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PART B

Part B.

SECRET

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Begins: ~~23~~²³/2/88.
Ends: 27/6/88.



PO -CH /NL/0394



PART B

Chancellor's (Lawson) Papers:

TRADE FIGURES AND UNITED
KINGDOM COMPETITIVENESS
1987 - 1988

DD's: 25 years

[Handwritten Signature]

8/12/95.

NL/0394

-CH

PO

PART B

SECRET AND PERSONAL until release of press notice on 29 February 1988 at 11.30 am and thereafter unclassified

To: MINISTER FOR TRADE

Copy No. (3) 28

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

23 February 1988

Ch
I've just realised that Jan 87 was an awful month for exports - so looks as if may be combination of seasonal
adjustment + SAD
hsl

OVERSEAS TRADE FIGURES FOR JANUARY 1988

THE CURRENT ACCOUNT

In January, the value of exports was £6.2 billion and imports £7.8 billion,* so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £1.7 billion compared with the deficit of £1.0 billion in December.

The Central Statistical Office continue to project a surplus on invisibles** of £0.6 billion for months in the first quarter of 1988 so that the current account is provisionally estimated to have been in deficit by £1.1 billion, compared with a latest estimated deficit of £0.4 billion in December. (NB The December figure, revised from a deficit of £0.6 bn, reflects the results of the end-1987 annual seasonal adjustment update exercise).

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

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
1986	- 944	-8463	+4056	-12519	+7519
1987	-2493A	-9625	+4184	-13809	+7132A
Aug-Oct 1987	-1173A	-3041	+1063	- 4104	+1868A
Nov-Jan 1988	-1927A	-3727	+1037	- 4765	+1800A
1987 Nov	- 456A	-1056	+ 332	- 1388	+ 600A
Dec	- 410A	-1010	+ 346	- 1356	+ 600A
1988 Jan	-1061A	-1661	+ 359	- 2020	+ 600A

A = Projection or part projection

* See postscript at end.

** The CSO is currently engaged in its quarterly re-appraisal of invisibles estimates and the results up to and including Q4 1987 will be published on 11 March.

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In the three months ended January there was a deficit on visible trade of £3.7 billion - a surplus on trade in oil of £1.0 billion, offset by a deficit in non-oil trade of £4.8 billion. Between the three months ended October and the latest three months, the visible trade deficit increased by £0.7 billion; the surplus on oil was little changed while the deficit on non-oil trade also rose by £0.7 billion.

EXPORTS

The value of exports in January was £634 million ($9\frac{1}{2}$ per cent) lower than in December. Exports of oil decreased by £97 million between the two months and exports of the erratic items decreased by £120 million. Excluding oil and the erratic items, exports fell by $7\frac{1}{2}$ per cent between December and January.

In the three months ended January, total export volume was $1\frac{1}{2}$ per cent higher than in the previous three months and 3 per cent higher than in the same period last year. Excluding oil and the erratic items, export volume was unchanged in the latest three months and $4\frac{1}{2}$ per cent up on the same three months a year ago. The underlying level of exports, which was high in the Autumn of 1987, seems to have been maintained in recent months.

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

	Bop Basis, Seasonally Adjusted		Bop Basis, Seasonally Adjusted	
	VALUE (£m)		VOLUME (1980 = 100)	
	Total	Total Less Oil and erratics	Total	Total less Oil and erratics
1986	72678	59098	123.3	118.0
1987	79622	65200	130.4	126.6
Aug-Oct 1987	20351	16714	131.2	129.0
Nov-Jan 1988	19881	16608	132.8	129.1
1987 Nov	6881	5627	135.4	130.7
Dec	6817	5699	137.1	133.1
1988 Jan	6183	5282	126.0	123.3

Also by value, total exports fell by $2\frac{1}{2}$ per cent between the three months ended October and the latest three months. The fall in exports to the developed countries was $4\frac{1}{2}$ per cent - within which exports to the rest of the European Community fell by 8 per cent while exports to North America rose by 1 per cent.

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IMPORTS

The value of imports in January was little changed from that in December. Imports of oil decreased by £109 million while imports of the erratic items increased by £43 million between the two months. Excluding oil and the erratic items, imports rose by 1 per cent between December and January.

In the three months ended January, total import volume was 2½ per cent higher than in the previous three months and 11 per cent higher than in the same period last year. Excluding oil and the erratic items import volume rose by 3 per cent in the latest three months to stand 12 per cent up on a year ago. The upward trend in non-oil import volume since last Spring has continued, though the rate of growth may have moderated in recent months.

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
1986	81141	73346	134.6	151.6
1987	89247	81125	144.6	164.9
Aug-Oct 1987	23392	21268	151.0	172.9
Nov-Jan 1988	23609	21716	154.6	177.7
1987 Nov	7938	7229	154.3	176.3
Dec	7827	7202	154.9	177.0
1988 Jan	7844	7286	154.5	179.8

By value, imports rose by 1 per cent between the three months ended October and the latest three months.

Again in value terms, imports from the developed countries rose by 1½ per cent over the latest three months, with arrivals from the European Community countries up by 2½ per cent, from North America down by 5 per cent and from the other developed countries up by 3½ per cent. Imports from the developing countries decreased by 6½ per cent between the two three month periods.

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TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the January edition of the Monthly Review of External Trade Statistics following the release of the press notice. On present estimates they show a deficit in the three months ended January of £2.9 billion compared with a deficit of £2.2 billion in the previous three months.

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
1986	54927	60233	-5307
1987	61556	68097	-6542
Aug-Oct 1987	15844	18028	-2184
Nov-Jan 1988	15549	18419	-2870
1987 Nov	5404	6152	- 748
Dec	5319	5959	- 640
1988 Jan	4826	6308	-1482

QUALITY OF THE FIGURES

X

It is customary to advise against attaching too much significance to figures for an individual month. Figures for January 1988 need to be interpreted with even greater caution than normal because the information system has been altered in that EC member countries have adopted the Single Administrative Document and a new system of product classification has been introduced from 1.1.88 (see your Written Answer of 7 December 1987, attached to my note on exports of 19 February, and the article in British Business of 27 November 1987). Customs are presently taking the view that the changes did not interfere with the flow of trade, but it would nevertheless be prudent to await the figures for February and probably later months before deciding whether any distortions have in fact occurred. Extensive checking by their Statistical Office at Southend indicate that the quality of the aggregate figures should be up to the normal standard.

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PUBLICATION

The press notice containing the January figures is scheduled for release on Monday 29 February.



P J STIBBARD

POST SCRIPT

Since preparing the above we have been told that Customs are investigating a possible double-counting of imports amounting to £0.1 bn or £0.2 bn. The exact amount will be confirmed tomorrow morning and the amended figure will be incorporated in the draft press notice circulated to Ministers tomorrow afternoon.

1
gives one lots of confidence
in quality of figures!

(x in Brian Upton's
assurances!)



BALANCE OF PAYMENTS BASIS SEASONALLY ADJUSTED 1989=100 REV. 3

VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS

SECRET AND PERSONAL UNTIL THE RELEASE OF THE PRESS NOTICE ON 29.3.93

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 Chancellor of the Duchy of Lancaster
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 M Pratt (HM Customs & Excise)
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17 Mr D Owen (HM Treasury)
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20 Mr Bottrill (HM Treasury)
21 Mr H H Liesner)
22 Mr P J Stibbard)
23 Mr W E Boyd)
24 Mr E J Wright) Dept of Trade and Industry
25 Mrs A Brueton)
26 Miss H Chapman)
27 Mr D Packer)
28 Miss C Siddell)



par

Ch

I have spoken to
Lord Young's office.
They think it would
be useful if you
reworded the message
into a quote word
with Lord Young in
the margins of Rose
meeting

Morgan
Crawley
AA

the department for Enterprise

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

(Ch)
Depart is slightly below
figure originally published
for August (£929m)

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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01-215 7877

Telex 8811074/5 DTHQ G
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CH/EXCHEQUER	
REC.	24 FEB 1988
ACTION	
COPIES TO	

Direct line 01 215 4887
Our ref
Your ref
Date 24 February 1988

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

Publication is set for Monday 29 February 1988 at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Friday 26 February 1988 and to inform me accordingly.

A copy of this letter and draft Press Notice is being sent to Sir Peter Middleton, Mr Davis, H M Treasury and Sue Holt, Prime Minister's Office.

Yours sincerely

W E Boyd
W E BOYD

Ch
X is ludicrous. Andie
Table 7 and text at Y have
not been revised. We surely
cannot have later text referring
to figures we know are wrong.
I have left Lord Young's office
in no doubt what I think
of DTI statisticians
AA

** These things*
must be put
into the report. Can it now have
gone all over to Sun
to do so.



THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
 £ million seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES:			
				TOTAL	OIL	NON- OIL	INVISIBLE BALANCE
1986	-944	72678	81141	-8463	4056	-12519	7519
1987	-2493	79622	89247	-9625	4184	-13809	7132
1986 Q4	-19979	19161	21715	-2554	823	-3377	1736
1987 Q1	496	19530	20740	-1211	1159	-2370	1707
Q2	-594	19357	21674	-2317	1016	-3333	1723
Q3	-1207	20235	23344	-3109	936	-4046	1902
Q4	-1188	20500	23488	-2988	1073	-4061	1800
1987 MAY	-485	6356	7416	-1060	351	-1411	575
JUN	-219	6412	7205	-793	233	-1026	574
JUL	-357	6686	7677	-991	267	-1258	634
AUG	-790	6587	8011	-1424	359	-1783	634
SEP	-61	6962	7657	-695	310	-1004	634
OCT	-322	6802	7724	-922	394	-1316	600
NOV	-456	6881	7938	-1056	332	-1388	600
DEC	-410	6817	7827	-1010	346	-1356	600
1988 JAN	-905 ✓	6183	7688	-1505	359	-1864	600
NOV-JAN 87	-628	19137	21491	-2354	989	-3344	1726
AUG-OCT 87	-1173	20351	23392	-3041	1063	-4104	1868
NOV-JAN 88	-1771 ✓	19881	23453	-3571	1037	-4609	1800

PERCENTAGE CHANGES:-

LATEST 3 MONTHS ON
 PREVIOUS 3 MONTHS -2.3% 0.3%

SAME 3 MONTHS
 ONE YEAR AGO 3.9% 9.1%

JAN-JAN87	-28	6244	6841	-597	378	-975	569
JAN-JAN88	-905 ✓	6183	7688	-1505	359	-1864	600

From: Paul Dalis
 Date: 24 February 1988
 cc Mr Sedgwick

Page 1

PS/Chancellor
 Sir P. Middleton
 Sir T. Burns
 Mr Scholar

The above contains a revision to imports
 in February, removing £0.2 billion from the
 total as a result of 'double counting' by Customs.

Paul Dalis
 EAZ

REVISED DRAFT

SECRET AND PERSONAL until release of press notice on 29 February 1988
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DRAFT

Copy No. 3 (22)

JANUARY 1988

The current account for January, seasonally adjusted, was estimated to have been in deficit by £905 million compared with a deficit of £410 million in December. In January, exports - seasonally adjusted on a balance of payments basis - were valued at £6183 million and imports at £7688 million so that the trade in goods was in deficit by £1501 million.

The balance on invisibles is projected to be in surplus by £600 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions. Preliminary estimates of the invisibles balance in the fourth quarter of 1987 and revisions to earlier periods will be published on 11 March.

NOTE ON INTERPRETATION

It is customary to advise against attaching too much importance to figures for an individual month. Figures for January 1988 need to be interpreted with even greater caution than usual because of the adoption from 1 January 1988 by all EC member countries of the Single Administrative Document and a new system of product classification (see notes to editors No. 3). It would be prudent to await the figures for February and probably later months, before deciding whether or not there were any distortions in the monthly pattern of trade.

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NOVEMBER 1987 TO JANUARY 1988

In the three months ended January, the current account showed a deficit of £1.8 billion compared with a deficit of £1.2 billion in the previous three months. There was a deficit on visible trade of £3.6 billion in the latest three months compared with a deficit of £3.0 billion in the three months ended October. The surplus on invisibles in the latest three months is projected at £1.8 billion.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade		Invisibles Balance ^b	
		Balance	Exports fob		Imports fob
1986	- 944	- 8463	72678	81141	+ 7519
1987	- 2493 ^a	- 9625	79622	89247	+ 7132 ^a
1986 Q4	- 818	- 2554	19161	21715	+ 1736
1987 Q1	+ 496	- 1211	19530	20740	+ 1707
Q2	- 594	- 2317	19357	21674	+ 1723 ^a
Q3	- 1207	- 3109	20235	23344	+ 1902 ^a
Q4	- 1188 ^a	- 2988	20500	23488	+ 1800 ^a
1987 Aug	- 790	- 1424	6587	8011	+ 634 ^a
Sep	- 61	- 695	6962	7657	+ 634 ^a
Oct	- 322 ^a	- 922	6802	7724	+ 600 ^a
Nov	- 456 ^a	- 1056	6881	7938	+ 600 ^a
Dec	- 410 ^a	- 1010	6817	7827	+ 600 ^a
1988 Jan	- 105 ^a	- 1505 [✓]	6183	7688 [✓]	+ 600 ^a

^a Invisibles for October to January 1987 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.

VISIBLE TRADE IN JANUARY

There was a deficit on visible trade in January of £1505 million compared with a deficit of £1010 million in December. The surplus on oil was £359 million, £12 million more than in December. The deficit on non-oil trade increased by £507 million.

Total exports in January were valued at £6183 million, which was £634 million (9½ per cent) lower than in December. Exports of oil decreased by £97 million and exports of the erratic items decreased by £120 million between the two months. Excluding oil and the erratic items, exports fell by 7½ per cent between December and January.

Total imports were valued at £7688 million in January, which was [little changed from] December. Imports of oil fell by £109 million between the two months and imports of the erratic items rose by £43 million. Excluding oil and the erratic items, imports [rose by 1 per cent] between December and January.

£139 million (2 per cent) lower than in

fell by 1 per cent

RECENT TRENDS

Visible balance

In the three months ended January, there was a deficit on visible trade of £3.6 billion - a surplus on trade in oil of £1.0 billion being offset by a deficit on non-oil trade of £4.6 billion. Between the three months ended October and the latest three months, the deficit on visible trade increased by £0.5 billion - the surplus on oil was little changed while the deficit on non-oil trade also rose by £0.5 billion.

Exports

Exports amounted to £19.9 billion in the three months ended January, £0.5 billion ($2\frac{1}{2}$ per cent) less than in the previous three months. Exports of oil fell by £0.1 billion and exports of the erratic items fell by £0.3 billion. Excluding oil and the erratic items, exports decreased by £0.1 billion between the three months ended October and the latest three months.

By volume, exports rose by $1\frac{1}{2}$ per cent between the three months ended October and the latest three months to be 3 per cent higher than in the same period a year ago. Excluding oil and the erratic items, export volume was unchanged in the latest three months and was $4\frac{1}{2}$ per cent higher than in the same period a year ago. It is too soon to say whether the upward trend in non-oil exports during 1987 has now changed.

Imports

Total imports were valued at £23.5 billion in the latest three months, £0.1 billion ($\frac{1}{2}$ per cent) higher than in the previous three months. Imports of oil were little changed and imports of the erratic items fell by £0.2 billion. Excluding oil and the erratic items, imports grew by $1\frac{1}{2}$ per cent between the three months ended October and the latest three months. [Within the total, imports of capital goods rose by $6\frac{1}{2}$ per cent; imports of passenger motor cars rose by 6 per cent.]

based on unamended
figures -

Min 1/11
Comment

SECRET AND PERSONAL, until release of press notice on 29 February 1988 at 11.30 am and thereafter unclassified

Total import volume in the latest three months was $1\frac{1}{2}$ per cent higher than in the previous three months and 10 per cent higher than in the same period a year ago. Excluding oil and the erratic items, import volume rose by 2 per cent in the latest three months to be 12 per cent higher than in the same period a year ago. As with exports, it is too soon to say whether the upward trend in non-oil imports during 1987 has now changed.

Terms of trade and unit values

The terms of trade index was virtually unchanged between the three months ended October and the three months ended January with the export unit value index decreasing by 1 per cent and the import unit value index decreasing by $1\frac{1}{2}$ per cent. Compared with the same three months a year ago, the export unit value index rose by 2 per cent and the import unit value index fell by $1\frac{1}{2}$ per cent. As a result the terms of trade index is $3\frac{1}{2}$ per cent up on a year ago.

Export unit values for fuels fell by 13 per cent between the three months ended October and the latest three months while the unit value index for non-oil exports was unchanged.

Import unit values for fuels fell by 8 per cent between the three months ended October and the latest three months while the unit value index for non-oil imports fell by $\frac{1}{2}$ per cent.

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Analysis by area

Exports to the developed countries fell by $4\frac{1}{2}$ per cent between the three months ended October and the latest three months. Exports to the European Community countries fell by 8 per cent; exports to North America and to the other developed countries increased by 1 per cent and 8 per cent respectively. Those to the developing countries fell by $8\frac{1}{2}$ per cent between the three months ended October and the latest three months.

Imports from the developed countries increased by $1\frac{1}{2}$ per cent over the latest three months with arrivals from the European Community countries up $2\frac{1}{2}$ per cent, from North America down by 5 per cent and arrivals from the other developed countries up by $3\frac{1}{2}$ per cent. Imports from the developing countries decreased by $6\frac{1}{2}$ per cent between the three months ended October and the latest three months.

NOTES TO EDITORS

INVISIBLES

1 Estimates of invisibles are based on a variety of sources, mostly inquiries of those engaging in the various transactions. These are usually sample inquiries, and are variously held on quarterly, annual or periodical bases. For some components, data for recent periods are therefore incomplete and subject to significant estimation errors.

2 The figures shown for the invisibles balance in most months are the estimates for the relevant quarters, taken from the balance of payments accounts, expressed at a monthly rate. For the most recent months, however, the figures are projections, which are rounded to the nearest £100 million to emphasise their approximate nature. These projections are superseded by preliminary estimates from the balance of payments accounts when they are published around the middle of March, June, September and December. Thus the projections for October to December 1987 in tables 1 and 2 will be superseded by preliminary estimates published on 11 March.

VISIBLE TRADE: NEW CUSTOMS PROCEDURES AND CHANGES IN CLASSIFICATION

3 On 1 January 1988 new customs procedures were introduced, including a switch to a new Single Administrative Document for Customs declaration and the adoption of a new system of commodity coding, based on the worldwide Harmonised System. Further information may be obtained from the article in British Business of 27 November 1987 and column 34 of Written Answers, House of Commons Official Report, 7 December 1987. For further details of changes, which involve revisions to the commodity classification and to the treatment of gold see the Standard Notes for 1988.

ADJUSTMENT FOR UNPROCESSED DOCUMENTS; APRIL TO OCTOBER

4 Following an investigation by Customs and Excise into the effects of industrial action, adjustments have been made to take account of documents delayed from the period April to June and subsequently processed in August and October. These adjustments have been made to the Balance of Payments based figures (tables 1 to 7 and 16), but not to the OTS figures (tables 8 to 15). The amounts involved are as follows:

	<u>Adjustment for unprocessed documents</u>				£ million October
	April	May	June	August	
Exports	+30	+71	+67	-18	- 151
Imports	+63	+49	+38		- 150

JANUARY 1988 FIGURES

5. Tables 1 to 7 on a balance of payments basis incorporate a slight downward revision of £156 million to imports; information was not available to carry this through to OTS based figures (tables 8 to 15). This revision will be made to the OTS tables next month !!

AREA (tables 11 and 15)

6 Low value consignments ie items of an individual value less than £600 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.

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

7 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 £43 which includes the annual supplement. Individual copies are priced at £3, (£7 for the annual supplement).

STANDARD NOTES

8 There is a set of standard notes that describe the basis on which the figures in this Press Notice are compiled including the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) figures. Copies can be obtained from the address below.

A revised edition of these notes accompanies this press notice

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)

		£ million seasonally adjusted						
	Current Balance	Visible Trade				Invisible		Balance ^b
		Exports fob	Imports fob	Visible Balance	of which			
					Oil	Non-Oil		
1986	- 944	72678	81141	- 8463	+ 4056	- 12519	+ 7519	
1987	- 2493a	79622	89247	- 9625	+ 4184	- 13809	+ 7132a	
1986	Q4	19161	21715	- 2554	+ 823	- 3377	+ 1736	
1987	Q1	19530	20740	- 1211	+ 1159	- 2370	+ 1707	
	Q2	19357	21674	- 2317	+ 1016	- 3333	+ 1723	
	Q3	20235	23344	- 3109	+ 936	- 4046	+ 1902	
	Q4	20500	23488	- 2988	+ 1073	- 4061	+ 1800a	
1987	May	6356	7416	- 1060	+ 351	- 1411	+ 575	
	June	6412	7205	- 793	+ 233	- 1026	+ 574	
	July	6686	7677	- 991	+ 267	- 1258	+ 634	
	Aug	6587	8011	- 1424	+ 359	- 1783	+ 634	
	Sep	6962	7657	- 695	+ 310	- 1004	+ 634	
	Oct	6802	7724	- 922	+ 394	- 1316	+ 600a	
	Nov	6881	7938	- 1056	+ 332	- 1388	+ 600a	
	Dec	6817	7827	1010	+ 346	- 1356	+ 600a	
1988	Jan	6183	7688	- 1505	+ 359	- 1864	+ 600a	
% Change								
Latest 3 months								
- on previous 3 months		- 2½	+ ½					
- Same 3 months one year ago		+ 4	+ 9					

a Invisibles for October to January 1987 are projections.

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			
1984		77080	71223	+ 5857	+ 3489	+ 4207	- 1839	71780	62393	+ 9387
1985		79805	74739	+ 5066	+ 5388	+ 2954	- 3276	75155	64778	+10377
1986		76293	68774	+ 7519	+ 5081	+ 4611	- 2173	71184	59185	+11999
1985	Q3	19358	17630	+ 1728	+ 1501	+ 1109	- 882	18136	14968	+ 3168
	Q4	18588	17838	+ 750	+ 1283	+ 207	- 740	17447	15448	+ 1999
1986	Q1	18955	16952	+ 2003	+ 1308	+ 769	- 74	17600	14926	+ 2674
	Q2	18464	16719	+ 1745	+ 1205	+ 1106	- 566	17148	14304	+ 2844
	Q3	19243	17208	+ 2035	+ 1247	+ 1488	- 700	17966	14679	+ 3287
	Q4	19631	17895	+ 1736	+ 1321	+ 1248	- 833	18470	15276	+ 3194
1987	Q1	19730	18023	+ 1707	+ 1256	+ 1304	- 853	18072	14904	+ 3168
	Q2	19699	17976	+ 1723	+ 1245	+ 1192	- 714	18237	15170	+ 3067
	Q3	20438	18536	+ 1902	+ 1572	+ 1339	- 1009	19160	15550	+ 3610

^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
1986	136.8	134.3	101.8	123.3	134.6
1987	142.0	138.1	102.8	130.4	144.6
1986 Q4	138.3	137.0	100.9	129.9	142.3
1987 Q1	140.8	140.2	100.4	129.5	133.5
Q2	141.4	136.7	103.4	126.6	141.1
Q3	143.1	138.0	103.7	130.6	151.
Q4	142.9	137.5	103.9	134.8	152.5
1987 May	141.1	136.3	103.5	124.3	144.2
June	141.8	136.2	104.1	124.1	141.1
July	141.8	137.3	103.3	130.1	148.8
Aug	143.7	138.4	103.8	127.6	154.8
Sep	143.7	138.3	103.9	134.1	149.7
Oct	143.8	138.6	103.7	131.8	148.4
Nov	142.9	137.8	103.7	135.4	154.3
Dec	141.8	136.2	104.2	137.1	154.9
1988 Jan	141.8	135.9	104.3	126.0	151.5
% Change					
Latest 3 months on					
- previous 3 months	- 1	- 1½	-	+ 1½	+ 1½
- same 3 months					
one year ago	+ 2	- 1½	+ 3½	+ 3	+ 10

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

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS^f
(Balance of Payments basis)

Table 5

seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1986	67300	77492	126.3	143.0
1987	73645	85386	133.6	154.0
1986 Q4	17581	20738	132.4	151.5
1987 Q1	18019	19853	132.5	142.5
Q2	17939	20740	129.8	150.2
Q3	18755	22313	134.1	160.9
Q4	18933	22481	138.0	162.4
1987 May	5884	7122	127.4	153.9
June	5932	6844	126.9	149.3
July	6108	7297	132.0	157.8
Aug	6203	7668	132.9	165.1
Sept	6444	7348	137.3	159.9
Oct	6178	7300	133.2	156.4
Nov	6339	7609	138.3	164.5
Dec	6416	7572	142.5	166.3
1988 Jan	5902	7391	132.5	162.1
% Change				
Latest 3 month on				
- previous 3 months	- 1	+ 1	+ 2½	+ 2½
- same 3 months				
one year ago	+ 6½	+ 10	+ 4½	+ 10

^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			Rest of Division 33	Total	Crude Oil			Rest of Division 33	
			[SITC (REV 2) 333.0]					[SITC (REV 2) 333.0]				
			£ million fob	£ million fob	£ million fob			Avg value per tonne £ fob	£ million fob	£ million fob		£ million fob
1986	+ 4056	8202	6294	82.1	76.7	1908	4146	2324	32.6	71.3	1822	
1987	+ 4184	8445	6765	80.6	83.9	1681	4261	2608	33.1	78.8	1654	
1986 Q4	+ 823	1891	1533	21.6	71.0	358	1068	581	9.0	65.3	487	
1987 Q1	+ 1159	2221	1818	21.8	83.3	403	1062	623	7.9	79.3	439	
Q2	+ 1016	2046	1653	19.8	83.6	393	1030	645	8.1	79.2	386	
Q3	+ 936	2055	1636	18.6	88.0	419	1119	667	8.2	81.6	451	
Q4	+ 1073	2124	1658	20.4	81.2	466	1051	673	8.9	75.3	378	
1987 May	+ 351	627	514	6.3	81.2	113	276	136	1.8	77.4	140	
June	+ 233	604	462	5.5	84.3	142	372	259	3.2	80.1	113	
July	+ 267	639	493	5.8	85.2	147	372	229	2.9	78.9	143	
Aug	+ 359	757	621	6.8	91.1	136	398	252	3.2	79.6	145	
Sept	+ 310	659	522	6.0	87.2	136	349	186	2.1	88.4	162	
Oct	+ 394	695	549	6.3	87.0	146	300	170	2.1	80.3	130	
Nov	+ 332	712	557	6.8	82.5	156	380	266	3.4	78.5	114	
Dec	+ 346	717	553	7.4	75.0	164	370	236	3.4	69.0	134	
1988 Jan	+ 359	620	518	7.4	70.4	102	261	176	2.7	64.6	85	
% Change												
at least 3												
months on												
previous												
3 months		- 3	- 4	+ 12	- 14	+ ½	- 3½	+ 11	+ 29	- 14	- 24	
same 3												
months one												
year ago		+ 3½	+ ½	- 1½	+ 2	+ 18	+ 2½	+ 16	+ 11	+ 4½	- 17	

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
1986	- 12519	64476	76995	145.4	141.7	102.6	115.4	141.0	590,98	73346	118.0	151.6
1987	- 13809	71177	84986	151.2	145.7	103.8	123.6	152.9	652,00	81125	126.6	164.9
1986 Q4	- 3377	17270	20647	148.3	146.5	101.3	122.3	147.7	156,90	19669	124.4	159.0
1987 Q1	- 2370	17309	19679	149.8	148.2	101.1	121.2	140.0	157,98	18791	123.7	151.3
Q2	- 3333	17311	20644	150.5	144.1	104.4	120.1	149.5	158,93	19710	123.2	161.1
Q3	- 4046	18180	22226	151.9	145.2	104.6	125.8	160.1	167,00	21194	129.3	172.5
Q4	- 4061	18376	22437	152.6	145.3	105.0	127.3	161.9	168,09	21430	130.3	174.5
1987 May	- 1411	5729	7140	150.4	143.7	104.7	118.9	155.5	52,57	6846	122.0	168.1
June	- 1026	5808	6834	150.9	143.3	105.3	120.3	148.7	53,27	6472	123.2	159.3
July	- 1258	6047	7305	150.7	144.6	104.2	126.2	157.6	54,69	6925	128.0	169.0
Aug	- 1783	5830	7613	152.1	145.5	104.5	120.8	163.7	54,46	7270	126.2	176.6
Sep	- 1004	6304	7308	152.8	145.5	105.0	130.3	159.0	57,85	6999	133.8	172.0
Oct	- 1316	6107	7423	153.1	146.0	104.8	126.0	159.4	54,83	6999	127.0	170.1
Nov	- 1388	6169	7557	152.5	145.2	105.0	128.1	163.4	56,27	7229	130.7	176.3
Dec	- 1356	6100	7457	152.2	144.5	105.3	127.8	162.8	56,99	7202	133.1	177.0
1988 Jan	- 2020	5563	7583	153.0	145.1	105.4	116.6	165.8	52,82	7286	123.3	179.8
% Change										7130		176
latest 3 months on												
- previous 3 months	- 2	+ 1	-	- ½	+ ½	- 1	+ 2	- 1	+ 2	-	+ 3	
- same 3 months one												
year ago	+ 4	+ 10	+ 2½	- 2	+ 4½	+ 2½	+ 12	+ 6½	+ 11	+ 4½	+ 12	

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

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

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EXPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 8

£ million, fob, seasonally adjusted

SITC (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
														5-8 less SNAPS
1986	72834	5484	2098	8664	55036	150138	18651	9711	8940	31488	13621	5534	14362	10230
1987	74852	5599	22431	87471	61735	156140	20360	10541	9818	35780	19801	6797	15349	11654
1986 Q4	19159	1549	5561	1978	14653	13223	4883	2532	2351	8339	3721	1503	3710	2753
1987 Q1	19531	1399	633	2302	14815	13459	4875	2510	2365	8584	4521	1629	3734	2768
Q2	19280	1351	565	2116	14865	13512	4879	2514	2365	8633	4781	1607	3736	2811
Q3	20275	1441	541	2134	15790	14426	5291	2735	2555	9136	5231	1783	3843	2987
Q4	20766	1407	504	2195	16265	14742	5315	2781	2533	9428	5271	1778	4035	3088
1987 Nov	6922	452	175	731	5440	4910	1771	921	850	3139	185	605	1290	1059
Dec	6867	460	168	744	5364	4968	1809	970	838	3159	149	617	1389	1004
1988 Jan	6240	402	180	649	4876	4602	1667	876	791	2926	166	546	1304	920
AUG-OCT 87	20548	1442	527	2185	16008	14594	5303	2758	2545	9291	538	1761	3942	3050
NOV-JAN 88	20629	1314	523	2125	15680	14482	5247	2767	2480	9235	499	1768	3984	2984
% CHANGE	-2 1/2	-9	-1	-2 1/2	-2	-1	-1	+ 1/2	-2 1/2	- 1/2	-7	+ 1/2	+1	-2

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

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

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

Table 9

INDICES 1980 = 100, seasonally adjusted

SITC ₃ (REV 2)	Manufactures excluding erratics ^h													
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)					Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
														5-8 less SNAPS
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1986	123.9	129.5	117.3	175.5	114.1	117.0	122.8	139.4	109.3	113.6	93.2	119.8	119.7	105.7
1987	131.0	129.3	125.3	173.4	123.8	127.3	131.9	148.3	118.5	124.5	119.8	143.5	122.7	118.9
1986 Q4	130.4	144	125	180	120	122	128	146	113	119	94	127	123	114
1987 Q1	130.0	131	144	184	120	123	128	144	114	120	113	137	120	113
Q2	126.5	125	123	169	119	122	127	141	115	119	118	135	119	113
Q3	131.2	132	121	162	126	130	136	152	123	127	125	147	123	124
Q4	136.7	129	115	182	130	134	137	157	121	131	125	148	130	126
1987 Nov	136.4	123	120	180	131	134	137	156	122	131	132	149	125	131
Dec	138.3	126	114	196	130	136	141	164	121	133	108	160	134	123
1988 Jan	127.2	114	132	186	117	125	131	150	115	121	122	136	123	112
AUG-OCT 87	132.7	134	119	166	127	131	136	154	122	128	127	144	126	125
NOV-JAN 88	134.0	121	122	187	126	131	136		157	119	128	121	148	122
% change	+1	-9 1/2	+2 1/2	+13	-1	-	-	+2	-1 1/2	-	-4 1/2	+2 1/2	+1	-2

