small residual effect will be reflected in the December index. We expect the twelve month rate of inflation to increase slightly in December in the range $3\frac{1}{2}$ - $3\frac{3}{4}$ per cent. Increases at the upper end of this range would mean that the increase in the RPI in the year to 1986Q4 would round to $3\frac{1}{2}$ per cent rather than the $3\frac{1}{4}$ per cent forecast in the Autumn Statement. It is not possible at the moment to be more precise about the likely outturn.

5. The RPI figures are in line with City expectations. Alexander Laing and Cruickshank, Phillips and Drew, and Wood MacKenzie all correctly anticipate an increase of 0.8 per cent between October and November, while James Capel expect 0.7 per cent.

S Brooks

**S BROOKS
EAL DIVISION
EXT 7946**

pur

FROM: A BOTTRILL
DATE: 11 DECEMBER 1986

MR SAUNDERS

cc : P/Private Secretary
Mr H P Evans
Mr Scholar
Mr Sedgwick
Mr Kelly MP
Mr Barrell
Mr Owen
Mr S King

ADVANCE CIRCULATION OF TRADE FIGURES

Your note of 28 November and Mr Culpin's subsequent note.

2. We will amend our circulation list (your Annex C) to add Mr Scholar and Mr Kelly. We will also make it clear that the Press Office can be briefed at 9 a.m. on the morning the figures are published. We shall move Mr Evans from the advance circulation list to the 'after 11.30 a.m.' list since he no longer needs advance warning.

3. Mr Sedgwick and I have discussed how we might reduce the number of copies we receive from DTI. Our best suggestion is that you add Mr Sedgwick to your list for the exports and trade figures, and that we delete his name from the DTI list.

A. Bottrill

A BOTTRILL

cm
tb-tdfigs

pur



FROM: CATHY RYDING
DATE: 11 December 1986

MR HACCHE

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Monck
Mr H Sedgwick
Mr Culpin
Mr S J Davies
Miss O'Mara
Mr Shaw
Mr Guy
Mr Hudson
Mr Naisbitt
Mr Dyer (+1 for No 10)
Mr Cropper
Mr Ross Goobey
Mr Tyrie

INVESTMENT INTENTIONS SURVEY : DECEMBER 1986

The Chancellor was grateful for your minute of 10 December.

2. The Chancellor has noted that the sectors covered by the Survey account for around 40 per cent of total fixed investment. He wonders what our best guess is for the other 60 per cent.

A handwritten signature in black ink, appearing to be "Cathy Ryding".

pp CATHY RYDING

To: (Circulation list attached)

PS/SECRETARY OF STATE

From:

ROGER NORTON
Head/Branch 3
Room 1.212
Business Statistics Office
NEWPORT, Gwent
GTN: 2411/2069

Ch
Not need change
to yr/yr
increase.
AA

12 December 1986

RETAIL SALES: PROVISIONAL ESTIMATE FOR NOVEMBER

A Press Notice giving the provisional estimate for retail sales for November is attached for information.

2. The provisional index at 126.1 is well above all previous levels. Recent growth in sales is strong but the latest figure may exaggerate it for technical reasons. (The trading period used for November this year is 6 days further into the Christmas period than in 1985. The limited past evidence available does not suggest this would have a significant effect, but there must be additional uncertainty in the seasonal adjustment of the estimate.)

3. This Notice will be published at 11.30 am on Monday 15 December. As usual, the contents should be treated as confidential until then.

R M Norton
R M NORTON

CONFIDENTIAL
UNTIL 11.30 HOURS
ON DAY OF RELEASE

DTI Press Notice

Department of Trade and Industry

1 Victoria Street SW1H 0ET

Press Office: 01-215-4471/4475

Ref: 894

Out of hours: 01-215 7877

December 15 1986

RETAIL SALES: PROVISIONAL ESTIMATE FOR NOVEMBER 1986

VOLUME

The provisional estimate of the seasonally adjusted index of the volume of retail sales in November was 126.1 (1980=100), well above previous levels.

In the three months September to November, the level of sales was 2 per cent higher than in the previous three months and 7 per cent higher than in the corresponding period a year earlier.

VALUE

Based on non-seasonally adjusted data, the provisional estimate of the value of retail sales was 10 per cent higher than in November 1985. So far this year, the average value of sales has been 9 per cent higher than in the first eleven months of last year.

RETAIL SALES

		Volume: seasonally adjusted index of sales per week (1980=100)	Value: percentage change compared with a year earlier
1985	4th Quarter	116.7	+ 8
1986	1st Quarter	118.2	+ 9
	2nd Quarter	120.0	+ 8
	3rd Quarter	122.1	+ 8
1985	October	115.0	+ 7
	November	117.6	+10
	December*	117.4	+ 8
1986	January*	117.3	+ 8
	February	117.5	+ 8
	March*	119.7	+ 9
	April	119.3	+ 8
	May	118.5	+ 6
	June*	121.7	+10
	July	120.9	+ 8
	August	122.0	+ 7
	September*	123.2	+10
	October	123.2	+10
	November (provisional)	126.1	+10

Note: The monthly periods consist of 4 weeks except those marked * which are 5 weeks.

NOTES TO EDITORS

1 Estimates are based on early returns to the monthly inquiry. These returns cover over three-quarters, by turnover, of information available at the final stage. Over the last 12 months the average difference (ignoring sign) between provisional and final estimates has been about 0.25 per cent.

2 The seasonally adjusted volume series includes, where possible, adjustments for the timing of holidays, although there are inevitably problems in adjusting for the effects of Christmas and New Year sales spending. An additional uncertainty this year is the effect of the 5 week trading period in January 1986. This causes November's trading period to be later by 6 calendar days than the corresponding period in 1985 and thus nearer the Christmas peak of sales. However, the limited past evidence suggests that this effect is not significant.

3 The best indication of the recent trend is normally obtained by comparing the average seasonally adjusted index for the latest three months with the average for the immediately preceding three months. However, it is sometimes more appropriate to make a two or four month comparison.

4 Final figures for November will be published on January 12 1987.

5 Press enquiries to: 01-215-4471/4475. Other calls to 0633-22-2609/2987/2630 or 2600.

Distribution:

PS/ Mr Alan Clark
PS/ Mr Geoffrey Pattie
PS/ Mr Giles Shaw
PS/ Lord Lucas
PS/ Mr John Butcher
PS/ Mr Michael Howard

Sir Brian Hayes

Mr Treadgold GP
Mr Conn GP
Mr Liesner EC
Mr Ward BSO
Mr Whiting EC2
Mr Miner EC2
Miss Lea EC2a
Mr Stibbard S2
Mr Richardson S2
Miss Marson S2

Prime Minister's Office

Chancellor's Office

Sir Terence Burns Treasury
Mr P N Sedgwick Treasury
Miss M O'Mara Treasury
Mr P Allum Treasury

Miss S P Carter CSO
Mr R Clare CSO
Mr E Lomas CSO

Mr M Dicks Bank
Mr J Exeter Bank

meena
Pse thank

FROM: S J DAVIES
DATE: 12 DECEMBER 1986

CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Hacche

RETAIL SALES IN NOVEMBER

Provisional figures for retail sales in November will be published on Monday at 11.30 a.m. They will show almost a 2½ per cent rise in real terms over the figure for October, to a level 7¼ per cent up on a year ago. There may be a problem with the seasonal adjustment (the five weeks defined as "November" for the purpose of the index are nearer than usual to Christmas); but it is more likely than not that consumers' spending is running ahead of the projections in the Autumn Statement.

Line to take

Further evidence of consumer boom? Can't draw much in the way of conclusions about the underlying trend from figures this close to Christmas. Not surprising, given rise in real incomes, if Christmas spending unusually buoyant this year.

S J DAVIES

cm
ch-rtsls

5814.2

UNCLASSIFIED



FROM: MRS M HENSON

DATE: 15 DECEMBER 1986

MR S J DAVIES

RETAIL SALES IN NOVEMBER

The Chancellor has seen and was grateful for your minute of 12 December.

Meena Henson
MEENA HENSON

x4599



~~Box 19/12~~
pup

FROM: A C S ALLAN
DATE: 15 December 1986

MR BOTTRILL

cc Sir P Middleton
Sir T Burns
Mr Sedgwick
Mr S Davies
Mr Barrell
Mr S King

BALANCE OF PAYMENTS: MONTHLY NOTE

The Chancellor was grateful for your minute of 8 December and the attached monthly note. He thought it would be useful if Chart 1 split the visibles into oil and non-oil. And he noted that in paragraph 3 you said that G5 countries' domestic demand appears to have been growing strongly in the second and third quarters of 1986: surely this is not true of Japan?

2. He looks forward to a note on the balancing item which he had requested earlier.

ACSA

A C S ALLAN

J0393

MR D NORRGROVE
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1986

The provisional index of the output of the production industries for October 1986 will be published at 11.30 am on Tuesday 16 December. A copy of the Press Notice is attached.

Latest figures

The October 1986 index of the output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 110.0 (1980=100, seasonally adjusted), a decrease of 1 per cent on September. For manufacturing the index was 105.6, an increase of $\frac{1}{2}$ per cent on September (see also paragraph on bias adjustment below).

In the three months to October 1986 the output of production industries was $1\frac{1}{2}$ per cent higher than in the previous three months, with manufacturing output also $\frac{1}{2}$ per cent higher. Some industry detail is given in the attached Table A.

Assessment

Manufacturing output reached at least a temporary peak in the second quarter of 1985 and then declined $1\frac{1}{2}$ per cent by the first quarter of 1986. However, since the first quarter, output has recovered and by the third quarter was back to the previous level. The provisional estimates for the three months to October suggest that the recovery may have continued over this period though the underlying rate of growth is probably somewhat less than shown by the published figures.

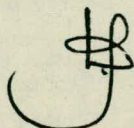
The underlying output of all production industries in the second half of 1985 was 1 per cent below the level reached in the first half, but partially recovered in the first half of 1986. By the third quarter, underlying output was slightly above the level experienced in the first half of last year. Short-term movements in oil extraction have been affected by seasonal maintenance work but, after allowing for this and for the effects of weather, etc, the output of the energy sector appears to be flat. The latest three month on three month increase, of over $1\frac{1}{2}$ per cent, in the published series for industrial production may be erratically high. However, some further recovery in the underlying level of production took place in the three months to October, reflecting the improvement in manufacturing industry.

Bias adjustment for manufacturing output

In line with revised procedures introduced in January, figures of manufacturing output for the last six months include adjustments to try to allow for under-estimation in the provisional estimates (see Note 10 of Notes to Editors of Press Notice).

Figures for November 1986

Figures for November 1986 are scheduled for publication on Monday 19 January.



D C K Stirling
15 December 1986

Central Statistical Office

++ PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on December 16 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	108.2	120.1	103.9	115.0	94.4	119.0	104.2	100.9	102.0	98.8
1985 2	109.1	121.9	104.5	117.7	94.5	120.8	105.7	99.9	102.0	97.6
3	108.3	120.9	103.9	116.2	94.2	118.7	103.6	100.5	103.2	100.0
4	108.4	121.9	103.6	114.0	96.3	116.4	103.2	101.5	102.4	99.9
1986 1	109.4	127.6	102.8	111.3	92.5	118.1	102.1	101.0	103.1	99.7
2	108.9	124.0	103.5	110.9	97.5	118.6	102.0	100.9	102.3	102.4
3	110.5	126.7	104.6	107.7	95.9	121.4	103.5	101.3	102.4	104.1
1986 A	110.6	128.7	104.1	106	96	121	103	101	104	103
S	110.9	126.5	105.3	109	97	123	105	101	103	104
0	110.0	122.1	105.6	111	98	122	105	102	102	105
Percentage change latest 3 months on: previous 3 months										
	+1.7	+2.6	+1.3	-2.0	+0.2	+2.2	+1.9	-0.3	+2.3	+1.0
a year earlier										
	+1.7	+2.9	+1.1	-5.8	+2.1	+3.4	+0.4	+0.1	+0.3	+4.2
1st quarter 1981(a)										
	+16.2	+23.5	+13.3	+9.4	+8.7	+26.3	+16.0	+1.7	+13.2	+11.4
1st half 1979(b)										
	+3.3	+27.1	-4.4	-16.7	-10.1	+12.2	-5.1	+1.2	-13.9	-6.2

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	150.3	98.7	105.9	115.0	94.4	120.3	74.2	99.1
1985 2	71.0	150.8	99.2	108.8	117.7	94.5	122.1	76.3	99.5
3	80.3	146.1	98.6	107.8	116.2	94.2	120.0	75.5	100.1
4	81.4	149.3	97.4	106.3	114.0	96.3	117.7	73.0	98.0
1986 1	79.5	155.6	95.3	115.9	111.3	92.5	119.4	74.7	95.2
2	78.2	149.7	104.3	112.5	110.9	97.5	120.1	69.9	96.4
3	77.0	159.2	101.4	108.2	107.7	95.9	123.0	66.2	95.5
1986 A	77	165	102	106	106	96	123	72	95
S	78	155	97	113	109	97	124	61	95
0	79	152	95	105	111	98	123	64	95
Percentage change latest 3 months on: previous 3 months									
	+1.4	+4.2	-5.9	+0.9	-2.0	+0.2	+2.3	-4.1	+0.2
a year earlier									
	-3.8	+4.5	+0.7	+2.5	-5.8	+2.1	+3.7	-11.5	-4.3
1st quarter 1981(a)									
	-19.7	+46.3	+1.9	+11.7	+9.4	+8.7	+27.7	-27.2	+7.4
1st half 1979(b)									
	-18.2	+66.5	-13.2	+3.2	-16.7	-10.1	+14.6	-52.3	-22.7

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	93.0	130.9	86.3	94.6	104.1	94.4	98.3	105.2	98.1	99.6
1985 2	94.9	132.6	87.5	96.5	102.8	94.1	97.0	106.2	97.0	98.2
3	91.8	129.2	88.5	93.5	104.4	92.4	99.7	106.2	98.8	101.4
4	93.9	129.6	82.2	92.9	105.0	94.3	99.5	104.9	99.4	100.6
1986 1	93.9	127.3	80.6	94.3	104.6	93.5	98.8	106.8	98.9	100.6
2	94.3	126.4	82.5	91.3	104.7	92.9	99.1	105.0	101.5	103.4
3	95.0	131.3	81.1	92.5	105.1	93.5	99.4	105.0	102.6	106.0
1986 A	95	131	75	93	105	92	102	106	102	105
S	95	133	86	92	105	93	100	106	103	106
0	95	135	85	92	105	95	99	105	102	106
Percentage change latest 3 months on: previous 3 months										
	+0.8	+4.6	-1.1	+1.1	-0.3	-0.2	+2.5	+2.2	+0.2	+2.0
a year earlier										
	+2.6	+2.3	-5.1	-1.2	+0.2	-0.1	+0.5	+0.1	+3.4	+5.1
1st quarter 1981(a)										
	+8.9	+43.6	+6.6	-12.5	+6.4	-7.8	+10.6	+15.3	+7.7	+16.0
1st half 1979(b)										
	-13.7	+28.8	-33.5	-1.6	+5.2	-7.0	-19.7	-8.6	-4.3	-8.1

(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 S W Treadgold

Bank of England

(Mr R Leigh-Pemberton

FROM: R D KERLEY
 DATE: 15 DECEMBER 1986

1. MISS O'MARA
2. CHANCELLOR OF THE EXCHEQUER

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

good news which you may be
 able to deploy in Wednesday's
 debate.

MOM 15/12

Thanks. For let
 her have a sentence
 on this.

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1986

This will be published at 11.30am on Tuesday, 16 December.

2. The index of production rose by 1.7 per cent in the three months to October compared with the previous three months, and also by 1.7 per cent compared with the same period a year earlier.
3. Manufacturing output rose by 1.3 per cent in the three months to October compared with the previous three months, and by 1.1 per cent compared with the same period a year earlier.
4. Recent movements

percentage changes	Latest 3 months on previous 3 months	Latest 3 months on same period a year earlier	1985 on 1984	Latest 3 months on 1981Q1 trough	Latest 3 months on 1979H1	October on September
Index of Production	+1.7	+1.7	+4.8	+16.2	+3.3	-0.8
within which:						
Manufacturing	+1.3	+1.1	+3.2	+13.3	-4.4	+0.3
Energy and Water	+2.6	+2.9	+9.1	+23.5	+27.1	-3.5

5. The CSO's assessment is that manufacturing output reached at least a temporary peak in 1985Q2 and then declined 1½ per cent by 1986Q1. Since then, however, output has increased significantly and in 1986Q3 was a little higher than in 1985Q2. The figures for the three months to October suggest that this trend has continued and the figures for September and October have been particularly buoyant.

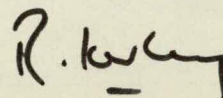
6. The underlying output of all production industries in 1985H2 was almost 1 per cent below the level reached in the first half of that year, but partially recovered in the first half of 1986 and in the latest 3 months underlying output was slightly above the level experienced in 1985H1. After allowing for maintenance work and weather effects, underlying energy output appears to be flat, and thus the latest three months on three months increase of over 1½ per cent in the index of production may be erratically high. However, despite the fall in the index between September and October some further increase in the underlying level of production probably took place in the three months to October, reflecting the improvement in manufacturing industry.

