



Ch.

The forecast for Q4 (the  
C80's latest expectation) is  
1% growth over Q3. This  
implies 2.7% over 1984 Q4;  
and is consistent with 3½%  
for 1985 as a whole.

RL

20/12

Markus  
ms

CONFIDENTIAL

until 11.30 a.m. on Friday 20 December then

RESTRICTED

FROM: S J DAVIES

DATE: 19 DECEMBER 1985

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr F Cassell  
 Mr N Monck  
 Mr H P Evans  
 Mr J Odling-Smee  
 Mr P Sedgwick  
 Mr Culpin  
 Miss O'Mara  
 Mr P Allum  
 Mr K Vernon  
 Mr Lord  
 Mr Cropper  
 Mr H Davies  
 Mr R Clare (CSO)

Ch  
 has nearly been  
 checked, but the AS  
 process other standards  
 (Terry points out that this  
 mini-pause was forwarded  
 to the Group leading indicators  
 on which you recently cast  
 doubt)

What is the  
 question?

place  
 convenience

Re  
 19/12

**GDP FIGURES FOR THE THIRD QUARTER OF 1985**

The CSO's provisional estimates of GDP in the third quarter of 1985 will be published tomorrow (Friday) at 11.30 a.m. Preliminary figures for the output measure of GDP were published a month ago. The figures being published now include a revised estimate for the output measure of GDP, as well as the first published figures for the income and expenditure measures for the third quarter, along with the average estimate of GDP based on all three measures. There have been revisions to the GDP estimates for the first half of 1985. An advance copy of the press notice is attached.



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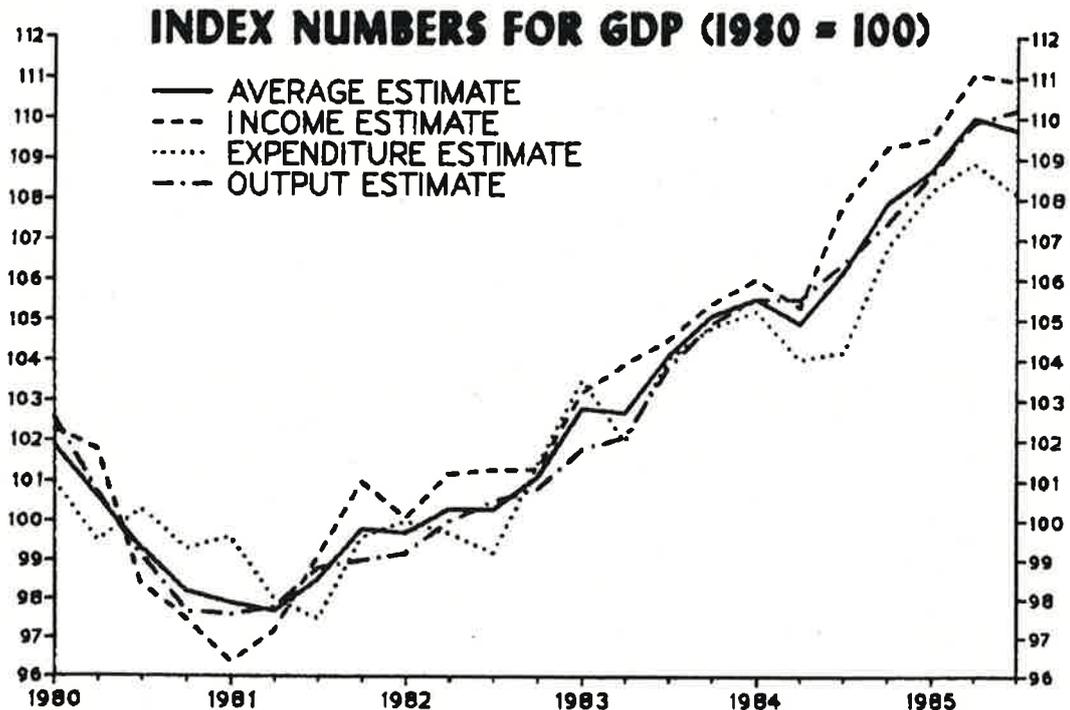
**Summary of GDP Growth Figures**

2. The path of the average estimate of GDP suggests that, after adjustment for the coal strike, activity has fallen a little since the first quarter of the year. However, the output measure of GDP, which is the most reliable indicator of short term movements in GDP, gives a slightly stronger picture: an upward movement in strike-adjusted GDP in the second quarter and no change in the third quarter.

**GDP IN 1985 Q3**

	<u>Actual GDP</u>			<u>Strike-Adjusted GDP</u>		
	<u>Per cent change on:</u>			<u>Per cent change on:</u>		
	<u>1985Q2</u>	<u>1985Q1</u>	<u>1984Q3</u>	<u>1985Q2</u>	<u>1985Q1</u>	<u>1984Q3</u>
GDP(A)	- ¼	+ 1	+ 3¼	- ½	- ¼	+ 2
GDP(O)	+ ¼	+ 1½	+ 3½	0	+ ½	+ 2¼

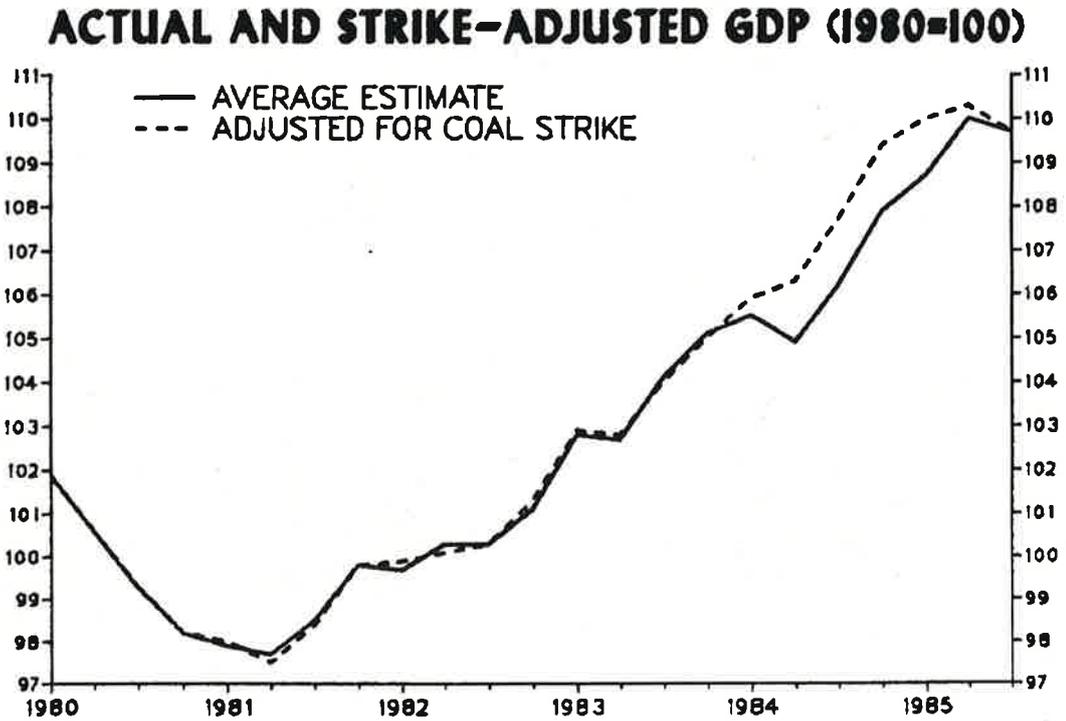
3. Growth in the average measure of GDP over the last two quarters has been dragged down by the relative weakness of the expenditure and income estimates of GDP. The path of GDP(E) this year has been distorted by the surge in investment in the first quarter ahead of the reduction in capital allowances.





Coal Strike

4. GDP in the third quarter is taken to have been unaffected by any residual effects of the coal strike. The chart below illustrates the paths of actual and strike-adjusted GDP since before the start of the strike.



GDP Growth since the last Cyclical Peak

5. The average measure of GDP in the second quarter of 1985 was 6 per cent above its previous cyclical peak, reached in the second quarter of 1979; and it was 12½ per cent above the trough reached in the second quarter of 1981. Over the 4½ years since the 1981 trough the rate of GDP growth has averaged 2½ per cent a year.



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**GDP INDEX 1980 PRICES**

**(Average Measure)**

	<b><u>Level</u></b> <b><u>(1980 = 100)</u></b>	<b><u>Percentage change</u></b> <b><u>or a year earlier</u></b>
1979	102.4	2.6%
1980	100.0	- 2.3%
1981	98.5	- 1.5%
1982	100.4	1.9%
1983	103.7	3.3%
1984	106.1	2.3%
1984 Q1	105.5	2.6%
Q2	104.9	2.1%
Q3	106.2	2.0%
Q4	107.9	2.7%
1985 Q1	108.7	3.0%
Q2	110.0	4.9%
Q3	109.7	3.3%
Q4	110.8	2.7%

} 109.8

**GDP Deflator**

6. Growth in the GDP deflator has picked up this year:

**GDP deflator, per cent change on year year earlier**

	<b><u>At factor cost</u></b>	<b><u>At market prices</u></b>
1984	4 $\frac{3}{4}$	4 $\frac{1}{4}$
1985 Q1	5 $\frac{1}{4}$	4 $\frac{3}{4}$
Q2	5	5 $\frac{1}{2}$
Q3	5 $\frac{3}{4}$	5 $\frac{3}{4}$

Memo: MTFS assumption  
for 1985-86

5



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The pick up in the GDP deflator partly reflects the sharp fall in import prices since the first quarter of the year. Because the GDP deflator measures roughly speaking, the margin between final prices and import costs, a fall in import costs tends to push up the GDP deflator for a period before final prices catch up with the movement in import costs.

**Components of Expenditure**

7. Consumers' expenditure rose by almost 1 per cent in real terms between the second and third quarters, following a 1½ per cent rise between the first and second quarters. Spending on durable goods was particularly strong. Total consumers' expenditure was up 4 per cent - and spending on durables up more than 12 per cent - in the third quarter of 1985 compared with the corresponding quarter of 1984. Stockbuilding and the real trade balance both made substantial negative contributions to GDP growth in the third quarter. Gross domestic fixed capital formation picked up a little but was still well below the first quarter level, reflecting the surge in investment that occurred ahead of the reduction in capital allowances. For the first three quarters of 1985 as a whole, gross domestic fixed capital formation was about 1 per cent up on the corresponding period of 1984.

**Company Profits**

8. Industrial and commercial companies' gross trading profits net of stock appreciation were about 20 per cent higher in the first three quarters of 1985 than in the corresponding period of 1984, though this comparison is affected by the inclusion of British Telecom profit in the figures for the more recent period. North Sea profits have been falling recently while profits of non-North Sea companies have continued to rise. The CSO will provide more detail on this when the ICCs press notice is published on 2 January.

**ICCs Trading Profits Net of Stock Appreciation**

	<b><u>£ billion</u></b>	<b><u>(per cent change on previous year)</u></b>
1982	33.9	16
1983	40.8	21
1984	50.6	24*
1985 Q1 - Q3	44.0	20*

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\* Affected by inclusion of British Telecom.



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Revisions to GDP

9. The press notice contains a technical note to editors which sets out ranges within which he eventually revised values of growth over the last one and two years are likely to lie, if past experience with revisions to GDP estimates is continued in the future. The ranges quoted are:

	<u>Growth</u> <u>1984Q3 - 1985Q3</u>	<u>Average Growth</u> <u>1983Q3 - 1985Q3</u>
Real GDP	3 - 5	2½ - 3¼
Real GDP, strike adjusted	1½ - 3½	2½ - 3¼
Money GDP	9¼ - 11¼	8¼ - 9¼
Money GDP, strike adjusted	8½ - 10½	8¼ - 9¼

Assessment

10. Clearly there has been some slowdown in growth since the beginning of the year. However, there have been major distortions to the quarterly path of GDP in 1985, quite apart from the coal strike. North Sea output fell back temporarily over the spring and summer - this was worth about ½ per cent off GDP growth between the first and third quarters. The 9 per cent fall in gross domestic fixed capital formation between the first and third quarters of the year has also depressed GDP growth. Thus the strike adjusted GDP figures give a misleading picture of the underlying trend in GDP.

11. The weakness in Q3 GDP was already apparent when the Autumn Statement forecast was prepared and was taken account of in the forecast. There are signs of renewed growth in the fourth quarter - eg higher manufacturing output in October, a recovery in North Sea output - and the Autumn Statement forecast of 3½ per cent GDP growth in 1985 should still be attained.



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**Line to Take**

- (a) GDP figures for first three quarters of 1985 - 3 $\frac{1}{4}$  per cent up on average on corresponding period of 1984 - are consistent with the Autumn Statement forecast of 3 $\frac{1}{2}$  per cent growth in 1984/5
- (b) There has been some slowdown this year, but the figures are distorted by the path of North Sea output and the special factors affecting investment. There are tentative signs of a pick up in growth in the fourth quarter. And the output estimate of GDP - the most reliable short-term indicator - has been significantly stronger than the other estimates.
- (c) Consumption is moving strongly ahead, with signs of a renewed boom in durables spending.
- (d) The GDP figures are more often than not revised upwards.

**S J DAVIES**





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AND  
INFORMATION SERVICE**

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**PERSONAL AND RESTRICTED until release**

**of Press Notice at 11.30 a.m. on 20<sup>th</sup> December 1985  
and thereafter unclassified**

CSO(85)118

20 December 1985

**GROSS DOMESTIC PRODUCT IN THE THIRD QUARTER 1985**

Provisional estimates of gross domestic product (GDP) at constant factor cost for the third quarter of 1985 suggest that the level of economic activity was much the same as during the second quarter.

The third quarter estimate for the average measure of GDP was 3-3½ per cent higher than in the corresponding quarter of 1984. If broad allowance is made for the direct effects of the coal dispute on the earlier period, the increase over the same period is estimated at around 2 per cent. (First estimates of growth rates are liable to be revised in the light of further information. See Notes to Editors for guidance on the likely range of revisions.)

Provisional estimates for the three broadly independent measures of GDP at constant factor cost (based on expenditure, income and output) show somewhat differing profiles. The output-based measure is considered the most appropriate way of measuring changes in the short term and, after broad allowance for the coal dispute, this indicates little movement between the second and third quarters of 1985 and a rise of nearly 2½ per cent over the year to the third quarter.

The average measure of GDP at current market prices ("money GDP") rose 9-9½ per cent between the third quarters of 1984 and 1985. If allowance is made for the coal dispute the increase was 8 per cent.



NATIONAL ACCOUNTS AGGREGATES  
INDEX NUMBERS: SEASONALLY ADJUSTED<sup>1</sup>

1980 = 100

Gross domestic product								National disposable income at 1980 market prices	Implied gross domestic product deflator		
At current market prices		At current factor cost		At constant factor cost 1980 prices			Average estimate		At factor cost	At market prices	
Average estimate	Based on expenditure data	Based on income data	Average estimate	Based on expenditure data	Based on income data <sup>2</sup>	Based on output data		Average estimate	Based on expenditure data <sup>3</sup>	Based on expenditure data	
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0		
1981	110.0	109.1 <sup>+</sup>	108.9 <sup>+</sup>	98.5 <sup>+</sup>	98.7	98.4 <sup>+</sup>	98.3	99.3	110.6 <sup>+</sup>	111.8 <sup>+</sup>	
1982	120.3 <sup>+</sup>	118.2	119.2	100.4	100.1 <sup>+</sup>	101.0	100.1	101.1 <sup>+</sup>	118.1	120.0	
1983	130.6	129.3	130.2	103.7	103.6	104.3	103.1	104.7	124.8	126.1	
1984	139.5	137.4	140.1	106.1	105.0	107.1	106.2	107.2	130.8	131.4	
1979	1	78.2	78.8	79.3	99.8	99.1	99.7	100.5	99.8	79.6	77.9
	2	83.9	84.9	84.6	103.6	103.3	103.0	104.4	103.1	82.1	80.4
	3	86.4	88.4	88.1	103.2	103.4	103.1	103.2	102.4	85.5	86.0
	4	91.9	91.5	91.7	103.2	102.8	103.0	103.7	102.0	89.0	89.2
1980	1	95.8	94.7	96.0	101.9	101.0	102.3	102.6	101.5	93.8	93.7
	2	98.8	97.5	99.8	100.6	99.5	101.8	100.7	99.9	98.0	98.3
	3	101.5	102.7	100.9	99.3	100.3	98.4 <sup>+</sup>	99.1	99.3	102.4	102.5
	4	104.0	105.1	103.3	98.2	99.3	97.5	97.7	99.3	105.8	105.6
1981	1	105.4 <sup>+</sup>	107.4 <sup>+</sup>	103.9 <sup>+</sup>	97.9 <sup>+</sup>	99.6 <sup>+</sup>	96.4	97.6	99.6 <sup>+</sup>	107.8	107.9 <sup>+</sup>
	2	108.9	107.5	106.6	97.7	98.0	97.2	97.8	99.0	109.6 <sup>+</sup>	111.1
	3	111.5	109.1	110.9	98.5	97.5	99.1	98.8 <sup>+</sup>	98.9	111.9	113.1
	4	114.3	112.6	114.2	99.8	99.6	101.0	99.0	100.0	113.0	114.9
1982	1	116.3	114.0	114.1	99.7	100.0	100.1	99.2	100.5	114.1	116.7
	2	119.5	117.4	119.2	100.3	99.7	101.2	100.0	100.3	117.8	119.3
	3	121.6	118.3	120.8	100.3	99.2	101.3	100.5	100.9	119.3	121.3
	4	124.0	122.8	122.7	101.1	101.4	101.3	100.8	102.4	121.2	122.7
1983	1	127.9	127.1	126.8	102.8	103.5	103.2	101.8	104.3	122.8	124.6
	2	127.9	126.0	128.3	102.7	102.0	103.9	102.1	102.5	123.5	124.8
	3	131.9	130.8	131.5	104.1	104.0	104.5	103.8	105.8	125.8	126.9
	4	134.6	133.3	134.1	105.1	104.8	105.4	104.9	106.0	127.2	128.3
1984	1	136.8	135.6	136.6	105.5	105.2	106.0	105.5	106.6	128.9	129.6
	2	137.1	135.5	137.2	104.9	104.0	105.3	105.5	106.0	130.3	130.3
	3	140.2	136.7	141.6	106.2	104.2	107.9	106.4	107.0	131.3	132.1
	4	144.0	141.7	145.0	107.9	106.8	109.3	107.4	109.2	132.7	133.4
1985	1	147.0	146.9	146.7	108.7	108.2	109.5	108.6	107.8	135.8	135.8
	2	150.5	149.0	152.0	110.0	108.9	111.1	109.9	110.4	136.8	137.6
	3	153.3	150.2	154.0	109.7	108.1	110.9	110.2	111.1	138.9	139.8

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



The real income of the United Kingdom, as shown by gross national disposable income at constant market prices, increased by nearly 4 per cent between the third quarters of 1984 and 1985.

The increase compared with a year earlier in the implied factor cost GDP deflator ("index of total home costs") was nearly 6 per cent in the third quarter of 1985.

Estimates of GDP at current and constant prices, of real national disposable income and of the implied GDP deflators are given in index number form on page 2.

#### Expenditure at current and constant 1980 prices (Tables A & B)

At current prices the expenditure measure of gross domestic product at factor cost, (GDP(E)), rose nearly 1 per cent in the third quarter of 1985 to a level 10 per cent higher than a year earlier. At constant 1980 prices the provisional figures suggest a fall of over  $\frac{1}{2}$  per cent between the second and third quarters of 1985 following a rise of similar magnitude between the first two quarters of the year. But the profile is affected by the coal dispute and the uneven profile of investment; taking the first three quarters of 1985 compared with the same period in 1984, and allowing for the coal dispute, the increase is 3- $\frac{1}{2}$  per cent.

At constant prices, consumers' expenditure increased by nearly 1 per cent in the third quarter of 1985 to reach a level 4 per cent above that of a year earlier. Further details are given on page 5. General government final expenditure rose by less than 1 per cent between the second and third quarters of 1985 and, compared with the third quarter of 1984, was unchanged. The recent quarterly path of fixed investment reflects some acceleration of expenditure into the first quarter of 1985 in anticipation of the reduction in first year capital allowances in April. Fixed investment in the third quarter of 1985 was 2 per cent above the low second quarter level. There was a further small addition to stocks in the third quarter of 1985, following the resumed stockbuilding in the previous quarter. The balance of overseas trade in goods and services fell back somewhat in the third quarter from the high balance recorded in the second quarter. Exports fell by 4 per cent and imports by 2 per cent.



### Income at current prices (Table C)

At current prices the income measure of gross domestic product at factor cost, (GDP(I)), rose some 8½ per cent in the third quarter of 1985 compared with a year earlier. Income from employment increased by 9½ per cent over the same period. The gross trading surpluses of public corporations further recovered in the third quarter of 1985. (Comparisons with earlier periods are affected by the coal dispute and the exclusion of British Telecom since its privatisation in November 1984.) Company profits before deduction of stock appreciation were little changed between the second and third quarters of 1985 and remained 10 per cent below their first quarter peak, reflecting sharp falls in North Sea oil companies' profits. In the third quarter total company profits were 3½ per cent higher than a year earlier (equivalent to 2½ per cent lower if British Telecom is excluded from the latest period).

When deflated by the implied index of total home costs GDP(I) rose by nearly 3 per cent between the third quarters of 1984 and 1985 but this comparison is affected by the coal dispute.

### Output at constant 1980 prices (Table D)

The output measure of gross domestic product (GDP(O)) increased slightly between the second and third quarters of 1985. The service industries continued to grow, with increases of 1½ per cent in distribution and communication, but output of the production industries fell slightly.

Although the coal strike had no impact on third quarter output, it has affected comparisons with earlier quarters. After adjusting for the effects of the strike, the output measure showed little change between the second and third quarters of 1985 but rose by nearly 2½ per cent between the third quarters of 1984 and 1985.



### Consumers' expenditure (Table E and F)

At a little under 1 per cent, the rise in consumers' expenditure at constant prices between the second and third quarters took spending to a level 4 per cent higher than in the third quarter of 1984.

Within the total, expenditure on durable goods showed a 12 per cent growth over the period; spending on the main categories of durable goods all rose. The particularly sharp rise of 17 per cent in expenditure on vehicles reflected a further recovery since the first quarter of 1985 following the fall back in sales from the third quarter of 1984. Spending on food rose rather more than 2 per cent between the second and third quarters of 1985 after being virtually flat since the third quarter of 1984; over the same period there has been little change in expenditure on drink and tobacco. Among other goods, spending on clothing was unchanged between the second and third quarters of 1985 but was nearly 7 per cent higher than a year earlier; there was a similar growth in expenditure on energy products.

At current prices consumers' expenditure grew by 2 per cent between the second and third quarters of 1985, and by 9 per cent over the year.

### Average estimates of gross domestic product (Table G)

A new table, Table G, shows average estimates of GDP on four bases (at current market prices, current factor cost, constant market prices and at constant factor cost) expressed both in £billion and in index number form.



## NOTES TO EDITORS

1. Although estimates of gross domestic product (GDP) based on expenditure, income and output should in principle give the same result, in practice there are often variations between them. The output measure is usually the best indicator of quarter to quarter movements; for comparisons over periods of a year or more the average of the three measures is preferred. Investigations continue into the discrepancies between growth in the three measures.

2. In the interpretation of quarterly and annual national accounts estimates, special attention needs to be paid to the higher margins of error attaching to series estimated at constant prices when the rate of inflation is changing significantly. Rapidly changing exchange rates may also affect the valuation of international transactions and the measurement of profits derived from them.

3. More detailed estimates of national income and expenditure up to the third quarter, 1985, will be published in an article in the January issue of Economic Trends. They will be based on later data than are available for this press notice and will incorporate the estimates of personal income and expenditure and of industrial and commercial companies' appropriation account which are scheduled for release on 6 January. The revised data can be obtained from the CSO Databank after that date. The Databank is a collection of macro-economic time-series sold to the public in computer-readable form. The service is run on CSO's behalf by CISI Wharton. Further details can be obtained from CISI Wharton, Ebury Gate, 23 Lower Belgrave Street, London SW1W 0NW, Telephone: 01-730 8171.

4. As usual the commentary in the press notice is based entirely on seasonally adjusted data, as shown in the attached tables. A † indicates that the data are new or have been revised. The period so marked is the earliest in the column to have been revised. If the † appears against the first figure in a column, this implies that earlier data have also probably been revised. Figures for these earlier periods will be published in the January issue of Economic Trends or they can be obtained via the CSO Databank.

### 5. Technical note on revisions

Estimates of GDP are subject to revision as more information becomes available. Early estimates are particularly uncertain. An analysis of revisions experience, published in the July 1985 issue of Economic Trends, showed that revisions to growth rates of GDP data published for 1971 to 1979 were, on balance, upwards though not uniformly so.

If past revisions experience were to continue - and this is by no means certain since compilation methods are regularly reviewed and modified as necessary - the analysis suggests a range within which the eventually revised value of the growth rate is likely to lie. The table below shows the first estimates of the growth rates of current and constant price GDP (average measure), together with the ranges within which the revised values might be expected to lie on two thirds of occasions some five years after first publication, that is, if future revisions are similar to the past.



Percentage changes (at annual rate) (1)

	<u>Change between the third quarters of 1984 and 1985</u>	<u>Range based on past experience</u>	<u>Change between the third quarters of 1983 and 1985</u>	<u>Range based on past experience</u>
<u>Constant prices</u>				
GDP - average measure at factor cost	3 $\frac{1}{4}$	3-5	2 $\frac{1}{2}$	2 $\frac{1}{2}$ -3 $\frac{3}{4}$
GDP - as above but after allowing for the coal dispute (2)	2	1 $\frac{1}{2}$ -3 $\frac{1}{2}$	2 $\frac{3}{4}$	2 $\frac{1}{2}$ -3 $\frac{3}{4}$
<u>Current prices</u>				
GDP - average measure at market prices (3)	9 $\frac{1}{4}$	9 $\frac{3}{4}$ -11 $\frac{3}{4}$	7 $\frac{3}{4}$	8 $\frac{1}{4}$ -9 $\frac{3}{4}$
GDP - as above but after allowing for the coal dispute (2), (3)	8	8 $\frac{1}{2}$ -10 $\frac{1}{2}$	7 $\frac{3}{4}$	8 $\frac{1}{4}$ -9 $\frac{3}{4}$

- (1) Figures for growth rates based on individual quarters vary from quarter to quarter and do not represent the underlying rate of growth.
- (2) Estimates of the effects of the coal dispute are tentative and consequently greater uncertainty attaches to the figures after allowing for the coal dispute.
- (3) The range shown is based on the analysis of revisions applicable to GDP at current factor cost. It is unlikely that the revisions performance of GDP at current market prices differed significantly from that at factor cost.



EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT CURRENT PRICES

Seasonally adjusted

TABLE A

£ MILLION

Final expenditure on goods and services at market prices												
	GROSS DOMESTIC PRODUCT		Total final expenditure	Consumers' expenditure	General government consumption			Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
	At market prices	At factor cost			Total	Central government	Local authorities					
1980	230 011	199 246	287 729	136 995	48 906	29 940	18 966	41 588	-2 875	63 115	57 718	30 765
1981	253 466†	217 432†	314 141†	152 245†	55 357	33 859	21 498	41 449†	-2 815†	67 905	60 675†	36 034
1982	276 041	235 414	344 145	166 575	60 382†	37 056†	23 326	45 413	-1 305	73 080†	68 104	40 627†
1983	300 113	257 586	377 667	181 931	65 640	40 558	25 082	49 033	673	80 390	77 554	42 527
1984	318 085	273 733	410 370	193 625	69 620	42 857	26 763	55 250	-495	92 370	92 285	44 352
1982												
1	67 001†	56 792†	83 635†	40 087†	14 633	9 059	5 574	10 633†	430†	17 852	16 634†	10 209
2	68 346	58 498	85 743	41 040	14 980	9 197	5 783	11 207	249	18 267	17 397	9 848†
3	69 230	58 934	86 192	42 056	15 220	9 304	5 916	11 679	-851	18 088	16 962	10 296
4	71 464	61 190	88 575	43 392	15 549†	9 496†	6 053	11 894	-1 133	18 873†	17 111	10 274
1983												
1	73 928	63 298	92 491	44 119	16 355	10 252	6 103	12 025	334	19 658	18 563	10 630
2	73 142	62 740	92 303	44 891	16 214	9 894	6 320	11 824	-213	19 587	19 161	10 402
3	75 763	65 140	95 069	46 086	16 323	10 060	6 263	12 262	359	20 039	19 306	10 623
4	77 280	66 408	97 804	46 835	16 748	10 352	6 396	12 922	193	21 106	20 524	10 872
1984												
1	78 445	67 536	99 579	47 377	16 802	10 396	6 406	13 403	-138	22 135	21 134	10 909
2	78 228	67 487	100 628	48 296	17 040	10 345	6 695	13 577	-498	22 213	22 400	10 741
3	79 315	68 111	102 743	48 286	17 705	10 966	6 739	13 930	-120	22 942	23 428	11 204
4	82 097	70 599	107 420	49 666	18 073	11 150	6 923	14 340	261	25 080	25 323	11 498
1985												
1	84 145	73 178	110 755	50 646	18 474	11 560	6 914†	15 558	-414	26 491	26 610	10 967
2	85 816	74 200	110 889	51 648	18 309	11 463	6 846	13 921	517	26 494	25 073	11 616
3	87 038	74 825	110 455	52 757	18 547	11 625	6 922	14 536	-22	24 637	23 417	12 213



EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

Seasonally adjusted

TABLE B

£ MILLION

Final expenditure on goods and services at market prices

	GROSS DOMESTIC PRODUCT		Total final expenditure	Consumers' expenditure	General government consumption			Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
	At market prices	At factor cost			Total	Central government	Local authorities					
1980	230 011	199 246	287 729	136 995	48 906	29 940	18 966	41 588	-2 875	63 115	57 718	30 765
1981	226 802†	196 591†	282 720†	136 511†	48 943†	30 144	18 799†	37 708†	-2 484†	62 042	55 918†	30 211
1982	230 003	199 383	288 747	137 596	49 360	30 394†	18 966	40 122	-1 121	62 790†	58 744	30 620
1983	237 947	206 371	300 070	142 820	50 237	30 907	19 330	41 936	673	64 404	62 123	31 576
1984	242 148	209 294	310 116	145 074	50 879	31 175	19 704	45 361	-142	68 944	67 968	32 854†
1982 1	57 404†	49 792†	71 965†	33 970†	12 328†	7 630	4 698†	9 485†	501†	15 681†	14 561†	7 612
2	57 279	49 669	72 389	34 064	12 232	7 534	4 698	9 939	237	15 917	15 110	7 610
3	57 087	49 416	71 669	34 501	12 318	7 572†	4 746	10 324	-893	15 419	14 582	7 671
4	58 233	50 506	72 724	35 061	12 482	7 658	4 824	10 374	-966	15 773	14 491	7 727
1983 1	59 354	51 536	74 358	35 148	12 528	7 712	4 816	10 441	267	15 974	15 004	7 818
2	58 625	50 822	73 986	35 419	12 521	7 673	4 848	10 230	-28	15 844	15 361	7 803
3	59 723	51 797	75 266	36 064	12 532	7 721	4 811	10 426	241	16 003	15 543	7 926
4	60 245	52 216	76 460	36 189	12 656	7 801	4 855	10 839	193	16 583	16 215	8 029
1984 1	60 512	52 393	76 689	36 062	12 564	7 737	4 827	11 172	-72	16 963	16 177	8 119†
2	60 028	51 799	76 823	36 284	12 642	7 705	4 937	11 371	-313	16 839	16 795	8 229
3	60 053	51 883	77 116	36 102	12 836	7 820	5 016	11 360	-159	16 977	17 063	8 170
4	61 555	53 219	79 488	36 626	12 837	7 913	4 924	11 458	402	18 165	17 933	8 336
1985 1	61 969	53 887	79 863	36 626	12 862	8 036	4 826	12 249	-300	18 426	17 894	8 082
2	62 368	54 227	79 907	37 227	12 713	7 859	4 854	10 928	415	18 624	17 539	8 141
3	62 276	53 865	79 517	37 555	12 819	7 953	4 866	11 133	82	17 928	17 241	8 411



FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT  
AT CURRENT PRICES

Seasonally adjusted

TABLE C

£ MILLION

	GROSS NATIONAL PRODUCT (expenditure-based)		Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME-BASED)	Total domestic income	Income from employment	Gross trading profits or surplus				LESS Stock appreciation	Memorandum items		
	At market prices	At factor cost						Comp-anies(1),(5)	Public corpor-ations(5)	General government enterprises	Other income(2)		Company profits net of stock app-eciation	Industrial & com-mercial companies trading profits(3)	
														gross	net(4)
1980	229 792	199 027	-219	-138†	199 384†	206 116†	137 353	29 024	6 161	132	33 446†	6 732	23 502	31 567	26 045
1981	254 416†	218 382†	950	343	217 089	223 151	148 194	29 760	7 752	155	37 290	6 062†	24 731†	34 244	29 215†
1982	277 099	236 472	1 058†	-2 302	237 716	242 053	158 145	33 985	9 229	113	40 581	4 337	30 525	37 315	33 855
1983	302 544	260 017	2 431	-1 927	259 513	264 544	169 997†	40 646†	9 881†	-76	44 096	5 031	36 528	44 949†	40 831
1984	321 425	277 073	3 340	-5 626	279 359	284 854	180 439	48 349	8 479	-251†	47 838	5 495	43 746	55 193	50 590
1982	1 66 897†	56 688†	-104†	-107†	56 899†	57 990†	38 776	7 120	2 224	51	9 819†	1 091†	6 323†	8 085	7 288†
	2 68 671	58 823	325	-939	59 437	60 203	39 388	8 563	2 187	38	10 027	766	7 857	9 403	8 697
	3 69 532	59 236	302	-1 300	60 234	61 297	39 694	8 884	2 450	3	10 266	1 063	7 968	9 649	8 733
	4 71 999	61 725	535	44	61 146	62 563	40 287	9 418	2 368	21	10 469	1 417	8 377	10 178	9 137
1983	1 74 563	63 933	635	106	63 192	64 134	41 421†	9 574	2 453†	-26	10 712	942	8 813	10 412	9 651
	2 73 404	63 002	262	-1 224	63 964	65 345	42 175	9 732†	2 580	-21	10 879	1 381	8 650	10 709†	9 627
	3 76 688	66 065	925	-395	65 535	66 928	42 805	10 647	2 349	-8	11 135	1 393	9 470	11 797	10 620
	4 77 889	67 017	609	-414	66 822	68 137	43 596	10 693	2 499	-21	11 370	1 315	9 595	12 031	10 933
1984	1 79 003	68 094	558	-557	68 093	69 281	44 111	11 249	2 365	-50	11 606	1 188	10 272	12 765	11 788
	2 79 099	68 358	871	-879	68 366	69 819	44 559	11 315	2 202	-65†	11 808	1 453	10 036	12 983	11 704
	3 80 232	69 028	917	-2 491	70 602	71 751	45 154	12 401	2 182	-43	12 057	1 149	11 422	14 188	13 209
	4 83 091	71 593	994	-1 699	72 298	74 003	46 615	13 384	1 730	-93	12 367	1 705	12 016	15 257	13 889
1985	1 84 894	73 927	749	-920	74 098	75 726	47 513	14 283	1 200	131	12 599	1 628	12 965	16 233	14 915
	2 86 535	74 919	719	-1 574	75 774	76 036	48 453	12 919	1 846	-59	12 877	262	12 678	14 944	14 703
	3 87 919	75 706	881	-1 932	76 757	77 498	49 422	12 836	2 102	-5	13 143	741	12 300	14 936	14 400

(1) Including financial institutions.

(2) Income from rent, self employment and imputed charge for consumption of non-trading capital.

(3) Excluding financial companies and institutions. Their contribution to the gross national product is measured as the difference between bank charges, commissions, etc, on the one hand and the management expenses on the other, and is negative.

(4) Gross trading profits net of stock appreciation.

(5) The figures reflect the privatisation of British Telecom with effect from 28 November 1984.



INDEX NUMBERS OF OUTPUT AT CONSTANT FACTOR COST

Seasonally adjusted

TABLE D

1980 = 100

	GROSS DOMESTIC PRODUCT	Agriculture forestry and fishing	Total production and construction	Production				Distribution hotels and catering; repairs	Transport and communication	Other
				Total	Energy and water supply	Manufacturing (revised definition)	Construction			
1980 Weights	1000	22	424	361	95	266	63	128	72	354
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	98.3	102.4	95.6	96.6	103.9	94.0	89.9	98.1†	99.3†	101.1
1982	100.1	111.0	97.3	98.4	110.0	94.2	91.6	100.0	98.9	103.0†
1983	103.1	106.5†	100.9	101.9	115.9	96.9	95.3	103.2	102.4	105.7
1984	106.2	119.1	102.4	103.1	110.1†	100.7†	98.6	106.9	106.7	109.5
1982 1	99.2	109	96.1	97.4	104.6	94.8	89.1	99	99†	102†
2	100.0	112	97.5	98.7	109.4	94.9	90.6	99	100	103
3	100.5†	112	98.1	99.1	113.2	94.0	92.6	101†	98	103
4	100.8	111	97.7	98.3	112.9	93.1	94.3	101	99	104
1983 1	101.8	106	99.4	100.4	113.1	95.8	93.7	102	101	105
2	102.1	104	99.1	100.4	114.3	95.5	92.1	102	102	105
3	103.8	105	102.0	102.8	117.6	97.4	97.7	104	102	106
4	104.9	110	103.1	103.9	118.4	98.7	97.8	105	104	107
1984 1	105.5	115	103.2†	104.3†	117.3†	99.7†	97.0	105	105	108
2	105.5	119	101.7	102.4	108.1	100.3	98.1	106	105	109
3	106.4	121	102.1	102.4	105.4	101.3	100.5	107	108	110
4	107.4	120	102.8	103.5	109.7	101.3	98.7	109	110	111
1985 1	108.6	120	105.1	106.0	115.2	102.7	99.3	109	111	112
2	109.9	120	107.0	108.2	121.4	103.5	100.2†	110	112	112
3	110.2	121†	106.6	107.8	121.6	102.8	100.2	111	113	113



CONSUMERS' EXPENDITURE AT CURRENT PRICES

Seasonally adjusted

TABLE E

£ MILLION

	Total consumers' expenditure	Durable goods			Other goods							Services				
		Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)	
1980	136 995	13 673	6 661	3 429	3 583	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 370	16 044	34 439	
1981	152 245†	14 226†	6 792†	3 536	3 898	24 170	5 970	5 183	5 515	8 318	1 848	13 367	15 556	19 465	38 627†	
1982	166 575	15 452	7 351	3 698	4 403	25 590	6 451	5 553	5 882	8 854	2 067	14 955	16 811	22 386†	42 574	
1983	181 931	18 241	9 136	4 116	4 989	27 287	7 140	6 232	6 208	9 782	2 312	16 214	18 236†	23 589	46 690	
1984	193 625	19 241	9 536	4 392	5 313	28 448	7 733	6 683	6 622†	10 619	2 539	16 929	19 782	24 565	50 464	
1982	1	40 087†	3 569†	1 665†	880	1 024†	6 272†	1 567†	1 337†	1 468†	2 168†	513†	3 484†	4 090†	5 356†	10 263†
	2	41 040	3 662	1 711	896†	1 055	6 512	1 625	1 375	1 431	2 172	501	3 645	4 129	5 533	10 455
	3	42 056	3 930	1 852	938	1 140	6 327	1 610	1 388	1 467	2 226	516	3 860	4 246	5 696	10 790
	4	43 392	4 291	2 123	984	1 184	6 479	1 649	1 453	1 516	2 288	537	3 966	4 346	5 801	11 066
1983	1	44 119	4 424	2 227	993	1 204	6 587	1 742	1 485	1 535	2 348	551	3 921	4 424	5 877	11 225
	2	44 891	4 382	2 109	1 038	1 235	6 671	1 704	1 536	1 538	2 423	577	4 146	4 501	5 838	11 575
	3	46 086	4 663	2 404	1 023	1 236	6 920	1 864	1 569	1 545	2 472	586	4 085	4 595	5 914	11 873
	4	46 835	4 772	2 396	1 062	1 314	7 109	1 830	1 642	1 590	2 539	598	4 062	4 716	5 960	12 017
1984	1	47 377	4 682	2 355	1 067	1 260	7 067	1 884	1 636	1 622	2 524	595	4 287	4 711	6 071	12 298
	2	48 296	4 876	2 507	1 074	1 295	7 180	1 885	1 669	1 629	2 625	633	4 211	4 919	6 066	12 603
	3	48 286	4 635	2 204	1 115	1 316	7 044	1 934	1 692	1 668	2 706	649	4 190	4 998	6 160	12 610
	4	49 666	5 048	2 470	1 136	1 442	7 157	2 030	1 686	1 703	2 764	662	4 241	5 154	6 268	12 953
1985	1	50 646	4 802	2 303	1 128	1 371	7 276	2 057	1 675	1 735	2 850	674	4 611	5 192	6 441	13 333
	2	51 648	5 246	2 699	1 150	1 397	7 320	2 026	1 694	1 734	2 975	686	4 642	5 381	6 612	13 332
	3	52 757	5 555	2 907	1 187	1 461	7 513	2 056	1 720	1 772	3 001	690	4 736	5 472	6 694	13 548

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



CONSUMERS' EXPENDITURE AT 1980 PRICES

Seasonally adjusted

TABLE F

£ MILLION

	Total consumers' expenditure	Durable goods			Other goods							Services				
		Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)	
1980	136 995	13 673	6 661	3 429	3 583	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 370	16 044	34 439	
1981	136 511†	13 789†	6 610†	3 376	3 803	22 676	5 000	4 612	4 470	8 105	1 692	10 992	14 438	16 279	34 458†	
1982	137 596	14 475	6 792	3 424	4 259	22 587	4 825	4 545	4 128	8 330	1 811	11 038	14 623	16 514†	34 720	
1983	142 820	16 623	8 131	3 694	4 798	23 019	4 914	4 816	4 083	8 872	1 951	11 129	14 915†	16 742	35 756	
1984	145 074	16 656	7 747	3 749	5 160	22 739	4 943	5 040	3 944	9 359	2 057	11 239†	15 457	16 969	36 671	
1982	1	33 970†	3 346	1 525	826	995	5 597	1 206	1 129	1 056	2 072	453	2 731	3 653	4 105†	8 622†
	2	34 064	3 427	1 577	831	1 019	5 694	1 228	1 128	1 025	2 055	441	2 727	3 620	4 123	8 596
	3	34 501	3 702	1 733	867	1 102	5 618	1 193	1 119	1 020	2 084	451	2 788	3 670	4 136	8 720
	4	35 061	4 000	1 957	900	1 143	5 678	1 198	1 169	1 027	2 119	466	2 792	3 680	4 150	8 782
1983	1	35 148	4 092	2 029	904	1 159	5 696	1 223	1 173	1 018	2 159	468	2 734	3 702	4 164	8 719
	2	35 419	3 998	1 882	933	1 183	5 699	1 187	1 187	1 029	2 209	489	2 847	3 692	4 179	8 903
	3	36 064	4 272	2 169	917	1 186	5 796	1 277	1 201	1 013	2 233	495	2 783	3 723	4 193	9 078
	4	36 189	4 261	2 051	940	1 270	5 828	1 227	1 255	1 023	2 271	499	2 765	3 798†	4 206	9 056
1984	1	36 062	4 142	1 995	928	1 219	5 743	1 239	1 233	1 020	2 259	489	2 863	3 747	4 213	9 114
	2	36 284	4 196	2 024	922	1 250	5 731	1 224	1 260	974	2 315	517	2 800†	3 859	4 236	9 172
	3	36 102	4 053	1 831	941	1 281	5 603	1 228	1 278	974	2 376	523	2 783	3 884	4 252	9 148
	4	36 626	4 265	1 897	958	1 410	5 662	1 252	1 269	976	2 409	528	2 793	3 967	4 268	9 237
1985	1	36 626	4 083†	1 796†	949	1 338	5 666	1 240	1 231	971	2 468	524	2 934	3 884	4 281	9 344
	2	37 227	4 308	1 998	952	1 358†	5 683	1 207	1 258	960†	2 535	535	2 902	3 954	4 293	9 592
	3	37 555	4 549	2 146	978†	1 425	5 820†	1 206†	1 276†	957	2 536†	533†	2 962	3 981	4 309	9 426

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



NATIONAL ACCOUNTS AGGREGATES (1)

TABLE G

Gross domestic product (average estimates)

£ billion

Index numbers : 1980=100

	1980 prices				1980 prices			
	At current market prices	At current factor cost	At constant market prices	At constant factor cost	At current market prices	At current factor cost	At constant market prices	At constant factor cost
1980	230.0†	199.3	230.1	199.3	100.0	100.0	100.0	100.0
1981	253.1	217.1†	226.5†	196.3†	110.0	108.9	98.5†	98.5†
1982	276.8	236.2	230.7	200.1	120.3†	118.5†	100.3	100.4
1983	300.3	257.9	238.3	206.7	130.6	129.4	103.6	103.7
1984	321.0	276.6	244.3	211.5	139.5	138.8	106.2	106.1
<b>Seasonally adjusted</b>								
1982	66.9†	56.7†	57.3†	49.7†	116.3†	113.8†	99.6†	99.7†
1	68.7	58.9	57.6	50.0	119.5	118.2	100.1	100.3
2	69.9	59.6	57.6	50.0	121.6	119.7	100.2	100.3
3	71.3	61.1	58.1	50.4	124.0	122.6	101.0	101.1
4								
1983	73.6	62.9	59.0	51.2	127.9	126.3	102.6	102.8
1	73.5	63.2	59.0	51.2	127.9	126.8	102.5	102.7
2	75.9	65.2	59.8	51.9	131.9	130.9	104.0	104.1
3	77.4	66.6	60.4	52.4	134.6	133.6	105.0	105.1
4								
1984	78.7	67.8	60.7	52.6	136.8	136.1	105.5	105.5
1	78.8	68.1	60.5	52.3	137.1	136.7	105.2	104.9
2	80.7	69.4	61.1	52.9	140.2	139.4	106.2	106.2
3	82.8	71.3	62.1	53.8	144.0	143.1	108.0	107.9
4								
1985	84.8	73.6	62.2	54.2	147.0	147.7	108.2	108.7
1	86.9	75.0	63.0	54.8	150.5	150.5	109.4	110.0
2	88.2	76.0	63.1	54.7	153.3	152.4	109.7	109.7
3								

(1) These estimates are given to one decimal place but this does not imply that they can be regarded as accurate to the last digit shown.





FROM: A W KUCZYS  
DATE: 16 December 1985

*Ref*

cc Miss O'Mara  
Mr Vernon

MR K MANSELL - CSO

**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES**

The Chancellor was grateful for your note of 19 November. He is pleased to note that work is now well in hand to correct the present downward bias - he hopes this can be implemented very soon.

*AWK*

A W KUCZYS









B/f with  
response (or  
20/11)pl

FROM: A W KUCZYS  
DATE: 13 November 1985

MR VERNON

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr H P Evans  
Mr Scholar  
Mr Culpin  
Miss O'Mara  
Mr Cropper  
Mr H Davies  
Mr Lord  
Mr Mansell - CSO  
Mr Kingaby - CSO  
Mr Lang - CSO

**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER 1985**

The Chancellor was grateful for your note of 12 November. He is, however, concerned at the way these figures keep having to be revised up<sup>wards</sup>. He has asked whether it would be possible for the CSO to make an appropriate adjustment when publishing the original figures?

*AWK*

A W KUCZYS



PERSONAL AND CONFIDENTIAL  
until 11.30am Wednesday 13 November  
then UNCLASSIFIED

FROM: K VERNON  
DATE: 12 NOVEMBER 1985

1. MISS O'MARA

2. CHANCELLOR OF THE EXCHEQUER

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

As we suspected,  
the earlier manufacturing figures have  
been revised up. We  
are now above the  
1979 average for total  
production but not yet  
above 1979 Q2  
Mon

12/11

This is seen as  
misleading. Cannot  
be CSO make an  
adjustment for an  
adjustment when published  
original figures? M

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER 1985

This will be published at 11.30am on Wednesday, 13 November.

2. The index of production fell  $\frac{1}{2}$  per cent in the third quarter of this year but was  $5\frac{1}{2}$  per cent higher than a year ago. Within production, manufacturing output also fell by  $\frac{1}{2}$  per cent in the third quarter.

3. Between August and September the index of production rose by  $1\frac{1}{2}$  per cent. Manufacturing output was broadly unchanged but output of the energy and water supply industries rose by 5 per cent as oil and gas extraction recovered from the depressed levels of recent months.



4. Recent movements

percentage changes	1985Q3 on <u>1985Q2</u>	1985Q3 on <u>1984Q3</u>	September on <u>August</u>
Index of Production	- $\frac{1}{2}$	+5 $\frac{1}{2}$	+1 $\frac{1}{2}$
within which:			
Manufacturing	$\frac{1}{2}$	+1 $\frac{1}{2}$	0
Energy and Water	0	+15 $\frac{1}{2}$	+5

underlying figures

**adjusted for coal strike:**

Index of Production	- $\frac{1}{2}$	+2	+1 $\frac{1}{2}$
Manufacturing output	$\frac{1}{2}$	+1 $\frac{1}{2}$	0

5. The CSO Press Notice will state that the effects of the coal strike on the level of industrial production were negligible in the third quarter compared with  $\frac{1}{2}$  per cent in the second quarter.

6. Though tentative estimates show a small decline in manufacturing output in the third quarter, revised (and more firmly based) figures for earlier periods now show good growth of  $\frac{3}{4}$  per cent between the first two quarters of this year. Manufacturing output in the first three quarters of the year currently shows 2 $\frac{3}{4}$  per cent growth on the same period of 1984.

7. Upward revisions to manufacturing output have worked through to the index of production. In the third quarter this rose above the 1979 average level for the first time since 1979 - by  $\frac{3}{4}$  per cent-but was still 1 per cent below the 1979Q2 peak.

**Industrial detail**

8. (a) North Sea oil and gas extraction rose by 5 per cent in September to match January's record level. September's increase represents a recovery from recent levels which had been depressed by greater than usual maintenance work.
- (b) Chemicals and Electrical and Instrument Engineering output fell significantly in the third quarter and are no longer showing good year on year growth. However motor vehicle output and textile output grew in the third quarter - and were up 9 per cent and 6 per cent respectively on the third quarter of 1984.



Assessment

9. Manufacturing output rose strongly throughout 1984. Earlier assessments suggested that output had been flat since the first quarter of 1985 but upward revisions now show that growth continued into the first half of the year. Given the recent upward pattern of revisions, third quarter estimates showing a small fall in manufacturing output must be discounted to some extent. The current assessment therefore is that manufacturing output continues to grow in underlying terms.

10. Press comment is likely to be more favourable than in recent months and could indicate that manufacturing output has continued to grow at least until the second quarter of this year.

11. Growth of manufacturing output so far in 1985 - up  $2\frac{3}{4}$  per cent in the first three quarters of the same period last year - suggests that the Industry Act Forecast of  $2\frac{1}{2}$  per cent growth for 1985 should be comfortably achieved.

Lines to take

12. Possible lines to take for IDT are:

13. (i) Industrial production increased by  $5\frac{1}{2}$  per cent in the year to the third quarter. Allowing for recovery from the coal strike this annual growth was 2 per cent.
- (ii) Manufacturing output has shown good growth well into 1985. Current estimate of output for Q3 shows small fall from Q2, but is liable to revision which on the basis of recent experience could be upward. Best assessment is that manufacturing output continues to grow in underlying terms.
- (iii) The Industry Act Forecast projects manufacturing output growth of  $2\frac{1}{2}$  per cent in both 1985 and 1986. This will imply uninterrupted growth since 1981 - longest period since 1973. [NB CBI forecast 3 per cent growth in 1985.]

*KVernon*

K VERNON  
EB



TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

	Production * (Divisions 1-4) *	Energy and Water Supply (Division 1)	Manufacturing (Divisions 2-4)	Construction (Division 5)
1979	107.1	100.5	109.5	105.8
1980	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	89.9
1982	98.4	110.0	94.2	91.6
1983	101.9	115.9	96.9	95.3
1984	103.1	110.1	100.6	98.6
1983 Q3	102.8	117.6	97.4	97.7
Q4	103.9	118.4	98.7	97.8
1984 Q1	104.3 R	117.2	99.7	97.0
Q2	102.3	108.1	100.2 R	98.1
Q3	102.4	105.4 R	101.3	100.5
Q4	103.5	109.7	101.3 R	98.7
1985 Q1	106.0	115.2	102.7	99.3
Q2	108.3 R	121.4 R	103.5 R	100.1
Q3	107.9	121.7	103.0	
1984 July	101.8	106.0	100.3	
August	102.0	103.2	101.6	
September	103.3	106.9	102.0	
October	103.2 R	110.5	100.6 R	
November	103.3	109.2	101.2	
December	104.0	109.4	102.1 R	
January	105.6 R	115.1 R	102.2 R	
1985 February	105.2 R	113.3	102.3 R	
March	107.1	117.2	103.5	
April	108.1 R	121.4 R	103.3 R	
May	108.4 R	124.1 R	102.7 R	
June	108.3 R	118.7 R	104.5 R	
July	107.2 R	120.6 R	102.4 R	
August	107.5 R	119.1 R	103.4 R	
September	109.1	125.4	103.2	

% changes

Latest 3 months on previous 3 months	-0.3	0.2	-0.5	0.8
Latest 3 months on year earlier	5.4	15.5	1.7	2.0
Latest 3 months on 1981 Q1 (trough)	13.5	19.3	11.1	8.3
+				
Latest 3 months on 1979 Q2 (peak)	-1.2	16.8	-8.4	-6.6

Notes

\* Within the total 'production' index energy and water supply industries accounts for 26 per cent, and manufacturing for the remaining 74 per cent

'R' signifies revised figure

+ Energy & Water Supply peak is 1979 Q3



PERSONAL AND CONFIDENTIAL  
 until 11.30am, Wednesday 13 November

TABLE 2

OUTPUT OF PRODUCTION INDUSTRIES CHANGES IN DETAIL

Percentage change, latest 3 months\* on:

	Previous 3 months -----	Same 3 months last year -----	1981 Q1 (trough of output of production industries) -----
Total Production Industries	-0.3	5.4	13.5
Energy & Water Supply	0.2	15.5	19.3
o.w. extraction of oil & gas	-0.6	2.8	37.1
coal and coke	12.9	136.2	-18.1
Total Manufacturing	-0.5	1.7	11.1
o.w. Metals	-0.3	8.8	19.8
Other minerals +	-1.0	-3.7	3.9
Chemicals (and man- made fibres)	-2.4	1.5	21.7
Engineering	-0.9	3.3	15.2
Food, drink, tobacco	0.5	-1.9	0.5
Textiles etc.	2.9	3.9	11.8
Other ††	-	-0.4	4.0

\* July, August & September 1985

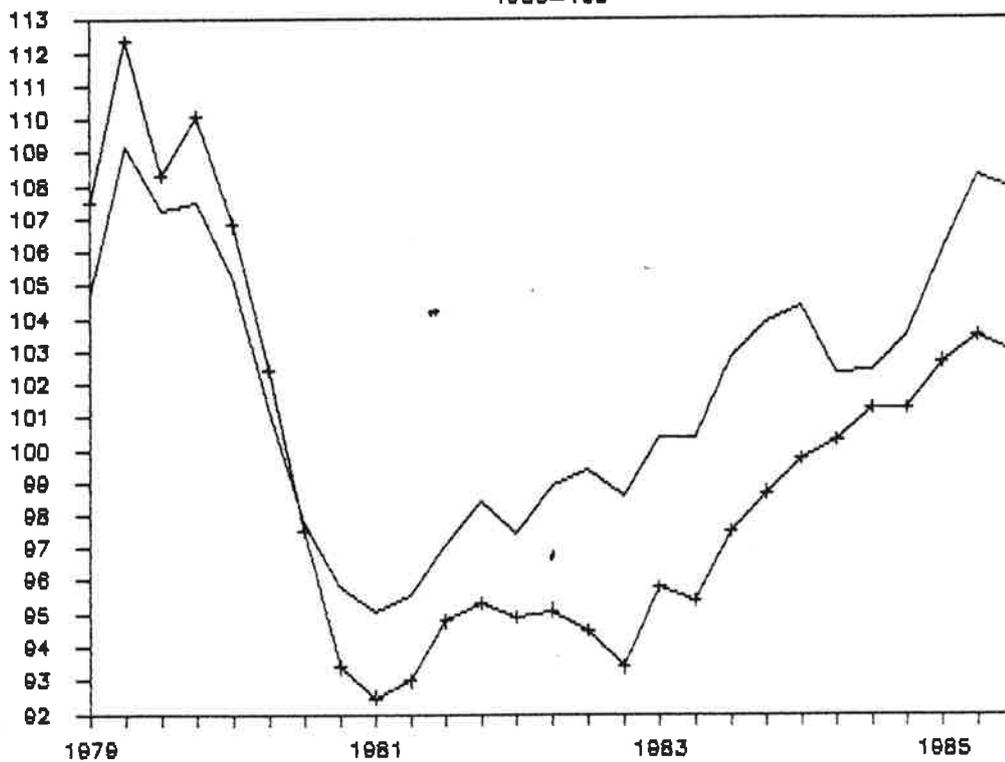
† Mainly building materials

†† Paper, printing, publishing, timber, furniture, rubber, plastics



# QUARTERLY INDEX NUMBERS OF OUTPUT

1980=100



— production

+ manufacturing



JO641

MR D NORRGROVE  
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER 1985

The provisional index of output of the production industries for September 1985 will be issued at 11.30 am on Wednesday 13 November. A copy of the Press Notice is attached.