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

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

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

INDICES 1980 = 100 not seasonally adjusted

SITC 3 (REV 2)	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Manufactures excluding erratics ^h								
						Total	Semi-manufactures excluding precious stones & silver (PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
							Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	5	6 less PS	7+8 less SNA	j	j	j	j	
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1986	136.7	140	124	81	147	148	138	141	135	154	182	156	157	145
1987	142.0	141	124	82	154	155	142	145	139	162	207	165	166	151
1986 Q4	138.2	142	121	72	151	150	139	141	138	157	198	161	160	148
1987 Q1	140.8	141	123	82	152	153	141	144	139	160	201	163	163	149
Q2	141.3	140	123	81	153	154	141	145	137	162	204	163	168	150
Q3	143.0	141	125	86	154	155	143	146	140	163	210	166	167	151
Q4	142.8	141	125	79	155	156	143	146	141	164	211	167	169	152
1987 Nov	142.9	141	127	80	155	156	143	146	141	164	212	167	169	152
Dec	141.8	140	125	74	155	156	143	146	140	164	208	167	169	153
1988 Jan	141.7	139	125	69	156	158	145	147	143	165	202	165	172	154
AUG-OCT 87	143.7	141	124	86	155	156	144	147	141	164	213	167	168	152
NOV-JAN 88	142.1	140	126	75	155	157	144	146	141	165	207	166	170	153
% change	-1	-2	+1	-13	-	+2	-	-2	+2	+2	-2	-2	+1	+2

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	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	
1986	72834	57555	34959	6919	112075	10326	3602	13117	5491	7626	1721
1987	79252	64076	39416	7621	112993	11014	4046	13737	5222	8514	1539
1986 Q4	19159	15263	9402	1786	3167	2676	909	3271	1265	2006	450
1987 Q1	19531	15401	9278	1739	3435	2921	949	3346	1271	2075	420
Q2	19280	15560	9825	1891	2908	2421	935	3393	1268	2125	344
Q3	20275	16416	10156	1903	3313	2804	1044	3554	1330	2224	406
Q4	20766	16699	10157	2088	3337	2868	1117	3444	1353	2091	368
1987 Nov	6922	5619	3443	700	1055	900	422	1122	442	680	115
Dec	6867	5491	3309	713	1126	959	343	1106	395	711	119
1988 Jan	6240	4775	2724	522	1164	1003	366	1062	402	654	151
AUG-OCT 87	20548	16629	10293	1986	3304	2821	1046	3546	1436	2160	416
NOV-JAN 88	20029	15885	9475	1935	3345	2862	1131	3290	1245	2045	385
% change	-2 1/2	-4 1/2	-8	-2 1/2	+1	+1 1/2	+8	-8 1/2	-13	-5 1/2	-7 1/2

K See paragraph 6 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

SITC ₃ (REV 2)						Manufactures excluding erratics ^h								
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
														5-8 less SNAPS
1986	185568	10033	5066	6278	63091	15972	20595	7361	13224	139133	4809	10158	13274	10893
1987	194016	10132	5688	6099	71217	167639	23319	18347	14971	144320	5024	11502	15390	12403
1986 Q4	22781	2610	1365	1505	17049	16147	5389	1921	13467	10758	1248	2794	3712	3005
1987 Q1	21898	2489	1414	1481	16319	15468	5391	1954	13437	10077	1070	2616	3478	2913
Q2	22698	2462	1433	1466	17140	16274	5642	2010	13632	10631	1198	2820	3692	2921
Q3	24550	2549	1448	1637	18666	17727	6043	2157	13886	11684	1397	2990	4053	3244
Q4	24869	2632	1394	1515	19091	18170	6242	2226	14016	11928	1358	3077	4168	3326
1987 Nov	8330	852	460	526	6407	6120	2068	721	1346	14062	458	1077	1429	1088
Dec	8265	952	453	526	6252	6015	2111	778	1333	13905	452	963	1353	1136
1988 Jan	8353	856	433	414	6578	6310	2119	740	1379	14191	570	962	1428	1230
Avg-Oct'87	2479	2536	1459	1560	18986	17960	6168	2194	3977	11792	1396	3069	4088	3248
Nov-Jan'88	24949	2660	1346	1466	19238	18445	6297	2239	4058	12148	1480	3003	4211	3454
% Change	+ 1/2	+ 5	- 7 1/2	- 6	+ 1 1/2	+ 2 1/2	+ 2	+ 2	+ 2	+ 3	+ 6	- 2	+ 3	+ 6 1/2

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

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

SITC ₃ (REV 2)						Manufactures excluding erratics ^h								
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures excluding precious stones & silver(PS)				Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capita	
														5-8 less SNAPS
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94
1986	134.2	124.3	108.2	94.0	148.2	163.0	151.9	188.1	136.8	170.3	131.6	161.0	186.5	179.8
1987	144.4	125.0	119.5	95.4	162.6	179.5	166.5	207.2	149.5	188.0	125.4	181.0	209.9	199.6
1986 Q4	140.7	126	116	103	155	171	155	192	140	182	130	171	201	196
1987 Q1	133.7	122	122	92	147	163	153	193	137	168	105	162	187	184
Q2	140.0	121	122	90	158	174	163	204	146	181	121	178	202	189
Q3	150.7	126	120	102	171	188	173	216	156	198	142	188	221	210
Q4	153.1	131	114	97	175	193	176	216	159	205	134	197	231	216
1987 Nov	153.7	127	112	99	177	196	176	212	160	209	134	207	238	212
Dec	155.0	145	112	108	173	193	179	224	160	202	135	190	223	221
1988 Jan	154.0	129	109	88	180	200	178	211	164	215	167	183	246	235
Avg-Oct'87	151.7	126	121	96	173	191	176	218	159	200	140	191	224	210
Nov-Jan'88	154.2	134	111	99	177	196	178	216	161	209	145	193	236	223
% Change	+ 1 1/2	+ 6 1/2	- 8 1/2	+ 2	+ 2	+ 3	+ 1	- 1	+ 1 1/2	+ 4	+ 4	+ 1	+ 5	+ 6

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

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

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Table 14

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

INDICES 1980 = 100 not seasonally adjusted

SITC ₃ (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	6	5-8 less	5+6 less	7+8 less	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	
1986	133.1	136	114	97	143	144	133	141	130	152	170	147	157	141	
1987	136.5	136	117	93	149	151	138	147	134	159	185	152	163	148	
1986 Q4	135.6	139	115	87	149	150	136	144	133	159	178	155	166	147	
1987 Q1	138.5	138	117	94	151	152	138	147	134	162	189	155	166	152	
Q2	135.3	136	117	93	147	149	137	145	133	157	183	148	163	148	
Q3	136.4	135	118	95	148	150	138	149	134	158	184	152	162	147	
Q4	135.9	134	117	91	149	151	140	149	136	158	185	152	160	147	
1987 Nov	136.2	133	118	94	149	151	140	149	136	158	187	151	160	148	
Dec	134.7	134	115	86	148	150	139	147	135	157	184	151	161	146	
1988 Jan	134.7	135	118	83	148	151	140	149	136	158	185	152	161	148	
AUG-OCT 87	136.8	135	117	95	149	151	139	150	135	158	184	153	161	147	
NOV-JAN 88	135.2	134	117	88	148	150	140	149	136	157	185	151	161	148	
% Change	-1	-1/2	-1/2	-8	-1/2	-	-	-1	+1/2	-1/2	+1	-1/2	-1/2	+1/2	

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

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

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

	Total K	Developed Countries				Developing Countries			Centrally planned economies		
		Total	European Community	Rest of W Europe	North America Total USA	Other	Total	Oil exporting countries		Other	
1986	85152	73152	44459	11840	10020	18445	16834	10144	2056	18088	1856
1987	93572	80490	49557	12869	10781	19136	17282	10985	1700	19286	2097
1986 Q4	22595	19372	11756	3130	2677	2259	1808	2712	522	2190	510
1987 Q1	21697	18699	11520	3043	2463	2060	1673	2512	432	2079	487
Q2	22758	19673	12166	3190	2625	2230	1691	2584	375	2210	501
Q3	24433	20903	12898	3232	2867	2435	1905	2973	451	2527	553
Q4	24685	21215	12973	3404	2826	2412	2013	2912	442	2470	553
1987 Nov	8330	7220	4378	1224	947	804	671	910	122	783	201
Dec	8265	6915	4249	1065	918	782	684	1045	176	869	185
1988 Jan	8353	7322	4711	1092	877	739	643	869	134	735	180
AUG-OCT 87	24791	21122	12987	3314	2338	2472	1933	3014	469	2544	546
NOV-JAN 88	24949	21457	13338	3350	2742	2324	1997	2824	432	2392	566
% Change	+1/2	+1 1/2	+2 1/2	+2	-5	-6	+3 1/2	-6 1/2	-8	-6	+3 1/2

K See paragraph 6 Notes to Editors.

SECRET

and personal
until release of press notice on 29.5.83 at 11.30 a.m.

COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R3)	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
1986	5445	9196	-3752	2109	4495	-2386	8664	5977	+2687
1987	5550	9326	-3776	2257	4965	-2708	8748	5804	+2944
1986 Q1	1247	2240	-993	520	1125	-605	3176	1690	+1486
Q2	1282	2228	-946	470	1098	-628	1905	1421	+484
Q3	1374	2328	-954	560	1052	-492	1606	1361	+244
Q4	1542	2399	-856	559	1219	-659	1978	1496	+482
1987 Q1	1389	2282	-893	637	1258	-621	2302	1413	+889
Q2	1352	2282	-930	575	1238	-664	2117	1400	+717
Q3	1426	2347	-921	543	1270	-726	2134	1563	+571
Q4	1383	2415	-1032	502	1198	-696	2194	1428	+767
SITC (R3)	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
1986	20839	21406	-568	34088	38827	-4739	54927	60233	-5307
1987	22503	23991	-1488	39053	44106	-5053	61556	68097	-6542
1986 Q1	4843	5313	-470	8036	8900	-864	12879	14213	-1334
Q2	5225	5153	+72	8549	9183	-634	13774	14336	-562
Q3	5227	5312	-85	8383	10060	-1676	13610	15372	-1761
Q4	5544	5627	-83	9119	10680	-1561	14664	16307	-1644
1987 Q1	5467	5662	-195	9358	9893	-535	14825	15555	-730
Q2	5319	5794	-275	9413	10719	-1306	14932	16513	-1581
Q3	5731	6171	-439	10029	11698	-1669	15760	17868	-2109
Q4	5786	6365	-579	10253	11796	-1543	16038	18161	-2122

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

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and personal
until release of press notice on 29 FEB 88
at 11.30 a.m.

pay

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The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

CH/EXCHEQUER	
REC.	07 MAR 1988
ACTION	Mr BOTTRILL
COPIES TO	Sir P. MIDDLETON
	Sir T. BURNS
	Mr SEDGWICK
	Mr OWEN

✓
1/3

Department of Trade and Industry

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advise*

Direct line 215 5422
Our ref DC3AGF
Your ref
Date 3 March 1988

Nigel

TRADE FIGURES PRESS NOTICE

Thank you for your letters of 28 January and 22 February.

When Alan Clark and I heard of the low export figures recorded for January we decided that it would be unwise to introduce any format changes to the January press notice text or tables. If we had done so there was a danger that hostile commentator would have interpreted this as a device to hide bad figures. Nevertheless, I am keen to improve the presentation of the trade figures press notice and I will be looking again at the proposed changes and possibly others, such as the introduction of charts, later in the year. I am inclined to introduce them when the trade outlook is rather more favourable.

It was therefore necessary to retain the statements on underlying volume trends in the press notice, especially as these provided a good opportunity to underline our present agnosticism on the meaning of the January figures. The inclusion of these statements is often necessary to correct misleading impressions created by simple three month on three month comparisons. *But what about 3 months a year*

The future of the trend statements is I think best determined in the light of the other presentational changes that might be made. Before making any decisions I think those most concerned should look at the analysis of the track record of the trend statements we have prepared here, which covers three years rather than one. I have asked my officials to send details to yours.

Advice from Bottrill

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Although there is inevitably some professional judgement involved in seasonal adjustment work, and in the determination of recent underlying trends, there is also much rigorous mathematical analysis. We are quite prepared to have our methods audited, say by the Central Statistical Office, and my officials will shortly make some proposals about possible variations in the methods, which now become technically feasible because of improved computing facilities here. I understand that Treasury officials were invited to play a part in the recent annual seasonal adjustment update exercise.

There is no ban on Ministers seeing seasonally unadjusted figures. These have been sent regularly to Treasury officials over the past few months. I attach a chart plotting the unadjusted figures for recent years in green; seasonally adjusted figures in red (ie those actually published in the press notice); and the estimated trend line in purple which, together with other evidence, is used to formulate the textual statement of underlying volume trends. It seems to me that these adjustments to the raw figures are a useful exercise in helping users of the statistics to extract meaning from the figures for the latest six months or so. I note that the US Department of Commerce are re-introducing seasonal adjustment figures rather earlier than originally planned (an extract from their most recent press notice is attached).

Regarding the consumer/capital/intermediate split of trade (the second point in your letter of 28 January) we have not yet taken any decisions and will be consulting with the Treasury on this and any other proposed changes to the press notice.

Turning to invisibles, I am anxious to improve the presentation of this part of the balance of payments account. I understand that officials conducted a review of the information system for invisibles last year and the results were delivered to the Treasury in November 1987. I have asked officials to prepare a paper for me on the transactions that constitute trade in invisibles, the weaknesses in monitoring and recording and how the position could be better explained. In due course it may be sensible to ventilate the issue in an article placed in the Times or the Financial Times. I am also keen to publicise the figures of UK overseas investment more widely and will be examining the possibilities.

I hope this is helpful.

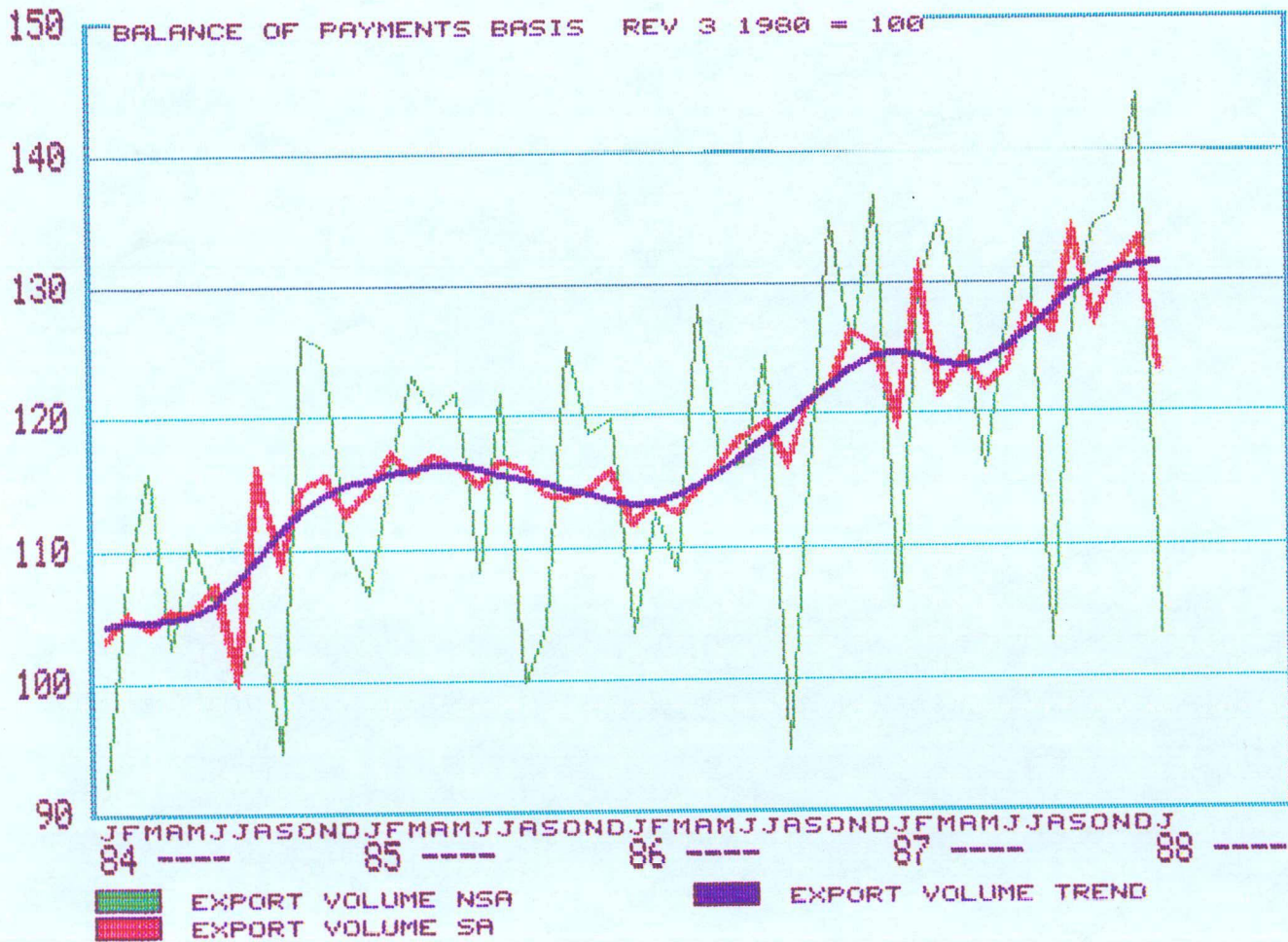
Yvonne
David

the
Enterprise
initiative

hmm
What
for them
to set
up
figures
1987

?

EXPORT VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS



SPECIAL NOTICE

I. ANNOUNCEMENT OF SEASONAL ADJUSTMENT

The Census Bureau will reintroduce seasonal adjustment of monthly trade data with the release of the April 1988 trade statistics (scheduled for mid-June).

Prior to 1986, the Census Bureau seasonally adjusted the monthly data. However, "carry-over" (that portion of the monthly data actually occurring in previous months) prevented an accurate measure of seasonality in 1986 and later. Both the U. S. Customs Service (which collects the trade documentation) and the Census Bureau (which tabulates the data) have taken steps to reduce the carry-over from its high of over 50 percent to a relatively constant 2-3 percent, enabling the Census Bureau to return to seasonal adjustment of the monthly data.

The data for April and prior months of 1988 will be seasonally adjusted at the total import and export level and at the following broad "end-use" commodity levels; (1) Foods, feeds, and beverages; (2) Industrial supplies and materials; (3) Capital goods, except automobiles; (4) Automotive vehicles, parts and engines; (5) Consumer goods (nonfood), except auto; and (6) Other merchandise (military goods, estimates of low-valued shipments, etc).

The application of the "end-use" commodity levels ensures methodological consistency with the quarterly adjusted trade data published by the Bureau of Economic Analysis (BEA) and reflects the BEA coding descriptions which combine data into broad categories based upon principal uses of the commodities in contrast to the Standard International Trade Classification (SITC) which classifies commodities in terms of physical nature. In addition, the use of "end-use" categories provides the Census Bureau the opportunity to reintroduce seasonal adjustment at an earlier date than would be possible using our normal SITC classifications which would require extensive data retabulation for prior years.

We will also include in the April release seasonally adjusted aggregate monthly import and export data for 1986 and 1987. "End-use" commodity level adjustment for those years will be available subject to further research and resource considerations. Adjustment factors will be provided for all months.

Public comment on this change should be submitted to Don. L. Adams, Chief, Foreign Trade Division, Bureau of the Census, Washington, D. C. 20233, within 60 days of the date of this notice.

UK COMPETITIVENESS

Bryan Gould claimed, in a letter to the Sunday Times on 31 January, that UK competitiveness on a variety of measures was worse now than in 1978 and had deteriorated sharply over the past year. He clearly based this view on a number of published measures of cost and price competitiveness in manufacturing (see note by Mr Patterson of 9 February). This note surveys a wider range of evidence on competitiveness, points out why the conventional measures on their own can be misleading, and suggests a briefing line.

Measures of competitiveness

2. The most widely used measure of cost competitiveness is (actual) relative unit labour costs in manufacturing, in common currencies. Chart 1 shows the IMF and Treasury measures of relative unit labour costs - the differences, which are small, reflect slightly different coverage of overseas costs. The most common measures of price competitiveness - relative export prices and relative producer prices, both in common currencies - are shown in Chart 2.

3. All these measures are strongly correlated with the exchange rate, especially in the short run (see Chart 3, which shows an export weighted sterling index) and, as a result, they all tell a similar story:

- lack of confidence in sterling caused measured competitiveness to reach a peak in late 1976 but this proved only temporary;
- during 1977 to 1980 price and cost competitiveness deteriorated steadily as UK prices and costs rose at a much faster rate than overseas and, particularly in 1979 and 1980, the exchange rate appreciated;
- since early 1981 there has been an improvement in all these measures so that by 1987 they suggest only a slight deterioration compared with 1978 and little change compared with mid 1979.

4. Since 1981 relative export prices have fallen less fast than relative costs, implying a recovery in relative export margins (though possibly not to their 1978 level). Absolute export profit margins have also risen very strongly from their trough in 1981 and are now substantially higher than at their previous peak in 1978. This, of

CHART 1: ACTUAL RELATIVE UNIT LABOUR COSTS IN COMMON CURRENCIES

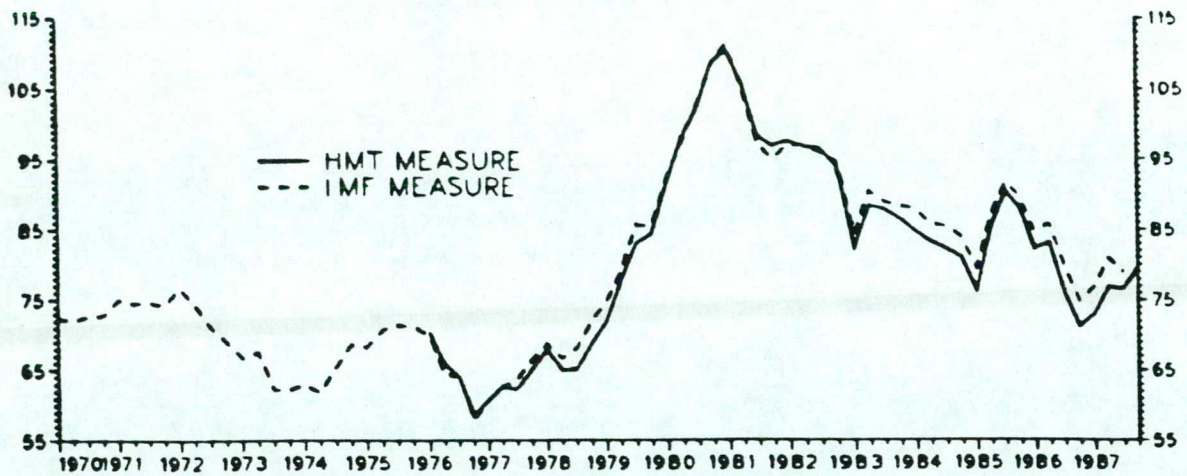


CHART 2: RELATIVE PRICES IN COMMON CURRENCIES

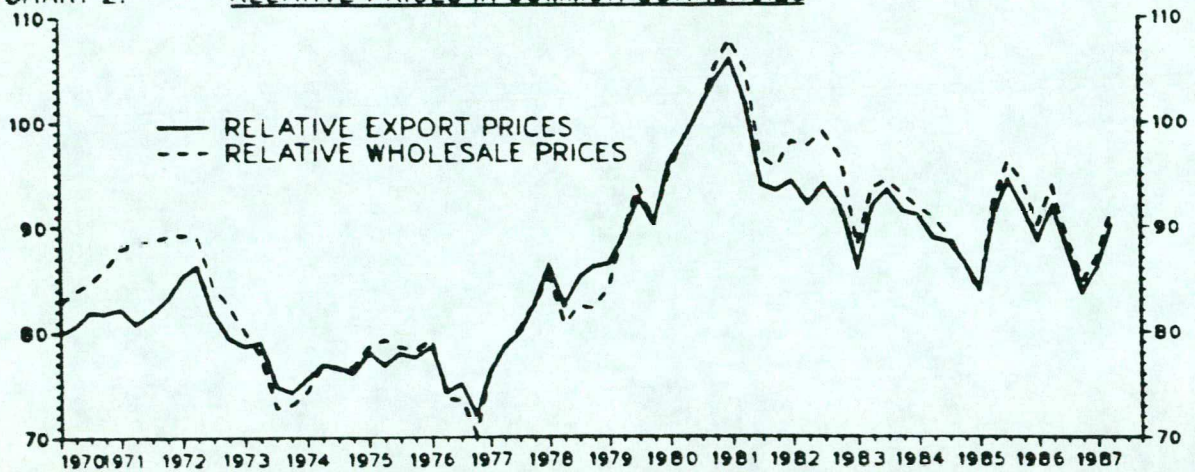
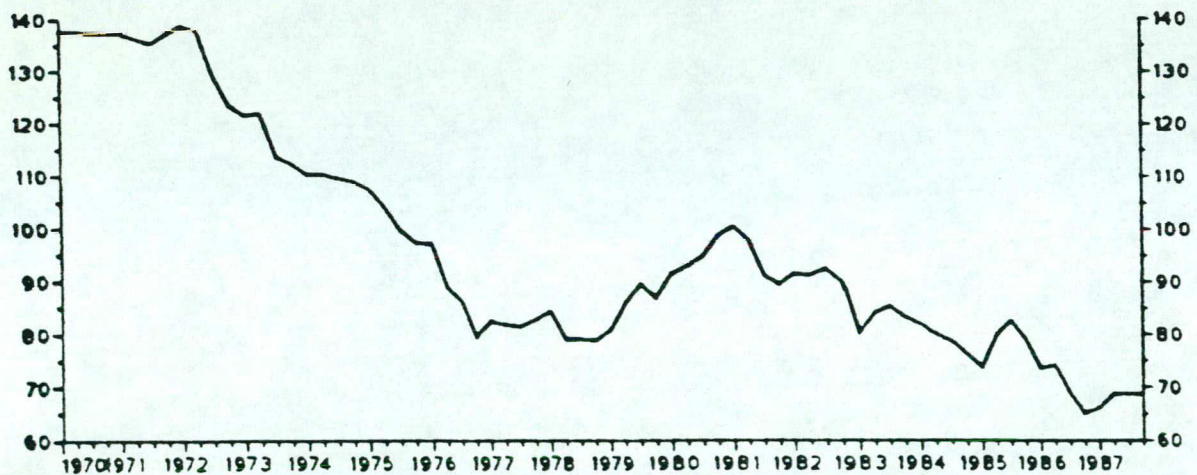
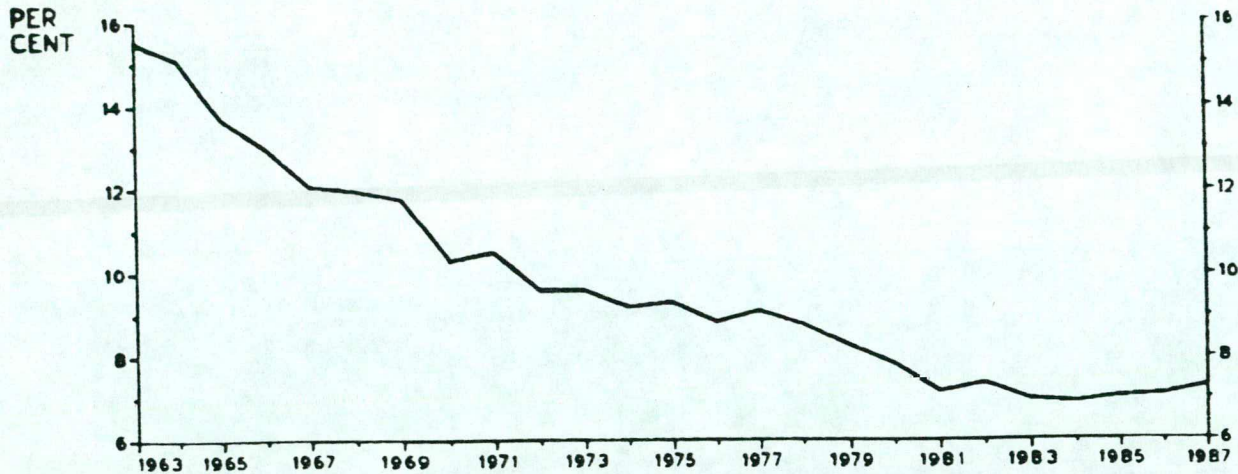


CHART 3: EXPORT WEIGHTED EXCHANGE RATE INDEX (1975=100)



course, coincides with the general recovery in profitability in manufacturing. The recovery in export profitability, during a period when the long term decline in the UK's share of total world trade in manufactures has been halted (Chart 4), is the clearest possible evidence that competitiveness has improved.

CHART 4: UK SHARE OF VOLUME OF WORLD TRADE IN MANUFACTURES



5. The fact that this general improvement in competitiveness is not reflected in measured cost or price competitiveness implies an improvement in 'non price' factors which are not taken account of in the conventional measures. These factors include quality, design, reliability, continuity of supply and delivery time. Many of them cannot be measured directly though there is no doubt that all these aspects of industry's supply performance have improved in the 1980s.

6. An example of this is the reduction in the average number of days lost through strikes compared with the late 1970s. This has been accompanied by a sharp reduction in the proportion of respondents to the CBI survey reporting delivery dates (compared with overseas competitors) as a constraint on export orders - this has averaged 14 per cent over the past year compared with 18 per cent in 1978 and an average of 25 per cent in the 1970s (Chart 5).

7. It is important to interpret the responses to this question with care. The fall in 1980 probably reflected the fall in export order books at the time, rather than improved efficiency. However the absence of any significant rise in delivery problems since 1981, despite the strong rise in capacity utilisation and export order books over this period (Chart 6) seems a clear indication of improved underlying performance.