7. Although not part of the index of production, figures for third quarter UK construction output will also be published on 16 December. These will show that output of the construction industry in 1986Q3 rose by nearly 3 per cent compared with 1986Q2, and by 6 per cent compared with 1985Q3, largely reflecting increases in private sector housebuilding.

Lines to take

8.

- (i) Total production up over 1½ per cent in three months to October compared with previous 3 months.
- (ii) Continued pick-up in manufacturing output. Up 1½ per cent in three months to October compared with previous 3 months and up 3 per cent since beginning of year to reach highest level since 1980Q1.
- (iii) Construction output at highest level for over six years.



R D KERLEY



FROM: MRS M HENSON

DATE: 15 December 1986

MR S BROOKS

THE NOVEMBER RPI (to be published at 11.30 am on Friday 12 December)

The Chancellor has seen and was grateful for your minute of 11 December.

Meena Henson
MEENA HENSON



1. Andro
2. Pupp

SECRET AND PERSONAL until release of press notice
on 23 December 1986 at 11.30 am

To Minister for Trade

Copy No. 3 (28)

From Peter Stibbard
US/S2
V/260 Ext. 4872

15 December 1986

Ch
Looks v good
AA

Yes - see do
change to
Annual figs?

OVERSEAS TRADE FIGURES FOR NOVEMBER 1986: EXPORTS

The value of exports in November, seasonally adjusted on a balance of payments basis, is estimated at £6.5 billion, £0.3 billion (5 per cent) higher than in October. Exports of oil were virtually unchanged while exports of the erratic items increased by £0.1 billion. Excluding oil and the erratic items, exports increased by 4 per cent between October and November.

2 In the three months ended November, total export volume was 5 per cent higher than in the previous three months and 8½ per cent higher than a year earlier. Excluding oil and the erratic items export volume increased by 5½ per cent in the latest three months. The strong upward movement in the underlying trend of non-oil export volume, established earlier in the year, continued in November.

3 In the first eleven months of 1986, total export volume increased by 3 per cent over the same period last year. Excluding oil and erratics the increase was 1½ per cent. These increases are slightly above the partly forecast increases for the whole of 1986, published in Autumn Statement Table 1.2 (respectively 2 per cent and 1 per cent).

4 Recent export figures are shown in the attached table and graphs. A further note describing imports and the current account in November will be circulated on Thursday 18 December.

P STIBBARD

SECRET and PERSONAL until release of press notice
on 23 DEC 86 at 11.30am and thereafter unclassified

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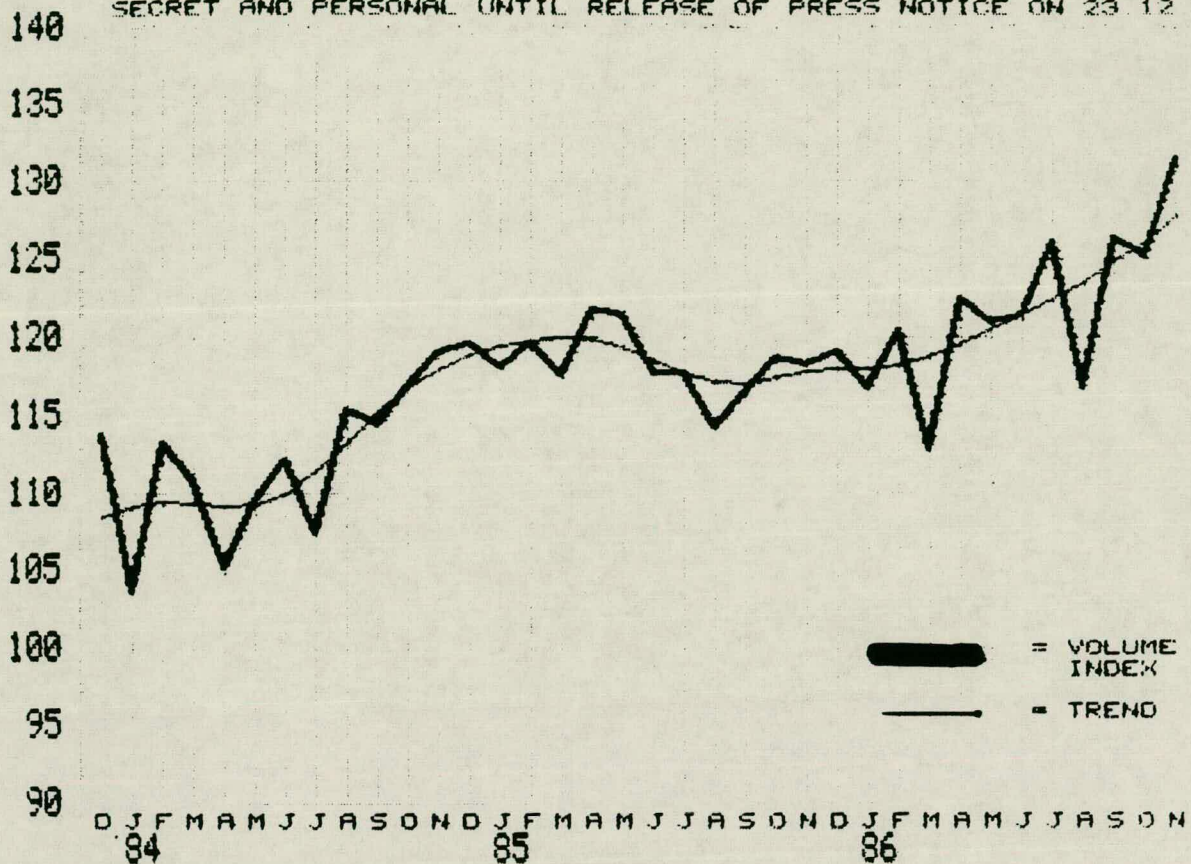
EXPORTS

(Balance of payments basis; seasonally adjusted)

	---TOTAL TRADE---		EXCLUDING ---OIL & ERRATICS---	
	VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1985 Q3	18749	116.3	14425	115.4
Q4	19006	118.9	14228	114.4
1986 Q1	18122	116.9	14029	111.4
Q2	17789	121.8	14444	115.1
Q3	17517	123.3	14853	118.0
1986 JUN	5850	121.6	4840	116.2
JUL	5978	126.3	4983	119.3
AUG	5468	117.0	4789	113.7
SEP	6072	126.5	5081	121.1
OCT	6206	125.3	5155	120.8
NOV	6515	131.5	5366	127.3

TOTAL EXPORTS

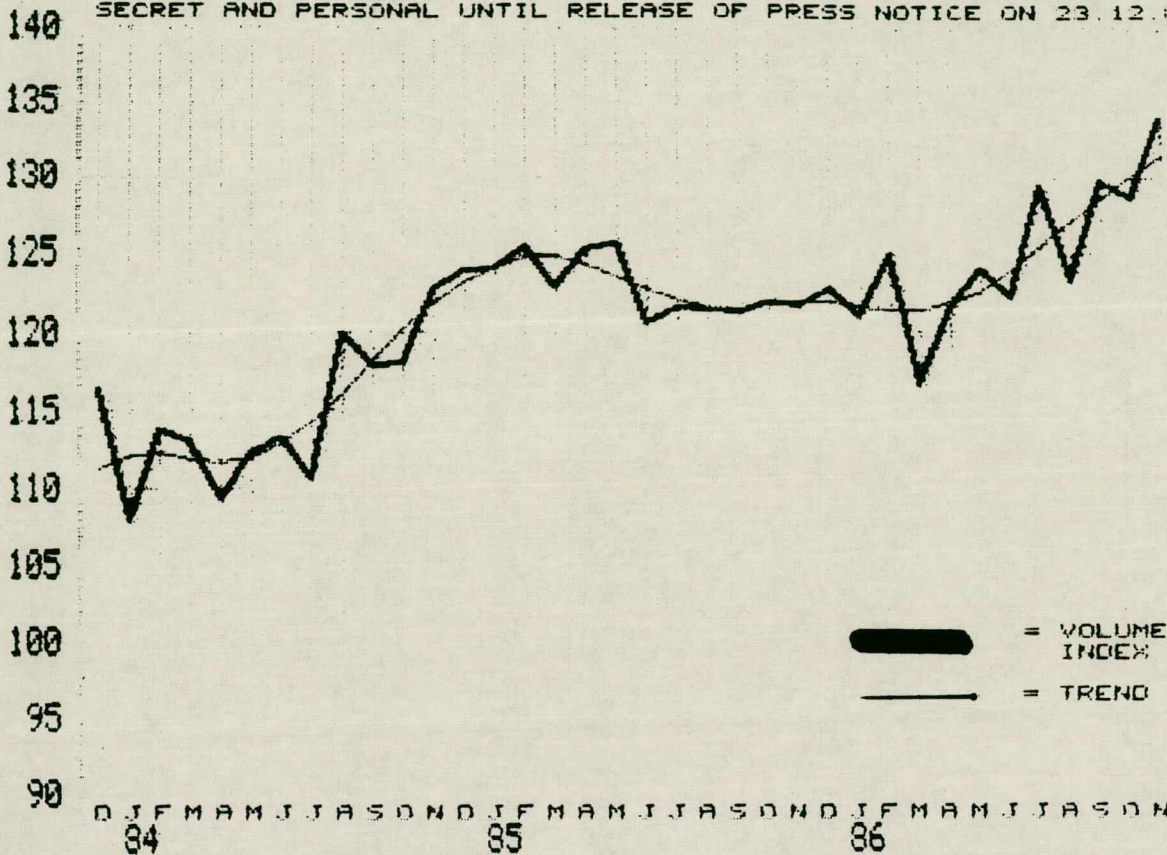
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

EXPORTS LESS ERRATICS *

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



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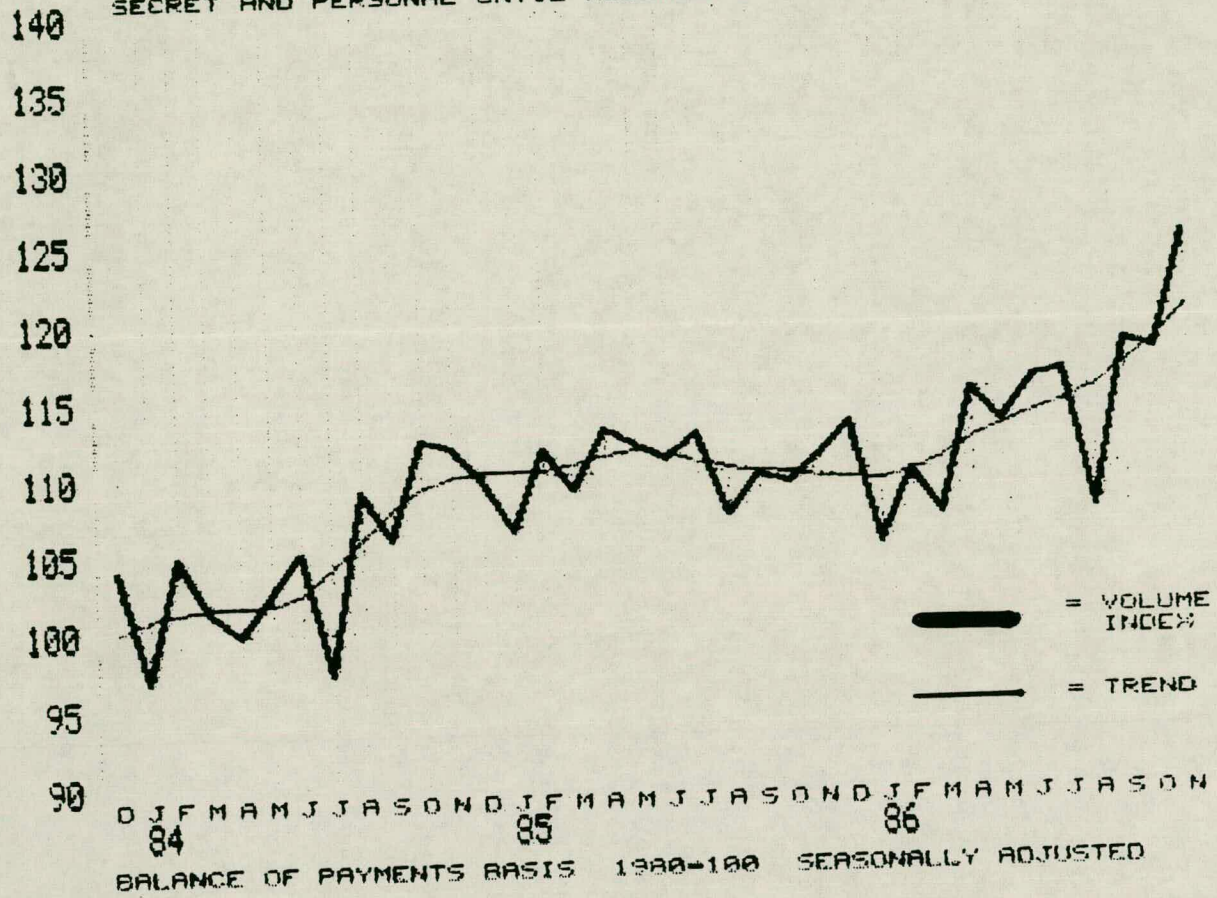
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BALANCE OF PAYMENTS BASIS 1980-100 SEASONALLY ADJUSTED

* - SHIPS, MSI, AIRCRAFT, PRECIOUS STONES & SILVER

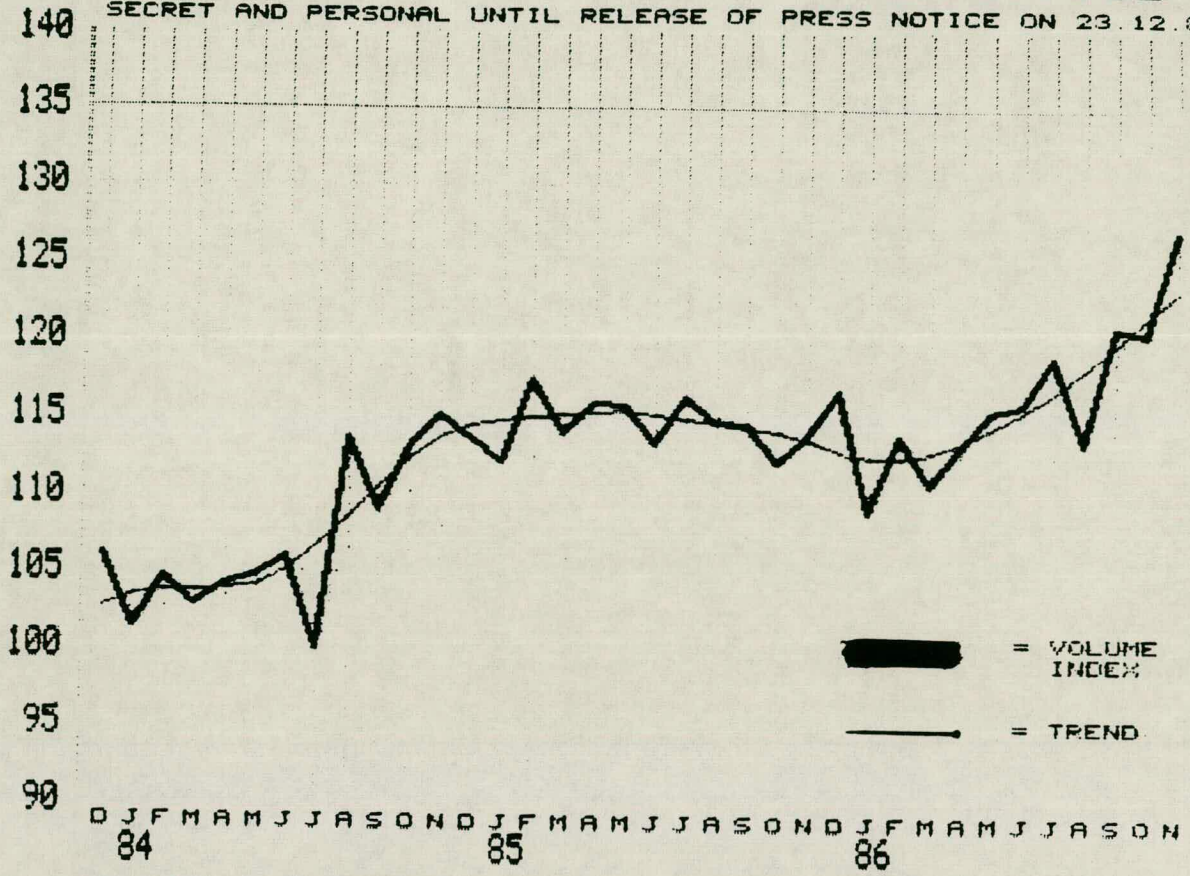
EXPORTS LESS OIL

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



EXPORTS LESS OIL & ERRATICS

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



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	PUSS for Trade and Industry	
	6	Sir Robert Armstrong (Cabinet Office)	
	7	Sir Brian Hayes (Dept. of Trade and Industry)	
	8	Sir Peter Middleton (HM Treasury)	
	9	Governor of the Bank of England	
	10	Chairman of the Board of HM Customs & Excise	
	11	Mr J Hibbert (CSO)	
	12	Mr Finlinson (HM Customs & Excise)	
	13	Mr B Buckingham (CSO)	
	14	Mr S King (HM Treasury)	
	15	Mr Barrell (HM Treasury)	
	16	Mr P Sedgewick (HM Treasury)	
	17	Mr D Owen (HM Treasury)	
	18	Mr A McIntyre (CSO)	
	19	Dr P Rice (Dept of Energy)	
	20	Mr Bottrill (HM Treasury)	
	21	Mr H H Liesner)
	22	Mr P Stibbard)
	23	Mr W E Boyd)
	24	Mr E J Wright)
	25	Mr A R Hewer)
	26	Miss C Siddell)
	27	Miss H Chapman)
	28	Mr D Packer)

Dept of Trade and
Industry



APH

FROM: A P HUDSON
DATE: 16 December 1986

MR KERLEY

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Sedgwick
Mr Culpin
Miss O'Mara
Mr Davies
Mr Pickford
Mr Naisbitt
Mr Dyer
Mr Cropper
Mr Ross Goobey
Mr Tyrie
Mr Stirling - CSO
Mr Kingaby - CSO
Mr Lang - CSO

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1986

The Chancellor was grateful for your 15 December minute.