Latest figures

The September 1985 output index of all production industries, that is energy (including coal) and manufacturing, is provisionally estimated at 109.1 (1980=100, seasonally adjusted), up 1½ per cent on August. For manufacturing the index was 103.2 similar to August. In the third quarter, output of the production industries was ½ per cent lower than in the previous quarter and manufacturing output was also down ½ per cent. Some industry detail is given in the attached table.

Assessment

Manufacturing output grew steadily during 1984 and for the first half of this year (and was up ¾ per cent between the second quarters of 1984 and 1985). While the more provisional figures for the third quarter show a small fall, the underlying position is more favourable.

Oil extraction was low between June and August, due to maintenance work, but recovered strongly in September.

Output of the production industries in the latest quarter was 13½ per cent higher than at its trough in the first quarter of 1981.

Revisions

The index of output of the production industries has been revised upwards by 1 per cent in July and ½ per cent in August on receipt of later information.

Impact of the dispute in the coal mining industry

In terms of the quarterly comparisons in the Press Notice, the after-effect of the dispute on production industries in the latest quarter was negligible, and was ½ per cent in the second quarter. In the third quarter of 1984, the impact of the dispute was 3½ per cent.

Figures for October

Figures for October are scheduled for publication on Monday 16 December 1985.

*KM*

K MANSELL

Central Statistical Office  
12 November 1985



PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on November 13 1985 and thereafter unclassified

## Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1983	101.9	115.9	96.9	104.4	93.9	107.4	94.8	101.1	94.6	93.6
1984	103.1	110.1	100.6	108.6	95.1	113.9	99.1	102.0	97.9	97.6
1984 2	102.3	108.1	100.2	106.4	95.1	112.8	98.6	101.8	97.7	98.1
3	102.4	105.4	101.3	109.5	96.1	115.6	100.2	101.7	98.1	97.6
4	103.5	109.7	101.3	106.0	95.0	115.9	100.0	102.6	99.3	97.7
1985 1	106.0	115.2	102.7	111.0	91.9	119.2	103.1	101.4	99.0	96.9
2	108.3	121.4	103.5	119.6	93.5	120.1	104.4	99.3	99.0	97.3
3	107.9	121.7	103.0	119.2	92.6	117.3	103.5	99.8	101.9	97.3
1985 J	107.2	120.6	102.4	120	93	118	102	100	100	97
A	107.5	119.1	103.4	121	92	117	104	100	103	98
S	109.1	125.4	103.2	117	92	117	104	99	103	98
Percentage change latest 3 months on: previous 3 months	-0.3	+0.2	-0.5	-0.3	-1.0	-2.4	-0.9	+0.5	+2.9	-
a year earlier	+5.4	+15.5	+1.7	+8.8	-3.7	+1.5	+3.3	-1.9	+3.9	-0.4
1st quarter 1981(a)	+13.5	+19.3	+11.1	+19.8	+3.9	+21.7	+15.2	+0.5	+11.8	+4.0
1st half 1979(b)	+0.9	+23.3	-6.2	-8.7	-14.2	+8.0	-5.7	-	-15.0	-12.5
DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply	Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified	
1983	89.5	137.6	95.2	100.7	104.4	93.9	108.2	78.0	94.5	
1984	83.8	147.1	98.4	95.8	108.6	95.1	114.9	78.8	100.7	
1984 2	22.9	143.6	100.1	99.6	106.4	95.1	113.8	79.7	102.5	
3	23.7	144.0	98.9	90.3	109.5	96.1	116.6	79.3	102.6	
4	27.6	152.3	98.5	90.0	106.0	95.0	117.0	76.8	98.2	
1985 1	35.6	154.9	99.3	99.4	111.0	91.9	120.5	73.3	97.0	
2	70.7	148.8	100.0	110.1	119.6	93.5	121.4	74.9	98.4	
3	79.8	147.9	99.4	107.9	119.2	92.6	118.4	76.9	96.7	
1985 J	79	146	101	108	120	93	119	77	95	
A	80	140	102	111	121	92	118	79	97	
S	81	158	96	105	117	92	118	75	98	
Percentage change latest 3 months on: previous 3 months	+12.9	-0.6	-0.7	-2.0	-0.3	-1.0	-2.5	+2.7	-1.7	
a year earlier	+236.2	+2.8	+0.4	+19.4	+8.8	-3.7	+1.5	-3.0	-5.7	
1st quarter 1981(a)	-18.1	+37.1	+3.3	+11.4	+19.8	+3.9	+22.7	-15.1	+9.3	
1st half 1979(b)	-16.4	+57.7	-12.0	+2.9	-8.7	-14.2	+9.9	-44.4	-21.3	
DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1983	87.4	108.1	83.9	95.0	103.8	95.5	91.3	97.4	92.1	95.2
1984	87.3	122.7	81.3	91.5	104.6	96.7	93.8	101.4	96.1	99.2
1984 2	86.7	120.7	80.9	92.0	103.7	98.1	93.7	101.1	96.6	99.9
3	87.8	124.5	81.8	91.3	104.3	96.4	94.0	101.6	95.8	99.6
4	87.2	128.4	77.2	92.2	105.5	96.5	94.1	103.8	97.5	98.0
1985 1	89.6	131.0	86.1	97.6	104.0	96.1	96.7	101.0	97.2	96.6
2	92.3	131.4	87.2	97.0	102.0	93.7	95.7	101.7	97.1	97.5
3	91.3	129.4	88.3	96.6	102.6	93.9	99.3	104.1	97.0	97.6
1985 J	90	129	88	96	103	94	99	101	96	97
A	93	130	89	97	103	94	99	106	97	98
S	92	128	91	97	102	93	100	105	98	98
Percentage change latest 3 months on: previous 3 months	-1.1	-1.6	-2.4	-0.3	+0.6	+0.3	+3.7	+2.3	-0.1	-
a year earlier	+4.0	+3.9	+9.1	+5.8	-1.6	-2.6	+5.6	+2.4	+1.3	-2.3
1st quarter 1981(a)	+4.4	+39.7	+16.5	-8.6	+4.5	-7.7	+9.8	+13.5	+2.3	+6.1
1st half 1979(b)	-17.1	+25.3	-27.4	+2.9	+3.2	-6.6	-20.5	-10.1	-9.1	-15.9

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



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(Sir Peter Middleton

Cabinet Office

(Mr Jack Hibbert

Department of Trade and Industry

(Private Secretary  
Secretary of State's Office

(Private Secretary  
to Mr Geoffrey Pattie

(Private Secretary  
to Mr Peter Morrison

(Private Secretary  
to Mr John Butcher

(Sir Brian Hayes  
(Mr H Liesner

(Mr Whiting  
(Mr Harvey  
(Mr Wright

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CSO(85)107

**of Press Notice at 1.30 p.m. on 13<sup>th</sup> November 1985**

13 November 1985

**and thereafter unclassified**

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - SEPTEMBER 1985

In the third quarter of 1985 output of the production industries is provisionally estimated to have fallen by  $\frac{1}{2}$  per cent compared with the previous quarter; manufacturing output was also down  $\frac{1}{2}$  per cent.

Output of production industries (to September 1985)

The September index of output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 109.1 (1980=100, seasonally adjusted). In the latest quarter output was  $\frac{1}{2}$  per cent lower than in the previous quarter but  $5\frac{1}{2}$  per cent higher than in the same period a year earlier. This latter comparison is affected by the dispute in the coal mining industry (see note overleaf).

Manufacturing output in the latest quarter was  $\frac{1}{2}$  per cent lower than in the previous quarter but  $1\frac{1}{2}$  per cent above the level of a year earlier. Within manufacturing, output of textiles and clothing increased by 3 per cent and of food, drink and tobacco by 1 per cent between the latest two quarters. Output of metals and of "other" manufacturing were broadly unchanged. In contrast output of other minerals and of engineering and allied industries fell by 1 per cent, and chemicals output was down 2 per cent between the latest two quarters.

Energy and water supply was broadly unchanged between the latest two quarters, with increased coal output offsetting reductions in extraction of oil and natural gas and in gas supply.





By market sector, output of consumer goods rose by  $\frac{1}{2}$  per cent between the latest two quarters, but investment goods and intermediate goods each fell by  $\frac{1}{2}$  per cent.

In the longer term, output of the production industries in the latest quarter was  $13\frac{1}{2}$  per cent higher than at its trough in the first quarter of 1981; manufacturing output was 11 per cent higher.

#### Output of production and construction industries (to Q2 1985)

Output of the construction industry in the second quarter is estimated to have been 1 per cent above the level of the previous quarter. Output of production and construction industries in the second quarter was 2 per cent above its first quarter level and 13 per cent above the first quarter of 1981 trough.

#### Revisions

The index of output of the production industries has been revised upwards by 1 per cent in July and  $\frac{1}{2}$  per cent in August on receipt of later information.

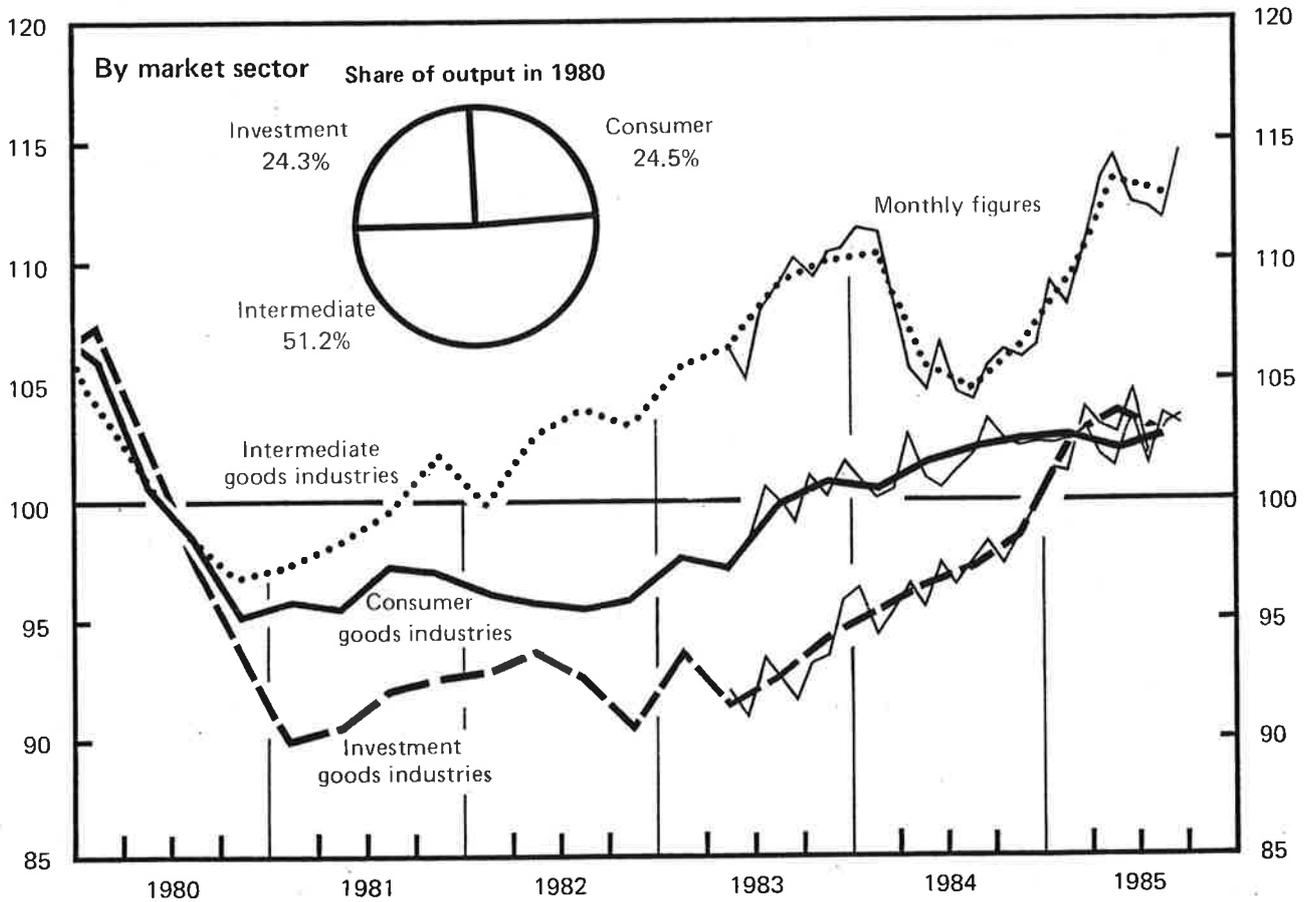
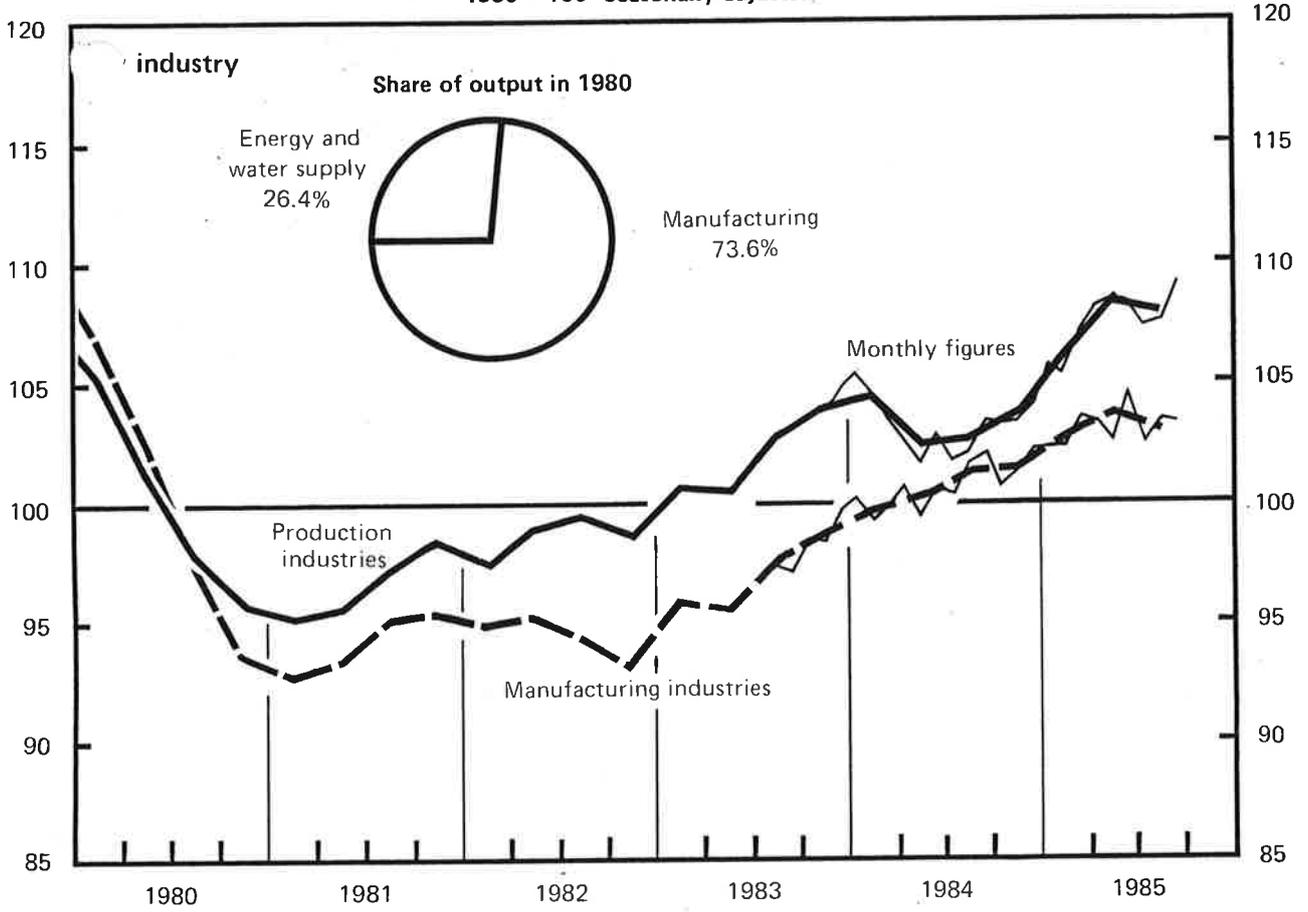
#### Effect of coal dispute on industrial production

Output of the coal industry normally accounts for about 4 per cent of industrial production. It is estimated that, in the third quarter of 1985, the after-effects of the coal dispute had a negligible effect on the level of industrial production, and reduced the index by  $\frac{1}{2}$  per cent in the second quarter; the dispute reduced the index by nearly  $3\frac{1}{2}$  per cent in the third quarter of 1984. The effect on the figures for manufacturing has been small.



# INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 Seasonally adjusted





OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

Weights	Broad industry groups			Market sectors		
	Production industries	Energy	Manufacturing	Consumer goods	Investment goods	Intermediate goods
	Division 1-4	Division 1	Division 2-4			
	1000	264	736	245	243	512
1978	103.2	85.0	109.7	108.4	106.3	99.1
1979	107.1	100.5	109.5	108.3	104.8	107.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.3	102.3
1983	101.9	115.9	96.9	98.9	92.9	107.5
1984	103.1	110.1	100.6	101.6	96.9	106.8
Seasonally adjusted						
1980 1	105.2	100.7	106.8	105.9	107.3	104.2
2	101.2	98.0	102.4	101.7	101.9	101.1
3	97.8	98.9	97.4	98.5	97.5	97.9
4	95.7	102.4	93.3	95.0	93.3	96.9
1981 1	95.1	102.0	92.7	96.0	90.0	97.2
2	95.7	102.8	93.2	95.3	90.7	98.2
3	97.2	103.5	94.9	97.2	91.9	99.5
4	98.4	107.0	95.3	96.9	92.7	101.8
1982 1	97.4	104.6	94.8	96.2	93.0	99.9
2	98.7	109.4	94.9	95.7	93.8	102.7
3	99.1	113.2	94.0	95.6	92.1	103.8
4	98.3	112.9	93.1	95.9	90.4	103.0
1983 1	100.4	113.1	95.8	97.6	93.8	104.8
2	100.4	114.3	95.5	97.4	91.3	106.2
3	102.8	117.6	97.4	99.9	92.6	109.0
4	103.9	118.4	98.7	100.8	94.2	110.0
1984 1	104.3	117.2	99.7	100.4	95.3	110.3
2	102.3	108.1	100.2	101.5	96.4	105.7
3	102.4	105.4	101.3	102.1	97.4	104.8
4	103.5	109.7	101.3	102.5	98.6	106.2
1985 1	106.0	115.2	102.7	102.7	102.1	109.2
2	108.3	121.4	103.5	102.2	103.5	113.4
3	107.9	121.7	103.0	102.8	102.8	112.9
1983 S	103.0	119.3	97.1	99.2	91.7	110.1
O	103.3	117.4	98.3	100.9	93.2	109.3
N	103.7	118.8	98.3	100.1	93.5	110.3
D	104.7	118.9	99.6	101.5	95.8	110.5
1984 J	105.1	119.1	100.1	100.7	96.2	111.3
F	104.4	119.3	99.1	100.1	94.4	111.2
M	103.4	113.3	99.8	100.5	95.3	108.5
A	102.6	107.8	100.7	102.8	96.3	105.6
M	101.5	107.5	99.4	101.0	95.5	104.8
J	102.8	109.0	100.6	100.7	97.4	106.6
J	101.8	106.0	100.3	101.2	96.5	104.6
A	102.0	103.2	101.6	101.9	97.5	104.2
S	103.3	106.9	102.0	103.3	98.2	105.7
O	103.2	110.5	100.6	102.6	97.3	106.2
N	103.3	109.2	101.2	102.3	98.5	106.0
D	104.0	109.4	102.1	102.5	100.1	106.5
1985 J	105.6	115.1	102.2	102.4	101.2	109.1
F	105.2	113.3	102.3	102.6	101.1	108.2
M	107.1	117.2	103.5	103.0	103.9	110.4
A	108.1	121.4	103.3	101.9	103.1	113.4
M	108.4	124.1	102.7	101.3	102.9	114.3
J	108.3	118.7	104.5	103.5	104.5	112.4
J	107.2	120.6	102.4	101.7	101.9	112.2
A	107.5	119.1	103.4	103.5	103.0	111.8
S	109.1	125.4	103.2	103.1	103.4	114.6
% 3-month on 3-month change (2)	-0.3	+0.2	-0.5	+0.5	-0.7	-0.4

(1) Output index numbers include adjustments, as necessary, to compensate for the use of sales indicators (see Notes to Editors).  
 (2) Average of July to September 1985 compared with the average of April to June 1985.



OUTPUT OF MANUFACTURING INDUSTRIES

(1980=100)

TABLE 2

	Metals	Other minerals and mineral products(1)	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, clothing footwear and leather	Other manufacturing	
	Class 21-22	Class 23-24	Class 25-26	Class 31-37	Class 41-42	Class 43-45	Class 46-49	
Weights	25	41	68	325	99	52	126	
1978	125.5	111.9	108.5	110.1	99.1	119.3	109.5	
1979	131.7	111.0	111.2	107.6	100.7	117.9	111.9	
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1981	106.0	89.1	99.6	91.8	98.2	92.7	93.2	
1982	103.2	90.9	99.7	92.9	99.7	91.2	90.8	
1983	104.4	93.9	107.4	94.8	101.1	94.6	93.6	
1984	108.6	95.1	113.9	99.1	102.0	97.9	97.6	
<b>Seasonally adjusted</b>								
1980								
1	81.6	109.9	111.5	108.1	101.4	108.9	108.7	
2	116.4	104.4	101.8	102.5	99.9	103.1	100.6	
3	104.9	95.7	93.2	97.6	99.4	97.2	97.1	
4	97.1	89.9	93.4	91.9	99.3	90.9	93.6	
1981								
1	99.5	89.1	96.4	89.8	99.3	91.1	93.5	
2	104.4	88.4	98.4	90.9	96.8	92.2	93.2	
3	107.5	90.0	102.5	93.0	97.9	93.1	93.2	
4	112.8	88.9	101.1	93.5	98.9	94.3	92.9	
1982								
1	110.7	89.7	99.7	93.7	99.3	91.9	91.0	
2	108.5	91.6	100.0	93.7	99.9	91.3	91.3	
3	100.6	91.2	99.7	92.6	99.8	91.3	90.8	
4	93.0	91.2	99.4	91.4	99.9	90.5	90.2	
1983								
1	98.5	93.0	104.1	94.7	100.2	92.6	92.5	
2	105.2	91.1	107.2	93.4	98.2	93.4	92.6	
3	105.5	95.6	108.7	94.8	103.0	94.7	93.8	
4	108.6	95.8	109.5	96.3	103.0	97.6	95.4	
1984								
1	112.7	94.2	111.5	97.8	102.1	96.5	96.8	
2	106.4	95.1	112.8	98.6	101.8	97.7	98.1	
3	109.5	96.1	115.6	100.2	101.7	98.1	97.6	
4	106.0	95.0	115.9	100.0	102.6	99.3	97.7	
1985								
1	111.0	91.9	119.2	103.1	101.4	99.0	96.9	
2	119.6	93.5	120.1	104.4	99.3	99.0	97.3	
3	119.2	92.6	117.3	103.5	99.8	101.9	97.3	
1983	S	108	95	109	94	102	95	94
	O	110	96	108	96	104	95	96
	N	106	96	111	96	102	97	95
	D	110	96	110	98	103	101	95
1984	J	115	95	110	99	102	97	97
	F	110	94	112	97	102	96	97
	M	113	94	112	98	102	97	97
	A	107	96	113	99	104	97	99
	M	104	94	112	98	100	99	98
	J	108	95	113	100	101	97	98
	J	108	95	113	99	102	97	97
	A	111	96	118	101	101	97	98
	S	110	97	116	101	103	100	97
	O	105	95	115	99	102	99	97
	N	106	95	116	100	102	99	98
	D	107	96	118	101	103	100	98
1985	J	109	92	120	102	101	98	97
	F	110	91	119	103	102	99	97
	M	114	93	119	104	102	100	97
	A	118	93	121	104	99	99	97
	M	120	93	117	104	99	98	97
	J	121	94	122	105	100	101	98
	J	120	93	118	102	100	100	97
	A	121	92	117	104	100	103	98
	S	117	92	117	104	99	103	98
<b>% 3-month on 3-month change (2)</b>								
	-0.3	-1.0	-2.4	-0.9	+0.5	+2.9		

(1) Mainly building materials

(2) Average of July to September 1985 compared with the average of April to June 1985.



OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES (1)

(1980=100)

LE 3

	Production and construction Division 1-5	Construction Division 5	Production industries Division 1-4	Energy Division 1	Manufacturing Division 2-4	Oil and gas extraction Class 13
Weights (parts per thousand of GDP(0))	424	63	361	95	266	44
1978	103.4	105.1	103.2	85.0	109.7	68.9
1979	106.9	105.8	107.1	100.5	109.5	98.7
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.6	89.9	96.6	103.9	94.0	110.3
1982	97.3	91.6	98.4	110.0	94.2	125.6
1983	100.9	95.3	101.9	115.9	96.9	137.6
1984	102.4	98.6	103.1	110.1	100.6	147.1
Seasonally adjusted						
1979 1	104.1	101.0	104.6	97.1	107.4	89.8
2	108.9	107.2	109.2	100.4	112.4	98.0
3	107.3	107.7	107.2	104.2	108.3	106.4
4	107.4	107.2	107.4	100.2	110.0	100.5
1980 1	105.2	104.9	105.2	100.7	106.8	100.5
2	101.2	101.5	101.2	98.0	102.4	95.8
3	98.3	100.5	97.8	98.9	97.4	97.7
4	95.3	93.0	95.7	102.4	93.3	106.0
1981 1	94.8	92.4	95.1	102.0	92.7	107.9
2	94.8	89.5	95.7	102.8	93.2	107.0
3	96.2	90.9	97.2	103.5	94.9	110.9
4	96.7	86.9	98.4	107.0	95.3	115.6
1982 1	96.1	89.1	97.4	104.6	94.8	113.9
2	97.5	90.6	98.7	109.4	94.9	125.2
3	98.1	92.6	99.1	113.2	94.0	131.1
4	97.7	94.3	98.3	112.9	93.1	132.3
1983 1	99.4	93.7	100.4	113.1	95.8	131.9
2	99.1	92.1	100.4	114.3	95.5	131.0
3	102.0	97.7	102.8	117.6	97.4	141.9
4	103.1	97.8	103.9	118.4	98.7	145.7
1984 1	103.2	97.0	104.3	117.2	99.7	148.4
2	101.7	98.1	102.3	108.1	100.2	143.6
3	102.1	100.5	102.4	105.4	101.3	144.0
4	102.8	98.7	103.5	109.7	101.3	152.3
1985 1	105.0	99.3	106.0	115.2	102.7	154.9
2	107.0	100.1	108.3	121.4	103.5	148.8
3			107.9	121.7	103.0	147.9

(1) The long run series in column 3-5 are consistent with table 1.



## NOTES TO EDITORS

1. The index numbers of output of the production and construction industries in this Press Notice are on the base 1980 = 100 and classified to the 1980 revision to the Standard Industrial Classification (SIC). These industries account for 42 per cent of gross domestic product; production industries alone accounts for 36 per cent. The index numbers were first published in this form in September 1983. The monthly index for the production industries covers only the energy (and water supply) Division 1 of the SIC, and manufacturing industries, Divisions 2 to 4 of the SIC. An index of production and construction broadly equivalent to the previously published "all industries" index of production" is available only quarterly. These changes were described in advance in March 1983 Economic Trends. A further article describing the effects of rebasing appeared in October 1983 Economic Trends.

2. The purpose of the index numbers is to measure changes in net output or value added (that is total outputs less total inputs) at constant (1980) prices. Conceptually, this should be estimated as the difference between outputs and inputs, each valued at the appropriate prices of the base year. However, this approach, known as double deflation, is difficult to apply reliably since it requires a great deal of information. In practice, movements in net output at constant prices are generally estimated by movements in gross output at constant prices. This yields satisfactory estimates, provided the ratio of gross to net output remains largely unchanged, as will generally be the case in the short-term. Further discussion of the concepts of measurement may be found in "The measurement of changes in production, Studies in Official Statistics number 25" (HMSO, 1976).

3. The index of production is a weighted average of 330 separate indicators, each of which describes the activity of a small sector of industry. These indicators are obtained monthly where possible but for a number of sectors, representing 17½ per cent of activity, only quarterly data are available. Two Occasional Papers, one describing the weights and indicators and the other the sources used in compiling the index, are available.

4. Many of the basic series used to construct the index of production measure either final production or deliveries. Neither type of series takes account of changes in work in progress and series based on deliveries do not take account of changes in stocks of finished goods. All of the index numbers in this Press Notice have been adjusted where necessary, for estimated changes in manufacturers' stocks. An Occasional Paper describing these calculations is available.

5. More detailed tables on the index of production are published regularly in "British Business" and the "Monthly Digest of Statistics".

6. Estimates of the output of the construction industry are compatible with those published by the Department of the Environment which are available only quarterly, one month in arrears of the corresponding quarters' estimates for the output of production industries. The aggregate index numbers no longer make use of preliminary estimates for the construction industry based, in advance of receipt of regular returns from the industry, on broad indicators of activity; they are thus delayed by one month but are better founded.

7. Within the engineering industries the index numbers are now benchmarked onto the Quarterly Sales Inquiries conducted by the Business Statistics Office. This, coupled with an improvement in the initial response to the monthly inquiries for the industry, have enabled the series to be published without the smoothing that was necessary in the 1975 based index.

8. The index numbers in this Press Notice are all seasonally adjusted, to remove annually recurring month-to-month variations owing for example, to the incidence of holidays and other regular seasonal patterns of behaviour. The adjustments can only be derived from analysis of past data and may not be completely appropriate when holiday patterns change sharply. Unadjusted data may be obtained from CSO.

9. Estimates for the latest few months are always based on partial information and should be regarded as provisional and subject to revision as more complete data become available. During the lifetime of the 1975-based index, the average revision (regardless of sign) to the all-industries index for the latest month was one half of 1 per cent. It is recommended that, to obtain an assessment of short-term change, attention should be directed to the three-month-on-three month changes. The average revision to this latter measure was one quarter of a percentage point over the same period. An Occasional Paper is available from CSO describing the effects of revisions.

10. Over the last eighteen months or so, revisions to the series for manufacturing have been generally upwards and larger than those in earlier periods. In compiling the provisional estimate for manufacturing for September 1985, some allowance has been made for the understatement.

11. Occasional Papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.50 each) are available from the Central Statistical Office.

### 12. Technical note on indirect effects of the coal dispute on index of production

As indicated in Note 2, above, the index numbers in this Press Notice aim to measure changes in net output at constant (1980) prices. The main indirect effects of the coal dispute were on the net output movements in the electricity and the iron and steel industries. For electricity, although gross output was maintained, net output was reduced as a result of the higher cost of inputs, with more oil being used in place of coal. Similarly, net output in the iron and steel industry was also reduced, reflecting an increase in the delivered costs of inputs.



FROM: K VERNON  
DATE: 28 NOVEMBER 1985

*The main problem with the earlier comparison is that the 3 1/2 per cent figure was simply wrong, so we can't repeat it.*

- 97/2
1. MISS O'MARA
  2. CHANCELLOR OF THE EXCHEQUER
- MOM  
28/11 cc*

PS/CST  
PS/FST  
PS/EST  
PS/MST  
Sir T Burns  
Mr Evans  
Mr Davies  
Mr Allum  
Mr Pickering  
CB/01  
HE/03

### GDP GROWTH EXCLUDING NORTH SEA OIL

At your meeting on 25 November to discuss first order PQs, you commented that you had in the past used some comparisons of GDP growth, excluding oil, that gave a more favourable picture of experience under this Government compared with Labour than that in the GDP subject brief.

2. We think you had in mind your opening speech in the Debate on the Address last year (see attached at X).
3. You will see that in referring to growth under Labour, you quoted the period 1973 to 1979. This is not the reference period <sup>we</sup> employ for other inter-Government comparisons for which we typically use 1974Q1-1979Q1. For GDP, to minimise distortions, we prefer 1974H1-1979H1. The 1973 to 1979 period would, of course, yield a particularly favourable result for GDP as output was falling before Labour was returned in February 1974.
4. We can, however, now update the period we quote for the Conservative Government by including numbers consistent with the 1985H2 Industry Act Forecast.
5. Various relevant comparisons are then:



### Growth in GDP (Percentage)

	GDP(O)	GDP (excl Oil)
1973-1979	8½	4½
1974-1979	9½	6
1979-1985*	6½	4½
1974H1-1979H1	9½	6
1979H1-1985H2*	7½	6
1975H2-1979H1	12	8½
1981H1-1985H2*	13	12

\*Uses unpublished figures consistent with Industry Act Forecasts

### Assessment

6. Growth (excluding oil) between 1973-1979 - at 4½ per cent - is in fact higher than the 3½ per cent you quoted last year. (The 3½ per cent figure was used in error.) Thus, even on this comparison, the performance is little different from the 4½ per cent 1979-1985 experience.

7. However one quite positive point emerges:-

In upswing so far GDP, excluding oil, has increased by 12 per cent compared with only 8 per cent growth in the recovery under Labour.

8. If you choose to use any of these comparisons, you will want to be aware that the GDP subject brief, submitted earlier this week, was based on comparisons only to 1985H1.

*K Vern*

K VERNON



(Mr. Nigel Lawson)

sustained economic growth and a rising level of employment for our people. I want to make it quite clear that the Government are doing and will be doing all that they can to create the conditions for a reduction in unemployment.

The prospect to which I have referred has been made possible because, among other things, we have stuck firmly to the promises that we made at the time of the general election. The planned total public expenditure of £132 billion in 1985-86 — which I was seeking and which my right hon. and learned Friend the Chief Secretary sought during the public expenditure round — is in line not just with last year's White Paper but with the figures set out in the White paper published before the 1983 general election. Indeed, when my right hon. Friend the Prime Minister declared that we stood on the plans published for all to read in the public expenditure White Paper, that is precisely what we did. The public expenditure figures for 1985-86 printed in the autumn statement yesterday are the very public expenditure totals on which we fought and won the general election.

In our first Parliament, we had the crucial priority of bringing down the unsustainable level of Government borrowing which we had inherited from the Labour Government of which the right hon. Member for Birmingham, Sparkbrook (Mr. Hattersley) was a rather stout pillar. That excessive borrowing not only fuelled inflation but drove up interest rates and represented a burden of deferred taxation which, sooner or later, would have to be paid. We achieved our objective of bringing down the borrowing requirement. We repaid all the foreign debt which we inherited from the Labour Government and reduced the annual level of Government borrowing to a more reasonable proportion of our gross domestic product.

In this Parliament, our fiscal priority can shift to the reduction and reform of taxation. That process began in the 1984 Budget when I laid out a structure of company taxation to endure for the rest of this Parliament and beyond. In that Budget we also began the process of tax reduction. The process had been initiated in the 1983 Budget by my right hon. and learned Friend the present Foreign Secretary. Personal allowances were raised substantially in excess of the rate of inflation, and that took many hundreds of thousands of people out of the income tax system entirely and reduced the poverty trap and the "why work?" syndrome.

The main target for our first round of cuts was the final elimination of the national insurance surcharge. It has frequently been described as Labour's tax on jobs. We remember that it was strongly advocated by the Liberal party when it was a member of the Lib-Lab pact.

**Mr. Richard Wainwright (Colne Valley):** Is the right hon. Gentleman unable to conceive that in the utterly different circumstances of full employment a beneficial tax can turn to a curse when unemployment reigns?

**Mr. Lawson:** Circumstances are always completely different in the hon. Gentleman's eyes. I must remind him that there was not full employment then.

The final abolition of the pernicious surcharge took effect only on 1 October this year. Thus, jobs have been free of tax for precisely 44 days—scarcely enough time to assess the benefits of abolition. The tax changes that I

announced in this year's Budget have their full effect 1985-86. Thus, there is already built into the system a cut of some £1.75 billion next year. The fiscal adjustments that I described yesterday, with the necessary qualifications, gives the prospect of scope for net tax cuts in the next Budget of a further £1.5 billion.

The right hon. Member for Sparkbrook seemed to accuse me of being interested in statistical manipulation and inaccurate forecasts. His problem is that he always looks on the dismal side of the economy, in regard not merely to unemployment—which worries us all—but to all other aspects, even when things are going well. For example, I looked back at his reaction to last year's autumn statement, when he strove to cast doubt on my forecast for investment. I have the relevant copy of *Hansard* with me in case he would like me to read from it. He declared that all of the commentators agreed that it was far too optimistic. I was forecasting that investment would rise by 4 per cent. in the current year. With the bulk of the year now behind us, it is clear that investment is likely to be up, not by 4 per cent., but by 7½ per cent. I apologise to the House for my undue pessimism last year.

In regard to the manipulation of statistics, the right hon. Gentleman is something of a rascal as he is always striving to make comparisons between the record of the Government in which he served and that of the present Government by taking the growth of output during the Labour Government's years from the first quarter of 1974, which was unusually low as a result of the adverse effects of the three-day week, to the second quarter of 1979, when it was artificially high reflecting the recovery from the winter of discontent. Any reputable economist, to the use of the right hon. Gentleman's phrase, knows full well that a correct comparison is between the calendar years 1973 and 1979, which avoids the strike complications and takes the period between the two peaks of the business cycle. We shall do that and take the equivalent six-year period from 1979 to the forecast in the autumn statement for 1985.

During the six years from 1973 to 1979, under the Labour Government, gross domestic product rose by 8 per cent. The forecast that was published yesterday shows a level of output in 1985 of nearly 8 per cent. higher than the 1979 level. In other words, taking broadly equivalent six-year periods, the growth of output is virtually the same. However, the right hon. Gentleman made it clear that we should take no notice of North sea oil in our calculations. Excluding North sea oil, growth in output between 1979 and 1985 goes down to 5½ per cent. If we exclude North sea oil from the Labour years 1973-79, GDP rose by only 3½ per cent.

I agree that the world has changed. There has been a world recession, as some hon. Members are aware. However, between 1973 and 1979, when British output rose by 8 per cent., output in France rose by 20 per cent. and output in Germany rose by 15 per cent. In other words, their output was growing at least twice as fast as ours. The comparison with other European countries is much better for 1979-85. On the basis of the latest OECD forecast for France and Germany and the autumn statement, output will have risen at roughly the same rate in the United Kingdom as in France and Germany. If anything, it has grown faster in Britain. Europe has experienced difficulties in the past few years, yet the United Kingdom's growth performance in relative terms has improved beyond all recognition.



PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON WEDNESDAY 20 NOVEMBER 1985

MONTHLY INDICES OF AVERAGE EARNINGS - ADVANCE INFORMATION

1 The latest figures are attached. The press notice will be issued at 11.30 am on Wednesday 20 November 1985.

2 The underlying increase in average weekly earnings in the year to September was about 7½ per cent, slightly higher than the increase in the year to August.

3 The higher figure will reflect the effect of new pay settlements which available evidence suggests have tended recently to be at higher levels than a year ago, and fairly buoyant over-time working. The actual increase in the year to September 1985, 10.0 per cent, was substantially higher than the estimated underlying increase because of the following temporary factors:-

- industrial action in the coal industry temporarily reduced average earnings in September 1984.
- some groups of employees such as non-industrial civil servants, local authority non-manuals and coal-mining manual workers had received two pay settlements in the latest twelve month period because of shorter delays in reaching and implementing the latest pay settlement.
- back pay in September 1985 was higher than in September 1984.

4 In production industries the underlying increase in average weekly earnings in the year to September was about 8½ per cent, similar to the increase in the year to August. The actual increase of 12.8 per cent was inflated by the factors noted above.

5 In manufacturing industries, the underlying increase in average earnings in the year to September was about 9 per cent, similar to the increase in the year to August (revised estimate). The actual increase was 9.5 per cent. These annual increases reflect higher overtime working than a year ago.



## INDEX OF AVERAGE EARNINGS

SIC 1980

Month	WHOLE ECONOMY				PRODUCTION INDUSTRIES			MANUFACTURING INDUSTRIES		
	Index Jan 1980 = 100	Seasonally adjusted								
		Index	% increase over previous year		Index	% increase over previous year		Index	% increase over previous year	
			Actual	Under- lying		Actual	Under- lying		Actual	Under- lying
1984 Sept	159.9	160.2	6.3	7½	161.4	5.5	8¼	166.1	9.0	8¾
Oct	164.2	164.5	8.2	7½	163.6	5.3	8	168.3	9.0	8½
Nov	162.8	162.0	6.5	7½	163.4	5.6	8	168.1	8.0	8½
Dec	165.3	163.5	6.6	7½	164.7	5.7	8	169.5	8.2	8½
1985 Jan	163.4	165.5	7.0	7½	167.1	7.1	8¼	171.7	9.4	8½
Feb	164.6	166.5	7.0	7½	167.6	6.2	8¼	172.0	8.4	8½
Mar	168.1	168.3	9.0	7½	171.0	11.3	8¼	173.8	9.2	8¾
Apr	169.4	170.6	9.5	7½	175.5	13.6	8¼	177.6	11.3	8¾
May	169.4	169.7	8.8	7½	173.2	12.0	8½	174.4	9.3	9
June	171.9	170.2	9.1	7½	175.6	12.5	8½	176.2	9.4	9
July	173.7	172.2	8.8	7½	177.8	12.8	8¾	178.3	9.5	9
Aug	173.4	173.1	8.9	7½	177.8	12.0	8¾	178.1	8.8	9
*Sept	176.0	176.3	10.0	7¾	182.0	12.8	8¾	181.8	9.5	9

\* Provisional



Classes	Weights	Index (January 1980 = 100)						Percentage increase over previous 12 months					
		1985						1985					
		Apr	May	June	July	Aug	Sept*	Apr	May	June	July	Aug	Sept*
Metal processing and manufacturing	14	188.0	174.9	175.7	198.8	176.7	196.4	9.8	8.4	8.1	9.5	7.4	20.0
Mineral extraction and manufacturing	14	170.0	170.4	175.2	173.0	172.1	176.5	10.3	7.5	7.9	8.1	8.5	7.5
Chemicals and man-made fibres	20	173.8	174.6	178.8	181.6	180.8	180.4	10.3	9.2	8.5	10.6	5.5	9.5
Mechanical engineering	44	168.9	170.6	173.4	174.7	171.7	174.9	12.2	11.1	10.4	10.0	10.6	11.8
Electrical and electronic engineering	37	185.3	181.2	183.1	183.5	181.0	183.2	11.0	9.8	9.3	8.2	8.9	8.9
Motor vehicles and parts	17	167.2	168.7	168.3	172.8	166.8	166.2	13.0	12.8	13.9	13.5	13.5	9.8
Other transport equipment	17	168.1	167.0	183.3	172.1	167.8	170.7	10.7	9.7	12.2	12.0	10.0	7.8
Metal goods and instruments	27	161.6	164.5	164.5	164.8	163.1	166.3	9.3	8.7	8.4	7.7	8.3	8.7
Food, drink and tobacco	33	171.9	173.5	176.5	176.4	173.0	176.2	10.4	9.7	8.9	8.6	8.5	8.2
Textiles	13	167.0	168.9	172.1	172.0	168.5	170.9	15.0	8.9	9.8	9.6	10.4	9.9
Leather, footwear and clothing	17	166.9	167.3	171.3	168.3	166.9	169.5	11.8	7.4	7.9	8.4	7.3	9.5
Timber and wooden furniture	11	158.7	153.6	158.4	161.7	171.7	164.4	15.8	5.9	3.6	9.5	9.6	4.9
Paper products, printing and publishing	26	182.9	183.8	188.3	187.1	185.9	189.5	12.3	8.0	9.3	10.1	6.0	6.6
Rubber, plastics and other manufacturing	14	167.0	169.9	171.3	171.0	170.2	170.2	11.0	8.4	7.9	7.3	8.3	7.8
<b>Manufacturing industries</b>	<b>304</b>	<b>176.0</b>	<b>175.6</b>	<b>179.1</b>	<b>180.2</b>	<b>177.0</b>	<b>180.1</b>	<b>11.3</b>	<b>9.3</b>	<b>9.4</b>	<b>9.5</b>	<b>8.8</b>	<b>9.5</b>
Coal and coke	15	137.9	139.5	148.0	149.5	150.7	152.9	147.6	173.5	186.8	191.4	195.5	165.9
Mineral oil and natural gas	1	173.5	178.3	177.1	178.5	177.2	184.5	5.8	12.6	9.3	6.8	9.3	12.6
Electricity, gas, other energy and water supply	19	173.8	175.9	182.5	193.2	184.8	194.5	4.1	2.8	7.3	9.9	7.3	11.8
<b>Production industries †</b>	<b>339</b>	<b>174.3</b>	<b>174.2</b>	<b>178.1</b>	<b>179.9</b>	<b>176.6</b>	<b>180.1</b>	<b>13.6</b>	<b>12.0</b>	<b>12.5</b>	<b>12.8</b>	<b>12.0</b>	<b>12.8</b>
Construction	55	167.6	165.5	171.7	171.6	167.1	174.5	7.8	7.0	7.3	9.3	8.2	10.6
<b>Production and construction industries †</b>	<b>394</b>	<b>173.3</b>	<b>173.0</b>	<b>177.2</b>	<b>178.7</b>	<b>175.3</b>	<b>179.3</b>	<b>12.7</b>	<b>11.2</b>	<b>11.7</b>	<b>12.3</b>	<b>11.5</b>	<b>12.4</b>
Agriculture and forestry ‡	19	175.4	173.6	188.2	193.6	203.1	∅	6.2	6.4	9.9	9.1	9.1	∅
Distribution and repairs	164	167.3	164.1	165.1	165.8	164.1	166.6	7.7	8.0	7.6	5.5	7.1	7.8
Hotels and catering	49	152.8	156.3	156.2	156.8	159.8	160.3	3.5	6.5	6.5	6.6	6.3	7.4
Transport and communication (except sea transport)	71	164.6	164.6	164.3	168.2	170.1	166.9	10.1	9.0	8.2	5.9	11.0	4.7
Banking, finance and insurance	44	178.0	185.1	184.9	187.1	181.0	182.8	6.3	9.9	6.3	11.4	8.5	9.7
Public administration	90	165.4	165.2	170.9	167.6	167.4	171.3	5.6	3.1	7.9	5.7	5.8	9.5
Education and health services	147	173.0	174.7	173.4	179.7	190.1	190.1	5.8	6.4	6.0	4.7	4.3	7.5
Other services	22	178.6	177.9	172.7	177.2	181.5	196.3	9.5	5.7	3.2	6.2	6.0	17.3
<b>Whole economy</b>	<b>1,000</b>	<b>169.4</b>	<b>169.4</b>	<b>171.9</b>	<b>173.7</b>	<b>173.4</b>	<b>176.0</b>	<b>9.5</b>	<b>8.8</b>	<b>9.1</b>	<b>8.8</b>	<b>8.9</b>	<b>10.0</b>

\*Provisional

†Manufacturing, coal and coke, mineral oil and natural gas, electricity, gas, other energy and water supply

‡England and Wales only

∅Not available

November 1985

Stats A1  
Watford



**CONFIDENTIAL**  
**until 11.30am Monday 18 November**  
**then UNCLASSIFIED**

FROM: K VERNON  
 DATE: 15 November 1985

1. MISS O'MARA *MOM 15/11*
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Sir P Middleton  
 Sir T Burns  
 Mr Cassell  
 Mr Monck  
 Mr Scholar  
 Mr Burgner  
 Mr H P Evans  
 Mr Shaw  
 Mr Culpin  
 Mr S Davies  
 Mr Robson  
 Mr Allum  
 Mr Pickering  
 Mr Dyer (+1 for No.10)  
 Mr H Davies  
 Mr Cropper  
 Mr Lord  
 Mr Mansell - CSO  
 Mr Clary - CSO  
 Mr Lang - CSO  
 HB/02

**GDP (OUTPUT MEASURE) IN SECOND QUARTER 1985**

The CSO will publish the preliminary estimate for this on 15<sup>18</sup> November. An advance copy of the press notice is attached.

**Third Quarter Figures**

2. GDP(O) is estimated to have risen by  $\frac{1}{2}$  per cent between the second and third quarters of 1985. Compared with a year earlier GDP(O) is up by  $3\frac{1}{2}$  per cent. Making an allowance for the coal strike, GDP(O) grew by  $\frac{1}{4}$  per cent between second and third quarters of 1985 but was  $2\frac{1}{4}$  per cent above its 1984Q2 level.



3. The contributions of changes in the individual components of GDP(O) are tabled below.

Industry	Contributions to percentage change in GDP(O)
	1985Q3 on 1985Q2
1. Agriculture, forestry and fishing	-
2. Construction	
3. Services	+0.6
4. Industrial production ow:	-0.1
5. Oil and gas extraction	-
6. Other energy and water supply	+0.1
7. Manufacturing	-0.1
GDP(O)*	+0.5*

\* Sum of rows 1-4

4. The sole contribution to growth of GDP(O) in the third quarter came from increased services output. Within services, the output of distribution, communication and the financial sector grew rapidly.

5. Revisions to manufacturing output have not affected recent figures for GDP(O) since they have been offset by revisions elsewhere. However given the recent pattern of revisions it is possible that manufacturing output in the third quarter will be revised upwards and no longer make a negative contribution to Q3 GDP growth. We are pursuing the subject of revisions with the CSO.

### Assessment

7. Press comment may focus on the strike adjusted  $\frac{1}{4}$  per cent change in GDP(O) - quoted in the press notice - between the second and third quarters. This could be interpreted as a slowing down in the underlying growth of GDP and the 1986 Industry Act forecast of 3 per cent growth may be considered over optimistic. However these would be premature assessments and I understand that the CSO Press Office will counter these with:

- (a) GDP(O) in Q2 and Q3 depressed by temporarily low oil and gas extraction.
- (b) GDP(O) for Q3 only a preliminary estimate and quarterly figures can be erratic.
- (c) Historically preliminary estimates of GDP(O) have been revised upwards on average.

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asked  
of 10



- (d) GDP(O) is only one measure of GDP. Industry Act Forecast is based on GDP(A) and the three measures of GDP have shown divergent growth recently.

7. There should not be any criticism of the  $3\frac{1}{2}$  per cent growth forecast for 1985. On the basis of the preliminary Q3 estimate, GDP(O) in the first three quarters of this year is up  $3\frac{1}{2}$  per cent on the same period of 1984.

**Lines to Take**

8. (a) GDP(O) up  $\frac{1}{2}$  per cent between second and third quarters of 1985 and was  $3\frac{1}{2}$  per cent above its level a year earlier;
- (b) UK now well into fifth year of continuous growth, at an average rate of 3 per cent a year, for first time since 1973 oil shock. Preliminary estimates for GDP(O) in the third quarter show we are well on target for  $3\frac{1}{2}$  per cent growth this year.
- (c) on suggestion that small increase of coal strike adjusted GDP(O) between second and third quarters indicates moderation of underlying trend

Too early to say. GDP(O) for Q3 is a preliminary estimate and historically subsequent revisions have tended to be upwards. Also oil and gas extraction has temporarily depressed GDP(O) in the second and third quarters. [The three measures of GDP have shown divergent growth recently. The IAF is based on an average of the three.] Adjusting for coal strike, GDP(O) in first three quarters of this year up 3 per cent on same period of last year.