CHART 5. Firms reporting delivery dates as constraint on export orders

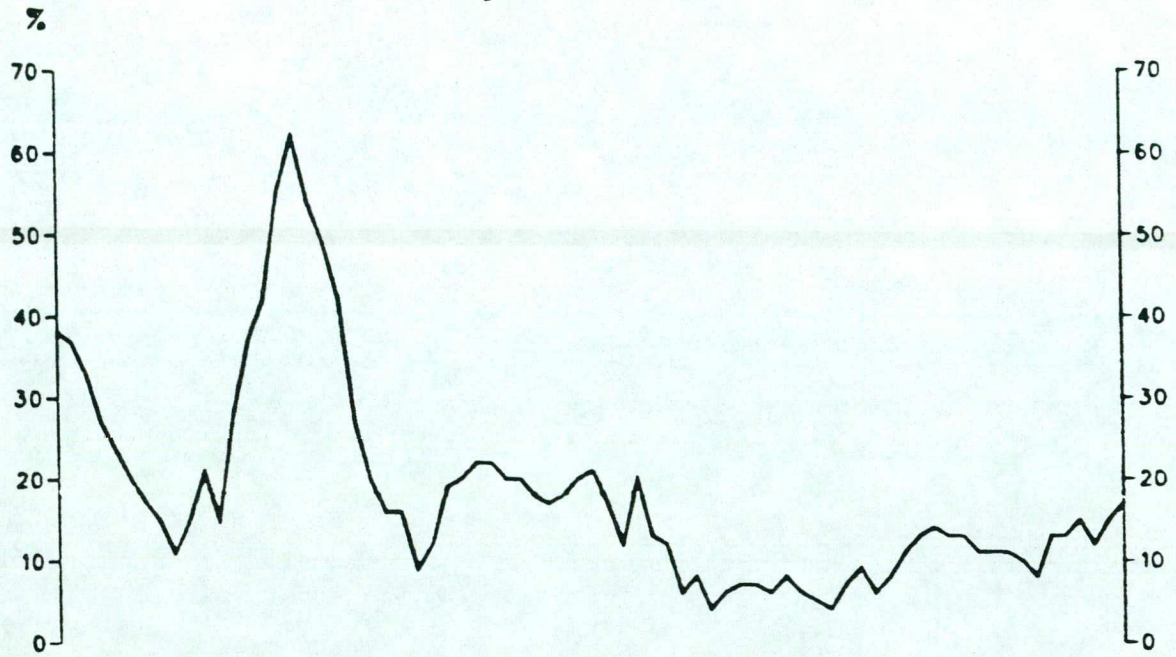
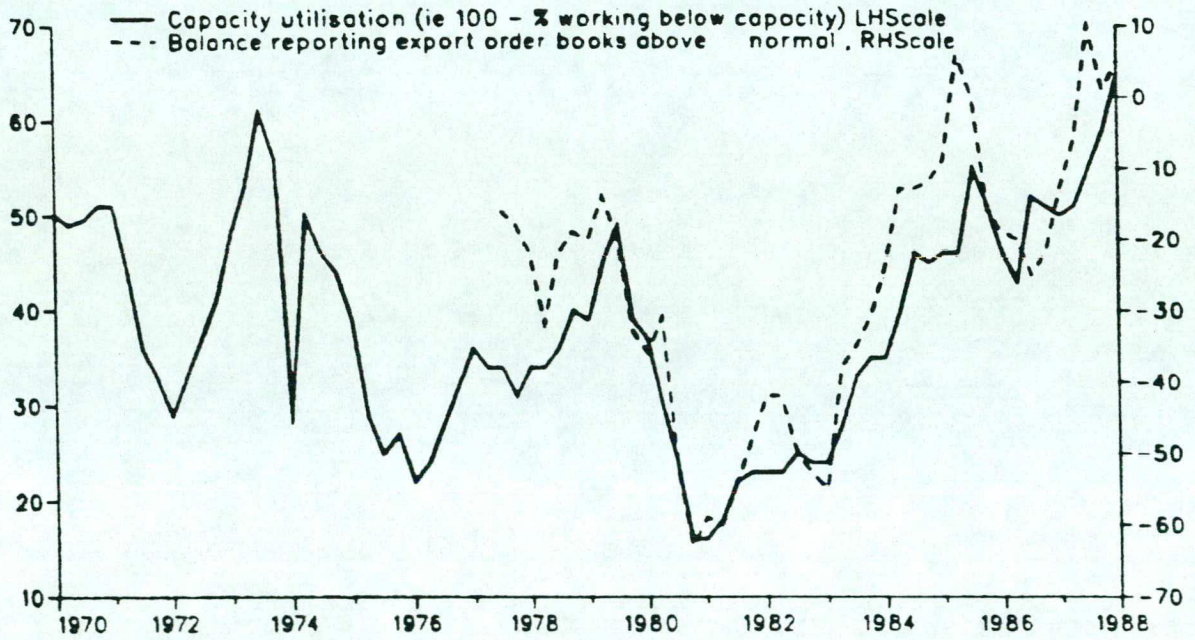


CHART 6. Export orders and Capacity Utilisation

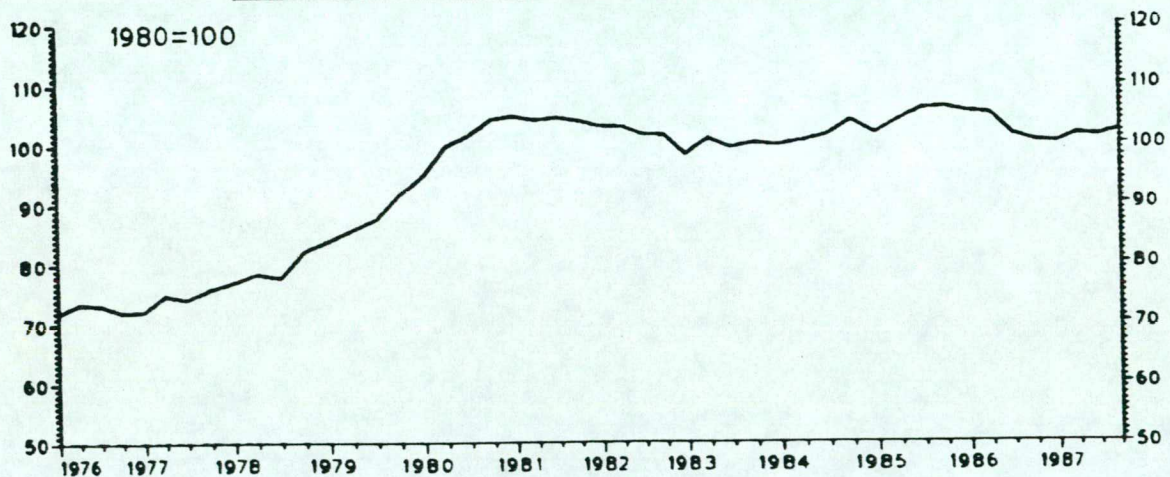


problems with measures of price and cost competitiveness

8. The discussion so far indicates that commonly used competitiveness measures do not provide a complete picture of overall industrial competitiveness and, on their own, can be very misleading. A number of factors are responsible for this.

- (i) Changes in competitiveness which result from fluctuations in the exchange rate are given equal weight with changes in domestic costs. But, whereas changes in relative costs in domestic currencies are likely to be sustained, exchange rate movements are often only temporary. In recent years the performance of domestic costs has improved substantially: in the second half of the 1970s UK unit labour costs rose much more rapidly than costs in other countries, but during the 1980s they have risen broadly in line with costs elsewhere (Chart 7). Although earnings growth has remained higher in the UK than elsewhere, UK relative costs have been held down by the marked improvement in relative productivity performance.

CHART 7: RELATIVE UNIT LABOUR COSTS IN DOMESTIC CURRENCIES



- (ii) When, as in recent years, improved supply performance leads to better non price competitiveness, the resulting improvement in trade performance may well be reflected in a firmer exchange rate or in higher earnings. This improves the terms of trade but shows up as a deterioration in measured competitiveness. By contrast, in the 1970s poor supply performance contributed to a steady decline in the UK's share of world trade, a depreciating currency and accelerating inflation. Japan provides a striking example of a country which has remained highly competitive through supply side flexibility, and as a result has experienced a strong balance of payments and a steadily appreciating currency but deteriorating price and cost competitiveness.

(ii) The usual measures of cost competitiveness relate only to costs in the manufacturing sector. However the contribution which the service sector makes to UK exports, either directly or indirectly through inputs to the manufacturing sector, is now roughly the same as that of manufacturing.

Conclusions

9. The following points could be used to rebut Mr Gould's claims:

(i) In 1980s long term decline in UK share of total world trade in manufactures has been halted while manufacturers have raised profitability, and especially profitability of exports, to higher level than seen for 20 years - irrefutable evidence that competitiveness greatly improved compared with 1970s.

(ii) Improvement reflects better supply performance

- marked rise in underlying growth of UK manufacturing and non manufacturing productivity, compared to 1970s and compared to other countries

- improvement in non price factors, eg quality, reliability delivery dates.

(iii) Narrow measures of price and cost competitiveness misleading because they give equal weight to changes in exchange rate and domestic costs - fluctuations in exchange rate often temporary, eg measured competitiveness peaked at end 1976, but reflected poor trade performance and resulting lack of confidence in sterling. Depreciation contributed to rising inflation, and by mid 1979 cost competitiveness had deteriorated by around 35 per cent. Better to look at changes in unit costs in domestic currencies: in late 1970s UK costs rose much faster than those overseas but since 1980 have grown on average at broadly the same rate in the UK as in other major industrial countries.

(iv) Improved supply performance in 1980s has led to present strong exchange rate and low inflation. Firm exchange rate in no way inconsistent with strong trade performance if non price factors improving - as demonstrated by Japan which has had strong balance of payments and appreciating currency for many years.

UNCLASS

Ref



FROM: A P HUDSON
DATE: 7 March 1988

MR D W OWEN

- cc Sir P Middleton
- Sir T Burns
- Mr Byatt
- Mr Odling-Smee
- Mr Sedgwick
- Mr Bottrill
- Mr Hibberd
- Mr S J Davies
- Mr R I G Allen
- Mr Pickford
- Mr Patterson
- Miss Simpson
- Mr C M Kelly
- Mr Tyrie

UK COMPETITIVENESS

The Chancellor is grateful for the note attached to your 4 March minute, which he thought was useful.

2. He has commented that the briefing should zero in on three issues:

- (a) the only reliable indicator of all-round competitiveness is the share of world trade, where the UK has shown a dramatic improvement, with the share holding steady after decades of decline;
- (b) on the Alice-in-Wonderland basis used by Mr Gould, which depends overwhelmingly on exchange rate movements, the country that has really become uncompetitive is Japan;
- (c) is Mr Gould advocating a devaluation of sterling? And if so, by how much?

APH

A P HUDSON

CONFIDENTIAL

dti

the department for Enterprise

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Pmp

Mr P N Sedgwick
HM Treasury
Parliament Street
London

Department of
Trade and Industry

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Direct line 01 215 4872
Our ref
Your ref
Date 10 March 1988

Dear Peter

THE SIGNIFICANCE OF MONTHLY TRADE FIGURES

1 There seems to be more than one perception of the significance of monthly figures of visible trade, in Whitehall as well as outside. The Treasury's press handling of the monthly figures could be better. A new low was reached when last week's Economist referred to a "...bungled change in the method of recording imports and exports". Even the seasonal adjustment excuse was paraded by some commentators (for a month when the seasonal adjustment factors are more up-to-date than any other). These explanations seem to have convinced few analysts and commentators, and at the same time offended colleagues in Customs and DTI who have been working weekends and evenings for the past three months or so to keep the show on the road in the face of Customs '88 and other major changes to the information system.

2 The present arrangements seem tailor-made to cause irritations and recriminations every month, out of all proportion to the importance of a single month's figures. I suppose the root of the problem is that City analysts have persuaded market-makers that monthly figures are important: as a result they try to predict the monthly trade balance to the nearest £100 million, which from a statistical point of view is a derisory activity. An indication of the low level of understanding is at a recent press conference a DTI Statistician was asked to explain why the monthly outturn was different from City expectations, with the implication that we calculate it wrong and they guess it right!

3 I think we badly need a considered appraisal of the significance of month-to-month changes in trade figures - indeed short term movements generally - separating the statistical, economic, market and political aspects. This letter is directed mainly towards the first of these: it is of course for the Treasury to take the lead in formulating a coherent policy on the other three, but we would like to be taken into your confidence.

the
Enterprise
initiative

Seasonal adjustment

4 Some of the comments emanating from the Treasury recently get very close to suggesting that we should abandon seasonal and length of month adjustments altogether and that you would prefer the raw figures to be the main focus of attention. Is this being advanced as a serious proposition? I attach as **Annex A** for your information a chart showing the effect of these adjustments (it was prepared for last week's Thames TV programme). There is also continuing criticism of our seasonal adjustment methods and far too often these criticisms are fed to the press - in a seemingly desperate attempt to rubbish each set of 'bad' figures.

5 However, I am the first to acknowledge there are alternative ways of seasonal adjustment, and other smoothing techniques can be tried. With improved computer facilities here, and the workload of Customs '88 and other changes behind us, later in the year we can look at the pros and cons of introducing them. 'Month of shipment' data are now coming through from Customs and I hope we can make good use of them. I assume you would like to be involved in these developments; we are also considering holding a half-day seminar on the statistical aspects of the trade figures and inviting some analysts and journalists.

Underlying trends

6 From a purely statistical point of view, I am convinced of the value of our work on underlying volume trends and, when resources permit, would like to extend it to other visible trade series. This is one way to overcome the markets' obsession with monthly figures and correct misleading trends that often are implied by simple three-month on three month comparisons.

7 The letter to the Chancellor of the Exchequer from my Secretary of State dated 3 March referred to an analysis we have prepared here of the track record of volume trend statements over the last three years. This is attached as **Annex B**. The charts plot the seasonally adjusted figures and the trend as viewed now. The statements about trends were of course made only with the information available at the time. The wording of the statements is, quite rightly, only finalised after discussion with Treasury officials, but this process tends to lead to caution in identifying changes of trend. As a result we are occasionally slow to report changes, where, as for imports in 1986, they are weak and slow to establish. Excluding cases where identification of small changes in underlying level was late rather than wrong, the statement could be regarded as misleading in only about 6 out of 72 occasions. I think you will agree that, in handling such a volatile series, this is a good performance. I do not think the success rate would have been so high if we had relied solely on three-monthly comparisons.

8 I turn now to the analysis of the 1987 trend statements included in the Chancellor of the Exchequer's letter of 22 February. As mentioned above, the process is sometimes slow to identify turning points (downturns for exports and upturns for imports as well as upturns for exports and downturns for imports). However, the renewed rise in exports was first picked up in the September figures (not the October figures as implied in the letter) and would probably have been picked up earlier still if the August observation had not, with hindsight, been erratically low. The third paragraph of the Chancellor's letter states that the press notice was slower to pick up the rise in exports than imports. The latest analysis of trends plotted in Annex A show that the underlying level of imports started to rise two to three months earlier than exports, so last year's press notices were not misleading anybody. The buoyancy of imports relative to exports in the Spring and early Summer is also exhibited in an examination of centre-plotted moving annual totals, and the earlier pick-up of imports is seen clearly in three month-on-previous three month comparisons (see **Annex C** and **Annex D** respectively).

9 The Treasury letter says "for several months exports were depicted as flat or falling while imports rose". That situation prevailed for only 8 weeks (from 1.9.87 to 23.10.87), as the press notice carrying the July figures (the first to report the upturn in imports) was one of those delayed by the Customs strike: in fact the upturn in imports occurred two to three months before that. I attach at **Annex E** the trend analysis we did when we had the May figures, which showed the beginning of the upturn in imports: this was reinforced in the analysis of the June figures but, deferring to Treasury susceptibilities, was not reflected in press notice text until the July figures were released. Accusations of DTI bias do not stand up to close examination.

10 The Treasury appears still to be disputing the existence of a pause in export growth at the beginning of 1987. One supporting piece of evidence, which the Treasury sometime uses, is the CBI's trends survey. I attach at **Annex F**, a chart of the CSO's seasonally adjusted analysis of expectations about export order books which suggests that export performance levelled off during the first part of 1987.

11 The seasonal adjustment and trend-seeking model we use for the trade figures is deliberately chosen to be capable of picking up turning points and changes in trend within a twelve month period, and makes use of information for the last six months or so. I have the impression that Treasury economists would prefer to introduce a radically different model which would smooth out turning points and changes in gradient and, in particular, would be less capable of capturing significant movements over the last twelve months. We could experiment with using say a 23-term Henderson rather than the 13-term Henderson presently used, which would have the effect of focusing more on changes lasting about a year or more. But first it is for you to say why you wish to suppress information on intra-year movements. Is the Treasury saying these have no economic significance, or are there other reasons?

12 One final point. In concentrating attention on statements about trends in recent months I think the Treasury is aiming at the wrong target. There would be more sense in developing a long-term policy towards dissuading the markets and media from getting over-excited about a single month's balance of trade in money terms. Our proposals for de-emphasising the monthly figures in the press notice text is a step in this direction but maybe we could go further.

13 As soon as you are free from Budgetary matters we are ready to come over and discuss all this with you and others, preferably at a time when none of us are preoccupied with a particular set of monthly figures.

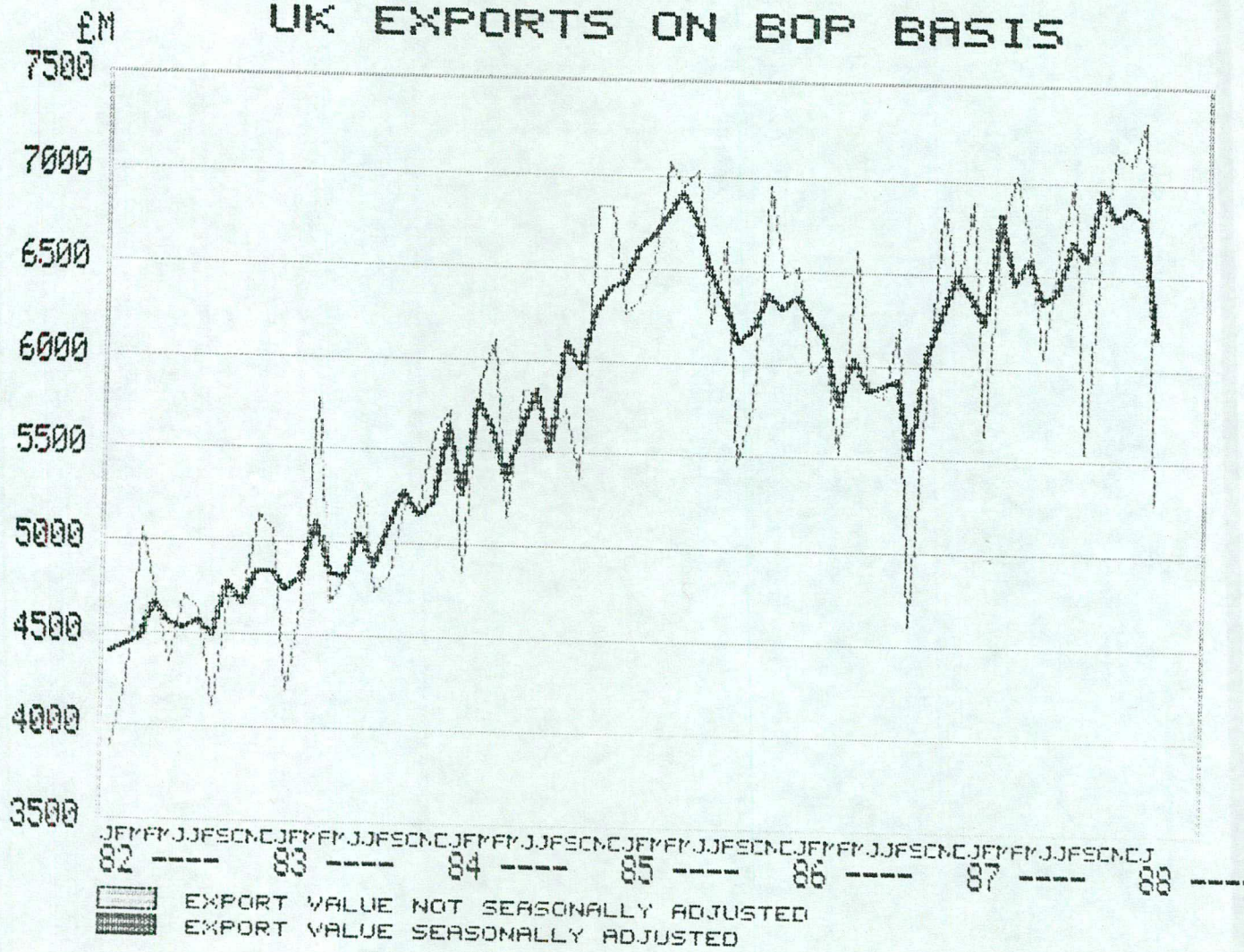
14 Copies of this go to Richard Allen and Alex Allan in the Treasury; Jack Hibbert in the CSO; also Philip Nash and Mitch Pratt at Customs.

Yours sincerely

Peter Silson

P J STIBBARD

UK EXPORTS ON BOP BASIS



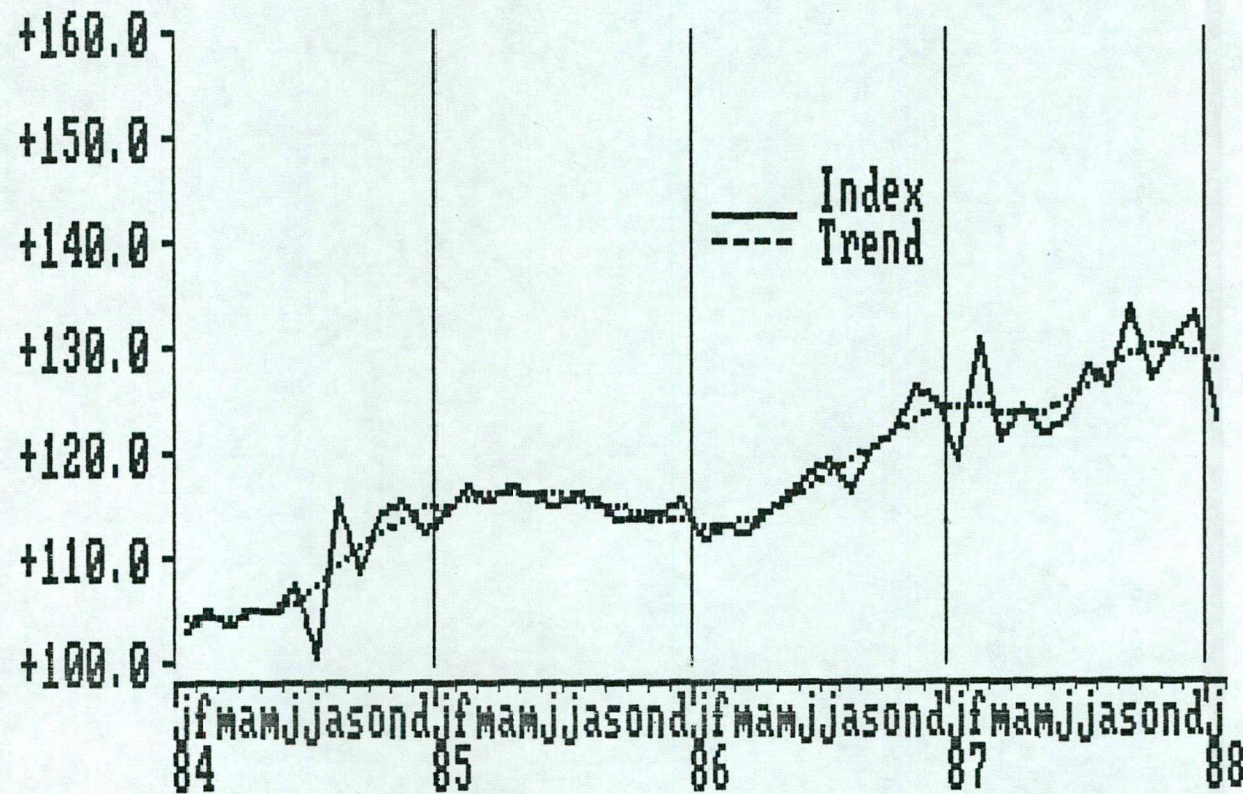
Summary of statements on trends in Press Notices 1985-87

Export volume

	description of 'underlying level'
1985	
Jan	continues the rise in recent months
Feb	remains high
Mar	rising since middle of 1984, remains high
April	rising since middle of 1984, remains high
May	rose strongly in second half of 1984, little change in recent months
June	little change in last 6 months
July	may have fallen slightly in recent months
Aug	appears to have been falling in recent months
Sept	continues to decline, although well above a year ago
Oct	declined, but rate of fall may be diminishing
Nov	appears to have flattened out after decline from Q1 level
Dec	appears to have risen a little in recent months
1986	
Jan	difficult to determine
Feb	stronger signs - fallen a little in recent months
Mar	fallen in recent months
Apr	gradual decline which began mid-85 continued so far in 86
May	trend flat in last few months
June	risen a little in recent months
July	recent growth continues
Aug	continues to show signs of having increased
Sept	rising over last 6 months or so
Oct	upward trend established earlier in year continues
Nov	upward trend continues
Dec	upward trend continues
1987	
Jan	upward trend continues
Feb	growth appears to have continued
Mar	figures volatile but suggest level remained at high level of end 1986
Apr	slightly below high level of end 1986
May	in recent months ... fallen back slightly from high level at turn of year
June	settled a little below high level of end 86
July	remains close to high level of end 86
Aug	continues to remain close to high level of end 86
Sept	seems to have been rising, above high level of end 86
Oct	rising for over 6 months - well above high level of end 86
Nov	rising steadily in latest 6 months
Dec	rose steadily in second half of 1987

TOTAL EXPORTS LESS OIL & ERRATICS

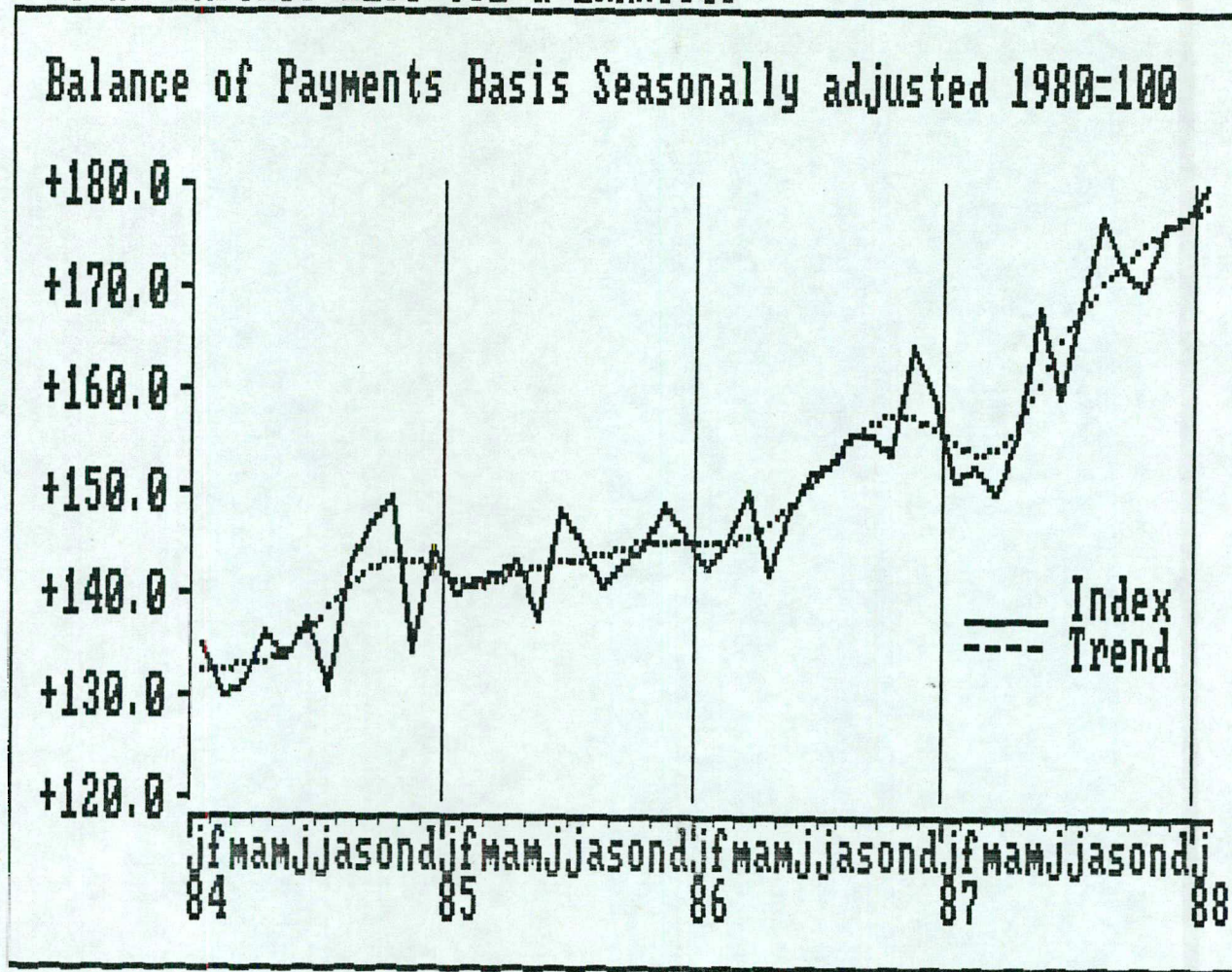
Balance of Payments Basis Seasonally adjusted 1980=100



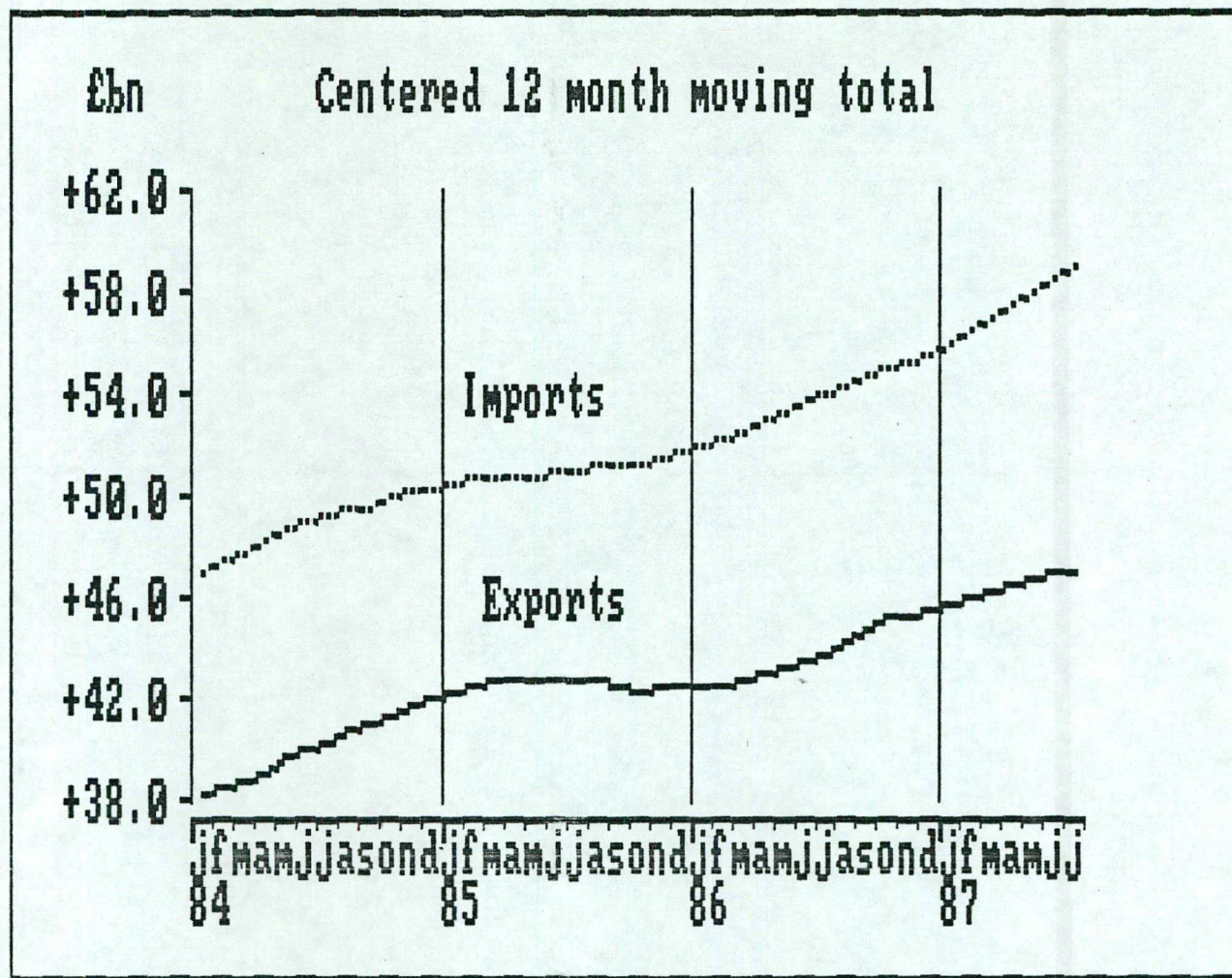
Import volume

	description of 'underlying level'
1985	
Jan	may have been levelling out in recent months
Feb	has been levelling out in recent months
Mar	little change in recent months
April	unchanged in recent months
May	remains unchanged
June	remained flat since end of last year
July	continues to show little change
Aug	appears to be little change over last few months
Sept	little change over last few months
Oct	fluctuations, but strong indications of rise earlier in the year
Nov	rising in recent months
Dec	rising in recent months
1986	
Jan	does not appear to be significant change in recent months
Feb	little change in recent months
Mar	appears to be little change over past few months
Apr	appears to have changed little since summer
May	little change in recent months
June	signs of having risen a little in recent months
July	continues to rise
Aug	continues to rise
Sept	recently growing rapidly
Oct	rising rapidly in recent months but now signs of slackening in growth
Nov	seemed to be flattening out but November figure re-establishes upward trend
Dec	upward trend continues
1987	
Jan	upward trend continues
Feb	level may have stabilised
Mar	exceptionally volatile, but level appears to be below Q4 1986
April	fallen away from high level of end 1986
May	too early to assess whether sharp increase in May indicates change
June	tentative assessment .. flat during first half 1987, slightly below Q4 1986 peak
July	appears to have been increasing in recent months
Aug	appears to have been rising strongly in recent months, above 86 but may be erratically high
Sept	has been rising in recent months, above end 86
Oct	continues to rise following slight fall at beginning of 1987
Nov	upward trend since Spring seems to have continued in recent months
Dec	upward trend since Spring has continued in recent months

