TREASURY

FILE BEGINS 19/11/1979 ENDS 25/01/1985

FILE TITLE

GROSS DOMESTIC PRODUCT (GDP) FIGURES

PART 1 OF 2

FOR DISPOSAL ADVICE SEE INSIDE COVER

DATE

SIGNATURE

DISPOSAL DIRECTIONS

DESTROY AFTER YEARS

PRESERVE

GISTRATION USE

R TO

DATE

Completed by EW

1st - ~~HMT Political~~, Personal information, FCO

2nd - Bank of England.

Bot

Whole file to be referred

Sensitive

PC

CHANCELLOR

PRODUCTIVITY YARDSTICKS

1. The BIA have sent us this, following a discussion set up by Geoffrey Bowler.

2. Shall I ask for some individual company figures as well? My own feeling would be that individual company figures would be difficult to use for confidentiality reasons, so we are probably as well to use what we have been given.

3. Brendon has the banking figures near completion.

4. I have acknowledged to Bardell.

Let me see, when all together

PETER CROPPER

19th November 1979

307/11

BRITISH INSURANCE ASSOCIATION

CHAIRMAN: G. BOWLER · DEPUTY CHAIRMEN: J. F. G. EMMS · P. R. DUGDALE
SECRETARY GENERAL: R. C. W. BARDELL

TELEGRAMS: BRINASSOC, LONDON-E.C.4

ALDERMARY HOUSE, QUEEN STREET, LONDON, EC4N 1TU

TELEPHONE: 01-248 4477

14th November 1979

P.J. Cropper, Esq.,
Room 84,
H.M. Treasury,
Parliament Street,
London, SW1P 3HJ.

Dear Mr. Cropper,

We spoke on the telephone the other day and I promised to do what I could to produce figures for you which might show changes in the "productivity" of the insurance companies.

I explained to you that I would only be able to produce crude figures on an industry-wide basis. The attached may be of some help to you.

The column on the extreme left shows the total of premiums received by BIA members. The figures cover general branch, ordinary life and industrial life business in the United Kingdom. The next column deflates these figures on a 1975 price level basis. We have got figures showing the total number of employees of members and these applied to the deflated premium income figure shows a sharply increasing trend if one accepts that premiums divided by staff is a measure.

A similar trend is developed if one takes figures for earnings which we have drawn from the EEC survey of Labour costs.

To find reasons for the changes thrown up one would have to question a number of companies. I think experience might vary depending on the kind of company one looked at. Some of our members, for example, write only life business. Others have a large part of their business overseas or specialise in one branch or another. Generalising I would guess that:

(a) the introduction of computer systems has paid off. This will mean that there is a lower requirement for relatively well paid people to be engaged on mundane tasks. Rather like the way in which, when one goes into a bank these days, one is attended to by a pretty girl rather than by a time expired senior clerk. It would be interesting to examine the make up of staff of typical insurance companies (if they exist) at a 10 year interval.

/......

BRITISH INSURANCE ASSOCIATION

ALDERMARY HOUSE

QUEEN STREET LONDON EC4N 1TU

H.M. TREASURY,
Parliament Street,
London, SW1P 3AG.

Dear Mr. [illegible]

[illegible]

(a) [illegible]

(b) because of inflation and increasing costs strenuous efforts have been made to keep down the expense ratio. This has meant that wherever possible systems and methodsof communication have been simplified. Sometimes, I feel not always in a way which provides the best possible service. One has to take a view, however, in a competitive industry how far an individual service can be provided.

(c) possibly the tendency to package policies has cut out some duplication. I would not like to guess how much.

(d) mergers undoubtedly had an effect. Substantial numbers of staff were shed by groups like the Commercial Union which acquired competitors (their biggest acquisition was the Northern/Employers Group itself the result of a merger).

I wonder what further work we could do to help you? As I said on the telephone I think that industry-wide figures have to be taken with a grain of salt and I would reckon that one would need to seek the co-operation of one or two large companies who could give much more useful information than I can produce based merely on rather crude figures and my own guess work.

One does, of course, have to look at the other side of the coin. We are using staff costs as a measure. Mechanisation costs must have gone up very considerably.

Yours sincerely,

Roger Booth

Secretary General

	BIA – UK Premium Income (GB + OL + IL) Actual £m	Deflated* £m	Employees of BIA Members '000	Premiums ÷ Staff (£m / '000)
1959	860	2382	167	14.3
1960	935	2562	170	15.1
1961	1029	2729	173	15.8
1962	1132	2880	182	15.8
1963	1260	3142	186	16.9
1964	1365	3297	186	17.7
1965	1409	3247	186	17.5
1966	1525	3381	184	18.4
1967	1674	3623	183	19.8
1968	1871	3865	180	21.5
1969	1893	3712	184	20.2
1970	2097	3869	185	20.9
1971	2509	4231	184	23.0
1972	3049	4794	181	26.5
1973	3347	4822	179	26.9
1974	3782	4658	176	26.7
1975	4397	4397	173	25.4
1976	5367	4606	171	26.9
1977	6194	4588	168	27.3
1978	7336	5017	166	30.2

*on a 1975 price level.

	BIA UK Premiums (GB+OL)	Earnings of BIA Staff £m	Premiums per £ of earnings
1974	3400	324.3	10.5
1978	6763	555.0	12.2

CONFIDENTIAL

M^r Hall.

I'm sorry to have caused you trouble over the delay in advising on this. I have still not cleared the backlog of papers which arose immediately before & after the Nov 15th Statement!

M 2 6/12/79

MR. RIDLEY

IMF : TIMING OF ANNUAL CONSULTATIONS

..... I attach papers on this, and should be grateful in due course for their return. The Chancellor thinks that Mr. Michell's suggestions make good sense, but would be grateful if you could quickly consider whether there are any political pitfalls in the proposed timing.

MAH

(M.A. HALL)
19th November 1979

CONFIDENTIAL

CAN A.R CONSIDER IF THR R ANY POLITICAL HAZARDS IN THIS – WHICH ORSC [illegible]

C –
Are you content with para 6 recommend[ation]? MW

CHANCELLOR OF THE EXCHEQUER

cc. Sir Douglas Wass
Sir Kenneth Couzens
Mr Jordan-Moss
Mrs Hedley-Miller
Mr Unwin
Mr Smallwood
IGCS

IMF: TIMING OF ANNUAL CONSULTATIONS

In my minute of 26 October, before Mr Whittome's visit, I mentioned that he had proposed that in future the formal annual consultation between the Fund and the UK should take place in November rather than May each year.

2. In the event, I understand Mr Whittome did not raise this point with you. However we now need to give the Fund an answer. At official level we in the Treasury (including Sir Kenneth Couzens who has seen these papers) and the Bank of England would be broadly content with the proposal, although we would want to suggest to the Fund that early December would be a more sensible date than November because the autumn forecasting round is often not completed until the second half of November. The Fund would probably prefer to be able to take the latest forecasts into account.

3. Mr Whittome has mentioned two reasons for the proposed change. The first is administrative convenience - there is at present a bunching of major consultations in the early summer and the Fund would like to spread them out. The second is that a November (or December) consultation would allow the Fund to see the effects of that year's Budget more clearly than a May consultation.

4. The Fund staff would also no doubt hope that a November/December consultation would make it more likely that their views and advice would be taken into account in framing the <u>following</u> year's Budget. Their report to the Executive Board of the Fund would probably be issued in early January, and be discussed by the Board in late January/early February, at a time when you might normally expect to be considering the forthcoming Budget.

5. As you know, these reports and discussions in the Fund Board are confidential, and imply no obligation on the country concerned to act on them. For this reason we do not feel the Fund's proposal need be seen as an embarrassment in relation to the Budget timetable. Indeed, there could possibly be circumstances in which it might be helpful.

6. If you agree, we shall tell the Fund we accept their proposal, subject to our preference for an early December, rather than November, timing. If this is agreed the next formal consultation would be in December 1980, <u>not</u> 1979.

M J MICHELL
14 November 1979

M C

CHANCELLOR OF THE EXCHEQUER

2

cc. Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Sir Douglas Wass
Sir Kenneth Couzens
Mr Barratt
Mr Jordan-Moss
Mr Middleton
Mr Leech
IGCS

IMF VISIT: 29 OCTOBER

You will be seeing Mr Whittome of the IMF on 29 October.

2. Mr Whittome (who is English) is Head of the European Department of the Fund. He may be accompanied by Mr Bert Knobl (pronounced K-noble) who is the Fund's desk officer for the UK.

3. This visit is entirely informal and is not part of the formal process of Fund "surveillance". However, it is quite common for the Fund to ask for such an informal visit between two formal annual consultations, to "top up" their knowledge of developments and to form an impression of the way things are going. No report will be made to the Fund Board on this visit, and no formal record of it will be made.

4. Mr Whittome will spend the morning with officials running through developments in the UK economy and the current prospects. He will then have lunch with Sir Douglas Wass and Mr Middleton. We have arranged for Mr Middleton to brief you on the main points that have arisen during the discussions before you see Mr Whittome in the afternoon.

5. Mr Whittome will be hoping to hear from you your personal view of how the economy is going and of prospects for the period ahead, no doubt particularly for monetary policy. He may ask for your assessment of the response of the economy to the Budget measures, and the time-scales involved. Following this week's announcement, he is likely to ask you for your assessment of the possible effects of the abolition of exchange controls, and for your reasons for acting when and to the extent that you did.

6. You will recall that the formal IMF mission in June showed quite a lot of interest in public sector pay (I attach a copy of Mr Finch's "closing statement" of 29 June, which you will remember seeing at that time). Mr Whittome may follow this up by asking how you now see the prospects for the winter.

Timing of Annual Consultation with the UK

7. Mr Whittome may refer to a proposal he has very recently made, that the formal annual consultation with the UK should be held in November of each year, rather than May (the June consultation this year was exceptionally late, because of the Election). We are considering this suggestion, and Mr Whittome will not necessarily expect you to have a firm view on it on Monday. If it is decided to accept the suggestion, the next formal consultation with the UK would be in November 1980 (not 1979).

8. Mr Whittome has said that the reasons for the suggestion are

i) administrative convenience for the Fund - there is already a "bunching" of consultations with major countries in early summer.

ii) a November consultation would enable the Fund team to assess the effects of that year's Budget better than they can do in a May consultation.

9. There is obviously a third reason, which Mr Whittome would probably make no attempt to deny, that a November consultation, from a timing point of view (though not from any other) would put the Fund in a better position to influence the following year's Budget. Their report would come out in December and be discussed in the Fund Board in January, and they would no doubt hope that their advice would be fresh in your mind when Budget judgments are being reached. As you know, the annual consultation and discussion in the Fund Board implies no formal obligation on the country concerned to take action to reflect what is said there.

Other Issues

10. It is unlikely that Mr Whittome will want to raise any international monetary issues or discuss the Belgrade meetings in any detail.

11. It is possible that he may raise the question of Turkey, with which he is personally concerned, and he may express a hope that the OECD countries will support the IMF's efforts in that country by a further "assistance package" in 1980. You should be non-committal about this. The current political crisis in Turkey makes any assessment of her future prospects extremely difficult. We are clear that the Fund must remain the principal institution through which the West tries to help Turkey with her financial problems, and we hope the Fund will establish contact rapidly with whatever Government emerges in Turkey. (The present position is that the current one year standby agreement between the Fund and the Ecevit Government still has 8 months to run, and is due to be reviewed by the Fund in November.)

John Michell

M J MICHELL
26 October 1979

Friday, June 29, 1979

United Kingdom--1979 Article IV Consultation

Concluding Remarks

On previous occasions I have remarked on the difficulty of writing a closing statement. This time, however, my task has been greatly eased. The recent budget speech by the Chancellor has set forth the principles of a new strategy so effectively that there is no need for me to paraphase our understanding of the policies. And your answers to our questions on the main elements of the immediate prospects have been so clear and consistent that we have little need to repeat them. Consequently, these remarks can be brief.

The economic situation faced by the U.K. authorities at present involves much more serious hazards than we had expected when planning for our visit. While the balance of payments situation is manageable, given the strong reserve position, and North Sea oil will insulate you from much of the immediate impact of the energy crisis on the external accounts, the other aspects of the economy are quite unfavorable. The immediate outlook for growth and employment is very depressing, due quite directly to the legacy of the last winter and the top priority which the authorities properly attach to breaking the new momentum given to inflation. The recurrent strong wage pressures have their roots in the low growth of the U.K. economy over past decades and frustration arising from the consequent growing income gap between British and European workers--in other words, in the supply problems of the economy which are so correctly identified in the Chancellor's budget speech.

We welcome the clear acceptance by the Government of the challenge of redressing these long-standing weaknesses. The intention to achieve more rapid growth in the future by undertaking to apply policies of enhancing incentives and easing supply constraints without being diverted by the short-term costs and strains of these policies is undoubtedly one which we can wholeheartedly support. We are convinced that the persistent losses of market shares of U.K. manufacturers both at home and abroad, and the associated recurring payments difficulties, were mainly the result of the entrenched supply weaknesses in the economy.

Equally, we believe that many of the elements of the new policy are well chosen to achieve the objectives. In particular, the commitment to restraint on public sector expenditures is clearly most important if resources are to be released for private investment and growth--growth which over time will enable public sector services to improve over present levels. The emphasis on tight financial policies is also appropriate in our view. It is now widely understood that fine tuning financial policies to deal with immediate areas of slack in the economy can achieve only short-term gains in output and are incompatible with inflation control and sustained economic expansion. We also accept that in present conditions, after a long period of direct wage restraint, financial policy has to assume primary responsibility for checking cost and price increases at this time.

Our task here is, however, not to catalogue our support for the policies undertaken--the list would be long and would include many that were previously in place. Rather, it is to look as closely as possible into the future to see where the difficulties may arise and to note what might be done to lessen the

dangers. Following this plan, we intend to focus our remarks on one difficulty with the design of the strategy which comes largely from inherited commitments, and then to make a few comments on some aspects of implementing the main lines of the fiscal, monetary, and exchange policies.

The strategy adopted to reduce inflation--namely, to restrain demand so that prices and costs fall into line with the Government's objectives--is critically dependent on wage determination being responsive to these forces. Unfortunately, in the area of public service pay the determination of wage levels is shielded from such forces by the decision, largely taken by the previous Government, to determine pay levels on the basis of comparability exercises. It is our understanding that largely for this reason wage rates for the public sector encompassing over 20 per cent of the work force may rise almost 40 per cent in the two-year period ending in December 1980. Such increases, even with efforts on a heroic scale to reduce public expenditure programs, would make it very difficult to contain adequately the borrowing needs of the public sector, while implementing the intended further reduction of the tax burden on individuals. Moreover, they inevitably create further pressure for high pay settlements in the private sector, adding to the cost of breaking the inflationary spiral and increasing the delay before the needed recovery in investment and growth. We would therefore hope that every possible effort will be made to moderate the pay awards in the public sector in the immediate future. Of course, fair relativities must eventually be met, but it is most important that they occur when growth in the economy's available resources provides the needed margin.

There are various ways to feature the strain created by wage developments currently in prospect but attention might focus on its consequences on monetary policy. The rise in the general price level now projected for the two-year period is estimated to be of the order of 34 per cent; with such a rise in prices, the desire to hold money balances can only be held down to the planned growth of about 23 per cent by maintaining interest rates throughout the period at uncomfortably high levels. Such abnormal interest rates necessarily dampen the level of investment--the projected reduction of 15 per cent in manufacturing investment by the end of 1980 from the levels of 1978 seems to us realistic but also most unfortunate. The abnormal level of interest rates also strengthens the exchange market, both directly through capital flows and indirectly through lower domestic demand; the resultant further weakening of competitiveness of U.K. industry will severely limit export growth and encourage import penetration. Due to the lagged reactions, the resulting pressure will increase over the next several years--well into the period when it is hoped that incentives will be promoting a recovery in production. We therefore believe that every effort needs to be made to achieve the turnaround in inflation more promptly than is now expected.

In reacting to your plans for reducing growth in the short term to conquer inflation, we have been aware of the background of depressed world conditions consequent on the energy crisis. We regret that your struggle is concurrent with that situation but we accept without reservation the priority you must give to domestic stabilization. However, from all points of view, we hope for early success so that your contribution to world growth can soon be resumed.

Turning now to more specific points related to the implementation of policies, we would first reiterate our support for the planned release of resources by public expenditure cuts. We concur equally in the importance you attach to firm adherence to appropriate cash limits to ensure that those increases in real levels of pay that cannot be avoided are compensated substantially by reductions in the level of employment and economies in the volume of other expenditures. We feel that there will also be advantage if actions are taken to show that public enterprises are under the same discipline as the private sector. Thus, the individual elements of the nationalized industries may need to be made more subject to the danger of closure arising for private sector firms when they fail the standard of market viability.

As regards monetary policy, we welcome the willingness shown at the time of the budget to raise interest rates to ensure that the monetary targets are met. This demonstration of your understanding that firm monetary policies are synonymous with interest rates fully responsive to emerging market pressure was absolutely essential. Unfortunately, the continuing rapid growth in bank lending to the private sector and the immediate large needs of the public sector may well require further demonstration in the near future of your commitment to this principle. As the experience of recent years clearly demonstrates, reluctance to allow such flexibility quickly undermines the credibility of the authorities' willingness to accept the unpleasant short-term consequences of their monetary objectives. On a related matter, while we understand the reasons for the maintenance of the corset at the present time, we welcome the assurance that it is not a permanent instrument of control as it seriously distorts the financial system and over time makes the stability of M3 irrelevant to judging the attainment of monetary policy objectives. For a strategy so strongly based on limiting growth in the volume of money to pre-determined target zones, this distortion must be unacceptable in the medium term.

On the exchange rate, the stress on flexibility and the desire to avoid weakening other policy objectives by support of rate levels either against appreciation or depreciation seems entirely appropriate in present conditions. We note the recognition that the rate is unduly appreciated at present but we accept that there is little that can be done to return it immediately to a level more consistent with the growth objectives. We support the policy of reducing exchange controls on capital outflows and believe that the conditions are now appropriate for terminating the investment currency market. On a smaller issue, we note that the previous way of acquiring the foreign exchange needed for debt amortization--namely, through resisting from time to time pressure for appreciation--is largely precluded with the new emphasis on exchange rate flexibility and would suggest that consideration be given to acquiring the desired exchange steadily quarter by quarter, so giving the market a stable basis for its judgments.

We welcome the clear stand against import controls which might create some temporary increase in employment but by a method diametrically opposed to the new policy strategy with its emphasis on medium-term supply improvement guided by the market. The pleas that some will raise for exceptions as declining competitiveness and growing unemployment cause special industry difficulties must be resolutely opposed. With the enhanced emphasis on market guidance, we hope that the United Kingdom will do all in its power to encourage EC action to reduce common restrictions on trade, notably on textiles and agricultural products. Progress toward greater integration of the world economy to enhance the ability of developing countries to emerge from poverty can be critically aided by the trade policies of this single most important community of nations in its period of economic ascendency.

Many of our members will regret the reduction of aid programs made in the budget, even though the reduced plans still allow for some increase in the share of resources devoted to development assistance. The United Kingdom has an important role to play, together with other industrial countries, and as the recipients are currently entering a period of severe strain arising from the repercussions of the energy crisis, their needs are very great.

In closing, I would return to our main theme. The courageous decision of the Government to act to improve productivity performance of the U.K. economy, whatever the short-term cost, is an essential step toward avoiding the recurrent payments difficulties of the past. The task undertaken is tremendously difficult because fundamentally its success will depend on winning the support of the mass of the population for new attitudes toward productivity. But it is a struggle which can be won if the right policies are pursued with persistance and consistency.

W/e 6.0

cc Minister of State (Commons)
Minister of State (Lords)
Mr Battishill

CHANCELLOR OF THE EXCHEQUER

THE ENFORCEMENT POWERS OF THE REVENUE DEPARTMENTS

Documentation for meeting Tuesday, 20th November, at 4.00 pm. ~~Wednesday, 14th November, at 9.45 am.~~

(1) "Review of Enforcement Procedures" (Inland Revenue) 28th September 1979

(2) "Review of Powers" (Customs & Excise) 3rd October 1979

(3) "The Enforcement Powers of the Revenue Departments" (Mr Rees) 1st November 1979.

1. Inland Revenue

Sir William Pile summarises the situation: before 1976 the sophisticated evader could get away with it: the 1976 Finance Act tightened things up: the powers of the Inland Revenue are still the minimum for the job, and weaker than many other countries: however the Inland Revenue does not seek to match other countries.

Paper I: Inland Revenue's Powers of Information, Investigation and Search

Descriptive pictures of:

Powers to make assessments (+ Appendix A)
Information powers (+ Appendix B)
Search powers (+ Appendix D)
The practical approach
Prosecution policy
Appendix E : Description of Finance Act 1976 measures
Appendix F : Tax recoveries from investigation
Appendix G : Verification of tax returns
Appendix H : Evidence by Inland Revenue to Royal Commission on Criminal Procedure.

Paper II: Inland Revenue: Powers to Impose Penalties, etc

"Except for one or two weaknesses, the present structure of penalties works well and has not been much criticised." See sections 6 and 7.

Appendix A : Delay in rendering tax returns
Appendix B : Other Penalty sections
Appendix C : Press Release "Investigation of Incorrect Business Accounts and Tax Returns" with speech by Sir William Pile.

Paper IIIa:Due Date for Payment of Assessed Taxes

Conclusion: see paragraph 8. Only small change needed.

Paper IIIb : Interest on Unpaid Tax

Paper IIIc : Repayment Supplement

Paper IV : The Black Economy

A brief general note. Conclusions for action set out in paragraph 15.

Appendix A : Customs & Excise Considerations
Appendix B : Economist article
Appendix C : General Sub-Committee extract
Appendix D : US Treasury document, proposing a system of withholding to deal with gross evasion by self-employed.

2. Customs & Excise

Sir Douglas Lovelock indicates that the existing position on seizure is entirely defensible: advises against a general scheme for interest in relation to VAT: believes that the enforcement powers for VAT are no more than are needed for the job.

1. Value Added Tax: Powers of Search, Investigation and Discovery

A. Introduction

B. Control Visits

C. Fraud Investigation

D. Addendum: Other Powers

2. Preliminary Review of Powers: Seizure

3. Charging or Paying Interest on Tax Overdue

"The UK is the only EEC country which does not charge interest on overdue tax."

"Before the industrial action earlier this year there had been few complaints about our practice of not paying interest in respect of unduly delayed repayment claims."

Appendix. Some of the problems which would need to be considered in planning for interest on VAT.

4. Misleading Advice.

PC

PETER CROPPER

14th November 1979

FINANCIAL SECRETARY TO THE TREASURY

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Minister of State (C)
Minister of State (L)
Mr Ridley
Mr Cropper
Mr Cardona

BRIEFING OF MEMBERS OF THE EUROPEAN PARLIAMENT

I have seen Mr Cropper's minute of 7 December on this subject.

I agree with Mr Cropper: there is a good old muddle in the making here, and we should have a small meeting before anything further is done, to sort it out.

NIGEL LAWSON
11 December 1979

C

- this looks eminently sensible: FST is badly overworked.

CHANCELLOR OF THE EXCHEQUER

cc Financial Secretary
Sir Douglas Wass
Sir Anthony Rawlinson
Sir Lawrence Airey

DISTRIBUTION OF DUTIES

The Chief Secretary and the Financial Secretary have discussed the allocation of duties as regards public expenditure.

2. Subject to your approval, the Chief Secretary has agreed to take over full responsibility for public expenditure business on the following subjects (normally dealt with until now by the Financial Secretary):-

Agriculture, including EEC aspects and the Common Agricultural Policy;

Local authority business in general, except housing;

Environmental services and the Property Services Agency;

Scotland, Wales and Northern Ireland.

3. The Financial Secretary will continue to deal, in the normal course, with public expenditure business on:-

Disposals of Assets;

Export Credits;

Overseas Aid;

EEC Budget;

Housing;

Public procurement;

HM Stationery Office and Central Office of Information;

Parliamentary financial business including business concerning the Public Accounts Committee, C & AG and auditing matters, and review of the Exchequer and Audit Acts.

4. I should be grateful for your approval for these new arrangements.

A C PIRIE
7 December 1979

Chancellor.
I start from the assn there is no other way. This procedure is what LordT did. Came up with if LordT goes to the Fly fyr. recent letter on media balance. If he doesn't, then we cannot suggest s.thing like it. It will benefit Tsy as much as most other depts. added together. AR 13/4

All good stuff for consideration: but surely by A.M or G.R - or on which if no other way

C

CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Cropper
Mr Cardona

PRESENTATION OF POLICY - ARRANGEMENTS 1970/74

I have talked to Miss Sturges-Jones about the arrangements which she ran at Central Office under the previous Conservative Government. They were as follows. The Research Department desk officers identified points which they wished to see brought out in the newspapers, or public misapprehensions which they thought it was necessary to correct. These desk officers, in close liaison with the Director of the Research Department, then passed a draft letter to Miss Sturges-Jones, one of the press officers at Central Office. She then identified an MP - if possible a member or chairman of a back-bench committee - and persuaded him to write to the newspapers. The principal targets were the Guardian, Times, Telegraph and Financial Times. But occasional short missives to the Express, Mail or Mirror were not unheard of. There was regular liaison with the co-ordinator of policy presentation in Government. All the detailed work seems to have been initiated from the Research Department.

2. Actions to bring abuses to the notice of the broadcasting authorities were not dealt with in the same way. While there were close contacts and exchanges of view with the broadcasting people in Central Office, the techniques which were used there were very different.

3. If comparable arrangements were to be instituted now, Miss Sturges-Jones very strongly recommended that the anchor person at Central Office should be someone like Harry Boyne who both knows a large number of MPs and can walk in and out of the House of Commons - something which is very often necessary

in order to collar a potential writer in time.

4. The effectiveness of this kind of arrangement really depends largely on the competence of the Research Department, and anybody else who is monitoring things which may need a calculated political response. If you like I can pursue what was done more closely with Stephen Sherborne, the officer who was in practice largely responsible for most of the letters. If might also be worth considering whether there is any scope for asking IDT to systematically draw Ministers attention to any unacceptable newspaper reporting. Since they do a regular survey of all the newspapers each morning, this should not be too demanding a task. The handling of radio and television probably requires rather more careful considerations, and advice from Gorden Reece at Central Office.

AR

ADAM RIDLEY
6th November 1979

b/f 1 week 24/10 b/f 31/10

MINISTER OF STATE TREASURY

CHANCELLOR OF THE EXCHEQUER

I've not read all the background: but this seems the right approach. Do we need to discuss with I.R + C+E? (DIR)

cc Chief Secretary
Financial Secretary
Minister of State (L)
Mr Ridley
Mr Cropper
Mr Cardona

REVIEW OF POWERS OF REVENUE DEPARTMENTS

I had a meeting with officials of the Inland Revenue and Customs and Excise on 8 October and thought it might be helpful if I gave you my views on how this exercise was going before the Party Conference.

We need to consider how to fulfil the manifesto commitment to undertake a thorough review of the enforcement procedures of the two departments. The main issue is whether this should be conducted through an internal enquiry steered by Treasury Ministers, or whether it should be entrusted to an independent body set up for the purpose . Officials have suggested, rather half heartedly I feel, a compromise involving an internal enquiry coupled with the issue of a Consultative Document; this seems to involve the worst of both worlds with no compensating advantages, and it has now been dropped.

I am not happy about proceeding by means of an internal review. The issues involved are extremely technical and it would place an extremely unwelcome extra burden on Treasury Ministers at a time when we are contemplating a heavy fiscal legislative programme and when we are faced with the prospect of the new Select Committee on the Treasury. Furthermore, unless it resulted in radical conclusions, it would not damp down the concern that is felt about this question. My strong preference is thus for an independent committee presided over by a judge or a Silk of some experience. Only a body such as this, I feel, could carry sufficient weight with the public and satisfy them that the task had been done properly. The composition of that Committee and its terms of reference would need to be carefully thought out. In practice, the terms of reference would need, I think, to be balanced ie to leave open the possibility that the powers should be increased (although I do not think for one moment that any Conservative Minister would go to the Commons with such

a proposal). Picking the right membership for the committee would also be important. If we went down this course, I think we would have to recognise that we could not reasonably expect a report before early 1981 but, nevertheless, I feel this is the best way of tackling the manifesto commitment.

Mr recommendation would remain the same whatever the outcome of the Rossminster and Fleet Street cases in the Courts. On this point, I think we should recognise that we are likely to come under pressure to make some public statement after the Rossminster decision; the hearing is scheduled for the end of October.

It would probably be wiser, however, to make the definitive statement after the announcement of the decision of the Divisional Court in the Fleet Street case, which is expected at the end of November, and after the time for appeal has elapsed.

Peter Rees

PETER REES
9 October 1979

Orion Bank Limited

1 London Wall, London EC2Y 5JX Tel: 01-600 6222

Telex: 8811837 887701 Cables 8811837

Bond Telex: 884471 Cables: ORIONBOND

The Rt. Hon. CHRISTOPHER CHATAWAY, Managing Director

The Rt. Hon. Geoffrey Howe, MP
Chancellor of the Exchequer
11 Downing Street
London SW1

September 19th, 1979

Dear Geoffrey,

I wonder whether we could persuade you to lunch here again one day. We would like to invite at the same time about half a dozen major Middle East investors. Apart from property there has, as you know, been relatively little direct investment so far in the western world from the Middle East. We have handled a fair proportion of it with major transactions in Germany, Britain, France and Canada. We now see a far greater interest on the part of our clients and believe that the flows will be much more significant in the years immediately ahead.

I hope therefore that it might be of some interest to you to meet a few of those who are considering quite large investments here. Such a meeting would of course be of enormous interest to them.

The meeting would of course be entirely private. We would like to try to fix it before Christmas and if dinner were more convenient to you, that would suit us just as well. Perhaps your Private Office would let me know? NO

Yours ever,

Chris

Chancellor

Arrange suitable time? ✓

JN

The Chase Manhattan Corporation, Credito Italiano Holding S.A., The Mitsubishi Bank Limited, National Westminster Bank Limited, The Royal Bank of Canada, Westdeutsche Landesbank Girozentrale
Registered in London No. 995939 Registered Address: 1 London Wall, London EC2Y 5JX
Company Secretary: W. B. Gower

ORION

Chancellor - to see us

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The Rt. Hon. CHRISTOPHER CHATAWAY, Managing Direct

Do Tsy, FCO, DoI (or whoever!) hv. any background briefing on this lot?

29 November 1979

The Rt. Hon. Geoffrey Howe, MP.,
Chancellor of the Exchequer,
11 Downing Street,
London SW1.

My dear Geoffrey.

It is very good of you to agree to lunch with a group of Middle East investors on Friday December 14. This is now arranged for 1.00 p.m. at the house of Mr. Toufic Abukhater whose address is

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Those present will be:-

1. Mr. Albert Abela. His Lebanese company is principally involved in catering in the Middle East and Africa. The company is now one of the largest catering organisations in the world. It may in fact be the largest in terms of turnover and profits. Abela, who is the majority shareholder, has recently acquired a hotel in Cannes and intends now to develop his company into a major factor in the hotel, restaurant and catering businesses in Western Europe and North America.

2. Sheikh Najib Alamuddin, CDE. President of Middle East Airlines. Alamuddin was an extremely successful Chief Executive of the Airline for many years. Formerly Minister of Tourism and Minister of Public Works in the Lebanese Government he is much respected by many Middle East businessmen and plays a part in a number of Middle East investments in Europe.

3. Mr. Mouaffak Midani. He has a contracting business in Saudi Arabia. He is a 25% shareholder in Fairclough, the British contracting company. He has close links with Philips and is much involved in the telecommunications business in Saudi Arabia.

FCO
+ Personal info

He owns the Marbella Club in Spain and is reported to be the major shareholder in The Dorchester Hotel in London.

4. Mr. Toufic Abukhater. Lebanese by origin he is adviser to the ruler of Ras al Khaimah. He has publishing interests in France, which include Middle East Economic Digest and the Middle East edition of Readers Digest. He has recently acquired from Bernard Sunley, the French ski resort Isola 2000. Also active in the United States his principal interests appear to be tourism, property and publishing.

This is a small group but an influential one and I hope that you will find it an interesting occasion. I much look forward to seeing you there.

Yours ever,

Chris

FCO

F. E15

CHANCELLOR ✓

c.c. Chief Secretary
Financial Secretary
Minister of State (C)
Minister of State (L)
Mr Cardona
Mr Cropper

CHILE

However much we may deplore the political situation in Chile, its economic progress is rather impressive, and not all attributable to the absence of human rights, the power of labour to organise etc.

The attached piece from Newsweek makes this clear in general. Most interesting of all is the fantastic reduction in inflation - from 500% pa to 50, which came about with only a surprisingly short period of adverse effects on output (1975-6). This can be seen earlier on the charts. Perhaps we can be a little encouraged by all this!

AM

ADAM RIDLEY
18 September 1979

CONFIDENTIAL UNTIL 11.30 AM THURSDAY 12TH APRIL 1979

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Mr Rayner
Mr Allen
Mr Cumming
Mr P G Davies
Mr Page

MARCH RPI FIGURES

The retail price index rose by 9.8 per cent in the 12 months up to March 1979 compared with an increase of 9.6 per cent in the comparable period up to February 1979. The actual increase in the monthly index was 0.8 per cent compared with 0.8 per cent last month.

2. The annualised 6 monthly rate of increase, excluding seasonal foods, which is generally regarded as a reliable indicator of the underlying trend, rose by 9.3 per cent. This compared with the equivalent figure for the last month of 8.9 per cent.

3. Points to note:

(i) The monthly increase in the food index was 0.7 per cent. This was mainly the result of a 3.4 per cent increase in the seasonal food index due to the continuing bad weather.

(ii) The all items excluding seasonal food index rose by 0.8 per cent over the month. The increase in the sub-indices were all around this level except for alcoholic drink which was higher.

(iii) The OECD estimate for the average increase in consumer prices in its member countries over the 12 months to February was 8.5 per cent compared with the UK figure of 9.6 per cent.

(iv) These figures are unaffected by any industrial action in the civil service.

/(iv)

(iv) The Price Commission's index of notified price rises was published yesterday and showed an increase in the six months to March 1979 at an annual rate of 11.8 per cent compared with a revised figure of 10 per cent for the equivalent period up to February 1979. This movement does point to increased inflationary pressures in the economy but the increase in this index is not a good indicator of future RPI movement. This is because of differences between the indices. The RPI covers actual increases in a wide range of goods and services whilst the Price Commission index covers proposed price increases in domestically produced goods and services.

The Price Commission index takes no account of imports, fresh food, rent, rates, mortgage interest rates or the prices of any good or service produced by companies which do not have to notify proposed price rises to the Commission. As a result there are differences in the weights attached to price movements in various goods. For example, the Price Commission index gives oil prices a much greater weight than the RPI does and the March Price Commission index was heavily influenced by oil company notifications of proposed price rises.

The Price Commission index is consequently not regarded as a good indicator of the future RPI. [Retail prices never fell to the 4% annual rate which the Price Commission index was indicating in the autumn.] The most reliable indicator of the trend is the annualised 6 monthly RPI increase (i.e. 9.3 per cent).

Joseph M. Halligan.

J M Halligan
11th April 1979

PERSONAL AND CONFIDENTIAL
until 2.30 pm 12 November
then UNCLASSIFIED

Pup

FROM: I WILLIAMS
DATE: 11 November 1982

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir D Wass
Mr Quinlan
Mr Burns
Mr Kemp
Mr H P Evans
Mr Hall
Mr Allen
Mr Shields
Mr Hibberd
Mr Page
Mr Ridley

INDEX OF INDUSTRIAL PRODUCTION - SEPTEMBER AND THIRD QUARTER 1982

Provisional figures for industrial production in September will be released at 2.30 pm on Friday 12 November. The main features of both the third quarter and September figures are set out below. A summary table is provided at attachment 1 and a graph at attachment 2.

2. The overall picture in the third quarter is one of flatness all round. The all - industries index of production was unchanged between the second and third quarters of this year and the underlying level of output is still about 1½ to 2 per cent above its trough in the second quarter of 1981. Oil and gas production account for all this increase, however, and the underlying level of manufacturing output is only slightly above its trough (1981 Q2) level. A similar picture emerges from the monthly figures with total production unchanged between August and September and manufacturing production recording a barely significant fall.

3. Looking at the details, between the second and third quarters of the year there was no discernible change in construction activity but mining and quarrying and gas, electricity and water both recorded tiny upturns. North Sea production shows a quarter on quarter fall because of maintenance operations during July and August; but there is every expectation that oil production, which reached an all time record in September will continue to increase: since 1981 Q2 North Sea production has risen by 15 per cent. Ferrous metal production shows a 12½ per cent fall between the second and third quarters reflecting the continuing lack of demand for steel but engineering continues to show some increase from the strength of the electrical engineering sector. Production in many other sectors - petroleum,

chemicals, motor vehicles, bricks, pottery and gas and aerospace, for example - remains flat. Timber and furniture production rose 2½ per cent between Q2 and Q3 perhaps but paper, printing and publishing production fell 1½ per cent.

3. The preliminary indicators of industrial production in October are not very encouraging. Steel production fell a further 2,000 tonnes per week between September and October. Car production recovered from the very low September figure but commercial vehicle production fell back slightly. And the CBI Survey for October, suggests little change in total new orders and output over the next four months. The Industry Act Forecast suggests manufacturing output will fall half a point between the first and second halves of this year.

4. This month's figures are unlikely to draw much attention in the Press and we have now publicly stated that we are not too sanguine on industrial prospects for the rest of the year. Nevertheless, we can point to the continuing fall in the RPI (the October figure published tomorrow showing a fall to 6.8 per cent) and to the Industry Act Forecast showing a modest (1 per cent) increase in manufacturing output during 1983.

Line to take

The October figures confirm the picture of continung relatively flat industrial output which has been apparent for some months. Industrial production this year is lower than previously expected partly because of depressed world economic activity. Prospects of some modest recovery next year, on the back of higher world output, are good; and improved industrial productivity and competitiveness, combined with the benefits accruing from lower interest rates and inflation, provide a sounder base for expansion in the medium-term.

I Williams.

