FILE NUMBER

PO-CH/NL/0673 PART A

FOR DISPOSAL ADVICE SEE INSIDE COVER

DISPOSAL DIRECTIONS	SIGNATURE	DATE
DESTROY AFTER YEARS		
PRESERVE		

FILE BEGINS 17/08/1987

ENDS 19/01/1989

FILE TITLE

STATISTICS AND PRESS NOTICES 1987 – 1988

PART 1/2

psl/24A UNCLASSIFIED pmp

Thanks. I would like the right basis & the antiquated basis of the NIER analysis to be [illegible] known.

FROM: A C S ALLAN
DATE: 4 June 1987

CHANCELLOR OF THE EXCHEQUER cc Mr Culpin

PRODUCTIVITY IN THE UK AND ELSEWHERE

You may have seen the piece in the latest National Institute Economic Review which said that even though growth in UK productivity had been rapid recently, it had so far done very little to reduce the large absolute gap between our productivity and that in other countries. I have long had an interest in purchasing power parities etc. and I thought I would track down the basis for this. It turns out to be derived from some 1973 estimates!

2. The latest Review says that "Comparing levels of productivity is a notoriously difficult exercise ... for purely illustrative purposes, the results of an earlier exercise have been used". It refers back to a special issue of the Review in 1982. This special issue reveals that the estimates of PPP rates used in making the comparisons were based on Kravis's estimates for 1973. These have then been rolled forward by the rates of productivity growth in domestic currencies in each country.

3. This is not necessarily stupid: there are some other estimates which confirm the broad general picture. But it is certainly not "news"! And in any case the line is clear: it will take many years of continuation of present policies to bridge the gap built up by decades of economic mismanagement.

X

ACSA

A C S ALLAN

May 1987

terms was indeed the fastest among the seven largest OECD countries (table 3). Taking a longer view, however, the result is not so favourable: in the ten years ending 1986, manufacturing productivity growth was slowest in Britain; it was particularly sluggish in 1976–9, followed by a period of fast advance in 1979–82, whilst in the years following 1982 the British performance, though rapid in historical comparison, was not outstanding when compared to those of other major industrial countries. It was certainly not sufficiently rapid to close—or even influence in any major way—the gap that exists between the *level* of productivity in Britain and that of most other industrial countries.

Comparing levels of productivity is a notoriously difficult exercise, not only because of the differences in the price systems of the various countries, but also in view of the frequent changes in relative exchange rates.[6] For purely illustrative purposes, the results of an earlier exercise have been used; these were published in a special issue of the *Review* on British comparative productivity.[7]

Although we would readily admit—and even emphasise—that other comparisons can be made with different results, all of them would almost certainly indicate that output per person hour in Britain in 1980 was—and has remained—significantly lower than in the countries listed in table 4. The message from that table is clear: the advantage of relatively low labour costs in Britain is outweighed by the higher productivity in the other countries shown. As a result, labour costs per unit of output are lower in the other countries than in Britain—according to *this* particular comparison.

The recent (1984–6) changes in the exchange rate have had a considerable effect on unit labour costs without, however, having invalidated the above statement: the depreciation of the dollar has reduced US unit labour costs, whereas the appreciation of other currencies has raised costs elsewhere. This is particularly noticeable in the case of Germany in view of the rise of the DM rate (about 25 per cent against the dollar), although the reduction in the productivity excess over the United Kingdom has also contributed.

As already noted, labour costs, important as they are, will always tell no more than part of the whole story in explaining the competitive position of any country; productivity differences bring us nearer to an answer, but one that will inevitably be incomplete in view of the unquantifiable nature of many non-price factors, from delivery dates, through product design and quality, to after-sales service.

Leaving aside these latter considerations, we may conclude that whilst labour costs in British manufacturing are among the very lowest in the developed countries, so is productivity; although the historically favourable growth of productivity in recent years has started to raise its level relative to other countries, this gap is still quite formidable, more than balancing any competitive advantage stemming from low labour costs.

Table 4. Unit labour costs in manufacturing

Great Britain = 100

	(A) Total hourly labour costs[a]			(B) Labour productivity (output per hour)[b]			(C) Unit labour costs[c]		
	1980	1984	1986[d]	1980	1984	1986[d]	1980	1984	1986[d]
United States	126	194	161	273	262	267	46	74	60
Japan	80	109	129	196	177	176	41	62	73
France	121	114	122	193	179	184	63	64	66
Germany	165	153	173	255	232	178	65	66	97
Italy	108	117	127	173	156	155	62	75	82
Belgium	176	140	149	207	200	154	85	70	97
Netherlands	160	142	156	269	267	205	59	53	76

Source: As table 1.
(a) Including social charges.
(b) The 1980 estimates have been taken from the special issue on British comparative productivity of the *National Institute Economic Review* (no. 101, August 1982, p.35); these have been brought up to date on the basis of the data in table 18 of the Statistical Appendix, supplemented by the author's estimates for Belgium and the Netherlands.
(c) A:B.
(d) Provisional estimate.

NOTES

(1) 'Labour costs and international competitiveness', *National Institute Economic Review*, no.61, August 1962, pp.53–8; 'Labour costs in OECD countries, 1964–75', *National Institute Economic Review*, no.78, November 1976, pp.58–62; and 'Industrial labour costs, 1971–83', *National Institute Economic Review*, no.110, November 1984, pp.62–7.

(2) 'Wages and total labour costs for workers', *International Survey*, annual, published by the Swedish Employers' Confederation; we are grateful to them, and particularly to Ms M. Finné, Chief Research Officer, for permission to use the information contained therein and for making it available to us.

August 1982

Table 7. Relative levels of gross value added per person employed (at PPP rates); 1970, 1973, 1975 and 1980 (UK = 100)

	Jones	Present study				Kravis et al[b]	Economic Trends[c]
	1970	1970	1973	1975[a]	1980[a]	1975	1980
A. GDP per employed worker-year							
Belgium	135	130	138	147	152	139	129
France	124	123	133	142	154	140	128
Germany	128	123	129	137	147	140	129
Italy	97	101	103	106	112	104	113
Netherlands	148	131	141	150	155	152	144
UK	100	100	100	100	100	100	100
B. Manufacturing output							
Belgium	155	144	139	147	181		
France	164	154	153	163	188		
Germany	155	174	168	181	203		
Italy	105	126	129	124	153		
Netherlands	183	164	183	192	235		
UK	100	100	100	100	100		

(a) Using 1973 industrial and sectoral PPPs.
(b) As implied by I. B. Kravis, A. Heston and R. Summers, 'New insights into the structure of the world economy', *Review of Income and Wealth*, December 1981.
(c) As implied by CSO's 'International comparisons of gross domestic product', *Economic Trends*, April 1982.

New work by UN team and by the CSO

Between the completion of the first stage of the present work at the end of 1981 and its revision and updating in May and June this year, PPP estimates for 1975 have been published by the UN team.[1] The effect of using a weighting system based on 1975 prices on relative levels of GDP per employed worker-year is shown in table 7 where the levels relative to the UK can be compared with those for 1975 derived from the present study. With the possible exception of Belgium the differences are comparatively small.

The Central Statistical Office has recently published PPP estimates for 1980.[2] The relative levels of GDP per employed worker implied by these estimates are also shown in table 7. We cannot be certain how closely the methodology used approaches that used by the UN team for earlier years. Nevertheless, it appears that the use of 1980 prices narrows the productivity differential between the UK and the other European countries, except Italy, as compared with the use of 1973 prices. We cannot, however, yet tell how the differentials at 1980 prices have changed since 1973. Although the CSO contains annual figures for PPPs based on backward projection from 1980, the resulting PPPs being derived from a consideration of the movement of the volumes and the deflators of GDP do not reflect changes in the structure of production. Such changes are taken into account in the method of the present study, even if not as adequately as might be desired.

Output per man hour in manufacturing in 1980

The annual hours worked in manufacturing in 1975 derived from the Eurostat study on *Labour costs in industry* can be projected back to 1973 and forward to 1980 and, in some cases, to 1981 using the US Bureau of Labor Statistics indices of average weekly hours worked in manufacturing. Table 8 shows estimates of output per worker hour in 1973 dollars for the eight countries in 1973 and 1980 and for six countries in 1981. The table also gives the annual rate of change of output per worker hour between 1973 and 1980.

It can be seen that the differential between the UK and all of the other countries, except the US, widened between 1973 and 1980. The differentials narrowed, however, in all the comparisons which can be made for 1980 and 1981.

[1] I. B. Kravis, A. Heston and R. Summers, 'New insights into the structure of the world economy', *Review of Income and Wealth*, December 1981.

[2] CSO, 'International comparisons of gross domestic product', *Economic Trends*, April 1982.

Table 8. Output per man-hour in manufacturing; 1973, 1980 and 1981[(a)]

	1973		Average annual increase	1980		1981	
	$73	UK = 100	1973–80 per cent	$73	UK = 100	$73	UK = 100
US[(b)]	9.42	287	1.0	10.10	273	10.44	262
Netherlands	7.06	215	5.0	9.94	269	..	..
France	5.26	160	4.5	7.14	193	7.31	187
Belgium	5.24	160	5.6	7.66	207	..	..
Germany	6.23	190	4.2	8.33	255	8.55	219
Italy	5.05	154	3.5	6.41	173	6.44	165
Japan[(c)]	4.73	144	6.3	7.27	196	7.43	190
UK	3.28	100	1.7	3.70	100	3.91	100

(a) Annual hours for 1975 taken from *Labour costs in industry*, vol I. (Eurostat 1977). Annual hours for 1973, 1980 and 1981, extrapolated from 1975 using US Bureau of Labor Statistics country indices of average weekly hours in manufacturing.
(b) Annual hours for 1975 assumed to be average of Germany, Netherlands and Belgium.
(c) Annual hours for 1975 assumed to be the same as in UK.
.. = Not available.

Summary

In this article we have attempted to repeat D. T. Jones's exercise of six years ago, in which absolute levels of productivity for different economies were essentially derived from work designed to compare relative standards of living. Given the logic of national accounting such an approach is legitimate in theory, if difficult to accomplish satisfactorily in practice. A second demonstration of the same trick is bound to be less impressive. But it can be justified on a number of grounds. Six years have elapsed since it was last done. Other careful work carried out since then help us to test the reliability of some rather crude techniques. The behaviour of productivity in the UK relative to performance elsewhere remains a subject of lasting interest.

In his 1976 article, D. T. Jones showed that the growth of output per person employed in the UK increased in each of the four five-year periods that he considered from 1955 to 1973. In the five EC countries that he selected for comparison there were also increases in the second and third five-year periods but not in the fourth period. Thus there was some sign of relative improvement by the UK over the period 1969–73 compared with its past record, while the reverse was true of the five EC countries.

The contrast appeared particularly striking in manufacturing industry. The annual rate of increase of output per worker for the EC Five rose only from 4.1 per cent to 4.7 per cent per annum on average between the periods 1955–60 and 1968–73. For the UK, however, the rate of increase doubled from 2.2 per cent to 4.4 per cent—a conspicuous relative rate of improvement. The present study suggests that UK lost ground substantially between 1973 and 1980.

Taking the work of D. T. Jones and the present study together, we have a picture of varying UK fortunes and not one of steady deterioration as is often suggested. There are welcome signs of some improvement between 1980 and 1981, but it is too early to say whether this is merely a cyclical phenomenon or something more lasting.

The picture of the absolute levels of labour productivity across a group of eight countries and across five sectors within each country should be looked at with some degree of caution. Whatever we do, the index number problem can never be evaded. The picture possesses, however, the not negligible virtue of being up to date, and the method used contains certain built-in guarantees of overall consistency with the overall results, i.e. the absolute levels of GDP in the chosen base year, of Kravis and his team. The light and the perspective in which the UK appears seem not unfamiliar.

APPENDIX

The Purchasing Power Parities, PPPs, for the economies as a whole and those used as indicators for the PPPs in various sectors were obtained from *International comparisons of real product and purchasing power*, by Irving B. Kravis, Alan Heston and Robert Summers. These PPPs were not designed for the purpose in hand. They relate to prices of final products rather than to factory gate prices of finished and semi-finished goods.

For countries that are members of the European Economic Community the value and volume of Gross Value Added at market prices for the different sectors of the economy and of manufacturing industry were obtained

CONFIDENTIAL
until 11.30 a.m. on TUESDAY 18 AUGUST
then RESTRICTED

RO

FROM: C MILLS

DATE: 17 August 1987

1. MR S J DAVIES SJD
2. ECONOMIC SECRETARY

cc: PS/Chancellor
Sir Peter Middleton
Sir Terence Burns o/r
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Odling-Smee o/r
Mr Sedgwick o/r
Mr Culpin
Miss O'Mara
Mr Patterson
Mr Pickering
Mr Dyer (+1 for No 10)
Mr Cropper
Mr Tyrie
Mr Allum o/r

Mr Stirling - CSO
Mr Clary - "
Mr Lang - "

GDP (OUTPUT MEASURE) IN SECOND QUARTER 1987

1. The CSO will publish the preliminary estimate for GDP(O) at 11.30 a.m. on 18 August.

Second Quarter Figures

2. GDP(O) is estimated to have increased by about ¾ per cent between the first and second quarters of 1987 following an increase of almost 1 per cent between the fourth quarter of 1986 and the first quarter of 1987. GDP(O) is estimated to have increased by 4 per cent in the year to 1987Q2.

3. GDP(O) excluding oil and gas extraction rose by about 1 per cent between the first and second quarters of 1987, giving an increase of 4¼ per cent in the year to 1987Q2.

Mills
GDP Q2

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then RESTRICTED

4. The contribution of changes in the individual components of GDP(O) are tabled below:

	Contribution to percentage changes in GDP(O) from 1987Q1 to 1987Q2	
Industry		
1. Agriculture, forestry and fishing	0.0	
2. Construction	-0.2**	
3. Services	0.9	
4. Industrial production of which	0.2	
- oil and gas extraction		-0.2
- other energy and water supply		0.0
- manufacturing		+0.4
5. GDP(O)*	0.8	

* sum of rows 1-4 (figures may not add due to rounding)

** not for use

5. The ¾ per cent increase in output in 1987Q2 reflected preliminary estimates of growth of 1½ per cent in both services and manufacturing, partly offset by a fall in oil and gas extraction of 3½ per cent and a fall in construction of 2 per cent from its high first quarter level. (The figure for construction output in the second quarter is based on very little information and may well be revised substantially when the full set of GDP figures - including estimates based on the expenditure and income components of GDP - are published in a month's time).

6. The expenditure, income and output measures of GDP can move differently between quarters. The output measure, generally regarded as the most reliable indicator of short-run movements in GDP, indicates that the strong growth in 1986 has been maintained in the first half of 1987.

C. Mills.

C MILLS

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Pse let me have an updated version of these cards (+ one for GGFD) as part of my briefing for Autumn mtgs.

N

General Gov Financial Deficit

Nigel PSE ~~desk~~

minute David Savage asking him to do this

UNCLASSIFIED

AMP

FROM: N G FRAY
DATE: 17.8.87

MR D SAVAGE

AUTUMN INTERNATIONAL MEETINGS

The Chancellor would be grateful if you could provide updated ... versions of the attached briefing cards as part of the briefing for this Autumn's series of international meetings. He would also like a briefing card giving the latest figures for General Government Financial Deficit.

Nigel Fray

N G FRAY

B1/L 17

REAL GNP/GDP GROWTH

	1984	1985	1986	1987	1988	1985-87
IMF forecasts						
US	6.4	2.7	2.5	2.3	3.1	2.5
Japan	5.1	4.7	2.5	2.7	3.3	3.3
Germany	3.0	2.5	2.4	1.9	2.0	2.3
France	1.5	1.4	2.2	1.8	2.1	1.8
UK	2.9	3.4	2.5	3.0	2.3	3.0
Italy	2.8	2.3	2.8	2.9	2.3	2.7
Canada	5.5	4.0	3.1	2.0	3.0	3.0
G7	4.7	2.8	2.5	2.4	2.9	2.6
UK forecast						
UK - latest HMT view				3.0	2.4	

INFLATION

	1984	1985	1986	1987	1988	1985-87
IMF forecasts						
US	3.9	3.3	2.6	2.8	3.4	2.9
Japan	1.3	1.4	1.8	1.1	2.6	1.4
Germany	1.9	2.2	3.3	2.5	2.6	2.7
France	7.2	5.8	5.3	3.0	2.6	4.7
UK	4.1	6.1	3.6	4.6	5.0	4.8
Italy	10.8	8.8	9.1	5.7	5.2	7.9
Canada	3.6	3.4	2.8	3.5	3.2	3.2
G7	4.0	3.7	3.3	2.9	3.3	3.3
UK forecast						
UK - latest HMT view				4.1	4.2	

CURRENT ACCOUNT ($ billion, % of GDP in brackets)

	1985	1986	1987	1985-1987
IMF forecasts				
US	-118 (-3)	-141 (-3½)	-139 (-3)	-133 (-3)
Japan	49 (3½)	86 (4½)	83 (3½)	73 (4)
Germany	14 (2)	36 (4)	34 (3)	28 (3)
France	0 (-)	4 (½)	4 (½)	3 (½)
UK	4 (1)	-2 (-½)	-5 (-1)	-3 (-½)
Italy	-4 (-1)	5 (1)	4 (½)	2 (-)
Canada	0 (-1)	-6 (-2)	-9 (-2)	-5 (-1)
G7	-5	-18	-28	-33
UK forecast				
UK - latest HMT view			-4 (-½)	

NOMINAL INCOME GROWTH

	1984	1985	1986	1987	1988	1985-87
<u>IMF forecasts</u>						
US	10½	6½	5	5	6½	5½
Japan	6½	6	4½	4	6	5
Germany	5	5	6	4½	4½	5
France	9	7½	7½	5	4½	6½
UK	7	10	6	8	7½	8
Italy	14	11	12	9	7½	10½
Canada	9½	7½	6	5½	6½	6½
G7	9½	7	6	5	6	6
<u>UK forecast</u>						
UK - MTFS (published FY figures in brackets)				7 (7½)	6½ (6½)	

RESTRICTED UNTIL 11.30 A.M ON
MONDAY 21 SEPTEMBER then
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FROM: S J DAVIES
DATE: 18 SEPTEMBER 1987

CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Scholar
Mr Sedgwick
Mr Culpin
Miss O'Mara o/r
Mr Allum
Mr Patterson
Mr Cropper
Mr Call
Mr Tyrie

Mr Lomas - CSO

[illegible]

GDP FIGURES FOR THE SECOND QUARTER OF 1987

Provisional estimates of GDP in the second quarter of 1987 will be published by the CSO on Monday at 11.30 a.m. The increases in the various measures of real GDP between the first and second quarters of 1987 and between the second quarters of 1986 and 1987 are shown below:

Real GDP (percentage increases)

	1987 Q1 to 1987 Q2	**1986 Q2 to 1987 Q2**
Output estimate	0.9	4.1
Expenditure estimate	- 0.4	2.3
Income estimate	0.9	4.4
Average estimate	**0.5**	**3.7**

2. GDP growth shown by the **average** estimate (½ per cent over the last quarter, and 3¾ per cent over the last year) is a little lower than that shown by the preliminary second quarter output estimate published on 18 August (which was ¾ per cent up over the last quarter, 4 per cent over the last year). The CSO's press notice describes the level of economic activity in the second quarter as "some 3½ to 4 per cent higher than at the same time last year".

gdp
figs-ch

3. As happened last year, recorded expenditure is trailing a long way behind recorded output. Consumers' expenditure rose by over 1½ per cent between the first two quarters and fixed investment also rose by over 1 per cent - but the rise in domestic expenditure in total was less than the deterioration in the real trade balance.

4. Consumers' expenditure is estimated to have risen by about 4 per cent between the first half of 1986 and the first half of 1987, compared with a near 6 per cent rise for 1986 as a whole. However as total expenditure has clearly been under-recorded in the first half of 1987, it is not possible to be confident that growth in consumers' spending has really slowed. It is however reasonably clear that investment spending (which is estimated to have risen by 4½ per cent between the first halves of 1986 and 1987) is now picking up quite strongly.

5. Industrial and commercial companies' profits net of stock appreciation are estimated to have risen by 16 per cent over the year to 1987Q2. This comparison is affected by the privatisation of British Gas and British Airways; the CSO's press notice says that the increase in profits over the last year exceeds the contribution of the newly privatised companies. No split between oil and non-oil company profits is yet available for the latest quarter.

Average growth since the 1981 trough

6. Between the first half of 1981 and the first half of 1987, GDP has increased by 19 per cent in total, an annual rate of increase of 2.9 per cent.

The GDP deflator and money GDP

7. The table below compares the estimates now being published for growth in the GDP deflator and money GDP over the last year with the Budget forecast for the present financial year as a whole. (The money GDP figure is based on the average estimate of real GDP: growth over the last year would, of course, be higher but for the low recorded expenditure figures.)

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MONDAY 21 SEPTEMBER then
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	Published growth over year to 1987 Q2	FSBR Forecast of growth in 1987-88
Deflator of GDP at market prices	4.2	4½
Money GDP	8.1	7½

8. Commentators are unlikely to conclude that there is going to be a significant overshoot of the Budget money GDP forecast from these figures: they will probably expect money GDP growth to be relatively high over the year to 1987Q2 because oil prices and profits were particularly low in 1986Q2. The GDP deflator figure is unexpectedly low: it includes a rise of under 2½ per cent in the national accounts measure of consumer prices - well below the increase in the RPI over the same period.

Lines to take

Positive

(i) GDP at record level and currently growing at a rate a little above the average ~~of around~~ annual rate of 3 per cent achieved since 1981.

(ii) Investment now picking up well again, after the dip following the phasing out of first year capital allowances.

Defensive

(i) Economy overheating? Latest GDP figures suggest growth this year staying within the relatively narrow range of growth rates experienced since 1981 - very similar to the growth rate achieved between 1984H1 and 1985H1 - thus the record of steady expansion is continuing.

S J DAVIES

RESTRICTED UNTIL 11.30 AM ON
MONDAY 21 SEPTEMBER then
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FROM: CATHY RYDING
DATE: 21 September 1987

MR S J DAVIES

cc: Mr Culpin
Miss O'Mara

GDP FIGURES FOR THE SECOND QUARTER OF 1987

The Chancellor was grateful for your minute of 18 September.

2. The Chancellor suggests that in the line to take positive (i), "of around 3 per cent" be ammended to read "annual rate of 3 per cent".

CATHY RYDING

127/3

HA/04

FORECASTS FOR THE UK ECONOMY

A comparison of independent forecasts

Compiled by
EB Division
HM Treasury

September 1987 No. 10

This issue of the comparison includes new forecasts from: Alexanders Laing and Cruickshank; CBI; Capel Cure Myers; Henley Centre for Forecasting; Phillips & Drew; and Wood Mackenzie & Co.

The main points are:

	Independent average (i)		City average (ii)	
	1987	1988	1987	1988
GDP growth (per cent)	3.2	2.4	3.3	2.4
RPI inflation rate (Q4; per cent)	4.0	4.6	3.9	4.8
Unemployment (Q4; million)	2.84	2.82	2.85	2.81
Current account (£bn)	- 1.1	- 2.3	- 0.8	- 2.1
PSBR (FY; £bn)	3.4	3.9	2.7	3.6

(i) 'Independent average' is an average of the 11 forecasts shown in tables 1 and 2.

(ii) 'City average' is an average of the 9 City forecasts shown in tables 3 and 4.

Please note that this comparison is a summary of published material reflecting the views of the forecasting organisations themselves and does not in any way provide new information on the Treasury's own views. The comparison contains only a selection of forecasters which is kept continually under review. No significance should be attached to the inclusion or exclusion of any particular forecasting organisation. HM Treasury accepts no responsibility for the accuracy of the material published in this comparison.

Subscription enquiries should be addressed to Committee Section, HM Treasury, Parliament Street, London SW1P 3AG (01-270-4561). An invoice for the annual subscription fee of £50 will be sent on receipt of application. Distribution enquiries should be addressed to Meena Henson (01-270-5212). Enquiries on contents to Peter Curwen (01-270-5206).

TABLE 1

COMPARISON OF FORECAS TS SUMMARY TABLES

FORECASTS FOR 1987/19 87-88 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	HMTo	NIESR	LBS	Phillips & Drew *	Goldman Sachs	Henley *	C'bridge Econ (z)	L'pool	CBI *	OECD	Oxford	EC	INDEPENDENT AVERAGE	INDEPENDENT RANGE		CITY AVERAGE
Date of Forecast	Mar '87	Aug '87	Jun '87	Sept '87	Aug 87	Sept '87	Apr '87	Jun '86	Sept '87	Jun '87	Jul '87	May '87				
Forecasts for calendar year 1987																
GDP	3 (A)	3.3 (O)	3.3 (O)	3.4 (A)	3.2 (A)	3.1 (A)	3.0 (O)	2.9 (E)	3.1 (O)	3.25 (A)	3.4 (A)	3.1 (E)	3.2	2.9 (LIV)	3.4 (P&D,OXF)	3.3
Consumers' Expenditure	4	3.6	3.5	4.0	3.6	3.5	4.3	2.5c	3.6	3.75	3.7	3.8	3.7	3.5 (HENLEY)	4.3 (CBI)	3.8
General Govt Consumption	1	1.5	1.2	1.6	2.5	1.8	2.3	2.7d	1.6	1.5	1.0	1.5	1.7	1.0 (OXF)	2.5 (GS)	1.7
Gross Fixed Investment	4	4.1	2.8	3.1	3.6	3.4	3.0	5.4e	3.6	2.75	4.3	3.8	3.4	2.8 (LBS)	4.3 (OXF)	3.6
Stockbuilding (bn pounds)	1.4	1.2	0.8	0.6	1.1	1.0	2.0	-	1.0	0.0n	0.6	1.0	1.0	0.6 (P&D,OXF)	2.0 (CAM)	1.0
Exports (goods & services)	4	3.3	6.7	4.3	4.0	4.0	4.2	-	5.4	4.5	6.2	5.3	4.8	3.3 (NIESR)	6.7 (LBS)	4.9
Imports (goods & services)	6	3.4	4.4	5.7	3.7	4.4	6.8	-	5.7	4.5	5.1	6.7	5.0	3.4 (NIESR)	6.8 (CAM)	5.0
RPI (CPI) - 4th Qtr	4	3.8	3.6	4.1	3.7	3.9	(4.3)k	(3.7)k	4.3	(4.0)k	4.4	(3.9)k	4.0	3.6 (LBS)	4.4 (OXF)	3.9
Average Earnings &	-	7.8	7.8	7.7	7.6	7.3	7.2	7.0	-	-	7.7	6.9	7.4	6.9 (EC)	7.8 (NIESR,LBS)	7.5
RPDI	-	4.9	3.9	4.2	4.4	4.2	-	-	4.5	-	4.6	3.1	4.2	3.1 (CBI)	4.9 (NIESR)	4.4
Employment Growth	-	1.2s	1.0	1.0	1.4	1.3	-	-	1.0	1.0	1.0s	1.0	1.1	1.0 (5 FORECASTS)	1.4 (GS)	1.0
Unemployment (UK adults million - 4th Qtr)	-	2.8	2.94	2.84	2.78	2.77	3.1kw	2.94k	2.80	-	2.83	2.95	2.84	2.77(HENLEY)	2.95(EC)	2.85
Industrial Production	-	-	3.1	2.2	1.5	2.7	2.8	-	-	4.25	-	2.5	2.7	1.5 (GS)	4.25(OECD)	2.2
Manufacturing Output	4	4.0	4.5	4.3	3.9	4.3	4.4	-	4.9	-	4.4	3.8	4.3	3.8 (EC)	4.9 (CBI)	4.1
World trade &	3 1/2	3.3	2.4	3.6	4.0	2.8	-	3.7	2.9	2.25	5.0	3.6	3.4	2.25 (OECD)	5.0 (OXF)	3.2
Current Account (bn pounds)	-2 1/2	-1.1	1.4	-1.5	-1.4	-1.0	-3.2	-0.2	-1.3	-1.6	0.8	-3.0	-1.1	-3.2 (CAM)	1.4 (LBS)	-0.8
Sterling Index(1975=100) Q4	-	73.3	71.0	72.4	73.0	70.5	70.6k	70.5k	71.1	-	71.0		71.8	70.5 (HENLEY)	73.3 (NIESR)	71.9
Short term interest rate Q4 &	-	9.5	8.5	10.0	10.0	10.0	-	9.1k	9.8	-	9.3	9.0	9.5	8.5 (LBS)	10.0 (GS,HENLEY)	9.7
Oil Price ($ per barrel) &	15	18.0	18.0	18.9	19.1	18.0	-	-	16.1	18.0	18.2	15.0	17.7	15.0 (EC)	19.1 (GS)	18.1
Forecasts for financial year 1987-1988																
M0 growth	2-6y	-	5.8	5.0k	4.7u	5.3	-	4.5k	-	-	-	5.8u	-	-	-	-
M3 growth	-	-	16.0	20.9k	18.7u	17.1	-	-	-	-	10.6q	14.3u	-	-	-	-
PSBR (billion pounds)	4	3.7	4.2	2.0	2.2	4.0	7.5k	2.6	4.0	-	4.3	3.8	3.4	2.0 (P&D)	4.3 (OXF)	2.7

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure

& for definition see individual forecasts
o Treasury forecast published in FSBR
^ interpreted variously by forecasters as either residual or as target

(c) non durable consumption
(d) current and capital including stockbuilding
(e) private sector investment, stockbuilding and durable consumption

(k) calendar year 1987
(n) change in stockbuilding as a % of GDP in previous period
(q) 1988Q2 on 1987Q2
(s) employees in employment
(u) end 1987

(w) including school leavers
(y) target range set in 1987 FSBR
(z) Cambridge Econometrics forecast taken from longer term disaggregate forecast

'Independent average' is defined as an unweighted average of the comparable independent forecasts summarised in tables 1 and 2.
'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

TABLE 2

COMPARISON OF FORECASTS SUMMARY TABLES

FORECASTS FOR 1988/1988-89 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	HMTo	NIESR	LBS	Phillips & Drew *	Goldman Sachs	Henley *	C'bridge Econ (z)	L'pool	CBI *	OECD	Oxford	EC	INDEPENDENT AVERAGE	INDEPENDENT RANGE		CITY AVERAGE
Date of Forecast	Mar '87	Aug 87	Jun 87	Sept '87	Aug 87	Sept '87	Apr '87	Jun '86	Sept '87	Jun '87	Jul '87	May '87				
Forecasts for calendar year 1988																
GDP	2 1/2h	2.2 (O)	2.9 (O)	2.1 (A)	2.3 (A)	2.4 (A)	2.2 (O)	2.9 (E)	2.2 (O)	2.25 (A)	2.2 (A)	2.6	2.4	2.1 (P&D)	2.9 (LBS,LIV)	2.4
Consumers' Expenditure	3 1/2h	4.0	4.5	3.6	3.7	2.8	2.8	2.6c	3.4	3.5	3.2	3.2	3.5	2.8 (HENLEY,CAM)	4.5 (LBS)	3.5
General Govt Consumption	1 h	1.0	0.7	1.4	1.6	1.5	1.0	0.6d	1.5	1.0	1.4	1.0	1.2	0.7 (LBS)	1.6 (GS)	1.4
Gross Fixed Investment	3 h	5.9	6.1	2.1	5.8	4.5	5.3	4.1e	6.3	3.5	5.4	3.4	4.8	2.1 (P&D)	6.3 (CBI)	4.5
Stockbuilding (bn pounds)	0.6b	1.1	0.5	0.6	1.1	1.4	2.3	-	0.2	0.0n	0.7	1.0	1.0	0.2 (CBI)	2.3 (HENLEY)	0.9
Exports (goods & services)	2 h	0.3	3.1	1.9	1.7	2.5	3.8	-	1.6	1.5	3.4	3.9	2.4	0.3 (NIESR)	3.9 (EC)	2.7
Imports (goods & services)	2 1/2h	4.9	6.4	4.9	5.3	4.4	4.9	-	4.1	4.25	6.6	4.7	5.0	4.10 (CBI)	6.6 (OXF)	5.4
RPI (CPI) - 4th Qtr	4 f	4.9	3.5	4.5	4.8	5.4	(4.2)k	(2.7)k	4.9	(4.25)a	4.2	(4.2)k	4.6	3.5 (LBS)	5.4 (HENLEY)	4.8
Average Earnings &	-	7.6	7.0	7.8	7.6	7.3	5.9	5.2	-	-	7.5	6.7	7.0	5.2 (LIV)	7.8 (P&D)	7.2
RPDI	-	3.2	4.1	2.9	2.6	3.1	-	-	2.6	-	3.2	3.1	3.1	2.6 (GS,CBI)	4.1 (LBS)	3.2
Employment Growth	-	1.2s	1.3	0.6	1.0	1.1	-	-	0.3	1.0	0.7s	0.9	0.9	0.3 (CBI)	1.3 (LBS)	0.7
Unemployment (UK adults million - 4th Qtr)	-	2.7	2.92	2.94	2.69	2.77	3.0kw	2.72k	2.88	-	2.79	2.89	2.82	2.69(GS)	2.94(P&D)	2.81
Industrial Production	-	-	2.3	0.6	0.5	1.8	1.6	-	-	3.25	-	1.5	1.7	0.5 (GS)	3.25(OECD)	0.9
Manufacturing Output	3 h	1.5	3.6	2.7	2.4	2.8	3.7	-	4.4	-	4.0	2.9	3.1	1.5 (NIESR)	4.4 (CBI)	2.2
World trade &	4 h	3.8	5.9	3.5	3.75	3.5	-	4.7	2.8	4.0	4.2	4.1	4.0	2.8 (CBI)	5.9 (LBS)	3.6
Current Account (bn pounds)	-2a	-3.4	-0.9	-2.5	-3.0	-2.9	-5.4	2.3	-2.6	-3.7	-0.8	-2.9	-2.3	-5.4 (CAM)	2.3 (LIV)	-2.1
Sterling Index(1975=100) Q4	-	72.0	70.0	71.7	71.5	67.7	68.1k	68.6k	69.1	-	71.3	-	70.5	67.7 (HENLEY)	72.0 (NIESR)	70.6
Short term interest rate Q4 &	-	7.9	8.5	9.5	9.0	10.5	-	9.2k	9.5	-	8.5	8.0	8.9	7.9 (NIESR)	10.5 (HENLEY)	9.7
Oil Price ($ per barrel)&	15 b	21.0	19.0	20.9	20.0	18.5	-	-	-	18.0	18.9	16.0	19.0	16.0 (EC)	21.0 (NIESR)	19.0
Forecasts for financial year 1988-1989																
M0 growth	-	-	5.3	5.3K	4.3u	6.3	-	4.0k	-	-	-	5.3u	-	-	-	-
M3 growth	-	-	9.6	21.7k	15.1u	15.9	-	-	-	-	9.2q	13.3u	-	-	-	-
PSBR (billion pounds)	-	1.3	4.3	2.0	3.3	6.0	11.3k	2.4	5.2	-	6.9	4.0	3.9	1.3 (NIESR)	6.9 (OXF)	3.6
scope for fiscal change (billion pounds)^	-	3.0	2.3	1.0	1.0	1.3	-	2.3	0.0	-	2.5	3.0	-	-	-	-

NOTES:

(A) average measure

(O) output measure

(E) expenditure measure

& for definition see individual forecasts

o Treasury forecast published in FSBR

^ interpreted variously by forecasters as either residual or as target

(a) first half 1988 at annual rate

(b) 1988H1

(c) non durable consumption

(d) current and capital including stockbuilding

(e) private sector investment, stockbuilding and durable consumption

(f) 1988Q2

(h) first half 1988 on first half 1987

(k) calendar year 1988

(n) change in stockbuilding as a % of GDP in previous period

(s) employees in employment

(u) end 1988

(w) including school leavers

(z) Cambridge Econometrics forecast taken from longer term disaggregate forecast

'Independent average' is defined as an unweighted average of comparable independent forecasts as summarised in tables 1 and 2.

'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

TABLE 3

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1987/ 1987-88 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

Date of Forecast	HMTo Mar '87	Phillips & Drew * Sept '87	Goldman Sachs Aug 87	Hoare Govett Aug '87	Wood Mack * Sept '87	James Capel Aug '87	Alex Laing Cr * Sept '87	Scrim-geour Aug '87	Capel-Cure * Sept '87	Midland Bank May '87	CITY AVERAGE
		Forecasts for calendar year 1987									
GDP	3(A)	3.4 (A)	3.2 (A)	3.0 (E)	3.7 (A)	3.0 (A)	3.3 (A)	3.2 (A)	3.3 (A)	3.7 (O)	3.3
Consumers' Expenditure	4	4.0	3.6	4.0	3.6	3.8	4.0	3.9	4.1	3.3	3.8
General Govt Consumption	1	1.6	2.5	1.1	1.5	1.6	1.4	1.2	2.0	2.2	1.7
Gross Fixed Investment	4	3.1	3.6	3.3	3.2	4.4	3.3	3.7	-	4.0	3.6
Stockbuilding (bn pounds)	1.4	0.6	1.1	1.0	1.0	0.6	1.2	1.0	1.3	0.8	1.0
Exports (goods & services)	4	4.3	4.0	5.2	4.8	5.7	4.1	4.6	4.0	7.0	4.9
Imports (goods & services)	6	5.7	3.7	6.5	3.0	6.4	4.6	5.4	5.0	4.7	5.0
RPI (CPI) - 4th Qtr	4	4.1	3.7	3.9	3.9	3.9	4.3	3.8	4.1z	3.8	3.9
Average Earnings &	-	7.7	7.6	7.6	7.6	7.5	7.4	7.8	7.6	7.1	7.5
RPDI	-	4.2	4.4	4.3	4.1	-	5.1	5.2	4.2	3.8	4.4
Employment Growth	-	1.0	1.4	1.1	0.7	1.2	0.8	1.0	-	-	1.0
Unemployment (UK adults million - 4th Qtr)	-	2.84	2.78	2.81	2.8	2.84z	2.92	2.81	2.78u	3.0	2.85
Industrial Production	-	2.2	1.5	-	2.6	-	2.4	-	-	-	2.2
Manufacturing Output	4	4.3	3.9	-	4.3	-	4.1	3.9	4.0	-	4.1
World trade &	3 1/2	3.6	4.0	-	3.0	2.5	-	3.1	2.5	4.0	3.2
Current Account (bn pounds)	-2 1/2	-1.5	-1.4	-0.7	0.0	-1.2	-1.3	-1.2	-1.0	1.0	-0.8
Sterling Index(1975=100) Q4	-	72.4	73.0	-	72.7	72.3	70.7	72.0	70.8u	70.3	71.9
Short term interest rate Q4 &	-	10.0	10.0	8.5	10.0	10.0	11.0	10.0	10.0u	8.0	9.7
Oil Price($ per barrel) &	15	18.9	19.1	-	18.0	18.3	18.0	18.8	18.0	16.0	18.1
		Forecasts for financial year 1987-1988									
M0 growth	2-6y	5.0k	4.7u	4.1	5.0	5.0	-	5.7	4.5	-	-
M3 growth	-	20.9k	18.7u	16.0	15.0	17.3	17.9	16.4	-	-	-
PSBR (billion pounds)	4	2.0	2.2	2.0	3.5	2.0	3.1	3.5	3.0	3.0	2.7

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure
o Treasury forecast published in FSBR

& for definition see individual forecasts
^ interpreted variously by forecasters as either residual or target
(k) calendar year 1987

(s) employees in employment
(u) end 1987
(w) financial year 1987-88
(y) target range set in 1987 FSBR
(z) 1987H2

'City Average' is defined as an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

TABLE 4

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1988/1988-89 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	HMTo	Phillips & Drew *	Goldman Sachs	Hoare Govett	Wood Mack *	James Capel	Alex Laing Cr *	Scrim- geour	Capel- Cure *	Midland Bank	CITY AVERAGE
Date of Forecast	Mar '87	Sept '87	Aug 87	Aug '87	Sept '87	Aug '87	Sept '87	Aug '87	Sept '87	May '87	
		Forecasts for calendar year 1988									
GDP	2 1/2h	2.1 (A)	2.3 (A)	2.6 (3)	2.5 (A)	2.6 (A)	1.7 (A)	1.9 (A)	2.5 (A)	3.0 (O)	2.4
Consumers' Expenditure	3 1/2h	3.6	3.7	3.5	2.7	3.6	2.9	3.7	4.0	3.8	3.5
General Govt Consumption	1 h	1.4	1.6	1.0	1.3	1.2	1.0	1.7	1.8	1.9	1.4
Gross Fixed Investment	3 h	2.1	5.8	4.5	6.3	5.1	2.3	3.6	-	5.9	4.5
Stockbuilding (bn pounds)	0.6 b	0.6	1.1	0.7	1.2	0.8	1.1	0.4	1.7	0.7	0.9
Exports (goods & services)	2 h	1.9	1.7	3.9	2.7	2.9	3.3	2.5	2.0	3.4	2.7
Imports (goods & services)	2 1/2h	4.9	5.3	5.0	5.4	6.2	4.9	6.3	5.0	5.9	5.4
RPI (CPI) - 4th Qtr	4 f	4.5	4.8	4.8	4.4	3.6	6.2	5.3	4.3z	3.7k	4.8
Average Earnings &	-	7.8	7.6	7.5	7.4	7.0	6.8	7.8	7.4	5.9	7.2
RPDI	-	2.9	2.6	4.5	2.9	-	2.2	3.0	3.9	3.8	3.2
Employment Growth	-	0.6	1.0	1.0	0.7	0.7	0.4	0.7	-	-	0.7
Unemployment (UK adults million - 4th Qtr)	-	2.94	2.69	2.60	2.8	2.72z	2.93	2.80	2.60u	2.9	2.81
Industrial Production	-	0.6	0.5	-	1.5	-	1.1	-	-	-	0.9
Manufacturing Output	3 h	2.7	2.4	-	2.8	-	1.9	1.5	1.8	-	2.2
World trade &	4 h	3.5	3.75	-	4.0	3.4	-	4.3	2.5	3.8	3.6
Current Account (bn pounds)	-2 a	-2.5	-3.0	-1.0	-1.0	-2.3	-2.7	-2.8	-3.5	0.0	-2.1
Sterling Index(1975=100) Q4	-	71.7	71.5	-	71.7	72.5	67.2	69.2	68.1u	68.5k	70.6
Short term interest rate Q4 &	-	9.5	9.0	-	9.5	9.0	11.0	10.0	10.5u	8.0k	9.7
Oil Price($ per barrel) &	15 b	20.9	20.0	-	19.0	19.0	18.0	20.0	19.0	16.0	19.0
		Forecasts for financial year 1988-1989									
M0 growth	-	5.3k	4.3u	-	5.0	-	-	5.3	5.5	-	-
M3 growth	-	21.7k	15.1u	-	12.0	-	-	14.2	-	-	-
PSBR (billion pounds)	-	2.0	3.3	-	3.8	-	-	3.2	3.0	6.0	3.6
scope for fiscal change (billion pounds)^	-	1.0	1.0	-	1.0	-	-	1.2	-	-	-

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure
o Treasury forecast published in FSBR

& for definition see individual forecasts
^ interpreted variously by forecasters as either residual or target

(a) first half 1988 at annual rate
(b) 1988H1
(f) 1988Q2
(h) first half 1988 on first half 1987
(k) calendar year 1988

(s) employees in employment
(u) end 1988
(z) 1988H2

'City Average' is defined as an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

Independent forecasting organisations covered in this comparison

Alexanders Laing & Cruickshank (Alex Laing Cr)

Cambridge Econometrics (C'bridge Econ)

Capel-Cure Myers (Capel-Cure)

Commission of the European Communities (EC)

Confederation of British Industry (CBI)

Goldman Sachs (GS)

Henley Centre for Forecasting (Henley)

Hoare Govett

James Capel & Co

Liverpool Research Group in Macroeconomics (Liverpool)

London Business School (LBS)

Midland Bank plc

National Institute for Economic and Social Research (NIESR)

Organisation for Economic Cooperation and Development (OECD)

Oxford Economic Forecasting (Oxford)

Phillips and Drew (P&D)

Scrimgeour Vickers & Co (Scrimgeour)

Wood Mackenzie & Co (Wood Mack)

HISTORY OF GGE/GDP

(ii) Definitions

(a) GGE: Expenditure by central and local government including debt interest, net lending and transactions in company shares.

(b) Planning total: As GGE plus market and overseas borrowing by public corporations, including nationalised industries, less debt interest. Also, some smaller definitional differences (see Cm 56 Vol II pages 40 and 41).