APH

A P HUDSON

purp



To: MINISTER FOR TRADE

Copy No. (3) 28

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

18 December 1986

*What do you know
of the Japanese
companies
importing
w/ha we get draft
press notice.*

OVERSEAS TRADE FIGURES FOR NOVEMBER

THE CURRENT ACCOUNT

In November exports were valued at £6.5 billion and imports at £7.5 billion so that visible trade, seasonally adjusted on a balance of payments basis, showed a deficit of £1.0 billion compared with a deficit of £0.8 billion in October.

The Central Statistical Office are now projecting a surplus on invisibles of £800 per month in the fourth quarter. This is £100 million per month less than the first projection for the fourth quarter published in the previous monthly press notice. This revision follows the availability of more detailed information on the third quarter than was available when the projections were made a month ago, and some limited indications for the fourth quarter. Particular items contributing to the reduced projections were changes to the estimates of interest on bank borrowing and lending and higher net debits on transfers.

After adding the surplus on invisibles, the current account is provisionally estimated to have been in deficit by £0.2 billion in November compared with broad balance in October. For the first eleven months of this year as a whole, the current account now shows a deficit of £0.2 billion.



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

	Current Account Balance	Visible Total	Trade Oil	Balances Non-Oil	Invisibles Balance
1984	+1211	-4384	+6937	-11321	+5595
1985	+3549	-2111	+8163	-10274	+5660
1986 June-Aug	- 660	-2780	+ 687	- 3467	+2120
Sept-Nov	- 400A	-2751	+ 786	- 3537	+2351A
1986 Sept	- 134	- 885	+ 268	- 1152	+ 751
Oct	- 35A	- 835	+ 184	- 1019	+ 800A
Nov	- 232A	-1032	+ 334	- 1366	+ 800A

Seasonally adjusted
Balance of Payments
Basis
£ million

A = Projection

In the three months ended November there was a deficit on visible trade of £2.8 billion - a surplus on trade in oil of £0.8 billion offset by a deficit on non-oil trade of £3.5 billion. Between the three months ended August and the latest three months the overall deficit on visible trade was little changed - an increase in the surplus on oil of £0.1 billion being matched by a similar increase in the deficit on non-oil trade.

EXPORTS

The value of exports in November was £309 million (5 per cent) higher than in October. Exports of oil were little changed; exports of the erratic items increased by about £100 million. Excluding oil and the erratic items exports rose by 4 per cent in November.

Between the three months ended August and the latest three months, total export volume increased by 5 per cent and in the latest three months stood $8\frac{1}{2}$ per cent up on the same period a year earlier. Excluding oil and the erratic items export volume increased by $5\frac{1}{2}$ per cent in the latest three months and the upward trend in non-oil export volume continues.



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 Jun-Aug	17296	14612	121.6	116.4
Sept-Nov	18793	15603	127.8	123.1
1986 Sept	6072	5081	126.5	121.1
Oct	6206	5155	125.3	120.8
Nov	6515	5366	131.5	127.3

By value, exports rose by $8\frac{1}{2}$ per cent in the latest three months. Exports to the developed countries were up 10 per cent while exports to the developing countries fell a little. Within the total for developed countries, deliveries to the European Community grew by 14 per cent and those to North America were up by 6 per cent. For the developing countries there was a fall of $8\frac{1}{2}$ per cent in exports to the oil-exporting countries and an increase of $5\frac{1}{2}$ per cent to other destinations.

IMPORTS

The total value of imports in November was £505 million (7 per cent) higher than in October. Imports of the erratic items were little changed while imports of oil fell by about £150 million. Excluding oil and the erratic items, imports increased by 10 per cent between October and November.

Between the three months ended August and the latest three months, total import volume increased by $4\frac{1}{2}$ per cent to be 13 per cent higher than a year earlier. Excluding oil and the erratic items, import volume increased by 4 per cent in the latest three months. The upward trend in the underlying level of non-oil import volume, apparent for most of 1986, seemed to be flattening out a month ago, but the high figure recorded for November has re-established the trend.



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	63276	121.9	137.0
1985	80162	68730	125.8	142.7
1986 Jun-Aug	20075	18474	136.1	152.9
Sept-Nov	21545	19550	142.3	159.1
1986 Sept	6956	6307	139.5	156.0
Oct	7041	6293	140.6	153.1
Nov	7547	6950	146.8	168.3

By value, imports increased by $7\frac{1}{2}$ per cent in the latest three months. Imports from the developed countries also rose by $7\frac{1}{2}$ per cent with arrivals from the European Community up $5\frac{1}{2}$ per cent, arrivals from North America up by 7 per cent and an 11 per cent increase in imports from the 'other developed' countries (including Japan). Imports from the developing countries rose by 15 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 in the three months ended November of £1.9 billion compared with a deficit of £1.7 billion in the previous three months. The cumulative deficit for the first 11 months of the year stands at £5.4 billion compared with £3.0 billion for 1985 as a whole.



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 Jun-Aug	13295	15028	- 1733
Sept-Nov	14187	16115	- 1928
1986 Sept	4641	5203	- 562
Oct	4672	5200	- 528
Nov	4875	5713	- 838

PUBLICATION

The press notice with the November figures is scheduled for release at 11.30am on Tuesday 23 December.

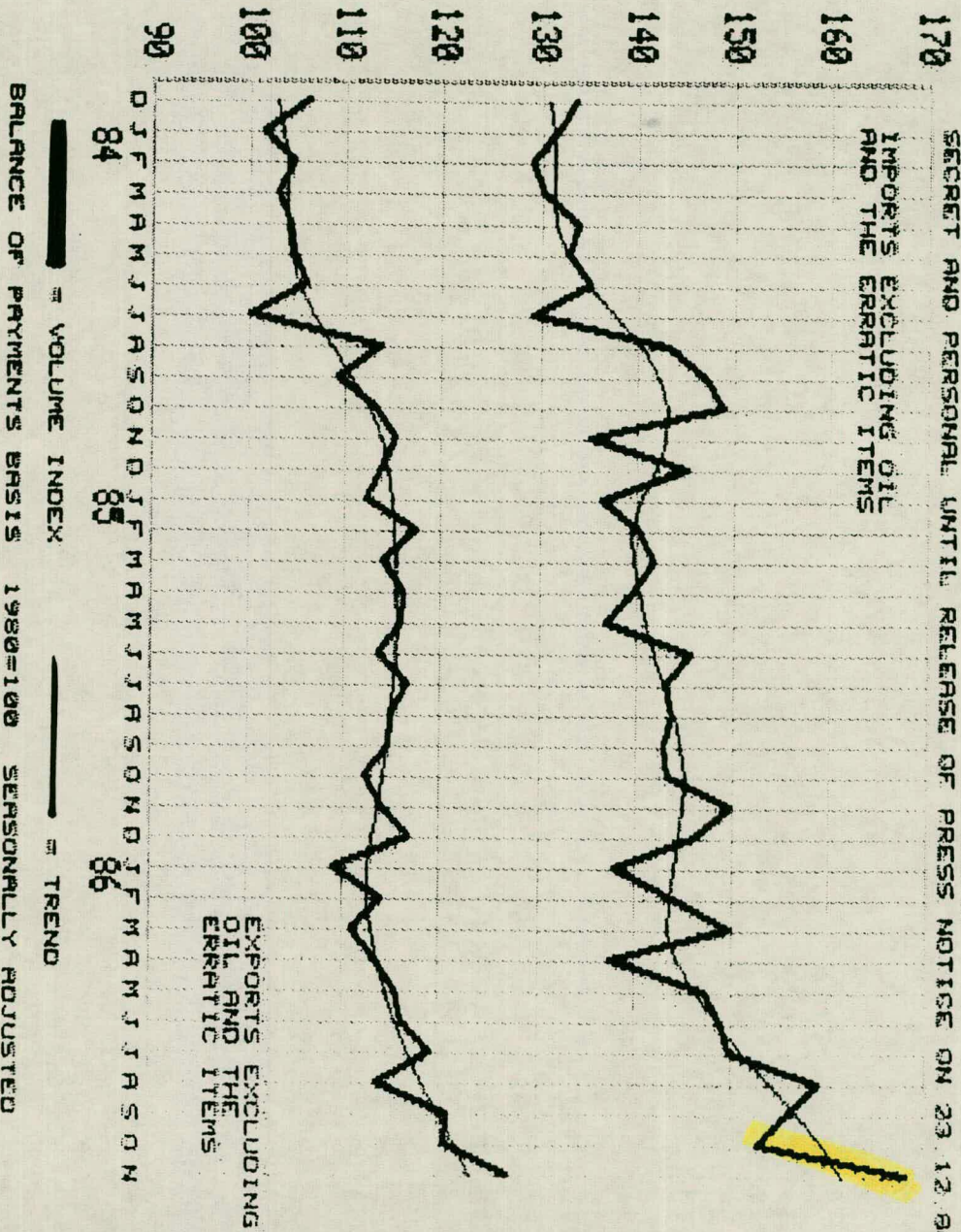
P J STIBBARD

PS The figures for the first eleven months of 1986 and the forecast for the full year in Autumn Statement Table 1.3 are compared below.

	£bn				
	Manufactures	Oil	Other Goods	Invisibles	Current Balance
Jan-Nov 1986 (Autumn Statement)	- 5.4	3.9	- 6.4	7.7	- 0.2
	- 5½	4	- 7	8½	0

VOLUME INDICES

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.96



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	PUSS for Trade and Industry	
	6	Sir Robert Armstrong (Cabinet Office)	
	7	Sir Brian Hayes (Dept. of Trade and Industry)	
	8	Sir Peter Middleton (HM Treasury)	
	9	Governor of the Bank of England	
	10	Chairman of the Board of HM Customs & Excise	
	11	Mr J Hibbert (CSO)	
	12	Mr Finlinson (HM Customs & Excise)	
	13	Mr B Buckingham (CSO)	
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	21	Mr H H Liesner)
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	24	Mr E J Wright)
	25	Mr A R Hewer)
	26	Miss C Siddell)
	27	Miss H Chapman)
	28	Mr D Packer)

Dept of Trade and
Industry

FROM: L C HUNT

DATE: 19 December 1986

- 1. MR S J DAVIES *SDO*
- 2. PS/CHANCELLOR OF THE EXCHEQUER

Mr Rankin. We shall need to watch ~~carefully~~ closely for if no new plants. It must affect to work. We must be prepared to take action.

- cc PS/Chief Secretary
- Sir P Middleton
- Sir T Burns
- Mr Monck
- Mr Sedgwick
- Mr Scholar
- Mr Culpin
- Miss O'Mara
- Mr Shaw
- Mr Deaton
- Mr Hacche
- Mr MacAuslan
- Mr Stern
- Mr Tyrrie

MONTHLY NOTE ON UNEMPLOYMENT TRENDS

You asked for my note of 20 November to be updated each month.

2. The special employment measures that are currently affecting the unemployment count are given below with our estimate of their direct effect on the November adult unemployment count:

Job Release Scheme	(JRS)	27,000
Job Start	(JOB)	1,000
New Workers Scheme	(NWS)	6,000
Community Programme	(CP)	230,000
Community Industry	(CI)	4,000
Enterprise Allowance Scheme (EAS)		23,000
Young Workers Scheme	(YWS)	1,000
Total		292,000

(The "hangover" effects for EAS have now been removed as requested).

3. The provisional estimated effect of the Youth Training Scheme (YTS) on adult unemployment in November 1986 is 118,000 making such allowances as we can for seasonal factors. (The adjustments for seasonality have been revised since my note of 20 November 1986).

CONFIDENTIAL

4. The Department of Employment's estimate of the effect of Restart on the adult unemployment count in November is 40,000. Our estimate of 35,000 is slightly lower.
5. Availability testing, introduced in November, is tentatively estimated to reduce the November adult unemployment count by 1,000.
6. Table 1 shows the monthly changes in adult unemployment, total SEMS, YTS, Restart and Availability Testing. Estimates are given to the nearest thousand; but it should be clear that they cannot be regarded as accurate to the nearest thousand.
7. Table 2 shows the trends in adult unemployment before and after SEMS, YTS, Restart and Availability Testing. It can be seen that on this analysis the trend excluding all effects has continued to decline and is in fact negative for the three months ending October and November 1986. It should be stressed once again that this analysis depends crucially on the estimated effects of Restart and Availability Testing and the seasonal adjustment of YTS. Moreover there was an improvement in trend at a similar time last year which was not sustained over the winter months.

Lester Hunt

LESTER HUNT
EA1

CONFIDENTIAL

TABLE 1

MONTHLY CHANGES IN ADULT UNEMPLOYMENT
EMPLOYMENT AND TRAINING MEASURES, RESTART
AND AVAILABILITY TESTING¹

(000s, seasonally adjusted)

	UK adult employment	SEMS and YTS effect on adult unemployment ²	RESTART and AVAILABILITY effect on adult unemployment ³	Net of all these
1985 May	1	0	0	1
June	- 7	- 2	0	- 5
July	7	- 3	0	10
August	6	- 5	0	11
September	- 4	- 3	0	- 1
October	- 4	- 8	0	+ 4
November	- 6	- 5	0	- 1
December	19	- 7	0	26
1986 January	21	- 7	0	28
February	8	- 8	0	16
March	38	- 7	0	35
April	2	- 6	0	8
May	5	- 8	0	13
June	14	- 7	0	21
July	4	- 6	0	10
August	- 4	- 6	- 10	12
September	- 26	- 7	- 10	- 9
October	- 26	- 9	- 7	- 10
November	- 20	<i>guess</i> - 9	- 9	- 2

1. A negative sign reflects an increasing impact of a scheme on the unemployment count and a positive sign a declining impact of a scheme on the unemployment count.

2. These figures refer to the end of each month so it is assumed that the effect is on the following months count.

3. It is assumed that all of the effects of Restart and Availability Testing is on adult unemployment. However a small proportion may in fact affect school leavers.

TABLE 2

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UNEMPLOYMENT TREND (000s)

	Average change in UK adult unemployment	Average change excluding SEMS and YTS	Average change excluding SEMS, YTS, Restart and Availability
<u>Over 3 months ended:</u>			
1985 November	- 5	0	0
December	3	8	8
1986 January	11	18	18
February	16	22	22
March	22	29	29
April	16	23	23
May	15	22	22
June	7	14	14
July	8	15	15
August	5	12	15
September	- 9	- 3	4
October	-19	-13	- 4
November	-24	-17	- 8

Over 6 months ended:

1985 November	- 1	3	3
December	3	7	7
1986 January	5	10	10
February	6	12	12
March	13	19	19
April	13	20	20
May	15	22	22
June	15	22	22
July	12	19	19
August	10	17	19
September	- 1	6	9
October	- 6	1	6
November	-10	- 3	3

FROM: S D KING
DATE: 19 December 1986

OK
*A few minutes
a press brief*
AA

a few min.

1. MR BOTTRILL
2. CHANCELLOR OF THE EXCHEQUER

cc: see attached list

NOVEMBER TRADE FIGURES

The November trade figures will be released at 11.30 am on Tuesday 23 December. They will show a deficit on visible trade of £1032 million. Combined with a revised projected surplus on invisibles of £800 million, they give a current account deficit of £232 million, compared with a revised estimated deficit of £35 million for October.

Main points

2. Current Account

	<u>£ million</u>							
	<u>1985</u>	<u>Q1</u>	<u>Q2</u>	<u>1986</u>	<u>Q3</u>	<u>Oct</u>	<u>Nov</u>	<u>Jan-Nov</u>
Oil	8163	1929	750	688	184	334	3885	
Non-oil	-10274	-3367	-2328	-3722	-1019	-1366	-11802	
Visibles o.w.	-2111	-1437	-1579	-3034	-835	-1032	-7917	
Manufactures	-3017	-1462	-621	-1942	-528	-838	-5391	
Invisibles	5660	1986	1854	2253	800	800	7693	
Current balance	3549	549	275	-781	-35	-232	-224	

3. The value of exports rose by £309 million in November to £6.5 billion. The value of imports rose by £506 million to £7.5 billion. The combined effect was to give a visible trade deficit of £1.0 billion (compared with £0.8 billion in October).