I WILLIAMS

EB

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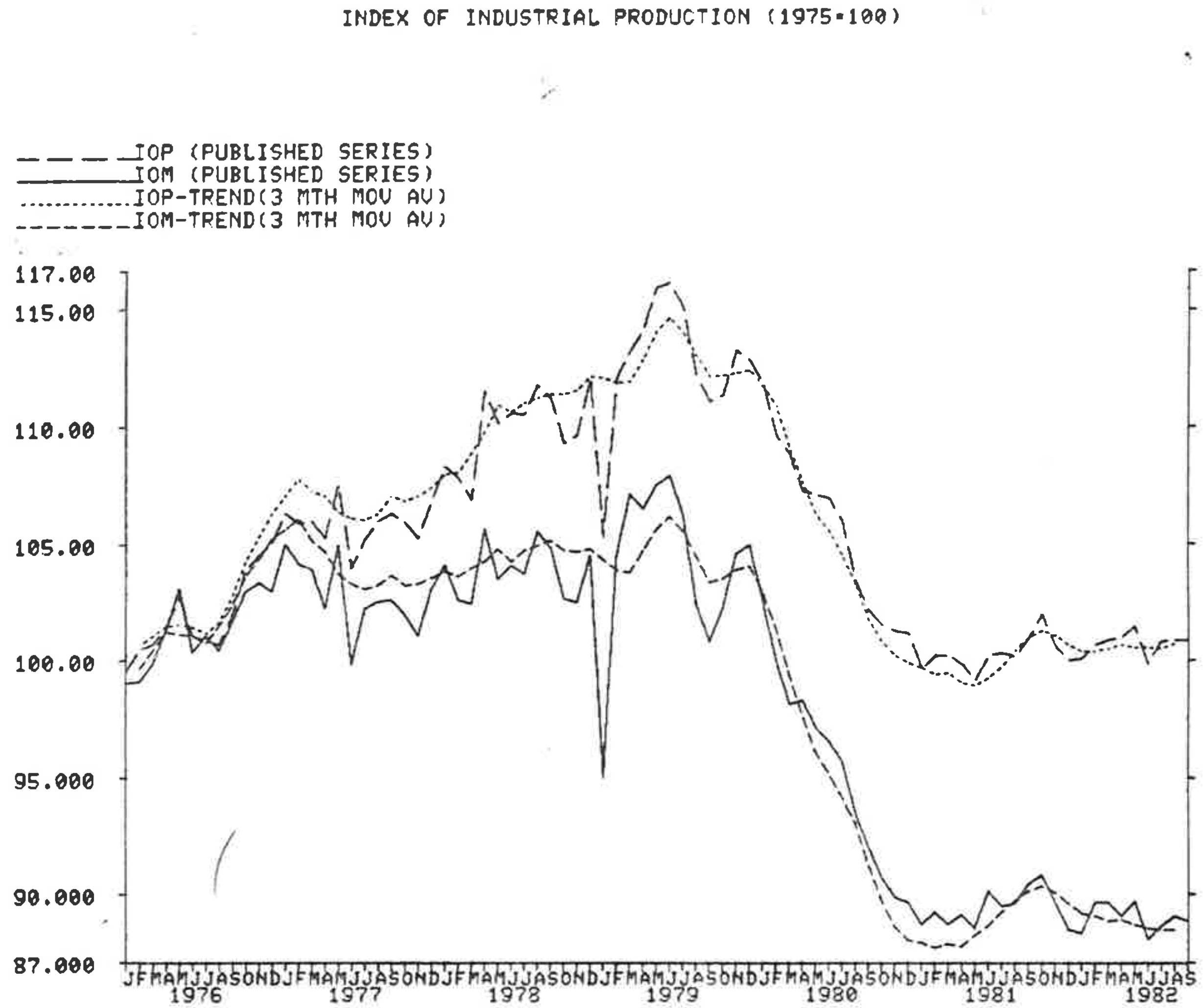
INDEX OF INDUSTRIAL PRODUCTION

1975 = 100

Output (1)		All industries	All industries ex North Sea	Total Manufacturing	North Sea oil
1981	Q1	99.4	89.5	87.8	-
	Q2	99.2	89.5	88.3	-
	Q3	100.7	91.0	90.0	-
	Q4	101.1	90.6	89.8	-
1982	Q1	100.8	90.3	89.4	-
	Q2	101.0	89.8	89.1	-
	Q3	(100.9)*	(89.6)*	(88.5)*	-
% change in year to 1982 Q2		1.8	0.3	0.9	-
Production (1)					
1981	Q1	100.2	90.3	88.9	37100
	Q2	99.9	90.2	89.3	36500
	Q3	100.6	90.9	89.9	36600
	Q4	101.0	90.5	89.6	39400
1982	Q1	100.7	90.2	89.2	39200
	Q2	100.9	89.7	88.9	42200
	Q3	101.0	89.8	88.8	41900
1982	July	100.9	89.8	88.6	-
	August	101.0	90.1	89.1	-
	September	101.0	89.6	88.8	-
% change in Q3 1982 since trough of current cycle (Q2 1981)		1.1	0.4	0.6	14.8

* Unpublished data, NOT FOR USE.



Note: the trend lines in this graph are 3 month moving averages not indicators of underlying output levels.

P38/1

COPY NO 2

MR M C SCHOLAR
Prime Minister's Office

INDEX OF INDUSTRIAL PRODUCTION - SEPTEMBER 1982

The provisional Index of Industrial Production for September 1982 will be issued at 2.30 pm on Friday 12 November. A copy of the Press Notice is attached.

Latest figures

The all-industries index for September is provisionally estimated at 101.0 (1975=100, seasonally adjusted), showing little or no change on the previous two months. The September index for manufacturing industries (at 88.8) is a little below that for August. Changes in the all-industries' and the manufacturing industries' index numbers between the second and third quarters of this year are negligible.

Assessment

Manufacturing output, which had risen by some 2½ to 3 per cent between Spring and Autumn of last year, hesitated and fell back from its high Autumn level during the winter and since then has shown little further change. The current underlying level is now only ½ to 1 per cent above its Spring 1981 trough. Output of the construction industry, which fell back to its Spring 1981 level during the adverse weather at the end of last year, remains depressed. The growth in oil and gas extraction, though interrupted slightly by maintenance work during the Summer months, continues to boost total activity in the longer term. So, while total activity remains 1½ to 2 per cent above its low point in 1981, the underlying level of total output other than oil and gas extraction has returned to around its trough level, after its small recovery during 1981.

Figures for October 1982 are scheduled to be published on Monday 13 December 1982.

Shirley Carter

Shirley Carter

11 November 1982
Central Statistical Office

Personal numbered copies of the minute and attachment to:

Treasury	(Principal Private Secretary (Sir Douglas Wass
Cabinet Office	(Sir Robert Armstrong (Sir John Boreham
Department of Industry	(Private Secretary Secretary of State's Office
	(Private Secretary to Mr Norman Lamont
	(Private Secretary to Mr Kenneth Baker
	(Private Secretary to Mr John Butcher
	(Private Secretary to Mr John MacGregor
	(Sir Peter Carey (Mr L S Berman (Mr H H Liesner (Mr J Gill
Bank of England	(Rt Hon Gordon Richardson

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12 November 1982

INDEX OF INDUSTRIAL PRODUCTION - SEPTEMBER 1982

The all-industries' index of production was unchanged between the second and third quarters of this year, suggesting that the underlying level of output has remained 1½ to 2 per cent above its trough in the second quarter of 1981. This reflects primarily a 15 per cent increase in oil and gas extraction from its level in the second quarter of 1981.

All-industries' index

The all-industries' index of production for September is provisionally estimated at 101.0 (1975=100; seasonally adjusted). In the third quarter, the index was unchanged from the second quarter and ½ per cent above the level in the same quarter a year earlier; the index for all industries other than oil and gas extraction was unchanged from the previous quarter and 1 per cent below the level in the corresponding quarter of 1981. (See also paragraph on level of output.)

Analysis by industry

The index of manufacturing production in the latest quarter was unchanged from the previous quarter and 1 per cent below its level in the same period a year earlier. Engineering and allied industries rose by 1 per cent and food, drink and tobacco by ½ per cent between the two latest quarters; chemicals, coal and petroleum products industries and other manufacturing were unchanged while textiles, leather and clothing fell by ½ per cent and metal manufacture by 10 per cent.

Output of the mining and quarrying sector in the third quarter was some $\frac{1}{2}$ per cent above that in the previous quarter. Within this sector, oil and gas extraction in the third quarter was some 1 per cent below the second quarter but $14\frac{1}{2}$ per cent above its level in the same quarter of 1981. Output of gas, electricity and water in the third quarter was 1 per cent above its level in the previous quarter. Preliminary estimates suggest that output of the construction industry in the third quarter was unchanged from the previous quarter.

Market sector analysis

Output of investment goods industries rose by 1 per cent between the two latest quarters while outputs of intermediate goods and of consumer goods industries were unchanged. Comparisons with a year ago show a rise of 4 per cent in investment goods and of 1 per cent in intermediate goods while consumer goods fell by 2 per cent.

Level of output

Where index of production indicators do not take account of changes in manufacturers stocks, the index numbers in Tables 1 and 2 may overstate or understate the level of output. Table 3 allows for this by adjusting for changes in the levels of stocks in these sectors and provides better assessments of the quarterly movements in output. While there was a fall of $\frac{1}{2}$ per cent between the second quarters of 1981 and 1982 in manufacturing production as measured by the short-period index numbers in Table 1, the implied level of output is estimated to have increased by nearly 1 per cent; for all-industries the implied level of output increased by $1\frac{1}{2}$ to 2 per cent over the same period.

NOTES TO EDITORS

1. More detailed tables on the index of industrial production are published regularly in "British Business" and the "Monthly Digest of Statistics". The compilation of the index is described in "The rebased estimates of the index of industrial production", Economic Trends, May 1979. An Occasional Paper is available describing the weights and indicators used.This and unadjusted data and index numbers for specific industries may be obtained from Branch 4, Central Statistical Office.

2. The index is a weighted average of some 350 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 18 per cent of manufacturing activity and 69 per cent of other activity, only quarterly data are available.

3. Many series within the index of industrial production measure either final production or deliveries. Neither type of series takes account of changes in stocks of work in progress and series based on deliveries do not take account of changes in stocks of finished goods. Information about changes in manufacturers' stocks is available quarterly in arrears of the latest index. Table 3 of this press notice uses this information together with the basic monthly index shown in Tables 1 and 2 to give a better indication of longer term movements in the level of output.

4. 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.

5. Estimates for the latest months are always based on partial information and should be regarded as provisional and subject to revision as more complete data become available. Since the introduction of the 1975-based series in September 1978, the average revision (regardless of sign) to the all-industries' index has been one half of one 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 has been one quarter of a percentage point over the same period. An Occasional Paper is available from Branch 4, Central Statistical Office, describing the effects of revisions in detail.

6. Much of the index of production is benchmarked retrospectively using the quarterly sales inquiries conducted by the Business Statistics Office (BSO). From the first quarter of 1981 the number of firms approached has been reduced significantly. Additionally, changes are being made to the samples for some of the BSO monthly sales inquiries which supplement these quarterly inquiries. Until these changes are complete the margins of error attached to the index numbers may be wider than in the past.

7. For the construction industry, the Department of the Environment has provided preliminary estimates for the latest quarter which are based, in advance of receipt of regular returns from the industry, on broad indicators of activity.

8. The definition of "construction" in Table 1 covers only MLH 500 and therefore excludes own account construction of the gas, electricity and water supply industries, with a weight of 8 parts per thousand, which is included in estimates of output for the supply industries. The series for all industries other than construction is after deduction of all construction activities.

INDEX OF INDUSTRIAL PRODUCTION TABLE 1

Industrial analysis

Average 1975=100

	Total all industries	All industries other than MLH 104 (1)	All industries other than construction	Broad industry groups			
				Total manufacturing industries	Mining and quarrying	Construction	Gas, electricity and water
1975 Weights	1000	999.7	810	697	41	182	80
1976	102.1	100.7	102.8	101.4	127.9	98.6	102.3
1977	106.1	101.9	107.8	103.0	193.5	98.2	106.4
1978	110.3	104.2	111.5	104.0	241.1	104.9	109.7
1979	113.0	104.2	115.7	104.3	307.3	101.3	116.1
1980	105.8	96.8	108.1	95.4	312.9	95.9	113.0
1981	100.4	90.5	103.9	89.4	332.4	85.0	112.7
Seasonally adjusted							
1981 1	100.2	90.3	103.1	88.9	331.0	87.3	110.0
2	99.9	90.2	103.6	89.3	327.0	83.5	113.3
3	100.6	90.9	103.9	89.9	327.3	86.1	111.5
4	101.0	90.5	105.0	89.6	344.4	83.0	116.2
1982 1	100.7	90.2	104.3	89.2	344.8	84.3	112.7
2	100.9	89.7	104.8	88.9	361.3	83.9	110.4
3	101.0	89.8	104.9	88.8	363.0	84(3)	111.3
1981 J	100.5	91.0	103.7	89.5	320		116
A	100.3	90.6	103.5	89.6	326		110
S	101.1	91.0	104.5	90.5	335		108
O	102.1	91.6	106.4	90.8	346		119
N	100.7	90.1	104.7	89.6	347		111
D	100.2	89.8	104.0	88.5	340		118
1982 J	100.2	89.8	103.7	88.3	344		115
F	100.8	90.5	104.5	89.7	342		111
M	101.0	90.4	104.8	89.6	348		111
A	101.1	89.8	105.0	89.1	364		110
M	101.6	90.2	105.7	89.7	366		110
J	100.0	89.0	103.7	88.0	354		111
J	100.9	89.8	104.8	88.6	362		113
A	101.0	90.1	104.9	89.1	359		112
S	101.0	89.6	104.9	88.8	368		109
% 3-month on 3-month change (2)	+0.1	+0.2	+0.1	-0.1	+0.5		+0.8

(1) MLH 104 : extraction of mineral oil and natural gas.
(2) Average of July to September 1982 compared with the average of April to June 1982.
(3) Preliminary estimate.

INDEX OF INDUSTRIAL PRODUCTION TABLE 2

Further analysis

Average 1975=100

	Broad groups within manufacturing industry						Market sectors excluding construction industry		
	Food, drink and tobacco	Chemicals, coal and petroleum products	Metal manufacture	Engineering and allied industries	Textiles, leather and clothing	Other manufac-turing	Consumer goods industries	Investment goods industries	Intermediate goods industries
1975 Weights	77	66	47	298	67	142	243	218	349
1976	102.5	111.2	104.9	97.6	100.8	103.6	101.7	96.9	107.2
1977	104.0	114.2	104.4	99.2	101.5	105.3	104.6	98.3	116.0
1978	106.3	115.0	103.4	99.8	101.3	108.1	107.0	99.1	122.4
1979	107.6	117.4	104.6	99.0	99.9	109.6	106.4	100.1	132.0
1980	106.6	107.7	74.7	93.4	84.1	100.1	98.4	97.3	121.7
1981	103.8	105.5	78.6	85.5	75.8	92.4	93.4	89.2	120.4
Seasonally adjusted									
1981 1	105.2	102.3	75.8	84.4	76.7	93.1	93.4	88.7	118.8
2	102.4	105.1	78.4	85.5	75.5	92.7	93.1	89.7	119.6
3	103.4	108.6	77.8	86.2	75.4	92.4	93.7	89.2	120.2
4	104.4	106.1	82.3	85.7	75.5	91.4	93.4	89.1	123.1
1982 1	105.8	104.1	80.9	86.1	74.4	89.6	92.4	90.6	121.2
2	105.6	105.2	78.0	86.7	71.8	88.9	91.8	91.9	121.9
3	106.2	105.2	70.1	87.5	71.5	89.0	91.7	92.7	121.6
1981 J	102	107	76	86	74	93	94	89	120
A	104	107	77	86	76	92	94	89	119
S	104	112	80	87	76	92	93	90	122
O	105	108	84	86	76	94	95	89	125
N	105	107	82	85	76	92	93	89	123
D	103	103	81	86	75	89	93	89	121
1982 J	103	102	81	85	75	90	91	90	121
F	108	103	84	86	75	90	93	91	121
M	106	107	78	87	73	90	93	91	121
A	104	105	81	86	73	90	91	92	123
M	106	104	80	87	74	90	93	92	123
J	106	107	73	87	68	87	91	92	120
J	105	107	70	87	71	89	92	92	122
A	106	105	71	88	71	90	92	93	121
S	107	105	69	88	73	87	91	93	122
% 3-month on 3-month change (1)	+0.6	+0.1	-10.2	+1.0	-0.4	+0.1	-0.1	+0.9	-0.2

(1) Average of July to September 1982 compared with the average of April to June 1982.

INDEX OF INDUSTRIAL PRODUCTION TABLE 3

Implied level of output

Average 1975=100

	Total all industries	All industries other than MLH 104 (1)	All industries other than construction	Total manufacturing industries
1975 Weights	1000	999.7	810	697
1973	109.7	109.5	107.9	108.8
1974	105.7	105.7	105.7	107.5
1975	100.0	100.0	100.0	100.0
1976	102.5	101.1	103.3	102.0
1977	106.8	102.6	108.6	103.9
1978	110.6	104.5	111.9	104.5
1979	113.2	104.4	115.9	104.6
1980	105.6	96.6	107.8	95.1
1981	100.1	90.2	103.5	89.0
Seasonally adjusted				
1973 1	110.0	109.9	107.5	108.2
2	109.6	109.5	107.7	108.3
3	110.1	109.9	108.4	109.3
4	109.1	108.9	107.9	109.4
1974 1	102.1	102.0	100.4	104.0
2	108.7	108.8	109.0	110.7
3	108.1	108.1	108.9	109.9
4	103.9	103.9	104.8	105.4
1975 1	102.8	103.1	103.4	104.3
2	99.5	99.6	99.3	99.2
3	98.1	98.1	97.7	97.7
4	99.5	99.2	99.6	98.9
1976 1	100.9	100.2	100.9	100.2
2	101.9	100.7	102.7	101.7
3	101.6	100.1	102.7	101.6
4	105.6	103.2	106.8	104.5
1977 1	107.2	103.6	109.4	105.8
2	106.6	102.3	108.7	103.7
3	106.3	102.0	108.1	103.0
4	106.9	102.3	108.4	103.2
1978 1	108.2	103.1	109.8	103.7
2	111.4	105.4	112.3	105.1
3	111.7	105.5	112.9	105.3
4	111.0	104.0	112.5	104.0
1979 1	110.7	102.5	113.9	102.8
2	115.8	106.9	118.8	107.6
3	113.4	104.1	115.8	103.7
4	112.9	104.2	115.4	104.3
1980 1	110.6	101.5	112.9	100.7
2	107.4	98.5	109.6	97.5
3	103.8	95.2	106.0	93.5
4	100.5	91.1	102.9	88.7
1981 1	99.4	89.5	102.2	87.8
2	99.2	89.5	102.8	88.3
3	100.7	91.0	104.0	90.0
4	101.1	90.6	105.2	89.8
1982 1	100.8	90.3	104.5	89.4
2	101.0	89.8	104.9	89.1

Some indicators within the index of industrial production are based on sales data, which may overstate or understate the level of output. The index numbers in Table 3 allow for this by adjusting for changes in the levels of stocks for these sectors. These series are only available quarterly and in arrears of the latest index data. Index numbers for the six broad groups within manufacturing industry are published in Table 7.2 of the "Monthly Digest of Statistics".

(1) MLH 104 : extraction of mineral oil and natural gas.

INDEX OF INDUSTRIAL PRODUCTION TABLE 4

Output of mineral oil and natural gas (1)

	1975=100	Rescaled 1976=100	Percentage change
			over previous year
1976 (2)	5403	(100)	
1977	15818	(293)	+193
1978	23021	(426)	+46
1979	33106	(613)	+44
1980	33889	(627)	+2
1981	37399	(692)	+10
Seasonally adjusted			over previous quarter
1976 1	2600	(48)	
2	4300	(80)	+68
3	5600	(104)	+30
4	9100	(169)	+62
1977 1	13500	(250)	+48
2	16200	(299)	+20
3	16300	(301)	+1
4	17300	(321)	+6
1978 1	19500	(361)	+13
2	22600	(418)	+16
3	23500	(435)	+4
4	26400	(489)	+12
1979 1	30900	(572)	+17
2	33600	(622)	+9
3	34900	(647)	+4
4	33000	(610)	-6
1980 1	34400	(636)	+4
2	33400	(618)	-3
3	32400	(600)	-3
4	35400	(655)	+9
1981 1	37100	(687)	+5
2	36500	(675)	-2
3	36600	(678)	-
4	39400	(729)	+8
1982 1	39200	(726)	-
2	42200	(780)	+7
3	41900	(776)	-1

(1) Exploration for, and extraction of, mineral oil, natural gas and natural gas condensates (on land and offshore) classified to Minimum List Heading 104 of Order II Mining and Quarrying of the Standard Industrial Classification 1968 (MLH 104).

(2) Because changes in output of this industry are measured net of exploration costs, which were relatively high in 1975, there is a large movement in the index numbers between 1975 and 1976 which should not be interpreted as wholly reflecting increased oil and natural gas extraction. The period to period changes recorded from 1976 onwards, however, mainly reflect the movements in oil and natural gas extraction activity.

RESTRICTED

FROM: MISS J C SIMPSON
DATE: 20 December 1983

MR HALL

(PH)

cc PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
PS/Economic Secretary
Mr Middleton
Sir T Burns
Mr Anson
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Monck
Mr Odling-Smee
Mr Shields
Mr Folger
Mr Mowl
Mr Hibberd
Mr Spencer
Ms Brodie
Mr Lord
Mr Portillo
Mr Ridley
Miss Carter (CSO)

GDP FIGURES FOR THIRD QUARTER

The Chancellor has seen Mr Shields' minute of 19 December, with the analysis of the GDP measures to be published today.

2. He is anxious that a line to take in answering press enquiries should include reference to the fact that "company profits continued to improve quite strongly with an increase of approaching 30 per cent in the year to the third quarter of 1983". This is paragraph 3(vii) in Miss Carter's note covering the CSO press notice.

JB

MISS J C SIMPSON

RESTRICTED

FROM: JON SHIELDS
19 DECEMBER 1983

CHANCELLOR OF THE EXCHEQUER

Look [illegible] to [illegible] [illegible] + [illegible]

cc:

Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr Middleton
Sir Terence Burns
Mr Anson
Mr Byatt
Mr Cassell
Mr Battishill
Mr Evans
Mr Monck
Mr Odling-Smee
Mr Folger
Mr M Hall
Mr Mowl
Mr Hibberd
Mr Spencer
Ms Brodie

Mr Lord
Mr Portillo
Mr Ridley

Miss Carter (CSO)

GDP FIGURES FOR THIRD QUARTER

The CSO will be publishing provisional estimates for all three measures of GDP tomorrow (Tuesday 20 December at 2.30 p.m.). A Press Notice is attached (full version, top copy only).

2. The only previous estimate published for GDP in the third quarter was the preliminary estimate for the output measure GDP(O). This showed a rise of about 1 per cent on the second quarter. The latest figures put the increase in GDP(O) at 1.2 per cent. GDP(E) and GDP(I) are shown rising by 0.6 per cent and 0.7 per cent respectively.

3. As the output measure GDP(O) is generally considered the most reliable indicator for quarter-to-quarter movements, the figures should be taken as fairly encouraging. But there will be considerable interest in whether data for "average" GDP cast doubt on the Autumn Statement forecast of a rise of about 3 per cent between 1982 and 1983. Growth between the first three quarters of 1982 and 1983 on the average measure was just over $2\frac{3}{4}$ per cent. To achieve an increase year-on-year of 2.8 per cent (rounding to 3 per cent) would, on these figures, require growth of at least 1.3 per cent between the third and fourth quarters of 1983 - faster than seen recently, but not implausible. Data revisions are of course to be expected along with publication of the fourth quarter numbers in March.

4. The Press Notice gives prominence to the rise of $2\frac{3}{4}$ per cent in the average measure between the third quarters of 1982 and 1983:

		GDP (Index, 1980 = 100)			
	Expenditure Measure	Income Measure	Output Measure	Average Measure	Average Measure: Growth on a year earlier (per cent)
1981	99.0	98.3	98.0	98.5	- 1.5
1982	101.3	100.4	99.3	100.3	1.8
1982 Q1	100.3	100.3	98.5	99.7	1.6
Q2	100.8	100.1	99.2	100.0	2.7
Q3	100.7	100.2	99.7	100.2	1.8
Q4	103.6	100.9	99.9	101.5	1.6
1983 Q1	105.1	103.5	100.7	103.1	3.4
Q2	103.1	102.8	100.7	102.2	2.2
Q3	103.7	103.5	101.9	103.0	2.8

5. We shall be submitting tomorrow the first of a regular series of notes on "activity and the labour market" which will look at these latest figures against the background of the latest (Autumn Statement) forecast.

Line to take

(i) Figures consistent with GDP growing at 2½ to 3 per cent a year.

(ii) Output measure, best indicator of quarter-to-quarter movements, does not suggest any slowing-down of economic growth.

(iii) No reason to revise Autumn Statement forecast of about 3 per cent growth in 1983 on 1982.

(iv) Cyclical indicators (published last Thursday) confirm continuing recovery.

J.H.S.

JON SHIELDS

Ref : D4/5

E029

MR TURNBULL (Prime Minister's Office) (2 copies)
MISS STEVENS (Prime Minister's Office)
MR HATFIELD (Cabinet Office)
SIR TERENCE BURNS (Treasury)
MR FOLGER (Treasury)
MR SHIELDS (Treasury)
MR HIBBERD (Treasury)

Sir John Boreham)
Mr Flaxen)
Mr Mansell)
Mr Kavanagh) CSO
Mr Newman)
Mr Hale)

GROSS DOMESTIC PRODUCT IN THE THIRD QUARTER 1983

Provisional estimates of gross domestic product (GDP) for the third quarter of 1983 will be released at 14.30 hours on Tuesday 20 December. A copy of the press notice is attached. The figures indicate that economic activity has maintained its improvement from the low point in 1981.

2. There are three ways of estimating gross domestic product (GDP): by adding together each industry's net output, which gives the output measure GDP(O); by adding together the different types of final expenditure, which gives the expenditure measure GDP(E); and by adding together the incomes generated, which gives the income measure GDP(I). In principle the three measures should give the same results, but in practice quite big differences can sometimes occur. GDP(O) is usually the best indicator of short-term movements: for medium or longer-term comparisons the average of the three measures is preferred.

3. The main points of interest in the press notice are as follows.

(i) The average measure of GDP (at constant prices) in the third quarter of 1983 was 2¾ per cent higher than a year earlier, the same rate of increase as in the year to the first half of 1983. The third quarter figure was more than 5½ per cent above its trough in the second quarter of 1981.

(ii) The output measure rose by more than one per cent between the second and third quarters of 1983.

(iii) "Money GDP" (GDP at current market prices) increased by 8½ per cent between the third quarters of 1982 and 1983, much the same as the increase between the first halves of 1982 and 1983.

(iv) The real income of the country (as shown by gross national disposable income at constant prices) rose by 3 per cent in the year to the third quarter of 1983.

(v) Consumers' expenditure continued to increase in real terms, by one per cent in the third quarter of 1983 to a level 4 per cent higher than a year earlier.

(vi) Total fixed investment increased by over 2 per cent in real terms between the third quarters of 1982 and 1983.

X (vii) Company profits continued to improve quite strongly with an increase of approaching 30 per cent in the year to the third quarter of 1983.

Shirley Carter

Shirley Carter

Central Statistical Office
01-233 7349
19 December 1983

PRESS AND INFORMATION SERVICE

CSO

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LONDON
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CSO(83)99

20 December 1983

GROSS DOMESTIC PRODUCT IN THE THIRD QUARTER OF 1983

The provisional estimates of gross domestic product (GDP) for the third quarter of 1983 indicate that economic activity maintained its improvement from the low point in 1981. The average measure of GDP at constant factor cost in the third quarter was 2¾ per cent higher than a year earlier, the same rate of increase as in the year to the first half of 1983. The third quarter figure was more than 5½ per cent above its trough in the second quarter of 1981. The output measure, usually the best indicator of short term movements, increased by more than one per cent between the second and third quarters of 1983, to a level 2¼ per cent higher than a year earlier.

GDP at current market prices ("money GDP") increased by 8½ per cent between the third quarters of 1982 and 1983, much the same as the increase between the first halves of 1982 and 1983.

The real income of the United Kingdom, as shown by gross national disposable income at constant prices, rose by 3 per cent in the year to the third quarter of 1983.

The increase compared with a year earlier in the implied index of total home costs ("the factor cost GDP deflator") was 6½ per cent in the third quarter of 1983, similar to that in the first half of the year. This rate of increase is about one per cent more than that shown by the market price GDP deflator; this difference mainly reflects reductions in the national insurance surcharge, which is treated as a tax on expenditure in the national accounts and therefore only has an impact on market price assessments.

Estimates of GDP at current and constant prices, of gross national disposable income at constant prices, of the index of total home costs and of the GDP market price deflator are given in index number form on page 2.

prepared by the Government Statistical Service

GROSS DOMESTIC PRODUCT AT FACTOR COST, TOTAL HOME COSTS, AND NATIONAL DISPOSABLE INCOME REVALUED AT CONSTANT MARKET PRICES

INDEX NUMBERS

SEASONALLY ADJUSTED

1980 = 100

		Gross domestic product			Implied market price GDP deflator	Gross domestic product				Implied index of total home costs	National disposable income at 1980 market prices
		At current prices				At 1980 prices					
		Based on expenditure data	Based on income data	Average estimate[1]	Average estimate	Based on expenditure data	Based on income data[3]	Based on output data	Average estimate	Based on expenditure data	Average estimate
1977		65.2†	64.3	63.3†	65.7†	98.0†	96.6	97.3	97.3†	66.6	93.9†
1978		75.0	74.0†	72.9	72.9	100.8	99.6	100.4	100.3	74.3	98.6
1979		86.1	85.7	85.6	83.5	102.5	102.1	103.3	102.6	84.0	101.7
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		109.1	108.4	109.7	111.6	99.0	98.3	98.0†	98.5	110.2	99.5
1982		118.8	117.7	120.0	119.6	101.3	100.4†	99.3	100.3	117.2†	101.3
1978	1	71.7†	70.5	69.4	70.6	99.0†	97.4†	98.4	98.3	72.4	96.8†
	2	74.4	73.0	71.9	71.6	102.1	100.3	100.5	100.9†	72.8	98.9
	3	75.9	75.5†	74.2	73.8	100.7	100.2	101.3†	100.7	75.4	99.1
	4	77.9	77.1	76.3†	75.8	101.5	100.4	101.6	101.2	76.8	99.5
1979	1	79.0	79.1	78.2	78.0	99.5	99.5	101.0	100.0	79.5†	99.7
	2	85.3	84.3	83.9	80.5	104.2	103.0	104.8	104.0	81.9	102.8
	3	88.8	87.8	88.5	86.0†	103.9	102.7	103.4	103.4	85.4	102.4
	4	91.4	91.7	92.0	89.3	102.6	103.0	103.9	103.2	89.0	102.1
1980	1	94.7	96.1	95.9	93.6	101.4	102.8	102.7	102.3	93.4	101.9
	2	98.6	99.8	99.1	98.6	100.3	101.4	100.7	100.8	98.4	100.1
	3	101.8	100.8	101.1	102.5	99.2	98.2	98.9	98.8	102.6	99.0
	4	104.8	103.3	103.9	105.6	99.1	97.6	97.7	98.1	105.8	99.1
1981	1	107.3	103.8	105.6	107.7	100.0	96.7	97.5	98.1	107.3	99.7
	2	107.1	105.9	107.7	110.7	97.9	96.8	97.5	97.4	109.4	98.8
	3	109.7	110.1	111.4	113.2	98.2	98.6	98.5	98.4	111.7	99.2
	4	112.4	113.7	114.2	114.8	100.0	101.3	98.6	99.9	112.4	100.5
1982	1	113.3	113.4	116.1	116.5	100.3	100.3	98.5	99.7	113.0	100.1
	2	118.0	117.2	119.1	119.1	100.8	100.1	99.2	100.0	117.1	100.6
	3	119.5	118.9	121.2	120.8	100.7	100.2	99.7	100.2	118.6	101.4
	4	124.4	121.2	123.7	121.9	103.6	100.9	99.9	101.5	120.1	103.0
1983	1	127.5	125.6	127.1	123.4	105.1	103.5	100.7	103.1	121.4	103.6
	2	127.2	126.9	127.7	124.8	103.1	102.8	100.7	102.2	123.4	102.2
	3	130.9	130.7	131.5	127.4	103.7	103.5	101.9	103.0	126.3	104.4

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 Measured at market prices.
3 Income data deflated by the index of total home costs.

Expenditure at constant 1980 prices (Table B)

The expenditure measure of gross domestic product in the third quarter of 1983 was 3 per cent higher than a year earlier. This measure has moved somewhat unevenly in recent quarters and it now appears that the figures for the fourth quarter of 1982 and the first quarter of 1983 were erratically high. The second and third quarter estimates probably reflect the rate of growth since mid-1982 more accurately.

Consumers' expenditure increased by one per cent in the third quarter of 1983 to a level 4 per cent higher than a year earlier. General government final expenditure and fixed investment both grew by over 2 per cent between the third quarters of 1982 and 1983. The balance of overseas trade in goods and services worsened, however, as a result of a faster rise in imports than in exports. There was little change in stocks in either the second or third quarters of 1983. There had been some stockbuilding in the first quarter of 1983 but destocking during the second half of 1982.

Income at current prices (Table C)

Comapny profits continue to improve quite strongly. Currently, it is estimated that company gross trading profits grew by approaching 30 per cent between the third quarters of 1982 and 1983. Over the same period, income from employment rose by 7 per cent, with a larger increase in average earnings offset to some extent by reduced employment. The gross trading surplus of public corporations went up by about 2½ per cent.

When deflated by the index of total home costs, the income measure of GDP increased by 3¼ per cent between the third quarters of 1982 and 1983.

Output at constant 1980 prices (Table D)

The output measure of GDP increased by more than 1 per cent between the second and third quarters of 1983, following little change between the first and second quarters. On this measure, total output was 2¼ per cent above the level of a year earlier. Output of the production industries rose by about 1 per cent between the second and third quarters but manufacturing showed a smaller increase. There was a 6½ per cent rise in construction output, reflecting in part the effects of the unusual weather conditions in both quarters. Activity increased by about 2 per cent in both distribution and transport, with a small rise over the rest of the service sector.

Consu s' expenditure (Tables E and F)

At constant 1980 prices. consumers' expenditure increased by one per cent between the second and third quarters of 1983 to a level 4 per cent above the third quarter of 1982. Spending on durable goods increased by about 6 per cent over the second quarter reflecting the heavy demand for cars in August. Consumption of beer was also up by 6 per cent. The increase in the other services category is mainly accounted for by an increase in spending abroad. On the other hand, spending on food and on energy, which had been unusually high in the second quarter, fell back in the third.

At current prices, consumers' expenditure rose by 2 per cent between the second and third quarters of 1983.

NOTES TO EDITORS

The text of this press notice is based on seasonally adjusted data.

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.

From this quarter. the index numbers of the implied market price GDP deflator are being given in the table on page 2. Previously, this index was published only in table 6 of Economic Trends. This index differs from the implied index of total home costs (the implied factor cost GDP deflator) in that it includes the effects of indirect taxes (eg. VAT) and subsidies on the prices of goods and services whilst the index of home costs excludes these effects.

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT CURRENT PRICES

Seasonally adjusted

TABLE A

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	General government consumption: Total	General government consumption: Central government	General government consumption: Local authorities	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
1977		144 793	128 072	187 370	86 712	29 262	17 614	11 648	25 907	1 858	43 631	42 577	16 721
1978		166 502	147 207	212 013	99 596	33 071	19 808	13 263	29 845	1 716	47 785	45 511	19 295
1979		194 428†	169 119†	248 969†	118 503†	38 361	22 961	15 400	34 816†	2 126	55 163	54 541	25 309
1980		227 248	196 394	284 950	137 324	48 419	29 474	18 945	39 241	-3 236	63 202	57 702	30 854
1981		250 554	214 274	311 145	152 836	54 538	33 170	21 368	38 998	-3 075	67 848	60 591	36 280†
1982		274 993	233 267	342 159	167 899	59 946†	36 543†	23 403†	42 282	-1 106†	73 138†	67 166†	41 726
1979	1	44 191†	38 804†	56 341†	27 081†	8 820	5 307	3 513	7 929†	781	11 730	12 150	5 387
	2	47 715	41 870	61 517	29 305	9 302	5 558	3 744	8 468	165	14 277	13 802	5 845
	3	50 484	43 590	64 334	30 387	9 946	5 911	4 035	8 946	872	14 183	13 850	6 894
	4	52 038	44 855	66 777	31 730	10 293	6 185	4 108	9 473	308	14 973	14 739	7 183
1980	1	54 035	46 509	69 305	33 228	11 091	6 717	4 374	9 606	-594	15 974	15 270	7 526
	2	56 036	48 430	71 099	33 879	11 627	7 099	4 528	9 816	-101	15 878	15 063	7 606
	3	57 658	49 993	71 480	34 717	12 602	7 656	4 946	9 875	-1 312	15 598	13 822	7 665
	4	59 519	51 462	73 066	35 500	13 099	8 002	5 097	9 944	-1 229	15 752	13 547	8 057
1981	1	61 036	52 683	74 166	36 615	13 119	7 992	5 127	9 735	-1 192	15 889	13 130	8 353†
	2	61 439	52 567	75 628	37 837	13 099	7 816	5 283	9 627	-1 330	16 395	14 189	8 872
	3	63 155	53 860	79 731	38 722	14 153	8 669	5 484	9 758	-355	17 453	16 576	9 295
	4	64 924	55 164	81 620	39 662	14 167	8 693	5 474	9 878	-198	18 111	16 696	9 760
1982	1	66 251	55 628	82 842	40 163	14 572†	8 989†	5 583	10 432	-205†	17 880†	16 591†	10 623
	2	68 076	57 918	85 194	41 456	14 849	9 038	5 811†	10 268	356	18 265	17 118	10 158
	3	69 125	58 654	85 729	42 541	15 011	9 128	5 883	10 761	-572	17 988	16 604	10 471
	4	71 541	61 067	88 394	43 739	15 514	9 388	6 126	10 821	-685	19 005	16 853	10 474
1983	1	73 419	62 616	91 937	44 238	16 383	10 102	6 281	11 259	582	19 475	18 518	10 803
	2	73 110	62 477	92 005	45 366	16 099	9 769	6 330	11 052	50	19 438	18 895	10 633
	3	75 098	64 286	93 998	46 355	16 518	10 135	6 383	11 388	51	19 686	18 900	10 812

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES(1)

Seasonally adjusted

TABLE B

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	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
1977		220 505	192 371	272 734	124 646	45 734	27 876	17 879	39 851	2 638	59 913	52 251	27 763
1978		228 270	198 000	282 537	131 485	46 728	28 184	18 544	41 210	2 090	61 024	54 267	30 270
1979		232 877†	201 385†	292 785†	138 004†	47 612	28 560	19 052	41 411†	2 490	63 268	59 908	31 492
1980		227 248	196 394	284 950	137 324	48 419	29 474	18 945	39 241	-3 236	63 202	57 702	30 854
1981		224 467	194 444	280 723	137 559	48 329	29 650	18 679	35 553	-2 655	61 937	56 256	30 023
1982		229 935	199 008	287 952	139 552	48 942†	29 838†	19 104†	37 627	-981†	62 812†	58 017†	30 927
1979	1	56 656†	48 828†	70 551†	33 677†	11 787	7 093	4 694	10 127†	852	14 108	13 895	7 828
	2	59 288	51 153	74 633	35 323	11 956	7 177	4 779	10 330	279	16 745	15 345	8 135
	3	58 646	51 016	73 907	34 309	11 939	7 157	4 782	10 455	1 040	16 164	15 261	7 630
	4	58 287	50 388	73 694	34 695	11 930	7 133	4 797	10 499	319	16 251	15 407	7 899
1980	1	57 743	49 779	73 281	34 911	12 074	7 265	4 809	10 238	-501	16 559	15 538	7 964
	2	56 859	49 233	71 821	34 128	12 006	7 298	4 708	9 989	-135	15 833	14 962	7 626
	3	56 266	48 722	70 030	34 134	12 100	7 406	4 694	9 645	-1 201	15 352	13 764	7 544
	4	56 380	48 660	69 818	34 151	12 239	7 505	4 734	9 369	-1 399	15 458	13 438	7 720
1981	1	56 641	49 098	69 633	34 423	12 084	7 436	4 648	8 983	-1 010	15 153	12 992	7 543
	2	55 478	48 048	69 030	34 380	11 954	7 327	4 627	8 803	-1 329	15 222	13 552	7 430
	3	55 797	48 199	70 859	34 329	12 245	7 520	4 725	8 812	-182	15 655	15 062	7 598
	4	56 551	49 099	71 201	34 427	12 046	7 367	4 679	8 955	-134	15 907	14 650	7 452
1982	1	56 889	49 234	71 515	34 235	12 171†	7 470†	4 701	9 371	60†	15 678†	14 626†	7 655
	2	57 177	49 475	72 054	34 596	12 175	7 444	4 731†	9 145	244	15 894	14 877	7 702
	3	57 209	49 438	71 473	35 063	12 183	7 448	4 735	9 531	-608	15 304	14 264	7 771
	4	58 660	50 861	72 910	35 658	12 413	7 476	4 937	9 580	-677	15 936	14 250	7 799
1983	1	59 481	51 592	74 397	35 473	12 662	7 625	5 037	9 883	598	15 781	14 916	7 889†
	2	58 583	50 633	73 677	36 055	12 469	7 527	4 942	9 624	-31	15 560	15 094	7 950
	3	58 980	50 910	74 192	36 395	12 455	7 534	4 921	9 745	-25	15 622	15 212	8 070

(1) For the years prior to 1978, the totals differ from the sum of their components due to the method of rebasing to 1980 prices.

FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT

Seasonally adjusted

TABLE C

£ MILLION

		GROSS NATIONAL PRODUCT: At market prices	GROSS NATIONAL PRODUCT: At factor cost	Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME -BASED)	Total domestic income	Income from employ- ment	Gross trading profits or surplus: Comp- anies(1)	Gross trading profits or surplus: Public corpor- ations	Gross trading profits or surplus: General government enterprises	Other income(2)	LESS Stock apprec- iation	Memorandum items: Company profits net of stock app- reciation	Memorandum items: Industrial & commercial companies trading profits(3): gross	Memorandum items: Industrial & commercial companies trading profits(3): net(4)
1977		144 909	128 188	116	391	127 681	132 670	86 209	20 114	5 095	188	21 064	4 989	16 137	21 541	17 564
1978		167 163	147 868	661	245	146 962	151 185	98 437	23 322	5 391	205	23 830	4 223	19 946	25 093	21 717
1979		195 418†	170 109†	990	-1 055†	170 174	178 913	114 765	29 982	5 582	190	28 394	8 739	22 787	31 277	24 082
1980		227 062	196 208	-186	-2 153	198 547†	205 121†	136 016†	30 188	6 129	189	32 599	6 574	24 995	32 392	27 199
1981		251 811	215 531	1 257	-874	215 148	221 013	146 665	30 893	7 700	199	35 556	5 865	26 348	35 504	30 959
1982		276 508	234 782	1 515†	-334	233 601	237 544	155 871	33 816†	9 068	48†	38 741	3 943†	30 710†	38 432†	35 326†
1979	1	44 579†	39 192†	388	-446†	39 250	41 074	26 788	6 330	1 370	51	6 535	1 824	4 888	6 699	5 257
	2	47 796	41 951	81	36	41 834	44 097	27 908	7 619	1 468	30	7 072	2 263	5 673	7 941	5 995
	3	50 861	43 967	377	16	43 574	45 939	29 282	7 899	1 416	67	7 275	2 365	5 996	8 198	6 295
	4	52 182	44 999	144	-661	45 516	47 803	30 787	8 134	1 328	42	7 512	2 287	6 230	8 439	6 535
1980	1	53 934	46 408	-101	-1 174	47 683†	50 459†	32 198†	8 836	1 627	41	7 757	2 776	6 580	9 187	6 931
	2	55 874	48 268	-162	-1 128	49 558	51 020	33 730	7 848	1 361	70	8 011	1 462	6 740	8 304	7 196
	3	57 645	49 980	-13	-37	50 030	51 477	34 814	6 807	1 498	36	8 322	1 447	5 657	7 414	6 264
	4	59 609	51 552	90	186	51 276	52 165	35 274	6 697	1 643	42	8 509	889	6 018	7 487	6 808
1981	1	61 281	52 928	245	1 185	51 498	52 745	35 583	6 810	1 656	56	8 640	1 247	5 853	7 793	6 836
	2	61 833	52 961	394	18	52 549	54 139	36 165	7 229	1 954	49	8 742	1 590	6 012	8 364	7 147
	3	63 444	54 149	289	-793	54 653	56 237	37 067	8 097	1 985	72	9 016	1 584	6 793	9 329	8 025
	4	65 253	55 493	329	-1 284	56 448	57 892	37 850	8 757	2 105	22	9 158	1 444	7 690	10 018	8 951
1982	1	66 309	55 686	58	-637	56 265	57 260	38 468	7 161†	2 229	30†	9 372	995†	6 361†	8 385†	7 585†
	2	68 492	58 334	416†	-271	58 189	58 982	38 845	8 316	2 215	38	9 568	793	7 826	9 493	9 003
	3	69 548	59 077	423	-351	59 005	59 927	39 075	8 737	2 341	-20	9 794	922	7 959	9 868	9 090
	4	72 159	61 685	618	925	60 142	61 375	39 483	9 602	2 283	-	10 007	1 233	8 564	10 686	9 648
1983	1	73 775	62 972	356	288	62 328	63 111	40 813	9 721	2 353†	5	10 219†	783	9 005	10 821	10 105
	2	73 073	62 440	-37	-505	62 982	64 023	41 278	9 783	2 623	-48	10 387	1 041	8 941	10 983	10 141
	3	75 270	64 458	172	-583	64 869	66 017	41 859	11 207	2 397	-9	10 563	1 148	10 227	12 507	11 527

(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.

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: Total	Production: Energy and water supply	Production: Manufacturing (revised definition)	Construction	Distribution hotels and catering; repairs	Transport and communication	Other
1980 Weights	1000	22	424	361	95	266	63	128	72	354
1977	97.3	84.7	99.8	100.1	74.8	108.9	102.1	99.6	94.8	94.8
1978	100.4	91.1	103.4†	103.1†	85.0†	109.6†	105.0	105.4†	97.1	96.4
1979	103.3	89.8	106.8	107.0	100.5	109.4	105.6	109.0	101.5	98.2
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	98.0†	102.5	95.4	96.3	103.8	93.6	90.4†	98.1	98.9†	100.6†
1982	99.3	112.5	97.1	98.0	110.2	93.7	91.8	99.0	98.3	101.5
1979 1	101.0†	89	104.0	104.6	96.9†	107.3†	101.0	106	96	97
2	104.8	88	108.9†	109.3†	101.1	112.2	107.1	114	103	98
3	103.4	89	107.0	106.9	104.0	108.0	107.6	107	104	98
4	103.9	93	107.3	107.3	99.9	110.0	106.9	109	103	99
1980 1	102.7	97	105.1	105.1	100.5	106.8	104.7	105	103	99
2	100.7	100	101.4	101.3	98.6	102.3	101.4	101	101	100
3	98.9	101	98.2	97.8	98.8	97.4	100.4	98†	99	100
4	97.7	101	95.4	95.7	102.1	93.5	93.5	97	98	100†
1981 1	97.5	101	94.6	94.9	101.8	92.4	92.8†	98	98	100
2	97.5	101	94.7	95.5	103.5	92.7	89.8	98	98	100
3	98.5	103	96.1	96.9	103.3	94.6	91.8	99	100	101
4	98.6	106	96.4	98.0	106.8	94.9	87.1	97	100	101
1982 1	98.5	110	95.8	97.0	104.6	94.2	89.4	98	98†	101
2	99.2	113	97.1	98.3	109.9	94.1	90.3	98	99	101
3	99.7	114	97.8	98.7	113.1	93.5	92.9	100	98	102
4	99.9	113	97.7	98.2	113.4	92.8	94.4	100	98	102
1983 1	100.7	109	98.8	99.6	114.1	94.4	94.2	101	100	102
2	100.7	109†	98.3	99.5	115.0	93.9	91.5	103	101	102
3	101.9	108	99.9	100.3	117.2	94.3	97.4	105	103	103

CONSUMERS' EXPENDITURE AT CURRENT PRICES

Seasonally adjusted

TABLE E

£ 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)
1977		86 712	7 602	3 122	2 203	2 277	16 047	3 788	2 857	3 628	5 434	1 110	6 895	8 818	9 978	20 555
1978		99 596	9 762	4 489	2 556	2 717	17 927	4 182	3 280	3 885	6 393	1 343	7 210	10 482	11 334	23 798
1979		118 503†	12 677†	6 180†	3 194	3 303	20 364	4 839	4 009	4 233	7 454	1 613	8 819	12 420	13 364	28 711†
1980		137 324	13 019	6 120	3 357	3 542	22 873	5 655	4 486	4 822	7 983	1 750	10 957	14 220	16 040	35 519
1981		152 836	13 820	6 436	3 555	3 829	24 170	6 378†	4 992†	5 515	8 328	1 798	13 367	15 294	19 143	40 031
1982		167 899	15 511	7 136	3 972	4 403	25 564	7 039	5 314	5 882	8 820	1 944	14 954†	16 533	21 922	44 416
1979	1	27 081†	2 692†	1 255†	687	750	4 762	1 063†	907	1 001	1 712	362	2 049	2 857	3 114	6 562†
	2	29 305	3 500	1 704	884	912	4 984	1 210	983	1 017	1 881	410	2 082	3 075	3 266	6 897
	3	30 387	3 082	1 504	774	804	5 232	1 265	1 054	1 076	1 900	406	2 330	3 177	3 414	7 451
	4	31 730	3 403	1 717	849	837	5 386	1 301	1 065	1 139	1 961	435	2 358	3 311	3 570	7 801
1980	1	33 228	3 490	1 774	847	869	5 618	1 370	1 103	1 155	1 960	439	2 557	3 456	3 733	8 347
	2	33 879	3 208	1 498	840	870	5 717	1 405	1 078	1 220	1 988	437	2 608	3 523	3 908	8 787
	3	34 717	3 196	1 467	846	883	5 758	1 368	1 132	1 227	2 016	434	2 841	3 570	4 102	9 073
	4	35 500	3 125	1 381	824	920	5 780	1 512	1 173	1 220	2 019	440	2 951	3 671	4 297	9 312
1981	1	36 615	3 349	1 505	900	944	5 878	1 540	1 203†	1 286	2 056	444	3 017	3 738	4 503	9 601
	2	37 837	3 507	1 670	889	948	5 917	1 567	1 241	1 368	2 050	444	3 308	3 788	4 691	9 956
	3	38 722	3 481	1 652	880	949	6 127	1 613	1 271	1 407	2 070	449	3 440	3 858	4 884	10 122
	4	39 662	3 483	1 609	886	988	6 248	1 658	1 277	1 454	2 152	461	3 602	3 910	5 065	10 352
1982	1	40 163	3 488	1 542	928	1 018	6 247	1 703	1 268	1 497	2 135	472	3 445†	4 008	5 268	10 632
	2	41 456	3 682	1 672	965	1 045	6 514	1 752	1 313	1 420	2 163	476	3 713	4 079	5 403	10 941
	3	42 541	3 979	1 839	1 009	1 131	6 303	1 778	1 321	1 443	2 216	489	3 868	4 178	5 564	11 402
	4	43 739	4 362	2 083	1 070	1 209	6 500	1 806	1 412	1 522	2 306	507	3 928	4 268	5 687	11 441
1983	1	44 238	4 422	2 153	1 077	1 192	6 508	1 855	1 385	1 595	2 312	495	3 923	4 336	5 755	11 652
	2	45 366	4 544	2 162	1 155	1 227	6 661†	1 901	1 490	1 510	2 441	544	4 277	4 444†	5 802	11 752
	3	46 355	4 887	2 534	1 127†	1 226†	6 807	2 033	1 496	1 520†	2 493†	548†	4 069	4 502	5 892†	12 108

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

CONSUMERS' EXPENDITURE AT 1980 PRICES(1)

Seasonally adjusted

TABLE F

£ MILLION

			Durable goods				Other goods								Services	
		Total consumers' expend-iture	Total	Cars, motor cycles and other vehicles	Furni-ture and floor cover-ings	Other durable goods	Food (house-hold expend-iture)	Beer	Other alcoholic drink	Tobacco	Clothing other than footwear	Footwear	Energy products	Other goods	Rent, rates and water charges	Other services (2)
1977		124 646	10 654	4 676	3 089	2 809	21 883	5 684	3 919	4 602	6 852	1 565	10 533	13 457	15 228	30 371
1978		131 485	12 109	5 736	3 253	3 120	22 501	5 840	4 276	4 982	7 484	1 729	10 759	14 424	15 512	31 869
1979		138 004†	13 930†	6 763†	3 616	3 551	22 893	5 897	4 660	4 960	8 040	1 838	11 114	14 824	15 787	34 061†
1980		137 324	13 019	6 120	3 357	3 542	22 873	5 655	4 486	4 822	7 983	1 750	10 957	14 220	16 040	35 519
1981		137 559	13 415	6 296	3 394	3 725	22 676	5 345†	4 450†	4 470	8 258	1 781	10 992	14 182	16 263	35 727
1982		139 552	14 483	6 580	3 678	4 225	22 570	5 285	4 355	4 128	8 645	1 936	11 038†	14 354	16 494	36 264
1979	1	33 677†	3 145†	1 472†	834	839	5 621	1 412†	1 132	1 222	1 924	443	2 882	3 684	3 923	8 289†
	2	35 323	4 038	1 988	1 045	1 005	5 722	1 528	1 194	1 282	2 078	488	2 807	3 821	3 938	8 427
	3	34 309	3 234	1 547	842	845	5 775	1 486	1 175	1 222	2 000	445	2 752	3 650	3 951	8 619
	4	34 695	3 513	1 756	895	862	5 775	1 471	1 159	1 234	2 038	462	2 673	3 669	3 975	8 726
1980	1	34 911	3 530	1 774	869	887	5 843	1 461	1 171	1 204	2 002	456	2 781	3 639	3 990	8 834
	2	34 128	3 214	1 501	842	871	5 746	1 425	1 082	1 218	1 979	442	2 641	3 560	4 003	8 818
	3	34 134	3 169	1 447	841	881	5 668	1 356	1 114	1 216	1 998	426	2 749	3 507	4 016	8 915
	4	34 151	3 106	1 398	805	903	5 616	1 413	1 119	1 184	2 004	426	2 786	3 514	4 031	8 952
1981	1	34 423	3 309	1 515	870	924	5 697	1 374	1 132†	1 185	2 055	437	2 708	3 544	4 045	8 937
	2	34 380	3 428	1 656	850	922	5 629	1 322	1 106	1 105	2 046	438	2 757	3 544	4 060	8 945
	3	34 329	3 352	1 589	839	924	5 676	1 336	1 112	1 103	2 052	447	2 719	3 546	4 073	8 913
	4	34 427	3 326	1 536	835	955	5 674	1 313	1 100	1 077	2 105	459	2 808	3 548	4 085	8 932
1982	1	34 235	3 273	1 419	872	982	5 568	1 323	1 079	1 075	2 110	473	2 706†	3 566	4 101	8 961
	2	34 596	3 437	1 543	892	1 002	5 733	1 334	1 075	1 011	2 126	475	2 768	3 574	4 115	8 948
	3	35 063	3 698	1 674	935	1 089	5 570	1 328	1 062	1 011	2 173	487	2 796	3 604	4 131	9 203
	4	35 658	4 075	1 944	979	1 152	5 699	1 300	1 139	1 031	2 236	501	2 768	3 610	4 147	9 152
1983	1	35 473	4 050	1 918	982	1 150	5 591	1 320	1 102	1 048	2 245	489	2 734	3 630	4 163	9 101
	2	36 055	4 082	1 871	1 035	1 176	5 714†	1 334	1 155	1 006	2 365	534	2 931	3 647†	4 178	9 109
	3	36 395	4 312	2 121	1 012†	1 179†	5 649	1 411	1 148	1 007†	2 395†	542†	2 789	3 650	4 193†	9 299

(1) For the years prior to 1978, the totals differ from the sum of their components due to the method of rebasing to 1980 prices.
(2) Including the adjustments for international travel, etc. and final expenditure by private non-profit-making bodies.

measure, which is the preferred measure for such comparisons. The press notice sets the GDP(O) figures in the context of those for GDP(A), (I) and (E). Provisonal third quarter figures for the other measures of GDP will not be available until 20 December.

5. It should be noted that the existing second quarter GDP(O) figures have yet to take into account the ½ per cent downward revision to the output of production industries which was released on 14 November. This in itself would obviously tend to reduce GDP(O) and (A) but may well be offset by other data revisions before 20 December.

Line to take

6. Preliminary estimate for the output measure of GDP in the third quarter is encouraging. It shows that the increase in activity in the economy is widespread and confirms that recovery is continuing.

A. Smith
A SMITH
EB

A. SMITH - HMT

PRESS
AND
INFORMATION SERVICE

CSO

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LONDON
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CSO(83) 90

17 November 1983

GROSS DOMESTIC PRODUCT (OUTPUT BASED) - THIRD QUARTER 1983

Preliminary estimates suggest that output of the whole economy rose by about 1 per cent between the second and third quarters of 1983, following little change between the first and second quarters. The rise reflected increased activity in the production industries, distribution and the transport and communication sector. The preliminary output-based estimate of gross domestic product (GDP) in the third quarter, from which this assessment has been derived, is 101.6 (at constant prices, with 1980=100, seasonally adjusted).

The output-based measure of GDP in the third quarter is estimated to have been 1½ to 2 per cent above the level of a year earlier. As can be seen from the Table, the expenditure, income and output measures of GDP have been moving differently in recent periods, with the output series growing more slowly on the year-on-year comparisons.

COPY No. 15
PERSONAL AND CONFIDENTIAL until release of Press Notice at 2.30 p.m. on 17.11.83
and thereafter unclassified

NOTES TO EDITORS

1. The preliminary estimate of the output based measure of gross domestic product is derived from the provisional estimate of the inded of output of the production industries for the third quarter, published on 14 November, 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 20 December.

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 in 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 will be described in an Occasional Paper currently in preparation. The effects of rebasing on all the measures of GDP will be described in an article scheduled to appear 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.

6. The expenditure and income figures for the first half of 1983 incorporate revisionspublished in a Press Notice issued on Friday 11 November.

GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on: Expenditure data	Income data(1)	Output data	Average estimate
1976		96.8	93.3	94.7	94.9
1977		98.1	96.6	97.3	97.4
1978		101.0	99.6	100.4	100.4
1979		102.8	102.1	103.3	102.7
1980		100.0	100.0	100.0	100.0
1981		98.9	98.3	97.9	98.4
1982		101.2	99.9	99.4	100.2
1980	1	101.3	102.7	102.7	102.3
	2	100.3	101.4	100.7	100.8
	3	99.3	98.2	98.9	98.8
	4	99.1	97.7	97.7	98.2
1981	1	100.0	96.8	97.4	98.0
	2	97.7	96.7	97.4	97.3
	3	98.2	98.4	98.4	98.3
	4	99.9	101.1	98.6	99.9
1982	1	100.1	100.3	98.6	99.6
	2	100.4	99.6	99.1	99.7
	3	100.9	100.0	99.8	100.2
	4	103.4	99.8	99.9	101.0
1983	1	105.1	102.8	100.7	102.9
	2	102.8	102.3	100.7	102.0
	3	..	..	101.6 (2)	..

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

(2) Preliminary estimate.

CONFIDENTIAL UNTIL 2.30 P.M. FRIDAY 18 NOVEMBER

PP

FROM: MISS M O'MARA

DATE: 17 November 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Evans
Mr Folger
Mr Shields
Mr Hall
Mr Hibberd
Mr Salveson
Miss Dyes
Mr Mackinnon
Mr Lord
Mr Portillo
Mr Ridley

Mr Turnbull - No.10

Miss S Carter - CSO
Mr E Lomas - CSO

MR A SMITH

CSO's CYCLICAL INDICATORS FOR OCTOBER

The Chancellor has seen your minute of 16 November and agrees with the suggested line to take. He believes he recalls that there was a similar downward "blip" in the longer-leading indicator in the second half of 1981 which it subsequently transpired was of no significance. If his memory is correct, he thinks it would be worth drawing attention to this point too.

MOM

MISS M O'MARA

CONFIDENTIAL UNTIL 2.30PM FRIDAY 18 NOVEMBER

MR FOLGER pp ... Mr Folger seen in draft.

CHANCELLOR

FROM: A SMITH
16 November 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir Terence Burns
Mr Cassell
Mr Battishill
Mr Evans
Mr Shields
Mr Hall
Mr Hibberd
Mr Salveson
Miss Deyes
Mr Mackinnon
Mr Lord
Mr Portillo
Mr Ridley

Mr Turnbull No 10

Miss S Carter) CSO
Mr E Lomas)

C/
Content with line to take?
MOM
16/11

Yes: it may be worth adding that there was a similar longer-leading 'blip' in the indicator in the 2nd half of 1981, which turned out not to have portended anything. (CHECK)
NL.

CSO's CYCLICAL INDICATORS FOR OCTOBER: RELEASED 2.30PM FRIDAY 18 NOVEMBER

1. This CSO release will include updated figures on the cyclical indicators for August and September - taking account for example of the CBI October Quarterly Survey - and preliminary figures for October. The figures for the longer leading indicator are not yet able to incorporate data on 3rd quarter company finances, or October housing starts. But information on these items is unlikely to change the overall picture very much.

Movements in indicators

2. As is shown in the attached advance copy of the CSO Press Release, the longer leading indicator - intended to indicate "turning points" in economic activity about a year in advance - will be seen to have fallen in each of August, September and October. This follows 12 months of uninterrupted rises. The downturn since

July is a result of downward movements in some components of the index; in particular the reduced positive balance of business confidence in the October CBI Survey (even allowing for seasonal influences), the fall in share prices up to October, and lower housing starts in August and September. These influences have more than offset the beneficial effect of falling interest rates.

4. <u>The shorter leading indicator</u> - designed to indicate turning points about six months in advance - has continued its almost unbroken two year upward trend through to October. Upward movements in recent months have been supported by (seasonally adjusted) improvements in the responses to questions on new orders and expected stock changes in the October CBI Survey and by buoyant new car registrations.

<u>Assessment</u>

5. A well established turnround in the longer leading indicator would normally be a sign that the rate of growth of output would slow down below its trend rate about a year ahead. Such a cyclical moderation of growth has to be expected at some point, even though the post war pattern of upswings has become increasingly irregular since the 1960s. But the longer-leading indicator is a volatile series, which has sometimes given false signals in the past. And there is no corroborating evidence from the other cyclical indicators that the current behaviour in the longer leading indicator does mean a turning point in the second half of 1984.

6. As Ministers have publicly referred to the rise in the longer leading indicator as evidence that the recovery will continue into next year, so critics and commentators will not be slow to seize on the three months of fall as evidence that the economy is set to "run out of steam". As the figures will be appearing the day after your Autumn Statement it will be important to take a clear line, in Parliament and with the media, about what the

figures do and do not mean. In particular we must make clear that the Industry Act Forecast estimate of 3 per cent GDP growth for the whole of 1984 on the whole of 1983 is not called into question by the longer leading indicator.

7. A suggested line to take, as discussed with the CSO and EA, is attached. This can serve as the basis for material in the Treasury Weekly Economic Brief, for First Order Questions on 24 November and for IDT use with the media.

pp M T FOLGER

CONFIDENTIAL UNTIL 2.30PM FRIDAY 18 NOVEMBER

Line to take

(i) Movements in all these series can be volatile and short-term fluctuations should not be taken as clear indications of the future pattern of the economic cycle. Emphasis in the past on provisional movements over two or three months would have given some very misleading signals.

(ii) Recent movements in the longer leader have not been corroborated by any hesitation in the shorter leading indicator, which continues on a strong upward trend.

(iii) The Autumn Statement forecast 3 per cent growth in GDP (average measure) for 1984. The forecast took into account a wide range of indicators of future activity. It is not brought into question by the short-term (and provisional) movements of one of the leading indicator series.

(iv) [If pressed] If a downturn in the longer leading indicator were confirmed - and it would be some time before this could be assessed with certainty - it could point to some moderation in the rate of recovery towards the end of next year.

DRAFT PRESS NOTICE

DRAFT

CYCLICAL INDICATORS OF THE UNITED KINGDOM ECONOMY

RECENT MOVEMENTS OF THE INDICATORS

(Data available to 17 November)

The longer leading index fell between July and October, reflecting a drop in share prices and in housing starts, and a decline in the balance reporting increased optimism in the CBI quarterly survey. These effects were partly offset by the further reduction in interest rates. The fall in the index may be subject to revision as later and more complete information becomes available. At this stage, therefore, the index should not necessarily be regarded as having attained its peak.

The shorter leading index continued to rise, with upward contributions from all five components over the latest periods for which they are available.

The coincident index has also continued to rise. The main upward contributions in recent months have been provided by improvements over trend in raw material stocks, retail sales and output of the production industries.

The increase in the lagging index this year mainly reflects improvements over trend in manufacturing employment, investment in plant and machinery by manufacturers, and unemployment.

TABLE 1

RECENT MOVEMENTS OF THE INDICATORS

	Aug 1982	Sept	Oct	Nov	Dec	Jan 1983	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct
Longer leading	104.4	105.9	107.3	108.6	109.2	109.5	109.9	110.3	110.6	110.6	111.2	111.7	111.2	110.2	108.9
	5	5	5	5	5	5	5	5	5	5	5	4	4	4	3
Shorter leading	99.6	100.4	100.4	100.3	101.0	100.5	101.7	102.4	104.1	105.2	106.1	107.2	107.2	108.1	108.6
	5	5	5	5	5	5	5	5	5	5	5	4	4	4	2
Coincident	90.2	90.8	91.2	91.6	92.5	93.6	94.8	94.7	94.8	94.6	95.2	96.1	97.3	97.8	99.0
	7	7	7	7	7	7	7	7	7	7	7	5	5	5	3
Lagging	87.4	87.3	87.8	87.7	87.6	87.4	87.5	87.9	88.6	89.0	89.0	89.0	89.2		
	5	5	5	5	5	5	5	5	5	5	5	5	4		

Note: In the table the upper row represents the values of the composite indices, the lower row the number of series used to form each index.

The most recent values of the four composite indices are given in Table 1 and the indices are plotted in the chart.

Further details of the method of calculation and assessments of the performance of the indicators are given in articles in Economic Trends for March 1975, May 1976, May 1980, and October 1983 and also in an Occasional Paper available from OSS CSO, price £2.50. A full set of graphs of all the indicator series is published in the Feburary, May, August and November issues of Economic Trends. Additional tables giving full runs of data for all the series used are available on subscription from the CSO.

Interpretation of the indices

Care should be taken in interpreting month-to-month movements in the composite indices. In the most recent periods not all the component indicator series will be present (details of the latest data included are given in Table 2). When the missing series are eventually included, the composite index may change. Additionally, in recent periods the estimates of long-term trend are provisional. Thus the corresponding detrended series, which are used to form the composite indices, are liable to revision.

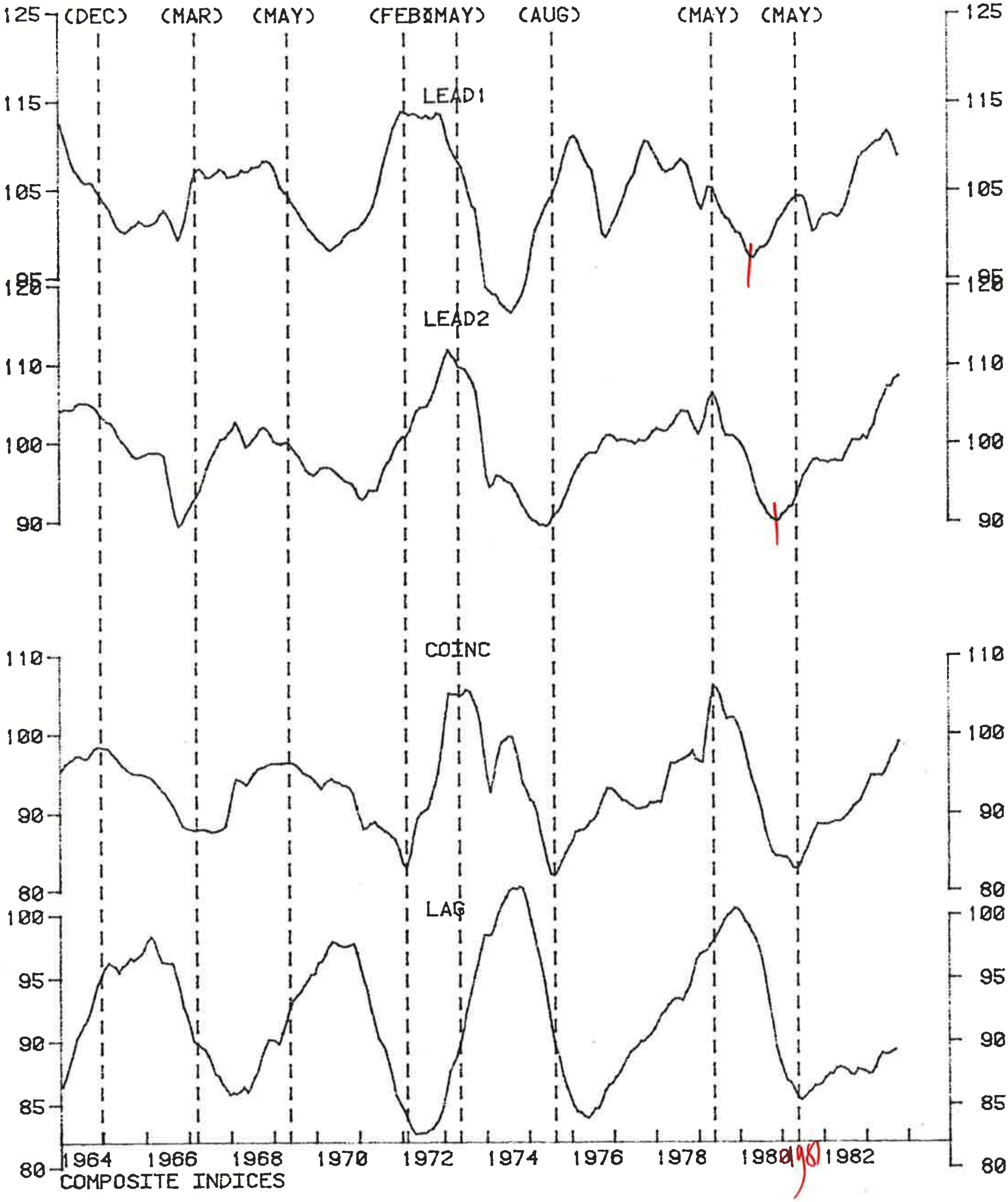
On the chart the parts of the curves which are liable to revision because of the detrending process are shown in pecked lines. Where a composite index is based on an incomplete set of indicators, the curve is shown as a dotted line.

Notes

1. The unemployment series included in the composite lagging index has been compiled in index form from the published total numbers unemployed in the United Kingdom, excluding school leavers and adult students, with adjustments for changes in coverage that have occurred.

2. Wherever possible, verisons of the component series seasonally adjusted by the compilers of the data are used. For series not available in seasonally adjusted form, CSO applies its own seasonal factors as appropriate using the US Bureau of the Census X-11 procedures. (Series adjusted in this way are noted in Table 2).

3. One component lagging indicator - employment in manufacturing industry (revised definition) - is not yet available in rebased and reclassified form. The series included in this month's assessment is a provisional estimate constructed by CSO.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(AUG)
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1982
COMPOSITE INDICES

NOTES TO EDITORS

What the cyclical indicators do

Cyclical indicators chart movements in the economy over the business cycle. In particular, they provide early pointers to upturns and downturns in economic activity. They do not measure the absolute level of output or actual rates of growth: they are concerned only with identifying the cyclical variations around the long-term trend.

What they are

The cyclical indicators consist of four groups of well-established economic or financial statistics ("indicators") which have been found to show more or less consistent timing relationships with peaks and troughs ("turning points") in the growth of overall economic activity. Each group is formed into a "composite index" to give four composite indicators series as follows:

i) a longer leading index indicating turning points in activity about one year in advance;

ii) a shorter leading index indicating turning points about six months in advance;

iii) a coincident index indicating current turning points;

iv) a lagging index which shows a turning point about a year after it happened.

The full list of component series included in the composite indicators is given in Table 2, together with their timing characteristics relative to the dates of turning points in the general economic cycle - called "reference cycle dates". (These are the dates at which economic activity - as assessed from the three measures of Gross Domestic Product at constant prices, the volume of retail sales and the output of the production industries - deviates most from its long-term trend. The choice of these dates is essentially a matter of judgement and is subject to revision as later data become available.)

The values of the index numbers have no significance other than to describe the path of the indicators but are included in this Press Notice to facilitate reading of the charts.

How they are constructed

Each of the component series used in compiling a composite indicator series is first "detrended" by estimating and removing its long-term trend. The composite index is then formed by taking an average of the detrended component series after allowance has been made for:

(a) any inverse relationship (eg high unemployment follows low economic activity);

(b) scaling (series based on different units of measurement are converted to a common scale; and

(c) volatility (highly irregular series are smoothed by taking short-term moving averages).

TABLE 2 THE INDICATORS AND THEIR TIMING CHARACTERISTICS

Indicators	Latest data included		Timing relative to reference cycle dates* (-) leads, (+) lags months: Average (mean)	Earliest	Latest
Longer leading					
Composite longer leading index	Oct	1983	- 12	- 21	- 5
Component series:					
Rate of interest, 3 months prime bank bills**	Oct	1983	- 17	- 28	- 11
Financial surplus/deficit, industrial and commercial companies, divided by GDP deflator	1983	Q2	- 15	- 21	- 9
Total dwellings started, Great Britain	Sep	1983	- 10	- 25	+ 6
Financial Times - Actuaries 500 share index**	Oct	1983	- 9	- 20	- 4
CBI quarterly survey: change in optimism**	Oct	1983	- 10	- 19	- 4
Shorter leading					
Composite shorter leading index	Oct	1983	- 5	- 12	0
Component series:					
Credit extended by finance houses, retailers and other credit grantors	Sep	1983	- 6	- 15	+ 3
New car registrations	Sep	1983	- 7	- 26	0
CBI quarterly survey: change in new orders**	Oct	1983	- 8	- 28	+ 2
CBI quarterly survey: expected change in stocks of materials**	Oct	1983	- 5	- 15	- 2
Gross trading profits of companies, excluding stock appreciation and mineral oil and natural gas extraction, divided by GDP deflator	1983	Q2	- 6	- 18	0
Roughly coincident					
Composite coincident index	Oct	1983	0	- 7	+ 5
Component series:					
Gross domestic product (expenditure)	1983	Q2	+ 1	- 9	+ 10
Gross domestic product (output)	1983	Q3	- 2	- 7	+ 1
Gross domestic product (income)	1983	Q2	+ 1	- 3	+ 5
Volume of retail sales	Oct	1983	- 3	- 15	+ 8
Output of the production industries	Sep	1983	- 1	- 4	+ 2
CBI quarterly survey: capacity utilisation	Oct	1983	+ 2	- 3	+ 7
CBI quarterly survey: change in stocks of materials**	Oct	1983	- 1	- 6	+ 8
Lagging					
Composite lagging index	Aug	1983	+ 10	+ 1	+ 17
Component series:					
Unemployment index***	Oct	1983	+ 6	- 1	+ 14
Total employment in manufacturing industries (revised definition) United Kingdom	Aug	1983	+ 8	- 1	+ 15
Investment in plant and machinery, manufacturing industry (revised definition)	1983	Q3	+ 11	+ 6	+ 18
Engineering industries, volume index for orders on hand	July	1983	+ 7	- 4	+ 15
Level of stocks and work in progress, manufacturing industry (revised definition)	1983	Q3	+ 11	0	+ 20

*Assessed on performance up to last identified trough, May 1981.
**Seasonally adjusted by CSO, see Notes to Editors
***See Notes to Editors

PERSONAL AND CONFIDENTIAL
until 2.30pm, 17 November

MR FOLGER pp A. Smith. Mr Folger seen in draft.

CHANCELLOR

FROM: A SMITH
16 November 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Mr Anson
Sir Terence Burns
Mr Battishill
Mr H P Evans
Mr Hall
Mr Shields
Mr Hibberd
Mr Page
Mr Ridley
Mr Lord
Mr Portillo

Mr Salveson (for No 10)

Mr Mansell - CSO

Mr Clary - CSO

GROSS DOMESTIC PRODUCT (OUTPUT MEASURE) - THIRD QUARTER

Preliminary estimates of GDP(O) for the third quarter will be released at 2.30pm tomorrow, 17 November. (The Press Notice is attached.)