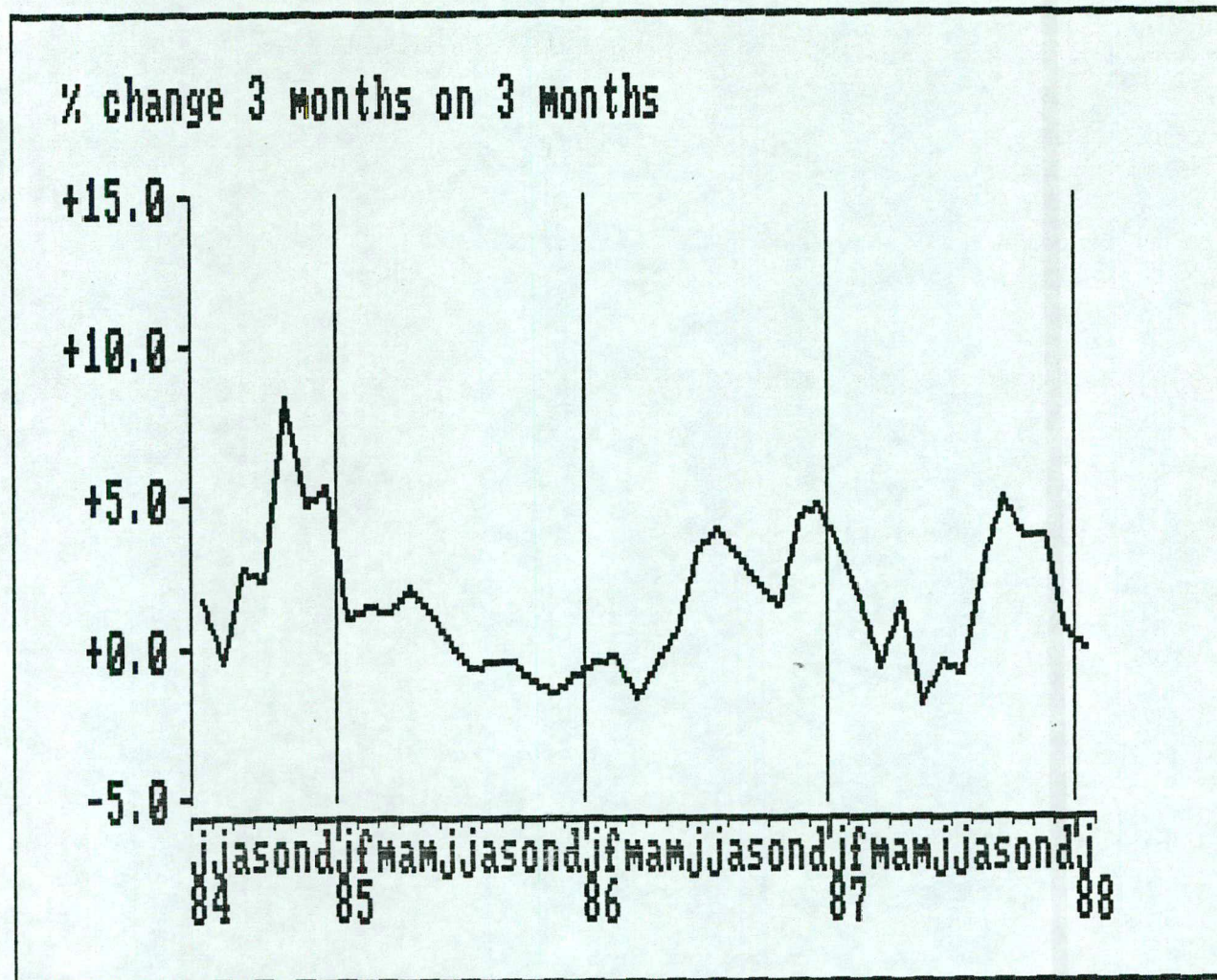
TOTAL IMPORTS LESS OIL & ERRATICS



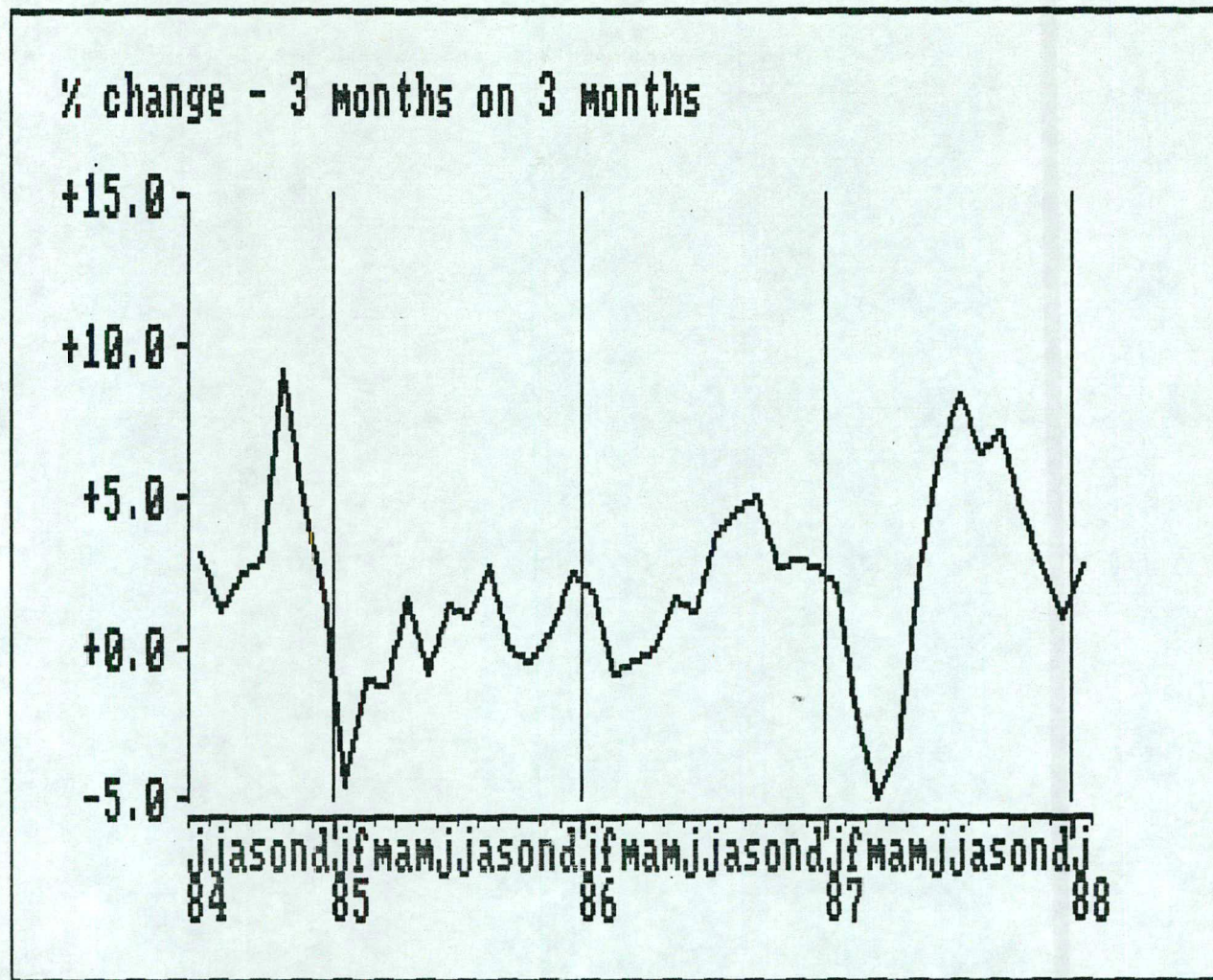
TOTAL LESS OIL & ERRATICS at 1980 PRICES (nsa)



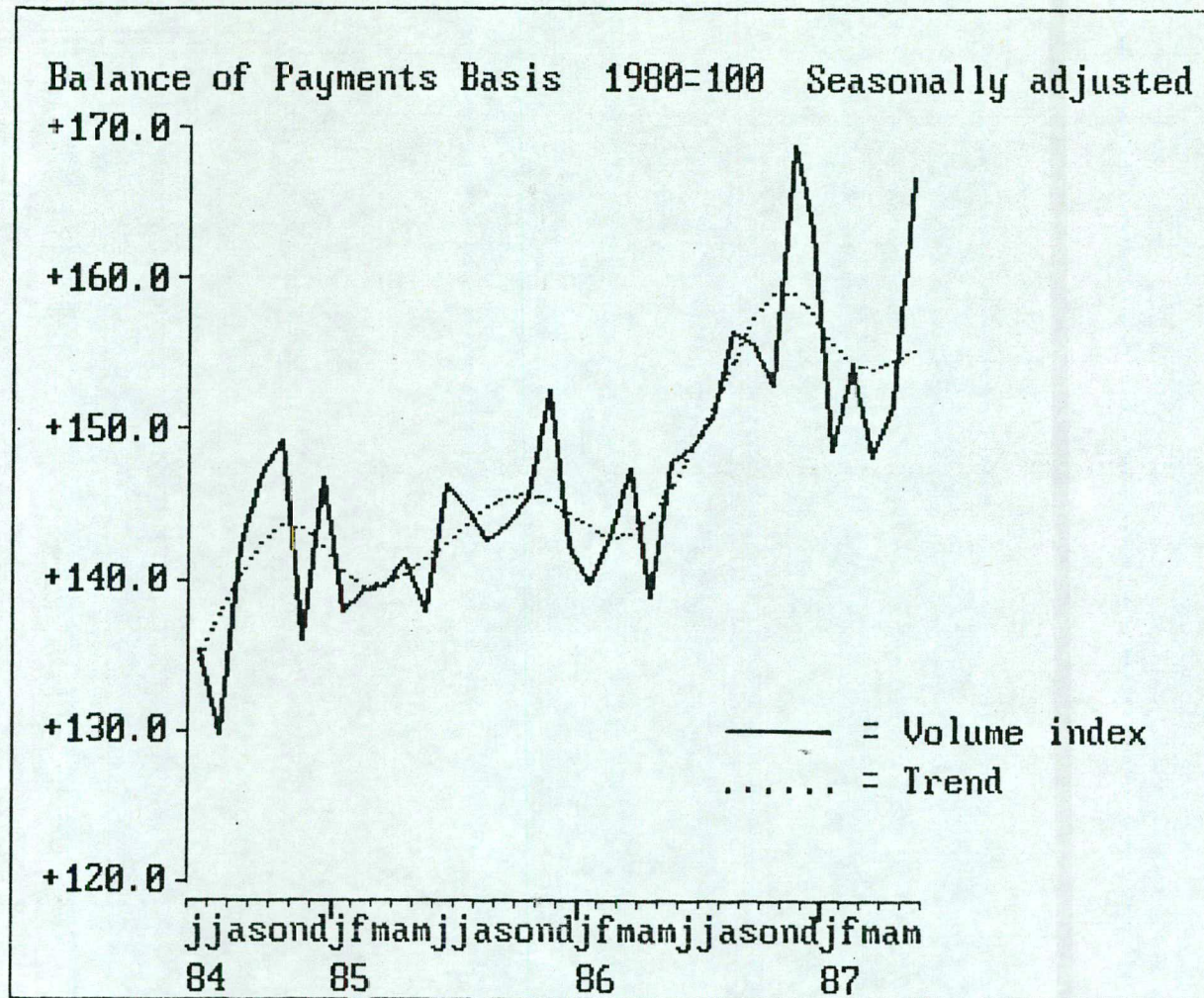
EXPORTS LESS OIL & ERRATICS at 1980 PRICES (SA)



IMPORTS LESS OIL & ERRATICS at 1980 PRICES (SA)

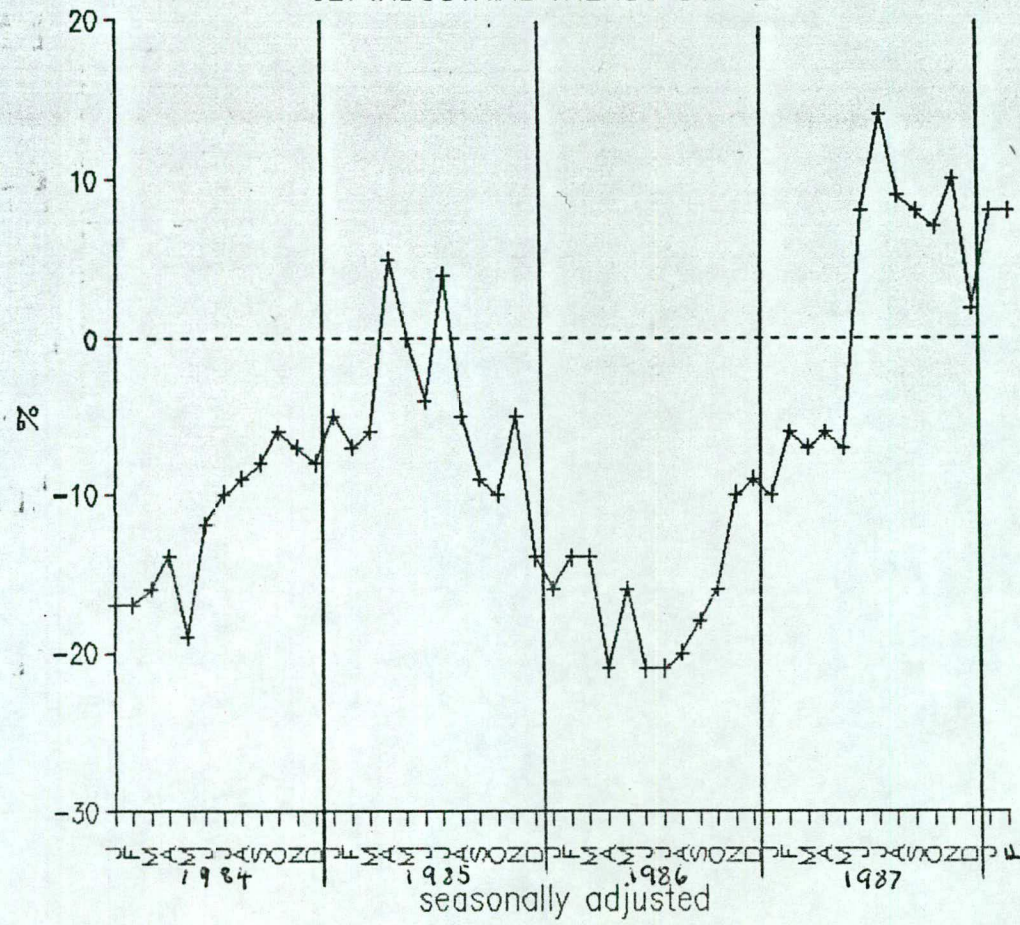


IMPORTS LESS OIL & ERRATICS



SECRET & PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 22.7.87

EXPORT ORDER BOOK ABOVE NORMAL
CBI INDUSTRIAL TRENDS SURVEY



CONFIDENTIAL

dti

the department for Enterprise

prop

To Minister for Trade

Copy No. 3 (28)

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

17 March 1988

OVERSEAS TRADE FIGURES FOR FEBRUARY: EXPORTS

The timetable for the February figures requires me to report exports to you today. The basic figures have been received on time from HM Customs but, particularly in view of the administrative changes at the beginning of the year, we are scrutinising them even more closely than usual. To allow more time for this, I now intend to report the export figures on Monday 21 March, at the same time as the import figures and the resulting balance of trade.

P J STIBBARD

Ch
v strange - I'll try
to find out what's going
on.
Yes indeed. (from Saturday, New -
as a Fri)
AA

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	Chancellor of the Duchy of Lancaster	
	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 and Excise	
	11	Mr J Hibbert (CSO)	
	12	Mr M J Pratt (HM Customs and Excise)	
	13	Mr B Buckingham (CSO)	
	14	Mr Davies (HM Treasury)	
	15	Mr Young (HM Treasury)	
	16	Mr P Sedgwick (HM Treasury)	
	17	Mr D Owen (HM Treasury)	
	18	Mr A McIntyre (CSO)	
	19	Mr D Wilson (Dept. of Energy)	
	20	Mr Bottrill (HM Treasury)	
	21	Mr H H Liesner)
	22	Mr P J Stibbard)
	23	Mr W E Boyd)
	24	Mr W J Wright) Dept. of Trade and Industry
	25	Mrs A Brueton)
	26	Miss H Chapman)
	27	Mr M Rajput)
	28	Mr C Martin)

A difficult set of figures to explain. We suspect the export figures may be too low - but we cannot prove it. This suggests we must remain firmly agnostic about the figures in public.

FROM: PAUL DAVIS

DATE: 23 March 1988

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

cc: See attached list

ADG.
23/3 . Ch/Content with press briefing behind? mpu

FEBRUARY TRADE FIGURES

The February trade figures will be published at 11.30 am on Friday 25 March. They will show a deficit on visible trade of £1320 million. Combined with an unchanged CSO projection of the monthly invisibles surplus of £600 million, they give a projected current account deficit of £720 million in February compared to a revised deficit of £844 million in January. The increased deficit reflects a recorded fall in export volumes of 2 per cent since January and a 2½ per cent fall in import volumes. The terms of trade improved by ½ per cent between January and February.

Main points

2. Current account

£ million

	1986 Year	1987 Year	1987 Q1	Q2	Q3	Q4	Dec	1988 Jan	Feb
Manufactures	-5307	-6542	-730	-1581	-2109	-2122	-640	-1299	-1070
Oil	4056	4184	1159	1016	936	1073	346	361	316
Other goods	-7212	-7267	-1640	-1752	-1936	-1939	-716	-506	-566
Total visibles	-8463	-9625	-1211	-2317	-3109	-2988	-1010	-1444	-1320
Invisibles	8509	7946	2010	2017	2213	1706	569	600*	600*
Current balance	46	-1679	799	-300	-896	-1282	-441	-844	-720

* Invisibles figures since January are projections

3. The February figures - like those for January - need to be interpreted with caution. We have scrutinised carefully with both Customs and DTI the collection and processing of figures following the introduction of new Customs procedures on 1 January. We are satisfied that all documents received by Customs have been processed correctly and subjected to reasonable validation and credibility checks. Contacts by Customs with ports and trade associations reveal no shipments delayed by documentation problems. There remains a residual

query as to whether some traders may be late in sending export documents to Customs - although this would be very unlikely to explain the sharp falls in January and February. The ferry operators' strike in early February is likely to have affected exports more than imports although most shipments from Dover were apparently rerouted by neighbouring ports. DTI assess that the Ford strike had a minimal effect on exports in February, reducing them only by around £5 million, but suspect that the impact on imports - in both January and February - has been more substantial, although they are unable to quantify the effect at present.

4. Exports	percentage change			1987 on 1986
	Feb on Jan	Latest three months on previous three months	Latest three months on same period year earlier	
Total value	-½	-7	-1½	9½
Total value excl. oil and erratics	-2	-4	2½	10½
Total volume	-2	-3½	-1	6
Total volume excl. oil and erratics	-3	-3½	½	7½
Manufactures volume (excl.erratics, OTS basis)	-2½	-4	3½	9
Fuels volume (OTS)	-7½	9½	2	-1
Basic materials volume (OTS)	-20	1	-19	7
Food, drink and tobacco volume (OTS)	5	-9	-12	0

5. Recorded export volumes, excluding oil and erratics, fell by 3 per cent in February, bringing the average for January and February together to a level 6½ per cent below the fourth quarter of last year. The recorded fall in exports of manufactures (excluding erratics), was even steeper at 8 per cent over the same period. In the three months to February, however, total non-oil exports (excluding erratics) were broadly unchanged from a year ago with a 3½ per cent rise in exports of manufactures (excluding erratics) largely offset by a steep fall in exports of non-manufactures.

6. The uncertain quality of the January and February figures makes it difficult to assess whether the underlying upward trend in exports in the latter half of 1987 has changed. It would perhaps not be surprising to see some slowdown in growth in view of the loss of competitiveness and projected slower growth in world trade - but the extent of the recorded fall in exports is hard to reconcile with other evidence from the CBI survey and manufacturing output.

7. Imports

	percentage change			1987 on 1986
	Feb on Jan	Latest three months on previous three months	Latest three months on same period Year earlier	
Total value	-2	-1½	9	10
Total value excl. oil and erratics	-3½	-½	10½	10½
Total volume	-2½	0	11	7½
Total volume excl. oil and erratics	-4	½	13	9
Manufactures volume (excl. erratics, OTS basis)	-5	0	16	10
Fuels volume (OTS)	-9	-3	-6	1½
Basic materials volume (OTS)	8	-5½	-9	10½
Food, drink and tobacco volume (OTS)	3	6	4½	½

8. Recorded import volumes, excluding oil and erratics, fell by 4 per cent in February to bring the average for January and February to 1½ per cent below the fourth quarter level. The falls in imports in January and February were widespread with the exception of passenger car and capital goods imports which both rose. The exceptionally low level of imports in the early months of 1987 when coupled with the growth during the year is reflected in the fact that recorded non-oil imports (excluding erratics) in January and February were 13 per cent higher than a year earlier with manufactures 16 per cent higher more than offsetting a fall in imports of basic materials.

9. The recorded import figures for January and February look erratically low - but the quality problems with the data are

apparently less severe than in the case of exports. This might lend some weight to the view that import growth has slowed in recent months - but it is too early to say this with any confidence.

Geographical area

10. The value of exports to developed countries fell by $9\frac{1}{2}$ per cent in the three months to February compared to the previous three months reflecting a 15 per cent decrease in exports to Japan and a 13 per cent fell in exports to the EC, though exports to the USA rose by $2\frac{1}{2}$ per cent, maintaining their recovery. Exports to developing countries fell by $8\frac{1}{2}$ per cent over this period, with in particular a 13 per cent fall in exports to oil exporting countries.

Trade prices

	percentage change		
	latest three months on previous three months		
	<u>Export prices</u>	<u>Import prices</u>	<u>Terms Trade</u>
Manufactures (excl.erratics)	1	0	
Food, drink, tobacco	$-1\frac{1}{2}$	$\frac{1}{2}$	
Basic materials	$\frac{1}{2}$	$\frac{1}{2}$	
Fuel	-15	-10	
Total (BOP basis)	-1	$-1\frac{1}{2}$	$\frac{1}{2}$
Total less oil (BoP basis)	0	$-\frac{1}{2}$	$\frac{1}{2}$

11. In the three months to February both the total terms of trade and the non-oil terms of trade improved by $\frac{1}{2}$ per cent compared to the previous three months (as measured by unit value indices). Over this period the terms of trade may have been boosted by sterling appreciation which appears broadly to have offset the effect of rises in non oil commodity prices. (NB: the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights.)

Assessment

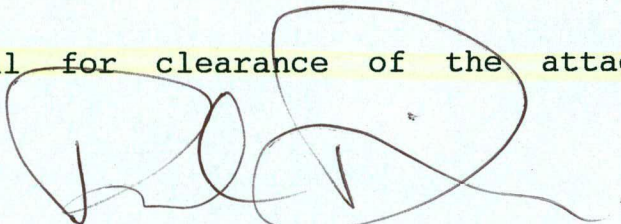
12. The FSBR forecast a £4 billion deficit on the current account in 1988 and 1989H1 (at an annual rate) implying average monthly deficits of £300-£400 million. The recorded current account deficits in January and February are clearly well above this figure. We are inclined to reserve judgment on the underlying current deficit until it is clear whether recent monthly figures have been distorted.

Market expectations

13. The market expectation is for a current account deficit of around £370 million in February. The February deficit is therefore very much larger than anticipated by the City.

Press briefing

14. I would be grateful for clearance of the attached press briefing.



PAUL DAVIS
EA2

DRAFT BRIEFING FOR IDT

Positive

1. Current account deficit in 1987 as a whole currently estimated at £1.7 billion. Small as percentage of GDP ($\frac{1}{2}$ per cent) and much smaller than imbalances in mid 1970s. FSBR forecast of £4 billion deficit in 1988 still less than 1 per cent of GDP.
2. Export order books CBI February Survey showed balance of firms reporting order books above normal at historically high level.
3. Manufacturing industry performing well. Volume of manufacturing exports (excluding erratics) $3\frac{1}{2}$ per cent higher in ~~three months to~~ *February than a year ago.* Output up 6 per cent comparing three months to January with a year earlier.

Defensive

1. February current account figures *(may be?)* distorted. Figures for February - like January - need to be interpreted with even greater caution than usual because of changes in the information system. The ferry operators' strike beginning in early February may also have affected trade flows. Prudent to wait until later months figures available before deciding whether pattern of trade distorted in January and February.
2. February current account deficit high. Monthly figures highly volatile - fall inconsistent with other evidence, eg February CBI survey shows balance of firms reporting export order books above normal at historically high level. Manufacturing output still growing strongly (1 per cent up in three months to January on previous three months).
3. Current account deficit still growing. Recent figures highly volatile. Prudent to wait for some months to assess trend.

4. January and February current account deficits imply FSBR forecast too optimistic. Much too soon to ~~be revising forecast.~~ ~~Recent figures highly erratic,~~ unwise to attach too much importance to deficits until we know whether they have been distorted.

5. Current account deficit forecast to rise in 1988. (FSBR forecast current deficit of £4 billion in 1988 compared to £1.7 billion out-turn in 1987.) Projected deficit in FSBR of £4 billion, less than 1 per cent of GDP - much smaller than deficit in mid 1970s (3-4 per cent of GDP). Latest outside forecasts (including NIESR and LBS) show similar deficit in 1988.

6. Current account deficit no longer "temporary" as Chancellor earlier claimed. Deficit reflects strong growth of UK domestic demand and activity in 1987 at a time of slow growth in many of our major export markets. Imports forecast to rise less rapidly in 1988 as a whole as domestic demand growth moderates. Good supply performance ~~is forecast to~~ allow manufacturers to take advantage of rising world trade.

7. Capacity constraint/overheating threatens current account performance. [CBI January survey reported only 35 per cent of firms working below capacity - lowest balance since survey began, but 87 per cent report capacity adequate over next year.] CBI concludes that economy not overheating and no evidence of significant labour or raw materials shortages developing. New export order books consistent with continued growth in manufacturing exports in current period. February survey shows balance of firms reporting export orders above normal at historically high level.

8. Exports falling while imports remain at high level. Recent figures for export and import volumes both erratic. Prudent to wait before assessing underlying trends.

9. Fall in export optimism. [CBI January survey showed sharp deterioration in export optimism with balance turning negative.] Balance of CBI firms still expects export orders and deliveries to rise in current period. February survey shows balance of firms reporting export order books above normal at historically high level.

10. Exports to fall in 1988? FSBR forecast is for UK broadly to maintain volume share of total world trade in manufactures, continuing improved performance which has been evident since 1981, following decades of decline.

11. Export fall in January and February shows sterling's recent strength has undermined competitiveness - fall in exchange rate needed. ~~No.~~ Competitiveness better than ~~and~~ 1985 before the fall in oil prices. Will not allow lower exchange rate to accommodate domestic cost increases.

12. Fall in invisibles surplus in 1987Q4. Estimate for 1987Q4 only preliminary. FSBR forecast is for further substantial invisibles surplus in 1988.

13. Invisibles forecast too optimistic. FSBR forecast shows invisibles remaining in strong surplus in 1988. Projected improvement between 1987 and 1988 reflects at least partly expected lower net payments abroad by North Sea companies.



From: S D H SARGENT

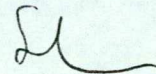
Date: 23 March 1988

MR BOTTRILL

cc PPS —
Sir T Burns
Sir G Littler
Mr Sedgwick
Mr P Davis

FEBRUARY TRADE FIGURES

Sir Peter Middleton was very grateful for your note of 21 March.



S D H SARGENT
Private Secretary

SECRET AND PERSONAL

PWP



FROM: MISS M P WALLACE

DATE: 24 March 1988

MR P DAVIS - EA

cc Mr Bottrill

FEBRUARY TRADE FIGURES

The Chancellor has seen your minute of 23 March. As I told you on the phone, he had a number of changes to the press briefing.

Defensive 1 - first sentence to read "February current account figures may be distorted".

Defensive 4 - answer to read "Much too soon to say. January figure known when forecast made. Unwise to attach too much importance to figures until we know...."

Defensive 6 - insert new sentence before existing first sentence of the answer, as follows: "1987 deficit first after seven successive years of current account surplus." Amend last sentence to read "Good supply performance should allow manufacturers..."

Defensive 11 - delete "No."

A handwritten signature in dark ink, appearing to read "Moira Wallace".

MOIRA WALLACE

Mr Davis.

Copy No. 5 (9)

THE CURRENT ACCOUNT - TABLE

2

Balance of payments basis
 £ million seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES: TOTAL	OIL	NON- OIL	INVISIBLE BALANCE
1986	46	72678	81141	-8463	4056	-12519	8509
1987	-1679	79622	89247	-9625	4184	-13809	7946
1986 Q4	-556	19161	21720	-2559	822	-3381	2003
1987 Q1	799	19530	20740	-1211	1159	-2370	2010
Q2	-300	19357	21674	-2317	1016	-3333	2017
Q3	-896	20235	23344	-3109	936	-4046	2213
Q4	-1282	20500	23488	-2988	1073	-4061	1706
1987 JUN	-121	6412	7205	-793	233	-1026	672
JUL	-253	6686	7677	-991	267	-1258	738
AUG	-687	6587	8011	-1424	359	-1783	737
SEP	43	6962	7657	-695	310	-1004	738
OCT	-353	6802	7724	-922	394	-1316	569
NOV	-488	6881	7938	-1056	332	-1388	568
DEC	-441	6817	7827	-1010	346	-1356	569
1988 JAN		6210					
FEB		6181					
DEC-FEB 87	0	19467	0	0	0	0	0
SEP-NOV 87	0	20646	0	0	0	0	0
DEC-FEB 88	0	19208	0	0	0	0	0

PERCENTAGE CHANGES:-

LATEST 3 MONTHS ON PREVIOUS 3 MONTHS	-7.0%	0.0%
SAME 3 MONTHS ONE YEAR AGO	-1.3%	0.0%
JAN-FEB87	0	13070
JAN-FEB88	0	12391

(obvious implications for
 exchange rate/interest
 rate policy).

Ch
 Awful. But
 diff to understand

*Post check that there is
 an immediate & through
 response at the
 consequence of SPM.*

AA

31/3/88. pyg

EXTRACT FROM OCT PRESS NOTICE

NOTES TO EDITORS

INVISIBLES

1 Estimates of invisibles are based on a variety of sources, mostly inquiries of those engaging in the various transactions. These are usually sample inquiries, and are variously held on quarterly, annual or periodical bases. For some components, data for recent periods are therefore incomplete and subject to significant estimation errors.

2 The figures shown for the invisibles balance in most months are the estimates for the relevant quarters, taken from the balance of payments accounts, expressed at a monthly rate. For the most recent months, however, the figures are projections, which are rounded to the nearest £100 million to emphasise their approximate nature. These projections are superseded by preliminary estimates from the balance of payments accounts when they are published around the middle of March, June, September and December. (This modifies the procedure described in the December 1986 issue of Economic Trends; a review of the timetable concluded that more time should be allowed to prepare these preliminary estimates to improve their quality and reduce the likelihood of revisions within relatively short periods). The press notice giving preliminary estimates up to and including the third quarter of 1987 will be published on 13 December.

ADJUSTMENT FOR UNPROCESSED DOCUMENTS

3 Following a further investigation by Customs and Excise into the effects of industrial action, adjustments have been made to take account of documents delayed from the period April to June and subsequently processed in August and October. These adjustments have been made to the Balance of Payments based figures (tables 1 to 7 and 16), but not to the OTS figures (tables 8 to 15). The amounts involved are as follows:

	<u>Adjustment for unprocessed documents</u>				£ million October
	April	May	June	August	
Exports	+30	+71	+67	-18	- 151
Imports	+63	+49	+38		- 150

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 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 £43 which includes the annual supplement. Individual copies are priced at £3, (£7 for the annual supplement).

STANDARD NOTES

5 There is a set of standard notes that describe the basis on which the figures in this Press Notice are compiled including the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) figures. Copies can be obtained from the address below.