4. The deterioration of the current account between October and November is entirely accounted for by the change in the visibles balance. The estimates for both months contain a downward revision to the CSO's initial projection of the invisibles surplus in the fourth quarter, from £900 million a month to £800 million a month.

5. Exports

	percentage change		
	<u>November on October</u>	<u>3 mths to November on previous 3 mths</u>	<u>3 mths to November on same period previous year</u>
Total value	5	$8\frac{1}{2}$	$-\frac{1}{2}$
Total volume	5	5	$8\frac{1}{2}$
Total volume excluding oil and erratics	$5\frac{1}{2}$	$5\frac{1}{2}$	8
Manufactures volume (excluding erratics, OTS basis)	$3\frac{1}{2}$	4	6
Fuels volume	$-\frac{1}{2}$	4	$4\frac{1}{2}$

6. Export volumes, excluding oil and erratics, rose by $5\frac{1}{2}$ per cent in the three months to November compared with the previous three months to a level 8 per cent higher than the previous year, continuing the upward trend established earlier in the year. Within the total, manufactures rose by 4 per cent in the latest three months compared with the previous three months to a level 6 per cent higher than the previous year. The volume of basic materials exports bounced back from the subdued level in October, but there was a slight fall in exports of food, drink and tobacco, although the level in the latest three months was still 17 per cent above the previous three months. Fuels volumes were more or less unchanged compared with October.

7. Imports

	percentage change		
	<u>November on October</u>	<u>3 mths to November on previous 3 mths</u>	<u>3 mths to November on same period previous year</u>
Total value	7	7½	12
Total volume	4½	4½	13
Total volume excluding oil and erratics	10	4	9½
Manufactures volume (excluding erratics, OTS basis)	9	3	9½
Fuels volume	-36	7½	45½

8. Import volumes, excluding oil and erratics, rose by 10 per cent in November compared with October. Sharp increases were recorded in food, drink and tobacco (11 per cent), basic materials (13½ per cent) and manufactures (excluding erratics, up 9 per cent). Within manufactures, the major increases were in consumer goods other than cars (up 17 per cent) and in intermediate goods (up 17½ per cent). The series for fuel volumes has continued to move erratically: we are awaiting a satisfactory explanation from D.En.

9. The import figures in recent months have been erratic. The large increase in imports this month partly reflects a bounceback from the slight falls recorded in September and October after the steep rise in August. It is also probably a reflection of buoyant domestic demand. In particular the rise of 2½ per cent in retail sales in November has probably contributed to the large increase in imports of consumer goods. The November figures confirm that there is a strong upward trend in import growth. Import volumes rose by 4 per cent in the latest three months compared with the previous three months to a level 9½ per cent above that of a year earlier.

Geographical area

10. By geographical area, there was a particularly sharp increase in exports to the US in November, in contrast to the rather sluggish performance in the last few months. There was little change in the value of exports going to the EC and to oil exporting countries.

Trade prices

	percentage change			
	<u>Import prices (OTS)</u>		<u>Export prices (OTS)</u>	
	Nov on Oct	3 mths to Nov on <u>previous 3 mths</u>	Nov on Oct	3 mths to Nov on <u>previous 3 mths</u>
Manufactures	1½	4	0	1½
Food, drink, tobacco	0	2	1½	1
Basic materials	1	2	-2	0
Fuel	-3½	3½	0	8½
Total (BOP basis)	1	4	0	2
Non-oil (BOP basis)	1	3½	0	1½

11. Both the overall and the non-oil terms of trade, as measured by unit value indices, deteriorated by 1 per cent in November on the previous month, and by 1½ per cent in the latest three months on the previous three months. [N.B. the published series are unit value indices, which can present a misleading picture due to their use of 1980 weights. In particular, oil should now have a larger weight in the export UVIs than it does, because production is now higher relative to other goods than it was in 1980.]

Invisibles

12. The downward revision to the projection for invisibles for the fourth quarter is the result of extra information received by the CSO since the publication last month of the initial invisibles projection in the October trade figures press notice. Revisions to projections have been made in the past, but under a slightly different publication methodology.

13. [NOT FOR PUBLIC USE: When the October trade figures were published, an invisibles balance of £800 million a month for the third quarter was published on the basis of partial information, some of which - from the Bank - was incorrect. The £900 million a month projection for the fourth quarter was based on this figure. The combination of the corrected Bank data and further information received over the last few weeks has led to the downward revision. It is unlikely to be well received in the press.]

Comparison with forecast

14. The cumulative current account deficit of £224 million for the first eleven months of 1986 implies that the current account will need to be in balance or small surplus in December if the Autumn Statement forecast of broad balance for 1986 as a whole is to be met. On invisibles, the revised CSO projection of an £800 million a month surplus for the fourth quarter is entirely consistent with the Autumn Statement forecast of a surplus of £8½ billion for the year as a whole.

Market expectations

15. The market expectation is for a visible deficit of £900 million, with the current account in balance. The actual visible deficit, of £1032 million, is not too far from the expectation, but the revised invisibles surplus may come as something of a surprise.

Step 5

S D KING

DRAFT BRIEFING FOR IDT

Positive

1. Export volumes, excluding oil and erratics, up ^{a further} 5½ per cent in latest month to reach all time high. Industry Act forecast projects increase of 5½ per cent in 1987.

Defensive

1. Current account back in deficit

Monthly figures are inevitably erratic. ✓

[Deficit of £232 million in November, giving cumulative deficit for year so far of £224 million.] ~~Deficit in November probably reflects rising domestic activity. Encouraging that exports have risen in November by 5 per cent in value terms.~~

2. Deficit implies need for further fall in exchange rate

No.?
though output effect is inevitably adverse.
Recent fall in exchange rate will, in time, benefit current account, but in long run, competitiveness depends on slower growth in unit costs, coupled with improvements in non-price competitiveness.

3. Non-oil tradeable sector unable to respond following fall in oil price owing to erosion of manufacturing base

Performance of manufacturing industry improving for some time. Since 1983, ~~election~~, manufacturing output up 10 per cent, investment up 25 per cent. So no reason for pessimism on ability of manufacturing to respond.

4. Deficit likely to continue into medium term

Weakness of world trade and adverse effects of exchange rate depreciation (J-curve) are temporary. In time non-oil trade will benefit from recent ~~improvement in competitiveness.~~
Exchange rate adjustment.

No reason to change forecast. ~~with that~~ ✓
~~actually~~

5. Emergence of deficit implies that Industry Act forecast of broad balance for 1986 as a whole will not be met

Given margins of error associated with current account forecasts, likely that Industry Act forecast of broad balance for 1986 as a whole will be reasonably accurate. Revised CSO invisibles projection for fourth quarter totally consistent with Industry Act forecast of £8½ billion for year as a whole.

6. Imports growing too rapidly

AT same time
Growth of imports associated with strong growth of the economy. Domestic production is ~~also~~ responding to higher ~~domestic and overseas demand.~~ *both at home & abroad.* Manufacturing output up 1½ per cent in three months to October on previous three months.

7. Why revision to invisibles projection?

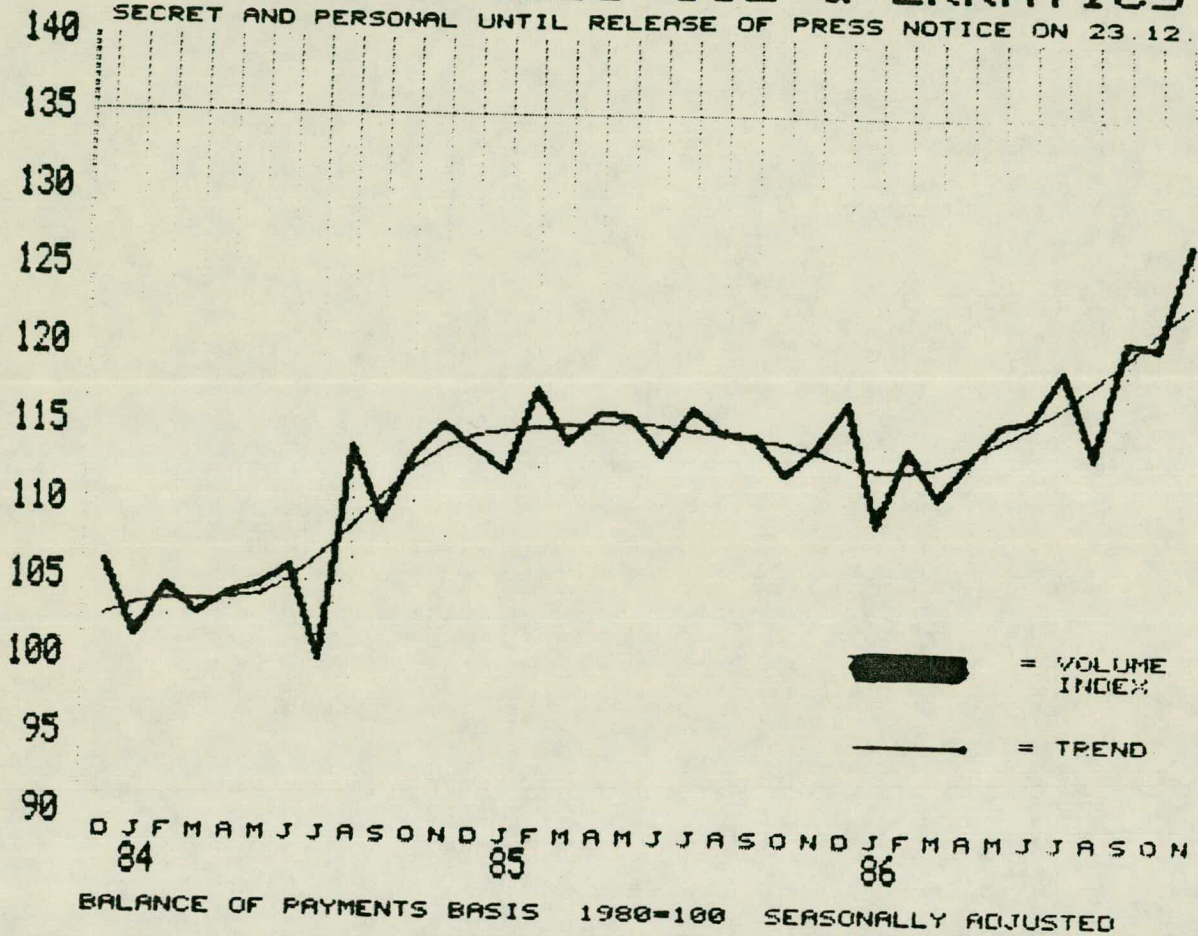
Initial projection of £900 million a month for fourth quarter made on basis of information available at time of publication of October trade figures. Subsequently, further information, upon which third quarter invisibles figures were based, indicated need for ~~small~~ downward revision. ~~Hence revised down~~ to £800 million a month, *by CSO*

which still represents an increase of X 2 over a year ago.

↑
per complete

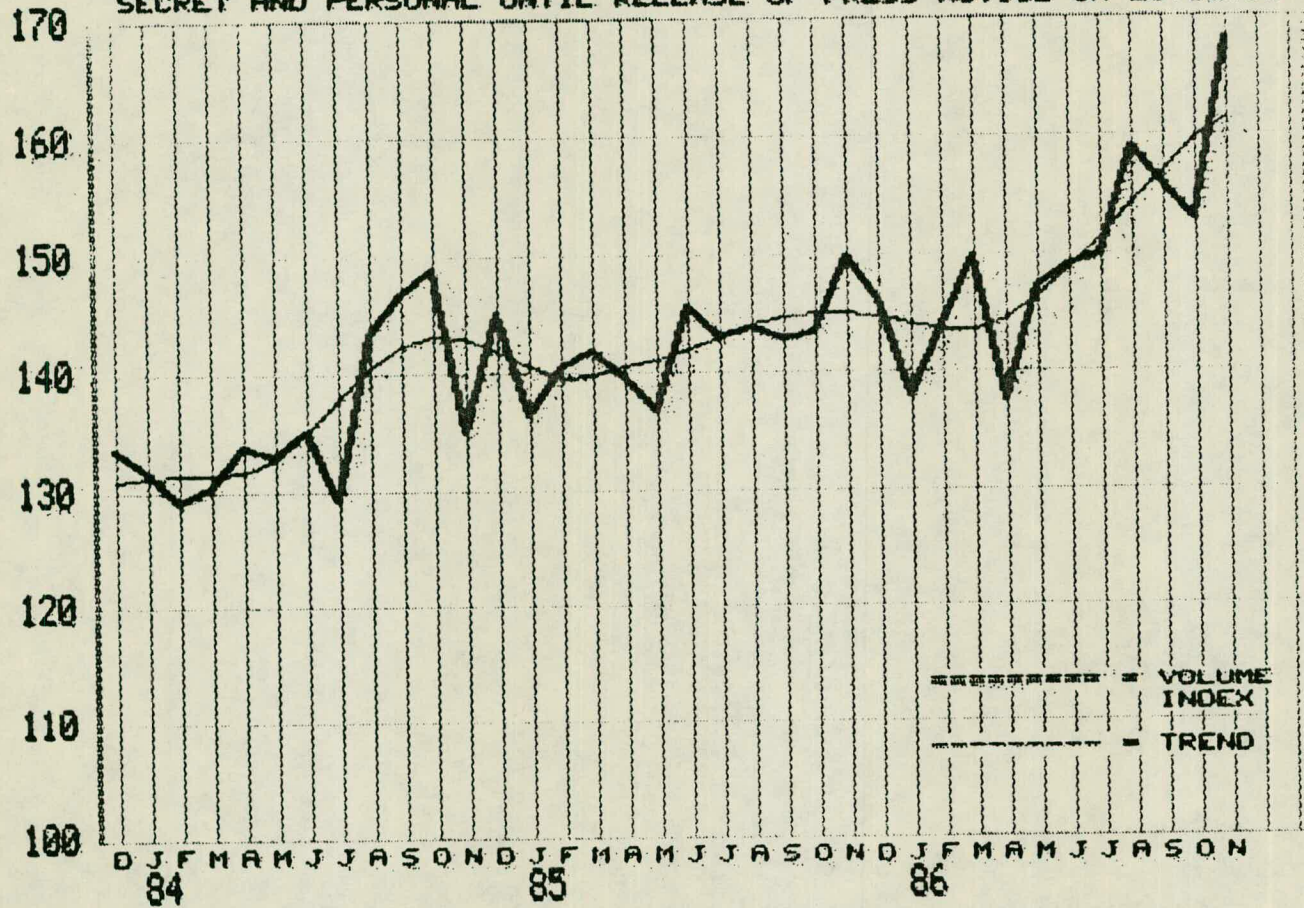
EXPORTS LESS OIL & ERRATICS

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



IMPORTS LESS OIL & ERRATICS

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 23.12.86



BALANCE OF PAYMENTS BASIS 1980=100 SEASONALLY ADJUSTED

TRADE FIGURES FOR NOVEMBER, 1986

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	Mr Kelly
Economic Secretary	Miss O'Mara
Sir P Middleton	Mr Culpin
Sir G Littler	Mr Barrell
Sir T Burns	Mr Owen
Mr Cassell	Mr Norgrove - No. 10

Mr Sedgwick

Circulation after 11.30 a.m.

Financial Secretary
Minister of State
Mr Matthews
Mr Shaw
Mr Hacche
Mr Tyrie
Mr Ross Goobey
Miss Roche (No. 10)

*This is (V. important matter, who cannot be left here.
BIM balance etc.*

FROM: S D KING

DATE: 14 December 1986

- Approved in draft SK*
1. MR BOTTRILL
 2. CHANCELLOR OF THE EXCHEQUER

cc: Economic Secretary
 Sir P Middleton
 Sir G Littler
 Sir T Burns
 Mr Peretz
 Mr Sedgwick
 Mr Culpin
 Ms O'Mara
 Mr Barrell
 Mr Owen

*Ch
 Doesn't advance knowledge
 much, but 1 sympathetic with mems.
 End of para 13 sounds odd.*

AA

THE BALANCING ITEM IN THE BALANCE OF PAYMENTS

You requested a note on the size of the balancing item over recent quarters.

2. The balance of payments is defined in accounting terms. Total credits less total debits, and therefore the sum of current and capital accounts, should equal zero. The recorded data, however, are neither complete nor precisely accurate. The balancing item reflects these omissions and errors.

3. Table 1 shows the balancing item over recent years and the latest quarters. It has generally been positive and was particularly large in 1984 and 1985. The figures so far in 1986 are even larger. Early revisions tend to be associated with receipt of additional capital account data. But an analysis of all data revisions from initial publication to final version suggests that current account revisions can also be important. Table 2 shows revisions to the current balance and capital account over the last few years. There have been revisions to both series, although the revisions to the capital account have, on average, been larger. An idea of the main possible sources of error can be gained by examining the quality of the data which contribute to each of the main balances which make up the balance of payments.

Visibles

4. There is likely to be only a small margin of error on the measurement of imports and exports of goods - overall, the data are thought to be reasonably reliable. However, given the relative size of the balance compared

*? are values properly rounded
 and ? are right exchange rates
 used - conversion.*

✓ to the total value of exports and imports, changes in export and import data can have significant effects on the balance.