(iii) GGE as percentage of GDP

	Including privatisation proceeds	**Excluding privatisation proceeds**
1968-69	40½	40½
1969-70	40	40
1970-71	40½	40½
1971-72	41	41
1972-73	40¾	40¾
1973-74	42½	42½
1974-75	48	48
1975-76	48½	48½
1976-77	46	46
1977-78	42¼	42½
1978-79	43¼	43¼
1979-80	43¼	43½
1980-81	45¾	46
1981-82	46¼	46½
1982-83	46¾	46¾
1983-84	45½	46
1984-85	45½	46¼
1985-86	43¾	44½
1986-87	42¾	44
1987-88	41¼	42½
1988-89	40¾	42
1989-90	40¾	41¾
1990-91	40¼	41¼

Source: HM Treasury using CSO data for historical figures on GGE and GDP. From 1978-79, Autumn Statement Table 2.2

(iv) Inter-government comparisons

GGE excluding privatisation proceeds as percentage of GDP

Labour	1963-64 to 1969-70	up from 35¾ to 40
Conservative	1969-70 to 1973-74	up from 40 to 42½
Labour	1973-74 to 1978-79	up from 42½ to 43¼
Conservative	**1978-79 to 1987-88**	**down from 43¼ to 42½**

ISBR HISTORY

CC1 PUBLIC SECTOR BORROWING: HISTORICAL STATISTICS AND INTERNATIONAL COMPARISONS

[See also Fiscal policy: 1987-88 to 1990-91 (Brief C1) and Privatisation (EE2)]

A PSBR HISTORICAL STATISTICS

Factual

(i)

	PSBR			PSBR excluding privatisation proceeds		PSFD (1)	
	Cash £ billion	Real terms (1986-87 prices) £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)	Cash £ billion	Ratio to GDP (per cent)
1948	not av	not av	not av	not av	not av	-0.3	-2 ¼
1949	not av	not av	not av	not av	not av	-0.3	-2 ½
1950	not av	not av	not av	not av	not av	-0.4	-2 ¾
1951	not av	not av	not av	not av	not av	0.2	1 ½
1952	0.8	8.2	5	0.8	5	0.6	3 ½
1953	0.6	5.9	3 ½	0.6	3 ½	0.7	4
1954	0.4	3.7	2	0.4	2	0.4	2 ½
1955	0.5	4.5	2 ½	0.5	2 ½	0.4	2
1956	0.6	5.1	2 ¾	0.6	2 ¾	0.5	2 ½
1957	0.5	4.2	2 ¼	0.5	2 ¼	0.5	2 ½
1958	0.5	4.1	2	0.5	2	0.4	2
1959	0.6	4.6	2 ¼	0.6	2 ¼	0.6	2 ¼
1960	0.7	5.7	2 ¾	0.7	2 ¾	0.7	2 ¾
1961	0.7	5.5	2 ½	0.7	2 ½	0.7	2 ¾
1962	0.5	4.1	1 ¾	0.5	1 ¾	0.5	1 ¾
1963	0.8	6.1	2 ¾	0.8	2 ¾	0.8	2 ¾
1963-64	1.0	7.7	3 ¼	1.0	3 ¼	1.1	3 ¼
1964-65	0.9	6.5	2 ¾	0.9	2 ¾	0.8	2 ¼
1965-66	0.9	6.4	2 ½	0.9	2 ½	0.6	1 ¾
1966-67	1.1	7.4	3	1.1	3	1.0	2 ¾
1967-68	2.0	12.7	4 ¾	2.0	4 ¾	1.7	4 ¼
1968-69	0.4	2.2	¾	0.4	¾	0.4	¾
1969-70	-0.6	-3.4	-1 ¼	-0.6	-1 ¼	-0.8	-1 ¾
1970-71	0.8	4.1	1 ½	0.8	1 ½	-0.2	- ½
1971-72	1.0	4.7	1 ¾	1.0	1 ¾	0.7	1 ¼
1972-73	2.4	10.9	3 ½	2.4	3 ½	2.0	3
1973-74	4.3	18.1	5 ¾	4.3	5 ¾	3.5	4 ½
1974-75	8.0	27.9	9	8.0	9	6.0	6 ¾
1975-76	10.3	28.5	9 ¼	10.3	9 ¼	8.1	7 ¼
1976-77	8.3	20.4	6 ½	8.3	6 ½	7.5	5 ¾
1977-78	5.4	11.6	3 ½	5.9	4	6.6	4 ¼
1978-79	9.2	18.0	5 ¼	9.2	5 ¼	8.3	4 ¾
1979-80	10.0	16.7	4 ¾	10.4	5	8.0	3 ¾
1980-81	12.7	17.8	5 ¼	13.1	5 ½	11.7	5
1981-82	8.6	11.0	3 ¼	9.1	3 ½	5.2	2
1982-83	8.8	10.5	3	9.3	3 ¼	8.3	3
1983-84	9.7	11.1	3 ¼	10.9	3 ½	11.4	3 ¾
1984-85	10.2	11.1	3	12.3	3 ¾	13.1	4
1985-86	5.8	5.9	1 ½	8.5	2 ¼	8.3	2 ¼
1986-87	3.4	3.4	1	7.9	2	9.6	2 ½
1987-88	1.0	0.9	¼	6.0	1 ½	6.1	1 ½

WPU

ANNEX 1

RESERVES

£ billion

	1988-89	1989-90	1990-91
Autumn Statement shows	3.5	7	10.5
Per cent of planning total	(2.2)	(4.2)	(5.6)
Compares with	**Year 1**	**Year 2**	**Year 3**
1984 PEWP	2.75	3.75	4.75
1985 PEWP	3.0	4.0	5.0
1986 PEWP	4.5	6.25	8.0
1987 PEWP	3.5	5.5	7.5

(NB Reserves in 1986 PEWP high to reflect exceptional decision to project LA current spending at constant cash levels.)

ANNEX

KEY PSBR COMPONENTS

£ billion

	1986-87			1987-88		
	FSBR	outturn	change	FSBR	AS	change
Planning total	140.0	139.4	-0.6	148.6	147.6	-1.0
(o/w: privatisation proceeds)	(-4.4)	(-4.4)	(0.0)	(-5.0)	(-5.0)	(0.0)
Interest payments	17.5	17.4	-0.1	17.9	17.8	-0.1
Less PCMOB*	-1.6	-1.5	+0.1	-0.8	-0.7	+0.1
Other adjustments	5.8	6.9	+1.0	6.2	6.7	+0.5
General govt. exp	164.9	165.1	+0.2	173.5	172.8	-0.7
North Sea revenues	4.8	4.8	0.0	3.9	4.5	+0.6
Non-NS taxes	114.5	114.8	+0.3	123.8	125.6	+1.8
Nat. Ins. contributions	26.5	26.7	+0.2	28.5	28.9	+0.4
Interest and other receipts	13.2	13.3	+0.1	12.6	12.3	-0.3
Accruals adjustments	0.1	0.5	+0.4	0.0	-0.2	-0.2
General govt. receipts	159.2	160.2	+1.0	168.8	171.1	+2.3
GGBR	5.7	4.9	-0.7	4.7	1.7	-3.0
Plus PCMOB**	-1.6	-1.5	+0.1	-0.8	-0.7	+0.1
PSBR	4.1	3.4	-0.7	3.9	1.0	-2.9
PSBR as per cent of GDP	1	1	0	1	¼	-¾

* All £ figures rounded to nearest £100 million for 1986-87 outturn and FSBR and to nearest £½ billion for Autumn Statement forecast. PSBR as percentage of GDP rounded to nearest ¼ per cent. Figures do not necessarily sum to totals, either down or across, because of rounding.

** Public corporations' market and overseas borrowing.

PSBR COMPONENTS

TABLE 1

Economic prospects: Summary

	Forecast 1986 to 1987	Forecast 1987 to 1988	Average errors from past forecasts(1)
	percent changes		
A Output and expenditure at constant 1980 prices			
Domestic demand of which:	4	3½	1
Consumers' expenditure	5	4	1¼
General government consumption	½	½	1
Fixed investment	5½	4½	2¼
Stockbuilding (as per cent) of level of GDP)	0	0	½
Exports of goods and services	5½	2	2½
Imports of goods and services	6½	5	2¾
Gross domestic product: manufacturing	4	2½	¾
total			
manufacturing	5	3½	2¼
B Inflation			
Retail prices index		**per cent changes**	
1986Q4 to 1987Q4		4	¼
1987Q4 to 1988Q4		4½	2
C Deflator for GDP at market prices		**per cent changes on a year earlier**	
Financial year 1987-88		4¼	1
Financial year 1988-89		4½	2
D Money GDP at market prices		**£ billion(2)**	
Financial year 1987-88		418 (8½)	1
Financial year 1988-89		448 (7¼)	1½
E Balance of payments on current account			
1987		-2½	1½
1988		-3½	3

(1) Errors relate to average differences (on either side of central figure) between forecast and outturn; errors given for constant price output and expenditure are relevant to forecast for next calendar or financial year. Method of calculating these errors explained in earlier publications and Government forecasts (see "Economic Progress Report", June 1981). Calculations of average errors based on forecasts made between 1975 and 1985.

(2) Per cent change on previous financial year in brackets; average error relates to forecast of percentage change.

Source: Autumn Statement Table 1.12

FORECAST

TABLE 2

Comparison of official forecasts

A Output

GDP (per cent change on year earlier)	**1986**	**1987**	**1988**
- 1986 Autumn Statement IAF	2 ½	3	not app
- 1987 Budget IAF	2 ½	3	2 ½ ≁
- 1987 Autumn Statement IAF	3	4	2 ½

Manufacturing output (per cent change on year earlier)	**1986**	**1987**	**1988**
- 1986 Autumn Statement IAF	2 ½	2 ½	not app
- 1987 Budget IAF	½	4	3 ≁
- 1987 Autumn Statement IAF	1	5	3 ½

B Inflation

RPI (per cent change on year earlier)	**1987Q4**	**1988Q2**	**1988Q4**
- 1986 Autumn Statement IAF	3 ¾	not app	not app
- 1987 Budget IAF	4	4	not app
- 1987 Autumn Statement IAF	4	not app	4 ½

GDP deflator (per cent change on year earlier)	**1986-87**	**1987-88**	**1988-89**	**1989-90**	**1990-91**
- 1986 Autumn Statement IAF	3	3 ¾	3 ½ *	3 *	not app
- 1987 Budget IAF	3	4 ½	4 *	3 ½ *	3 *
- 1987 Autumn - Statement IAF	3	4 ¼	4 ½	3 ½ *	3 *

* assumption

≁ 1988H1 on 1987H1

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until 3 November 1987
then UNCLASSIFIED

ANNEX

NATIONAL INSURANCE CONTRIBUTION RATES 1988-89

Summary of proposals

	Present 1987-88	Proposed 1988-89	Change
Employer's Class 1 (contracted-in)	10.45%	10.45%	-
Employee's Class 1 (contracted-in)	9%	9%	-
Opted-out married women	3.85%	3.85%	-
Lower Earnings Limit (Class 1)	£ 39	£ 41	+£ 2
Upper Earnings Limit (Class 1)	£285	£305	+£10
Low-paid earnings brackets	(£ 65 (£100 (£150	(£ 70 (£105 (£155	(+£ 5 (+£ 5 (+£ 5
Rates payable within low-paid brackets	(5% (7% (9%	(5% (7% (9%	- - -
Class 2 (self-employed)	£ 3.85	£4.05	+20p
Small earnings exception	£ 2,125	£2,250	+£125
Class 3 (voluntary)	£ 3.75	£3.95	+20p
Class 4 (self-employed, profits-related)	6.3 %	6.3%	-
Lower profits limit (Class 4)	£ 4,590	£4,750	+160
Upper profits limit (Class 4)	£ 15,340	£15,860	+£520
Employers' contracted-out rebate	4.1%	3.8%	-0.3%
Employee's contracted-out rebate	2.15%	2%	-0.15%

WPU

NIC's

ANNEX 2

DEPARTMENTAL PLANS

	1988-89 cash change from 1987 PEWP (£ million)	1989-90 cash change from 1987 PEWP (£ million)	Real terms percentage change 1978-79 to 1986-87	Real terms percentage change 1986-87 to 1990-91
Defence	230	490	+25	-2
Aid	30	60	[-15]	+3
MAFF	-180	-160	+21	+16
DTI	260	220	-43	-53
Employment	50	0	+88	-3
Transport	60	-30	-8	-5
Housing (net)	-10	-100	-63	+1
Home Office	360	450	+48	+8
Education	630	800	+4	+5
Health and Personal Social Services	810	920	+24	+9
Social Security	1,000	1,900	+39	+4
L A Relevant	1,000	1,300	+14	+4
LA total	1,500	1,600	+9	+3
Central government	2,900	4,400	+21	+2
Nationalised Industries	-150	70	-90	-186

DEPT's PLANS

ANNEX 2 (cont)

DEPARTMENTAL PLANS

	Percentage cash change on previous year		
	1988-89*	1989-90	1990-91
Ministry of Defence	+1.4	+3.9	+3.0
FCO-Diplomatic wing	+3.5	+2.7	+2.7
FCO-Overseas Development Administration	+7.8	+5.1	+3.1
European Communities	-43.1	+83.8	-10.2
Ministry of Agriculture, Fisheries and Food	+3.7	+5.4	+7.4
Department of Trade and Industry	+33.5	-3.7	-4.4
Export Credits Guarantee Department	-16.1	+4.3	-13.1
Department of Energy	-56.2	-254.7	-224.0
Department of Employment	+3.4	+1.4	+1.2
Department of Transport	+7.2	-0.6	+1.9
DOE-Housing	+9.8	-0.5	+1.3
DOE-Other environmental services	-5.2	+4.9	+2.6
Home Office	+4.5	+4.2	+2.7
Legal departments	+10.8	+6.7	+6.1
Department of Education and Science	+4.6	+3.7	+2.8
Office of Arts and Libraries	+0.8	+4.2	+3.3
DHSS-Health and personal social services	+5.7	+4.8	+4.5
DHS-Social security	+4.4	+5.6	+4.8
Scotland	+3.5	+1.2	+1.9
Wales	+4.2	+2.8	+3.0
Northern Ireland	+5.0	+3.4	+3.1
Chancellor's Departments	+6.5	+5.5	+3.6
Other Departments	+12.8	+1.6	+3.9
Total Departmental programmes	+4.0	+4.3	+3.3

* Size of increases misleading because Reserve allocated in 1987-88.

ANNEX 3

ECONOMIC ASSUMPTIONS

	1987-88		1988-89		1989-90		1990-91	
	1987 PEWP	1987 AS	1987 PEWP	1987 AS	1987 PEWP	1987 AS	1987 PEWP	1987 AS
Unemployment (GB narrow) (million)	3.05	2.7	3.05	2.6	3.05	2.6	not app	2.6
GDP deflator (financial year on financial year) (per cent)	4½	4¼	4	4½	3½	3½	3	3

	September 1987 to September 1988		September 1988 to September 1989	
	1987 PEWP	1987 AS	1987 PEWP	1987 AS
RPI (per cent)	3½	4½	not app	3¼

(See also D1, FF17.)

ECONOMIC ASSUMPTIONS

BB5 NORTH/SOUTH DIVIDE

[See also Employment and unemployment (Brief BB4), National Insurance contributions (D1), Trade and Industry (FF5), Scotland, Wales, Northern Ireland (FF18) and Inner cities (FF24)]

Factual

(i) GDP per capita

factor cost: current prices; UK = 100

	1974	1979	1983	1985*
South East	113.2	115.2	114.7	114.8
East Anglia	92.7	93.8	99.7	100.8
South West	93.0	92.7	95.5	93.8
West Midlands	100.5	95.5	89.7	92.3
East Midlands	95.9	96.1	97.6	95.7
Yorks & Humberside	94.7	93.1	93.5	91.8
North West	96.5	96.6	94.6	96.0
North	91.0	91.4	93.8	92.9
Wales	86.4	88.4	87.7	88.8
Scotland	96.1	95.5	98.5	97.3
Northern Ireland	74.7	76.0	75.0	74.8

* latest data available

(ii) Unemployment rates

Per cent

	June 1986*	September 1986	January 1987	September 1987
South East	8.6	8.5	8.2	7.0
East Anglia	8.7	8.8	8.6	7.3
South West	9.9	9.7	9.4	8.2
West Midlands	13.0	12.9	12.6	11.0
East Midlands	10.3	10.3	10.1	9.1
Yorks & Humberside	12.9	12.8	12.5	11.3
North West	14.6	14.4	14.0	12.6
North	15.7	15.5	15.2	14.0
Wales	14.5	14.2	13.7	12.4
Scotland	13.8	13.9	14.1	12.9
Great Britain	11.4	11.3	11.0	9.8

* GB unemployment peak

NORTH/
SOUTH

CONFIDENTIAL
until 11.30 a.m. WEDNESDAY 18 NOVEMBER

pmp.

FROM: P F L ALLUM
DATE: 17 NOVEMBER 1987

Further confirmation of the strength of the economy. Jim Hibberd 17/11

1. MR J S HIBBERD
2. ECONOMIC SECRETARY

cc : PS/Chancellor
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Allen
Miss O'Mara
Mr Patterson
Mr Pickering
Mr Dyer (+1 for No 10)
Mr Call
Mr Cropper
Mr Tyrie

Mr Stirling)
Mr Clary) CSO
Mr Lang)

+ Mr Norgrove (No 10)

Ch
(We'll beat Canada yet!)

GDP (OUTPUT MEASURE) IN THIRD QUARTER 1987

The CSO will publish the preliminary estimate for GDP(O) at 11.30 a.m. on Wednesday 18 November.

Third Quarter Figures

2. GDP(O) is estimated to have increased by a little over 1½ per cent between the second and third quarters of 1987, after increases of about 1 per cent in both the first and second quarters of 1987. It is estimated to have increased by around 4½ per cent in the year to 1987Q3.

3. Excluding oil and gas extraction, GDP(O) rose by almost 1¾ per cent between the second and third quarters of 1987, to give an increase of 5 per cent in the year to 1987Q3.

cm
cm-GDPQ2

4. The contribution of the individual components to the change in GDP(O) are set out below:

	Contribution to percentage changes in GDP(O) from 1987Q2 to 1987Q3	
Industry		
1. Agriculture, forestry and fishing	0.0	
2. Construction	0.1**	
3. Services	0.9	
4. Industrial production	0.5	
of which		
- oil and gas extraction		0.0
- other energy and water supply		0.1
- manufacturing		0.4
5. GDP(O)*	1.6	

* sum of rows 1-4 (figures may not add due to rounding).

** not for use.

5. The 1½ per cent increase in output in 1987Q3 reflects similar growth rates (all in the range 1½ - 1¾ per cent) in the production, service and construction industries. Within the service sector, **distribution** showed particularly strong growth, with output up nearly 4 per cent on a quarter earlier. Oil and gas extraction is estimated to have remained unchanged in the third quarter, after a 3½ per cent fall between the first and second quarters of 1987.

6. The expenditure, income and output measure of GDP frequently move differently between quarters. The output measure, generally regarded as the most reliable indicator of short-run movements in GDP, indicates that the strong growth seen since mid-1986 has been maintained into the second half of 1987. **(NOT FOR USE:** The preliminary third quarter estimate for GDP(O) is slightly higher than was anticipated at the time of the Autumn Statement.)

P F L ALLUM

pg

ECONOMIC SECRETARY TO THE TREASURY

FROM: G R WESTHEAD
DATE: 18 November 1987

MR ALLUM

cc PS/Chancelor 2
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Burgner
Mr Scholar
Mr Odling-Smee
Mr Sedgwick
Mr Allen
Miss O'Mara
Mr Patterson
Mr Pickering
Mr Dyer (+1 for No.10)
Mr Call
Mr Cropper
Mr Tyrie

Mr Stirling)
Mr Clary)CSO
Mr Lang)

GDP (OUTPUT MEASURE) IN 3RD QUARTER 1987

The Economic Secretary has seen and was grateful for your minute of 17 November attaching the preliminary estimate for GDP(0) in the third quarter of 1987.

2. The Economic Secretary has no comments on the substance of this, but he would find it helpful on future occasions if an additional column showing percentage changes in GDP(0) over a 12-month period (ie in this case since 1986Q3) could be inserted in the table in your paragraph 4.

Guy Westhead.

GUY WESTHEAD
Assistant Private Secretary

127/3

HA/04

pmp

FORECASTS FOR THE UK ECONOMY

A comparison of independent forecasts

Compiled by
EB Division
HM Treasury

November 1987 No. 12

As well as incorporating the latest Industry Act forecast published in the Autumn Statement, this issue of the comparison includes new forecasts from: Cambridge Econometrics; Capel Cure Myers; Goldman Sachs; Henley Centre for Forecasting; Hoare Govett; James Capel; London Business School; Oxford Economic Forecasting; Phillips & Drew and Wood Mackenzie & Co.

The main points are:

	Independent average (i)		City average (ii)	
	1987	1988	1987	1988
GDP growth (per cent)	3.5	2.4	3.6	2.4
RPI inflation rate (Q4; per cent)	4.0	4.3	4.0	4.6
Unemployment (Q4; million)	2.77	2.74	2.76	2.71
Current account (£bn)	- 1.6	- 3.1	- 1.4	- 2.7
PSBR (FY; £bn)	2.1	2.4	1.5	1.8

(i) 'Independent average' is an average of the 11 forecasts shown in tables 1 and 2.

(ii) 'City average' is an average of the 9 City forecasts shown in tables 3 and 4.

Please note that this comparison is a summary of published material reflecting the views of the forecasting organisations themselves and does not in any way provide new information on the Treasury's own views. The comparison contains only a selection of forecasters which is kept continually under review. No significance should be attached to the inclusion or exclusion of any particular forecasting organisation. HM Treasury accepts no responsibility for the accuracy of the material published in this comparison.

Subscription enquiries should be addressed to Committee Section, HM Treasury, Parliament Street, London SW1P 3AG (01-270-4561). An invoice for the annual subscription fee of £50 will be sent on receipt of application. Distribution enquiries should be addressed to Meena Henson (01-270-5212). Enquiries on contents to Peter Curwen (01-270-5206).

4w TABLE 1

COMPARISON OF FORECASTS SUMMARY TABLES

FORECASTS FOR 1987/1987-88

* New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

Date of Forecast	HMTo * Nov '87		NIESR Aug '87	LBS * Oct '87	Phillips & Drew * Nov '87	Goldman Sachs * Nov '87	Henley * Nov '87	C'bridge Econ (z) * Oct '87	L'pool Oct '87	CBI Sept '87	OECD Jun '87	Oxford * Nov '87	EC Oct '87	INDEPENDENT AVERAGE	INDEPENDENT RANGE		CITY AVERAGE
				(p)			Forecasts for calendar year 1987										
GDP	4	(A)	3.3 (O)	3.7 (O)	3.8 (A)	4.0 (A)	3.5 (A)	3.3 (O)	3.1 (E)	3.1 (O)	3.25 (A)	3.8 (A)	3.8 (A)	3.5	3.1 (L'POOL,CBI)	4.0 (GS)	3.6
Consumers' Expenditure	5		3.6	4.0	4.8	4.5	4.0	3.4	2.9c	3.6	3.75	4.8	4.0	4.0	3.4 (CAM)	4.8 (P&D,OXF)	4.4
General Govt Consumption	0.5		1.5	0.1	0.8	-0.1	1.0	1.7	1.0d	1.6	1.5	0.7	0.1	0.9	-0.1 (GS)	1.7 (CAM)	0.9
Gross Fixed Investment	5.5		4.1	6.0	3.9	5.0	5.2	2.9	6.1e	3.6	2.75	5.4	3.8	4.3	2.8 (OECD)	6.0 (LBS)	4.3
Stockbuilding (bn pounds)	0.2		1.2	0.3	0.1	0.4	0.7	1.2	-	1.0	0.0n	0.1	0.7	0.6	0.1 (P&D,OXF)	1.2 (NIESR,CAM)	0.6
Exports (goods & services)	5.5		3.3	5.4	5.1	5.2	4.6	4.3	-	5.4	4.5	5.4	5.0	4.8	3.3 (NIESR)	5.4 (LBS,OXF)	5.0
Imports (goods & services)	6.5		3.4	6.5	6.7	5.5	6.7	4.3	-	5.7	4.5	6.7	4.9	5.5	3.4 (NIESR)	6.7 (P&D,HEN,OXF)	5.8
RPI (CPI) - 4th Qtr	4		3.8	4.1	3.9	4.1	3.9	(4.2)k	(3.7)k	4.3	(4.0)k	3.8	(3.0)k	4.0	3.8 (NIESR)	4.3 (CBI)	4.0
Average Earnings &	-		7.8	7.6	7.7	7.6	7.9	7.7	7.7	-	-	7.8	6.8	7.6	6.8 (EC)	7.9 (HEN)	7.7
RPDI	-		4.9	4.3	4.8	4.5	4.1	-	-	4.5	-	5.2	4.1	4.6	4.1 (HEN,EC)	5.2 (CBI)	4.7
Employment Growth	-		1.2s	1.3	1.0	1.6	1.3	-	-	1.0	1.0	1.2s	1.4	1.2	1.0 (P&D,CBI,OECD)	1.6 (GS)	1.3
Unemployment (UK adults million - 4th Qtr)	-		2.8	2.74	2.82	2.75	2.71	2.9kw	2.9k	2.80	-	2.74	2.80	2.77	2.71(HEN)	2.82(P&D)	2.76
Industrial Production	-		-	3.6	3.0	2.9	2.8	3.3	-	-	4.25	-	2.7	3.2	2.7 (EC)	4.25(OECD)	2.9
Manufacturing Output	5		4.0	5.4	5.1	4.8	4.8	5.2	-	4.9	-	5.0	4.9	4.9	4.0 (NIESR)	5.4 (LBS)	4.6
World trade &	3.75		3.3	3.2	3.3	4.0	2.8	-	3.8	2.9	2.25	5.2	3.5	3.4	2.25 (OECD)	5.2 (OXF)	3.1
Current Account (bn pounds)	-2.5		-1.1	-1.8	-2.2	-1.4	-2.2	-1.8	-0.8	-1.3	-1.6	-1.4	-1.9	-1.6	-2.2 (HEN)	-0.8 (L'POOL)	-1.4
Sterling Index(1975=100) Q4	-		73.3	73.0	74.4	74.5	74.6	71.9k	72.2k	71.1	-	74.9	-	73.7	71.1 (CBI)	74.9 (OXF)	74.1
Short term interest rate Q4 &	-		9.5	10.0	9.1	9.0	9.5	-	9.8k	9.8	-	9.2	10.7	9.6	9.0 (GS)	10.7 (EC)	9.5
Oil Price ($ per barrel) &	18		18.0	18.0	18.6	18.7	18.0	-	-	16.1	18.0	18.6	17.3	17.9	16.1 (CBI)	18.7 (GS)	18.3
							Forecasts for financial year 1987-1988										
M0 growth	2-6y		-	5.2	4.9k	4.1u	6.0	-	4.5k	-	-	-	5.3u	-	-	-	-
M3 growth	-		-	19.4	20.8k	21.3u	15.7	-	-	-	-	13.5q	21.7u	-	-	-	-
PSBR (billion pounds)	1		3.7	1.9	0.5	0.3	1.9	-0.5k	2.7	4.0	-	0.9	3.2	2.1	0.3 (GS)	4.0 (CBI)	1.5

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure

& for definition see individual forecasts
o Treasury forecast published in Autumn Statement
^ interpreted variously by forecasters as either residual or as target

(c) non durable consumption
(d) current and capital including stockbuilding
(e) private sector investment, stockbuilding and durable consumption

(k) calendar year 1987
(n) change in stockbuilding as a % of GDP in previous period
(p) forecast does not take account of stock market fall
(q) 1988Q2 on 1987Q2

(s) employees in employment
(u) end 1987
(w) including school leavers
(y) target range set in 1987 FSBR
(z) Cambridge Econometrics forecast taken from longer term disaggregate forecast

'Independent average' is an unweighted average of comparable independent forecasts as summarised in tables 1 and 2.
'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

COMPARISON OF FORECASTS SUMMARY TABLES

FORECASTS FOR 1988/1988-89

* New forecast

Excep- where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	HMTo *	NIESR	LBS *	Phillips & Drew *	Goldman Sachs *	Henley *	C'bridge Econ (z) *	L'pool	CBI	OECD	Oxford *	EC	INDEPENDENT AVERAGE	INDEPENDENT RANGE		CITY AVERAGE
Date of Forecast	Nov '87	Aug '87	Oct '87	Nov '87	Nov '87	Nov '87	Oct '87	Oct '87	Sept '87	Jun '87	Nov '87	Oct '87				
			(p)			Forecasts for calendar year 1988										
GDP	2.5	2.2 (O)	2.8 (O)	2.2 (A)	2.1 (A)	2.6 (A)	1.9 (O)	3.0 (E)	2.2 (O)	2.25 (A)	2.2 (A)	2.7 (A)	2.4	1.9 (CAM)	3.0 (LIV)	2.4
Consumers' Expenditure	4	4.0	3.9	3.7	3.3	3.3	2.3	2.7c	3.4	3.5	3.4	3.7	3.5	2.3 (CAM)	4.0 (NIESR)	3.4
General Govt Consumption	0.5	1.0	0.8	1.3	1.9	1.5	1.0	0.9d	1.5	1.0	2.0	1.1	1.3	0.8 (LBS)	2.0 (OXF)	1.6
Gross Fixed Investment	4.5	5.9	7.1	1.9	6.8	4.9	5.4	6.1e	6.3	3.5	5.3	3.9	5.1	1.9 (P&D)	7.1 (LBS)	4.5
Stockbuilding (bn pounds)	0.8	1.1	-0.1	0.5	1.5	0.7	1.3	-	0.2	0.0n	0.6	1.0	0.8	-0.1 (CBI)	1.5 (GS)	0.8
Exports (goods & services)	2	0.3	4.6	1.9	0.4	2.5	2.9	-	1.6	1.5	2.7	2.9	2.1	0.3 (NIESR)	4.6 (LBS)	2.9
Imports (goods & services)	5	4.9	6.1	5.2	6.1	4.2	4.9	-	4.1	4.25	7.4	4.9	5.2	4.1 (CBI)	7.4 (OXF)	5.4
RPI (CPI) - 4th Qtr	4.5	4.9	4.0	4.3	3.6	5.2	(4.7)k	(3.1)k	4.9	(4.25)a	3.1	(3.9)k	4.3	3.1 (OXF)	5.2 (HENLEY)	4.6
Average Earnings &	-	7.6	7.6	7.7	7.4	8.0	6.4	6.9	-	-	7.7	6.6	7.3	6.4 (CAM)	8.0 (HEN)	7.4
RPDI	-	3.2	4.5	3.0	4.1	3.6	-	-	2.6	-	4.3	3.5	3.6	2.6 (CBI)	4.5 (LBS)	3.5
Employment Growth	-	1.2s	1.4	0.6	0.8	1.1	-	-	0.3	1.0	1.1s	0.9	0.9	0.3 (CBI)	1.4 (LBS)	0.8
Unemployment (UK adults million - 4th Qtr)	-	2.7	2.72	2.93	2.68	2.62	2.9kw	2.7k	2.88	-	2.64	2.74	2.74	2.62(HEN)	2.93(P&D)	2.71
Industrial Production	-	-	3.2	0.8	-0.1	1.8	1.2	-	-	3.25	-	2.0	1.7	-0.1 (GS)	3.25(OECD)	0.8
Manufacturing Output	3.5	1.5	4.7	2.9	2.2	2.9	2.6	-	4.4	-	3.6	3.4	3.1	1.5 (NIESR)	4.7 (LBS)	2.1
World trade &	4	3.8	4.7	3.5	2.0	3.5	-	4.4	2.8	4.0	4.3	3.9	3.7	2.0 (GS)	4.7 (LBS)	3.3
Current Account (bn pounds)	-3.5	-3.4	-1.7	-3.6	-4.1	-2.9	-4.7	-2.3	-2.6	-3.7	-2.3	-3.3	-3.1	-4.7 (CAM)	-1.7 (LBS)	-2.7
Sterling Index(1975=100) Q4	-	72.0	73.0	72.1	73.7	73.2	70.5k	71.7k	69.1	-	70.7	-	72.0	69.1 (CBI)	73.7 (GS)	71.8
Short term interest rate Q4 &	-	7.9	9.5	8.0	9.0	10.2	-	8.8k	9.5	-	8.8	9.2	9.0	7.9 (NIESR)	10.2 (HEN)	9.5
Oil Price ($ per barrel)&	18	21.0	18.0	20.9	19.1	18.5	-	-	-	18.0	19.4	18.0	19.1	18.0 (LBS,OECD,EC)	21.0 (NIESR)	19.6
						Forecasts for financial year 1988-1989										
M0 growth	-	-	5.8	5.3k	4.7u	6.9	-	4.0k	-	-	-	4.8u	-	-	-	-
M3 growth	-	-	9.0	21.4k	15.8u	14.5	-	-	-	-	10.3q	11.9u	-	-	-	-
PSBR (billion pounds)	-	1.3	2.9	0.0	1.7	3.3	2.0k	2.1	5.2	-	1.5	4.0	2.4	0.0 (P&D)	5.2 (CBI)	1.8
scope for fiscal change (billion pounds)^	-	3.0	2.5	-	2.5	2.5	-	2.3	0.0	-	2.0	3.0	-	-	-	-

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure

& for definition see individual forecasts
o Treasury forecast in Autumn Statement
^ interpreted variously by forecasters as either residual or as target

(a) first half 1988 at annual rate
(c) non durable consumption
(d) current and capital including stockbuilding
(e) private sector investment, stockbuilding and durable consumption

(k) calendar year 1988
(n) change in stockbuilding as a % of GDP in previous period
(p) forecast does not take account of stock market fall
(q) 1989Q2 on 1988Q2

(s) employees in employment
(u) end 1988
(w) including school leavers
(z) Cambridge Econometrics forecast taken from longer term disaggregate forecast

'Independent average' is an unweighted average of comparable independent forecasts as summarised in tables 1 and 2.
'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

TABLE 3

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1987/1987-88 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	EMTo *	Phillips & Drew *	Goldman Sachs *	Hoare Govett *	Wood Mack *	James Capel *	Alex Laing Cr	Scrim-geour	Capel-Cure *	Midland Bank	CITY AVERAGE
Date of Forecast	Nov '87	Nov '87	Nov 87	Nov '87	Nov '87	Nov '87	Oct '87	Oct '87	Nov '87	Sept '87	
Forecasts for calendar year 1987											
GDP	4 (A)	3.8 (A)	4.0 (A)	3.4 (E)	4.0 (A)	3.7 (A)	3.2 (A)	3.3 (A)	3.3 (A)	3.9 (O)	3.6
Consumers' Expenditure	5	4.8	4.5	4.8	4.5	4.8	4.2	4.0	4.1	3.6	4.4
General Govt Consumption	0.5	0.8	-0.1	0.4	0.1	0.7	0.7	1.2	2.0	2.0	0.9
Gross Fixed Investment	5.5	3.9	5.0	4.9	4.5	4.5	3.6	3.5	-	4.4	4.3
Stockbuilding (bn pounds)	0.2	0.1	0.4	0.6	0.3	0.2	0.5	0.8	1.3	1.1	0.6
Exports (goods & services)	5.5	5.1	5.2	5.2	5.9	5.2	4.9	4.8	4.0	4.5	5.0
Imports (goods & services)	6.5	6.7	5.5	6.8	6.1	6.4	5.4	5.7	5.0	4.9	5.8
RPI (CPI) - 4th Qtr	4	3.9	4.1	3.9	3.9	3.8	3.9	4.0	4.1k	4.4	4.0
Average Earnings &	-	7.7	7.6	7.7	7.6	7.7	7.7	7.8	7.6	7.6	7.7
RPDI	-	4.8	4.5	4.0	4.3	-	5.7	5.5	4.2	4.4	4.7
Employment Growth	-	1.0	1.6	1.5	1.5	1.2	1.1	1.3	-	-	1.3
Unemployment (UK adults million - 4th Qtr)	-	2.82	2.75	2.70	2.7	2.79z	2.86	2.74	2.70u	2.80u	2.76
Industrial Production	-	3.0	2.9	-	3.0	-	2.6	-	-	-	2.9
Manufacturing Output	5	5.1	4.8	-	5.2	-	4.3	4.0	4.0	-	4.6
World trade &	3.75	3.3	4.0	-	3.0	2.5	-	3.2	2.5	2.9	3.1
Current Account (bn pounds)	-2.5	-2.2	-1.4	-1.7	-0.9	-1.6	-2.1	-1.0	-1.0	-1.0	-1.4
Sterling Index(1975=100) Q4	-	74.4	74.5	-	75.4	74.8	72.4	72.3	72.0u	74.7	74.1
Short term interest rate Q4	-	9.1	9.0	10.0	9.1	8.0	10.5	10.0	10.0u	10.0	9.5
Oil Price($ per barrel) &	18	18.6	18.7	-	18.0	18.3	18.0	18.5	18.0	18.0	18.3
Forecasts for financial year 1987-1988											
M0 growth	2-6y	4.9k	4.1u	5.7	5.0	5.3	-	5.7	4.5	-	-
M3 growth	-	20.8k	21.3u	17.4	18.0	19.8	18.0	17.1	-	-	-
PSBR (billion pounds)	1	0.5	0.3	1.5	1.0	0.0	3.1	2.8	2.0	2.0	1.5

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure
o Treasury forecast published in Autumn Statement

& for definition see individual forecasts
^ interpreted variously by forecasters as either residual or target
(k) calendar year 1987

(s) employees in employment
(u) end 1987
(w) financial year 1987-88
(y) target range set in 1987 FSBR
(z) 1987H2

'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

TABLE 4

COMPARISON OF FORECASTS - SUMMARY TABLES

CITY FORECASTS FOR 1988/1988-89 * New forecast

Except where specified figures are percentage changes on previous year (GDP components in constant 1980 prices)

	HMTo *	Phillips & Drew *	Goldman Sachs *	Hoare Govett *	Wood Mack *	James Capel *	Alex Laing Cr	Scrim-geour	Capel-Cure *	Midland Bank	CITY AVERAGE
Date of Forecast	Ncv '87	Nov '87	Nov '87	Nov '87	Nov '87	Nov '87	Oct '87	Oct '87	Nov '87	Sept '87	
		Forecasts for calendar year 1988									
GDP	2.5	2.2 (A)	2.1 (A)	2.8 (E)	2.1 (A)	2.6 (A)	2.2 (A)	2.1 (A)	2.3 (A)	3.0 (O)	2.4
Consumers' Expenditure	4	3.7	3.3	3.5	2.2	3.8	3.0	3.7	3.5	3.6	3.4
General Govt Consumption	0.5	1.3	1.9	0.5	1.6	2.0	1.6	1.7	1.8	2.2	1.6
Gross Fixed Investment	4.5	1.9	6.8	4.4	5.0	5.4	2.6	3.6	-	6.3	4.5
Stockbuilding (bn pounds)	0.8	0.5	1.5	0.7	0.6	0.2	1.0	0.5	1.7	0.6	0.8
Exports (goods & services)	2	1.9	0.4	5.0	3.2	3.6	3.7	2.6	2.0	4.0	2.9
Imports (goods & services)	5	5.2	6.1	5.2	4.7	6.6	4.9	6.0	4.0	5.7	5.4
RPI (CPI) - 4th Qtr	4.5	4.3	3.6	5.1	4.3	3.7	5.9	5.2	4.1k	3.1	4.6
Average Earnings &	-	7.7	7.4	8.0	7.4	7.1	7.6	7.8	7.4	6.6	7.4
RPDI	-	3.0	4.1	3.2	3.5	-	2.6	3.1	3.9	4.3	3.5
Employment Growth	-	0.6	0.8	1.3	1.0	0.9	0.4	0.9	-	-	0.8
Unemployment (UK adults million - 4th Qtr)	-	2.93	2.68	2.40	2.7	2.66z	2.85	2.71	2.55u	2.80u	2.71
Industrial Production	-	0.8	-0.1	-	1.3	-	1.1	-	-	-	0.8
Manufacturing Output	3.5	2.9	2.2	-	2.2	-	1.8	1.8	1.8	-	2.1
World trade &	4	3.5	2.0	-	4.0	3.1	-	4.4	2.0	3.8	3.3
Current Account (bn pounds)	-3.5	-3.6	-4.1	-1.3	-1.5	-3.0	-3.8	-2.5	-3.5	-1.0	-2.7
Sterling Index(1975=100) Q4	-	72.1	73.7	-	74.7	76.0	70.1	69.7	68.0u	75.1	71.8
Short term interest rate Q4	-	8.0	9.0	-	8.5	8.5	11.0	10.0	10.0u	8.0	9.5
Oil Price($ per barrel) &	18	20.9	19.1	-	20.0	19.0	19.0	20.0	19.0	20.0	19.6
		Forecasts for financial year 1988-1989									
M0 growth	-	5.3k	4.7u	-	4.8	-	-	5.4	5.5	-	-
M3 growth	-	21.4k	15.8u	-	14.0	-	-	15.3	-	-	-
PSBR (billion pounds)	-	0.0	1.7	-	2.5	-	-	2.3	1.0	3.0	1.8
scope for fiscal change (billion pounds)^	-	-	2.5	-	3.0	-	-	1.0	-	-	-

NOTES:

(A) average measure
(O) output measure
(E) expenditure measure
o Treasury forecast published in Autumn Statement

& for definition see individual forecasts
^ interpreted variously by forecasters as either residual or target

(k) calendar year
(s) employees in employment
(u) end 1988
(z) 1988H2

'City Average' is an unweighted average of comparable City forecasts as summarised in tables 3 and 4.

Independent forecasting organisations covered in this comparison

Alexanders Laing & Cruickshank (Alex Laing Cr)
Cambridge Econometrics (C'bridge Econ)
Capel-Cure Myers (Capel-Cure)
Commission of the European Communities (EC)
Confederation of British Industry (CBI)
Goldman Sachs (GS)
Henley Centre for Forecasting (Henley)
Hoare Govett
James Capel & Co
Liverpool Research Group in Macroeconomics (Liverpool)
London Business School (LBS)
Midland Bank plc
National Institute for Economic and Social Research (NIESR)
Organisation for Economic Cooperation and Development (OECD)
Oxford Economic Forecasting (Oxford)
Phillips and Drew (P&D)
Scrimgeour Vickers & Co (Scrimgeour)
Wood Mackenzie & Co (Wood Mack)

R01(A)

TABLE 01

pmp

Economic Briefing Divison
H.M.Treasury(01-270-5208)
Date: 26/11/87

Economic Indicator
Group: GDP

GROSS DOMESTIC PRODUCT

Seasonally adjusted — Indices 1980=100

	Gross domestic product					Gross domestic product deflator at factor cost
	at 1980 prices at factor cost				at current market prices	
	income estimate	expenditure estimate	output estimate	average estimate	average estimate	expenditure estimate
1970	84.5	83.6	86.0	84.7	22.6	26.4
1971	84.9	85.7	87.3	86.0	25.2	29.3
1972	87.5	86.9	90.0	88.1	28.1	32.3
1973	94.4	93.8	95.2	94.5	32.2	34.8
1974	91.7	93.2	93.8	92.9	36.3	40.7
1975	91.3	92.6	92.0	92.0	45.8	51.8
1976	93.5	96.1	93.9	94.5	54.1	59.3
1977	97.0	97.2	96.6	96.9	63.1	66.6
1978	99.3	100.0	99.9	99.7	72.8	74.7
1979	102.4	102.0	102.9	102.4	85.6	84.2
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	99.6	99.0	98.4	99.0	110.2	110.1
1982	101.5	100.1	100.1	100.5	120.3	117.9
1983	104.7	103.7	103.3	103.9	130.7	124.6
1984	107.2	105.5	106.7	106.5	139.9	130.6
1985	110.9	109.5	110.7	110.4	153.6	138.3
1986	114.9	112.4	114.0	113.8	164.2	142.1
1983 1	103.2	103.6	101.8	102.9	127.6	122.5
1983 2	104.9	102.5	102.1	103.2	128.2	122.6
1983 3	105.0	104.1	104.0	104.4	132.3	125.8
1983 4	105.5	104.4	105.2	105.0	134.9	127.4
1984 1	106.3	105.9	106.0	106.1	137.0	128.4
1984 2	106.3	104.3	106.1	105.6	137.7	129.6
1984 3	107.8	105.1	106.9	106.6	140.8	131.0
1984 4	108.5	106.7	107.8	107.7	144.1	133.5
1985 1	109.5	109.2	109.5	109.4	148.4	135.3
1985 2	111.6	109.9	110.9	110.8	152.4	137.0
1985 3	111.5	109.6	110.8	110.6	155.2	138.9
1985 4	111.0	109.3	111.5	110.6	158.5	142.0
1986 1	113.7	112.2	112.0	112.6	160.5	140.9
1986 2	114.0	112.0	113.4	113.1	162.1	141.4
1986 3	115.4	111.7	114.8	114.0	165.2	142.3
1986 4	116.3	113.9	115.9	115.3	169.1	144.0
1987 1	118.2	114.8	117.0	116.7	171.8	145.3
1987 2	119.0	114.9	118.1	117.4	175.3	147.2
1987 3	-	-	120.0	-	-	-
% change latest quarter on previous quarter						
1987 2	+0.7	+0.1	+0.9	+0.6	+2.0	+1.3
1987 3	-100.0	-100.0	+1.6	-100.0	-100.0	-100.0
on a year earlier						
1987 2	+4.4	+2.6	+4.1	+3.8	+8.1	+4.1
1987 3	-100.0	-100.0	+4.5	-100.0	-100.0	-100.0

Note: The estimates are given to one decimal place but this does not imply that they can be regarded as accurate to this degree.