2. As expected from recent figures for industrial output, the preliminary estimate of GDP(O) rose in the third quarter, to a level about 1 per cent above the second quarter and around $1\frac{3}{4}$ per cent above the third quarter of 1982.

3. The quarter on quarter increase reflected widespread rises in activity, with output up in production industries, distribution and transport and communication. It is estimated that service sector output as a whole was little changed between the second and third quarters; construction output may have fallen again.

4. Year on year changes in the output measure of GDP have been showing rather smaller increases than those in the average

39:1

CONFIDENTIAL UNTIL 2.30pm THURSDAY 15 DECEMBER

PWP

FROM: M T FOLGER
DATE: 14 December 1983

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Minister of State
Mr Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Evans
Mr Shields
Mr Hall
Mr Hibbard
Mr Salveson
A Smith
Mr Lord
Mr Portillo
Mr Ridley
Mr Turnbull No.10
Mr E Lomas CSO
HE/13

CSO's CYCLICAL LEADING INDICATORS

The latest indicators are to be published at 2.30pm on Thursday 15 December. An advance copy of the press notice is attached. In view of previous falls in the longer leading indicator (for August, September and October) there may be particular interest in the indicators on this occasion; hence this note.

2. Based on incomplete information the longer leader moved up in November. This picture could change as information on the other 3 of its 5 components becomes available. If confirmed it could mean that the earlier falls do not amount to a clear signal that output growth will slow down in late 1984.

3. The shorter leader, intended to pick up turning points in activity 6 months ahead, fell in October (the latest month for whch information is available). (It also fell back slightly in January and August.) The fall could be due partly to the slightly unusual monthly pattern of car registrations (with the August peak exaggerated because of the "A" prefix) and does not seem significant.

4. There seems no need for the Press Office to go out of its way to comment on the implications of this set of indicators. If they receive enquiries I suggest they draw on the "line to take" attached to this note.

MTF

M T FOLGER

CSO LEADING INDICATORS PUBLISHED 15 DECEMBER

[Longer leading indicator for November increased, following falls in previous 3 months. Shorter leading indicator for October fell slightly but broadly unchanged since July. Latest movements in both indicators based on incomplete information.]

1. Wrong to put too much emphasis on one month's figures, particularly when based on incomplete information. Nevertheless, an increase in the longer leading indicator for November, as suggested by this initial result, would be quite consistent with the Industry Act forecast for economic growth to continue in 1984.

2. The shorter leading indicator for October fell somewhat, again based on incomplete information. This indicator fell in January and August and the initial October result is not seen as particularly significant. Several components showed increases but these were offset by a falling back in car registrations from the very high levels achieved in the summer.

PRESS
AND
INFORMATION SERVICE

CSO

CENTRAL STATISTICAL OFFICE
GREAT GEORGE STREET
LONDON
SW1P 3AQ

PRESS CALLS ONLY 01-233 7489/6187
(AFTER 1800 HRS 01-233 3000)
OTHER ENQUIRIES 01-233 6135/6193

CSO(83) 96

15 December 1983

CYCLICAL INDICATORS OF THE UNITED KINGDOM ECONOMY

RECENT MOVEMENTS OF THE INDICATORS

(Data available to 13 December)

The longer leading index fell between July and October; the less complete information available for November shows a slight rise in the index.

Share price movements had a downward effect on the index between July and October, as had a decline in the balance reporting increased optimism in the CBI quarterly survey. The November increase in the index reflects the resurgence in share prices and the continued fall in interest rates.

The broad picture shown by the shorter leading index is one of little change since July. Small upward effects from new consumer credit, new orders and expected changes in raw material stocks have been offset by the falling back of new car registrations from high levels achieved in the summer.

The coincident index has continued to rise with upward contributions from all available components in recent months.

The increase in the lagging index this year mainly reflects improvements over trend in manufacturing employment, unemployment and investment in plant and machinery by manufacturers.

TABLE 1

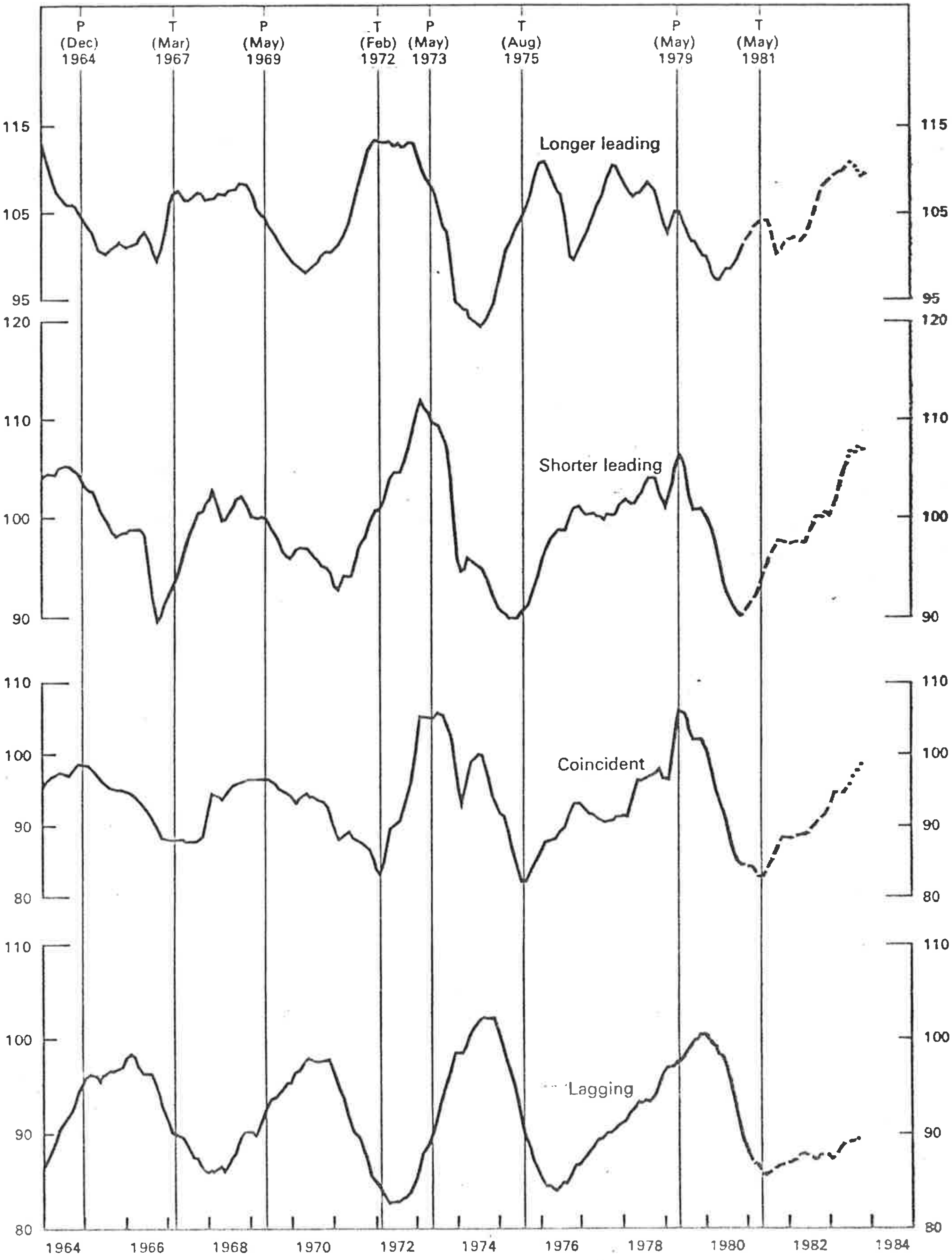
RECENT MOVEMENTS OF THE INDICATORS

	Sept 1982	Oct	Nov	Dec	Jan 1983	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
Longer leading	105.7	107.2	108.5	109.0	109.3	109.7	110.1	110.4	110.4	111.0	111.5	111.1	110.3	109.6	110.
	5	5	5	5	5	5	5	5	5	5	4	4	4	4	2
Shorter leading	100.5	100.5	100.4	101.0	100.6	101.7	102.5	104.2	105.3	106.2	107.3	107.1	107.8	107.3	
	5	5	5	5	5	5	5	5	5	5	4	4	4	4	
Coincident	90.9	91.3	91.7	92.7	93.9	95.0	95.0	95.0	94.9	95.4	96.1	97.3	97.9	98.9	
	7	7	7	7	7	7	7	7	7	7	5	5	5	4	
Lagging	87.2	87.7	87.7	87.7	87.3	87.5	87.9	88.6	89.0	89.0	89.2	89.2	89.5		
	5	5	5	5	5	5	5	5	5	5	5	5	2		

Note: In the table the upper row represents the values of the composite indices, the lower row the number of series used to form each index.

Cyclical indicators

Composite indices of indicator groups. January 1980 = 100



NOTES TO EDITORS

What the cyclical indicators do

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What they are

The cyclical indicators consist of four groups of well-established economic or financial statistics ("indicators") which have been found to show more or less consistent timing relationships with peaks and troughs ("turning points") in the growth of overall economic activity. Each group is formed into a "composite index" to give four composite indicators series as follows:

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ii) a shorter leading index indicating turning points about six months in advance;

iii) a coincident index indicating current turning points;

iv) a lagging index which shows a turning point about a year after it happened.

The full list of component series included in the composite indicators is given in Table 2, together with their timing characteristics relative to the dates of turning points in the general economic cycle - called "reference cycle dates". (These are the dates at which economic activity - as assessed from the three measures of Gross Domestic Product at constant prices, the volume of retail sales and the output of the production industries - deviates most from its long-term trend. The choice of these dates is essentially a matter of judgement and is subject to revision as later data become available.)

The values of the index numbers have no significance other than to describe the path of the indicators but are included in this Press Notice to facilitate reading of the charts.

How they are constructed

Each of the component series used in compiling a composite indicator series is first "detrended" by estimating and removing its long-term trend. The composite index is then formed by taking an average of the detrended component series after allowance has been made for:

(a) any inverse relationship (eg high unemployment follows low economic activity);

(b) scaling (series based on different units of measurement are converted to a common scale; and

(c) volatility (highly irregular series are smoothed by taking short-term moving averages).

The most recent values of the four composite indices are given in Table 1 and the indices are plotted in the chart.

Further details of the method of calculation and assessments of the performance of the indicators are given in articles in Economic Trends for March 1975, May 1976, May 1980, and October 1983 and also in an Occasional Paper available from OSS CSO, price £2.50. A full set of graphs of all the indicator series is published in the Feburary, May, August and November issues of Economic Trends. Additional tables giving full runs of data for all the series used are available on subscription from the CSO.

Interpretation of the indices

Care should be taken in interpreting month-to-month movements in the composite indices. In the most recent periods not all the component indicator series will be present (details of the latest data included are given in Table 2). When the missing series are eventually included, the composite index may change. Additionally, in recent periods the estimates of long-term trend are provisional. Thus the corresponding detrended series, which are used to form the composite indices, are liable to revision.

On the chart the parts of the curves which are liable to revision because of the detrending process are shown in pecked lines. Where a composite index is based on an incomplete set of indicators, the curve is shown as a dotted line.

Notes

1. The unemployment series included in the composite lagging index has been compiled in index form from the published total numbers unemployed in the United Kingdom, excluding school leavers and adult students, with adjustments for changes in coverage that have occurred.

2. Wherever possible, versions of the component series seasonally adjusted by the compilers of the data are used. For series not available in seasonally adjusted form, CSO applies its own seasonal factors as appropriate using the US Bureau of the Census X-11 procedures. (Series adjusted in this way are noted in Table 2).

3. One component lagging indicator - employment in manufacturing industry (revised definition) - is not yet available in rebased and reclassified form. The series included in this month's assessment is a provisional estimate constructed by CSO.

Indicators	Latest data included	Timing relative to reference cycle dates* (-) leads, (+) lags months		
		Average (mean)	Earliest	Latest
Longer leading				
Composite longer leading index	Nov 1983	- 12	- 21	- 5
Component series:				
Rate of interest, 3 months prime bank bills**	Nov 1983	- 17	- 28	- 11
Financial surplus/deficit, industrial and commercial companies, divided by GDP deflator	1983 Q2	- 15	- 21	- 9
Total dwellings started, Great Britain	Oct 1983	- 10	- 25	+ 6
Financial Times - Actuaries 500 share index**	Nov 1983	- 9	- 20	- 4
CBI quarterly survey: change in optimism**	Oct 1983	- 10	- 19	- 4
Shorter leading				
Composite shorter leading index	Oct 1983	- 5	- 12	0
Component series:				
Credit extended by finance houses, retailers and other credit grantors	Oct 1983	- 6	- 15	+ 3
New car registrations	Oct 1983	- 7	- 26	0
CBI quarterly survey: change in new orders**	Oct 1983	- 8	- 28	+ 2
CBI quarterly survey: expected change in stocks of materials**	Oct 1983	- 5	- 15	- 2
Gross trading profits of companies, excluding stock appreciation and mineral oil and natural gas extraction, divided by GDP deflator	1983 Q2	- 6	- 18	0
Roughly coincident				
Composite coincident index	Oct 1983	0	- 7	+ 5
Component series:				
Gross domestic product (expenditure)	1983 Q2	+ 1	- 9	+ 10
Gross domestic product (output)	1983 Q3	- 2	- 7	+ 1
Gross domestic product (income)	1983 Q2	+ 1	- 3	+ 5
Volume of retail sales	Nov 1983	- 3	- 15	+ 8
Output of the production industries	Oct 1983	- 1	- 4	+ 2
CBI quarterly survey: capacity utilisation	Oct 1983	+ 2	- 3	+ 7
CBI quarterly survey: change in stocks of materials**	Oct 1983	- 1	- 6	+ 8
Lagging				
Composite lagging index	Sep 1983	+ 10	+ 1	+ 17
Component series:				
Unemployment index***	Nov 1983	+ 6	- 1	+ 14
Total employment in manufacturing industries (revised definition) United Kingdom	Sep 1983	+ 8	- 1	+ 15
Investment in plant and machinery, manufacturing industry (revised definition)	1983 Q3	+ 11	+ 6	+ 18
Engineering industries, volume index for orders on hand	Aug 1983	+ 7	- 4	+ 15
Level of stocks and work in progress, manufacturing industry (revised definition)	1983 Q3	+ 11	0	+ 20

*Assessed on performance up to last identified trough, May 1981.
**Seasonally adjusted by CSO, see Notes to Editors
***See Notes to Editors

CONFIDENTIAL

(mwp)

FROM: J O KERR
DATE: 11 November 1983

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Middleton
Sir T Burns
Mr Cassell
Mr Battishill
Mr Evans
Mr Shields
Mr M A Hall
Mr Hibberd
Mr Salveson
Mr A Smith
Miss Deyes
Mr Lord
Mr Portillo
Mr Ridley

MR FOLGER

CSO CORRECTIONS TO GDP FIGURES

The Chancellor was grateful for your minute of 10 November about the CSO note of 9 November.

2. Like you, he sees no need for letters to the three MPs mentioned in your paragraph 4.

3. From your "line to take", he would delete paragraph 5, which is not, he thinks, relevant, for the CSO's correction in no way effects our expectations for 1984.

JOK.

J O KERR

CONFIDENTIAL

FROM: JIM HIBBERD
DATE: 9 NOVEMBER 1983

PWP

1. ~~MR~~ EVANS
2. CHANCELLOR OF THE EXCHEQUER

This is an annoying change, but is best got of the way quickly. There will be some adverse comments, but our interpretation of recent history, and our forecast for 1983 as a whole, is not greatly affected.

HPE 9/11

cc:

Chief Secretary
Financial Secretary
Minister of State
Economic Secretary
Mr Middleton
Mr Bailey
Sir Terence Burns
Mr Littler
Mr Cassell
Mr Battishill
Mr Hall
Mr Shields
Mr Folger
Mr Ridley

GDP REVISIONS

I attach a note on some imminent revisions to constant price estimates of the expenditure and income measures of GDP for the first half of 1983. The average estimate of GDP is also affected.

Jim Hibberd

J S HIBBERD

cc: Mr Flaxen CSO
Ms Carter CSO

CONFIDENTIAL

REVISIONS TO GDP DATA IN THE FIRST HALF OF 1983

The CSO have recently discovered an error which affects the constant price estimates of the expenditure measure of gross domestic product, GDP(E), and the income measure, GDP(I). (The output measure is unaffected.) The error relates to data for the first half of 1983 where the level of the adjustment for factor cost has been wrongly estimated at constant prices. The result is that both measures have been revised down by 0.6%. As a consequence the average measure of GDP, which we tend to stress as the most reliable indicator of longer term movements in overall economic activity, has been revised down by 0.4%.

2. Exceptionally, the CSO have decided to publish a special press notice correcting the GDP estimates on Friday 11 November. This will get it out of the way before the publication of the Autumn Statement.
... A copy of the draft Press Notice with a covering letter from the CSO is attached.

... 3. Details of the revision are shown in the attached table. They have a number of implications for the way we present the strength of the recovery so far. Most notably, growth over the past year on the average measure (GDPA) is now estimated at a little less than 3% in contrast to our previous assessment that it was in excess of 3%. In fact when talking about growth over the past year it is probably best now to present it as in the range 2½-3%. We must also slightly revise our presentation of the extent of the recovery since the trough of the recession in the first half of 1981. GDP(E) is now estimated to have risen by just over 5% and GDPA by just under 5% between the first half of 1981 and first half of 1983. It would seem wise to present the recovery since the trough as "around 5%" which represents "an average of about 2½% per annum since the first half of 1981".

4. A question that is frequently put by opposition members in the House asks for a comparison of the level of GDP now compared to the level at the time of the election in May 1979. This corresponds with the last peak in economic activity. Although data for the second quarter of 1979 does represent a statistical peak it was partly distorted by a bounce back from an abnormally low level in the first quarter

REVISIONS TO GDP DATA IN THE FIRST HALF OF 1983

The CSO have recently discovered an error which affects in the constant price estimates of the expenditure measure of gross domestic product, GDP(E), and the income measure, GDP(I). (The output measure is unaffected.) The error relates to data for the first half of 1983 where the level of the adjustment for factor cost has been wrongly estimated at constant prices. The result is that both measures have been revised down by 0.6%. As a consequence the average measure of GDP, which we tend to stress as the most reliable indicator of longer term movements in overall economic activity, has been revised down by 0.4%.

2. Exceptionally, the CSO have decided to publish a special press notice correcting the GDP estimates on Friday 11 November. This will get it out of the way before the publication of the Autumn Statement. A copy of the draft Press Notice with a covering letter from the CSO is attached. ...

3. Details of the revision are shown in the attached table. They ... have a number of implications for the way we present the strength of the recovery so far. Most notably, growth over the past year on the average measure (GDPA) is now estimated at a little less than 3% in contrast to our previous assessment that it was in excess of 3%. In fact when talking about growth over the past year it is probably best now to present it as in the range 2½-3%. We must also slightly revise our presentation of the extent of the recovery since the trough of the recession in the first half of 1981. Expenditure is now estimated to have risen by just over 5% and GDPA by just under 5% between the first half of 1981 and first half of 1983. It would seem wise to present the recovery since the trough as "around 5%" which represents "an average of about 2½% per annum since the first half of 1981".

4. A question that is frequently put by opposition members in the House asks for a comparison of the level of GDP now compared to the level at the time of the election in May 1979. This corresponds with the last peak in economic activity. Although data for the second quarter of 1979 does represent a statistical peak it was highly distorted by a bounce back from an abnormally low level in the first quarter

caused by a transport workers dispute. It is more appropriate therefore to measure the peak by the average value of GDP in the first half of 1979. On that basis the level of GDP(A) in the first half of 1983 is, at 102.4, just higher than the level of 102.1 in the first half of 1979. But, as a result of the latest revisions the level of GDP(A) in the second quarter of 1983 is now at 102.0, marginally less than in the first half of 1979. But it is highly marginal and given the erratic nature of GDP in the first two quarters of this year it makes better sense to consider the first half year as a whole rather than to concentrate on the individual quarters.

5. Another important issue arising from the latest revisions is the potential impact on the forecast to be presented with the Autumn Statement. We will of course incorporate the revisions in the detailed GDP table which presents numbers to the first decimal point. It seems highly likely that the level of GDP(A) over the forecast period will be lower by the same margin of 0.4 as is implied for the first half of this year. At this level of accuracy the growth in 1983 will be marginally lower than previously estimated. However, our preliminary assessment suggests that it will still round to 3% for 1983 and 1984. The unrounded numbers, not quoted in the text in calendar years, will probably be 2.8%. The main presentational features and the text tables (which are rounded to the nearest ½%) will therefore be unaltered by this latest revision. This will be looked at more closely in the next day of course and there may be some small amendments necessary to the detailed GDP table. But substantive revisions seem unlikely.

7. You should also be aware of the next CSO press notice on cyclical indicators for October. This is due to be published on Friday 18 November which, on current plans, will be the day after the Autumn Statement. As a result of the reduced positive balance of business confidence in the October CBI Survey (even after correction for seasonal movements), the fall in share prices up to October and the reduced level of housing starts in September the CSO's longer leading indicator will be shown as having clearly turned down since July. The longer leading indicator is intended to give some idea of likely movements in activity about one year ahead.

8. We are inclined not to make too much of this movement. The longer leading indicator can be a volatile series and it has sometimes given false signals in the past. There is reason to suspect that the fall in the positive balance of business confidence in October may have arisen because of an exceptionally high level in July. Furthermore share prices have recovered somewhat since the end of October and if this recovery continued, other things equal, it would be expected to give something of a fillip to the longer leading indicator for November. Nonetheless we cannot discount its message altogether, and in the past we have used this indicator to draw favourable conclusions about prospects for recovery. For the time being we need to take a cautious attitude in interpreting the longer leading indicator. The general line to take is that while this indicator could point to some moderation in the rate of recovery before the end of next year we should not draw too many conclusions from one month's movements. More importantly, looked at in a slightly longer perspective the longer leading indicator is consistent with continued fairly strong recovery in 1984.

9. To summarise, the revisions to GDP are disappointing relative to our expectations and - at least until the next set of revisions - we should not overdo our public presentation of the strength of the recovery so far. We should stress growth over the past year in the range 2½-3%. The revisions do not alter our assessment of growth over the next year: we propose to stick to an overall growth of "around 3%" in 1983 and 1984. We also need to be cautious about the outlook for the end of 1984 (and just beyond) in the light of the longer leading indicators.

8. We are inclined not to make too much of this movement. The longer leading indicator can be a volatile series and it has sometimes given false signals in the past. There is reason to suspect that the fall in the positive balance of business confidence in October may have arisen because of an exceptionally high level in July. Furthermore share prices have recovered somewhat since the end of October and if this recovery continued, other things equal, it would be expected to give something of a fillip to the longer leading indicator for November. Nonetheless we cannot discount the message altogether, and in the past we have used this indicator to draw favourable conclusions about prospects for recovery. For the time being we need to take a cautious attitude in interpreting the longer leading indicator. The general line to take is that while this indicator could point to some moderation in the rate of recovery before the end of next year we should not draw too many conclusions from one month's movements. More importantly, looked at in a slightly longer perspective the longer leading indicator is consistent with continued fairly strong recovery in 1984.

9. To summarise, the revisions to CLI are disappointing relative to our expectations and - at least until the next set of revisions - we should not overdo our public presentation of the strength of the recovery so far. We should stress growth over the past year in the range 2½-3%. The revisions do not alter our assessment of growth over the next years: we propose to stick to an overall growth of "around 3%" in 1983 and 1984. We also need to be cautious about the outlook for the end of 1984 (and just beyond) in the light of the longer leading indicators.

Constant Price Measures of Gross Domestic Product (1980 = 100)

	EXPENDITURE		INCOME		OUTPUT		AVERAGE	
	September Press Notice	Latest Estimate	September Press Notice	Latest Estimate	September Press Notice	Latest Estimate	September Press Notice	Latest Estimate
1982 H1	100.3		100		98.9		99.7	
H2	102.2		99.9		99.9		100.6	
1983 H1	104.6	104.0	103.2	102.6	100.7		102.8	102.4
1983 Q1	105.7	105.1	103.4	102.8	100.7		103.3	102.9
Q2	103.4	102.8	102.9	102.3	100.7		102.4	102.0
Percentage change 1982 H1 to 1983 H1	4.3	3.7	3.2	2.6	1.8		3.2	2.7

RESTRICTED UNTIL PUBLICATION AT 14.30 HOURS ON FRIDAY 11 NOVEMBER AND THEREAFTER UNCLASSIFIED

F08

MR TURNBULL	(Prime Minister's Office) (2 copies)	Sir John Boreham	)	
MISS STEVENS	(Prime Minister's Office)	Mr Flaxen	)	
MR HATFIELD	(Cabinet Office)	Mr Mansell	)	CSO
SIR TERENCE BURNS	(Treasury)	Mr Kavanagh	)	
MR FOLGER	(Treasury)	Mr Newman	)	
MR SHIELDS	(Treasury)	Mr Hale	)	
~~MR HIBBERD~~	(Treasury)			

GROSS DOMESTIC PRODUCT IN 1ST HALF 1983
CORRECTION TO PREVIOUSLY PUBLISHED FIGURES

During investigations into the uneven movements in measures of gross domestic product (GDP), the Central Statistical Office has identified an error in the compilation of constant price estimates of the 'adjustment to factor cost', which has implications in the first two quarters of this year for the expenditure-based estimate of GDP at 1980 prices, for the implied index of total home costs and thus also for the income-based and average estimates of GDP at 1980 prices. (The output-based estimate is unaffected.) Current price estimates are not affected, with the single exception of the average estimate of GDP at current market prices (for which the GDP(O) component is derived usign the index of total home costs). National disposable income at 1980 market prices is also revised marginally. The calculation is being reorganised to ensure that the error cannot recur.

When the correction for the adjustment to factor cost is carried through to the aggregate constant price measures of GDP, both GDP(E) and GDP(I) are 0.6 per cent lower than previously estimated in each of the first two quarters of this year. As a result, the average measure of GDP at constant factor cost in the first six months as a whole is now assessed to have been around 0.4 per cent lower, giving an increase of around $2\frac{3}{4}$ per cent on a year earlier. The corresponding figure which was published by press notice during September and in the October issue of Economic Trends was a little over 3 per cent.

Because of the extensive use of GDP data within Government and by public commentators and economic analysts, it is necessary that the error is corrected as soon as practicable and the Central Statistical Office proposes to do this by issuing a press notice on Friday 11 November. I attach a copy of the draft press notice which describes the correction and includes tables giving the revised GDP and component data.

Shirley Carter

Shirley Carter

9 November 1983

PRESS
AND
INFORMATION SERVICE

CSO

CENTRAL STATISTICAL OFFICE
GREAT GEORGE STREET
LONDON
SW1P 3AQ

PRESS CALLS ONLY 01-233 7489/6187
(AFTER 1800 HRS 01-233 3000)
OTHER ENQUIRIES 01-233 6135/6193

CSO(83)86

11 November 1983

GROSS DOMESTIC PRODUCT AT CONSTANT PRICES
REVISIONS TO 1ST HALF 1983

The Central Statistical Office has been investigating the uneven movements in measures of gross domestic product (GDP) in the first half of 1983. The constant price 'adjustment to factor cost' has been found to be understated to an extent which has implications for the aggregate expenditure-based measure of GDP at 1980 prices, for the implied index of total home costs and thus also for the income-based and average estimates of GDP at 1980 prices in the first two quarters of this year. (The output-based measure of GDP is unaffected).

The correct figures for the adjustment to factor cost, valued at 1980 prices, are around £300 million higher than those shown in the Press Notice issued on 20 September and in the national income and expenditure article published in the October issue of Economic Trends. This correction has the effect of reducing the index numbers of the expenditure and income based estimates of GDP at 1980 prices by 0.6 percentage points in each of the first two quarters of 1983; the corresponding average measure is reduced by 0.4 percentage points and the implied index of total home costs increased by 0.7 percentage points in each of these quarters. (There are also some small changes to the average estimate of GDP at current market prices and to national disposable income at 1980 market prices). The revised figures, marked with an *, are given in the attached tables. The average measure of GDP at constant factor cost for the first six months as a whole is now assessed to have been around 2¾ per cent higher than a year earlier.

Gross domestic product at factor cost, total home costs, and national disposable income revalued at constant market prices[1]

Seasonally adjusted

Index numbers, 1980 = 100

		Gross domestic product							Implied index of total home costs	National disposable income at 1980 market prices
		At current prices			At 1980 prices					
		Based on expenditure data	Based on income data	Average estimate[2]	Based on expenditure data	Based on income data[3]	Based on output data	Average estimate	Based on expenditure data	Average estimate
1976		57.5	55.4	54.4	96.8	93.3	94.7	94.9	59.4	92.5
1977		65.3	64.3	63.4	98.1	96.6	97.3	97.4	66.6	94.0
1978		75.1	74.1	73.0	101.0	99.6	100.4	100.4	74.3	98.7
1979		86.3	85.8	85.7	102.8	102.1	103.3	102.7	84.0	101.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		109.0	108.2	109.6	98.9	98.3	97.9	98.4	110.2	99.5
1982		118.6	117.2	119.8	101.2	99.9	99.4	100.2	117.3	101.1
1980	1	94.7	96.1	95.9	101.3	102.7	102.7	102.3	93.5	101.8
	2	98.6	99.8	99.1	100.3	101.4	100.7	100.8	98.4	100.1
	3	101.9	100.8	101.1	99.3	98.2	98.9	98.8	102.6	98.9
	4	104.8	103.3	103.9	99.1	97.7	97.7	98.2	105.7	99.2
1981	1	107.3	103.7	105.6	100.0	96.8	97.4	98.0	107.2	99.6
	2	106.9	105.8	107.6	97.7	96.7	97.4	97.3	109.4	98.7
	3	109.7	109.9	111.3	98.2	98.4	98.4	98.3	111.7	99.1
	4	112.2	113.5	114.1	99.9	101.1	98.6	99.9	112.3	100.5
1982	1	113.0	113.3	116.0	100.1	100.3	98.6	99.6	112.9	100.0
	2	117.4	116.6	118.7	100.4	99.6	99.1	99.7	117.0	100.3
	3	119.7	118.8	121.2	100.9	100.0	99.8	100.2	118.7	101.4
	4	124.4	120.1	123.4	103.4	99.8	99.9	101.0	120.3	102.7
1983	1	127.7	125.1	126.8 *	105.1 *	102.8 *	100.7	102.9 *	121.6 *	103.2 *
	2	127.4	126.7	127.5 *	102.8 *	102.3 *	100.7	102.0 *	123.9 *	101.6 *

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 Measured at market prices.
3 Income data deflated by the index of total home costs.

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices								Imports of goods and services	Adjustment to factor cost
						General government consumption			Gross domestic fixed capital formation	Value of physical increase in stocks and work in progress	Exports of goods and services		
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities					
1982		229 251	198 324	287 248	138 865	49 011	29 904	19 107	37 614	-1 031	62 789	57 997	30 927
Unadjusted													
1983	1	58 863	50 985 *	73 505	34 651	12 747	7 698	5 049	9 875	718	15 514	14 642	7 878 *
	2	55 276	48 816 *	71 569	34 787	12 452	7 437	5 015	8 669	105	15 556	15 293	7 460 *
Seasonally adjusted													
1983	1	59 366	51 486 *	74 318	35 406	12 618	7 590	5 028	9 788	612	15 894	14 952	7 880 *
	2	58 302	50 410 *	73 424	35 946	12 529	7 493	5 036	9 223	71	15 655	15 122	7 892 *

RESTRICTED UNTIL 2.30 P.M. 20 DECEMBER

FROM: S J DAVIES
DATE: 19 DECEMBER 1984

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 Battishill
Mr H P Evans
Mr Odling-Smee
Mr P Sedgwick
Mr Culpin
Mr Folger
Mr Horton
Mr K Vernon
Mr Lord
Mr Cropper
Mrs P Walker (CSO)

GDP FIGURES FOR THE THIRD QUARTER

The CSO's provisional estimates of GDP in the third quarter of 1984 will be published tomorrow (Thursday) at 2.30 p.m. Preliminary figures for the output measure of GDP were published a month ago. The figures being published now include a revised estimate of the output measure, as well as figures for the income and expenditure measures, along with the average estimate based on all three measures. An advance copy of the Press Notice is attached.

2. The three different measures of GDP now show rather different growth rates over the last year. The output measure, which is the most reliable measure of GDP movements over periods up to a year, shows growth of 1.3 per cent between the third quarters of 1983 and 1984 (this includes a small upward revision since the preliminary figures published in November). The income measure shows growth of 3 per cent over the same period, while the expenditure measure shows a fall of 0.1 per cent. The average estimate of growth over this period comes out at 1.4 per cent.

3. The expenditure measure, which fell sharply in the second quarter of the year, fell again - by 0.4 per cent - in the third quarter. The output measure rose by 0.5 per cent between the second and third quarters; while the income measure - which has been growing faster than the other measures since the beginning of 1983 - rose by 0.7 per cent.

4. The coal strike is estimated to have depressed GDP by "up to 1½ per cent" in both the second and third quarters. This implication is that, but for the coal strike, GDP would have risen by about 3 per cent between the third quarters of 1983 and 1984. This compares with growth in GDP of about 4 per cent during 1983.

GDP INDEX 1980 = 100

	Output	Expenditure	Income	Average	Percentage change on a Year Earlier
1979	103.0	101.9	102.3	102.4	2.5%
1980	100.0	100.0	100.0	100.0	- 2.3%
1981	98.3	99.0	98.8	98.7	- 1.3%
1982	100.1	100.6	101.8	100.8	2.1%
1983	103.2	104.0	104.9	104.0	3.2%
1983Q1	101.8	103.6	103.4	103.0	2.7%
Q2	102.1	102.4	104.5	103.0	2.3%
Q3	103.8	104.2	105.0	104.4	3.7%
Q4	104.9	105.8	106.8	105.8	4.0%
1984Q1	104.8	106.5	108.1	106.5	3.4%
Q2	104.7	104.5	107.5	105.6	2.5%
Q3	105.2	104.1	108.2	105.9	1.4%

5. The average estimate of GDP is now 2.2 per cent above its previous cyclical peak, reached in the second quarter of 1979. It is 8 per cent above the trough reached in the second quarter of 1981. Adjusted for the effects of the coal strike, these figures are 3½ - 3¾ per cent and 9¼ - 9½ per cent respectively.

6. All the measures of GDP have been revised downwards for the first half of 1984: the average estimate has been reduced by 0.3 per cent. Taken on its own, this would suggest that growth in GDP for 1984 as a whole is likely to be a little below the 2½ per cent shown in the Autumn Statement forecast: the achievement of 2½ per cent for the year as a whole now requires faster growth in the second half of 1984 than we had previously thought. However, such information as we have for expenditure and activity in the fourth quarter is pointing to a pick up in growth; this should partly offset the effect of the downward revision to GDP in the first half of the year.

Components of Expendtiure, Income and Output

7. Along with the GDP figures, the CSO will be publishing figures for the main components of the various measures of GDP.

8. The detailed figures show that the fall in the expenditure measure in the third quarter is accounted for by falls in consumers' expenditure (mainly on food, cars, and energy products), fixed investment (in particular residential investment), and an increase in imports. The details of the income measure show a small downward revision to figures for company profits for 1983 and the first half of 1984. However, company profits are still showing a substantial rise over this period. Industrial and commercial companies' profits net of stock appreciation are 15 per cent higher than a year before in the third quarter of 1984; this follows a 20 per cent rise on average in 1983.

Line to Take

(i) The GDP figures show that the recovery - now in its fourth year - is continuing. Note in particular the further rise in the output measure of GDP, the most reliable of the three measures as an indicator of short term movements GDP.

(ii) Growth in the third quarter was broadly consistent with the Autumn Statement forecast. The revisions to the data for the first half of the year may require some small reassessment of the forecast for 1984 GDP growth. However, recent figures (eg retail sales, October's output figures) suggest fairly strong growth in the fourth quarter, and this will help to offset the effect of the downward revision to GDP for the first half of the year.

(iii) There is nothing in the figures to cause us to change the forecast of 3½ per cent GDP growth next year.

S J DAVIES

n9sd

CONFIDENTIAL

FROM: JON SHIELDS
3 OCTOBER 1984

cc:

CHANCELLOR OF THE EXCHEQUER

Chief Secretary
Financial Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Lankester
Mr Sedgwick
Mrs Lomax
Mr Mowl
Mr Riley
Mr O'Donnell
Mr Wood
Mr Lord
Mr Ridley

C

If anything, this exhibits the unreliability of estimates of Money GDP. But recent figures look low, despite upside risk mentioned at end of para 3.

P
3/10

MONETARY CONDITIONS: TRENDS IN MONEY GDP

You asked, in the context of last month's note on monetary prospects, about current trends in the growth of money GDP. There have been some further changes to the data since figures for the second quarter of this year were published, but the position still seems to be that of a slight underlying slowdown since last year. The situation is clouded by the impact of the miners' dispute.

2. The latest figures for the growth in money and real GDP over the last eighteen months are shown in the table below. An approximate allowance for the miners' dispute has been made in the bracketed estimates:

	Money GDP Percentage change over six months (annual rate)	Money GDP Percentage change on a year earlier	Real GDP Percentage change on a year earlier
1983 Q1	10.3	9.3	2.8
Q2	7.0	7.5	2.3
Q3	6.9	8.6	3.8
Q4	10.1(10.3)	8.5(8.6)	4.1(4.2)
1984 Q1	6.1(7.1)	6.6(7.1)	3.5(4.0)
Q2	2.8(5.1)	6.4(7.6)	2.9(4.1)

3. In assessing the implications of money GDP growth for the tightness of monetary conditions it is necessary to look both at the recorded and the underlying (ie dispute-adjusted) figures. The recorded figures show a sharp (and presumably once-for-all) reduction in the rate of growth into the second quarter as real output was reduced without noticeable impact on aggregate domestic unit costs. Allowing fully for the output loss suggests that the underlying rate of growth in money GDP slowed to just below 8 per cent over the year to mid-1984 (the first quarter figures were artificially depressed by a freakishly high figure for 1983Q1). The more recent quarters are, of course, more liable to revision, which often seems to be in an upward direction.

4. Within the money GDP figures, the volume/price split seems to have been particularly favourable over the turn of the year. More recent data suggest the possibility of some slowing in real output growth, with perhaps some upward pressure on costs reflecting weaker productivity growth and a lower exchange rate. But very provisional CSO views do not suggest any great change in the strike-adjusted rate of growth of money GDP.