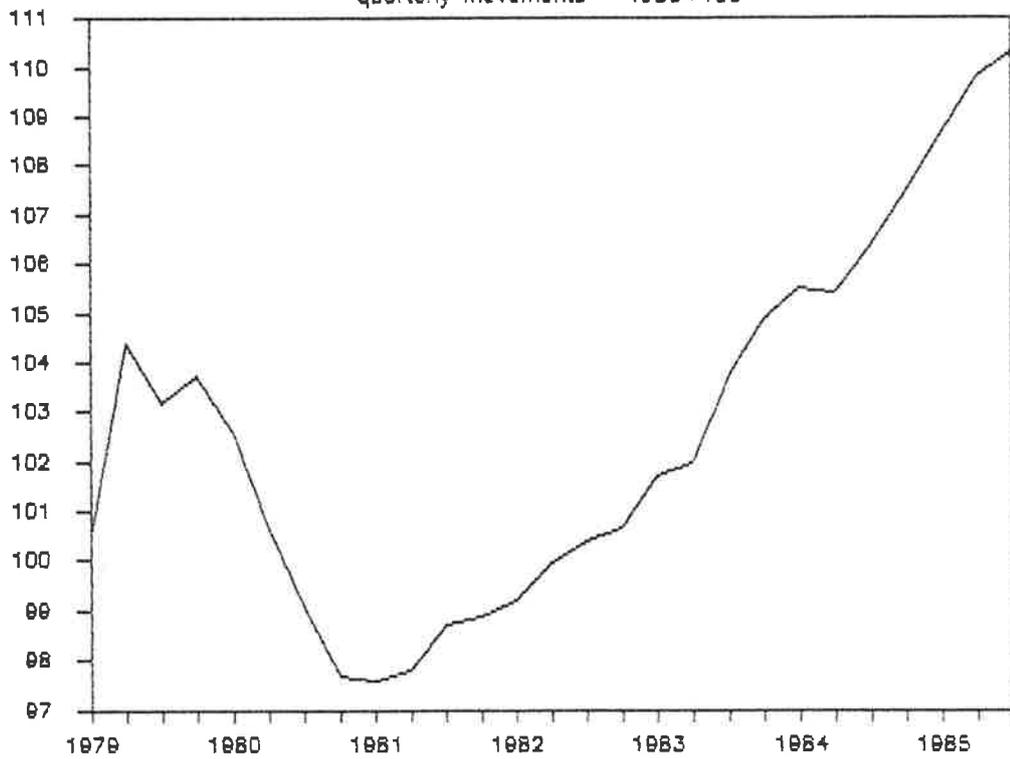


K VERNON



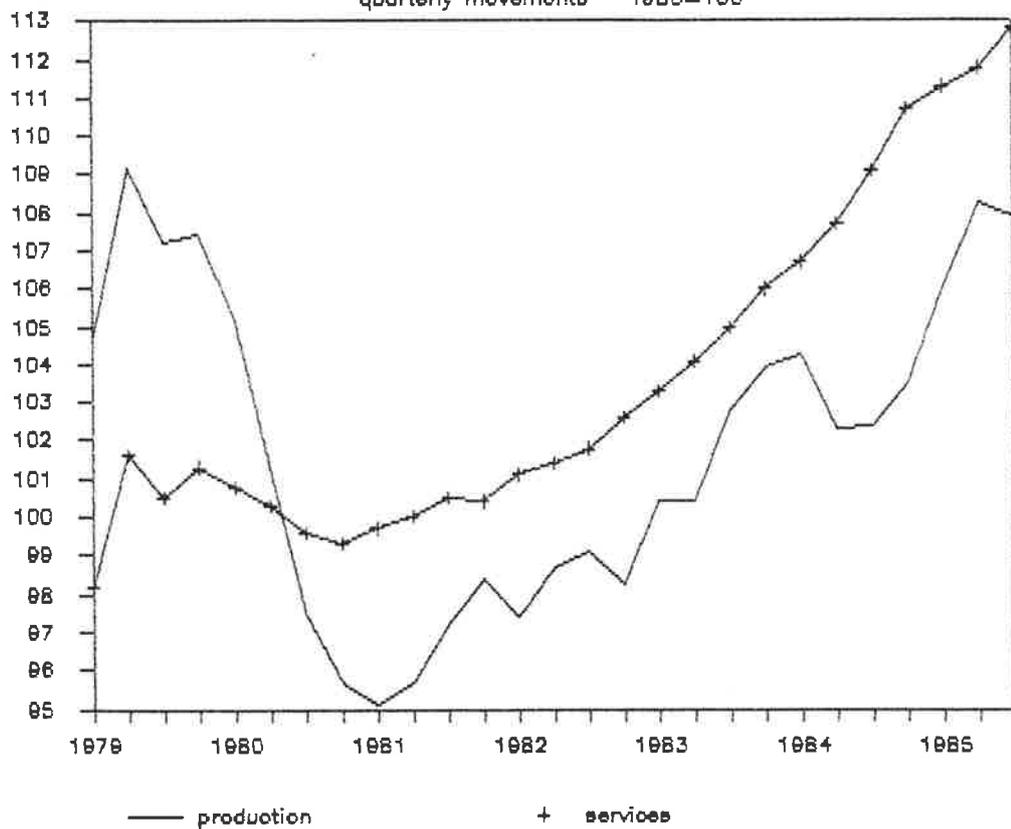
# GDP(O)

quarterly movements - 1980=100



# OUTPUT OF PRODUCTION & SERVICE SECTORS

quarterly movements - 1980=100







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CSO(85)109  
18 November 1985

GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - THIRD QUARTER 1985

Preliminary estimates suggest that output of the whole economy rose by about  $\frac{1}{2}$  per cent between the second and third quarters of 1985. Output of the service industries increased by about 1 per cent, including a rise of  $1\frac{1}{2}$  per cent in distribution, but output of the production industries fell by  $\frac{1}{2}$  per cent. The preliminary output-based estimate of gross domestic product (GDP) in the third quarter is 110.3 (seasonally adjusted at constant prices, with 1980=100), some  $3\frac{1}{2}$  per cent above its level of a year earlier.

Although the coal strike had no impact on third quarter output, it has affected comparisons with earlier quarters. After adjusting for the effects of the strike, the output measure is estimated to have increased by  $\frac{1}{4}$  per cent between the second and third quarters of 1985 and by  $2\frac{1}{4}$  per cent between the third quarters of 1984 and 1985.

As can be seen from the Table, the expenditure, income and output measures of GDP (and by implication the average measure) can move irregularly for particular quarters, and differently to each other.

**COPY No.....7.....**

**PERSONAL AND CONFIDENTIAL until release  
of Press Notice at 1.30 p.m. on.....18.11.85.....  
and thereafter unclassified**

**prepared by the Government Statistical Service**





GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on			
		Average estimate	Expenditure data	Income data(1)	Output data
1980		100.0	100.0	100.0	100.0
1981		98.4	98.7	98.3	98.3
1982		100.4	100.2	100.9	100.1
1983		103.6	103.6	104.2	103.1
1984		106.1	105.1	107.1	106.2
1982	1	99.9	100.3	100.2	99.2
	2	100.1	99.6	100.8	100.0
	3	100.3	99.3	101.0	100.4
	4	101.3	101.6	101.4	100.7
1983	1	102.9	103.6	103.2	101.7
	2	102.8	102.3	103.9	102.0
	3	104.0	104.0	104.3	103.7
	4	105.0	104.6	105.5	104.9
1984	1	105.6	105.3	106.0	105.5
	2	105.1	104.2	105.6	105.4
	3	106.2	104.3	108.0	106.4
	4	107.7	106.7	108.8	107.5
1985	1	108.9	107.7	110.3	108.7
	2	110.1	109.0	111.5	109.8
	3	..	..	..	110.3 (2)

(1) Income data deflated by the implied index of total home costs derived from expenditure data.

(2) Preliminary estimate.



## NOTES TO EDITORS

1. The preliminary estimate of the output based measure of gross domestic product is derived from the provisional estimate of the index of output of the production industries for the third quarter, published on 13 November, together with partial information for the rest of the economy. Any revisions to quarterly data, together with estimates of GDP based on expenditure and income data, will be released by Press Notice on 20 December. A series consistent with today's Press Notice is available on request for output of the whole economy other than extraction of mineral oil and natural gas.

2. As the table shows, the estimates of GDP based on expenditure, income and output data may move differently in the short term. The output based measure is usually considered to be the most reliable measure of short term movements.

3. The 1980-based GDP(0) series was introduced in September 1983. Since then, the revision in the month following publication to the preliminary estimate of change in GDP(0) between the two most recent quarters has tended to be upwards. The mean revision to the estimate of change is +0.2 but for any particular quarter the actual revision can fall within quite a wide range of this average; since rebasing, revisions have varied from -0.2 to +0.4. The average is based on only eight quarters and could itself change considerably as more quarters' data become available.

4. All GDP estimates are liable to revision over a much longer period, as firmer and more complete data become available. An article published in the July 1985 issue of Economic Trends reports the results of an investigation into the pattern of these long-term revisions. It should be noted that the article does not include revisions made in the month following the initial publication of GDP(0), which are discussed in the previous paragraph. While some assessment is made in the article of figures for the three separate measures of GDP, the focus of the analysis is in respect of the average estimate. GDP Press Notices containing new data for this measure now give ranges within which (based on past evidence) the finally revised figures are likely to lie, but related information is not published in respect of the individual measures.

5. Since 1980 some of the statistical sources used in compiling GDP(0) have been discontinued, or reduced in size. Estimates of GDP(0) may well as a result have been subject to a wider margin of error.

6. The series and weights used to compile the 1980-based GDP(0) series are described in an Occasional Paper. The effects of rebasing on all the measures of GDP were described in an article in December 1983 Economic Trends. Occasional papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.20 each) are available from the Central Statistical Office.

7

## MONTHLY ECONOMIC BRIEF

Prepared by the CSO on 28 October 1985

ps

Early unpublished estimates for GDP in the third quarter are very provisional, but the slightly firmer information now available still suggests some slackening in the underlying rate of increase.

The underlying level of non-oil export volume continues to fall whereas non-oil import volume has shown little change over the last few months. The current account continues in surplus - around £1½ billion for the first three quarters of 1985.

M0 remains below the middle of its target range of 3-7 per cent. The growth of sterling M3 over the twelve months to banking September at 14.1 per cent continues to be well above target. The Budget target is now seen to have been too low, but the Chancellor announced that he would continue to monitor developments in this indicator in assessing monetary conditions. Interest rates and exchange rates have been broadly stable over the last month.

A larger increase in September than generally expected by outside commentators took the cumulative total for the PSBR for the first six months of the 1985-86 financial year to £5.6 billion, compared with the Financial Statement forecast of £7.1 billion for the whole year. This, however, is well below the £7.4 billion total for the first half of last year, when the final outturn for the full year was £10.2 billion.

Most other economic indicators continue much the same as in last month's report. The year on year increase in the RPI fell to 5.9 per cent in September compared with 6.2 per cent in August. The fall from the high figures in the early summer mainly results from the effect of mortgage interest rates this year and last. The trend in unemployment remains slowly upward though the increasing impact of the special employment and training measures has helped to moderate the rate of increase since the spring; the employed labour force continues to rise though less rapidly so since the end of 1984.



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

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

**GDP (average measure)** in the second quarter of 1985 was 5 per cent higher than in the same period a year ago or 4 per cent after discounting the effects of the coal strike. This figure does not take account of past experience which shows that revisions to growth rates for the initial published estimates of GDP were on balance upwards though not uniformly so. The assessment of current underlying trend for the third quarter of 1985 is that the rate of increase lies in the range  $1\frac{1}{2}$ - $3\frac{1}{2}$  per cent per annum.

**Industrial production** in the three months to August was  $4\frac{1}{2}$  per cent higher than in the same period a year ago or  $1\frac{1}{2}$  per cent after allowing for the effects of the coal strike. The assessment of underlying trend is that the rate of increases currently lies in the range 1-2 per cent per annum.

**Retail prices** rose by nearly 6 per cent in the twelve months to September. It is possible to provide a useful indicator of trend for only about 70 per cent of the RPI, mainly covering private sector prices and excluding mortgage rates, local authority rates, seasonal food and nationalised industry prices. The current trend for this series is around 4 per cent per annum. In the twelve months to September, this series rose by 5 per cent (not published).

**Producer input prices** in September were  $1\frac{1}{2}$  per cent below the level of a year ago. Given the sharp change in the movement of the input price index from increases over the six months to February to subsequent decline, no meaningful assessment of current trend is possible at present.

**Average earnings (underlying)** in the twelve months to August rose by  $7\frac{1}{2}$  per cent. The current trend is estimated to be in the range 7-8 per cent per annum.

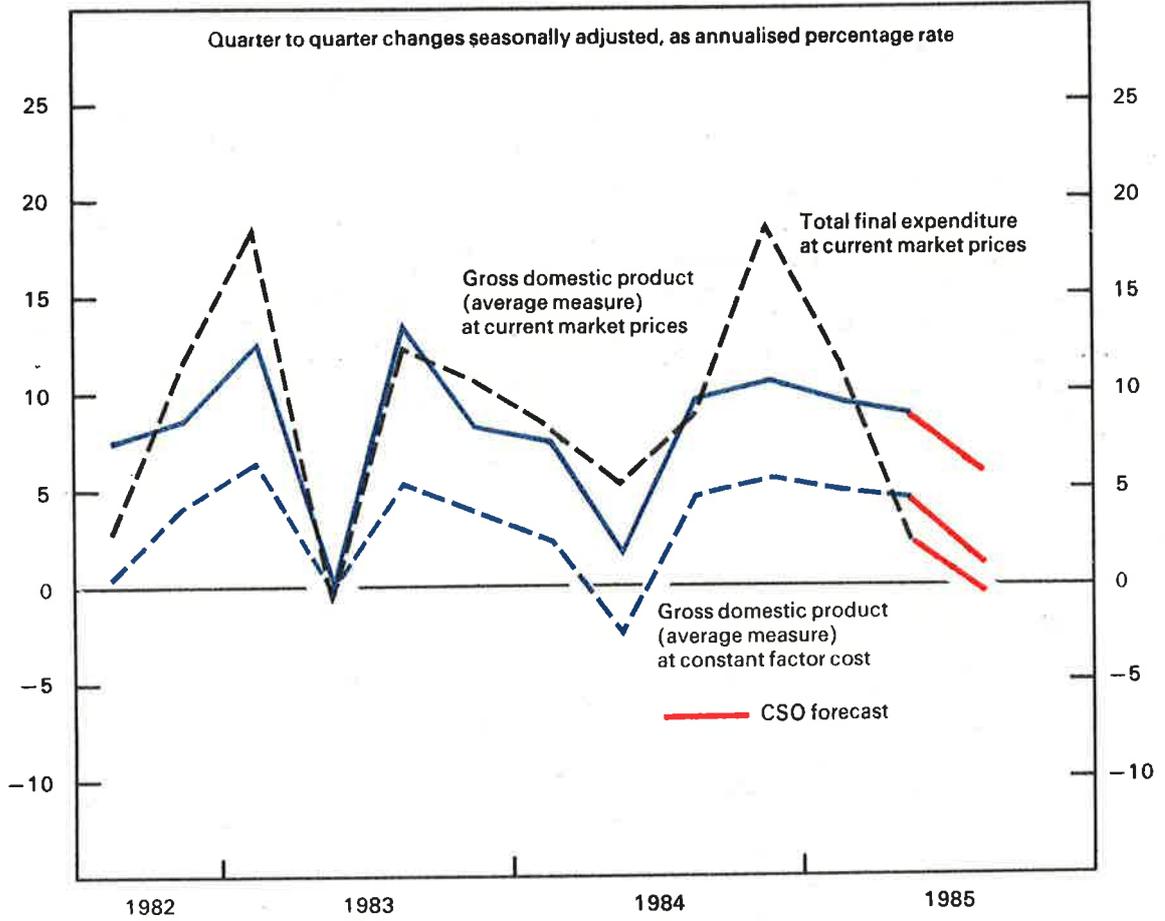
**Unit wage costs in manufacturing** in the three months to August rose by 7 per cent compared with the same period a year ago. The current underlying trend is estimated to be in the range 6-8 per cent per annum.

**Unemployment (excluding school leavers)** in the twelve months to September has been rising on average by 7 thousand per month; in the latest six months the rate of increase has been on average 5 thousand per month. Discounting the effects of employment and training measures as far as possible, the current underlying trend appears to be in the region of 10 thousand per month.



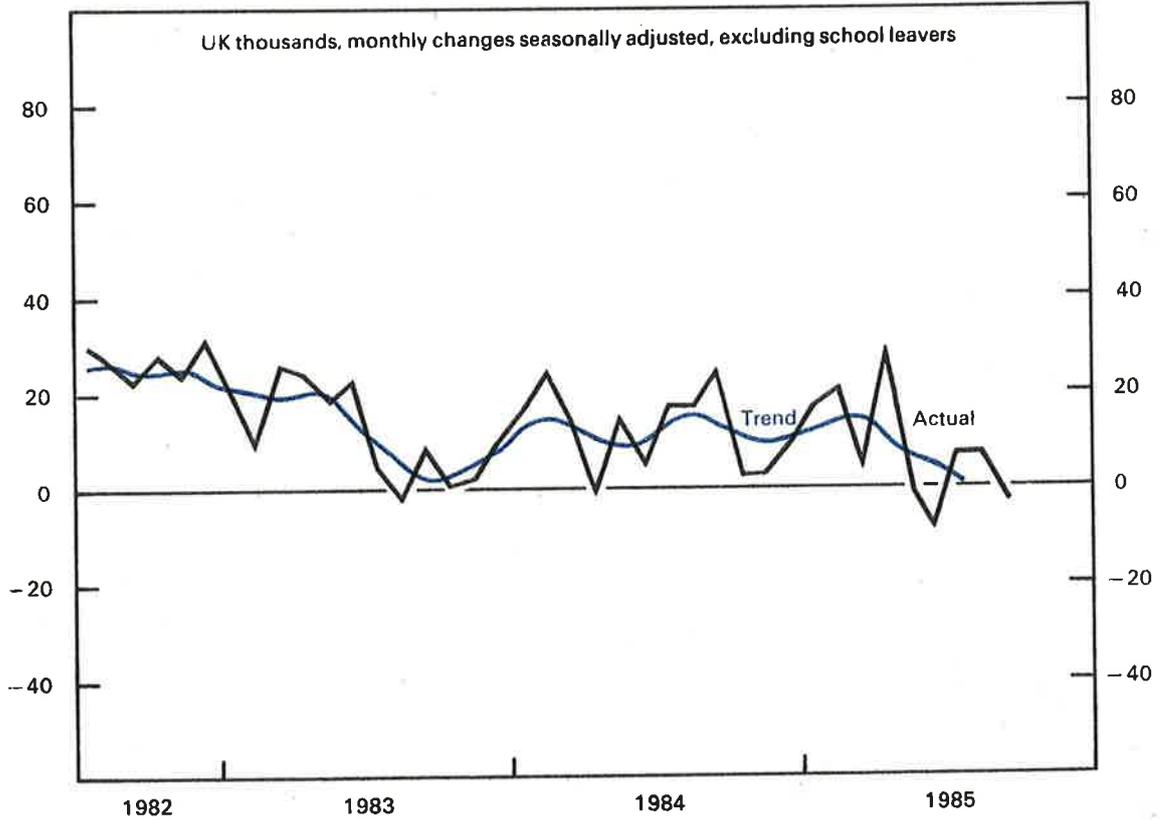
Changes in output and expenditure

CHART 1



Changes in unemployment

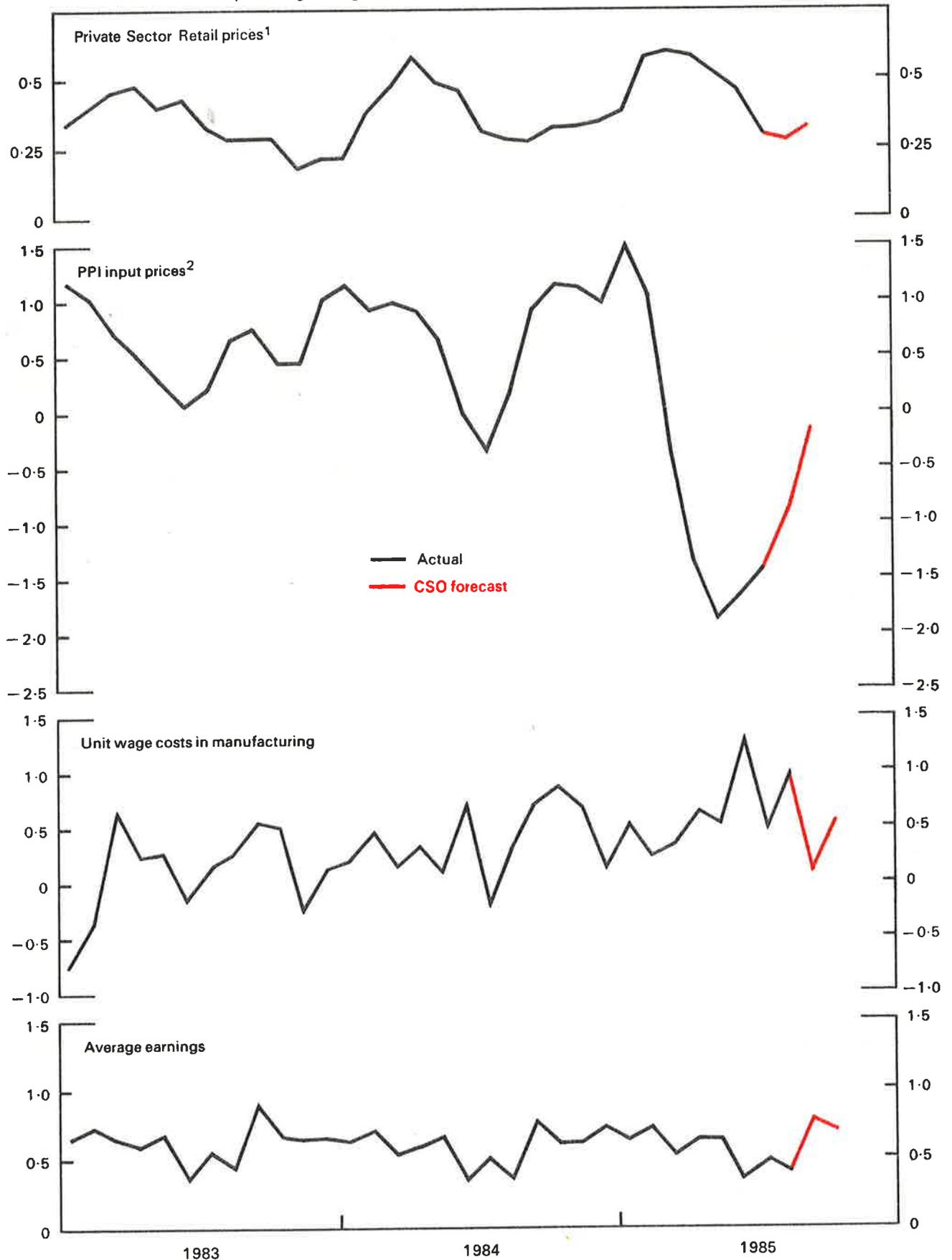
CHART 2





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

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



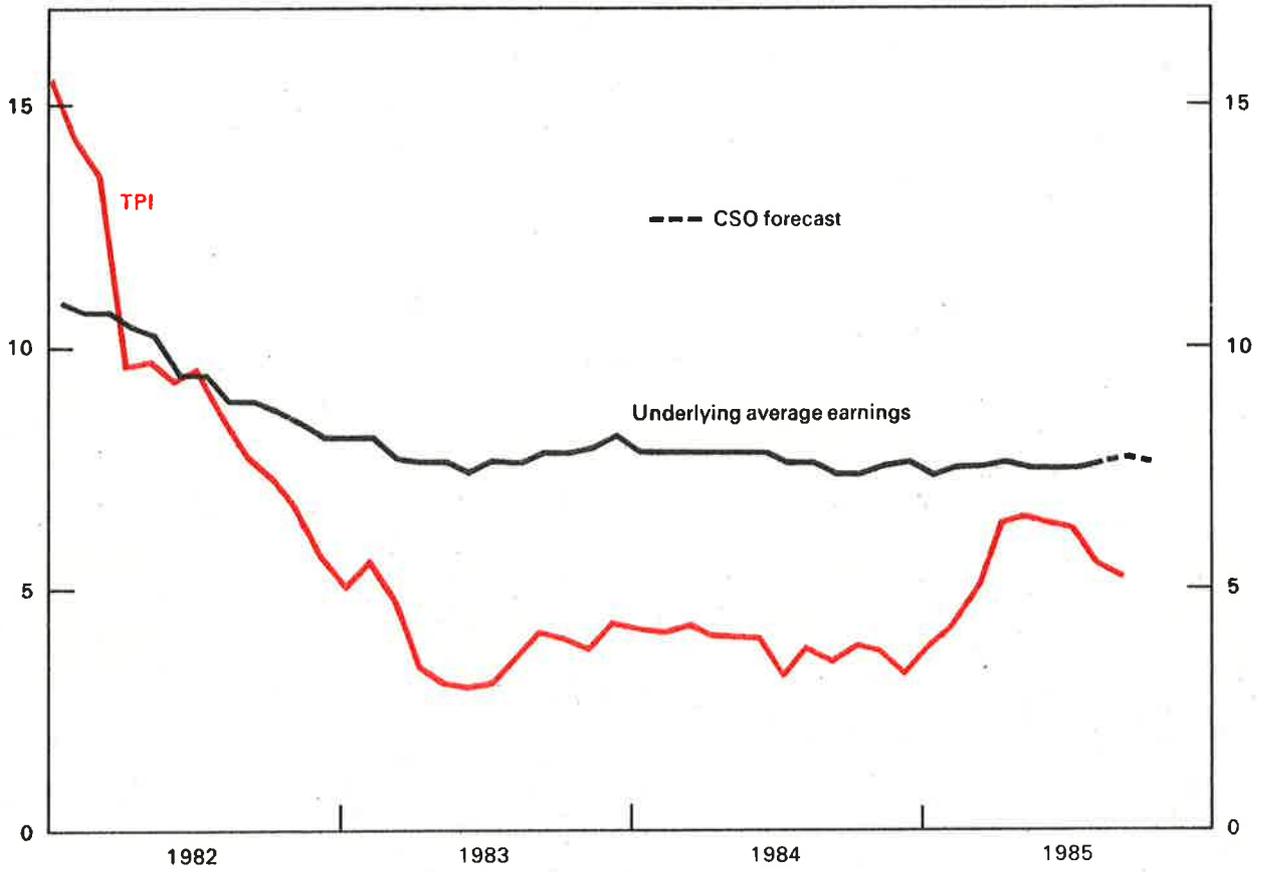
1. Excludes seasonal food, mortgage interest, rents, rates and water charges, motor vehicle licences, products produced by Nationalised industries and petrol.

2. Excluding effects of seasonal changes in unit costs of electricity



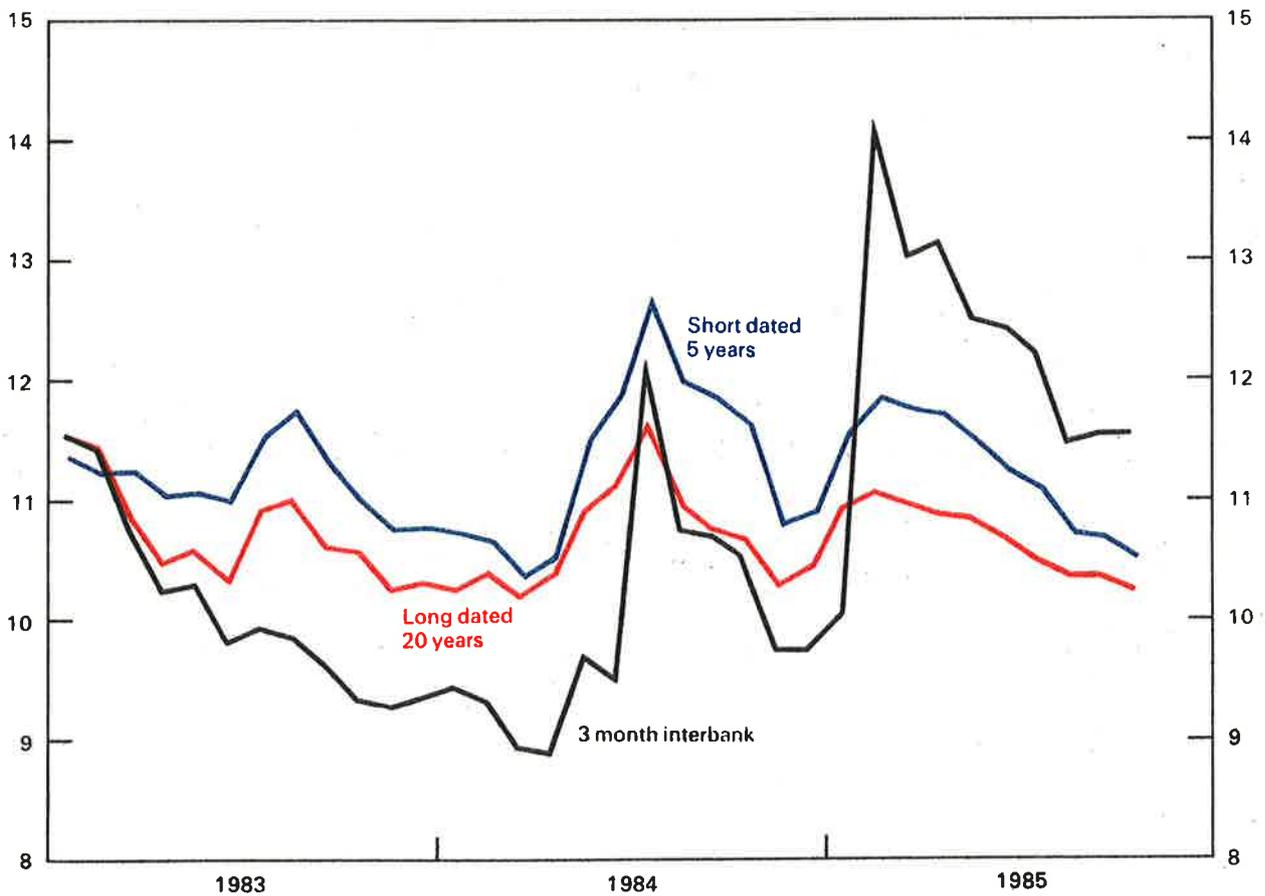
**Movements in underlying average earnings and the tax and price index comparisons with 12 months previously**

CHART 4



**Interest rates**

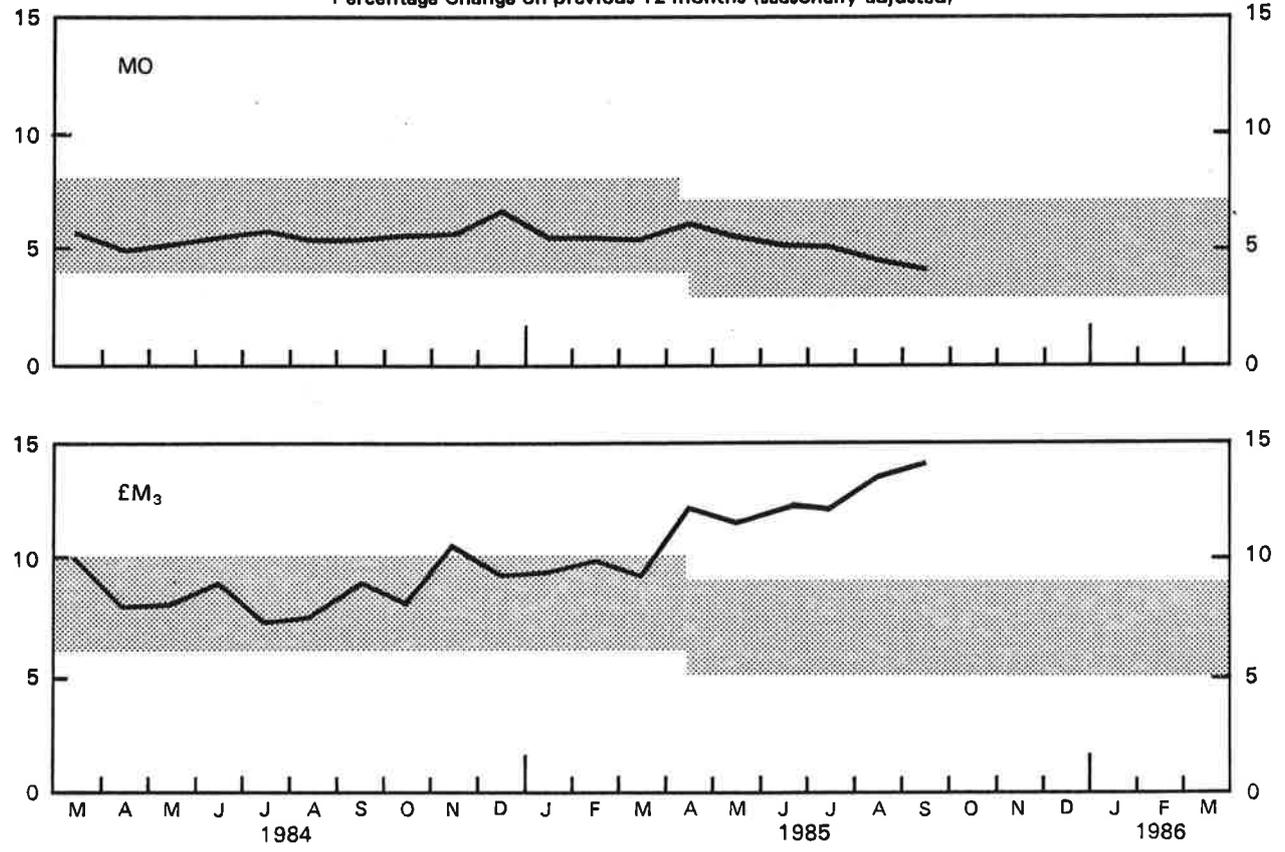
CHART 5





**Target monthly aggregates**

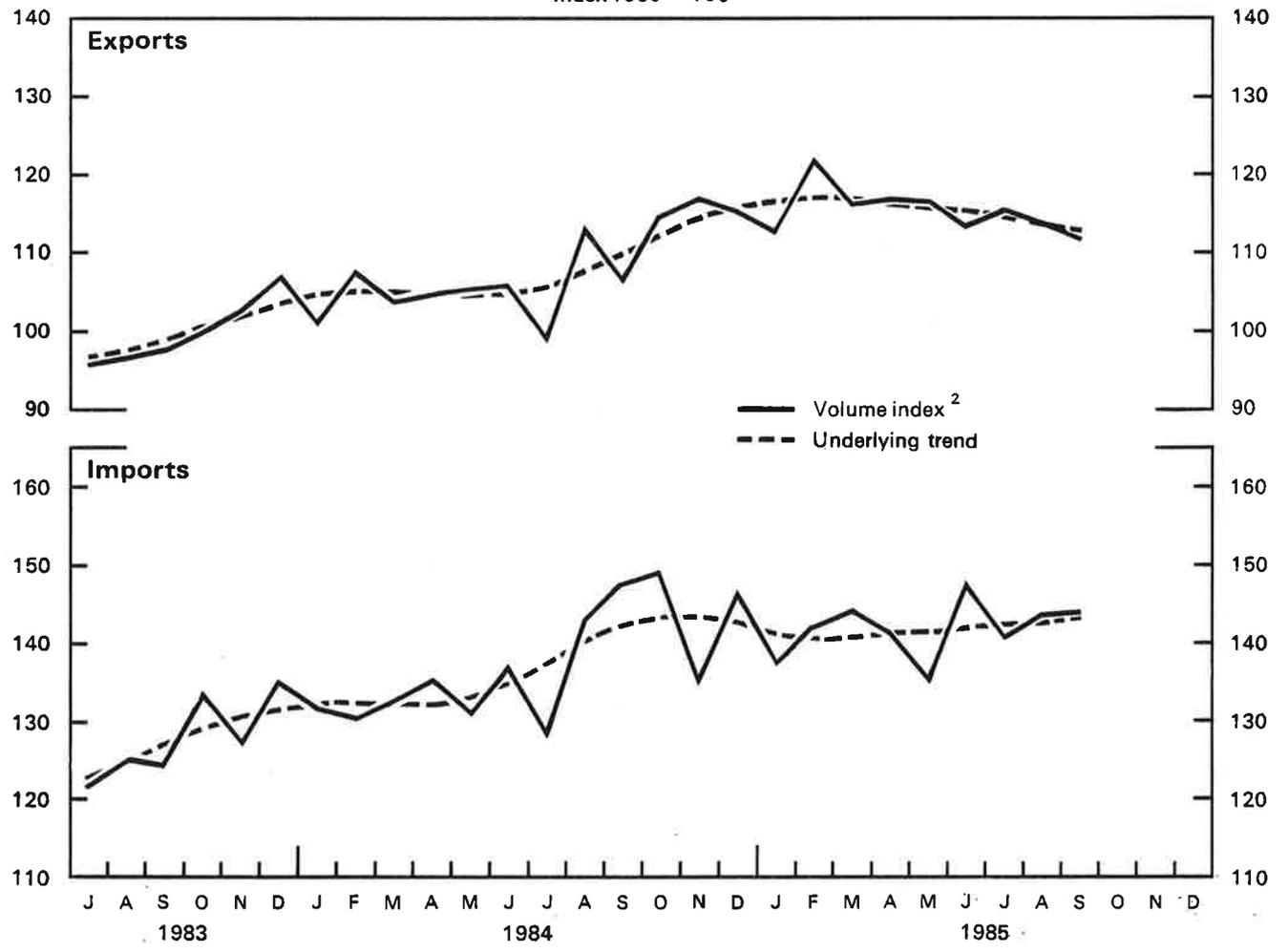
Percentage Change on previous 12 months (seasonally adjusted)



Shaded areas represent target ranges

**Exports and Imports (excluding oil and erratics<sup>1</sup>)**

Index 1980 = 100



Ships, North Sea Installations, Aircraft, Precious stones and Silver.

<sup>2</sup> Seasonally adjusted data, Balance of Payments basis



FROM: K VERNON  
 DATE: 14 October 1985

*Tony*  
*PA Thank*

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

*The apparent lack of growth in manufacturing may attract rather more press attention because of the simultaneous publication of the report by the Select Committee on Overseas Trade. But the figures may well be revised subsequently.*

*non*  
*14/10*

*✓*

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr Cassell  
 Mr Monck  
 Mr Burgner  
 Mr H P Evans  
 Mr Scholar  
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 Mr Davies  
 Mr Allum  
 Mr Naisbitt  
 Mr Page  
 Mr Pickering  
 Mr Dyer (+1 for No 10)  
 Mr King  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 Mr Mansell - CSO  
 Mr Kingaby - CSO  
 Mr Lang - CSO  
 HB/02

### INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - AUGUST 1985

This will be published at 11.30am on Tuesday 15 October.

2. The index of production fell  $\frac{1}{2}$  per cent in the three months to August but was  $4\frac{1}{2}$  per cent higher than a year ago. Within production, manufacturing output was unchanged in the three months to August but 2 per cent above the level of a year earlier.
3. Between July and August the index of production rose by  $\frac{1}{2}$  per cent. Manufacturing output rose by  $1\frac{1}{2}$  per cent, but energy and water supply output fell by 2 per cent as oil and gas extraction fell, for temporary reasons, to the lowest level for just over two years.

PHYSICAL AND CHEMICAL  
AND ELECTROLYTIC

- 1. The effect of temperature on the rate of reaction
- 2. The effect of concentration on the rate of reaction
- 3. The effect of pressure on the rate of reaction
- 4. The effect of catalyst on the rate of reaction
- 5. The effect of surface area on the rate of reaction
- 6. The effect of solvent on the rate of reaction
- 7. The effect of pH on the rate of reaction
- 8. The effect of ionic strength on the rate of reaction
- 9. The effect of dielectric constant on the rate of reaction
- 10. The effect of viscosity on the rate of reaction
- 11. The effect of diffusion coefficient on the rate of reaction
- 12. The effect of activation energy on the rate of reaction
- 13. The effect of pre-exponential factor on the rate of reaction
- 14. The effect of order of reaction on the rate of reaction
- 15. The effect of molecularity on the rate of reaction
- 16. The effect of stoichiometry on the rate of reaction
- 17. The effect of mechanism on the rate of reaction
- 18. The effect of transition state on the rate of reaction
- 19. The effect of equilibrium constant on the rate of reaction
- 20. The effect of Gibbs free energy on the rate of reaction
- 21. The effect of entropy change on the rate of reaction
- 22. The effect of enthalpy change on the rate of reaction
- 23. The effect of heat of activation on the rate of reaction
- 24. The effect of heat of reaction on the rate of reaction
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- 27. The effect of heat of fusion on the rate of reaction
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- 31. The effect of heat of dilution on the rate of reaction
- 32. The effect of heat of concentration on the rate of reaction
- 33. The effect of heat of crystallization on the rate of reaction
- 34. The effect of heat of solidification on the rate of reaction
- 35. The effect of heat of condensation on the rate of reaction
- 36. The effect of heat of liquefaction on the rate of reaction
- 37. The effect of heat of sublimation on the rate of reaction
- 38. The effect of heat of desublimation on the rate of reaction
- 39. The effect of heat of deposition on the rate of reaction
- 40. The effect of heat of deposition on the rate of reaction

The effect of temperature on the rate of reaction is studied by measuring the rate constant at different temperatures. The Arrhenius equation is used to determine the activation energy of the reaction. The effect of concentration on the rate of reaction is studied by measuring the rate constant at different concentrations. The effect of pressure on the rate of reaction is studied by measuring the rate constant at different pressures. The effect of catalyst on the rate of reaction is studied by measuring the rate constant with and without the catalyst. The effect of surface area on the rate of reaction is studied by measuring the rate constant with different surface areas. The effect of solvent on the rate of reaction is studied by measuring the rate constant in different solvents. The effect of pH on the rate of reaction is studied by measuring the rate constant at different pH values. 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INDEX OF SUBJECTS FOR THE PROGRAMME - AUGUST 1987

THE EFFECT OF TEMPERATURE ON THE RATE OF REACTION

- 1. The effect of temperature on the rate of reaction
- 2. The effect of concentration on the rate of reaction
- 3. The effect of pressure on the rate of reaction
- 4. The effect of catalyst on the rate of reaction
- 5. The effect of surface area on the rate of reaction
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- 40. The effect of heat of deposition on the rate of reaction

**4. Recent movements**

percentage changes	3mo to August 1985 on <u>3mo to May 1985</u>	3mo to August 1985 on <u>3mo to August 1984</u>	August on <u>July</u>
Index of Production	-½	+4½	+½
within which:			
Manufacturing	0	+2	+1½
Energy and Water	-2	+12	-2

underlying figures

**adjusted for coal strike:**

Index of Production	-1½	+1½	+½
Manufacturing output	-½	+1½	+1½

5. The CSO Press Notice will state that the effects of the coal strike on the level of industrial production were negligible in the 3 months to August compared with a little over 1 per cent in the previous three months.

6. The increase in manufacturing output in August, followed an erratically low July figure. The August index of 102.9 was around the average for the first quarter of this year of 102.7. Manufacturing output in the three months to August is now 11 per cent up on its 1981 first quarter trough.

**Other Industrial detail**

7. (a) North Sea oil and gas extraction fell by 5 per cent in August. Recent low figures are due to maintenance work in the summer that has depressed output by more than usual.

(b) Output of metals increased by 3 per cent in the latest three months, mainly reflecting recovery from the coal strike, and was 13 per cent up on the same period of 1984.

(c) Chemicals and Electrical and Instrument Engineering have shown good growth of 4 per cent and 6 per cent respectively over the year to the three months to August. Motor Vehicle output rose by 6 per cent over the same period.

8. Construction output rose by 1 per cent in the second quarter of 1985 to reach a level 2 per cent higher than the second quarter of 1984.



Assessment

9. Manufacturing output rose strongly throughout 1984 and into the first quarter of this year. Since then there has been little sign of growth. However the manufacturing output figures, especially since the first quarter, are liable to revision and it is too early to say that underlying growth in manufacturing output has come to an end.

10. Press comment is unlikely to be favourable and will probably stress that manufacturing output has been flat since the beginning of the year. Other comment may focus on the fall in the index of production in the latest 3 months but this is more than accounted for by reduced North Sea oil and gas extraction - temporarily depressed by more maintenance work than usual.

Lines to Take

11. Possible lines to take for IDT are:

12. (i) Industrial production increased by 4½ per cent in the year to the three months to August. Allowing for recovery from the coal strike this annual growth was 1½ per cent.

(ii) Manufacturing output grew strongly - by 1½ per cent - between fourth quarter of 1984 and first quarter 1985. More recent data are less firmly based and, as experience has shown, liable to significant revision. It is therefore too early to say that underlying growth in manufacturing has come to an end. Nevertheless, emphasises need for moderate pay settlements in manufacturing sector, as Sir Terence Beckett has recently stressed.

(iii) CBI September Trends Enquiry pointed to further growth in manufacturing output. Latest CBI staff forecasts are for 2½ per cent growth this year followed by 1½ per cent growth in 1986.

(iv) Effects of lost coal output in August are negligible.

*KVern*

K VERNON  
EB



PERSONAL AND CONFIDENTIAL  
until 11.30am, Tuesday 15 October

TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

	Production * (Divisions 1-4) *	Energy and Water Supply (Division 1)	Manufacturing (Divisions 2-4)	Construction (Division 5)
1979	107.1	100.5	109.5	105.8
1980	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	89.9
1982	98.4	110.0	94.2	91.6
1983	101.9	115.9	96.9	95.3
1984	103.1	110.1 R	100.6	98.6 R
1983 Q2	100.4	114.3	95.5	92.1
Q3	102.8	117.6	97.4	97.7
Q4	103.9	118.4	98.7	97.8
1984 Q1	104.4	117.2	99.7 R	97.0
Q2	102.3 R	108.1 R	100.3 R	98.1
Q3	102.4 R	105.2 R	101.3	100.5
Q4	103.5 R	109.7 R	101.2	98.7
1985 Q1	106.0 R	115.2 R	102.7 R	99.3
Q2	108.0 R	121.5 R	103.1 R	100.1
1984 June	102.9 R	109.0 R	100.7 R	
July	101.8	106.0 R	100.3	
August	102.0	103.2 R	101.6	
September	103.3 R	106.9 R	102.0	
October	103.1	110.5 R	100.5	
November	103.3 R	109.2 R	101.2 R	
December	104.0 R	109.4 R	102.0 R	
January	105.7 R	115.0 R	102.3 R	
1985 February	105.3 R	113.3 R	102.4 R	
March	107.1 R	117.2 R	103.5 R	
April	107.8 R	121.6 R	102.9 R	
May	108.2 R	124.2 R	102.4 R	
June	107.9 R	118.6 R	104.0 R	
July	106.3 R	119.8 R	101.4 R	
August	106.8 R	117.5 R	102.9 R	

% changes

Latest 3 months on previous 3 months	-0.6	-2.0	-0.2	0.8
Latest 3 months on year earlier	4.7	11.8	1.9	2.0
Latest 3 months on 1981 Q1 (trough)	12.5	16.3	10.9	8.3
+				
Latest 3 months on 1979 Q2 (peak)	-2.0	13.9	-8.6	-6.6

Notes

\* Within the total 'production' index energy and water supply industries accounts for 26 per cent, and manufacturing for the remaining 74 per cent

'R' signifies revised figure

+ Energy & Water Supply peak is 1979 Q3



PERSONAL AND CONFIDENTIAL  
 until 11.30am, Tuesday 15 October

TABLE 2

OUTPUT OF PRODUCTION INDUSTRIES CHANGES IN DETAIL

Percentage change, latest 3 months\* on:

	Previous 3 months	Same 3 months last year	1981 Q1 (trough of output of production industries)
Total Production Industries	-0.7	4.7	12.5
Energy & Water Supply	-2.0	11.8	16.3
o.w. extraction of oil & gas	-7.8	-1.4	31.2
coal and coke	33.4	242.4	-19.3
Total Manufacturing	-0.2	1.9	10.9
o.w. Metals	3.2	12.8	23.4
Other minerals †	0.1	-2.0	5.2
Chemicals (and man- made fibres)	-0.4	3.9	23.5
Engineering	-0.4	3.5	14.9
Food, drink, tobacco	-0.8	-2.1	-0.2
Textiles etc.	0.3	2.1	9.2
Other ††	-	-1.5	3.1

\* June, July and August 1985

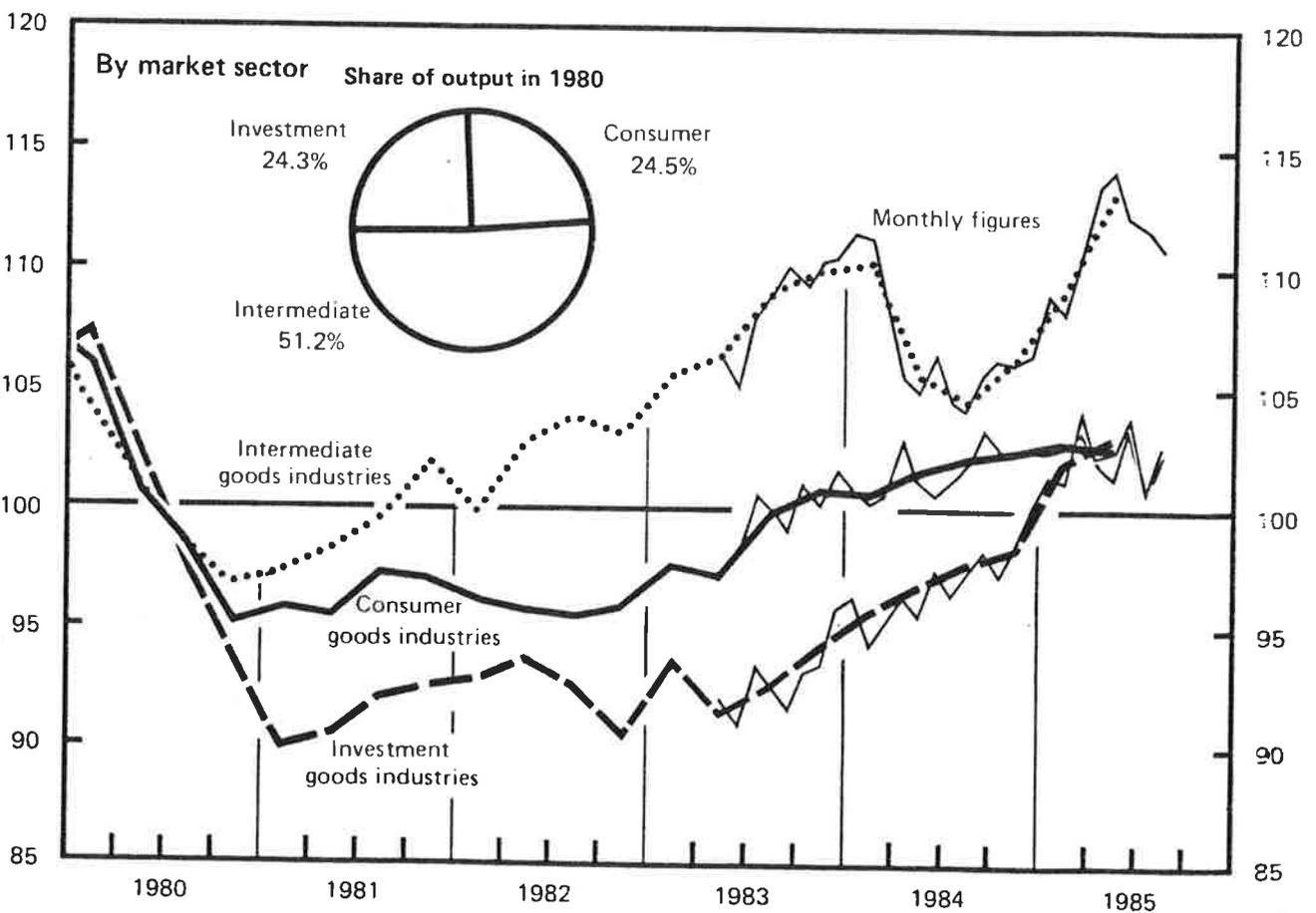
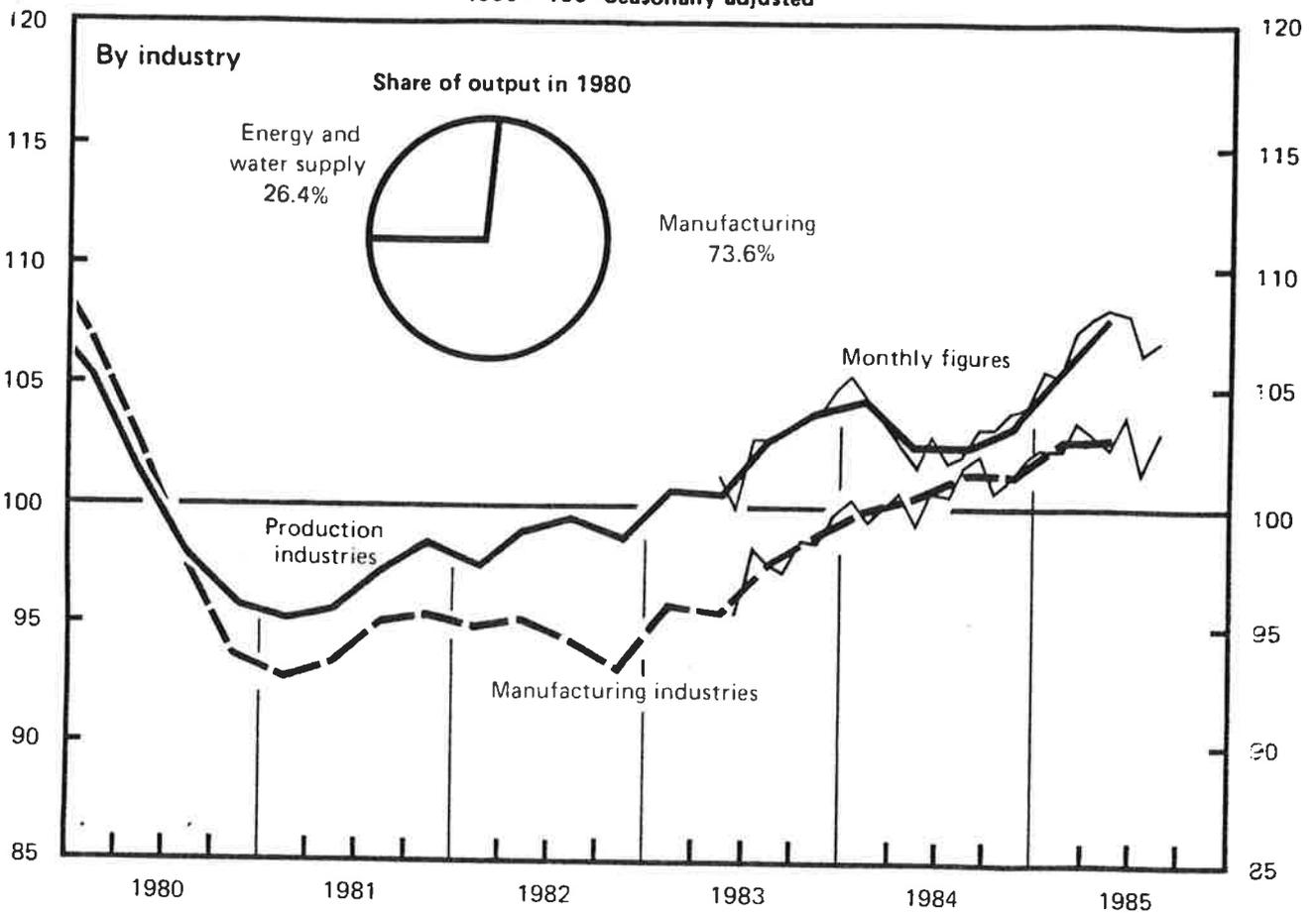
† Mainly building materials

†† Paper, printing, publishing, timber, furniture, rubber, plastics



# INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 Seasonally adjusted





**PERSONAL AND CONFIDENTIAL**  
**until 11.30am Monday 16 December**  
**then RESTRICTED**

FROM: K VERNON  
 DATE: 13 DECEMBER 1985

1. **MISS O'MARA**

2. **CHANCELLOR OF THE EXCHEQUER**

You'll see work is now well in hand to correct the downward bias in estimating manufacturing production.

mom  
 13/12

*Thur*

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr Cassell  
 Mr Monck  
 Mr Burgner  
 Mr H P Evans  
 Mr Scholar  
 Mr Shaw  
 Mr Culpin  
 Mr Davies o.r  
 Mr Aaronson  
 Mr Naisbitt  
 Mr Pickering  
 Mr Dyer (+1 for No 10)  
 Mr King  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 Mr Mansell - CSO  
 Mr Kingaby - CSO  
 Mr Lang - CSO  
 HB/02

**INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1985**

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

2. The index of production increased by  $\frac{1}{2}$  per cent in the 3 months to October and was  $5\frac{1}{2}$  per cent higher than a year ago. Within production, manufacturing output was flat in the 3 months to October.