TABLE 05

C 1(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 26/11/87

Economic Indicator
Group:Output & Production

INDEX OF OUTPUT OF PRODUCTION AND CONSTRUCTION

Seasonally adjusted — Average 1980=100

	Production industries Div 1-4	Manufacturing industries Div 2-4	Construction industries Div 5	Energy industries Div 1	Oil & gas extraction industries Class 13
WEIGHTS	361	266	63	95	44
1970	90.2	103.4	111.1	51.0	-
1971	89.7	102.3	113.1	52.6	-
1972	91.3	104.5	115.2	52.2	-
1973	99.5	114.2	117.9	55.8	-
1974	97.5	112.8	105.7	52.2	-
1975	92.2	105.0	100.1	54.5	-
1976	95.3	106.9	98.8	60.9	16.2
1977	100.2	109.0	98.4	74.8	47.3
1978	103.2	109.7	105.1	85.0	68.9
1979	107.1	109.5	105.8	100.5	98.8
1980	100.0	100.0	100.0	100.0	100.1
1981	96.6	94.0	89.9	103.8	110.3
1982	98.4	94.2	91.7	110.0	125.5
1983	101.9	96.9	95.3	115.9	137.8
1984	103.3	100.8	98.5	110.2	147.3
1985	108.1	103.7	99.8	120.1	150.3
1986	110.2	104.8	102.1	125.2	153.1
1983 1	100.4	95.9	93.7	112.8	131.3
1983 2	100.5	95.4	92.1	114.9	132.7
1983 3	102.8	97.6	97.7	117.4	141.7
1983 4	104.0	98.9	97.8	118.3	145.3
1984 1	104.2	99.7	97.8	116.8	147.7
1984 2	102.7	100.4	98.3	109.1	146.3
1984 3	102.5	101.6	99.6	104.9	143.0
1984 4	103.7	101.6	98.2	109.8	152.0
1985 1	106.4	103.4	100.3	114.9	154.0
1985 2	109.3	104.6	99.5	122.6	152.3
1985 3	108.2	103.7	98.7	120.9	145.7
1985 4	108.3	103.2	100.8	122.2	149.3
1986 1	108.9	102.5	98.9	126.7	154.7
1986 2	109.7	104.0	101.7	125.6	152.3
1986 3	110.9	105.0	102.8	127.4	158.0
1986 4	111.1	107.4	105.1	121.2	147.3
1987 1	111.9	107.4	109.8	124.6	153.3
1987 2	112.5	109.4	105.9	120.9	148.0
1987 3	114.3	111.4	-	122.6	148.0
1985 J	106.2	103.1		114.8	156.0
1985 F	105.7	103.0		113.2	153.0
1985 M	107.4	104.1		116.6	153.0
1985 A	108.9	104.3		121.6	155.0
1985 M	109.3	104.4		123.1	152.0
1985 J	109.8	105.1		123.0	150.0
1985 J	107.5	103.4		119.1	143.0
1985 A	107.8	104.0		118.5	138.0
1985 S	109.4	103.8		125.0	156.0
1985 O	108.6	103.1		123.8	156.0
1985 N	109.3	103.1		120.0	154.0
1985 D	106.9	103.5		116.2	138.0
1986 J	108.2	102.6		123.8	151.0
1986 F	109.4	102.4		128.8	156.0
1986 M	109.2	102.6		127.6	157.0
1986 A	111.0	104.6		129.0	155.0
1986 M	109.0	103.6		124.2	152.0
1986 J	109.1	103.9		123.7	150.0
1986 J	110.5	104.9		126.2	158.0
1986 A	110.8	104.7		127.9	160.0
1986 S	111.4	105.4		128.0	156.0
1986 O	111.3	107.0		123.2	152.0
1986 N	111.3	107.4		122.3	149.0
1986 D	110.6	107.9		118.2	141.0
1987 J	110.6	105.7		124.1	152.0
1987 F	112.5	108.3		124.3	154.0
1987 M	112.7	108.2		125.3	154.0
1987 A	112.5	109.0		122.1	153.0
1987 M	113.1	109.5		123.0	154.0
1987 J	111.9	109.8		117.7	137.0
1987 J	114.2	111.1		122.9	149.0
1987 A	115.0	111.8		123.9	149.0
1987 S	113.8	111.2		121.0	146.0
% change latest 3 months					
1987 S	+1.6	+1.8		+1.4	-
a year earlier:					
1987 S	+3.1	+6.1		-3.7	-6.3

Notes: (1). Weights are per thousand parts of GDP(O).

TABLE 18

C44(A)
Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 26/11/87

Economic Indicator
Group: Production & output

PRODUCTIVITY

Seasonally adjusted 1980=100

	Whole economy	Production industries	Manufacturing industries	
	Output per person employed	Output per person employed	Output per person employed	Output per person hour
1970	87.3	-	84.9	84.9
1971	89.7	-	86.8	86.8
1972	92.1	-	91.9	91.9
1973	95.5	-	99.8	99.8
1974	93.8	-	98.3	98.3
1975	92.4	-	95.7	95.7
1976	95.0	-	100.7	100.7
1977	97.6	-	102.7	102.7
1978	100.6	98.0	103.7	103.7
1979	102.2	102.3	104.1	104.1
1980	100.0	100.0	100.0	100.0
1981	101.9	105.7	103.5	103.5
1982	105.8	114.2	110.3	110.3
1983	110.0	124.7	119.8	119.8
1984	111.8	128.8	126.4	126.4
1985	114.2	135.5	130.6	130.6
1986	117.0	141.5	134.6	134.6
1983 1	108.9	121.1	116.9	116.6
1983 2	109.1	122.6	117.5	117.0
1983 3	110.7	126.5	121.2	120.1
1983 4	111.3	128.7	123.5	122.0
1984 1	111.7	129.6	124.9	123.1
1984 2	111.4	128.1	126.0	124.0
1984 3	111.7	128.0	127.3	125.3
1984 4	112.2	129.5	127.4	125.1
1985 1	113.4	133.0	129.9	127.4
1985 2	114.5	136.8	131.6	129.1
1985 3	114.1	135.8	130.7	128.1
1985 4	114.8	136.4	130.3	127.6
1986 1	115.2	138.2	130.2	127.7
1986 2	116.6	140.5	133.3	131.0
1986 3	117.8	143.1	135.7	133.5
1986 4	118.5	144.0	139.1	136.7
1987 1	119.2	146.3	139.8	137.4
1987 2	119.8	147.7	142.4	139.5
1987 3	-	-	145.1	142.1
1985 J			129.5	127.1
1985 F			129.3	126.8
1985 M			130.9	128.3
1985 A			131.3	129.5
1985 M			131.2	128.5
1985 J			132.2	129.4
1985 J			130.3	127.7
1985 A			131.1	128.7
1985 S			130.7	128.0
1985 O			129.9	127.2
1985 N			130.2	127.5
1985 D			130.8	128.0
1986 J			129.8	127.2
1986 F			130.2	127.7
1986 M			130.6	128.1
1986 A			133.4	131.0
1986 M			132.8	130.6
1986 J			133.6	131.5
1986 J			135.3	133.1
1986 A			135.4	133.1
1986 S			136.4	134.2
1986 O			138.5	136.3
1986 N			139.0	136.5
1986 D			139.8	137.4
1987 J			137.5	135.8
1987 F			140.9	138.2
1987 M			140.9	138.1
1987 A			142.0	139.2
1987 M			142.5	139.8
1987 J			142.6	139.6
1987 J			144.7	141.9
1987 A			145.6	142.6
1987 S			144.9	141.8
% change latest 3 months on previous 3 months				
1987 A			+1.8	+1.7
1987 S			+1.9	+1.8
on same period a year earlier				
1987 A			+7.1	+6.6
1987 S			+6.9	+6.5

TABLE 29

C93(B)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 26/11/87

Economic Indicator
Group: Trade

EXPORT AND IMPORT UNIT VALUES AND TERMS OF TRADE

(Balance of payments basis)

Not seasonally adjusted 1980=100

	Export unit values excl.oil	Import unit values excl.oil	Terms of trade excluding oil(1)	Terms of trade including oil(1)
1970	-	-	-	-
1971	29.3	30.4	96.4	105.0
1972	31.0	31.9	97.0	106.1
1973	34.7	40.7	85.7	94.1
1974	43.3	53.4	81.0	81.5
1975	53.2	60.7	87.7	87.6
1976	63.6	72.7	87.5	85.8
1977	75.2	84.5	89.0	87.7
1978	83.1	89.6	92.8	92.8
1979	90.7	94.2	96.3	96.3
1980	100.0	100.0	100.0	100.0
1981	106.4	105.2	101.2	100.6
1982	113.9	112.8	100.9	99.6
1983	123.6	124.3	99.5	98.6
1984	133.5	136.2	98.1	97.4
1985	141.8	141.8	100.1	98.9
1986	145.2	141.5	102.7	101.9
1979 2	89.7	93.2	96.2	96.1
1983 2	123.0	124.0	99.2	98.5
1983 3	125.1	124.7	100.3	99.4
1983 4	126.0	127.4	99.0	98.3
1984 1	129.0	130.7	98.7	98.2
1984 2	131.7	134.6	97.9	97.6
1984 3	135.2	137.9	98.0	96.9
1984 4	138.1	141.6	97.6	96.9
1985 1	142.2	147.1	96.6	96.1
1985 2	142.8	144.6	98.8	97.8
1985 3	141.6	139.2	101.7	100.2
1985 4	140.6	136.4	103.1	101.6
1986 1	143.0	140.1	102.1	101.0
1986 2	144.2	139.1	103.7	102.5
1986 3	145.3	140.3	103.5	103.2
1986 4	148.1	146.3	101.3	100.9
1987 1	149.7	148.0	101.1	100.5
1987 2	150.3	143.7	104.6	103.7
1987 3	151.6	144.8	104.7	103.8
% change latest quarter on previous quarter				
1987 3	+0.9	+0.8	+0.1	+0.1
on a year earlier				
1987 3	+4.3	+3.2	+1.2	+0.6

Note: 1.Export unit value indices as a percentage of import unit value indices.

TABLE 30

C55(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 26/11/87

Economic Indicator
Group : Prices & costs

COMPETITIVENESS

1980=100 except col 5

	IMF index of relative unit labour costs (1,2) Actual	Normalised	Relative export prices (1)	Wages & salaries per unit of output in manufacturing(3)	Sterling index (4) 1975=100
1975	70.0	78.3	77.9	52.2	99.8
1976	63.6	70.3	75.5	57.8	85.7
1977	62.8	67.8	79.7	62.5	81.2
1978	67.9	72.3	84.6	70.9	81.5
1979	80.7	83.3	90.4	81.8	87.3
1980	100.0	100.0	100.0	100.0	96.1
1981	101.4	105.7	98.1	109.3	95.0
1982	95.1	102.0	92.7	114.0	90.5
1983	86.7	95.9	89.2	114.4	83.2
1984	84.2	93.5	87.6	117.8	78.7
1985	85.3	95.0	89.7	124.5	78.2
1986	80.6	90.1	87.3	130.1	72.9
1983 1	83.2	91.8	85.2	113.2	80.6
1983 2	89.1	97.5	90.3	115.3	84.3
1983 3	87.7	97.5	91.8	114.0	84.9
1983 4	86.8	96.8	89.6	115.2	83.2
1984 1	86.7	96.1	89.0	115.9	81.7
1984 2	84.3	94.0	88.5	116.2	79.8
1984 3	83.8	93.5	87.7	118.1	78.0
1984 4	81.8	90.5	85.2	121.1	75.1
1985 1	77.6	87.3	82.9	121.5	72.1
1985 2	85.3	95.3	90.5	122.5	78.9
1985 3	90.1	100.0	93.7	125.6	82.1
1985 4	88.0	97.3	91.7	128.4	79.8
1986 1	83.9	92.0	88.2	130.8	75.1
1986 2	85.3	94.8	90.9	130.0	76.1
1986 3	79.1	89.1	87.0	129.5	71.9
1986 4	74.2	84.5	83.1	129.8	68.3
1987 1	77.3	87.9	86.2	131.4	69.9
1987 2	-	-	-	131.0	72.7
1987 3	-	-	-	131.5	72.7
% change of latest quarter on previous quarter					
1987 1	+4.2	+4.0	+3.7	+1.2	+2.4
1987 2				-0.3	+4.1
1987 3				+0.4	
on a year earlier					
1987 1	-7.9	-4.5	-2.3	+0.5	-7.0
1987 2				+0.8	-4.4
1987 3				+1.5	+1.1

Notes: (1).Downward movements indicate greater competitiveness.
(2).These indices are in terms of US dollars.
(3).Seasonally adjusted.
(4).Based on an average of daily telegraphic transfer rates in London.

TABLE 09

pmp

C33(A)
Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Investment & stocks

CHANGES IN STOCKS HELD BY INDUSTRY (1)

Seasonally adjusted — Pounds million at 1980 prices

	Energy & water supply	Manufacturing (revised definition)	Wholesaling (2)	Retailing (2)	Total
Value of stocks and work in progress end December 1984	3,941	31,608	9,516	7,320	66,369
1970	-430	1 228	385	-17	1 412
1971	596	-688	414	17	368
1972	-52	-570	329	46	-98
1973	214	2 018	821	1 129	5 025
1974	198	2 124	685	-330	2 278
1975	555	-1 825	-469	-189	-2 644
1976	133	437	249	408	1 235
1977	-458	1 354	754	76	2 602
1978	59	476	691	560	2 208
1979	-127	275	1 280	547	2 544
1980	212	-2 321	-392	-429	-2 586
1981	-355	-1 516	-218	182	-2 404
1982	47	-1 113	-5	12	-1 043
1983	2	-132	-37	-9	698
1984	-754	536	-20	397	280
1985	41	-406	-122	204	611
1986	65	-406	72	583	660
1983 1	148	-5	-163	-63	351
1983 2	-68	-46	166	-116	-24
1983 3	61	-283	49	148	344
1983 4	-139	202	-89	22	27
1984 1	-233	136	4	146	182
1984 2	-213	7	-43	48	-249
1984 3	-146	157	58	-96	-31
1984 4	-162	236	-39	299	378
1985 1	-5	-212	-76	-51	-114
1985 2	-93	220	119	101	586
1985 3	-35	7	-97	120	186
1985 4	174	-421	-68	34	-47
1986 1	26	-235	247	107	410
1986 2	-72	91	-122	168	-3
1986 3	-58	-83	-164	132	-155
1986 4	169	-179	111	176	408
1987 1	-33	-162	40	16	-303
1987 2	-202	-32	20	228	29

Notes: (1).Estimates are shown to the nearest £mn but should not be regarded as accurate to this degree.
(2) These estimates exclude motor trades.
(3) Unadjusted 1980 price stock levels

TABLE 15

C41(A)

Economic Briefing Division
H.M. Treasury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Labour

EMPLOYMENT BY INDUSTRY(1)

Seasonally adjusted — thousands

	Employment: production & construction industries(GB)	Employment: manufacturing industries(GB)	Employment: service industries(GB)(1)
1981	7 859	6 041	13 105
1982	7 414	5 795	13 056
1983	7 071	5 522	13 184
1984	6 930	5 385	13 496
1985	6 836	5 270	13 852
1986	6 640	5 155	14 165
1983 1	7 156	5 610	13 031
1983 2	7 096	5 527	13 130
1983 3	7 034	5 489	13 239
1983 4	6 998	5 461	13 337
1984 1	6 954	5 443	13 416
1984 2	6 936	5 403	13 466
1984 3	6 912	5 391	13 450
1984 4	6 916	5 302	13 650
1985 1	6 898	5 291	13 726
1985 2	6 852	5 280	13 821
1985 3	6 816	5 260	13 894
1985 4	6 779	5 250	13 968
1986 1	6 717	5 218	14 043
1986 2	6 654	5 170	14 126
1986 3	6 599	5 121	14 213
1986 4	6 588	5 109	14 279
1987 1	6 558	5 080	14 393
1987 2	6 569	5 077	14 492
1987 3	-	5 069	-
% change latest quarter			
on previous quarter			
1987 2	-1.3	-1.6	+1.8
1987 3		-1.1	
on a year earlier			
1987 2	-2.2	-2.4	+2.4
1987 3		-1.8	

Notes: (1) Estimates of employees in employment up to June 1985 take account of the results of the 1983,1984,and 1985 Labour Force Surveys. Estimates for later periods include an allowance for continued undercounting. For all dates individuals with two jobs as employees of different employers are counted twice

(2) The manufacturing figures are averages of monthly data.

R43(

E[illegible]ic Briefing Division
H[illegible]easury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Labour

UNEMPLOYMENT AND VACANCIES

		Unemployment (UK) including school leavers (nsa) (000's)	including school leavers (nsa) % rate	excluding school leavers (s.adj) (000's)	excluding school leavers change since previous period (s.adj) (000's)	excluding school leavers (s.adj) % rate	Vacancies (UK) notified to job centres (s.adj) (000's)
1971		751	3.0	699		2.8	
1972		837	3.3	777	78	3.1	
1973		596	2.3	545	-232	2.1	
1974		599	2.3	549	5	2.1	
1975		941	3.6	861	311	3.3	
1976		1 302	5.0	1 179	318	4.5	
1977		1 403	5.4	1 251	72	4.8	
1978		1 383	5.2	1 226	-25	4.7	
1979		1 296	4.9	1 140	-86	4.3	
1980		1 665	6.2	1 452	311	5.4	134
1981		2 520	9.4	2 270	818	8.5	91
1982		2 917	11.0	2 626	356	9.9	114
1983		3 105	11.7	2 867	240	10.8	137
1984		3 160	11.7	2 999	132	11.1	150
1985		3 271	11.8	3 113	115	11.3	162
1986		3 289	11.9	3 180	67	11.5	188
1985	J	3 341	12.1	3 079	9	11.1	155
1985	F	3 324	12.0	3 098	20	11.2	155
1985	M	3 268	11.8	3 096	-2	11.2	157
1985	A	3 273	11.8	3 118	22	11.3	162
1985	M	3 241	11.7	3 119	-	11.3	162
1985	J	3 179	11.5	3 109	-9	11.3	163
1985	J	3 235	11.7	3 113	4	11.3	162
1985	A	3 240	11.7	3 119	6	11.3	163
1985	S	3 346	12.1	3 121	3	11.3	166
1985	O	3 277	11.9	3 124	3	11.3	170
1985	N	3 259	11.8	3 123	-1	11.3	169
1985	D	3 273	11.8	3 143	20	11.4	164
1986	J	3 408	12.3	3 156	13	11.4	163
1986	F	3 337	12.0	3 164	9	11.4	167
1986	M	3 324	12.0	3 207	42	11.5	170
1986	A	3 325	12.0	3 197	-10	11.5	170
1986	M	3 271	11.8	3 201	4	11.5	172
1986	J	3 229	11.6	3 213	12	11.6	184
1986	J	3 280	11.8	3 212	-	11.6	193
1986	A	3 280	11.8	3 209	-3	11.6	201
1986	S	3 333	12.0	3 183	-26	11.5	206
1986	O	3 237	11.7	3 160	-24	11.4	210
1986	N	3 217	11.6	3 143	-16	11.3	213
1986	D	3 229	11.6	3 119	-24	11.2	211
1987	J	3 297	11.9	3 114	-5	11.2	212
1987	F	3 226	11.6	3 066	-49	11.0	207
1987	M	3 143	11.3	3 040	-26	10.9	214
1987	A	3 107	11.2	3 018	-22	10.9	214
1987	M	2 987	10.8	2 952	-66	10.6	231
1987	J	2 905	10.5	2 925	-27	10.5	234
1987	J	2 907	10.5	2 876	-49	10.4	235
1987	A	2 866	10.3	2 829	-47	10.2	237
1987	S	2 870	10.3	2 773	-56	10.0	247
1987	O	2 751	9.9	2 715	-58	9.8	261

Notes (1). The annual figures shown are averages of the monthly figures.
(2). Unemployment figures from April 1983 reflect the effect of provisions in the 1983 Budget for some men aged 60 and over who are no longer have to sign on at unemployment benefit offices.

TABLE 21

onomic Briefing Division
M.Treasury (01-270-5208)
ate: 7/12/87

Economic Indicator
Group: Earnings

AVERAGE EARNINGS (GB)

Seasonally adjusted

		All employees in whole economy			All employees in manufacturing (revised definition)			All employees in sevice industries		
		Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)	Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)	Index Jan 1980=100	% change over year earlier	Underlying % change over previous 12 months(1)
1980		111.4			109.1					
1981		125.8	13.0		123.6	13.3		127.8	13.3	
1982		137.6	9.4		137.4	11.2		138.9	8.7	
1983		149.2	8.4		149.8	9.0		151.1	8.8	
1984		158.3	6.1		162.8	8.7		160.7	6.4	
1985		171.7	8.5		177.7	9.1		171.4	6.6	
1986		185.3	7.9		191.3	7.6		184.7	7.8	
1983	J	144.5	8.8	8.0	144.0	9.1	9.0	146.4	8.8	
1983	F	147.2	9.6	8.0	144.8	9.0	8.8	150.1	11.4	
1983	M	146.3	8.6	7.8	145.0	7.9	8.5	149.1	9.5	
1983	A	147.0	8.6	7.5	148.1	8.9	8.5	148.3	8.6	
1983	M	148.6	8.7	7.5	148.2	8.6	8.5	150.8	9.6	
1983	J	148.2	8.2	7.5	147.8	8.1	8.5	151.4	9.1	
1983	J	150.3	7.7	7.5	149.7	8.6	8.8	152.3	7.6	
1983	A	150.2	8.4	7.8	150.8	9.0	8.8	151.8	8.7	
1983	S	150.7	8.5	7.8	152.4	9.4	9.3	151.5	8.9	
1983	O	152.0	8.7	7.8	154.4	9.6	9.5	152.2	7.8	
1983	N	152.1	7.3	7.8	155.6	9.9	9.8	153.6	6.8	
1983	D	153.4	8.2	8.0	156.6	9.7	9.8	155.1	8.4	
1984	J	154.7	7.1	7.8	157.0	9.0	9.5	155.9	6.5	
1984	F	155.6	5.7	7.8	158.7	9.6	9.5	155.2	3.4	
1984	M	154.4	5.5	7.8	159.2	9.8	9.5	157.0	5.3	
1984	A	155.8	6.0	7.8	159.5	7.7	9.3	158.9	7.1	
1984	M	156.0	5.0	7.8	159.5	7.6	9.3	158.7	5.2	
1984	J	156.0	5.3	7.8	161.1	9.0	9.3	159.0	5.0	
1984	J	158.2	5.3	7.5	162.9	8.8	9.0	160.3	5.3	
1984	A	159.0	5.9	7.5	163.7	8.6	8.8	161.8	6.6	
1984	S	160.2	6.3	7.5	166.1	9.0	8.8	162.4	7.2	
1984	O	164.5	8.2	7.5	168.3	9.0	8.5	168.7	10.8	
1984	N	162.0	6.5	7.5	168.1	8.0	8.5	165.1	7.5	
1984	D	163.5	6.6	7.5	169.5	8.2	8.5	165.9	7.0	
1985	J	165.5	7.0	7.5	171.7	9.4	8.5	166.7	6.9	7.0
1985	F	166.5	7.0	7.5	172.0	8.4	8.5	166.9	7.5	7.0
1985	M	168.3	9.0	7.5	173.8	9.2	8.8	168.6	7.4	7.0
1985	A	170.6	9.5	7.5	177.6	11.3	8.8	170.0	7.0	7.0
1985	M	169.7	8.8	7.5	174.4	9.3	9.0	169.6	6.9	7.0
1985	J	170.2	9.1	7.5	176.2	9.4	9.0	170.1	7.0	6.8
1985	J	172.2	8.9	7.5	178.3	9.5	9.0	170.1	6.1	6.8
1985	A	173.1	8.9	7.5	178.1	8.8	9.0	173.1	7.0	6.8
1985	S	176.4	10.1	7.8	181.5	9.3	9.0	176.0	8.4	6.8
1985	O	174.3	6.0	7.5	180.9	7.5	8.8	172.4	2.2	6.8
1985	N	175.9	8.6	7.5	182.9	8.8	8.8	175.6	6.4	6.5
1985	D	178.1	8.9	7.5	184.7	9.0	8.8	177.4	6.9	6.5
1986	J	179.1	8.2	7.5	185.5	8.0	8.5	176.7	6.0	6.5
1986	F	180.0	8.1	7.5	186.0	8.1	8.3	177.0	6.1	6.8
1986	M	182.6	8.5	7.5	186.9	7.5	8.0	183.0	8.5	7.0
1986	A	185.3	8.6	7.5	191.1	7.6	7.8	185.7	9.2	7.3
1986	M	182.6	7.6	7.5	187.1	7.3	7.8	182.2	7.4	7.3
1986	J	183.9	8.1	7.5	189.8	7.7	7.8	184.8	8.6	7.3
1986	J	186.3	8.2	7.5	190.5	6.8	7.8	186.0	9.3	7.3
1986	A	187.0	8.0	7.5	191.9	7.7	7.8	187.3	8.3	7.3
1986	S	187.1	6.1	7.5	194.0	6.9	7.8	186.0	5.7	7.3
1986	O	188.7	8.3	7.5	195.2	7.9	7.8	187.4	8.7	7.3
1986	N	190.2	8.1	7.8	197.1	7.8	7.8	190.5	8.5	7.5
1986	D	191.3	7.4	7.8	200.0	8.3	8.0	180.2	6.7	7.5
1987	J	192.8	7.7	7.5	200.0	7.8	7.8	190.3	7.7	7.5
1987	F	193.4	7.4	7.5	201.0	8.1	8.0	189.7	7.2	7.3
1987	M	194.8	6.7	7.5	201.1	7.6	8.0	193.8	5.9	7.3
1987	A	197.4	6.5	7.8	204.4	7.0	8.0	196.4	5.8	7.8
1987	M	198.5	8.7	7.8	202.4	8.2	8.0	199.2	9.3	7.8
1987	J	198.1	7.7	7.8	204.8	7.9	8.3	198.7	7.5	7.5
1987	J	201.3	8.1	7.8	207.6	9.0	8.3	200.4	7.7	7.3
1987	A	201.3	7.6	7.8	207.2	8.0	8.5	200.9	7.3	7.3
1987	S	201.9	7.9		210.5	8.5		200.2	7.6	

Notes: (1) Estimated to the nearest quarter of one percentage point
(2) Annual figures are straight averages of the montly data

TABLE 22

R62(B)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Earnings

REAL AVERAGE EARNINGS (WHOLE ECONOMY)(1)

		Real average earnings Jan 1980=100	% increase over year earlier
1980		103.6	-
1981		104.6	1.0
1982		105.4	0.7
1983		109.2	3.7
1984		110.4	1.1
1985		112.9	2.3
1986		117.8	4.3
1983	J	108.8	3.7
1983	F	110.3	4.0
1983	M	109.4	3.8
1983	A	108.4	4.4
1983	M	109.2	4.8
1983	J	108.6	4.4
1983	J	109.6	3.4
1983	A	109.0	3.6
1983	S	108.9	3.2
1983	O	109.4	3.6
1983	N	109.1	2.4
1983	D	109.8	2.7
1984	J	110.8	1.8
1984	F	111.0	0.6
1984	M	109.7	0.3
1984	A	109.3	0.8
1984	M	109.0	-0.1
1984	J	108.7	0.1
1984	J	110.4	0.8
1984	A	109.9	0.8
1984	S	110.5	1.5
1984	O	112.8	3.1
1984	N	110.8	1.5
1984	D	111.9	1.9
1985	J	112.8	1.9
1985	F	112.6	1.5
1985	M	112.8	2.8
1985	A	111.9	2.4
1985	M	110.8	1.7
1985	J	110.9	2.0
1985	J	112.4	1.8
1985	A	112.7	2.5
1985	S	114.9	4.0
1985	O	113.4	0.5
1985	N	114.0	3.0
1985	D	115.3	3.1
1986	J	115.7	2.5
1986	F	115.9	2.9
1986	M	117.4	4.1
1986	A	118.0	5.4
1986	M	116.0	4.7
1986	J	116.9	5.4
1986	J	118.8	5.7
1986	A	118.9	5.5
1986	S	118.3	3.0
1986	O	119.2	5.1
1986	N	119.1	4.5
1986	D	119.4	3.6
1987	J	119.9	3.6
1987	F	119.8	3.4
1987	M	120.4	2.6
1987	A	120.6	2.2
1987	M	121.1	4.4
1987	J	120.9	3.4
1987	J	123.0	3.5
1987	A	122.6	3.1
1987	S	122.6	3.6

Notes: (1) Seasonally adjusted average earnings (whole economy GB) deflated by the all items RPI.

TABLE 25

C75(A)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Interest rates

EXCHANGE RATES (1)

	Sterling exchange rate index 1975=100	Rates per pound sterling (2) US dollar	Deutsche mark	Japanese yen	French franc	Italian lire
1970	-	2.40	8.73	857.84	13.24	1502.4
1971	-	2.44	8.51	849.23	13.42	1510.3
1972	-	2.50	7.98	758.89	12.63	1460.7
1973	-	2.45	6.56	667.29	10.93	1425.6
1974	-	2.34	6.05	682.44	11.25	1521.9
1975	99.8	2.22	5.45	658.44	9.49	1447.5
1976	85.7	1.81	4.56	535.85	8.61	1497.7
1977	81.2	1.75	4.05	467.78	8.57	1540.1
1978	81.5	1.92	3.85	403.18	8.65	1628.3
1979	87.3	2.12	3.89	465.57	9.02	1762.2
1980	96.1	2.33	4.23	525.81	9.83	1992.2
1981	95.0	2.03	4.56	445.02	10.95	2289.1
1982	90.5	1.75	4.24	434.99	11.47	2363.0
1983	83.2	1.52	3.87	359.95	11.54	2300.4
1984	78.7	1.34	3.79	316.74	11.63	2338.9
1985	78.2	1.30	3.78	306.89	11.55	2461.1
1986	72.9	1.47	3.18	247.00	10.16	2186.5
1983 J	81.9	1.57	3.76	366.02	10.66	2161.9
1983 F	80.7	1.53	3.72	361.53	10.54	2141.6
1983 M	79.1	1.49	3.59	354.88	10.45	2128.5
1983 A	82.8	1.54	3.76	366.19	11.28	2238.6
1983 M	84.9	1.57	3.88	369.18	11.67	2308.0
1983 J	85.2	1.55	3.95	371.83	11.87	2339.8
1983 J	84.8	1.53	3.95	367.28	11.89	2340.0
1983 A	85.1	1.50	4.02	366.96	12.08	2385.7
1983 S	84.8	1.50	4.00	363.29	12.08	2400.0
1983 O	83.4	1.50	3.90	348.63	11.90	2368.4
1983 N	83.7	1.48	3.97	347.26	12.06	2401.2
1983 D	82.5	1.44	3.94	336.38	12.02	2391.0
1984 J	81.9	1.41	3.96	329.15	12.10	2403.0
1984 F	82.2	1.44	3.89	336.39	11.97	2401.9
1984 M	81.0	1.46	3.78	327.85	11.65	2350.0
1984 A	79.9	1.42	3.76	320.33	11.56	2326.6
1984 M	80.0	1.39	3.82	320.27	11.71	2356.7
1984 J	79.4	1.38	3.77	321.45	11.59	2332.9
1984 J	78.4	1.32	3.76	320.80	11.55	2311.0
1984 A	78.4	1.31	3.79	318.30	11.64	2338.1
1984 S	77.3	1.26	3.81	308.75	11.69	2351.6
1984 O	75.6	1.22	3.74	301.08	11.48	2316.6
1984 N	75.7	1.24	3.71	302.17	11.40	2308.7
1984 D	74.0	1.19	3.69	294.31	11.29	2269.8
1985 J	71.5	1.13	3.58	286.82	10.95	2199.1
1985 F	71.3	1.09	3.61	284.73	11.02	2229.0
1985 M	73.4	1.12	3.70	289.75	11.31	2336.0
1985 A	78.0	1.24	3.83	312.30	11.69	2445.8
1985 M	78.8	1.25	3.88	314.56	11.84	2475.5
1985 J	79.9	1.28	3.92	318.69	11.96	2501.9
1985 J	83.3	1.38	4.01	332.61	12.21	2620.2
1985 A	81.7	1.38	3.87	328.43	11.81	2590.8
1985 S	81.4	1.37	3.87	322.83	11.81	2596.6
1985 O	80.4	1.42	3.76	305.17	11.46	2537.2
1985 N	80.0	1.44	3.73	293.64	11.38	2522.9
1985 D	79.1	1.45	3.63	293.17	11.11	2478.3
1986 J	76.6	1.42	3.47	284.66	10.66	2368.2
1986 F	74.2	1.43	3.34	263.84	10.23	2268.7
1986 M	74.6	1.47	3.33	262.06	10.23	2262.5
1986 A	76.2	1.50	3.40	262.17	10.79	2331.8
1986 M	76.1	1.52	3.39	253.84	10.79	2322.0
1986 J	75.9	1.51	3.37	252.78	10.74	2311.9
1986 J	74.0	1.51	3.25	239.39	10.46	2229.4
1986 A	71.4	1.49	3.07	229.18	9.99	2110.6
1986 S	70.4	1.47	3.00	227.65	9.83	2073.4
1986 O	67.8	1.43	2.86	223.15	9.36	1979.7
1986 N	68.5	1.43	2.88	232.00	9.43	1995.9
1986 D	68.5	1.44	2.86	233.22	9.39	1984.1
1987 J	68.8	1.51	2.80	232.94	9.33	1981.8
1987 F	69.0	1.53	2.79	234.25	9.28	1980.8
1987 M	71.9	1.59	2.92	241.07	9.72	2078.0
1987 A	72.3	1.63	2.95	232.87	9.83	2106.1
1987 M	73.3	1.67	2.98	234.13	9.96	2151.8
1987 J	72.6	1.63	2.96	235.31	9.89	2142.9
1987 J	72.8	1.61	2.97	241.83	9.90	2152.5
1987 A	72.3	1.60	2.97	235.70	9.90	2149.3
1987 S	73.1	1.65	2.98	235.57	9.96	2155.4
1987 O	73.6	1.66	2.99	238.05	10.00	2164.0

Notes: (1) The annual figures quoted are 12 month averages.
(2) Average of daily telegraphic transfer closing rates in London.

TABLE 26

C84(B)

Economic Briefing Division
H.M.Treasury (01-270-5208)
Date: 7/12/87

Economic Indicator
Group: Sectoral Finance

BALANCE OF PAYMENTS CURRENT ACCOUNT

Seasonally adjusted — Pounds million

		Current balance	Visible balance: Non-oil	Visible balance: Oil	Visible balance: Total	Invisible balance
1970		799	462	-496	-32	830
1971		1 092	882	-692	191	901
1972		193	-82	-666	-747	940
1973		-1 018	-1 645	-941	-2 587	1 568
1974		-3 316	-1 994	-3 357	-5 351	2 035
1975		-1 583	-276	-3 057	-3 334	1 751
1976		-921	18	-3 947	-3 930	3 009
1977		-136	487	-2 771	-2 284	2 148
1978		967	442	-1 984	-1 541	2 508
1979		-661	-2 718	-731	-3 450	2 788
1980		2 917	1 046	315	1 362	1 555
1981		6 312	249	3 111	3 360	2 952
1982		4 036	-2 312	4 643	2 332	1 704
1983		3 337	-7 811	6 976	-836	4 173
1984		1 473	-11 321	6 937	-4 386	5 858
1985		2 921	-10 283	8 105	-2 177	5 097
1986		-980	-12 520	4 056	-8 463	7 483
1983	1	1 668	-1 700	1 769	68	1 600
1983	2	-35	-2 015	1 550	-464	429
1983	3	1 254	-1 648	1 562	-86	1 340
1983	4	450	-2 448	2 095	-354	804
1984	1	1 254	-2 270	2 257	-13	1 267
1984	2	-311	-2 801	1 532	-1 269	958
1984	3	-92	-3 188	1 672	-1 516	1 424
1984	4	622	-3 062	1 476	-1 588	2 209
1985	1	-109	-3 092	1 894	-1 198	1 089
1985	2	1 304	-2 660	2 448	-211	1 515
1985	3	1 141	-2 376	1 780	-596	1 736
1985	4	585	-2 155	1 983	-172	757
1986	1	744	-3 126	1 886	-1 240	1 984
1986	2	146	-2 372	765	-1 607	1 753
1986	3	-910	-3 513	621	-2 891	1 981
1986	4	-960	-3 509	784	-2 725	1 765
1987	1	671	-2 300	1 164	-1 136	1 807
1987	2	-194	-3 395	1 034	-2 382	2 187
1987	3	-1 249	-	-	-3 049	1 800
1985	J	193			-167	360
1985	F	-57			-399	342
1985	M	-245			-632	387
1985	A	397			-108	505
1985	M	637			132	505
1985	J	270			-235	505
1985	J	285			-295	579
1985	A	447			-131	578
1985	S	409			-170	579
1985	O	182			-15	197
1985	N	-79			-276	197
1985	D	482			119	363
1986	J	998			45	953
1986	F	209			-307	516
1986	M	-463			-978	515
1986	A	286			-298	584
1986	M	-108			-693	585
1986	J	-32			-616	584
1986	J	-3			-663	660
1986	A	-730			-1 391	661
1986	S	-177			-837	660
1986	O	-165			-753	588
1986	N	-472			-1 061	589
1986	D	-323			-911	588
1987	J	85			-517	602
1987	F	401			-202	603
1987	M	185			-417	602
1987	A	203			-527	729
1987	M	-378			-1 107	729
1987	J	-19			-748	729
1987	J	-325			-925	600
1987	A	-907			-1 507	600
1987	S	-17			-617	600
1987	O	-282			-882	600

Note: 1.Monthly figures for invisibles are not available.The monthly invisibles shown are one-third of the appropriate calender quarter's estimate,except for budget refunds received from the European Community which are allocated to the month they are known to have been received.
2. The invisibles figure for April 1987 is a projection.

RESTRICTED until 11.30 am
on Friday 18 December then
UNCLASSIFIELD

FROM: P F L ALLUM
DATE: 17 DECEMEBR 1987

In line with all previous indicators for 1987Q3
Jim Hibberd 17/12

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr F Cassell
Mr Monck
Mr Scholar
Mr Sedgwick o/r
Mr Allen
Mr Pickford
Mr Patterson
Mr Call
Mr Tyrie

Mr Lomas - CSO

Thanks

GDP FIGURES FOR THE THIRD QUARTER OF 1987

Provisional estimates of GDP in the third quarter of 1987 will be published by the CSO on Friday at 11.30 am. The increases in the various measures of real GDP between the second and third quarters of 1987 and between the third quarters of 1986 and 1987 are shown below:

REAL GDP (percentage increases)

	1987Q2 to 1987Q3	1986Q3 to 1987Q3
Output estimate	2.1	5.2
Expenditure	2.5	5.2
Income estimate	1.9	5.3
Average estimate	2.1	5.2

2. GDP growth shown by the **average estimate** (2 per cent over the latest quarter, and 5¼ per cent over the last year) is above that shown by the preliminary third quarter output estimate published on 18 November (which was 1½ per cent up over the latest quarter, and 4½ per cent over the last year). The CSO's press notice describes the level of economic activity in the third quarter as "5 per cent higher than at the same time last year".

3. Growth between the second and third quarters of 1987 (estimated at 2 per cent) is considerably above earlier increases in the upswing since mid-1986. Several GDP components, including stockbuilding

gdp
ch-17-12

expenditure and construction industry output, appear to have been erratically high in the third quarter. Because of this a better guide to underlying growth is probably provided by comparing the level of output in the first three quarters of 1987 with the comparable period in 1986. On this basis, the average measure of GDP is estimated to have increased by 4.1 per cent.

4. The national accounts published on Friday incorporate upward revisions to earlier estimates of consumers' expenditure and downward revisions to previous figures for incomes from self-employment. This has narrowed what was previously a considerable divergence between the income and expenditure measures of GDP in recent years. Estimated growth of consumers' expenditure in 1986 has been revised up from 5.8 to 6.0 per cent, while the increase in the year to the third quarter of 1987 has been revised up from 5.3 to 5.7 per cent.

5. Industrial and commercial companies' profits net of stock appreciation are estimated to have risen by 22 per cent over the year to 1987Q3. This comparison is affected by the privatisation of British Gas, British Airways and the British Airports Authority; the CSO's press notice says that the rise in company profits over the last year exceeds the contribution of the newly privatised companies. Company profits together with gross trading surpluses of public corporations rose by over 25 per cent in the year to 1987Q3. No split between profits earned by oil and non-oil companies is yet available for the latest quarter.

<u>Average growth since the 1981 trough</u>

6. Between the first half of 1981 and the third quarter of 1987, GDP has increased 21½ per cent in total, an annual rate of increase of 3.1 per cent.

<u>The GDP deflator and money GDP</u>

7. The table below compares the estimates now being published for growth in the GDP deflator and money GDP with the Autumn Statement forecast for the current financial year as a whole.

	Latest published figures: 1987Q3 on year earlier	Latest published figures: 1987Q2 and 1987Q3 on year earlier	Autumn Statement forecast for growth in 1987-88
Money GDP	10.3	9.5	8½
GDP deflator (market prices)	4.8	4.7	4¼

8. The increase in the GDP deflator in the year to the third quarter of 1987 is in line with expectations at the time of the Autumn Statement. But upward revision to the level of the GDP deflator in the second quarter (which we previously suspected to be too low) together with stronger than expected growth in real output suggests that money GDP growth is now likely to exceed the Autumn Statement projection for 1987-88 as a whole. (Although the Autumn Statement forecast assumed some deceleration of money GDP growth in the second half of this financial year it would now need to be to an annual rate of less than 6 per cent to bring year-on-year growth in line with the Autumn Statement forecast.)

Lines to take

Positive

(i) GDP at record level and for first three quarters of 1987 up by over 4 per cent on year earlier.

(ii) Gross trading profits of private companies and public corporations over 25 per cent higher than year earlier.

Defensive

(i) **Economy overheating?** Latest GDP figures show growth for first three quarters of 1987 in line with Autumn Statement forecast for 4 per cent growth in 1987 as a whole. Growth in third quarter likely to prove erratically high; 1988 likely to see GDP growth more in line with longer run trend over current upswing.

P F L ALLUM

UNCLASSIFIED

ps2/59M

PMP

FROM: MISS M P WALLACE

DATE: 18 December 1987

MR P L ALLUM

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr F Cassell
Mr Monck
Mr Scholar
Mr Sedgwick
Mr Allen
Mr Pickford
Mr Hibberd
Mr Patterson
Mr Call
Mr Tyrie
Mr Lomas - CSO

GDP FIGURES FOR THE THIRD QUARTER OF 1987

The Chancellor has seen and was grateful for your minute of 17 December.

MPW

MOIRA WALLACE

ps3/47T

UNCLASSIFIED

FROM: J M G TAYLOR
DATE: 31 December 1987

MR S MATTHEWS

cc Mr H P Evans

GENERAL GOVERNMENT FINANCIAL DEFICIT AS A PERCENTAGE OF GDP

The Chancellor would be grateful for a table giving estimates/forecasts of the general Government financial deficit as a percentage of GDP for each of the G7 countries in 1987-88, and 1988-89.

J M G TAYLOR

PS3/47T

UNCLASSIFIED

FROM: J M G TAYLOR
DATE: 31 December 1987

MR S MATTHEWS

cc Mr H P Evans

GENERAL GOVERNMENT FINANCIAL DEFICIT AS A PERCENTAGE OF GDP

The Chancellor would be grateful for a table giving estimates/ forecasts of the general Government financial deficit as a percentage of GDP for each of the G7 countries in 1987-88, and 1988-89.

J M G TAYLOR

35/3/jn 3578/27

bf 6/1 to (M)

(photo'd)

FROM: D SAVAGE
DATE: 4 January 1988

CHANCELLOR

cc Mr Evans
Mr Matthews

GENERAL GOVERNMENT FINANCIAL DEFICIT AS A PERCENTAGE OF GDP

Table 1 gives, for each of the G7 countries, OECD estimates for calendar 1987 and forecasts for calendar 1988.

Table 1. GGFD as percentage of GNP/GDP

	1987	**1988**
United States	2.4	2.4
Japan	1.2	1.1
Germany	1.7	2.3
France	2.8	2.7
United Kingdom	2.1	1.9
Italy	10.3	10.0
Canada	4.4	3.3

Source: OECD Economic Outlook December 1987.

2. The estimate for the UK for 1987 is probably too high.

3. The forecasts for 1988 in general assume constant policies. The forecast for the US allows for a $23 billion cut in the deficit in FY 1988 - a little less than the $30 billion cut announced on 20 November. Our forecast for the UK (which we do not publish) is a good deal lower than the OECD's.