JON SHIELDS

3.15 SECRET

pmp

FROM: D L C PERETZ
DATE: 17 September 1984

cc Chief Secretary
Financial Secretary
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr Lavelle
Mr Lankester
Mr Sedgwick
Mr Kelly
Mr Mowl
Miss Peirson
Mr Riley
Mr O'Donnell
Mr Wood
Mr Heath
Mr Neilson
Mr Lord
Mr Ridley

MRS LOMAX

MONETARY PROSPECTS

The Chancellor has seen your minute of 13 September, on which Sir P Middleton had commented:-

> "The point in paragraph 18 about the effects of the demise of the Building Society cartel is one on which we are doing further work and on which I will let you have a note."

The Chancellor looks forward to receiving this.

2. He also noted the agreement - recorded in the first sentence of paragraph 16 - that monetary conditions are, if anything, on the tight side. In this context he will be grateful for a note on current trends in the growth of money GDP.

DLCP

D L C PERETZ

C/

You asked for the EST's views on the timing of the next National Savings issue.

He'll minute you on Monday, having read this note.

MOW

14/9

Letter to Governor below.

Re X (para 16) pse let me have a note on current trends in growth of money GDP.

N

SECRET

PEM 13/9

FROM: RACHEL LOMAX
DATE: 13 SEPTEMBER 1984

1. SIR PETER MIDDLETON

2. CHANCELLOR

The point in para 18 about the effects of the demise of the BS cartel is one on which we are doing further work and on which I will let you have a note

P

cc: Chief Secretary
Financial Secretary
Economic Secretary
Sir T Burns
Mr Littler
Mr Cassell
Mr Monck
Mr Battishill
Mr Lavelle
Mr Lankester
Mr Sedgwick
Mr Kelly
Mr Mowl
Miss Peirson
Mr Riley
Mr O'Donnell
Mr Wood
Mr Heath
Mr Neilson
Mr Lord
Mr Ridley

Mr George - B/E

Mr Redwood - No 10

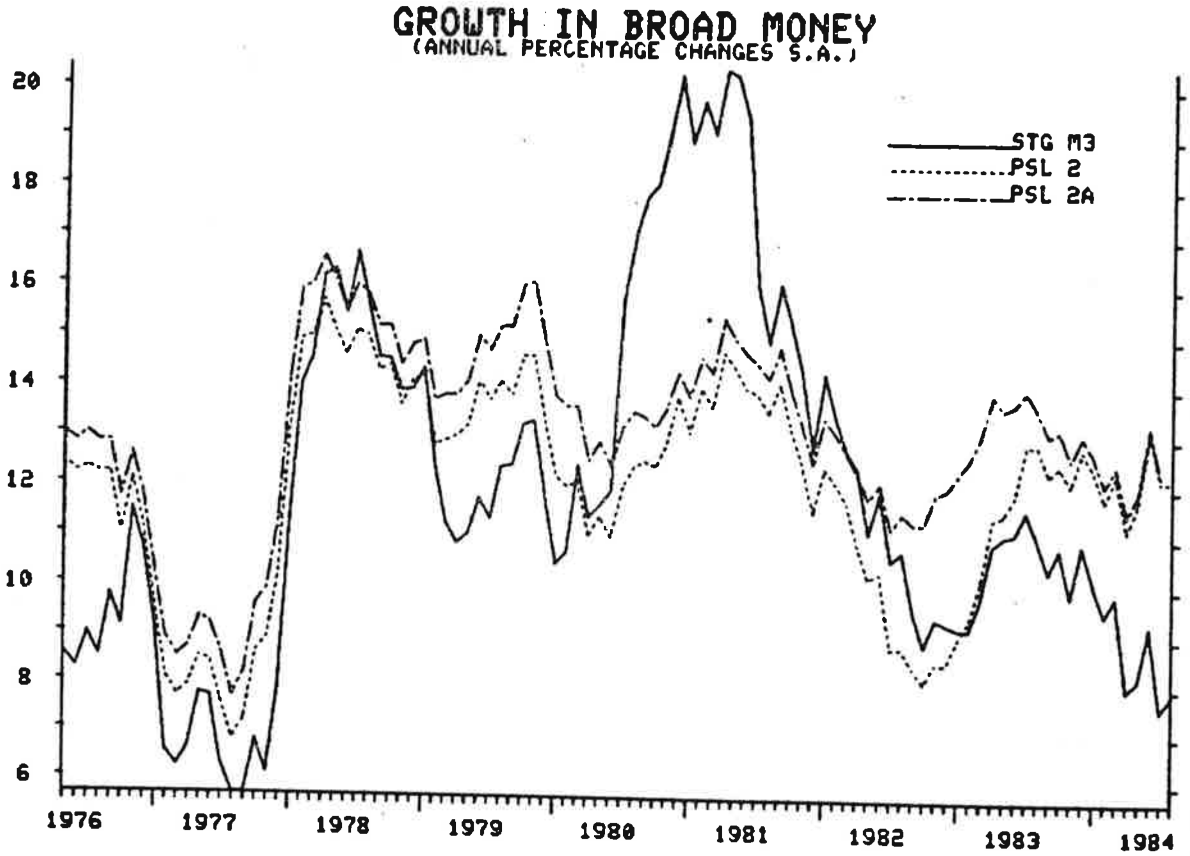
MONETARY PROSPECTS

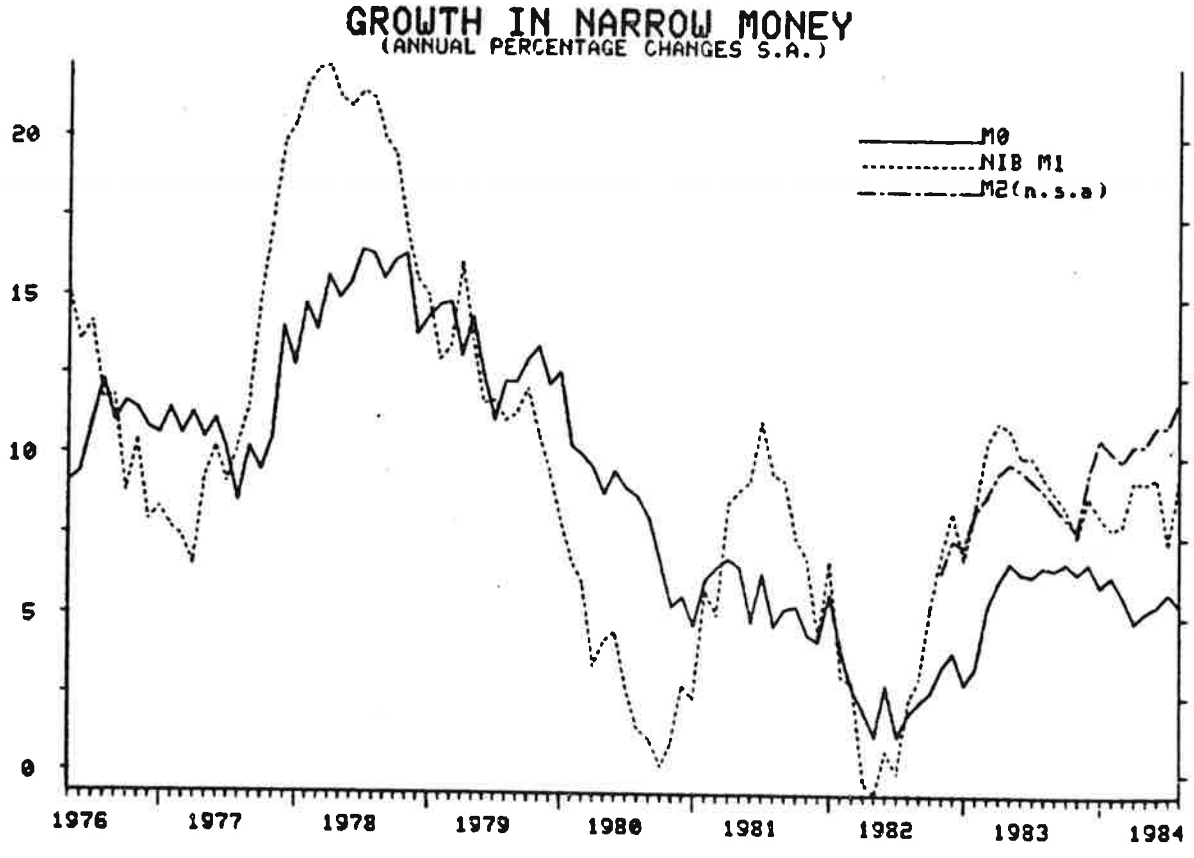
This minute summarises our latest assessment of the monetary situation and prospects, and the discussion at Sir Peter Middleton's regular monthly meeting with the Bank to review our approach to short term interest rates and funding.

Monetary Aggregates

2. The August figures kept both MO and £M3 well within their respective target ranges. The growth in MO has been subdued for some time now; the six month growth rate has been fluctuating between 4 and 5 per cent since last Spring, compared with about 6 per cent over the winter. The monthly path of £M3 has been notably erratic this year, and even six month changes have been hard to interpret. Twelve month growth rates provide some evidence of a reduction in trend since the Budget.

CHART 1.


GROWTH IN BROAD MONEY
(ANNUAL PERCENTAGE CHANGES S.A.)
STG M3
PSL 2
PSL 2A
20
18
16
14
12
10
8
6
1976
1977
1978
1979
1980
1981
1982
1983
1984


GROWTH IN NARROW MONEY
(ANNUAL PERCENTAGE CHANGES S.A.)
M0
NIB M1
M2(n.s.a)
20
15
10
5
0
1976
1977
1978
1979
1980
1981
1982
1983
1984

3. The wider aggregates continue to grow relatively rapidly, despite very much lower retail inflows into building societies. Since April net inflows have been well below the record levels of the first quarter. Last month's inflow was the lowest for over two years. But inflows that fall within the definition of PSL2 have held up relatively well (the main outflow has been from term shares), and the societies have continued to finance a high level of lending by running down bank deposits (which helps to reduce £M3 but not PSL2).

4. Even so, the wider aggregates are presenting a more reassuring picture than they did a few months ago. Three and six month growth rates have fallen back to 15 per cent or less; and twelve month growth rates, for both PSL2 and PSL2A, have been remarkably steady at around 12-13 per cent for the whole of the past year. There are signs that M2 may be rising more rapidly, but the introduction of new building societies' accounts continues to seriously complicate interpretation of this series.

5. Over the next three months we are expecting both MO and £M3 to remain well within their target ranges. The forecast assumes unchanged short term interest rates, including mortgage rates, and gross gilt sales of £1 billion a month (£¼ billion below the monthly planning ambition so far this year). Taking account of the likely impact of the rise in interest rates over the Summer, underlying growth in MO is likely to remain just below ½ per cent a month, though there could be some rebound in September, following two exceptionally low months. With a week still to go, the weekly Bank Return suggests a rise of perhaps ¾ per cent this month.

6. Sterling M3 is expected to average around 0.7 per cent a month. Despite significantly lower funding through gilts and National Savings, public sector influences may remain contractionary, reflecting low borrowing, in October and November. The forecast also reflects a view that there has been some modest deceleration in the underlying growth of bank lending to the private sector. PSL2 is forecast to grow a little faster than £M3, with some recovery

in building society inflows following the withdrawal of the 28th National Savings Certificate, and a continuing (though relatively modest, by recent standards) rundown in the societies' holdings of money.

Table 1: Monetary Aggregates: recent experience and forecast

per cent, s.a.

	MO	£M3	M2*	PSL2
monthly change				
August	0.1	0.7	0.2	0.9
Sept)	0.8	0.5	0.6	0.7
Oct) forecast	0.4	0.9	0.6	1.0
Nov)	0.4	0.5	0.2	0.8
growth at an annual rate				
3 months to:				
mid-August	4.6	7.1	..	13.6
mid-Nov (forecast)	6.6	7.9	..	10.4
6 months to:				
mid-August	4.4	9.0	..	15.2
mid-Nov (forecast)	5.6	7.5	..	12.0
12 months to:				
mid-August	5.4	7.9	12.1(9.3)**	12.2
mid-Nov (forecast)	4.8	8.4	12.5(8.9)**	13.1
Target period to:				
mid-August	4.4	9.9	..	15.2
mid-Nov (forecast)	5.1	8.6	..	13.6

* not seasonally adjusted
** excluding the effect of reclassifications

Recent outturns and the forecast for the next 3 months are shown in more detail in tables A and B.

PSBR and Debt Sales

7. By the end of calendar August, both the CGBR(0) and PSBR were running slightly above the Budget profile. Banking September is expected to be a month of relatively high borrowing, with a seasonally adjusted 'PSBR' of nearly £1½ billion. The forecasts for October and November are sharply lower, at between £¼-½ billion a month. The profile seems to reflect, in part, the pattern of expenditure, as well as high Revenue receipts in November. The effects of both the BT sale and accelerated VAT on imports fall outside the forecast period but the figures do take credit for the 1983 EC Budget refund, partly offset by higher payments into the EC Budget.

8. Gilt sales were over £1.9 billion in August, in both gross and net terms, and sales to non-banks reached £1½ billion. Since then the market has been very quiet and, with under a week to go, sales achieved so far plus calls already tied up amount to only £½ billion, well short of the £1 billion gross sales assumed in the forecast. If we failed to make any further sales this month, the growth in £M3 might be around ¾ per cent, rather than ½ per cent. Next month net gilt sales will be depressed by redemptions of over £½ billion.

9. Most of the effect of the highly successful 28th National Savings certificate will be felt in banking September. Helped by the decline in competing bank deposit rates, the new issue may have attracted funds of nearly £1 billion. Despite a disappointing performance by other DNS instruments, especially Invac, National Savings funding could reach nearly £0.9 billion (seasonally adjusted) this month, putting DNS ahead on its target for the year. Thereafter, inflows into National Savings are expected to fall back to about £150 million a month, on the assumption that there will be some delay in introducing a less competitive 29th Issue, and that DNS inflows will anyhow be depressed in the run-up to the BT sale. This would leave DNS in a position where they would need to raise about £200 million a month (seasonally adjusted) for the rest of the financial year to meet their £3 billion target.

10. Table 2 shows the net funding picture over the target period

so far, and that implied by the forecast to mid-November. Underfunding in the first four months of the target period was more than reversed in July and August. The overfunding forecast for the next three months reflects the low PSBR expected later in the Autumn.

TABLE 2: The 'PSBR' and Funding

£ billions, sa
(figures in brackets are unadjusted)

	Actual mid-Feb 84 - mid-Aug 84	Forecast mid-Aug 84 - mid-Nov 84
"PSBR"	5.3	2.1
Debt sales to nbps (-)	-5.7	-2.6
of which:		
Gilts	-4.0	-1.9
National Savings	-1.5	-1.2
CTDs	-0.3	0.4
OVER(-)/UNDERFUNDING(+)	-0.5 (1.8)	-0.5 (-0.7)
External Finance of public sector (-)	-0.6	-0.2
OVER(-)/UNDERFUNDING(+) alternative definition	-1.1 (1.2)	-0.7 (-0.9)

The stock of money market assistance rose by nearly £½ billion in August to reach about £11 billion. It may rise by a further £½ billion over the forecast period.

Building Societies

11. The slump in building society inflows in August may have reflected seasonal and special factors as well as competition from National Savings. Most recent weekly figures for the sixteen largest societies suggest a sharp recovery in the first two weeks of September before the 28th Issue was withdrawn. We are expecting a more modest pickup in the seasonally adjusted figures, bringing retail inflows back to the rather subdued levels seen since the

Spring. The outlook for retail funding remains unusually uncertain, in the run up to the BT flotation, and with further term share maturities to come. This has already been reflected in an intensification of premium rate competition between the societies.

12. There has been no slowdown in mortgage lending so far but new commitments are a little down. Even with further heavy borrowing from wholesale markets, the forecast implies some further rundown in liquidity over the next few months, to levels which may be uncomfortable, at least for some individual societies. Given the present general level of short term rates, the chances of a fall in mortgage rates look remote.

Sterling Lending to the Private Sector

13. In both July and August the recorded figures for sterling bank lending were depressed by repayment of lending to two clearers by their leasing subsidiaries in exchange for transfers of reserves. (Since there was an offsetting effect on net non-deposit liabilities, there was no net impact on £M3). Adjusting for this, and taking account of the exceptionally high June figure, the rate of lending seems to have fallen off in recent months. The clearers are reporting slacker demand for personal loans, mortgage and other, though this might be temporary if, for example, the Budget changes led to some bunching ahead of the June VAT deadline. The August lending figures were inflated by high monetary sector take-up of building societies' CD's, and the September figures may be similarly affected.

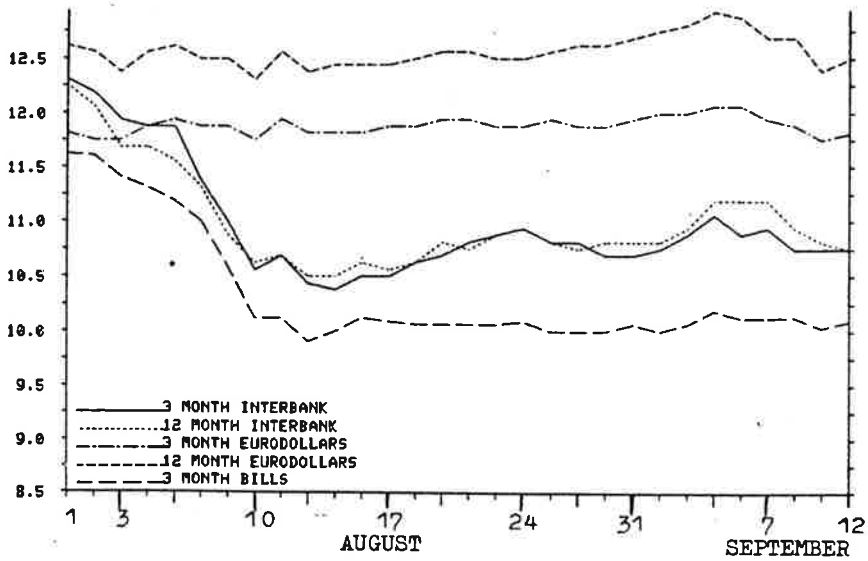
14. New capital issues picked up significantly in August, bringing total issues by listed UK public companies so far in 1984 to £1.1 billion (compared with £2.8 billion in 1983). The equities queue remains just above £1 billion.

Market Conditions

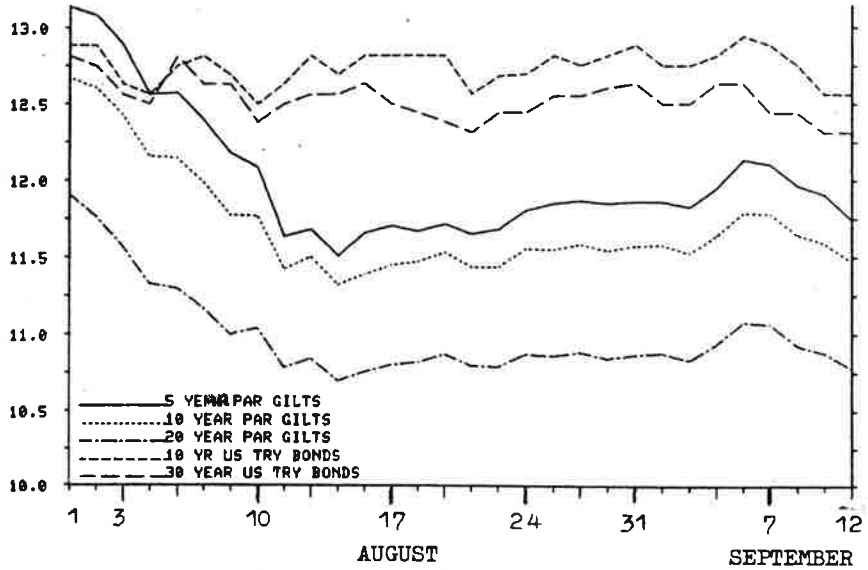
15. Foreign exchange markets have been dominated by the strength of the dollar, but sterling has held up well against European

CHART 2.

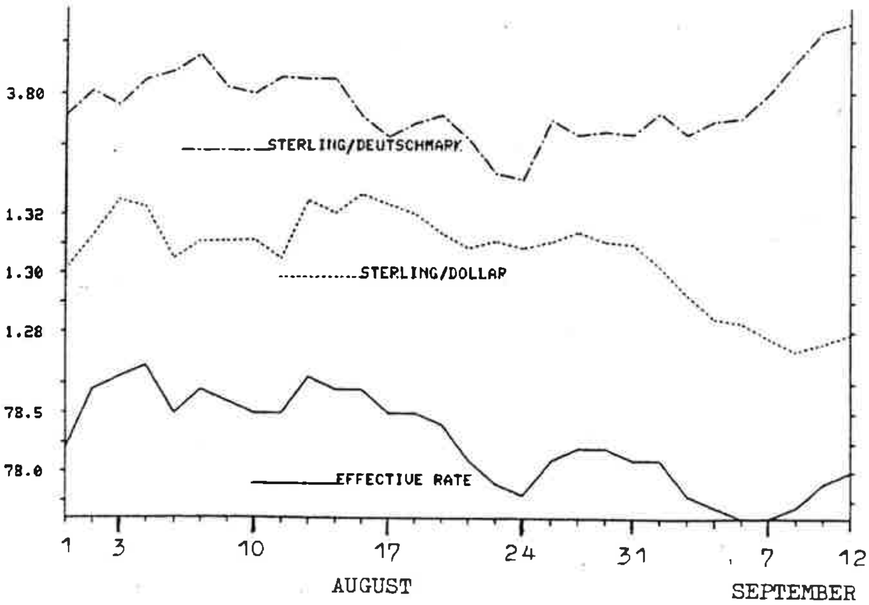
SHORT-TERM INTEREST RATES 1 AUGUST TO 12 SEPTEMBER



LONG-TERM INTEREST RATES 1 AUGUST TO 12 SEPTEMBER



EXCHANGE RATE 1 AUGUST TO 12 SEPTEMBER



currencies and, at 78, the effective rate is only fractionally below its average level in July and August. Domestic markets have been preoccupied by US developments and worries about the industrial situation but, while earlier optimism about further falls in base rates has gone, there has been no real pressure for a rise in base rates. The gilts market has today rallied after a period of weakness, and the Bank have been able to reactivate the tap. There has been little further interest in index-linked stock, and the yield on the 1988 IG was still over 5 per cent yesterday. (Estimates of "real" 3 month interbank rates, based on outside inflation forecasts, are at similar levels, about 1 per cent below their peak earlier in the Summer.)

Policy Assessment

16. The meeting agreed that monetary conditions were, if anything, on the tight side. There was no convincing evidence of undue looseness and some signs that activity might be slowing down. Sir T Burns said that the latest CBI survey might be a more reliable guide to the real economy than the CSO's output statistics, which were affected by industrial disputes. His own view was that there might have been some reduction in the underlying growth of output, but probably not much. The inflation prospect might be marginally better. He was more concerned about next year; the leading indicators were giving worrying signals.

17. While domestic monetary conditions are clearly consistent with some further fall in interest rates, it was generally agreed that it would be unwise to attempt to cut rates aggressively, given the unsettled industrial situation at home and uncertainty about US interest rates. A cautious approach - "going with the grain of the markets" - was more likely to achieve a sustainable reduction in interest rates. Mr George commented that US influences could turn out to be less adverse than some commentators are now expecting. The Fed seem to have been doing their best to moderate interest rate pressures.

N.B.

18. Sir Peter Middleton said that interest rates in the personal savings market seemed to be in the throes of adjusting to major

structural changes. The immediate effect of the end of mortgage rationing and the breakup of the building societies' cartel had been to push interest rates up. There must be a limit to this rise, but where it was depended on the interest sensitivity of the demand for mortgage credit. In discussion, it was generally agreed that the boom in mortgage lending could not continue indefinitely, and that the effect of higher interest rates would be reinforced by the general economic climate, including the levelling out of the consumer durable cycle. In the meantime, however, building societies' interest rates could well overshoot. The societies were still learning how to operate in a more competitive market.

19. On funding, the meeting agreed that gross gilt sales of £1 billion a month was a reasonable starting assumption for the three month forecasts. Monthly funding targets over the Autumn would need to be considered in more detail at the Economic Secretary's Funding meeting. On National Savings, it was agreed that it would be right to leave a gap of a couple of weeks before launching a 29th Issue. DNS were now ahead on their annual target and could afford to wait and see how the building societies' rate structure settles down. It was particularly important to try and pitch the 29th Issue correctly, so that it would carry DNS through the BT flotation period. In the meantime, Sir Peter Middleton asked HF and the Bank to look at ways of promoting the 1988 IG more actively to personal savers.

RL.

RACHEL LOMAX

SECRET

TABLE A : PERCENTAGE CHANGES IN MONETARY AGGREGATES

per cent, s.a

Banking months	MO	NIB M1	M1	M2*	£M3	M3	PSL2	PSL2A
(1) In month								
August	-0.1	2.1	1.5	0.2	0.7	0.2	0.9	0.8
Sept	0.8			0.6	0.5		0.7	0.6
Oct	0.4			0.6	0.9		1.0	0.9
Nov	0.4			0.2	0.5		0.8	0.7
(2) latest 3 months (a.r)								
August	4.6	6.9	11.1	*	7.1	9.0	13.6	11.9
Sept	3.7			*	0.7		6.7	5.6
Oct	4.4			*	8.8		10.6	9.1
Nov	6.6			*	7.9		10.4	8.9
(3) latest 6 months (a.r)								
August	4.4	11.5	19.3	*	9.0	6.7	15.2	13.6
Sept	4.9			*	7.0		12.8	11.3
Oct	5.6			*	8.2		13.0	11.3
Nov	5.6			*	7.5		12.0	10.4
(4) latest 12 months (a.r)								
August	5.4	9.3	14.3	12.1(9.3)	7.9	9.4	12.2	12.2
Sept	5.0			12.7(9.5)	8.0		12.4	12.0
Oct	4.9			12.6(9.5)	8.0		12.6	11.8
Nov	4.8			12.5(8.9)	8.4		13.1	11.9
(5) target period (a.r)								
August	4.4	11.5	19.3	*	9.0	6.8	15.2	13.6
Sept	5.2			*	8.5		14.2	12.6
Oct	5.2			*	9.0		14.0	12.4
Nov	5.1			*	8.6		13.6	12.0

* not seasonally adjusted

** excluding reclassifications

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TABLE B: £M3 COUNTERPARTS

£ millions

	AUGUST FORECAST	AUGUST OUTTURN	FORECAST SEPT	FORECAST OCT	FORECAST NOV	TARGET PERIOD MID-FEB 84 TO MID-NOV 84	MID-APRIL 84 TO MID-NOV 84
1. CGBR							
Own-account (u.a)	1535	894	900	395	115	8164	4889
On-lending (u.a)	-15	29	250	310	375	1624	1365
Total (u.a)	1520	923	1150	705	490	9788	6254
TOTAL CGBR (s.a)	1460	861	1300	625	600	7796	5620
2. NET PURCHASES OF CG DEBT BY NBPS							
Gilts	-1200	-1511	-675	-420	-800	-5868	-4699
Treasury bills	0	-35	0	0	0	-96	-143
National Savings	-220	-236	-860	-215	-75	-2617	-2107
CTDs,etc	205	127	250	225	-35	236	488
TOTAL DEBT	-1215	-1655	-1285	-410	-910	-8345	-6461
3. OTHER PUBLIC SECTOR							
Local Authorities	200	392	-190	55	-135	3	-287
Public Corps.	-50	6	345	-345	-180	-452	-234
TOTAL OPS	150	398	155	-290	-315	-449	-521
4. £ LENDING TO PRIVATE SECTOR	910	731	965	1415	1380	10393	7299
5.NET EXTERNALS	-170	418	-140	-15	85	-761	60
6.NET NON-DEPOSIT LIABILITIES	-230	-24	-500	-330	-330	-2247	-1385
CHANGE IN £M3 £m	905	729	495	995	510	6387	4612
(%)	(0.8)	(0.7)	(0.5)	(0.9)	(0.5)	(8.6)*	(7.9)*
"PSBR"	1610	1259	1455	335	285	7347	5099
OVER(-)/UNDERFUNDING(+)	395	-396	170	-75	-625	-998	-1362

* at an annual rate

INDICATORS OF MONETARY CONDITIONS

TABLES

CHARTS

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TABLE 1: PERCENTAGE GROWTH RATES IN THE MONETARY AND FINANCIAL AGGREGATES ϕ

		Composite monetary indicator	Weekly averaged M0	Non-interest bearing M1	M1	M2ϕϕ	£M3++	M3	PSL2
(a)	Financial years (12 month changes to banking April)								
1981-82		5.2	2.0	-0.3	4.2		12.2	15.5	10.9
1982-83		10.9	6.1	11.1	14.8	8.9	10.9	12.7	11.4
1983-84		8.7	4.9	9.3	13.6	10.4	8.0	10.7	11.2
(b)	Changes in 4 quarters to+								
1982	(2)	5.6	2.8	0.7	6.0		12.0	13.3	10.3
	(3)	5.7	2.3	3.2	7.3		9.7	10.3	8.4
	(4)	8.2	3.9	8.3	11.3	7.2	9.3	11.7	8.5
1983	(1)	10.1	5.3	10.4	12.9	8.4	9.8	13.2	10.2
	(2)	11.0	6.4	10.0	15.5	9.2	11.1	12.7	11.9
	(3)	10.2	6.5	8.9	12.5	8.4	10.3	12.1	12.3
	(4)	10.2	6.7	8.8	12.4	9.3	10.9	12.7	12.8
1984	(1)	8.6	5.7	7.9	13.4	10.2	9.9	11.9	12.3
	(2)	9.0	5.4	9.4	13.7	11.1	9.3	10.1	13.2
(c)	Changes in 12 months to								
1983	September	10.2	6.5	8.9	12.5	8.4	10.3	12.1	12.3
	October	9.9	6.7	8.7	13.1	8.2	10.9	11.4	12.0
	November	9.9	6.4	7.5	11.6	7.7	9.8	11.3	12.1
	December	10.2	6.7	8.8	12.4	9.3	10.9	12.7	12.8
1984	January	9.6	6.0	8.2	10.7	10.5	10.2	12.4	12.4
	February	8.9	6.3	7.8	11.1	10.2	9.5	11.7	11.8
	March	8.6	5.7	7.9	13.4	10.2	9.9	11.9	12.3
	April	8.7	4.9	9.3	13.6	10.4	8.0	10.7	11.2
	May	8.6	5.2	9.2	13.7	10.4	8.2	9.3	11.7
	June	9.0	5.4	9.4	13.7	11.2	9.3	10.1	13.2
	July	8.1	5.8	7.3	13.5	11.3	7.6	9.6	12.2
	August	9.3	5.4	9.3	14.3	12.1	7.9	9.4	12.2
(d)	Changes (at an annual rate) in 6 months to								
1983	September	9.2	6.3	7.0	10.6	7.0	10.7	9.2	12.6
	October	8.1	5.7	7.9	11.1	6.2	8.3	8.8	10.0
	November	8.3	6.4	7.8	9.4	5.5	7.1	8.8	9.3
	December	6.9	6.0	9.4	7.8	7.1	7.3	11.3	9.3
1984	January	6.7	6.6	7.2	10.5	10.5	7.6	11.5	9.7
	February	6.5	6.3	7.1	9.5	11.4	6.7	12.1	9.2
	March	7.9	5.1	8.7	16.4	13.4	9.1	14.7	11.9
	April	9.2	4.1	10.7	16.3	14.7	7.7	12.8	12.3
	May	8.8	4.0	10.6	18.2	15.4	9.3	9.8	14.2
	June	11.1	4.9	9.4	20.0	15.3	11.3	9.0	17.1
	July	9.6	5.0	7.4	16.7	11.8	7.7	7.7	14.7
	August	12.2	4.4	11.5	19.3	12.6	9.0	6.7	15.2

ϕ The growth rates are adjusted for the changeover to the new monetary sector. The October 1982 figures are greatly distorted by the over-subscription of the STC share issue. The figures shown here are the Bank of England/Treasury best estimates of what would have happened in the absence of the distortion.

\+ The quarterly figures are for the final banking month of the quarter.

ϕϕ M2 is partially seasonally adjusted by using a seasonally adjusted series for the NIBM1 component and adjusting retail time deposits for the seasonal effects of interest crediting. When proper seasonal adjustment of M2 is eventually possible its within year movements may differ from those shown.

++ Excluding public sector deposits.

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TABLE 1A: GROWTH OF COMPONENTS OF PSL2 (%)

	Notes and coin (i)	Non-interest bearing sight deposits with banks (ii)	Interest bearing deposits with the monetary sector: Retailϕ (iii)	Interest bearing deposits with the monetary sector: Wholesaleϕ (iv)	All other components of PSL2 (v)	Total £M3 (vi)= (i)+(ii)+(iii)+(iv)	Total PSL2 (vii)= (v)+(vi)
(a) Financial years (12 month changes to banking April)							
1981-82	1.6	-1.6	-	-	8.2	12.2	10.9
1982-83	7.5	13.5	5.5	15.8	12.1	10.9	11.4
1983-84	6.1	11.2	-1.9	15.3	15.7	8.0	11.2
(b) Changes in 4 quarters to							
1982 (2)	3.1	-0.8	-	-	7.5	12.0	10.3
(3)	3.6	2.9	-	-	6.5	9.7	8.4
(4)	5.0	10.5	3.4	16.0	7.5	9.3	8.5
1983 (1)	6.1	13.2	4.8	14.2	10.6	9.8	10.2
(2)	7.4	11.6	6.5	16.5	12.9	11.1	11.9
(3)	6.9	10.2	6.0	15.5	15.3	10.3	12.3
(4)	7.1	9.9	7.3	18.6	15.4	10.9	12.8
1984 (1)	5.0	9.7	-0.3	20.6	15.6	9.9	12.8
(2)	5.3	12.0	-2.3	19.1	18.7	9.3	13.2
(c) Changes in 12 months to							
1983 Sept	6.9	10.2	6.0	15.5	15.3	10.3	12.3
Oct	7.3	9.6	5.7	17.4	15.1	10.9	12.0
Nov	7.3	7.6	6.4	15.1	15.4	9.8	12.1
Dec	7.1	9.9	4.3	18.6	15.4	10.9	12.8
1984 Jan	5.9	9.5	3.1	18.2	15.8	10.2	12.4
Feb	5.3	9.4	1.7	17.9	15.1	9.5	11.8
Mar	5.0	9.7	-0.3	20.6	15.6	9.8	12.3
Apr	6.1	11.2	-1.9	15.3	15.7	8.0	11.2
May	4.7	12.0	-3.1	17.0	16.7	8.2	11.7
June	5.3	12.0	-2.3	19.1	18.7	9.3	13.2
July	5.4	8.4	-1.7	16.0	18.3	7.6	12.2
Aug	5.5	11.6	-1.5	14.7	18.0	7.9	12.2
(d) Changes (at an annual rate) in 6 months to							
1983 Sept	6.1	7.6	7.0	17.2	15.6	10.7	12.6
Oct	5.8	9.1	3.3	13.0	11.8	8.3	10.0
Nov	5.0	9.5	1.1	11.8	10.8	7.1	9.3
Dec	5.7	11.7	-6.6	18.0	10.6	7.3	9.3
1984 Jan	4.9	8.6	-6.5	20.9	12.2	7.6	9.7
Feb	4.3	8.8	-7.6	19.4	12.2	6.7	9.2
Mar	3.8	11.7	-7.2	24.0	15.6	9.1	11.9
Apr	6.5	13.2	-6.9	17.7	19.8	7.7	12.3
May	4.4	14.5	-6.8	22.9	23.0	9.3	14.2
June	4.9	12.2	2.1	20.6	27.4	11.3	17.1
July	5.9	8.3	3.1	11.6	24.7	7.7	14.7
Aug	6.7	14.3	4.8	10.3	24.0	9.0	15.2

ϕ The split between retail and wholesale is that used for M2. Deposits of less than £100,000 are counted as retail. This split is only partially seasonally adjusted. The wholesale component contains a small amount of retail deposits with a residual maturity of greater than one month.

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TABLE 2: CHANGES IN THE REAL$^{\phi}$ MONEY SUPPLY (%)

	Total RPI+	RPI+ less mortgage element	Composite monetary indicator	Weekly averaged M0	Non-interest bearing M1	M2	£M3	PSL2
(a) Financial year (12 month changes to banking April)								
1981-82	9.4	9.1	-3.6	-6.5	-8.7		2.8	1.7
1982-83	4.0	4.8	5.8	1.2	6.0	3.9	5.8	6.3
1983-84	5.2	4.8	3.7	0.2	4.3	5.4	3.1	6.1
(b) Changes on same quarter in previous year								
1982 (2)	9.2	8.8	-3.0	-5.6	-7.5		2.9	1.3
(3)	7.3	7.3	-1.5	-4.7	-3.9		2.3	1.0
(4)	5.4	6.6	1.5	-2.5	1.6	0.6	2.5	1.8
1983 (1)	4.6	6.0	3.9	-0.6	4.1	2.3	3.6	3.9
(2)	3.7	4.5	6.2	1.9	5.3	4.5	6.4	7.1
(3)	5.1	5.2	4.7	1.2	3.5	3.1	4.9	6.8
(4)	5.3	4.8	5.2	1.9	3.9	4.3	5.8	7.6
1984 (1)	5.2	4.7	3.6	0.9	3.0	5.2	4.9	7.2
(2)	5.1	4.9	4.2	0.5	4.3	5.6	4.2	7.8
(c) Changes in 12 months to								
1983 September	5.1	5.2	4.7	1.2	3.5	3.1	4.9	6.8
October	5.0	5.0	4.7	1.7	3.6	3.0	5.6	6.7
November	4.8	4.9	4.8	1.5	2.5	2.7	4.8	6.9
December	5.3	4.8	5.2	1.9	3.9	4.3	5.8	7.6
1984 January	5.1	4.6	4.8	1.4	3.5	5.7	5.4	7.5
February	5.1	4.5	4.2	1.7	3.1	5.4	4.8	7.0
March	5.2	4.7	3.6	0.9	3.0	5.2	4.9	7.2
April	5.2	4.8	3.7	0.2	4.3	5.4	3.1	6.1
May	5.1	4.9	3.5	0.3	4.1	5.3	3.2	6.5
June	5.1	4.9	3.9	0.5	4.3	6.0	4.2	7.8
July	4.5	4.5	3.5	1.2	2.7	6.5	3.0	7.4
August	(5.0)	(4.5)	4.6	0.8	4.6	7.3	3.2	7.4
(d) Changes (at annual rate) in 6 months to								
1983 September	6.7	5.5	3.5	0.8	1.5	1.5	4.9	6.7
October	7.2	6.9	1.2	-1.1	0.9	-0.6	1.3	2.9
November	7.5	6.6	1.6	-0.2	1.1	-1.0	0.5	2.5
December	7.7	7.4	-0.4	-1.3	1.9	-0.2	-0.1	1.7
1984 January	5.7	4.9	1.7	1.6	2.1	5.4	2.6	4.6
February	4.5	4.4	2.1	1.9	2.6	6.7	2.3	4.6
March	3.7	3.9	3.9	1.3	4.7	9.2	5.0	7.8
April	3.2	2.7	6.3	1.4	7.7	11.7	4.8	9.3
May	2.8	3.5	5.1	0.4	6.9	11.6	5.6	10.3
June	2.7	3.1	7.7	1.7	6.1	11.8	7.9	13.6
July	3.3	3.6	5.7	1.3	3.6	7.9	3.9	10.7
August	(5.4)	(4.2)	7.7	0.2	6.9	8.1	4.6	10.6

\+ The simple method of seasonal adjustment for the RPI and for the RPI less mortgage component for use in calculation of the six monthly growth rates was described in the February 1982 Interpretation of Monetary Conditions.