3. Between September and October the index of production fell slightly. Manufacturing output rose by  $\frac{3}{4}$  per cent but output of the energy and water supply industries fell by nearly 3 per cent as oil and gas extraction fell, in seasonally adjusted terms, and electricity and gas output fell due to exceptionally mild October weather.



**PERSONAL AND CONFIDENTIAL**  
**until 11.30am Monday 16 December**  
**then RESTRICTED**

4. Recent movements

percentage changes	1985 (Aug-October) on 1985 (May-July)	1985 (Aug-October) on 1984 (Aug-October)	October on September
Index of Production	+ ½	+5 ½	- ¼
within which:			
Manufacturing	+ ¼	+2	+ ¾
Energy and Water	1.3	+14 ½	-2 ½

underlying figures

adjusted for coal strike:

Index of Production	+ ½	+2	- ¼
Manufacturing output	0	+2	+ ¾

5. The CSO Press Notice will state that the effects of the coal strike on the level of industrial production were negligible in the three months to October compared with ½ per cent in the previous three months.

6. Though tentative estimates show manufacturing output to be flat in the three months to October more firmly based figures for earlier periods now show good growth of ¾ per cent between the first two quarters of this year. Manufacturing output in the first ten months of the year currently shows 2 ½ per cent growth on the same period of 1984.

7. In the three months to October the index of production was 1 ¼ per cent above the 1979 average level but was still ¾ per cent below the 1979Q2 peak.

8. [NOT FOR USE. You enquired last month whether any steps were being taken to adjust the acknowledged downward bias in early estimates of manufacturing production. The CSO have now devised a comprehensive procedure to do this which they are discussing with other departments, including the Treasury. A decision on implementation will be made very shortly].



Industrial detail

9. (a) North Sea oil and gas extraction fell by 2 per cent in October level. This fall however is not thought to represent any underlying fall in oil and gas production. [Unadjusted, production rose in October and (NOT FOR USE) DEN are expecting a further increase in November].
- (b) The figure of third quarter construction output shows no change from the second quarter level. In the first three quarters of 1985, construction output was up by 1½ per cent on the same period last year.

Assessment

10. Manufacturing output rose strongly throughout 1984 and recent revisions show that growth continued into the first half of the year. Though output in the three months to October was flat, the statistics for this period are less firmly based and the latest monthly figure confirms the assessment that manufacturing output continues to grow in underlying terms.

11. Press comment is likely to be reasonably favourable.

12. Growth of manufacturing output so far in 1985 - up 2½ per cent in the first ten months of the year over the same period last year - suggests that the Industry Act Forecast of 2½ per cent growth for 1985 as a whole should be achieved comfortably.

Lines to take

13. Possible lines to take for IDT are:

14. (i) Industrial production increased by 5½ per cent in the year to the three months to October. Allowing for recovery from the coal strike, annual growth was 2 per cent.
- (ii) Manufacturing output has shown good growth well into 1985. Current estimate of output for the latest 3 months shows no change from previous 3 months but figures liable to revision which, on the basis of recent experience, could be upward. Best assessment is that manufacturing output continues to grow in underlying terms.



**PERSONAL AND CONFIDENTIAL**  
**until 11.30am Monday 16 December**  
**then RESTRICTED**

- (iii) The Industry Act Forecast projects manufacturing output growth of 2½ per cent in both 1985 and 1986. This will imply uninterrupted growth since 1981 - longest period since 1973. [NB. CBI forecast 2½ per cent growth in 1985 and 3 per cent in 1986.]

*Step King*

PP

K VERNON  
EB



TABLE 1

OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES

1980 = 100, seasonally adjusted

	Production * (Divisions 1-4) *	Energy and Water Supply (Division 1)	Manufacturing (Divisions 2-4)	Construction (Division 5)
1979	107.1	100.5	109.5	105.8
1980	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	89.9
1982	98.4	110.0	94.2	91.6
1983	101.9	115.9	96.9	95.3
1984	103.1	110.1	100.6	98.6
1983 Q3	102.8	117.6	97.4	97.7
Q4	103.9	118.4	98.7	97.8
1984 Q1	104.3	117.3 R	99.7	97.0
Q2	102.4 R	108.1	100.3 R	98.1
Q3	102.4	105.4	101.3	100.5
Q4	103.5	109.7	101.3	98.7
1985 Q1	106.0	115.2	102.7	99.3
Q2	108.2 R	121.4	103.5	100.2 R
Q3	107.8 R	121.6 R	102.8 R	100.2
1984 July	101.8	106.0	100.3	
August	102.0	103.2	101.6	
September	103.3	107.0 R	102.0	
October	103.2	110.6 R	100.6	
November	103.4 R	109.2	101.3 R	
December	104.0	109.4	102.1	
1985 January	105.7 R	115.1	102.3 R	
February	105.2	113.3	102.3	
March	107.2 R	117.2	103.6 R	
April	108.2 R	121.7 R	103.3	
May	108.2 R	123.6 R	102.7	
June	108.3	118.8 R	104.5	
July	107.0 R	120.0 R	102.3 R	
August	107.3 R	119.1	103.0 R	
September	109.1	125.6 R	103.2	
October	108.8	122.3	104.0	
<u>% changes</u>				
-----				
Latest 3 months on previous 3 months	0.5	1.3	0.2	0.0
Latest 3 months on year earlier	5.4	14.4	2.0	-0.3
Latest 3 months on 1981 Q1 (trough)	14.0	19.9	11.5	8.4
+				
Latest 3 months on 1979 Q2 (peak)	-0.7	17.4	-8.0	-6.5

Notes

\* Within the total 'production' index energy and water supply industries accounts for 26 per cent, and manufacturing for the remaining 74 per cent

'R' signifies revised figure

+ Energy & Water Supply peak is 1979 Q3



TABLE 2

OUTPUT OF PRODUCTION INDUSTRIES CHANGES IN DETAIL

Percentage change, latest 3 months\* on:

	Previous 3 months	Same 3 months last year	1981 Q1 (trough of output of production industries)
Total Production Industries	0.5	5.4	13.9
Energy & Water Supply	1.3	14.4	19.9
o.w. extraction of oil & gas	3.5	2.5	39.4
coal and coke	6.1	23.2	-17.4
Total Manufacturing	0.2	2.0	11.5
o.w. Metals	-0.2	7.9	17.3
Other minerals †	-0.3	-2.3	5.1
Chemicals (and man- made fibres)	-1.3	1.2	21.8
Engineering	-0.4	3.0	15.0
Food, drink, tobacco	2.1	0.1	2.7
Textiles etc.	1.6	2.4	11.0
Other ††	1.0	1.0	5.5

\* August, September & October 1985

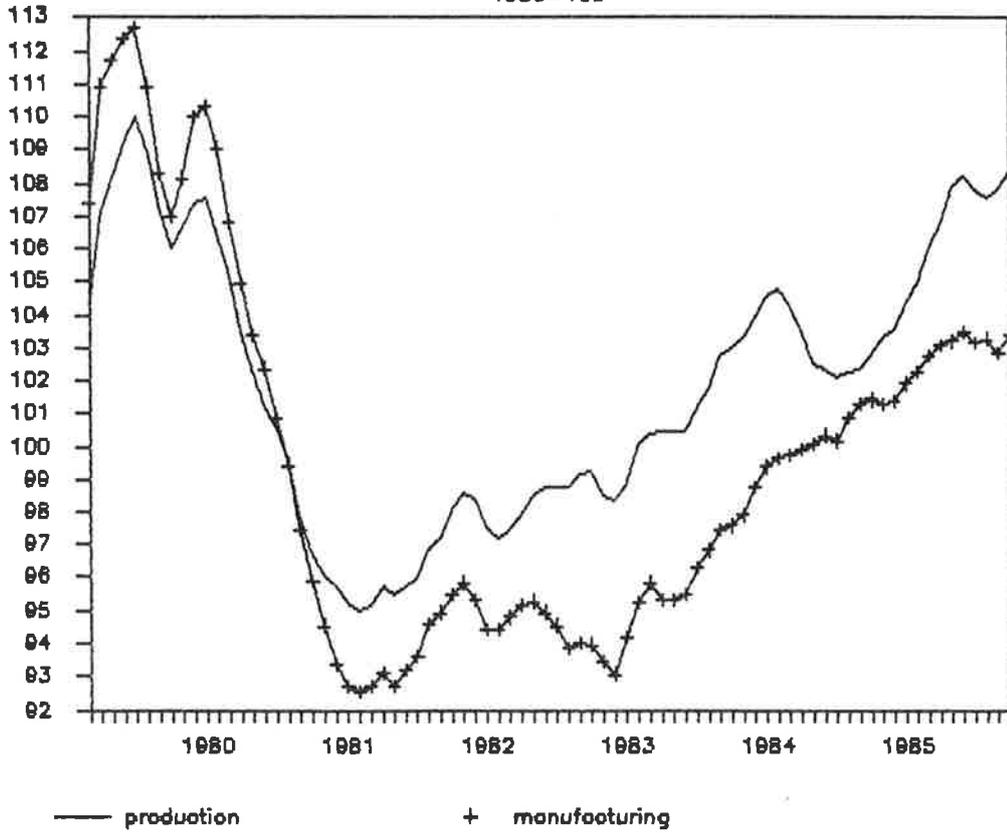
† Mainly building materials

†† Paper, printing, publishing, timber, furniture, rubber, plastics



# THREE-MONTHLY INDEX NUMBERS OF OUTPUT

1980=100





JO683

MR D NORRGROVE  
Prime Minister's Office

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1985

The provisional index of output of the production industries for October 1985 will be issued at 11.30 am on Monday 16 December. A copy of the Press Notice is attached.

Latest figures

The October 1985 output index of all production industries, that is energy (including coal) and manufacturing, is provisionally estimated at 108.8 (1980=100, seasonally adjusted), down  $\frac{1}{2}$  per cent on September. For manufacturing the index was 104.0, up 1 per cent on September. In the three months to October output of the production industries was  $\frac{1}{2}$  per cent higher than in the previous three months and manufacturing output was broadly unchanged. Some industry detail is given in the attached table.

Assessment

Manufacturing output grew steadily during 1984 and for the first half of this year (and was up 3 per cent between the second quarters of 1984 and 1985). The more provisional figures for the third quarter show a fall, but the underlying position is still thought to be one of growth, with the provisional estimate for October tending to support this view.

Oil extraction was low between June and August, due to maintenance work, but recovered in September and October.

Output of the production industries in the latest three months was 14 per cent higher than at its trough in the first quarter of 1981.

Impact of the dispute in the coal mining industry

In terms of the quarterly comparisons in the Press Notice, the after-effect of the dispute on production industries in the latest three months was negligible, and was  $\frac{1}{2}$  per cent in the previous three months. In the three months to October 1984, the impact of the dispute was  $3\frac{1}{2}$  per cent.

Figures for November

Figures for November are scheduled for publication on Monday 20 January 1986.



K MANSELL

Central Statistical Office  
13 December 1985



Table A

Copy No.

PERSONAL AND CONFIDENTIAL until release of Press Notice at 11.30 am on December 16 1985 and thereafter unclassified

## Index of output of the production industries 1980=100

SUMMARY	Total production industries	Energy and water supply	Total manufacturing industries	Metals	Other minerals and mineral products	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, footwear, clothing and leather	Other manufacturing
1983	101.9	115.9	96.9	104.4	93.9	107.4	94.8	101.1	94.6	93.6
1984	103.1	110.1	100.7	108.4	95.1	113.9	99.2	102.1	97.9	97.6
1984 2	102.4	108.1	100.3	106.2	95.1	112.8	98.7	101.8	97.7	98.1
3	102.4	105.4	101.3	109.2	96.1	115.5	100.2	101.7	98.1	97.7
4	103.5	109.7	101.3	105.6	95.0	115.9	100.0	102.9	99.3	97.7
1985 1	106.0	115.2	102.7	111.5	92.1	119.1	103.3	101.4	99.0	96.9
2	108.2	121.4	103.5	116.3	93.8	120.2	104.4	99.6	99.2	97.5
3	107.8	121.6	102.8	117.5	93.2	117.6	102.6	100.5	101.0	98.0
1985 A	107.3	119.1	103.0	119	93	118	103	101	101	99
S	109.1	125.6	103.2	117	92	118	104	101	102	98
0	108.8	122.3	104.0	115	95	117	104	105	100	99
Percentage change latest 3 months on:										
previous 3 months	+0.5	+1.3	+0.2	-0.2	-0.3	-1.3	-0.4	+2.1	+1.6	+1.0
a year earlier	+5.4	+14.4	+2.0	+7.9	-2.3	+1.2	+3.0	+0.1	+2.4	+1.0
1st quarter 1981(a)	+13.9	+19.9	+11.5	+17.3	+5.1	+21.8	+15.0	+2.7	+11.0	+5.5
1st half 1979(b)	+1.4	+23.9	-5.9	-10.6	-13.2	+8.1	-5.9	+2.2	-15.6	-11.3
DETAILED ANALYSIS	Coal and coke	Extraction of mineral oil and natural gas	Mineral oil processing	Other energy and water supply	Metals	Other minerals and mineral products	Chemicals	Man-made fibres	Metal goods not elsewhere specified	
1983	89.5	137.6	95.2	100.7	104.4	93.9	108.2	78.0	94.5	
1984	33.8	147.1	98.4	95.8	108.4	95.1	114.9	78.8	100.7	
1984 2	22.9	143.6	100.1	99.6	106.2	95.1	113.8	79.7	102.5	
3	23.7	144.0	98.9	90.3	109.2	96.1	116.6	79.3	102.6	
4	27.6	152.3	98.5	90.0	105.6	95.0	117.0	76.8	98.2	
1985 1	35.6	154.9	99.3	99.4	111.5	92.1	120.4	73.3	97.0	
2	70.7	148.7	100.0	110.1	116.3	93.8	121.5	74.9	98.5	
3	79.7	146.8	99.4	109.3	117.5	93.2	118.8	77.0	96.8	
1985 A	80	139	102	112	119	93	119	79	97	
S	81	157	96	107	117	92	119	75	98	
0	81	154	92	101	115	95	118	72	96	
Percentage change latest 3 months on:										
previous 3 months	+6.1	+3.5	-3.5	-3.7	-0.2	-0.3	-1.4	+0.8	-0.2	
a year earlier	+223.2	+2.5	-3.6	+18.1	+7.9	-2.3	+1.4	-5.0	-3.9	
1st quarter 1981(a)	-17.4	+39.4	+0.4	+10.0	+17.3	+5.1	+22.9	-17.0	+9.8	
1st half 1979(b)	-15.7	+60.2	-14.5	+1.7	-10.6	-13.2	+10.1	-45.7	-21.0	
DETAILED ANALYSIS continued	Mechanical engineering	Electrical and instrument engineering	Motor vehicles and parts	Other transport equipment	Food	Drink and tobacco	Textiles	Clothing, footwear and leather	Paper, printing and publishing	All other manufacturing
1983	87.4	108.1	83.9	95.0	103.8	95.5	91.3	97.4	92.1	95.2
1984	87.3	122.9	81.3	91.5	104.7	96.7	93.8	101.4	96.1	99.3
1984 2	86.7	120.9	80.9	92.0	103.6	98.1	93.7	101.1	96.6	99.9
3	87.8	124.8	81.8	91.3	104.3	96.4	94.0	101.6	95.8	100.0
4	87.2	128.5	77.2	92.2	106.0	96.5	94.1	103.8	97.5	98.1
1985 1	89.7	131.4	86.1	97.6	104.0	96.1	96.7	101.1	97.1	96.8
2	92.4	131.4	87.2	97.0	102.4	93.7	95.5	102.3	97.3	97.7
3	89.9	128.1	89.2	96.5	103.8	93.7	99.2	102.6	97.7	98.4
1985 A	91	127	89	97	104	93	99	104	98	100
S	91	128	91	97	104	95	99	104	98	98
0	92	132	82	99	107	100	99	102	99	99
Percentage change latest 3 months on:										
previous 3 months	+1.0	-1.6	-0.5	+0.7	+2.6	+1.2	+2.6	+0.8	+1.3	+0.7
a year earlier	+4.7	+2.4	+6.2	+6.2	+0.5	-1.0	+5.7	-0.2	+2.4	-0.6
1st quarter 1981(a)	+4.4	+39.4	+13.7	-7.9	+7.1	-6.0	+9.5	+12.3	+3.8	+7.5
1st half 1979(b)	-17.1	+25.0	-29.2	+3.7	+5.7	-5.0	-20.6	-11.0	-7.8	-14.8

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



Personal numbered copies of the minute and attachment to:

Treasury

(Principal Private Secretary  
(Sir Peter Middleton

Cabinet Office

(Mr Jack Hibbert

Department of Trade and Industry

(Private Secretary  
Secretary of State's Office

(Private Secretary  
to Mr Geoffrey Pattie

(Private Secretary  
to Mr Peter Morrison

(Private Secretary  
to Mr John Butcher

(Sir Brian Hayes  
(Mr H Liesner

(Mr Whiting  
(Mr Harvey  
(Mr Wright

Bank of England

(Mr R Leigh-Pemberton





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AND  
INFORMATION SERVICE**

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**PERSONAL AND CONFIDENTIAL until release**

**of Press Notice at 11.30 a.m. on 16<sup>th</sup> December 1985**

**and thereafter unclassified**

CSO(85)116  
16 December 1985

INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES - OCTOBER 1985

In the three months to October output of the production industries is provisionally estimated to have increased by  $\frac{1}{2}$  per cent compared with the previous three months; manufacturing output was broadly unchanged.

Output of production industries (to October 1985)

The October index of output of the production industries - energy (including coal) and manufacturing - is provisionally estimated at 108.8 (1980=100, seasonally adjusted). In the latest three months output was  $\frac{1}{2}$  per cent higher than in the previous three months and  $5\frac{1}{2}$  per cent higher than in the same period a year earlier. This latter comparison is affected by the dispute in the coal mining industry (see note overleaf).

Manufacturing output in the latest three months was broadly unchanged compared with the previous three months but 2 per cent higher than the level of a year earlier. Within manufacturing, output of food, drink and tobacco and of textiles and clothing increased by 2 per cent and output of "other" manufacturing by 1 per cent between the two latest three months periods. Output of metals, other minerals, and of engineering and allied industries were broadly unchanged. In contrast the output of chemicals fell by 1 per cent.

Energy and water supply rose by  $1\frac{1}{2}$  per cent between the two latest three months periods, with increased extraction of oil and natural gas and coal output more than offsetting reductions in gas and electricity supply.





By market sector, output of consumer goods rose by  $1\frac{1}{2}$  per cent between the two latest three month periods, intermediate goods by  $\frac{1}{2}$  per cent while investment goods were broadly unchanged.

In the longer term, output of the production industries in the latest three months was 14 per cent higher than at its trough in the first quarter of 1981; manufacturing output was  $11\frac{1}{2}$  per cent higher.

#### Output of production and construction industries (to Q3 1985)

Output of the construction industry in the third quarter is estimated to have been similar to the level of the previous quarter. Output of production and construction industries in the third quarter was  $\frac{1}{2}$  per cent below its second quarter level, but  $12\frac{1}{2}$  per cent above the first quarter of 1981 trough.

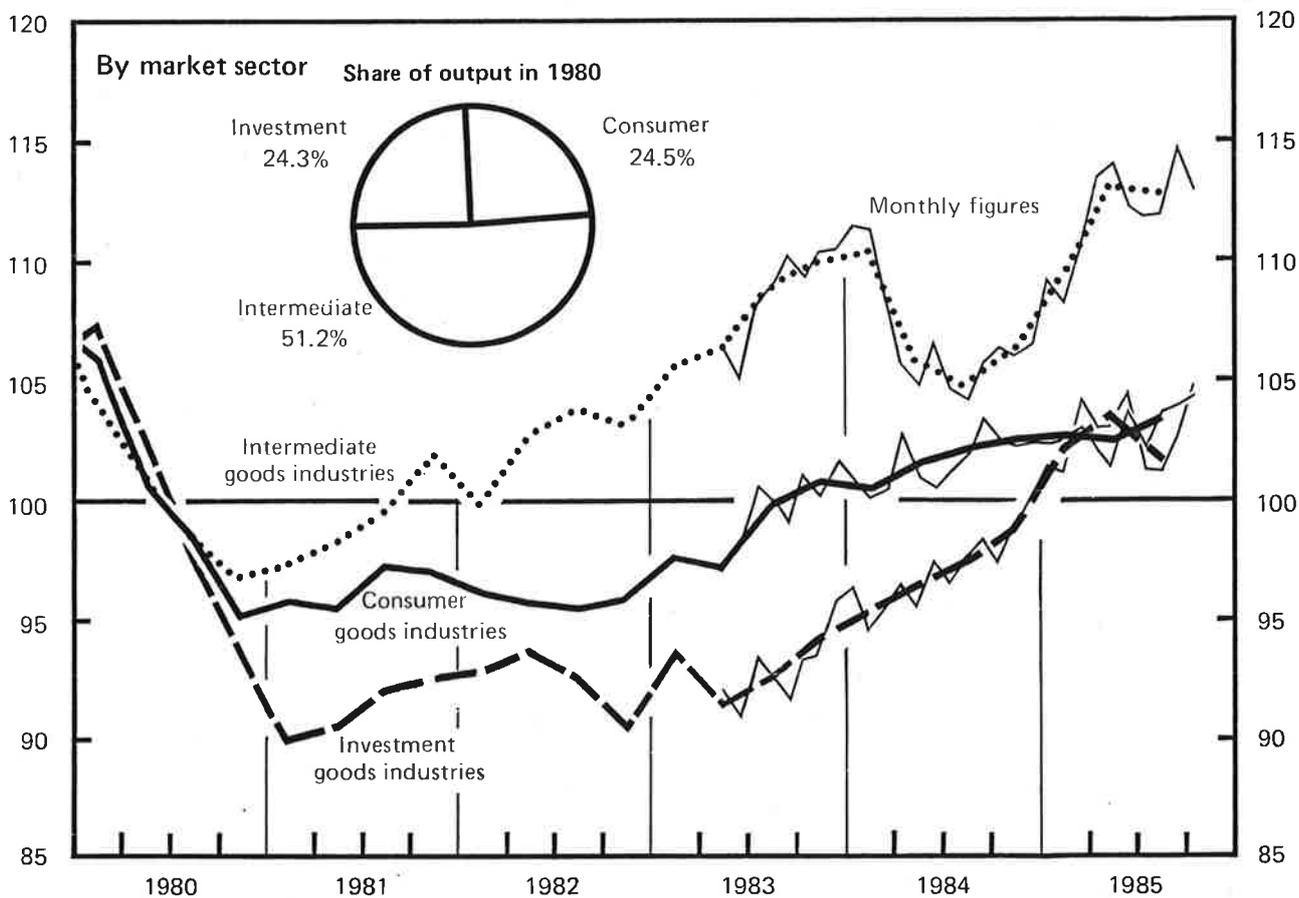
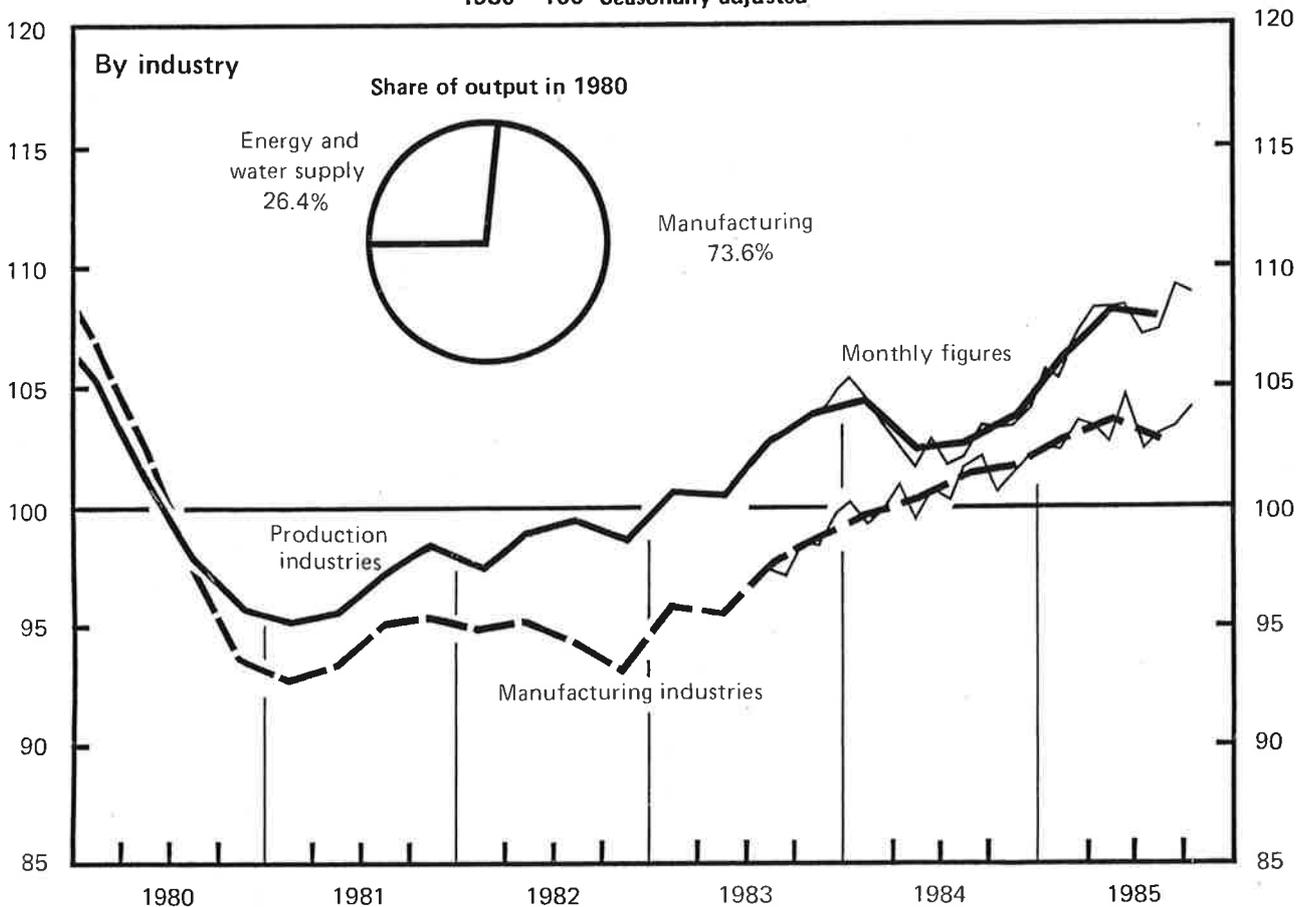
#### Effect of coal dispute on industry production

Output of the coal industry normally accounts for about 4 per cent of industrial production. It is estimated that, in the three months to October, the after-effects of the coal dispute had a negligible effect on the level of industrial production, and reduced the index by less than  $\frac{1}{2}$  per cent in the previous three months; the dispute reduced the index by nearly  $3\frac{1}{2}$  per cent in the three months to October 1984. The effect on the figures for manufacturing has been small.



# INDEX OF OUTPUT OF THE PRODUCTION INDUSTRIES

1980 = 100 Seasonally adjusted





OUTPUT OF THE PRODUCTION INDUSTRIES(1)

(1980=100)

TABLE 1

	Broad industry groups			Market sectors		
	Production industries	Energy	Manufacturing	Consumer goods	Investment goods	Intermediate goods
	Division 1-4	Division 1	Division 2-4			
	Weights	1000	264	736	245	243
1978	103.2	85.0	109.7	108.4	106.3	99.1
1979	107.1	100.5	109.5	108.3	104.8	107.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	96.6	103.9	94.0	96.4	91.3	99.2
1982	98.4	110.0	94.2	95.8	92.3	102.3
1983	101.9	115.9	96.9	98.9	92.9	107.5
1984	103.1	110.1	100.7	101.7	97.0	106.8
Seasonally adjusted						
1980						
1	105.2	100.7	106.8	105.9	107.3	104.2
2	101.2	98.0	102.4	100.7	101.9	101.1
3	97.8	98.9	97.4	98.5	97.5	97.9
4	95.7	102.4	93.3	95.0	93.3	96.9
1981						
1	95.1	102.0	92.7	96.0	90.0	97.2
2	95.7	102.8	93.2	95.3	90.7	98.2
3	97.2	103.5	94.9	97.2	91.9	99.5
4	98.4	107.0	95.3	96.9	92.7	101.8
1982						
1	97.4	104.6	94.8	96.2	93.0	99.9
2	98.7	109.4	94.9	95.7	93.8	102.7
3	99.1	113.2	94.0	95.6	92.1	103.8
4	98.3	112.9	93.1	95.9	90.4	103.0
1983						
1	100.4	113.1	95.8	97.6	93.8	104.8
2	100.4	114.3	95.5	97.4	91.3	106.2
3	102.8	117.6	97.4	99.9	92.6	109.0
4	103.9	118.4	98.7	100.8	94.2	110.0
1984						
1	104.3	117.3	99.7	100.4	95.4	110.4
2	102.4	108.1	100.3	101.5	96.4	105.7
3	102.4	105.4	101.3	102.1	97.5	104.8
4	103.5	109.7	101.3	102.6	98.7	106.2
1985						
1	106.0	115.2	102.7	102.6	102.2	109.3
2	108.2	121.4	103.5	102.4	103.5	113.2
3	107.8	121.6	102.8	103.2	101.7	112.8
1983						
O	103.3	117.4	98.3	100.9	93.2	109.3
N	103.7	118.8	98.3	100.1	93.5	110.3
D	104.7	118.9	99.6	101.5	95.8	110.5
1984						
J	105.2	119.1	100.2	100.7	96.3	111.3
F	104.4	119.3	99.1	100.1	94.4	111.2
M	103.4	113.4	99.8	100.5	95.4	108.6
A	102.6	107.8	100.8	102.8	96.3	105.6
M	101.6	107.5	99.5	101.0	95.5	104.8
J	102.9	109.0	100.7	100.7	97.5	106.6
J	101.8	106.0	100.3	101.2	96.6	104.6
A	102.0	103.2	101.6	101.9	97.6	104.2
S	103.3	107.0	102.0	103.3	98.3	105.7
O	103.2	110.6	100.6	102.7	97.3	106.2
N	103.4	109.2	101.3	102.4	98.6	106.0
D	104.0	109.4	102.1	102.7	100.2	106.5
1985						
J	105.7	115.1	102.3	102.4	101.4	109.1
F	105.2	113.3	102.3	102.6	101.2	108.3
M	107.2	117.2	103.6	102.9	104.1	110.5
A	108.2	121.7	103.3	102.1	103.0	113.5
M	108.2	123.6	102.7	101.5	103.0	113.9
J	108.3	118.8	104.5	103.7	104.5	112.3
J	107.0	120.0	102.3	102.1	101.3	111.8
A	107.3	119.1	103.0	103.6	101.2	111.9
S	109.1	125.6	103.2	103.9	102.7	114.7
O	108.8	122.3	104.0	104.3	104.8	112.8
% 3-month on 3-month change (2)	+0.5	+1.3	+0.2	+1.5	-	+0.4

(1) Output index numbers include adjustments, as necessary, to compensate for the use of sales indicators (see Notes to Editors).  
 (2) Average of August to October 1985 compared with the average of May to July 1985.



OUTPUT OF MANUFACTURING INDUSTRIES

(1980=100)

TABLE 2

	Metals	Other minerals and mineral products(1)	Chemicals and man-made fibres	Engineering and allied industries	Food, drink and tobacco	Textiles, clothing footwear and leather	Other manufacturing
	Class 21-22	Class 23-24	Class 25-26	Class 31-37	Class 41-42	Class 43-45	Class 46-49
	25	41	68	325	99	52	126
Weights	25	41	68	325	99	52	126
1978	126.5	111.9	108.5	110.1	99.1	119.3	109.5
1979	131.7	111.0	111.2	107.6	100.7	117.9	111.9
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	106.0	89.1	99.6	91.8	98.2	92.7	93.2
1982	103.2	90.9	99.7	92.9	99.7	91.2	90.8
1983	104.4	93.9	107.4	94.8	101.1	94.6	93.6
1984	108.4	95.1	113.9	99.2	102.1	97.9	97.6
Seasonally adjusted							
1980							
1	81.6	109.9	111.5	108.1	101.4	108.9	108.7
2	116.4	104.4	101.8	102.5	99.9	103.1	100.6
3	104.9	95.7	93.2	97.6	99.4	97.2	97.1
4	97.1	89.9	93.4	91.9	99.3	90.9	93.6
1981							
1	99.5	89.1	96.4	89.8	99.3	91.1	93.5
2	104.4	88.4	98.4	90.9	96.8	92.2	93.2
3	107.5	90.0	102.5	93.0	97.9	93.1	93.2
4	112.8	88.9	101.1	93.5	98.9	94.3	92.9
1982							
1	110.7	89.7	99.7	93.7	99.3	91.9	91.0
2	108.5	91.6	100.0	93.7	99.9	91.3	91.3
3	100.6	91.2	99.7	92.6	99.8	91.3	90.8
4	93.0	91.2	99.4	91.4	99.9	90.5	90.2
1983							
1	98.5	93.0	104.1	94.7	100.2	92.6	92.5
2	105.2	91.1	107.2	93.4	98.2	93.4	92.6
3	105.5	95.6	108.7	94.8	103.0	94.7	93.8
4	108.6	95.8	109.5	96.3	103.0	97.6	95.4
1984							
1	112.6	94.2	111.5	97.9	102.0	96.5	96.8
2	106.2	95.1	112.8	98.7	101.8	97.7	98.1
3	109.2	96.1	115.5	100.2	101.7	98.1	97.7
4	105.6	95.0	115.9	100.0	102.9	99.3	97.7
1985							
1	111.5	92.1	119.1	103.3	101.4	99.0	96.9
2	116.3	93.8	120.2	104.4	99.6	99.2	97.5
3	117.5	93.2	117.6	102.6	100.5	101.0	98.0
1983							
O	110	96	108	96	104	95	96
N	106	96	111	96	102	97	95
D	110	96	110	98	103	101	95
1984							
J	115	95	110	99	102	97	97
F	110	94	112	97	102	96	97
M	113	94	112	98	101	97	97
A	107	96	113	99	104	97	99
M	104	94	112	98	100	99	98
J	108	95	113	100	101	97	98
J	108	95	113	99	102	97	98
A	110	96	118	101	101	97	98
S	110	97	116	101	103	100	97
O	105	95	115	99	103	99	97
N	105	95	116	100	103	99	98
D	107	96	118	101	103	100	98
1985							
J	109	92	120	103	101	98	97
F	111	91	119	103	102	99	97
M	115	94	119	105	102	100	97
A	115	94	122	104	99	99	97
M	116	93	117	104	99	98	97
J	117	94	122	106	100	101	98
J	117	94	118	102	100	100	98
A	119	93	118	103	101	101	99
S	117	92	118	104	101	102	98
O	115	95	117	104	105	100	99
% 3-month on 3-month change (2)	-0.2	-0.3	-1.3	-0.4	+2.1	+1.6	+1.0

(1) Mainly building materials

(2) Average of August to October 1985 compared with the average of May to July 1985.



OUTPUT OF PRODUCTION AND CONSTRUCTION INDUSTRIES (1)

(1980=100)

TABLE 3

	Production and construction Division 1-5	Construction Division 5	Production industries Division 1-4	Energy Division 1	Manufacturing Division 2-4	Oil and gas extraction Class 13
Weights (parts per thousand of GDP(0))	424	63	361	95	266	44
1978	103.4	105.1	103.2	85.0	109.7	68.9
1979	106.9	105.8	107.1	100.5	109.5	98.7
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	95.6	89.9	96.6	103.9	94.0	110.3
1982	97.3	91.6	98.4	110.0	94.2	125.6
1983	100.9	95.3	101.9	115.9	96.9	137.6
1984	102.4	98.6	103.1	110.1	100.7	147.1
Seasonally adjusted						
1979						
1	104.1	101.0	104.6	97.1	107.4	89.8
2	108.9	107.2	109.2	100.4	112.4	98.0
3	107.3	107.7	107.2	104.2	108.3	106.4
4	107.4	107.2	107.4	100.2	110.0	100.5
1980						
1	105.2	104.9	105.2	100.7	106.8	100.5
2	101.2	101.5	101.2	98.0	102.4	95.8
3	98.3	100.5	97.8	98.9	97.4	97.7
4	95.3	93.0	95.7	102.4	93.3	106.0
1981						
1	94.8	92.4	95.1	102.0	92.7	107.9
2	94.8	89.5	95.7	102.8	93.2	107.0
3	96.2	90.9	97.2	103.5	94.9	110.9
4	96.7	86.9	98.4	107.0	95.3	115.6
1982						
1	96.1	89.1	97.4	104.6	94.8	113.9
2	97.5	90.6	98.7	109.4	94.9	125.2
3	98.1	92.6	99.1	113.2	94.0	131.1
4	97.7	94.3	98.3	112.9	93.1	132.3
1983						
1	99.4	93.7	100.4	113.1	95.8	131.9
2	99.1	92.1	100.4	114.3	95.5	131.0
3	102.0	97.7	102.8	117.6	97.4	141.9
4	103.1	97.8	103.9	118.4	98.7	145.7
1984						
1	103.2	97.0	104.3	117.3	99.7	148.4
2	101.7	98.1	102.4	108.1	100.3	143.6
3	102.1	100.5	102.4	105.4	101.3	144.0
4	102.8	98.7	103.5	109.7	101.3	152.3
1985						
1	105.1	99.3	106.0	115.2	102.7	154.9
2	107.0	100.2	108.2	121.4	103.5	148.7
3	106.6	100.2	107.8	121.6	102.8	146.8

(1) The long run series in column 3-5 are consistent with table 1.



## NOTES TO EDITORS

1. The index numbers of output of the production and construction industries in this Press Notice are on the base 1980 = 100 and classified to the 1980 revision to the Standard Industrial Classification (SIC). These industries account for 42 per cent of gross domestic product; production industries alone accounts for 36 per cent. The index numbers were first published in this form in September 1983. The monthly index for the production industries covers only the energy (and water supply) Division 1 of the SIC, and manufacturing industries, Divisions 2 to 4 of the SIC. An index of production and construction broadly equivalent to the previously published "all industries' index of production" is available only quarterly. These changes were described in advance in March 1983 Economic Trends. A further article describing the effects of rebasing appeared in October 1983 Economic Trends.
2. The purpose of the index numbers is to measure changes in net output or value added (that is total outputs less total inputs) at constant (1980) prices. Conceptually, this should be estimated as the difference between outputs and inputs, each valued at the appropriate prices of the base year. However, this approach, known as double deflation, is difficult to apply reliably since it requires a great deal of information. In practice, movements in net output at constant prices are generally estimated by movements in gross output at constant prices. This yields satisfactory estimates, provided the ratio of gross to net output remains largely unchanged, as will generally be the case in the short-term. Further discussion of the concepts of measurement may be found in "The measurement of changes in production, Studies in Official Statistics number 25" (HMSO, 1976).
3. The index of production is a weighted average of 330 separate indicators, each of which describes the activity of a small sector of industry. These indicators are obtained monthly where possible but for a number of sectors, representing 17½ per cent of activity, only quarterly data are available. Two Occasional Papers, one describing the weights and indicators and the other the sources used in compiling the index, are available.
4. Many of the basic series used to construct the index of production measure either final production or deliveries. Neither type of series takes account of changes in work in progress and series based on deliveries do not take account of changes in stocks of finished goods. All of the index numbers in this Press Notice have been adjusted where necessary, for estimated changes in manufacturers' stocks. An Occasional Paper describing these calculations is available.
5. More detailed tables on the index of production are published regularly in "British Business" and the "Monthly Digest of Statistics".
6. Estimates of the output of the construction industry are compatible with those published by the Department of the Environment which are available only quarterly, one month in arrears of the corresponding quarters' estimates for the output of production industries. The aggregate index numbers no longer make use of preliminary estimates for the construction industry based, in advance of receipt of regular returns from the industry, on broad indicators of activity; they are thus delayed by one month but are better founded.
7. Within the engineering industries the index numbers are now benchmarked onto the Quarterly Sales Inquiries conducted by the Business Statistics Office. This, coupled with an improvement in the initial response to the monthly inquiries for the industry, have enabled the series to be published without the smoothing that was necessary in the 1975 based index.
8. The index numbers in this Press Notice are all seasonally adjusted, to remove annually recurring month-to-month variations owing for example, to the incidence of holidays and other regular seasonal patterns of behaviour. The adjustments can only be derived from analysis of past data and may not be completely appropriate when holiday patterns change sharply. Unadjusted data may be obtained from CSO.
9. Estimates for the latest few months are always based on partial information and should be regarded as provisional and subject to revision as more complete data become available. During the lifetime of the 1975-based index, the average revision (regardless of sign) to the all-industries index for the latest month was one half of 1 per cent. It is recommended that, to obtain an assessment of short-term change, attention should be directed to the three-month-on-three month changes. The average revision to this latter measure was one quarter of a percentage point over the same period. An Occasional Paper is available from CSO describing the effects of revisions.
10. Over the last eighteen months or so, revisions to the series for manufacturing have been generally upwards and larger than those in earlier periods. In compiling the provisional estimate for manufacturing for October 1985, some allowance has been made for the understatement.
11. Occasional Papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.50 each) are available from the Central Statistical Office.
12. Technical note on indirect effects of the coal dispute on index of production

As indicated in Note 2, above, the index numbers in this Press Notice aim to measure changes in net output at constant (1980) prices. The main indirect effects of the coal dispute were on the net output movements in the electricity and the iron and steel industries. For electricity, although gross output was maintained, net output was reduced as a result of the higher cost of inputs, with more oil being used in place of coal. Similarly, net output in the iron and steel industry was also reduced, reflecting an increase in the delivered costs of inputs.



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until 11.30 a.m. on Friday 20 September  
then RESTRICTED

*post*

FROM: S J Davies  
DATE: 19 September 1985

CHANCELLOR OF THE EXCHEQUER /

*Aug good news*

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr H P Evans  
Mr Odling-Smee  
Mr P Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Allum  
Mr Vernon  
Mr Lord  
Mr Cropper  
Mr H Davies  
Mr R Clare (CSO)

*INDEX  
M. 19/9  
with news to  
take a copy to NY!  
WR and Jones  
only (b.v.)*

**GDP FIGURES FOR THE SECOND QUARTER OF 1985**

1. The CSO's provisional estimates of GDP in the second quarter of 1985 will be published tomorrow (Friday) at 11.30 a.m. Preliminary figures for the output measure of GDP were published a month ago. The figures being published now include a revised estimate for the output measure of GDP, as well as the first published figures for the income and expenditure measures for the second quarter, along with the average estimate of GDP based on all three measures. There have been revisions to the quarterly figures for GDP in 1984 and earlier years, to bring them in line with revised annual totals published two weeks ago in the 1985 Blue Book. An advance copy of the press notice is attached.

Second Quarter Figures

2. The average estimate of GDP, shows a 1.2 per cent rise between the first and second quarters of 1985. This compares with a rise of  $\frac{3}{4}$  per cent suggested by the preliminary figure for GDP(O) published

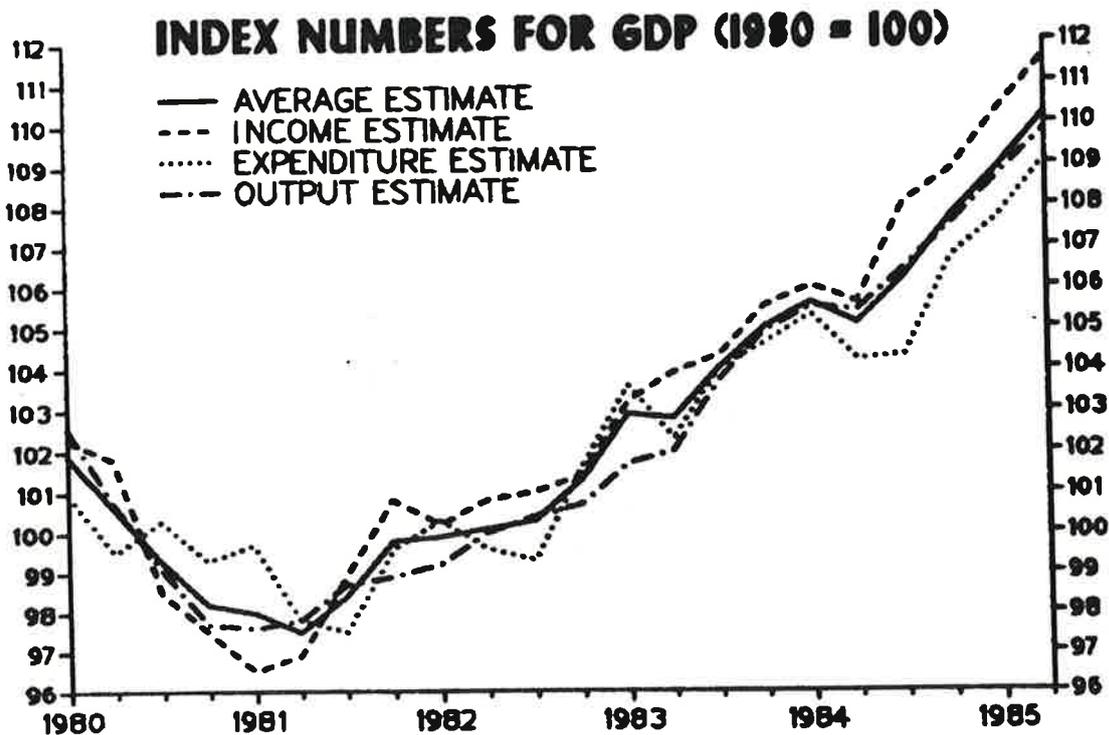
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last month. The rise in GDP(O) has now been revised up to 1 per cent, with the income and expenditure measures both showing increases of  $1\frac{1}{2}$  per cent.

3. The average estimate of GDP shows a rise of 5 per cent in the second quarter of 1985 compared with a year earlier. The output measure shows 4 per cent growth over this period, the expenditure measure  $4\frac{1}{2}$  per cent, the income measure  $5\frac{1}{2}$  per cent.

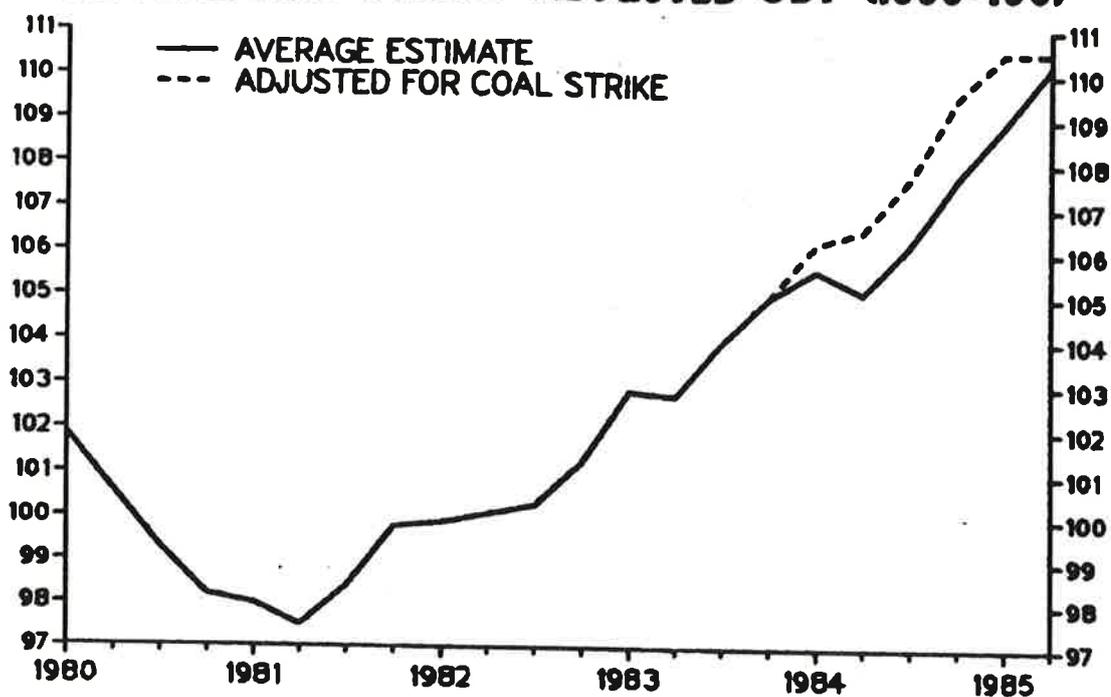


Coal Strike

4. Recovery from the effects of the coal strike is estimated to have added about 1 per cent to GDP growth between the second quarters of 1984 and 1985. Making allowance for this, the underlying growth in GDP between the second quarters of 1984 and 1985 is estimated at about 4 per cent. The CSO estimate recovery from the coal strike added about 1 per cent to the increase in GDP between the first and second quarters of 1985; allowing for this there was an underlying increase in GDP of  $\frac{1}{2}$  per cent between these two quarters.



### ACTUAL AND STRIKE-ADJUSTED GDP (1980=100)



#### GDP Growth since the last Cyclical Peak

5. As published in the 1985 Blue Book, GDP growth in 1984 is now estimated to have been 2.4 per cent. The average measure of GDP in the second quarter of 1985 was 6½ per cent above its previous cyclical peak, reached in the second quarter of 1979; and it was 13 per cent above the trough reached in the second quarter of 1981. Over the 4 years of the present upswing the rate of GDP growth has averaged a little over 3 per cent a year.



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GDP INDEX 1980 PRICES

(Average Measure)

	<u>Level</u> <u>(1980=100)</u>	<u>Percentage change</u> <u>or a year earlier</u>
1979	102.4	2.6%
1980	100.0	-2.3%
1981	98.4	-1.6%
1982	100.4	2.0%
1983	103.6	3.2%
1984	106.1	2.4%
1984 Q1	105.6	2.6%
Q2	105.1	2.2%
Q3	106.2	2.1%
Q4	107.7	2.6%
1985 Q1	108.9	3.1%
Q2	110.2	4.9%

GDP Deflator

6. The deflator for GDP at market prices in the second quarter of 1985 was 5½ per cent higher than a year earlier. (The MTFIS figure for average growth in the GDP deflator for 1985-86 was 5 per cent). The increase in the GDP deflator is well below the increase in the RPI (which was 7 per cent up between the second quarters of 1984 and 1985). The difference partly reflects the impact of mortgage rates and import costs on retail prices.

Components of Expenditure

7. Consumers' expenditure rose by 1½ per cent in real terms between the first and second quarters, having been fairly flat since the end of 1983. A turnaround from destocking in the first quarter to positive stockbuilding in the second quarter added about 1 per cent to GDP. There was also a ¼ per cent contribution to growth from the real trade balance. Gross domestic fixed capital formation fell sharply, reflecting the surge in investment in the first quarter ahead of the reduction in investment allowances. For the first half of 1985 as a whole, gross domestic fixed capital formation was 3½ per cent up on the first half of 1984.



Company Profits

8. Industrial and commercial companies' gross trading profits, net of stock appreciation, were little changed between the first and second quarters of 1985. In the first half of 1985, they were 28% up on the first half of 1984, though this comparison is affected by the inclusion of British Telecom profit in the figures for the more recent period. [NOT FOR USE: Taking out British Telecom profits, the rise in profits between the first half of 1984 and the first half of 1985 would be roughly 20 per cent]. Figures for recent years are now estimated as follows:

ICCs Trading Profits Net of Stock Appreciation

	<u>£ billion</u>	(per cent change on <u>previous year</u> )
1982	33.9	16
1983	40.8	21
1984	50.2	23*
1985 first half	30.0	28*

\* Affected by inclusion of British Telecom

Revisions to GDP

9. The press notice contains a technical note to editors which sets out ranges within which the eventually revised values of growth over the last one and two years are likely to lie, if past experience with revisions to GDP estimates is continued in the future. The ranges quoted are:

	<u>Growth</u> <u>1984Q2-1985Q2</u>	<u>Average Growth</u> <u>1983Q2-1985Q2</u>
Real GDP	4½-6½	3½-4½
Real GDP, strike adjusted	3½-5½	3½-5
Money GDP	10-11½	9-10½
Money GDP, strike adjusted	9-10½	9-11

Assessment and Line to Take

10. The UK economy is now into its fifth year of uninterrupted growth, with growth particularly strong over the last year. The economy is on track to achieve the Budget forecast of 3½ per cent growth in 1985.