PST like to see this but our forecasts for the UK rather than OECD's.

D.S.

DAVID SAVAGE

35/3/jn 3574/4

CONFIDENTIAL

FROM: D SAVAGE

DATE: 6 January 1988

CHANCELLOR

Thanks

cc Mr Evans
Mr Matthews

GENERAL GOVERNMENT FINANCIAL DEFICIT AS A PERCENTAGE OF GDP

Table 1 gives the (unpublished) Autumn Statement forecast for the UK rather than the OECD's forecast.

Table 1. GGFD as percentage of GNP/GDP

	1987	1988
United States	2.4	2.4
Japan	1.2	1.1
Germany	1.7	2.3
France	2.8	2.7
United Kingdom	~~2.1~~ 1.8	1.8
Italy	10.3	10.0
Canada	4.4	3.3

Source: Autumn Statement forecast for UK; OECD Economic Outlook December 1987 for other countries.

2. We are now esimating the 1987 outturn for the UK at around 1¾ per cent.

DS.

DAVID SAVAGE

(Scarcely "a great deal lower" than 1.9 – see below)

RM2.45 CONFIDENTIAL

pmp

FROM: MOIRA WALLACE

DATE: 7 January 1988

MR SAVAGE

cc Mr Evans
Mr Matthews

GENERAL GOVERNMENT FINANCIAL DEFICIT AS A PERCENTAGE OF GDP

The Chancellor has seen and was grateful for your minutes of 4 January and 6 January.

MPW.

MOIRA WALLACE

ec1.bk/meb/23.1.6

pw

PPS

FROM: MRS M E BROWN
DATE: 24 JANUARY 1988

cc PS/Economic Secretary
Sir P Middleton
Mr Wicks
Mr Lankester
Mr R I G Allen
Mr Bonney
Mr Burr
Mr Gilhooly
Mr Ilett
Mr Mercer
Miss O'Mara
Mr Molan
Ms Symes

a
This adds v little indeed to what is already in speech. Are there any points you do want more detailed briefing on?

AA

CHANCELLOR'S SPEECH ON EUROPE

1. As agreed, I attach defensive briefing.

I was offered "briefing"!

Mary Brown.

MRS M E BROWN

ec1.bk/meb/23.1.2

GENERAL

Another anti-communautaire speech?

No. UK committed to Europe in realistic and practical way. Single market an example. But cautious about getting diverted into idealistic discussions.

Attacking Delors?

Read M. Delors' speech to European Parliament last week with great interest. Share his commitment to single market and the importance he placed on avoiding protectionist policies in dealings with rest of world. But do not agree that single market leads inexorably on to full economic and monetary union, and talk of inter-governmental conference on Treaty amendment far too premature. Want to concentrate on promoting economic and monetary measures which will strengthen the single market in a practical way.

ecl.bk/meb/23.1.3

EMU AND ERM

European Monetary Union essential for completion of internal market?

- No. Internal market white paper in 1985 did not suggest that EMU was required. Nor did the Cecchini Report.

- EMU presupposes degree of political integration at present not even in prospect.

- Delors Committee set up by Hanover European Council, was asked to study and propose concrete stages leading towards EMU. Hope it will adopt practical, pragmatic approach. Committee's proceedings are confidential. Due to report to ECOFIN before discussion at European Council in Madrid in June.

- [If needed: While Single European Act refers in preamble to 1992 objective "of the progressive realisation of economic and monetary union", article 102A makes clear any institutional changes would require Treaty amendment. No specific commitment or timetable.]

Join ERM?

- No change in Government position, kept under continuous review. Will join when Government thinks time is right.

- No timetable set. Completion of single market certainly does not require sterling's participation in ERM.

Use of ecu

- UK actually filled market gap by issuing own short-term Ecu Treasury Bills and holds ecu in official reserves.

- Would encourage other member states:

  to hold ecu in reserves and use in intervention within Community;
  to enter ecu market themselves;
  to remove any remaining obstacles to use of ecu in commercial transactions.

eci.bk/meb/23.1.2

TAX

Indirect taxes

All countries had problems with the Commission's proposals on tax approximation. My paper to the September ECOFIN set out an alternative approach which aims to remove fiscal frontier controls and allow market forces to influence tax rates to the extent necessary for the single market. Hope we will be able to consider a way forward on these lines in coming months. But stress UK cannot contemplate abolition of zero rates, or large reductions in excise duties on alcohol and tobacco. Have suggested high minimum duty rates for alcohol and tobacco as way of removing fiscal frontier controls for these items.

Taxation of savings

Await Commission proposals.

There is no link between the freedom of capital movements and any tax measures on saving.

Essential to avoid measures which would drive business outside the Community, damage Community financial markets and reduce present tax ~~rate~~ take. No evidence from UK experience in abolishing exchange controls that the consequence is massive tax losses.

Harmonising systems of company taxation and withholding taxes on dividends

The case for harmonisation of this kind has not been made out. Such convergence as is necessary will come through the operation of market forces.

Harmonising rules for determining taxable profits

The case for harmonisation of this kind has not been made out. Such convergence as is necessary will come through the operation of market forces.

Preventing double taxation

The UK does not oppose this initiative but the need for such a procedure must be adequately established and, if established, the machinery must be workable.

Common system of taxation for parent and subsidiary companies

The Commission's proposal does not create any policy difficulties unless it were to be argued that ACT represents a withholding tax. The UK representatives have made the position clear on this point.

ec1.bk/meb/23.1.3

MERGERS POLICY

Is UK against/in favour of proposed merger control regulation?

We are not convinced about the principle of a regulation and have reserved our position on it. Other member states have strong reservations on the details. Meanwhile we are participating constructively in discussions. These are likely to continue for some time.

ec1.bk/meb/23.1.3

SOCIAL POLICIES/STRUCTURAL FUNDS

[Single European Act provides for strengthening the EC's "economic and social cohesion", particularly through structural funds. Commission working paper, September 1988, outlined range of possible social measures - no specific proposals yet.]

- UK ready to discuss steps which make positive contribution to the single market, eg. promoting health and safety at work, better training.

- But wary of proposals which are not specifically related to the single market [eg. worker participation, worker protection].

- Increase in the structural funds was part of a package deal at the February Council last year, which included legally binding constraints on agricultural expenditure, annual ceilings on own resources and firm control of non-compulsory expenditure. The 1989 Budget procedure has demonstrated the effectiveness of budget discipline arrangements.

ecl.bk/meb/23.1.4

AGRICULTURE AND THE CAP

What is the Government doing to reduce burden of CAP on consumers and taxpayers?

- UK has long pressed for reform within the European Community.

- February Brussels European Council agreed effective budgetary discipline by setting legally binding guideline on CAP expenditure, limiting guarantee expenditure growth to 74 per cent of growth of Community GNP. Council also agreed on "stabilisers" for main commodity sectors, which will control support levels and expenditure.

- July Agriculture Council froze most prices. Commission's proposals for 1989 price fixing would have similar effect.

What is the future of the CAP?

- UK Ministers have brought world agricultural crisis to forefront of the international agenda.

- All OECD countries provide large-scale subsidies and protection. Reform will be easier if all countries reduce their support together and allow greater play of market forces. GATT Uruguay Round negotiations offer opportunity for significant multilateral reform. Hope for substantial progress at resumed Ministerial meeting in April.

- But as I have said, CAP reform ought not wait. Brussels European Council was an important step, but more needs to be done.

- Intervention arrangements should return to their original roots, and be no more than a safety net. Much greater openness to market forces would benefit producers themselves, as well as consumers and tax payers.

- CAP reforms bound to have some effect on farm incomes (which are in any case subject to the vagaries of the weather and world prices). Most farmers already have other sources of income and this will increasingly be the case as the rural economy diversifies away from agriculture.

How will Britain's farmers fare in 1992?

- British farming has nothing to fear from a leaner, trimmer CAP. Their efficiency and experience will be rewarded. We will not abandon farmers with special needs; policies should enable them to benefit from a more dynamic open market

ec1.bk/meb/23.1.5

TRADE/EXTERNAL RELATIONS

EC already protectionist?

Level of protection in certain sectors is certainly too high. Single market process will remove many national trade barriers affecting non-EC goods. Important that EC maintains firm commitment to successful GATT Round as this will lead to reduction of trade barriers in EC and elsewhere.

"Fortress Europe" after 1992?

In Hanover Council Communique EC Heads of Government underlined that "the single market should not close in on itself". UK strongly supports this position and will press for negotiations with third countries on access to EC markets to be conducted in conformity with GATT obligations.

[N.B. David Henderson, Chief OECD economist, has published essay on 'Fortress Europe' making similar points. Report in yesterday's (Tuesday) FT].

EC/EFTA

Glad that M. Delors raised this subject in recent speech to European Parliament, and that European Commission is giving thought to strengthening relations with EFTA. Clearly important in context of single market.

[If raised - application procedures set out in Treaty of Rome. Any application will of course be looked at on its merits. Turkish application being considered - nothing to add.]

dti

press notice

Issued jointly with the Central Statistical Office (CSO)

Press enquiries:
Visible Trade 01-215 4474/5060/5066
Invisibles 01-270 6357
Balance of Payments and Economy 01-270 5238

Non-Press enquiries:
Visibles 01-215 4894/4895/5130
Invisibles 01-270 6363/6364

Date 27 June 1988

Ref No 460

The current account of the United Kingdom balance of payments

MAY 1988

The current account for May, seasonally adjusted, is estimated to have been in deficit by £1205 million compared with a deficit of £728 million in April. In May, exports - seasonally adjusted on a balance of payments basis - were valued at £6481 million and imports at £8186 million so that trade in goods was in deficit by £1705 million.

The balance on invisibles is projected to be in surplus by £500 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

MARCH TO MAY 1988

In the three months ended May, the current account showed a deficit of £2.5 billion compared with a deficit of £2.7 billion in the previous three months. There was a deficit on visible trade of £3.9 billion in the latest three months compared with a deficit of £4.0 billion in the three months ended February. The surplus on invisibles in the latest three months is projected at £1.4 billion.

CURRENT ACCOUNT **Table 1**

£ million, Seasonally adjusted

	Current Balance	Visible Trade Balance	Visible Trade Exports fob	Visible Trade Imports fob	Invisibles Balance[b]
1986	+ 116	- 8463	72678	81141	+ 8579
1987	- 1560	- 9625	79622	89247	+ 8065
1987 Q1	+ 974	- 1211	19530	20740	+ 2185
Q2	- 218	- 2317	19357	21674	+ 2099
Q3	- 919	- 3109	20235	23344	+ 2190
Q4	- 1397	- 2988	20500	23488	+ 1591
1988 Q1	- 2776	- 4017	18826	22843	+ 1241
1987 Dec	- 480	- 1010	6817	7827	+ 530
1988 Jan	- 1159	- 1573	6209	7782	+ 414
Feb	- 1044	- 1457	6176	7634	+ 413
Mar	- 572	- 986	6441	7427	+ 414
Apr	- 728a	- 1228	6793	8021	+ 500a
May	- 1205a	- 1705	6481	8186	+ 500a
Dec-Feb 1988	- 2684	- 4041	19202	23243	+ 1357
Mar-May 1988	- 2505a	- 3919	19715	23634	+ 1414a
Jan-May 1988	- 4709a	- 6950	32100	39050	+ 2241a

a Invisibles for April to May 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.

Department of Trade and Industry 1 Victoria Street London SW1H 0ET Out of Hours Tel 01-215 7877 Fax 01-222 4382

Prepared by the Government Statistical Service

VISIBLE TRADE IN MAY

There was a deficit on visible trade in May of £1705 million compared with a deficit of £1228 million in April. The surplus on oil was £221 million, £87 million less than in April. The deficit on non-oil trade increased by £390 million.

Total exports in May were valued at £6481 million, which was £312 million (4½ per cent) lower than in April. Exports of oil decreased by £72 million and exports of the erratic items decreased by £43 million between the two months. Excluding oil and the erratic items, exports fell by 3½ per cent between April and May.

Total imports were valued at £8186 million in May, which was £165 million (2 per cent) more than in April. Imports of oil rose by £16 million between the two months while imports of the erratic items rose by £197 million. Excluding oil and the erratic items, imports fell by ½ per cent between April and May.

RECENT TRENDS

Visible balance

In the three months ended May, there was a deficit on visible trade of £3.9 billion - a surplus on trade in oil of £0.7 billion being offset by a deficit on non-oil trade of £4.7 billion. Between the three months ended February and the latest three months, the deficit on visible trade decreased by £0.1 billion - the surplus on oil fell by £0.3 billion while the deficit on non-oil trade fell by £0.4 billion.

Exports

Exports amounted to £19.7 billion in the three months ended May, £0.5 billion (2½ per cent) more than in the previous three months. Exports of oil fell by £0.4 billion, while exports of the erratic items rose by £0.5 billion. Excluding oil and the erratic items, exports increased by 3 per cent between the three months ended February and the latest three months.

Total exports volume in the latest 3 months was 1 per cent higher than in the previous three months and 2 per cent higher than in the same period a year ago. Excluding oil and the erratic items, export volume rose by 2 per cent in the latest three months and was 4½ per cent higher than in the same period a year ago. The volatility of figures during 1988 makes it difficult to determine the extent of changes in the underlying level of exports since the beginning of the year.

Imports

Total imports were valued at £23.6 billion in the latest three months, £0.4 billion (1½ per cent) higher than in the previous three months. Imports of oil fell by £0.1 billion while imports of the erratic items rose by £0.3 billion. Excluding oil and the erratic items, imports rose by 1 per cent between the three months ended February and the latest three months.

Total import volume in the latest three months was 1½ per cent higher than in the previous three months and 11 per cent higher than in the same period a year ago. Excluding oil and the erratic items, import volume rose by 1 per cent in the latest three months and was 11 per cent higher than in the same period a year ago. It is too soon to say whether the underlying level of imports is now above that level reached at the end of 1987.

Terms of trade and unit values

The terms of trade index rose 2 per cent between the three months ended February and the latest three months with the export unit value index increasing by 1½ per cent and the import unit value index decreasing by ½ 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 2 per cent. As a result the terms of trade index is 4 per cent up on a year ago.

Export unit values for fuels fell by 8½ per cent between the three months ended February and the latest three months while the unit value index for non-oil exports rose by 2 per cent.

Import unit values for fuels fell by 6 per cent between the three months ended February and the latest three months while the unit value index for non-oil imports was unchanged.

Analysis by area

Exports to the developed countries rose by 6 per cent between the three months ended February and the latest three months. Exports to the European Community countries rose by 13 per cent over the latest three months; exports to North America decreased by 10 per cent but exports to the other developed countries increased by 4 per cent. Exports to the developing countries rose by 2½ per cent between the three months ended February and the latest three months.

Imports from the developed countries increased by 3 per cent over the latest three months with arrivals from the European Community countries up by ½ per cent, from North America up by 14 per cent and arrivals from the other developed countries down by 3½ per cent. Imports from the developing countries increased by 2½ per cent between the three months ended February 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 superceded 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 January to March 1988 shown in tables 1 and 2 of the April press notice have been replaced by figures based on the preliminary estimates for the first quarter of 1988 published on 16 June. There have also been revisions to estimates for earlier periods.

VISIBLE TRADE

3 On 1 January 1988 new Customs administrative 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 world-wide Harmonised System. Details of the changes, collectively known as 'Customs '88', were given in an article in British Business on 27 November 1987. As expected these changes have had some effect on the statistics of visible trade. The main effect has been to alter the month in which some exports have been recorded from December 1987 onwards (see para 4 below). There is no indication of any similar effects occuring with imports.

The monthly pattern of exports

4 Figures of exports attributed to a particular month relate to information received in the Statistical Office of HM Customs and Excise up to three days before the end of that month. Documents generally arrive at the Statistical Office up to a fortnight after the goods are shipped, so that a proportion of exports attributed to a particular month correspond to goods shipped in the previous month, and in a few cases before then. A significant increase in the proportion of goods shipped and recorded in the month suggests some speeding up in the lodging of documents during December 1987 in advance of the administrative changes. Analysis of the timing of shipments and documents since December 1987 is continuing, although preliminary indications are that the major impact of Customs '88 was concentrated in the December to February period.

Revisions

5 The figures for imports for the period January to April 1988 in Tables 1, 2 and 7 have been revised upwards since their earlier publication in the monthly current account press notice issued on 27 May. The revisions have been made to correct an error in the freight component which forms part of the adjustment of imports from an overseas trade to a balance of payments basis. As a consequence, the figures for imports and the visible trade deficit for January to April 1988 shown in Tables 1, 2, 5 and 7 and for the first quarter of 1988 shown in Table 16 have been revised upwards.

Ferry Operators' strike

6 The ferry operators' strike, which continued throughout May, led to a reduction in the flow of trade through Dover. However the shortfall appears to have been diverted to other ports, so that the overall effect on the May figures is thought to be small.

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).

AREA (tables 11 and 15)

8 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.

STANDARD NOTES

9 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.

INDEX OF TABLES

CURRENT BALANCE VISIBLE TRADE AND INVISIBLES

Table 2

(Balance of Payments basis)

£ million, Seasonally adjusted

	Current Balance	Visible Trade: Exports fob	Imports fob	Visible Balance	of which Oil	Non-oil	Invisibles Balance[b]
1986	+ 116	72678	81141	- 8463	+ 4056	- 12519	+ 8579
1987	- 1560	79622	89247	- 9625	+ 4184	- 13809	+ 8065
1987 Q1	+ 974	19530	20740	- 1211	+ 1159	- 2370	+ 2185
Q2	- 218	19357	21674	- 2317	+ 1016	- 3333	+ 2099
Q3	- 919	20235	23344	- 3109	+ 936	- 4046	+ 2190
Q4	- 1397	20500	23488	- 2988	+ 1073	- 4061	+ 1591
1988 Q1	- 2776	18826	22843	- 4017	+ 881	- 4897	+ 1241
1987 Sep	+ 35	6962	7657	- 695	+ 310	- 1004	+ 730
Oct	- 392	6802	7724	- 922	+ 394	- 1316	+ 530
Nov	- 525	6881	7938	- 1056	+ 332	- 1388	+ 531
Dec	- 480	6817	7827	- 1010	+ 346	- 1356	+ 530
1988 Jan	- 1159	6209	7782	- 1573	+ 356	- 1929	+ 414
Feb	- 1044	6176	7634	- 1457	+ 311	- 1769	+ 413
Mar	- 572	6441	7427	- 986	+ 213	- 1199	+ 414
Apr	- 728a	6793	8021	- 1228	+ 309	- 1537	+ 500a
May	- 1205a	6481	8186	- 1705	+ 221	- 1926	+ 500a
Mar-May 1987	+ 229	19404	21302	- 1898	+ 1223	- 3121	+ 2127
Dec-Feb 1988	- 2684	19202	23243	- 4041	+ 1014	- 5055	+ 1357
Mar-May 1988	- 2505a	19715	23634	- 3919	+ 743	- 4662	+ 1414a
% Change							
Latest 3 months							
- on previous 3 months		+ 2½	+ 1½				
- Same 3 months one year ago		+ 1½	+ 11				

a Invisibles for April to May 1988 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

INVISIBLES

Table 3

(Balance of Payments basis)

£ million, Seasonally adjusted

	All Sectors: Credits	Debits	Balance	of which: Services	Interest Profits Dividends	Transfers	Private Sector and Public Corporations[d]: Credits	Debits	Balance
1985	80480	75017	+ 5463	+ 5882	+ 2833	- 3252	75812	65063	+ 10749
1986	77364	68785	+ 8579	+ 5721	+ 5035	- 2177	72238	59178	+ 13060
1987	80223	72158	+ 8065	+ 5752	+ 5735	- 3422	74852	60586	+ 14266
1986 Q2	18814	16841	+ 1973	+ 1357	+ 1179	- 563	17485	14415	+ 3070
Q3	19421	17343	+ 2078	+ 1375	+ 1453	- 750	18172	14793	+ 3379
Q4	19974	17907	+ 2067	+ 1455	+ 1464	- 852	18792	15251	+ 3541
1987 Q1	19851	17666	+ 2185	+ 1484	+ 1531	- 830	18215	14601	+ 3614
Q2	20104	18005	+ 2099	+ 1461	+ 1388	- 750	18662	15181	+ 3481
Q3	20475	18285	+ 2190	+ 1645	+ 1495	- 950	19254	15362	+ 3892
Q4	19793	18202	+ 1591	+ 1162	+ 1321	- 892	18721	15442	+ 3279
1988 Q1	20384	19143	+ 1241	+ 919	+ 1364	- 1042	19000	16059	+ 2941

d ie excluding general Government transactions and all transfers.

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS — Table 4

Balance of Payments basis — Indices, 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[e]	Exports	Imports
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	136.3	104.7	126.0	148.3
1987 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	126.4	151.5
Feb	142.8	136.5	104.6	123.6	147.4
Mar	143.5	136.4	105.2	128.1	146.0
Apr	144.4	135.5	106.6	134.2	155.8
May	144.4	134.7	107.2	128.0	158.7
Mar-May 1987	141.2	138.0	102.3	127.9	137.9
Dec-Feb 1988	142.1	136.2	104.4	129.0	151.3
Mar-May 1988	144.1	135.5	106.3	130.1	153.5
% Change					
Latest 3 months on					
- previous 3 months	+ 1½	- ½	+ 2	+ 1	+ 1½
- Same 3 months one year ago	+ 2	- 2	+ 4	+ 2	+ 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] — Table 5

Balance of Payments basis — 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
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	17652	21877	130.6	158.1
1987 Sep	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	5928	7501	132.9	162.4
Feb	5771	7244	127.8	156.1
Mar	5954	7133	131.2	155.9
Apr	6239	7670	136.5	165.5
May	5970	7638	130.7	165.5
Mar-May 1987	17947	20399	131.0	146.9
Dec-Feb 1988	18114	22317	134.4	161.6
Mar-May 1988	18163	22441	132.8	162.3
% Change				
Latest 3 months on				
- previous 3 months	+ ½	+ ½	- 1	+ ½
- Same 3 months one year ago	+ 1	+ 10	+ 1½	+ 10

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

TRADE IN OIL [g]

(Balance of Payments basis)

Table 6

Seasonally adjusted

	Balance of Trade in oil	EXPORTS TOTAL	CRUDE OIL (SITC R(3) 333.0)			Rest of Division 33	IMPORTS TOTAL	CRUDE OIL (SITC (R3) 333.0)			Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
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	+ 881	1688	1348	20.0	67.3	340	807	539	8.6	62.9	268
1987 Sep	+ 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	+ 356	620	518	7.4	70.3	103	264	181	2.8	64.2	83
Feb	+ 311	569	443	6.4	69.0	126	258	163	2.5	64.8	95
Mar	+ 213	499	388	6.3	61.9	111	286	196	3.3	60.3	90
Apr	+ 309	533	390	5.9	66.1	143	224	105	1.8	59.8	119
May	+ 221	461	348	5.4	64.3	113	240	112	1.9	59.7	128
Mar-May 1987	+ 1223	2191	1812	21.7	83.7	379	969	577	7.3	79.6	391
Dec-Feb 1988	+ 1014	1906	1513	21.2	71.6	393	892	580	8.8	66.2	312
Mar-May 1988	+ 743	1493	1125	17.6	64.1	368	750	413	6.9	60.0	337
% Change Latest 3 months on previous 3 months		- 22	- 26	- 17	- 10	- 6½	- 16	- 29	- 21	- 9½	+ 8
- same 3 months one year ago		- 32	- 38	- 19	- 23	- 3	- 23	- 29	- 5	- 25	- 14

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

TRADE IN GOODS OTHER THAN OIL

Table 7

(Balance of Payments basis)

	Total								Excluding erractics[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	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	- 4897	17138	22035	154.4	145.6	106.0	118.6	158.2	15964	21070	123.2	170.8
1987 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	- 1929	5589	7518	153.0	145.1	105.4	117.1	162.3	5307	7237	123.8	176.2
Feb	- 1769	5607	7376	154.3	145.7	105.9	116.1	157.9	5202	6986	120.1	169.1
Mar	- 1199	5942	7141	155.8	146.0	106.7	122.6	154.6	5455	6847	125.6	167.1
Apr	- 1537	6260	7797	156.4	145.3	107.6	129.0	167.9	5707	7446	131.2	180.7
May	- 1926	6020	7946	156.6	144.4	108.5	125.0	170.8	5509	7399	127.7	180.2
Mar-May 1987	- 3121	17212	20333	150.4	145.6	103.3	119.8	146.6	15756	19431	122.5	158.1
Dec-Feb 1988	- 5055	17296	22351	153.1	145.1	105.5	120.3	161.0	16208	21425	125.7	174.1
Mar-May 1988	- 4662	18222	22884	156.2	145.2	107.6	125.5	164.4	16670	21692	128.2	176.0
% Change												
Latest 3 months on												
- previous 3 months		+ 5½	+ 2½	+ 2	0	+ 2	+ 4½	+ 2	+ 3	+ 1	+ 2	+ 1
- same 3 months one year ago		+ 6	+ 13	+ 4	- ½	+ 4	+ 5	+ 12	+ 6	+ 12	+ 4½	+ 11

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.

EXPORTS BY COMMODITY — Table 8

(Overseas Trade Statistics basis)

£ million, fob, Seasonally adjusted

SITC (REV 3)	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
	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
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 Mar	6495	456	159	518	5210	4737	1744	934	810	2993	187	511	1292	1003
Apr	6858	492	165	558	5515	4965	1758	905	852	3208	123	548	1433	1104
May	6541	480	165	485	5274	4769	1760	885	875	3009	130	521	1323	1034
Dec-Feb	19372	1275	495	1990	15233	14166	5132	2699	2433	9035	453	1688	3962	2931
Mar-May	19894	1428	489	1561	15999	14471	5261	2725	2537	9210	441	1580	4048	3141
% Change	+ 2½	+ 12	- 1	- 22	+ 5	+ 2	+ 2½	+ 1	+ 4½	+ 2	- 2½	- 6½	+ 2	+ 7

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY COMMODITY: VOLUME INDICES — Table 9

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, seasonally adjusted

SITC (REV 3)	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Semi-manufactures: Chemicals	Semi-manufactures: Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
	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	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	129	115	182	130	134	137	157	121	131	125	148	130	126
1988 Q1	127.3	123	113	173	120	125	130	149	116	121	121	133	120	118
1988 Mar	129.4	135	103	162	124	127	133	154	116	123	139	131	120	121
Apr	135.6	149	104	167	130	132	135	151	122	131	91	136	131	131
May	129.3	141	101	147	126	129	138	150	127	123	94	129	121	127
Dec-Feb	130.3	120	117	184	122	128	133	152	117	125	111	143	124	119
Mar-May	131.4	142	103	159	127	129	135	152	122	126	108	132	124	126
% Change	+ 1	+ 18	- 12	- 14	+ 4	+ 1	+ 1½	- ½	+ 3½	+ ½	- 2½	- 7½	0	+ 6½

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY COMMODITY: UNIT VALUE INDICES — Table 10

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, Not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	206	165	166	151
1987 Q1	140.8	141	123	82	152	153	141	144	139	160	200	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 Mar	143.4	143	132	63	158	161	149	157	142	168	207	167	174	157
Apr	144.3	143	135	66	159	161	148	155	143	169	208	168	174	159
May	144.3	145	135	64	159	161	148	155	142	169	207	166	175	160
Dec-Feb	142.1	139	125	70	156	158	144	147	142	166	204	166	171	154
Mar-May	144.0	144	134	65	159	161	148	156	142	169	207	167	174	159
% Change	+ 1½	+ 3	+ 7	- 8½	+ 2	+ 2	+ 3	+ 5½	+ ½	+ 2	+ 2	+ ½	+ 1½	+ 2½

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY AREA — Table 11

(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

		Developed countries			North America			Developing countries			Centrally planned economies
	Total[k]	Total	European Community	Rest of W Europe	Total	USA	Other	Total	Oil exporting Countries	Other	
1986	72834	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 Mar	6495	5256	3176	623	1107	889	350	1066	342	724	130
Apr	6858	5543	3446	663	1050	877	384	1174	372	802	117
May	6541	5392	3521	611	902	756	357	1056	386	671	125
Dec-Feb	19372	15240	8993	1795	3405	2904	1047	3222	1211	2011	386
Mar-May	19894	16191	10143	1897	3059	2522	1091	3296	1100	2196	372
% Change	+ 2½	+ 6	+ 13	+ 5½	- 10	- 13	+ 4	+ 2½	- 9	+ 9	- 3½

k See paragraph 8 Notes to Editors.

IMPORTS BY COMMODITY

Table 12

(Overseas Trade Statistics basis)

£ million, cif, Seasonally adjusted

						Manufactures excluding erratics[h]							
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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
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 Mar	7831	862	483	449	5953	5666	2039	684	1356	3626	386	915	1241	1084
Apr	8481	861	478	369	6692	6354	2178	765	1412	4176	515	1006	1452	1204
May	8605	851	467	394	6812	6312	2151	723	1429	4160	502	1012	1478	1168
Dec-Feb	24467	2631	1341	1318	18945	18076	6239	2226	4014	11836	1506	2822	4048	3460
Mar-May	24917	2574	1428	1212	19456	18331	6368	2172	4197	11963	1403	2933	4170	3457
% Change	+ 2	- 2	+ 6½	- 8	+ 2½	+ 1½	+ 2	- 2½	+ 4½	+ 1	- 7	+ 4	+ 3	0

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

IMPORTS BY COMMODITY: VOLUME INDICES

Table 13

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, Seasonally adjusted

						Manufactures excluding erratics[h]							
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	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	162	153	192	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	170	188	173	216	156	198	142	188	221	209
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	138	176	221	216
1988 Mar	145.8	130	121	97	163	180	172	197	162	185	109	177	207	205
Apr	156.1	128	119	82	183	201	183	224	167	213	148	195	244	228
May	158.2	126	115	87	186	201	181	208	169	215	146	198	250	224
Dec-Feb	150.9	133	112	92	173	192	175	213	160	202	147	181	227	221
Mar-May	153.3	128	118	89	178	194	179	210	166	204	134	190	234	219
% Change	+ 1½	- 4	+ 5½	- 3	+ 2½	+ 1½	+ 2	- 1½	+ 4	+ 1	- 9	+ 5	+ 3	- ½

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

IMPORTS BY COMMODITY: UNIT VALUE INDICES

Table 14

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, Not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	150	138	147	134	158	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	148	134	158	184	152	162	147
Q4	135.9	134	117	91	149	150	140	149	136	157	185	152	160	147
1988 Q1	135.1	136	119	83	148	151	140	148	137	159	191	153	160	149
1988 Mar	135.2	136	120	81	149	152	140	147	137	160	197	154	160	149
Apr	134.2	136	120	78	148	151	141	149	138	158	192	151	160	147
May	133.5	136	121	78	147	150	141	149	138	155	191	148	158	144
Dec-Feb	134.9	135	118	84	148	151	139	148	136	158	186	152	161	148
Mar-May	134.3	136	120	79	148	151	141	148	138	158	194	151	159	147
% Change	- ½	+ 1	+ 2½	- 6	0	+ ½	+ 1	+ ½	+ 1½	0	+ 4	- ½	- 1	- 1

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

IMPORTS BY AREA

Table 15

(Overseas Trade Statistics basis)

£ million, cif, Seasonally adjusted

		Developed countries						Developing countries			Centrally planned economies
					North America						
	Total[k]	Total	European Community	Rest of W Europe	Total	USA	Other	Total	Oil exporting Countries	Other	
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 Mar	7831	6636	3970	1072	965	809	629	929	139	790	144
Apr	8481	7493	4619	1149	1056	886	668	951	187	764	187
May	8605	7429	4483	1213	1086	911	647	980	160	820	144
Dec-Feb	24467	20943	12977	3234	2715	2292	2016	2793	455	2337	494
Mar-May	24917	21557	13072	3433	3108	2606	1944	2860	486	2375	475
% Change	+ 2	+ 3	+ ½	+ 6	+ 14	+ 14	- 3½	+ 2½	+ 6½	+ 1½	- 4

k See paragraph 8 Notes to Editors.

COMMODITY ANALYSIS OF VISIBLE TRADE

Table 16

(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R3)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
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	1252	2351	- 1099	489	1200	- 711	1757	1180	+ 577

SITC (R3)	Semi Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
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	5465	6353	- 887	9463	11507	- 2044	14928	17860	- 2931

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

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215 4887

19 July 1988

OVERSEAS TRADE FIGURES FOR JUNE : EXPORTS

The value of exports in June seasonally adjusted on a Balance of Payments basis is estimated at £6.8 billion, £0.3 billion higher than in May. Exports of oil were little changed and exports of the erratic items rose by £0.1 billion. Excluding oil and the erratic items exports rose by 2½ per cent between May and June.

In the second quarter of 1988 the total value of exports increased by 7½ per cent compared with the previous quarter; excluding oil and the erratic items the increase was 7 per cent.

Good

In the second quarter of 1988, total export volume was 5 per cent higher than in the previous quarter and 4½ per cent higher than in the same quarter a year ago. Excluding oil and the erratic items export volume was 6 per cent higher in the latest quarter and 6 per cent higher than a year earlier. The underlying level of exports in the last few months has returned to the high level reached at the end of last year.

Recent export figures are shown on the attached table and charts. The note on figures of imports and the current account in respect of June will be circulated on Thursday 21 July. The monthly Press Notice for June is scheduled for release on Wednesday 27 July.

Although the ferry operators strike at Dover continued in June its effect was slight. The volume of exports through the port increased substantially and the amount of trade diverted to other ports fell.

As a result of operational difficulties at Poole some documents which in normal circumstances would have been included in the April and May accounts were delayed until June. As a result export figures in respect of June on an Overseas Trade Statistics basis are over-stated. Figures on a Balance of Payments basis however for the period April to June have been adjusted to reflect more closely the actual pattern of trade.

W. E. Boyd.

W E BOYD

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SECRET and PERSONAL until release of press notice
on 27 JUL 88 at 11.30am and thereafter unclassified

Copy No...( )

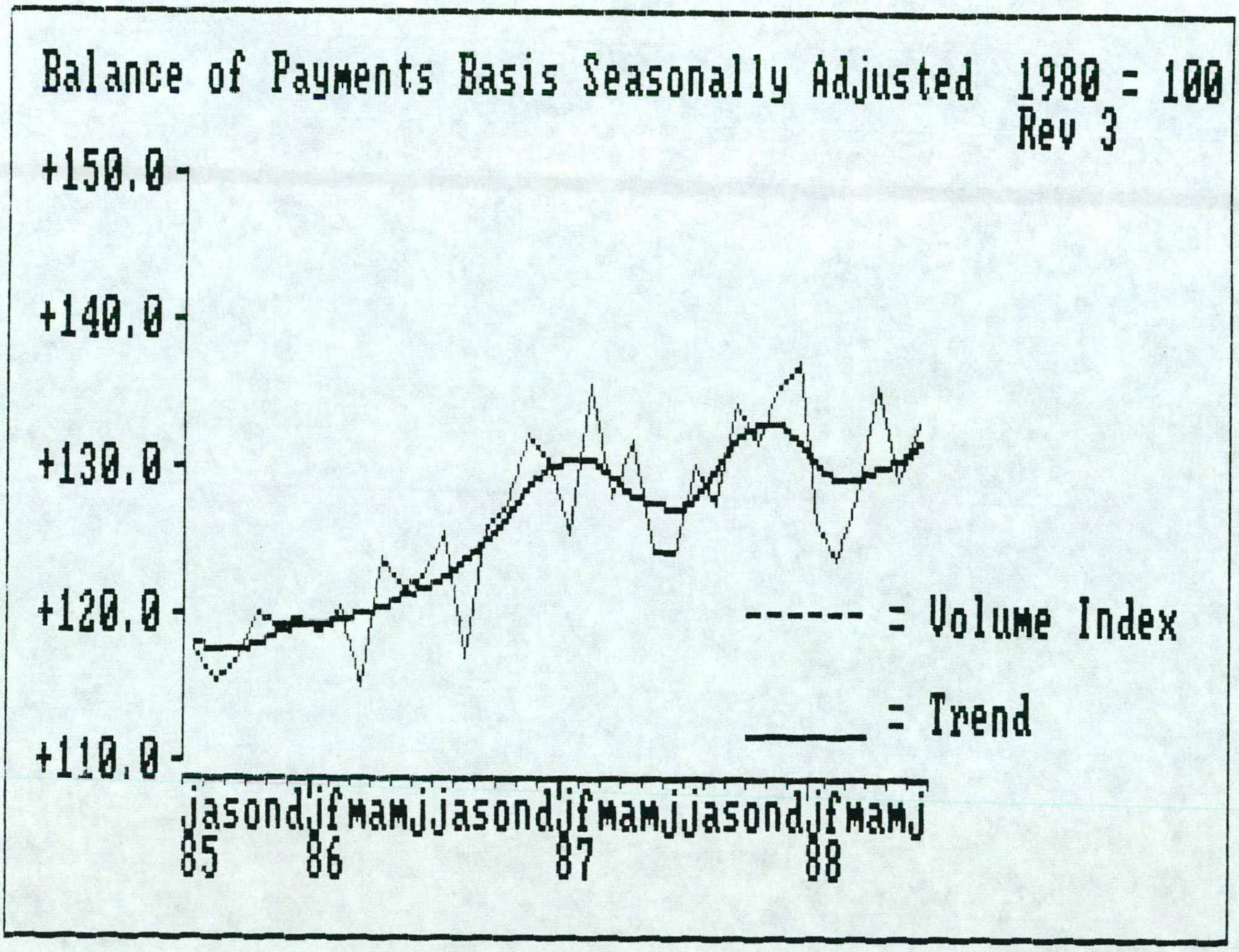
EXPORTS

(Balance of payments basis: seasonally adjusted)

		---TOTAL TRADE ---		EXCLUDING ---OIL AND ERRATICS--	
		VALUE £m	VOLUME (1980=100)	VALUE £m	VOLUME (1980=100)
1987	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
	Q2	20215	132.5	17043	130.7
1988	JAN	6209	126.4	5307	123.8
	FEB	6176	123.6	5202	120.1
	MAR	6441	128.1	5455	125.6
	APR	6854	135.4	5768	132.6
	MAY	6542	129.1	5570	129.2
	JUN	6819	132.9	5706	130.4

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.7.88

TOTAL TRADE



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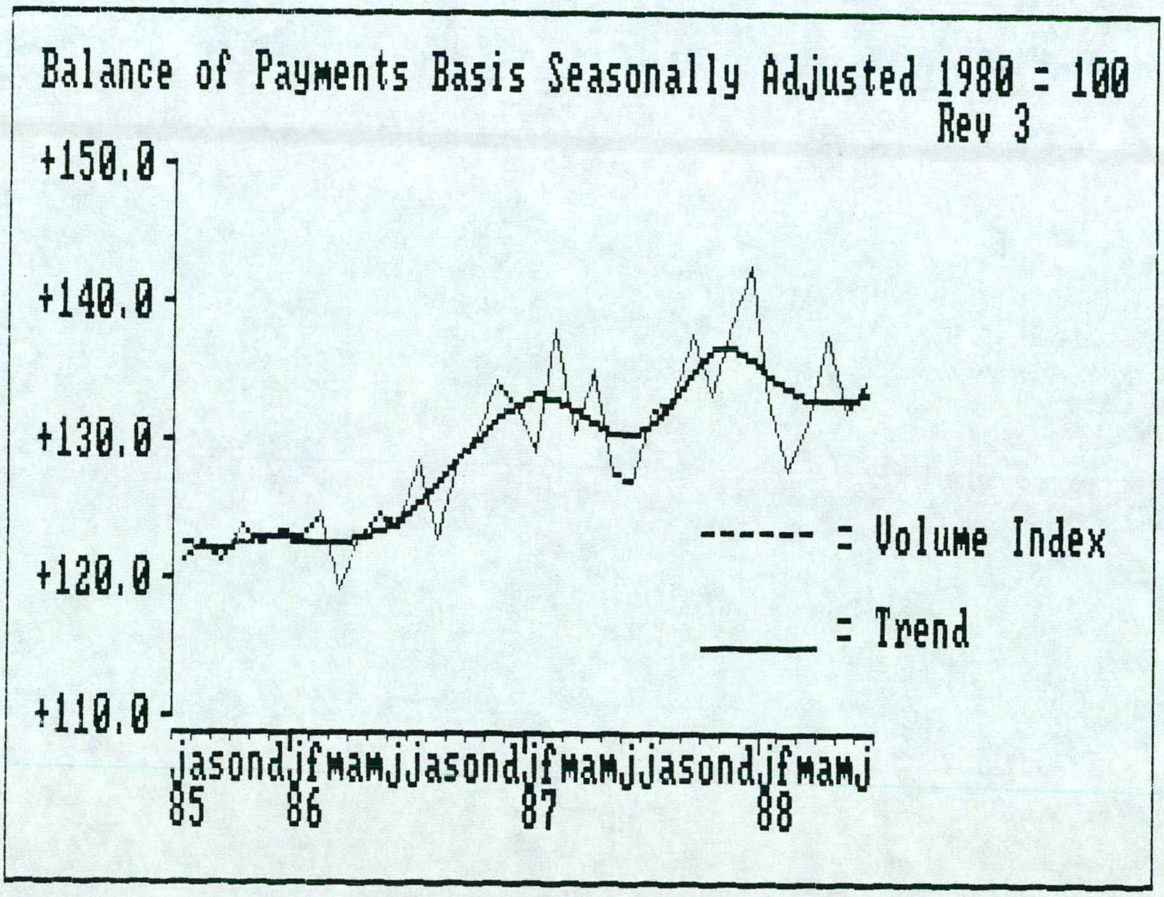
EXPORTS LESS ERRATICS (Ships, N Sea Rigs, Aircraft, Prec Stones, Silver)



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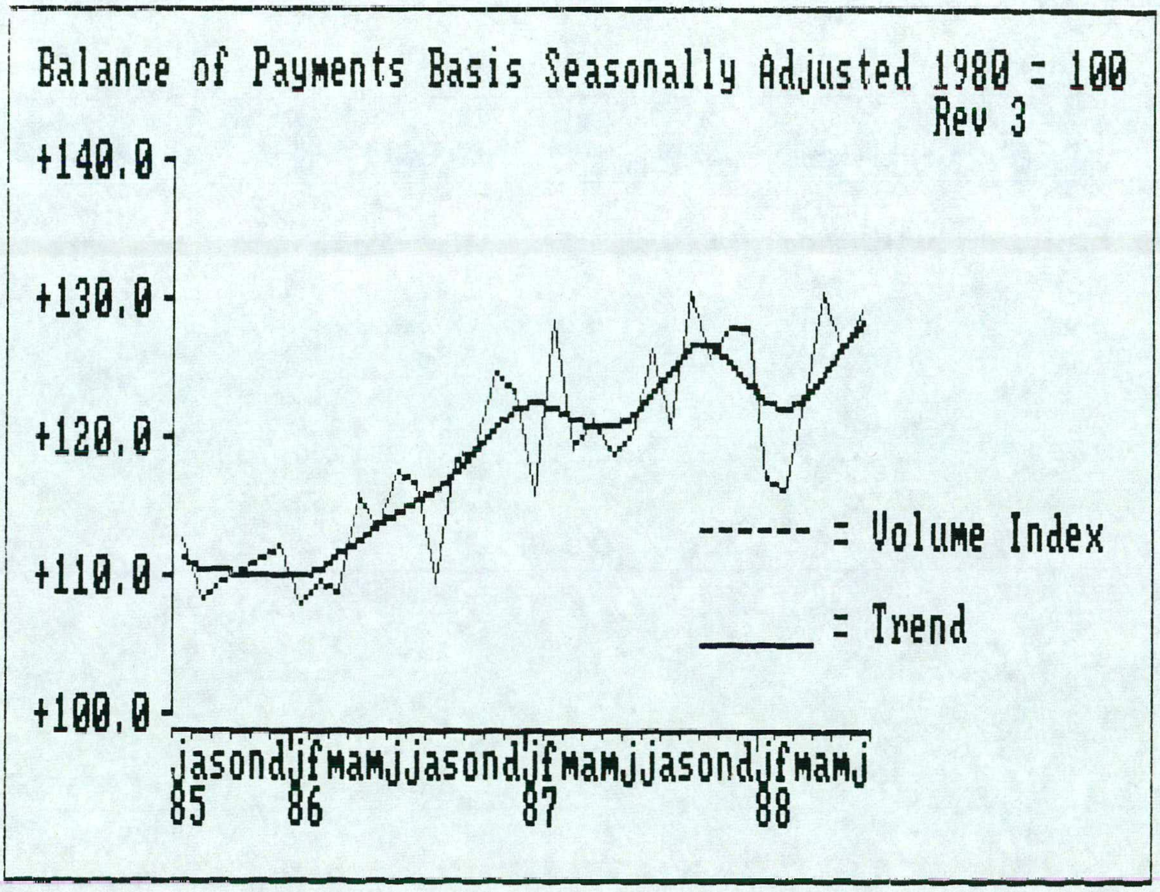
EXPORTS LESS OIL



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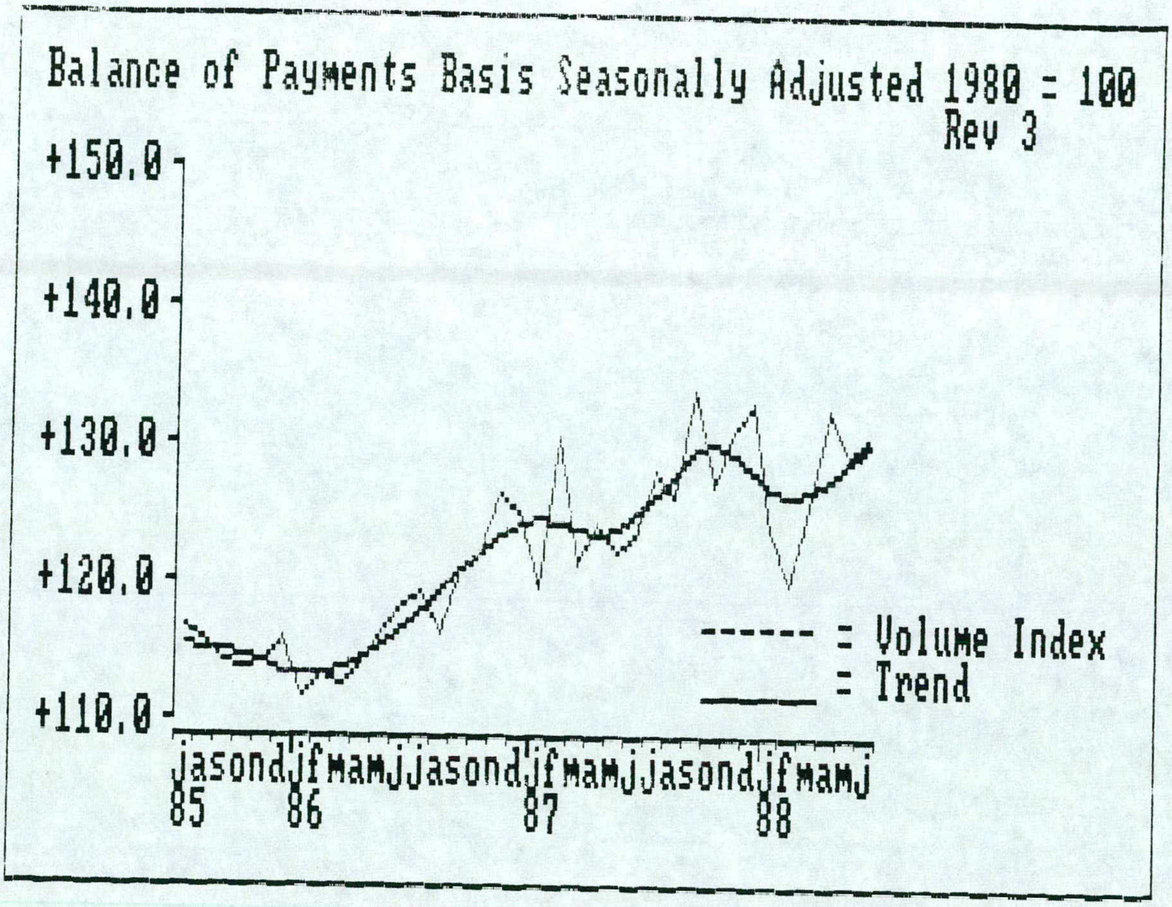
EXPORTS LESS ERRATICS AND OIL



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8	Sir Peter Middleton (HM Treasury)	
9	Governor of the Bank of England	
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11	Mr J Hibbert (CSO)	
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the department for Enterprise

SECRET AND PERSONAL until release of Press Notice on 27/7/88 at 11.30 am

To: Copy No (29)

MINISTER FOR TRADE

From:

W E BOYD
S2A
Room 286
1 Victoria Street
215 4887

21 July 1988

OVERSEAS TRADE FIGURES FOR JUNE 1988

THE CURRENT ACCOUNT

In June, the value of exports was £6.8 billion and imports £8.3 billion so that visible trade, seasonally adjusted on a balance of payments basis, shows a deficit of £1.5 billion compared with the deficit of £1.6 billion in May.