Spore

88-03-31 12:16

#

262405 TRSY G

95183 GARCOT G

31/03/88 12:10 TLXA747

ATTN NIGEL LAWSON

TRADE FIGURES

THE REASON FOR THE PAST TWO MONTHS BAD TRADE FIGURES IS NOTHING TO DO WITH BAD EXPORTS BUT BAD LIASON AND INSTRUCTION BY HM CUSTOMS. FROM OUR OWN INVESTIGATIONS WE HAVE FOUND THAT THE SHIPPING LINES HAVE NOT BEEN INSTRUCTED CORRECTLY ON WHAT TO DO WITH COPY 2 (STATISTICAL COPY) OF THE NEW S.A.D. EXPORT DOCUMENT BY HM CUSTOMS, NOR HAVE HM CUSTOMS INSTRUCTED THEIR STAFF ON THE CORRECT PROCEDURE. THE END RESULT HAS BEEN THAT THIS COPY IS EITHER ACCOMPANYING THE GOODS OUT OF THE COUNTRY OR BEING THROWN AWAY BY THE SHIPPING LINES. I SUGGEST THAT AS A MATTER OF URGENCY YOU MAKE SURE THAT HM CUSTOMS GET THIS MATTER PUT RIGHT.

REGARDS
CHRIS BUNCH
DIRECTOR
GARDEN COTTAGE FOODS LTD

95183 GARCOT G*
262405 TRSY G



~~AA~~

I have discussed with
the Chief Economic Adviser.
The fact that, for the P.M.,
the ~~main~~ ~~work~~ ~~is~~ ~~done~~
by graduates ~~is~~

~~done~~ in the last 2
lines of para 3 ~~is~~
deleted, since the ^{two} ~~para~~
level of the 1st qtr is still
uncertain.

If the fact that you do
for, then, as a ~~fall back~~,
it goes to the ^{addition} ~~change~~,
Last mentioned in the 2 preceding
lincs. Mr.

SECRET AND PERSONAL until release of press notice on 29 April 1988
at 11.30 am and thereafter unclassified

To Minister for Trade

Copy No. 3. (28)

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

21 April 1988

Handwritten red scribble

21/4/88

OVERSEAS TRADE FIGURES FOR MARCH: EXPORTS

1 The value of exports in March, seasonally adjusted on a balance of payments basis, is estimated at £6.4 billion, £0.3 billion higher than in February. Exports of oil fell by £0.1 billion and exports of the erratic items rose by £0.1 billion. Excluding oil and the erratic items, exports rose by 5 per cent between February and March.

2 In the first quarter of 1988 the total value of exports decreased by 8 per cent compared with the previous quarter; excluding oil and the erratic items the decrease was 5 per cent.

3 In the first quarter of 1988, total export volume was 6½ per cent lower than in the previous quarter and 2½ per cent lower than in the same quarter a year ago. Excluding oil and the erratic items export volume was 5½ per cent lower in the latest quarter and ½ per cent lower than a year earlier. Notwithstanding some evidence of changes in the time-lags in recording exports now emerging from HM Customs (see paragraph 5 below), the underlying level of exports in the first quarter of 1988 seems to be well below that of the previous quarter and little changed from the first quarter of 1987.

four sacks
↓

it is clear that

get this out of mess above.

4 Recent export figures are shown in the attached table; charts plotting the main aggregates are also attached. A note describing imports and the current account will be circulated on Monday 25 April. The monthly press notice for March is scheduled for release on Friday 29 April.

Quality of the data

5 Although extensive audit checks of the export figures have so far failed to reveal serious underrecording or distortions in the monthly flow of information, there is now little doubt that exports since December 1987 have been affected to some extent by the new procedures for documenting trade introduced in January 1988. Further work by HM Customs indicates that some documents were submitted earlier than usual in December, thus inflating December's figures and reducing those for January. It is possible that further analyses will show that information for the early months of 1988 has been distorted by increased delays in returning documents after the introduction of Customs '88.



the department for Enterprise

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6 The ferry operators' strike at Dover was in progress during March, with exports being diverted to other Channel ports. The effect on the March export figures is thought to be negligible.

7 We are continuing to monitor other countries' trade figures. Recorded imports into France in January from the UK confirm the sharp fall which was shown in UK exports to France. Other EC countries have not yet published their January trade with the UK. In particular we are awaiting the West German figures.

8 Last Friday the CSO published figures for UK industrial output which showed an unexpected fall in February. In conjunction with S1 Division, we are examining the underlying details of these figures to see if they provide any reliable evidence that the fall was concentrated in export sales.

P J STIBBARD

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on 29 APR 88 at 11.30am and thereafter unclassified

Copy No... ()

=====

EXPORTS

(Balance of payments basis: seasonally adjusted)

=====

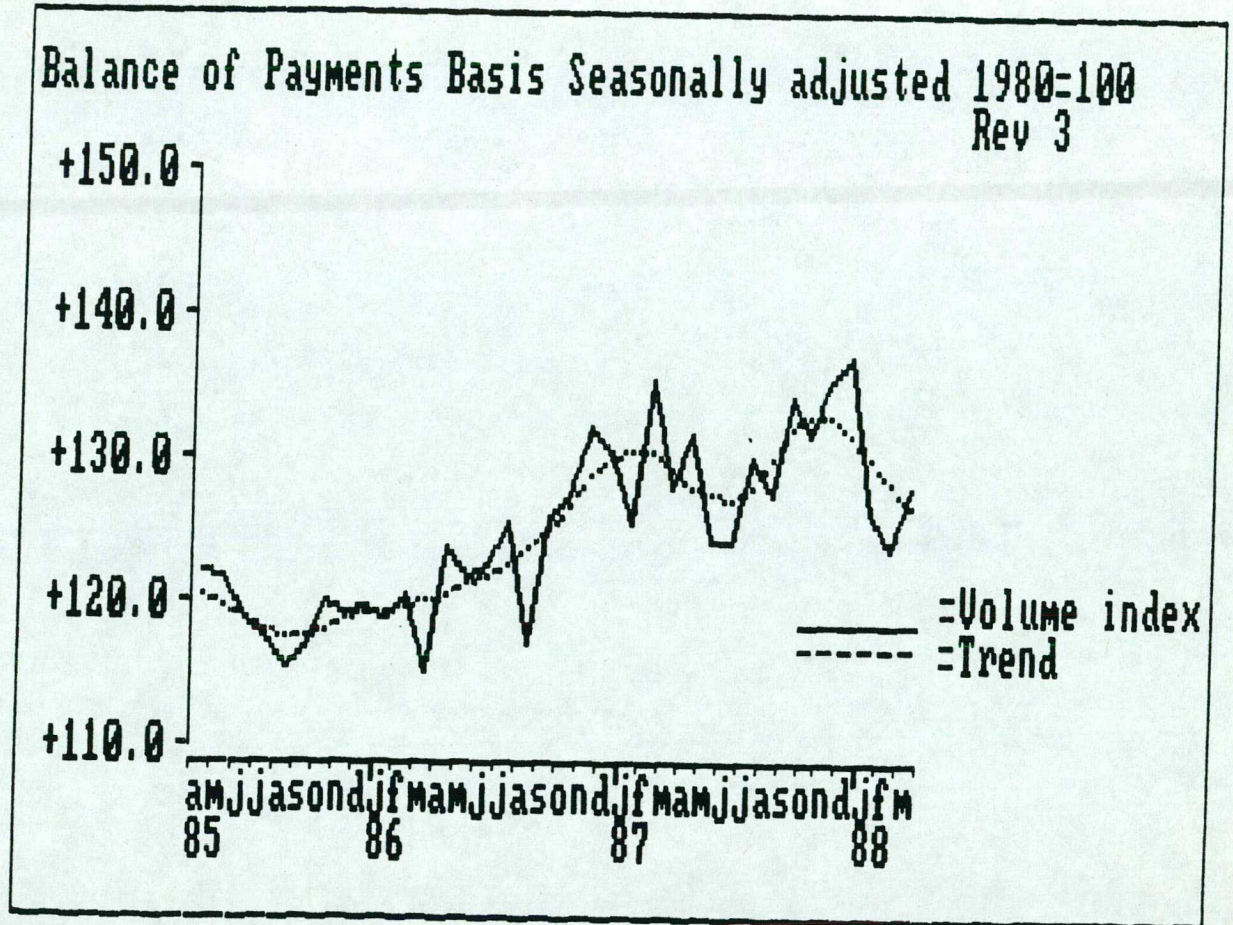
		---TOTAL TRADE ---		EXCLUDING ---OIL AND ERRATICS---	
		VALUE	VOLUME	VALUE	VOLUME
		£m	(1980=100)	£m	(1980=100)

1987	Q1	19530	129.5	15798	123.7
	Q2	19357	126.6	15893	123.2
	Q3	20235	130.6	16700	129.3
	Q4	20500	134.8	16809	130.3
1988	Q1	18832	126.1	15971	123.2

1987	OCT	6802	131.8	5483	127.0
	NOV	6881	135.4	5627	130.7
	DEC	6817	137.1	5699	133.1
1988	JAN	6210	126.4	5309	123.8
	FEB	6181	123.7	5206	120.2
	MAR	6441	128.1	5456	125.6

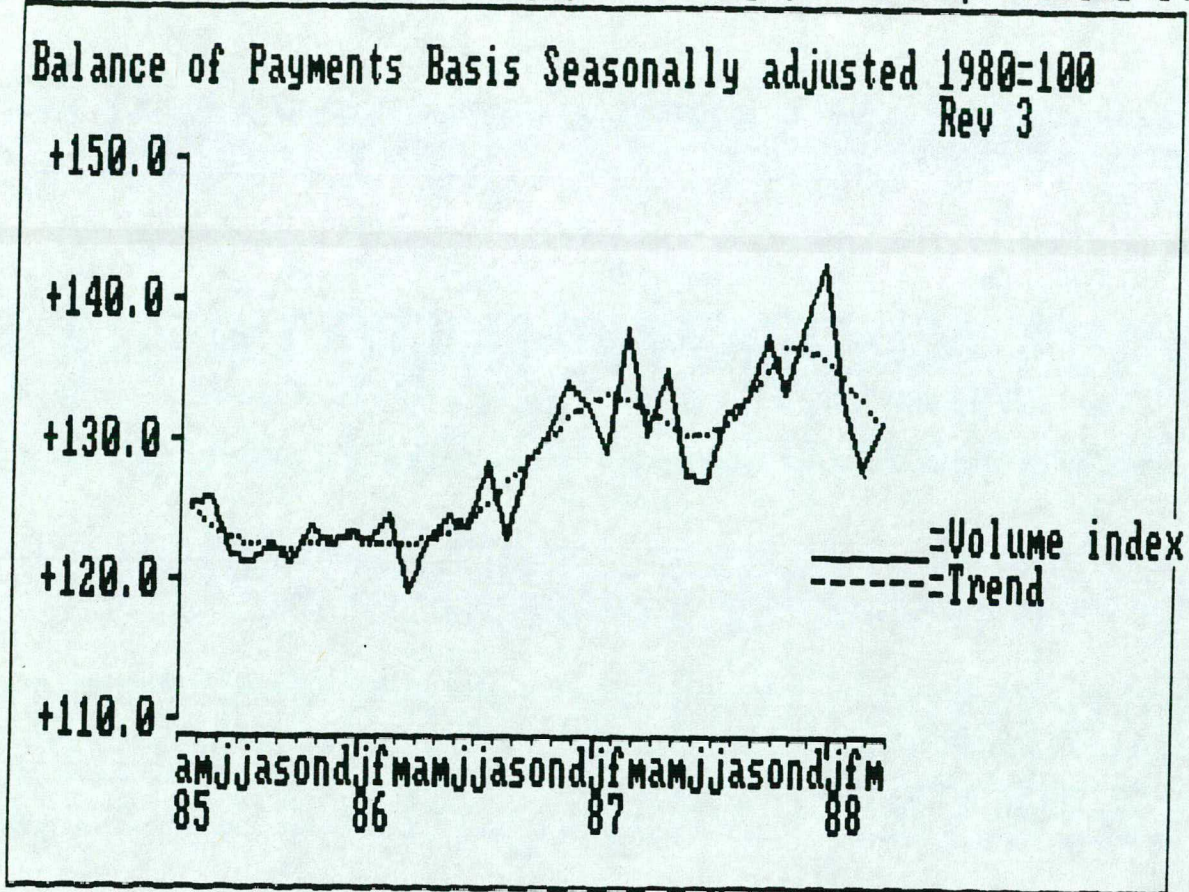
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 29.4.88

TOTAL TRADE

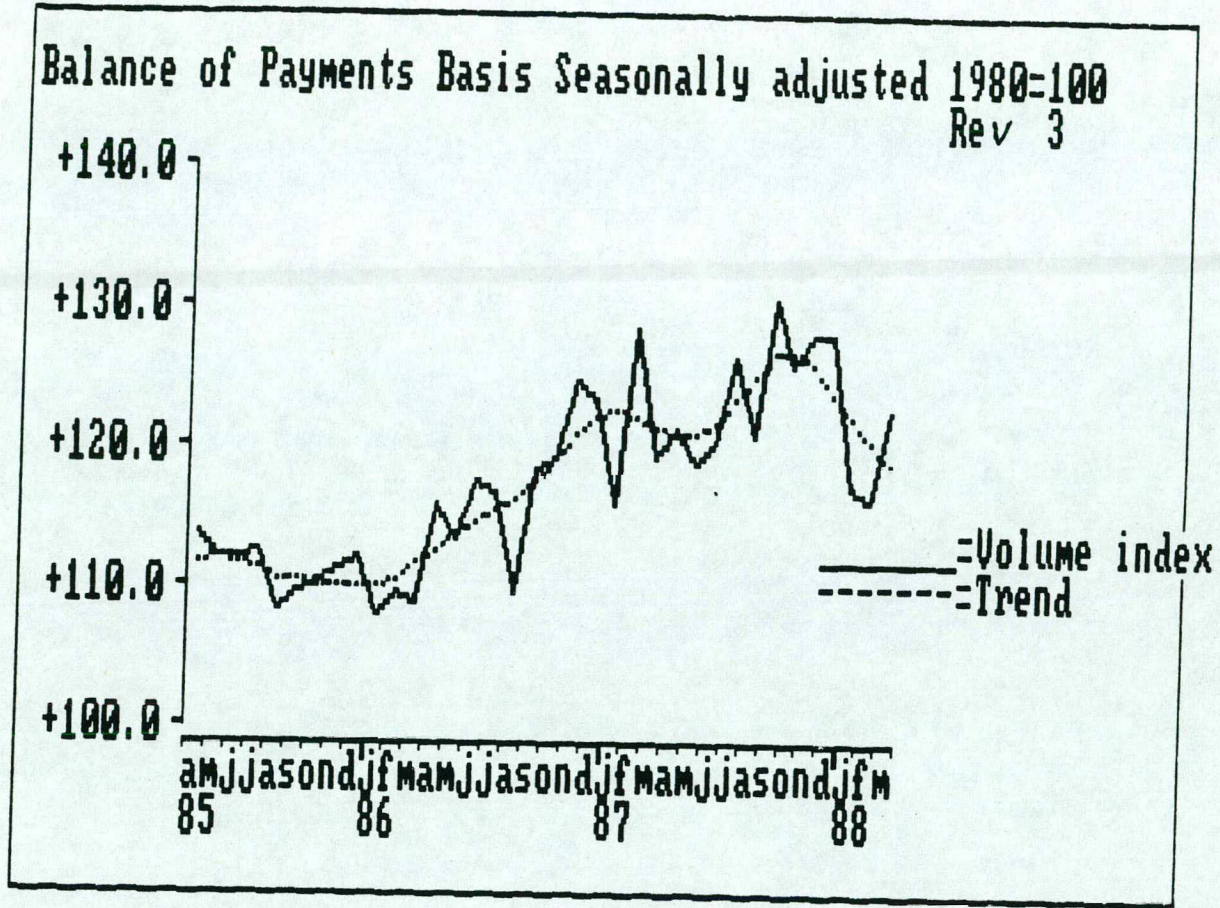


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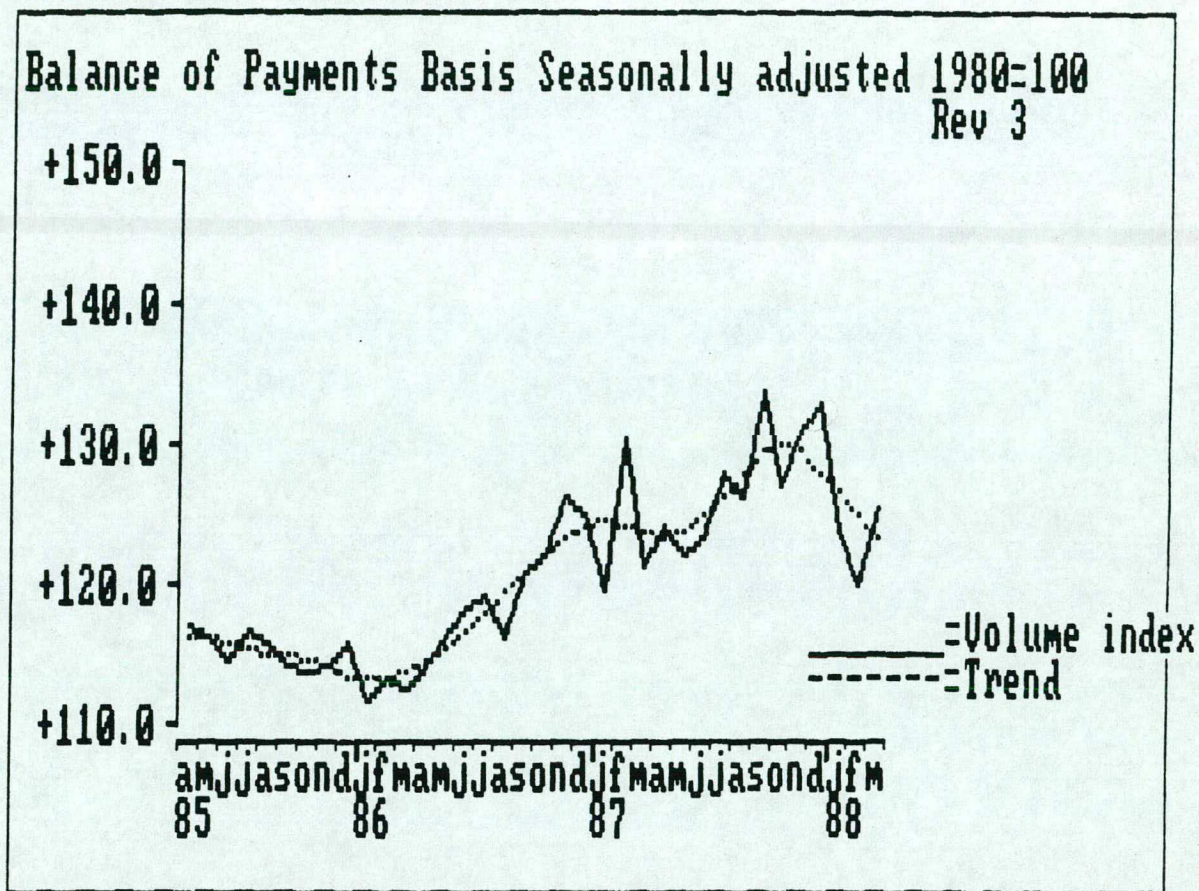
EXPORTS LESS ERRATICS (Ships, N Sea Rigs, Aircraft, Precious Stones, Silver)



EXPORTS LESS OIL



EXPORTS LESS ERRATICS & OIL



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4	Secretary of State for Trade and Industry
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7	Sir Brian Hayes (Dept. of Trade and Industry)
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11	Mr J Hibbert (CSO)
12	Mr M J Pratt (HM Customs and Excise)
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22	Mr P J Stibbard)
23	Mr W E Boyd)
24	Mr E J Wright) Dept of Trade and Industry
25	Mrs A Brueton)
26	Miss H Chapman)
27	Mr M Rajput)
28	Mr C Martin)

for PM bilat.

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at 11.30 am and thereafter unclassified

To: MINISTER FOR TRADE

Copy No. (3) 28

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

25 April 1988

passed on. mpar
ONT Ambr
(@ X). What is
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has drawn on the current
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is 'under'?

OVERSEAS TRADE FIGURES FOR MARCH 1988

THE CURRENT ACCOUNT

In March, the value of exports was £6.4 billion and imports £7.3 billion, so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £0.9 billion compared with the deficit of £1.3 billion in February.

The Central Statistical Office continue to project a surplus on invisibles of £0.6 billion for months in the first quarter of 1988 so that the current account is provisionally estimated to have been in deficit by £0.3 billion in March, compared with a provisional estimate of £0.7 billion in February.

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

	Current Account Balance	Visible Trade Balances			Invisibles Balance
		Total	Oil	Non-oil	
					Seasonally adjusted Balance of Payments Basis £ million
1986	+ 46	-8463	+4056	-12519	+8509
1987	-1679	-9625	+4184	-13809	+7946
1987 Q4	-1282	-2988	+1073	- 4061	+1706
1988 Q1	-1818A	-3618	+ 894	- 4512	+1800A
1988 Jan	- 844A	-1444	+ 361	- 1805	+ 600A
Feb	- 720A	-1320	+ 316	- 1636	+ 600A
March	- 254A	- 854	+ 218	- 1072	+ 600A

A = Projection or part projection

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In the first quarter of 1988 there was a deficit on visible trade of £3.6 billion - a surplus on trade in oil of £0.9 billion, offset by a deficit in non-oil trade of £4.5 billion. Between the fourth quarter of 1987 and the first quarter of 1988, the visible trade deficit increased by £0.6 billion; the surplus on oil fell by £0.2 billion while the deficit on non-oil trade rose by £0.5 billion.

EXPORTS

The value of exports in March was £260 million (4 per cent) higher than in February. Exports of oil decreased by £70 million between the two months and exports of the erratic items increased by £80 million. Excluding oil and the erratic items, exports rose by 5 per cent between February and March.

In the first quarter of 1988, total export volume was $6\frac{1}{2}$ per cent lower than in the previous quarter and $2\frac{1}{2}$ per cent lower than in the same quarter last year. Excluding oil and the erratic items, export volume was $5\frac{1}{2}$ per cent lower than in the previous quarter and $\frac{1}{2}$ per cent down on the same quarter a year ago. Notwithstanding the possibility that the monthly pattern of the export figures for the past four months have been distorted to some extent by changes in the information system, it now seems likely that the underlying level of exports in early 1988 is below that reached at the end of 1987.

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
1986	72678	59098	123.3	118.0
1987	79622	65200	130.4	126.6
1987 Q4	20500	16809	134.8	130.3
1988 Q1	18832	15971	126.1	123.2
1988 Jan	6210	5309	126.4	123.8
Feb	6181	5206	123.7	120.2
March	6441	5456	128.1	125.6

Seems
OK?

SECRET AND PERSONAL until release of press notice on 29 April 1988 at 11.30 am and thereafter unclassified

By value, exports of manufactures during the first quarter of 1988 were 7½ per cent down on the previous quarter; within manufactures, exports of consumer goods excluding cars fell by 11 per cent.

Also by value, total exports fell by 8 per cent between the fourth quarter of 1987 and the first quarter of 1988. The fall in exports to the developed countries was 10 per cent - within which exports to the rest of the European Community fell by 13 per cent while exports to North America rose by 1½ per cent.

IMPORTS

The value of imports in March was £207 million (3 per cent) lower than in February. Imports of oil rose by £28 million while imports of the erratic items decreased by £96 million between the two months. Excluding oil and the erratic items, imports fell by 2 per cent between February and March.

In the first quarter of 1988, total import volume was 3 per cent lower than in the previous quarter but 11 per cent higher than in the same quarter last year. Excluding oil and the erratic items import volume fell by 2½ per cent in the first quarter of 1988 to stand 13 per cent up on a year ago. The underlying level of imports in early 1988 appears to be ~~little changed from~~ that reached at the end of 1987.

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
1986	81141	73346	134.6	151.6
1987	89247	81125	144.6	164.9
1987 Q4	23488	21430	152.5	174.5
1988 Q1	22450	20690	147.8	170.4
1988 Jan	7654	7114	151.0	175.8
Feb	7501	6857	147.0	168.8
March	7295	6719	145.4	166.6

slightly lower than

X

Eh?
Surely at least "may" be lower (this could be helpful in working for mkt.)

**SECRET AND PERSONAL until release of press notice on 29 April 1988
at 11.30 am and thereafter unclassified**

By value, imports fell by $4\frac{1}{2}$ per cent between the fourth quarter of 1987 and the first quarter of 1988. Imports of passenger motor cars rose by 6 per cent but imports of other consumer goods fell by 10 per cent.

Again in value terms, imports from the developed countries fell by $2\frac{1}{2}$ per cent over the first quarter of 1988, with arrivals from the European Community countries down by 2 per cent, from North America also down by 2 per cent and from the other developed countries down by $2\frac{1}{2}$ per cent. Imports from the developing countries decreased by 8 per cent between the two quarters.

TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis will be published in the May edition of the Monthly Review of External Trade Statistics following the release of the press notice. On present estimates they show a deficit in the first quarter of 1988 of £2.9 billion compared with a deficit of £2.1 billion in the previous quarter.

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
1986	54927	60233	-5307
1987	61556	68097	-6542
1987 Q4	16038	18161	-2122
1988 Q1	14930	17807	-2877
1988 Jan	4854	6153	-1299
Feb	4914	5984	-1070
March	5162	5670	- 508

QUALITY OF THE FIGURES

In my note of 21 April reporting March exports, I drew attention to the continued uncertainty about the extent to which the monthly pattern of export figures since December 1987 had been affected by the new documentation procedures. There is no evidence that import figures have been similarly affected; however it is possible that the 'length of working month adjustment' used for the March figures may have slightly exaggerated the fall from February.



the department for Enterprise

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PUBLICATION

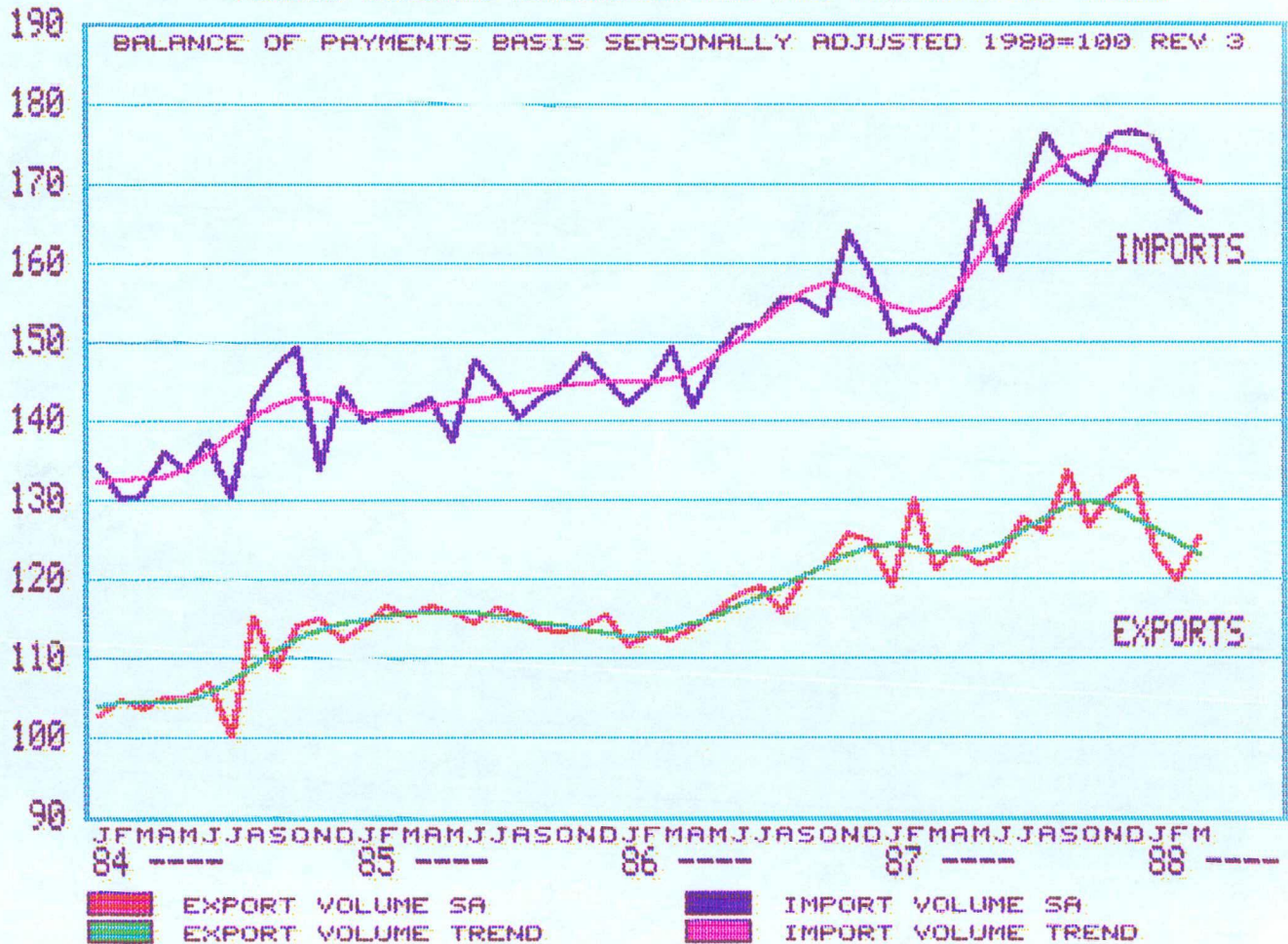
The press notice containing the March figures is scheduled for release
on Friday 29 April 1988.

A.C. Bunt

pp. P J STIBBARD

SECRET AND PERSONAL UNTIL THE RELEASE OF THE PRESS NOTICE ON 29.4.88

VOLUME INDICES EXCLUDING OIL AND THE ERRATIC ITEMS



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23	Mr W E Boyd)
24	Mr E J Wright) Dept of Trade and Industry
25	Mrs A Brueton)
26	Miss H Chapman)
27	Mr M Rajput)
28	Mr C Martin)

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

Department of
Trade and Industry

1-19 Victoria Street
London SW1H 0ET

Switchboard
01-215 7877

Telex 8811074/5 DTHQ G
Fax 01-222 2629

Direct line 215 4887
Our ref
Your ref
Date 26 April 1988

*Chp "Key sentences
as you asked. (Our officials
had been inclined to argue for
"too early to say" line on both sides)*

Thank -

mpw 26/4

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

Publication is set for Friday 29 April at 11.30 am and I should be grateful if you would arrange for the Notice to be cleared by 12.00 noon Thursday 28 April and to inform me accordingly.

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

Yours sincerely

W. E. Boyd.
W E BOYD

d
*A few interesting points
on Tables 11 & 13.*

AA

An improvement on January and February.
 But there remain doubts about the statistics
 (recording, seasonal adjustment etc) which preclude
 a confident analysis of recent trends.

Phy

FROM: PAUL DAVIS
 DATE: 27 APRIL 1988

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

Tim Hibberd
 27/4.

cc: See attached list

Ch
Some amendments
AA
OK
5-2

MARCH TRADE FIGURES

The March trade figures (published at 11.30 am on Friday 29 April) will show a deficit on visible trade of £854 million compared with a visible trade deficit of £1.3 billion in February. Export volumes rose 3½ per cent in March while import volumes fell by 1 per cent. The terms of trade improved by ½ per cent between February and March. These developments in visible trade along with an unchanged CSU projection of the monthly invisibles surplus of £600 million give a projected current account deficit of £254 million in March. This compares with a deficit of £720 million in February.

Current account

2. The current account deficit in the first quarter was £1.8 billion compared with £1.3 billion in the previous quarter and £1.7 billion in 1987 as a whole.

	£ million									
	1987 Year	1987 Q1	Q2	Q3	Q4	1988 Q1	Jan	Feb	Mar	
Manufactures	-6542	-730	-1581	-2109	-2122	-2877	-1299	-1070	-508	
Oil	4184	1159	1016	936	1073	894	361	316	218	
Other goods	-7267	-1640	-1752	-1936	-1939	-1635	-506	-566	-564	
Total visibles	-9625	-1211	-2317	-3109	-2988	-3618	-1444	-1320	-854	
Invisibles	7946	2010	2017	2213	1706	1800*	600*	600*	600*	
Current balance	-1679	799	-300	-896	-1282	-1818	-844	-720	-254	

* Invisibles figures since January are projections

Quality of the data

3. There is increasing evidence that the pattern of the monthly export figures since December has been distorted by the changes in Customs' procedures introduced on 1 January. The proportion of goods shipped in December which were recorded during the December month of account was the highest ever, suggesting that firms rushed to complete documentation before the introduction of the new forms. In January, however, the average delay between the shipment of goods and receipt of documentation in Southend increased sharply. Complete information
 mail

for February is not yet available and there is little evidence yet on March, but Customs' view at this stage is that any distortion in these months was probably small. The press notice will remain agnostic on the effect of the Customs' changes, and no attempt to quantify the effects will be made until we are confident that the new system is working smoothly. However, in oral briefing DTI officials intend to refer to qualitative evidence pointing to some distortion, especially in December and January. We will circulate the proposed briefing line (agreed with Customs) as soon as it is available. There is no evidence that the import figures have been significantly affected by the Customs' changes. The ferry operators' strike is thought to have had little effect on trade flows overall.