Invisibles

+ Tourism - v difficult to do (surveys @ airports etc).

5. Services: The main problem here lies in the 'financial and other services' category. Three-quarters of the data are derived from surveys of industry and commerce, but the rest come from related indicators, rather than from direct sources, and so are much less reliable.

6. Interest, profits and dividends: Earnings arising from direct investment are thought to be monitored reasonably well, although there is often a lack of consistency in the way that companies report their profits (in particular, over the choice of the relevant exchange rate). Data on earnings from portfolio investment are probably less reliable.

7. Transfers: Information on this category is generally good.

UK external assets and liabilities

8. The flow of direct investment is probably monitored reasonably accurately. However, data for the latest year are based on quarterly sources which can be subject to large revisions when the results of the annual survey on direct investment are published (about eighteen months after the initial estimate).

9. Errors arise in the measurement of UK banks' assets and liabilities largely as a result of two problems - failure to recognise non-resident status, and the difficulties of allowing for exchange rate changes.

10. There are a number of other problems, chiefly the result of gaps existing in estimates for the UK non-bank private sector, particularly on the measurement of trade credit.

Assessment

11. The various problems listed above suggest that there is always likely to be a substantial balancing item. The recent positive balancing item suggests either (a) that estimates for the current account have been consistently too

pessimistic or (b) that there are substantial omissions on the recording of net capital inflows. Given the relatively greater measurement difficulties associated with the latter, it seems reasonable to suppose that this is the major source of error.

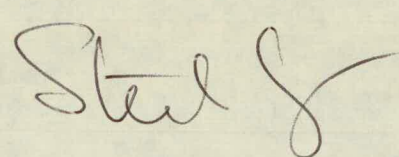
12. Clearly, given the unidentified nature of the balancing item, it is difficult to suggest reasons why it is of a certain size at any particular period in time. One factor which may have had some influence on the increasing size of the balancing item is the greater volatility of the exchange rate recently (see attached chart). This can lead to problems over timing, with credits and debits converted into sterling using different rates of exchange.

13. It has been suggested, by the IMF, that the 'global current account deficit' (ie the implication from national data sources that the world is in deficit with itself) might reflect under-recording of net IPD earnings and poor data on shipping, and could be removed by revising up the surplus or reducing the deficit of various countries. The CSO are looking into this issue at present, but they do not think that it will have any significant implications for the UK current account.

*Notes -
x approx
to amount
with error*

ca?

What!?
Why not?



S D KING

Table 1: Balancing Item

	£ million		
	First estimate	Current estimate	Difference
1974	462	150	- 312
1975	6	- 19	- 25
1976	591	326	- 265
1977	2662	3377	- 715
1978	773	2157	1384
1979	2403	592	-1811
1980	- 539	- 171	368
1981	328	193	- 135
1982	-3861	-1420	2441
1983	- 84	1534	1618
1984	1040	5179	4139
1985	3694	4073	379
1986Q1-Q3	-	5972	-

Handwritten annotations in red ink:

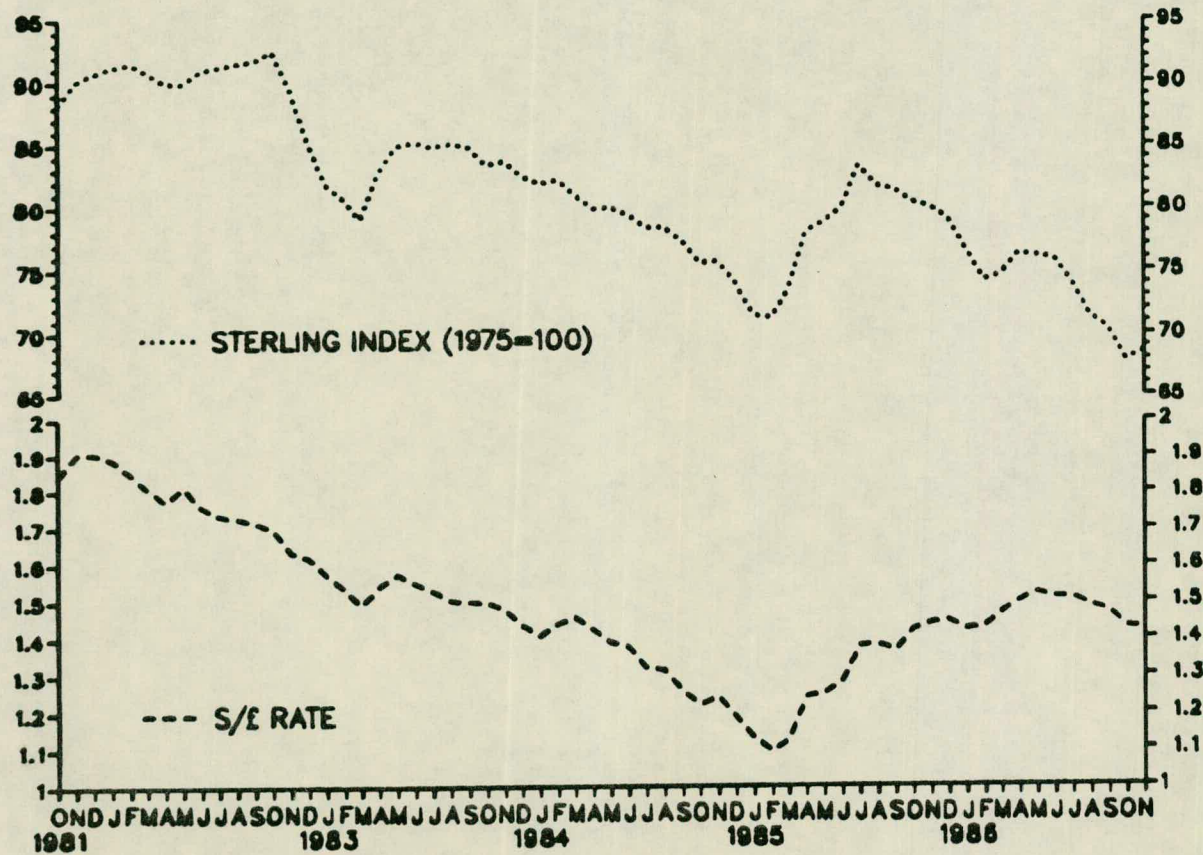
- A bracket on the right side of the table groups the years 1974 through 1983, with the number "6,719" written next to it.
- A bracket on the right side of the table groups the years 1984 through 1985, with the number "15,224" written next to it.
- The current estimate values for 1983 (1534), 1984 (5179), and 1985 (4073) are highlighted in yellow.

TABLE 2: CURRENT AND CAPITAL ACCOUNTS

£ million

	<u>Current account</u>			<u>Capital account</u>		
	<u>First estimate</u>	<u>Current estimate</u>	<u>Difference</u>	<u>First estimate</u>	<u>Current estimate</u>	<u>Difference</u>
1974	-3668	-3317	+351	3206	3167	-39
1975	-1673	-1582	+91	1667	1601	-66
1976	-1405	-921	+484	814	595	-219
1977	289	-136	-425	-2951	-3241	-290
1978	1032	965	-67	-1805	-3122	-1317
1979	1863	-717	-2580	-4266	125	4391
1980	3206	2928	-1278	-2667	-2757	-90
1981	6036	6159	123	-6364	-6352	12
1982	5428	3938	-1490	-1567	-2518	-951
1983	2916	3132	216	-2832	-4666	-1834
1984	935	1211	276	-1975	-6390	-4415
1985	3602	3549	-53	-7296	-7622	-326
1986Q1-Q3	-	443	-	-	-6015	-
Average revision			620			1163

EXCHANGE RATES



DIANEM.EROPA1



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

19 December 1986

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

Publication is set for Tuesday 23 December at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Monday 22 December 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
Commodity breakdown of exports
Flagged
Nor/Oct is mainly Food etc
Basic material
Consumer goods
(not cars)

Ther.
Some signs
prohibit
volume / stocks
nc.

SECRETand personal
until release of press notice on **23 DEC 86** at 11.30 a.m.COPY 3
.....
No. (19)

Issued jointly with the Central Statistical Office (CSO)

Press enquiries:

Visible Trade 01-215 4474/5060/5066

Invisibles 01-270 6357

Balance of Payments and Economy 01-270 5238

Non-Press enquiries:

Visibles 01-215 4894/4895/5130

Invisibles 01-270 6363/6364

Date _____

Ref No _____

The current account of the United Kingdom balance of payments**NOVEMBER 1986**

The current account for November is estimated to have been in deficit by £232 million compared with a deficit of £35 million in October. In November, exports were valued at £6515 million and imports at £7547 million so that trade in goods was in deficit by £1032 million.

The balance on invisibles is projected to be in surplus by £800 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions. This reflects a revised projection for the invisible balance in the fourth quarter, following the availability of more detailed information on the third quarter (see notes to editors, paragraph 3).

SEPTEMBER TO NOVEMBER 1986

In the three months ending November, the current account showed a deficit of £0.4 billion compared with a deficit of £0.7 billion in the previous three months. There was a deficit on visible trade of £2.8 billion - the same as in the three months ended August. The surplus on invisibles in the latest three months is projected at £2.4 billion.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance ^b
		Balance	Exports fob	Imports fob	
1984	+ 1211	- 4384	70367	74751	+ 5595
1985	+ 3549	- 2111	78051	80162	+ 5660
1985 Q3	+ 1445	- 440	18749	19188	+ 1884
Q4	+ 604	- 292	19006	19299	+ 896
1986 Q1	+ 549	- 1437	18122	19560	+ 1986
Q2	+ 275	- 1579	17789	19368	+ 1854
Q3	- 781	- 3034	17517	20551	+ 2253
1986 June	- 12	- 630	5850	6480	+ 618
July	+ 115	- 636	5978	6614	+ 751
Aug	- 763	- 1514	5468	6981	+ 751
Sept	- 134	- 885	6072	6956	+ 751
Oct	- 35 ^a	- 835	6206	7041	+ 800 ^a
Nov	- 232 ^a	- 1032	6515	7547	+ 800 ^a
June-Aug 86	- 660	- 2780	17296	20075	+ 2120
Sept-Nov 86	- 400 ^a	- 2751	18793	21545	+ 2351 ^a
Jan-Nov 86	- 224 ^a	- 7917	66150	74067	+ 7693 ^a

^a Invisibles for October and November are projections.

^b Monthly figures are one third of the appropriate calendar quarter's estimate or projection. Information relating to credits and debits can be found in Table 3.

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VISIBLE TRADE IN NOVEMBER 1986

There was a deficit on visible trade in November of £1032 million compared with a deficit of £835 million in October. The surplus on oil at £334 million was £150 million higher than in October while the deficit on non-oil trade grew by £347 million.

At £6515 million, exports in November were £309 million (5 per cent) higher than in October. Exports of oil were little changed; exports of the erratic items increased by about £100 million. Excluding oil and the erratic items, exports rose by 4 per cent in November.

Total imports were valued at £7547 million which was £505 million (7 per cent) higher than in October. Imports of the erratic items were little changed while imports of oil fell by about £150 million. Excluding oil and the erratic items, imports increased by 10 per cent between October and November.

RECENT TRENDS

Visible balance

In the three months ended November, there was a deficit on visible trade of £2.8 billion - a surplus on trade in oil of £0.8 billion offset by a deficit on non-oil trade of £3.5 billion. Between the three months ended August and the latest three months the overall deficit on visible trade was little changed - an increase in the surplus on oil of £0.1 billion being matched by a similar increase in the deficit on non-oil trade.

Exports

Exports amounted to £18.8 billion in the three months ended November, £1.5 billion more than in the previous three months. Exports of oil increased by £0.2 billion between the two periods and exports of the erratic items increased by £0.3 billion. Excluding oil and the erratic items exports were up 7 per cent in the latest three months. Within the total, exports of food, beverages and tobacco sector remain high (up by 18 per cent between the two three month periods). Exports of manufactures increased by 5 per cent.

By volume, exports increased by 5 per cent in the latest three months to be 8½ per cent up on the same period a year earlier. Excluding oil and the erratic items export volume increased by 5½ per cent between the three months ended August and the latest three months and the upward trend in non-oil export volume continues.

Imports

Total imports were valued at £21.5 billion in the three months ended November, £1.5 billion (7½ per cent) more than in the previous three months. Imports of the erratic items increased by £0.3 billion and imports of oil by £0.1 billion. Excluding oil and the erratic items, imports grew by 6 per cent between the two periods largely reflecting a 6 per cent increase in imports of manufactures.

By volume, imports increased by 4½ per cent in the latest three months to be 13 per cent higher than a year earlier. Excluding oil and the erratic items, import volume increased by 4 per cent in the latest three months. The upward trend in the underlying level of non-oil import volume, apparent for most of 1986, seemed to be flattening out a month ago, but the high figure recorded for November has re-established the trend.

Terms of trade and unit values

The terms of trade index fell by 1½ per cent in the latest three months with the export unit index rising by 2 per cent and the import unit value index rising by 4 per cent. Compared with the same period last year, the export unit value index is down 2½ per cent and the import unit value index is down 3 per cent. As a result the terms of trade index is now ½ per cent higher than a year ago.

Export unit values for fuels increased by $8\frac{1}{2}$ per cent in the latest three months while the unit value index for non-oil exports increased by $1\frac{1}{2}$ per cent. Within the total for non-oil exports, the unit values for manufactures increased by $1\frac{1}{2}$ per cent and those for food, beverages and tobacco by 1 per cent.

The import unit values for fuels increased by $3\frac{1}{2}$ per cent in the latest three months as did the unit value index for non-oil imports. Import unit values for finished manufactures (up by $4\frac{1}{2}$ per cent) showed the strongest growth. Outside manufactures import values increased by about 2 per cent in the latest three months.

^A
unit

Analysis by area

Exports to the developed countries grew by 10 per cent between the three months ended August and the latest three months while exports to the developing countries fell a little. Within the total for developed countries, deliveries to the European Community rose by 14 per cent and those to North America were up by 6 per cent. For the developing countries there was a fall of $8\frac{1}{2}$ per cent in exports to the oil-exporting countries and an increase of $5\frac{1}{2}$ per cent to other destinations.

Imports from the developed countries increased by $7\frac{1}{2}$ per cent between the three months ended August and the latest three months with arrivals from the European Community up $5\frac{1}{2}$ per cent, arrivals from North America up by 7 per cent and an 11 per cent increase in imports from the 'other' developed countries. Imports from the developing countries increased by 15 per cent in the latest three months.

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NOTES TO EDITORS

REVISIONS

1 Estimates of visible trade are derived from a continuous and comprehensive coverage of Customs documents. Revisions to the basic data are infrequent and usually small. Larger revisions, particularly relating to recent periods, occur in the annual review of seasonal adjustment calculations which takes effect in the press notice covering the January figures.

2 Estimates of the invisibles account are based on quarterly and annual inquiries addressed to a sample of those engaging in the relevant transactions. In some parts of the account the information available is incomplete and subject to significant errors of estimation. Monthly figures of the invisibles balance are quarterly estimates and projections expressed at a monthly rate. For the most recent months, the figures are projections - rounded to the nearest £100 million to emphasise their likely margins of error - which are superseded by figures from the quarterly balance of payments estimates published in early March, June, September and December. If there is strong evidence from early quarterly information that the first quarterly estimates will differ substantially from the latest published projections, a revised set of projections is included in the monthly press notice prior to the issue of the quarterly estimates. A short article on estimates and projections of the monthly invisible balance will be published in the December issue of Economic Trends.

3 The figures for invisibles in this press notice incorporate revisions contained in the CSO quarterly Balance of Payments press notice published on 4 December, covering the estimates for the third quarter of 1986.

4 SPAIN/PORTUGAL

Spain and Portugal are members of the European Community. In this press notice all references to the EC include these two countries.

5 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.

6 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.

7 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.

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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Table 2

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

	£ million seasonally adjusted							Invisible Balance ^b
	Current Balance	Visible Trade			of which			
		Exports fob	Imports fob	Visible Balance	Oil	Non-Oil		
1984	+ 1211	70367	74751	- 4384	+ 6937	- 11321	+ 5595	
1985	+ 3549	78051	80162	- 2111	+ 8163	- 10274	+ 5660	
1985 Q3	+ 1445	18749	19188	- 440	+ 1900	- 2340	+ 1884	
Q4	+ 604	19006	19299	- 292	+ 1893	- 2185	+ 896	
1986 Q1	+ 549	18122	19560	- 1437	+ 1929	- 3367	+ 1986	
Q2	+ 275	17789	19368	- 1579	+ 750	- 2328	+ 1854	
Q3	- 781	17517	20551	- 3034	+ 688	- 3722	+ 2253	
1986 Mar	- 665	5732	6913	- 1181	+ 365	- 1546	+ 516	
Apr	+ 350	6049	6317	- 268	+ 268	- 536	+ 618	
May	- 63	5890	6571	- 681	+ 215	- 895	+ 618	
June	- 12	5850	6480	- 630	+ 267	- 897	+ 618	
July	+ 115	5978	6614	- 636	+ 240	- 876	+ 751	
Aug	- 763	5468	6981	- 1514	+ 180	- 1694	+ 751	
Sept	- 134	6072	6956	- 885	+ 268	- 1152	+ 751	
Oct	* - 35 a	6206	7041	- 835	+ 184	- 1019	+ 800 a	
Nov	- 232 a	6515	7547	- 1032	+ 334	- 1366	+ 800 a	
Sept-Nov 85	+ 792	18872	19196	- 323	+ 2064	- 2388	+ 1115	
June-Aug 86	- 660	17296	20075	- 2780	+ 687	- 3467	+ 2120	
Sept-Nov 86	- 400 a	18793	21545	- 2751	+ 786	- 3537	+ 2351 a	
% Change								
Latest 3 months								
on previous 3		+ 8½	+ 7½	→				
months/same 3								
months one year		- ½	+ 12	→				
ago								

a Invisibles for October and November 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.