The Central Statistical Office continue to project a surplus on invisibles of £0.5 billion for months in the second quarter of 1988 so that the current account is provisionally estimated to have been in deficit by £1.0 billion, compared with a provisional estimate of £1.1 billion in May.

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

Seasonally adjusted Balance of Payments Basis
£ million

	Current Account Balance	Visible Trade Balances: Total	Oil	Non-oil	Invisibles Balance
1986	+ 116	-8463	+4056	-12519	+8579
1987	-1560	-9625	+4184	-13809	+8065
1988 Q1	-2776	-4017	+ 881	- 4897	+1241
1988 Q2	-2832A	-4332	+ 679	- 5011	+1500A
1988 April	- 667A	-1167	+ 309	-1476	+ 500A
May	-1144A	-1644	+ 221	-1865	+ 500A
June	-1021A	-1521	+ 149	-1670	+ 500A

A = Projection or part projection

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In the second quarter of 1988 there was a deficit on visible trade of £4.3 billion - a surplus on trade in oil of £0.7 billion, offset by a deficit in non-oil trade of £5.0 billion. Between the first and second quarter, the visible trade deficit increased by £0.3 billion; the surplus on oil fell by £0.2 billion while the deficit on non-oil trade rose by £0.1 billion.

EXPORTS

The value of exports in June was £277 million (4 per cent) higher than in May. Exports of oil increased by £39 million between the two months and exports of the erratic items increased by £102 million. Excluding oil and the erratic items, exports rose by 2½ per cent between May and June.

In the second quarter, total export volume was 5 per cent higher than in the previous quarter and 4½ per cent higher than in the same quarter last year. Excluding oil and the erratic items, export volume was 6 per cent higher than in the previous quarter and 6 per cent up on the same quarter a year ago. The underlying level of non-oil export volume now appears to have returned to the high level reached at the end of last year.

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
1988 Q1	18826	15964	126.0	123.2
1988 Q2	20215	17043	132.5	130.7
1988 April	6854	5768	135.4	132.6
May	6542	5570	129.1	129.2
June	6819	5706	132.9	130.4

By value, exports of manufactures during the second quarter were 9 per cent up on the previous quarter; within manufactures, exports of capital goods rose by 14 per cent and exports of semi-manufactures other than chemicals rose by 10 per cent.

Also by value, total exports rose by 7½ per cent between the first and second quarter. The rise in exports to the developed countries was 12 per cent - within which exports to the rest of the European Community rose by 20 per cent while exports to North America fell by 11 per cent.

NB

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IMPORTS

The value of imports in June was £154 million more than in May. Imports of oil rose by £111 million while imports of the erratic items decreased by £89 million between the two months. Excluding oil and the erratic items, imports rose by 2 per cent between May and June.

In the second quarter, total import volume was 7½ per cent higher than in the previous quarter and 13 per cent higher than in the same quarter last year. Exluding oil and the erratic items, import volume rose by 6 per cent in the second quarter to stand 13 per cent up on a year ago. The underlying level of non-oil import volume has been rising 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
1988 Q1	22843	21070	148.3	170.8
1988 Q2	24547	22374	159.4	181.3
1988 April	8021	7446	155.8	180.7
May	8186	7399	158.7	180.2
June	8340	7530	163.7	183.1

By value, imports rose by 7½ per cent between the first and second quarter. Imports of passenger motor cars rose by 13 per cent and imports of intermediate finished goods rose by 11 per cent.

Again in value terms, imports from the developed countries rose by 9 per cent over the second quarter, with arrivals from the European Community countries up by 8½ per cent, from North America up by 14 per cent and from the other developed countries up by 4 per cent. Imports from the developing countries increased by 12 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 August edition of the Monthly Review of

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the department for Enterprise

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External Trade Statistics following the release of the press notice. On present estimates they show a deficit in the second quarter of 1988 of £3.2 billion compared with a deficit of £2.9 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
1988 Q1	14928	17860	-2931
1988 Q2	16298	19495	-3197
1988 April	5508	6387	- 879
May	5272	6545	-1273
June	5518	6563	-1045

Although the ferry operators' strike at Dover continued in June, the effect was much reduced, and the volume of trade through the port increased substantially.

PUBLICATION

The press notice containing the June figures is scheduled for release on Wednesday 27 July 1988.

A. C. Burnett

p.p. W E BOYD

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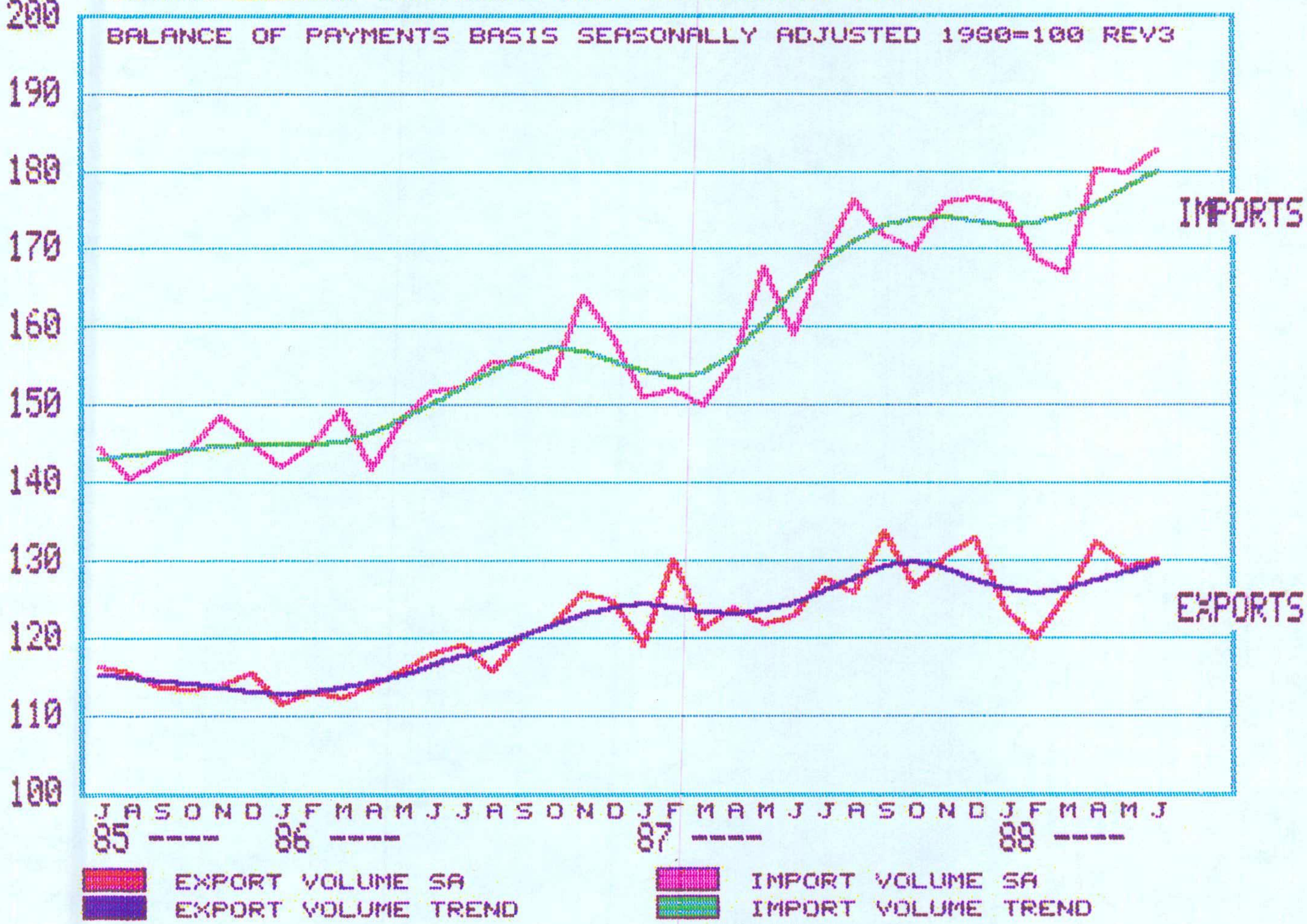
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 27.7.88

VOLUME INDICES EXCLUDING OIL AND ERRATIC ITEMS



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	4	Secretary of State for Trade and Industry
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	10	Chairman of the Board of H M Customs & Excise
	11	Mr J Hibbert (CSO)
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	20	Mr H H Liesner)
	21	Mr P J Stibbard)
	22	Mr W E Boyd)
	23	Mr E J Wright)
	24	Mrs A Brueton) Dept of Trade and Industry
	25	Miss H Chapman)
	26	Mr Cottis)
	27	Mr C Martin)
	28	Mr Wright, Bank of England
	29	File

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the department for Enterprise

COVERING SECRET AND PERSONAL

STATISTICS FOLDER

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 22 July 1988

Cx

Seems OK

AA

How do imports by category (materials, consumer, capital etc) compare in Q(2) 1988 compared with Q(2) 1987? see flag.

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

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

W E BOYD

Thanks. Not worth pursuing. Per shows her figures.

COVERING SECRET AND PERSONAL

the enterprise initiative

888-250

ps3/16T

UNCLASSIFIED

PWP

28/7

FROM: J M G TAYLOR
DATE: 25 July 1988

Pse ask Meena what's happening with this.
JS

SIR T BURNS

JULY 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

... The Chancellor has seen the report of this survey (attached).

2. He awaits your analysis of this, as soon as possible.

JMGT

J M G TAYLOR

SECRET AND PERSONAL
UNTIL 27 JULY AT 11.30 am
THEN CONFIDENTIAL

FROM: PAUL DAVIS
DATE: 25 JULY 1988

Tim Hibberd 25/7.

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

cc: See attached list

OK?
AA

JUNE TRADE FIGURES

The June trade figures will be published on 27 July at 11.30 am. They will show a deficit on visible trade of £1521 million, compared with a revised deficit of £1644 million in May (previously £1705 million). The June current account deficit is estimated at £1021 million, compared with a revised deficit of £1144 million in May (previously £1205 million). The cumulative deficit in the first half of 1988 is £5607 million, compared with £2316 million in the second half of 1987.

Summary

2. The main points are:

(i) The slight improvement in the visible balance in June reflects an improvement in the terms of trade - export and import volumes both rose by about 3 per cent.

(ii) The trend in export volumes (less oil and erratics) remains difficult to discern, but the underlying level now looks to have returned to around that of the fourth quarter.

(iii) Import volumes (less oil and erratics) reached their highest recorded level in June. They remain on an upward trend.

(iv) There are no significant distortions known to be affecting the June figures. The ferry operators' strike is thought to have had a negligible impact.

(v) The market expectation is for a current account deficit in June of around £800 million. The lack of a significant improvement in the recorded deficit since May is unlikely to be received well by the City.

Table 1 : Current account £ billion

	1987 Year	Q2	Q3	Q4	1988 Q1	Q2	Apr	May	June
Manufactures	-6.5	-1.6	-2.1	-2.1	-2.9	-3.2	-0.9	-1.3	-1.0
Oil	4.2	1.0	0.9	1.1	0.9	0.7	0.3	0.2	0.1
Other goods	-7.3	-1.7	-1.9	-2.0	-2.0	-1.8	-0.6	-0.6	-0.6
Total visibles	-9.6	-2.3	-3.1	-3.0	-4.0	-4.3	-1.2	-1.6	-1.5
Invisibles	8.1	2.1	2.2	1.6	1.2	1.5*	0.5*	0.5*	0.5*
Current balance	-1.6	-0.2	-0.9	-1.4	-2.8	-2.8	-0.7	-1.1	-1.0

* Invisibles figures since April are projections.

Quality of the data

3. There is nothing new to report on Customs '88; estimates of its impact will not be published for some time yet.

Exports

4. Recorded export volumes (excluding oil and erratics) rose by about 1 per cent in June reflecting rises in exports of manufactures and basic materials. Export volumes were 6 per cent higher in the second quarter of 1988 compared with a year earlier with capital goods exports rising by 20 per cent. Exports of cars rose by 60 per cent in June from their abnormally low level in the previous two months, but remained 5 per cent lower in the second quarter compared with a year ago. The July CBI quarterly survey showed a slightly larger balance of firms reporting export order books above normal than in June, though this balance still remains below the peak of last summer. Firms expect export orders and deliveries to rise in the next few months, while export optimism has risen a little following falls in the previous two surveys.

5. The value of exports to developed countries rose by 12 per cent in the second quarter on the previous quarter. This reflected a 20 per cent recovery from the abnormally low first quarter exports to the EC, partly offset by a 13 per cent fall in exports to the US reflecting the strength of sterling against the dollar. Exports to developing countries rose by 4 per cent in the second quarter with a fall in exports to oil exporters being more than offset by increases elsewhere.

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Table 2 : Exports

	percentage change			
	June on May	Second quarter on previous quarter	Second quarter on same period year earlier	1987 on 1986
Total value	4	7½	4½	9½
Total value excl. oil and erratics	2½	7	7	10½
Total volume	3	5	4½	6
Total volume excl. oil and erratics	1	6	6	7½
Manufactures volume (excl.erratics, OTS basis)	5½	6	8	9
Fuels volume (OTS)	5½	-9½	-7	-1
Basic materials volume (OTS)	14	-5½	-13	7
Food, drink and tobacco volume (OTS)	-6	14	13	0

<u>Imports</u>

6. <u>Import volumes</u> (less oil and erratics) rose a little more slowly in June than total import volumes. A rise in imports of oil (partly because production slowed down for annual maintenance in June) was partly offset by a fall in imports of erratics - with last month's increased imports of precious stones being more than reversed. **Imports of manufactures** rose by 17 per cent in the second quarter compared with a year earlier, with particularly buoyant growth in imports of capital and intermediate goods. Imports of passenger motor cars rose by 30 per cent over this period reflecting the strength of domestic demand.

& the [illegible] of Rover [illegible]

Table 3 : Imports

	June on May	Second quarter on previous quarter	Second quarter on same period year earlier	1987 on 1986
	percentage change			
Total value	2	7½	13	10
Total value excl. oil and erratics	2	6	14	10½
Total volume	3	7½	13	7½
Total volume excl. oil and erratics	1½	6	13	9
Manufactures volume (excl.erratics, OTS basis)	1½	8	17	10
Fuels volume (OTS)	34	8½	5½	1½
Basic materials volume (OTS)	4½	3	-3	10½
Food, drink and tobacco volume (OTS)	-½	-1½	4	½

Trade prices

7. The total and non-oil terms of trade both rose by 2 per cent between the first and second quarter of 1988, reflecting the strength of sterling. [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*

	Export prices	Import prices	Terms Trade
	percentage change second quarter on previous quarter		
Manufactures (excl.erratics)	1½	-½	
Food, drink, tobacco	2½	0	
Basic materials	6½	1	
Fuel	-2	-5	
Total (BOP basis)	1	-1	2
Total less oil (BOP basis)	1½	-½	2

*Not seasonally adjusted

Piper Alpha Accident

8. The July trade figures will be the first to be affected by the Piper Alpha accident. D.En. estimate a loss in net exports of £300 million in the remainder of 1988 and a similar effect in 1989. This will be partly offset by lower profits of overseas companies, and interest, profits and dividends debits may be reduced by about £50 million in the remainder of 1988. The net current account effect is likely to be about -£250 million.

Line to take

9. The cumulative current account deficit so far this year is now £5.6 billion compared with the £4 billion forecast at Budget time for the year as a whole. Import volume growth remains strong, while recorded exports, though showing signs of improvement in the second quarter, remain weaker than expected at Budget time.

10. Nothing has happened for us to change the briefing line suggested last month. This is reflected in the attached press briefing for IDT, for which I would appreciate clearance.

PAUL DAVIS
EA2

SECRET AND PERSONAL
UNTIL 27 JULY AT 11.30 am
THEN CONFIDENTIAL

Pat Davis
5384

DRAFT BRIEFING FOR IDT ON JUNE TRADE FIGURES

Line to take

See Chancellor's IEA lecture

- 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; 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.

- The deficit will be reversed in time as increased production in the future raises exports and displaces imports, while private sector savings return to more normal levels.

Government will keep firm financial framework in place;
- [~~But we remain determined to keep monetary policy tight and~~] certainly will not stand by to watch a depreciation of sterling, [~~as we have demonstrated.~~]

Positive

(i) **Manufacturing industry continues to perform well**. In 1988Q2, manufacturing export volumes (less erratics) 8 per cent higher than a year earlier, while output up 6 per cent in three months to May on a year earlier.

(ii) **CBI July quarterly Industrial Trends Survey** showed rise in export optimism. Larger balance of firms expect orders and deliveries to rise in next four months, while export order books still above normal.

(ii) **Strength of capital inflows** reflects ~~new-found~~ confidence in UK as place to invest.

(iii) Large positive balancing item in 1988Q1 - at £3.5 billion, £0.7 billion larger than the current account deficit - means that recorded figures understate capital inflows and/or overstate current account deficit.

Defensive

(i) Repeatedly large current account deficits in 1988 indicate deficit not temporary as claimed. Deficit reflects fact that the economy growing slightly above sustainable rate. As growth slows, so current account deficit will diminish.

(ii) Current account deficit unsustainable. Current account cannot be permanently in deficit, but no reason why it should balance over short period particularly if good investment prospects exist in UK. Present deficit is financing high investment spending by private sector. Contrast with experience of 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.

(iii) 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.

(iv) Current deficit reflects excessive consumption. [In second quarter compared with a year earlier, imports of cars up 30 per cent, other consumers goods up 11 per cent. But imports of capital goods up 21 per cent, intermediates up 22 per cent, semi-manufactures up 12 per cent.] Inevitable that strong growth in domestic demand and activity has led to rise in imports of consumer goods. But has also led to strong rises in imports of capital, intermediate and semi-manufactured goods, reflecting rising output and investment.

(v) UK current account deficit likely to reach US proportions. No similarity between UK and US positions. US deficit associated with large and persistent US government fiscal deficit. Stance of UK fiscal policy altogether different. UK current account deficit reflects strength of private sector spending.

As growth slows down to sustainable rate, import growth will correspondingly slow down – [illegible]

(vi) **Government should take action to reduce current account deficit**
Current account deficit counterpart of capital inflows. Reflects both domestic and overseas confidence in UK economy. So long as Government maintains firm fiscal and monetary policy, markets ~~ought not to~~ have ~~any~~ no cause for concern. Policy will maintain confidence in UK economy thereby ensuring that deficit can be readily financed.

(vii) **Budget tax cuts raised domestic demand and caused current account deficit**. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR expected to remain a net repayment of debt. Moreover, Budget was a <u>supply side</u> Budget, which will bring increasing economic benefit over the years and improve trade performance.

(viii) **Current account deficit could be reduced by depreciation of sterling**. Restraint of unit costs - which is in industry's own hands - key to improved competitiveness. Not Government policy to depreciate exchange rate to try to increase UK competitiveness.

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

(x) **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.

(xi) **Passenger car trade indicates industry facing capacity constraint**. [Car import volumes up 30 per cent in 1988Q2 on year earlier while exports down 5 per cent. Passenger motor car production up 6 per cent in three months to May on year earlier.] Recent figures reflect buoyant domestic demand. But UK producers performing well - production up 6 per cent in past year and 15 per cent over past 2 years.

(xii) **Piper Alpha explosion will have serious impact on current account**. Effect in 1988 likely to worsen current account by up to £250 million. Will have to await details of exact extent of damage before full assessment can be made.

(xiii) <u>**No export growth in 1988**</u>. Some slow down was expected, but exports of manufactures up 8 per cent in year to 1988Q2.

(xiv) <u>**Deterioration in cost competitiveness since late 1970s**</u>. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive. UK has maintained share in world trade in manufactures since 1981 after decades of decline - demonstrates improved competitiveness.

(xv) <u>**Invisibles surplus declining**</u>. 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 surplus on financial services (despite fall in net insurance earnings) and on interest profits and dividends still strong.

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UNTIL 27 JULY AT 11.30 am
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TRADE FIGURES FOR JUNE 1988

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Chief Secretary
Economic Secretary

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Sir G Littler
Sir T Burns
Mr Scholar
Mr Sedgwick

Mr Peretz
Miss O'Mara
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Mr Gieve
Mr Owen

Mr Gray - No.10

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Financial Secretary
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Mr Patterson
Mr Tyrie
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Published 26 July

* 1 await – ASAP – Sm TB's analysis of this.

SURVEY REPORTS

THE JULY 1988 QUARTERLY INDUSTRIAL TRENDS SURVEY

NO 109

Total Response: 1395 Trade Response: 944

Conducted between 24 June and 13 July 1988

The July Industrial Trends Survey shows that business confidence remains good with growth moderating slightly towards a more sustainable rate. While strong demand has been matched by manufacturing output growth, the rate of increase of both orders and output moderated in the four months to July. Both are now expected to increase steadily. Investment intentions remain strong, reflecting a high level of capcity utilisation. Nevertheless, unit costs, having picked up, are now expected to slow, while prices are expected to rise moderately. Manufacturing employment is expected to show further gains.

During the Survey period the pound averaged $1.70 and DM 3.113, compared with $1.86 and DM 3.114 over the April survey period. Sterling's effective exchange rate fell by 3.2% between the survey periods.

Summary

Business confidence remains good. A balance of +8% of respondents indicated they were more optimistic than in April.

Growth in demand has slowed, as expected in April, to the steady rates seen last year and over the next four months, new orders are expected to grow at a similar rate. Order books continue, at +14% to be well above normal, although slightly below the very high balances seen at the beginning of the year.

The rate of growth in manufacturing output has slowed from the rapid increases recorded in the January and April surveys. A balance of +27% of respondents recorded an increase in output over the past four months, with the same proportion expecting output to rise over the next four months. This more moderate pace of output growth is expected to continue in most sectors, although stronger growth is anticipated in the capital goods industries.

Although the proportion of firms operating below capacity has fallen a little further - to 31% - investment intentions remain strong and 82% of firms report their capacity at least adequate to meet expected demand. Fixed capacity as a constraint on output, moreover, has remained steady at 26% since the last survey. This indicates that the proportion of firms whose output is constrained by insufficient plant capacity is no higher than in April 1987.

For the fourth survey in succession, a steady increase in employment is indicated. A balance of +8% report increases in their workforce over the past four months and +9% expect job gains in the next four months. As in previous surveys, the fastest growth in employment remain among small firms; the job losses recorded by the largest firms are now expected to cease in the coming months.

Unit costs picked up over the past four months, as had been expected in April, reflecting a rise in raw material and fuel costs. The rate of increase is, however, now expected to slow. Factory gate prices rose at a slower rate relative both to the four months to April and last survey's expectations, indicating continuing competitive pressures. Moderate growth is also anticipated in the coming four months.

Optimism about exports has recovered sharply since April. A balance of +8% in July compares with a balance of -5% in the previous survey, although the rate of growth in export orders has slowed in the past four months in line with expectations. Export prices slowed as expected and few companies are expecting to increase prices over the next four months.

THE RESULTS

General Business Situation

	April 1988	July 1988
More optimistic (%)	27	20
Less optimistic (%)	8	12
Balance (%)	+19	+8

The outlook for industry remains good, with a balance of +8% of respondents reporting that they are more optimistic about the general business situation than four months ago. This is below the April balance of +19%, following the pattern of previous years. The increase in confidence remains broadly based, but is less uniform than previously . A rising trend in optimism is reported by 'food, drink and tobacco', contrasting with reduced confidence in the 'chemicals, metal manufacture' and 'motor vehicles and other transport equipment'. The 'textiles' sector indicates a decline in optimism for the third successive survey.

Individual industries, rather more optimistic than in April, include 'office machinery and data processing equipment', 'extraction of minerals and metalliferous ores', 'food' and 'industrial engines, pumps and compressors'. 'Man-made fibres', 'wool textiles', 'spinning and weaving' and aerospace and other vehicles' continue to be less optimistic. Industries reporting a decline in optimism from the last survey include: 'non-ferrous metals', 'pharmaceutical and consumer chemicals', 'hand tools and implements', and 'instrument engineering'. The largest firms with over 5,000 employees and the consumer goods industries remain particularly confident about their prospects.

Orders, Output and Stocks

- **Total New Orders**

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	38	32
Down (%)	14	9
Balance (%)	+24	+23

The trend growth of demand has slowed somewhat in the last four months to the steadier rates seen during 1987. A balance of +24% of firms reported an upward trend in the volume of total new orders over the past four months, in line with April's expectations. The forward looking balance of +23% suggests that a similar rate of growth in new orders will continue in the third quarter of 1988. Total orders continue to be above normal. A balance of +14% of repondents reported orders to be above normal, the same as in April, but below the +20% indicated in January. This remains the second highest quarterly balance since this question was first asked in April 1977.

The slackening in orders is reported in a number of main industrial sectors but is not uniform. Weakening positive balances are reported by 'metal manufacture', 'all other manufacturing', 'electrical and instrument engineering', and the intermediate goods industries with a negative balance indicated by the textiles sector. Sectors that have experienced a pick-up in orders include 'food, drink and tobacco', paper, printing and publishing', as well as the conusmer goods industries. The largest companies with over 5,000 employees, also report a notable increase in demand growth, contrasting with the experience of the small and medium sized firms. For individual industries, lower positive balances are widely reported, while a fall in demand is indicated in 'non-ferrous metals', 'man-made fibres', 'electronic consumer goods' and 'wool textiles'. Order books remain well above normal for most broad industrial sectors, particularly for 'metal manufacture' and 'all other manufacturing'. 'Food, drink and tobacco', 'motor vehicles and other transport equipment', and firms with over 5,000 employees, now also report at least normal order books, reversing the position in the April survey. Order books are reported to be slightly below normal only in the 'textiles' sector.

Looking ahead, the trend in demand growth is expected to be upward in all sectors of industry, with the textile sector now also indicating a rise in demand for its products. Sectors expecting a sharp pick-up include 'electrical and instrument engineering', 'motor vehicles and other transport equipment', as well as the largest firms with over 5,000 employees. Demand growth is expected to moderate in the third quarter of 1988 in several sectors including 'metal manufacture', 'mechanical engineering', and 'metal products', and also in the consumer goods industries and the smaller firms with under 500 employees. Individual industries expecting a significant upturn in demand over the coming four months include 'textile consumer goods' and 'office machinery and data processing equipment', balanced by a slackening of demand for the products of 'ferrous metals', and 'glass and ceramics'.

- **Volume of output**

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	37	33
Down (%)	10	6
Balance (%)	+27	+27

The rate of growth in the volume of output has, as expected in April, slowed somewhat from the rapid rates of earlier in the year, broadly in line with demand. A balance of +27% of respondents report an increase in output over the past four months, compared with +36% in April. The foward looking balance of +27% suggests that manufacturing output will expand at a similar rate to the present trend and a little above that recorded a year ago. These results are consistent with the trends in new orders and total order books. According to the CSO, manufacturing output is presently expanding at an annual rate of about 6.5% and a broadly similar rate of increase may be expected in the third quarter.

The moderation in output growth is reported by all sizes of firms, many though not all industrial sectors, and by the capital and intermediate goods industries. The slackening in growth has been particularly marked in 'electrical and instrument engineering', motor vehicles and other transport equipment', and in the capital goods industries. Growth has, however, picked up in 'food, drink and tobacco', 'metal products' and in the consumer goods industries. For individual industries, the rate of increase in output has eased in 'non-ferrous metals', 'building materials', and constructional steelwork'. Falls in output are reported by 'electronic consumer goods' and 'footwear'. A sharp pick up in output is indicated by 'pharmaceuticals and consumer chemicals', 'agricultural machinery', and 'plastics products'. Over the next four months, output growth is expected to slacken in the intermediate goods industries, smaller firms with under 500 employees and the largest concerns as well as in some industrial sectors, including 'chemicals', 'metal manufacture' and 'all other manufacturing'. This is balanced, by an expected pick up in output in medium sized firms with between 500 and under 5000 employees, the capital goods industries, and the 'engineering and other industries' and 'paper printing and publishing'.

- **Stocks of finished goods**

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	19	11
Down (%)	14	18
Balance (%)	+ 5	-7

Over the past four months, the upward trend in the volume of stocks of finished goods has continued for the second successive survey, although some destocking had been expected in April. But the balance of respondents expecting the downward trend to resume over the next four months, -7%, is in-line with the trends recorded last year. Those with over 500 employees anticipate a heavier rate of destocking over the coming months than the smaller firms.

Despite the slowing in the growth of output in relation to demand, firms indicate some increase in the stocks of raw materials and brought in supplies with a balance of +8% reported for the past four months. The forward looking balance of -5% reported for the next four months suggests that the intake of raw materials and semi-manufactures is expected to fall behind the rate of growth in output. For the fifth consecutive survey, the trend in the volume of work in progress has continued to be upward reflecting the growth in output. Looking ahead, however, a balance of -3% of respondents expect these stocks to fall in the third quarter of 1988 whilst output expectations remain stable.

- **Constraints on Output**

A shortage of orders or sales, although remaining the most cited constraint to output, is reported by only 60% of respondents in the present survey, compared with 68% in April. This is the lowest balance of the 1980s, and is indicative of the growth in demand.

Plant capacity remains the second most frequently cited constraint to output over the next four months. The percentage of respondents citing this factor, at 26% in the present survey, is unchanged from the previous survey and is comparable to the level in April 1987. This constraint has tightened significantly in the intermediate goods industries, 'paper, painting and publishing' and 'metal manufacture' but has eased particularly in the capital goods and engineering industries. The shortage of skilled labour is cited, by 22% of respondents, as the third most important factor limiting output, compared with 19% in the April survey. Firms with under 500 employees, the capital goods industries, and the engineering industries expect the situation to deteriorate over the next four months, although 'chemicals' expect an improving position . Individual sectors experiencing significant skilled labour shortages include 'electrical and instrument engineering' and 'paper, printing and publishing', while 'mechanical engineering', and 'chemicals' expect this constraint to ease. Other labour, although remaining a minor constraint on output, cited by 3% of respondents in April, has risen to 6%, in the current survey.

● Fixed Capacity

	April 1988	July 1988
More than adequate (%)	26	21
Less than adequate (%)	14	18
Balance (%)	+12	+ 3

Fixed capacity remains - on balance - adequate to meet expected demand, but the degree of spare capacity has fallen since the April survey. The balance of respondents reporting present fixed capacity to be more than adequate has fallen from +12% in April to +3% in the current survey, the lowest balance since the question was first asked in October 1979. Nevertheless, 82% of respondents indicate fixed capacity to be at least adequate to meet future demand.

Such fixed capacity constraints that do exist are unevenly distributed. The problem is more acute for chemicals' with a balance of -16% in the current survey compared with -8% in April. 'Paper, printing and publishing', the intermediate and consumer goods industries, and the largest firms also report capacity on balance to be inadequate. 'Food, drink and tobacco', the engineering industries and the small and medium sized firms, however, expect fixed capacity to be adequate.

The proportion of respondents reporting their present level of output to be below capacity has fallen further to 31%, the lowest since the question was first asked in 1958. The increasing proportion of firms operating at capacity, particularly significant since January 1987, emphasizes the need for further investment in industrial capacity, particularly against the background of sustained growth in demand and output. Individual industries reporting very high levels of capacity utilisation include 'ferrous metals', 'industrial chemicals', 'electronic industrial goods', and 'motor vehicles'.

● Capital Expenditure - Plant and Machinery

	April 1988	July 1988
More (%)	48	39
Less (%)	16	20
Balance (%)	+32	+19

Investment intentions in plant and machinery, twelve months ahead, remain strong, although less buoyant than in the April survey. Nevertheless, the growth in manufacturing investment is expected to continue. A balance of +19% of respondents, about the same as in January, expects to authorise more capital expenditure over the next twelve months than in the past twelve months. The responses suggest that investment will be more strongly concentrated in the intermediate goods industries, and the largest firms with over 5,000 employees. Smaller firms with under 500 employees report strong, stable investment intentions, in line with the previous survey. Although all sectors of industry show positive balances, the 'chemicals', 'metal manufacture' and 'all other manufacturing' sectors expect to increase their investment most strongly. The 'food, drink and tobacco', engineering and allied', and 'paper, printing and publishing' sectors and the capital goods industries now report lower positive balances than in the April survey. Investment intentions in buildings have reverted to a small negative balance of -6%, after recording low positive balances in the January and April surveys, suggesting a steady rate of replacement rather than expansion. The most frequently cited reason for authorising capital expenditure continues to be that of increasing efficiency. It is cited by 76% of all firms, the same as in the last survey. Industry, however, continues to be aware of the need to provide adequate capacity to cater for the sustained growth in output. The percentage of respondents citing the expansion of capacity as the main reason for capital expenditure, at 39%, is the same as in April, and remains the second highest result since this question was first asked in October 1979. Replacement is cited as the main reason by 48% of respondents, compared with 45% recorded in April.

An inadequate net return on the proposed investment remains the most important factor likely to limit capital expenditure authorisation, cited by 48% of respondents, compared with 46% and 44% respectively in January and April. Uncertainty about demand is cited by 33% of respondents, compared with 31% in the previous survey. It remains the second lowest result since this question was first asked in October 1979 and provides firm evidence of the durability of the growth in demand, despite currency instability. A shortage of internal finance is the third most important constraint on investment, cited by 18% pf respondents. With the recent upward movement in interest rates, the proportion of firms citing the cost of finance as a significant constraint has risen from 5% in April to 7% in the present survey, similar to the levels of a year ago. A shortage of labour is also cited as a constraint by 7% of respondents.

Employment

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	28	27
Same (%)	20	18
Down (%)	+8	+ 9

The trend in manufacturing employment continues to be steadily upward with a balance of + 8% of firms reporting an upward trend over the past four months. This is the fourth consecutive survey to indicate an improved employment position. The smaller firms, with under 500 employees, continue to show the most rapid employment growth. The largest firms, employing over 5000 people, have shed jobs at a much reduced rate over the past four months.

This improvement in employment is evident in most sectors of industry. The intermediate goods industries report a strengthening balance of +12%, although the capital goods industries indicate a slowing in employment growth. Employment has also increased in the consumer goods industries after the decline reported in the April survey. Significant reductions, at a somewhat slower rate than in April, continue to take place in the 'food, drink and tobacco' and 'metal manufacture sectors'. Strong jobs growth is reported in 'furniture, upholstery and bedding', 'motor vehicles', 'timber and wooden products other than furniture' and by office machinery and data processing equipment'. 'Glass and ceramics', 'building materials', and 'pharmaceuticals and consumer chemicals' also report a strong pick up in employment.

Looking ahead, further gains are expected by a balance of +9% of respondents, but these are concentrated among the smaller firms, with under 500 employees; nevertheless, firms with over 5,000 employees expect job losses to cease over the next four months. The capital and consumer goods industries expect growth to pick up, but a reduction in employment is expected in the 'food, drink and tobacco, and 'metal manufacture' sectors.

Costs and Prices

- Costs

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	33	29
Down (%)	9	10
Balance (%)	+24	+19

The deceleration in average costs per unit of output seen since October 1987 has been put into reverse. The balance of firms reporting an upward trend over the past four months, at 24%, compares with +10% in April, but is similar to the position last October. The pick up in costs, although expected in the April survey, reflects the rapid second quarter rise in the cost of materials and fuels purchased by manufacturing industry. Unit labour costs rose only slightly, helped by the 6.5% growth in productivity in the three months ending in May, compared with a year ago. The increase in costs is widely based with only the 'chemicals' sector reporting a fall in costs. The largest firms with over 5000 employees, the capital goods industries, and the 'metal manufacture' and 'motor vehicles and other transport equipment' indicate a sharp upturn in costs over the past four months, compared with the first quarter reductions reported in the April survey. Costs are also rising significantly in some broad sectors of industry, including 'food, drink and tobacco' and engineering, and in such individual industries as 'wool textiles', 'pulp, paper and board', 'heating, ventilating and refrigerating equipment' and 'instrument engineering'.

The outlook for the next four months is for some slowing in the present rate of growth in costs, although, the 'metal manufacture' and 'paper, printing and publishing' sectors expect a fall in average costs. The slowdown in costs which is broadly based is expected to be particularly significant for the smallest firms with under 200 employees, the capital and intermediate goods industries, the 'metal products' and 'other manufacturing' sectors. Costs are expected to pick up, however, in the consumer goods industries, and in the 'food, drink and tobacco' and 'chemicals' sectors.

- **Prices**

	July 1988	July 1988
	Past 4 mths	Next 4 mths
Up (%)	25	26
Down (%)	4	3
Balance (%)	+21	+23

In spite of the pick up in costs in the past four months, average prices at which domestic orders are booked have risen more slowly than was expected in April. A balance of +21% of respondents report a rising trend in prices, compared with +28% in the April survey and slightly above the balances recorded in October 1987 and January 1988. The moderation in the rate of price increases is reflected in most industrial sectors except 'chemicals' and 'metal manufactures', 'electrical and instrument engineering' and the capital goods industries which report a pick up. Main sectors indicating an above average slowing in the rate of price increases include 'textiles', 'food, drink and tobacco', 'motor vehicles and other transport equipment' 'metal products' and the consumer goods industries. According to government statistics, output prices grew by 4.6% on a year-on-year basis in June. The prospect is for a similar rate of growth in factory gate prices over the coming months, with a balance of +23% of respondents expecting prices to rise over the next four months.

Exports

- **Export Prospects**

	April 1988	July 1988
More optimistic (%)	19	25
Less optimistic (%)	24	17
Balance (%)	- 5	+ 8

Optimism about export prospects for the coming twelve months has recovered sharply since April. The balance of respondents reporting an increase in optimism, at +8%, compares with negative balances recorded in the preceding two surveys, although remaining below last July's strong positive balance. The trend in optimism varies markedly between sectors of industry. Signficantly increased confidence is reported by medium sized firms with 200 to under 500 employees, the largest firms and by the capital and consumer goods industries. Increasing optimism is also indicated by 'chemicals' 'electrical and instrument engineering' and 'paper, printing and publishing'. 'Textiles', 'metal products' and the intermediate goods industries, however, report sharp falls in confidence compared to four months ago.

- **New Export Orders**

	July 1988	July 1988
	Past 4 mths	Next 4 mths
Up (%)	28	26
Down (%)	16	14
Balance (%)	+12	+12

The rate of increase in new export orders has, as expected in the April survey, slowed in the second quarter, after the pick up recorded in the first quarter of this year. Growth has slackened significantly for medium sized firms with 500 and under 5000 employees, the intermediate goods industries, and the 'food, drink and tobacco' and 'metal manufacture' sectors, with 'textiles' and 'paper, printing and publishing' reporting falls in export orders. The largest firms, and 'electrical and instrument engineering', however, continue to indicate steady growth over the past four months. The balance of firms expecting an upward trend over the next four months, at +12%, suggests a similar rate of growth in the third quarter. The largest firms, expect the recent growth to continue, while the smaller firms with under 500 employees expect a slowdown. Sectors expecting a pick up in export order include the engineering and allied industries, 'motor vehicles and other transport equipment', 'metal manufacture', the capital goods industries and medium sized firms with 500 to under 5000 employees. A downward trend, is expected in 'chemicals' and the smallest firms with falls indicated in 'textiles', 'metal products' and 'paper, printing and publishing'.

- **Export Prices**

	July 1988 Past 4 mths	July 1988 Next 4 mths
Up (%)	18	16
Down (%)	10	9
Balance (%)	+8	+7

The rate of increase in the average prices at which export orders are booked slowed slightly in the second quarter as expected in the April survey. Firms with over 500 employees, the capital and intermediate goods industries, the engineering industries, 'textiles' and 'metal products' reported a slowdown in the rate of price increases, while 'metal manufacture' and 'paper, printing and publishing' indicated price falls. The consumer goods industries, firms with 200 to under 500 employees, 'food, drink and tobacco', 'chemicals' and 'all other manufacturing', however, experienced a pick up in prices. Export prices are expected to rise in the third quarter at rates broadly similar to those reported over the past four months. Sectors expecting a pick up in prices, include 'food, drink and tobacco' and 'chemicals', balanced by 'metal manufacture', 'mechanical engineering' indicating a price fall over the coming months.

Prices remain the most important factor limiting the ability to obtain export orders, but have fallen sharply in significance, being cited by 61% of respondents, compared with 70% in April and similar to the level a year ago. Delivery dates are cited by 14% of respondents, the same as in the April survey. Political or economic conditions are a more important factor - though they were cited by only 18% of respondents - compared with 24% in April.

NOTES

Respondents directly account for over half of manufacturing employment and approaching half the country's manufactured exports. The replies are weighted to take account of the firm's industry, net output and employment size; separate information is used for the questions relating to exports.

The Industrial Trends Survey, introduced in 1958, is conducted quarterly. In addition, the CBI carries out an abbreviated Enquiry in the intervening months. The CBI provides results for 50 individual industries, which have been defined to reflect the 1980 SIC classification, and disaggregated results are available on subscription.