4. However, we remain suspicious about the seasonal adjustment of both imports and exports. The low imports figure in March reflects unusually large 'length of month' and seasonal adjustments - the unadjusted import figure for March was the highest ever recorded.

Exports

	percentage change			1987 on 1986
	Mar on Feb	Latest three months on previous three months	Latest three months on same period year earlier	
Total value	4	-8	-3½	9½
Total value excl. oil and erratics	5	-5	1	10½
Total volume	3½	-6½	-2½	6
Total volume excl. oil and erratics	4½	-5½	-½	7½
Manufactures volume (excl.erratics, OTS basis)	3½	-6½	1½	9
Fuels volume (OTS)	-6	-4½	-5½	-1
Basic materials volume (OTS)	-2½	-1	-21	7
Food, drink and tobacco volume (OTS)	12	-5	-5½	0

5. Recorded export volumes, excluding oil and erratics, rose by 4½ per cent in March, but the average for the first quarter was still 5½ per cent below the fourth quarter of last year. Exports of manufactures fell by 6½ per cent in the first quarter, a little faster than for non-manufactures. In the first quarter, non-oil export

volumes (excluding erratics) were little changed on a year earlier with a 1½ per cent increase in manufactures broadly offset by a fall in exports of non-manufactures.

6. The uncertain quality of recent figures makes it difficult to assess the underlying trend in exports. It seems unlikely that revisions to remove the effect of recent distortions will entirely eliminate the fall in exports in the first quarter. Evidence from the April CBI survey and the losses in competitiveness point to some weakening in exports, but probably not on the scale apparent in the figures.

Imports

	percentage change			1987 on 1986
	Mar on Feb	Latest three months on previous three months	Latest three months on same period year earlier	
Total value	-3	-4½	8	10
Total value excl. oil and erratics	-2	-3½	10	10½
Total volume	-1	-3	11	7½
Total volume excl. oil and erratics	-1½	-2½	13	9
Manufactures volume (excl.erratics, OTS basis)	-3	-3	15	10
Fuels volume (OTS)	22	-9½	-5	1½
Basic materials volume (OTS)	4	0	-6	10½
Food, drink and tobacco volume (OTS)	0	-2½	5	½

7. Recorded import volumes, excluding oil and erratics, fell by 1½ per cent in March to bring the first quarter average 2½ per cent below the fourth quarter level, reflecting falls in most major categories. However, the ^{of} volume imports also fell sharply in the early months of 1987 but grew strongly during the remainder of the year so that in the first quarter of 1988 they were 13 per cent higher than a year earlier. The volume of imports of manufactures increased by 15 per cent over this period, reflecting particularly strong growth in imports of semi-manufactures, intermediate and capital goods.

8. The recorded import figures for the early months of the year are well below their fourth quarter level, but it is too early to tell whether this indicates a slowing in import growth or problems with seasonal adjustment.

Geographical area

9. The value of exports to developed countries fell by 10 per cent between 1987Q4 and 1988Q1. Exports to the EC fell by 13 per cent and by 18 per cent to the rest of Europe. Exports to Japan fell by around 11 per cent and to developing countries by 7½ per cent, including a 14 per cent fall in exports to oil exporting countries. Exports to the US fell only slightly.

Trade prices

	percentage change latest three months on previous three months		Terms of Trade
	<u>Export prices</u>	<u>Import prices</u>	
Manufactures (excl.erratics)	2	½	
Food, drink, tobacco	-½	1½	
Basic materials	2	2½	
Fuel	-16	-9½	
Total (BOP basis)	0	-1	1
Total less oil (BoP basis)	1	0	1

10. Boosted by the appreciation of sterling since the autumn, both the total terms of trade and the non-oil terms of trade improved by 1 per cent in the first quarter (as measured by unit value indices). (NB: the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights.)

Assessment

11. The FSBR forecast a £4 billion deficit on the current account in 1988 and 1989H1 (at an annual rate), implying average monthly deficits of £300-£400 million. The average recorded current account deficit in the first quarter is clearly well above this figure. We remain inclined to reserve judgment on the underlying current account deficit until it is clear by how much recent monthly export figures have been distorted and to what extent the low import figures in the first quarter are providing a misleading indication of trend, as they did in 1987.

Market expectations

12. The market expectation is for a current account deficit of around £500 million in March. The March deficit is therefore rather smaller than anticipated by the City.

Press briefing

13. I would be grateful for clearance of the attached press briefing.

David Owen
PP PAUL DAVIS
EA2

DRAFT BRIEFING FOR IDT

Positive

line to take
As always, it is ~~dangerous~~ ^{unwise} to look at
one month's figure in isolation.

1. Manufacturing industry performing well. Manufacturing output up 5½ per cent comparing three months to February with a year earlier. Manufacturers' volume share of total world trade in manufactures rose slightly in 1987 and has been broadly stable since 1981, following decades of decline.

2. Export order books. CBI April survey still showed balance of firms reporting export order books above normal. Balance of firms expect volume of new exports orders and export deliveries to rise over next four months.

3. Current account deficit in 1987 as a whole estimated at £1.7 billion. Small as percentage of GDP (½ per cent) and much smaller than imbalances in mid-1970s. FSB forecast of £4 billion deficit in 1988 still less than 1 per cent of GDP.

Defensive

1. Current account figures may be distorted. Figures for first quarter need to be interpreted with even greater caution than usual because of changes in the documentation and classification system. Prudent to wait until later months figures available before deciding to what extent pattern of trade distorted.

2. March deficit erratically low. Monthly figures highly volatile - never attach much importance to single month's figures.

3. Current account deficit still on growing trend. Recent figures highly volatile. Prudent to wait for some months to assess trend.

4. First quarter current account deficit implies FSB forecast too optimistic. ~~Much~~ Too soon to say. Unwise to attach too much importance to recent figures until we know to what extent they have been distorted.

5. Current account deficit forecast to rise in 1988. Projected deficit in FSBR of £4 billion, less than 1 per cent of GDP - much smaller than deficit in mid 1970s (3-4 per cent of GDP). On average outside forecasts (including NIESR ~~and LBS~~) show similar deficit in 1988.

? are they noted pessimists or current etc?

6. Current account deficit no longer "temporary" as Chancellor earlier claimed. 1987 deficit first after 7 successive years of current account surplus. Deficit reflects strong growth of UK domestic demand and activity in 1987 at a time of slow growth in many of our major export markets. Imports forecast to rise less rapidly in 1988 as a whole as domestic demand growth moderates. Good supply performance should allow manufacturers to take advantage of rising world trade.

Too Possibly

7. Fall in imports means economy growing more slowly. ~~Import volumes (excluding oil and erratics) also low in first quarter of last year - prudent to wait to assess whether upward trend in imports in second half of 1987 has changed.~~ FSBR forecast some slowing of GDP and import growth during 1988. ~~But manufacturing output still strong, consumers' expenditure still showing modest growth, in line with FSBR forecast. DTI and CBI still point to buoyant investment prospects. No reason for pessimism.~~

But too soon to say.

8. Capacity constraint/overheating threatens current account performance. [CBI April survey reported lowest balance of firms working below capacity since survey began, but 86 per cent report capacity adequate over next year.] CBI concludes that economy not overheating and no evidence of significant labour or raw materials shortages developing. New export order books consistent with continued growth in manufacturing exports in next four months. Survey still shows balance of firms reporting export orders above normal.

9. Exports to fall in 1988? Some slowing of export growth in 1988 not unexpected - but given uncertainties about data, cannot give too much weight to recent fall in exports. FSBR forecast is for UK broadly to maintain volume share of total world trade in manufactures, continuing improved performance which has been evident since 1981, following decades of decline.

10. Fall in export optimism. [CBI April survey showed continuing deterioration in export optimism with balance remaining negative.] Balance of CBI firms still expects export orders and deliveries to rise in next four months and balance of firms reporting export order books also above normal.

11. Export fall in first quarter shows sterling's recent strength has undermined competitiveness - fall in exchange rate needed.

~~Competitiveness better than in 1985 before the fall in oil prices. Will not allow lower exchange rate to accommodate domestic cost increases.]~~

12. Fall in invisibles surplus in 1987Q4. Estimate for 1987Q4 only preliminary. FSBR forecast is for further substantial invisibles surplus in 1988.

13. Invisibles forecast too optimistic. FSBR forecast shows invisibles remaining in strong surplus in 1988. Projected improvement between 1987 and 1988 reflects at least partly expected lower net payments abroad by North Sea companies.

for shortening

Industry has been doing very well. Maintaining their competitive position is largely in their hands. ~~[It is up to them to keep their unit costs down, by resisting over large wage increases and keeping up the drive to improve productivity.]~~ It is no part of the Government's policy to depreciate the exchange rate in order to accommodate domestic cost increases and improve industry's "competitiveness". But, as Carver said in This Week Next Week, "I certainly do not want to see the exchange rate appreciate further. As I have said on previous occasions, I think that would be unsustainable, and an unsustainable appreciation does nobody any good and is damaging for business & industry."

TRADE FIGURES FOR MARCH 1988

Advance circulation

Chancellor
Chief Secretary
Economic Secretary

Mr Peretz
Miss O'Mara
Mr Pickford

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Sir G Littler
Sir T Burns
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Financial Secretary
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SECRET AND PERSONAL



FROM: A C S ALLAN
 DATE: 28 April 1988

A handwritten signature in the top right corner of the page.

MR P DAVIS

cc Mr Scholar
 Mr Sedgwick
 Mr Peretz
 Mr Hibberd
 Miss O'Mara
 Mr Pickford
 Mr R I G Allen
 Mr Owen

MARCH TRADE FIGURES

The Chancellor was grateful for your minute of 27 April. He had the following amendments to the draft briefing for IDT.

- (i) Insert a new section right at the beginning, headed "Line to Take", saying "As always, it is unwise to look at one month's figures in isolation".
- (ii) Delete positive 3 altogether.
- (iii) In defensive 4, delete "much" (so that the first sentence reads "too soon to say").
- (iv) In defensive 5, delete "and LBS".
- (v) Replace the existing defensive 7 by "Possibly. FSBR forecast some slowing of GDP and import growth during 1988. But too soon to say."
- (vi) Replace the existing defensive 11 by
 "Industry has been doing very well. Maintaining their competitive position is largely in their hands. It is no part of the Government's policy to depreciate the exchange rate in order to accommodate domestic cost increases and improve industry's 'competitiveness'. But, as the Chancellor said on This Week Next Week, 'I certainly do not want to see the exchange rate appreciate further. As I have said on previous occasions, I think that would be unsustainable, and an unsustainable appreciation does nobody any good and is damaging for business and industry'".

A C S ALLAN

SECRET AND PERSONAL
UNTIL 11.30 AM 29 APRIL
THEN UNCLASSIFIED

FROM: D W OWEN

DATE: 28 April 1988

MR R I G ALLEN

cc PPS
PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Scholar
Mr Sedgwick
Mr Peretz
Mr Hibberd
Miss O'Mara
Mr Pickford
Mr Gray No 10

MARCH TRADE FIGURES

1. You may wish to be aware of the line DTI intend to take, when the March figures are released tomorrow, on recent distortions to the trade figures.

2. Neither DTI nor Customs intend to make any written statement on the quality of recent trade figures, beyond the short paragraph included in the press notice. However in oral briefing of journalists DTI intend to make the following points:

i. there is evidence that the monthly pattern of export figures since December has been distorted by the changes in Customs' procedures:

- during December, some traders submitted documents more quickly than usual, in advance of the changes. As a result some exports which would normally have been recorded in January were included in the December figures.

- there were increased delays in the submission of the new documents in early 1988 which reduced recorded exports in January and possibly in later months - complete information on February and March is not yet available.

ii. although the system is returning to normal, we cannot yet be confident that increased delays are not still having some effect - but distortions are now probably smaller than in December/January.

iii. the size of the distortion, though probably small relative to total exports, was sufficient to make the interpretation of trends very difficult.

iv. there is no evidence of any similar distortion to the import figures.

David Owen

D W OWEN

THE CURRENT ACCOUNT - TABLE 2

Balance of payments basis
 £ million seasonally adjusted

	CURRENT BALANCE fob	EXPORTS fob	IMPORTS fob	VISIBLE BALANCES: TOTAL	OIL	NON- OIL	INVISIBLE BALANCE
1986	46	72678	81141	-8463	4056	-12519	8509
1987	-1679	79622	89247	-9625	4184	-13809	7946
1987 Q1	799	19530	20740	-1211	1159	-2370	2010
Q2	-300	19357	21674	-2317	1016	-3333	2017
Q3	-896	20235	23344	-3109	936	-4046	2213
Q4	-1282	20500	23488	-2988	1073	-4061	1706
1988 Q1		18832					
1987 JUL	-253	6686	7677	-991	267	-1258	738
AUG	-687	6587	8011	-1424	359	-1783	737
SEP	43	6962	7657	-695	310	-1004	738
OCT	-353	6802	7724	-922	394	-1316	569
NOV	-488	6881	7938	-1056	332	-1388	568
DEC	-441	6817	7827	-1010	346	-1356	569
1988 JAN	-844	6210	7654	-1444	361	-1805	600
FEB	-720	6181	7501	-1320	316	-1636	600
MAR		6441					
JAN-MAR 87	0	19530	0	0	0	0	0
OCT-DEC 87	0	20500	0	0	0	0	0
JAN-MAR 88	0	18832	0	0	0	0	0
PERCENTAGE CHANGES:-							
LATEST 3 MONTHS ON PREVIOUS 3 MONTHS		-8.1%	0.0%				
SAME 3 MONTHS ONE YEAR AGO		-3.6%	0.0%				
JAN-MAR87	0	19530	0	0	0	0	0
JAN-MAR88	0	18832	0	0	0	0	0

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No. (23)**MARCH 1988**

The current account for March, seasonally adjusted, was estimated to have been in deficit by £254 million compared with a deficit of £720 million in February. In March exports - seasonally adjusted on a balance of payments basis - were valued at £6441 million and imports at £7295 million so that the trade in goods was in deficit by £854 million.

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

NOTE ON INTERPRETATION

It is customary to advise against attaching too much importance to figures for an individual month. Figures for recent months need to be interpreted with even greater caution than usual because of the changes in the documentation and classification system which took place from 1 January 1988 (see Note 3 of the Notes to Editors and article in *British Business* of 27 November 1987). The ferry operators' strike, which continued throughout March, is thought to have had a negligible effect on trade flows overall.

CURRENT ACCOUNT

TABLE 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade			Invisibles Balance ^b
		Balance	Exports fob	Imports fob	
1986	+ 46	- 8463	72678	81141	+ 8509
1987	- 1679	- 9625	79622	89247	+ 7946
1987 Q1	+ 799	- 1211	19530	20740	+ 2010
Q2	- 300	- 2317	19357	21674	+ 2017
Q3	- 896	- 3109	20235	23344	+ 2213
Q4	- 1282	- 2988	20500	23488	+ 1706
1988 Q1	- 1818a	- 3618	18832	22450	+ 1800a
1987 Oct	- 353	- 922	6802	7724	+ 569
Nov	- 488	- 1056	6881	7938	+ 568
Dec	- 441	- 1010	6817	7827	+ 569
1988 Jan	- 844a	- 1444	6210	7654	+ 600a
Feb	- 720a	- 1320	6181	7501	+ 600a
Mar	- 254a	- 854	6441	7295	+ 600a

^a Invisibles for January to March 1988 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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FIRST QUARTER 1988

In the first quarter of 1988 the current account showed a deficit of £1.8 billion compared with a deficit of £1.3 billion in the previous three months. There was a deficit on visible trade of £3.6 billion in the latest quarter compared with a deficit of £3.0 billion in the previous quarter. The surplus on invisibles in the latest quarter is projected at £1.8 billion.

VISIBLE TRADE IN MARCH

There was a deficit on visible trade in March of £854 million compared with a deficit of £1320 million in February. The surplus on oil was £218 million, £98 million less than in February. The deficit on non-oil trade decreased by £565 million.

Total exports in March were valued at £6441 million, which was £260 million (4 per cent) higher than in February. Exports of oil decreased by £70 million and exports of the erratic items increased by £80 million between the two months. Excluding oil and the erratic items, exports rose by 5 per cent between February and March.

Total imports were valued at £7295 million in March, which was £207 million (3 per cent) less than in February. Imports of oil rose by

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£28 million between the two months while imports of the erratic items fell by £96 million. Excluding oil and the erratic items, imports fell by 2 per cent between February and March.

RECENT TRENDS

Visible balance

In the first quarter of 1988 there was a deficit on visible trade of £3.6 billion - a surplus on trade in oil of £0.9 billion being offset by a deficit on non-oil trade of £4.5 billion. Between the fourth quarter of 1987 and the first quarter of 1988, the deficit on visible trade increased by £0.6 billion - the surplus on oil fell by £0.2 billion while the deficit on non-oil trade rose by £0.5 billion.

Exports

Exports amounted to £18.8 billion in the first quarter of 1988, £1.7 billion (8 per cent) less than in the previous quarter. Exports of oil and exports of the erratic items each fell by £0.4 billion. Excluding oil and the erratic items exports decreased by £0.8 billion between the fourth quarter of 1987 and the latest quarter.

By volume exports fell by $6\frac{1}{2}$ per cent between the fourth quarter of 1987 and the first quarter of 1988 to be $2\frac{1}{2}$ per cent lower than in

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the same period a year ago. Excluding oil and erratic items, export volume fell by $5\frac{1}{2}$ per cent in the latest quarter to be $\frac{1}{2}$ per cent lower than in the same period a year ago. Notwithstanding the possibility that the monthly pattern of the export figures in recent months has been affected to some extent by changes in the documentation and classification system, it now seems likely that the underlying level of exports in early 1988 is below that reached towards the end of 1987.

Formerly - "information system"

Otherwise as before

Imports

Total imports were valued at £22.4 billion in the latest quarter, £1.0 billion ($4\frac{1}{2}$ per cent) lower than in the previous quarter. Imports of oil fell by £0.3 billion while imports of the erratic items were little changed. Excluding oil and the erratic items imports fell by $3\frac{1}{2}$ per cent between the fourth quarter of 1987 and the latest quarter. Within the total, imports of consumer goods excluding passenger cars fell by 10 per cent.

Total import volume fell by 3 per cent between the fourth quarter of 1987 and the first quarter of 1988 but was 11 per cent higher than in the same period a year ago. Excluding oil and the erratic items import volume fell by $2\frac{1}{2}$ per cent in the latest three months but was 13 per cent higher than in the same period a year ago. The underlying level of imports in early 1988 appears to be slightly lower than that reached towards the end of 1987.

As you asked

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Terms of trade and unit values

The terms of trade index rose 1 per cent between the fourth quarter of 1987 and first quarter of 1988 with the export unit value index unchanged and the import unit value index decreasing by 1 per cent. Compared with the same quarter a year ago, the export unit value index rose by $1\frac{1}{2}$ per cent and the import unit value index fell by 3 per cent. As a result the terms of trade index is $4\frac{1}{2}$ per cent up on a year ago.

Export unit values for fuels fell by 16 per cent between the fourth quarter of 1987 and the first quarter of 1988 while the unit value index for non-oil exports rose by 1 per cent.

Import unit values for fuels fell by $9\frac{1}{2}$ per cent between the last quarter of 1987 and the latest quarter while the unit value index for non-oil imports was unchanged.

Analysis by area

Exports to the developed countries fell by 10 per cent between the fourth quarter of 1987 and the latest quarter. Exports to the European Community countries fell by 13 per cent over the latest quarter; exports to North America increased by $1\frac{1}{2}$ per cent but exports to the other developed countries decreased by $5\frac{1}{2}$ per cent. Those to the developing countries fell by $7\frac{1}{2}$ per cent between the fourth quarter of 1987 and the first quarter of 1988.

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Imports from the developed countries decreased by $2\frac{1}{2}$ per cent over the latest quarter with arrivals from the European Community countries down by 2 per cent from North America also down by 2 per cent and arrivals from the other developed countries down by $2\frac{1}{2}$ per cent. Imports from the developing countries decreased by 8 per cent between the last quarter of 1987 and the latest quarter.

NOTES TO EDITORS

INVISIBLES

1 Estimates of invisibles are based on a variety of sources, mostly inquiries of those engaging in the various transactions. These are usually sample inquiries, and are variously held on quarterly, annual or periodical bases. For some components, data for recent periods are therefore incomplete and subject to significant estimation errors.

2 The figures shown for the invisibles balance in most months are the estimates for the relevant quarters, taken from the balance of payments accounts, expressed at a monthly rate. For the most recent months, however, the figures are projections, which are rounded to the nearest £100 million to emphasise their approximate nature. These projections are superceded by preliminary estimates from the balance of payments accounts when they are published around the middle of March, June, September and December.

VISIBLE TRADE: NEW CUSTOMS PROCEDURES AND CHANGES IN CLASSIFICATION

3 On 1 January 1988 new customs procedures were introduced, including a switch to a new Single Administrative Document for Customs declaration and the adoption of a new system of commodity coding, based on the worldwide Harmonised System. [Further information may be obtained from the article in British Business of 27 November 1987 and column 34 of Written Answers, House of Commons Official Report, 7 December 1987]. For further details of changes which involve revisions to the commodity classification and to the treatment of gold see the Standard Notes for 1988.

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

4 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 £43 which includes the annual supplement. Individual copies are priced at £3, (£7 for the annual supplement).

AREA (tables 11 and 15)

5 Low value consignments ie items of an individual value less than £600, 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.

ADJUSTMENT FOR UNPROCESSED DOCUMENTS; APRIL TO OCTOBER 1987

6 Following an investigation by Customs and Excise into the effects of industrial action, adjustments have been made to take account of documents delayed from the period April to June and subsequently processed in August and October. These adjustments have been made to the Balance of Payments based figures (tables 1 to 7 and 16), but not to the OTS figures (tables 8 to 15). The amounts involved are as follows:

Adjustment for unprocessed documents

	April	May	June	August	£ million October
Exports	+30	+71	+67	-18	-151
Imports	+63	+49	+38		-150

STANDARD NOTES

7 There is a set of standard notes that describe the basis on which the figures in this Press Notice are compiled including the differences between the Balance of Payments (BOP) and the Overseas Trade Statistics (OTS) figures. Additional copies can be obtained from the address below.

Enquiries about the Standard Notes, and the Monthly Review, should be addressed to S2A, Room 255, Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET, Telephone: 01-215 4895.

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

		£ million seasonally adjusted						
		Current Balance	Visible Trade				Invisible Balance ^b	
			Exports fob	Imports fob	Visible Balance	of which		
						Oil		Non-Oil
1986		+ 46	72678	81141	- 8463	+ 4056	- 12519	+ 8509
1987		- 1679	79622	89247	- 9625	+ 4184	- 13809	+ 7946
1987	Q1	+ 799	19530	20740	- 1211	+ 1159	- 2370	+ 2010
	Q2	- 300	19357	21674	- 2317	+ 1016	- 3333	+ 2017
	Q3	- 896	20235	23344	- 3109	+ 936	- 4046	+ 2213
	Q4	- 1282	20500	23488	- 2988	+ 1073	- 4061	+ 1706
1988	Q1	- 1818a	18832	22450	- 3618	+ 894	- 4512	+ 1800a
1987	July	- 253	6686	7677	- 991	+ 267	- 1258	+ 738
	Aug	- 687	6587	8011	- 1424	+ 359	- 1783	+ 737
	Sep	+ 43	6962	7657	- 695	+ 310	- 1004	+ 738
	Oct	- 353	6802	7724	- 922	+ 394	- 1316	+ 569
	Nov	- 488	6881	7938	- 1056	+ 332	- 1388	+ 568
	Dec	- 441	6817	7827	- 1010	+ 346	- 1356	+ 569
1988	Jan	- 844a	6210	7654	- 1444	+ 361	- 1805	+ 600a
	Feb	- 720a	6181	7501	- 1320	+ 316	- 1636	+ 600a
	March	- 254a	6441	7295	- 854	+ 218	- 1072	+ 600a
% Change								
Latest 3 months								
- on previous 3 months			- 8	- 4½				
- Same 3 months one year ago			- 3½	+ 8				

a Invisibles for January to March 1988 are projections.

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			
1985		80483	75018	+ 5465	+ 5877	+ 2841	- 3253	75815	65063	+ 10752
1986		77262	68753	+ 8509	+ 5609	+ 5057	- 2157	72138	59166	+ 12972
1987		80202	72256	+ 7946	+ 5708	+ 5676	- 3438	74820	60663	+ 14157
1986	Q1	19224	16870	+ 2354	+ 1480	+ 908	- 34	17857	14873	+ 2984
	Q2	18715	16730	+ 1985	+ 1325	+ 1209	- 549	17387	14318	+ 3069
	Q3	19371	17204	+ 2167	+ 1334	+ 1572	- 739	18123	14665	+ 3458
	Q4	19952	17949	+ 2003	+ 1470	+ 1368	- 835	18771	15310	+ 3461
1987	Q1	20034	18024	+ 2010	+ 1389	+ 1480	- 859	18398	14927	+ 3471
	Q2	19951	17934	+ 2017	+ 1390	+ 1376	- 749	18507	15116	+ 3391
	Q3	20373	18160	+ 2213	+ 1564	+ 1584	- 935	19147	15257	+ 3890
	Q4	19844	18138	+ 1706	+ 1365	+ 1236	- 895	18768	15363	+ 3405

^d ie excluding general Government transactions and all transfers.

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EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS
(Balance of Payments basis)

Table 4

	Unit Value (Not seasonally adjusted)			Indices 1980 = 100	
	Exports	Imports	Terms of Trade ^e	Volume (seasonally adjusted)	
				Exports	Imports
1986	136.8	134.3	101.8	123.3	134.6
1987	142.0	138.1	102.8	130.4	144.6
1987 Q1	140.8	140.2	100.4	129.5	133.5
Q2	141.4	136.7	103.4	126.6	141.1
Q3	143.1	138.0	103.7	130.6	151.1
Q4	142.9	137.5	103.9	134.8	152.5
1988 Q1	142.7	136.2	104.8	126.1	147.8
1987 July	141.8	137.3	103.3	130.1	148.8
Aug	143.7	138.4	103.8	127.6	154.8
Sep	143.7	138.3	103.9	134.1	149.7
Oct	143.8	138.6	103.7	131.8	148.4
Nov	142.9	137.8	103.7	135.4	154.3
Dec	141.8	136.2	104.2	137.1	154.9
1988 Jan	141.8	135.8	104.4	126.4	151.0
Feb	142.8	136.4	104.7	123.7	147.0
March	143.5	136.4	105.2	128.1	145.4
% Change					
Latest 3 months on					
- previous 3 months	-	- 1	+ 1	- 6½	- 3
- same 3 months					
one year ago	+ 1½	- 3	+ 4½	- 2½	+ 11

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

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS^f
(Balance of Payments basis)

Table 5

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	seasonally adjusted	
			Exports	Imports
1986	67300	77492	126.3	143.0
1987	73645	85386	133.6	154.0
1987 Q1	18019	19853	132.5	142.5
Q2	17939	20740	129.8	150.2
Q3	18755	22313	134.1	160.9
Q4	18933	22481	138.0	162.4
1988 Q1	17659	21484	130.7	157.5
1987 July	6108	7297	132.0	157.8
Aug	6203	7668	132.9	165.1
Sept	6444	7348	137.3	159.9
Oct	6178	7300	133.2	156.4
Nov	6339	7609	138.3	164.5
Dec	6416	7572	142.5	166.3
1988 Jan	5929	7373	133.0	161.8
Feb	5775	7111	127.9	155.6
March	5955	7000	131.2	155.2
% Change				
Latest 3 month on				
- previous 3 months	- 6½	- 4½	- 5½	- 3
- same 3 months				
one year ago	- 2	+ 8	- 1½	+ 11

^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				
		£ million fob	£ million fob	Crude Oil		Rest of Division 33	£ million fob	£ million fob	Crude Oil		Rest of Division 33
				[SITC (REV 2) 333.0]					[SITC (REV 2) 333.0]		
				£ million fob	million tonnes				£ million fob	million tonnes	
1986	+ 4056	8202	6294	82.1	76.7	1908	4146	2324	32.6	71.3	1822
1987	+ 4184	8445	6765	80.6	83.9	1681	4261	2608	33.1	78.8	1654
1987 Q1	+ 1159	2221	1818	21.8	83.3	403	1062	623	7.9	79.3	439
Q2	+ 1016	2046	1653	19.8	83.6	393	1030	645	8.1	79.2	386
Q3	+ 936	2055	1636	18.6	88.0	419	1119	667	8.2	81.6	451
Q4	+ 1073	2124	1658	20.4	81.2	466	1051	673	8.9	75.3	378
1988 Q1	+ 894	1688	1349	20.0	67.3	339	794	527	8.3	63.3	267
1987 July	+ 267	639	493	5.8	85.2	147	372	229	2.9	78.9	143
Aug	+ 359	757	621	6.8	91.1	136	398	252	3.2	79.6	145
Sept	+ 310	659	522	6.0	87.2	136	349	186	2.1	88.4	162
Oct	+ 394	695	549	6.3	87.0	146	300	170	2.1	80.3	130
Nov	+ 332	712	557	6.8	82.5	156	380	266	3.4	78.5	114
Dec	+ 346	717	553	7.4	75.0	164	370	236	3.4	69.0	134
1988 Jan	+ 361	620	518	7.4	70.4	102	259	176	2.8	63.9	82
Feb	+ 316	569	443	6.4	69.0	126	253	159	2.4	65.4	95
Mar	+ 218	499	388	6.3	62.0	111	281	192	3.1	61.1	89
% Change											
Latest 3											
months on											
- previous											
3 months		- 21	- 19	- 2	- 17	- 27	- 24	- 22	- 6½	- 16	- 30
- same 3											
months one											
year ago		- 24	- 26	- 8	- 19	- 16	- 25	- 15	+ 6	- 20	- 39

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 9 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)			
			Exports	Imports	Exports	Imports						
Balance of non oil trade	Exports	Imports	Exports	Imports	Terms of Trade ^e	Exports	Imports	Exports	Imports	Exports	Imports	
1986	- 12519	64476	76995	145.4	141.7	102.6	115.4	141.0	59098	73346	118.0	151.6
1987	- 13809	71177	84986	151.2	145.7	103.8	123.6	152.9	65200	81125	126.6	164.9
1987 Q1	- 2370	17309	19679	149.8	148.2	101.1	121.2	140.0	15798	18791	123.7	151.3
Q2	- 3333	17311	20644	150.5	144.1	104.4	120.1	149.5	15893	19710	123.2	161.1
Q3	- 4046	18180	22226	151.9	145.2	104.6	125.8	160.1	16700	21194	129.3	172.5
Q4	- 4061	18376	22437	152.6	145.3	105.0	127.3	161.9	16809	21430	130.3	174.5
1988 Q1	- 4512	17144	21657	154.4	145.5	106.1	118.6	157.9	15971	20690	123.2	170.4
1987 July	- 1258	6047	7305	150.7	144.6	104.2	126.2	157.6	5469	6925	128.0	169.0
Aug	- 1783	5830	7613	152.1	145.5	104.5	120.8	163.7	5446	7270	126.2	176.6
Sep	- 1004	6304	7308	152.8	145.5	105.0	130.3	159.0	5785	6999	133.8	172.0
Oct	- 1316	6107	7423	153.1	146.0	104.8	126.0	159.4	5483	6999	127.0	170.1
Nov	- 1388	6169	7557	152.5	145.2	105.0	128.1	163.4	5627	7229	130.7	176.3
Dec	- 1356	6100	7457	152.2	144.5	105.3	127.8	162.8	5699	7202	133.1	177.0
1988 Jan	- 1805	5590	7395	153.0	145.0	105.5	117.1	161.9	5309	7114	123.8	175.8
Feb	- 1636	5612	7248	154.3	145.6	106.0	116.2	157.5	5206	6857	120.2	168.8
Mar	- 1072	5942	7014	155.8	145.9	106.8	122.6	154.2	5456	6719	125.6	166.6
% Change												
Latest 3 months on - previous 3 months	- 6½	- 3½	+ 1	-	+ 1	- 7	- 2½	- 5	- 3½	- 5½	- 2½	
- same 3 months one year ago	- 1	+ 10	+ 3	- 2	+ 5	- 2	+ 13	+ 1	+ 10	- ½	+ 13	

^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 3)	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Manufactures excluding erratics ^h								
						Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
						Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	j	j	j	j	
1986	72834	5484	2098	8664	55036	50138	18651	9711	8940	31488	1362	5534	14362	10230
1987	79852	5599	2243	8747	61735	56140	20360	10541	9818	35780	1980	6797	15349	11654
1987 Q1	19531	1399	633	2302	14815	13459	4875	2510	2365	8584	452	1629	3734	2768
Q2	19280	1351	565	2116	14865	13512	4879	2514	2365	8633	478	1607	3736	2811
Q3	20275	1441	541	2134	15790	14426	5291	2735	2555	9136	523	1783	3843	2987
Q4	20766	1407	504	2195	16265	14742	5315	2781	2533	9428	527	1778	4035	3088
1988 Q1	18999	1270	486	1763	15078	13935	5067	2663	2404	8868	492	1582	3865	2930
1988 Jan	6268	403	179	647	4904	4632	1674	877	797	2958	166	548	1320	923
Feb	6237	412	148	598	4964	4567	1649	851	798	2917	138	523	1253	1004
Mar	6495	456	159	518	5210	4737	1744	934	810	2993	187	511	1292	1003
% Change														
Q1/Q4	- 8½	- 9½	- 3½	- 20	- 7½	- 5½	- 4½	- 4½	- 5	- 6	- 6½	- 11	- 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).
^j Based on the United Nations Broad Economic Categories end-use classification.