ϕ The nominal money supply deflated using the RPI less mortgage element. This is the all items RPI after deduction of the mortgage interest rate payments component.

TABLE 3: TOTAL STERLING BANK LENDING TO THE NON BANK PRIVATE SECTOR (1)

Banking months, SA		Percentage change in stock of lending over 12 months	6 months (at annual rate)
1983	September	14.8	13.6
	October	14.0	17.0
	November	14.0	16.0
	December	15.3	17.0
1984	January	15.0	17.0
	February	14.7	17.1
	March	15.7	17.8
	April	17.1	17.0
	May	16.4	16.6
	June	16.6	16.2
	July	15.8	14.6
	August	15.2	13.3

(1) Sterling lending by the monetary sector, plus issue department purchase of commercial bills.

TABLE 4: PRICES AND EARNINGS (% change on same period a year before)

	Retail Prices	Producer Price Index (All manufactured products)		Underlying Average Earnings	Unit Wage Costs*	Commodity Prices***
		Output Prices (home sales)	Input Prices			
1982 (1)	10.4	8.7	11.8	10.8	4.0	-4.4
(2)	9.2	7.2	5.7	10.1	5.7	-9.4
(3)	8.0	7.4	4.8	8.9	5.5	-12.4
(4)	6.2	6.5	6.3	8.4	5.8	-8.9
1983 (1)	4.9	5.3	5.6	7.9	4.0	-1.3
(2)	3.8	5.7	6.6	7.5	3.3	16.3
September	5.1	5.4	9.6	7.8	3.8	18.8
October	5.0	5.5	8.2	7.8	3.7	17.5
November	4.8	5.7	7.2	7.8	3.6	19.8
December	5.3	5.6	7.2	7.8	2.7	22.1
1984 January	5.1	5.7	7.6	7.8	3.3	21.1
February	5.1	5.9	7.0	7.8	3.4	13.8
March	5.2	6.5	7.0	7.8	4.3	11.8
April	5.2	6.6	8.7	7.8	3.6	3.8
May	5.1	6.3	8.5	7.8	3.6	-5.2
June	5.1	6.2	8.1	7.8	3.9	-10.0
July	4.5	6.3	8.4	7.5**		-13.9
August	(4.8-5.2)	6.3	6.4	7.5**		-14.4

* In manufacturing - percentage change of the latest 3 months on the same 3 months a year earlier.

** Department of Employment estimate.

*** Economist industrial (non-oil) commodity price index in SDRs.

TABLE 5: NOMINAL INTEREST RATES (period averages for calendar months and quarters)

	Three month Interbank	Three month Eurodollar	Base rate	Long Rate (20 Year) gilts	Yield Gap
1982 (1)	14.3	15.1	14.1	14.7	0.4
(2)	13.4	15.1	12.8	13.7	0.3
(3)	11.5	12.6	11.4	12.2	1.3
(4)	9.9	9.9	9.7	10.8	0.9
1983 (1)	11.1	9.2	10.8	11.5	0.4
(2)	10.2	9.4	10.0	10.5	0.3
September	9.7	9.9	9.5	10.7	1.0
October	9.4	9.6	9.1	10.6	1.2
November	9.3	9.8	9.0	10.3	1.0
December	9.4	10.2	9.0	10.3	0.9
1984 January	9.4	9.8	9.0	10.3	0.9
February	9.3	10.0	9.0	10.4	1.0
March	9.0	10.4	8.75	10.3	1.3
April	8.9	10.9	8.6	10.4	1.5
May	9.6	11.6	9.0	11.0	1.4
June	9.5	11.8	9.2	11.2	1.7
July	11.6	11.7	11.5	11.7	0.1
August	10.9	11.8	10.9	11.0	0.1
September 6	10.9	12.1	10.5	11.1	0.2

TABLE 6: REAL INTEREST RATES

	Expected Inflation over 12 months*	Real 3 month Interbank Rate	Yield on 1988 indexed gilt*** Inflation Assumption 5%	7%	Yield on 1996 indexed gilt*** Inflation Assumption 5%	7%
1982 (1)	10.3	4.0			3.0	2.9
(2)	9.2	4.1	3.5	3.2	3.4	3.3
(3)	8.0	3.4	3.6	3.3	3.3	3.2
(4)	6.3	4.8	2.7	2.4	2.6	2.5
1983 (1)	6.3	4.8	2.7	2.4	2.6	2.5
(2)	6.2	4.0	3.7	3.4	3.2	3.1
September	6.2	3.5	3.8	3.5	3.4	3.3
October	6.4	3.0	3.6	3.4	3.4	3.3
November	5.8	3.5	3.9	3.7	3.5	3.4
December	5.8	3.6	3.7	3.4	3.5	3.4
1984 January	5.9	3.5	3.9	3.6	3.5	3.4
February	5.8	3.5	4.0	3.7	3.6	3.5
March	5.7	3.3	4.4	4.1	3.8	3.7
April	5.6	3.3	4.4	4.1	3.6	3.5
May	5.4	4.2	4.8	4.5	3.8	3.7
June	5.7	3.8	5.1	4.8	4.0	3.9
July	5.6	6.0	5.7	5.4	4.4	4.3
August	5.5	5.4	5.5	5.2	4.4	4.3
September 6	5.4	5.5	5.6	5.3	4.5	4.4

* Unweighted average of forecasts by Phillips & Drew, National Institute and the London Business School; the expected rate of inflation for a given month is the change in the price level between six months earlier and six months ahead. This is assumed to approximate roughly to average inflation expectations over the 3 months immediately ahead.

** Average of working day for the month or quarter.

*** Last working day for each month with first of month settlement assumed, or, for quarters, the average of the last working days of the three months.

TABLE 7: EXCHANGE RATES (period averages)

	Effective Rate	$/£ Rate	DM/£ Rate	Uncovered Differential* £/$	Uncovered Differential* £/DM
1982 (1)	91.1	1.85	4.34	-0.8	4.3
(2)	90.3	1.78	4.23	-1.7	4.2
(3)	91.4	1.72	4.28	-1.1	2.8
(4)	89.1	1.65	4.14	0.0	3.0
1983 (1)	80.6	1.53	3.69	1.9	5.4
(2)	84.1	1.55	3.86	0.8	5.0
September	84.7	1.50	4.00	-0.2.	4.0
October	83.5	1.50	3.90	-0.6	3.6
November	83.6	1.48	3.96	-0.6	3.3
December	82.5	1.44	3.94	-0.8	3.2
1984 January	81.9	1.41	3.95	-0.4	3.5
February	82.2	1.44	3.89	-0.7	3.5
March	80.9	1.46	3.78	-1.4	3.3
April	79.8	1.42	3.78	-2.0	3.2
May	80.0	1.39	3.82	-2.0	3.7
June	79.4	1.38	3.77	-2.3	3.8
July	78.3	1.32	3.76	-0.1	5.8
August	78.3	1.32	3.78	-0.9	5.3
September 6	77.6	1.28	3.79	-1.1	5.4

* Between 3 month UK interbank rate and 3 month Eurodollar rate and Euro DM rate.

TABLE 8: PERCENTAGE CHANGE IN NET LENDING FOR HOUSE PURCHASE
(SA, Calendar months)

	Building Societies		Banks (Est)		Total Building Societies and Banks	
	12 months	6 months	12 months	6 months	12 months	6 months
1983 March	19.3	22.2	66.1	46.6	25.0	25.7
April	19.7	22.2	61.9	44.1	25.0	25.3
May	20.0	22.0	57.9	38.2	24.9	24.5
June	20.0	21.1	52.4	35.8	24.4	23.4
July	20.1	20.4	47.9	35.9	24.0	22.8
August	20.1	19.3	43.5	35.0	23.5	21.8
September	20.1	18.0	39.4	32.6	23.0	20.3
October	19.7	17.3	38.7	34.4	22.6	20.0
November	19.6	17.2	36.7	35.2	22.2	20.1
December	19.3	17.5	34.4	33.1	21.7	20.0
1984 January	19.0	17.7	32.7	29.6	21.2	19.6
February	18.8	18.3	30.6	26.5	20.7	19.7
March	18.5	19.0	28.2	24.0	20.1	19.9
April	18.7	20.1	26.3	18.7	20.0	19.9
May	19.0	20.9	24.2	14.1	19.9	19.7
June	19.5	21.6	22.3	12.5	20.0	20.0
July	20.0	22.5	20.0	11.2	20.0	20.5

TABLE 9 : HOUSE PRICES (% change on a year earlier)

	Based on mortgage approvals	Based on mortgage completions	Mix-adjusted (based on completions)	Nationwide (based on approvals)
1982 Q1	-4.0	-4.9	0	2
Q2	-0.7	-3.0	1	2
Q3	4.0	0.5	2	3
Q4	12.2	6.8	6	8
1983 Q1	13.0	11.3	11	9
Q2	12.8	10.4	9	11
Q3	14.6	12.3	11	13
Q4	9.6	11.9	11	12
1984 Q1	9.3	9.2	9	13
Q2	8.4	9.9	10	15
1983 August	14.7	12.4		
September	13.8	12.8		
October	10.8	12.7		
November	10.2	12.1		
December	7.6	11.0		
1984 January	8.4	8.6		
February	9.0	10.4		
March	10.0	8.6		
April	9.1	9.9		
May	8.2	9.4		
June	7.9	10.2		
July	7.1	8.9		

CHART I : GROWTH RATES IN WEEKLY AVERAGED M0

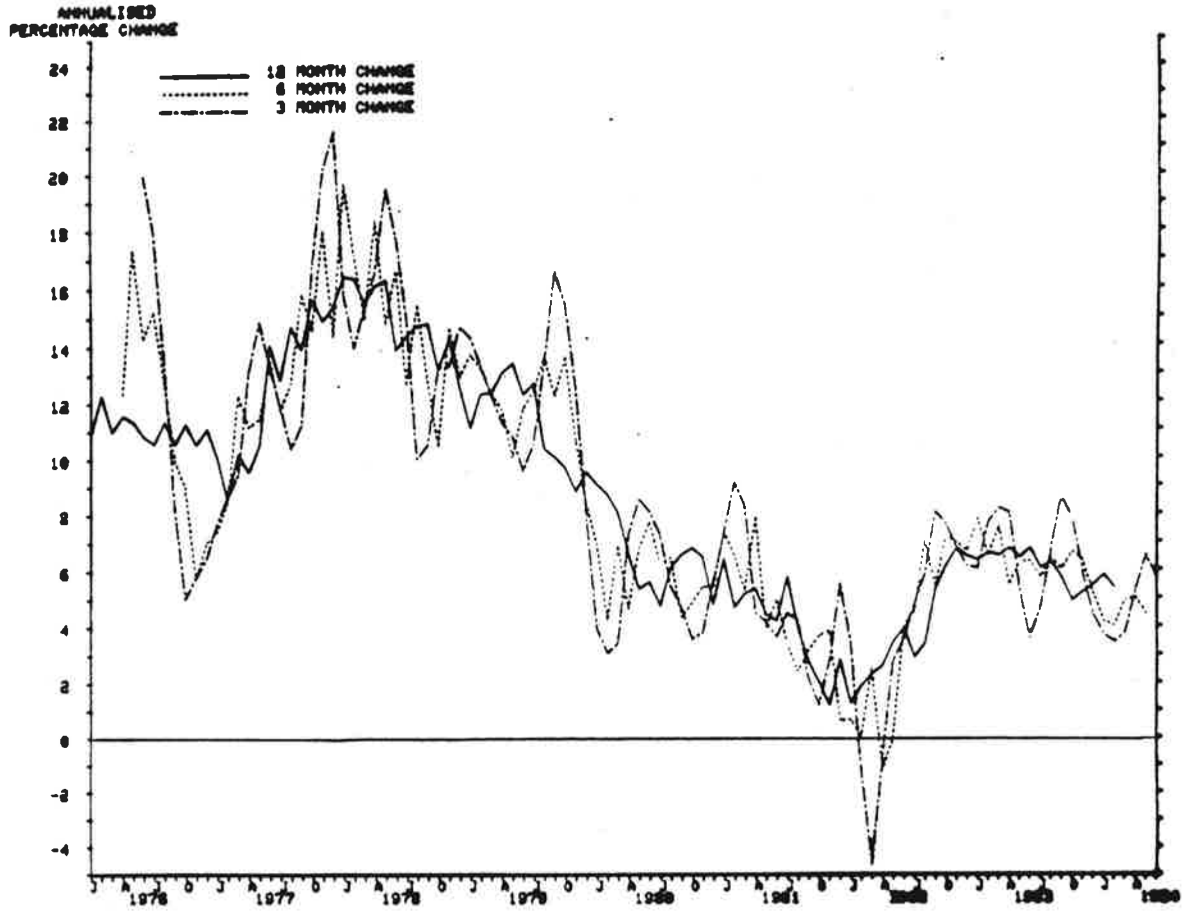
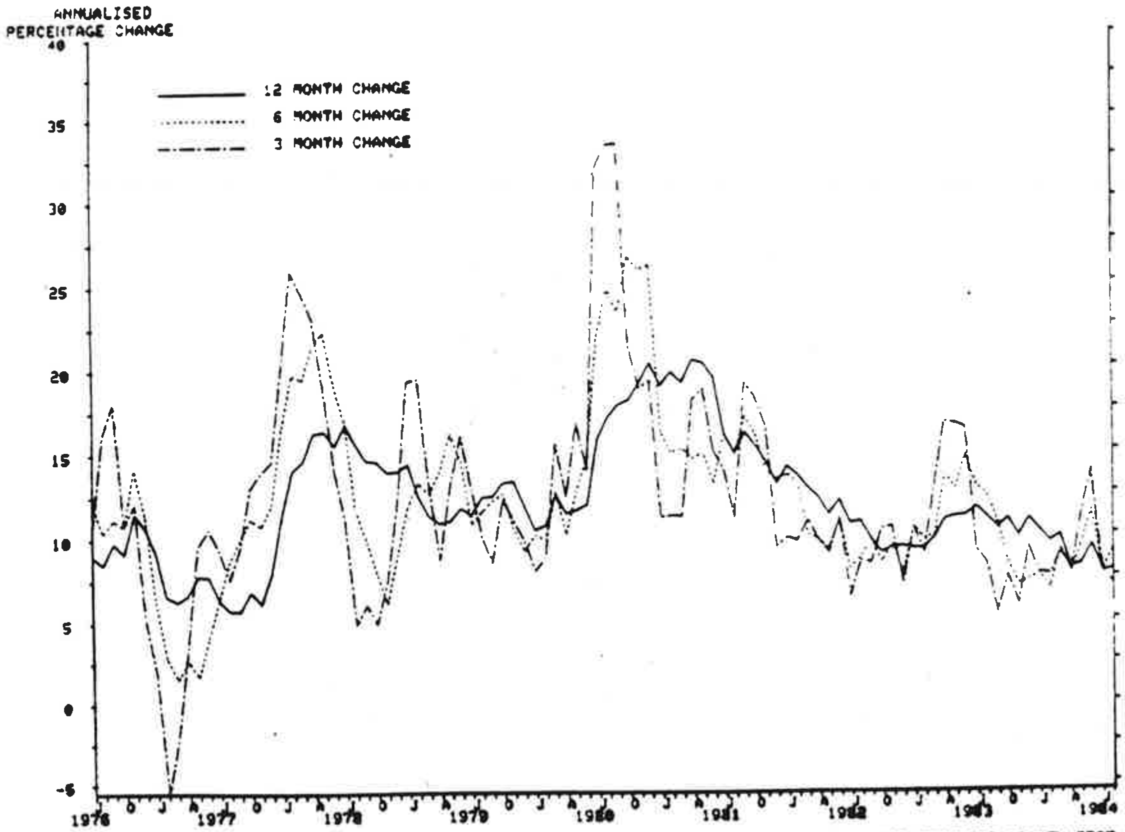


CHART II: GROWTH RATES IN STERLING M3



NOTE: THE GROWTH RATES ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED. THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

CHART III GROWTH RATES IN PSL2

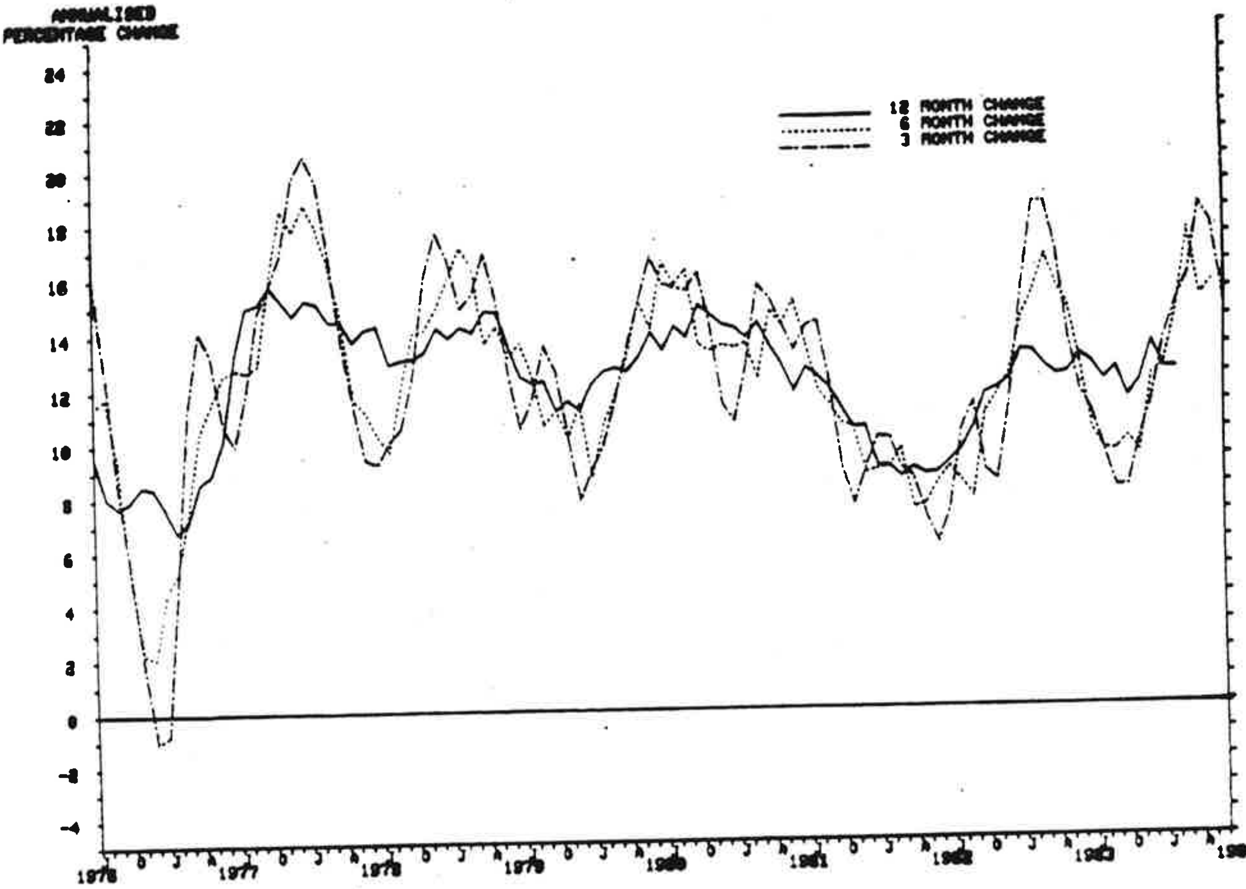
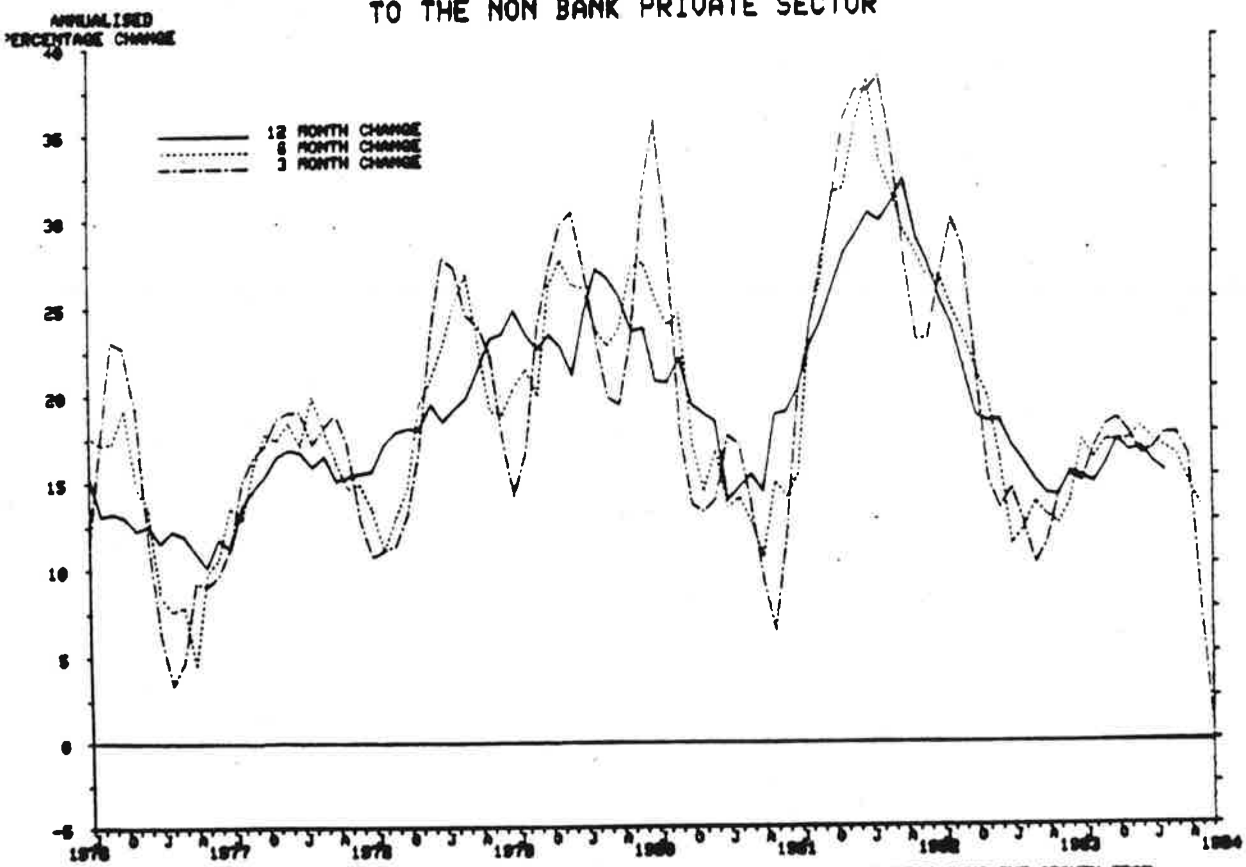


CHART IV : GROWTH RATES OF THE STOCK OF BANK LENDING TO THE NON BANK PRIVATE SECTOR



NOTE: THE GROWTH RATES ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED. THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

CHART V : GROWTH RATES IN REAL WEEKLY AVERAGED M0

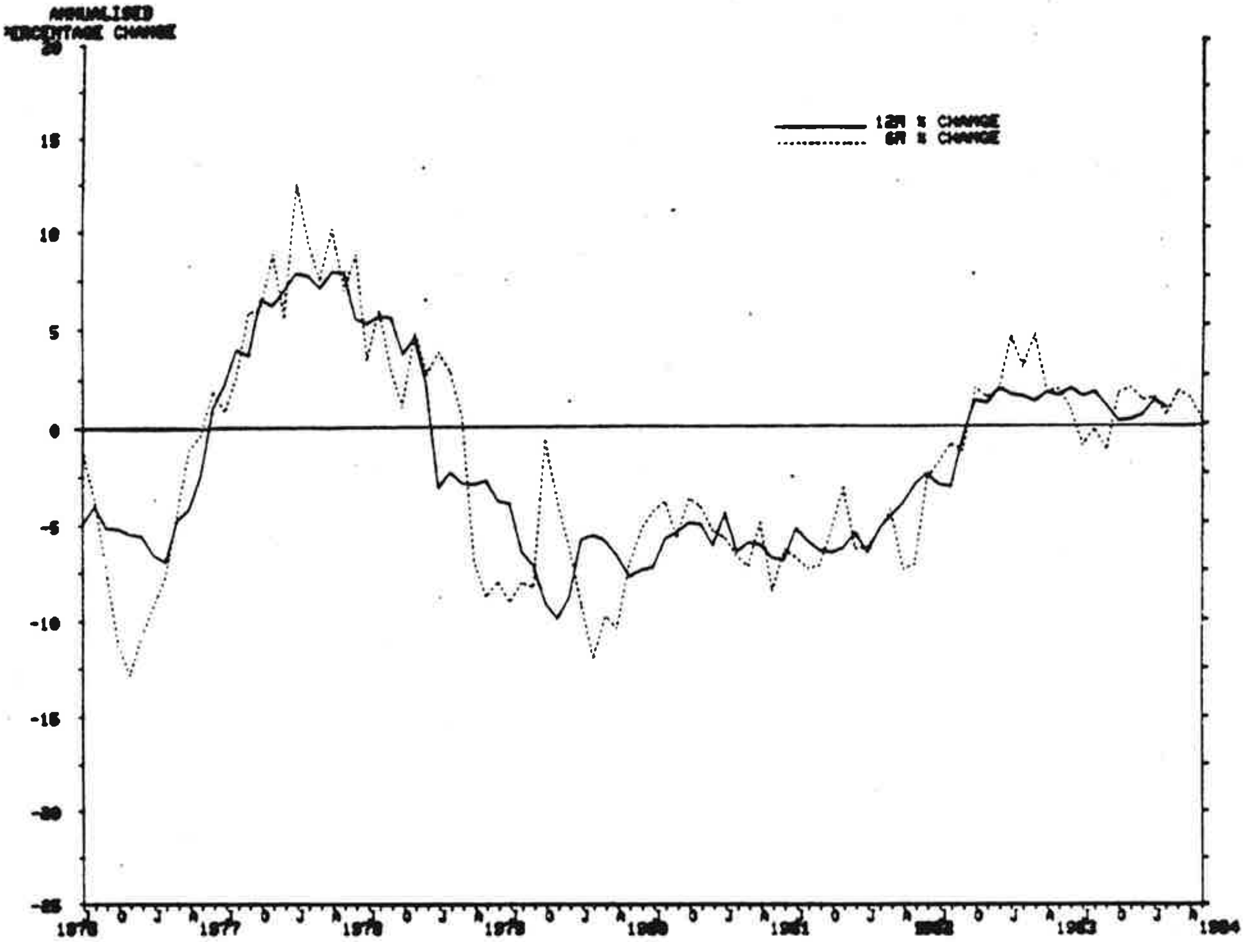
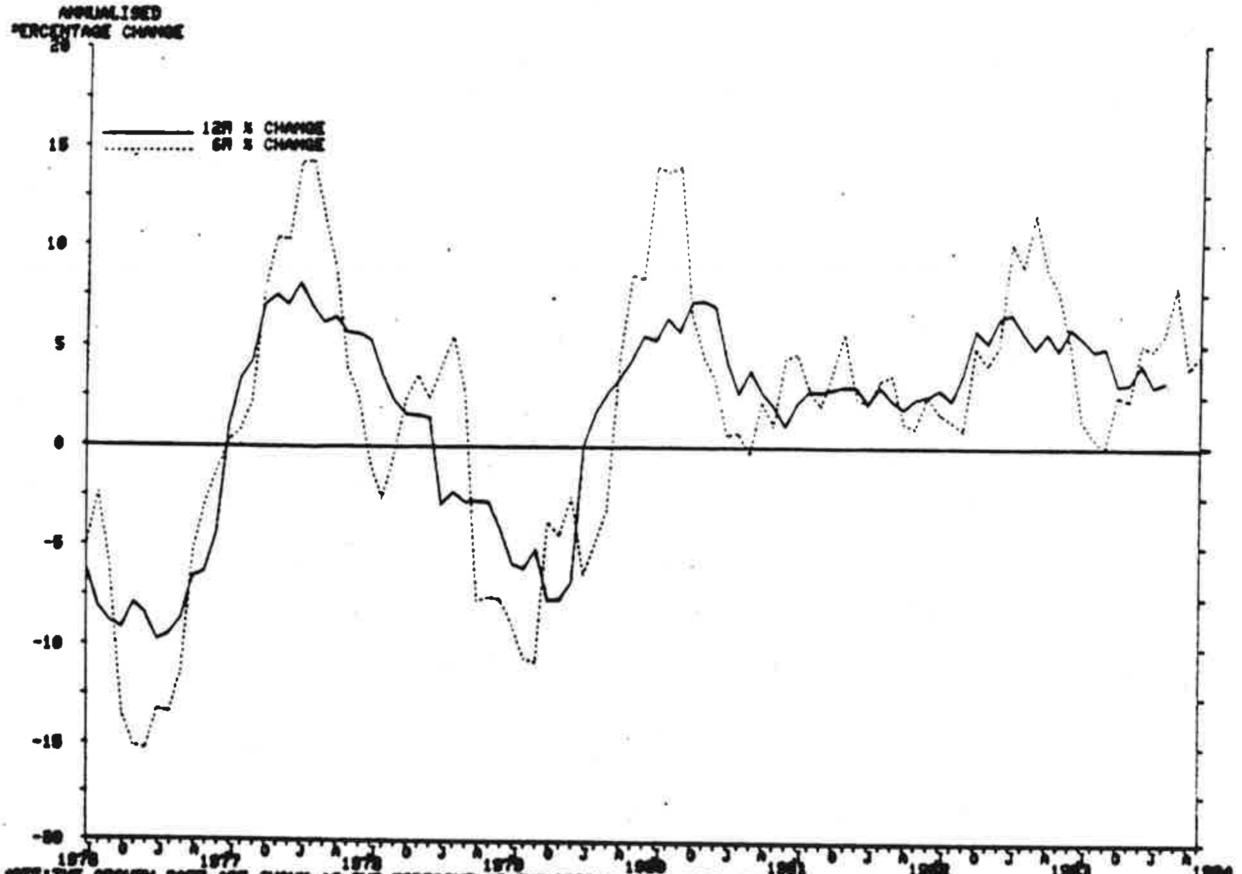


CHART VI : GROWTH RATES IN REAL STERLING M3

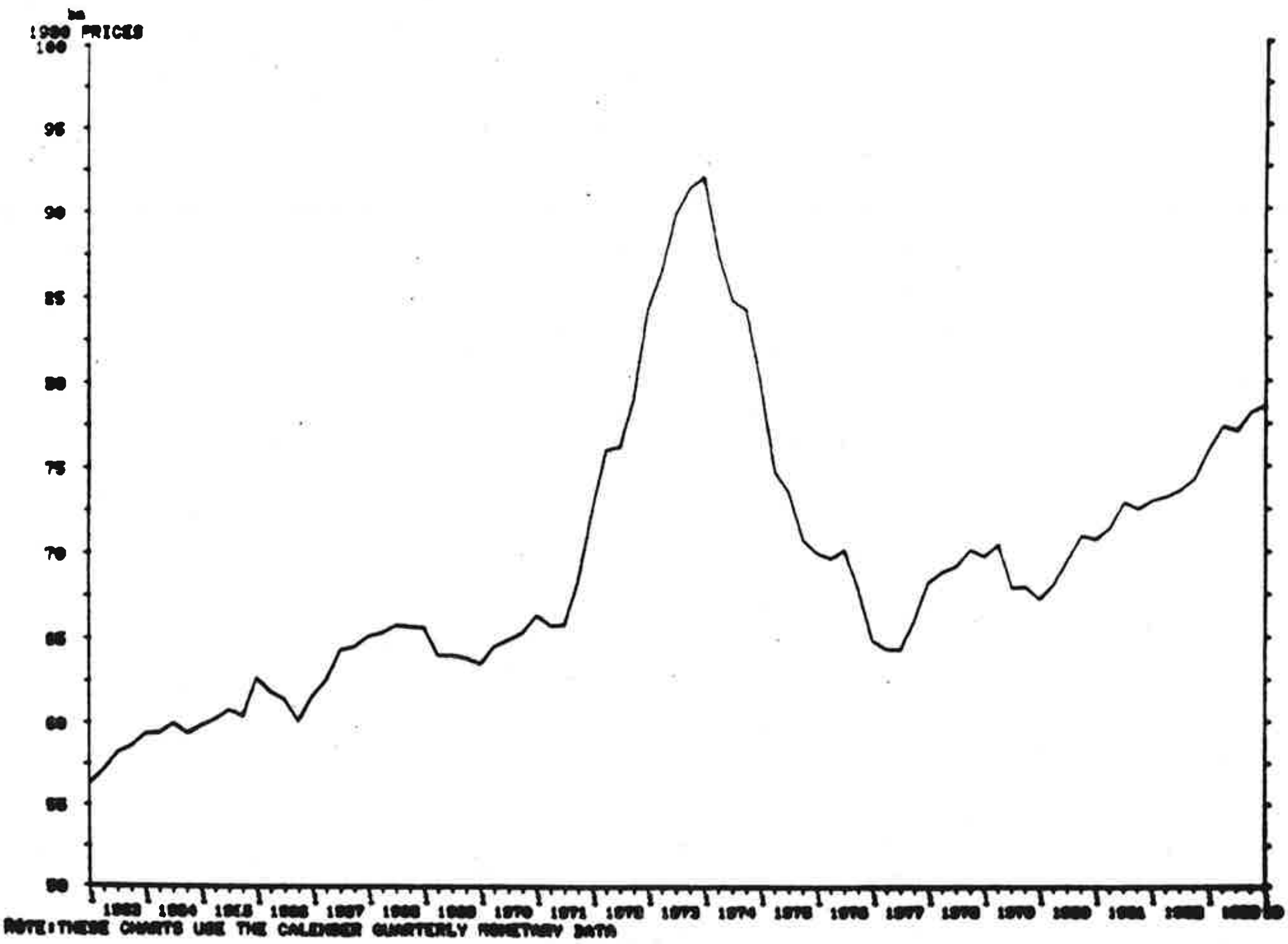


NOTE: THE GROWTH RATE ARE SHOWN AS THE MIDPOINT OF THE PERIOD OVER WHICH THEY ARE MEASURED. THUS THE GROWTH FROM SEPT. 1981 TO SEPT. 1982 IS SHOWN AS MARCH 1982 AND THE SIX MONTH ANNUALISED GROWTH RATE FROM MARCH 1982 TO SEPT. 1982 IS SHOWN AS JUNE 1982

3

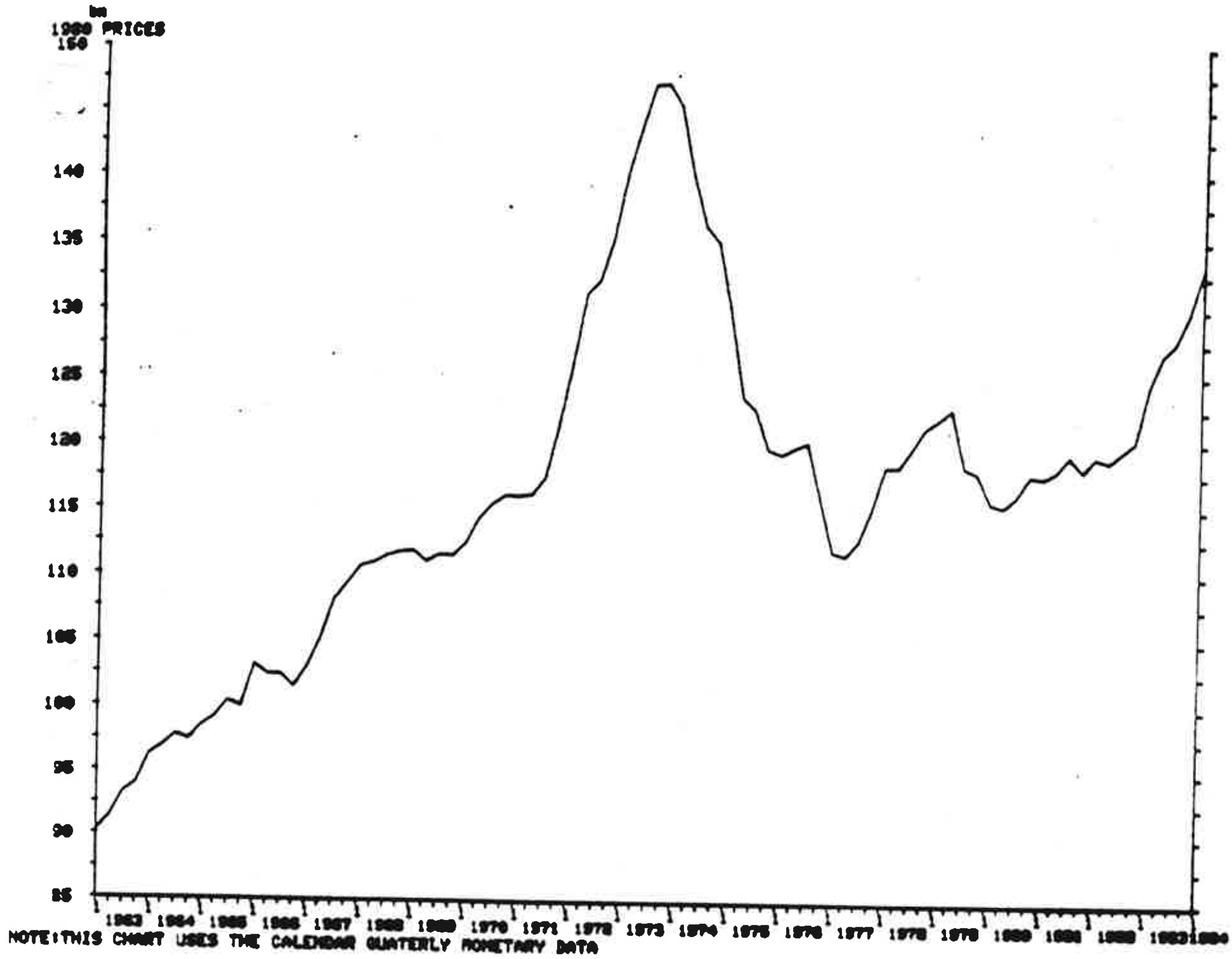
CHART VII: LEVEL OF REAL M0 (END CALENDAR QUARTER)