Contact the CBI's Economic Trends Department (01-379-7400) for more details.

CBI INDUSTRIAL TRENDS SURVEY: SUMMARY OF RESULTS FROM APRIL 1987 TO JULY 1988

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

TOTAL TRADE		Apr 87	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88
1 Optimism re business situation		+29	+25	+23	+11	+19	+ 8
3 12 month forecast of capital expenditure authorisations compared with previous 12 months on:							
a buildings		- 3	+ 1	- 3	+ 1	+ 6	- 6
b plant and machinery		+13	+20	+17	+20	+32	+19
4 Firms working below capacity[1]		49	45	41	35	32	31
6 Numbers employed	- past 4 months	-10	- 7	+ 4	+ 9	+ 8	+ 8
	- next 4 months	- 4	- 3	+ 2	+ 8	+ 7	+ 9
7 Volume of new orders	- past 4 months	+26	+24	+25	+26	+31	+24
	- next 4 months	+25	+25	+25	+16	+23	+23
8 Volume of output	- past 4 months	+24	+23	+19	+31	+36	+27
	- next 4 months	+25	+23	+25	+26	+29	+27
10a Stocks of raw materials	- past 4 months	- 6	+ 3	0	- 1	+ 2	+ 8
	- next 4 months	- 6	- 3	- 8	- 1	0	- 5
b Stocks of work in progress	- past 4 months	- 5	+ 6	+ 7	+ 7	+ 1	+ 7
	- next 4 months	- 6	+ 1	+ 1	- 3	- 3	- 3
c Stocks of finished goods	- past 4 months	- 7	- 4	- 7	- 8	+ 1	+ 5
	- next 4 months	- 8	- 5	- 8	- 2	- 4	- 7
11 Average unit costs	- past 4 months	+25	+10	+22	+16	+10	+24
	- next 4 months	+18	+11	+19	+33	+23	+19
12a Average domestic prices	- past 4 months	+20	+16	+18	+18	+28	+21
	- next 4 months	+26	+19	+23	+39	+31	+23
14 Four month forecast of factors likely to limit output[1]							
Orders or sales		72	69	65	67	68	60
Skilled labour		12	18	19	20	19	22
Other labour		2	3	5	4	3	6
Plant capacity		25	22	24	21	26	26
Credit or finance		4	3	3	3	2	2
Materials/components		4	6	8	8	9	9
Other		2	4	2	3	2	4

EXPORT TRADE

		Apr 87	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88
2 Optimism re export prospects		+24	+24	+14	- 7	- 5	+ 8
7b Volume of new export orders	- past 4 months	+15	+23	+ 9	+14	+18	+12
	- next 4 months	+20	+17	+17	+ 7	+ 9	+12
9b Volume of export deliveries	- past 4 months	+15	+23	+13	+22	+20	+19
	- next 4 months	+22	+21	+21	+11	+11	+20
12b Average export prices	- past 4 months	+18	+ 9	+ 6	+11	+10	+ 8
	- next 4 months	+15	+13	+21	+26	+ 8	+ 7

15 Four month forecast of factors likely to limit export orders[1]

	Apr 87	Jul 87	Oct 87	Jan 88	Apr 88	Jul 88
Prices	59	60	56	56	70	61
Delivery dates	15	12	15	17	14	14
Credit or finance	9	13	6	11	8	5
Quota and licence	10	13	11	12	10	5
Political/economic conditions abroad	25	28	28	29	24	18
Other	10	9	13	10	10	13

1 Percentage Figures

CBI Monthly Trends Enquiry: Time Series of results from August 1987 to July 1988

In the intervening months between the main quarterly Industrial Trends Surveys the CBI carries out a much abbreviated monthly Trends Enquiry. In the latter participants are only asked to answer five questions. These five questions are also included in the main quarterly Survey and the table below sets out the time series of results for the past year.

		Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
1a Total Order Book	(Q.5a)*	+11	+ 9	+10	+13	+18	+20	+20	+20	+14	+21	+13	+14
1b Export Order Book	(Q.5b)	+ 5	+ 3	+ 1	+11	+ 4	+ 5	+12	+11	+ 2	+ 4	+ 2	+ 6
2 Stocks	(Q.5c)	- 1	+ 3	- 7	- 5	+ 2	- 1	- 2	+ 1	+ 2	- 3	- 1	+ 1
3 Volume of Output	(Q.8)	+38	+30	+25	+36	+31	+26	+36	+37	+29	+34	+30	+27
4 Average Prices	(Q.12a)	+21	+20	+23	+28	+31	+39	+33	+25	+31	+18	+21	+23

* question number in quarterly survey

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

ED/TRENDS1P

summary of results

July 198~~8~~ 8

UK

CBI

Number of RESPONDENTS: Total Trade Questions 1395

Export Trade Questions 944

Number of RESPONDENTS in each employment size group:

(a) 0–199 797 (b) 200–499 315 (c) 500–4,999 253 (d) 5,000 and over 30

			More	Same	Less	N/A
1	Are you more, or less, optimistic than you were four months ago about the general business situation in your industry		20	68	12	
2	Are you more, or less, optimistic about your export prospects for the ~~next twelve~~ months than you were four months ago		25	57	17	1
3	Do you expect to authorise more or less capital expenditure in the next twelve months than you authorised in the past twelve months on:	a. buildings	22	37	28	13
		b. plant and machinery	39	40	20	1

		Yes	No	N/A
4	Is your present level of output below capacity (i.e. are you working below a satisfactory full rate of operation)	31	68	1

		Above Normal	Normal	Below Normal	N/A
5	**Excluding seasonal variations**, do you consider that in volume terms:				
	a. Your present total order book is	29	55	15	1
	b. Your present export order book is *(firms with no order book are requested to estimate the level of demand)*	26	52	20	2
		More than Adequate	**Adequate**	**Less than Adequate**	**N/A**
	c. Your present stocks of finished goods are	14	59	13	14

Excluding seasonal variations, what has been the trend over the PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

		Trend over PAST FOUR MONTHS				Expected trend over NEXT FOUR MONTHS			
		Up	Same	Down	N/A	Up	Same	Down	N/A
6	Numbers employed	28	52	20	+	27	55	18	+
7	Volume of total new orders	38	47	14	1	32	57	9	2
	of which: a. domestic orders	39	46	14	1	34	58	7	2
	b. export orders	28	54	16	2	26	58	14	2
8	Volume of output	37	53	10	+	33	60	6	1
9	Volume of: a. domestic deliveries	37	51	12	+	33	59	7	1
	b. export deliveries	32	53	13	2	32	54	12	2
10	Volume of stocks of: a. raw materials and brought in supplies	24	58	16	2	12	69	17	2
	b. work in progress	21	60	14	6	12	67	15	6
	c. finished goods	19	53	14	13	11	58	18	13

Excluding seasonal variations, what are the ... PAST FOUR MONTHS, and what are the expected trends for the NEXT FOUR MONTHS, with regard to:

		PAST FOUR MONTHS				NEXT FOUR MONTHS			
		Up	Same	Down	N/A	Up	Same	Down	N/A
11	Average costs per unit of output	33	57	9	1	29	60	10	1
12	Average prices at which: a. domestic orders are booked	25	70	4	1	26	70	3	1
	b. export orders are booked	18	71	10	2	16	73	9	2

13 Approximately how many months' production is accounted for by your present order book or production schedule.

Less than 1	1-3	4-6	7-9	10-12	13-18	More than 18	N/A
16	41	18	2	4	1	3	14

14 What factors are likely to limit your output over the next four months. Please tick the most important factor or factors.

Orders or Sales	Skilled Labour	Other Labour	Plant Capacity	Credit or Finance	Materials or Components	Other
60	22	6	26	2	9	4

15 What factors are likely to limit your ability to obtain export orders over the next four months. Please tick the most important factor or factors.

Prices (compared with overseas competition)	Delivery Dates (compared with overseas competition)	Credit or Finance	Quota & Import Licence Restrictions	Political or Economic Conditions Abroad	Other
61	14	5	5	18	13

16 a. In relation to expected demand over the next twelve months is your present fixed capacity :

More than adequate	adequate	less than adequate
21	61	18

b. What are the main reasons for any expected CAPITAL EXPENDITURE AUTHORISATIONS ON BUILDINGS, PLANT OR MACHINERY over the next twelve months

to expand capacity	39	other *(please specify)*	6
to increase efficiency	76	N/A	5
for replacement	48		

c. What factors are likely to limit (wholly or partly) your capital expenditure authorisations over the next twelve months

Inadequate net return on proposed investment	48	Uncertainty about demand	33
Shortage of internal finance	18	Shortage of labour including Managerial and Technical Staff	7
Inability to raise external finance	1	Other *(please specify)*	3
Cost of finance	7	N/A	13

INDIVIDUAL INDUSTRIES IN THE CBI INDUSTRIAL TRENDS SURVEY

FOOD, DRINK AND TOBACCO
Food; drink and tobacco.

CHEMICALS, COAL AND PETROLEUM PRODUCTS
Industrial and agricultural products; consumer chemicals; synthetic resins and plastics.

METAL MANUFACTURE
Ferrous metals; non-ferrous metals.

MECHANICAL AND INSTRUMENT ENGINEERING
Agricultural machinery; machine tools; industrial engines; textile machinery; contractors' plant; industrial and office machinery; heating, refrigerating and ventilating equipment; heavy industrial plant; construction steelwork; other mechanical engineering; instrument engineering.

ELECTRICAL ENGINEERING
Power and industrial electric goods; electronic goods; electric consumer goods.

SHIPBUILDING, MARINE ENGINEERING AND VEHICLES
Shipbuilding and marine engineering; motor vehicles; other vehicles.

METAL GOODS NOT ELSEWHERE SPECIFIED
Engineers' small tools and gauges; hand tools and implements; fabricated metal goods.

TEXTILES
Man-made fibres; spinning and weaving; wool textiles; hosiery and knitwear; other textiles; clothing and fur; leather and leather goods; footwear.

OTHER MANUFACTURING
Building materials; timber and wooden products; furniture etc.; glass and ceramics; paper and paper products; printing and publishing; rubber; miscellaneous manufacturing.

The full analysis of the results is available on a subscription basis. The annual subscription is £75 (CBI members £30) and can

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JUNE 1988

The current account for June, seasonally adjusted, is estimated to have been in deficit by £1021 million compared with a deficit of £1144 million in May. In June, exports - seaonally adjusted on a balance of payments basis - were valued at £6819 million and imports at £8340 million so that the trade in goods was in deficit by £1521 million.

The balance on invisibles is projected to be in surplus by £500 million, a large surplus on the transactions of the private sector and public corporations being partly offset by a deficit on Government transactions.

SECOND QUARTER 1988

In the second quarter the current account showed a deficit of £2.8 billion, the same as in the previous quarter. There was a deficit on visible trade of £4.3 billion in the second quarter compared with a deficit of £4.0 billion in the first quarter. The surplus on invisibles in the latest quarter is projected at £1.5 billion.

CURRENT ACCOUNT

Table 1

£ million, Seasonally adjusted

	Current Balance	Visible Trade Balance	Exports fob	Imports fob	Invisibles Balance[b]
1986	+ 116	- 8463	72678	81141	+ 8579
1987	- 1560	- 9625	79622	89247	+ 8065
1987 Q2	- 218	- 2317	19357	21674	+ 2099
Q3	- 919	- 3109	20235	23344	+ 2190
Q4	- 1397	- 2988	20500	23488	+ 1591
1988 Q1	- 2776	- 4017	18826	22843	+ 1241
Q2	- 2832	- 4332	20215	24547	+ 1500
1988 Jan	- 1159	- 1573	6209	7702	+ 414
Feb	- 1044	- 1457	6176	7634	+ 413
Mar	- 572	- 986	6441	7427	+ 414
Apr	- 667a	- 1167	6854	8021	+ 500a
May	- 1144a	- 1644	6542	8186	+ 500a
Jun	- 1021a	- 1521	6819	8340	+ 500a
Jan-Mar 1988	- 2776	- 4017	18826	22843	+ 1241
Apr-Jun 1988	- 2832a	- 4332	20215	24547	+ 1500a
Jan-Jun 1988	- 5607a	- 8348	39041	47389	+ 2741a

a Invisibles for April to June are projections.

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

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VISIBLE TRADE IN JUNE

There was a deficit on visible trade in June of £1521 million compared with a deficit of £1644 million in May. The surplus on oil was £149 million, £72 million less than in May. The deficit on non-oil trade increased by £196 million.

Total exports in June were valued at £6819 million, which was £277 million (4 per cent) higher than in May. Exports of oil increased by £39 million and exports of the erratic items increased by £102 million between the two months. Excluding oil and the erratic items, exports rose by 2½ per cent between May and June.

Total imports were valued at £8340 million in June, which was £154 million more than in May. Imports of oil rose by £111 million between the two months while imports of the erratic items fell by £89 million. Excluding oil and the erratic items, imports rose by 2 per cent between May and June.

RECENT TRENDS

Visible balance

In the second quarter of 1988, there was a deficit on visible trade of £4.3 billion - a surplus on trade in oil of £0.7 billion offset by a deficit on non-oil trade of £5.0 billion. Between the

B

first and second quarters the deficit on visible trade increased by £0.3 billion - the surplus on oil fell by £0.2 billion while the deficit on non-oil trade rose by £0.1 billion.

Exports

Exports amounted to £20.2 billion in the second quarter of 1988, £1.4 billion (7½ per cent) more than in the previous quarter. Exports of oil fell by £0.2 billion, but exports of the erratic items rose by £0.5 billion. Excluding oil and the erratic items, exports increased by 7 per cent between the first and second quarter.

Total export volume in the latest quarter was 5 per cent higher than in the previous quarter and 4½ per cent higher than in the same period a year ago. Excluding oil and the erratic items, export volume rose by 6 per cent in the latest quarter and was also 6 per cent higher than in the same period a year ago. The underlying level of non-oil export volume in recent months has returned to the high level reached at the end of last year.

Imports

Total imports were valued at £24.5 billion in the latest quarter, £1.7 billion (7½ per cent) more than in the previous quarter. Imports of oil were little changed while imports of the erratic items rose by £0.4 billion. Excluding oil and the erratic items, imports rose by 6 per cent between the first and second quarter.

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Total import volume in the latest quarter was 7½ per cent higher than in the previous quarter and 13 per cent higher than in the same period a year ago. Excluding oil and the erratic items, import volume rose by 6 per cent in the latest quarter and was 13 per cent higher than in the same period a year ago. The underlying level of non-oil import volume has been rising in recent months.

Terms of trade and unit values

The terms of trade index rose by 2 per cent between the first and second quarter of 1988 with the export unit value index increasing by 1 per cent 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 2 per cent and the import unit value index fell by 1 per cent. As a result the terms of trade index is 3½ per cent up on a year ago.

Export unit values for fuels fell by 2 per cent between the first and second quarter while the unit value index for non-oil exports rose by 1½ per cent.

Import unit values for fuels fell by 5 per cent between the first and second quarter while the unit value index for non-oil imports fell by ½ per cent.

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Analysis by area

Exports to the developed countries rose by 12 per cent between the first and second quarter. Exports to the European Community countries rose by 20 per cent over the latest quarter; exports to North America decreased by 11 per cent but exports to the other developed countries increased by 9 per cent. Those to the developing countries rose by 4 per cent between the first and second quarter.

Imports from the developed countries increased by 9 per cent over the latest quarter with arrivals from the European Community countrie up 8½ per cent, from North America up by 14 per cent and arrivals from the other developed countries up by 4 per cent. Imports from the developing countries incrcased by 12 per cent between the first and second 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

3 On 1 January 1988 new Customs administrative procedures were introduced, including a switch to the Single Administrative Document for Customs declaration and the adoption of a new system of commodity coding based on the world-wide Harmonised System. Details of the changes, collectively known as 'Customs '88', were given in an article in British Business on 27 November 1987. As expected these changes have had some effect on the statistics of visible trade. The main effect has been to alter the month in which some exports have been recorded from December 1987 onwards (see para 4 below). There is no indication of any similar effects occuring with imports.

The monthly pattern of exports

4 Figures of exports attributed to a particular month relate to information received in the Statistical Office of HM Customs and Excise up to three days before the end of that month. Documents generally arrive at the Statistical Office up to a fortnight after the goods are shipped, so that a proportion of exports attributed to a particular month correspond to goods shipped in the previous month, and in a few cases before then. A significant increase in the proportion of goods shipped and recorded in the month suggests some speeding up in the lodging of documents during December 1987 in advance of the administrative changes. Analysis of the timing of shipments and documents since December 1987 is continuing, although preliminary indications are that the major impact of Customs '88 was concentrated in the December to February period and was relatively small.

Ferry Operators' strike

5 Although the ferry operators' strike continued throughout June, the overall effect on trade is thought to be negligible.

MONTHLY REVIEW OF EXTERNAL TRADE STATISTICS

6 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

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.

AREA (tables 11 and 15)

8 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.

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

INDEX OF TABLES

CURRENT BALANCE VISIBLE TRADE AND INVISIBLES

Table 2

(Balance of Payments basis)

£ million, Seasonally adjusted

	Current Balance	Visible Trade: Exports fob	Imports fob	Visible Balance	of which Oil	Non-oil	Invisibles Balance[b]
1986	+ 116	72678	81141	- 8463	+ 4056	- 12519	+ 8579
1987	- 1560	79622	89247	- 9625	+ 4184	- 13809	+ 8065
1987 Q2	- 218	19357	21674	- 2317	+ 1016	- 3333	+ 2099
Q3	- 919	20235	23344	- 3109	+ 936	- 4046	+ 2190
Q4	- 1397	20500	23488	- 2988	+ 1073	- 4061	+ 1591
1988 Q1	- 2776	18826	22843	- 4017	+ 881	- 4897	+ 1241
Q2	- 2832	20215	24547	- 4332	+ 679	- 5011	+ 1500
1987 Oct	- 392	6802	7724	- 922	+ 394	- 1316	+ 530
Nov	- 525	6881	7938	- 1056	+ 332	- 1388	+ 531
Dec	- 480	6817	7827	- 1010	+ 346	- 1356	+ 530
1988 Jan	- 1159	6209	7782	- 1573	+ 356	- 1929	+ 414
Feb	- 1044	6176	7634	- 1457	+ 311	- 1769	+ 413
Mar	- 572	6441	7427	- 986	+ 213	- 1199	+ 414
Apr	- 667a	6854	8021	- 1167	+ 309	- 1476	+ 500a
May	- 1144a	6542	8186	- 1644	+ 221	- 1865	+ 500a
Jun	- 1021a	6819	8340	- 1521	+ 149	- 1670	+ 500a
Apr-Jun 1987	- 218	19357	21674	- 2317	+ 1016	- 3333	+ 2099
Jan-Mar 1988	- 2776	18826	22843	- 4017	+ 881	- 4897	+ 1241
Apr-Jun 1988	- 2832a	20215	24547	- 4332	+ 679	- 5011	+ 1500a
% Change							
Latest 3 months							
- on previous 3 months		+ 7½	+ 7½				
- Same 3 months one year ago		+ 4½	+ 13				

a Invisibles for April to June 1988 are projections.

b Monthly figures are one third of the appropriate calendar quarter's estimate or projection.

INVISIBLES

Table 3

(Balance of Payments basis)

£ million, Seasonally adjusted

	All Sectors: Credits	Debits	Balance	of which Services	Interest Profits Dividends	Transfers	Private Sector and Public Corporations[d]: Credits	Debits	Balance
1985	80480	75017	+ 5463	+ 5882	+ 2833	- 3252	75812	65063	+ 10749
1986	77364	68785	+ 8579	+ 5721	+ 5035	- 2177	72238	59178	+ 13060
1987	80223	72158	+ 8065	+ 5752	+ 5735	- 3422	74852	60586	+ 14266
1986 Q2	18814	16841	+ 1973	+ 1357	+ 1179	- 563	17485	14415	+ 3070
Q3	19421	17343	+ 2078	+ 1375	+ 1453	- 750	18172	14793	+ 3379
Q4	19974	17907	+ 2067	+ 1455	+ 1464	- 852	18792	15251	+ 3541
1987 Q1	19851	17666	+ 2185	+ 1484	+ 1531	- 830	18215	14601	+ 3614
Q2	20104	18005	+ 2099	+ 1461	+ 1388	- 750	18662	15181	+ 3481
Q3	20475	18285	+ 2190	+ 1645	+ 1495	- 950	19254	15362	+ 3892
Q4	19793	18202	+ 1591	+ 1162	+ 1321	- 892	18721	15442	+ 3279
1988 Q1	20384	19143	+ 1241	+ 919	+ 1364	- 1042	19000	16059	+ 2941

d ie excluding general Government transactions and all transfers.

EXPORT AND IMPORT UNIT VALUE AND VOLUME INDEX NUMBERS — Table 4

Balance of Payments basis — Indices, 1980 = 100

	Unit Value (Not seasonally adjusted)			Volume (seasonally adjusted)	
	Exports	Imports	Terms of Trade[e]	Exports	Imports
1986	136.8	134.3	101.8	123.3	134.6
1987	142.0	138.1	102.8	130.4	144.6
1987 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	136.3	104.7	126.0	148.3
Q2	144.4	135.0	106.9	132.5	159.4
1987 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	126.4	151.5
Feb	142.8	136.5	104.6	123.6	147.4
Mar	143.5	136.4	105.2	128.1	146.0
Apr	144.4	135.5	106.6	135.4	155.8
May	144.4	134.7	107.2	129.1	158.7
Jun	144.4	135.0	107.0	132.9	163.7
Apr-Jun 1987	141.4	136.7	103.4	126.6	141.1
Jan-Mar 1988	142.7	136.3	104.7	126.0	148.3
Apr-Jun 1988	144.4	135.0	106.9	132.5	159.4
% Change					
Latest 3 months on					
- previous 3 months	+ 1	- 1	+ 2	+ 5	+ 7½
- Same 3 months					
one year ago	+ 2	- 1	+ 3½	+ 4½	+ 13

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

VALUE AND VOLUME OF EXPORTS AND IMPORTS EXCLUDING THE MORE ERRATIC ITEMS[f] — Table 5

Balance of Payments basis — Seasonally adjusted

	Value £ million fob		Volume Index 1980 = 100	
	Exports	Imports	Exports	Imports
1986	67300	77492	126.3	143.0
1987	73645	85386	133.6	154.0
1987 Q2	17939	20740	129.8	150.2
Q3	18755	22313	134.1	160.9
Q4	18933	22481	138.0	162.4
1988 Q1	17652	21877	130.6	158.1
Q2	18537	23189	134.6	167.8
1987 Oct	6178	7300	133.2	156.4
Nov	6339	7609	138.3	164.5
Dec	6416	7572	142.5	166.3
1988 Jan	5928	7501	132.9	162.4
Feb	5771	7244	127.8	156.1
Mar	5954	7133	131.2	155.9
Apr	6300	7670	137.7	165.5
May	6031	7638	131.9	165.5
Jun	6206	7881	134.3	172.5
Apr-Jun 1987	17939	20740	129.8	150.2
Jan-Mar 1988	17652	21877	130.6	158.1
Apr-Jun 1988	18537	23189	134.6	167.8
% Change				
Latest 3 months on				
- previous 3 months	+ 5	+ 6	+ 3	+ 6
- Same 3 months				
one year ago	+ 3½	+ 12	+ 3½	+ 12

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

TRADE IN OIL [g]

(Balance of Payments basis)

Table 6

Seasonally adjusted

	Balance of Trade in oil	EXPORTS TOTAL	EXPORTS CRUDE OIL (SITC R(3) 333.0)			EXPORTS Rest of Division 33	IMPORTS TOTAL	IMPORTS CRUDE OIL (SITC (R3) 333.0)			IMPORTS Rest of Division 33
	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob	£ million fob	£ million fob	million tonnes	Avg value per tonne £ fob	£ million fob
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 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	+ 881	1688	1348	20.0	67.3	340	807	539	8.6	62.9	268
Q2	+ 679	1494	1118	17.1	65.4	377	815	417	6.9	60.8	398
1987 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	+ 356	620	518	7.4	70.3	103	264	181	2.8	64.2	83
Feb	+ 311	569	443	6.4	69.0	126	258	163	2.5	64.7	95
Mar	+ 213	499	388	6.3	61.9	111	286	196	3.3	60.3	90
Apr	+ 309	533	390	5.9	66.1	143	224	105	1.8	59.8	119
May	+ 221	461	348	5.4	64.3	113	240	112	1.9	59.7	128
Jun	+ 149	500	380	5.8	65.6	120	351	200	3.2	62.0	151
Apr-Jun 1987	+ 1016	2046	1653	19.8	83.6	393	1030	645	8.1	79.2	386
Jan-Mar 1988	+ 881	1688	1348	20.0	67.3	340	807	539	8.6	62.9	268
Apr-Jun 1988	+ 679	1494	1118	17.1	65.4	377	815	417	6.9	60.8	398
% Change Latest 3 months on previous 3 months		- 11	- 17	- 15	- 3	+ 11	+ 1	- 23	- 20	- 3½	+ 48
- same 3 months one year ago		- 27	- 32	- 14	- 22	- 4	- 21	- 35	- 16	- 23	+ 3½

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

TRADE IN GOODS OTHER THAN OIL

Table 7

(Balance of Payments basis)

	Total								Excluding erractics[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	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 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	- 4897	17138	22035	154.4	145.6	106.0	118.6	158.2	15964	21070	123.2	170.8
Q2	- 5011	18721	23731	156.5	144.7	108.2	128.6	170.2	17043	22374	130.7	181.3
1987 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	- 1929	5589	7518	153.0	145.1	105.4	117.1	162.3	5307	7237	123.8	176.2
Feb	- 1769	5607	7376	154.3	145.7	105.9	116.1	157.9	5202	6986	120.1	169.1
Mar	- 1199	5942	7141	155.8	146.0	106.7	122.6	154.6	5455	6847	125.6	167.1
Apr	- 1476	6321	7797	156.4	145.3	107.6	130.3	167.9	5768	7446	132.6	180.7
May	- 1865	6081	7946	156.6	144.4	108.5	126.3	170.8	5570	7399	129.2	180.2
Jun	- 1670	6319	7988	156.5	144.3	108.5	129.2	171.9	5706	7530	130.4	183.1
Apr-Jun 1987	- 3333	17311	20644	150.5	144.1	104.4	120.1	149.5	15893	19710	123.2	161.1
Jan-Mar 1988	- 4897	17138	22035	154.3	145.6	106.0	118.6	158.2	15964	21070	123.2	170.8
Apr-Jun 1988	- 5011	18721	23731	156.5	144.7	108.2	128.6	170.2	17043	22374	130.7	181.3
% Change												
Latest 3 months on												
- previous 3 months		+ 9	+ 7½	+ 1½	½	+ 2	+ 8½	+ 7½	+ 7	+ 6	+ 6	+ 6
- same 3 months one year ago		+ 8	+ 15	+ 4	+ ½	+ 3½	+ 7	+ 14	+ 7	+ 14	+ 6	+ 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

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver (PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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
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 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
Q2	20389	1442	520	1562	16458	14809	5367	2718	2649	9442	460	1603	4030	3349
1988 Apr	6858	492	165	558	5515	4965	1758	905	852	3208	123	548	1433	1104
May	6541	480	165	485	5274	4769	1760	885	875	3009	130	521	1323	1034
Jun	6990	470	190	519	5669	5075	1850	928	922	3226	206	534	1274	1211
Jan-Mar	18999	1270	486	1763	15078	13935	5067	2663	2404	8868	492	1582	3865	2930
Apr-Jun	20389	1442	520	1562	16458	14809	5367	2718	2649	9442	460	1603	4030	3349
% Change	+ 7½	+ 14	+ 7	- 11	+ 9	+ 6½	+ 6	+ 2	+ 10	+ 6½	- 6½	+ 1½	+ 4½	+ 14

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 9

INDICES, 1980 = 100, seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi manufactures excluding precious stones & silver (PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	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 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	129	115	182	130	134	137	157	121	131	125	148	130	126
1988 Q1	127.3	123	113	173	120	125	130	149	116	121	121	133	120	118
Q2	133.7	141	107	156	130	132	138	152	127	128	112	133	122	136
1988 Apr	135.6	149	104	167	130	132	135	151	122	131	91	136	131	131
May	129.3	141	101	147	126	129	138	150	127	123	94	129	121	127
Jun	136.3	133	115	155	134	135	142	156	131	132	151	132	115	149
Jan-Mar	127.3	123	113	173	120	125	130	149	116	121	121	133	120	118
Apr-Jun	133.7	141	107	156	130	132	138	152	127	128	112	133	122	136
% Change	+ 5	+ 14	- 5½	- 9½	+ 8½	+ 6	+ 6	+ 2½	+ 9½	+ 6	- 8	- ½	+ 2	+ 15

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY COMMODITY: UNIT VALUE INDICES

Table 10

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, Not seasonally adjusted

	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Manufactures excluding erratics[h]: Total	Semi-manufactures excluding precious stones & silver(PS): Total	Chemicals	Other	Finished manufactures excluding ships, North Sea installations and aircraft (SNA): Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	206	165	166	151
1987 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
Q2	144.3	144	136	65	159	161	148	154	142	169	207	167	175	160
1988 Apr	144.3	143	135	66	159	161	148	155	143	169	208	168	174	159
May	144.3	145	135	64	159	161	148	155	142	169	207	166	175	160
Jun	144.4	144	138	65	159	161	147	153	142	170	207	166	175	160
Jan-Mar	142.6	140	128	67	157	159	146	151	142	167	203	166	173	156
Apr-Jun	144.3	144	136	65	159	161	148	154	142	169	207	167	175	160
% Change	+ 1	+ 2½	+ 6½	- 2	+ 1	+ 1½	+ 1	+ 2	0	+ 1½	+ 2	+ ½	+ 1	+ 2½

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

EXPORTS BY AREA

Table 11

(Overseas Trade Statistics basis)

£ million, fob, seasonally adjusted

	Total[k]	Developed countries: Total	European Community	Rest of W Europe	North America: Total	USA	Other	Developing countries: Total	Oil exporting Countries	Other	Centrally planned economies
1986	72834	57555	34959	6919	12075	10326	3602	13117	5491	7626	1721
1987	79852	64076	39416	7621	12993	11014	4046	13737	5222	8514	1539
1987 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
Q2	20389	16750	10600	1970	3028	2467	1151	3315	1123	2192	352
1988 Apr	6858	5543	3446	663	1050	877	384	1174	372	802	117
May	6541	5392	3521	611	902	756	357	1056	386	671	125
Jun	6990	5815	3633	696	1076	834	411	1085	365	720	109
Jan-Mar	18999	15004	8860	1704	3385	2834	1054	3183	1158	2024	396
Apr-Jun	20389	16750	10600	1970	3028	2467	1151	3315	1123	2192	352
% Change	+ 7½	+ 12	+ 20	+ 16	- 11	- 13	+ 9	+ 4	- 3	+ 8½	- 11

k See paragraph 8 Notes to Editors.

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IMPORTS BY COMMODITY

(Overseas Trade Statistics basis)

Table 12

£ million, cif, Seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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
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 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
Q2	25875	2569	1427	1281	20352	19086	6521	2278	4244	12565	1634	3023	4354	3553
1988 Apr	8481	861	478	369	6692	6354	2178	765	1412	4176	515	1006	1452	1204
May	8605	851	467	394	6812	6312	2151	723	1429	4160	502	1012	1478	1168
Jun	8789	857	483	518	6848	6421	2192	789	1403	4228	618	1005	1424	1181
Jan-Mar	24032	2540	1372	1241	18645	17726	6168	2131	4037	11558	1440	2774	3935	3409
Apr-Jun	25875	2569	1427	1281	20352	19086	6521	2278	4244	12565	1634	3023	4354	3553
% Change	+ 7½	+ 1	+ 4	+ 3	+ 9	+ 7½	+ 5½	+ 7	+ 5	+ 8½	+ 13	+ 9	+ 11	+ 4

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

IMPORTS BY COMMODITY: VOLUME INDICES

(Overseas Trade Statistics basis)

Table 13

INDICES, 1980 = 100, Seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	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 Q2	140.0	121	122	90	158	174	163	204	146	181	121	178	202	189
Q3	150.7	126	120	102	170	188	173	216	156	198	142	188	221	209
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	138	176	221	216
Q2	159.2	126	118	95	186	202	182	216	168	216	157	196	246	228
1988 Apr	156.1	128	119	82	183	201	183	224	167	213	148	195	244	228
May	158.2	126	115	87	186	201	181	208	169	215	146	198	250	224
Jun	163.4	125	120	116	187	204	182	217	167	219	178	196	245	232
Jan-Mar	147.8	128	115	88	170	187	173	204	160	196	138	176	221	216
Apr-Jun	159.2	126	118	95	186	202	182	216	168	216	157	196	246	228
% Change	+ 7½	- 1½	+ 3	+ 8½	+ 9½	+ 8	+ 5	+ 6	+ 4½	+ 10	+ 14	+ 11	+ 11	+ 6
QII/QII	+14	+4	−3	+6	+18	+16	+12	+6	+15	+19	+30	+10	+22	+21

$\underbrace{+30 \quad +10}_{+15}$

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

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IMPORTS BY COMMODITY: UNIT VALUE INDICES

Table 14

(Overseas Trade Statistics basis)

INDICES, 1980 = 100, Not seasonally adjusted

						Manufactures excluding erratics[h]								
							Semi-manufactures excluding precious stones & silver(PS)			Finished manufactures excluding ships, North Sea installations and aircraft (SNA)				
	Total	Food beverages and tobacco	Basic Materials	Fuels	Total Manufactures	Total	Total	Chemicals	Other	Total	Passenger Motor Cars	Other Consumer	Intermediate	Capital
SITC (REV 3)	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	150	138	147	134	158	185	152	163	148
1987 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	148	134	158	184	152	162	147
Q4	135.9	134	117	91	149	150	140	149	136	157	185	152	160	147
1988 Q1	135.1	136	119	83	148	151	140	148	137	159	191	153	160	149
Q2	133.8	136	121	79	147	150	142	150	138	156	193	148	158	145
1988 Apr	134.2	136	120	78	148	151	141	149	138	158	192	151	160	147
May	133.5	136	121	78	147	150	141	149	138	155	191	148	158	144
Jun	133.7	136	121	80	147	150	142	151	139	155	194	146	157	144
Jan-Mar	135.1	136	119	83	148	151	140	148	137	159	191	153	160	149
Apr-Jun	133.8	136	121	79	147	150	142	150	138	156	193	148	158	145
% Change	- 1	0	+ 1	- 5	- 1	- ½	+ 1	+ 1½	+ 1	- 1½	+ 1	- 3	- 1½	- 2½

h These are defined as ships, North Sea installations, aircraft (together comprising SITC (REV 3) 792 and 793), precious stones (667), and silver (681.1).

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

IMPORTS BY AREA

Table 15

(Overseas Trade Statistics basis)

£ million, cif, Seasonally adjusted

		Developed countries							Developing countries			
					North America							
	Total[k]	Total	European Community	Rest of W Europe	Total	USA	Other		Total	Oil exporting Countries	Other	Centrally planned economies
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 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
Q2	25875	22503	13775	3527	3161	2633	2039		3001	530	2470	493
1988 Apr	8481	7493	4619	1149	1056	886	668		951	187	764	187
May	8605	7429	4483	1213	1086	911	647		980	160	820	144
Jun	8789	7581	4673	1166	1019	835	724		1069	183	886	162
Jan-Mar	24032	20663	12699	3241	2762	2319	1961		2677	418	2259	453
Apr-Jun	25875	22503	13775	3527	3161	2633	2039		3001	530	2470	493
% Change	+ 7½	+ 9	+ 8½	+ 9	+ 14	+ 14	+ 4		+ 12	+ 27	+ 9½	+ 8½

k See paragraph 8 Notes to Editors.

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COMMODITY ANALYSIS OF VISIBLE TRADE

Table 16

(Balance of Payments basis)

£ million, seasonally adjusted

SITC (R3)	Food Beverages and Tobacco 0 + 1			Basic Materials 2 + 4			Fuels 3		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1986	5445	9196	- 3752	2109	4495	- 2386	8664	5977	+ 2687
1987	5550	9326	- 3776	2257	4965	- 2708	8748	5804	+ 2944
1986 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	1252	2351	- 1099	489	1200	- 711	1757	1180	+ 577
Q2	1427	2368	- 941	523	1236	- 714	1563	1184	+ 379

SITC (R3)	Semi Manufactures 5 + 6			Finished Manufactures 7 + 8			Total Manufactures 5 - 8		
	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance	Exports fob	Imports fob	Visible Balance
1986	20839	21406	- 568	34088	38827	- 4739	54927	60233	- 5307
1987	22503	23991	- 1488	39053	44106	- 5053	61556	68097	- 6542
1986 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	5465	6353	- 887	9463	11507	- 2044	14928	17860	- 2931
Q2	6073	6813	- 740	10225	12682	- 2457	16298	19495	- 3197

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

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CONFIDENTIAL

FROM: D W OWEN
DATE: 3 AUGUST 1988

Jim Hibberd 3/8.

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

Thanks. Noted.

cc : Sir Peter Middleton
Sir Terence Burns
Mr Sedgwick o/r
Mr Odling-Smee
Mr Pickford
Mr O'Donnell o/a
Ms Turk
Mr Davis
Mr McLaren

RECORDING OF VISIBLE AND INVISIBLE TRADE

This note summarises the work done over the past year to review the methods of recording the visible and invisible trade data.

2. Initial concerns about the visible trade data were prompted by the difficulties associated with the introduction of the single administrative document (SAD) at the beginning of this year. However, our investigation of this led us to suspect that there might be a longer standing bias in Customs' procedures towards under-recording of visible exports relative to imports. We have also been concerned for some time about problems with the DTI's method of seasonally adjusting the visible trade data.

3. The problems with recording invisibles are well known. In mid-1987, following a period of particularly large revisions to projections and estimates, we decided to commission a thorough review of the methodology. The CSO was asked to undertake this work, in consultation with relevant departments, and report to an interdepartmental group chaired by Sir Peter Middleton. A recent meeting of this group discussed papers by the CSO on invisibles together with papers by Customs and the DTI on the quality of the visibles figures.

Visibles

4. My note to you of 2 August (further copy attached) described DTI's plans to publish adjusted figures for exports which allow for timing distortions associated with the introduction of the SAD. The current position on the other major issues relating to visible trade is discussed below.

Under-recording of exports

5. Our suspicion that exports might be under-recorded relative to imports is based partly on the fact that, when resources are limited, Customs attach greater priority to the collection of revenue than the recording of exports. In order to estimate the size of the bias, Customs conduct regular surveys of under-recording and, on the basis of this, the published figures for exports include an adjustment for under-recording - typically 1-1½ per cent of total exports. We are currently awaiting the results of the first post-SAD survey, conducted in March.

6. Our main worry is that these regular surveys may be under-estimating the extent of under-recording. Customs only investigate the possibility of under-recording for a relatively small proportion of exports (those recorded under post-shipment procedures). For the remainder, under-recording is assumed to be negligible. The Customs paper addressed this issue together with the question of whether extra resources could lead to perceptible improvements in accuracy.

7. Although Customs accept that there is a risk of bias in their procedures, they do not accept that the under-recording problem could be significantly larger than is suggested by the regular surveys. This view does not seem to have been derived from a thorough review of the methodology. But it was supported by a DTI paper which argued that independent evidence - from engineering sales data and other EC countries imports from the UK - suggests that there is no serious problem with UK export data. In view of this, DTI and Customs do not feel that an attempt to make marginal improvements to the procedures would be worth the extra cost. Sir Peter Middleton's group accepted that there was no obvious way to improve the visibles figures without a large investment of resources, which might be better devoted elsewhere. Nevertheless, there remain grounds for concern about the quality of the figures, particularly exports, and it was agreed that this area should be examined closely in the current review of Government economic statistics.

Seasonality

8. In early June we sent a paper to DTI which presented a range of tests to demonstrate the existence of residual seasonality in both the import and export volume series. We have not yet received a reply, though we understand that DTI now broadly accept our case. In the April trade press notice they announced that an investigation of

alternative approaches to seasonal adjustment would take place this year. If improved methods could be found, revised figures would be published later this year, or in January 1989 at the time of the annual update of seasonal factors. Work on this is in progress at the moment and should be completed by the end of September.

Invisibles

9. Following the establishment of the working group on balance of payments statistics in June 1987, the CSO prepared a detailed programme of work to improve the invisibles statistics. The proposed tasks fell into the following broad categories:

(i) reviewing projection methods for items where preliminary quarterly estimates are not based on reliable quarterly surveys;

(ii) accelerating the processing or increasing the frequency of some surveys;

(iii) improving the methodology for using existing information;

(iv) looking at the possibility of launching new surveys.

10. In general there has been some useful progress on the first three categories, and more is planned, though our feeling is that more could still be done to improve projection methods. However, progress on new surveys has been disappointing. Progress on each of these areas is discussed briefly below.

Projection methods

11. Much of the work done over the past year has been in this area, but it is, inevitably, hard to judge whether any significant improvements have been made - only time will tell. Of the areas we identified as being particularly important, there has been some progress on projections for sea transport, civil aviation and IPD portfolio credits. But for banking services, insurance underwriting earnings, royalties and IPD earnings on direct investment (other than banks and insurance companies) - all areas where large projection errors have been made in the past - no improvements have been proposed. CSO's view seems to be that projections will always be a second best solution and we should not expect too much of them. We have urged them to maintain the momentum in this area as, in the short run at least, it

remains the best hope for significantly reducing the need for revisions.

Accelerated processing/more frequent surveys

12. The main proposals in this area were to accelerate the processing of the annual direct investment and royalties surveys, introduce quarterly reporting of insurance companies IPD earnings and consider quarterly reporting for banks services and direct investment earnings. The first three of these have been achieved - with reductions of three months in the processing time for the 1986 direct investment survey and five months for royalties and miscellaneous services. The proposals for quarterly reporting by banks are due to be considered as part of the Banking Statistical Review.

Improving methodology

13. There have been a number of small improvements and further work is planned on the important category of portfolio income debits.

New surveys

14. Three new surveys have been proposed, but little progress has yet been made on any of them. The reasons for delay were set out in a CSO paper discussed at the recent meeting of Sir Peter Middleton's group, and they are summarised below:

(i) **Comprehensive survey of securities dealers.** This should provide direct estimates of the income of securities dealers, and would fill an important gap in the statistics. The Bank is keen to press ahead with this survey but is reliant on the co-operation of securities industry. It has not been possible to persuade the Securities' Association to move quickly, but the Bank intends that the survey should be in place to provide data for 1989. One problem with the proposed survey is that it will be voluntary. If the response rate proves to be poor we may need to consider whether there is a case for making it compulsory.

(ii) **Suppliers' trade credit.** This is another important omission from the balance of payments statistics, though it is generally accepted that the major implications are for the capital account rather than the current account. Delay reflects concern that it may prove difficult to obtain sufficiently good quality data, that it would impose additional burdens on business and would amount to the reversal of a Rayner decision. Sir Peter Middleton's meeting concluded that this survey should be shelved for the time being, but that alternative methods of obtaining estimates of trade credit, based on a modelling approach, should be explored.

(iii) **Share register survey** The last such survey was conducted in 1981, so a new survey could lead to major improvements in estimates of portfolio income debits although the problem of nominee holdings could make it difficult to measure accurately the scale of overseas residents' holdings of UK shares. The CSO regard the survey as having a relatively low priority. The major problem now appears to be lack of resources. The total cost is estimated at around £100,000 and the CSO would require additional resources in future years to finance it. It was agreed that the CSO should work up a more specific proposal for consideration.

Conclusions

15. Although we remain concerned about the quality of the visible trade data, there is no obvious cost-effective way of achieving greater accuracy. However this area will be examined closely in the current review of economic statistics. It is possible that either this, or the results of the most recent Customs survey of underrecording, will indicate ways of improving the data.

16. Some useful work has been done to improve the invisibles data, and more work is planned in all the categories discussed above. But our overall impression is that the Treasury is the only institution which is showing any sense of urgency in this area. It seems likely that we will have to continue to take the lead if we want to see any significant progress in the future.

David Owen

D W OWEN

FROM: D W OWEN
DATE: 2 AUGUST 1988

Jim Hibberd 2/8/88

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

cc : Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Sedgwick o/r
Mr P J Davis

EXPORTS - ADJUSTMENTS FOR TIMING DISTORTIONS

DTI and Customs have now completed their analysis of timing distortions associated with the introduction of the single administrative document (SAD) at the beginning of 1988. They intend to publish revised figures for exports and the current account, adjusted to take account of these distortions, in the Pink Book on 24 August and in the July monthly trade press notice on the following day. The Pink Book will only include revised annual figures for 1987 but the trade press notice will show adjusted monthly figures for 1988 as well.