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

Table 9

INDICES 1980 = 100, seasonally adjusted

SITC (REV 3)	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Manufactures excluding erratics ^h								
						Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
						Total	Chemi- cals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	
						5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	j	j	j	j	
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1986	123.9	129.5	117.3	175.5	114.1	117.0	122.8	139.4	109.3	113.6	93.2	119.8	119.7	105.7
1987	131.0	129.3	125.3	173.4	123.8	127.3	131.9	148.3	118.5	124.5	119.8	142.5	122.7	118.9
1987 Q1	129.9	131	143	183	120	123	127	144	114	120	113	138	120	113
Q2	126.4	125	123	168	119	122	127	141	115	120	118	136	119	113
Q3	131.2	132	121	161	126	130	136	152	123	127	125	148	123	123
Q4	136.7	130	115	182	130	134	137	157	121	131	125	148	130	126
1988 Q1	127.3	123	113	173	120	125	131	149	116	121	122	133	120	118
1988 Jan	127.7	115	131	186	118	125	132	150	116	122	123	136	124	112
Feb	125.0	120	106	172	118	122	127	142	115	120	103	132	115	121
Mar	129.4	135	103	162	124	127	133	154	116	123	139	131	120	121
% Change	- 7	- 5	- 1	- 4½	- 8	- 6½	- 5	- 5½	- 4½	- 7½	- 3	- 10	- 7½	- 6½
Q1/Q4														

^h These are defined as ships, North Sea installations (together comprising SITC (REV 2) 793), aircraft (792) precious stones (667), and silver (681.1).
^j Based on the United Nations Broad Economic Categories end-use classification.

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

Table 10

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 3)	Total 0-9	Food bever- ages and tobacco 0+1	Basic Mater- ials 2+4	Fuels 3	Total Manufac- tures 5-8	Manufactures excluding erratics ^h								
						Total 5-8 less SNAPS	Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
							Total 5+6 less PS	Chem- icals 5	Other 6 less PS	Total 7+8 less SNA	Pass- enger Motor Cars j	Other Consumer j	Inter- mediate j	Capita j
Weights	1000	69	31	136	735	658	252	112	141	406	18	71	170	147
1986	136.7	140	124	81	147	148	138	141	135	154	182	156	157	145
1987	142.0	141	124	82	154	155	142	145	139	162	207	165	166	151
1987 Q1	140.8	141	123	82	152	153	141	144	139	160	201	163	163	149
Q2	141.3	140	123	81	153	154	141	145	137	162	204	163	168	150
Q3	143.0	141	125	86	154	155	143	146	140	163	210	166	167	151
Q4	142.8	141	125	79	155	156	143	146	141	164	211	167	169	152
1988 Q1	142.6	140	128	67	157	159	146	151	142	167	203	166	173	156
1988 Jan	141.7	139	125	69	156	158	145	147	143	165	202	165	172	154
Feb	142.7	138	126	68	157	159	145	149	142	168	201	166	174	157
Mar	143.4	143	132	63	158	161	149	157	142	168	207	167	174	157
% Change Q1/Q4	-	- 1/2	+ 2	- 16	+ 1	+ 2	+ 2	+ 3 1/2	+ 1	+ 1 1/2	- 3 1/2	- 1/2	+ 2 1/2	+ 2

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

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

EXPORTS BY AREA
(Overseas Trade Statistics basis)

Table 11

£ million, fob, seasonally adjusted

	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		
1986	72034	57555	34959	6919	12075	10326	3602	13117	5491	7626	1721
1987	79852	64076	39416	7621	12993	11014	4046	13737	5222	8514	1539
1987 Q1	19531	15401	9278	1739	3435	2921	949	3346	1271	2075	420
Q2	19280	15560	9825	1891	2908	2421	935	3393	1268	2125	344
Q3	20275	16416	10156	1903	3313	2804	1044	3554	1330	2224	406
Q4	20766	16699	10157	2088	3337	2868	1117	3444	1353	2091	368
1988 Q1	18999	15004	8860	1704	3385	2834	1054	3183	1158	2024	396
1988 Jan	6268	4781	2728	521	1165	1004	367	1067	410	658	150
Feb	6237	4968	2956	561	1114	941	337	1049	407	643	117
Mar	6495	5256	3176	623	1107	889	350	1066	342	724	130
% Change Q1/Q4	- 8 1/2	- 10	- 13	- 18	+ 1 1/2	- 1	- 5 1/2	- 7 1/2	- 14	- 3	+ 7 1/2

K See paragraph 5 of Notes to Editors.

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IMPORTS BY COMMODITY
(Overseas Trade Statistics basis)

Table 12

£ million cif seasonally adjusted

SITC (REV 3)	Total 0-9	Food bever- ages and tobacco 0+1	Basic Mater- ials 2+4	Fuels 3	Total Manufac- tures 5-8	Manufactures excluding erratics ^h									
						Total 5-8 less SNAPS	Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
							Total 5+6 less PS	Chem- icals 5	Other 6 less PS	Total 7+8 less SNA	Pass- enger Motor Cars j	Other Consumer j	Inter- mediate j	Capita: j	
															Total
1986	85568	10033	5066	6278	63091	59729	20595	7361	13234	39133	4809	10158	13274	10893	
1987	94016	10132	5688	6099	71217	67639	23319	8347	14971	44320	5024	11502	15390	12403	
1987 Q1	21898	2489	1414	1481	16319	15468	5391	1954	3437	10077	1070	2616	3478	2913	
Q2	22698	2462	1433	1466	17140	16274	5642	2010	3632	10631	1198	2820	3692	2921	
Q3	24550	2549	1448	1637	18666	17727	6043	2157	3886	11684	1397	2990	4053	3244	
Q4	24869	2632	1394	1515	19091	18170	6242	2226	4016	11928	1358	3077	4168	3326	
1988 Q1	24032	2540	1372	1241	18645	17726	6168	2131	4037	11558	1440	2774	3935	3409	
1988 Jan	8163	830	427	411	6423	6171	2073	718	1355	4098	567	932	1399	1200	
Feb	8038	849	461	382	6270	5889	2056	730	1326	3833	487	927	1295	1124	
Mar	7831	862	483	449	5953	5666	2039	684	1356	3626	386	915	1241	1084	
% Change Q1/Q4	- 3½	- 3½	- 1½	- 18	- 2½	- 2½	- 1	- 4	+ ½	- 3	+ 6	- 10	- 5½	+ 2½	

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

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

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

Table 13

INDICES 1980 = 100 seasonally adjusted

SITC (REV 3)	Total 0-9	Food bever- ages and tobacco 0+1	Basic Mater- ials 2+4	Fuels 3	Total Manufac- tures 5-8	Manufactures excluding erratics ^h									
						Total 5-8 less SNAPS	Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)					
							Total 5+6 less PS	Chem- icals 5	Other 6 less PS	Total 7+8 less SNA	Pass- enger Motor Cars j	Other Consumer j	Inter- mediate j	Capita: j	
															Total
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94	
1986	134.2	124.3	108.2	94.0	148.2	163.0	151.9	188.1	136.8	170.3	131.6	161.0	186.5	179.8	
1987	144.4	125.0	119.5	95.4	162.6	179.5	166.5	207.2	149.5	188.0	125.4	181.0	209.9	199.6	
1987 Q1	133.7	122	122	92	147	163	153	193	137	168	105	162	187	184	
Q2	140.0	121	122	90	158	174	163	204	146	181	121	178	202	189	
Q3	150.7	126	120	102	171	188	173	216	156	198	142	188	221	210	
Q4	153.1	131	114	97	175	193	176	216	159	205	134	197	231	216	
1988 Q1	147.8	128	115	88	170	187	173	204	160	196	139	176	221	216	
1988 Jan	150.6	126	107	87	176	196	174	205	161	210	166	177	241	229	
Feb	147.1	129	116	79	170	186	173	211	158	194	141	176	216	213	
Mar	145.8	130	121	97	163	180	172	197	162	185	109	177	207	205	
% Change Q1/Q4	- 3½	- 2½	-	- 9½	- 3	- 3	- 1½	- 5½	+ ½	- 4	+ 3½	- 11	- 4	-	

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

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

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

INDICES 1980 = 100 not seasonally adjusted

SITC (REV 3)	Manufactures excluding erratics ^h																
	Total	Food bever- ages and tobacco	Basic Mater- ials	Fuels	Total Manufac- tures	Semi-manufactures								Finished manufactures excluding ships, North Sea installations and aircraft (SNA)			
						Total	Chem- icals	Other	Total	Pass- enger Motor Cars	Other Consumer	Inter- mediate	Capital	excluding precious stones & silver(PS)		North Sea installations and aircraft (SNA)	
														5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA
0-9	0+1	2+4	3	5-8	5-8 less SNAPS	5+6 less PS	6 less PS	7+8 less SNA	j	j	j	j	j	j			
Weights	1000	124	81	138	626	543	217	63	154	326	42	94	96	94			
1986	133.1	136	114	97	143	144	133	141	130	152	170	147	157	141			
1987	136.5	136	117	93	149	151	138	147	134	159	185	152	163	148			
1987 Q1	138.5	138	117	94	151	152	138	147	134	162	189	155	166	152			
Q2	135.3	136	117	93	147	149	137	145	133	157	183	148	163	148			
Q3	136.4	135	118	95	148	150	138	149	134	158	184	152	162	147			
Q4	135.9	134	117	91	149	151	140	149	136	158	185	152	160	147			
1988 Q1	135.1	136	119	83	149	151	140	148	137	159	191	153	160	149			
1988 Jan	134.7	135	118	83	148	151	140	149	136	158	185	152	161	148			
Feb	135.3	135	119	84	149	151	140	147	137	159	190	153	160	149			
Mar	135.2	136	121	81	149	152	140	147	138	160	197	154	160	149			
% Change Q1/Q4	- ½	+ 1½	+ 2½	- 9½	-	+ ½	-	- 1	+ ½	+ 1	+ 3	+ ½	-	+ 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.

IMPORTS BY AREA
(Overseas Trade Statistics basis)

Table 15

£ million cif seasonally adjusted

	Total K	Developed Countries						Developing Countries			Centrally planned economies
		Total	European Community	Rest of W Europe	North America		Other	Total	Oil exporting countries	Other	
					Total	USA					
1986	85568	73152	44459	11840	10020	8445	6834	10144	2056	8088	1856
1987	94016	80490	49557	12869	10781	9136	7282	10985	1700	9286	2097
1987 Q1	21898	18699	11520	3043	2463	2060	1673	2512	432	2079	487
Q2	22698	19673	12166	3190	2625	2230	1691	2584	375	2210	501
Q3	24550	20903	12898	3232	2867	2435	1905	2978	451	2527	553
Q4	24869	21215	12973	3404	2826	2412	2013	2912	442	2470	558
1988 Q1	24032	20663	12699	3241	2762	2319	1961	2677	418	2259	453
1988 Jan	8163	7173	4598	1079	867	732	630	838	137	700	165
Feb	8038	6854	4131	1091	930	779	703	910	142	768	144
Mar	7831	6636	3970	1072	965	809	629	929	139	790	144
% Change Q1/Q4	- 3½	- 2½	- 2	- 5	- 2	- 4	- 2½	- 8	- 5½	- 8½	- 19

K See paragraph 5 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE
(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R3)	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
1986	5445	9196	- 3752	2109	4495	- 2386	8664	5977	+ 2687
1987	5550	9326	- 3776	2257	4965	- 2708	8748	5804	+ 2944
1986 Q2	1282	2228	- 946	470	1098	- 629	1905	1423	+ 482
Q3	1374	2328	- 955	560	1052	- 492	1606	1363	+ 243
Q4	1542	2399	- 857	559	1219	- 660	1978	1499	+ 480
1987 Q1	1389	2282	- 893	637	1258	- 621	2302	1413	+ 889
Q2	1352	2282	- 930	575	1238	- 664	2117	1400	+ 717
Q3	1426	2347	- 921	543	1270	- 726	2134	1563	+ 571
Q4	1383	2415	- 1032	502	1198	- 696	2194	1428	+ 767
1988 Q1	1257	2034	- 778	489	1188	- 699	1763	1142	+ 621
SITC (R3)	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
1986	20839	21406	- 568	34088	38827	- 4739	54927	60233	- 5307
1987	22503	23991	- 1488	39053	44106	- 5053	61556	68097	- 6542
1986 Q2	5225	5153	+ 72	8549	9184	- 635	13774	14337	- 563
Q3	5227	5313	- 86	8383	10061	- 1677	13610	15373	- 1763
Q4	5544	5627	- 83	9119	10682	- 1562	14664	16309	- 1645
1987 Q1	5467	5662	- 195	9358	9893	- 535	14825	15555	- 730
Q2	5519	5794	- 275	9413	10719	- 1306	14932	16513	- 1581
Q3	5731	6171	- 439	10029	11698	- 1669	15760	17868	- 2109
Q4	5786	6365	- 579	10253	11796	- 1543	16038	18161	- 2122
1988 Q1	5472	6335	- 863	9458	11471	- 2014	14930	17807	- 2877

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

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To Minister for Trade

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

19 May 1988

OVERSEAS TRADE FIGURES FOR APRIL: EXPORTS

£352m

1 The value of exports in April, seasonally adjusted on a balance of payments basis, is estimated at £6.8 billion, £0.4 billion higher than in March. Exports of oil were little changed but exports of the erratic items rose by £0.1 billion. Excluding oil and the erratic items exports rose by 4½ per cent between March and April.

2 In the three months ending April 1988 the total value of exports decreased by 2½ per cent compared with the previous three months; excluding oil and the erratic items the decrease was 1½ per cent.

3 In the three months ending April 1988, total export volume was 3 per cent lower than in the previous three months and 2 per cent lower than in the same period a year ago. Excluding oil and the erratic items export volume was 3 per cent lower in the latest three months but unchanged from a year earlier. Uncertainty over the timing effects following from Customs administrative changes introduced at the beginning of the year, and the volatility of recent figures, make it difficult to determine the extent of the fall in the underlying level of exports since the end of last year.

4 Recent export figures are shown in the attached table; charts plotting the main aggregates are also attached. A note describing imports and the current account will be circulated on Monday 23 May. The monthly press notice for April is scheduled for release on Friday 27 May.

Quality of the data

5 It now seems clear that the timing of export recording since December 1987 has been affected to some extent by the new procedures for documenting trade introduced in January 1988. Analyses by IIM Customs indicate that some documents were submitted earlier than usual in December, thus inflating December's figures and reducing those for January. It is possible that further analyses will show that information for the early months of 1988



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has been distorted by increased delays in returning documents after the introduction of Customs '88. It is hoped that further analyses by Customs will enable estimates to be made of the extent of the distortion in time for the press notice announcing the May figures.

6 The ferry operators' strike at Dover was in progress during April, with the volume of exports through the port down to about half of normal levels. The bulk of exports was diverted to other Channel and North Sea ports, and the overall effect on April exports is thought to be small.

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EXPORTS

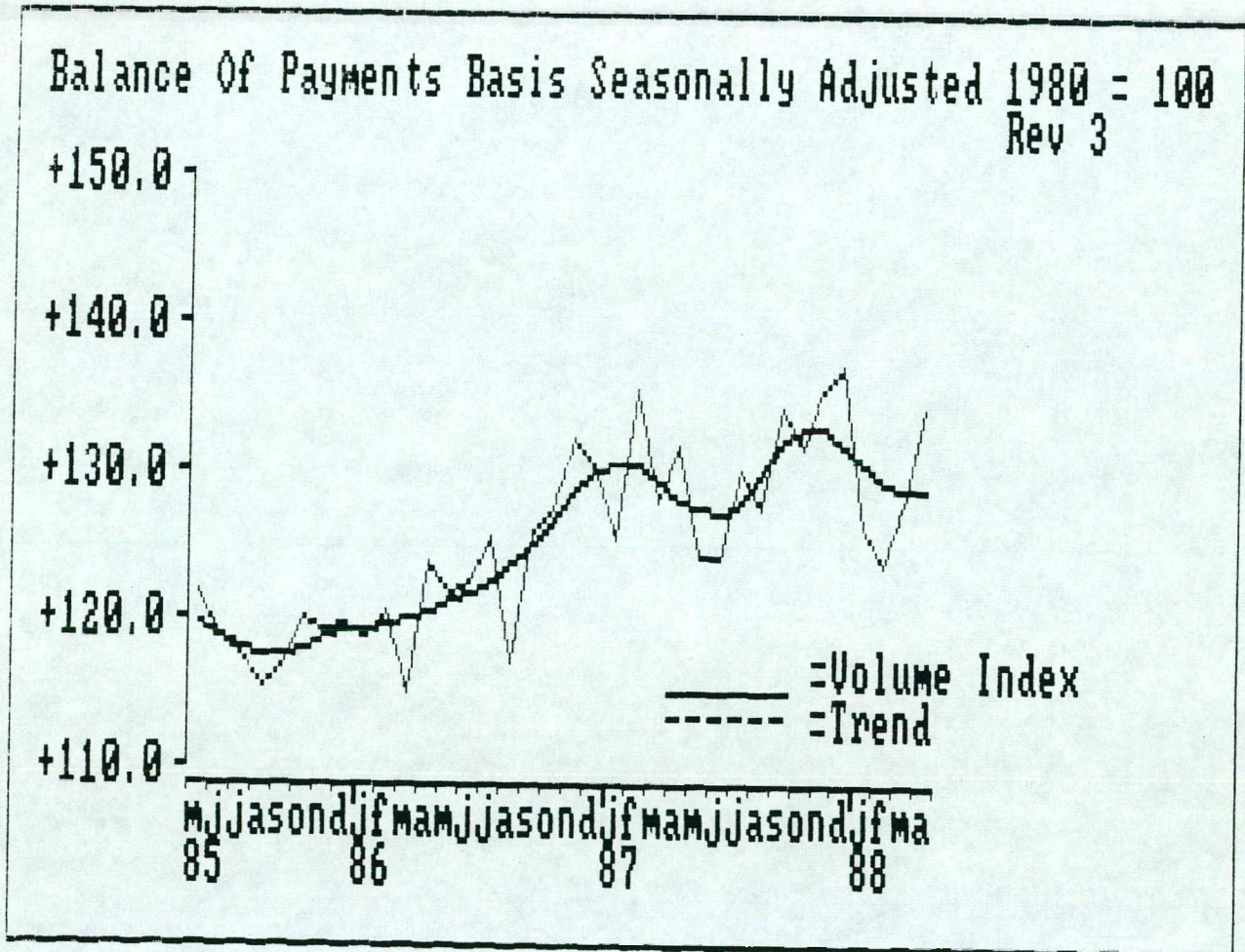
(Balance of payments basis: seasonally adjusted)

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	---TOTAL TRADE ---		EXCLUDING ---OIL AND ERRATICS---	
	VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1987 Q1	19530	129.5	15798	123.7
Q2	19357	126.6	15893	123.2
Q3	20235	130.6	16700	129.3
Q4	20500	134.8	16809	130.3
1988 Q1	18826	126.0	15964	123.2
1987 NOV	6881	135.4	5627	130.7
DEC	6817	137.1	5699	133.1
1988 JAN	6209	126.4	5307	123.8
FEB	6176	123.6	5202	120.1
MAR	6441	128.1	5455	125.6
APR	6793	134.2	5707	131.2

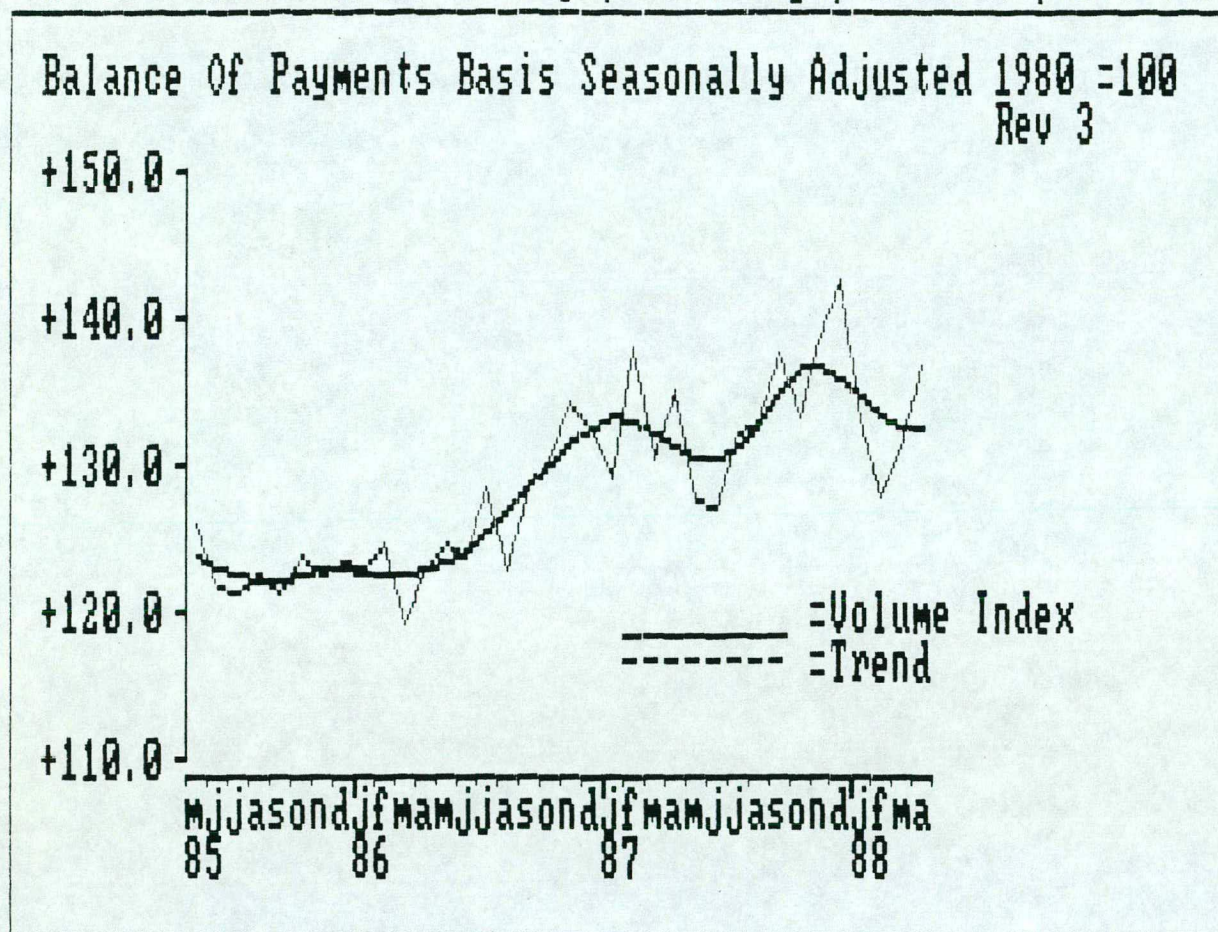
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.5.88

TOTAL TRADE



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.5.88

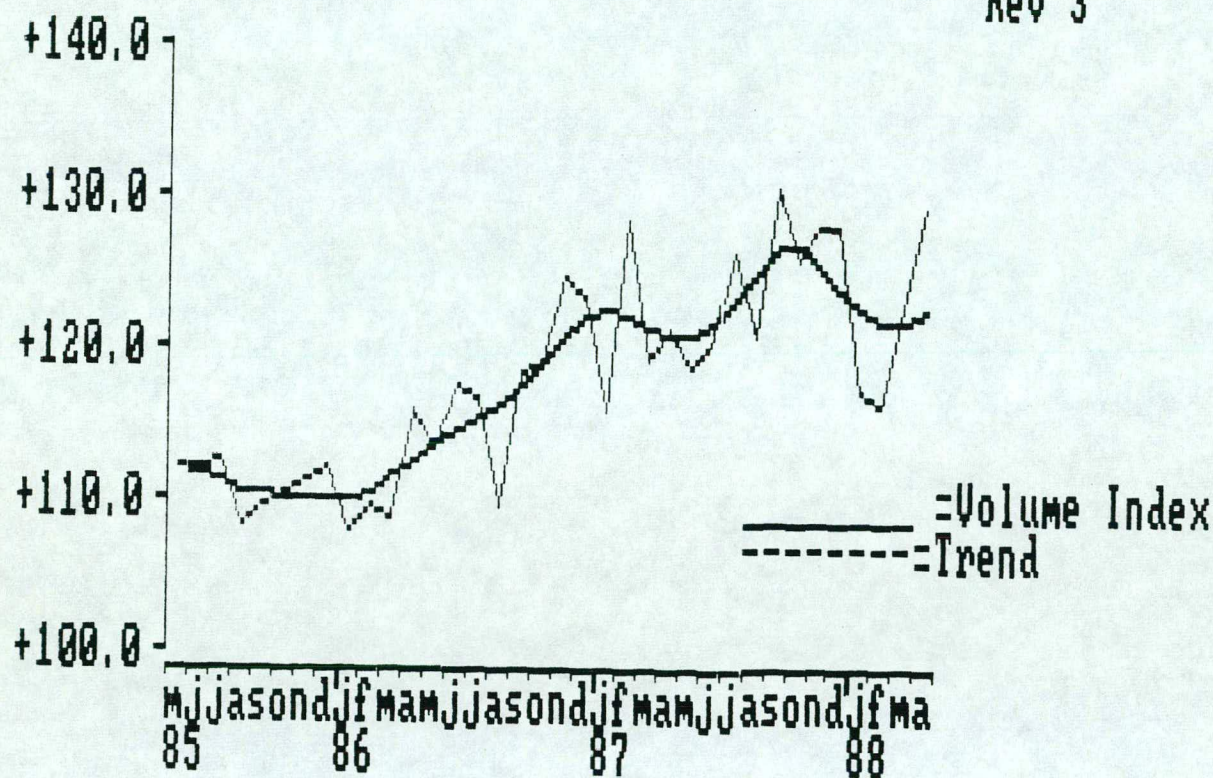
EXPORTS LESS ERRATICS (Ships, N Sea Rigs, Aircraft, Precious Stones, Silver)



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.5.88

EXPORTS LESS OIL

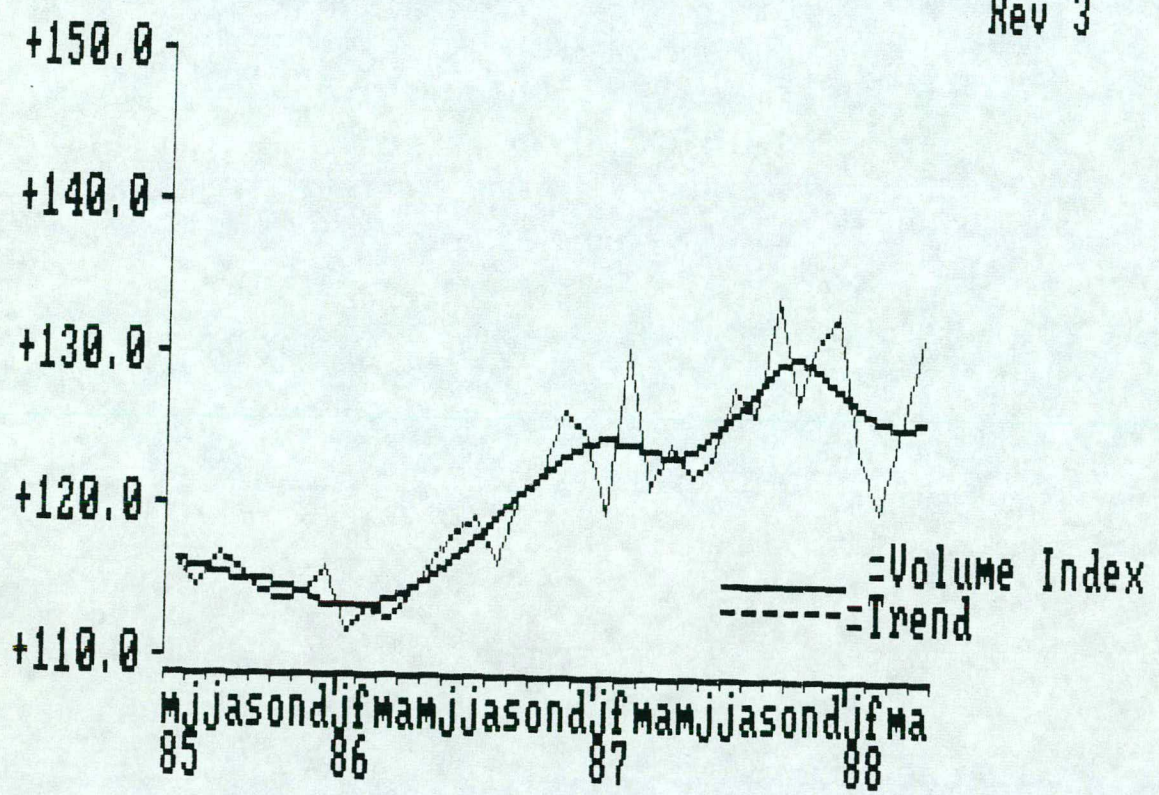
Balance Of Payments Basis Seasonally Adjusted 1980 = 100
Rev 3



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.5.88

EXPORTS LESS ERRATICS & OIL

Balance Of Payments Basis Seasonally Adjusted 1980 = 100
Rev 3



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	Chancellor of the Duchy of Lancaster
6	Sir Robin Butler (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 and Excise
11	Mr J Hibbert (CSO)
12	Mr M J Pratt (HM Customs and Excise)
13	Mr B Buckingham (CSO)
14	Mr Davies (HM Treasury)
15	Mr Young (HM Treasury)
16	Mr P Sedgwick (HM Treasury)
17	Mr D Owen (HM Treasury)
18	Mr A McIntyre (CSO)
19	Mr D Wilson (Dept. of Energy)
20	Mr A Bottrill (HM Treasury)
21	Mr H H Liesner)
22	Mr P J Stibbard)
23	Mr W E Boyd)
24	Mr E J Wright) Dept of Trade and Industry
25	Mrs A Brueton)
26	Miss H Chapman)
27	Mr M Rajput)
28	Mr C Martin)

CONFIDENTIAL

FROM: PAUL DAVIS
DATE: 20 MAY 1988

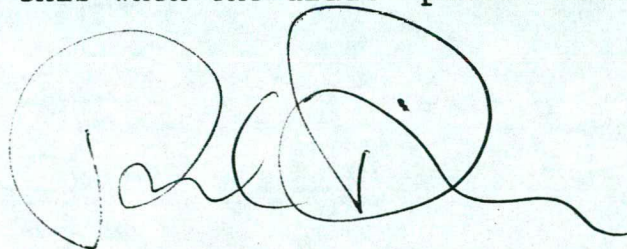
MR SEDGWICK o/r

cc : PPS
Sir Peter Middleton
Sir Terence Burns
Mr Hibberd
Mr Owen

RECENT TRADE FIGURES

We met Peter Stibbard (DTI) recently to discuss further progress made on the analysis of timing distortions to the December and first quarter export figures, and the future public presentation of any adjustments. At an earlier meeting Mr Stibbard had proposed publishing preliminary estimates of the size of distortions in the April figures press notice at the end of May. However, in the light of your letter to him of 12 May, which stated our opposition to the publication of rather hastily prepared estimates, it was agreed that no estimates would be published this month.