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until 11.30 a.m. on Friday 20 September  
then RESTRICTED

FROM: S J Davies

DATE: 19 September 1985

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns —  
Mr Cassell  
Mr Monck  
Mr H P Evans  
Mr Odling-Smee  
Mr P Sedgwick  
Mr Culpin  
Miss O'Mara  
Mr Allum  
Mr Vernon  
Mr Lord  
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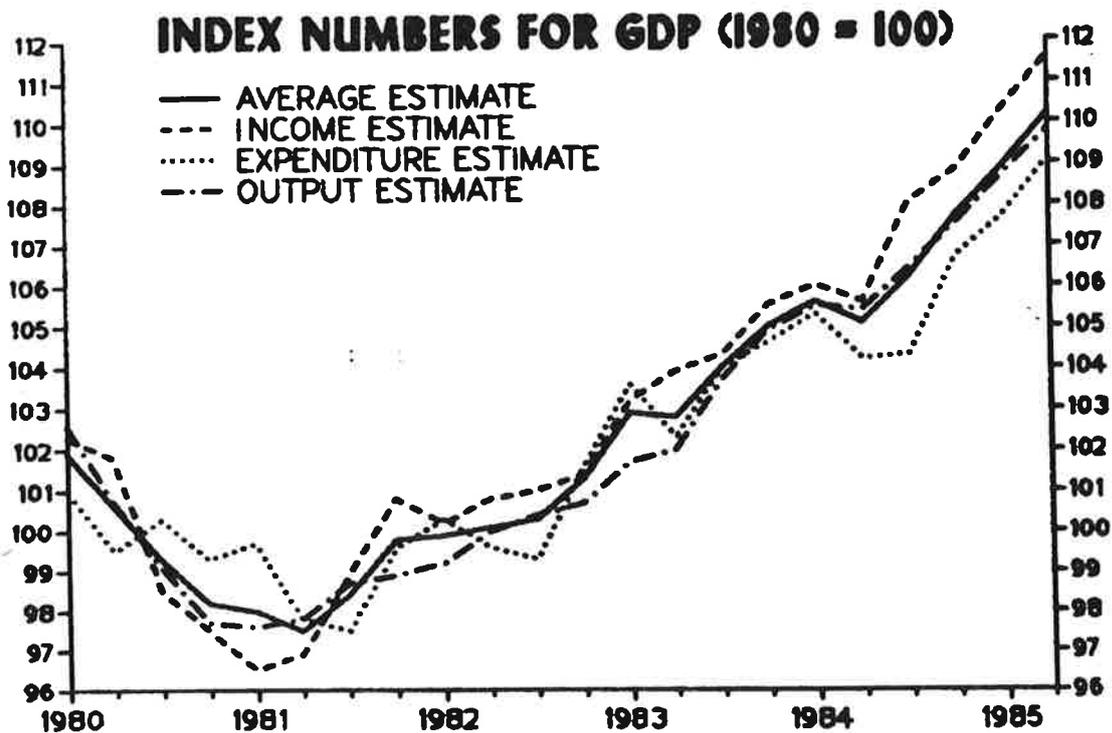
17/9/78



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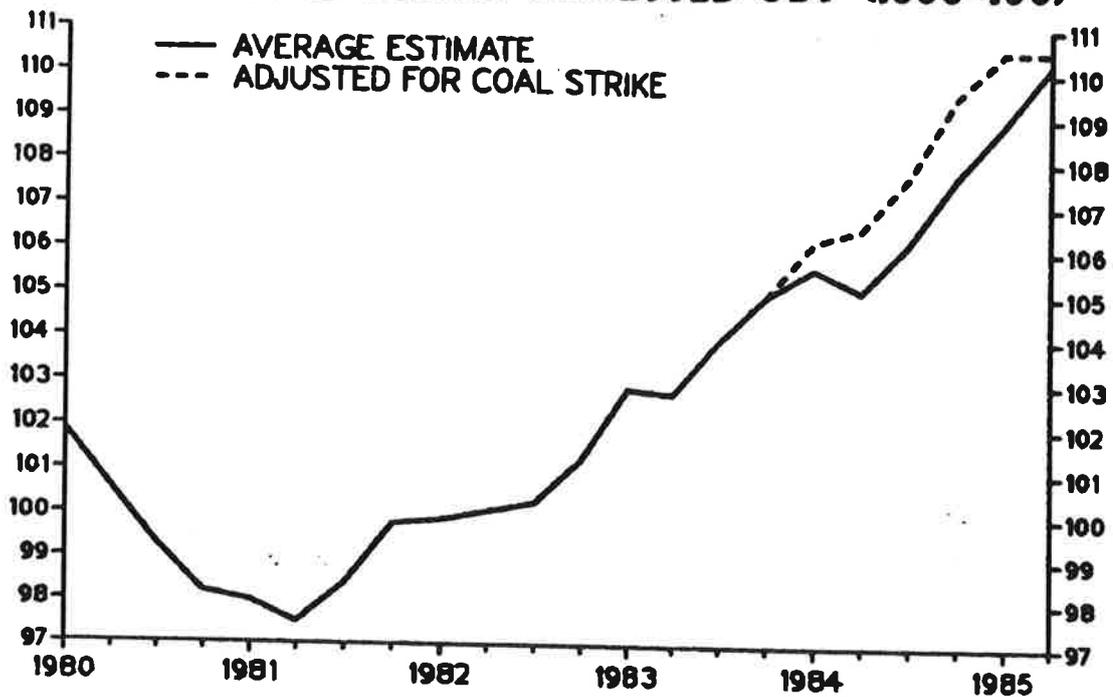


Coal Strike

4. Recovery from the effects of the coal strike is estimated to have added about 1 per cent to GDP growth between the second quarters of 1984 and 1985. Making allowance for this, the underlying growth in GDP between the second quarters of 1984 and 1985 is estimated at about 4 per cent. The CSO estimate recovery from the coal strike added about 1 per cent to the increase in GDP between the first and second quarters of 1985; allowing for this there was an underlying increase in GDP of  $\frac{1}{2}$  per cent between these two quarters.



**ACTUAL AND STRIKE-ADJUSTED GDP (1980=100)**



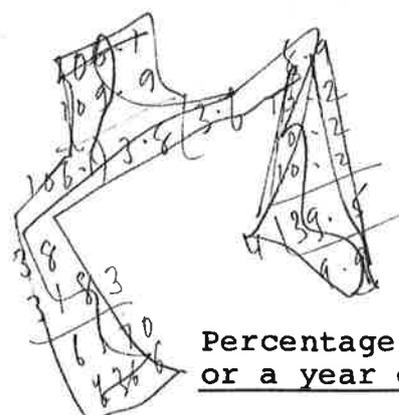
GDP Growth since the last Cyclical Peak

5. As published in the 1985 Blue Book, GDP growth in 1984 is now estimated to have been 2.4 per cent. The average measure of GDP in the second quarter of 1985 was 6½ per cent above its previous cyclical peak, reached in the second quarter of 1979; and it was 13 per cent above the trough reached in the second quarter of 1981. Over the 4 years of the present upswing the rate of GDP growth has averaged a little over 3 per cent a year.



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GDP INDEX 1980 PRICES  
(Average Measure)



	<u>Level</u> <u>(1980=100)</u>	<u>Percentage change</u> <u>or a year earlier</u>
1979	102.4	2.6%
1980	100.0	-2.3%
1981	98.4	-1.6%
1982	100.4	2.0%
1983	103.6	3.2%
1984	106.1	2.4%
1984 Q1	105.6	2.6%
Q2	105.1	2.2%
Q3	106.2	2.1%
Q4	107.7	2.6%
1985 Q1	108.9	3.1%
Q2	110.2	4.9%

GDP Deflator

6. The deflator for GDP at market prices in the second quarter of 1985 was 5¼ per cent higher than a year earlier. (The MTFS figure for average growth in the GDP deflator for 1985-86 was 5 per cent). The increase in the GDP deflator is well below the increase in the RPI (which was 7 per cent up between the second quarters of 1984 and 1985). The difference partly reflects the impact of mortgage rates and import costs on retail prices.

Components of Expenditure

7. Consumers' expenditure rose by 1½ per cent in real terms between the first and second quarters, having been fairly flat since the end of 1983. A turnaround from destocking in the first quarter to positive stockbuilding in the second quarter added about 1 per cent to GDP. There was also a ¼ per cent contribution to growth from the real trade balance. Gross domestic fixed capital formation fell sharply, reflecting the surge in investment in the first quarter ahead of the reduction in investment allowances. For the first half of 1985 as a whole, gross domestic fixed capital formation was 3¼ per cent up on the first half of 1984.

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Company Profits

8. Industrial and commercial companies' gross trading profits, net of stock appreciation, were little changed between the first and second quarters of 1985. In the first half of 1985, they were 28% up on the first half of 1984, though this comparison is affected by the inclusion of British Telecom profit in the figures for the more recent period. [NOT FOR USE: Taking out British Telecom profits, the rise in profits between the first half of 1984 and the first half of 1985 would be roughly 20 per cent]. Figures for recent years are now estimated as follows:

ICCs Trading Profits Net of Stock Appreciation

	<u>£ billion</u>	(per cent change on <u>previous year</u> )
1982	33.9	16
1983	40.8	21
1984	50.2	23*
1985 first half	30.0	28*

\* Affected by inclusion of British Telecom

Revisions to GDP

9. The press notice contains a technical note to editors which sets out ranges within which the eventually revised values of growth over the last one and two years are likely to lie, if past experience with revisions to GDP estimates is continued in the future. The ranges quoted are:

	<u>Growth 1984Q2-1985Q2</u>	<u>Average Growth 1983Q2-1985Q2</u>
Real GDP	4½-6½	3½-4½
Real GDP, strike adjusted	3½-5½	3½-5
Money GDP	10-11½	9-10½
Money GDP, strike adjusted	9-10½	9-11

Assessment and Line to Take

10. The UK economy is now into its fifth year of uninterrupted growth, with growth particularly strong over the last year. The economy is on track to achieve the Budget forecast of 3½ per cent growth in 1985.

S J DAVIES



5.45b

HF - 182



FROM: MISS S O'KEEFFE

DATE: 6 August 1985

pwf

G. KENNEDY

MR V J BAKER - INLAND REVENUE

The Chancellor has seen and was grateful for your minute of 31 July.

S O'Keefe

S O'KEEFFE



FROM S O'KEEFFE

DATE 5 - AUGUST 85

lv

V J BAKER - IR

The Chancellors - seen and was grateful for your minute of 31 July 85.

J O'Keefe



1. P1 thank
2. PWP



INLAND REVENUE  
POLICY DIVISION  
SOMERSET HOUSE

FROM: V J BAKER

DATE: 31 JULY 1985

1. MR HOUGHTON *3/7*

2. PS/CHANCELLOR

TAX ANOMALIES AND FINANCIAL MARKETS

The Chancellor asked for comments on the July Greenwell's Monetary Bulletin. This response also reflects the views of FP and HF.

2. While some of their detailed points are fair enough, Greenwell's overall assessment of the impact of the tax system on the market's reactions is rather theoretical and far fetched and their remedies are hardly practical. The main conclusions (that anomalies arise in a partially indexed system and attempts to deal with these piecemeal create complexities) are widely recognised. But it hardly follows that the whole system should be indexed or CGT should be abolished.

3. The difficulties of a partially indexed system were taken into account when the decision was made to proceed with the limited indexation of the capital gains system in 1982.

---

cc PS/FST  
PS/EST  
Mr Cassell  
Mr Peretz  
Mr Monger  
Miss Sinclair  
Mr Wood

Mr Isaac  
Mr Battishill  
Mr Painter  
Mr Beighton  
Mr Houghton  
Mr Hamilton  
Mr Weedon  
Mr Bryce o/r  
Mr Michael  
Dr Baker  
PS/IR



With declining rates of inflation the need for indexation becomes less acute and the case for reviewing the difficulties which partial indexation of the system creates becomes stronger. It was largely for this reason that attempts were made this year to devise a restructuring package for capital gains tax which, while recognising the accrual nature of the tax, would have permitted a return to nominal values. In the event this did not work out.

4. Once the decision has been taken to allow for inflation in the tax system, there are arguments of principle in favour of a comprehensively indexed system rather than a partial one. However, the practical and institutional arguments against are substantial. It is noteworthy that, in the US, where the position is rather different because nominal interest is generally allowed as a deduction many of the original quite comprehensive indexation proposals have subsequently been dropped.

5. The other Greenwell's proposal - abolition of capital gains tax - does not follow from their analysis since it would create a greater anomaly, namely a stronger incentive for the conversion of income into capital. A great deal of useless effort would go into this, and the impact on the tax yield could extend well beyond the current yield of capital gains tax and corporation tax on capital gains.

6. Some comments on particular points in the Bulletin.

#### Ordinary share subsidy

Clearly debt financed investment in assets yielding capital gains is favoured but this applies to commercial and business property as much as to ordinary shares; so it is not clear that there is an "incentive" to paper transactions.



### Speculation and gilts versus equities

Greenwell's comments that gilts will be less attractive evidently apply to high coupon stocks affected by the bond-washing provisions. Their prices fell when the provisions were announced in February. However, those of low coupon stocks and indexed gilts rose. The July 1985 announcement of full CGT exemption raised the price of index-linked and low coupon stock slightly but left high coupon gilts unchanged. The Bulletin says the gilt market should have fallen in response to all this: in fact since just before the accrued income scheme was announced at the end of February, conventional gilts have risen in price while equities have fallen.

### Monetary growth

It is far from clear, given, for example, the prospect of exempt gains in the gilt-edged market, that there would be a significant increase in relative attractiveness of UK deposits compared with gilts. The Revenue's forecast of higher tax from holders of gilts is small in relation to the value of the outstanding stock of gilts. Moreover, bank deposits are not close substitutes for gilts, and any effect is likely to be diffused among all financial assets and property.

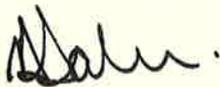
### Futures

X | The Bulletin notes that there will be an advantage in holding a gilt future rather than the cash instrument, so as to be able to close out for an allowable loss or take delivery for an exempt gain. Rather similar considerations apply to gilt options. We have been discussing this effect with the markets concerned, and plan to report to the Economic Secretary shortly.



Synthetic gilt edged stock

Greenwell's suggest that a fully hedged purchase of a US Treasury Bond could be an attractive alternative to gilts. Any realisations would attract indexation relief and, if indexed losses were made, these could be set against other CGT liabilities. But it is not clear that any great advantage would accrue from such transactions, given low UK inflation. In principle, the forward exchange market should adjust in response to arbitrage to remove the scope of such activity at the margin. Some quick calculations by HF based on comparable US and UK stocks, using current forward exchange rates and allowing for indexation relief, confirm these conclusions.



V J BAKER



PWP



FROM: A W KUCZYS

DATE: 25 July 1985

MR WEEDEN - INLAND REVENUE

cc PS/Financial Secretary  
PS/Economic Secretary  
Mr Cassell  
Mr Peretz  
Mr Monger  
PS/IR

**TAX ANOMALIES AND FINANCIAL MARKETS**

The Chancellor has seen the attached article in Greenwell's Monetary Bulletin. He would be grateful for quick comments. Please could you consult FP and HF divisions?

A handwritten signature in cursive script, appearing to read 'AWK'.

A W KUCZYS



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*u.*  
*A. Greenwood*  
*from HF/FP?*  
*Re*  
*24/7*  
*yr - & above*  
*(IR.)*



# Monetary Bulletin

No. 174

July 1985

## Tax Anomalies & Financial Markets

During the last eighteen months, there has been a series of tax changes. Their overall effects may not be generally appreciated because the individual elements were announced piecemeal, one between budgets and two at the report stage of the 1985 Finance Bill. The more surprising effects, which are explained below, are:-

- i) investment in ordinary shares will in some circumstances be subsidised, while the main subsidy to direct investment in plant and machinery has been withdrawn;
- ii) the gilt-edged market should have fallen relative to the equity market;
- iii) long term investment in gilt-edged stocks will be penalised while short term speculation will be encouraged;
- iv) monetary growth will be encouraged;
- v) investors who are not short term speculators and who are subject to capital gains tax should consider purchasing long gilt futures on LIFFE rather than hold long dated gilt-edged stock; and
- vi) they should also consider purchasing "synthetic bonds" rather than hold short dated gilt-edged stock.

The relevant tax measures are:-

- i) The withdrawal of first year capital allowances, in the 1984 Budget.
- ii) The change for most investors in the taxation of income on gilt-edged stock, from a receipts to an accrual basis, announced in February 1985 and fully effective from 28th February 1986.
- iii) The extension of indexation relief to include both the first year after purchase and allowable losses in real terms, in the 1985 Budget.
- iv) The full exemption of gilt-edged stock from capital gains tax (CGT) for disposals after 1st July 1986, at the Report stage of the 1985 Finance Bill.
- v) The change in the CGT identification rules for ordinary shares from first in, first out (FIFO) to last in, first out (LIFO), also at the Report stage of the 1985 Finance Bill.

R.H. Lawson G.T. Pepper The Lord Annaly J.A. Rickards L. Gooderham T. Quinn M.T. Higgins	D.G. Thomson H.N. Seely T.G. Wakelary J.F.R. Hammond J. Wigglesworth E.J. Fenton A.J. Bonner	N.S. King G.P.P. Stewart K.P. Joseph A.G.P. Davidson P.D. Jones R.L. Thomas K.C. Brown	J.C. Finch S.J.D. Posford R.W. Walker W.E.A. Bein R.M. Harvey R.B. Pomphrett M.R.F. Wonfor	A.L. Bucknall M.S. Jaekel P.B. Lilley M.P. A.J.E. O'Sullivan G.R. Addison K.M. Feeny P.H. Beaufrère	K.A.J. Crawford J.B. Lake L. Maddy R.J.M.L. Ottley S.H. Wameley I.S. White S.L. Greenwell	Limited Partner Samuel Montagu Securities Limited
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### **Ordinary share subsidy**

This will be available in only a minority of circumstances and will depend on two conditions. First, the finance for an investment in ordinary shares will have to be raised by borrowing from a bank or issuing a qualifying (i.e. high coupon) bond, and the interest on it will have to be allowable for tax purposes. Tax relief will, accordingly, be available not only on the real rate of interest but also on the rate of inflation. The second condition is that both the investor and the investment must be subject to CGT; indexation relief will then be available.

The subsidy arises because the tax treatment of inflation is not symmetrical. It is tax free on the investment but allowable on the loan. The effect at 6% inflation and 35% corporation tax is that the Inland Revenue will pay just over 2% of the rate of interest. It should be noted, however, that payment of the subsidy will be delayed until the investment is sold. Further, the investor must be able to use the tax loss, i.e. he must have gains elsewhere which would otherwise be subject to CGT.

It might seem ironical that the Government has given this incentive to paper transactions while at the same time withdrawing first year allowances on direct investment in plant and machinery.

### **Gilt-edged versus Equities**

Partly as a result of the above changes, and partly as a result of the changing tax treatment of gilt-edged stock, the gilt-edged market should have fallen relative to the ordinary share market. Indexation relief is available on the latter but not the former. Gilt-edged investors will be subject to income tax, where appropriate, on that part of the return on their investment which compensates them for inflation. Being more precise, the equity market should have risen because of the extension of indexation relief combined with the retention of LIFO, while the prices of high coupon gilt-edged stock should have fallen because losses taken within a year of purchase will no longer be allowable after 1st July 1986 and because accrued interest will be subject to tax as income.

### **Speculation**

Long term investment in gilt-edged stock will be less attractive, for the reasons given above. In contrast, the full exemption of gilt-edged stock from CGT after 1st July 1986 means that the gilt-edged market will be by far the most important market in which short term speculation will be completely free of tax for investors normally subject to CGT.

### **Monetary Growth**

A gilt-edged stock used to be a more tax efficient investment than a bank deposit because short term losses were allowable and accrued interest was tax free on disposals of stock held for more than a year. Interest on bank deposits is now paid net of composite rate tax, unless the bank is offshore, but the overall result of the changes in the tax treatment of gilt-edged stock is that bank deposits have gained in relative attraction. This will encourage a somewhat faster growth of the money supply. Speculative balances moving in and out of the gilt-edged market could also increase the volatility of monetary growth.

### **Futures**

If the price of a gilt future falls, the loss will be allowable for CGT if the future is sold. If the price rises, the gain can be obtained tax free by waiting for delivery of the underlying stock when the contract matures and then selling it. The option of tax free profits and allowable losses, which has been withdrawn for the gilt-edged market, still exists for the gilt future on LIFFE.



## Synthetic Bonds

A synthetic gilt-edged stock can be created by (i) selling sterling and buying dollars in the spot market, (ii) using the dollars to purchase a US Treasury bond and (iii) carrying out a series of transactions in the forward exchange market to convert the receipts from the US Treasury bond, both interest and capital repayment, back into sterling. It is, however, normally possible to create only short dated synthetic bonds because the forward exchange market for longer term payments is thin. Such synthetic bonds are subject to CGT and therefore indexation relief is obtainable.

## Conclusion

Anomalies of the sort described are inevitable if the system is partially indexed. Attempts to plug them will lead to a nightmare of complication. The conclusion is that once indexation has been started in a major way the whole system should be indexed as soon as possible. The alternative is to scrap CGT completely.

## Foreign buying of gilt-edged stock

The latest banking statistics disclose that between mid-December and mid-May purchases of gilt-edged stock by foreigners amounted to no less than £1½bn. We estimate that such purchases could have amounted to a further £1bn during the last two months. The total of £2½bn during seven months is unprecedented.

## Monetary Growth in the Month to Mid-June

Monetary growth for all but the two narrowest aggregates, Mo and currency, was heavily distorted in banking June by the large issue of Abbey Life shares. It is not possible to calculate the exact extent of the distortion and, therefore, our normal table on the underlying growth rates has been excluded. For the record, the seasonally adjusted data for the five weeks to 19th June are shown in Table I.

Table I  
Changes in the Month to mid-June

	<u>£m</u>	<u>pa</u>
Mo	105	9%
Currency	21	2%
Retail M1	2,080	74%
M1	2,149	48%
Sterling M3	2,240	23%
PSL1	2,346	24%
PSL2	3,442	21%
Bank lending in sterling to private sector	1,390	13%



The published position over the longer term now becomes:-

**Table II**  
**Published Growth Rates**

		<u>3 months</u>	<u>6 months</u>	<u>1 year*</u>
Narrow money:	Mo	6	3	5
	Currency	3	5	4
	Retail M1	33	11	10
	M1	45	19	18
	M2	n.a.	n.a.	9
Broad money:	Sterling M3	23	16	12
	PSL1	23	16	12
	PSL2	16	16	14

\* 1985/6 Target

The two narrowest aggregates showed only modest growth in banking June. This reassuring pattern appears to have continued in July when we estimate that Mo grew by only  $\frac{1}{2}$ %. Its growth rate, therefore, remains firmly in the middle of its 3-7% target range.

All the other aggregates are distorted by the Abbey Life issue. Since some £4bn of returnable application monies were held in a suspense account, the Bank of England followed its normal practice and added 60% of these funds to the non-interest bearing sight deposits and deducted 40% from the bank borrowing of UK residents. Apart from the likelihood that 60:40 is not the correct proportion, some of the monies will probably have come from non-residents. The Bank's adjustment will, therefore, have increased the published data for U.K. residents' bank deposits by too much. This same factor also partially explains an unusually unfavourable banking sector external counterpart to sterling M3. Since an estimate of the impact of these distortions will be subject to a very large margin of error, a full analysis of the underlying trends must wait until next month, when the distortions from the Abbey Life issue will unwind.

#### Seasonal Adjustment Revisions

The Bank of England has issued its annual revisions to the seasonal factors for the monetary data. The changes in the growth rates of the aggregates for the year to mid-May as a whole are insignificant but the profiles within the year have changed, as shown in the following table.

**Table III - Monetary Growth to mid-May**

	<u>3 month</u>		<u>6 month</u>		<u>1 Year</u>	
	Old	Revised	Old	Revised	Old	Revised
Mo	4.4	4.2	3.7	4.1	5.5	5.4
Currency	4.8	3.7	3.9	3.8	5.2	5.1
Retail M1	5.3	3.4	0.6	0.1	4.2	4.2
M1	34.9	33.2	12.7	12.3	15.7	15.7
Sterling M3	19.0	18.4	10.6	11.6	11.6	11.6
PSL1	18.1	18.4	9.5	10.7	11.8	11.9
PSL2	13.3	13.9	11.6	12.7	14.4	14.7

GTP/RLT/RR

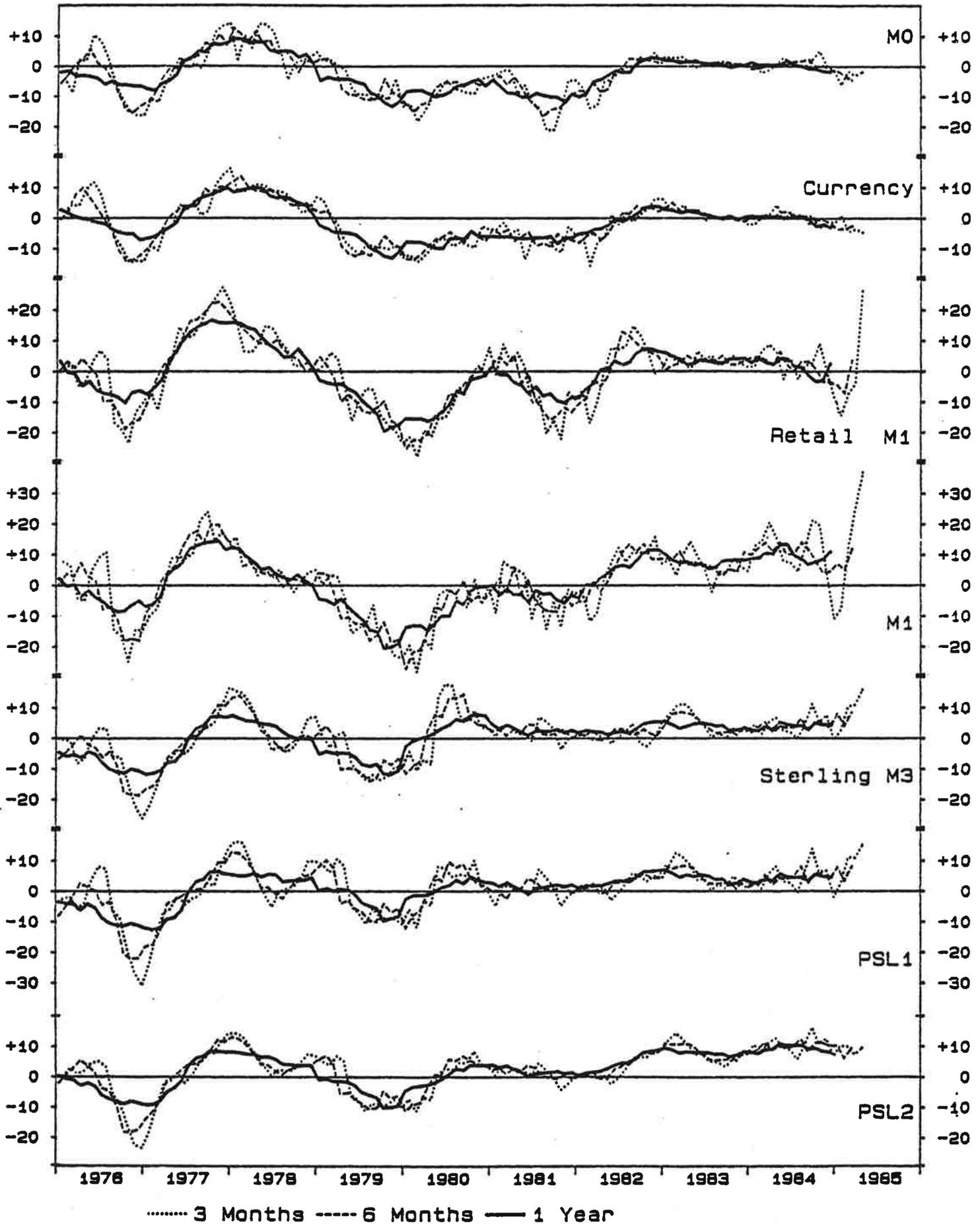


MONETARY GROWTH  
In Nominal Terms

Percentage Annual rates		<u>Mo</u>	<u>Currency</u>	<u>Retail M1</u>	<u>M1</u>	<u>M2</u>	<u>Sterling M3</u>	<u>PSL1</u>	<u>PSL2</u>
Changes in year to:									
1984	July	6	5	7	13	11	7	8	12
	Aug.	5	6	9	14	12	8	8	12
	Sep.	5	6	8	15	12	9	9	13
	Oct.	5	6	7	15	12	8	9	13
	Nov.	6	6	9	18	13	10	11	15
	Dec.	7	5	9	18	11	9	9	14
1985	Jan.	5	5	7	15	10	9	10	15
	Feb.	5	6	7	14	10	10	10	15
	Mar.	5	6	5	13	10	9	10	15
	Apr.	6	4	4	15	9	12	13	16
	May.	5	5	4	16	8	12	12	15
	June.	5	4	10	18	9	12	12	14
Changes in 6 months to:									
1985	Jan.	5	5	6	13		11	12	16
	Feb.	6	5	2	9		10	11	16
	Mar.	5	4	3	11		10	10	16
	Apr.	5	3	2	14		15	15	17
	May.	4	4	0	12		11	11	13
	June.	3	5	11	19		16	16	16
Changes in 3 months to:									
1985	Apr.	5	3	0	20		18	18	16
	May.	4	4	3	33		18	18	14
	June.	6	3	33	45		23	23	16
In Real Terms									
Changes in year to:									
1984	July	1	1	3	9	7	3	3	7
	Aug.	0	1	4	9	7	3	3	7
	Sep.	1	1	3	11	7	4	4	8
	Oct.	0	1	2	10	7	3	4	8
	Nov.	1	1	4	13	8	5	6	10
	Dec.	2	0	4	14	7	5	5	10
1985	Jan.	0	0	2	10	5	4	5	10
	Feb.	0	0	1	9	5	4	5	10
	Mar.	-1	0	-1	7	4	3	4	9
	Apr.	-1	-2	-3	8	2	5	6	9
	May.	-2	-2	-3	9	1	5	5	8
	June.	-2	-3	3	11	2	5	5	7
Changes in 6 months to:									
1985	Jan.	0	0	1	8		6	6	11
	Feb.	0	-1	-3	4		5	6	10
	Mar.	-1	-2	-4	5		3	4	9
	Apr.	-2	-4	-5	7		8	8	10
	May.	-3	-3	-7	5		4	3	5
	June.	-5	-2	4	12		9	8	9
Changes in 3 months to:									
1985	Apr.	-2	-5	-7	13		11	11	9
	May.	-3	-4	-4	26		11	11	7
	June.	-2	-5	26	37		16	15	9



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





# STATISTICS

reprinted from Bank of England Banking Statistics

## Money stock: amounts outstanding

[Table 11.1 in the Quarterly Bulletin]

£ millions	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1(b)		UK private sector sterling time deposits(c)	Money stock £M3(b)(d)		UK private sector deposits in other currencies (c)	Money stock M3(b)(d)	
		Non-interest-bearing(a)	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
Month ended											
1984 May 16	11,834	20,593	13,485	45,912	45,850	55,669	101,581	102,240	15,595	117,176	117,840
June 20(e)	11,941	20,648	13,964	46,553	46,730	57,252	103,805	103,990	15,675	119,480	119,660
July 18	12,213	20,694	14,094	47,001	46,590	56,768	103,769	103,370	16,940	120,709	120,310
Aug. 15	12,156	20,981	14,035	47,172	47,230	57,141	104,313	104,050	16,468	120,781	120,520
Sept. 19(e)	12,102	20,850	14,774	47,726	47,810	57,651	105,377	105,340	17,896	123,273	123,230
Oct. 17	12,115	21,022	15,483	48,620	48,510	57,359	105,979	105,800	17,995	123,974	123,790
Nov. 21	12,186	21,251	16,474	49,911	50,090	58,809	108,720	108,120	18,573	127,293	126,690
Dec. 12(e)	12,641	22,272	16,617	51,530	50,650	58,001	109,531	108,480	19,468	128,999	127,950
1985 Jan. 16	12,113	20,860	16,268	49,241	49,670	60,129	109,370	109,590	20,838	130,208	130,430
Feb. 20	12,210	20,476	16,041	48,727	49,330	60,306	109,033	109,919	21,420	130,453	131,335
Mar. 20(e)	12,322	20,603	16,981	49,906	50,490	59,468	109,374	110,877	20,436	129,810	131,307
Apr. 17	12,435	21,468	18,604	52,507	51,980	61,240	113,747	114,129	18,481	132,228	132,607
May 15	12,441	21,440	19,422	53,303	53,210	60,732	114,035	114,661	19,025	133,060	133,681
June 19(e)	12,438	23,511	19,397	55,346	55,370	61,443	116,789	116,956	19,054	135,843	136,012

## Money stock: changes(f)

[Table 11.2 in the Quarterly Bulletin]

£ millions: percentages in italics

Month ended (unadjusted)	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1(b)		UK private sector sterling time deposits(c)	Money stock £M3(b)(d)		UK private sector deposits in other currencies (c)		Money stock M3(b)(d)	
		Non-interest-bearing(a)	Interest-bearing	M1(b)	£M3(b)(d)		Transactions	Valuation changes(g)	M3(b)(d)			
										1	2	3
1984 June 20	+ 107	+ 55	+ 469	+ 631	+ 1,568	+ 2,199	- 202	+ 257	+ 2,254			
July 18	+ 272	+ 46	+ 130	+ 448	- 484	- 36	+ 673	+ 592	+ 1,229			
Aug. 15	- 57	+ 287	- 59	+ 171	+ 373	+ 544	- 395	- 77	+ 72			
Sept. 19	- 54	- 131	+ 739	+ 554	+ 505	+ 1,059	+ 397	+ 1,026	+ 2,482			
Oct. 17	+ 13	+ 172	+ 709	+ 894	- 292	+ 602	+ 405	+ 504	+ 701			
Nov. 21	+ 71	+ 229	+ 991	+ 1,291	+ 1,450	+ 2,741	+ 846	- 268	+ 3,319			
Dec. 12	+ 455	+ 919	+ 133	+ 1,507	- 1,162	+ 345	+ 478	+ 357	+ 1,180			
1985 Jan. 16	- 528	- 1,412	- 349	- 2,289	+ 2,128	- 161	+ 94	+ 1,276	+ 1,209			
Feb. 20	+ 97	- 384	- 227	- 514	+ 177	- 337	- 36	+ 618	+ 245			
Mar. 20	+ 112	+ 127	+ 940	+ 1,179	- 808	+ 371	- 69	- 925	- 623			
Apr. 17	+ 113	+ 865	+ 1,623	+ 2,601	+ 1,772	+ 4,373	+ 228	- 2,183	- 2,418			
May 15	+ 6	- 28	+ 818	+ 796	- 553	+ 243	+ 335	+ 209	+ 787			
June 19	- 3	+ 2,071	- 35	+ 2,033	+ 631	+ 2,664	+ 674	- 665	+ 2,673			
Month ended (seasonally adjusted)												
1984 June 20	+ 126	+ 171	+ 574	+ 871	+ 1.9	+ 849	+ 1,720	+ 1.7	- 202	+ 257	+ 1,775	+ 1.5
July 18	+ 20	- 249	+ 81	- 148	- 0.3	- 480	- 628	- 0.6	+ 673	+ 592	+ 637	+ 0.5
Aug. 15	+ 54	+ 567	+ 16	+ 637	+ 1.4	+ 22	+ 659	+ 0.6	- 395	- 77	+ 187	+ 0.2
Sept. 19	+ 70	- 259	+ 774	+ 585	+ 1.2	+ 682	+ 1,267	+ 1.2	+ 397	+ 1,026	+ 2,690	+ 2.2
Oct. 17	+ 41	+ 69	+ 590	+ 700	+ 1.5	- 239	+ 461	+ 0.4	+ 405	+ 504	+ 560	+ 0.5
Nov. 21	+ 58	+ 630	+ 894	+ 1,582	+ 3.3	+ 731	+ 2,313	+ 2.2	+ 846	- 268	+ 2,891	+ 2.3
Dec. 12	- 47	+ 342	+ 150	+ 445	+ 0.9	- 547	- 102	- 0.1	+ 478	+ 357	+ 733	+ 0.6
1985 Jan. 16	+ 119	- 691	- 411	- 983	- 1.9	+ 2,077	+ 1,094	+ 1.0	+ 94	+ 1,276	+ 2,464	+ 1.9
Feb. 20	+ 46	- 24	- 164	- 142	- 0.3	+ 457	+ 315	+ 0.3	- 36	+ 618	+ 897	+ 0.7
Mar. 20	+ 48	- 167	+ 1,077	+ 958	+ 1.9	+ 21	+ 979	+ 0.9	- 69	- 925	- 15	-
Apr. 17	- 16	+ 97	+ 1,416	+ 1,497	+ 3.0	+ 1,760	+ 3,257	+ 2.9	+ 228	- 2,183	+ 1,302	+ 1.0
May 15	+ 80	+ 229	+ 915	+ 1,224	+ 2.4	- 718	+ 506	+ 0.4	+ 335	+ 209	+ 1,050	+ 0.8
June 19	+ 21	+ 2,059	+ 69	+ 2,149	+ 4.0	+ 91	+ 2,240	+ 2.0	+ 674	- 665	+ 2,249	+ 1.7

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

[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Excluding public sector deposits.

[e] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the Quarterly Bulletin. and, for March and June 1985, footnotes (b) and (d) respectively to Table H on page 5.

[f] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the Quarterly Bulletin.) In December 1984, the changes are stated after the exclusion of the bank deposits of British Telecom PLC.

[g] See additional notes to Tables 6 and 11 of the Quarterly Bulletin.



## Transactions balances and components of M2

[Table 11.1 and 11.2 in the Quarterly Bulletin]

not seasonally adjusted

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight deposits with banks(a)	Non-interest-bearing M1(b)	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2(b)	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	2	3	4	5	6	7	8	9
<b>Amounts outstanding</b>									
1984 June 20(c)	11,941	20,648	32,589	30,455	63,237	1,743	128,024	1,079	1,193
July 18	12,213	20,694	32,907	30,736	64,050	1,750	129,443	886	3,308
Aug. 15	12,156	20,981	33,137	30,613	64,340	1,736	129,826	945	3,185
Sept. 19(c)	12,102	20,850	32,952	30,677	64,447	1,741	129,817	972	3,357
Oct. 17	12,115	21,022	33,137	30,863	64,786	1,749	130,535	1,089	3,289
Nov. 21	12,186	21,251	33,437	31,283	65,200	1,761	131,681	1,177	3,391
Dec. 12(c)	12,641	22,272	34,913	31,043	66,055	1,730	133,741	890	3,399
1985 Jan. 16	12,113	20,860	32,973	31,561	67,593	1,785	133,912	1,087	3,643
Feb. 20	12,210	20,476	32,686	31,815	67,597	1,758	133,856	1,104	3,651
Mar. 20(c)	12,322	20,603	32,925	32,453	67,892	1,762	135,032	1,094	3,753
Apr. 17	12,435	21,468	33,903	32,910	67,710	1,758	136,261	1,033	4,111
May 15	12,441	21,440	33,881	33,291	67,111	1,754	136,037	1,060	4,152
June 19(c)	12,438	23,511	35,949	33,893	67,629	1,752	139,223	1,086	4,186
<b>Changes in month ended (d)</b>									
1984 July 18	+ 272	+ 46	+ 318	+ 281	+ 813	+ 7	+1,419	- 193	+ 115
Aug. 15	- 57	+ 287	+ 230	- 123	+ 290	- 14	+ 383	+ 59	- 123
Sept. 19	- 54	- 131	- 185	+ 64	+ 107	+ 5	- 9	+ 27	+ 172
Oct. 17	+ 13	+ 172	+ 185	+ 186	+ 339	+ 8	+ 718	+ 117	- 68
Nov. 21	+ 71	+ 229	+ 300	+ 420	+ 414	+ 12	+1,146	+ 88	+ 102
Dec. 12	+ 455	+ 919	+1,374	- 240	+ 855	- 31	+1,958	- 287	+ 8
1985 Jan. 16	- 528	-1,412	-1,940	+ 318	+1,538	+ 55	+ 171	+ 197	+ 244
Feb. 20	+ 97	- 384	- 287	+ 254	+ 4	- 27	- 56	+ 17	+ 8
Mar. 20	+ 112	+ 127	+ 239	+ 638	+ 295	+ 4	+1,176	- 10	+ 102
Apr. 17	+ 113	+ 865	+ 978	+ 457	- 182	- 24	+1,229	- 61	+ 358
May 15	+ 6	- 28	- 22	+ 381	- 599	+ 16	- 224	+ 27	+ 41
June 19	- 3	+2,071	+2,068	+ 602	+ 518	- 2	+3,186	+ 26	+ 34

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

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

[c] See footnote [e] to Table D on page 3.

[d] See footnote [f] to Table E on page 3.

## Private sector liquidity, and other deposits

[Summary of Table 12 in the Quarterly Bulletin]

£ millions

Month ended	'Money' Seasonally adjusted	Other money-market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5) Seasonally adjusted	PSL2 (columns 1+2+3+6) Seasonally adjusted	PSL1 Seasonally adjusted change in month [b] [c]	PSL2 Seasonally adjusted change in month [b] [c]	Other shares and deposits with building societies			
			Seasonally adjusted	Total (net)	of which shares and deposits with building societies [a]	Seasonally adjusted					Column 5 less building society holdings	Unadjusted	Amount outstanding	Change in month
	1	2	3	4	5	6	7	8	9	10	11	12		
1984 June 20	102,458	3,402	70,299	66,631	2,145	1,942	108,005	178,101	+2,247	+2.1	+3,514	+2.0	18,979	- 6
July 18	101,828	3,270	71,591	67,781	2,061	1,855	107,159	178,544	- 855	-0.8	+ 419	+0.2	18,892	- 87
Aug. 15	102,450	3,404	72,535	68,635	1,937	1,710	107,791	180,099	+ 610	+0.6	+1,531	+0.9	18,766	-126
Sept. 19	103,745	3,631	73,436	69,817	1,913	1,665	109,289	182,477	+1,480	+1.4	+2,358	+1.3	18,641	-125
Oct. 17	104,191	3,639	74,930	71,398	2,323	2,060	110,153	184,820	+ 864	+0.8	+2,340	+1.3	18,522	-119
Nov. 21	106,542	3,463	76,564	72,883	2,618	2,189	112,623	188,758	+2,467	+2.2	+3,932	+2.1	18,283	-239
Dec. 12	106,901	3,340	77,248	73,641	2,537	2,107	112,778	189,596	- 330	-0.3	+ 343	+0.2	18,145	-138
1985 Jan. 16	107,983	3,172	79,218	75,614	2,681	2,414	113,836	192,787	+1,057	+0.9	+3,173	+1.7	17,919	-226
Feb. 20	108,237	3,148	80,610	76,935	2,695	2,498	114,080	194,493	+ 241	+0.2	+1,686	+0.9	17,651	-268
Mar. 20	109,142	3,262	81,846	77,977	2,840	2,509	115,244	196,759	+1,191	+1.0	+2,280	+1.2	17,518	-133
Apr. 17	112,391	3,238	81,815	77,900	3,081	2,742	118,710	200,186	+3,471	+3.0	+3,412	+1.7	18,258	+740
May 15	112,924	3,085	82,301	78,313	2,975	2,634	118,984	200,944	+ 252	+0.2	+ 718	+0.4	19,031	+773
June 19	115,184	3,304	83,408	79,359	2,900	2,558	121,388	204,454	+2,346	+2.0	+3,442	+1.7	19,156	+125

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

[b] Percentage changes are shown in italics.

[c] In December 1984, the changes are stated after exclusion of the bank deposits and certain other liquid assets of British Telecom PLC.



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*A. Hammond*  
*from HF/FP?*  
*Re*  
*24/7*

*yes - & also*  
*(Proposed)*  
*(IR.)*

## Monetary Bulletin

No. 174

July 1985

### Tax Anomalies & Financial Markets

During the last eighteen months, there has been a series of tax changes. Their overall effects may not be generally appreciated because the individual elements were announced piecemeal, one between budgets and two at the report stage of the 1985 Finance Bill. The more surprising effects, which are explained below, are:-

- i) investment in ordinary shares will in some circumstances be subsidised, while the main subsidy to direct investment in plant and machinery has been withdrawn;
- ii) the gilt-edged market should have fallen relative to the equity market;
- iii) long term investment in gilt-edged stocks will be penalised while short term speculation will be encouraged;
- iv) monetary growth will be encouraged;
- v) investors who are not short term speculators and who are subject to capital gains tax should consider purchasing long gilt futures on LIFFE rather than hold long dated gilt-edged stock; and
- vi) they should also consider purchasing "synthetic bonds" rather than hold short dated gilt-edged stock.

The relevant tax measures are:-

- i) The withdrawal of first year capital allowances, in the 1984 Budget.
- ii) The change for most investors in the taxation of income on gilt-edged stock, from a receipts to an accrual basis, announced in February 1985 and fully effective from 28th February 1986.
- iii) The extension of indexation relief to include both the first year after purchase and allowable losses in real terms, in the 1985 Budget.
- iv) The full exemption of gilt-edged stock from capital gains tax (CGT) for disposals after 1st July 1986, at the Report stage of the 1985 Finance Bill.
- v) The change in the CGT identification rules for ordinary shares from first in, first out (FIFO) to last in, first out (LIFO), also at the Report stage of the 1985 Finance Bill.

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# Monthly Bulletin



### **Ordinary share subsidy**

This will be available in only a minority of circumstances and will depend on two conditions. First, the finance for an investment in ordinary shares will have to be raised by borrowing from a bank or issuing a qualifying (i.e. high coupon) bond, and the interest on it will have to be allowable for tax purposes. Tax relief will, accordingly, be available not only on the real rate of interest but also on the rate of inflation. The second condition is that both the investor and the investment must be subject to CGT; indexation relief will then be available.

The subsidy arises because the tax treatment of inflation is not symmetrical. It is tax free on the investment but allowable on the loan. The effect at 6% inflation and 35% corporation tax is that the Inland Revenue will pay just over 2% of the rate of interest. It should be noted, however, that payment of the subsidy will be delayed until the investment is sold. Further, the investor must be able to use the tax loss, i.e. he must have gains elsewhere which would otherwise be subject to CGT.

It might seem ironical that the Government has given this incentive to paper transactions while at the same time withdrawing first year allowances on direct investment in plant and machinery.

### **Gilt-edged versus Equities**

Partly as a result of the above changes, and partly as a result of the changing tax treatment of gilt-edged stock, the gilt-edged market should have fallen relative to the ordinary share market. Indexation relief is available on the latter but not the former. Gilt-edged investors will be subject to income tax, where appropriate, on that part of the return on their investment which compensates them for inflation. Being more precise, the equity market should have risen because of the extension of indexation relief combined with the retention of LIFO, while the prices of high coupon gilt-edged stock should have fallen because losses taken within a year of purchase will no longer be allowable after 1st July 1986 and because accrued interest will be subject to tax as income.

### **Speculation**

Long term investment in gilt-edged stock will be less attractive, for the reasons given above. In contrast, the full exemption of gilt-edged stock from CGT after 1st July 1986 means that the gilt-edged market will be by far the most important market in which short term speculation will be completely free of tax for investors normally subject to CGT.

### **Monetary Growth**

A gilt-edged stock used to be a more tax efficient investment than a bank deposit because short term losses were allowable and accrued interest was tax free on disposals of stock held for more than a year. Interest on bank deposits is now paid net of composite rate tax, unless the bank is offshore, but the overall result of the changes in the tax treatment of gilt-edged stock is that bank deposits have gained in relative attraction. This will encourage a somewhat faster growth of the money supply. Speculative balances moving in and out of the gilt-edged market could also increase the volatility of monetary growth.

### **Futures**

If the price of a gilt future falls, the loss will be allowable for CGT if the future is sold. If the price rises, the gain can be obtained tax free by waiting for delivery of the underlying stock when the contract matures and then selling it. The option of tax free profits and allowable losses, which has been withdrawn for the gilt-edged market, still exists for the gilt future on LIFFE.



## Synthetic Bonds

A synthetic gilt-edged stock can be created by (i) selling sterling and buying dollars in the spot market, (ii) using the dollars to purchase a US Treasury bond and (iii) carrying out a series of transactions in the forward exchange market to convert the receipts from the US Treasury bond, both interest and capital repayment, back into sterling. It is, however, normally possible to create only short dated synthetic bonds because the forward exchange market for longer term payments is thin. Such synthetic bonds are subject to CGT and therefore indexation relief is obtainable.

## Conclusion

Anomalies of the sort described are inevitable if the system is partially indexed. Attempts to plug them will lead to a nightmare of complication. The conclusion is that once indexation has been started in a major way the whole system should be indexed as soon as possible. The alternative is to scrap CGT completely.

## Foreign buying of gilt-edged stock

The latest banking statistics disclose that between mid-December and mid-May purchases of gilt-edged stock by foreigners amounted to no less than £1½bn. We estimate that such purchases could have amounted to a further £1bn during the last two months. The total of £2½bn during seven months is unprecedented.

## Monetary Growth in the Month to Mid-June

Monetary growth for all but the two narrowest aggregates, Mo and currency, was heavily distorted in banking June by the large issue of Abbey Life shares. It is not possible to calculate the exact extent of the distortion and, therefore, our normal table on the underlying growth rates has been excluded. For the record, the seasonally adjusted data for the five weeks to 19th June are shown in Table I.

**Table I**  
**Changes in the Month to mid-June**

	<u>£m</u>	<u>pa</u>
Mo	105	9%
Currency	21	2%
Retail M1	2,080	74%
M1	2,149	48%
Sterling M3	2,240	23%
PSL1	2,346	24%
PSL2	3,442	21%
Bank lending in sterling to private sector	1,390	13%



The published position over the longer term now becomes:-

**Table II**  
**Published Growth Rates**

		<u>3 months</u>	<u>6 months</u>	<u>1 year*</u>
Narrow money:	Mo	6	3	5
	Currency	3	5	4
	Retail M1	33	11	10
	M1	45	19	18
	M2	n.a.	n.a.	9
Broad money:	Sterling M3	23	16	12
	PSL1	23	16	12
	PSL2	16	16	14

\* 1985/6 Target

The two narrowest aggregates showed only modest growth in banking June. This reassuring pattern appears to have continued in July when we estimate that Mo grew by only  $\frac{1}{2}$ %. Its growth rate, therefore, remains firmly in the middle of its 3-7% target range.

All the other aggregates are distorted by the Abbey Life issue. Since some £4bn of returnable application monies were held in a suspense account, the Bank of England followed its normal practice and added 60% of these funds to the non-interest bearing sight deposits and deducted 40% from the bank borrowing of UK residents. Apart from the likelihood that 60:40 is not the correct proportion, some of the monies will probably have come from non-residents. The Bank's adjustment will, therefore, have increased the published data for U.K. residents' bank deposits by too much. This same factor also partially explains an unusually unfavourable banking sector external counterpart to sterling M3. Since an estimate of the impact of these distortions will be subject to a very large margin of error, a full analysis of the underlying trends must wait until next month, when the distortions from the Abbey Life issue will unwind.

### Seasonal Adjustment Revisions

The Bank of England has issued its annual revisions to the seasonal factors for the monetary data. The changes in the growth rates of the aggregates for the year to mid-May as a whole are insignificant but the profiles within the year have changed, as shown in the following table.

**Table III - Monetary Growth to mid-May**

	<u>3 month</u>		<u>6 month</u>		<u>1 Year</u>	
	Old	Revised	Old	Revised	Old	Revised
Mo	4.4	4.2	3.7	4.1	5.5	5.4
Currency	4.8	3.7	3.9	3.8	5.2	5.1
Retail M1	5.3	3.4	0.6	0.1	4.2	4.2
M1	34.9	33.2	12.7	12.3	15.7	15.7
Sterling M3	19.0	18.4	10.6	11.6	11.6	11.6
PSL1	18.1	18.4	9.5	10.7	11.8	11.9
PSL2	13.3	13.9	11.6	12.7	14.4	14.7

GTP/RLT/RR



MONETARY GROWTH  
In Nominal Terms

Percentage Annual rates	<u>Mo</u>	<u>Currency</u>	<u>Retail M1</u>	<u>M1</u>	<u>M2</u>	<u>Sterling M3</u>	<u>PSL1</u>	<u>PSL2</u>
Changes in year to:								
1984 July	6	5	7	13	11	7	8	12
Aug.	5	6	9	14	12	8	8	12
Sep.	5	6	8	15	12	9	9	13
Oct.	5	6	7	15	12	8	9	13
Nov.	6	6	9	18	13	10	11	15
Dec.	7	5	9	18	11	9	9	14
1985 Jan.	5	5	7	15	10	9	10	15
Feb.	5	6	7	14	10	10	10	15
Mar.	5	6	5	13	10	9	10	15
Apr.	6	4	4	15	9	12	13	16
May.	5	5	4	16	8	12	12	15
June.	5	4	10	18	9	12	12	14

Changes in 6 months to:								
1985 Jan.	5	5	6	13		11	12	16
Feb.	6	5	2	9		10	11	16
Mar.	5	4	3	11		10	10	16
Apr.	5	3	2	14		15	15	17
May.	4	4	0	12		11	11	13
June.	3	5	11	19		16	16	16

Changes in 3 months to:								
1985 Apr.	5	3	0	20		18	18	16
May.	4	4	3	33		18	18	14
June.	6	3	33	45		23	23	16

In Real Terms

Changes in year to:								
1984 July	1	1	3	9	7	3	3	7
Aug.	0	1	4	9	7	3	3	7
Sep.	1	1	3	11	7	4	4	8
Oct.	0	1	2	10	7	3	4	8
Nov.	1	1	4	13	8	5	6	10
Dec.	2	0	4	14	7	5	5	10
1985 Jan.	0	0	2	10	5	4	5	10
Feb.	0	0	1	9	5	4	5	10
Mar.	-1	0	-1	7	4	3	4	9
Apr.	-1	-2	-3	8	2	5	6	9
May.	-2	-2	-3	9	1	5	5	8
June.	-2	-3	3	11	2	5	5	7

Changes in 6 months to:								
1985 Jan.	0	0	1	8		6	6	11
Feb.	0	-1	-3	4		5	6	10
Mar.	-1	-2	-4	5		3	4	9
Apr.	-2	-4	-5	7		8	8	10
May.	-3	-3	-7	5		4	3	5
June.	-5	-2	4	12		9	8	9

Changes in 3 months to:								
1985 Apr.	-2	-5	-7	13		11	11	9
May.	-3	-4	-4	26		11	11	7
June.	-2	-5	26	37		16	15	9

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

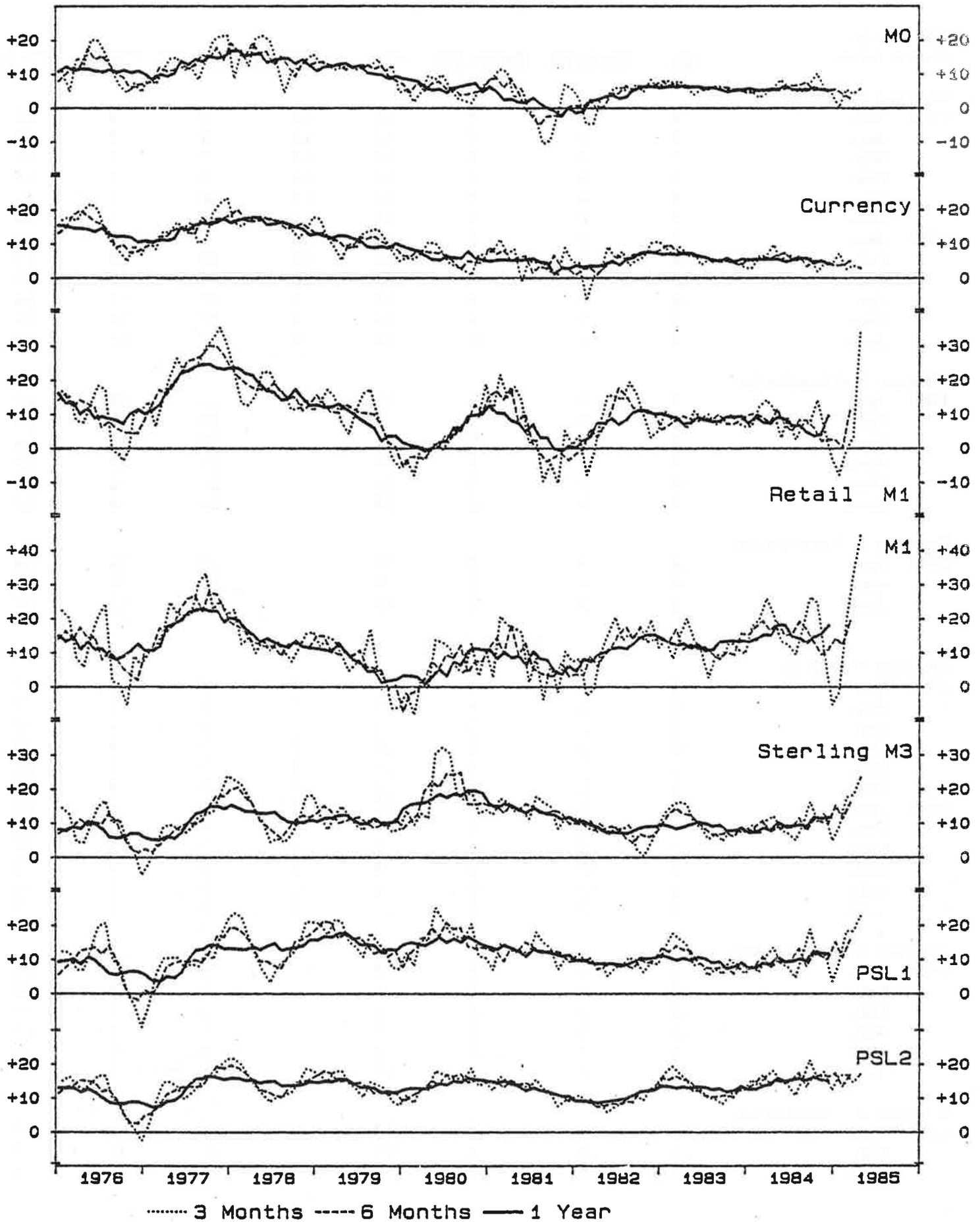


Chart 2 - Monetary Growth in REAL Terms (% p.a.)