2. The main effect of the introduction of the SAD is thought to have been concentrated in the December to February period. The submission of export documents was accelerated at the end of December, so that some exports which would normally have been recorded in January were brought forward into the December figures. But new SAD documents were submitted more slowly than usual in January, with the result that some recorded exports were delayed until the February figures. The proposed adjustments, which are slightly smaller than those described in my note to you of 28 June (on recent trends in non-oil visible trade), are set out below:

£ million

		Exports			Current Balance	
Monthly		Published series*	Adjustment	Adjusted series	Published series*	Adjusted series
1987	Nov	6881		6881	- 525	- 525
	Dec	6817	- 200	6617	- 480	- 680
1988	Jan	6209	+ 250	6459	- 1159	- 909
	Feb	6176	- 50	6126	- 1044	- 1094
	Mar	6441		6441	- 572	- 572
Quarterly	Q4	20500	- 200	20300	- 1397	- 1597
	Q1	18826	+ 200	19026	- 2776	- 2576

* June trade figures press notice, 27 July 1988

3. The adjusted series shown above, derived by applying the proposed adjustments to the latest published figures, are included for illustrative purposes only - the figures which will eventually be published will reflect other, unrelated revisions incorporated in the Pink Book. The effect of the adjustments is to raise the current account deficit in 1987 by £200 million and reduce the cumulative deficit in 1988 by the same amount. Most of the switch is between December and January - in fact DTI have not finally decided whether to publish the -£50 million adjustment to February. (An alternative would be to set this to zero and round the January adjustment to £200 million.)

4. Although we have been involved in discussions with DTI and Customs on the effects of the SAD, we were not consulted on whether or when to publish these adjustments. However, DTI were aware of our preference for delaying publication. We feel that publication of the adjusted figures might give the impression that they are now entirely free distortions. But, in view of the problems other EC countries are still having with their trade figures, it is probably too soon to be confident about this. Furthermore, the relatively small proposed adjustments do little to ease the problem of analysing trends in exports around the turn of the year. The fall in exports in the first quarter is still very hard to explain. We strongly suspect that there are problems with the seasonal adjustment of this series and would have preferred to wait to see the results of the current DTI review of the seasonal adjustment procedures, before deciding on how to adjust the figures for SAD distortions.

5. On the other hand, we have been saying publicly for several months that the figures were distorted,and DTI feel under pressure to provide some quantification. The adjustments would be presented as similar to those made in October 1981 to take account of a speeding up of the flow of information associated with new procedures introduced at that time (see attached draft extract from the Pink Book). And, though it would be unfortunate, there would be nothing to stop DTI revising the adjustments subsequently in the light of further information.

6. I would be grateful for your reaction to the proposed publication of these adjusted figures. The CSO are not expecting to have to make any further changes to the Pink Book, so an attempt by us to remove the adjustments would not be welcome news to them. If we wanted to do this we would need to move quickly.

David Owen

D W OWEN

DRAFT EXTRACT FROM
PINK BOOK

...ding to largely offsetting changes to both exports and imports. However, the conceptual basis of the balance of payments figures is not affected by this change in presentation. To achieve the coverage required for balance of payments purposes, as well as the trade in finished manufactures in the *Overseas Trade Statistics* , an adjustment is now made to exports to include the value added in refining gold and in the production of proof coins, and to imports to cover the value of gold used for finished manufactures. The import adjustment is based on commercial statistics on hallmarking of gold items (published by the Assay Offices of Great Britain) and gold used in other finished forms (e.g. electronics, dentistry; published by Consolidated Gold Fields plc). Other transactions in gold with overseas residents, predominantly those involving bullion, bullion coins and semi-manufactured gold items (e.g. bars, rods, etc) are regarded as being in gold held as a financial asset and are recorded in capital transactions (see section 8).

Exports by letter post. The *Overseas Trade Statistics* do not include exports from the United Kingdom by letter post. Information about the most important element of this trade, the export of books, is obtained from publishers and retail and wholesale booksellers. Other details are derived from a sample inquiry made by the Post Office.

Additions and alterations to ships. Certain work carried out on UK-owned and registered ships in foreign yards, and on overseas-owned ships in UK yards, comprises additions and alterations rather than repairs. Such work is properly regarded as a component of visible trade. For work on UK-owned ships an estimate is obtained from the quarterly inquiry on capital expenditure carried out by the Department of Trade and Industry; this estimate is an addition to the imports figure. An estimate for the work on overseas-owned ships is derived by the Department of Trade and Industry from various enquiries.

Forces parcels. Parcels sent to and by UK forces overseas are recorded in the *Overseas Trade Statistics*.Since the forces are UK residents (as defined - see page 5) theses parcels should be excluded for balance of payments purposes. The figures to be deducted are based on returns giving the numbers of such parcels. The average value per parcel is obtained from sample checks.

North Sea installations. Some goods imported directly from overseas to UK production sites in the North Sea are omitted from the *Overseas Trade Statistics*. In addition it is sometimes necessary to make revisions to the value of imported installations recorded in the *Overseas Trade Statistics*. The information to make these coverage and valuation adjustments is obtained from quarterly inquiries of the petroleum and natural gas industry. Included within the adjustments are drilling rigs delivered abroad and not included in the *Overseas Trade Statistics*, details of which are obtained from the same sources as for second-hand ships.

Three of the North Sea oil fields, Frigg, Murchison and Statfjord lie in both UK and non-UK waters. Trade involving these fields is allocated according to determinations of the respective shares of oil reserves. Thus only the United Kingdom share of the value of goods delivered to any one of these fields from a foreign country will normally be included as an import: similarly only the non-United Kingdom share of goods delivered from the United Kingdom to one of the fields will be counted as an export. (A similar procedure is followed for other balance of payments transactions.) Occasionally there is a re-determination of the resources of a shared field. In these circumstances the contribution to (or reimbursement of) a proportion of the development costs has been treated as a purchase (or sale) of fixed assets at the date of the re-determination and appears as an adjustment to imports (or exports) of goods.

An adjustment to UK exports in 1976 has been made in respect of exports of pipe for one of the two pipelines from the Frigg field to the United Kingdom. The field is in both UK and Norwegian waters and one pipeline is treated as being in Norwegian ownership and the second as being in United Kingdom ownership. *Miscellaneous*

This includes a variety of ad hoc adjustments. In particular, the figure for 1987 includes the reduction (of £200 million) mentioned under 'Timing basis of the figures', below.

Recording of exports

Some exporters and agents fail to submit their documents or record incorrect valuations. It is possible on a sample basis to check the customs documents against pre-shipment documentation, and to check the valuations recorded on the documents against invoices. Regular assessments of the quality of recording are made, resulting in the net adjustments shown. Before October 1981 the adjustments for missing documents were estimated from a comparision of customs documents with ship and aircraft manifests.

Total allowances for under recording are allocated to the individual lines in Tables 2.2 and 2.3 *pro rata* to the reported values of exports.

Timing basis of the figures

To achieve consistency with the basis for estimating other countries' external transactions - and the estimates of domestic transactions given in the national accounts - exports and imports of goods should be recorded at the time when the ownership of the goods change.

The compilation of the *Overseas Trade Statistics* is geared to the declarations made by exporters and importers which are received in the statistical office of HM Customs and Excise.

Exporters provide some information before the goods are shipped. Except where revenue or restricted goods are concerned, exporters registered with Customs have the option of providing the full details when they present the goods for shipment (export pre-entry) or of using the Simplified Clearance Procedure (SCP). Under SCP, provided a suitable pre-shipment advice has been presented in lieu of the export entry, a detailed export declaration must be sent within fourteen days of shipment directly to the statistical office.

Before 1 October 1981, registered traders were normally allowed fourteen days after shipment before a completed export document had to be presented at the ports, and there was a further interval before copies reached the statistical office. Adjustments were introduced to take account on this recording of exports of this speeding up in the flow of export information in October 1981. A similar adjustment has been made for 1987, to reflect the temporary reduction in the interval between shipment and receipt of documents which occured in anticipation of the introduction of new recording and classification procedures in January 1988.

Monthly processing of the export statistics begins a few days before the end of the calendar month. Thus the figures for any calander month relate on average to goods passing through the ports in a monthly period ending about the middle of that calendar month.

Importers are usually required to present their documents before they can obtain customs clearance and remove the goods. Moreover, the monthly total for imports includes those recorded in documents relating to the month which reach the statistical office up to the third working day after the end of the month. Thus the imports statistics correspond closely to movements through the ports during the calendar month.

Geographical analysis

The analysis given in Table 2.2 of visible trade between the United Kingdom and major economic groupings is based on the *Overseas Trade Statistics* which, apart from a small amount conveyed in low value consignments (in 1987 consignments of less than £475 in value each), are classified by country in detail.

dti
the department for Enterprise

MP

SECRET AND PERSONAL until release of press notice on 25 August 1988 at 11.30 am and thereafter unclassified

To: MINISTER FOR TRADE Copy No....3...(28)

From: P J STIBBARD
US/S2
V/260
215 4872

17 August 1988

OVERSEAS TRADE FIGURES FOR JULY: EXPORTS

1 The value of exports in July, seasonally adjusted on a balance of payments basis, is estimated at £6.8 billion, the same as in June. Exports of oil fell by £0.1 billion and exports of the erratic items by £0.2 billion; excluding oil and the erratic items exports rose by 4½ per cent between June and July.

2 In the three months ending July the total value of exports increased by 3½ per cent compared with the previous three months; excluding oil and the erratic items the increase was 5 per cent.

3 In the three months ending July, total export volume was 1 per cent higher than in the previous three months and 3½ per cent higher than in the same period a year ago. Excluding oil and the erratic items export volume was 4½ per cent higher in the latest three months and 5½ per cent higher than a year earlier. The underlying level of exports appears to have exceeded the high levels reached at 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 Friday 19 August. The press notice is scheduled for release on Thursday 25 August.

P J STIBBARD

ENC

888-273

SECRET and PERSONAL until release of press notice
on 25 AUG 88 at 11.30am and thereafter unclassified Copy No...( )

EXPORTS

(Balance of payments basis: seasonally adjusted)

		---TOTAL TRADE---		EXCLUDING ---OIL AND ERRATICS--	
		VALUE £m	VOLUME (1985=100)	VALUE £m	VOLUME (1985=100)
1987	Q2	19357	106.2	15893	106.6
	Q3	20234	109.2	16700	111.7
	Q4	20300	111.9	16609	111.2
1988	Q1	19019	106.5	16154	107.7
	Q2	20238	111.1	17050	112.7
1988	FEB	6171	103.6	5196	103.8
	MAR	6443	107.5	5457	108.4
	APR	6857	113.3	5773	114.2
	MAY	6543	108.0	5571	111.3
	JUN	6837	111.8	5706	112.7
	JUL	6775	108.1	5965	117.3

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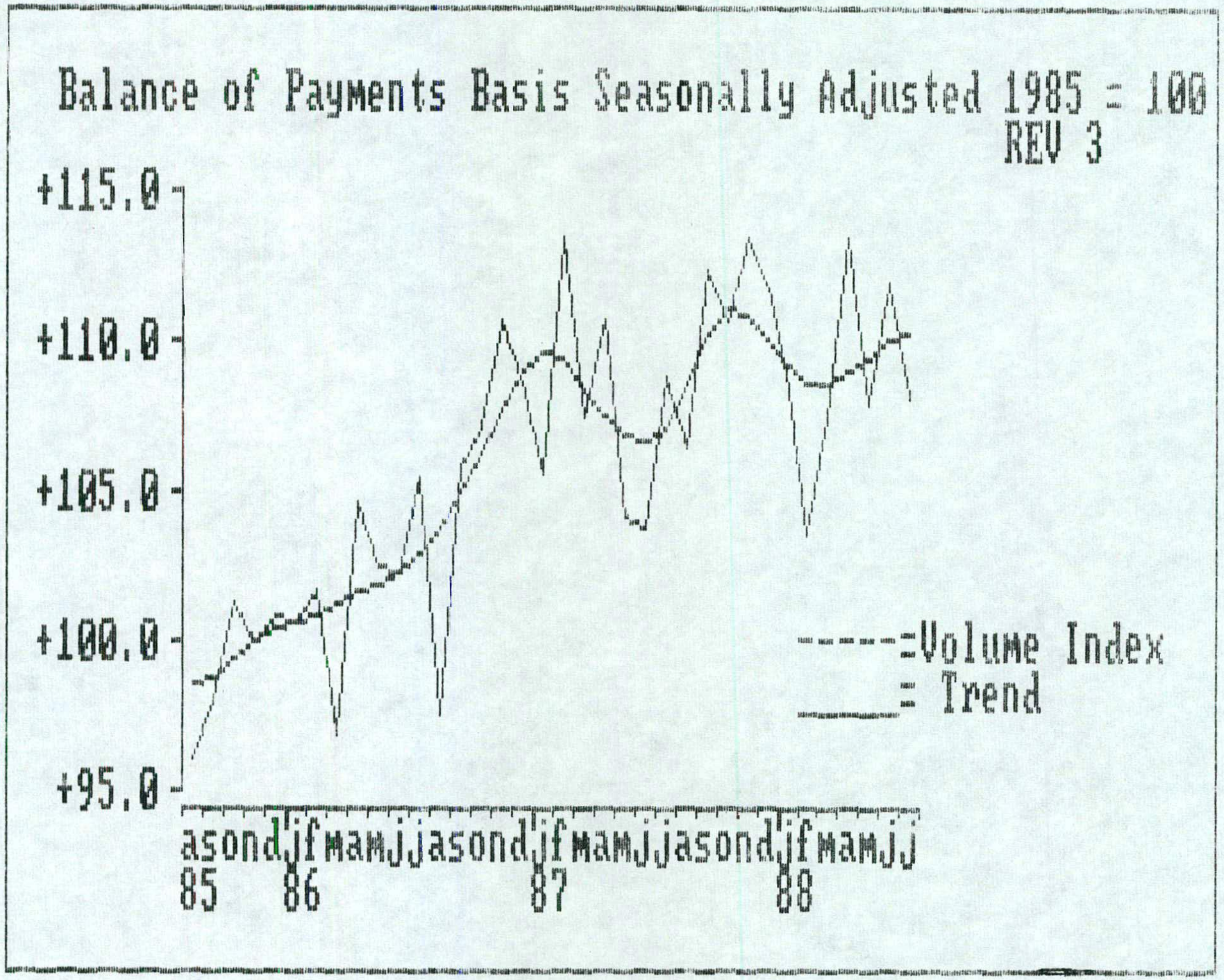
TOTAL EXPORTS



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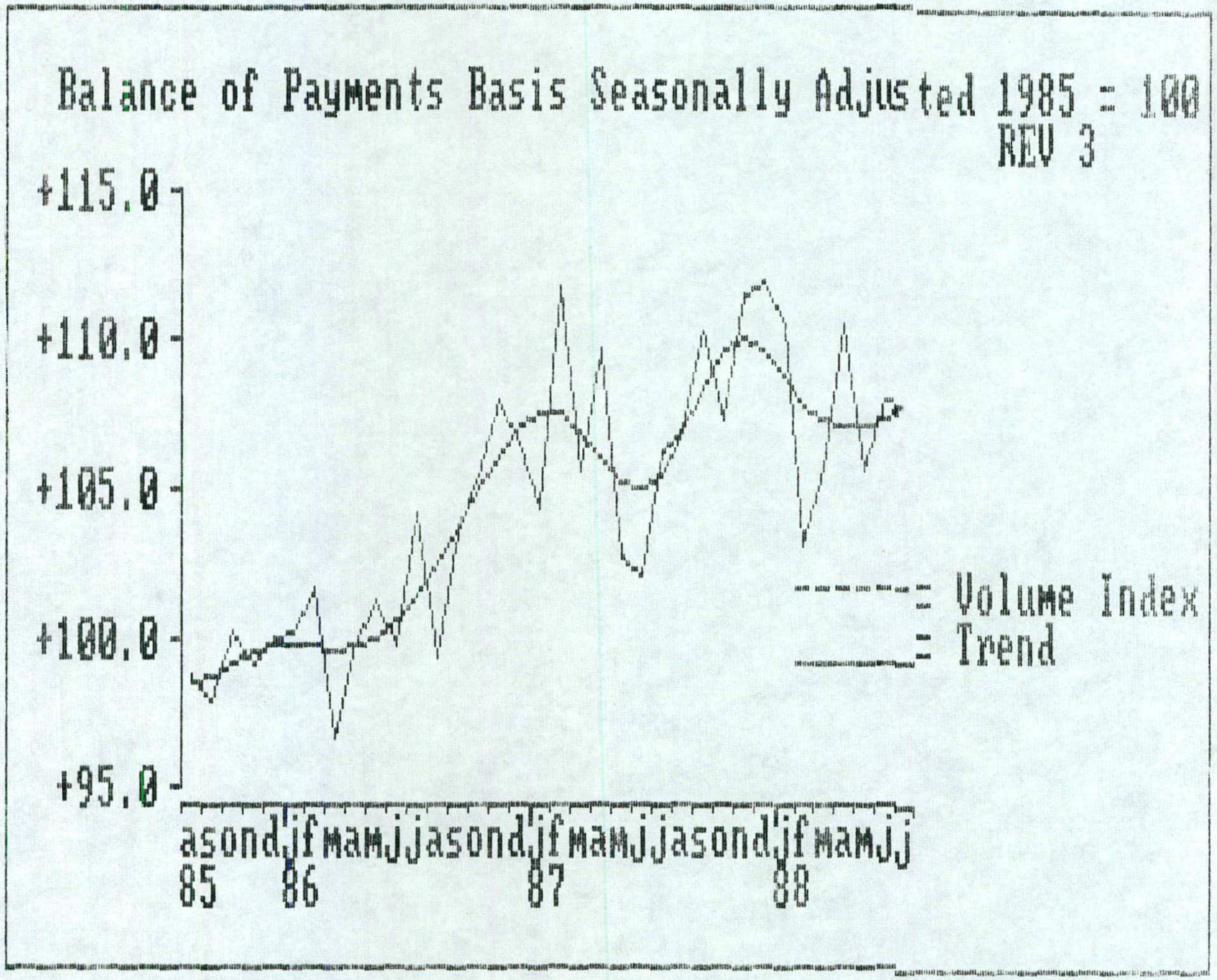
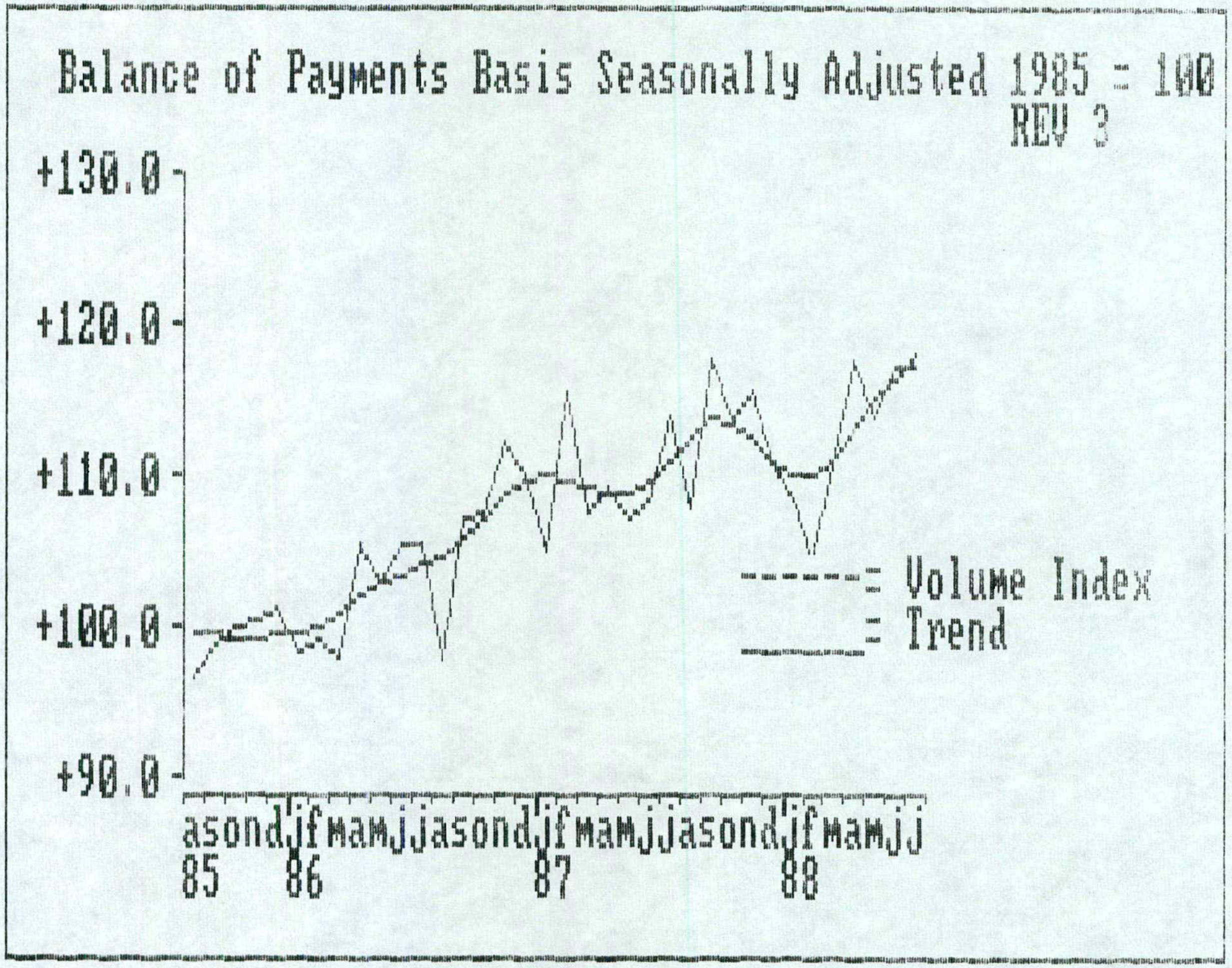
EXPORTS LESS ERRATICS (Ships, N Sea Rigs, Aircraft, Prec Stones, Silver)



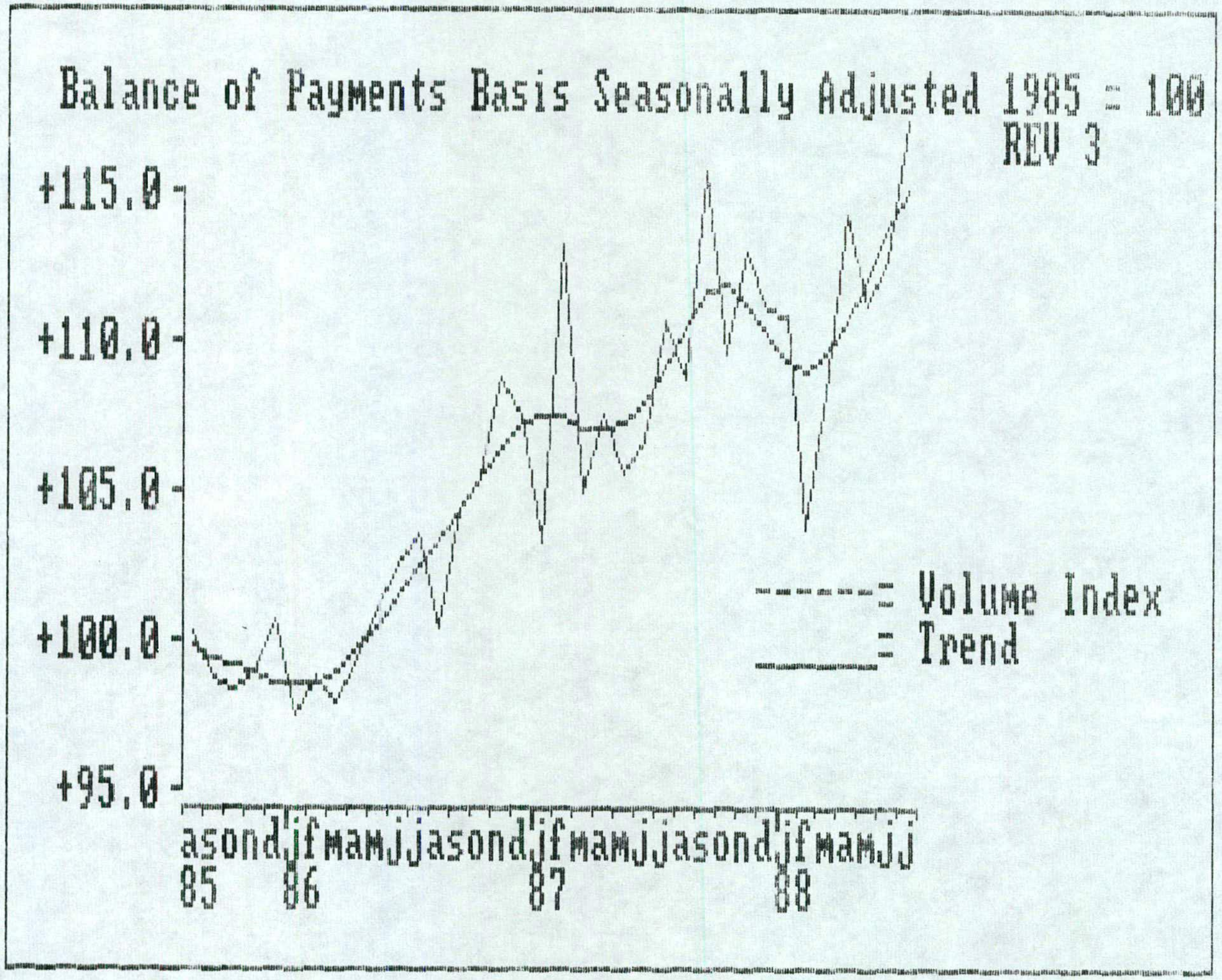
SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 AUG 88

EXPORTS LESS OIL



SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 AUG 88

EXPORTS LESS ERRATICS AND OIL



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 (H M Treasury)
	9	Governor of the Bank of England
	10	Chairman of the Board of H M Customs & Excise
	11	Mr J Hibbert (CSO)
	12	Mr M J Pratt (H M Customs & Excise)
	13	Mr B Buckingham (CSO)
	14	Mr Davies (H M Treasury)
	15	Mr P Sedgwick (H M Treasury)
	16	Mr A McIntyre (CSO)
	17	Mr D Wilson (Dept of Energy)
	18	Mr J Hibberd (H M Treasury)
	19	Mr H H Liesner)
	20	Mr P J Stibbard)
	21	Mr W E Boyd)
	22	Mr E J Wright)
	23	Mrs A Brueton) Dept of Trade and Industry
	24	Miss H Chapman)
	25	Mr Cottis)
	26	Mr C Martin)
	27	Mr Wright, Bank of England
	28	File

Pmp

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF
5803

Telephone Direct Line 01-273 ....
Switchboard 01-273 3000 Telex 915564
GTN Code 273 Facsimile 01-273 5124

Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

17 August 1988

Dear Paul

RETAIL PRICES INDEX

... I enclose a copy of our note and draft press release on the Index of Retail Prices due to be released at 11.30 pm on Friday 19 August.

Numbered copies also go to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Neil Thornton (Trade and Industry), Sir Brian Hayes (Trade and Industry), Andrea Large (CSO), John Footman (Bank of England), and Paul Cuthbert-Brown (CO).

Sincerely
Beverley

BEVERLEY EVANS
Private Secretary

SECRET AND PERSONAL

FROM: P N SEDGWICK

DATE: 18 August 1988

PS/CHANCELLOR

cc PS/Paymaster General
Mr Peretz
Mr Owen

THE JULY TRADE FIGURES

The present estimate for the current account deficit for July is £2.1b. This could change by a few hundred million either way. My impression is that there is a slightly higher probability of the deficit being revised up than down. DTI will circulate a note in the course of tomorrow afternoon with the figure to be published. (This will go to No. 10 as well as to DTI and Treasury Ministers and officials). It is quite possible that DTI Ministers will not know the current account figure until tomorrow.

2. With exports little changed from the June level the further deterioration in the current account is the result of a major surge in imports. DTI do not yet have a commodity breakdown of imports in July. Their impression is that the rise since June is broadly based. I will be going over the figures with DTI statisticians tomorrow morning when the commodity breakdown will be available. I will also see whether there are any special factors or distortions in the figures. At the moment there are no obvious quirks. (Some Tornado engines have come back for repair from the Middle East: these score as imports now and will be classified as exports when they return to the Middle East. This "distortion" is not, however, very high.) After we have crawled over the numbers DTI statisticians will draft their note for circulation to Ministers in the afternoon.

3. A current account deficit of £2.1b in July would take the cumulative deficit for the first seven months of 1988 to £7¾ or a little more (depending on the extent of revisions, particularly downward revisions in the balance on invisibles, for earlier months). As a percentage of money GDP the cumulative deficit so far is about 3 per cent (and - for what it is worth the July deficit about 5½ per cent).

4. The July deficit is the largest for a single month ever recorded in current prices. The January deficit of £1.15b was the previous highest. As a percentage of GDP only the deficit for November 1974 - a year when the current account was 4 per cent of GDP, the highest annual deficit ever - compares with the July figure . (The November 1974 deficit was just under 5½ per cent of GDP). It will be difficult to deny therefore that the July figure is the worst ever monthly deficit.

5. At this stage it is difficult to extract any good news, or even mitigating factors, for the recent run of figures, and those for July in particular. One positive factor is that - subject to short term fluctuations which probably mainly reflect measurement errors - export volumes have over time continued to rise fairly strongly. I attach the DTI chart for exports less oil. (I do not share the DTI passion for excluding "erratics" as well, a significant proportion of which are military sales, when assessing trends over a few years.)

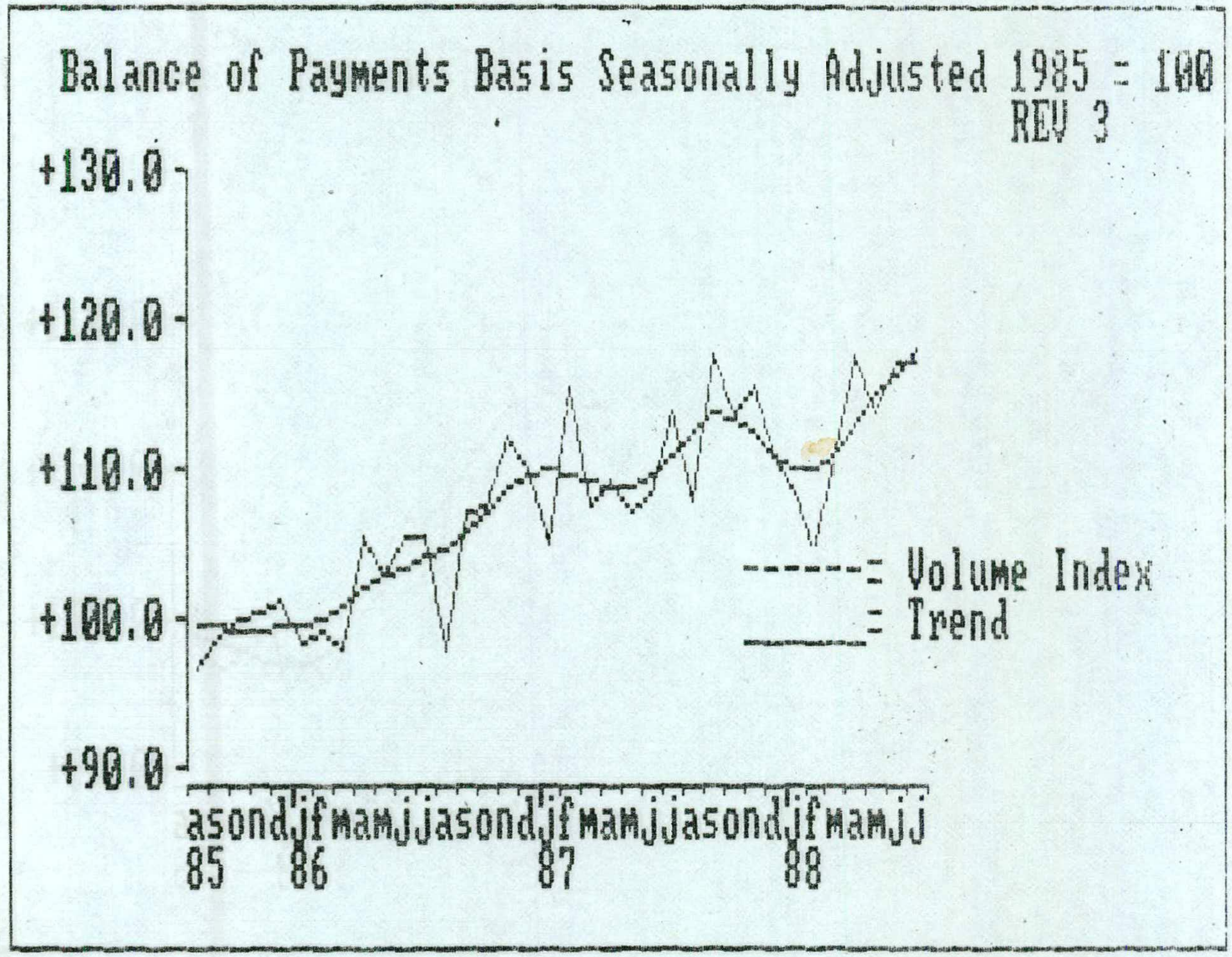
5. Dwelling on the reasonable performance of exports does not alter the fact that imports have been rising at a tremendous pace. Commentators will take this rise as further evidence of excessive growth of domestic demand in the UK. We may be able to show that some of the surge in recorded seasonally adjusted imports <u>during</u> this year, eg. of cars, represents inadequate seasonal adjustment. But it will be difficult to establish that a moderation in imports is likely <u>soon</u>, and even if some additonal adjustments were made to the published (seasonally adjusted figures) these would not disguising the very high growth in imports between this year and last.

P.N.S

P N SEDGWICK

SECRET AND PERSONAL UNTIL RELEASE OF PRESS NOTICE ON 25 AUG 88

EXPORTS LESS OIL



SECRET AND PERSONAL

Reference ....

Ms. Wallace

(i) Please remember that DTI ministers probably do not know these figures. I should hate them to find out from us.

(ii) I have had a long talk with Terry Burns (who rang me just now). He will ring the Chancellor later tonight. You might let the Chancellor know.

(iii) I am going to a late lunch and will not be back until c. 3PM! Could you let me know any reactions from the Chancellor & how he wants to handle discussion of these numbers (if he expresses any views).

P.N.S

18.8.88

CODE 18-78

SECRET AND PERSONAL

FROM: P N SEDGWICK

DATE: 18 August 1988

PS/CHANCELLOR

cc PS/Paymaster General
Mr Peretz
Mr Owen

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P.N.S

P N SEDGWICK

ea.eh/docs/pns.LJB.2

SECRET AND PERSONAL

FROM: P N SEDGWICK

DATE: 17 AUGUST 1988

PS/CHANCELLOR

M.

Spare for you

cc PS/PMG
Sir P Middleton - o/r
Sir T Burns - o/r
Sir G Littler - o/r
Mr Peretz
Mr Owen

RECENT ECONOMIC STATISTICS

1. The three weeks from mid-August see the publication of a greater volume of important statistics on economic performance than at any other time of the year. In addition to the regular monthly statistics there will be quarterly figures on GDP(0), and publication of the Pink and Blue books which will hopefully present a much more coherent picture of recent years.

2. We still do not have even first indications of many of the important numbers. My provisional impression, based on the numbers I know about, is that virtually all of them confirm that demand pressures are significantly stronger than envisaged at budget time. If anything the latest numbers suggest a greater divergence from budget expectations than we were contemplating during July. This looks like being especially true of the current account.

3. I summarise below what I know of the statistics.

	Publication Date	Indicator	
Already Published	August 15	Retail Sales	Provisional 2% rise in volume in July to a level 6½% higher than in July '87. Revised (but unpublished) CSO calculations show consumers' expenditure flat between 1988Q1 and Q2, but at a level 6% higher than in the first half of 1987. There had also been some pause in the growth of the volume in retail

			sales during recent months. The provisional July figure has convinced the press and commentators that retail sales are again growing strongly. Data on car registrations (see below) suggest that the new car component of consumers' expenditure has risen sharply.
	August 15	Index of production	Manufacturing output 7 per cent higher than a year earlier in last 3 months. The "dip" in 1988Q1, that exercised - and misled - us earlier in the year, is now much less pronounced following upward revisions to earlier months.
	August 16	Car registrations (figures appeared in an FT article but not officially published)	SMMT figures for the first ten days of August were well up on the same period last year. Registrations in the period from January 1 - August 10 1988 were 12¾ per cent higher than in the same period a year earlier. The import share rose to 55 per cent in the January to July period, and was 60 per cent for the crucial August 1-10 period, compared with 55 per cent in the first 10 days of August last year.
	August 16	PSBR	PSDR of £1.7b. in July. Tax revenues (including VAT on imports) very bouyant. Lower central Government expenditure so far this year than we had been expecting.
<u>To be Published</u>	August 18	Labour market statistics	Seasonally adjusted unemployment down 59,000 in July, one of the largest monthly falls ever recorded. Average earnings growth steady at 8½% for the whole economy. Average earnings growth in manufacturing edged up to 9%. In manufacturing productivity growth high (7.2 per cent in year to 1988Q2) and unit wage costs growth low (1.4 per cent in year to 1988Q2).
	August 18	Capital expenditure & stocks in 1988Q2	I do not yet have figures for all sectors of the economy. Investment in <u>manufacturing, construction, distribution, and financial industries</u> was 11 per cent higher in 1988Q2 than a year earlier. (First estimates of investment data are not

		always good indicators of what has been happening.)
		First estimates show stockbuilding in the retail and wholesale sectors to be higher in 1988Q2 than in Q1. The numbers do not do much to explain the recent surge in imports.
August 18	Provisional money numbers for July	(Mr Peretz is briefing separately on these.)
August 19	RPI	<u>Total</u> RPI inflation 4.8 per cent in July (budget profile 4.2); likely to be over 5½ per cent in August (budget profile 4.3). RPI inflation <u>less MIP's</u> 5.0 per cent in July (budget profile 4.2). These RPI numbers are very close to our predictions in the "faster interest rate rise" variant of the June forecast.
August 23	GDP(0) for 1988Q2	We do not have the complete figures yet. Output of the production industries (36 per cent of GDP(0)) up 1¼ per cent in 1988Q2 to a level 4½ per cent higher than a year earlier. Construction output growth in the year to 1988Q2 unlikely to be lower than the 10 per cent recorded for Q1.
August 24	Balance of payments pink book	Current account deficit of £2.5b in 1987, £0.9b worse than previously estimated. Revision half and half on visibles and invisibles. This will probably lead to a small downward adjustment to balance of invisibles in 1988Q1 in August 25 press notice. The "projection" of the invisibles balance used for 1988Q2 and Q3 will probably not change at this stage.
August 25	Monthly trade figures for July	A very large deficit seems likely, quite possibly considerably above the levels recorded for May and June. Exports fell a little from the high June level, but there appears to have been another large surge in imports. We do not have final figures or full details so this picture could change. (Changes of a few hundred million can occur at this stage if, for instance, there has been double counting of large items.) I hope to have near final numbers by tomorrow (Thursday) evening. If the deficit is very large I will go over the numbers in detail with the DTI statisticians (either on Thursday, if the numbers are ready by then, or

-2.1 billion ± 100m
not DTI
abs rec
higher
crawl over figs tom
exports here ✓ here
imports
DTI don't know
No 10 will know

		Friday). There are, however, no obvious factors - such as the introduction of the SAD in January - that give rise to suspicions that the numbers in July are more than usually subject to measurement error. It is worth noting that is has been customary in the recent past to have a surge in imports and poor current account numbers at some time in the third quarter. But in the last two years it has been the <u>August</u> current account deficit that has been the least favourable for the year. (NB DTI Ministers know nothing at this stage about the figures for the current account as a whole, though they have a note on exports. It is important that they do not find out about the figures from the Treasury.
August 30	Monthly CBI trends	Not known
September 9	National Income Blue Book	The figures should be available later this week. The constant price data will for the first time be at 1985 prices. We will be looking for a significant reduction in the major inconsistencies in the figures for the last few years. I understand that the residual error for the recent past is apparently substantially lower, partly through lower GDP(I) and partly through higher GDP(E).

P.N.S

P N SEDGWICK

100

... All-items 10½ Fiscal M I.

		FSBR	June	Variant	Actual	~~FSBR~~	~~FSBR~~	June	Actual
J		3.3	3.3						
F		[illegible]	3.3						
M		[illegible]	3.5						
April	3.6	[illegible]	3.9		3.9		3.9		4.2
May	3.9	[illegible]	4.2		4.2		3.9		4.4
June	4.2	[illegible]	4.5	4.5	4.6		4.1	4.7	4.7
July		4.2	4.7	4.7			4.2	4.9	
Aug		4.3	5.1	5.7			4.2	4.9	
Sept		4.2	5.1	5.7			4.2	4.9	
Oct		4.0	5.0	5.5			3.9	4.6	
Nov		3.8	4.8	5.2		3.8	3.7	4.4	4.5
Dec		4.2	5.2	5.9			3.8	4.4	
Jan			5.6	5.9				4.5	
Feb			5.9	6.2				4.9	
March			5.9	6.2				4.9	
April			6.1	6.1					
May			6.2	6.2					
June			6.3	6.3					
July			6.4	6.4					
Aug			6.0	5.3					
Sept			6.0	5.3					

~~M0~~ ·· ··

~~RPI~~
~~Aug~~
~~Sept~~
~~Oct~~
~~Nov~~
~~Dec~~
~~Jan~~

M0

	JUNE ADJ	VARIANT	OUT-TURN
June	–		7·3
July	6·4	6·4	
Aug	6·3	6·3	
Sept	5·7	5·6	
Oct	5·2	5·0	
Nov	5·2	4·9	
Dec	4·7	4·2	
Jan	4·7	4·1	
Feb	5·0	4·3	
March	4·5	3·8	

SECRET AND PERSONAL

pmg

FROM: Ms K ELLIMAN
DATE: 19 August 1988

MR P N SEDGWICK

cc PS/Chancellor
Mr Peretz
Mr Owen

THE JULY TRADE FIGURES

The Paymaster General has seen your minute of 18 August to PS/Chancellor. He has commented there was an interesting letter to the Financial Times from a man at Goldman Sachs about the relative capital v consumer content, which would be worth analysis/comment, since it invalidated part of our defence about the investment programme.

Kim Elliman

KIM ELLIMAN
Private Secretary

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON
FRIDAY 19 AUGUST 1988

125/88

August 19, 1988

GENERAL INDEX OF RETAIL PRICES
July 1988

The general index of retail prices for all items for July 19, 1988 was 106.7 (January 13, 1987 = 100). This represents an increase of 0.1 per cent on June 1988 and an increase of 4.8 per cent on July 1987.

The rise in the index between June and July was mainly the result of higher prices for motor vehicle purchase and insurance, non-seasonal food and for electricity and gas (as the final tranches of the recent price increases were reflected in the index). As is usual for the season, fresh food prices were lower and there were summer sale price reductions for clothing and footwear.

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

Table 1.

	All items				All items except seasonal food		
	Index Jan 13 1987 = 100	Percentage change over 1 month	6 months	12 months	Index Jan 13 1987 = 100	Percentage change over 1 month	6 months
1988							
February	103.7	+0.4	+1.6	+3.3	103.6	+0.3	+1.4
March	104.1	+0.4	+1.7	+3.5	104.0	+0.4	+1.4
April	105.8	+1.6	+2.8	+3.9	105.7	+1.6	+2.5
May	106.2	+0.4	+2.7	+4.2	106.1	+0.4	+2.4
June	106.6	+0.4	+3.2	+4.6	106.6	+0.5	+3.2
July	106.7	+0.1	+3.3	+4.8	106.9	+0.3	+3.5

TABLE 2

	Indices (13 January 1987 = 100)		
	June 14, 1988	July 19, 1988	Percentage change over the month
All items	106.6	106.7	+0.1
All items excluding Food	106.9	107.2	+0.3
All items excluding Housing	105.9	106.0	+0.1
Food	104.8	104.0	-0.8
Seasonal Food	105.3	97.9	-7.0
Non seasonal Food	104,7	105.0	+0.3
Catering	109.5	109.7	+0.2
Alcoholic Drink	106.8	107.1	+0.3
Tobacco	103.6	103.4	-0.2
Housing	109.8	110.2	+0.4
Fuel and Light	102.4	103.6	+1.2
Household Goods	105.6	105.9	+0.3
Household Services	106.2	107.1	+0.8
Clothing and Footwear	105.3	103.3	-1.9
Personal Goods and Services	106.6	107.1	+0.5
Motoring Expenditure	108.2	109.2	+0.9
Fares and Other Travel Costs	106.9	107.9	+0.9
Leisure Goods	104.2	104.4	+0.2
Leisure Services	108.4	108.3	-0.1

NOTES TO EDITORS

1 As reported by the Secretary of State for Employment on December 11, 1987, it has been discovered that from February 1986 to October 1987 a computer program error affected the monthly index. The official figures are always stated to one decimal place and the extent of the understatement of index levels will depend on rounding. The all items index figures for February 1986 to January 1987 will be understated by about 0.06 per cent; the index figure for January 1987 taking January 1974 as 100 was 394.5. The index figures for February to October 1987 were affected by an error about 0.09 per cent. In most months this will have resulted, with rounding, to an understatement of 0.1 points in the published figures which take January 1987 as 100. However, because the January index link, 394.5, was understated the understatements relative to January 1986 may have rounded to 0.1 or 0.2 per cent.