Table 3

INVISIBLES

	All Sectors						Private Sector and Public Corporations ^d		
	Credits	Debits	Balance	of which			Credits	Debits	Balance
				Services	Interest Profits Dividends	Transfers			
1983	65225	61257	+ 3968	+ 3652	+ 2420	- 2104	60600	52905	+ 7695
1984	76736	71141	+ 5595	+ 3744	+ 4156	- 2305	71858	62054	+ 9804
1985	80611	74951	+ 5660	+ 5757	+ 3408	- 3505	76243	64834	+11409
1984 Q3	19613	18247	+ 1366	+ 949	+ 1175	- 758	18641	16031	+ 2610
Q4	21529	19488	+ 2041	+ 953	+ 1326	- 238	19850	17115	+ 2735
1985 Q1	21787	20544	+ 1243	+ 1211	+ 1050	- 1018	20617	17816	+ 2801
Q2	20326	18689	+ 1637	+ 1573	+ 819	- 755	19365	16423	+ 2942
Q3	19517	17633	+ 1884	+ 1592	+ 1221	- 929	18350	14941	+ 3409
Q4	18981	18085	+ 896	+ 1381	+ 318	- 803	17911	15654	+ 2257
1986 Q1	18963	16977	+ 1986	+ 1209	+ 999	- 222	17804	14950	+ 2854
Q2	18569	16715	+ 1854	+ 1344	+ 1113	- 603	17343	14298	+ 3045
Q3	19473	17220	+ 2253	+ 1639	+ 1474	- 860	18306	14593	+ 3713

d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS

Table 4

(Balance of Payments basis)

Indices 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade ^e	Exports	Imports
1984	136.0	139.7	97.4	112.5	121.9
1985	143.5	145.2	98.9	118.6	125.8
1985 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	137.6	101.0	116.9	125.7
Q2	134.8	131.5	102.5	121.8	128.6
Q3	134.7	130.4	103.3	123.3	139.1
1986 Mar	137.5	136.6	100.6	113.0	131.6
Apr	135.3	132.9	101.8	122.6	123.7
May	134.3	131.5	102.1	121.1	131.6
June	134.9	130.1	103.7	121.6	130.5
July	133.3	129.0	103.3	126.3	134.9
Aug	134.9	129.7	104.0	117.0	142.9
Sept	135.8	132.4	102.5	126.5	139.5
Oct	138.1	135.2	102.2	125.3	140.6
Nov	138.2	136.4	101.3	131.5	146.8
Sept-Nov 85	140.8	139.0	101.3	118.0	126.3
June-Aug 86	134.4	129.6	103.7	121.6	136.1
Sept-Nov 86	137.4	134.7	102.0	127.8	142.3
% Change					
Latest 3 months on					
- previous 3 months	+ 2	+ 4	- 1½	+ 5	+ 4½
- same 3 months					
one year ago	- 2½	- 3	+ ½	+ 8½	+ 13

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

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

Table 5

(Balance of Payments basis)

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1984	65746	71191	115.4	128.8
1985	73760	76617	123.0	133.4
1985 Q3	17835	18425	121.5	132.3
Q4	17811	18661	122.3	137.1
1986 Q1	17065	18612	121.0	132.8
Q2	16243	18466	122.7	136.5
Q3	16394	19676	127.6	148.0
1986 Mar	5390	6528	116.8	138.1
Apr	5413	6005	121.7	130.7
May	5455	6236	124.1	139.6
June	5375	6225	122.4	139.3
July	5546	6373	129.6	144.6
Aug	5233	6732	123.4	152.8
Sept	5614	6572	129.9	146.6
Oct	5779	6733	128.8	149.6
Nov	5984	7234	134.1	156.8
Sept-Nov 85	17718	18480	121.7	134.9
June-Aug 86	16154	19329	125.1	145.5
Sept-Nov 86	17377	20538	130.9	151.0
% Change				
Latest 3 months on				
- previous 3 months	+ 7½	+ 6½	+ 4½	+ 4
- same 3 months	- 2	+ 11	+ 7½	+ 12
one year ago				

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

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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 [SITC (REV 2) 333.0]			Avg value per tonne	Rest of Division 33	Total	Crude Oil [SITC (REV 2) 333.0]			Rest of Division 33	
			£	£	£				£	£	£		£
			million fob	million fob	million fob				million tonnes	million £ 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 Q3	+ 1900	3410	2599	17.5	148.4	810	1509	816	5.6	145.4	694		
1985 Q4	+ 1893	3583	2900	19.9	145.9	683	1690	1050	7.2	146.9	640		
1986 Q1	+ 1929	3036	2439	22.2	109.9	597	1106	693	6.5	107.3	413		
1986 Q2	+ 750	1799	1216	18.6	65.3	583	1049	585	8.0	72.9	465		
1986 Q3	+ 688	1541	1125	19.7	57.3	416	853	431	9.7	44.6	422		
1986 Mar	+ 365	692	528	6.4	83.1	164	327	169	2.0	86.7	158		
1986 Apr	+ 268	673	459	6.8	67.2	214	405	228	2.8	80.5	176		
1986 May	+ 215	592	389	6.2	63.0	202	377	225	3.0	75.4	152		
1986 June	+ 267	534	368	5.6	65.6	166	267	131	2.2	59.7	137		
1986 July	+ 240	564	398	6.9	57.9	166	323	189	4.3	43.9	134		
1986 Aug	+ 180	445	331	6.4	52.1	114	265	135	3.2	42.6	130		
1986 Sept	+ 268	533	396	6.4	61.5	137	265	107	2.2	48.7	158		
1986 Oct	+ 184	624	508	7.1	71.5	116	440	219	3.4	64.0	221		
1986 Nov	+ 334	617	525	7.4	71.0	92	283	172	2.7	63.0	111		
Sept-Nov 85	+ 2064	3600	2963	20.3	145.7	638	1536	888	6.1	146.4	648		
June-Aug 86	+ 687	1542	1097	18.8	58.2	446	855	454	9.7	47.1	401		
Sept-Nov 86	+ 786	1774	1429	20.9	68.3	345	988	498	8.4	59.7	490		
% Change													
latest 3 months on													
- previous 3 months	+ 15	+ 30	+ 11	+ 17	- 23	+ 16	+ 9½	- 13	+ 27	+ 22			
- same 3 months	- 51	- 52	+ 3	- 53	- 46	- 36	- 44	+ 38	- 59	- 24			
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	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	- 3367	15087	18453	143.0	140.0	102.1	107.6	134.8	14029	17056	111.4	144.1
	Q2	- 2328	15990	18319	144.2	139.0	103.7	114.7	134.8	14444	17417	115.1	144.7
	Q3	- 3722	15976	19698	145.7	140.6	103.6	113.9	144.2	14853	18823	118.0	155.1
1986	Mar	- 1546	5040	6586	144.2	142.0	101.5	107.2	141.3	4698	6202	111.0	150.1
	Apr	- 536	5376	5912	143.8	140.2	102.6	115.2	128.9	4740	5601	113.5	137.7
	May	- 895	5298	6193	144.0	138.2	104.2	113.1	137.3	4864	5859	115.7	147.3
	June	- 897	5316	6213	144.8	138.8	104.3	115.9	138.1	4840	5958	116.2	149.2
	July	- 876	5414	6291	144.0	139.3	103.3	116.3	138.4	4983	6049	119.3	150.0
	Aug	- 1694	5023	6717	146.6	140.4	104.4	107.4	147.5	4789	6467	113.7	159.4
	Sept	- 1152	5539	6691	146.6	142.2	103.0	118.0	146.9	5081	6307	121.1	156.0
	Oct	- 1019	5583	6602	148.1	144.5	102.5	117.5	142.3	5155	6293	120.8	153.1
	Nov	- 1366	5898	7264	148.2	145.9	101.6	124.9	155.6	5366	6950	127.3	168.3
Sept-Nov 85	- 2388	15272	17660	140.9	137.2	102.7	110.1	134.6	14117	16945	113.7	145.6	
Jun-Aug 86	- 3467	15753	19220	145.1	139.5	104.0	113.2	141.3	14612	18474	116.4	152.9	
Sept-Nov 86	- 3537	17019	20557	147.6	144.2	102.4	120.1	148.3	15603	19550	123.1	159.1	
% Change													
Latest 3 months on													
- previous 3 months	+ 8	+ 7	+ 1½	+ 3½	- 1½	+ 6	+ 5	+ 7	+ 6	+ 5½	+ 4		
- same 3 months one													
year ago	+11	+ 16	+ 5	+ 5	- ½	+ 9	+ 10	+ 11	+ 15	+ 8	+ 9½		

^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			Total Manufac- tures	Semi-manufactures				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
		bever- ages and tobacco	Basic Mater- ials	Fuels		Total	Total	excluding precious stones & silver(PS)		Total	Pass- enger Motor Cars			Inter- mediate	Capital
								Chem- icals	Other		Other	Consumer			
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	6 5 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 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	
Q3	17672	1426	546	1641	13556	12479	4805	2454	2351	7674	361	1474	3396	2444	
1986 Sept	6134	521	191	569	4691	4236	1673	843	830	2563	119	494	1140	810	
Oct	6260	535	175	658	4721	4302	1654	851	803	2647	129	463	1177	877	
Nov	6530	533	189	652	4884	4401	1672	881	791	2729	102	558	1192	877	
June-Aug	17417	1348	499	1631	13393	12316	4715	2442	2273	7602	348	1432	3375	2446	
Sept-Nov	18923	1589	556	1879	14295	12938	4999	2575	2424	7939	350	1515	3509	2565	
% change	+ 8½	+ 18	+ 11	+ 15	+ 6½	+ 5	+ 6	+ 5½	+ 6½	+ 4½	+ ½	+ 6	+ 4	+ 5	

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

ⁱ 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			Total Manufac- tures	Semi-manufactures				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
		bever- ages and tobacco	Basic Mater- ials	Fuels		Total	Total	excluding precious stones & silver(PS)		Total	Pass- enger Motor Cars			Inter- mediate	Capital
								Chem- icals	Other		Other	Consumer			
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	6 5 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 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	
Q3	124.6	137	127	178	113	117	126	142	112	112	97	122	119	101	
1986 Sept	128.2	153	134	175	116	119	131	147	119	112	96	120	120	100	
Oct	126.7	149	116	179	116	120	128	146	113	114	100	111	122	109	
Nov	132.0	146	129	178	121	124	130	151	112	120	76	138	127	110	
June-Aug	122.6	128	117	171	113	116	123	142	109	112	95	120	119	102	
Sept-Nov	129.0	149	126	178	118	121	130	148	115	116	91	123	123	106	
% change	+ 5	+ 17	+ 8½	+ 4	+ 4½	+ 4	+ 5½	+ 4½	+ 6	+ 3	- 4½	+ 2½	+ 3½	+ 4½	

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

ⁱ 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 and beverages and tobacco				Total Manufac- tures	Semi-manufactures excluding precious stones & silver (PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
		0-9	0+1	2+4	3		5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
															1000
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 Q3	141.6	134	136	142	143	143	135	140	132	147	161	148	150	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	
Q3	134.2	140	120	62	148	148	137	140	136	155	186	156	159	146	
1986 Sept	135.2	141	119	65	148	149	138	140	136	156	191	158	160	146	
Oct	137.5	141	123	72	150	150	139	141	137	157	197	160	160	148	
Nov	138.1	143	120	72	151	150	139	141	138	157	200	161	160	147	
June-Aug	134.1	140	120	64	147	148	137	140	135	154	184	155	158	146	
Sept-Nov	136.9	141	121	70	150	150	139	141	137	157	196	160	160	147	
% change	+ 2	+ 1	-	+ 8½	+ 1½	+ 1½	+ 1	+ ½	+ 1	+ 1½	+ 6½	+ 3	+ 1	+ 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.

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, 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	70488	55364	33127	7132	11416	10159	3688	13356	5806	7550	1630
1985	78331	62722	38200	7420	13310	11499	3792	13880	5957	7924	1587
1985 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
Q3	17672	13926	8525	1696	2794	2390	911	3193	1293	1900	357
1986 Sept	6134	4874	3039	593	922	808	320	1001	397	604	128
Oct	6260	5049	3244	556	935	779	314	1064	407	657	122
Nov	6530	5209	3167	612	1136	997	294	1150	417	733	153
June-Aug	17417	13709	8311	1692	2825	2377	881	3224	1334	1890	427
Sept-Nov	18923	15132	9450	1761	2994	2583	928	3215	1221	1994	403
% change	+ 8½	+ 10	+ 14	+ 4	+ 6	+ 8½	+ 5½	- ½	- 8½	+ 5½	- 5½

⁵
K See paragraph 7 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

& 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	Total	Chemi- cals	Other	6	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate
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	
984	78967	8933	5418	10334	53011	49708	17930	6322	11608	31778	3670	8346	10218	9543
985	84790	9274	5389	10517	58288	54953	19619	6903	12716	35334	4165	8887	11623	10659
985 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
986 Q1	20742	2507	1225	1797	14839	14002	5024	1809	3215	8978	1152	2281	2881	2665
Q2	20486	2416	1213	1548	14904	14078	5003	1789	3214	9075	1150	2413	2992	2520
Q3	21938	2578	1190	1489	16171	15324	5253	1854	3399	10070	1301	2672	3287	2810
986 Sept	7468	859	443	483	5471	5093	1802	629	1173	3292	382	894	1073	943
Oct	7577	811	418	656	5446	5174	1790	629	1161	3384	424	866	1112	982
Nov	7988	900	488	442	6003	5695	1871	644	1227	3824	441	1003	1315	1064
June-Aug	21342	2559	1149	1429	15797	15084	5148	1811	3337	9935	1330	2607	3258	2740
Sept-Nov	23033	2570	1349	1581	16920	15963	5463	1902	3561	10499	1247	2763	3500	2990
change	+ 8	+ 1/2	+ 17	+ 11	+ 7	+ 6	+ 6	+ 5	+ 6 1/2	+ 5 1/2	- 6	+ 6	+ 7 1/2	+ 9

1691

200 152

250

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

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	Total	Chemi- cals	Other	6	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate
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
984	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
985	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
985 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	179	192
986 Q1	125.0	126	105	74	141	154	148	183	133	159	130	145	171	175
Q2	127.2	120	106	87	143	157	149	186	133	162	126	154	182	168
Q3	138.7	126	106	112	154	169	156	194	141	177	144	166	193	186
986 Sept	140.3	125	119	104	155	168	159	194	145	173	125	163	185	189
Oct	141.5	116	110	142	152	167	156	191	141	175	137	154	191	195
Nov	144.9	128	125	91	165	182	160	192	147	197	136	181	224	209
June-Aug	135.0	126	102	105	151	167	154	193	138	176	148	164	196	181
Sept-Nov	142.3	123	118	112	157	172	158	192	145	182	133	166	200	198
change	+ 5 1/2	- 2	+16	+7 1/2	+ 4	+ 3	+ 3	- 1/2	+ 5	+ 3	-10	+ 1	+ 2	+ 9

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

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 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 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 Q3	139.2	135	124	161	139	139	131	137	128	144	149	145	154	131
Q4	136.3	132	116	155	137	137	130	137	127	143	156	143	148	131
1986 Q1	135.6	134	116	132	140	141	132	140	128	148	165	145	152	138
Q2	130.1	135	113	96	140	142	131	139	128	148	169	144	153	139
Q3	129.3	136	111	78	142	144	132	139	130	152	168	147	160	141
196 Sept	131.1	137	111	81	144	146	133	140	130	155	170	150	164	143
Oct	133.9	138	113	85	147	148	135	142	132	157	173	154	165	145
Nov	135.0	139	115	82	149	150	137	145	134	159	178	155	167	146
June-Aug	128.5	136	111	80	141	143	132	138	129	150	168	145	157	140
Sept-Nov	133.4	138	113	82	147	148	135	142	132	157	174	153	166	145
% change	+ 4	+ 2	+ 2	+ 3½	+ 4	+ 4	+ 2½	+ 3½	+ 2	+ 4½	+ 3½	+ 5½	+ 5½	+ 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.