CHART VIII LEVEL OF REAL STERLING M3



NOTE: THESE CHARTS USE THE CALENDAR QUARTERLY MONETARY DATA

CHART IX : LEVEL OF REAL PSL2



NOTE: THIS CHART USES THE CALENDAR QUATERLY MONETARY DATA

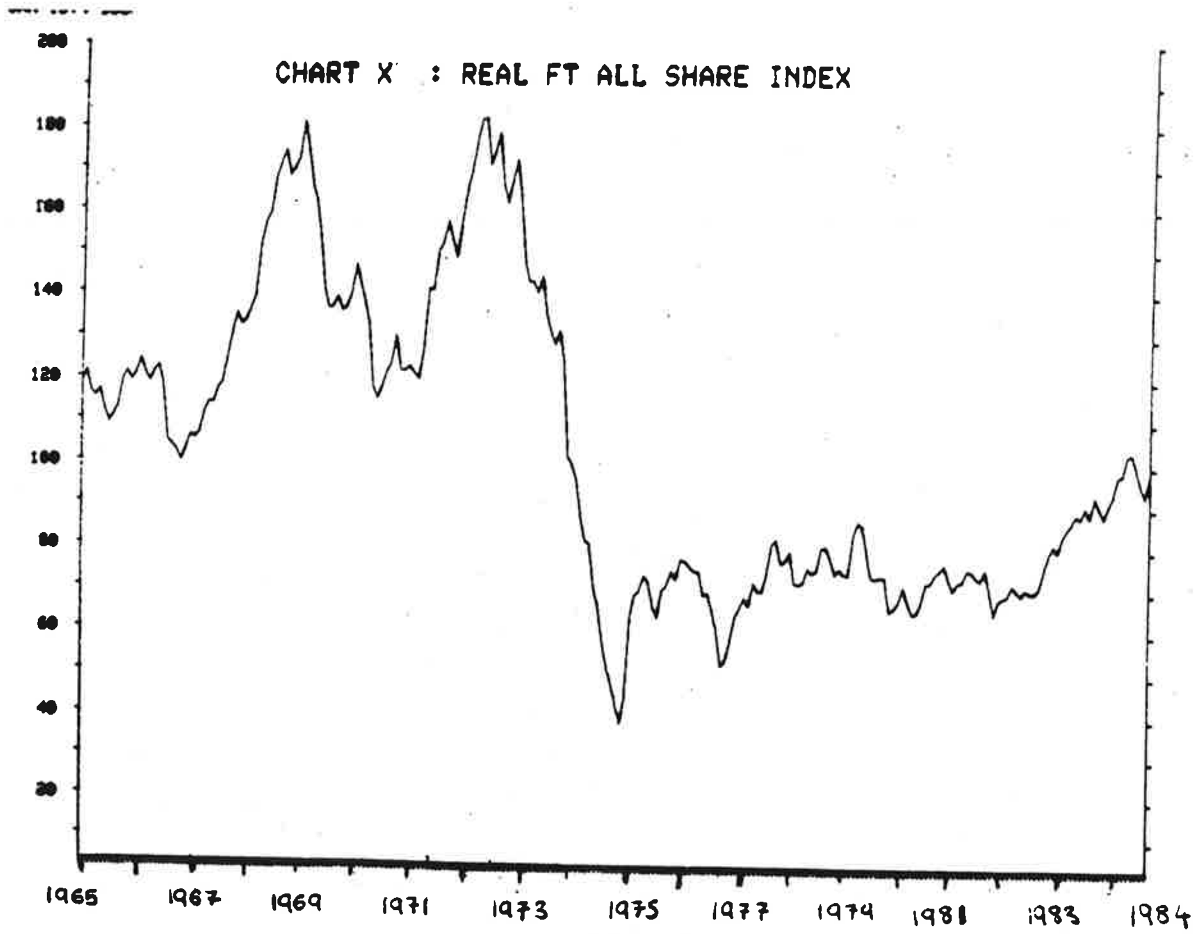
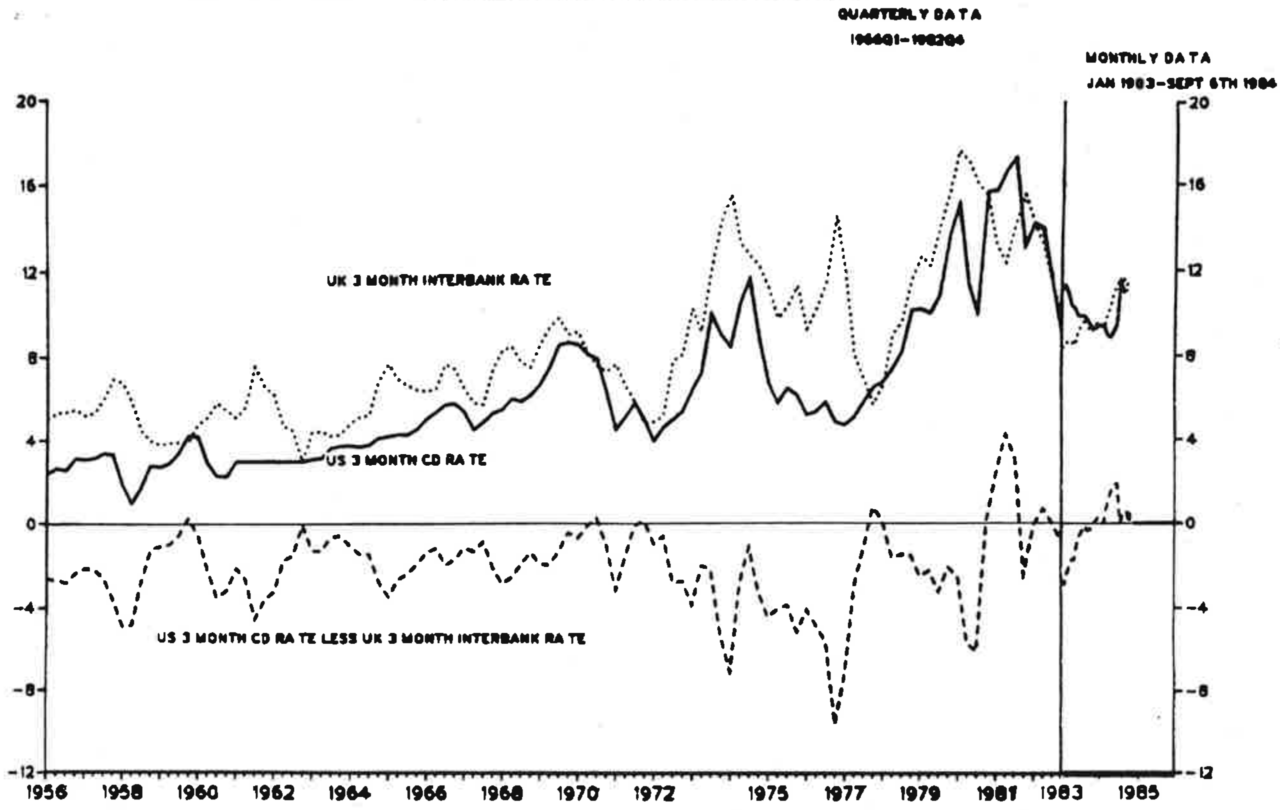


CHART XI.

US AND UK THREE MONTH RATE



US AND UK TEN YEAR BOND RATE

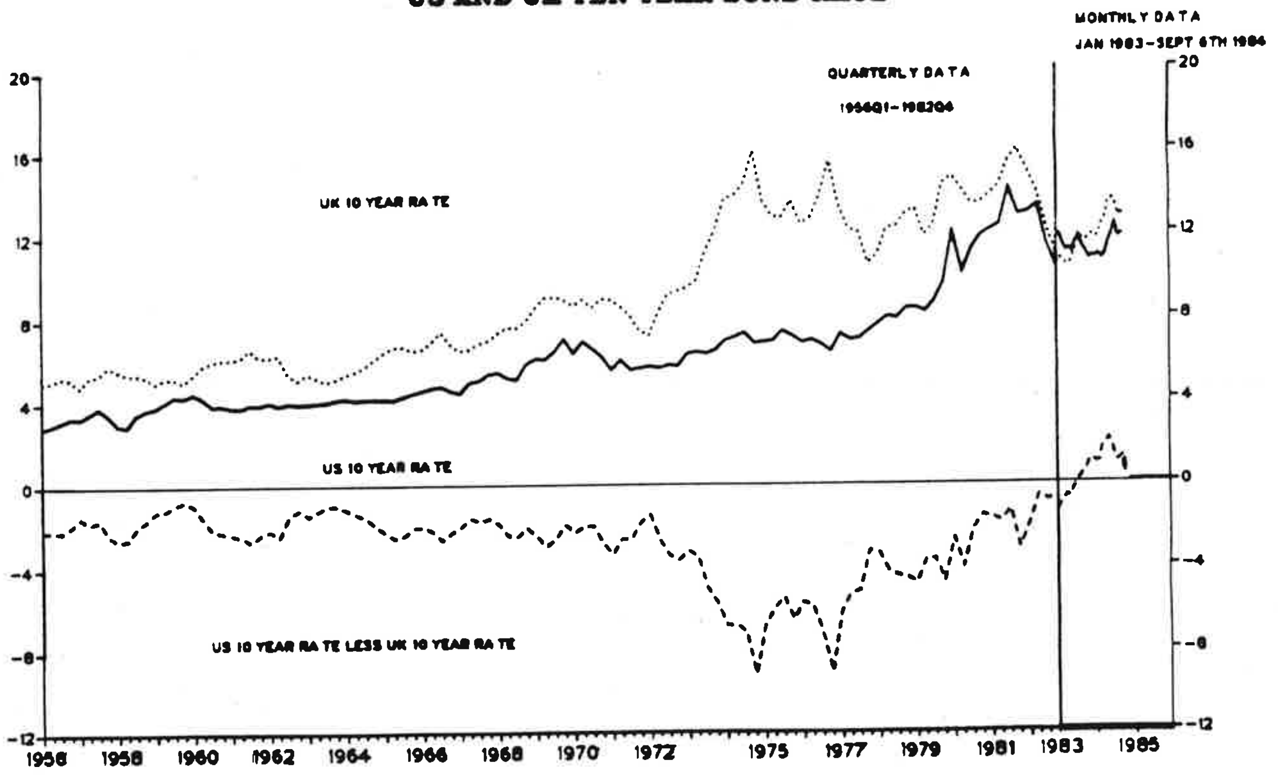
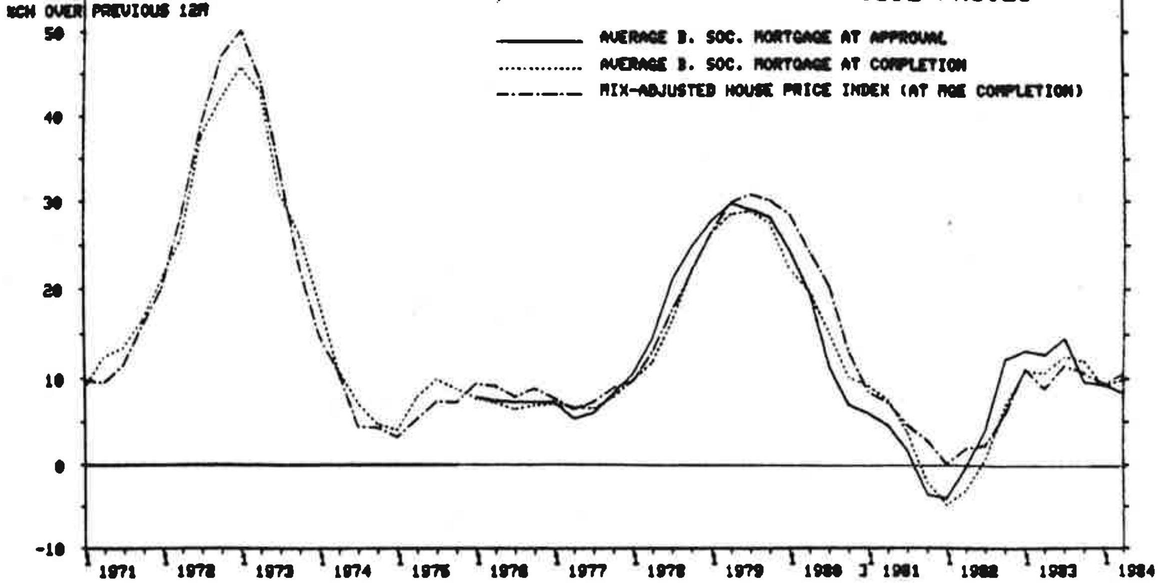
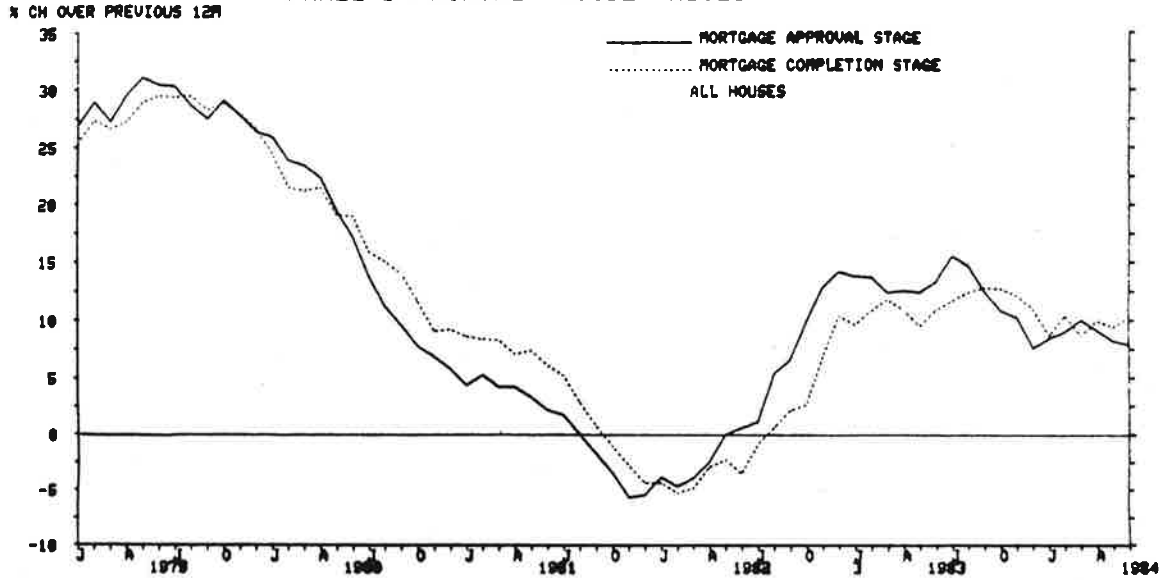


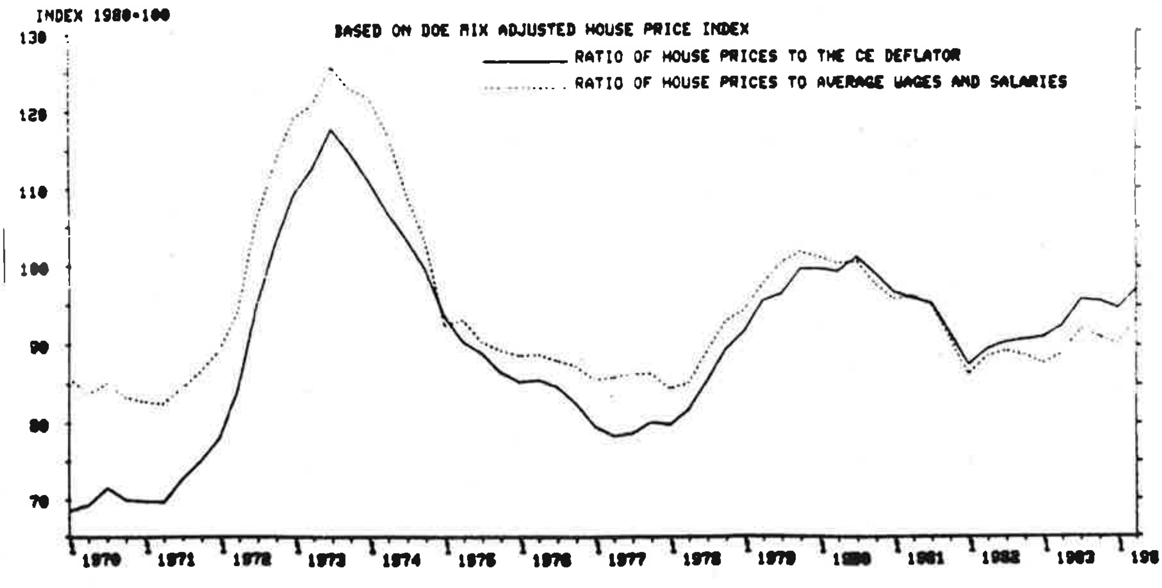
CHART XII: PANEL A: QUARTERLY HOUSE PRICES



PANEL B: MONTHLY HOUSE PRICES



PANEL C: INDICES OF RELATIVE HOUSE PRICES



CONFIDENTIAL

until 2.30 pm Monday 20 August

FROM: M T FOLGER

DATE: 17 August 1984

cc Chancellor of the Exchequer
Chief Secretary
Financial Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Byatt
Mr Cassell
Mr Monck
Mr Battishill o.r.
Mr Evans
Mr Culpin
Mr Robson
Mr Shields o.r.
Mr Page
Mr Salveson (for No.10)
Mr Hood o.a.
Mr Mansell CSO
Mr Lord
Mr Portillo
Mr Ridley

ECONOMIC SECRETARY

GDP (OUTPUT MEASURE) IN SECOND QUARTER 1984

The CSO will publish the preliminary estimate for Q2 GDP(O) at 2.30 pm on Monday 20 August. An advance copy of their press release is attached.

Second quarter figures

2. GDP(O) is estimated to have fallen by about ½ per cent between Q1 (index 104.1) and Q2 (103.7). Compared with a year earlier, GDP(O) is up 2½ per cent.

3. Between the first and second quarters the negative contribution - about 1 per cent point - came from the production industries. This largely reflects the effect of the coal dispute. There was output growth in "distribution, hotels and catering, repairs" worth 0.3 of a point and in "other services" worth 0.2 of a point. Banking, finance etc was the main source of growth in the latter category.

Effects of the coal dispute

4. The CSO release notes that in normal times coal accounts for about 1½ per cent of GDP. It estimates the coal dispute effects on GDP so far as:

Q1 - ½ per cent
Q2 - 1¼ per cent

These figures imply that, but for the effects of the dispute, GDP would have shown a small rise (+¼ per cent) between Q1 and Q2.

5. These numbers should not cause any surprise as underlying estimates for the effects on Industrial Production (-1½ per cent in Q1, -3¾ in Q2) have already been released in the CSO's 13 August Press Notice.

6. In themselves the Q1 and Q2 figures imply almost ½ per cent off the level of GDP for 1984 as a whole, and hence ½ per cent off growth from a 1983 base. The ultimate effects of the dispute on GDP for 1984 will obviously depend also on developments from Q3 onwards, including the extent to which coal stocks are rebuilt following the strike. Meanwhile, it is relevant that on 31 July the Chancellor told the House (OR Col 30G):

> "Coal output in normal terms accounts for some 1½ per cent of total national output. As it is running well below that figure it is unlikely that the rate of growth this year will quite reach the 3 per cent that was envisaged at the time of the Budget."

Underlying growth in year to Q2

7. Correcting the recorded year-on-year growth (2¾ per cent) for the coal dispute effects (1¼ per cent) suggests "underlying" GDP growth of 3½ to 4 per cent. But this is probably an overestimate as the level of GDP in Q2 1983 was off-trend, being rather low. The Press Notice points this out. A figure of about 3 per cent might be a fairer estimate of underlying growth over the period.

Suggested line to take

8. I suggest that IDT take the following line:

- figures suggest that, making allowance for the effects of the coal dispute, GDP showed some growth [¼ per cent] over Q1. [Not much growth, but quarterly path of GDP(O) not smooth.]

- underlying year on year growth to Q2 probably not quite as high as the 3½ to 4 per cent suggested by the recorded figures adjusted for the dispute. But nevertheless healthy.

- effects of coal dispute on GDP for 1984 as a whole hard to predict, as depend on path of output when strike ends. But these figures consistent with Chancellor's 31 July explanation that growth in 1984 now unlikely quite to reach the 3 per cent forecast at Budget time.

MTF

M T FOLGER

COVERING CONFIDENTIAL UNTIL 2.30 PM ON MONDAY 20 AUGUST AND THEREAFTER UNCLASSIFIED

J0229

CABINET OFFICE

Central Statistical Office

Great George Street, London SW1P 3AQ Telephone 01-233 7383

Our ref: F12/14

17 August 1984

GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - SECOND QUARTER 1984

The preliminary estimate of gross domestic product, based on output data for the second quarter of 1984, will be issued at 2.30 pm on Monday 20 August. A copy of the press notice is attached. It includes estimates of the effect of the dispute in the coal mining industry upon the level of the output measure of GDP in the first and second quarters.

COPY No 6

20.8.84

KM

K MANSELL

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CSO(84) 73

20 August 1984

GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - SECOND QUARTER 1984

Preliminary estimates suggest that output of the whole economy fell by about ½ per cent between the first and second quarters of 1984, although the level was 2½ per cent higher than a year earlier. The preliminary output-based estimate of gross domestic product (GDP) in the second quarter is 103.7 (seasonally adjusted, at constant prices, with 1980=100).

Output has recently been affected by the dispute in the coal mining industry, whose production normally accounts for about 1½ per cent of GDP. It is estimated that the dispute reduced the level of the output measure of GDP by about ½ per cent in the first quarter and by about 1¼ per cent in the second quarter. Most of the reduction was the direct result of the loss of coal output.

Output of the production industries fell by 3 per cent between the first and second quarters, mainly reflecting the effects of the miners' dispute. The service sector continues to grow, with distribution output rising by 3 per cent, more than compensating for the fall recorded for the first quarter.

Recorded growth of output in the year to the second quarter reflects in part what seems to have been the rather low level of the series in the second quarter of 1983. Therefore, although allowance for the effect of the miners' dispute gives an increase of 3½ to 4 per cent over the period, underlying growth has probably been somewhat less. For particular quarters, as can be seen from the Table, the expenditure, income and output measures of GDP can move irregularly, and differently to each other.

GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on			
		Expenditure data	Income data(1)	Output data	Average estimate
1978		100.7	99.6	100.4	100.2
1979		102.4	102.1	103.3	102.6
1980		100.0	100.0	100.0	100.0
1981		99.3	98.5	98.1	98.6
1982		101.4	101.1	99.7	100.7
1983		104.9	104.5	102.2	103.9
1980	1	101.2	102.8	102.6	102.2
	2	100.1	101.4	100.7	100.7
	3	99.3	98.1	99.0	98.8
	4	99.3	97.8	97.7	98.2
1981	1	100.4	97.0	97.5	98.3
	2	98.5	96.5	97.7	97.5
	3	98.2	98.8	98.5	98.5
	4	100.1	101.6	98.7	100.1
1982	1	100.9	101.0	98.9	100.3
	2	101.0	100.7	99.6	100.4
	3	100.5	100.9	100.0	100.5
	4	103.2	101.8	100.4	101.8
1983	1	105.6	103.8	101.0	103.5
	2	103.8	103.9	101.2	103.0
	3	103.8	104.2	102.8	103.6
	4	106.3	105.9	103.9	105.4
1984	1	106.6	108.0	104.1	106.3
	2	..	..	103.7 (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 second quarter, published on 13 August, 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 19 September.

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.

RESTRICTED until publication on 20 MARCH

FROM: JON SHIELDS
19 MARCH 1984

PWP

cc:

CHANCELLOR OF THE EXCHEQUER

Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Monck
Mr Battishill
Mr Evans
Mr Odling-Smee
Mr Sedgwick
Mr Folger
Mr M A Hall
Mr Spencer
Mr A Smith
Ms Brodie

Mr Lord
Mr Ridley
Mr Portillo

Mr Kavanagh (CSO)

GDP FIGURES FOR 1983

A first complete look at the measures of GDP for 1983 will be provided tomorrow in the CSO's Press Notice for the Fourth Quarter.

2. These provisional figures confirm the general picture of activity and profits provided in the FSBR and other recent statements. In particular, they show:

(i) Growth of 3 per cent in the average measure of GDP between 1982 and 1983.

(ii) Money GDP rising nearly 8½ per cent year-on-year.

(iii) Profits of Industrial and Commercial Companies up by nearly a quarter in 1983.

but (iv) Sizeable differences remaining between the different measures of GDP (estimated growth in the fourth quarter varies between ½ per cent on the output measure to nearly 2½ per cent on the expenditure measure).

3. Data for average GDP show activity generally rising at about 3 per cent p.a. since the trough of the recession despite pausing for much of 1982. By the fourth quarter of 1983, GDP (Average) was nearly 1 per cent above its previous peak in the second quarter of 1979. However, the output measure of GDP has not yet returned to 1979 levels.

4. Copies are attached of the CSO's brief for the Prime Minister and extracts from the Press Notice.

Suggested line to take

5. Latest figures confirm continuing strength of the recovery with GDP growing by 3 per cent in 1983. Consumers' expenditure grew by 4 per cent and fixed investment by nearly 4½ per cent. Profits of Industrial and Commercial Companies are estimated to have risen by nearly a quarter between 1982 and 1983.

J. M. S.

JON SHIELDS

FO

Ref: D4/5

MR TURNBULL (Prime Minister's Office) (2 copies)
MISS STEVENS (Prime Minister's Office)
MR HATFIELD (Cabinet Office)
SIR TERENCE BURNS (Treasury)
MR FOLGER (Treasury)
MR SHIELDS (Treasury)
MR DWORKIN (Department of Employment)

Sir John Boreham)
Mr Flaxen)
Mr Mansell) CSO
Mr Kavanagh)
Mr Newman)
Mr Lang)

GROSS DOMESTIC PRODUCT IN THE FOURTH QUARTER AND YEAR OF 1983

Provisional estimates of gross domestic product (GDP) for the ~~third~~ fourth quarter and year of 1983 will be released at 14.30 hours on Tuesday 20 March. A copy of extracts from the press notice is attached. The figures confirm the continued improvement in economic activity from the low point in 1981.

2. The main points of interest in the press notice are as follows:

(i) The average measure of GDP (at constant prices) rose by 3 per cent between 1982 and 1983 as a whole, following a 2 per cent increase in the previous year.

(ii) The average measure in the fourth quarter of 1983 was $3\frac{1}{4}$ per cent higher than a year earlier and $7\frac{1}{2}$ per cent above its trough in the second quarter of 1981.

(iii) The output measure increased by $\frac{1}{2}$ per cent between the third and fourth quarters of 1983.

(iv) "Money GDP" (GDP at current market prices) rose by $8\frac{1}{2}$ per cent between 1982 and 1983, a little less than the $9\frac{1}{2}$ per cent rise in the previous year.

(v) The real income of the country (as shown by gross national disposable income at constant prices) rose by more than $2\frac{1}{2}$ per cent between 1982 and 1983, compared with an increase of $1\frac{3}{4}$ per cent between 1981 and 1982.

(vi) Consumers' expenditure continued to increase in real terms, by $\frac{1}{2}$ per cent in the fourth quarter of 1983 to a level more than 3 per cent higher than a year earlier.

(vii) Total ~~final~~ fixed investment grew by over $3\frac{1}{2}$ per cent in real terms between the fourth quarters of 1982 and 1983.

(viii) There was some stockbuilding in 1983, following three years of substantial destocking.

(ix) Company profits continue to improve quite strongly with an increase of about one quarter between 1982 and 1983 as a whole.

3. Technical Note:

The rate of growth of GDP is estimated in three different ways based on income, expenditure and output data. In principle, the three measures should give the same results but, in practice, some quite larger differences can occur. The reasons for the recent discrepancies in the growth rates implied by the different measures of GDP, particularly between 1980 and 1982, are being investigated by the Central Statistical Office. GDP(O) is usually the best indicator of short-term movements: for medium or longer-term comparisons the average of the three measures is preferred.

In the interpretation of GDP measures, special attention has to be paid to the higher margins of error attached to series estimated at constant prices when the rate of inflation is either accelerating or decelerating.

Shirley Carter

Shirley Carter

Central Statistical Office
01-233 7349
20 March 1984

PRESS
AND
INFORMATION SERVICE

CSO

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LONDON
SW1P 3AQ

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CSO(84)28
20 March 1984

GROSS DOMESTIC PRODUCT IN THE FOURTH QUARTER AND YEAR OF 1983

First estimates for 1983 as a whole indicate that the average measure of gross domestic product (GDP) at constant factor cost was 3 per cent above its 1982 level, following an increase of 2 per cent between 1981 and 1982.

The figures of GDP for the fourth quarter of 1983 show that economic activity continued its improvement from its low level in 1981. The average measure in the fourth quarter was 3¼ per cent higher than a year earlier and 7½ per cent above its trough in the second quarter of 1981. The output measure, usually the best indicator of short term movements, increased by ½ per cent between the third and fourth quarters of 1983 to a level 2¾ per cent higher than in the final quarter of 1982.

The average measure of GDP at current market prices ("money GDP") rose by over 8 per cent between the fourth quarters of 1982 and 1983. The increase between 1982 and 1983 as a whole, at 8½ per cent, was a little less than the 9½ per cent rise in the previous year.

The real income of the United Kingdom, as shown by gross national disposable income at constant prices, went up by more than 2½ per cent between 1982 and 1983, compared with an increase of 1¾ per cent between 1981 and 1982.

The increase, compared with a year earlier, in the implied index of total home costs ("the factor cost GDP deflator") was 5 per cent in the fourth quarter of 1983. Taking 1983 as a whole, the index was 6 per cent above its 1982 level. This compares with an increase of nearly 5½ per cent in the market price GDP deflator: the difference mainly reflects reductions in the national insurance surcharge, which is treated as a

GROSS DOMESTIC PRODUCT AT FACTOR COST, TOTAL HOME COSTS, AND NATIONAL DISPOSABLE INCOME REVALUED AT CONSTANT MARKET PRICES[1]

INDEX NUMBERS

SEASONALLY ADJUSTED

1980 = 100

		Gross domestic product			Implied market price GDP deflator	Gross domestic product				Implied index of total home costs	National disposable income at 1980 market prices
		At current prices				At 1980 prices					
		Based on expenditure data	Based on income data	Average estimate[2]	Average estimate	Based on expenditure data	Based on income data[3]	Based on output data	Average estimate	Based on expenditure data	Average estimate
1978		74.9†	74.1†	72.9	73.0†	100.7†	99.6	100.4	100.2†	74.3	98.5†
1979		86.0	85.8	85.6	83.5	102.4	102.1	103.3	102.6	84.0	101.7
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		109.5	108.6	109.9†	111.7	99.3	98.5†	98.0	98.6	110.3†	99.5
1982		119.0	118.3	120.3	119.8	101.4	100.8	99.4†	100.5	117.4	101.3
1983		130.6	129.5	130.6	126.2	104.9	104.0	101.6	103.5	124.5	104.0
1978	1	71.6†	70.5	69.3†	70.6	98.9†	97.4	98.4	98.2†	72.4	96.6†
	2	74.3	73.0	71.9	71.6	102.0	100.3	100.5	100.9	72.8	98.9
	3	75.8	75.6†	74.2	73.8	100.6	100.3†	101.3	100.7	75.4	99.1
	4	77.8	77.1	76.3	75.8	101.3	100.4	101.6	101.1	76.8	99.3
1979	1	79.0	79.1	78.2	78.0	99.4	99.6	101.0	100.0	79.5	99.7
	2	85.2	84.3	83.9	80.5	104.1	103.0	104.8	104.0	81.8†	102.8
	3	88.7	87.8	88.5	86.1†	103.8	102.8	103.4	103.3	85.4	102.3
	4	91.3	91.8	92.0	89.3	102.5	103.1	103.9	103.2	89.0	102.1
1980	1	94.6	96.1	95.8	93.6	101.2	102.8	102.7	102.2	93.5	101.8
	2	98.5	99.7	99.1	98.6	100.1	101.4	100.7	100.7	98.4	100.0
	3	101.9	100.7	101.1	102.5	99.3	98.1	98.9	98.8	102.6	99.0
	4	105.0	103.5	104.0	105.6	99.3	97.8	97.7	98.2	105.7	99.2
1981	1	107.7	104.1	105.8	107.7	100.3	97.0	97.4†	98.3	107.4	99.8
	2	108.2	106.0	108.2	111.2	98.5	96.5	97.6	97.5	109.9	98.9
	3	109.7	110.2	111.4	113.1	98.2	98.7	98.5	98.5	111.7	99.2
	4	112.4	114.1	114.3	114.7	100.1	101.6	98.5	100.1	112.3	100.5
1982	1	113.9	113.8	116.3	116.4	100.8	100.7	98.5	100.0	113.0	100.2
	2	118.4	118.0	119.5	119.2	101.1	100.7	99.3	100.3	117.2	100.7
	3	119.4	119.3	121.3	121.0	100.5	100.4	99.7	100.2	118.8	101.2
	4	124.3	122.2	124.2	122.4	103.1	101.3	100.0	101.5	120.6	103.0
1983	1	129.0	126.1	127.9	124.0	105.7	103.4	100.6	103.2	122.0	103.7
	2	127.8	127.9	128.6	125.1	103.6	103.7	100.7	102.7	123.4	102.4
	3	131.0	130.4	131.7	127.4	104.0	103.4	102.2	103.2	126.0	104.7
	4	134.7	133.6	134.4	128.3	106.3	105.5	102.7	104.8	126.7	105.1

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 Measured at market prices.
3 Income data deflated by the index of total home costs.

tax on expenditure in the national accounts and therefore only has an impact on market price assessments. The market price deflator rose by more than 7 per cent betwen 1981 and 1982, the factor cost deflator by 6½ per cent.

Estimates of GDP at current and constant prices, of gross national disposable income at constant prices, of the implied index of total home costs and of the market price GDP deflator are given in index number form on page 2.

Expenditure at constant 1980 prices (Table B)

The expenditure measure of gross domestic product (GDP(E)) has moved somewhat unevenly in recent quarters and, in particular, the figures for the fourth quarters of both 1982 and 1983 have been boosted by more favourable balances of trade in goods and services, with a somewhat more marked effect in 1982 than in 1983. The increase of 3½ per cent in this measure between 1982 and 1983 as a whole follows an increase of 2 per cent between 1981 and 1982. Between the fourth quarters of 1982 and 1983, GDP(E) grew by 3 per cent.

Consumers' expenditure increased by ½ per cent in the fourth quarter of 1983 to a level more than 3 per cent higher than a year earlier. Further details are given below. Fixed investment and general government final expenditure both grew between the fourth quarters of 1982 and 1983, by over 3½ and nearly 3 per cent respectively. Stockbuilding in the first and fourth quarters of 1983 more than offset the destocking which occurred around the middle of the year; there was substantial destocking in the final two quarters of 1982. The stockbuilding in 1983 as a whole followed three years of substantial destocking.

Income at current prices (Table C)

Company profits continue to improve quite strongly. In 1983 as a whole, company gross trading profits are estimated to have been about one quarter higher than in 1982. Over the same period, income from employment rose by 7 per cent, an 8½ per cent increase in average earnings being offset, to some extent, by the reduced numbers in employment. The gross trading surplus of public corporations rose by 7 per cent between 1982 and 1983: the rate of increase has however been affected by the privatisation of Britoil and its consequent re-allocation to the company sector at the end of 1982. Without such a re-allocation, the increase in the public corporations' surplus between 1982 and 1983 would have been approximately double this figure.

When deflated by the index of total home costs, the income measure of GDP increased by more than 3 per cent between 1982 and 1983 as a whole. Because of some unevenness in the quarterly movements, this is felt to be a better guide to the recent underlying rate of increase than the growth between the fourth quarters of 1982 and 1983 (over 4 per cent).