2 The General Index of Retail Prices (RP1) measures the average change from month to month in the prices of goods and services purchased by most households in the United Kingdom. The expenditure pattern on which the index is based is revised each year using information from the Family Expenditure Survey. The expenditure of certain higher income households and pensioner households, mainly dependent on state pensions and benefits, is excluded.

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

4 The prices of some items of food show significant seasonal variation. A separate price index is compiled for these "seasonal foods", the expenditure on which accounts for around 2½ per cent of household expenditure. The variation caused by these items is removed from the series of indices for 'all items except seasonal food'.

5 Rates of change of indices can be calculated over periods of any length. Rates calculated over long periods are slow to detect changes in trend while calculations over very short periods give rather volatile results. To help in assessing what is happening to prices, rates of changes in the all items index and the index for all items except seasonal food are shown in Table 1 over successive periods of one month, six months and twelve months.

6 Following the recommendations which the Retail Prices Index Advisory Committee made in its report submitted to the Secretary of State for Employment in July 1986, the index has been re-referenced to make January 1987 = 100. Calculations of movements in the index over periods of time which span January 1987 are made as follows:-

For example, to find the percentage change in the Index for all items between June 1986 and October 1987. Take the index for October 1987 (102.9), multiply it by the January 1987 index on the 1974 base (394.5), then divide by the June 1986 index (385.8). Substract 100 from the result and this will show that the index increased by 5.2 per cent between those months.

7 Other changes made to the index in 1987 are given in an article in the April 1987 edition of Employment Gazette.

8 The Retail Prices Index Advisory Committee was first established in 1946 and advises on the methodology used for compiling the RPI. Committee members include representatives of consumers, employees, employers, retailing organisations, academic experts, government departments and other official bodies. The Committee's latest report - 'Methodological Issues Affecting The Retail Prices Index' Cmnd 9848 HMSO £6.50 - was published on 15 July 1986. The Government announced at the same time that all its recommendations were to be accepted.

9 The housing costs of owner-occupiers are reflected in the index using an indicator which represents mortgage interest payments. A weighted average of building societies base mortgage interest rates is used in the calculation.

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

IEA Press Release

INSTITUTE OF ECONOMIC AFFAIRS 2 LORD NORTH STREET WESTMINSTER LONDON SW1P 3LB

Embargo: 0001 Monday 22 August 1988

TIGHTER CONSTRAINTS ON GOVERNMENTS NEEDED

Invisible Hand less benign in politics than economics

Socialists, unlike most bishops, now claim to favour markets, freedom of choice, competition and the rights of the consumer. However, because of inequality, market imperfections such as the alleged monopoly power of large corporations, exploitation of workers, ignorance of consumers and the persistence of economic privileges, they claim that the market system must always be corrected by the state in accordance with some ideal plan of the efficient co-ordination of human activities.

In a new Hobart Paper published today Professor Norman Barry says that a proper understanding of the market process reveals that competition is continually correcting those errors the socialists locate. He argues that the intellectual's fascination with the theoretical model of an economy in 'perfect equilibrium' has distracted attention away from the study of real world markets which, although they are often messy and imperfect, are the only mechanisms capable of coping with change and uncertainty: those permanent features of social life.[1]

State imposed economic schemes, eg Keynesian macro-economics and extensive welfare state organisations, in fact disrupt

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[1] The Invisible Hand in Economics and Politics, Hobart Paper 111, £6.50 + 50p p & p from IEA, 2 Lord North Street, London SW1P 3LB.

The Institute of Economic Affairs is an independent research and educational trust founded in 1955.
Tel: 01-799 3745 Fax: 01-799 2137

the self-correcting process. The Invisible Hand of the Market works better than the Visible Hand of the State: price signals co-ordinate quicker and more effectively human activities than do bureacratic regulations. The political process tends to favour established and powerful interest groups, rather than the interests of the anonymous public. Competitive market processes are the greatest threat to privilege. Markets work better in a framework of strict constitutional rules and the enforcement of equal and impartial rules of law. This institutional framework widens the scope of human liberty: an essential requirement for that continual experimentation and innovation on which economic progress depends.

"The important difference between the market process and the political process is that the Invisible Hand produces less benign consequences in the political process. The important reasons for the difference is that there is no **immediate** budget constraint in politics, so that political action through representative institutions such as British Parliaments can impose burdens on the citizen that no individual who stands to lose has a strong enough motive to oppose and prevent. The unwelcome result is that the strong influence of group interests on politics in British and other Western societies has almost made them exempt from the rule of law and created departures from economic rationality that have undermined the public interest. The lax constitutional control of temporary legislatures in most Western democracies has permitted if not incited an enervating 'politicisation' of economic life", Professor Barry says.

"The conclusion is that the form of politics most consonant with the preservation of a free society is that produced by 'constitutional politics'. The actions of government must be limited by much stricter rules than are applied now, so that government requires wider popular consent for the application of its powers."

For further information: Norman Barry 0280 814080 (office)
0908 73929 (home)

Covering SECRET AND PERSONAL

FROM: PAUL DAVIS

DATE: 22 AUGUST 1988

P.N.J
22.viii.88

1. MR SEDGWICK
2. CHANCELLOR OF THE EXCHEQUER

Thanks. Any comments?

cc: Sir P Middleton or
Sir T Burns
Mr. Peretz
Mr Bush
Mr Owen
Ms Turk

JULY TRADE FIGURES

I attach draft press briefing for IDT for which I would appreciate clearance. The usual note on the trade figures will follow shortly.

PAUL DAVIS
EA2 Division

Ch/ This is very much a first shot, I think. I've kept a copy, so you can phone through comments.

MPW
22/8

[NB * DTI press notice behind]

SECRET AND PERSONAL UNTIL 25 AUGUST AT 11.30 AM stability financeable
THEN UNCLASSIFIED

DRAFT BRIEFING FOR IDT ON JULY TRADE FIGURES

Line to take

Exports (net of oil & erratics) at all-time record levels. Deficit swollen by rapid rise in imports caused by unsustainable growth of domestic demand.

- ~~With a tight policy stance it should be possible to finance the current account deficit.~~ Measures taken to curb domestic demand growth will in due course bring down deficit. Meanwhile, deficit

- With the public sector in surplus, the current account deficit ~~at present~~ reflects private sector behaviour. This contrasts with earlier deficits which reflected unsustainable public sector borrowing. No rule that current account sh[oul]d be in balance.

~~To the extent that the deficit reflects~~

- ~~The deficit in part reflects confidence in the UK economy and prospects for investment in it.~~

~~Exports (net of oil and erratics) at all time record levels.~~

- ~~The deficit will be reversed in time as increased production in the future raises exports and displaces imports, while private sector savings return to more normal levels.~~

- The recent tightening of monetary policy demonstrates that the Government will take no risks with inflation. ~~and will not stand by to watch sterling depreciate.~~ The recent trade figures do not reflect the full effects of the recent tightening.

See also ms line to take

Positive

(i) Manufacturing industry continues to perform well. In three months to July, exports of manufactures (less erratics) 5½ per cent higher than a year earlier, while output up 7 per cent in second quarter on a year earlier.

(ii) CBI July quarterly industrial trends survey showed rise in export optimism. Larger balance of firms expect orders and deliveries to rise in next few months, while export order books still above normal.

(iii) Strength of capital inflows reflects new-found confidence in UK as place to invest, both because of good profitability prospects for UK industry and Government's firm anti-inflation stance.

PD
idtbrief

SECRET AND PERSONAL UNTIL 25 AUGUST AT 11.30 AM
THEN UNCLASSIFIED

Defensive

(i) Deficit of £2.2 billion in July indicates current account out of control. Never read too much importance into a single month's figures. Tight monetary and fiscal policy will ensure that confidence in UK economy maintained and deficit remains readily financiable. As growth slows to a sustainable rate, so deficit will diminish.

(ii) July deficit will diminish confidence in sterling. ~~Government will hold monetary policy tight and not allow a depreciation of sterling - particularly to bail out excessive increases in domestic costs.~~ Govt. ~~is~~ determined to ~~preserve~~ maintain value of sterling, and markets know this.

(iii) Current deficit reflects excessive consumption [In three months to July on a year earlier, imports of cars up 33 per cent, other consumer goods up 14 per cent. But imports of capital goods up 25 per cent, intermediates up 27 per cent and semi-manufactures up 14 per cent.] Strong growth in domestic demand has led to rise in imports of consumer goods. But there has also been a rise in imports of capital, semi-manufactures and intermediate goods reflecting rising output and investment.

(iv) Current account deficit unsustainable. Current account cannot be permanently in deficit, but no reason why it should balance over short or medium term particularly if good investment prospects exist in UK. Present deficit is partly financing high investment spending by private sector. Contrast with experience of 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.

(v) Current account deficit has reached US proportions. [UK deficit about 3 per cent of GDP in first 7 months of 1988 compared to 1987 US deficit of 3½ per cent.] No similarity between underlying UK and US positions. US deficit, now in fifth year at 3% or so ~~[illegible]~~ of GDP, associated with large and persistent US Government fiscal deficit. Stance of UK policy altogether different. UK current account deficit reflects ~~strength of private sector spending.~~ excess of private sector investment over private sector saving.

(vi) Government should take action to reduce current account deficit. Current account deficit counterpart of capital inflows. Reflects both domestic and overseas confidence in UK economy. So long as Government maintains firm fiscal and monetary policy, markets ~~should~~ have no cause for concern. Policy will maintain confidence in UK economy thereby ensuring that any deficit can be readily financed. Recent interest rate rises are evidence of Government's resolve.

(vii) Budget tax cuts raised domestic demand and caused current account deficit. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR expected to be a significant ~~net~~ repayment of debt. Moreover, Budget was a supply side Budget, which will bring increasing economic benefit over the years and improve trade performance.

(viii) Current account deficit could be reduced by depreciation of sterling. Restraint of unit costs - which is in industry's own hands - key to improved competitiveness. Not Government policy to depreciate exchange rate to try to increase UK competitiveness.

(ix) Current account figures distorted. Documentation and classification system changes on 1 January 1988 resulted in understatement of January exports by £200 million, while December figures previously overstated by £200 million. Revised figures now included in press notice. ~~Estimates of later month's export figures and all import figures unaffected.~~ All figures, of course, subject to further revision in customary way.

(x) Passenger car trade indicates industry facing capacity constraint. [Car import volumes up 33 per cent in three months to July on a year earlier while exports little changed. Passenger motor car production up 12½ per cent in 3 months to July on a year earlier.] Recent figures reflect buoyant domestic demand. But UK producers nevertheless performing well - production up 12½ per cent in past year and 18 per cent in past two years.

(xi) Piper Alpha explosion will have serious impact on current account. Oil surplus fell from £148 million in June to £65 million in July. Most of fall due to effects of Piper Alpha. Expected to worsen current account by £250 million in total during 1988.

(xii) Export growth in 1988. ~~Some slowdown was expected, but Exports of manufactures up 5½ per cent in year ending three months to July.~~

~~Underl[illegible] of exports~~

Underlying level of exports over last 3 months 5½% up in volume terms over same period a year ago

(xiii) <u>Deterioration in cost competitiveness since late 1970s</u>. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive. UK has maintained share in world trade in manufactures since 1981 after decades of decline - demonstrates improved competitiveness.

(xiv) <u>Invisibles surplus declining</u>. [1988Q1 invisibles surplus revised down nearly £200 million to £1.1 billion compared with preliminary estimate published in June.] 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 surplus on financial services (despite fall in net insurance earnings) and on interest profits and dividends still strong.

ea.eh/docs/pns.LJB.4

SECRET AND PERSONAL

FROM: P N SEDGWICK

DATE: 23 AUGUST 1988

MR BUSH

cc PS/Chancellor
Sir T Burns
Mr Peretz
Ms Turk
Mr P Davis

BRIEFING FOR THE JULY TRADE FIGURES

As agreed I attach two revised versions of the briefing. (Version A - as eventually revised - would in the normal course of events be handed to DTI press office tomorrow). I have incorporated suggestions from Sir T Burns and David Peretz. I share David's view that with version A the less said the better. Maybe comment, other than on the details of the figures, should if at all possible be confined to the first item in the "line to take".

We will of course need to revise both versions of the briefing when we get the Chancellor's comments.

On reflection I am not in favour of putting a short statement of our views onto Reuter's at 11.30 AM.

P.N.S

P N SEDGWICK

SECRET AND PERSONAL
UNTIL 11.30 AM ON THURSDAY 27 AUGUST
THEN UNCLASSIFIED

DRAFT BRIEFING FOR IDT ON JULY TRADE FIGURES

Line to take

- Interest rates have been raised by 3½ per cent. Chancellor has made it clear he will continue to take whatever action is needed to maintain monetary conditions needed to keep downward pressure on inflation.

- The large current account deficits in recent months do not reflect the full effects of the tightening of monetary policy.

- With tight monetary conditions growth of domestic demand, which has been too fast so far this year, will ease. This should lead to a reduction in import growth and in the current account deficit.

- The current account deficit is in part the result of booming investment in the UK. The deficit will as a result be reduced as increased production in the future raises exports and displaces imports.

- Fiscal policy is turning out even tighter than envisaged at Budget time. The present current account deficit contrasts with earlier deficits (and the US position) which were associated with large Government deficits.

Positive

(i) GDP up 5 per cent in second quarter on a year earlier while manufacturing output up 7 per cent over same period to reach record levels.

(ii) Manufacturing industry continues to perform well. In three months to July, exports of manufactures (less erratics) 8½ per cent higher than a year earlier, while output up 7 per cent in second quarter on a year earlier.

(iii) Manufacturing productivity over 7 per cent higher in second quarter than a year earlier. Has contributed to slow growth in UK unit labour costs, but continued good performance in industry's own hands.

(iv) Unemployment has fallen in every month for past two years to 2.3 million in July - almost 0.6 million lower than a year ago. Employment up 0.4 million over same period.

(v) CBI July quarterly industrial trends survey showed rise in export optimism. Larger balance of firms expect orders and deliveries to rise in next few months, while export order books still above normal.

(vi) Strength of capital inflows reflects confidence in UK as place to invest, both because of good profitability prospects for UK industry and Government's firm anti-inflation stance.

Defensive

(i) Deficit of £2.2 billion in July indicates current account out of control. Largest deficit ever. Never read too much importance into a single month's figures. Tightened monetary policy will ensure that confidence in UK economy maintained and deficit remains readily financiable. As growth slows to a sustainable rate, so deficit will diminish.

(ii) July deficit will diminish confidence in sterling. As Government has demonstrated it will hold monetary policy tight and not allow a depreciation of sterling - particularly to bail out excessive increases in domestic costs.

(iii) Current deficit reflects excessive consumption [In three months to July on a year earlier, imports of cars up 33 per cent, other consumer goods up 14 per cent. But imports of capital goods up 25 per cent, intermediates up 27 per cent and semi-manufactures up 14 per cent. Exports of consumer goods and motor cars little changed over some period, with capital goods up 24 per cent, intermediates up 2 per cent and semi-manufactures up 8 per cent.] Strong growth in domestic demand has led to rise in imports of consumer goods, as well as capital, intermediate and semi-manufactured goods. While imports of capital goods, intermediates and semi-manufactures have risen, net export performance on consumer goods has declined. Maintenance of tight monetary and fiscal policy will help restrain demand and improve the current account.

(iv) Current account deficit unsustainable. Current account cannot be permanently in deficit, but no reason why it should balance over short or medium term, particularly if good investment prospects exist in UK. Present deficit is partly financing high investment spending by private sector. Contrast with experience of 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.

(v) Current account deficit has reached US proportions. [UK deficit about 3 per cent of GDP in first 7 months of 1988 compared to 1987 US deficit of 3½ per cent (peaked at 3.7 per cent in 1987Q3).] No similarity between underlying UK and US positions. US deficit associated with large and persistent US Government fiscal deficit. Stance of UK policy altogether different. UK current account deficit reflects strength of private sector spending.

(vi) Government should take action to reduce current account deficit. So long as Government maintains firm fiscal and monetary policy, markets should have no cause for concern. Policy will maintain confidence in UK economy thereby ensuring that any deficit can be readily financed. Recent interest rate rises are evidence of Government's resolve. Tight monetary conditions will restrain demand and help the current account.

(vii) Capital inflows not long term, but short term and speculative. [Tim Congdon alleged that capital flows financing current account deficit were inflows in portfolio and financial sectors. Hence likely to reverse if confidence in UK economy declines.] Congdon argument based on an artificial and misleading distinction between long term and short term flows. Both types of flows can finance investment. No such flows will stay in the UK unless there is confidence in the maintenance of firm policies.

(viii) Budget tax cuts raised domestic demand and caused current account deficit. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR in 1988-89 expected to be a net repayment of debt, probably larger than envisaged in the FSBR. Moreover, Budget was a supply side Budget, which will bring increasing economic benefit over the years and improve trade performance.

(ix) Current account deficit could be reduced by depreciation of sterling. Restraint of unit costs - which is in industry's own hands - key to improved competitiveness. Not Government policy to depreciate exchange rate to try to increase UK competitiveness.

(x) Current account figures distorted. Documentation and classification system changes on 1 January 1988 resulted in distortion in the figures. January exports have now been adjusted up by £200 million, while December figures have been reduced by £200 million. Revised figures now included in press notice.

(xi) Passenger car trade indicates industry facing capacity constraint. [Car import volumes up 33 per cent in three months to July on a year earlier while exports little changed. Passenger motor car production up 12½ per cent in 3 months by July on a year earlier.] Recent figures reflect buoyant domestic demand. But UK producers nevertheless performing well - production up 12½ per cent in past year and 18 per cent in past two years.

(xii) Piper Alpha explosion will have serious impact on current account. Oil surplus fell from £148 million in June to £65 million in July. Most of fall due to effects of Piper Alpha. Expected to worsen current account by £250 million in total during 1988.

(xiii) Export growth in 1988. Some slowdown was expected, but volume of exports of manufactures up 8½ per cent in year ending three months to July.

(xiv) Deterioration in cost competitiveness since late 1970s. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive. UK has maintained share in world trade in manufactures since 1981 after decades of decline - demonstrates improved competitiveness.

(xv) Invisibles surplus declining. [1988Q1 invisibles surplus revised down nearly £200 million to £1.1 billion, only half its value in 1987Q1 and Q2.] 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 surplus on financial services (despite fall in net insurance earnings) and on interest profits and dividends still strong.

DRAFT BRIEFING FOR IDT ON JULY TRADE FIGURES

Line to take

- The high growth of imports in recent months confirms that the economy has been growing faster than expected. A further tightening of monetary conditions, by today's increase in interest rates, is the appropriate policy response. Interest rates have now risen by 4½ points in the last few months.

- Tight monetary conditions will reduce the growth of domestic demand and thereby reduce both import growth and the current account deficit.

- The current account deficit is in part the result of booming investment in the UK.

- The deficit which will be reduced in the short term with the maintenance of tight monetary and fiscal policy, will be further reduced as increased production in the future raises exports and displaces imports.

- Fiscal policy is turning out even tighter than envisaged at Budget time hence the current account deficit contrasts with earlier deficits (and the US position) which were associated with large Government deficits.

Positive

(i) GDP up 5 per cent in second quarter on a year earlier while manufacturing output up 7 per cent over same period to reach record levels.

(ii) Manufacturing industry continues to perform well. In three months to July, exports of manufactures (less erratics) 8½ per cent higher than a year earlier, while output up 7 per cent in second quarter on a year earlier.

(iii) Unemployment has fallen in every month for past two years to 2.3 million in July - almost 0.6 million lower than a year ago. Employment up 0.4 million over same period.

(iv) Manufacturing productivity over 7 per cent higher in second quarter than a year earlier. Has contributed to slow growth in UK unit labour costs, but continued good performance in industry's own hands.

(v) CBI July quarterly industrial trends survey showed rise in export optimism. Larger balance of firms expect orders and deliveries to rise in next few months, while export order books still above normal.

(vi) Strength of capital inflows reflects confidence in UK as place to invest, both because of good profitability prospects for UK industry and Government's firm anti-inflation stance.

Defensive

(i) Deficit of £2.2 billion in July indicates current account out of control. Largest deficit ever. Never read too much importance into a single month's figures. Tightened monetary policy will ensure that confidence in UK economy maintained and deficit remains readily financiable. As growth slows to a sustainable rate, so deficit will diminish.

(ii) July deficit will diminish confidence in sterling. As Government has demonstrated it will hold monetary policy tight and not allow a depreciation of sterling - particularly to bail out excessive increases in domestic costs.

(iii) Current deficit reflects excessive consumption [In three months to July on a year earlier, imports of cars up 33 per cent, other consumer goods up 14 per cent. But imports of capital goods up 25 per cent, intermediates up 27 per cent and semi-manufactures up 14 per cent. Exports of consumer goods and motor cars little changed over same period while capital goods up 24 per cent, intermediates up 2 per cent and semi-manufactures up 8 per cent.] Strong growth in domestic demand has led to rise in imports of consumer goods, as well as capital, intermediate and semi-manufactured goods. However net export performance on consumer goods has deteriorated, but rise in interest rates should help restrain demand and improve the current account.

(iv) Current account deficit unsustainable. Current account cannot be permanently in deficit, but no reason why it should balance over short or medium term particularly if good investment prospects exist in UK. Present deficit is partly financing high investment spending by private sector. Contrast with experience of 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.

(v) Current account deficit has reached US proportions. [UK deficit about 3 per cent of GDP in first 7 months of 1988 compared to 1987 US deficit of 3½ per cent (peak of 3.7 per cent in 1987Q3.] No similarity between underlying UK and US positions. US deficit associated with large and persistent US Government fiscal deficit. Stance of UK policy altogether different. UK current account deficit reflects strength of private sector spending.

(vi) Government should take further action to reduce current account deficit. The further rise in interest rates demonstrates by deeds rather than words the Government's determination to keep monetary conditions adequately tight. As previously shown, policy will maintain confidence in UK economy thereby ensuring that any deficit can be readily financed.

(vii) Capital inflows not long term, but short term and speculative. [Tim Congdon alleged that capital flows financing current account deficit were inflows in portfolio and financial sectors. Hence likely to reverse if confidence in UK economy declines.] Congdon argument based on an artificial and misleading distinction between long term and short term flows. Both types of flows can finance investment. No such flows will stay in the UK unless there is confidence in the maintenance of firm policies.

(viii) Budget tax cuts raised domestic demand and caused current account deficit. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR in 1988-89 expected to be a net repayment of debt, probably larger than envisaged in the FSBR. Moreover, Budget was a supply side Budget, which will bring increasing economic benefit over the years and improve trade performance.

(ix) Current account deficit could be reduced by depreciation of sterling. Restraint of unit costs - which is in industry's own hands - key to improved competitiveness. Not Government policy to depreciate exchange rate to try to increase UK competitiveness.

(x) Current account figures distorted. Documentation and classification system changes on 1 January 1988 resulted in distortion in the figures. January exports have been increased by £200 million, while December exports have been reduced by £200 million. Revised figures now included in press notice.

(xi) Passenger car trade indicates industry facing capacity constraint. [Car import volumes up 33 per cent in three months to July on a year earlier while exports little changed. Passenger motor car production up 12½ per cent in 3 months by July on a year earlier.] Recent figures reflect buoyant domestic demand. But UK producers nevertheless performing well - production up 12½ per cent in past year and 18 per cent in past two years.

(xii) Piper Alpha explosion will have serious impact on current account. Oil surplus fell from £148 million in June to £65 million in July. Most of fall due to effects of Piper Alpha. Expected to worsen current account by £250 million in total during 1988.

(xiii) Export growth in 1988. Some slowdown was expected, but volume of exports of manufactures up 8½ per cent in year ending three months to July.

(xiv) Deterioration in cost competitiveness since late 1970s. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive. UK has maintained share in world trade in manufactures since 1981 after decades of decline - demonstrates improved competitiveness.

(xv) Invisibles surplus declining. [1988Q1 invisibles surplus revised down nearly £200 million to £1.1 billion, only half its value in 1987Q1 and Q2.] 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 surplus on financial services (despite fall in net insurance earnings) and on interest profits and dividends still strong.

chex.ps/mw.20 UNCLASSIFIED

MP

FROM: MISS M P WALLACE
DATE: 23 August 1988

MR OWEN

cc Mr Sedgwick

RECORDING OF VISIBLE AND INVISIBLE TRADE

The Chancellor has seen and was most grateful for your minute of 3 August.

MPW

MOIRA WALLACE

Covering SECRET AND PERSONAL

FROM: PAUL DAVIS

DATE: 23 AUGUST 1988

PS/CHANCELLOR

cc: Sir T Burns
Mr Peretz
Mr Sedgwick
Mr Bush
Ms Turk

BRIEFING FOR THE JULY TRADE FIGURES

I attach the briefing you had requested.

PAUL DAVIS

SECRET AND PERSONAL UNTIL
11.30 am on THURSDAY 27 AUGUST
THEN UNCLASSIFIED

JULY TRADE FIGURES

The July current account deficit, in money terms, is the largest ever recorded. On an individual month basis, July does not provide the largest deficit as a proportion of GDP - November 1974 still stands out.

2. The table below shows the largest deficits recorded in the past, both annual and monthly, together with their proportion of GDP.

Current Account Balances

	Balance £ million	Per cent of GDP
1947	-381	3½
1951	-369	2½
1964	-371	1
1974	-3316	4
Jan-July 1988	-7973	3*
1964 Oct	-64	½
1967 Nov	-136	1½
1974 Nov	-564	7½
1988 Jul	-2151	5½*

* Using June forecast for 1988Q3 GDP.

SECRET AND PERSONAL UNTIL
11.30 am on THURSDAY 27 AUGUST
THEN UNCLASSIFIED

Table 1: Visible Trade balances

($ billion)

	UK	US	Japan	Germany
1984	-6.1	-123.6	44.3	20.4
1985	-3.0	-148.8	56.0	26.4
1986	-12.8	-155.1	92.8	54.0
1987	-16.7	-170.3	96.4	66.0
1988 Q1	-7.1	-37.4	26.0	15.7
Q2	-8.2	-33.7	20.7	
1988 Jan	-2.5	-11.3	9.1	6.5
Feb	-2.7	-14.4	8.5	4.9
Mar	-1.9	-11.7	8.4	4.3
Apr	-2.3	-10.3	7.7	6.5
May	-3.2	-10.9	6.8	5.7
Jun	-2.7	-12.5	6.2	
Jul	-4.5			

Table 2: Current Accounts

($ billion, percentage of GNP in brackets)

	UK	US	Japan	Germany
1984	2.7 (0.6)	-107.0 (-2.8)	35.0 (2.8)	9.7 (1.6)
1985	4.3 (0.9)	-116.4 (-2.9)	49.2 (3.7)	16.2 (2.6)
1986	-0.3 (-0.1)	-141.3 (-3.3)	85.8 (4.4)	37.9 (4.2)
1987	-4.1 (-0.6)	-153.9 (-3.4)	87.0 (3.6)	44.3 (3.9)
1988 Q1	-4.9 (-2.5)	-39.8 (-3.4)	23.2 (3.3)	9.0 (2.9)
Q2	-5.4 (-2.6)		17.6 (2.4)	

SECRET AND PERSONAL UNTIL
11.30 am on THURSDAY 27 AUGUST
THEN UNCLASSIFIED

DRAFT PRESS BRIEFING FOR IDT

Bull points on UK Economy

(i) GDP increased by over 5 per cent in year to 1988Q2.

GDP (output measure) at factor cost

	1980=100	Per cent change on a year earlier
1987	119.3	4.7
1987 Q1	116.6	4.3
Q2	118.2	4.2
Q3	120.6	5.2
Q4	121.9	5.4
1988 Q1	122.7	5.2
Q2	124.3	5.2

(ii) Manufacturing output up nearly 7 per cent in 1988Q2 on a year earlier. Now at record level in second quarter.

(iii) Unemployment at 2.3 million in July, has been falling every month for two years. Employment rose by 0.4 million in year to July.

(iv) Productivity in manufacturing industry up by over 7 per cent in 1988Q2 on a year earlier.

Manufacturing productivity and output

	Productivity (output per head) 1980=100	Per cent change on a year earlier	Output 1980=100	Per cent change on a year earlier
1987	142.8	6.9	109.6	5.4
1987 Q1	138.1	6.8	106.1	4.2
Q2	141.1	6.7	108.4	5.0
Q3	144.9	7.7	111.3	6.9
Q4	147.1	6.3	112.8	5.7
1988 Q1	148.6	7.6	114.1	7.5
Q2	151.3	7.2	115.9	6.9

([illegible]) <u>Unit labour costs</u> in manufacturing have probably risen only slightly in year to 1988Q2. Unit wage and salary costs up 1.4 per cent over same period. Maintenance of competitive position, however, still very much in industry's own hands.

SECRET AND PERSONAL

P P

COPY NO. 10 OF 11 .

FROM: MISS M P WALLACE
DATE: 24 August 1988

MR P SEDGWICK

MR D PERETZ
(separate copy to each)

cc Financial Secretary
Sir T Burns
Sir G Littler
Mr H Bush
Mr P J Davis - EA2
Deputy Governor - B/E
Mr George - B/E

JULY TRADE FIGURES

... As promised, I attach the various pieces of briefing the Chancellor sent back this morning:

(i) at Annex A, his comments, which I have marked in manuscript, on the trade figures briefing which Mr Davis circulated on 22 August (the Chancellor has not seen the revised version circulated yesterday); and

(ii) at Annex B, the Chancellor's draft of a "Line to take" on interest rates.

The Chancellor has said that he would like to see the latest versions of both these briefs in the box I shall be sending him tonight. In particular, he has noted that additional supplementaries will be needed on the interest rate brief. I should therefore be grateful if you could let me have revised versions by close.

MPW.

MOIRA WALLACE
Private Secretary

SECRET AND PERSONAL UNTIL 25 AUGUST AT 11.30 AM
THEN UNCLASSIFIED

ANNEX A

DRAFT BRIEFING FOR IDT ON JULY TRADE FIGURES

Line to take

Exports (net of oil + erratics) at all-time record levels. Deficit swollen by rapid rise in imports caused by unsustainable growth of domestic demand. Measures taken to curb domestic demand will in due course bring down deficit. Meanwhile, deficit readily financed.

- [~~With a tight policy stance it should be possible to finance the current account deficit.~~]

- With the public sector in surplus, the current account deficit [~~at present~~] reflects private sector behaviour. This contrasts with earlier deficits which reflected unsustainable public sector borrowing. No iron law that current account should be in balance.

- [~~The deficit in part reflects confidence in the UK economy and prospects for investment in it.~~]

- [~~The deficit will be reversed in time as increased production in the future raises exports and displaces imports, while private sector savings return to more normal levels.~~]

- The recent tightening of monetary policy demonstrates that the Government will take no risks with inflation. [~~and will not stand by to watch sterling depreciate.~~] The recent trade figures do not reflect the full effects of the recent tightening.

Positive

(i) Manufacturing industry continues to perform well. In three months to July, exports of manufactures (less erratics) 5½ per cent higher than a year earlier, while output up 7 per cent in second quarter on a year earlier.

(ii) CBI July quarterly industrial trends survey showed rise in export optimism. Larger balance of firms expect orders and deliveries to rise in next few months, while export order books still above normal.

(iii) Strength of capital inflows reflects new-found confidence in UK as place to invest, both because of good profitability prospects for UK industry and Government's firm anti-inflation stance.

PD
idtbrief

SECRET AND PERSONAL UNTIL 25 AUGUST AT 11.30 AM
THEN UNCLASSIFIED

Defensive

(i) Deficit of £2.2 billion in July indicates current account out of control. Never read too much importance into a single month's figures. Tight monetary and fiscal policy will ensure that confidence in UK economy maintained and deficit remains readily financiable. As growth slows to a sustainable rate, so deficit will diminish.

(ii) July deficit will diminish confidence in sterling. ~~[Government will hold monetary policy tight and not allow a depreciation of sterling - particularly to bail out excessive increases in domestic costs.]~~ Government determined to maintain value of sterling and markets know this.

(iii) Current deficit reflects excessive consumption [In three months to July on a year earlier, imports of cars up 33 per cent, other consumer goods up 14 per cent. But imports of capital goods up 25 per cent, intermediates up 27 per cent and semi-manufactures up 14 per cent.] Strong growth in domestic demand has led to rise in imports of consumer goods. But there has also been a rise in imports of capital, semi-manufactures and intermediate goods reflecting rising output and investment.

(iv) Current account deficit unsustainable. Current account cannot be permanently in deficit, but no reason why it should balance over shortor medium term particularly if good investment prospects exist in UK. Present deficit is partly financing high investment spending by private sector. Contrast with experience of 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.

(v) Current account deficit has reached US proportions. [UK deficit about 3 per cent of GDP in first 7 months of 1988 compared to 1987 US deficit of 3½ per cent.] No similarity between underlying UK and US positions. US deficit, now in fifth year at 3% or so of GDP associated with large and persistent US Government fiscal deficit. Stance of UK policy altogether different. UK current account deficit reflects ~~strength~~ excess of private sector ~~spending.~~ investment over private sector saving.

(vi) Government should take action to reduce current account deficit. Current account deficit counterpart of capital inflows. Reflects both domestic and overseas confidence in UK economy. So long as Government maintains firm fiscal and monetary policy, markets should have no cause for concern. Policy will maintain confidence in UK economy thereby ensuring that any deficit can be readily financed. Recent interest rate rises are evidence of Government's resolve.

(vii) <u>Budget tax cuts raised domestic demand and caused current account deficit</u>. Non-oil tax burden same in 1988-89 as in 1987-88. PSBR expected to be a significant net repayment of debt. Moreover, Budget was a <u>supply side</u> Budget, which will bring increasing economic benefit over the years and improve trade performance.

(viii) <u>Current account deficit could be reduced by depreciation of sterling</u>. Restraint of unit costs - which is in industry's own hands - key to improved competitiveness. Not Government policy to depreciate exchange rate to try to increase UK competitiveness.

(ix) <u>Current account figures distorted</u>. Documentation and classification system changes on 1 January 1988 resulted in understatement of January exports by £200 million, while December figures previously overstated by £200 million. Revised figures now included in press notice. [~~Estimates of later month's export figures and all import figures unaffected.~~] All figures, of course, subject to further revision in customary way.

(x) <u>Passenger car trade indicates industry facing capacity constraint</u>. [Car import volumes up 33 per cent in three months to July on a year earlier while exports little changed. Passenger motor car production up 12½ per cent in 3 months to July on a year earlier.] Recent figures reflect buoyant domestic demand. But UK producers nevertheless performing well - production up 12½ per cent in past year and 16 per cent in past two years.

(xi) <u>Piper Alpha explosion will have serious impact on current account</u>. Oil surplus fell from £148 million in June to £65 million in July. Most of fall due to effects of Piper Alpha. Expected to worsen current account by £250 million in total during 1988.

(xii) <u>Export growth in 1988</u>. [~~Some slowdown was expected, but exports of manufactures up 5½ per cent in year ending three months to July.~~]

Underlying level of exports over past 3 months 5½ per cent up in volume terms over same period a year ago.

(xiii) Deterioration in cost competitiveness since late 1970s. Narrow measures of competitiveness misleading because overwhelmingly dependent on exchange rate movements; on this basis Japan is country that has really become uncompetitive. UK has maintained share in world trade in manufactures since 1981 after decades of decline - demonstrates improved competitiveness.

(xiv) Invisibles surplus declining. [1988Q1 invisibles surplus revised down nearly £200 million to £1.1 billion compared with preliminary estimate published in June.] 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 surplus on financial services (despite fall in net insurance earnings) and on interest profits and dividends still strong.

ANNEX B

Line to take

The latest import figures taken together with other recent information make it clear that spending in the economy has been growing even faster than had been earlier envisaged. In order to keep inflation under control, the steps already taken to tighten monetary conditions therefore need to be reinforced. Accordingly, the Bank of England has today signalled a 1 per cent rise in short-term interest rates to 12 per cent.

X ~~This~~ The substantial rise in interest rates that has now taken place will inevitably take time to have its effect. There is no reason to believe that short-term interest rates will need to go any higher than they now are, but they are likely to have to remain at this level for some time.

Overall, as the recent OECD survey underlined, the economy continues to do very well. In particular:

- exports of manufactures growing at 5½ per cent a year;
- investment in manufacturing growing at 12½ per cent a year;
- manufacturing productivity growing at over 7 per cent a year.

Defensive

All fault of Budget tax cuts?

No. Purpose of tax-reforming Budget was further lasting improvement in supply-side performance. In fact fiscal policy unequivocally tight, with surplus likely to exceed the £3¼ billion set in the Budget by a comfortable margin.

Need credit controls?

Would be distortive and basically ineffective in today's flexible and competitive financial markets. See Chancellor's Speech to Cities of London and Westminster CA.

Mistake to cut interest rates to 7½ per cent?

Cut to 7½ per cent was purely temporary measure lasting only two weeks, in response to exceptional upward foreign exchange market pressures.

Interest rates now set on purely domestic criteria? Abandoned managed floating?

Always made it clear that first priority must be defeat of inflation. Budget Speech etc.

Will mortgage rates rise?

Matter for banks and building societies, but clearly to be expected. That is part of process of slowing down growth in demand in economy.

Prospects for RPI?

A firm monetary policy is essential instrument for bringing inflation down. In short-term, RPI will increase since UK, unlike most other countries, includes mortgage interest payments in its consumer price index. But, as in 1985, this will only be a temporary blip, and measures now taken will ensure that in due course inflation comes down again.

Why 1 per cent? Have you abandoned policy of moving in half per cent steps?

No. Half points remain normal movements, both up and down. But on this occasion a full point increase warranted and could be implemented without any risk of excessive upward pressure on exchange rate.

Economic forecasts

PHILLIPS&DREW

September preview

The full version of our September Economic Forecasts for the UK is due to be published after the Bank Holiday. Here we provide a preview of the main points and forecast tables.

Increased risks

The short term outlook for the economy has worsened on three counts:

* **Inflationary pressure already in the pipeline threatens to push up recorded retail price inflation into the 5 1/4-5 1/2% range by year end.** We expect this to happen even in the absence of a further rise in mortgage rates.

* **Every indicator relevant to national pay bargaining is flashing red.** The forthcoming pay round is likely to add an unwelcome twist to the wage-price spiral with private sector pay settlements rising by a further 1 percentage point.

* Although the official estimates are subject to a large margin of error, the UK's current account position now appears unsustainable. **It is a measure of the UK's problem that domestic demand growth would have probably to fall to a quarter of its present rate merely to prevent the trade deficit from getting worse.**

Credit crunch

We paint three possible scenarios for the UK.

* There could be a **spontaneous slowdown** in domestic demand growth. But this seems unlikely, thanks to the lagged effects of higher real incomes, tax cuts and wealth which have still to feed through. Short-term, demand is expected to accelerate, not slow down.

* The UK could become a successful **capital-importer**, living with high current account deficits. But the UK shares none of the characteristics of other large-scale capital-importing economies. Moreover, the financing of the external deficit has probably come from short-term, easily reversible, capital flows rather than long-term investments.

* The most plausible outcome is a **credit crunch** in which base rates are driven up further and sustained at a high level to induce a rise in private sector net saving. **We expect base rates to rise to at least 12% and stay there for a period of up to nine months.**

On this basis, we forecast growth, ex oil, will fall below productive potential (possibly 4% pa). **We expect 2-2 1/2% growth, ex oil, in 1989 after 4% plus this year. Boosted by higher mortgage rates, retail price inflation peaks at 6 1/2% next February, falling to below 5% by end 1989.**

Markets

Gilts and equities will struggle with base rates sustained at 12% or above. Slower growth and falling inflation in 1989 provide some comfort, more especially for gilts.

	25 year gilt yield %	FTA All-Share
3 month	10	950
12 month	9 1/4	1000

Embargo: 00.01 hours Wednesday 24 August 1988.
Further information: Bill Martin - work 01 628 4444
home 0277-262047

Table 1: Forecast summary

	GDP growth %	Consumption growth %	Inflation % (Q4)	Current account £bn	Base rates % (Q4)	PSBR £bn (FY)	Sterling Index (Q4)
1986	3.0	6.0	3.4	0.1	10.9	3.4	68.2
1987	4.2	5.2	4.1	-1.6	9.2	-3.5	74.9
1988	3.5	6.0	5.6	-11.6	12.0	-8.0	75.5
1989	2.1	4.2	4.8	-14.3	10.0	-7.6	77.2

Table 2: Components of demand

		1987	1988					1989				
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Consumers' total	L	17092	4444	4470*	4570	4630	18114	4680	4710	4725	4752	18867
expenditure £10m	Y	5.2	7.1	5.7*	5.6	5.5	6.0	5.3	5.4	3.4	2.6	4.2
General govt	L	5180	1299*	1298	1303	1315	5216	1312	1310	1316	1328	5267
consumption £10m	Y	0.4	0.6*	1.4	0.8	0.0	0.7	1.0	0.9	1.0	1.0	1.0
Domestic fixed	L	4799	1309*	1298	1328	1353	5288	1358	1352	1356	1369	5435
capital formation £10m	Y	3.9	10.8*	11.1	11.9	7.1	10.2	3.7	4.2	2.2	1.2	2.8
Stockbuilding £m	L	796	15*	216	270	99	600	-304	325	430	280	731
Domestic demand	L	27150	7054*	7088	7228	7307	28677	7320	7405	7441	7477	29642
£10m	Y	4.1	6.8*	6.3	4.9	4.6	5.6	3.8	4.5	2.9	2.3	3.4
Exports of goods	L	7995	1933*	2038	2055	2087	8113	2060	2083	2136	2169	8448
and services £10m	Y	5.7	-2.1*	4.3	1.6	2.1	1.5	6.6	2.2	3.9	3.9	4.1
Total expenditure	L	35146	8987*	9126	9283	9395	36790	9380	9488	9577	9646	38090
£10m	Y	4.5	4.8*	5.8	4.2	4.0	4.7	4.4	4.0	3.2	2.7	3.5
Imports of goods	L	8117	2093*	2224	2287	2319	8924	2293	2392	2454	2456	9594
and services £10m	Y	7.6	11.4*	12.2	8.1	8.4	9.9	9.5	7.5	7.3	5.9	7.5
GDP	L	23307	5946*	5948	6022	6090	24006	6094	6099	6116	6179	24488
(expend based) £10m	Y	3.3	2.6*	4.0	3.0	2.5	3.0	2.5	2.5	1.6	1.5	2.0
Statistical adj £10m**	L	353	114*	120	120	125	479	125	125	130	130	510
GDP	L	23660	6060*	6068	6142	6215	24485	6219	6224	6246	6309	24998
(average est) £10m	Y	4.2	3.9*	3.7	3.1	3.2	3.5	2.6	2.6	1.7	1.5	2.1
Annualised QOQ growth			2.7*	0.5	5.0	4.8		0.3	0.3	1.5	4.1	

** Difference between the average and expenditure estimates of GDP at factor cost.

Table 3: Prices and interest rates

		1987	1988					1989				
		Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Import price deflator	L	134.1	133.8	133.7*	136.8	138.4	135.7	138.7	139.3	139.0	139.4	139.1
(all goods)	Y	2.4	-0.9	0.3*	2.0	3.5	1.2	3.7	4.2	1.6	0.7	2.5
Producer prices (output)	Y	3.9	3.8	4.4*	4.5	4.6	4.3	4.7	4.8	4.6	4.3	4.6
Retail prices	L	101.9	103.7*	106.2	107.5	109.0	106.6	110.2	112.4	113.1	114.2	112.5
Jan 1987 = 100	Y	4.1	3.4*	4.3	5.3	5.6	4.6	6.3	5.8	5.2	4.8	5.5
Consumer expenditure	L	150.6	154.3*	154.6	156.5	159.7	156.3	161.5	162.6	164.5	167.2	164.0
deflator 1980 = 100	Y	3.5	3.3*	3.6	3.7	4.4	3.7	4.7	5.2	5.1	4.7	4.9
GDP deflator	L	151.4	155.7*	158.9	162.6	164.9	160.5	165.8	169.1	172.6	174.8	170.6
1980 = 100	Y	4.8	5.2*	5.6	6.5	6.7	6.0	6.5	6.4	6.1	6.0	6.2
Bank base rate %		9.7	8.8	8.1*	10.8	12.0	9.9	13.0	12.0	11.0	10.0	11.5
Mortgage rate %		11.6	10.2	9.8*	11.1	13.1	11.1	13.6	13.3	12.7	11.7	12.8
25-year gilt yield %		9.4	9.3	9.2*	9.4	10.0	9.5	10.2	10.0	9.5	9.0	9.7

* Last actual. L = level, Y = year-on-year percentage change.

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