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

	Total K	Developed Countries				Developing Countries			Centrally planned economies		
		Total Community	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 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	20486	17331	10536	2711	2427	2035	1657	2539	461	2077	451
Q3	21938	18649	11484	2938	2471	2110	1757	2659	412	2247	470
1986 Sept	7468	6300	3772	1090	818	695	619	955	112	843	134
Oct	7577	6324	3829	1021	857	710	616	996	146	849	199
Nov	7988	7013	4283	1100	980	845	651	933	169	764	173
June-Aug	21342	18273	11284	2810	2477	2124	1702	2508	439	2069	502
Sept-Nov	23033	19637	11884	3211	2655	2250	1887	2884	427	2456	506
% change	+ 8	+ 7½	+ 5½	+ 14	+ 7	+ 6	+ 11	+ 15	- 2½	+ 19	+ 1

^K See paragraph 5 Notes to Editors.

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TABLE 16

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 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	2255	- 1058	515	1103	- 588	3189	1609	+ 1580
Q2	1262	2208	- 946	440	1077	- 637	1942	1449	+ 493
Q3	1414	2387	- 973	547	1018	- 471	1621	1361	+ 261
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 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	5307	- 460	7895	8897	- 1002	12742	14203	- 1462
Q2	5223	5162	+ 61	8377	9059	- 682	13600	14221	- 621
Q3	5229	5408	- 179	8209	9972	- 1763	13438	15380	- 1942

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

UNCLASSIFIED



Handwritten notes:
R...
BF next
REM
Winton
18/1

FROM: CATHY RYDING
DATE: 22 December 1986

MR S D KING

- cc Economic Secretary
- Sir P Middleton
- Sir G Littler
- Sir T Burns
- Mr Peretz
- Mr Sedgwick
- Mr Bottrill
- Mr Culpin
- Ms O'Mara
- Mr Barrell
- Mr Owen

THE BALANCING ITEM IN THE BALANCE OF PAYMENTS

The Chancellor was grateful for your minute of 19 December.

2. The Chancellor thinks this is a very important matter which cannot be left here.

Handwritten signature: CR

CATHY RYDING

Put

FROM: S D KING
DATE: 22 December 1986

RRR 22/12.

- 1. MR BOTTRILL
- 2. CHANCELLOR OF THE EXCHEQUER

- cc: Chief Secretary
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Cassell
Mr Peretz
Mr Sedgwick
Mr Bottrill
Mr Kelly
Ms O'Mara
Mr Culpin
Mr Barrell o.r.
Mr Owen
Mr Segal
Mr Norgrove No.10

Mr King

Thanks. The Chancellor is now away for Christmas - but given your comments I think it is OK to drop the final phrase of defensive 7 as you suggest.

Cathy Ryding 22/12.

NOVEMBER TRADE FIGURES

On your redraft of defensive 7 of the press briefing, you asked for a figure to be provided for the projected percentage increase in the invisibles balance between 1985Q4 and 1986Q4.

2. There are two problems with this. Firstly, percentage changes do not apply particularly well to balances. For example, it is not obvious whether one can talk sensibly about a percentage change between a positive and negative balance. For this reason, we would normally prefer to express any change in value terms.

3. However, there is a particular problem with providing any figure comparing the invisibles balance in 1985Q4 with the one projected for 1986Q4. The 1985Q4 invisibles balance was distorted downwards, because an EC VAT abatement destined for that quarter ended up in the first quarter of 1986. Consequently, we suggest that the phrase 'which still represents an increase of X per cent over a year ago' should be deleted.

Steph

S D KING

THEN CONFIDENTIAL



FROM: CATHY RYDING

DATE: 22 December 1986

MR S D KING

cc Chief Secretary
 Economic Secretary
 Sir P Middleton
 Sir G Littler
 Sir T Burns
 Mr Cassell
 Mr Peretz *mr sedgwick*
 Mr Bottrill
 Mr Kelly
 Ms O'Mara
 Mr Culpin
 Mr Barrell
 Mr Owen
 Mr Norgrove - No.10

NOVEMBER TRADE FIGURES

The Chancellor was grateful for your minute of 19 December. He had a number of comments on the press briefing, which are detailed below:

Positive 1, line 1: insert "a further" before "5½ per cent".

line 2: insert "further" after "projects".

Defensive 1: redraft to read:

[Deficit of £232 million in November, giving cumulative deficit for the year so far of £224 million.] Monthly figures are inevitably erratic.

Defensive 2: redraft to read:

"No. Recent fall in exchange rate will, in time, benefit current account, though initial effect is inevitably adverse. In long run, competitiveness depends on slower growth in unit costs, coupled with improvements in non-price competitiveness."

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Defensive 3, line 2: delete "election".

Defensive 4, line 3: replace "improvement in competitiveness" with "exchange rate adjustment".

Defensive 5: redraft to read
"No reason to change forecast."

Defensive 6: redraft to read:
"Growth of imports associated with strong growth of the economy. At same time domestic production is responding to higher demand both at home and abroad. Manufacturing output up 1½ per cent in three months to October on previous three months."

Defensive 7: redraft to read:
"Initial projection of £900 million a month for fourth quarter made by CSO on basis of information available at time of publication of October trade figures. Subsequently, further information, upon which third quarter invisibles figures were based, indicated need for downward revision to £800 million a month, which still represents an increase of X per cent over a year ago."

(insert figure)

CR
CATHY RYDING

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COPY NO

86

P

MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 30 December 1986

Published estimates for the third quarter of 1986 suggest that GDP grew by about $\frac{1}{2}$ per cent between the second and third quarters of 1986 to a level which was 2 per cent higher than a year earlier. Provisional estimates for the three broadly independent measures of GDP from which the average measure is derived continue to show different profiles. The current underlying trend rate of growth for GDP(A) is thought to be within the range 2-4 per cent per annum.

The annual rate of inflation rose to 3.5 per cent in November from the 3.0 per cent recorded in October, entirely as a result of increases in mortgage interest rates. A further increase to $3\frac{3}{4}$ per cent is projected for December, if as now seems likely, the pattern of early winter sales which occurred last year is not repeated and given higher expected food prices the resulting average increase of $3\frac{1}{2}$ per cent for the fourth quarter would be rather higher than the Treasury's forecast of $3\frac{1}{4}$ per cent.

The PSBR is provisionally estimated to have been £0.1 billion in November which was lower than expected by outside commentators. The latest figures confirm that borrowing is not running above the path envisaged in the Budget and Autumn Statement.

There was a further sharp fall in unemployment between October and November, the fourth consecutive monthly fall, and the downward trend continues. Restart and employment measures have helped, though even without them it seems likely that unemployment would have changed very little over the past four months, following the previous seemingly relentless upward trend.

Exports increased quite sharply in November but a larger increase in imports pushed visible trade further into deficit and left the current account also in deficit. The upward trend in non-oil export volume continues. The sharp increase in the value of non-oil imports in November reflects an increase in volume and some firming of import prices.

CONFIDENTIAL

**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 third quarter of 1986 was 2 per cent higher than in the same period a year ago. 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 fourth quarter of 1986 is that the rate of increase lies in the range 2-4 per cent per annum.

Industrial production in the three months to October 1986 was 1½ per cent higher than in the same period a year ago; manufacturing output was also 1½ per cent higher. The assessment of underlying trend for industrial production is that the rate of change currently lies in the range ½ to 2½ per cent per annum. The trend in manufacturing output is in the range 1½ to 3½ per cent per annum.

Retail prices rose by 3½ per cent in the twelve months to November 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 November 1986 this series rose by a little over 3½ per cent (not published).

Producer input prices increased in seasonally adjusted terms in each of the months from August to November, and a further fairly small increase is expected in December. The index should, however, still be about 3½ per cent lower than at the end of last year and 11½ per cent below its peak in early 1985.

Average earnings (underlying) in the twelve months to October rose by 7½ per cent. The current trend is also estimated to be 7½ per cent per annum.

Unit wage costs in manufacturing in the three months to October rose by 4 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 2-4 per cent per annum.

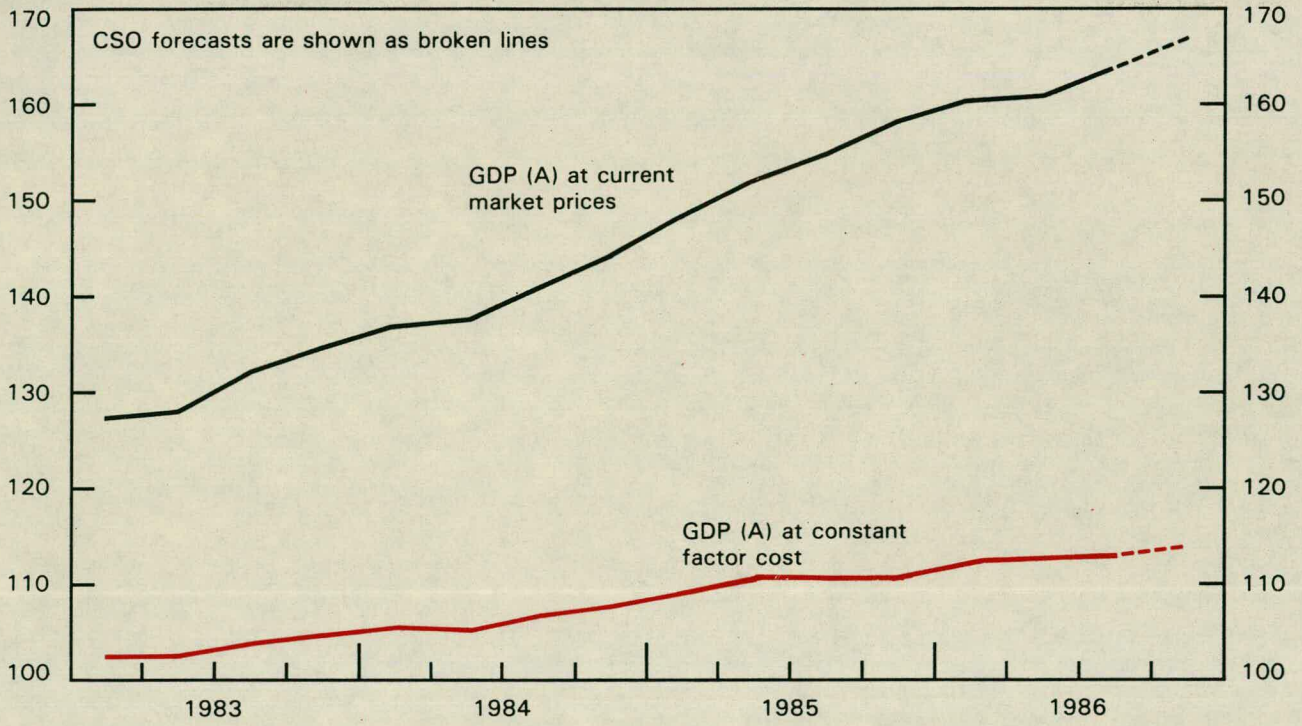
Unemployment (excluding school leavers) in the twelve months to November has risen on average by nearly 3,000 per month. The current trend is downward though it remains difficult to quantify it precisely. There has been an average fall of nearly 10,000 per month over the past six months but the turning point has occurred within this period. The current trend in the series will therefore be more strongly downward. Over the past three months there has been a fall of more than 24,000 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).

Gross domestic product (average measure)

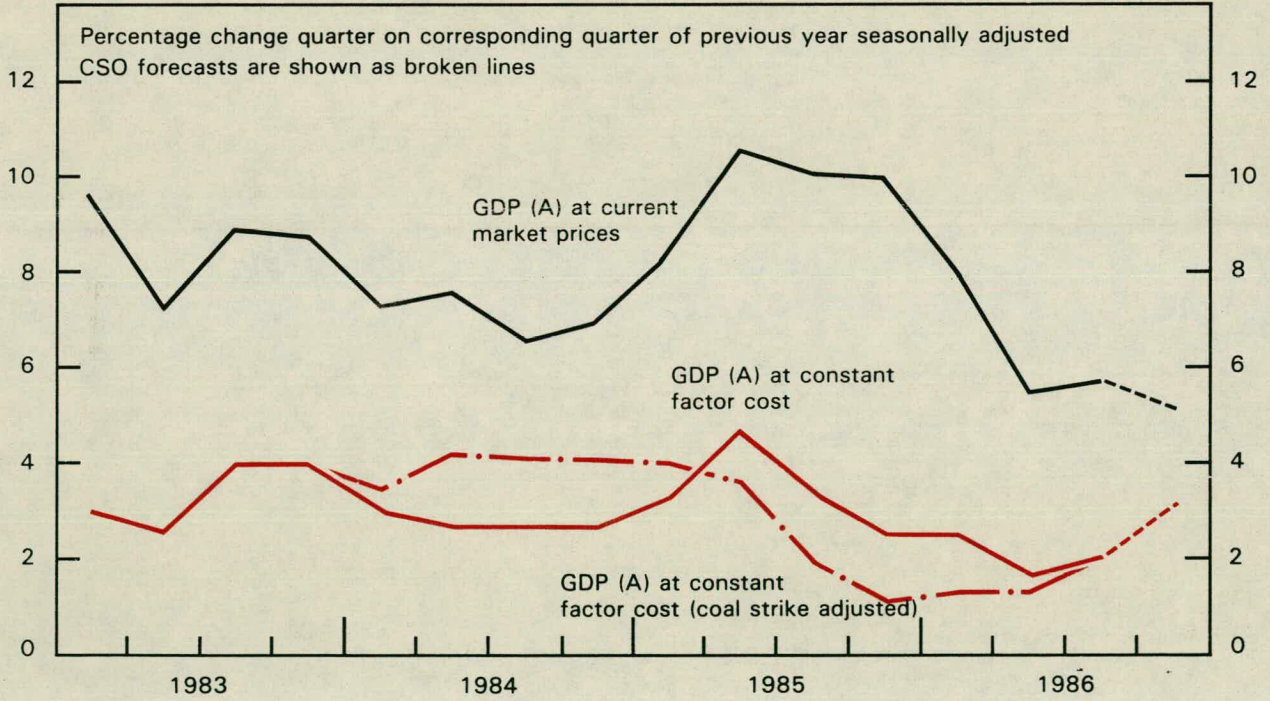
CHART 1A

1980 = 100, seasonally adjusted



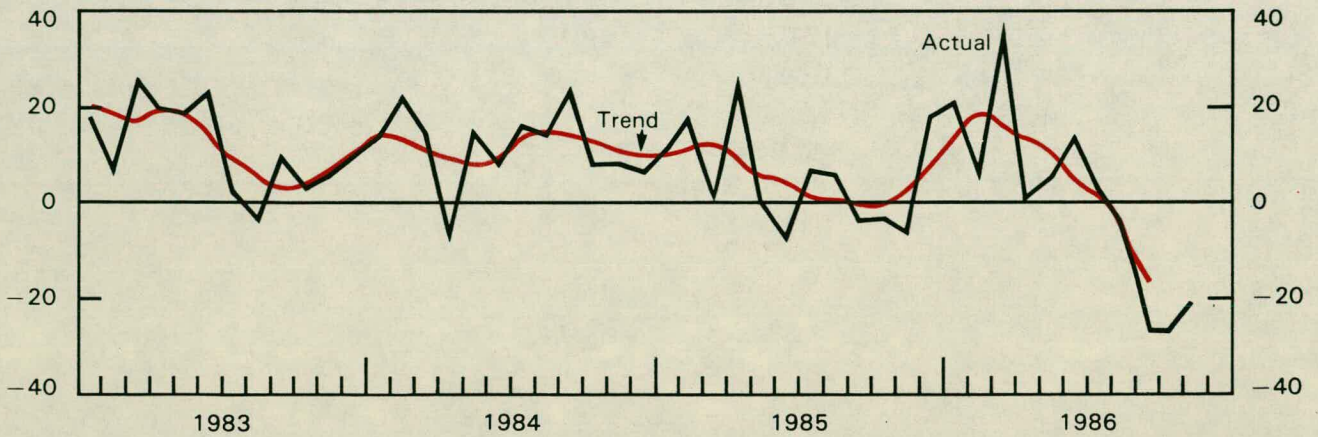
Gross domestic product (average measure)