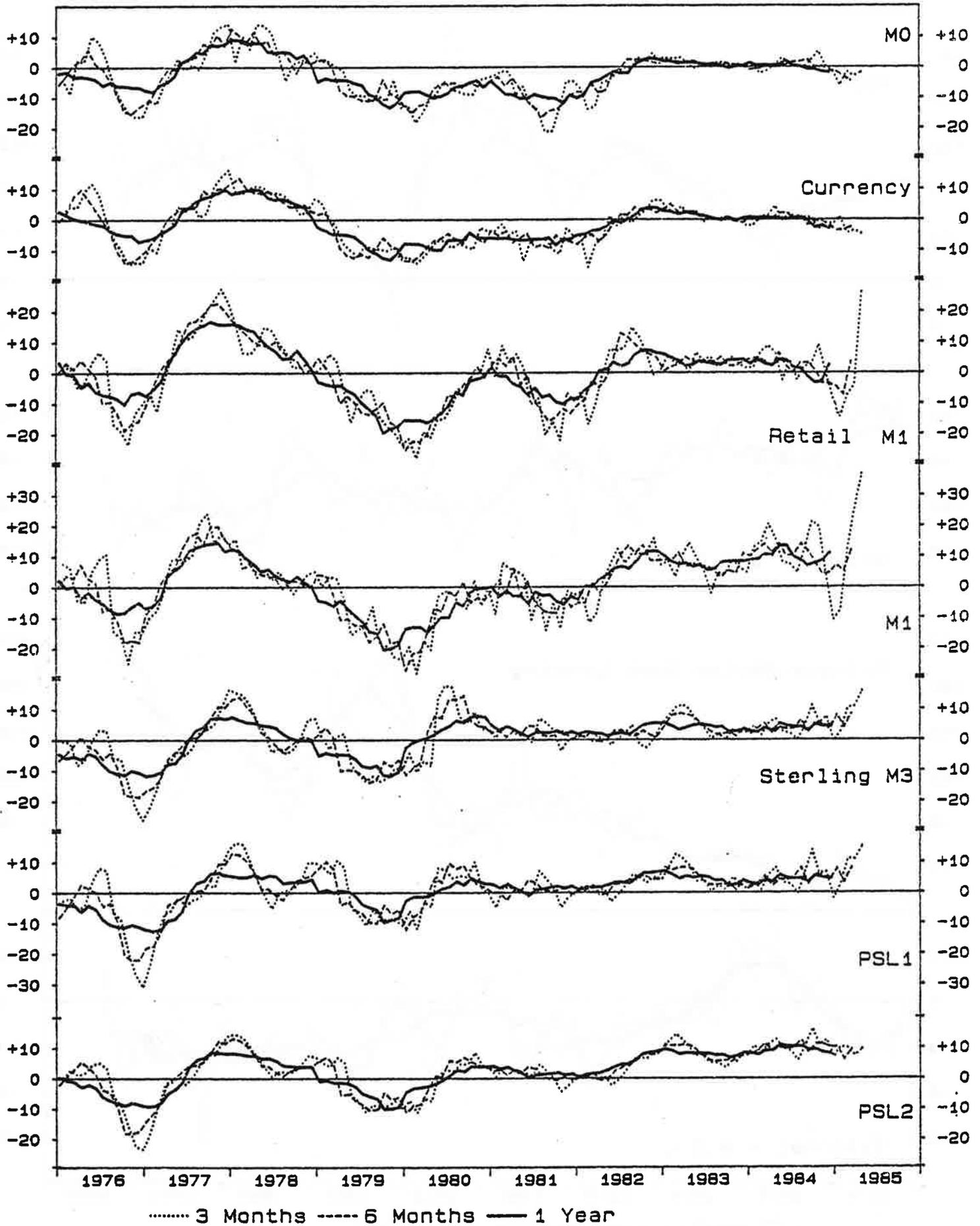
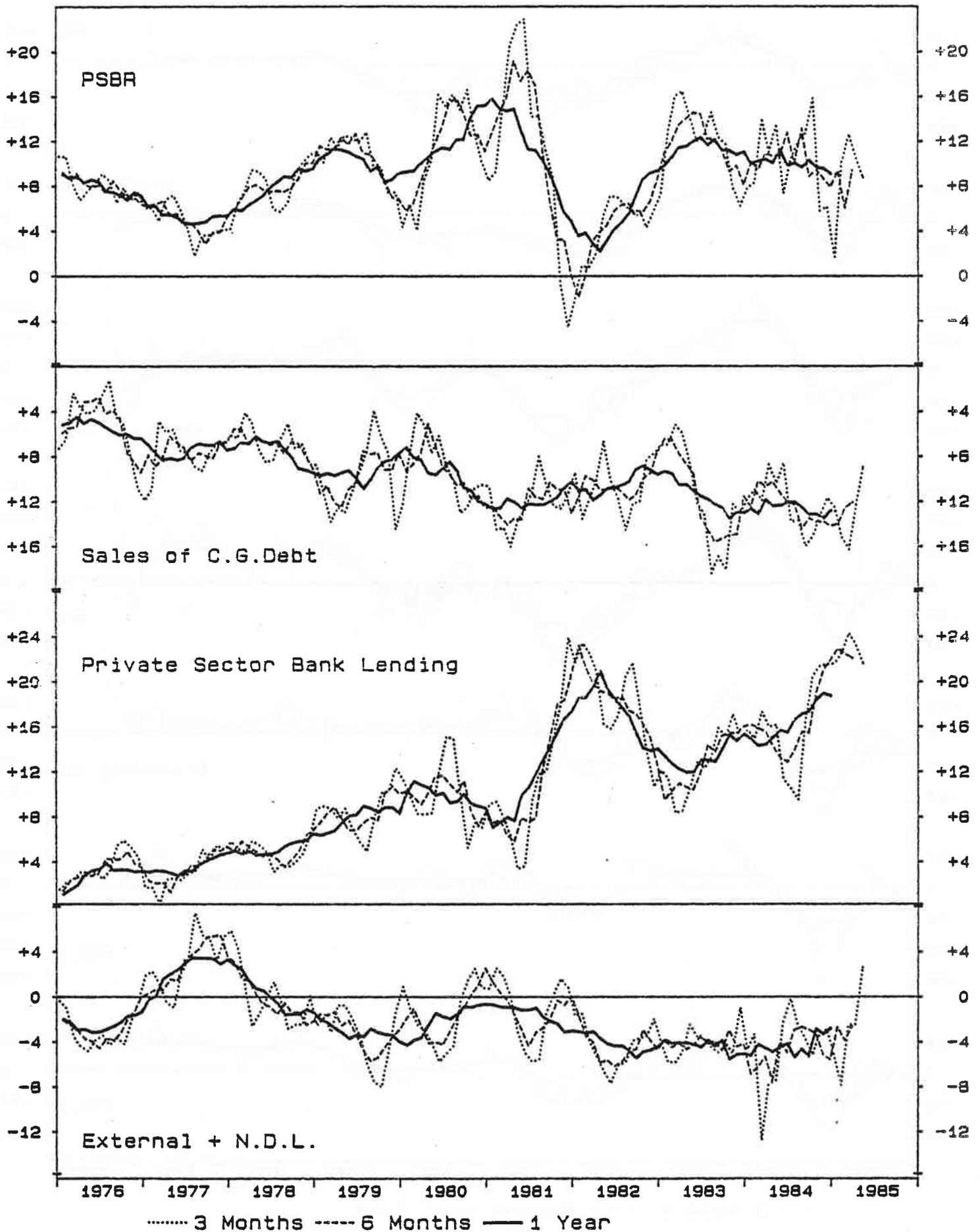


Chart 3 - Components of Monetary Growth ( bns )



# STATISTICS

reprinted from Bank of England *Banking Statistics*

## Money stock: amounts outstanding

[Table 11.1 in the *Quarterly Bulletin*]

£ millions	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1[b]		UK private sector sterling time deposits[c]	Money stock £M3[b][d]		UK private sector deposits in other currencies [c]	Money stock M3[b][d]	
		Non-interest-bearing[a]	Interest-bearing	Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted
Month ended											
1984 May 16	11,834	20,593	13,485	45,912	45,850	55,669	101,581	102,240	15,595	117,176	117,840
June 20[e]	11,941	20,648	13,964	46,553	46,730	57,252	103,805	103,990	15,675	119,480	119,660
July 18	12,213	20,694	14,094	47,001	46,590	56,768	103,769	103,370	16,940	120,709	120,310
Aug. 15	12,156	20,981	14,035	47,172	47,230	57,141	104,313	104,050	16,468	120,781	120,520
Sept. 19[e]	12,102	20,850	14,774	47,726	47,810	57,651	105,377	105,340	17,896	123,273	123,230
Oct. 17	12,115	21,022	15,483	48,620	48,510	57,359	105,979	105,800	17,995	123,974	123,790
Nov. 21	12,186	21,251	16,474	49,911	50,090	58,809	108,720	108,120	18,573	127,293	126,690
Dec. 12[e]	12,641	22,272	16,617	51,530	50,650	58,001	109,531	108,480	19,468	128,999	127,950
1985 Jan. 16	12,113	20,860	16,268	49,241	49,670	60,129	109,370	109,590	20,838	130,208	130,430
Feb. 20	12,210	20,476	16,041	48,727	49,530	60,306	109,033	109,919	21,420	130,453	131,335
Mar. 20[e]	12,322	20,603	16,981	49,906	50,490	59,468	109,374	110,877	20,436	129,810	131,307
Apr. 17	12,435	21,468	18,604	52,507	51,980	61,240	113,747	114,129	18,481	132,228	132,607
May 15	12,441	21,440	19,422	53,303	53,210	60,732	114,035	114,661	19,025	133,060	133,681
June 19[e]	12,438	23,511	19,397	55,346	55,370	61,443	116,789	116,956	19,054	135,843	136,012

## Money stock: changes [f]

[Table 11.2 in the *Quarterly Bulletin*]

£ millions: percentages in italics

Month ended	Notes and coin in circulation with public	UK private sector sterling sight deposits		Money stock M1[b]	UK private sector sterling time deposits[c]	Money stock £M3[b][d]		UK private sector deposits in other currencies [c]		Money stock M3[b][d]		
		Non-interest-bearing[a]	Interest-bearing			Transactions	Valuation changes[g]					
								1	2		3	4
Month ended (unadjusted)												
1984 June 20	+ 107	+ 55	+ 469	+ 631	+ 1,568	+ 2,199	- 202	+ 257	+ 2,254			
July 18	+ 272	+ 46	+ 130	+ 448	- 484	- 36	+ 673	+ 592	+ 1,229			
Aug. 15	- 57	+ 287	- 59	+ 171	+ 373	+ 544	+ 395	- 77	+ 72			
Sept. 19	- 54	- 131	+ 739	+ 554	+ 505	+ 1,059	+ 397	+ 1,026	+ 2,482			
Oct. 17	+ 13	+ 172	+ 709	+ 894	- 292	+ 602	- 405	+ 504	+ 701			
Nov. 21	+ 71	+ 229	+ 991	+ 1,291	+ 1,450	+ 2,741	+ 846	- 268	+ 3,319			
Dec. 12	+ 455	+ 919	+ 133	+ 1,507	- 1,162	+ 345	+ 478	+ 357	+ 1,180			
1985 Jan. 16	- 528	- 1,412	- 349	- 2,289	+ 2,128	- 161	+ 94	+ 1,276	+ 1,209			
Feb. 20	+ 97	- 384	- 227	- 514	+ 177	- 337	- 36	+ 618	+ 245			
Mar. 20	+ 112	+ 127	+ 940	+ 1,179	- 808	+ 371	- 69	- 925	- 623			
Apr. 17	+ 113	+ 865	+ 1,623	+ 2,601	+ 1,772	+ 4,373	+ 228	- 2,183	+ 2,418			
May 15	+ 6	- 28	+ 818	+ 796	- 553	+ 243	+ 335	+ 209	+ 787			
June 19	- 3	+ 2,071	- 35	+ 2,033	+ 631	+ 2,664	+ 674	- 665	+ 2,673			
Month ended (seasonally adjusted)												
1984 June 20	+ 126	+ 171	+ 574	+ 871	+ 1.9	+ 849	+ 1,720	+ 1.7	- 202	+ 257	+ 1,775	+ 1.5
July 18	+ 20	- 249	+ 81	- 148	- 0.3	- 480	- 628	- 0.6	+ 673	+ 592	+ 637	+ 0.5
Aug. 15	+ 54	+ 567	+ 16	+ 637	+ 1.4	+ 22	+ 659	+ 0.6	- 395	- 77	+ 187	+ 0.2
Sept. 19	+ 70	- 259	+ 774	+ 585	+ 1.2	+ 682	+ 1,267	+ 1.2	+ 397	+ 1,026	+ 2,690	+ 2.2
Oct. 17	+ 41	+ 69	+ 590	+ 700	+ 1.5	- 239	+ 461	+ 0.4	- 405	+ 504	+ 560	+ 0.5
Nov. 21	+ 58	+ 630	+ 894	+ 1,582	+ 3.3	+ 731	+ 2,313	+ 2.2	+ 846	- 268	+ 2,891	+ 2.3
Dec. 12	- 47	+ 342	+ 150	+ 445	+ 0.9	- 547	- 102	- 0.1	+ 478	+ 357	+ 733	+ 0.6
1985 Jan. 16	+ 119	- 691	- 411	- 983	- 1.9	+ 2,077	+ 1,094	+ 1.0	+ 94	+ 1,276	+ 2,464	+ 1.9
Feb. 20	+ 46	- 24	- 164	- 142	- 0.3	+ 457	+ 315	+ 0.3	- 36	+ 618	+ 897	+ 0.7
Mar. 20	+ 48	- 167	+ 1,077	+ 958	+ 1.9	+ 21	+ 979	+ 0.9	- 69	- 925	- 15	-
Apr. 17	+ 16	+ 97	+ 1,416	+ 1,497	+ 3.0	+ 1,760	+ 3,257	+ 2.9	+ 228	- 2,183	+ 1,302	+ 1.0
May 15	+ 80	+ 229	+ 915	+ 1,224	+ 2.4	- 718	+ 506	+ 0.4	+ 335	+ 209	+ 1,050	+ 0.8
June 19	+ 21	+ 2,059	+ 69	+ 2,149	+ 4.0	+ 91	+ 2,240	+ 2.0	+ 674	- 665	+ 2,249	+ 1.7

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

[b] M1 equals columns 1 + 2 + 3. £M3 equals M1 + column 5. M3 equals £M3 + column 7.

[c] Including certificates of deposit.

[d] Excluding public sector deposits.

[e] Changes in the monthly-reporting population occurred in these months. See also the additional notes to Table 3 in the *Quarterly Bulletin*, and, for March and June 1985, footnotes [b] and [d] respectively to Table H on page 5.

[f] Changes in the money stock may differ from those which can be calculated by reference to amounts outstanding. (See additional notes to Table 11 of the *Quarterly Bulletin*.) In December 1984, the changes are stated after the exclusion of the bank deposits of British Telecom PLC.

[g] See additional notes to Tables 6 and 11 of the *Quarterly Bulletin*.

### An alternative presentation of counterparts to changes in £M3

£ millions	Public sector borrowing requirement (surplus-)[a]		Purchases (-) of public sector debt by UK private sector (other than banks)		External and foreign currency and finance of public sector (increase-)		Banks' sterling lending to UK private sector [c]	External and foreign currency transactions of UK banks [d]				Net non-deposit sterling liabilities (increase-)	Money stock £M3[a] (columns 1-13)	
	Central government borrowing requirement	Other public sector contribution	Other public sector debt	Central government debt		Purchases of British government stocks by overseas sector		Other [b]	Sterling deposits from net of market loans to banks abroad (increase-)	Other overseas sterling deposits	Other sterling lending to overseas sector[e]			Banks' net foreign currency liabilities [f] (increase -)
				British government stocks	Other									
Month ended (unadjusted)	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1984 June 20	+ 2,259	- 153	- 370	- 584	+ 322	- 85	+ 1,563	- 155	- 246	+ 183	+ 28	- 563	+ 2,199	
July 18	- 42	- 279	- 644	- 160	- 246	- 65	+ 1,184	- 135	- 137	+ 122	- 139	+ 505	- 36	
Aug. 15	+ 924	+ 288	- 1,508	- 46	+ 28	+ 166	+ 162	+ 144	- 115	- 174	+ 264	+ 411	+ 544	
Sept. 19	+ 1,180	+ 141	- 86	- 756	- 360	- 228	+ 973	- 547	+ 111	+ 826	- 362	+ 167	+ 1,059	
Oct. 17	+ 293	+ 50	- 877	- 580	+ 163	- 28	+ 3,136	- 253	- 637	+ 382	+ 75	- 1,122	+ 602	
Nov. 21	+ 1,994	+ 478	- 1,035	- 503	- 111	+ 87	+ 1,503	- 269	- 354	+ 699	+ 174	+ 78	+ 2,741	
1985 Dec. 12	+ 773	- 79	- 501	- 30	+ 35	+ 90	+ 385	+ 177	- 95	+ 268	- 333	- 345	+ 345	
Jan. 16	- 2,005	+ 295	- 630	- 344	- 182	- 231	+ 3,012	+ 602	- 487	+ 356	- 383	- 164	- 161	
Feb. 20	- 310	+ 93	- 1,552	- 8	- 407	- 252	+ 1,351	- 270	- 57	+ 202	+ 204	+ 669	- 337	
Mar. 20	+ 361	+ 56	- 790	- 356	- 265	+ 49	+ 1,839	- 1,711	- 25	+ 163	+ 1,774	- 724	+ 371	
Apr. 17	+ 2,783	+ 354	- 720	- 617	- 245	+ 115	+ 2,831	+ 375	- 286	+ 251	+ 741	- 1,209	+ 4,373	
May 15	+ 497	+ 66	- 586	- 114	- 347	+ 217	+ 865	+ 301	- 68	+ 269	+ 468	- 389	+ 243	
June 19	+ 2,650	- 443	-	- 220	-	- 466	+ 769	+ 326	- 561	- 273	+ 1,215	- 333	+ 2,664	
Month ended (seasonally adjusted)														
1984 June 20	+ 1,028	+ 175	- 370	- 594	+ 322	- 92	+ 1,620	-	-	+ 104	-	- 265	+ 1,720	
July 18	+ 316	- 196	- 644	- 170	- 65	- 253	+ 330	-	-	- 333	-	+ 387	- 628	
Aug. 15	+ 979	+ 305	- 1,508	- 161	+ 28	+ 159	+ 680	-	-	+ 124	-	+ 53	+ 659	
Sept. 19	+ 1,467	+ 118	- 86	- 864	- 360	- 235	+ 1,365	-	-	- 248	-	+ 110	+ 1,267	
Oct. 17	+ 318	- 9	- 877	- 501	+ 163	- 35	+ 2,087	-	-	- 319	-	- 366	+ 461	
Nov. 21	+ 1,665	+ 397	- 1,035	- 403	- 111	+ 80	+ 1,691	-	-	+ 389	-	- 360	+ 2,313	
1985 Dec. 12	- 1,121	+ 195	- 501	+ 15	+ 35	+ 83	+ 1,581	-	-	+ 52	-	- 441	- 102	
Jan. 16	+ 317	+ 84	- 630	- 362	- 182	- 181	+ 2,131	-	-	+ 73	-	- 156	+ 1,094	
Feb. 20	+ 819	+ 76	- 1,552	- 109	- 407	- 259	+ 1,698	-	-	- 14	-	+ 63	+ 315	
Mar. 20	+ 1,214	+ 2	- 790	- 352	- 265	+ 45	+ 1,811	-	-	- 124	-	- 562	+ 979	
Apr. 17	+ 910	+ 138	- 720	- 545	- 245	+ 112	+ 2,574	-	-	+ 1,445	-	- 412	+ 3,257	
May 15	+ 391	- 5	- 586	- 123	- 347	+ 213	+ 1,437	-	-	+ 184	-	- 658	+ 506	
June 19	+ 774	- 27	-	- 262	-	- 470	+ 1,390	-	-	+ 871	-	- 36	+ 2,240	

[a] Excluding public sector bank deposits.

[b] Including public sector foreign currency bank deposits.

[c] Including holdings of sterling certificates of deposit issued by building societies, and net purchases by the Issue Department of commercial bills and, from February 1985, of promissory notes relating shipbuilding paper guaranteed by the Department of Trade and Industry.

[d] A seasonally-adjusted breakdown of these transactions is not available.

[e] Including net purchases of ECGD-backed promissory notes by the Issue Department.

[f] Including net non-deposit liabilities in foreign currency. (See the quarterly Bulletin for June 1985—page 185.)

### M0, the wide monetary base

[Table 2 in the Quarterly Bulletin]

£ millions: percentages in italics

Amount outstanding at	End-banking-month series				Bankers' deposits with the Banking Department		Monthly-average series						
	Notes and coin in circulation outside the Bank of England				Operational deposits	Cash ratio deposits	Notes and coin in circulation outside the Bank of England		Bankers' operational deposits with the Banking Department	M0 (wide monetary base) (columns 5 + 6)			
	In circulation with public		Held by banks (till money)				Unadjusted	Seasonally adjusted		Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted
	Unadjusted	Seasonally adjusted	Unadjusted	Seasonally adjusted	Unadjusted	Unadjusted			Unadjusted				
	1	2	3	4	5	6	7	8	9	10	11		
1984 May 16	11,834	11,859	1,201	1,215	159	533	Average amount outstanding in month ended 1984 May 16	13,157	13,160	138	13,295	13,298	
June 20	11,941	11,986	1,215	1,240	204	533	June 20	13,195	13,246	179	13,374	13,425	
July 18	12,213	12,007	1,314	1,237	169	533	July 18	13,376	13,332	165	13,541	13,497	
Aug. 15	12,156	12,061	1,277	1,239	50	533	Aug. 15	13,478	13,333	164	13,642	13,497	
Sept. 19	12,102	12,131	1,284	1,280	158	533	Sept. 19	13,471	13,451	139	13,610	13,590	
Oct. 17	12,115	12,172	1,235	1,250	153	533	Oct. 17	13,379	13,479	178	13,557	13,657	
Nov. 21	12,186	12,231	1,243	1,263	189	582	Nov. 21	13,403	13,555	180	13,583	13,735	
1985 Dec. 12	12,641	12,184	1,385	1,241	205	582	Dec. 12	13,804	13,568	356	14,160	13,924	
Jan. 16	12,113	12,304	1,320	1,299	190	582	1985 Jan. 16	14,222	13,701	139	14,361	13,840	
Feb. 20	12,210	12,351	1,225	1,275	90	582	Feb. 20	13,411	13,698	177	13,588	13,875	
Mar. 20	12,322	12,400	1,231	1,296	29	582	Mar. 20	13,542	13,784	144	13,686	13,928	
Apr. 17	12,435	12,384	1,312	1,320	162	582	Apr. 17	13,907	13,864	162	14,069	14,026	
May 15	12,441	12,464	1,275	1,290	187	628	May 15	13,761	13,861	156	13,917	14,017	
June 19	12,438	12,486	1,350	1,379	93	628	June 19	13,888	13,944	178	14,066	14,122	
Change in month ended							Change						
1984 June 20	+ 107	+ 126	+ 14	+ 24	+ 45	-	1984 June 20	+ 38	+ 86	+ 41	+ 79	+ 127	+1.0
July 18	+ 272	+ 20	+ 99	- 3	- 35	-	July 18	+ 181	+ 86	- 14	+ 167	+ 72	+0.5
Aug. 15	- 57	+ 54	- 37	+ 2	- 119	-	Aug. 15	+ 102	+ 1	- 1	+ 101	-	-
Sept. 19	- 54	+ 70	+ 7	+ 41	+ 108	-	Sept. 19	- 7	+ 118	- 25	- 32	+ 93	+0.7
Oct. 17	+ 13	+ 41	- 49	- 31	- 5	-	Oct. 17	- 92	+ 28	+ 39	- 53	+ 67	+0.5
Nov. 21	+ 71	+ 58	+ 8	+ 13	+ 36	+ 49	Nov. 21	+ 24	+ 76	+ 2	+ 26	+ 78	+0.6
1985 Dec. 12	+ 455	- 47	+ 142	- 22	+ 16	-	1985 Dec. 12	+ 401	+ 13	+ 176	+ 577	+ 189	+1.4
Jan. 16	- 528	+ 119	- 65	+ 57	- 15	-	Jan. 16	+ 418	+ 133	- 217	+ 201	- 84	-0.6
Feb. 20	+ 97	+ 46	- 95	- 24	- 100	-	Feb. 20	- 811	- 3	+ 38	- 773	+ 35	+0.3
Mar. 20	+ 112	+ 48	+ 6	+ 20	- 61	-	Mar. 20	+ 131	+ 86	- 33	+ 98	+ 53	+0.4
Apr. 17	+ 113	- 16	+ 81	+ 24	+ 133	-	Apr. 17	+ 365	+ 80	+ 18	+ 383	+ 98	+0.7
May 15	+ 6	+ 80	- 37	- 30	+ 25	+ 46	May 15	- 146	- 3	- 6	- 152	- 9	-0.1
June 19	- 3	+ 21	+ 75	+ 88	- 94	-	June 19	+ 127	+ 83	+ 22	+ 149	+ 105	+0.7

## Transactions balances and components of M2

[Table 11.1 and 11.2 in the Quarterly Bulletin]

Figures: not seasonally adjusted

	Notes and coin in circulation with public	UK private sector sterling non-interest-bearing sight deposits with banks [a]	Non-interest-bearing M1 [b]	Other UK private sector sterling retail deposits with banks	UK private sector retail shares and deposits with building societies	National Savings Bank ordinary account	M2 [b]	Public sector retail deposits with banks	Overseas retail deposits with banks
	1	2	3	4	5	6	7	8	9
<b>Amounts outstanding</b>									
1984 June 20 [c]	11,941	20,648	32,589	30,455	63,237	1,743	128,024	1,079	3,193
July 18	12,213	20,694	32,907	30,736	64,050	1,750	129,443	886	3,308
Aug. 15	12,156	20,981	33,137	30,613	64,340	1,736	129,826	945	3,185
Sept. 19 [c]	12,102	20,850	32,952	30,677	64,447	1,741	129,817	972	3,357
Oct. 17	12,115	21,022	33,137	30,863	64,786	1,749	130,535	1,089	3,289
Nov. 21	12,186	21,251	33,437	31,283	65,200	1,761	131,681	1,177	3,391
Dec. 12 [c]	12,641	22,272	34,913	31,043	66,055	1,730	133,741	890	3,399
1985 Jan. 16	12,113	20,860	32,973	31,561	67,593	1,785	133,912	1,087	3,643
Feb. 20	12,210	20,476	32,686	31,815	67,597	1,758	133,856	1,104	3,651
Mar. 20 [c]	12,322	20,603	32,925	32,453	67,892	1,762	135,032	1,094	3,753
Apr. 17	12,435	21,468	33,903	32,910	67,710	1,738	136,261	1,033	4,111
May 15	12,441	21,440	33,881	33,291	67,111	1,754	136,037	1,060	4,152
June 19 [c]	12,438	23,511	35,949	33,893	67,629	1,752	139,223	1,086	4,186
<b>Changes in month ended [d]</b>									
1984 July 18	+ 272	+ 46	+ 318	+ 281	+ 813	+ 7	+1,419	- 193	+ 115
Aug. 15	- 57	+ 287	+ 230	- 123	+ 290	- 14	+ 383	+ 59	- 123
Sept. 19	- 54	- 131	- 185	+ 64	+ 107	+ 5	- 9	+ 27	+ 172
Oct. 17	+ 13	+ 172	+ 185	+ 186	+ 339	+ 8	+ 718	+ 117	- 68
Nov. 21	+ 71	+ 229	+ 300	+ 420	+ 414	+ 12	+1,146	+ 88	+ 102
Dec. 12	+ 455	+ 919	+1,374	- 240	+ 855	- 31	+1,958	- 287	+ 8
1985 Jan. 16	- 528	-1,412	-1,940	+ 516	+1,538	+ 55	+ 171	+ 197	+ 244
Feb. 20	+ 97	- 384	- 287	+ 254	+ 4	- 27	- 56	+ 17	+ 8
Mar. 20	+ 112	+ 127	+ 239	+ 638	+ 295	+ 4	+1,176	- 10	+ 102
Apr. 17	+ 113	+ 865	+ 976	+ 457	- 182	- 24	+1,229	- 61	+ 358
May 15	+ 6	- 28	- 22	+ 381	- 599	+ 16	- 224	+ 27	+ 41
June 19	- 3	+2,071	+2,068	+ 602	+ 518	- 2	+3,186	+ 26	+ 34

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

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

[c] See footnote [e] to Table D on page 3.

[d] See footnote [f] to Table E on page 3.

## Private sector liquidity, and other deposits

[Summary of Table 12 in the Quarterly Bulletin]

£ millions	'Money' Seasonally adjusted	Other money-market instruments Seasonally adjusted	Savings institution deposits and securities		Certificates of tax deposit		PSL1 (columns 1+2+5) Seasonally adjusted	PSL2 (columns 1+2+3+6) Seasonally adjusted	PSL1 Seasonally adjusted change in month [b] [c]	PSL2 Seasonally adjusted change in month [b] [c]	Other shares and deposits with building societies			
			Seasonally adjusted		Seasonally adjusted						Unadjusted			
			Total (net)	of which shares and deposits with building societies [a]	Issues net of sur-renders	Column 5 less building society holdings					Amount outstanding	Change in month		
Month ended	1	2	3	4	5	6	7	8	9	10	11	12		
1984 June 20	102,458	3,402	70,299	66,631	2,145	1,942	108,005	178,101	+ 2,247	+2.1	+3,514	+2.0	18,979	- 6
July 18	101,828	3,270	71,391	67,781	2,061	1,855	107,159	178,544	- 855	-0.8	+ 419	+0.2	18,892	- 87
Aug. 15	102,450	3,404	72,535	68,655	1,937	1,710	107,791	180,099	+ 610	+0.6	+1,531	+0.9	18,766	-126
Sept. 19	103,745	3,631	73,436	69,817	1,913	1,665	109,289	182,477	+1,480	+1.4	+2,358	+1.3	18,641	-125
Oct. 17	104,191	3,639	74,930	71,398	2,323	2,060	110,153	184,820	+ 864	+0.8	+2,340	+1.3	18,522	-119
Nov. 21	106,542	3,463	76,564	72,883	2,618	2,189	112,623	188,758	+2,467	+2.2	+3,932	+2.1	18,283	-239
Dec. 12	106,901	3,340	77,248	73,641	2,537	2,107	112,778	189,596	- 330	-0.3	+ 343	+0.2	18,145	-138
1985 Jan. 16	107,983	3,172	79,218	75,614	2,681	2,414	113,836	192,787	+1,057	+0.9	+3,173	+1.7	17,919	-226
Feb. 20	108,237	3,148	80,610	76,955	2,695	2,498	114,080	194,493	+ 241	+0.2	+1,686	+0.9	17,651	-268
Mar. 20	109,142	3,262	81,846	77,977	2,840	2,509	115,244	196,759	+1,191	+1.0	+2,280	+1.2	17,518	-133
Apr. 17	112,391	3,238	81,815	77,900	3,081	2,742	118,710	200,186	+3,471	+3.0	+3,412	+1.7	18,258	+740
May 15	112,924	3,085	82,301	78,313	2,975	2,634	118,984	200,944	+ 252	+0.2	+ 718	+0.4	19,031	+773
June 19	115,184	3,304	83,408	79,359	2,900	2,558	121,388	204,454	+2,346	+2.0	+3,442	+1.7	19,156	+125

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

[b] Percentage changes are shown in italics.

[c] In December 1984, the changes are stated after exclusion of the bank deposits and certain other liquid assets of British Telecom PLC.





Ch.



① Av. increase of GDP in 1985Q1  
was 5% above its previous  
cyclical peak in 1979Q2 (see  
para 5 of Jones 2016 below)

② Average annual % growth

1973/4 - 1978/79  $1\frac{1}{2}$  (1.4)

1973 - 1978 1 (1.1)

Re.

26/6.



Ch.



① Av. increase of GDP in 1985Q1  
was 5% close to previous  
cyclical peak in 1979Q2 (see  
para 5 of Jones 2016 below)

② Average annual % growth

1973/4 - 1978/79  $1\frac{1}{2}$  (1.4)

1973 - 1978 1 (1.1)

Re.

26/6.

RESTRICTED

FROM: S J DAVIES  
DATE: 24 JUNE 1985

*Handwritten initials*

CHANCELLOR OF THE EXCHEQUER

- cc: Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Sir Terence Burns
- Mr Cassell
- Mr Monck
- Mr H P Evans
- Mr Odling-Smee
- Mr Culpin
- Mr Folger
- Mr Vernon
- Mr Cropper
- Mr Lord
- Mr H Davies

*Thanks. I also know what has happened (2) was 1979. I also know what was done in 1978/9. I also know what was done in 1973/4 to 1978. I also know what was done in 1978/9.*

*Answer to para 5 of Annex to 20/6.*

*1 1/2% [1.4]*

*1% [1.1]*

**AVERAGE RATE OF GDP GROWTH**

You asked what the average rate of growth had between 1978-79 and 1984-85; and for the estimate of growth between 1978 and 1985.

Rounded to the nearest 1/2 per cent, the answers are:

**Average annual rate of growth**

1978-79 to 1984-85	1 per cent
1978 to 1985	1 1/2 per cent

*Handwritten signature*

S J DAVIES



RESTRICTED



FROM: MRS LOMAX  
DATE: 21 June 1985

**MR S J DAVIES**

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr H P Evans  
Mr Odling-Smee  
Mr Culpin  
Mr Folger  
Mr Vernon  
Mr Cropper  
Mr Lord  
Mr H Davies

**GDP FIGURES FOR THE FIRST QUARTER OF 1985**

The Chancellor was grateful for your minute of 20 June. He has commented that it includes some useful material which needs to be reflected in bull points for next First Order PQs.

2. The Chancellor has asked what the average rate of growth is between 1978-79 and 1984-85; and from 1978 to 1985 (estimated).

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

RACHEL LOMAX



CONFIDENTIAL  
until 11.30 a.m on Friday 21 June  
then RESTRICTED

FROM: S J DAVIES  
DATE: 20 JUNE 1985

CHANCELLOR OF THE EXCHEQUER

cc: Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr H P Evans  
Mr Odling-Smee  
Mr P Sedgwick  
Mr Culpin  
Mr Folger  
Mr Allum  
Dr Rowlatt  
Mr Vernon  
Mr Lord  
Mr Cropper  
Mr H Davies

Mr R Clare (CSO)

**GDP FIGURES FOR THE FIRST QUARTER OF 1985**

The CSO's provisional estimates of GDP in the first quarter of 1985 will be published tomorrow (Friday) at 11.30 a.m. Preliminary figures for the output measure of GDP were published a month ago. The figures being published now include a revised estimate for the output measure of GDP, as well as the first published figures for the income and expenditure measures for the first quarter of 1985, along with the average estimate based on all three measures. An advance copy of the Press Notice is attached.

First quarter figures

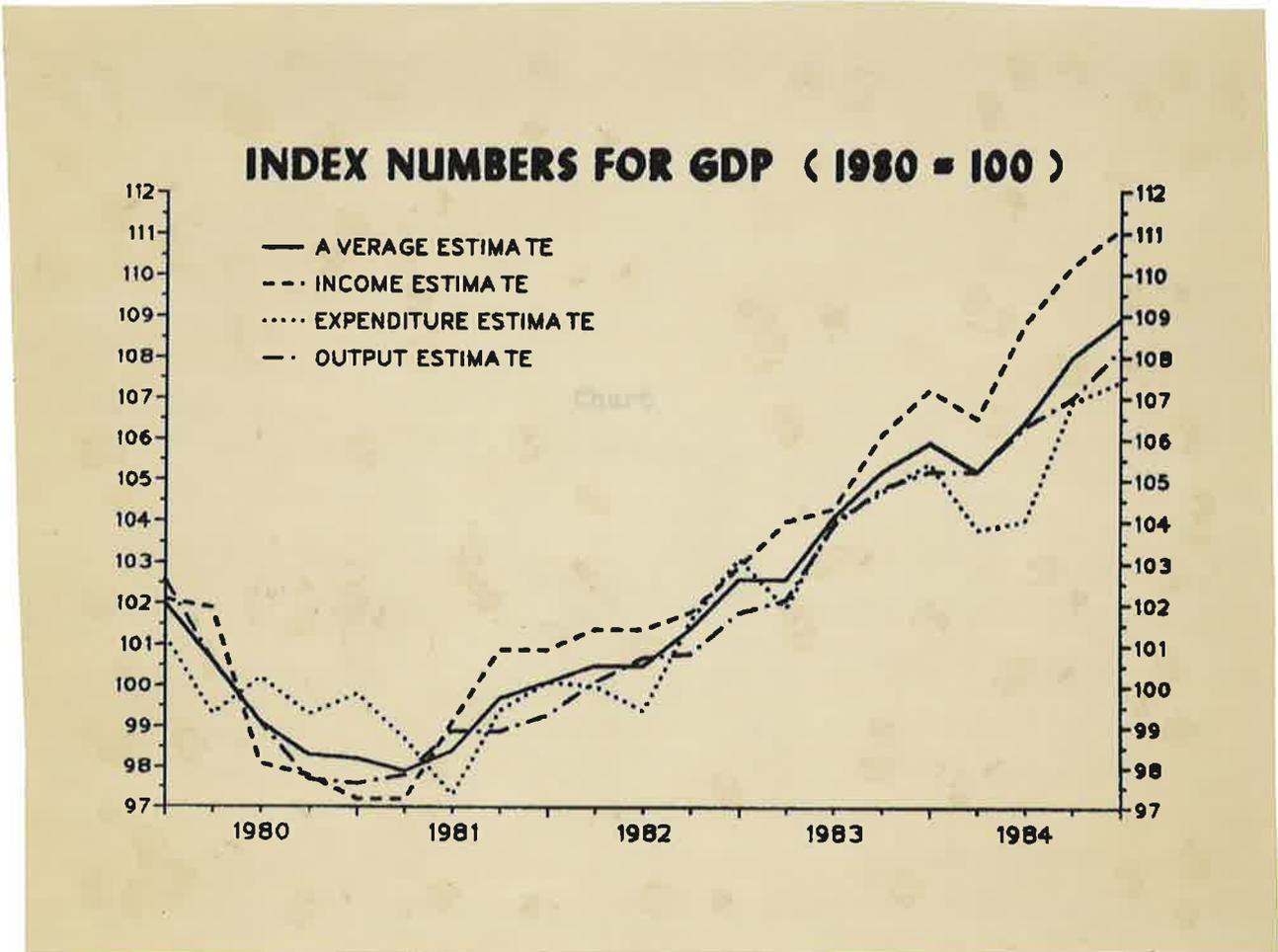
2. The average estimate of GDP shows a rise of  $\frac{3}{4}$  per cent between the fourth quarter of 1984 and the first quarter of 1985. This is the same as the rise suggested by the preliminary figure for GDP(0) published last month. The income, expenditure, and output estimates of GDP all show a rise in the first quarter, ranging from a 0.5 per cent rise in the expenditure measure to a revised estimate of 1.1 per cent growth in the output measure.

*Handwritten notes:*  
Ch.  
Some notes  
H. P. Evans  
Re.  
20/6.  
Bull points for  
H. P. Evans  
M.

*Handwritten notes:*  
P.S. What  
to do  
how  
1979  
What  
is  
average  
(a) 1978/9  
1984/5  
(b) 1978 &  
1985  
M.



3. The average estimate of GDP shows a rise of  $2\frac{3}{4}$  per cent in the first quarter of 1985 compared with a year earlier. The estimate of growth over this period based on the output measure is also  $2\frac{3}{4}$  per cent: the income estimate is higher ( $3\frac{1}{2}$  per cent), while the expenditure estimate shows only 2 per cent growth.



Coal Strike

4. Some recovery in coal output during the first three months of 1985 contributed to GDP growth between the fourth quarter of 1984 and the first quarter of 1985: but the contribution was small (less than  $\frac{1}{4}$  per cent). The coal strike probably reduced the increase in the average measure of GDP between the first quarters of 1984 and 1985 by about  $\frac{3}{4}$  per cent. Adding this estimate on to the actual growth in GDP over this period suggests that, but for the strike, GDP would have risen by about  $3\frac{1}{2}$  per cent between the first quarter of 1984 and the first quarter of 1985.



GDP growth in 1984 and during the current cycle.

5. The estimate of GDP growth in 1984 has been revised up a little (from 2.5 per cent to 2.7 per cent). The average measure of GDP in the first quarter of 1985 was 5 per cent above its previous cyclical peak, reached in the second quarter of 1979; and it was  $11\frac{1}{4}$  per cent above the trough reached in the second quarter of 1981. Over the  $3\frac{3}{4}$  years of the present upswing the rate of GDP growth (rounded to the nearest quarter per cent) has averaged 3 per cent a year. (Adjusted for the effects of the coal strike, GDP is now some  $6\frac{1}{4}$  per cent above the previous cyclical peak, and about  $12\frac{1}{2}$  per cent above the 1981 trough.)

GDP INDEX 1980 (Average Measure)

	<u>Level</u> <u>(1980 = 100)</u>	<u>Percentage change</u> <u>on a year earlier</u>
1979	102.4	2.4%
1980	100.0	- 2.3%
1981	98.6	- 1.4%
1982	100.6	2.0%
1983	103.6	3.0%
1984	106.4	2.7%
1983 Q1	105.9	3.2%
Q2	105.2	2.5%
Q3	106.4	2.2%
Q4	108.0	2.7%
1985 Q1	108.9	2.8%

GDP Deflator

6. The deflator for GDP at market prices in the first quarter of 1985 was 5 per cent higher than a year earlier, while the deflator for GDP at factor cost was  $5\frac{1}{4}$  per cent higher than a year earlier. In both cases these growth rates are about  $\frac{3}{4}$  of a point up on the average for 1984.



Comparison with FSBR figures

7. The level of GDP in the first quarter of the year was already almost as high as the figure for the first half of 1985 shown in the FSBR forecast; and we still expect to see the 3½ per cent growth for the whole of 1985 that was forecast at the time of the Budget. Some rise in the rate of increase of the GDP deflator was also anticipated in the Budget forecast: projections in the FSBR showed growth in the market price GDP deflator rising from 4½ per cent in 1984-85 to 5 per cent in 1985-86, before falling back to 4½ per cent again in 1986-87.

Components of expenditure

8. The increase in the expenditure estimate of GDP between the fourth quarter of 1984 and first quarter of 1985 was more than accounted for by higher investment and exports. Consumers' expenditure is now estimated to have fallen by ½ per cent in the first quarter of 1985, while stockbuilding made a negative contribution to growth.

Percentage changes, 1985(1) on 1984(4)

	<u>Change in component of expenditure</u>	<u>Contribution to GDP growth</u>
Consumers' expenditure	- 0.5	- 0.4
General government consumption	- 0.2	-
Gross domestic fixed capital formation	5.4	1.2
Stockbuilding	-	- 0.9
Exports	1.7	0.6
Imports	- 0.5	0.2



Company Profits

9. Industrial and commercial companies' trading profits net of stock appreciation are estimated to have been about £1½ billion higher in the first quarter of 1985 than in the final quarter of 1984, and were £3¼ billion (26 per cent) up on the first quarter of 1984. The inclusion of British Telecom's profits in the ICCs figures for the first quarter of 1985 makes the comparison misleading, however; excluding British Telecom from the figures, profits were about £2½ billion (20 per cent) up on the first quarter of 1984. Figures for recent years are now estimated as follows:

ICCs trading profits net of stock appreciation

	<u>£ billion</u>	<u>(per cent change on previous year)</u>
1982	35.0	18
1983	42.2	20
1984	52.1	24

Assessment and line to take

10. The first quarter GDP figures confirm that the economy is continuing to grow, with underlying growth (ie adjusted for the coal strike) of about 3½ per cent over the last year. The economy is on track to meet the Budget forecast of 3½ per cent growth in 1985.

11. The UK is now beginning its fifth year of uninterrupted growth: over the upswing so far growth has averaged 3 per cent a year.



S J DAVIES





**PRESS  
AND  
INFORMATION SERVICE**

**CSO**

**CENTRAL STATISTICAL OFFICE**

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CSO(85)59

Press Notice at 11.30 am. on 21 June

21 June 1985

and thereafter unclassified.

**GROSS DOMESTIC PRODUCT IN THE FIRST QUARTER 1985**

Latest estimates of gross domestic product (GDP) suggest that, after adjusting for the effects of the coal dispute, the underlying growth in the volume of economic activity was some  $3\frac{1}{2}$  per cent between the first quarters of 1984 and 1985.

The average measure of GDP at constant factor cost rose by nearly 3 per cent between the first quarters of 1984 and 1985. The output measure of GDP, considered to be the best indicator of short-term movements, also rose by nearly 3 per cent over the same period. These comparisons are affected by the coal dispute, the direct effects of which are estimated to have depressed GDP by some 1 to  $1\frac{1}{2}$  per cent in the first quarter of 1985 compared with only some  $\frac{1}{2}$  per cent a year earlier.

All three broadly independent measures of GDP at constant factor cost (based on expenditure, income and output data) increased between the fourth quarter of 1984 and the first quarter of 1985; their average, GDP(A), rose  $\frac{2}{3}$  per cent. The effects of the coal dispute are estimated to have been broadly similar in these two quarters.

The average measure of GDP at current market prices ("money GDP") rose by  $2\frac{1}{2}$  per cent between the fourth quarter of 1984 and the first quarter of 1985 to a level 8 per cent higher than a year earlier. Again, the direct effect of the coal dispute is estimated to have depressed the growth in this annual comparison by about 1 percentage point.





NATIONAL ACCOUNTS AGGREGATES  
INDEX NUMBERS: SEASONALLY ADJUSTED<sup>1</sup>

1980 = 100

	Gross domestic product						National disposable income at 1980 market prices	Implied gross domestic product deflator			
	At current market prices		At current factor cost		At constant factor cost 1980 prices			At factor cost	At market prices		
	Average estimate	Based on expenditure data	Based on income data	Average estimate	Based on expenditure data	Based on income data <sup>2</sup>		Based on output data	Average estimate	Based on expenditure data <sup>3</sup>	Based on expenditure data
1979	85.7	85.9	86.2	102.4	102.0	102.3	103.0	101.8	84.2	83.5	
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1981	110.1	109.3	109.0	98.6	98.8	98.6	98.3	99.5	110.6	111.8	
1982	120.8	118.3	119.6	100.6	100.3	101.4	100.2 <sup>+</sup>	101.4	117.9	119.8	
1983	131.0	129.1	130.2	103.6 <sup>+</sup>	103.4 <sup>+</sup>	104.3	103.1	104.8 <sup>+</sup>	124.8	126.1	
1984	139.9 <sup>+</sup>	137.2 <sup>+</sup>	141.3 <sup>+</sup>	106.4	105.0	108.2 <sup>+</sup>	105.9	107.1	130.6 <sup>+</sup>	131.4	
1979	1	78.3	78.8	79.4	99.8	99.0	99.8	100.7	99.8	79.6	78.0
	2	84.0	84.8	84.8	103.6	103.2	103.2	104.4	103.1	82.2	80.4
	3	88.6	88.4	88.3	103.2	103.2	103.1	103.2	102.4	85.7	86.1
	4	92.1	91.3	92.1	103.2	102.5	103.3	103.7	102.2	89.2	89.3
1980	1	95.8	94.9	95.8	102.0	101.2	102.1	102.6	101.7	93.7	93.6
	2	98.7	97.3	99.9	100.6	99.3	101.9	100.6	100.0	97.9	98.2
	3	101.5	102.8	100.8	99.1	100.2	98.1	99.1	99.0	102.6	102.7
	4	104.1	105.0	103.5	98.3	99.3	97.8	97.7	99.4	105.8	105.7
1981	1	106.0	107.5	104.6	98.2	99.8	97.2	97.6	100.2	107.7	108.0
	2	108.2	108.1	106.3	97.9	98.7	97.2	97.8	98.8 <sup>+</sup>	109.5	110.8
	3	111.8	109.1	111.1	98.4	97.3	99.1	98.9	98.9	112.1	113.3
	4	114.6	112.4	114.0	99.7	99.4	100.9	98.9	100.2	113.1	115.1
1982	1	117.2	114.3	115.3	100.1	100.1	100.9	99.3	101.2	114.2	116.7
	2	119.7	117.3	118.9	100.5	100.0	101.4	100.1	100.6	117.3	118.9
	3	122.0	118.6	121.0	100.5	99.4	101.4	100.7	101.2	119.3	121.2
	4	124.3	122.8	123.1	101.4	101.6	101.8	100.8 <sup>+</sup>	102.7	120.9	122.5
1983	1	128.1	126.9	126.7 <sup>+</sup>	102.6	103.1	102.9	101.8	104.4	123.1	124.6
	2	128.6	125.6 <sup>+</sup>	128.3	102.6 <sup>+</sup>	101.9	104.0	102.1	102.9	123.3	124.7 <sup>+</sup>
	3	132.5 <sup>+</sup>	131.1	131.5	104.1	104.0	104.3	103.9	106.0	126.0	127.1
	4	134.8	132.8	134.6	105.2	104.7 <sup>+</sup>	106.1	104.8	106.1	126.8	128.1
1984	1	137.3	135.9	138.1	105.9	105.4	107.2 <sup>+</sup>	105.2	106.7	128.9 <sup>+</sup>	129.6
	2	137.6	134.8	138.2	105.2	103.8	106.5	105.2	106.0	129.8	130.4
	3	140.6	136.3	142.5	106.4	104.0	108.8	106.3	106.8	131.0	132.0
	4	144.5	141.7	146.2	108.0	106.9	110.2	107.0	108.9	132.6	133.7
1985	1	148.3	145.8	150.9	108.9	107.4	111.1	108.2	108.8	135.7	136.1

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



The real income of the United Kingdom, as shown by gross national disposable income at constant market prices, was broadly unchanged between the fourth quarter of 1984 and the first quarter of 1985; over the year since the first quarter of 1984 real income rose by 2 per cent.

The increase compared with a year earlier in the implied factor cost GDP deflator ("index of total home costs") was just under  $5\frac{1}{2}$  per cent in the first quarter of 1985. This compares with an increase of about  $4\frac{1}{2}$  per cent between the years 1983 and 1984.

Estimates of GDP at current and constant prices, of real national disposable income and of the implied GDP deflators are given in index number form on page 2.

#### Expenditure at current and constant 1980 prices (Tables A and B)

At current prices the expenditure measure of gross domestic product at factor cost, (GDP(E)), rose by 3 per cent in the first quarter of 1985 to a level a little over 7 per cent higher than a year earlier; at constant 1980 prices it rose  $\frac{1}{2}$  per cent in the first quarter of 1985 to a level some 2 per cent higher than in the same period of 1984.

At constant prices, consumers' expenditure in the first quarter of 1985 was at much the same level as in the second quarter of 1984; over the year since the first quarter of 1984 the increase was some  $1\frac{1}{2}$  per cent. Further details are given below. General government consumption was little changed in the first quarter of 1985 and also  $1\frac{1}{2}$  per cent higher than a year earlier. Much of the rise in GDP in the first quarter derives from an upturn in fixed investment which was  $5\frac{1}{2}$  per cent up on the fourth quarter though only  $3\frac{1}{2}$  per cent higher than in the first quarter of 1984. The first quarter rise in fixed investment was partly offset by a resumption in destocking, following the stockbuilding in the fourth quarter - the first since 1983. The balance of overseas trade in goods and services improved between the fourth quarter of 1984 and the first quarter of 1985 but, compared with the first quarter of 1984, exports rose  $8\frac{1}{2}$  per cent and imports by  $9\frac{1}{2}$  per cent, at constant prices.



### Income at current prices (Table C)

At current prices the income measure of gross domestic product at factor cost, (GDP(I)), rose some 9½ per cent in the first quarter of 1985 compared with a year earlier. The largest component of GDP(I), income from employment, increased by 8 per cent over the same period whilst the gross trading surplus of public corporations fell by nearly a half; in both cases the comparisons are affected by the coal dispute but the downturn in the public corporations' surplus additionally reflects the effect of the privatisation of British Telecom. The gross trading profits of companies were over a quarter higher in the first quarter of 1985 than a year earlier, but the comparison is distorted by the inclusion of an estimate for British Telecom in the latest period's data.

When deflated by the implied index of total home costs, GDP(I) increased by 3½ per cent over the same period.

### Output at constant 1980 prices (Table D)

The output measure of gross domestic product, (GDP(O)), increased by 1 per cent between the fourth quarter of 1984 and the first quarter of 1985. Output of the production industries rose by 2 per cent, largely reflecting a 6 per cent increase in energy and water supply. Construction output was 2½ per cent up on the previous quarter. Distribution output fell slightly from its high fourth quarter level but the rest of the service industries continued to show overall growth.

The miners' dispute reduced the level of GDP(O) in the first quarter of 1985 by about 1 per cent. This compares with ½ per cent in the first quarter of 1984 and about 1¼ per cent in each of the following three quarters. After adjusting out the effect of the dispute, in the first quarter of 1985 GDP(O) was some 3½ per cent higher than a year earlier.