2. There are still some data and further analysis to come from Customs before any decision can be taken on the size of adjustments. Customs estimated that they would be able to produce the information in time for the May trade figures press notice in late June. In the light of this, DTI will consider whether they wish to publish adjusted figures at the end of June. For this month they propose only to expand the notes to editors to include some general remarks about distortions, and possibly also on more general under-recording and seasonality. We will have a chance to comment on this when the draft press notice is circulated next week.



P DAVIS

(Was in Trade Figs folder, but not seen?)

FROM: PAUL DAVIS
DATE: 25 MAY 1988

- Jim Hibberd 25/5*
1. MR HIBBERD
 2. CHANCELLOR OF THE EXCHEQUER

cc: See attached list

APRIL TRADE FIGURES

Agreed! a
We should pick up X (para 7) as a point on balanced growth etc
AB

The April trade figures will be published on Friday 27 May at 11.30 am. They will show a visible deficit of £1125 million, compared with a deficit of £885 million in March. The April current account deficit is estimated at £525 million, compared with a revised deficit of £285 million in March.

Summary

2. The main points are:
 - (i) The deterioration in the current account between March and April reflects a 6½ per cent rise in import volumes, partly offset by a 5 per cent rise in export volumes.
 - (ii) The introduction of the new Customs procedures on 1 January has distorted the monthly path of recorded exports. The major impact is thought to be on the December to February figures. Exports have recovered strongly in March and April from the low levels of the previous two months.
 - (iii) Uncertainty over the quality of the export figures makes the underlying path of non-oil exports difficult to assess. But, even allowing for distortions, it appears that the trend may have levelled out since the autumn.
 - (iv) The strong rise in imports in April supports our view that, despite the recorded fall in the first quarter, the underlying trend remains upwards - the volume of imports excluding oil and erratics was 13 per cent higher in the latest three months than the same period a year ago.
 - (v) The market expectation is for a current account deficit of around £400 million. The outturn is only a little larger, and should not be received too badly by the City.

Table 1 : Current account

£ billion

	1987 Year	1987 Q1	Q2	Q3	Q4	1988 Q1	Feb	Mar	Apr
Manufactures	-6.5	-0.7	-1.6	-2.1	-2.1	-2.9	-1.1	-0.5	-0.9
Oil	4.2	1.2	1.0	0.9	1.1	0.9	0.3	0.2	0.3
Other goods	-7.3	-1.6	-1.8	-1.9	-1.9	-1.6	-0.6	-0.6	-0.5
Total visibles	-9.6	-1.2	-2.3	-3.1	-3.0	-3.7	-1.4	-0.9	-1.1
Invisibles	7.9	2.0	2.0	2.2	1.7	1.8*	0.6*	0.6*	0.6*
Current balance	-1.7	0.8	-0.3	-0.9	-1.3	-1.9	-0.8	-0.3	-0.5

* Invisibles figures since January are projections.

Quality of the data

3. Evidence that the pattern of monthly export figures has been distorted by the introduction of the new Customs procedures on 1 January was described in oral press briefing last month. It is also referred to in the expanded Notes to Editors in this month's press notice. Further information is still to come from Customs on the size of the effects, and they should be available shortly. But, at this stage no public indication will be given of the likely size of any distortions. Customs are also carrying out the first post-Customs '88 survey of general underrecording of exports. The result of this inquiry may not be available for some months. The Notes to Editors refer to this under-recording exercise and also announce that DTI will be reviewing their approach to seasonal adjustment during 1988. We have been suspicious of their present method for some time.

4. Although the ferry operators' dispute reduced the volume of trade through Dover by half in April, most exports were diverted to other ports, and the overall effect on trade flows is thought to have been small.

Exports

5. Recorded export volumes (excluding oil and erratics) rose by 4½ per cent in April, but were little changed in the latest six months compared to the previous six months. (The usual three month comparison is distorted by the effects of the Customs changes.) In the latest six months compared to the previous six months a 1½ per cent rise in exports of manufactures was offset by a fall in exports of non-manufactures. While evidence from CBI surveys points to some weakening in export growth, it is not on the scale suggested by recent official estimates. Adjustments for distortions to exports since

December will probably not be large enough to remove this effect entirely.

6. Exports to developed countries fell by 1 per cent in the three months to April. Exports to the EC rose by 1 per cent, but exports to the US fell by 5½ per cent. There was no change in exports to developing countries over this period, although exports to oil exporting countries fell by 10 per cent.

Table 2 : Exports

	percentage change			1987 on 1986
	Apr on Mar	Latest three months on previous three months	Latest three months on same period year earlier	
Total value	5½	-2½	-2½	9½
Total value excl. oil and erratics	4½	-1½	2	10½
Total volume	5	-3	-2	6
Total volume excl. oil and erratics	4½	-3	0	7½
Manufactures volume (excl. erratics, OTS basis)	4½	-3½	1½	9
Fuels volume (OTS)	3½	-11	-11	-1
Basic materials volume (OTS)	1½	-15	-23	7
Food, drink and tobacco volume (OTS)	10	11	4½	0

Imports

7. Import volumes (less oil and erratics) rose by 8 per cent in April and were 13 per cent higher in the latest three months than in the same period last year. Over the latest three months imports of manufactures rose 15 per cent, reflecting strong increases in imports of semi-manufactures, intermediate and capital goods, as investment, stockbuilding and output remained buoyant. Consumer goods imports continued to increase over this period, although less quickly than non-consumer goods.

Table 3 : Imports

	percentage change			1987 on 1986
	Apr on Mar	Latest three months on previous three months	Latest three months on same period year earlier	
Total value	8	-3	8½	10
Total value excl. oil and erratics	9	-3	11	10½
Total volume	6½	-2½	11	7½
Total volume excl. oil and erratics	8	-2½	13	9
Manufactures volume (excl.erratics, OTS basis)	12	-3	15	10
Fuels volume (OTS)	-15	-12	-8	1½
Basic materials volume (OTS)	-1½	7	-2	10½
Food, drink and tobacco volume (OTS)	-1½	-2½	7½	½

Trade prices

8. The continuing strength of sterling led to both the total and non-oil terms of trade improving by 1½ per cent in the three months to April on the previous three months. [NB - the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights].

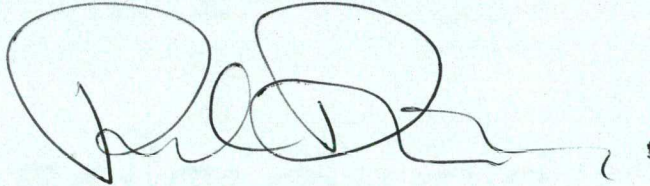
TABLE 4 : Trade Prices

	percentage change		<u>Terms Trade</u>
	<u>Export prices</u>	<u>Import prices</u>	
Manufactures (excl.erratics)	2½	1	
Food, drink, tobacco	1	1	
Basic materials	4	2½	
Fuel	-12	-7½	
Total (BOP basis)	1	-½	1½
Total less oil (BOP basis)	2	½	1½

Assessment

9. The cumulative current account deficit for the first four months of 1988 was £2.4 billion, well above the level implied by the FSBR forecast of £4 billion for 1988 as a whole. This partly reflects the distortions resulting from the introduction of the new Customs procedures. However, even allowing for distortions, exports appear to have been weaker than forecast at the time of the FSBR. The monthly path of import volumes so far this year - with falls in the first three months and a sharp rise in April - mirrors the pattern in early 1987, raising strong suspicions of residual seasonality in the series. Consequently the apparent weakness of imports in recent months would not at this stage lead us to revise our view of the underlying trend.

10. I would be grateful for clearance of the attached press briefing.

A handwritten signature in black ink, appearing to read 'Paul Davis', with a long horizontal flourish extending to the right.

PAUL DAVIS

EA2

DRAFT BRIEFING FOR IDT

Line to take

Rise in imports in April not surprising, following unexpected falls in previous three months. Export figures for early 1988 distorted by changes in Customs procedures, but have recovered strongly in past two months.

Positive

(i) Export order books CBI April Survey still showed balance of firms reporting order books above normal. Balance of firms expect volume of new export orders and export deliveries to rise over next four months.

(ii) Manufacturing industry continues to perform well. In three months to April, manufacturing export volumes (less erratics) higher than a year earlier, while output up 5½ per cent in first quarter on a year earlier.

Defensive

(i) Current account figures may be distorted. Figures for 1988 need to be interpreted with even greater caution than usual because of changes in the documentation and classification system. Evidence that export documentation accelerated during December 1987 in advance of administrative changes - may have brought forward recording of some exports from first quarter into December. But prudent to await further months' data before deciding to what extent pattern of trade distorted.

(ii) Ferry operators' strike. Thought to have had little effect on figures so far.

(iii) Current account deficit on rising trend. Small deficit in 1987 was first after 7 successive years of surplus. Projected deficit in 1988 less than 1 per cent of GDP - much smaller than deficits in mid-1970s (3-4 per cent of GDP). Deficit reflects strong growth of UK domestic demand and activity in 1987 at time of slower growth in many

export markets. Imports forecast to rise more slowly in 1988; good supply performance should allow manufacturers to take advantage of rising world trade.

(iv) Current account deficit indicates economy overheating. CBI concludes no evidence of overheating - April survey shows no significant labour or raw materials shortages.

(v) Current account deficit unsustainable. International confidence in sterling clearly indicates markets have no doubt that modest deficit sustainable and readily financable.

(vi) Fall in export optimism. [CBI April survey showed continuing deterioration in export optimism with balance remaining negative.] Balance of CBI firms still expect export orders and deliveries to rise in next four months and balance of firm reporting export orders above normal.

(vii) Fall in exports in 1988. Some slowing of export growth not unexpected - but cannot give much weight to recent figures. Manufacturers expected broadly to maintain volume of world trade in 1988.

(viii) Fall in imports in early 1988 means economy growing more slowly. Possibly. FSBR forecast some slowing of GDP and import growth during 1988, but too soon to say. Monthly figures erratic - imports rose in April following falls in previous three months.

(ix) Passenger car exports down steeply in April while imports rose. Monthly series often volatile. Both exports and imports of cars down by similar amount in three months to April on previous three months.

(x) Sterling's recent strength has undermined competitiveness. Maintaining competitive position largely in the hands of industry - no part of Government's policy to depreciate exchange rate to accommodate domestic cost increases. But, as Chancellor said (on This Week Next Week, 24 April), certainly do not want to see exchange rate appreciate further - that would be unsustainable and, as such, damaging for business and industry.

(xi) Deterioration in cost competitiveness since 1978. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive.

(xii) Fall in invisibles surplus in 1987Q4. Estimate for 1987Q4 only preliminary. FSBR forecast is for further substantial invisibles surplus of £8½ billion in 1988 reflecting at least partly lower net payments abroad by North Sea companies.

TRADE FIGURES FOR APRIL 1988

Advance circulation

Chancellor	Mr Peretz
Chief Secretary	Miss O'Mara
Economic Secretary	Mr Pickford
Sir P Middleton	Mr RIG Allen
Sir G Littler	Mr Owen
Sir T Burns	
Mr Scholar	
Mr Sedgwick	Mr Gray - No.10

Circulation after 11.30 am on Thursday 28 January

Financial Secretary
Paymaster General
Mr Monck
Mr Matthews
Mr Hudson
Mr Patterson
Mr Tyrie
Miss Holt - No.10



py

FROM: A C S ALLAN
DATE: 26 May 1988

MR P DAVIS

cc Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr R I G Allen
Mr Owen


APRIL TRADE FIGURES

The Chancellor was grateful for your minute of 25 May.

2. He is content with the press briefing, but thinks that it should also pick up the point in your paragraph 7 - that imports of semi-manufactures, intermediate and capital goods are rising fast as investment, stockbuilding and output remain buoyant - as an indication of balanced growth this year, thus dispelling some of the concerns about a consumer boom.

ACSA

A C S ALLAN

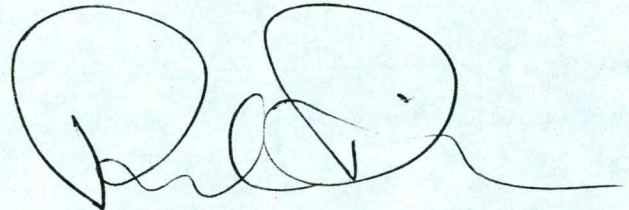

FROM: PAUL DAVIS
DATE: 27 MAY 1988

PS/CHANCELLOR

cc Sir T Burns
Mr Sedgwick
Mr Hibberd
Mr Pickford
Mr R I G Allen
Mr Owen

APRIL TRADE FIGURES

I attach a revised press briefing, incorporating the Chancellor's comments.



PAUL DAVIS

DRAFT BRIEFING FOR IDT

Line to take

Rise in imports in April not surprising, following unexpected falls in previous three months. Export figures for early 1988 distorted by changes in Customs procedures, but have recovered strongly in past two months.

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(ii) Manufacturing industry continues to perform well. In three months to April, manufacturing export volumes (less erratics) higher than a year earlier, while output up 5½ per cent in first quarter on a year earlier.

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(i) Current account figures may be distorted. Figures for 1988 need to be interpreted with even greater caution than usual because of changes in the documentation and classification system. Evidence that export documentation accelerated during December 1987 in advance of administrative changes - may have brought forward recording of some exports from first quarter into December. But prudent to await further months' data before deciding to what extent pattern of trade distorted.

(ii) Ferry operators' strike. Thought to have had little effect on figures so far.

(iii) Current account deficit on rising trend. Small deficit in 1987 was first after 7 successive years of surplus. Projected deficit in 1988 less than 1 per cent of GDP - much smaller than deficits in mid-1970s (3-4 per cent of GDP). Deficit reflects strong growth of UK domestic demand and activity in 1987 at time of slower growth in many

Export markets. Imports forecast to rise more slowly in 1988; good supply performance should allow manufacturers to take advantage of rising world trade.

(iv) Current account deficit indicates economy overheating. CBI concludes no evidence of overheating - April survey shows no significant labour or raw materials shortages.

(v) Current account deficit unsustainable. International confidence in sterling clearly indicates markets have no doubt that modest deficit sustainable and readily financable.

(vi) Fall in export optimism. [CBI April survey showed continuing deterioration in export optimism with balance remaining negative.] Balance of CBI firms still expect export orders and deliveries to rise in next four months and balance of firm reporting export orders above normal.

(vii) Fall in exports in 1988. Some slowing of export growth not unexpected - but cannot give much weight to recent figures. Manufacturers expected broadly to maintain volume of world trade in 1988.

(viii) Fall in imports in early 1988 means economy growing more slowly. Possibly. FSBR forecast some slowing of GDP and import growth during 1988, but too soon to say. Monthly figures erratic - imports rose in April following falls in previous three months.

(ix) Rise in imports in April reflects excessive growth in consumption. Never look at one month's figures on their own. True that consumer goods imports risen in latest three months on a year earlier, but imports of semi-manufactures, intermediate and capital also rising strongly reflecting buoyant investment, stockbuilding and output.

(x) Passenger car exports down steeply in April while imports rose. Monthly series often volatile. Both exports and imports of cars down by similar amount in three months to April on previous three months.

(xi) Sterling's recent strength has undermined competitiveness. Maintaining competitive position largely in the hands of industry - no part of Government's policy to depreciate exchange rate to accommodate

domestic cost increases. But, as Chancellor said (on This Week Next Week, 24 April), certainly do not want to see exchange rate appreciate further - that would be unsustainable and, as such, damaging for business and industry.

(xii) Deterioration in cost competitiveness since 1978. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive.

(xiii) Fall in invisibles surplus in 1987Q4. Estimate for 1987Q4 only preliminary. FSBR forecast is for further substantial invisibles surplus of £8½ billion in 1988 reflecting at least partly lower net payments abroad by North Sea companies.

SECRET AND PERSONAL
UNTIL 27 JUNE AT 11.30 AM
THEN CONFIDENTIAL

FROM: PAUL DAVIS
DATE: 24 JUNE 1988

PD

*I have amended this
summary. It is now
in line with the
line in para 4 of
Gibberd's
memo (as
indicated by
arrows)*

1. MR HIBBERD *Jim Hibberd 24/6.*
2. CHANCELLOR OF THE EXCHEQUER

cc: See attached list

a
Some comments

AA

MAY TRADE FIGURES

The May trade figures will be published on Monday 27 June at 11.30 am. They will show a deficit on visible trade of £1705 million, compared with a revised deficit of £1228 million in April. The May current account deficit is estimated at £1205 million - the largest on record - compared with a revised deficit of £728 million in April. The cumulative deficit for the year so far is £4709 million.

Summary

2. The main points are:
- (i) The deterioration in the visible balance in May is due to a 4½ per cent fall in export volumes and a 2 per cent rise in import volumes.
 - (ii) The invisibles surplus in the first quarter, published by the CSO on 16 June, was estimated at £1.2 billion or £0.4 billion a month compared with the earlier CSO projection of £0.6 billion a month. The CSO have partly discounted the very low Q1 outturn but have nevertheless revised down their projection of the invisibles surplus for the second quarter to £0.5 billion per month.
 - (iii) Given the distortions to exports in December to February, associated with Customs '88, it remains difficult to assess the underlying trend. However, the fall in exports in May is consistent with the trend having flattened out since the second half of last year.
 - (iv) The rise in imports in May, following the strong recovery in April, provides further evidence of a continued upward trend in import volumes, despite the recorded fall in the first quarter.

- (v) There are not thought to be any significant distortions to the monthly trade figures in May - the effects of Customs '88 seem to have been concentrated in the December to February period and the ferry operators' strike has probably had little net effect.
- (vi) The market expectation is for a current account deficit of around £450 million in May. Some of these forecasts were prepared before the publication of the Q1 current account figures on 16 June. Even allowing for this, the May figures are much worse than anticipated and are unlikely to be well received by the City.

Table 1 : Current account

£ billion

	1987					1988				
	Year	Q1	Q2	Q3	Q4	Q1	Mar	Apr	May	
Manufactures	-6.5	-0.7	-1.6	-2.1	-2.1	-2.9	-0.5	-0.9	-1.3	
Oil	4.2	1.2	1.0	0.9	1.1	0.9	0.2	0.3	0.2	
Other goods	-7.3	-1.7	-1.7	-1.9	-2.0	-2.0	-0.7	-0.6	-0.6	
Total visibles	-9.6	-1.2	-2.3	-3.1	-3.0	-4.0	-1.0	-1.2	-1.7	
Invisibles	8.1	2.2	2.1	2.2	1.6	1.2	0.4	0.5*	0.5*	
Current balance	-1.6	1.0	-0.2	-0.9	-1.4	-2.8	-0.6	-0.7	-1.2	

* Invisibles figures since April are projections.

Quality of the data

3. No public indication will be given in the May trade figures press notice of the size of the distortions caused by Customs '88. The visibles figures for the first four months of 1988 contain an upward revision to imports of about £0.1 billion per month, reflecting the correction of an error in the freight component which affects the balance of payments basis figures only.

Exports

4. Recorded export volumes (excluding oil and erratics) fell by 2½ per cent in May, with falls in all major categories. However in the three months to May they were 4½ per cent higher than in the same period a year earlier, mainly due to a rise in exports of manufactures. This increase was concentrated in non-consumer goods, with a strong rise in exports of capital goods. Exports of passenger motor cars and other consumer goods, however, fell over this period. The June CBI monthly survey showed a small balance of firms reporting

export order books above normal (a zero balance after seasonal adjustment), though this balance remains below the peak of last summer.

5. Exports to developed countries rose by 6 per cent in the three months to May on the previous three months reflecting a 13 per cent rise in exports to the EC partly offset by a 13 per cent fall in exports to the US. The latter suggests that the loss of competitiveness resulting from the depreciation of the dollar is beginning to have a significant effect. Exports to developing countries rose by 2½ per cent over this period despite a 9 per cent fall in exports to oil exporting countries.

Table 2 : Exports

	May on Apr	percentage change		1987 on 1986
		Latest three months on previous three months	Latest three months on same period year earlier	
Total value	-4½	2½	1½	9½
Total value excl. oil and erratics	-3½	3	6	10½
Total volume	-4½	1	2	6
Total volume excl. oil and erratics	-2½	2	4½	7½
Manufactures volume (excl. erratics, OTS basis)	-2½	1	6	9
Fuels volume (OTS)	-12	-14	-12	-1
Basic materials volume (OTS)	-3	-12	-17	7
Food, drink and tobacco volume (OTS)	-5	18	13	0

Imports

6. The rise in import volumes in May was entirely accounted for by a large increase in imports of erratics (especially precious stones). Import volumes (less oil and erratics) fell slightly, but were still 11 per cent higher in the latest three months than in the same period a year earlier. Over the past year there have been strong rises in imports of semi-manufactures, intermediates and capital goods. In the latest three months, however, there was a large increase in imports of consumer goods other than cars, reflecting buoyant consumer demand.

Table 3 : Imports

	May on Apr	percentage change		1987 on 1986
		Latest three months on previous three months	Latest three months on same period year earlier	
Total value	2	1½	11	10
Total value excl. oil and erratics	-½	1	12	10½
Total volume	2	1½	11	7½
Total volume excl. oil and erratics	-½	1	11	9
Manufactures volume (excl.erratics, OTS basis)	0	1½	14	10
Fuels volume (OTS)	5	-3	4½	1½
Basic materials volume (OTS)	-3	5½	-2	10½
Food, drink and tobacco volume (OTS)	-2	-4	5	½

Trade prices

7. The continuing strength of sterling led to both the total and non-oil terms of trade improving by 2 per cent in the three months to May on the previous three months. [NB - the published series are unit value indices, which can present a misleading picture over a period of time due to their use of 1980 weights].

TABLE 4 : Trade Prices*

	percentage change		Terms Trade
	latest three months on previous three months		
	<u>Export prices</u>	<u>Import prices</u>	
Manufactures (excl.erratics)	2	½	
Food, drink, tobacco	3	1	
Basic materials	7	2½	
Fuel	-8½	-6	
Total (BOP basis)	1½	-½	2
Total less oil (BOP basis)	2	0	2

*Not seasonally adjusted

Assessment

8. The current account deficit for the first five months of 1988 has now exceeded the FSBR forecast of £4 billion for the year as a whole. Exports have been weaker than forecast at Budget time, while the trend in imports remains strongly upward.

9. The sharp deterioration in the current account in recent months may well lead to questions on the cause and sustainability of the deficit. We could argue that unlike previous current account deficits, which were associated with public sector financial deficits, the current situation reflects private sector behaviour. The recent rapid growth of consumption and exceptionally low savings ratio are probably a response to the fall in inflation and rise in asset prices over the past few years. These effects should be largely self correcting, with the savings ratio likely to return to more normal levels. The current investment boom will lead to increased productive capacity which will boost exports and displace imports in the future.

10. The current account deficit is, therefore, likely to be temporary and, given the prudent financial position of the public sector, there is no need for further government measures. Monetary policy will ensure that downward pressure on inflation is maintained, and will limit the risk of any major move in sentiment against sterling.

11. The above thoughts are reflected in the attached press briefing, for which I would appreciate clearance.

Paul Davis

PP PAUL DAVIS

EA2

TRADE FIGURES FOR MAY 1988

Advance circulation

Chancellor
Chief Secretary
Economic Secretary

Mr Peretz
Miss O'Mara
Mr Patterson

Sir P Middleton
Sir G Littler
Sir T Burns
Mr Scholar
Mr Sedgwick

Mr Gieve
Mr Owen

Mr Gray - No.10

Circulation after 11.30 am on Monday 27 June

Financial Secretary
Paymaster General
Mr Monck
Mr Matthews
Mr Hudson
Mr Tyrie
Miss Holt - No.10

DRAFT BRIEFING FOR IDT

Line to take Chancellor said in the House of Commons on 16 June that current account deficit in 1988 as a whole was likely to exceed FSBR estimate. Reflects ~~extremely buoyant state~~ ^{stronger growth} of UK economy ~~relative to growth in other major economies,~~ ~~Likely to be temporary, so no case for government action to reduce current account deficit.~~

Positive

(i) Manufacturing industry continues to perform well. In three months to May, manufacturing export volumes 6 per cent higher than a year earlier, while output up 5 per cent in three months to April on a year earlier.

(ii) Large positive balance from a Q1 (£3.5 bn) suggests that ~~of a record figs & understates~~ ^{Capital inflows - overstated} ~~Current deficit.~~

Defensive

(ii) FSBR forecast over-optimistic. Uncertainty over distortions to visible figures, together with erratic nature of quarterly invisibles balances make recent trends difficult to discern. But, as Chancellor said in House on 16 June, recent figures point to larger deficit than forecast at Budget time. Next forecast will be published at time of Autumn Statement.

(iii) Current account deficit unsustainable. ~~No.~~ Reflects ~~exceptionally high consumption and~~ investment spending by private sector - contrary to experience in 1960s and 1970s when current account deficit reflected public sector deficit. Private sector behaviour likely to be self-correcting, and is adding to productive capacity which will boost exports and displace imports in the future.

(iv) Confidence in sterling likely to deteriorate. ~~No~~ rational reason for this, given temporary nature of deficit. ~~Indeed confidence in UK over the past year has contributed to deficit by pushing up sterling and putting downward pressure on interest rates.~~

(v) Current deficit reflects excessive consumption. Inevitable that strong growth in domestic demand and activity has led to some rise in imports of consumer goods. But has also led to strong rises in imports of capital goods, intermediate and semi-manufactured goods, reflecting rising output, investment and stockbuilding.

Present deficit figures high

Let's have figs

?? (These sort of points are defensive anyway) complex with thousands of spec desire to invest in UK.

in domestic costs by allowing exchange rate depreciation.

No ^{small} relation between UK & US positions.

associated with

(vi) UK current account deficit likely to reach US proportions. US deficit ~~caused by~~ large and persistent US government fiscal deficit. Stance of UK fiscal policy altogether different. UK current account deficit reflects ~~exceptional and temporary~~ strength of private sector spending.

What action?

(vii) Government should take action to reduce current account deficit. ~~No. Not given temporary nature of deficit and prudent financial position of public sector.~~

C& are deficits counter part of capital inflows. So long as Govt maintains fiscal & monetary policy, no problem.

(viii) Budget tax cuts raised domestic demand and caused current account deficit. No. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR expected to remain negative. ~~No reason why Budget should have sought to offset exceptionally buoyant private sector behaviour by fiscal means.~~

Supply-side Budget wh. will bring surplus & finance budget over 10 years.

(ix) Current deficit could be reduced by depreciation of sterling. Not ~~in nature of~~ government policy to depreciate exchange rate to increase UK competitiveness. Restraint of unit costs - which is in industry's own hands - ~~more important for competitiveness.~~

try to

(x) Current account deficit indicates economy is overheating. CBI concludes no evidence of overheating - April survey showed no significant labour or raw materials shortages.

(xi) Current account figures may be distorted. Figures for early months of 1988 need to be interpreted with even greater caution than usual because of changes in documentation and classification system. Prudent to await full analysis of data before deciding to what extent pattern of trade distorted.

(xii) Fall in export optimism. [CBI April survey showed continuing deterioration in export optimism with balance remaining negative.] Balance of CBI firms still expect exports to rise in future and June survey showed small balance of firms still with export order books above normal.

(xiii) Fall in exports in 1988. Some slowing of export growth was expected, but trend difficult to discern given uncertainty over recent figures.

(xiv) Deterioration in cost competitiveness since 1978. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive.

(xv) Invisibles surplus declining. Quarterly figures erratic. Fall in 1988Q1 balance mainly due to increased travel deficit, reflecting strong growth in UK consumers' expenditure and strength of sterling, but surpluses on financial services (despite recent fall in net insurance earnings) and on interest profits and dividends still strong.

(xvi) Positive balance of payments balancing item in 1988Q1 implies unrecorded current account credits. May imply unrecorded current account credits or unrecorded capital inflows. Would not be surprising if some error occurred in current account.

ps1/47A

SECRET AND PERSONAL
until 27 June at 11.30am
then UNCLASSIFIED



ps1

FROM: A C S ALLAN
DATE: 27 June 1988

MR P DAVIS

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Peretz
Miss O'Mara
Mr Patterson
Mr Gieve
Mr D Owen
Mr H Bush

MAY TRADE FIGURES

The Chancellor was grateful for your minute of 24 June. He has
... made some amendments to the briefing, and I attach a revised
version.

ACSA

A C S ALLAN

BRIEFING FOR IDT ON MAY TRADE FIGURES**Line to take**

- A current account deficit is not itself of great concern if it can be readily financed.
- In this case it reflects a shift in private sector behaviour with increased investment and reduced saving (although the figures may well over-state the extent of the reduction in saving); this contrasts with previous current account deficits which reflected unsustainable public sector borrowing.
- It also reflects a new-found confidence in the UK as a place to invest.
- But we remain determined to keep monetary policy tight and certainly will not stand by to watch a depreciation of the £ (as the Chancellor has indicated on many recent occasions).

Positive

- (i) Manufacturing industry continues to perform well. In three months to May, manufacturing export volumes 6 per cent higher than a year earlier, while output up 5 per cent in three months to April on a year earlier.
- (ii) Large positive balancing item in Q1 (£3.5 billion) suggests that recorded figures understate capital inflows and overstate current account deficit.

Defensive

- (ii) FSBR forecast over-optimistic. Uncertainty over distortions to visible figures, together with erratic nature of quarterly invisibles' balances make recent trends difficult to discern. But, as Chancellor said in House on 16 June, recent figures point to a larger deficit than forecast at Budget time. Next forecast will be published at time of Autumn Statement.

- (iii) Current account deficit unsustainable. Current account has to balance over very long-term, but not over shorter period. Present deficit financing high investment spending by private sector - contrary to experience in 1960s and 1970s when current account deficit financed public sector deficit. Private investment is adding to productive capacity which will boost exports and displace imports in the future.
- (iv) Confidence in sterling likely to deteriorate. Government's position perfectly clear. Will not bail out excessive increases in domestic costs by allowing exchange rate depreciation.
- (v) Current deficit reflects excessive consumption. [Must add figures here]. Inevitable that strong growth in domestic demand and activity has led to some rise in imports of consumer goods. But has also led to strong rises in imports of capital goods, intermediate and semi-manufactured goods, reflecting rising output and investment.
- (vi) UK current account deficit likely to reach US proportion. No similarity between UK and US positions. US deficit associated with large and persistent US government fiscal deficit. Stance of US fiscal policy altogether different. UK current account deficit reflects strength of private sector spending.
- (vii) Government should take action to reduce current account deficit. Current account deficit counterpart of capital inflows. So long as Government maintains firm fiscal and monetary policy, no problem.
- (viii) Budget tax cuts raised domestic demand and caused current account deficit. No. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR expected to remain negative. Moreover, Budget was a supply side Budget, which will bring increasing economic benefit over the years.
- (ix) Current account deficit could be reduced by depreciation of sterling. Not Government policy to depreciate exchange rate to try to increase UK competitiveness. Restraint of

unit costs - which is in industry's own hands - key to competitiveness.

[Leave existing (x) to (xv) as drafted; delete (xvi)].

SECRET
until 11.30 on 27 June

pay

FROM: J GIEVE
DATE: 27 June 1988

MR P DAVIS

cc PS/Chancellor
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Peretz
Miss O'Mara
Mr Pattison
Mr D Owen
Mr H Bush

MAY TRADE FIGURES

We agreed an additional first line to take for today as follows:

"As Chancellor said in House of Commons on 16 June, current account deficit in 1988 as a whole is likely to exceed Budget Forecast. Reflects stronger growth of UK economy relative to other major economies coupled with increased overseas desire to invest in UK.

JSL Gieve

JOHN GIEVE