CHART 1B



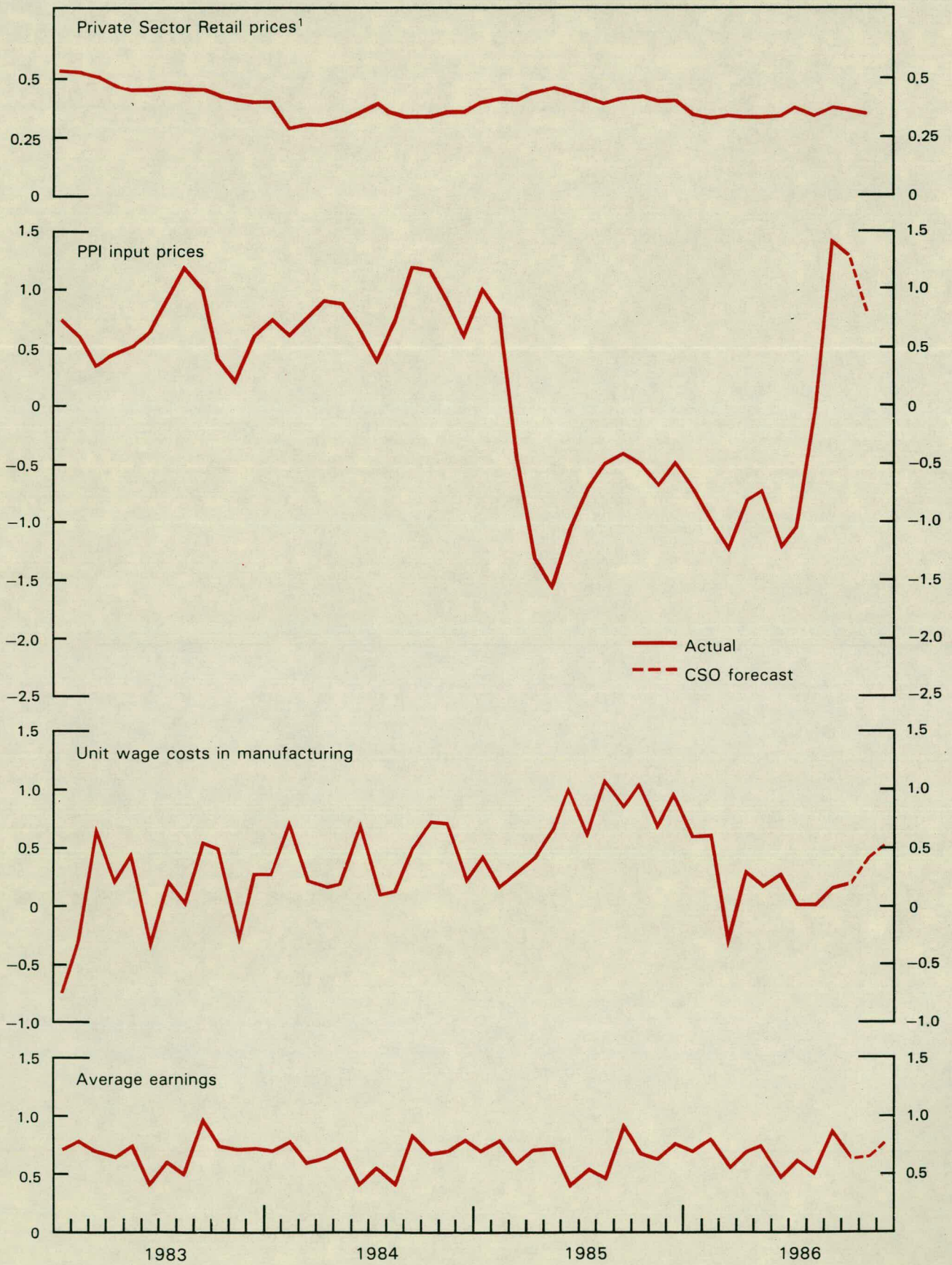
Changes in unemployment

CHART 2



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

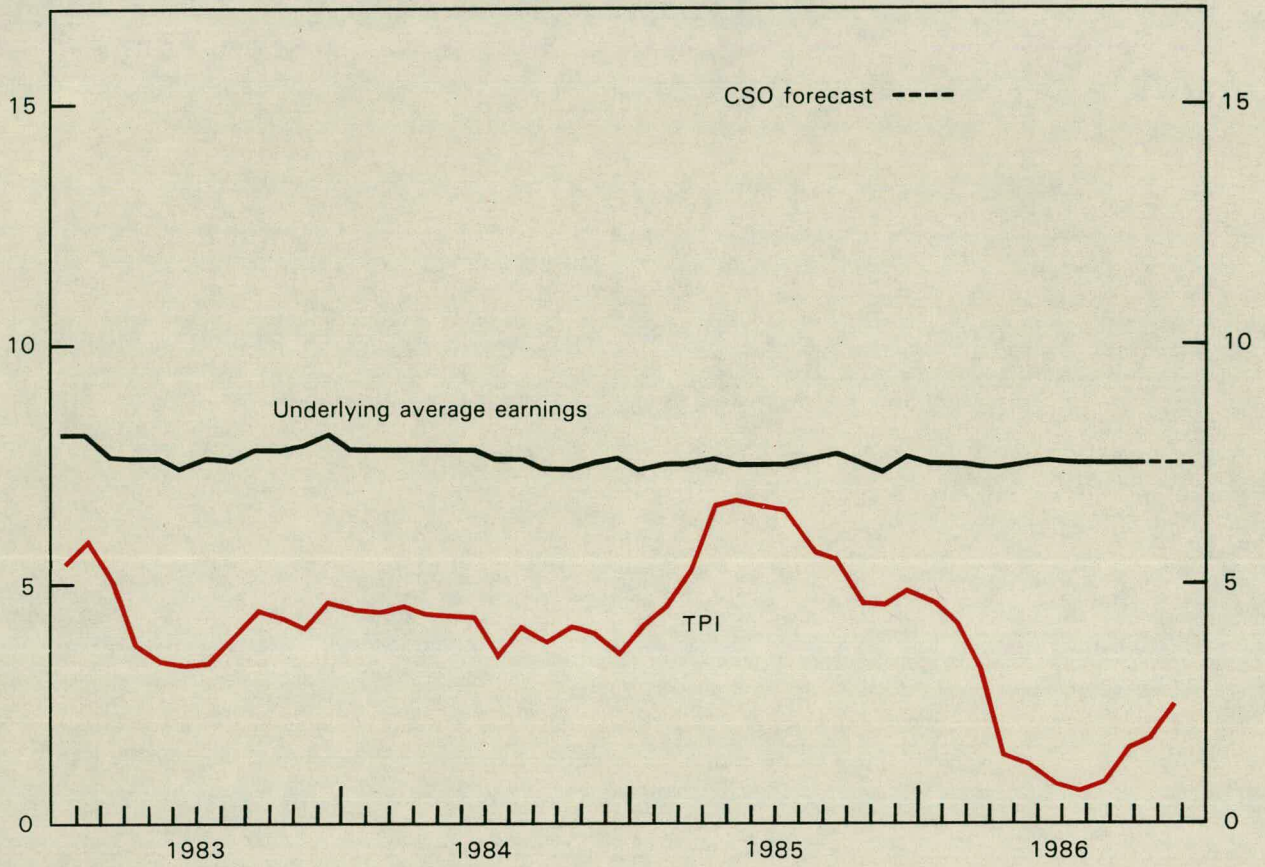
Month to month percentage changes, smoothed and adjusted for distorting factors where appropriate



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

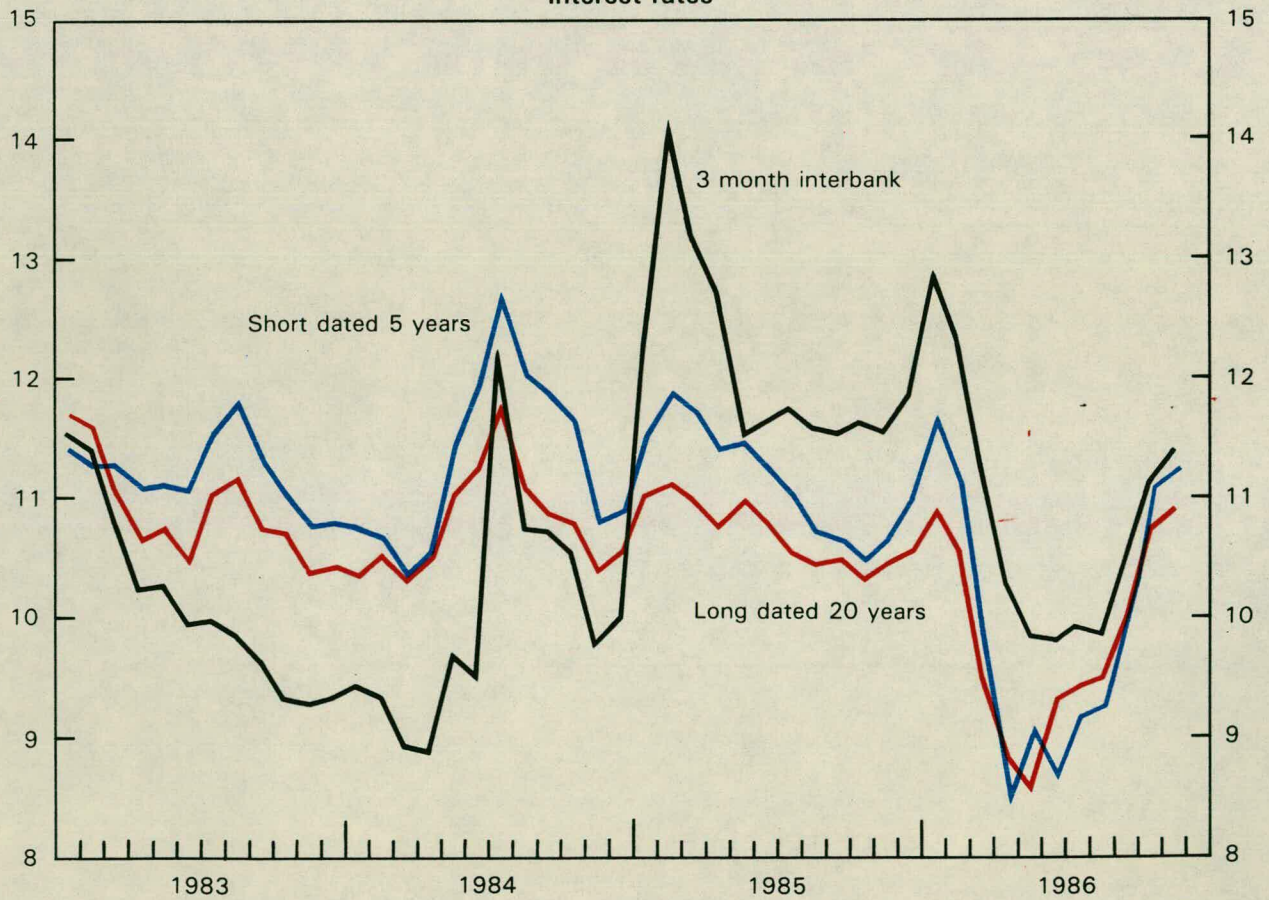
Movements in underlying average earnings and the tax and price index comparisons with 12 months previously

CHART 4



Interest rates

CHART 5



Monetary aggregates

Percentage change on previous 12 months (not seasonally adjusted)

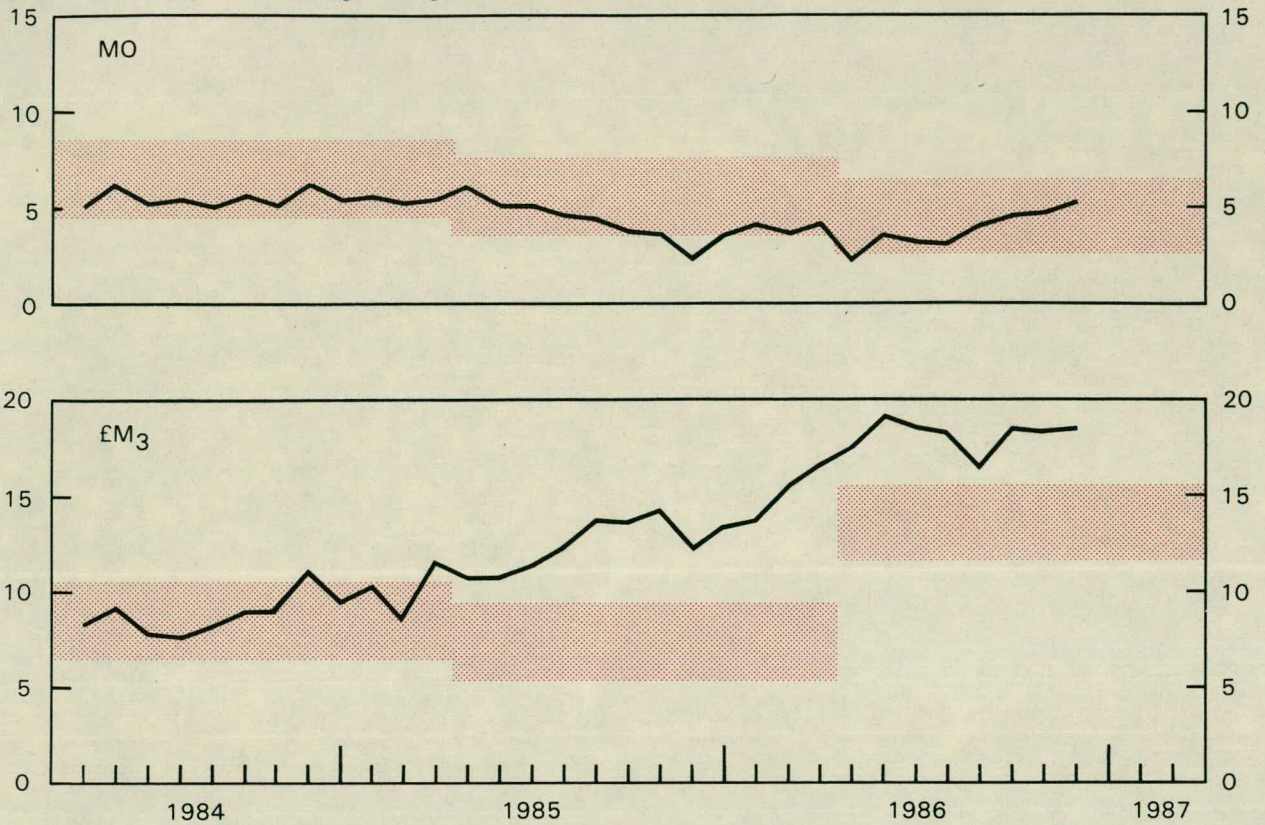
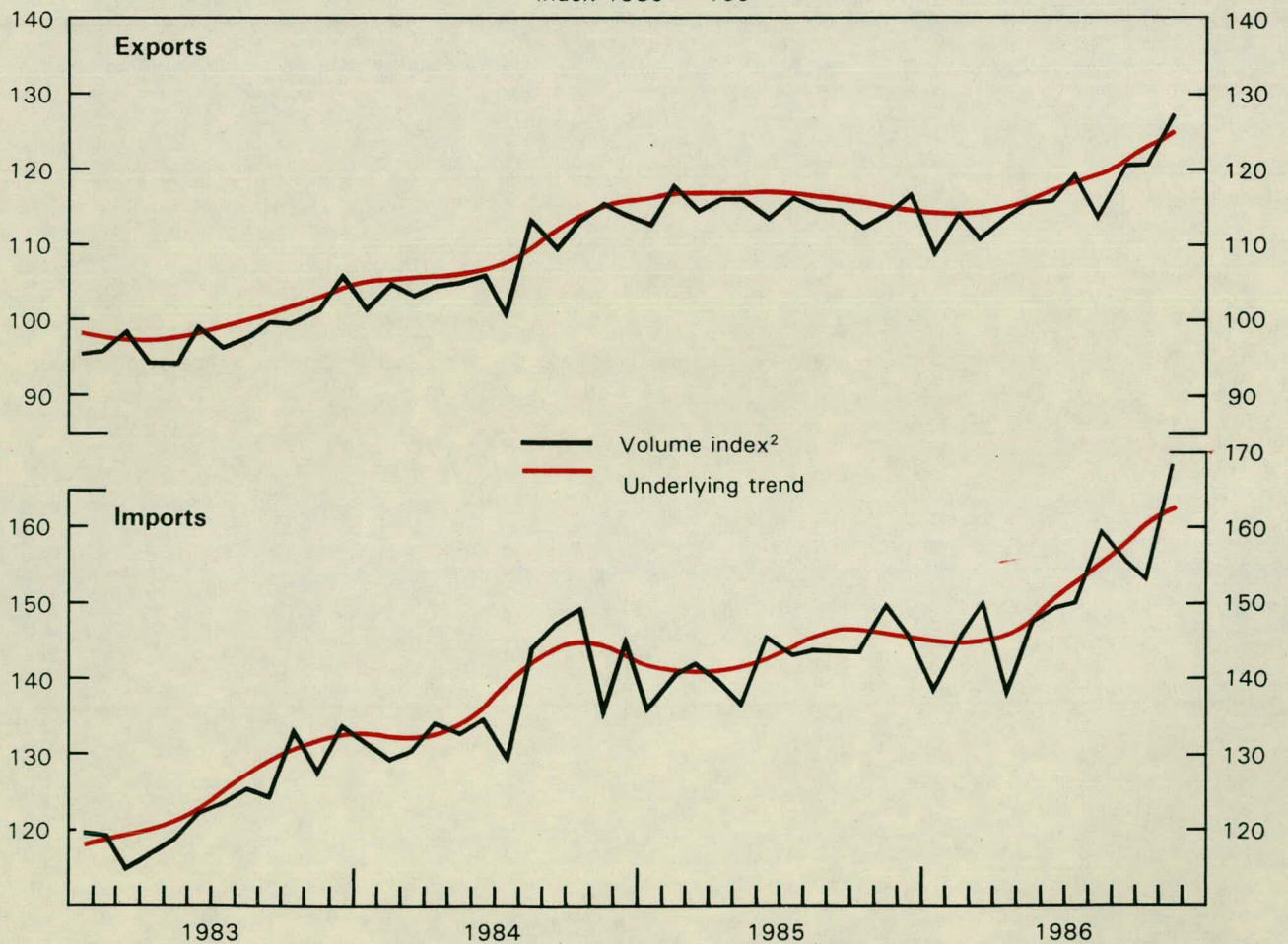


CHART 7

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