Consumers' expenditure (Table E and F)

Consumers' expenditure at constant prices fell back  $\frac{1}{2}$  per cent between the fourth quarter of 1984 and the first quarter of 1985; the level compared with a year earlier was less than  $1\frac{1}{2}$  per cent higher. Spending on durable goods and food fell in the first quarter, partly offset by higher energy consumption. The increase in consumers' expenditure compared with the first quarter of 1984 mainly reflects increased spending on retail goods, other than food and tobacco.

At current prices consumers' expenditure rose by  $1\frac{1}{2}$  per cent between the fourth quarter of 1984 and first quarter of 1985, and by 7 per cent over the year.



## EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT CURRENT PRICES

Seasonally adjusted

£ MILLION

TABLE A

## Final expenditure on goods and services at market prices

	GROSS DOMESTIC PRODUCT		Total final expenditure	Consumers' expenditure	General government consumption			Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
	At market prices	At factor cost			Total	Central government	Local authorities					
1979	196 400	170 967	250 942	117 912	38 773	23 349	15 424	36 849	2 160	55 248	54 542	25 433
1980	230 010	199 136	287 591	136 789	48 804	29 845	18 959	41 609	-2 909	63 298	57 581	30 874
1981	253 759	217 578	313 983	152 125	55 276	33 780	21 496	41 680	-3 140	68 042	60 224	36 181
1982	276 969	235 501	344 342	166 538	60 154	36 902	23 252	45 815	-1 355	73 190	67 373	41 468
1983	300 701†	257 070†	377 728†	182 420	65 765†	40 539†	25 226	49 136†	458	79 949†	77 027	43 631
1984	318 412	273 159	410 012	194 581†	69 779	43 024	26 755†	55 047	-983†	91 588	91 600†	45 253†
1981 1	61 786	53 508	74 789	36 464	13 309	8 126	5 183	10 256	-1 155	15 915	13 003	8 278
2	62 659	53 794	76 753	37 635	13 615	8 286	5 329	10 365	-1 325	16 463	14 094	8 865
3	63 633	54 317	80 132	38 488	14 101	8 594	5 507	10 424	-471	17 590	16 499	9 316
4	65 681	55 959	82 309	39 538	14 251	8 774	5 477	10 635	-189	18 074	16 628	9 722
1982 1	67 384	56 916	83 858	40 121	14 584	9 016	5 568	10 862	395	17 896	16 474	10 468
2	68 513	58 391	85 715	41 093	14 918	9 166	5 752	11 269	126	18 309	17 202	10 122
3	69 509	59 043	86 268	42 044	15 174	9 277	5 897	11 769	-835	18 116	16 759	10 466
4	71 563	61 151	88 501	43 280	15 478	9 443	6 035	11 915	-1 041	18 869	16 938	10 412
1983 1	73 957†	63 164†	92 411†	44 151	16 350†	10 236†	6 114	12 167†	171	19 572†	18 454	10 793
2	73 418	62 537	92 440	45 069	16 287	9 930	6 357	11 879	-311	19 516	19 022	10 881
3	76 145	65 258	95 304	46 282	16 396	10 074	6 322	12 301	391	19 934	19 159	10 887
4	77 181	66 111	97 573	46 918	16 732	10 299	6 433	12 789	207	20 927	20 392	11 070
1984 1	78 593	67 650	99 549	47 389†	16 847	10 356	6 491	13 793	-404†	21 924	20 956†	10 943†
2	78 239	67 115	100 493	48 602	17 025	10 368	6 657	13 372	-556	22 050	22 254	11 124
3	79 294	67 833	102 585	48 680	17 635	10 920	6 715†	13 605	-64	22 729	23 291	11 461
4	82 286	70 561	107 385	49 910	18 272	11 380	6 892	14 277	41	24 885	25 099	11 725
1985 1	84 210	72 564	110 506	50 728	18 350	11 405	6 945	15 222	-114	26 320	26 296	11 646



## EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

Seasonally adjusted

£ MILLION

TABLE B

## Final expenditure on goods and services at market prices

	GROSS DOMESTIC PRODUCT		Total final expenditure	Consumers' expenditure	General government consumption			Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services	Imports of goods and services	Adjustment to factor cost
	At market prices	At factor cost			Total	Central government	Local authorities					
1979	235 224	203 056	295 132	137 256	48 107	29 097	19 010	43 868	2 534	63 367	59 908	32 168
1980	230 010	199 136	287 591	136 789	48 804	29 845	18 959	41 609	-2 909	63 298	57 581	30 874
1981	227 042	196 730	282 639	136 429	48 882	30 126	18 756	37 928	-2 739	62 139	55 597	30 312
1982	231 111	199 668	288 873	137 581	49 240	30 370	18 870	40 468	-1 184	62 768	57 762	31 443
1983	238 406†	205 942†	299 348†	143 011	50 421†	30 967†	19 454	42 018†	355	63 543†	60 942	32 464†
1984	242 261	209 169	308 603	145 241†	50 947	31 217	19 730†	45 133	-479†	67 761	66 342†	33 092
1981 1	57 232	49 671	70 042	34 213	12 236	7 538	4 698	9 454	-1 040	15 179	12 810	7 561
2	56 545	49 145	69 950	34 090	12 218	7 559	4 659	9 467	-1 127	15 302	13 405	7 400
3	56 176	48 446	71 077	34 007	12 263	7 529	4 734	9 419	-423	15 811	14 901	7 730
4	57 089	49 468	71 570	34 119	12 165	7 500	4 665	9 588	-149	15 847	14 481	7 621
1982 1	57 720	49 833	72 113	33 980	12 280	7 608	4 672	9 721	443	15 689	14 393	7 887
2	57 615	49 786	72 459	34 118	12 197	7 534	4 663	9 987	226	15 931	14 844	7 829
3	57 342	49 486	71 641	34 489	12 307	7 579	4 728	10 350	-923	15 418	14 299	7 856
4	58 434	50 563	72 660	34 994	12 456	7 649	4 807	10 410	-930	15 730	14 226	7 871
1983 1	59 360†	51 324†	74 145†	35 139	12 541†	7 722†	4 819	10 580†	74	15 811†	14 785	8 036†
2	58 853	50 708	73 904	35 539	12 591	7 715	4 876	10 261	-157	15 670	15 051	8 145
3	59 921	51 781	75 155	36 106	12 611	7 755	4 856	10 453	204	15 781	15 234	8 140
4	60 272	52 129	76 144	36 227	12 678	7 775	4 903	10 724	234	16 281	15 872	8 143
1984 1	60 643	52 484	76 474	35 973†	12 611	7 713	4 898	11 570	-363†	16 683	15 831†	8 159
2	60 014	51 687	76 429	36 430	12 602	7 677	4 925	11 115	-304	16 586	16 415	8 327
3	60 053	51 792	76 700	36 193	12 902	7 892	5 010†	11 060	-145	16 690	16 647	8 261
4	61 551	53 206	79 000	36 645	12 832	7 935	4 897	11 388	333	17 802	17 449	8 345
1985 1	61 878	53 459	79 237	36 450	12 812	7 918	4 894	12 001	-139	18 113	17 359	8 419



FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT  
AT CURRENT PRICES

Seasonally adjusted

TABLE C

£ MILLION

GROSS NATIONAL PRODUCT (expenditure-based)		Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME -BASED)	Total domestic income	Income from employ- ment	Gross trading profits or surplus				LESS Stock appreci- ation	Memorandum items(5)			
							At market prices	At factor cost	Comp- anies(1),(5)	Public corpor- ations(5)		General government enterprises	Other income(2)	Company profits net of stock app- reciation	Industrial & com- mercial companies trading profits(3) gross
1979	197 434	172 001	1 034	-72	171 039	179 871	115 676	28 942	5 587	102	29 564	8 832	21 543	30 438	23 039
1980	229 849	198 975	-161	632	198 504	205 274	136 904	29 008	6 149	69	33 144	6 770	23 460	31 419	25 871
1981	254 819†	218 638†	1 060†	1 171	216 407	222 742	148 050	29 957	7 750	85	36 900	6 335	24 852	34 669	29 564
1982	278 131	236 663	1 162	-1 838	237 339	241 592	157 970	33 886	9 175	29	40 532	4 253	30 385	38 485	34 984
1983	303 241	259 610	2 540	-1 470†	258 540†	263 402†	169 755†	40 759	9 895	-110	43 103	4 862	36 645	46 268	42 154
1984	321 462	276 209	3 050	-7 249	280 408	285 815	180 775	49 904†	8 870†	-287	46 553†	5 407†	45 298†	56 724†	52 118†
1981	1 61 991	53 713	205	1 587	51 921	53 192	35 924	6 735	1 645	32	8 856	1 271	5 737	7 772	6 774
	2 63 014†	54 149†	355†	1 029	52 765	54 615	36 494	7 081	1 972	21	9 047	1 850	5 590	8 258	6 767
	3 63 885	54 569	252	-809	55 126	56 714	37 412	7 871	2 014	27	9 390	1 588	6 550	9 120	7 799
	4 65 929	56 207	248	-636	56 595	58 221	38 220	8 270	2 119	5	9 607	1 626	6 975	9 519	8 224
1982	1 67 286	56 818	-98	-286	57 202	58 196	38 819	7 275	2 222	26	9 854	994	6 462	8 460	7 647
	2 68 855	58 733	342	-608	58 999	59 987	39 311	8 358	2 246	21	10 051	988	7 580	9 493	8 715
	3 69 862	59 396	353	-998	60 041	61 104	39 613	8 872	2 397	-16	10 238	1 063	8 003	9 993	9 124
	4 72 128	61 716	565	54	61 097	62 305	40 227	9 381	2 310	-2	10 389	1 208	8 340	10 539	9 498
1983	1 74 654	63 861	697	312†	62 852†	63 688†	41 391†	9 470	2 330	-38	10 535†	836	8 766†	10 720	10 016†
	2 73 716	62 835	298	-1 113	63 650	64 929	42 037	9 593	2 706	-22	10 615	1 279	8 473	10 941	9 821
	3 77 066	66 179	921	-2	65 260	66 651	42 708	10 764	2 359	-20	10 840	1 391	9 638	12 194	11 068
	4 77 805	66 735	624	-667	66 778	68 134	43 619	10 932	2 500	-30	11 113	1 356	9 768	12 413	11 249
1984	1 79 123	68 180	530	-899	68 549	69 707	44 225	11 793†	2 429†	-56	11 316	1 158†	10 873	13 373†	12 453
	2 79 026	67 902	787	-1 492	68 607	70 011	44 550	11 588	2 394	-75	11 554	1 404	10 269	13 268	11 949
	3 80 083	68 622	789	-2 878	70 711	71 874	45 179	12 740	2 281	-52	11 726	1 163	11 806	14 520	13 586
	4 83 230	71 505	944	-1 980	72 541	74 223	46 821	13 783	1 766	-104	11 957	1 682	12 350	15 563	14 130
1985	1 85 446.	73 800	1 236	-2 305	74 869	76 284	47 752	14 994	1 280	111†	12 147	1 415	13 832	16 874	15 712

(1) Including financial institutions.

(2) Income from rent, self employment and imputed charge for consumption of non-trading capital.

(3) Excluding financial companies and institutions. Their contribution to the gross national product is measured as the difference between bank charges, commissions, etc, on the one hand and the management expenses on the other, and is negative.

(4) Gross trading profits net of stock appreciation.

(5) The figures reflect the privatisation of British Telecom with effect from 28 November 1984.



INDEX NUMBERS OF OUTPUT AT CONSTANT FACTOR COST

Seasonally adjusted

1980 = 100

TABLE D

	GROSS DOMESTIC PRODUCT	Agriculture forestry and fishing	Total production and construction	Production				Construction	Distribution hotels and catering; repairs	Transport and communication	Other
				Total	Energy and water supply	Manufacturing (revised definition)					
1980 Weights	1000	22	424	361	95	266	63	128	72	354	
1979	103.0	90.6	106.9	107.2	100.5	109.6	105.8	107.9	101.6	97.6	
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
1981	98.3	102.4†	95.6	96.5	103.9	93.9	90.0	98.1	98.9	101.2	
1982	100.2†	111.0	97.6	98.6	110.0	94.5	91.7	100.0	98.7	103.2†	
1983	103.1	106.4	100.9	101.9	115.9	96.9	95.3	103.5	102.1	105.8	
1984	105.9	119.1	102.2†	102.9†	110.0	100.3†	98.3†	107.0†	107.1†	108.9	
1980	1	97	105.1	105.2	100.7	106.8	105.0	105	103	99	
	2	100	101.2	101.2	98.0	102.4	101.6	101	101	100	
	3	101	98.3	97.8	98.9	97.5	100.5	98	99	100	
	4	101	95.3	95.8	102.4	93.4	92.9	97	98	101	
1981	1	101	94.6	95.1	102.0	92.5	92.4	98	98	101	
	2	101†	94.7	95.6	102.8	93.0	89.6	98	98	101	
	3	103	96.3	97.1	103.5	94.8	91.0	99	100	102	
	4	105	96.6	98.4	107.0	95.3	86.8	97	100	102	
1982	1	109	96.2	97.4	104.6	94.9	89.1	99	99	103	
	2	112	97.7	98.9	109.4	95.1	90.7	99	99	103	
	3	113	98.4	99.4	113.2	94.5	92.6	101	98	103	
	4	111	97.9	98.6	112.9	93.4	94.2	101	99	104	
1983	1	106	99.4	100.5	113.5	95.8	93.6	102	101	105	
	2	104	99.1†	100.4	114.2	95.4	92.3	103	101†	105†	
	3	106	102.0	102.8	117.5	97.6	97.6	104	103	106	
	4	110	102.9	103.9	118.2	98.8	97.5	105	104	107	
1984	1	115	102.8	104.0	118.0	99.0†	96.7†	105	105	108	
	2	119	101.4	102.0†	107.6†	99.9	98.0	106	105	108	
	3	121	102.1	102.4	104.8	101.5	100.2	107	109	109	
	4	121	102.5	103.2	109.5	100.9	98.4	109	109	110	
1985	1	120	104.5	105.1	116.0	101.2	101.0	109†	111	111	



CONSUMERS' EXPENDITURE AT CURRENT PRICES

Seasonally adjusted

£ MILLION

TABLE E

	Total consumers' expenditure	Durable goods				Other goods							Services			
		Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)	
1979	117 912	12 750	6 137	3 265	3 348	20 364	4 570	4 094	4 233	7 555	1 621	8 819	12 473	13 350	28 083	
1980	136 789	13 320	6 307	3 429	3 584	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 369	16 044	34 587	
1981	152 125	13 885	6 511	3 513	3 861	24 170	5 970	5 183	5 515	8 406	1 853	13 367	15 538	19 465	38 773	
1982	166 538	15 165	7 064	3 698	4 403	25 590	6 453	5 554	5 882	8 854	2 067	14 954	16 809	22 399	42 811	
1983	182 420	18 310	9 142	4 150	5 018	27 148	7 140	6 232	6 208	9 804	2 310	16 212	18 292	23 576	47 188	
1984	194 581†	18 846†	9 076†	4 398	5 372	28 151	7 734	6 683†	6 621†	10 637	2 536	16 929†	19 864†	25 166†	51 414†	
1981	1	36 464	3 386	1 527	904	955	5 891	1 433	1 245	1 271	2 083	456	3 069	3 799	4 535	9 296
	2	37 635	3 512	1 658	884	960	5 916	1 488	1 294	1 371	2 072	455	3 285	3 853	4 759	9 630
	3	38 488	3 483	1 658	867	958	6 125	1 511	1 321	1 421	2 088	464	3 405	3 918	4 978	9 774
	4	39 538	3 504	1 658	858	988	6 238	1 538	1 323	1 452	2 163	478	3 608	3 968	5 193	10 073
1982	1	40 121	3 489	1 584	884	1 021	6 279	1 560	1 326	1 471	2 159	502	3 528	4 084	5 392	10 331
	2	41 093	3 587	1 640	897	1 050	6 521	1 611	1 377	1 431	2 173	504	3 663	4 141	5 537	10 548
	3	42 044	3 908	1 838	935	1 135	6 315	1 612	1 392	1 465	2 227	522	3 828	4 242	5 687	10 846
	4	43 280	4 181	2 002	982	1 197	6 475	1 670	1 459	1 515	2 295	539	3 935	4 342	5 783	11 086
1983	1	44 151	4 351	2 154	994	1 203	6 553	1 734	1 470	1 543	2 331	540	3 991	4 439	5 828	11 371
	2	45 069	4 406	2 118	1 050	1 238	6 633	1 690	1 535	1 535	2 437	583	4 162	4 548	5 816	11 724
	3	46 282	4 802	2 537	1 030	1 235	6 872	1 864	1 573	1 539	2 487	589	4 037	4 599	5 914	12 006
	4	46 918	4 751	2 333	1 076	1 342	7 090	1 852	1 654	1 591	2 549	598	4 022	4 706	6 018	12 087
1984	1	47 389†	4 473†	2 153†	1 059	1 261	7 006	1 880	1 620†	1 635†	2 491	582	4 358†	4 736	6 133	12 475†
	2	48 602	4 782	2 388	1 078	1 316	7 081	1 869	1 665	1 621	2 646	633	4 214	4 975	6 271†	12 845
	3	48 680	4 657	2 217	1 116	1 324	6 991	1 932	1 704	1 659	2 706	660	4 150	5 014	6 337	12 870
	4	49 910	4 934	2 318	1 145	1 471	7 073	2 053	1 694	1 706	2 794	661	4 207	5 139†	6 425	13 224
1985	1	50 728	4 707	2 198	1 137†	1 372†	7 199†	2 055†	1 661	1 752	2 779†	665†	4 676	5 294	6 562	13 378

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



CONSUMERS' EXPENDITURE AT 1980 PRICES

Seasonally adjusted

TABLE F

£ MILLION

		Durable goods			Other goods							Services				
		Total consumers' expenditure	Total	Cars, motor cycles and other vehicles	Furniture and floor coverings	Other durable goods	Food (household expenditure)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (1)
1979		137 256	13 963	6 668	3 696	3 599	22 893	5 588	4 794	4 960	8 149	1 847	11 114	14 872	15 790	33 286
1980		136 789	13 320	6 307	3 429	3 584	22 873	5 320	4 634	4 822	8 103	1 760	10 957	14 369	16 044	34 587
1981		136 429	13 486	6 366	3 354	3 766	22 676	5 000	4 612	4 470	8 189	1 696	10 992	14 420	16 279	34 609
1982		137 581	14 193	6 510	3 424	4 259	22 587	4 838	4 545	4 128	8 329	1 810	11 038	14 624	16 530	34 959
1983		143 011	16 459	7 909	3 724	4 826	22 858	4 914	4 816	4 082	8 892	1 948	11 129	14 968	16 764	36 181
1984		145 241†	16 290†	7 294†	3 754	5 242	22 468	4 943	5 041†	3 944†	9 392	2 051	11 238†	15 528†	16 978	37 368†
1981	1	34 213	3 355	1 546	874	935	5 721	1 281	1 169	1 175	2 040	425	2 729	3 601	4 048	8 669
	2	34 090	3 442	1 661	845	936	5 614	1 259	1 150	1 110	2 027	418	2 742	3 602	4 061	8 665
	3	34 007	3 359	1 595	827	937	5 682	1 241	1 156	1 108	2 034	422	2 709	3 609	4 079	8 608
	4	34 119	3 330	1 564	808	958	5 659	1 219	1 137	1 077	2 088	431	2 812	3 608	4 091	8 667
1982	1	33 980	3 271	1 450	830	991	5 601	1 210	1 126	1 060	2 067	446	2 740	3 638	4 108	8 713
	2	34 118	3 358	1 516	828	1 014	5 714	1 231	1 126	1 021	2 056	443	2 739	3 637	4 128	8 665
	3	34 489	3 647	1 678	867	1 102	5 593	1 193	1 118	1 018	2 085	455	2 784	3 673	4 139	8 784
	4	34 994	3 917	1 866	899	1 152	5 679	1 204	1 175	1 029	2 121	466	2 775	3 676	4 155	8 797
1983	1	35 139	4 001	1 935	906	1 160	5 645	1 224	1 167	1 025	2 148	462	2 748	3 707	4 172	8 840
	2	35 539	3 966	1 841	940	1 185	5 669	1 185	1 183	1 022	2 223	491	2 864	3 735	4 184	9 017
	3	36 106	4 263	2 150	925	1 188	5 729	1 274	1 198	1 008	2 246	495	2 779	3 733	4 199	9 182
	4	36 227	4 229	1 983	953	1 293	5 815	1 231	1 268	1 027	2 275	500	2 738	3 793	4 209	9 142
1984	1	35 973†	3 973†	1 799†	923	1 251	5 662	1 242	1 228†	1 028†	2 234	482	2 877†	3 766†	4 224	9 257†
	2	36 430	4 106	1 910	923	1 273	5 661	1 219	1 258	966	2 336	516	2 814	3 921	4 237	9 396
	3	36 193	4 003	1 772	942	1 289	5 548	1 224	1 280	969	2 394	526	2 778	3 899	4 252	9 320
	4	36 645	4 208	1 813	966	1 429	5 597	1 258	1 275	981	2 428	527	2 769	3 942	4 265	9 395
1985	1	36 450	4 000	1 698	958†	1 344†	5 495†	1 258†	1 219	980	2 410†	520†	2 938	3 956	4 278†	9 396

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



## NOTES TO EDITORS

Although estimates of gross domestic product (GDP) based on expenditure, income and output should in principle give the same result, in practice there are often variations between them. The output measure is usually the best indicator of short-term movements (that is, for periods up to around one year); for medium or longer-term comparisons, the average of the three measures is preferred. Investigations continue into the discrepancies between growth in the three measures.

In the interpretation of quarterly and annual national accounts estimates, special attention needs to be paid to the higher margins of error attached to series estimated at constant prices when the rate of inflation is changing significantly. Rapidly changing exchange rates may also affect the valuation of international transactions and the measurement of profits derived from them.

More detailed estimates of national income and expenditure up to the first quarter, 1985, will be published in an article in the June issue of Economic Trends. They will be based on later data than are available for this press notice and will incorporate the estimates of personal income and expenditure and of industrial and commercial companies' appropriation account which are scheduled for release on 27 June. The revised data can be obtained from the CSO Databank from this date. The Databank is a collection of macro-economic time-series sold to the public in computer-readable form. The service is run on CSO's behalf by SIA Computer Services. Further details can be obtained from SIA Computer Services, Ebury Gate, 23 Lower Belgrave Street, London SW1W 0NW, Telephone: 01-730 8171.

As usual the commentary in the press notice is based entirely on seasonally adjusted data, as shown in the attached tables. A † indicates that the data are new or have been revised. The period so marked is the earliest in the column to have been revised. If the † appears against the first figure in a column, this implies that earlier data have also probably been revised. Figures for these earlier periods can be obtained via the CSO Databank.



psv

FROM: K VERNON  
 DATE: 29 May 1985

1. MR EVANS *HPE 30/5*
2. CHANCELLOR OF THE EXCHEQUER */*

cc Chief Secretary  
 Financial Secretary  
 Minister of State  
 Economic Secretary  
 Sir Peter Middleton  
 Sir Terence Burns  
 Mr Monck  
 Mr Battishill  
 Mr Culpin  
 Mr S Davies  
 Mr Folger o.r.  
 Mr Owen  
 Mr Page  
 Mr Pickering  
 Mr Salveson (+1 for No.10)  
 Mr Walton  
 Mr Cropper  
 Mr H Davies  
 Mr Lord  
 HB/01

#### UNEMPLOYMENT AND VACANCIES FIGURES FOR MAY 1985

(to be released at 11.30am, Friday 31 May)

Seasonally-adjusted adult unemployment (excluding school-leavers) rose by 3,000 in May to 3,180,000 (13.1 per cent of the employee labour force). The stock of unfilled vacancies, seasonally adjusted, was unchanged from April's total of 167,000.

2. The average monthly increase in unemployment in the three months to May was 12,000. No special factors of significance are thought to have affected the count. The small increase in May follows a particularly large increase in April and DEM's estimate of the underlying monthly trend increase in unemployment remains a range of 10-15,000 as it has for the past 2 years despite sharp fluctuations in the recorded monthly increases. [DEM advise that the erratic component of recent figures is no larger than that observed historically]



	<u>May on April</u>	<u>Average monthly changes</u> thousands	
		<u>6 mnths to May</u> (previous six months in brackets)	<u>3 mnths to May</u> (previous three months in brackets)
Seasonally adjusted	+3	+14 (+12)	+12 (+16)

4. Other features compared with April are shown below (figures not seasonally adjusted except where marked):

	<u>Levels</u>		<u>Change</u>
	<u>April</u>	<u>May</u>	
	Stock of Unfilled Vacancies (s.a.)	167	
Effect of Special Measures on Unemployment	450 (Mar)	445 (April)	-5
Female Unemployment (incl school leavers)	1002	997	-5
-----			
Headline total	3273	3240	-33
less Claimant School leavers	8	108	+24
less Seasonal factors	12	-48	-60
-----			
Adult unemployment ow: (seasonally adj)	3176	3180	+3
Males	2205	2203	-1
Females	972	976	+5

5. Points of interest are:

- (a) Headline total down slightly (also unemployment rate down slightly to 13.4 per cent of employee labour force)
- (b) Small fall in effect of special measures is mainly due to a reduction of the effect of YTS in April as the outflow from the scheme exceeded the number of entrants. This downward trend is likely to continue until July when the next large batch of school leavers enters the YTS.
- (c) Stock of vacancies unchanged.
- (d) Female unemployment dipped below one million.
- (e) Adult male unemployment down slightly. DEM advise that one months fall in May unemployment not to be over emphasised. Male unemployment is more erratic than female unemployment and fall in May follows 16,000 rise in April.



## Assessment

6. Small increase in May adult unemployment reflects a much higher outflow from the register for all groups than in April when unemployment rose considerably. DEm advise that the underlying increase in unemployment remains in the range 10-15,000.

7. The distortion in the vacancies figures for April arising from Job Centres' administrative arrangements seems to have unwound in May when both inflow and outflows bounced back to more normal levels. The May figure of 167,000 is up from the levels seen earlier this year and is now around the high levels seen in the latter half of 1983 and 1984.

## Line to take

8. (a) on unemployment: "Very small increase in April heartening - particularly as male unemployment fell - but too much emphasis should not be put one month's figures in an erratic series and the best estimate of the underlying increase remains 10-15,000 a month."

(b) on vacancies: "Vacancies in May reasonably buoyant and have now recovered to around the high levels seen in second half of 1984".

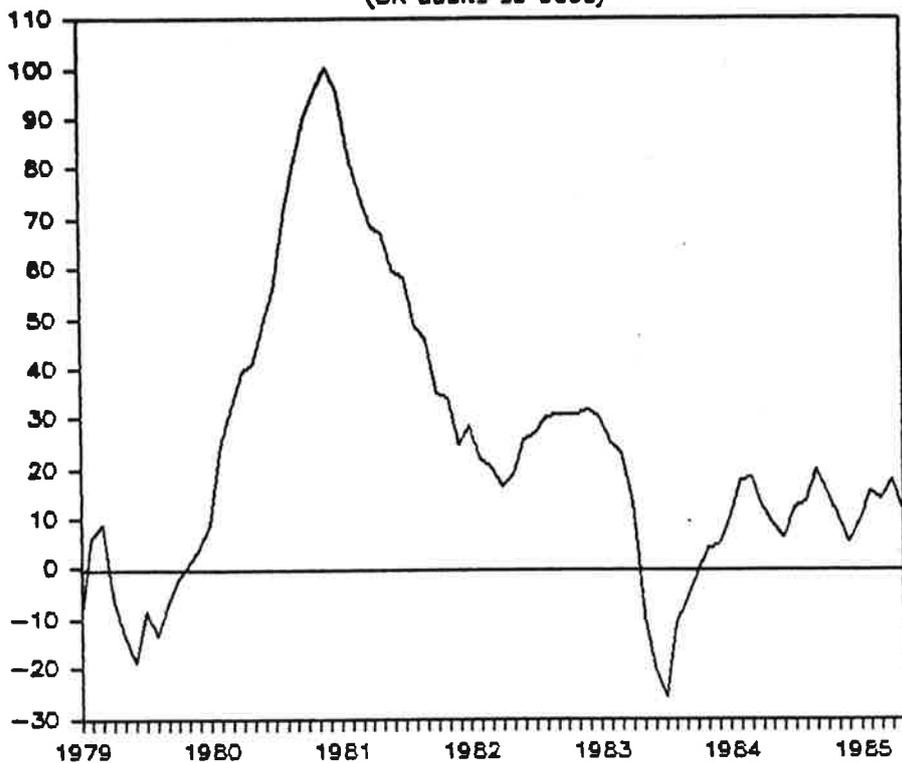


K VERNON  
EB



# MONTHLY CHANGES IN UNEMPLOYMENT

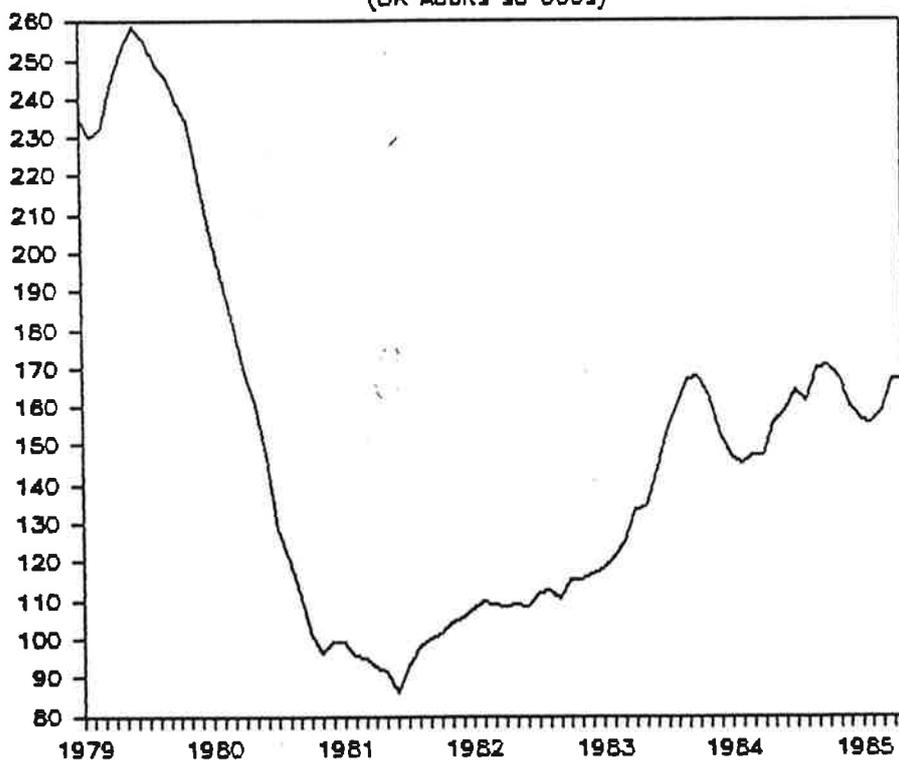
(UK adults so 000s)



— Average last 3 mo.

# VACANCIES

(UK Adults so 000s)





SECRET UNTIL 11.30 am ON 31 MAY 1985

LABOUR MARKET TRENDS

all figures seasonally adjusted

	Whole Economy (UK)				Manufacturing (GB)			
	Adult Unemployment changes (excluding 1983 Budget effects)	Stock of Notified Vacancies	Employed Labour Force ** Changes (Quarterly)	Employees in Employment Changes (Quarterly)	Employees in Employment Changes	Short-time (operatives)	Overtime (operatives)	Average Weekly Hours per operative
	000s, monthly average change in 3 Months ended	000s, average of 3 months ended	000s	000s	000s, monthly average in 3 months ended	millions of hours lost	millions of hours worked	Index 1980=100
1981 Mar	75	98	-245	-272	-55	5.9	8.5	96.8
June	60	89	-223	-250	-45	4.6	9.2	98.6
Sept	46	96	-109	-122	-27	2.6	9.9	100.2
Dec	25	104	-149	-159	-28	1.9	10.0	100.2
1982 Mar	20	112	-51	-60	-18	1.8	10.3	100.7
June	28	107	-121	-130	-31	1.8	10.2	100.6
Sept	31	111	-156	-167	-29	1.6	9.8	100.4
Dec	28	115	-101	-113	-29	1.6	9.7	100.8
1983 Mar	26	124	-70	-82	-21	1.3	9.8	101.2
June	25	137	27	12	-16	1.1	9.7	100.9
Sept	4	161	108	38	-12	0.7	11.0	101.8
Dec	-2	162	137	68	-6	0.5	11.1	102.6
1984 Mar	18	147	76	6	-9	0.6	11.2	102.5
June	6	154	57	-10	-1	0.7	11.7	102.2
Sept	20	165	66	32	-4	0.7	11.6	102.1
Dec	5	167	143	113	1	0.5	11.8	103.1
1985 Mar	14	158			-9	0.5	11.9	102.7
Apr	17	161						
May	12	164						

\*\*UK employees in employment, armed forces, plus an assumed 31,000 increase per quarter in self employment from 1984Q3



M8.3



FROM: MISS M O'MARA  
DATE: 20 May 1985

19

MR CROPPER

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Minister of State  
PS/Economic Secretary  
Mr Folger  
Mr Lord  
Mr H Davies

**REGIONAL GDP SINCE 1979**

The Chancellor was grateful for your minute of 15 May and has pointed out that Northern Ireland would also now be ahead of 1979.

MOM

MISS M O'MARA



CHANCELLOR ←

FROM: P J CROPPER  
DATE: 15 May 1985

*Thanks,  
Mr.*

cc Ministers  
Mr Folger  
Mr Davies  
Mr Lord

REGIONAL GDP SINCE 1979

The point about Mr Pym's figures is that they only run from 1979 to 1983. That is now two years ago.

2. It would seem that there is no way of making a legitimate extrapolation on the basis of some other output series. I am pretty sure that if there were, we would see Scotland and the East Midlands (at least) now ahead of 1979.

3. The best we can do in the circumstances is to say that "Mr Pym has chosen to do his comparisons to include only half of the post-1981 period of recovery. The midpoint of 1983 is now almost exactly two years up".

*L. Nathan (red)*



P J CROPPER



CONFIDENTIAL  
until 11.30am Monday 20 May  
then RESTRICTED



FROM: K VERNON  
DATE: 17 May 1985

1. MR FOLGER *SMY*  
2. CHANCELLOR OF THE EXCHEQUER *17.5.85*

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Cassell  
Mr Monck  
Mr Battishill  
Mr Burgner  
Mr H P Evans  
Mr Lovell  
Mr Shaw  
Mr Culpin  
Mr S Davies  
Mr Robson  
Mr Page  
Mr Allum  
Mr Pickering  
Mr Salveson (+1 for No.10)  
Mr Walton  
Mr H Davies  
Mr Cropper  
Mr Lord  
Mr Mansell - CSO  
Mr Clary - CSO  
Mr Lang - CSO  
HB/02

### GDP (OUTPUT MEASURE) IN FIRST QUARTER 1985

The CSO will publish the preliminary estimate for this on 20 May. An advance copy of the press notice is attached.

#### First Quarter Figures

2. GDP(O) is estimated to have risen by  $\frac{3}{4}$  per cent between the fourth quarter of 1984 and the first quarter of 1985. Compared with a year earlier GDP(O) is up  $2\frac{1}{4}$  per cent.
3. The coal strike reduced output by an estimated 1 per cent in the first quarter - a smaller effect than the  $1\frac{1}{4}$  per cent reductions seen in quarters 2, 3 and 4 last year. Making



an allowance for the strike GDP(O) was up around 3 per cent between the first quarters of 1984 and 1985 and around  $\frac{1}{2}$  per cent between the fourth quarter of 1984 and first quarter of 1985.

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

Sector	Contributions to percentage change in GDP(O)	
	1985Q1 on 1984Q4	
1. Agriculture, forestry and fishing	-	
2. Construction	-0.1	
3. Services	+0.1	
4. Industrial production ow:	+0.8	
5. Oil and gas extraction	+0.2	
6. Other energy and water supply	+0.4	
7. Manufacturing	+0.2	
<hr/> GDP(O)*	<hr/>	+0.8*

\* Sum of rows 1-4

5. The impetus to growth of GDP(O) in first quarter came from increased industrial production. Though overall services output was flat due to depressed distribution *output*, financial services showed healthy growth.

### Assessment

6. GDP(O) figures are not to be over-emphasised as an initial indicator of growth in GDP(Average) as the three measures of GDP have recently shown divergent growth. Nevertheless the  $\frac{1}{2}$  per cent increase between 1984 fourth quarter and 1985 first quarter point to a continuation of steady growth.

### Lines to Take

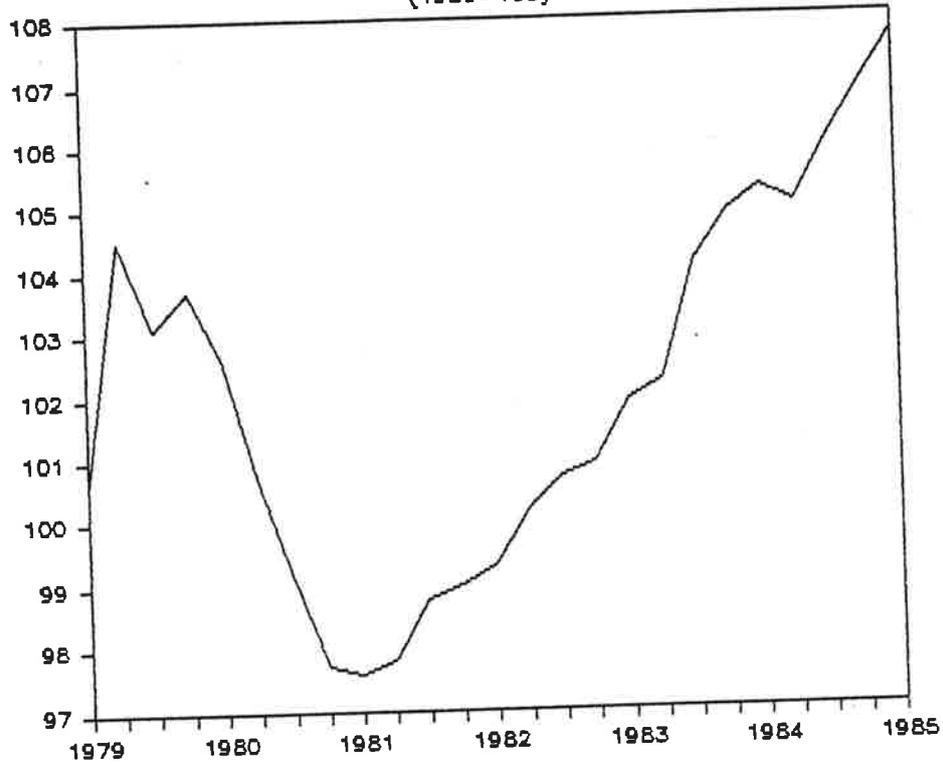
7. GDP(O) up  $\frac{1}{2}$  per cent between fourth quarter of 1984 and first quarter of this year - Suggests no let up in steady growth experienced over last four years.

8. UK about to embark on fifth year of uninterrupted growth, at an average rate so far of  $2\frac{1}{2}$  per cent a year, for first time since the 1973 oil shock.

  
K VERNON



# GROSS DOMESTIC PRODUCT (OUTPUT) (1980=100)







**PRESS  
AND  
INFORMATION SERVICE**

**CSO**

**CENTRAL STATISTICAL OFFICE**

GREAT GEORGE STREET    PRESS CALLS ONLY 01-233 7489  
LONDON                    (AFTER 1800 HRS    01-233 3000)  
SW1P 3AQ                OTHER ENQUIRIES    01-233 6135/6193

CSO(85) 50

20 May 1985

**GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - FIRST QUARTER 1985**

Preliminary estimates suggest that output of the whole economy rose by about  $\frac{3}{4}$  per cent between the fourth quarter of 1984 and the first quarter of 1985. The output index for the production industries rose by over 2 per cent, largely reflecting a 6 per cent increase in energy and water supply. Distribution output fell by 1 per cent from its high fourth quarter level. The preliminary output-based estimate of gross domestic product (GDP) in the first quarter is 107.7 (seasonally adjusted at constant prices, with 1980=100).

Output in 1984 and early 1985 was affected by the coal strike. In the first quarter of 1985 the dispute is estimated to have reduced the level of the output measure by about 1 per cent. This compares with an effect of  $\frac{1}{2}$  per cent in the first quarter of 1984 and about  $1\frac{1}{4}$  per cent in each of the following three quarters.

The output-based measure of GDP in the first quarter was 2 to  $2\frac{1}{2}$  per cent above its level of a year earlier (nearly 3 per cent, adjusting out the effect of the miners' dispute).

As can be seen from the Table, the expenditure, income and output measures of GDP (and by implication the average measure) can move irregularly for particular quarters, and differently to each other.

**COPY No.....7.....**

**PERSONAL AND CONFIDENTIAL until release**  
**of Press Notice at 2.30 p.m. on.....20.5.85.....**  
**and thereafter unclassified**

**prepared by the Government Statistical Service**





GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on			
		Average estimate	Expenditure data	Income data(1)	Output data
1979		102.4	102.0	102.3	103.0
1980		100.0	100.0	100.0	100.0
1981		98.6	98.8	98.6	98.3
1982		100.6	100.3	101.4	100.3
1983		103.7	103.5	104.3	103.3
1984		106.3	105.1	107.9	105.8
1981	1	98.2	99.8	97.2	97.6
	2	97.9	98.7	97.2	97.8
	3	98.4	97.3	99.1	98.9
	4	99.7	99.4	100.9	98.9
1982	1	100.1	100.1	100.9	99.3
	2	100.5	100.0	101.4	100.1
	3	100.5	99.4	101.4	100.7
	4	101.4	101.6	101.8	100.9
1983	1	102.6	103.1	102.9	101.9
	2	102.7	101.9	104.0	102.2
	3	104.1	104.0	104.3	104.1
	4	105.3	104.8	106.1	104.9
1984	1	106.0	105.6	107.1	105.3
	2	105.2	104.1	106.2	105.1
	3	106.1	103.7	108.6	106.0
	4	107.8	107.0	109.6	106.9
1985	1	..	..	..	107.7 (2)

(1) Income data deflated by the implied index of total home costs derived from expenditure data.

(2) Preliminary estimate.



## NOTES TO EDITORS

1. The preliminary estimate of the output based measure of gross domestic product is derived from the provisional estimate of the index of output of the production industries for the first quarter, published on 17 May, together with partial information for the rest of the economy. Any revisions, together with estimates of GDP based on expenditure and income data, will be released by Press Notice on 21 June. A series consistent with today's Press Notice is available on request for output of the whole economy other than extraction of mineral oil and natural gas.
2. As the table shows, the estimates of GDP based on expenditure, income and output data may move differently in the short term. The output based measure is usually considered to be the most reliable measure of short term movements.
3. Although it will be some time before the size of revisions to the preliminary estimate on the new 1980 base can be investigated, the performance of the 1975-based series can probably be taken as a guide. During the five year lifetime of the 1975-based series, the average revision (regardless of sign) in the month following publication to the preliminary estimate of the change in GDP(0) since the previous quarter was 0.2. The corresponding average revision to the estimate of the level of GDP(0) in the most recent quarter was 0.3 (again regardless of the direction of the revision).
4. Since 1980 some of the statistical sources used in compiling GDP(0) have been discontinued, or reduced in size. Estimates of GDP(0) may well as a result have been subject to a wider margin of error.
5. The series and weights used to compile the 1980-based GDP(0) series are described in an Occasional Paper. The effects of rebasing on all the measures of GDP were described in an article in December 1983 Economic Trends. Occasional papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.20 each) are available from the Central Statistical Office.



FROM: D WALTON  
DATE: 15 May 1985

1. MR FOLGER *M.M.M. 15.5.85*  
2. CHANCELLOR OF THE EXCHEQUER
- Thank you*

cc Chief Secretary  
Financial Secretary  
Minister of State  
Economic Secretary  
Sir P Middleton  
Sir T Burns  
Mr Battishill  
Mr Evans  
Mr Vernon  
Mr Pickering  
Mr Cropper  
Mr Davies  
Mr Lord  
Mr Griffin CSO  
GB/04

### REGIONAL GDP SINCE 1979

Mr Pym's speech to the Oxford union makes some comparison of relative regional growth performance since 1979.

2. The only method of estimating real GDP by region is to take the available annual regional nominal GDP(income) data, and deflate this by the national GDP deflator at factor cost. The results of this rough and ready exercise - on which we have consulted CSO - are shown in the following table.

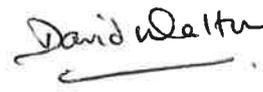
#### Percentage growth of real GDP by region

	1979-83		1981-83
UK	2.4		6.1
North	-3.7	8	-0.1
Yorkshire & Humberside	-2.8	7	4.7
East Midlands	-1.4	5	3.9
East Anglia	5.4	1	9.2
South East	2.8	3	7.8
South West	3.5	2	6.6
West Midlands	-8.7	11	3.2
North West	-4.4	10	4.0
Wales	-4.0	9	4.4
Scotland	-0.7	4	3.3
Northern Ireland	-1.6	6	2.2



3. Over the period 1979-83 Mr Pym's claim that only the South East, South West and East Anglia have shown positive growth is borne out. (Note that even these regions account for 41 per cent of UK population). However since the trough of the recession in 1981 every region appears to have shown steady growth in GDP, except for the North which has remained static. (1984 data is not yet available. Most regions will have continued to grow with the possible exception of those most heavily affected by the coal strike.)

4. Mr Pym's chosen measure is not necessarily the most appropriate guide to "prosperity". On other measures, such as the infant mortality rate, every region in the UK has seen a fall since 1979. Almost without exception the percentage of households owning televisions, telephones, central heating, washing machines and many other durable goods has increased in every region since 1979.

A handwritten signature in cursive script that reads "David Walton". A horizontal line is drawn underneath the signature.

D WALTON





**PRE  
AN  
INFORMATIO**

PSY  
30  
THE PRIVATE SECRETARY  
TO THE  
CHANCELLOR OF THE  
EXCHEQUER

**CENTRAL STATISTICAL OFFICE**

GREAT GEORGE STREET LONDON SW1P 3AQ  
PRESS CALLS ONLY 01-233 7489/6187  
(AFTER 1800 HRS 01-233 3000)  
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CSO (85) 46

16 May 1985

**RELEASE DATES OF ECONOMIC STATISTICS TO BE PUBLISHED IN JUNE 1985**

This is issued by the CSO on behalf of the Government Statistical Service and other organisations as a guide to the publication dates of major economic series in JUNE 1985. An indication of the time of release is given. The dates are targets which are normally expected to be met. Exceptionally there may be some delays due to unavoidable statistical problems.

ENQUIRIES ABOUT RELEASE OF INDIVIDUAL SERIES SHOULD BE MADE TO THE SOURCE NAMED.

Publication date	Series	Method and time of release	Source
<u>PLEASE NOTE THE FOLLOWING AMENDMENTS IN MAY 1985</u>			
Thur 2	UK official reserves (April)	PN (14.30)	HMT
Fri 17	Index of output of the production industries (March)	PN (11.30)	CSO
Thur 30	Overseas travel and tourism (March)	PN (11.30)	DTI
Fri 31	Company liquidity survey (1st qtr)	BB (00.30)	DTI
Fri 31 May	Unemployment and unfilled vacancies (May)	PN (11.30)	DE
Mon 3	CBI Monthly Trends Inquiry (May)	PN (00.30)	CBI

PN=Press Notice

BB=British Business

prepared by the Government Statistical Service





Publication date	Series	Method and time of release	Source	
Tues 4	Capital issues and redemptions (during the month of May)	PN (14.30)	Bank of England	
	Provisional estimates of monetary aggregates (mid-May)			
	Credit business (Apr)	PNDTI (11.30)		
	Retail Sales (Apr-final)			
	London clearing banks' monthly statement (mid-May)	PN (14.30)		CLCB
	UK official reserves (May)	PN (14.30)		HMT
	Wed 5	Housing starts and completions (Apr)		PN (11.30)
House revovations (1st qtr)				
Advance energy statistics (Apr)		PN (11.30)	Dept of Energy	
Thur 6	UK Balance of payments (1st qtr)	PN (11.30)	CSO	
	Investment intentions of the manufacturing, distributive and service industries (1985/86)	PN (11.30)	DTI	
Mon 10	Producer price index numbers (May-prov)	PN (00.01)	MAFF	
	Retail Sales (May-prov)			
	Food Facts (1st qtr)			
Wed 12	Construction - output (1st qtr)	PN (11.30)	DOE	
Thur 13	London sterling certificates of deposit (May)	PN (14.30)	Bank of England	
	UK bank assets and liabilities and the money stock (mid-May)			
	Provisional figures of vehicle production (May)	PN (11.30)		DTI

PN = Press Notice







Publication date	Series	Method and time of release	Source
Wed 26 (cont'd)	Detailed analysis of employment, unemployment, earnings, prices and other indicators	EG (21.00)	DE
	Construction - new orders (Apr)	PN (11.30)	DOE
Thur 27	Personal income expenditure and saving (1st qtr)	)	
	Industrial and commercial companies appropriation account (1st qtr)	) PN (11.30)	CSO
	Overseas travel and tourism (Apr)	) PN (11.30)	DTI
	Energy Trends (Apr)	) PN (11.30)	Dept of Energy
	New vehicle registrations (May)	) PN (11.30)	Dept of Transport
	Balance of payments current account and overseas trade figures (May)	) PN (11.30)	DTI/CSO
	UK Banking Sector Statistics (1st qtr)	)	
	Financing of the Central Government Borrowing Requirement (1st qtr)	)	
	Money Stock (1st qtr)	) Bulletin (19.00)	Bank of England

PN = press notice

EG = Employment Gazette



CONFIDENTIAL

FROM: S J DAVIES

DATE: 2 APRIL 1985

*Amend 3/4*

PS/CHANCELLOR OF THE EXCHEQUER

cc: Sir Peter Middleton  
Sir Terence Burns  
Mr Bailey  
Mr Scholar  
Ms Seamen  
Mr Stibbard  
Mr Horton  
Mr Stock

*OK*

*C/  
Content with this  
choice, with revised  
draft letter?*

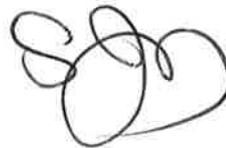
*Mort  
3/4*

**UNEMPLOYMENT ASSUMPTIONS**

Your minute of 1 April sets out two alternative unemployment paths. We have chosen to send out to Departments the "minimal decline" option, viz:

1985-86	1986-87	1987-88	1988-89
3	2.9	2.85	2.8

2. I attach a redraft of the letter for No. 10.





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ANNEX

X R type for Rachel's sig

DRAFT PS LETTER TO NO 10

The Prime Minister will wish to be aware of the economic assumptions Treasury Ministers have in mind for use in the report of the Government Actuary (GA) on the social security benefits uprating order (to be published around the end of the June), and in the Public Expenditure Survey.

2. The main assumptions are summarised as follows:

MAIN ECONOMIC ASSUMPTIONS

	Unemployment (million)	Prices (per cent rise to May)	Average Earnings (per cent rise year on year)
1985-86	<u>3.0</u>	6½	<u>7¾ (7)*</u>
1986-87	2.9	4½	6
1987-88	2.85	3½	5
1988-89	2.8	3	4½

\* Figure in brackets is for underlying earnings growth, ie adjusted for the effect of the coal strike.

3. The only assumptions to be published at this stage will be those for unemployment and earnings for 1985-86. They will be <sup>contained</sup> ~~published~~ in the GA's report, and are underlined in the above table. For prices, the report will be based on the actual May RPI figure to be published in June.

4. For unemployment, the figure that it is proposed to publish is an average 3.0 million unemployed (GB narrow definition, ie excluding school leavers) in 1985-86. This is the same as the assumption published in the GA's November 1984 report. The Treasury's economic forecast completed just before the Budget had figures for unemployment of 2.97 million in 1984-85 and 2.98 million in 1985-86. The figure



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quoted by the Government Actuary is normally rounded to the nearest 0.1 million or, occasionally, to the nearest 0.05 million. On either convention, the Treasury forecast for 1985-86 rounds to 3.0 million.

5. In the past the unemployment assumptions have normally shown a flat path for unemployment in later years; following this tradition the assumption would be for unemployment to stay at 3 million in later years. The assumptions that Treasury Ministers are now proposing to issue allow for a decline in unemployment in the years after 1985-86. For 1986-87 and 1987-88 this decline in unemployment reflects the expenditure measures announced in the Budget (YTS and the Community Programme). This means that the public expenditure projections in the PES will take credit for the effect that these measures will have on social security expenditure, as the FSBR forecast of public expenditure did.

6. Figures for unemployment in <sup>the</sup> years after 1985-86 are not published at this time of year. <sup>am</sup> The unemployment assumptions will be reconsidered in October before <sup>publicate</sup> [any revised figures for years after 1985-86 are published.] <sup>in Hall of Commons, keep the</sup> The Prime Minister will of course be kept in touch with the proposals that Treasury Ministers then have [for unemployment assumptions].

7. For earnings, it is proposed to give the Government Actuary a figure of  $7\frac{1}{4}$  per cent growth in 1985-86. This [figure] is affected by the return of earnings in the coal industry to a more normal level, following the end of the coal strike. The Government Actuary will be asked to give prominence, as he did in his November 1984 report, to the underlying figure for average earnings growth, (ie excluding strike effects), which would be 7 per cent in 1985-86.

8. The figure for earnings growth in 1984-85 that he will publish will be  $6\frac{1}{2}$  per cent (estimated outturn), equivalent to an underlying  $7\frac{1}{4}$  per cent. Thus his figures will show a small decline in underlying earnings growth between 1984-85 and 1985-86. <sup>This mark,</sup> There is a slight change from the November 1984 report when the Government Actuary gave a figure of  $7\frac{1}{2}$  per cent underlying growth in 1984-85, followed by 7 per cent in 1985-86.



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FROM: MISS O'MARA  
DATE: 1 April 1985

MR S J DAVIES

Sir P Middleton  
Sir T Burns  
Mr Bailey  
Mr Anson  
Mr Cassell  
Mr Kemp  
Mr Battishill  
Mr Lavelle  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mrs Case

Mr Mowl  
Miss Peirson  
Mr Riley  
Ms Seammen  
Miss Sinclair  
Mr Stibbard  
Mr Horton  
Mr Stock  
Mr Grice  
Mr Pratt  
Mr Cropper  
Mr H Davies  
Mr Lord

## ECONOMIC ASSUMPTIONS

The Chancellor has seen your submission of 29 March and is content with all your recommendations, except for the unemployment assumptions which he has commented are admittedly difficult. However, he would prefer either to show a line of:

million			
1985-86	1986-87	1987-88	1988-89
3	2.9	2.9	2.9

maintaining the flat path convention but from 1986-87 or:

million			
1985-86	1986-87	1987-88	1988-89
3	2.9	2.85	2.8

representing a "minimal decline" convention. The Chancellor has added that either way, we will want to reconsider these assumptions before the Autumn Statement.