EXPENDITURE ON THE GROSS DOMESTIC PRODUCT - AT 1980 PRICES

Seasonally adjusted

TABLE B

£ MILLION

		GROSS DOMESTIC PRODUCT		Final expenditure on goods and services at market prices									
						General government consumption							
		At market prices	At factor cost	Total final expenditure	Consumers' expenditure	Total	Central government	Local authorities	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
1978		228 270	198 000	282 537	131 485	46 728	28 184	18 544	41 210	2 090	61 024	54 267	30 270
1979		232 948†	201 456†	292 856†	138 004	47 683†	28 631†	19 052	41 411	2 490	63 268	59 908	31 492
1980		227 496	196 642	284 925	137 324	48 387	29 442	18 945	39 241	-3 236	63 209†	57 429†	30 854
1981		225 252	195 213	280 714	137 559	48 250	29 623	18 627†	35 628†	-2 655	61 932	55 462	30 039†
1982		230 208	199 301	287 772	139 390†	48 938	29 857	19 081	37 811	-1 030†	62 663	57 564	30 907
1983		238 256	206 277	298 689	144 812	50 527	30 504	20 023	39 467	693	63 190	60 433	31 979
1980	1	57 733†	49 769†	73 290†	34 911	12 079†	7 270†	4 809	10 238	-501	16 563†	15 557†	7 964
	2	56 859	49 233	71 815	34 128	11 999	7 291	4 708	9 989	-135	15 834	14 956	7 626
	3	56 381	48 837	70 016	34 134	12 086	7 392	4 694	9 645	-1 201	15 352	13 635	7 544
	4	56 523	48 803	69 804	34 151	12 223	7 489	4 734	9 369	-1 399	15 460	13 281	7 720
1981	1	56 881	49 332	69 683	34 458†	12 073	7 427	4 646†	8 992†	-1 010	15 170	12 802	7 549†
	2	55 838	48 405	69 216	34 383	12 066	7 449	4 617	8 817	-1 329	15 279	13 378	7 433
	3	55 895	48 284	70 702	34 297	12 095	7 387	4 708	8 833	-182	15 659	14 807	7 611
	4	56 638	49 192	71 113	34 421	12 016	7 360	4 656	8 986	-134	15 824	14 475	7 446
1982	1	57 212	49 562	71 569	34 263	12 141	7 469	4 672	9 408	56	15 701	14 357	7 650
	2	57 383	49 677	72 176	34 605	12 182	7 449	4 733	9 212	229†	15 948	14 793	7 706
	3	57 147	49 382	71 334	34 949	12 197	7 459	4 738	9 562	-620	15 246	14 187	7 765
	4	58 466	50 680	72 693	35 573	12 418	7 480	4 938	9 629	-695	15 768	14 227	7 786
1983	1	59 868	51 985	74 547	35 505	12 672	7 633	5 039	10 006	586	15 778	14 679	7 883
	2	58 897	50 920	73 842	36 095	12 466	7 501	4 965	9 675	-51	15 657	14 945	7 977
	3	59 154	51 104	74 205	36 527	12 614	7 647	4 967	9 805	-115	15 374	15 051	8 050
	4	60 337	52 268	76 095	36 685	12 775	7 723	5 052	9 981	273	16 381	15 758	8 069

FACTOR INCOMES IN THE GROSS NATIONAL PRODUCT

Seasonally adjusted

TABLE C £ MILLION

		GROSS NATIONAL PRODUCT		Net property income from abroad	Residual error	GROSS DOMESTIC PRODUCT (INCOME -BASED)	Total domestic income	Income from employment	Gross trading profits or surplus			Other income(2)	LESS Stock appreciation	Memorandum items		
		At market prices	At factor cost						Companies(1)	Public corporations	General government enterprises			Company profits net of stock appreciation	Industrial & commercial companies trading profits(3)	
															gross	net(4)
1978		167 163	147 868	661	245	146 962	151 185	98 437	23 322	5 391	205	23 830	4 223	19 946	25 093	21 717
1979		195 564†	170 255†	1 090†	-1 029†	170 194†	178 933†	114 765	29 982	5 582	190	28 414†	8 739	22 787	31 277	24 082
1980		227 445	196 591	-51	-1 810	198 452	205 026	135 902†	30 188	6 129	189	32 618	6 574	24 995	32 392	27 199
1981		252 950	216 666	1 338	-195	215 523	221 388	146 765	30 899†	7 700	154†	35 870	5 865	26 354†	35 510†	30 965†
1982		277 119	235 424	1 402	-761	234 783	238 675	156 198	33 927	9 068	120	39 362	3 892†	30 862	38 543	35 478
1983		301 097	257 364	480	-120	257 004	261 233	166 998	42 189	9 715†	59	42 272	4 229	38 679	47 189	43 679
1980	1	53 975†	46 454†	-56†	-1 172†	47 682†	50 458†	32 192†	8 836	1 627	41	7 762†	2 776	6 580	9 187	6 931
	2	55 908	48 297	-126	-1 065	49 488	50 950	33 660	7 848	1 361	70	8 011	1 462	6 740	8 304	7 196
	3	57 788	50 123	16	162	49 945	51 392	34 721	6 807	1 498	36	8 330	1 447	5 657	7 414	6 264
	4	59 774	51 717	115	265	51 337	52 226	35 329	6 697	1 643	42	8 515	889	6 018	7 487	6 808
1981	1	61 569	53 219	259	1 316	51 644	52 891	35 685	6 811†	1 656	48†	8 691	1 247	5 854†	7 794†	6 837†
	2	62 484	53 620	410	597	52 613	54 203	36 185	7 229	1 954	39	8 796	1 590	6 012	8 364	7 147
	3	63 535	54 232	322	-770	54 680	56 264	37 026	8 099	1 985	59	9 095	1 584	6 795	9 331	8 027
	4	65 362	55 595	347	-1 338	56 586	58 030	37 869	8 760	2 105	8	9 288	1 444	7 693	10 021	8 954
1982	1	66 645	56 032	29	-445	56 448	57 440	38 479	7 163	2 229	41	9 528	992	6 367	8 387	7 591
	2	68 745	58 592	385	-315	58 522	59 298	38 914	8 370	2 215	50	9 749	776†	7 891	9 547	9 068
	3	69 549	59 082	398	-511	59 195	60 111	39 104	8 708	2 341	6	9 952	916	7 937	9 839	9 068
	4	72 180	61 718	590	510	60 618	61 826	39 701	9 686	2 283	23	10 133	1 208	8 667	10 770	9 751
1983	1	74 504	63 729	291	852	62 586	63 388	40 863	9 865	2 362†	-5	10 303	802	9 138	10 965	10 238
	2	73 515	62 644	-172	-621	63 437	64 458	41 380	9 985	2 619	11	10 463	1 021	9 157	11 185	10 357
	3	75 647	64 707	299	-272	64 680	65 889	41 903	10 938	2 323	40	10 685	1 209	9 967	12 238	11 267
	4	77 431	66 284	62	-79	66 301	67 498	42 852	11 401	2 411	13	10 821	1 197	10 417	12 801	11 817

(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.

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			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
1978		100.4	91.1	103.4	103.1	85.0	109.6	105.0	105.4	97.1	96.4
1979		103.3	89.8	106.8	107.0	100.5	109.4	105.6	109.0	101.5	98.2
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		98.0	103.1†	95.4	96.3	103.8	93.6	89.9†	98.1	98.9	100.6
1982		99.4†	111.9	97.1	98.0	110.0†	93.7	91.6	99.0	98.6†	101.6†
1983		101.6	107.3	99.8†	100.6†	115.9	95.1†	95.5	102.7†	101.7	102.8
1980	1	102.7	97	105.1	105.1	100.5	106.8	105.0†	105	103	99
	2	100.7	100	101.4	101.3	98.6	102.3	101.6	101	101	100
	3	98.9	101	98.2	97.8	98.8	97.4	100.5	98	99	100
	4	97.7	101	95.3†	95.7	102.1	93.5	92.9	97	98	100
1981	1	97.4†	101	94.5	94.9	101.8	92.4	92.5	98	98	100
	2	97.6	102†	94.6	95.5	103.5	92.7	89.6	98	98	100
	3	98.5	104	96.0	96.9	103.3	94.6	90.9	99	100	101
	4	98.5	106	96.4	98.0	106.8	94.9	86.8	97	100	101
1982	1	98.5	110	95.9	97.0	104.6	94.3†	89.2	98	98	101
	2	99.3	113	97.1	98.3	110.0†	94.1	90.1	98	99	101
	3	99.7	113	97.7	98.6†	112.7	93.5	92.6	100	98	102
	4	100.0	112	97.6	98.2	112.9	92.9	94.3	100	100†	102
1983	1	100.6	108	98.6	99.5	113.7	94.3	93.9	101	100	102
	2	100.7	107	98.3	99.6	114.6	94.2	91.4	102†	101	103†
	3	102.2	107	100.8	101.3	116.8	95.7	98.1	104	102	103
	4	102.7	107	101.6	102.1	118.5	96.2	98.7	104	103	103

SECRET AND PERSONAL
until 3.30pm on 29 February then
CONFIDENTIAL

FROM: C D HARRISON
DATE: 27 February 1984

c/ You are asked ~~[illegible]~~ to approve the DTI press notice & the HMT press briefing.

1. MR PERETZ DLP 27/2
2. CHANCELLOR

cc: As attached list

JANUARY TRADE FIGURES

The January trade figures will be published on Wednesday 29 February at 3.30pm. The DTI are submitting a copy of their press notice for approval. As usual this has been discussed inter-departmentally, and we are content. A copy of the DTI's internal note is attached.

Current account and trade balances

2. After the large December surplus (revised down slightly to £0.6 billion), the current account moved into small deficit, by £0.1 billion, in January. We anticipated this in last month's note, which referred to the DTI's seasonal adjustment difficulties. The DTI are still unhappy with their data reporting procedures, and are pursuing this. Nevertheless, if the latest 3 months are taken together there was still a surplus of £0.7 billion, compared with one of £0.4 billion in the previous 3 months.

3. With the invisibles surplus assumed to remain at £0.2 billion in January, the reversal in the current account entirely reflects a turnaround in the visible trade balance from a £0.4 billion surplus in December to a £0.3 billion deficit in January. But the latest 3 months showed a small surplus, £0.1 billion, compared with a deficit of £0.4 billion in the previous 3 months. A deterioration of £0.1 billion in the non-oil deficit over this period was more than offset by an improvement of £0.7 billion in the oil surplus.

4. Beginning this year, the DTI are publishing monthly data on the balance on manufactured trade on a balance of payments basis. Hitherto, only quarterly data have been published. But the data will not be ready for publication in the monthly press notices; they will appear in the DTI's Monthly Review of External Trade Statistics, which is published a week or so after the press notice. In January, the deficit on manufactured trade is estimated to have been particularly large, at around £0.5 billion; which compares with a deficit of £2.1 billion in 1983 as a whole. But the seasonal adjustment problem noted above will have imparted a downward bias to the figure.

Comparison with Forecast

5. The Autumn Statement forecast was for the current account to be in broad balance in 1984. The internal winter forecast revised this upwards to a projected surplus of £1½bn, and, after allowing for the changed treatment of gold (worth £½bn), the FSBR forecast is likely to be of a surplus for 1984 of £2bn or more. Part of the revision is due to revised projections of oil production and domestic oil demand, which has led to an upward revision to the balance of trade in oil forecast for 1984 of £1½bn. The forecast will be looked at again over the next few days in the light of the January trade figures and the most recent fourth quarter data on invisibles, expected shortly.

Exports

6. In January total exports fell back 10% by value from the erratically high December level. But taking the latest 3 months together, they were 7 per cent higher in value terms and 5½ per cent higher in volume than in the previous 3 months. If the "erratic" items are excluded, the figures were even higher (9 per cent up in value and 8 per cent in volume terms). Export performance continues to be generally good across the board; in the latest 3 months, total manufactured exports, excluding erratics, were 7 per cent higher in volume terms than in the previous 3 months,

and oil exports 12 per cent higher. But in January, passenger car exports fell sharply and were 40 per cent lower than the high December figure. We shall have to wait to see whether this heralds a return to the levels of the first part of 1983, following a surge at the end of the year, or whether it is erratic. The chart attached to the DTI note shows that the "underlying" level of non-oil exports is clearly higher than at any time over the past eighteen months.

7. The most noteworthy feature of the area data is a substantial switch of oil exports from North America to Europe. As a result, the value of total exports to North America fell by 6 per cent in the latest 3 months, while exports to European Community countries and to other Western European countries rose 8½ per cent and 11 per cent respectively. The 6 per cent increase over this period in exports to non-oil developing countries suggests that British exporters appear to be faring relatively well in these difficult markets.

Imports

8. The increase in imports continues, but in recent months has been outpaced by the growth in exports. While in the latest 3 months the value of total imports rose by 3 per cent compared with the previous 3 months' level, the increase was only ½ per cent in volume terms (although if erratic items are excluded, the rise was 2 per cent). Oil imports fell sharply over the period; non-oil imports (excluding erratics) rose 4 per cent by volume, of which manufactures rose 5 per cent. Among the categories of manufactured imports, imports of capital goods, intermediate goods and chemicals continue to grow rapidly; and while car imports are running at levels below those reached in summer last year, imports of other consumer goods are at record levels (despite a fall in January from the high December level).

Terms of trade

9. Import prices rose 2 per cent in January, perhaps reflecting the fall in the effective exchange rate at the end of last year.

Export prices rose by less, and so the terms of trade worsened slightly. But they remain little changed from their level of a year ago.

Statistical revisions etc

10. As described in my note of 21 February to the Economic Secretary, these figures are the first to be published on the basis of the new statistical treatment of gold. The effect of the changes made has been to increase the 1983 current account surplus by about £½ billion to £2½ billion. The DTI press notice gives a brief explanation of the new treatment. We do not expect a very difficult press reaction; but there could doubtless be the kind of Parliamentary insinuations which are usual whenever statistical changes result in better figures.

11. The DTI have also decided henceforth to include silver among the usual "erratic" items, which are subtracted from a number of the series of figures (the others being ships, North Sea production installations, aircraft and precious stones). In the light of the distortions to the figures resulting from the Bunker Hunt episode, we think this is sensible.

Market impact

12. The markets must be fairly used by now to erratic movements in the monthly trade figures, and no doubt expect some swing back from the very high December surplus. The January deficit is smaller than the monthly deficits last October and May, and there is nothing in the figures to suggest a longer run move into current account deficit. In the foreign exchange markets attention remains centred on the dollar, not sterling (and as it happens the US January trade figures - expected to show a further substantial deficit - are due to be published also on Wednesday afternoon). So it seems unlikely there will be much market reaction.

Presentation

13. You suggested in January that we might consider preparing the ground a bit if it looked as if the January figures were not going to be very good. We think it would be a mistake for IDT to go out of their way to do any softening up before the figures come out on Wednesday. It would set an undesirable precedent, and could in practice suggest that the figures were going to be particularly awful - while in fact the January figures are well within the usual erratic monthly pattern. When the figures are out on Wednesday, we suggest IDT seek to concentrate on the three month on three month comparisons, as in the attached briefing.

14. Although the 1983 Q4 balance of payments figures (giving the first proper estimate of invisibles up to December 1983) are due to be published on 8 March, this will of course be the last set of monthly trade figures published before the Budget. It is helpful in that respect that the standard three month on three month comparisons continue to look comparatively favourable on most counts.

CDHarrison

C D HARRISON

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PRESS BRIEFING

Bull points

1. (i) Despite reversal in monthly current account figure (monthly figures often erratic, as have said in past), encouraging surplus in last 3 months taken together (+£0.7 bn).

(ii) Exports growing faster than imports. In volume terms, excluding erratics, exports rose 8 per cent in last 3 months compared with 2 per cent rise in imports.

(iii) Export growth is broadly based: in last 3 months total manufactured export volumes (excluding erratics) rose 7 per cent (detail in table 9), and oil exports rose 12 per cent.

(iv) Imports of goods needed to fuel the recovery continue to grow. In latest 3 months, the volume of intermediate goods imports rose 8½ per cent, capital goods 4 per cent and semi-manufactures (excluding erratics) 4½ per cent.

(v) Oil imports fell 33 per cent in latest 3 months (from high previous level).

Defensive

2. 10% fall in exports?

December figure was a monthly record. Some fall back quite consistent with usual monthly erratic pattern. Should consider 3 month figures (see (ii) and (iii) above).

3. FSBR Forecast?

Wait for Budget Day.

4. Rapid increase in consumer goods imports?

Some such increase natural at time of economic recovery. But in latest 3 months, consumer goods exports rose faster than imports. By volume, car exports up 2½ per cent compared with 6 per cent fall in car imports; and exports of other consumer goods up 11 per cent compared with 8 per cent rise in imports.

5. Manufactured imports?

Exports growing faster than imports here too. In latest 3 months, volume of total manufactured exports rose 7 per cent (excluding erratics), and imports 5 per cent.

6. Increase in import prices inflationary?

[2 per cent increase in import UVI in January.] Impact on inflation depends on overall stance of fiscal and monetary policy. No intention of accommodating inflationary impulses, from whatever source.

7. Effect of gold revisions?

[Refer technical questions to DTI or CSO press offices. See note of 21 February to EST for details.]

Changes have been made which put the treatment of gold onto a basis more compatible with nature of various types of transactions in gold.

TRADE FIGURES FOR JANUARY 1983

Advance Circulation

Chancellor of the Exchequer
Economic Secretary
Sir P Middleton
Mr Littler
Sir T Burns
Mr Cassell
Mr Unwin
Mr Lavelle
Mr Battishill
Mr Peretz
Mr H P Evans
Mr Folger
Mr Hall
Mr C Mowl
Mr Gleed
Mr Towers
Mr Bartlett
Mr Ridley
Mr Gill - Bank
Mr Turnbull - No 10

Circulation after 3.30 pm on Wednesday 29 February

Chief Secretary
Financial Secretary
Minister of State
Mr Bailey
Mr Byatt
Mr Wicks (Washington)
Mr Fitchew
Mr Odling-Smee
Mr Lankester
Mr Bottrill
Mr Gordon
Mr Barber
Mr Riley
Mr Sedgwick
Mr G Horton
Mr Hibberd
Mr C Kelly
Mr Vernon
Miss Deyes
Mr N McKinnon
Mr Lord
Mr Portillo

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MINISTER FOR TRADE

OVERSEAS TRADE FIGURES FOR JANUARY 1984

THE CURRENT ACCOUNT

In January exports were valued at £5224 million and imports at £5563 million so that visible trade, seasonablly adjusted, on a balance of payments basis was in deficit by £339 million. This compares with a revised surplus of £358 million in December.

The Central Statistical Office project a surplus on invisibles of £210 million for January so that the current account of the balance of payments is provisionally estimated to have been in deficit by £129 million.

Table 1

(£ million)

		Visible Trade Balances Oil	Non-oil	Total	Invisibles Balance	Current Account Balance
1982		+4556	-2172	+2384	+3259	+5643
1983		+7001	-7501	- 500	+2970	+2470
1983	Q3	+1521	-1769	- 248	+ 898	+ 650
	Q4	+2123	-2118	+ 5	+ 630a	+ 635a
1983	Dec	+ 901	- 543	+ 358	+ 210a	+ 568a
1984	Jan	+ 719	-1058	- 339	+ 210a	- 129a

a = Projection

In the period November to January there was a surplus on visible trade of £89 million compared with a deficit of £449 million in the three months ended October. The change reflects a 7 per cent increase in the value of exports and a 3 per cent increase in the value of imports.

XPORTS

The value of exports in January was £572 million (10 per cent) lower than the exceptionally high December level. Exports of oil fell by £191 million and exports of the erratic items by £122 million. Excluding the erratic items, exports of finished manufactures were £146 million lower than in December.

Table 2 **EXPORT VOLUME INDEX NUMBERS** (1980 = 100) Seasonally adjusted

	BOP BASIS	OTS BASIS			Manufactures excluding erratics			
	Total Trade	Basic Materials	Fuels	Semis	Motor Cars	Other Consumer	Inter-mediate	Capital
1982	101.9	95.6	133.2	90.5	[illegible]	93.5	90.7	97.7
1983	102.3	101.0	148.0	102.2	[illegible]	96.4	89.0	87.4
1983 Aug-Oct	101.4	97.2	146.4	101.1	93.7	95.1	88.3	85.5
Nov-Jan 1984	107.1	104.5	162.1	108.5	96.1	105.4	94.5	90.3
1983 Dec	114.3	111.0	178.1	112.5	117.6	112.0	97.3	93.2
1984 Jan	102.2	100.3	152.9	105.3	[illegible]	98.6	94.2	87.9

The volume of total exports in the three months ended January was 5½ per cent higher than in the previous three months; 8 per cent higher excluding the erratic items. The underlying level of non-oil export volume has increased sharply in recent months and is now higher than at the beginning of 1983.

Exports to the developed countries increased by 5 per cent between the three months ended October and the latest three months as exports to Western Europe increased by 9 per cent and exports to North America fell by 6 per cent.

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I POR

The value of imports in January, at £5563 million, was £125 million (2½ per cent) higher than in December. Higher imports of the erratic items accounted for £54 million of the rise. Excluding the erratic items, imports of semi-manufactures increased by £70 million (5 per cent) between the two months but imports of finished manufactures fell slightly as lower arrivals of consumer goods offset higher imports of intermediate goods.

Table 3 **IMPORT VOLUME INDEX NUMBERS** **(1980 = 100) Seasonally adjusted**

	BOP BASIS	OTS BASIS						
				Manufactures excluding erratics				
	Total Trade	Basic Materials	Fuels	Semis	Motor Cars	Other Consumer	Inter-mediate	Capital
1982	100.7							
1983	107.6	FIGURES NOT YET AVAILABLE						
1983 Aug-Oct	110.5							
Nov-Jan 1984	110.9							
1983 Dec	112.1							
1984 Jan	112.6							

Import volume increased by ½ per cent between the three months ended October and the latest three months. Excluding oil and the erratic items however the volume of imports increased by 4 per cent with arrivals of chemicals and intermediate goods showing the strongest growth. The underlying level of non-oil import volume continues to rise.

By value, imports increased by 3 per cent in the latest three months reflecting a 6 per cent rise in arrivals from developed countries and an 8½ per cent fall in arrivals from elsewhere. Imports from Western Europe were 6½ per cent higher and imports from North America were 7½ per cent higher.

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TRADE IN MANUFACTURES

Figures showing trade in manufactures on a balance of payments basis for the fourth quarter of 1983 and for the year as a whole will be published for the first time in this month's press notice. They show that the deficit in 1983 as a whole was about £2.1 billion, with about £600m in respect of the fourth quarter. Monthly figures will be published later in the Monthly Review of External Trade Statistics. They show a deficit on manufactured goods in January of some £500 million.

Table 4 **TRADE IN MANUFACTURES** (SITC 5-8)

£ million, seasonally adjusted

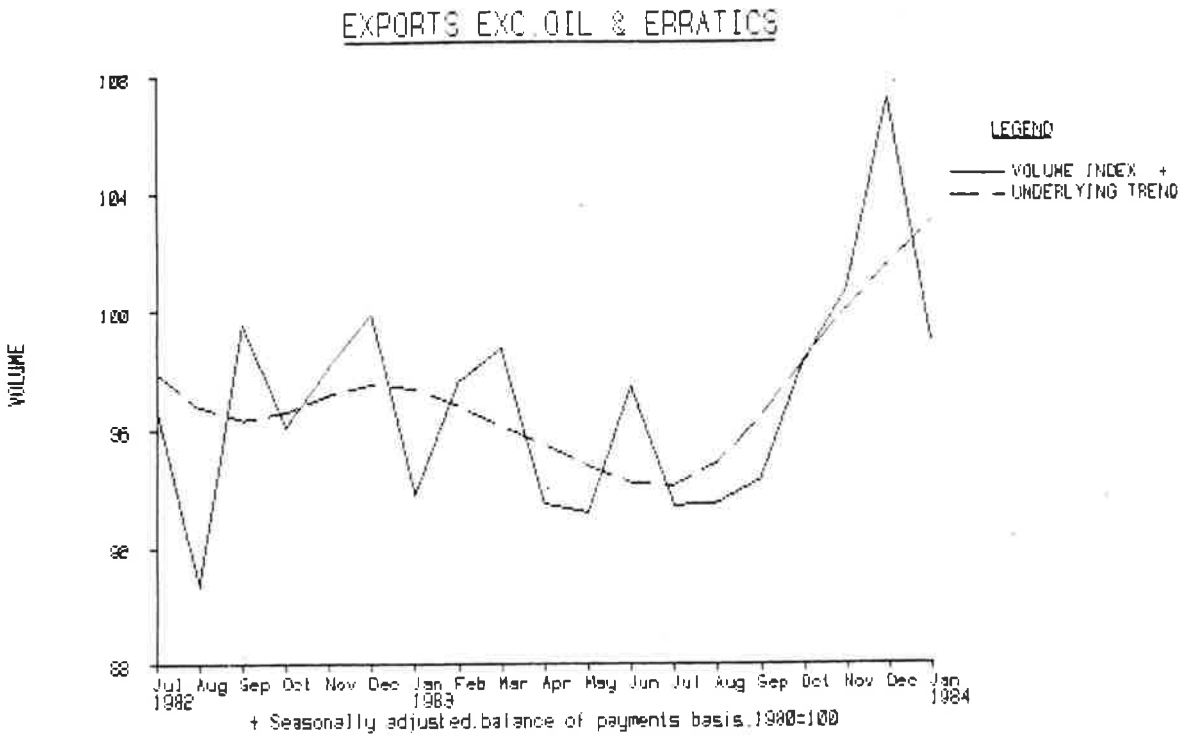
		Balance of Payments basis			Overseas Trade Statistics basis		
		Exports	**Imports**	**Balance**	**Exports**	**Imports**	**Crude Balance**
1982		37330	34827	+2503	37313	37114	+ 199
1983		40038	42156	-2119	39919	44905	-4986
1982	Q4	9528	8963	+ 565	9522	9515	+ 7
1983	Q1	9662	10098	- 436	9631	10810	-1179
	Q2	9847	10449	- 603	9780	11120	-1340
	Q3	9968	10440	- 472	9935	11119	-1184
	Q4	10560	11169	- 609	10573	11855	-1282
1983	Aug	3309	3468	- 160	3296	3704	- 408
	Sep	3474	3485	- 11	3467	3709	- 242
	Oct	3374	3822	- 448	3386	4035	- 649
	Nov	3453	3519	- 66	3467	3759	- 292
	Dec	3733	3828	- 95	3720	4061	- 341
1984	Jan	3446	3947	- 502	3411	4183	- 772

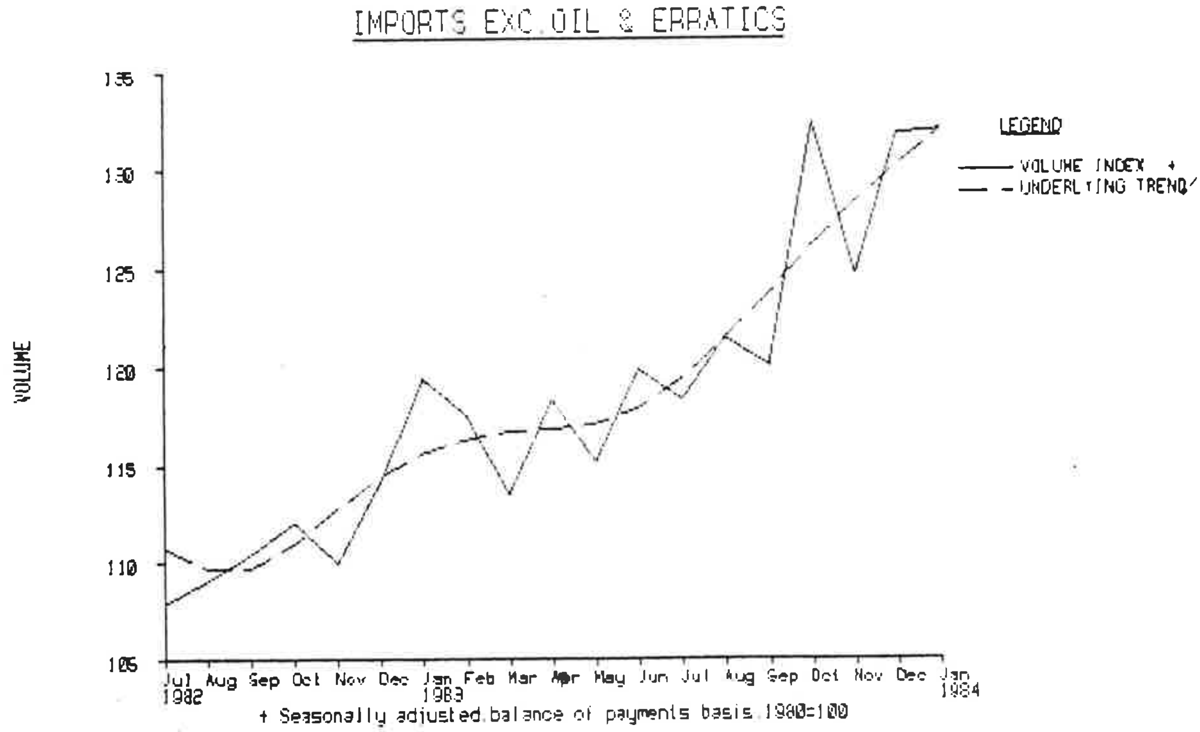
PUBLICATION

The release of the press notice containing the January figures has been set for Wednesday 29 February.

W E BOYD
Chief Statistician
S2A
V/286
01 215 3055

23 January 1984





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CIRCULATION LIST

Copy No 1	Minister for Trade	
2	Prime Minister	
3	Chancellor of the Exchequer	
4	Secretary of State for Trade and Industry	
5	Sir Robert Armstrong (Cabinet Office)	
6	Sir Anthony Rawlinson (Dept of Trade and Industry)	
7	Sir Brian Hayes (Dept of Trade and Industry)	
8	Mr Peter Middleton (HM Treasury)	
9	Governor of the Bank of England	
10	Chairman of the Board of HM Customs and Excise	
11	Sir John Boreham (CSO)	
12	Mr N Harvey (HM Customs and Excise)	
13	Mr A Croxford (CSO)	
14	Mr C Harrison (HM Treasury)	
15	Mr H H Liesner	)
16	Mr J Hibbert	)
17	Mr W E Boyd	) Dept of Trade and Industry
18	Mr E J Wright	) Common Services
19	Mr A R Hewer	)
20	Mr J S Virdee	)
21	Mr D B Packer	)
22	Dr M R Boothroyd	Dept of Energy

PERSONAL AND CONFIDENTIAL
until 2.30 pm, 20 February
THEN RESTRICTED

FROM: A SMITH
DATE: 17 FEBRUARY 1984

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 Bailey
Mr Battishill
Mr H P Evans
Mr Hall
Mr Shields
Mr Hibberd
Mr Page
Mr Ridley
Mr Lord
Mr Portillo

Mr Salveson (for No 10)

Mr Mansell - CSO
Mr Clary - CSO

There would be comment on the 2 per cent rise in GDP(O), 1983 and 1982 and the Autumn Statement projection of 3 per cent growth for GDP(A). But the expenditure and income measures have been much more buoyant [illegible], X.

X [illegible]

MJF
17.2.84

GROSS DOMESTIC PRODUCT (OUTPUT MEASURE) - FOURTH QUARTER 1983

A preliminary estimate of GDP(O) for the fourth quarter of 1983 will be released at 2.30pm Monday, 20 February. See attached copy of Press Notice. This will be the last press notice on GDP before the Budget. Fourth quarter figures for the other measures of GDP will be published on 20 March.

2. The preliminary estimate for GDP(O) shows a rise of about ½ per cent between the third and fourth quarters. The table below gives an approximate breakdown of this overall increase.

(Percentage Weights)		Percentage change 1983Q3 to 1983Q4	Contribution to change in GDP(O) 1983Q3-1983Q4
(2)	Agriculture, forestry, fishing	+1	0
(42)	Production industries	+1	+0.4
(6)	Construction*	-2½	-0.1
(55)	Service industries	+¼	+0.1
(100)	GDP(O)	+½	+½

*Figures not to be quoted.

3. Within services, distribution output is estimated to have been broadly unchanged with the fall in motor trades activity from its very high Q3 level offset by increases elsewhere. Communications industry output is estimated to have risen by 3 per cent in the quarter. At this stage the estimate for construction output is somewhat speculative; some fall is expected from the high weather-related level in 1983Q3, but the extent of this is uncertain.

4. Between the first and second halves of 1983 the output measure of GDP, the preferred measure for short term comparisons, rose at an annual rate of about 3 per cent.

5. Comparing 1983 and 1982 as a whole the output based measure of GDP is estimated to have risen by a little over 2 per cent. On the average measure, the preferred measure for year on year comparisons, GDP in the first three quarters of 1983 was about 3 per cent above the same period in 1982. (cf abt 2% on the output measure)

X

Line to take

6. The preliminary estimate for the fourth quarter of last year provides further confirmation that the economy is growing at a healthy pace, with total output estimated to have increased by about 3 per cent at an annual rate between the first and second halves of 1983.

7. Although the output measure of GDP only rose by 2 per cent between 1982 and 1983, other indicators have been more buoyant. Taking into account movements in the the expenditure and income measures, the Autumn Statement projection of 3 per cent growth in GDP year-on-year still stands.

A Smith

A SMITH
EB

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AND
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CSO

CENTRAL STATISTICAL OFFICE
GREAT GEORGE STREET
LONDON
SW1P 3AQ

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(AFTER 1800 HRS 01-233 3000)
OTHER ENQUIRIES 01-233 6135/6193

CSO(84) 20

20 February 1984

GROSS DOMESTIC PRODUCT (OUTPUT-BASED) - FOURTH QUARTER 1983

Preliminary estimates suggest that output of the whole economy increased by about ½ per cent between the third and fourth quarters of 1983. The rise reflected higher output in the production and communication industries. Distribution output was broadly unchanged in the fourth quarter, a fall in motor trades activity from its very high third quarter level being counter-balanced by increases elsewhere. The preliminary output-based estimate of gross domestic product (GDP) in the fourth quarter, from which this assessment has been derived, is 102.4 (at constant prices, with 1980=100, seasonally adjusted).

Using the output-based measure, GDP in 1983 is estimated to have been over 2 per cent above its level in 1982. The improvement in output was evident over much of the economy, with distribution and communication showing the largest rises. Agricultural output fell back to some extent from its exceptional 1982 level.

As the Table shows, the expenditure, income and output measures of GDP have been moving differently in recent periods, with the output series growing more slowly on the year-on-year comparisons.

COPY No. 6

PERSONAL AND CONFIDENTIAL until release of Press Notice at 2.30 p.m. on 20. 2. 84 and thereafter unclassified

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 14 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 20 March.

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 will be described in an Occasional Paper currently in preparation. 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.

GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST

Seasonally adjusted

1980=100

		Based on			
		Expenditure data	Income data(1)	Output data	Average estimate
1976		96.6	93.3	94.7	94.9
1977		98.0	96.6	97.3	97.3
1978		100.8	99.6	100.4	100.3
1979		102.5	102.1	103.3	102.6
1980		100.0	100.0	100.0	100.0
1981		99.0	98.3	98.0	98.5
1982		101.3	100.4	99.3	100.4
1983		..	..	101.4 (2)	..
1980	1	101.4	102.8	102.7	102.3
	2	100.3	101.4	100.7	100.8
	3	99.2	98.2	98.9	98.8
	4	99.1	97.6	97.7	98.1
1981	1	100.0	96.7	97.5	98.1
	2	97.9	96.8	97.5	97.4
	3	98.2	98.6	98.5	98.4
	4	100.0	101.3	98.6	99.9
1982	1	100.3	100.3	98.5	99.7
	2	100.8	100.1	99.2	100.0
	3	100.7	100.2	99.7	100.2
	4	103.6	100.9	99.9	101.5
1983	1	105.1	103.4	100.7	103.1
	2	103.1	102.9	100.7	102.3
	3	103.8	103.6	101.9	103.1
	4	..	..	102.4 (2)	(103.5)

103

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

(2) Preliminary estimate.

101.5 x2.5

+2.4

+1.6

+1.2

203
5075

.54

101.5

CONFIDENTIAL
until 2.30pm Thursday 19 January
THEN UNCLASSIFIED

FROM: A SMITH
DATE: 18 JANUARY 1984

1. MR FOLGER MJF 19.1.84

2. CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Sir Terence Burns
Mr Cassell
Mr Battishill
Mr Evans
Mr Shields
Mr Hall
Mr Hibberd
Mr Turnbull - No 10
Miss Deyes
Mr Mackinnon
Mr Lord
Mr Portillo
Mr Ridley

Mr Mansell - CSO
Mr Lomas - CSO
Mr Lang - CSO

CSO'S CYCLICAL INDICATORS FOR JANUARY
(released 2.30 pm Thursday 19 January)

Tomorrow the CSO release updated figures for the cyclical indicators between July and November, and a first estimate of the longer leader for December. These latest figures mean the indicators now show a rather brighter picture than last month. (See attached pages from . Press Notice.)

Longer leading indicator (intended to suggest turning points in activity about a year in advance)

2. After more than twelve months of continuous increase the longer leader showed some hesitation in September and October. However, on the basis of less complete information, the index rose again in November and December. The downward movement previously recorded between July and October has now become much less pronounced, mainly because of good third quarter figures for ICC's financial surplus (also released tomorrow). The rise in November, and now also December mainly reflects increases in share prices.

Shorter leading indicator (intended to suggest turning points in activity about six months in advance)

3. The broad upward movement in the shorter leader has continued. There was a small fall back in November on the basis of partial information but this is mainly due to the easing back in car registrations from the unusually high summer peak of "A" registrations. An estimate for December is not yet available.

Assessment and line to take

4. The latest movements in the leading indicators are still based on partial information and so it is advisable not to read too much into them.

5. Nonetheless, there appears to be nothing in the recent movements of the forward indicators to suggest that activity will peak in the course of 1984. A firmer judgement will not be possible until next month when the results of the January CBI Industrial Trends Survey (published 31 January) will provide a more complete set of information for both shorter and longer leaders through the fourth quarter of 1983.

A Smith

A SMITH
EB

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LONDON
SW1P 3AQ

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CSO(84) 9
19 January 1984

CYCLICAL INDICATORS OF THE UNITED KINGDOM ECONOMY

RECENT MOVEMENTS OF THE INDICATORS

(Data available to 17 January)

Following over twelve months of continuous increase, the longer leading index showed some hesitation in the Autumn - falling in September and October. However, based on less complete information, it rose again in November and December. The latest rises mainly reflect the increases in share prices, but there have also been some upward effects from interest rates and housing starts.

The shorter leading index has risen only slightly since July. The falling back of new car registrations from high levels achieved in the summer partly offset upward effects from the other components of the index.

The coincident index has continued to rise with upward contributions from all components in recent months.

The increase in the lagging index in recent months mainly reflects improvements over trend in manufacturing employment and in unemployment.

TABLE 1

RECENT MOVEMENTS OF THE INDICATORS

Jan 1980=100

	Oct 1982	Nov	Dec	Jan 1983	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Longer leading	106.7	107.9	108.3	108.6	108.9	109.3	109.7	109.8	110.7	111.4	111.4	110.9	110.4	111.0	112.0
	5	5	5	5	5	5	5	5	5	5	5	5	4	3	2
Shorter leading	100.7	100.7	101.2	100.6	101.6	102.2	103.8	104.8	105.9	107.0	107.1	107.5	107.7	107.3	
	5	5	5	5	5	5	5	5	5	5	5	5	4	2	
Coincident	91.4	92.0	92.9	93.9	95.0	95.0	95.1	95.0	95.7	96.5	97.6	98.0	99.5	100.5	
	7	7	7	7	7	7	7	7	7	7	7	7	4	2	
Lagging	87.7	87.7	87.8	87.4	87.6	87.9	88.7	89.2	89.1	89.5	89.5	89.6	90.6		
	5	5	5	5	5	5	5	5	5	5	5	5	2		

Note: In the table the upper row represents the values of the composite indices, the lower row the number of series used to form each index.

Cyclical indicators

Composite indices of indicator groups. January 1980 = 100