MOM

MISS M O'MARA



CONFIDENTIAL



FROM: MISS O'MARA  
DATE: 1 April 1985

**MR S J DAVIES**

Sir P Middleton  
Sir T Burns  
Mr Bailey  
Mr Anson  
Mr Cassell  
Mr Kemp  
Mr Battishill  
Mr Lavelle  
Mr Monck  
Mr Odling-Smee  
Mr Scholar  
Mr Sedgwick  
Mrs Case

Mr Mowl  
Miss Peirson  
Mr Riley  
Ms Seammen  
Miss Sinclair  
Mr Stibbard  
Mr Horton  
Mr Stock  
Mr Grice  
Mr Pratt  
Mr Cropper  
Mr H Davies  
Mr Lord

**ECONOMIC ASSUMPTIONS**

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million			
1985-86	1986-87	1987-88	1988-89
3	2.9	2.85	2.8

representing a "minimal decline" convention. The Chancellor has added that either way, we will want to reconsider these assumptions before the Autumn Statement.

MOM  
MISS M O'MARA



OK except for the unemployment assumption, which are already  
 13th 1 wd prefer ANU 3 2.9 2.9 2.9 (16  
 maintain the flat path convention, but from 1986-87, or  
 3 2.9 2.85 2.8, replacing a 'minimum decline' convention. Either way,  
 we will want to recommend before the  
 Autumn Statement.

CONFIDENTIAL

FROM: S J DAVIES  
 DATE: 29 March 1985

CHANCELLOR OF THE EXCHEQUER

- cc: Sir Peter Middleton  
 Sir Terence Burns  
 Mr Bailey  
 Mr Anson  
 Mr Cassell  
 Mr Kemp  
 Mr Battishill  
 Mr Lavelle  
 Mr Monck  
 Mr Odling-Smee  
 Mr Scholar  
 Mr Sedgwick  
 Mrs Case  
 Mr Mowl  
 Miss Peirson  
 Mr Riley  
 Ms Seammes  
 Miss Sinclair  
 Mr Stibbard  
 Mr Horton  
 Mr Stock  
 Mr Grice  
 Mr Pratt  
 Mr Cropper  
 Mr H Davies  
 Mr Lord

C  
 Content with assumptions  
 & will draft letter to 20/10?

mom  
 29/3

Ch.  
 See paras 6-10 especially (You will recall  
 the pre Budget discussion, which arose over the  
 wording of the SEM's, where the effect to the gross  
 user depend on changing the US assumption  
 used here. The proposal here is, I think, to have  
 with the intention there)

**ECONOMIC ASSUMPTIONS**

Re 29/3.

This submission seeks your approval for a revised set of economic assumptions. These are for use in the report that the Government Actuary (GA) will publish in late June or early July, and in the Public Expenditure Survey (PES).

2. For the GA's report on the social security benefits uprating order, which will cover only 1985-86, assumptions are needed for unemployment and average earnings in 1985-86. Of the assumptions that are the subject of this submission, these are the only two that will be published. The uprating will in general be based on the actual outturn on the RPI for May, published in June.

3. For the PES, assumptions are required on unemployment, prices,



average earnings, and interest rates, covering years up to 1988-89. The assumptions provided for the Survey will not be published at this stage: there will be a submission in October about the assumptions, revised as necessary, to be published in the 1985 Autumn Statement and 1986 PEWP.

#### Timing of Assumptions

4. Following the recommendations of the Anson report, assumptions are now sent out to Departments four times a year. With your approval, an alternative assumption on the RPI and revised assumptions on interest rates were sent to some Departments during January, updating the assumptions issued last Autumn. The assumptions to be issued now will be reconsidered in July; and, if this seems appropriate in the light of the June economic forecast and other developments, we will then seek your approval for sending out to Departments revised economic assumptions (for use in the bilaterals).

#### Proposed Assumptions

5. The remainder of this submission considers the proposed assumptions in turn. Tables at the end of the submission set out a comparison of the current proposals with the FSBR forecast; and with the PEWP assumptions, issued last Autumn, and the revised/updated assumptions issued in January. A further table shows the main effects on public expenditure of changes in the economic assumptions.

#### Unemployment

6. The last published assumption for unemployment (GB narrow, ie excluding school leavers etc) was for a flat path of 3 million from 1984-85 onwards. In recent years it has been the practice to publish in the PEWP a flat path for unemployment; the path starts off from a realistic figure for the financial year that is drawing to its close at the time the PEWP is published. The FSBR forecast is for unemployment (GB, narrow definition) of 2.98 million in 1985-86; so that if recent practice were followed in the next PEWP it seems most likely that we would again publish at that stage a flat 3 million projection.



7. The figure for 1985-86 (which is to be published in June or July) and the figures for later years need to be considered separately. Since our current forecast (rounded) for 1985-86 is 3 million, and since this is also our most recent published assumption, there seems no reason to revise this figure now. Thus we propose an unemployment assumption of 3.0 million (GB narrow) for 1985-86.

8. There would be some difficulty in following established practice and projecting unemployment flat in later years. The public expenditure planning total, as revised in the Budget, now takes credit for the reduction in unemployment and supplementary benefits that is expected to result from the expenditure measures (YTS and Community Programme) announced in the Budget. Thus the planning total given in Table 5.1 of the FSBR is consistent not with the PEWP assumption of a flat 3 million for unemployment but with the PEWP assumption less the effect on unemployment of the Budget measures. Projecting unemployment flat at 3 million would therefore mean a rise in social security spending above what is presently allowed for in the FSBR planning total; and there is thus a case for adopting an assumption of 3 million less the effect of the Budget measures. Such an assumption would also be closer to the FSBR forecast path than would a flat 3 million assumption.

9. On the other hand there could be presentational difficulties to be faced later in the year if we followed this course. The Budget expenditure measures are only one of the factors influencing the path of unemployment in the next few years. Quite apart from more general macroeconomic influences, another Budget measure (the change in National Insurance Contributions) may have a significant impact on the level of unemployment. It may not be easy to justify an unemployment assumption which is obtained by adjusting the traditional flat path only for one of the factors which a realistic forecast would allow for.

10. What we propose is that the current round of assumptions should include an unemployment assumption of 3 million in 1985-86; and 3 million less the effect of the employment measures in later years. In October, when the figures to be published in the GA's report and

YTS  
CCP?



Autumn Statement will be decided on, we would reconsider this assumption in the light of changes in unemployment during the spring and summer.

### Earnings

11. The GA's summer report will include a working assumption about average earnings growth in 1985-86, and an estimated outturn for 1984-85. The presentational problem is that the estimated outturn for 1984-85 is (in the FSBR forecast) about 6%; whereas the forecast for 1985-86 is about 8%.

12. Most of the rise between the two years is attributable to the effects of the coal strike; but even after adjusting for the strike, the forecast implies a small rise in the growth of average earnings between the two years: from about  $6\frac{1}{4}\%$  to  $7\frac{1}{4}\%$ .

13. The underlying growth in average earnings, as calculated by DEm, is currently put at  $7\frac{1}{2}\%$ , as it has been for some time. The underlying figure for 1984-85 quoted above is less than this partly because it is affected by changes in the composition of the employed workforce: a reduction in (male) manufacturing employment accompanied by a substantial increase in (female) service employment. With a more balanced growth in employment assumed over the next year, this compositional effect on average earnings will not apply, at any rate not to the same extent as over the last year. Together with a slight increase in settlements in the current round as compared with the last round, this leads to an increase in average earnings growth in 1985-86.

14. The Government Actuary cannot possibly go into all this in his report. In last year's November report he did, however, present the comparison between earnings growth in 1984-85 and earnings growth in 1985-86 in terms of strike adjusted figures. The November assumption was presented as a decline in underlying earnings growth from  $7\frac{1}{2}\%$  in 1984-85 to 7% in 1985-86.

15. If the Government Actuary were now to show a rise in underlying earnings growth from  $6\frac{1}{4}\%$  to  $7\frac{1}{4}\%$ , this might have an unhelpful effect



on pay settlements. Thus we need to consider publishing a higher figure than what is in the forecast for 1984-85 and/or a lower figure for 1985-86.

16. There is not much of a case for reducing our previous published assumption of strike adjusted earnings growth of 7 per cent in 1985-86. This figure will largely be determined by settlements in the current pay round. So far in this round settlements have, if anything, tended to edge up; and there is little prospect of a fall in settlements during the remainder of the pay round against the background of faster RPI growth.

17. For 1984-85 a somewhat higher figure than implied in the forecast would be defensible. Given the likelihood of revisions to data for the early part of 1984-85, underlying earnings growth of 7% or 7¼% would be within the margin of error of the present estimate of 6¾%, and both figures are below the 7½% that DEM are quoting as the current rate of underlying earnings growth.

18. So as to show some underlying improvement between 1984-85 and 1985-86, it is proposed that the earnings assumption should be amended to an underlying 7¼% growth in 1984-85 followed by 7% in 1985-86. The obvious alternative would be to show 7% in both years. Assumptions for later years are not published at this time. Our proposals for these years are for declines in the rate of growth as set out below:

	<u>Proposed Earnings Growth Assumption</u>		<u>November 1984 GA Assumption</u>	
	<u>Actual</u>	<u>(Underlying)</u>	<u>Actual</u>	<u>(Underlying)</u>
1984-85	6½	(7¼)	7	(7½)
1985-86	7¾	(7)	7½	(7)
1986-87	6			
1987-88	5			
1988-89	4½			



## Retail Prices

19. Although the GA's report on the 1985 uprating will be based on the outturn May RPI figure, not on an assumption, we need now to send assumptions to DHSS for the May 1985 figure and for May figures in later years. The assumptions for May 1986 and later years are not published at this stage: a figure for May 1986 will be given in the GA's November report.

20. In the FSBR we said that the growth in the RPI might be 'about 6%' in the second quarter of 1985. Taking account of last week's announcement of higher mortgage rates - which was anticipated in the FSBR forecast - we expect the year on year increase in the RPI to May to be about 6¼%. This is some 1½ points higher than the assumption provided last Autumn and a point higher than the 'alternative assumption' sent to DHSS in January.

21. A figure of 4½% was published in the FSBR for the increase in the RPI in the year to 1986 Q2. Thus we propose an assumption of 4½% growth in the RPI in the year to May 1986. Our proposed assumptions for later years show further declines in inflation, in line with the (published) profile of the GDP deflator.

### Change in RPI in Year to May (per cent)

1985	6¼
1986	4½
1987	3½
1988	3

## GDP Deflator

22. A path for the GDP deflator over the MTF5 was published in the FSBR, and no changes to this are proposed.

## Interest Rates

23. We issued revised - higher - UK interest rates assumptions in January. The FSBR forecast has still higher UK short term interest rates. The table below shows the FSBR forecast path of interest rates, compared with their present level:



	Latest (close 28 March)	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
3 month interbank	13.25	11.9	10.1	9.25	8.5
20 year gilt rate	10.7	10.8	10.2	9.3	8.5
6 month Dollar LIBOR	9.7	10	9	8½	8½

The term structure of interest rates implies that financial markets are expecting a decline in short term interest rates; and the FSBR forecast has a (fairly gradual) decline, although interest rates remain high in real terms, and short rates take another year to get back to the levels of last December. Long term interest rates have risen very little since the beginning of year, and remain below short rates throughout 1985-86.

24. Interest rates assumptions are not published at any stage. It has been the practice to issue realistic assumptions and our proposals are to issue as assumptions the figures given above. In line with recent practice, the interest rate figures will be rounded up to the nearest quarter of a point.

#### Implications for Expenditure

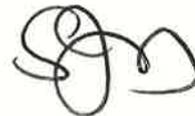
25. Table C sets out a ready reckoner indicating the approximate effect on forecast expenditure of changes to the economic assumptions. Changes from the last PEWP were, of course, anticipated in the Budget forecast: they were among the reasons for the increases in the contingency reserve. The changes in assumptions proposed here as compared with the last PEWP would be worth roughly £500 million in claims on the reserve in 1985-86. For 1986-87, the upward revisions to the RPI and interest rate assumptions since the last PEWP may add almost £800 million to expenditure. The proposed reduction in the unemployment assumption is worth about £300 million off expenditure in 1986-87: but credit for this reduction has already been taken in the planning total published in the FSBR.



## Decisions

26. We would like to send out assumptions to Departments by 3rd of April. Could you please let us know by 2nd April whether you are content with the proposals we have made.

27. It has been customary at this time of year and in the autumn to inform No 10 of the more sensitive assumptions proposed. We imagine you will want to write to No 10 on this occasion; a draft letter for this purpose is attached.

A handwritten signature in black ink, consisting of stylized, overlapping loops and curves, likely representing the initials 'S J'.

**S J DAVIES**



CONFIDENTIAL

Table A                      ASSUMPTIONS ON UNEMPLOYMENT AND EARNINGS\*

<u>Unemployment GB narrow (million)</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
PEWP	3.0	3.0	3.0	3.0	
Unpublished figures in FSBR forecast	3.0	3.0	2.9	2.85	2.85
Normal convention for published assumptions	3.0	3.0	3.0	3.0	3.0
<u>Proposed Assumptions for Departments: Convention less effects of Budget measures</u>	3.0	3.0	2.9	2.85	2.85
<u>Average earnings per head (per cent change)</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
PEWP	7	7½	6	5	
Unpublished figures in FSBR forecast	6	8	6	4½	4
Forecast adjusted for coal strike	6¾	7¼	6	4½	4
<u>Proposed Assumption: Unadjusted figures</u>	6½	7¾	6	5	4½
<u>Proposed Assumptions: Strike-adjusted figures</u>	7¼	7	6	5	4½

\* Unemployment and earnings assumptions for 1985-86 are due to be published in the GA's report on the 1985 uprating order.



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Table B            **ASSUMPTIONS ON INFLATION AND INTEREST RATES**

<u>RPI per cent change May on May</u>	<u>May 1985</u>	<u>May 1986</u>	<u>May 1987</u>	<u>May 1988</u>
PEWP assumption	4¾	4	3½	
Published in FSBR/MTFS	6¼*	4½		
Unpublished figure in FSBR forecast			3	2¾
<u>Proposed Assumption</u>	6¼	4½	3½	3

<u>GDP deflator (per cent change)</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
PEWP assumption	4¾	4½	4	3½	
Published in FSBR/MTFS	4½	5	4½	3½	3
<u>Proposed Assumption</u>	4½	5	4½	3½	3

<u>Interest Rates</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
<u>3-month interbank</u>					
PEWP assumption	10¾	9	8¾	7½	
February assumption	11	11	8¾	7½	
Unpublished figures in FSBR forecast	10.9	11.9	10.1	9.25	8.5
<u>Proposed Assumption</u>	11	12	10¾	9¾	8½

<u>20-year gilt rate</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
PEWP assumption	10¾	10	9½	8	
February assumption	11	10¾	9½	8	
Unpublished figures in FSBR forecast	10.9	10.8	10.2	9.3	8.5
<u>Proposed Assumption</u>	11	11	10¾	9½	8½

<u>6-month Dollar LIBOR</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>	<u>1987-88</u>	<u>1988-89</u>
PEWP assumption	12¼	10	9	9	
February assumption	12	10	9	9	
Unpublished figures in FSBR forecast	11	10	9	8½	8½
<u>Proposed Assumption</u>	11	10	9	8½	8½

\* Q2 figure given as 6 in the FSBR.



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Table C

**EFFECT OF CHANGES IN ASSUMPTION ON THE PUBLIC EXPENDITURE PLANNING TOTAL**

	£million	
	<u>1985-86</u>	<u>1986-87</u>
<u>100,000 rise in unemployment</u>		
DHSS	200	200
<u>One point rise in sterling interest rates</u>		
ECGD (short rates)	60	60
Housing subsidies (long and short rates)	35	40
DTI credit to shipbuilders	13	13
<u>One point rise in dollar interest rates</u>		
ECGD	60	60
<u>One per cent higher year on year increase in May 1985 RPI</u>		
DHSS	120	360
<u>One per cent higher average earnings</u>		
DHSS	10	10



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ANNEX

DRAFT PS LETTER TO NO 10

The Prime Minister will wish to be aware of the economic assumptions Treasury Ministers have in mind for use in the report of the Government Actuary (GA) on the social security benefits uprating order (to be published around the end of the June), and in the Public Expenditure Survey.

2. The main assumptions are summarised as follows:

MAIN ECONOMIC ASSUMPTIONS

	Unemployment (million)	Prices (per cent rise to May)	Average Earnings (per cent rise year on year)
1985-86	<u>3.0</u>	6½	<u>7¼ (7)*</u>
1986-87	2.9	4½	6
1987-88	2.85	3½	5
1988-89	2.85	3	4½

\* Figure in brackets is for underlying earnings growth, ie adjusted for the effect of the coal strike.

3. The only assumptions to be published at this stage will be those for unemployment and earnings for 1985-86. They will be published in the GA's report, and are underlined in the above table. For prices the report will be based on the actual May RPI figure to be published in June.

4. For unemployment the figure that it is proposed to publish is an average 3.0 million unemployed (GB narrow definition, ie excluding school leavers) in 1985-86. This is the same as the assumption published in the GA's November 1984 report. The Treasury's economic forecast completed just before the Budget had figures for unemployment of 2.97 million in 1984-85 and 2.98 million in 1985-86. The figure



quoted by the Government Actuary is normally rounded to the nearest 0.1 million or, occasionally, to the nearest 0.05 million. On either convention, the Treasury forecast for 1985-86 rounds to 3.0 million.

5. In the past the unemployment assumptions have normally shown a flat path for unemployment in later years; following this tradition the assumption would be for unemployment to stay at 3 million in later years. The unemployment assumptions for later years that Treasury Ministers are now proposing to issue allow for a decline in unemployment in later years as a consequence of the expenditure measures announced in the Budget (YTS and the Community Programme). This is so that, in forecasting public expenditure, credit can continue to be taken for the effects of the Budget measures in reducing social security expenditure, as it was in the Budget arithmetic.

6. Figures for unemployment in years after 1985-86 are not published at this time of year. The unemployment assumptions will be reconsidered in October before any revised figures for years after 1985-86 are published. The Prime Minister will of course be kept in touch with the proposals that Treasury Ministers then have for unemployment assumptions.

7. For earnings it is proposed to give the Government Actuary a figure of  $7\frac{3}{4}$  per cent growth in 1985-86. This figure is affected by the return of earnings in the coal industry to a more normal level, following the end of the coal strike. The Government Actuary will be asked to give prominence, as he did in his November 1984 report, to the underlying figure for average earnings growth, (ie excluding strike effects), which would be 7 per cent in 1985-86.

8. The figure for earnings growth in 1984-85 that he will publish will be  $6\frac{1}{2}$  per cent (estimated outturn) equivalent to an underlying  $7\frac{1}{4}$  per cent. Thus his figures will show a small decline in underlying earnings growth between 1984-85 and 1985-86. There is a slight change from the November 1984 report when the Government Actuary gave a figure of  $7\frac{1}{2}$  per cent underlying growth in 1984-85, followed by 7 per cent in 1985-86.



19



FROM: MRS M HENSON

DATE: 29 March 1985

MR S J DAVIES

**BUDGET FORECAST OF GDP**

The Chancellor has seen and noted your minute of 13 March.

A handwritten signature in cursive script, appearing to read 'Meena Henson'.

PP MEENA HENSON



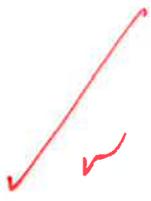
**CONFIDENTIAL**

**FROM: S J DAVIES**

**DATE: 13 MARCH 1985**

**CHANCELLOR OF THE EXCHEQUER**

cc: Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr Battishill  
Mr Evans  
Mr Odling-Smee  
Mr Cropper  
Mr Lord  
Mr H Davies (86/2)



**BUDGET FORECAST OF GDP**

The GDP forecast in the version of the FSBR circulated on Monday was:

	<b>Percent change on a year earlier</b>	
1984	2½	(2.4)
1985	3	(3.2)
1986 I	2½	(2.5)

(The growth rate figures published in the FSBR are rounded to the nearest half, but the more precise figures given in brackets can be worked out from Table 3.9.)

2. The CSO are currently attempting to finalise the national accounts figures that are to be published on 22 March, 3 days after the Budget. The figure that they will publish for growth in 1984 in the average measure of GDP is still expected to round to 2½ per cent, although the precise figure may be 2.5 or 2.6 per cent rather than 2.4.



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3. We have, however, been reconsidering the estimate of GDP growth in 1985. With Sir Terence Burns' agreement, we have, in today's FSR draft, raised our forecast of GDP growth in 1985 slightly; so that it now rounds up to 3½ rather than down to 3. In unrounded terms, the change from the previous draft is only from 3.2 to 3.3 per cent. One reason for the change is that the latest CSO figures show a slightly different path of GDP in 1984 (more growth in the second half). Another is that, with a virtually complete return to work in the coal industry well before the end of March, the recovery from the strike may add marginally more to GDP in 1985 than we had previously assumed.

4. We are not proposing any change to the growth rate between the first half of 1985 and the first half of 1986. The half-yearly path of GDP is as follows (with GDP excluding strike effects, and non-North Sea GDP excluding strike given for reference; they do not appear explicitly in the FSR):

	<u>GDP</u>	<u>GDP excluding effects of strike</u>	<u>Non-North Sea GDP excluding strike effects</u>
1984 H1	105.7	106.6	104.7
H2	106.9	108.4	106.5
1985 H1	109.1	110.0	107.7
H2	110.5	110.6	108.6
1986 H1	111.9	111.9	109.9
 <u>Per cent change on year earlier:</u>			
1985	3.3	2.6	2.4
1986 H1	2.6	1.7	2.1



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5. Rounded to the nearest  $\frac{1}{2}$ , GDP growth excluding the effects of strike is  $3\frac{1}{2}$  per cent in 1984 and  $2\frac{1}{2}$  per cent in 1985: the figure for 1984 is given in Table 3.7 of the FSBR, but the figure for 1985 was not given anywhere in the previous draft. We think it probably should be, and have added the following sentence to paragraph 3.50.

"The recovery of output following the end of the coal strike may raise GDP growth by about  $\frac{3}{4}$  per cent in 1985; the forecast of GDP growth in 1985 excluding this contribution is  $2\frac{1}{2}$  per cent."

Here, and in the summary paragraph 3.01, the contribution of the strike to the 1985 growth rate is now put at  $\frac{3}{4}$  per cent.



**S J DAVIES**





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*gasp*

**SO**

CSO (85) 29

19 March 1985

**RELEASE DATES OF ECONOMIC STATISTICS TO BE PUBLISHED IN APRIL 1985**

This is issued by the Central Statistical Office on behalf of the Government Statistical Service and other organisations as a guide to the publication dates of major economic series in APRIL 1985. An indication of the time of release is given. The dates are targets which are normally expected to be met. Exceptionally there may be delays due to unavoidable statistical problems.

ENQUIRIES ABOUT RELEASE OF INDIVIDUAL SERIES SHOULD BE MADE TO THE SOURCE NAMED.

Publication date	Series	Method and time of release	Source
<u>APRIL</u>			
Mon 1	CBI Monthly Trends Inquiry (March)	PN (00.30)	CBI
	Retail sales (Feb-final)	) PN ) (11.30)	DTI
	Credit business (Feb)	)	
Tues 2	UK official reserves (March)	PN (14.30)	HMT
	Capital issues and redemptions (during the month of March)	PN (14.30)	Bank of England
Wed 3	Housing starts and completions (Feb)	PN (11.30)	DOE
	Advance energy statistics (Feb)	PN (11.30)	Dept of Energy
	Quarterly analysis of bank advances and acceptances (mid-Feb)	PN (14.30)	Bank of England

PN = Press Notice



Publication date	Series	Method and time of release	Source
Wed 3 (cont'd)	UK banking sector statistics )		
	Financing of the Central Government ) borrowing requirement (4th-qtr) )	Bulletin (19.00)	Bank of England
	Money stock (4th-qtr) )		
Thur 4	Unemployment and unfilled vacancies (March)	PN (11.30)	DE
Wed 10	London clearing banks' monthly statement (mid-March)	PN (14.30)	CLCB
	Provisional estimates of monetary aggregates (mid-March)	PN (14.30)	Bank of England
	Producer price index numbers (March-prov)	PN (11.30)	DTI
Thur 11	Usable steel production (March)	PN (00.30)	BSC/BISPA
Fri 12	Building Societies' monthly figures (March)	PN (12.00)	BSA
	Provisional figures of vehicle production (March)	PN (11.30)	DTI
	Car and commercial vehicle production (Feb-final)	BB (00.30)	DTI
	Finished steel consumption and stock changes (4th qtr-final)	BB (00.30)	DTI
Sun 14	Department for National Savings monthly progress report (March)	PN (00.30)	Dept for National Savings
Wed 17	Index of output of the production industries (Feb)	PN (11.30)	CSO
	Average earnings indices; employment, hours and unit wage costs (Feb-prov)	PN (11.30)	DE

PN = Press Notice

BB = British Business

Publication date	Series	Method and time of release	Source
Thur 18	Cyclical indicators for the UK economy (March)	PN (11.30)	CSO
	Public sector borrowing requirement (March)	PN (14.30)	CSO/HMT
	London sterling certificates of deposit (March)	)	)
	UK banks assets and liabilities and the money stock (mid-March)	) PN (14.30)	) Bank of England
Fri 19	Institutional Investment (4th-qtr)	)	)
	Industrial and commercial companies capital account and net borrowing requirement (4th-qtr)	) PN (11.30)	) CSO
	Tax and price index (March)	)	)
	Retail prices index (March)	PN (11.30)	DE
Mon 22	The CBI/FT survey of distributive trades (end-March)	PN (00.30)	CBI
Tues 23	Preliminary estimate of consumers' expenditure (1st qtr-prov)	PN (11.30)	CSO
	Retail sales (March-prov)	PN (11.30)	DTI
Wed 24	Index of production and construction for Wales (4th-qtr)	PN (10.30)	Welsh Office
	Construction - new orders (Feb)	PN (11.30)	DOE
Thur 25	Energy Trends (Feb)	PN (11.30)	Dept of Energy
	Detailed analysis of employment, unemployment, earnings, prices, family expenditure and other indicators.	EG (21.00)	DE

PN = Press Notice

EG = Employment Gazette

Publication date	Series	Method and time of release	Source
Fri 26	Sales and orders in the engineering industries (Jan)	BB (00.30)	DTI
	Bricks and cement production (1st-qtr)	PN (11.30)	DOE
	Balance of payments current account and overseas trade figures (March)	PN (11.30)	DTI/CSO
Tues 30	New vehicle registrations (March)	PN (11.30)	Dept of Transport
	CBI Industrial Trends Survey (April)	PN (11.30)	CBI
	Car and commercial vehicle production (March-final)	BB (00.30)	DTI

PN = Press Notice

BB = British Business  
EG = Employment Gazette



P

PRIVATE SECRETARY TO THE  
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CSO (85) 21

20 February 1985

## RELEASE DATES OF ECONOMIC STATISTICS TO BE PUBLISHED IN MARCH 1985

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ENQUIRIES ABOUT RELEASE OF INDIVIDUAL SERIES SHOULD BE MADE TO THE SOURCE NAMED.

Publication date	Series	Method and time of release	Source		
<u>MARCH</u>					
Mon 4	Credit busines (Jan) )	PN (11.30)	DTI		
	Retail sales (Jan-final) )				
	Capital issues and redemptions (during the month of Feb)			PN (14.30)	Bank of England
	UK official reserves (Feb)			PN (14.30)	HMT
Wed 6	Housing starts and completions (Jan) )	PN(B)	DOE		
	House renovations (4th qtr) )				
	Advance energy statistics (Jan)			PN(B)	Dept of Energy

PN = Press Notice

B = Release during working hours





Publication date	Series	Method and time of release	Source
Thur 7	UK Balance of payments (4th qtr)	PN (11.30)	CSO
	Unemployment and unfilled vacancies (Feb)	PN (11.30)	DE
Fri 8	Car and commercial vehicle production (Jan-final)	BB(A)	DTI
Mon 11	Retail sales (Feb-prov) )	PN (11.30)	DTI
	Producer price index numbers (Feb-prov) )		
	Food Facts (4th quarter)	PN(B)	MAFF
Tues 12	Building Societies' monthly figures (Feb)	PN(B)	BSA
	London clearing banks' monthly statement (mid-Feb)	PN(B)	CLCB
	Provisional estimates of monetary aggregates (mid-Feb)	PN (14.30)	Bank of England
Thur 14	Provisional figures of vehicle production (Feb)	PN (11.30)	DTI
Fri 15	Construction - output (4th qtr)	PN(B)	DOE
	Usable steel production (Feb)	PN(A)	BSC/BISPA
Sun 17	Department for National Savings' monthly progress report (Feb)	PN(A)	Dept for National Savings
Mon 18	Public sector borrowing requirement (Feb)	PN (14.30)	CSO/HMT
	Index of output of the production industries (Jan)	PN (11.30)	CSO
Tues 19	Cyclical indicators for the UK economy (Feb)	PN (11.30)	CSO
Wed 20	Average earnings indices; employment, hours and unit wage costs (Jan-prov)	PN (11.30)	DE
Thur 21	Capital expenditure by the manufacturing and service industries (4th qtr-rev)	PN(B)	DTI

PN = Press Notice

A = 00.30 hours release

B = Release during working hours



Publication date	Series	Method and time of release	Source
Thur 21 (cont)	Manufacturers' and distributors' stocks (4th qtr-rev)	PN (11.30)	DTI
	CBI/FT survey of distributive trade (end-Feb)	PN(B)	CBI
	UK banks assets and liabilities and the money stock (mid-Feb)	) )	) )
	London sterling certificates of deposit (Feb)	) ) PN (14.30)	) ) Bank of England
Fri 22	Gross Domestic Product (4th qtr-prov)	) ) ) PN (11.30)	) ) ) CSO
	Tax and price index (Feb)	)	)
	Retail prices index (Feb)	) PN (11.30)	) DE
	Sales and orders in the engineering industries (Dec)	) BB(A)	) DTI
Tues 26	Balance of payments current account and overseas trade figures (Feb)	) PN (11.30)	) DTI/CSO
Wed 27	Construction - new orders (Jan)	) PN(B)	) DOE
Thur 28	Personal income expenditure and saving (4th qtr)	) ) ) PN (11.30)	) ) ) CSO
	Industrial and commercial companies appropriation account (4th qtr)	) ) )	) ) )
	New vehicle registrations (Feb)	) PN(B)	) Dept of Transport
	Energy Trends (Jan)	) PN(B)	) Dept of Energy
	Employment and earnings by industry (Jan-detail)	) ) )	) ) )
	Unemployment and unfilled vacancies (Feb-detail)	) ) EG(C)	) ) DE

PN = Press Notice  
A = 00.30 hours release  
B = Release during working hours  
C = 21.00 hours release previous day

BB = British Business  
EG = Employment Gazette





**PRESS  
AND  
INFORMATION SERVICE**

**CSO**

**CENTRAL STATISTICAL OFFICE**

GREAT GEORGE STREET    PRESS CALLS ONLY 01-233 7489  
LONDON                    (AFTER 1800 HRS    01-233 3000)  
SW1P 3AQ                OTHER ENQUIRIES    01-233 6135/6193

CSO (85)22

20 February 1985

**RELEASE TIMES OF STATISTICAL PRESS NOTICES**

From March, the time of release of all but one of the regular monthly and quarterly statistical press notices issued by the Central Statistical Office will be 1130 hours instead of 1430 hours, the time at which most have been released up to now.

The exception is the Public Sector Borrowing Requirement press notice issued jointly with HM Treasury, which will continue to be issued at 1430 hours on the twelfth working day of each month. The release time of the monthly balance of payments current account and overseas trade figures press notice, issued jointly by the Department of Trade and Industry and CSO, has already been changed from 1530 to 1130 hours.

The figures contained in CSO press notices will continue to be available on the CSO Databank\*, in some cases with considerable additional detail, from one hour after the time of release.

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\* The CSO Databank is run for the CSO by SIA Computer Services. SIA sell the data directly on magnetic tape, by on-line file transfer, on microfiche and on computer printout, and they and other bureaux offer on-line access. Details can be obtained from: SIA Computer Services, Ebury Gate, 23 Lower Belgrave Street, London, SW1W 0NW. (Tel: 01-730 4544).





## NOTES TO EDITORS

Consideration is being given to standardisation of the time of release of all statistical press notices issued by the Government Statistical Service at 1130 hours.

The Department of Employment already releases all its statistical press notices at 1130. From 4 March, the Department of Trade and Industry will also release all its statistical press notices at 1130 hours.

Where times of release are known at the time of going to press, they will be included in future in the CSO monthly list press notice.



CONFIDENTIAL  
until 2.30 pm Tuesday 19 February  
then RESTRICTED

FROM: DAVID WALTON  
DATE: 18 FEBRUARY 1985

1. MR FOLGER
2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Economic Secretary  
Minister of State  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Monck  
Mr Battishill  
Mr Burgner  
Mr H P Evans o.c.  
Mr Lovell  
Mr Shaw  
Mr Culpin  
Mr S Davies  
Mr Robson  
Mr Page  
Mr Horton  
Mr Salveson (+1 for No 10)  
Mr Vernon  
Mr Lord  
Mr H Davies  
Mr Cropper  
Mr Mansell - CSO  
Mr Clary - CSO  
Mr Lang - CSO  
HB/02

*Strong consumption and exports suggest that GDP(E) is likely if anything to show stronger growth than GDP(O). This is a good sign for GDP(A) in Q4.*

*MW*

*18.2.85.*

*C/ Contents with line to take in para 9?*

*Good bys.*

*OK R 18/2*

#### GDP (OUTPUT MEASURE) IN FOURTH QUARTER 1984

The CSO will publish the preliminary estimate for this on 19 February. An advance copy of the press notice is attached.

#### Revisions to earlier figures

2. The back series for GDP(O) and GDP(A) given in the press notice have been revised to take account of the revisions to the manufacturing production series released last week. The most significant revision is that GDP(O) is now estimated to have risen by 1 per cent between the second and third quarters. Prior to the revisions GDP(O) was broadly unchanged between Q2 and Q3.



10

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12

13

14

Fourth Quarter Figures

3. GDP(O) is estimated to have risen by 1 per cent between the third and fourth quarters of 1984. Compared with a year earlier GDP(O) is up 2 per cent. In 1984 as a whole GDP(O) rose by 2½ per cent on its average 1983 level.

Coal strike effects

4. Output in 1984 was affected by the coal strike. The coal strike is estimated to have reduced the level of GDP(O) by ½ per cent in the first quarter and by between 1¼ and 1½ per cent through the rest of the year. The effect on 1984 as a whole is estimated to have been between 1 and 1¼ per cent. These effects on GDP(O) are of two kinds:-

- (a) the direct effect of lost coal production (about 1 per cent)
- (b) the indirect effect on other industries (about ¼ per cent) - mainly lower value added in the electricity and iron and steel industries as a result of more costly inputs.

Effect of Coal Strike on GDP(O) percentage points

	<u>1984</u>	Q1	Q2	Q3	Q4
Coal Industry ('direct')	-1	-½	-1	-1	-1
Loss of value added in electricity industry	- ¼	0	- ¼	- ¼	- ¼
Other (Steel, transport, police etc)		Net effect close to zero			
<b>Total effect on GDP(O)</b>	<b>-1¼</b>	<b>- ½</b>	<b>-1¼</b>	<b>-1¼</b>	<b>-1¼</b>



5. Allowing for the coal strike, Q4 GDP(O) is estimated to have risen 1 per cent above its Q3 level and 3½ per cent above its level a year earlier. GDP(O), adjusted for the coal strike, is estimated to have risen by 3½ per cent in 1984.

**Sectoral picture**

6. The contributions of changes in the individual components to GDP(O) are shown below:

	per cent point contributions to change in GDP(O)	
	<u>1984 Q3</u> to <u>1984 Q4</u>	<u>1983</u> to <u>1984</u>
Sector		
Agriculture, Forestry & Fishing	0	+0
Production Industries		
Manufacturing	0	+1
Oil and Gas Extraction	+ ½	+ ½
Other Energy and Water Supply	+0	-1
Construction & Services	+ ½	+2
<hr/>		
<u>TOTAL</u>	+1	+2½

7. Oil and gas extraction and services each made a healthy contribution of ½ per cent to growth in GDP(O) in Q4 - manufacturing was broadly flat. Between 1983 and 1984, output rose in both manufacturing and service industries. Agricultural output - whilst contributing little to overall growth - was an estimated 2 per cent up on its previous record level of 1982.

**Assessment**

8. These figures are likely to be of considerable interest to the Press because they give the first official estimates for full

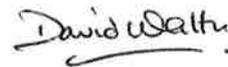


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then RESTRICTED

year growth. GDP(O) growth of  $2\frac{1}{2}$  per cent in 1984 is fully consistent with the Autumn Statement forecast for  $2\frac{1}{2}$  per cent growth in GDP(A).

Suggested line to take

9. GDP(O) grew by a healthy  $2\frac{1}{2}$  per cent in 1984 despite the coal strike which is estimated to have reduced growth last year by between 1 and  $1\frac{1}{4}$  per cent. There are no signs of growth fading towards the end of 1984. Prospects look good for continued growth in 1985.

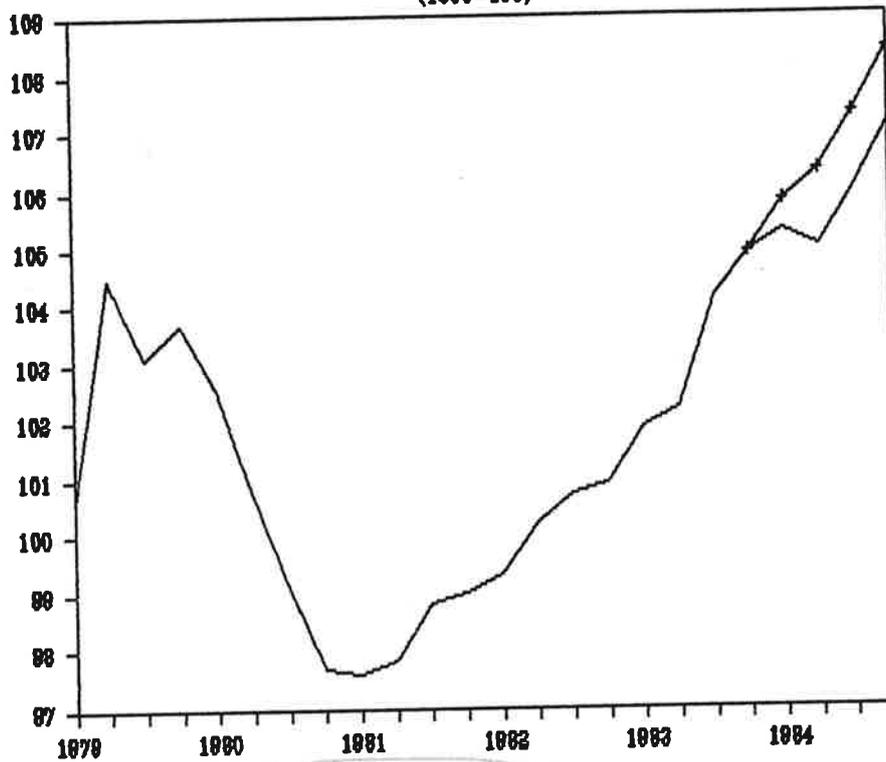


DAVID WALTON



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### GROSS DOMESTIC PRODUCT (OUTPUT) (1980=100)



+ coal strike adjusted





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CSO(85)19

19 February 1985

**GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - FOURTH QUARTER 1984**

Preliminary estimates suggest that output of the whole economy rose by 1 per cent between the third and fourth quarters of 1984. The production industries and the service sector each showed increases of about 1 per cent in output; in particular distribution activity was some  $1\frac{1}{2}$  per cent higher. The preliminary output-based estimate of gross domestic product (GDP) in the fourth quarter is 107.1 (seasonally adjusted at constant prices with 1980 = 100).

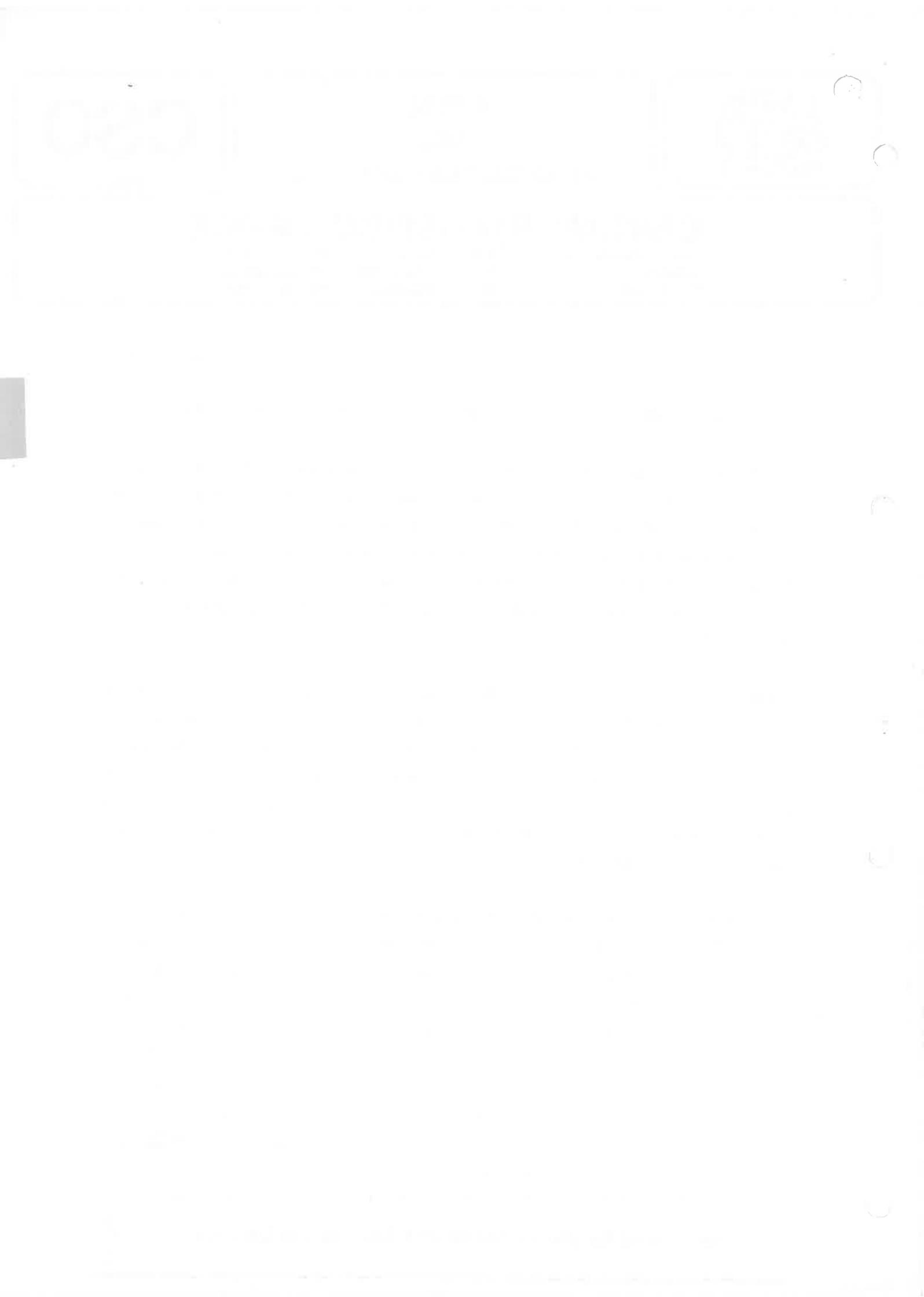
Output in 1984 was affected by the dispute in the coal mining industry, whose production normally contributes about  $1\frac{1}{2}$  per cent of GDP. The dispute is estimated to have reduced the level of the output measure of GDP by about  $\frac{1}{2}$  per cent in the first quarter and by between  $1\frac{1}{4}$  and  $1\frac{1}{2}$  per cent in each of the other quarters. The effect on 1984 as a whole is estimated to have been between 1 and  $1\frac{1}{4}$  per cent. Most of the loss of output reflects the direct impact upon the coal industry itself.

Using the output measure, GDP is estimated to have risen by  $2\frac{1}{2}$  per cent between 1983 and 1984, despite the coal dispute. The improvement in output was evident in both manufacturing and service industries, and agricultural output exceeded its previous record level of 1982. As can be seen from the Table, the expenditure, income and output measures of GDP (and by implication the average measure) can move irregularly for particular quarters, and differently to each other.

**COPY No.....7.....**

**PERSONAL AND CONFIDENTIAL until release  
of Press Notice at 2.30 p.m. on...19.2.85...  
and thereafter unclassified**





GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on			
		Average estimate(1)	Expenditure data	Income data(2)	Output data(1)
1978		99.9	100.0	99.9	99.9
1979		102.4	101.9	102.3	103.0
1980		100.0	100.0	100.0	100.0
1981		98.7	99.0	98.8	98.3
1982		100.9	100.6	101.8	100.3
1983		104.1	104.0	104.9	103.3
1984		..	..	..	105.9 (3)
1981	1	98.3	100.0	97.4	97.6
	2	98.1	99.0	97.4	97.8
	3	98.5	97.4	99.4	98.8
	4	99.9	99.6	101.1	99.0
1982	1	100.3	100.4	101.2	99.3
	2	100.8	100.3	101.8	100.2
	3	100.8	99.6	101.9	100.7
	4	101.8	102.1	102.3	100.9
1983	1	103.0	103.6	103.4	101.9
	2	103.0	102.4	104.5	102.2
	3	104.5	104.2	105.0	104.1
	4	105.8	105.8	106.8	104.9
1984	1	106.6	106.5	108.1	105.3
	2	105.7	104.6	107.5	105.0
	3	106.3	104.1	108.7	106.0
	4	..	..	..	107.1 (3)

(1) Includes revisions to 1982-1984 data made since the January edition of 'Economic Trends'.

(2) Income data deflated by the implied index of total home costs derived from expenditure data.

(3) Preliminary estimate.



## NOTES TO EDITORS

1. The preliminary estimate of the output based measure of gross domestic product is derived from the provisional estimate of the index of output of the production industries for the fourth quarter, published on 13 February, together with partial information for the rest of the economy. Any revisions, together with estimates of GDP based on expenditure and income data, will be released by Press Notice on 22 March. A series consistent with today's Press Notice is available on request for output of the whole economy other than extraction of mineral oil and natural gas.
2. As the table shows, the estimates of GDP based on expenditure, income and output data may move differently in the short term. The output based measure is usually considered to be the most reliable measure of short term movements.
3. Although it will be some time before the size of revisions to the preliminary estimate on the new 1980 base can be investigated, the performance of the 1975-based series can probably be taken as a guide. During the five year lifetime of the 1975-based series, the average revision (regardless of sign) in the month following publication to the preliminary estimate of the change in GDP(O) since the previous quarter was 0.2. The corresponding average revision to the estimate of the level of GDP(O) in the most recent quarter was 0.3.
4. Since 1980 some of the statistical sources used in compiling GDP(O) have been discontinued, or reduced in size. Estimates of GDP(O) may well as a result have been subject to a wider margin of error.
5. The series and weights used to compile the 1980-based GDP(O) series are described in an Occasional Paper. The effects of rebasing on all the measures of GDP are described in an article in December 1983 Economic Trends. Occasional papers (price £2.50 each) and off-prints of Economic Trends articles (price £1.20 each) are available from the Central Statistical Office.



M5

Andrew,  
for 2 papers

RESTRICTED

1. 22  
2. 17



FROM: MISS O'MARA  
DATE: 4 February 1985

MR FOLGER

cc Sir P Middleton  
Mr Bailey  
Sir T Burns  
Mr Cassell  
Mr Battishill  
Miss Brown  
Mr Evans  
Mr Lankester  
Mr Lavelle  
Mr Culpin  
Miss Peirson  
Mr Peretz  
Mr Hannah  
Mr Vernon  
Mr Cropper

**RELEASE TIMES FOR ECONOMIC STATISTICS**

The Chancellor has seen your submission of 25 January and agrees with your recommendations.

*MOM*

**MISS M O'MARA**





1 agree with  
M. F. J. G. J.  
M. J. J. J.

Ch.

I did the initial consultation  
with the Bank on the timing of the  
money figures, when I was in HP3.

I see the argument has now changed.

At that stage the Bank argued  
that the markets tended to take  
their lead from the press and 2:30  
meant the first movement came  
from the sensible banks, rather  
than the Standard, as might be  
the case with 11:30.

The present argument  
sounds more impressive, but when  
I initially put it to the Bank, they  
didn't think there was much in it.

I must say I can't see any  
reason to move to 11:30; 2:30 works  
quite well now.

Re. 1/2.

allow the  
to work up  
all also  
more time  
for PM's

of the  
which are  
politically  
are as  
and done this  
is good  
in the

re Questions  
Submission  
enclosed

go are at 2:30  
to get the  
No. 10, who  
will be

mom 1/2

FROM: M T FOLGER  
 DATE: 25 JANUARY 1985

1. MR BATTISHILL  
 2. SIR PETER MIDDLETON  
 3. CHANCELLOR OF THE EXCHEQUER

cc Mr Bailey  
 Sir Terence Burns  
 Mr Littler  
 Mr Cassell  
 Miss Brown  
 Mr Evans  
 Mr Lankester  
 Mr Lavelle  
 Mr Culpin  
 Miss Peirson  
 Mr Peretz  
 Mr Hannah  
 Mr Vernon  
 Mr Cropper  
 Mr Lord  
 HB/05  
 Mr Turnbull No.10  
 Mr Plenderleith B/E

#### RELEASE TIMES FOR ECONOMIC STATISTICS

This note reports a CSO proposal to retime the release of their main economic statistics for 11.30am. It discusses the implications for the Treasury, particularly as regards publication arrangements for the PSBR and money figures, and seeks your approval for the line of the reply which we propose to make at official level.

#### Background

2. For some years there have been three different release times for GSS economic statistics:

<u>11.30am</u>	DEm figures for RPI, earnings, unemployment
<u>2.30pm</u>	for everything else except the DTI monthly trade figures
<u>3.30pm</u>	DTI monthly trade figures

This picture reflects a variety of historical factors. DEm see distinct advantage in 11.30am as allowing the media - particularly the provincial evening press - more time to prepare their stories. And their Secretary of State has been able to feature on BBC R4 "World at One" to comment on the latest figures for unemployment etc. The 3.30pm timing for the trade figures dates from February 1974 when the release was shifted from noon. This appears to have been on the basis that the later timing would allow a Ministerial statement on the figures to be made in the House, when necessary, simultaneously with their release by DTI.



4. We have recently agreed at official level with DTI that they should in future release the trade figures, which are much less market sensitive nowadays, at 11.30am. (DTI (and the Bank) had said that they would prefer a move to 11.30am rather than 2.30pm as probably a bit more convenient for the press.) It is planned to bring this into effect, subject to No 10 views, in time for the January figures, due for publication on 26 February.

#### CSO proposal

4. In the light of the discussions about the trade figures, CSO have proposed that their releases, including the PSBR Press Notice issued jointly with us, should be retimed for 11.30am. They see advantages in this for the press. (Details of the current arrangements and the CSO proposals are given in the attachment to this submission.)

#### PSBR monthly press notice

5. PSF and the Bank see practical problems arising if the PSBR release were moved to 11.30am: problems sufficient to outweigh the advantages which CSO claim for the change. In particular, with certain expenditure returns available only shortly before publication day, it is not possible to get draft briefing forward until the evening of the day before publication. An 11.30am release time would not allow your comments on the briefing line to be taken on board in time for final briefing to be in the hands of IDT, No 10 and so on before release. (Slipping the release time by 21 hours, instead of advancing it by 3, is not seen as appropriate. There is already a long gap between availability of the basic figures and publication of the Press Notice. To lengthen it further would mean a bigger risk of leaks.)

6. On occasion, 2.30pm may also prove preferable for market management reasons. This is explained more fully below in relation to the money figures.

#### Reserves Press Notice

7. Similar problems could arise in retiming the Treasury Press Notice on the Reserves, which EF1 would prefer to keep at 2.30pm.

#### Money figures and Bank views

8. The money figures - released by the Bank at 2.30pm - are not directly affected by the CSO proposals. But present practice could well be questioned if more statistics move to 11.30am. HF3 have consulted the Bank, who have a strong preference for sticking to the present timing.



7. This is largely because it can be useful for the authorities to see markets' own reaction to PSBR and money figures, before being obliged to show their hand via the Bank's money market dealings. With the latter timed for 12.15 and 2.15pm each day, an 11.30 release would mean the Bank acting before the market had fully digested the figures. Present arrangements allow markets time to adjust fully and for their reaction to be taken into account before the Bank deals next day.

### Assessment

10. The primary Treasury interest in all this is in any implications for financial market management. These are likely to be most significant for the money and PSBR figures, which often require very careful handling. We see no real market objections to changing the timing of the CSO's other releases.

11. A change would of course affect briefing arrangements. Generally we would continue to get briefing to Ministers on the evening before the day of release (earlier where possible). But, with the figures appearing before lunch time, Ministers would be able to deploy any comments on the figures earlier than at present, and in some cases might be pressed to do so. And for occasions such as PM's Questions and Treasury First Order Questions, the House would have had more time to brief itself on the latest figures. (We shall accordingly suggest to CSO - as we have to DTI on the trade figures - that they give No 10 the opportunity to comment on the proposed move to 11.30am.) Occasionally the new arrangements might allow the Opposition to make a better showing, on others they should allow Ministers to present their case more effectively through the media.

### Conclusion and Recommendation

12. For the reasons explained above, we recommend that the money figures, and the PSBR and Reserves Press Notices should remain at 2.30pm.

13. We seek your authority to agree that except for the joint CSO/Treasury Press Notice on the PSBR, the CSO may move their releases to 11.30am. As noted above, this will be subject also to No 10 views.



M T FOLGER

The first thing I noticed when I stepped out of the plane was the humidity. It was a relief after the dry, crisp air of the mountains. The humidity was a warm blanket, and I felt like I had been wrapped in a soft embrace. The humidity was a relief after the dry, crisp air of the mountains. The humidity was a warm blanket, and I felt like I had been wrapped in a soft embrace.

### 1. Introduction

The purpose of this report is to provide a comprehensive overview of the current state of the industry. It will cover the key trends, challenges, and opportunities that are shaping the market. The report will also provide recommendations for how businesses can best navigate these changes and thrive in the future.

The industry has experienced significant growth in recent years, driven by a combination of factors. One of the primary drivers has been the increasing demand for digital services, as consumers continue to embrace technology. This has led to a surge in investment in digital infrastructure and services, which has in turn created new opportunities for businesses. However, this growth has also brought with it a number of challenges, including increased competition and the need for businesses to constantly innovate and adapt to changing market conditions. The report will explore these challenges in more detail and provide insights into how businesses can overcome them.

### 2. Market Overview

The market is characterized by a high degree of volatility and uncertainty. This is due to a number of factors, including global economic conditions, political events, and technological advancements. These factors have created a complex and ever-changing landscape that requires businesses to be highly agile and responsive to market changes.

The market is also characterized by a high degree of competition. This is due to the entry of new players and the expansion of existing players. This has led to a race to the bottom on price, which has put pressure on profit margins. However, this competition has also led to a number of innovations and improvements in products and services, which has benefited consumers.

11  
12